

Callan



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History of Endowment Reform and Callan's Work

Idaho State Board of Land Commissioners

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Who is Callan?

Callan is a national investment consulting firm that provides a full suite of services to institutional investors. We have approximately \$3 trillion under advisement.

Callan works with land trusts, pension funds, defined contribution plans, cash pools, insurance funds as well as endowments and foundations.

We have provided services to the SIF, EFIB, IDL and the Board of Land Commissioners for over 10 years.

The team is Janet Becker-Wold, Senior Vice President and Manager, consultant to the EFIB and Sally Haskins, Senior Vice President and co-manager of Real Assets Consulting.

Client Policy Review Committee 13 Senior Professionals	Manager Search Committee 10 Senior Professionals	Defined Contribution Committee 12 Senior Professionals	Alternatives Review Committee 12 Senior Professionals
Strategic Planning	Plan Implementation	Monitoring & Evaluation	Education & Research
Capital Markets Research 9 dedicated professionals <i>(Also significantly contributes to our global manager research efforts.)</i>	Dedicated Manager Research 33 dedicated professionals Defined Contribution Group 5 dedicated professionals Trust, Custody & Securities Lending Group 3 dedicated professionals	Client Report Services Proprietary Database 29 dedicated performance professionals <i>Supported by 20 database, programming and systems professionals.</i>	Callan Institute and "Callan College" 8 dedicated professionals <i>Most Callan professionals participate as instructors and research writers</i>

Brief History of Idaho Endowment Reform

Endowment reform began in 1996 with the report and recommendations of the Governor's Committee on Endowment Fund Investment Reform.

The state needs to shift its current policy from management of individual parts (the land trust separately 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. The endowment also needs to specifically set out its goals and investment policies, including the rules for setting the distribution and level of benefits to both the current beneficiaries and those of future generations.

In 1997, the Idaho Legislature authorized the Legislative Council to appoint a committee to study the 1996 report and make recommendations.

In 1998, the following legislation passed:

1. *Endowment and earnings reserves for each of the endowments*
2. *Placed the EFIB under the direction of the Land Board (effectively making the Land Board a policy maker for both lands and investments)*
3. *Established a land bank to allow the deposit of proceeds of public school lands*

2013 Endowment Fund Reform Progress Report authored by Bob Maynard: introduced a “prudent expert” rule framework when the Land Board considers IDL issues that have investment components (land exchanges, disposition of Land Bank Assets, and commercial property transactions).

Two key components, investment decisions are done either by experts or on the recommendations of experts and ensuring that independent monitoring systems are in place to ensure the process is meeting institutional expert standards.

Advances Due to Endowment Reform

From 2013 progress report

1. Expansion of the investment of the financial assets to a professionally managed fully diversified portfolio
2. IDL shifted its orientation from a focus on biological management to incorporate return considerations in the management of timber and other lands
3. Distributions and payments of revenues from the Trust are in the hands of policymakers who can respond to ongoing market environments (as opposed to a statute that required distribution of income only)
4. Policy makers from the Land Board, EFIB and legislature can be involved in setting rules for distributions and the fair division of assets between future and current generations
5. The Land Board established an Asset Management Plan – written policy codifying the principles and procedures for Trust operations. This added consistency and transparency to the management of Trust assets.

Outstanding issues noted: “grey area” between financial assets and land assets: decisions regarding the investment and deployment of Land Bank Funds, procedures around land swaps, purchase and management of in-state property, asset allocation and distribution policies that do not expressly consider Land Trust assets and cash flows.

Callan – History of Work for the Land Board

2014 Asset Allocation and Governance Review

- Review IDL valuation and revenue forecasting process
- Review governance structure and provide recommendations
- Review and develop investment policies and procedures

2016 Strategic Reinvestment Plan – assess options to guide Land Board decisions regarding prudent investment of Land Bank monies. Establishes a hurdle rate for new investments in timber and farmland. The hurdle rate is the rate of return required for new land investments. Hurdle rate set at 3.5% real for timber and 4.5% real for farmland. Policy Objective return is 3.0% real.

Callan views reinvestment of land proceeds as a capital allocation question – not as a mechanism to fill certain buckets or asset allocation targets.

- What is the best use of the marginal dollar for the total portfolio (the marginal dollar is the land bank proceeds)?
- Hurdle rates are established based on the underlying premise that any acquisition must be accretive.
- Considerations:
 1. Is the investment consistent with the overall asset allocation and objectives of the total portfolio as set forth in the Investment Policy Statement and in the Strategic and Annual Plans?
 2. Comparison of the risk adjusted return and the net return relative to other types of investments (e.g., stocks, bonds, other land types). Does it make a difference and move the needle from an overall portfolio perspective?
 3. Completion of a full underwriting of the potential investment including upside, base case, and downside scenarios with identification of assumptions and risks alongside of the returns (both the return gross of fees and net of all fees and costs);
 4. Detailed outline of the business plan for the investment and the plan for execution including consideration of the internal and external resources required to execute the plan and associated costs;
 5. Market fundamentals and availability of transactions; and
 6. Institutional investment trends, processes, and implementation for timberland and farmland.

Callan – History of Work for the Land Board (continued)

2018 Asset Allocation and Distribution Study -

Confirm for Public School, Agriculture College, Charitable Institutions, Normal School Penitentiary, School of Science, State Hospital South and University of Idaho the criteria to be used to evaluate the best and highest use of monetary assets in the Land Bank.

- Determine the appropriate earnings reserve levels of each endowment
- Assess the impact of cabin or cottage site sales for Public School, Normal Schools and State Hospital South
- Determine whether the asset allocation and distribution policies of the eight individual endowments should be changed
- Determine the best use of land sale proceeds for each endowment

Outcomes:

- **Callan presented three options for the deployment of land assets to the EFIB. They were subsequently reviewed by Land Board’s Investment Subcommittee and presented to the full Board. The Board approved the following:**

Consistent with the Reinvestment Plan, identify potential land transactions that meet established hurdle rates and set aside sufficient funds over an appropriate time horizon. Immediately move money that will either “mature” prior to the transaction or exceeds what is required. Board rationale for approving this option is documented in Land Board Regular Agenda (July 17, 2018).

- **Callan recommended increasing reserve levels for Public School and Charitable Institutions and to make permanent increases temporarily in place for State Hospital South.**

The EFIB approved and recommended approval to the Land Board. Land Board subsequently approved.

Callan – History of Work for the Land Board (continued)

2020 Hurdle rate review - Analysis considered current returns of the Endowment timber portfolio and trends; expected returns for the EFIB financial assets portfolio; and trends in expected and actual returns for institutional timber investments.

- As a result of the review, the hurdle rate for Timber was lowered to 3.25% real from 3.5%.

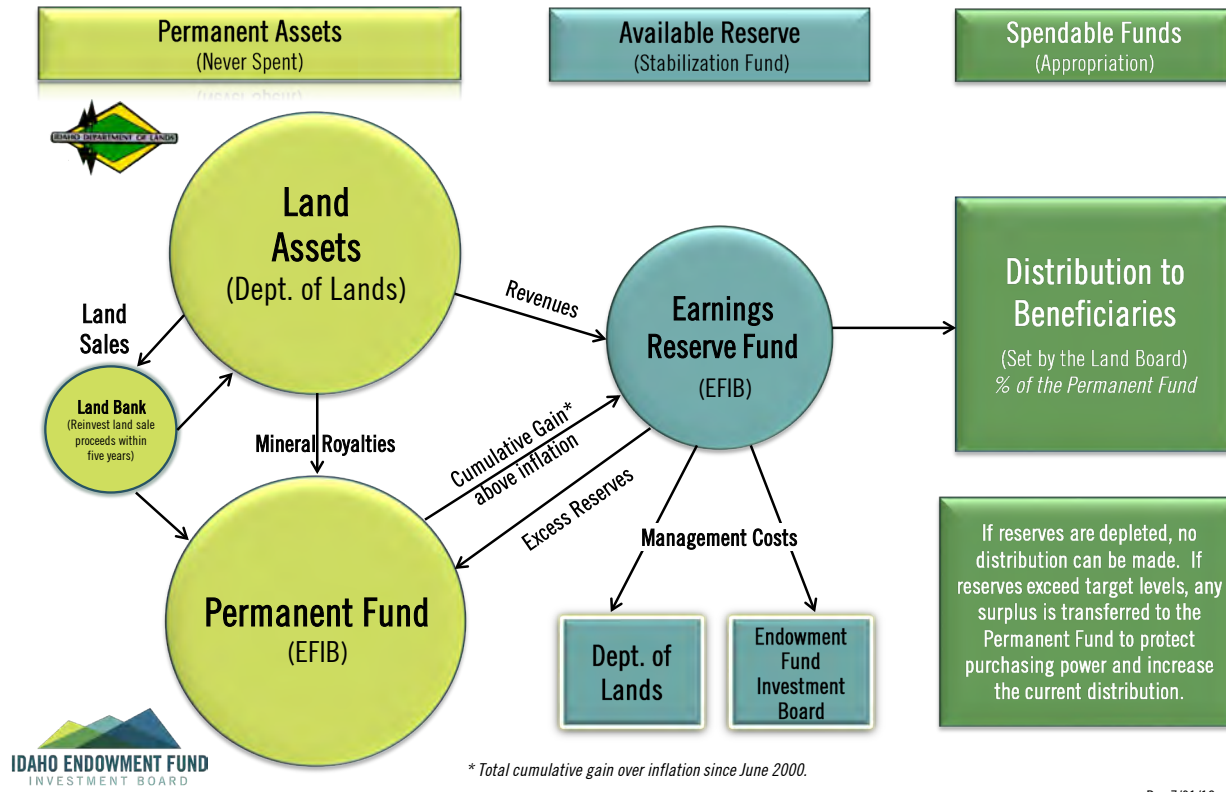
2022 Asset Allocation - Update risk, return and correlation assumptions used for IDL timber and rangeland as well as the financial assets. The forecasted return for IDL Timber was updated to 5.60% compounded over 10-year period (3.35% real, inflation 2.25%).

- As a result of the update, asset allocation ranges were removed, no changes in the overall asset allocation were recommended
- Hurdle rate for Timber increased to 3.35% net real. Investment policy was updated to reflect the changes. Hurdle rate consistent with expected real net returns for timber over a 10-year period.
- Expected return for Total Endowment Trust updated to 6.05% (10-year compounded return).

2023 Strategic Reinvestment Plan and Investment Policy update

Structure of Total Endowment Assets

STRUCTURE OF IDAHO'S ENDOWMENT ASSETS



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