

STATE BOARD OF LAND COMMISSIONERS
December 17, 2013
Regular Agenda

SUBJECT

Recommendations from Endowment Fund Reform Progress Report

BACKGROUND

In September, the Land Board requested a review of progress toward implementation of the endowment reform effort which began in the late 1990s. Bob Maynard, PERSI Chief Investment Officer, who was on the original endowment reform task force, conducted the review. This review has generated a number of recommendations, many of which focus on independent review of the investment processes associated with endowment land.

DISCUSSION

Department of Lands and EFIB staffs (Staff) have attempted to prioritize next steps while also establishing an ongoing process to accomplish the longer-term, more difficult objectives. Note that Staff analysis has not been formally reviewed or approved by the EFIB.

The first objective is the adoption of outside reviews, consistent with the prudent expert approach, which could take a number of forms:

- Review overall asset allocation strategy for all trust assets
- Review and recommend framework for specific transactions
- Review and define process for routine investments
- Review operating framework for Land Trust management and investment

The priorities for consulting with experts should be determined based on a number of factors, such as the type or category of investment decision (e.g. strategic or routine maintenance) and the size, frequency and complexity of individual transactions.

Staff is not prepared to recommend how each land investment decision should be reviewed, but recognize that endowment land investment decisions are currently being hindered by:

- Lack of an overall view of the desired asset mix, taking into account both the land and the financial trust assets
- Lack of a governance structure consistent with the prudent expert approach
- Lack of a baseline understanding as to whether the current operating framework of Land Trust management and investment is consistent with prudent expert approaches

Therefore, Staff recommends that these three issues be the immediate focus of implementation efforts and that consideration of significant acquisitions be deferred. As a first step, Staff has drafted considerations associated with an endowment asset mix review (Exhibit A).

RECOMMENDATIONS

1. Direct the EFIB, with support from the Department of Lands and Land Board staff, to recommend consultants to perform a comprehensive strategy review of endowment assets, policies, procedures and studies, and 1) consult with subcommittee in item 2 to determine what constitutes a significant investment for the Trust that should be reviewed by third party experts, 2) recommend strategic priorities for acquisition/divestiture of Idaho endowment land, 3) recommend adjustments to the fund portfolio to reflect the cash earnings of the land, 4) recommend operating framework to best meet prudent investor standards, and 5) evaluate the long term investment outlook for Idaho timber land. Final selection of any consultant would be made by the Land Board.
2. Establish a Land Board Subcommittee on Endowment Fund Investment Governance Strategy that would be comprised of two Land Board members or staff, one EFIB Board member, EFIB Manager of Investments, IDL Director, and one Deputy Attorney General. The purpose of the Subcommittee would be to review investment decisions and recommend to the full Land Board a governance structure for those decisions that warrant outside expert review, consistent with the prudent expert approach.
3. Direct the Department of Lands, pending completion of the overall asset allocation review to discontinue consideration of any property acquisitions other than for the purposes of 1) obtaining access for currently owned endowment lands, and 2) blocking up of ownership of endowment lands
4. Direct the EFIB and the Department of Lands to jointly report, in May and November of each year, on the status of implementing the recommendations and observations of the Reform Progress Report, including:
 - Basing asset allocation on all trust assets
 - Basing distribution policy on all trust assets
 - Obtaining independent verification of investments by the Department of Lands
 - Enhancement of governance policies and procedures
 - Enhancing performance measurement and reporting to summarize all trust assets – total trust performance/returns
 - Investment of idle funds while held in the Land Bank.
5. Direct the EFIB to consult with the State Treasurer on the optimal investment of endowment assets while they are held in the Land Bank and present a recommendation to the Land Board.

BOARD ACTION

A motion was made by Controller Woolf that the Board adopt, with the correction to the subcommittee name in recommendation number 2, that the word "Fund" is removed, that the Board accept recommendation number 1, 2, 3, 4 and 5 as stated on page 2 of 2, Tab 9. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0.

ATTACHMENTS

1. Exhibit A: Comprehensive Endowment Strategy Review Implementation Consideration

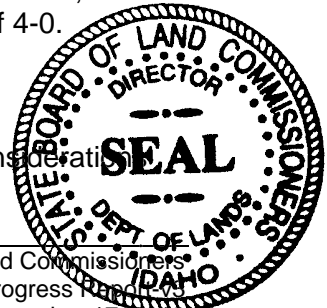


Exhibit A

Comprehensive Endowment Strategy Review Implementation Considerations

Draft Scope/Mandate/Objectives:

Recommend an overall asset mix for the endowment portfolio:

- What are the priorities for repositioning the asset mix of the land base as sale and exchange opportunities arise?
- How should the fund be structured to complement the land portfolio?

Related issues:

- Evaluate the long-term investment outlook for Idaho timberland compared to other asset classes
- Recommend guidelines for using fund assets to invest in the Idaho land base
- Recommend guidelines for investment of land sale proceeds: When they should be reinvested in Idaho land and when they should be invested in the fund
- Enhancements to the current operating framework

Estimated cost: \$100,000

Selection process:

1. EFIB and Department of Lands staff will solicit information from consultants on their capabilities
2. The EFIB, based on its own due diligence and consultation with the Department of Lands and Land Board staff, will recommend one or more consultants to be interviewed and retained by the Land Board

Steps: *(minimum 12 months to complete)*

1. Information gathering on potential consultants, possible mandates
2. The EFIB, based on recommendations from its staff and others, approves detailed mandate or mandates for potential consultants
3. Land Board approves consultant mandates
4. The EFIB interviews consultants and makes a recommendation to the Land Board
5. Land Board interviews recommended consultants, makes selection
6. Consultant presents preliminary recommendations
7. Land Board approves changes to the Asset Management Plan

Funding sources:

The Land Board has no budget, so all spending for external consultants must flow either through IDL or the EFIB

- IDL could reprioritize the current budget or submit a budget line item request
- The legislature has granted the EFIB continuous spending authority for investment consultants for FY 2014, but this could be withdrawn at their discretion for FY 2015