
Update: Land Board's Comprehensive Strategy Review

Interim Committee on Endowment Issues

August 28, 2014



Background of the study

- To address concerns about endowment strategy and investment processes, the Land Board asked Bob Maynard, a member of earlier task forces on endowment restructuring and the CIO of PERSI, to conduct a review. In December 2013, he recommended that the Land Board:
 - Include more independent review of the investment processes associated with endowment land (the prudent expert approach)
 - Place an increased emphasis on managing the land and fund components as one portfolio
- In response, the Land Board voted to:
 - Conduct a Comprehensive Strategy Review with the assistance of an investment consultant screened by the EFIB
 - Establish a temporary Governance Subcommittee

Consultant's scope of work

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- Conduct an asset allocation analysis of the land and financial assets of the endowment trust
 - Provide strategic priorities for incremental acquisition or divestiture of land assets
 - Provide near-term and long-term asset mix recommendations and alternatives
- Identify asset types that are generating returns below market expectations, provide recommendations for improvement
- Review processes for valuing land assets and whether they are appropriate for the Land Board's purposes

Consultant's scope of work

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- Review land revenue forecasting process
- Propose a periodic performance and monitoring report format to summarize results for the land and the land and fund combined
- Review the Governance Subcommittee's recommendations
- Review existing investment policies and procedures
- Identify any other issues that may impede investment management effectiveness

Delivery of final report: early November

Governance Subcommittee

scope of work

- Determine when independent consultants or advisors should be used to advise the Land Board on land-related investment decisions
- Recommend delegation of authority for investment decisions

Subcommittee members: Secretary of State, State Controller, EFIB Board member, Deputy Attorney General, IDL Director, EFIB Mgr. of Investments

Governance:

A system that empowers the appropriate people to implement an appropriate decision

Idaho Endowment governance objectives:

- Enhance long-term value of the trust
- Provide a structure for the Land Board to make informed decisions
- Ensure the Land Board can delegate technical investment judgments to accountable specialists
- Build trust with stakeholders, enhance reputation as a prudent investor
- Align expertise, authority, accountability and responsibility
- Push decisions to the lowest possible level
- Create processes that will endure turnover in elected officials, EFIB members and IDL/EFIB staff

Consultant selection process

An RFP was issued in March and widely circulated

- One firm responded – Callan Associates, at a price of \$125,000
 - Interviewed by both the EFIB and the Land Board
- Several firms indicated an interest, but felt the complexity of the project and their learning curve on Idaho operations would cause their cost to far exceed the RFP's \$100,000 fee target
 - Callan has consulted for other Idaho entities, including the EFIB, so they have a shorter learning curve

Callan's qualifications

- Advisor to 360 institutional fund sponsors representing \$1.9 trillion in assets
 - Conducted over 120 asset allocation over the last three years
 - Conducted roughly 146 searches or evaluations of real estate, infrastructure, timber and agriculture investments in the last five years
 - Reviewed well over 100 client investment policy statements in the last three years
 - Several clients have timber portfolios
- Team members assigned to the Land Board project recently completed an asset allocation study for a client with both a large fund and a large land endowment

Timeline for completion

- **October 1**
 - Draft report is issued by Callan
- **October 28**
 - Presentation of draft report to the Land Board
- **November [5-10]**
 - Final report is issued by Callan
- **November 18**
 - Presentation of final report to the Land Board
- **December 16**
 - Land Board meeting; take action on Strategy Review items

Interaction with the Interim Committee: Callan is available to meet with co-chairs, if desired; Draft and final reports will be provided to the Committee; Callan will be available to present to the Committee, if desired, after October 28

By December, Land Board will have a better road map for...

- Establishing priorities for, and evaluating, acquisitions and divestitures of land assets
 - Includes determining when property sales should be reinvested in land or transferred to the fund
- Adjusting fund portfolio to diversify land income
- Improving performance measurement
- Prioritizing which legal and policy changes produce the largest improvement in investment return