

Annual Report to the Board of Land Commissioners

By the
Endowment Fund Investment Board



November 17, 2009

State of Idaho Endowment Funds Financial Summary Fiscal Year 2009

Compared to the previous year:

- Total fund balances decreased \$205 million, or 18%, to \$920 million
- Earnings reserve balances fell \$38 million, or 20%, to \$153 million
- Receipts to Earnings Reserves from endowment lands were \$58 million, a 17% drop
- Distributions to beneficiaries (excluding Cap Perm) rose 9.8% to \$42 million

Total investment loss, before fees, was 18.0% for the year and 2.2% for the last three years. The average gain was 2.6% for the last five years.

Total EFIB expenses, including investment manager fees, were 0.39% of year-end net assets.

This is a summary of the FY2009 financial statements of the endowment funds that were distributed to the Land Board in September.

Fiscal Year 2009 Audit Summary
State of Idaho Endowment Funds
Administered by the Endowment Fund Investment Board

1. Independent Auditor's Report on the financial statements (page 1)
 - Unqualified opinion – all the assets that should be in the fund have been accounted for

2. Independent Auditor's Report on compliance and internal controls (page 26)
 - Found no items to report:
 - No instances of noncompliance with laws and regulations
 - No material weaknesses or significant deficiencies in our internal controls

Submitted by:
R. John Taylor
Chairman, Audit Committee
Endowment Fund Investment Board

Status of compliance with Investment Policy

The Endowment Fund Investment Board maintains an Investment Policy for the overall fund and has established related contractual compliance guidelines for each investment manager.

During fiscal year 2009 there were no material violations of EFIB policies and compliance guidelines. The Investment Policy for the endowment fund was last reviewed and revised at the EFIB's February 2009 meeting.

Board meeting report

Meetings held

During the period November 2008 thru October 2009, the Endowment Fund Investment Board held:

- 4 Regular Board Meetings
- 1 Special Board Meeting
- 2 Audit Committee Meetings
- 1 Compensation Committee Meeting
- 2 Executive Committee Meetings

Attendance

For the 5 full board meetings held, an average of 86% of the board members attended. Of the 9 board members, 5 members attended all meetings and no member had less than 60% attendance.

Special expertise

- A deputy attorney general representing the EFIB was present for all 5 board meetings and both of the Executive Committee meetings.
- The board's asset consultant participated in all 4 regular board meetings and both of the Executive Committee meetings.

Excerpt of:
Strategic Plan
FY2010 and Beyond

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



Finalized July 1, 2009
***Excerpt prepared for the Board of Land
Commissioners, November 17, 2009***

State statute requires every agency, including the EFIB, to update their Strategic Plan annually. This an excerpt of the Mission, Goals, Objectives and performance measurement sections relevant to the management of the endowment funds

Mission of the Endowment Fund Investment Board

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

Goals

We will provide good investment advice and the tools for implementing that advice. As our clients' individual needs require, we will:

- Develop a prudent long-term investment strategy
- Select the best portfolio managers and other agents to execute that strategy
- Diligently evaluate performance over time
- Develop an effective spending policy
- Help them fulfill their fiduciary responsibilities and communicate with their stakeholders

For our employees, we will:

- Create a work environment which motivates and retains a knowledgeable and professional staff

Strategic Plan FY2010 and Beyond

Objectives

Some of the objectives of the Endowment Fund Investment Board are similar for all our clients – the land grant endowment funds, the State Insurance Fund, the Judges’ Retirement Fund, the Trail of the Coeur d’Alenes Endowment, and the Ritter Island Endowment Fund, while others only apply to a specific client or our employees.

Objectives Applicable to All Clients

- Seek new approaches to improve portfolio risk/return characteristics and cost/benefit ratios
- Meet or exceed the client’s fund benchmark(s)

Objectives Specific to the Land Grant Endowment Funds

- Avoid reductions in total endowment distributions
- Distribute approximately 5% of the three-year moving average value of the Permanent Funds
- Maintain sufficient Earnings Reserves to protect distributions from temporary shortfalls in fund returns and land revenues
- Grow distributions and the Permanent Fund faster than inflation and population growth by recommending transfer of excess Reserves to the Permanent Fund
- Increase the diversification of the endowment funds to reduce volatility of earnings while maintaining expected return

Objectives for Our Employees:

- Build relationships with other key agencies
- Train/cross-train the Administrative Assistant, the Investment Officer, and the Senior Financial Specialist in key financial and investment due diligence tasks

EFIB Strategic Plan – Performance Measures for the Endowment Fund

Performance Measure/Benchmark	2006	2007	2008	2009	4-Year Avg.
1. ABSOLUTE RETURN (net of fees): LAND GRANT ENDOWMENT FUND <i>Real Return (net of inflation) greater than 4%</i>	7.6%	13.3%	-4.7%	-16.8%	-0.2%
2. RETURN VS. BENCHMARK (net of fees):					
LAND GRANT ENDOWMENT FUND - Total Return	10.8%	16.2%	-2.4%	-18.2%	1.6%
Benchmark	8.6%	16.7%	-6.7%	-17.7%	0.2%
Excess	2.2%	-0.5%	4.5%	-0.5%	1.4%
<i>Exceed benchmark (54% Russell 3000, 16% MSCI EAFE, 30% Lehman Aggregate) on a risk-adjusted basis</i>					
3. RETURN VS. PEERS (gross of fees):					
LAND GRANT ENDOWMENT FUND - Total Return	11.2%	16.6%	-2.1%	-18.0%	1.9%
Endowment/Foundation Universe median	11.1%	18.1%	-4.9%	-18.6%	1.4%
Excess	0.1%	-1.5%	2.7%	0.6%	0.5%
<i>Exceed the median of peers on a risk adjusted basis</i>					
LAND GRANT ENDOWMENT FUND - Total Return	11.2%	16.6%	-2.1%	-18.0%	1.9%
Public Funds Universe median	10.4%	17.4%	-4.8%	-18.1%	1.2%
Excess	0.8%	-0.8%	2.6%	0.1%	0.7%
<i>Exceed the median of peers on a risk adjusted basis</i>					
4. CONSECUTIVE YEARS THE PUBLIC SCHOOL PERMANENT FUND IS BELOW THE LOSS BENCHMARK:					
	5 yrs	0 yrs	0 yrs	1 yr	
<i>Less than 10 years below the cumulative loss benchmark</i>					

5. CHANGE IN DISTRIBUTIONS TO BENEFICIARIES:					2010: \$45.6 M.
<i>A. No reduction in the total Endowment Distribution</i>					2011: \$45.8 M.
	\$35.7 M.	\$35.8 M.	\$38.6 M.	\$42.4 M	
<i>B. Land Grant Endowment Earnings Reserves at least 500% of next year's approved distribution</i>					
Number of endowments below 500%	Seven	Five	Two	Six	--
Average for all endowments	278%	414%	450%	336%	--
<i>C. Growth in Land Grant Endowment distribution exceeds Inflation and Population Growth over a five year period (average annual compound growth, average of all endowments)</i>					
	2004-2009E	2005-2010E	2006-2011E		
Change in Distribution	-4.6%	4.4%	5.1%		
Inflation	3.7%	3.7%	2.1%		
Population growth	2.5%	2.3%	1.6%		
Excess	-10.8%	-1.6%	1.4%		
6. GROWTH IN CORPUS:					
<i>A. Land Grant Endowment growth in Permanent funds to exceed the rate of inflation and population growth</i>					
Annual growth in corpus	8.8%	14%	-4.4%	-17.9	-2.8%
Annual rate of inflation	3.2%	2.9%	2.5%	-1.4%	1.5%
Annual population growth	2.6%	2.5%	2.2%	1.0%	1.3%
Excess	3.0%	8.6%	-9.1%	-18.3%	-5.6%