

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.205

EFFECTIVE DATE: May 24, 2023

TITLE: Investment Objectives and Guidelines
Real Assets Asset Class

SUPERSEDES: November 30, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED: May 24, 2023

I. Introduction

- A. The purpose of the investment objectives and guidelines is to provide a framework for the Real Assets Asset Class.
- B. This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for Real Assets.

II. Statement of Purpose

- A. The purpose of these objectives and guidelines is to:
 1. Establish the investment objectives and performance standards of the Real Assets Asset Class.
 2. Provide diversified exposure to the Real Assets markets in a prudent and cost-effective manner.

III. Investment Objective

A. Strategic

1. The objective of the Real Assets Asset Class is to attain the highest possible return within the parameters of the Investment Objectives and Guidelines set forth below.

B. Performance

1. There is no generally accepted performance comparisons benchmark index for private partnership investments in Real Assets. Characteristically, private partnership investments are impacted by the “j-curve” effect, in which fees and transaction costs create negative returns during the initial investment years before distributions are realized. Private partnership investments usually require a long-time horizon to realize the value provided by the creation or enhancement of private companies.
2. The long-term performance objective for the Real Assets Asset Class is the achievement of net returns (after management fees and general partner’s carried interest) above a benchmark reflecting public equity Real Assets market returns.
3. Success in achieving this objective will be measured by comparing the long-term net return of the Real Assets Asset Class to 1/3 MSCI ACWI Commodity Producers Index, 1/3 US TIPS Index, 1/3 MSCI ACWI Infrastructure Index (the Benchmark) on an annualized basis. Performance results will be monitored quarterly. However, the success in achieving the objective will be measured on a five (5) year and ten (10) year annualized basis.

C. Investment Guidelines

1. Staff will have full discretion to manage the Real Assets Asset Class consistent with the investment objectives and guidelines established in 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.

2. Most of the Real Assets Asset Class investments will be managed by external investment managers via private investment partnerships in which the Board will have a limited partnership interest; however, the Real Assets Asset Class may also utilize public long-only and long/short strategies.

D. Permitted Investments

1. The Real Assets Asset Class (for the purpose of these guidelines, “Real Assets” includes investments in inflation linked bonds, infrastructure, timber, energy, agriculture, and other commodities) may invest only in the following:
 - a) Private investment partnership interests in Real Assets. These private investment partnerships may be direct limited partnerships, limited liability companies, or vehicles that primarily invest in partnerships, including fund-of-funds and secondary funds.
 - b) The Real Assets Asset Class may co-invest with private investment managers in transactions that are suitable for inclusion into a Real Assets private investment partnership.
 - c) Individual public or private securities received as distributions from funds.
 - d) Separately managed accounts, open-ended funds, closed-ended funds, or exchange-traded funds (ETFs), managing publicly traded Real Assets related investments, where the investments are approved by the CIO and purchased and monitored by Staff.
 - e) Inflation Linked Bonds.
 - f) Cash – either an investment in the Short-Term Investment Pool (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.

E. Other Restrictions

1. The Montana Public Retirement Plan assets as a percentage of Net Asset Value invested in a single investment within Real Assets Asset Class shall be no greater than two percent (2%).
2. No more than forty percent (40%) of the aggregate of the Real Assets Asset Class Net Asset Value should be considered “Non-U.S.” exposure based on the primary objective of the fund, partnership, separately managed account, or index.
3. No more than ten percent (10%) of the aggregate of the Real Assets Asset Class Net Asset Value shall be invested in direct co-investments.
4. Individual public securities received as distributions will be liquidated over a reasonable time-period dependent on market conditions.

- F. The following table provides a guideline range with respect to the Real Assets Asset Class strategy diversification. These ranges reference the Real Assets Asset Class Net Asset Value.

<u>Strategy</u>	<u>Policy Range</u>
Commodities Related	25% - 75%
Infrastructure Related	25% - 75%
Inflation Linked Bonds	0% - 50%

1. For funds with exposure across categories, the fund will be classified in the category that is most reflective of the underlying investments in the funds.

G. Timber Fund Leverage

1. Leverage is a significant risk factor. On an individual fund basis, the leverage level can range up to thirty percent (30%). Individual fund leverage may occasionally exceed thirty percent

(30%) and will be monitored by staff to determine the cause and whether it is a temporary or persistent issue. Leverage shall be monitored on an individual fund level and new investments shall be made with the intention that the total timber fund investment leverage shall not exceed thirty percent (30%).

Strategy

Timber

Leverage Policy Range

0% - 30%

- H. 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 Real Assets allocations were outside of the limits and either inform the Board of the actions that were taken to return the Real Assets Asset Class back within guidelines or a plan to do so.

Authority: Montana Constitution, Article VIII, Section 13
 Section 2-15-1808, MCA
 Section 17-6-201, MCA
 Sections 17-6-204 and -205, MCA
 Section 19-2-504, MCA