

MONTANA BOARD OF INVESTMENTS
ZORTMAN/LANDUSKY LONG TERM WATER TRUST (MU67) (FUND 09005)
INVESTMENT POLICY STATEMENT

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 Environmental Quality (DEQ), to monitor the progress of the plan.

OBJECTIVES

Return Requirement: To purchase securities that will have a value of \$19.3 million by January 1, 2018.

Risk Tolerance: Credit risk is low. U.S. Treasury and U.S. Agency STRIPS securities are the best investment choice to eliminate reinvestment rate risk and to minimize credit risk.

CONSTRAINTS

Liquidity: None until the year 2018.

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: None

Client Preference: None

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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.

BACKGROUND INFORMATION

HB 379 (2005 Legislature)- Established a long-term trust on July 1, 2005:

(11) (A) BEGINNING IN THE FISCAL YEAR THAT COMMENCES JULY 1, 2005, THE DEPARTMENT SHALL TRANSFER FROM THE ORPHAN SHARE ACCOUNT TO THE LONG-TERM OR PERPETUAL WATER TREATMENT PERMANENT TRUST FUND PROVIDED FOR IN [SECTION 1] \$1.2 MILLION IN EACH FISCAL YEAR UNTIL THE BOARD OF INVESTMENTS MAKES THE CERTIFICATION PURSUANT TO SUBSECTION (11)(B) OF THIS SECTION.

(B) (I) THE BOARD OF INVESTMENTS SHALL MONITOR THE LONG-TERM OR PERPETUAL WATER TREATMENT PERMANENT TRUST FUND PROVIDED FOR IN [SECTION 1] TO DETERMINE WHEN THE AMOUNT OF MONEY IN THE LONG-TERM OR PERPETUAL WATER TREATMENT PERMANENT TRUST FUND WILL BE SUFFICIENT, WITH FUTURE EARNINGS, TO PROVIDE A FUND BALANCE OF \$19.3 MILLION ON JANUARY 1, 2018.

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(II) WHEN THE BOARD OF INVESTMENTS MAKES THE DETERMINATION, PURSUANT TO SUBSECTION (11)(B)(I), THE BOARD OF INVESTMENTS SHALL NOTIFY THE DEPARTMENT AND CERTIFY TO THE DEPARTMENT THE AMOUNT OF MONEY, IF ANY, THAT MUST BE TRANSFERRED DURING THE FISCAL YEAR IN WHICH THE BOARD OF INVESTMENTS MAKES ITS DETERMINATION, PURSUANT TO SUBSECTION (11)(B)(I), IN ORDER TO PROVIDE A FUND BALANCE OF \$19.3 MILLION ON JANUARY 1, 2018.

(III) IN THE FISCAL YEAR THAT THE BOARD OF INVESTMENTS MAKES ITS DETERMINATION AND NOTIFIES THE DEPARTMENT, THE DEPARTMENT SHALL TRANSFER ONLY THE AMOUNT CERTIFIED BY THE BOARD OF INVESTMENTS, IF ANY, AND MAY NOT MAKE ADDITIONAL TRANSFERS DURING SUBSEQUENT FISCAL YEARS."

**ASSET ALLOCATION
(at market)**

<u>FIXED INCOME</u>	<u>7/01/05</u>	<u>Ranges</u>
U.S. Government/Agency Securities	0.0%	90-100%
Short-Term Investment Pool (STIP)	<u>100.0</u>	<u>0-10</u>
Total Fixed-Income	<u>100.0%</u>	<u>100.0%</u>