

**MONTANA BOARD OF INVESTMENTS
SPECIAL BOARD MEETING CONFERENCE CALL
2401 Colonial Drive, 3rd Floor
Helena, Montana
Thursday, April 17, 2020
1:00 PM**

PRESENT *all via conference call:*

- Karl Englund, Board Chair
- Mark Noennig, Board Vice Chair
- Terry Cohea, Board Member
- Bruce Nelson, Board Member
- Jim Edwards, Board Member
- Diane Fladmo, Board Member
- Maggie Peterson, Board Member
- Jeff Greenfield, Board Member
- Senator Fred Thomas
- Dan Villa, Executive Director
- Peggy MacEwen, Deputy Director
- Jon Putnam, CFA, FRM, CAIA, Chief Investment Officer
- Doug Hill, Director of In-State Loan Programs
- Rande Muffick, CFA, Deputy CIO/Director of Public Market Investments
- Polly Boutin, Associate Financial Manager
- April Madden, Investment Accountant
- Kelsey Gauthier, CPA, Investment Accountant
- Teri Kolnik, CFA, Investment Analyst
- Ethan Hurley, CAIA, Director of Real Estate/Natural Resources
- Michael Nguyen, Director of Private Investments
- Emily Kovarik, CPA, Investment Analyst
- Dan Zarling, CFA, CIPM, Director of Risk Management
- John Romasko, CFA, Director of Fixed Income
- Kirsten Haswell, Investment Analyst
- Steve Strong, Investment Analyst
- Thomas Winkler, CAIA, Investment Analyst
- Savannah Morgan, Bond Program Officer
- Dana Chapman, Office Manager/Board Secretary

Guests: Sheri Scurr, Legislative Services Division
John Harrington, Legislative Audit Division

CALL TO ORDER

Board Chairman Karl Englund called the Special Meeting of the Board of Investments (Board) to order at 1:01 p.m. The roll was called: Board Member Jack Prothero was absent and Senator Fred Thomas arrived late. As noted above a quorum of Board Members was present. Chairman Englund advised audio recording of the meeting was underway and asked for public comment on issues within Board jurisdiction. There was none.

Update to Board Members

Chairman Englund thanked Board and staff for being available. There is an unusual issue which although it does not require Board action, due to the amount of money involved, it is best to keep the

Board fully informed. The issue has to do with money the state will receive under the CARES Act. The funds would normally be put into STIP. However, this would drive down STIP returns, particularly in terms of the local government participants. Staff recognized the issue and looked at solutions for where the money could be legally put where that would not occur.

Executive Director Dan Villa explained he and Mr. Jon Putnam have provided the Board with a memo outlining a plan for the funds. With the passage of the CARES Act Montana will receive a total of \$1.25 billion from the federal government. Those funds will be flowing to the Board of Investments for custodial purposes under both constitutional and statutory fiat. Within that construct, the normal operation staff would have used would have had a negative impact on other Board of Investments participants. First of all, we're not sure when all of the cash will be flowing to the state, and without the ability to plan, the fixed income team is significantly limited as to what sort of purchases can be made. Secondly, not knowing the outflows of those dollars puts a strain on us from a liquidity perspective; the uncertainty of inflows and outflows will have a negative impact on potential yields for the dollars.

Staff wanted to hold these dollars for the state in a relatively liquid place that would still generate investment income without having negative consequences for the other participants. STIP is the vehicle with which we would typically hold these dollars.

Director Villa stated the proposal is a two-step process. First, the dollars would be held in the Treasurer's Account, a separately managed account. There it would be laddered so the maturity dates continue to roll, and dependent on expenditures out the other side, we can ensure there is adequate liquidity for the state. Staff will be asking at the Board Meeting call next week to amend the investment policy statement for the Treasurer's Account. The requested change will add another cash vehicle at the custodial bank to provide for an immediate liquidity vehicle for the state of Montana on the expenditure side. There is \$1.2 billion in the Treasurer's Account as of yesterday. Staff are proposing to keep \$100 million in a rolling mechanism in the interest bearing demand deposit account within our custodial bank State Street. As expenditures go out the door by the state of Montana, we would then roll those maturities of treasuries and agencies into that immediate cash vehicle.

Currently, the investment policy statement only allows for the STIF vehicle at State Street. The requested change in policy would allow that any cash vehicle within the custodial bank could be used for the purposes of holding assets in the Treasurer's Account. The second component requires that staff notify the Board when we are out of compliance with investment policies. Director Villa asked Mr. Putnam to address the Board.

Mr. Putnam stated with the influx of cash we will be out of policy with the Treasurer's Account. Under the policy staff are able to invest up to half of the projected total of the General Fund into longer term securities going out to three years. Historically, when the yield curve has been steep, staff have sometimes purchased treasuries or agencies and gone out a little further to earn a bit more interest than what the STIP portfolio would provide. More recently with the flat yield curve we have not done that, but with the injection from the CARES Act into the Treasurer's Account, we are already over the limit. The projected General Fund balance at this time is about \$600 million, meaning we could invest around \$300 million outside of STIP in treasury or agency securities.

As of Wednesday, we received \$625 million in from the CARES Act and are expecting another \$625 million next week, the vast majority of that will be invested in treasury or agency securities with relatively short terms. Currently we have them laddered weekly out through the end of May and we will continue to roll out until we get additional information on when the money might be spent down. The plan is to correct being out of policy compliance once that money is spent. Staff expect that to occur within the next couple of months.

Director Villa added the investment policy statement provides that staff notify the Board if we are out of compliance, and that we present a plan for remedy in the normal course of business.

Member Diane Fladmo asked how much interest staff expects to save on behalf of STIP participants by taking this action.

Mr. Putnam stated the securities staff are investing in within the Treasurer's Account for the CARES Act money are very short term in treasuries and agencies to allow for liquidity. Those securities on average are invested at about 8 basis points; the STIP portfolio yield as of yesterday was 98 basis points. Clearly if 20% of the fund was put into something only yielding 8 basis points, it would drag down the yield.

Member Bruce Nelson asked Mr. Putnam to explain the new interest bearing deposit account recently negotiated with State Street Bank.

Mr. Putnam stated the Interest Bearing Demand Deposit Account (IBDDA) is a sweep vehicle. In all accounts we may have a bit of cash sitting for whatever reason, such as for a trade that does not settle, which would leave cash in the account. Previously there was no interest earned on that cash as it sat overnight as there was no mechanism to put it into State Street STIF. The IBDDA is a late day sweep vehicle that allows us to earn a little bit of interest on cash. Staff weren't initially thinking specifically of the CARES Act. However, after talking with State Street, they are able collect that money over all of our accounts and invest it, and they are able handle a large volume. This provides for one day liquidity and access to the cash the following day.

Mr. Putnam explained staff negotiated the rate with State Street Bank on the IBDDA. It has a one week rolling SOFR rate set on Tuesdays for the week. Given the stress of the current market, we have recently seen negative rates for T-Bills and sometimes agencies. Staff hope to avoid a negative interest rate which would lose money and the IBDDA should help. Staff have been working on putting the IBDDA into place for a while and the policy change will be a permanent one which staff will use going forward.

Member Maggie Peterson asked if the secured overnight financing rate is different than the one set by the federal government.

Mr. Putnam explained it is an overnight repo rate based on the SOFR and is not the same as the Federal Reserve rate. It is a vehicle for brokers and banks to provide overnight liquidity. The market sets the rate to whatever the repo rates are. Although it is heavily driven by the Federal Reserve short term rates, it is not based on it.

Mr. Putnam added staff have done a great job through this process without knowing when the money was coming in or where it would be put initially. Both US Bank and State Street Bank were a huge help along with the Department of Administration.

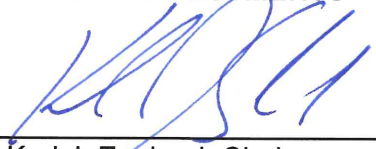
Director Villa stated staff will keep the Board informed. Mr. Putnam will have a memo and a redline version of the proposed revisions to the Separate Accounts Investment Policy Statement for the special Board Conference Call Meeting next Thursday, April 23.

Director Villa added after checking calendars with RVK and Board Members, the next regular Board Meeting will be held in the office on June 8 and 9. He also noted that staff met via conference call to discuss reentry into the office. A few revisions will be made to the plan and then it will be forwarded to Board Members.

These minutes are Approved and Final. Full Board review and decision took place at the June 8-9, 2020 Regular Meeting of the Board.

Having no further business before the Board, the meeting was adjourned at 1:27 p.m.

MONTANA BOARD OF INVESTMENTS

APPROVE: 
Karl J. Englund, Chairman

ATTEST: 
Dan Villa, Executive Director

DATE: June 8, 2020

BOI/drc 5/1/2020