

MONTANA

BOARD OF INVESTMENTS



FISCAL YEAR 2020 ANNUAL REPORT

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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. The cover photo was provided by staff taken in Montana's Anaconda-Pintler Wilderness.

MONTANA

BOARD OF INVESTMENTS

MESSAGE FROM THE CHAIRMAN

It is my pleasure to present our 2020 annual report to the Legislature, the Governor and the public.

It is a humbling and rewarding task for the Board of Investments and its 32 employees to oversee the only program specifically required in the Montana Constitution, the *Unified Investment Program (UIP)*. Since its inception in 1972, the Board invests essentially all the State's money from its pension funds, trust funds, insurance reserves, operating funds, and many local government funds. Today the Board manages approximately \$21.6 billion for all state agencies as well as 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 further 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 is perpetual, or for the very long term, when it comes to the pension systems. 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 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](#).

Over 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 'K. Englund'. The signature is fluid and stylized.

Karl J. Englund, Chairman

BOARD MEMBERS



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



Mark Noennig,
Billings
Board Vice Chair
Representing
Business
Term Ending
1/1/2021



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



Jim Edwards,
Helena
Representing Small
Business
Term Ending
1/1/2021
Audit Committee
Loan Committee



Diane Fladmo,
Helena
Representing Labor
Term Ending
1/1/2023
Audit Committee
HR Committee



Jeffrey Greenfield,
Shepherd
Representing TRS
Term Ending
1/1/2021
Audit Committee



Bruce Nelson,
Bozeman
Representing
Agriculture
Term Ending
1/1/2023
Audit Committee
Loan Committee



Maggie Peterson,
Anaconda
Representing PERS
Term Ending
1/1/2021
Audit Committee
Chair
HR Committee



Jack Prothero,
Great Falls
Representing Financial
Community
Term Ending 1/1/2021
Loan Committee Chair
HR Committee

NON-VOTING LEGISLATIVE LIAISONS



Representative
Jim Hamilton,
Bozeman
House of
Representatives
Liaison
Term Ending
12/31/2020



Senator
Fred Thomas,
Stevensville
Senate Liaison
Term Ending
12/31/2020

BOARD OF INVESTMENTS STAFF

- Dan Villa, Executive Director
- Jon Putnam, CFA, CAIA, FRM, Chief Investment Officer
- Peggy MacEwen, Deputy Director
- Rande Muffick, CFA, Deputy Chief Investment Officer, Director of Public Markets
- Julie Feldman, CPA, Financial Manager

- Polly Boutin, Associate Financial Manager
- Jason Brent, CFA, CAIA, Investment Officer – Public Markets
- John Carpenter, CPA, Investment Analyst – Fixed Income
- Roberta Diaz, Investment Accountant
- 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
- 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
- April Madden, Investment Accountant
- Savannah Morgan, Bond Program Officer
- Michael Nguyen, Director of Private Investments
- John Romasko, CFA, Director of Fixed Income
- Steve Strong, Investment Analyst – Public Markets
- Sue Tinsley, Office Manager
- Louise Welsh, Senior Bond Program Officer
- Thomas Winkler, CAIA, Investment Analyst – Private Investments
- Daniel Zarling, CFA, CIPM, Director of Risk Management
- Chief Legal Counsel – *VACANT*
- Investment Analyst – Real Estate/Natural Resources – *VACANT*
- Administrative Assistant/Credit Analyst – *VACANT*

- ❖ Special Thanks to Our Temporary Team Members:
 - Herb Kulow, Former Director of In-State Loans
 - Tyler Ballweber, Christina Gordon, Sam Holman, Natalia Kolnik, and Robert Samson

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, 2020, the Board of Investments managed approximately \$21.6 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 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 [FY2020 Investment Holdings](#) webpage.

[Short Term Investment Pool](#)
(STIP)

[Trust Fund Investment Pool](#)
(TFIP)

[Consolidated Asset Pension Pool](#)
(CAPP)

[Separately Managed Accounts](#)
(SMA)

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

| Fund Type | STIP | TFIP | CAPP | SMA | STIP in Pool | Grand Total |
|--------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|--------------------|
| Pension Funds | \$ 101.5 | \$ 0.0 | \$ 11,658.4 | \$ 0.0 | \$ 0.0 | \$ 11,759.9 |
| Trust Funds | 104.4 | 1,590.9 | 0.0 | 0.0 | 0.0 | 1,695.3 |
| Coal Severance Tax Trust | 31.4 | 955.8 | 0.0 | 203.6 | 0.0 | 1,190.8 |
| Insurance Reserves | 299.2 | 39.8 | 0.0 | 1,527.9 | 0.0 | 1,866.9 |
| Operating Funds | 3,728.5 | 62.2 | 0.0 | 1,203.8 | 0.0 | 4,994.5 |
| STIP in Pool | 217.3 | 0.0 | 0.0 | 0.0 | (217.3) | 0.0 |
| STIP Reserve | 52.6 | 0.0 | 0.0 | 0.0 | 0.0 | 52.6 |
| 6/30/2020 | \$ 4,534.9 | \$ 2,648.7 | \$ 11,658.4 | \$ 2,935.3 | \$ (217.3) | \$ 21,560.0 |

Table Comments: 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 54% 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 82% 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 | <u>STIP</u> | <u>CAPP</u> | Grand Total |
|------------------------------|--------------------|--------------------|--------------------|
| Public Employees' Retirement | \$ 61.2 | \$ 5,775.1 | \$ 5,836.3 |
| Teachers' Retirement | 21.0 | 4,116.7 | 4,137.7 |
| Firefighters Retirement | 4.6 | 454.8 | 459.4 |
| Police Retirement | 4.3 | 429.3 | 433.6 |
| Sheriffs Retirement | 4.2 | 379.3 | 383.5 |
| Game Wardens Retirement | 2.5 | 210.1 | 212.6 |
| Highway Patrol Retirement | 1.8 | 149.4 | 151.2 |
| Judges | 1.1 | 104.6 | 105.7 |
| Vol. Firefighters Retirement | 0.8 | 39.1 | 39.9 |
| 6/30/2020 | \$ 101.5 | \$ 11,658.4 | \$ 11,759.9 |

*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 Consolidated Asset Pension Pool (CAPP) section for the approved ranges established by Board approved policy as of November 19, 2019 and allocation as of June 30, 2020.

The table below shows investment returns, net of fees, for the Public Employees' Retirement System (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 following table, the use of different asset classes heavily influences returns.

| Average | PERS Actual Net Return | S&P 500 Index Total Return | Bloomberg Barclays US Aggregate Bond Index |
|----------|------------------------|----------------------------|--|
| 26 Years | 7.47% | 9.87% | 5.63% |

| Fiscal Year | PERS | S&P 500 | Bloomberg |
|-------------|---------|---------|-----------|
| 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 \$2.6 billion for 53 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 percent 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 percent 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 percent of the coal severance tax revenue until its fund balance reaches \$200 million. The remaining 25 percent 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.
- Treasure State 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.

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 | <u>STIP</u> | <u>TFIP</u> | <u>SMA</u> | Grand Total |
|----------------------------|--------------------|--------------------|-------------------|--------------------|
| Permanent Coal Trust | \$ 20.5 | \$ 367.5 | \$ 203.5 | \$ 591.5 |
| Treasure State Endowment | 3.2 | 300.2 | 0.1 | 303.5 |
| Economic Development Trust | 2.5 | 125.2 | 0.0 | 127.7 |
| Regional Water Fund | 1.2 | 104.0 | 0.0 | 105.2 |
| School Facilities Fund | 3.2 | 58.9 | 0.0 | 62.1 |
| Severance Tax Bond Fund | 0.8 | 0.0 | 0.0 | 0.8 |
| 6/30/2020 | \$ 31.4 | \$ 955.8 | \$ 203.6 | \$ 1,190.8 |

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), formally referred to as Separately Managed Investments (SMI) 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 – Separately Managed Accounts (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 | \$ 118.1 | \$ 0.1 | \$ 118.2 |
| Veterans' Home Loan Program | 48.0 | 0.0 | 48.0 |
| Infrastructure Loan Program | 14.0 | 0.0 | 14.0 |
| Intermediary Relending Loan Program | 4.2 | 0.0 | 4.2 |
| Coal Trust Multifamily Homes Loan Program | 1.7 | 0.0 | 1.7 |
| Montana Facility Finance | 9.3 | 0.0 | 9.3 |
| Montana Science & Technology Alliance | 8.2 | 0.0 | 8.2 |
| 6/30/2020 | \$ 203.5 | \$ 0.1 | \$ 203.6 |

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, created in 1984 as part of the “Build Montana” program, invests Coal Severance Tax Trust (Coal Trust) funds in Montana to stimulate the state's economy. State law authorizes the Board to invest the Trust 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 Severance Tax Trust Fund, 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 percent for each qualifying job created, up to a maximum reduction of 2.5 percent.

- The ***Business Loan Participation Program*** allow 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 were 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 of Investments funds the approved loans. Total loans outstanding were limited by law to \$50 million.
- The ***Coal Trust Multifamily 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 of Investments funds the approved loans. Total loans outstanding in this program are limited by law to \$15 million.

IN-STATE LOAN PROGRAM HIGHLIGHTS

The Montana Fabrication Works, LLC, pictured to the right, provides fabrication services to the construction and mining industry, and various equipment manufacturers. The Board's In-State Infrastructure Loan Program, in cooperation with the Ravalli County Economic Development Corporation, loaned \$866,632 to purchase their facility in Stevensville, Montana. In consideration for the terms of the loan, Montana Fabrication Works, LLC has agreed to create 52 jobs over a four-year period. The Infrastructure Loan Program also provides tax incentives to Montana Fabrication Works, LLC which, over the term of the loan, could equal the total amount of the loan.



The Springs at Bozeman is a new 175 unit senior care facility in Bozeman, Montana. The Board's In-State Business Loan Participation Program participated in 80% of a \$35 million loan. As a result of the loan, the business has created jobs and is entitled to an interest rate reduction of .05% for each qualifying job created up to 2.5%.



OTHER TRUST FUNDS

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

| Fund Name | STIP | TFIP | Grand Total |
|---|-----------------|-------------------|-------------------|
| Abandoned Mine Trust | \$ 6.6 | \$ 0.0 | \$ 6.6 |
| Barker Hughesville Site Response | 3.0 | 6.1 | 9.1 |
| Belt Water Treatment Plant Fund | 1.7 | 25.1 | 26.8 |
| Butte Area One Restoration | 1.5 | 6.1 | 7.6 |
| Butte-Silver Bow Redevelopment Trust | 1.6 | 13.1 | 14.7 |
| Clark Fork River Restoration Trust | 7.3 | 24.0 | 31.3 |
| Clark Fork Site Response | 6.0 | 69.8 | 75.8 |
| Coal Tax Park Acquisition Fund | 1.6 | 29.0 | 30.6 |
| Cultural Trust | 0.5 | 16.0 | 16.5 |
| East Helena Compensation Fund | 4.9 | 1.2 | 6.1 |
| Endowment For Children | 0.0 | 1.4 | 1.4 |
| Fish, Wildlife and Parks Mitigation | 6.1 | 5.3 | 11.4 |
| Flying J CECRA Facilities Fund | 0.9 | 1.8 | 2.7 |
| Harold Hamm Endowment | 0.0 | 0.0 | 0.0 |
| Libby Asbestos Site State Cost | 1.6 | 3.3 | 4.9 |
| Luttrill Pit Operations and Maintenance | 0.8 | 1.5 | 2.3 |
| Montana Pole Superfund | 7.7 | 21.6 | 29.3 |
| Noxious Weed Management Trust | 0.0 | 11.6 | 11.6 |
| Older Montanans Trust | 0.0 | 1.0 | 1.0 |
| Potter Trust Fund | 0.0 | 0.2 | 0.2 |
| Public School Trust | 0.0 | 818.4 | 818.4 |
| Real Property Trust | 0.5 | 7.1 | 7.6 |
| Resource Indemnity Trust | 0.0 | 118.8 | 118.8 |
| Smelter Hill Uplands Restoration Fund | 2.4 | 7.6 | 10.0 |
| Streamside Tailings Fund | 2.0 | 17.5 | 19.5 |
| Tobacco Trust | 2.6 | 267.2 | 269.8 |
| Upper Blackfoot Response | 1.6 | 0.2 | 1.8 |
| UCFRB Reserve Fund | 1.8 | 20.1 | 21.9 |
| UCFRB Restoration Fund | 4.8 | 81.0 | 85.8 |
| Wildlife Habitat Trust | 1.1 | 14.9 | 16.0 |
| Zortman/Landusky Trust | 20.3 | 0.0 | 20.3 |
| Zortman/Landusky Water | 15.5 | 0.0 | 15.5 |
| 6/30/2020 | \$ 104.4 | \$ 1,590.9 | \$ 1,695.3 |

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 \$1.8 billion for several insurance programs, with the State Compensation Insurance Fund (Montana State Fund) owning the largest dollar value of such securities 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 | <u>STIP</u> | <u>TFIP</u> | <u>SMA</u> | Grand Total |
|---|--------------------|--------------------|-------------------|--------------------|
| Montana State Fund | \$ 43.2 | \$ 0.0 | \$ 1,518.1 | \$ 1,561.3 |
| Other Insurance Funds: | | | | |
| Agency Insurance | 55.0 | 0.0 | 0.0 | 55.0 |
| Employee Group Benefits | 98.4 | 21.2 | 2.5 | 122.1 |
| Hail Insurance | 0.2 | 0.0 | 0.0 | 0.2 |
| Montana University System (MUS) Group Ins | 82.6 | 14.2 | 2.0 | 98.8 |
| MUS Workers Compensation | 10.9 | 4.4 | 0.0 | 15.3 |
| Defined Contribution Disability | 0.5 | 0.0 | 5.3 | 5.8 |
| Subsequent Injury | 0.5 | 0.0 | 0.0 | 0.5 |
| Unemployment Insurance Benefits | 6.3 | 0.0 | 0.0 | 6.3 |
| Uninsured Employers | 1.6 | 0.0 | 0.0 | 1.6 |
| 6/30/2020 | \$ 299.2 | \$ 39.8 | \$ 1,527.9 | \$ 1,866.9 |

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

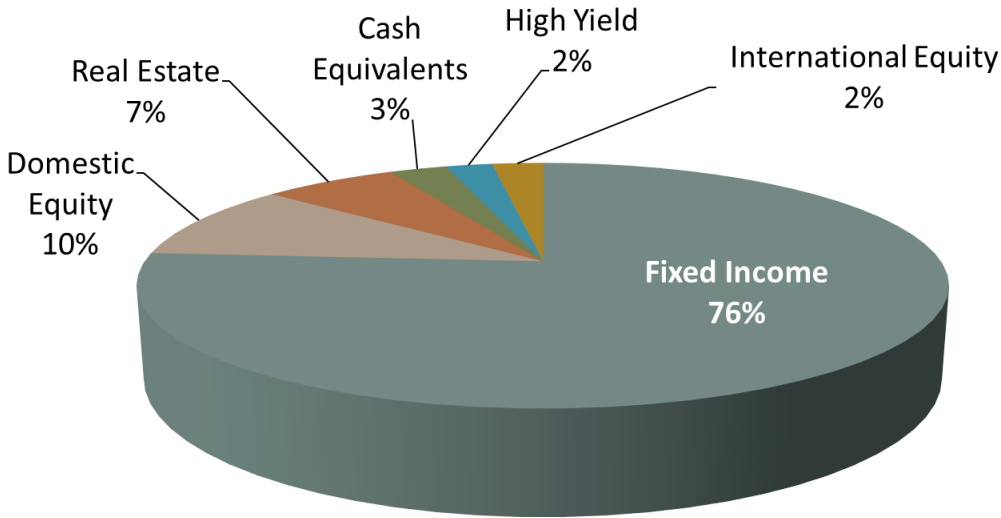
[Other Insurance Funds Descriptions \(click here\)](#)

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 MBOI managed over \$1.5 billion in investments on behalf of the MSF as of June 30, 2020.

| MONTANA STATE FUND | 1-Year | 2-Year | 10-Year |
|--------------------|--------|--------|---------|
| RETURNS | 6.35% | 6.85% | 4.84% |

Montana State Fund By Investment Type



OPERATING FUNDS

Statutes limit where most state agency funds may be invested. The agencies must have the legal authority to invest separately from the State's general cash account (the State Treasurer's Fund), and invest in Short-Term Investment Pool (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 Trust Funds Investment Pool (TFIP) or Separately Managed Accounts (SMA) are available to meet that need.

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

| Fund Name | STIP | TFIP | SMA | Grand Total |
|---|-------------------|----------------|-------------------|-------------------|
| State Treasurer's Fund | \$ 1,448.9 | \$ 0.0 | \$ 1,196.7 | \$ 2,645.6 |
| Local Governments | 1,704.0 | 0.0 | 0.0 | 1,704.0 |
| State Agency | 361.0 | 0.0 | 0.0 | 361.0 |
| Montana State University-Bozeman | 146.1 | 18.1 | 0.0 | 164.2 |
| FWP License | 47.9 | 7.4 | 2.0 | 57.3 |
| University of Montana-Missoula | 9.3 | 32.6 | 5.1 | 47.0 |
| Montana Tech of the University of Montana | 10.7 | 0.5 | 0.0 | 11.2 |
| Montana Historical Society Trusts | 0.5 | 3.2 | 0.0 | 3.7 |
| Montana Historical Society | 0.1 | 0.4 | 0.0 | 0.5 |
| 6/30/2020 | \$ 3,728.5 | \$ 62.2 | \$ 1,203.8 | \$ 4,994.5 |

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 \(click here\)](#)

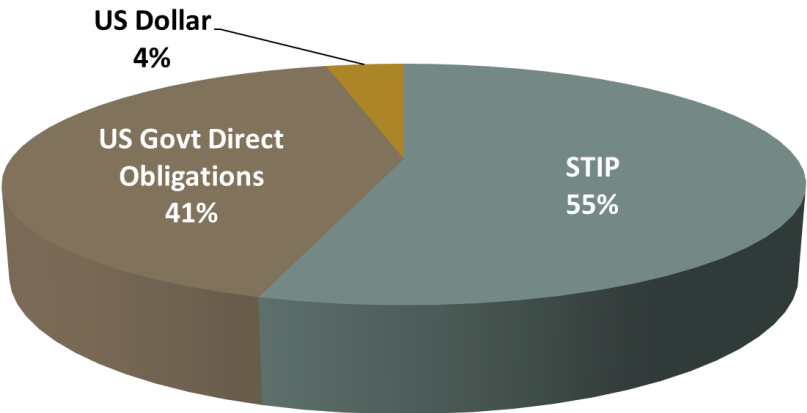
Although state agencies with accounts that retain their interest earnings are legally required to invest in the STIP, local government entities can by statute voluntarily invest in STIP as provided in 17-6-204, Montana Code Annotated (MCA).

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 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 STIP was created. The investment returns shown below are net of fees. The State Treasurer’s Fund investment balance as of June 30, 2020 was over \$2.6 billion.

| | | | |
|-------------------------------|---------------|---------------|----------------|
| STATE TREASURER’S FUND | 1-Year | 2-Year | 10-Year |
| RETURNS | 1.54% | 1.95% | 0.80% |

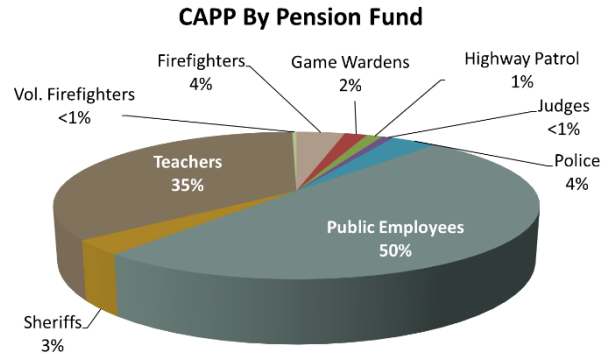
State Treasurer's Fund By Investment Type



INVESTMENT POOLS

CONSOLIDATED ASSET PENSION POOL (CAPP)

The Board's Consolidated Asset Pension Pool (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 2019 below, the Private Equity PAC is now referred to as the Private Investments PAC and the High Yield PAC is referred to as the Non-Core Fixed Income PAC. The assets within the U.S. Treasury Inflation Protected Securities (TIPS) PAC, Investment Grade PAC, Agency Mortgage Backed Securities PAC, U.S. Treasury and Agency PAC, Diversifying Strategies PAC, and Broad Fixed Income PAC were combined into the Core Fixed Income PAC. These changes were effective in December 2019. These changes did not have an impact on the underlying value of the securities within the impacted PAC's.

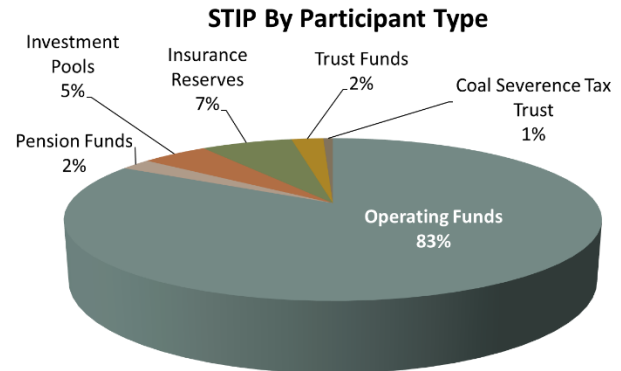
CAPP Asset Allocations

| Pension Asset Class | Range Low | Range High | Allocation as of 6/30/20 |
|------------------------|-----------|------------|--------------------------|
| Domestic Equities | 24% | 36% | 31.3% |
| Core Fixed Income | 15% | 25% | 20.1% |
| International Equities | 11% | 21% | 16.9% |
| Private Investments | 11% | 17% | 13.1% |
| Real Estate | 5% | 13% | 8.6% |
| Non-Core Fixed Income | 3% | 7% | 4.4% |
| Natural Resources | 1% | 7% | 3.1% |
| Cash | 0% | 4% | 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 Short-Term Investment Pool (STIP) is used by state agencies, local governments and the retirement systems as an alternative to idle cash. STIP investments are short-term, highly liquid and among the safest obtainable. Although not a money market fund, 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, 2020.



STIP Asset Allocations

| Asset Class | % as of 6/30/20 |
|-------------------------|-----------------|
| Commercial Paper | 49.2% |
| Sovereign Agency Debt | 26.9% |
| Corporate Bonds | 9.6% |
| Treasury | 6.2% |
| U.S. Treasuries | 3.4% |
| Certificates of Deposit | 2.5% |
| Cash/Cash Equivalents | 1.1% |
| Money Market Funds | 1.1% |
| Receivable | <0.1% |

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.

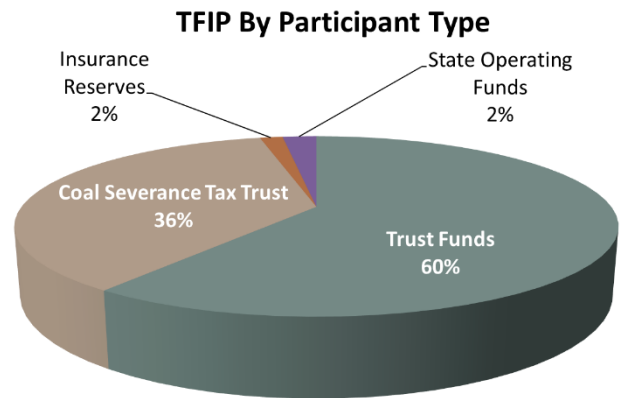
STIP is not Federal Deposit Insurance Corporation (FDIC) insured or otherwise insured or guaranteed by the federal government, the State of Montana, the Board or any other entity against investment losses. The Board maintains a reserve fund to offset possible losses and limit fluctuations in STIP's Fiduciary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

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 \$4.5 billion in pool investments are managed by Board staff. There were over 520 accounts invested in STIP during the year, including 173 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 \$65.0 million (unaudited) in Fiscal Year 2020.

TRUST FUNDS INVESTMENT POOL (TFIP)

Created in 1995, the Trust Funds Investment Pool (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.

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 \$2.6 billion in TFIP for 56 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 6/30/20 |
|-----------------------|-----------------|
| Securitized | 30.7% |
| Corporate | 29.3% |
| Treasury | 13.2% |
| Core Real Estate | 9.1% |
| Non-Core Fixed Income | 7.1% |
| Government-Related | 5.4% |
| STIP | 2.8% |
| Real Estate Debt | 1.4% |
| Montana Real Estate | <0.1% |
| Receivable/Payables | <0.1% |
| Cash | <0.1% |

Current income is important to these participants, therefore, 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 has 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, 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 | <u>SMA</u> | <u>CAPP</u> | <u>TFIP</u> | Bond Guarantees | Grand Total |
|---|-----------------|---------------|----------------|--------------------|-----------------|
| Coal Severance Tax Trust Fund: | | | | | |
| In-State Loan Program | \$186.1 | \$ 0.0 | \$ 0.0 | \$ 0.0 | \$ 186.1 |
| Montana Facility Finance Authority Loans (MFFA) | 9.3 | 0.0 | 0.0 | 0.0 | 9.3 |
| Montana Science & Technology Alliance | 8.2 | 0.0 | 0.0 | 0.0 | 8.2 |
| Residential Mortgages | 0.0 | 3.0 | 0.0 | 0.0 | 3.0 |
| Direct Real Estate | 0.0 | 0.0 | 19.4 | 0.0 | 19.4 |
| INTERCAP Bond Guarantee | 0.0 | 0.0 | 0.0 | 90.7 | 90.7 |
| MFFA Bond Guarantee | 0.0 | 0.0 | 0.0 | 88.3 | 88.3 |
| 6/30/2020 | \$ 203.6 | \$ 3.0 | \$ 19.4 | \$179.0 | \$ 405.0 |

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 moneys to credit enhance bondholder security for the [Montana Facility Finance Authority Program](#) and the Board's Enterprise Fund, the [INTERCAP Revolving Loan Program](#), which allows for low interest rates. Without intending any limitation, the Board has identified STIP, TFIP, the State Treasurer's Fund (see Operating Funds section) and the Coal Severance Tax Trust Fund, as being legally available for such purposes. To date, no loans to reserve accounts for either program have been required to be made by the Board and no tendered INTERCAP Bonds have been required to be purchased by the Board.

ENTERPRISE FUND

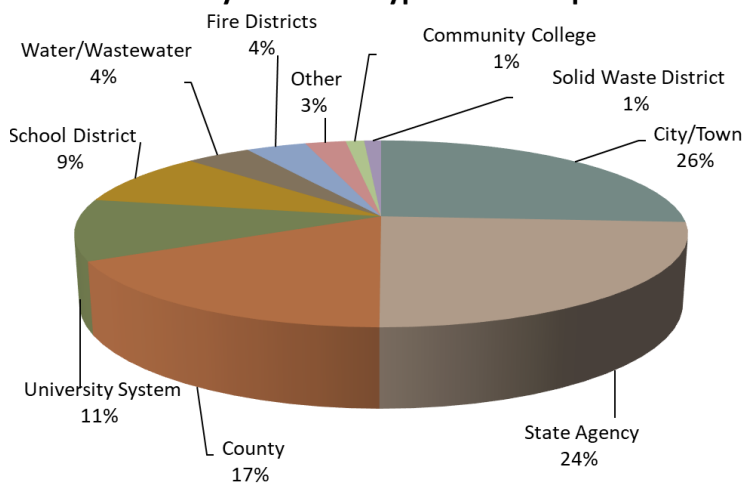
The Board uses the Enterprise Fund to account for its programs created under the Municipal Finance Consolidation Act (MFCA) and Economic Development Act. The Enterprise Fund Financial Statement provides information on all the programs defined under this fund. The following focuses on the MFCA authorized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

INTERCAP REVOLVING LOAN PROGRAM

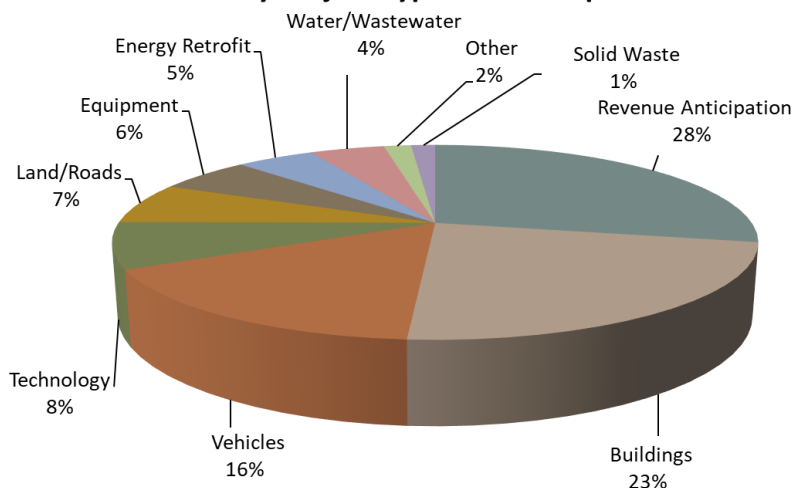
The Board has provided low interest loans to Montana state agencies, universities, and local governments for various projects for over 30 years. The Board's INTERCAP Revolving Loan Program (INTERCAP) has loaned \$610.0 million statewide and issued \$168.0 million in bonds with \$90.7 million outstanding at June 30, 2020. Loan interest rates are reset every February. The loan rate from February 16, 2019 to February 15, 2020 was 3.37% and the loan rate for February 16, 2020 to February 15, 2021 is 2.50%. In response to the COVID-19 pandemic, the loan rate was decreased to 1.00% until August 15, 2020.

| |
|--|
| 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 \$32.8 million and funded \$30.6 million in loans. In fiscal year 2019, the program estimated fiscal year 2020 commitments and fundings would be approximately \$25 million. In fiscal year 2020, the program committed to \$27.5 million and funded \$29.1 million in loans. For fiscal year 2020, the program estimates the Board will commit to and fund close to \$25 million in fiscal year 2021.

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

| Fiscal Year | Borrower Loans Outstanding | INTERCAP Bonds Outstanding | Loan Interest Rate |
|--------------------|---|---|-----------------------------------|
| 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, the loan rate was decreased to 1.00% until August 15, 2020 in response to the COVID-19 pandemic.

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

INTERCAP loans have been very high credit quality, and to date, the Board has never suffered a loss, due in part to reasonable underwriting standards and the credit soundness of State of Montana agencies, boards, and authorities and Montana 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 Hill County law enforcement vehicles, replacement helicopters for Montana Fish, Wildlife and Parks, both pictured to the right, and partially financed the Lewis & Clark Library's remodel.



The Lewis & Clark Library is embarking on a major renovation of the main branch in Helena. This remodel is focusing on a series of changes, renovations, additions, and upgrades throughout the facility including improving the buildings structural integrity and ADA accessibility. The project is progressing beautifully. The snapshot to the right shows the new interior design. More detail and project status may be followed online at <https://www.lclibrary.org/377/Remodel>.



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. Eleven school districts have issued over \$13.7 million in QZAB bonds as of June 30, 2020.

- ***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. Two school districts have issued just under \$8.37 million in QSCB bonds as of June 30, 2020.

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