

LEGAL AND CONSTITUTIONAL AUTHORITY

The Montana Constitution, Article VIII, Section 13, requires that the Legislature provide for a Unified Investment Program for public funds. Section 17-6-201, MCA established the Unified Investment Program, created the Montana Board of Investments (the “Board”) and gave the Board sole authority to invest state funds, including the public retirement plans (Plans) in accordance with state law and the state constitution. The Board finds that it is in the best interest of the state’s nine retirement Plans to set out investment policies for the Plans in one comprehensive document utilizing the same asset allocation. In the future, individual Plan requirements may vary and this common approach could change. The Board intends to keep this policy updated as it modifies or amends underlying investment related policies. **Click on the links below to view the Board’s Governing Law/Constitution and its Governance Policy.**

[Governing Law/Constitution](#)

[Governance Policy](#)

INTRODUCTION

The purpose of this policy statement is to provide a broad strategic framework for the Plans’ investments under the guidance of the Board. The Board manages the assets under the prudent expert principal (Section 17-6-201 MCA), which provides:

that the Board shall manage a portfolio

a) with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and 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.

Plan assets are commingled for investment purposes into six investment pools created by the Board. The pools are shared, that is co-mingled funds, which operate similar to mutual funds. The use of pools allows for simplified investing and accounting, broader diversification and thus less risk than would otherwise be available for the smaller Plans and provides additional opportunities for fee savings. Each investment pool has an underlying governing investment policy statement providing additional investment guidelines. Each of the nine Plans forming a part of the investment pools are separately identified for accounting and record keeping purposes. **Click on the links below to view the Investment Policy Statement for each pool.**

[Montana Domestic Equity Pool \(MDEP\)](#)

[Montana International Equity Pool \(MTIP\)](#)

[Montana Retirement Funds Bond Pool \(RFBP\)](#)

[Montana Real Estate Pool \(MTRP\)](#)

[Montana Private Equity Pool \(MPEP\)](#)

[Short-Term Investment Pool \(STIP\)](#)

Investment Objective

The Board's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Because of the long-term nature of the state's various pension liabilities, the Board maintains a long-term perspective in formulating and implementing its investment policies, and in evaluating its investment performance. Investment performance is measured by three integrated long-term return objectives:

- The *actuarial target rate of return* is the key actuarial assumption affecting future funding rates and liabilities. Investment performance that exceeds or underperforms the target rate may materially impact future funding rates and liabilities. The Board seeks to generate long term investment performance that will exceed the actuarial annual target rate of return of 7.75%, net of all investment and administrative expenses. There may be years, or a period of years, when the Plans do not achieve this goal followed by years when the goal is exceeded. But over a long period of time, the Board seeks to achieve an average net rate of return of 7.75% at risk levels (measured by expected volatility) broadly consistent with other public fund peers.
- The *investment policy benchmark* is calculated by applying the investment performance of the asset class benchmarks to the Plans' actual asset allocation during the measurement period. The investment policy benchmark represents the return that would be achieved if the Plan implemented a passively managed portfolio. Deviations from the policy benchmark measure the contribution of active investment management throughout the fund, rebalancing policy and its execution, and investment implementation generally.
- The Board also compares each Plan's total performance, before all fees, to appropriate *public plan sponsor universes*. This process permits the Board to compare its total performance to other public pension plans. While the Board seeks to rank consistently in the top half of comparable public pension plans, the Board recognizes that other plans may have investment objectives and risk tolerances that differ substantially from the Board's.

The Board expects to meet or exceed these objectives over a long-term investment horizon. Over shorter periods, the anticipated market volatility and specific actions, including risk mitigation efforts of the Board relative to other pension plans may lead to unfavorable, but expected, deviation from these objectives.

Asset Allocation

The Board, as the investment fiduciary of the Plans, is responsible for establishing the investment parameters for the Plans. The Board has the authority to allocate portfolios to any previously board-approved asset class in the proportions it considers prudent, under the prudent expert rule. There are currently no statutory or constitutional restrictions on the investment of the Plans. Asset allocation decisions made by the Board must be made in a public meeting.

The current asset allocation ranges for the Plans are attached as exhibit A. The asset allocation ranges are subject to change as modifications are adopted by the Board, at which time the attached exhibit A will be revised to reflect these changes. The Board will formally affirm or revise the asset allocation ranges for the Plans at least annually.

Rebalancing

The actual asset allocation mix may deviate from time to time from the approved asset allocation ranges due to financial market performance, cash flows, and manager performance. Material deviations from the asset allocation ranges can alter the expected return and risk of the Plans. Rebalancing the Plans' assets to remain within the Board-approved allocation ranges is delegated to the Chief Investment Officer (CIO), in consultation with the Executive Director. Any necessary rebalancing will be made in a timely manner and will take into consideration associated costs and current market conditions. In addition to maintaining actual allocations within the ranges, the CIO will also consider contractual investment commitments to private equity and real estate partnerships, the liquidity necessary to meet benefit payments and administrative costs for the Plans, and current market conditions. This may prompt asset rebalancing when asset allocations fall within the established ranges. The CIO shall inform the Board of rebalancing activity at the Board's next regularly scheduled meeting.

Exercise of Shareholder Rights

The Board recognizes that publicly traded securities and other assets of the Plans include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation. The Board will prudently manage these assets of the Plans for the exclusive purpose of enhancing the value of the Plans for its participating systems' members and beneficiaries through such means as adopting and implementing a proxy voting policy and undertaking productive, cost-effective action to exercise its rights as shareholders or claimants in litigation. The Board will participate in all class action securities litigation to which it is entitled and may, pursuant to its securities litigation policy, serve as lead or co-lead plaintiff for the benefit of the Plans. These policies are further described in the underlying investment policy statements appropriate for the respective investment pools and in the governance policy.

Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program. In addition, the Board requires that the risks assumed and the administrative resources committed to monitor those risks are commensurate with the program's income potential. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. The Board's participation in securities lending may change over time given Plan activity, market conditions and the agent agreement.

Exhibit A

Pension Fund Asset Allocations 60 -70% Equities Range			
<u>Domestic Equity Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Large Cap Core (passive)	10% - 30%		
Large Cap Enhanced	20% - 30%	30% - 50%	4% - 10%
Large Cap Style-Based (long-only)	20% - 30%		
Partial Long/Short (130/30)	10% - 20%		
Total Large Cap	<u>82% - 92%</u>		
Mid Cap	5% - 11%		
Small Cap	3% - 8%		
<u>International Equity Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Large Cap Core (active & passive)	50% - 70%	15% - 30%	9% - 15%
Large Cap Growth	10% - 20%		
Large Cap Value	10% - 20%		
Small Cap Core	5% - 15%		
<u>Retirement Funds Bond Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Domestic High Yield	0% - 15%	22% - 32%	1% - 5%
International	0% - 10%		
Total High Yield/International	<u>0% - 20%</u>		
Domestic Core(investment grade)	80% - 100%		
<u>Real Estate Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Core/Timberland *	35% - 65%		
Value Added	20% - 45%		
Opportunistic	10% - 30%		
* Timberland may not exceed 2% of total pension assets			
<u>Private Equity Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Leveraged Buyouts	40% - 75%		
Venture Capital	10% - 50%		
Mezzanine Financing	0% - 10%		
Distressed Securities	0% - 40%		
Special Situations	0% - 10%		
<u>Short Term Investment Pool</u>			
Short-term liquid investments			
High-quality Investments			
24 Hour Liquidity for Participants			

All nine Public Retirement Plans* currently share the same asset allocation ranges but this may change in the future as conditions and liquidity requirements for each of the individual plans change.

*The two largest Plans have legacy holdings of Montana Residential Mortgages/Real Property that are not included in the above table.

Nine Public Retirement Plans

Public Employees Retirement System*
Teachers Retirement System*
Police Officers Retirement
Firefighters Retirement
Sheriffs Retirement

Highway Patrol Retirement
Game Wardens Retirement
Judges Retirement
Volunteer Firefighters Retirement