

MONTANA

BOARD OF INVESTMENTS

SPECIAL MEETING OF THE LOAN COMMITTEE and MONTANA BOARD OF INVESTMENTS *Zoom Conference* June 22, 2023 | 10:00 AM

LOAN COMMITTEE – Jeff Meredith, Committee Chair

10:00 AM

1. Notice of Video/Audio Recording
2. Roll Call
3. Public Comment – *Public Comment on issues with Board Jurisdiction*
4. In-State Loan Request – **Decision**
5. INTERCAP Loan Request – **Decision**

TAB 1 CALL TO ORDER – Jack Prothero, Board Chair

10:20 AM

1. Notice of Video/Audio Recording
2. Roll Call
3. Public Comment – *Public Comment on issues with Board Jurisdiction*
4. Loan Committee Report

TAB 2 POLICY REVIEW AND ADOPTION – *Decisions*

10:25 AM

Investment Policy Statements – John Romasko, Director of Fixed Income

- Coal Severance Tax Trust Distributions, Policy 40.801
- Coal Severance Tax Permanent Fund, Policy 40.807
- Coal Endowment Conservation District Fund, Policy 40.808
- End of Watch Trust, Policy 40.948
- State Library Trust, Policy 40.949
- Coal Severance Tax, Policy 40.800
- Separately Managed Accounts, Policy 40.900

Housing Trust Policies – Dan Villa, Executive Director; Louise Welsh, Senior Bond Program Officer; Doug Hill, Director of In-State Loans

- Investment Objectives and Guidelines Montana Housing Infrastructure Revolving Loan Fund, Policy 40.950
- Investment Objectives and Guidelines State of Montana Workforce Housing Fund, Policy 40.951
- Montana Housing Infrastructure Revolving Bond Program, Policy 70.751
- Montana Housing Infrastructure Revolving Loan Program, Policy 70.752
- Loan Committee Charter, Policy 10.163

ADJOURN

11:30 PM

MONTANA

BOARD OF INVESTMENTS

TO: Members of the Board
FROM: Dan Villa, Executive Director
John Romasko, Director of Fixed Income
DATE: June 22, 2023
RE: Proposed New and Changes to Existing Investment Policy Statements

A summary of the proposed changes to each of the Investment Policy Statements is below. New or redline changes of affected sections of current policies are included behind this memo.

Montana Housing Infrastructure Revolving Loan Fund ***New Separately Managed Account***

- The 2023 Montana Legislature created the Montana Housing Infrastructure Revolving Loan Fund through Section 10 of HB 819.
- It is expected to be funded with \$106 million on August 15, 2023.
- HB 819 allows for loans to local governments or applicants for residential development of up to \$1 million or 50% of projected cost of an infrastructure project.
- BOI will be the primary administrator of the fund.
- HB 819 allows for the purchase of up to 50% of a local government infrastructure bond. The bonds may be issued at advantageous interest rates to promote the underlying goal of increasing housing availability.
- Earnings from the fund are not allowed to be retained in the fund.
- The primary purpose of the fund is to increase home ownership and housing supply. There is no applicable investment performance index.
- Staff, including managers of the In-State Loan Programs and INTERCAP program, are expected to initiate or purchase allowable investments.
- HB 819 in part:

Section 10. Montana housing infrastructure revolving loan fund account. (1) *There is a Montana housing infrastructure revolving loan fund account within the state special revenue fund type established in 17-2-102 to the credit of the board of investments. Money deposited in the account established in this section must be invested by the board of investments as provided by law.*

(2) *The principal of the account may only be appropriated by a vote of two-thirds of the members of each house of the legislature.*

Section 11. Purpose. *The purpose of the loans made and the bonds or other securities issued and purchased pursuant to [sections 10 through 14] are:*

- (1) *to increase home ownership and provide more long-term rental opportunity;*
- (2) *to increase housing supply and offer diverse housing types to meet the needs of population growth; and*

(3) to create partnerships between the state, local governments, private sector developers, and applicants for residential development to finance necessary infrastructure for housing.

Section 12. Terms. The total amount of loans made to an entity for an infrastructure project pursuant to [section 14(1)] may not exceed:

- (1) \$1 million; or
- (2) 50% of the projected project cost.

Section 13. Eligibility -- priority. (1) For the costs of an infrastructure project to be eligible to be paid by the proceeds of a loan or bonds or other securities of an eligible government unit as defined in 17-5-1604, the infrastructure project must provide for residential development at a minimum gross density of 10 units for each acre.

(2) Lending of at least \$7 million of available funds must be prioritized to counties that have a population of less than 15,000 inhabitants that are located within a 30-mile radius of a state-owned facility that, on an annual average, houses at least 100 state inmates or behavioral health patients, and the state-owned facility is located in a county that has a population that does not exceed 15,000 inhabitants.

Section 14. Financing -- deed restrictions. (1) The board of investments may make loans from the account established in [section 10] to an eligible government unit as defined in 17-5-1604 or an applicant for residential development to cover the costs of demolition or expanding or extending water, wastewater, storm water, street, road, curb, gutter, and sidewalk infrastructure to serve new or rehabilitated residential development.

(2) The board of investments may purchase up to 50% of a bond or other security issued in accordance with state law by an eligible government unit as defined in 17-5-1604 to cover all or a portion of costs of expanding or extending water, wastewater, storm water, street, road, curb, gutter, and sidewalk infrastructure to serve new or rehabilitated residential development at an interest rate to be determined by the board of investments as an investment of the account established in [section 10].

(3) The board of investments shall:

- (a) establish the terms and conditions of the loan, including the interest rate of the loan, with a term not to exceed 20 years;
- (b) if an eligible government unit is the entity seeking a loan or issuing a bond or other security, require that the eligible government unit waive all impact fees for the developer or the amount of impact fees up to the amount of the loan or bond or other security, whichever amount is smaller;

(c) if an applicant for residential development is the entity seeking a loan, require that the applicant pay all impact fees due to the local government or the amount of impact fees up to the amount of the loan, whichever amount is smaller; and

(d) set policy requiring that housing built using infrastructure funded in part by a security pursuant to this section must provide for provisions to preserve long-term affordability of the housing that runs with the property for the term of the security.

(4) The board of investments shall include the amounts loaned and the status of all loans in the report required in 17-5-1650.

Workforce Housing Fund
New Separately Managed Account

- The 2023 Montana Legislature created the Workforce Housing Fund through Section 15 of HB 819.
- The \$12 million is appropriated effective on July 1, 2023.
- The purpose of the fund is to advance the construction or purchase of workforce housing for employees who work at state-owned facilities that house state inmates or behavioral health patients.
- The only locations for the investment of housing construction would be in the Deer Lodge/Warm Springs area.
- Earnings from the fund are not allowed to be retained in the fund.
- There is no applicable investment performance index.
- Montana Board of Investments is the administrator of the fund.
- HB 819 in part:

Section 15. Workforce housing appropriations -- eligible uses of funds. (1) There is appropriated \$12 million from the general fund to the board of investments for the biennium beginning July 1, 2023. The purpose of the funds is to advance the construction or purchase of workforce housing of employees who work at state-owned facilities that house state inmates or behavioral health patients.

(2) Funds must be distributed to assist those who work and are living in counties that have a population of less than 15,000 inhabitants that are located within a 30-mile radius of a state-owned facility that, on an annual average, houses at least 100 state inmates or behavioral health patients, and the state-owned facility is located in a county that has a population that does not exceed 15,000 inhabitants. The distribution must be made pro rata based on the annual average state-owned facility population for the fiscal year beginning July 1, 2021, and the number of workers residing in each eligible county.

- (3) *Eligible uses of the funds include:*
- (a) *buying down construction costs on employee housing;*
 - (b) *providing matching funds required pursuant to the state workforce housing community reinvestment organization revolving loan fund;*
 - (c) *providing loans for up to 50% of the projected project cost of an eligible infrastructure project pursuant to [section 13];*
 - (d) *providing funds to discount housing costs to employees who work in state-owned facilities that house, on an annual average, at least 100 state inmates or behavioral health patients, and the state-owned facility is located in a county that has a population that does not exceed 15,000 inhabitants; or*
 - (e) *acquiring through construction or purchase housing for employees of those state-owned facilities with the intention of the housing to be privately owned within 10 years of purchase or construction unless private ownership is considered a security risk by the department of public health and human services or the department of corrections.*

Coal Tax Severance Tax Permanent Fund 40.807

Proposed Changes

- The 2023 Montana Legislature in HB 819 section 17 increased the allocation to the Coal Trust Multifamily Homes program by \$50 million to \$65 million.

Montana Coal Endowment Conservation District Fund

New Fund and Proposed Changes to Coal Severance Tax Trust Distributions

- The Montana 2023 Legislature created the Coal Endowment Conservation District Fund and altered the distribution of the Coal Severance Tax in HB 321.
- Starting July 1, 2023, 65% of the available coal severance tax will go the new Conservation District Fund until the balance reaches \$100 million.
- After the balance of the Conservation District Fund reaches \$100 million, 65% of available coal severance taxes will go to the new Coal Board Fund. Staff is not proposing a new fund for the Coal Board at this time, as it is likely several years from its first funding.
- The amount of available coal severance taxes going to the existing School Facilities Fund will be reduced to 10% from 75%, until the balance of the fund reaches \$300 million.
- There will be no change to the 25% of available coal severance tax going the Big Sky Economic Development Fund.
- The purpose is to provide funds to Conservation Districts established in Section 76-15-106, MCA. Earnings will be transferred monthly by the Treasurer.
- The Montana Department of Administration will be the administrator of the Fund.

Montana End of Watch Trust

New Fund

- The 2023 Montana Legislature created the End of Watch Trust in SB 294.
- The Trust is expected to be funded with \$10 million on July 1, 2023.
- The Department of Justice will be the administrator of the Trust. The Department may accept contributions to be deposited in the Trust.
- The purpose of the Trust is to support eligible law enforcement officers and families in the event of an officer's death or catastrophic injury in the line of duty.
- The state Treasurer shall transfer the amount of earnings necessary to meet obligations monthly. Unexpended earnings must be retained in the Trust. Unexpended earnings that transfer back into the Trust can be appropriated if monthly obligations exceed current available earnings. Those appropriations shall be reimbursed from the general fund the following year.
- Eligible beneficiaries or survivors will receive \$7,000 per month for 12 months. The amount will be reduced for months 13 through 60 by one half of the worker's compensation benefit received and one half of the state retirement benefit received.

Montana State Library Trust

New Separately Managed Account

- The Montana State Library Trust was established under MCA 22-1-225, and 22-1-226, "for providing library service to Montanans, including those who, because of disability, cannot read standard print."
- Earnings of the Trust are retained by the Trust – not the General Fund.
- Unexpended earnings remain in the Trust.
- The Trust can accept donations.
- The Trust was established in 1997 but only recently had significant donations. The current balance is approximately \$1.5 million.

All Separately Managed Accounts and Coal Severance Tax sub-accounts

Policy Updates

- The Separately Managed Accounts and Coal Tax Severance Accounts included a reference to appendices in section I.A. The appendices were eliminated when all Investment Policy Statements were included in Section 40 of the Governance Manual.
- Sections I.B and I.C. were made redundant when the IPS format was changed with the inclusion in the Governance Manual.
- Consistent formatting carried throughout new and reviewed policies included with this memo.

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.801

EFFECTIVE DATE: ~~November 30, 2021~~ TBD

TITLE: Coal Severance Tax Trust Distributions
2021

SUPERSEDES: ~~June 1, 2021~~ November 30,

BOARD ADOPTION: November 30, 2021

REVIEWED: June 22, 2023

I. ~~Appendix I: Coal Severance Tax Trust Distributions~~ Introduction

- A. ~~Per the 2017 legislative session, the~~ receipts for the Coal Severance Tax Trust Fund are distributed as follows:
1. On July 1st each year, the State Treasurer shall determine the amount necessary to meet all principal and interest payments on bonds payable from the Coal Severance Tax Bond Fund during the next twelve (12) months. This amount must be maintained in the Coal Severance Tax Bond Fund.
 2. After any required payment to the Coal Severance Tax Bond Fund, twenty-five percent (25%) of tax receipts are deposited in the Big Sky Economic Development Fund.
 3. After any required payment to the Coal Severance Tax Bond Fund, ~~seventy-five percent (75%)~~ ten percent (10%) of tax receipts are deposited in the School Facilities Fund. When the balance of the School Facilities Fund reaches ~~\$200-\$300~~ million, ~~seventy-five percent (75%)~~ ten percent (10%) of tax receipts will be transferred to the Coal Severance Tax Permanent Fund instead of the School Facilities Fund.
 4. After any required payment to the Coal Severance Tax Bond Fund, ~~sixty-five percent (65%)~~ sixty-five percent (65%) of tax receipts are deposited in the Conservation District Fund. When the balance of the Conservation District Fund reaches \$100 million, ~~sixty-five percent (65%)~~ sixty-five percent (65%) of tax receipts will be transferred to the Coal Board Fund instead of the Conservation District Fund.
- B. Tax receipts can be accessed via the monthly revenue reports on the Department of Revenue's website.

Authority: Montana Constitution, Article VIII, Section 13
 Montana Constitution, Article IX, Section 5
 Section 2-15-1808, MCA
 Section 17-1-113, MCA
 Section 17-5-703, MCA
 Section 17-5-704, MCA
 Sections 17-6-201 through 17-6-205, MCA
 Section 17-6-308, MCA

Adopted: November 30, 2021

Revised: TBD

Reviewed: June 22, 2023

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.807

EFFECTIVE DATE: ~~November 30, 2021~~ TBD

TITLE: Investment Objectives and Guidelines
2021

SUPERSEDES: ~~June 1, 2021~~ November 30,

Coal Severance Tax Permanent Fund

BOARD ADOPTION: November 30, 2021

REVIEWED: June 22, 2023

~~A. Approved Date of Schedule: August 20, 2019.~~

~~B. This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for this specific portfolio.~~

~~##~~ I. Introduction

- ~~A.~~ The purpose of the investment guidelines is to provide a framework for the Coal Severance Tax Permanent Fund under the guidance of the board.
- ~~B.~~ All Coal Severance Tax sub-funds are governed by 40.800, Coal Severance Tax Investment Policy Statement.
- C. The Coal Severance Tax Permanent Fund was established under Section 17-5-703, MCA, as a sub-fund of the Permanent Coal Severance Tax Trust. Income from the Coal Severance Tax Permanent Fund is distributed to the Coal Severance Tax Income Fund. The Department of Revenue will then transfer the income to various funds based on legislative appropriations.
- D. The Board will have full discretion to manage the Coal Severance Tax Permanent Fund consistent with the investment guidelines stated below. 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.
- E. There are several commercial and residential loan programs that are funded from the Coal Severance Tax Permanent Fund. In addition, the Coal Severance Tax Permanent Fund serves as the backstop for any loan guarantees under the INTERCAP and Facility Finance loan programs
- F. Investment staff will work closely with the Director of In-State Loan Programs, the Senior Bond Program Officer for INTERCAP and the Executive Director of the Montana Facility Finance Authority to address any liquidity needs within the portfolio.
- G. 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 cases that 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.

Adopted: November 30, 2021

Revised: TBD

Reviewed: June 22, 2023

III. Statement of Purpose

A. The purpose of these objectives and guidelines are to:

1. Establish the investment objectives and performance standards of the Coal Severance Tax Permanent Fund; and
2. Provide diversified investment exposure within the guidelines in a prudent and cost-effective manner.

IV. Investment Objectives

- A. Strategic - Attain above benchmark total return for all investments within the parameters of the Investment Guidelines set forth below with an emphasis on investment income and preservation of principle.
- B. Performance - Success in achieving this objective will be measured by comparing the risk and return of the account to the Trust Funds Investment Pool (TFIP) benchmark and the Short-Term Investment Pool (STIP) benchmark weighted proportionately to the portfolio's holdings net of any legislatively directed holding of commercial, residential, or infrastructure loans, bonds or other mandated assets, over a five (5) year rolling average.

V. Permitted Investments

1. The Coal Severance Tax Permanent Fund may only invest in:
 1. TFIP;
 2. STIP; and
 3. Any legislatively approved program loan, bond, note, or guarantee.

VI. Other Restrictions

- A. A maximum of ninety-nine percent (99%) of the market value of the portfolio will be held in the TFIP.
- B. A maximum of \$80 million Montana Infrastructure loans per Sections 17-6-309 & 311, MCA.
- C. A maximum of \$70 million Montana Value Added Loans per Sections 17-6-317 & 311, MCA.
- D. A maximum of \$50 million Montana Veterans' Home Loan Mortgages per Section 90-6-603, MCA.
- E. A maximum of \$15 million Montana Facility Finance Authority Loans per Section 17-6-308, MCA.
- F. A maximum of \$10 million Intermediary Relending Loans per Section 17-6-345, MCA.
- G. A maximum of \$~~15~~65 million Coal Trust Multifamily Homes per Section 17-6-308, MCA.

Authority: Montana Constitution, Article VIII, Section 13
Montana Constitution, Article IX, Section 5
Section 2-15-1808, MCA
Section 17-1-113, MCA
Sections 17-5-703 and -704, MCA
Sections 17-6-201 through 17-6-205, MCA
Sections 17-6-308 and -309, MCA
Section 17-6-311, MCA
Section 17-6-345, MCA

Adopted: November 30, 2021

Revised: TBD

Reviewed: June 22, 2023

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.808

EFFECTIVE DATE: TBD

TITLE: Investment Objectives and Guidelines
Montana Coal Endowment Conservation Fund

SUPERSEDES: NEW

BOARD ADOPTION: TBD

REVIEWED: June 22, 2023

I. Introduction

- A. The purpose of the investment guidelines are to provide a framework for the Montana Coal Endowment Conservation Fund under the guidance of the board.
- B. All Coal Severance Tax sub-funds are governed by the Coal Severance Tax Investment Policy Statement, Policy 40.800.
- C. The Montana Coal Endowment Conservation Fund was established under Section 17-5-703, MCA, as a sub-fund of the Permanent Coal Severance Tax Trust. Income from the Montana Coal Endowment Fund is appropriated to the Department of Revenue by the legislature for local government infrastructure projects.
- D. The Board will have full discretion to manage the Montana Coal Endowment Conservation Fund consistent with the investment guidelines stated below. 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.
- E. 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 cases that 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. Statement of Purpose

- A. The purpose of these objectives and guidelines are to:
 1. Establish the investment objectives and performance standards of the Montana Coal Endowment Conservation Fund; and
 2. Provide diversified investment exposure within the guidelines in a prudent and cost-effective manner.

III. Investment Objectives

- A. Strategic - Attain above benchmark total return for all investments within the parameters of the Investment Guidelines set forth below with an emphasis on investment income and preservation of principle.
- B. Performance - Success in achieving this objective will be measured by comparing the risk and return of the account to the Trust Funds Investment Pool benchmark and the Short-Term Investment Pool (STIP) benchmark, weighted proportionately to the portfolio's holdings, over a five (5) year rolling average.

Adopted: TBD

Revised:

Reviewed: June 22, 2023

IV. Permitted Investments

1. The Montana Coal Endowment Conservation Fund may only invest in:
 1. TFIP; and
 2. STIP.

V. Other Restrictions

- A. A maximum of ninety-nine percent (99%) of the market value of the portfolio will be held in the TFIP.

NEW

Authority: Montana Constitution, Article VIII, Section 13
Montana Constitution, Article IX, Section 5
Section 2-15-1808, MCA
Section 17-1-113, MCA
Section 17-5-703 and -704, MCA
Sections 17-6-201 through 17-6-205, MCA
Section 17-6-308, MCA
Insert new MCA reference

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.948

EFFECTIVE DATE: TBD

TITLE: Investment Objectives and Guidelines
Montana End of Watch Trust

SUPERSEDES: NEW

BOARD ADOPTION: TBD

REVIEWED: June 22, 2023

I. Introduction

- A. The purpose of the investment objectives and guidelines are to provide a framework for the Montana End of Watch Trust 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 Montana End of Watch Trust was established by the 2023 Legislature in SB 294 to provide benefits to Montana law enforcement officers killed or catastrophically injured in the line of duty. The Trust is to be funded with \$10 million on July 1, 2023. The Legislature may provide additional funding. Donations are allowed into the fund.
- D. The Board will have full discretion to manage the Montana End of Watch Trust portfolio consistent with the investment guidelines stated below. 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.
- E. The Trust is permanent. Earnings of the Trust will be transferred to the Department of Justice monthly. Unexpended earnings will be retained in the Trust. Unexpended earnings may be appropriated if monthly obligations exceed the current available earnings in the Trust. If this portion of the Trust is appropriated in any fiscal year, the state treasurer shall transfer that same amount from the general fund to the Trust the following year.
- F. 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 cases that 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. Statement of Purpose

- A. The purpose of these objectives and guidelines are to:
 - A. Establish the investment objectives and performance standards of the Montana End of Watch Trust; and
 - B. Provide diversified investment exposure within the guidelines in a prudent and cost-effective manner.

III. Investment Objectives

- A. Strategic - The objective of the Montana End of Watch Trust fund portfolio is to attain above benchmark total return within the parameters of the Investment Guidelines set forth below with an emphasis on investment income and preservation of principal.

Adopted: TBD

Revised:

Reviewed: June 22, 2023

- B. Performance - Success in achieving this objective will be measured by comparing the risk and return of the fund to the Trust Funds Investment Pool (TFIP) benchmark and the Short-Term Investment Pool (STIP) benchmark, weighted proportionately to the portfolio's holdings, over a five (5) year rolling average.
- C. Time Horizon - Montana End of Watch Trust is a permanent account. The Board expects to meet or exceed all objectives over a 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 Montana End of Watch Trust may only invest in the following:
 - 1. TFIP; and
 - 2. STIP.

NEW

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
Insert new MCA reference

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.949

EFFECTIVE DATE: TBD

TITLE: Investment Objectives and Guidelines
Montana State Library Trust

SUPERSEDES: NEW

BOARD ADOPTION: TBD

REVIEWED: June 22, 2023

I. Introduction

- A. The purpose of the investment objectives and guidelines are to provide a framework for the Montana State Library Trust 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 Montana State Library Trust was established under Section 22-1-226, MCA, “for providing library service to Montanans, including those who, because of disability, cannot read standard print.”
- D. The Board will have full discretion to manage the Montana State Library Trust portfolio consistent with the investment guidelines stated below. 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.
- E. 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 cases that 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.
- F. The Trust is a permanent fund. Unexpended revenue at the end of the fiscal year remains in the Trust.

II. Statement of Purpose

- A. The purpose of these objectives and guidelines is to:
 - A. Establish the investment objectives and performance standards of the Montana State Library Trust; and
 - B. Provide diversified investment exposure within the guidelines in a prudent and cost-effective manner.

III. Investment Objectives

- A. Strategic - The objective of the Montana State Library Trust portfolio is to attain above benchmark total return within the parameters of the Investment Guidelines set forth below 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 Trust Funds Investment Pool (TFIP) benchmark and the Short-Term Investment Pool (STIP) benchmark, weighted proportionately to the portfolio’s holdings, over a five

Adopted: TBD

Revised:

Reviewed: June 22, 2023

(5) year rolling average.

C. Time Horizon - Montana State Library Trust is a permanent account. The Board expects to meet or exceed all objectives over a 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 Montana State Library Trust may only invest in:

1. TFIP;
2. STIP; or
3. Any cash vehicle at the Custodial Bank.

NEW

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
Section 22-1-226, MCA

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.800

EFFECTIVE DATE: ~~May 24, 2023~~TBD

TITLE: Coal Severance Tax
2023

SUPERSEDES: ~~November 30, 2021~~May 24,

Investment Policy Statement

BOARD ADOPTION: November 30, 2021

REVIEWED: ~~May 24, 2023~~June 22, 2023

I. Introduction

- A. The purpose of the investment objectives and guidelines are to provide a framework for the Coal Severance Tax Trust Fund under the guidance of the Board.
- B. The Coal Severance Tax Trust Fund was established under Article IX, Section 5 of the state Constitution which requires that at least fifty percent (50%) of the coal severance tax be deposited in a trust fund in which the principal “shall forever remain inviolate unless appropriated by vote of three-fourths (3/4) of the members of each house of the legislature.”
- C. The legislature has partitioned the Trust into several sub-funds per Section 17-5-703, MCA:
 1. Coal Severance Tax Bond Fund into which the constitutionally dedicated receipts from the coal severance tax must be deposited;
 2. Montana Coal Endowment Fund;
 3. Montana Coal Endowment Regional Water System Fund;
 4. Coal Severance Tax Permanent Fund;
 5. Big Sky Economic Development Fund;
 6. School Facilities Fund;
 7. Conservation District Fund; and
 8. Coal Board Fund.
- D. The goal of the Coal Severance Tax Trust Fund is to support various legislative programs “to develop a stable, strong, and diversified economy” in Montana.
- E. Subject to the provisions of Section 17-6-201, MCA, the Board shall endeavor to invest 25% of the permanent coal tax trust fund in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises per Section 17-6-305, MCA.
- F. The current allocation of coal severance tax trust receipts is shown in Policy 40.801 of the Governance Manual. The legislative history of the allocation of the coal severance tax trust within the various sub-funds is available by reviewing the MCA.

II. Purpose

- A. The purpose of this policy statement is to provide a broad strategic framework for the permanent Coal Severance Tax Trust Fund and its sub-funds under the guidance of the Board.

Adopted: November 30, 2021

Revised: ~~May 24, 2023~~ TBD

Reviewed: ~~May 24, 2023~~June 22, 2023

III. Legal and Constitutional Authority

- A. The Montana Constitution, Article VIII, Section 13, requires that the Legislature provide for a Unified Investment Program for public funds.
- B. Section 17-6-201, MCA:
 - 1. Established the Unified Investment Program;
 - 2. Created the Board; and
 - 3. Gave the Board sole authority to invest state funds, in accordance with state law and the state constitution.
- C. The Unified Investment Program for public funds must be administered by the Board in accordance with the “prudent expert principle,” defined as:
 - 1. Discharging its duties with the care, skill, prudence, and diligence, under the same 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 like character with like aims;
 - 2. Diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so; and
 - 3. Discharging its duties solely in the interest of and for the beneficiaries of the funds managed.
- D. The Board, as the investment fiduciary of the accounts, is responsible for establishing the Investment parameters for all accounts.

IV. Strategic Investment Objectives

- A. The strategic investment objective is unique for each sub-fund and will be addressed in the guidelines and objectives throughout this policy series.
- B. The Board’s overall objective is to achieve the highest level of investment performance compatible with each sub-fund’s risk tolerance and prudent investment practices.
- C. The Board seeks to maintain a long-term perspective in formulating and implementing investment policies and evaluating investment performance subject to the specific objectives and constraints of each sub-fund.

V. Time Horizon

- A. The time horizon for the Coal Severance Tax Trust Fund and all sub-funds is perpetual.
- B. The Board expects over a long-term investment horizon to meet or exceed all objectives.
- C. 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.

VI. Performance Measurement

- A. The investment policy benchmark is unique for each sub-fund.
- B. The investment policy benchmark for each sub-fund will be addressed in the guidelines and objectives throughout this policy series.
- C. The investment policy benchmark approximates the return that would be achieved if the account implemented a passively managed portfolio.
- D. Deviations from the policy benchmark measure the contribution of active investment management in the account, rebalancing policy and its execution, fees, and investment implementation generally.

VII. Roles and Responsibilities

- A. Board of Investments

Adopted: November 30, 2021

Revised: ~~May 24, 2023~~ TBD

Reviewed: ~~May 24, 2023~~ June 22, 2023

1. The Board is responsible for approving the IPS and has the authority to manage the Coal Severance Tax Trust Fund as it considers prudent, subject to such limitations as contained in the Policy, the law and the state Constitution.
2. The Board reviews this document periodically and approves any changes to the policy as needed.

B. Executive Director

1. The Executive Director is empowered by the Board to sign any and all documents required to conduct Board business unless there are specific written policies or instructions from the Board to the contrary.
2. The Executive Director and the CIO are authorized jointly to contract for investment manager services and if deemed appropriate, terminate them.
3. The Executive Director is responsible for establishing the financial reporting procedures as well as collection and reporting of all income.

C. Chief Investment Officer

1. The CIO is empowered by the Board to serve as the principal staff person responsible for overseeing the investment activities under the Board's jurisdiction in compliance with the Board's policies.
2. The CIO, with the support of other staff, is responsible for recommending investment policy changes for Board approval.

D. Investment Staff

1. The investment staff is responsible for, but not limited to:
 - a) Managing day-to-day investment operations;
 - b) Investing assets and monitoring compliance in accordance with this Policy;
 - c) Reporting results and investment characteristics to the Board at least annually;
 - d) Reporting any deviations from Investment Policy to the Board; and
 - e) Reporting any deviations from the IPS Policy to the Board.

E. Investment Consultant

1. The investment consultant assists the CIO and Staff with policy recommendations and provides advice to the Board.
2. The investment consultant shall provide assistance to staff as requested in conjunction with the management of the Coal Severance Tax Trust Fund.

VIII. Strategic Asset Allocation

- A. The strategic asset allocation is unique for each sub-fund.
- B. The strategic asset allocation for each sub-fund will be addressed in the guidelines and objectives throughout this policy series.

IX. Rebalancing

- A. The actual asset allocation mix may deviate from time to time from the approved asset allocation ranges due to financial market performance, cash flows, and manager performance.
- B. Material deviations from the asset allocation ranges can alter the expected return and risk of the accounts.
- C. Rebalancing account assets to remain within the Board-approved allocation ranges is delegated to staff in consultation with the CIO and the Executive Director.

- D. Any necessary rebalancing will be made in a timely manner and will take into consideration associated costs and current market conditions.

X. Risk Management

A. Liquidity

1. The liquidity requirements are unique for each sub-fund.
2. The liquidity requirements are addressed by the permitted investments and corresponding restrictions within the Investment Guidelines for each separate account or within the existing investment policy statement.

B. Monitoring/Reporting - Transparency

1. Staff shall provide annual reporting to the Board regarding the asset allocation and performance of the accounts to confirm these items are known and adhere to all Investment Policy requirements and expectations.

C. Leverage

1. Leverage is a significant risk factor.
2. Assets in accounts managed directly by BOI staff are not allowed to employ leverage.
3. The Short-Term Investment Pool (STIP) is not allowed to employ leverage or use derivatives.
4. The use of leverage and derivatives within the Trust Fund Investment Pool (TFIP) is addressed within the TFIP Investment Policy.

D. Cash Investments

1. Cash investments held in any separate account, within the TFIP or any managed account within it entail an element of credit risk.
2. Only approved cash investment vehicles are permitted. These include:
 - a) Short-Term Investment Pool (STIP);
 - b) Any cash vehicle at the Custodial Bank; and
 - c) Any SEC registered money market funds approved by the CIO for internally managed funds or employed by an external asset manager which specifically address credit risk in their respective investment guidelines.

XI. Investment Pools

A. Trust Fund Investment Pool.

1. TFIP will provide accounts with exposure to a broad and diverse spectrum of investment grade and non-investment grade fixed income as well as real estate assets.
2. Investment grade fixed income will be primarily managed internally.
3. Non-investment grade fixed income will be primarily managed by external asset managers.
4. Real estate will be managed by external asset managers.
5. The specific strategic objectives, performance criteria, and investment guidelines for TFIP are detailed in the TFIP Investment Policy.

B. Short-Term Investment Pool

1. STIP will provide accounts with exposure to Cash related investments.
2. STIP will be managed internally utilizing an active investment strategy.
3. The specific strategic objectives, performance criteria, and investment guidelines for STIP are detailed in the STIP Investment Policy.

XII. Securities Lending

A. Section 17-1-113, MCA, authorizes the Board to lend securities held by the state.

1. The Board may lend its publicly traded securities through an agent, to other market participants in return for compensation.
2. Currently, through an explicit contract, the state's Custodial Bank, manages the state's securities lending program.
 - a) The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program.
 - b) The Board requires borrowers to maintain acceptable and adequate collateral per the terms of the securities lending authorization agreement.
 - c) 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.
 - d) In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor.
 - e) Staff or the investment manager may restrict a security from the loan program upon notification to the custodial bank.
 - f) Staff will monitor the securities lending program, and the CIO will periodically report to the Board on the status of the program.
 - g) The Board's participation in securities lending may change over time given Plan activity, market conditions, and the agent agreement.

XIII. Exercise of Shareholder Rights

A. Proxy Voting.

1. Per the Montana Constitution, Article VIII, Section 13 "no public funds shall be invested in private corporate capital stock" with the exception of public retirement system and state compensation insurance fund assets.ssss
2. The Permanent Coal Severance Tax Trust Fund and its sub-funds do not participate in proxy voting.

B. Class Action Litigation

1. Claims under state and federal securities laws arising out of losses on securities under the Board's management are assets subject to the Board's fiduciary duty of prudent management.
 - a) The Board shall take reasonable, cost-effective steps to identify, pursue and collect upon claims under securities laws for losses suffered by the Board on its investment.
 - b) Accordingly, the Board maintains a litigation policy, including steps outlined in Policy 10.250 of the Governance Manual.

XIV. Investment Policy Review

- A. As required by the Board Governance Policy, "the Board shall create, maintain, and revise as necessary Investment Policy Statements (IPS) for each separate account it manages. The IPS shall cite the law establishing the account if such law exists, cite the permissible investments authorized by law, and establish an investment range for each of the permissible investments. The Board shall review such policies at least annually or more frequently at the request of Board staff. IPS may only be revised in a public meeting. All IPS shall be posted on the Board's website for review by the public. The authority to approve IPS may not be delegated to staff."

Authority: Montana Constitution, Article VIII, Section 13
Montana Constitution, Article IX, Section 5
Section 2-15-1808, MCA
Section 17-1-113, MCA
Section 17-5-703, MCA
Section 17-5-704, MCA
Sections 17-6-201 through 17-6-205, MCA
Section 17-6-305, MCA
Section 17-6-308, MCA

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.900

EFFECTIVE DATE: ~~May 24, 2023~~TBD

TITLE: Separately Managed Accounts
24, 2023

SUPERSEDES: ~~November 30, 2021~~May

Investment Policy Statement

BOARD ADOPTION: November 30, 2021

REVIEWED: ~~May 24, 2023~~June 22, 2023

I. Introduction

- A. This policy is effective upon adoption and supersedes all previous Investment Policy Statement (IPS) related to the investment management of the Separately Managed Accounts that contain guidelines and objectives in the Appendices.
- B. Montana has more than forty (40) Separately Managed Accounts. These Separately Managed Accounts consist of trust, insurance and operating accounts which have been created by the state Constitution, statutorily by the legislature or as part of settlements between the state and outside entities.
- C. Each Separately Managed Account has unique investment needs. Each Separately Managed Account has a defined set of guidelines and objectives that are detailed in the Appendices or within the separately managed account's existing IPS.
- D. Many Separately Managed Accounts participate in the Short-term Investment Pool (STIP) and the Trust Funds Investment Pool (TFIP). The pools are commingled funds which operate similar to mutual funds. STIP and TFIP each have their own IPS.

II. Purpose

- A. The purpose of this policy statement is to provide a broad strategic framework for separately managed accounts under the guidance of the Board.

III. Legal and Constitutional Authority

- A. Article VIII Section 13 of the Montana Constitution requires that the Legislature provide for a Unified Investment Program for public funds.
 1. Section 17-6-201, MCA:
 - a) Established the Unified Investment Program;
 - b) Created the Board; and
 - c) Gives the Board sole authority to invest state funds, in accordance with state law and the state constitution.
- B. Section 17-6-201(1), MCA, requires the Board to operate under the "prudent expert principle," defined as:
 1. Discharging its duties with the care, skill, prudence, and diligence, under the same 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 like character with like aims;
 2. Diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return,

Adopted: November 30, 2021

Revised: ~~May 24, 2023~~TBD

Reviewed: ~~May 24, 2023~~June 22, 2023

unless under the circumstances it is clearly prudent not to do so; and

3. Discharging its duties solely in the interest of and for the beneficiaries of the funds managed.

C. The Board, as the investment fiduciary of the Separately Managed Accounts, is responsible for establishing the investment parameters for all Separately Managed Accounts.

IV. Strategic Investment Objectives

A. The strategic investment objective is unique for each Separately Managed Account. The strategic investment objective for each Separately Managed Account will be addressed in the guidelines and objectives in the Appendices.

B. However, the Board's overall objective is to achieve the highest level of investment performance compatible with each Separately Managed Account's risk tolerance and prudent investment practices. The Board seeks to maintain a long-term perspective in formulating and implementing investment policies and evaluating investment performance subject to the specific objectives and constraints of each Separately Managed Account.

V. Time Horizon

A. The time horizon is unique for each Separately Managed Account. The time horizon for each Separately Managed Account will be addressed in the guidelines and objectives in the Appendices.

VI. Performance Measurement

A. The IPS benchmark is unique for each Separately Managed Account. The IPS benchmark for each Separately Managed Account will be addressed in the guidelines and objectives in the Appendices.

B. The IPS benchmark approximates the return that would be achieved if the Separately Managed Account implemented a passively managed portfolio. Deviations from the policy benchmark measure the contribution of active investment management in the Separately Managed Account, rebalancing policy and its execution, fees, and investment implementation generally.

VII. Roles and Responsibilities

A. Board of Investments

1. The Board is responsible for approving the IPS for any Separately Managed Account and has the authority to manage all separately managed accounts as it considers prudent, subject to such limitations as contained in law and the Constitution.
2. The Board reviews this document periodically and approves any changes to the policy as needed.
3. As described in the Board of Investments Governance Manual, the Board delegates authority to the Executive Director, Chief Investment Officer (CIO), and other Staff to execute the day-to-day duties required to carry out the Board's mission.

B. Executive Director

1. The Executive Director is empowered by the Board to sign any and all documents required to conduct Board business, unless there are specific written policies or instructions from the Board to the contrary.
2. The Executive Director and the CIO are authorized jointly to contract for investment manager services and if deemed appropriate, terminate them. The Executive Director is responsible for establishing the financial reporting procedures as well as collection and reporting of all income.

C. Chief Investment Officer

1. The CIO is empowered by the Board to serve as the principal staff person responsible for overseeing the investment activities under the Board's jurisdiction in compliance with the Board's policies.
2. The CIO, with the support of other staff, is responsible for recommending investment policy

Adopted: November 30, 2021

Revised: ~~May 24, 2023~~ TBD

Reviewed: ~~May 24, 2023~~ June 22, 2023

changes for Board approval.

D. Investment Staff

1. The investment staff is responsible for, but not limited to:
 - a) Managing day-to-day investment operations;
 - b) Investing separately managed account assets and monitoring compliance in accordance with this IPS;
 - c) Reporting to the Board the Separately Managed Account results and investment characteristics at least annually; and
 - d) Reporting any deviations from the IPS to the Board.

E. Investment Consultant

1. The investment consultant assists the CIO and Staff with policy recommendations and provides advice to the Board.
2. The investment consultant shall provide assistance to staff as requested in conjunction with the management of all Separately Managed Accounts.

VIII. Strategic Asset Allocation

- A. The strategic asset allocation is unique for each Separately Managed Account.
- B. The strategic asset allocation for each Separately Managed Account will be addressed in the guidelines and objectives in the Appendices.

IX. Rebalancing

- A. The actual asset allocation mix may deviate from time to time from the approved asset allocation ranges due to financial market performance, cash flows, and manager performance.
- B. Material deviations from the asset allocation ranges can alter the expected return and risk of the accounts.
- C. Rebalancing Separately Managed Account assets to remain within the Board-approved allocation ranges is delegated to staff in consultation with the CIO and the Executive Director.
- D. Any necessary rebalancing will be made in a timely manner and will take into consideration associated costs and current market conditions.

X. Risk Management

A. Liquidity

1. The liquidity requirements are unique for each separately managed account.
2. Staff works closely with the representatives for each account to determine their needs.
3. The liquidity requirements are addressed by the permitted investments and corresponding restrictions within the Investment Guidelines for each Separately Managed Account.

B. Monitoring/Reporting - Transparency

1. Staff shall provide annual reporting to the Board regarding the asset allocation and performance of the Separately Managed Accounts to confirm these items are known and adhere to all IPS requirements and expectations.

C. Leverage

1. Leverage is a significant risk factor.
2. Assets in separately managed accounts managed directly by Board staff are not allowed to employ leverage.

3. The use of derivative securities can generate additional leverage even if the derivative is being used to reduce the risk in other investments.
4. Individual assets in Separately Managed Accounts managed directly by Board staff are not allowed to use derivatives.
5. STIP is not allowed to employ leverage or use derivatives.
6. The use of leverage and derivatives within TFIP is addressed within the TFIP IPS.

D. Cash Investments

1. Cash investments held in any Separately Managed Account, in the TFIP or any managed account within it, entail an element of credit risk.
2. Only approved cash investment vehicles are permitted. These include:
 - a) Short-Term Investment Pool (STIP);
 - b) Any cash vehicle at the Custodial Bank; and
 - c) Any SEC registered money market funds approved by the CIO for internally managed funds or employed by an external asset manager which specifically address credit risk in their respective investment guidelines.

XI. Investment Pools

A. Trust Fund Investment Pool

1. TFIP will provide accounts with exposure to a broad and diverse spectrum of investment grade and non-investment grade fixed income as well as real estate assets.
2. Investment grade fixed income will be primarily managed internally.
3. Non-investment grade fixed income will be primarily managed by external asset managers.
4. Real estate will be managed by external asset managers.
5. The specific strategic objectives, performance criteria, and investment guidelines for TFIP are detailed in the TFIP IPS.

B. Short-Term Investment Pool

1. STIP will provide managed accounts with exposure to Cash related investments.
2. STIP will be managed internally utilizing an active investment strategy.
3. The specific strategic objectives, performance criteria, and investment guidelines for STIP are detailed in the STIP IPS.

XII. Securities Lending

A. Section 17-1-113, MCA, authorizes the Board to lend securities held by the state.

1. The Board may lend its publicly traded securities through an agent to other market participants in return for compensation.
2. Currently, through an explicit contract, the state's Custodial Bank manages the state's securities lending program.
 - a) The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program.
 - b) The Board requires borrowers to maintain acceptable and adequate collateral per the terms of the securities lending authorization agreement.
 - c) 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.

- d) In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor.
- e) Staff or the investment manager may restrict a security from the loan program upon notification to the Custodial Bank.
- f) Staff will monitor the securities lending program and will periodically report to the Board on the status of the program.
- g) The Board's participation in securities lending may change over time given account activity, market conditions, and the agent agreement.

XIII. Exercise of Shareholder Rights

A. Proxy Voting

- 1. Per the Montana Constitution, Article VIII, Section 13 "no public funds shall be invested in private corporate capital stock" with the exception of public retirement system and state compensation insurance fund assets.
- 2. Separately Managed Accounts do not participate in proxy voting.

B. Class Action Litigation

- 1. Claims under state and federal securities laws arising out of losses on securities under the Board's management are assets subject to the Board's fiduciary duty of prudent management.
 - a) The Board shall take reasonable, cost-effective steps to identify, pursue and collect upon claims under securities laws for losses suffered by the Board on its investment.
 - b) Accordingly, the Board maintains a litigation policy, including steps outlined in Policy 10.250 of the Governance Manual.

XIV. Investment Policy Statement Review

- A. Per the Board Governance Policy, "the Board shall create, maintain, and revise as necessary IPS for each Separate Account it manages. The IPS shall cite the law establishing the account if such law exists, cite the permissible investments authorized by law, and establish an investment range for each of the permissible investments. The Board shall review such policies at least annually or more frequently at the request of Board staff. IPS may only be revised in a public meeting. All IPS shall be posted on the Board's web site for review by the public. The authority to approve IPS may not be delegated to staff."

XV. List of Trust Fund Accounts in this policy series

A. Department of Agriculture

- 1. Policy 40.901: Noxious Weed Management Trust Fund
- 2. Policy 40.947: Hail Insurance Fund

B. Department of Environmental Quality

- 1. Policy 40.902: Belt Water Treatment Plant Fund
- 2. Policy 40.903: Abandoned Mine Land Reclamation Trust
- 3. Policy 40.904: Clark Fork Site Response Action Fund
- 4. Policy 40.905: Montana Pole Superfund Site Settlement Fund
- 5. Policy 40.906: Streamside Tailings Operable Settlement Fund
- 6. Policy 40.907: Upper Blackfoot Response Action and Restoration Fund
- 7. Policy 40.908: Zortman/Landusky Long Term Water Fund
- 8. Policy 40.909: Zortman/Landusky Long Term Water Trust

C. Department of Fish, Wildlife and Parks

1. Policy 40.910: Coal Tax Park Trust Fund
2. Policy 40.911: Fish, Wildlife & Parks Mitigation Trust Fund
3. Policy 40.912: Real Property Trust Fund
4. Policy 40.913: Wildlife Habitat Trust Fund
5. Policy 40.944: Fish, Wildlife & Parks General License Account

D. Department of Health and Human Services

1. Policy 40.914: Endowment for Children
2. Policy 40.915: Older Montanans Trust Fund
3. Policy 40.916: Tobacco Trust Fund

E. Department of Justice

1. Policy 40.917: Butte Area One Restoration Fund
2. Policy 40.918: Clark Fork Restoration Fund
3. Policy 40.919: East Helena Compensation Fund
4. Policy 40.920: Smelter Hill Uplands Restoration Fund
5. Policy 40.921: Upper Clark Fork River Basin Reserve Fund
6. Policy 40.922: Upper Clark Fork River Basin Restoration Fund
7. Policy 40.935: Greenway Project Trail Maintenance Fund
8. Policy 40.936: 2011 Yellowstone Exxon Settlement Fund
9. [Policy 40.948 : End of Watch Trust](#)

F. Department of Natural Resources and Conservation

1. Policy 40.923: Public School Trust
2. Policy 40.934: Invasive Species Trust Fund

G. Department of Revenue

1. Policy 40.924: Resource Indemnity Trust Fund

H. Montana Arts Council

1. Policy 40.925: Cultural Trust Fund

I. Montana Historical Society

1. Policy 40.926: Montana Historical Society Trust Funds

J. University System

1. Policy 40.937: Montana University System Group Insurance
2. Policy 40.938: Montana University System Workers Compensation
3. Policy 40.940: Montana State University – Bozeman
4. Policy 40.941: Montana Tech
5. Policy 40.942: University of Montana – Missoula
6. Policy 40.945: Lubrecht Experimental Forest
7. Policy 40.946: Kyiyo Pow Wow

K. University Endowments

Adopted: November 30, 2021

Revised: ~~May 24, 2023~~TBD

Reviewed: ~~May 24, 2023~~June 22, 2023

1. Policy 40.927: Harold Hamm Endowment
 2. Policy 40.928: Potter Trust Fund
- L. City and County of Butte-Silver Bow
1. Policy 40.929: Butte Area Redevelopment Trust Authority
- M. Department of Environmental Quality (Additional DEQ)
1. Policy 40.930: Barker Hughesville St Response
 2. Policy 40.931: Flying J CECRA Facilities Fund
 3. Policy 40.932: Libby Asbestos Site State Cost
 4. Policy 40.933: Luttrill Pit – Oper & Maint
- N. Department of Administration
1. Policy 40.939: State Employee Group Benefits
 2. Policy 40.943: State Treasurer’s Fund
- ~~O. Montana State Library~~
1. Policy 40.949 Montana State Library Trust
- ~~P. P. Montana Board of Investments Primary~~
1. Policy 40.950: Montana Housing Infrastructure Revolving Loan Fund
 2. Policy 40.951: State of Montana Workforce Housing Fund
- ~~2.~~
- ~~Q.~~

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

Adopted: November 30, 2021
Revised: ~~May 24, 2023~~ TBD
Reviewed: ~~May 24, 2023~~ June 22, 2023

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.950

EFFECTIVE DATE: TBD

TITLE: Investment Objectives and Guidelines
Montana Housing Infrastructure Revolving
Loan Fund

SUPERSEDES: NEW

BOARD ADOPTION: TBD

REVIEWED: June 22, 2023

I. Introduction

- A. The purpose of the investment guidelines is to provide a framework for the Montana Housing Infrastructure Revolving Loan Fund 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 Montana Housing Infrastructure Revolving Loan Fund was established by the 2023 Montana Legislature. HB 819, Section 10 states “increase home ownership and provide more long-term rental opportunity; increase housing supply and offer diverse housing types to meet the needs of population growth; and to create partnerships between the state, local governments, private sector developers, and applicants for residential development to finance necessary infrastructure for housing.”
- D. The Board will have full discretion to manage the Montana Housing Infrastructure Revolving Loan Fund consistent with the investment guidelines stated below. 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.
- E. 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 cases that 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. Statement of Purpose

- A. The purpose of these objectives and guidelines are to:
 - A. Establish the investment objectives and performance standards of the Montana Housing Infrastructure Revolving Loan Fund; and
 - B. Provide diversified investment exposure within the guidelines in a prudent and cost-effective manner.

III. Investment Objectives

- A. Strategic - Meet the statutory objectives of increasing homeownership, provide more long-term rental opportunities, increase housing supply and attain sufficient total return for all investments within the parameters of the Investment Guidelines set forth below.
- B. Performance - Success in achieving this objective will not be measured relative to an investment performance benchmark.

Adopted: TBD

Revised:

Reviewed: June 22, 2023

IV. Permitted Investments

A. The Montana Housing Infrastructure Revolving Loan Fund may only invest in:

1. STIP;
2. Loans to local governments or residential developers for infrastructure or the demolition thereof as allowed in HB 819 section 14(1) (substitute MCA reference once available);
3. Securities issued by local governments for infrastructure as allowed in HB 819 section 14(2) (substitute MCA reference once available);
4. Fully collateralized, interest-bearing Demand Deposit Accounts at Montana domiciled banks; and
5. United States Treasury Securities.

V. Other Restrictions

- A. Loans may not exceed \$1 million or 50% of the projected project cost.
- B. Securities purchased may be no more than 50% of the amount issued.
- C. The term of a loan may not exceed 20 years.

NEW

Authority: Montana Constitution, Article VIII, Section 13
Montana Constitution, Article IX, Section 5
Section 2-15-1808, MCA
Section 17-1-113, MCA
Sections 17-6-201 through 17-6-205, MCA
Section 17-6-308, MCA
Insert new MCA reference

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.951

EFFECTIVE DATE: TBD

TITLE: Investment Objectives and Guidelines SUPERSEDES: NEW
State of Montana Workforce Housing Fund

BOARD ADOPTION: TBD

REVIEWED: June 22, 2023

I. Introduction

- A. The purpose of the investment guidelines is to provide a framework for the Workforce Housing Fund 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 Workforce Housing Fund was established by the 2023 Montana Legislature. HB 819, Section 15 states “The purpose of the fund is to advance the construction or purchase of workforce housing of employees who work at state-owned facilities that house state inmates or behavioral health patients.”
- D. The Board will have full discretion to manage the Workforce Housing Fund consistent with the investment guidelines stated below. 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.
- E. 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 cases that 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. Statement of Purpose

- A. The purpose of these objectives and guidelines are to:
 - A. Establish the investment objectives and performance standards of the Workforce Housing Fund; and
 - B. Provide diversified investment exposure within the guidelines in a prudent and cost-effective manner.

III. Investment Objectives

- A. Strategic – Meet the statutory objectives of facilitating Workforce Housing and attain sufficient total return for all investments within the parameters of the Investment Guidelines set forth below.
- B. Performance - Success in achieving this objective will not be measured relative to an investment performance benchmark.

IV. Permitted Investments

- A. The Workforce Housing Fund may only invest in:
 - 1. STIP;
 - 2. United States Treasury securities; and

Adopted: TBD

Revised:

Reviewed: June 22, 2023

3. Real Estate.

V. Other Restrictions

A. The maximum maturity of United States Treasury securities is five years.

NEW

Authority: Montana Constitution, Article VIII, Section 13
Montana Constitution, Article IX, Section 5
Section 2-15-1808, MCA
Section 17-1-113, MCA
Sections 17-6-201 through 17-6-205, MCA
Section 17-6-308, MCA
Insert new MCA reference

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 70.751

EFFECTIVE DATE: TBD

TITLE: Montana Housing Infrastructure
Revolving Bond Program

SUPERSEDES: New

BOARD ADOPTION: TBD

REVIEWED: June 22, 2023

I. Montana Housing Infrastructure Revolving Bond Program (Program)

A. General Parameters

1. Bonds or other securities purchased under the Program (Security) are made on a first come first serve basis and held as a Separately Managed Account (SMA).
2. Borrowers are “eligible government units” as defined in Section 17-5-1604, MCA.
3. Eligible projects are expanding or extending water, wastewater, storm water, street, road, curb, gutter, and sidewalk infrastructure to serve new or rehabilitated residential development.
4. The Board may purchase up to fifty percent (50%) of a Security issued by a Borrower per project and in accordance with state law.
5. Program interest rate is up to twenty-five percent (25%) of the Lender’s loan rate and is exclusive of any fees. To provide for preservation of long-term affordability that runs with the property for the term of the Security, the Board may reduce the interest rate for long-term affordability focused projects as designated by the Borrower.
6. Loan term may not exceed twenty (20) years.
7. Borrowers are required to use bond counsel at their expense to prepare the documents and provide an opinion. The bond counsel must be nationally recognized and in good standing in the field of municipal law and whose opinions are generally accepted by purchasers of municipal bonds. In its discretion, the Board may require that counsel to the Board review the transaction at the expense of the Borrower.
8. Execution of original documents may be by manual signature or electronic signature.
9. Delegated approval authority is subject to Loan Committee Charter, Policy 10.163.
10. Securities previously approved by the Board may be increased by the Executive Director by an amount up to ten percent (10%) of the original approved security amount.
11. Upon security approval, the Board will issue a commitment letter to the Borrower and the Co-purchaser explaining the conditions under which it will purchase the Security.
12. At least three (3) weeks prior to accessing the funds, the Co-purchaser and the Borrower must coordinate the closing with the Board.
13. The Board may impose such terms and conditions on the purchase of a Security as it deems reasonable and in the best interests of the Program.
14. Borrower must waive or offset all impact fees for the applicable developer or the amount of impact fees up to the amount of the Security, whichever is less.
15. All statutory requirements for the issuance of the Security must be met prior to issuing the Security and available for review as part of the issuance process.

Adopted: TBD

Revised:

Reviewed: June 22, 2023

16. The Borrower must demonstrate that:

- a) The infrastructure project will provide for residential development at a minimum gross density of 10 units for each acre; and
- b) Made findings that the infrastructure funded in part by a security provides for provisions to preserve long-term affordability of the housing that runs with the property for the term of the security.

B. Default

1. If the Co-purchaser applies a default interest rate to a participated Security, the Board interest rate will also be increased to that default interest rate and remain effective for the same period of time as for the Co-purchaser.

NEW

Authority: Montana Constitution, Art. VIII, Section 13
Section 2-15-1808, MCA
Title 17, chapter 5, part 16, MCA
Insert new MCA reference

Adopted: TBD
Revised:
Reviewed: June 22, 2023

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 70.752

EFFECTIVE DATE: TBD

TITLE: Montana Housing Infrastructure
Revolving Loan Program

SUPERSEDES: New

BOARD ADOPTION: TBD

REVIEWED: June 22, 2023

I. Montana Housing Infrastructure Revolving Loan Program (Program)

A. General Parameters

1. Participating loans under the Program are made on a first come, first serve basis and held as a Separately Managed Account (SMA).
2. The Board does not lend directly to Borrowers and participates only with Approved Lenders.
3. Approved Lenders originate all loans and submit loan applications and loan reservation forms.
4. The term Borrower means the Borrower applying for a loan from the Lender.
5. Borrowers must give preference to Montana labor when constructing projects.
6. Project construction contractors are subject to prevailing wages.
7. The submission of a fee with the Loan Reservation Form locks an interest rate and reserves funding.
8. Loans may be for residential development to cover the costs of demolition or expanding or extending water, wastewater, storm water, street, road, curb, gutter, and sidewalk infrastructure to serve new or rehabilitated residential development.
9. The total amount of loans made to an entity may not exceed one-million dollars, or fifty percent (50%) of the projected project cost.
10. Maximum loan term is twenty (20) years.
11. Borrower must pay all impact fees due to the local government or the amount of impact fees up to the amount of impact fees up to the amount of the loan, whichever is less.
12. The Borrower and Lender must demonstrate that:
 - a) The infrastructure project will provide for residential development at a minimum gross density of 10 units for each acre; and
 - b) Made findings that the infrastructure funded in part by a security provides for provisions to preserve long-term affordability of the housing that runs with the property for the term of the security.

B. Interest Rates

1. Interest rates are effective for a one (1) week period and are posted on the Montana Housing Infrastructure Revolving Loan Program Rate Sheet.
2. The Montana Housing Infrastructure Revolving Loan Program Rate Sheet is posted on the Board's website each Thursday.
3. The interest rates reflect net yield to the Board and are exclusive of any Lender fees.
4. The initial interest rate is determined by the interest rate posted on the Montana Housing

Adopted: TBD

Revised: TBD

Reviewed: June 22, 2023

Infrastructure Revolving Loan Program Rate Sheet on the date the loan reservation form is received.

C. Loan Reservations

1. Reservations with an Identifiable Borrower(s)

- a) Lenders with an identifiable Borrower(s) at the time of the reservation, may reserve funds for one year (365 days) with a fee of one quarter percent (0.25%) of the reserved amount.
- b) Lenders may lock interest rates at any time during the one-year (365 days) period at the rate last set.
- c) If the loan has **not** been committed and the Board's interest rates decline after a Lender has locked interest rates during the one-year (365 days) period, a reservation at the lower rate for an additional one-year (365 days) may be obtained via payment of another one-quarter percent (0.25%) fee.
- d) If the loan has been committed and the Board's interest rates decline after a Lender has locked interest rates during the one-year (365 days) period, the lower rate may be obtained via payment of another one-quarter percent (0.25%) fee, but the original commitment letter expiration date will remain the same.
- e) Lenders must offer, underwrite, accept, and close the loan during the one-year (365 days) period.
- f) All applicable checklist items must be received within ninety (90) days after expiration of the one-year (365 days) period.
- g) The reservation may be extended as outlined in Section C.2. of this Policy.
- h) Blended interest rates may be applied for increases in the reserved amount of an existing reservation.
- i) The last fee paid is refundable if the loan is funded or the application is rejected.

2. Reservation Extensions

- a) If the project for which the loan proceeds will be utilized is not completed within the initial one-year (365 days) reservation period, up to two (2) additional one-year (365 days) increments may be granted upon written request and payment of an additional one-quarter percent (0.25%) fee for each extension.
- b) Additional one-year (365 days) extensions will not be granted if the project has been completed within the existing reservation/commitment period.
- c) Extension fees must be received via ACH within fifteen (15) working days after the expiration date of the current one-year (365 days) period in order to keep the reservation in force.

D. Collateral Requirements

1. Collateral requirements include:

- a) A first mortgage/lien position shared proportionately with Lender;
- b) Sufficient economic life to support the term of the loan;
- c) Personal guarantees as required by Lender or the Board;
- d) Due-on-sale clauses, requiring Lender's consent prior to loan transfer;
- e) An attorney opinion on authority of Borrower to borrow and all collateral documents if required by Lender; and
- f) Other collateral as required by Lender or the Board.

E. Appraisals Requirements

1. Licensed Montana commercial appraisers are preferred unless a specialized property collateral requires an out-of-state appraiser.
2. Requirements apply to all appraisals irrespective of the Lender's appraisal or loan policy appraisal requirements and are based on the total loan amount shown below:
 - a) Up To \$500,000 - As required by Lender to provide basis for value; or
 - b) Over \$500,000 - Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice.
3. Appraisal requirements are based on the total loan amount.

F. Loan-To-Value Requirements

1. Loan-To-Value (LTV) is based on the lesser of reasonable project costs or market value appraisal. Reasonable project costs do not include any form of payout to an owner, developer, or shareholder.
2. The LTV must be seventy-five percent (75%) or less.

G. Fundings

1. The loan in which the Board is to participate must be closed prior to the commitment letter expiration date.
2. Funding documents required in the commitment letter must be received within ninety (90) days following the first principal and interest payment due date of the project term note or the commitment date expiration, whichever comes first.
3. Fundings should occur on or around the tenth (10) day of the month.
4. At least thirty (30) days' notice must be provided to be eligible for fundings.

H. Ineligible Loans

1. Ineligible loans are:
 - a) Loans classified as substandard, doubtful, loss, or similar category in Lender's most recent examination report;
 - b) Loans to a borrower with classified loans at the Lender, other than the loan offered to the Board;
 - c) Loans to trusts;
 - d) Revolving lines of credit, working capital or operating money;
 - e) Loans to pay delinquent taxes; or
 - f) Loans that do not meet the criteria of Section X-X-X, MCA. (insert MCA reference when known).

I. Project Specific Requirements

1. 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 Section 18-2-401, MCA, in the performance of the work on the projects, if their qualifications are substantially equal to those of nonresidents.
2. Substantially equal qualifications mean the qualifications of two (2) 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.
3. If the Board participates in construction financing and its share of the loan equals or exceeds

\$25,000, the general contractor and all subcontractors shall be subject to Montana's prevailing wage law specified in Section 18-2-401, MCA.

J. Other Montana Housing Infrastructure Revolving Loan Program Policy Considerations

1. A loan that includes refinance of existing debt, other than construction financing, will be considered if, at a minimum, the refinanced amount is retained by the Lender.
2. Balloon payment loans are eligible provided Loan-To-Value at maturity is acceptable to the Board.
3. The Board will proportionately participate in any prepayment penalty required by the Lender.
4. Loan assumptions are permitted upon Board approval with a loan assumption fee of \$500.00.
5. Escrow impounds may be required for taxes and hazard insurance when Loan-To-Value exceeds fifty percent (50%).
6. The Board may apply different criteria to loan requests from nonprofit Borrowers.
7. All loans submitted for participation to the Board from Board members or Board staff shall first be approved by the Board before the loan is committed and funded.
8. Any time an approved Lender downgrades a loan participated with the Board; the approved Lender must notify the Board of the downgrade within thirty (30) days. Notification must include the most recent Lender credit review and an explanation of why the credit was downgraded.
9. If the approved Lender applies a default interest rate to a participated loan, the Board interest rate will also be increased to that default interest rate and remain effective for the same period of time as for the approved Lender.
10. The Board may require additional due diligence and research on loans at its sole discretion.

Authority: Montana Code Annotated, Art. VIII, Section 13
Section 2-15-1808, MCA
Section 17-6-201, MCA
Title 17, chapter 6, part 3, MCA
ARM 8.97.1301, and 8.97.1308 through 8.97.1310
Insert new MCA reference