STATE BOARD OF LAND COMMISSIONERS OPEN MEETING CHECKLIST

FOR MEETING DATE: July 17, 2018

Regular Meetings

6/29/18	Notice of Meeting posted in prominent place in IDL's Boise Headquarters office five (5) calendar days before meeting.
6/29/18	Notice of Meeting posted in prominent place in IDL's Coeur d'Alene Headquarters office five (5) calendar days before meeting.
6/29/18	Notice of Meeting posted in prominent place at meeting location five (5) calendar days before meeting.
6/29/18	Notice of Meeting emailed/faxed to list of media and interested citizens who have requested such notice five (5) calendar days before meeting.
6/29/18	Notice of Meeting posted electronically on IDL's public website www.idl.idaho.gov five (5) calendar days before meeting.
7/11/18	Agenda posted in prominent place in IDL's Boise Headquarters office forty-eight (48) hours before meeting.
7/11/18	Agenda posted in prominent place in IDL's Coeur d'Alene Headquarters office forty-eight (48) hours before meeting.
7/11/18	Agenda posted in prominent place at meeting location forty-eight (48) hours before meeting.
7/11/18	Agenda emailed/faxed to list of media and interested citizens who have requested such notice forty-eight (48) hours before meeting.
7/11/18	Agenda posted electronically on IDL's public website www.idl.idaho.gov forty-eight (48) hours before meeting.
12/22/17	Annual meeting schedule posted – Director's Office, Boise and Staff Office, CDA

Special Meetings

	Notice of Meeting and Agenda posted in a prominent place in IDL's Boise Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted in a prominent place in IDL's Coeur d'Alene Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted at meeting location twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted electronically on IDL's public website www.idl.idaho.gov twenty-four (24) hours before meeting.
	Emergency situation exists – no advance Notice of Meeting or Agenda needed. "Emergency" defined in Idaho Code § 74-204(2).

Executive Sessions *(If only an Executive Session will be held)*

	Notice of Meeting and Agenda posted in IDL's Boise Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted in IDL's Coeur d'Alene Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted electronically on IDL's public website www.idl.idaho.gov twenty-four (24) hours before meeting.
	Notice contains reason for the executive session and the applicable provision of Idaho Code § 74-206 that authorizes the executive session.

Renée Miller

RECORDING SECRETARY

July 11, 2018

DATE

IDAHO STATE BOARD OF LAND COMMISSIONERS
C. L. "Butch" Otter, Governor and President of the Board
Lawerence E. Denney, Secretary of State
Lawrence G. Wasden, Attorney General
Brandon D Woolf, State Controller
Sherri Ybarra, Superintendent of Public Instruction

David Groeschl, Secretary to the Board

NOTICE OF PUBLIC MEETING
JULY 2018

The Idaho State Board of Land Commissioners will hold a Regular Meeting on Tuesday, July 17, 2018 in the **State Capitol, Lincoln Auditorium (WW02), Lower Level, West Wing, 700 W Jefferson St., Boise**. The meeting is scheduled to begin at 9:00 AM (Mountain).

Please note meeting location.

This meeting will be streamed live via audio at this website address http://idahoptv.org/insession/other.cfm

First Notice Posted: 6/29/2018-IDL Boise; 6/29/2018-IDL CDA

Idaho Department of Lands, 300 N 6th Street, Suite 103, Boise ID 83702, 208.334.0242

This notice is published pursuant to § 74-204 Idaho Code. For additional information regarding Idaho's Open Meeting law, please see Idaho Code §§ 74-201 through 74-208.

STATE BOARD OF LAND COMMISSIONERS
C. L. "Butch" Otter, Governor and President of the Board
Lawerence E. Denney, Secretary of State
Lawrence G. Wasden, Attorney General
Brandon D Woolf, State Controller
Sherri Ybarra, Superintendent of Public Instruction

David Groeschl, Secretary to the Board

Final Agenda
State Board of Land Commissioners Regular Meeting
July 17, 2018 – 9:00 AM (MT)
Capitol, Lincoln Auditorium (WW02), Lower Level, West Wing, 700 W. Jefferson St., Boise, Idaho

---

Please note meeting location.

---

1. Director's Report

Endowment Transactions
A. Timber Sales – June 2018
B. Leases and Permits – June 2018

Status Updates
C. Return on Asset (ROA) Review
D. Land Bank Fund
E. Fire Season

2. Endowment Fund Investment Board Report – *Presented by Chris Anton, EFIB Manager of Investments*

A. Manager's Report
B. Investment Report

- **CONSENT (ACTION)**

3. Statement of Investment Policy Annual Review – *Staffed by Kari Kostka, Strategic Planning Manager*

4. Approval of Minutes – June 19, 2018 Regular Meeting (Boise)

- **REGULAR (ACTION)**

5. Reinvestment of Land Bank Funds – *Presented by Kari Kostka, Strategic Planning Manager*

This agenda is published pursuant to § 74-204 Idaho Code. The agenda is subject to change by the Board. To arrange auxiliary aides or services for persons with disabilities, please contact Dept. of Lands at (208) 334-0242. Accommodation requests for auxiliary aides or services must be made no less than five (5) working days in advance of the meeting. Agenda materials may be requested by submitting a Public Records Request at www.idl.idaho.gov.

6. **Strategic Reinvestment Plan Annual Review** – *Presented by Sally Haskins, Senior Vice President, Callan LLC*

7. **Cottage Site 2024 Voluntary Auction for Ownership (VAFO) Plan** – *Presented by Sid Anderson, Program Manager-Residential*

- **INFORMATION**

NONE

- **EXECUTIVE SESSION**

A. Idaho Code § 74-206(1)(f) - to communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. [TOPIC: Sharlie-Grouse Petition]

- **REGULAR (ACTION)**

8. **Appointment of Hearing Officer**

Idaho Statutes

TITLE 74
TRANSPARENT AND ETHICAL GOVERNMENT

CHAPTER 2
OPEN MEETINGS LAW

74-206. EXECUTIVE SESSIONS -- WHEN AUTHORIZED.[EFFECTIVE UNTIL JULY 1, 2020] (1) An executive session at which members of the public are excluded may be held, but only for the purposes and only in the manner set forth in this section. The motion to go into executive session shall identify the specific subsections of this section that authorize the executive session. There shall be a roll call vote on the motion and the vote shall be recorded in the minutes. An executive session shall be authorized by a two-thirds (2/3) vote of the governing body. An executive session may be held:

(a) To consider hiring a public officer, employee, staff member or individual agent, wherein the respective qualities of individuals are to be evaluated in order to fill a particular vacancy or need. This paragraph does not apply to filling a vacancy in an elective office or deliberations about staffing needs in general;

(b) To consider the evaluation, dismissal or disciplining of, or to hear complaints or charges brought against, a public officer, employee, staff member or individual agent, or public school student;

(c) To acquire an interest in real property which is not owned by a public agency;

(d) To consider records that are exempt from disclosure as provided in chapter 1, title 74, Idaho Code;

(e) To consider preliminary negotiations involving matters of trade or commerce in which the governing body is in competition with governing bodies in other states or nations;

(f) To communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. The mere presence of legal counsel at an executive session does not satisfy this requirement;

(g) By the commission of pardons and parole, as provided by law;

(h) By the custody review board of the Idaho department of juvenile corrections, as provided by law;

(i) To engage in communications with a representative of the public agency's risk manager or insurance provider to discuss the adjustment of a pending claim or prevention of a claim imminently likely to be filed. The mere presence of a representative of the public agency's risk manager or insurance provider at an executive session does not satisfy this requirement; or

(j) To consider labor contract matters authorized under section 67-2345A [74-206A](1)(a) and (b), Idaho Code.

(2) The exceptions to the general policy in favor of open meetings stated in this section shall be narrowly construed. It shall be a violation of this act to change the subject within the executive session to one not identified within the motion to enter the executive session or to any topic for which an executive session is not provided.

(3) No executive session may be held for the purpose of taking any final action or making any final decision.

History:

[74-206, added 2015, ch. 140, sec. 5, p. 371; am. 2015, ch. 271, sec. 1, p. 1125.]

THIS PAGE INTENTIONALLY LEFT BLANK

STATE BOARD OF LAND COMMISSIONERS
July 17, 2018
Endowment Transactions

TIMBER SALES

During June 2018, the Department of Lands sold nine endowment timber sales at auction. The endowment net sale value represents a 43% up bid over the advertised value. Timber sale TS414302 was a cedar sale purchased by McFarland Cascade Holdings, Inc. with Bell Timber providing competitive bidding. The auction resulted in the non-cedar sawlog having a higher stumpage price ($929.36/Mbf) than cedar sawlog ($840.60/Mbf). Timber sale TS424305 was a sawlog sale with the majority species being Ponderosa Pine and sold for the appraised value.

TIMBER SALE AUCTIONS								
SALE NUMBER	SAWLOGS MBF	POLES LF	POLES MBF	CEDAR PROD MBF	PULP MBF	APPRAISED NET VALUE	SALE NET VALUE	NET $/MBF
TS204298	1,645					$ 585,307.50	$ 632,096.00	$384.25
TS224299	2,080					$ 399,868.00	$ 645,145.00	$310.17
TS404300	1,605					$ 475,030.50	$ 563,255.00	$350.94
TS404301	11,890			255		$ 3,383,866.00	$ 3,929,857.00	$323.58
TS414302	2,160			70		$ 985,774.00	$ 1,835,361.25	$823.03
TS414303	5,935					$ 1,262,479.00	$ 2,650,866.00	$446.65
TS804304	4,500					$ 396,256.00	$ 724,913.50	$161.09
TS424305	1,405					$ 281,942.50	$ 281,942.50	$200.67
TS424306	1,125					$ 332,210.00	$ 355,430.00	$315.94
	32,345	0	0	325	0	$ 8,102,733.50	$ 11,618,866.25	$355.64

PROPOSED TIMBER SALES FOR AUCTION				
North Operations				
Sale Name	Volume MBF	Advertised Net Value	Area	Estimated Auction Date
Cold Poles	955	$ 412,476	POL	7/30/2018
Thomas Creek	3,970	$ 653,122	MICA	7/17/2018
No More School OSR	9,815	$ 2,706,924	SJ	7/24/2018
Purdue Cedar	6,325	$ 2,078,975	POND	8/8/2018
South Operations				
Sale Name	Volume MBF	Advertised Net Value	Area	Estimated Auction Date
Happy Gulch Pulp	18,990	$ 3,855,545	MC	7/13/2018

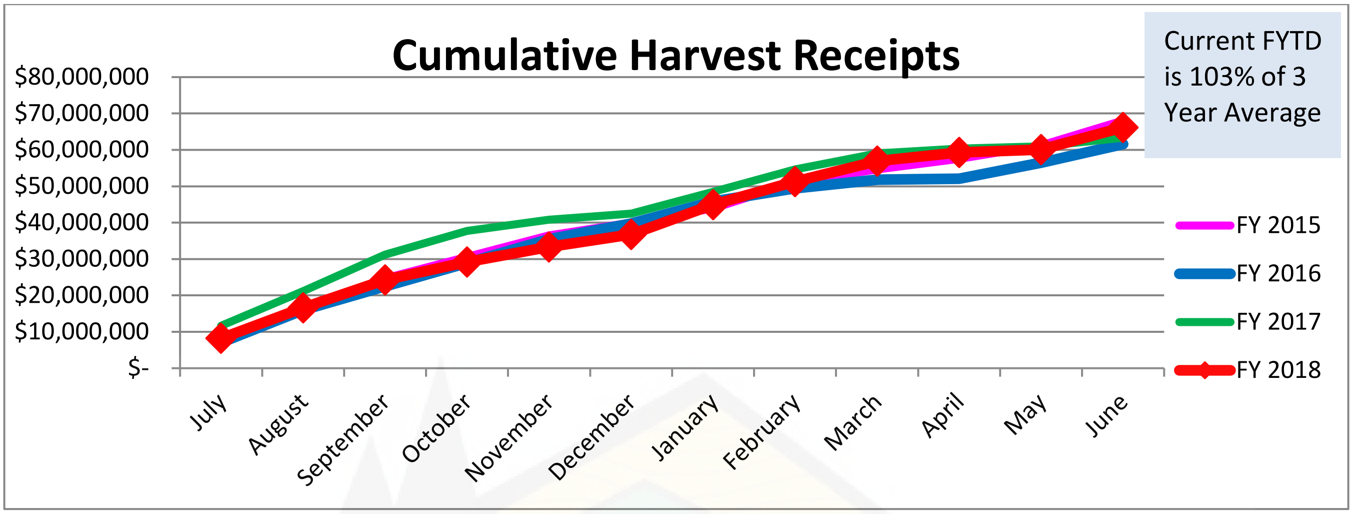
A

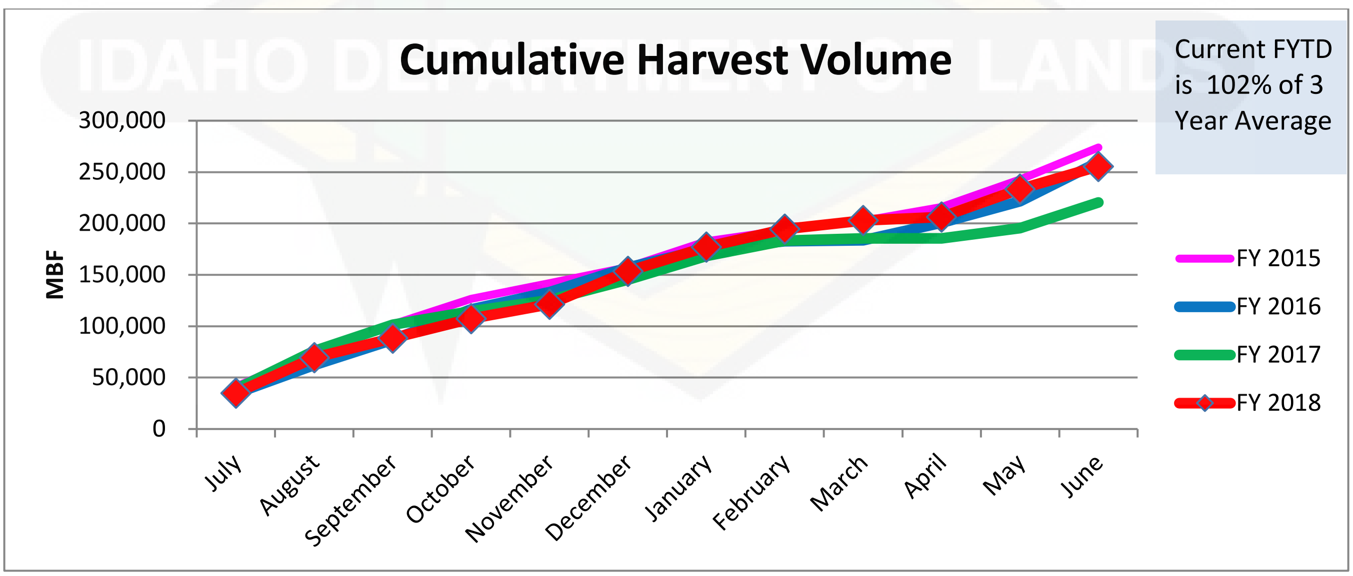
VOLUME UNDER CONTRACT as of June 30, 2018			
	Total	Public School	Pooled
Active Contracts	182		
Estimated residual volume (MBF)	412,131	264,559	147,572
Estimated residual length (LF)	468,145	365,870	102,275
Estimated residual weight (Ton)	568,763	373,400	195,363
Total Residual MBF Equivalent	518,001	334,324	183,677
Estimated residual value	$ 155,082,235	$ 98,484,495	$ 56,597,740
Residual Unit Value ($/MBF)	$ 299.39	$ 294.58	$ 308.14

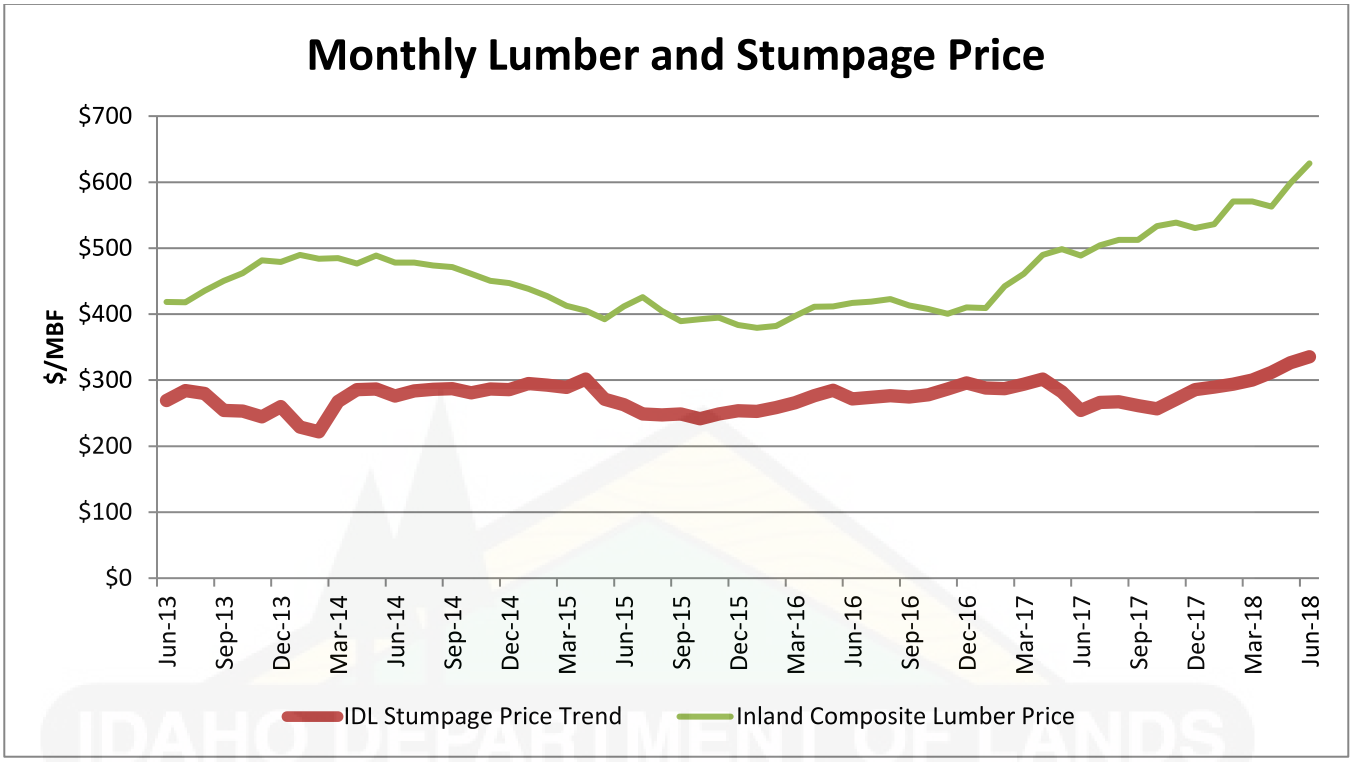
	TIMBER HARVEST RECEIPTS				
	June		FY to date	July Projected	
	Stumpage	**Interest**	**Harvest Receipts**	**Stumpage**	**Interest**
Public School	$ 2,931,142.67	$ 310,382.49	$ 36,183,242.42	$ 3,750,747.44	$ 477,127.77
Pooled	$ 2,254,170.87	$ 162,128.73	$ 28,903,628.42	$ 2,150,731.39	$ 257,187.06
General Fund	$ 427,943.82	$ 40,449.15	$ 1,117,247.13	$ 623.33	$ 61.64
TOTALS	$ 5,613,257.36	$ 512,960.37	$ 66,204,117.97	$ 5,902,102.16	$ 734,376.47

Status of FY 2018 Timber Sale Program						
	MBF Sawlog			Number Poles		
	Public School	Pooled	All Endowments	Public School	Pooled	All Endowments
Sold as of June 30, 2018	133,757	87,368	221,125	9,270	8,459	17,729
Currently Advertised	922	12,328	13,250	1,811	719	2,530
In Review	9,526	1,569	11,095	0	0	0
Did Not Sell	0	0	0	0	0	0
TOTALS	144,205	101,264	245,470	11,081	9,178	20,259
FY-2018 Sales Plan			248,000			20,790
Percent to Date			99%			97%

Status of FY 2019 Timber Sale Program						
	MBF Sawlog			Number Poles		
	Public School	Pooled	All Endowments	Public School	Pooled	All Endowments
Sold as of June 30, 2018	6,860	0	6,860	0	0	0
Currently Advertised	30,680	22,898	53,578	3,474	1,489	4,963
In Review	19,527	2,843	22,370	0	0	0
Did Not Sell	0	0	0	0	0	0
TOTALS	57,067	25,741	82,808	3,474	1,489	4,963
FY-2019 Sales Plan			256,000			20,000
Percent to Date			32%			25%


Cumulative Harvest Receipts
Current FYTD is 103% of 3 Year Average
$80,000,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$-
July
August
September
October
November
December
January
February
March
April
May
June
FY 2015
FY 2016
FY 2017
FY 2018


Cumulative Harvest Volume
Current FYTD is 102% of 3 Year Average
MBF
300,000
250,000
200,000
150,000
100,000
50,000
0
July
August
September
October
November
December
January
February
March
April
May
June
FY 2015
FY 2016
FY 2017
FY 2018



IDL Stumpage Price Line is a 6 month rolling average of the net sale price.

STATE BOARD OF LAND COMMISSIONERS
July 17, 2018
Endowment Transactions

LEASES AND PERMITS

During June 2018, the Department of Lands administered a new military lease with the Idaho National Guard consisting of 14,380 acres with revenues supporting Ag College (73.42%), Normal School (17.68%), and Public School (8.9%). This 20-year term lease, processed by the Southwest Area Office, will be for military maneuver training activities as part of the Orchard Combat Training Center.

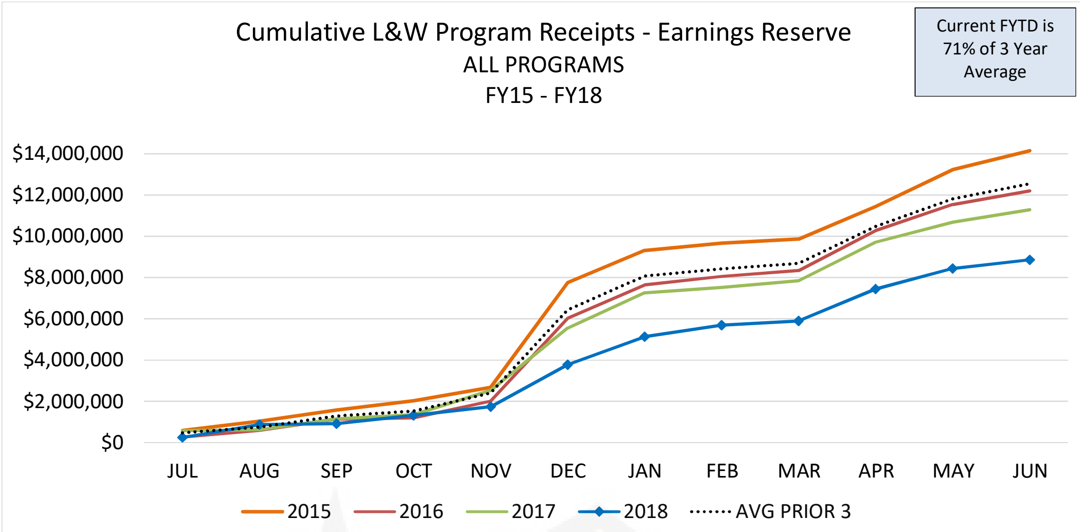
As of the April 30, 2018 deadline for new lease applications for leases beginning January 1, 2019 the Department received conflict applications on six grazing leases. The Department scheduled two conflict auctions in July and four in August, including five in the Jerome Field Office (Eastern Area), and one in the Southwest Area Office.

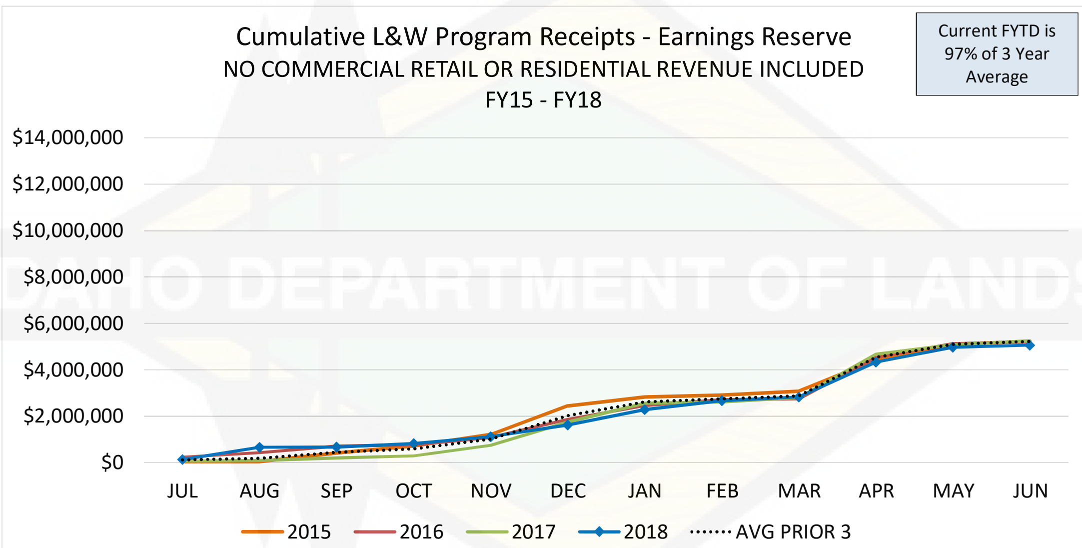
FISCAL YEAR 2018 - LEASING & PERMITTING TRANSACTIONS BY MONTH – THRU JUNE 30, 2018

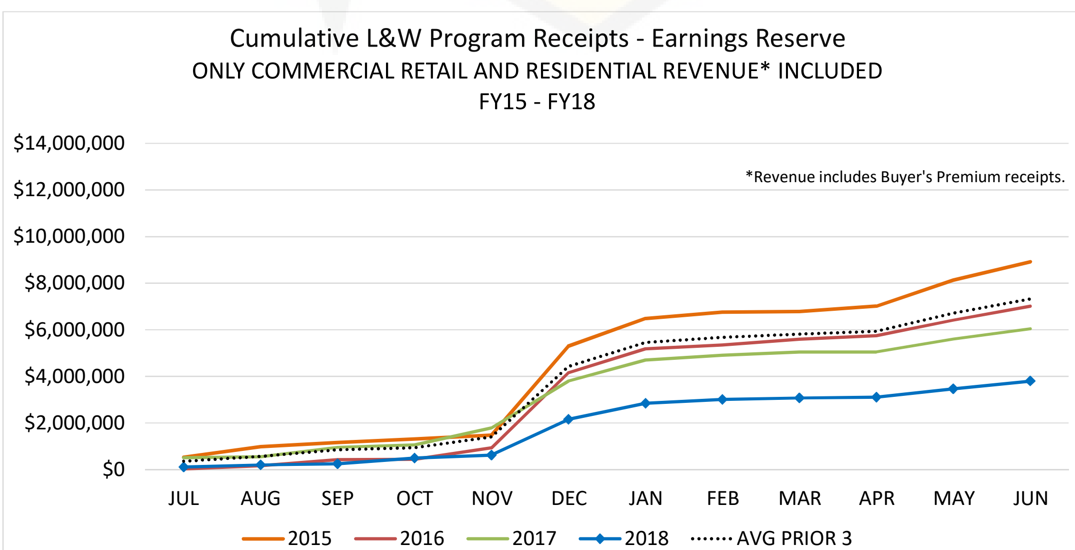
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
SURFACE													
Agriculture	-	-	1	-	2	8	2	1	-	-	-	-	14
• *Assignments*	-	-	-	2	-	1	-	1	-	-	-	-	4
Communication Sites	-	-	-	-	1	-	-	-	-	-	-	-	1
Grazing	-	22	12	5	16	19	11	2	-	1	-	2	90
• *Assignments*	3	1	1	-	1	6	1	5	-	3	2	2	25
Residential	-	1	-	-	-	-	-	-	-	-	-	2	3
• *Assignments*	1	-	-	2	2	2	1	-	-	-	1	1	10
COMMERCIAL													
Alternative Energy	-	-	-	-	-	-	-	-	-	-	-	-	0
Industrial	-	-	-	-	-	-	-	-	-	1	-	1	2
Military	-	-	-	-	-	1	-	-	-	-	-	1	2
Office/Retail	-	2	-	-	-	1	-	-	-	-	-	-	3
Recreation	1	1	-	1	1	-	-	-	-	-	-	-	4
OTHER													
Conservation	-	-	1	-	-	-	1	1	-	-	-	-	3
Geothermal	-	-	-	-	-	-	-	-	-	-	-	-	0
Minerals	-	1	-	-	-	1	-	-	-	-	-	-	2
• *Assignments*	-	-	-	1	2	-	-	2	-	-	1	-	6
• *Exploration*	1	-	-	-	-	2	-	-	3	-	3	-	9
Non-Commercial Recreation	-	-	-	-	-	-	-	-	-	-	-	-	0
Oil & Gas	-	-	-	-	-	-	-	-	-	-	-	-	0
PERMITS													
Land Use Permits	9	7	8	12	2	2	6	2	3	5	3	17	76
TOTAL INSTRUMENTS	15	35	23	23	27	43	22	14	6	10	10	26	254

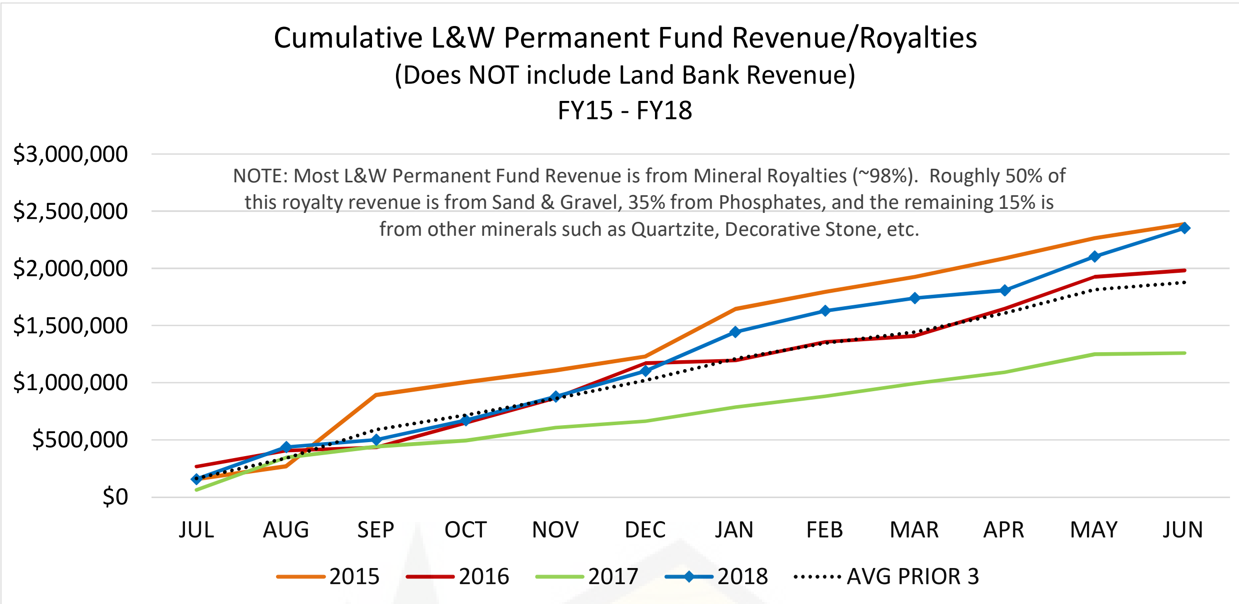
FISCAL YEAR 2018 – REAL ESTATE TRANSACTIONS BY MONTH – THRU JUNE 30, 2018													
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
Deeds Acquired	-	-	-	-	-	-	-	-	-	-	-	-	0
Deeds Granted	8	5	28	24	41	-	-	5	-	-	1	-	75
Deeds Granted - Surplus	-	-	-	1	-	-	-	-	-	1	-	-	2
Easements Acquired	1	-	1	-	-	2	-	-	-	-	2	2	8
Easements Granted	-	2	-	1	-	2	-	-	1	-	-	1	8

LANDS AND WATERWAYS DIVISION 2018 FYTD GROSS REVENUE (Through June 30, 2018)	
ACTIVITY	REVENUE
SURFACE	
Agriculture	$398,951
Communication Sites	$762,037
Grazing	$2,368,016
Residential	$2,505,440
COMMERCIAL	
Alternative Energy	$28,824
Industrial	$151,238
Military	$88,298
Office/Retail	$1,293,940
Recreation	$371,043
OTHER	
Conservation	$171,859
Geothermal	$20,450
Minerals	$58,133
Non-Commercial Recreation	$98,022
Oil & Gas	$26,431
RE/Buyer's Premium	$518,108
TOTAL FYTD REVENUE	$8,860,790

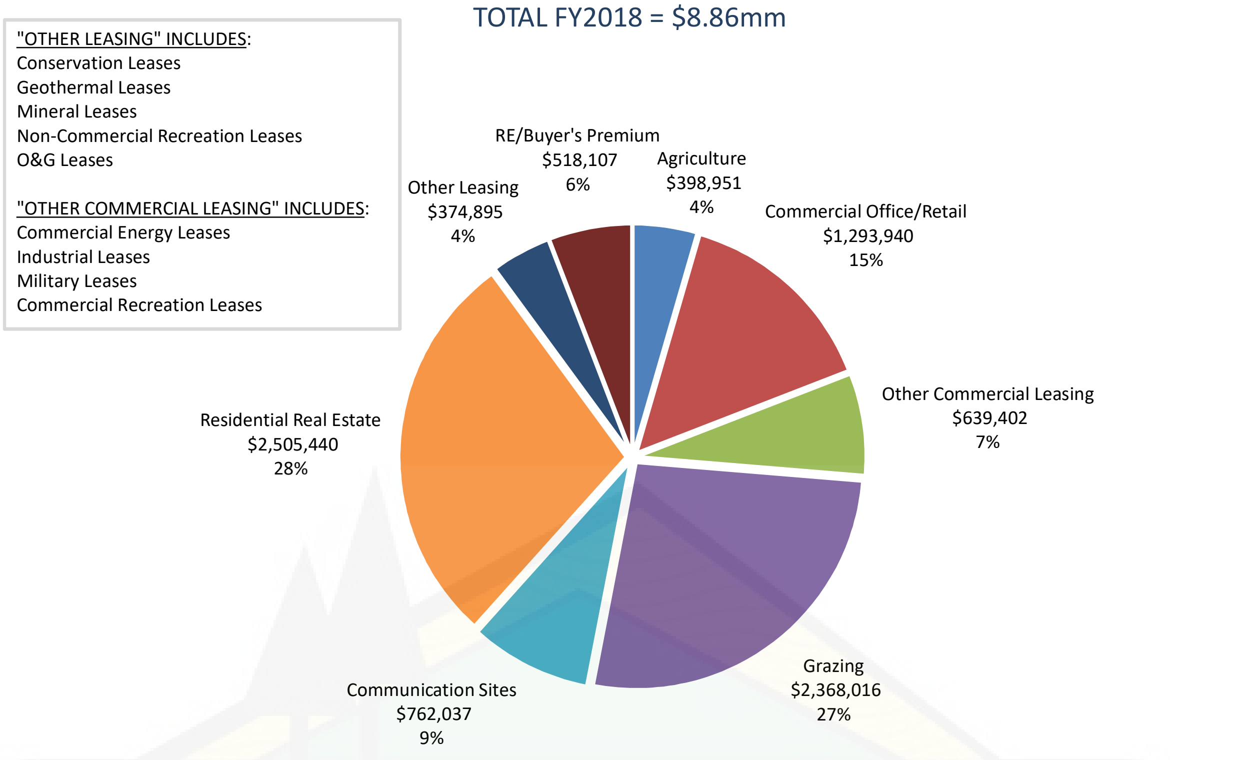

Cumulative L&W Program Receipts - Earnings Reserve
ALL PROGRAMS
FY15 - FY18
Current FYTD is 71% of 3 Year Average
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN
2015 2016 2017 2018 AVG PRIOR 3


Cumulative L&W Program Receipts - Earnings Reserve
NO COMMERCIAL RETAIL OR RESIDENTIAL REVENUE INCLUDED
FY15 - FY18
Current FYTD is 97% of 3 Year Average
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN
2015 2016 2017 2018 AVG PRIOR 3

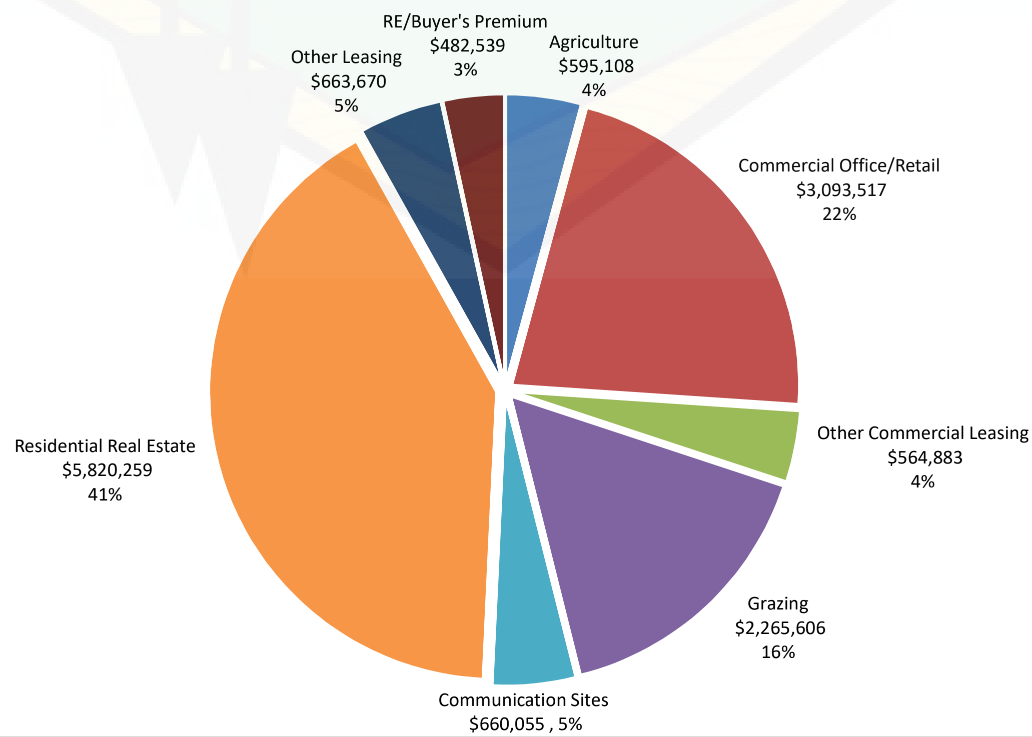

Cumulative L&W Program Receipts - Earnings Reserve
ONLY COMMERCIAL RETAIL AND RESIDENTIAL REVENUE* INCLUDED
FY15 - FY18
*Revenue includes Buyer's Premium receipts.
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN
2015 2016 2017 2018 AVG PRIOR 3


Cumulative L&W Permanent Fund Revenue/Royalties
(Does NOT include Land Bank Revenue)
FY15 - FY18
NOTE: Most L&W Permanent Fund Revenue is from Mineral Royalties (~98%). Roughly 50% of this royalty revenue is from Sand & Gravel, 35% from Phosphates, and the remaining 15% is from other minerals such as Quartzite, Decorative Stone, etc.
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
JUL
AUG
SEP
OCT
NOV
DEC
JAN
FEB
MAR
APR
MAY
JUN
2015
2016
2017
2018
AVG PRIOR 3

LANDS AND WATERWAYS - EARNINGS RESERVE REVENUE BY PROGRAM
TOTAL FY2018 = $8.86mm



LANDS AND WATERWAYS - EARNINGS RESERVE REVENUE BY PROGRAM
TOTAL FY2015 = $14.1mm



THIS PAGE INTENTIONALLY LEFT BLANK

Callan

March 31, 2018

Idaho Board of Land Commissioners

Investment Measurement Service
Quarterly Review

Table of Contents
March 31, 2018

THIS PAGE INTENTIONALLY LEFT BLANK

Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of March 31, 2018, with the distribution as of March 31, 2017. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

Asset Distribution Across Investment Managers

	March 31, 2018				March 31, 2017	
	Market Value	Weight	Net New Inv.	Inv. Return	Market Value	Weight
Farmland	24,665,240	1.67%	(425,258)	1,438,898	23,651,600	1.63%
Commercial Real Estate	10,362,890	0.70%	(9,991,998)	2,402,303	17,952,585	1.24%
Rangeland	61,000,000	4.12%	(3,126,097)	3,126,097	61,000,000	4.21%
Residential Real Estate	82,057,200	5.54%	(38,896,544)	30,320,661	90,633,083	6.25%
Timberland	1,180,824,151	79.76%	(62,027,736)	62,027,736	1,180,824,151	81.43%
Land Bank	121,529,920	8.21%	44,280,432	1,200,426	76,049,062	5.24%
Total Land Portfolio Assets	**$1,480,439,401**	**100.0%**	**$(70,187,201)**	**$100,516,121**	**$1,450,110,481**	**100.0%**

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flows and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers.
Performance figures are calculated using a modified BAI methodology.

Investment Manager Returns

The table below details the rates of return for the Fund's investment managers over various time periods ended March 31, 2018. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended March 31, 2018

	Fiscal YTD	Last Year	Last 2-3/4 Years
Farmland	5.90%	6.11%	5.86%
Farmland (Net)	5.52%	5.51%	5.20%
Commercial Real Estate	5.82%	14.04%	15.01%
Commercial Real Estate (Net)	0.70%	8.77%	9.72%
Rangeland	1.96%	5.22%	4.33%
Rangeland (Net)	0.29%	2.39%	1.42%
Residential Real Estate	36.23%	37.33%	16.04%
Residential Real Estate (Net)	34.53%	35.27%	14.35%
Timberland	4.94%	5.37%	5.86%
Timberland (Net)	3.53%	3.35%	3.92%
Land Bank	1.07%	1.35%	0.81%
Land Bank (Net)	1.07%	1.35%	0.81%
Total Land excluding - Land Bank	6.74%	7.44%	6.61%
Total Land excluding - Land Bank (Net)	5.28%	5.36%	4.61%
Total Land Portfolio (Gross)	**6.39%**	**7.07%**	**6.39%**
Total Land Portfolio (Net Nominal)	5.02%	5.11%	4.46%
Total Land Portfolio (Net Real Return)	3.10%	2.70%	2.78%
CPI All Urban Cons	1.88%	2.36%	1.64%

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flows and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cash flows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended March 31, 2018. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized.

Returns for Periods Ended March 31, 2018

		Fiscal YTD			Last Year			Last 2-3/4 Years	
	Inc%	App%	Tot%	Inc%	App%	Tot%	Inc%	App%	Tot%
Farmland (Net)	1.18	4.28	5.52	1.17	4.28	5.51	1.41	3.74	5.20
Commercial Real Estate (Net)	1.44	(0.73)	0.70	3.62	5.08	8.77	3.51	6.06	9.72
Rangeland (Net)	0.29	0.00	0.29	2.39	0.00	2.39	1.42	0.00	1.42
Residential Real Estate (Net)	1.27	32.85	34.53	1.82	32.85	35.27	2.59	11.48	14.35
Timberland (Net)	3.53	0.00	3.53	3.35	0.00	3.35	3.92	0.00	3.92
Total Land excluding - Land Bank (Net)	3.18	2.06	5.28	3.19	2.13	5.36	3.65	0.94	4.61
Total Land Portfolio (Net Nominal)	**3.05**	**1.94**	**5.02**	**3.06**	**2.01**	**5.11**	**3.55**	**0.89**	**4.46**

THIS PAGE INTENTIONALLY LEFT BLANK

Total Land Portfolio
Real Estate Portfolio
Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	-	Mgmt. Fees	+	Appre- ciation	-	Dist. of Income & Real. Gains	-	Return of Capital	=	End of Period Market
09/2015	1,443,485,863		6,737,772		18,523,024		6,333,665		337,900		12,176,749		6,737,772		1,443,836,373
12/2015	1,443,836,373		6,737,772		18,523,024		6,333,665		337,900		12,176,749		6,737,772		1,444,186,883
03/2016	1,444,186,883		6,737,772		18,523,024		6,333,665		337,900		12,176,749		6,737,772		1,444,537,394
06/2016	1,444,537,394		6,737,772		18,523,024		6,333,665		337,900		12,176,749		6,737,772		1,444,887,904
09/2016	1,444,887,904		17,424,042		32,190,512		8,130,079		(0)		24,850,095		16,715,247		1,444,807,037
12/2016	1,444,807,037		18,903,334		15,698,109		7,356,406		1,328,500		8,309,338		18,830,890		1,446,240,346
03/2017	1,446,240,346		22,212,151		19,044,141		5,379,154		3,715,150		13,609,788		22,112,365		1,450,110,481
06/2017	1,450,110,481		2,138,318		8,164,265		7,920,565		1,040,305		2,151,292		25,100		1,451,356,412
09/2017	1,451,356,412		7,987,519		25,025,187		7,148,261		22,668,989		17,852,656		7,770,000		1,474,267,190
12/2017	1,474,267,190		27,995,332		15,811,240		6,762,941		0		8,717,002		27,995,332		1,474,598,487
03/2018	1,474,598,487		8,541,139		22,386,935		5,296,596		5,419,200		16,719,764		8,490,000		1,480,439,401
	1,443,485,863		132,152,924		212,412,485		73,328,661		35,523,744		140,916,931		128,890,023		1,480,439,401

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers.
Performance figures are calculated using a modified BAI methodology.

Farmland
Real Estate Portfolio
Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri-butions	+	Accounting Income	-	Mgmt. Fees	+	Appre-ciation	-	Distri-butions	=	End of Period Market
09/2015	22,300,000		0		120,774		42,052		337,900		78,722		22,637,900
12/2015	22,637,900		0		120,774		42,052		337,900		78,722		22,975,800
03/2016	22,975,800		0		120,774		42,052		337,900		78,722		23,313,700
06/2016	23,313,700		0		120,774		42,052		337,900		78,722		23,651,600
09/2016	23,651,600		33,835		250		34,085		0		0		23,651,600
12/2016	23,651,600		0		317,855		156,334		0		161,521		23,651,600
03/2017	23,651,600		0		95,266		(86,168)		0		181,434		23,651,600
06/2017	23,651,600		1,815		45,299		47,114		0		0		23,651,600
09/2017	23,651,600		26,045		2,000		28,045		1,013,640		0		24,665,240
12/2017	24,665,240		0		184,432		24,082		0		160,350		24,665,240
03/2018	24,665,240		0		193,527		36,305		0		157,222		24,665,240
	22,300,000		61,695		1,321,726		408,006		2,365,240		975,415		24,665,240

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers.
Performance figures are calculated using a modified BAI methodology.

Commercial Real Estate
Real Estate Portfolio
Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri-butions	+	Accounting Income	-	Mgmt. Fees	+	Appre-ciation	-	Dist. of Income & Real. Gains	-	Return of Capital	=	End of Period Market
09/2015	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
12/2015	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
03/2016	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
06/2016	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
09/2016	31,502,435		0		1,299,490		635,627		0		663,863		0		31,502,435
12/2016	31,502,435		69,844		344,145		413,989		0		0		0		31,502,435
03/2017	31,502,435		0		422,777		339,925		3,715,150		82,852		17,265,000		17,952,585
06/2017	17,952,585		0		340,718		(42,035)		1,040,305		382,753		0		18,992,890
09/2017	18,992,890		0		316,491		256,468		(140,000)		60,023		0		18,852,890
12/2017	18,852,890		0		670,074		391,642		0		278,432		0		18,852,890
03/2018	18,852,890		51,139		174,715		225,854		0		0		8,490,000		10,362,890
	31,502,435		120,983		5,965,111		3,444,173		4,615,455		2,641,921		25,755,000		10,362,890

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers.
Performance figures are calculated using a modified BAI methodology.

Rangeland
Real Estate Portfolio
Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri-butions	+	Accounting Income	-	Mgmt. Fees	+	Appre-ciation	-	Distri-butions	=	End of Period Market
09/2015	61,000,000		0		742,508		439,390		0		303,118		61,000,000
12/2015	61,000,000		0		742,508		439,390		0		303,118		61,000,000
03/2016	61,000,000		0		742,508		439,390		0		303,118		61,000,000
06/2016	61,000,000		0		742,508		439,390		0		303,118		61,000,000
09/2016	61,000,000		418,712		15,744		434,456		0		0		61,000,000
12/2016	61,000,000		0		651,041		417,971		0		233,070		61,000,000
03/2017	61,000,000		99,786		366,069		465,855		0		0		61,000,000
06/2017	61,000,000		0		1,943,241		668,142		0		1,275,099		61,000,000
09/2017	61,000,000		0		298,769		285,833		0		12,936		61,000,000
12/2017	61,000,000		0		388,362		375,616		0		12,746		61,000,000
03/2018	61,000,000		0		495,725		347,673		0		148,052		61,000,000
	61,000,000		518,498		7,128,984		4,753,108		0		2,894,374		61,000,000

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers.
Performance figures are calculated using a modified BAI methodology.

Residential Real Estate
Real Estate Portfolio
Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri-butions	+	Accounting Income	-	Mgmt. Fees	+	Appre-ciation	-	Dist. of Income & Real. Gains	-	Return of Capital	=	End of Period Market
09/2015	149,700,000		0		1,313,522		497,503		(0)		816,019		6,737,772		142,962,228
12/2015	142,962,228		0		1,313,522		497,503		0		816,019		6,737,772		136,224,456
03/2016	136,224,456		0		1,313,522		497,503		(0)		816,019		6,737,772		129,486,683
06/2016	129,486,683		0		1,313,522		497,503		0		816,019		6,737,772		122,748,911
09/2016	122,748,911		381,271		(180,856)		200,415		0		0		16,590,224		106,158,687
12/2016	106,158,687		0		2,567,931		520,013		1,328,500		2,047,918		16,327,104		91,160,083
03/2017	91,160,083		0		1,067,980		278,000		0		789,980		527,000		90,633,083
06/2017	90,633,083		0		733,100		239,660		0		493,440		25,100		90,607,983
09/2017	90,607,983		191,474		215,266		406,740		21,795,349		0		7,770,000		104,633,332
12/2017	104,633,332		0		1,377,513		479,530		0		897,983		27,995,332		76,638,000
03/2018	76,638,000		0		780,233		332,140		5,419,200		448,093		0		82,057,200
	149,700,000		572,745		11,815,254		4,446,509		28,543,049		7,941,490		96,185,849		82,057,200

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers.
Performance figures are calculated using a modified BAI methodology.

Timberland
Real Estate Portfolio
Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri-butions	+	Accounting Income	-	Mgmt. Fees	+	Appre-ciation	-	Distri-butions	=	End of Period Market
09/2015	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
12/2015	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
03/2016	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
06/2016	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
09/2016	1,174,000,000		0		31,000,749		6,825,496		0		24,175,253		1,174,000,000
12/2016	1,174,000,000		2,503,786		11,714,928		5,848,099		0		5,866,829		1,176,503,786
03/2017	1,176,503,786		4,320,365		16,937,064		4,381,542		0		12,555,522		1,180,824,151
06/2017	1,180,824,151		2,111,403		4,896,281		7,007,684		0		0		1,180,824,151
09/2017	1,180,824,151		0		23,950,872		6,171,175		0		17,779,697		1,180,824,151
12/2017	1,180,824,151		0		12,859,562		5,492,071		0		7,367,491		1,180,824,151
03/2018	1,180,824,151		0		20,321,021		4,354,624		0		15,966,397		1,180,824,151
	1,174,000,000		8,935,554		184,618,214		60,276,865		0		126,452,752		1,180,824,151

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers.
Performance figures are calculated using a modified BAI methodology.

Land Bank
Real Estate Portfolio
Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri-butions	+	Accounting Income	+	Appre-ciation	-	Dist. of Income & Real. Gains	-	Return of Capital	=	End of Period Market
09/2015	4,983,428		6,737,772		12,610		0		0		0		11,733,810
12/2015	11,733,810		6,737,772		12,610		0		0		0		18,484,193
03/2016	18,484,193		6,737,772		12,610		0		0		0		25,234,575
06/2016	25,234,575		6,737,772		12,610		(0)		0		0		31,984,958
09/2016	31,984,958		16,590,224		55,135		0		10,979		125,023		48,494,315
12/2016	48,494,315		16,329,704		102,209		0		0		2,503,786		62,422,442
03/2017	62,422,442		17,792,000		154,985		0		0		4,320,365		76,049,062
06/2017	76,049,062		25,100		205,626		0		0		0		76,279,788
09/2017	76,279,788		7,770,000		241,789		0		0		0		84,291,577
12/2017	84,291,577		27,995,332		331,297		0		0		0		112,618,206
03/2018	112,618,206		8,490,000		421,714		0		0		0		121,529,920
	4,983,428		121,943,449		1,563,196		0		10,979		6,949,174		121,529,920

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers.
Performance figures are calculated using a modified BAI methodology.

v0710

LAND BANK AGING REPORT

Current Remaining Principal Balance By Quarter Receipted - As of June 30, 2018

FY Quarter IN	Public School	Normal School	State Hospital South	University of Idaho	All Endowments	FY Quarter EXPIRES
2016-02	$ 16,628,959	$ 100,129	$ 4,741,500	$ -	$ 21,470,588	2021-02
2016-03	$ 1,355,100	$ 946,000	$ 1,190,000	$ -	$ 3,491,100	2021-03
2016-04	$ 29,248	$ -	$ -	$ -	$ 29,248	2021-04
2017-01	$ 16,590,224	$ -	$ -	$ -	$ 16,590,224	2022-01
2017-02	$ 3,721,604	$ 2,858,000	$ 9,747,500	$ -	$ 16,327,104	2022-02
2017-03	$ 5,766,250	$ 10,431,970	$ 1,593,780	$ -	$ 17,792,000	2022-03
2017-04	$ -	$ 25,100	$ -	$ -	$ 25,100	2022-04
2018-01	$ -	$ 3,331,000	$ 4,439,000	$ -	$ 7,770,000	2023-01
2018-02	$ 27,869,832	$ -	$ 125,500	$ -	$ 27,995,332	2023-02
2018-03	$ -	$ 2,000,712	$ 829,888	$ 5,659,400	$ 8,490,000	2023-03
2018-04	$ 10,500	$ -	$ -	$ -	$ 10,500	2023-04
TOTAL PRINCIPAL REMAINING	**$ 71,971,717**	**$ 19,692,911**	**$ 22,667,168**	**$ 5,659,400**	**$ 119,991,196**	

LAND BANK CASH BALANCE (with Interest)	**$ 73,257,966**	**$ 20,016,480**	**$ 23,098,146**	**$ 5,687,109**	**$ 122,059,701**

D

THIS PAGE INTENTIONALLY LEFT BLANK

STATE BOARD OF LAND COMMISSIONERS
July 17, 2018

SUBJECT

Fire Season Update

DISCUSSION

As of July 13, 2018, Emergency Fire Suppression expenditures are estimated to be $3,900,000. The Suppression Account will recover an estimated $645,000 of reimbursable costs, for a net obligation of $3,255,000. The total obligation above includes the 2018 contracted aircraft costs.

On March 7th, the Maggie Creek District had an early season fire near Kamiah that burned 422 acres. The fire started from an escaped field burn and burned rapidly in a grassy canyon.

As shown in the table below, fire occurrence to date for 2018 is 96 percent of the 20-year average, while the acres burned is 15 percent of the 20-year average.

Fire Season Comparison to Date

	# of Fires			
Year	**Lightning**	**Human**	**Total**	**Acres**
2015	44	87	131	2,230.5
2016	24	33	57	36.7
2017	11	50	61	603.2
2018	16	54	70	494.4
20 Yr. Average			73	3244

This past winter's snowpack and moisture content were ample which contributed to acceptable early season subsoil moisture conditions. Low elevation spring rains supported above-average grass growth. May temperatures were elevated with near-normal precipitation. June was drier than usual especially in the Idaho Panhandle. Throughout Idaho, June temperatures were near normal. Sufficient subsoil moisture is keeping the live woody vegetation fuel moistures high. High grass growth could produce above-average fire size in central Idaho as these light fuels cure.

July temperatures are predicted to be warmer than usual, with normal precipitation. This will continue to dry the grasses, and grass fire activity will likely increase. Forest vegetation remains moist, but the dead woody fuels on the forest floor are drying quickly. Forest fire activity is increasing as fuels dry. Fire danger is predicted to be above normal throughout Idaho.

IDL resources assisted with 42 fires outside IDL's protection area in: Arizona, Colorado, Florida, Idaho, New Mexico, Nevada, North Carolina, Oklahoma, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming. These assignments represent reimbursable expenses and a savings to Dedicated and General Funds.

E

THIS PAGE INTENTIONALLY LEFT BLANK

Monthly Report to the Board of Land Commissioners

Investment performance through June 30, 2018

Month: -0.2% *Fiscal year:* 9.8% (Preliminary)

The endowment portfolio generated solid returns in fiscal 2018. Global equities had another strong fiscal year led by the U.S. equities. International developed and emerging market equities falter in the final quarter as there were indications that economic growth outside the U.S. is slowing, concerns about a trade war and a strengthening U.S. dollar. Real estate provided modest returns from both income and appreciation. Fixed income struggled to breakeven for the year as interest rates increased and inflation began to tick-up late in the fiscal year.

Status of endowment fund reserves

Distributions for FY2018 and FY2019 are well secured. For all endowments, estimated reserves as of June 2018 were at least 5 times the size of the approved FY2019 distributions.

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

A recommendation for FY2020 beneficiary distributions and transfers will be presented at the Land Board's meeting in August.

The Land Board Audit Committee plans to meet on August 16th to review the independent auditor's report and approve the Endowment Fund's fiscal 2018 financial statements.

The EFIB Board is scheduled to meet on August 17th.

THIS PAGE INTENTIONALLY LEFT BLANK

INVESTMENT REPORT

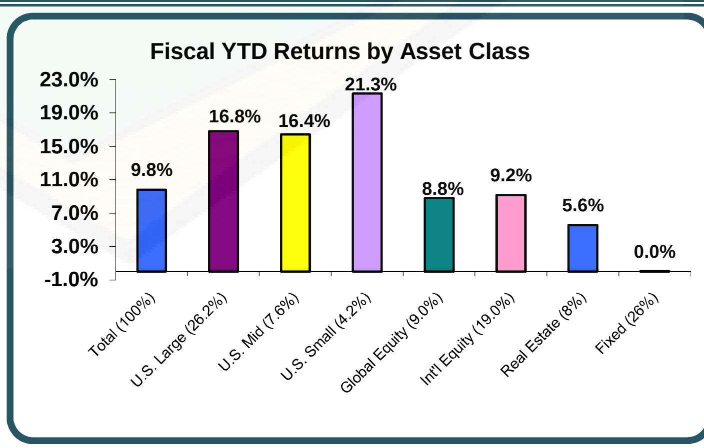
IDAHO ENDOWMENT FUND INVESTMENT BOARD

Preliminary Report (gross of fees) | Land Grant Endowments Only | 6/30/2018

	Month	FYTD
Beginning Value of Fund	2,193,179,832	2,023,923,003
Distributions to Beneficiaries	(6,123,600)	(73,483,200)
Land Revenue net of IDL Expenses	6,612,381	48,166,459
Change in Market Value net of EFIB Expenses	(4,305,374)	190,756,978
Current Value of Fund	2,189,363,239	2,189,363,239

June-18		Fiscal Year to Date		Last Five Years	
Total Fund	**-0.2%**	**Total Fund**	**9.8%**	**Total Fund**	**8.7%**
38% R3 19% Ax 9% AC 26% BB 8% OD	*-0.1%*	*38% R3 19% Ax 9% AC 26% BB 8% OD*	*8.4%*	*38% R3 19% Ax 9% AC 26% BB 8% OD*	*8.5%*
Total Fixed	**-0.1%**	**Total Fixed**	**0.0%**	**Total Fixed**	**2.2%**
85% BB Agg, 15% TIPS	*0.0%*	*85% BB Agg, 15% TIPS*	*0.0%*	*85% BB Agg, 15% TIPS*	*2.2%*
Total Equity	**-0.3%**	**Total Equity**	**13.9%**	**Total Equity**	**11.1%**
38% R3 19% Ax 9% AC	*-0.2%*	*38% R3 19% Ax 9% AC*	*12.1%*	*38% R3 30% Ax 9% AC*	*11.0%*
Domestic Equity	**0.2%**	**Domestic Equity**	**17.3%**	**Domestic Equity**	**13.5%**
Russell 3000 (R3)	*0.7%*	*Russell 3000 (R3)*	*14.8%*	*Russell 3000 (R3)*	*13.3%*
Global Equity	**0.3%**	**Global Equity**	**8.8%**	**Global Equity**	**7.0%**
MSCI ACWI (AC)	*-0.5%*	*MSCI ACWI (AC)*	*10.7%*	*MSCI ACWI (AC)*	*9.4%*
Int'l. Equity	**-1.7%**	**Int'l. Equity**	**9.2%**	**Int'l. Equity**	**6.8%**
MSCI ACWI ex-US (Ax)	*-1.9%*	*MSCI ACWI ex-US (Ax)*	*7.3%*	*MSCI ACWI ex-US (Ax)*	*6.0%*
Real Estate		**Real Estate**	**5.6%**		
Real Estate Index (OD)		*Real Estate Index (OD)*	*4.6%*		

	Mkt Value	Allocation
Domestic Equity	**$ 843.7**	**38.5%**
Large Cap	572.1	26.1%
Mid Cap	172.5	7.9%
Small Cap	99.1	4.5%
Global Equity	**196.8**	**9.0%**
Int'l Equity	**410.7**	**18.8%**
Fixed Income	**558.3**	**25.5%**
Real Estate	**161.2**	**7.4%**
Cash	**18.8**	**0.9%**
Total Fund	**$ 2,189.4**	**100.0%**

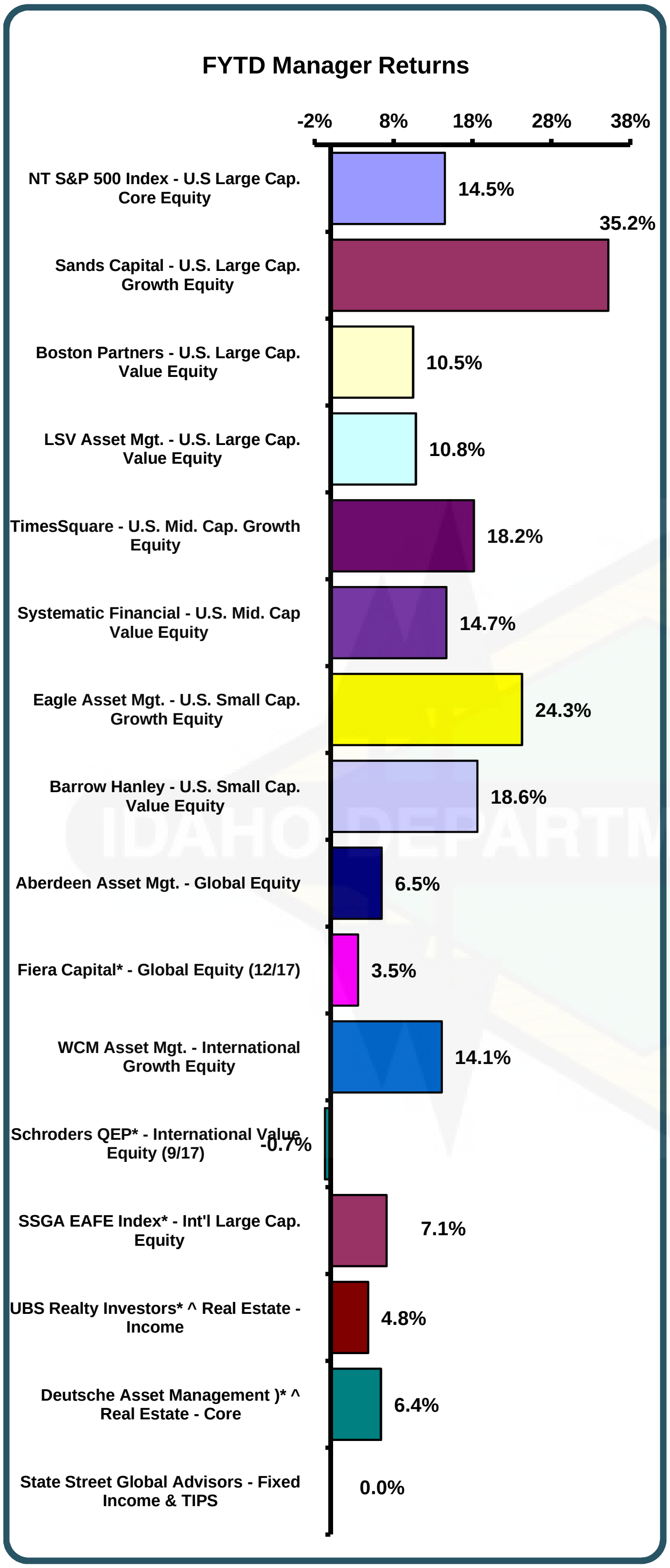


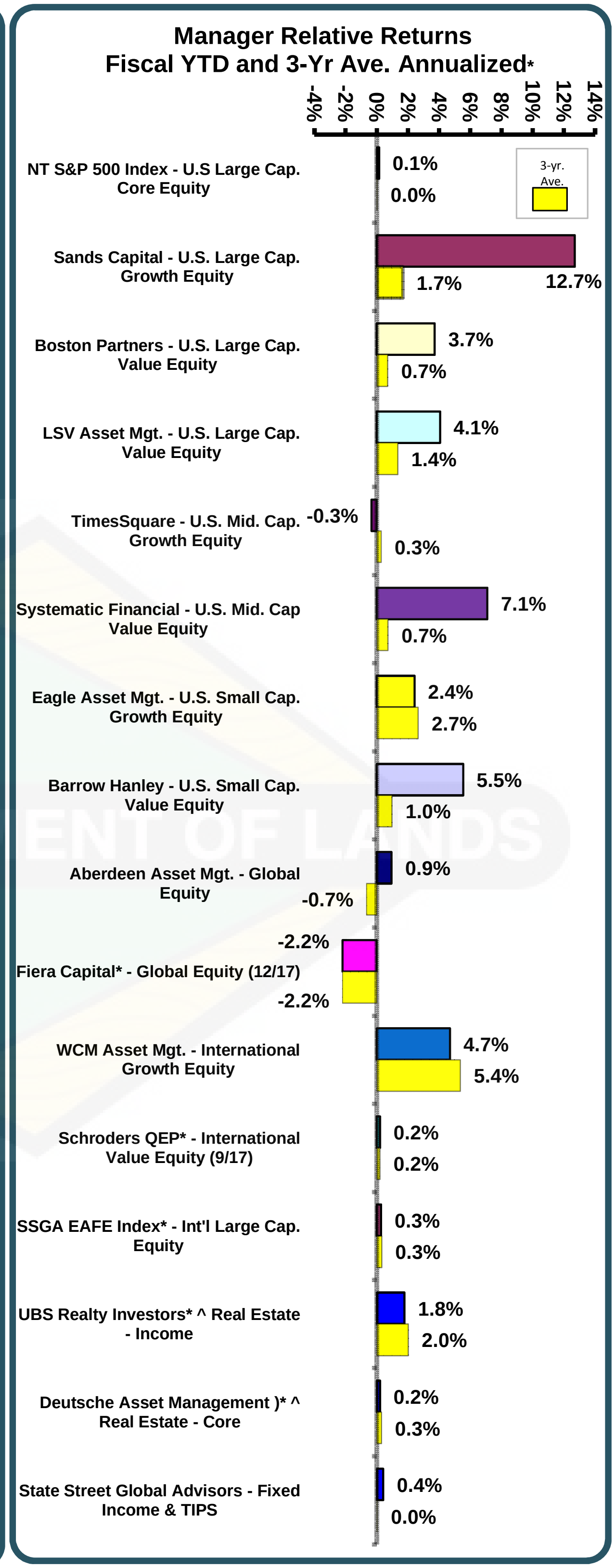
Endowment Fund Staff Comments:

The fund was down 0.2% for the month, 0.1% under the benchmark. The Russell 3000 index was up 0.7%, Russell Midcap up 0.7% and Russell 2000 (small cap) up 0.7%. International equities (MSCI ACWI ex-US) were down 1.9%. Value outperformed Growth, while Domestic equity outperformed International equity. Bonds, as measured by the BBC Aggregate index, were down 0.1% and TIPS were up 0.4%. 7 of 13 active managers beat their benchmark this month. On a FYTD basis, the fund is up 9.8%, 1.4% over benchmark, and 11 of 13 active managers beat their benchmark.

INVESTMENT REPORT

June 30, 2018





* ITD return used when manager has less than 3 years. ^ Most recent valuation.

STATE BOARD OF LAND COMMISSIONERS
July 17, 2018
Consent Agenda

SUBJECT

Annual Review of Statement of Investment Policy

BACKGROUND

In November 2014, the Land Board accepted the *Asset Allocation and Governance Review* from Callan Associates (Callan). The report included a recommendation to develop:

> A comprehensive Investment Policy Statement…for the combined Trust that identifies the investment objectives, risk management processes, risk tolerance (including connecting the risk taken in the asset allocation with that expressed in the distribution policy), the adopted asset allocation and rebalancing ranges, decision-making and the roles of each party involved in the investment process, how performance will be monitored and measured for each asset type, and the establishment of appropriate metrics and peer groups where relevant for both the land and financial assets.

Callan, working with the Idaho Department of Lands (Department) and the Endowment Fund Investment Board (EFIB), developed a Statement of Investment Policy for the combined Endowment assets, which was approved by the Land Board on May 17, 2016. The Statement of Investment Policy and appendices are subject to annual review.

DISCUSSION

The Department and EFIB worked with Callan to review and revise the Statement of Investment Policy and appendices (Attachment 1) approved July 18, 2017, where necessary to better align with current practices, provide additional clarity, and add reference to the 2018 Callan Asset Allocation and Distribution Study. Primary revisions include:

- Addition of the Callan Asset Allocation and Distribution Study and recommendations;
- Addition of Callan's updated 2018 market expectations for the financial asset portfolio;
- Adjustment to the reserve levels as recommended by Callan and approved by EFIB and the Land Board;
- Clarification that acquisition of land with a conservation easement in place is allowed provided the Land Board maintains full decision-making authority over land management practices;
- Removal of the NCREIF Farmland Index for benchmarking farmland performance in Idaho;
- Adjustment to the frequency of performance reports generated by the general consultant for review by the Land Board; and
- An update to Appendix C to incorporate the revised EFIB Investment Policy Statement approved February 2018.

Apart from several small Department-specific revisions, the changes to the Statement of Investment Policy were approved by the Investment Subcommittee on June 12, 2018, and will be reviewed by EFIB at their August 17, 2018 meeting.

RECOMMENDATION

Callan, the Department, and EFIB recommend approval of the annual revision to the Statement of Investment Policy for the combined Endowment assets.

BOARD ACTION

ATTACHMENTS

1. Revised Statement of Investment Policy and Appendices

Statement of Investment Policy

Idaho Land Grant Endowments

As overseen by the:

Idaho Board of Land Commissioners

INCLUDES FUNDS MANAGED BY THE ENDOWMENT FUND INVESTMENT BOARD

INCLUDES LAND MANAGED BY THE IDAHO DEPARTMENT OF LANDS

July 17~~8~~, 2018~~7~~

This Statement of Investment Policy was initially published May 17, 2016, and is updated annually.
The policy superseded the State Trust Lands Asset Management Plan dated December 20, 2011.

Table of Contents

I. Introduction

The State Board of Land Commissioners (Land Board) hereby establishes this Statement of Investment Policy (Statement) for the investment and management of the land grant endowment assets (Endowment Assets or Endowment) of the State of Idaho. The Endowment Assets were created by The Idaho Admissions Act in 1889 which granted the new state approximately 3,600,000 acres of land for the sole purpose of funding fourteen specified beneficiaries including nine different trusts or endowments.

This Statement provides policies for the investment and management of financial and land assets which together comprise the Endowment Assets. Financial Assets consist primarily of the invested revenues from the endowment lands (collectively, Financial Assets). Land Assets include timberland, rangeland, farmland, commercial real estate, residential (cabin sites) real estate, minerals, and oil and gas (collectively, Land Assets) located in Idaho.

II. Purpose

This Statement of Investment Policy is set forth by the Land Board to accomplish the following:

- Establish a clear understanding for all involved parties regarding the management and investment goals and objectives for the Endowment Assets.
- Offer guidance and limitations to all involved parties regarding the management and investment of Endowment Assets.
- Define and assign the responsibilities of participants involved in the investment process.
- Establish a basis for evaluating investment and management results.
- Manage Endowment Assets according to prudent standards as established in the Idaho Constitution and trust law.
- Establish the relevant investment horizon for which the Endowment Assets will be managed.

III. Constitutional and Statutory Requirements

The investment and management of the Endowment Assets will be in accordance with the Idaho Constitution, all applicable laws of the State of Idaho, and other pertinent legal restrictions. In the event this Statement is inconsistent with Constitutional or Statutory Requirements (Requirements), those Requirements will control.

A. Land Board

Article IX, Section 7 of the Constitution establishes the Land Board: “The governor, superintendent of public instruction, secretary of state, attorney general and state controller shall constitute the state board of land commissioners, who shall have the direction, control and disposition of the public lands of the state, under such regulations as may be prescribed by law.”

B. Sole Interest of the Beneficiaries

All Endowment Assets of the State of Idaho must be managed "in such manner as will secure the maximum long-term financial return" to the trust beneficiaries.

C. Prudent Investments and Fiduciary Duties

The Land Board and its agents, including staff, the Idaho Department of Lands (IDL), the Endowment Fund Investment Board (EFIB), consultants, advisors, and investment managers shall exercise the judgment and care of a prudent investor as required under the prudent investor rule set forth in the Uniform Prudent Investor Act (Act), Idaho Code §§ 68-501 to 68-514.

Endowment Assets shall be invested and managed with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in like capacity and familiar with such matters would use in the investment and management of assets of like character with like aims.

The Act states, in part, that: "A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution"; and, "A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust."

The duty of prudence requires trustees to bring the appropriate level of expertise to the administration of the trust. An implied duty of trustees is also to preserve and protect the assets with a long-term perspective sensitive to the needs of both current and future beneficiaries.

D. Sales, Exchanges, and the Land Bank

Article IX, Section 8 of the Idaho Constitution includes the following restrictions regarding the sale of lands:

- All land must be disposed of via public auction
- A maximum of 100 sections (64,000 acres) of state lands may be sold in any year
- A maximum of 320 acres may be sold to any one individual, company, or corporation
- No state lands may be sold for less than the appraised price
- Granted or acquired lands may be exchanged on an equal value basis with other lands subject to certain restrictions
- Forest and certain other land may not be sold per Idaho Code § 58-133, which states, "All state-owned lands classified as chiefly valuable for forestry, reforestation, recreation, and watershed protection are reserved from sale and set aside as state forests."

Article IX, Section 4 of the Idaho Constitution provides for the deposit of the proceeds from the sale of school lands into a land bank fund to be used to acquire other lands within the state for the benefit of endowment beneficiaries, subject to a time limit established by the legislature.

Idaho Code § 58-133 provides conditions for use of the Land Bank Fund. In summary, the Land Bank Fund exists to hold the proceeds from the sale of state endowment land pending the purchase of other land in Idaho for the benefit of the endowment beneficiaries. Funds in the Land Bank, including earnings, are continually appropriated to the Land Board. If the funds have not been utilized for land acquisition within five years, they are transferred to the permanent endowment fund of the respective endowment.

E. Other Constitutional Requirements and Statutes

Additional constitutional articles and state statutes are described throughout this Statement. Appendix A includes the entirety of the constitutional articles and statutes that apply to the investment and management of Endowment Assets.

IV. Investment Goals

A. General Objective

The stated mission for Endowment Assets is to provide a perpetual stream of income to the beneficiaries by managing assets with the following objectives:

- Maximize long-term financial return at a prudent level of risk.
- Provide relatively stable and predictable distributions to the beneficiaries.
- Constrain distributions to protect future generations' purchasing power.
- Maintain sufficient liquidity for anticipated expenditures.

B. Considerations

Primary considerations impacting the fulfillment of the investment mission and objectives include the following:

- Constitutional and statutory requirements as noted previously. Constitutional restrictions are considered permanent given the process required to amend the Constitution (approval by a two-thirds majority in the House of Representatives and Senate followed by ratification by the citizens of Idaho via a general election ballot or a constitutional convention).
- Managing revenue and profit-generating activities within a government agency.
- Each trust holds its Financial Assets in a commingled pool (with shares owned by several trusts) but its Land Assets in specific and unique tracts.

C. Investment Return Objective

As perpetual assets, per State Constitution and statute, the Endowment has a perpetual investment horizon. The investment return objective for the Endowment Assets is to earn over a long period an annualized real return, net of fees, expenses, and costs, above spending and inflation (per Idaho Code

§ 57-724) as well as population growth (per Land Board policy). Given the current financial and land asset mix, the Endowment is expected to earn a real net return of 3.5% annually over the long term.

D. Distribution Policy

The Distribution Policy adopted by the Land Board (further described in Section VIII) sets annual distributions to beneficiaries. The interaction of investment and distribution policies should balance the needs of current and future beneficiaries. The Land Board's policy is to distribute a conservative estimate of long-term sustainable income and hold sufficient reserves of undistributed income to absorb down cycles in endowment earnings. It is a priority to avoid reductions in distributions because most beneficiaries depend on endowment distributions to fund ongoing operations.

V. Investment Risk and Strategic Asset Allocation

A. Asset Class Diversification Asset Classes

Risk, as it relates to stability of distributions, shall be managed primarily by holding reserves of undistributed income. Risk, as it relates to the volatility of earnings of the Endowment Assets, shall be managed primarily through diversification. Subject to land disposal restrictions and the statutory prohibition on selling timberland, the Endowment Assets will be diversified both by asset class and within asset classes to the extent practical. The purpose of diversification is to provide reasonable assurance that no single asset class will have a disproportionate impact on the Endowment. Both quantitative measures and qualitative judgment will be used in assessing and managing risk.

B. Review of Asset Classes and Asset Allocation

In setting strategic asset allocations, the Land Board will focus on ensuring the Endowment Assets' expected long-term returns will meet expected long-term obligations with a prudent level of risk. Approximately every eight years, the Land Board will evaluate the asset allocation mix and conduct an asset allocation study (last completed in 2014) to determine the long-term strategic allocations to meet risk/return objectives.

Significant changes in capital market assumptions, portfolio characteristics, timber income expectations, or the Distribution Policy may cause the Land Board to accelerate the timing of an asset allocation study. For example, the illiquidity of much of the Land Assets may require the target asset mix of the Financial Assets be adjusted due to significant land sales or acquisitions or the appreciation of the Financial Assets at a faster or slower rate than the appreciation of the Land Assets.

EFIB will review the Distribution Policy annually. When key assumptions in the Distribution Policy, such as expected earnings and volatility change, EFIB will recalculate the risk of shortfalls in future distributions and provide recommendations on policy adjustments to the Land Board.

C. Strategic Asset Allocation

The Land Board commissioned a governance and asset allocation study in 2014 and accepted the recommendations included in the Callan Asset Allocation and Governance Report (Callan Report). This section summarizes the major conclusions of the asset allocation portion of the Callan Report. The purpose of the asset allocation study was to evaluate current and potential asset allocation mixes incorporating Land Assets with Financial Assets to evaluate expected return and volatility of the portfolio.

The Land Board commissioned a second Callan study in 2017 to provide further analysis and refinement on the asset allocation work completed in 2014. The primary goal of the follow-up study was to determine for each endowment the best and highest use of assets in the Land Bank—reinvestment into traditional land assets (timberland or farmland) or transfer to the financial asset portfolio. The Land Board accepted the results from the study and elected to pursue Option A from Callan's Options to Consider (page 33 of the report), which reads:

> Option A: Consistent with the Reinvestment Plan, identify potential transactions that meet established hurdle rates and set aside sufficient funds over appropriate time horizon (immediately move money that will either "mature" prior to the transaction or exceeds what is required).
>
> - Recognizes the importance of land in the total Endowment and attempts to maintain land's target allocation (41%)

The Land Board approved the asset mix from the Callan Report presented in Exhibit 1 below:

Exhibit 1: Strategic Asset Allocation

Asset Class	Target Asset Allocation	Range	Actual Allocation June 30, 2017	Expected 10 Year Compounded Return[1,2]	Implied Real Net Return[3]
Financial Assets	58%	50-65%	59.2%	6.3%	4.05%
IDL Timberland	39%	30-50%	33.2%	5.70%	3.45%
IDL Grazing Land	2%	0-5%	1.7%	3.00%	0.75%
Cash Equivalents –Land Bank	1%	0-5%	2.1%	2.00%	-0.25%
Residential Real Estate	0%	N/A	2.6%	N/A	

[1] Based on Callan's 2014 Asset Allocation and Governance Review and 2018 capital market expectations.

[2] Compounded Returns are measured over long time periods and reflect the reduction in return that comes from variations around the average return ("volatility drag"). It is stated on a nominal basis before inflation but after all fees and costs associated with managing the investment(s) have been deducted from the return.

[3] Real net return is the nominal net rate of return after deduction of inflation. The inflation assumption is 2.25%.

Asset Class	Target Asset Allocation	Range	Actual Allocation June 30, 2017	Expected 10 Year Compounded Return	Implied Real Net Return
Idaho Commercial Real Estate	0%	N/A	0.5%	N/A	
Other Land	N/A	N/A	0.7%	N/A	
Total	100%			6.69%	4.44%
Expected Risk (Standard Deviation)				9.28%	
Inflation Assumption				2.25%	

- The Target Asset Allocation percentages were established in December 2014 with the following exceptions:
    - A Diversified US Real Estate (Commercial Property) target allocation was adopted by EFIB in October 2015 and implemented in 2016 in the Financial Assets portfolio.
    - The asset allocation study did not include residential real estate because of an approved disposition plan adopted by the Land Board.
    - The asset allocation study did not include commercial real estate given its limited size and low likelihood that it should be expanded due to the following:
        - Difficulty profitably managing the asset given certain constitutional and statutory constraints.
        - Lack of a compelling investment rationale for a concentrated position in Idaho commercial properties considering other alternatives available, including increasing investment in timberland or the Financial Assets.
        - The Land Board adopted a plan in February 2016 to divest most commercial real estate managed by IDL and has implemented a substantial portion of that plan.

- The ranges for land investments reflect the inherent illiquidity in these land types combined with an inconsistent supply of land for purchase and restrictions on sales, all of which impact the ability to rebalance land investments.

- Although it is not an institutional asset class, grazing land was included in the asset allocation study due to its large absolute number of acres and its illiquidity.

The Expected 10-Year Compounded Return and Risk, as specified in Exhibit 1 above, are based on Callan Associates' 2018 capital market assumptions for each asset class and the total Endowment using the target asset allocations. Over a 10-year period, Callan indicates the target asset allocation should generate a nominal return in excess of 6.3% net of fees. Using an inflation assumption of 2.25% results in an expected real net return of 4.05%. The volatility level (standard deviation) associated with this asset mix is approximately 9.28%. The Expected 10-Year Compounded Return and Risk was developed with reference to the observed long-term relationships among major institutional asset classes.

The Land Board recognizes the actual 10-year return can deviate significantly from this expectation—both positively and negatively.

The Land Board acknowledges the link between the Target Asset Allocation and the Distribution Policy. If an asset allocation mix is selected that deviates from the risk and return in the current Target Asset Allocation, the Land Board, in consultation with EFIB, will assess the impact on the Distribution Policy and change the Distribution Policy as necessary. In broad terms, changes in long-term expected income will impact the estimated level of sustainable distributions while changes in risk, as measured by volatility of income, will impact the desired level of reserves.

EFIB will review the asset allocation for the Financial Assets per the EFIB Investment Policy and present it to the Land Board as an informational item.

D. Strategic Policies

In addition to asset allocation, the Land Board may from time to time authorize or adopt strategic policies. "Strategic Policies" are actions by the Land Board to allow investment in asset types that have not been singled out as "asset classes" in the asset allocation process, to overweight a particular sector within an asset class, or to employ particular strategies in the investment of the Endowment Assets. The purposes of these actions are either to increase the return above the expected return or to reduce risk. Any such policy would include consideration of the change in risk, the change in return, and the impact on the Distribution Policy.

VI. Investment Governance Structure

The Idaho Constitution provides that the endowment funds are held in trust and administered by the Land Board as trustees. The Constitution further provides that the Idaho Legislature may establish a statutory structure for administration that is consistent with the nature of the trusts. Accordingly, the Idaho Legislature created a structure that established EFIB as the manager of the Financial Assets, established the appropriations process for the payment of trust management expenses, and created IDL to serve as the manager of the Idaho Land Assets of each trust. The constitutional and statutory provisions, together with Land Board policy, establish the governance structure for Endowment Assets.

A. Land Board Responsibility

Management of the Endowment Assets is entrusted to the Land Board which serves as the sole fiduciary of both the Land Assets and Financial Assets. The Land Board is ultimately responsible for all management and investment activities. The powers and duties of the Land Board are fully described in Idaho Code § 58-104.

In exercising this responsibility, in addition to EFIB and IDL, the Land Board may hire personnel and agents and delegate investment functions to those personnel and agents consistent with constitutional and statutory provisions. Where the Land Board does not or cannot delegate investment powers or duties, the Land Board will either satisfy itself that it is familiar with such matters, or will retain persons who are familiar with such matters to consult or assist the Land Board in the exercise of those responsibilities. Where the Land Board delegates a responsibility, it will be delegated to a person who is familiar with such matters, and the Land Board will monitor and review the actions of those to whom responsibilities are delegated.

1. General Roles and Responsibilities

The Land Board's general role and responsibilities regarding investments include, but are not limited to the following:

- Direct and oversee the conduct and operations of EFIB and IDL.
- Appoint and consult with expert advisors (including EFIB and IDL) for each critical function for which the Land Board has responsibility. In this context, the term "expert advisor" shall mean a person engaged in the business for which he holds himself out to be an expert and who is experienced in that field.
- Plan and establish strategic policies to coordinate the management of state endowment lands with the management of the endowment funds.
- Provide reports on the status and performance of state endowment lands and the respective endowment funds to the state affairs committees of the Senate and the House of Representatives within fourteen days after a regular session of the legislature convenes.
- Make strategic decisions, primarily concerning asset allocation, and establish and/or approve endowment land asset investment and management policies and strategies.
- Periodically review this master investment policy and any sub-policies.
- Monitor the compliance of EFIB and IDL with the investment policies and strategy determined by the Land Board and the execution of the strategy.
- Hire agents in addition to IDL and EFIB to assist the Land Board in the implementation of strategy or investment policies.
- Approve the IDL annual budget request for consideration by the governor and legislature (including review of appropriation requests to IDL from Earnings Reserves).
- Approve allocation of Earnings Reserve Funds as provided in Idaho Code § 57-723A (Distribution Policy), specifically how much is: distributed annually to beneficiaries; retained for future distribution; and, transferred to the Permanent Fund to build corpus.
- Approve the annual timber sale plan and certain timber sales that fall outside of the IDL director's authority.
- Review the IDL director's monthly timber sale activity report showing the proposed sales for the next month.
- Approve large routine land investment decisions that exceed the authority of the IDL director.
- Approve certain other land investment decisions that exceed the authority delegated to the IDL director.
- Approve rulemaking and legislation for IDL.
- Review decisions of the IDL director upon appeal in contested matters.

2. Land Board Investment Subcommittee

a) Structure of the Investment Subcommittee

The Land Board established and authorized the Subcommittee in December 2014. The current composition of the Subcommittee is one EFIB member (selected by the EFIB chair), the EFIB manager of investments, and the IDL director.

b) General Roles and Responsibilities of the Investment Subcommittee

The Investment Subcommittee provides review and advice to the Land Board. The primary purpose of the Investment Subcommittee is to coordinate consideration of investment issues that cross both the Land Assets and the Financial Assets, including the following:

- Administer the contract for the general consultant and other consultants, as assigned by the Land Board.
- Work with the general consultant to identify the Land Board's advisor(s) and consultants, including the Land Investment Advisor(s), Land Acquisition Advisor(s), Commercial Real Estate Broker, and the Land Board's Commercial Real Estate Investment Advisor.
- Work with the general consultant and recommend the Statement of Investment Policy and Asset Management Plan to the Land Board.
- Recommend policy regarding implementation of land exchanges on endowment lands.
- Recommend policy (consistent with Idaho Code § 58-133) regarding the use of proceeds from the disposal of assets (e.g., cabin sites, commercial real estate, grazing lands). This may include deposit in the Permanent Fund or holding of proceeds in the Land Bank Fund to acquire additional endowment land assets in Idaho (excluding commercial buildings), access to currently owned endowment lands, or to block-up ownership of endowment lands.

3. Use of Outside Experts

The Land Board employs outside advisors and consulting firms to provide specialized expertise, assist IDL with transactions, and verify or review IDL's and EFIB's investment and operational activities and procedures.

a) Non-Discretionary Investment Consultants

The Land Board may hire a qualified independent consultant or consultants (including a general consultant) for strategic and annual plan reviews, review of new investment initiatives, investment policy development and review, asset allocation, advisor selection and monitoring, and performance measurement. Investment consultants will be fiduciaries with respect to the services provided and will act in a non-discretionary capacity with no decision-making authority.

b) Commercial Real Estate Advisor

The Land Board may use a commercial real estate advisor to advise on the Idaho commercial property portfolio or transition properties. The commercial real estate advisor will provide analysis and management expertise on the retention, leasing, disposition, and management of the properties. The commercial real estate advisor will be a fiduciary with respect to the services provided and act in a non-discretionary capacity with no decision-making authority.

c) Land Acquisition Advisors

The Land Board may use land acquisition advisors to source land acquisitions, facilitate completion of due diligence work, and make recommendations. Due diligence services may include appraisals, review appraisals, timber cruise and check cruise, financial evaluation, mineral and water right identification, encumbrance review, survey, and title review. Land acquisition advisors will be fiduciaries with respect to the services provided and act in a non-discretionary capacity with no decision-making authority.

d) Land Investment Advisor

The Land Board may use a land investment advisor(s) to independently review certain land investment decisions proposed by IDL (land disposal, land acquisition, exchange, and new tenant improvements) that are over $100,000. The land investment advisor will review the post-audit completed by IDL for transactions over $1,000,000. The land investment advisor may be used for independent review of IDL procedures. The land investment advisor will be a fiduciary with respect to the services provided and act in a non-discretionary capacity with no decision-making authority.

e) Auditor

Idaho Code § 57-720 requires the Financial Assets of the endowment be reviewed by an independent auditor. To oversee this process, and any other audits it deems prudent, the Land Board has established the Land Board Audit Committee, consisting of the attorney general (or designee), the state controller (or designee), and three members of EFIB, appointed by its Chair.

B. Investment Governance and Investment Policy for the Financial Assets

Idaho Code § 57-718 created EFIB which formulates policy for and manages the investment of the Financial Assets, which consists primarily of the invested revenues from the endowment lands. As permitted in Idaho Code § 57-720, the fund assets of all nine endowments, both Permanent Funds and Earnings Reserve Funds, may be combined in a single investment pool.

1. Mission of EFIB

The mission of EFIB is to provide professional investment management services to its stakeholders consistent with its constitutional and statutory mandates.

2. Structure of EFIB

Per Idaho Code § 57-718, EFIB consists of nine members appointed by the governor and confirmed by the Senate. These members are one state senator, one state representative, one professional educator, and six members of the public familiar with financial matters.

3. General Roles and Responsibilities of EFIB and Agents

With a citizen board and small staff, EFIB will make strategic allocations and generally avoid making tactical calls. The Board and staff will concentrate on the following activities:

- Making strategic decisions, primarily concerning asset allocation.
- Establishing investment policy for the funds.
- Recommending Distribution Policy and transfers of Earnings Reserves to the Land Board.
- Establishing Distribution Policy for the Capitol Permanent Fund.
- Selecting, monitoring, and terminating investment managers, consultants, and custodians.
- Selecting and directing staff.
- Approving an investment management expense budget from Earnings Reserves for consideration by legislative appropriation.
- Overseeing a credit enhancement process to reduce interest rates on Idaho school bonds through the pledge of certain assets of the Public School Endowment Fund.
- Maintaining a reporting system that provides a clear picture of the status of the Financial Assets.

4. Professional Staff

EFIB will maintain a staff with investment expertise, including a Manager of Investments (MOI) who is a fiduciary to EFIB. The MOI is responsible for directing and monitoring the investment management of the Financial Assets.

5. Use of Outside Experts

The Financial Assets will be invested by professional investment firms. No funds will be managed internally. EFIB will also employ one or more outside consulting firms to provide specialized expertise and assist in, among other things, asset allocation, manager selection and monitoring, and performance measurement.

6. Investment Policy Statement for Financial Assets

EFIB will maintain a detailed Investment Policy that pertains specifically to the management and investment of the Financial Assets (Appendix C). The Land Board is not required to approve this investment policy as this duty is delegated to EFIB.

C. Investment Governance for Land Assets

Idaho Code § 58-101 created IDL to serve as the internal investment and asset manager of the Land Assets of each trust. This role includes authorization to make certain investment decisions consistent with the established governance structure and includes day-to-day operating responsibilities for the Land Assets. This is in contrast to the EFIB structure where implementation and day-to-day decision making is delegated to external investment managers subject to approved guidelines and contracts.

The Land Assets include timberland, rangeland, farmland, commercial real estate, residential (cabin sites) real estate, minerals, and oil and gas (collectively "Land Assets") located in Idaho.

1. Mission of IDL

The mission of IDL is to professionally and prudently manage Idaho's Land Assets to maximize long-term financial returns to public schools and other trust beneficiaries and to provide professional assistance to the citizens of Idaho to use, protect, and sustain their natural resources. IDL also has various regulatory, technical assistance, and resource protection roles.

2. Structure of IDL

IDL operates under the direction of the Land Board and is the administrative arm of the Idaho Oil and Gas Conservation Commission. IDL is led by a director who is employed by and is directed by the Land Board. The director's staff includes a deputy director (State Forester), a division administrator for Forestry and Fire, a division administrator for Lands and Waterways, a division administrator for Oil and Gas, a division administrator of Operations (Chief Operations Officer), a division administrator for Support Services, and a human resources officer—collectively, the executive staff. Each of the positions identified above supervises various professional, technical, and administrative support staff.

3. General Roles and Responsibilities

IDL manages more than 2.4 million acres of Idaho Land Assets (and additional acreage of retained mineral rights) under a constitutional mandate to maximize long-term financial returns for the sole benefit of public schools and certain other state institutions enumerated in statute.

The director and staff will concentrate on the following investment-related activities:

- Serving as the instrumentality of the Land Board.
- Implementing the strategic direction established by the Land Board concerning Land Assets.
- Making strategic decisions (where authorized) and providing recommendations to the Land Board concerning management of Land Assets.
- Establishing policies and procedures for IDL programs.
- Selecting and directing staff.
- Developing a land and resource management expense budget from Earnings Reserves for Land Board approval and consideration for legislative appropriation. Earnings Reserves is only a portion of the IDL budget.
- Monitoring and reporting progress toward strategic goals, including preparing an annual income statement following agreed upon procedures and calculating annual returns for major asset classes and all asset classes combined.

Decision-making authority for endowment land asset management resides with the Land Board except as delegated to the IDL director. Program management resides with the director's staff and their subordinates. IDL establishes policies and procedures for routine programmatic activities at the bureau and program levels.

IDL has delegated authority to approve the following:

- Normal timber sales that fall within established Land Board policies and salvage sales.
    - Exceptions include sales with clear-cut harvests over 100 acres; sales with development credits exceeding 50% of the net appraised value or 33% of the gross appraised value; and sales with written citizen concerns.

- Approval of certain routine land investment decisions. Routine land investment decisions include access acquisition, forest and range improvements, reforestation, and building maintenance.
    - Transactions <$500,000 the IDL director may authorize.
    - Transactions >$500,000 require Land Board approval.
- Approval of certain other land investment decisions. Other land investment decisions include land disposal, land acquisition, and new tenant improvements.
    - Transactions <$100,000 the IDL director may authorize.
    - Transactions >$100,000 require Land Board approval.

4. Professional Staff

IDL staff consists of trained professionals and technical experts in various fields, such as forestry, range, real estate, minerals, oil & gas, fire, accounting, finance, procurement, GIS, IT, and other specialties. IDL staff members who are involved with management of Endowment Assets or related accounting or financial management are fiduciaries.

5. Use of Outside Experts

IDL may use outside experts at its discretion and the Land Board's discretion. IDL may use the Land Board's expert advisors when in need of the special expertise provided by the advisors and when the use of a specific advisor will not conflict with the Land Board's use of the advisor. IDL may review information and recommendations provided to the Land Board by outside experts including the Commercial Real Estate Investment Advisor, Commercial Real Estate Broker, Land Acquisition Advisor(s), and the Land Investment Advisor(s). The chart in Appendix E below depicts the relationship between the Land Board, IDL, and outside experts.

D. Role of the Legislature

The Idaho Legislature is responsible for the following:

- Enacting laws to establish the methodology for restoring losses to the Public School and Agricultural College funds.
- Appropriating Earnings Reserve Funds for operation of IDL and EFIB.
- Considering approved endowment distributions in setting beneficiary appropriations.
- Establishing the statutory structure for administration of endowment assets that is consistent with the nature of the trusts and the constitutional duties of the Land Board.

VII. Asset Class Policies for Land Assets

A. Investment Objective for the Land Assets

The primary objective for the Land Assets is the generation of maximum long-term return at a prudent level of risk using traditional land grant asset types. The Land Assets diversify the Financial Assets given the low correlations of timberland and rangeland to public capital markets. The Land Assets also lower the volatility of the total investment portfolio considering timberland and rangeland returns have historically exhibited lower volatility than equity asset classes. During periods of negative financial returns, Land Assets can provide a positive revenue stream to help maintain Earnings Reserves and stable Endowment distributions.

Investment objectives are long-term return objectives. The investment objective for the land portfolio recognizes that timberland is a primary driver of the overall return for land and that income from timberland and, to a lesser degree, all other lands are the primary generator of investment returns. The individual investment objectives for timberland, rangeland, and farmland reflect the long-term investment characteristics (return, correlation, and volatility) compared to other asset classes. Investment objectives also consider the existing base of land holdings along with management constraints, notably sales restrictions, acreage limitations, and the rent-setting and leasing processes. The return objectives should not be viewed in isolation but in relationship to one another.

The Land Assets are managed to achieve a real net return target of at least 3% over a long-term holding period (Land Assets Return Objective). The Land Assets Return Objective includes both income and appreciation, is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit), and net of inflation as measured by the Consumer Price Index. While the Land Assets Return Objective includes both income and appreciation, the return is expected to be generated primarily from income.

Specific investment objectives and guidelines for each land category are summarized below. The Land Board shall review periodically its expectations for the land categories and assess how the updated expectations affect the probability that the Endowment will achieve the established investment objectives.

B. Key Elements of the Land Strategy

1. Active and Profitable Management

Land Assets are actively managed based on profitability, which means that some parcels will be managed more intensively than others. The portfolio is managed by IDL and, except in unusual circumstances, no external managers are used. Active management includes the following primary activities:

- Maximize net income while protecting and enhancing the long-term value and productivity of the Land Assets. (IDL shall produce a quarterly income statement which allows for evaluation of income versus management and operating expenses by trust beneficiary, program, and asset class as a way to evaluate returns and profitability.)
- Acquire, through purchase or trade, land whose expected risk adjusted return meets or exceeds the return objectives outlined in this Statement and whose uses are aligned with IDL's management expertise.

- Dispose, through sale or trade, land whose expected long-term return does not meet the return objectives outlined in this Statement.
- Make incremental investments to enhance the value of existing assets when the expected risk adjusted return is favorable.

2. Leverage is Prohibited

Debt is not used in acquisition of Land Assets. All assets are unencumbered by debt.

3. Diversification

There is limited ability to diversify the Land Assets by geography, land type, investment style, investment manager (IDL is the sole manager), or vintage year since most Land Assets were acquired at statehood. Diversification of income source shall be pursued by encouraging multiple bidders for timber sales. There is limited opportunity to actively diversify the tenant base in rangeland, commercial real estate, residential real estate, farmland, and other land types that are leased as leases are simply awarded to the highest bidder.

Timberland shall be managed to produce age class and species diversity across the timberland asset to maximize long-term returns. An individual timber stand may have trees of similar age, but other timber stands represent other age classes, ensuring a relatively even flow of forest products over time. An even flow of various forest products is considered a priority to maintain a vibrant and diverse customer base to maximize the sale prices of timber over time and resulting income distributions. Offering a variety of timber sale sizes, types, and locations across the state also helps to maintain a diverse customer base. Geographic diversity of the land base over the state provides protection against catastrophic fire, disease, and insect outbreak.

4. Illiquidity and Rebalancing

Land Assets represent a large part of the total Endowment portfolio and are illiquid compared to publicly-traded equities. Strategic rebalancing to maintain the total Endowment portfolio within the desired asset allocation ranges will be actively pursued where possible through sales, exchanges, and acquisitions. However, constitutional and statutory requirements regarding land sales and exchanges limit the ability to rebalance the Land Asset portion of the portfolio.

C. Timberland

1. Definition

Timberland is defined as land capable of growing successive crops of commercial forest products for harvest.

2. Overall Financial Objective and Benchmark

The return on timberland comes from biological growth, upward product class movement, timber price appreciation and land price appreciation. The overall objective of timberland investments is to attain a real net income return of at least 3% over a long-term holding period. The net income return target is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), and net of all fees and costs of program management (e.g., legal and audit). Timberland (and real net income) is expected to appreciate over time at the rate of inflation, as measured by the Consumer Price Index. An appreciation target is not as relevant as the income return target since timberland cannot be sold and the appreciation component cannot be realized.

3. Allowable Investments

Timberland in Idaho and investments in timberland improvements, including but not limited to planting seedlings, spraying, pre-commercial thinning, fertilization, intermediate silvicultural treatments, road construction, and maintenance projects are allowed, as are investments in easements or other means of achieving cost-effective access to productive timberlands.

New timberland acquisitions shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the following:

- If the expected financial return generated by income exceeds the minimum hurdle rate of 3.5% real net;
- Whether the return profile is sufficient relative to the risk taken, including an analysis of the transaction in terms of long-term financial return and risk to the Endowment;
- Whether the transaction would facilitate improved management or improve the overall Endowment land ownership pattern in the area;
- The existence of any potential risks, including but not limited to environmental or title-related issues.

Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. The presence of minerals including sand and gravel can enhance the net return from timberland. Land Bank funds used for acquisition can only to be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan.

New investments in timberland must be owned 100% by the endowment. Joint ventures are not allowed. Acquisition of land with a conservation easement in place is allowed provided the Land Board has full decision-making authority regarding implementation of land management practices.

4. Considerations

Idaho Code § 58-133 requires that all state-owned lands classified as chiefly valuable for forestry, reforestation, recreation, and watershed protection be reserved from sale and set aside as state forests. Timberland can be exchanged but only for other timberland.

IDL has an established public involvement process, approved by the Land Board, which requires that annual timber sale plans be published and public comment opportunities be made available. Small sales (less than 1,000,000 board feet or less than $150,000 in value) and salvage sales are exempt from the policy.

5. Management

Timberland is directly managed by IDL. Management shall comply with all applicable laws, such as the Idaho Forest Practices Act. Management objectives include the following:

- Manage the timberland asset prudently, efficiently, and with accountability to the beneficiaries.
- Reduce risk and increase prospects for sustainable annual income.
- Achieve a rate of return consistent with policy objectives.
- Produce forest products that meet market demands.
- Identify and acquire additional timberlands that maintain or enhance the value of the timberland asset class.
- Identify and dispose of or transition underperforming timberland assets to increase economic performance and improve land asset diversity.
- Achieve financial and forest health objectives identified in the Asset Management Plan, Forest Business Plan (and any related annual plans developed), and the Forest Asset Management Plan.

6. Valuation

The land expectation value (LEV) method (constant real annual cash flow / real annual discount rate) approach or other commercially acceptable methods approved by the Land Board shall be used for the valuation of the timberland asset class. The timberland asset class shall be valued using the LEV method every three years by an independent expert for the purpose of calculating program returns, not for the purpose of acquisition or disposition of specific timberland parcels. MAI appraisals must be used for valuation of individual parcels in the event of an exchange.

7. Monitoring Standards

IDL will report cash flows for the timberland asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation (based on LEV), and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent valuation will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

D. Rangeland

1. Definition

Rangeland is defined as lands supporting natural vegetation—generally grasses, forbs, and small brush suitable for grazing by domestic livestock and wildlife.

2. Overall Financial Objective and Benchmark

The overall objective of rangeland investments is to attain a real net return of 0.3% over a long-term holding period. The 0.3% real net rate of return includes primarily income and is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit) and net of inflation as measured by the Consumer Price Index. Given its low expected return, rangeland is not an institutional asset class.

3. Allowable Investments

Selective investment in Idaho rangeland is allowed, subject to the desired asset allocation and the recommendations of the Callan Report. Additional investment may take the form of investments in rangeland improvements and easements or other means of access to improve productivity. Rangeland improvements refers to actions that improve the manageability and productivity of the asset including but not limited to fencing, weed control, access improvement, and water development.

New investments shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the following:

- If the expected financial return generated by income exceeds the minimum hurdle rate of a 3.5% real net return;
- Whether the return profile is sufficient relative to the risk taken, including an analysis of the transaction for long-term financial return and risk to the Endowment;
- Whether the transaction would facilitate improved management or improve the overall Endowment land ownership pattern in the area;
- The existence of any potential risks, including but not limited to environmental or title-related issues.

Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. Land Bank funds used for acquisition can only to be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan.

4. Considerations

Idaho Code § 58-138 requires that the written agreement of a lessee be obtained prior to entering into an exchange involving leased lands.

Rangeland may be sold or exchanged subject to acreage limitations—a lifetime maximum of 320 acres may be sold to any one individual, company, or corporation. For rangeland, this limitation is a significant barrier to repositioning or reducing the size of the rangeland portfolio given its size at over 1.4 million acres. Any disposal of rangeland should consider its optionality for future conversion to a higher and better use, including reclassification and potential mineral extraction. Some endowments are restricted to a lifetime maximum of 160 acres sold to any one individual, company, or corporation. Article IX of the Idaho Constitution describes the limitations on the sale of endowment land.

5. Management

Rangeland is directly administered by IDL. Livestock forage productivity and availability varies significantly across the state due to factors such as climate, vegetation types, topography, and access to water. Some Endowment parcels are of sufficient size and productivity to stand alone as a grazing unit; however, most are managed in a manner consistent with adjoining federal and private lands because of normal livestock and grazing management practices. Some rangeland parcels are leased in combination with timberland uses**.** The presence of minerals such as sand and gravel can enhance the net return from rangeland. Management objectives for rangeland include the following:

- Manage the rangeland asset prudently, efficiently, and with accountability to the beneficiaries.
- Develop and manage long-term grazing leases that achieve a rate of return consistent with policy objectives and market rates.
- Identify and dispose of or transition underperforming rangeland assets to increase economic performance and improve land asset diversity.
- Minimize contractual and environmental risks.
- Identify programmatic or statutory changes that maximize income.
- Achieve objectives identified in the Asset Management Plan and the Grazing Program Business Plan.

6. Valuation

The land expectation value (LEV) method (constant real annual cash flow/real annual discount rate) approach shall be used for the valuation of rangeland. Rangeland shall be valued using the LEV method every three years by an independent expert. MAI appraisals must be used for individual parcels in the event of an exchange or sale.

7. Monitoring Standards

IDL will report cash flows for the rangeland asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

E. Residential Real Estate (AKA "Cottage Sites")

1. Definition

Idaho has leased residential sites since 1932. These properties are vacant endowment land where lessees are authorized to construct and own improvements, typically cabins and single-family homes.

2. Overall Financial Objective and Benchmark

Leases shall be at least 4% of the appraised value until sold at auction. The overall objective of residential real estate investments is to attain, for each sale, net distributions to the endowment that are at or above appraised value and cover all costs of the sale and internal management costs.

3. Allowable Investments

The Land Board and IDL are implementing a disposition strategy for the residential portfolio subject to a long-term plan that was approved in December 2010 and subsequently revised in 2016. Future investment in cottage sites is not allowed with the exception that current land may be transitioned to cottage site lots and sold.

4. Considerations

While the Land Board has directed a disposition strategy for the residential portfolio, complete disposition is unlikely in the next five years. The viability of an ongoing lease program, with consideration of ongoing related expenses, shall be evaluated by IDL and reviewed by the Land Board as the current disposal process is completed.

5. Management

Cottage sites are directly managed by IDL. Management objectives include the following:

- Execute the approved Cottage Site Plan to unify the estate in a business savvy manner to maximize return to the endowments.
- For the duration of the cottage site leasing program, develop and manage residential leases that appropriately compensate the endowments.
- Identify additional high-value (undeveloped) residential sites for potential auction to maximize return to the endowments.
- Identify and transition residential sites that may return more value to the trust if transitioned to a higher and better use.

6. Valuation

All properties will be appraised to establish lease rates prior to sale. Until reappraisal, existing appraisal data will be used for valuation of the asset class.

7. Monitoring Standards

IDL will report cash flows for the residential real estate asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

F. Farmland

1. Definition

Farmland is defined as land under cultivation or capable of being cultivated. The farmland asset includes lands used for cultivating grains, vegetables, and hay, as well as vineyards and orchards.

2. Overall Financial Objective and Benchmark

The overall objective of farmland investments is to attain a real net return of 4% over a long-term holding period. The rate of return includes both income and appreciation, is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit), and net of inflation as measured by the Consumer Price Index. ~~The farmland asset class net-of-fees performance shall be benchmarked against~~

~~the NCREIF Farmland Index reconstituted to the farmland target weights for Permanent and Row Crops established in the Program Business Plan.~~

3. Allowable Investments

Investments in Idaho farmland, improvements such as irrigation or structures, and easements or other means of access to productive farmlands are allowed.

New investments shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine if the expected financial return from income and appreciation exceeds the minimum hurdle rate of 4.5% real net and whether the return profile is sufficient relative to the risk taken. The due diligence process includes an analysis of to analyze the transaction in terms of long-term financial return and risk to the Endowment and determines the existence of any potential risks including but not limited to environmental or title-related issues. Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. Land Bank funds used for acquisition can only to be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Rei~~-I~~nvestment Plan.

Investments in farmland must be owned 100% by the Endowment. Joint ventures are not allowed. Acquisition of land with a conservation easement in place is allowed provided the Land Board has full decision-making authority regarding implementation of land management practices.

4. Considerations

Farmland may be sold or exchanged subject to acreage limitations—a lifetime maximum of 320 acres may be sold to any one individual, company, or corporation. Some endowments are restricted to a lifetime maximum of 160 acres sold to any one individual, company, or corporation. Article IX of the Idaho Constitution describes the limitations on the sale of endowment land.

5. Management

The asset class is directly managed by IDL through agriculture leases which may be cash, crop share, or flex with adjustment based on yield or price. Some agriculture parcels are leased in combination with grazing uses**.** Management objectives include the following:

- Achieve return consistent with policy objective.
- Identify and acquire additional farmland.
- Focus on income and current cash yield through the management of existing properties and the acquisition of additional farmland. Cash lease structure will be preferred.
- Enroll endowment lands in federal agricultural programs when appropriate.
- Achieve objectives identified in the Asset Management Plan for Endowment Assets (and any related plans developed) and the Farmland Program Business Plan.

6. Valuation

Properties will be valued internally by IDL using NASS Farmland Data. This is appropriate as farmland holdings only represent approximately 1.7% ($25 million) of Endowment Assets. All properties shall be valued by an MAI appraiser prior to sale.

7. Monitoring Standards

IDL will report cash flows for the farmland asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be used adjusted for capital expenditures, sales, and acquisitions during the reporting period.

G. Idaho Commercial Real Estate

1. Definition

Idaho Commercial Real Estate is a discrete portfolio of office buildings, parking lots, retail, and other properties located in Idaho.

2. Overall Financial Objective and Benchmark

The majority of the Idaho Commercial Real Estate portfolio was sold as recommended by the Commercial Real Estate Advisor and approved by the Land Board in February 2016. Of the properties identified in the 2016 sales plan that did not sell, IDL will continue to pursue prudent disposition as recommended. Certain properties may be retained by the Land Board for strategic purposes.

3. Allowable Investments

Effective December 2014, no new Idaho Commercial Real Estate properties may be acquired. There may be expenditures to maintain or re-position existing properties in preparation for sale or lease. Leasing of existing endowment lands for commercial and industrial purposes will continue.

4. Management

The portfolio is overseen by IDL and managed primarily through outside agents, including hiring and oversight of property managers and leasing agents, approving leases and budgets, approving capital expenditures, and executing capital plans. The Commercial Real Estate Advisor may be used to assist in advising, hiring, and managing property managers.

5. Valuation

All properties will be valued by appraisal prior to sale. In the interim, the value established by the Commercial Real Estate Advisor will be used for performance measurement and evaluation purposes.

6. Monitoring Standards

IDL will report cash flows for the commercial real estate asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. Property will be valued using a combination of appraised values and values established by the Commercial Real Estate Advisor. The most recent independent value will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

H. Minerals/Oil & Gas

1. Definition

Mineral resources are concentrations of materials that are of economic interest in or on the crust of the earth. Oil and gas reserves and resources are defined as volumes that will be commercially recovered in the future.

2. Overall Financial Objective and Benchmark

The asset class will be managed prudently to maximize financial return while complying with all applicable laws and regulations. Royalty payments are transferred to the Permanent Fund while other payments, such as lease or bonus payments, go to the Earnings Reserve Fund.

3. Allowable Investments

Acquisition of mineral rights together with or independent of surface rights is allowed. Acquisition of mineral rights together with surface rights is preferred to avoid a split estate. Acquisition of mineral rights is expected to occur primarily through land exchanges.

4. Management

The asset class is directly managed by IDL and management shall comply with all applicable federal and state statutes, such as the federal Clean Water Act, Idaho Surface Mining Act, Oil and Gas Conservation Act, and Idaho Dredge and Placer Mining Protection Act. Management objectives include the following:

- Manage the mineral asset prudently, efficiently, and with accountability to the endowments.
- Minimize contractual and environmental risks associated with extractive industries.
- Lease lands for potential mineral products that capitalize on market demands.
- Retain mineral rights when land parcels are disposed.
- Seek opportunities to unify the mineral estate.
- Identify programmatic or statutory changes that maximize income from mineral assets.

5. Valuation

There is no known, effective way of accurately valuing the Endowment's mineral assets.

6. Monitoring Standards

IDL will report cash flows for the minerals asset class to the general consultant for performance reporting purposes. All net income calculations will be net of all fees and expenses of managing the asset class. Because receipts from minerals extracted flow directly to the Permanent Fund, they are not included in IDL's report of return on assets. The receipts are reported in IDL's annual report.

I. Transition of Lands

1. Definition

Lands within traditional asset classes already owned by the Endowment may become suitable for a higher and better use than the current asset classification. Often these properties exhibit high property values and low annual revenues (underperforming), and may be encroached upon by urban development. The major sources used to identify lands suitable for transition may include:

- Appraised values above the value normally indicative of the current use.
- Regional land-use planning studies.
- Resource trends and demographic changes.

2. Overall Financial Objective and Benchmark

The objective for lands identified as potential transition lands will be to lease the parcels, typically for commercial and/or industrial uses, or sell the parcels. Evaluation of the options for lease or sale will be completed on a case-by-case basis. Once the land is transitioned, it will be identified under the predominant revenue producing asset class.

3. Allowable Investments

Lands suited for transition are those currently owned by the endowments. Lands should not be acquired where the primary reason for acquisition is transition. In select cases, improvements such as obtaining zoning and other entitlements may be pursued for ground leasing purposes, to maximize value, or to ready the parcel for sale.

Investment in improvements shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the long-term financial return and risk to the Endowment; whether the return profile is sufficient relative to the risk taken; whether the transaction would facilitate improved management; and the existence of any potential risks including but not limited to environmental or title-related issues. Investments in improvements posing any significant risk as described in the due diligence analysis shall be avoided.

4. Management

Transitional activities will focus first on land at the high-end of market values (best markets) and then on land possessing best market potential within the next five to ten years (emerging markets). Transition plans will identify land holdings in the best markets, identify emerging markets, and, to the extent practical, parcels held in these markets. Land holdings in the best markets will also include a plan for achieving value potential. Timely disposition of parcels suitable for transition will be a management objective to increase asset value and, where the parcels are not income-producing, reduce their “drag” on performance.

Underperforming assets may also present transition opportunities. IDL will identify and analyze such lands to determine the best solution to resolving the underperformance. Such analysis will consider:

- Whether management costs can be minimized;

- Whether the lands can be managed differently to increase performance;
- Whether the parcel has the potential for a higher and better use; and
- Who is the best long-term owner of the asset.

5. Valuation

Properties suitable for transition will be valued based on the traditional asset class to which they belong or as transitioned. Properties will be valued by appraisal prior to sale or on a predetermined schedule pursuant to the terms of the lease or other approved plan.

6. Monitoring Standards

IDL will report cash flows for the lands suitable for transition, together with the asset class in which the lands currently exist, to the general consultant for performance reporting purposes. Lands with potential for transition currently classified as rangeland will be monitored and reported as part of the rangeland asset class. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be used adjusted for capital expenditures, sales, and acquisitions during the reporting period.

J. Land Bank

1. Definition

The Land Bank Fund (Land Bank) exists to hold the proceeds from the sale of state endowment land (pending the purchase of other land) or to transfer to the Financial Assets for the benefit of the endowment beneficiaries, per Idaho Code § 58-133.

2. Overall Financial Objective and Benchmark

The Land Board does not control the investment of the Land Bank. The Land Bank is invested by the State Treasurer under a financial objective or benchmark established by the Treasurer.

3. Considerations

Funds deposited in the Land Bank, including interest, are continually appropriated to the Land Board. If the funds have not been utilized for land acquisition within five years, they are transferred to the Permanent Fund of the appropriate endowment unless the five-year time limit is extended by the legislature.

Land Bank funds may be used to acquire lands within traditional asset classes. Land Bank funds may also be used to secure access to endowment lands through purchase of easements or parcels of land. When purchasing a parcel of land in order to obtain access, the acquired parcel may in some cases produce minimal financial return. An easement may represent an expense without any resulting income directly related to the acquisition. In those cases, the evaluation of the acquisition and the projected returns would consider the additional net income that can be attributed to the access secured, rather than the financial return of only the access parcel.

4. Allowable Investments

Land Bank funds are invested by the State Treasurer in the IDLE pool. IDLE funds are invested according to the IDLE Investment Policy.

5. Management

IDL, in its capacity as the administrative arm of the Land Board, manages deposits to and withdrawals from the Land Bank. Fees for investment management are deducted by the Treasurer.

6. Valuation

The Land Bank is valued by the State Treasurer.

7. Monitoring Standards

IDL will report balances and cash flows for the Land Bank to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. Transaction history will be used to account for expenditures and deposits into the Land Bank. For purposes of transparency, the balance in the Land Bank shall be reported as a contingent asset in the notes of the financial statements for the Financial Assets.

VIII. Distribution Policy

A. Objectives

The ultimate purpose of Idaho's land grant endowments is to provide a perpetual stream of income to the beneficiaries. To guide the determination of future distributions for Idaho endowments, the following objectives, in priority order, are established by the Land Board:

- Avoid reductions in total endowment distributions.
- Maintain adequate Earnings Reserves to protect distributions from temporary income shortfalls.
- Grow distributions and permanent corpus faster than inflation and population growth.

B. Considerations

In determining distributions, the Land Board, with assistance from EFIB, considers the following for each endowment:

- Actual and expected return on the fund and income from the land.
- Expected volatility of fund and land income.
- Adequacy of distributable reserves to compensate for volatility of income.
- Each beneficiary's ability to tolerate declines in distributions.
- Need for inflation and purchasing power protection for future beneficiaries.
- Legal restrictions on spending principal.

C. Policy Description

Based on the above objectives and considerations and the expected returns of the entire portfolio (lands and funds), the Land Board establishes the following Distribution Policy:

- Distributions are determined individually for each endowment (currently 5% for all endowments except State Hospital South at 7%).
- Distributions are calculated as a percent of the three-year rolling average Permanent Fund balance for the most recently completed three fiscal years. The Land Board may adjust this amount depending on the amount in the Earnings Reserves, transfers to the Permanent Fund, and other factors.
- The levels of Earnings Reserves deemed adequate for future distributions are:
    - ~~5~~6 years – Public School~~s, Charitable Institutions, and State Hospital South~~
    - ~~6 years – Normal School~~
    - 7 years – All other endowments (Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and University of Idaho)
- The Land Board may transfer any balance in an Earnings Reserve Fund in excess of an adequate level to the corresponding Permanent Fund and designate whether the transfer will or will not increase the Gain Benchmark.
- The principal of the permanent endowment funds, adjusted for inflation, will never be distributed, to protect the future purchasing power of the beneficiaries.

The Distribution Policy was developed based on many analyses, assumptions, and constraints, and its administration requires interpretation of nuances. EFIB has documented most of these in the Distribution Principles included in Appendix G. The principles are used by EFIB as a basis for making its recommendations to the Land Board but not all have been reviewed and approved by the Land Board.

IX. Monitoring and Reporting

A. Philosophy

The Land Board and its agents shall use a variety of compliance, verification, and performance measurement tools to monitor, measure, and evaluate how well the Endowment Assets are being managed. Monitoring, reporting, and evaluation frequencies shall range from real-time performance to daily, weekly, monthly, quarterly, semi-annual, and annualized performance.

The Land Board seeks to answer three fundamental fiduciary questions through the performance monitoring and reporting system:

- Are the assets being prudently managed? More specifically, are assets being managed in accordance with established laws, policies, and procedures, and are IDL and EFIB (and by extension the EFIB's investment managers) in compliance with established policies and their mandates?

- How have the assets performed relative to Land Board approved investment objectives?
- Are the assets being profitably managed? More specifically, has performance affected distributions positively and advanced security of the corpus?

B. Deviation from Policies

If there is a deviation from Land Board investment policies, the IDL and EFIB staff are required to provide the Land Board with a report explaining how the deviation was discovered, the reasons for the deviation, and the impact on endowment performance, if any, and steps taken to mitigate future instances.

C. Financial Assets

1. Reporting at EFIB Level[4]

The EFIB Investment Policy requires that performance reports be generated by the investment consultant at least quarterly and communicated to EFIB staff and the EFIB Board. The investment performance of the total Financial Assets, as well as asset class components, will be measured against commonly accepted performance benchmarks as outlined in the EFIB Investment Policy. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement.

Investment managers shall be reviewed regularly, by EFIB staff and the general fund consultant, regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

2. EFIB Reporting to the Land Board

Each month, EFIB staff will provide the following to the Land Board:

- Investment performance, both absolute and relative to benchmark.
- An evaluation of the sufficiency of Earnings Reserve balances (measured by coverage ratio: reserve balance divided by the distribution).
- A summary of any significant actions by EFIB.
- Any compliance/legal issues, areas of concern, or upcoming events.

Part-way through the fiscal year, typically at the May meeting, EFIB shall provide the Land Board with a brief financial summary of fiscal year-to-date activity.

After the end of the fiscal year, typically at the November meeting, EFIB shall provide the Land Board with the following:

- A financial summary for the recently completed fiscal year.

[4] EFIB Investment Policy (see Appendix C). Management and approval of this policy is a duty delegated to EFIB.

- The report of the Land Board Audit Committee regarding control deficiencies identified by the independent auditor.
- An update on EFIB's Strategic Plan.
- Investment performance for the fund versus strategic (longer-term) measures.
- A report on EFIB meetings, including number of meetings and attendance.

D. Land Assets

1. IDL Internal Processes

IDL staff shall report to the director using the standard reports as described below that are provided to the Land Board. All of the information is reviewed by the director prior to submission to the Land Board.

Each program administered by IDL is managed by a bureau chief and a program manager. Policies and procedures governing daily activities are in place at the bureau or program level but are generally implemented by operations staff.

Decisions related to routine investment and management decisions are typically made at the area office level (or program level) with review by both the operations chiefs and bureau chiefs, subject to the established governance structure.

In the case of more complex investment and management decisions, staff involvement typically includes area office staff, operations chiefs, bureau chiefs, and executive staff to assure adequate due diligence and independent review. More than one member of the executive staff is likely to be involved in the analysis of the information and the final decision. Where necessary, the director retains final decision-making authority as delegated by the Land Board and described in the established governance structure.

2. IDL Reporting to the Land Board

Each month, IDL reports the following:

- Timber sale activity and information.
- Lands and Waterways Division activity and information.
- Updates for ongoing special projects as needed.
- Legal and compliance issues and their status.
- Information necessary for Land Board review and approval of specific items.

IDL also reports the Land Bank Fund balance to the Land Board quarterly.

As previously described, IDL functions under the authority of the Land Board with the Land Board having final approval of many of IDL's policies and management decisions, up to and including review and approval of the IDL budget request prior to submission.

Each month, IDL brings matters forward for Land Board review and approval. Items are discussed first with senior Land Board staff members then placed on the consent agenda, where routine items may be approved without discussion, or the regular agenda, which addresses policy and programmatic items the Land Board may wish to discuss prior to making a decision.

Certain confidential matters may be presented for the Land Board in executive session at the discretion of the Land Board, pursuant to Idaho Code § 74-206.

IDL also produces an annual report to the Land Board, the state affairs committees of the legislature, as well as the public. IDL's overall strategic plan is updated annually and presented to the Land Board prior to submission to the Division of Financial Management.

The Land Board requires IDL staff to prepare and deliver an Asset Management Plan and Business Plans for each land type that explain how the Land Assets will be managed to achieve the Land Board approved investment objectives. This provides the Land Board a focused opportunity to:

- Question and comment on IDL staff's investment and management plans.
- Request additional information and support about IDL staff's investment and management intentions.
- Express its confidence and approval in the Strategic Plan, Asset Management Plan, and Business Plans.

The Land Board requires certain IDL procedures to be audited every 3-5 years:

- Land Transactions >$1,000,000 shall be subject to a post-audit every three (3) years, and the Land Board's Land Investment Advisor shall review such post-audit and provide a report to the Land Board.

E. Total Endowment

Performance reports generated by the general consultant shall be compiled ~~semi-~~annually for review by the Land Board. The investment performance of the Endowment, as well as asset class components, will be measured against performance benchmarks outlined in this Statement of Investment Policy and the EFIB Investment Policy.

X. Key Documents

To assist the Land Board, EFIB Staff, and IDL Staff, the following key documents will be produced or reviewed according to the schedule in Exhibit 2.

Exhibit 2: Key Documents

Document Name	Document Source	Review Schedule
Performance Review of Fund	General Consultant and EFIB Staff	Monthly and Quarterly
Performance Review Total Endowment	General Consultant, IDL Staff, and EFIB Staff	~~Semi-annually~~Annually
Statement of Investment Policy	General Consultant, IDL Staff, and EFIB Staff *Reviewed by Investment Sub-Committee*	Annually
IDL Program Business Plans	IDL Staff	1-5 Years as specified in each plan
IDL Asset Management Plan	IDL Staff	Every 5 Years
Strategic Reinvestment Plan	General Consultant *Reviewed by Investment Sub-Committee*	Annually
IDL Strategic Plan	IDL Staff	Annually
Asset Allocation	General Consultant	Every 8 years
Monthly Timber Sale Activity Report	IDL Staff	Monthly
Annual Timber Sale Plan	IDL Staff	Annually
Ten Year Forecast of Land Income	IDL Staff	Annually
IDL Annual Budget	IDL Staff	Annually
EFIB Strategic Plan	EFIB Staff	Annually
EFIB Meeting Report	EFIB Staff	Annually
Audit Committee Report	Audit Committee	Annually

XI. Appendices:

A. **Structure of the Endowment**

B. **Constitution and State Statutes**

C. **EFIB Investment Policy**

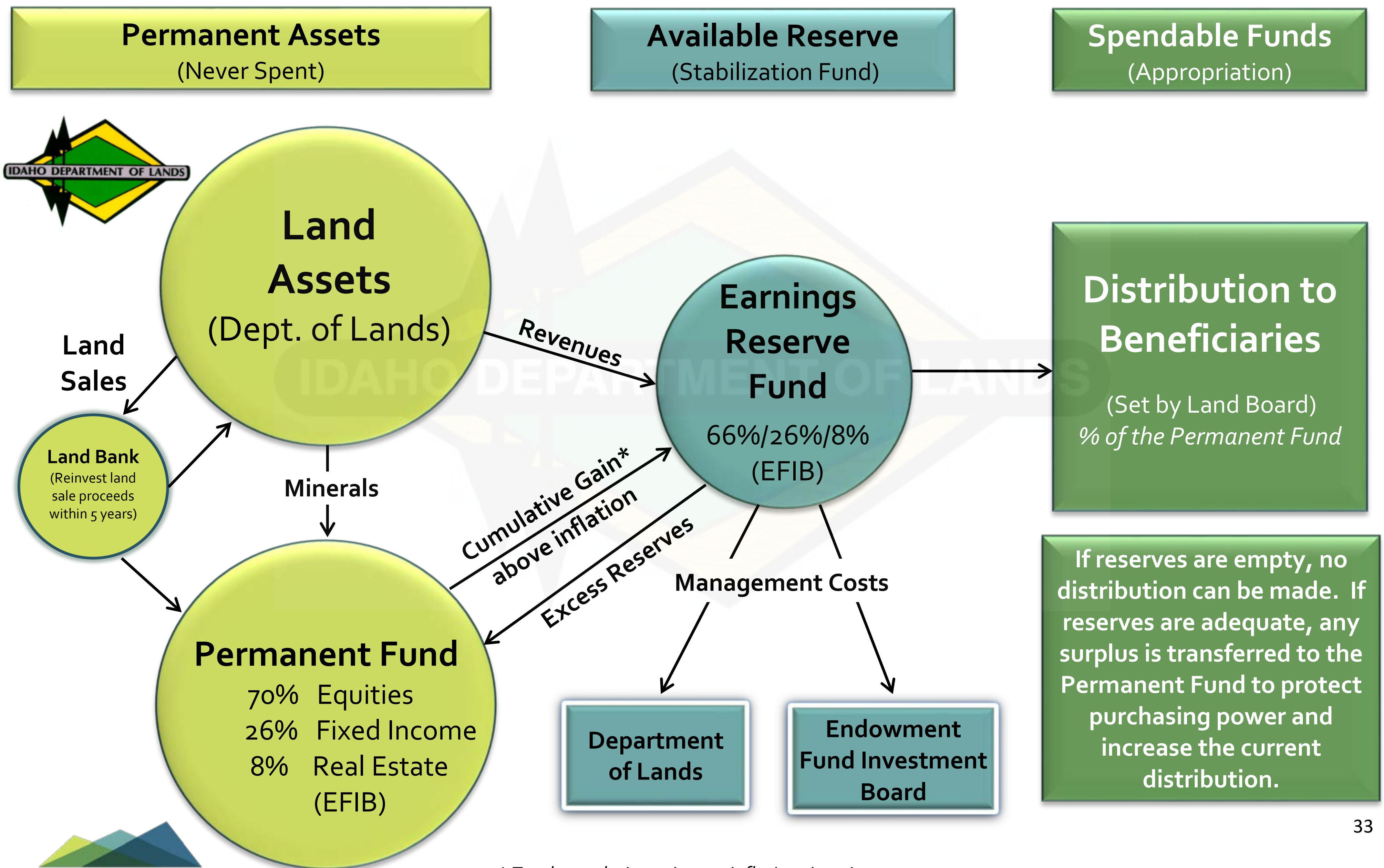
D. **Use of External Advisors**

E. **Decision-Making Structure Chart**

F. **Real Estate Acquisition Flow Chart**

G. **EFIB's Distribution Principles**

Structure of Idaho's Endowment Assets



** Total cumulative gain over inflation since June 2000.*

IDAHO ENDOWMENT FUND
INVESTMENT BOARD

Rev 2/9/17

B. Constitution and State Statutes

Constitution of the State of Idaho

ARTICLE IX EDUCATION AND SCHOOL LANDS

SECTION 3 PUBLIC SCHOOL PERMANENT ENDOWMENT FUND TO REMAIN INTACT

SECTION 4 PUBLIC SCHOOL PERMANENT ENDOWMENT FUND DEFINED

SECTION 7 STATE BOARD OF LAND COMMISSIONERS

SECTION 8 LOCATION AND DISPOSITION OF PUBLIC LANDS

SECTION 10 STATE UNIVERSITY – LOCATION, REGENTS, TUITION, FEES AND LANDS

SECTION 11 INVESTING PERMANENT ENDOWMENT FUNDS

Idaho Statutes

TITLE 57 PUBLIC FUNDS IN GENERAL

CHAPTER 7 INVESTMENT OF PERMANENT ENDOWMENT AND EARNINGS RESERVE FUNDS

TITLE 58 PUBLIC LANDS

CHAPTER 1 DEPARTMENT OF LANDS

CHAPTER 2 INDEMNITY LIEU LAND SELECTIONS

CHAPTER 3 APRRAISEMENT, LEASE, AND SALE OF LANDS

CHAPTER 4 SALE OF TIMBER ON STATE LANDS

CHAPTER 5 STATE PARKS AND STATE FORESTS

CHAPTER 6 RIGHTS OF WAY OVER STATE LANDS

CHAPTER 12 PUBLIC TRUST DOCTRINE

CHAPTER 13 NAVIGATIONAL ENCROACHMENTS

C. EFIB Investment Policy

ENDOWMENT FUND INVESTMENT BOARD
Comingled Pool Investment Policy

Date Established: 2000
Last Reviewed: February 2018
Last Revised: February 2018

This Statement of Investment Policy is applicable to:

Public School Permanent Fund and Earnings Reserve Fund
Agricultural College Permanent Fund and Earnings Reserve Fund
Charitable Permanent Fund and Earnings Reserve Fund
Normal School Permanent Fund and Earnings Reserve Fund
Penitentiary Permanent Fund and Earnings Reserve Fund
School of Science Permanent Fund and Earnings Reserve Fund
State Hospital South Permanent Fund and Earnings Reserve Fund
University Permanent Fund and Earnings Reserve Fund
Capitol Permanent Fund and Maintenance Reserve Fund
Department of Environmental Quality Bunker Hill Endowment Fund Trust
Department of Fish & Game Southern Idaho Mitigation Endowment Trust
Department of Fish & Game Craig Mountain Wildlife Mitigation Trust
Department of Fish & Game Blackfoot Wildlife Mitigation Trust
Department of Parks & Recreation Ritter Island Endowment Fund
Department of Parks & Recreation Trail of the Coeur d'Alene's Endowment Fund

Statement of Philosophy

This statement of investment policy is set forth by the Endowment Fund Investment Board (EFIB) to:

- Define and assign the responsibilities of all involved parties;
- Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets;
- Offer guidance and limitations to all involved parties regarding the investment of Fund assets;
- Establish a basis for evaluating investment results;
- Manage Fund assets according to prudent standards as established in common trust law; and,
- Establish the relevant investment horizon for which the Fund assets will be managed.

Investment Objectives
In order to meet its objectives, the investment strategy of the EFIB is to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income. The primary objectives are:

- To maintain the purchasing power of the Fund – In order to maintain fair and equitable inter-generational funding, state statute has mandated that the real value of the corpus be protected from inflation;
- To maximize total return over time at an acceptable level of risk;
- To provide relatively smooth and predictable distributions to the beneficiaries; and
- Maintain sufficient liquidity for anticipated expenditures.

General Investment Principles
- Investments shall be made solely in the interest of the beneficiaries of the Funds;
- The Funds shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims;
- Investment of the Funds shall be diversified as to minimize the risk of large permanent losses.
- The EFIB will employ one or more investment managers of varying styles and philosophies to support the Funds' objectives;
- Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, return; and,
- The investment manager(s) should, at all times, be guided by the principles of "best price and execution" and that the Funds' best interests are the primary consideration.

Assignment of Responsibility
- <u>Responsibility of the Manager of Investments ("MOI")</u> – The MOI serves as a fiduciary and is empowered by the Board to make certain decisions and take appropriate action regarding investment of the Funds' assets. The responsibilities of the MOI include:
  - Developing sound and consistent investment policy guidelines;
  - Establishing reasonable investment objectives;
  - Selecting qualified investment managers after consultation with the EFIB executive committee;
  - Communicating the investment policy guidelines and objectives to the investment managers;
  - Monitoring and evaluating performance results to assure that the policy guidelines are being met;
  - Selecting and appointing custodian(s);
  - Discharging investment managers after consultation with the EFIB executive committee; and,
  - Taking any other appropriate actions.

- Responsibility of the Investment Consultant(s) – The investment consultant shall be hired by the EFIB. The consultant serves as a non-discretionary advisor to the EFIB that confers with staff. The consultant will offer investment advice concerning the investment management of the Funds' assets. The investment consultant will act as a fiduciary with respect to the services it provides. The advice will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the investment consultant include:

    - Assisting in the development and on-going review of the investment policy, asset allocation strategy, performance of the investment managers, and designing objectives and guidelines ;
    - Supporting portfolio optimization and other investment techniques to optimize the return/risk characteristics of the Funds;
    - Conducting investment manager searches when requested by the MOI;
    - Monitoring the performance of the investment manager(s) to provide both the MOI and the Board with the ability to determine the progress toward achieving investment objectives;
    - Communicating matters of policy, manager research, and manager performance to the MOI and the Board;
    - Reviewing the Funds' investment history, historical capital markets performance and the contents of this investment policy statement with any newly appointed members of the Board.

- Responsibility of the Investment Manager(s) – As a signed fiduciary, each investment manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement and in their specific Manager Guidelines.

Delegation of Authority
The MOI is a fiduciary to the EFIB and is responsible for directing and monitoring the investment management of Funds' assets. As such, the MOI is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- Investment Manager – An investment manager hired by the EFIB must be registered with the Securities and Exchange Commission under the Investment Act of 1940, unless inapplicable, or in the case of a banking organization with the Office of the Comptroller of the Currency. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Funds' investment objectives. This includes mutual fund or any collective fund portfolio managers.

- Custodian – Any custodian hired by the EFIB will maintain possession of securities owned by the Fund, collect dividend and interest payments, and redeem maturing securities, and effect receipt and delivery following purchases and sales. Any custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. Any custodian will provide at a minimum monthly reporting of assets and transactions to the MOI and provide the MOI with any additional data requests.

Additional specialists may be employed by the MOI with approval by the EFIB to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

The MOI will not have control over investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives outlined in their specific guidelines. While it is not believed that the limitations will hamper investment manager decisions, each manager should request in writing any modifications that they deem appropriate.

Any deemed fiduciaries must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Funds as deemed appropriate and necessary.

Marketability of Assets
Based on the Fund's long-term liquidity requirements, the EFIB desires securities with readily ascertainable market values that trade in liquid markets but recognizes that some allowable assets are valued less frequently by industry established appraisal methods, and may be reported on a lagged basis.

Investment Guidelines
Allowable Assets

Cash Equivalents:	Treasury bills; money market funds; STIF funds; commercial paper; banker’s acceptances; repurchase agreements; certificates of deposit.
Fixed Income:	US government and agency securities; corporate notes and bonds; mortgage backed bonds; fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other “early tranche” CMO’s; asset backed securities; or any other fixed income security eligible for inclusion in the Bloomberg Barclays U.S. TIPS Index or Bloomberg Barclays Aggregate Bond Index.
Equities:	Common stocks; convertible notes and bonds; convertible preferred stocks; preferred stocks; American depository receipts (ADR’s); stocks of non-US companies (ordinary shares); non-investment grade bonds.

Real Estate	Domestic, private, open-end, core commingled funds, REITS
ETF's, Mutual or Collective Funds:	ETF's, Mutual Funds, and Collective Funds which invest in securities as allowed in this statement are also permitted. Investment managers will advise the MOI of their intent to utilize ETFs prior to their purchase, what specific ETFs they intend to use and the purposes they serve.
Futures and Options:	As described in Futures and Options section below.

Futures and Options

The EFIB may approve the use of financial index futures and options in order to adjust the overall effective asset allocation of the entire portfolio. For example, S&P 500 and 10-Year Treasury futures are used to equitize idle cash and to passively rebalance the portfolio. Futures and options positions are not to be used for speculation, and the EFIB must specifically approve the program for each type of use. No long or short futures or option positions may be established, unless the portfolio has sufficient cash reserves to either fund purchase or deliver securities under the contract.

Derivative Investments

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The EFIB will take a conservative posture on derivative securities in order to maintain its risk adverse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. Unless a specific type of derivative security is allowed in the Investment Manager Guidelines, the Investment Manager(s) must seek written permission from the EFIB to include derivative investments in the Fund's portfolio. The Investment Manager(s) must present detailed written information as to the expected return and risk characteristics of such investment vehicles.

Prohibited Assets

Prohibited investments include, but are not limited to the following:

- Commodities;
- Futures Contracts except as described in previous section "Futures and Options";
- Naked Options;
- Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs; and
- Purchases of securities on margin and short-sale transactions are prohibited.

Asset Allocation Guidelines
Investment management of the assets of the Endowment Fund shall be in accordance with the following asset allocation guidelines:

- Aggregate Fund Asset Allocation Guidelines (at market value)

Asset Class	Range	Target	Rebalance Point	Benchmark
Equities Domestic Equities	63%-69% 33%-43%	66.0% 38.0%	+-3% +-5%	MSCI All Country World Index Russell 3000 Index
Large Cap Growth Core Value	21%-31% 3%-7% 9%-13% 8%-12%	26.2% 5.0% 11.3% 9.9%	+/-5%	Russell 1000 Index Russell 1000 Growth Index S&P 500 Index Russell 1000 Value Index
Mid Cap Growth Value	4%-12% 2%-6% 2%-6%	7.6% 3.8% 3.8%	+/-4%	Russell Mid Cap Index Russell Mid Cap Growth Russell Mid Cap Value
Small Cap Growth Value	3%-7% 1%-3% 1%-3%	4.2% 2.1% 2.1%	+/-2%	Russell 2000 Index Russell 2000 Growth Index Russell 2000 Value Index
International Equities Developed Growth Developed Value Developed Markets Index Fund	15%-23% 4%-10% 4%-10% 1%-3%	19.0% 8.5% 8.5% 2.0%	+/-4%	MSCI ACWI EX US (ND) Index MSCI EAFE Growth (ND) Index MSCI EAFE Value (ND) Index MSCI EAFE Index
Global Equity	5%-13%	9.0%	+/-4%	MSCI All Country World Index
Real Estate	4%-12%	8.0%	+/-4%	NCREIF ODCE Index
Fixed Income Aggregate Bond US Tips	23%-29% 20%-24% 3%-5%	26.0% 22.0% 4.0%	+/-3%	BB Aggregate Bond Index BB Aggregate Bond Index BB US TIPS Index
Cash and Equivalents	0-5%	0%		3-month Treasury Bill Index

Rebalancing of Fund Assets
Understanding that different asset classes will perform at different rates, the MOI and the investment consultant will closely monitor the asset allocation shifts caused by performance. Therefore:

- The MOI will review the relative market values of the asset classes whenever there is to be a net contribution to the Fund and will generally place the new monies under investment in the category(ies) which are furthest below the target allocation in this policy; and,

- The MOI and investment consultant will review the asset allocation quarterly and during periods of severe market change to assure that the target allocation is maintained. If an asset class is outside the allowable range, the MOI, with input from the investment consultant, will take appropriate action to redeploy assets taking into account timing, costs and other investment factors.

Guidelines for Fixed Income Investments and Cash Equivalents

- Securities must be rated investment-grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, S&P and Fitch; when a rating from only two agencies is available, the lower is used; when only one agency rates a bond, that rating is used.
- Fund assets may be invested only in commercial paper rated A1 (or equivalent) or better.
- The fixed income weighted average portfolio maturity may not exceed that of the Fixed Income benchmark by more than .5 years.
- Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

Investment Performance Review and Evaluation

Performance reports generated by the investment consultant shall be compiled at least quarterly and communicated to the EFIB for review. The investment performance of the total Fund, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The EFIB intends to evaluate the manager over at least a three-year period, but reserves the right to terminate a manager for any reason.

Each manager shall maintain a portfolio consistent with characteristics similar to those of the composite utilized for their retention. Investment performance will be measured on a total return basis, which is defined as dividend and interest income plus realized and unrealized capital gains. Each manager will be evaluated in part by regular comparison to a peer group of other managers employing statistically similar investment style characteristics. It is expected that each manager will perform above the peer group median and the appropriate index over rolling three-year periods with respect to both return and risk.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

Investment Policy Review

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the EFIB will review the policy annually.

GASB 40 Reporting Requirements
Purpose: The Governmental Accounting Standards Board has identified that state and local governments have deposits and investments which are exposed to risks that may result in losses. GASB Statement number 40 (GASB 40) is intended to inform users of the financial statements about the risks that could affect the ability of a government entity to meet its obligations. GASB 40 has identified general deposit and investment risks as credit risk, including concentration of credit risk and custodial credit risk, interest rate risk, and foreign currency risk and requires disclosures of these risks and of policies related to these risks. This portion of the Investment Policy addresses the monitoring and reporting of those risks.

In general, the risks identified in GASB 40, while present, are diminished when the entire portfolio is viewed as a whole. Specifically, the risks identified and the measurements required is poorly transferable, if at all, to portfolios like the EFIB, which is dominated by equity exposure.

It is the policy of the EFIB that the risks addressed in GASB 40 are to be monitored and addressed primarily through the guidelines agreed to by those managers, and by regular disclosures in reports by managers of levels of risks that may exceed expected limits for those portfolios.

- Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations to the EFIB. GASB 40 requires disclosure of credit quality ratings of investments in debt securities as described by nationally recognized statistical rating organizations.

  Policy: The Investment Guidelines section of this Investment Policy provides credit quality and maturity guidelines for fixed income and cash equivalent investments. Managers are required to comply with the Investment Policies set forth by the EFIB.

- Custodial Credit Risk: The risk that in the event of a financial institution or bank failure, the Fund would not be able to recover the value of their deposits and investments that are in the possession of an outside party.

  Policy: The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to the EFIB ownership and further to the extent possible, be held in the Fund' name.

- Concentration of Credit Risk: The risk of loss that may be attributed to the magnitude of a government's investment in a single issue.

  Policy: Managers will provide the EFIB with expected concentration of credit risk exposures in their portfolio guidelines. If the concentration of credit risk exceeds expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board. For the portfolio as a whole, staff will report to the Board at a regular Board meeting if the exposure to a non-US government guaranteed credit exceeds 5% of the total EFIB portfolio.

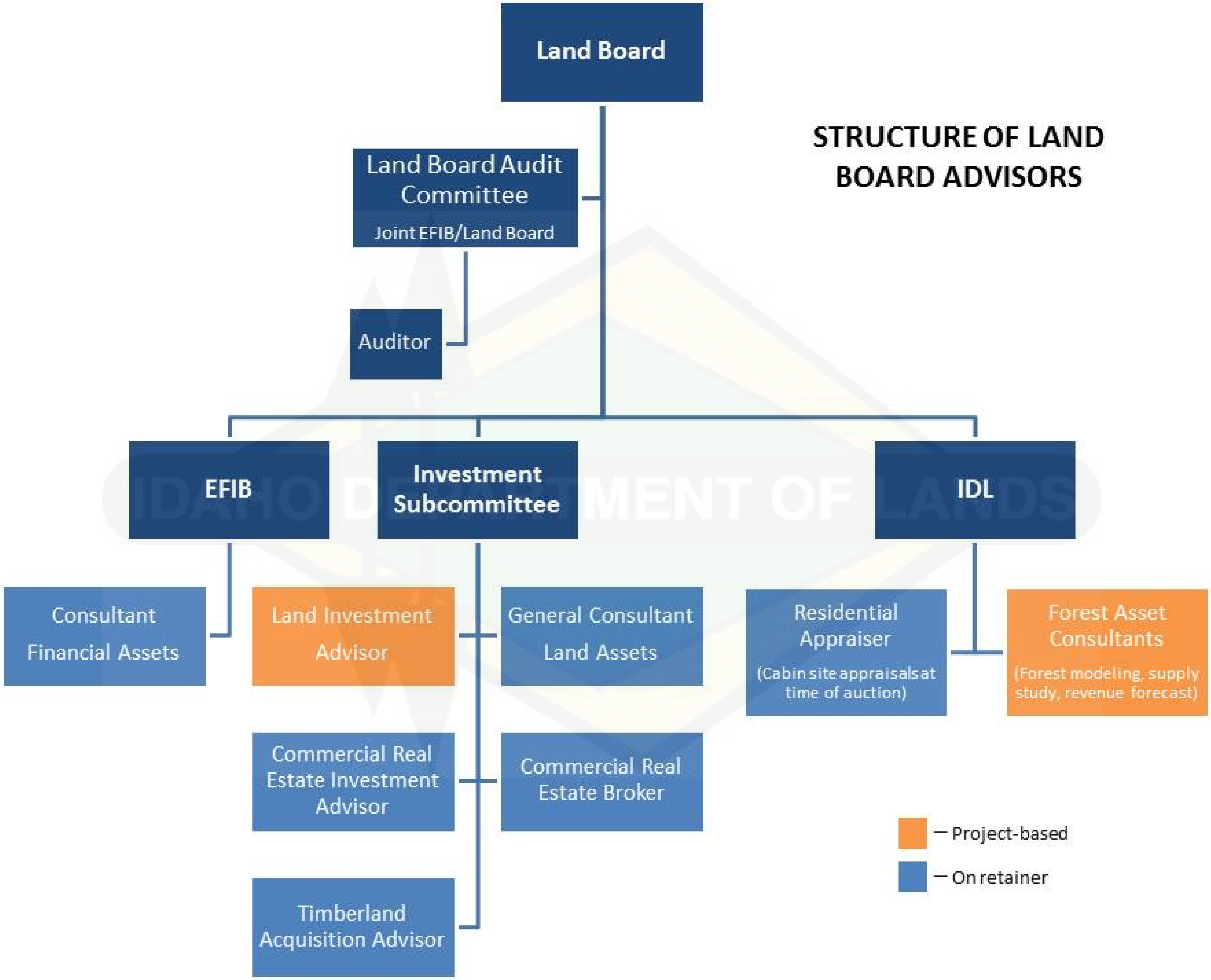
- Interest Rate Risk: The risk that changes interest rates will adversely affect the fair value of an investment. Interest rate risk to the EFIB's fixed income portfolio is monitored using the effective duration methodology. Effective duration measures the volatility of the price of a bond given a change in interest rates, taking into account the optional underlying bond.

  Policy: Managers will provide the EFIB with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

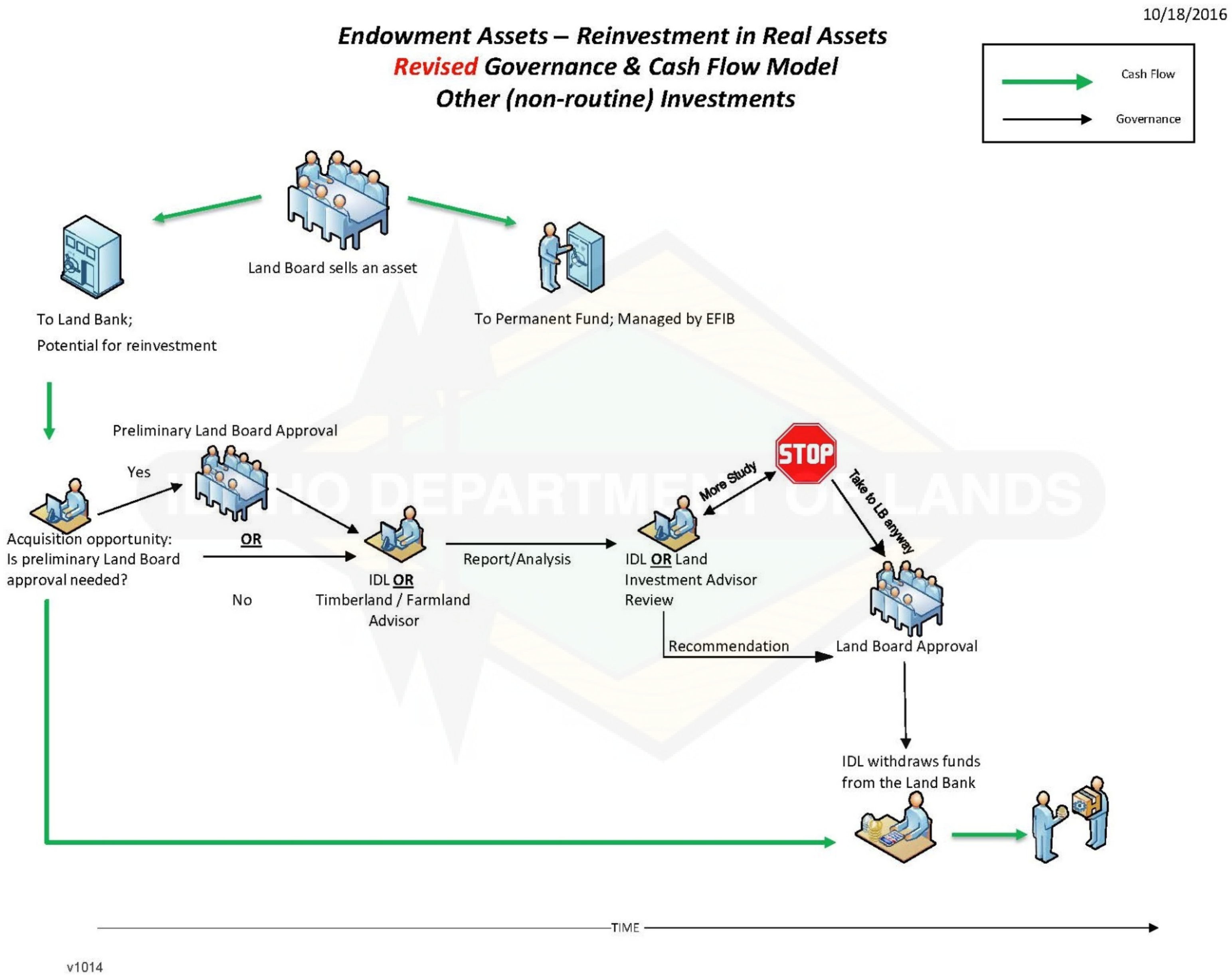
- Foreign Currency Risk: The risk that changes exchange rates will adversely impact the fair value of an investment. The EFIB's currency risk exposures, or exchange rate risk, primarily reside within the international equity investment holdings.

  Policy: The EFIB permits investing up to 30% of total investments in international equities. No foreign fixed income securities are permitted except currency. The EFIB recognizes that international investments (equity or fixed income) will have a component of currency risk associated with it. The individual manager guidelines will outline the expected currency exposures (either specifically or through ranges of security exposures to particular currency areas) of the underlying portfolio and if the actual currency exposure differs from the expected, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

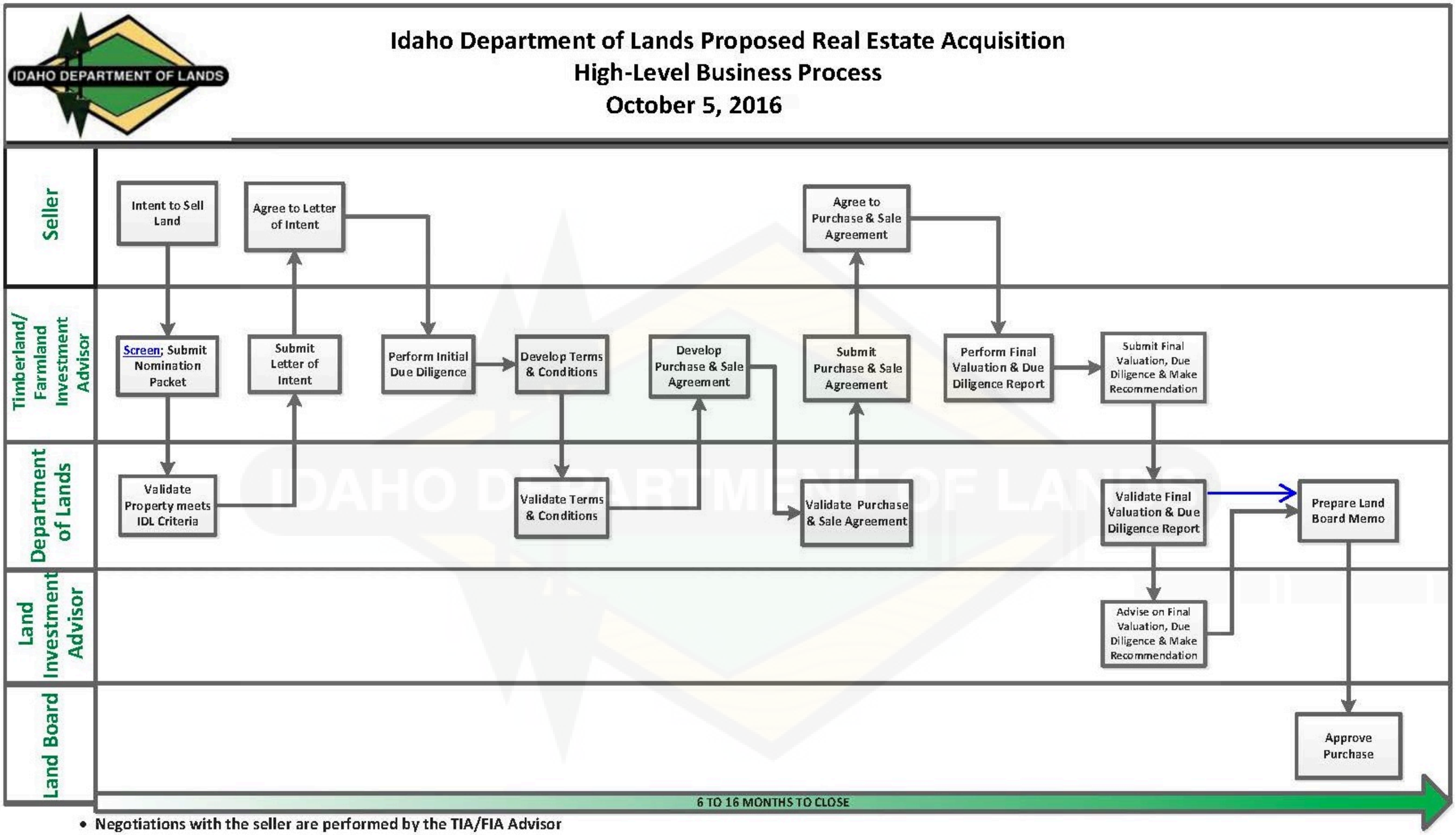
D. Use of External Advisors



E. Decision-Making Structure Chart



F. Real Estate Acquisition Flow Chart



- Negotiations with the seller are performed by the TIA/FIA Advisor
- Purchase denials will be tracked for reporting
- Purchase approval pipeline process will be tracked for reporting

v1014

G. EFIB's Distribution Principles

Summary of Idaho Endowment Fund Distribution Principles, Policy and Background

By the Endowment Fund Investment Board – Updated July 17, 2018

Mission of Idaho Endowments: Provide a Perpetual Stream of Income[i]

To achieve this mission, Distribution Policy must balance four conflicting objectives:

- Maximize total return over time at a prudent level of risk
- Provide relatively stable and predictable distributions
- Constrain distributions to protect future generations' purchasing power
- Maintain sufficient liquidity for anticipated expenditures

Priorities for Allocating Income

To balance the interests of current and future beneficiaries, the Land Board established the following priorities for allocating endowment revenues and gains:

- First Priority: Avoid reductions in total endowment distributions
- Second Priority: Maintain adequate Earnings Reserves to protect the current level of distributions from temporary income shortfalls
- Last Priority: Increase both distributions and Permanent Fund corpus faster than inflation and population growth

Distribution Policy Management Principles

- Distribute a conservative estimate of long-term sustainable income every year
- Maintain distributions when income temporarily falls below long-term expectations by saving up income in a reserve when it exceeds expectations
- Grow both distributions and permanent corpus proportionately, more than offsetting losses from inflation and dilution from population growth by reinvesting sufficient income back into principal

Constraints on Wasting Principal (Corpus Growth Objectives)

A major risk any endowment faces is that assets will be depleted to satisfy the beneficiary's current needs at the expense of long-term needs. Many states have succumbed to pressure to spend down their endowment funds. Idaho has several protections in place to mitigate this pressure: [ii]

- Federal law and state Constitution: Prohibits spending original principal, including the proceeds of land sales
- State statute: Requires that principal grow at least at the rate of inflation before any market appreciation of the Permanent Fund can be considered distributable income[iii]
- Land Board policy objective: Requires that principal grow faster than the rate of inflation and population growth[iv]

Determining Annual Distributions[v]

Distributions are initially calculated as a percent (the policy distribution rate[vi]), multiplied by the Permanent Fund balance[vii] (three-year-average to partly smooth variation in the equity markets)

- Current policy distribution rates are 5% for all endowments except State Hospital South (7%)

Distributions may be further adjusted, up or down, to reflect the reserve balance (and any other relevant factors):

- If reserves are adequate, distributions are maintained even when the Permanent Fund shrinks (actual rate > policy rate)
- If reserves are not fully sufficient (not at target), distributions are maintained even when the Permanent Fund rises (actual rate < policy rate)
- If reserves are unusually low, distributions may be reduced (actual rate < policy rate)

Honoring Beneficiaries' Strong Preference for Sustainable Distributions

Beneficiaries and legislators clearly indicate that a reduction in distributions (if actual income turns out to be low) is much more difficult for them to adjust to than it is to temporarily forego an increase if actual income turns out higher than a conservative expectation. Therefore, it is prudent to base the both the policy distribution rate and the annual distribution on a conservative expectation of fund and land earnings[viii].

Determining Transfers to the Permanent Fund[ix]

Excess income is converted to (transferred to) Permanent Fund corpus when reserves are deemed fully sufficient: i.e. exceed targeted years[x] of the planned distribution (~~five~~ six years for Public School ~~and State Hospital, six years for Normal School,~~ and seven years for ~~Agricultural College, Penitentiary, School of Science and University~~all other endowments).

Measuring the Balance of Current and Future Beneficiaries' Interests

Over time, balance is achieved when all (and only all) "real" income is distributed. Balance is specifically measured by the following relationship:[xi]

- Actual distributions *plus* growth in reserves

equals

- Actual income (land & fund), *minus* income converted to principal

Earnings Reserves Serve Two Roles

The Earnings Reserve is not a "rainy day" fund to be drawn down when other state revenues falter. Its purpose is to be a:

1. <u>Buffer</u> against volatility in land income and fund return – a bank for unusually high earnings to be used to maintain distributions in lean times
2. <u>Benchmark</u> to determine when spendable reserves are fully sufficient so that any additional earnings can be reinvested in permanent principal (to maintain purchasing power and sustainably increase distributions)

Investment of the Earnings Reserve Fund
Because the fund intends to hold an adequate level of reserves into perpetuity, this long investment horizon allows reserves to be invested in the same risk/return portfolio mix as the Permanent Fund

- In extreme cases, low reserves may require moving the reserves to a more conservative asset mix (which may lock in losses)

Role of Endowment Distributions in the Overall Appropriation Process
Endowment distributions only satisfy a small portion of each beneficiary's annual spending needs, so those needs are essentially irrelevant in determining distributions. The EFIB recommends the Legislature address total beneficiary needs and short-term variations in tax receipts[xii] so that distributions can be stable and growing, based solely on the long-term earning capacity of the endowment. A consistent, high-returning asset mix cannot be maintained if distributions vary based on tax revenues.

Endnotes

[i] The Mission can also be restated in a more measurable form:

The Idaho Endowments will maximize the prudent distribution if they:

- Earn strong real income in the fund and from the land
- Maintain adequate reserves to prevent reductions in distributions
- Reinvest income to protect future purchasing power

[ii] To ensure these strict legal protections of the future beneficiary do not overrule the interests of the current beneficiary, Land Board policy requires that distributions grow proportionately with principal over the long term.

[iii] The statutory method for achieving inflation protection is measured by the "Gain Benchmark" (June 2000 original principal, adjusted for deposits and inflation). The cumulative total appreciation below inflation must be retained in the Permanent Fund, but any excess (measured at fiscal year-end) flows to Earnings Reserve as income, generally in September (this can be a large amount in one year or zero for several years).

[iv] The Land Board policy objective of keeping up with population growth:

- Makes real per capital distributions equivalent, current vs. future
- Is achieved by transferring (reinvesting) sufficient excess retained income from Reserves to Permanent Fund principal so it can never be spent

The current assumed population growth is 1.8% per year, except for Public School which is assumed to be 1.0% per year.

[v] Distributions can be changed at any time, but, to facilitate the budget process, are usually determined annually at the August Land Board meeting for the following fiscal year.

[vi] The policy distribution rate is based primarily on a conservative estimate of expected total income. When expected long-term earnings change significantly, the policy distribution rate should change (see note 10). However, to protect the corpus, the policy rate should not be raised (i.e. distributions constrained) if Permanent Fund balance objectives have not been achieved.

[vii] Calculating distributions as a percentage of the Permanent Fund is both a mechanism and an incentive to balance the interests of current and future beneficiaries. This structure ensures that:

- In normal conditions, distributions to current beneficiaries increase proportionately with the permanent fund balance
- Increases in distributions are sustainable (supported by sufficient permanent assets)
- Holding excess reserves is discouraged

Transfers from Earnings Reserve, both historical and approved but not completed, are added to the annual amounts used in calculating the three-year average Permanent Fund balance. ~~As a result, a dollar transferred to the Permanent Fund immediately increases distributions by the current rate (5% or 7%). Cumulative proceeds from the sale of cabin sites is deducted from the balance, pending an update of the distribution models to reflect the impact of the dispositions on the ratio of total expected income to the Permanent Fund balance.~~

[viii] To reflect the desired conservative bias in setting policy distribution rates:

- Policy distribution rates should be increased only based on a conservative “downside” forecast of long-term income: e.g. 25th percentile fund earnings and 20th percentile land revenue forecasts
- Policy distribution rates should be reduced if the current rate can only be justified with optimistic earnings and revenue forecasts. Ideally, the reduction in the rate would be accomplished by holding the distribution (in dollars) constant for a long period. However, an immediate cut in the absolute dollars would be required if reserves are low.

To reflect a conservative bias in setting annual distributions, the viability of a proposed distribution is tested by forecasting the coverage ratio over the next three years based on a “low” forecast of timber earnings and a 2% fund return.

It is impossible to eliminate the possibility of a reduction in distributions, but the policy is designed to allow at least two years warning of a potential reduction, consistent with the time lags inherent in the state budgeting process. If a fund is unable to make an appropriated distribution, that would be considered a catastrophic failure of the process. In the past, three endowments have experienced catastrophic failures (i.e. had insufficient reserves to pay promised distributions): Public School (2003), Ag College (2005) and Charitable Institutions (2005).

[ix] Transfers of excess reserves to the Permanent Fund are generally approved annually at the August Land Board meeting, based on balances as of the previous year end and approved distributions for the next fiscal year, but actually done in September

Requiring that reserves which exceed a sufficient or target level be converted to corpus (i.e. transferred to the Permanent Fund) reduces the temptation to:

- Make large, one-time distributions of accumulated income to the detriment of future beneficiaries
- Hoard income to avoid an increase in distributions that would automatically result from a conversion

[x] The determination of how many years of reserves are sufficient was based on the combined volatility of fund returns and net land revenues, which is heavily influenced by the fact that in a severe equity downturn (once every 25 years), no distributable income would be available from the Permanent Fund for about five years because the Permanent Fund would retain all of its income to rebuild the corpus. A temporary increase in the years of reserve, above the targeted level, may be called for if there is a temporary reduction in expected income (e.g. timber harvest is predicted to be unusually low). Reserves for the three endowments with cabin site dispositions will be allowed to rise up to a year above target, pending an update of the distribution models to reflect the impact of the dispositions on the desired reserve levels.

[xi] There will always be temporary deviations from this balance because actual income after inflation will vary from the expectations used to establish the distribution rate.

[xii] The Land Board has the legal authority to consider a beneficiaries' other sources of revenue in setting distributions and therefore could attempt to adjust distributions in response to changes in tax receipts or fund income. However, only the Legislature has the Constitutional responsibility and authority to balance a beneficiary's total spending in excess of endowment distributions with tax revenues. When endowment distributions decline, the Legislature can choose to provide tax revenues to maintain the total level of spending they believe is appropriate. When endowment distributions rise, the Legislature can choose to reduce tax revenues to maintain the level of total spending they believe is optimal. The Land Board has no control over tax revenues and would be unable, without the Legislature's consent, to adjust distributions in response to changes in tax receipts. Also, the Legislature is in a better position than the Land Board to balance a beneficiary's unfunded needs with all other expenditure requests and options to increase or decrease tax revenues.

STATE BOARD OF LAND COMMISSIONERS
C. L. "Butch" Otter, Governor and President of the Board
Lawerence E. Denney, Secretary of State
Lawrence G. Wasden, Attorney General
Brandon D Woolf, State Controller
Sherri Ybarra, Superintendent of Public Instruction

David Groeschl, Secretary to the Board

Be it remembered, that the following proceedings were had and done by the State Board of Land Commissioners of the State of Idaho, created by Section Seven (7) of Article Nine (IX) of the Constitution.

Draft Minutes
State Board of Land Commissioners Regular Meeting
June 19, 2018

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, June 19, 2018, in the Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 W. Jefferson St., Boise, Idaho. The meeting began at 9:06 a.m. The Honorable Secretary of State Lawerence Denney presided in place of Governor C.L. "Butch" Otter who was attending to state business elsewhere. The following members were present:

Honorable Attorney General Lawrence Wasden *(via teleconference)*
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Sherri Ybarra *(via teleconference)*

For the record, Secretary of State Denney recognized the presence of four Board members, and noted that Attorney General Wasden and Superintendent Ybarra were joining via conference call.

1. Director's Report

A. Timber Sale Activity and Information Report – May 2018

B. Lands and Waterways Activity and Information Report – May 2018

DISCUSSION: Secretary of State Denney noticed that the second grazing assignment listed the same name for assignor and assignee, and asked if that was a transfer within the same family. Director Groeschl explained that the assignment was to the same entity because the lease for that land was split from one into two leases.

C. Cottage Site Update

D. Return on Asset (ROA) Biannual Review

DISCUSSION: Attorney General Wasden expressed concerns about the report in that it does not compare asset classes in an 'apples-to-apples' manner for several reasons as stated by Director Groeschl, and the percentage of assets held in timberland relative to timberland returns does not seem to support Callan's assertion that the asset portfolio favors timber. Attorney General Wasden stated the Board's constitutional requirement is to obtain maximum long-term returns and this report does not provide proper comparison of assets to assist or assure the Board that endowment land investments are where they will yield the most income. Attorney General Wasden asked for Director Groeschl's comments and help in getting appropriate number comparisons. Director Groeschl remarked that the timberland return looks low given Callan's recommendation due to a couple of factors: one, only half of the fiscal year's timber revenue is reported, and two, there is no land appreciation added to timberland. Timberland return expected for FY2018 will be in the 5-6% range, which is very comparable to the last two-and-a-half year's returns as shown in this report. Director Groeschl elaborated that timberland returns are almost pure income return; some other asset types include appreciation—capital return. Director Groeschl offered to provide income returns by asset type in July or August, after fiscal year-end, and noted that it would provide a clearer 'apples-to-apples' comparison. Attorney General Wasden made a formal request for that information. Controller Woolf appended that request with an appeal to have a representative from Callan speak to the concerns conveyed by Attorney General Wasden. Director Groeschl said the Department will make those arrangements.

2. Endowment Fund Investment Board Report – *Presented by Chris Anton, EFIB Manager of Investments*

A. Manager's Report; and

B. Investment Report

DISCUSSION: Mr. Anton reported the Endowment Fund was up 1.2% through the month of May, which makes it 10% fiscal year-to-date. Through the close of financial markets yesterday, the Fund was up 11.4%. Mr. Anton commented that equity markets remained remarkably resilient during the month of May despite a political crisis in Italy, ongoing trade wars between the U.S. and China, and signs the global economy is slowing down, particularly in Europe, Japan, and China. The U.S. seems to be the bright spot in the global economy at this point in time. Fiscal and monetary policy remain accommodative, corporate profits are very strong and the unemployment rate has now declined to 3.8%. There appears to be growing disparity between growth in the U.S. and the rest of the world which has resulted in a stronger dollar. Mr. Anton voiced optimism that the Fund will end the fiscal year strong to stock up reserves and provide robust distributions for FY2020. Mr. Anton noted that as of the end of May reserves are well-secured for FY2018 and FY2019.

Mr. Anton mentioned that the Investment Board met on May 15th and made one change to its investment policy; members approved moving 8% out of the Bloomberg Barclays Aggregate Bond Index into an actively managed fixed income strategy. Mr. Anton explained that 26% of the portfolio is in fixed income and that will remain the case. Of that 26%, 22% is in the

Barclays Aggregate Bond Index. That index reflects the overall U.S. bond market; it is roughly 40% U.S. Treasuries, 30% mortgages that are backed by the government, and 30% investment grade bonds. Mr. Anton said an advantage to having it in an index is the fees are extremely low but a drawback is having no flexibility in being responsive to changes taking place in interest rates and in the fixed income environment. Over time, the duration of the Barclays Index has moved from about 4 years to 6.2 years, which creates more interest rate risk in a growing interest rate environment. The Investment Board believes an active manager will look at interest rate risks, look at the mix of assets held in the bond portfolio and provide enhanced returns for the Fund going forward. Mr. Anton remarked that over the next month the Investment Board will be working with Callan and expects to interview fixed income managers in late July then make a hiring decision in August for this new fixed income strategy. Mr. Anton commented that EFIB staff will present the FY2020 beneficiary distribution recommendations at the August Land Board meeting, as well as any recommendations for transfers from the reserves back into the permanent fund.

- **CONSENT (ACTION)**

3. Application for Dredge/Placer Permit No. P300351, Emerald Creek Garnet, Ltd. – *Staffed by Todd Drage, Program Manager-Minerals*

RECOMMENDATION: Approve issuance of the draft permit (Attachment 2) subject to the plan submitted in the application, submission of the required $6,408 bond and compliance with the Rules and Regulations Governing Dredge and Placer Mining Operations in Idaho.

DISCUSSION: None.

4. Application for Dredge/Placer Permit No. P300352, Emerald Creek Garnet, Ltd. – *Staffed by Todd Drage, Program Manager-Minerals*

RECOMMENDATION: Approve issuance of the draft permit (Attachment 2) subject to the plan submitted in the application, submission of the required $18,000 bond and compliance with the Rules and Regulations Governing Dredge and Placer Mining Operations in Idaho.

DISCUSSION: Secretary of State Denney clarified that this permit is not on endowment land. Director Groeschl confirmed that it is on private land.

5. Disclaimer of Interest Request DI600283-Iupatis, Boise River – *Staffed by Eric Wilson, Bureau Chief-Resource Protection and Assistance*

RECOMMENDATION: Direct the Department to issue a disclaimer of interest for the parcel totaling 0.82 acres of the former bed of the Boise River, and to require Michael and Ashley Iupati to pay the remaining processing fee of $300 or actual cost, whichever is greater, to the Department of Lands for this transaction.

DISCUSSION: None.

6. **Strategic Plan FY2019-FY2022** – *Staffed by Kari Kostka, Strategic Planning Manager*

   RECOMMENDATION: Direct the Department to submit the FY2019-FY2022 Strategic Plan to the Division of Financial Management by July 1, 2018.

   DISCUSSION: Secretary of State Denney wondered with the federal government now funding fire suppression for the Forest Service, would it have any impact on Good Neighbor Authority (GNA) sales. Director Groeschl stated that the change in how fires will be funded and the level of funding for fire suppression on federal lands will have a positive effect. It will allow federal agencies to focus on using land management budgets to perform land management work. Director Groeschl added that passage of the omnibus bill and the road fix it contains will open up more project work for the Department and federal partners. The combination of the fire funding adjustment, GNA project implementation, revenue generated from those timber sales, and additional GNA projects now that there is no constraint associated with road reconstruction will help increase the pace and scale of restoration on federal lands, with the Department and federal agencies working together.

7. **State Participation as a Member of Clearwater-Potlatch Timber Protective Association (CPTPA) and Southern Idaho Timber Protective Association (SITPA)** – *Staffed by Craig Foss, Division Administrator-Forestry and Fire*

   RECOMMENDATION: The Department recommends that the state continue to participate as a member of the Clearwater-Potlatch Timber Protective Association and Southern Idaho Timber Protective Association.

   DISCUSSION: None.

8. **Authorization for Issuance of Deficiency Warrants to Pay Fire Suppression Costs in FY2019** – *Staffed by Craig Foss, Division Administrator-Forestry and Fire*

   RECOMMENDATION: Authorize the Department to issue deficiency warrants necessary to pay the fire suppression costs beyond the $151,600 appropriation for fiscal year 2019.

   DISCUSSION: None.

9. **Approval of Minutes** – May 15, 2018 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt and approve the Consent Agenda. Controller Woolf seconded the motion. The motion carried on a vote of 4-0.

- **REGULAR (ACTION)**

  NONE

- **INFORMATION**

Background information was provided by the presenter indicated below. No Land Board action is required on the Information Agenda.

10. Pre-Season Fire Forecast/Update – *Presented by Fire Bureau*

A. Predictive Services Forecast – *Jeremy Sullens, Wildland Fire Analyst, NIFC*

B. Resource Readiness – *Craig Foss, Division Administrator-Forestry and Fire, IDL*

DISCUSSION: Controller Woolf shared that in his travels across the state, visiting the different supervisory areas, one thought frequently communicated to him has been the ability to hire and retain employees, both permanent and temporary staff. Controller Woolf asked what challenges the Department has faced in hiring, and what has helped mitigate them. Mr. Foss noted that the Department has not struggled much with regard to hiring full-time staff; hiring part-time staff varies by area. Mr. Foss shared that the Department is looking into housing, statewide across the agency, because it seems that many federal partners do provide housing. The Department does look for every opportunity to provide housing for seasonal staff. Right now the Department is conducting an analysis; if a determination is made to invest in housing it will come forward as a decision unit and housing will be strategically based on locations with the greatest need. Mr. Foss stated this year the Department is sufficiently staffed. A third booster crew was added this year, at the Ponderosa area. Quite a few students come out of the University of Idaho; they can live in Moscow in the summer and work out of the Deary office. The Department is also cognizant of pay, recognizing some challenges in competing with federal resources. Mr. Foss said that Department salaries are currently competitive.

Secretary of State Denney relayed that his curiosity was piqued that the FireBoss [amphibious water scooper] is capable of loading retardant while in flight. Mr. Foss described that the fire retardant manufacturer has a system that the Department put in place on the FireBoss that can load retardant mixed with water in flight. The SEATs [single-engine air tankers] and helicopters have to be loaded at the tanker bases.

C. Rangeland Fire Protection Associations – *Rick Finis, South Idaho Fire Liaison, IDL*

DISCUSSION: Controller Woolf inquired about the size of acres for the 54 fires that were responded to by RFPAs in 2017. Mr. Finis replied that they ranged in size from 1/10th of an acre to 10,000 acres. Mr. Finis noted that Three Creek, Notch Butte, and Mountain Home were the three most-active associations.

For the record, at 10:14 a.m. Attorney General Wasden excused himself from the conference call to attend another meeting.

- **EXECUTIVE SESSION**

  NONE

There being no further business before the Board, at 10:17 a.m. a motion to adjourn was made by Controller Woolf. Secretary of State Denney seconded the motion. The motion carried on a vote of 3-0. Meeting adjourned.

STATE BOARD OF LAND COMMISSIONERS
July 17, 2018
Regular Agenda

SUBJECT

Investment Subcommittee Recommendation for Reinvestment of Land Bank Funds

BACKGROUND

In August 2017, as directed by the Idaho State Board of Land Commissioners (Land Board), the Secretary of the Land Board entered into a contract amendment with Callan Associates (Callan) to conduct an Asset Allocation and Distribution Study (Study).

The Study was intended to provide further analysis and refinement on previous asset allocation work completed by Callan in 2014. One primary goal of the Study was to determine for each endowment the best and highest use of assets in the Land Bank—reinvestment into traditional land assets (timberland or farmland) or transfer to the financial asset portfolio.

At the April 17, 2018 Land Board Meeting, Callan presented results from their Study. The report included a summary of key observations, a summary of findings and outstanding issues, and a list of options for Land Board consideration.

The Land Board's Investment Subcommittee (Subcommittee) was tasked with reviewing the final Study results related to Land Bank proceeds, including the options outlined for Land Board consideration, before making a formal recommendation to the Land Board in July. This timeline coincides with the annual update to the Statement of Investment Policy and Strategic Reinvestment Plan.

In addition to the options discussed below, Callan recommended an increase to the reserve levels for Public School and Charitable Institutions and recommended making permanent the increases temporarily in place for State Hospital South and Normal School. Reserve level increases were approved by the Endowment Fund Investment Board (EFIB) on March 12, 2018, and the Land Board on May 15, 2018.

DISCUSSION

The "Land Board Options to Consider" outlined on page 33 (Attachment 1) of the Callan Study read:

- Option A – Consistent with the Reinvestment Plan, identify potential transactions that meet established hurdle rates and set aside sufficient funds over appropriate time horizon (immediately move money that will either "mature" prior to the transaction or exceeds what is required).

- Option B – Move land sale proceeds that are set to expire in calendar years 2020-2021 (approximately $58 million) into the Permanent Fund with the remainder contingent on IDL identifying land acquisitions consistent with the Strategic Reinvestment Plan.

- Option C – Immediately transfer all Land Bank funds to the financial asset portfolio.

The Subcommittee thoroughly vetted the Study results, options outlined, and associated plans and voted on June 12, 2018, to accept the Study as completion of the general consultant contract amendment and to recommend the Land Board pursue Option A for the following reasons:

- 2017-2018 Study results are consistent with the 2014 Callan Study and the 2016 Strategic Reinvestment Plan (Attachment 2), which confirms Department activities are properly aligned with established goals and governance;
- Land Bank reinvestment is the only mechanism for recovering land assets and associated revenue (lost as result of cottage site and commercial property sales), which is necessary to reduce risk in the land base, balance risk in the overall endowment portfolio, and help grow revenue with inflation and population growth;
- A pipeline of potential land acquisitions has been developed by the Department with several acquisitions slated for close as early as calendar year 2018;
- Callan's model was based on the minimum hurdle rate of 3.5% return on asset but potential acquisitions under review by the Department are likely to bring higher levels of return[1] and lower levels of volatility, which makes land acquisition more favorable than investment in the financial portfolio;
- The Department and EFIB are already closely monitoring Land Bank funds and intend to proactively initiate Land Bank transfers to the Permanent Fund when necessary; and
- The Department's Acquisition Business Plan, initiated after Land Board approval of the Strategic Reinvestment Plan in 2016, aligns with implementation of Option A as well as Land Board-approved governance documents, including the Statement of Investment Policy, Asset Management Plan, and Strategic Reinvestment Plan.

The Department is currently working with Callan to finalize the Acquisition Business Plan which provides detailed and extensive guidance for staff working to maximize long-term returns to the beneficiaries through strategic reinvestment in Idaho land assets. It also details several reinvestment scenarios (Attachment 3) and outlines Department processes and resources needed to implement each scenario.

The 5-year Minimum Reinvestment Scenario in the Acquisition Business Plan, for example, identifies minimum yearly withdrawal levels necessary to avoid expiration of Land Bank funds. By spending $33 million from the Land Bank annually beginning in fiscal year 2019 (on timberland or farmland assets which meet established criteria) for five years, a total of $165 million dollars would be reinvested without necessitating transfer to the Permanent Fund. Under this scenario and based on forecasted returns, it is anticipated gross revenue lost from the sale of commercial and residential property could be recaptured by approximately fiscal year 2024 (Attachment 4).

The Subcommittee, along with Callan, the Department, and EFIB, feel the established governance documents and the Acquisition Business Plan help inform and support

[1] The Department will continue to pursue reinvestment opportunities that meet or exceed the return thresholds established by Callan and approved by the Land Board—3.5% return on asset for timberland and 4.5% for farmland.

implementation of Option A. The Subcommittee is comfortable with the level of detail provided in the documents as well as the level of coordination between the Department and EFIB in consultation with Callan. With this understanding, the Department and EFIB drafted the annual update to the Statement of Investment Policy to align with Option A. The Statement of Investment Policy update was approved by Callan and the Subcommittee in June. The Department also worked with Callan on the annual update to the Strategic Reinvestment Plan to acknowledge the recent Study and anticipated implementation of Option A.

RECOMMENDATION

Approve the Investment Subcommittee's recommendation to implement Option A from Callan's Asset Allocation and Distribution Study for the reinvestment of Land Bank funds.

ATTACHMENTS

1. Land Board Options to Consider (excerpt from Callan's Asset Study)
2. Current Strategic Reinvestment Plan
3. Acquisition Business Plan (excerpt)
4. Projected Gross Revenue Recovery Graph Example

Land Board Options to Consider

- Option A: Consistent with Reinvestment Plan, identify potential transactions that meet established hurdle rates and set aside sufficient funds over appropriate time horizon (immediately move money that will either “mature” prior to the transaction or exceeds what is required)
  - Recognizes the importance of land in the total Endowment and attempts to maintain land’s target allocation (41%)
  - If possible, move Endowment monies currently invested in the IDLE fund under the EFIB and modestly increase the risk to mitigate the cost of carry while waiting for IDL to identify attractive investments
    - *Portfolio is under the authority of the STO with management of the pool outsourced to FTN Financial*
    - *Current portfolio real yield ~0% (2.2% yield is about even with inflation)*
    - *Introducing volatility could result in short-term returns below cash*
- Option B: Move land sale proceeds that are set to expire in calendar years 2020-2021 (approximately $58 million) into the Permanent Fund with the remainder contingent on IDL identifying land acquisitions consistent with the Strategic Reinvestment Plan
  - Attempts to strike a balance between the benefits of investing the money in the Permanent Fund (greater expected distributions) versus reinvesting in land (downside protection)
  - If no other transfers, Land Bank balance will be approximately $86 million by end of calendar year 2018 given projections
- Option C: Immediately transfer all Land Bank funds to the financial asset portfolio
  - Assets can be deployed easily and cheaply into the financial asset portfolio while land transactions require a lot of time and due diligence to complete
  - Depositing land sale proceeds into the financial asset portfolio is preferable under recommended reserve levels

ATTACHMENT 1

Callan

Callan Associates Inc.
120 North LaSalle Street
Suite 2400
Chicago, IL 60602

Main 312.346.3536
Fax 312.346.1356

www.callan.com

Memorandum

To: Idaho Board of Land Commissioners
From: Callan Associates, Inc.
Date: July 5, 2017
Subject: Strategic Reinvestment Plan

Background

In May 2016, the Idaho Board of Land Commissioners approved the Strategic Reinvestment Plan that allowed for the investment of Land Bank proceeds into timberland and farmland for all endowments subject to certain requirements. The Strategic Reinvestment Plan is subject to annual review at this time.

The current recommended asset mix was based on an analysis of the characteristics of the portfolio of all endowments in total and is clearly applicable to the largest endowment, Public School. Further study is required to determine if that mix is appropriate for the seven endowments with significantly smaller land bases. The ongoing sale of cabin sites and commercial real estate provides State Hospital South and Normal School with the potential to materially change their asset mix through reinvestment, so before reinvestment proceeds, the Land Board has approved an Asset/Spending Study of each endowment to determine:

- The evaluation of the best and highest use of assets in the Land Bank – redeployment into Lands or transfer to the financial asset portfolio.
- Assess the impact of cabin site sales on the volatility of endowments where it represents a meaningful percent of cash inflows – should the asset allocation, reserves or distribution policy of these endowments change?
- Revisit endowment asset allocation in light of Callan's 2017 Capital Market Expectations and custom assumptions for each endowment portfolio.

Recommendation

Callan recommends the following with regard to investment of money in the Land Bank:

- Invest Land Bank funds into timberland for Public Schools provided the transactions meet or exceed the minimum hurdle rate and the criteria established in the Timberland Acquisition Advisor Scope of Services. Invest Land Bank funds into farmland provided the transactions meet or exceed the minimum hurdle rate and a thorough, institutional process is used to analyze transactions.

ATTACHMENT 2

This is appropriate because the Public Schools asset allocation most closely matches the asset allocation recommended in Callan's 2014 Asset Allocation and Governance Review and there is a process in place to source and analyze transactions via the Timberland Acquisition Advisor.

- Until the Asset/Spending Study is completed, do not invest Land Bank Funds for any endowment, except Public Schools, into timberland and farmland.

Callan

May 2016

Idaho Board of Land Commissioners

Strategic Re-Investment Plan

Table of Contents

Idaho Board of Land Commissioners Strategic Re-Investment Plan

Purpose and Background

The purpose of this Strategic Investment Plan ("Plan") is to assess options to guide the Land Board's decision-making regarding prudent investment of money in the Land Bank.

As background, the total Endowment Portfolio is valued at approximately $3,277 million and the Land Portfolio, excluding the Land Bank, comprises approximately 43% of the total portfolio as shown in Table 1. The current Endowment portfolio is consistent with the Target Asset Allocation from the Callan asset allocation study ("Callan Report").

Table 1: Current Portfolio Compared to Target Asset Allocation

Asset Class	Target Asset Allocation	Range	Existing %	$s Currently Invested $ Millions[(a)]
Financial Assets	58%	50-65%	55.9%	$1,833
Timberland	39%	30-50%	35.8%	$1,174
Rangeland	2%	0-5%	1.9%	$61
Idaho Commercial Real Estate	0%	N/A	1.0%	$32
Residential Real Estate (Cottage Sites)	0%	N/A	3.8%	$123
Farmland	N/A	N/A	0.7%	$22
Cash Equivalents (Land Bank)	1%	0-5%	1.0%	$32
Total Endowment Portfolio	100%		**100%**	**$3,277**

(a) As of 12/31/2015 for the Financial Assets. As of June 30, 2015 for Timberland, Rangeland, and Farmland. As of 12/31/2015 for Idaho Commercial Real Estate based on valuation from Century Pacific. Residential Real Estate is a current estimate.
Source: Idaho Department of Lands for Land and Callan for Financial Assets.

The Land portfolio is undergoing changes due to the strategic sale of cottage sites and the commercial real estate portfolio which will result in deposits into the Land Bank as properties are sold. The balance in the Land Bank is currently $31.85 million and it is projected to end FY2016 at that level. Disposition of cottage sites and Idaho commercial real estate is projected to produce additional sales proceeds of $130.75 million in FY2017 through FY2020. The estimated total proceeds that could be re-invested in Land or transferred to the Permanent Fund is $162.60 million ($31.85 million plus $130.75 million). Since the cottage site sales program began, approximately $46.70 million has been transferred to the Permanent Fund.

As land and commercial property is sold, gross income from the sold properties will be lost. IDL estimates that the gross income reduction due to sales is approximately $6.83 million.[1] Table 2 shows the projected additions to the

[1] Land Bank balance, estimated sales proceeds, gross income reduction, and timing of sales proceeds were provided to Callan by Idaho Department of Lands ("IDL").

Land Bank by year, the corresponding Land Bank balance if no investments are made, and the annual and cumulative reduction in gross income.

Table 2: Projected Additions to the Land Bank and Reduction in Gross Income Due to Sales

	Prior Periods	FY2016 $MM	FY2017 $MM	FY2018 $MM	FY2019 $MM	FY2020 $MM
Additions to Land Bank	$51.7	$26.85	$53.15	$34.85	$30.15	$12.60
Transfers to Permanent Fund	$46.7	$0	$0	$0	$0	$5.00
Land Bank Balance[2]	$5.00	$31.85	$85.00	$119.85	$150.00	$157.60
Reduction in Gross Income[3] from Sales	N/A	$1.82	$3.42	$1.09	$0.50	$0
Cumulative Reduction in Gross Income	N/A	$1.82	$5.24	$6.33	$6.83	$6.83

Using the Land Bank Balance on Table 2 and holding the value of the total portfolio constant, the Land Bank Balance, as a percentage of the total portfolio, rises from 1% currently to 2.6% at the end of FY2017 to just under 5% by the end of FY2020 which is in the recommended range of 0-5%.

Comparison of Investment Options

The Callan report suggested a framework for making investment decisions for timberland and farmland (Items 1-5 below). These and other relevant decision-making factors (Items 6-8 below) are applicable to establishing priorities for investment of the Land Bank.

1. Is the investment consistent with the overall asset allocation and objectives of the total portfolio as set forth in the Investment Policy Statement and in the Strategic and Annual Plans?
2. Comparison of the risk adjusted return and the net return relative to other choices (e.g. stocks, bonds, other land types). In other words, what are the other choices for investment?
3. Does it make a difference and move the needle from an overall portfolio perspective?
4. Completion of a full underwriting of the potential investment including upside, base case, and downside scenarios with identification of assumptions and risks alongside of the returns (both the return gross of fees and net of all fees and costs);
5. Detailed outline of the business plan for the investment and the plan for execution including consideration of the internal and external resources required to execute the plan and associated costs;
6. Market fundamentals;
7. Availability of transactions; and
8. Institutional investment trends, processes, and implementation for timberland and farmland.

Callan believes there are three investment options for the Land Bank proceeds: Financial Assets (Permament Fund), Idaho Farmland, and Idaho Timberland. Table 3 summarizes the investment options with commentary on each option following the table.

[2] Assumes no acquisitions are completed and transfers to the Permanent Fund occur after 5 years.
[3] Gross income is before deduction of IDL management expenses

Table 3: Summary of Investment Options for Land Bank Proceeds

	Financial Assets Permanent Fund	Idaho Farmland	Idaho Timberland
Consistent with Investment Policy and Objectives	Yes	Yes	Yes
Long Term Policy Return Objective (Net)[4]	4.0% Real 6.25% Nominal	4.0% Real 6.25% Nominal	3.0% Real 5.25% Nominal
Minimum Hurdle Rate for New Investments (Net)	N/A	4.5% Real	3.5% Real
Potential to Replace Income	Yes	Yes	Yes
Strategic Asset Class in Asset Allocation	Yes	No	Yes
Market Fundamentals	Continued Volatility	Weakening in Short Term Strong Long Term	Choppy in Short Term Strong Long Term
Expected Availability of Transactions	High	Medium	High
Internal Expertise	High	Medium	High
Implementation Complexity Implementation Costs	Simple Low	Complex High	Complex High

Commentary

Financial Assets

- If all of the projected proceeds were invested in Land or if all of the money was transferred to the Permanent Fund, the total Endowment would still be within the asset allocation target ranges. The default option would seem to be to transfer the money to the Financial Assets as there is no compelling asset allocation reason *currently* to invest in Land, investing in the Financial Assets is the easiest and most cost efficient option, and it has sufficient long term risk/adjusted returns. However, this is an unusual time with the amount of disposition activity taking place, and it is unclear when there will be this level of proceeds to invest in Land again.

Farmland

- Investment in farmland totals 17,000 acres with an approximate value of $22 million which is 0.7% of the total Endowment. Farmland is not currently a part of the Endowment's Strategic Asset Allocation. Callan's asset allocation study did not model Idaho farmland as a separate asset class due to the small investment held by the Endowment and the fact that a concentrated portfolio of Idaho farmland is not considered an institutional investment class. Investment in Idaho farmland is allowed under the Draft Statement of Investment Policy in Section V (D) which states:

[4] Long Term Policy Return Objectives will be continually evaluated and refined as performance data is collected and based on results from implementation of the Business Plan for each Land Type. The Long Term Policy Objective is a portfolio level return target. It is different from the hurdle rate which is the rate of return required for new investments. The hurdle rate will be reviewed and updated annually.

"In addition to asset allocation, the Land Board may, from time to time, authorize or adopt strategic policies. "Strategic Policies" are actions by the Land Board to allow investment in asset types that have not been singled out as "asset classes" in the asset allocation process, to overweight a particular sector within an asset class, or to employ particular strategies in the investment of the Endowment Assets. The purposes of these actions are either to increase the return above the expected return or to reduce risk. Any such policy would include consideration of the change in risk and the impact on the Distribution Policy."

- As noted previously, we have not modeled the investment characteristics of Idaho farmland. For Idaho farmland, we have considered the short return series of the Idaho farmland properties reported to the National Council of Real Estate Investment Fiduciaries (NCREIF). These are all row crop properties which is what we assume would be the target of any additional investment in farmland by the Land Board.

  Our broader view of the farmland sector and its investment characteristics considers the historical returns and correlations of the NCREIF farmland index (both row crops and permanent crops), a survey of farmland investment managers to gauge go forward expectations of returns for diversified U.S. farmland, our experience developing farmland investment programs and farmland investment policies for other investors, and underwriting farmland investment opportunities.

  Callan's recommended policy target for U.S. core diversified farmland includes the following components: Nominal cash yield of 3% to 5%, appreciation of 3% to 4%, and total return of 6.00% to 8.00% net nominal. The corresponding net real return would be 3.75% to 5.75%. The characteristics of this Core portfolio would be diversified row crops with a high focus on current income and current cash yield through the acquisition of farmland with sufficient in place water resources. It assumes a cash lease structure is used to avoid direct connection to production and price risk.

  A diversified portfolio of institutionally owned U.S. Farmland has low to negative correlation characteristics with publicly traded equities and bonds which makes it a good diversifier in an overall portfolio. This is similar to institutionally owned diversified U.S. commercial real estate and institutionally owned diversified U.S. timberland as shown on the chart below:

Table 4: Correlation for Ten Years Ended December 31, 2015

	NCREIF Farmland	NCREIF Timberland	NCREIF Property	S&P 500	Barclays Agg Index
NCREIF Farmland Index	1.00	0.61	0.09	0.10	(0.10)
NCREIF Timberland Index	0.61	1.00	0.25	(0.16)	0.10
NCREIF Property Index	0.09	0.25	1.00	0.26	(0.20)
Equities – S&P 500	0.10	(0.16)	0.26	1.00	(0.27)
Bonds – Barclays Aggregate Index	(0.10)	0.10	(0.20)	(0.27)	1.00

- From a market perspective, pricing in the sector is adjusting as the commodities markets continue to experience turmoil; however, there is ample capital for investment from other institutions and individuals that is supporting pricing above that which is justified by the fundamentals. Pricing was mentioned as a significant risk by every one of the institutional buyers and managers of farmland that Callan surveyed, which suggests careful underwriting is of particular importance currently. Access to water is another risk that is being more closely considered and control over water resources is a requirement for institutional buyers. Evaluation of a potential tenants' credit and financial strength has taken on heightened importance as commodity prices and credit has tightened. Callan understands that the conflict auction leasing process used by the Land Board does not allow for evaluation of tenant financial strength and credit of the high bidder. IDL noted that if an applicant is 18 years old and not in default with the state and were the high bidder, the bid would be accepted and there would not be an opportunity to evaluate the financial position.

- The long term fundamentals for farmland are compelling. Strong demand for farmland is expected to continue to meet the increasing global demand for food, fiber,and energy, as well as to satisfy institutional investor demand for diversifying, inflation-hedging assets. The relatively fixed supply of land capable of supporting agriculture is another favorable factor supporting the investment case for farmland.

- The availability of transactions in farmland is expected to be less than timberland and the pace of investment is slower than timberland due to the the limited pool of investment transactions every year. There is not a pool of closed end funds that are reaching maturity and selling assets like in timberland. Investors tend to buy and hold, the asset class is popular with significant competition for transactions, and operators/farmers have had strong balance sheets for acquiring farmland, with limited financial pressure/incentive to sell. Access to transaction deal flow via relationships with institutional and local owner/operators is critical to building a portfolio.

- Implementation is characterized as complex because it involves sourcing transactions, completing due diligence, and hiring third party advisors. Costs of implementation are relatively high due to costs of external land advisors, transaction costs including brokers, legal fees, title work, environmental, etc., the costs of internal staff time, and the opportunity cost of holding money in the Land Bank versus investing in the Financial assets (which could be positive or negative depending on the returns of the IDLE pool versus the Financial Assets over the timeframe in which proceeds are in the Land Bank).

- Institutional ownership of farmland in Idaho (as reported to NCREIF) totals $280 million in 32 properties with total acreage of 57,086 acres. This equates to an average investment per property of $8.75 million and an average per acre value of $4,904. All properties are annual row crops.

  These owners represent potential competition to IDL for larger transactions ($5 million+) but not for smaller transactions which IDL may want to consider in its acquisition strategy. On the disposition side, should the Land Board wish to sell farmland, the institutional owners would likely not be buyers as the transaction size would be too small for those buyers if they could only purchase 320 acres. The ability to achieve liquidity would depend on local buyers.

- We find no compelling reason that the net returns the Land Board should accept from additional investment in Idaho farmland (annual row crops) should be less than those of a diversified U.S. core farmland portfolio. The non-diversified nature of the Idaho only investment is a reason to require higher returns.

  Callan recommends that additional investment in Farmland be pursued if Core investments can be found such that the *minimum* net returns are competitive with both the Long Term Policy Return Objective for the Financial Asset portfolio and the Farmland Portfolio, as well as, noted above, diversified U.S. core farmland. The recommended Hurdle Rate is a *minimum* net real return of 4.5% which equates to a 6.75% net nominal return, assuming inflation of 2.25%. Of course, the risk profile of each transaction and market dynamics will dictate the return that will be required, such that some transactions may have returns above the Hurdle Rate.

  Setting the Hurdle Rate above the Long Term Policy Returns for both the Financial Asset Portfolio and the Farmland Portfolio, will keep the focus on finding transactions that are accretive.

  The expected return of a farmland investment should include both income and appreciation with a focus on income to provide income replacement for the portfolio; however, for the returns to be competitive, investments will need to also have appreciation and the plan for managing each investment should have a strategy for realizing the appreciation.

  The lease structure will be an important mechanism to insure the income and inflation hedging characteristics of farmland and the total returns are achieved.

- Callan does not recommend setting a hard target for the amount of dollars to be invested in Farmland, but rather allowing the investment decision to be driven by the opportunities.

- Investment in a diversified portfolio of U.S. farmland may be another way to enhance the risk/return of the Endowment portfolio. In the next asset allocation study, the impact on the Endowment of investment in diversified U.S. farmland could be studied as a complement to the existing Idaho farmland portfolio. Diversification geographically as well as by row and permanent crops could be considered. The external and internal resources and investment vehicles that would be required to implement a diversified allocation efficiently would also be examined.

Timberland

- Callan recommends pursuing additional investment in timberland in Idaho provided investments can be sourced with appropriate net returns.

  Additional investment is supported by the asset allocation study which indicates portfolio risk/return will be maintained with additional investment in timberland provided new investments have a net projected return at or above the returns of the existing portfolio with a similar level of risk. In Callan's study, the existing timberland portfolio had an expected net 10 year compounded return of 5.70% (3.45% net real return). The recommended Hurdle Rate for Timberland is a *minimum* net real return of 3.5% which equates to a

5.75% net nominal return, assuming 2.25% inflation. The risk profile of each transaction and market dynamics will dictate the return that will be required, such that some transactions may have returns above the Hurdle Rate.

- Callan does not recommend setting a hard target for the amount of dollars to be invested, but rather allowing the investment decision to be driven by the opportunities. The range for timberland is 30-50% of the total Endowment portfolio. If attractive opportunities are found, all of the projected proceeds in the Land could be invested in timberland and timberland would remain in the target 30-50% range, assuming the total portfolio remains at or above the current value.

- Investment in additional timberland is a way to replace lost income from the sales of cabin sites and commercial real estate.

- Market dynamics in the timberland industry include increasing transaction flow. There have been several large institutional portfolios of timberland brought to the market in the U.S. Several closed-end commingled funds are nearing their expirations, which will result in timberland for sale. Additionally, multiple timberland investment organizations are undergoing changes which could result in additional deal flow from manager disruption and terminated vehicles. The environment with substantial availability of properties for sale and projected to be for sale may help to moderate pricing. The availability of transactions is in marked contrast to prior years and the Land Board should take advantage of the increased transaction flow.

- Similar to Farmland, implementation is characterized as complex.

- Callan believes that the Land Board has a competitive advantage in timberland investing compared to other institutional investors and owners of timberland given its experienced Staff, existing portfolio, long term investment horizon, and cost of capital.

- IDL has a management structure and monitoring resources in place to execute the business plan for the assets.

Conclusions and Next Steps

This is an unusual time for the Endowment due to the amount of disposition activity taking place. Based on the current Asset Management Plan, it does not appear that after FY 2020, there will again be the level of proceeds to invest in Land. Therefore, the Land Board should consider using Land Bank proceeds to invest in Timberland and Farmland, provided the targeted Hurdle Rates can be met or exceeded and an institutional investment process is used.

To be credible in the market with potential sellers, IDL needs to be able to represent to sellers that it has money to fund transactions (subject to the Land Board due diligence, underwriting, and approval process) which will require money to remain in the Land Bank while transactions are found.

Investment in Land transactions requires time to identify and execute. A logical next step is to have IDL establish a pipeline of transactions to substantiate their investment thesis that attractive transactions can be found in Timberland and Farmland. The pipeline should be documented via a pipeline report/deal log which is updated and discussed with the Land Board each quarter to track progress. A pipeline report/deal log is a standard tool that is used by third party investment managers.

The Land Bank money will be available over time, in increments. This means IDL will need to source and execute transactions according to the timing and amount of proceeds for each underlying endowment. It is currently IDL's intention to purchase properties such that the underlying endowment would own an undivided interest. Money will not be commingled from endowments to make purchases whereby each endowment would own its pro rata share of the property, either by acreage or by a share of the economics.

Priorities should be set in terms of the size of transactions and the number that IDL can reasonably expect to diligence and close given current resourcing. Pursuing a fewer number of large transactions for each endowment will be more efficient both in terms of staff time and transaction costs. If high priority, larger transactions are expected then money should be earmarked to insure it is available to match the transaction timeframe.

A formal transaction allocation process should be established and documented to insure that transactions are allocated fairly to each endowment. This may involve suitability screens such as transaction size. IDL has proposed a transaction allocation process that would allocate a deal to the endowment with money that has been waiting the longest in the Land Bank.

Underwriting should include upside, base case, and downside scenarios with identification of assumptions and risks alongside of the returns. The underwriting should include an evaluation of income, appreciation, and total return on a gross of fees and net of fees basis, calculated in accordance with industry standards.

A detailed outline of the business plan for the investment should be completed as part of the underwriting including consideration of the internal and external resources required to execute the plan and associated costs, to insure there is a plan for producing the returns that are projected.

If IDL does not have the inhouse capabilities to implement an institutional investment process, external investment management advisory expertise will be required.

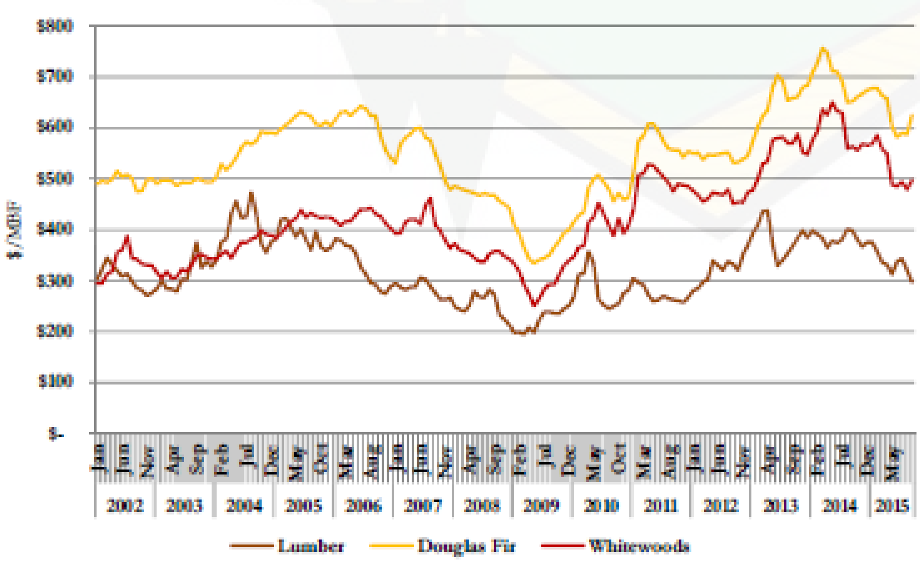
Appendices

Timberland Market Overview

Timberland Supply and Demand Dynamics

There are several macro supply factors affecting today's timberland markets. First, the globe's largest supply of timberland by country is Russia. Russia has implemented tariffs of 25% on timberland exports, which has impacted other countries' desire to import from the region. Second, the mountain pine beetle has destroyed a significant portion of the Canadian timber supply. The damage has been done primarily in Western Canada, in British Columbia. Nearly all of Canada's timberland is sovereign owned. Timberland managers have indicated that the damage from the mountain pine beetle was exacerbated by inadequate road access to timberland which impacted the government's ability to contain the issue. Nonetheless, the mountain pine beetle damage will result in an estimated 9 million acres[5] of timberland removed from the supply chain. It is estimated that this will result in a 20% reduction in the average annual log harvest in British Columbia. The reduction in supply is expected to have an impact through 2030. Because this supply is located in the Western North American region, it positively impacts the Pacific Northwest region of the United States, as much of this supply was expected to be utilized for Asian, specifically Chinese, timber demand. However, due to slowing growth in China and Korea, log exports to Asia have underperformed in 2015 compared to 2014, resulting in timber pricing that has been fairly flat over much of 2015 and increasing inventories in mills in the Pacific Northwest. Even though Chinese demand was flat in the fourth quarter of 2015, it is expected to decrease in the first half of 2016. As seen in the chart below, the price of Douglas Fir and Whitewoods has declined significantly since it peaked in 2014.

Random Lengths Framing Lumber Composite Prices and Pacific Northwest Log Prices, January 2002 through September 2015

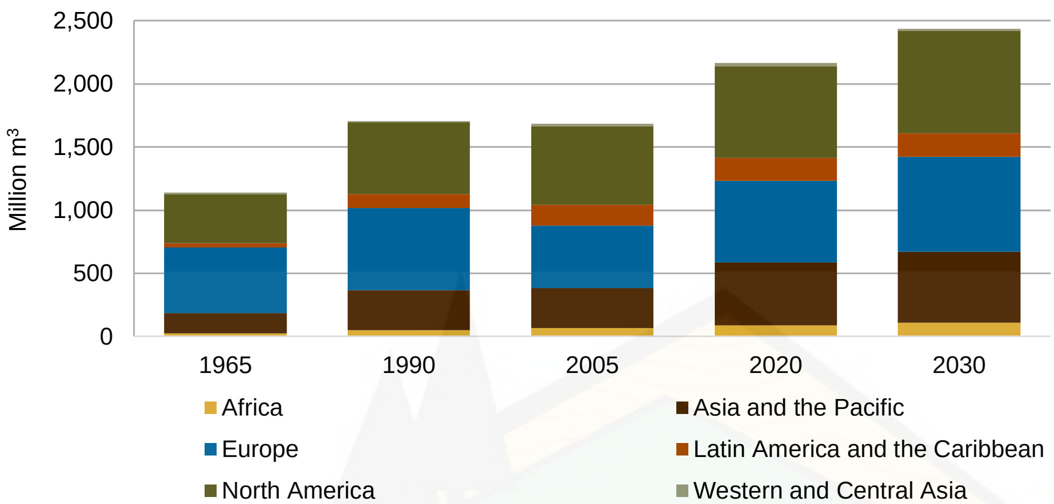


Source: Prudential Agricultural Investments.

[5] Figure quoted from Campbell Global presentation, February 2015.

A positive factor in the timber supply and demand dynamics is the expected growth in demand for wood products both domestically and abroad. The chart below highlights the expected consumption in wood across various regions.and illustrates that the expected consumption is increasing. The demand is also driven by the growing middle class population in emerging countries.

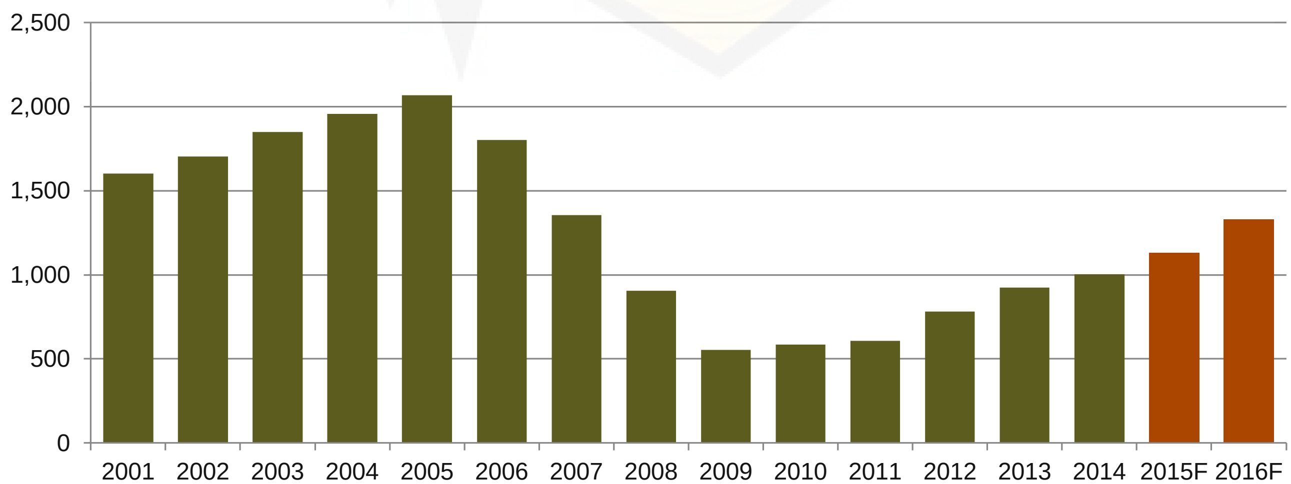
Global Consumption of Industrial Roundwood



Source: Campbell Global and Food & Agriculture Organization.

U.S. demand is anticipated to increase driven by construction of new residential and commercial buildings and existing building renovations. The following chart highlights historical housing starts, as measured by the U.S. Census Bureau's data. Incorporated into the chart are Freddie Mac's 2015 and 2016 estimates of housing starts. The decline in housing starts following the Global Financial Crisis ("GFC") is significant followed by a gradual increase with levels in 2016 still not projected to reach the pre GFC peak in 2005.

Housing Starts



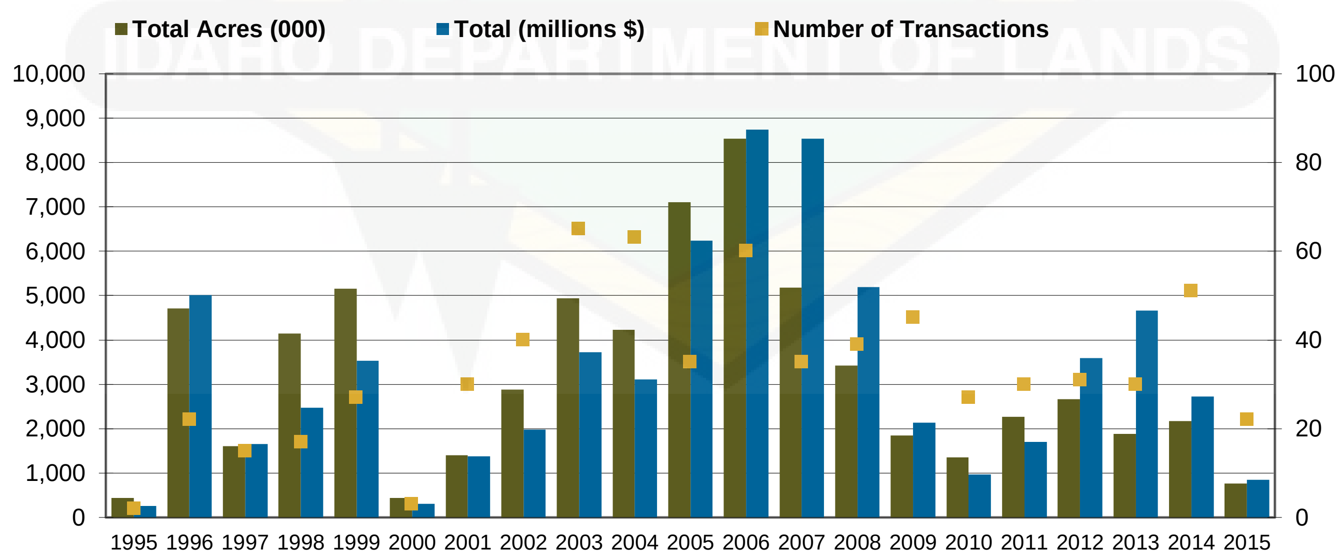
Source: US Census Bureau, Freddie Mac

A negative supply driver is the decline in the use of paper and pulp products due to electronic media and increased recycling. International Woodland Corporation estimates that the U.S. pulp production will remain relatively flat, but that production of pulpwood for oriented strand board (used for residential construction) and wood pellets will increase through 2020. Demand for biomass, pulpwood products used for energy purposes, is expected to increase given environmental regulations adopted in Europe and expected initiatives elsewhere globally. Pulpwood dynamics are not expected to negatively impact timberland investment meaningfully in the coming years.

Timberland Capital Market Flows and Transaction Data

Market dynamics in the timberland industry include increasing transaction flow, especially in the U.S. There have been several large institutional portfolios of timberland brought to the market in the U.S. Several closed-end commingled funds are nearing their expirations, which will result in timberland for sale and should decrease the pressure on pricing. Additionally, multiple timberland investment organizations are undergoing changes. As a result of ownership changes or shifts in assets under management, there has been some account and professional turnover, which is expected to continue going forward. This activity could result in additional deal flow from manager disruption and terminated vehicles. Transactional history in the United States has been varied, and levels have not yet recovered to those pre-Global Financial Crisis. The following chart illustrates domestic timberland transaction history:

Major US Timberland Transactions Since 1995 (# transactions – right scale)



Source: GMO

In the early 2000's there was a high level of commitment activity to U.S. focused timberland funds. Many of these funds have reached the end of their legal life and still have remaining timberland assets to be sold. Given the challenges in the recent market cycle and the long term nature of the timberland asset class and timber lifecycle, the ten year life has proved an insufficient time frame to roundtrip a strategy and exit all assets. As a result there are many groups of fund investors determining extension provisions for their funds and a certain level of dissatisfaction or frustration with the lack of disposition activity to date. This has been evidenced in the California Public Employees' Retirement System's ("CalPERS") decision to require a sale of the TimberSouth portfolio fund managed by Campbell Global. It was announced that 300,000 acres of the fund would be taken to market and the sale is being driven by CalPERS. Based on information from a recent timberland request for information, Callan estimates that there is $9.5 billion in timberland commingled fund holdings that are currently within two years or beyond the legal fund term life. The expiring funds may result in a fair amount of investment opportunities coming to market. If these timberland holdings are sold and in 2016 and 2017, this would represent a significant increase from transaction levels in 2014 which were at lower levels than years prior. At the end of 2015, a number of transactions occurred between TIMOs, including Molpus Woodlands Group purchasing a subset of Campbell Global's Louisiana portfolio, the Conservation Forestry Partners Fund purchasing a Northeast portfolio from The Forestland Group and Hancock Timber selling three different Pacific Northwest portfolios to Campbell Global, Olympic Resource Management and Molpus. These fourth quarter transactions account for over 370,000 acres of timberland changing hands, with more coming in 2016 including the potential for another 160,000 acres of Campbell Global-owned Pacific Northwest timberland.[6]

There may also be acquisition opportunities from REITS. The universe of timber REITs is very small, and has undergone a recent shift. In November 2015, the largest and second largest public timber companies, Weyerhaeuser and Plum Creek Timber, merged, creating a company with a combined market capitalization of over $20 billion. Plum Creek's timber holdings are diversified over a number of states, however Weyerhauser's timber holdings are concentrated in the Pacific Northwest. Weyerhaeuser is expected to shift its business focus entirely to timberland and wood-product operations and exit its cellulose-fiber business. The REIT will continue to pay its dividend and likely increase it and is expected to cut $100 million in corporate overhead. After the merger, there are now four publically traded timber REITs in the United States, the merged entity will operate under the Weyerhaeuser name and the remaining three are Rayonier, Inc., Potlatch Corporation, and CatchMark Timber Trust, Inc. CatchMark Timber Trust is the newest addition to the group as it started operations in 2006 as a non-traded REIT and was converted to a company listed on the New York Stock Exchange in December 2013. Timber REITs have been exhibited poor performance in 2015, as they are the second worst performing sector after Lodging REITs as of October 31, 2015, returning -12.2%. Rayonier has been the worst performing, returning -19.41%. Poor performance can be attributed to a lack of available and harvestable timberland as well as the sale of higher-and-better-use (HBU) lands to meet REIT dividend requirements. As there is a finite amount of HBU land to sell, the timber REITs will eventually run out of such land.

There have been some organizationally driven industry shifts, as well, that may result in acquisitions coming to market, including the SEC determination that Timbervest committed Investor Act violations.

Timberland Historical Performance

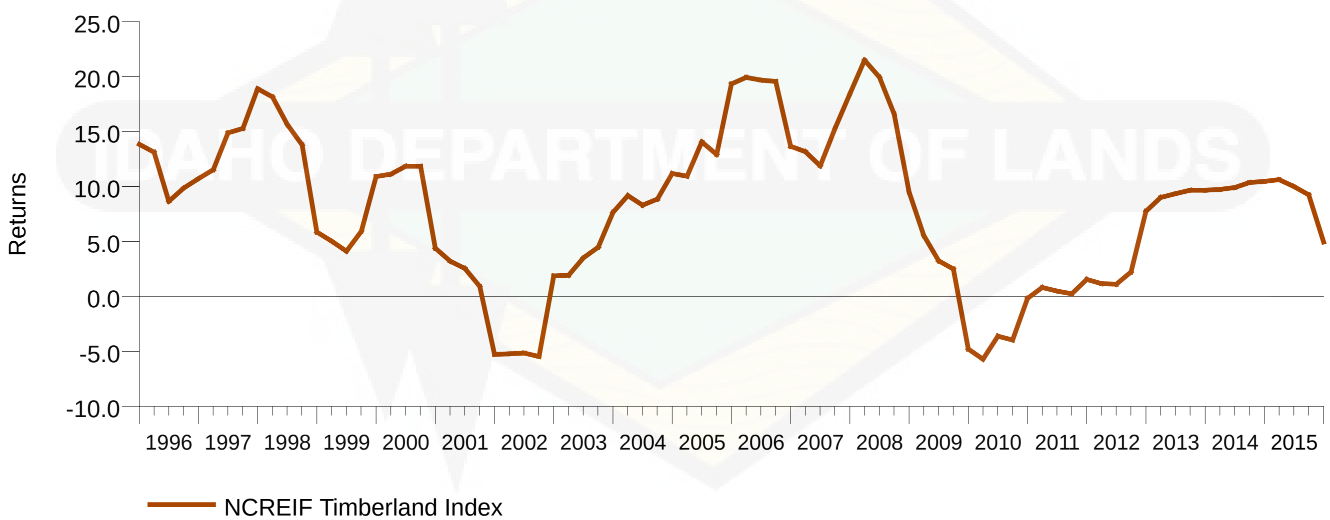
Private, institutional timberland performance is best measured by the NCREIF Timberland Index, a time-weighted, unlevered property level index that reports performance results quarterly. The index constituents are properties owned wholly and in joint ventures by voting members of NCREIF, and the inception date is 1987. The Index is available both gross and net of management fees. It is important to note that, while the Index is the industry standard, it represents only a sample size of the total United States timberland market. As of December 31, 2015, The NCREIF Timberland Index is made up of 454 properties representing 13.3 million acres and a market value of $24.3 billion. The NCREIF Timberland Index has four sub indices created by region, South, Northwest,

[6] Forest Investment Associates

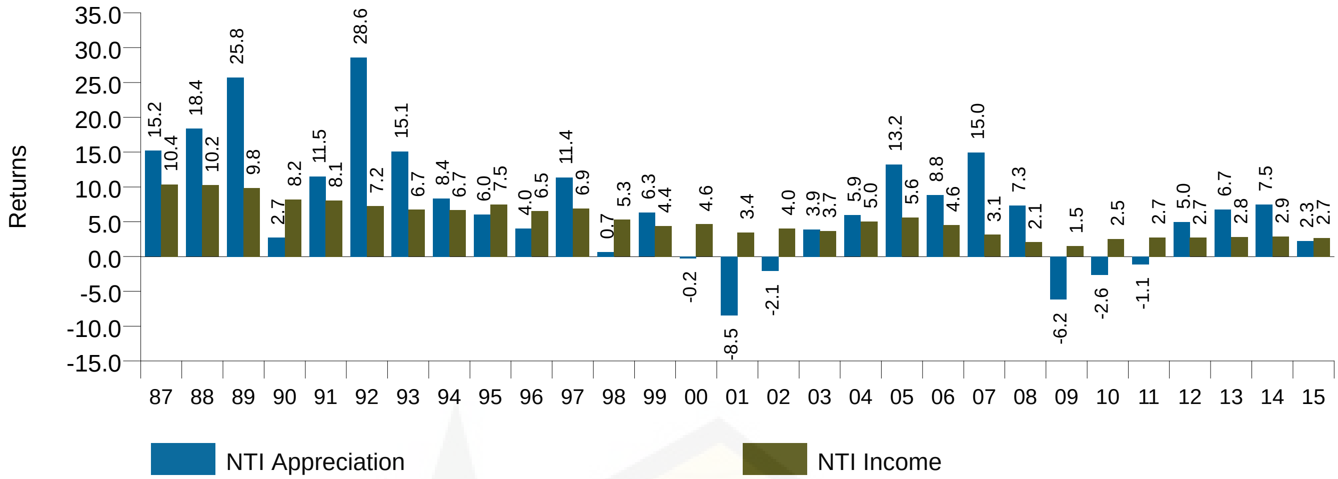
Northeast and Lake States. The South region is the largest region across all categories, property number, acreage and market value. Idaho is in the Northwest region of the NCREIF Timberland Index along with California, Oregon and Washington. As of December 31, 2015, the Northwest Index consists of 83 properties made up of 2.80 million acres, representing $5.3 billion in market value. Per acre, the Northwest region has the most value in its timber properties. Five properties in the Northwest region are located in Idaho representing approximately 145,401 acres and a market value of $155 million.

Timberland experienced peak pricing prior to the Global Financial Crisis ("GFC") as liquidity from investors drove prices upwards. Following the GFC, the appraisal lag, particularly in properties that were only appraised every three years, resulted in a delayed mark down in asset values. In 2012, NCREIF required that all properties contributing to the Index be appraised quarterly. The table below highlights the historical timberland performance for the NCREIF Timberland Index. The first chart highlights the rolling four quarter return history of the NCREIF Timberland Index over the last 20 years. The second chart highlights the income and appreciation returns of the Index. Income returns have waned given weaker wood demand coming out of the GFC. Appreciation returns have been positive in recent years but have not been at levels seen pre-GFC.

Rolling 4 Quarter Gross of Fee Returns for 20 Years Ended December 31, 2015

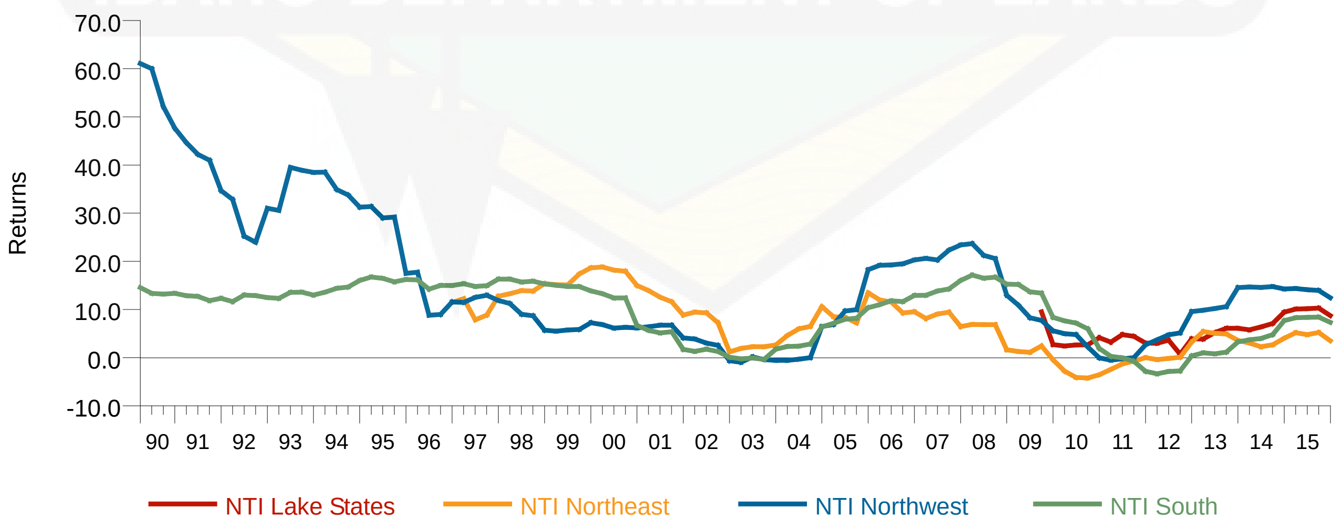


NCREIF Timberland Income and Appreciation Gross Returns for 29 Years Ended December 31, 2015



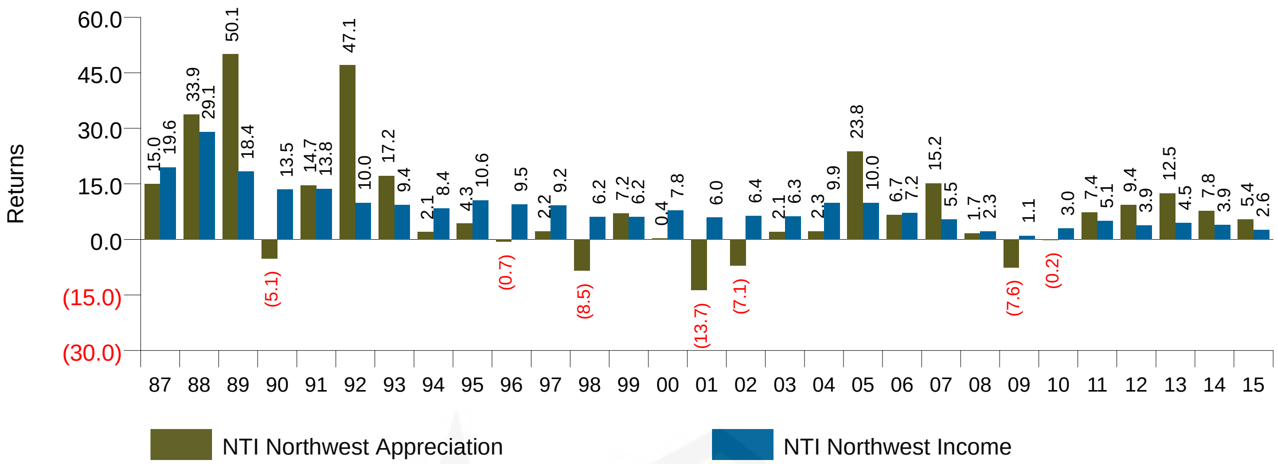
The next chart highlights the annual rolling regional performance. The regional performance diverges and in recent periods, the Northwest region has outperformed the other U.S. regions. The diverging performance is a primary reason many investors seek to build diversified regional exposure to timberland.

Rolling 12 Quarter Gross Returns for 25 3/4 Years Ended December 31, 2015



The following chart breaks out the NTI Northwest Index further into the income and appreciation returns generated by timberland in the same region where IDL timber is located. In recent years, both income and appreciation outpace the broader index. The performance of the Idaho properties in the NCREIF Timberland Index cannot be shown as NCREIF does not release data if the sample size is under a certain number of properties.

NCREIF Northwest Region Timberland Index Income and Appreciation Gross Returns for 29 Years Ended December 31, 2015



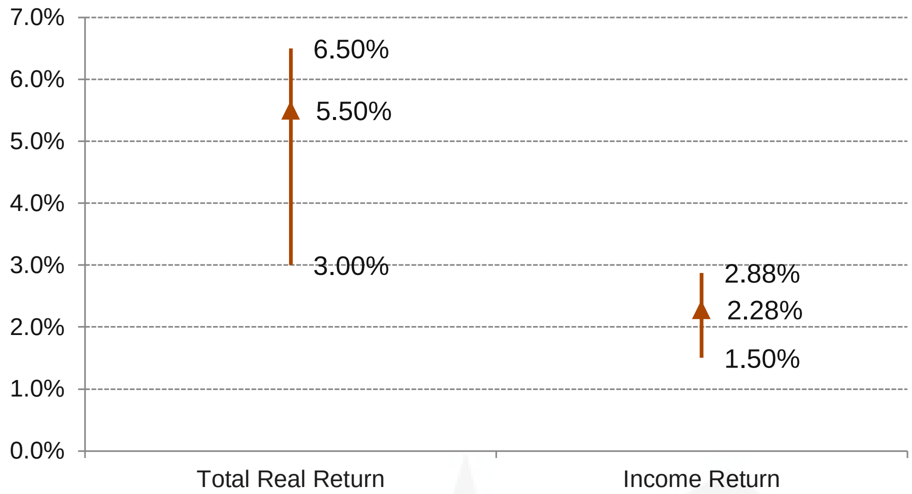
Gross Returns for Periods Ended December 31, 2015

	Last Year	Last 5 Years	Last 10 Years	Last 15 Years	Last 25 Years
NCREIF:Timberland Index	4.97	6.84	6.92	6.83	10.28
NTI Appreciation	2.25	4.02	4.10	3.47	5.61
NTI Income	2.67	2.75	2.75	3.28	4.51
NTI Northwest	8.15	12.74	9.69	9.28	12.42
NTI Northwest Appreciation	5.40	8.46	5.64	3.97	5.45
NTI Northwest Income	2.64	4.02	3.90	5.16	6.72

Expected Returns

Callan surveyed the timberland investment manager universe. We received responses from 12 managers with $33.75 billion of timber assets under management. The timber investment manager universe has a widely varying set of expectations for domestic timberland returns over the next five to ten years as is shown on the chart below. Real return expectations range from approximately 3% to 6.5% on an unleveraged basis. Most managers expect returns to be around 5.5% real with income generating 40-50% of that return. Expectations for income ranged from 25% of the total return to 60% of the total return, resulting in an expected income range of 1.5% to 2.88%.

Domestic Timberland Return Expectations



Source: Callan Associates

It is important to note that there are differences in regional expectations, and a consensus of managers noted that the Northeast and Lake States would likely return 50 to 100 basis points less than the total domestic expected returns. Managers did not have a consensus view on the Southeast or Pacfic Northwest. While the income returns are roughly in line with what timber investments have historically generated, most managers are expecting a slight downward shift in the real return of the asset class over the next five to ten years.

IDL, as a manager and acquirer of timberland, may compete directly with timberland investment management organizations for acquisitions.

Farmland Market Overview

Farmland Supply and Demand Dynamics

The current outlook for farmland is based on long term positive supply and demand dynamics that support appreciation of both agricultural commodities and farmland. The primary factors supporting the positive long term outlook are increasing global population, a growing middle class in developing economies who demand better diets and more meat, and a relatively fixed supply of farmland around the world. According to projections by the UN FAO under their baseline scenario, between 2005-07 and 2050, world food production needs to increase by 60% to meet increasing demand from population growth. While some additional land has (and may continue to) come into production, rising population has translated to arable land and permanent cropland available for cultivation to decline steadily on a per capital basis.[7] Increases in food production will need to come from increases in productivity, not increases in arable land. Productivity gains are no longer outpacing population growth, instead demand growth is outstripping productivity increases which makes the supply of land more valuable.

In the near term, macro risks are contributing to decelerating fundamentals and declining prices in some regions of the country. Weaker economic growth, particularly in China and Europe which are key export markets, is contributing to commodity price weakness and reduced demand. Additionally in China, higher currency devaluation and cost cutting at state owned enterprises in response to the government crackdown on corruption is further negatively impacting the demand for many agricultural products. Globally, supplies of commodity crops are at near record levels. There is downward pressure on cash rents in the central region of the United States due to the negative commodity price outlook. Corn, soybean, cotton, rice, and wheat are being adversely affected by low commodity prices putting pressure on rents and values.

Nut prices have generally remained stable to strong due to consumer demand which has kept farm profitability and farmland values strong in California. Continually rising nut prices, now in the fourth year, combined with drought conditions in California may point to higher levels of risk for California properties.[8] Statewide, properties with that are irrigated have continued to see strong pricing. There are predictions of softening in the market for certain types of nuts including pecans and pistachios due both to supply and demand factors. Almond prices have already declined precipitously due to a drop in overseas demand and a bumper crop domestically.

Rising interest rates will increase costs for farm operators and could negatively influence farmland values. Lenders are pulling back on credit particularly in the Corn Belt, creating pressure on farmers. A prolonged strengthening of the dollar could negatively impact exports. Water availability and regulatory risk associated with water resources has moved to the forefront of investors' minds.

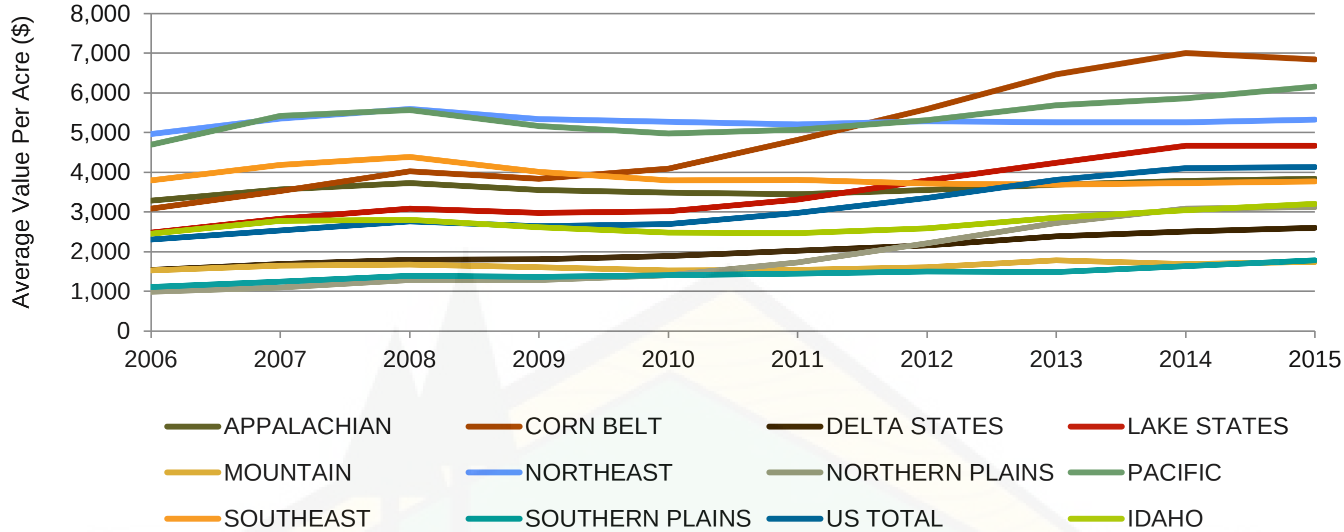
Beginning in 2011, cropland values started to show significant per acre value increases before beginning to moderate in the past year, although there are still substantial disparities by region as shown on the next two

[7] GMO, "A Farmland Investment Primer," July 2014

[8] Mesirow Financial Agriculture Management 3Q2015 Summary

charts. The USDA Land Values report for 2015 showed an overall 0.7% increase for US cropland values from 2014. Cropland values were down in the Corn Belt by -2.3% from 2014. In the Delta, cropland values were up by 3.6% over 2014. Northern Plains' cropland showed an average increase of 1.3% compared to 2014. Idaho showed one of the higher increases at 5.3%.

Cropland Values Per Acre



Source: US Department of Agriculture National Agriculture Statistics Service

Cropland Values Per Acre

Year	Corn Belt	Delta	Pacific	Idaho	U.S.
2006	3,090	1,540	4,690	2,450	2,300
2007	3,530	1,690	5,420	2,770	2,530
2008	4,030	1,800	5,570	2,800	2,760
2009	3,840	1,810	5,160	2,610	2,640
2010	4,090	1,890	4,980	2,480	2,700
2011	4,810	2,020	5,070	2,470	2,980
2012	5,600	2,160	5,310	2,580	3,350
2013	6,470	2,380	5,690	2,850	3,810
2014	7,000	2,510	5,860	3,040	4,100
2015	6,840	2,600	6,160	3,200	4,130

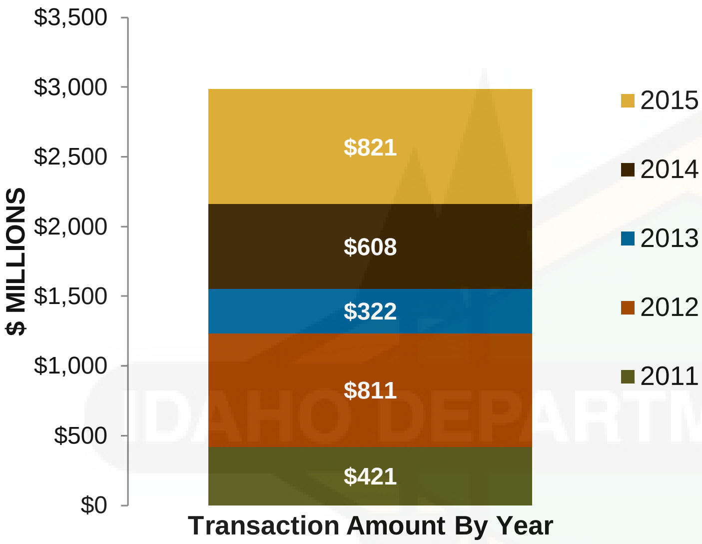
Source: US Department of Agriculture National Agriculture Statistics Service

Farmland Capital Market Flows and Transaction Data

Farmland has received increased investment and interest from institutional investors and individuals in recent years, along with the interest in other types of real assets due to its return profile, inflation hedging characteristics, low correlations with financial assets, ability to diversify a broader investment portfolio, strong long term return drivers, and recent performance. Institutional ownership of farmland continues to steadily grow but is still only a very small part of the overall farmland universe with owner operators dominating ownership of the asset class.

Callan surveyed the farmland investment manager universe which included nine managers with $7.3 billion of farmland assets under management. The participants included the largest farmland investment managers. These managers made $3 billion in farmland investments over the past five years in the U.S. as shown on the bar chart. The managers report approximately $4 billion in uninvested capital that has been allocated to them for new investments which will be invested as suitable investments are found. There continues to be strong interest among institutional managers and investors for both U.S. and international farmland opportunities.

Farmland Investments by Institutional Farmland Managers



Source: Callan

Farmland Historical Performance

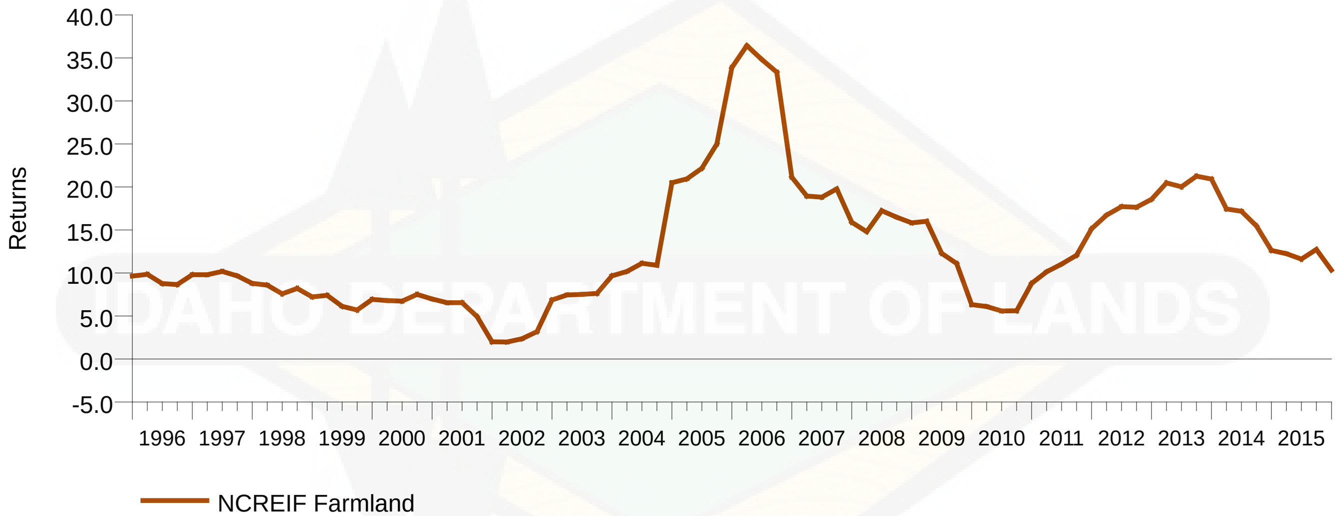
Private, institutional farmland performance is best measured by the NCREIF Farmland Index, a time-weighted, unlevered property level index that reports performance results quarterly. The index constituents are properties owned wholly and in joint ventures by voting members of NCREIF, and the inception date is 1991. Properties in the index have been acquired in the private market for investment purposes only on behalf of tax-exempt institutional investors. As such, all properties are held in a fiduciary environment.

Data is reported by the managers of the NCREIF members' farmland investments, and both income and market value data is reported to NCREIF each quarter. Returns are reported on an all-cash, unleveraged basis before fees. Each property's market value is determined by real estate appraisal methodology, consistently applied. It is important to note that, while the Index is the industry standard, it represents only a small sample size of the total United States farmland market. As of December 31, 2015, The NCREIF Farmland Index is made up of 667 properties with a market value of $6.727 billion. The NCREIF Farmland Index has two property type sub-indices – Annual Cropland and Permanent Cropland. There are twelve regional sub indices which align with the USDA Economic Regions except that Pacific is split into two regions and NCREIF has an Other region. The NCREIF

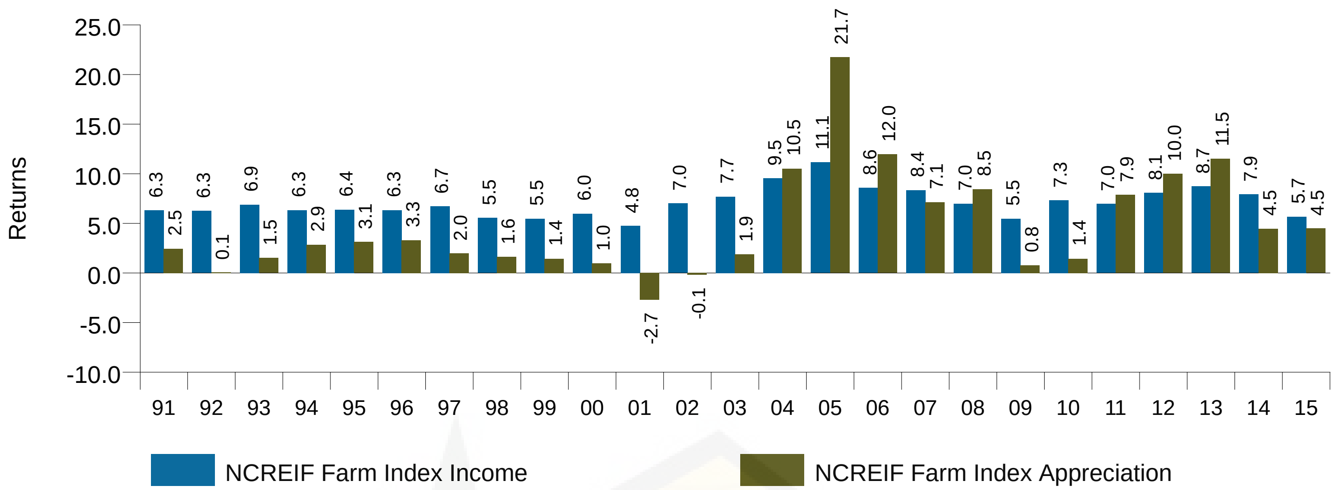
Farmland Regions include: Pacific West, Pacific Northwest, Mountain, Corn Belt, Lake States, Southeast, Delta States, Appalachian, Northern Plains, Southern Plains, Northeast, and Other. Annual Cropland comprises 423 properties and $3.610 billion of market value and Permanent Cropland comprises 244 properties and $3.118 billion. Idaho is in the Mountain region of the NCREIF Farmland Index along with Arizona, Colorado, Montana, Nevada, New Mexico, Utah, and Wyoming. As of December 31, 2015, the Mountain Region consists of 48 Annual Cropland properties representing $428.9 million in market value and no Permanent Cropland. Thirty-two properties in the Mountain region are located in Idaho with a market value of $280 million.

Farmland returns have been strong but have begun to moderate moving toward historical long term averages. The table below highlights the historical performance for the NCREIF Farmland Index. The first chart highlights the rolling four quarter return history of the NCREIF Farmland Index over the last 20 years. The second chart highlights the income and appreciation returns of the Index.

Rolling 4 Quarter Gross of Fee Returns for 20 Years Ended December 31, 2015



NCREIF Farmland Income and Appreciation Gross Returns for 25 Years Ended December 31, 2015

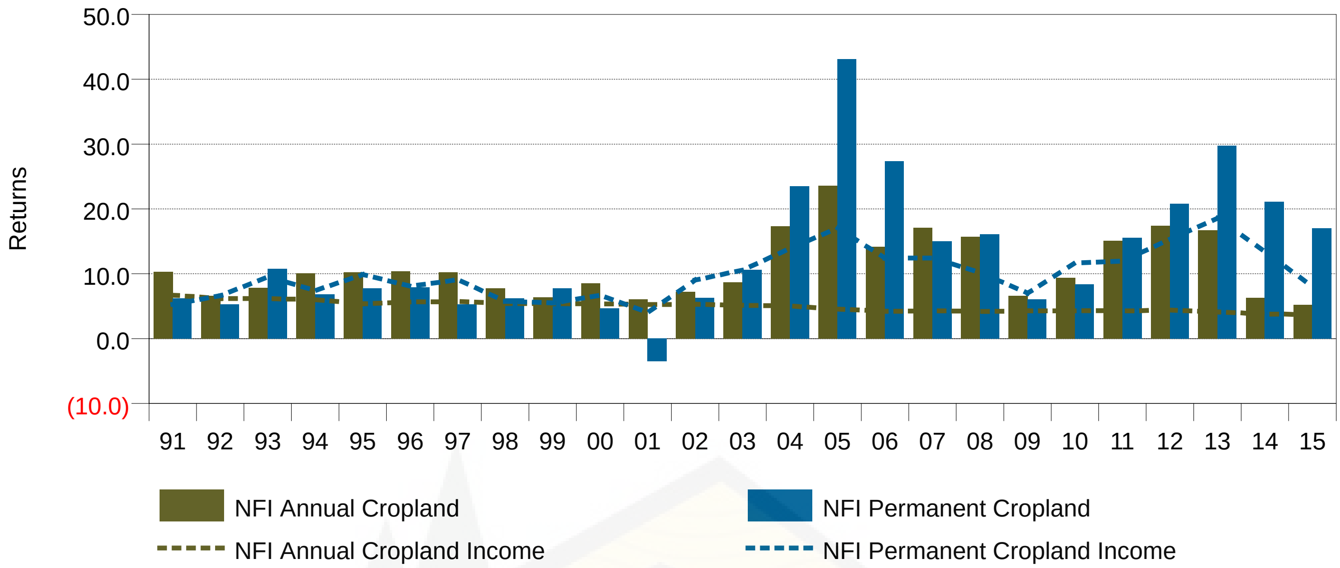


Gross Returns for Periods Ended December 31, 2015

	Last Year	Last 5 Years	Last 10 Years	Last 15 Years	Last 25 Years
NCREIF:Farm Idx	10.35	15.47	14.47	14.33	11.85
NCREIF Farm Index Appreciation	4.48	7.63	6.74	6.46	4.63
NCREIF Farm Index Income	5.69	7.47	7.41	7.61	7.05
NFI Annual Cropland	5.18	12.02	12.27	12.32	10.91
NFI Annual Cropland Appreciation	1.42	7.73	7.87	7.61	5.71
NCREIF Farm Index Income	5.69	7.47	7.41	7.61	7.05

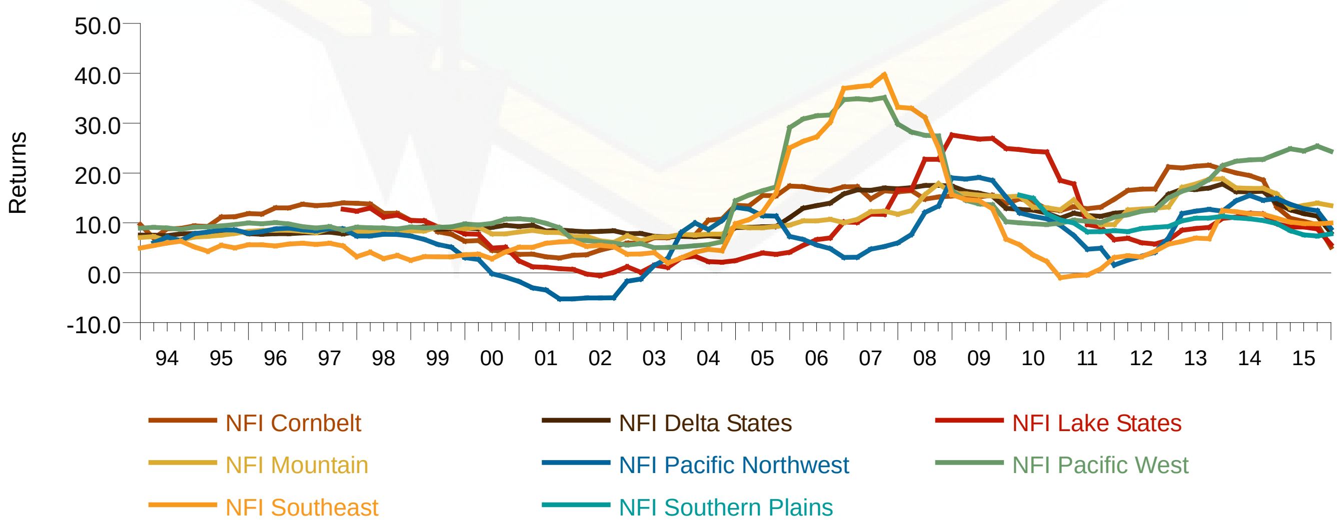
The returns of Annual Cropland compared to Permanent Cropland are shown on the chart below. Permanent crops, led by nut crops, have outpaced annual crop investments in recent years both in total return as well as income return. The annualized total return for permanent crops over the past ten years has been 17.50% versus the 12.27% annualized ten year return for row crops.

US Farmland Gross Returns, Row Crops and Permanent Crops for 25 Years Ended December 31, 2015



The rolling return by region is shown on the chart below. The difference in returns between Annual Cropland and Permanent Cropland as well as the regional performance differences are a primary reason many investors seek to build diversified regional exposure to farmland

Rolling 12 Quarter Gross Returns for 22 Years Ended December 31, 2015

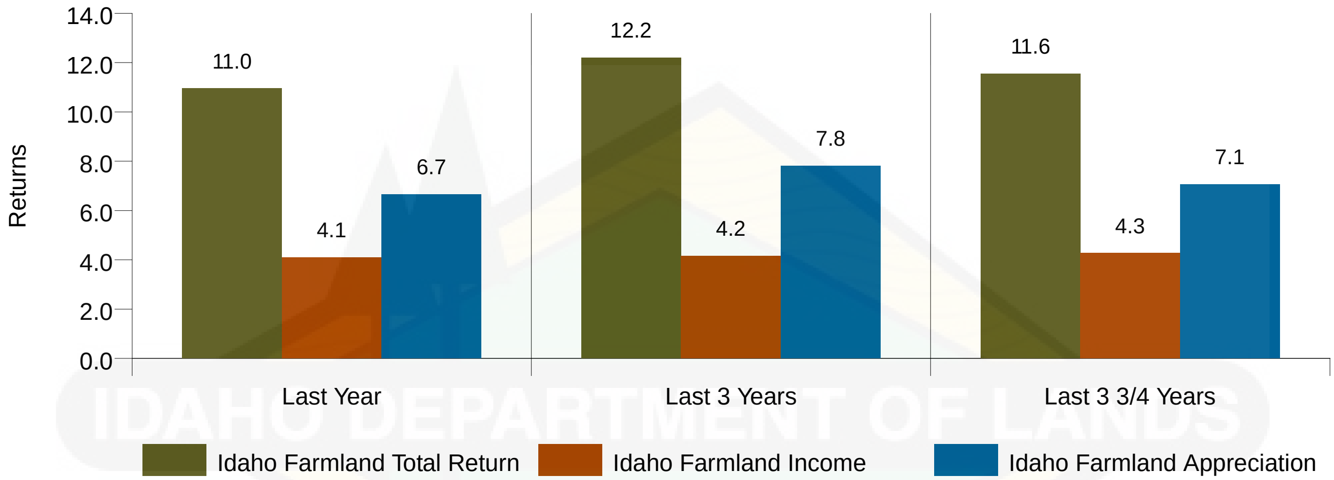


Idaho farmland in the NCREIF Farmland Index is comprised soley of annual cropland. The data series is relatively short and is shown on the chart following:

Gross Returns for Calendar Years
3 Years Ended December 31, 2015

	2015	2014	2013
Idaho Farmland Total Return	10.95	4.51	21.85
Idaho Farmland Appreciation	6.66	0.51	16.91
Idaho Farmland Income	4.09	4.00	4.41

Gross Returns for Various Periods
Current Quarter Ending December 31, 2015



Expected Returns

Callan surveyed the farmland investment manager universe. We received responses from eight managers with $5.3 billion of farmland assets under management. The farmland investment manager universe has a widely varying set of expectations for domestic farmland returns over the next five to ten years and there are substantial differences in expectations for row crops versus permanent crops. Operated permanent crops have higher return expectations and higher income expectations. Permanent crops are forecast to have a 9.0%-13.5% total nominal return with an 8-10% income return whereas Leased Row Crops are in the range of 6.5%-11.0% total nominal return with a 3.5%-6.0% income return. We find investment manager surveys are usually on the optimistic side; however, investment managers do expect a downward shift in the real return of the asset class over the next five to ten years.

In the search for higher returns, managers are pursuing strategies that combine farmland with private equity type investing (e.g investing in farmland infrastructure or fully integrated agribusiness operations, distribution, ag tech, processing) which are projected to generate 10% and higher total returns, but include higher risk as well. International strategies are also a mechanism some managers are using to generate higher returns.

Ways to Invest in Farmland

Institutional investors invest in farmland primarily through the use of a specialist farmland investment managers. Making farmland investments and managing them directly using in house staff, like IDL, is not typical due to the complexity, specialist knowledge of farmland, time required to assemble a diversified portfolio of farmland, and to retain, on staff, the expertise to properly oversee and manage those investments. Investing via a farmland investment manager provides diversification, experience, scale, and confidence that best in class farm management practices are being implemented.

Investment programs are implemented through pooled investment vehicles, including open end and closed end funds, or separately managed accounts. There is one institutionally recognized farmland open end fund and a few other open end funds focused on individual investors. The institutional open end fund is broadly diversified across the U.S. farmland sector by permanent and row crops as well as geography and has a long track record. Closed end funds may pursue higher risk strategies that may use leverage and combine farmland with private equity type investing discussed earlier or international strategies.

Separate accounts require a larger amount of capital than fund investments, typically at least $50 million. Investment management fees range from 50 to 100 basis points on the net asset value of the account. Separate accounts provide a higher level of control to the investor and are customizable according to investor needs. Typically the farmland investment manager operates within pre-set guidelines established at the inception of the account and approved annually by the investor. Acquisitions and dispositions in an account are approved by the investment committee of the investment manager provided they are within the established guidelines. Some investors require the manager to obtain approval for all transactions from the investor's investment committee or similar decision-making board; however this process may put the investor at a disadvantage due to the uncertainty it creates and additional time required to close a transaction. In a separate account, an investor has the ability to to terminate the advisor at any time and move the assets to another manager, which fosters greater manager accountability.

Investors can also access farmland through public REITs. The universe of farmland REITs is very small and very new. There are three farmland REITs including: Gladstone Land Corp. (LAND), with an inception date of 2013, Farmland Partners Inc. (FPI), with an inception date of 2014, and American Farmland Co. (AFCO), which held its initial public offering in 2015. The lack of track record, size of each company, and amount of leverage represent significant risks making implementation via the public markets unattractive for now.

A major consideration in developing a farmland investment strategy is risk tolerance and where an investor wants to be in the value chain. The basic building blocks to any portfolio are permanent plantings and row crops. Because of the significant investment in living improvements, permanent plantings are generally direct operated with the investor bearing all the volatility and risk of crop yield and commodity price. This is contrasted to row crops where the norm is cash leasing to an operator who bears the production and commodity price risk.

The chart below provides an overview of different risk scenarios and provides a context for evaluating an investor's risk tolerance and relative risk in an existing portfolio of farmland.

Investor Risk Preference or Portfolio Characteristics

Portfolio Diversification Factors	Low	Medium	High
Geography	Broadly Dispersed	Moderately Dispersed	Narrowly Dispersed
Commodity	Large Assortment	Medium Assortment	Small Assortment
Crop Type	100% Row 0% Permanent	50% Row 50% Permanent	0% Row 100% Permanent
Management Style	100% Leased 0% Operated	50% Leased 50% Operated	0% Leased 100% Operated
Leasing Arrangement	100% Fixed Rent 0% Flexed Rent	50% Fixed Rent 50% Flexed Rent	0% Fixed Rent 100% Flexed Rent
Operating Arrangement	100% Custom Farm 0% Directly Operate	50% Custom Farm 50% Directly Operate	0% Custom Farm 100% Directly Operate

Source: Callan 2015 Farmland Investment Survey and Hancock Agricultural Investment Group

Conclusions and Implications for Investment

Strong demand for farmland is expected to continue to meet the increasing global demand for food, fiber,and energy, as well as to satisfy institutional investor demand for diversifying, inflation-hedging assets. The relatively fixed supply of land capable of supporting agriculture is another favorable factor supporting the investment case for farmland. With less leverage and increasing technological efficiencies, the farm sector is better positioned for weak prices compared to the decline of 1980s. [9] Additionally, operators and investors have adjusted their return expectations downward. Moderating farmland prices may represent an attractive entry point if transactions are carefully underwritten over the next several years.

Primary risks of investing in farmland include the risks of crop destruction due to fire, disease, pests, natural weather events, and changing demand for agricultural products. These risks are primarily mitigated by investing in a diversified farmland portfolio. Additionally, today valuations may exceed current fundamentals with appraised values lagging the decline in pricing given weakening fundamentals of some commodities. There is a risk in potentially overpaying. Tenant credit default is more of a risk today highlighting the need to conduct extensive due diligence on a tenant's financial status, require a letter of credit and rental pre payments, and invest in areas with deep pools of tenants to replace a tenant/operator in the event of a default. An exhaustive descripton of risks is included in the Appendix.

9 Hancock Agricultural Investment Group, "Farmland Investor," Voume 22, Number 2.

The pace of investment in farmland is typically slower than timberland or commercial real estate due to the the limited pool of investment transactions every year. There is not a pool of closed end funds that are reaching maturity and selling assets like in timberland. Investors tend to buy and hold, the asset class is popular with significant competition for transactions, and operators/farmers have had strong balance sheets for acquiring farmland, with limited incentive to sell. There is an expectation by farmland managers that current relatively weak fundamentals may be a catalyst for weaker, marginal farmers/owners to sell their land. Some expect that stronger farmers may stay on the sidelines with regard to new acquisitions, again due to the state of the market. Access to transaction deal flow via relationships with institutional and local owner/operators is critical to building a portfolio. Investors must have an appropriately long term time frame to acquire a diversified portfolio of farmland, typically at least five years. The timeframe is similar for direct acquisitions in a separate account as well as investing via the open end fund. Investment horizons for closed end fund investments span from 10 to 15 years.

NASS Cropland Per Acre Prices and Percentage Change

	Appalachian	Y/Y%	Corn Belt	Y/Y%	Delta States	Y/Y%	Lake States	Y/Y%	Mountain	Y/Y%	Northeast	Y/Y%	Northern Plains	Y/Y%	Pacific	Y/Y%	Southeast	Y/Y%	Southern Plains	Y/Y%	Idaho	Y/Y%	US Total	Y/Y%
2006	$3,290		$3,090		$1,540		$2,480		$1,520		$4,970		$985		$4,690		$3,790		$1,110		$2,450		$2,300	
2007	$3,570	8.51%	$3,530	14.24%	$1,690	9.74%	$2,830	14.11%	$1,640	7.89%	$5,350	7.65%	$1,090	10.66%	$5,420	15.57%	$4,180	10.29%	$1,250	12.61%	$2,770	13.06%	$2,530	10.00%
2008	$3,730	4.48%	$4,030	14.16%	$1,800	6.51%	$3,080	8.83%	$1,670	1.83%	$5,590	4.49%	$1,280	17.43%	$5,570	2.77%	$4,380	4.78%	$1,390	11.20%	$2,800	1.08%	$2,760	9.09%
2009	$3,550	-4.83%	$3,840	-4.71%	$1,810	0.56%	$2,970	-3.57%	$1,600	-4.19%	$5,340	-4.47%	$1,280	0.00%	$5,160	-7.36%	$4,010	-8.45%	$1,370	-1.44%	$2,610	-6.79%	$2,640	-4.35%
2010	$3,490	-1.69%	$4,090	6.51%	$1,890	4.42%	$3,010	1.35%	$1,520	-5.00%	$5,270	-1.31%	$1,410	10.16%	$4,980	-3.49%	$3,800	-5.24%	$1,400	2.19%	$2,480	-4.98%	$2,700	2.27%
2011	$3,440	-1.43%	$4,810	17.60%	$2,020	6.88%	$3,310	9.97%	$1,540	1.32%	$5,200	-1.33%	$1,730	22.70%	$5,070	1.81%	$3,810	0.26%	$1,450	3.57%	$2,470	-0.40%	$2,980	10.37%
2012	$3,550	3.20%	$5,600	16.42%	$2,160	6.93%	$3,790	14.50%	$1,600	3.90%	$5,280	1.54%	$2,210	27.75%	$5,310	4.73%	$3,710	-2.62%	$1,500	3.45%	$2,580	4.45%	$3,350	12.42%
2013	$3,690	3.94%	$6,470	15.54%	$2,380	10.19%	$4,240	11.87%	$1,780	11.25%	$5,260	-0.38%	$2,720	23.08%	$5,690	7.16%	$3,690	-0.54%	$1,480	-1.33%	$2,850	10.47%	$3,810	13.73%
2014	$3,780	2.44%	$7,000	8.19%	$2,510	5.46%	$4,670	10.14%	$1,690	-5.06%	$5,260	0.00%	$3,090	13.60%	$5,860	2.99%	$3,730	1.08%	$1,630	10.14%	$3,040	6.67%	$4,100	7.61%
2015	$3,830	1.32%	$6,840	-2.29%	$2,600	3.59%	$4,670	0.00%	$1,740	2.96%	$5,330	1.33%	$3,130	1.29%	$6,160	5.12%	$3,770	1.07%	$1,780	9.20%	$3,200	5.26%	$4,130	0.73%

Idaho Farmland Information

The following information on Idaho farmland price, volatility and return trends was provided by Resource Dimensions to IDL as an update to the March 2010 Agriculture Market Rent Study.

Real Cash Rents Plus Land Appreciation Returns for Idaho Cropland 2003-2015

Year	Land Value ($/Acre)	Change in Land Value ($/Acre)	Appreciation Rate	Cash Rent ($/Acre)	Rent-to-Value Ratio	Appreciation + Cash Rent ($/Acre)	Total Rate of Return
Irrigated							
2003	2,834			149	5.3%		
2004	2,924	90	3.2%	148	5.1%	238	8.4%
2005	3,398	475	16.2%	150	4.4%	625	21.4%
2006	4,585	1,187	34.9%	150	3.3%	1,338	39.4%
2007	4,973	387	8.4%	149	3.0%	536	11.7%
2008	4,954	-19	-0.4%	160	3.2%	141	2.8%
2009	4,419	-535	-10.8%	177	4.0%	-358	-7.2%
2010	3,631	-788	-17.8%	153	4.2%	-636	-14.4%
2011	4,025	394	10.9%	177	4.4%	571	15.7%
2012	4,171	146	3.6%	187	4.5%	332	8.3%
2013	4,314	143	3.4%	180	4.2%	323	7.8%
2014	4,605	292	6.8%	197	4.3%	489	11.3%
2015	4,830	225	4.9%	205	4.2%	430	9.3%
Average	4,128	166	4.5%	168	4.1%	336	8.6%
Standard Deviation	728	495	13.1%	20	0.7%	494	13.4%
Non Irrigated							
2003	1,005			66	6.5%		
2004	1,004	-1	-0.1%	67	6.6%	66	6.5%
2005	1,032	28	2.8%	67	6.5%	95	9.4%
2006	1,234	203	19.7%	68	5.5%	271	26.3%
2007	1,406	172	13.9%	66	4.7%	238	19.3%
2008	1,497	91	6.5%	61	4.0%	152	10.8%
2009	1,436	-61	-4.1%	63	4.4%	2	0.1%
2010	1,166	-271	-18.8%	57	4.9%	-213	-14.9%
2011	1,275	109	9.4%	58	4.5%	167	14.4%
2012	1,249	-26	-2.0%	54	4.3%	28	2.2%
2013	1,333	84	6.7%	57	4.3%	141	11.3%
2014	1,322	-11	-0.8%	61	4.6%	50	3.7%
2015	1,400	78	5.9%	65	4.6%	143	10.9%
Average	1,258	33	2.8%	62	4.9%	95	7.7%
Standard. Deviation	166	124	9.8%	5	0.9%	126	10.3%

Farmland Risks

Potential risks associated with investing in U.S. Farmland include, but are not limited to the following:

a. **Environmental Risks**. Investment returns may be impacted by environmental issues, events and risks including but not limited to the following:
   - Drought
   - Flood
   - Water use (overexploitation/depletion and deterioration of groundwater)
   - Soil type and drainage
   - Soil erosion/deletion
   - Pollution from agrochemicals
   - Biodiversity impacts, deforestation
   - Greenhouse gas (GHG) emissions
   - Endangered species
   - Issues related to intensive production, monocultures (use of land for growing only one type of crop), genetically modified organisms (GMO) use
   - Storage tank contamination
   - Groundwater or soil contamination from on or off-site sources
   - Weather
   - Pests
   - Climate change

b. **Social Risks**.
   - Risks related to food price volatility
   - Human/labor rights issues. Farmland investments may have an impact on labor groups and public sector employment opportunities.
   - Impact of on small farmers and local/regional food security
   - Impacts of intensive land use on communities
   - Occupational health and safety

c. **Commodity Price Volatility.** Given the uncertain and volatile nature of commodity prices, return in any one year may be impacted, both on the income and appreciation side. This risk is heightened if lands are being leased and part of the rent is dependent on production or price levels.

d. **Productivity Risk**. External operators or lessees may poorly manage farmland operations, use inappropriate agricultural techniques, or the original land selection may not produce as expected.

e. **Financing Risks**. Changes and volatility in the credit and equity markets may impact financing efforts and the capital structures of underlying agriculture investments or the lessee.

f. **Tenant Risk**. Tenant default and failure to pay rent may occur.

g. **Leverage Risk.** Farmland investments may utilize significant leverage which may increase financial and refinancing risks. This is not a risk for the Land Board currently as no leverage is used to acquire properties.

h. **Liquidity Risk.** As farmland investments may have long durations, they often are illiquid. Secondary markets for agriculture or farmland partnership investments may not be fully established or may provide limited opportunities.
i. **Market Risk**. The farmland market is a developing market globally and investment opportunities may be impacted by market supply and demand.
j. **Political and Headline Risks**. Agriculture or Farmland investments may involve political activities and may introduce headline risk to investors. Politics may impact the global trade of agriculture commodities. Politics may influence returns through adjustments to subsidies and bio-fuel mandates. Politics and regulations may impact water rights and water usage.
k. **Regulatory Risk.** Changes in regulatory mandates may impact investment returns and strategies.
l. **Management**. The investment manager universe for farmland investment is limited. Few institutional options are available which could impact manager diversification and manager substitution, if the need were to arise. The Land Board has chosen to use IDL as the internal manager and is dependent on one entity for management.

There are additional risks associated with investing in non-U.S. farmland that are not included in this document.

Historical Returns and Correlations for Farmland, Timberland, and Commercial Real Estate with Major Stock and Bond Indices

Gross of Fee Returns for Periods Ended December 31, 2015

	Last Year	Last 5 Years	Last 10 Years	Last 15 Years	Last 25 Years
NCREIF Timberland	4.97	6.84	6.92	6.83	10.28
NCREIF Farmland	10.35	15.47	14.47	14.33	11.85
NCREIF Property Index	13.33	12.18	7.76	8.96	8.05
S&P 500	1.38	12.57	7.31	5.00	9.82
Barclays Aggregate	0.55	3.25	4.51	4.97	6.15

Gross of Fee Correlation for 10 Years Ended December 31, 2015

	NCREIF Timberland	NCREIF Farmland	NCREIF Property	S&P 500	Barclays Aggregate
NCREIF Timberland	1.00	0.61	0.25	(0.16)	0.10
NCREIF Farmland	0.61	1.00	0.09	0.10	(0.10)
NCREIF Property Index	0.25	0.09	1.00	0.26	(0.20)
S&P 500	(0.16)	0.10	0.26	1.00	(0.27)
Barclays Aggregate	0.10	(0.10)	(0.20)	(0.27)	1.00

Glossary of Terms

Appraisal – An estimate or opinion of market value.

Appreciation – The percentage change in the market value of a property or portfolio over the period of analysis.

Asset Management – The various disciplines involved with managing real property assets from the time of investment through the time of disposition. Proper asset management plans and policies include: requirements for operating and capital budgets, property management, leasing, physical property analysis, operational and financial reporting, appraisal, audits, accounting policies and asset disposition plans (hold/sell analyses).

Benchmark – An index derived from database information that allows for comparative performance evaluation within an asset class.

Capital Improvements – Expenditures that cure or arrest deterioration of assets or add new improvements to prolong their lives.

Core Investment – Typical Core portfolio investments shall be mature, brownfield/existing assets that produce steady and predictable cash flows. These assets should be difficult to replicate and will be long life assets. The assets shall be located in well established markets.

Commingled Fund – A term applied to all open-ended and closed-ended pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account, private real estate investment trust or other multiple ownership entity.

- **Open-ended Fund** – A commingled fund with no finite life, which allows continuous entry and exit of investors and typically engages in ongoing investment purchase and sale activities.
- **Closed-ended Fund** – A commingled fund with a stated termination date, with few or no additional investors after the initial formation of the fund. Closed-ended funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not reinvest the sales proceeds.

Compound Return: Compounded Returns are measured over long time periods (10 years) and reflect the reduction in return that comes from variations around the average return (“volatility drag”).

Correlation: Correlations measure the amount of diversification between two asset classes. A correlation of 1 indicates no diversification. A correlation of -1 indicates perfect diversification. Very few investments have correlations much less than zero.

Dairy – A dairy is a business enterprise established for the harvesting of animal milk. A dairy farm produces milk and a dairy factory processes it into a variety of dairy products.

Discretion – The level of authority given to an investment manager over the investment and management of a client's capital once that capital is allocated to the investment manager.

Direct Investment – An investment in which an investor has a direct ownership interest in underlying agriculture projects and/or assets. This is compared to investment in a commingled fund structure where the investor has in interest in the commingled fund and the fund owns the underlying assets.

Diversification – Investing in a wide range of assets/projects or asset classes in order to reduce financial risk.

Due Diligence – The process of investigating, evaluating and analyzing a potential investment's characteristics, investment philosophy and terms and conditions.

Fair Market Value – The highest price a property would bring if exposed for sale in the open market by a willing seller to a willing buyer with both parties being fully informed of all the uses and purposes to which the property is reasonably adaptable and available.

General Partner – Managing partner of a limited partnership responsible for performing the day-to-day administrative operations of the partnership and acting as investment advisor to the partnership.

Income – The component of return derived from property or portfolio operations during the period of analysis.

Inflation – The general upward price movement of goods and services in an economy over a period of time.

Inflation-Link – Investments that allow inflation risk to be mitigated contractually through inflation-adjusted pricing agreements such as water utilities where the user fees are linked to Consumer Price Index (CPI).

Internal Rate of Return (IRR) – The discount rate at which the present value of future cash flows of an investment equals the cost of the investment. It is determined when the net present value of the cash outflows (the cost of the investment) and the cash inflows (returns on the investment) equal zero, the rate of discount being used is the IRR.

Investment Manager – A company that, by contractual agreement, provides farmland or timberland investment opportunities and/or property asset management services.

Joint Venture – A structure wherein an investor and a partner form a partnership to purchase and/or operate an investment or investments.

Leverage – The use of borrowed funds to increase purchasing power and, ideally, to increase the profitability of an investment.

Limited Partnership – A partnership with both general and limited partners in which the general partner manages the business and assumes full liability for the partnership obligations with the liability of the limited partners generally restricted to their capital contributions.

NCREIF Farmland Index – A quarterly time series composite return measure of investment performance of a large pool of individual agricultural properties acquired in the private market for investment purposes only. All properties in the Farmland Index have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment. The Index tracks U.S. properties exclusively.

NCREIF Property Index – A quarterly time series composite return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the Property Index have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment. The Index tracks U.S. properties exclusively**.**

NCREIF Timberland Index – A quarterly time series composite return measure of investment performance of a large pool of individual timberland properties acquired in the private market for investment purposes only. All properties in the Timberland Index have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment. The Index tracks U.S. properties exclusively.

Net Asset Value (Nav) – Represents total assets at fair market value minus liabilities.

Net Operating Income (NOI) – Rental and other income of a property, less operating expenses, but before the deduction of capital expenditures and debt service.

Nominal Rate of Return: Rate of return before adjusting for inflation

Opportunistic – A phrase characterizing an investment in underperforming and/or undermanaged assets/projects typically purchased from distressed sellers, utilizing high levels of leverage at times with the expectation of near-term increases in cash flow and value.

Pastoral Farming – is the branch of agriculture concerned with the raising of livestock. It is animal husbandry: the care, tending and use of animals such as cattle and sheep.

Permanent Crop – A crop that grows on a tree or vine. Permanent crops are typically categorized as citrus fruits, fruits and nuts. Examples include oranges, wine grapes, apples, almonds, walnuts, etc.

Property Management – The various functions that are performed at the property level in order to assure timely collection of rents, payment of expenses and supervision of on-site activities.

Real Rate of Return – Rate of return after adjusting for inflation (typically determined by the Consumer Price Index).

Row Crop – A crop that requires annual planting. These can be categorized as commodities and vegetables. Examples include corn, cotton, grains, soy, oilseeds, potatoes, etc.

Specialty Crop – A non-traditional crop that requires specialized expertise in its growth, harvesting or transportation. Many fresh fruits and produce are considered specialty crops. Examples include lettuce, strawberries, mangos, broccoli, etc.

Total Return – The sum of the income and appreciation returns.

Value-Added – A phrase commonly used by investment managers to describe a management approach to an asset or project with the connotation that their skills will add value, which otherwise would not be realized.

Vintage Year – The year of formation for a fund or investment program and its first takedown of capital. By placing a fund/investment program into a particular vintage year, the investor can compare the performance of a given fund with all other similar type funds formed in that particular vintage year. In addition, that vintage year return can then be compared to an industry benchmark which is provided by a leading publication source.

- EXCERPT ONLY -

Idaho Department of Lands

Acquisition Business Plan

DRAFT

ATTACHMENT 3

Table of Contents

Executive Summary

The Acquisition Business Plan (ABP) details how the Idaho Department of Lands (IDL) will implement strategic reinvestment policy adopted by the Idaho State Board of Land Commissioners (Land Board) in the Statement of Investment Policy, Strategic Reinvestment Plan, and Asset Management Plan (Plans).[1] The ABP identifies risks and opportunities, and seeks to maximize management efficiencies for endowment assets. IDL staff will use the ABP to guide decision-making when working to deploy Land Bank proceeds and maximize long-term returns to the endowment beneficiaries through strategic reinvestment.

IDL operates under a constitutional mandate to maximize revenue for the trust beneficiaries. Historically, IDL has implemented plans for the disposition and acquisition of certain land assets to meet its mission of maximizing revenue. With the recent sale of commercial and residential assets, the Land Board prompted strategic changes to the current asset portfolio. It was determined that strategic reinvestment should be limited to investing in traditional asset classes identified as Timberland and Farmland. The shift in strategy has caused a disparity in Land Bank deposits and withdrawals, resulting in a growing Land Bank balance, and the need to consider reinvestment in Timberland and Farmland. While land reinvestment presents an excellent opportunity to increase land holdings, revenue, and hedge against financial asset risk, current statutory limitations, market conditions, and political opposition create challenges.

The ABP focuses on reinvestment of the 2018 Land Bank fund balance and estimated Land Bank deposits through 2025. Reinvestment scenarios outlined explore short and mid-term timeframes, as well as minimum average yearly withdrawals from the Land Bank. Short-term strategies focus on high-value reinvestment over three years while mid-term strategies focus on lower-value reinvestment over five years. Minimum average yearly withdrawals identify acquisition levels, which avoid expiration of Land Bank funds.

The ABP is adaptable and will be reviewed and updated regularly as specific objectives, guiding strategies, and key performance indicators are revised. The ABP will also be evaluated for alignment and consistency with the Land Board's Plans as necessary.

THE FOLLOWING ARE TABLES FROM THE ACQUISITION BUSINESS PLAN

---

[1] The Plans' goals include statewide real estate acquisition and disposition, and allocating personnel resources appropriately.

IV. Reinvestment Strategy

Table 6: 5-Year Minimum Reinvestment

D. 5-Year Minimum Reinvestment to Avoid PF Transfer								
FY	LB Income	Yearly Acquisitions	LB Income Expiration (5-Year Expiration)	Permanent Fund Transfer Due to 5-Year Expiration	Land Bank Balance (Total Income - Total Acquisition)	[redacted]	Total Income (Compounding)	Total Acquisition (Compounding)
2015	$ -	$ -	$ -			[redacted]		$ -
2016	$ 24,990,936	$ -	$ -		$ 24,990,936	[redacted]	$ 24,990,936	$ -
2017	$ 50,734,428	$ -	$ -		$ 75,725,364	[redacted]	$ 75,725,364	$ -
2018	$ 44,255,332	$ -	$ -		$ 119,980,696	[redacted]	$ 119,980,696	$ -
2019	$ 46,754,800	$ (33,000,000)	$ -		$ 133,735,496	[redacted]	$ 166,735,496	$ (33,000,000)
2020	$ 13,391,900	$ (33,000,000)	$ -	$ -	$ 114,127,396	[redacted]	$ 180,127,396	$ (66,000,000)
2021	$ 7,000,000	$ (33,000,000)	$ 24,990,936	$ -	$ 88,127,396	[redacted]	$ 187,127,396	$ (99,000,000)
2022	$ 7,000,000	$ (33,000,000)	$ 50,734,428	$ -	$ 62,127,396	[redacted]	$ 194,127,396	$ (132,000,000)
2023	$ 7,000,000	$ (33,000,000)	$ 44,255,332	$ -	$ 36,127,396	[redacted]	$ 201,127,396	$ (165,000,000)
2024	$ 7,000,000	$ (9,000,000)	$ 46,754,800	$ -	$ 34,127,396	[redacted]	$ 208,127,396	$ (174,000,000)
2025	$ 7,000,000	$ (7,000,000)	$ 13,391,900	$ -	$ 34,127,396	[redacted]	$ 215,127,396	$ (181,000,000)

Table 7: Increased Reinvestment Moderate Reinvestment

A. Forecasted Increased Reinvestment 12-36 Months $40M, $50M, $35M								
FY	LB Income	Yearly Acquisitions	LB Income Expiration (5-Year Expiration)	Permanent Fund Transfer Due to 5-Year Expiration	Land Bank Balance (Total Income - Total Acquisition)	[redacted]	Total Income (Compounding)	Total Acquisition (Compounding)
2015	$ -	$ -	$ -			[redacted]		$ -
2016	$ 24,990,936	$ -	$ -		$ 24,990,936	[redacted]	$ 24,990,936	$ -
2017	$ 50,734,428	$ -	$ -		$ 75,725,364	[redacted]	$ 75,725,364	$ -
2018	$ 44,255,332	$ -	$ -		$ 119,980,696	[redacted]	$ 119,980,696	$ -
2019	$ 46,754,800	$ (40,000,000)	$ -		$ 126,735,496	[redacted]	$ 166,735,496	$ (40,000,000)
2020	$ 13,391,900	$ (50,000,000)	$ -	$ -	$ 90,127,396	[redacted]	$ 180,127,396	$ (90,000,000)
2021	$ 7,000,000	$ (35,000,000)	$ 24,990,936	$ -	$ 62,127,396	[redacted]	$ 187,127,396	$ (125,000,000)
2022	$ 7,000,000	$ (22,000,000)	$ 50,734,428	$ -	$ 47,127,396	[redacted]	$ 194,127,396	$ (147,000,000)
2023	$ 7,000,000	$ (20,000,000)	$ 44,255,332	$ -	$ 34,127,396	[redacted]	$ 201,127,396	$ (167,000,000)
2024	$ 7,000,000	$ (7,000,000)	$ 46,754,800	$ -	$ 34,127,396	[redacted]	$ 208,127,396	$ (174,000,000)
2025	$ 7,000,000	$ (7,000,000)	$ 13,391,900	$ -	$ 34,127,396	[redacted]	$ 215,127,396	$ (181,000,000)

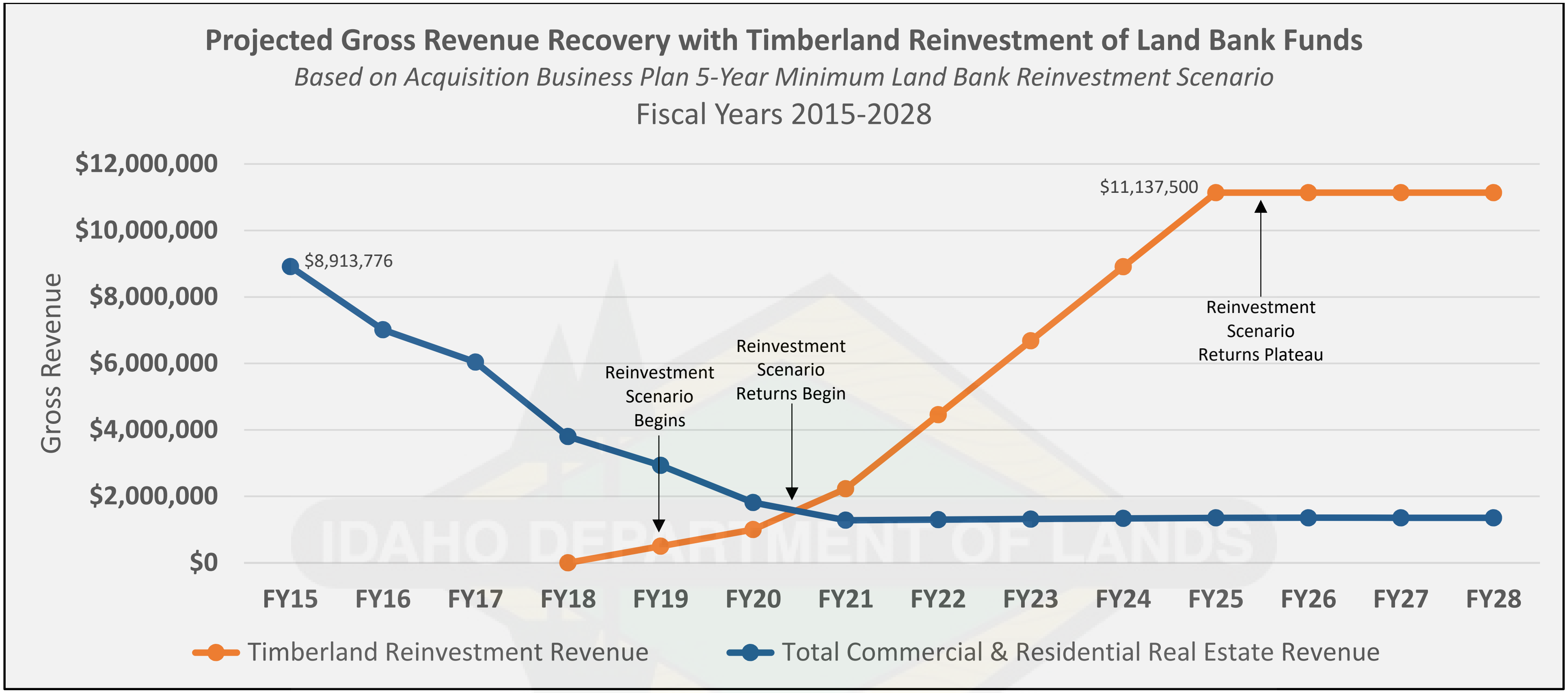
Table 8: Increased Reinvestment 12-36 High Initial Reinvestment

B. Forecasted Large Transactions $70M, $50M, $60M								
FY	LB Income	Yearly Acquisitions	LB Income Expiration (5-Year Expiration)	Permanent Fund Transfer Due to 5-Year Expiration	Land Bank Balance (Total Income - Total Acquisition)	[redacted]	Total Income (Compounding)	Total Acquisition (Compounding)
2015	$ -	$ -	$ -			[redacted]		$ -
2016	$ 24,990,936	$ -	$ -		$ 24,990,936	[redacted]	$ 24,990,936	$ -
2017	$ 50,734,428	$ -	$ -		$ 75,725,364	[redacted]	$ 75,725,364	$ -
2018	$ 44,255,332	$ -	$ -		$ 119,980,696	[redacted]	$ 119,980,696	$ -
2019	$ 46,754,800	$ (70,000,000)	$ -		$ 96,735,496	[redacted]	$ 166,735,496	$ (70,000,000)
2020	$ 13,391,900	$ (50,000,000)	$ -	$ -	$ 60,127,396	[redacted]	$ 180,127,396	$ (120,000,000)
2021	$ 7,000,000	$ (60,000,000)	$ 24,990,936	$ -	$ 7,127,396	[redacted]	$ 187,127,396	$ (180,000,000)
2022	$ 7,000,000	$ (7,000,000)	$ 50,734,428	$ -	$ 7,127,396	[redacted]	$ 194,127,396	$ (187,000,000)
2023	$ 7,000,000	$ (7,000,000)	$ 44,255,332	$ -	$ 7,127,396	[redacted]	$ 201,127,396	$ (194,000,000)
2024	$ 7,000,000	$ (7,000,000)	$ 46,754,800	$ -	$ 7,127,396	[redacted]	$ 208,127,396	$ (201,000,000)
2025	$ 7,000,000	$ (7,000,000)	$ 13,391,900	$ -	$ 7,127,396	[redacted]	$ 215,127,396	$ (208,000,000)

Table 9: Reinvestment Less than Compounding Income

C. Average Reinvestment Per Year
$20M - 5 years

FY	LB Income	Yearly Acquisitions	LB Income Expiration (5-Year Expiration)	Permanent Fund Transfer Due to 5-Year Expiration	Land Bank Balance (Total Income - Total Acquisition)	[redacted]	Total Income (Compounding)	Total Acquisition (Compounding)
2015	$ -	$ -	$ -			[redacted]		$ -
2016	$ 24,990,936	$ -	$ -		$ 24,990,936	[redacted]	$ 24,990,936	$ -
2017	$ 50,734,428	$ -	$ -		$ 75,725,364	[redacted]	$ 75,725,364	$ -
2018	$ 44,255,332	$ -	$ -		$ 119,980,696	[redacted]	$ 119,980,696	$ -
2019	$ 46,754,800	$ (20,000,000)	$ -		$ 146,735,496	[redacted]	$ 166,735,496	$ (20,000,000)
2020	$ 13,391,900	$ (20,000,000)	$ -	$ -	$ 140,127,396	[redacted]	$ 180,127,396	$ (40,000,000)
2021	$ 7,000,000	$ (20,000,000)	$ 24,990,936	$ -	$ 127,127,396	[redacted]	$ 187,127,396	$ (60,000,000)
2022	$ 7,000,000	$ (20,000,000)	$ 50,734,428	$ -	$ 114,127,396	[redacted]	$ 194,127,396	$ (80,000,000)
2023	$ 7,000,000	$ (20,000,000)	$ 44,255,332	$ (19,980,696)	$ 81,146,700	[redacted]	$ 201,127,396	$ (100,000,000)
2024	$ 7,000,000	$ (7,000,000)	$ 46,754,800	$ (46,754,800)	$ 34,391,900	[redacted]	$ 208,127,396	$ (107,000,000)
2025	$ 7,000,000	$ (7,000,000)	$ 13,391,900	$ (13,391,900)	$ 21,000,000	[redacted]	$ 215,127,396	$ (114,000,000)



Notes:

- Actual gross revenue numbers FY15 through FY18
- Forecasted gross revenue numbers FY19 through FY28
- Scenario assumes $33 million in Land Bank Funds reinvested annually for five years ($165 million total) beginning FY19
- Assumes 6.75% gross nominal return (2.25% inflation) realized beginning FY21
    - 2-year delay allows time for updated timber modeling, timber sales plans, etc.

ATTACHMENT 4

STATE BOARD OF LAND COMMISSIONERS
July 17, 2018
Regular Agenda

SUBJECT

Strategic Reinvestment Plan Annual Review

BACKGROUND

In May 2016, the State Board of Land Commissioners' (Land Board) general consultant Callan Associates (Callan) developed a Strategic Reinvestment Plan to help inform the Land Board's decisions regarding reinvestment of Land Bank funds (Attachment 1). The Strategic Reinvestment Plan considered the whole trust, described alternatives to reinvestment, and provided recommendations to the Land Board. The primary recommendation was to reinvest Land Bank funds in timberland and farmland provided targeted hurdle rates can be met or exceeded and a formal investment process is followed. The Strategic Reinvestment Plan was approved by the Land Board on May 17, 2016, and is subject to annual review.

In July 2017, Callan issued a memo to the Land Board with two updated recommendations:

1. Continue to invest Land Bank funds in timberland and farmland for the Public School Endowment.
2. Do not invest Land Bank funds in timberland or farmland for Endowments other than Public School until the asset allocation/spending study is completed.

Callan, the Idaho Department of Lands (Department), and Endowment Fund Investment Board (EFIB) completed the asset allocation/spending study over the past year. Results presented by Callan in April indicated findings are consistent with previous studies and the Strategic Reinvestment Plan approved in 2016. Callan concluded investment of Land Bank proceeds in timberland or farmland is appropriate for all endowments provided acquisitions meet or exceed established hurdle rates.

DISCUSSION

For the 2018 update of the Strategic Reinvestment Plan, Callan issued a memo to the Land Board dated July 5, 2018 (Attachment 2), which acknowledges the results of the asset allocation/distribution study, provides updated discussion on the hurdle rates for timberland and farmland acquisitions, and recommends continued implementation of the Strategic Reinvestment Plan approved in 2016.

The memo specifically states:

> The findings from the Asset Allocation and Distribution Study completed by Callan in 2018 are consistent with the conclusions and next steps outlined in the Strategic Reinvestment Plan approved by the Land Board in 2016. Assuming the Land Board adopts the recommendation of the Investment Sub-committee to proceed with

Option A[1] of the Asset Allocation and Distribution study, Callan recommends that all future investments in timberland and farmland are made at or exceed the established hurdle rates. This applies to all endowments.

If approved by the Land Board, the Department will continue to implement the Strategic Reinvestment Plan approved in 2016 and establish a pipeline of transactions for acquisition of timberland and farmland for all endowments. The Department will continue to implement a diligent investment process, which includes financial analysis of each potential transaction, and will report progress toward reinvestment to the Land Board periodically. The Department will also continue to work closely with EFIB to monitor funds in the Land Bank and coordinate strategic transfers to the Permanent Fund when prudent and approved by the Land Board.

RECOMMENDATION

The Department recommends approval of the memo submitted by Callan on July 5, 2018, as the annual update to the Strategic Reinvestment Plan.

BOARD ACTION

ATTACHMENTS

1. Strategic Reinvestment Plan – 2016
2. Callan Memo dated July 5, 2018

[1] Option A of the Asset Allocation and Distribution Study reads, "Consistent with the Reinvestment Plan, identify potential transactions that meet established hurdle rates and set aside sufficient funds over appropriate time horizon (immediately move money [to the Permanent Fund] that will either "mature" prior to the transaction or exceeds what is required)."

Callan

Callan Associates Inc.
120 North LaSalle Street
Suite 2400
Chicago, IL 60602

Main 312.346.3536
Fax 312.346.1356

www.callan.com

Memorandum

To: Idaho Board of Land Commissioners
From: Callan Associates, Inc.
Date: July 5, 2017
Subject: Strategic Reinvestment Plan

Background
In May 2016, the Idaho Board of Land Commissioners approved the Strategic Reinvestment Plan that allowed for the investment of Land Bank proceeds into timberland and farmland for all endowments subject to certain requirements. The Strategic Reinvestment Plan is subject to annual review at this time.

The current recommended asset mix was based on an analysis of the characteristics of the portfolio of all endowments in total and is clearly applicable to the largest endowment, Public School. Further study is required to determine if that mix is appropriate for the seven endowments with significantly smaller land bases. The ongoing sale of cabin sites and commercial real estate provides State Hospital South and Normal School with the potential to materially change their asset mix through reinvestment, so before reinvestment proceeds, the Land Board has approved an Asset/Spending Study of each endowment to determine:

- The evaluation of the best and highest use of assets in the Land Bank – redeployment into Lands or transfer to the financial asset portfolio.
- Assess the impact of cabin site sales on the volatility of endowments where it represents a meaningful percent of cash inflows – should the asset allocation, reserves or distribution policy of these endowments change?
- Revisit endowment asset allocation in light of Callan's 2017 Capital Market Expectations and custom assumptions for each endowment portfolio.

Recommendation
Callan recommends the following with regard to investment of money in the Land Bank:

- Invest Land Bank funds into timberland for Public Schools provided the transactions meet or exceed the minimum hurdle rate and the criteria established in the Timberland Acquisition Advisor Scope of Services. Invest Land Bank funds into farmland provided the transactions meet or exceed the minimum hurdle rate and a thorough, institutional process is used to analyze transactions.

Callan

This is appropriate because the Public Schools asset allocation most closely matches the asset allocation recommended in Callan's 2014 Asset Allocation and Governance Review and there is a process in place to source and analyze transactions via the Timberland Acquisition Advisor.

- Until the Asset/Spending Study is completed, do not invest Land Bank Funds for any endowment, except Public Schools, into timberland and farmland.

Callan

May 2016

Idaho Board of Land Commissioners

Strategic Re-Investment Plan

Table of Contents

Idaho Board of Land Commissioners Strategic Re-Investment Plan

Purpose and Background

The purpose of this Strategic Investment Plan ("Plan") is to assess options to guide the Land Board's decision-making regarding prudent investment of money in the Land Bank.

As background, the total Endowment Portfolio is valued at approximately $3,277 million and the Land Portfolio, excluding the Land Bank, comprises approximately 43% of the total portfolio as shown in Table 1. The current Endowment portfolio is consistent with the Target Asset Allocation from the Callan asset allocation study ("Callan Report").

Table 1: Current Portfolio Compared to Target Asset Allocation

Asset Class	Target Asset Allocation	Range	Existing %	$s Currently Invested $ Millions[(a)]
Financial Assets	58%	50-65%	55.9%	$1,833
Timberland	39%	30-50%	35.8%	$1,174
Rangeland	2%	0-5%	1.9%	$61
Idaho Commercial Real Estate	0%	N/A	1.0%	$32
Residential Real Estate (Cottage Sites)	0%	N/A	3.8%	$123
Farmland	N/A	N/A	0.7%	$22
Cash Equivalents (Land Bank)	1%	0-5%	1.0%	$32
Total Endowment Portfolio	100%		**100%**	**$3,277**

(a) As of 12/31/2015 for the Financial Assets. As of June 30, 2015 for Timberland, Rangeland, and Farmland. As of 12/31/2015 for Idaho Commercial Real Estate based on valuation from Century Pacific. Residential Real Estate is a current estimate.
Source: Idaho Department of Lands for Land and Callan for Financial Assets.

The Land portfolio is undergoing changes due to the strategic sale of cottage sites and the commercial real estate portfolio which will result in deposits into the Land Bank as properties are sold. The balance in the Land Bank is currently $31.85 million and it is projected to end FY2016 at that level. Disposition of cottage sites and Idaho commercial real estate is projected to produce additional sales proceeds of $130.75 million in FY2017 through FY2020. The estimated total proceeds that could be re-invested in Land or transferred to the Permanent Fund is $162.60 million ($31.85 million plus $130.75 million). Since the cottage site sales program began, approximately $46.70 million has been transferred to the Permanent Fund.

As land and commercial property is sold, gross income from the sold properties will be lost. IDL estimates that the gross income reduction due to sales is approximately $6.83 million.[1] Table 2 shows the projected additions to the

[1] Land Bank balance, estimated sales proceeds, gross income reduction, and timing of sales proceeds were provided to Callan by Idaho Department of Lands ("IDL").

Land Bank by year, the corresponding Land Bank balance if no investments are made, and the annual and cumulative reduction in gross income.

Table 2: Projected Additions to the Land Bank and Reduction in Gross Income Due to Sales

	Prior Periods	FY2016 $MM	FY2017 $MM	FY2018 $MM	FY2019 $MM	FY2020 $MM
Additions to Land Bank	$51.7	$26.85	$53.15	$34.85	$30.15	$12.60
Transfers to Permanent Fund	$46.7	$0	$0	$0	$0	$5.00
Land Bank Balance[2]	$5.00	$31.85	$85.00	$119.85	$150.00	$157.60
Reduction in Gross Income[3] from Sales	N/A	$1.82	$3.42	$1.09	$0.50	$0
Cumulative Reduction in Gross Income	N/A	$1.82	$5.24	$6.33	$6.83	$6.83

Using the Land Bank Balance on Table 2 and holding the value of the total portfolio constant, the Land Bank Balance, as a percentage of the total portfolio, rises from 1% currently to 2.6% at the end of FY2017 to just under 5% by the end of FY2020 which is in the recommended range of 0-5%.

Comparison of Investment Options

The Callan report suggested a framework for making investment decisions for timberland and farmland (Items 1-5 below). These and other relevant decision-making factors (Items 6-8 below) are applicable to establishing priorities for investment of the Land Bank.

1. Is the investment consistent with the overall asset allocation and objectives of the total portfolio as set forth in the Investment Policy Statement and in the Strategic and Annual Plans?
2. Comparison of the risk adjusted return and the net return relative to other choices (e.g. stocks, bonds, other land types). In other words, what are the other choices for investment?
3. Does it make a difference and move the needle from an overall portfolio perspective?
4. Completion of a full underwriting of the potential investment including upside, base case, and downside scenarios with identification of assumptions and risks alongside of the returns (both the return gross of fees and net of all fees and costs);
5. Detailed outline of the business plan for the investment and the plan for execution including consideration of the internal and external resources required to execute the plan and associated costs;
6. Market fundamentals;
7. Availability of transactions; and
8. Institutional investment trends, processes, and implementation for timberland and farmland.

Callan believes there are three investment options for the Land Bank proceeds: Financial Assets (Permament Fund), Idaho Farmland, and Idaho Timberland. Table 3 summarizes the investment options with commentary on each option following the table.

[2] Assumes no acquisitions are completed and transfers to the Permanent Fund occur after 5 years.
[3] Gross income is before deduction of IDL management expenses

Table 3: Summary of Investment Options for Land Bank Proceeds

	Financial Assets Permanent Fund	Idaho Farmland	Idaho Timberland
Consistent with Investment Policy and Objectives	Yes	Yes	Yes
Long Term Policy Return Objective (Net)[4]	4.0% Real 6.25% Nominal	4.0% Real 6.25% Nominal	3.0% Real 5.25% Nominal
Minimum Hurdle Rate for New Investments (Net)	N/A	4.5% Real	3.5% Real
Potential to Replace Income	Yes	Yes	Yes
Strategic Asset Class in Asset Allocation	Yes	No	Yes
Market Fundamentals	Continued Volatility	Weakening in Short Term Strong Long Term	Choppy in Short Term Strong Long Term
Expected Availability of Transactions	High	Medium	High
Internal Expertise	High	Medium	High
Implementation Complexity Implementation Costs	Simple Low	Complex High	Complex High

Commentary

Financial Assets

- If all of the projected proceeds were invested in Land or if all of the money was transferred to the Permanent Fund, the total Endowment would still be within the asset allocation target ranges. The default option would seem to be to transfer the money to the Financial Assets as there is no compelling asset allocation reason *currently* to invest in Land, investing in the Financial Assets is the easiest and most cost efficient option, and it has sufficient long term risk/adjusted returns. However, this is an unusual time with the amount of disposition activity taking place, and it is unclear when there will be this level of proceeds to invest in Land again.

Farmland

- Investment in farmland totals 17,000 acres with an approximate value of $22 million which is 0.7% of the total Endowment. Farmland is not currently a part of the Endowment's Strategic Asset Allocation. Callan's asset allocation study did not model Idaho farmland as a separate asset class due to the small investment held by the Endowment and the fact that a concentrated portfolio of Idaho farmland is not considered an institutional investment class. Investment in Idaho farmland is allowed under the Draft Statement of Investment Policy in Section V (D) which states:

[4] Long Term Policy Return Objectives will be continually evaluated and refined as performance data is collected and based on results from implementation of the Business Plan for each Land Type. The Long Term Policy Objective is a portfolio level return target. It is different from the hurdle rate which is the rate of return required for new investments. The hurdle rate will be reviewed and updated annually.

"In addition to asset allocation, the Land Board may, from time to time, authorize or adopt strategic policies. "Strategic Policies" are actions by the Land Board to allow investment in asset types that have not been singled out as "asset classes" in the asset allocation process, to overweight a particular sector within an asset class, or to employ particular strategies in the investment of the Endowment Assets. The purposes of these actions are either to increase the return above the expected return or to reduce risk. Any such policy would include consideration of the change in risk and the impact on the Distribution Policy."

- As noted previously, we have not modeled the investment characteristics of Idaho farmland. For Idaho farmland, we have considered the short return series of the Idaho farmland properties reported to the National Council of Real Estate Investment Fiduciaries (NCREIF). These are all row crop properties which is what we assume would be the target of any additional investment in farmland by the Land Board.

  Our broader view of the farmland sector and its investment characteristics considers the historical returns and correlations of the NCREIF farmland index (both row crops and permanent crops), a survey of farmland investment managers to gauge go forward expectations of returns for diversified U.S. farmland, our experience developing farmland investment programs and farmland investment policies for other investors, and underwriting farmland investment opportunities.

  Callan's recommended policy target for U.S. core diversified farmland includes the following components: Nominal cash yield of 3% to 5%, appreciation of 3% to 4%, and total return of 6.00% to 8.00% net nominal. The corresponding net real return would be 3.75% to 5.75%. The characteristics of this Core portfolio would be diversified row crops with a high focus on current income and current cash yield through the acquisition of farmland with sufficient in place water resources. It assumes a cash lease structure is used to avoid direct connection to production and price risk.

  A diversified portfolio of institutionally owned U.S. Farmland has low to negative correlation characteristics with publicly traded equities and bonds which makes it a good diversifier in an overall portfolio. This is similar to institutionally owned diversified U.S. commercial real estate and institutionally owned diversified U.S. timberland as shown on the chart below:

Table 4: Correlation for Ten Years Ended December 31, 2015

	NCREIF Farmland	NCREIF Timberland	NCREIF Property	S&P 500	Barclays Agg Index
NCREIF Farmland Index	1.00	0.61	0.09	0.10	(0.10)
NCREIF Timberland Index	0.61	1.00	0.25	(0.16)	0.10
NCREIF Property Index	0.09	0.25	1.00	0.26	(0.20)
Equities – S&P 500	0.10	(0.16)	0.26	1.00	(0.27)
Bonds – Barclays Aggregate Index	(0.10)	0.10	(0.20)	(0.27)	1.00

- From a market perspective, pricing in the sector is adjusting as the commodities markets continue to experience turmoil; however, there is ample capital for investment from other institutions and individuals that is supporting pricing above that which is justified by the fundamentals. Pricing was mentioned as a significant risk by every one of the institutional buyers and managers of farmland that Callan surveyed, which suggests careful underwriting is of particular importance currently. Access to water is another risk that is being more closely considered and control over water resources is a requirement for institutional buyers. Evaluation of a potential tenants' credit and financial strength has taken on heightened importance as commodity prices and credit has tightened. Callan understands that the conflict auction leasing process used by the Land Board does not allow for evaluation of tenant financial strength and credit of the high bidder. IDL noted that if an applicant is 18 years old and not in default with the state and were the high bidder, the bid would be accepted and there would not be an opportunity to evaluate the financial position.

- The long term fundamentals for farmland are compelling. Strong demand for farmland is expected to continue to meet the increasing global demand for food, fiber,and energy, as well as to satisfy institutional investor demand for diversifying, inflation-hedging assets. The relatively fixed supply of land capable of supporting agriculture is another favorable factor supporting the investment case for farmland.

- The availability of transactions in farmland is expected to be less than timberland and the pace of investment is slower than timberland due to the the limited pool of investment transactions every year. There is not a pool of closed end funds that are reaching maturity and selling assets like in timberland. Investors tend to buy and hold, the asset class is popular with significant competition for transactions, and operators/farmers have had strong balance sheets for acquiring farmland, with limited financial pressure/incentive to sell. Access to transaction deal flow via relationships with institutional and local owner/operators is critical to building a portfolio.

- Implementation is characterized as complex because it involves sourcing transactions, completing due diligence, and hiring third party advisors. Costs of implementation are relatively high due to costs of external land advisors, transaction costs including brokers, legal fees, title work, environmental, etc., the costs of internal staff time, and the opportunity cost of holding money in the Land Bank versus investing in the Financial assets (which could be positive or negative depending on the returns of the IDLE pool versus the Financial Assets over the timeframe in which proceeds are in the Land Bank).

- Institutional ownership of farmland in Idaho (as reported to NCREIF) totals $280 million in 32 properties with total acreage of 57,086 acres. This equates to an average investment per property of $8.75 million and an average per acre value of $4,904. All properties are annual row crops.

  These owners represent potential competition to IDL for larger transactions ($5 million+) but not for smaller transactions which IDL may want to consider in its acquisition strategy. On the disposition side, should the Land Board wish to sell farmland, the institutional owners would likely not be buyers as the transaction size would be too small for those buyers if they could only purchase 320 acres. The ability to achieve liquidity would depend on local buyers.

- We find no compelling reason that the net returns the Land Board should accept from additional investment in Idaho farmland (annual row crops) should be less than those of a diversified U.S. core farmland portfolio. The non-diversified nature of the Idaho only investment is a reason to require higher returns.

  Callan recommends that additional investment in Farmland be pursued if Core investments can be found such that the *minimum* net returns are competitive with both the Long Term Policy Return Objective for the Financial Asset portfolio and the Farmland Portfolio, as well as, noted above, diversified U.S. core farmland. The recommended Hurdle Rate is a *minimum* net real return of 4.5% which equates to a 6.75% net nominal return, assuming inflation of 2.25%. Of course, the risk profile of each transaction and market dynamics will dictate the return that will be required, such that some transactions may have returns above the Hurdle Rate.

  Setting the Hurdle Rate above the Long Term Policy Returns for both the Financial Asset Portfolio and the Farmland Portfolio, will keep the focus on finding transactions that are accretive.

  The expected return of a farmland investment should include both income and appreciation with a focus on income to provide income replacement for the portfolio; however, for the returns to be competitive, investments will need to also have appreciation and the plan for managing each investment should have a strategy for realizing the appreciation.

  The lease structure will be an important mechanism to insure the income and inflation hedging characteristics of farmland and the total returns are achieved.

- Callan does not recommend setting a hard target for the amount of dollars to be invested in Farmland, but rather allowing the investment decision to be driven by the opportunities.

- Investment in a diversified portfolio of U.S. farmland may be another way to enhance the risk/return of the Endowment portfolio. In the next asset allocation study, the impact on the Endowment of investment in diversified U.S. farmland could be studied as a complement to the existing Idaho farmland portfolio. Diversification geographically as well as by row and permanent crops could be considered. The external and internal resources and investment vehicles that would be required to implement a diversified allocation efficiently would also be examined.

Timberland

- Callan recommends pursuing additional investment in timberland in Idaho provided investments can be sourced with appropriate net returns.

  Additional investment is supported by the asset allocation study which indicates portfolio risk/return will be maintained with additional investment in timberland provided new investments have a net projected return at or above the returns of the existing portfolio with a similar level of risk. In Callan's study, the existing timberland portfolio had an expected net 10 year compounded return of 5.70% (3.45% net real return). The recommended Hurdle Rate for Timberland is a *minimum* net real return of 3.5% which equates to a

5.75% net nominal return, assuming 2.25% inflation. The risk profile of each transaction and market dynamics will dictate the return that will be required, such that some transactions may have returns above the Hurdle Rate.

- Callan does not recommend setting a hard target for the amount of dollars to be invested, but rather allowing the investment decision to be driven by the opportunities. The range for timberland is 30-50% of the total Endowment portfolio. If attractive opportunities are found, all of the projected proceeds in the Land could be invested in timberland and timberland would remain in the target 30-50% range, assuming the total portfolio remains at or above the current value.

- Investment in additional timberland is a way to replace lost income from the sales of cabin sites and commercial real estate.

- Market dynamics in the timberland industry include increasing transaction flow. There have been several large institutional portfolios of timberland brought to the market in the U.S. Several closed-end commingled funds are nearing their expirations, which will result in timberland for sale. Additionally, multiple timberland investment organizations are undergoing changes which could result in additional deal flow from manager disruption and terminated vehicles. The environment with substantial availability of properties for sale and projected to be for sale may help to moderate pricing. The availability of transactions is in marked contrast to prior years and the Land Board should take advantage of the increased transaction flow.

- Similar to Farmland, implementation is characterized as complex.

- Callan believes that the Land Board has a competitive advantage in timberland investing compared to other institutional investors and owners of timberland given its experienced Staff, existing portfolio, long term investment horizon, and cost of capital.

- IDL has a management structure and monitoring resources in place to execute the business plan for the assets.

Conclusions and Next Steps

This is an unusual time for the Endowment due to the amount of disposition activity taking place. Based on the current Asset Management Plan, it does not appear that after FY 2020, there will again be the level of proceeds to invest in Land. Therefore, the Land Board should consider using Land Bank proceeds to invest in Timberland and Farmland, provided the targeted Hurdle Rates can be met or exceeded and an institutional investment process is used.

To be credible in the market with potential sellers, IDL needs to be able to represent to sellers that it has money to fund transactions (subject to the Land Board due diligence, underwriting, and approval process) which will require money to remain in the Land Bank while transactions are found.

Investment in Land transactions requires time to identify and execute. A logical next step is to have IDL establish a pipeline of transactions to substantiate their investment thesis that attractive transactions can be found in Timberland and Farmland. The pipeline should be documented via a pipeline report/deal log which is updated and discussed with the Land Board each quarter to track progress. A pipeline report/deal log is a standard tool that is used by third party investment managers.

The Land Bank money will be available over time, in increments. This means IDL will need to source and execute transactions according to the timing and amount of proceeds for each underlying endowment. It is currently IDL's intention to purchase properties such that the underlying endowment would own an undivided interest. Money will not be commingled from endowments to make purchases whereby each endowment would own its pro rata share of the property, either by acreage or by a share of the economics.

Priorities should be set in terms of the size of transactions and the number that IDL can reasonably expect to diligence and close given current resourcing. Pursuing a fewer number of large transactions for each endowment will be more efficient both in terms of staff time and transaction costs. If high priority, larger transactions are expected then money should be earmarked to insure it is available to match the transaction timeframe.

A formal transaction allocation process should be established and documented to insure that transactions are allocated fairly to each endowment. This may involve suitability screens such as transaction size. IDL has proposed a transaction allocation process that would allocate a deal to the endowment with money that has been waiting the longest in the Land Bank.

Underwriting should include upside, base case, and downside scenarios with identification of assumptions and risks alongside of the returns. The underwriting should include an evaluation of income, appreciation, and total return on a gross of fees and net of fees basis, calculated in accordance with industry standards.

A detailed outline of the business plan for the investment should be completed as part of the underwriting including consideration of the internal and external resources required to execute the plan and associated costs, to insure there is a plan for producing the returns that are projected.

If IDL does not have the inhouse capabilities to implement an institutional investment process, external investment management advisory expertise will be required.

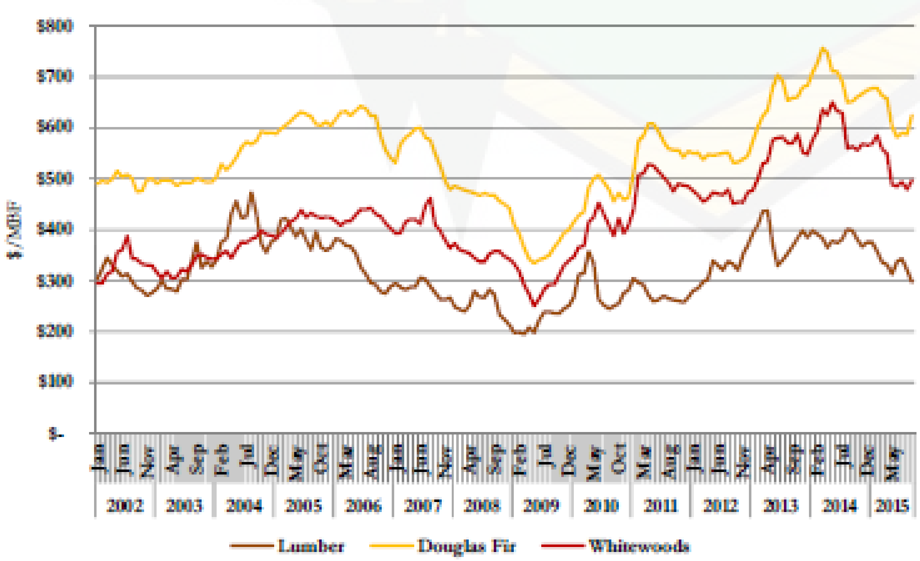
Appendices

Timberland Market Overview

Timberland Supply and Demand Dynamics

There are several macro supply factors affecting today's timberland markets. First, the globe's largest supply of timberland by country is Russia. Russia has implemented tariffs of 25% on timberland exports, which has impacted other countries' desire to import from the region. Second, the mountain pine beetle has destroyed a significant portion of the Canadian timber supply. The damage has been done primarily in Western Canada, in British Columbia. Nearly all of Canada's timberland is sovereign owned. Timberland managers have indicated that the damage from the mountain pine beetle was exacerbated by inadequate road access to timberland which impacted the government's ability to contain the issue. Nonetheless, the mountain pine beetle damage will result in an estimated 9 million acres[5] of timberland removed from the supply chain. It is estimated that this will result in a 20% reduction in the average annual log harvest in British Columbia. The reduction in supply is expected to have an impact through 2030. Because this supply is located in the Western North American region, it positively impacts the Pacific Northwest region of the United States, as much of this supply was expected to be utilized for Asian, specifically Chinese, timber demand. However, due to slowing growth in China and Korea, log exports to Asia have underperformed in 2015 compared to 2014, resulting in timber pricing that has been fairly flat over much of 2015 and increasing inventories in mills in the Pacific Northwest. Even though Chinese demand was flat in the fourth quarter of 2015, it is expected to decrease in the first half of 2016. As seen in the chart below, the price of Douglas Fir and Whitewoods has declined significantly since it peaked in 2014.

Random Lengths Framing Lumber Composite Prices and Pacific Northwest Log Prices, January 2002 through September 2015

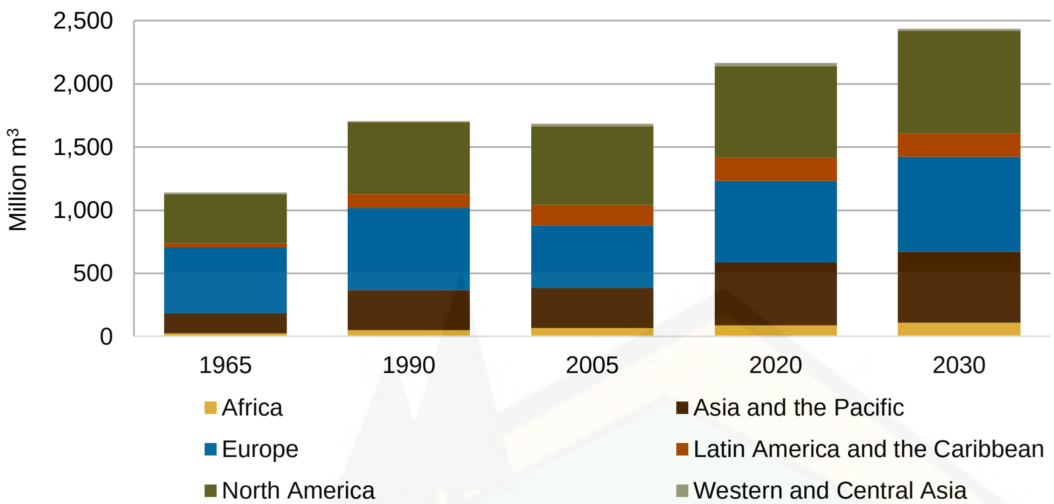


Source: Prudential Agricultural Investments.

---
[5] Figure quoted from Campbell Global presentation, February 2015.

A positive factor in the timber supply and demand dynamics is the expected growth in demand for wood products both domestically and abroad. The chart below highlights the expected consumption in wood across various regions.and illustrates that the expected consumption is increasing. The demand is also driven by the growing middle class population in emerging countries.

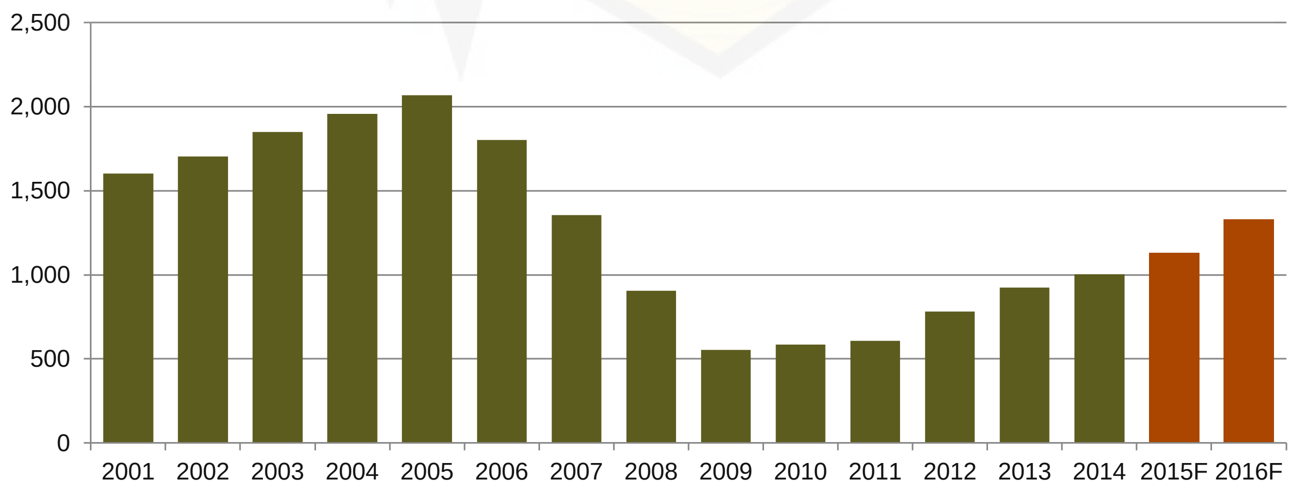
Global Consumption of Industrial Roundwood



Source: Campbell Global and Food & Agriculture Organization.

U.S. demand is anticipated to increase driven by construction of new residential and commercial buildings and existing building renovations. The following chart highlights historical housing starts, as measured by the U.S. Census Bureau's data. Incorporated into the chart are Freddie Mac's 2015 and 2016 estimates of housing starts. The decline in housing starts following the Global Financial Crisis ("GFC") is significant followed by a gradual increase with levels in 2016 still not projected to reach the pre GFC peak in 2005.

Housing Starts



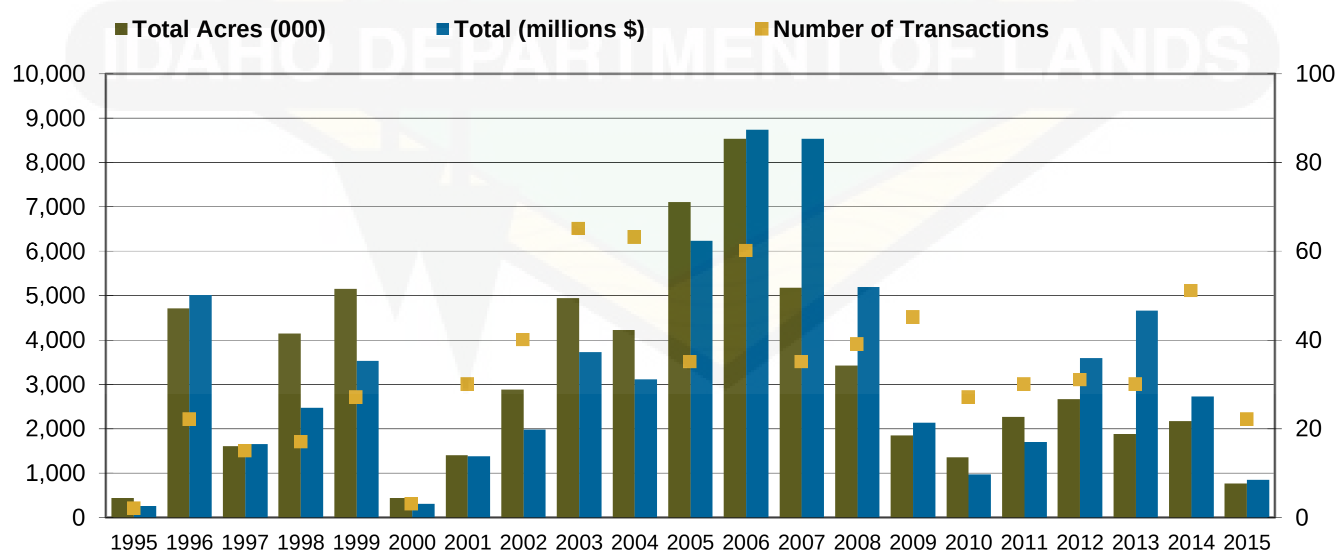
Source: US Census Bureau, Freddie Mac

A negative supply driver is the decline in the use of paper and pulp products due to electronic media and increased recycling. International Woodland Corporation estimates that the U.S. pulp production will remain relatively flat, but that production of pulpwood for oriented strand board (used for residential construction) and wood pellets will increase through 2020. Demand for biomass, pulpwood products used for energy purposes, is expected to increase given environmental regulations adopted in Europe and expected initiatives elsewhere globally. Pulpwood dynamics are not expected to negatively impact timberland investment meaningfully in the coming years.

Timberland Capital Market Flows and Transaction Data

Market dynamics in the timberland industry include increasing transaction flow, especially in the U.S. There have been several large institutional portfolios of timberland brought to the market in the U.S. Several closed-end commingled funds are nearing their expirations, which will result in timberland for sale and should decrease the pressure on pricing. Additionally, multiple timberland investment organizations are undergoing changes. As a result of ownership changes or shifts in assets under management, there has been some account and professional turnover, which is expected to continue going forward. This activity could result in additional deal flow from manager disruption and terminated vehicles. Transactional history in the United States has been varied, and levels have not yet recovered to those pre-Global Financial Crisis. The following chart illustrates domestic timberland transaction history:

Major US Timberland Transactions Since 1995 (# transactions – right scale)



Source: GMO

In the early 2000’s there was a high level of commitment activity to U.S. focused timberland funds. Many of these funds have reached the end of their legal life and still have remaining timberland assets to be sold. Given the challenges in the recent market cycle and the long term nature of the timberland asset class and timber lifecycle, the ten year life has proved an insufficient time frame to roundtrip a strategy and exit all assets. As a result there are many groups of fund investors determining extension provisions for their funds and a certain level of dissatisfaction or frustration with the lack of disposition activity to date. This has been evidenced in the California Public Employees’ Retirement System’s (“CalPERS”) decision to require a sale of the TimberSouth portfolio fund managed by Campbell Global. It was announced that 300,000 acres of the fund would be taken to market and the sale is being driven by CalPERS. Based on information from a recent timberland request for information, Callan estimates that there is $9.5 billion in timberland commingled fund holdings that are currently within two years or beyond the legal fund term life. The expiring funds may result in a fair amount of investment opportunities coming to market. If these timberland holdings are sold and in 2016 and 2017, this would represent a significant increase from transaction levels in 2014 which were at lower levels than years prior. At the end of 2015, a number of transactions occurred between TIMOs, including Molpus Woodlands Group purchasing a subset of Campbell Global's Louisiana portfolio, the Conservation Forestry Partners Fund purchasing a Northeast portfolio from The Forestland Group and Hancock Timber selling three different Pacific Northwest portfolios to Campbell Global, Olympic Resource Management and Molpus. These fourth quarter transactions account for over 370,000 acres of timberland changing hands, with more coming in 2016 including the potential for another 160,000 acres of Campbell Global-owned Pacific Northwest timberland.[6]

There may also be acquisition opportunities from REITS. The universe of timber REITs is very small, and has undergone a recent shift. In November 2015, the largest and second largest public timber companies, Weyerhaeuser and Plum Creek Timber, merged, creating a company with a combined market capitalization of over $20 billion. Plum Creek's timber holdings are diversified over a number of states, however Weyerhauser's timber holdings are concentrated in the Pacific Northwest. Weyerhaeuser is expected to shift its business focus entirely to timberland and wood-product operations and exit its cellulose-fiber business. The REIT will continue to pay its dividend and likely increase it and is expected to cut $100 million in corporate overhead. After the merger, there are now four publically traded timber REITs in the United States, the merged entity will operate under the Weyerhaeuser name and the remaining three are Rayonier, Inc., Potlatch Corporation, and CatchMark Timber Trust, Inc. CatchMark Timber Trust is the newest addition to the group as it started operations in 2006 as a non-traded REIT and was converted to a company listed on the New York Stock Exchange in December 2013. Timber REITs have been exhibited poor performance in 2015, as they are the second worst performing sector after Lodging REITs as of October 31, 2015, returning -12.2%. Rayonier has been the worst performing, returning -19.41%. Poor performance can be attributed to a lack of available and harvestable timberland as well as the sale of higher-and-better-use (HBU) lands to meet REIT dividend requirements. As there is a finite amount of HBU land to sell, the timber REITs will eventually run out of such land.

There have been some organizationally driven industry shifts, as well, that may result in acquisitions coming to market, including the SEC determination that Timbervest committed Investor Act violations.

Timberland Historical Performance

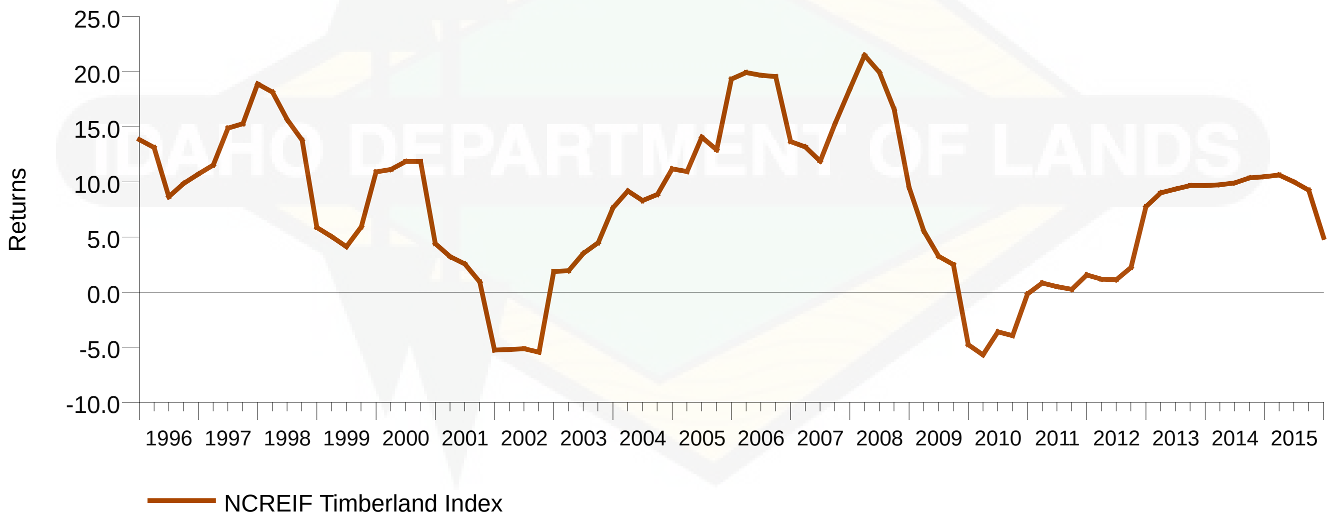
Private, institutional timberland performance is best measured by the NCREIF Timberland Index, a time-weighted, unlevered property level index that reports performance results quarterly. The index constituents are properties owned wholly and in joint ventures by voting members of NCREIF, and the inception date is 1987. The Index is available both gross and net of management fees. It is important to note that, while the Index is the industry standard, it represents only a sample size of the total United States timberland market. As of December 31, 2015, The NCREIF Timberland Index is made up of 454 properties representing 13.3 million acres and a market value of $24.3 billion. The NCREIF Timberland Index has four sub indices created by region, South, Northwest,

[6] Forest Investment Associates

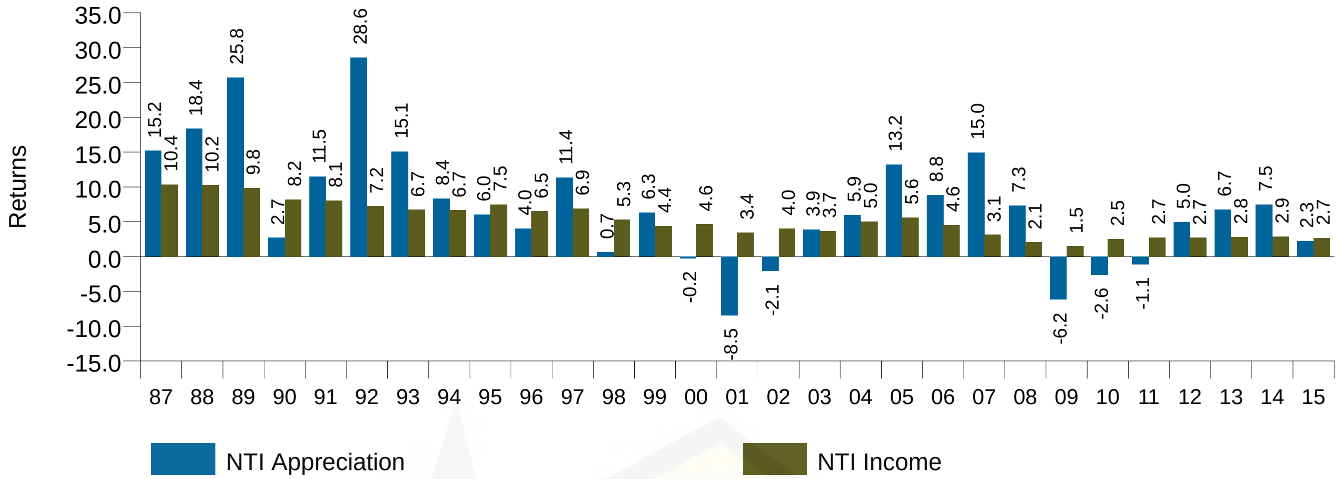
Northeast and Lake States. The South region is the largest region across all categories, property number, acreage and market value. Idaho is in the Northwest region of the NCREIF Timberland Index along with California, Oregon and Washington. As of December 31, 2015, the Northwest Index consists of 83 properties made up of 2.80 million acres, representing $5.3 billion in market value. Per acre, the Northwest region has the most value in its timber properties. Five properties in the Northwest region are located in Idaho representing approximately 145,401 acres and a market value of $155 million.

Timberland experienced peak pricing prior to the Global Financial Crisis ("GFC") as liquidity from investors drove prices upwards. Following the GFC, the appraisal lag, particularly in properties that were only appraised every three years, resulted in a delayed mark down in asset values. In 2012, NCREIF required that all properties contributing to the Index be appraised quarterly. The table below highlights the historical timberland performance for the NCREIF Timberland Index. The first chart highlights the rolling four quarter return history of the NCREIF Timberland Index over the last 20 years. The second chart highlights the income and appreciation returns of the Index. Income returns have waned given weaker wood demand coming out of the GFC. Appreciation returns have been positive in recent years but have not been at levels seen pre-GFC.

Rolling 4 Quarter Gross of Fee Returns for 20 Years Ended December 31, 2015

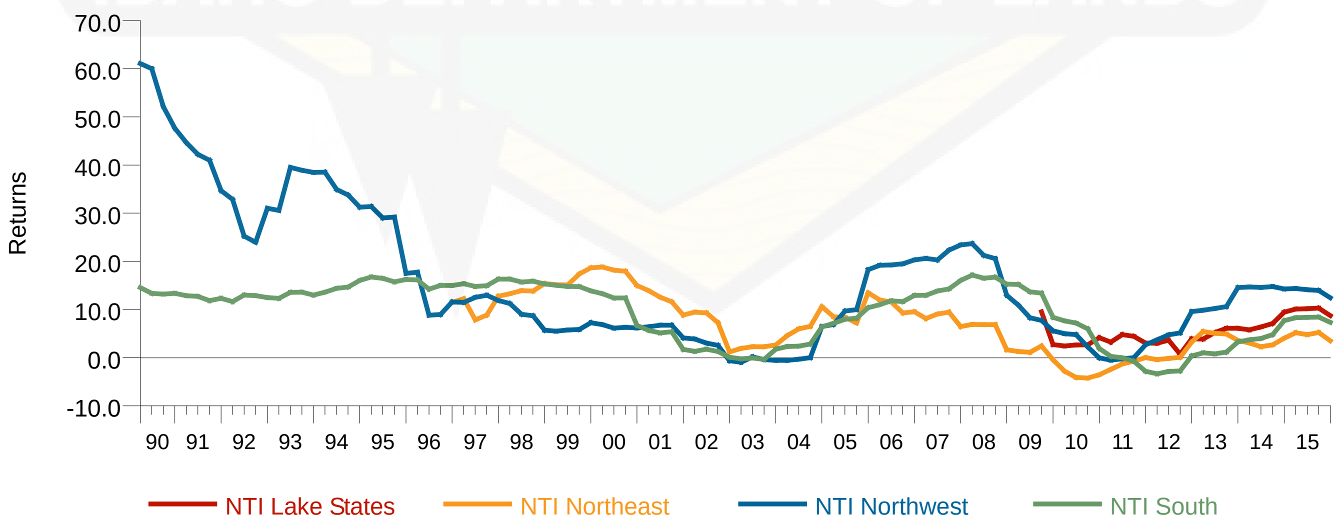


NCREIF Timberland Income and Appreciation Gross Returns for 29 Years Ended December 31, 2015



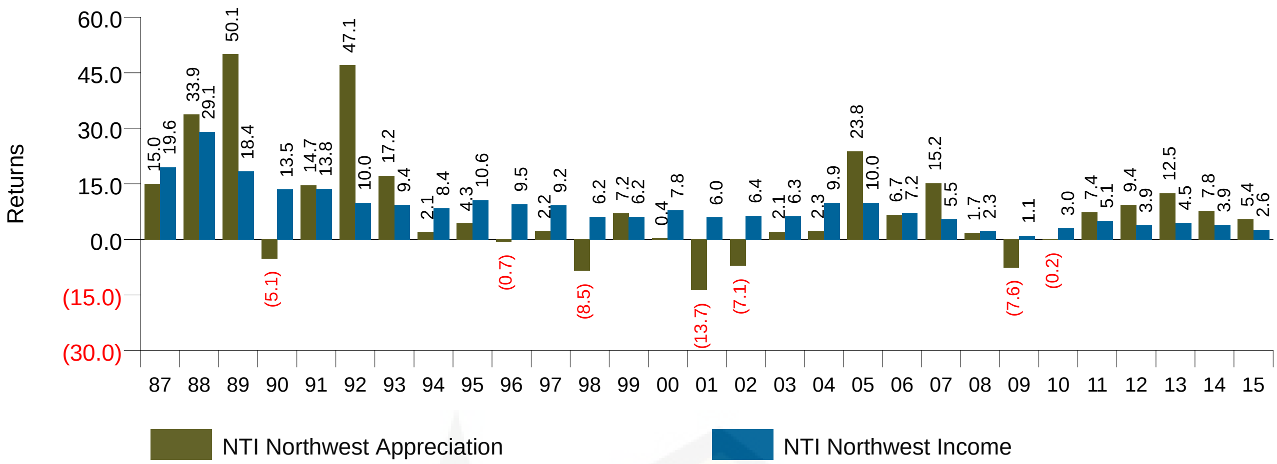
The next chart highlights the annual rolling regional performance. The regional performance diverges and in recent periods, the Northwest region has outperformed the other U.S. regions. The diverging performance is a primary reason many investors seek to build diversified regional exposure to timberland.

Rolling 12 Quarter Gross Returns for 25 3/4 Years Ended December 31, 2015



The following chart breaks out the NTI Northwest Index further into the income and appreciation returns generated by timberland in the same region where IDL timber is located. In recent years, both income and appreciation outpace the broader index. The performance of the Idaho properties in the NCREIF Timberland Index cannot be shown as NCREIF does not release data if the sample size is under a certain number of properties.

NCREIF Northwest Region Timberland Index Income and Appreciation Gross Returns for 29 Years Ended December 31, 2015



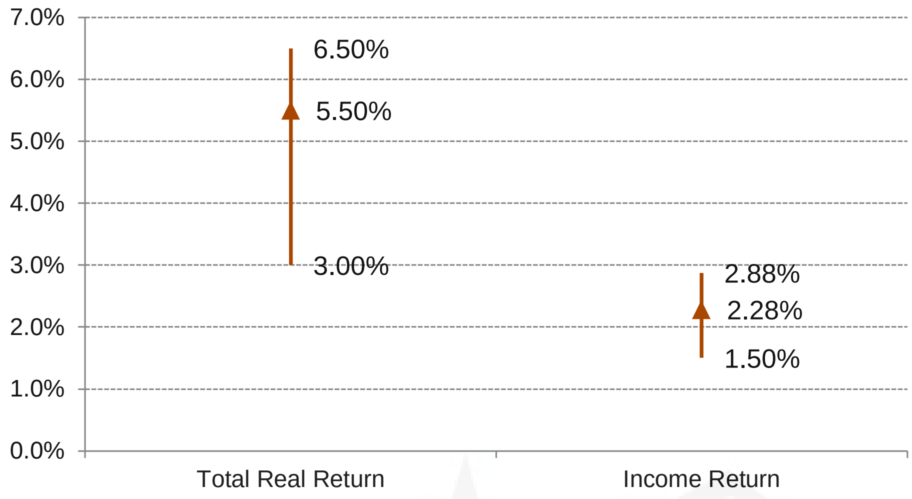
Gross Returns for Periods Ended December 31, 2015

	Last Year	Last 5 Years	Last 10 Years	Last 15 Years	Last 25 Years
NCREIF:Timberland Index	4.97	6.84	6.92	6.83	10.28
NTI Appreciation	2.25	4.02	4.10	3.47	5.61
NTI Income	2.67	2.75	2.75	3.28	4.51
NTI Northwest	8.15	12.74	9.69	9.28	12.42
NTI Northwest Appreciation	5.40	8.46	5.64	3.97	5.45
NTI Northwest Income	2.64	4.02	3.90	5.16	6.72

Expected Returns

Callan surveyed the timberland investment manager universe. We received responses from 12 managers with $33.75 billion of timber assets under management. The timber investment manager universe has a widely varying set of expectations for domestic timberland returns over the next five to ten years as is shown on the chart below. Real return expectations range from approximately 3% to 6.5% on an unleveraged basis. Most managers expect returns to be around 5.5% real with income generating 40-50% of that return. Expectations for income ranged from 25% of the total return to 60% of the total return, resulting in an expected income range of 1.5% to 2.88%.

Domestic Timberland Return Expectations



Source: Callan Associates

It is important to note that there are differences in regional expectations, and a consensus of managers noted that the Northeast and Lake States would likely return 50 to 100 basis points less than the total domestic expected returns. Managers did not have a consensus view on the Southeast or Pacfic Northwest. While the income returns are roughly in line with what timber investments have historically generated, most managers are expecting a slight downward shift in the real return of the asset class over the next five to ten years.

IDL, as a manager and acquirer of timberland, may compete directly with timberland investment management organizations for acquisitions.

Farmland Market Overview

Farmland Supply and Demand Dynamics

The current outlook for farmland is based on long term positive supply and demand dynamics that support appreciation of both agricultural commodities and farmland. The primary factors supporting the positive long term outlook are increasing global population, a growing middle class in developing economies who demand better diets and more meat, and a relatively fixed supply of farmland around the world. According to projections by the UN FAO under their baseline scenario, between 2005-07 and 2050, world food production needs to increase by 60% to meet increasing demand from population growth. While some additional land has (and may continue to) come into production, rising population has translated to arable land and permanent cropland available for cultivation to decline steadily on a per capital basis.[7] Increases in food production will need to come from increases in productivity, not increases in arable land. Productivity gains are no longer outpacing population growth, instead demand growth is outstripping productivity increases which makes the supply of land more valuable.

In the near term, macro risks are contributing to decelerating fundamentals and declining prices in some regions of the country. Weaker economic growth, particularly in China and Europe which are key export markets, is contributing to commodity price weakness and reduced demand. Additionally in China, higher currency devaluation and cost cutting at state owned enterprises in response to the government crackdown on corruption is further negatively impacting the demand for many agricultural products. Globally, supplies of commodity crops are at near record levels. There is downward pressure on cash rents in the central region of the United States due to the negative commodity price outlook. Corn, soybean, cotton, rice, and wheat are being adversely affected by low commodity prices putting pressure on rents and values.

Nut prices have generally remained stable to strong due to consumer demand which has kept farm profitability and farmland values strong in California. Continually rising nut prices, now in the fourth year, combined with drought conditions in California may point to higher levels of risk for California properties.[8] Statewide, properties with that are irrigated have continued to see strong pricing. There are predictions of softening in the market for certain types of nuts including pecans and pistachios due both to supply and demand factors. Almond prices have already declined precipitously due to a drop in overseas demand and a bumper crop domestically.

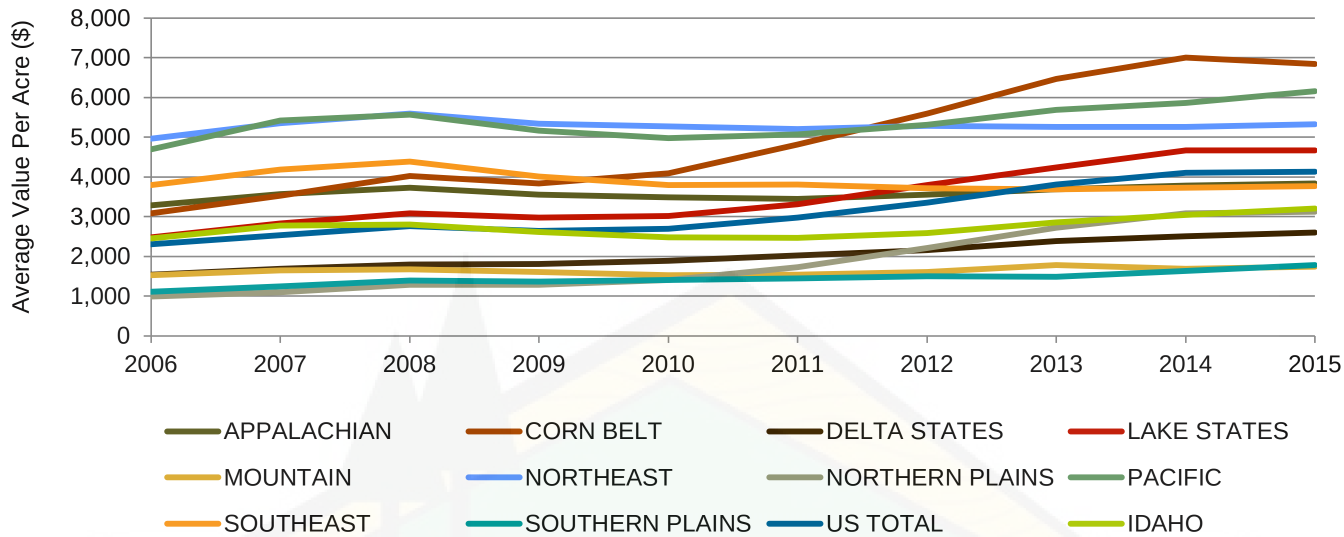
Rising interest rates will increase costs for farm operators and could negatively influence farmland values. Lenders are pulling back on credit particularly in the Corn Belt, creating pressure on farmers. A prolonged strengthening of the dollar could negatively impact exports. Water availability and regulatory risk associated with water resources has moved to the forefront of investors' minds.

Beginning in 2011, cropland values started to show significant per acre value increases before beginning to moderate in the past year, although there are still substantial disparities by region as shown on the next two

[7] GMO, "A Farmland Investment Primer," July 2014
[8] Mesirow Financial Agriculture Management 3Q2015 Summary

charts. The USDA Land Values report for 2015 showed an overall 0.7% increase for US cropland values from 2014. Cropland values were down in the Corn Belt by -2.3% from 2014. In the Delta, cropland values were up by 3.6% over 2014. Northern Plains' cropland showed an average increase of 1.3% compared to 2014. Idaho showed one of the higher increases at 5.3%.

Cropland Values Per Acre



Source: US Department of Agriculture National Agriculture Statistics Service

Cropland Values Per Acre

Year	Corn Belt	Delta	Pacific	Idaho	U.S.
2006	3,090	1,540	4,690	2,450	2,300
2007	3,530	1,690	5,420	2,770	2,530
2008	4,030	1,800	5,570	2,800	2,760
2009	3,840	1,810	5,160	2,610	2,640
2010	4,090	1,890	4,980	2,480	2,700
2011	4,810	2,020	5,070	2,470	2,980
2012	5,600	2,160	5,310	2,580	3,350
2013	6,470	2,380	5,690	2,850	3,810
2014	7,000	2,510	5,860	3,040	4,100
2015	6,840	2,600	6,160	3,200	4,130

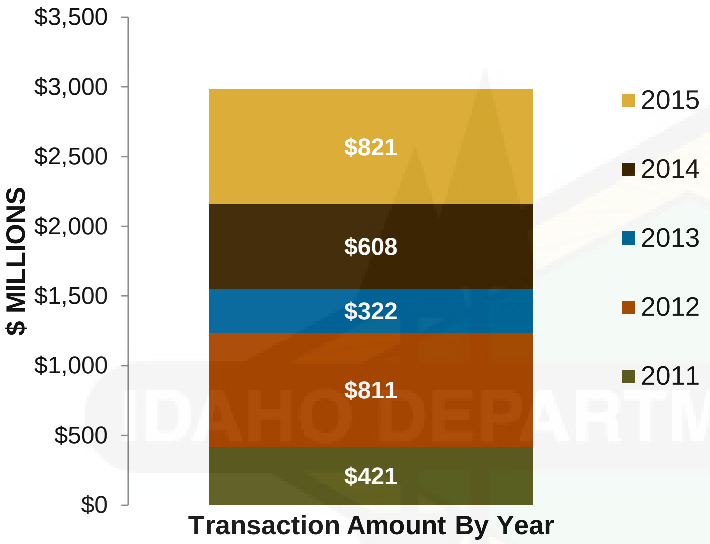
Source: US Department of Agriculture National Agriculture Statistics Service

Farmland Capital Market Flows and Transaction Data

Farmland has received increased investment and interest from institutional investors and individuals in recent years, along with the interest in other types of real assets due to its return profile, inflation hedging characteristics, low correlations with financial assets, ability to diversify a broader investment portfolio, strong long term return drivers, and recent performance. Institutional ownership of farmland continues to steadily grow but is still only a very small part of the overall farmland universe with owner operators dominating ownership of the asset class.

Callan surveyed the farmland investment manager universe which included nine managers with $7.3 billion of farmland assets under management. The participants included the largest farmland investment managers. These managers made $3 billion in farmland investments over the past five years in the U.S. as shown on the bar chart. The managers report approximately $4 billion in uninvested capital that has been allocated to them for new investments which will be invested as suitable investments are found. There continues to be strong interest among institutional managers and investors for both U.S. and international farmland opportunities.

Farmland Investments by Institutional Farmland Managers



Source: Callan

Farmland Historical Performance

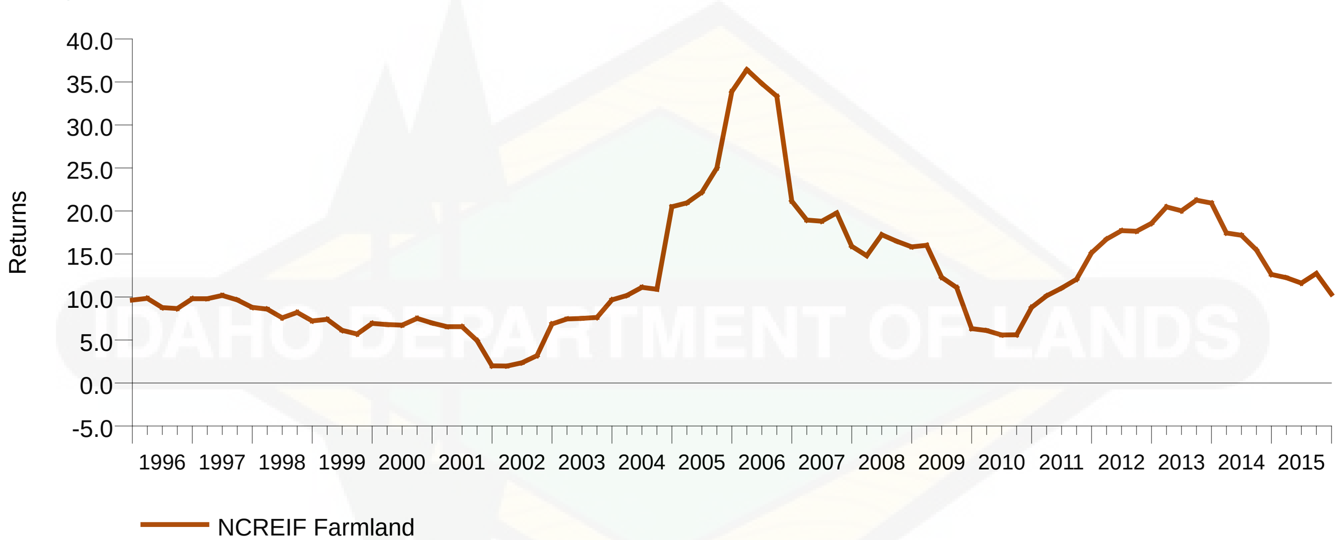
Private, institutional farmland performance is best measured by the NCREIF Farmland Index, a time-weighted, unlevered property level index that reports performance results quarterly. The index constituents are properties owned wholly and in joint ventures by voting members of NCREIF, and the inception date is 1991. Properties in the index have been acquired in the private market for investment purposes only on behalf of tax-exempt institutional investors. As such, all properties are held in a fiduciary environment.

Data is reported by the managers of the NCREIF members' farmland investments, and both income and market value data is reported to NCREIF each quarter. Returns are reported on an all-cash, unleveraged basis before fees. Each property's market value is determined by real estate appraisal methodology, consistently applied. It is important to note that, while the Index is the industry standard, it represents only a small sample size of the total United States farmland market. As of December 31, 2015, The NCREIF Farmland Index is made up of 667 properties with a market value of $6.727 billion. The NCREIF Farmland Index has two property type sub-indices – Annual Cropland and Permanent Cropland. There are twelve regional sub indices which align with the USDA Economic Regions except that Pacific is split into two regions and NCREIF has an Other region. The NCREIF

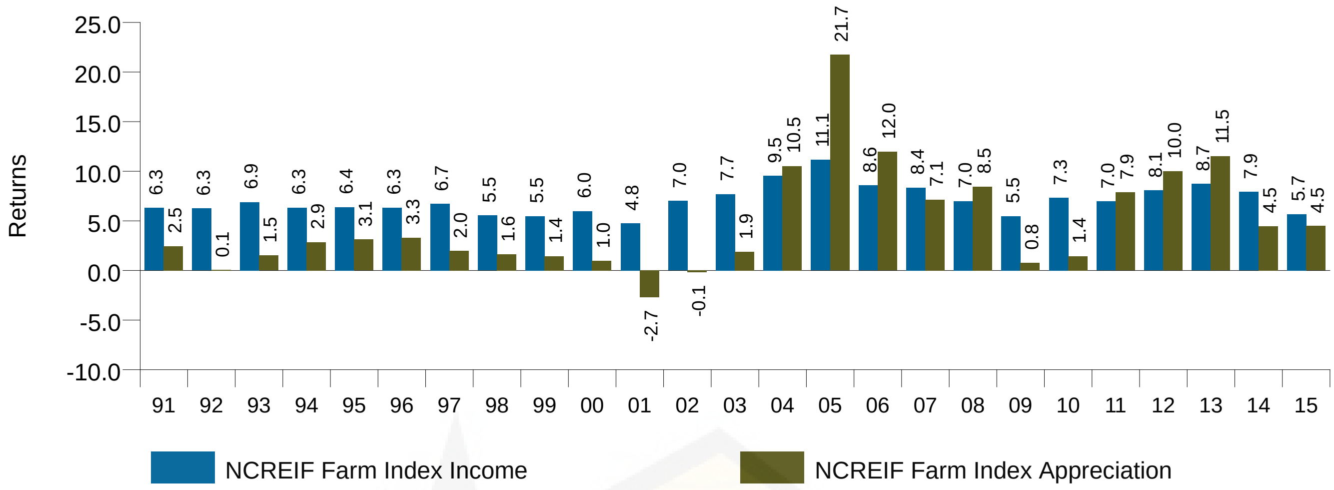
Farmland Regions include: Pacific West, Pacific Northwest, Mountain, Corn Belt, Lake States, Southeast, Delta States, Appalachian, Northern Plains, Southern Plains, Northeast, and Other. Annual Cropland comprises 423 properties and $3.610 billion of market value and Permanent Cropland comprises 244 properties and $3.118 billion. Idaho is in the Mountain region of the NCREIF Farmland Index along with Arizona, Colorado, Montana, Nevada, New Mexico, Utah, and Wyoming. As of December 31, 2015, the Mountain Region consists of 48 Annual Cropland properties representing $428.9 million in market value and no Permanent Cropland. Thirty-two properties in the Mountain region are located in Idaho with a market value of $280 million.

Farmland returns have been strong but have begun to moderate moving toward historical long term averages. The table below highlights the historical performance for the NCREIF Farmland Index. The first chart highlights the rolling four quarter return history of the NCREIF Farmland Index over the last 20 years. The second chart highlights the income and appreciation returns of the Index.

Rolling 4 Quarter Gross of Fee Returns for 20 Years Ended December 31, 2015



NCREIF Farmland Income and Appreciation Gross Returns for 25 Years Ended December 31, 2015

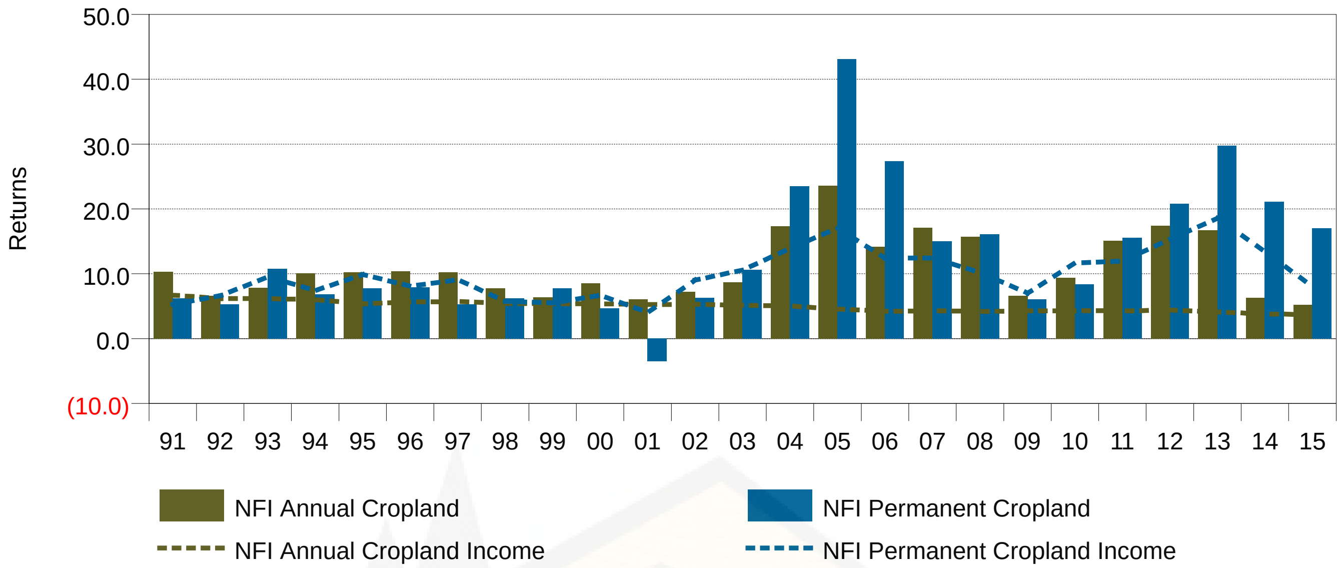


Gross Returns for Periods Ended December 31, 2015

	Last Year	Last 5 Years	Last 10 Years	Last 15 Years	Last 25 Years
NCREIF:Farm Idx	10.35	15.47	14.47	14.33	11.85
NCREIF Farm Index Appreciation	4.48	7.63	6.74	6.46	4.63
NCREIF Farm Index Income	5.69	7.47	7.41	7.61	7.05
NFI Annual Cropland	5.18	12.02	12.27	12.32	10.91
NFI Annual Cropland Appreciation	1.42	7.73	7.87	7.61	5.71
NCREIF Farm Index Income	5.69	7.47	7.41	7.61	7.05

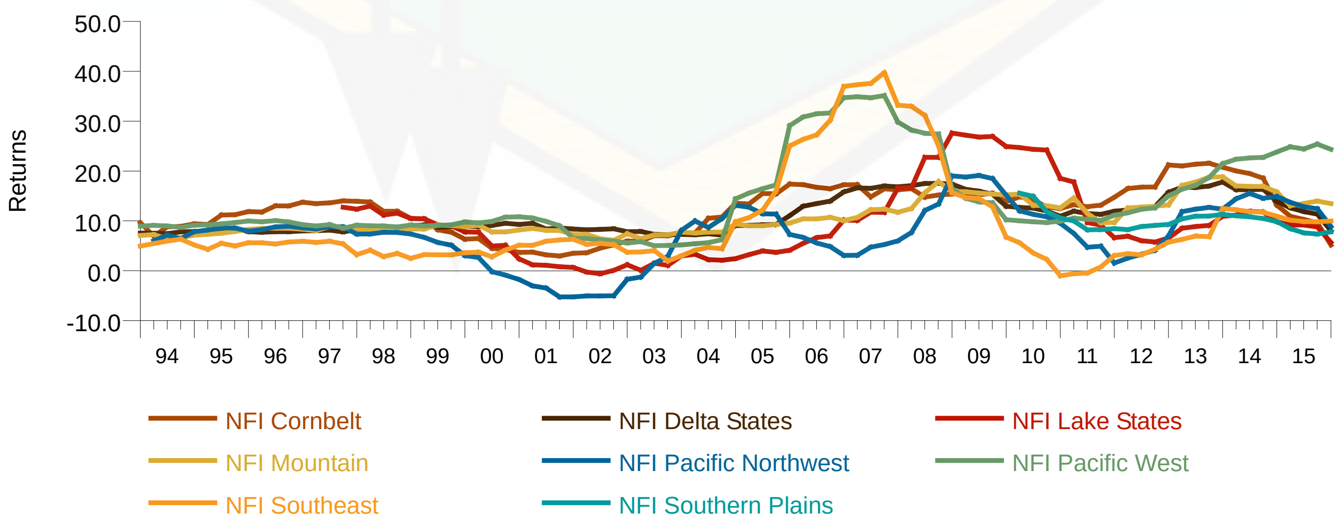
The returns of Annual Cropland compared to Permanent Cropland are shown on the chart below. Permanent crops, led by nut crops, have outpaced annual crop investments in recent years both in total return as well as income return. The annualized total return for permanent crops over the past ten years has been 17.50% versus the 12.27% annualized ten year return for row crops.

US Farmland Gross Returns, Row Crops and Permanent Crops for 25 Years Ended December 31, 2015



The rolling return by region is shown on the chart below. The difference in returns between Annual Cropland and Permanent Cropland as well as the regional performance differences are a primary reason many investors seek to build diversified regional exposure to farmland

Rolling 12 Quarter Gross Returns for 22 Years Ended December 31, 2015

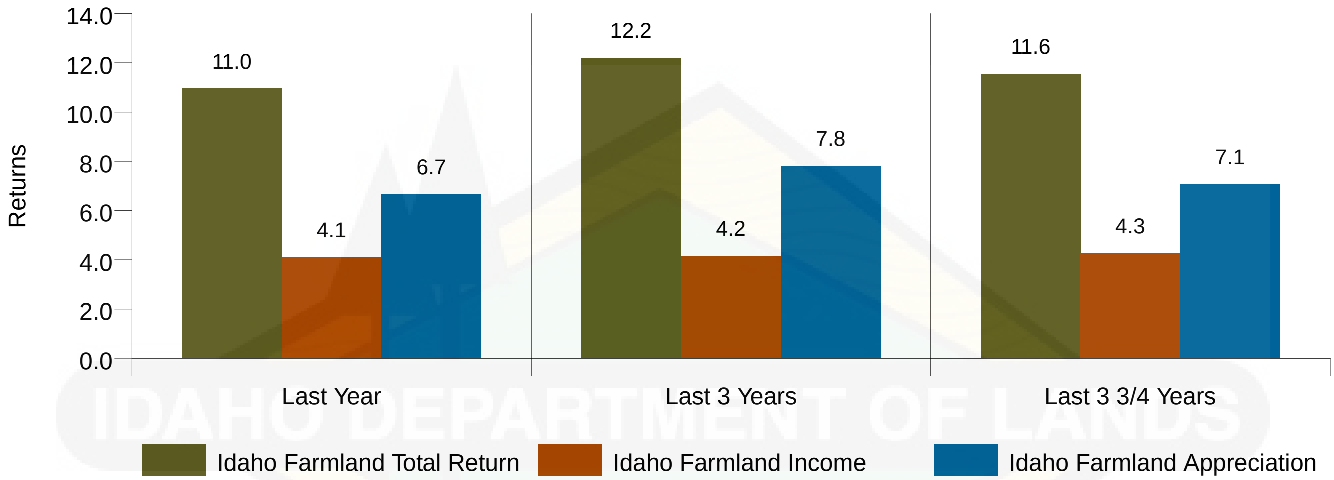


Idaho farmland in the NCREIF Farmland Index is comprised soley of annual cropland. The data series is relatively short and is shown on the chart following:

Gross Returns for Calendar Years
3 Years Ended December 31, 2015

	2015	2014	2013
Idaho Farmland Total Return	10.95	4.51	21.85
Idaho Farmland Appreciation	6.66	0.51	16.91
Idaho Farmland Income	4.09	4.00	4.41

Gross Returns for Various Periods
Current Quarter Ending December 31, 2015



Expected Returns

Callan surveyed the farmland investment manager universe. We received responses from eight managers with $5.3 billion of farmland assets under management. The farmland investment manager universe has a widely varying set of expectations for domestic farmland returns over the next five to ten years and there are substantial differences in expectations for row crops versus permanent crops. Operated permanent crops have higher return expectations and higher income expectations. Permanent crops are forecast to have a 9.0%-13.5% total nominal return with an 8-10% income return whereas Leased Row Crops are in the range of 6.5%-11.0% total nominal return with a 3.5%-6.0% income return. We find investment manager surveys are usually on the optimistic side; however, investment managers do expect a downward shift in the real return of the asset class over the next five to ten years.

In the search for higher returns, managers are pursuing strategies that combine farmland with private equity type investing (e.g investing in farmland infrastructure or fully integrated agribusiness operations, distribution, ag tech, processing) which are projected to generate 10% and higher total returns, but include higher risk as well. International strategies are also a mechanism some managers are using to generate higher returns.

Ways to Invest in Farmland

Institutional investors invest in farmland primarily through the use of a specialist farmland investment managers. Making farmland investments and managing them directly using in house staff, like IDL, is not typical due to the complexity, specialist knowledge of farmland, time required to assemble a diversified portfolio of farmland, and to retain, on staff, the expertise to properly oversee and manage those investments. Investing via a farmland investment manager provides diversification, experience, scale, and confidence that best in class farm management practices are being implemented.

Investment programs are implemented through pooled investment vehicles, including open end and closed end funds, or separately managed accounts. There is one institutionally recognized farmland open end fund and a few other open end funds focused on individual investors. The institutional open end fund is broadly diversified across the U.S. farmland sector by permanent and row crops as well as geography and has a long track record. Closed end funds may pursue higher risk strategies that may use leverage and combine farmland with private equity type investing discussed earlier or international strategies.

Separate accounts require a larger amount of capital than fund investments, typically at least $50 million. Investment management fees range from 50 to 100 basis points on the net asset value of the account. Separate accounts provide a higher level of control to the investor and are customizable according to investor needs. Typically the farmland investment manager operates within pre-set guidelines established at the inception of the account and approved annually by the investor. Acquisitions and dispositions in an account are approved by the investment committee of the investment manager provided they are within the established guidelines. Some investors require the manager to obtain approval for all transactions from the investor’s investment committee or similar decision-making board; however this process may put the investor at a disadvantage due to the uncertainty it creates and additional time required to close a transaction. In a separate account, an investor has the ability to to terminate the advisor at any time and move the assets to another manager, which fosters greater manager accountability.

Investors can also access farmland through public REITs. The universe of farmland REITs is very small and very new. There are three farmland REITs including: Gladstone Land Corp. (LAND), with an inception date of 2013, Farmland Partners Inc. (FPI), with an inception date of 2014, and American Farmland Co. (AFCO), which held its initial public offering in 2015. The lack of track record, size of each company, and amount of leverage represent significant risks making implementation via the public markets unattractive for now.

A major consideration in developing a farmland investment strategy is risk tolerance and where an investor wants to be in the value chain. The basic building blocks to any portfolio are permanent plantings and row crops. Because of the significant investment in living improvements, permanent plantings are generally direct operated with the investor bearing all the volatility and risk of crop yield and commodity price. This is contrasted to row crops where the norm is cash leasing to an operator who bears the production and commodity price risk.

The chart below provides an overview of different risk scenarios and provides a context for evaluating an investor’s risk tolerance and relative risk in an existing portfolio of farmland.

Investor Risk Preference or Portfolio Characteristics

Portfolio Diversification Factors	Low	Medium	High
Geography	Broadly Dispersed	Moderately Dispersed	Narrowly Dispersed
Commodity	Large Assortment	Medium Assortment	Small Assortment
Crop Type	100% Row 0% Permanent	50% Row 50% Permanent	0% Row 100% Permanent
Management Style	100% Leased 0% Operated	50% Leased 50% Operated	0% Leased 100% Operated
Leasing Arrangement	100% Fixed Rent 0% Flexed Rent	50% Fixed Rent 50% Flexed Rent	0% Fixed Rent 100% Flexed Rent
Operating Arrangement	100% Custom Farm 0% Directly Operate	50% Custom Farm 50% Directly Operate	0% Custom Farm 100% Directly Operate

Source: Callan 2015 Farmland Investment Survey and Hancock Agricultural Investment Group

Conclusions and Implications for Investment

Strong demand for farmland is expected to continue to meet the increasing global demand for food, fiber,and energy, as well as to satisfy institutional investor demand for diversifying, inflation-hedging assets. The relatively fixed supply of land capable of supporting agriculture is another favorable factor supporting the investment case for farmland. With less leverage and increasing technological efficiencies, the farm sector is better positioned for weak prices compared to the decline of 1980s. [9] Additionally, operators and investors have adjusted their return expectations downward. Moderating farmland prices may represent an attractive entry point if transactions are carefully underwritten over the next several years.

Primary risks of investing in farmland include the risks of crop destruction due to fire, disease, pests, natural weather events, and changing demand for agricultural products. These risks are primarily mitigated by investing in a diversified farmland portfolio. Additionally, today valuations may exceed current fundamentals with appraised values lagging the decline in pricing given weakening fundamentals of some commodities. There is a risk in potentially overpaying. Tenant credit default is more of a risk today highlighting the need to conduct extensive due diligence on a tenant’s financial status, require a letter of credit and rental pre payments, and invest in areas with deep pools of tenants to replace a tenant/operator in the event of a default. An exhaustive descripton of risks is included in the Appendix.

9 Hancock Agricultural Investment Group, “Farmland Investor,” Voume 22, Number 2.

The pace of investment in farmland is typically slower than timberland or commercial real estate due to the the limited pool of investment transactions every year. There is not a pool of closed end funds that are reaching maturity and selling assets like in timberland. Investors tend to buy and hold, the asset class is popular with significant competition for transactions, and operators/farmers have had strong balance sheets for acquiring farmland, with limited incentive to sell. There is an expectation by farmland managers that current relatively weak fundamentals may be a catalyst for weaker, marginal farmers/owners to sell their land. Some expect that stronger farmers may stay on the sidelines with regard to new acquisitions, again due to the state of the market. Access to transaction deal flow via relationships with institutional and local owner/operators is critical to building a portfolio. Investors must have an appropriately long term time frame to acquire a diversified portfolio of farmland, typically at least five years. The timeframe is similar for direct acquisitions in a separate account as well as investing via the open end fund. Investment horizons for closed end fund investments span from 10 to 15 years.

NASS Cropland Per Acre Prices and Percentage Change

	Appalachian	Y/Y%	Corn Belt	Y/Y%	Delta States	Y/Y%	Lake States	Y/Y%	Mountai n	Y/Y%	Northeast	Y/Y%	Northern Plains	Y/Y%	Pacific	Y/Y%	Southeast	Y/Y%	Southern Plains	Y/Y%	Idaho	Y/Y%	US Total	Y/Y%
2006	$3,290		$3,090		$1,540		$2,480		$1,520		$4,970		$985		$4,690		$3,790		$1,110		$2,450		$2,300	
2007	$3,570	8.51%	$3,530	14.24%	$1,690	9.74%	$2,830	14.11%	$1,640	7.89%	$5,350	7.65%	$1,090	10.66%	$5,420	15.57%	$4,180	10.29%	$1,250	12.61%	$2,770	13.06%	$2,530	10.00%
2008	$3,730	4.48%	$4,030	14.16%	$1,800	6.51%	$3,080	8.83%	$1,670	1.83%	$5,590	4.49%	$1,280	17.43%	$5,570	2.77%	$4,380	4.78%	$1,390	11.20%	$2,800	1.08%	$2,760	9.09%
2009	$3,550	-4.83%	$3,840	-4.71%	$1,810	0.56%	$2,970	-3.57%	$1,600	-4.19%	$5,340	-4.47%	$1,280	0.00%	$5,160	-7.36%	$4,010	-8.45%	$1,370	-1.44%	$2,610	-6.79%	$2,640	-4.35%
2010	$3,490	-1.69%	$4,090	6.51%	$1,890	4.42%	$3,010	1.35%	$1,520	-5.00%	$5,270	-1.31%	$1,410	10.16%	$4,980	-3.49%	$3,800	-5.24%	$1,400	2.19%	$2,480	-4.98%	$2,700	2.27%
2011	$3,440	-1.43%	$4,810	17.60%	$2,020	6.88%	$3,310	9.97%	$1,540	1.32%	$5,200	-1.33%	$1,730	22.70%	$5,070	1.81%	$3,810	0.26%	$1,450	3.57%	$2,470	-0.40%	$2,980	10.37%
2012	$3,550	3.20%	$5,600	16.42%	$2,160	6.93%	$3,790	14.50%	$1,600	3.90%	$5,280	1.54%	$2,210	27.75%	$5,310	4.73%	$3,710	-2.62%	$1,500	3.45%	$2,580	4.45%	$3,350	12.42%
2013	$3,690	3.94%	$6,470	15.54%	$2,380	10.19%	$4,240	11.87%	$1,780	11.25%	$5,260	-0.38%	$2,720	23.08%	$5,690	7.16%	$3,690	-0.54%	$1,480	-1.33%	$2,850	10.47%	$3,810	13.73%
2014	$3,780	2.44%	$7,000	8.19%	$2,510	5.46%	$4,670	10.14%	$1,690	-5.06%	$5,260	0.00%	$3,090	13.60%	$5,860	2.99%	$3,730	1.08%	$1,630	10.14%	$3,040	6.67%	$4,100	7.61%
2015	$3,830	1.32%	$6,840	-2.29%	$2,600	3.59%	$4,670	0.00%	$1,740	2.96%	$5,330	1.33%	$3,130	1.29%	$6,160	5.12%	$3,770	1.07%	$1,780	9.20%	$3,200	5.26%	$4,130	0.73%

Idaho Farmland Information

The following information on Idaho farmland price, volatility and return trends was provided by Resource Dimensions to IDL as an update to the March 2010 Agriculture Market Rent Study.

Real Cash Rents Plus Land Appreciation Returns for Idaho Cropland 2003-2015

Year	Land Value ($/Acre)	Change in Land Value ($/Acre)	Appreciation Rate	Cash Rent ($/Acre)	Rent-to-Value Ratio	Appreciation + Cash Rent ($/Acre)	Total Rate of Return
Irrigated							
2003	2,834			149	5.3%		
2004	2,924	90	3.2%	148	5.1%	238	8.4%
2005	3,398	475	16.2%	150	4.4%	625	21.4%
2006	4,585	1,187	34.9%	150	3.3%	1,338	39.4%
2007	4,973	387	8.4%	149	3.0%	536	11.7%
2008	4,954	-19	-0.4%	160	3.2%	141	2.8%
2009	4,419	-535	-10.8%	177	4.0%	-358	-7.2%
2010	3,631	-788	-17.8%	153	4.2%	-636	-14.4%
2011	4,025	394	10.9%	177	4.4%	571	15.7%
2012	4,171	146	3.6%	187	4.5%	332	8.3%
2013	4,314	143	3.4%	180	4.2%	323	7.8%
2014	4,605	292	6.8%	197	4.3%	489	11.3%
2015	4,830	225	4.9%	205	4.2%	430	9.3%
Average	4,128	166	4.5%	168	4.1%	336	8.6%
Standard Deviation	728	495	13.1%	20	0.7%	494	13.4%
Non Irrigated							
2003	1,005			66	6.5%		
2004	1,004	-1	-0.1%	67	6.6%	66	6.5%
2005	1,032	28	2.8%	67	6.5%	95	9.4%
2006	1,234	203	19.7%	68	5.5%	271	26.3%
2007	1,406	172	13.9%	66	4.7%	238	19.3%
2008	1,497	91	6.5%	61	4.0%	152	10.8%
2009	1,436	-61	-4.1%	63	4.4%	2	0.1%
2010	1,166	-271	-18.8%	57	4.9%	-213	-14.9%
2011	1,275	109	9.4%	58	4.5%	167	14.4%
2012	1,249	-26	-2.0%	54	4.3%	28	2.2%
2013	1,333	84	6.7%	57	4.3%	141	11.3%
2014	1,322	-11	-0.8%	61	4.6%	50	3.7%
2015	1,400	78	5.9%	65	4.6%	143	10.9%
Average	1,258	33	2.8%	62	4.9%	95	7.7%
Standard. Deviation	166	124	9.8%	5	0.9%	126	10.3%

Farmland Risks

Potential risks associated with investing in U.S. Farmland include, but are not limited to the following:

a. **Environmental Risks**. Investment returns may be impacted by environmental issues, events and risks including but not limited to the following:
   - Drought
   - Flood
   - Water use (overexploitation/depletion and deterioration of groundwater)
   - Soil type and drainage
   - Soil erosion/deletion
   - Pollution from agrochemicals
   - Biodiversity impacts, deforestation
   - Greenhouse gas (GHG) emissions
   - Endangered species
   - Issues related to intensive production, monocultures (use of land for growing only one type of crop), genetically modified organisms (GMO) use
   - Storage tank contamination
   - Groundwater or soil contamination from on or off-site sources
   - Weather
   - Pests
   - Climate change

b. **Social Risks**.
   - Risks related to food price volatility
   - Human/labor rights issues. Farmland investments may have an impact on labor groups and public sector employment opportunities.
   - Impact of on small farmers and local/regional food security
   - Impacts of intensive land use on communities
   - Occupational health and safety

c. **Commodity Price Volatility.** Given the uncertain and volatile nature of commodity prices, return in any one year may be impacted, both on the income and appreciation side. This risk is heightened if lands are being leased and part of the rent is dependent on production or price levels.

d. **Productivity Risk**. External operators or lessees may poorly manage farmland operations, use inappropriate agricultural techniques, or the original land selection may not produce as expected.

e. **Financing Risks**. Changes and volatility in the credit and equity markets may impact financing efforts and the capital structures of underlying agriculture investments or the lessee.

f. **Tenant Risk**. Tenant default and failure to pay rent may occur.

g. **Leverage Risk.** Farmland investments may utilize significant leverage which may increase financial and refinancing risks. This is not a risk for the Land Board currently as no leverage is used to acquire properties.

h. **Liquidity Risk.** As farmland investments may have long durations, they often are illiquid. Secondary markets for agriculture or farmland partnership investments may not be fully established or may provide limited opportunities.

i. **Market Risk**. The farmland market is a developing market globally and investment opportunities may be impacted by market supply and demand.

j. **Political and Headline Risks**. Agriculture or Farmland investments may involve political activities and may introduce headline risk to investors. Politics may impact the global trade of agriculture commodities. Politics may influence returns through adjustments to subsidies and bio-fuel mandates. Politics and regulations may impact water rights and water usage.

k. **Regulatory Risk.** Changes in regulatory mandates may impact investment returns and strategies.

l. **Management**. The investment manager universe for farmland investment is limited. Few institutional options are available which could impact manager diversification and manager substitution, if the need were to arise. The Land Board has chosen to use IDL as the internal manager and is dependent on one entity for management.

There are additional risks associated with investing in non-U.S. farmland that are not included in this document.

Historical Returns and Correlations for Farmland, Timberland, and Commercial Real Estate with Major Stock and Bond Indices

Gross of Fee Returns for Periods Ended December 31, 2015

	Last Year	Last 5 Years	Last 10 Years	Last 15 Years	Last 25 Years
NCREIF Timberland	4.97	6.84	6.92	6.83	10.28
NCREIF Farmland	10.35	15.47	14.47	14.33	11.85
NCREIF Property Index	13.33	12.18	7.76	8.96	8.05
S&P 500	1.38	12.57	7.31	5.00	9.82
Barclays Aggregate	0.55	3.25	4.51	4.97	6.15

Gross of Fee Correlation for 10 Years Ended December 31, 2015

	NCREIF Timberland	NCREIF Farmland	NCREIF Property	S&P 500	Barclays Aggregate
NCREIF Timberland	1.00	0.61	0.25	(0.16)	0.10
NCREIF Farmland	0.61	1.00	0.09	0.10	(0.10)
NCREIF Property Index	0.25	0.09	1.00	0.26	(0.20)
S&P 500	(0.16)	0.10	0.26	1.00	(0.27)
Barclays Aggregate	0.10	(0.10)	(0.20)	(0.27)	1.00

Glossary of Terms

Appraisal – An estimate or opinion of market value.

Appreciation – The percentage change in the market value of a property or portfolio over the period of analysis.

Asset Management – The various disciplines involved with managing real property assets from the time of investment through the time of disposition. Proper asset management plans and policies include: requirements for operating and capital budgets, property management, leasing, physical property analysis, operational and financial reporting, appraisal, audits, accounting policies and asset disposition plans (hold/sell analyses).

Benchmark – An index derived from database information that allows for comparative performance evaluation within an asset class.

Capital Improvements – Expenditures that cure or arrest deterioration of assets or add new improvements to prolong their lives.

Core Investment – Typical Core portfolio investments shall be mature, brownfield/existing assets that produce steady and predictable cash flows. These assets should be difficult to replicate and will be long life assets. The assets shall be located in well established markets.

Commingled Fund – A term applied to all open-ended and closed-ended pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account, private real estate investment trust or other multiple ownership entity.

- **Open-ended Fund** – A commingled fund with no finite life, which allows continuous entry and exit of investors and typically engages in ongoing investment purchase and sale activities.
- **Closed-ended Fund** – A commingled fund with a stated termination date, with few or no additional investors after the initial formation of the fund. Closed-ended funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not reinvest the sales proceeds.

Compound Return: Compounded Returns are measured over long time periods (10 years) and reflect the reduction in return that comes from variations around the average return ("volatility drag").

Correlation: Correlations measure the amount of diversification between two asset classes. A correlation of 1 indicates no diversification. A correlation of -1 indicates perfect diversification. Very few investments have correlations much less than zero.

Dairy – A dairy is a business enterprise established for the harvesting of animal milk. A dairy farm produces milk and a dairy factory processes it into a variety of dairy products.

Discretion – The level of authority given to an investment manager over the investment and management of a client's capital once that capital is allocated to the investment manager.

Direct Investment – An investment in which an investor has a direct ownership interest in underlying agriculture projects and/or assets. This is compared to investment in a commingled fund structure where the investor has in interest in the commingled fund and the fund owns the underlying assets.

Diversification – Investing in a wide range of assets/projects or asset classes in order to reduce financial risk.

Due Diligence – The process of investigating, evaluating and analyzing a potential investment's characteristics, investment philosophy and terms and conditions.

Fair Market Value – The highest price a property would bring if exposed for sale in the open market by a willing seller to a willing buyer with both parties being fully informed of all the uses and purposes to which the property is reasonably adaptable and available.

General Partner – Managing partner of a limited partnership responsible for performing the day-to-day administrative operations of the partnership and acting as investment advisor to the partnership.

Income – The component of return derived from property or portfolio operations during the period of analysis.

Inflation – The general upward price movement of goods and services in an economy over a period of time.

Inflation-Link – Investments that allow inflation risk to be mitigated contractually through inflation-adjusted pricing agreements such as water utilities where the user fees are linked to Consumer Price Index (CPI).

Internal Rate of Return (IRR) – The discount rate at which the present value of future cash flows of an investment equals the cost of the investment. It is determined when the net present value of the cash outflows (the cost of the investment) and the cash inflows (returns on the investment) equal zero, the rate of discount being used is the IRR.

Investment Manager – A company that, by contractual agreement, provides farmland or timberland investment opportunities and/or property asset management services.

Joint Venture – A structure wherein an investor and a partner form a partnership to purchase and/or operate an investment or investments.

Leverage – The use of borrowed funds to increase purchasing power and, ideally, to increase the profitability of an investment.

Limited Partnership – A partnership with both general and limited partners in which the general partner manages the business and assumes full liability for the partnership obligations with the liability of the limited partners generally restricted to their capital contributions.

NCREIF Farmland Index – A quarterly time series composite return measure of investment performance of a large pool of individual agricultural properties acquired in the private market for investment purposes only. All properties in the Farmland Index have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment. The Index tracks U.S. properties exclusively.

NCREIF Property Index – A quarterly time series composite return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the Property Index have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment. The Index tracks U.S. properties exclusively**.**

NCREIF Timberland Index – A quarterly time series composite return measure of investment performance of a large pool of individual timberland properties acquired in the private market for investment purposes only. All properties in the Timberland Index have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment. The Index tracks U.S. properties exclusively.

Net Asset Value (Nav) – Represents total assets at fair market value minus liabilities.

Net Operating Income (NOI) – Rental and other income of a property, less operating expenses, but before the deduction of capital expenditures and debt service.

Nominal Rate of Return: Rate of return before adjusting for inflation

Opportunistic – A phrase characterizing an investment in underperforming and/or undermanaged assets/projects typically purchased from distressed sellers, utilizing high levels of leverage at times with the expectation of near-term increases in cash flow and value.

Pastoral Farming – is the branch of agriculture concerned with the raising of livestock. It is animal husbandry: the care, tending and use of animals such as cattle and sheep.

Permanent Crop – A crop that grows on a tree or vine. Permanent crops are typically categorized as citrus fruits, fruits and nuts. Examples include oranges, wine grapes, apples, almonds, walnuts, etc.

Property Management – The various functions that are performed at the property level in order to assure timely collection of rents, payment of expenses and supervision of on-site activities.

Real Rate of Return – Rate of return after adjusting for inflation (typically determined by the Consumer Price Index).

Row Crop – A crop that requires annual planting. These can be categorized as commodities and vegetables. Examples include corn, cotton, grains, soy, oilseeds, potatoes, etc.

Specialty Crop – A non-traditional crop that requires specialized expertise in its growth, harvesting or transportation. Many fresh fruits and produce are considered specialty crops. Examples include lettuce, strawberries, mangos, broccoli, etc.

Total Return – The sum of the income and appreciation returns.

Value-Added – A phrase commonly used by investment managers to describe a management approach to an asset or project with the connotation that their skills will add value, which otherwise would not be realized.

Vintage Year – The year of formation for a fund or investment program and its first takedown of capital. By placing a fund/investment program into a particular vintage year, the investor can compare the performance of a given fund with all other similar type funds formed in that particular vintage year. In addition, that vintage year return can then be compared to an industry benchmark which is provided by a leading publication source.

Callan

Callan LLC
120 North LaSalle Street
Suite 2400
Chicago, IL 60602

Main 312.346.3536
Fax 312.346.1356

www.callan.com

Memorandum

To: Idaho Board of Land Commissioners
From: Callan LLC
Date: July 5, 2018
Subject: Strategic Reinvestment Plan Update

Background

The Strategic Reinvestment Plan is subject to annual review.

In May 2016, the Idaho Board of Land Commissioners ("Land Board") approved the Strategic Reinvestment Plan that allowed for the investment of Land Bank proceeds into timberland and farmland for all endowments subject to certain requirements, including the minimum rate of return ("hurdle rate") for new investments of 3.5% net real for timberland and 4.5% net real for farmland.

In July 2017, the Land Board adopted a revised Strategic Reinvestment Plan which specified until the Asset Allocation/Spending Study was completed, Land Bank Funds could be reinvested into timberland and farmland for Public Schools at or above the hurdle rates and subject to certain other criteria; however, Land Bank Funds could not be reinvested into timberland or farmland for any other endowment.

Asset Allocation and Distribution Study

The Asset Allocation and Distribution Study (fka Asset Allocation/Spending Study) is complete. This study examined a number of items with regard to each endowment including determining the best use of land sales proceeds.

The Investment Sub-Committee has recommended that the Land Board pursue Option A of the study and this update to the Strategic Reinvestment Plan assumes the Land Board adopts that recommendation. Option A is outlined on page 33 of the Asset Allocation and Distribution Study and is paraphrased below:

- Option A: "Consistent with the Reinvestment Plan, identify transactions that meet established hurdle rates and set aside sufficient funds over an appropriate time horizon (immediately move money that will either "mature" prior to the transaction or exceeds what is required).

Because of the scope of the Asset Allocation and Distribution Study, Option A affirms that timberland and farmland may be considered for all endowments.

ATTACHMENT 2

Callan

Discussion of Hurdle Rates
The hurdle rates were set to be long term numbers subject to periodic review and revision. Callan recommends the minimum hurdle rates established in the 2016 Strategic Reinvestment Plan remain in place for both timberland and farmland. This is based on the Asset Allocation and Distribution study, a review of the current portfolio, and a survey of managers actively buying timberland or farmland.

Timberland Hurdle Rate
The Idaho Timberland hurdle rate is a minimum net real return of 3.5% which equates to a 6.75% gross nominal return, assuming 2.25% inflation. This return is assumed to come predominately from stumpage income since the sale of timberland is prohibited and the Land Board would not be able to realize any appreciation.

Callan surveyed institutional timber investment manager organizations ("TIMOs") about their expected returns for new acquisitions of core U.S., Northwest, and Idaho timber. Survey participants included Brookfield, BTG Pactual, Campbell Global, Forest Investment Associates, Hancock Natural Resource Group, Jamestown, Molpus, RMS, Silver Creek Capital, and Timber Investment Resources. These TIMOs own approximately 15 million acres of timberland with a value of $25.5 billion.

The TIMOs are actively buying timberland in the U.S. with total gross nominal return targets of 5% to 11% (the range covers all U.S. regions). The income return expectation ranges from 2% to 4%. The expectations regarding appreciation show a wider range from 2% to 6%. Return targets at the higher end of the range reflect more aggressive assumptions about expected appreciation by the survey participants with variability by region. Realized and unrealized appreciation is ultimately driven by (i) higher income from log prices and demand for timber and/or (ii) a reduction in the required rate of return expected by investors which would result in a lower discount rate used for valuation purposes and a higher resulting value. TIMOs do not generally project value increases from changes to higher and better use.

Consistent with survey results of prior years, Idaho is a market that is less attractive compared to other regions. Idaho is viewed as riskier by the TIMOs surveyed due to lower productivity based on its location east of the Cascades, thinner timber markets, including reduced access to export markets, and fewer institutional buyers which impacts liquidity. These factors result in higher required returns for Idaho. The TIMOs we surveyed noted they would add 50 to 100 basis points (1/2 of one percent to 1%) to their required returns if they were investing in Idaho; however, few indicated they were actively investing in Idaho. The gross nominal return range for Idaho is 6% to 11% based on the survey which equates to a net real return of 2.75% to 7.75%.

The lack of TIMO interest in Idaho timberland should work in the Land Board's favor in terms of securing transactions.

Unlike Farmland (discussed below), returns for Idaho-only timberland are not available from NCREIF[1] due to lack of properties owned by TIMOs in Idaho. The returns for U.S. timberland are shown below and illustrate the historical split between income and appreciation.

Institutional Timberland Returns: U.S.
Periods Ending March 31, 2018 – Gross Nominal Returns

	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	Inception 4Q 1986
U.S. Timberland							
Income	3.01%	2.70%	2.74%	2.55%	3.15%	3.42%	5.03%
Appreciation	0.76%	0.73%	3.29%	1.49%	4.30%	2.92%	6.40%
Total	3.79%	3.44%	6.10%	4.06%	7.54%	6.41%	11.63%

Source: NCREIF Timberland Property Index. The Index returns are gross of fees. As of March 31, 2018, there were 456 properties with a market value of $25.2 billion and 13.98 million total acres in the Timberland Property Index.

Farmland Hurdle Rate

The Idaho Farmland hurdle rate is higher than timberland and is a minimum net real return of 4.5% which equates to an approximate 7.75% gross nominal return, assuming 2.25% inflation. Although some of the market participants we surveyed are targeting marginally lower returns, we recommend continuing to use the 4.5% hurdle rate. As articulated in the May 2016 Strategic Reinvestment Plan, this hurdle rate is above the Long Term Policy Returns for both the Financial Asset Portfolio and the Farmland Portfolio to keep the focus on finding transactions that are accretive. Farmland has a net asset value of $24.7 million representing only 2% of the Land portfolio. It is not a Strategic Asset Class in the asset allocation.

Callan surveyed institutional farmland managers with regard to their expected returns for new acquisitions of farmland in Idaho. Survey participants included Hancock Natural Resource Group, Homestead Capital, IFC, UBS Agrivest, and US Ag. The gross nominal target returns for Idaho row crops were 7.25% to 7.50% which equates to approximately 4.00% net real to 4.50% net real. The return expectations are different than the historical returns of Idaho farmland properties in the NCREIF Farmland Index shown below, mainly because there is less appreciation expected going forward with land appreciating at inflation.

[1] NCREIF is the acronym for the National Council of Real Estate Fiduciaries. NCREIF is an independent organization that collects return and operational data for real estate, farmland, and timberland. NCREIF serves the institutional real estate, timberland and farmland investment community as a non-partisan collector, validator, aggregator, converter and disseminator of performance and benchmarking information.

Institutional Farmland Cropland Returns: Idaho Compared to U.S.
Periods Ending March 31, 2018 – Gross Nominal Returns

	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs
U.S. Cropland						
Income	3.62%	3.66%	3.76%	4.03%	4.21%	6.13%
Appreciation	1.58%	1.34%	2.42%	5.76%	7.62%	4.49%
Total	5.24%	5.05%	6.25%	9.96%	12.06%	10.82%
Idaho Cropland						
Income	4.05%	4.02%	4.05%	N/A	N/A	N/A
Appreciation	0.43%	4.83%	4.03%	N/A	N/A	N/A
Total	4.49%	8.99%	8.21%	N/A	N/A	N/A

N/A –not available
Source: NCREIF. The Index returns are gross of fees.

In contrast to timberland, investment in Idaho farmland (mostly row crops with some alfalfa) is viewed as attractive by several of the managers, particularly when compared to the Midwest and Colorado. There are more institutional participants in the Idaho farmland market compared to timberland. Managers are actively acquiring farmland properties in Idaho or targeting Idaho for new acquisitions. There are currently 47 Idaho farmland properties in the NCREIF Farmland Index with a market value of $453 million or an average of $9.6 million per property. This has risen from 30 properties in 2012 which had a market value of $174 million.

The Land Board may compete for farmland transactions with the institutional buyers who target transactions in the $2 million to $10 million range, as well as local buyers.

Recommendation

The findings from the Asset Allocation and Distribution Study completed by Callan in 2018 are consistent with the conclusions and next steps outlined in the Strategic Reinvestment Plan approved by the Land Board in 2016. Assuming the Land Board adopts the recommendation of the Investment Sub-Committee to proceed with Option A of the Asset Allocation and Distribution Study, Callan recommends that all future investments in timberland and farmland are made at or exceed the established hurdle rates. This applies to all endowments.

STATE BOARD OF LAND COMMISSIONERS
July 17, 2018
Regular Agenda

SUBJECT

Cottage Site VAFO 2024

BACKGROUND

In February 2010, the State Board of Land Commissioners (Land Board) directed the Idaho Department of Lands (Department) to unify the 523 cottage site split estates. Thereafter, the Land Board directed the Department to address the need for formal access, accurate easements, and subdivision platting associated with the cottage sites (Lot Solutions).

In October 2014, the Land Board approved a 3-Year voluntary auction for ownership (VAFO) Plan for the sale of 60 sites per year in 2015, 2016, and 2017. The yearly lots offered for sale were determined through a random lottery selection process for interested lessees. Interest in the 3-Year VAFO Plan exceeded the predetermined 180-lot capacity and the excess sites were given an alternate position number.

In February 2016, the Land Board approved the 4-Year VAFO Plan that provided every lessee an opportunity to participate in a VAFO by the end of 2019 (Attachment 1). The 4-Year VAFO Plan utilized the same random lottery selection positions created for the 3-Year Plan to fill years 2016 through 2018. Any lessee that did not participate in the lottery selection process is allowed to participate in the 2019 VAFO cycle.

Since 2011, VAFO auctions have resulted in the transition of 342 cottage site lots to private ownership (140 lots at Payette Lake and 202 lots at Priest Lake) for a total of $152,584,545 to the endowments.

After the 2018 VAFO cycle concludes, an estimated 395 or 76% of the original 523 cottage site lots will have been sold. The chart below illustrates the success of the VAFO process through the 2018 cycles.

Remaining Leased Cottage Site Lots After 2018 Auction Cycles							
	Starting # of Cottage Site Lots	# of Lots Sold	Current # of Lots	2018 VAFO / ULA	Estimated Lots After 2018	Un-Leased Lots After 2018	Leased Lots After 2018
Payette Lake Cottage Sites	168	140	28	2	26	0	26
Priest Lake Cottage Sites	355	202	153	51	102	8	94
Payette & Priest Lake Cottage Sites	523	342	181	53	128	8	120

The remaining 128 cottage site lots consist of 8 unleased and 94 leased Priest Lake lots and 26 leased Payette Lake lots. Lessees of the 120 leased lots did not participate in the VAFO selection process or opted out of a previously assigned VAFO cycle.

In December 2017, the Land Board approved the 2018 Cottage Site Leasing Plan to allow leases to be offered through 2024. The Plan provides additional time for lessees that were not in a position to take part in a previous VAFO to participate in a future VAFO cycle.

DISCUSSION

VAFO 2024 Plan

To gauge interest in future VAFO cycles, the Department conducted a survey of the remaining cottage site lessees. Of the 73 lessees that responded, 61 indicated an interest in participating, while 12 lessees indicated they were not interested in participating in a future VAFO cycle (Attachment 2).

The Department seeks approval to continue to offer VAFO cycles through 2024 based on the level of interest and market conditions.

Under the proposed VAFO 2024 Plan, the process will remain essentially the same as the previously approved 4-Year Plan:

1. Pre-application meeting;
2. Application;
3. Appraisal and Title Work;
4. Auction Administration Agreements;
5. Legal Notice and Marketing; and
6. Auction and Close of Escrow.

To be eligible to participate in a VAFO cycle, a lessee must meet the following criteria (the first three of which remain unchanged from prior VAFO cycles):

1. Be in good standing and not otherwise indebted to the state of Idaho;
2. Not be named in litigation against the Land Board;
3. Not have a conflicted lease; and
4. Either:
   a. Have no mortgage or deed of trust (collectively, "DOT") on the cottage site lease or on lessee's Personal Property located on the land; or
   b. Require the lender of an approved, preexisting DOT to execute a release or reconveyance of the DOT to be held in escrow, to be effective upon closing to a third party purchaser at auction upon payment of the appraised value of the Personal Property; or
   c. Have an approved, preexisting DOT, not in default, with an unpaid principal balance owing in an amount not exceeding 75% of the appraised value of the Personal Property, and with the non-default status and remaining balance owing confirmed in writing by the lender.

New Residential Lots

Through the original Lot Solutions process, fourteen lots were created in the Cove Replat and Cougar Island Subdivisions at Payette Lake. Nine new residential lots were created in the Cove Replat Subdivision by bisecting nine leased lakefront cottage site lots. Cougar Island was platted into five lots, only one of which is leased (Attachment 3). The previous disposition plans have been limited to the historically leased cottage sites and have not included these new residential lots.

Similar to the inclusion of cottage sites that are no longer leased, new lots do not have a lessee legacy effect. Offering new lots will likely generate additional interest and bidding at the auctions, especially when offered in the same cycle as adjacent leased lots.

The Department will include these new residential lots in auctions when prudent, based on interest and broker recommendation. Auctioning of residential lots will follow the Unleased Lands Auction (ULA) process.

Auction Locations

The sale of all state lands must be in Ada County unless otherwise approved by the Land Board (Idaho Code § 58-314). For both lessees and other potential purchasers, the city of Coeur d'Alene, in Kootenai County, is the most convenient location for the auction of lots at Priest Lake. The Department is seeking approval to continue to auction cottage sites in Ada, Bonner, Kootenai, or Valley Counties as needed and deemed appropriate for each lot.

Outreach and Stakeholder Engagement

On April 13, 2018, the Department provided copies of the proposed VAFO 2024 Plan to representatives of the Payette Lake Cottage Site Owners Association, the Cove Association, and the Priest Lake Cottage Site Owners Association (PLCOA). The Department then met with the PLCOA board and discussed the proposal on April 23, 2018. Attachment 4 is the PLCOA letter of support.

On April 13, 2018, the Department provided copies of the proposed VAFO 2024 Plan to the Bonner County and the Valley County Commissioners. On May 10, 2018, Department staff presented the proposal to the Bonner County Commissioners at their regularly scheduled meeting. A letter from the Bonner County Commissioners is included (Attachment 5).

On May 14, 2018, Department staff presented the proposal to the Valley County Commissioners at their regularly scheduled meeting. The Valley County Commissioners did not provide comment on the proposal.

RECOMMENDATION

Approve the Department's proposed Cottage Site Voluntary Auction for Ownership (VAFO) 2024 Plan, approve the auctioning of the new residential lots at Payette Lake, and approve the auctioning of future lots in locations appropriate for each site to include Ada, Bonner, Kootenai, or Valley Counties.

BOARD ACTION

ATTACHMENTS

1. February 16, 2016 Approved Memo
2. VAFO Past and Future
3. New Lot Maps
4. PLCOA Letter of Support
5. Bonner County Commissioners' Letter

STATE BOARD OF LAND COMMISSIONERS
February 16, 2016
Regular Agenda

SUBJECT

Cottage Site 4-Year Auction Plan 2016-2019

BACKGROUND

The Land Board's authority to dispose of endowment trust lands is provided for in the Idaho Constitution, Article IX, Sections 8 and 10; the Idaho Admissions Bill Section 5, and Idaho Code Sections 58-104(8), 58-133, 58-138, 58-154, 58-301, 58-310, 58-313, 58-314, 58-505.

In February of 2010 the Land Board gave the Department direction to unify the cottage site split estates and to develop a voluntary auction for ownership (VAFO) process (Attachment 1). Since 2011, auctions have resulted in the transition of one hundred and eighty nine (189) cottage site lots into private ownership: eighty seven (87) lots at Payette Lake and one hundred two (102) lots at Priest Lake.

In April of 2014 the Land Board approved the 2015-2016 cottage site auction goals (Attachment 2). This memo set goals of one to two auction cycles per year with capacity as determined by experience and the level of interest expressed by lessees.

In October of 2014 the Land Board approved a 3-Year VAFO Plan for the sale of sixty (60) sites per year in 2015, 2016, and 2017 (Attachment 3). The lots for each year were determined through a random lottery selection process for lessees that had expressed interest in the 3-Year VAFO Plan. Interest in the 3-Year VAFO Plan exceeded the predetermined one hundred eighty (180) lot capacity and the excess sites were given an alternate position number.

The 3-Year VAFO Plan was developed to provide predictability of VAFO cycles and to establish eligibility criteria for participation in a VAFO. During 2015, the Department continued to hear concerns from lessees regarding uncertainty for those not in the 3-Year VAFO Plan and requests to increase the number of sites allowed to participate in a VAFO each year.

DISCUSSION

Over the last year the Department has adjusted the VAFO cycle time line to increase capacity in future years and has developed a proposed 4-Year VAFO Plan (2016-2019) that would allow every lessee an opportunity to participate in a VAFO by the end of 2019 (Attachment 4). This plan adds certainty for all lessees interested in participating in a VAFO and increases the number of VAFO positions offered each year.

ATTACHMENT 1

Given that the total number of lessees wanting to participate in a VAFO over the next four years is unknown and will likely change, the proposed 4-Year VAFO Plan was developed to accommodate every remaining cottage site by 2019. The proposed 4-Year VAFO Plan shows the total number of cottage sites in 2010 (523) and calculates the remaining balances by year. Balances by lake (Priest and Payette) are also shown.

Under the proposed 4-Year VAFO Plan, the 2016 Payette Lake VAFO spots are filled from the auction positions selected through the lottery process. The remaining cottage sites at Payette Lake are then apportioned over the final three years of the proposed 4-Year VAFO Plan. After the 2016 cycle at Payette Lake, the Department anticipates less interest than there are positions available in the proposed 4-Year VAFO Plan. As such, a random selection process would be used only if needed in a given year. The Department created an updated Auction Position sheet for Payette Lake listing positions that participated in a VAFO and adding the needed positions through 2019 (Attachment 5).

At Priest Lake, the Department proposes to use the existing selection numbers and alternates for years 2016-2018. All sites that dropped out prior to the 2016 VAFO cycle or did not opt into the selection process last year will be eligible to participate in a 2019 VAFO. Given that every lessee that does not currently hold a lottery position will be allowed to participate in the same year (2019), no selection process is needed. The Department has created an updated Auction Position sheet for Priest Lake showing positions that have participated in a VAFO and adding positions for 2019 (Attachment 6).

In 2016 unleased lots, including vacant lots and lots under a short term land use permit, will be offered at each lake through a separate process for Unleased Lands Auctions (ULA). In the remaining years, ULAs will only be processed if an application is received in time to keep the ULA in the same cycle and time line as the VAFO for that year.

On January 6, 2016 the Department provided a copy of the proposed 4-Year VAFO Plan to members of the Priest Lake State Lessees' Association (PLSLA) Board, and Payette Lake representatives Fred Shoemaker, Patrick Miller, and Steve Millemann, to seek their input (Attachment 7). Additionally, Department staff presented the proposed 4-Year VAFO Plan to the PLSLA Board on January 13, 2016.

The Department received emails from Patrick Miller and Fred Shoemaker expressing appreciation for the opportunity to provide input (Attachment 8). Patrick Miller did not provide further comment, but the Department received letters of support from the PLSLA Board and Fred Shoemaker (Attachment 9). In their letter, the PLSLA Board states the proposed 4-Year VAFO Plan met their four main concerns:

1. Lessees that opted into the lottery selection process should have priority over those that did not or those that had a lottery position but chose not to participate last year;
2. Increase the number of sites allowed to participate in a VAFO each year;
3. Complete the VAFO process for all those who want to participate as soon as possible; and
4. Maintain the Priest Lake VAFO auctions separate from the ULA auctions.

The leasing program and its future is not addressed in the proposed 4-Year VAFO Plan; however, after the lessees wanting to participate in a VAFO have had an opportunity to do so, the Land Board and the Department will evaluate the Residential Program and determine the future plans for residential leasing. In the event that a lease expires prior to the prescribed auction date, the lease will be extended through that auction.

Under the proposed 4-Year VAFO Plan, the process will remain the same:

1. Pre-application;
2. Application;
3. Appraisal and Title Work;
4. Auction Administration Agreements;
5. Legal Notice and Marketing; and
6. Auction and Close of Escrow.

A lessee must meet the following criteria to be eligible to participate in a VAFO cycle:

1. Be in good standing and not otherwise indebted to the State of Idaho;
2. Not be named in litigation against the Land Board;
3. Not have a conflicted lease (this will become relevant again when the staggered leases begin expiring at the end of 2018); and
4. Not have a mortgage or deed of trust on the property or have an executed deed of reconveyance by the lender accepting the appraised value of the personal property as payment in full to be held in escrow pending closing.

The sale of all state lands must be in Ada County or in the county seat where the land being sold is located, unless otherwise approved by the Land Board (Idaho Code Chapter 58-314). The city of Coeur d'Alene in Kootenai County is the most convenient location both for lessees and other potential purchasers of cottage sites at Priest Lake. The Department is seeking approval to auction cottage sites in Ada, Bonner, Kootenai, or Valley Counties as needed and deemed appropriate for each site.

RECOMMENDATION

Approve the Department's proposed 4-Year VAFO Plan and approve the auctioning of future cottage sites in locations appropriate for each site to include Ada, Bonner, Kootenai, or Valley Counties.

BOARD ACTION

A motion was made by Attorney General Wasden that the Board adopt the Department recommendation as outlined on page 3 of 4 of agenda item 6. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

STATE BOARD OF LAND COMMISSIONERS DIRECTOR SEAL DEPT. OF LANDS IDAHO

ATTACHMENTS

1. February 16, 2010 Approved Memo
2. April 15, 2014 Approved Memo
3. October 28, 2014 Approved Memo
4. Cottage Site 4-Year VAFO Plan
5. Payette Lake 4-Year Auction Positions
6. Priest Lake 4-Year Auction Positions
7. Sample Stakeholders' Outreach Letter dated January 6, 2016
8. Patrick Miller and Fred Shoemaker Acknowledgements
9. PLSLA Board and Fred Shoemaker Responses

VAFO History / 2024 Projections

7/3/2018

Payette Lake Cottage Sites

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	**Total**
Lots Sold / VAFO & ULA		2		13	21	51	30	14	9							**140**
Remaining Lots	168	166	166	153	132	81	51	37	**28**							
Expressed interest in future VAFO cycle									2	3	1	1	0	1	0	
Remaining Lots after future cycles									26	23	22	21	21	20	20	

Priest Lake Cottage Sites

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Lots Sold / VAFO & ULA					59	43	43	57								**202**
Remaining Lots	355	355	355	355	296	253	210	**153**								
Expressed interest in future VAFO cycle									51	26	10	2	3	3	11	
Remaining Lots after future cycles									102	76	66	64	61	58	47	

Priest & Payette Lake Cottage Sites

								2017	2018	2019	2020	2021	2022	2023	2024	
Lots Sold	0	2	0	13	80	94	73	71	9							**342**
Remaining Lots	523	521	521	508	428	334	261	190	**181**							
Expressed interest in future VAFO cycle									53	29	11	3	3	4	11	
Remaining Lots after future cycles									128	99	88	85	82	78	67	

ATTACHMENT 2

THIS PAGE INTENTIONALLY LEFT BLANK

Payette Lake Sites

Date: 4/12/2018

Legend

New Lot Lines

ATTACHMENT 3

Payette Lake Sites

N W E S

Date: 3/14/2018

Legend

Payette Lake Sites

0 0.05 0.1 0.2 0.3 0.4 Miles

Priest Lake Cabin Owners' Association, Inc.

PLCOA Board of Directors

May 14, 2018

Dear Members of the Idaho State Land Board,

On behalf of the 233 members of the Priest Lake Cabin Owners Association and our 16 member Board of Directors, I would like to thank Sid Anderson for presenting the new VAFO recommendation to our Board on April 23, 2018. Sid outlined the plan to continue the VAFO sales from 2020 through 2024. This proposal will allow present lessees another six years to purchase their lake sites and it coincides with the present ending date for leases. After a short discussion our Board voted unanimously to support the presented proposal for 2020-2024.

Our thanks again to Sid and the Department of Lands for their careful consideration of these very complex issues. Our PLCOA Board and membership look forward to continuing the friendly and open discussion of issues that affect both of our organizations.

Sincerely,
John T. Brumley
President, PLCOA

Priest Lake Cabin Owners' Association, P.O. Box 206, Coolin, Idaho 83821, email: contact@priestlakecoa, website: PriestLakeCOA.org

Bonner County
Board of Commissioners
Glen Bailey | Daniel McDonald | Jeff Connolly

May 22, 2018

State Board of Land Commissioners
Idaho Department of Lands
Attn: Sid Anderson
P.O. Box 83720
Boise, ID 83720-0050

RE: VAFO 2024

Dear Commissioners:

This letter is to notify you that we have received your letter dated April 12, 2018 in which you outlined the voluntary auction for ownership 2024. You requested a response from our office outlining our position in regards to the VAFO 2024. The Bonner County Commissioner's would like to inform you that we have no objection should you decide to move forward with the VAFO 2024 as discussed in your letter.

Please keep us informed as to any decisions you make in regard to this issue. If we can be of further assistance, do not hesitate to contact us. Thank you.

Sincerely,

Bonner County Board of Commissioners

Glen Bailey

Glen Bailey, Chairman

Daniel McDonald, Commissioner

Jeff Connolly

Jeff Connolly, Commissioner

1500 Highway 2, Ste. 308 | Sandpoint, ID 83864 | (208) 265-1438 | Fax: (208) 265-1460

AGENDA ITEM 8

NO BOARD MATERIALS
ARE PROVIDED FOR THIS ITEM