



STATE OF IDAHO

# OFFICE OF THE STATE TREASURER

RON G. CRANE STATE TREASURER

## Idaho Millennium Permanent Endowment Fund Investment Policy

### SCOPE

This investment policy is for the Idaho Millennium Permanent Endowment Fund ("the Fund") only and does not apply to any other monies overseen by the Idaho State Treasurer's Office.

### NATURE AND PURPOSE OF THE FUND

- Background

The Fund was created on January 1, 2007, as the result of a voter-approved amendment to the Idaho Constitution. The Fund will receive 80% of the tobacco settlement receipts (Receipts) collected by the State of Idaho. These Receipts are anticipated to be collected annually in April. While the annual Receipts will vary, it is anticipated that the Fund will receive approximately \$17.8 million per year through 2025.

- Fund Purpose

The purpose of the Fund is to provide distributions into perpetuity. These distributions are expected to experience growth over the long-term consistent with the Fund's strategic asset allocation policy. Because of the long-term nature of the Fund, short-term volatility of principal will be tolerated in the pursuit of higher long-term returns.

- Fund Beneficiaries

Each year on the first business day in July, or as soon thereafter as possible, the state treasurer shall distribute to the Idaho Millennium Income Fund (Income Fund) 5% of the average of its month-end market values for the 12-month period ending June 30<sup>th</sup> of the prior year (Distribution). This is the only distribution the Fund is required to make. Thus, the Income Fund is the sole beneficiary of the Fund.

### STATUTORY AUTHORITY

Idaho Code Chapter 18, Title 67, grants the Idaho State Treasurer with the authority to invest assets in the Fund within the standards of the Prudent Investor Act, Chapter 5, Title 68, Idaho Code. The Idaho Treasurer hereby establishes this investment policy to govern the investment and oversight of the Fund.



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## FUND OBJECTIVES

- Qualitative Objectives

The primary objective of the Fund is the long-term growth of real (inflation-adjusted) distributions. Because the Fund's distributions are entirely a function of the market value of Fund assets, growth in distributions requires growth in Fund assets.

However, growth of Fund assets will not be pursued without regard to risk. Thus, it is also the Fund's goal to avoid excessive volatility in annual distribution amounts resulting from a lack of adequate diversification. The Fund shall be diversified so as to minimize the annual volatility of returns consistent with the pursuit of higher long-term returns.

- Quantitative Objectives

To quantify Fund objectives for purposes of evaluation, the Fund will be expected to meet or exceed its composite benchmark over a rolling three-year period. The composite benchmark represents the Fund's strategic asset allocation, and is calculated as follows:

S&P 500 Index	31%
S&P 400 Index	12%
Russell 2000 Index	4%
MSCI ACW Ex-US Index	21%
S&P Developed Ex-US Small Cap Index	3%
Custom Fixed Income Benchmark (1)	20%
Custom Real Assets Benchmark (2)	9%

Asset allocation adherence to the composite benchmark is expected to satisfy both qualitative objectives of asset value growth over time and the avoidance of inappropriate annual volatility of returns.

- (1) 75% BAML 1-10yr Corp & Gov't A Rated & above & 25% BAML Master Mortgage Index
- (2) 35% Barclays US TIPS Index, 15% Bloomberg Commodity Index, 20% S&P Global Infrastructure Index, 20% S&P Global Natural Resources Index & 10% FTSE EPRA/NAREIT Developed Market Index



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## **ROLES AND RESPONSIBILITIES**

- **Idaho State Treasurer**

The Idaho State Treasurer is ultimately responsible for investment and oversight of the Fund. The Treasurer may delegate some of its authority to its in-house Investment Division, to its investment consultant, and to the investment managers of the Fund. In the case where authority is delegated, the Treasurer will evaluate, on a regular basis, the production of those to whom authorities were delegated. The specific responsibilities of the Treasurer include the following:

1. Establish an appropriate investment policy which directs the investment of the Fund's assets
2. Select qualified investment professionals to assist the Treasurer in implementing the investment policy
3. Enact proper procedures to monitor and evaluate the performance of the Fund relative to objectives and expectations
4. Take appropriate action to make changes when warranted

- **Director of Investments & Investment Officers – Idaho State Treasurer's Office Investment Division**

The Director of Investments and Investment Officers ("the Investment Division") are responsible for implementing this investment policy. Specifically, this duty includes, but is not limited to, the following assignments:

1. Oversee the day-to-day operations of the Fund
2. Monitor the investment consultant, the investment managers, and the assets of the Fund to insure compliance with this investment policy and satisfactory results
3. Allocate Receipts of the Fund among investment managers
4. Rebalance manager allocations as necessary

- **Investment Consultant**

The investment consultant is responsible for advising the Treasurer and the Investment Division on investment matters. Specifically, this includes, but is not limited to, the following:

1. Conducting asset allocation studies to determine appropriate asset allocation structures for the Fund considering its characteristics and objectives as well as market conditions
2. Perform manager searches as needed
3. Report the performance of the Fund and that of its components relative to policy objectives
4. Analyze market and regulatory developments and recommend changes to the Fund as necessary

- **Investment Managers**

Investment managers are responsible for managing those assets of the Fund that are under the supervision of the investment manager in accordance with the guidelines and objectives contained in



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this Investment Policy Statement, and consistent with each investment manager's stated investment philosophy and style. They are responsible for:

1. Exercising investment discretion in regard to buying, managing and selling Fund assets under the supervision of the Investment Division, subject to any limitations contained in this Investment Policy Statement.
    - a. There is a preference to prohibit investments in tobacco related securities that will be exercised when possible subject to investment vehicle type.
  2. Promptly voting all proxies and taking all related actions in a manner consistent with the long-term interest and objectives of the Fund as described in this Investment Policy Statement. Each investment manager shall keep detailed records of his or her voting of proxies and related actions and will comply with all regulatory obligations related thereto
  3. Using at least the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with all applicable laws, rules, and regulations
  4. To acknowledge and agree in writing as to the investment manager's fiduciary responsibility to fully comply with the objectives and guidelines set forth in this Investment Policy Statement.
  5. Performance shall be reported on a quarterly basis within 30 business days after the end of the quarter
  6. Investment managers will be measured versus an appropriate benchmark and peer group and are expected to achieve a commensurate return for the amount of risk taken.
- Custodial Bank

For individual managed accounts, separately managed accounts, separate accounts, or private accounts the custodian bank will maintain possession of securities owned by the Fund, collect dividend and interest payments, and effect the receipt and delivery of securities for consideration following purchases, sales, or redemptions. The custodian bank shall create sub-accounts for the Fund as directed, and provide monthly asset statements for all sub-accounts of the Treasurer's Office, consultant and manager responsible for each account.

## **PRUDENCE & ETHICS**

The prudent person rule shall be applied to all agents of the Fund who have contractual advisory or investment responsibilities. In accordance with the prudent person rule, investments shall be made with the judgment and care, under the circumstances then prevailing, which people of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable return to be derived therefrom as well as the probable safety of their capital.

Any individual involved in the investment process of the Fund shall refrain from any personal business activity that 1) could be construed as a conflict of interest or 2) would hinder their ability to make impartial and prudent decisions in fulfilling their duties to the Fund.



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## ASSET ALLOCATION

### 1. Targets & Ranges:

The Fund shall be diversified among various asset classes and their components which are considered to be appropriate for achieving the Fund's return and risk objectives. The Strategic Targets and Allowable Tactical Ranges adopted by the Idaho State Treasurer for the Fund are shown below. The Strategic Target is the asset allocation that the Fund strives to mimic over long time periods. It provides a compass for rebalancing decisions. The Tactical Range specifies the maximum variance from the Strategic Target allowed by this Investment Policy.

	<u>Strategic Target</u>	<u>Allowable Tactical Range</u>
<b>U.S Equity</b>		
<i>Large Cap (passive)</i>	31.0%	
<i>Mid Cap (passive)</i>	12.0%	
<i>Small Cap (active)</i>	4.0%	
<b>Non-U.S. Equity</b>		
<i>International Large Cap (active)</i>	21.0%	
<i>International Small Cap (active)</i>	3.0%	
<b>Total Equity</b>	<b>71.0%</b>	<b>66.0% - 76.0%</b>
<b>Fixed Income</b>		
<i>Diversified Bond Fund (active)</i>	20.0%	
<b>Total Fixed Income</b>	<b>20.0%</b>	<b>17.0% - 23.0%</b>
<b>Real Assets</b>		
<i>Diversified Real Asset Fund (active)</i>	9.0%	
<b>Total Real Assets</b>	<b>9.0%</b>	<b>6.0% - 12.0%</b>
<b>Total Cash</b>	<b>0.0%</b>	<b>0% - 5%</b>

### 2. Rebalancing Policy

When the Fund's total allocation to any major asset class (equities, fixed income, real assets, cash) is reported to be outside of the Tactical Range, then the Fund's fiduciaries are obligated to return the Fund's asset allocation back to within the Tactical Ranges specified above prior to the next reporting period. These reporting periods shall not be less frequent than quarterly. The investment consultant shall prepare the report which will contain, at a minimum, the Fund's asset allocation relative to its



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Strategic Target and Tactical Ranges; identification of any variances to this asset allocation strategy; and recommendations to remedy any variances. When rebalancing requirements occur, the Fund shall strive to rebalance all asset classes back to their Strategic Target.

The Fund may rebalance its asset mix closer to the Strategic Target at any time, even if it is already within Allowable Tactical Ranges.

Cash being held for the July distribution can be excluded from the Fund for purposes of calculating the Fund's asset allocation relative to its Policy Ranges.

3. **Additional Asset Classes**

As the Fund grows, additional asset classes may be introduced. These assets classes include, but are not limited to, real estate, venture capital, and private equity.

## **REPORTING REQUIREMENTS**

Any agent employed by the Fund is expected to report to the Investment Division any violations of this investment policy as soon as such violation becomes evident to the agent.

1. **The Investment Division**

It is expected that Investment Division will be in frequent contact with the Treasurer on the activities and issues relating to the operation of the Fund. That notwithstanding, the Investment Division shall provide a quarterly report to the Treasurer which includes, but is not limited to, the following:

- a. Performance of Fund assets relative to objectives
- b. Performance of Fund managers relative to benchmarks
- c. The market value of the fund and the factors that impacted its change from the last reporting period, including Receipts into the Fund and Distributions made by the Fund
- d. The asset allocation of the Fund
- e. Any compliance issues since the last reporting period

The Investment Division shall also inform the Treasurer, as soon as practically possible of any of the following events:

- a. If there is a violation of the principles set forth in this investment policy
- b. If rebalancing action is required
- c. If there has been an organizational change or other development with one of the Fund's agents that could impair that agent's ability to fulfill its obligations to the Fund



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## 2. Investment Consultant

It is expected that the investment consultant and the Investment Division will be in frequent contact regarding operational issues of the Fund. That notwithstanding, the investment consultant shall provide a quarterly report to the Investment Division which includes, but is not limited to, the following:

- a. Performance of Fund assets relative to objectives
- b. Performance of Fund managers relative to benchmarks
- c. The asset allocation of the Fund
- d. Any compliance issues since the last reporting period
- e. Any recommendations to improve the investment structure

The investment consultant shall provide an annual report to the Treasurer which includes, but is not limited to, the following:

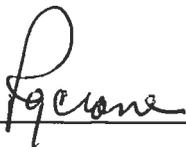
- a. A review of the asset allocation policy in light of market and regulatory developments
- b. A review of the investment policy in light of market and regulatory developments
- c. A review of asset classes and investment vehicles which could be appropriate investments for the Fund

## 3. Investment Managers

Fund investment managers shall report the performance of their account on a quarterly basis to both the Investment Division and to the investment consultant. Additionally, investment managers shall adhere to the guidelines specified in their contracts and to report compliance to that contract on a quarterly basis.

## POLICY ADOPTION AND REVIEW

The Idaho State Treasurer adopted this policy on April 17, 2015. This policy shall be reviewed annually by the Investment Division and consultant to the Fund. However, the Idaho State Treasurer may amend this policy at any time as circumstances dictate, specifically when statutes affecting the Fund are modified or when there is a material change in investment objectives, market conditions, or Receipt expectations.

  
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Approved by

8-1-17  
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Date