

## **INTRODUCTION**

This policy is an aggregate for the various long-term investment accounts administered by the Montana Historical Society. The SABHRS account number and names include:

- 09017 Acquisitions Trust
- 09026 Bradley Trust
- 08024 Charles Bair Trust
- 08049 Churchill Trust
- 08242 Harriet E Miller Trust
- 08030 Haynes Collection Trust
- 09029 Merritt Wheeler Trust
- 06022 MHS Education
- 08010 Ronald Schmid Trust
- 02188 Senate Art
- 09030 Sobotka Memorial Trust
- 08062 Sobotka Trust
- 09008 Stewart Trust
- 09028 Teakle Trust

The purpose of this investment policy statement is to outline the account objectives, permissible investments, and constraints that will guide the management of the portfolio. The policy is designed to give the investment manager flexibility to achieve in a prudent manner the investment objectives of the client, the Montana Historical Society (MHS).

## **BACKGROUND INFORMATION**

The various accounts are long-term in nature. The long-term nature of the accounts is established by legislative intent, donor intent or MHS Management's intent.

## **OBJECTIVES**

A combination of distributable income and varying exposure to long-term fixed income total return will be necessary to fund expected expenditures. Additionally, non-permanent accounts will require use of principle. It will require a return in excess of the assumed risk-free rate to fund projected expenditures. The return requirements result in the following material risk exposures:

- Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair market value of investments. Generally, if interest rates go up the fair market value of the investments goes down and could result in realized losses if those investment need to be liquidated.
- Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Credit risk can be idiosyncratic, where a loss on a particular investment results from the issuer's failure to pay. It can also be systemic, when the return premium increases for investments other than U.S. Treasuries.
- Liquidity Risk – the risk that there may not be a market available to sell an investment. During times of extreme market stress, it may be difficult or impossible to sell an investment in a timely manner.

These accounts have an above average ability to assume risk. The purpose of the funds are to support the operations of the MHS. The funds are not the sole or main source of support. Principal distributions of expendable funds are not expected in the near term. A large allocation to the Trust Funds Investment Pool (TFIP) is expected. The TFIP includes the following types of investments:

- Core internally managed bonds – The investments are generally Investment Grade U.S. Treasuries, Agencies, mortgages, corporates and asset backed bonds.
- Externally managed high yield investments – The investments are generally below investment grade bonds and bank loans.
- Real estate – The investments are diversified pools of core real property in the U.S.

The risk and return objectives are best met by the asset allocation shown below. The broad range of invested status is needed to accommodate the unique needs of each account.

**ASSET ALLOCATION**  
(at market)

	<u>Ranges</u>
<b>Trust Funds Investment Pool</b>	0-100%
<b>Short-Term Investment Pool</b>	<u>0-100%</u>
<b>Total Fixed Income</b>	<u>100.0%</u>

**OTHER CONSIDERATIONS**

Time Horizon:

Most of the accounts are permanent with a long-term time horizon. The expendable accounts have uncertain time horizons but are at least three years.

Liquidity Needs:

Liquidity needs are minimal in the near term. Earnings are expected to cover expenditures for several years. No principal expenditures are expected within three years.

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 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 the duties solely in the interest of and for the benefit of the funds forming the unified investment 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.