

**MONTANA BOARD OF INVESTMENTS
ABANDONED MINE LAND RECLAMATION TRUST FUND (MU11) (FUND 02676)
INVESTMENT POLICY STATEMENT**

INTRODUCTION

The purpose of an investment policy statement is to give the investment manager guidance in developing an investment program to achieve the objectives agreed upon and to enable the sponsor, Department of Environmental Quality, to monitor the progress of the plan.

OBJECTIVES

Return Requirement: To maximize the total rate of return through a broadly diversified portfolio of fixed income securities while producing a total rate of return which exceeds the total rate of return of the Barclays Capital Government/Credit 1-5 year Custom Index over any five year rolling period.

Current Income: Current income is important since interest earned is used to fund the program.

Risk Tolerance: This is an expendable trust fund having an average ability to assume interest rate risk with low risk of loss to principal invested.

CONSTRAINTS

Liquidity Needs: Liquidity needs are low. Except for investment reasons, there is no need to maintain any sizable liquid reserves in the fund. The State of Montana may not expend any of these funds until after August 30, 1992.

Time Horizon: This fund is considered an intermediate-term fund that has a time horizon beyond one year. The maximum maturity for any security purchased for this fund is approximately five (5) years.

Tax Considerations: This fund is tax-exempt, therefore, tax advantaged investments will not be used.

Legal Considerations: This fund is governed by state regulations, specifically, the "prudent expert principle" which requires the Board of Investments to: (a) discharge his duties with the care, skill, prudence and diligence, under the circumstance then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is solely prudent not to do so; and (c) discharge his duties solely in the interest of and for the benefit of the funds forming the unified investment program.

The Montana Constitution does not allow equity type investments.

Unique Circumstances: None

Client Preferences: Minimum \$500,000 in STIP

STATUTORY REFERENCE

On May 7, 1987, the President signed Public Law 100-34, which amended section 402(g) of the Surface Mining Control and Reclamation Act (SMCRA) to allow States with approved abandoned mine land reclamation programs to deposit up to 10 percent of their appropriated annual State-share grant funds in a special State reclamation trust fund established under State law. Public law 100-34 requires that such monies (together with all interest earned on such monies may be expended by the State solely to accomplish the purpose of [Title IV] after August 3, 1992.

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ADMINISTRATIVE

Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, through an explicit contract, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor. From time to time, Staff or the investment manager may restrict a security from the loan program upon notification to State Street Bank. Staff will monitor the securities lending program, and the CIO will periodically report to the Board on the status of the program.

Cash Investments

Cash investments held at the pool level, any managed account within it, or any separate account entail an element of credit risk. Thus, only approved cash investment vehicles are permitted. These include the custodian's STIF vehicle, STIP, or any SEC-registered money market fund, all of which specifically address credit risk in their respective investment guidelines.

CASHFLOW IN MILLIONS (1)

<u>Fiscal Year</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Addition to Book</u>	<u>Total Inv. Income</u>	<u>Income Yield</u>
1994	4.039	4.040	0.193	0.196	4.92
1995	4.273	4.337	0.234	0.250	6.02
1996	3.957	3.969	(0.316)	0.281	6.83
1997	4.424	4.443	0.467	0.289	6.90
1998	5.170	5.231	0.746	0.325	6.78
1999	4.992	4.990	(0.178)	0.334	6.57
2000	4.242	4.177	(0.750)	0.274	5.93
2001	4.504	4.565	0.262	0.274	6.27
2002	4.452	4.596	(0.052)	0.240	5.36
2003	4.963	5.223	0.511	0.228	4.84
2004	5.200	5.273	0.237		

1 Source: BOI Annual Reports

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Asset Allocation At Market

<u>FIXED INCOME</u>	<u>06/30/01</u>	<u>06/30/02</u>	<u>06/30/03</u>	<u>06/30/04</u>	<u>06/30/06</u> Range
Government/Agency Bonds:					
Domestic	36.00%	50.40%	51.10%	51.70%	35.00% - 65.00%
Corporate Bonds:					
Domestic	28.60%	30.50%	23.80%	25.40%	20.00% - 50.00%
Short Term Investment Pool (STIP)	35.40%	19.10%	25.10%	22.90%	10.00% - 40.00%
Total Fixed-Income	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>