

# **ENDOWMENT FUND INVESTMENT BOARD**

## **Commingled Pool Investment Policy**

**Date Established:** 2000  
**Last Reviewed:** September 2023  
**Last Revised:** September 2023

**This Statement of Investment Policy is applicable to:**

Public School Permanent Fund and Earnings Reserve Fund  
Agricultural College Permanent Fund and Earnings Reserve Fund  
Charitable Permanent Fund and Earnings Reserve Fund  
Normal Schools Permanent Fund and Earnings Reserve Fund  
Penitentiary Permanent Fund and Earnings Reserve Fund  
School of Science Permanent Fund and Earnings Reserve Fund  
State Hospital South Permanent Fund and Earnings Reserve Fund  
University Permanent Fund and Earnings Reserve Fund  
Capitol Permanent Fund and Maintenance Reserve Fund  
Department of Environmental Quality Bunker Hill Endowment Fund Trust  
Department of Environmental Quality Asarco Endowment Fund Trust  
Department of Environmental Quality Hecla Endowment Fund Trust  
Department of Fish & Game Southern Idaho Mitigation Endowment Trust  
Department of Fish & Game Craig Mountain Wildlife Mitigation Trust  
Department of Fish & Game Blackfoot Wildlife Mitigation Trust  
Department of Fish & Game North Idaho Wildlife Mitigation Trust  
Department of Fish & Game North Idaho Wildlife Mitigation Operational Trust  
Department of Parks & Recreation Ritter Island Endowment Fund  
Department of Parks & Recreation Trail of the Coeur d'Alene's Endowment Fund  
Idaho Department of Lands - Forest Legacy Stewardship Endowment Funds

**Statement of Philosophy**

This statement of investment policy is set forth by the Endowment Fund Investment Board (EFIB) to:

- Define and assign the responsibilities of all involved parties;
- Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets;
- Offer guidance and limitations to all involved parties regarding the investment of Fund assets;
- Establish a basis for evaluating investment results;
- Manage Fund assets according to the prudent investor rule; and,
- Establish the relevant investment horizon for which the Fund assets will be managed.

**Statement of Investment Policy**

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the EFIB will review the policy annually.

## **Investment Objectives**

In order to meet its objectives, the investment strategy of the EFIB is to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income. The primary objectives are:

- To maintain the purchasing power of the Fund. In order to maintain fair and equitable inter-generational funding, state statute has mandated that the real value of the corpus be protected from inflation;
- To maximize total return over time at an acceptable level of risk;
- To provide relatively smooth and predictable distributions to the beneficiaries; and
- To maintain sufficient liquidity for anticipated expenditures.

## **General Investment Principles**

- Investments shall be made solely in the interest of the beneficiaries of the Funds;
- The Funds shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims;
- Investment of the Funds shall be diversified as to minimize the risk of large permanent losses.
- The EFIB will employ one or more investment managers of varying styles and philosophies to support the Funds' objectives;
- Cash is to be employed productively at all times by investment in short-term cash equivalents to provide safety, liquidity, and return; and,
- The investment manager(s) should at all times be guided by the principles of "best execution" when trading securities and acting in the Funds' best interests are the primary consideration.

## **Assignment of Responsibility**

- Responsibility of the Manager of Investments ("MOI") - The MOI serves as a fiduciary and is empowered by the Board to make certain decisions and take appropriate action regarding investment of the Funds' assets. The responsibilities of the MOI include:
  - Developing a sound and consistent investment policy;
  - Establishing reasonable investment objectives;
  - Selecting qualified investment managers after consultation with the Investment Consultant;
  - Communicating the investment policy guidelines and objectives to the investment managers and clients;
  - Monitoring and evaluating performance results to assure that the policy guidelines are being met;
  - Selecting and appointing custodian(s);
  - Discharging investment managers after consultation with the Investment Consultant; and,
  - Taking any other appropriate actions.
- Responsibility of the Investment Consultant(s) - The investment consultant shall be hired by the EFIB. The consultant serves as a non-discretionary advisor to the EFIB. The consultant will offer advice concerning the investment management of the Funds' assets. The investment consultant will act as a fiduciary with respect to the services it provides.

The advice will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the investment consultant include, but are not limited to:

- Assisting in the development and on-going review of the investment policy, asset allocation strategy, performance of the investment managers, and objectives and guidelines;
  - Supporting portfolio optimization and other investment techniques to determine the appropriate return/risk characteristics of the Funds;
  - Conducting investment manager searches when requested by the MOI and Board;
  - Monitoring the performance of the investment manager(s) to provide both the MOI and Board with the ability to determine the progress toward achieving investment objectives;
  - Communicating matters of policy, manager research, and manager performance to the MOI and Board;
  - Reviewing the Funds' investment history, historical capital markets performance and the contents of this investment policy statement with any newly appointed members of the Board.
- Responsibility of the Investment Manager(s) - As a fiduciary, each investment manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in either this statement or in their specific Manager Guidelines.

### **Delegation of Authority**

The MOI is a fiduciary to the EFIB and is responsible for directing and monitoring the investment management of Funds' assets. As such, the MOI is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- Investment Managers - Investment managers hired by the EFIB must be registered with the Securities and Exchange Commission under the Investment Act of 1940, unless inapplicable, or in the case of a banking organization with the Office of the Comptroller of the Currency. Investment managers have discretion to purchase, sell, or hold the specific securities that will be used to meet the Funds' investment objectives. This includes mutual fund or any collective fund portfolio managers.
- Custodian - Any custodian hired by the EFIB will maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and affect receipt and delivery following purchases and sales. Any custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. Any custodian will provide at a minimum monthly reporting of assets and transactions to the MOI and provide the MOI with any additional data requests. Any custodian will administer proxy statements and corporate action claims on behalf of EFIB.

Additional specialists may be employed by the MOI with approval by the EFIB to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

Managers will be held responsible and accountable to achieve the objectives outlined in their specific guidelines. While it is not believed the limitations will hamper investment manager decisions, each manager should request in writing any modifications they deem appropriate.

All expenses for such experts must be customary and reasonable.

### **Marketability of Assets**

Based on the Fund's long-term liquidity requirements, the EFIB desires securities with readily ascertainable market values that trade in liquid markets but recognizes that some allowable assets are valued less frequently by industry established appraisal methods, and may be reported on a lagged basis.

### **Investment Guidelines**

#### **Allowable Assets**

|  |  |
|--|--|
| Cash Equivalents or other Liquid Assets: | Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.  |
| Fixed Income:                            | US government and agency securities; bank loans; corporate notes and bonds; residential mortgage backed bonds (agency and non-agency); commercial mortgage backed bonds; municipal bonds, infrastructure securities, USD and non-USD fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMO's; Sequential pay CMO's; collateralized loan obligations, asset backed securities; convertible notes and bonds; Securities defined under Rule 144 A and Section 4(2) of the Securities Act of 1933; or any other fixed income securities eligible for inclusion in the Bloomberg Barclays Aggregate Bond Index. |
| Equities:                                | Common stocks; convertible preferred stocks; preferred stocks; REITS; American depository receipts (ADR's); stocks of non-US companies (ordinary shares);  |
| Real Estate:                             | Domestic, private, open-end, core commingled funds, REITS  |
| ETF's, Mutual or Collective Funds:       | ETF's, Mutual Funds, and Collective Funds which invest in securities as allowed in this statement or as permitted in Investment Manager Guidelines. Investment managers will advise the MOI of their intent to utilize ETFs prior to their purchase, what specific ETFs they intend to use and the purposes they serve.  |

Futures, Options and Swaps:

The EFIB may approve the use of financial index futures and options in order to adjust the overall effective asset allocation of the entire portfolio or it may use swaps, futures or options to hedge interest rate or currency exposure. For example, S&P 500 and 10-Year Treasury futures are used to equitize idle cash and to passively rebalance the portfolio. Futures and options positions are not to be used for speculation, and the EFIB must specifically approve the program for each type of use. Derivative exposure must have sufficient cash, cash equivalents, offsetting derivatives or other liquid assets to cover such exposures.

**Derivatives:**

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, and interest rate swaps, among others. The EFIB will take a conservative posture on derivative securities in order to maintain its risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. Unless a specific type of derivative security is allowed in the Investment Manager Guidelines, the Investment Manager(s) must seek written permission from the EFIB to include derivative investments in the Fund's portfolio. The Investment Manager(s) must present detailed written information as to the expected return and risk characteristics of such investment vehicles.

**Prohibited Assets**

Prohibited investments include, but are not limited to the following:

- Commodities
- Futures Contracts except as described in previous section “Futures, Options and Swaps”;
- Naked Options;
- Residual Tranche CMOs; and
- Purchases of securities on margin and short-sale transactions are prohibited.

## Asset Allocation Guidelines

Investment management of the assets of the commingled endowment pool shall be in accordance with the following asset allocation guidelines:

- Aggregate Fund Asset Allocation Guidelines (at market value)

| Asset Class   | Range                  | Target                  | Rebalance Point | Benchmark  |
|---|------------------------|-------------------------|-----------------|--|
| Equities<br>Domestic Equities   | 61% - 71%<br>32% - 42% | 66%<br>37%              | +/-5%<br>+/-5%  | MSCI All Country World Index<br>Russell 3000 Index   |
| Large Cap<br>Growth<br>Core<br>Value  | 22% - 30%              | 26%<br>5%<br>16%<br>5%  | +/-4%           | Russell 1000 Index<br>Russell 1000 Growth Index<br>S&P 500 Index<br>Russell 1000 Value Index                                 |
| Mid Cap<br>Growth<br>Value  | 4% - 10%               | 7.0%<br>3.5%<br>3.5%    | +/-3%           | Russell Mid Cap Index<br>Russell Mid Cap Growth<br>Russell Mid Cap Value   |
| Small Cap<br>Growth<br>Value  | 2% - 6%                | 4%<br>2%<br>2%          | +/-2%           | Russell 2000 Index<br>Russell 2000 Growth Index<br>Russell 2000 Value Index  |
| International Equities<br>Growth<br>Value   | 12% - 20%              | 17.0%<br>8.5%<br>8.5%   | +/-4%           | MSCI ACWI ex-US<br>MSCI ACWI ex-US Growth<br>MSCI ACWI ex-US Value   |
| Global Equity<br>Manager<br>Manager<br>Manager  | 8% - 16%               | 12%<br>4%<br>4%<br>4%   | +/-4%           | MSCI All Country World Index<br>MSCI All Country World Index<br>MSCI All Country World Index<br>MSCI All Country World Index |
| Real Estate   | 7% - 13%               | 10%                     | +/-3%           | NCREIF ODCE Index  |
| Fixed Income<br>Core Plus Bond Active<br>Aggregate Bond Index<br>Cash and Equivalents | 21% - 27%              | 24%<br>13%<br>11%<br>0% | +/-3%           | BB Aggregate Bond Index<br>BB Aggregate Bond Index<br>BB Aggregate Bond Index<br>3-month Treasury Bill Index                 |

## Rebalancing of Fund Assets

Understanding that different asset classes will perform at different rates, the MOI and the investment consultant will closely monitor the asset allocation shifts caused by performance. Therefore:

- The MOI will review the relative market values of the asset classes whenever there is to be a net contribution to the Fund and will generally place the new monies under investment in the category(ies) which are furthest below the target allocation in this policy and/or use the opportunity to rebalance the portfolio; and,
- The MOI and investment consultant will review the asset allocation quarterly and during periods of severe market change to assure that the target allocation is maintained. If an

asset class is outside the allowable range, the MOI will take appropriate action to redeploy assets taking into account timing, costs and other investment factors.

### **Guidelines for Fixed Income Investments and Cash Equivalents**

- The average credit quality of the fixed income portfolio must be investment grade or higher. Individual fixed income securities may be rated below investment grade.
- The average duration of the fixed income portfolio may range from 2-8 years.
- Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

### **Investment Performance Review and Evaluation**

Performance reports generated by the investment consultant shall be compiled at least quarterly and presented to the EFIB for review. The investment performance of the total Fund, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The EFIB intends to evaluate investment managers over at least a three-year period.

Each manager shall maintain a portfolio consistent with characteristics similar to those of the composite utilized for their retention. Investment performance will be measured on a total return basis, which is defined as dividend and interest income plus realized and unrealized capital gains. Each manager will be evaluated in part by regular comparison to a peer group of other managers employing statistically similar investment style characteristics. It is expected that each manager will perform above the peer group median and the appropriate index over rolling three-year periods with respect to both return and risk.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results. The EFIB reserves the right to terminate a manager for any reason.

### **GASB 40 Reporting Requirements**

Purpose: The Governmental Accounting Standards Board has identified that state and local governments have deposits and investments which are exposed to risks that may result in losses. GASB Statement number 40 (GASB 40) is intended to inform users of the financial statements about the risks that could affect the ability of a government entity to meet its obligations. GASB 40 has identified general deposit and investment risks as credit risk, including concentration of credit risk and custodial credit risk, interest rate risk, and foreign currency risk and requires disclosures of these risks and of policies related to these risks. This portion of the Investment Policy addresses the monitoring and reporting of those risks.

In general, the risks identified in GASB 40, while present, are diminished when the entire portfolio is viewed as a whole. Specifically, the risks identified and the measurements required is poorly transferable, if at all, to portfolios like the EFIB, which is dominated by equity exposure.

It is the policy of the EFIB that the risks addressed in GASB 40 are to be monitored and addressed primarily through the guidelines agreed to by those managers, and by regular disclosures in reports by managers of levels of risks that may exceed expected limits for those portfolios.

- **Credit Risk:** The risk that an issuer or other counterparty to an investment will not fulfill its obligations to the EFIB. GASB 40 requires disclosure of credit quality ratings of investments in debt securities as described by nationally recognized statistical rating organizations.

**Policy:** The Investment Guidelines section of this Investment Policy provides credit quality and maturity guidelines for fixed income and cash equivalent investments. Managers are required to comply with the Investment Policies set forth by the EFIB.

- **Custodial Credit Risk:** The risk that in the event of a financial institution or bank failure, the Fund would not be able to recover the value of their deposits and investments that are in the possession of an outside party.

**Policy:** The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to the EFIB ownership and further to the extent possible, be held in the Fund' name.

- **Concentration of Credit Risk:** The risk of loss that may be attributed to the magnitude of a government's investment in a single issue.

**Policy:** Managers will provide the EFIB with expected concentration of credit risk exposures in their portfolio guidelines. If the concentration of credit risk exceeds expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board. For the portfolio as a whole, staff will report to the Board at a regular Board meeting if the exposure to a non-US government guaranteed credit exceeds 5% of the total EFIB portfolio.

- **Interest Rate Risk:** The risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk to the EFIB's fixed income portfolio is monitored using the effective duration methodology. Effective duration measures the volatility of the price of a bond given a change in interest rates, taking into account any optionality in the underlying bond.

**Policy:** Managers will provide the EFIB with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

- **Foreign Currency Risk:** The risk that changes in exchange rates will adversely impact the fair value of an investment. The EFIB's currency risk exposures, or exchange rate risk, reside within the international equity and fixed income investment holdings.

**Policy:** The EFIB permits investing up to 40% of the total portfolio in international securities. The EFIB recognizes that international investments (equity or fixed income) will have a component of currency risk associated with them. The individual manager guidelines will outline the expected currency exposures (either specifically or through ranges of security exposures to particular currency areas) of the underlying portfolio and if the actual currency exposure differs from the expected, managers are to be required to



report these occurrences to Staff and these disclosures are to be made available to the Board.