

Part I – Agency Profile

Agency Overview

The Idaho Endowment Fund Investment Board (EFIB) is responsible for managing over \$3.0 billion of investments consisting of state land grant endowment funds, the financial assets of the State Insurance Fund, assets of the Parks and Recreation endowment funds, assets of a Department of Environmental Quality endowment fund (Bunker Hill Water Treatment) and assets of three Fish & Game wildlife habitat endowment funds.

The EFIB consists of nine individuals appointed by the Governor, including one state senator, one state representative, a public education administrator, and six members of the public “knowledgeable and experienced in financial matters.” The EFIB has four employees in its Boise office, including a Manager of Investments who oversees day-to-day operations. Monthly reports of the EFIB’s activities and investment performance are made to the Board of Land Commissioners and other clients. The EFIB’s expenses are not paid from General Funds.

Core Functions/Idaho Code

Land Grant Endowment Funds – Essentially all revenue from state endowment lands are transferred to the EFIB by the Idaho Dept. of Lands for investment under policies established by the Board of Land Commissioners. In turn, the EFIB, based on a Distribution Policy approved by the Board of Land Commissioners, makes monthly distributions to thirteen beneficiaries, the largest of which is the Public School Fund (Title 57, Chapter 7, *Idaho Code*). Annual distributions of income for a fourteenth beneficiary, the Capitol building, are determined by the Capitol Commission (Title 67, Chapter 16, *Idaho Code*).

State Insurance Fund – The EFIB, under policies approved by the State Insurance Fund, invests the surplus and reserve funds established to pay worker’s compensation claims insured by the State Insurance Fund. (Title 72, Chapter 9, *Idaho Code*)

Parks & Recreation Endowment Funds – The EFIB provides investment management services for an endowment that supports the maintenance of the Trail of the Coeur d’Alenes, a recreational rail trail, and one that supports management of the Ritter Island Unit of the Thousand Springs State Park. Asset mix and distributions of income are determined by Parks & Rec. (Title 57, Chapter 7, *Idaho Code*)

Department of Environmental Quality Bunker Hill Water Treatment Endowment – In FY 2015, the EFIB began providing investment management services of an endowment to support perpetual operation of a water treatment plant and related collection systems. It is part of the Bunker Hill Superfund site and is designed to remove heavy metals from the groundwater. Asset mix and distributions of income are determined by the Department of Environmental Quality. (Title 57, Chapter 7, *Idaho Code*)

Department of Fish & Game Wildlife Mitigation Endowment Funds – In FY 2015, the EFIB began providing investment management services to Fish & Game. Fish & Game endowment funds are for the maintenance of land acquired to enhance wildlife habitat. Asset mix and distributions of income are determined by the Department of Fish and Game. (Title 57, Chapter 7, *Idaho Code*)

Revenue and Expenditures

Revenue	FY 2015	FY 2016	FY 2017	FY 2018
Misc. Revenue	\$133,000	\$135,900	\$139,500	\$82,300
Endowment Funds	497,300	508,600	535,900	671,300
Total	\$630,300	\$644,500	\$675,400	\$753,600
Expenditure	FY 2015	FY 2016	FY 2017	FY 2018
Personnel Costs	\$430,300	\$448,500	\$452,700	\$531,500
Operating Expenditures	164,700	165,500	164,800	153,000
Capital Outlay	900	3,600	1,300	1,200
Total	\$595,900	\$617,600	\$618,800	\$685,700

Profile of Cases Managed and/or Key Services Provided

Cases Managed and/or Key Services Provided	FY 2015	FY 2016	FY 2017	FY 2018
Key Financial Statistics				
Distributions to Beneficiaries	\$52,078,200	\$ 56,873,200	\$63,658,400	\$73,879,200
Receipts from Department of Lands (net of expenses)	\$55,399,900	\$52,853,500	\$41,429,800	\$45,835,700
Total Return from Investments (net of investment management expenses)	\$45,513,000	\$(10,423,300)	\$225,973,600	\$190,879,500
Total Market Value of Investments				
Public School Endowment Funds	\$1,137,651,600	\$1,130,058,400	\$1,466,404,800	\$1,353,171,600
Other Land Grant Funds	<u>705,087,800</u>	<u>700,317,600</u>	<u>569,662,100</u>	<u>848,379,000</u>
Total Land Grant Endowment Funds	<u>\$1,842,739,400</u>	<u>\$1,830,376,000</u>	<u>\$2,036,066,900</u>	<u>\$2,201,550,600</u>
Other Agencies:				
State Insurance Fund	621,540,200	669,898,300	729,292,700	761,154,700
Parks & Rec. Endowment Funds	3,658,800	3,648,500	4,119,600	4,361,100
Dept. of Environmental Quality	53,725,400	54,044,500	60,747,300	66,509,000
Fish & Game Habitat Funds	<u>17,433,400</u>	<u>19,412,800</u>	<u>21,820,400</u>	<u>24,331,100</u>
Total Market Value of Investments	<u>\$2,539,097,200</u>	<u>\$2,577,380,100</u>	<u>\$2,852,046,900</u>	<u>\$3,057,906,500</u>

FY 2018 Performance Highlights

The endowment portfolio generated solid returns in fiscal 2018. Global equities had another strong fiscal year led by the U.S. equities. International developed and emerging market equities falter in the final quarter as there were indications that economic growth outside the U.S. is slowing, concerns about a trade war and a strengthening U.S. dollar. Real estate provided modest returns from both income and appreciation. Fixed income struggled to breakeven for the year as interest rates increased and inflation began to tick-up late in the fiscal year.

Part II – Performance Measures

Performance Measure		2015	2016	2017	2018	2019 Projected ⁷	5-Year Avg. ⁶
<i>As our clients' individual needs for managing an endowment fund require, we will: Develop a prudent long-term investment strategy, utilize the best portfolio managers, consultants and other agents to execute that strategy, diligently evaluate performance over time, develop an effective distribution policy, and help them fulfill their fiduciary responsibilities and communicate with their stakeholders</i>							
1. Return vs. Benchmark (net of fees)							
A. Land Grant Endowment Fund ¹	total return	2.6%	-0.5%	12.5%	9.5%	5.9%	8.3%
	target	3.1%	0.9%	12.8%	8.5%	5.9%	8.5%
	excess	-0.5%	-1.4%	-0.3%	1.0%	0.0%	-0.2%
B. State Insurance Fund ²	total return	1.8%	3.6%	2.0%	1.6%	3.5%	3.0%
	target	1.6%	3.6%	2.1%	1.5%	3.5%	2.9%
	excess	0.2%	0.0%	-0.1%	0.1%	0.0%	0.1%
2. Return vs. Peers (gross of fees)							
A. Land Grant Endowment Fund ³	total return	3.0%	-0.2%	12.9%	9.9%	6.3%	8.7%
	endowment/foundation universe median	2.3%	-1.6%	12.7%	8.3%	5.3%	7.7%
	excess	0.7%	1.4%	0.2%	1.6%	1.0%	1.0%

Performance Measure		2015	2016	2017	2018	2019 Projected ⁷	5-Year Avg. ⁶
B. Land Grant Endowment Fund ⁴	total return	3.0%	-0.2%	12.9%	9.9%	6.3%	8.7%
	public funds universe median	3.2%	0.5%	12.4%	8.2%	5.5%	7.9%
	excess	-0.2%	-0.7%	0.5%	1.7%	0.8%	0.8%
	3. Percent Real Change in the Fund						
A. Land Grant Endowment: growth in Permanent funds to exceed the rate of inflation and population growth	annual growth in corpus	3.9%	-4.7%	5.8%	11.3%	6.2%	6.2%
	annual rate of inflation	0.7%	0.7%	1.8%	2.3%	2.5%	1.4%
	annual population growth	1.2%	1.9%	2.2%	1.7%	1.7%	1.7%
	excess	2.0%	-7.3%	1.8%	7.3%	2.0%	3.1%
B. Ritter Island Endowment Fund: growth in corpus in excess of the rate of inflation over a five-year period	five-year growth in corpus	3.8%	1.1%	5.1%	5.1%	6.2%	4.2%
	five-year rate of inflation	1.8%	1.5%	1.3%	1.4%	2.5%	1.6%
	excess	2.0%	-0.4%	3.8%	3.7%	3.7%	2.6%
C. Trail of the Coeur d'Alenes Endowment Fund: growth in corpus in excess of the rate of inflation over a five-year period	five-year growth in corpus	1.2%	1.6%	4.8%	4.8%	6.2%	3.1%
	five-year rate of inflation	1.8%	1.5%	1.3%	1.4%	2.5%	1.6%
	excess	-0.6%	0.1%	3.5%	3.4%	3.7%	1.5%
4. Change in Distributions to Land Grant Beneficiaries ⁸							
A. No reduction in the total Endowment Distribution	change	\$52.0M	\$56.5M	\$63.2M	\$73.5M	\$78.2M	\$64.7M
	target	Increase	Increase	Increase	Increase	Increase	Increase
B. Land Grant Endowment Earnings Reserves at least 600%-700% of next year's approved distribution	number below target	0	5	0	1	0	0
Performance Measure		2011-2016 ⁹	2012-2017	2013-2018	2014-2019E	2015-2020E	
C. Growth in Land Grant Endowment distribution exceeds inflation and population growth over a five-year period (avg. annual growth for all endowments)	growth in distribution	4.3%	6.3%	9.1%	9.9% ⁵	9.3% ⁵	
	inflation	1.5%	1.3%	1.4%	1.5% ⁵	1.9% ⁵	
	population Growth	1.2%	1.5%	1.6%	1.7% ⁵	1.8% ⁵	
	excess	1.6%	3.5%	6.1%	6.7% ⁵	5.6% ⁵	

¹ Exceed benchmark consisting of 42.3% Russell 3000, 15.2% MSCI ACWI ex-US, 8.5% MSCI ACWI, 26% BBC Aggregate, 8.0% NCREIF-ODCE.

² Meet or exceed the benchmark consisting of 12% Russell 3000, 29.8% BBC Aggregate, 29.8% BBC Govt. Credit, 17% M/L 1-3 yr. Treasury, 8.5% TIPS, 3% M/L 3 mo. T-Bill.

³ Exceed the median of peers in Callan database

⁴ Exceed the median of peers in Callan database

⁵ Based on projection

⁶ for the trailing five-year period (FY14-FY18)

⁷ Endowment Fund Staff projections based on a ten-year outlook

⁸ Excluding Capitol endowment

⁹ Excludes one-time \$22.5mm distribution to public schools in FY11

For More Information Contact

Christopher E. Halvorson
Endowment Fund Investment Board
816 West Bannock Street Suite 301
Boise, ID 83702
Phone: (208) 334-3728
E-mail: chris.halvorson@efib.idaho.gov