

**MONTANA BOARD OF INVESTMENTS
INVESTMENT POLICY STATEMENT
RESOURCE INDEMNITY TRUST FUND (FUND 09043)
APRIL 2015**

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 sponsor, Department of Revenue, 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 on Salomon Broad Bond Index and/or Lehman Aggregate Index over a five-year moving average.

Current income is important since all of the earnings are appropriated by the legislature.

Risk Tolerance: This is a permanent trust fund; 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: As a long-term, constitutional trust fund, liquidity needs are low except for investment purposes. There is no need to maintain any sizable short-term holdings, except for book value balances above \$100 million.

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

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.

Unique Circumstances: Constitutional fund with cap of \$100 million.

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.

Client Preferences: None

RESOURCE INDEMNITY TRUST FUND

History/Statutes

This fund is a constitutional trust that was established in 1973. Funding is derived from a tax on mineral extraction. Earnings from the fund are to be used to "improve the total environment and rectify damage thereto." It is the intent of the Legislature that future appropriations from the Resource Indemnity Trust interest account not be made to fund general operating expenses of state agencies. (15-38-203 M.C.A.)

15-38-202 M.C.A. provides that once the trust fund reaches \$10 million, all earnings on the trust can be appropriated. The trust reached \$10 million in 1978. Once the trust reaches \$100 million, both the interest *and* tax proceeds can be appropriated. All net earnings may be appropriated and expended and are allocated under this statute.

The fund balance reached \$100 million during FY02 and this part of the account is fully invested in the TFBP. Any remaining balance will be invested in STIP since it may be appropriated.

15-38-102 M.C.A. Legislative Policy

It is the policy of the State of Montana to indemnify its citizens for the loss of long-term value resulting from the depletion of its mineral resource base and for environmental damage caused by mineral development. This policy of indemnification is achieved by establishing a permanent Resource Indemnity Trust from the proceeds of a tax levied on mineral extraction and by allocating spendable trust revenues:

- 1) To protect and restore the environment from damages resulting from mineral development;
and
- 2) To support a variety of development programs that benefits the economy
of the state and the lives of Montana citizens.

Constitution of Montana

Article IX Section 2

"The principal of the Resource Indemnity Trust shall forever remain inviolate in the amount of one hundred million dollars (\$100,000,000.00) guaranteed by the state against loss or diversion."

**RESOURCE INDEMNITY TRUST FUND
CASH FLOW SUMMARY**

<u>Fiscal Year</u>	<u>Addition to Fund</u>	<u>Addition as % Ending Book</u>	<u>Book</u>	<u>Market</u>	<u>Total Inv. Income</u>	<u>Income Return</u>
1994	\$2.2	\$2.5	\$89.6	\$88.2	\$8.24	9.30%
1995	1.0	1.1	90.6	94.8	6.38	7.07
1996	2.2	2.4	92.8	94.7	7.96	8.68
1997	1.5	1.6	94.3	97.1	7.32	7.82
1998	1.1	1.2	95.4	102.5	7.56	7.96
1999	0.8	0.8	96.2	97.7	7.53	7.86
2000 ¹	3.2	3.2	99.4	96.8	7.20	7.36
2001	0.4	0.4	99.8	101.6	7.31	7.33
2002	1.7	1.7	101.5	104.8	7.32	7.27
2003	(1.5)	(1.5)	100.0	110.6	7.16	7.11

Source: BOI Annual Report

**ASSET ALLOCATION
(at market)**

<u>FIXED INCOME</u>	<u>6-01</u>	<u>6-02</u>	<u>6-03</u>	<u>Ranges</u>
Trust Funds Bond Pool (TFBP)	99.1%	98.6%	100.0%	95-100%
Short-Term Investment Pool (STIP)	<u>0.9</u>	<u>1.4</u>	<u>0.0</u>	<u>0-5</u>
Total Fixed Income	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

1 \$1.8 million deposit error reversed 8/14/00