

**MONTANA BOARD OF INVESTMENTS
INVESTMENT POLICY STATEMENT
SUBSEQUENT INJURY FUND (FUND 06040)
March 2003**

INTRODUCTION

The purpose of an investment policy statement is to give the investment manager guidance in developing an investment program to meet the objectives agreed upon and enable the sponsor (Department of Labor) 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 securities while producing a total rate of return which exceeds the total rate of return of the Lehman Government/Corporate 1-5 year Custom Index over any five-year rolling period.

Current Income: Current income is important since interest earned is used to fund the program.

Risk Tolerance: This fund is being managed as a short-to-intermediate term insurance account. Risk tolerance is minimal due to uncertain liquidity needs.

CONSTRAINTS

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

Liquidity Needs: Liquidity needs remain relatively high given the fund's history of large reductions in fund balance.

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: None

Client Preferences: Maintain a STIP balance of approximately \$200,000.

**SUBSEQUENT INJURY FUND
STATUTORY REFERENCE:**

MCA: 39-71-902 Fund to receive payment from insurer for each death under chapter -- assessment of insurer.

(1) In every case of the death of an employee under this chapter, the insurer shall pay to the fund the sum of \$1000. In addition, the department may assess every insurer an amount not to exceed 5% of the compensation paid in Montana in the preceding fiscal year. The assessment must be transmitted annually to the subsequent injury fund by the employer or insurer. The cost of administration of the fund must be paid out of money in the fund.

(2) When, in the judgment of the department, the amount of money in the subsequent injury fund is such that there is a surplus above and beyond projected liabilities and administrative costs, the department may at its discretion suspend or reduce further collection of assessments for a period of time determined by the department.

MCA: 39-71-907 Certified vocationally handicapped person to be compensated for injury as provided by chapter -- insurer liability for compensation limited -- appropriation.

(1) A person certified as vocationally handicapped who receives a personal injury arising out of and in the course of employment and resulting in death or disability must be paid compensation in the manner and to the extent provided in this chapter or, in case of death resulting from such injury, the compensation must be paid to the person's beneficiaries or dependents. The liability of the insurer for payment of medical and burial benefits as provided in this chapter is limited to those benefits arising from services rendered during the period of 104 weeks after the date of injury. The liability of the insurer for payment of benefits as provided in this chapter is limited to 104 weeks of compensation benefits actually paid. Thereafter, all compensation and the cost of all medical care and burial is the liability of the fund.

(2) The amount necessary for the payment of benefits from this fund are statutorily appropriated, as provided in section MCA 17-7-502 from this fund.

June 23, 1997 memo from Department of Labor: Pursuant to SB 375, the Department of Labor must transfer \$3.5 million out of the Subsequent Injury Trust Fund, accounting entity 06040, for disbursement. The transfer must be completed by September 1, 1997.

**SUBSEQUENT INJURY FUND
CASH FLOW SUMMARY
(in millions)**

| <u>Fiscal Year</u> | <u>Book Value</u> | <u>Market Value</u> | <u>Additions to Book</u> | <u>Addition as % of Ending</u> | <u>Total Investment Income</u> | <u>Income Yield</u> |
|--------------------|-------------------|---------------------|--------------------------|--------------------------------|--------------------------------|---------------------|
| 1993 | \$1.95 | \$2.07 | (\$0.12) | (6.2%) | \$0.151 | 7.51% |
| 1994 | 1.883 | 1.933 | (0.07) | (3.7) | 0.117 | 6.11 |
| 1995 | 3.906 | 4.022 | 2.02 | 51.7 | 0.233 | 8.05 |
| 1996 | 4.789 | 4.792 | 0.88 | 18.4 | 0.314 | 7.22 |
| 1997 | 4.626 | 4.640 | (0.16) | (3.5) | 0.326 | 6.92 |
| 1998 | 1.599 | 1.622 | (3.03) | (189.5) | 0.135 | N/A |
| 1999 | 1.614 | 1.602 | (0.02) | 1.2 | 0.101 | 6.29 |
| 2000 | 1.739 | 1.700 | 0.13 | 7.5 | 0.102 | 6.08 |
| 2001 | 1.528 | 1.556 | (0.21) | (13.7) | 0.105 | 6.43 |
| 2002 | 1.779 | 1.850 | 0.25 | 14.1 | 0.101 | 6.11 |
| 12-31-02 | 1.755 | 1.864 | (0.02) | (1.4) | | |

Source: BOI Annual Report

**ASSET ALLOCATION
(at market)**

| <u>FIXED INCOME</u> | <u>6-01</u> | <u>6-02</u> | <u>12-02</u> | <u>Ranges</u> |
|--|---------------|---------------|---------------|---------------|
| Government/Agency Bonds | | | | |
| Domestic | 52.5% | 53.8% | 49.2% | 25-60% |
| Corporate Bonds | | | | |
| Domestic | 40.7 | 40.4 | 39.6 | 20-50 |
| Short-Term Investment Pool (STIP) | <u>6.8</u> | <u>5.8</u> | <u>11.2</u> | <u>10-30</u> |
| Total Fixed Income | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |