Board of Investments

REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE
2401 Colonial Drive, 3rd Floor
Helena, Montana
October 6, 2015

AGENDA

COMMITTEE MEETINGS

A. **Human Resource Committee** **8:30 AM**
1. Public Comment – *Public Comment on issues with Committee Jurisdiction*
2. CIO Recruitment Update – ***Decision***
3. Senior Portfolio Manager-In State Loan Programs Recruitment Update

B. **Loan Committee** **9:30 AM**
1. Public Comment – *Public Comment on issues with Committee Jurisdiction*
2. INTERCAP Loan Recommendation – ***Decision***
3. INTERCAP – Department of Natural Resources & Conservation – Update
4. Infrastructure Loan Policy, Legal Fees Reimbursement – ***Decision***
5. Science and Technology, Write Off Recommendation – ***Decision***

Tab 1 CALL TO ORDER – Mark Noennig, Chairman **10:00 AM**
A. Notice of Video Recording of Meeting
B. Roll Call
C. Public Comment – *Public Comment on issues with Board Jurisdiction*
D. Approval of the August Regular Meeting Minutes – ***Decision***
E. Administrative Business
1. Human Resource Committee Report – ***Decision***
2. Loan Committee Report – ***Decisions***
F. Comments from TRS and PERS Board Members
G. Comments from Board Legislative Liaisons

Tab 2 EXECUTIVE DIRECTOR REPORTS – David Ewer **10:30 AM**
A. Various Updates
B. Outside Counsel for Securities Litigation – ***Decision***

Tab 3 INVESTMENT POLICY CHANGES **10:55 AM**
A. Historical Society, Various Bequests – ***Decision***
B. Infrastructure Loan Policy, Legal Fees Reimbursement – ***Decision***

Tab 4 SHORT TERM INVESTMENT POOL **11:05 AM**
A. Overview of Accounting Requirements, Current and Forthcoming
B. Staff Recommendations to STIP Policy – ***Decision***
C. Staff Recommendations to Changing Protocol for Local Government Participation – ***Decision***

Tab 5 NEW PRIVATE EQUITY & REAL ESTATE MANAGERS AND FIXED INCOME MANAGER TERMINATION **11:30 AM**

LUNCH SERVED **11:45 AM**

Human Resource Committee - CIO Recruitment Update Continued and Senior Loan PM Selection Committee, Candidate Interviews *(if applicable)* **12:30 PM**

Appendix
A. Annual 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

Bond Program

Montana Board of Investments
INTERCAP Loan Summary and Approval
Commitment Extension Request

Borrower City of Deer Lodge

Date October 6, 2015

Approval Date_____

On May 19, 2015, the Board approved the City's attached increase from $5,024,000 to $8,479,000 for an interim loan in anticipation of the United States Department of Agriculture (USDA) Rural Development (RD)[1] long-term financing for its wastewater treatment plant. This commitment expires October 8, 2015. Now the City is requesting the Board extend the commitment to expire in October 2016 to coincide with a new projected drawdown schedule from February 2016 to October 2016.

Purpose

Further delays occurred when citizens challenged the higher cost and consequent rate increase of the proposed system versus using a seemingly less expensive membrane bioreactor system another engineering firm recently offered to construct for $9.5 million. The City Council postponed moving forward in the process until these concerns were satisfactorily addressed. Revisiting the project options, the City Council was able to further justify the proposed system, cost, and rate increase by learning that:

- The membrane bioreactor is more expensive to build and has higher operating and maintenance costs, especially in electricity.
- $12.9 million of the $17.3 million total project is for construction. The original $11.7 million 2009 project cost estimate was increased by $5.5 million due to a host of reasons, including but not limited to, regulatory requirements, Grant-Kohrs Ranch National Historical Society preservation requirements, sludge management, and increased costs due to delays. 70% of the $5.5 million is for increased construction costs, 22% is for the long-term financing federal agency's (USDA Rural Development) additional contingency requirement, and the remaining additional engineering/administrative costs.
- According to the 2014 Montana Statewide Water and Wastewater Rate Study prepared by the nonprofit Rural Community Assistance Corporation and posted on the state's Department of Natural Resources and Conservation website, 85-90 percent of Montana's cities are metered. Those about the size of the City are paying monthly rates from $41.78 to $89.91. According to Montana Rural Water Systems, there are 60 Montana communities in the process of replacing or upgrading wastewater systems. Those 60 and other communities with antiquated systems will experience rate increases as a result.

Recommendation

Staff has determined a way the Program can accommodate the request tempered with the Program not having unnecessary cost or excess funds available to loan. Staff recommends approving the commitment extension with Board authorization for staff to flex beyond October 2016 if necessary and prudent under the following conditions:

1. The loan shall bear interest at the Adjusted Interest Rate. For purposes of this loan, "Adjusted Interest Rate" shall mean an interest rate equal to the higher of: (i) the interest rate on the INTERCAP Bonds plus up to 1.50% per annum as necessary to pay the cost of administering the Program (i.e., the customary rate of interest charged to Borrowers under the Program), or (ii) the additional cost to self-finance from internal funds of the Board other than INTERCAP Bonds (priced on the day of draw) plus up to 1.50% per

annum as necessary to pay the costs of administering the Program; provided, however, if the loan is outstanding when Bonds are issued that pay, redeem, and discharge the bond anticipation note issued by the Board to fund the loan, then the loan, from and after the date of issuance of the Bonds, shall bear interest at the rate specified in clause (i) above.

2. Draws on the loan will be limited to once a month.

Staff Loan Committee

David Ewer, Executive Director	_____	Recommended 9/18/15
Geri Burton, Deputy Director	_____	Recommended 9-18-15
Louise Welsh, Sr. Bond Program Officer	_____	Recommended 9/18/15

Board Loan Committee – October 6, 2015

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

Montana Board of Investments – October 6, 2015

Mark Noennig, Chairperson	☐ Yes ☐ No ☐ Abstain
Karl Englund, Vice Chairperson	☐ Yes ☐ No ☐ Abstain
Kathy Bassette, Member	☐ Yes ☐ No ☐ Abstain
Terry Cohea, Member	☐ Yes ☐ No ☐ Abstain
Quinton Nyman, Member	☐ Yes ☐ No ☐ Abstain
Jack Prothero, Member	☐ Yes ☐ No ☐ Abstain
Marilyn Ryan, Member	☐ Yes ☐ No ☐ Abstain
Jon Satre, Member	☐ Yes ☐ No ☐ Abstain
Sheena Wilson, Member	☐ Yes ☐ No ☐ Abstain
	Approval Date _____

Return to Agenda

Montana Loan Program

MEMORANDUM

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

To: Board of Directors
Board Loan Committee Members

From: Herb Kulow, CMB

Date: October 6, 2015

Subject: Montana Science and Technology Alliance Recommendation

Staff is recommending writing off the remaining balance of the Montana Science and Technology Alliance (MSTA) Glacier Venture Fund Manager, LP balance in the amount of $922,209.26.

The 1985 Legislature created the Montana Board of Science and Technology Development. The Board governs MSTA. MSTA administers two science and technology development investment programs: seed capital investments and research and development investments. MSTA was originally designed to establish public-private sector partnerships to encourage scientific and technological development in Montana. MSTA made high-risk investments as venture capital or loans to start-up companies.

The 1997 Legislature abolished MSTA and the Department of Commerce became successor in interest and also became responsible for the management and collection of MSTA's portfolio.

The 1999 Legislature transferred MSTA's portfolio to the Montana Board of Investments (MBOI), which then became the successor in interest and became responsible for the management and collection of MSTA's portfolio.

At the May 22, 2012 Board Meeting, the Board authorized the write down of the MSTA portfolio by $1,496,266.88 to more adequately reflect the value of the MSTA portfolio.

MSTA Entities

	Balance 5/3/2012	Recommended Write Down 5/22/2012
Montana University System	8,380,992.43	0.00
Schmidtt Industries, Inc. (TMA Tech)	1,170,607.15	(1,170,607.15)
Glacier Venture Fund Manager, LP	1,000,000.00	0.00
Gateway Software Corp.	174,999.99	(174,999.99)
Northern Rockies Venture Fund, LP	150,659.72	(150,659.72)
Deaconess Research Institute	161,603.40	0.00
Emerald Bio (Mycotech, Inc.)	739,509.83	0.00
McLaughlin Research Institute	271,958.76	0.00
	12,050,331.28	(1,496,266.86)

As a result of the Glacier Venture Fund annual meeting held May 21, 2015 and the uncertainty as to the value of the fund or the information presented to the members, staff recommends the Board write off Glacier Venture Fund Manager, LP to zero. Staff has attached a copy of the annual meeting minutes.

LigoCyte has not reached the required milestones upon which payments from the buyer, Takeda, are contingent. The original stock investment has been converted to a receivable and as Mr. Marchi stated at the annual meeting, *"The future of this receivable is uncertain to say the least."*

Although Cleanwaste has made some progress by increasing total revenue, it has accumulated losses and a negative net worth. When asked about the valuation of the company, Mr. Nicholson indicated; *"These companies often have a negative net worth. They are valued on their potential. We may show it one way for taxes and another for the internal records/books. Each Limited Partner can certainly represent the value of their interest as they please on their books."* Staff does not feel there is any current value to this company and the future of this company is uncertain. If there is ever any success and payments are made to MBOI, those payments can be treated as a recovery.

Staff feels it is important to reflect the current investments in MSTA at a current value, not a value based upon speculation, and for that reason, it is making the recommendation to write off $922,209.26 of Glacier Venture Fund Manager, LP.

MSTA Entities

	Balance 5/3/2012	Actual Write Down 5/22/2012	Balance 9/10/2015	Proposed Write Off	Remaining Balance 9/30/2015
Montana University System	8,380,992	-	8,102,062	-	8,102,062
Schmidtt Industries, Inc. (TMA Tech)	1,170,607	(1,170,607)	-	-	-
Glacier Venture Fund Manager, LP	1,000,000	-	922,209	(922,209)	-
Gateway Software Corp.	175,000	(175,000)	-	-	-
Northern Rockies Venture Fund, LP	150,660	(150,660)	-	-	-
Deaconess Research Institute	161,603	-	137,518	-	137,518
Emerald Bio (Mycotech, Inc.)	739,510	-	660,628	-	660,628
McLaughlin Research Institute	271,959	-	188,340	-	188,340
	12,050,331	(1,496,267)	10,010,758	(922,209)	9,088,549

All other investments in the MSTA portfolio are paying as agreed.

Glacier Venture Fund Annual Meeting Minutes

Thursday, May 21, 2015

Project Management Office

In attendance: Alan Nicholson, and Herb Kulow as well as Khamsin Bailey from the Project Management Office
On conference call: Gil Burdett, Jim Utterback, Ted Lovec, Jon Marchi, Marcy (First Interstate Bank), Dirk Cooper (Hi-Noon), Nils Ribi

The Meeting was called to order by Alan Nicholson at 11:06 am.

John Marchi reviewed the two companies which GVF still owns.

LigoCyte (Takeda): The milestones upon which payments from the buyer (Takeda) are contingent have not been met. The first payment was dependent on results of clinical trials which showed that the drug was effective, but not 100% effective as required in the milestone. So that payment was not and will not be made. Our share of the remaining payments, i.e., Glacier's share of the remainder of the note from Takeda is variable depending on the achievement of milestones. We will not know until fall (presumably) whether more of the 2015 payment will be made or not. The future of this receivable is uncertain to say the least.

Cleanwaste: In recent years the company has been sued six times, primarily by heirs of either Pam Phillips or Bill Phillips, company founders who both died. Four of these, the company has won. One was settled and the other was lost. This has been expensive and distracting for the company.

The company had a better year in 2014 with Sales of $1,846,612 compared to $1,587,156 in 2013. The budget for 2015 is $2,030,655. Cleanwaste expects to make or exceed the sales budget based on the first 4 months of this year. Net loss for 2014 is estimated at $69,000. The company has made significant progress in reducing its 2011 loss of $651,742. The company has been aggressive in cutting costs and reduced its cost of sales. The sales focus remains on consumer and private sector markets.

GVF now owns 43.1% of the company with our position of 4,134 preferred and common shares of the 9,592 shares outstanding. GVF entered into a shareholder agreement with one of the heirs signing the agreement; that provided enough shares to have 50.85% of the outstanding shares and gave GVF some control of the company. GVF would like to own 50.1% of the company in order to clear up the legal problems arising from family conflicts and take actions necessary to put this company on solid ground. This goal has proved elusive.

GVF's investment cost in Cleanwaste is $595,616. The 1,025 common shares are valued at our cost of $180,000 or $176 per share and the 2,609 Series B Preferred shares at $264 per share for a total of $688,776. The total value of GVF's investment in Cleanwaste is estimated to be $868,776. Revenues have grown. In 2013, revenue was $1.5 million, in 2014 it was $1.8 million and in 2015 it is expected to be $2.1 million. We are presently ahead of target for 2015.

Discussion followed.

Herb Kulow asked if we have ownership of LigoCyte.
Jon Marchi answered with a breakdown of our original Series A, Series C, and Common shares. All company shares were converted to a note receivable when Takeda bought the company. So we don't have ownership interest.

Herb asked “how do you value that”?
Alan answered with you either carry it as a receivable or consider its value to be zero.
Herb questioned whether or not we are presenting the financial statement correctly.
Alan responded that its valuation is really just an opinion of the likelihood of getting what was anticipated. It is not like a bank loan where the asset potential is known.
Alan said the first anticipated payment was not and will not be made because the required milestone was not met. It’s impossible to know if we will receive further payments. The question then becomes do you write it off or keep it still on the books.
Herb said as a lender he would say you reserve for it. If we don’t think we’ll get $800,000 then a decision needs to be made to represent it at a level you think you might recover.

He also asked “What are we telling the accountants?”
Alan answered with we are telling the accountants everything we know, we haven’t kept anything from them.
Herb recommended it be addressed and then a recommendation from the management group.

Jon said we could also put a footnote on the report to the effect of all or none. Why can’t we write the whole thing off? Then if it ever does come back around and we receive payment we reflect it as income?

Alan said “can we write if off legally.” What would the IRS say about that? It’s not just our opinion. We have a track record with the company that isn’t good so the likelihood of receiving the payment isn’t good. We can carry it on the books at zero or whatever, but we can’t just write it off for tax purposes.

Alan asked Dirk “Is that correct, you’re an accountant? When can you legally write something off?”
What do accounting principles allow?
Dirk responded with there needs to an event of some sort, like a bankruptcy to be able to write it off.

Dirk sent a follow up email in regards to this which is shown below.

Here is a general overview of deeming an investment as impaired or worthless:

Funds often invest in portfolio companies through either straight cash purchases or through loans that are subsequently converted into equity positions. IRC section 165(g)(1) provides that “if any security which is a capital asset becomes worthless during the taxable year, the loss resulting therefrom shall … be treated as a loss from the sale or exchange, on the last day of the taxable year, of a capital asset.” In those circumstances where a portfolio investment company becomes worthless, the fund will recognize a capital loss to the extent of its tax basis in the underlying security. This loss can offset any corresponding capital gain at the fund level, and the excess loss will be passed on to the members on their Schedule K-1. The holding period for the securities begins on the acquisition date and ends on the last day of the taxable year in which the security becomes worthless.

A security becomes totally worthless when it has no value or potential value. The determinations of whether and when a stock has become worthless are questions of fact. The securities must be shown to have some value at the beginning of a given tax year and become worthless due to some identifiable event. The burden of proving the worthlessness is on the taxpayer.

The book value of the corporation’s assets may be used to prove that stock had some value. The taxpayer’s purchase of stock in a previous year does not establish that the stock had value in that year. Stock may be worthless even though the taxpayer operated the issuing corporation for part of the tax year before ultimately abandoning it. The deduction for worthless securities must be taken for the tax year in which the securities became completely worthless [IRC section 165(g)].

The identifying event that generally establishes worthlessness might be the corporation's bankruptcy, cessation of business, liquidation of corporate assets, or appointment of a receiver for the corporation [Treasury Regulations section 1.165-1(b)]. The event must clearly indicate to a person of average understanding that there is no probability of realizing anything of value for the securities from a sale, liquidation, or otherwise. An event does not conclusively establish worthlessness if other facts indicate that the stock still has value. The fact that securities have been written off for book purposes does not establish worthlessness for income tax purposes. No deduction is allowed if the write-off is based on market fluctuations in the price of the stock, or if there has been no reasonable attempt to determine that the securities are worthless. …end of email.

Alan asked if there were more questions.

Herb asked about the $868,000 Cleanwaste asset when Cleanwaste has a negative net worth. Alan said we will ask the accountant what they recommend but we need to keep in mind this isn't like a bank loan. These companies often have a negative net worth. They are valued on their potential. We may show it one way for taxes and another for the internal records/books. Each Limited Partner can certainly represent the value of their interest as they please on their books.

Herb asked what value goes into the management fee. Is it 3% against the partnership's worth? Alan said it is based on the initial contributions to the fund and not on the fund's present book value.

Herb said he would like to have reasonable comfort level with the balance sheet which at this point he doesn't.

Alan said Jon and he have discussed the fees which are accruing and will talk further with the partners.

The partners should know that when Science and Tech (MSTA) was initially created, the Montana Supreme Court ruled in a test case that it could not make equity investments. It could only loan money to companies. As a work around to that, Science and Tech decided to "invest" in Montana companies by asking them to be organized as limited partnerships and then loaning the money to the company's General Partner. The General Partner would then purchase limited partnership shares with the loan and all proceeds from these shares would go to MSTA in partial repayment of the loan. The loans were non-recourse loans and, in the event of a default by the General Partner, the only recovery MSTA could make was to become a limited partner with an interest equal to the fund's General Partner's interest that it purchased with the MSTA loan. The original loan was to DCM, a Montana Corporation organized under a specific statute for investment purposes.

GVF was organized under the Montana Small Business Investment Act and was required as a condition of its Charter to seek certification as a SBA Small Business Investment Company (SBIC). When GVF finally became an SBIC, SBA regulations required that the General Partner must be another Limited Partnership (Glacier Venture Fund Manager-GVFM) the General Partner of which had to be individual(s) not corporate. Accordingly GVFM replaced DCM as the General Partner and Jon and Alan became equal individual General Partners of GVFM and assumed personal liability which had originally been corporate (DCM) liability. All of this was agreed to by GVF and by the Board of Investments (since by then MSTA had been dissolved and its assets turned over to the Board of Investments).

When it was clear that the assets of GVFM would not be sufficient to repay the SBIC loan (which was never intended to be repaid anyway) it was mutually agreed by GVFM and the BOI to convert the notes to limited partnership interests in GVF replacing GVFM with the BOI as the holder of these shares. This was done.

This produced a taxable forgiveness of debt gain for GVF Manager (hence for Jon and Alan equally) equal to the principal plus accrued interest on the notes less the value of the limited partnership shares BOI received. This gain was significant even though it was entirely "on paper" and subjected Jon and Alan to ordinary income taxes on funds which were never personally received. As originally organized, DCM as the fund's GP would have had the liability and Jon and Alan as shareholders would have had no personal liability.

Alan and Jon don't want another forgiveness of debt issue around the fees owing but not paid. Furthermore, management of the fund continues.

Herb said he would like to see an adequate representation of the balance sheet prepared by Anderson ZurMuehlen. What can we do without a tax penalty?

Alan said he would ask Anderson ZurMuehlen to addresses the concerns in writing and will email the in house 2014 financials to everyone as well as 2015 year to date. Herb agreed and said he was happy with this. The consensus on the phone was everyone else was good with this as well.

With no further discussion the meeting adjourned at 11:44 am.

Submitted by Alan Nicholson, a G.P. of GVFM – 7-24-15

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: October 6, 2015

Subject: Obtaining/Retaining Legal Counsel for Securities Litigation

Overview

The Board has retained two firms as per its securities litigation policy to serve as class action 'monitoring firms,' Barrack, Rodos & Bacine, and Bernstein, Litowitz, Berger & Grossman. A 'request for proposal' process was used seven years ago for each firm; their contracts expire in September 2015. Both were on a contingency basis and each was responsible for assessing potential involvement beyond a class action. State Street Bank tracks class action lawsuits and has the Board participate in them when applicable.

The Board's dollar loss threshold is $1 million to file as a lead plaintiff. It is in the economic interests of the two law firms to diligently sift through the various allegations of wrong doing leading to action and large settlements. The Board has participated one co-lead lawsuit, the 'Pfizer" Celebrex case, with our involvement ending abruptly with an adverse procedural ruling (on a different but factually similar case, IndyMac). Staff considered but finally rejected a possible lawsuit against Neustar.

Many legal contracts, including several of the Board's, are arranged through the review and permission of the Legal Service Review Board, consisting of members of the Governor's administration and the Attorney General's office. These contracts are generally approved for a one-year term with approved fees and specific scope of services presented and approved in memorandum format.

Recommendation

Staff recommends that the Board's existing contingency-only relationship with its two legal monitoring firms be continued by submitting a request for both through the Legal Service Review Committee process.

INTRODUCTION

This policy is an aggregate for the various long-term investment accounts administered by the Montana Historical Society. The SABHRS account number and names include:

- 09017 Acquisitions Trust
- 09026 Bradley Trust
- 08024 Charles Bair Trust
- 08049 Churchill Trust
- 08242 Harriet E Miller Trust
- 08030 Haynes Collection Trust
- 09029 Merritt Wheeler Trust
- 06022 MHS Education
- 08010 Ronald Schmid Trust
- 02188 Senate Art
- 09030 Sobotka Memorial Trust
- 08062 Sobotka Trust
- 09008 Stewart Trust
- 09028 Teakle Trust
- 08011 Women's Mural
- 08014 General Trust

The purpose of this investment policy statement is to outline the account objectives, permissible investments, and constraints that will guide the management of the portfolio. The policy is designed to give the investment manager flexibility to achieve in a prudent manner the investment objectives of the client, the Montana Historical Society (MHS).

BACKGROUND INFORMATION

The various accounts are long-term in nature. The long-term nature of the accounts is established by legislative intent, donor intent or MHS Management's intent.

OBJECTIVES

A combination of distributable income and varying exposure to long-term fixed income total return will be necessary to fund expected expenditures. Additionally, non-permanent accounts will require use of principal. It will require a return in excess of the assumed risk-free rate to fund projected expenditures. The return requirements result in the following material risk exposures:

- Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair market value of investments. Generally, if interest rates go up the fair market value of the investments goes down and could result in realized losses if those investments need to be liquidated.
- Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Credit risk can be idiosyncratic, where a loss on a particular investment results from the issuer's failure to pay. It can also be systemic, when the return premium increases for investments other than U.S. Treasuries.
- Liquidity Risk – the risk that there may not be a market available to sell an investment. During times of extreme market stress, it may be difficult or impossible to sell an investment in a timely manner.

These accounts have an above average ablility to assume risk. The purpose of the funds is to support the operations of the MHS. The funds are not the sole or main source of support. Principal distributions of expendable funds are not expected in the near term. A large allocation to the Trust Funds Investment Pool (TFIP) is expected. The TFIP includes the following types of investments:

- Core internally managed bonds – The investments are generally Investment Grade U.S. Treasuries, Agencies, mortgages, corporates and asset backed bonds.
- Externally managed high yield investments – The investments are generally below investment grade bonds and bank loans.
- Real estate – The investments are diversified pools of core real property in the U.S.

The risk and return objectives are best met by the asset allocation shown below. The broad range of invested status is needed to accommodate the unique needs of each account.

ASSET ALLOCATION
(at market)

	Ranges
Trust Funds Investment Pool	0-100%
Short-Term Investment Pool	0-100%
Total Fixed Income	100.0%

OTHER CONSIDERATIONS

Time Horizon:
Most of the accounts are permanent with a long-term time horizon. The expendable accounts have uncertain time horizons but are at least three years.

Liquidity Needs:
Liquidity needs are minimal in the near term. Earnings are expected to cover expenditures for several years. No principal expenditures are expected within three years.

Legal Considerations:
This fund is governed by state regulations, specifically, the "prudent expert principle" which requires the Board of Investments to: (a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is solely prudent not to do so; and (c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

Cash Investments
Cash investments held at the pool level, any managed account within it, or any separate account entail an element of credit risk. Thus, only approved cash investment vehicles are permitted. These include the custodian's STIF vehicle, STIP, or any SEC-registered money market fund, all of which specifically address credit risk in their respective investment guidelines.

INTRODUCTION

This policy is an aggregate for the various long-term investment accounts administered by the Montana Historical Society. The SABHRS account number and names include:

- 09017 Acquisitions Trust
- 09026 Bradley Trust
- 08024 Charles Bair Trust
- 08049 Churchill Trust
- 08242 Harriet E Miller Trust
- 08030 Haynes Collection Trust
- 09029 Merritt Wheeler Trust
- 06022 MHS Education
- 08010 Ronald Schmid Trust
- 02188 Senate Art
- 09030 Sobotka Memorial Trust
- 08062 Sobotka Trust
- 09008 Stewart Trust
- 09028 Teakle Trust
- 08011 Women's Mural
- 08014 General Trust

The purpose of this investment policy statement is to outline the account objectives, permissible investments, and constraints that will guide the management of the portfolio. The policy is designed to give the investment manager flexibility to achieve in a prudent manner the investment objectives of the client, the Montana Historical Society (MHS).

BACKGROUND INFORMATION

The various accounts are long-term in nature. The long-term nature of the accounts is established by legislative intent, donor intent or MHS Management's intent.

OBJECTIVES

A combination of distributable income and varying exposure to long-term fixed income total return will be necessary to fund expected expenditures. Additionally, non-permanent accounts will require use of principal. It will require a return in excess of the assumed risk-free rate to fund projected expenditures. The return requirements result in the following material risk exposures:

- Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair market value of investments. Generally, if interest rates go up the fair market value of the investments goes down and could result in realized losses if those investments need to be liquidated.
- Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Credit risk can be idiosyncratic, where a loss on a particular investment results from the issuer's failure to pay. It can also be systemic, when the return premium increases for investments other than U.S. Treasuries.
- Liquidity Risk – the risk that there may not be a market available to sell an investment. During times of extreme market stress, it may be difficult or impossible to sell an investment in a timely manner.

These accounts have an above average ablility to assume risk. The purpose of the funds is to support the operations of the MHS. The funds are not the sole or main source of support. Principal distributions of expendable funds are not expected in the near term. A large allocation to the Trust Funds Investment Pool (TFIP) is expected. The TFIP includes the following types of investments:

- Core internally managed bonds – The investments are generally Investment Grade U.S. Treasuries, Agencies, mortgages, corporates and asset backed bonds.
- Externally managed high yield investments – The investments are generally below investment grade bonds and bank loans.
- Real estate – The investments are diversified pools of core real property in the U.S.

The risk and return objectives are best met by the asset allocation shown below. The broad range of invested status is needed to accommodate the unique needs of each account.

ASSET ALLOCATION
(at market)

	Ranges
Trust Funds Investment Pool	0-100%
Short-Term Investment Pool	0-100%
Total Fixed Income	100.0%

OTHER CONSIDERATIONS

Time Horizon:
Most of the accounts are permanent with a long-term time horizon. The expendable accounts have uncertain time horizons but are at least three years.

Liquidity Needs:
Liquidity needs are minimal in the near term. Earnings are expected to cover expenditures for several years. No principal expenditures are expected within three years.

Legal Considerations:
This fund is governed by state regulations, specifically, the "prudent expert principle" which requires the Board of Investments to: (a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is solely prudent not to do so; and (c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

Cash Investments
Cash investments held at the pool level, any managed account within it, or any separate account entail an element of credit risk. Thus, only approved cash investment vehicles are permitted. These include the custodian's STIF vehicle, STIP, or any SEC-registered money market fund, all of which specifically address credit risk in their respective investment guidelines.

MEMORANDUM

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

To: Board of Directors

From: Herb Kulow, CMB

Date: October 6, 2015

Subject: Amendment to Infrastructure Loan Policy and Application

Staff is recommending a change to the Infrastructure Loan Policy and Application to reflect the reimbursement by the business entity (tenant) of all legal fees associated with the preparation of the Infrastructure loan documents. In the past, MBOI has absorbed all of these legal fees, which have amounted to $5,000 to $7,500 depending on the complexity of the project. Since the business entity is benefiting from the tax credits associated with the Infrastructure loan program in addition to a fixed long-term interest rate that is reduced as a result of the creation of jobs, there is no reason for MBOI to continue to absorb these costs.

MBOI would include the reimbursement of legal fees associated with the preparation of the Infrastructure loan documents part of Schedule A of the Approval letter and would invoice the business entity directly for those costs.

MONTANA BOARD OF INVESTMENTS INFRASTRUCTURE LOAN PACKAGE

This file was created in Microsoft Word and contains the following items:

Page A 1 – A 3 .....Infrastructure Loan Program Policy
Page B 1 – B 5 .....Infrastructure Loan Application

The following provisions apply to the Infrastructure Loan Program:

- Program funded by a $80.0 million allocation from the Permanent Coal Tax Trust.
- Applications submitted by eligible local governments.
- Loan funds infrastructure projects that provide facilities/services to basic sector businesses.
- Business pays user fee to local government that is pledged to the Board for loan repayment.
- Businesses may reduce their Montana state income tax liability by the amount of the fee, MCA 15-31-301.
- The business must create at least 15 full time basic sector jobs to be eligible for the program.
- Maximum loan size $16,666 times the number of full time jobs created.
- Minimum loan size $250,000.
- Maximum loan term 25 years.
- Interest rates posted weekly.
- Up to 2.5% interest rate reduction for job creation.

For assistance call or e-mail Herb Kulow:

(406) 444-1218 hkulow@mt.gov

Loan Application Use:
This loan application is used exclusively for the Public Infrastructure Loan Program. Applications are submitted by Eligible Local Governments to fund infrastructure projects within their jurisdictions.

Utilizing The Electronic Forms:
Forms are Microsoft Word documents with field codes where data and checkmarks are entered.
If the field codes are visible on screen strike Alt F9 - **codes should not be visible**.
If field codes print, select "Tools","Options","Print" and uncheck "Field Codes"
The F11 key will locate the entry fields in the application form.
Shift F11 will locate the preceding data or check field in the electronic forms.

INFRASTRUCTURE LOAN POLICY

Pending Approval October 6, 2015

1. APPLICATION PROCEDURES

Local governments must submit the attached application to the Board. The application must include:

a. Evidence that the user of the infrastructure meets the following "Basic Sector" definition:
   i. business activity conducted in the state that produces goods and services for which 50% or more of the gross revenues are derived from out-of-state sources; or
   ii. business activity conducted in-state that produces goods and services, 50% or more of which will be purchased by in-state residents in lieu of like or similar goods and services which would otherwise be purchased from out-of-state sources.

b. A complete description of the purposes for which the loan proceeds are to be used.

c. A description of the proposed loan including principal amount, proposed maturity, proposed repayment schedule, and proposed security.

d. Information addressing the following:
   i. Estimated number of permanent full-time jobs and their estimated wages, to be created by the project within a four-year period;
   ii. The impact of the jobs on the state and the community where the project is located;
   iii. Long-term effect of corporate and personal income taxes estimated to be paid by the business and its employees;
   iv. The current and projected ability of the community to provide necessary infrastructure for economic and community development purposes;
   v. The environmental impact of the project and whether any environmental review or permits are required;
   vi. Other matters that the Board considers necessary;
   vii. Information about the business creating the jobs shown on the application form.

e. The loan application shall be properly signed and certified by the local government applicant and by the business creating the jobs on its section of the application.

f. If the loan is approved, the Board and the local government will enter into a commitment agreement.

g. The local government must pass a resolution authorizing the acceptance of the commitment agreement and execute and return the commitment agreement within 60 days of the commitment date or the commitment will expire.

h. A development agreement between the local government and the basic sector business must accompany the application.

2. INELIGIBLE LOANS

a. Loans to any local government in default on any obligation.

b. Loans to local governments for infrastructure to businesses in default on any obligation.

c. Loans providing infrastructure to business creating fewer than 15 jobs in a 4-year period.

3. INTEREST RATES

a. Interest rates, effective for a one-week period, will be posted each Thursday to the MBOI website.

b. Job credit interest rate reductions are available as per Section 8 of the Infrastructure Loan Policy.

c. Initial interest rate determined by the interest rate posted on the Commercial Loan Rate Sheet on the date the Infrastructure Loan application is received.

4. LOAN SIZING

a. Minimum loan size $250,000.

b. Maximum loan size $16,666 per full time job created.

c. All outstanding infrastructure loans limited to $80.0 million.

5. COLLATERAL REQUIREMENTS

a. A note or other evidence of indebtedness;

b. A loan agreement;

c. First mortgage/lien position when appropriate;

d. The local government's pledge of infrastructure fees for repayment of the loan;

e. The loan resolution adopted by the local government;

f. All necessary state, federal and local government permits must be obtained before loan closing;
g. Collateral must have sufficient economic life to support the term of the loan;
h. Personal or corporate guaranty as determined by the Board;
i. Attorney opinion on authority of local government to borrow and the validity of all collateral documents;
j. Attorney opinion to the local government on the legal and binding nature of obligations on the local government and the business for which the infrastructure is provide.
k. Other collateral or loan documents as required by Board.

6. APPRAISALS

a. Licensed Montana appraisers are preferred unless there is a specialized property collateral requiring an out of state appraiser; and
b. Appraisal requirements for land and buildings are shown below:

Real Property Primary Collateral:

Up To $250,000	As required by Lender to provide basis for value
Over $250,000	Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice. (a Restricted Appraisal Report CANNOT BE USED)

7. OTHER LOAN POLICY CONSIDERATIONS

a. Loans for infrastructure on leased land will be considered if the lease does not expire prior to loan maturity.
b. Maximum loan terms are 25 years.
c. Consultant fees may be financed as part of the larger project but may not be financed on a stand-alone basis.
d. Commercial Loan Policy underwriting criteria will be considered.
~~d.~~e. The Business Entity will reimburse the Montana Board of Investments for all legal fees associated with the preparation of the Infrastructure Loan documents.
~~e.~~f. If there are not a sufficient number of jobs created within the first four years of the infrastructure loan, the basic sector business:
   i. Will have 90 additional days to create those jobs, or
   ii. Will have to pay down the infrastructure loan to a level which the current number of jobs supports the outstanding loan balance as specified Section 4.

8. JOB CREATION INTEREST RATE REDUCTION

a. Business creating jobs as a result of an infrastructure loan are entitled to an interest rate reduction of .05% for each job created up to a maximum of 2.50%. The reduction will be reflected in the user fee rate charged the business.
b. One job is equal to the Private Annual Wage shown on the weekly Posted Interest Rate Summary Sheet.
c. For jobs paying more than the Private Annual Wage, job credits will be increased proportionately for each 25% increment above the Private Annual Wage to a maximum of two jobs.
d. For jobs paying less than the Private Annual wage, job credits will be reduced proportionately for each 25% increment below the Private Annual Wage.
e. Job credits are not available unless one whole job is created.
f. Job credit interest rate reductions are not available for jobs paying less than the State of Montana minimum wage provided for in MCA 39-3-409.
g. The business must provide evidence of the creation of jobs prior to the reduction and annually thereafter.
h. Interest rate reductions provided in this part will be effective on the next scheduled payment date.
i. The business seeking an interest rate reduction must provide payroll records as evidence of the creation of jobs.
j. The Board may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates 10 or more qualifying jobs. The basic sector business must notify the Board if they eliminate qualifying jobs.

INFRASTRUCTURE LOAN POLICY

9. PROJECT SPECIFIC REQUIREMENTS:

(a) Any contract to construct a project financed by loan proceeds must require all contractors to give preference to the employment of bona fide Montana residents, as defined in 18-2-401, in the performance of the work on the projects if their qualifications are substantially equal to those of nonresidents. "Substantially equal qualifications" means the qualifications of two or more persons among whom the employer cannot make a reasonable determination that the qualifications held by one person are significantly better suited for the position than the qualifications held by the other persons.

(b) If the Board participates in construction financing, the general contractor and all subcontractors shall be subject to Montana's prevailing wage law specified in MCA Title 18, Chapter Two, Part 4.

This space intentionally left blank

INFRASTRUCTURE LOAN APPLICATION

REVISED 10/6/15

Send Application and Exhibits To:	Board Loan #
Infrastructure Loan Application	Date Received:
Montana Board of Investments	By:
P.O. Box 200126 Helena, Mt. 59620-0126	
Phone (406) 444-0001 Fax (406) 449-6579	
Applications To Be Submitted By Local Governments	

SECTION A: LOCAL GOVERNMENT APPLICANT INFORMATION

Applicant Name➔					
Mailing Address➔					
Authorized Representative➔			Title➔		
Telephone➔		Fax➔		E-mail➔	
Federal Employer ID#➔					
Local Government Type➔					

1. Reference/contacts

Attorney's Name➔			Firm Name, if applicable ➔		
Address➔					
Telephone➔		Fax➔		E-mail➔	
Engineer ➔			Firm Name, if applicable ➔		
Address➔					
Telephone➔		Fax➔		E-mail➔	
Accountant's Name➔			Firm Name, if applicable ➔		
Address➔					
Telephone➔		Fax➔		E-mail➔	

2. Please cite the reference to Montana code that authorizes the applicant to finance the project (90-5-1) or other. If other, describe below and attach as Exhibit A.

SECTION B: PROJECT INFORMATION - AS ALLOWABLE UNDER 7-15-4288 (4)

Infrastructure Project Description and Cost - Summarize below, attach specific details as Exhibit B)

Project Description	Cost

 INFRASTRUCTURE LOAN APPLICATION

1. Funding/Schedule/Loan Attributes

Project Funding	Amount	Project Schedule	Date	Loan Attributes	
Board of Investments➔		All Funding Obtained➔		Loan Requested Amount➔	
Local Government➔		Construction/Acquisition➔		*(Minimum $250,000)*	
Other Sources (specify) ➔		Loan Funding➔		*(Maximum # Jobs X $16,666)*	
Total Project Cost➔				Term (Maximum 25 Yrs)➔	

2. Economic Impact-Address The Following And Attach As Exhibit C

Estimated Permanent Full-Time Jobs Created Within 4 years➔	
Impact Of Jobs On Community And State➔	
Corporate/Personal Tax Impact➔	
Current/Projected Ability Of Community to provide infrastructure➔	
Other➔	

3. Environmental Impact of Project - Please describe the environmental impact of the proposed project, indicating whether any environmental review or permits are required to undertake the project. If permits, review, or approval are required, please indicate the type of approval required and the date on which approval is expected to be obtained. **Label this Exhibit D.**

4. List the approvals by public agencies obtained or other conditions that have been met or satisfied, or which are required prior to the financing, acquisition, construction, or use of the project (e.g., licenses, Health Department approvals, etc.). **Label this Exhibit E**. If none, check here➔ ☐

5. If the project involves construction, provide the following as Exhibit F: If not, check here➔ ☐

A. Detailed construction cost estimates and specifications to include architect's plans and specifications, contractor's bids or estimates, invoices, etc.
B. Names and addresses of architects or contractors that have been selected.
C. Date and manner in which any contracts will be awarded.
D. Proposed schedule for construction, completion, and occupancy.
E. The manner in which the construction will be managed.

6. If the loan is for the purchase of real or personal property, provide the following in Exhibit G:
If none, check here➔ ☐

A. An appraisal report which meets requirements established by the Board in a format consistent with standards established by the Appraisal Standards Board (ASB) of The Appraisal Foundation which publishes, interprets and amends the Uniform Standards of Professional Appraisal Practices (USPAP), the appraiser must be licensed in Montana, unless the project is specialized and requires an out of state licensed appraiser, who is a member of a commonly recognized professional appraisal organization.
B. A copy of the purchase agreements(s), including name(s) of seller(s).
C. Copies of earnest money receipt and agreement, option to purchase, contract to purchase, and invoice(s) or estimate(s) of cost for purchase of land, improvements, or tangible personal property related to the project.

7. Source of Loan Repayment-Provide as Exhibit H the repayment schedule and a copy of the proposed repayment agreement.

8. Loan Security-Check applicable box and provide appropriate detail in Exhibit I.

A. Assignment of Payments➔ ☐ B. Mortgage or Facility➔ ☐ C. Corporate Guaranty➔ ☐
D. Letter of Credit or other third party insurance➔ ☐ E. Personal Guaranty➔ ☐ F. Other➔ ☐

SECTION C: BUSINESS INFORMATION

1. Business Structure

Full Business Name➔		Address➔			
City➔		State➔		Zip➔	
Business Representative Name➔		Title➔			
Representative Phone➔		Fax➔		E-Mail➔	

Business is a (an):				Proposed Financing is for:	
Individual➔		Partnership➔		Existing business➔	
		Limited partnership➔			
Individual dba sole proprietorship➔		Corporation➔		New Business➔	
State of Incorporation➔				Purchase Existing Business➔	
Date of Incorporation➔					
Date business established➔		Employer's I.D. Number➔			

2. Indicate below the names and places of residence of those five persons with the greatest ownership of interest in the company. If less than five, please indicate all owners.

Name➔		Title➔			
City➔		State➔		%Ownership➔	
Name➔		Title➔			
City➔		State➔		%Ownership➔	
Name➔		Title➔			
City➔		State➔		%Ownership➔	
Name➔		Title➔			
City➔		State➔		%Ownership➔	
Name➔		Title➔			
City➔		State➔		%Ownership➔	

3. Describe below the history of business, projects, and current business plans (please be general):

4. Please submit the following information and exhibits as indicated. All exhibits must be signed and dated by the person completing this section of the application (if applicable).

A. Furnish a current (within 90 days) dated and signed personal balance sheet for each general partner and guarantor. **Label this Material Exhibit J**. (Tax returns may also be required to supplement this information.)

B. Does the business, principal owners, key employees or directors operate any closely related affiliates, subsidiaries or branches? If yes, please provide their names, relationship with the company, along with a current balance sheet and operating statement for each. **Label this material Exhibit K.** If none, check here➔ ☐

C. Has the business or any of the officers or owners ever been involved in bankruptcy or insolvency proceedings? If so, please provide the details as **Exhibit L.** If none, check here➔ ☐

D. Is there any pending or threatened litigation, administrative proceeding, or investigation involving the business, its officers, directors, or management acting in their official capacity, or a guarantor, that, if adversely decided, would affect the borrower's or guarantors' ability to perform their obligations under this loan or financing or the operation of the business? Has the business or any of its officers, directors, management, or guarantors ever been convicted of a felony? If yes to either of these questions, provide the details in **Exhibit M.**
If none check here➔ ☐

E. Include the statements listed below: (a), (b), and (c) dated within ninety (90) days of filing the application, and statement (d). If statements (a), (b), (c) are not independent accountant-prepared review or audit statements, please also include complete business tax returns for the past three years. **Label this material Exhibit N.**

(a) Balance Sheet
(b) Profit and Loss Statement
(c) Reconciliation of Net Worth
(d) Earnings Projections for three years and projected cash flow analysis for one year

F. Provide a brief history of the company, resumes of all officers and management personnel. **Label this material Exhibit O**. If the business is a partnership, also enclose a copy of the partnership agreement.

G. Provide a copy of all real estate, and/or major equipment leases, and/or franchise agreements in effect. If the business is a franchise, include a copy of the FTC disclosure statement supplied by the franchiser. **Label this material Exhibit P.**
If none, check here➔ ☐

H. Include a feasibility study of the project, if available. If one is not available, provide a narrative analysis of market conditions, including a list of major competitors and major customers or suppliers. **Label this material Exhibit Q.**

I. The Board reserves the right to request any other information that may facilitate the evaluation of this application.

SECTION D. BUSINESS CERTIFICATIONS

1. The ~~business~~ Business Entity agrees to comply with Section 4, Article II of the Constitution of Montana, which prohibits discrimination based on race, color, sex, culture, social origin or condition, or political or religious ideas.

2. If the loan is approved, the Board may use photographs of facilities in its Annual Report, slide presentations, or other publications.

3. As a condition of considering the application, the Board and its agents are granted the right to inspect the facilities.

4. All information in this application and the attached Exhibits are true and complete to the best of my/our knowledge and is submitted to the BOI so the BOI can decide whether to lend to the applicant.

5. If the ~~business~~ Business Entity receives a job credit interest rate reduction on the infrastructure loan, it agrees to annually provide appropriate payroll documentation to the Board attesting to the number of jobs retained.

6. The Business Entity agrees to reimburse the Montana Board of Investments for all legal fees associated with the preparation of the Infrastructure Loan documents.

Dated this _____ day of _____, 20____

Business Entity _____

By:_____

Title:_____

SECTION E. CERTIFICATION OF LOCAL GOVERNMENT APPLICANT

The applicant agrees that any contracts to construct the project will require all contractors to give preference to the employment of bona fide Montana residents, as defined in MCA 18-2-401, in the performance of the work on the project in their qualifications are substantially equal to those of non-residents. Substantially equal qualifications means the qualifications of two or more persons among whom the employer cannot make a reasonable determination that the qualifications held by one person are significantly better suited for the position than the qualifications held by the other person(s).

I hereby certify as preparer of this application on behalf of the applicant, that all of the information contained herein is true, accurate and complete as of the date hereof and that the local government entity has the legal authority to enter into all agreements necessitated by this loan and carry out all activities required herein.

Dated this _____ day of _____, 20____

Local Government Entity_____

By:_____

Title:_____

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: October 6, 2015

Subject: Short Term Investment Program

Overview

The Board must determine on which basis to account for its Short Term Investment Program (STIP) as per the reasons outlined in my August 25, 2015 memorandum on this subject (previously sent to interested parties including Board members and included in the Board's packet for reference). Staff recommends that the Board approve changes to STIP policy (enclosed with the Board packet) that would move from using an 'amortized cost basis' to a 'net asset value basis' (NAV). Such actions will preserve how STIP currently operates as a program and preserves the prospects of achieving higher yields to participants.

The accounting for STIP assets would move to a 'net asset value' basis for the Board's financial statement for FY 16. All participants would need to show on their respective balance sheets and footnotes the net asset value as well as the 'amortized cost' value. STIP would continue to transact on a dollar basis, i.e. dollar in/dollar out. Prior references to 'money market funds' and '2a-7 like' would need to be eliminated, due to the new accounting method. Several STIP participants have fiscal year ends other than June 30, most noteworthy, the State Fund. The Board will need to provide NAV data for the STIP holdings, exclusive of the reserve, on a regular basis, and staff recommends that this information be posted for each month-end beginning October 2015.

Local Government Participation

The Board has already considered requiring local governments to adopt a resolution to participate in STIP showing the bank and authorized employees/officials to make STIP transactions. The draft resolution has been updated to reflect the new accounting changes and is enclosed in the packet.

Recommendations

Staff recommends that the Board:

1. Approve the recommended changes to the STIP policy; and
2. Approve the updated STIP participant resolution for local governments, but establish the official release and submittal period at its November meeting.

MEMORANDUM

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

To: Interested Parties

From: David Ewer, Executive Director

Date: August 25, 2015

Subject: Short Term Investment Pool (STIP) Accounting Changes

New GASB proposed rules will require the Board to choose between accounting for STIP assets in one of two ways: either account for securities within the STIP pool at an amortized cost basis (the status quo) or at a new net asset value (NAV) basis. These new rules will likely go into effect this current fiscal year. For many years STIP securities have been accounted for using 'amortized cost' and this route has permitted the Board to report STIP as a '2a-7 like' fund, or in other words, very similar to a money market fund, and to report STIP at a constant $1.00 per share.

The new proposed GASB rule would allow continuing to use of an 'amortized cost basis' but to do so would force significantly shorter overall maturity schedules for STIP investments. There would be other new restrictions as well. If STIP stays on an 'amortized cost' accounting basis, it will need to comply with these new maturity restrictions and its yield will fall significantly. Staff estimates that today's market conditions would result in about a 20-25% reduction in yield to STIP participants if it converts to the new amortized cost accounting rules.

If STIP remains under its current structure, it will need to move how it currently reports (i.e. amortized cost) to a net asset value (NAV) basis. Operationally, this will result in no visible change to STIP users. And the prospects of higher STIP yields will remain in effect. However, there is an important implication on reporting ending fiscal year STIP values for both the Board's balance sheet, the State's CAFR, and local government balance sheets. While STIP unitholder transactions will remain 'dollar in/dollar out', the actual value, i.e., the NAV, will have to be reported periodically. And any reference to '2a-7 like' structure within the financial statement footnotes will not be GAAP compliant. There will be a fluctuation or market value adjustment, however minor, reported on the financial statements out to many decimal places. Our recent STIP pricing at current market values shows that STIP is not materially divergent from a $1.000 dollar price (on August 21, the price of each STIP unit had a market value of $1.000548501). Assuming the Board accepts staff recommendations to move to a NAV reporting basis, the net asset value will be reported and shown for every month-end. The Board already has established a reserve for possible market or credit issues and the goal would be to keep it sufficiently large and available to maintain a narrow range of NAV variance.

We expect to present staff recommendations on this matter at its October 6th Board meeting. I welcome your questions and comments.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

PURPOSE

The purpose of this document is to establish policies that will govern the investment activities of the Montana Board of Investments (MBOI) with regard to the management of the Short-term Investment Pool (STIP). These policies are adopted by, and can be changed only by a majority of Board members at a publicly-noticed meeting.

These policies are designed to ensure the prudent management of public funds, conformance to Montana Constitution and law, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

All participants in the investment process shall act responsibly as custodians of the public trust and shall recognize that the STIP portfolio is subject to public review and evaluation. The pool shall be designed and managed in accordance with the standards of a "prudent expert"~~ and managed as a "2a-7-like" portfolio~~.

SCOPE

This Investment Policy applies to the investment of short-term operating funds of the State of Montana, participating local government entity funds, and the liquidity requirements of the various pension and trust funds managed by the MBOI.

1. **Pooling of Funds.** Each participant choosing to invest in the STIP must provide a legal opinion that it is authorized by law to participate. The STIP will consolidate cash balances from all participating funds to maximize investment earnings. Investment income is accrued daily and allocated monthly to participants based on their pro rata participation ~~and~~ in accordance with generally accepted accounting principles net of fees and any reserve accrual.

2. ~~**Amortized Cost**~~**Transactions and Reporting.** STIP ~~holdings are carried~~ participant transactions are executed at amortized cost. Amortized cost represents the original cost, adjusted for premium and discount amortization**.** The net asset value (NAV) is reported at fair value monthly and presented on MBOI financial statements.

DELEGATION OF AUTHORITY

1. **Board.** The Board, as a quasi-judicial body under state law is legally responsible for the prudent investment of the STIP. The Board is responsible for approving and amending this policy and delegates the responsibility for administering the STIP as outlined below:

2. **Staff**. Responsibility for the daily operation of the STIP is delegated to Board Staff, who shall act in accordance with this policy. Staff's duties include, but are not limited to, the following:
   a. **The Executive Director** (ED) is responsible for the ~~creation~~ oversight of the STIP investment program and the establishment of investment and financial reporting procedures consistent with this policy. The ED is also responsible for the following:
      i. collection and reporting of all income;
      ii. reconciling all transactions with the records of brokers and custodians; and,
      iii. monitoring compliance with statute and this policy.
   b. **The Chief Investment Officer** (CIO) shall establish a system to review and regulate the activities of subordinate investment officers and shall exercise authority over the entire investment staff and investment process.
   c. **The Portfolio Manager** (PM) assigned to the STIP portfolio is responsible for, but not limited to, the following:
      i. developing and recommending amendments to the STIP policy to the CIO;
      ii. implementing and adhering to the STIP policy;
      iii. structuring the portfolio to meet investment objectives;
      iv. all trades undertaken in the portfolio; and,

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

v. reporting to the Board at least quarterly on the results and investment strategy for the pool.

d. **The Board Internal Auditor** (BIA), if the Board chooses to employ one, will periodically review the STIP internal controls. The audit will be designed to measure Board Staff compliance with this policy.

3. **General Investment Consultant**. The General Investment Consultant shall provide assistance to the Board's Staff as requested in conjunction with the management of the STIP.

OBJECTIVES

1. **Investment Objective.** The STIP shall be managed to accomplish the following hierarchy of objectives:
   a. **Preservation of Principal**. The STIP portfolio investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate the inherent risks associated with short-term ~~money market~~ investments, primarily credit risk and interest rate risk
      i. **Credit Risk**. The STIP portfolio will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by means of the following:
         1. limiting investments to Permissible Securities on the Approved List;
         2. pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with whom the STIP will conduct business; and
         3. diversifying the investment portfolio so that potential losses on individual securities will be minimized.
      ii. **Interest Rate Risk**. The STIP portfolio will minimize the risk that the market value of the securities will deviate significantly from cost due to changes in the general level of interest rate by means of the following:
         1. structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
         2. investing funds primarily in short-term maturities of money market securities; and
         3. maintaining a dollar-weighted average portfolio maturity of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).
   b. **Maintenance of Liquidity**. The STIP portfolio will maintain sufficient liquidity to meet all state agency and local government operating requirements and STIP participant investment cash flow needs that can be reasonably anticipated; and
   c. **Return.** The STIP investment portfolio shall be managed with the objective of attaining a ~~money~~ market rate of return throughout market and economic cycles, taking into account the investment risk constraints and liquidity needs of the participants.
   d. **Reserve.** The STIP portfolio will maintain a reserve account. ~~to be used to offset any realized losses in the portfolio should these occur~~. The reserve will be available to offset realized gains or losses. The reserve will be available to offset unrealized gains or losses, to the extent deemed prudent by Staff, to limit fluctuations in the NAV. Any use of the reserve will be reported to the Board. The NAV will be calculated without regard to the reserve.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

AUTHORIZED & SUITABLE INVESTMENTS

1. **Permissible Securities.** The following securities and investment vehicles are approved for purchase for the STIP:
    a. U.S. Treasury and U.S. Governmental Agencies, or corporations wholly owned by the U.S. Government;
    b. Publicly traded domestic corporate bonds, notes and medium term notes (MTNs);
    c. Asset-backed securities (ABS) collateralized by: credit cards, automobile loans, leases and other receivables acceptable to staff in their analysis of this type of structure;
    d. Publicly and privately traded U.S. dollar denominated money market securities, including, but not limited to:
        i. Bankers' Acceptances (BA),
        ii. Commercial Paper (CP), and
        iii. Certificates of Deposits (CD), including Eurodollar and Yankee obligations which include CDs issued in U.S. dollars by foreign banks and foreign branches of U.S. banks.
    e. Floating rate securities tied to LIBOR, Fed Funds, Treasury Bills or commercial paper indices;
    f. Repurchase Agreements and Reverse Repurchase Agreements;
    g. U.S. Dollar bonds and money market securities issued in the United States by foreign borrowers (Yankees);
    h. U.S. Dollar bonds and money market securities issued outside the United States by domestic or foreign borrowers;
    i. Institutional money market funds;
    j. Investments required to implement the bond credit enhancement authorized by **Resolution 219**; and
    k. Short term investment fund of the custodial bank.

2. **Approved List.** Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved. The approved list shall be maintained by Staff with issuers added or removed from time to time depending on an analysis of their risk characteristics and suitability for use in the portfolio. At least two investment staff must approve names on the list. Issuers on the list shall be reviewed at least semi-annually for continued inclusion on the approved list.

DIVERSIFICATION AND LIMITATIONS

These limitations shall apply at the time of purchase of a permissible security. Should the portfolio fall out of compliance due to downgrades or shrinkage of the total portfolio size, a reasonable cure period will be allowed so that compliance can be obtained through normal maturities or sales at fair market value. Sales will be considered as a means of curing any out-of-compliance condition only if deemed prudent by Staff in light of prevailing market conditions.

1. **U.S. Government Securities**
    a. 100% of portfolio may be invested in U.S. Treasury Securities;
    b. 65% maximum of portfolio may be invested in U.S. Government Agency Securities; and
    c. 25% maximum of portfolio per single U.S. Agency issuer.

2. **Corporate commercial paper, bonds, notes and medium-term notes (MTNs)**
    a. 40% maximum of portfolio may be invested in these types of corporate securities;
        i. Up to 100% of this corporate debt limit may consist of commercial paper; and
        ii. Up to 25% of the total portfolio may consist of bonds, notes or MTNs.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

b. CP, corporate notes, and MTNs must have a minimum of two separate credit ratings (either short or long term) by Standard & Poor's, Moody's or Fitch;
   i. CP must be rated a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase; and
   ii. Corporate notes and medium-term notes must be rated by at least two rating agencies and carry a minimum mid-single A quality rating at the time of purchase (i.e., A(S&P), A2(Moody) or A(Fitch)).

3. Asset-backed Securities (ABS)

a. 40% maximum of portfolio in Asset-backed Securities;
b. Asset Backed Commercial Paper (ABCP) must carry at least two separate credit ratings one of which must be a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase, as long as no more than 10% of the portfolio is invested in ABCP which carries one lower rating of A2, P2 or F2 (i.e., split-rated);
c. ABCP purchases shall be limited to maturities of 90 days, except that no more than 20% of the portfolio may be invested in maturities greater than 30 days and no more than 10% of the portfolio may be invested in maturities greater than 60 days; and
d. No more than 10% of the portfolio may be invested in any one financial sponsor of ABS of any type. In measuring exposure to a financial sponsor for this purpose, both holdings in the ABS sponsored by the firm as well as its direct obligations shall be considered. Repurchase agreement obligations of a financial institution shall not be considered in this limit.

4. Bankers Acceptances and Certificates of Deposit

a. 30% maximum of portfolio may be invested in the combination of BA's and CD's;
b. BA's and CD's must carry at least two separate credit ratings and be rated a minimum of A1, P1 or F1 at the time of purchase; and
c. If not rated, the issuer's parent must carry a minimum long-term unsecured senior debt rating of ~~AA- or Aa3~~ A(S&P), A2(Moody) or A(Fitch) from at least ~~one~~ two rating ~~agency~~ agencies at the time of purchase.

5. Repurchase and Reverse Repurchase Agreements

a. Transactions will be conducted only with approved primary dealers or the master custodial bank, and under the terms of a written master repurchase agreement;
b. 30% maximum of the portfolio may be invested in repurchase agreements;
c. 5% maximum of the portfolio with any single primary dealer or financial institution;
d. The maximum term of any repurchase agreement will be 90 days;
e. Acceptable forms of collateral under repurchase agreements will consist of U.S. Treasury and/or U.S. Agency securities which will be required to be maintained at a market value of 102% of the value of the repurchase agreement;
f. The maximum term of any reverse repurchase agreement will be 90 days and must be matched to anticipated cash flows adequate to liquidate the transaction; and
g. A maximum of fifteen percent (15%) of the portfolio may be pledged to secure reverse repurchase agreements. Transactions will be used only to secure borrowings for temporary or emergency purposes.

6. Institutional Money Market Funds (MMF's)

a. Registered 2a-7 investment companies only;
b. 15% maximum of portfolio may be invested in institutional MMF's; and
c. 5% maximum of portfolio invested in any one MMF.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

7. Issuer, Industry and Collateral Concentration Limitation

a. No more than 2% of the portfolio will be invested in any one non-government issuer, except that up to 3% may be invested per issuer as long as no more than 2% is invested in securities maturing in more than seven days. Repurchase agreement obligations of a financial institution shall not be considered in this limit;

b. No more than 15% of the portfolio will be invested in companies whose principal business activities are in the same industry except that holdings in financial service companies are not limited; and

c. No more than 10% of the portfolio will be invested in any one type of receivable or collateral type via asset backed securities with the exception of financial institution obligations. These underlying types of collateral include such assets as trade receivables, student loans, residential mortgages, commercial mortgages, auto loans and leases, plant and equipment loans and leases, repurchase agreements, collateralized debt obligations of all types, credit card receivables, and other forms of collateral acceptable as part of the approval process for a specific issuer.

8. Maximum Maturities. To the extent possible, investment maturities in the STIP portfolio shall attempt to match the anticipated cash flow requirements. In addition, the maximum final maturity of any security shall not exceed 397 days, with the following exceptions:

a. Securities used as collateral in repurchase agreements;

b. A variable rate security which on any reset date can reasonably be expected to have a market value that approximates its amortized cost, and has a maximum maturity of 2 years. Further, all variable rate non-government securities (corporate bonds, notes or MTNs and bank CDs) maturing past one year shall not exceed 25% of the total portfolio; and

c. Securities received as settlement in exchange for an originally purchased security.

9. Liquidity

a. Minimum one-day maturities equal to 5% or greater and minimum maturities within one week equal to 10% or greater of the total fund value including MMF holdings and balances in the U.S. Bank sweep account which is held by the Treasurer's Fund;

b. The fund may not acquire any security if, or as a result, more than 10% of the fund's net assets would be invested in securities that are illiquid; and

c. Illiquid securities shall include repurchase agreements maturing in more than seven days, and restricted, privately placed securities that are not registered under the Securities Act of 1933, with the exception that certain restricted securities eligible for resale to qualified institutional investors, including Rule 144a securities, are not subject to this limitation on illiquid securities.

BENCHMARK

The STIP portfolio performance results will be compared to the return of a one month LIBOR index as a market benchmark, and the iMoneyNet First Tier Institutional only (gross) return as a peer group measure.

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

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

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.

DEFINITIONS

~~1. **2a-7-like** – A reference to a rule promulgated under the Investment Company Act of 1940 which defines the requirements of SEC-registered money market mutual funds.~~

~~2.~~1. **Asset-Backed Security** – Bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit; not mortgages.

~~3.~~2. **Banker's Acceptance** – A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. Often used in importing and exporting, and as a discount money market fund investment.

~~4.~~3. **Certificate of Deposit** (CD) – A short-or medium-term, interest-bearing deposit obligation offered by banks and savings and loans. These may include "Yankee CDs" which are CDs issued by foreign banks or their U.S. affiliates in the U.S. which are denominated in U.S. dollars.

~~5.~~4. **Commercial Paper** – An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days. Commercial paper is available in a wide range of denominations, can be either discounted or interest-bearing, and usually have a limited or nonexistent secondary market. Commercial paper is usually issued by companies with high credit ratings, meaning that the investment is almost always relatively low risk.

5. **Corporate Note** – A type of unsecured debt issued by a corporation that may be longer-term than Commercial Paper, but shorter-term than a typical Corporate Bond.

6. **Repurchase Agreement** – A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. May also be called "Repo" or "Buyback." Typically used a short term form of collateralized borrowing by a bank or securities dealer.

7. **Reverse Repurchase Agreement** – A purchase of securities with an agreement to resell them at a higher price at a specific future date. The investor essentially borrows money and allows its securities to be held as collateral. Reverse Repurchase Agreements occur most often in government securities or other securities that are highly valued and thus considered a good form of collateral.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

PURPOSE

The purpose of this document is to establish policies that will govern the investment activities of the Montana Board of Investments (MBOI) with regard to the management of the Short-term Investment Pool (STIP). These policies are adopted by, and can be changed only by a majority of Board members at a publicly-noticed meeting.

These policies are designed to ensure the prudent management of public funds, conformance to Montana Constitution and law, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

All participants in the investment process shall act responsibly as custodians of the public trust and shall recognize that the STIP portfolio is subject to public review and evaluation. The pool shall be designed and managed in accordance with the standards of a "prudent expert".

SCOPE

This Investment Policy applies to the investment of short-term operating funds of the State of Montana, participating local government entity funds, and the liquidity requirements of the various pension and trust funds managed by the MBOI.

1. **Pooling of Funds.** Each participant choosing to invest in the STIP must provide a legal opinion that it is authorized by law to participate. The STIP will consolidate cash balances from all participating funds to maximize investment earnings. Investment income is accrued daily and allocated monthly to participants based on their pro rata participation in accordance with generally accepted accounting principles net of fees and any reserve accrual.

2. **Transactions and Reporting.** STIP participant transactions are executed at amortized cost. Amortized cost represents the original cost, adjusted for premium and discount amortization**.** The net asset value (NAV) is reported at fair value monthly and presented on MBOI financial statements.

DELEGATION OF AUTHORITY

1. **Board.** The Board, as a quasi-judicial body under state law is legally responsible for the prudent investment of the STIP. The Board is responsible for approving and amending this policy and delegates the responsibility for administering the STIP as outlined below:

2. **Staff**. Responsibility for the daily operation of the STIP is delegated to Board Staff, who shall act in accordance with this policy. Staff's duties include, but are not limited to, the following:
    a. **The Executive Director** (ED) is responsible for the oversight of the STIP investment program and the establishment of investment and financial reporting procedures consistent with this policy. The ED is also responsible for the following:
        i. collection and reporting of all income;
        ii. reconciling all transactions with the records of brokers and custodians; and,
        iii. monitoring compliance with statute and this policy.
    b. **The Chief Investment Officer** (CIO) shall establish a system to review and regulate the activities of subordinate investment officers and shall exercise authority over the entire investment staff and investment process.
    c. **The Portfolio Manager** (PM) assigned to the STIP portfolio is responsible for, but not limited to, the following:
        i. developing and recommending amendments to the STIP policy to the CIO;
        ii. implementing and adhering to the STIP policy;
        iii. structuring the portfolio to meet investment objectives;
        iv. all trades undertaken in the portfolio; and,

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

v. reporting to the Board at least quarterly on the results and investment strategy for the pool.

d. **The Board Internal Auditor** (BIA), if the Board chooses to employ one, will periodically review the STIP internal controls. The audit will be designed to measure Board Staff compliance with this policy.

3. **General Investment Consultant**. The General Investment Consultant shall provide assistance to the Board's Staff as requested in conjunction with the management of the STIP.

OBJECTIVES

1. **Investment Objective.** The STIP shall be managed to accomplish the following hierarchy of objectives:
   a. **Preservation of Principal**. The STIP portfolio investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate the inherent risks associated with short-term investments, primarily credit risk and interest rate risk
      i. **Credit Risk**. The STIP portfolio will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by means of the following:
         1. limiting investments to Permissible Securities on the Approved List;
         2. pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with whom the STIP will conduct business; and
         3. diversifying the investment portfolio so that potential losses on individual securities will be minimized.
      ii. **Interest Rate Risk**. The STIP portfolio will minimize the risk that the market value of the securities will deviate significantly from cost due to changes in the general level of interest rate by means of the following:
         1. structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
         2. investing funds primarily in short-term maturities of money market securities; and
         3. maintaining a dollar-weighted average portfolio maturity of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).
   b. **Maintenance of Liquidity**. The STIP portfolio will maintain sufficient liquidity to meet all state agency and local government operating requirements and STIP participant investment cash flow needs that can be reasonably anticipated; and
   c. **Return.** The STIP investment portfolio shall be managed with the objective of attaining a market rate of return throughout market and economic cycles, taking into account the investment risk constraints and liquidity needs of the participants.
   d. **Reserve.** The STIP portfolio will maintain a reserve account.. The reserve will be available to offset realized gains or losses. The reserve will be available to offset unrealized gains or losses, to the extent deemed prudent by Staff, to limit fluctuations in the NAV. Any use of the reserve will be reported to the Board. The NAV will be calculated without regard to the reserve.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

AUTHORIZED & SUITABLE INVESTMENTS

1. **Permissible Securities.** The following securities and investment vehicles are approved for purchase for the STIP:
    a. U.S. Treasury and U.S. Governmental Agencies, or corporations wholly owned by the U.S. Government;
    b. Publicly traded domestic corporate bonds, notes and medium term notes (MTNs);
    c. Asset-backed securities (ABS) collateralized by: credit cards, automobile loans, leases and other receivables acceptable to staff in their analysis of this type of structure;
    d. Publicly and privately traded U.S. dollar denominated money market securities, including, but not limited to:
        i. Bankers' Acceptances (BA),
        ii. Commercial Paper (CP), and
        iii. Certificates of Deposits (CD), including Eurodollar and Yankee obligations which include CDs issued in U.S. dollars by foreign banks and foreign branches of U.S. banks.
    e. Floating rate securities tied to LIBOR, Fed Funds, Treasury Bills or commercial paper indices;
    f. Repurchase Agreements and Reverse Repurchase Agreements;
    g. U.S. Dollar bonds and money market securities issued in the United States by foreign borrowers (Yankees);
    h. U.S. Dollar bonds and money market securities issued outside the United States by domestic or foreign borrowers;
    i. Institutional money market funds;
    j. Investments required to implement the bond credit enhancement authorized by **Resolution 219**; and
    k. Short term investment fund of the custodial bank.

2. **Approved List.** Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved. The approved list shall be maintained by Staff with issuers added or removed from time to time depending on an analysis of their risk characteristics and suitability for use in the portfolio. At least two investment staff must approve names on the list. Issuers on the list shall be reviewed at least semi-annually for continued inclusion on the approved list.

DIVERSIFICATION AND LIMITATIONS

These limitations shall apply at the time of purchase of a permissible security. Should the portfolio fall out of compliance due to downgrades or shrinkage of the total portfolio size, a reasonable cure period will be allowed so that compliance can be obtained through normal maturities or sales at fair market value. Sales will be considered as a means of curing any out-of-compliance condition only if deemed prudent by Staff in light of prevailing market conditions.

1. **U.S. Government Securities**
    a. 100% of portfolio may be invested in U.S. Treasury Securities;
    b. 65% maximum of portfolio may be invested in U.S. Government Agency Securities; and
    c. 25% maximum of portfolio per single U.S. Agency issuer.

2. **Corporate commercial paper, bonds, notes and medium-term notes (MTNs)**
    a. 40% maximum of portfolio may be invested in these types of corporate securities;
        i. Up to 100% of this corporate debt limit may consist of commercial paper; and
        ii. Up to 25% of the total portfolio may consist of bonds, notes or MTNs.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

b. CP, corporate notes, and MTNs must have a minimum of two separate credit ratings (either short or long term) by Standard & Poor's, Moody's or Fitch;
   i. CP must be rated a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase; and
   ii. Corporate notes and medium-term notes must be rated by at least two rating agencies and carry a minimum mid-single A quality rating at the time of purchase (i.e., A(S&P), A2(Moody) or A(Fitch)).

3. Asset-backed Securities (ABS)

a. 40% maximum of portfolio in Asset-backed Securities;
b. Asset Backed Commercial Paper (ABCP) must carry at least two separate credit ratings one of which must be a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase, as long as no more than 10% of the portfolio is invested in ABCP which carries one lower rating of A2, P2 or F2 (i.e., split-rated);
c. ABCP purchases shall be limited to maturities of 90 days, except that no more than 20% of the portfolio may be invested in maturities greater than 30 days and no more than 10% of the portfolio may be invested in maturities greater than 60 days; and
d. No more than 10% of the portfolio may be invested in any one financial sponsor of ABS of any type. In measuring exposure to a financial sponsor for this purpose, both holdings in the ABS sponsored by the firm as well as its direct obligations shall be considered. Repurchase agreement obligations of a financial institution shall not be considered in this limit.

4. Bankers Acceptances and Certificates of Deposit

a. 30% maximum of portfolio may be invested in the combination of BA's and CD's;
b. BA's and CD's must carry at least two separate credit ratings and be rated a minimum of A1, P1 or F1 at the time of purchase; and
c. If not rated, the issuer's parent must carry a minimum long-term unsecured senior debt rating of A(S&P), A2(Moody) or A(Fitch)from at least two rating agencies at the time of purchase.

5. Repurchase and Reverse Repurchase Agreements

a. Transactions will be conducted only with approved primary dealers or the master custodial bank, and under the terms of a written master repurchase agreement;
b. 30% maximum of the portfolio may be invested in repurchase agreements;
c. 5% maximum of the portfolio with any single primary dealer or financial institution;
d. The maximum term of any repurchase agreement will be 90 days;
e. Acceptable forms of collateral under repurchase agreements will consist of U.S. Treasury and/or U.S. Agency securities which will be required to be maintained at a market value of 102% of the value of the repurchase agreement;
f. The maximum term of any reverse repurchase agreement will be 90 days and must be matched to anticipated cash flows adequate to liquidate the transaction; and
g. A maximum of fifteen percent (15%) of the portfolio may be pledged to secure reverse repurchase agreements. Transactions will be used only to secure borrowings for temporary or emergency purposes.

6. Institutional Money Market Funds (MMF's)

a. Registered 2a-7 investment companies only;
b. 15% maximum of portfolio may be invested in institutional MMF's; and
c. 5% maximum of portfolio invested in any one MMF.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

7. Issuer, Industry and Collateral Concentration Limitation

a. No more than 2% of the portfolio will be invested in any one non-government issuer, except that up to 3% may be invested per issuer as long as no more than 2% is invested in securities maturing in more than seven days. Repurchase agreement obligations of a financial institution shall not be considered in this limit;
b. No more than 15% of the portfolio will be invested in companies whose principal business activities are in the same industry except that holdings in financial service companies are not limited; and
c. No more than 10% of the portfolio will be invested in any one type of receivable or collateral type via asset backed securities with the exception of financial institution obligations. These underlying types of collateral include such assets as trade receivables, student loans, residential mortgages, commercial mortgages, auto loans and leases, plant and equipment loans and leases, repurchase agreements, collateralized debt obligations of all types, credit card receivables, and other forms of collateral acceptable as part of the approval process for a specific issuer.

8. Maximum Maturities. To the extent possible, investment maturities in the STIP portfolio shall attempt to match the anticipated cash flow requirements. In addition, the maximum final maturity of any security shall not exceed 397 days, with the following exceptions:

a. Securities used as collateral in repurchase agreements;
b. A variable rate security which on any reset date can reasonably be expected to have a market value that approximates its amortized cost, and has a maximum maturity of 2 years. Further, all variable rate non-government securities (corporate bonds, notes or MTNs and bank CDs) maturing past one year shall not exceed 25% of the total portfolio; and
c. Securities received as settlement in exchange for an originally purchased security.

9. Liquidity

a. Minimum one-day maturities equal to 5% or greater and minimum maturities within one week equal to 10% or greater of the total fund value including MMF holdings and balances in the U.S. Bank sweep account which is held by the Treasurer's Fund;
b. The fund may not acquire any security if, or as a result, more than 10% of the fund's net assets would be invested in securities that are illiquid; and
c. Illiquid securities shall include repurchase agreements maturing in more than seven days, and restricted, privately placed securities that are not registered under the Securities Act of 1933, with the exception that certain restricted securities eligible for resale to qualified institutional investors, including Rule 144a securities, are not subject to this limitation on illiquid securities.

BENCHMARK

The STIP portfolio performance results will be compared to the return of a one month LIBOR index as a market benchmark, and the iMoneyNet First Tier Institutional only (gross) return as a peer group measure.

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

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

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.

DEFINITIONS

1. **Asset-Backed Security** – Bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit; not mortgages.

2. **Banker's Acceptance** – A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. Often used in importing and exporting, and as a discount money market fund investment.

3. **Certificate of Deposit** (CD) – A short-or medium-term, interest-bearing deposit obligation offered by banks and savings and loans. These may include "Yankee CDs" which are CDs issued by foreign banks or their U.S. affiliates in the U.S. which are denominated in U.S. dollars.

4. **Commercial Paper** – An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days. Commercial paper is available in a wide range of denominations, can be either discounted or interest-bearing, and usually have a limited or nonexistent secondary market. Commercial paper is usually issued by companies with high credit ratings, meaning that the investment is almost always relatively low risk.

5. **Corporate Note** – A type of unsecured debt issued by a corporation that may be longer-term than Commercial Paper, but shorter-term than a typical Corporate Bond.

6. **Repurchase Agreement** – A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. May also be called "Repo" or "Buyback." Typically used a short term form of collateralized borrowing by a bank or securities dealer.

7. **Reverse Repurchase Agreement** – A purchase of securities with an agreement to resell them at a higher price at a specific future date. The investor essentially borrows money and allows its securities to be held as collateral. Reverse Repurchase Agreements occur most often in government securities or other securities that are highly valued and thus considered a good form of collateral.

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 _____

DRAFT

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 available to state and local governments to serve their short term cash flow and deposit needs and its objectives are to preserve capital and to maintain high liquidity. 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;
6) STIP's web portal provides real-time information on each account including: investment balances, buys, sells, pending transactions, and transaction notes, as determined by the authorized user; and
7) The Board accounts and reports on its financial statement STIP investment on a Net Asset Value (NAV) basis. A NAV per share of a STIP unit will be shown for each month-end period.

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 identified in Exhibit A attached, (the Bank), having the ABA number identified in Exhibit A attached, 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 Number identified in Exhibit A attached 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 STIP Participation Information Sheet, and Part 2 is the Electronic Funds Transfer Authorization Form, 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 is set forth fully herein.

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

By _____
Its _____

Attest:

By _____
Its_____

Exhibit A

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 determined and set by the Montana Board of Investments 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.

Exhibit A

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 has 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

MONTANA BOARD OF INVESTMENTS

Improving and Modernizing the Short Term Investment Pool (STIP)

Fall 2015

www.investmentmt.com

Q: What is new with STIP? Web technology now enables STIP users to access their STIP account, schedule a transaction, and download sales, purchases, and balances.

Q: Is it completely web-based? Yes, there is no longer a need to send paper or facsimiles to the Board or communicate with Board staff. In fact, STIP is now exclusively web-based at:

https://www.your-fundaccount.com/Montana/Login.aspx

Q: Can I access my account from devices such as a smart phone? Yes! Any device that gets you onto the web and can interface with STIP's secure system will allow access.

Q: When was the STIP Portal implemented? The new STIP portal has been operational since February 2015. Since the web portal went live, the Board has processed over 800 transactions for 164 local government entities (over $800 M) through August 31, 2015.

Q: What is the deadline for trades? Trades made by 2:00 pm each business day (trade date) effective the next business day (settlement date).

MONTANA
BOARD OF INVESTMENTS

Q: How is STIP value reported? Beginning in FY16, the Board will account and report in its financial statement STIP investments on a Net Asset Value (NAV) basis. NAV per share of a STIP unit will be shown monthly on our webpage beginning in October 2015.* This will also impact participant financial statement reporting. STIP will continue to be transacted on a dollar in/dollar out basis.

Q: What are some advantages that participants have seen with the new STIP Portal? Saves time and paper! The portal gives participants the ability to verify transactions in real time. The portal also provides security and increased internal controls.

Q: Will there be STIP participation requirement changes? Yes, by June 30, 2016*, all local government users existing and new will need to have their governing boards identify through a resolution their bank, account numbers, and officials who are authorized to make STIP transactions. Additionally, users will need to acknowledge some basics about STIP. The Board will be reconfirming this information every year to each STIP participant to maintain accuracy.

Q: How does this increase accountability? By ensuring that the appropriate officials authorize the bank accounts and the representative(s) managing STIP investments, for both the user's and the Board's protection.

Q: Who may I call if I have questions? Feel free to call **April Madden, STIP Program Manager, 444-0003** or **David Ewer, Executive Director, 444-1285.**

*Change to NAV/resolution requirement subject to Board approval at its October 2015 meeting.

Return to Agenda

Private Equity & Real Estate

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: Ethan Hurley, Portfolio Manager – Alternative Investments

Date: October 6, 2015

Subject: Montana Private Equity Pool (MPEP)

Following this memo are the items listed below:

(i) New Commitments:
The table below summarizes the investment decision made by staff since the last board meeting. One new commitment was made to JLL Partners VII, LP. An investment brief summarizing this fund and the general partner follows.

Fund Name	Vintage	Subclass	Sector	Amount	Date
JLL Partners Fund VII, LP	2015	Buyout	Diversified	$25M	8/6/15

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: Ethan Hurley, Portfolio Manager – Alternative Investments

Date: October 6, 2015

Subject: Montana Real Estate Pool (MTRP)

Following the memo are items listed below:

(i) New Commitments:
The table below summarizes the investment decisions made by staff since the last board meeting. One additional commitment of $20M was made to Stoltz Real Estate Fund V, LP. An investment brief summarizing this fund and the general partner follows.

Fund Name	Vintage	Subclass	Property Type	Amount	Date
Stoltz Real Estate Fund V, LP	2014	Value Add	Diversified	$20M	7/10/15

Back to Agenda

FIXED INCOME

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: Nathan Sax, CFA
Portfolio Manager – Fixed Income

Date: October 6, 2015

Subject: Aberdeen to CIBP - Transition

Blackrock has completed the transition of assets held by terminated manager Aberdeen to the CIBP portfolio.

Aberdeen was terminated effective August 3, 2015. Blackrock, hired as transition manager on behalf of the MBOI, first directed Aberdeen in the unwinding of to be announced (TBA) positions and legacy mortgage positions in non-deliverable form. Subsequent trading took place August 11-14, 2015. Finally, the Core Internal Bond Portfolio absorbed cash and securities totaling approximately $105 million to the 5.4 year target duration consistent with the CIBP's prior duration level. Of this amount, approximately $16mm was legacy securities. These were holdings of shorter duration treasuries, high grade corporates and Asset Backed Security (ABS).

In addition to the amount transferred to the CIBP, the State Street transition account held $0.88mm in cash and the Aberdeen account had $1.05mm in cash, both as of August 31, 2015. These residual amounts will eventually be transferred into the CIBP once Aberdeen's final management fee is deducted. That amount should be roughly $22,000.

The cost of the transition was approximately 45 basis points or $474,846. Of the total, 5 basis points went to commissions paid to Blackrock Execution Services. Another 28 basis points (estimated) was attributed to spreads and market impact. The residual component was 12 basis points, identified as opportunity costs.

The initial estimate was a cost of 33 basis points so that the actual cost incurred was on the high side. A summary of the transition costs is shown on the attached page.

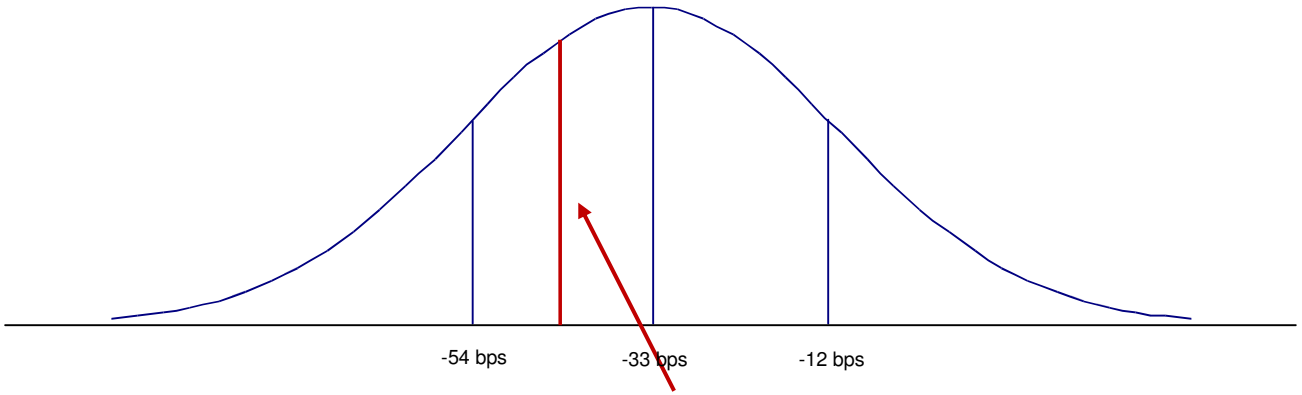
Transition Costs

Costs are broken down into their component parts in the tables and graphs below. Commissions and taxes are a known cost, whereas spread and market impact are estimates and opportunity cost acts as the balancing item. Opportunity cost is broken down further into (as relevant) gain or loss on security trades caused by market movements between the closing prices on the benchmark date and the time of execution.

	Pre-Transition Estimate				Actual Results				Difference	
		USD		BPS	Sales	Buys	Total	Total (bps)	USD	BPS
Commission*		(55,004)		(5)	(36,775)	(15,878)	(52,653)	(5)	2,351	0
Tax		-		-	-	-	-	-	-	-
Spread/Market Impact		(292,199)		(28)	(286,976)	(8,480)	(295,456)	(28)	(3,257)	(0)
		(347,203)		**(33)**	**(323,751)**	**(24,358)**	**(348,109)**	**(33)**	**(907)**	**0**
Opportunity Costs		218,042		21	244,243	(375,679)	(131,436)	(12)		
Currency Costs							4,699	0		
Total Implementation Shortfall	From	(129,160)	From	(12)	(79,508)	(400,037)	(474,846)	(45)		
	To	(565,245)	To	(54)						

* Refer to the Broker Trading Report and Revenue Transparency sections for more details.

Implementation Shortfall (IS) Distribution



Implementation Shortfall: -45 bps

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

Systematic Work and Education Plan 2015

Feb. 24-25 **Quarterly Meeting**
Quarterly reports and subcommittee meetings
Annual Report and Financial Statements
Financial Audit
Ethics
Board's real property holdings
Securities lending

April 7 **Non-Quarterly Meeting**
All policy review
Capital market/asset allocation overview
Board as a rated credit
In – state loan programs
RVK presentation (TBD)
Board education and possible conferences (IFE usually in June)

May 19-20 **Quarterly Meeting**
Quarterly reports and subcommittee meetings
Fixed income
Fixed income trust clientele joint presentations (and luncheon)
Board's web site
State Fund as major BOI client
Staffing level review

August 18-19 **Quarterly Meeting**
Quarterly reports and subcommittee meetings
CEM Benchmarking
MBOI Budget and legislative-related action-decision
Internal Controls
Fiscal Year performance through June 30th
RVK presentation (TBD)

October 6 **Non-Quarterly Meeting**
TBD

Nov. 17-18 **Quarterly Meeting**
Quarterly reports and subcommittee meetings
Affirm or Revise Asset Allocation
Resolution 217
Resolution 218
PERS/TRS annual update
Benchmarks used by Board
Securities litigation status
Exempt staff annual review
Accounting Review

24 Month Systematic Work and Education Plan 2015					
Completed	Completed	Completed	In-Process	Proposed	
2012	2013	2014	2015	2016	
		X	X		Accounting Review
X	X	X	X	X	Annual report and financial statements
X	X	X	X	X	Asset Allocation Range Approval (Board must review/approve annually as per policy)
X	X		X	X	Capital Market/Asset Allocation
X	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	X	Board member education
X	X	X	X	X	Board's budget
	X		X		Board as landlord/tenant holdings
	X		X		Board's website
X		X		X	Cash Management of state monies
X	X	X	X	X	Cost reporting including CEM, Inc. analysis
		X		X	Custodial bank relationship, performance, continuity
	X		X		Customer relationships (State government)
	X	X		X	Disaster Recovery and other emergency preparedness
X	X	X	X	X	Exempt staff performance and raises (HR policy requires annual consideration)
X	X	X	X	X	Ethics policy – (Board policy requires annual affirmations)
X	X		X		Fixed Income
	X		X		In-state Loan program
X		X		X	INTERCAP program
X	X	X	X	X	Internal controls
X	X	X	X	X	Policy Statements Review (Governance policy requires annual investment policy review)
X	X	X	X	X	Legislative session and interim matters
	X	X		X	Outreach efforts for Board - loan and municipal programs
X	X	X	X	X	PERS and TRS relationship
X		X		X	Private Equity
		X		X	Proxy voting public equities
X		X		X	Public Domestic Equities
X		X		X	Public International Equities
X		X		X	Real Estate and timberland
X	X	X	X	X	Resolution 217 update of current Investment Firms (Board policy requires annual update)
X	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	X	Securities Litigation
X	X	X	X	X	Staffing levels (required biannually in board policy)
	X		X		State Fund as major client

MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX

ACH..... Automated Clearing House

ADR..... American Depository Receipts

AOF..... All Other Funds

ARC..... Actuarially Required Contribution

BOI..... Board of Investments

CFA..... Chartered Financial Analyst

EM..... Emerging Market

FOIA..... Freedom of Information Act

FWP..... Fish Wildlife and Parks

FX..... Foreign Exchange

IPS..... Investment Policy Statement

LDI..... Liability-Driven Investing

MBOH..... Montana Board of Housing

MBOI..... Montana Board of Investments

MDEP..... Montana Domestic Equity Pool

MFFA..... Montana Facility Finance Authority

MPEP..... Montana Private Equity Pool

MPT..... Modern Portfolio Theory

MSTA..... Montana Science and Technology Alliance

MTIP..... Montana International Pool

MTRP..... Montana Real Estate Pool

MTSBA..... Montana School Boards Association

MVO..... Mean-Variance Optimization

MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX

NAV ..... Net Asset Value

PERS ..... Public Employees' Retirement System

PFL ..... Partnership Focus List

QZAB ..... Qualified Zone Academy Bonds

QSCB ..... Qualified School Construction Bonds

RFBP ..... Retirement Funds Bond Pool

RFP ..... Request for Proposal

SABHRS ..... Statewide Accounting Budgeting and Human Resource System

SLQT ..... Securities Lending Quality Trust

SSBCI ..... State Small Business Credit Initiative

STIP ..... Short Term Investment Pool

TFBP ..... Trust Funds Bond Pool

TFIP ..... Trust Funds Investment Pool

TIF ..... Tax Increment Financing

TIFD ..... Tax Increment Financing District

TRS ..... Teachers' Retirement System

TUCS ..... Trust Universe Comparison Service

VIX ..... Volatility Index

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

MONTANA BOARD OF INVESTMENTS
PUBLIC MARKETS MANAGER EVALUATION POLICY

- 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

August 2015

RVK

RVK Resources

Publication	Cost	Link	Description
RVK Quarterly Commentary	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	Free	www.rvkuhns.com	Each quarter, RVK publishes a white paper covering topics of common concern for our clients. 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.
Investment Committee Best Practices *NEW*	Free for RVK Clients Only	Copies Provided on Request	This 60-page study is the culmination of a one-year research effort, which involved an exhaustive literature review, completion of several surveys of investment professionals, and interviews with more than 30 investment committee chairs, staff, and industry thought leaders. The primary reason for producing this study was to address the fact that many investment committees face similar operational and strategic challenges, but are unable to address them collectively because they tend to operate in silos. This study is intended to accelerate improvement efforts by revealing these common challenges and sharing key insights, tactics, and case studies that may help resolve them.

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.
JPMorgan Eye on the Market	Free	**Send Email Request to gerard.r.fancovic@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.

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	*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.

Book	Cost	Link	Description
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	$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.