

# MONTANA

## BOARD OF INVESTMENTS

### BOARD ADOPTED POLICY

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**POLICY NUMBER:** 40.705

**EFFECTIVE DATE:** February 22, 2023

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

**SUPERSEDES:** November 30, 2021

**BOARD ADOPTION:** November 30, 2021

**REVIEWED:** February 22, 2023

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#### I. Investment Objectives and Guidelines

- A. Investment Objectives and Guidelines for the Investment Grade 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 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. 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. 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 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.

#### IV. Investment Guidelines

- A. 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. State Fund will be notified of any exceptions or compliance violations within five (5) days.
- B. Permitted Investments
  - 1. The Investment Grade Fixed Income Asset Class may only invest in the following:
    - a) 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), commercial mortgage-backed securities (CMBS), and asset backed securities (ABS).

- e) Cash – either an investment in the 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.

#### C. Other Restrictions

1. A minimum of twenty percent (20%) of the market value must be held in U.S. Treasury/Agency securities.
  2. A maximum of ten percent (10%) of the market value may be held in dollar denominated quasi and foreign government securities.
    - a) Quasi and foreign government securities must be rated a minimum of the seventh (7<sup>th</sup>) highest rating by any NRSRO at the time of purchase.
  3. A maximum of fifty percent (50%) of the market value may be held in corporate bonds.
  4. A maximum of fifty percent (50%) of the market value may be held in U.S. Agency mortgage-backed securities (MBS & CMO).
  5. A maximum of five percent (5%) of the market value may be held in ABS.
  6. A maximum of ten percent (10%) of the market value may be held in CMBS.
  7. The average duration will be maintained in a range of + or – twenty percent (20%) of the index duration.
  8. A maximum of ten percent (10%) of the Net Asset Value of any internally managed portfolio may be held in non-agency mortgage-backed securities (RMBS).
  9. A maximum of three percent (3%) of the market value may be held in a single parent company issuer, foreign/quasi government issuer or ABS specific pool at the time of purchase; there is no limit on U.S. Government/Agency securities. Exposure to a single parent company issuer, foreign/quasi government issuer or ABS specific pool will be limited to four percent (4%) of the market value regardless of when securities were purchased.
  10. Securities must be rated investment grade by at least two (2) NRSROs, 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.
  11. 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 five percent (5%) below investment grade.
  12. Fixed income securities rated lower than the seventh (7<sup>th</sup>) highest rating by any NRSRO are limited to thirty percent (30%) of the market value of the Investment Grade Fixed Income Asset Class. In the case of split rated securities, the lowest rating will apply.
  13. Securitized assets must be rated a minimum of the fourth (4<sup>th</sup>) highest rating by any NRSRO at the time of purchase. Securities that drop below the fourth (4<sup>th</sup>) highest rating by any NRSRO may be held to maturity. However, the Investment Grade Fixed Income Asset Class may not hold more than four percent (4%) in these securities.
  14. A minimum of one percent (1%) of the Investment Grade Fixed Income Asset Class will be held in cash investments.
  15. The use of derivatives is prohibited.
  16. The use of leverage is prohibited.
- 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 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. 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