BIG SKY ECONOMIC DEVELOPMENT FUND (FUND 09051)
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 enable the sponsor, Department of Revenue, 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 assets while exceeding the Lehman Aggregate Bond Index over a five-year moving average.

Current income is important since the Legislature is transferring 100 percent of income earned to the economic development special revenue account.

Risk Tolerance: This fund is being managed as a long-term, permanent fund; therefore, the fund has an above average ability to assume risk. The ability to tolerate volatility in value of the portfolio is larger than the ability to tolerate volatility in total spendable return.

CONSTRAINTS

Liquidity: As a long-term constitutional trust fund, liquidity needs are low, except for investment purposes. There is no need to maintain any sizeable short-term holdings.

Time Horizon: The fund is considered a permanent long-term fund that has a time horizon well beyond normal market cycles.

Tax Considerations: This fund is tax-exempt; therefore, tax advantage 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 the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like manners 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 clearly prudent not to do so; and (c) discharge the 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 in non-retirement funds.

Client Preference: None

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BACKGROUND INFORMATION

The 2005 Montana Legislature (HB 249) created the Big Sky Economic Development Fund as a separate subfund within the Permanent Coal Trust.

The income produced by this subfund will be transferred to a separate income account called the economic development special revenue account. The Legislature directed that income be spend to provide financial assistance to local governments for qualified economic development projects and to provide financial assistance to certified regional development corporations and certain other economic development organizations. The Legislature also established a Big Sky Economic Development Program within the Department of Commerce to oversee this program.

MCA 17-5-703
From July 1, 2005 through June 30, 2025, the Big Sky Economic Development Fund will receive 25 percent of coal severance tax trust deposits.

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.

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CASH FLOW SUMMARY
(in millions)

Fiscal Year	Additions to Fund	Book	Market	Total Inv. Income
2006	$23.6	$23.6	$22.5	$1.19
2007	9.3	32.9	32.1	

ASSET ALLOCATION
(at market)

FIXED INCOME	6-06	6-07	Proposed Ranges
Trust Funds Bond Pool (TFBP)	97.3%	99.0%	95-100%
Short-Term Investment Pool (STIP)	2.7	1.0	0-5
Total Fixed Income	100.0%	100.0%	100.0%