MONTANA BOARD OF INVESTMENTS
MONTANA POLE SUPERFUND SITE SETTLEMENT FUND (MU14) (FUND 08159)
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 client, Department of Environmental Quality (DEQ), to monitor the progress of the plan.

OBJECTIVES

Return Requirement: To maximize the total rate of return through a diversified portfolio of fixed income assets. The initial cash flow schedule is based on a 5 percent total rate of return.

Current Income: Current income is important since interest earned, in addition to principal, is used to fund the cleanup program.

Risk Tolerance: This is a State special revenue fund having an average ability to assume interest rate risk. Risk tolerance will decline if long term investments have to be liquidated earlier than estimated in the cash draw down schedule. Corporate securities must be rated A3/A- or higher by Moody’s/Standard & Poor’s rating agencies to qualify for purchase by this fund. All other long-term securities will consist of direct or indirect obligations of the United States. Investments in Trust Funds Investment Pool (TFIP) will be allowed.

CONSTRAINTS

Time Horizon: This fund is considered an intermediate/long-term fund that has a time horizon beyond one year. The maximum maturity for any security purchased for this fund is 2025.

Liquidity Needs: Liquidity will be needed to fund cash draw down schedule. Short-term investments to provide liquidity will be made through the Short-Term Investment Pool (STIP). The Board will use its investment discretion to determine the approximate mix of long term investments and STIP units, considering the dates of receipt of funds and the funding needs indicated by the cash draw down schedule to be provided by DEQ.

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 its 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 its 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: The project being financed through this fund is the remediation of environmental contamination at a former wood-treating site. The nature of construction/remediation work includes the potential for cost overruns and unexpected expenses. DEQ will use its best efforts to inform the Board of Investments of any expected overruns or changes in the cash draw down schedule

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and will attempt to provide notice of such changes as much in advance as possible.

Client Preferences: Corporate securities must be rated A3/A- or higher by Moody's/Standard & Poor's rating agencies to qualify for purchase.

BACKGROUND INFORMATION

In July 1996, a Consent Decree between the DEQ, Environmental Protection Agency (EPA), Atlantic Richfield Company, Burlington Northern Railroad, Montana Resources, Inc., and others was entered in Federal Court settling portions of a cost recovery action brought by EPA against several responsible parties for the Montana Pole and Treating Plant NPL Site in Butte, Montana. The settlement involved, among other things, payment by the settling defendants (ARCO, BN, and MRI) to the State and EPA of $35.07 million over 3 years to complete the cleanup of the site. Those funds and the earnings from the investment of those funds are to be used by the State and EPA solely for the purpose of remediating hazardous substance contamination at the Montana Pole Site.

The term of the Consent Decree is initially estimated at approximately thirty years. Cost overruns for the first $6 million are to be paid by DEQ and EPA. DEQ is the lead agency for implementation & operation and maintenance of the remedial action.

The Consent Decree calls for funds to be invested by the State Board of Investment in accordance with an Investment Policy Statement mutually agreed to by EPA & DEQ, which may allow portions of the funds to be invested in certain long term investments as appropriate. The initial Investment Policy Statement is attached to the Consent Decree as Exhibit C, and shall be in effect until modified. It may be modified by the mutual agreement of EPA & DEQ through submission of an agreed upon revised Investment Policy Statement to the Board of Investments.

The State Board of Investments shall be entitled to fees, to be deducted from earnings, in accordance with the Board's standard policy on fees for investments managed by the Board. DEQ shall provide the Board at least 24 hours notice when STIP units must be liquidated to provide cash.

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.

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ASSET ALLOCATION
(at market)

U.S. Government/Agency Securities	Ranges
Domestic	0-40%
Mortgage-Backed	0-25%
Subtotal	0-65%
Corporate Securities	0-40%
Trust Funds Investment Pool (TFIP)	0-80%
Short-term Investment Pool (STIP)	0-50%
Total Fixed Income	100.0%