

COAL TAX PARK TRUST FUND (AE:09004)
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, Fish, Wildlife & Parks (FWP), 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 investments while exceeding the return posted on Salomon Broad Bond Index and/or Lehman Aggregate Index over a five-year moving average.

Current income is important since investment earnings are designated to the state parks program.

Risk Tolerance: This is considered a permanent trust fund; therefore, it 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 a total spendable return.

CONSTRAINTS

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

Liquidity Needs: Liquidity needs are low, except for investment purposes; however, the Legislature could spend the trust with a simple majority vote since it is not a constitutional trust.

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 required the Board of Investments to: (a) discharge its 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.

Unique Circumstances: None

Client Preferences: Maximize investment income.

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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History/Statutes

The fund was established in fiscal year 1976 as a non-expendable trust fund by the Legislature to be funded by coal severance tax collections. The Legislature eliminated allocations to the fund for fiscal year 1987, 1988, and 1989.

HB 1008 (1991)

The 52nd Legislature altered this trust account established in Section 15-35-108, MCA. The legislation requires the single account to be divided into two accounts. One-third of the balance as of June 30, 1991 shall be transferred to a new account called Cultural Trust.

Prior to this separation, FWP received 2/3 of income from the trust for acquisition, development, operation, and maintenance for State Parks and the Montana Arts Council received 1/3 of income for protection of works of art in the State Capital and for another cultural and aesthetic projects.

Beginning July 1, 1991, and ending June 30, 1993, coal tax money that would be deposited into the trust will be allocated to FWP for the development, operation and maintenance of State Parks and the stabilization and preservation of historic sites within the State Park system.

15-35-108 Disposal of Severance Taxes

Starting July 1, 1997, the amount of 1.27 percent was allocated to this trust fund for the purpose of parks acquisition or management.

For fiscal year 2003, the allocation was reduced to zero.

Effective July 1, 2003, the allocation was reset at 1.27 percent.

Income from this permanent fund account, excluding unrealized gains and losses, must be appropriated for the acquisition, development, operation, and maintenance of any sites and areas described in 23-1-102

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CASHFLOW IN MILLIONS (1)

Fiscal Year	Book Value	Market Value	Addition to Book	Total Inv. Income	Income Yield
1994	12.500	12.300	0.000	0.988	0.08
1995	12.500	12.800	0.000	0.922	7.38
1996	13.000	13.000	0.500	1.033	8.10
1997	13.500	13.500	0.500	1.007	7.61
1998	14.100	14.800	0.600	1.066	7.73
1999	14.400	14.200	0.300	1.086	7.73
2000	14.600	13.900	0.200	1.051	7.25
2001	15.200	15.100	0.600	1.083	7.27
2002	16.000	16.100	0.800	1.106	7.09
2003	15.891	17.160	(0.109)	1.115	6.99
2004	16.189	16.561	0.298		

1 Source: BOI Annual Reports

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>06/30/07</u>
					Range
Trust Funds Bond Pool (TFBP)	99.90%	98.10%	99.24%	98.00%	95.00% - 100.00%
Short-Term Investment Pool (STIP)⁽¹⁾	0.10%	1.90%	0.76%	2.00%	0.00% - 5.00%
TOTAL FIXED INCOME	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) May Include Undistributed Income