

# MONTANA

## BOARD OF INVESTMENTS

### BOARD ADOPTED POLICY

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POLICY NUMBER: 40.504

EFFECTIVE DATE: November 30, 2021

TITLE: Investment Objectives and Guidelines  
Investment Grade Fixed Income  
Asset Class

SUPERSEDES: April 20, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED:

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#### I. Appendix II: Investment Objectives and Guidelines

- A. Schedule II-C: Investment Objectives and Guidelines Investment Grade Fixed Income Asset Class.
- B. Effective 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 Investment Grade Fixed Income Asset Class.

#### II. Statement of Purpose

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

#### III. Investment Objective

- A. Strategic
  - 1. The objective of the Investment Grade Fixed Income Asset Class is to attain the highest possible total 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 Investment Grade 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 Investment Grade Fixed Income Asset Class consistent with the investment guidelines stated below. 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.

#### D. Permitted Investments

1. The Investment Grade Fixed Income Asset Class may invest only in the following:
  - a) Dollar denominated debt obligations of the U.S. Government, including its agencies and instrumentalities.
  - b) Dollar denominated debt obligations of Quasi and Foreign Government entities
  - c) Dollar denominated debt obligations of domestic and foreign corporations.
  - d) Dollar denominated securitized assets, including U.S. Agency mortgage-backed securities (MBS) U.S. Agency collateralized mortgage obligations (CMOs), and asset backed securities (ABS).
  - e) Dollar denominated non-agency mortgage-backed securities (RMBS) and non-agency commercial mortgage-backed securities (CMBS).
  - f) 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.

#### E. Other Restrictions

1. The average duration of the Investment Grade Fixed Income Asset Class will be maintained in a range of + or – twenty percent (20%) of the index duration.
2. A minimum of twenty percent (20%) of the Net Asset Value of the Investment Grade Fixed Income Asset Class 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 the Investment Grade Fixed Income Asset Class 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 fourth (4<sup>th</sup>) highest rating by any NRSRO at the time of purchase.
  - a) Securitized assets that drop below the fourth (4<sup>th</sup>) highest rating of any NRSRO may be held to maturity, however the Investment Grade Fixed Income Asset Class 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 market value of the Investment Grade Fixed Income Asset Class 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 the Investment Grade Fixed Income Asset Class.
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 the Investment Grade Fixed Income Asset Class.
  - a) A maximum of twenty percent (20%) of the Net Asset Value of the Investment Grade Fixed Income Asset Class may be held in U.S. Agency CMOs.
9. A maximum of ten percent (10%) of the Net Asset Value of the Investment Grade Fixed Income Asset Class may be held in dollar denominated non-agency MBS (RMBS).
10. A maximum of five percent (5%) of the Net Asset Value of the Investment Grade Fixed Income Asset Class may be held in ABS.

11. A maximum of ten percent (10%) of the Net Asset Value of the Investment Grade Fixed Income Asset Class may be held in CMBS.
  12. A maximum of three percent (3%) of the Net Asset Value of the Investment Grade Fixed Income Asset Class 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 the Investment Grade Fixed Income Asset Class 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 the Investment Grade Fixed Income Asset Class may be invested in Cash.
  14. The use of leverage is prohibited.
- F. 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 may inform the Board of any cases that the Investment Grade Fixed Income Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the Investment Grade 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  
Sections 17-6-201 through 17-6-205 MCA  
Section 19-2-540, MCA