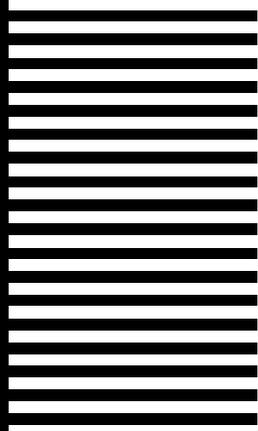
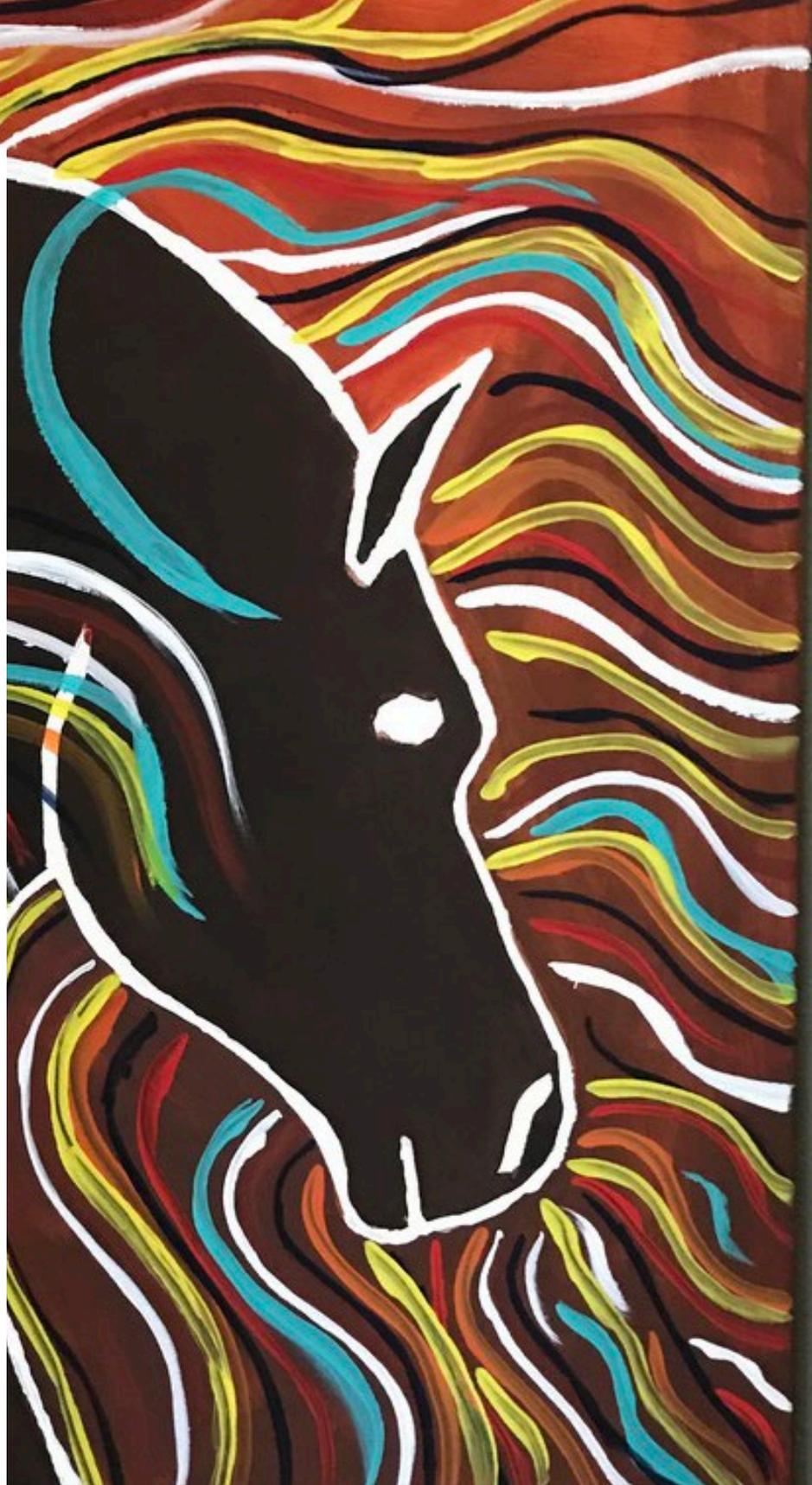


ANNUAL REPORT

2021



**MONTANA**  
BOARD OF INVESTMENTS

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Special Note: The numbers within this annual report are unaudited and may be subject to change in the audit process. The audited Unified Investment Program and Enterprise Fund Financial Statements will be made available once the Legislative Audit Division issues the Audit Opinions. Once issued, the Legislative Audit Division will have both Audit Opinions available online at [Legislative Audit Division Audit Opinions](#) by selecting Board of Investments under Agency and the Board's website [Annual Reports & Audits](#) will contain a link.

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## MESSAGE FROM THE CHAIRMAN

It is my pleasure to present our 2021 annual report to the Legislature, the Governor, and the public.

It is a humbling and rewarding task for the Board of Investments and its 33 employees to oversee the only program specifically required in the Montana Constitution, the *Unified Investment Program (UIP)*. Since its inception in 1972, the Board has invested the pension funds, trust funds, insurance reserves, and state operating funds, and certain local government funds. Today the Board manages approximately \$24.9 billion for all state agencies, universities, school districts, and other local governments.

This is a great responsibility. We discharge our duties with care, skill, prudence, and diligence. We are mindful of both maximizing returns and minimizing losses. We discharge our duties solely in the interest of and benefit for the parties subject to the Unified Investment Program. This is the law.

We also oversee some of the most critical economic development and local government funding programs in the state using the financial strength of Montana's Coal Severance Tax Trust Fund. These programs have helped create hundreds of jobs and have saved local governments and taxpayers millions of dollars in interest expense.

We are a nine-member board, appointed by the Governor, confirmed by the Montana Senate, and qualified as required by law. We operate under a strong governance system. We act only through our official capacity in meetings that are open and publicly accessible. We delegate by policy only those duties to our staff that are appropriate, as the Board bears the ultimate responsibility to the public.

Our investment horizon for pension funds is perpetual, or for the very long term. We work for the benefit of trust fund participants over the intermediate term. Lastly, we help our clientele meet their short-term daily cash needs while still earning investment income through the Short-Term Investment Pool.

While every year's investment performance is important, investing often requires a long-term view. Study after study proves that patience, diligence, and thoughtfulness yields the best results.

The Board is very mindful of costs associated with investing, especially in managing pension dollars. Each biennium we conduct an independent analysis of our pension investments and compare our results and costs to our peers. Over the last five years, we have earned more than our peers and have slightly lower costs. The most recent study may be found online in the [CEM Benchmarking Report](#).

Nearly half of the investments are internally managed by our own investment staff. These investments keep our costs extremely low while still posting solid performance. We have a highly trained and professional staff who are all committed to doing their best to make Montana a better place to live, work, play, and retire.

Our website has a great deal of information about the Board's activities, its investment holdings, and performance. I invite you to contact me or our Executive Director if you have any questions.



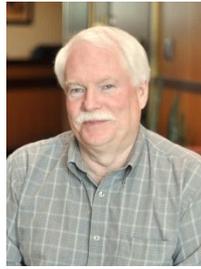
A handwritten signature in blue ink, which appears to read "Karl J. Englund". The signature is fluid and cursive.

Karl J. Englund, Chairman

# BOARD MEMBERS



Karl Englund,  
Missoula  
Board  
Chairman  
Representing  
Law  
Term Ending  
1/1/2023



Jack Prothero,  
Great Falls  
Vice Chairman  
Representing  
Financial  
Term Ending  
1/1/2025  
Committees:  
• Loan Chair  
• HR



Mark Barry,  
Helena  
Representing  
Financial  
Term Ending  
1/1/2025  
Committee:  
• Audit  
• Loan



Teresa Olcott  
Cohea,  
Helena  
Representing  
Financial  
Community  
Term Ending  
1/1/2023  
Committees:  
• HR Chair  
• Loan



Diane Fladmo,  
Helena  
Representing  
Labor  
Term Ending  
1/1/2023  
Committees:  
• Audit  
• HR



Jeff Meredith,  
Kalispell  
Representing  
Small  
Business  
Term Ending  
1/1/2025  
Committee:  
• Loan



Bruce Nelson,  
Bozeman  
Representing  
Agriculture  
Term Ending  
1/1/2023  
Committees:  
• Audit • HR  
• Loan



Maggie Peterson,  
Anaconda  
Representing  
PERS  
Term Ending  
1/1/2025  
Committees:  
• Audit Chair  
• HR

Board member representing the Teachers Retirement System (TRS) is vacant.

# NON-VOTING LEGISLATIVE LIAISONS



Representative  
Ken Walsh,  
Twin Bridges  
House of  
Representatives  
Liaison  
Term Ending  
1/1/2023



Senator  
Ryan Lynch,  
Butte  
Senate Liaison  
Term Ending  
1/1/2023

# BOARD OF INVESTMENTS STAFF



- ❖ Dan Villa, Executive Director
- ❖ Jon Putnam, CFA, CAIA, FRM, Chief Investment Officer
- ❖ Peggy MacEwen, Deputy Director
  
- ❖ Polly Boutin, Associate Financial Manager
- ❖ Jason Brent, CFA, CAIA, Investment Officer – Public Markets
- ❖ John Carpenter, CPA, Investment Analyst – Fixed Income
- ❖ Roberta Diaz, Investment Accountant
- ❖ Julie Feldman, CPA, Financial Manager/Comptroller
- ❖ Lindsay Ford, Board Secretary/Executive Assistant
- ❖ Kelsey Gauthier, CPA, Investment Analyst – Fixed Income
- ❖ Kirsten Haswell, Investment Analyst – Fixed Income
- ❖ Doug Hill, Director of In-State Loans
- ❖ Sam Holman, Investment Accounting Intern
- ❖ Tim House, Investment Analyst – Investment Operations
- ❖ Ethan Hurley, CAIA, Director of Real Estate/Natural Resources
- ❖ Sheli Jacoby, Investment Accountant
- ❖ Teri Kolnik, CFA, Investment Analyst – Investment Operations
- ❖ Emily Kovarik, CPA, Associate Financial Manager
- ❖ Eron Krpan, CFA, CIPM, Director of Investment Operations
- ❖ Tammy Lindgren, Investment Accountant
- ❖ Mark Lodman, Network Administrator
- ❖ Savannah Morgan, Office Manager
- ❖ Michael Nguyen, Director of Private Investments
- ❖ John Romasko, CFA, Director of Fixed Income
- ❖ Peggy Saarela, Administrative Assistant/Credit Analyst
- ❖ Steve Strong, Investment Analyst – Public Markets
- ❖ Brenda Thomas, Investment Accountant
- ❖ Dan Whyte, Chief Legal Counsel
- ❖ Thomas Winkler, CAIA, Investment Analyst – Private Investments
- ❖ Daniel Zarling, CFA, CIPM, Director of Risk Management
  
- ❖ Director of Public Markets - VACANT
- ❖ Investment Accountant – VACANT
- ❖ Investment Analyst – Real Estate/Natural Resources - VACANT

# UNIFIED INVESTMENT PROGRAM

Montana's State Constitution requires that the state's financial assets be managed through the Unified Investment Program. The Board of Investments was established by the Montana Legislature to carry out that mandate. The Board manages the state's investments within those constitutional and statutory guidelines.

As of June 30, 2021, the Board of Investments managed approximately \$24.9 billion in pension funds, trust funds, insurance reserves, and state operating funds, and certain local government funds. Within these broad categories, a combination of investment pools and separately managed investments are utilized to meet the financial goals and expectations of the agencies and entities which entrust those funds to the Board. The Board approves all Investment Policy Statements (IPS). The Board's portfolio is available for viewing on its [FY2021 Investment Holdings](#) webpage.

## Total Fund Fiduciary Net Position Held in Trust for Participants (In Millions)

Fund Type	STIP	TFIP	CAPP	SMA	STIP in Pool	STIP Reserve	Grand Total
Pension Funds	\$ 152.5	\$ 0.0	\$ 14,397.1	\$ 0.0	\$ 0.0	\$ 0.0	\$ 14,549.6
Trust Funds	96.4	1,637.8	0.0	0.2	0.0	0.0	1,734.4
Coal Sev. Tax Trust	29.8	976.7	0.0	192.2	0.0	0.0	1,198.7
Insurance Reserves	315.1	52.3	0.0	1,558.6	0.0	0.0	1,926.0
Operating Funds	5,395.0	78.9	0.0	1.5	0.0	0.0	5,475.4
STIP in Pool	273.8	0.0	0.0	0.0	(273.8)	0.0	0.0
STIP Reserve		0.0	0.0	0.0	0.0	54.2	54.2
<b>6/30/2021</b>	<b>\$ 6,262.6</b>	<b>\$ 2,745.7</b>	<b>\$ 14,397.1</b>	<b>\$ 1,752.5</b>	<b>\$ (273.8)</b>	<b>\$ 54.2</b>	<b>\$ 24,938.3</b>

*Table Comments: The table represents the amount each fund type has invested in the Short-Term Investment Pool (STIP), Trust Fund Investment Pool (TFIP), Consolidated Asset Pension Pool (CAPP), and Separately Managed Accounts (SMA). The totals in the table above may not sum due to rounding differences. The amounts presented include receivable and payable accruals*

## ASSET MANAGEMENT

**Internal and External** - Over 47% of the Board's investments are managed internally by the Board's own investment staff. Assets managed internally are often lower risk assets that can be better managed "in-house" to limit costs. The remaining assets are managed externally by professional investment managers in a variety of asset classes. Utilizing the professional and often specialized expertise of these external managers, the Board seeks to maximize the return available from a variety of market options. External managers are carefully selected and monitored by the Board's staff.

**Active and Passive** - Over 83% of the investments are actively managed. The majority of the actively managed assets are fixed income assets managed internally by the Board at a lower cost than likely possible by an external manager managing a passive mandate.

# PENSION FUNDS

Managing Pension Investments requires a skillful balance of:

- Maximizing long-term returns
- Analyzing plan liquidity needs
- Managing risks
- Controlling costs

The Board of Investments manages the Pension Funds of nine separate retirement plans that provide retirement benefits for public employees of state and local government entities. The two largest of these funds are the Public Employees' Retirement System (PERS) and the Teachers' Retirement Systems (TRS). The retirement system assets are invested within the Short-Term Investment Pool (STIP) and the Consolidated Asset Pension Pool (CAPP) discussed in further detail in the Investment Pools' section of this report.

## Pensions Fiduciary Net Position Held in Trust for Participants (In Millions)

Fund Name	STIP	CAPP	Grand Total
Public Employees' Retirement	\$ 74.2	\$ 7,122.3	\$ 7,196.5
Teachers' Retirement	52.3	5,032.4	5,084.7
Firefighters' Retirement	6.0	586.3	592.3
Police Retirement	5.5	545.0	550.5
Sheriffs' Retirement	5.1	479.6	484.7
Game Wardens' Retirement	3.0	269.7	272.7
Highway Patrol Retirement	2.0	183.4	185.4
Judges	1.4	131.8	133.2
Vol. Firefighters' Retirement	3.0	46.6	49.6
<b>6/30/2021</b>	<b>\$ 152.5</b>	<b>\$ 14,397.1</b>	<b>\$ 14,549.6</b>

*Table Comments: The totals in the table above may not sum due to rounding differences. The amounts presented include receivable and payable accruals.*

Pension funds are by their nature, long-term funds and require a long-term view when making investment decisions. Prudence, patience, and professional discipline are hallmarks of the Board's investment process.

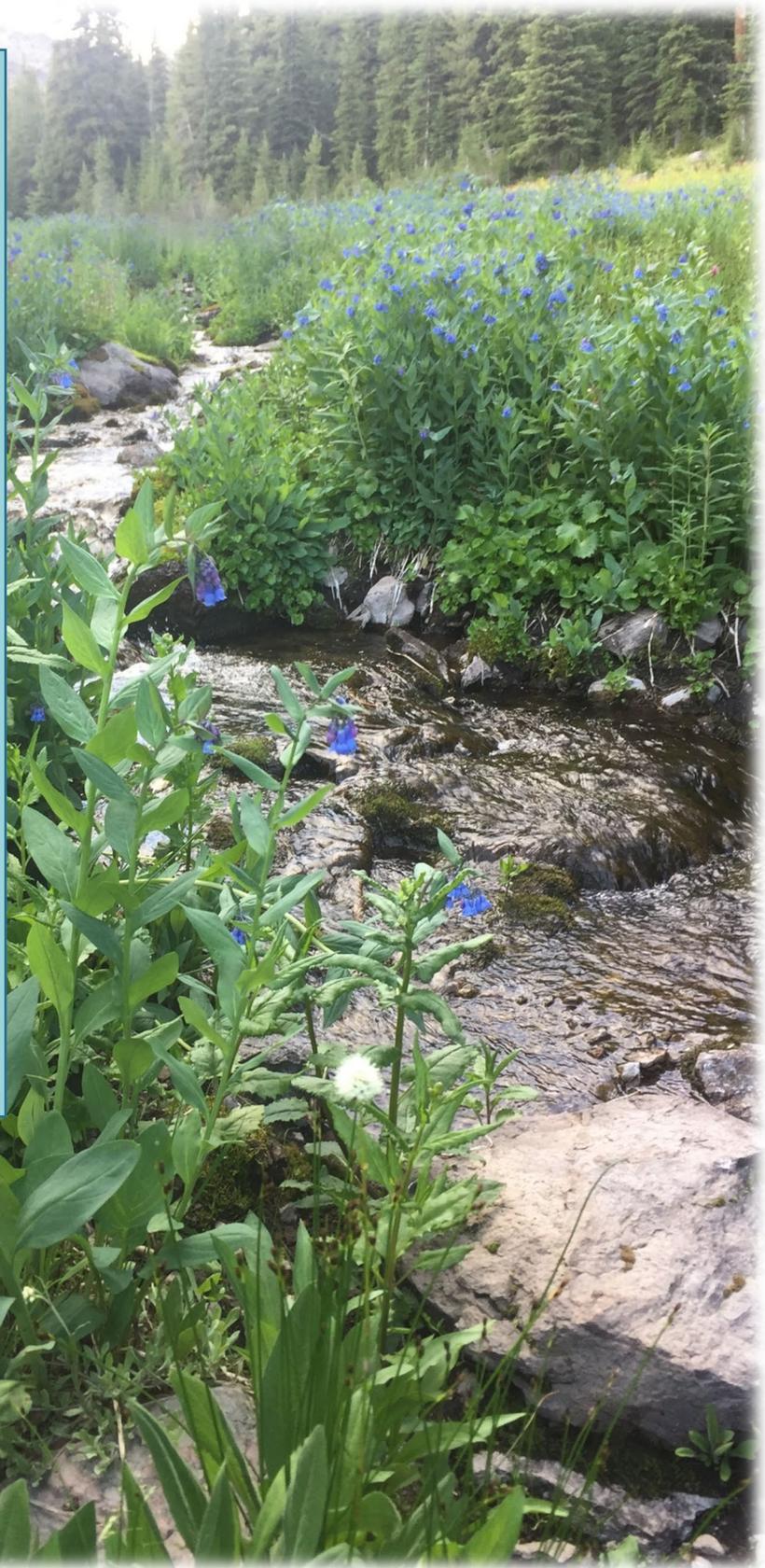
Factors considered in managing pension investments include long-term growth (expected rates of return), liquidity needs (how readily convertible to cash), risk (multi-dimensional), and cost. The Board addresses these factors through a strong governance model that requires the Board to engage annually in a review and confirmation of asset allocation.

During the review of asset allocation, the Board examines historic market performance, trends, and long-term economic forecasts. Careful study of more specific considerations related to individual asset classes, including costs, risks, potential returns, and the correlations between asset classes is conducted.

The Board's goal is to maximize investment returns, while keeping risk within prudent levels and maintaining sufficient liquidity to meet current benefit payments to retirees.

The Board's asset allocation mix is critical to the return on pension fund investments. Please refer to the CAPP section for the approved ranges established by Board policy as of November 19, 2020 and allocation as of June 30, 2021.

The table on the following page shows investment returns, net of fees, for the PERS since fiscal year 1995. The returns for the other eight retirement systems are consistent with that of PERS. As shown by the S&P 500 Index (equity) and Bloomberg Barclays U.S. Aggregate Bond Index (fixed income) in the table, the use of different asset classes heavily influences returns.



Average	PERS Actual Net Return	S&P 500 Index Total Return	Bloomberg US Aggregate Bond Index
27 Years	8.16%	10.89%	5.40%

Fiscal Year	PERS	S&P 500	Bloomberg
FY21	27.72%	40.79%	-0.33%
FY20	2.71%	7.51%	8.74%
FY19	5.70%	10.42%	7.87%
FY18	8.84%	14.37%	-0.40%
FY17	11.94%	17.90%	-0.31%
FY16	2.07%	3.99%	6.00%
FY15	4.58%	7.42%	1.86%
FY14	17.16%	24.61%	4.37%
FY13	13.04%	20.60%	-0.69%
FY12	2.41%	5.45%	7.47%
FY11	21.79%	30.69%	3.90%
FY10	12.87%	14.43%	9.50%
FY09	-20.69%	-26.22%	6.05%
FY08	-4.86%	-13.12%	7.12%
FY07	17.96%	20.59%	6.12%
FY06	9.07%	8.63%	-0.81%
FY05	8.13%	6.32%	6.80%
FY04	13.43%	19.11%	0.32%
FY03	6.61%	0.26%	10.40%
FY02	-7.29%	-17.99%	8.63%
FY01	-5.08%	-14.83%	11.23%
FY00	7.93%	7.25%	4.56%
FY99	12.08%	22.75%	3.15%
FY98	16.63%	30.15%	10.54%
FY97	19.63%	34.69%	8.15%
FY96	12.60%	25.99%	5.02%
FY95	16.33%	26.07%	12.55%

*Table Comments: FY01- FY02 Collapse of the dot com bubble.  
FY08-FY09 Global Financial Crisis.*

The Board reviews absolute return performance, performance to internally established benchmarks, and performance to its peers. The Board utilizes independent comparisons of its performance and costs to that of other large public pension systems. The most recent report comparing costs and performance may be found on the Board's website at: [CEM Benchmarking Report](#).

# TRUST FUNDS

The Board invests over \$2.7 billion for 59 trust funds, some of which were created and protected by the State Constitution. Other trusts have been created statutorily by the legislature or involve federal funds. Several trust funds were established as part of settlements between the state and private corporations to ensure environmental clean-up of polluted sites.

## COAL SEVERANCE TAX TRUST FUND

Article IX, Section 5 of the State Constitution requires that 50% of all coal severance tax revenues be deposited in a permanent trust fund (Coal Trust), in which the principal "shall forever remain inviolate unless appropriated by vote of three-fourths (3/4) of the members of each house of the legislature." The Board is encouraged to invest 25% of the Coal Trust in the Montana economy with emphasis on new or expanding businesses.

Over the years, the legislature has partitioned the Coal Trust into several sub-trust funds beginning with the Permanent Fund, then the Severance Tax Bond Fund, the Treasure State Endowment Fund, the Treasure State Endowment Regional Water Fund, the Big Sky Economic Development Fund, and the School Facilities Fund. The School Facilities Fund is receiving 75% of the coal severance tax revenue until its fund balance reaches \$200 million. The remaining 25% dedicated to the Big Sky Economic Development Fund terminates June 30, 2035.

The interest earnings are legislatively appropriated as follows:

- Permanent Fund and the Severance Tax Bond Fund income is transferred periodically to the state general fund.
  - Effective July 1, 2019, on July 1 of each year, up to \$24 million of the interest income that is transferred to the general fund is statutorily appropriated to the Public Employees' Retirement System Defined Benefit Plan Trust Fund.
- Treasure State Endowment Fund income is appropriated for local government infrastructure projects.
  - The 67<sup>th</sup> Legislature renamed this fund Montana Coal Endowment Fund, effective October 1, 2021.
- Treasure State Endowment Regional Water Fund income is appropriated for local government water projects.
  - The 67<sup>th</sup> Legislature renamed this fund Montana Coal Endowment Regional Water Fund, effective October 1, 2021.
- Big Sky Economic Development Fund income is appropriated for economic development projects.
- School Facilities Fund income is appropriated for school facility projects.

The fair values of the Coal Trust sub-trust funds are shown below:

**Coal Severance Tax Trust Fund**  
**Fiduciary Net Position Held in Trust for Participants (In Millions)**

Sub-Trust Fund Name	STIP	TFIP	SMA	Grand Total
Permanent Fund	\$ 18.1	\$ 377.3	\$ 192.2	\$ 587.6
Treasure State Endowment Fund	3.3	296.0	0.0	299.3
Big Sky Economic Development Fund	2.8	128.2	0.0	131.0
Treasure State Endowment Regional Water Fund	1.2	102.5	0.0	103.7
School Facilities Fund	3.7	72.7	0.0	76.4
Severance Tax Bond Fund	0.7	0.0	0.0	0.7
<b>6/30/2021</b>	<b>\$ 29.8</b>	<b>\$ 976.7</b>	<b>\$ 192.2</b>	<b>\$ 1,198.7</b>

*Table Comments: The totals in the table above may not sum due to rounding differences. The amounts presented include receivable and payable accruals.*

The table below reflects the Separately Managed Accounts (SMA) held by the Coal Trust. The Board uses the In-State Loan Program to invest a portion of the Coal Trust in compliance with state law. The pages to follow provide more detail on the program and the various financing options available.

**Coal Trust – SMA**  
**Fiduciary Net Position Held in Trust for Participants (In Millions)**

Montana Mortgages and Loans	Permanent Coal Trust	Treasure State Endowment	Grand Total
In-State Loans and Mortgages:			
Business Loan Participation Program	\$ 101.2	\$ 0.0	\$ 101.2
Veterans' Home Loan Program	46.3	0.0	46.3
Infrastructure Loan Program	14.7	0.0	14.7
Multifamily Coal Trust Homes Loan Program	5.2	0.0	5.2
Intermediary Relending Loan Program	4.8	0.0	4.8
Montana Facility Finance	12.0	0.0	12.0
Montana Science & Technology Alliance	8.0	0.0	8.0
<b>6/30/2021</b>	<b>\$ 192.2</b>	<b>\$ 0.0</b>	<b>\$ 192.2</b>

*Table Comments: The totals in the table above may not sum due to rounding differences. The amounts presented include receivable and payable accruals.*

## Coal Severance Tax Permanent Sub-Trust Fund In-State Loan Programs

Over the years, the Montana Legislature has directed that the Board provide certain financial incentives, typically at below-market interest rates, to certain borrowers who meet the program requirements set in law.

The In-State Loan Program was created in 1984 as part of the “Build Montana” program. The program invests Coal Severance Tax Trust (Coal Trust) funds in Montana to stimulate the state's economy. State law authorizes the Board to invest Coal Trust dollars in Montana to increase employment and business opportunities while maintaining and improving the state's physical environment.

The In-State Loan Program balances are provided on the previous page in the Coal Tax – SMA table.

**Loan Types** – Four different loan types are available in the In-State Loan Program, some of which offer a job credit interest rate reduction equal to 0.05% for each qualifying job created, up to a maximum reduction of 2.5%.

- The **Business Loan Participation Program** allows the In-State Loan Program to participate up to 80% in a loan originated by an approved lender. Unencumbered land, buildings, and equipment may be financed with the loan proceeds.
- The **Infrastructure Loan Program** provides loans to eligible local governments for constructing or purchasing infrastructure to be used by a basic sector business. Total loans outstanding in this program are limited by law to \$80 million.
- The **Intermediary Relending Loan Program** provides loans to local economic development organizations with revolving loan programs. Individual loans may not exceed \$500,000 and total loans outstanding in this program are limited by law to \$10 million.
- The **Value-Added Loan Program** provides low interest loans to value-added type businesses that create or retain jobs. Total loans outstanding in this program are limited by law to \$70 million.

Additionally, the Board assists in implementing the following two programs with the Montana Board of Housing:

- The **Veterans' Home Loan Program** provides low interest loans for Montana Veterans who are first-time home buyers. By law, the Montana Board of Housing administers and approves the loans. The Board funds the approved loans. Total loans outstanding are limited by law to \$50 million.
- The **Multifamily Coal Trust Homes Loan Program** provides low interest loans for the development and preservation of homes and apartments to assist eligible low-income and moderate-income applicants. By law, the Montana Board of Housing administers and approves the loans. The Board funds the approved loans. Total loans outstanding in this program are limited by law to \$15 million.

## In-State Loan Program Highlights



Glacier Distillery is a craft distillery located in the foothills of Glacier National Park.



The Board's In-State Business Loan Participation Program participated in 80% of a \$412,500 loan to purchase commercial real estate in Coram, Montana.



Neptune Aviation Services, Inc. (Neptune), based in Missoula, Montana, is a leader in aviation firefighting and firefighting technology.



The Board's In-State Infrastructure Loan Program, in cooperation with the Missoula County Airport Authority, loaned \$2 million to purchase two hangers.



In consideration for the terms of the loan, Neptune has agreed to create 120 jobs over a four-year period. The Infrastructure Loan Program also provides tax incentives to Neptune which, over the term of the loan, could equal the total amount of the loan.



## OTHER TRUST FUNDS

### Other Trust Funds Fiduciary Net Position Held in Trust for Participants (In Millions)

Fund Name	STIP	TFIP	SMA	Grand Total
Abandoned Mine Trust	\$ 6.7	\$ 0.0	\$ 0.0	\$ 6.7
Barker Hughsville Site Response	0.6	8.6	0.0	9.2
Belt Water Treatment Plant Fund	2.5	24.7	0.0	27.2
Butte Area One Restoration	1.0	6.1	0.0	7.1
Butte-Silver Bow Redevelopment Trust	1.2	12.9	0.0	14.1
Clark Fork River Restoration Trust	6.4	23.9	0.0	30.3
Clark Fork Site Response	2.7	67.7	0.0	70.4
Coal Tax Park Acquisition Fund	2.4	28.7	0.0	31.1
Cultural Trust	0.8	15.8	0.0	16.6
East Helena Compensation Fund	3.9	0.9	0.0	4.8
East Helena Greenway Trail	0.3	0.7	0.0	1.0
Endowment For Children	0.1	1.3	0.0	1.4
Fish, Wildlife and Parks Mitigation	3.3	7.7	0.2	11.2
Flying J CECRA Facilities Fund	0.2	2.5	0.0	2.7
Harold Hamm Endowment	0.0	0.1	0.0	0.1
Invasive Species Trust Fund	0.0	2.2	0.0	2.2
Libby Asbestos Site State Cost	0.5	4.5	0.0	5.0
Luttrill Pit Operations and Maintenance	0.2	2.2	0.0	2.4
Montana Historical Society Trusts	0.6	3.1	0.0	3.7
Montana Pole Superfund	7.4	21.2	0.0	28.6
Noxious Weed Management Trust	0.0	11.4	0.0	11.4
Older Montanans Trust	0.0	0.3	0.0	0.3
Potter Trust Fund	0.0	0.3	0.0	0.3
Public School Trust	0.0	836.9	0.0	836.9
Real Property Trust	0.6	6.9	0.0	7.5
Resource Indemnity Trust	0.0	117.2	0.0	117.2
Smelter Hill Uplands Restoration Fund	1.4	8.0	0.0	9.4
Streamside Tailings Fund	2.9	16.0	0.0	18.9
Tobacco Trust	6.7	291.8	0.0	298.5
Upper Blackfoot Response	1.1	0.1	0.0	1.2
UCFRB Reserve Fund	0.3	21.9	0.0	22.2
UCFRB Restoration Fund	5.2	74.0	0.0	79.2
Wildlife Habitat Trust	1.5	14.7	0.0	16.2
Yellowstone Pipeline Cleanup Fund	0.0	3.5	0.0	3.5
Zortman/Landusky Trust	20.3	0.0	0.0	20.3
Zortman/Landusky Water	15.6	0.0	0.0	15.6
<b>6/30/2021</b>	<b>\$ 96.4</b>	<b>\$ 1,637.8</b>	<b>\$ 0.2</b>	<b>\$ 1,734.4</b>

Table Comments: The totals in the table above may not sum due to rounding differences. The amounts presented include receivable and payable accruals.

[Other Trust Funds Descriptions \(click here\)](#)

## INSURANCE RESERVES

The Board invests over \$1.9 billion for several insurance programs. The State Compensation Insurance Fund (Montana State Fund) owns the largest dollar value of such securities and is discussed in more detail on the next page. The fair values of the insurance reserves are shown below:

### Insurance Reserves Fiduciary Net Position Held in Trust for Participants (In Millions)

Fund Name	STIP	TFIP	SMA	Grand Total
Montana State Fund	\$ 41.9	\$ 0.0	\$ 1,546.9	\$ 1,588.8
Other Insurance Funds:				
Agency Insurance	47.2	0.0	0.0	47.2
Employee Group Benefits	111.3	33.9	2.5	147.7
Hail Insurance	2.2	0.0	0.0	2.2
Montana University System Group Ins	90.2	14.0	2.0	106.2
MUS Workers Compensation	12.3	4.4	0.0	16.7
Defined Contribution Disability	0.5	0.0	7.2	7.8
Subsequent Injury	0.2	0.0	0.0	0.2
Unemployment Insurance Benefits	7.5	0.0	0.0	7.5
Uninsured Employers	1.8	0.0	0.0	1.8
<b>6/30/2021</b>	<b>\$ 315.1</b>	<b>\$ 52.3</b>	<b>\$ 1,558.6</b>	<b>\$ 1,926.0</b>

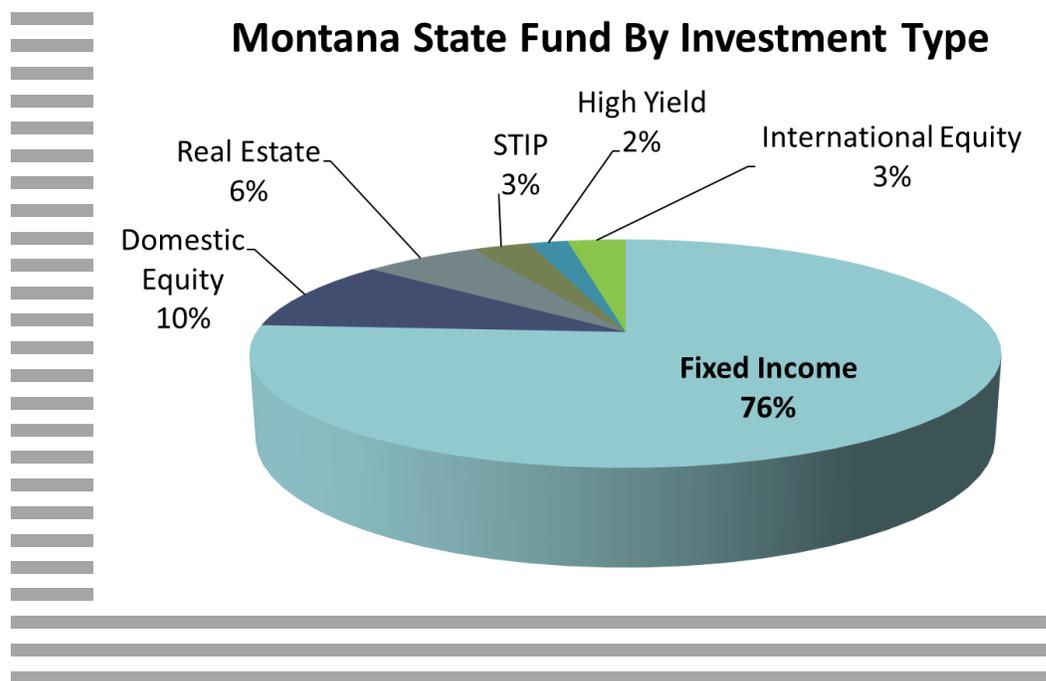
*Table Comments: The totals in the table above may not sum due to rounding differences. The amounts presented include receivable and payable accruals.*

[Other Insurance Funds Descriptions \(click here\)](#)

## MONTANA STATE FUND

The Montana State Fund (MSF) provides workers' compensation and occupational disease insurance for claims arising from injuries. The investment returns for the MSF shown below are net of fees. The MSF's portfolio balances are provided on the previous page. The Board managed over \$1.5 billion in investments on behalf of the MSF as of June 30, 2021.

<b>Montana State Fund Returns</b>	<b>1-Year</b>	<b>2-Year</b>	<b>10-Year</b>
	<b>5.56%</b>	<b>5.96%</b>	<b>4.68%</b>



## OPERATING FUNDS

Statutes limit where most state agency funds may be invested. Agencies must have the legal authority to invest separately from the State’s general cash account (the State Treasurer’s Fund) and invest in the STIP. An agency may have funds other than ordinary operating monies that can prudently have a longer-term investment outlook and have an opportunity for better returns. The TFIP or SMA are available to meet those needs.

### Operating Funds Fiduciary Net Position Held in Trust for Participants (In Millions)

Fund Name	STIP	TFIP	SMA	Grand Total
State Treasurer’s Fund	\$ 2,878.2	\$ 0.0	\$ 0.0	\$ 2,878.2
Local Governments	1,852.6	0.0	0.0	1,852.6
State Agency	431.5	0.0	0.0	431.5
Montana State University-Bozeman	149.0	17.8	0.0	166.8
FWP License	38.1	28.0	1.5	67.6
University of Montana-Missoula	35.7	32.2	0.0	67.9
Montana Technological University	9.8	0.5	0.0	10.3
Montana Historical Society	0.1	0.4	0.0	0.5
<b>6/30/2021</b>	<b>\$ 5,395.0</b>	<b>\$ 78.9</b>	<b>\$ 1.5</b>	<b>\$ 5,475.4</b>

*Table Comments: The totals in the table above may not sum due to rounding differences. The amounts presented include receivable and payable accruals.*

### [Operating Funds Descriptions \(click here\)](#)

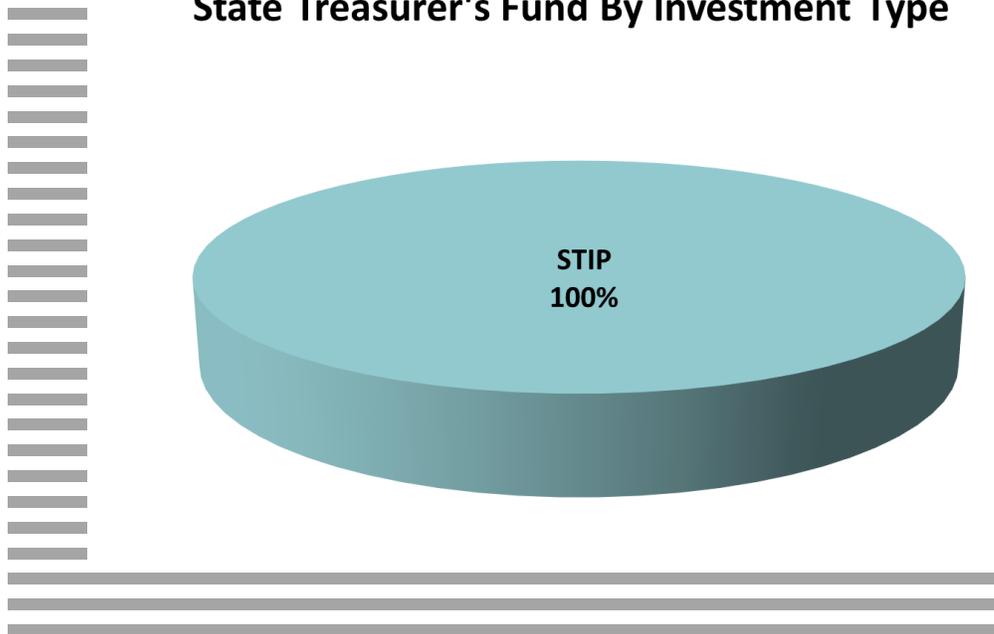
Although state agencies with accounts that retain their interest earnings are legally required to invest in the STIP, local government entities can by statute voluntarily invest in the STIP as provided in Section 17-6-204, MCA.

## STATE TREASURER'S FUND

The State Treasurer's Fund is comprised of cash in all state accounts that do not retain their investment earnings. All earnings are deposited into the state general fund. State law authorizes the Board to determine the amount of surplus cash in the State Treasurer's Fund to be invested and the type of investments to be made. The fund is managed to maximize income, rather than for total rate of return. This fund is a major participant in STIP since 1973 when the STIP was created. The investment returns shown below are net of fees. The State Treasurer's Fund investment balance as of June 30, 2021 was over \$2.8 billion.

<b>State Treasurer's Fund Returns</b>	<b>1-Year</b>	<b>2-Year</b>	<b>10-Year</b>
	<b>0.18%</b>	<b>0.86%</b>	<b>0.78%</b>

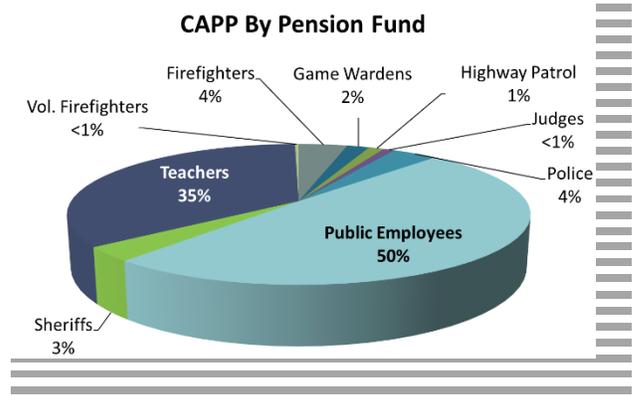
**State Treasurer's Fund By Investment Type**



# INVESTMENT POOLS

## Consolidated Asset Pension Pool (CAPP)

The Board's CAPP is only used by the pension systems. There are currently eight approved pension asset classes (PAC) held within this combined investment pool. All pension funds are invested prudently with the diversification necessary to mitigate risk. All pension assets are governed by a Board approved investment policy statement that includes asset allocation policy categories and ranges established by the Board.



As part of the asset allocation approved by the Board in November 2020, the Private Equity PAC was renamed the Private Investments PAC and the Natural Resource PAC was renamed the Real Assets PAC. The Private Investments PAC holds Private Equity and Private Credit portfolios. The Real Assets PAC holds Commodities, Infrastructure, and TIPS portfolios. These changes were effective in January 2021. The changes did not have an impact on the underlying values of the securities within the CAPP.

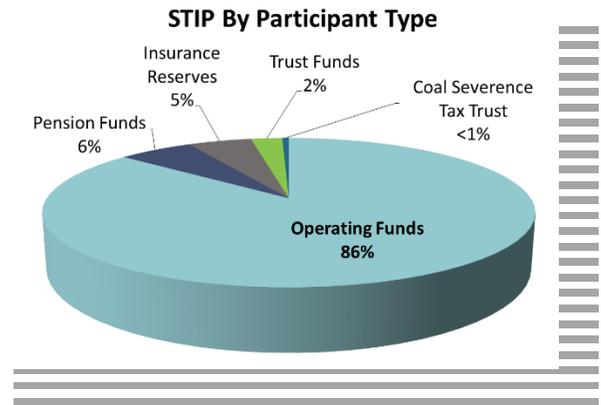
### CAPP Asset Allocations

Pension Asset Class	Range Low	Range High	Allocation as of 6/30/21
Domestic Equities	24%	36%	30.9%
International Equities	12%	22%	17.3%
Private Investments	11%	19%	14.7%
Core Fixed Income	10%	20%	14.5%
Real Estate	5%	13%	9.3%
Non-Core Fixed Income	4%	8%	6.2%
Real Assets	2%	8%	4.5%
Cash	0%	6%	2.5%

*Table Comments: The combined cash at the plan level and the CAPP level is subject to the range. Montana Public Retirement Plans shall have no greater than 5% of the Net Asset Value managed by any one external manager using an active investment strategy.*

## Short-Term Investment Pool (STIP)

Created in 1973, the Board’s STIP is used by state agencies, local governments, and the retirement systems as an alternative to idle cash. The STIP investments are short-term, highly liquid, and among the safest obtainable. Although not a money market fund, the STIP is structured in a similar way. Its yield tends to be higher than average money market yields due to lower expenses and an ability to make some investments in securities with slightly longer maturities. The chart to the right shows the percent of shares by participant type as of June 30, 2021.



### STIP Asset Allocations

Asset Class	% as of 6/30/21
Commercial Paper	56.5%
Treasury	10.6%
Sovereign Agency Debt	9.4%
Certificates of Deposit	8.2%
Corporate Bonds	7.7%
U.S. Treasuries	3.8%
Cash/Cash Equivalents	2.6%
Money Market Funds	1.2%

*Table Comments: STIP’s cash and cash equivalents generally are short-term, highly liquid investments with maturities of three months or less at the time of purchase measured at cost and fair value.*

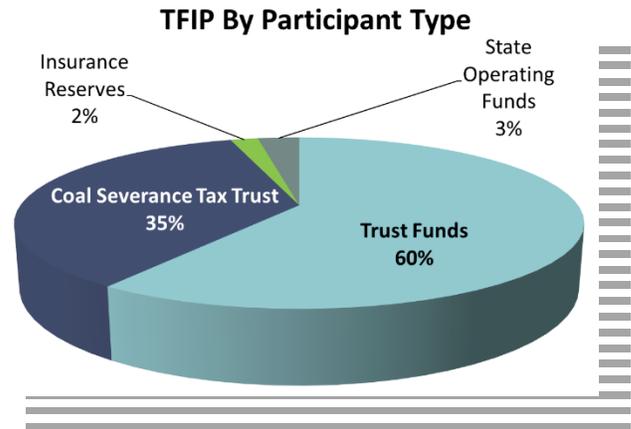
The STIP is not Federal Deposit Insurance Corporation (FDIC) insured, otherwise insured, or guaranteed by the federal government, the state of Montana, the Board, or any other entity against investment losses. The Board maintains a reserve fund to offset possible losses and limits fluctuations in the STIP’s Fiduciary Net Position Held in Trust for Participants.

The STIP provides participants ready access to cash. Shares are transacted at \$1.00. Fractional shares may be purchased and participants may buy or sell shares with one business day’s notice. The nearly \$6.3 billion in pool investments are managed by Board staff. There were over 538 accounts invested in the STIP during the year including 181 local government accounts. All investments are made by Board staff and all income is distributed to participants on the first day of the month. The pool reported net earnings for state and local government agencies of \$10.4 million (unaudited) in Fiscal Year 2021.

## Trust Funds Investment Pool (TFIP)

Created in 1995, the TFIP is designed to provide participants exposure to a portfolio of income-producing assets. The use of a commingled pool allows for simplified investing and accounting, broader diversification, and thus less risk than would otherwise be available for individual participants.

The TFIP participants consist primarily of the state's trust funds. Each account participating in the TFIP is separately identified for accounting and recordkeeping purposes. The Board invests over \$2.7 billion for 59 trust funds, some of which were created and protected by the state Constitution. Other trusts have been created statutorily by the legislature or involve federal funds. Several trust funds were established as part of settlements between the state and private corporations to ensure environmental clean-up of polluted sites.



### TFIP Asset Allocations

Asset Class	% as of 6/30/21
Corporate	28.0%
Securitized	23.1%
Real Estate	15.7%
Treasury	14.2%
High Yield	7.8%
Government-Related	5.2%
Real Estate Debt	3.1%
Cash	2.2%
Montana Real Estate	<0.1%

Current income is important to these participants and the pool is managed for income generation rather than total rate of return. Income distributed includes interest accruals, discount/premium, accretion/amortization, and net securities lending income. The TFIP invests directly in the Asset Classes shown in the table above. Each Asset Class has an underlying set of investment objectives and investment guidelines. All realized capital gains and losses are retained in the pool.

## IN-STATE INVESTMENTS AND BOND GUARANTEES

In addition to the Board's In-State Loan Program, the Montana Legislature authorized other programs to use coal tax monies from various sub-funds. The Montana related investments made in the state including the Board's bond guarantees are shown in the table below. The In-State Loan Program balances are provided in the Coal Severance Tax Trust Fund section, Coal Tax – SMA table of this report.

### Montana Related Investments Made in the State of Bond Guarantees Fiduciary Net Position Held in Trust for Participants (In Millions)

Investment	SMA	CAPP	TFIP	Bond Guarantees	Grand Total
Coal Severance Tax Trust Fund:					
In-State Loan Program	\$172.2	\$ 0.0	\$ 0.0	\$ 0.0	\$ 172.2
Montana Facility Finance Authority Loans	12.0	0.0	0.0	0.0	12.0
Montana Science & Technology Alliance	8.0	0.0	0.0	0.0	8.0
Residential Mortgages	0.0	1.6	0.0	0.0	1.6
Direct Real Estate	0.0	0.0	21.1	0.0	21.1
INTERCAP Bond Guarantee	0.0	0.0	0.0	90.6	90.6
MFFA Bond Guarantee	0.0	0.0	0.0	100.2	100.2
<b>6/30/2021</b>	<b>\$ 192.2</b>	<b>\$ 1.6</b>	<b>\$ 21.1</b>	<b>\$190.8</b>	<b>\$ 405.7</b>

*Table Comments: The totals in the table above may not sum due to rounding differences. The amounts presented include receivable and payable accruals.*

**Bond Guarantees** - Through a statutory mechanism, the Board can pledge certain monies to credit enhance bondholder security for the [Montana Facility Finance Authority Program](#) and the Board's Enterprise Fund ([INTERCAP Revolving Loan Program](#)) which allows for low interest rates. Without intending any limitation, the Board has identified the STIP, TFIP, State Treasurer's Fund (see Operating Funds section), and the Coal Severance Tax Trust Fund as being legally available for such purposes. To date, the Board has not been required to provide loans to reserve accounts for either program and no tendered INTERCAP Bonds have been required to be purchased by the Board.

# ENTERPRISE FUND

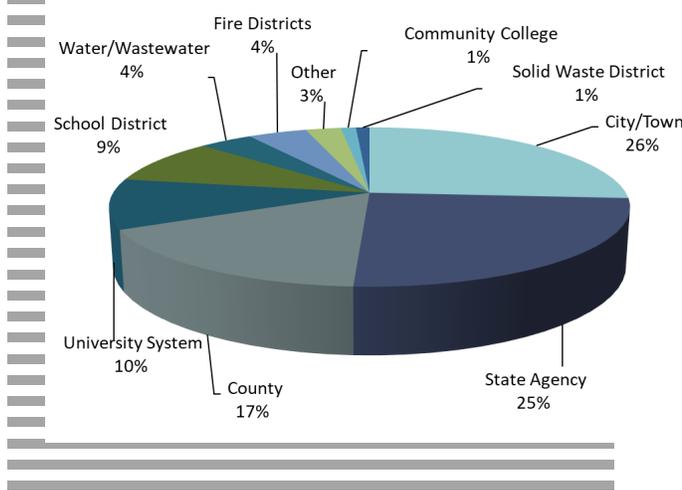
The Board uses the Enterprise Fund to account for its programs created under the Municipal Finance Consolidation Act (MFCA) and Economic Development Act. The Enterprise Fund Financial Statement provides information on all the programs defined under this fund. The following focuses on the active MFCA authorized programs with significant impact on the Enterprise Fund.

## INTERCAP REVOLVING LOAN PROGRAM

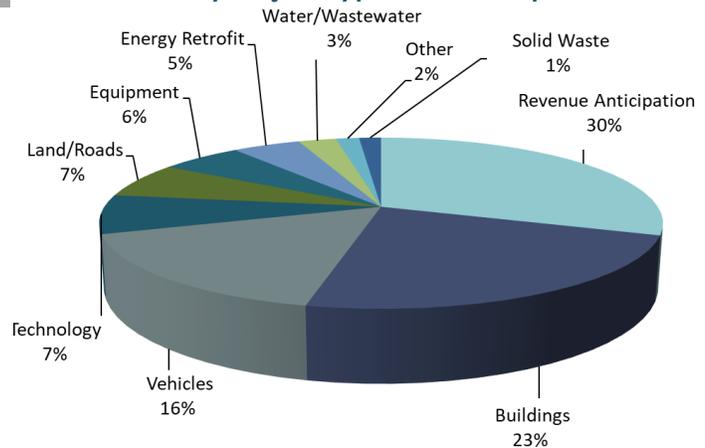
The Board has provided low interest loans to Montana state agencies, universities, and local governments for various projects for over 30 years. The Board's INTERCAP Revolving Loan Program (INTERCAP) has loaned \$635.6 million statewide and issued \$168.0 million in bonds with \$90.6 million outstanding at June 30, 2021. Loan interest rates are reset every February. The loan rate from February 16, 2020 to February 15, 2021 was 2.50%. In response to the COVID-19 pandemic, the loan rate was decreased to 1.00% for the period between February 16, 2020 to August 15, 2020. The loan rate for February 16, 2021 to February 15, 2022 is 1.65%.

Over 80% of all Montana counties and municipalities have financed projects through INTERCAP.

**Loans By Borrower Type Since Inception**



**Loans By Project Type Since Inception**



The Board makes firm one-year commitments to fund the loans. On average, over the past five fiscal years, the program committed to \$29.4 million and funded \$29.8 million in loans. In fiscal year 2020, the program estimated fiscal year 2021 commitments and fundings would be approximately \$25 million. In fiscal year 2021, the program committed to \$26.7 million and funded \$25.6 million in loans. Due to the American Rescue Plan Act (ARPA) of 2021 economic stimulus bill, the program anticipates eligible borrowers needing less loan funds to finance projects and estimates the Board will commit to and fund under \$20 million in fiscal year 2022.

The table below compares the INTERCAP bonds outstanding vs. borrower loans in relation to the loan interest rate in effect at the time.

<b>Fiscal Year</b>	<b>Borrower Loans Outstanding</b>	<b>INTERCAP Bonds Outstanding</b>	<b>Loan Interest Rate</b>
FY21	72,066,150	90,600,000	1.65%
FY20	69,002,636	90,670,000	2.50%
FY19	79,637,758	105,065,000	3.37%
FY18	81,018,625	105,110,000	3.15%
FY17	94,690,437	107,880,000	2.50%
FY16	80,521,314	97,340,000	1.55%
FY15	82,503,298	106,435,000	1.25%
FY14	79,037,404	106,450,000	1.00%
FY13	75,317,110	106,615,000	1.00%
FY12	79,858,293	95,030,000	1.25%
FY11	75,552,672	95,530,000	1.95%
FY10	79,423,267	96,075,000	1.95%
FY09	77,714,731	88,620,000	3.25%
FY08	77,344,278	98,045,000	4.25%
FY07	66,923,842	98,460,000	4.85%
FY06	69,638,926	83,620,000	4.75%
FY05	64,742,704	84,280,000	3.80%
FY04	64,920,841	90,555,000	2.70%
FY03	52,768,387	72,190,000	2.85%
FY02	48,541,101	57,290,000	3.15%
FY01	43,695,135	57,680,000	4.75%
FY00	43,292,502	47,610,000	5.60%
FY99	38,813,975	47,930,000	4.30%
FY98	38,512,977	48,000,000	4.85%
FY97	25,211,446	35,910,000	4.75%
FY96	17,450,000	26,060,000	4.85%
FY95	14,900,000	19,580,000	6.40%

*Table Comments: FY20, in response to the COVID-19 pandemic, the loan rate was decreased to 1.00% for the period between February 16, 2020 to August 15, 2020.*

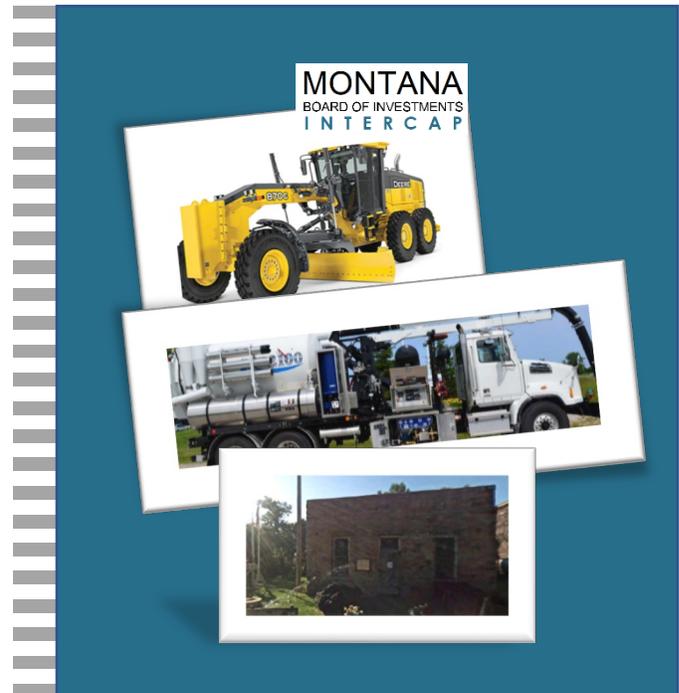
Through a statutory mechanism, the Board is allowed to pledge certain monies as a guarantee on these loans which allows for the low interest rate. To date (without intending any limitation) the Board has identified the STIP, TFIP, State Treasurer's Fund (see Operating Funds section), and the Coal Severance Tax Trust Fund as being legally available for such purposes.

INTERCAP loans have been very high credit quality and the Board has never suffered a loss. This is because of reasonable underwriting standards and the credit soundness of State of Montana agencies, boards, authorities, and local governments.

## INTERCAP Program Highlights

To highlight a few of this year's projects used to better serve Montana's communities and way of life, the Program financed equipment upgrades such as Custer County's motor grader, the City of Ronan's sewer jet/vacuum combination truck similar to those pictured to the right, and a residence for a deputy sherriff in the City of Belt as part of the Cascade County Sheriff's Office Resident Deputy Program (RDP).

With the rising cost of law enforcement, the RDP paved the way for small communities in Cascade County to have a resident law enforcement officer when a municipality is unable to sustain a local police force. The RDP is cost effective and helps maintain a sense of community with law enforcement.



## OTHER BOND PROGRAMS

- ***Qualified Zone Academy Bond Program (QZAB)***

This program allows qualifying school districts to borrow money at no or nominal interest rates by issuing qualified zone academy bonds. The Board acts as a legal funding conduit only and has no pecuniary liability for the repayment of the bonds. As of June 30, 2021, eleven school districts issued over \$13.7 million in QZAB bonds.

- ***Qualified School Construction Bond Program (QSCB)***

This program allows qualifying school districts to borrow money at no or nominal interest rates by issuing qualified school construction bonds. The Board acts as a legal funding conduit only and has no pecuniary liability for the repayment of the bonds. As of June 30, 2021, two school districts issued just under \$8.37 million in QSCB bonds.

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# MONTANA

BOARD OF INVESTMENTS



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