

TREASURER'S FUND (MU10) INVESTMENT POLICY STATEMENT

INTRODUCTION

The purpose of this investment policy statement is to provide the strategic framework for the investments made within the Treasurer's Fund. The Treasurer's Fund consists of both assets of the general fund and all other surplus funds of the state not otherwise expressly segregated and invested separately.

OBJECTIVES

The primary investment objective is to provide safety of principal and a high degree of liquidity, and to a lesser degree the maximization of book income return. Investments shall be made solely in fixed income instruments subject to the limitations and constraints outlined below.

When required, the fund may be used to make investments to implement the bond credit enhancement authorized by **Resolution 219** of the Board of Investments. Additionally, the fund may be used to purchase state warrants as provided for under MCA 17-6-212.

PERMITTED INVESTMENTS

- Short-term Investment Pool (STIP).
- Deposits held at the state's depository bank, U.S. Bank.
- U.S. Treasury obligations.
- Direct obligations of the U.S. mortgage agencies Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation). These obligations shall consist of only the discount notes, notes and debentures of these two agencies and does not include mortgage pass-through obligations. Coupons may be fixed or LIBOR-based floating rate.
- Direct obligations of the Federal Farm Credit Bank and the Federal Home Loan Bank. These obligations shall consist of discount notes, notes and debentures with either fixed or LIBOR-based floating rate coupons.
- Short-term tri-party repurchase obligations (repo) with an approved primary dealer, the custodial bank, or the depository bank (U.S. Bank) that are collateralized at 102% of value with U.S. Treasury and U.S. Agency securities. Approved primary dealers will be the same as those dealers approved for repo investments made in STIP.
- Fixed income obligations of other U.S. agencies or corporate entities that are directly guaranteed as to both principal and interest by the full faith and credit of the U.S. Treasury. The most prominent example of this type of obligation currently is FDIC-insured notes issued by banks under the TLGP (Temporary Liquidity Guarantee Program) of the U.S. Treasury.
- Any obligation purchased pursuant to the bond credit enhancement program of the MBOI as authorized pursuant to Resolution 219 of the Board.

CONSTRAINTS

A. Securities purchases are permitted only up to an amount that is equal to one-half the projected fiscal year end balance of the general fund.

This component of the Treasurer's Fund is subject to the uncertainty of state receipts and expenditures and may fluctuate significantly depending on economic conditions. Thus, in order to avoid a potential liquidity event, the purchase of securities is to be constrained based on the most current forecast of general fund balances by the budget office within the Department of Administration. In the event the amount of securities held were to exceed this threshold, sales are not required however additional purchases are

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prohibited until the test can again be met.

- B. Realized losses from the sale of securities prior to maturity are to be avoided.

Securities purchased for investment are intended to enhance book income and shall normally be held until maturity unless a severe liquidity need were to arise in which case a realized loss may be incurred if necessary in the sale of securities to meet immediate liquidity needs. Realized gains may be incurred if the sale of a security prior to maturity is necessary to meet liquidity needs or otherwise is advisable in order to enhance book income by reinvesting the proceeds of such sale.

- C. Maturities

- Securities are limited to three years to final maturity.
- Repurchase agreements are limited to seven days to maturity.

- D. Concentration

- Holdings of any one U.S. agency that is not directly or indirectly guaranteed by the U.S. Treasury shall be limited to a maximum \$100 million at book value.
- Repurchase obligations shall be limited to \$20 million face amount with any one primary dealer. Repos held at the depository bank or the custodial bank are not constrained by this limit given the potential for extenuating market conditions that may require unusually high cash balances to be retained at either bank.

LEGAL

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 solely prudent not to do so; and
- (c) discharge his duties solely in the interest of and for the benefit of the funds forming the unified investment program.

The Montana Constitution does not allow equity type investments. Following are various statutory references to the Treasurer's Fund.

17-1-111 General fiscal duties of state treasurer.

(1) The state treasurer is the custodian of all money and securities of the state unless otherwise expressly provided by law.

(2) It is the duty of the state treasurer to:

- (a) receive and account for all money belonging to the state, not expressly required by law to be received and kept by some other person; determines to be essential for the support of the accounting records maintained in the department;

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17-1-113. Securities lending program. The state treasurer may, subject to the approval of the state board of investments, establish a securities lending program for all securities held in custody under 17-1-111. All loaned securities must be secured by equivalent securities of the same class in an amount equal to at least 100% of the market value of the loaned securities as determined by the board. All fees and proceeds earned by the securities lending program must be deposited pro-rata in the funds that loaned the securities.

17-1-122 Discretionary authority of state treasurer. The state treasurer may:

- (1) inspect the books of any persons charged with the receipt, safekeeping, or disbursement of public money
- (2) Require all persons who have received money or who have had the disposition or management of any property of the state of which an account is kept in the department to render statements to the treasurer. A statement must be rendered at times and in the form prescribed by the department.

17-6-101. Deposit of funds in hands of state treasurer.

- (1) Under the direction of the board of investments, the state treasurer shall deposit public money in the treasurer's possession and under the treasurer's control in solvent banks, building and loan associations, savings and loan associations, and credit unions located in the state, except as otherwise provided by law, subject to national supervision or state examination.
- (2) If needed financial services are not available through solvent banks, building and loan associations, savings and loan associations, and credit unions located in the state, the state treasurer may deposit public money in out-of-state financial institutions subject to national supervision.
- (3) The state treasurer shall deposit funds in banks, building and loan associations, savings and loan associations, and credit unions in amounts that may be designated by the board of investments and shall withdraw deposits when instructed to by the board of investments.
- (4) When money has been deposited under the board of investments and in accordance with the law, the state treasurer is not liable for loss on account of any deposit occurring from any cause other than the treasurer's own neglect or fraud.
- (5) The state treasurer shall withdraw all deposits or any part of the deposits from time to time to pay and discharge the legal obligations of the state presented to the treasurer in accordance with the law.

17-6-101. Deposit of funds in hands of state treasurer

- (6) The state treasurer may contract with a financial institution to provide general depository banking services. The cost of contracting for banking services is statutorily appropriated, as provided in 17-7-502, from the general fund.

17-6-212. State purchase of general fund warrants.

- (1) The state reserves a preference right, prior to the right of any person, company, or corporation, to purchase state general fund warrants issued with funds under the control of the board of investments and subject to investment.
- (2) When the board of investments has under its control any funds subject to investment that in its judgment it would be advantageous to invest in state general fund warrants and there are not sufficient funds in the state general fund to pay warrants issued against the fund at the time that they are issued and presented for payment, it shall authorize and direct the state treasurer to purchase state general fund warrants, designating the fund or funds to be invested and fixing the amount or amounts to be invested. State general fund warrants registered by the state treasurer pursuant to 17-8-304(1) and purchased by the board of investments must bear interest at a rate determined by the board. When determining the interest rate, the board shall consider:

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(a) the duration of the investment by estimating the time at which the warrants will be redeemed pursuant to 17-8-304(1); and

(b) the interest rate of the investments liquidated to provide the funds to purchase the warrants.

(3) The state treasurer shall attach to or stamp, write, or print upon each general fund warrant issued after the receipt of notice, until warrants totaling the amounts designated have been issued, a notice that the state will exercise its preference right to purchase the warrant.

(4) The state treasurer shall, when the marked warrant is presented, pay it out of the proper fund as designated by the board, and the warrant purchased must be registered as other state warrants and must bear interest as provided by law.

(5) When the designated amounts have been invested, the state treasurer shall notify the board of investments, which shall issue orders upon the proper funds addressed to the state auditor for warrants to be issued in favor of the treasurer.