

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.900

EFFECTIVE DATE: October 11, 2023

TITLE: Separately Managed Accounts
Investment Policy Statement

SUPERSEDES: June 22, 2023

BOARD ADOPTION: November 30, 2021

REVIEWED: October 11, 2023

I. Introduction

- A. This policy is effective upon adoption and supersedes all previous Investment Policy Statements (IPS) related to the investment management of the Separately Managed Accounts.
- B. Montana has more than forty (40) Separately Managed Accounts. These Separately Managed Accounts consist of trust, insurance and operating accounts which have been created by the state Constitution, statutorily by the legislature or as part of settlements between the state and outside entities.
- C. Each Separately Managed Account has unique investment needs. The strategic investment objective for each Separately Managed Account will be addressed in the individual policies.
- D. Many Separately Managed Accounts participate in the Short-term Investment Pool (STIP) and the Trust Funds Investment Pool (TFIP). The pools are commingled funds which operate similar to mutual funds. STIP and TFIP each have their own IPS.

II. Purpose

- A. The purpose of this policy statement is to provide a broad strategic framework for separately managed accounts under the guidance of the Board.

III. Legal and Constitutional Authority

- A. Article VIII Section 13 of the Montana Constitution requires that the Legislature provide for a Unified Investment Program for public funds.
 - 1. Section 17-6-201, MCA:
 - a) Established the Unified Investment Program;
 - b) Created the Board; and
 - c) Gave the Board sole authority to invest state funds, in accordance with state law and the state constitution.
- B. Section 17-6-201(1), MCA, requires the Board to operate under the “prudent expert principle,” defined as:
 - 1. Discharging its duties with the care, skill, prudence, and diligence, under the same circumstances then prevailing that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of like character with like aims;
 - 2. Diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return,

Adopted: November 30, 2021

Revised: October 11, 2023

Reviewed: October 11, 2023

unless under the circumstances it is clearly prudent not to do so; and

3. Discharging its duties solely in the interest of and for the beneficiaries of the funds managed.

C. The Board, as the investment fiduciary of the Separately Managed Accounts, is responsible for establishing the investment parameters for all Separately Managed Accounts.

IV. Strategic Investment Objectives

A. The strategic investment objective is unique for each Separately Managed Account. The strategic investment objective for each Separately Managed Account will be addressed in the individual policies.

B. However, the Board's overall objective is to achieve the highest level of investment performance compatible with each Separately Managed Account's risk tolerance and prudent investment practices. The Board seeks to maintain a long-term perspective in formulating and implementing investment policies and evaluating investment performance subject to the specific objectives and constraints of each Separately Managed Account.

V. Time Horizon

A. The time horizon is unique for each Separately Managed Account. The time horizon for each Separately Managed Account will be addressed in the individual policies.

VI. Performance Measurement

A. The IPS benchmark is unique for each Separately Managed Account. The IPS benchmark for each Separately Managed Account will be addressed in the individual policies.

B. The IPS benchmark approximates the return that would be achieved if the Separately Managed Account implemented a passively managed portfolio. Deviations from the policy benchmark measure the contribution of active investment management in the Separately Managed Account, rebalancing policy and its execution, fees, and investment implementation generally.

VII. Roles and Responsibilities

A. Board of Investments

1. The Board is responsible for approving the IPS for any Separately Managed Account and has the authority to manage all separately managed accounts as it considers prudent, subject to such limitations as contained in law and the Constitution.
2. The Board reviews this document periodically and approves any changes to the policy as needed.
3. As described in the Board of Investments Governance Manual, the Board delegates authority to the Executive Director, Chief Investment Officer (CIO), and other Staff to execute the day-to-day duties required to carry out the Board's mission.

B. Executive Director

1. The Executive Director is empowered by the Board to sign any and all documents required to conduct Board business, unless there are specific written policies or instructions from the Board to the contrary.
2. The Executive Director and the CIO are authorized jointly to contract for investment manager services and if deemed appropriate, terminate them.
3. The Executive Director is responsible for establishing the financial reporting procedures as well as collection and reporting of all income.

C. Chief Investment Officer

1. The CIO is empowered by the Board to serve as the principal staff person responsible for overseeing the investment activities under the Board's jurisdiction in compliance with the Board's policies.

2. The CIO, with the support of other staff, is responsible for recommending investment policy changes for Board approval.

D. Investment Staff

1. The investment staff is responsible for, but not limited to:
 - a) Managing day-to-day investment operations;
 - b) Investing separately managed account assets and monitoring compliance in accordance with this IPS;
 - c) Reporting to the Board the Separately Managed Account results and investment characteristics at least annually; and
 - d) Reporting any deviations from the IPS to the Board.

E. Investment Consultant

1. The investment consultant assists the CIO and Staff with policy recommendations and provides advice to the Board.
2. The investment consultant shall provide assistance to staff as requested in conjunction with the management of all Separately Managed Accounts.

VIII. Strategic Asset Allocation

- A. The strategic asset allocation is unique for each Separately Managed Account.
- B. The strategic asset allocation for each Separately Managed Account will be addressed in the individual policies.

IX. Rebalancing

- A. 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.
- B. Material deviations from the asset allocation ranges can alter the expected return and risk of the accounts.
- C. Rebalancing Separately Managed Account assets to remain within the Board-approved allocation ranges is delegated to staff in consultation with the CIO and the Executive Director.
- D. Any necessary rebalancing will be made in a timely manner and will take into consideration associated costs and current market conditions.

X. Risk Management

A. Liquidity

1. The liquidity requirements are unique for each separately managed account.
2. Staff works closely with the representatives for each account to determine their needs.
3. The liquidity requirements are addressed by the permitted investments and corresponding restrictions within the policy for each Separately Managed Account.

B. Monitoring/Reporting - Transparency

1. Staff shall provide annual reporting to the Board regarding the asset allocation and performance of the Separately Managed Accounts to confirm these items are known and adhere to all IPS requirements and expectations.

C. Leverage

1. Leverage is a significant risk factor.
2. Assets in separately managed accounts managed directly by Board staff are not allowed to employ leverage.

3. The use of derivative securities can generate additional leverage even if the derivative is being used to reduce the risk in other investments.
4. Individual assets in Separately Managed Accounts managed directly by Board staff are not allowed to use derivatives.
5. STIP is not allowed to employ leverage or use derivatives.
6. The use of leverage and derivatives within TFIP is addressed within the TFIP IPS.

D. Cash Investments

1. Cash investments held in any Separately Managed Account, in the TFIP or any managed account within it, entail an element of credit risk.
2. Only approved cash investment vehicles are permitted. These include:
 - a) Short-Term Investment Pool (STIP);
 - b) Any cash vehicle at the Custodial Bank; and
 - c) Any SEC registered money market funds approved by the CIO for internally managed funds or employed by an external asset manager which specifically address credit risk in their respective investment guidelines.

XI. Investment Pools

A. Trust Fund Investment Pool

1. TFIP will provide accounts with exposure to a broad and diverse spectrum of investment grade and non-investment grade fixed income as well as real estate assets.
2. Investment grade fixed income will be primarily managed internally.
3. Non-investment grade fixed income will be primarily managed by external asset managers.
4. Real estate will be managed by external asset managers.
5. The specific strategic objectives, performance criteria, and investment guidelines for TFIP are detailed in the TFIP IPS.

B. Short-Term Investment Pool

1. STIP will provide managed accounts with exposure to Cash related investments.
2. STIP will be managed internally utilizing an active investment strategy.
3. The specific strategic objectives, performance criteria, and investment guidelines for STIP are detailed in the STIP IPS.

XII. Securities Lending

A. Section 17-1-113, MCA, authorizes the Board to lend securities held by the state.

1. The Board may lend its publicly traded securities through an agent to other market participants in return for compensation.
2. Currently, through an explicit contract, the state's Custodial Bank manages the state's securities lending program.
 - a) The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program.
 - b) The Board requires borrowers to maintain acceptable and adequate collateral per the terms of the securities lending authorization agreement.
 - c) 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.

- d) In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor.
- e) Staff or the investment manager may restrict a security from the loan program upon notification to the Custodial Bank.
- f) Staff will monitor the securities lending program and will periodically report to the Board on the status of the program.
- g) The Board's participation in securities lending may change over time given account activity, market conditions, and the agent agreement.

XIII. Exercise of Shareholder Rights

A. Proxy Voting

- 1. Per the Montana Constitution, Article VIII, Section 13 "no public funds shall be invested in private corporate capital stock" with the exception of public retirement system and state compensation insurance fund assets.
- 2. Separately Managed Accounts do not participate in proxy voting.

B. Class Action Litigation

- 1. Claims under state and federal securities laws arising out of losses on securities under the Board's management are assets subject to the Board's fiduciary duty of prudent management.
 - a) The Board shall take reasonable, cost-effective steps to identify, pursue and collect upon claims under securities laws for losses suffered by the Board on its investment.
 - b) Accordingly, the Board maintains a litigation policy, including steps outlined in Policy 10.250 of the Governance Manual.

XIV. Investment Policy Statement Review

- A. Investment Policy Statements are established and reviewed as authorized by Policy 40.100.

XV. List of Trust Fund Accounts in this policy series

A. Department of Agriculture

- 1. Policy 40.901: Noxious Weed Management Trust Fund
- 2. Policy 40.947: Hail Insurance Fund

B. Department of Environmental Quality

- 1. Policy 40.902: Belt Water Treatment Plant Fund
- 2. Policy 40.903: Abandoned Mine Land Reclamation Trust
- 3. Policy 40.904: Clark Fork Site Response Action Fund
- 4. Policy 40.905: Montana Pole Superfund Site Settlement Fund
- 5. Policy 40.906: Streamside Tailings Operable Settlement Fund
- 6. Policy 40.907: Upper Blackfoot Response Action and Restoration Fund
- 7. Policy 40.908: Zortman/Landusky Long Term Water Fund
- 8. Policy 40.909: Zortman/Landusky Long Term Water Trust

C. Department of Fish, Wildlife and Parks

- 1. Policy 40.910: Coal Tax Park Trust Fund
- 2. Policy 40.911: Fish, Wildlife & Parks Mitigation Trust Fund
- 3. Policy 40.912: Real Property Trust Fund

4. Policy 40.913: Wildlife Habitat Trust Fund
5. Policy 40.944: Fish, Wildlife & Parks General License Account
- D. Department of Health and Human Services
 1. Policy 40.914: Endowment for Children
 2. Policy 40.915: Older Montanans Trust Fund
 3. Policy 40.916: Tobacco Trust Fund
- E. Department of Justice
 1. Policy 40.917: Butte Area One Restoration Fund
 2. Policy 40.918: Clark Fork Restoration Fund
 3. Policy 40.919: East Helena Compensation Fund
 4. Policy 40.920: Smelter Hill Uplands Restoration Fund
 5. Policy 40.921: Upper Clark Fork River Basin Reserve Fund
 6. Policy 40.922: Upper Clark Fork River Basin Restoration Fund
 7. Policy 40.935: Greenway Project Trail Maintenance Fund
 8. Policy 40.936: 2011 Yellowstone Exxon Settlement Fund
 9. Policy 40.948: End of Watch Trust
- F. Department of Natural Resources and Conservation
 1. Policy 40.923: Public School Trust
 2. Policy 40.934: Invasive Species Trust Fund
- G. Department of Revenue
 1. Policy 40.924: Resource Indemnity Trust Fund
- H. Montana Arts Council
 1. Policy 40.925: Cultural Trust Fund
- I. Montana Historical Society
 1. Policy 40.926: Montana Historical Society Trust Funds
- J. University System
 1. Policy 40.937: Montana University System Group Insurance
 2. Policy 40.938: Montana University System Workers Compensation
 3. Policy 40.940: Montana State University – Bozeman
 4. Policy 40.941: Montana Tech
 5. Policy 40.942: University of Montana – Missoula
 6. Policy 40.945: Lubrecht Experimental Forest
 7. Policy 40.946: Kyiyo Pow Wow
- K. University Endowments
 1. Policy 40.927: Harold Hamm Endowment
 2. Policy 40.928: Potter Trust Fund
- L. City and County of Butte-Silver Bow
 1. Policy 40.929: Butte Area Redevelopment Trust Authority

M. Department of Environmental Quality (Additional DEQ)

1. Policy 40.930: Barker Hughesville St Response
2. Policy 40.931: Flying J CECRA Facilities Fund
3. Policy 40.932: Libby Asbestos Site State Cost
4. Policy 40.933: Luttrill Pit – Oper & Maint

N. Department of Administration

1. Policy 40.939: State Employee Group Benefits
2. Policy 40.943: State Treasurer's Fund

O. Montana State Library

1. Policy 40.949: Montana State Library Trust

P. Montana Board of Investments Primary

1. Policy 40.950: Montana Housing Infrastructure Revolving Loan Fund
2. Policy 40.951: State of Montana Workforce Housing Fund

Q. Montana Governor's Office

1. Policy 40.952: Debt and Liability Free Account

Authority: Montana Constitution, Article VIII, Section 13
Section 2-15-1808, MCA
Section 17-1-113, MCA
Sections 17-6-201 through 17-6-205, MCA