



# **Strategic Plan**

## **FY2025 – FY2028**

**Endowment Fund Investment  
Board of the State of Idaho**

**April 29 , 2024**

## Background

When Idaho became the 43<sup>rd</sup> state in 1890, the Congress of the United States endowed certain lands to be used to generate income for education and other purposes. At statehood, 3.6 million acres of land were granted to the state by the federal government and 2.5 million acres remain. Certain proceeds from the sale of land and income generated by the land have accumulated in the endowment fund, which had assets totaling \$2.9 billion as of June 30, 2023.

Per the Idaho Constitution, the State Board of Land Commissioners oversees the state's endowment assets. The State Board of Land Commissioners is comprised of five elected officials: Idaho's Governor, Secretary of State, Attorney General, Superintendent of Public Instruction and State Controller. Under the direction of the State Board of Land Commissioners, endowment lands are managed by the Idaho Department of Lands and the endowment fund is managed by the Endowment Fund Investment Board, which consists of nine members appointed by the Governor and confirmed by the Senate.

## Mission of the Endowment Fund Investment Board

Provide professional investment management services to our stakeholders consistent with constitutional and statutory mandates.

## Goals

- Meet or exceed the endowment fund's investment benchmark net of fees.
- Meet or exceed the median of our peer group ranking.
- Grow the permanent fund at a rate equal to or greater than inflation and population growth.
- Provide stable annual distributions to endowment beneficiaries.
- Grow beneficiary distributions at the rate of inflation and population growth.
- Maintain adequate earnings reserves to provide a buffer for investment volatility.

# Objectives

## For our Clients, we will:

- Establish prudent long-term investment policies and strategies that seek to balance risk and return objectives.
- Generate long-term returns consistent with the level of risk associated with the policy asset allocation.
- Utilize professional investment managers, consultants, custodians, and other agents to execute those strategies.
- Act professionally, communicate clearly and strive to be a valued partner.

## Endowment Fund Clients

Client	Fund
Board of Land Commissioners	Land Grant Endowment Funds
State Insurance Fund	State Insurance Fund
Department of Environment Quality	Bunker Hill Endowment Trust
Department of Environment Quality	Asarco Endowment Trust
Department of Environment Quality	Hecla Endowment Trust
Department of Fish and Game	Southern Idaho Mitigation Endowment Trust
Department of Fish and Game	Craig Mountain Wildlife Mitigation Trust
Department of Fish and Game	Blackfoot Wildlife Mitigation Endowment
Department of Fish and Game	North Idaho Wildlife Mitigation Endowment
Department of Fish and Game	North Idaho Wildlife Operating Fund
Department of Parks & Recreation	Trail of the Coeur d'Alene Endowment
Department of Parks & Recreation	Ritter Island Endowment Fund
Department of Lands	Forest Legacy Funds

# Objectives

## For our Beneficiaries, we will:

- Strive to make consistent and sustainable annual distributions.
- Strive to maintain earnings reserves sufficient to buffer beneficiary distributions from land revenue and investment volatility.
- Strive to grow the permanent corpus at a rate equal to or greater than inflation and population growth.

## Endowment Fund Beneficiaries

- Public Schools
- Charitable Institutions (Idaho State University, State Juvenile Corrections, State Hospital North, Idaho Veterans Homes and the Schools for the Deaf & Blind)
- School of Science at the University of Idaho
- Normal Schools (Idaho State University and Lewis-Clark State College)
- State Hospital South
- University of Idaho
- Penitentiary
- Agricultural College
- Capitol Permanent Fund

# Objectives

## For the State Board of Land Commissioners and Endowment Fund Board, we will:

- Provide resources, information, and support to help the Board of Land Commissioners serve as fiduciaries for the land-grant beneficiaries.
- Comply with open-meeting and public record laws and maintain a website with current information to ensure transparent governance.
- Provide consistent and meaningful communication to support effective decision making.

### State Board of Land Commissioners

Brad Little, Governor

Phil McGrane, Secretary of State

Raul Labrador, Attorney General

Brandon Woolf, State Controller

Debbie Critchfield, Superintendent of Public Instruction

### Endowment Fund Board

Tom Wilford, Chair

Jerry Aldape, Chair of Audit Committee

Senator Chuck Winder, Chair of Compensation Committee

Robert Donaldson

Joseph Forney

Representative Kenny Wroten

Irv Littman

Mary Pat Thompson

Brian Yeargain

# Objectives

## For our Staff, we will:

- Create a work environment that challenges staff to make meaningful contributions and encourages professional development.
- Provide consistent and accurate financial and investment reporting to clearly communicate performance to stakeholders.
- Use data analytics to monitor portfolios and investment managers.
- Remain current on investment research and trends.
- Maintain productive relationships with other state agencies.
- Meet at least annually with clients and beneficiaries to provide investment updates and foster collaboration.

## Endowment Fund Staff

Chris Anton, Manager of Investments

Chris Halvorson, Investment Officer

Kathy Van Vactor, Fiscal Officer

Liz Wieneke, Office Manager

## Key performance measures and benchmarks *(Including the rationale for their adoption)*

The performance of the Endowment Fund Investment Board can best be measured by:

- Stability and growth of distributions to beneficiaries.
- Solid long-term financial returns at a prudent level of risk.
- Growth in permanent corpus to preserve purchasing power for future generations.

### Risk/Return Measures & Benchmarks

These measures are calculated annually and over multi-year periods.

- Measure: Return vs. benchmark
  - Goal: Meet or exceed the endowment fund's investment benchmark gross of fees.
- Measure: Return vs. peers
  - Goal: Meet or exceed median of peer group rankings.

### Rationale for establishing these measures/benchmarks

There is no single perfect measure of the performance of an investment portfolio, so multiple performance measurements are used and calculated for both annual and multi-year periods.

**Return vs. benchmark:** This is a relative return measure that calculates the value added from “active” versus “passive” investing. One can invest in most asset classes through either index funds or active management. Index funds own a representative portion of a specific market and are therefore referred to as “passive” investments because they do not attempt to predict which individual securities will perform the best. “Active” investing attempts to select securities within a specific market that may perform better than average. EFIB uses a blend of indexed and actively managed strategies in its portfolios.

**Return vs. peers:** A comparison to relevant peers provides a measure of whether the fund is doing better or worse than similar participants. It is a measure of a fund's ability to make investment decisions better than average. This is difficult to achieve over long periods of time because, by definition, half of all funds are average and half below average. Also, certain peer group data is only available annually and one can never find perfectly aligned peers.

### **Land Grant Endowment Growth of Corpus Measures & Benchmarks**

- Measure: Percent change in the Permanent Fund
  - Goal: Grow the permanent fund at a rate equal to or greater than inflation and population growth.

### **Rationale for establishing the measure/benchmark**

The mission and ultimate purpose of Idaho's land grant endowments is to provide a perpetual stream of income to the beneficiaries. To balance the needs of current and future beneficiaries, the corpus of the endowment funds should grow at a rate equal to or greater than inflation and population growth so endowment distributions can keep pace with the growth in beneficiary funding needs.

### **Land Grant Endowment Distribution Measures & Benchmarks**

- Measure: Stability of distributions to beneficiaries
  - Goal: Provide stable annual distributions to endowment beneficiaries.
- Measure: Level of Earnings Reserves
  - Goal: Maintain adequate earnings reserves to provide a buffer for investment volatility (target is the equivalent of seven years of annual beneficiary distributions).
- Measure: Percent change in distributions to beneficiaries
  - Goal: Grow the beneficiary distributions at the rate of inflation and population growth on average over a rolling five-year period.

### **Rationale for establishing the measure/benchmark**

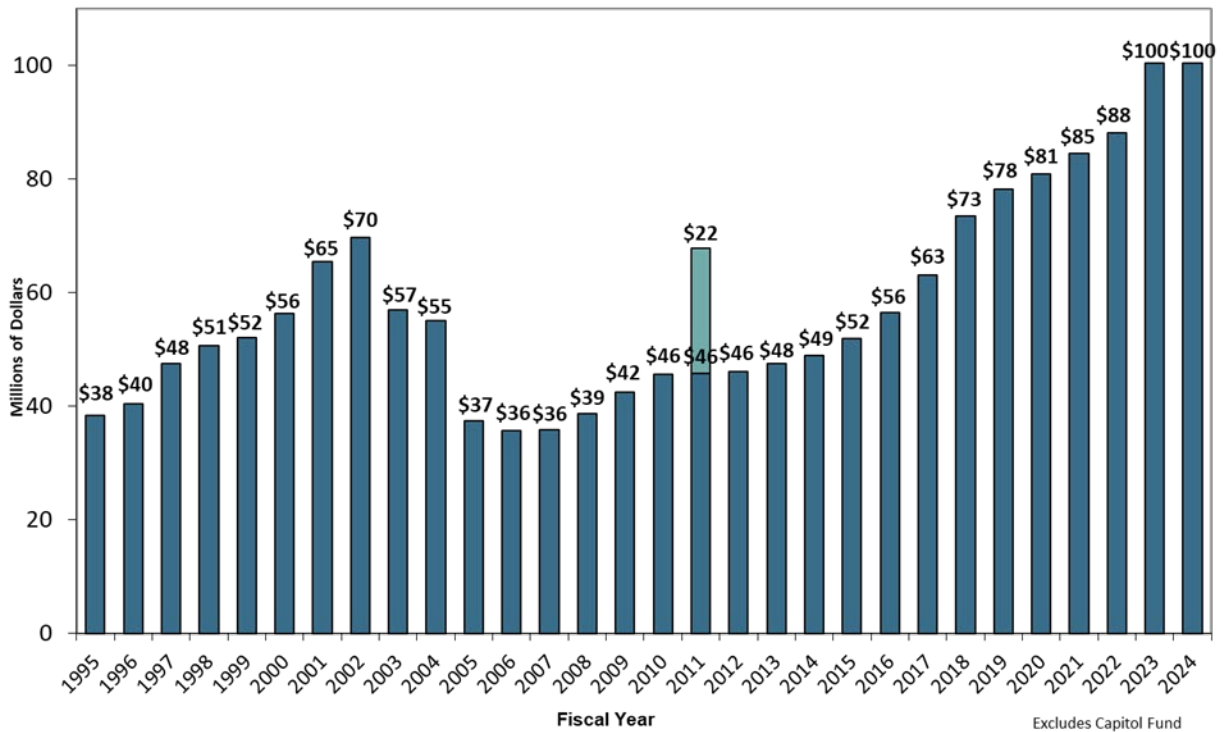
The adequacy of the investment returns of the endowment funds and the efficacy of the beneficiary distribution policy are ultimately measured in terms of the distributions to the beneficiaries, both in absolute dollars and in consistency from year-to-year. The goal of the state's land and financial endowment assets is to grow beneficiary distributions at a rate equal to or greater than inflation and population



growth. Endowment beneficiaries experienced declining distributions for four years from FY2003 – FY2006 primarily due to lower timber revenues than expected. The drop in distributions in FY2003 was especially traumatic because it coincided with a significant shortfall in General Fund revenues. Maintaining consistent distributions year-over-year is strongly preferred since most beneficiary funding supports ongoing personnel costs. To allow distributions to continue when there is a shortfall in income, the Endowment Fund maintains Earnings Reserves of undistributed income.

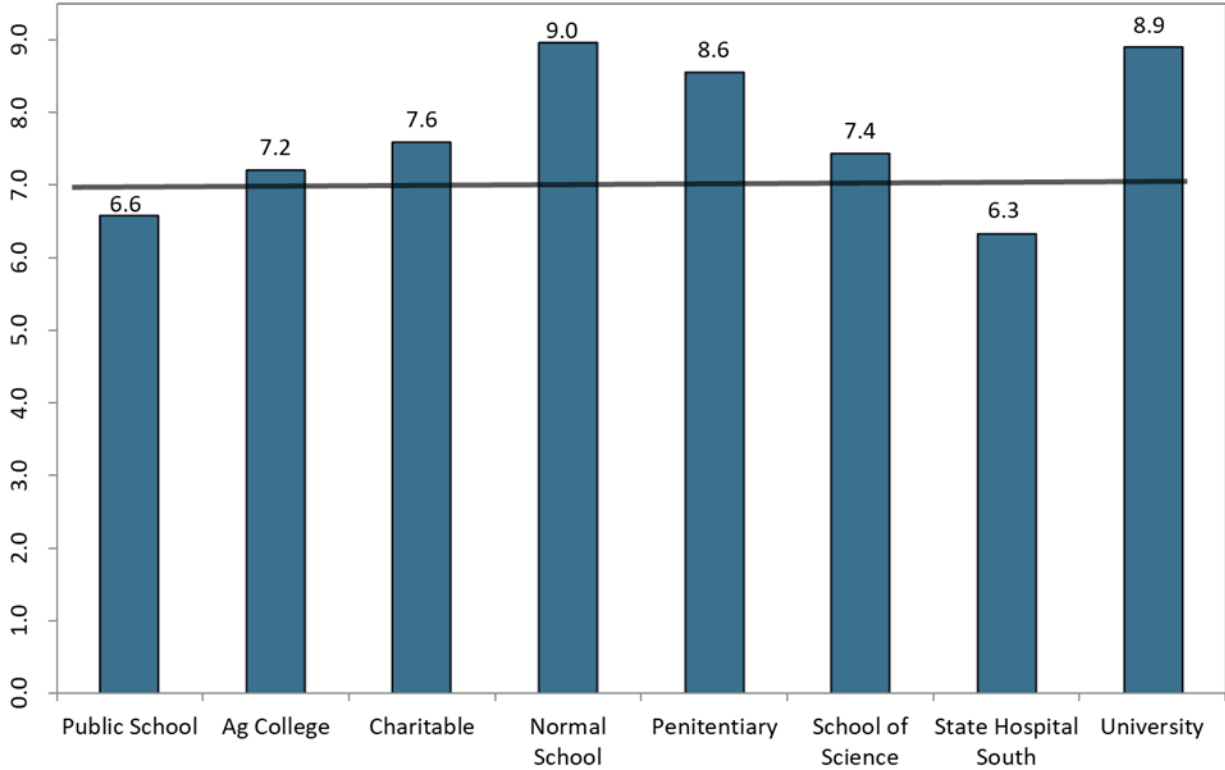
## Beneficiary Distributions 1995-2024

*(includes special Public School distribution in 2011 of \$22M)*



After analyzing the variability of land and fund revenues, EFIB has determined that having seven years of distributions should be sufficient to prevent the need to reduce a beneficiary’s distribution in all but the most extreme disruptions of fund and land revenues. However, if land revenues are expected to be much lower than normal, investment returns have dropped significantly or Earnings Reserve levels are below target levels, EFIB may need to maintain or reduce beneficiary distributions. The table below highlights Earnings Reserve levels as of June 30, 2023.

Coverage Ratio June 30, 2023  
 Years of Distributions based on FY2024 Distributions



At the end of each fiscal year, Earning Reserves levels in excess of targets may be transferred to Permanent Funds. The transfer of excess Earnings Reserves is designed to allow the Permanent Fund, which is held primarily for the benefit of future beneficiaries, to grow over time at roughly the same rate as the Earnings Reserves, which are primarily for the benefit of current beneficiaries. The policy of setting distributions as a percentage of the Permanent Fund ties growth in distributions to growth in the permanent corpus which further aligns the interests of both current and future beneficiaries.

The Capitol Permanent Fund has a Maintenance Reserve Fund to accumulate earnings in preparation for major maintenance projects at the Capitol Building. The Capitol Reserve is less sensitive to temporary disruptions in annual distributions from its Permanent Fund because annual distributions are normally limited to minor capital improvement projects in anticipation of larger projects in the future.

## **External factors that could significantly affect the achievement of our goals and objectives**

The primary factors impacting the EFIB are the volatility of investment returns and the level of revenue generated from endowment lands.

### **Financial Markets**

The portfolios managed by the Endowment Fund Investment Board are subject to the variability in the financial markets.

Our investment approach values simplicity, transparency, focus and patience. Portfolios are constructed primarily with traditional public equities (domestic, international and emerging market equities), fixed income securities (treasuries, government agencies, mortgages, asset backed securities, corporate bonds, emerging market bonds), and private real estate investments. Most of our investments are in securities that are priced daily and can be easily sold to rebalance the portfolio or provide liquidity.

The single most important factor in determining the absolute level of investment returns is the long-term asset allocation. We use long-term strategic asset class allocations and rebalance to those allocations within suitable ranges. Rebalancing keeps the portfolio diversified and maintains consistent risk/return characteristics. We periodically conduct asset allocation studies to assess the probability of achieving long-term goals and may make adjustments in the allocations to asset classes or sub-asset classes.

The achievement of long-term investment goals is derived from sound investment decisions and efficient and consistent implementation of the strategy. Tactical asset allocation and frequent manager changes are likely to result in poor outcomes that will impair the long-term performance of the portfolio. Market timing is difficult and ineffective for institutional investors so we remain fully invested in long-term mandates.

We utilize long time horizons and appropriate benchmarks to evaluate investment managers. Managers will have periods of both under and out-performance relative to indices and can only be evaluated over a full investment cycle.

The following table outlines the asset allocation of the two portfolios managed by the Endowment Fund Investment Board.

	% of Portfolio Invested	
	Land Grant Endowment Fund	State Insurance Fund
	<b>Equities</b>	
Domestic equity	38.0%	10.0%
International equity	19.0%	4.0%
Global equity	<u>9.0%</u>	<u>0.0%</u>
<b>Total Equities</b>	<b>66.0%</b>	<b>14.0%</b>
<b>Fixed Income</b>		
Core	11.0%	42.0%
Core Plus	13.0%	0.0%
Credit	0.0%	12.0%
Securitized	0.0%	12.0%
Treasury	<u>0.0%</u>	<u>12.0%</u>
<b>Total Fixed Income</b>	<b>24.0%</b>	<b>78.0%</b>
<b>Real Assets</b>	<b>10.0%</b>	<b>8.0%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

For the Land Grant Endowment Fund, the Permanent Funds recognize income only when they have cumulative gains above inflation at the end of each fiscal year. This total real income approach protects the inflation-adjusted corpus or principal in the Permanent Funds, since gains in any one year will first be applied to offset any past losses in principal. However, this approach also results in no revenue flowing to Earnings Reserves in years where there are cumulative losses in the portfolio. Historically, market losses in a portfolio with a 66% equity, 24% fixed income, and 10% real estate allocation have occurred in one year out of three. Also, in each twenty-five-year historical period there has been one period where no income would have accrued from the permanent fund to earnings reserve for five consecutive years.

### Land Revenues

The performance of the land assets is another major external factor that can significantly affect the achievement of the objective of providing sustainable distributions to beneficiaries. About half of the sensitivity of the return on total endowment assets is driven by the net cash earnings from lands and about half by the total investment return of the funds.

The total cash available for distribution to endowment beneficiaries is highly influenced by variations in net cash earnings of the endowment lands. Over the last fifteen fiscal years, net earnings have averaged \$45 million annually, with a range of

about plus or minus \$15 million (about 33%) except for 2010, when revenues plunged 50% below average and 2014, when revenues jumped almost 40% above average.

