

**MONTANA BOARD OF INVESTMENTS
INVESTMENT POLICY STATEMENT
UNIVERSITY OF MONTANA OPERATING FUNDS MU79**

INTRODUCTION

The purpose of this investment policy statement is to outline the account objectives, permissible investments and constraints that will guide the management of the portfolio. The policy is designed to give the investment manager guidance in developing an investment program to achieve the objectives of the client, University of Montana (UM), and to monitor the portfolio.

OBJECTIVES

Return Requirement: To maximize the income return of the portfolio by investing a portion of assets in Trust Fund Investment Pool (TFIP) and/or individual agency securities while still maintaining adequate liquidity to meet all current UM obligations. The portfolio seeks to diversify in order to maximize return at a level greater than the Short Term Investment Pool (STIP) over a 3 year period.

Risk Tolerance: This account has an average ability to assume risk. The purpose of the account is to finance University operations. However, there are significantly more funds available than are required to pay annual expenses. Cash flows are predictable and fluctuate primarily in conjunction with tuition payments during the academic year.

A portion of the portfolio is viewed as stable and may be applied to longer dated investments with modest interest rate and credit risk. This portion of the portfolio is unlikely to be required for University funding needs within five years. This portion of the portfolio will be invested in TFIP to obtain exposure to a diversified investment pool and reduce idiosyncratic risk.

The second piece of the portfolio will be invested in 1-5 year U.S. Treasury/Agency securities. This portion of the portfolio can tolerate modest interest rate risk but has a low tolerance for credit risk. The objective is to earn a rate of return greater than STIP while maintaining a certain level of liquidity and avoiding credit risk. The U.S. Treasury/Agency securities will be laddered over a maximum maturity of 5 years. The client intends to maintain adequate cash so these securities may be held to maturity. However, a laddered maturity structure will ensure that some short term securities are available for liquidation without realizing a substantial loss/gain if securities need to be sold.

The final section of the portfolio is used to fund immediate operational needs and has low tolerance for liquidity, credit and interest rate risk. This part of the portfolio will be invested in STIP. The client intends to maintain a cash balance of at least \$10 million. Cash includes both STIP and other University cash accounts.

CONSTRAINTS

Time Horizon: The maturity horizon of the portfolio is designed to maximize income while providing funds to meet annual client liabilities. The total market value of the account fluctuates throughout the year as funds are deposited and withdrawn according to student payments and business needs. Based on the average monthly assets under management (AUM) approximately 35% of the portfolio is long term, 40% is intermediate term and 25% is short term.

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Liquidity Needs: The client will provide regular reports to MBOI detailing current cash as well as expected income and expenses in order to ensure that adequate cash is available to meet current liabilities. The STIP portfolio will be used to manage immediate cash requirements. In addition, the intermediate portion of the portfolio will be invested in liquid U.S. Treasury and Agency securities that will be available for sale, if required. The intermediate segment of the portfolio will be laddered between 0-5 year securities which will provide additional near term maturities that can be used to fund operational needs.

Tax Considerations: This fund is tax-exempt; therefore, tax advantaged investments will not be used.

Legal Considerations: This Board of Investments (BOI) is governed by state regulations, specifically, the "prudent expert principle" which requires the BOI 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 solely 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.

Unique Circumstances: The University of Montana maintains a reserve fund in the event securities need to be sold at a loss. The reserve fund was approximately \$245K as of 08/06/13. These are not considered "state funds" so they don't have to be managed by the BOI. Income above a certain level is used for student scholarships.

ASSET ALLOCATION
based on average market value over the fiscal year

	<u>Ranges</u>
Trust Funds Investment Pool (TFIP)	0-40%
U.S. Treasuries/U.S. Agencies	0-45%
Short Term Investment Pool (STIP) & Cash	<u>15-100%</u>
Total	<u>100%</u>

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ADMINISTRATIVE

Securities Lending: Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, through an explicit contract, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor. From time to time, Staff or the investment manager may restrict a security from the loan program upon notification to State Street Bank. Staff will monitor the securities lending program, and the CIO will periodically report to the Board on the status of the program.

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.