

# MONTANA

## BOARD OF INVESTMENTS

## BOARD ADOPTED POLICY

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POLICY NUMBER: 40.403

EFFECTIVE DATE: May 20, 2026

TITLE: BOI Internal Core Bond Fund - DC  
Investment Policy Statement

SUPERSEDES: NEW

BOARD ADOPTION: May 20, 2026

REVIEWED: May 20, 2026

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### I. Introduction

- A. The purpose of this policy is to provide a framework for the BOI Internal Core Bond Fund for the State of Montana 401(a) Defined Contribution and State of Montana 457(b) Deferred Compensation Plans under the guidance of the Board.

### II. Purpose

- A. The purpose of this policy is to:
1. Establish the investment objectives and performance standards of the BOI Internal Core Bond Fund for the defined contribution and deferred compensation plans; and
  2. Provide diversified exposure for the BOI Internal Core Bond Fund for the defined contribution and deferred compensation plans in a prudent and cost-effective manner.

### III. Investment Objective

- A. Strategic - The objective of the BOI Internal Core Bond Fund is to attain the highest possible return within the parameters of this policy.
- B. Performance - Success in achieving this objective will be measured by comparing the risk and after-fee return of the BOI Internal Core Bond Fund to the Bloomberg US Aggregate Bond Index (the Benchmark). Performance results will be monitored and evaluated quarterly. However, success in achieving the objective will be measured on a three (3) year, five (5) year, and ten (10) year annualized basis.
- C. Investment Guidelines

1. The Board will have full discretion to manage the BOI Internal Core Bond Fund consistent with this policy. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of the Staff. Any exceptions or compliance violations are to be reported to the Board at the next scheduled quarterly Board meeting. Core Bond is defined as strategies primarily invested in marketable, publicly traded, investment-grade fixed income securities denominated in U.S. dollars. The BOI Internal Core Bond Fund may invest only in the following:
  - a) Internally Managed Permitted Investments:
    - (1) Dollar-denominated debt obligations of the U.S. Government, including its agencies and instrumentalities;
    - (2) Dollar-denominated debt obligations of Quasi and Foreign Government entities;
    - (3) Dollar-denominated debt obligations of domestic and foreign corporations;
    - (4) Dollar-denominated securitized assets, including U.S. Agency mortgage-backed and commercial mortgage-backed securities (MBS/CMBS), U.S. Agency

collateralized mortgage obligations (CMOs) and asset-backed securities (ABS);

- (5) Dollar-denominated, Non-agency mortgage-backed securities (RMBS) and Non-agency commercial mortgage-backed securities (CMBS);
- (6) Exchange-Traded Funds (ETFs) based on a domestic, investment-grade bond index that is approved by the CIO and purchased and monitored by Staff; and
- (7) Cash - either an investment in STIP, a vehicle available through the Custodian, or an SEC-registered money market fund that is considered a "US Treasury" or "US Government" money market fund per the SEC regulations.

b) Other Restrictions:

- (1) The average duration of any internally managed portfolio will be maintained in a range of + or – twenty percent (20%) of the Benchmark duration.
- (2) A minimum of twenty percent (20%) of the Net Asset Value will be held in U.S. Government securities, including U.S. Treasuries, TIPS and Agency securities.
- (3) Securities must be rated investment grade by at least two nationally recognized statistical rating organizations (NRSRO), except for securities issued or guaranteed by agencies or instrumentalities of the U.S. Government.
- (4) Securities that drop below investment grade as defined above may be held to maturity, however the portfolio may not hold more than ten percent (10%) of its Net Asset Value in securities rated below investment grade.
- (5) Securitized assets must be rated at a minimum of the fourth (4<sup>th</sup>) highest rating by any NRSRO at the time of purchase.
  - (a) Securitized assets that drop below the fourth (4<sup>th</sup>) highest rating of any NRSRO may be held to maturity; however, the portfolio may not hold more than five percent (5%) of its Net Asset Value in these securities.
- (6) A maximum of ten percent (10%) of the Net Asset Value of the portfolio may be held in dollar-denominated quasi and foreign government securities.
- (7) A maximum of two times the Benchmark weight may be held in corporate securities in the portfolio.
- (8) A maximum of two times the Benchmark weight in U.S. Agency MBS may be held in U.S. Agency MBS and CMO securities in the portfolio.
  - (a) A maximum of twenty percent (20%) of the Net Asset Value of the portfolio may be held in U.S. Agency CMOs.
- (9) A maximum of five percent (5%) of the Net Asset Value of the portfolio may be held in ABS.
- (10) A maximum of ten percent (10%) of the Net Asset Value of the portfolio may be held in U.S. Agency and Non-Agency CMBS.
- (11) A maximum of ten percent (10%) of the Net Asset Value of the portfolio may be held in non-agency RMBS.
- (12) A maximum of three percent (3%) of the Net Asset Value of the portfolio may be held in a single corporate parent issuer, foreign/quasi government issuer or securitized specific pool at the time of purchase.
  - (a) A maximum of four percent (4%) of the Net Asset Value of the portfolio may be held in a single corporate parent issuer, foreign/quasi government issuer or securitized specific pool at any time.
- (13) A maximum of five percent (5%) of the Net Asset Value of the portfolio may be

invested in Cash.

(14) The use of leverage is prohibited.

c) Externally Managed Permitted Investments:

(1) Securities and derivatives held in separate accounts, commingled funds, limited partnerships, or limited liability companies managed by external investment managers and governed by their respective investment management contracts and investment guidelines; and

(2) Cash – either an investment in STIP, a vehicle available through the Custodian, or an SEC-registered money market fund that is considered a “US Treasury” or “US Government” money market fund per the SEC regulations.

D. If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, Staff will use its best efforts to conform to these limits in a timely manner, while considering current market conditions and the associated costs of rebalancing. At the Board’s next regularly scheduled quarterly meeting, the CIO shall inform the Board of any situation where the BOI Internal Core Bond Fund allocations were outside of the limits and either inform the Board of the actions that were taken to return the BOI Internal Core Bond Fund back within guidelines or a plan to do so.

Authority: Montana Constitution, Article VIII, Section 13  
Section 2-15-1808, MCA  
Sections 17-6-201 through 17-6-203, MCA  
Sections 17-6-204 and -205, MCA  
Sections 19-2-503 through 19-2-505, MCA  
Sections 19-3-2102 through 19-3-2122, MCA  
Sections 19-50-101 through 19-50-205, MCA