Return to Agenda

Call to Order

REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE
2401 Colonial Drive, 3rd Floor
Helena, Montana
April 7, 2015

AGENDA

LOAN COMMITTEE

A. Public Comment – *Public Comment on issues with Committee Jurisdiction*
B. INTERCAP **8:30 AM**
   1. Loan Increase ***– Decision***
   2. Loan Requests ***– Decision***

Tab 1 CALL TO ORDER – Mark Noennig, Chairman **8:45 AM**

A. Roll Call
B. Public Comment – *Public Comment on issues with Board Jurisdiction*
C. Approval of the February 2015 Regular Meeting Minutes – ***Decision***
D. Recognition of Exemplary Customer Service from Mr. Kulow
E. Administrative Business
   1. Loan Committee Report – ***Decision***
F. Comments from TRS and PERS Board Members
G. Comments from Board Legislative Liaisons

Tab 2 ASSET ALLOCATION & CAPITAL MARKET ASSUMPTIONS – RVK, Inc. **9:00 AM**

BREAK **10:20 AM**

Tab 3 CLIENT SURVEY & BEST PRACTICES – RVK, Inc. **10:35 AM**

Tab 4 EXECUTIVE DIRECTOR REPORTS – David Ewer **11:20 PM**

A. Member Requests or Follow up from Prior Meeting
B. Monthly Snapshot
C. 2015 Legislative Update
D. Custodial Bank Contract Update
E. Securities Lending – Cash Collateral Update
F. Board Education – Matters of Interest

LUNCH SERVED **11:40 AM**

Tab 5 ALL POLICY REVIEW – STAFF – *Decision* **12:25 PM**

BREAK **1:25 PM**

Tab 6 BOARD AS A RATED CREDIT – Louise Welsh **1:40 PM**

Tab 7 IN-STATE LOAN PROGRAM – Herb Kulow, MCMB **2:25 PM**

RECAP OF STAFF TO DO LIST AND ADJOURNMENT – Mark Noennig, Chairman **2:50 PM**

ADJOURNMENT

Appendix

A. 2015 Board Meeting Schedule
B. Systematic Work and Education Plan
C. Acronym Index
D. Terminology List
E. Public Market Manager Evaluation Policy
F. Educational Resources

The Board of Investments makes reasonable accommodations for any known disability that may interfere with a person's ability to participate in public meetings. Persons needing an accommodation must notify the Board (call 444-0001 or write to P.O. Box 200126, Helena, Montana 59620) no later than three days prior to the meeting to allow adequate time to make needed arrangements.

Return to Agenda

Asset Allocation

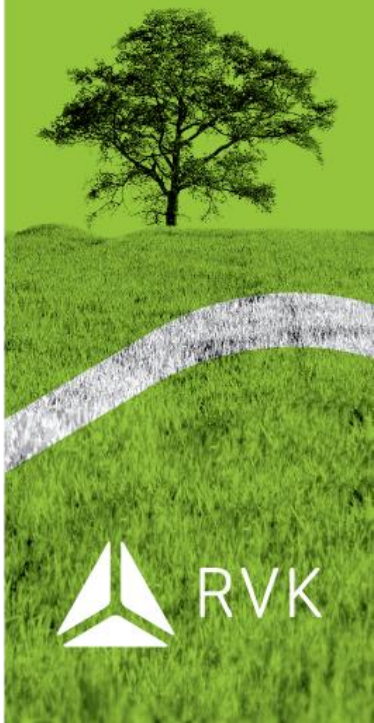
April 2015

Montana Board of Investments

Asset Allocation Study & Capital Markets Assumptions

Table of Contents

- Capital Markets Assumptions 1
- Importance of Asset Allocation 5
- Asset Allocation Process 9
- Asset Allocation Study 15



Capital Market Assumptions

Capital Market Assumptions

What are they?

Capital Market (CM) assumptions are forward-looking estimates of the behavior of asset classes.

- The asset class behaviors that we attempt to estimate in our CM assumptions – **risk**, **return** and **correlation** – are widely accepted as the most powerful drivers of the total fund return over the long run.

- Forecast Horizon: Economic forecasts typically center around 12 months. CM forecasts are virtually never less than three years, and even forecasts of five years are rare. Typically, the outlook is 10 years or more.

- We deploy a team of RVK professionals each year to focus on each asset class and we ensure that all of our consultants formally review, critique, and ultimately support our CM assumptions.

Capital Market Assumptions

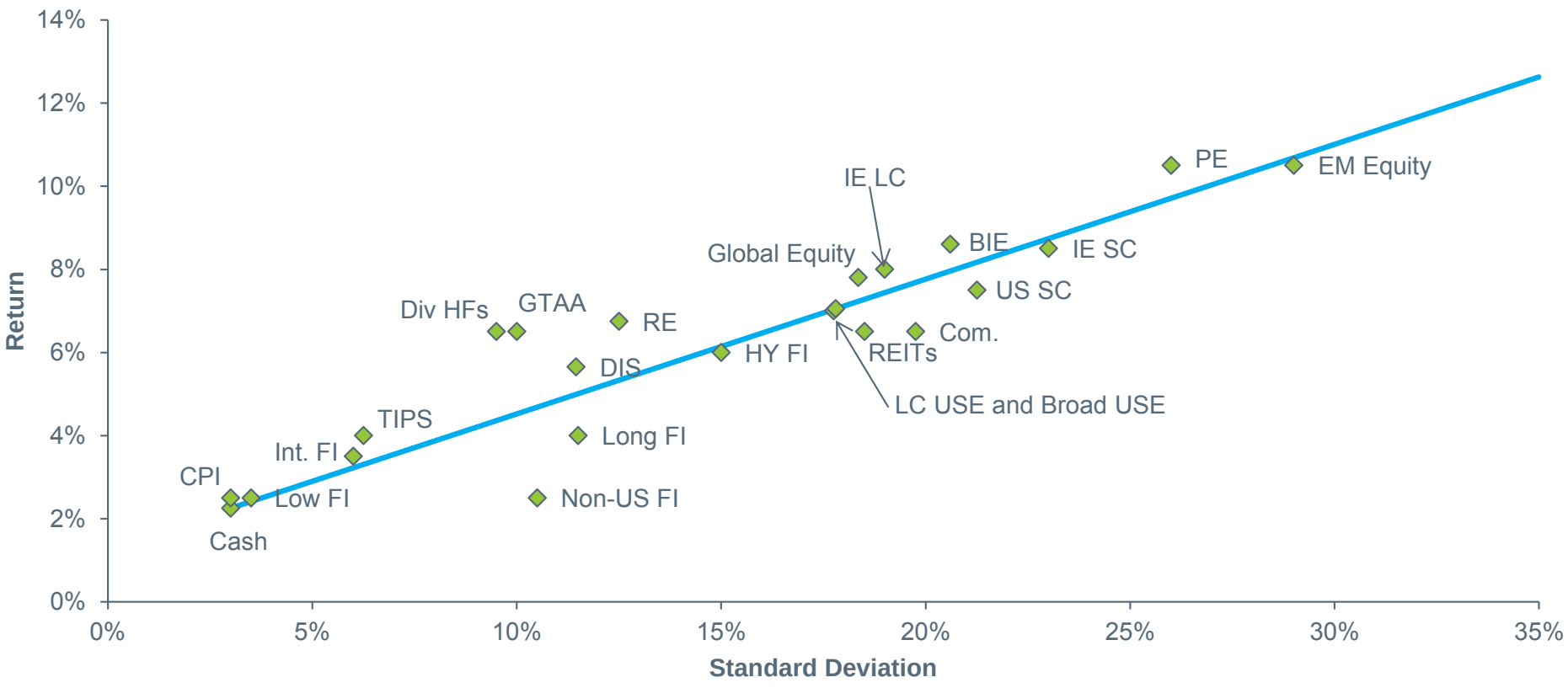
2015 RVK Asset Allocation Assumptions

	2014			2015			Change (2015 vs. 2014)		
Asset Class	Return (Arithmetic)	Standard Deviation	Return (Compound)	Return (Arithmetic)	Standard Deviation	Return (Compound)	Return (Arithmetic)	Standard Deviation	Return (Compound)
Global Equity	7.90%	18.35%	6.37%	7.80%	18.35%	6.27%	-0.10%	0.00%	-0.10%
Large/Mid Cap US Equity	7.25%	17.75%	5.81%	7.00%	17.75%	5.56%	-0.25%	0.00%	-0.25%
Small Cap US Equity	7.75%	21.25%	5.71%	7.50%	21.25%	5.46%	-0.25%	0.00%	-0.25%
Broad US Equity	7.30%	17.80%	5.85%	7.05%	17.80%	5.60%	-0.25%	0.00%	-0.25%
Dev'd Large/Mid Cap Int'l Equity	8.00%	19.00%	6.37%	8.00%	19.00%	6.37%	0.00%	0.00%	0.00%
Dev'd Small Cap Int'l Equity	8.50%	23.00%	6.14%	8.50%	23.00%	6.14%	0.00%	0.00%	0.00%
Emerging Markets Equity	10.50%	29.00%	6.88%	10.50%	29.00%	6.88%	0.00%	0.00%	0.00%
Broad International Equity	8.55%	20.55%	6.66%	8.60%	20.60%	6.70%	0.05%	0.05%	0.04%
Intermediate Duration Fixed Income	4.00%	6.00%	3.83%	3.50%	6.00%	3.33%	-0.50%	0.00%	-0.50%
Non-US Dev'd Sovereign Fixed Income UH	3.25%	10.25%	2.74%	2.50%	10.50%	1.97%	-0.75%	0.25%	-0.78%
TIPS	4.00%	6.25%	3.81%	4.00%	6.25%	3.81%	0.00%	0.00%	0.00%
Low Duration Fixed Income	2.50%	3.50%	2.44%	2.50%	3.50%	2.44%	0.00%	0.00%	0.00%
Long Duration Fixed Income	5.00%	11.50%	4.38%	4.00%	11.50%	3.37%	-1.00%	0.00%	-1.01%
High Yield	5.75%	15.00%	4.70%	6.00%	15.00%	4.95%	0.25%	0.00%	0.25%
Core Real Estate	7.00%	12.50%	6.28%	6.75%	12.50%	6.03%	-0.25%	0.00%	-0.25%
Global REITs	7.00%	18.25%	5.48%	6.50%	18.50%	4.93%	-0.50%	0.25%	-0.55%
Diversified Hedge Funds	6.75%	9.75%	6.31%	6.50%	9.50%	6.08%	-0.25%	-0.25%	-0.23%
GTAA	6.50%	10.00%	6.03%	6.50%	10.00%	6.03%	0.00%	0.00%	0.00%
Private Equity	11.00%	29.00%	7.40%	10.50%	26.00%	7.56%	-0.50%	-3.00%	0.17%
Commodities	7.00%	19.75%	5.22%	6.50%	19.75%	4.71%	-0.50%	0.00%	-0.51%
Diversified Inflation Strategies	6.00%	11.50%	5.38%	5.65%	11.45%	5.03%	-0.35%	-0.05%	-0.35%
Cash Equivalents	2.25%	3.00%	2.21%	2.25%	3.00%	2.21%	0.00%	0.00%	0.00%
US Inflation	2.50%	3.00%	2.46%	2.50%	3.00%	2.46%	0.00%	0.00%	0.00%

RVK

Capital Markets Assumptions

2015 RVK Capital Markets Line



RVK

Importance of Asset Allocation

Importance of Asset Allocation

Long Term Performance

Strategic asset allocation is the most powerful determinant of total fund performance in the long run. While good manager evaluation decisions will unquestionably add to performance, they cannot make up for a poorly diversified and/or inefficient allocation.

Hypothetical Scenario

- $1 billion Fund with a Policy Target Allocation of 50% domestic equities (S&P 500) and 50% domestic fixed income (Barclays Aggregate).
- Assume the Fund was overweight equities by 5%; actual portfolio is 55%/45%.
- 2008 annual returns: -37% (S&P 500) and 5% (Barclays Aggregate).

Result

- **Additional loss of $21 million due to equity overweight.**
  - Rather than a loss of $179 million (50%/50% Policy), the Fund would have experienced a loss of $200 million (55%/45% actual).
- In order for the Fund to make up for the additional $21 million loss, the **equity managers would have needed to outperform the S&P 500 Index by approximately 4% during 2008.**

	Policy Allocation	Actual Allocation
January 1, 2008 Value	$1,000,000,000	$1,000,000,000
December 31, 2008 Value	$820,597,861	$799,774,897
Investment Loss	$179,402,139	$200,225,103
Additional Loss Due to Equity Overweight	**$20,822,964**	

Importance of Asset Allocation

Long Term Performance

Multiple studies calculated the effects of asset allocation on portfolio returns and concluded that asset allocation "drives" portfolio return.

Asset Allocation Explains:

100% of Return Amount Over Time

- Study found that Funds making timing and selection bets against their long-term policy mix were unsuccessful in adding significant value by engaging in timing and/or manager selection.

90% of Return Variability Over Time

- Study concluded that roughly 90% of the movement of a Fund's total return was explained by target policy fluctuation.

Source: Ibbotson, Roger G. and Paul D. Kaplan, 2000. "Does Asset Allocation Policy Explain 40%, 90%, or 100% of Performance?" Financial Analysts Journal. January/February 2000, Vol.56, No.1, pp.26-33.

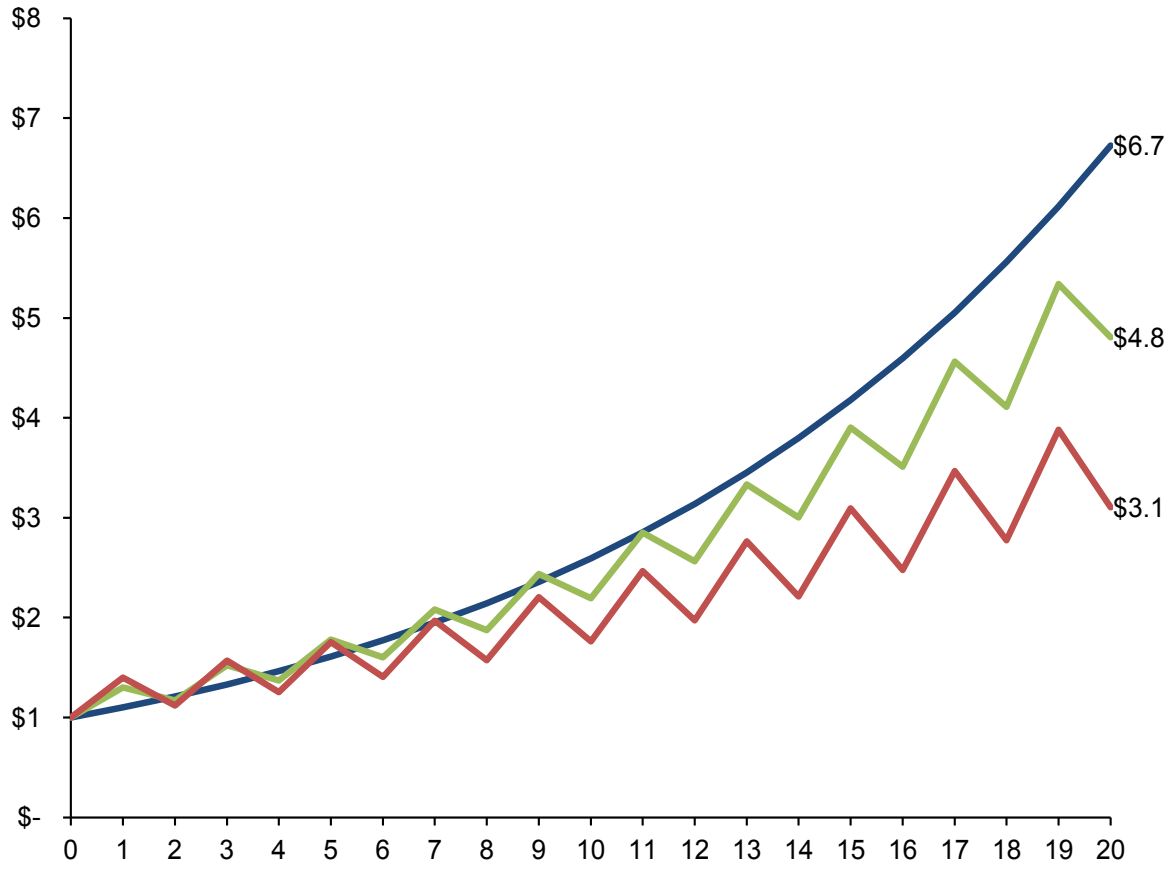
Importance of Asset Allocation

Impact of Risk on Return

Years	1	2	3
1	10%	30%	40%
2	10%	-10%	-20%
3	10%	30%	40%
4	10%	-10%	-20%
5	10%	30%	40%
6	10%	-10%	-20%
7	10%	30%	40%
8	10%	-10%	-20%
9	10%	30%	40%
10	10%	-10%	-20%
11	10%	30%	40%
12	10%	-10%	-20%
13	10%	30%	40%
14	10%	-10%	-20%
15	10%	30%	40%
16	10%	-10%	-20%
17	10%	30%	40%
18	10%	-10%	-20%
19	10%	30%	40%
20	10%	-10%	-20%

Average	10%	10%	10%

Standard Deviation	0%	21%	31%



- All portfolios start with $1 million.
- After 20 years, the difference of 31% standard deviation is $3.6 million.

Asset Allocation Process

Asset Allocation Process

Mean Variance Optimization – Background

Using inputs of expected return, volatility, and correlation, MVO enables investors to identify combinations of distinct asset class allocations that maximize portfolio returns for a given level of risk. Attempts to shift focus from individual manager selection to long-term and strategic asset allocation decisions.

MVO Benefits

- Introduces the critical concept of diversification, which encourages investors to avoid concentrating risk in a small subset of assets or asset classes, especially closely related (highly-correlated) ones.

- Focuses portfolio management activities on asset allocation, which is the most important driver of overall portfolio risk and return.

- Provides a powerful quantitative tool to identify distinct asset allocation targets that have the most optimal risk/return tradeoffs.

Asset Allocation Process

Mean Variance Optimization – Background

MVO Shortcomings

- Simplified assumption of risk/return trade-off fails to capture fully how real world investors weight gains versus losses (i.e., do losses matter more than gains?)
- Volatility is viewed as the only proxy for risk.
- Correlation is treated as static rather than dynamic.
- Models are sometimes highly sensitive to small changes to input values (“robustness”).
- Unconstrained output yields highly concentrated portfolios rather than the expected diversification.

Asset Allocation Process

Mean Variance Optimization – Key Inputs

RVK Assumptions vs. Longest Historical Time Frame

Asset Class	Arithmetic Return Assumption	Standard Deviation Assumption	Index	Longest Historical Time Frame	Annualized Arithmetic Return	Annualized Standard Deviation
Large/Mid Cap US Equity	7.00	17.76	S&P 500 (Cap Wtd)	Jan 1926 - Dec 2014	11.45	18.90
Small Cap US Equity	7.50	21.32	Russell 2000	Jan 1979 - Dec 2014	13.25	19.64
Broad US Equity	7.05	17.82	Russell 3000	Jan 1979 - Dec 2014	12.62	15.45
Dev'd Large/Mid Int'l Equity	8.00	19.05	MSCI EAFE (Gross)	Jan 1970 - Dec 2014	10.74	17.08
Dev'd Small Int'l Equity	8.50	23.00	MSCI EAFE Small Cap (Gross)	Jan 1999 - Dec 2014	9.77	18.53
Emerging Markets Equity	10.50	29.03	MSCI Emg Mkts (Gross)	Jan 1988 - Dec 2014	13.79	23.38
Broad International Equity	8.60	20.64	MSCI ACW Ex US IMI (Gross)	Jun 1994 - Dec 2014	6.78	16.97
Int. Duration Fixed Income	3.50	6.00	Barclays US Agg Bond	Jan 1976 - Dec 2014	7.74	5.46
Non-US Dev'd Sov'n Fixed Income UH	2.50	10.52	Citi Non-US Wrld Gov't Bond	Jan 1985 - Dec 2014	8.38	9.63
High Yield Fixed Income	6.00	15.06	Barclays US Corp: Hi Yld	Jul 1983 - Dec 2014	9.24	8.49
Core Real Estate	6.75	12.83	NCREIF ODCE (Gross) (AWA)	Jan 1978 - Dec 2014 (Q)	8.47	5.46
Non-Core Real Estate	9.75	22.93	Custom Non-Core RE Index*	Apr 1989 - Sep 2014 (Q)	7.82	9.21
Private Equity	10.50	26.10	Cambridge US Private Equity Index	Apr 1986 - Jun 2014 (Q)	13.65	9.63
Timber	11.24	19.11	NCREIF Timberland	Apr 1987 - Dec 2014 (Q)	12.62	8.07
Cash Equivalents	2.25	3.00	BofA ML 3 Mo US T-Bill	Jan 1978 - Dec 2014	5.24	1.15

Correlations

	Large/Mid Cap US Equity	Small Cap US Equity	Broad US Equity	Dev'd Large/Mid Int'l Equity	Dev'd Small Int'l Equity	Emerging Markets Equity	Broad International Equity	Int. Duration Fixed Income	Non-US Dev'd Sov'n Fixed Income UH	High Yield Fixed Income	Core Real Estate	Non-Core Real Estate	Private Equity	Timber	Cash Equivalents
Large/Mid Cap US Equity	1.00	0.84	0.99	0.82	0.76	0.74	0.83	0.17	0.07	0.60	0.22	0.19	0.72	0.57	0.02
Small Cap US Equity	0.84	1.00	0.89	0.74	0.74	0.72	0.77	0.07	0.01	0.62	0.19	0.14	0.68	0.57	0.01
Broad US Equity	0.99	0.89	1.00	0.83	0.78	0.76	0.84	0.15	0.06	0.62	0.23	0.18	0.74	0.58	0.02
Dev'd Large/Mid Int'l Equity	0.82	0.74	0.83	1.00	0.92	0.80	0.98	0.01	0.33	0.65	0.28	0.17	0.74	0.55	0.05
Dev'd Small Int'l Equity	0.76	0.74	0.78	0.92	1.00	0.85	0.94	0.05	0.38	0.70	0.34	0.21	0.69	0.63	0.10
Emerging Markets Equity	0.74	0.72	0.76	0.80	0.85	1.00	0.88	0.02	0.18	0.65	0.23	0.14	0.65	0.59	0.08
Broad International Equity	0.83	0.77	0.84	0.98	0.94	0.88	1.00	0.01	0.33	0.68	0.31	0.19	0.73	0.61	0.07
Int. Duration Fixed Income	0.17	0.07	0.15	0.01	0.05	0.02	0.01	1.00	0.42	0.28	0.06	0.06	0.26	0.14	0.24
Non-US Dev'd Sov'n Fixed Income UH	0.07	0.01	0.06	0.33	0.38	0.18	0.33	0.42	1.00	0.12	0.03	0.09	0.16	0.13	0.14
High Yield Fixed Income	0.60	0.62	0.62	0.65	0.70	0.65	0.68	0.28	0.12	1.00	0.13	0.09	0.50	0.49	0.03
Core Real Estate	0.22	0.19	0.23	0.28	0.34	0.23	0.31	0.06	0.03	0.13	1.00	0.88	0.56	0.80	0.14
Non-Core Real Estate	0.19	0.14	0.18	0.17	0.21	0.14	0.19	0.06	0.09	0.09	0.88	1.00	0.50	0.82	0.00
Private Equity	0.72	0.68	0.74	0.74	0.69	0.65	0.73	0.26	0.16	0.50	0.56	0.50	1.00	0.62	0.07
Timber	0.57	0.57	0.58	0.55	0.63	0.59	0.61	0.14	0.13	0.49	0.80	0.82	0.62	1.00	0.01
Cash Equivalents	0.02	0.01	0.02	0.05	0.10	0.08	0.07	0.24	0.14	0.03	0.14	0.00	0.07	0.01	1.00

RVK

Asset Allocation Process

Mean Variance Optimization – Key Inputs

Assumptions are Generally Passive

- Index data is used to construct capital markets assumptions, both return and risk figures.
- Asset classes such as Absolute Return and Real Estate utilize peer group indexes, as investable market indexes do not exist.
- The active management component of forward-looking assumption is addressed at the asset class using a slightly different, but related approach.
- As the most important factor for long-term returns is asset allocation targets, using passive assumptions is more reliable during the portfolio construction process.

Inflation Assumption

- RVK's current long-term inflation assumption is 2.50%.

Asset Allocation Process

Summary

- Asset allocation “drives” portfolio return; academic studies suggest that 85-95% of long term results can be attributed to strategic asset allocation decisions.
- Institutional decision makers should devote more effort setting an appropriate strategic asset allocation than to manager evaluation.
- Asset allocation decision making is an exercise in uncertainty as it involves making judgments about magnitude and patterns of future returns and risk.
- The basic framework of Mean Variance Optimization (MVO), combined with appropriate forward-looking capital markets research, provides a structured approach to assisting with asset allocation decisions.

Asset Allocation Study

Efficient Portfolios

Current Ranges

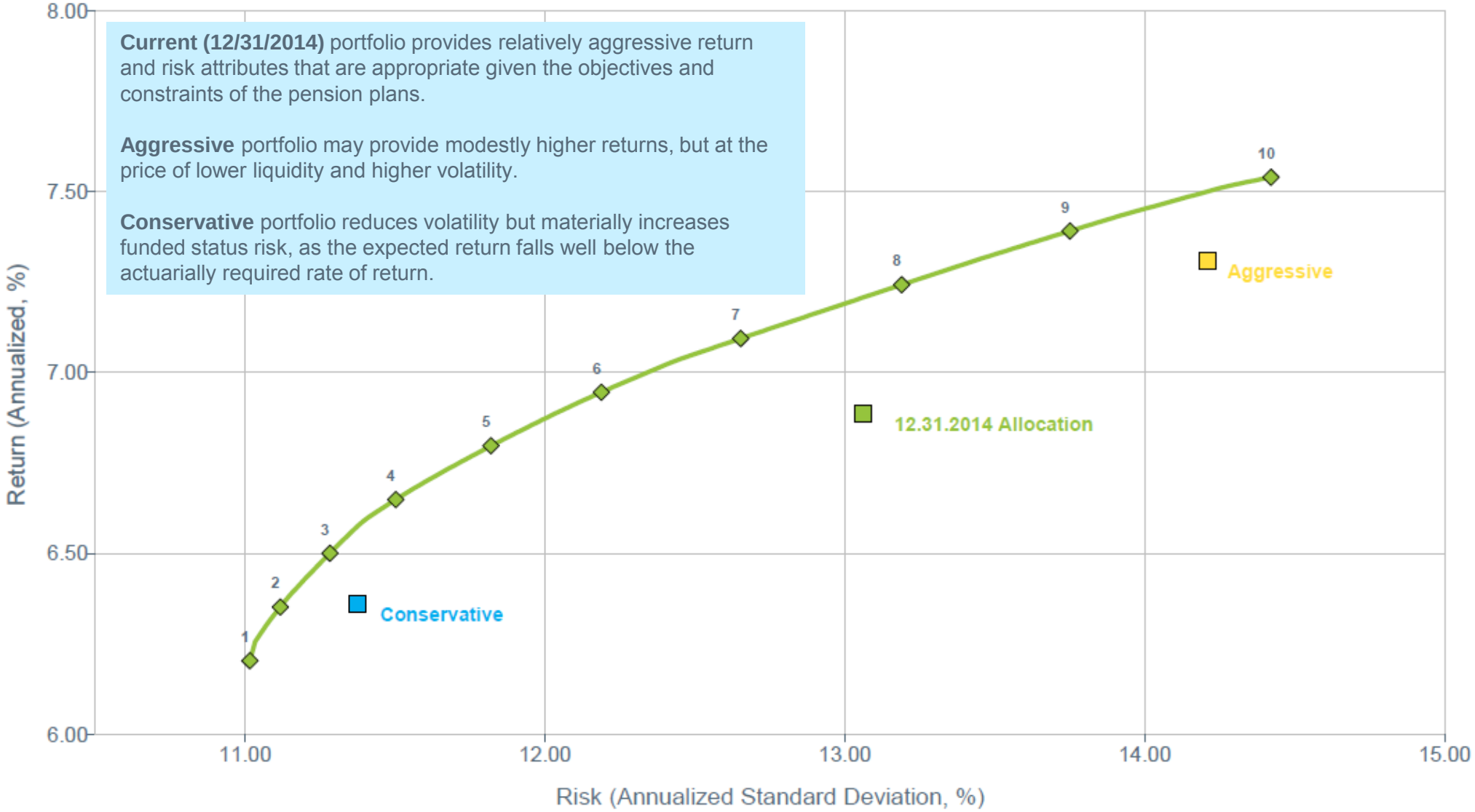
	Min	Max	1	2	3	4	5	6	7	8	9	10	12.31.2014 Allocation	Conservative	Aggressive
Large/Mid Cap US Equity	**24.5**	**50**	33	28	27	25	25	25	25	25	25	25	**37.6**	**34**	**27**
Small Cap US Equity	**0**	**10**	0	0	1	4	4	4	4	4	4	6	**2.7**	**0**	**7**
Dev'd Large/Mid Int'l Equity	**7**	**30**	16	21	21	21	15	9	10	14	15	10	**14**	**12**	**15**
Dev'd Small Int'l Equity	**0**	**5**	0	0	0	0	0	0	0	0	0	5	**1.7**	**0**	**1**
Emerging Markets Equity	**0**	**7**	0	0	0	0	2	6	7	7	7	7	**0.4**	**3**	**6**
Int. Duration Fixed Income	**14**	**32**	30	30	30	30	30	30	29	25	21	17	**20.7**	**28**	**17**
Non-US Dev'd Sov'n Fixed Income UH	**0**	**3**	0	0	0	0	0	0	0	0	0	0	**0**	**1**	**1.5**
High Yield Fixed Income	**0**	**5**	0	0	0	0	0	0	0	0	3	5	**1.7**	**1**	**3.5**
Core Real Estate	**1.5**	**6.5**	6	3	2	2	2	2	2	2	2	2	**3.3**	**3.5**	**1.5**
Non-Core Real Estate	**1**	**7.5**	1	4	7	8	8	8	7	7	7	7	**4.3**	**3**	**5**
Private Equity	**9**	**15**	9	9	9	9	13	15	15	15	15	15	**10.8**	**9**	**14**
Timber	**0**	**2**	0	0	0	1	1	1	2	2	2	2	**1**	**0.5**	**0.5**
Cash Equivalents	**1**	**5**	5	5	4	2	2	2	1	1	1	1	**2**	**5**	**1**
Total			100	100	100	100	100	100	100	100	100	100	100	100	100
Total Public Equity			49	49	49	50	46	44	46	50	51	53	56.4	49	56
Capital Appreciation			59	62	65	66	66	66	67	70	75	79	73	62	79
Capital Preservation			35	35	34	32	32	32	30	26	22	18	23	34	20
Alpha			0	0	0	0	0	0	0	0	0	0	0	0	0
Inflation			6	3	2	2	2	2	2	2	2	2	3	4	2
Expected Return			**6.2**	**6.35**	**6.5**	**6.65**	**6.8**	**6.95**	**7.09**	**7.24**	**7.39**	**7.54**	**6.89**	**6.36**	**7.31**
Risk (Standard Deviation)			**11.02**	**11.12**	**11.28**	**11.5**	**11.82**	**12.19**	**12.65**	**13.19**	**13.75**	**14.42**	**13.06**	**11.38**	**14.21**
Return (Compound)			5.63	5.77	5.91	6.04	6.15	6.26	6.35	6.44	6.52	6.59	6.1	5.76	6.38
Return/Risk Ratio			0.56	0.57	0.58	0.58	0.58	0.57	0.56	0.55	0.54	0.52	0.53	0.56	0.51
RVK Expected Eq Beta (LCUS Eq = 1)			0.6	0.6	0.6	0.6	0.62	0.63	0.65	0.68	0.71	0.74	0.7	0.61	0.75
RVK Liquidity Metric (T-Bills = 100)			78	77	76	74	70	68	68	68	67	67	74	77	70

Total Equities have a range from 58% to 72%. Total Domestic Equity has a range from 28% to 44%. Total International Equity has a range from 14% to 22%. Total Fixed Income has a range from 22% to 30%. Total Real Estate has a range of 6% to 10%.

RVK

Efficient Frontier

Current Ranges



Current (12/31/2014) portfolio provides relatively aggressive return and risk attributes that are appropriate given the objectives and constraints of the pension plans.

Aggressive portfolio may provide modestly higher returns, but at the price of lower liquidity and higher volatility.

Conservative portfolio reduces volatility but materially increases funded status risk, as the expected return falls well below the actuarially required rate of return.

RVK

Efficient Portfolios

Broad Ranges

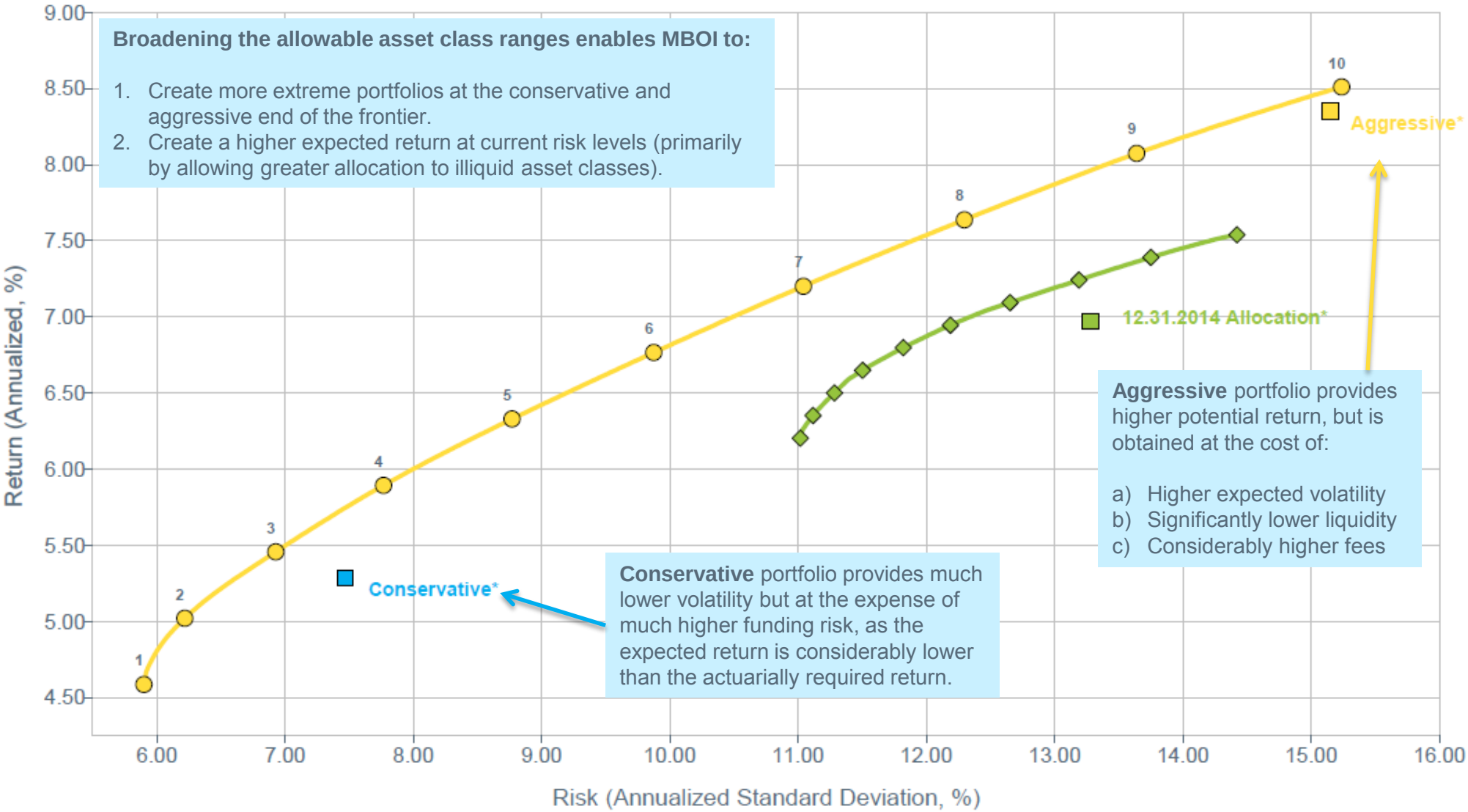
	Min	Max	1	2	3	4	5	6	7	8	9	10	12.31.2014 Allocation*	Conservative*	Aggressive*
Broad US Equity	**10**	**50**	10	10	10	10	10	10	10	10	10	10	**40.2**	**15**	**10**
Broad International Equity	**10**	**50**	10	10	10	10	11	15	19	23	24	19	**16.1**	**15**	**23**
Int. Duration Fixed Income	**15**	**75**	66	59	52	51	45	39	31	21	15	15	**20.7**	**55**	**15**
High Yield Fixed Income	**0**	**10**	0	0	0	0	0	0	0	0	0	0	**1.7**	**0**	**1**
Core Real Estate	**0**	**10**	9	10	10	10	9	4	5	10	9	0	**3.3**	**5**	**0**
Non-Core Real Estate	**0**	**25**	0	6	9	11	16	22	25	25	25	25	**4.3**	**0**	**25**
Private Equity	**0**	**25**	0	0	0	2	4	4	4	5	11	25	**10.8**	**0**	**25**
Timber	**0**	**5**	0	0	3	5	5	5	5	5	5	5	**1**	**5**	**0**
Cash Equivalents	**1**	**5**	5	5	5	1	1	1	1	1	1	1	**2**	**5**	**1**
Total			100	100	100	100	100	100	100	100	100	100	100	100	100
Total Public Equity			20	20	20	20	21	25	29	33	34	29	56.3	30	33
Capital Appreciation			20	26	29	33	40	51	58	63	70	79	73	30	84
Capital Preservation			71	64	57	52	46	40	32	22	16	16	23	60	16
Alpha			0	0	0	0	0	0	0	0	0	0	0	0	0
Inflation			9	10	10	10	9	4	5	10	9	0	3	5	0
Expected Return			**4.58**	**5.02**	**5.46**	**5.89**	**6.33**	**6.77**	**7.2**	**7.64**	**8.07**	**8.51**	**6.97**	**5.28**	**8.35**
Risk (Standard Deviation)			**5.9**	**6.22**	**6.93**	**7.77**	**8.77**	**9.87**	**11.04**	**12.3**	**13.64**	**15.24**	**13.28**	**7.47**	**15.15**
Return (Compound)			4.41	4.84	5.23	5.61	5.97	6.32	6.64	6.94	7.22	7.46	6.16	5.02	7.31
Return/Risk Ratio			0.78	0.81	0.79	0.76	0.72	0.69	0.65	0.62	0.59	0.56	0.52	0.71	0.55
RVK Expected Eq Beta (LCUS Eq = 1)			0.25	0.26	0.26	0.29	0.32	0.37	0.41	0.46	0.53	0.62	0.7	0.33	0.66
RVK Liquidity Metric (T-Bills = 100)			82	76	71	66	61	60	57	53	49	43	75	81	47

*Used to differentiate different model portfolios with the same name.

RVK

Efficient Frontier

Broad Ranges



*Used to differentiate different model portfolios with the same name.

RVK

Monte Carlo Simulation Results

Current Ranges

1 Year	1	2	3	4	5	6	7	8	9	10	12.31.2014 Allocation	Conservative	Aggressive
Target 0%	73	74	74	74	74	75	74	73	73	72	72	73	72
Target 2%	67	67	67	68	68	68	68	68	67	67	66	67	66
Target 4%	59	60	60	60	61	61	61	61	61	61	60	60	61
Target 6%	52	52	53	53	54	54	54	55	55	55	53	52	55
Target 7.75%	**45**	**45**	**46**	**47**	**47**	**48**	**48**	**49**	**49**	**50**	**48**	**46**	**49**
Target 10%	36	37	38	38	39	40	41	42	42	43	40	37	42
3 Years													
Target 0%	83	83	83	83	83	84	83	82	82	81	81	83	80
Target 2%	74	74	75	75	76	76	75	75	75	74	73	74	73
Target 4%	63	64	64	65	65	66	66	66	66	66	64	63	65
Target 6%	50	51	52	53	54	54	55	55	56	56	53	51	55
Target 7.75%	**40**	**40**	**41**	**42**	**43**	**44**	**45**	**46**	**46**	**47**	**44**	**41**	**46**
Target 10%	26	27	28	29	30	31	33	34	35	36	32	27	35
5 Years													
Target 0%	87	88	88	88	88	88	87	87	86	85	85	87	85
Target 2%	78	78	79	79	79	80	79	79	79	78	77	78	77
Target 4%	65	66	66	67	68	68	68	69	69	68	66	65	67
Target 6%	49	51	52	53	54	54	55	56	56	56	53	50	55
Target 7.75%	**35**	**37**	**38**	**39**	**40**	**42**	**43**	**44**	**45**	**45**	**41**	**37**	**44**
Target 10%	20	21	22	23	24	25	27	29	30	31	27	21	30
10 Years													
Target 0%	93	93	93	93	94	94	93	93	92	91	91	93	91
Target 2%	84	85	85	85	86	86	86	85	85	84	83	84	83
Target 4%	68	70	71	71	73	73	73	73	73	73	70	69	71
Target 6%	47	49	51	52	54	55	55	56	57	57	52	49	55
Target 7.75%	**28**	**30**	**31**	**33**	**34**	**36**	**37**	**38**	**40**	**41**	**35**	**30**	**39**
Target 10%	11	12	13	15	16	17	18	20	21	23	18	13	22

RVK

Monte Carlo Simulation

Current Ranges

- Each portfolio presents minimal trade-offs due to narrow constraints.
- All portfolios provide a reasonable probability of achieving a 7.75% annual return over 10 years.

1-Year Return

Metric	Probability of > 0% Return	Probability of > 7.75% Return
Conservative	73%	46%
Current	72%	48%
Aggressive	72%	49%

10-Year Return

Metric	Probability of > 0% Return	Probability of > 7.75% Return
Conservative	93%	30%
Current	91%	35%
Aggressive	91%	39%

Monte Carlo Simulation Results

Broad Ranges

1 Year	1	2	3	4	5	6	7	8	9	10	12.31.2014 Allocation*	Conservative*	Aggressive*
Target 0%	83	82	81	80	80	79	78	76	76	76	73	79	76
Target 2%	72	73	72	72	72	72	72	71	70	71	67	70	71
Target 4%	58	61	62	63	64	64	65	65	65	65	60	60	65
Target 6%	42	46	49	52	54	55	57	57	58	59	54	48	59
Target 7.75%	**29**	**34**	**38**	**42**	**45**	**47**	**49**	**51**	**52**	**53**	**48**	**38**	**53**
Target 10%	16	21	26	30	34	37	40	43	45	46	41	26	46
3 Years													
Target 0%	91	90	90	89	88	88	87	85	85	85	81	89	85
Target 2%	80	80	80	81	81	81	80	79	79	79	74	79	79
Target 4%	60	63	65	66	68	70	70	70	70	71	65	63	71
Target 6%	35	41	46	50	53	56	58	59	60	62	54	44	62
Target 7.75%	**17**	**23**	**29**	**35**	**39**	**43**	**46**	**49**	**51**	**53**	**44**	**28**	**52**
Target 10%	5	8	13	18	23	27	32	36	39	41	33	13	40
5 Years													
Target 0%	94	94	94	93	93	92	92	90	89	90	86	92	90
Target 2%	84	85	85	85	85	85	84	83	83	84	78	82	83
Target 4%	60	65	67	69	71	73	73	73	74	75	67	65	74
Target 6%	30	37	43	49	53	56	58	60	61	64	54	41	63
Target 7.75%	**11**	**16**	**23**	**30**	**35**	**40**	**44**	**47**	**50**	**53**	**42**	**22**	**52**
Target 10%	2	3	7	11	16	21	26	31	34	37	27	7	37
10 Years													
Target 0%	97	97	97	96	96	96	96	94	94	95	92	96	94
Target 2%	88	90	90	90	90	91	90	89	88	89	84	88	89
Target 4%	62	68	71	74	76	78	78	78	78	80	70	68	81
Target 6%	22	30	39	46	52	57	60	61	63	66	53	36	66
Target 7.75%	**4**	**8**	**15**	**21**	**28**	**33**	**39**	**43**	**48**	**52**	**36**	**13**	**50**
Target 10%	0	0	2	4	8	12	17	23	27	31	19	2	29

*Used to differentiate different model portfolios with the same name.

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Monte Carlo Simulation

Broad Ranges

- Each portfolio presents moderate trade offs (particularly over a 10-year horizon.
- The current allocation seeks to balance these in a way that best suits Montana's objectives and constraints.
- A more aggressive risk profile creates a higher likelihood of meeting the 7.75% return objective, but at the cost of liquidity.

1-Year Return

Metric	Probability of > 0% Return	Probability of > 7.75% Return
Conservative	79%	38%
Current	73%	48%
Aggressive	76%	53%

10-Year Return

Metric	Probability of > 0% Return	Probability of > 7.75% Return
Conservative	96%	13%
Current	92%	36%
Aggressive	94%	50%

PORTLAND CHICAGO NEW YORK

Return to Agenda

Investment Consultant

Investment Committee Best Practices

April 7, 2015

Agenda

- RVK Best Practices Study Overview 3
- Summary of Findings 5
- Defining the Scope of Authority 6
- Selecting Investment Committee Members 10
- Maintaining Strategic Continuity 16
- Optimizing Decision-Making & Execution 21

RVK

RVK Best Practices Study Overview

Why did RVK conduct this research?

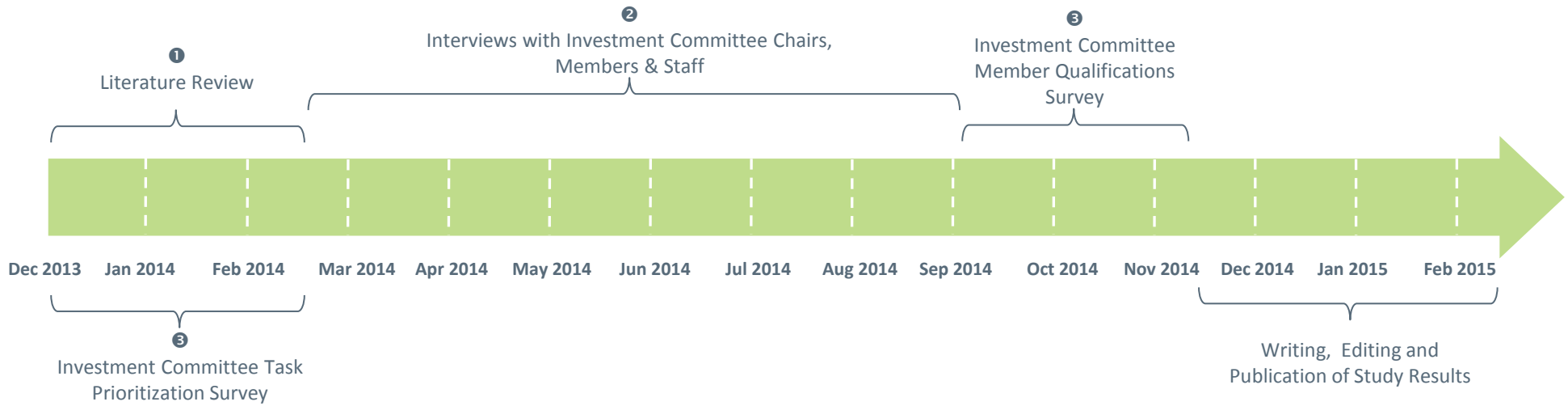
1. Investment committees operate in silos with limited visibility of the practices employed by other committees.*
2. Despite differences in plan objectives, investment committees face many shared challenges.
3. RVK is in a unique position to identify effective practices to address these challenges due to the depth of our personal experience and breadth of our client network.
4. Systematically tapping into the collective experience of our consultants and clients can yield insights that can benefit all of our clients.

* We primarily use the term "investment committee" throughout this presentation. However, the Montana Board of Investments is functionally similar to an investment committee; thus statements using the term "investment committee" apply equally to the Montana Board of Investments.

RVK

How did we conduct this research?

Figure 1: Research Timeline



Project	Description	Objective
❶ **Literature Review**	Included an exhaustive review of professional journals, editorials, and proprietary publications produced by other investment firms.	Gain an understanding of existing literature on investment committee best practices and identify research gaps.
❷ **Interviews with Investment Committee Chairs, Members & Staff**	Included more than 30 interviews with investment committee chairs, members, and staff. Organizations in which these individuals were affiliated represented well over $100 billion in institutional assets.	Identify common investment committee challenges and potential best practice case studies.
❸ **Investment Professional Surveys**	Administered two surveys of investment professionals (primarily RVK consultants). • **Survey #1:** Investment Committee Task Prioritization • **Survey #2:** Investment Committee Member Qualifications	Generate insight regarding: a. Task prioritization by investment committees b. Attributes and skills that enable effective investment committee management

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Summary of Findings

Common Challenges of Institutional Investment Committees

I	II	III	IV
Defining the Scope of Authority	***Selecting Investment Committee Members***	***Maintaining Strategic Continuity***	***Optimizing Decision Making and Execution***
❑ Determining the optimal scope of delegated committee authority ❑ Identifying responsibilities to delegate to staff or third parties	❑ Establishing an optimal committee size ❑ Identifying key member roles ❑ Identifying value-added member attributes ❑ Recruiting qualified committee members ❑ Evaluating committee member performance ❑ Enforcing accountability	❑ Educating new and existing committee members ❑ Creating comprehensive and practical documentation ❑ Establishing a continuous, disciplined strategic review process	❑ Prioritizing issues appropriately ❑ Creating impactful meeting materials ❑ Ensuring consistent meeting attendance ❑ Ensuring adequate meeting preparation ❑ Executing meeting facilitation that balances efficiency and thoroughness
Common Obstacles			
❑ *Stakeholder time availability*	❑ *Organizational influence of committee members (e.g., major donors)* ❑ *Candidate pool constraints, such as:* • *Current board membership,* • *Legally required representation*	❑ *Committee member turnover* ❑ *Infrequency of committee meetings* ❑ *Pre-existing investment biases of committee members*	❑ *Meeting time constraints* ❑ *Committee member availability and engagement*
Research Results and Case Studies			
❑ ***Case Study #1: Authority-Based Committee Charter***	❑ ***Investment Committee Member Selection Survey*** ❑ ***Case Study #2—Volunteer Advisor Program*** ❑ ***Case Study #3—Trustee Reviews***	❑ ***Case Study #4—Committee Member Orientation*** ❑ ***Compendium of Effective Tactics to Promote Strategic Continuity*** • *Annual Investment Strategy Reviews* • *Rolling Work Plans* • *Strategic Objective Statements*	❑ ***Case Study #5—Guest Speakers Program*** ❑ ***Compendium of Effective Decision-Making Tactics*** • *Pre-Meeting Conference Calls* • *Executive Summaries* • *Decision Prioritization Frameworks*

Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

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Defining the Scope of Authority

Key Challenges

1. Identifying and acknowledging organizational and personal limitations
2. Deciding which responsibilities to delegate
3. Determining the optimal entity to which to delegate responsibilities

Case Study

Authority-Based Investment Committee Charter

1. Systematic process for assigning responsibility
2. Documentation of assigned responsibilities

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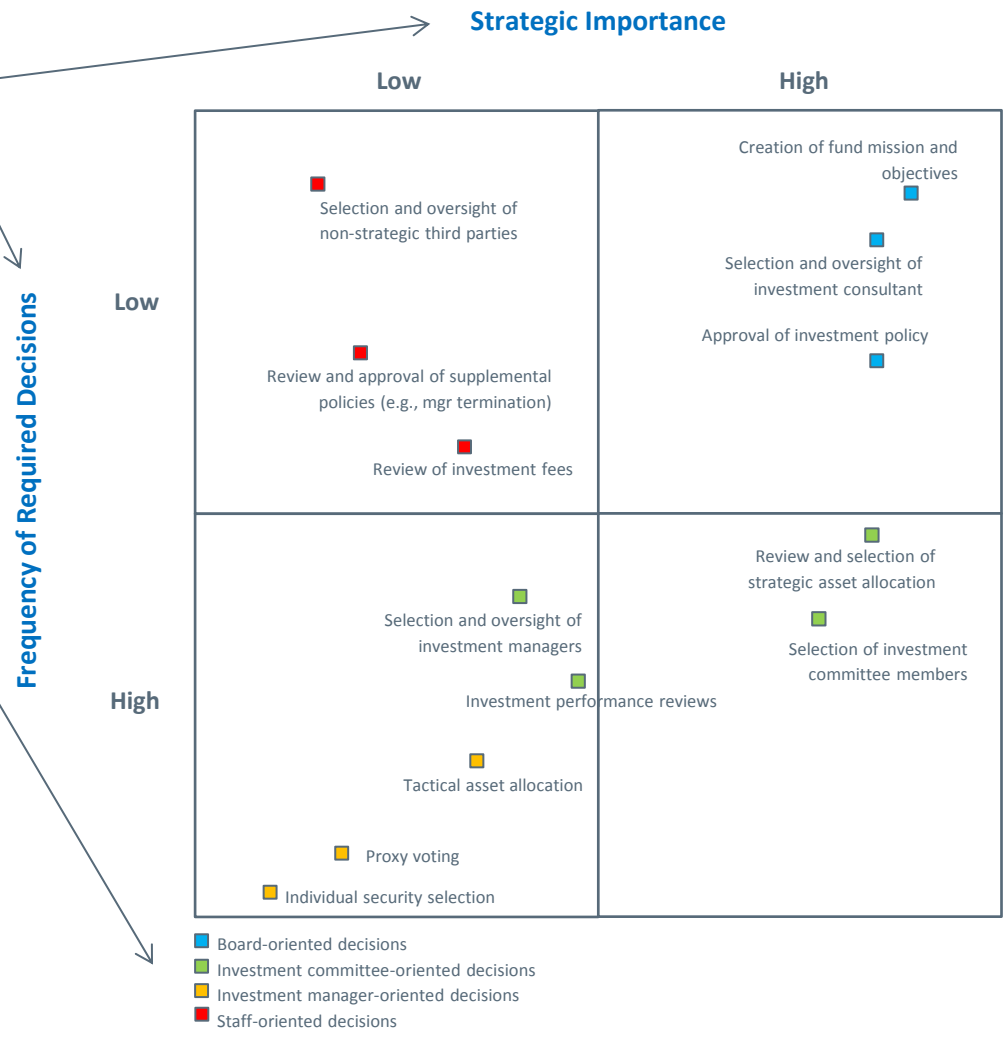
Delegation Framework: Foundation Alpha

Delegation Criteria
1. Strategic Importance
2. Decision Frequency

Decision Makers
1. Board of Trustees
2. Investment Committee
3. Investment Managers
4. Investment Staff



Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

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Key Messages

1. **Identify and Accept Organizational Constraints**—Be aware that all decision makers (i.e., Boards, Staff, and Third Parties) have inherent limitations that must be acknowledged in order to be resolved.

2. **Establish a Functional Delegation Framework**—Develop a distinct framework for deciding which stakeholders are best equipped to handle different investment decisions.

3. **Document Decision-Making Authority**—Document the decision-making authority granted to various entities to ensure clarity and continuity.

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Discussion Questions

1. **What are the most significant constraints and skill/expertise gaps that the MBOI Board members experience?**

2. **Are there decisions for which there is a lack of clarity regarding who is responsible and accountable?**

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Selecting Investment Committee Members

Key Challenges

1. Establishing an optimal committee size
2. Identifying key member roles
3. Identifying value-added member attributes
4. Recruiting qualified committee members
5. Evaluating committee member performance
6. Enforcing accountability

Case Studies

1. **Volunteer Advisory Program**
2. **Trustee Reviews**

Key Survey Insights

1. Acknowledge that size impacts effectiveness
2. Think about membership in terms of key roles rather than simply “empty seats”
3. Recognize the importance of behavioral attributes in addition to technical skills
4. Consider tactics to expand the candidate pool
5. Establish a bias toward minimizing turnover

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Impact of Size on Committee Effectiveness

Figure 2: Impact of Size on Board Effectiveness

The MBOI has nine Board members, placing it at the high end of the recommended range. While this offers several benefits, the Board should recognize the challenges associated with a large membership.

Advantages
- Increased diversity of perspective
- Lower work burden on individual members
- Lower impact of turnover on institutional memory

Disadvantages
- Reduced meeting efficiency
- Greater difficulty recruiting a sufficient number of qualified members
- Greater risk of the Ringelmann effect (i.e., each individual contributes less due to the belief that his/her effort is less important to the group)

Advantages
- Greater meeting efficiency
- Lower quota for recruitment of qualified committee members

Disadvantages
- Reduced diversity of perspective
- Greater impact of committee member turnover on institutional memory loss
- Higher expectations and potential work burden on individual members

Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

RVK

Thinking of "Roles" Rather Than Filling Empty "Seats"

Figure 3: Investment Committee Member Roles

Primary Roles

We highly recommend including at least one individual to fill these roles on an Investment Committee.

Multi-Asset Class Investment Professional*

Survey Rank = 1

Membership Target = 1-2 individuals

Description: This role includes individuals with experience overseeing portfolios invested in many asset classes (e.g., public equities, fixed income, real estate, etc.). This individual can educate the committee regarding the benefits and drawbacks of various asset classes, which is critical to establishing an allocation that fits the plan's objectives. This member often is an attractive chairperson candidate.

Sample Backgrounds:

- Chief Investment Officers (current or former)
- Personal financial advisors
- Investment consultants
- Experienced institutional investment committee members

Mission Representative

Survey Rank = 2

Membership Target = 1 individual

Description: This role includes individuals who have a direct interest in serving the mission of the organization associated with the portfolio. In our experience the mission representative is frequently undervalued, and committees that lack a mission representative are at greater risk of pursuing a strategy that is poorly aligned with the underlying plan objectives.

Sample Backgrounds:

- Family members of a business or foundation
- University alumni
- Pension plan beneficiaries
- Community leaders

Subject Matter Expert

Survey Rank = 3

Membership Target = 1-2 individuals

Description: These individuals offer specialized experience or skills that are deemed valuable to the investment committee. These skills may pertain to certain asset classes in a portfolio, or they may involve prior experience in running a committee or facilitating groups.

Sample Backgrounds:

- Experienced investment committee members
- Portfolio managers (e.g., fixed income, equity, etc.)
- Corporate executives (e.g., CFO or Treasurer)

Secondary Roles

We recommend inclusion of these individuals (typically one for each role) if warranted based on the unique needs of the committee.

Investment Staff Member

Survey Rank = 4

Membership Target = 0-1 individual

Description: This role includes individuals who are employed by the organization to execute decisions made by the committee. Staff may be either part-time or full-time. Staff inclusion on the investment committee is most common for corporate defined benefit and defined contribution plans, but may be considered inappropriate for endowments and public pension plans.

Sample Backgrounds:

- Chief Financial Officer
- Treasurer
- VP, Human Resources

Legal Representative

Survey Rank = 5

Membership Target = 0-1 individual

Description: This role includes individuals with specialized legal experience or qualifications. These individuals are typically attorneys with legal knowledge specifically relevant to the plan over which the committee has oversight.

Sample Backgrounds:

- ERISA attorney
- Corporate attorney

Independent

Survey Rank = 6

Membership Target = 0-1 individual

Description: This role includes individuals who have no obvious affiliation with the plan. Typically independent members are selected to provide an unbiased opinion or specific expertise not otherwise present on the committee.

Sample Backgrounds:

- Experienced board members
- Community leaders
- Plan beneficiary who cannot be classified under another role

* The multi-asset class professional often makes a strong investment committee chairperson candidate due to their strong experience with multiple asset classes and ability to educate other committee members on key investment concepts.

Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

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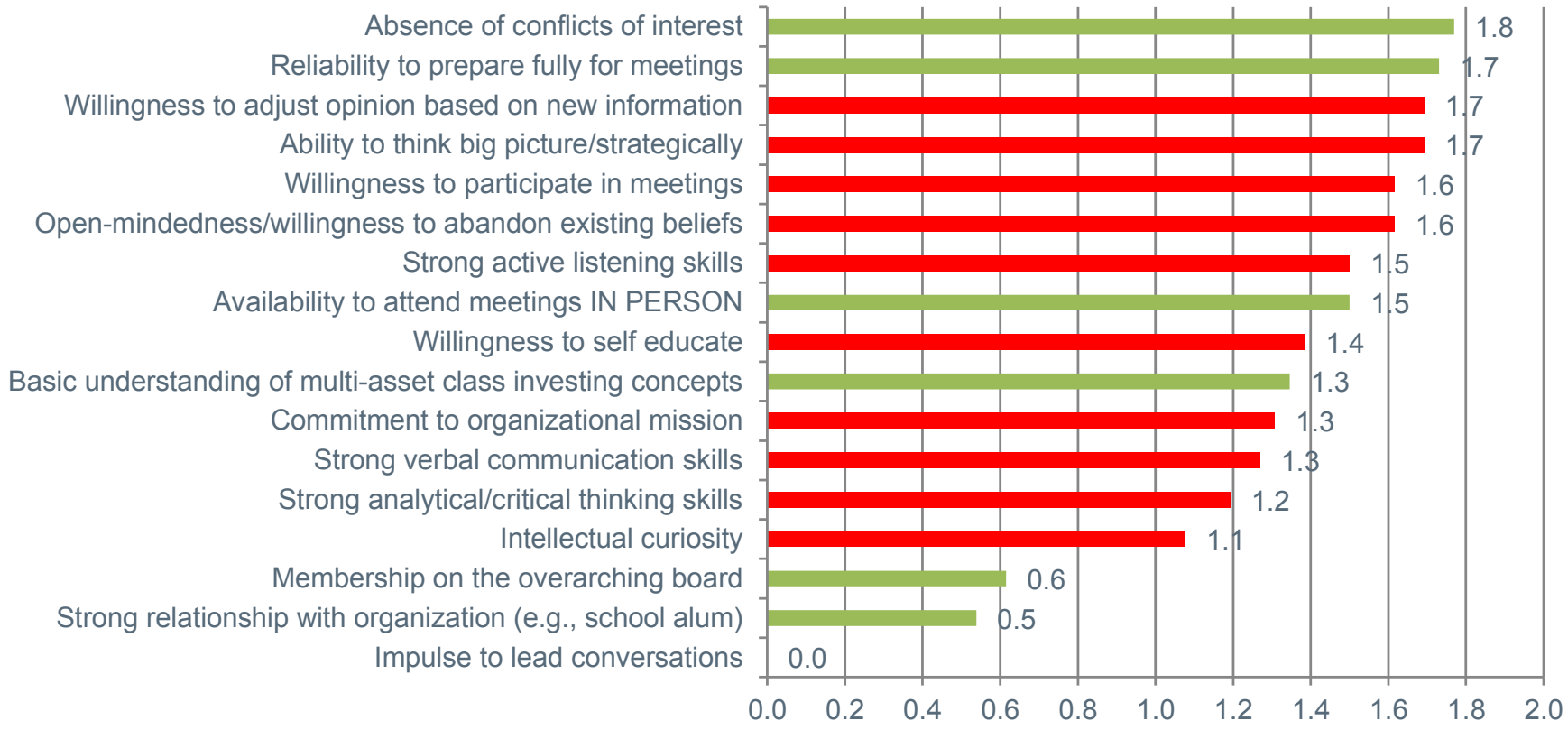
Importance of Positive Behavioral Attributes

Figure 4: Relative Value of Investment Committee Member Skills & Attributes



Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

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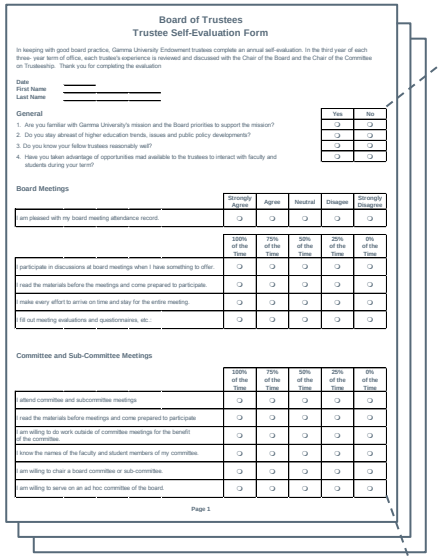
Value of a Trustee Reviews

Figure 5: Sample Board Review at Gamma University Endowment



Board of Trustees
Trustee Self-Evaluation Form

In keeping with good board practice, Gamma University Endowment trustees complete an annual self-evaluation. In the third year of each three- year term of office, each trustee's experience is reviewed and discussed with the Chair of the Board and the Chair of the Committee on Trusteeship. Thank you for completing the evaluation

Date _____
First Name _____
Last Name _____

General

	Yes	No
1. Are you familiar with Gamma University's mission and the Board priorities to support the mission?	❍	❍
2. Do you stay abreast of higher education trends, issues and public policy developments?	❍	❍
3. Do you know your fellow trustees reasonably well?	❍	❍
4. Have you taken advantage of opportunities mad available to the trustees to interact with faculty and students during your term?	❍	❍

Board Meetings

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
I am pleased with my board meeting attendance record.	❍	❍	❍	❍	❍

	100% of the Time	75% of the Time	50% of the Time	25% of the Time	0% of the Time
I participate in discussions at board meetings when I have something to offer	❍	❍	❍	❍	❍
I read the materials before the meetings and come prepared to participate.	❍	❍	❍	❍	❍
I make every effort to arrive on time and stay for the entire meeting.	❍	❍	❍	❍	❍
I fill out meeting evaluations and questionnaires, etc.:	❍	❍	❍	❍	❍

Committee and Sub-Committee Meetings

	100% of the Time	75% of the Time	50% of the Time	25% of the Time	0% of the Time
I attend committee and subcommittee meetings	❍	❍	❍	❍	❍
I read the materials before meetings and come prepared to participate	❍	❍	❍	❍	❍
I am willing to do work outside of committee meetings for the benefit of the committee.	❍	❍	❍	❍	❍
I know the names of the faculty and student members of my committee.	❍	❍	❍	❍	❍
I am willing to chair a board committee or sub-committee.	❍	❍	❍	❍	❍
I am willing to serve on an ad hoc committee of the board.	❍	❍	❍	❍	❍

Page 1

Key Evaluation Criteria

Commitment

- ❑ Understanding of the University mission and priorities
- ❑ Comprehension of trustee responsibilities
- ❑ Familiarity and camaraderie with fellow members of the board
- ❑ Attendance record at meetings
- ❑ Relative prioritization of commitment to Endowment versus other volunteer activities
- ❑ Level of participation in other University-related activities

Board-level Performance

- ❑ Attendance record and punctuality
- ❑ Preparation for meetings
- ❑ Level and quality of meeting participation

Subcommittee-level Performance

- ❑ Attendance record and punctuality
- ❑ Preparation for meetings
- ❑ Level and quality of meeting participation
- ❑ Familiarity and camaraderie with fellow members of the committee

Financial Contributions

- ❑ Level of current and future commitment to the endowment
- ❑ Willingness to encourage others to give to the endowment

Challenge: Boards and investment committees often lack a method to identify areas of needed improvement from Board members in order to enhance the value of overall quality of member participation.

Solution: Annual Board member reviews administered at Gamma University Endowment.

Results: Steady improvement of Board member contributions as a result of annual feedback, as well as tactful removal of committee members who fail to improve.

Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

RVK

Discussion Questions

1. **How can current MBOI Board members help shape the selection process for future Board members?**
   a. Raising awareness of required roles?
   b. Providing guidance on positive behavioral attributes?
2. **How can current MBOI Board members help orient new members to encourage behaviors that are conducive to effective group decision-making?**
3. **Should the MBOI Board implement a formal review process to encourage self improvement?**

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Maintaining Strategic Continuity

Key Challenges

1. Educating new and existing committee members
2. Creating comprehensive and practical documentation
3. Establishing a continuous, disciplined strategic review process

Case Study

Board Member Orientation

Other Tactics

1. Annual Investment Strategy Reviews
2. Rolling Work Plans
3. Restatement of Strategic Objectives

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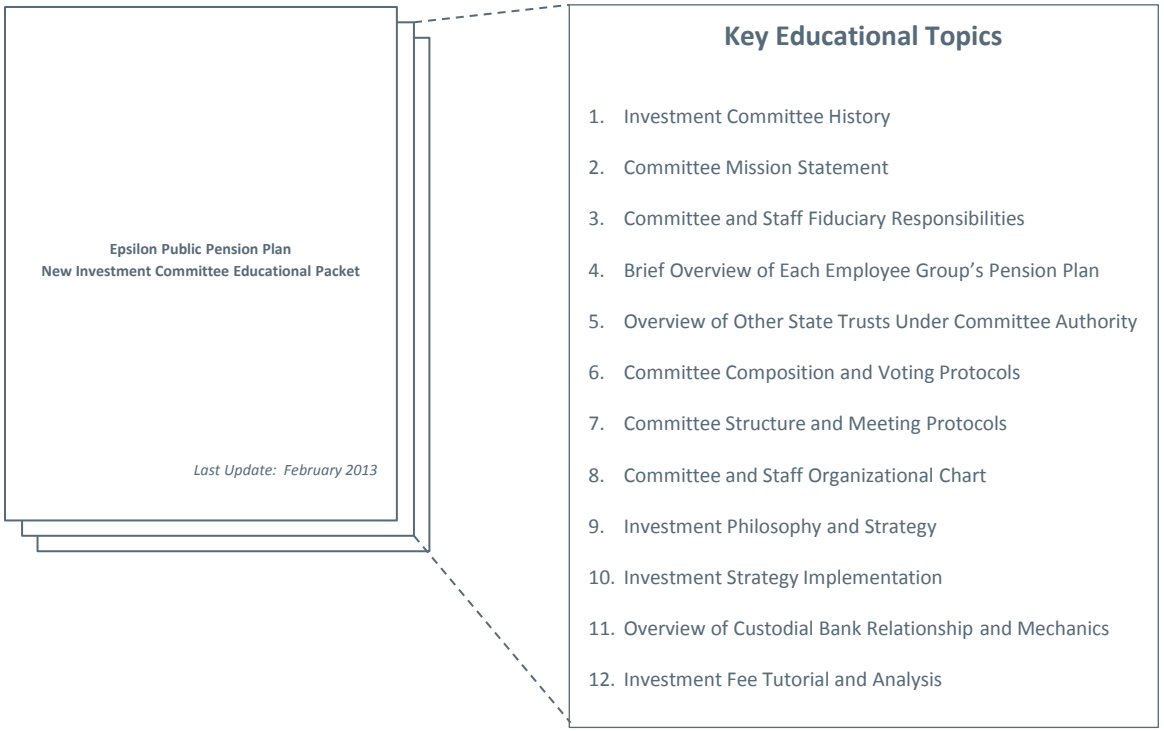
Case Study: Board Member Orientation

Figure 6: Sample Orientation Program at Epsilon Plan



Challenge: New board members must absorb an enormous amount of information regarding investment concepts, strategy, and plan history in order to begin contributing effectively to decision making.

Solution: Orientation Program for new Board Members.

Results: Acceleration of Board member education and encouragement of further self education.

Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

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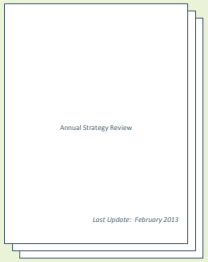
Other Useful Tactics to Maintain Strategic Continuity



Annual Investment Strategy Reviews

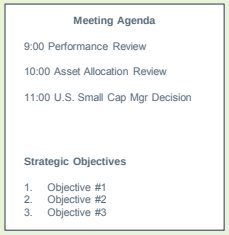
This tactic includes periodic, formal reviews of the investment strategy against the underlying objectives of the plan. Typically, the cornerstone of such a review is an asset allocation study, in which the appropriateness of the allocation is assessed in relation to the underlying objectives of the plan. The point of the annual review is to instill a disciplined process of evaluating the investment strategy against the investment objectives and ensuring that the two are aligned and evolving appropriately.

Twelve-Month Work Plan
Theta Plan

Investment Policy and Strategy Review	Apr 2013
Fixed Income Structure Review	May 2013
Fixed Income Restructuring Implementation	Jun 2013
Income-Oriented Fixed Income Manager Review	Aug 2013
New Fixed Income Manager Finalist Presentations	Sep 2013
Review of Alternative Income Strategies	Oct 2013
Alternative Income Strategy Implementation Options	Nov 2013
Alternative Income Strategy Manager Reviews	Dec 2013
Alternative Income Strategy Finalist Presentations	Jan 2014
International Equity Structure Review	Feb 2014
International Equity Implementation Options	Mar 2014
International Equity Manager Reviews	Apr 2014
International Equity Finalist Presentations	May 2014

Rolling Work Plans

Pre-established 12- to 24-month work plans that are based on long term strategic objectives can help ensure that committees stay focused on issues of long-term importance, if only by crowding out meeting time that can otherwise get diverted to non-strategic issues. Such work plans also have enough flexibility to address urgent developments, such as the sudden and unexpected need to terminate a manager, but such events would be exceptions to an already pre-established agenda.



Meeting Agenda

9:00 Performance Review

10:00 Asset Allocation Review

11:00 U.S. Small Cap Mgr Decision

Strategic Objectives

1. Objective #1
2. Objective #2
3. Objective #3

Restatement of Strategic Objectives

On the bottom of each meeting agenda, one committee with which we work restates the committee's fiduciary responsibilities. The statement serves as a constant reminder of the committee members' responsibilities and can be referenced if discussions and decisions appear to deviate. Although fiduciary responsibilities are the only information included in this example, committees can expand on this concept and include other philosophical and strategic concepts that should guide decisions in all cases.

Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

RVK

Key Messages

1. **Invest Appropriately to Prepare New Committee Members**—Create a well structured orientation program and comprehensive set of reference materials to accelerate the education and integration of new committee members.
2. **Regularly Revisit the Investment Strategy**—Conduct periodic, strategic investment reviews in order to ensure that objectives match strategy and that committee members are constantly reminded of the rationale behind the existing strategy.
3. **Maintain a Work Plan**—Maintain a rolling work plan to ensure that the most critical strategic issues are prioritized and ensure that meetings are not sidetracked by temptations to shift strategy

RVK

Discussion Questions

1. Are there aspects of the MBOI investment program that are not covered sufficiently in the current orientation program?
2. Can all Board members comfortably articulate the key elements of the investment strategy at MBOI?

RVK

Optimizing Decision-Making and Execution

Key Challenges

1. Prioritizing issues appropriately
2. Creating impactful meeting materials
3. Ensuring consistent meeting attendance
4. Ensuring adequate meeting preparation
5. Facilitating meetings that balance efficiency and thoroughness

Case Study

Guest Speakers Program

Tactics

1. Pre-Meeting Conference Calls
2. Executive Summaries
3. Use of Decision Prioritization Frameworks

RVK

Case Study: Guest Speakers Program

Figure 7: Guest Speakers Program Details

Speaker Guidelines

Time Allocation:	**30- 60 Minutes**
Typical Format:	**Discussion and Q&A**

Sample Topics

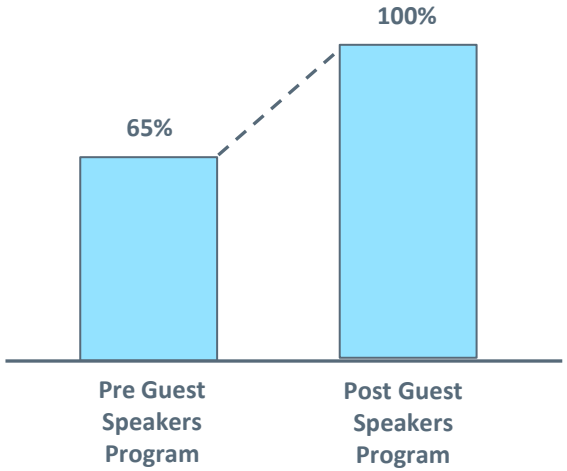
1. **Opportunities in Distressed Debt**
2. **Emerging Trends in Private Equity**

Challenge: Investment committees often struggle with ensuring required attendance, preparation, and participation in meetings.

Solution: Guest speakers program ensures that committee members feel that they "get as much as they give" at meetings, encouraging stronger attendance and participation.

Results: Increase in attendance and participation at investment committee meetings.

Figure 8: In-Person Committee Member Attendance



Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

RVK

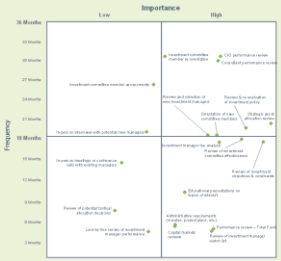
Other Useful Tactics to Improve Decision Making & Execution

Pre-Meeting Conference Calls

RVK consultants find that a simple 30-minute call in advance of meetings can save hours of unnecessary discussion and debate. Typically, the chairperson, CIO, and occasionally a few committee members attend the call. The purpose of the call is to review major agenda items and the required decisions, as well as discuss potential changes or additions to the meeting materials. Pre-meeting calls are particularly valuable for committees with severe time constraints.

Meeting Executive Summaries

Recognizing that committee members lack the required time to read all of the materials, RVK consultants help many of our clients prepare by drafting a short one to three page document summarizing all of the key issues and decisions that will be covered at the upcoming meeting. In short, preparing an executive summary takes a relatively modest amount of time for the consultant or investment committee chairperson, but saves substantial time for committee members both in terms of meeting preparation and subsequent meeting discussions.



Decision Prioritization Frameworks

In order to determine an appropriate time allocation for meeting agenda items, it is often helpful to employ prioritization frameworks. In *Investment Committee Best Practices*, we present two prioritization frameworks: one that addresses strategic issues and one that helps isolate issues most appropriate for committee-based decision making. We encourage committees to consider such frameworks in order to better prioritize and execute decisions.

Source: *Investment Committee Best Practices.* RVK, Inc. (February 2015).

RVK

Key Messages

1. **Engage Committee Members—**Create meeting agendas and materials that engage committee members in order to improve meeting preparation, attendance, and participation.

2. **Don't be Constrained by the Meeting Schedule**—Engaging in inter-meeting discussions and conducting meeting pre-wires ensures efficient use of meeting time and effective execution of decisions.

3. **Never Underestimate the Value of Summarization**—Help committee members to avoid suffering from information overload by summarizing key discussion points in a short executive summaries.

4. **Employ Decision Prioritization Frameworks**—Consider employing a decision framework (even if informally) to prioritize discussion items at committee meetings.

RVK

Discussion Questions

1. **What tactics can the Board, Staff, and RVK use to engage Board members more effectively in meetings?**

2. **Does the Board feel that meeting agenda items are appropriately prioritized?**
    - Are there other methods of prioritization that the Board should consider?

RVK

Concluding Remarks

1. Be aware that investment committees/boards face many common challenges.
2. The practices presented in RVK's study provide several effective ways for dealing with these challenges.
3. MBOI already addresses many of these challenges effectively, and is in fact profiled in the study as a best practice
4. Continued awareness of common challenges and openness toward addressing them will ensure that MBOI continues to operate as a highly effective board in the future.

RVK

Appendix: Summary of Key Messages

Key Messages

General Messages

- **Acknowledge the Existence of Shared Challenges**—Be aware that investment committees face a common set of challenges that will always be present.
- **Commit Yourself to Addressing These Challenges**—Recognize these challenges, address them with proven solutions, and develop innovative solutions as needed.

Challenge #1: Defining the Scope of Authority

- **Identify and Accept Organizational Constraints**—Be aware that all decision makers (i.e., Boards, Staff, and Third Parties) have inherent limitations that must be acknowledged in order to be resolved.
- **Establish a Functional Delegation Framework**—Develop a concrete framework for deciding which stakeholders are best equipped to handle different investment decisions.
- **Document Decision-Making Authority**—Document the decision-making authority granted to various entities to ensure clarity and continuity.

Challenge #2: Selecting Investment Committee Members

- **Be Aware of the Impact of Committee Size**—Creating an optimal committee size is an important driver of performance. Seek a robust but manageable size that ranges from 3 – 9 individuals.
- **Establish a Bias Toward Minimizing Turnover**—Turnover is a potential risk to maintaining strategic continuity. Committees should be biased toward minimizing turnover, but also recognize that some periodic turnover can be beneficial in terms of broadening perspective.

RVK

Key Messages (Continued)

- **Think About Membership in Terms of Roles**—Seek committee members who fill distinct roles rather than simply filling an empty seat.
  - Primary Roles: Multi-asset class professionals, Mission representatives, and Subject matter experts
  - Secondary Roles: Investment staff, Legal representatives, and Independents
- **Recognize the Value of Various Technical and Behavioral Attributes**—Recognize that certain technical skills and experiences of committee members are more valuable than others (see page XX), but also recognize that certain behavioral attributes are often the most important.
- **Consider Employing Trustee Reviews**—Consider employing a formal review process to help improve committee member contributions.
- **Consider Expanding the Candidate Pool**—Consider expanding the candidate pool to strengthen the the qualifications and experiences of committee members.

Challenge #3: Maintaining Strategic Continuity

- **Prepare New Committee Members**—Create a well structured orientation program and comprehensive set of reference materials to prepare new committee members.
- **Regularly Revisit the Investment Strategy**—Conduct periodic, strategic investment reviews in order to ensure that objectives match strategy and that committee members are constantly reminded of the rationale behind the existing strategy.
- **Maintain a Work Plan**—Maintain a rolling work plan to ensure that the most critical strategic issues are prioritized and ensure that meetings are not sidetracked by temptations to shift strategy

RVK

Key Messages (Continued)

Challenge #4: Decision-Making & Execution

- **Engage Committee Members**—Create meeting agendas and materials that engage committee members in order to improve meeting preparation, attendance, and participation
- **Don't be Constrained by the Meeting Schedule**—Engaging in inter-meeting discussions and conducting meeting pre-wires ensures efficient use of meeting time and effective execution of decisions.
- **Summarize**—Help committee members to avoid suffering from information overload by summarizing key discussion points in a short executive summaries.
- **Employ Decision Prioritization Frameworks**—Consider employing a decision framework (even if informally) to prioritize discussion items at committee meetings.

RVK

Return to Agenda

Executive Director Reports

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Members of the Board

From: David Ewer, Executive Director

Date: April 7, 2015

Subject: Executive Director Reports

Member Requests or Committee Requests or Follow up from Prior Meeting

The Audit Committee accepted staff's recommendation to revise the Board's STIP participation procedures including a new participation resolution for eligible local governments. Staff has drafted a proposed resolution; it is attached as Exhibit A. It has been reviewed and edited by the Board's general counsel. A draft participant information sheet and electronic funds transfer authorization form that would accompany the resolution is also attached. Staff recommends circulating the draft and exhibit to interested parties for public comment.

Monthly Snapshot-Included under Tab 4

2015 Legislative Update

- Board's budget, HB 2
- Other legislation, (verbal update)
  - Board Member appointments, SR 34
  - Hail insurance, HB 453
  - TV or audio of Board's meetings, SB 124
  - Student loan refinancing, HB 610
  - Disability savings and investment individual accounts through the Board, SB 399
  - Local governments access to trust fund for longer-term investments, SB 113

Custodial Bank Contract

The terms of the contract for custodial bank services are now complete and the various contract documents have been signed by staff and our general counsel.

DRAFT

RESOLUTION AUTHORIZING PARTICIPATION IN THE SHORT TERM INVESTMENT POOL
MONTANA BOARD OF INVESTMENTS

CERTIFICATE AS TO
RESOLUTION NO._____ AND ADOPTING VOTE

Political Subdivision: _____
Governing Body: _____

Type, date, time and place of meeting: A _____ meeting held on _____ at ____o'clock ___.m. in _____, Montana.

Members present:

Members absent:

I, the undersigned, being the duly qualified and acting recording officer of the political subdivision identified above ("Participant"), certify that the attached RESOLUTION AUTHORIZING PARTICIPATION IN THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA SHORT TERM INVESTMENT POOL AND AUTHORIZING THE EXECUTION AND DELIVERY OF DOCUMENTS RELATED THERETO ("Resolution") and Exhibit A thereto are true and correct copies of the Resolution and Exhibit A on file in the original records of the Participant and in my legal custody; that the Resolution and Exhibit A were duly approved and adopted by the Governing Body of the Participant at the above described meeting, which meeting was attended throughout by the members indicated above, constituting a quorum of the Governing Body, pursuant to public notice of such meeting as required by law; and that the Resolution and Exhibit A have not as of the date hereof been amended or repealed.

WITNESS my hand officially as such recording officer this ____ day of _____, 2015.

By _____
Its _____

RESOLUTION NO. _____

RESOLUTION AUTHORIZING PARTICIPATION IN THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA SHORT TERM INVESTMENT POOL AND AUTHORIZING THE EXECUTION AND DELIVERY OF DOCUMENTS RELATED THERETO

BE IT RESOLVED BY THE _____ (the Governing Body) of _____ (the Participant) AS FOLLOWS:

ARTICLE I

DEFINITIONS

Section 1.01 The following terms will have the meanings indicated below for all purposes of this Resolution unless the context clearly requires otherwise:

Section 1.02 Account shall mean a specific Participant Bank account assigned by the Bank to be used in conducting transactions through the STIP Program.

Section 1.03 Agreement shall mean the agreements of the Participant as contained within this Resolution.

Section 1.04 Authorized Representative shall mean the officer or official of the Participant designated and duly authorized by the Governing Body as set forth below to enable the Participant's participation in the STIP Program.

Section 1.05 Authorized Representative Delegate shall mean any lawful officer, official or employee of the Participant who has been delegated authority by the Authorized Representative as provided in this Resolution to initiate transactions using the Board's STIP Program.

Section 1.06 Bank shall mean a financial institution designated and authorized as provided in this Resolution to send and receive money on behalf of the Participant for purposes of participation in the STIP Program.

Section 1.07 Board shall mean the Board of Investments of the State of Montana, a public body corporate organized and existing under the laws of the State and its successors and assigns.

Section 1.08 Exhibit A (Parts 1 and 2) shall mean the documents attached to and incorporated into this Resolution as provided in Article IV that provides sufficient information necessary for the Participant to participate in STIP, along with sufficient instructions for the Board and its agents to administer and manage the Participant's participation, transactions and shares in the STIP Program.

Section 1.09 Governing Body shall mean the governing body of the above-named political subdivision (Participant) authorized by Montana state law to participate in the STIP Program as further specified in this Resolution.

Section 1.10 Participant shall mean the political subdivision requesting participation in the Board's Short Term Investment Pool.

Section 1.11 Short Term Investment Pool, STIP, or Program shall mean the Board's Short Term Investment Pool Program as authorized by law and as more fully defined and described in the Board's policies and procedures, as may be amended from time to time.

ARTICLE II

SHORT TERM INVESTMENT POOL PARTICIPATION AGREEMENT

Section 2.01. Participation Agreement. By approving and adopting this Resolution and Exhibit A, the Governing Body requests and agrees to participation of Participant in the STIP Program, and agrees that Participant will comply with and be bound by all laws, policies, procedures and participation requirements applicable to the STIP Program, as may be amended from time to time.

Section 2.02 STIP Program Description. The STIP Program is an investment program administered under the direction of the Montana Board of Investments as authorized by the Unified Investment Program. As more fully set forth in Board policies and procedures, STIP is essentially a money market fund available to state and local governments to serve their short term cash flow and deposit needs and its objectives are preservation of capital, maintaining high liquidity and obtaining current income reflective of money market yields. The Program has the following attributes, as more fully set forth in applicable Board policies, procedures and participation requirements, which are subject to change upon the sole determination of the Board:

1) STIP share prices are fixed at $1 per share;
2) STIP interest on pool assets accrues daily;
3) STIP earnings distribution method: Interest is distributed at the beginning of the month and can be distributed as cash to the designated Bank or the earnings can be reinvested into STIP;
4) Buying or selling shares in STIP requires one (1) business days' notice; transactions for which notice is received after 2:00 p.m. will be processed two (2) business days after receipt of the original notice;
5) Access to STIP is only through an electronic, web-based portal; no cash, checks or notifications by fax, phone or email will be accepted; and
6) STIP is structured as a 'money market fund' having very high liquidity and safety requirements. By Board policy, no investment in STIP may exceed maturity, upon purchase, of more than 397 days.

Section 2.03 Review of Policies, Procedures and Participation Requirements. Participant acknowledges and represents that it has received and reviewed to its satisfaction all Board policies, procedures and participation requirements applicable to the STIP Program.

Section 2.04 Authorized Representative: The Governing Body designates _____, who holds the position of _____ as the Participant's Authorized Representative to make transactions between STIP and the Bank.

The Governing Body: (Check one) DOES [ ] DOES NOT [ ] allow the Authorized Representative to appoint and delete additional Authorized Representative Delegate (s) on behalf of the Participant. Any addition or deletion of an Authorized Representative Delegate requires notice to the Board by the Authorized Representative before transactions will be accepted and processed as directed by the Authorized Representative Delegate.

The Governing Body designates and authorizes _____ (the Bank), having the following ABA number _____, as Participant's Bank to send or transfer funds to the State Treasurer for purchase of STIP shares and to deposit distributions of and withdraw proceeds resulting from sales of STIP shares in the Bank's Account No. _____which is a (check one) checking [ ] savings [ ] account.

The Governing Body: (Check one) DOES [ ] DOES NOT [ ] allow the Authorized Representative to change either the Bank or the Account; if 'DOES' is checked, the Board will notify both the office of the Authorized Representative AND the office of the Governing Body within three (3) business days that such a change has been made.

The Governing Body: (Check one) DOES [ ] DOES NOT [ ] allow the Authorized Representative to change the earnings distribution method; if DOES NOT is checked, the Governing Body chooses the following earnings distribution method (check one) reinvest cash earnings into STIP [ ] distribute cash earnings [ ] to the Bank.

Section 2.05 Change of Authorized Representative. Any change to the Authorized Representative requires a new resolution adopted by the Governing Body; however the absence of an Authorized Representative does not nullify the authority of the Authorized Representative Delegate (s) then in effect and so authorized to make STIP transactions.

Section 2.06 Annual Information. The Board will provide on an annual basis to both the Governing Body and the Authorized Representative the following information as appears on the Board's records:

1. The name of the Authorized Representative;
2. The name (s) of any Authorized Representative Delegate (s); and
3. The name of the Bank and the associated Account number.

Section 2.07. Effective Date. Participant's Agreement as set forth in this Resolution will take effect when the Certificate As To Resolution and Adopting Vote, this Resolution and Exhibit A, each completed, dated and duly executed, are delivered to and received by the Board and will stay in effect until terminated in writing by the Governing Body.

ARTICLE III

MISCELLANEOUS

Section 3.01. No Guaranteed Return. The Governing Body understands and agrees that there is no minimum or maximum amount of interest rate or any guaranteed rate of return on STIP shares or funds invested in STIP shares.

Section 3.02 Voluntary Participation. By adopting this Resolution, the Governing Body acknowledges that it is not compelled to participate in STIP, and that its participation in STIP is voluntary, and accepts and agrees to the Program, its administration and governance, and its policies, procedures and participation requirements as set forth by law and the Board.

Section 3.03 Responsibility for Participant Mistakes. The Governing Body and Participant agree to hold the State of Montana, the Board, and their members, officials and employees harmless for the acts, omissions and mistakes of the Participant, Governing Body and their members, officials and employees, including but not limited to: Authorized Representative or Authorized Representative Delegate who, for any reason, is not qualified or proper to be listed with the Board as a permissible representative to authorize transactions using the STIP Program; wrong instructions as to amounts or timing of sales or purchases; or missed deadlines.

Section 3.04 No Warranty. The Governing Body and Participant acknowledge and agree that the Board makes no warranty that funds will be immediately available in the event of any failure of a third party or that Governing Body will not suffer losses due to acts of God, or other calamities, or other market dislocations or interruptions.

Section 3.05 Participation Conditions; STIP Administration. The Governing Body and Participant acknowledge and agree that the Board will allow participation in STIP by and conduct STIP business with only those parties it determines are qualified and authorized to participate in the Program and which abide by the Board's policies, procedures and participation requirements; that the Board administers the STIP Program subject to Montana law and prudent fiduciary practices as required by Montana law and Board policy; and that the Board is legally bound to manage the Unified Investment Program, which includes STIP, in accordance with the prudent expert rule as set forth in Montana law.

Section 3.06 STIP Not Insured Against Loss. The Governing Body and Participant understand and acknowledge that the Board's STIP Program is NOT FDIC insured or otherwise insured or guaranteed by the federal government, the State of Montana, the Board or any other entity against investment losses. The Governing

Body and Participant further understand and acknowledge that the Board's STIP policy requires maintenance of a reserve fund to offset possible losses and that STIP interest earnings may be used to fund this reserve before the net earnings are distributed to the STIP participants, but that such reserves may not be adequate to cover investment losses.

ARTICLE IV

EXHIBIT A

Section 4.01. Approval and Adoption of Exhibit A. Attached to this Resolution as Exhibit A, Part 1, is the Participant Information Sheet, and Part 2 is the Electronic Funds Transfer Authorization, which together provide the instructions and the details required by the Board to enable Participant's participation in the STIP Program. The Governing Body and Participant represent and agree that the attached Exhibit A has been completed and executed by the Participant's Authorized Representative and that Exhibit A must be complete and acceptable to the Board before participation will be allowed in the STIP Program. Exhibit A is hereby incorporated into and made a part of this Resolution, and is approved and adopted by the Governing Body as if set forth fully herein.

APPROVED AND ADOPTED by the _____ this _____ day of _____, 2015.

By _____
Its _____

Attest:

By _____
Its_____

PART 1. STIP PARTICIPATION INFORMATION SHEET

STIP Program Manager
Montana Board of Investments
boi_stip@mt.gov
P.O. Box 200126 Helena, MT 59620-0126
Phone 406.444.0003 Fax 406.444.4268

For Official Use Only

STIP DATA ☐
INVEST TA ☐
ACCT ID ☐

Requests must be submitted by authorized representative of the participant.

The STIP participant listed below hereby agrees to participate in the STIP Program as established under Section 17-6-204, MCA., and the terms and conditions of STIP operations as outlined in the Policies and Procedures and warrants as follows:

Section 1. STIP Participant Information Summary

STIP Participant Name ➔					Tax Identification Number (TIN) ➔		
Mailing Address ➔		City➔		State➔	MT	Zip➔	
STIP Account #➔ *(For official use only)*							
Authorized Representative Name, First➔		Name, Last➔			Title➔		
Telephone Number ➔		Fax Number ➔			E-mail ➔		

Section 2. Investment and Earnings Information

The STIP participant has the option to either reinvest their earnings or distribute earnings. **Check one box only.**

Reinvest Earnings ☐	Distribute Earnings ☐

Section 3. Endorsement

The Authorized Delegate(s) whose name(s) appears below is (are) authorized to purchase and sell shares in STIP for the participant. The Authorized Representative must be included if he/she is authorized to purchase and sell shares in STIP for the participant. The Board of Investments shall be notified promptly of any changes in authorized personnel.

Name, First ➔		Name, Last ➔		E-Mail ➔	
Name, First ➔		Name, Last ➔		E-Mail ➔	
Name, First ➔		Name, Last ➔		E-Mail ➔	

I hereby certify as the Authorized Representative of the STIP participant that all of the information contained herein is true, accurate and complete as of the date hereof.

Dated this:	Day of:	20
Signature:	Title:	
Printed Name:		

A copy of the Electronic Funds Transfer Authorization Form must accompany the Participation Agreement.

PART 2. ELECTRONIC FUNDS TRANSFER AUTHORIZATION FORM

STIP Program Manager	
Montana Board of Investments	
boi_stip@mt.gov	
P.O. Box 200126	Helena, MT 59620-0126
Phone 406.444.0003	Fax 406.444.4268

This form must accompany the local government's STIP Participation Agreement and be submitted by an authorized local government representative.

Local Government Name:	
STIP Account #: *(For official use only)*	

I, the undersigned, a duly authorized representative of the local governing board, hereby authorize the Montana Board of Investments to initiate electronic debit and/or credit to the following account. The authorized representative acknowledges the origination of ACH transactions to the listed account complies with the provisions of U.S. law.

Any sale, purchase, or distribution of funds will be made by Electronic Funds Transfer or wire debiting or crediting the appropriate treasury or shareholder bank account. Please specify the local government depository.

Check one transaction type only.

Checking Account ☐				Savings Account ☐			
Name of Bank➔			Routing/ABA No➔				
Address➔		City➔		State➔	MT	Zip➔	
Account Number➔							

This authority remains in effect until the Montana Board of Investments and the designated Financial Institution have received timely written notification from an authorized representative of the local governing board terminating the Authorization.

Signature ➔		Date➔	
Printed Name➔		Title ➔	

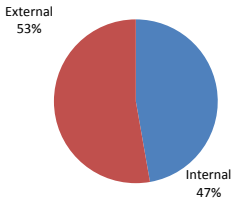
Please notify the Montana Board of Investments if you have applied a filter or a block to your account.

ATTACH A VOIDED CHECK FOR THE ABOVE ACCOUNT HERE

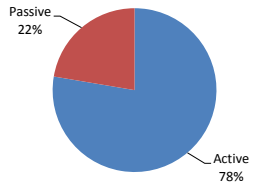
MBOI Snapshot

As of 2/28/2015

MBOI Internal/External

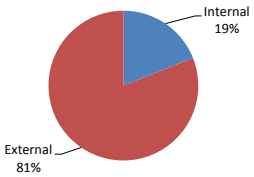


MBOI Active/Passive

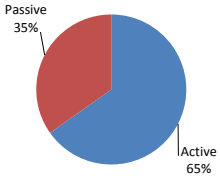


Internal	External	Active	Passive
$7,809,798,359	$8,724,962,309	$12,840,499,779	$3,694,260,890
47.23%	52.77%	77.66%	22.34%
Grand Total		**$**	**16,534,760,669**

Pension Internal/External



Pension Active/Passive

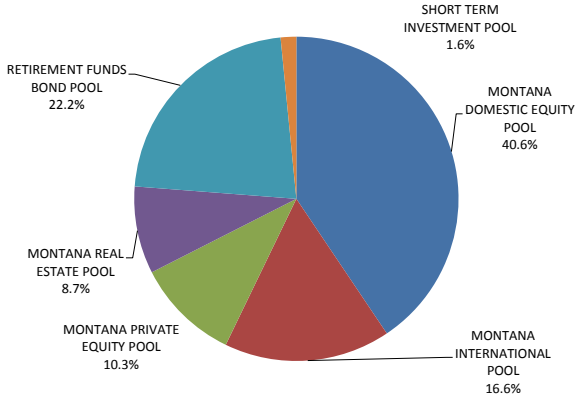


Total Pensions

Internal	External	Active	Passive
$1,923,244,137	$ 8,201,277,562	$ 6,600,815,172	$ 3,523,706,527
19.00%	81.00%	65.20%	34.80%
Grand Total			**$10,124,521,699**

Pension by Asset Type

Pension Pool NAV	Market Value	%	Policy Range
MONTANA DOMESTIC EQUITY POOL	$4,108,652,302	40.58%	28 - 44%
MONTANA INTERNATIONAL POOL	$1,679,463,720	16.59%	14 - 22%
MONTANA PRIVATE EQUITY POOL	$1,047,772,682	10.35%	9 - 15%
MONTANA REAL ESTATE POOL	$881,079,321	8.70%	6 - 10%
RETIREMENT FUNDS BOND POOL	$2,250,166,890	22.22%	22 - 30%
SHORT TERM INVESTMENT POOL	$157,386,783	1.55%	1 - 5%
Total	**$10,124,521,699**	**100.00%**	



Investment Pools

	Market Value	%
MONTANA DOMESTIC EQUITY POOL	$4,108,652,302	27.91%
SHORT TERM INVESTMENT POOL	$2,502,311,006	17.00%
TRUST FUNDS INVESTMENT POOL	$2,252,366,692	15.30%
RETIREMENT FUNDS BOND POOL	$2,250,166,890	15.28%
MONTANA INTERNATIONAL POOL	$1,679,463,720	11.41%
MONTANA PRIVATE EQUITY POOL	$1,047,772,682	7.12%
MONTANA REAL ESTATE POOL	$881,079,321	5.98%
Asset Total	**$14,721,812,613**	**100.00%**

Pension by Plan

Fund Participant	Market Value	%
PUBLIC EMPLOYEES' RETIREMENT	$5,075,168,459	50.13%
TEACHERS' RETIREMENT	$3,704,368,486	36.59%
FIREFIGHTERS' RETIREMENT	$328,995,481	3.25%
POLICE RETIREMENT	$325,072,290	3.21%
SHERRIF'S RETIREMENT	$295,487,517	2.92%
GAME WARDEN'S RETIREMENT	$146,642,681	1.45%
HIGHWAY PATROL RETIREMENT	$128,994,071	1.27%
JUDGES' RETIREMENT	$86,955,534	0.86%
VOL. FIREMANS' RETIREMENT	$32,837,180	0.32%
Total	**$10,124,521,699**	**100.00%**

Coal Tax Trust

Row Labels	Market Value	%
CST BOND FUND	**1,933,432**	**0.19%**
SHORT TERM INVESTMENT POOL	1,933,432	0.19%
ECONOMIC DEVELOPMENT TRUST	**85,197,805**	**8.40%**
SHORT TERM INVESTMENT POOL	2,386,464	0.24%
TRUST FUNDS INVESTMENT POOL	82,811,342	8.17%
PERMANENT COAL TRUST	**568,599,310**	**56.08%**
IN-STATE LOANS	114,641,558	11.31%
VHLM Mortgages	26,753,149	2.64%
SHORT TERM INVESTMENT POOL	9,972,366	0.98%
TRUST FUNDS INVESTMENT POOL	417,232,236	41.15%
REGIONAL WATER FUND	**89,737,112**	**8.85%**
SHORT TERM INVESTMENT POOL	2,385,594	0.24%
TRUST FUNDS INVESTMENT POOL	87,351,518	8.61%
TREASURE STATE ENDOWMENT	**268,507,693**	**26.48%**
IN-STATE LOANS	423,163	0.04%
SHORT TERM INVESTMENT POOL	4,912,262	0.48%
TRUST FUNDS INVESTMENT POOL	263,172,267	25.95%
Grand Total	**1,013,975,352**	**100.00%**

Top 10 Non-Pension Accounts

	Market Value	%
STATE FUND INSURANCE	$1,446,590,673	31.23%
TREASURERS FUND	$980,326,828	21.17%
PUBLIC SCHOOL TRUST	$662,816,961	14.31%
PERMANENT COAL TRUST	$567,019,585	12.24%
TREASURE STATE ENDOWMENT	$268,507,693	5.80%
TOBACCO TRUST	$186,601,542	4.03%
MONTANA STATE UNIVERSITY	$158,432,839	3.42%
UCFRB RESTORATION	$131,272,502	2.83%
UNIVERSITY OF MONTANA	$116,683,709	2.52%
RESOURCE INDEMNITY TRUST	$113,443,741	2.45%
Total	**$4,631,696,073**	**100.00%**

STIP

Account	# Accounts	% Total	Total Market Value
Total State	320	79.54%	1,990,285,698
Total Local	170	20.46%	512,025,308
Total STIP	**490**	**100.00%**	**2,502,311,006**

Average February STIP Yield: **0.1337%**

Intercap Statistics as of 2/28/15

Loans Outstanding	$71,664,931
Bonds Outstanding	$106,445,000
# of Borrowers	167
2014 Loan Rate	1.25%

Return to Agenda

INVESTMENT POLICIES

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Members of the Board

From: David Ewer, Executive Director

Date: April 7, 2015

Subject: Annual Policy Review, Tab 5

The Board's Systematic and Education Work Plan for 2015 schedules a review of all policies. The Board's Governance Policy *requires* an annual review of its investment policies. My recommendations are presented below; other staff recommendations for policy changes are under this Tab.

Recommendations from Executive Director on Existing Policy

The current Governance Policy, Article III section 5, Communications Delegation reads:

The Executive Director shall serve as the exclusive spokesperson for the Board when communicating with the Legislature, the Governor, the public, and the media, unless the Board Chairperson determines that, in certain situations, it would be more appropriate for the Chairperson or a selected Board Member to serve as the spokesperson.

I recommend that this section be deleted. While the Executive Director remains ultimately responsible for all Board day-to-day activities, the diverse expertise among our staff provides more credibility than a single spokesperson. Again, the Executive Director already has standing authority to direct all communications activities.

The current Governance Policy, Audit Charter wording on committee makeup reads:

Composition
The Audit Committee will consist of at least three members of the Board. The Chairman of the Board shall serve as an ex-officio member of the Audit Committee. The Board Chairman will appoint committee members and the committee chair. Each committee member will be both independent and financially literate, as defined by the Board. At least one member shall have expertise in financial reporting or auditing.

Currently there is no Board definition as to 'independence' or 'financial literacy' and the Governor, not the Board, appoints Board members. The law already requires seven members 'who are informed and experienced in the subject of investments'. The following are possible options to bring the policy into proper alignment:

1. The Board Chairman will appoint committee members and the committee chair striving to have a membership that is both independent and financially literate and also having financial reporting or auditing expertise. (Closest option to existing language)
2. The Board Chairman will appoint committee members and the committee chair qualified to perform the duties of the Committee as set forth in this charter. (Closest option to language similar to the other committee selection language)
3. Strike the non-conforming language.

Recommendations from Executive Director on New Policy on Custodial Bank Services

The Board's Governance Policy currently addresses in the same section the selection of the Custodial Bank and the Investment Consultant.

Selection of Custodial Bank and Investment Consultant - *While this Governance Manual delegates general contracting authority to the Executive Director, the Board reserves the right and the authority to make the final selection of the Custodial Bank and the Investment Consultant after which the Executive Director shall negotiate a contract.*

Staff recommends that the following language be added to the current language: Further policy for selecting the Custodial Bank is attached as Appendix N.

The draft language in Exhibit N is included under Tab 5.

Governance Policy, Appendix N
Custodial Bank Policy (DRAFT)
April 7, 2015

1. The Board recognizes that Montana law authorizes central depository banking services:

   17-6-101. Deposit of funds in hands of state treasurer. (1) Under the direction of the board of investments, the state treasurer shall deposit public money in the treasurer's possession and under the treasurer's control in solvent banks, building and loan associations, savings and loan associations, and credit unions located in the state, except as otherwise provided by law, subject to national supervision or state examination…

   (6) The state treasurer may contract with a financial institution to provide general depository banking services. The cost of contracting for banking services is statutorily appropriated, as provided in 17-7-502, from the general fund.

2. The purpose of this policy is twofold: first, to acknowledge the complex and substantial role of the Custodial Bank and therefore provide the following policy guidance; and second, to acknowledge that there is an associated custodial credit risk specific to the Custodial Bank relationship and the steps required to mitigate this risk. Risk in this context is the event of failure of the depository financial institution in possession of the Board's assets whereby the state is not able to recover the value of the investments or collateral securities. This risk is not limited only to the Custodial Bank; there may be sub-custodial Banks particularly in foreign countries that may not be affiliates of the primary Custodial Bank.

3. The Custodial Bank provides a range of services including securities safekeeping and settlement services including global and domestic U.S. custody, global and domestic cash processing including foreign exchange, securities accounting and reporting, participant accounting (transfer agent accounting and reporting), investment performance and analytics reporting, custodial securities lending or non-custodial securities lending facilitation at the Board's option, providing and maintaining a comprehensive on-line accounting system to account for the Board's entire portfolio and all transactions.

4. Given the complex role, responsibility and trust associated with the Board's Custodial Bank, the selection is proscribed as follows: First, the Board acknowledges that the selection process is governed by the State's procurement process through a formal 'Request for Proposal'. Second, the Board specifies the following *minimum* qualifications for respondents to the RFP:

   A. Offeror must have been providing domestic and global master custody services for at least ten (10) years.

   B. Offeror must have under custody at least $1 trillion in assets at fair value, $500 billion of which must include international foreign currency assets.

   C. Offeror must have been providing domestic and global master custody services for at least ten (10) public or corporate pension funds, each with assets of at least $10 billion, at fair value for a minimum of five (5) years.

D. Offeror must have provided securities lending services for public pension and non-pension funds for a minimum of ten (10) years, and the fair value of securities on loan must have averaged $40 billion daily during the twelve (12) preceding months.

E. Offeror must be able to perform all procedures necessary to convert from the current Custodial Bank's system to the new Custodial Bank's system of record. Offeror must have completed transitions of at least five (5) public funds with diversified assets totaling at least $25 billion at fair value.

F. Offeror must be able to provide participant (transfer agent) accounting (mutual fund type accounting) and be able to demonstrate to the Board's satisfaction its ability to provide such accounting.

G. Offeror must be able to provide on-line comprehensive securities accounting and be able to demonstrate to the Board's satisfaction its ability to provide such accounting.

H. Offeror must allow Board staff to customize reports and provide an electronic interface for such reports

I. Offeror must be able to provide a direct interface between its securities accounting system and the Board's Financial Asset and Investment Management System (the Board's trade order management system).

J. Offeror must be able to provide assurance through a third party, in writing, that its internal control reviews are conducted in compliance with the Statement of Standards for Attestation Engagements (SSAE) Number 16 (SOC, Report on Controls at a Service Organization); and the Offeror must have in place an internal audit staff who consistently evaluates all internal control systems and risks associated with master trust/custody services.

K. In addition to the above minimum qualifications, the Offeror must be able to demonstrate to the Board's satisfaction:

Organizational Resources, Technology and Staffing
Securities Safekeeping and Core Servicing
Securities Settlement, Accounting and Reporting
Cash and Exposure Management
Foreign Exchange
Securities Lending
Comprehensive Accounting System including Transfer Agency
Performance Measurement and Portfolio Risk Analysis
Transition and Conversion

5. The Board acknowledges that the Custodial Bank will generally have investment and deposit options available to the Board. To mitigate risk:

A. Custodial Bank must demonstrate that it has sufficient financial strength to protect the interests of the Board.

B. Hold a short-term and long-term credit rating by at least one Nationally Recognized Statistical Rating Organization (NRSRO) that meets a minimum requirement of A1 or P1 (short term) and A3 or A- (long term). Current ratings for State Street Corp.:
    i. ST Ratings: A1/P1/F1+; and
    ii. Senior Unsecured Ratings: A+/A1/AA-, with negative outlook at S&P.
C. For any cash balances held as deposits of Custodial Bank or sub-custodial banks, they are held in the name of the Board or its accounts and are incidental and only held for short periods while awaiting instructions or other disposition.

6. The Board delegates to the Custodial Bank that it is to be the 'book of record', however, the Board reserves to itself its fiduciary responsibility to assure accurate records regarding both holdings and performance.

7. The Board acknowledges and allows that some of its fiduciary assets are by their nature held elsewhere other than by the Custodial Bank and by cross-reference to (article) III part 3 of its Governance Policy, directs and requires the Chief Investment Officer to set appropriate due diligence and control standards to provide for the prudent safeguarding of such assets as:

A. Index funds
B. Private equity and real estate ownership interests
C. Any commingled funds held within managed accounts (these would include use of any ETF's or proprietary commingled funds in the form of an institutional trust vehicle)

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Board Members

From: Clifford A. Sheets, CFA, Chief Investment Officer

Date: April 7, 2015

Subject: Investment Policy Changes

The following comments outline changes that are being requested by Staff to certain investment policy statements (IPS), as explained for each below.

Montana Real Estate Pool (MTRP)
The language discussing expected returns by asset type was modified to remove references to inflation-adjusted returns and now only considers nominal returns net of investment expenses. The table which summarizes exposure ranges to the different asset types was also changed to be consistent with the return expectations discussed in the preceding narrative for each asset type.

Permanent Coal Trust
The changes provide an update of the allocation of coal tax revenues to the permanent trust fund and sub-funds, and updates the ranges for the various loans or asset pools used in the trust fund.

Noxious Weed Trust
The changes reflect the fact that this permanent trust account now only holds the statutory minimum of $10 million which is invested solely in the TFIP. Previously this account held individual securities and STIP, but that is no longer the case.

Cash Investments
In addition to the specific changes discussed above, a universal addition to all IPS is recommended that will address investments in various cash vehicles that are held within a pool or separate account. Currently, many IPS mention investments in a cash fund, typically STIP, but do not expressly acknowledge the aspect of credit risk inherently imbedded in such funds. Since the auditors called attention to the failure to address credit risk in these cash investment funds, the paragraph below is designed to disclose the existence of this risk and provide a limited set of such funds for investment, as well as point to the fact each of these funds has its own set of investment guidelines designed to address credit risk.

"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."

Following this memo are the three individual policy statements listed above, both marked for changes and in final form. Staff recommends the Board approve the changes to investment policies as outlined above.

REAL ESTATE INVESTMENT GUIDELINES AND RANGES

The Montana Real Estate Pool (MTRP) was created to permit the nine Montana Retirement Systems to participate in a diversified real estate portfolio, consisting of commercial real estate and timberland. Real estate investments in the MTRP shall be consistent with the following guidelines:

a. Permissible Investment Structures/Vehicles and Public/Private Allocations

Investment Structures/Vehicles. The MTRP will include real estate investments, consisting of both open-end and closed-end pooled funds, the advantages and disadvantages of which are described in the following table.

VEHICLE	ADVANTAGES	DISADVANTAGES	LIQUIDITY
Open-Ended Fund	1. Property type diversification. 2. Geographic diversification. 3. Existing investment portfolio to evaluate. 4. Existing manager and fund performance record. 5. Infinite life. 6. Can redeem units in fund.	1. Passive investor. 2. Cannot replace manager. 3. Cannot influence manager decisions regarding acquisitions, financings, and sales. 4. Fee level and structures lack alignment of interests. 5. Lack of manager co-investment. 6. Historically have not sold assets to harvest gains.	Typically within 90 days unless there is an investor queue.
Closed-Ended Fund	1. Skilled value-added/ opportunistic management. 2. Manager organizations and track records. 3. Manager co-investment. 4. Manager-investor enhanced alignment of interests. 5. Asset liquidations by end of term of fund.	1. Illiquid-specified term. 2. Typically blind pools. 3. Cannot redeem interest. 4. Passive investor. 5. Cannot influence manager decisions regarding acquisitions, financings, and sales.	Typically 7 to 10 year terms.

Open-end Commingled Funds. The MTRP portfolio may have significant exposure to open-end commingled funds. The open-end fund investments shall be made primarily to provide (1) timely access to large existing, well-diversified portfolios, (2) reasonable property type and geographic diversification, (3) exposure to larger properties (i.e., over $50 mil.), and (4) reasonable liquidity (i.e., ability to purchase or redeem within 90 days unless there is an investor queue). Reasonable due diligence shall be completed to evaluate open-end commingled funds consistent with these objectives.

Closed-end Commingled Funds. The MTRP portfolio may have significant exposure to closed-end commingled funds. The closed-end fund investments may be made to obtain exposure to timberland and value-added and opportunistic real estate investments. Reasonable due diligence shall be completed prior to selecting closed-end fund investments.

Liquidity. The table below describes different levels of liquidity of real estate investments.

PORTFOLIO LIQUIDITY RANGES	
Degree of Liquidity	**Investment Type**
LIQUID (i.e., can redeem within 30 days if no queue exists)	Select Open-End Funds
MODERATE LIQUIDITY (i.e., can redeem within 90 to 120 days if no queue exists)	Open-End Funds
ILLIQUID (i.e., liquidity is subject to GP discretion until fund termination.)	Closed-End Funds

b. **Expected Investments.**

The categories utilized to classify MTRP real estate investments are: Timberland, Core, Value-Added, and Opportunistic. With the exception of Timberland, the categories are differentiated primarily by risk/return attributes rather than by property type. A description of each category follows.

Timberland. Equity investment in land that is populated with or is intended to produce commercially harvestable timber. Net ~~inflation-adjusted~~ returns are expected to be 5.0 percent to 7.0 percent. Proceeds from the sale of timber and ancillary revenue opportunities, such as recreational leases, will account for the majority of the real return, while land appreciation is expected to approximate the rate of inflation.

Core. Equity investment in operating and substantially-leased institutional quality real estate in the traditional property types (apartments, office, retail, industrial and hotel). Net returns historically have been in the 4.0 percent to 6.0 percent range ~~(inflation-adjusted and net of fees)~~ and are typically comprised of greater levels of income (i.e., 67.0 percent of total returns) with appreciation matching or exceeding inflation.

Value-Added. Equity or debt interests in assets requiring rehabilitation, redevelopment, development, lease-up or repositioning. Net returns historically have been in the 8.0 percent to 10.0 percent range ~~(inflation-adjusted and net of fees)~~. Value-added investments frequently involve the repositioning of distressed assets (i.e., not fully leased and operating). For example, a value-added investment may be an office building that is 40.0 percent vacant and needs significant capital to rehabilitate and reposition the property. Investment may also include non-traditional property types (e.g., manufactured housing) which may contain greater risk. Value-added investments typically are expected to generate returns in excess of core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, decreasing the capitalization rate used in selling the asset due to the reduced asset risk resulting from stabilized occupancy. Value-added returns are typically more dependent than core on appreciation returns with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost).

Opportunistic. Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk. Risk may include real estate, financial restructuring, and non-real estate risk. Net returns have been in the 12.0 percent or higher range ~~(inflation-adjusted and net of fees)~~. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REITs or REOCs. Investments may

also be made in non-traditional property types (e.g., self-storage), which typically contain greater risk. Opportunistic returns typically require even greater appreciation returns than value-added (e.g., 50.0 percent of total returns) and in many cases are originated with minimal income in place.

c. **Policy Constraints.**

Policy range targets for MTRP will be reviewed and adjusted periodically going forward with respect to MTRP exposures. Policy range targets include those dealing with investment category (see below), property type (Section e. 1.), geography (Section e. 2.), and leverage (Section f. 1.). Portfolio exposures to these factors will be presented quarterly. Because MTRP investments have limited liquidity, it will typically be impractical to correct deviations from policy range targets through the purchase or sale of assets. Therefore, if actual portfolio holdings should fall outside of policy guidelines, the MTRP shall refrain from investing in funds that would be expected to increase the deviation from policy ranges.

The following table sets forth the long-term investment category policy ranges for the portfolio.

INVESTMENT STRATEGY RANGES AND ~~PORTFOLIO RISK/~~RETURN ~~RANGES~~EXPECTATIONS		
~~Risk/Return~~Strategy	~~Nominal Return (Net)*~~ Net Returns	Policy Range
Core plus Timberland	~~4~~6-7~~8~~%	35%-65%
Value-Added	8~~10~~-10~~12~~%	20%-45%
Opportunistic	12% plus~~13~~-~~15%~~	10%-30%

~~* Assumes 2.5% inflation overall and 100 basis points core management fee, 200 basis points value-added and timberland management and incentive fees, and 300 basis points opportunistic management and incentive fees.~~

d. **Income and Appreciation Return Mix.**

Real estate investments, depending on their risk/return level, offer varying proportions of expected income/cash yield and appreciation returns. Investments providing higher income/cash yield returns typically will be preferred among investments of comparable expected total returns since income/cash yield returns provide greater return certainty and therefore lower risk. In addition, investments providing preferred or senior income/cash yield returns typically will be preferred among investments providing comparable returns because such features enhance the certainty of return.

e. **Diversification.**

The MTRP portfolio diversification is important in reducing portfolio risk and accomplishing superior risk-adjusted returns. The impact of investments on portfolio diversification, portfolio risk, and risk-adjusted returns shall be considered when evaluating prospective investments. Additionally, the portfolio may have over-weighted exposure in select property types or regions.

1. **Property Type.** Property type diversification is one of the most important diversification features in terms of impact on returns. The property types have

historically performed differently during economic cycles. Residential and industrial investments have historically outperformed the other property types during economic downturns. Office has historically underperformed during economic downturns, as reduced tenant demand results in lower rents, higher owner operating and build-out costs, and reduced income and cash flow. Hotels historically also have underperformed during economic downturns.

Diversification ranges are based on the universe of available real estate investments and institutional investor portfolio information. The following table provides a guideline range with respect to the MTRP property type diversification.

PROPERTY TYPE DIVERSIFICATION RANGES	
Property Type	**Policy Range**
Timberland	0%-35%
Office	15%-45%
Retail	10%-40%
Industrial	5%-35%
Residential	10%-40%
Hotel/Other	5%-25%

2. **Region/Location.** The importance of location to the long-term value of real estate is based on the economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of U.S. and international regions. The distribution of real estate investments by geographic region shall be monitored for compliance with the broad ranges set forth in the table below.

REGIONAL DIVERSIFICATION RANGES	
Regions	**Policy Range**
West	20%-45%
South	10%-40%
Midwest	5%-25%
East	20%-45%
International	0%-30%

Because domestic commercial timberland is primarily concentrated in the South and the Pacific Northwest, the preceding regional diversification ranges shall apply only to non-timberland real estate holdings.

3. **Other.** In addition to property type and regional diversification, there are other real estate factors that impact the portfolio risk which may be reduced through diversification. These portfolio factors may include, but are not limited to, the following:

   a. **Investment Structure.** Equity, preferred equity, first mortgage debt or mezzanine equity. **Investments in public CMBS and REITs are not preferred**.

b. **Life Cycle.** Land, development/redevelopment, leasing (i.e., less than 90% leased) and operating (i.e., over 90% leased).
c. **Investment Size.** $0-$10 mil., $10-$20 mil., $20-$50 mil., $50-$100 mil., $100 mil.+.

While no formal diversification ranges are set forth for the above portfolio risk factors, these and other factors may be monitored in assessing overall portfolio risk and expected return.

f. **Other Risk Factors**.

1. **Leverage.** Leverage is a significant risk factor. Its importance is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels. It may be the case that the leverage level increases as market conditions worsen.

On an individual fund basis, the leverage level can range up to 75.0 percent. Leverage consists of the combined borrowing at the property level and the fund level. On a select basis, the leverage may exceed 75.0 percent for a given investment, if it is determined to be reasonable to do so. Leverage shall be monitored on an individual fund level, and new investments shall be made with the intention that the total MTRP portfolio leverage shall not exceed 60.0 percent.

LEVERAGE RANGES	
Risk	**Range**
Timberland	0%-30%
Core	0%-50%
Non-Core	0%-75%
Total Real Estate Portfolio	0%-60%

2. **Monitoring and Control.** All investments will be made through investment vehicles providing full discretion to investment managers.

3. **Manager Concentrations.** The MTRP exposure to each manager shall be reviewed regularly to determine the reasonableness of each. No manager shall have under management more than 25.0 percent of the MTRP's net asset value, unless specifically approved by the Board.

Benchmark. The MTRP benchmark shall be the NCREIF Open End Diversified Core Equity Index (Net) (NFI-ODCE), as a broad measure of investment in low-leveraged commercial real estate. It should be noted that because of the allocation to non-core real estate funds, the pool will be exposed to higher levels of real estate risk which should provide an expected return advantage versus core real estate over long time periods. Because MTRP's underlying funds typically report their returns 30-90 days after quarter-end, the benchmark will be compared on a one-quarter lagged basis. Benchmarking of the Pool should emphasize the comparison of longer-term performance data, ideally a period of time sufficient to encompass an entire real estate market cycle.

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VEHICLE	ADVANTAGES	DISADVANTAGES	LIQUIDITY
Open-Ended Fund	1. Property type diversification. 2. Geographic diversification. 3. Existing investment portfolio to evaluate. 4. Existing manager and fund performance record. 5. Infinite life. 6. Can redeem units in fund.	1. Passive investor. 2. Cannot replace manager. 3. Cannot influence manager decisions regarding acquisitions, financings, and sales. 4. Fee level and structures lack alignment of interests. 5. Lack of manager co-investment. 6. Historically have not sold assets to harvest gains.	Typically within 90 days unless there is an investor queue.
Closed-Ended Fund	1. Skilled value-added/ opportunistic management. 2. Manager organizations and track records. 3. Manager co-investment. 4. Manager-investor enhanced alignment of interests. 5. Asset liquidations by end of term of fund.	1. Illiquid-specified term. 2. Typically blind pools. 3. Cannot redeem interest. 4. Passive investor. 5. Cannot influence manager decisions regarding acquisitions, financings, and sales.	Typically 7 to 10 year terms.

Open-end Commingled Funds. The MTRP portfolio may have significant exposure to open-end commingled funds. The open-end fund investments shall be made primarily to provide (1) timely access to large existing, well-diversified portfolios, (2) reasonable property type and geographic diversification, (3) exposure to larger properties (i.e., over $50 mil.), and (4) reasonable liquidity (i.e., ability to purchase or redeem within 90 days unless there is an investor queue). Reasonable due diligence shall be completed to evaluate open-end commingled funds consistent with these objectives.

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ILLIQUID (i.e., liquidity is subject to GP discretion until fund termination.)	Closed-End Funds

b. **Expected Investments.**

The categories utilized to classify MTRP real estate investments are: Timberland, Core, Value-Added, and Opportunistic. With the exception of Timberland, the categories are differentiated primarily by risk/return attributes rather than by property type. A description of each category follows.

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Core. Equity investment in operating and substantially-leased institutional quality real estate in the traditional property types (apartments, office, retail, industrial and hotel). Net returns historically have been in the 4.0 percent to 6.0 percent range and are typically comprised of greater levels of income (i.e., 67.0 percent of total returns) with appreciation matching or exceeding inflation.

Value-Added. Equity or debt interests in assets requiring rehabilitation, redevelopment, development, lease-up or repositioning. Net returns historically have been in the 8.0 percent to 10.0 percent range. Value-added investments frequently involve the repositioning of distressed assets (i.e., not fully leased and operating). For example, a value-added investment may be an office building that is 40.0 percent vacant and needs significant capital to rehabilitate and reposition the property. Investment may also include non-traditional property types (e.g., manufactured housing) which may contain greater risk. Value-added investments typically are expected to generate returns in excess of core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, decreasing the capitalization rate used in selling the asset due to the reduced asset risk resulting from stabilized occupancy. Value-added returns are typically more dependent than core on appreciation returns with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost).

Opportunistic. Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk. Risk may include real estate, financial restructuring, and non-real estate risk. Net returns have been in the 12.0 percent or higher range. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REITs or REOCs. Investments may also be made in non-traditional property types (e.g., self-storage), which typically contain greater risk. Opportunistic returns typically require even greater appreciation returns than value-added (e.g., 50.0

percent of total returns) and in many cases are originated with minimal income in place.

c. **Policy Constraints.**

Policy range targets for MTRP will be reviewed and adjusted periodically going forward with respect to MTRP exposures. Policy range targets include those dealing with investment category (see below), property type (Section e. 1.), geography (Section e. 2.), and leverage (Section f. 1.). Portfolio exposures to these factors will be presented quarterly. Because MTRP investments have limited liquidity, it will typically be impractical to correct deviations from policy range targets through the purchase or sale of assets. Therefore, if actual portfolio holdings should fall outside of policy guidelines, the MTRP shall refrain from investing in funds that would be expected to increase the deviation from policy ranges.

The following table sets forth the long-term investment category policy ranges for the portfolio.

INVESTMENT STRATEGY RANGES AND RETURN EXPECTATIONS		
Strategy	**Net Returns**	**Policy Range**
Core plus Timberland	4-7%	35%-65%
Value-Added	8-10%	20%-45%
Opportunistic	12% plus	10%-30%

d. **Income and Appreciation Return Mix.**

Real estate investments, depending on their risk/return level, offer varying proportions of expected income/cash yield and appreciation returns. Investments providing higher income/cash yield returns typically will be preferred among investments of comparable expected total returns since income/cash yield returns provide greater return certainty and therefore lower risk. In addition, investments providing preferred or senior income/cash yield returns typically will be preferred among investments providing comparable returns because such features enhance the certainty of return.

e. **Diversification.**

The MTRP portfolio diversification is important in reducing portfolio risk and accomplishing superior risk-adjusted returns. The impact of investments on portfolio diversification, portfolio risk, and risk-adjusted returns shall be considered when evaluating prospective investments. Additionally, the portfolio may have over-weighted exposure in select property types or regions.

1. **Property Type.** Property type diversification is one of the most important diversification features in terms of impact on returns. The property types have historically performed differently during economic cycles. Residential and industrial investments have historically outperformed the other property types during economic downturns. Office has historically underperformed during economic downturns, as reduced tenant demand results in lower rents, higher owner operating and build-out costs, and reduced income and cash flow. Hotels

historically also have underperformed during economic downturns.

Diversification ranges are based on the universe of available real estate investments and institutional investor portfolio information. The following table provides a guideline range with respect to the MTRP property type diversification.

PROPERTY TYPE DIVERSIFICATION RANGES	
Property Type	**Policy Range**
Timberland	0%-35%
Office	15%-45%
Retail	10%-40%
Industrial	5%-35%
Residential	10%-40%
Hotel/Other	5%-25%

2. **Region/Location.** The importance of location to the long-term value of real estate is based on the economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of U.S. and international regions. The distribution of real estate investments by geographic region shall be monitored for compliance with the broad ranges set forth in the table below.

REGIONAL DIVERSIFICATION RANGES	
Regions	**Policy Range**
West	20%-45%
South	10%-40%
Midwest	5%-25%
East	20%-45%
International	0%-30%

Because domestic commercial timberland is primarily concentrated in the South and the Pacific Northwest, the preceding regional diversification ranges shall apply only to non-timberland real estate holdings.

3. **Other.** In addition to property type and regional diversification, there are other real estate factors that impact the portfolio risk which may be reduced through diversification. These portfolio factors may include, but are not limited to, the following:

   a. **Investment Structure.** Equity, preferred equity, first mortgage debt or mezzanine equity. **Investments in public CMBS and REITs are not preferred**.

   b. **Life Cycle.** Land, development/redevelopment, leasing (i.e., less than 90% leased) and operating (i.e., over 90% leased).

   c. **Investment Size.** $0-$10 mil., $10-$20 mil., $20-$50 mil., $50-$100 mil., $100 mil.+.

While no formal diversification ranges are set forth for the above portfolio risk factors, these and other factors may be monitored in assessing overall portfolio risk and expected return.

f. **Other Risk Factors**.

1. **Leverage.** Leverage is a significant risk factor. Its importance is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels. It may be the case that the leverage level increases as market conditions worsen.

   On an individual fund basis, the leverage level can range up to 75.0 percent. Leverage consists of the combined borrowing at the property level and the fund level. On a select basis, the leverage may exceed 75.0 percent for a given investment, if it is determined to be reasonable to do so. Leverage shall be monitored on an individual fund level, and new investments shall be made with the intention that the total MTRP portfolio leverage shall not exceed 60.0 percent.

LEVERAGE RANGES	
Risk	**Range**
Timberland	0%-30%
Core	0%-50%
Non-Core	0%-75%
Total Real Estate Portfolio	0%-60%

2. **Monitoring and Control.** All investments will be made through investment vehicles providing full discretion to investment managers.

3. **Manager Concentrations.** The MTRP exposure to each manager shall be reviewed regularly to determine the reasonableness of each. No manager shall have under management more than 25.0 percent of the MTRP's net asset value, unless specifically approved by the Board.

Benchmark. The MTRP benchmark shall be the NCREIF Open End Diversified Core Equity Index (Net) (NFI-ODCE), as a broad measure of investment in low-leveraged commercial real estate. It should be noted that because of the allocation to non-core real estate funds, the pool will be exposed to higher levels of real estate risk which should provide an expected return advantage versus core real estate over long time periods. Because MTRP's underlying funds typically report their returns 30-90 days after quarter-end, the benchmark will be compared on a one-quarter lagged basis. Benchmarking of the Pool should emphasize the comparison of longer-term performance data, ideally a period of time sufficient to encompass an entire real estate market cycle.

PERMANENT COAL TRUST FUNDS INVESTMENT POLICY STATEMENT

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 overall permanent fund portfolio. The policy is designed to meet the various objectives of the permanent trust funds within the context of prudent investment principles while complying with state law. This policy is intended to apply to the original and all of the various sub-funds comprising the permanent coal trust.

BACKGROUND INFORMATION

Article IX, Section 5 of the state Constitution requires that 50 percent of all coal severance tax revenues be deposited in a permanent trust fund (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest 25 percent of the Trust in Montana businesses.

The legislature has partitioned the Trust into several sub-funds. The Permanent Fund was initially established when the Trust was created, while the Severance Tax Bond Fund, created later, provides debt service guarantees and is invested solely in STIP. The Treasure State Endowment Fund was created July 1, 1993, with a $10.0 million transfer from the Permanent Fund. From July 1, 1993 through June 30, 1999 one-half of the coal severance tax earmarked for the Trust was deposited in the Permanent Fund and the remaining 50 percent was deposited in the Treasure State Endowment Fund.

Effective July 1, 1999, a new Treasure State Endowment Regional Water Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account. The Permanent Fund received 25 percent and the Treasure State Endowment received 50 percent.

Effective July 1, 2005, a new Big Sky Economic Development Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account though June 30, 2025. Trust revenues are allocated 50 percent to the Treasure State Endowment Fund, 25 percent to the Treasure State Endowment Regional Water Fund and 25 percent to the Big Sky Economic Development Fund. ~~There is currently no new revenue dedicated to the Permanent Fund.~~ There will be no allocation to the Permanent Fund through June 30, 2016.

Effective July 1, 2016, no Trust revenues will be dedicated to the Treasure State Endowment fund or the Treasure State Endowment Regional Water Fund. Coal tax revenue will then be allocated 75 percent to the Permanent Fund and 25 percent to the Big Sky Economic Development Fund.

Income from the Permanent Fund and the Bond Fund is deposited in the Permanent Fund Income Fund where it is swept periodically to the state general fund. All sub-funds, except the income fund, are protected by the Constitution and may be appropriated only by a three-fourths vote of each house of the legislature. Income from the Treasure State Endowment Fund is appropriated by the legislature for local government infrastructure projects. Treasure State Endowment Regional Water Fund income is appropriated by the legislature for local government water projects. Big Sky Economic Development Fund income is appropriated by the legislature for economic development projects.

OBJECTIVES

The primary investment objective of the fund is to generate income and to fund Montana loans for various economic development purposes. Income from the fund offsets a portion of the State's general expenditures. To meet this income objective requires a return in excess of the assumed risk free rate which entails some risk of loss of principal. This fund is being managed as a long-term permanent fund, and as such there is little risk that the corpus will need to be liquidated under normal circumstances. Therefore, the fund has an above average ability to assume risk. Accordingly, a large allocation to the Trust Fund Investment Pool (TFIP) will be made to obtain exposure to a diversified fixed income portfolio return while reducing idiosyncratic risk. A large allocation to Montana loans and investments will be made to comply with legislative expectations.

PERMITTED INVESTMENTS AND LIMITATIONS

- Trust Fund Investment Pool: a broad allocation range is appropriate to allow for increased return, diversification and as an offset for other asset types.
- Short Term Investment Pool (STIP): a small allocation is appropriate to provide for liquidity, facilitate transactions, and allow for temporary timing differences in other allocations.
- Montana Commercial Loans: A broad allocation range is appropriate in contemplation of economic conditions and to comply with MCA 17-6-305. The code partially states "(1) Subject to the provisions of 17-6-201(1), the board shall endeavor to invest 25% of the permanent coal tax trust fund established in 17-6-203(6) in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises. Investments made pursuant to this section do not include investments made pursuant to 17-6-309(2). For purposes of calculating the 25% of the permanent coal tax trust fund, the board shall include all funds listed in 17-5-703(1). This subsection does not prohibit the board from investing more than 25% of the permanent coal tax trust fund in the Montana economy if it is prudent to do so and the investments will benefit the Montana economy. (2) In determining the probable income to be derived from investment of this revenue, the long-term benefit to the Montana economy must be considered."
- Montana Value Added Loans: A moderate allocation range is appropriate to comply with MCA 17-6-317 with a maximum of $70 million.
- Montana Infrastructure Loans: A moderate allocation range is appropriate to comply with MCA 17-6-316 with a maximum of $80 million.
- Intermediary Relending Loans: A very small allocation is appropriate to comply with MCA 17-6-345 with a maximum of $5 million.
- Montana Facility Finance Loans: A small allocation is appropriate in contemplation of economic conditions and to comply with MCA 17-6-308(4) with a maximum of $15 million.
- Montana Science and Technology Loans: A small allocation is appropriate to comply with MCA 17-6-308(3) and the run off of the canceled program.
- Montana Veterans' Home Loan Mortgages: A small allocation range is appropriate to comply with MCA 90-6-603 with a maximum of $~~15~~ 40 million.
- Principal and Interest guarantees for Montana Health Facility Finance Authority: No stated range. An amount equal to one year's principal and interest should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI resolution 219.
- Implied Contracts to allow Montana Intercap bond holders to put bonds on the Permanent Fund: No stated range. An amount equal to outstanding Intercap Bonds should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI resolution 219.

The investment and legal considerations of the fund suggest the permitted investments and expected allocation ranges shown on the following page. These ranges are intended to apply to the consolidated funds making up the permanent coal trust.

PERMANENT COAL TRUST FUNDS
INVESTMENT POLICY STATEMENT

ASSET ALLOCATION
(At Market)

	~~12/31/2011~~	Ranges	
Trust Funds Investment Pool	~~80.2%~~	~~38%~~	~~- 92%~~
Commercial Loans	~~12.7%~~	~~8%~~	~~- 36%~~
Value Added Loans	~~0.3%~~	~~0%~~	~~- 6%~~
Infrastructure Loans	~~2.5%~~	~~0%~~	~~- 8%~~
Intermediary Relending Loans	~~0.3%~~	~~0%~~	~~- 1%~~
Facility Finance Loans	~~0.8%~~	~~0%~~	~~- 2%~~
Science and Technology Loans	~~1.3%~~	~~0%~~	~~- 2%~~
Veterans' Mortgage Loans	~~0.0%~~	~~0%~~	~~- 2%~~
Short Term Investment Pool	~~1.7%~~	~~0%~~	~~- 5%~~
	100.0%		

	12/31/2014	Ranges	
Trust Funds Investment Pool	83.9%	37%	- 93%
Commercial Loans	8.6%	7%	- 37%
Value Added Loans	0.1%	0%	- 7%
Infrastructure Loans	2.6%	0%	- 8%
Intermediary Relending Loans	0.3%	0%	- 1%
Facility Finance Loans	0.3%	0%	- 2%
Science and Technology Loans	.2%	0%	- 0%
Veterans' Mortgage Loans	2.6%	0%	- 4%
Short Term Investment Pool	1.8%	0%	- 5%
	100.0%		

Approved April 7, 2015

PERMANENT COAL TRUST FUNDS
INVESTMENT POLICY STATEMENT

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 overall permanent fund portfolio. The policy is designed to meet the various objectives of the permanent trust funds within the context of prudent investment principles while complying with state law. This policy is intended to apply to the original and all of the various sub-funds comprising the permanent coal trust.

BACKGROUND INFORMATION

Article IX, Section 5 of the state Constitution requires that 50 percent of all coal severance tax revenues be deposited in a permanent trust fund (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest 25 percent of the Trust in Montana businesses.

The legislature has partitioned the Trust into several sub-funds. The Permanent Fund was initially established when the Trust was created, while the Severance Tax Bond Fund, created later, provides debt service guarantees and is invested solely in STIP. The Treasure State Endowment Fund was created July 1, 1993, with a $10.0 million transfer from the Permanent Fund. From July 1, 1993 through June 30, 1999 one-half of the coal severance tax earmarked for the Trust was deposited in the Permanent Fund and the remaining 50 percent was deposited in the Treasure State Endowment Fund.

Effective July 1, 1999, a new Treasure State Endowment Regional Water Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account. The Permanent Fund received 25 percent and the Treasure State Endowment received 50 percent.

Effective July 1, 2005, a new Big Sky Economic Development Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account though June 30, 2025. Trust revenues are allocated 50 percent to the Treasure State Endowment Fund, 25 percent to the Treasure State Endowment Regional Water Fund and 25 percent to the Big Sky Economic Development Fund. There will be no allocation to the Permanent Fund through June 30, 2016.

Effective July 1, 2016, no Trust revenues will be dedicated to the Treasure State Endowment fund or the Treasure State Endowment Regional Water Fund. Coal tax revenue will then be allocated 75 percent to the Permanent Fund and 25 percent to the Big Sky Economic Development Fund.

Income from the Permanent Fund and the Bond Fund is deposited in the Permanent Fund Income Fund where it is swept periodically to the state general fund. All sub-funds, except the income fund, are protected by the Constitution and may be appropriated only by a three-fourths vote of each house of the legislature. Income from the Treasure State Endowment Fund is appropriated by the legislature for local government infrastructure projects. Treasure State Endowment Regional Water Fund income is appropriated by the legislature for local government water projects. Big Sky Economic Development Fund income is appropriated by the legislature for economic development projects.

OBJECTIVES

The primary investment objective of the fund is to generate income and to fund Montana loans for various economic development purposes. Income from the fund offsets a portion of the State's general expenditures. To meet this income objective requires a return in excess of the assumed risk free rate which entails some risk of loss of principal. This fund is being managed as a long-term permanent fund, and as such there is little risk that the corpus will need to be liquidated under normal circumstances. Therefore, the fund has an above average ability to assume risk. Accordingly, a large allocation to the Trust Fund Investment Pool (TFIP) will be made to obtain exposure to a diversified fixed income portfolio return while reducing idiosyncratic risk. A large allocation to Montana loans and investments will be made to comply with legislative expectations.

PERMANENT COAL TRUST FUNDS
INVESTMENT POLICY STATEMENT

PERMITTED INVESTMENTS AND LIMITATIONS

- Trust Fund Investment Pool: a broad allocation range is appropriate to allow for increased return, diversification and as an offset for other asset types.
- Short Term Investment Pool (STIP): a small allocation is appropriate to provide for liquidity, facilitate transactions, and allow for temporary timing differences in other allocations.
- Montana Commercial Loans: A broad allocation range is appropriate in contemplation of economic conditions and to comply with MCA 17-6-305. The code partially states "(1) Subject to the provisions of 17-6-201(1), the board shall endeavor to invest 25% of the permanent coal tax trust fund established in 17-6-203(6) in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises. Investments made pursuant to this section do not include investments made pursuant to 17-6-309(2). For purposes of calculating the 25% of the permanent coal tax trust fund, the board shall include all funds listed in 17-5-703(1). This subsection does not prohibit the board from investing more than 25% of the permanent coal tax trust fund in the Montana economy if it is prudent to do so and the investments will benefit the Montana economy. (2) In determining the probable income to be derived from investment of this revenue, the long-term benefit to the Montana economy must be considered."
- Montana Value Added Loans: A moderate allocation range is appropriate to comply with MCA 17-6-317 with a maximum of $70 million.
- Montana Infrastructure Loans: A moderate allocation range is appropriate to comply with MCA 17-6-316 with a maximum of $80 million.
- Intermediary Relending Loans: A very small allocation is appropriate to comply with MCA 17-6-345 with a maximum of $5 million.
- Montana Facility Finance Loans: A small allocation is appropriate in contemplation of economic conditions and to comply with MCA 17-6-308(4) with a maximum of $15 million.
- Montana Science and Technology Loans: A small allocation is appropriate to comply with MCA 17-6-308(3) and the run off of the canceled program.
- Montana Veterans' Home Loan Mortgages: A small allocation range is appropriate to comply with MCA 90-6-603 with a maximum of $40 million.
- Principal and Interest guarantees for Montana Health Facility Finance Authority: No stated range. An amount equal to one year's principal and interest should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI resolution 219.
- Implied Contracts to allow Montana Intercap bond holders to put bonds on the Permanent Fund: No stated range. An amount equal to outstanding Intercap Bonds should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI resolution 219.

The investment and legal considerations of the fund suggest the permitted investments and expected allocation ranges shown on the following page. These ranges are intended to apply to the consolidated funds making up the permanent coal trust.

Approved April 7, 2015

PERMANENT COAL TRUST FUNDS
INVESTMENT POLICY STATEMENT

ASSET ALLOCATION
(At Market)

	12/31/2014	Ranges
Trust Funds Investment Pool	83.9%	37% - 93%
Commercial Loans	8.6%	7% - 37%
Value Added Loans	0.1%	0% - 7%
Infrastructure Loans	2.6%	0% - 8%
Intermediary Relending Loans	0.3%	0% - 1%
Facility Finance Loans	0.3%	0% - 2%
Science and Technology Loans	.2%	0% - 0%
Veterans' Mortgage Loans	2.6%	0% - 4%
Short Term Investment Pool	1.8%	0% - 5%
	100.0%	

 ~~Approved: February 2011~~Pending Approval April 7, 2015

MONTANA BOARD OF INVESTMENTS
NOXIOUS WEED MANAGEMENT TRUST FUND (MU61) (FUND 09034)
INVESTMENT POLICY STATEMENT

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 to enable the sponsor, Department of Agriculture, to monitor the progress of the plan.

OBJECTIVES

Return: This account is not highly sensitive to total return performance. ~~The total rate of return is expected to reflect the high quality short-intermediate maturity profile of the direct holdings that currently constitute the portfolio. Over time as these mature and are reinvested into the TFIP, the total return is expected to mirror that of the underlying assets – a combination of short-intermediate bonds and the TFIP, and eventually only the TFIP. As a result, the duration of the portfolio is expected to extend over time and thus the total return will gradually become more volatile.~~

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

Risk Tolerance: This is a constitutional trust fund having an above average ability to assume interest rate risk with low risk of loss to principal invested.

CONSTRAINTS

Time Horizon: This fund is considered a long-term fund that has a time horizon beyond five years. Investments in the Trust Funds Investment Pool (TFIP) will be allowed.

Liquidity Needs: Liquidity needs are low. ~~Except for investment reasons, t~~There is no reason to maintain any ~~sizable~~ liquid reserves in the fund.

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: None.

MONTANA BOARD OF INVESTMENTS
NOXIOUS WEED MANAGEMENT TRUST FUND (MU61) (FUND 09034)
INVESTMENT POLICY STATEMENT

CONSTITUTION

Section 6. Noxious weed management trust fund. (1) The legislature shall provide for a fund, to be known as the noxious weed management trust of the state of Montana, to be funded as provided by law.

(2) The principal of the noxious weed management trust fund shall forever remain inviolate in an amount of ten million dollars ($10,000,000) unless appropriated by the vote of three-fourths (3/4) of the members of each house of the legislature.

(3) The interest and income generated from the noxious weed management trust fund may be appropriated by a majority vote of each house of the legislature. Appropriations of the interest and income shall be used only to fund the noxious weed management program, as provided by law.

(4)The principal of the noxious weed management trust fund in excess of ten million dollars ($10,000,000) may be appropriated by a majority vote of each house of the legislature. Appropriations of the principal in excess of ten million dollars ($10,000,000) shall be used only to fund the noxious weed management program, as provided by law.

History: En. Sec. 1, Const. Amend. No. 40, approved Nov. 2, 2004.

LAW

80-7-811. Noxious weed management trust fund. (1) As required by Article IX, section 6, of the Montana constitution, there is a noxious weed management trust fund of $10 million. The department shall administer the trust fund in accordance with this part.

(2) Deposits to the principal of the noxious weed management trust fund may include but are not limited to:

(a) federal contributions;

(b) private donations; and

(c) state contributions.

History: En. Sec. 2, Ch. 577, L. 1985; amd. Sec. 2, Ch. 220, L. 1995; amd. Sec. 3, Ch. 493, L. 1999; amd. Sec. 4, Ch. 472, L. 2005.

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.

MONTANA BOARD OF INVESTMENTS
NOXIOUS WEED MANAGEMENT TRUST FUND (MU61) (FUND 09034)
INVESTMENT POLICY STATEMENT

ASSET ALLOCATION
(at market)

FIXED INCOME	Range
~~Government/Agency Bond~~	~~0-65%~~
~~Corporate Bonds~~	~~0-50%~~
Trust Funds Investment Pool (TFIP)	~~0-98~~100%
~~Short-term Investment Pool (STIP)~~	~~2-40%~~
Total Fixed Income	100.0%

MONTANA BOARD OF INVESTMENTS
NOXIOUS WEED MANAGEMENT TRUST FUND (MU61) (FUND 09034)
INVESTMENT POLICY STATEMENT

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 to enable the sponsor, Department of Agriculture, to monitor the progress of the plan.

OBJECTIVES

Return: This account is not highly sensitive to total return performance.

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

Risk Tolerance: This is a constitutional trust fund having an above average ability to assume interest rate risk with low risk of loss to principal invested.

CONSTRAINTS

Time Horizon: This fund is considered a long-term fund that has a time horizon beyond five years. Investments in the Trust Funds Investment Pool (TFIP) will be allowed.

Liquidity Needs: Liquidity needs are low. There is no reason to maintain any liquid reserves in the fund.

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: None.

MONTANA BOARD OF INVESTMENTS
NOXIOUS WEED MANAGEMENT TRUST FUND (MU61) (FUND 09034)
INVESTMENT POLICY STATEMENT

CONSTITUTION

Section 6. Noxious weed management trust fund. (1) The legislature shall provide for a fund, to be known as the noxious weed management trust of the state of Montana, to be funded as provided by law.

(2) The principal of the noxious weed management trust fund shall forever remain inviolate in an amount of ten million dollars ($10,000,000) unless appropriated by the vote of three-fourths (3/4) of the members of each house of the legislature.

(3) The interest and income generated from the noxious weed management trust fund may be appropriated by a majority vote of each house of the legislature. Appropriations of the interest and income shall be used only to fund the noxious weed management program, as provided by law.

(4)The principal of the noxious weed management trust fund in excess of ten million dollars ($10,000,000) may be appropriated by a majority vote of each house of the legislature. Appropriations of the principal in excess of ten million dollars ($10,000,000) shall be used only to fund the noxious weed management program, as provided by law.

History: En. Sec. 1, Const. Amend. No. 40, approved Nov. 2, 2004.

LAW

80-7-811. Noxious weed management trust fund. (1) As required by Article IX, section 6, of the Montana constitution, there is a noxious weed management trust fund of $10 million. The department shall administer the trust fund in accordance with this part.

(2) Deposits to the principal of the noxious weed management trust fund may include but are not limited to:

(a) federal contributions;

(b) private donations; and

(c) state contributions.

History: En. Sec. 2, Ch. 577, L. 1985; amd. Sec. 2, Ch. 220, L. 1995; amd. Sec. 3, Ch. 493, L. 1999; amd. Sec. 4, Ch. 472, L. 2005.

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.

MONTANA BOARD OF INVESTMENTS
NOXIOUS WEED MANAGEMENT TRUST FUND (MU61) (FUND 09034)
INVESTMENT POLICY STATEMENT

ASSET ALLOCATION
(at market)

FIXED INCOME	Range
Trust Funds Investment Pool (TFIP)	100%
Total Fixed Income	100.0%

Montana Veterans Home Loan Mortgage Policy

Veterans' Home Loan Mortgage Program is authorized under 90-6-6 M.C.A. The following Veterans' Home Loan Mortgage Policy applies to this statute. Loans under this program are purchased from eligible participating lenders by the Montana Board of Investments (MBOI) and serviced by the Montana Board of Housing (MBOH).

1. **ELIGIBLE VETERAN**
   a) Veteran is or has been a member of the Montana national guard;
   b) Veteran is or has been a member of the federal reserve forces of the armed forces of the United States, serving pursuant to Title 10 of the United States Code;
   c) Veteran is serving or has served on federal active duty pursuant to Title 10 of the United States Code;
   d) Veteran is an un-remarried spouse of an individual who was otherwise an eligible veteran who was killed in the line of duty;
   e) An eligible veteran as defined pursuant to 90-6-602(3) M.C.A.;
   f) If previously a member of the armed forces, Veteran was discharged under honorable conditions;
   g) Veteran is a resident of the state of Montana maintaining a permanent place of abode within Montana and who has not established a residence elsewhere even though the individual may be temporarily absent from the state;
      i. Proof of residency qualification can be a copy of a filed Montana tax return showing a full year of residency in Montana;
      ii. Current Montana driver's license and/or a copy of a current Montana vehicle registration and/or other Montana identification acceptable to MBOH and MBOI.
   h) Veteran is a first-time homebuyer – income tax showing no interest in real estate for the previous three calendar years preceding the time of purchase or other MBOH required documentation;
   i) Veteran must complete a MBOH approved homebuyer education class;
   j) Veteran must provide a minimum of $2,500, resulting in a loan to value of less than 100%. The maximum loan amount under this program is based upon the lesser of the appraised value of the property, the purchase price of the property or the hard construction costs of the property, including eligible land, reduced by the Veteran's cash investment. The appraiser's predominant value will be an additional consideration, on a case-by-case basis.

2. **PROPERTY ELIGIBILITY**
   a) Contract purchase price is limited to 95% of the MBOH's statewide range;
      i. The statewide range is determined annually by the MBOH;
      ii. In no case will the MBOI loan amount exceed the maximum guarantor's or insurer's allowed loan amount.
   b) Property must be located in Montana;
   c) Property must be secured by a first lien Trust Indenture on the property pursuant to the Small Tract Financing Act of Montana, 71-1-301 M.C.A.;

DRAFT

d) Property, where the borrower is utilizing the VA guarantee program, must be in full repair prior to purchase by MBOI;
e) If a new construction, the property and improvements must be fully completed prior to closing
f) Manufactured homes must be de-titled and on a permanent foundation;
    i. Foundation must be certified as meeting FHA requirements;
    ii. NO single-wide manufactured homes
    iii. Manufactured home must be 1976 or newer.
g) Single family residence;
h) In the case of new construction, the appraised value of land cannot exceed 35% of the mortgage loan;
i) Condominiums are INELIGIBLE.

3. <u>NO LONGER PRIMARY RESIDENCE</u>

a) Veterans who cease to use the home as their primary residence must repay the loan in full;
    i. As servicer, MBOH will request verification of continued primary residency from time to time;
    ii. If borrower fails to provide documentation of primary residency, MBOI may declare the loan immediately due and payable and foreclose on the loan;
    iii. Veterans have up to 12 months after the time they cease to use the home as their primary residence to repay the loan;
        a. If the Veteran fails to repay the loan within 12 months, the note may become immediately due and payable and the property may be foreclosed;
        b. The Veteran may request from MBOI an additional 12-month repayment period based upon the Veteran's inability to sell the property despite good faith efforts;
        c. The MBOI, in its sole discretion, may extend or decline to extend the repayment period based upon consideration of the following factors:
            1. prompt and continuing listing of the property for sale;
            2. reasonableness of the listing price and other offering terms;
            3. any offers the Veteran has received or refused;
            4. market conditions;
            5. preservation of the loan collateral; and
            6. any other factors deemed relevant by the MBOI.

4. <u>GENERAL LOAN INFORMATION</u>

a) There is no limit on the maximum amount of income that may be earned by an eligible veteran for the purposes of a loan program;
b) Loan must be insured by VA, FHA or HUD 184;
c) Veteran must have all of their original VA eligibility available to apply under this program;

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d) All loans must receive "approve/eligible" or other similarly high response from automated underwriting;
e) No manual underwriting or underwriting exceptions are allowed;
f) All participating lenders will be an approved lender with MBOI and have completed an Approved Lender Residential Service Agreement and an EFT Agreement;
g) Veterans who are stationed elsewhere, but who do not establish a primary residence elsewhere, may obtain a rental waiver from the MBOI.
h) Maximum loan term of 30 years;
i) Interest rate to be determined by MBOH. Rates can be found at: http://housing.mt.gov/About/homeownership/veteranratesandfunds.mcpx
j) Complete replacement insurance coverage with a maximum $1,000 deductible for hazard insurance;
k) Maximum $1,000 deductible for flood insurance, if needed;
l) No cash back at closing;
m) Veteran will be required to make monthly payments for taxes and insurance to MBOH, who is the servicer of the Montana Veterans' Home Loan Mortgage Program;
n) Loan will be reserved, processed and serviced by MBOH;
o) All loans will be endorsed to the Montana Board of Investments, without recourse;
p) Trust Indenture will be assigned to the Montana Board of Investments. MBOI is not a "MERS" participating member;
q) Trust Indenture must have a "due-on-sale" clause;
r) Sweat equity will not be considered;
s) The Veteran's loan may not be assumed by a non veteran;
t) Appraisals must be Uniform Appraisal Dataset (UAD) compliant;
u) Repurchase of delinquent loans: MBOI retains the right to require repurchase of a program loan that is 30 days delinquent within the first 90 days or 60 days delinquent within the first 180 days of scheduled payments;
v) Repurchase of loans: Lenders receiving a request to repurchase a loan have five (5) days from notification to repurchase the loan. For the first 30 days thereafter, the loan will accumulate interest at the note rate plus 250 basis points until payment is received. After 30 days, the loan will accumulate interest at the note rate plus 500 basis points until payment is received;
w) All first Trust Indenture loan Notes and Trust Indentures must be on either Fannie Mae or Freddie Mac accepted loan documents;
x) Coal tax trust fund money will be used to fund the Montana Veterans' Home Loan Mortgage program as provided by 90-6-603 M.C.A;
    i. Maximum coal tax trust fund allocation is determined by 90-6-603(2) M.C.A;
    ii. This is a revolving loan fund program.

For additional forms and assistance call or E-mail:

(406) 444-1218 hkulow@mt.gov

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   f) If previously a member of the armed forces, Veteran was discharged under honorable conditions;
   g) Veteran is a resident of the state of Montana maintaining a permanent place of abode within Montana and who has not established a residence elsewhere even though the individual may be temporarily absent from the state;
      i. Proof of residency qualification can be a copy of a filed Montana tax return showing a full year of residency in Montana;
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   h) Veteran is a first-time homebuyer – income tax showing no interest in real estate for the previous three calendar years preceding the time of purchase or other MBOH required documentation;
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            1. prompt and continuing listing of the property for sale;
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g) Veterans who are stationed elsewhere, but who do not establish a primary residence elsewhere, may obtain a rental waiver from the MBOI.
h) Maximum loan term of 30 years;
i) Interest rate to be determined by MBOH. Rates can be found at: http://housing.mt.gov/About/homeownership/veteranratesandfunds.mcpx
j) Complete replacement insurance coverage with a maximum $1,000 deductible for hazard insurance;
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Return to Agenda

Bond Program

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Members of the Board

From: Louise Welsh, Sr. Bond Program Officer

Date: April 7, 2015

Subject: Board as a Rated Credit

The Board is a rated credit with the ability to issue bonds and credit enhance or "guaranty" bond repayment. The purpose of this memo is to demonstrate how the Board can guaranty certain bonds, the amount, and the benefit to Montana as a result. Currently, there are two programs that have the Board's guaranty; the Board's enterprise program, the Municipal Finance Consolidation Act (MFCA) INTERCAP Loan Program (INTERCAP), and the Montana Facility Finance Authority (MFFA).

Legal Authority

The 1983 Legislature created the Montana Economic Development Board (MEDB) and the subsequent MFCA laws located in Montana Code Annotated, Title 17, Chapter 5, Part 16, as amended. The 1987 Legislature had the Board assume the role of the MEDB. The MFCA legislation authorizes the Board to:

- Issue bonds & create a capital reserve to assist local governments with access to capital and reduce borrowing costs
- Guaranty MFCA bonds by lending money to the reserve fund that can be pledged to secure the bonds
- Provide an annual liquidity guaranty on INTERCAP bonds not successfully remarketed
- Charge a fee for its services

The 1991 Legislature extended this opportunity to MFFA in Montana Code Annotated, Title 90, Chapter 7, Part 3 that states in part, "the board of investments may, upon terms and conditions as the board considers reasonable: 1) loan money to the authority for deposit in the capital reserve account; and 2) purchase bonds and notes issued by the authority."

Exhibit A provides a quick reference to relevant excerpts of MFCA & MFFA law including the appropriate authorizing resolution and investment policy statements as it pertains to this narrative. The Board's guaranty is capped at $190 million for each program; $380 million total. Currently, the Board's guaranty commitment is ~$200 million. The next section expands further on that commitment.

Board Support

Using the Board's nationally-recognized rating and guaranty opens the way for INTERCAP and MFFA bond issuance at lower interest rates and low cost that ultimately pass on to the program borrowers.

- INTERCAP: The Board issues as needed and annually remarkets the 25 year tax-exempt bonds forming the pool of money available to loan to eligible governmental units for a variety of improvements to Montana. Small local governments, which primarily make up Montana's population using the program, would have been unable to access the low interest tax-exempt

bond market without the Board's guaranty. Also, the revolving nature of the program creates additional interest expense savings to the borrower by having the ability to return borrower principal repayments to the pool for new loans instead of having to pay down the bonds and issue new bonds. The cost to issue or remarket is recovered in the program's spread within the borrower loan rate. Using this year's adjusted rate period as an example, the program is expecting ~$10 million in principal repayments. To issue a new bond for that amount would cost ~$200,000 and to remarket the same roughly $95,000. Thus the lower cost to remarket instead of issuing a new bond results in a lower loan rate to the borrower that, in turn, transfers the savings to the end benefactor; the citizens of Montana.

- MFFA: The Board provides a guaranty for some, not all, of the MFFA bonds, saving Montana hospitals millions in interest expense due to the Board's high credit rating. Critical Access Hospitals (hospitals with 25 beds or less) also would have been unable to access the tax-exempt bond market without the Board's guaranty.

Exhibit B shows ~$93 million MFFA and ~$106 million INTERCAP outstanding bonds that have the Board's guaranty and the respective reserve balances at the time this memo was prepared in mid-March. The credit support for the two programs is different. The Board enhances both INTERCAP and MFFA bonds by pledging to replenish the reserve fund ensuring sufficient funds are available to pay bond principal and interest. The Board also enhances INTERCAP bonds by agreeing to purchase bonds that have been tendered but not remarketed; the Board does not enhance MFFA bonds this way.

Before calling on the guaranty, both programs' own substantial bond reserves are to be used first. INTERCAP holds 7.5% of the original bond issue in reserve. The MFFA's bond reserves would provide about one year to resolve a problem. The Board guaranty pays only the semi-annual principal and interest as needed to replenish the reserve fund as described in the paragraph above, not the full principal immediately. The Board's Enterprise Fund and MFFA's unrestricted portion of their fund balances (see Exhibit C) is not pledged to the bondholders but is available, if necessary, to accommodate a work-out. This is a valuable additional line of defense to have in place ahead of calling on the programs' bond reserve or the Board's guaranty to replenish as the call on either may affect the Board's credit rating that, in turn, may increase cost of issuance and bond interest rates.

To date, no loans to reserve accounts have been required to be made by the Board, no tendered Bonds have been required to be purchased by the Board and all of the loans made to eligible governmental units under the MFCA and to eligible facilities under the MFFA Act are current in payment.

Enhancement Payments, Performance, and Lack of Credit Enhancement Elsewhere

Since inception, INTERCAP and the MFFA have paid over $1.5 million and $2.3 million, respectively, in enhancement "guaranty" fees (credited to the Permanent Coal Trust Fund). No bonds have ever defaulted and all are current. While bond insurance and letters of credit were available before the financial meltdown of 2008, a limited few are available today. Due to the small size of Montana's local governments and hospitals that have received the Board's guaranty, none would have been able to access those enhancements, even when they were available.

Board's Governance to Implement Bond Guaranty

The Board's Governance Manual authorizes the Executive Director to take all necessary action to implement guaranty activity per Resolution 219. Resolution 219 identifies which funds could be used to satisfy performance, including the Permanent Coal Trust Fund, Treasurer's Fund and Short Term Investment Pool (STIP). The investment policy statement for each of these funds acknowledges that

such performance is an eligible investment activity. STIP would be the first responder. The balances in the funds designated to guaranty the bonds as of 2nd Quarter are in the following table. 3rd Quarter balances will be provided at the meeting.

Designated Investment Funds for Enhancement		
Treasurer's Fund		$ 945,416,866
Coal Severance Tax:		
Permanent Corpus STIP		8,538,866
Permanent Corpus TFIP		377,545,502
Treasure State Endowment Corpus TFIP		241,683,300
	Total	$1,573,184,534
Program's Enhanced		
INTERCAP Bonds		$ 106,445,000
Montana Facility Finance Authority (MFFA)		93,483,453
	Total	$ 199,928,453

Designated Funds provide over 7 times the coverage

Underwriting the Guaranty

Providing guaranty for MFFA is not automatic. Board staff first reviews the credit and bring it to the Board's Loan Committee for approval. The full Board has the ultimate say and, as per its Resolution 219 (Exhibit D), must approve a separate resolution for every bond guaranty. In INTERCAP's case this is in the form of the Bond Resolution and Supplemental Indenture adopted by the Board required for each new bond issuance added to the pool.

Board's Guaranty Fee

The Board currently charges a one-time fee for the guaranty it provides. The Board has broad discretion on setting reasonable terms and conditions and has no requirement to set bond guaranty prices at a market rate. Also, the law does not identify which fiduciary assets the Board may pledge. To date, all guaranty fees have been applied to the Permanent Coal Trust Fund, even though the Board has identified two other possible funding sources, the Treasurer's Fund and STIP.

The fee schedule (Exhibit E) considers the term of the guaranty, the structure of the bond issue and the organizational entity (governmental or not-for-profit). As an example, the Board's most recent credit enhancement was in 2013 for $12 million INTERCAP bonds, maturing in 25 years. The Board received $156,000 for this guaranty.

Board as a Rated Credit

The Board has obtained credit ratings from both Moody's Investors Service and Fitch Ratings. The rating is based on an assessment of the fiscal capacity of the Board, its total leverage, and the relative size of outstanding and new proposed debt versus the funds available for guaranty. A summary narrative of Moody's and Fitch's rating is in Exhibit F.

In 2007, the Board's rating was upgraded from the Moody's rating of A/VMIG1, Fitch A/F1+ to Moody's long-term rating of Aa3 and Fitch AA-; its short term liquidity enhancement rating from Moody's of VMIG1 is the highest possible and from Fitch, F1+, also the highest possible.

Considerations Regarding the Fee Schedule for Guaranty

The Board's guaranty is both a valuable resource that benefits borrowers and a significant contingent liability that is disclosed in the Board's footnotes to its financial statements. The Board has the dual role of reducing borrowing costs providing the guaranty as permitted by statute, and considering and assessing an appropriate charge for the risk/benefits taken by the funds that ultimately bear the risk of funding a defaulted bond. The Board is not required to guaranty any bonds.

MFFA's Executive Director

Michelle Barstad, the MFFA's Executive Director, will be available to answer questions and to give an overview as to the status and possible future requests to the Board.

Staff Review and Comments

Staff has no recommendations for change and is comfortable with maintaining the Board's current credit enhancement "guaranty" fee schedule.

EXHIBIT A

BOARD AS A RATED CREDIT
LEGAL, POLICY AND GOVERNANCE

The Municipal Finance Consolidation Act (MFCA) laws are located in Montana Code Annotated, Title 17, Chapter 5, Part 16, as amended. For the benefit of the reader, staff is providing only the relevant excerpts of that law as it pertains to this narrative.

> 17-5-1602 MCA (1) It is the policy of the State of Montana to: (a) foster and promote, by all reasonable means, the provision of efficient capital markets and facilities for borrowing money by eligible government units to pay for capital improvements and other needs as otherwise authorized by law; and (b) reduce, to the extent possible, costs of public indebtedness to taxpayers and residents by affording public bodies an appropriate degree of flexibility and choice in the marketing of their debt securities so as to minimize marketing costs and interest rates.
>
> (2) It is the purpose of this part to promote the policies stated in subsection (1) by: (a) creating a means for eligible government units to pool, in effect, the debt instruments they are otherwise authorized to offer for sale to the investment community in order to obtain economies of scale and reduce marketing and interest costs; and (b) providing additional security for the payment of bonds and notes held by investors and thereby further reducing interest costs.
>
> 17-5-1630 MCA (2) All money held in the reserve fund shall be used solely for the purpose of making payment when due of principal, interest, redemption premiums, and debt service fund payments for the payment of which other money pledged is not available. (5) Notwithstanding any provision of Title 17, chapter 6, the board may lend money for deposit to the reserve fund in an amount equal to any deficiency in the required debt service reserve. The loans shall be made on such reasonable terms and conditions as the board considers proper, including without limitation terms and conditions providing that the loans need not be repaid until the obligations of the board secured and to be secured by the reserve fund are no longer outstanding.

The Board has extensive powers under MFCA including:

- Guaranty up to $190 million in outstanding bonds or notes under MFCA
  - *17-5-1608 MCA. The board may not issue any bonds or notes that cause the total outstanding indebtedness of the board under this part, except for bonds or notes issued to fund or refund other outstanding bonds or notes or to purchase registered warrants or tax or revenue anticipation notes of a local government as defined in 7-6-1101, to exceed $190 million.*
- Sell its bonds or notes at public or private sale
  - *17-5-1606 MCA (5)(b) The notes and bonds of the board may be sold at public or private sale at prices, which may be above or below par, that are determined by the board.*
- Independently hire underwriters, attorneys, trustees and related parties
  - *17-5-1611 MCA (11) to appoint, employ, or contract for the services of officers, employees, agents, financial or professional advisers, and attorneys and to pay compensation for their services as the board determines;*
- Charge fees for its services for programs under MFCA
  - *17-5-1611 MCA (6) to charge for its costs and services in reviewing or acting upon a proposed loan to an eligible government unit or a proposed purchase by the board of bonds, bond anticipation notes, registered warrants, tax or revenue anticipation notes, or other notes of the eligible government unit, whether or not the loan is made or the bonds, bond anticipation notes, registered warrants, tax or revenue anticipation notes, or other notes are purchased;*

Under separate law stated below, the Board may also guaranty bonds issued by MFFA.

- *90-7-320 MCA. Subject to the provisions of Title 17, chapter 6, the board of investments may, upon terms and conditions as the board considers reasonable: (1) loan money to the authority for deposit in the capital reserve account; and (2) purchase bonds and notes issued by the authority.*

There are many elements that govern and administer the guaranty. The following are the relative excerpts of the governing documents that, unless noted of inclusion as a separate exhibit, are available upon request.

- Board Governance Manual, Section III delegating to staff in item 12, "Credit Enhancement Implementation" as per its Resolution 219
  - *Credit Enhancement Implementation – The Executive Director is authorized to take all necessary action to implement credit enhancement activity authorized by the Board as per Resolution 219.*
- Resolution 219, Credit Enhancement of Bonds (EXHIBIT D)
  - *Section 1.02. In conjunction with issuing its Municipal Finance Consolidation Act Bonds in 1985, the MEDB adopted Resolution No. 68 on July 24, 1985, establishing a Municipal Finance Consolidation Act Reserve Fund (the "Reserve Fund") to secure bonds or obligations issued under the Municipal Finance Consolidation Act ("MFCA Bonds"). Pursuant to a Resolution, the MEDB and the Board entered into a Security Agreement whereby the Board agreed to make an interest bearing loan to the MEDB to restore any deficiency in the Reserve Fund and also agreed, for a fee, to purchase MFCA Bonds tendered for purchase and not remarketed.*
- Investment policy statements that allow investments in bonds enhanced by the Board per Resolution 219 as permitted investments to be held by the following (although not necessarily exclusive) funds:
  - Permanent Coal Trust Fund
    - *Implied Contracts to allow Montana INTERCAP bond holders to put bonds on the Permanent Fund: No stated range. An amount equal to outstanding INTERCAP Bonds should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI Resolution 219.*
  - Treasurer's Fund
    - *Any obligation purchased pursuant to the bond credit enhancement program of the MBOI as authorized pursuant to Resolution 219 of the Board.*
  - Short Term Investment Pool (STIP)
    - *Investments required to implement the bond credit enhancement authorized by Resolution 219.*
- 1992 Policy Statement between the Board and MFFA.
  - *Purpose. The Board will make an irrevocable pledge to loan money in an amount equal to a respective reserve fund deficiency as determined by a bond trustee.*
  - *Constraints – Pledge Maximum. The aggregate dollar amount of irrevocable pledges made to the MFFA will not exceed the dollar amount available for total outstanding bond indebtedness issued by the Board under the MFCA. The amounts authorized for each agency are separate and independent of each other.*

EXHIBIT B

MONTANA BOARD OF INVESTMENTS

Total Enhancements by the Permanent Coal Trust Fund

Bond Issue	Issue Date	Maturity Date	Reserve Fund	Amount Issued	Amount Outstanding		Principal[1]	Interest[2]	Total Exposure
MONTANA BOARD OF INVESTMENTS (MBOI)									
INTERCAP 1997	03/01/97	03/01/17	752,496	10,000,000	9,035,000	*	9,035,000	20,781	9,055,781
INTERCAP 1998	03/01/98	03/01/18	937,403	12,500,000	11,695,000	*	11,695,000	26,899	11,721,899
INTERCAP 2000	09/13/00	03/01/25	1,125,030	15,000,000	14,335,000	*	14,335,000	32,971	14,367,971
INTERCAP 2003	05/01/03	03/01/28	1,123,264	15,000,000	14,430,000	*	14,430,000	33,189	14,463,189
INTERCAP 2004	04/01/04	03/01/29	1,384,911	18,500,000	18,200,000	*	18,200,000	41,860	18,241,860
INTERCAP 2007	03/01/07	03/01/32	1,123,264	15,000,000	14,775,000	*	14,775,000	33,983	14,808,983
INTERCAP 2010	03/01/10	03/01/35	898,320	12,000,000	11,975,000	*	11,975,000	27,543	12,002,543
INTERCAP 2013	03/01/13	03/01/38	898,320	12,000,000	12,000,000	*	12,000,000	27,600	12,027,600
MBOI Sub-total			$ 8,243,008	$ 110,000,000	$ 106,445,000		106,445,000	244,824	**106,689,824**
MONTANA FACILITY FINANCE AUTHORITY (MFFA)									
Bond Issues									
MLP 98A-Big Horn County	02/01/98	02/01/18	115,610	1,425,000	305,000		305,000	15,555	320,555
MLP 98D-Lewis&Clark Co.(clinic)	02/01/98	02/01/18	69,435	860,000	185,000		185,000	9,435	194,435
MLP 00A-Marcus Daly Hospital	03/01/00	08/01/20	292,100	3,440,000	1,430,000		1,430,000	85,800	1,515,800
Montana Developmental Center	09/01/03	06/01/19	1,041,230	11,510,000	4,435,000		4,435,000	204,388	4,639,388
MLP 05A-Marias Medical Center	04/01/05	01/01/28	292,868	4,030,000	2,180,000		2,180,000	107,875	2,287,875
MLP 05B-Montana Children's Home and	04/01/05	01/01/24	764,427	9,720,000	5,405,000		5,405,000	254,414	5,659,414
MLP 06A-Northern MT Hospital	03/01/06	10/01/15	496,375	6,670,000	475,000		475,000	82,275	557,275
MLP 07A-Marcus Daly Hospital	01/31/07	08/01/27	533,515	7,135,000	5,245,000		5,245,000	216,694	5,461,694
MLP 07B-Northeast Montana Health Ser	05/10/07	05/01/32	869,226	12,515,000	10,625,000		10,625,000	471,988	11,096,988
MLP 07C-St. Luke Community Healthca	06/27/07	01/01/32	1,650,371	23,500,000	18,825,000		18,825,000	900,650	19,725,650
MLP 08A-Glendive Medical Center	07/01/08	07/01/18	2,143,481	30,000,000	26,180,000		26,180,000	1,234,219	27,414,219
MLP 10A-Powell County Memorial Hos	08/11/10	07/01/36	1,183,922	15,000,000	15,000,000		15,000,000	682,770	15,682,770
MFFA Bonds Sub-total			$9,452,561	$ 125,805,000	$ 90,290,000		90,290,000	4,266,061	**94,556,061**
Surety Bonds									
Alternatives, Inc. (97)	11/01/97	10/01/17	891,206	2,925,000	645,000	*	645,000	12,600	245,720
Alternatives, Inc. (06)	07/13/06	10/01/26		7,920,000	5,410,000	*	5,410,000	268,444	642,344
Missoula Correctional Services	10/15/98	10/01/18	450,742	5,580,000	1,600,000	*	1,600,000	76,800	455,733
Great Falls Prerelease (05)	12/22/05	04/01/21	432,295	4,500,000	2,367,837	*	2,367,837	116,324	432,295
Boyd Andrew Community Services (200(	07/01/00	10/01/20	309,516	2,245,000	960,000	*	960,000	60,143	199,338
Boyd Andrew Community Services (200	08/04/05	10/01/20		1,200,000	592,428	*	592,428	28,490	115,473
Community, Counseling, & Correctional	08/08/06	10/01/27	710,600	9,250,000	6,485,000	*	6,485,000	285,431	710,600
Boyd Andrew Community Services (200(	08/08/06	10/01/27	391,950	5,085,000	3,565,000	*	3,565,000	156,894	391,950
MFFA Surety Bonds Sub-total			$3,186,309	$ 38,705,000	$ 21,625,264		21,625,264	1,005,125	**3,193,453**
MFFA Sub-total				$ 164,510,000	$ 93,483,453		111,915,264	5,271,186	**97,749,514**
Total Enhanced				**$ 274,510,000**	**$ 199,928,453**				
					TOTAL		218,360,264	5,516,010	**204,439,338**

*Parity INTERCAP Bonds

**Surety Reserve, maximum BOI exposure

EXHIBIT C

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

STATEMENT OF NET POSITION AS OF JUNE 30, 2014 AND 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents (Note 1)	$ 24,374,066	$ 31,958,835
Interest receivable	214,662	179,099
Notes/loans receivable (Note 1)	8,647,712	8,596,526
Interfund notes/loans and interest receivable (Note 1)	1,494,198	1,473,953
Component Unit notes/loans and interest receivable (Note 1)	2,424,357	2,518,924
Short-term investments at fair value (Notes 1, 2)	1,570,322	4,089,836
Short-term deposits at fair value (Notes 1, 2)	0	629,474
Security lending cash collateral (Note 3)	341	1,364
Total current assets	$ 38,725,658	$ 49,448,011
Noncurrent assets:		
Restricted deposits at fair value (Notes 1, 2)	6,661,865	0
Long-term investments at fair value (Notes 1, 2)	5,036	6,485
Notes/loans receivable (Note 1)	44,147,646	37,850,917
Interfund notes/loans and interest receivable (Note 1)	7,477,405	8,016,360
Component Unit notes/loans receivable (Note 1)	15,100,051	17,258,173
Capitalized cost of issue (Notes 1e, 10)	0	0
Equipment	3,912	1,240
Accumulated depreciation	(1,328)	(1,116)
Total noncurrent assets (Note 10)	73,394,587	63,132,059
Total assets (Note 10)	$ 112,120,245	$ 112,580,070
Liabilities		
Current liabilities:		
Due to other funds	15,000	0
Accrued expenses	18,637	11,043
Accrued interest payable	56,773	80,430
Security lending obligations (Note 3)	341	1,364
Arbitrage rebate tax payable	8,150	0
Compensated absences (Note 9)	36,403	15,866
Current bonds/notes payable (Note 4)	106,450,000	106,685,000
Total current liabilities	$ 106,585,304	$ 106,793,703
Noncurrent liabilities		
Bonds/notes payable (Note 4)	0	0
Compensated absences (Note 9)	35,669	15,841
Arbitrage rebate tax payable	1,130	12,997
OPEB implicit rate subsidy (Notes 10, 12)	59,883	49,921
Total noncurrent liabilities (Note 10)	96,682	78,759
Total liabilities (Note 10)	$ 106,681,986	$ 106,872,462
Net position		
Net investment in capital assets	$ 2,584	$ 124
Restricted (Notes 1, 10)	1,564,014	1,669,286
Unrestricted (Note 10)	3,871,661	4,038,198
Total net position (Notes 7, 10)	$ 5,438,259	$ 5,707,608

Please refer to the Board's annual report for this financial statement's accompanying notes.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2014 AND 2013

ASSETS:	*2014*	*2013*
Current Assets:		
Cash & Cash Equivalents (Note 2)	$ 3,819,758	$ 3,363,219
Interest Receivable	354	515
Accounts Receivable	366	78,042
Short Term Notes Receivable (Note 4)	291,759	344,207
Securities Lending Collateral (Note 2)	2,833	9,301
Prepaid Expenses	1,092	334
Total Current Assets	4,116,162	3,795,618
Noncurrent Assets:		
Long Term Notes Receivable (Note 4)	661,419	918,924
Investments	41,895	44,207
Capital Assets (Note 1)	29,039	30,238
Total NonCurrent Assets	732,353	993,369
Total Assets	$ 4,848,515	$ 4,788,987
LIABILITIES:		
Liabilities:		
Current Liabilities:		
Accounts Payable	$ 8,616	$ 7,182
Due to Primary Government	1,376	2,000
Secuities Lending Liability (Note 2)	2,833	9,301
Current Portion of LT Payables	15,144	16,428
Compensated Absences	10,408	14,238
Total Current Liabilities	$ 38,377	$ 49,149
Noncurrent Liabilities:		
Compensated Absences	24,815	16,211
LT Payables	0	14,944
Loan Loss Contingency (Note 8)	461,860	61,834
OPEB Implicit Rate Subsidy (Note 6)	36,910	33,560
Total Noncurrent Liabilities	523,585	126,549
Total Liabilities	561,962	175,698
Net Position		
Net Investment in Capital Assets	$ 29,039	$ 30,238
Total Unrestricted Net Position	4,257,514	4,583,051
Total Net Position (Note 7)	$ 4,286,553	$ 4,613,289
Total Net Position and Liabilitites	$ 4,848,515	$ 4,788,987

Please refer to the MFFA annual report for this financial statement's accompanying notes.

EXHIBIT D

RESOLUTION 219

MONTANA BOARD OF INVESTMENTS CREDIT ENHANCEMENT OF BONDS

ADOPTED May 14, 2008

Be It Resolved by the Montana Board of Investments (the "Board") as follows:

Section 1. Recitals.

Section 1.01. History, Authorization of Unified Investment Program and the Board. Article VIII, Section 13 of the Montana Constitution (the "Constitution") directs the legislature to provide for a unified investment program for public funds and public retirement system and state compensation insurance fund assets. The Legislature, pursuant to Title 17, Chapter 6, Part 21, Montana Code Annotated (the "Unified Investment Program Act"), has created and directed the Board to administer the unified investment program mandated by the Constitution. The Board has the primary authority to invest state funds, and to determine the types of investments to be made, subject to the restrictions of the Constitution and the Unified Investment Program Act.

Section 1.02. History, Authorization of Montana Economic Development Board and Municipal Finance Consolidation Act Bonds. The 1983 Legislature created the Montana Economic Development Authority Board ("MEDB"), to among other things issue notes and bonds to finance loans to and the purchase of bonds and notes of Montana governmental units, to establish or replenish reserves securing the payments of its bonds and notes, and to finance all expenditures incident to and necessary or convenient to carry out the provisions of Title 17, Chapter 5, Part 16, Montana Code Annotated (the "Municipal Finance Consolidation Act" or "MFCA Act"). As set forth in Section 17-5-1602(2)(b) of the Municipal Finance Consolidation Act, the State's goal was to foster the provisions of efficient capital markets, to reduce costs of borrowing and, among other things, to provide additional security for the payment of bonds and notes held by investors. In conjunction with issuing its Municipal Finance Consolidation Act Bonds in 1985, the MEDB adopted Resolution No. 68 on July 24, 1985, establishing a Municipal Finance Consolidation Act Reserve Fund (the "Reserve Fund") to secure bonds or obligations issued under the Municipal Finance Consolidation Act ("MFCA Bonds"). Pursuant to a Resolution, the MEDB and the Board entered into a Security Agreement whereby the Board agreed to make an interest bearing loan to the MEDB to restore any deficiency in the Reserve Fund and also agreed, for a fee, to purchase MFCA Bonds tendered for purchase and not remarketed. Each series of MFCA Bonds credit enhanced by the Board is approved by resolution by the Board. The Board has never been called upon to make any loans or purchase any of these Bonds.

Section 1.03. Authorization for the Board to Issue Municipal Finance Consolidation Act Bonds. Pursuant to Chapter 581, Montana Session Laws of 1987, the Board assumed the role of the MEDB with respect to the issuance of the Montana Finance Consolidation Act Bonds and other bond programs authorized by the State. The Board issued its first series of Intermediate Term Capital Program (INTERCAP) Municipal Finance Consolidation Act Bonds in 1987 (the "Series 1987 INTERCAP Bonds"). The Series 1987 INTERCAP Bonds and all series of INTERCAP Bonds subsequently issued by the Board have also been secured by the Reserve Fund. In the Resolution authorizing and approving the issuance of the Series 1987 INTERCAP Bonds, the Board approved the Indenture of Trust pursuant to which the Series 1987 INTERCAP Bonds were to be issued and secured (the "1987 Trust Indenture"); agreed to make an interest bearing loan to the Reserve Fund and agreed, for a fee, to purchase any Series 1987 INTERCAP Bonds tendered for repurchase that were not remarketed (the "Authorizing Resolution"). In 1991, the INTERCAP program was expanded, requiring a new Trust Indenture (the "1991 Trust Indenture"), securing the INTERCAP Bonds, that was approved by the Board. Each subsequent series of INTERCAP Bonds issued by the Board have been approved by an Authorizing Resolution and a Supplemental Indenture. The Authorizing Resolutions, the 1991 Trust Indenture and Supplemental Indenture are collectively referred to as the "Bond Documents." The Board has never been called on to make a loan to the Reserve Fund or purchase tendered MFCA Bonds under the Bond Documents.

Section 1.04. History, Authorizations, Montana Facility Finance Authority Bonds. Pursuant to Chapter 703, Montana Session Laws of 1987, now codified in Montana Code Annotated, Title 90, Chapter 7, Parts 1, 2 and 3, as amended (the "MFFA Act"), the Montana Health Facility Finance Authority, now the Montana Facility Finance Authority (the "MFFA") is authorized to issue revenue bonds to finance nonprofit hospitals, prelease centers and other nonprofit health-care providers or entities. The MFFA has created a capital reserve account to provide additional security ("Capital Reserve Account") for the Bonds it issues under the MFFA Act ("MFFA Bonds"). Pursuant to the MFFA Act, the Board is authorized to loan money to the MFFA for deposit in its capital reserve account and to purchase its bonds and notes. Pursuant to resolutions of the Board relating to each series of MFFA Bonds for which credit enhancement is provided, the Board is authorized to enter into an agreement with the MFFA whereby the Board agrees to make an interest bearing loan to the Capital Reserve Account to restore any deficiency (the "MFFA Capital Reserve Account Agreement"). For each series of MFFA Bonds credit enhanced by the Board, the Board has by Resolution approved entering into additional Capital Reserve Account Agreements. The Board has never been called upon to make a loan to the MFFA Capital Reserve Account. To date, the Board has not entered into any agreements to purchase tendered MFFA Bonds.

Section 1.05. Previous Credit Enhancement Policies. The Board adopted a "Credit Enhancement Policy" on February 17, 2006.

Section 2. Findings and Determinations of the Board.

Section 2.01. The Board desires to continue to enhance the marketability of bonds and notes issued under both the MFCA Act and the MFFA Act and to assist the Board and the MFFA in obtaining the lowest possible interest rates on loans to eligible governmental units and non-profit corporations providing needed and essential services and facilities to the public.

Section 2.02. The Board adopts this resolution to codify and clarify the circumstances under which the Board has and will continue to provide credit enhancement; to authorize its Executive Director to honor and fulfill the Board's obligations under the Bond Documents (and Capital Reserve Account Agreement); and to make this resolution a part of the Board Governance Policy.

Section 2.03. Resolution No. 68 adopted by the Montana Economic Development Board on July 24, 1985, establishing the Reserve Fund to secure bonds or obligations issued by the Board [is attached hereto as Schedule 1 and incorporated by reference.]

Section. 3. Decision to Provide Credit Enhancement; source of Credit Enhancement.

Section 3.01. The decision to provide credit enhancement as authorized by the MFFA Act and the MFCA Act shall be made by the Board pursuant to a duly authorized resolution of the Board related to each series of Bonds to be issued.

Section 3.02. The Board's policy shall be to provide credit enhancement when it is prudent to do so and in the Board's judgment would result in a lower interest rate to the borrowers under the MFCA Act and MFFA Act than could be otherwise obtained.

Section 3.03. The funds in the Unified Investment Program from which the Board's Credit Enhancement obligations could be satisfied include, but are not limited to: the Permanent Fund sub-fund of the Coal Tax Trust, the Short Term Investment Pool, and the Treasurer's Fund.

Section 4. Duties of the Executive Director.

Section 4.01. Loans. When required under the terms of the Bond Documents, the Executive Director of the Board is authorized to loan funds to the Board Reserve Fund and the MFFA Capital Reserve Account pursuant to the requirements of the Bond Documents.

Section 4.02. Purchase of Bonds. When required to do so under the Bond Documents, the Executive Director is authorized to purchase Bonds pursuant to the requirements of the Bond Documents.

Section 4.03. Use of Funds. The Executive Director is authorized to determine which legally available funds to use for the above purposes.

Section 4.04. Notification of Board. If the Executive Director makes a loan to the Reserve Funds, Capital Reserve Account or purchases bonds pursuant to the Bond Documents, he/she shall notify Board members via e-mail within three (3) business days of such action and provide a full report to the Board at its next regularly schedule meeting specifying the reasons for such action, the dollar amount, the terms, and the funding source for the loan or bond purchase.

Section 5. Effective Date; No Repeals Policy.

Section 5.01. This resolution shall become effective upon passage by the Board and execution and certification by the Chairman of the Board. This Resolution shall supersede in every respect and replace in its entirety the "Credit Enhancement Policy" adopted by the Board on February 17, 2006.

Section 5.02. This resolution is not intended and shall not be construed to modify any commitment, obligations or agreements, the Board has made pursuant to any duly authorized resolution or agreement relating to Bonds issued under the MFCA Act or the MFFA Act.

Section 5.03. The policies and procedures established by resolution become an integral part of the Board's Governance Policy.

Dated and approved this 14th day of May 2008.

ATTEST

By: _____
Chairman

CERTIFICATE OF MINUTES RELATING TO
RESOLUTION NO. 068

Issuer: Montana Economic Development Board

Kind, date, time and place of meeting: A board meeting held on July 24, 1985, at 8:00 o'clock a.m. at Jorgenson's Holiday Motel in Helena, Montana.

Members present: Pat McKittrick, Jack Schutte, Yvonne Snider, Karen Locke, John Orth, and Jerry Sullivan.

Members absent: Steve Brown.

Documents attached:
Minutes of said meeting (pages):

RESOLUTION NO. 068

RESOLUTION OF THE MONTANA ECONOMIC DEVELOPMENT BOARD ESTABLISHING A MUNICIPAL FINANCE CONSOLIDATION ACT RESERVE FUND

I, the undersigned, being the fully qualified and acting recording officer of the public body issuing the obligations referred to in the title of this certificate, certify that the documents attached hereto, as described above, have been carefully compared with the original records of the public body in my legal custody, from which they have been transcribed; that the documents are a correct and complete transcript of the minutes of a meeting of the governing body at the meeting, insofar as they relate to the obligations; and that the meeting was duly held by the governing body at the time and place and was attended throughout by the members indicated above, pursuant to call and notice of such meeting given as required by law.

WITNESS my hand officially as such recording officer this 24 day of July, 1985.

John Orth
Secretary

RESOLUTION 068

Member Jack Schutte introduced the following resolution and moved its adoption:

RESOLUTION OF THE MONTANA ECONOMIC DEVELOPMENT BOARD ESTABLISHING A MUNICIPAL FINANCE CONSOLIDATION ACT RESERVE FUND

BE IT RESOLVED by The Montana Economic Development Board (the Board) as follows:

1. Recitals. The Board is authorized and directed by Title 17, Chapter 5, Part 15, Montana Code Annotated, as amended (the Act) to create funds and accounts necessary to implement the Act, including a municipal consolidation finance act reserve fund and other funds and accounts; to issue and sell bonds and notes for the purpose of financing programs thereunder; and to secure the bonds and notes pursuant to an indenture of trust and resolution. Pursuant to the Act, the Board has undertaken a Cash Anticipation Financing Program to acquire Notes issued by local government units (the Borrowers) to finance their cash flow requirements. To provide funds to acquire the Notes, the Board has authorized the execution of an Indenture of Trust (the Indenture) between the Board and First Trust Company of Montana (the Trustee) pursuant to which the Board is authorized to issue and sell its Bonds. In order to provide for the segregation of and accounting for certain of its revenues and funds and in furtherance of the Act, the Board hereby determines it necessary and appropriate to adopt this resolution (the Resolution).

2. Definitions. Capitalized terms used but not defined herein shall have the meanings assigned them in the Indenture.

3. Municipal Finance Consolidation Act Reserve Fund. The Board hereby creates and establishes the Municipal Finance Consolidation Act Reserve Fund and authorizes the creation of accounts therein for the purpose of securing one or more series of bonds or obligations issued by the Board. Accounts may be created pursuant to indentures or resolutions with respect to series of bonds or obligations secured thereby and may be held by a trust and invested pursuant to the provisions of such indentures or resolutions. A reserve fund requirement may be established with respect to each account. So long as the reserve fund requirement of each

account is maintained, all investment income therefrom may be transferred to other accounts and funds of the Board as provided in the indenture and resolution securing the bonds.

4. Other Funds and Accounts. Nothing contained in this Resolution shall be deemed to limit the authority of the Board to create other funds and accounts pursuant to the Act in addition to the Municipal Finance Consolidation Act Reserve Fund.

Chairman

EXHIBIT E

BOI GUARANTY FEE SCHEDULE

Term		
First 10 years		2 basis points/year (20 max)
11-15 years		3 basis points/year (15 max)
16-20 years		5 basis points/year (25 max)
> 20 years		10 basis points/year
Bond Type		
Government obligation		0 basis points
Revenue:	Government	10 basis points
	Private	20 basis points (A)
		30 basis points (BAA)
		50 basis points (non-rated)
Reserve Fund		
Pooled:	= Annual Debt Service	10 basis points
	< Annual Debt Service	25 basis points
Non-pooled:	= Annual Debt Service	25 basis points
	< Annual Debt Service	50 basis points

TOTAL BOI FEE (BASIS POINTS)
TOTAL FEE BASED ON PAR

EXHIBIT F

MOODY'S
INVESTORS SERVICE

Announcement: Moody's affirms Aa3/VMIG 1 rating on Montana Board of Investment's Municipal Finance Consolidation Act Bonds

Global Credit Research - 15 Aug 2012

$220 million of parity debt affected

New York, August 15, 2012 – Moody's has affirmed the Aa3/VMIG 1 ratings and stable outlook on the Montana Board of Investment's Municipal Finance Consolidation Act Bonds, consisting primarily of the INTERCAP Revolving Program. Approximately $95 million is outstanding.

RATING RATIONALE

The Aa3 rating is based on the Montana Board of Investments' (the Board) irrevocable pledge to pay principal and interest on the bonds if amounts in the bond fund and reserve account should be insufficient, as well as the Board's pledge to purchase any tendered bonds if necessary. The Board maintains more than adequate resources to meet both of these commitments. Additionally, loan repayments from participating governmental units are pledged to the repayment of the bonds.

STRENGTHS

- Board of Investment's irrevocable pledge to lend funds, if needed, to the reserve account and/or purchase tender bonds

- History of sizable resources available to the Board to cover payments on outstanding bonds

- Conservative investment of available resources and liquidity

- Board of Investments' moderate debt exposure

- Underlying programs are well managed, with no loans ever requested of the Board of Investments

-- No history of bonds being tendered

CHALLENGES

- Available balances can be negatively affected by economic slowing, state fiscal stress, and investment policy decisions

- Potential for additional debt issuance backed by the Board of Investments

Outlook

The outlook for the Board's Municipal Finance Consolidation Act bonds is stable, based on the Board's conservative policies and sound management of the funds under its responsibility, including the Treasurer's Fund substantial liquid balances deposited in the short-term investment pool.

WHAT COULD MAKE THE RATING GO UP

- Stricter limitations on potential board debt exposure

WHAT COULD MAKE THE RATING GO DOWN

- Major erosion of funds available to the board to lend to the authority

- Significant increase in board's debt exposure

- Shift away from the board's conservative management of available funds

The principal methodology used in this rating was based on evaluating factors we believe are relevant to the credit profile of the issuer, such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) the issuer's management and governance structure related to the payment. These attributes were compared against other issuers both within and outside of the Montana Board of Investments core peer group. The Montana Board of Investment ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, confidential and proprietary Moody's Investors Service's information, and confidential and proprietary Moody's Analytics' information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources.

However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Lisa Heller
Vice President - Senior Analyst
Public Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street

FITCH AFFIRMS MONTANA BOARD OF INVESTMENTS GUARANTEED BONDS AT 'AA'

Fitch Ratings-New York-11 July 2014: Fitch Ratings affirms the following ratings on bonds of the Montana Board of Investments (MBOI) and Montana Facility Finance Authority (MFFA):

--$106,450,000 MBOI INTERCAP revolving program bonds, at 'AA/F1+';
--$114,120,000 MFFA master loan program and Montana Development Center bonds, at 'AA'.

The Rating Outlook is Stable.

SECURITY

Security for both bond programs is based on the irrevocable and absolute pledge of the MBOI to replenish debt service reserve shortfalls from the MBOI's legally available resources. Additionally, MBOI irrevocably agrees to provide liquidity support for tendered INTERCAP program bonds.

KEY RATING DRIVERS

STRONG REPLENISHMENT MECHANISM: Both programs benefit from the board's unconditional pledge to cure deficiencies from legally available funds in advance of the debt service payment date.

BOARD'S RESOURCES AMPLE: The board's resources available for enhanced programs are far in excess of total bond principal, supporting the long-term 'AA' rating. Board resources additionally provide ample liquidity to purchase tendered INTERCAP revolving program bonds, supporting the short-term 'F1+' rating on the INTERCAP revolving program.

SIGNIFICANT INCREASES IN BOARD BALANCES: Available funds have risen considerably in recent years in concert with the improved financial position of the state of Montana (GO bonds rated 'AA+', Stable Outlook by Fitch). Funds remain vulnerable to fluctuations outside the board's control.

LIMITS ON DEBT: There are statutory and policy limits on the amount of long- and intermediate-term debt that can be secured by the board's pledge.

NO DRAWS FOR RESERVE REPLENISHMENT: Both programs have a strong repayment history from underlying loans, with no borrower defaults to date, no draws on the debt service replenishment provision and no reliance on the board's liquidity for the INTERCAP revolving program.

MONTANA ECONOMIC PERFORMANCE: Loans of the authority and the board are concentrated in a state whose economy, though diversifying, continues to be resource-dependent and prone to cyclicality.

RATING SENSITIVITY

CONTINUED AMPLE BALANCES: The ratings are sensitive to continued maintenance of ample MBOI balances available for debt service replenishment for both INTERCAP revolving program bonds and master loan program bonds, and for purchase of tendered INTERCAP revolving program bonds.

CREDIT PROFILE

The long-term 'AA' rating on both programs incorporates the continued low leveraging of the MBOI's debt service reserve replenishment guarantee. As of March 31, 2014, the MBOI's guarantee backs $114.1 million in outstanding MFFA health care bonds issued under its master loan program and for the Montana Development Center, as well as $106.4 million in INTERCAP revolving program bonds issued by the MBOI itself.

All INTERCAP revolving program bonds of MBOI and master loan program bonds and Montana Development Center bonds of the MFFA are secured by loan repayments from individual borrowers, with bondholder security enhanced by the MBOI's irrevocable and unconditional pledge to make up any deficiency in their respective debt service reserves. Fitch's long-term 'AA' rating is based on the MBOI's obligation and its substantial resources available, totaling nearly $1.5 billion at March 31, 2014. In addition, INTERCAP revolving program bonds benefit from the MBOI's pledge to purchase tendered bonds if necessary, supporting the 'F1+' short-term rating.

MBOI's INTERCAP revolving program is primarily for Montana local governments, university and state entities, while MFFA's master loan program is primarily for health facilities. State statute limits bonds issued under the Municipal Finance Consolidation Act by MBOI to $190 million and the MFFA by policy follows the same limit of $190 million for the master loan program. Both programs continue to benefit from a sound record of loan repayments from participating entities.

Funds identified as available for borrowing in the event of reserve fund deficiency or for liquidity support consist of the Treasurer's Fund (the state's operating fund) and a portion of the Coal Severance Trust Fund (CST); as of March 31, 2014, the book value of available funds totaled $1.5 billion. The portion of the CST that is available for debt service replenishment is substantial, totaling $623 million out of $916.8 million in CST funds as of March 31, 2014 (unaudited).

The board's available funds fluctuate throughout the year and have varied over time, ranging from a low of $760.9 million in fiscal 2003 to the $1.883 billion high as of June 30, 2013, the fiscal year-end. Despite fluctuations, the available funds remain well in excess of the amount of debt enhanced by the two programs. The balance of available funds generally has paralleled the broader fiscal condition of the state over time, with solid gains in recent years linked to the state's resource sector strength.

The corpus of the CST fund cannot be invaded without approval by three-quarters of the state legislature, although Montana's legislature periodically has allocated portions of the CST assets for investment in economic development, water projects, and other targeted programs. The legislature in the past has changed the distribution of interest income from the CST, with all earnings now appropriated or dedicated by law outside the CST. For more information on the State of Montana's general credit, see Fitch's press release dated June 30, 2014, available at 'www.fitchratings.com'.

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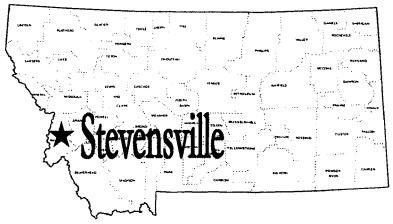
Montana Board of Investments
Loan Committee
INTERCAP Loan Summary and Approval



Borrower City of Stevensville **Date** June 3, 2014

The City requests a $800,000 interim loan in anticipation of United States Department of Agriculture (USDA) Rural Development Services (RD)[1] long-term financing for its wastewater improvements project. The loan will be for up to one (1) year and in the form of a bond anticipation note (BAN). The projected drawdown schedule for the loan is July through November 2014 at which point the City anticipates closing on its RD loan. The funding package for the $3,842,000 total project cost is as follows:

Treasure State Endowment Program (TSEP) Grant		$ 765,000
City of Stevensville		222,000
Department of Natural Resources & Conservation – RRGL[2] Grant		100,000
Rural Development (RD) Grant		1,955,000
INTERCAP Interim loan	**$ 800,000**	
Rural Development (RD) Loan		800,000
	Total	$3,842,000

[1]http://www.rurdev.usda.gov/
[2]Renewalbe Resource Grant & Loan Program

Authorization

7-7-109 Montana Code Annotated (MCA) (2) (a) When all conditions exist precedent to the offering for sale of bonds of a political subdivision in any amount and for any purpose authorized by law or the political subdivision has applied for and received a commitment for a grant or loan of state or federal funds, its governing body may by resolution issue and sell, in anticipation of the receipt of the grant, loan, or bonds in an amount not exceeding the total amount of bonds authorized or the total amount of the loan or grant that is committed, notes maturing within not more than three years from the date on which the notes are issued.

INTERCAP Debt

The City has been an INTERCAP borrower since 1995 financing over $3.6 million for various purposes. This will be the City's third BAN in anticipation of USDA RD long-term financing. The City currently has no loans outstanding.

Repayment

The bond proceeds from the City's issuance and sale of a revenue bond to RD will repay the BAN. Special conditions to the Board's commitment to ensure the revenue bond takes out the BAN are as follows:

1. Prior to disbursing funds, the Board requires evidence of RD's commitment to pay off the BAN with a long-term loan. Copies of the following will provide sufficient evidence:

   ☒ RD Letter of Conditions **(MBOI has on file)**
   ☐ USDA Office of General Council (OGC) Loan Closing Instruction
   ☐ RD Letter of Intent to Fund ("I" Letter)

2. The Board will require approval from RD for each specific draw on the loan.

3. The Board requires the City to hire Bond Counsel to prepare the necessary BAN documents and provide the opinion at closing. The Bond Counsel needs to be nationally recognized and rendering a bond counsel

Montana Board of Investments
INTERCAP Loan Summary and Approval
INCREASE Request

Borrower City of Stevensville

Date March 13, 2015

On June 3, 2014, staff approved the City's attached $800,000 interim loan request in anticipation of United States Department of Agriculture (USDA) Rural Development (RD)[1] long-term financing for its wastewater improvements project. Due to higher than expected costs for specialized electrical equipment, the City needs to borrow an additional $450,000 for a total loan of $1,250,000. The revised financing package for the project is as follows:

Borrower Portion		**$ 279,000**
Department of Commerce – Treasure State Endowment Program (TSEP) Grant		765,000
Department of Natural Resources & Conservation (DNRC) – RRGL[2] Grant		100,000
Rural Development (RD) Grant		**2,155,000**
INTERCAP Interim Loan	**$1,250,000**	
Rural Development (RD) Loan		**1,250,000**
	Total	**$ 4,549,000**[3]

[1]http://www.rurdev.usda.gov/
[2]Renewable Resource Grants and Loans Program
[3]Includes a 10% contingency for the **$3,519,850** construction portion of the total project cost.

Repayment

The same repayment source and special conditions apply. Board staff has on file the revised Letter of Conditions that outlines increases in RD long-term financing, RD grant funds and borrower contribution sufficient to cover the additional project costs.

Recommendation

Approval recommended.

Staff Loan Committee

David Ewer, Executive Director _____ Approval Date 3/16/15

Geri Burton, Deputy Director _____ Approval Date 3-16-15

Louise Welsh, Sr. Bond Program Officer _____ Recommended 3/13/15

Julie Flynn, Bond Program Officer _____ Recommended 3-13-15

Board Loan Committee – April 7, 2015

	Approval		
Jack Prothero, Chairperson – Loan Committee	☐ Yes	☐ No	☐ Abstain
Kathy Bassette, Member	☐ Yes	☐ No	☐ Abstain
Terry Cohea, Member	☐ Yes	☐ No	☐ Abstain

3. The Board requires the City to hire Bond Counsel to prepare the necessary BAN documents and provide the opinion at closing. The Bond Counsel needs to be nationally recognized and rendering a bond counsel opinion in the last ten years.

Recommendation

Approval recommended.

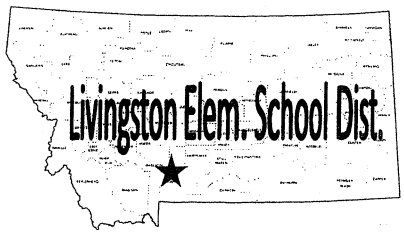
Staff Loan Committee

David Ewer, Executive Director _____ Approval Date: 6/9/14

Louise Welsh, Sr. Bond Program Officer _____ Recommended: 6/3/14

Julie Flynn, Bond Program Officer _____ Recommended: 6·3·14

Montana Board of Investments
LOAN COMMITTEE
INTERCAP Loan Summary and Approval



Borrower Livingston Elementary School District

Date March 12, 2015

Approval Date _____

The District requests to borrow $1,348,000 to finance costs associated with a variety of building improvements. The loan will be in the form of a general promise to pay of the District over a four (4) year period. The total cost of the project will be paid for as follows:

FY15 building reserve levy	337,000
INTERCAP Building Reserve Loan	1,348,000
Total Project Costs	$1,685,000

Authorization

20-9-502 Montana Code Annotated (MCA) (1) The trustees of any district, with the approval of the qualified electors of the district, may establish a building reserve for the purpose of raising money for the future construction, equipping, or enlarging... (4) The building reserve proposition is approved if a majority of those electors voting at the election approves the establishment of or addition to the building reserve. [Note: Voters approved five-year building reserve levies by 59% on May 6, 2014; the protest period expired July 5, 2014.]

20-9-503 MCA (2) The trustees of any district maintaining a building reserve fund may: (a) pledge the revenue for loans from the building reserve fund levy for up to 5 years.

20-9-406 MCA (1) (a) ... the maximum amount for which an elementary district or a high school district may become indebted.... is 50% of the taxable value of the property subject to taxation.... [Note: The District's taxable value is $19,970,954 X 50% = $9,985,477; the District has full debt authority available.]

INTERCAP Debt

The District is a new borrower to INTERCAP.

Repayment

There will be ~$356,600 annual debt service for this proposed loan. In May 2014, District voters approved a five-year building reserve levy for this purpose not to exceed $337,000 per year for a total of $1,685,000 for the District. The first year of the levy (FY15) will be paid into the project as cash. The remaining four years of levied funds will repay the principal of this proposed loan. Over the life of the loan, the conservatively estimated interest payments of $78,500 will be paid from the District's unobligated Debt Service Funds. As of March 9, 2015, that fund had an unobligated cash balance of $101,383.

The General Fund is presented on the next page to demonstrate the overall financial health of the District.

Financial Report

General Fund	FY14	FY13
Beginning Fund Balance	$ 456,801	$ 468,756
Revenues	6,014,476	5,651,617
Expenditures	5,975,917	5,663,572
Ending Fund Balance	$ 495,360	$ 456,801
Net Change in Fund Balance	$ 38,559	$ (11,955)
Cash and Cash Equivalents	$ 456,947	$ 300,927
Fund Balance Unassigned	$ 495,360	$ 456,801

COMMENTS:

FY13 Without the one-time ($65,572) expenses, the net change in fund balance would have been $53,617.

FY13 Without the one-time ($96,825) one-time expenses, the net change in fund balance would have been $135,384. The increase in revenue from 2013 was due to increased taxable value and additional state aid, both of which are expected to continue. The remaining increase in expenses is accounted for by teachers' salaries and benefits, which are expected to continue.

Recommendation

The term of this loan will coincide with the length of the approved building reserve levy. The District has sufficient funds to service the debt. Approval recommended.

Staff Loan Committee – Recommendation

David Ewer, Executive Director _____ Date 3/12/15

Geri Burton, Deputy Director Geri Burton Date 3-12-15

Louise Welsh, Sr. Bond Program Officer _____ Date 3/12/15

Julie Flynn, Bond Program Officer _____ Date 3-12-15

Board Loan Committee – April 7, 2015

	Approval		
Jack Prothero, Chairperson – Loan Committee	☐ Yes	☐ No	☐ Abstain
Kathy Bassette, Member	☐ Yes	☐ No	☐ Abstain
Terry Cohea, Member	☐ Yes	☐ No	☐ Abstain

Montana Board of Investments
LOAN COMMITTEE
INTERCAP Loan Summary and Approval

Borrower Department of Natural Resources and Conservation (DNRC) **Date** March 12, 2015

Approval Date _____

The DNRC requests a $3.0 million interim loan in anticipation of issuing general obligation bonds for its Drinking Water State Revolving Fund (DWSRF) Loan Program. The loan will be financed over a three (3) year term in the form of a general obligation bond anticipation note (BAN). The DNRC intends to begin drawing funds this June.

The DWSRF was established pursuant to Title XIV of the Safe Drinking Water Act. This federal act established the DWSRF program for states to make loans to community water systems. The DNRC funds each DWSRF loan using 80% U. S. Environmental Protection Agency (EPA) capitalization grant and 20% state match. These funds will complete the match for the 2013 Capitalization Grant.

Authorization

17-5-802 Montana Code Annotated (MCA) (1) When authorized by and within the limits of a bond act and as provided in this part, the board may issue and sell bonds of the state in the manner that it considers necessary and proper to provide funds for the purpose set forth in the bond act. (2) The full faith and credit and taxing powers of the state must be pledged for the payment of all bonds and notes issued pursuant to this part,...

BAN authorization

17-5-805 MCA (1) When the board has been authorized to issue and sell bonds under this part, it may, pending the issuance of the bonds, issue in the name of the state temporary notes in anticipation of: (a) the money to be derived from the sale of the bonds; ... (c) other money to be received as revenue for the specified program.

(3) Bond, grant, or revenue anticipation notes maturing not more than three (3) years after the date of issue may be issued from time to time as the proceeds are needed.

75-6-227 MCA The legislature, ..., authorizes the creation of state debt in an amount not to exceed $30 million in principal amount of general obligation bonds outstanding from time to time for the purpose of: (1) providing the state's share of the program; and (2) funding portions of loans on an interim basis pending receipt of: (b) other revenue for the program. [Staff Note: DNRC has $23.2 million available debt authority under this statute.]

Repayment

The bond proceeds from the issuance and sale of a general obligation bond backed by the full faith and credit of the state will repay the BAN. However, the DNRC will use excess DWSRF borrower loan repayments net of any existing obligations to pay down the proposed debt prior to finalizing the bond amount to be issued.

INTERCAP Debt

Since 1996, INTERCAP has provided nearly $36.2 million in interim financing to the DNRC for its various programs. DNRC currently has ~$3.8 million in bond anticipation notes (BANs) outstanding; final maturity September 2017. Assuming a full draw down of the DNRC's ~$4.7 million remaining commitment and this proposed request of $3.0 million, the DNRC has the potential total INTERCAP outstanding of ~$11.5 million. By program, the potential outstanding breakdown is ~$3.5 million Renewable Resource Grant & Loan, ~$3.0 million Water Pollution Control State Revolving Fund, and ~$5.0 million DWSRF.

Recommendation

The DNRC can adequately service the debt. Approval recommended with the following conditions:

1. The loan will be in the form of a bond anticipation note (BAN) and passed by the Board of Examiners.
2. The BAN does not cause the DNRC to exceed the $30 million debt limit for DWSRF according to 75-6-227 MCA.
3. The DNRC will not use INTERCAP loan proceeds to fund loans in the non-point source private loan portion of the DWSRF program.
4. The loan term limit will not exceed the limit as set forth by law for a BAN.
5. The Board requires a copy of the following prior to releasing funds:
    a. 2013 Capitalization Grant **(on file)**
    b. Resolution of the Board of Examiners authorizing the BAN.

Staff Loan Committee - Recommendation

David Ewer, Executive Director		Date 3/12/15
Geri Burton, Deputy Director	Geri Burton	Date 3-12-15
Louise Welsh, Sr. Bond Program Officer	Louise Welsh	Date 3/12/15

Board Loan Committee – April 7, 2015

	Approval		
Jack Prothero, Chairperson – Loan Committee	☐ Yes	☐ No	☐ Abstain
Kathy Bassette, Member	☐ Yes	☐ No	☐ Abstain
Terry Cohea, Member	☐ Yes	☐ No	☐ Abstain

Return to Agenda

Montana Loan Program

IN-STATE LOAN PROGRAM HISTORY

In 1983, the Legislature implemented Initiative 95, which was called the Build Montana program. The Legislature created the Economic Development Board (MEDB), which was governed by a seven member board appointed by the Governor. It also created the In-State Investment trust created within the Coal Tax Trust allocating 25% of the coal tax revenue to the In-State Investment trust. MEDB was to make in-state investments from the new trust. Since only 25% of the revenue flowed into the new In-State Investment trust and no corpus was allocated from the Coal Tax Trust to the investment trust, there was limited money to invest in Montana businesses.

The 1984 Legislature expanded the original Board of Investments (BOI), established by the 1971 Legislature, to include two Pension Board representatives and increased the size of the Board from five to seven members.

In 1985, the Legislature added Section 3 to 17-6-201, MCA which reads, in part "*The Board may not make a direct loan to an individual borrower. The purchase of a loan or a portion of a loan originated by a financial institution is not considered a direct loan.*" Title 17-6-312, MCA states in part, *"state participation in any loan to a business enterprise, except for a loan guaranteed by a federal agency, must be limited to 80% of the outstanding loan. The state shall participate in the security for a loan in the same proportion as the loan participation amount."*

The law cited above prevents the Board from becoming a direct lender; ensures that there will always be financial institution participation in the In-State Loan Program (Program) loans; prevents political pressure to make loans; and prevents the Board from taking a subordinate position in a participation loan. Because financial institutions share loan risk and loan collateral, they perform due diligence prior to submitting the loan application to BOI. Due diligence performed by BOI staff is in addition to that performed by the applicant. Requiring BOI to purchase loans solely from financial institutions makes the ultimate success of the Program totally dependent upon the willingness of financial institutions to utilize the Program. (In 1995, the Infrastructure Loan Program allowed MBOI to become a direct lender for the Infrastructure Loan Program only.)

The 1987 Legislature abolished both the existing MEDB and the BOI and created a new Montana Board of Investments (MBOI) with a nine member board. This new MBOI is representative of what the current Board looks like. The Legislature transferred all of the MEDB staff and duties to the new MBOI as well as the existing staff and duties of the abolished BOI.

In 1991, the Legislature liquidated the existing In-State Investment Fund, originally established by the 1983 Legislature, by transferring the Fund into the Coal Tax Trust, rather than it being a sub fund within the Coal Tax Trust. The Legislature encouraged MBOI to invest 25% of the Coal Tax Trust in Montana businesses.

Additionally in 1991, the Legislature enacted a program that is arguably the greatest incentive for Montana businesses to create new jobs, by creating **17-6-318, MCA, the job creation**

interest rate reduction for business loan participations. The statute has been improved by the legislature four times since 1991, with the last change coming during the 2005 legislature. The statute does not apply to the Value-added loan program, the Link deposit loan program or the Intermediary Relending program. It allows the borrower to apply, through the lender, for an interest rate reduction equal to 5 basis points for every net new job created as a result of the loan in which MBOI participates, up to a maximum of 250 basis points. The interest rate reduction only applies to the participated portion of the loan held by MBOI. The net new jobs must pay at least the Montana minimum wage, which is currently $16,744, and at least one full new job must be created. A new job must pay at least $36,835, excluding benefits, which is considered the state's private annual wage. The state's private annual wage is determined by the Montana Department of Labor and Industry and changes every July 1.

The 1991 Legislature also enacted **17-6-319, MCA, Incentive to financial institutions for small business loan participation**. The law allows MBOI to reduce the posted interest rate by 50 basis points for any participated loan, which in total, is less than 0.05% of the permanent coal tax trust fund. That amount is currently $448,000 and it changes every July 1.

The 1995 Legislature created the Infrastructure Loan Program (17-6-316, MCA) and allocates $50 million of Coal Tax Trust money for the program. The program allows the MBOI to become a direct lender to local government entities for infrastructure as defined in 7-15-4288(4), MCA. The municipal unit would own the infrastructure and lease it to the basic sector business using the infrastructure. The amount of the loan is determined by the number of jobs created by the basic sector business tenant. Depending on how the basic sector business using the infrastructure files its income taxes, it may be able to deduct the payment made to the municipal unit (lease payment) from its Montana income tax liability. As of 1-31-15, the In-State Loan program had $22,006,691 of infrastructure loans outstanding. All of these loans are performing as agreed.

In 1997 the Legislature abolished the Montana Science and Technology Board (MSTB), which was established by the 1985 Legislature to invest in high-risk investments in Montana. The Department of Commerce becomes the successor in interest and has the responsibility to manage the loans and investments made by the MSTB. However, the 1999 Legislature transferred those investments to MBOI. As of 12-31-14, MBOI manages $10,169,097 of those investments. There are currently five investments within this portfolio; one investment is in a Montana venture fund, three investments are in research and development companies, one investment is with a state university doing research. All payments are being made as agreed.

The 2000 Legislature created another In-State Loan program called the Value-added loan program. The interest rates and term are legislated. The program was created to spur the creation or saving of Montana jobs. It is a participation loan program in which MBOI can participate up to 75% of the lender's loan. The legislature allocated $50 million of Coal Tax Trust money for this program. As of 1-31-15 the Value-added loan program had an outstanding balance of $742,196. All of the loans have been performing as agreed.

The 2003 Legislature added two additional loan programs; the Intermediary Relending Program (IRP) and the Seasoned Loan Program. The IRP program was allocated $5 million from the

Coal Tax Trust, which is a revolving loan fund. The interest rate was fixed at 2.00% and the term was 30 years. The local economic development organizations have three years to loan the money to local businesses. After the first three years, the loan is amortized over the remaining 27 years with quarterly principal and interest payments to MBOI. The loan proceeds are to be used as matching funds for the U.S Department of Agriculture rural development loan program or other federal revolving loan programs. As of 1-31-15 there were 14 local economic development organizations utilizing the program with total outstanding loan balances of $3,293,505. All of the IRP loans are performing as agreed.

The seasoned loan program was originated to allow the MBOI to purchase seasoned performing loans from local economic development organizations, which would provide additional loan funds to the organizations. To date, this program has only been used once and it was used to accommodate the expansion of a basic sector business that also used the infrastructure loan program. As of 1-31-15 the outstanding seasoned loan balance was $397,542. This loan is performing as agreed.

In 2007, the Legislature increased the allocation to the infrastructure loan program from $50 million to $80 million and the Value-added loan program from $50 million to $70 million. The legislature also more accurately defined the limitations of the 25% usage of Coal Tax Trust money for the In-State Loan program (17-6-305, MCA). Prior to this legislation, it appeared to MBOI the 25% was a "cap" on how much Coal Tax Trust money was available to MBOI to participate in lender loans. It also clarifies what should and should not be included in the calculation of the 25%. Those loan programs that have separate allocations; Infrastructure, Value-Added, IRP and Veterans' Home Loan Mortgage Program balances were excluded from the calculation, while the Science and Technology investments were included. On 3-31-07, just before the end of the legislative session, the percentage of the In-State Loan program to the Coal Tax Trust reached 24.60%. The outstanding loan portfolio was over $203 million with the Coal Tax Trust totaling approximately $800 million, leaving MBOI with only approximately $3.2 million of lendable funds. On the second to the last day of the legislative session, Section 17-6-305(1), MCA was amended to read, in part, *"This subsection does not prohibit the board from investing more than 25% of the permanent coal tax trust fund in the Montana economy if it is prudent to do so and the investments will benefit the Montana economy."* This change allows MBOI greater flexibility in its ability to service the economic growth of Montana. Currently the percentage of loans to the total Coat Tax Trust is well below 10%.

Finally, the 2011 Legislature added to 17-6-308 MCA Subsection 5, allowing $15 million of Coal Tax Trust money to be allocated for residential loans to qualified Montana veterans. 17-6-308(5) MCA states, *"(5) The board shall allow the board of housing to administer $15 million of the permanent coal tax trust fund for the purposes of the Montana veterans' home loan mortgage program provided for in Title 90, chapter 6, part 6."* The 2013 Legislature allocated an additional $15 million to fund veteran's residential mortgages. As of 1-31-15, MBOI had funded 154 veteran loans totaling $26,379,048 and also had 6 reservations totaling $1,177,751. There is another bill before the 2015 Legislature to allocate an additional $10,000,000.

Lenders have always had the opportunity to accept deposits from the State Treasury, paying the current rate of interest and securing those deposits with government securities for amounts above

the FDIC insurance coverage. In times of low lender liquidity and high loan demand and/or at times of volatile upward moving interest rates on deposits, lenders would offer to accept state money (in this case Coal Tax Trust money) at the interest rate posted on the MBOI interest rate sheet for a fixed period of time. They would then link that deposit to a specific loan, matching the term of the loan with the term of the State's deposited funds. This way the lender can fix an interest rate for a borrower for up to 25 years knowing it has matched its asset, the loan, with a corresponding State deposit. Interest is paid quarterly to MBOI as well as the amount of principal paid on the loan. The posted Link Deposit interest rates are not reflective of normal municipal deposit interest rates, due to the current economic conditions and lender's excess liquidity. Currently there are no link deposit loans outstanding.

The Program also invests in Montana residential mortgages, but funds those loans with retirement monies. Retirement funds currently have an actuarial return requirement of 7.75%, while current residential mortgage interest rates are half the actuarial interest rate. As a result, MBOI is not investing in Montana residential mortgages. However, when residential interest rates were near or over the actuarial rate of 7.75%, MBOI had substantial investments in Montana residential mortgages. The program peaked in 2002 with total outstanding Montana residential mortgages of $324 million. As of 1-31-15 residential mortgages reflected an outstanding balance of $10,185,252. Since 2000, there has been no principal loss on any residential loan in the portfolio.

Distribution of portfolio as of 1-31-15

Glacier Country $32,462,751
Missoula County - Missoula - $8,500,000 – Direct TV
Don K Chevy – Whitefish - $5,000,000 – Auto dealership
Summit Ranch – Kalispell - $3,200,000 – School for troubled children
Klinkenbeard – Missoula - $1,600,000 – Gas station and convenience store
Hilton Gardens – Missoula - $3,050,000 – Hotel and convention center
Grant Creek – Missoula - $1,840,000 - Hotel

Russell Country $20,330,534
Great Falls Port Authority – Great Falls - $3,325,000 – Centene - Process insurance claims for state health insurance programs (Wisconsin, Illinois, Texas…)
City of Great Falls – Great Falls - $7,300,000 – ADF - Heavy structural steel fabrication
Great Falls Airport Authority – Great Falls - $1,800,000 – AVMAX - Heavy aircraft maintenance

Missouri River Country $304,628
2 small FSA guaranteed loans each less than $60,000
1 IRP loan for $209,000

Custer Country $18,230,263
Big Sky Economic Development Authority – Billings - $6,300,000 – GE Capital
CTA – Billings - $1,325,000 – Architectural firm
Beran, LLC – Billings - $3,565,000 – Manufacturer of stainless steel trailers
DSS, LLC – Billings - $2,635,000 - Health and fitness center
Pierce Buildings – Billings - $1,700,000 – Motor homes, travel trailers
King Development – Billings - $1,050,000 – ACE hardware stores

Yellowstone Country $18,122,115
Morrison – Maierle – Bozeman - $4,700,000 – Office building
JC Billion – Bozeman - $5,000,000 – Auto dealership
Paulson Enterprises – Bozeman - $1,350,000 – Bio lab

Gold West Country $13,254,905
Community Counseling & Correction Service - Butte - $4,450,000 – Correctional facility
Shoot the Moon – Helena - $7,000,000 – Chili's restaurant

In-State Loan Program

Presented by:

Herb Kulow, CMB

Senior Portfolio Manager

In-State Loan Program

- **Topics for Today's Discussion:**
  - **Coal Tax Trust Loan Programs**
  - **Performance**
  - **Residential Mortgage Program**
  - **Summary**

In-State Loan Program – Coal Tax Trust

- Participation – Non-Guaranteed
- Participation – Guaranteed
- Infrastructure
- Value-Added
- Intermediary Relending Program
- Seasoned Loans
- Link Deposit
- Veterans Home Loan Mortgage Program
- Science and Technology

In-State Loan Program – Coal Tax Trust

- **Participation Loans**
  - May loan up to 25% of Trust (Trust = $ 861.2 million)
  - Maximum loan size is 10% of Trust ($86.1 million)
  - Board participation up to 80% of loan or 100% of the guaranteed amount
  - Fixed-rate financing up to 25-years
  - Loans made in participation with lenders who service loans
  - Interest rates index is the Federal Home Loan Bank - Seattle long-term interest rates
  - Job creation credits may reduce interest rate up to 2.5%
  - $102.7 million principal outstanding as of 1-31-15

In-State Loan Program – Coal Tax Trust

- **Infrastructure Loan Program**
  - Up to $80.0 million of the Trust is available
  - Maximum loan size = $16,666 times jobs created
  - Minimum loan size = $250,000
  - Loans to local government for infrastructure
  - No lenders involved – Board lends directly to local governments
  - Business for which infrastructure is provided must:
    - Create at least 15 full-time jobs
    - Be a "basic sector" business
  - Business pays local government a use fee to repay loan
  - Use fee is pledged to the Board
  - Use fee is credited against the Montana income taxes of the business
  - Job creation credits may reduce interest rate up to 2.5%
  - $22.0 million principal outstanding as of 1-31-15

In-State Loan Program – Coal Tax Trust

- **Value-Added Loan Program**
  - Up to $70.0 million of the Trust is available
  - Maximum loan size = $8.6 million (1% of Trust)
  - Minimum loan size = $250,000
  - Maximum 15-year loan term
  - Jobs must be created by "value-added" businesses
  - Interest rate 1st 5 years is 2% if 15 jobs are created
  - Interest rate 1st 5 years is 4% if 10 jobs are created
  - Interest rate 2nd 5 years is 6%
  - Standard posted rate for the last 5 years
  - Board participates at 75% with lenders by law
  - Can not pay dividends or bonuses to owners while loan is outstanding
  - $742,000 principal outstanding as of 1-31-15

In-State Loan Program – Coal Tax Trust

- **Intermediary Relending Loan Program**
  - Up to $5.0 million of the Trust available
  - Maximum loan size = $500,000
  - No lenders involved – Board lends directly to:
    - Local economic development organizations
  - Organizations must match loan with other government funds
  - Interest capped at 2% for 30-year term
  - Interest payments only for first 3 years
  - Principal and interest next 27 years
  - $3.3 million principal outstanding as of 1-31-15

In-State Loan Program – Coal Tax Trust

- <u>Seasoned Loans</u>
  - Board purchases portion (up to 80%) of seasoned/mature loan from economic development organization
  - Loan must comply with commercial loan policy
  - $397,542 principal outstanding as of 1-31-15
- <u>Link Deposit</u>
  - Lender accepts coal tax money as deposit for specific term
  - Interest on deposit posted on MBOI rate sheet
  - Deposit matures annually, but guaranteed for a specific term
  - Secured by qualifying securities for amount over FDIC coverage
  - Links deposit to lender loan
  - Lender pays interest quarterly and reduces deposit amount by principal reduction of Linked loan.
  - No link loans are currently outstanding

In-State Loan Program – Coal Tax Trust

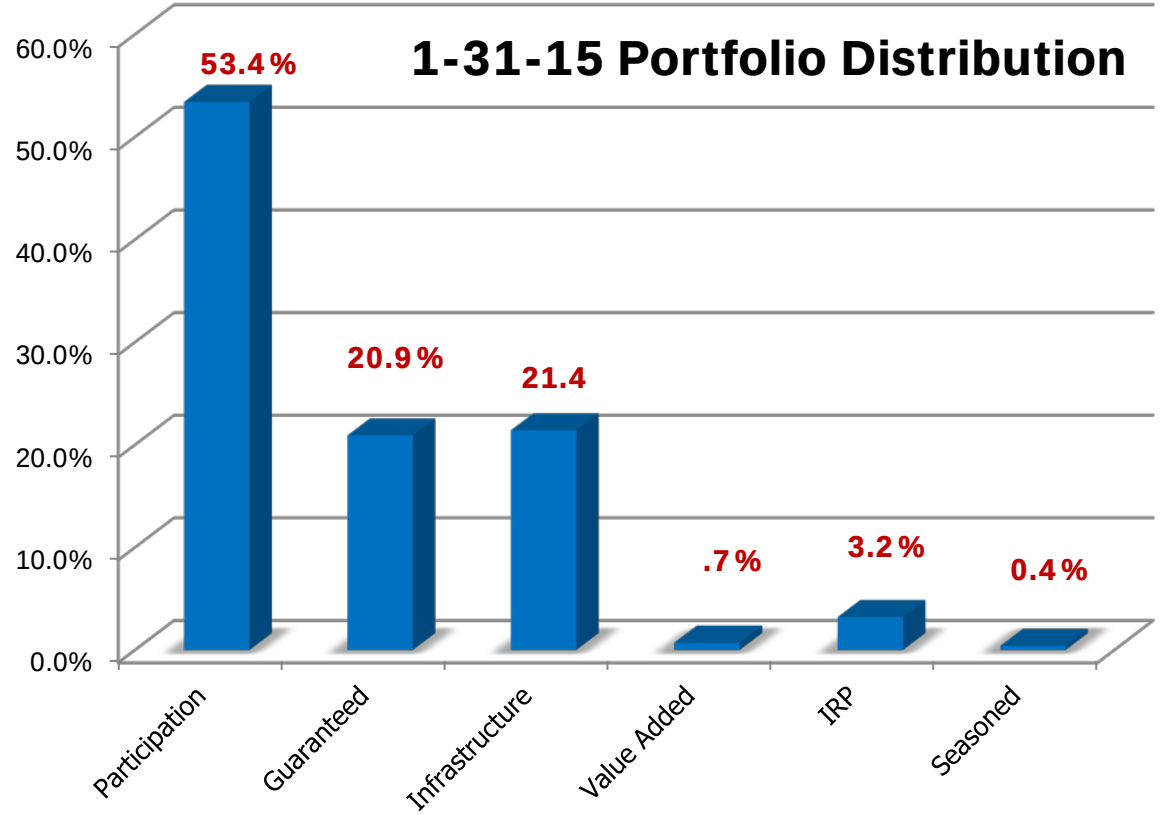
- **Veterans Home Loan Mortgage Program**
  - Loan partially guaranteed by government
  - $30 million of coal tax money allocated to program
  - Only qualified veterans residing in Montana
  - Minimum $2,500 equity applies to purchase price
  - Automated underwriting – approved eligible only
  - Must have full allocation of veteran's benefits
  - 30-year term priced at 1% less than market rates
  - Montana Board of Housing administers program
  - First loan purchased on 1-23-12 for $172,633
  - $26.4 million principal outstanding as of 1-31-15

In-State Loan Program Science and Technology

- **Science and Technology**
  - **MBOI becomes successor in interest in 1999**
- **Loans Currently Outstanding (12-31-14)**

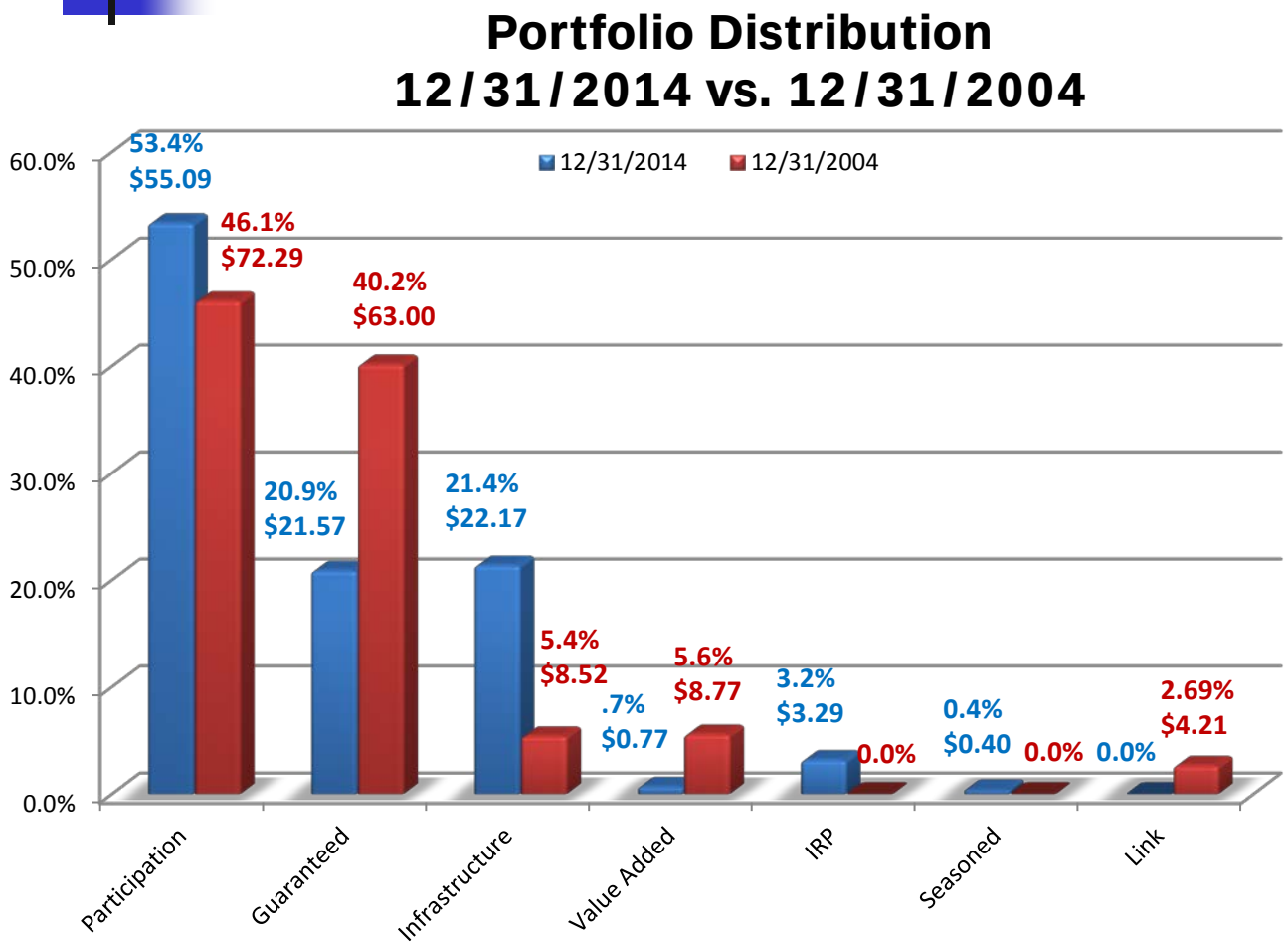
Montana University System	$8,197,341
Glacier Venture Fund	922,209
Emerald Bio	678,074
McLaughlin Research Institute	209,870
Deaconess Research Institute	161,603
Total Science and Technology	$10,169,097

In-State Loan Program



Participated loans comprise $54,815,971 of the portfolio followed by Infrastructure loans, $22,006,691 and Federally Guaranteed loans, $21,513,868. Value-added has only one borrower owing $742,197, IRP totals 3,293,505 and one seasoned loan, $397,542. No Link Deposit Loans.

In-State Loan Program Comparison



Guaranteed loans have contracted by two-thirds, while Infrastructure loans have grown by almost 3 times. Due to interest rates over the past 10 years the Value added and Link Deposit programs have not been used.

Glacier Country

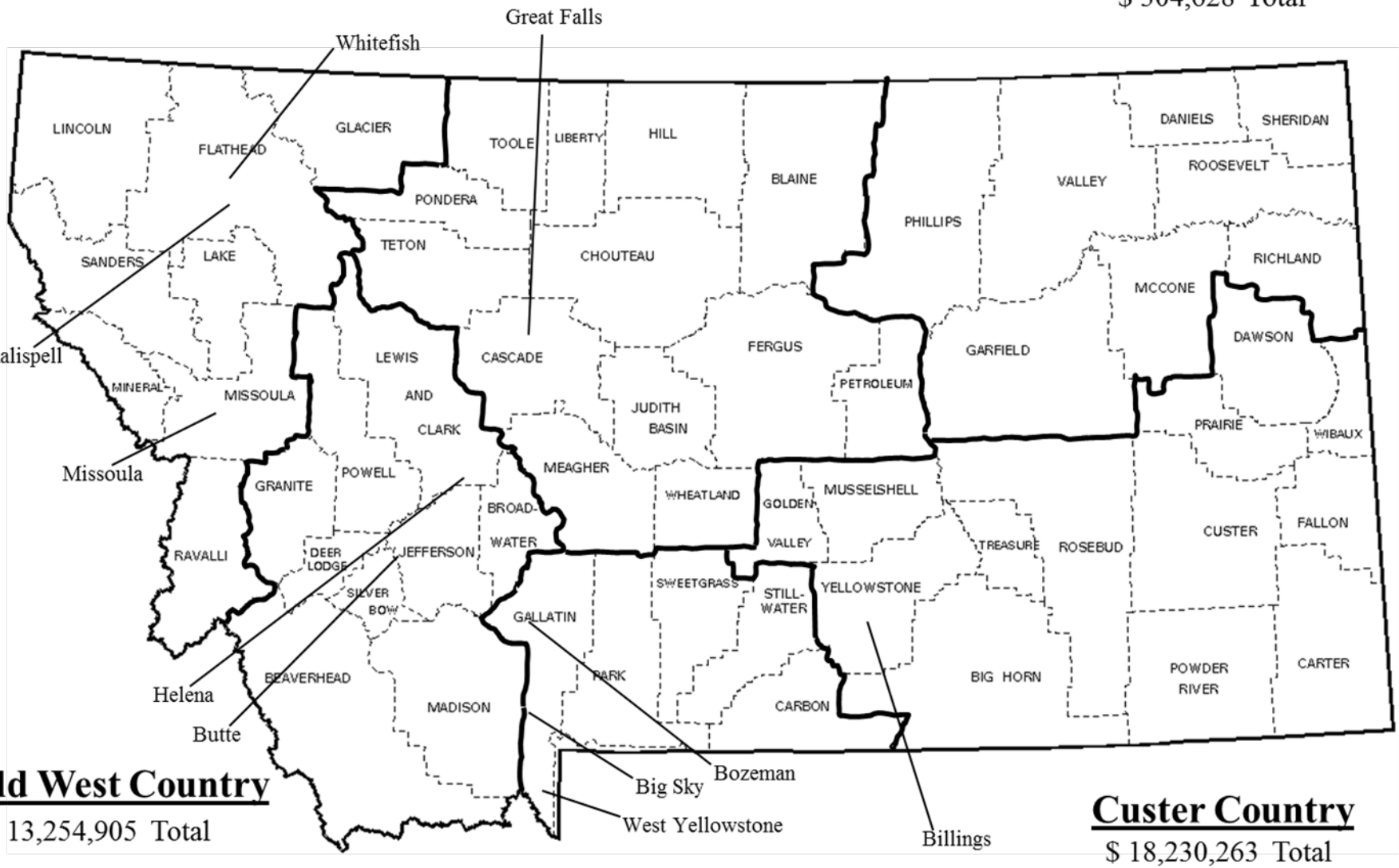
$ 32,462,751 Total

Russell Country

$ 20,330,534 Total

Missouri River Country

$ 304,628 Total



Gold West Country

$ 13,254,905 Total

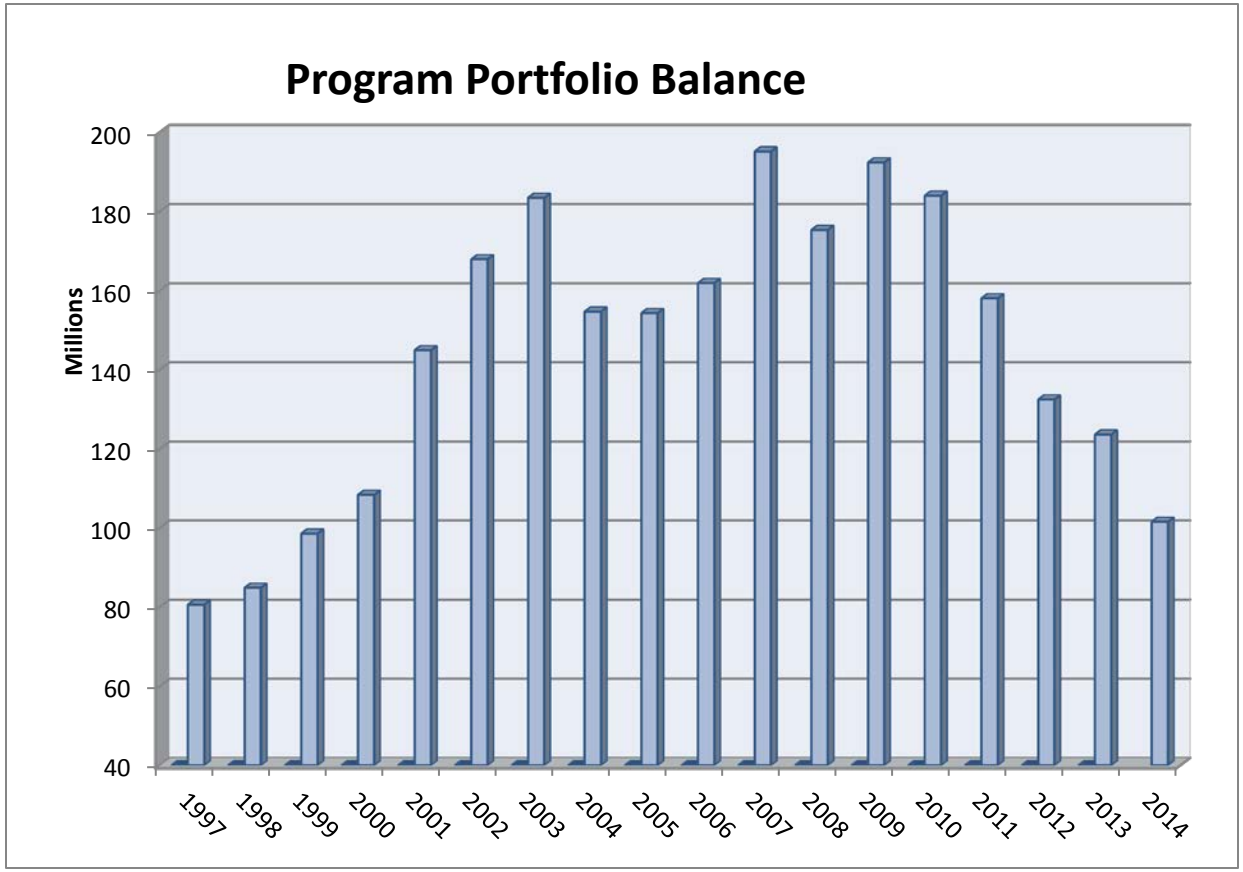
Custer Country

$ 18,230,263 Total

Yellowstone Country

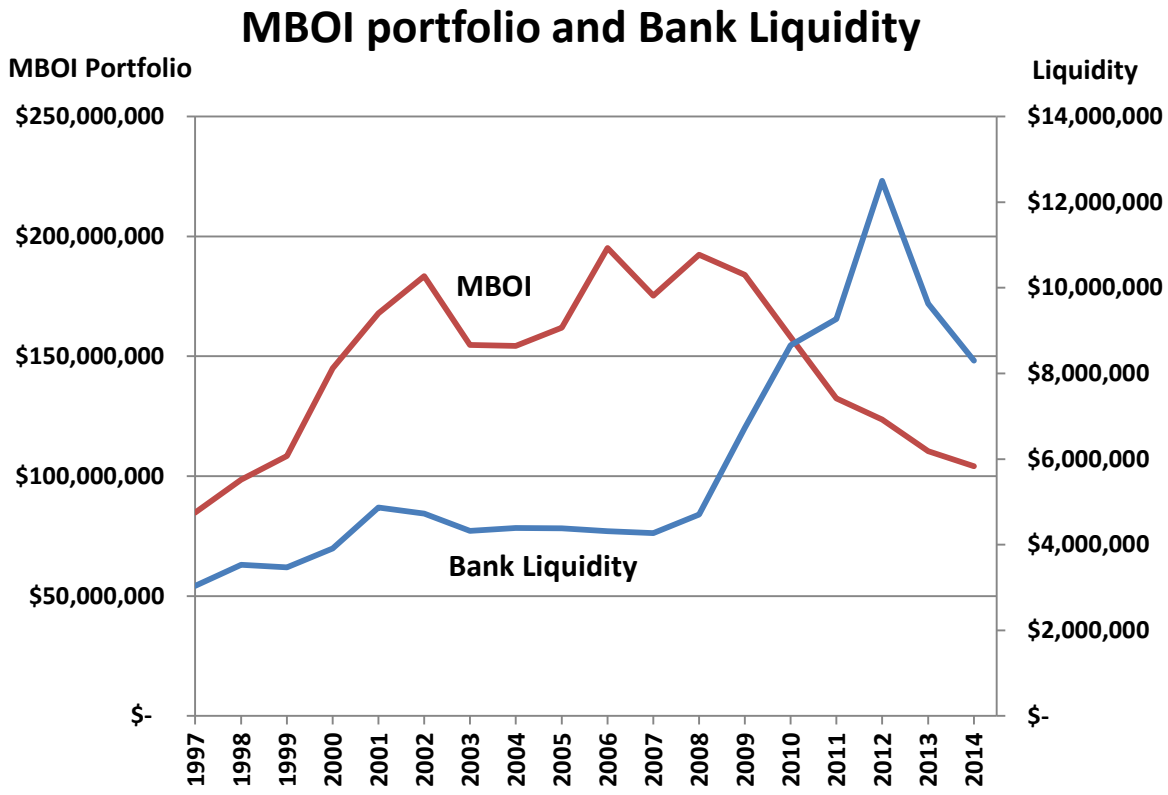
$ 18,122,115 Total

In-State Loan Program



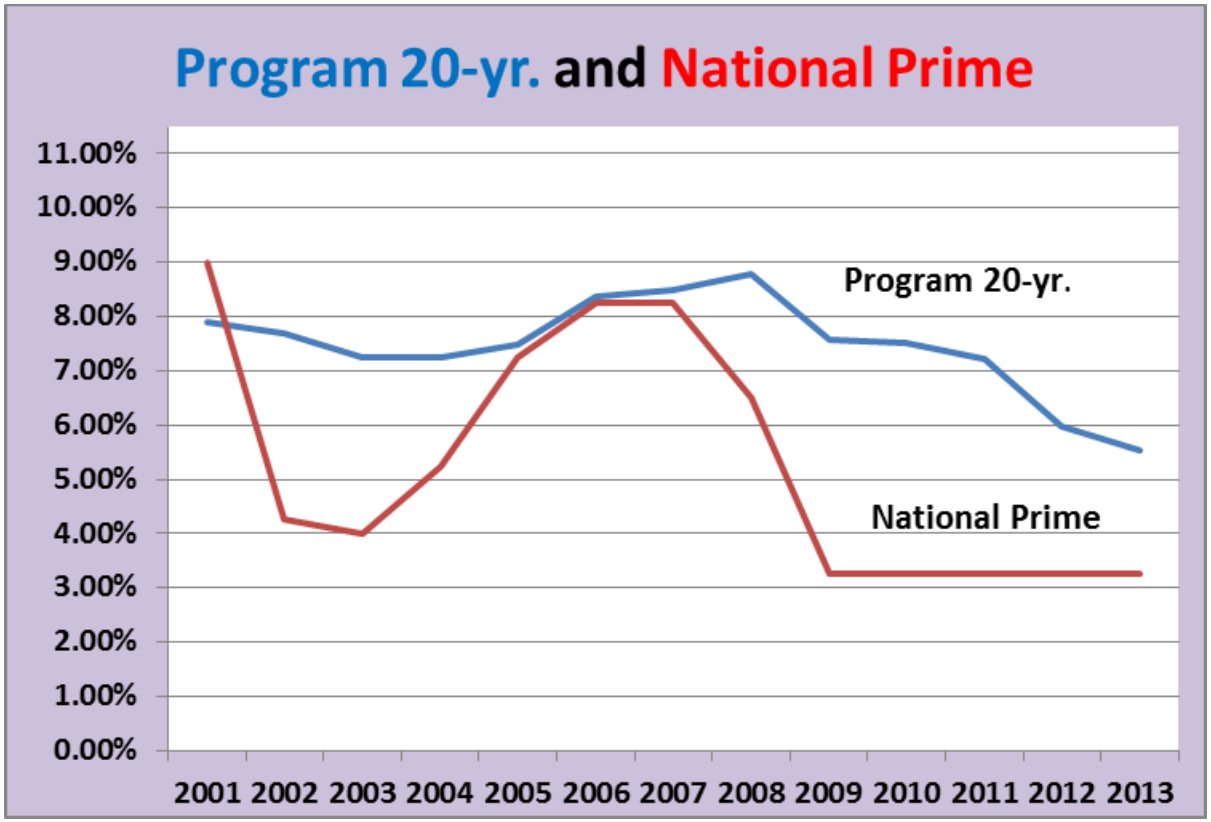
Prior to 1999, the Program operated under Administrative Rules (Rules). It was determined that the Rules made it very difficult for the lenders to understand and to use the Program. As a result, in June 1999, at a public hearing, which no one showed up at, it was decided to repeal 90% of the existing Rules and replace them with Policy. As a result, lenders began to use the program more. The Program portfolio increased from $84,853,000 on 6-30-98 to $183,440,551 on 6-30-03, an increase of $98,600,000. The portfolio peaked in 2007 at $204,532,561.

In-State Loan Program



Since the start of the melt-down in 2008 and the tightening of credit standards by the regulators and lenders, loan demand has diminished and lender liquidity has increased. Today, with Montana lenders having excess liquidity, they have no particular desire to participate a portion of their loans to MBOI. As lenders tried to find ways to absorb their excess liquidity, they turned to the Program to repurchase participated loans. Prior to the repurchase of the loan, the lender must submit, in writing, the financial advantage that would accrue to the borrower as a result of the repurchase. If the financial advantage is reasonable, staff will allow the repurchase. As a result, the Program's portfolio has decreased from $192,377,000 as of 6-30-08 to $102,705,198 as of 1-31-15.

In-State Loan Program



Program interest rates have fallen sharply since 2008 after hitting a high of 8.77% and a low of 5.11% in 2012. Program interest rates are influenced by national prime, but national prime is not the index. The index is the FHLB – Seattle amortizing fixed interest rates. Program interest rates change every Thursday.

In-State Loan Program Commercial Rates

Commercial Loan Rate Sheet

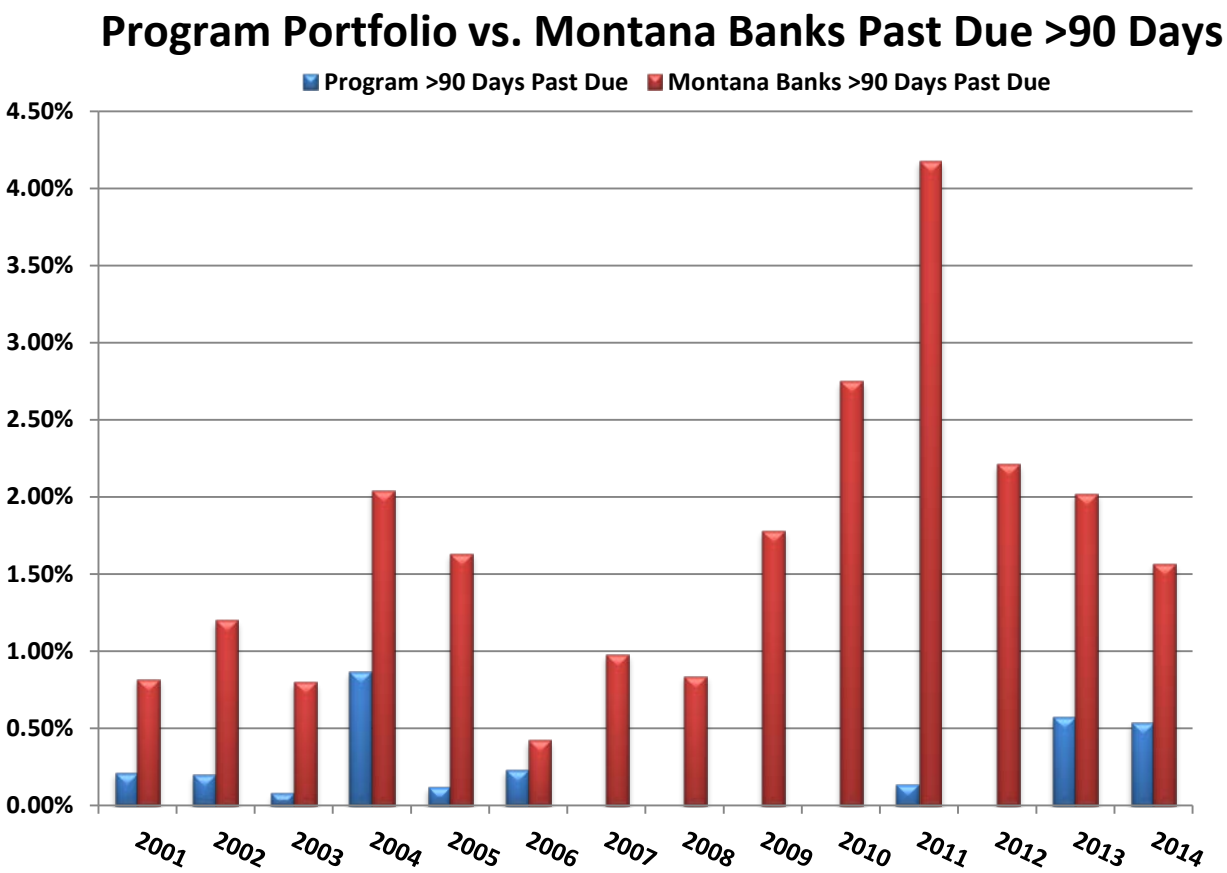
Interest Rates 26-Mar-15 Through 01-Apr-15

COMMERCIAL, MULTI-FAMILY, AND AGRICULTURE RATES

Loan (4)	Fed Guarantee (1)(2) RBS/FSA/BIA/SBA(3)		Participation (1)(2)		Link
Term	Monthly	Annual	Monthly	Annual	Quarterly
5 Yrs.	3.300%	3.600%	3.700%	4.250%	7.500%
10 Yrs.	3.990%	4.290%	4.390%	4.940%	8.000%
15 Yrs.	4.450%	4.750%	4.850%	5.400%	8.500%
20 Yrs.	5.030%	5.380%	5.430%	6.030%	9.000%
25 Yrs.	5.470%	5.820%	5.870%	6.470%	
30 Yrs.	5.960%	6.310%			

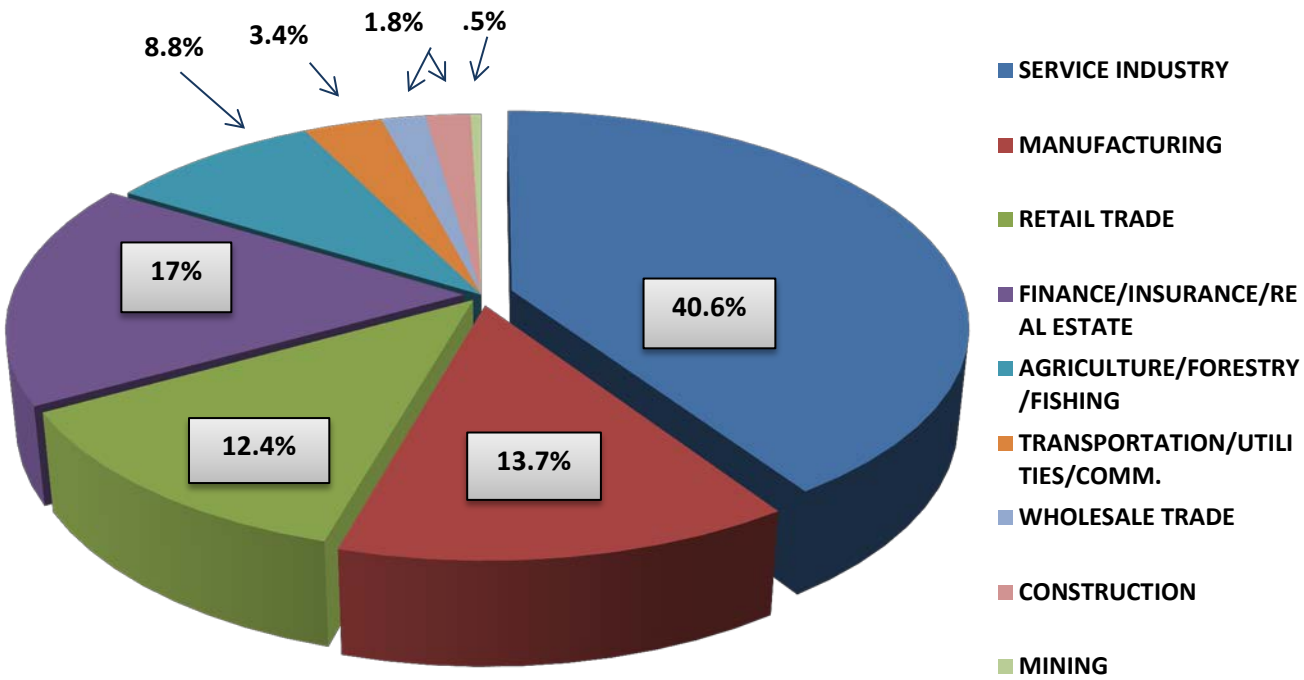
Commercial interest rates are indexed to the Federal Home Loan Bank – Seattle long-term, fixed interest rates plus a "markup" of from 2.25% to 2.75% for non-guaranteed monthly participations. Guaranteed loans are priced 40 basis points lower than the non-guaranteed rates. The index is the cost to lenders to borrower money from the FHLB – Seattle. Link rates are not applicable due to excess lender liquidity.

In-State Loan Program



The Program has an impressive commercial loan past due history, which has always been well below the over 90 days past due percentage of Montana lenders. Years showing no blue column indicate there were no commercial loans over 90 days past due during the reporting period. There are six such periods reflected on this graph. The Program has written off a portion of one loan in the amount of $206,599 in 2002. The loan was originated in 1997. One loan was written off in June 2014 in the amount of $62,280. As of 1-31-15 there were NO past due loans.

In-State Loan Program



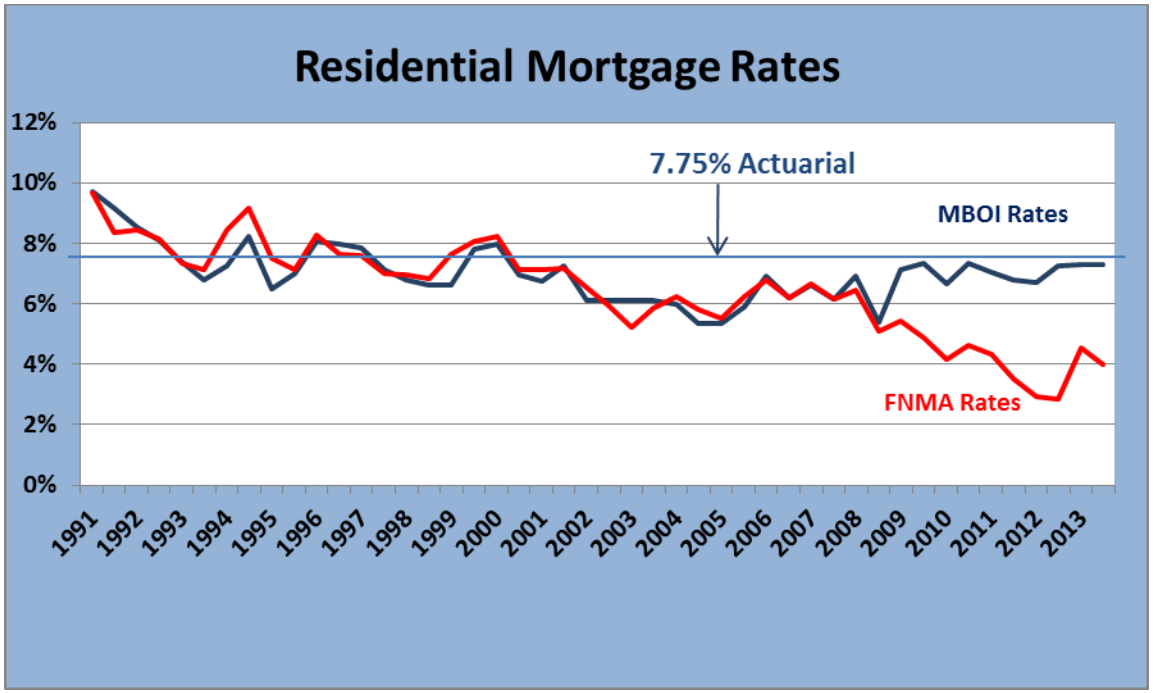
Sectors Since Inception

The service sector is comprised primarily of hotel/motel, restaurants, professional offices, health care facilities and auto repair. Hotel/motel comprised 30.33% of the service sector. Office space represented 28.5% of Finance/Ins/RE. The Manufacturing sector is very disbursed with the largest being aircraft parts at 13.8%. Retail's main businesses are auto dealers, 20% and grocery and convenience stores, 19.36%. Since inception 1,292 loans were funded totaling $695,000,000.

Residential Mortgage Program – Pension Funds

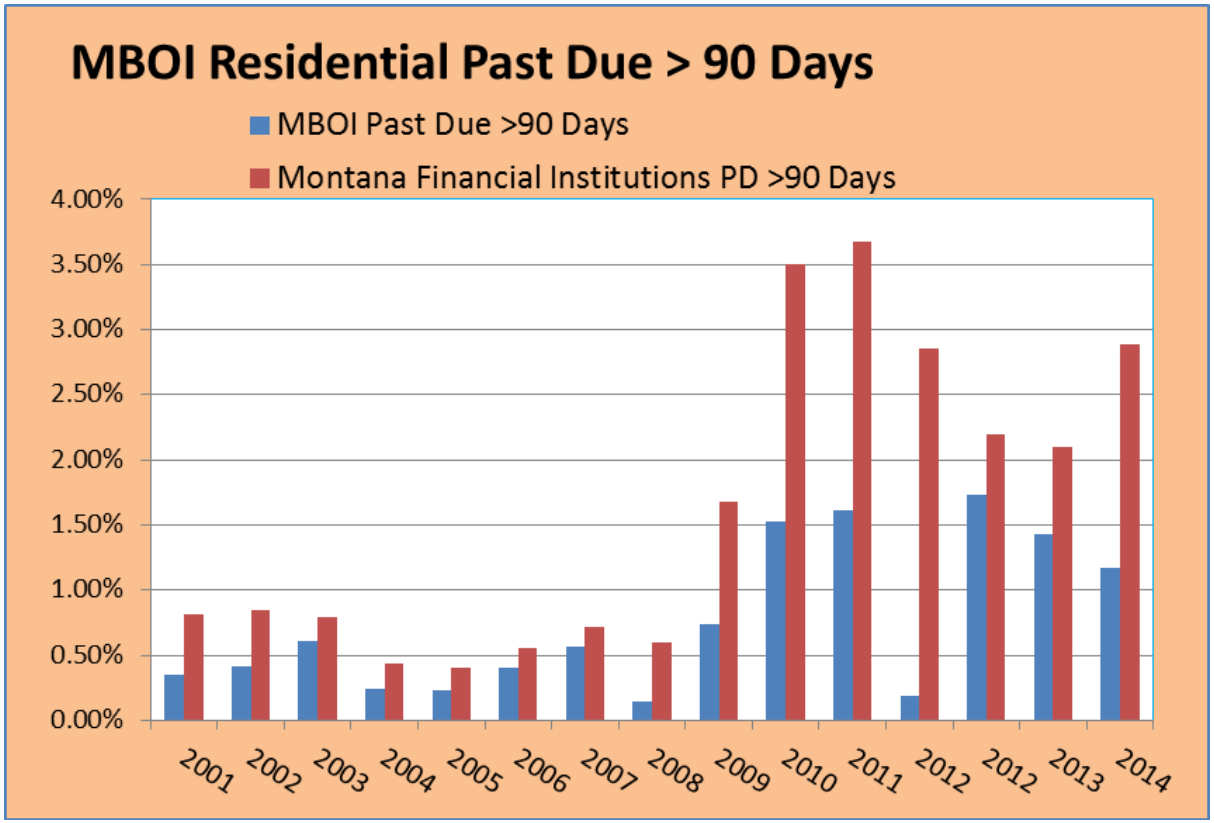
- **Residential Loans**
  - **Montana residential mortgages only**
  - **Mortgages serviced by lender and/or Board of Housing**
  - **Board of Housing provides accounting**
  - **Portfolio peaked in 2002 at $324.0 million**
  - **Program scaled down due to low mortgage interest rates**
  - **Interest rates indexed to Freddie Mac rates**
  - **$10.2 million principal outstanding as of 1-31-15**

Residential Mortgage Portfolio



In all of the 1990s, MBOI residential interest rates averaged 7.65% while the market residential interest rates averaged 7.85%. During that time MBOI discounted the market's interest rate to encourage lenders to sell their Montana residential loans to MBOI. As interest rates decreased in early 2000, the Board made a decision not to invest in any additional Montana residential mortgages. This was primarily driven by the fact that the pension fund's actuarial rate was at 7.75% and it was difficult to achieve 7.75% in a 6.00% or lower residential interest rate market. Instead of discontinuing the residential loan program, MBOI increased the interest rate offered to purchase residential mortgages. As a result, Montana lenders chose other secondary market investors to sell their loans. The higher residential interest rate philosophy is still in effect today with MBOI.

In-State Loan Program



The MBOI investments in Montana residential mortgages uses pension funds rather than Coat Tax Trust money. The residential portfolio peaked in 2002 at $324,038,000. The outstanding residential portfolio, as of 12-31-14 was $10,422,520. Since the residential portfolio is funded with pension money, which has an actuarial rate of 7.75%, current interest rates do not allow MBOI to be competitive in today's residential mortgage market.

The past due history of the residential portfolio has been very good, especially since the melt-down of 2008. As the outstanding portfolio balance continues to decrease, the probability of increased past due percentage also increases due to lower portfolio balances.

In-State Loan Program Residential Rates

Montana Board of Investments			
Residential Mortgage Rate Sheet			
Primary Residence (1)			
Mandatory Delivery - Potential Penalty for Non-Delivery			
Interest Rates	26-Mar-15	Through	01-Apr-15
CONVENTIONAL MORTGAGE/FHA/VA RATES (3)			
Reservation Period	15 Year	20 Year	30 Year
30 Days	6.500%	7.250%	7.350%
60 Days	6.550%	7.300%	7.400%
180 Days (2)	6.800%	7.550%	7.650%
240 Days (2)	6.950%	7.700%	7.800%

Residential mortgages are funded through retirement funds which have an actuarial of 7.75%, which in today's residential interest rate environment of 3% to 4% makes the use of our residential program an impractical consideration. As a result, staff has not changed the posted residential interest rates.

Summary

- In-State Loan Programs created by the Legislature
  - Currently 9 Coal Tax loan programs
- Policies are user friendly and understandable
- Size of Program portfolio determined by economy and lender liquidity
- Portfolio consists of high quality credits
- Very experienced and knowledgeable Program staff
- Program staff developed the State Small Business Credit Initiative program, the small loan pool and Low Income Housing Tax Credit loan programs using the existing commercial loan policy
- Residential loan program is currently dormant due to very low residential market interest rates
- VA mortgage loan program is expanding and near its maximum

Back to Agenda

APPENDIX

2015 CALENDAR

Board Dates Board Packet Mailing

01 New Year's Day
19 M.L. King Day

JANUARY						
S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

16 Presidents Day

FEBRUARY						
S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28

MARCH						
S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

03 Good Friday
05 Easter Sunday

APRIL						
S	M	T	W	Th	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

10 Mother's Day
25 Memorial Day

MAY						
S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

21 Father's Day

JUNE						
S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

JULY						
S	M	T	W	Th	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

04 Independence Day

AUGUST						
S	M	T	W	Th	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

SEPTEMBER						
S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

07 Labor Day

OCTOBER						
S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

12 Columbus Day
31 Halloween

NOVEMBER						
S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

11 Veterans Day
26 Thanksgiving Day

DECEMBER						
S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

25 Christmas Day

24 Month Systematic Work and Education Plan 2015				
Completed	Completed	Completed	Proposed	
2012	**2013**	**2014**	**2015**	
		X	X	Accounting Review
X	X	X	X	Annual report and financial statements
X	X	X	X	Asset Allocation Range Approval (Board must review/approve annually as per policy)
X	X		X	Capital Market/Asset Allocation
X	X	X	X	Audit (Financial)
	X		X	Benchmarks used by Board
	X		X	Board as a rated investment credit, a bond issuer and a credit enhancer
X	X	X	X	Board member education
X	X	X	X	Board's budget
	X		X	Board as landlord/tenant holdings
	X		X	Board's website
X		X		Cash Management of state monies
X	X	X	X	Cost reporting including CEM, Inc. analysis
		X		Custodial bank relationship, performance, continuity
	X		X	Customer relationships (State government)
	X	X		Disaster Recovery and other emergency preparedness
X	X	X	X	Exempt staff performance and raises (HR policy requires annual consideration)
X	X	X	X	Ethics policy – (Board policy requires annual affirmations)
X	X		X	Fixed Income
	X		X	In-state Loan program
X		X		INTERCAP program
X	X	X	X	Internal controls
X	X	X	X	Investment Policy Statements Review (Governance policy requires annual review)
X	X	X	X	Legislative session and interim matters
	X	X		Outreach efforts for Board - loan and municipal programs
X	X	X	X	PERS and TRS relationship
X		X		Private Equity
		X		Proxy voting public equities
X		X		Public Domestic Equities
X		X		Public International Equities
X		X		Real Estate and timberland
X	X	X	X	Resolution 217 update of current Investment Firms (Board policy requires annual update)
X	X	X	X	Resolution 218, role of deputy director to serve as acting executive if necessary
	X		X	Securities Lending
X	X	X	X	Securities Litigation
X	X	X	X	Staffing levels (required biannually in board policy)
	X		X	State Fund as major client

24 Month Systematic Work and Education Plan 2015				
Completed	Completed	Completed	Proposed	
2012	**2013**	**2014**	**2015**	
		X	X	Accounting Review
X	X	X	X	Annual report and financial statements
X	X	X	X	Asset Allocation Range Approval (Board must review/approve annually as per policy)
X	X		X	Capital Market/Asset Allocation
X	X	X	X	Audit (Financial)
	X		X	Benchmarks used by Board
	X		X	Board as a rated investment credit, a bond issuer and a credit enhancer
X	X	X	X	Board member education
X	X	X	X	Board's budget
	X		X	Board as landlord/tenant holdings
	X		X	Board's website
X		X		Cash Management of state monies
X	X	X	X	Cost reporting including CEM, Inc. analysis
		X		Custodial bank relationship, performance, continuity
	X		X	Customer relationships (State government)
	X	X		Disaster Recovery and other emergency preparedness
X	X	X	X	Exempt staff performance and raises (HR policy requires annual consideration)
X	X	X	X	Ethics policy – (Board policy requires annual affirmations)
X	X		X	Fixed Income
	X		X	In-state Loan program
X		X		INTERCAP program
X	X	X	X	Internal controls
X	X	X	X	Investment Policy Statements Review (Governance policy requires annual review)
X	X	X	X	Legislative session and interim matters
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X	X	X	X	PERS and TRS relationship
X		X		Private Equity
		X		Proxy voting public equities
X		X		Public Domestic Equities
X		X		Public International Equities
X		X		Real Estate and timberland
X	X	X	X	Resolution 217 update of current Investment Firms (Board policy requires annual update)
X	X	X	X	Resolution 218, role of deputy director to serve as acting executive if necessary
	X		X	Securities Lending
X	X	X	X	Securities Litigation
X	X	X	X	Staffing levels (required biannually in board policy)
	X		X	State Fund as major client

Terminology Commonly Used and Generally Understood at the Montana Board of Investments
(And most typical context used at BOI)

Active management (typically with respect to stocks)
Investment method which involves hiring a manager to research securities and actively make investment decisions to buy and sell securities in an effort to outperform an assigned index, rather than purchasing a portfolio of securities that would simply replicate the index holdings (*'passive'* investing).

Actuarial assumed rate (pension concept)
The investment return rate used by actuaries that enables them to project the investment growth of retirement system assets into the future (typically perpetual).

Actuarial funding status (pension concept)
A measurement made by actuaries to measure a pension system's financial soundness (ratio of actuarial liabilities to the actuarial value of the assets available to pay the liabilities).

Alpha (investment term)
Return on an investment portfolio in excess of the market return or benchmark return; generally used in the context of *'active'* management (as passive management, by definition, does not seek excess returns, or 'alpha').

Alternative Investments
A wide range of investments, other than traditional assets such as publically traded stocks and bonds. The most common nontraditional or alternative investments are private equity, real estate, commodities, and hedge funds.

Arbitrage (bond program)
A structural or systematic difference between investment types which may allow profiting from the 'difference,' i.e., arbitrage. The most common context for the use of 'arbitrage' at the BOI is the federal law that prevents 'arbitrage,' i.e., the profiting of investing tax-exempt securities (e.g. INTERCAP) into taxable yields investments (such as U.S. Treasuries).

Asset Allocation and Asset Allocation Range (general investment principle)
The Board's invested assets are divided or allocated into various asset classes such as stocks and bonds, each with its own characteristics, with the objective of attaining an optimal mix of risk and return. The total expected return of a portfolio is primarily determined by the mix or allocation to its underlying assets classes. Given the importance of 'asset allocation,' the BOI Board sets the asset allocation 'range' for each broad investment type or asset class.

Average life (fixed income, particularly bonds)
The average time period the debt is expected to be outstanding. This is typically the maturity date for a traditional bond structure, however it will be shorter for bonds having a sinking fund or amortizing payment structure.

Barclay's Aggregate Index (fixed income)
A composite of outstanding bond issues, including corporate, structured, and government bonds whose overall investment features such as return and investment type are tracked over many years. This is the most common benchmark used for comparing the performance of a portfolio that invests in U.S. investment grade fixed income securities. Formerly known as the Lehman Aggregate bond index.

Basis points (investment jargon)
A basis point is 1 100th of a percentage. Ten basis points is one tenth of a percent, typically written as 10 bps.

Benchmark (standard investment concept)
The concept of employing a particular independent or market investment return as a measurement to judge an investment portfolio's return; typically chosen investment benchmarks have the following attributes: they are investible, quantifiable, chosen in advance, easily understandable, and have a long history; common examples are the S & P 500 Index and the Barclay's Aggregate Index.

Beta (investment jargon)
A measure of the risk (or volatility) of a security or a portfolio in comparison to the market as a whole. If the stock or portfolio moves identically to that market, its beta value is 1; if its price volatility (or movement) is greater than that market's price volatility, it is said to have beta greater than 1.

Cap, as in large 'cap' (generally for stocks, i.e., public equities)
'Cap' is short for capitalization, as a reference to the market value of a publically-traded company. The current stock price times the total shares outstanding of the company equals its market capitalization or market 'cap'; often used contextually such as 'large-cap,' 'mid-cap,' and 'small-cap' for different sized public companies.

Clawback (private equity)
A clause in the agreement between the general partner and the limited partners of a private equity fund. The clawback gives limited partners the right to reclaim a portion of distributions to a general partner for profitable investments based on significant losses from later investments in a portfolio which ultimately resulted in the general partner receiving more distributions than it was legally entitled to.

Core (context varies for equity, fixed income, real estate)
In equity and fixed income, 'core' refers to investments that are generally always found in the portfolio and normally expect to hold for a very long time e.g. 'core' holdings of the largest U.S. companies, or U.S. treasuries; in real estate, 'core' generally refers to the best quality of real estate holdings such as prime commercial property in major metropolitan cities that have low leverage and low levels of vacancy.

Correlation (common statistical concept)
A measure of how two or more investment values or two asset classes move relative to each other during the same time period. A central concept in portfolio construction is to seek investments whose values do not move *together* at the same time, i.e., are uncorrelated. A correlation of 1 means that two or more investments 'move' precisely together.

Custom benchmark (or sometimes custom index)
A way to measure investment performance using a tailor-made measurement versus a generic industry-standard benchmark. At the BOI, total pension performance is measured against the Board's 'custom index' or 'custom benchmark' which is a weighted blend of all the underlying asset class benchmarks used to measure the asset class returns.

Derivatives (investment jargon)
Investment securities whose performance itself depends (or is 'derived') from another underlying investment return. Examples include stock options, puts/calls, and forward currency contracts whose returns are based on the underlying stock or currency.

Developed markets (equity)
Countries having a long period of stable industrialization; or are the most economically developed.

Discount (fixed income, generally)
Used most often with respect to bonds, the price paid that is less than face (or 'par') value. A $1 million face-value of a bond purchased for less than a million is bought at a 'discount.' Described as the difference between a bond's current market price and its face or redemption value.

Diversification (standard investment concept)
The concept of spreading risk by putting assets in several investment categories, each having different attributes with respect to type, expected return, risk, and correlation, to best protect against the risk of loss.

Duration (bonds)
Almost exclusively used when discussing fixed income bonds, a measurement of how sensitive a bonds' change in price is to a change in general market interest rates, expressed in years (specifically calculated as a weighted average term to maturity of the bond's cash flows). The greater the duration of a bond, the greater the volatility of price for changes in market interest rates.

Efficiency (usually when discussing various stock markets)
Used to describe markets where it is very difficult to achieve return in excess of that of the overall market from individual stock selection. When information is widely available on a company and its securities are traded regularly the market is considered 'efficient.'

Emerging Markets (most often for public equities)
Certain international securities markets that are typically small, new, have low turnover, and are located in countries where below-average income prevails and is developing in response to the spread of capitalism.

Enhanced (pertaining to stocks)
Generally linked with 'index' as in enhanced index, an indexed investment management style that has been modified to include the portfolio manager's idea of how to outperform the index by omitting some stocks in the index and overweighting others in a limited manner designed to enhance returns but at minimal risk.

Enhancement (bond program)
At BOI, the term generally refers to credit support or a bond or loan guarantee. For example the Board's INTERCAP bonds are 'enhanced' by the BOI's performance guarantee bringing down the yearly interest rate.

Excess returns (standard investment concept)
Returns are 'excess' if they are more than the market or more than the benchmark they are measured against.

Exempt staff vs. classified staff (specific to Montana state government)
"Exempt" refers to the Board's seven employees who, under state law, do not fall under the state's standard employment rules (the 'classified' staff).

Fiduciary (from the Latin verb, fidere, to trust)
The concept of trust and watchfulness; a fiduciary is charged with the responsibility of investing the money wisely for the beneficiary's benefit. Board members are the ultimate 'fiduciaries' for the Board's assets and are obligated to be a good agent.

FTE (state government jargon)
An acronym in state government: "full time equivalent" as in full time employee. The concept is a slot or position, not the actual individuals. The BOI is currently authorized for 32 FTE's.

Fund of funds (private equity)
A concept used in alternative investments referring to using an investment manager to invest in ***other*** managers or funds, as opposed to making direct investments in funds.

GAAP/GASB (accounting terminology)
GAAP…Generally Accepted Accounting Principles; Montana state law uses GAAP accounting principles unless specifically allowed otherwise. GASB…Government Accounting Standards Board, the board that sets GAAP

standards for U.S. governments (FASB…Financial Accounting Standards Board, the entity for commercial and business accounting standards).

General obligation (municipal finance term)
Used to describe the promise that a government makes to bond holders, backed by taxing and further borrowing power, it is generally considered the highest level of commitment to bondholders. At the local government level, general obligation bonds typically require a vote of the residents.

General partner vs. limited partner (private equity)
In private equity, the general partner is responsible for the operations of the partnership and makes the actual underlying investment decisions; the limited partner is the investor, and therefore has limited liability for investment decisions; the BOI is the 'limited' partner in its private equity fund investments (and real estate funds as well).

Growth (as to style public equities)
An investment style that more heavily invests in companies whose earnings are expected to grow at an above average rate to the market. A growth stock usually does not pay a dividend, as the company would prefer to reinvest retained earnings in capital projects to grow the company (vs. *'value,'* which considers buying established companies they feel are trading at bargain prices to the fundamental analysis of the company's financial statements and internal competitive factors).

Indenture (bond and loan programs)
The central document describing the contract between investors and the borrower or user of the proceeds. The Board's INTERCAP program is structured around a bond indenture.

Hedge fund (as defined by *Investopedia*)
An aggressively managed portfolio of investments that uses advanced investment strategies such as *leverage*, long, short and *derivative* positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market *benchmark*).

Hurdle Rate (private equity)
a minimum return per annum that must be generated for limited partners of a private equity fund before the general partner can begin receiving a percentage of profits from investments.

Index (investment concept)
Typically a single measure of a broadly-based group of investments that can be used to judge, or be compared to the return performance of an individual investment or manager.

Indexing (investment concept)
Typically refers to investing in a portfolio to match a broad range of investments that are set within a pre-determined grouping, such as the S&P 500, so as to match its performance; such investing is generally labeled 'passive' or indexed investing; or buying shares in an Index Fund.

In-state loan program (Montana-specific)
Programs that are funded by the state's coal severance tax monies.

Internal service vs. enterprise fund (state accounting concept)
Within Montana state government: a program whose funding is dependent on ***mandatory participation*** by another state government program is labeled an 'internal' service fund; a program whose funding is dependent on voluntary participation is labeled an enterprise fund. At BOI, the investment program is an internal service fund because participation is not voluntary; the Board's bond and loan programs, because their use is voluntary, are accounted for as an enterprise.

Investment grade (bonds)
Bond ratings from Moody's, Standard and Poor's, and Fitch high enough to be considered secure enough for most investors (bonds rated AAA – BBB). Below investment-grade bonds (below BBB) are generally considered to have a more speculative outlook and carry more risk of default.

IRR (private equity)
A measure of investment performance, short for 'internal rate of return,' expressed as a percentage (the 'internal rate of return' number, or discount rate) that mathematically will equalize the total future cash flows of an investment to the initial cash outflow of the investment; the concept accounts for the time value of money.

Leverage (investment concept)
As an investment concept, a way to increase a return on an investment through a combination of one's own money and also by borrowing additional money to enhance such an investment; high 'leverage' is also associated with high risk.

Mean Variance Optimization Model ('Modern Portfolio Theory')
A theory that it is possible to construct a portfolio to maximize the return for the least amount of risk or volatility. This theory is based on various asset types and their level of expected return, risk (volatility) and their correlation with each other or how the asset values move with each other. The central idea of the model is to blend investments so that in total, they provide both the best expected return and optimal amount of diversification to minimize deep performance swings (volatility); a central tenant is that long term historical returns are indicative of future returns.

Mezzanine finance (private equity)
Subordinated debt with an equity 'kicker' or ability to share in the equity value of the company. It is typically lower quality because it is generally subordinated to debt provided by senior lenders such as banks, thus is considered higher risk.

Multiple (as in "multiple" of invested capital, private equity)
The ratio of total cash returned over the life of the investment plus the investment's residual value over the total cash expended in making the investment. A multiple of 2 means, regardless of the total investment time period, that total cash returned was twice the cash invested.

130/30 Strategy (public equities)
Also called 'partial long short,' this strategy involves the establishment of a short position in select stocks while taking the proceeds of those shorts and buying additional long positions in stocks. The net effect is an overall market position that is 100% long, but the active decisions on individual stock selections are amplified by this ability to short. If the stock selections are successful, the strategy enables the portfolio to profit more than if a stock had simply not been owned, as with traditional long-only portfolios.

Opportunistic (real estate)
In real estate, a euphemism for the most risky real estate investments, typically distressed, raw land, newly developed buildings or other high risk investments in the real estate sector, (versus, *'core,'* which are the best quality fully leased commercial properties).

Overweight or underweight (investment concept)
Generally the level of holdings of a certain type of investment that is above or below either a benchmark's weight (portion of total investment), or the percentage held of a particular asset class compared to the Board's asset allocation policy weight. Also used to describe an external investment manager's decision to have more (or less) of a particular investment than the percentage or weighting found in the benchmark.

Passive management or passive investment (most often in public equities, but not exclusively)
An investment style where a fund's portfolio mirrors a market index, such as the S&P 500, with limited selection decisions by the manager, resulting in market returns. Passive management is the opposite of active management in which a fund's manager attempts to beat the market with various investment strategies and buy/sell decisions of a portfolio of securities to enhance returns.

P/E ratio (equity)
The price of a publically traded stock divided by its estimated or actual earnings is the price/earnings or P/E ratio. This can also be calculated for a stock index or portfolio of stocks. Over the last 100 years, the S&P 500 has had an overall P/E ratio of about 15, or a total index price of about 15 times the annual earnings of its underlying companies.

Pacing study (private equity)
An analysis of the likely timing and amount of the drawdown of committed but yet uninvested monies and the estimated distributions or returns from the funds held in an alternative investment portfolio, generally used to judge the future size of the portfolio and its potential liquidity needs, i.e., cash funding demands.

Par (fixed income)
The initial principal amount designated by the issuer of the bond, or face value of a bond.

Passive
For investments, generally not materially participating in an investment decision, meaning an investment portfolio whose returns follows that of a broad market index, such as an investable stock index, i.e. the S & P 500.

Passive weight (generally equities)
The percentage of a stock held in a particular index portfolio, or percentage of an overall asset class that is held in passive portfolios.

Policy Portfolio
A fixed-target asset allocation, as opposed to asset allocation ranges, which theoretically allows gauging whether deviations from the target portfolio had a positive or negative impact on overall performance.

Portable alpha (public equities)
An investment strategy which involves the active selection of securities while neutralizing overall beta or market risk. This often involves the use of derivative investments such as futures to replicate the market return, either taking a short or long position, while then selecting securities which are expected to add return in an absolute sense or in addition to the market return. As an example, this strategy can be found with certain hedge funds where a market exposure is shorted while individual securities such as specific stocks are purchased that are expected to outperform the general market. The concept of portable applies when the ability to generate positive alpha can be overlaid or ported onto a portfolio. This is not a strategy employed by any of MBOI's existing managers.

Premium (fixed income)
Most often the amount paid over the stated face amount (often called 'par') of a bond, but also used in other contexts, typically paying more (the premium) than a market price (as in a take-over bid for a company).

Proxy (publically traded companies)
An agent legally authorized to act on behalf of another party. Shareholders not attending a company's annual meeting may choose to vote their shares by proxy by allowing someone else to cast votes on their behalf, but the word 'proxy' is used more frequently colloquially as a 'close approximation.'

Prudent expert, prudent person (a central fiduciary concept)
These legal terms have long histories of court-determined standards of care, deriving originally under English common law. The BOI is empowered to operate under the 'prudent expert rule,' which states that the Board shall manage a portfolio:
a) with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and 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.
At an 'expert' level; there is more room for accepting risk under the prudent expert rule than the prudent person rule.

Rebalancing (general investment term)
The process of realigning the weightings of the portfolio of assets. Rebalancing involves periodically buying or selling assets in the portfolio to maintain the original desired level of asset allocation and/or to stay within predetermined asset category range; it is part of a disciplined investment approach within modern portfolio theory.

Resolution (government term)
Generally a formal and written action by a governmental (or corporate) body that has long term significance and requiring a vote of the governing body. BOI uses 'resolutions' generally only for its most significant and long term actions and/or policies.

Securities lending (general investment)
Investments that are temporally borrowed by other investors for a fee; the BOI allows most of its publically traded investments to be loaned for additional marginal income.

Standard deviation (common statistical concept)
A specific statistic that measures the dispersion of returns from the mean over a specific time period to determine the "historical volatility" of returns for a stock, or portfolio, or asset class; more specifically a single unit (i.e., one standard deviation) of dispersion that accounts for approximately 66% of all data around a mean using a 'normal' (or 'uniform' or 'bell-shaped' curve; as opposed to a skewed or asymmetrical) distribution. The standard deviation is used as a gauge for the amount of expected future volatility.

SABHRS (accounting jargon)
Montana state government's State Accounting, Budgeting and Human Resource System; the State's central information management system. BOI investment and other financial data must tie and be reported on this system, which is the official book of record and includes the state's financial statements.

Style drift (often in reference to public equity managers, but applicable to other managers, too)
As the name implies, a divergence from an investor's professed investment bias or style or objective.

Tracking error (statistical concept in investments)
A measurement of the standard deviation of a portfolio's return versus the return of the benchmark it was attempting to outperform. The concept is often used when discussing investment managers. For example some styles are expected to have high 'tracking errors,' (e.g., deep 'value' investors who buy companies that may be dogs for years), versus passive managers, whose stock volatility is expected to be very close to their benchmark. Tracking error can either be intentional or unintentional; it can also be regarded as an accepted deviation or contrary to the management agreement. High *unexpected* tracking error is generally a serious concern to be examined and understood.

Underwriter (bond program)
In investments, the agent who buys investments to be resold to the public; at BOI, the investment firms that buy the Board's bonds to be resold to the public.

Unified Investment Program (Montana Constitution)
The Program in the State's constitution requiring a central investment program which the legislature has assigned to the BOI.

Value (as to style when discussing public equities)
An investment style that focuses on buying established companies that investors believe are undervalued and trading at bargain prices to the fundamental analysis of the company's financial statements and internal competitive factors.

Venture capital (private equity)
A higher-risk/high-return type of investing in startup firms and small businesses with perceived long-term growth potential. Sometimes these are already existing business ventures with limited operating history that need additional management expertise and access to capital. (For start-ups, 'seed capital,' or 'angel investor' are terms differentiating this even higher risk type of investment.)

Volatility (investment jargon)
A statistical measure of the dispersion of returns for a given security or market index. Volatility is typically measured by using the standard deviation of returns from the security or market index. Commonly, the higher the volatility, the riskier the security.

Yield (general investment, but most often within fixed income)
The amount returned to the investor above the original investment generally expressed as a percentage. Yield can be thought of as the expected return from the combination of interest and price accrual or amortization to maturity (in the case of a bond trading at a discount or premium to par).

Yield curve (fixed income)
A line that plots the prevailing interest rates at a given time for bonds ranging in maturity from as short as three months out to 30 years. When plotted across these various maturities (typically 2, 5, 7, 10 and 30 years), the resultant line is shaped like a curve with generally low interest rates (the yield) for shorter maturities and gradually higher interest rates for longer maturities, because generally investors demand higher interest rates for longer term investments. The yield curve for U.S. Treasury debt is the most common when referring to the prevailing level of interest rates.

MONTANA BOARD OF INVESTMENTS
PUBLIC MARKETS MANAGER EVALUATION POLICY

INTRODUCTION

The purpose of this policy is to broadly define the monitoring and evaluation of external public markets managers. This policy also provides a basis for the retention and/or termination of managers employed within the Montana Domestic Equity Pool (MDEP), the Montana International Equity Pool (MTIP), the Retirement Funds Bond Pool (RFBP), and the Trust Funds Investment Pool (TFIP).

The costs involved in transitioning assets between managed portfolios can be significant and have the potential to detract from returns. Therefore it is important that the decision process be based on a thorough assessment of relevant evaluation criteria prior to implementing any manager changes. Staff will consider such costs when deciding to add or subtract to manager weights within the pools as well as in deciding to retain or terminate managers.

MONITORING PROCESS

Periodic Reviews: Staff will conduct periodic reviews of the external managers and will document such periodic reviews and subsequent conclusions. Periodic reviews may include quarterly conference calls on portfolio performance and organizational issues as well as reviews conducted in the offices of the Montana Board of Investments (MBOI) and on-site at the offices of the external managers. Reviews will cover the broad manager evaluation criteria indicated in this policy as well as further, more-detailed analysis related to the criteria as needed.

Continual Assessment: Staff will make a continual assessment of the external managers by establishing and maintaining manager profiles, monitoring company actions, and analyzing the performance of the portfolios managed with the use of in-house data bases and sophisticated analytical systems, including systems accessed through the Master Custodian and the Investment Consultant. This process culminates in a judgment which takes into account all aspects of the manager's working relationship with MBOI, including portfolio performance.

Staff will actively work with the Investment Consultant in the assessment of managers which will include use of database research, conference calls and discussions specific to each manager, and in any consideration of actions to be taken with respect to managers.

MANAGER EVALUATIONS

The evaluation of managers includes the assessment of the managers with respect to the following qualitative and quantitative criteria.

Qualitative Criteria:

- Firm ownership and/or structure
- Stability of personnel
- Client base and/or assets under management
- Adherence to investment philosophy and style (style drift)
- Unique macroeconomic and capital market events that affect manager performance

- Client service, reporting, and reconciliation issues
- Ethics and regulatory issues
- Compliance with respect to contract and investment guidelines
- Asset allocation strategy changes that affect manager funding levels

Quantitative Criteria:

- Performance versus benchmark – Performance of managers is evaluated on a three-year rolling period after fees.
- Performance versus peer group – Performance of managers is evaluated on a three-year rolling period before fees.
- Performance attribution versus benchmark – Performance of managers is evaluated on a quarterly and annual basis.
- Other measures of performance, including the following statistical measures:
    - Tracking error
    - Information ratio
    - Sharpe ratio
    - Alpha and Beta

PERFORMANCE MEASUREMENT

Performance calculations and relative performance measurement compared to the relevant benchmark(s) and peer groups are based on a daily time-weighted rate of return. The official book of record for performance measurement is the Master Custodian.

The performance periods relevant to the manager review process will depend in part on market conditions and whether any unique circumstances are apparent that may impact a manager's performance strength or weakness. Generally, however, a measurement period should be sufficiently long to enable observation across a variety of different market conditions. This would suggest a normal evaluation period of three to five years.

ACTIONS

Watch List Status: Staff will maintain a "Watch List" of external managers that have been noted to have deficiencies in one or more evaluation criteria. An external manager may be put on the "Watch List" for deficiencies in any of the above mentioned criteria or for any other reason deemed necessary by the Chief Investment Officer (CIO). A manager may be removed from the "Watch List" if the CIO is satisfied that the concerns which led to such status have been remedied and/or no longer apply.

Termination: The CIO may terminate a manager at any time for any reason deemed to be prudent and necessary and consistent with the terms of the appropriate contract.

MONTANA BOARD OF INVESTMENTS
PUBLIC MARKETS MANAGER EVALUATION POLICY

ROLES AND RESPONSIBILITIES

CIO: The CIO is responsible for the final decision regarding retention of managers, placement on and removal of "Watch List" status, and termination of managers.

Staff: Staff is responsible for monitoring external managers, portfolio allocations and recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO.

Investment Consultant: The consultant is responsible for assisting staff in monitoring and evaluating managers and for reporting independently to the Board on a quarterly basis.

External Managers: The external managers are responsible for all aspects of portfolio management as set forth in their respective contracts and investment guidelines. Managers also must communicate with staff as needed regarding investment strategies and results in a consistent manner. Managers must cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the Investment Consultant and the Custodian.

RECOMMENDED EDUCATIONAL RESOURCES FOR MEMBERS OF THE MONTANA BOARD OF INVESTMENTS

May 2014

RVK

RVK Resources			
Publication	**Cost**	**Link**	**Description**
RVK Quarterly Commentary *NEW*	Free	www.rvkuhns.com	Each quarter, RVK publishes a brief commentary that provides a high level overview of key macroeconomic events, as well as a performance summary for major asset classes. The commentary provides a quick reference for Board members, who wish to better understand the most important market events prior to each quarterly meeting.
RVK Investment Perspectives *NEW*	Free	www.rvkuhns.com	Each quarter, RVK publishes a white paper covering topics of common concern for our clients. The first two papers in the series are described below. 1. **Best Practices in Investment Governance—**This paper provides a framework for establishing key capabilities that are critical for the success of investment committees. It also serves as an introduction to a more comprehensive best practices research study that RVK will publish at the end of 2014. 2. **Framework for Evaluating Fixed Income Portfolio Structures—**This paper provides tools and insights to help investors think through the structure of their fixed income portfolios. The demand for this paper stems from the current, low interest rate environment, coupled with recent actions by the Fed to taper quantitative easing. If Board members wish to receive future issues proactively, RVK can add their email addresses to a distribution list. Alternatively, the white papers can be downloaded from the RVK site.

Periodicals			
Periodical	**Cost**	**Link**	**Description**
Pensions & Investments	$325/Year	**www.pionline.com**	Pensions and Investments is a bi-weekly publication that covers current events impacting defined benefit plans. The PI Online web site also provides a variety of research reports and databases to support the decision-making of defined benefit plan staff and board members.
The Economist	$134/Year	**www.economist.com**	The Economist is perhaps the most respected source of reporting and analysis on current events shaping the global economy. The Economist can help staff and board members stay familiar with the key factors and events that impact the performance of the portfolio.

Institutional Investor	$575/Year	**https://www.institutionalinvestor.com**	Institutional Investor provides a monthly magazine that serves as both a source of news and proprietary research. A subscription also provides varying degrees of access to proprietary data and research online. Subscriptions range from $575/year to $1,680/year depending on the desired level of access to online resources. We believe that the online research capabilities are most relevant to staff, and therefore would only recommend the $575 "silver" package for Board Members.
FundFire *NEW*	**N/A** – *MBOI already subscribed*	**http://www.fundfire.com/**	FundFire is a source of competitive intelligence for the separately managed account industry. A subscription provides access to original articles and summaries of industry news which helps investors, managers and consultants stay abreast of the changes in their industry. Investment managers read FundFire to find out what competitors and prospective clients are doing and thinking. Financial advisors, investment consultants, pension plans, endowments and foundations rely on FundFire to power their money management IQ.

Books

Book	Cost	Link	Description
Pioneering Portfolio Management	$24	**http://tinyurl.com/3sa4c4u**	This book was written by David Swensen, the Chief Investment Officer of the Yale Endowment. The book provides a blue print for Mr. Swensen's investing strategy, which has resulted in superior long term returns for decades. While the book is especially applicable to university endowments, many of the insights are relevant to public pension funds.
The Little Book of Behavioral Investing	$16	**http://tinyurl.com/3dya98f**	This book was written by a senior investment professional at GMO, a global asset management firm led by renowned investor Jeremy Grantham. The book provides a comprehensive overview of common behavioral biases that can negatively impact the investment decision-making process. The lessons are easily comprehensible to both expert and novice investors.
Cambridge Handbook of Institutional Investment and Fiduciary Duty *NEW*	$135	**http://tinyurl.com/nwegkvq**	This book provides commentary and guidance on the evolving standards governing institutional investment. It features a wide range of contributors who share their perspectives on the forces that drive the current emphasis on short-term investment returns. This book is not yet available, and appears to be more academic in focus. However, it covers fiduciary duty in great detail, and may be a great resource for new and existing board members.

Electronic Newsletters			
Newsletter	**Cost**	**Link**	**Description**
CFA Financial Briefs	Free	**https://www.smartbrief.com/cfa/index.jsp**	Each day, this newsletter compiles the most notable headlines relating to economics, investment management, and major geopolitical events. Each headline has a link to the underlying article. This email serves as the daily newspaper for many in the investing community.
Thoughts from the Frontline	Free	**https://www.mauldineconomics.com/subscribe**	John Mauldin releases a daily newsletter that includes, as an attachment, his own analysis on major economic events and/or the analysis of other investment experts. The newsletter typically has a bearish bias, but provides invaluable perspective on macroeconomic events and emerging research in the investment profession.
JPMorgan Eye on the Market	Free	**Send Email Request to Thomas.j.fisher@jpmorgan.com**	Eye on the Market is released 2-3 times per week and provides in depth analysis on events shaping the global economy. The content is typically more balanced than John Mauldin's letter, but should be viewed with some skepticism given the role of JPMorgan as an asset manager.