

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 40.704

EFFECTIVE DATE: November 30, 2021

TITLE: Investment Objectives and Guidelines
High Yield Asset Class

SUPERSEDES: June 1, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED:

I. Appendix II: Investment Objectives and Guidelines

- A. Schedule II-C: Investment Objectives and Guidelines High Yield Asset Class.
- B. Approved Date of Schedule: April 14, 2020.
- C. This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for High Yield.

II. Statement of Purpose

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

III. Investment Objective

A. Strategic

- 1. The objective of the High Yield 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 High Yield Asset Class to the Bloomberg Barclays US High Yield - 2% Issuer Cap 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 the High Yield 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. State Fund will be notified of any exceptions or compliance violations within five (5) days.

D. Permitted Investments

- 1. The High Yield Asset Class may only invest in the following:
 - a) 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.

E. Other Restrictions

1. A maximum of ten percent (10%) of the market value of the High Yield Asset Class shall be held in Non-U.S. securities if they are denominated in a foreign currency.
2. The average duration of the High Yield Asset Class will be maintained in a range of + or – twenty-five percent (25%) of the index duration.
3. A maximum of twenty-five percent (25%) of the market value of the High Yield Asset Class shall be in securities rated more than six (6) notches below investment grade as defined by the average rating of the NRSRO.

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 High Yield Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the High Yield Asset Class back within guidelines or a plan to do so. State Fund will be notified of any exceptions or compliance violations within five (5) days.