

**MONTANA BOARD OF INVESTMENTS
INVESTMENT POLICY STATEMENT
UPPER CLARK FORK RIVER BASIN (UCFRB) RESERVE FUND (FUND 02200)
MAY 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 client, the Department of Justice (DOJ), to monitor the progress of the plan.

OBJECTIVES

Return Requirement: To maximize the total rate of return through a diversified portfolio of fixed income assets.

Current Income: At this time there is no need for current income.

Risk Tolerance: This is a State special revenue fund having an average ability to assume interest rate risk. Risk tolerance will decline if long-term investments have to be liquidated earlier than estimated.

CONSTRAINTS

Liquidity: Liquidity needs are low, except for investment purposes.

Time Horizon: The fund is considered a long-term fund that has a time horizon beyond one year.

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 matters 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.

The Montana Constitution does not allow equity type investments in non-retirement funds.

Unique Circumstances: The Governor is the trustee and has appointed a trustee restoration council consisting of the natural resource agency heads, his chief of staff and the Attorney General, as well as a citizen's task force to make recommendations on how to use the restoration fund.

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 Preference: None

UPPER CLARK FORK RIVER BASIN (UCFRB) RESERVE FUND BACKGROUND INFORMATION

June 1999

On April 19, 1999, a consent decree entered into between the Atlantic Richfield Company (ARCO) and the State of Montana was approved by the Court, partially settling the lawsuit, Montana v. ARCO, USDC No. CV-83-317-H-PGH. In addition to payment of litigation costs and transfer to the State of two million dollars worth of land, ARCO has agreed to pay the State \$118 million on or before July 18, 1999, plus interest from April 6, 1998. The interest to be paid by ARCO is to be based on the yield of the TFBP and the total cash payment should be approximately \$128 million. The settlement amount is for environmental damages arising from injuries to the State's natural resources in the upper Clark Fork River Basin. Under the terms of the consent decree, and as required by law, the settlement amount and the interest thereon are to be deposited in the UCFRB Restoration Fund and may be used only to restore, replace or acquire the equivalent of the natural resources which were injured as a result ARCO's and its predecessors releases of hazardous substances.

July 1999

On July 19, 1999 ARCO paid the State \$151,357,147. \$10 million was deposited into this account.

DOJ has instructed us to establish a \$10 million separate account that will include all future earnings. This money may be needed to complete the remediation of Silver Bow Creek under the Streamside Tailings Operable Unit (SSTOU) ROD and related consent decree. If this money is not needed for the SSTOU remediation, it will eventually be used for natural resource restoration. This money should be placed in long-term investments because withdrawal is not likely to occur during next 10 years.

During July we purchased \$8 million units in the Trust Fund Bond Pool (TFPB).

Since 1999

Fund was fully invested in the TFBP by November of 1999. Since that time we have been reinvesting the income back in the TFBP.

UPPER CLARK FORK RIVER BASIN (UCFRB) RESERVE FUND

**CASH FLOW SUMMARY
(in millions)**

<u>Fiscal Year</u>	<u>Addition to Fund</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Total Inv. Income</u>	<u>Income Return</u>
7/31/99		\$10.00	\$10.00		
2000	\$0.63	10.631	10.23	\$0.701	7.41%
2001	0.80	11.432	11.51	0.807	7.26
2002	0.86	12.29	12.54	0.856	7.22
2003	0.89	13.18	14.35	0.902	7.08

**ASSET ALLOCATION
(at market)**

	<u>6/01</u>	<u>6-02</u>	<u>6-03</u>	<u>Ranges</u>
U.S. Government/Agency Securities				
Domestic	0%	0%	0%	0-50%
Corporate Securities				
Domestic	0	0	0	0-30
Foreign (U.S. Pay)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0-10</u>
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0-30</u>
Trust Funds Bond Pool (TFBP)	99.4	99.8	99.8	90-100
Short-Term Investment Pool (STIP)	<u>0.6</u>	<u>0.2</u>	<u>0.2</u>	<u>0-10</u>
Total Fixed-Income	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>