Idaho

Growing and Protecting the Assets

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Asset Management Committee

Endowment Reform

1996

"The state needs to shift its current policy from management of individual parts (the land separate from the financial assets) to management of the entire endowment. The entire integrated endowment needs to have its rules of overall operation clarified, reorganized and reoriented towards providing a predictable and increasing stream of revenue to the beneficiaries while at least maintaining the purchasing power of the assets of the endowment." –Governor Batt

Prior to Endowment Reform

- Financial Assets invested in Bonds
- EFIB and Land Department Very Independent
  - Governance
  - Philosophy
  - Strategy

Major Accomplishments of Endowment Reform Legislation

- Ability to invest in Equities (1998)
- EFIB reports to Land Board (1998)
- Establishment of the Land Bank (2000)
- Asset Management Plan (2007, 2011)
- Natural Resources Interim Legislative Committee (2011)

*Constitutional amendment to remove restrictions on disposals killed (2010).

2013 - Present

Endowment Fund Reform Progress Report by Robert Maynard (2013)

"…the Red Zone has been reached, but there is yardage still to be gained."

- *Whole Trust Concept*
- *Clear Governance*
- *Prudent Experts*
- *Better Performance Measurement/Monitoring Systems*

Whole Trust Approach - Clear Governance Prudent Experts - Monitoring

- Callan's Comprehensive Endowment Strategy Review (11/2014)
- Governance Structure Defined (12/2014)
- Investment Subcommittee Established (12/2014)
- Audit Committee (12/2014)
- **Statement of Investment Policy (5/2016)**
- Revised Asset Management Plan (5/2016)
- Strategic Reinvestment Plan (5/2016)
- IDL Strategic Plan – Agency Alignment (6/2016)
- Revised Income Statement Methodology (7/2016)
- Improved Revenue Forecasting (7/2016 & ongoing)
- Joint Reporting (11/2016)
- LIMS System Implementation (ongoing)

Key Document:
Statement of Investment Policy

- Whole Trust Focus
- High Level Goals & Policy
- Summary of Constitutional & Statutory Requirements
- Asset Allocation Targets
- Governance Structure
- Policy on use of Outside Experts
- Financial Objectives
- Distribution Policy
- Policies by Asset Class – Objectives, Valuation, Monitoring, etc.
- Land Bank Policy
- Monitoring & Reporting Policies

Shift in Diversification Strategy

- Prior Strategy – The Land Assets were the diversifier.
- Current – The Financial Assets are also a diversifier.

Private Real Estate Fund Investments:

- Similar to a REIT except more accurately valued quarterly (vs. daily), less regulatory oversight, not as liquid.
- Investments are in CORE real estate: commercial, residential (apartments), industrial and office real estate.
- Approximately 300 buildings in the fund; we own about 3% of each property in the fund -- mostly in US urban centers.

Performance Reporting

- CHALLENGE: We budget by program; We report by asset classification.

- SHORT TERM FIX: Estimate the amount of various "activities" on each of the 5 surface asset classes and use a crosswalk to assign revenue from 12 surface programs – this solution is effective, but manual.

- PERMANENT FIX: As part of our Land Information System implementation (Land Folio), separate GIS layers will show ownership and asset class information that feeds the financial system to simplify reporting.
  - Parcel definition decisions had to be made to align parcel data structure with business needs.

EXAMPLE #1
Owner: Public Schools 100%
Asset Class: Timber 100%

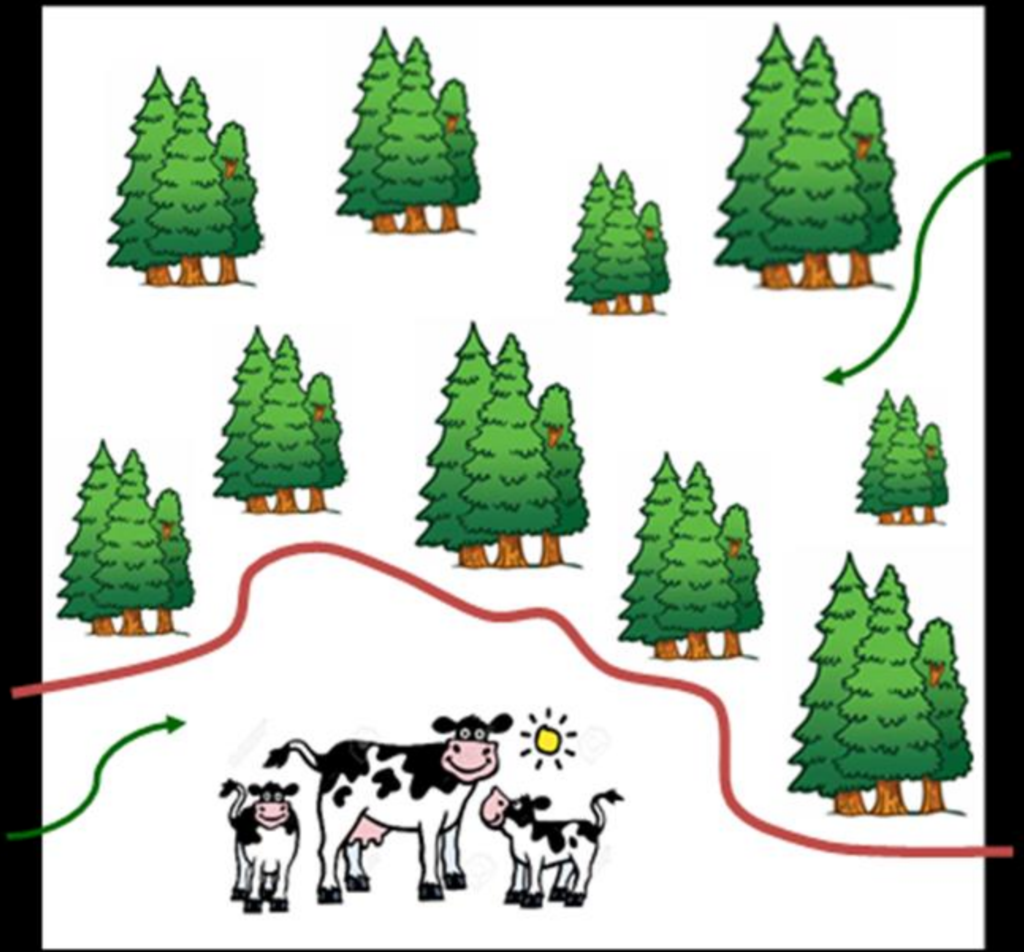
EXAMPLE #2
Owner: Public Schools 100%
Asset Class: 65% Timber & 35% Range

By definition, an Ownership Parcel <u>cannot</u> cross Township, Range, Section, County, or Beneficiary Ownership. However, it can have more than one Asset Class.

Smallest Delineation of Asset Class Size is 10 Acres.

(Timber and Range)

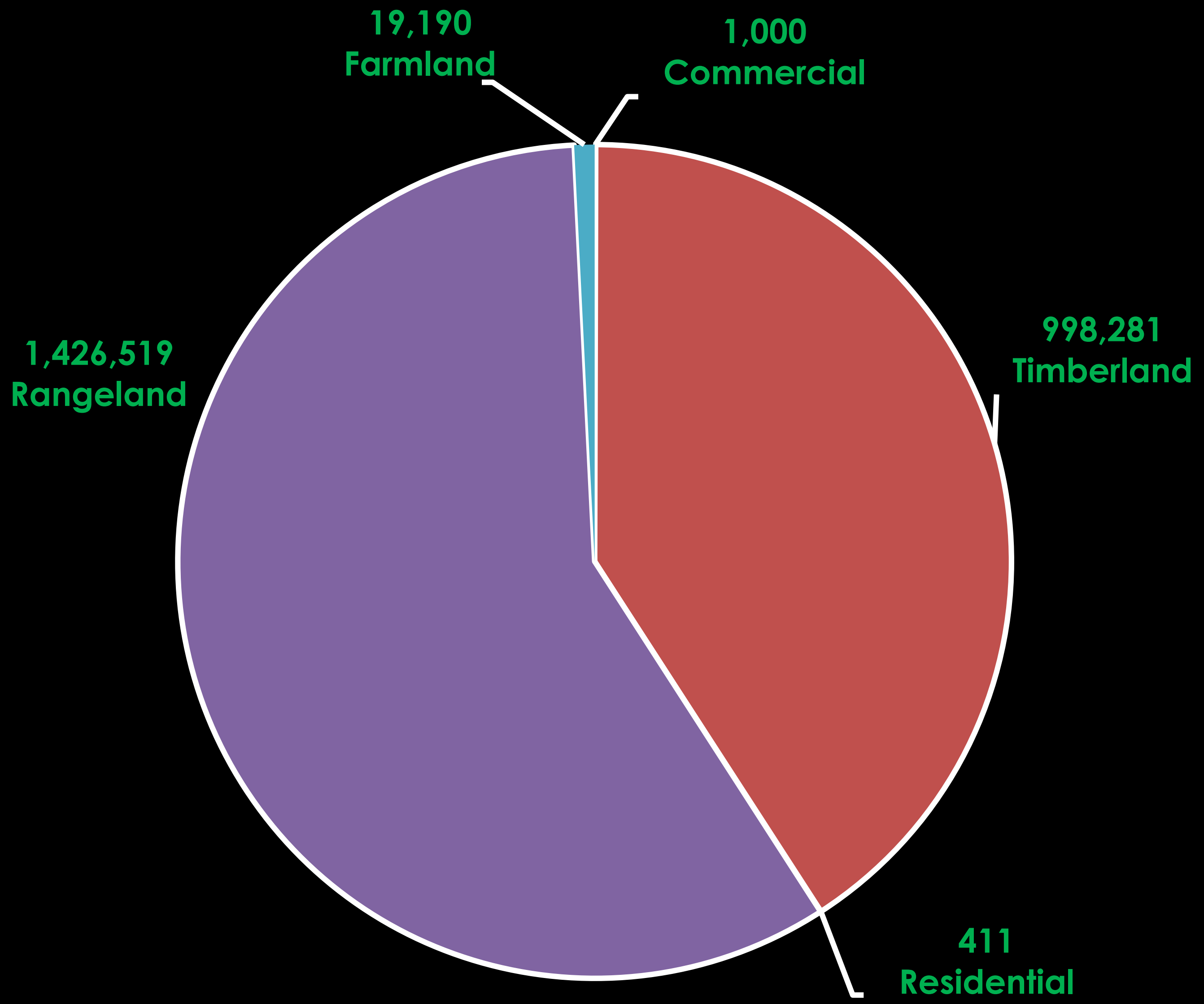
1/64 of a SECTION (10 acres)



In this example, since we have determined that 10 acres is the minimum size for Asset Class delineation, the asset class in this example is TIMBERLAND.

Endowment Surface Acres by Asset Class

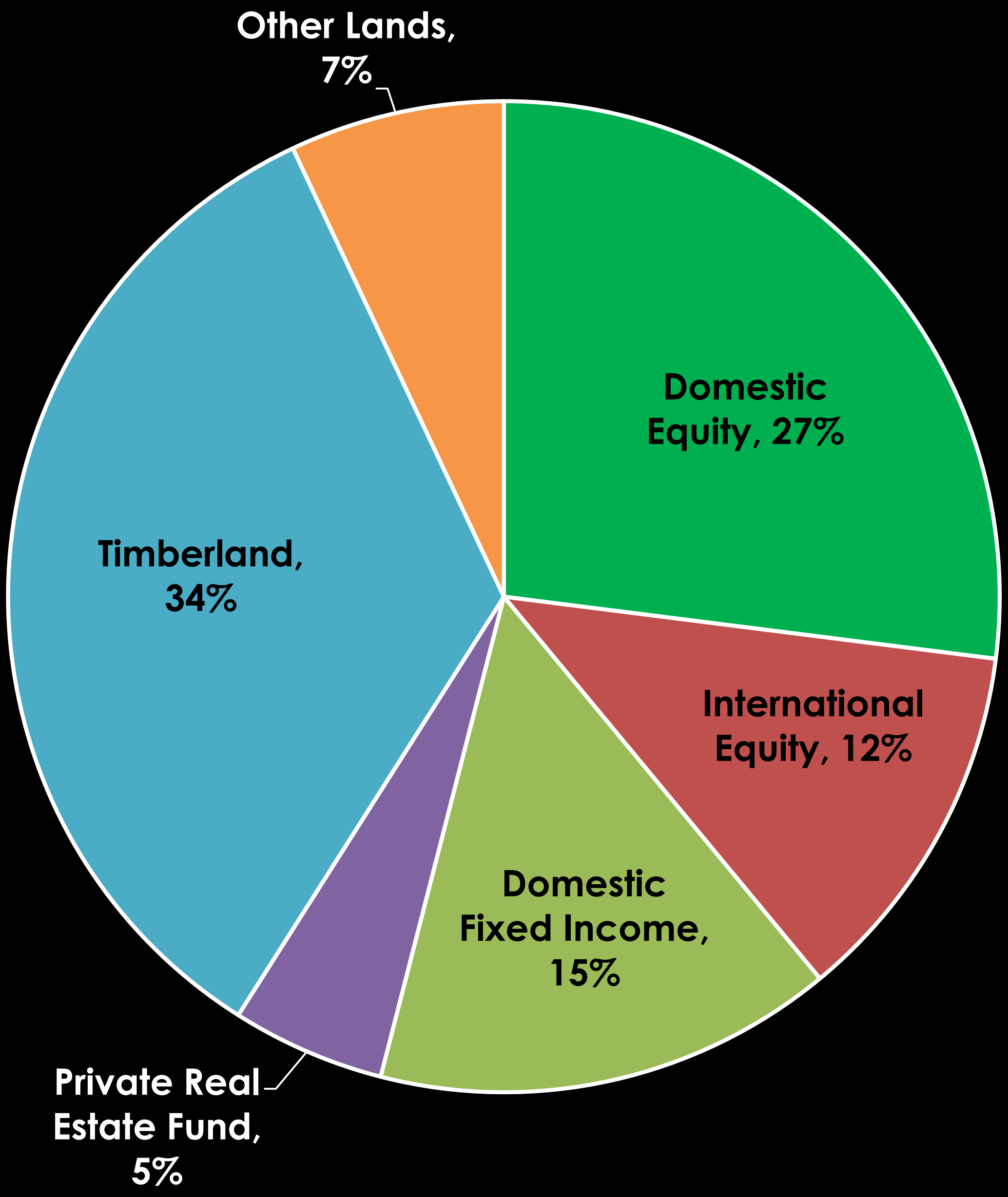
2,445,400 Total Endowment Acres



Total Endowment Asset Mix (Financial + Land Assets)

$2,036,066,905

(06/30/2017)



Callan LLC
Roles & Remarks on the Process

- Scope of the Project
- Getting Oriented to the Project
- Project Activities
- Finalizing Report
- Implementation
- Ongoing Consultant Relationship
- Upsides and Downsides to this Endeavor
- Pros and Cons of working under a Whole Trust concept

Questions

IDAHO DEPARTMENT OF LANDS

IDAHO ENDOWMENT FUND
INVESTMENT BOARD