

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.704

EFFECTIVE DATE: February 22, 2023

TITLE: Investment Objectives and Guidelines
Non-Core Fixed Income Asset Class

SUPERSEDES: November 30, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED: February 22, 2023

I. Investment Objectives and Guidelines

- A. Investment Objectives and Guidelines for the Non-Core Fixed Income Asset Class are established in Policy 40.701.
- B. The asset class allocations established by the Board are effective upon adoption and supersedes all previous Investment Objectives and Guidelines for Non-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 Non-Core Fixed Income Asset Class.
 - 2. Provide diversified exposure to the Non-Core Fixed Income markets in a prudent and cost-effective manner.

III. Investment Objective

- A. The objective of the Non-Core Fixed Income Asset Class is to attain the highest possible total return within the parameters of the Investment Guidelines set forth below.
- B. Success in achieving this objective will be measured by comparing the risk and after-fee return of the Non-Core Fixed Income Asset Class to the Bloomberg US High Yield - 2% Issuer Cap 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.

IV. Investment Guidelines

- A. Staff will have full discretion to manage the Non-Core Fixed Income Asset Class consistent with the investment guidelines stated below. Non-Core Fixed Income is defined as strategies primarily invested in High Yield Corporate Debt, Convertible Debt and Preferred Securities. 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. State Fund will be notified of any exceptions or compliance violations within five (5) days.
- B. Permitted Investments
 - 1. The Non-Core Fixed Income Asset Class may only invest in 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.

- C. Other restrictions include a maximum of ten percent (10%) of the market value of the Non-Core Fixed Income Asset Class held in Non-U.S. securities if they are denominated in a foreign currency.
- 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 Non-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 Non-Core Fixed Income Asset Class back within guidelines or a plan to do so. State Fund will be notified of any exceptions or compliance violations within five (5) days.

Authority: Montana Constitution, Article VIII, Section 13
Section 2-15-1808, MCA
Section 17-1-113, MCA
Sections 17-6-201 through 17-6-203, MCA
Section 33-1-115, MCA
Section 39-71-2320, MCA