

**MONTANA BOARD OF INVESTMENTS
MONTANA UNIVERSITY SYSTEM
GROUP INSURANCE (MU3Q) (FUND 06008)
INVESTMENT POLICY STATEMENT**

INTRODUCTION

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 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 the funds forming the unified investment program. The Montana Constitution does not allow equity type investments. This is a new account which is the reserve for the self insured health plan for the Montana University system.

OBJECTIVES

To maximize the investment income, consistent with preservation of capital through a diversified portfolio of fixed income securities. Current income is important since interest earned is used to pay claims and expenses and fund reserves. This fund is being managed as a short-term insurance account. Risk tolerance is minimal due to high liquidity needs.

PERMITTED FIXED INCOME INVESTMENTS

- Debt obligations of the U.S. Government, including its agencies and instrumentalities. These include Treasuries, Treasury Inflation Protected Securities (TIPS) and fixed and floating rate agency obligations.
- Dollar denominated debt obligations of developed country foreign governments.
- Dollar denominated debt obligations of index-eligible supranational agencies (e.g., EIB, IFC, IADB).
- Dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) up to 2% of portfolio assets per issuer. These may include trust preferred securities and be fixed or floating rate coupon structures.
- Securitized assets, including U.S. Agency mortgage pass through securities (MBS), non-agency MBS (limited to 3% of portfolio market value in total), collateralized mortgage obligations (CMOs), commercial mortgage backed securities (CMBS), hybrid ARMS and asset backed securities.
- When-issued securities.
- Rule 144a securities.
- Medium term notes.

PROHIBITED FIXED INCOME INVESTMENTS

- Over the counter derivatives, including interest rate swaps and credit default swaps.
- Short sales and securities margin loans.
- Bank loans.
- Interest only (IO) and principal only (PO) mortgage strips.
- Companion/residual/equity tranches of CMOs or other structured securitizations.
- Capital securities (convertible from fixed to floating)
- Inverse floaters.
- Convertible bonds.

CONSTRAINTS

Fixed Income Quality: The fund may invest in STIP and high quality fixed income securities. Fixed income securities purchased must be rated at least A- or A3, at the time of purchase. Corporate credit risk will be limited to 2% in any one name.

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Term: This fund is considered a short-term fund with uncertain future liabilities. The maximum maturity for any security purchased for this fund is approximately five (5) years.

Liquidity: A minimum STIP balance of \$10 million is required.

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.

**ASSET ALLOCATION
(at market)**

<u>FIXED INCOME</u>	<u>Range</u>
Government/Agency Bonds	0-60%
Corporate Bonds	0-30%
Short-term Investment Pool (STIP)	<u>20-100%*</u>
Total Fixed Income	<u>100.0%</u>

* Subject to minimum balance of \$10 million.