Legal and Constitutional Authority

The Montana Constitution, Article VIII, Section 13, requires that the Legislature provide for a Unified Investment Program for public funds. Section 17-6-201, MCA established the Unified Investment Program, created the Montana Board of Investments (the "Board") and gave the Board sole authority to invest state funds in accordance with state law and the state constitution.

Introduction

The purpose of this policy statement is to provide a broad strategic framework for the plan's investments under the guidance of the Board. Implemented July 1, 2002, the Defined Contribution Retirement Plan Disability Fund, as governed by section 19-3-2117, MCA, provides disability benefits to eligible members who elect the PERS-DCRP. The DCRP Disability Fund receives 0.3% of the employers' contribution. Montana Code Section 19-3-2141(7) states the PERS board shall establish a long-term disability plan trust fund from which disability benefit costs pursuant to this section must be paid. The trust fund must be entirely separate and distinct from the defined benefit plan trust fund.

Investment Objective

The Board's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Because of the long-term nature of the disability liabilities, the Board maintains a long-term perspective in formulating and implementing its investment policies, and in evaluating its investment performance. To meet the objective the investments will consist of the traditional long term asset classes of stocks and bonds, as further described in the asset allocation section below. The vehicles used to obtain these exposures will consist of passive funds designed to track the following broad market indices:

- Standard and Poor's 1500 Index
- MSCI All Country World ex U.S. Index
- Barclay's U.S. Aggregate Bond Index

The Short Term Investment Pool (STIP) will be used at the cash alternative.

The Board expects to meet or exceed these objectives over a long-term investment horizon. The expectation for return is reflective of the passive vehicles used in the allocation mix. The allocation mix is described below.

Asset Allocation

The Board, as the investment fiduciary of the plan, is responsible for establishing the investment parameters for the plan. The Board has the authority to allocate portfolios to any previously board-approved asset class in the proportions it considers prudent, under the prudent expert rule. There are currently no statutory or constitutional restrictions on the investment of the plan. The target asset allocation is shown in the following table:

PERS-DC Disability Plan Asset Allocation	
Stocks	50-70%
Domestic	30-50%
International	10-30%
Bonds	20-40%
Cash	5-10%

Liquidity Needs

At this time the plan is relatively young and there are few claimants receiving benefits under the plan. The plan is expected to grow as new participants are added and assets accumulate with additional contributions. Given the uncertainty of future claims, however, and given the relatively small size of the plan at this time, the cash allocation is targeted at 5-10% of the account. Liquidity needs will be met with a combination of cash on hand, and potentially sales of investments.

Rebalancing

The actual asset allocation mix may deviate on rare occasion from the approved asset allocation ranges due to unusual financial market volatility, cash flows and rebalancing activity. Also, during the initial purchase of the long term asset classes the allocation may deviate from the target range as cash is deployed, depending on market conditions. Any necessary rebalancing will be made in a timely manner and will take into consideration associated costs and current market conditions. The plan's asset allocation mix will be monitored on a regular basis and adjusted to stay within allocation guidelines, taking into consideration the deviation from the target allocation mix and current market conditions.