

Callan



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Whole Trust Framework

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State Land Trust Background

- **Primary Goals**

- Maintain intergenerational equity
- Generate revenue for public beneficiaries (e.g., schools, hospitals)
- Maintain and enhance the value of trust lands
- Ensure long-term sustainability

- **Challenges in Whole Trust Management**

- Balancing short-term needs vs. long-term growth
- Managing economic cycles and environmental impacts
- Disconnected governance in some states
- Addressing legal and regulatory constraints

- **Best Practices for Whole Trust Management**

- **Integrated Planning and Monitoring:**
 - Viewing the trust holistically, lands and financial assets
 - Regular assets valuations and comprehensive land use planning, offensive and defensive
- **Stakeholder Engagement:**
 - Involving beneficiaries, communities, tribes and environmental groups

State Land Trusts

Things state land trusts have in common:

- Purpose: generate revenue for public institutions
- Focus on maintaining intergenerational equity
- Management: generally managed by state agencies (land boards)
- Beneficiaries: public schools and other institutions
- Financial Asset Management: cash flows go into a Permanent Fund invested in a variety of public and private asset classes

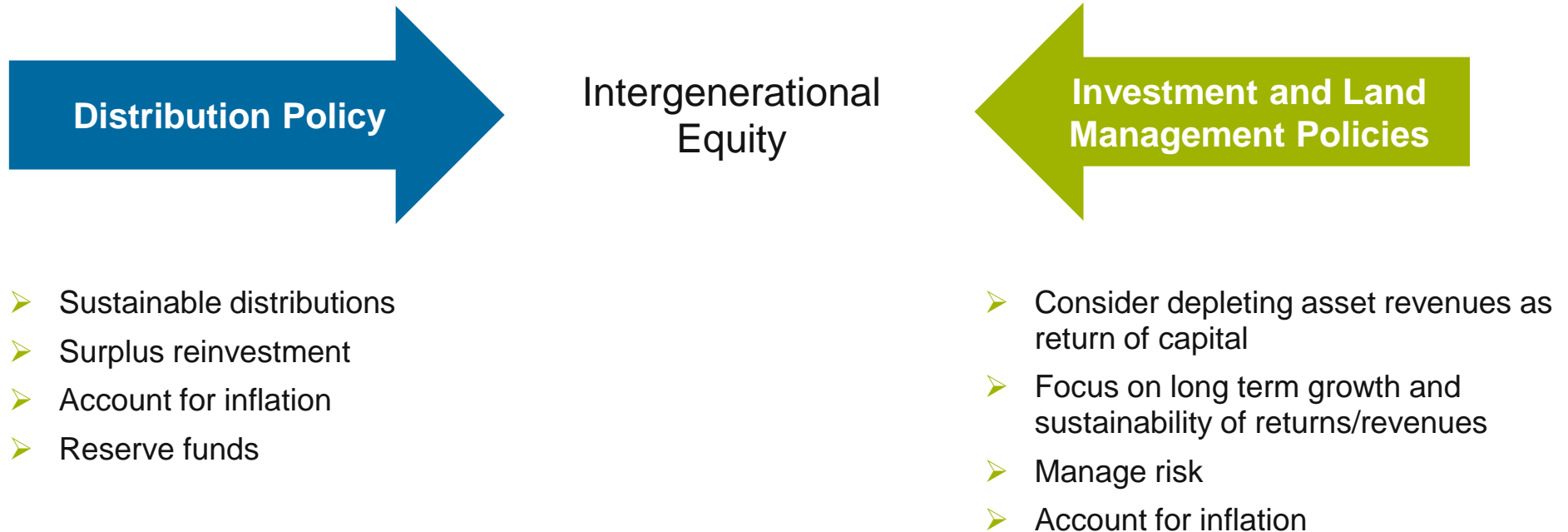
Ways land trusts differ:

- Land size and type: the amount of lands and resource differs by state
- Revenue Sources: timber, minerals, oil & gas, coal, leases, real estate, waterways and unclaimed property
- Management Philosophy: land and financial asset management differs between states
- Legal and Historical Framework: trusts developed under different legal and historical contexts, constitutional and statutory constraints
- Governance Structures: land boards with elected officials, appointed members, single commissioner

Intergenerational Equity

Balancing Current and Future Generations

- The primary objective governing the management of most land trusts is the pursuit of intergenerational equity
- Intergenerational equity ensures that current and future beneficiaries benefit to the same degree
- Distribution policies work alongside land and investment policies to ensure intergenerational equity



Governance Models

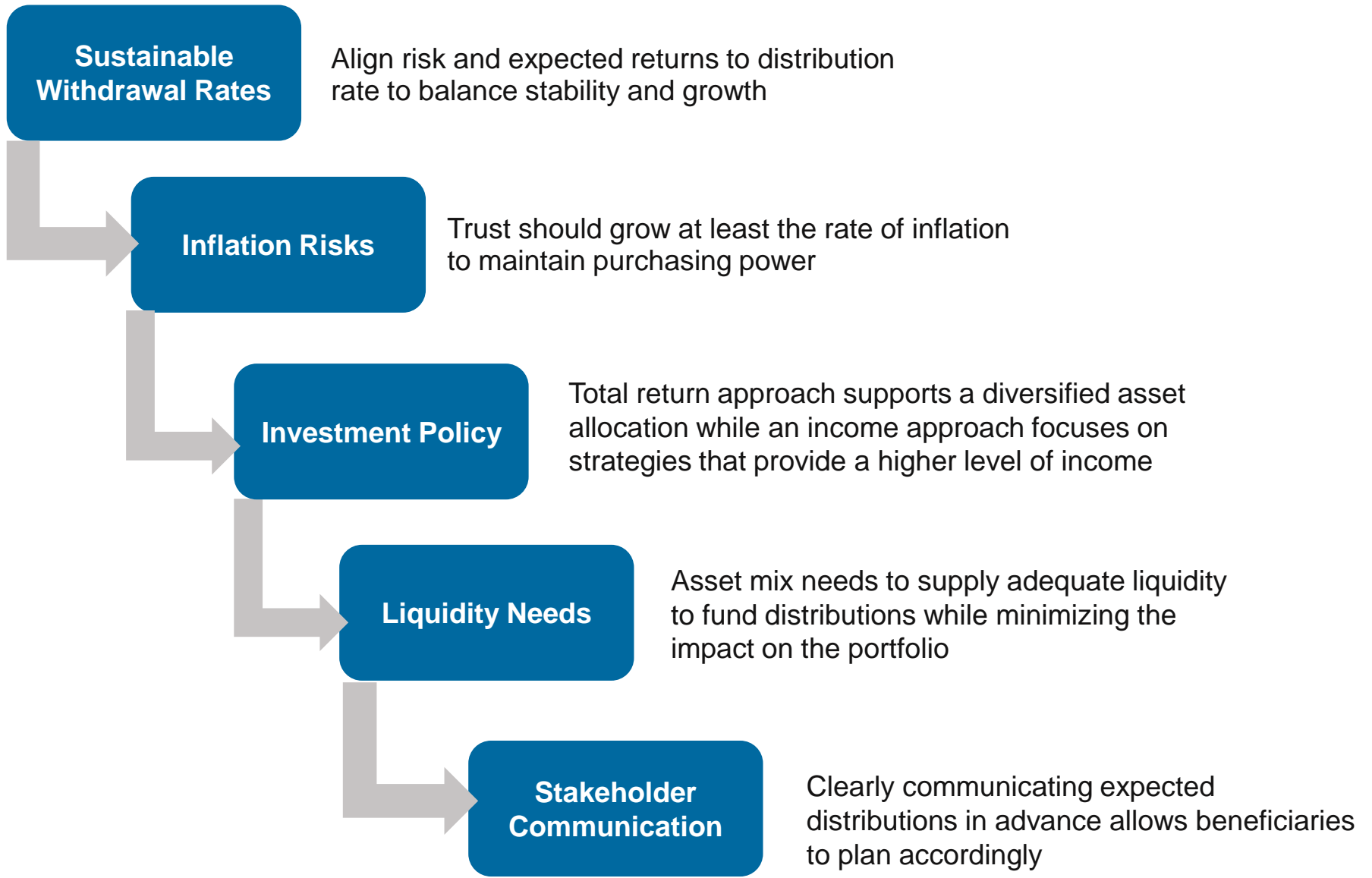
Key Comparisons

- **Composition:**
 - **Elected Officials:** Montana, Idaho, Wyoming, and Oregon primarily use boards composed of elected officials, resulting in political oversight in land management
 - **Single Commissioner Model:** New Mexico and Arizona use a single commissioner model, where significant authority is centralized in one individual, either elected (New Mexico) or appointed (Arizona)
 - **Mix of Appointed Experts:** Colorado and Washington incorporate appointed experts into their land boards, suggesting a focus on specialized knowledge in land management decisions
- **Governance Model Challenges :**
 - Single commissioner model: limited checks and balances, potential for political influence, and continuity
 - Elected official: conflicts of interest, partisan decision making, and short-term focus based on election cycles, continuity
 - In some states, governance of lands is disconnected from financial assets
- **Management of financial assets generally falls to a state financial authority (e.g., investment council) the Treasurer's Office or a separate independent board.**

Types of Distribution Policies

1. **Payout Percentage** – Fixed percent of market value paid from a permanent fund, averages generally calculated on a rolling 3 or 5-year period
2. **Income-Based**– income from land resources distributed directly to beneficiaries, and/or just income generated from the financial asset portfolio (permanent fund)
3. **Hybrid Policy** – a combination of the above policies to balance short term needs with long term sustainability

Aligning Asset Allocation With the Distribution Policy



Asset Allocation in Whole Trust Framework

Land Assets

- Illiquid
- Income generating
- Low correlation to public markets
- Risk reducing
- May be a good inflation hedge



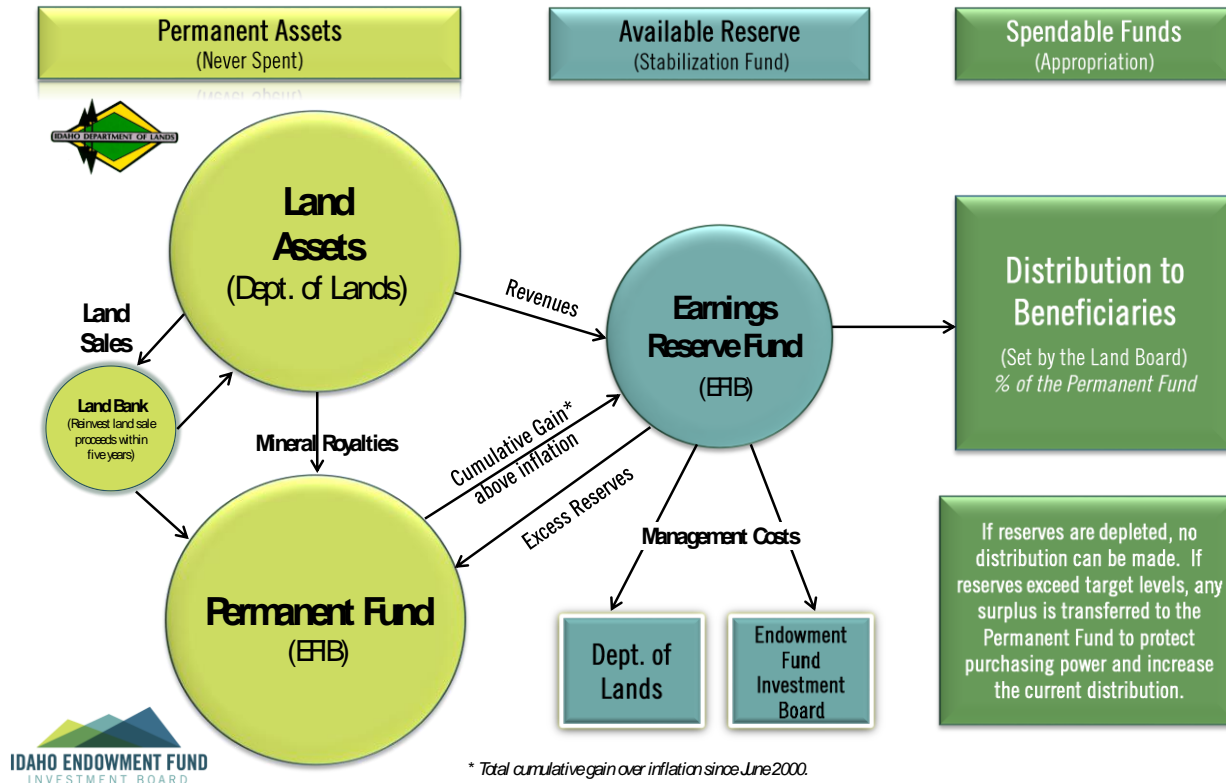
Financial Assets

- Equities (public & private) provide growth
- Fixed income (public & private) provide income
- Low correlation to land assets
- Public markets generally more volatile

Understanding the interaction between land and public market assets is a critical aspect of determining asset allocation for the whole land trust. These two asset types—land (or real assets) and public market assets (such as stocks, bonds, and other financial instruments)—complement each other in a portfolio and influence the overall risk, return, and liquidity profile of the trust.

Idaho Endowment Asset Structure

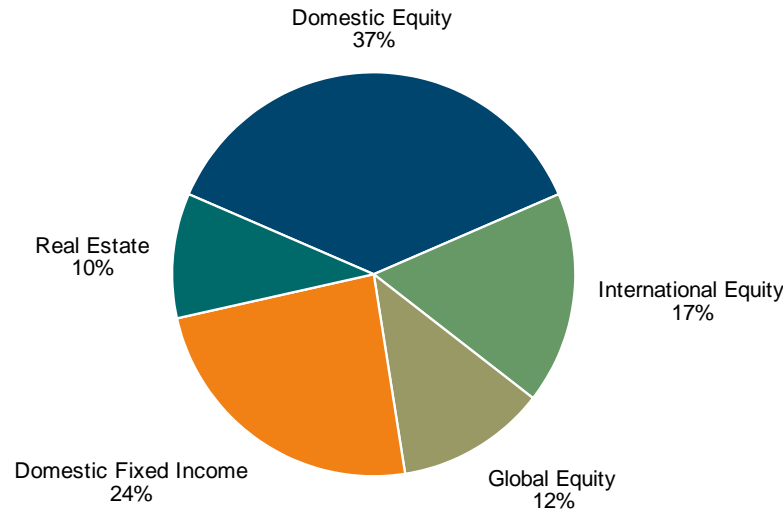
STRUCTURE OF IDAHO'S ENDOWMENT ASSETS



Rev 7/31/18

Idaho Endowment - Current Target Asset & Historical Returns

Target Asset Allocation

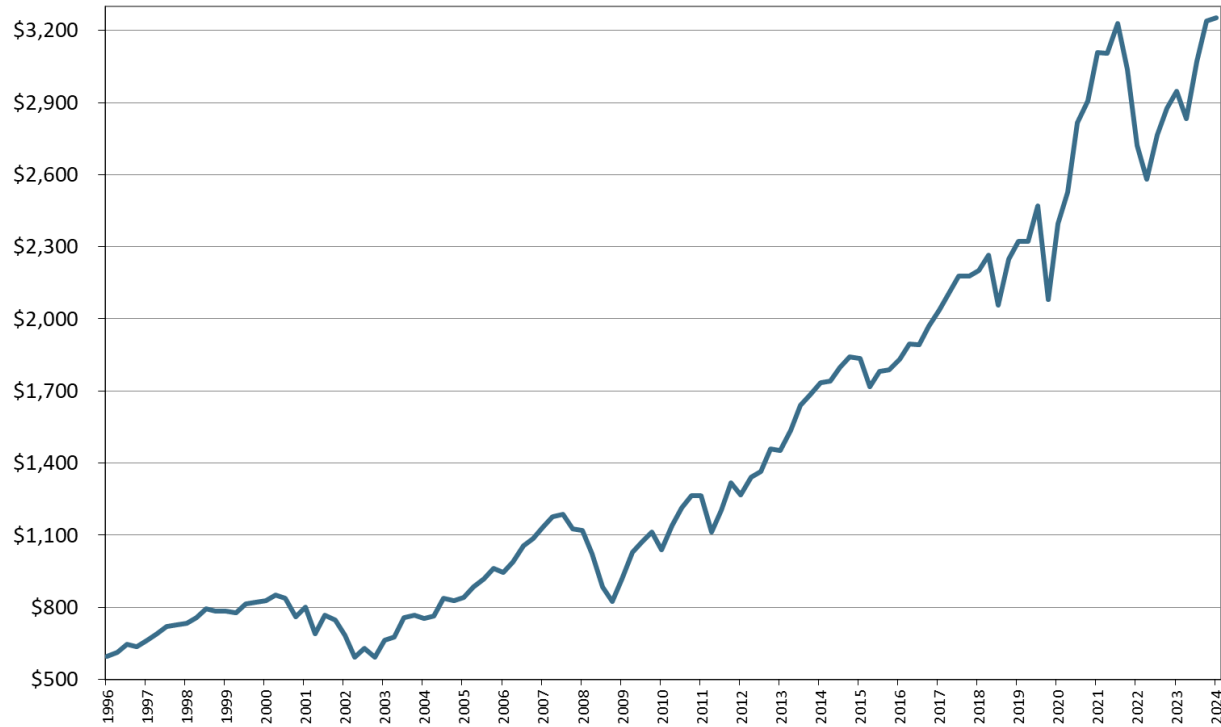


Annualized Gross Fund Returns, Ending June 30, 2024

	FY 2024	3 Years	5 Years	7 Years	10 Years
Total Fund	12.0%	2.6%	8.1%	8.3%	7.3%
<i>Benchmark (38% Russell 3000, 19% ACWI ex-US, 9% ACWI, 10% ODCE, 24% BBC Aggregate)</i>	11.9%	3.2%	7.7%	7.7%	7.0%
Total Equity	18.5%	4.8%	11.8%	11.5%	9.8%
Domestic Equity	21.6%	6.2%	13.5%	13.1%	11.7%
Large Cap.	25.3%	7.0%	13.8%	13.5%	12.1%
Mid Cap.	14.3%	5.7%	13.0%	12.9%	10.9%
Small Cap.	11.4%	1.2%	11.3%	10.8%	10.1%
International Equity	14.0%	1.9%	8.8%	8.4%	6.4%
Global Equity	16.0%	5.1%	11.6%	10.9%	8.2%
<i>MSCI ACWI Index</i>	19.4%	5.4%	10.7%	10.0%	8.4%
Total Real Estate	-10.0%	1.8%	2.5%	3.7%	
<i>NCREIF ODCE Index</i>	-11.3%	3.4%	3.4%	4.7%	
Total Fixed Income	3.0%	-2.7%	0.1%	1.2%	1.5%
<i>Fixed-Income Benchmark (BBC U.S. Aggregate)</i>	2.6%	-2.7%	0.1%	1.1%	1.4%

Endowment Fund Assets

Total Land Grant Endowment Fund Assets
June 1996 - June 2024
(in millions)



Idaho Land Board's Beneficiary Distribution Policy

Objectives:

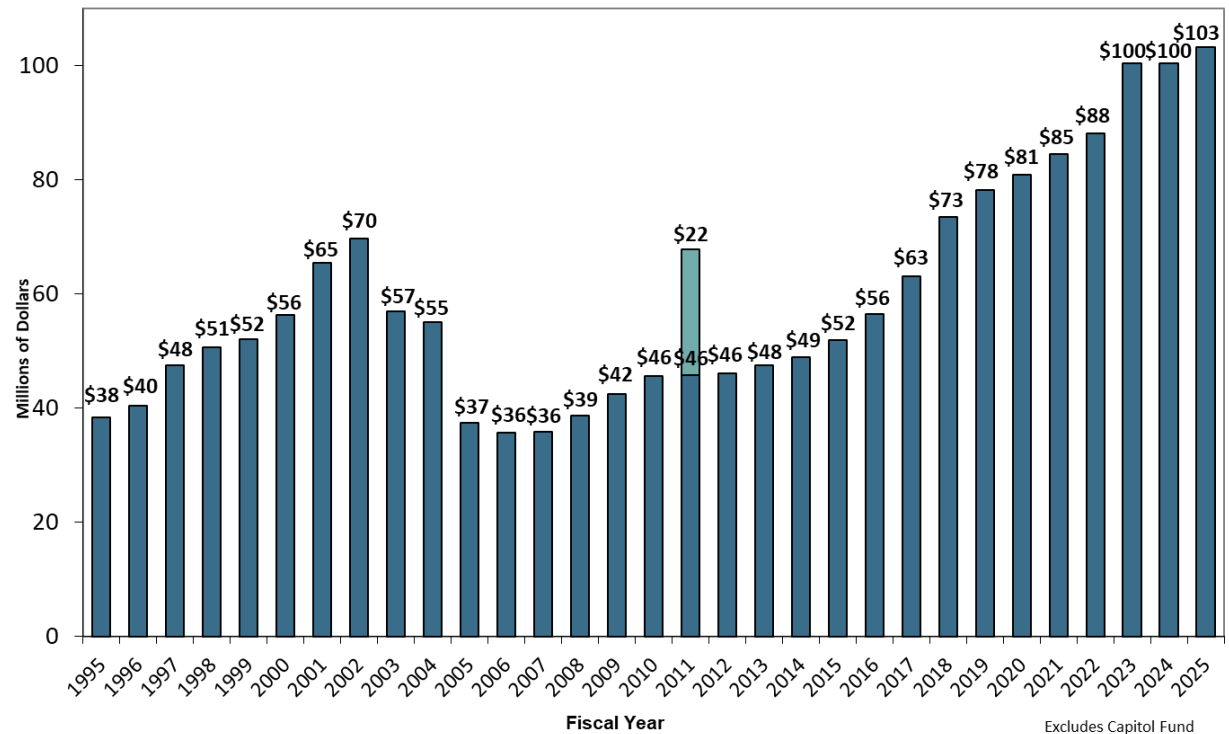
- Avoid a reduction or gap in beneficiary distributions
- Maintain adequate "Earnings Reserves" to protect beneficiary distributions from temporary investment or income shortfalls
- Grow beneficiary distributions and the Permanent Fund faster than inflation and population growth

Policy:

- Distribute 5% of a three-year rolling average of the Permanent Fund balance
- Beneficiary distributions may be adjusted based on Earnings Reserve balances, expected Land revenue and other factors

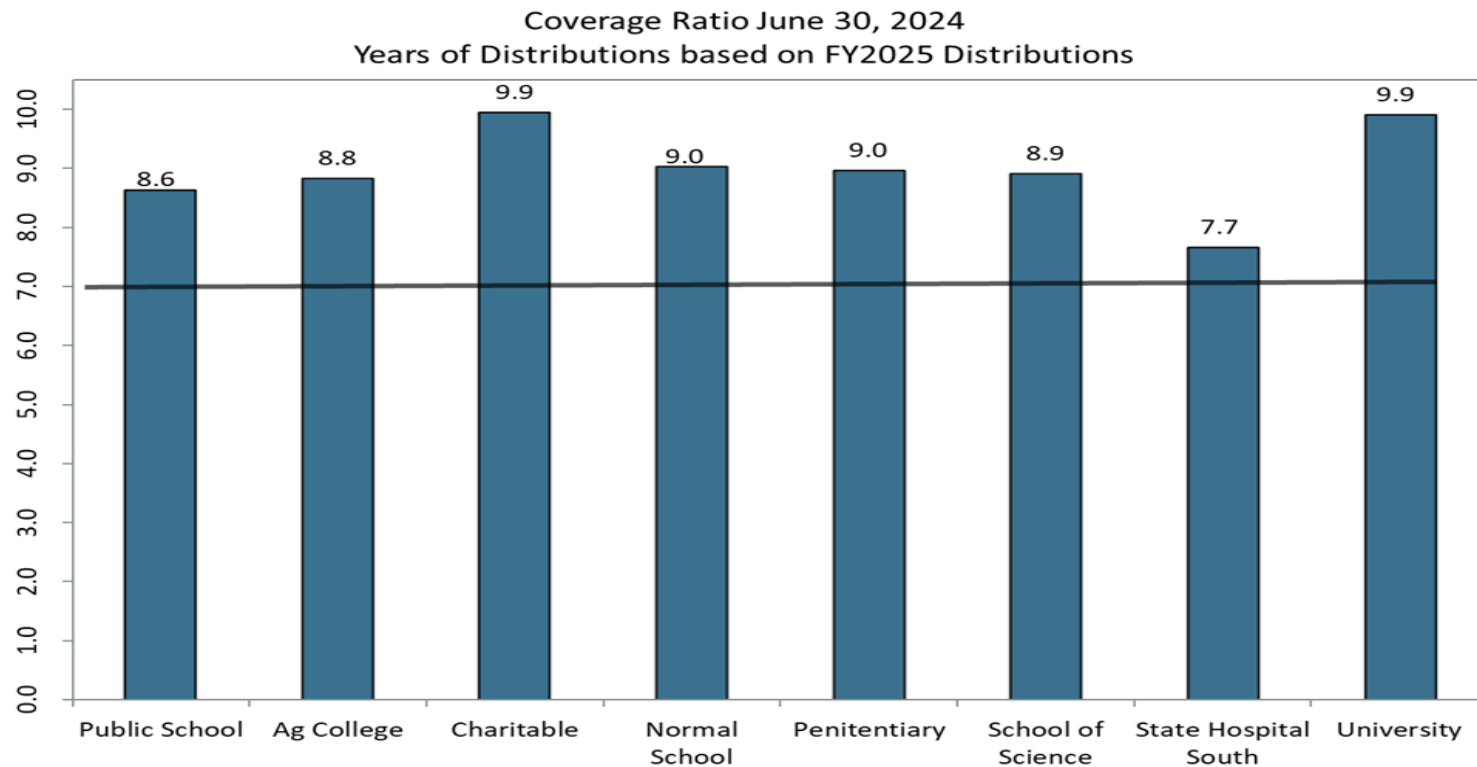
Beneficiary Distributions 1995-2025

(includes special Public School distribution in 2011 of \$22M)



Earnings Reserve- Purpose and How Determined

- The Earnings Reserves are a buffer that stabilizes beneficiary distributions during times of financial market volatility or when there are shortfalls in land revenue. This buffer allows for a modestly aggressive asset allocation which enhances long term beneficiary investment returns
- The Earnings Reserves are invested exactly like the Permanent Fund.
- The Idaho State Board of Land Commissioners has established a target earnings reserve level equivalent to seven years of beneficiary distributions. When earnings reserve balances exceed the target earnings reserve levels, excess amounts may be transferred from Earnings Reserve Funds into the corresponding Permanent Funds.



Years of Endowment Reform Have Resulted In An Outstanding Governance Structure

- In 1996, Governor Batt appointed the “Governor’s Committee on Endowment Investment Reform.” The Goal was to have a long-term strategic plan to manage the state’s trust assets, while at the same time providing the highest rate of returns to the state endowment fund. The trust was also to be invested and administered as a whole and provide a mechanism for expressly addressing the division of benefits between present and future generations.
- In 1999, the Land Board established new beneficiary distribution and spending policies and set forth investment policies for the investment and use of the assets and income from the trust.
- Land Trust study completed in 2014 provided a roadmap for further improvements
- Over the years the Land Board has established various task forces to review and recommend refinements of policies and procedures.
- Idaho’s current approach is often held up as a model for other states.

Benefits of the Current Endowment Structure

- An effective form of governance over the whole trust including both the land and financial assets
- Policies that seek to find balance between the needs of current and future generations of beneficiaries
- Stable and growing distributions to beneficiaries
- A permanent fund that is growing faster than the rate of inflation plus population growth
- An earnings reserve fund that allows the state to take some risk on its investments and provide solid long-term investment returns to beneficiaries

Brief History of Idaho Endowment Reform

Endowment reform began in 1996 with the report and recommendations of the Governor's Committee on Endowment Fund Investment Reform.

The state needs to shift its current policy from management of individual parts (the land trust separately from the financial assets) to management of the entire endowment. The entire integrated endowment needs to have its rules of overall operation clarified, reorganized, and reoriented towards providing a predictable and increasing stream of revenue to the beneficiaries while at least maintaining the purchasing power of the assets of the endowment. The endowment also needs to specifically set out its goals and investment policies, including the rules for setting the distribution and level of benefits to both the current beneficiaries and those of future generations.

In 1997, the Idaho Legislature authorized the Legislative Council to appoint a committee to study the 1996 report and make recommendations.

In 1998, the following legislation passed:

1. *Endowment and earnings reserves for each of the endowments*
2. *Placed the EFIB under the direction of the Land Board (effectively making the Land Board a policy maker for both lands and investments)*
3. *Established a land bank to allow the deposit of proceeds of public school lands*

2013 Endowment Fund Reform Progress Report authored by Bob Maynard: introduced a “prudent expert” rule framework when the Land Board considers IDL issues that have investment components (land exchanges, disposition of Land Bank Assets, and commercial property transactions).

Two key components, investment decisions are done either by experts or on the recommendations of experts and ensuring that independent monitoring systems are in place to ensure the process is meeting institutional expert standards.

Advances Due to Endowment Reform

From 2013 progress report

1. Expansion of the investment of the financial assets to a professionally managed fully diversified portfolio
2. IDL shifted its orientation from a focus on biological management to incorporate return considerations in the management of timber and other lands
3. Distributions and payments of revenues from the Trust are in the hands of policymakers who can respond to ongoing market environments (as opposed to a statute that required distribution of income only)
4. Policy makers from the Land Board, EFIB and legislature can be involved in setting rules for distributions and the fair division of assets between future and current generations
5. The Land Board established an Asset Management Plan – written policy codifying the principles and procedures for Trust operations. This added consistency and transparency to the management of Trust assets.

Outstanding issues noted: “grey area” between financial assets and land assets: decisions regarding the investment and deployment of Land Bank Funds, procedures around land swaps, purchase and management of in-state property, asset allocation and distribution policies that do not expressly consider Land Trust assets and cash flows.

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