



INVESTMENT REPORT

Month to Date Report

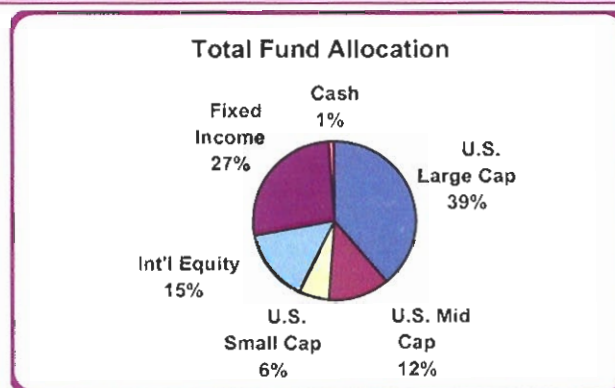
July 31, 2005

| | | |
|-----------------------------------|----|-------------|
| CURRENT VALUE OF THE FUND | \$ | 868,181,991 |
| INVESTMENT CHANGE IN MARKET VALUE | \$ | 24,529,324 |
| NET CONTRIBUTIONS | \$ | 3,496,704 |
| FISCAL YEAR TO DATE RETURNS | | 2.9% |
| MONTH TO DATE RETURNS | | 2.9% |

| <u>Quarter to Date</u> | | <u>Fiscal Year to Date</u> | | <u>Last Two Years</u> | |
|------------------------|--------------|----------------------------|--------------|-----------------------|--------------|
| Total Fund | 2.9% | Total Fund | 2.9% | Total Fund | 14.5% |
| Benchmark | 2.4% | Benchmark | 2.4% | Benchmark | 13.0% |
| U.S Equity | 5.1% | U.S Equity | 5.1% | U.S Equity | 18.0% |
| Benchmark | 4.1% | Benchmark | 4.1% | Benchmark | 15.1% |
| Int'l Equity | 3.1% | Int'l Equity | 3.1% | Int'l Equity | 20.5% |
| Benchmark | 3.1% | Benchmark | 3.1% | Benchmark | 23.0% |
| Fixed Income | -1.4% | Fixed Income | -1.4% | Fixed Income | 4.6% |
| Benchmark | -0.9% | Benchmark | -0.9% | Benchmark | 4.9% |

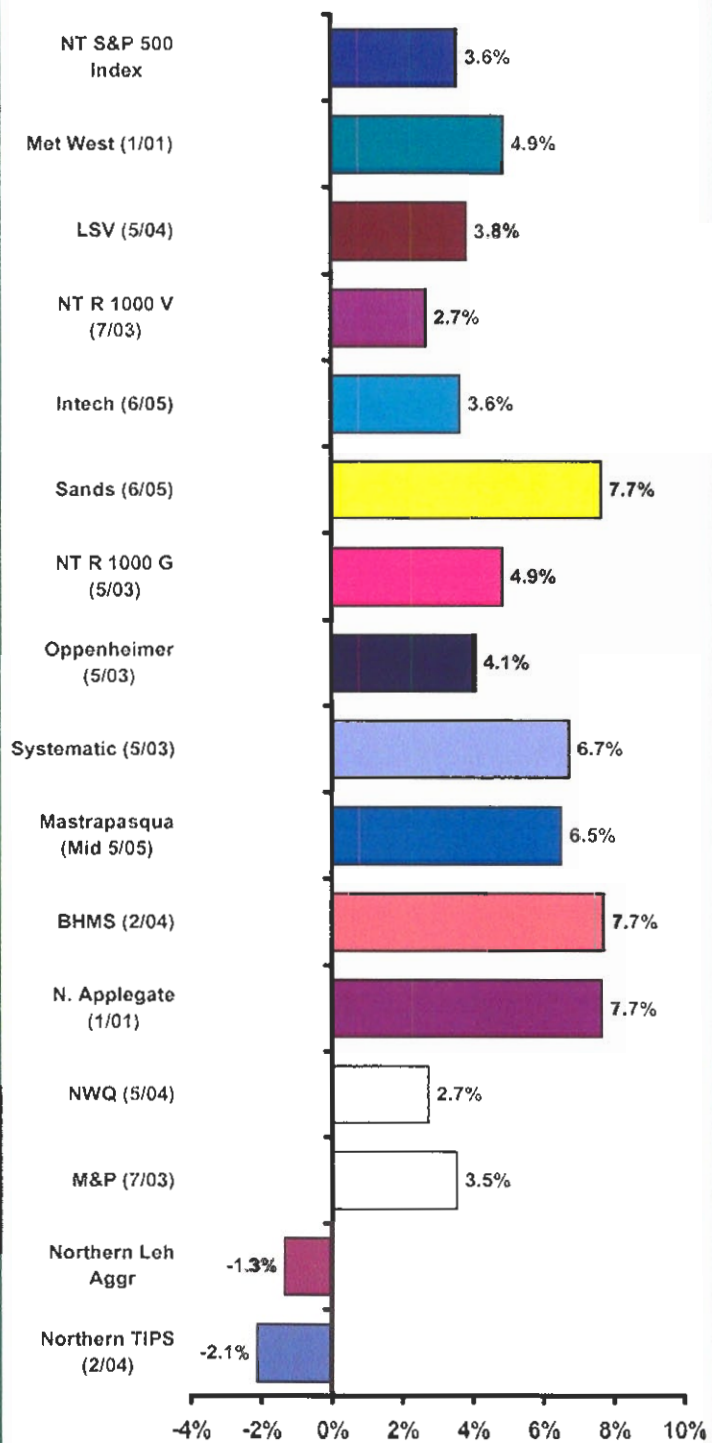
Asset Allocation

| | <u>Mkt Value</u> | <u>% Alloc</u> |
|-----------------|------------------|----------------|
| Domestic Equity | \$ 496.6 | 57.2% |
| U.S. Large Cap | \$ 338.4 | 39% |
| U.S. Mid Cap | \$ 105.4 | 12% |
| U.S. Small Cap | \$ 52.8 | 6% |
| Int'l Equity | \$ 128.5 | 14.8% |
| Fixed Income | \$ 234.1 | 27.0% |
| Cash | \$ 9.0 | 1.0% |
| Total Fund | \$ 868.2 | 100.0% |

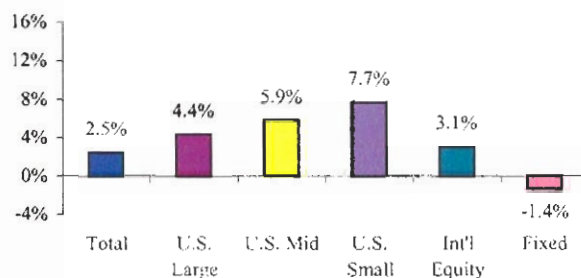


MOI Comment: The EFIB is off to a strong start of the fiscal year. The EFIB Total Fund is ahead of the Policy Index by approximately 50 basis points for the month-to-date, with a return of 2.9% versus the Policy Index return of 2.4% for the same period. The domestic equity portion of the portfolio continues to add value, generating a return for the month of 5.1% versus the Russell 3000 index return of 4.1%. The international equity portion of the portfolio is about neutral, generating a return in line with the MSCI EAFE return of 3.1%. The fixed income portion of the portfolio generated a month-to-date return of -1.4% versus the Lehman Aggregate benchmark return of -0.9%, with our fixed income managers the worst absolute performers for the month. BHMS is the top-performer for the month, in both absolute and relative returns. BHMS generated a return of 7.7%, exceeding their benchmark by approximately 200 basis points. Systematic and Met West also added value, also generating 200 basis points in added value over their respective benchmarks.

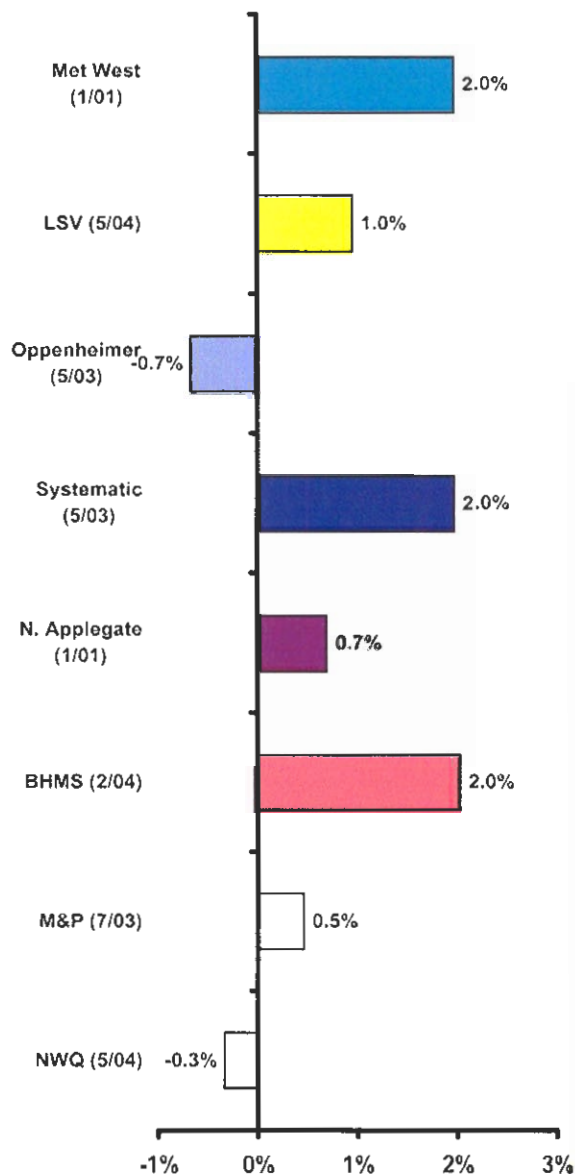
FYTD Manager Returns



Fiscal YTD Total Returns



FYTD Active Manager Relative Returns



State Board of Land Commissioners
August 9, 2005
Regular Agenda

SUBJECT

Reaffirm the 2007 spending policy of a 5% payout for all beneficiaries

OVERVIEW

DFM requested that the EFIB submit 2007 distribution estimates by September 1, 2005. In order to calculate the 2007 distribution, the EFIB revisited the existing spending policies.

During the March 8, 2005 Land Board meeting, a motion was passed to "amend its spending policy to 5%." The minutes did not clearly state when this spending policy took effect or the term of this spending policy. After reviewing the transcripts, it became clear that the 5% payout discussion was in regard to the Public Schools payout and that it was the intent of the State Board of Land Commissioners to remain at the 5% payout until the Board made a determination of any other payout figure.

Having found no revised spending policy passed or discussed in regard to the Pooled accounts, the EFIB, in its analysis of the FY 2005 status and the calculation of the FY 2007 payout, relied on the existing policy for the Pooled accounts. As you recall, the existing policy calls for a 5% payout in 2007 followed by a 4% payout in FY 2008 with the expectation of a 4% stable payout level thereafter.

The EFIB held a special meeting on August 2, 2005 to review the existing spending policies and reaffirmed the 2007 spending policy of 5% for all beneficiaries. The EFIB also reviewed the status of the permanent fund and earnings reserve fund balances based on that policy. Provided the Lands revenue forecasts are reliable, all of the accounts are able to make the 5% payout for 2007 with a reasonable margin of safety in the earnings reserve accounts.

RECOMMENDATION

Reaffirm the 2007 spending policy of 5% for all beneficiaries.

BOARD ACTION

A motion was made by Attorney General Wasden to reaffirm the 2007 spending policy of five percent for all beneficiaries, including the pooled accounts. The motion was seconded by Controller Johnson. The motion carried on a vote of 5-0.

Additionally, a motion was made by Attorney General Wasden that the President of the Land Board appoint a task force to examine the issues discussed. The task force would consist of at least one or more members of the Land Board, one or more members of the Endowment Fund Investment Board, the EFIB Manager of Investments, an executive level representative of the Department of Lands, such other individuals as the President may determine, perhaps members of the Legislature, JFAC as an example. The purpose of the task force would be to review the implementation of the endowment reform and to provide the Land Board and the Endowment Fund Investment Board with their findings and recommendations. The review would provide the Land Board a much better picture of needed statutory structural changes or procedural or accounting standards that need to be met or changed to better accomplish the purpose. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0.

Excerpt from FY2004 Financial Statements

Given equity market difficulties prior to fiscal year 2004, the EFIB recommended a reduction in the spending policy for the Endowment beneficiaries. This recommendation was approved by the Land Board, and will change the spending policy as follows:

| | <u>Public Schools</u> | <u>Pooled</u> |
|------------|-----------------------|---------------|
| FY05 | 5%..... | 7% |
| FY06 | 4%..... | 6% |
| FY07 | 4%..... | 5% |
| FY08 | 4%..... | 4% |

The payout level will remain stable at 4% thereafter.

STATE BOARD OF LAND COMMISSIONERS

August 8, 2005

Regular Agenda

SUBJECT

The allocation of investment gains were inappropriately allocated to permanent fund balances in FY 2004. The EFIB must restate FY 2004 permanent fund and earnings reserve balances.

OVERVIEW

In FY 2004, Idaho Code §57-720 may have been misinterpreted, as the investment gains were allocated 100% to the permanent fund balances. The EFIB asked the Attorney General's office to review the statute and came to the determination that the FY 2004 investment gains were inappropriately posted. The investment gain should not have been allocated 100% to the permanent fund balances; rather, the investment gains should have been allocated proportionately to the permanent fund and earnings reserve funds.

A restatement of FY 2004 permanent fund and earnings reserve balances will result in a slight decrease in the permanent fund values and a slight increase in the earnings reserve accounts. The net effect of all accounts results in approximately \$4.9 million in gains which should have been posted to earnings reserve funds and therefore, should be subtracted from the permanent funds. As such, the earnings reserve balances for all accounts, with the exception of the Agricultural College and Charitable Institutions accounts, will increase by amounts stated in the attached spreadsheet.

The Attorney General's office also noted that under Idaho Code §57-723A(2), the Land Board has the option to transfer earnings reserve funds back to the respective permanent funds.

The EFIB must restate FY 2004 permanent fund and earnings reserve balances. Although the Land Board could keep the situation as it is by authorizing a transfer of earnings reserve balances to permanent funds for each of the funds, such an action would reduce the cushion of the earnings reserve accounts and would only have an immaterial effect on the permanent fund balances.

INFORMATION ITEM

The EFIB must restate the FY 2004 permanent fund and earnings reserve balances. The Land Board does not need to take any action on this item.