

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.601

EFFECTIVE DATE: May 26, 2022

TITLE: Investment Objectives and Guidelines
Short Term Investment Pool (STIP)

SUPERSEDES: November 30, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED: May 26, 2022

I. Appendix I: Investment Objectives and Guidelines

A. Schedule I-A: Investment Objectives and Guidelines Short Term Investment Pool (STIP).

1. Effective Date of Schedule: June 1, 2021.

B. This Schedule is effective upon adoption by the Board of Investments and supersedes all previous Investment Objectives and Guidelines for the STIP.

II. Statement of Purpose

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

1. Establish the investment objectives and performance standards of the Pool.
2. Provide diversified exposure to Cash Equivalent and Short-Term Fixed Income Investments in a prudent and cost-effective manner.

III. Investment Objective

A. Strategic

1. The objective of the STIP 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 the net of expenses return of the STIP to the Federal Reserve US Treasury Constant Maturity 1 Month 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.

IV. Investment Guidelines

A. Board Staff will have full discretion to manage the STIP 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.

V. Permitted Investments

A. Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved and part of an "Approved List." The STIP may invest only in the following securities and investment vehicles:

1. U.S. Treasury or U.S. dollar denominated securities fully guaranteed by the U.S. Government.
2. U.S. Government Agency securities denominated in U.S. dollars.
3. Publicly traded U.S. dollar denominated corporate bonds, notes, and medium-term notes

Adopted: November 30, 2021

Revised: May 26, 2022

Reviewed: May 26, 2022

(MTNs).

4. U.S. dollar denominated Commercial Paper (CP).
5. U.S. dollar denominated Bankers' Acceptance (BA).
6. U.S. dollar denominated Certificates of Deposits (CD).
7. U.S. dollar denominated Asset-Backed Commercial Paper (ABCP).
8. Repurchase or Reverse Repurchase Agreements with an approved primary dealer or the custodial bank, and under the terms of a written master repurchase agreement.
9. Investments required to implement the bond credit enhancement authorized by Resolution 219.
10. SEC registered 2a-7 Institutional Money Market Funds that are considered "U.S. Treasury" or "U.S. Government" money market mutual funds according to the SEC regulations.
11. Short-term investment vehicle available through the custodial bank.
12. Variable rate securities based on an index that is approved by the CIO and purchased and monitored by Staff.
13. FDIC insured deposit accounts.
14. Fixed Income Investments in the State's INTERCAP program.
15. Fully collateralized, daily liquidity investment in an interest-bearing Demand Deposit Account with Montana domiciled Banks.

VI. Restrictions

A. Concentration restrictions (Concentration restrictions are at the time of purchase)

1. A maximum of forty percent (40%) of the STIP Units Value shall be held ABCP.
2. A maximum of ten percent (10%) of the STIP Units Value shall be held in Repurchase Agreements.
3. A maximum of fifteen percent (15%) of the STIP Units Value shall be held in permitted SEC registered 2a-7 Institutional Money Market Funds.
4. A maximum of ten percent (10%) of the STIP Units Value shall be pledged to secure Reverse Repurchase Agreements. Transactions will be used only to secure borrowings for temporary or emergency purposes.
5. A maximum of twenty-five percent (25%) of the STIP Units Value in the aggregate shall be held in all non- Government Variable Rate securities with maturities greater than three hundred ninety-seven (397) days.

B. Issuer Restrictions (Issuer restrictions are at the time of purchase)

1. A maximum of thirty percent (30%) of the STIP Units Value shall be held in any single issuer of U.S. Agency securities.
2. A maximum of three percent (3%) of the STIP Units Value shall be invested in any one issuer with the exception of U.S. Treasury and U.S. Agency securities as well as any Repurchase Agreements with a financial institution.
3. A maximum of ten percent (10%) of the STIP Units Value in the aggregate shall be held in any one financial sponsor of ABCP as well as any direct obligations associated with the sponsor. Repurchase agreement obligations of a financial institution shall not be considered in this limit.
4. A maximum of five percent (5%) of the STIP Units Value shall be held in any single SEC registered 2a-7 Institutional Money Market Funds or as FDIC insured deposits.
5. A maximum of five percent (5%) of the STIP Units Value shall be held in Repurchase Agreements with any single primary dealer or financial institution.

6. A maximum of five percent (5%) of the STIP Units Value shall be held in fully collateralized, demand deposit accounts at Montana domiciled Banks.

C. Rating Restrictions

1. ABCP, CP, BA or CD shall not have a Tier 2 or lower rating at any NRSRO at the time of purchase.
2. Corporate bonds, notes, or MTNs shall be rated a minimum of the sixth highest rating at any NRSRO at the time of purchase.
3. All securities, with the exception of Fixed Income Investments in the State INTERCAP program, securities fully guaranteed by the U.S. Government, approved Institutional Money Market Funds, and fully collateralized Demand Deposit Accounts at Montana domiciled Banks must be rated by at least two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase.
4. A maximum of ten percent (10%) of the STIP Units Value shall be held in ABCP, CP, BA or CD rated with a Tier 2 or lower rating at any Nationally Recognized Statistical Rating Organization (NRSRO) at any time.

D. Liquidity Restrictions

1. A minimum of ten percent (10%) of the STIP Units Value shall qualify as “daily liquid assets.” For this guideline is it assumed that “daily liquid assets” is defined as cash, direct obligations of the U.S. government, securities that will mature or are subject to a demand feature that is exercisable and payable within one (1) business day, and a permitted SEC registered 2a-7 Institutional Money Market Fund.
2. A minimum of fifteen percent (15%) of the STIP Units Value shall qualify as “weekly liquid assets.” For the purpose of this guideline, it is assumed that “weekly liquid assets” is defined as “daily liquid assets” (as defined above), government agency discount notes with remaining maturities of sixty (60) days or less, securities that will mature or are subject to a demand feature that is exercisable and payable within five (5) business days, and a permitted SEC registered 2a-7 Institutional Money Market Fund.
3. A maximum of ten percent (10%) of the STIP Units Value shall be invested in Permitted Investments that are considered “illiquid.” For the purpose of this guideline, “illiquid” shall be defined as “a security that cannot be sold or disposed of in the ordinary course of business within seven (7) calendar days at approximately the value ascribed to it by STIP.”
4. STIP shall maintain a dollar-weighted average portfolio maturity of one hundred twenty (120) days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).
5. ABCP purchases shall be limited to maturities of ninety (90) days or less.
6. The maximum term of any Repurchase Agreement will be thirty (30) days.
7. The maximum term of any Reverse Repurchase Agreement will be ninety (90) days and must be matched to anticipated cash flows adequate to liquidate the transaction.
8. The maximum final maturity of any Permitted Investment shall not exceed three hundred ninety-seven (397) days (not including securities used as collateral in Repurchase Agreements or Permitted Investments considered “Variable Rate” securities, which on any reset date can reasonably be expected to have a market value that approximates its amortized cost).
9. A Variable Rate security shall have a maximum maturity of two (2) years.

E. Other Restrictions

1. Risk assets will/may be purchased only when the estimated aggregate effect of a worst-case scenario spread widening event does not exceed the amount of the STIP Reserve. Risk assets are assets other than Treasuries, Agencies and Government money markets. The estimated

worst-case scenario is a calculation equal to the days to maturity dividend by three hundred sixty-five (365) multiplied by two percent (2.0%) for securities maturing in less than one (1) year and three and a half percent (3.5%) for securities maturing in greater than one (1) year.

2. Acceptable forms of collateral under Repurchase Agreements will consist of U.S. Treasury Securities which will be required to be maintained at a market value of one hundred two percent (102%) of the value of the Repurchase Agreement.
3. 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 taking into account current market conditions and the associated costs. At the Board's next regularly scheduled quarterly meeting, the CIO or Staff shall inform the Board of any cases that the Pool allocations were outside of the limits and either inform the Board of the actions that were taken to return the Pool back within guidelines or a plan to do so.