



Board Members

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816 W. Bannock St., Ste. 301
Boise, Idaho 83702
Phone: (208) 334-3311
Fax: (208) 334-3786
Website: www.efib.idaho.gov

Larry Johnson, CFA, CPA
Manager of Investments

Monthly Report to the Board of Land Commissioners
Since the December 21, 2010 Land Board Meeting thru January 11, 2011

Investment performance thru December 31, 2010

Month: **4.1%** Fiscal year: **18.1%**

Status of endowment fund reserves

For all endowments, estimated reserves as of November 2010 were at least **4.7 times** the size of the approved FY2011 distributions, except for **Public School**, which is at **2.6 times** the regular distribution (after current reserves are reduced by the special distribution in FY2011).

Significant actions of the Endowment Fund Investment Board

Meetings: **None.**

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

An **updated forecast** of earnings reserve levels thru FY2013 will be presented at the meeting. It will also be shared with the Joint Finance and Appropriations Committee of the legislature on February 3, as part of the EFIB's budget presentation. The Department of Lands updated their forecast of land revenues as part of this process.



INVESTMENT REPORT

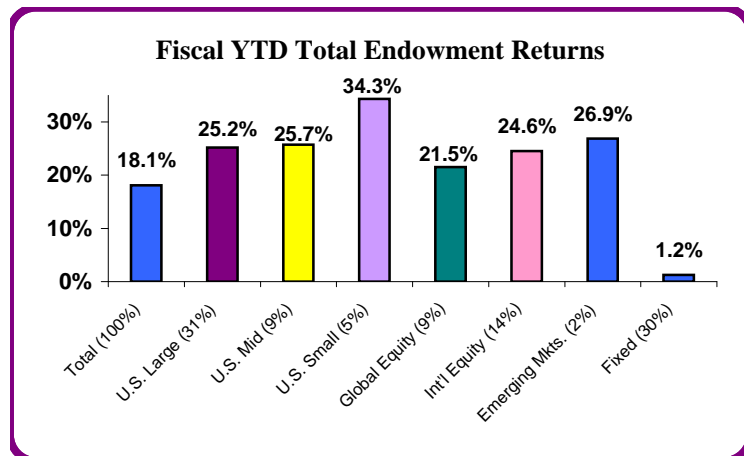
Preliminary Report (gross of fees & certain income accruals)

December 31, 2010

Current Value of the Fund	\$	1,212,333,909
Investment Change in Market Value FYTD	\$	175,571,733
Net Contributions FYTD	\$	(2,268,100)
Fiscal Year-to-Date Returns		18.1%
Month-to-Date Returns		4.1%

	<u>Dec-10</u>	<u>Fiscal Year to Date</u>	<u>Last Five Years</u>
Total Fund	4.1%	18.1%	5.8%
Benchmark	4.6%	17.3%	4.2%
Total Fixed	-1.2%	1.2%	5.9%
Benchmark	-1.1%	1.1%	5.8%
Total Equity	6.1%	25.2%	4.7%
Benchmark	7.0%	24.6%	3.0%
Domestic Equity	6.3%	26.2%	4.4%
Russell 3000	6.8%	24.5%	2.7%
Global Equity	7.0%	21.5%	Global Equity
MSCI ACWI	7.3%	24.3%	MSCI ACWI
Int'l. Equity	6.5%	24.6%	Int'l. Equity
MSCI ACWI ex-US	7.8%	25.0%	MSCI ACWI ex-US

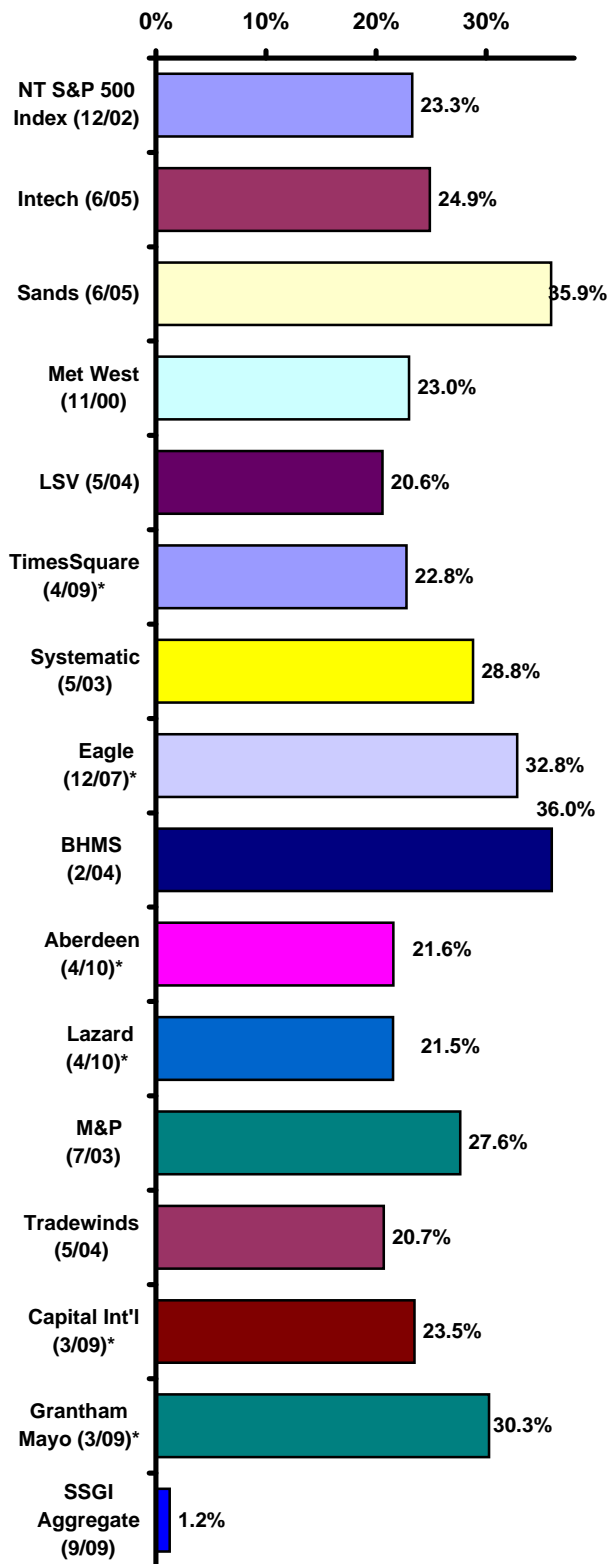
	<u>Mkt Value</u>	<u>% Alloc</u>
Domestic Equity	\$ 576.0	47.5%
Large Cap	\$ 402.6	33.2%
Mid Cap	\$ 115.1	9.5%
Small Cap	\$ 58.4	4.8%
Global Equity	\$ 114.9	9.5%
Int'l Equity	\$ 205.3	16.9%
Fixed Income	\$ 307.5	25.4%
Cash	\$ 8.6	0.7%
Total Fund	\$ 1,212.3	100.0%



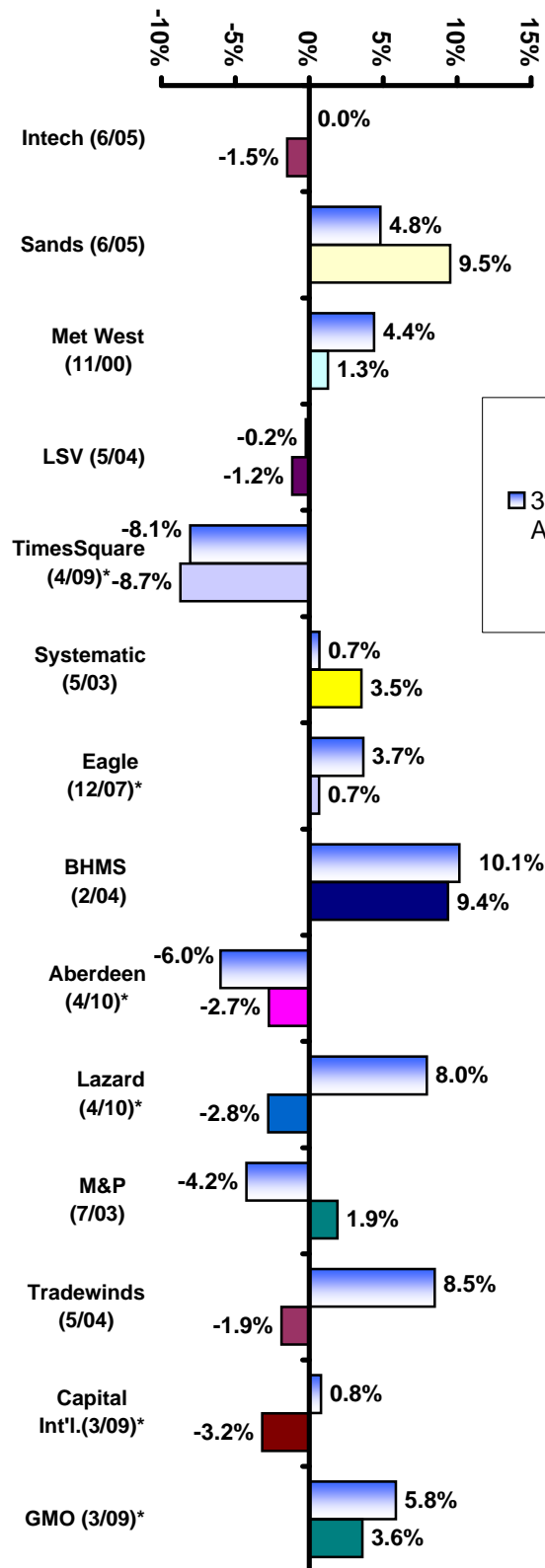
Endowment Fund Staff Comment:

The fund was up 4.1% for the month, 0.5% behind benchmark. The Russell 3000 index was up 6.8%, Russell Midcap up 6.9%, and Russell 2000 (small cap) up 7.9%. International equities (MSCI ACWI ex-US) were up 7.8% for the month, and Emerging Markets up 7.1%. Value outperformed growth and international outperformed domestic equity. Bonds, as measured by the BC Aggregate index, were down 1.1% and TIPS were off 1.6%. Seven of 14 active managers beat their benchmark. On a Fiscal Y-T-D basis, the fund is up 18.1%, 0.8% over benchmark. Seven of 14 active managers are ahead of their benchmark.

FYTD Manager Returns



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



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

Outlook for Earnings Reserves and Distributions

Presentation to the Land Board
January 19, 2011

Will be presented to the Joint Finance-Appropriations
Committee
February 3, 2011



FY 2012 Distribution Summary *Categorized by legislative budget unit*

Endowment Beneficiary	FY 2011 Approp.	Change	FY 2012 Approv. Dist.	Change	% of Total
Public Schools	53,292	(22,000)	31,292	(41.3%)	68%
All University Endowments	\$ 9,616	-	\$ 9,616	-	21%
State Hospital South	1,663	254	1,918	15.3%	4%
Penitentiary	1,040	-	1,040	-	2%
Juvenile Corrections	790	-	790	-	2%
State Hospital North	790	-	790	-	2%
Veterans Home	494	-	494	-	1%
School for the Deaf and Blind	99	-	99	-	0.2%
Grand Total	67,786	(21,746)	46,040	(32.1%)	100%

All amounts in thousands of dollars

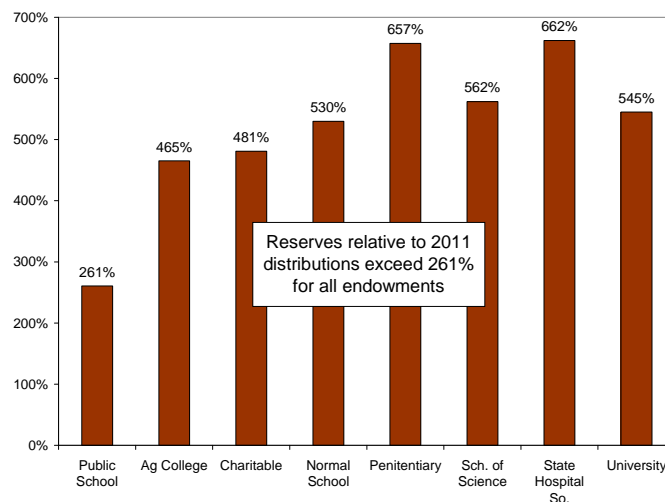
Measuring security of distributions using the Coverage Ratio

- The risk of a shortfall in distributions is measured by comparing the Earnings Reserve balance with the amount of distributions
- This ratio measures the degree of reserve to maintain the distribution into future years

$$\frac{\text{Balance in Reserves}}{\text{Annual Distribution}}$$

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Coverage Ratio, By Endowment November 2010 Unaudited Estimate



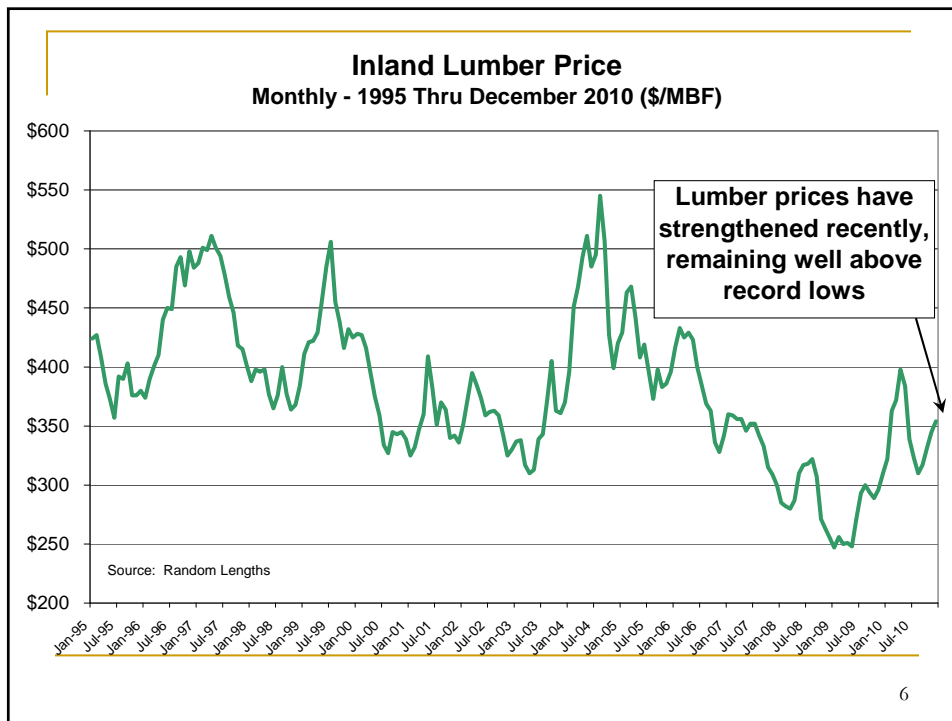
The Public School ratio is adjusted for the one-time \$22 million distribution in FY2011.

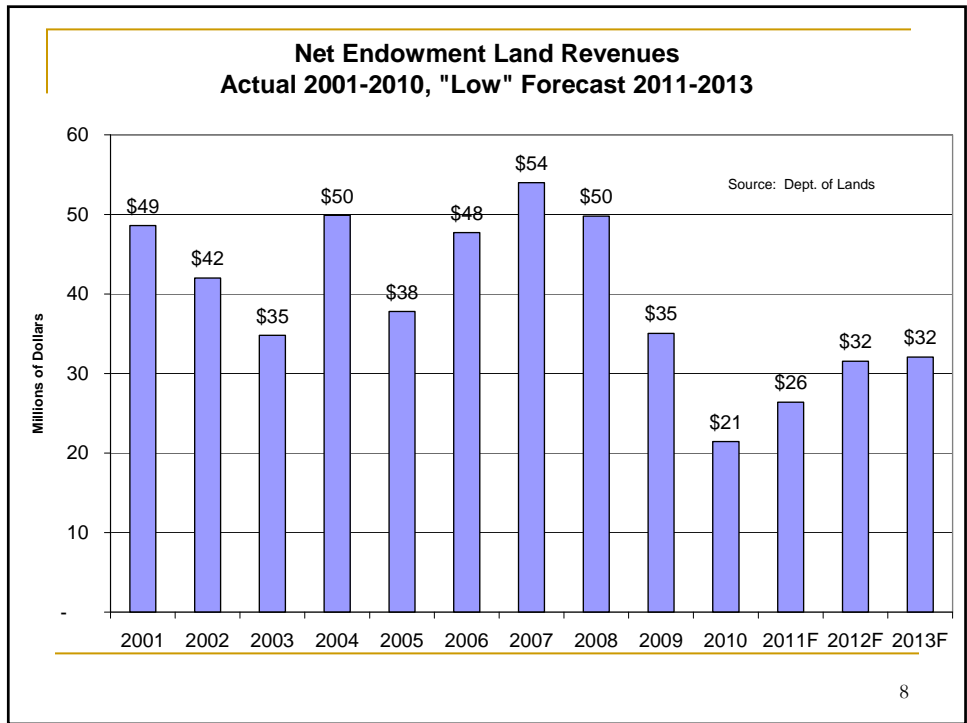
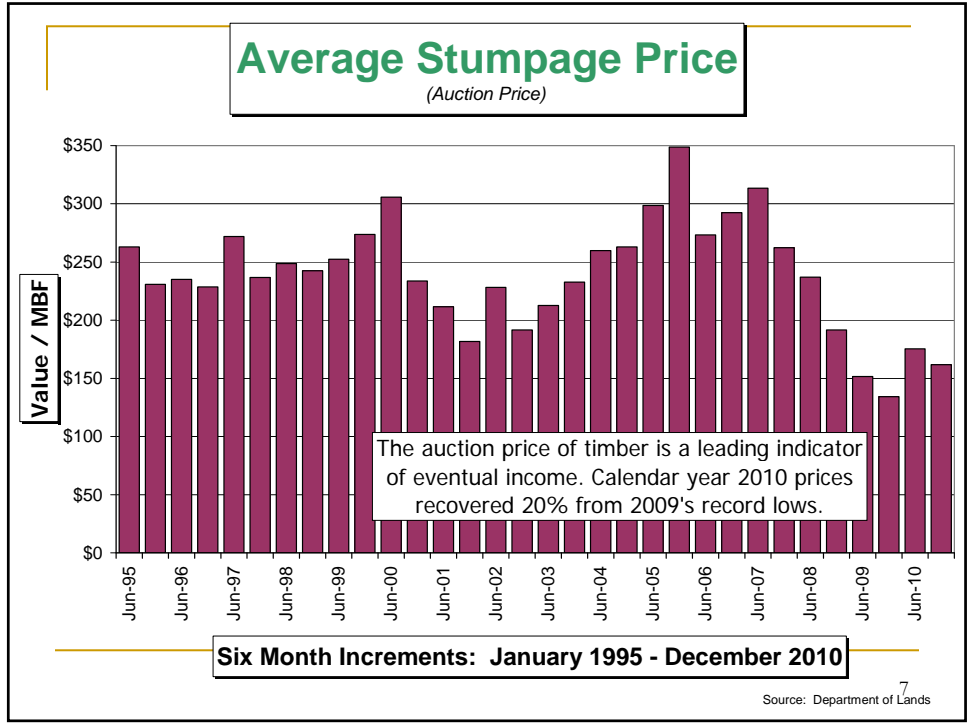
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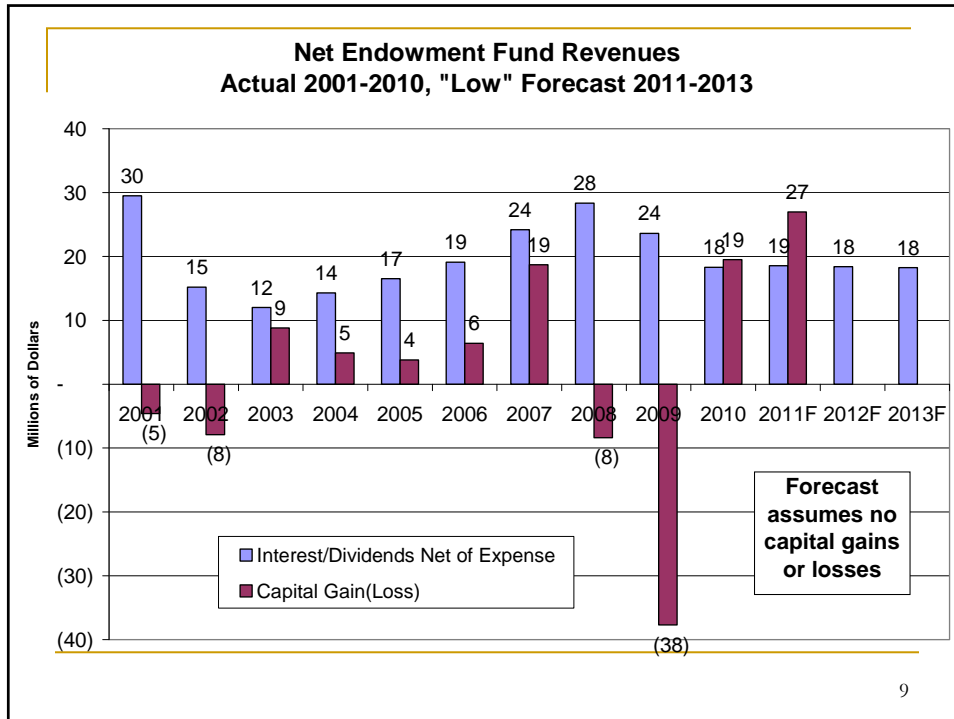
Security of future distributions

- Current reserves are sufficient to guarantee payment of appropriated FY2011 distributions and approved FY2012 distributions
- Will now consider the outlook beyond FY2012...
 - Can the level of distributions be maintained given the current depressed level of timber revenue, low interest rates?
 - I.e., do we need to start planning now for a potential reduction in distributions?

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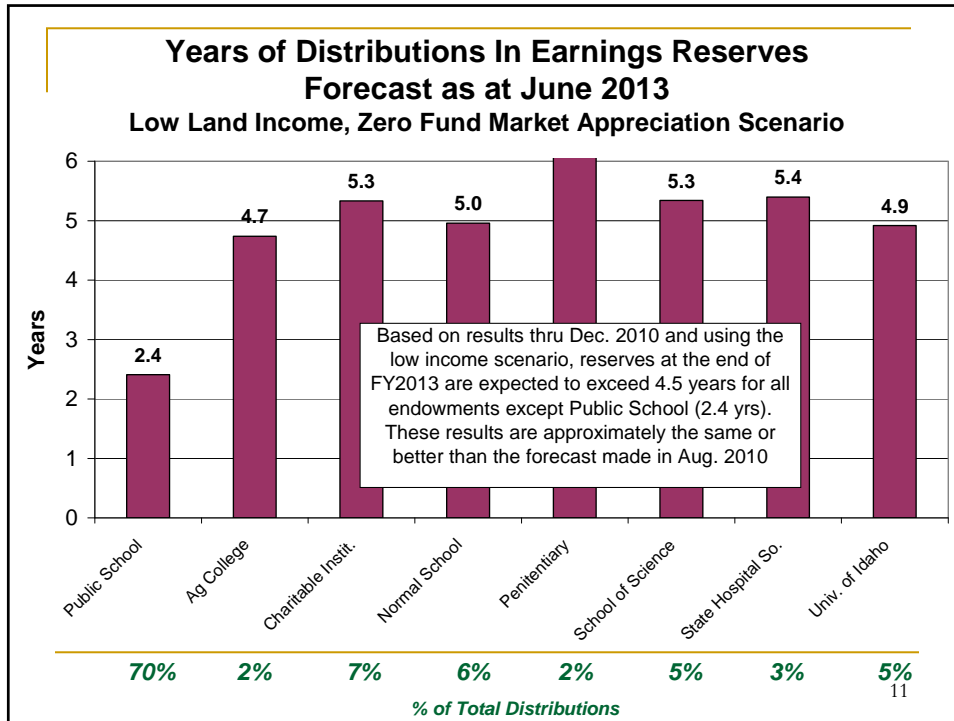




Outlook for FY2013 and beyond: Guarded optimism

- Assuming:
 - Land revenue equal to the "Low" case from the Dept. of Lands
 - No price appreciation (or loss) in the fund
 - FY2013 distributions = FY2012 distributions
- Then:
 - At June 2013, reserves are still expected to be at least 4 years for all endowments, except Public School (2.4 years)
 - I.e., no need to start planning now for a possible reduction in distributions

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Caveats

- FY2013 coverage ratios under the “low” scenario are at acceptable levels for all endowments, except Public School
- A reduction in distributions in FY2013 or FY2014 is not likely, but may be necessary if, for example:
 - Future returns on the fund are materially negative
 - Additional hardship extensions are offered on existing timber contracts
 - A material number of existing timber contracts are abrogated by purchaser defaults/bankruptcies
 - Future timber prices fall below the level assumed in the “low” revenue scenario