

# MONTANA

## BOARD OF INVESTMENTS

### BOARD ADOPTED POLICY

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POLICY NUMBER: 40.505

EFFECTIVE DATE: May 26, 2022

TITLE: Investment Objectives and Guidelines  
Real Assets Asset Class

SUPERSEDES:

BOARD ADOPTION: May 26, 2022

REVIEWED:

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#### I. Appendix II: Investment Objectives and Guidelines

- A. Schedule II-D: Investment Objectives and Guidelines Real Assets Asset Class.
- B. Approved Date of Schedule: May 26, 2022.
- C. This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for Real Assets.

#### II. Statement of Purpose

- A. The purpose of these objectives and guidelines is to:
  1. Establish the investment objectives and performance standards of the Real Assets Asset Class.
  2. Provide diversified exposure to the Real Assets markets in a prudent and cost-effective manner.

#### III. Investment Objective

- A. Strategic
  1. The objective of the Real Assets Asset Class is to attain the highest possible return within the parameters of the Investment Guidelines set forth below.
- B. Performance
  1. There is no generally accepted performance comparisons benchmark index for private partnership investments in Real Assets. Characteristically, private partnership investments are impacted by the “j-curve” effect, in which fees and transaction costs create negative returns during the initial investment years before distributions are realized. Private partnership investments usually require a long time horizon to realize the value provided by the creation or enhancement of private companies.
  2. The long-term performance objective for the Real Assets Asset Class is the achievement of net returns (after management fees and general partner’s carried interest) above a benchmark reflecting public equity Real Assets market returns.
  3. Success in achieving this objective will be measured by comparing the long-term net return of the Real Assets Asset Class to 50% MSCI ACWI Commodity Producers Index, and 50% MSCI ACWI Infrastructure Index (the Benchmark) on an annualized basis. Performance results will be monitored quarterly. However, the success in achieving the objective will be measured on a five (5) year and ten (10) year annualized basis.

### C. Investment Guidelines

1. Staff will have full discretion to manage the Real Assets 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 Real Assets Asset Class investments will be managed by external investment managers via private investment partnerships in which the Board will have a limited partnership interest.

### D. Permitted Investments

1. The Real Assets Asset Class (for the purpose of these guidelines, "Real Assets" includes investments in infrastructure, timber, energy, agriculture, and other commodities) may invest only in the following:
  - a) Private investment partnership interests in Real Assets. These private investment partnerships may be direct limited partnerships, limited liability companies, or vehicles that primarily invest in partnerships, including fund-of-funds and secondary funds.
  - b) The Real Assets Asset Class may co-invest with private investment managers in transactions that are suitable for inclusion into a Real Assets private investment partnership.
  - c) Individual securities received as distributions from funds.
  - d) Separately managed accounts, open-ended funds or closed-ended funds, managing Real Assets related investments, where the investments are approved by the CIO and purchased and monitored by Staff.

### E. Other Restrictions

1. The Trust Funds Investment Pool assets as a percentage of Net Asset Value invested in a single investment within Real Assets Asset Class shall be no greater than three percent (3%).
2. No more than forty percent (40%) of the aggregate of the Real Assets Asset Class Net Asset Value should be considered "Non-U.S." exposure based on the primary objective of the fund, partnership, separately managed account, or index.
3. No more than ten percent (10%) of the aggregate of the Real Assets Asset Class Net Asset Value shall be invested in direct co-investments.
4. Individual securities received as distributions will be liquidated over a reasonable time period dependent on market conditions.
5. While no formal diversification ranges are set forth for Real Assets sub-asset classes, it is expected that the Real Assets portfolio will be diversified over time.

- 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 when the Real Assets allocations were outside of the limits and either inform the Board of the actions that were taken to return the Real Assets Asset Class back within guidelines or a plan to do so.