

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.202

EFFECTIVE DATE: November 30, 2021

TITLE: Investment Objectives and Guidelines
Domestic Equities Asset Class

SUPERSEDES: November 19, 2020

BOARD ADOPTION: November 30, 2021

REVIEWED:

I. Appendix II: Investment Objectives and Guidelines

A. Schedule II-A: Investment Objectives and Guidelines Domestic Equities Asset Class.

1. Effective Date of Schedule: June 9, 2020.

B. This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for Domestic Equities.

II. Statement of Purpose

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

1. Establish the investment objectives and performance standards of the Asset Class.
2. Provide diversified exposure to the domestic equity market in a prudent and cost-effective manner.

III. Investment Objective

A. Strategic

1. The objective of the Domestic Equities Asset Class is to attain the highest possible total return within the parameters of the Investment Guidelines set forth below.

B. Performance

1. Success in achieving this objective will be measured by comparing the risk and after-fee return of the Domestic Equity Asset Class to the MSCI USA Investable Market Index (the Benchmark). Performance results will be monitored and evaluated quarterly. However, the success in achieving the objective will be measured on a three (3) year, five (5) year, and ten (10) year annualized basis.

C. Investment Guidelines

1. Staff will have full discretion to manage this Asset Class 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.
2. Most of the Domestic Equity investments will be managed by external investment managers.
3. The Domestic Equities Asset Class may utilize public long-only and long/short strategies.
4. It is expected that Domestic Equities Asset Class shall invest in public market investments that provide liquidity and meaningful transparency to portfolio characteristics and risk exposures.

D. Permitted Investments

1. The Domestic Equities Asset Class may invest only in the following:

- a) Domestic equity securities and derivatives held in separate accounts, commingled funds, limited partnerships, or limited liability companies managed by external investment managers and governed by their respective investment management contracts and investment guidelines.
- b) Exchange-Traded Funds (ETFs) based on a domestic equity index that is approved by the CIO and purchased and monitored by Staff.
- c) Cash – either an investment in the STIP, a vehicle available through the Custodian, or an SEC registered money market fund that is considered a “US Treasury” or “US Government” money market fund per the SEC regulations.

E. Other Restrictions

1. The Domestic Equities Asset Class percentage of Net Asset Value invested in “small-cap” equities shall not exceed ten percent (10%) above the Benchmark weight in “small cap”.
2. The Domestic Equities Asset Class percentage of Net Asset Value invested in passive/index strategies shall be greater than forty-five percent (45%).

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 Domestic Equity Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the Domestic Equities Asset Class back within guidelines or a plan to do so.