

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.952

EFFECTIVE DATE: October 11, 2023

TITLE: Debt and Liability Free Account
Investment Policy Statement

SUPERSEDES: NEW

BOARD ADOPTION: October 11, 2023

REVIEWED: October 11, 2023

I. Introduction

- A. The purpose of this policy is to provide a framework for the Debt and Liability Free Account under the guidance of the Board.
- B. All Separately Managed Accounts are governed by the Separately Managed Accounts Investment Policy Statement, Policy 40.900.
- C. The Debt and Liability Free Account was established by the 2023 Legislature in HB 251 to pay off debts and liabilities of the State of Montana.
- D. Earnings of the Treasury Cash Account will be placed in the Account for fiscal years July 1, 2022, through June 30, 2025.
- E. Unobligated funds will be transferred from the account by June 30, 2027.
- F. The Account is expendable. Funds in the Account are statutorily appropriated to the Governor's Office.
- G. The Board will have full discretion to manage the Debt and Liability Free Account portfolio consistent with this policy. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of the Staff. Any exceptions or compliance violations are to be reported to the Board at the next scheduled quarterly Board meeting.
- H. If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, Staff will use its best efforts to conform to these limits in a timely manner, while considering current market conditions and the associated costs of rebalancing. At the Board's next regularly scheduled quarterly meeting, the CIO shall inform the Board of any situations where the allocations were outside the limits and either inform the Board of the actions that were taken to return the portfolio back within guidelines or a plan to do so.

II. Purpose

- A. The purpose of this policy statement is to:
 - 1. Establish the investment objectives and performance standards of the Debt and Liability Free Account; and
 - 2. Provide diversified investment exposure within the guidelines in a prudent and cost-effective manner.

III. Investment Objectives

- A. Strategic - The objective of the Debt and Liability Free Account fund portfolio is to attain above benchmark total return within the parameters of this policy with an emphasis on investment income and preservation of principal.
- B. Performance - Success in achieving this objective will be measured by comparing the risk and return of the fund to the securities owned, weighted proportionately to the portfolio's holdings, over a five (5)

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year rolling average.

- C. Time Horizon - The Debt and Liability Free Account is an expendable account. The Board expects to meet or exceed all objectives over the long-term investment horizon. Over shorter periods, the anticipated market volatility, and specific actions, including risk mitigation efforts by the Board may lead to unfavorable, but expected deviation from these objectives.

IV. Permitted Investments

- A. The Debt and Liability Free Account may only invest in the following:

1. STIP or any cash vehicle at the Custodial Bank;
2. U.S. Treasury obligations;
3. Direct obligations of the U.S. Agencies;
4. Short-term tri-party repurchase obligations (repo) with an approved primary dealer, the Custodial Bank, or the depository bank that are collateralized at one-hundred two percent (102%) of value with U.S. Treasury and U.S. Agency securities;
5. Fully collateralized, interest-bearing Demand Deposit Accounts at Montana domiciled banks and credit unions; or
6. Any legislatively approved program loan, bond, note, or guarantee.

- B. Direct obligations of U.S. agencies shall consist of only the discount notes, notes and debentures of the agencies and does not include mortgage pass-through obligations. Coupons may be fixed or floating rate.

- C. Approved primary dealers of short-term tri-party repurchase obligations will be the same as those dealers approved for repo investments made in STIP.

Authority: Montana Constitution, Article VIII, Section 13
Section 2-15-1808, MCA
Section 17-1-113, MCA
Sections 17-6-201 through 17-6-205, MCA
Chapter 48, Laws of 2023 (House Bill No. 251)