

# MONTANA

## BOARD OF INVESTMENTS

### BOARD ADOPTED POLICY

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**POLICY NUMBER:** 40.900

**EFFECTIVE DATE:** November 30, 2021

**TITLE:** Separately Managed Accounts  
Investment Policy Statement

**SUPERSEDES:** April 20, 2021

**BOARD ADOPTION:** November 30, 2021

**REVIEWED:**

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#### I. Introduction

- A. This policy is effective upon adoption and supersedes all previous Investment Policy Statement (IPS) related to the investment management of the separately managed accounts that contain guidelines and objectives in the Appendices.
- B. Montana has more than forty (40) separately managed accounts. These separately managed accounts consist of trust, insurance and operating accounts which have been created by the state Constitution, statutorily by the legislature or as part of settlements between the state and outside entities.
- C. Each separately managed account has unique investment needs. Each separately managed account has a defined set of guidelines and objectives that are detailed in the Appendices or within the separately managed account's existing IPS.
- D. Many separately managed accounts participate in the Short-term Investment Pool (STIP) and the Trust Funds Investment Pool (TFIP). The pools are commingled funds which operate similar to mutual funds. STIP and TFIP each have their own IPS.

#### II. Purpose

- A. The purpose of this policy statement is to provide a broad strategic framework for separately managed accounts under the guidance of the Board.

#### III. Legal and Constitutional Authority

- A. Article VIII Section 13 of the Montana Constitution requires that the Legislature provide for a Unified Investment Program for public funds. Section 17-6-201, MCA, established the Unified Investment Program, created the Board, and gave the Board sole authority to invest state funds, in accordance with state law and the state constitution.
- B. Section 17-6-201(1), MCA, requires the Board to operate under the "prudent expert principle," defined as:
  - 1. Discharging its duties with the care, skill, prudence, and diligence, under the same circumstances then prevailing that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of like character with like aims.
  - 2. Diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.
  - 3. Discharging its duties solely in the interest of and for the beneficiaries of the funds managed.
- C. The Board, as the investment fiduciary of the separately managed accounts, is responsible for establishing the investment parameters for all separately managed accounts.

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Adopted: November 30, 2021

Revised

Reviewed

#### IV. Strategic Investment Objectives

- A. The strategic investment objective is unique for each separately managed account. The strategic investment objective for each separately managed account will be addressed in the guidelines and objectives in the Appendices.
- B. However, the Board's overall objective is to achieve the highest level of investment performance compatible with each separately managed account's risk tolerance and prudent investment practices. The Board seeks to maintain a long-term perspective in formulating and implementing investment policies and evaluating investment performance subject to the specific objectives and constraints of each separately managed account.

#### V. Time Horizon

- A. The time horizon is unique for each separately managed account. The time horizon for each separately managed account will be addressed in the guidelines and objectives in the Appendices.

#### VI. Performance Measurement

- A. The IPS benchmark is unique for each separately managed account. The IPS benchmark for each separately managed account will be addressed in the guidelines and objectives in the Appendices.
- B. The IPS benchmark approximates the return that would be achieved if the separately managed account implemented a passively managed portfolio. Deviations from the policy benchmark measure the contribution of active investment management in the separately managed account, rebalancing policy and its execution, fees, and investment implementation generally.

#### VII. Roles and Responsibilities

##### A. Board of Investments

1. The Board is responsible for approving the IPS for any separately managed account and has the authority to manage all separately managed accounts as it considers prudent.
  - a) Subject to such limitations as contained in the Policy, the law, and the state Constitution.
2. The Board reviews this document periodically and approves any changes to the policy as needed.

- B. As described in the Board Governance Manual, to execute the day-to-day duties required to carry out the Board's mission, the Board delegates authority to the:

1. Executive Director.
2. Chief Investment Officer (CIO).
3. Other Staff.

##### C. Executive Director

1. The Executive Director is empowered by the Board to sign any and all documents required to conduct Board business.
  - a) Unless there are specific written policies or instructions from the Board to the contrary.
2. The Executive Director is responsible for the:
  - a) Oversight of all separately managed accounts.
  - b) Establishment of financial reporting procedures.
  - c) Collection and reporting of all income.

D. Chief Investment Officer

1. The CIO is empowered by the Board to serve as the principal staff person responsible for overseeing the investment activities under the Board's jurisdiction in compliance with the Board's policies.
2. The CIO, with the support of other staff, is responsible for recommending investment policy changes for Board approval.

E. Investment Staff

1. The investment staff is responsible for, but not limited to, the following:
  - a) Managing day-to-day investment operations.
  - b) Investing separately managed account assets and monitoring compliance in accordance with this IPS.
  - c) Reporting to the Board the separately managed account results and investment characteristics at least annually.
  - d) Reporting any deviations from the IPS to the Board.

F. Investment Consultant

1. The investment consultant assists the CIO and Staff with policy recommendations and provides advice to the Board.
2. The investment consultant shall provide assistance to staff as requested in conjunction with the management of all separately managed accounts.

VIII. Strategic Asset Allocation

- A. The strategic asset allocation is unique for each separately managed account.
- B. The strategic asset allocation for each separately managed account will be addressed in the guidelines and objectives in the Appendices.

IX. Rebalancing

- A. The actual asset allocation mix may deviate from time to time from the approved asset allocation ranges due to financial market performance, cash flows, and manager performance.
- B. Material deviations from the asset allocation ranges can alter the expected return and risk of the accounts.
- C. Rebalancing separately managed account assets to remain within the Board-approved allocation ranges is delegated to staff in consultation with the CIO and the Executive Director.
- D. Any necessary rebalancing will be made in a timely manner and will take into consideration associated costs and current market conditions.

X. Risk Management

A. Liquidity

1. The liquidity requirements are unique for each separately managed account.
2. Staff works closely with the representatives for each account to determine their needs.
3. The liquidity requirements are addressed by the permitted investments and corresponding restrictions within the Investment Guidelines for each separately managed account.

B. Monitoring/Reporting - Transparency

1. Staff shall provide annual reporting to the Board regarding the asset allocation and performance of the separately managed accounts to confirm these items are known and adhere to all IPS requirements and expectations.

C. Leverage

1. Leverage is a significant risk factor.
2. Assets in separately managed accounts managed directly by Board staff are not allowed to employ leverage.
3. The use of derivative securities can generate additional leverage even if the derivative is being used to reduce the risk in other investments.
4. Individual assets in separately managed accounts managed directly by Board staff are not allowed to use derivatives.
5. STIP is not allowed to employ leverage or use derivatives.
6. The use of leverage and derivatives within TFIP is addressed within the TFIP IPS.

D. Cash Investments

1. Cash investments held in any separately managed account, in the TFIP or any managed account within it, entail an element of credit risk.
2. Only approved cash investment vehicles are permitted. These include:
  - a) STIP.
  - b) Any cash vehicle at the Custodial Bank.
  - c) Any SEC registered money market fund employed by an external asset manager.
  - d) All of which specifically address credit risk in their respective investment guidelines.

XI. Investment Pools

A. Trust Fund Investment Pool

1. TFIP will provide accounts with exposure to a broad and diverse spectrum of investment grade and non-investment grade fixed income as well as real estate assets.
2. Investment grade fixed income will be primarily managed internally.
3. Non-investment grade fixed income will be primarily managed by external asset managers.
4. Real estate will be managed by external asset managers.
5. The specific strategic objectives, performance criteria, and investment guidelines for TFIP are detailed in the TFIP IPS.

B. Short-Term Investment Pool

1. STIP will provide managed accounts with exposure to Cash related investments.
2. STIP will be managed internally utilizing an active investment strategy.
3. The specific strategic objectives, performance criteria, and investment guidelines for STIP are detailed in the STIP IPS.

XII. Securities Lending

- A. Section 17-1-113, MCA, authorizes the Board to lend securities held by the state.
- B. The Board may lend its publicly traded securities through an agent, to other market participants in return for compensation.
- C. Currently, through an explicit contract, the state's Custodial Bank, manages the state's securities lending program.

- D. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program.
- E. The Board requires borrowers to maintain collateral at one-hundred two percent (102%) for domestic securities and one-hundred five percent (105%) for international securities.
  - 1. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases.
  - 2. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor.
- F. Staff or the investment manager may restrict a security from the loan program upon notification to the Custodial Bank.
- G. Staff will monitor the securities lending program and will periodically report to the Board on the status of the program.

### XIII. Exercise of Investor Rights

#### A. Proxy Voting

- 1. Per the Montana Constitution, Article VIII, Section 13 “no public funds shall be invested in private corporate capital stock” with the exception of public retirement system and state compensation insurance fund assets.
- 2. Separately managed accounts do not participate in proxy voting.

#### B. Class Action Litigation

- 1. Claims under state and federal securities laws arising out of losses on securities under the Board's management are assets subject to the Board's fiduciary duty of prudent management.
- 2. The Board shall take reasonable, cost-effective steps to identify, pursue and collect upon claims under securities laws for losses suffered by the Board on its investment.
- 3. Accordingly, the Board maintains a litigation policy, including steps outlined in Policy 10.250 of the Governance Manual.

### XIV. Investment Policy Statement Review

- A. Per the Board Governance Policy, “the Board shall create, maintain, and revise as necessary IPS for each separate account it manages. The IPS shall cite the law establishing the account if such law exists, the permissible investments authorized by law, and establish an investment range for each of the permissible investments. The Board shall review such policies at least annually or more frequently at the request of Board staff. IPS may only be revised in a public meeting. All IPS shall be posted on the Board's web site for review by the public.”

### XV. List of Trust Fund Accounts in this policy series

#### A. Department of Agriculture

- 1. Schedule I-A: Noxious Weed Management Trust Fund

#### B. Department of Environmental Quality

- 1. Schedule I-B: Belt Water Treatment Plant Fund
- 2. Schedule I-C: Abandoned Mine Land Reclamation Trust
- 3. Schedule I-D: Clark Fork Site Response Action Fund
- 4. Schedule I-E: Montana Pole Superfund Site Settlement Fund
- 5. Schedule I-F: Streamside Tailings Operable Settlement Fund

6. Schedule I-G: Upper Blackfoot Response Action and Restoration Fund
  7. Schedule I-H: Zortman/Landusky Long Term Water
  8. Schedule I-I: Zortman/Landusky Long Term Water Trust
- C. Department of Fish, Wildlife and Parks
1. Schedule I-J: Coal Tax Park Trust Fund
  2. Schedule I-K: Fish, Wildlife & Parks Mitigation Trust Fund
  3. Schedule I-L: Real Property Trust Fund
  4. Schedule I-M: Wildlife Habitat Trust Fund
- D. Department of Health and Human Services
1. Schedule I-N: Endowment for Children
  2. Schedule I-O: Older Montanans Trust Fund
  3. Schedule I-P: Tobacco Trust Fund
- E. Department of Justice
1. Schedule I-Q: Butte Area One Restoration Fund
  2. Schedule I-R: Clark Fork Restoration Fund
  3. Schedule I-S: East Helena Compensation Fund
  4. Schedule I-T: Smelter Hill Uplands Restoration Fund
  5. Schedule I-U: Upper Clark Fork River Basin Reserve Fund
  6. Schedule I-V: Upper Clark Fork River Basin Restoration Fund
  7. Schedule I-AI: Greenway Project Trail Maintenance Fund
  8. Schedule I-AJ: 2011 Yellowstone Exxon Settlement Fund
- F. Department of Natural Resources and Conservation
1. Schedule I-W: Public School Trust
  2. Schedule I-AH: Invasive Species Trust Fund
- G. Department of Revenue
1. Schedule I-X: Resource Indemnity Trust Fund
- H. Montana Arts Council
1. Schedule I-Y: Cultural Trust Fund
- I. Montana Historical Society
1. Schedule I-Z: Historical Society Trust Funds
- J. University Endowments
1. Schedule I-AA: Harold Hamm Endowment
  2. Schedule I-AB: Potter Trust Fund
- K. City and County of Butte-Silver Bow
1. Schedule I-AC: Butte Area Redevelopment Trust Authority
- L. Department of Environmental Quality (Additional DEQ)
1. Schedule I-AD: Barker Hughesville St Response
  2. Schedule I-AE: Flying J CECRA Facilities Fund

3. Schedule I-AF: Libby Asbestos Site State Cost
4. Schedule I-AG: Luttrill Pit – Oper & Maint