

Idaho Endowment Trust Lands: “A Growing Future”

*Managing Our Endowment
Assets Today and...*



*for the Future
of Idaho*

PRESENTED by IDAHO DEPARTMENT OF LANDS

What do the trust assets consist of?

Land Assets



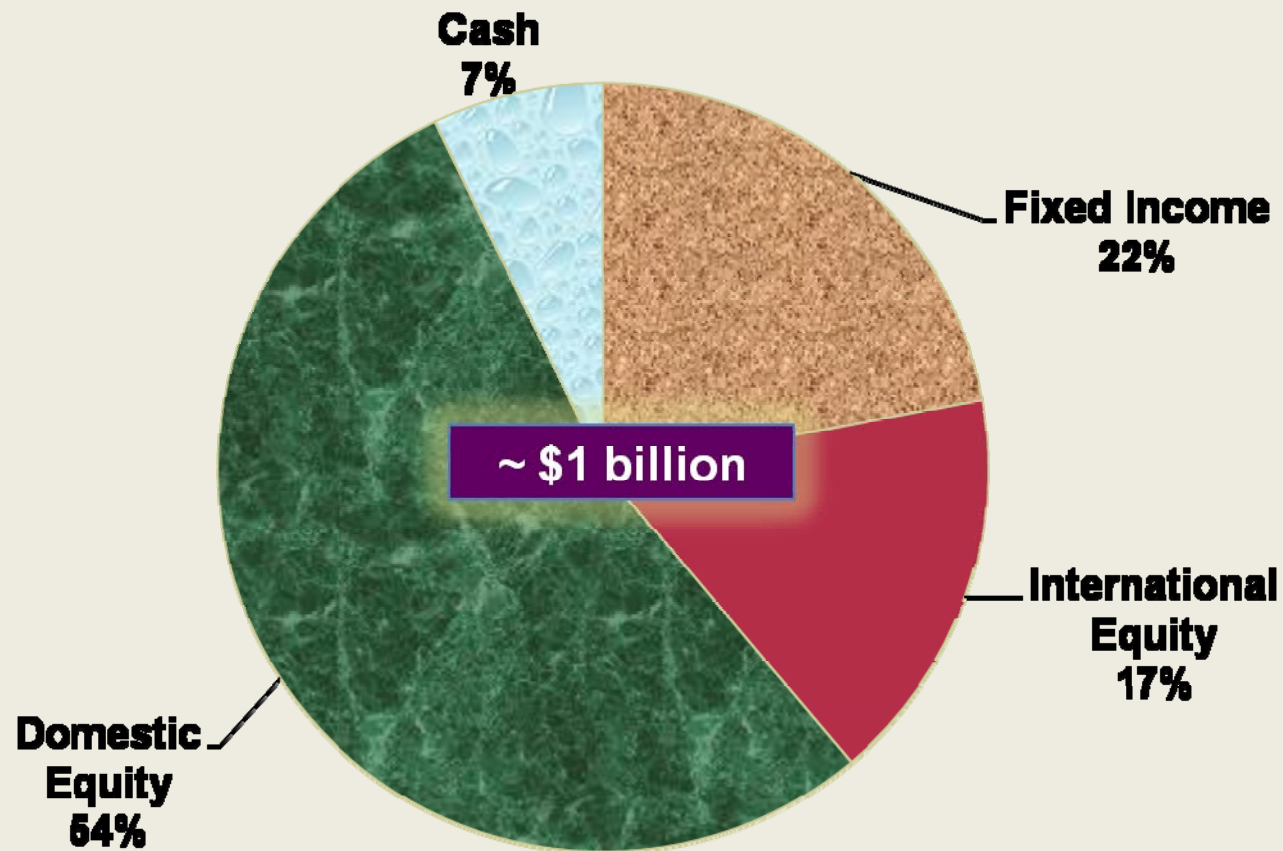
Financial Assets

- Permanent Fund
- Earnings Reserve



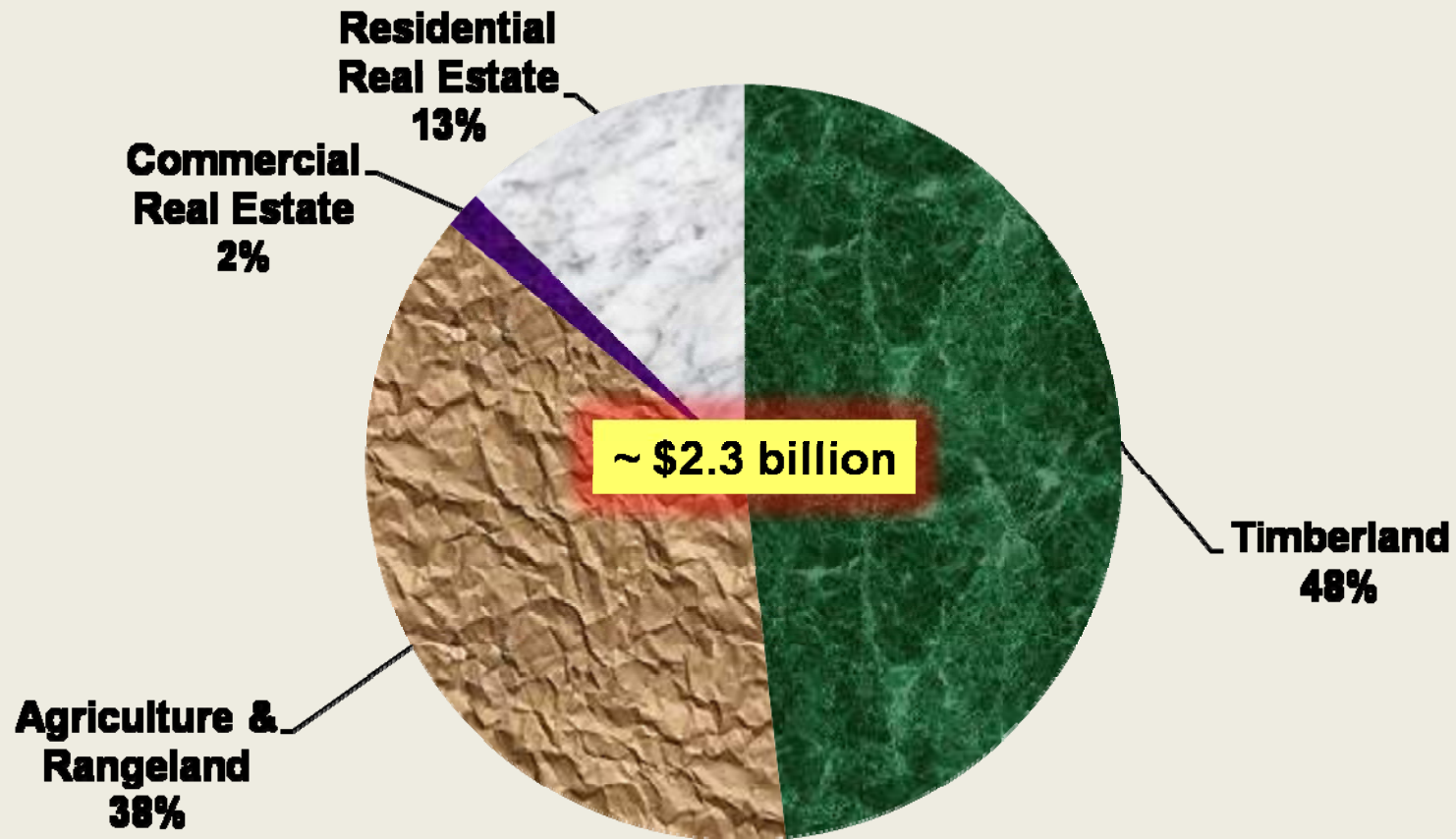
**Total
Assets**

Financial Asset Allocation (EFIB)



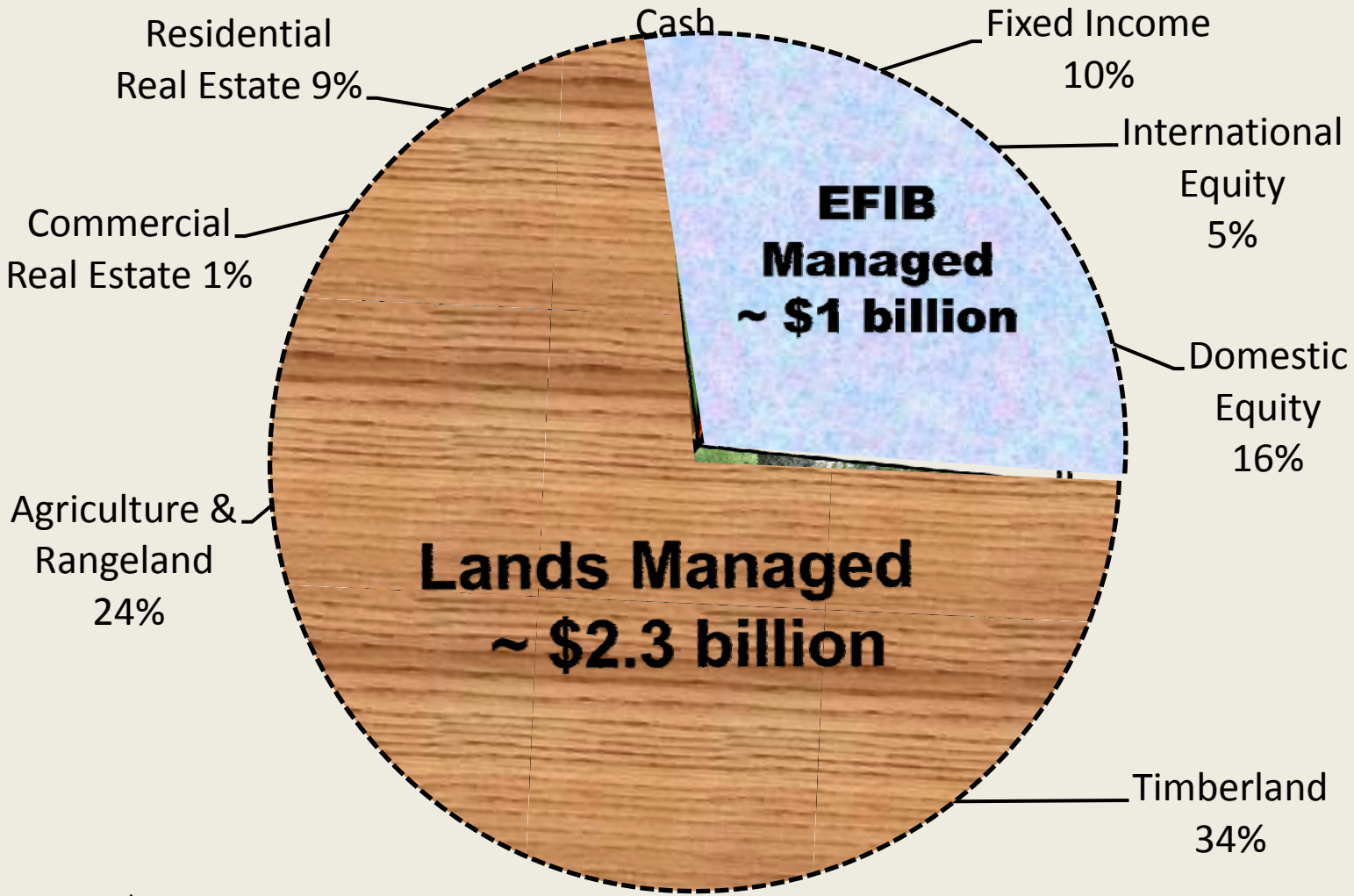
(as of June 30, 2009)

Land Asset Allocation



(as of June 30, 2009)

Mix of All Endowment Assets ~ over \$3 Billion Dollars in Value



(as of June 30, 2009)

Goal of Endowment Management

(Prudent Investor Standard of Care, Idaho Code Title 68, Chapter 5)

- ❖ Maximize financial returns over time
- ❖ Maintain or improve revenue generating capacity of land
- ❖ Provide a stable and perpetual distribution of income to the trust beneficiaries

WHAT IS AN ASSET MANAGEMENT PLAN & WHY IS IT IMPORTANT?

- ❖ Document used to ensure assets can be managed, preserved and protected for long-term goals and strategy
- ❖ Defines over-arching beliefs and philosophy about a set of collective investments
- ❖ Includes elements of financial analysis, asset selection (and divestiture), asset allocation (diversification), plan implementation and ongoing monitoring of the investments/assets

Who are the Beneficiaries and what do they own?

Nine Endowments - 14 Legal Beneficiaries

balance as of June 30, 2011

ENDOWMENT	Ownership Acres	Permanent Fund (Nonexpendable)	Earnings Reserve (Expendable)
#1 PUBLIC SCHOOLS	2,079,328	\$ 714,690,423	\$ 93,468,348
#2 AGRICULTURAL COL.	33,475	\$ 19,675,273	\$ 6,235,407
#3 CHARITABLE INST.	77,209	\$ 66,147,706	\$ 17,241,036
4/15 Idaho State University			
4/15 Juvenile Corrections Center			
4/15 State Hospital North			
5/30 Veterans Home			
1/30 School for the Deaf & Blind			
#4 NORMAL SCHOOL	59,807	\$ 60,679,655	\$ 15,456,300
1/2 Lewis-Clark State College			
1/2 Idaho State University			
#5 PENITENTIARY INC.	28,907	\$ 24,291,806	\$ 10,545,384
#6 SCHOOL OF SCIENCE	75,873	\$ 67,037,665	\$ 18,034,351
#7 STATE HOSPITAL SO.	31,289	\$ 33,609,233	\$ 26,588,528
#8 UNIVERSITY OF ID.	55,315	\$ 55,489,967	\$ 16,671,972
#9 CAPITOL PERMANENT (no earnings reserve account)	7,222	\$ 21,939,722	
Totals*	2,448,424	\$ 1,063,561,450	\$ 204,241,326

8

* Estimated value of real estate assets is \$2.3 billion

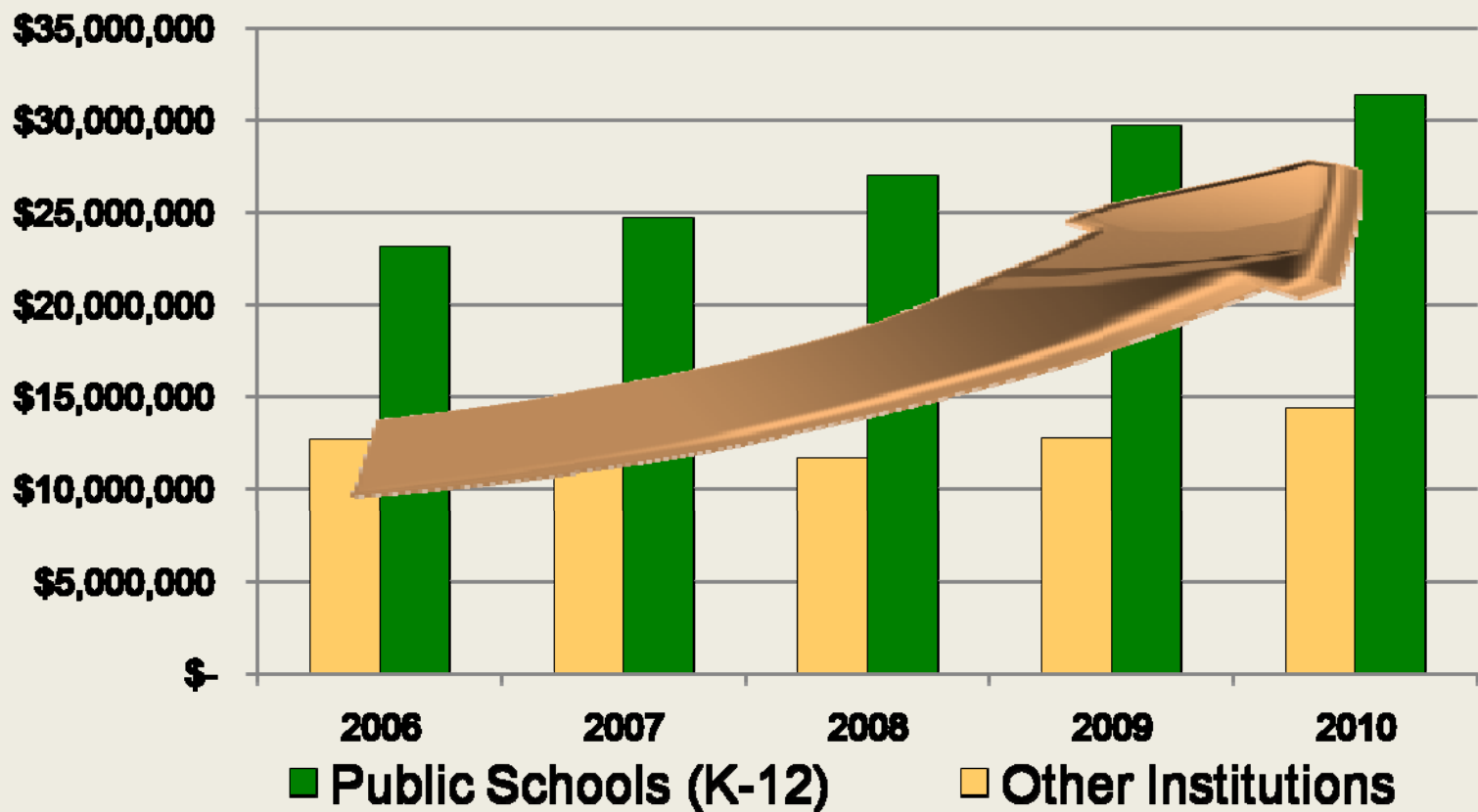
What the Beneficiaries Need from Their Trust

...the most pressing concern of almost all of the beneficiaries was not necessarily the absolute magnitude of funds distributed, but rather the stability of the flow of those funds...

- Qinsight Group 2-24-00

Beneficiary Distributions

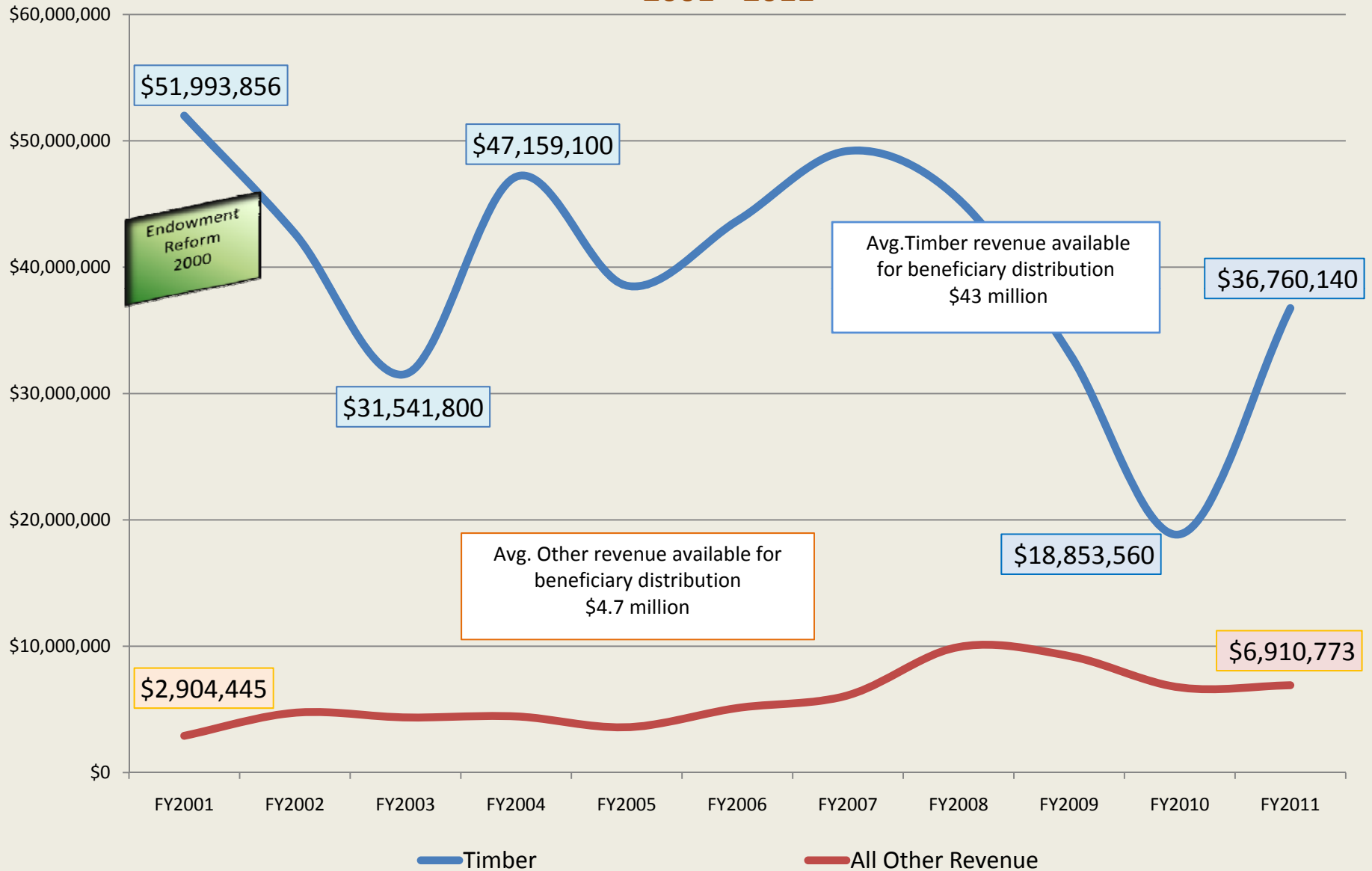
Cumulative Public School Distribution 1995 – 2010 ~ \$548 million
Cumulative Other Institutions Distribution 1995 – 2010 ~ \$254 million



Endowment Net Revenue Trends

Timber Management v. All Other Sources

2001 - 2011



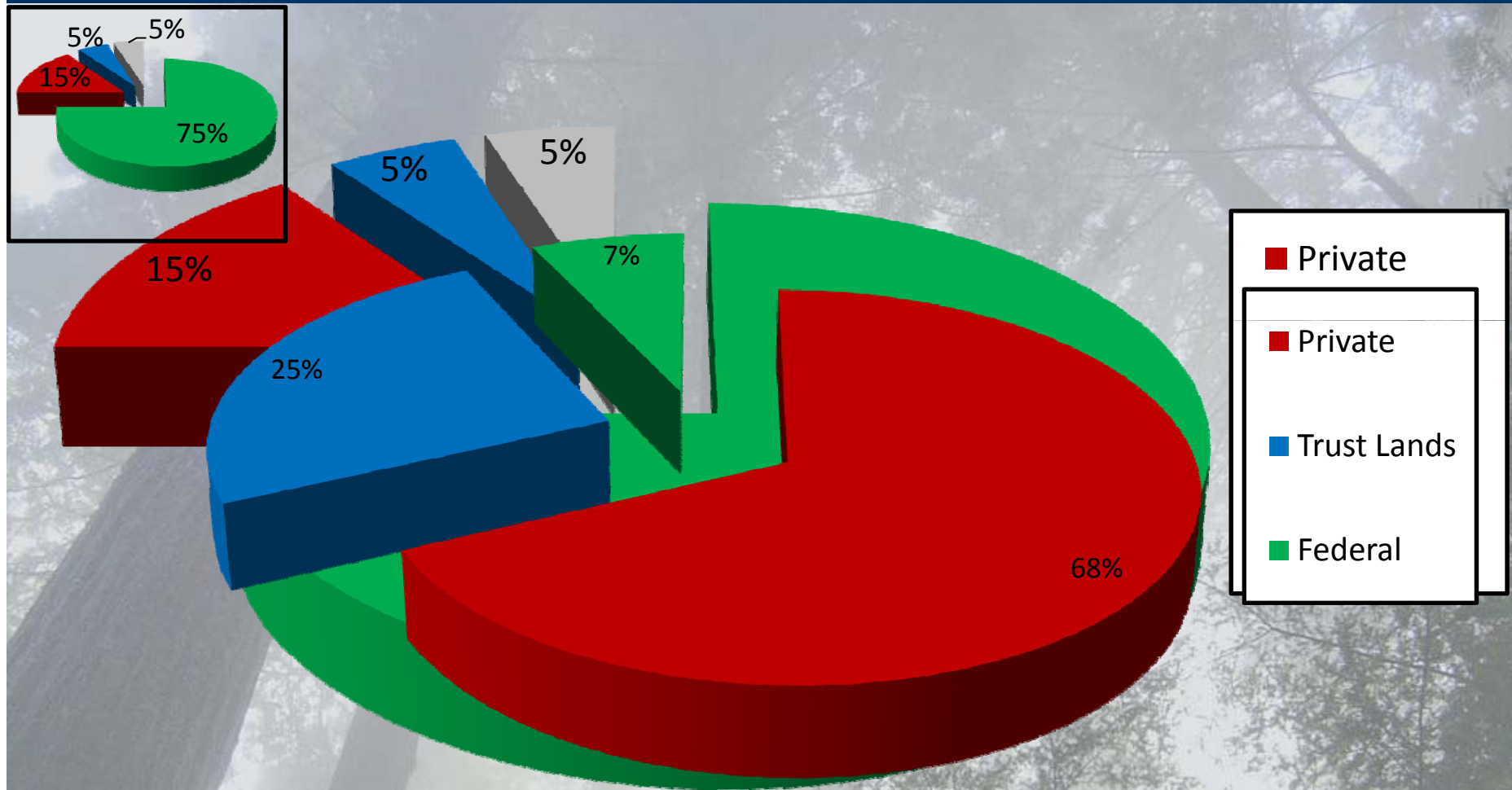
Forest Management on State Trust Lands



Sustainable Forests – Sustainable Revenue – Sustainable Communities

Idaho's Statewide Harvest by Ownership

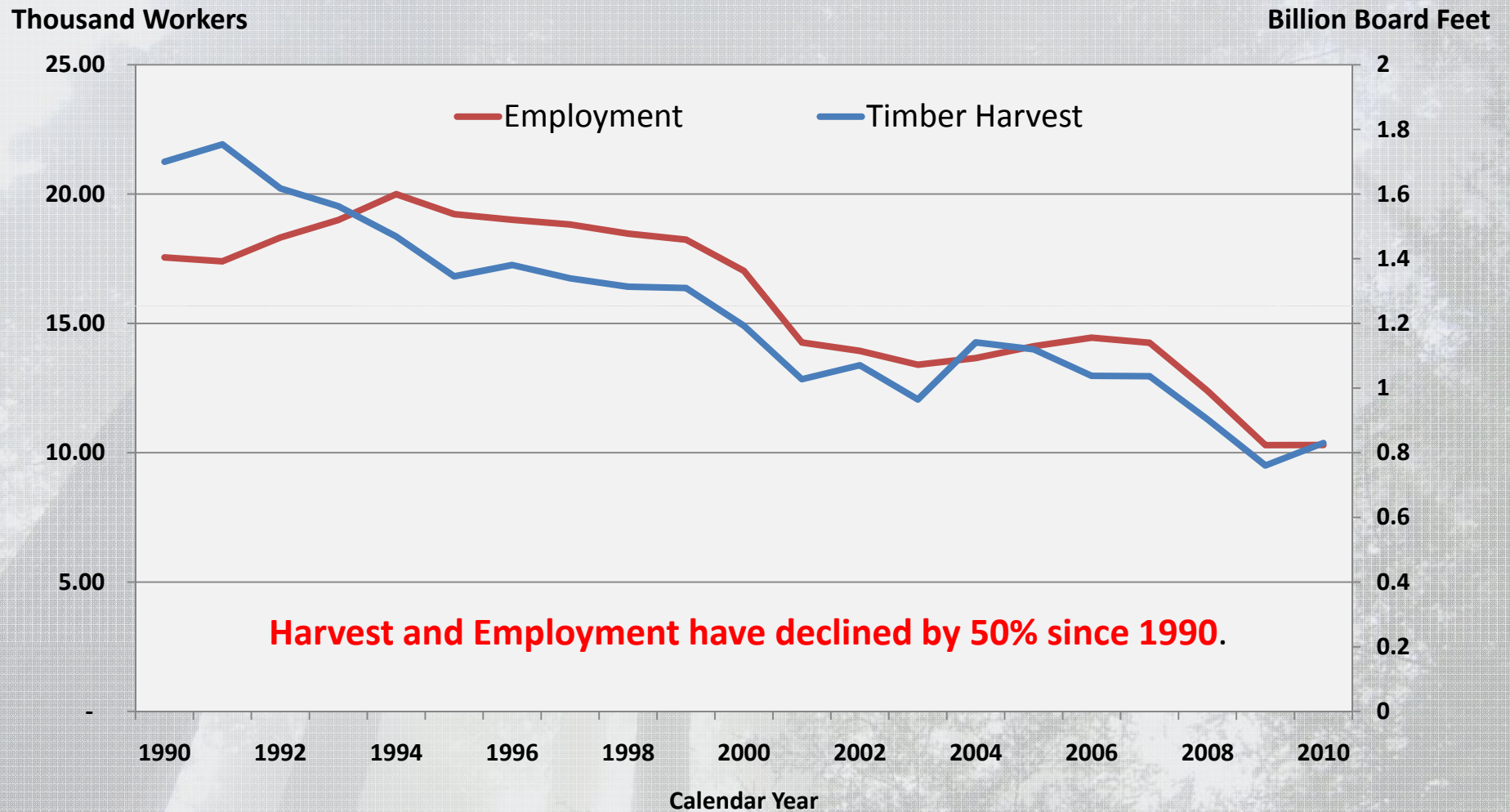
5-Year Average (2006-2010)



*Note – Private includes all private forestland owners and tribal.



Idaho's Statewide Timber Harvest & Employment



Source: University of Montana, Bureau of Business and Economic Research

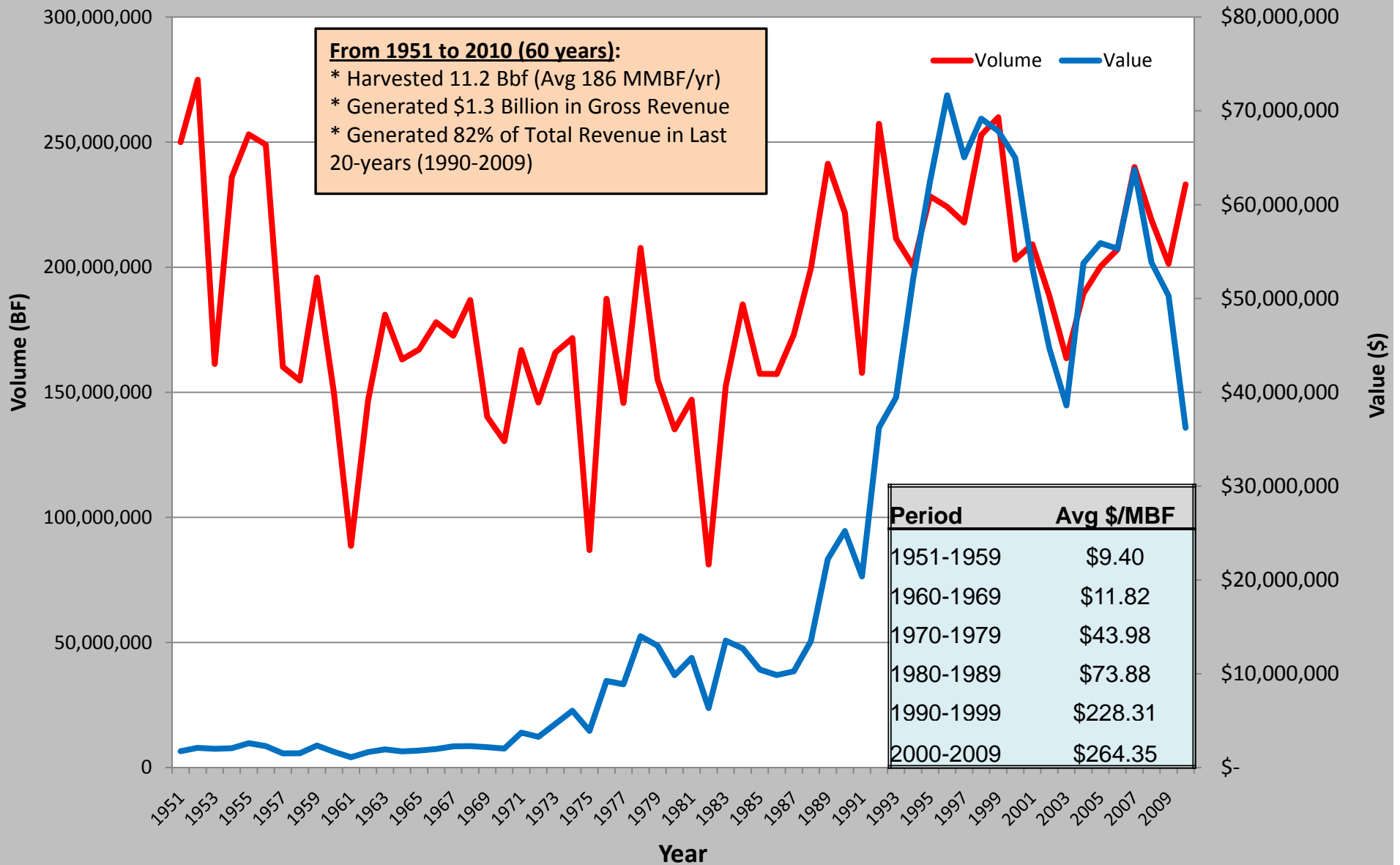


Current Trust Land Forest Management Program

- **\$43 million – 10-Year Avg Annual Net Revenue**
- **85% of total land asset revenue**
- **\$3.56 – 3-Year Avg Gross Revenue/Cost Ratio**
- **247 mmbf (~25 to 30% of Idaho's log supply)**



Trust Land Harvest Volume & Value from 1951-2010



Forest Asset Management Planning Process

❖ How do we continue to maximize returns and maintain or improve the revenue-generating capacity of endowment timberlands into the future?

- Business-market ▲'s & risks
- Technological/Operational ▲'s
- Biological ▲'s & risks
- Ownership & Management ▲'s
- Climate ▲
- Forest Functions (air, water, habitat)



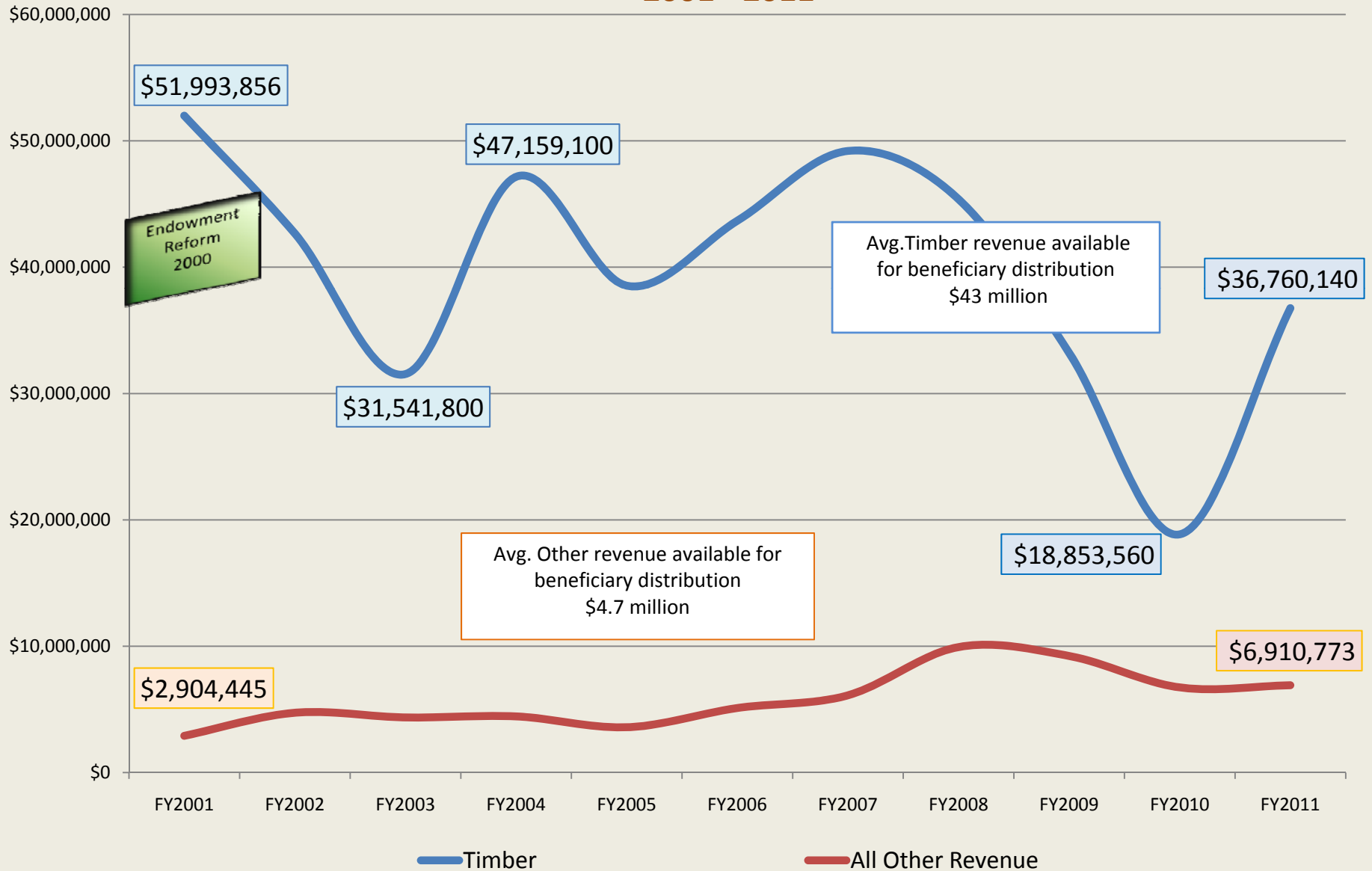
Current & Future Challenges and Risks

- **Economic Times & Market Volatility**
- **Forest Industry Infrastructure** (market outlets, logging & trucking contractors, etc.)
- **Staffing** (Age Demographics)
- **Forest Ownership Changes & Conversion**
- **Biological Risks**
- **Social / Political Support**
- **Legal Challenges** (ESA, CWA, etc.)

Endowment Net Revenue Trends

Timber Management v. All Other Sources

2001 - 2011



Net Income Performance Other Asset Types



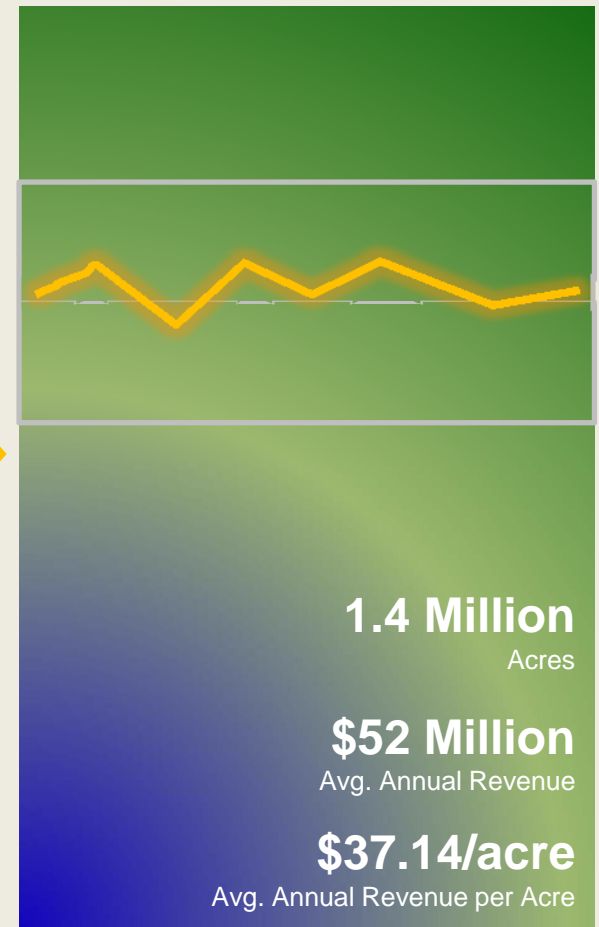
Asset Class	2001-2011 Avg Net Returns	2007-2010 Income ROA	Target Income ROA
Rangeland	\$603,000	0.00%	0.25 - 2.5%
Commercial	\$690,000	1.23%	1.5 - 7.5%
Residential	\$3,800,000	1.75%	1.5 - 6.0%
Agriculture	\$155,000	0.73%	1.0 - 2.5%
Conservation	\$18,200	0.00%	0.5 - 2.5%
Recreation	\$135,000	n/a	1.0 - 2.5%
Minerals (perm fund)	\$2,300,000	n/a	1.5 - 9.0%



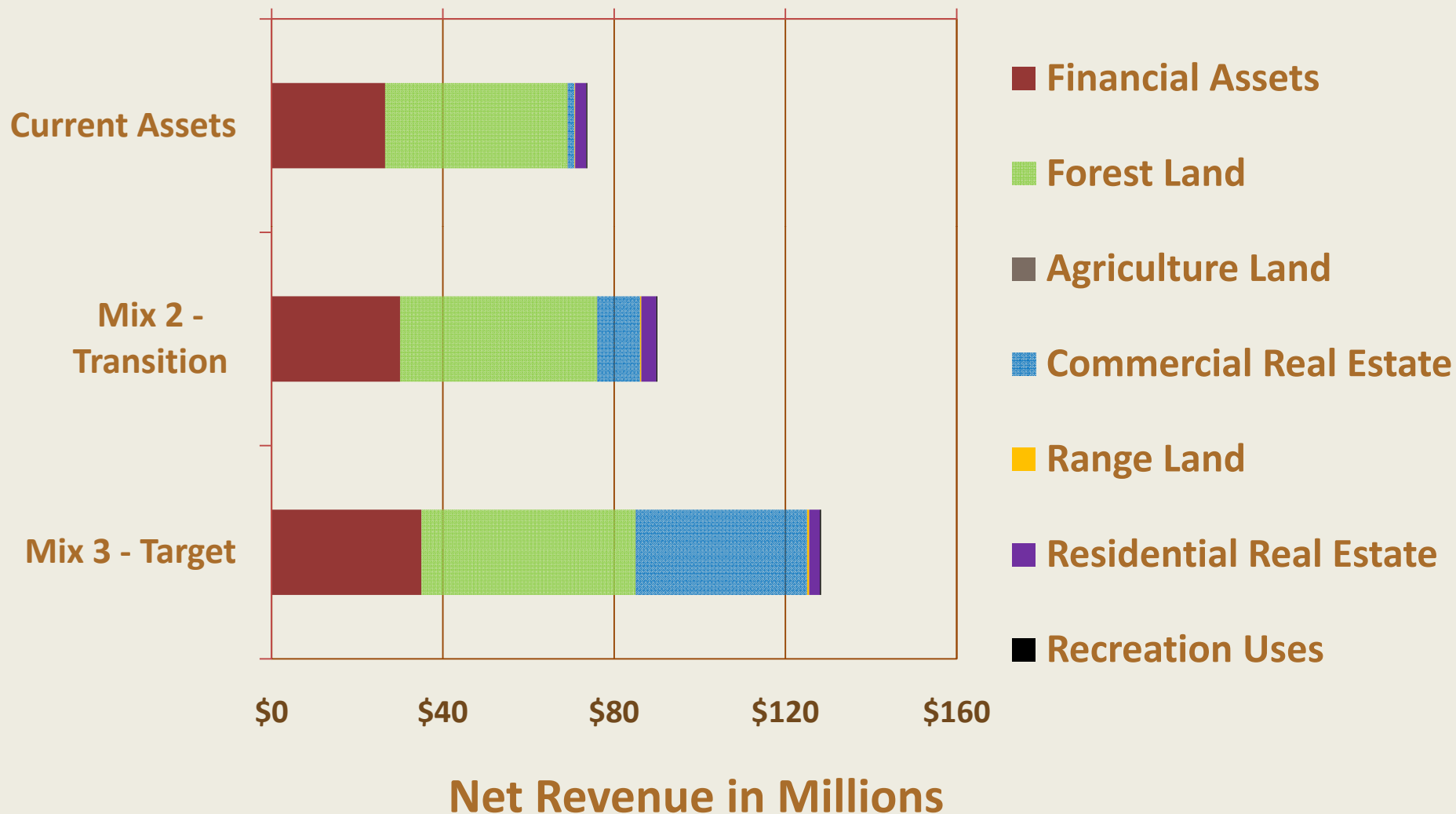
Address Underperformance



**Transition and
Grow Higher
Income Producing
Assets**



Conceptual Contribution to Annual Beneficiary Distribution by Asset Type



Oil & Gas in Idaho



Endowment Trust Lands Leasing

Oil & Gas Conservation Commission

- Funding
- Negotiated Rulemaking
- Legislation

Land Asset Owned in Trust

QUESTIONS

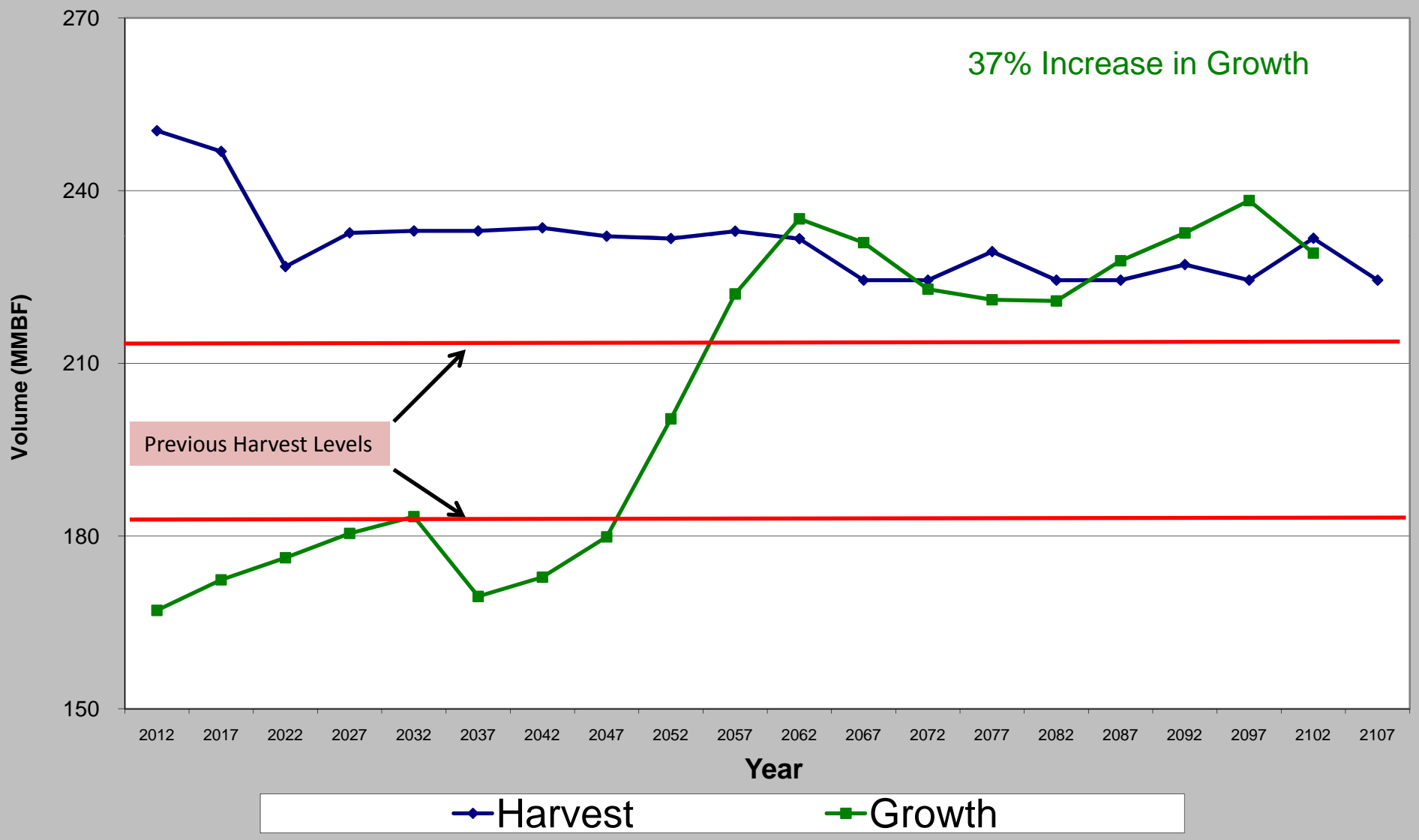


APPENDIX



Forest Asset Management Plan (FAMP)

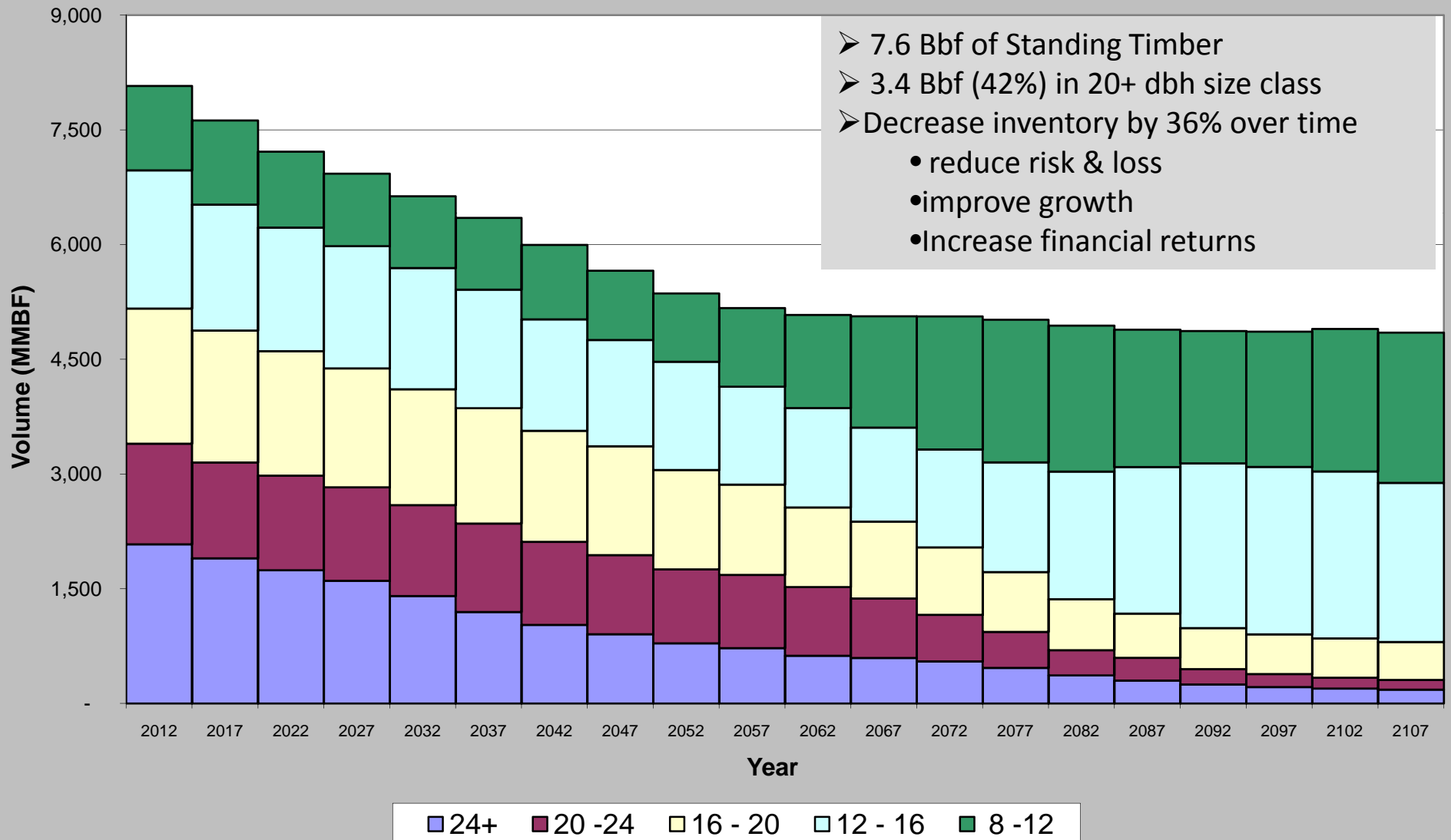
Annual Statewide Harvest and Growth (MMBF)





Forest Asset Management Plan (FAMP)

Statewide Trust Land Volume by Size Class



WHY WE CLASSIFY LAND ASSETS

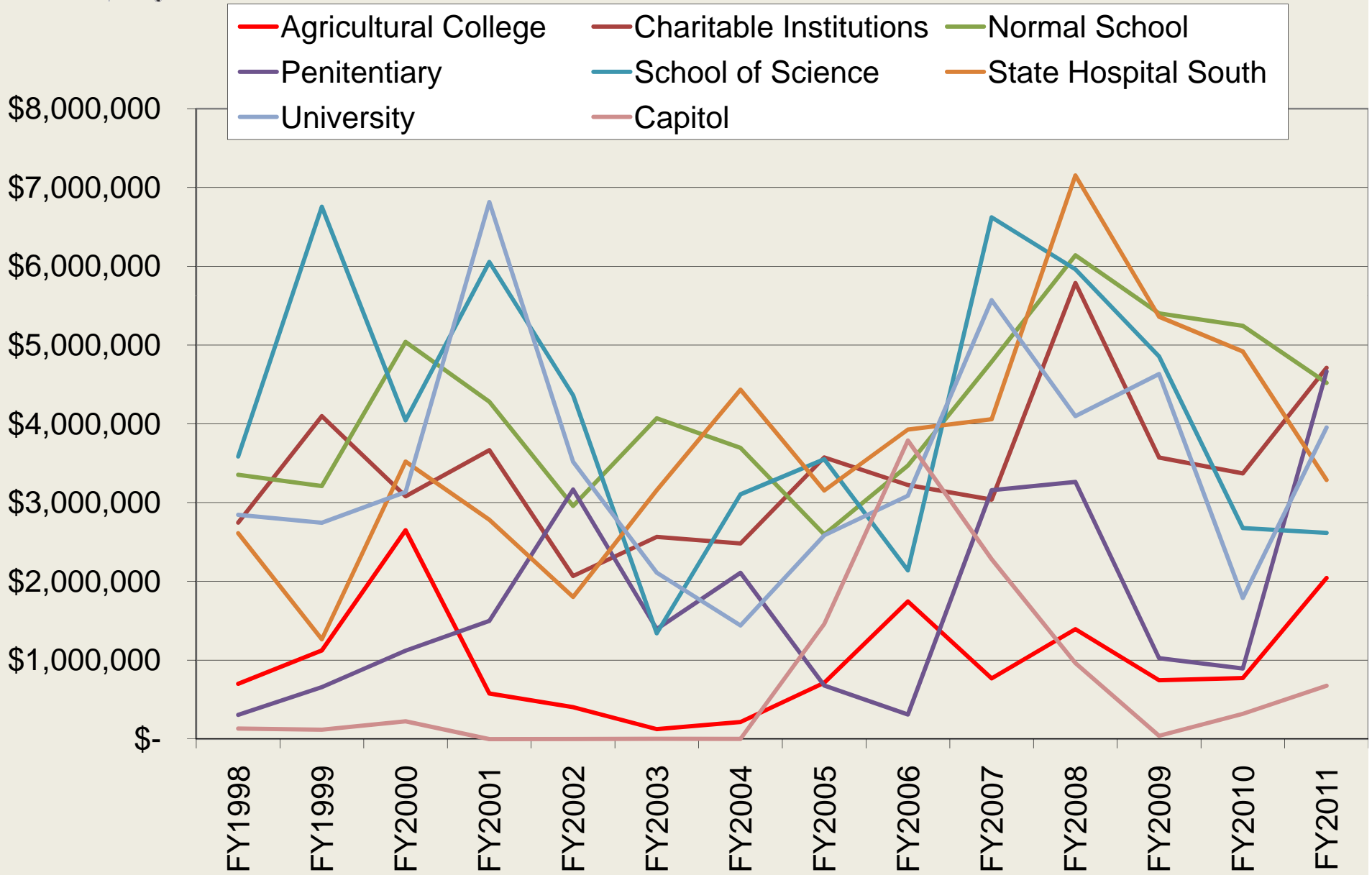


Managers classify lands to develop **customized plans and strategies** necessary to optimize returns based on specific asset characteristics.

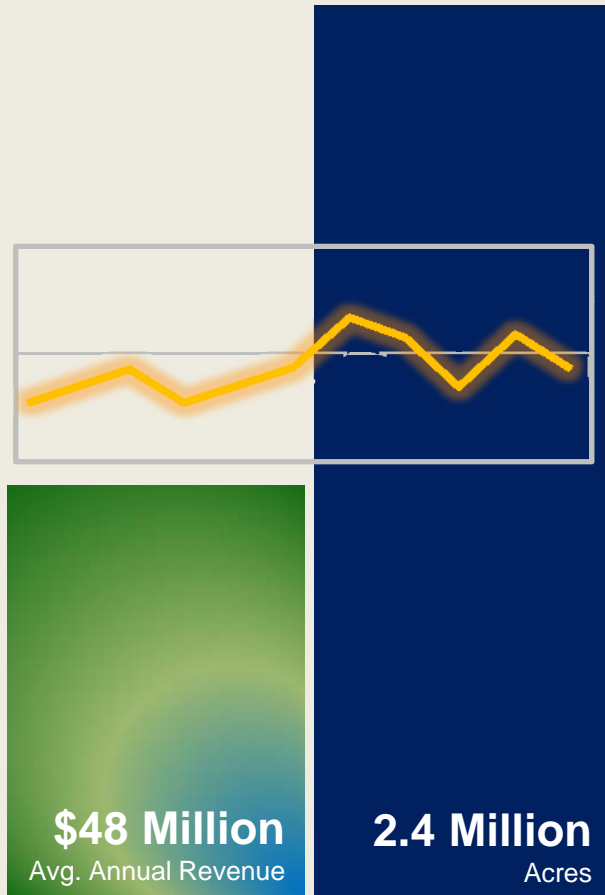
- ✓ Allows managers to **benchmark** performance against similar private industry (National Council of Real Estate Investment) and other state trust land managers to demonstrate we are achieving the mission.
- ✓ Allows managers to **make informed decisions** regarding portfolio diversification and risks.



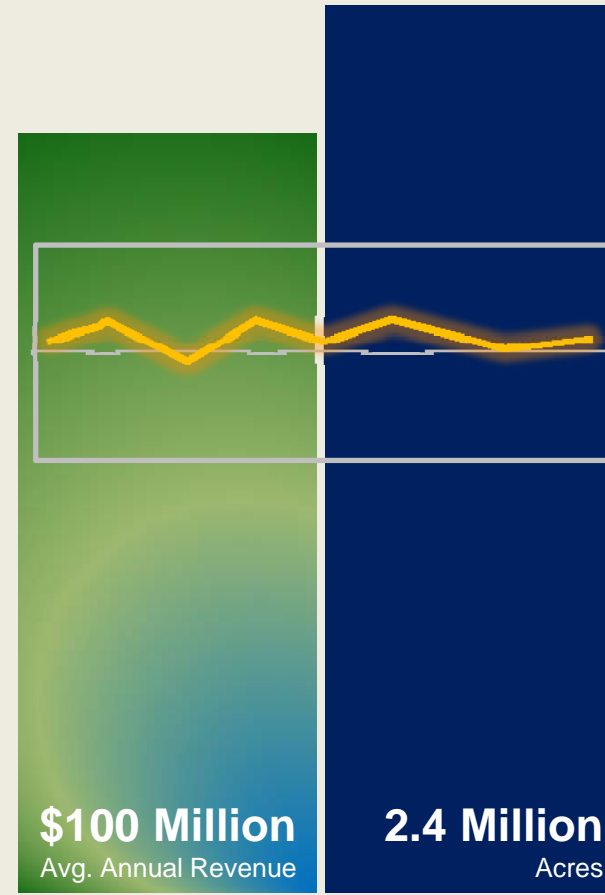
Revenue Volatility – Small Endowments



Portfolio Performance Potential



Current Asset Portfolio
\$20.00/Acre
Avg. Annual Revenue per Acre



Target Asset Portfolio
\$41.67/Acre
Avg. Annual Revenue per Acre