

# MONTANA

## BOARD OF INVESTMENTS

## BOARD ADOPTED POLICY

POLICY NUMBER: 40.807

EFFECTIVE DATE: November 30, 2021

TITLE: Investment Objectives and Guidelines  
Coal Severance Tax Permanent Fund

SUPERSEDES: June 1, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED:

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

- A. Schedule II-F: Investment Objectives and Guidelines Coal Severance Tax Permanent Fund.
- B. Approved Date of Schedule: August 20, 2019.
- C. This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for this specific portfolio.

### II. Introduction

- A. The purpose of the investment guidelines is to provide a framework for the Coal Severance Tax Permanent Fund (MU49) under the guidance of the board.
- B. 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.
- C. 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
- D. 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.

### III. Statement of Purpose

- A. The purpose of these objectives and guidelines is to:
  - 1. Establish the investment objectives and performance standards of the Coal Severance Tax Permanent Fund.
  - 2. Provide diversified investment exposure within the guidelines in a prudent and cost-effective manner.

### IV. Investment Objective

- A. Strategic
  - 1. 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 principal.
- B. Performance
  - 1. 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, each 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 moving average.

C. Investment Guidelines

1. 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.

D. Permitted Investments

1. The Coal Severance Tax Permanent Fund may only invest in the following:
  - a) TFIP.
  - b) STIP.
  - c) Any legislatively approved program loan, bond, note, or guarantee.

E. Other Restrictions

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