



Idaho State Board of Land Commissioners

Brad Little, Governor and President of the Board

Phil McGrane, Secretary of State

Raúl R. Labrador, Attorney General

Brandon D Woolf, State Controller

Debbie Critchfield, Superintendent of Public Instruction

Dustin T. Miller, 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.

Final Minutes
State Board of Land Commissioners Regular Meeting
February 21, 2023

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, February 21, 2023 at the Boise City Council Chambers, Boise City Hall, 3rd Floor, 150 N. Capitol Blvd., Boise, Idaho, and via webinar. The meeting began at 9:00 a.m. The Honorable Governor Brad Little presided. The following members were in attendance:

Honorable Governor Brad Little
Honorable Secretary of State Phil McGrane
Honorable Attorney General Raúl Labrador
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Debbie Critchfield

For the record, all Land Board members were present in person at the physical location.

[Editor's note: the Discussion portions, if any, for agenda items may be written in first-person format. This is not a verbatim transcript.]

1. Department Report – Presented by Dustin Miller, Director

Trust Land Revenue

A. Timber Sales – January 2023

Discussion: Governor Little asked if the Wildcat timber sale was the one with the bridge on it. Director Miller replied yes. Referring to the map, Governor Little asked about the star right in the middle of Valley County and said he did not think there was state land there. Director Miller responded that was a ton sale named Fools Gold Ton. Mr. Jeremy Shawver added that sale is in the McCall (Payette Lakes) supervisory area and offered to confirm it is endowment land.

Superintendent Critchfield: My question is not related specifically to this graph, but to all the information you presented on the timber sales. Dustin, you made the comment when you looked at the graph on page three, the monthly lumber and stumpage price, that you were hoping to see that climb. This is a question about the function of this group, decisions that we make here,

does that impact that, or are the graphs determined by market factors that are unrelated to decisions here? What is the cooperation or the connection between these two things?

Director Miller: Governor and Superintendent Critchfield, thank you for the question. We are at the mercy of the market on much of this. If you look at the graph, how volatile the timber market, the lumber market has been, you see our stumpage price kind of tick along there. The gaps there in the red are times when we had no sales in a particular month. Given the high lumber prices, our six-month average price has trended up. Adding more volume to the market is always a good thing as long as there are purchasers out there that are able to buy it. We are trending up towards 328 million board feet as part of a five-year ramp up in our forest asset management plan from 247 million board feet. We will be taking a look at the next forest asset management plan that will push that number even higher and put more wood out there on the market. Right now, the Department provides roughly 30% of the total stumpage volume for the entire industry in Idaho. We are a big player and the Land Board plays a huge role in ensuring that we are implementing the right plans and policies to keep those lines going in the right direction. When we bring our annual sales plan and or our updated forest asset management plan, that is an opportunity for the Land Board to make some decisions, to bless that plan, make changes to the plan, and allow us to put more volume on the market and thus more income for the endowments.

B. Leases and Permits – January 2023

Discussion: Controller Woolf pointed out on the bottom of page 2, the \$183,000 Real Estate Services figure and asked how that revenue was generated. Director Miller answered that revenue comes from funds paid to the Department by proponents when real estate transactions are closed. Some money came from recent Voluntary Auction for Ownership (VAFO) sales.

Status Updates

C. Land Bank Fund

Discussion: Governor Little asked what interest the Land Bank Fund is receiving. Director Miller said he would research and provide the percentage following the meeting.

D. Legislative Summary

Discussion: Governor Little clarified that the Department's rules were held, not tabled, by the House committee; tabled is different than held. Director Miller confirmed that the rules were held and will have further action by the committee.

E. Resource Protection and Assistance Report

Discussion: Controller Woolf inquired about the buoy situation on the Coeur d'Alene River. Mr. Thomas recalled that issue arose a few years back, and in the interim, the area office has continued discussions with the county. The county has jurisdiction over the buoys, not the Department of Lands, and everyone continues to cooperate.

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

- A. Manager's Report
- B. Investment Report

Discussion:

Chris Anton: Governor and members of the Land Board, good morning. My name is Chris Anton, I am the Manager of Investments for the Endowment Fund Investment Board. It is nice to meet all of you and I look forward to building relationships with you. I will be here every month, providing an update on the performance of the endowment fund.

As you can see in your report, financial markets moved higher in January as Europe was helped by significantly lower natural gas prices. China finally began to reopen as it relaxed COVID-Zero policies and the U.S. continued to experience moderating inflation and a resilient labor market. The fund was up 5.2% during the month, which left us up 8.1% fiscal year-to-date. Financial markets were closed on Monday [2/20], but through Friday [2/17] the fund was up 7.7%. We are in about the same place we were at the end of January. The improvement in business sentiment is certainly welcome, but it remains to be seen how quickly inflation will cool and how long the Federal Reserve will maintain its restrictive monetary policies. Inflation did cool slightly in January. The annual rate for headline inflation dropped from 6.5% in December to 6.4% in January. Inflation is moving down but we have a long way to go to reach the Federal Reserve's goal of 2%. Investors seem to be anticipating that the Federal Reserve will cut rates soon. However, the Federal Reserve insists that they are going to keep rates strong and at the current high levels through the end of 2023. That dynamic is very important because the longer rates stay at an elevated level, the greater the probability the economy will slow and we could move into a recession.

In terms of activities by the Investment Board, we had a meeting last Thursday. We reviewed Callan's annual capital markets assumptions and looked at our asset allocation. The Investment Board elected to keep our asset allocation the same as it has been. Our next meeting will be in May. For those of you who are new to the Land Board, our board typically appears before the Land Board twice a year in May and November. We provide a semi-annual and an annual report. It is an opportunity for the Land Board to get to know our board members as well.

The second part of the report, exhibit B, provides more detail on how the fund did by sub asset category and how each of the investment managers performed. The green and red colors do not indicate whether we are up or down, they indicate whether we are better than the benchmark. The Governor requested this, and I think it is a helpful tool. If it is green, it means that the managers have performed better than their respective benchmark. If it is red, they have performed worse than their benchmark. If you buy the benchmark in an index form, it is less expensive than hiring an active manager. We want to know that they are earning their keep and they are outperforming their respective benchmark. For fiscal year-to-date, that has happened.

Controller Woolf: Thank you, Mr. Anton, are there any concerns of any of the fund managers, how things are going and proceeding forward? Do you or your board have any concerns.

Mr. Anton: One of the managers that we have really kept a close eye on is Sands Capital. They are a large cap growth manager. As the Federal Reserve has increased the interest rates, growth stocks have come under considerable pressure, and they more than the growth index. They were down almost 50% last year. If you look at the second page of that report, you will see fiscal year-to-date, they are up 15.1%. They were up 23% last week, finally starting to improve. If you look at the fiscal year-to-date, or the last three years, they are still about 0.9% below their benchmark. We are keeping a close eye on Sands.

Governor Little: How often do you mark the real estate to market?

Mr. Anton: Every quarter. Real estate managers conduct a full appraisal of their properties every quarter.

Controller Woolf: One more for Mr. Anton, the second from the bottom, the CBRE Core Partners, is that a real estate fund? It is on page 2.

Mr. Anton: Yes, Governor, Controller Woolf, that is correct. It is an outstanding fund. If you look at relative to benchmark, however, they do not look that great. Part of the problem was we were in the process of transitioning from the UBS Trumbull Property fund into the CBRE fund. As we have all seen, the public REIT markets have taken write downs as mortgage rates have gone up. The private funds, to the Governor's point, there is a lag because they do their appraisals quarterly. As we started to transition into CBRE, the timing was not great because they had write downs in the fourth quarter, right at the time we were halfway through the transition. We have confidence in the fund long term, but their initial performance does not look spectacular.

Secretary of State McGrane: Looking at all the benchmarks, why is our real estate performing so poorly relative to its benchmark compared to others? There may be good justification, I am just not familiar.

Mr. Anton: Governor, Secretary McGrane, the benchmark is what they call the Odyssey index; it is an equity real estate fund with fairly low leverage. There are different levels of leverage in the real estate fund. Historically, we had two real estate funds, the DWS RREEF America II, which is a core fund that is consistent with the benchmark, and the UBS Trumbull Property fund that I referenced earlier. That was about half of our real estate, and they were in a leveraged loan fund. They would loan up to 95% of the property and they would take some of the equity upside. The challenge has been, as all these private capital, private credit funds have developed, that they just have not been able to generate any new business, and that is why we are transitioning away from them. To your specific question, the reason we are less than the benchmark is because that is not an equity fund, it is a loan fund and therefore has lower performance. That is half of our real estate performance and therefore it is more conservative and has lower returns.

Consent—Action Item(s)

3. Approval of Draft Minutes – December 20, 2022 Regular Meeting (Boise)

Consent Agenda Board Action: A motion was made by Controller Woolf that the Land Board adopt and approve the Consent Agenda. Secretary of State McGrane seconded the motion. The motion carried on a vote of 5-0.

