

# MONTANA

## BOARD OF INVESTMENTS

### BOARD ADOPTED POLICY

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POLICY NUMBER: 40.207

EFFECTIVE DATE: November 30, 2021

TITLE: Investment Objectives and Guidelines  
Core Fixed Income Asset Class

SUPERSEDES: November 19, 2020

BOARD ADOPTION: November 30, 2021

REVIEWED:

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#### I. Investment Objectives and Guidelines

- A. Schedule II-F: Investment Objectives and Guidelines Core Fixed Income.
- B. Approved Date of Schedule: June 9, 2020.
- C. This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for Core Fixed Income.

#### II. Statement of Purpose

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

#### III. Investment Objective

##### A. Strategic

1. The objective of the Core Fixed Income Asset Class is to attain the highest possible return within the parameters of the Investment Guidelines set forth below.

##### B. Performance

1. Success in achieving this objective will be measured by comparing the risk and after-fee return of the Core Fixed Income Asset Class to the Bloomberg Barclays US Aggregate Bond Index (the Benchmark). Performance results will be monitored and evaluated quarterly. However, the 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. Staff will have full discretion to manage the Core Fixed Income Asset Class consistent with the investment guidelines stated below. Core Fixed Income is defined as strategies primarily invested in marketable, publicly traded, investment grade fixed income securities denominated in U.S. dollars. 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. The Core Fixed Income Asset Class 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.

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Adopted: November 30, 2021

Revised

Reviewed

- (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 (CMO's) and asset backed securities (ABS).
- (5) Dollar denominated Non-agency mortgage-backed securities (RMBS) and Non-agency commercial mortgage-backed securities (CMBS).
- (6) 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 Internally Managed 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 of any internally managed portfolio 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), with the exception of securities issued or guaranteed by agencies or instrumentalities of the U.S. Government. In the case of split-rated securities, the lower rating is used.
- (4) Securities that drop below investment grade as defined above may be held to maturity, however any internally managed 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 a minimum of the 4th highest rating by any NRSRO at the time of purchase.
  - (a) Securitized assets that drop below the 4<sup>th</sup> highest rating of any NRSRO may be held to maturity, however any internally managed 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 any internally managed 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 any internally managed 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 any internally managed portfolio.
  - (a) A maximum of twenty percent (20%) of the Net Asset Value of any internally managed portfolio may be held in U.S. Agency CMO's
- (9) A maximum of five percent (5%) of the Net Asset Value of any internally managed portfolio may be held in ABS.
- (10) A maximum of ten percent (10%) of the Net Asset Value of any internally managed 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 any internally managed portfolio may be held in non-agency RMBS.
- (12) A maximum of three percent (3%) of the Net Asset Value of any internally managed 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 any internally

managed 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 any internally managed portfolio may be invested in Cash.

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.
- (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) Other Externally Managed Restrictions:

- (1) The average duration of any externally managed portfolio will be maintained in a range of + or – twenty-five percent (25%) of the index duration.
- (2) A maximum of twenty percent (20%) of the Net Asset Value of any externally managed portfolio will be invested in securities rated below investment grade as defined by any NRSRO. In the case of split-rated securities, the lower rating is used.
- (3) A maximum of ten percent (10%) of the Net Asset Value of any externally managed portfolio will be invested in Non-dollar debt; either hedged or unhedged.
- (4) A maximum of five percent (5%) of any externally managed portfolio will be invested in Cash.

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 cases that the Core Fixed Income Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the Core Fixed Income 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