



Board Members

| | |
|------------------------------|-------------------|
| M. Dean Buffington, Chairman | Gavin M. Gee |
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| Vaughn Heinrich | Richelle Sugiyama |
| Susan K. Simmons | Charles L. Winder |
| R. John Taylor | |

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 Manager of Investments

Monthly Report to the Board of Land Commissioners

Since the February 16, 2010 Land Board Meeting thru March 9, 2010

Investment performance thru February 28, 2010 (preliminary)

Month: **2.2%** Fiscal year: **18.0%**

Status of endowment fund reserves

For all endowments, estimated reserves as of January 31 were at least **3.1 times** the size of the approved FY2010 distributions. When reserves in the Public School endowment are reduced by the approved \$22 million special distribution for FY2011, the coverage ratio for **Public School drops to 2.4 times** the regular distribution.

Significant actions of the Endowment Fund Investment Board

Meetings: The EFIB met February 17 and agreed to propose **new temporary rules for the school bond Credit Enhancement program** with a guaranty fee fixed at 2 basis points and an application fee of \$500. The current rule specifies a range of fees (up to 5 basis points for the guaranty and up to \$1,000 for the application) to be set by EFIB policy (currently 2 basis points and \$100). EFIB staff is circulating the new proposal to stakeholders for comment.

Two new Global Equity managers have been hired for the endowment funds – **Lazard and Aberdeen**. Funding of the two managers will shift about 5% of the fund from U.S. equity to foreign equity, in two stages, by the middle of next year.

Compliance/legal issues, areas of concern

Material deviations from Investment Policy or compliance guidelines for investment managers: **None.**

Material legal issues: **None.**

Changes in board membership or agency staffing: **None.**

Upcoming issues/events

The Treasurer’s office, in conjunction with EFIB staff, is developing legislation which would further clarify where and how funds would be obtained to reimburse any payment made by the state to prevent the default of a school bond.

On behalf of State Hospital South, the Department of Health and Welfare has asked that the Land Board consider a **special distribution of \$1.2 million** for FY2011. Currently, SHS has \$1.6 million in excess of the five year target in their reserve funds. Land Board staff has scheduled this request to come before the Land Board at its April meeting and requested that the EFIB provide its recommendation on this request in advance of the meeting.



INVESTMENT REPORT

Preliminary Report (gross of fees & certain income accruals)

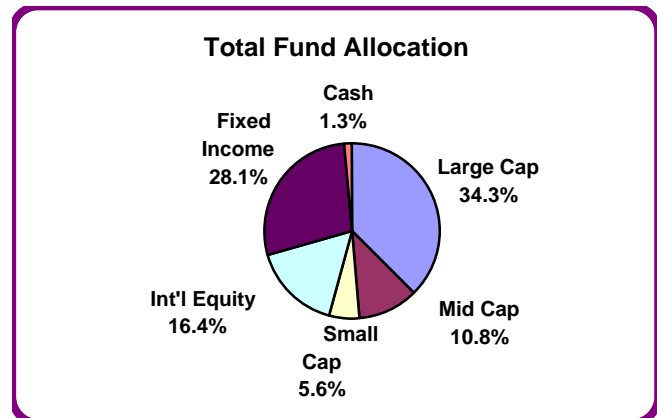
February 28, 2010

| | | |
|--|----|---------------|
| Current Value of the Fund | \$ | 1,067,737,660 |
| Investment Change in Market Value FYTD | \$ | 169,438,505 |
| Net Contributions FYTD | \$ | (19,212,290) |
| Fiscal Year-to-Date Returns | | 18.0% |
| Month-to-Date Returns | | 2.2% |

| | <u>Feb-10</u> | <u>Fiscal Year to Date</u> | <u>Last Five Years</u> | |
|---------------------|---------------|----------------------------|------------------------|--|
| Total Fund | 2.2% | 18.0% | 4.3% | |
| Benchmark | 1.9% | 16.9% | 2.8% | |
| U.S Equity | 4.0% | 25.9% | 2.3% | |
| Benchmark | 3.4% | 22.8% | 0.8% | |
| Int'l Equity | 0.3% | 14.9% | 5.5% | |
| Benchmark | 0.0% | 18.1% | 2.5% | |
| Fixed Income | 0.2% | 5.4% | 5.4% | |
| Benchmark | 0.4% | 5.9% | 5.4% | |

Asset Allocation

| | <u>Mkt Value</u> | <u>% Alloc</u> |
|------------------------|------------------|----------------|
| Domestic Equity | \$ 578.5 | 54.2% |
| Large Cap | \$ 401.0 | 37.6% |
| Mid Cap | \$ 117.8 | 11.0% |
| Small Cap | \$ 59.7 | 5.6% |
| Int'l Equity | \$ 175.5 | 16.4% |
| Fixed Income | \$ 299.6 | 28.1% |
| Cash | \$ 14.1 | 1.3% |
| Total Fund | \$ 1,067.7 | 100.0% |

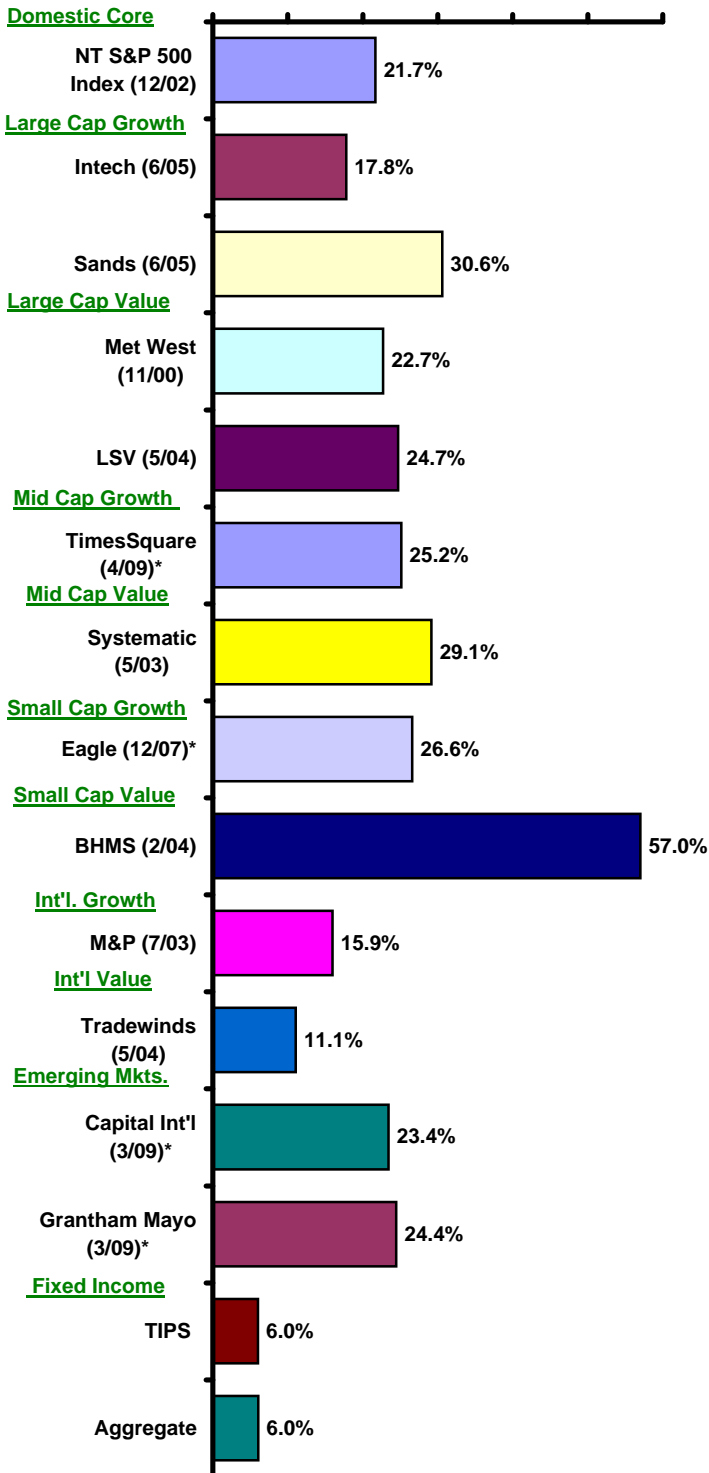


Endowment Fund Staff Comment:

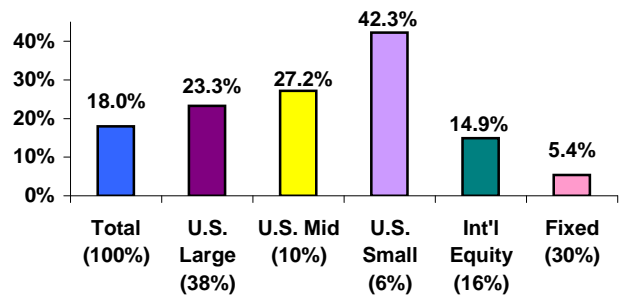
The fund was up 2.2% for the month, 0.3% over benchmark. The Russell 3000 index was up 3.4%, Russell Midcap up 4.9%, and Russell 2000 (small cap) up 4.5%. International equities (MSCI ACWI ex-US) were even for the month, and Emerging Markets up 0.3%. Growth outperformed value this month and domestic equity outperformed International. Bonds, as measured by the BC Aggregate index, were up 0.4% and TIPS off 1.1%. Nine of twelve active managers beat their benchmark.

On a Fiscal YTD basis the fund is up 18%, 1.1% over benchmark. Five of twelve active managers are ahead of their benchmark.

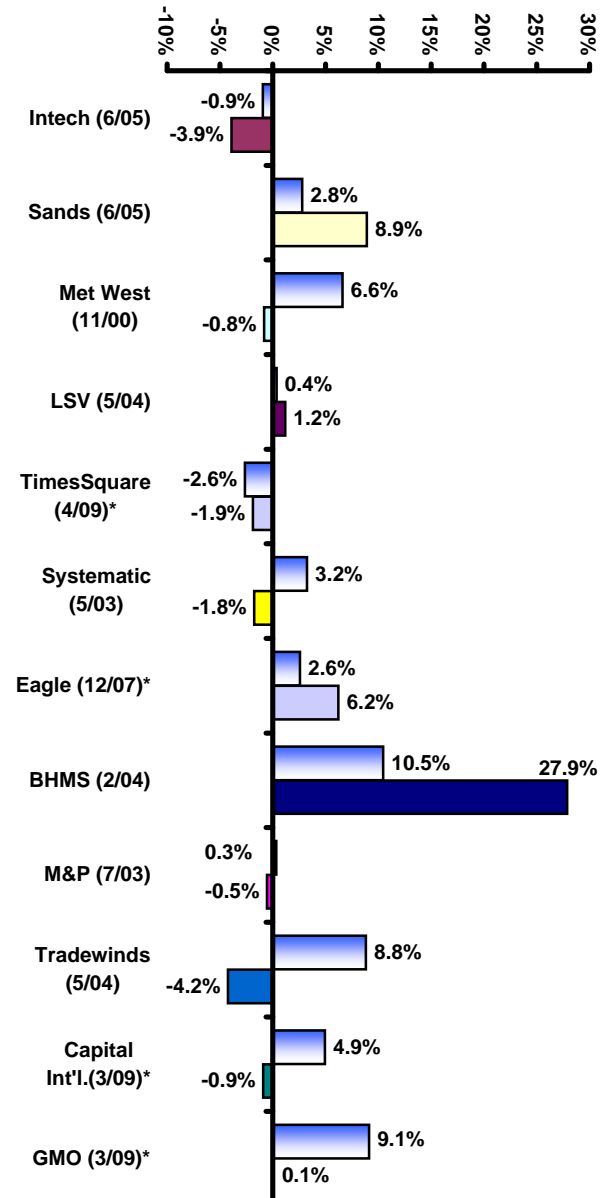
FYTD Manager Returns



Fiscal YTD Total Endowment Returns



FYTD Active Manager Relative Returns 3-Yr. Annualized Relative Returns*



* ITD return used when manager has less than 3 years with EFIB.