

An aerial photograph of a Montana landscape. In the background, snow-capped mountains rise above a large, calm lake. The middle ground features a smaller lake and a dense forest of evergreen trees. A winding road or path cuts through the forest in the foreground. The overall scene is serene and scenic, representing the natural beauty of Montana.

# MONTANA

## BOARD OF INVESTMENTS

ANNUAL REPORT 2023



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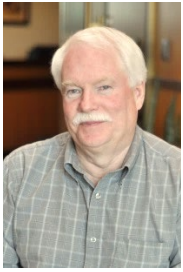
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Special Note: The numbers within this annual report are unaudited and may be subject to change in the audit process. The audited Unified Investment Program and Enterprise Fund Financial Statements will be made available once the Legislative Audit Division 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. The Board's website [Annual Reports & Audits](#) will also contain a link.

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## BOARD MEMBERS



Jack Prothero  
Board Chair  
Representing  
Financial  
Term Ending  
1/1/2025



Mark Barry  
Representing  
Financial  
Term Ending  
1/1/2025  
Committees:  
• Audit Chair  
• Loan



Porter Bennett  
Representing  
Agriculture  
Term Ending  
1/1/2027  
Committees:  
• Audit  
• Loan



Dwaine Iverson  
Representing  
Financial  
Term Ending  
1/1/2026  
Committees:  
• Audit



Dr. Tim Kober  
Representing  
Labor  
Term Ending  
1/1/2027  
Committees:  
• HR  
• Loan



Jeff Meredith  
Representing  
Small Business  
Term Ending  
1/1/2025  
Committee:  
• Loan Chair  
• HR



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

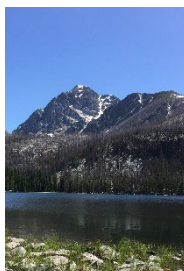


Daniel Trost  
Representing  
TRS  
Term Ending  
1/1/2025  
Committees:  
• Audit  
• HR



Cindy Younkin  
Representing  
Law  
Term Ending  
1/1/2027  
Committee:  
• Loan  
• HR

## NON-VOTING LEGISLATIVE LIAISONS



VACANT  
  
House of  
Representatives  
Liaison  
Term Ending  
1/1/2024



Senator  
Jeremy Trebas  
Senate Liaison  
  
Term Ending  
1/1/2024

# BOARD OF INVESTMENTS STAFF



- ❖ Dan Villa, Executive Director
- ❖ Jon Putnam, CFA, CAIA, FRM, Chief Investment Officer
- ❖ Peggy MacEwen, SPHR, SHRM-SCP, Deputy Director
  
- ❖ Polly Boutin, Associate Financial Manager
- ❖ Jason Brent, CFA, CAIA, Director of Public Markets
- ❖ John Carpenter, CPA, Accounting Bureau Manager
- ❖ Roberta Diaz, Investment Accountant
- ❖ Julie Feldman, CPA, Financial Manager/Comptroller
- ❖ Willie Gross, Investment Analyst – Fixed Income
- ❖ Kirsten Haswell, Investment Officer – Fixed Income
- ❖ Doug Hill, Director of the In-State Loans
- ❖ Matthew Hoffman, Investment Analyst – Investment Operations
- ❖ Samantha Holman, Investment Analyst – Fixed Income
- ❖ Ian Horwood, CFA, Investment Analyst – Private Investments
- ❖ Tim House, Investment Analyst – Investment Operations
- ❖ Ethan Hurley, CAIA, Director of Real Estate/Real Assets
- ❖ Sheli Jacoby, Investment Accountant
- ❖ Eron Krpan, CFA, CIPM, Director of Investment Operations
- ❖ Tammy Lindgren, Investment Accountant
- ❖ Mark Lodman, Network Administrator
- ❖ Savannah Morgan, Office Manager/Board Secretary
- ❖ John Romasko, CFA, Director of Fixed Income
- ❖ Peggy Saarela, Administrative Assistant/Credit Analyst
- ❖ Jessilynn Salois, Investment Accountant
- ❖ Rob Sampson, CFA, Investment Analyst – Real Estate/Real Assets
- ❖ Steve Strong, CFA, Investment Analyst – Public Markets
- ❖ Brenda Thomas, Investment Accountant
- ❖ Louise Welsh, Senior Bond Program Officer
- ❖ Dan Whyte, Chief Legal Counsel
- ❖ Thomas Winkler, CAIA, Director of Private Investments
- ❖ Daniel Zarling, CFA, CIPM, Director of Risk Management
  
- ❖ Investment Officer – VACANT
- ❖ Investment Analyst – 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, 2023, the Board of Investments managed over \$27.1 billion in pension funds, trust funds, insurance reserves, 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 that entrust those funds to the Board. The Board approves all Investment Policy Statements. The Board's portfolio is available for viewing on its [FY2023 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	\$ 147.2	\$ 0.0	\$13,977.9	\$ 0.0	\$ 0.0	\$ 0.0	\$14,125.1
Trust Funds	88.8	1,624.4	0.0	0.5	0.0	0.0	1,713.7
Coal Sev. Tax Trust	28.6	971.1	0.0	184.9	0.0	0.0	1,184.6
Insurance Reserves	357.3	56.8	0.0	1,422.6	0.0	0.0	1,836.7
Operating Funds	7,773.4	336.3	0.0	78.6	0.0	0.0	8,188.3
STIP in Pool	158.5	0.0	0.0	0.0	(158.5)	0.0	0.0
STIP Reserve		0.0	0.0	0.0	0.0	68.6	68.6
STIP Apprec./Deprec.	0.7	0.0	0.0	0.0	0.0	0.0	0.7
<b>6/30/2023</b>	<b>\$ 8,554.5</b>	<b>\$2,988.6</b>	<b>\$13,977.9</b>	<b>\$1,686.6</b>	<b>\$ (158.5)</b>	<b>\$ 68.6</b>	<b>\$27,117.7</b>

*Table Comments: The table represents the amount each fund type has invested in the Short-Term Investment Pool (STIP), Trust Funds Investment Pool (TFIP), Consolidated Asset Pension Pool (CAPP), and Separately Managed Accounts (SMA). The amounts presented include receivable and payable accruals. Appreciation/depreciation on STIP assets classified as Cash and Cash Equivalents are reported at cost on the financial statements.*

## ASSET MANAGEMENT

**Internal and External** - Approximately 51% 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** - Approximately 81% of the investments are actively managed. The actively managed assets are primarily fixed income assets managed internally by the Board's own investment staff at a lower cost than possible by an external manager with 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 System (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	\$ 68.9	\$ 6,840.7	\$ 6,909.6
Teachers' Retirement	54.5	4,835.2	4,889.7
Firefighters' Retirement	6.4	615.2	621.6
Police Retirement	5.8	559.9	565.7
Sheriffs' Retirement	5.2	488.7	493.9
Game Wardens' Retirement	2.8	277.7	280.5
Highway Patrol Retirement	1.8	184.1	185.9
Judges' Retirement	1.3	129.3	130.6
Vol. Firefighters' Retirement	0.5	47.1	47.6
<b>6/30/2023</b>	<b>\$ 147.2</b>	<b>\$ 13,977.9</b>	<b>\$ 14,125.1</b>

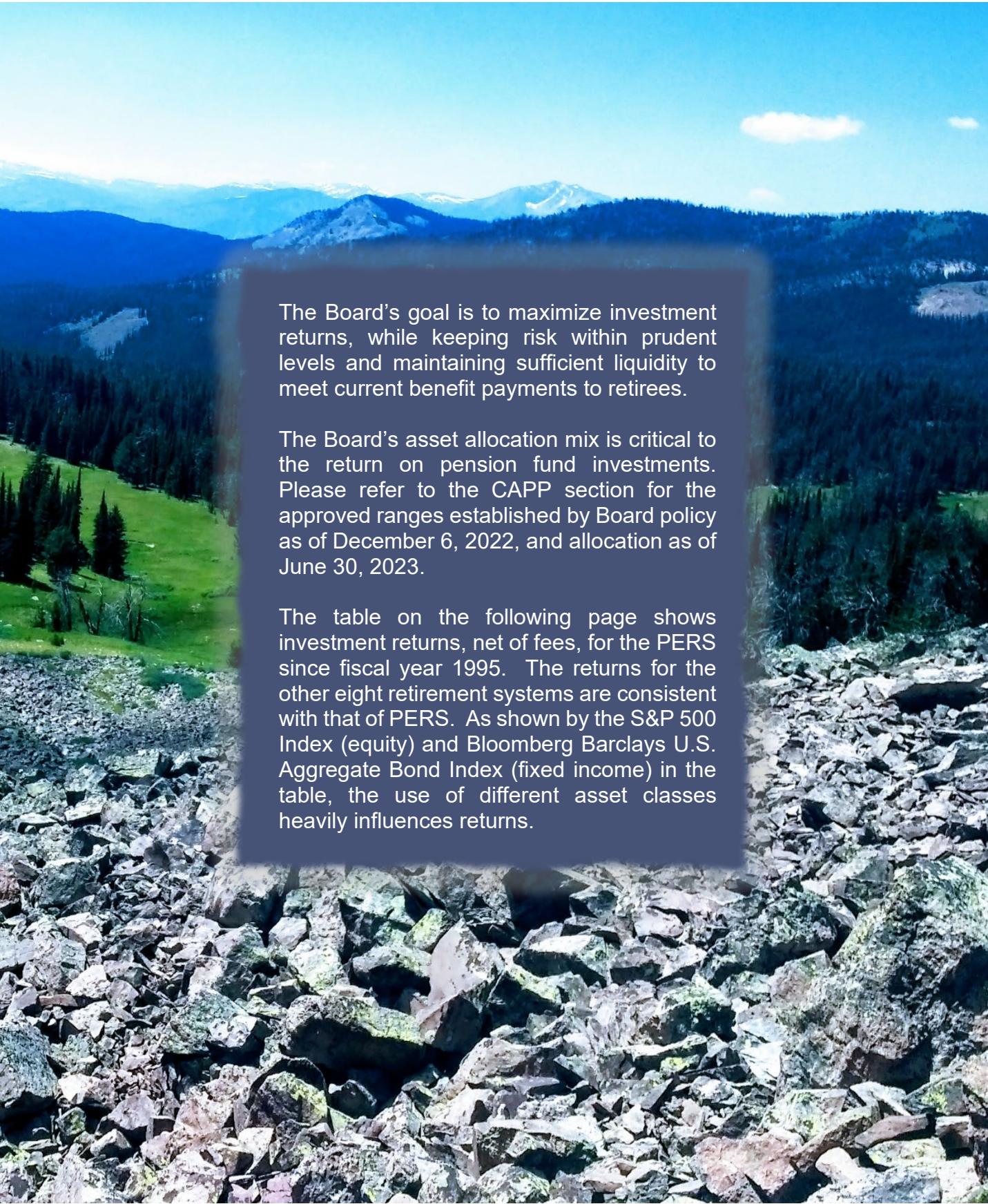
*Table Comments: The amounts presented include receivable and payable accruals.*

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 December 6, 2022, and allocation as of June 30, 2023.

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
Inception to Date	7.71%	10.35%	4.59%
Fiscal Year	PERS	S&P 500	Bloomberg
FY23	8.50%	19.59%	-0.94%
FY22	-4.32%	-10.62%	-10.29%
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.  
FY22 Higher global interest rates.

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 nearly \$3 billion for over 60 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, followed by the Severance Tax Bond Fund, the Montana Coal Endowment Fund, the Montana Coal Endowment Regional Water Fund, the Big Sky Economic Development Fund, the School Facilities Fund, and the Conservation District Fund. Beginning in fiscal year 2024, the School Facilities Fund's 75% allocation of the coal severance tax revenue drops to 10% until its fund balance reaches \$300 million. The Conservation District Fund receives the remaining 65% allocation until its fund balance reaches \$100 million. Once the balance reaches \$100 million, the 65% allocation will revert to a newly created Coal Board Fund. 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.
- Montana Coal Endowment Fund income is appropriated for local government infrastructure projects.
- Montana Coal Endowment Regional Water Fund income is appropriated for local government water projects.
- Big Sky Economic Development Fund income is appropriated for economic development projects .
- School Facilities Fund income is appropriated for school facility projects.
- Conservation Districts Fund income is appropriated to promote natural resource conservation.

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)**

<b>Sub-Trust Fund Name</b>	<b>STIP</b>	<b>TFIP</b>	<b>SMA</b>	<b>Grand Total</b>
Permanent Fund	\$ 14.9	\$ 355.5	\$ 184.9	\$ 555.3
Montana Coal Endowment Fund	3.1	270.9	0.0	274.0
Big Sky Economic Development Fund	2.8	134.5	0.0	137.3
School Facilities Fund	5.7	116.4	0.0	122.1
Montana Coal Endowment Regional Water Fund	1.2	93.8	0.0	95.0
Severance Tax Bond Fund	0.9	0.0	0.0	0.9
<b>6/30/2023</b>	<b>\$ 28.6</b>	<b>\$ 971.1</b>	<b>\$ 184.9</b>	<b>\$ 1,184.6</b>

*Table Comments: 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 following pages 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)**

<b>Montana Mortgages and Loans</b>	<b>Permanent Coal Trust</b>
In-State Loans and Mortgages:	
Business Loan Participation Program	\$ 91.9
Veterans' Home Loan Program	49.1
Coal Trust Multifamily Homes Program	11.0
Infrastructure Loan Program	9.8
Intermediary Relending Loan Program	5.2
Value-Added Loan Program	0.0
Montana Facility Finance Authority	10.3
Montana Science & Technology Alliance	7.6
<b>6/30/2023</b>	<b>\$ 184.9</b>

*Table Comments: The amounts presented include receivable and payable accruals.*



## Coal Tax – SMA Permanent 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 ***Coal Trust Multifamily Homes 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 \$65 million.

## In-State Loan Program Highlights

The Farmers Union Oil Company is a local agricultural co-operative headquartered in Circle, Montana. The Board's In-State Business Loan Participation Program participated in 55% of a nearly \$4.5 million loan and the Board's Montana Down Payment Assistance Loan Program provided \$1.8 million at 0% interest to provide long-term financing for a new fertilizer plant.





## 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, 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 and 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 and Mortgages	\$167.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 167.0
Montana Facility Finance Authority Loans	10.3	0.0	0.0	0.0	10.3
Montana Science & Technology Alliance	7.6	0.0	0.0	0.0	7.6
Residential Mortgages	0.0	0.8	0.0	0.0	0.8
Direct Real Estate	0.0	0.0	32.1	0.0	32.1
INTERCAP Bond Guarantee	0.0	0.0	0.0	68.7	68.7
MFFA Bond Guarantee	0.0	0.0	0.0	109.1	109.1
<b>6/30/2023</b>	<b>\$ 184.9</b>	<b>\$ 0.8</b>	<b>\$32.1</b>	<b>\$177.8</b>	<b>\$ 395.6</b>

*Table Comments: The amounts presented include receivable and payable accruals.*

**Bond Guarantees** - The Board can pledge certain monies to credit enhance bondholder security for the [Montana Facility Finance Authority Program](#) (MFFA) and the Board's Enterprise Fund (INTERCAP Loan Program) which allows for lower interest rates through a statutory mechanism. As of June 30<sup>th</sup>, the Board had provided loan guarantees from the Coal Severance Tax Trust Fund and the Treasurer's Cash Fund to the Enterprise Fund for exposure to INTERCAP bond issues amounting to approximately \$68.7 million and from STIP, TFIP, and the Coal Severance Tax Trust Fund, to the MFFA amounting to approximately \$109.1 million. The Board has not had to perform on any bond or loan guarantee in the past.

## 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	\$ 6.9	\$ 0.0	\$ 0.0	\$ 6.9
Barker Hughesville Site Response	1.2	7.9	0.0	9.1
Belt Water Treatment Plant Fund	4.3	22.6	0.0	26.9
Butte Area One Restoration	1.0	5.1	0.0	6.1
Butte-Silver Bow Redevelopment Trust	1.1	11.9	0.0	13.0
Clark Fork River Restoration Trust	3.5	21.8	0.0	25.3
Clark Fork Site Response	3.8	48.3	0.0	52.1
Coal Tax Park Trust Fund	1.8	28.6	0.0	30.4
Cultural Trust	0.7	15.6	0.0	16.3
East Helena Compensation Fund	1.4	0.8	0.0	2.2
East Helena Greenway Project 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	3.1	7.0	0.5	10.6
Flying J CECRA Facilities Fund	0.4	2.3	0.0	2.7
Harold Hamm Endowment	0.0	0.1	0.0	0.1
Invasive Species Trust Fund	0.0	2.9	0.0	2.9
Libby Asbestos Site State Cost	0.8	4.1	0.0	4.9
Luttrill Pit Operations and Maintenance	0.3	1.7	0.0	2.0
Montana Historical Society Trusts	0.8	2.9	0.0	3.7
Montana Pole Superfund	4.0	15.5	0.0	19.5
Noxious Weed Management Trust	0.0	10.4	0.0	10.4
Older Montanans Trust	0.0	0.3	0.0	0.3
Potter Trust Fund	0.0	0.2	0.0	0.2
Public School Trust	0.0	876.5	0.0	876.5
Real Property Trust	0.5	6.8	0.0	7.3
Resource Indemnity Trust	0.0	107.1	0.0	107.1
Smelter Hill Uplands Restoration Fund	1.3	7.3	0.0	8.6
Streamside Tailings Fund	2.0	14.7	0.0	16.7
Tobacco Trust	6.2	292.9	0.0	299.1
Upper Blackfoot Response	1.0	0.1	0.0	1.1
UCFRB Reserve Fund	0.5	21.2	0.0	21.7
UCFRB Restoration Fund	1.6	66.7	0.0	68.3
Wildlife Habitat Trust	1.1	15.0	0.0	16.1
Yellowstone Exxon Settlement Fund	1.8	4.1	0.0	5.9
Zortman/Landusky Trust	21.1	0.0	0.0	21.1
Zortman/Landusky Water	16.2	0.0	0.0	16.2
<b>6/30/2023</b>	<b>\$ 88.8</b>	<b>\$ 1,624.4</b>	<b>\$ 0.5</b>	<b>\$ 1,713.7</b>

Table Comments: The amounts presented include receivable and payable accruals. A fund may be one trust or a combination of several smaller trusts.

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



# INSURANCE RESERVES

The Board invests approximately \$1.8 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	\$ 21.9	\$ 0.0	\$ 1,410.7	\$ 1,432.6
Other Insurance Funds:				
Agency Insurance	120.7	0.0	0.0	120.7
Employee Group Benefits	90.5	37.1	2.2	129.8
Montana University System Group Ins.	87.3	12.8	1.8	101.9
MUS Workers Compensation	9.9	4.0	0.0	13.9
Unemployment Insurance Benefits	17.7	0.0	0.0	17.7
Defined Contribution Disability	0.7	0.0	7.9	8.6
Uninsured Employers	3.0	0.0	0.0	3.0
Hail Insurance	4.8	2.9	0.0	7.7
Subsequent Injury	0.8	0.0	0.0	0.8
<b>6/30/2023</b>	<b>\$ 357.3</b>	<b>\$ 56.8</b>	<b>\$ 1,422.6</b>	<b>\$ 1,836.7</b>

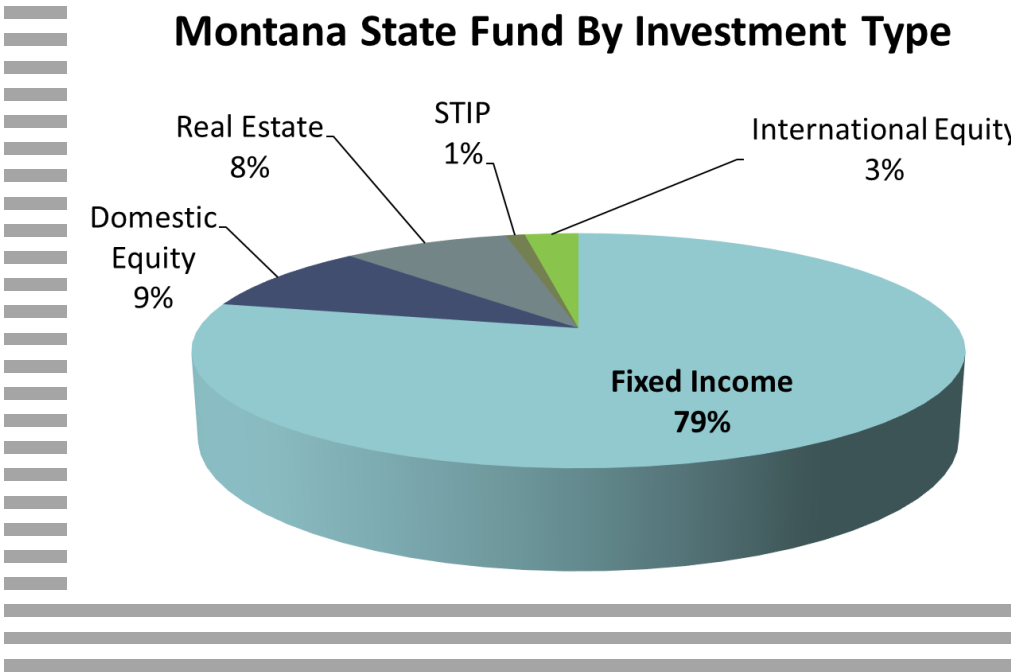
Table Comments: The amounts presented include receivable and payable accruals.

[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 workplace injuries or illnesses. 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 approximately \$1.4 billion in investments on behalf of the MSF as of June 30, 2023.

Montana State Fund Returns	1-Year	2-Year	10-Year
	2.11%	-2.03%	3.29%



## 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) in the STIP. An agency may have funds other than ordinary operating monies that can prudently have a longer-term investment outlook and 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	\$ 4,346.1	\$ 218.2	\$ 70.9	\$ 4,635.2
Local Governments	1,830.4	0.0	0.0	1,830.4
State Agency	1,443.8	0.0	0.0	1,443.8
Montana State University-Bozeman	51.4	57.8	0.0	109.2
University of Montana-Missoula	51.4	29.4	4.7	85.5
FWP License	42.1	30.1	3.0	75.2
Montana Technological University	8.1	0.5	0.0	8.6
Montana Historical Society	0.1	0.3	0.0	0.4
<b>6/30/2023</b>	<b>\$ 7,773.4</b>	<b>\$ 336.3</b>	<b>\$ 78.6</b>	<b>\$ 8,188.3</b>

*Table Comments: The amounts presented include receivable and payable accruals.*

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

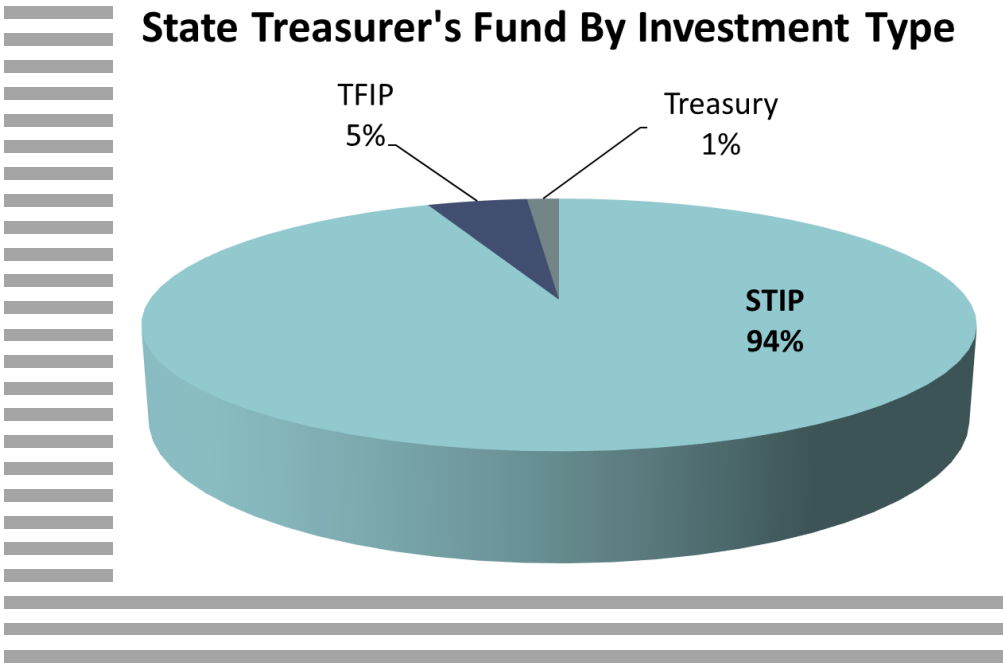
Although state agencies with accounts that retain their interest earnings are legally required to invest in the STIP, local government entities can by statute voluntarily invest in the STIP as provided in Section 17-6-204, MCA.



# 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 Debt and Liability Free Account within the state special 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 has been a major participant in STIP since its creation in 1973. The investment returns shown below are net of fees. The State Treasurer’s Fund investment balance as of June 30, 2023, was approximately \$4.6 billion.

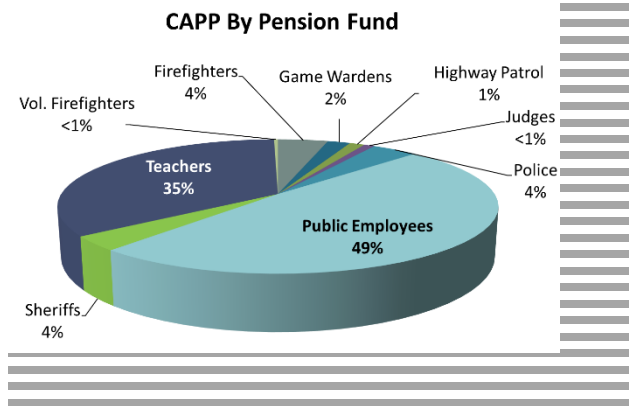
State Treasurer’s Fund Returns	1-Year 3.50%	2-Year 1.77%	10-Year 1.08%
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# INVESTMENT POOLS

## 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.



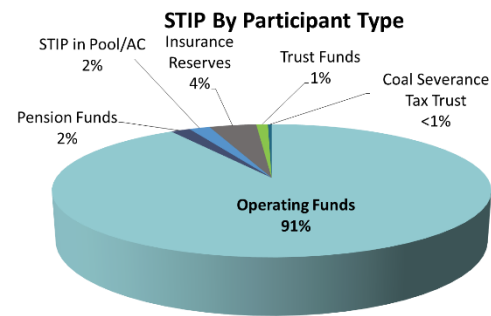
## CAPP Asset Allocations

Pension Asset Class	Range Low	Range High	Allocation as of 6/30/23
Domestic Equities	23%	35%	28.4%
Private Investments	12%	20%	17.3%
International Equities	10%	20%	14.8%
Core Fixed Income	9%	19%	13.2%
Real Estate	7%	15%	12.0%
Non-Core Fixed Income	5%	9%	6.4%
Real Assets	3%	9%	6.1%
Cash	0%	5%	1.8%

*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)

The STIP was created in 1973 and 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. The STIP is structured similarly to a money market fund. 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, 2023.



## STIP Asset Allocations

Asset Class	% as of 6/30/23
Commercial Paper	53.0%
Certificates of Deposit	20.6%
Federal Agencies	11.0%
Treasury	8.1%
Money Market Funds	4.8%
Corporate Notes	2.5%

*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.

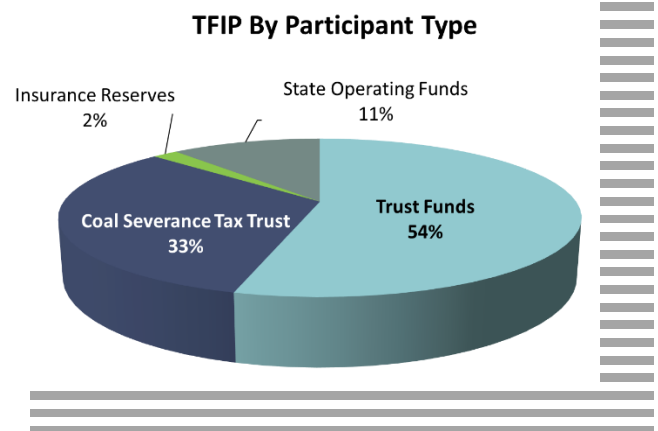
The STIP provides participants ready access to cash. Shares are transacted at \$1.00. Fractional shares may be purchased and participants may buy or sell shares with one business day notice. The \$8.6 billion in investments are managed by Board staff. There were approximately 545 accounts invested in the STIP during the year including over 185 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 approximately \$305.3 million (unaudited) in fiscal year 2023.



## Trust Funds Investment Pool (TFIP)

The TFIP was created in 1995 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 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 approximately \$3 billion for over 60 trust funds, some of which were created and protected by the state Constitution. Other trusts have been created statutorily by the legislature or through receipt of 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 6/30/23
Fixed Income	67.0%
Real Estate	24.8%
Non-Core Fixed Income	7.6%
Real Assets	0.6%

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 as shown. Each Asset Class has an underlying set of investment objectives and investment guidelines. All realized capital gains and losses are retained in the pool.

# ENTERPRISE FUND

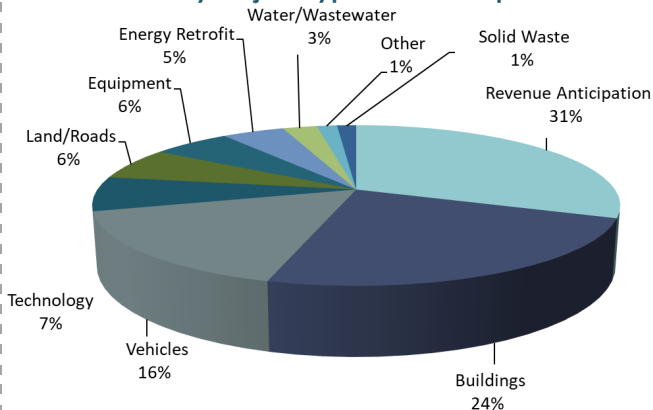
The Board uses the Enterprise Fund to account for its programs created under the Municipal Finance Consolidation Act (MFCA) and Economic Development Act. The Enterprise Fund Financial Statement provides information on all the programs defined under this fund. The following focuses on the active MFCA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

## INTERCAP LOAN PROGRAM

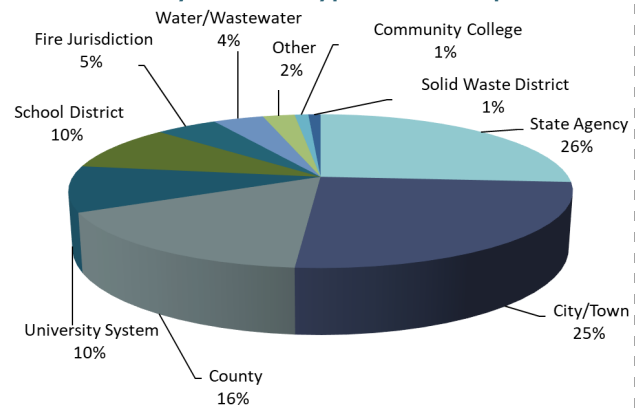
The Board has provided low interest loans to Montana state agencies, universities, and local governments for various projects. INTERCAP has loaned \$675.5 million statewide since its inception. As of June 30, 2023, there is \$68.7 million outstanding on the bond used to fund the loans. Loan interest rates are reset every February. The loan rate from February 16, 2022, to February 15, 2023, was 1.55% (1.50% autopay). The loan rate for February 16, 2023, to February 15, 2024, is 6.00% (5.75% autopay).

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

Loans By Project Type Since Inception



Loans By Borrower Type Since Inception



The Board makes firm one-year commitments to fund the loans. The program committed to \$25.8 million and funded \$24.3 million on average over the past five fiscal years. The program estimated that the fiscal year 2023 commitments and fundings would be under \$20 million. The program committed to \$23.4 million and funded \$19.6 million in fiscal year 2023. It is expected the remnants of the American Rescue Plan Act funds and the rising inflation will continue to have an impact on the eligible borrowers' project budgets and financing needs in fiscal year 2024. The program estimates the Board will commit to and fund under \$20 million in fiscal year 2024.

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>
FY23	68,694,101	68,706,869	5.75%
FY22	69,203,350	68,706,869	1.50%
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%

*Table Comments: FY22 and FY23 reflects the reduced Autopay rate. 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.*



The Board is allowed to pledge certain monies as a guarantee on these loans which allows for the lower interest rate through a statutory mechanism. To date (without intending any limitation) the Board has identified the 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 of very high credit quality and the Board has never suffered a loss. This is attributed to underwriting standards and the credit soundness of state of Montana agencies, boards, authorities, and local governments.

## **INTERCAP Highlights**

The Board welcomed six new borrowers from the school and fire district sectors to the program this fiscal year financing various projects. The program is beginning to see loan requests to finance teacher housing demonstrating the growing need for affordable housing in the state.

## **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, 2023, eleven school districts issued over \$13.6 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, 2023, two school districts issued over \$8.3 million in QSCB bonds.



## MONTANA DOWN PAYMENT ASSISTANCE PROGRAM

Created in December 2021 by Governor Gianforte, the Montana Down Payment Assistance Program is a public-private partnership between the state of Montana and Montana banks, credit unions, and economic development agencies.

The Montana Down Payment Assistance Program purpose is to help finance the acquisition of equipment, new construction, or purchase of real estate or buildings with improvements for Montana businesses. The Board provided zero-interest loans for up to 25 years that range in size from \$100,000 to \$3 million.

The Governor's Office of Budget and Program Planning and the Board developed the program. The 67<sup>th</sup> Legislature created the ARPA Economic Transformation and Stabilization and Workforce Development Advisory Commission to oversee the ARPA programs created by the Department of Commerce. With the commission's unanimous, bipartisan recommendation, Governor Gianforte allocated \$37 million for the program to the Board.

The funds allocated were reserved in six business days leveraging \$125 million in economic activity across Montana. As of June 30, 2023, the program's outstanding loan balance is \$26.9 million.

# MONTANA HOUSING ASSISTANCE PROGRAMS

The 2023 Legislature passed House Bill 819 (HB819) in response to the growing need for affordable housing in the state. The legislation designated the Board to invest the following funds as provided by law.

## MONTANA HOUSING INFRASTRUCTURE REVOLVING LOAN FUND

In August 2023, the \$106 million HB819 allocation was transferred into the new Montana Housing Infrastructure Revolving Loan Fund account to be used as a financing resource for affordable housing infrastructure projects. The cash is invested in STIP in anticipation of funding loans for the following SMA programs within the fund.

**Montana Housing Infrastructure Revolving (MHIR) Programs** – The following programs have been formed to help local governments and housing developers lower the cost of affordable housing infrastructure development. A minimum gross density of 10 units for each acre is required to participate. Other restrictions apply. Please see the Board’s website for further information.

- The ***MHIR Bond Program*** allows the Board to participate up to 50% of a local government security at a rate up to 25% of the co-purchaser’s rate exclusive of any fees. The security may have up to a 20-year term. The funds must be used to expand or extend water, wastewater, storm water, street, road, curb, gutter, and sidewalk infrastructure to serve new or rehabilitated residential development.
- The ***MHIR Loan Program*** provides up to 20-year term loans to eligible local governments or developers not to exceed \$1 million or 50% of the project costs. The interest rate is posted weekly on the Board’s website and locked in on the reservation date. The funds must be used to cover the costs of demolition or to expand or extend water, wastewater, storm water, street, road, curb, gutter, and sidewalk infrastructure to serve new or rehabilitated residential development.
- The ***Impact Fee Loan Program*** provides up to 24-month zero interest loans to housing developers to help pay local government fees and eliminate the carrying costs of expanding housing opportunities in Montana. The funds must be used to pay impact fees, latecomer fees, or other state/local government-imposed administration fees. A maximum of \$3 million participation per project is allowed. Total loans outstanding in this program are limited to \$15 million.
- The ***HOMES/NON-HOMES Linked Deposit Programs*** help lower interest rates during the construction period by means of fully collateralized, interest-bearing Demand Deposit Accounts at Montana domiciled banks and credit unions for up to a 24-month term. The funds deposited must be used for affordable housing development construction loans. The bank or credit union earns the first 3.5% of the Federal Home Loan Bank Community Advance Straight Line Amortizing (two-year construction loan rate. Total deposits in these programs combined are limited to \$75 million.

## MONTANA WORKFORCE HOUSING FUND

Additionally, HB819 selected the Board to manage a new \$12 million Montana Workforce Housing Fund. These funds must be used towards the construction or purchase of workforce housing specific to counties with less than 15,000 inhabitants within a 30-mile radius of a state facility housing at least 100 state inmates or behavioral health patients.



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# MONTANA

BOARD OF INVESTMENTS



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