

ENDOWMENT FUND INVESTMENT BOARD

Investment Policy

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Policy Statement:

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 prudent standards as established in common trust law; and,
- Establish the relevant investment horizon for which the Fund assets will be managed.

Policy Overview:

Definitions

- “Fund” shall mean the Idaho Endowment Fund.
- The Endowment Fund Investment Board “EFIB” is a nine member Board authorized in the oversight of the Fund.
- Manager of Investments “MOI” shall refer to the governing individual established to administer the Fund as specified by applicable Idaho code.
- “Fiduciary” shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets. A fiduciary must have the proper asset backing to help protect the Fund if a problem arises.



- “Investment Manager” shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets. This would also include mutual and collective fund portfolio managers. An “Investment Manager” hired by the Fund must be registered with the Securities and Exchange Commission under the Investment Act of 1940 or in the case of a banking organization with the Office of the Comptroller of the Currency.
- “Investment Consultant” shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
- “Land Board” shall refer to the five member Board of elected officials of the State of Idaho.
- “Securities” shall refer to the marketable investment securities, which are defined as acceptable in this statement.

Delegation of Authority

MOI of the Idaho Endowment Fund is a fiduciary to EFIB. MOI is responsible for directing and monitoring the investment management of Fund 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 Consultant.* The consultant will assist MOI in: 1) establishing investment policy; 2) designing objectives and guidelines; 3) selecting investment managers; 4) reviewing such managers over time; 5) measuring and evaluating investment performance; and, 6) other tasks as deemed appropriate. It is expected that the Investment Management Consultant will serve as a co-fiduciary on all investment related decisions and will have the proper insurance to cover exposure.
- *Investment Manager.* The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives. This includes mutual fund or any collective fund portfolio managers.
- *Custodian.* Any custodian will maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect 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 MOI and provide MOI with any additional data requests.
- Additional specialists may be employed by MOI to assist in meeting its responsibilities and obligations to administer Fund assets prudently.



MOI will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives outlined in their specific guidelines. While it is not believed that the limitations will hamper investment manager decisions, each manager should request in writing any modifications that they deem appropriate.

Any deemed fiduciaries must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

Assignment of Responsibility

Responsibility of the Manager of Investments

The MOI is empowered by the Board to make certain decisions and take appropriate action regarding investment of the Endowment Fund assets. The responsibilities of the MOI include:

- Developing sound and consistent investment policy guidelines;
- Establishing reasonable investment objectives;
- Selecting qualified investment managers;
- Communicating the investment policy guidelines and objectives to the investment managers;
- Monitoring and evaluating performance results to assure that the policy guidelines are being met;
- Selecting and appointing custodian(s);
- Discharging investment managers and engaging replacements after consultation with the EFIB executive committee; and,
- Taking any other appropriate actions.

Responsibility of the Investment Consultant(s)

The Investment Consultant's role is that of a non-discretionary advisor to EFIB. As a signed fiduciary, investment advice concerning the investment management of Fund assets will be offered by the Investment Consultant. 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:

- Assisting in the development and on-going review of investment policy, asset allocation strategy and performance of the investment managers;
- Supporting portfolio optimization and other investment techniques to maximize return/risk characteristics of the Fund;
- Conducting investment manager searches when requested by the MOI;
- Monitoring the performance of the Investment Manager(s) to provide both the MOI and the EFIB with the ability to determine the progress toward the investment objectives;



- Communicating matters of policy, manager research, and manager performance to the MOI and EFIB;
- Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement with any newly appointed members of the EFIB.

Responsibility of the Investment Manager(s)

As a signed 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 this statement and in their specific Manager Guidelines.

General Investment Principles

- Investments shall be made solely in the interest of and for the beneficiaries of the Fund;
- The Fund 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 Fund shall be diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so;
- The EFIB will employ one or more investment managers of varying styles and philosophies to attain the Fund's 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 price and execution” and that the Endowment Fund’s best interests are the primary consideration.

Investment Objectives

In order to meet its needs, the investment strategy of the Endowment Fund is to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income.

Specifically, the primary objectives in the investment management for Endowment Fund assets shall be:

- *To maintain the purchasing power of the Fund* - The governing body has mandated that the real value of the corpus be maintained;
- *To maintain fair and equitable inter-generational funding* - The Spending Rule for current beneficiaries is set at a level and growth rate that can be maintained for an extended period of time without jeopardizing the long term growth required by the Permanent Endowment Funds. The Spending Rule is based on a three (3) year moving average of the market value of the Endowment Corpus Funds. Beneficiary distributions and payment of all EFIB related expenses of the Fund are controlled by annual budget appropriation determined by the Land Board. The EFIB will make a recommendation to the Land Board regarding beneficiary distribution, based on actual fund performance and spending policy guidelines; and,



- *To achieve smooth and predictable spending* – The goal is to maintain a relatively constant growth rate of the annual distributions to the beneficiaries, while growing the corpus.

Marketability of Assets

Based on the Fund's long-term liquidity requirement, the EFIB has determined that all securities purchased for the Endowment Fund have readily ascertainable market values and shall be easily marketable.

Investment Guidelines

Allowable Assets

Cash Equivalents:	Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.
Fixed Income:	US government and agency securities; corporate notes and bonds; mortgage backed bonds; preferred stocks; fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMO's; asset backed securities.
Equities:	Common stocks; convertible notes and bonds; convertible preferred stocks; American depository receipts (ADR's); stocks of non-us companies (ordinary shares).
Mutual or Collective Funds:	Registered funds or Delaware Business Trust only.
Futures and Options:	As described in Futures and Options" section below.

Futures and Options

The EFIB may approve of the use of financial index futures and options in order to adjust the overall effective asset allocation of the entire portfolio and for use as hedges. For example, covered call options may be used to mitigate an expected decline in securities prices. However, futures and options positions are not to be used for speculation, and the EFIB must specifically approve the program for each type of use. No long or short futures or options positions may be established, unless the portfolio has sufficient cash reserves or securities to either fund purchase or deliver securities under the contract.



Derivative Investments

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, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The EFIB will take a conservative posture on derivative securities in order to maintain its risk adverse 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 and Futures Contracts except as described in previous section “Futures and Options”;
- Naked Options;
- Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs.
- Purchases of securities on margin and short-sale transactions are prohibited.

Asset Allocation Guidelines

Investment management of the assets of the Endowment Fund shall be in accordance with the following asset allocation guidelines:

- Aggregate Fund Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>	<u>Rebalance Point</u>
Equities	60%	80%	70%	+/-5%
Domestic Equities	50%	60%	56%	+/-5%
Large Cap	30%	45%	39%	
Mid Cap	8%	14%	11%	
Small Cap	3%	9%	6%	
International Equities	10%	20%	14%	+/-5%
Fixed Income	25%	35%	30%	+/-5%
Cash and Equivalents	0%	5%	0%	



- The EFIB may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the EFIB regarding specific objectives and guidelines.
- In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the EFIB will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the EFIB expects that the Investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Investment Committee.

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,
- The MOI and Investment Consultant will review the asset allocation monthly 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 and Investment Consultant will take appropriate action to redeploy assets taken into account timing, costs and other investment factors.

Guidelines for Fixed Income Investments and Cash Equivalents

- Fund assets are to be invested only in investment grade bonds rated BBB (or equivalent) or better.
- Fund assets may be invested only in commercial paper rated A1 (or equivalent) or better.
- The fixed income weighted average portfolio maturity may not exceed that of the Lehman Aggregate Index by more than .5 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 communicated 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 the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason.

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.

Investment Policy Review

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.

