

**MONTANA BOARD OF INVESTMENTS  
INVESTMENT POLICY STATEMENT  
TOBACCO TRUST FUND (FUND 09048)  
JANUARY 2003**

**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 on Salomon Broad Bond Index and/or Lehman Aggregate Index over a five-year moving average.

Ninety percent of income will be distributed to pay for health care benefits and other tobacco programs.

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**

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

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.

Unique Circumstances: Two-thirds vote of each house of the legislature is required to spend the trust. If the trust is spent, it can only be spent on specific tobacco related programs.

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

## TOBACCO TRUST FUND

### Background Information

#### 1999

Attorney generals from 46 states, five U.S. territories, and the District of Columbia sign the Master Settlement Agreement that calls for the nation's largest tobacco companies to pay at least \$205 billion over the next 25 year. Montana's share is expected to total \$920 million.

#### November 2000

Montana voters approve Constitutional Amendment 35. This amendment dedicates not less than 40 percent of the tobacco settlement to a trust fund for health care benefits, services, or coverage and tobacco disease prevention. Approximately \$12 million will be deposited into this trust fund each year beginning January 1, 2001.

#### 2001

Senate Bill 129 - Implements the Tobacco Settlement Trust Fund authorized by the Montana Constitution and establishes a special revenue fund account. Ninety percent of income earned on trust will be deposited into this special revenue account.

#### Payment dates

2001- Jan. 4, April 18, June 21 & Dec. 1  
 2002- Jan. 2, Jan. 15, April 16 & April 29

### CASH FLOW SUMMARY

<u>Fiscal Year</u>	<u>Addition to Fund</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Total Inv. Income</u>
2001	\$10.5	\$10.5	\$10.5	\$0.240
2002	12.7	23.2	23.4	0.961
12-31-02	0.1	23.3	24.3	

### ASSET ALLOCATION

(at market)

<u>FIXED INCOME</u>	<u>6-30-01</u>	<u>6-30-02</u>	<u>12-30-02</u>	<u>Ranges</u>
<b>Trust Funds Bond Pool (TFBP)</b>	99.6%	97.5%	99.7%	95-100%
<b>Short-Term Investment Pool (STIP)</b>	<u>0.4</u>	<u>2.5</u>	<u>0.3</u>	<u>0-5</u>
<b>Total Fixed Income</b>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>