

Annual Report to the
Board of Land Commissioners



November 21, 2023

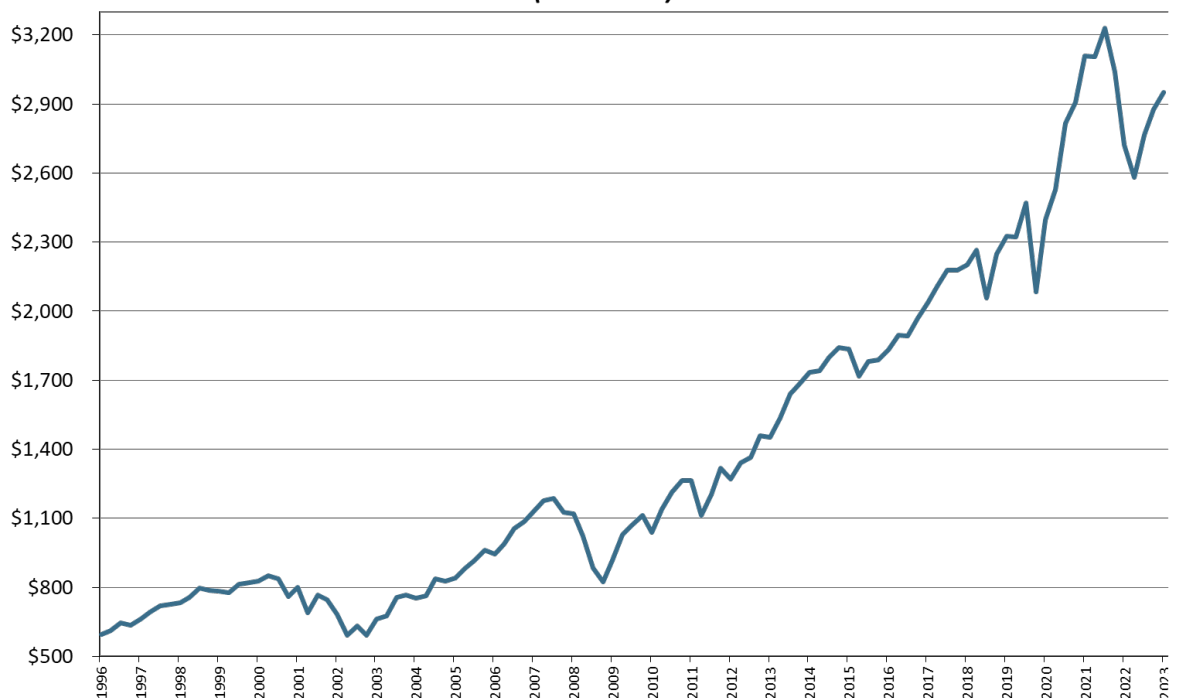
SUMMARY OF RESULTS

The Endowment Fund grew by 8.2% or \$223.0 million to \$2,946.6 million as of June 30, 2023. Earnings reserve levels, with the exceptions of Public School and State Hospital South, were above target at fiscal year-end which enabled the Idaho Board of Land Commissioners to approve the transfer of \$28.1 million from earnings reserves into permanent funds. The Endowment Fund had investment gains of 10.9%, which ranked in the top 22nd percentile in the Callan Public Fund Sponsor Database. Costs to manage the fund totaled \$11.4 million or 0.39% of assets. Net land revenue declined by 5.8% to \$53.2 million and beneficiary distributions increased by 13.9% to \$100.3 million.

CHANGES IN NET POSITION AND FUND BALANCE

Changes in the net position of the Endowment Fund are the result of investment gains or losses in the Endowment Fund portfolio, revenue generated from land assets, beneficiary distributions and Department of Lands and EFIB expenses. The Endowment Fund balance changed by \$223.0 million, -\$384.3 million and \$711.6 million during the fiscal years ended June 30, 2023, 2022 and 2021, respectively. Net position and fund balance totaled \$2,946.6 million, \$2,723.6 million and \$3,107.9 million as of June 30, 2023, 2022 and 2021, respectively.

Total Land Grant Endowment Fund Assets
June 1996 - June 2023
(in millions)

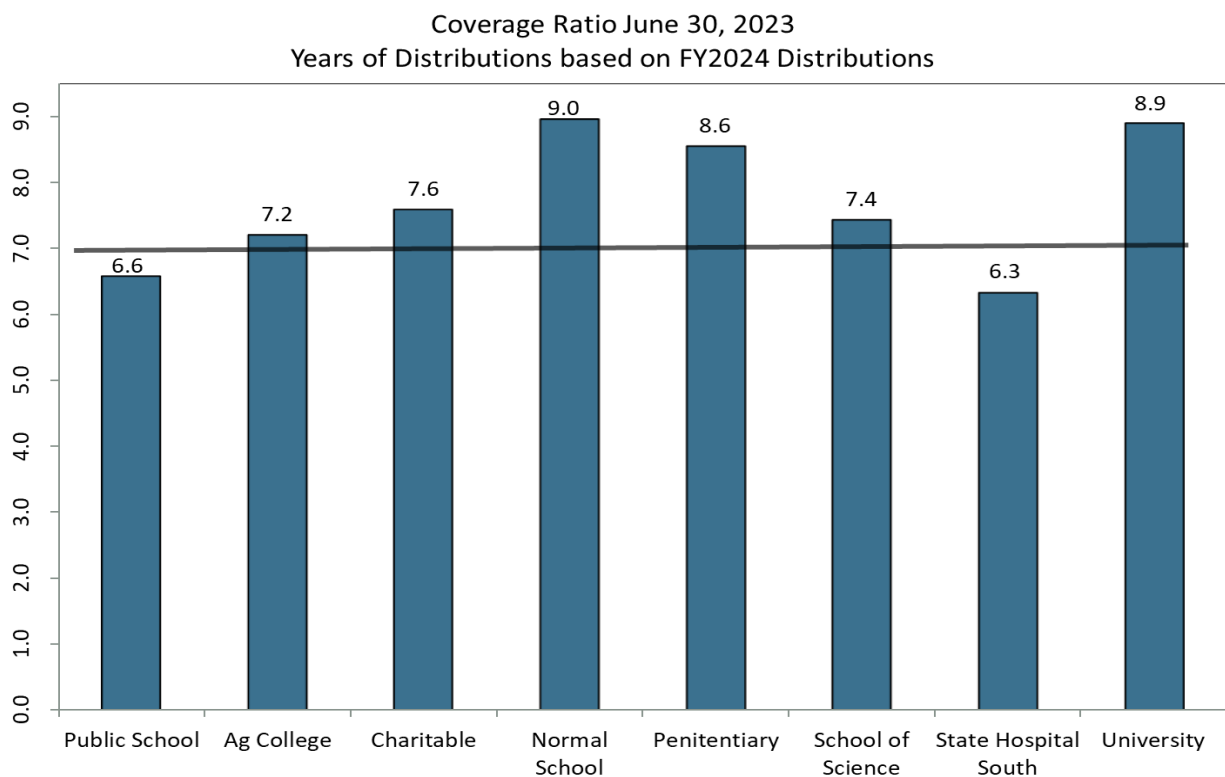


EARNINGS RESERVES

The Idaho State Board of Land Commissioners has established target earnings reserve levels that equate to seven years of distributions for all endowment beneficiaries. When earnings reserves exceed the target levels, excess amounts may be transferred from earnings reserve funds into the corresponding permanent funds. Subsequent to fiscal year-end, the Idaho State Board of Land Commissioners approved the transfer of \$28.1 million from earnings reserves into permanent funds.

Total earnings reserve levels were \$719.9 million, \$593.2 million and \$1,198.8 million as of June 30, 2023, 2022 and 2021, respectively. As of June 30, 2023, the earnings reserve balances for Public School and State Hospital South were below target earnings reserve levels.

The table below highlights the earnings reserve levels expressed in years of distributions for each beneficiary.

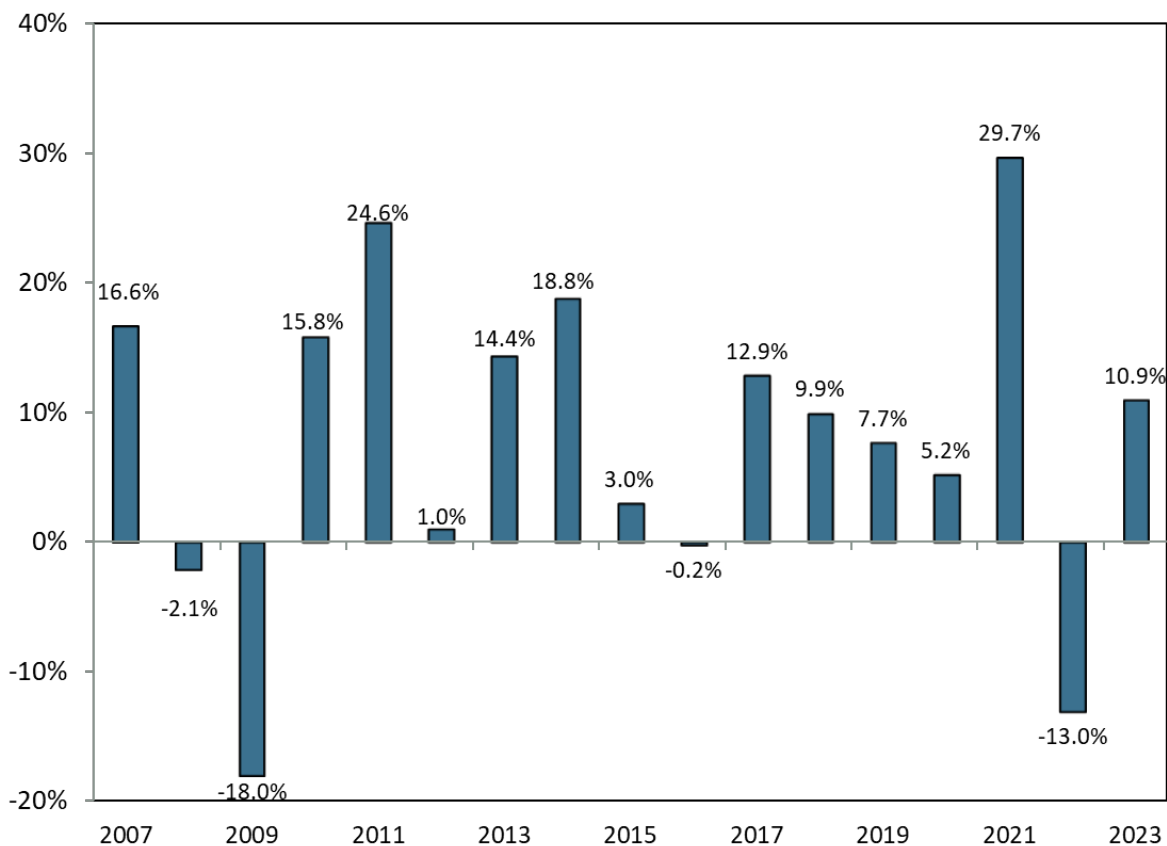


INVESTMENT RESULTS

The Endowment Fund portfolio generated investment returns before fees of 10.9%, -13.0% and 29.7% in fiscal years end June 30, 2023, 2022 and 2021, respectively. The average annual investment returns were 10.9%, 7.8%, 7.2%, and 8.0% during the last one, three, five and ten-

year periods. These investment returns ranked in the top 22nd, 55th, 31st and 30th percentile in the Callan Public Fund Sponsor Database for the one, three, five and ten-year periods.

Annual Gross Fund Returns



| Annualized Gross Fund Returns, Ending June 30, 2023 | | | | | |
|---|---------|---------|---------|---------|----------|
| | FY 2023 | 3 Years | 5 Years | 7 Years | 10 Years |
| Total Fund | 10.9% | 7.8% | 7.2% | 8.4% | 8.0% |
| <i>Benchmark (38% Russell 3000, 19% ACWI ex-US, 9% ACWI, 10% ODCE, 24% BBC Aggregate)</i> | 10.6% | 7.3% | 6.8% | 7.9% | 7.6% |
| Total Equity | 18.2% | 12.2% | 9.7% | 11.5% | 10.4% |
| Domestic Equity | 18.7% | 13.7% | 10.7% | 12.9% | 12.1% |
| Large Cap. | 19.1% | 13.1% | 10.6% | 12.8% | 12.2% |
| Mid Cap. | 17.4% | 15.7% | 12.0% | 13.4% | 12.0% |
| Small Cap. | 18.8% | 13.2% | 8.6% | 12.6% | 11.2% |
| International Equity | 15.7% | 9.4% | 7.2% | 9.0% | 7.0% |
| Global Equity | 20.8% | 12.1% | 10.4% | 10.7% | 8.7% |
| <i>MSCI ACWI Index</i> | 16.5% | 11.0% | 8.1% | 9.9% | 8.8% |
| Total Real Estate | -5.4% | 6.0% | 6.1% | | |
| <i>NCREIF ODCE Index</i> | -3.1% | 8.4% | 7.5% | | |
| Total Fixed Income | -0.5% | -2.9% | 1.1% | 0.7% | 1.6% |
| <i>Fixed-Income Benchmark (BBC U.S. Aggregate)</i> | -0.9% | -4.0% | 0.8% | 0.4% | 1.5% |

ASSET ALLOCATION

The target asset allocation for the Endowment Fund portfolio is 66% equity, 24% fixed income, and 10% real estate. The equity portion of the portfolio currently includes 38% U.S. equity, 19% international equity and 9% global equity. The fixed income portion of the portfolio includes 11% in the Bloomberg Aggregate Index and 13% in an actively managed core plus strategies. The real estate portion of the portfolio is invested in private core real estate strategies.

INVESTMENT MANAGEMENT

The EFIB engages the services of an investment consultant who acts as an independent fiduciary and provides advice in areas such as investment policies and guidelines, asset allocation strategies, portfolio risk/return modeling and hiring and monitoring of investment managers. Callan has served as EFIB's investment consultant since 2007. They were reappointed in 2019 after a national consultant search.

The EFIB engages investment managers who are given full discretion to make investment decisions subject to policies and guidelines specific to the investment strategy they are managing. As of June 30, 2023, the EFIB engaged twenty investment managers including Barrow Hanley, Boston Partners, CBRE Investment Management, Clearwater Advisors, DoubleLine Capital, DWS, Eagle Asset Management, LSV Asset Management, Northern Trust Investments, PineStone Asset Management, Sands Capital, Schroders, State Street Global Advisors, Sycamore/Victory Capital, TimesSquare Capital Management, UBS Realty Investors, Vanguard, WCM Investment Management, Wellington and Western Asset Management.

The EFIB engages Northern Trust Company for custodial services. Northern Trust Company is responsible for the safekeeping of assets, trade settlement, accounting, security valuation, investment performance reporting and proxy voting.

COST OF INVESTMENT MANAGEMENT

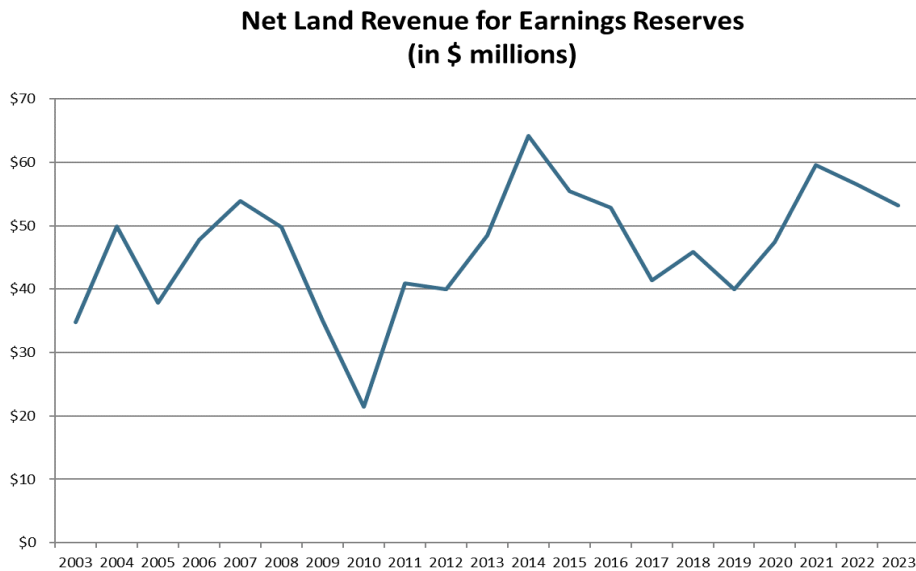
The cost for investment management was \$11.4 million, \$12.7 million and \$12.1 million in fiscal years 2023, 2022 and 2021, respectively. Investment management expenses as a percentage of year-end Endowment Fund net positions equates to 0.39%, 0.47% and 0.39% in fiscal years 2023, 2022 and 2021, respectively. The table below provides a breakdown of investment management expenses.

Cost of Investment Management

| Investment Management Operating Costs | 2023 | 2022 | 2021 |
|---|---------------|---------------|---------------|
| Internal Investment Costs | \$ 605,128 | \$ 564,256 | \$ 523,664 |
| Outside investment manager and legal fees | 9,538,882 | 11,303,231 | 9,804,955 |
| Custody Expense | 977,025 | 934,350 | 932,146 |
| Consultant and auditor fees | 269,620 | 271,944 | 257,529 |
| Total expenditures | 11,390,656 | 13,073,781 | 11,518,294 |
| Change in Manager Fee Accrual | 32,183 | (365,920) | 535,488 |
| Total Accrual Basis Expense | \$ 11,422,839 | \$ 12,707,861 | \$ 12,053,782 |

NET LAND REVENUE

Net land revenue (land revenue less Department of Lands expenses) totaled \$53.2 million, \$56.5 million and \$59.6 million in fiscal years 2023, 2022 and 2021, respectively. The decline in net land revenue from fiscal 2014 through 2019 is primarily the result of the sales of leased cabin sites located near Payette and Priest Lakes. The Idaho Department of Lands has increased the annual volume of timber harvested over the last few years, but net revenue has declined recently due to lower timber prices.



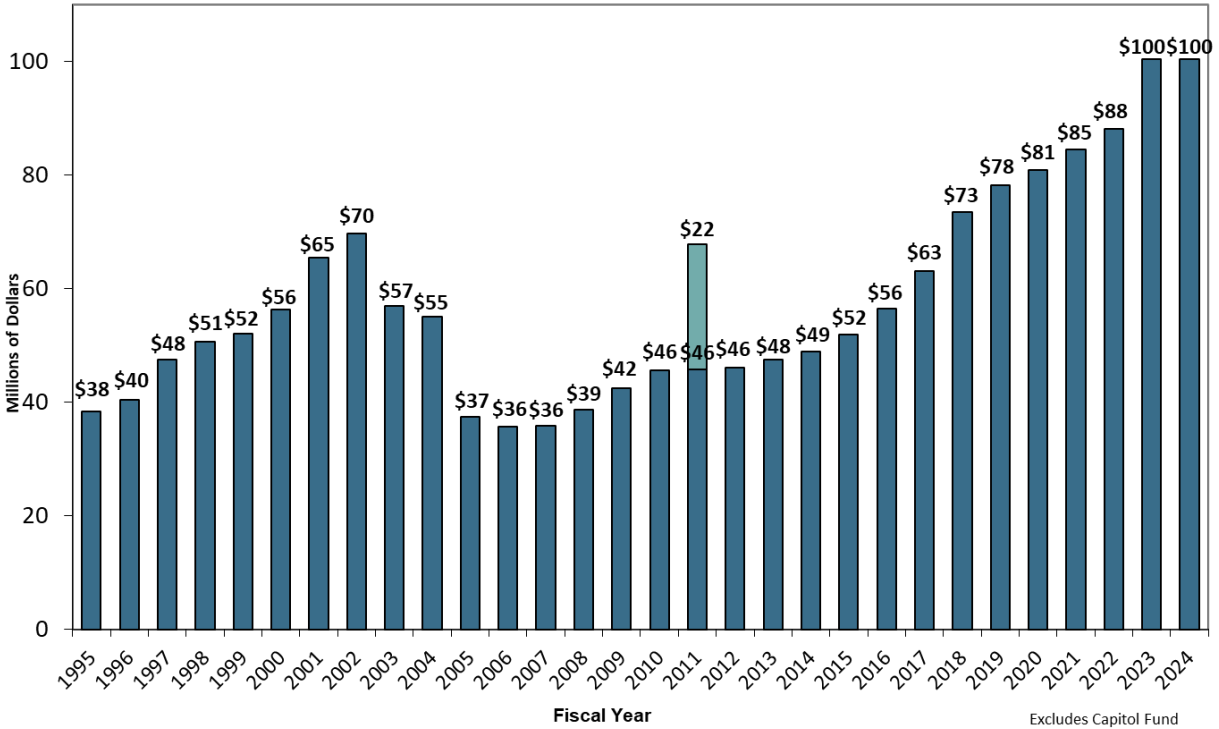
BENEFICIARY DISTRIBUTIONS

The Endowment Fund exists to provide distributions to beneficiaries in perpetuity. For all endowments, except Capitol Permanent, the Idaho State Board of Land Commissioners has established a beneficiary distribution policy. The current policy provides for annual distributions at a rate of 5% of the three-year moving average of the Permanent Fund balance (with the exception of State Hospital South which is 7%) and allows for adjustments to distributions based on factors including the level of Earnings Reserve Funds and transfers to the Permanent Funds.

Distributions to land-grant beneficiaries totaled \$100.3 million, \$88.1 million and \$84.5 million in fiscal years 2023, 2022 and 2021, respectively. The Board of Land Commissioners approved distributions of \$100.3 million and \$103.2 million in fiscal years 2024 and 2025, respectively. The table below provides a summary of land-grant beneficiary distributions.

Beneficiary Distributions 1995-2024

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



On July 1, 2004, the Capitol Permanent Fund was pooled with the Endowment Fund for investment purposes. Additions to the Capitol Permanent Fund include revenue from timber lands, license plate royalties, and investment income. The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund. Distribution from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund totaled \$1.83 million, \$1.63 million and \$1.56 million in fiscal years 2023, 2022 and 2021, respectively. Distributions from the Capitol Maintenance Reserve Fund are determined by the Capitol Commission, subject to legislative appropriation. Distributions from the Capital Maintenance Reserve Fund to the Capitol Commission were \$1,021,819, \$125,000, and \$2,450,000 in fiscal years 2023, 2022 and 2021, respectively.

CREDIT ENHANCEMENT PROGRAM

On July 1, 2002, the State of Idaho’s Credit Enhancement Program for school district bond financing was established. This program, in accordance with Idaho Code Section 57-728 and in conjunction with Idaho Code Chapter 53, Title 33, requires the Public School Endowment Fund to purchase up to \$300 million in notes of the State that may be issued to avoid default on school district bonds. This credit enhancement allows eligible voter-approved school bonds to be issued

with AAA ratings, which historically has been above the State's AA+ rating. The enhanced credit rating results in lower borrowing costs for Idaho school districts. EFIB has committed to provide credit enhancement on up to \$1.2 billion in school bonds, with a limit of \$40 million per school district. There were \$538.9 million, \$596.5 million, and \$608.1 million in bonds guaranteed by the Credit Enhancement Program as of June 30, 2023, 2022 and 2021, respectively.

RISKS

The Endowment Fund is aware that macroeconomic and geopolitical risks broadly affect financial markets, and it works closely with its consultant and investment managers to monitor important trends and address risks assumed in the portfolio. It also recognizes the recent escalation of cyber security risk and consistently reviews and monitors best practices used to mitigate these risks.