

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.943

EFFECTIVE DATE: October 9, 2024

TITLE: State Treasurer's Fund Investment
Policy Statement

SUPERSEDES: November 30, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED: October 9, 2024

I. Introduction

- A. The purpose of this policy statement is to provide a framework for the State Treasurer's Fund investments under the guidance of the Board.
- B. The State 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.
- C. Per Section 17-1-111, MCA, "the state treasurer is the custodian of all money and securities of the state unless otherwise expressly provided by law". Per Section 17-6-101, MCA, "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".

II. Purpose

- A. The purpose of this policy statement is to:
 - 1. Establish the investment objectives and performance standards of the State Treasurer's Fund account; and
 - 2. Provide diversified investment exposure within the guidelines in a prudent and cost-effective manner.

III. Investment Objectives

- A. Strategic - The objective of the State Treasurer's Fund portfolio is to attain above benchmark total return within the parameters of this policy with an emphasis on investment income and preservation of principal.
- B. Performance - Success in achieving this objective will be measured by comparing the risk and return of the account to the Short-Term Investment Pool (STIP) benchmark.
- C. Time Horizon - The State Treasurer's Fund is a permanent account. The Board expects to meet or exceed all objectives over a long-term investment horizon. Over shorter periods, the anticipated market volatility, and specific actions, including risk mitigation efforts of the Board may lead to unfavorable, but expected deviation from these objectives.
- D. Investment Guidelines - The Board will have full discretion to manage the State Treasurer's Fund portfolio 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.
- E. Permitted Investments
 - 1. The State Treasurer's Fund may only invest in the following:

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- a) STIP or any cash vehicle at the Custodial Bank;
- b) Deposits held at the state's depository bank;
- c) U.S. Treasury obligations;
- d) 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 floating rate;
- e) 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 floating rate coupons;
- f) Short-term tri-party repurchase obligations (repo) with an approved primary dealer, the Custodial Bank, or the depository bank that are collateralized at one-hundred two percent (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;
- g) 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;
- h) Any obligation purchased pursuant to the bond credit enhancement program of the Board as authorized pursuant to Board Resolution 219;
- i) State general fund warrants per Section 17-6-212, MCA; and
- j) Investment in the Trust Fund Investment Pool (TFIP).

F. Other Restrictions

1. Securities and TFIP purchases are permitted only up to an amount equal to the lowest twelve (12) month average account balance over the past ten (10) year periods.
 - a) In the event the amount of securities and TFIP held were to exceed this threshold, sales are not required however additional purchases are prohibited until the test can again be met. Prudent sales are required should the amount of securities and TFIP exceed sixty percent (60%).
 - b) U.S. Treasuries held at the state's depository bank are not subject to the projected general fund balance restriction. These securities are held at the depository bank to provide emergency liquidity.
 - c) In addition, any obligations purchased pursuant to the bond credit enhancement program of the Board as authorized pursuant to Resolution 219 of the Board are not subject to the projected general fund balance restriction.
2. 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.
3. Securities are limited to three years to final maturity.
4. Repurchase agreements are limited to seven days to maturity.
5. 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.
6. 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.

7. Securities restrictions do not apply to holdings in TFIP.

G. 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 situations where the allocations were outside the limits and either inform the Board of the actions that were taken to return the portfolio back within guidelines or a plan to do so.

Authority: Montana Constitution, Article VIII, Section 13
Section 2-15-1808, MCA
Section 17-1-111 and -113, MCA
Sections 17-6-201 through 17-6-205, MCA

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