

**STATE FUND INSURANCE – NEW FUND (FUND: 06035) (MU26)**  
**INVESTMENT POLICY STATEMENT**

**INTRODUCTION**

The purpose of this investment policy statement is to provide the investment manager guidance in managing an investment portfolio to meet the objectives agreed upon and enable the sponsor, State Fund, understand the portfolio characteristics and its associated risks and return expectations.

This fund is governed by state regulations, specifically, the "prudent expert principle" which requires the Board of Investments to: (a) discharge its duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like manners exercises in the conduct of an enterprise of a like character with like aims; (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and (c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program. The Montana Constitution restricts stock investments to 25% of book value.

**OBJECTIVES**

**Return Objectives:** To maximize total rate of return consistent with safety of principal through a broadly diversified portfolio of fixed income securities and U.S. common stocks. Success in attaining the objective will be measured against the return on the Lehman Government /Credit Intermediate Term Index and the return on the S&P 500 index, each weighted proportionately to the portfolio's holdings, over a five-year moving average.

**Current Income:** The amount and stability of current income is the primary objective since investment earnings are used to pay claims and expenses and fund reserves.

**Risk Tolerance:** This fund is being managed as an intermediate-term insurance account with limited tolerance for investment risk. Accordingly, equity risk will be kept low by constraining exposure to stocks, and fixed income assets will be constrained by quality and duration.

**CONSTRAINTS**

Fixed income securities purchased must be investment grade and be rated by either Moody's or S & P and the maximum fixed income credit risk will be limited to 3 percent in any one name except AAA rated issues will be limited to 6%. There will be no limitation on US Government/Agency Securities.

**Liquidity:** Liquidity is needed to pay claims on a daily basis. A STIP balance of 1-3 percent will be held for liquidity purposes.

**Term:** This fund is considered an intermediate-term insurance account. The maximum maturity will be approximately ten years for fixed income securities and the average duration of the fixed income segment of the portfolio will be maintained in a range of 2 to 5 years, except in extraordinary circumstances where a shorter duration may be advisable in order to preserve principal.

**Tax Considerations:** This fund is tax-exempt; therefore, tax advantaged investments will not normally be used.

- STIP balance of 1 – 3%.
- Limit fixed income holdings rated lower than A3 or A- to a range of 15-20 percent.
- S&P 500 target of 10 percent of total portfolio market value. Rebalancing ranges are set at +/-2% or 8% and 12%. When portfolio falls outside balancing range, portfolio will be balanced to half the difference at the discretion of BOI.
- Fixed income derivative securities may not be purchased without prior authorization from State Fund. These would include, but not be limited to, options, futures, forwards, and swaps.

**STATE FUND INSURANCE – NEW FUND (FUND: 06035) (MU26)**  
**INVESTMENT POLICY STATEMENT**

- Exotic mortgage backed securities may not be purchased. Examples would include, but not be limited to, interest-only swaps, principal-only strips, inverse floaters, and equity-linked notes.
- On a quarterly basis, the BOI will notify the State Fund of any issues out of compliance or issues that have fallen below investment grade.
- Investment in the following security types is limited to the maximum exposures listed below, based on market value of the total fixed income portfolio:
 

a. U.S. Treasuries and Government Agencies	100%
b. Investment grade non-government bonds	75%
c. BBB or Baa-rated fixed income securities	20%
d. Mortgage backed securities	35%
e. Asset backed securities	10%
f. Preferred stocks	5%

**ASSET ALLOCATION - Ranges approved by the Board**

**Fixed Income – Government/Agency Bonds**

- |                   |          |
|-------------------|----------|
| ▪ Domestic        | 20 – 45% |
| ▪ Mortgage Backed | 0 – 20%  |

**Fixed Income - Corporate Bonds**

- |                                      |          |
|--------------------------------------|----------|
| ▪ Domestic                           | 30 – 50% |
| ▪ International (U.S. Pay)           | 0 – 5%   |
| ▪ Short- Term Investment Pool (STIP) | 1 – 3%   |

**Equity – Common Stock Domestic**

- |                                  |         |
|----------------------------------|---------|
| ▪ Passive – S & P 500 Index Fund | 8 – 12% |
|----------------------------------|---------|

**Total Portfolio Range** **100%**