

OLDER MONTANANS TRUST FUND (FUND 09025)
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 enables the sponsor, Department of Health & Human Services, 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 by the Lehman Aggregate Index over a five-year moving average.

Current income is important since it will be used to grow the fund balance.

Risk Tolerance: This is a permanent endowment; 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 total spendable return.

CONSTRAINTS

Liquidity Needs: Liquidity needs are low since income cannot be spent until the fund balance reaches \$20 million or until 2015.

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

Unique Circumstances: The endowment is not subject to appropriations.

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 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 this fund.

Client Preferences: None.

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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Background Information

SB 155 2007 Legislature

The money in the fund may be used to create new, innovative services or to expand existing services for the benefit of Montana residents 60 years of age or older that will enable those Montanans to live an independent lifestyle in the least restrictive setting and will promote the dignity of and respect for those Montanans. The department may accept contributions and gifts for the trust fund, in money or other forms, and when accepted, the contributions and gifts must be deposited in the trust fund.

Interest and income earned on money in the trust fund must be retained until January 1, 2015 unless the fund reaches the following sizes:

- (a) When the fund balance reaches \$20 million, 50% of the interest earned may be appropriated.
- (b) When the fund balance reaches \$50 million, 60% of the interest earned may be appropriated.
- (c) When the fund balance reaches \$100 million, 80% of the interest earned may be appropriated.

On and after January 1, 2015, 90% of interest earned on the trust fund may be appropriated.

The legislature provided for a transfer of funds from the Health and Medicaid Initiates account to this new trust fund.

CASH FLOW SUMMARY
(in millions)

<u>Date</u>	<u>Addition to Fund</u>	<u>Book Value</u>	<u>Market Value</u>
7/02/07	\$6.69	\$6.69	\$6.69
7/19/07	\$1.04	\$7.73	\$7.73

ASSET ALLOCATION
(at market)

<u>FIXED INCOME</u>	<u>7-30-07</u>	<u>Proposed Ranges</u>
Trust Funds Bond Pool (TFBP)	0.0%	95-100%
Short-Term Investment Pool (STIP)	<u>100.0</u>	<u>0-5</u>
Total Fixed Income	<u>100.0%</u>	<u>100.0%</u>