

PERFORMANCE AUDIT  
State Investment Management and  
Governance Practices  
Montana Board of Investments

JANUARY 2014

12P-10

REPORT SUMMARY

The Montana Board of Investments provides effective oversight of over \$15 billion in assets; strengthening the credentials and qualifications of Board of Investments members and making other changes in management and governance practices would improve the Board of Investments' ability to manage the large, complex assets under its care.

## Context

In 1972, Montana voters ratified a new constitution that directed the legislature to provide for a Unified Investment Program. This program includes responsibility for investing state pension moneys and public funds. The Montana Board of Investments (board) as it exists today is a product of this constitutional mandate, which resulted in all the assets of the state's retirement systems, and those of other state and local government agencies, being invested through a single program. Today the board is responsible for management of over \$15 billion in assets on behalf of the state's pension funds and state and local government agencies.

During our review, we determined the qualifications for citizens appointed by the Governor to the board have not changed since the 1980s. Meanwhile, the institutional investing arena has grown exponentially more complex over that time. Further, many states have more stringent experience and education requirements for the people with fiduciary responsibility for investing pension funds and other public money.

## Results

Our audit found that board staff is following its policies and generally meeting industry best practice standards in performing due diligence on potential investments. We also found the organizational structure of the board's investment staff is appropriate for the asset mix and investment style currently mandated by the board, and the compensation policies of the board are consistent with peers within the public institutional investment industry.

Our report includes six recommendations related to the management and governance of the investing activities of the board, including recommending:

- ◆ The Montana Legislature increase the experience requirements for members of the board,
- ◆ The board enhance and require the ongoing educational activities provided to board members, and
- ◆ The board seek revisions to the Montana Procurement Act to provide an exemption for the contracting of external investment services.

Other recommendations are in the areas of asset allocation and the annual affirmation thereof; other tasks required by the charters of the board and its various committees; and the board's proxy voting program.

| Recommendation Concurrence |   |
|----------------------------|---|
| Concur                     | 4 |
| Partially Concur           | 0 |
| Do Not Concur              | 1 |

**Source: Agency audit response included in final report.**

For a complete copy of the report (12P-10) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE  
Call toll-free 1-800-222-4446, or e-mail [ladhotline@mt.gov](mailto:ladhotline@mt.gov).