

MONTANA

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BOARD OF INVESTMENTS



2019 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 <https://www.leg.mt.gov/publications/audit/agency-search-report> by selecting Board of Investments under Agency and the Board's website <http://investmentmt.com/AnnualReportsAudits> will contain a link. Cover photo taken in Montana's Lolo National Forest provided by staff.



It is my pleasure to present our 2019 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 \$20 billion for all state agencies as well as universities, school districts and most 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 tax payers 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.

*"Study after study proves that patience, diligence, and thoughtfulness yields the best results."*

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 at <http://investmentmt.com/CEMBenchmarking>.

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.



Karl Englund, Chairman



# BOARD MEMBERS



**Karl Englund**  
MISSOULA  
Board Chairman  
*Representing Law*  
Term Ending:  
01/01/2023



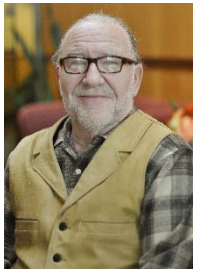
**Mark Noennig**  
BILLINGS  
Board Vice Chair  
*Representing Business*  
Term Ending:  
01/01/2021

- Human Resources (HR) Committee



**Teresa Olcott Cohea**  
HELENA  
*Representing Financial Community*  
Term Ending:  
01/01/2023

- HR Committee, Chair
- Loan Committee



**Jim Edwards**  
HELENA  
*Representing Small Business*  
Term Ending:  
01/01/2021

- Audit Committee
- Loan Committee



**Diane Fladmo**  
HELENA  
*Representing Labor*  
Term Ending:  
01/01/2023

- Audit Committee
- HR Committee



**Jeffrey Greenfield**  
SHEPHERD  
*Representing TRS*  
Term Ending:  
01/01/2021

- Audit Committee



**Bruce Nelson**  
BOZEMAN  
*Representing Agriculture*  
Term Ending:  
01/01/2023

- Loan Committee
- Audit Committee



**Maggie Peterson**  
ANACONDA  
*Representing PERS*  
Term Ending:  
01/01/2021

- Audit Committee, Chair
- HR Committee



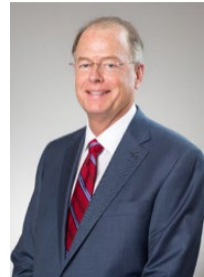
**Jack Prothero**  
GREAT FALLS  
*Representing Financial Community*  
Term Ending:  
01/01/2021

- 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

### *Senior Management*

- ◆ **Dan Villa**  
Executive Director/  
Acting Chief Investment Officer
- ◆ **Geri Burton**  
Deputy Director (through 11/23/18)
- ◆ **Peggy MacEwen**  
Deputy Director (effective 12/2/19)
- ◆ **Joseph M. Cullen, CFA, CAIA, FRM**  
Chief Investment Officer (through 7/26/19)
- ◆ **Julie Feldman, CPA**  
Financial Manager
- ◆ **Doug Hill**  
Director of In-State Loan Programs

### *Staff*

- ◆ **Dana Chapman**  
Office Manager – Board Secretary
- ◆ **Polly Boutin**  
Associate Financial Manager
- ◆ **April Madden**  
Investment Accountant
- ◆ **Jason Brent, CFA, CAIA**  
Investment Officer
- ◆ **Savannah Morgan**  
Municipal Finance Programs  
Bond Program Officer
- ◆ **Frank Cornwell, CPA**  
Associate Financial Manager
- ◆ **Rande Muffick, CFA**  
Director of Public Market Investments
- ◆ **Roberta Diaz**  
Investment Accountant
- ◆ **Michael Nguyen**  
Director of Private Equity
- ◆ **Kelsey Gauthier, CPA**  
Investment Accountant
- ◆ **Michael Pettit**  
Director of Investment Operations
- ◆ **Kirsten Haswell**  
Investment Analyst
- ◆ **Jon Putnam, CFA, FRM, CAIA**  
Director of Fixed Income
- ◆ **Tim House**  
Investment Analyst
- ◆ **John Romasko, CFA**  
Investment Officer
- ◆ **Ethan Hurley, CAIA**  
Director of Natural Resources &  
Real Estate
- ◆ **Linda Sharkey**  
Network Administrator
- ◆ **Sheli Jacoby**  
Administrative Assistant
- ◆ **Steve Strong**  
Investment Analyst
- ◆ **Teri Kolnik, CFA**  
Investment Analyst
- ◆ **Kathleen Tonkovich**  
Investment Accountant
- ◆ **Emily Kovarik, CPA**  
Investment Analyst
- ◆ **Louise Welsh**  
Senior Bond Program Officer
- ◆ **Eron Krpan, CFA, CIPM**  
Investment Analyst
- ◆ **Thomas Winkler, CAIA**  
Investment Analyst
- ◆ **Tammy Lindgren**  
Investment Accountant
- ◆ **Daniel Zarling, CFA, CIPM**  
Director of Risk Management

## 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, 2019, the Board of Investments managed approximately \$20 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 these funds to the Board. The Board approves all Investment Policy Statements (IPS). The Board's portfolio is available for viewing on its [FY2019 Investment Holdings](#) webpage.

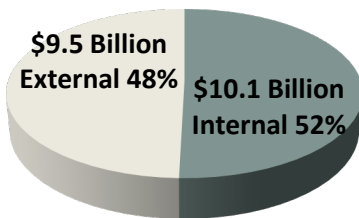
[Short Term Investment Pool \(STIP\)](#)

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

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

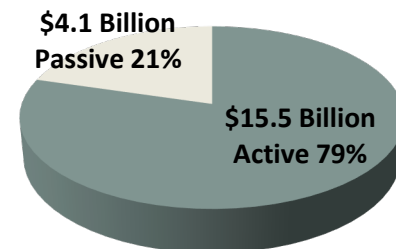
[Seperately Managed Investments \(SMI\)](#)

Total Fund						
Fiduciary Net Position Held in Trust for Participants* (In Millions)						
Fund Type	STIP	TFIP	CAPP	SMI	STIP in Pool / AC	Grand Total
Pension Funds	\$ 351.2	\$ -	\$ 11,474.1	\$ -	\$ -	\$ 11,825.3
Trust Funds	96.5	1,489.1	-	8.2	-	1,593.8
Coal Severance Tax Trust	36.8	925.2	-	167.4	-	1,129.4
Insurance Reserves	198.1	38.6	-	1,491.4	-	1,728.1
Operating Funds	3,168.8	59.4	-	60.4	-	3,288.6
STIP in Pool / AC	78.3	-	-	-	(78.3)	-
STIP Reserve	47.6	-	-	-	-	47.6
6/30/2019	\$ 3,977.3	\$ 2,512.3	\$ 11,474.1	\$ 1,727.4	\$ (78.3)	\$ 19,612.8
Totals may not sum due to rounding differences.						
*Includes receivable and payable accruals.						



As shown in the chart on the left, just over half of the Board's investments are managed internally by the Board's own investment staff. These 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.

As shown in the chart on the right, over three-quarters of the investments are managed actively; less than one-quarter are managed passively. 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

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.



Managing Pension Investments requires a skillful balance of:

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



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

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

Pensions			
Fiduciary Net Position Held in Trust for Participants* (In Millions)			
Fund Name	STIP	CAPP	Grand Total
Public Employees Retirement	\$ 174.1	\$ 5,716.7	\$ 5,890.8
Teachers Retirement	125.4	4,065.4	4,190.8
Firefighters Retirement	13.1	430.6	443.7
Police Retirement	12.4	410.4	422.8
Sheriffs Retirement	11.3	364.9	376.2
Game Wardens Retirement	6.1	199.5	205.6
Highway Patrol Retirement	4.4	147.0	151.4
Judges Retirement	3.1	101.3	104.4
Vol. Firefighters Retirement	1.3	38.3	39.6
<b>6/30/2019</b>	<b>\$ 351.2</b>	<b>\$ 11,474.1</b>	<b>\$ 11,825.3</b>
Totals may not sum due to rounding differences.			
*Includes net 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.

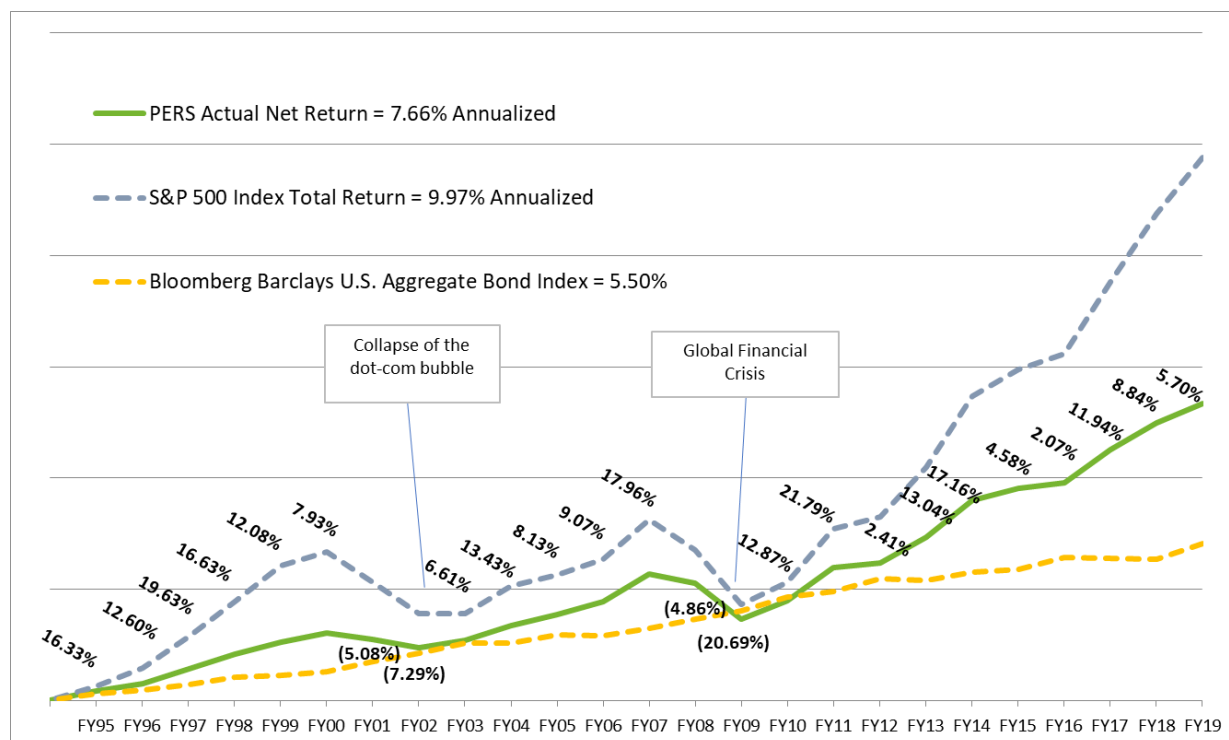
Factors considered in managing pension investments include long-term growth (expected rates of return), liquidity needs (how readily convertible to cash), risk (multi-dimensional), and cost. The Board addresses these factors through a strong governance model that requires the Board to engage annually 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 cost, risks, potential return and the correlation 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 14, 2018 and allocation as of June 30, 2019.

The chart 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 chart, the use of different asset classes heavily influences returns.



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: <http://investmentmt.com/CEMBenchmarking>.





## TRUST FUNDS

The Board invests over \$2.5 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.



Coal Severance Tax Trust Fund

*... "principal of the trust shall forever remain inviolate unless appropriated by vote of three-fourths (3/4) of the members of each house of the legislature."*

Montana Constitution – Article IX



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:

	<a href="#"><u>Short Term Investment Pool (STIP)</u></a>	<a href="#"><u>Trust Fund Investment Pool (TFIP)</u></a>	<a href="#"><u>Seperately Managed Investments (SMI)</u></a>	
Coal Severance Tax Trust Fund				
Fiduciary Net Position Held in Trust for Participants* (In Millions)				
Sub-Trust Fund Name	STIP	TFIP	SMI	Grand Total
Permanent Coal Trust	\$ 22.9	\$ 389.3	\$ 167.2	\$ 579.4
Treasure State Endowment	3.1	287.1	0.2	290.4
Economic Development Trust	3.6	112.8	-	116.4
Regional Water Fund	1.2	99.4	-	100.6
School Facilities Fund	5.4	36.6	-	42.0
Severance Tax Bond Fund	0.6	-	-	0.6
<b>6/30/2019</b>	<b>\$ 36.8</b>	<b>\$ 925.2</b>	<b>\$ 167.4</b>	<b>\$ 1,129.4</b>
Totals may not sum due to rounding differences.				
*Includes net receivable and payable accruals.				

The table below reflects the 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 Investments (SMI)			
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:			
Commercial Loans	\$ 96.6	\$ 0.2	\$ 96.8
Local Government Infrastructure	14.3	-	14.3
Intermediary Relending Program (IRP) Loans	4.1	-	4.1
Veterans' Home Loan Mortgages	38.6	-	38.6
Montana Facility Finance	5.3	-	5.3
Montana University System/MSTA**	8.3	-	8.3
<b>6/30/2019</b>	<b>\$ 167.2</b>	<b>\$ 0.2</b>	<b>\$ 167.4</b>
Totals may not sum due to rounding differences.			
*Includes net receivable and payable accruals.			
**Montana Science & Tech Alliance			

## 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, SMI 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 **Commercial Loans** 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 **Local Government Infrastructure** 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 Program (IRP) Loans** provide loans to local economic development organizations with revolving loan programs. Individual loans may not exceed \$500,000 and total IRP loans outstanding were limited by law to \$5 million. This amount increased to \$10 million effective July 1, 2019.
- 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.

The **Veterans' Home Loan Mortgages (VHLM)** provide low interest loans for Montana Veterans who are first-time home buyers. By law, the Montana Board of Housing administers and approves the VHLM loans. The Board of Investments funds the approved loans. Total VHLM loans outstanding were limited by law to \$40 million. This amount increased to \$50 million effective July 1, 2019.

The **Coal Trust Multifamily Homes Program (CTMH)**, effective July 1, 2019, will provide 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 will administer and approve the CTMH loans. The Board of Investments will fund the approved loans. Total loans outstanding in this program are limited by law to \$15 million.

## IN-STATE LOAN PROGRAM HIGHLIGHTS



The Board's In-State Business Loan Participation Program participated in 80% of a \$800,000 loan to Kettlehouse Brewery for a new taproom and equipment at the brewing facility located in Bonner, Montana.



The Board's In-State Loan Program provided \$228,000 in long-term, fixed rate financing for the construction of a 24-unit multi-family affordable housing facility in Billings, Montana through its Low-Income Housing Tax Credit loan program.

## OTHER TRUST FUNDS

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

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

[Seperately Managed Investments](#)  
(SMI)

Other Trust Funds				
Fiduciary Net Position Held in Trust for Participants* (In Millions)				
Fund Name	STIP	TFIP	SMI	Grand Total
Abandoned Mine Trust	\$ 5.8	\$ -	\$ 0.7	\$ 6.5
AML Trust Fund	0.6	0.0	-	0.6
Belt Water Treatment Plant Fund	1.3	24.0	-	25.3
Butte Area One Restoration	3.0	8.8	1.0	12.8
Butte-Silver Bow Redevelopment Trust	1.6	12.6	-	14.2
Clark Fork River Restoration Fund	6.0	23.0	1.5	30.5
Clark Fork Site Response	9.2	67.7	-	76.9
Coal Tax Park Acquisition Fund	1.0	27.5	-	28.5
Cultural Trust	0.6	14.9	-	15.5
East Helena Compensation Fund	3.0	3.0	-	6.0
Endowment For Children	0.1	1.3	-	1.4
Fish, Wildlife and Parks Mitigation	2.8	5.1	3.5	11.4
Harold Hamm Endowment	-	0.0	-	-
Montana Pole Superfund	5.5	22.5	-	28.0
Noxious Weed Management Trust	-	11.1	-	11.1
Older Montanans Trust	0.1	1.2	-	1.3
Potter Trust Fund	-	0.2	-	0.2
Public School Trust	-	754.9	-	754.9
Real Property Trust	0.2	6.8	-	7.0
Resource Indemnity Trust	-	113.6	-	113.6
Smelter Hill Uplands Restoration Fund	3.7	5.1	1.0	9.8
Streamside Tailings Fund	2.0	16.7	-	18.7
Tobacco Trust	9.1	238.9	-	248.0
Upper Blackfoot Response	2.0	1.6	0.5	4.1
UCFRB Reserve Fund	1.2	19.2	-	20.4
UCFRB Restoration Fund	1.8	95.1	-	96.9
Wildlife Habitat Trust	0.7	14.3	-	15.0
Zortman/Landusky Trust	19.9	0.0	-	19.9
Zortman/Landusky Water	15.3	0.0	-	15.3
6/30/2019	\$ 96.5	\$ 1,489.1	\$ 8.2	\$ 1,593.8
Totals may not sum due to rounding differences.				
*Includes net receivable and payable accruals.				

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





## INSURANCE RESERVES

The Board invests over \$1.7 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.

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

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

[Seperately Managed Investments  
\(SMI\)](#)

Insurance Reserves				
Fiduciary Net Position Held in Trust for Participants* (In Millions)				
Fund Name	STIP	TFIP	SMI	Grand Total
Montana State Fund	\$ 36.8	\$ -	\$ 1,467.2	\$ 1,504.0
Other Insurance Funds				
Agency Insurance	20.9	-	-	20.9
Employee Group Benefits	54.4	20.3	14.4	89.1
Hail Insurance	2.3	-	-	2.3
Montana University System (MUS) Group Insurance	65.8	13.6	5.1	84.5
MUS Workers Compensation	9.1	4.7	-	13.8
Defined Contribution Disability	0.4	-	4.7	5.1
Subsequent Injury	0.7	-	-	0.7
Unemployment Insurance Benefits	6.3	-	-	6.3
Uninsured Employers	1.4	-	-	1.4
<b>6/30/2019</b>	<b>\$ 198.1</b>	<b>\$ 38.6</b>	<b>\$ 1,491.4</b>	<b>\$ 1,728.1</b>
Totals may not sum due to rounding differences.				
*Includes net receivable and payable accruals.				

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

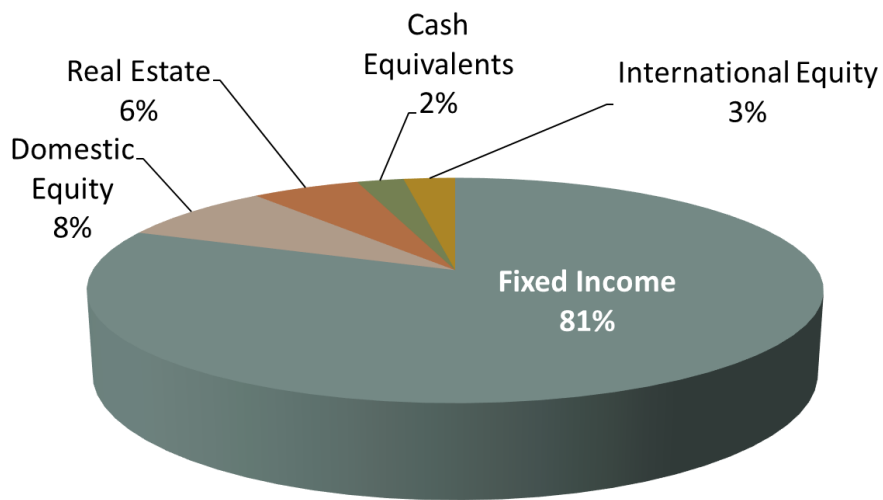
## MONTANA STATE FUND

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.

Montana State Fund  
Balance as of June 30, 2019  
was over \$1.5 Billion.

MONTANA STATE FUND RETURNS	1-Year	2-Year	10-Year
	7.36%	4.48%	5.36%

## 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 Investments (SMI) are available to meet that need.

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

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

[Separately Managed Investments  
\(SMI\)](#)

Operating Funds				
Fiduciary Net Position Held in Trust for Participants* (In Millions)				
Fund Name	STIP	TFIP	SMI	Grand Total
Local Governments	\$ 1,374.2	\$ -	\$ -	\$ 1,374.2
State Treasurer's Fund	1,313.7	-	44.8	1,358.5
State Agency	319.1	-	-	319.1
Montana Historical Society	-	0.4	-	0.4
Montana Historical Society Trusts	0.5	2.9	-	3.4
Montana State University - Bozeman	121.4	17.3	-	138.7
University of Montana - Missoula	-	31.2	12.6	43.8
FWP License	29.4	7.1	3.0	39.5
Montana Tech of the University of Montana	10.5	0.5	-	11.0
<b>6/30/2019</b>	<b>\$ 3,168.8</b>	<b>\$ 59.4</b>	<b>\$ 60.4</b>	<b>\$ 3,288.6</b>
Totals may not sum due to rounding differences.				
*Includes net 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). There are 168 local government accounts invested in STIP as of June 30, 2019.

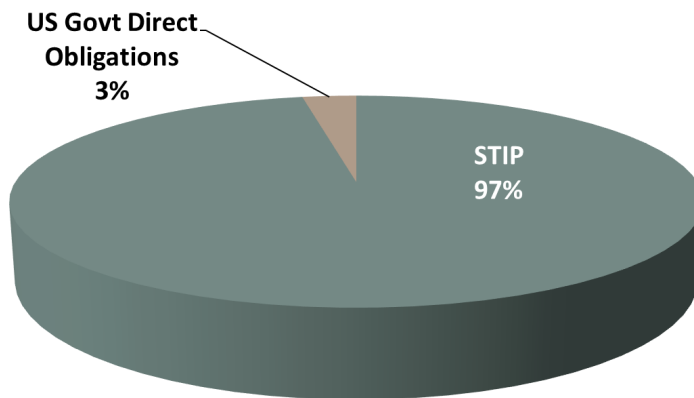
## STATE TREASURER'S FUND

The State Treasurer's Fund is comprised of cash in all state accounts that do not retain their investment earnings. All earnings are deposited in 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.

State Treasurer's Fund Balance  
as of June 30, 2019  
was nearly \$1.4 Billion.

STATE TREASURER'S FUND RETURNS	1-Year	2-Year	10-Year
	2.36%	1.91%	0.68%

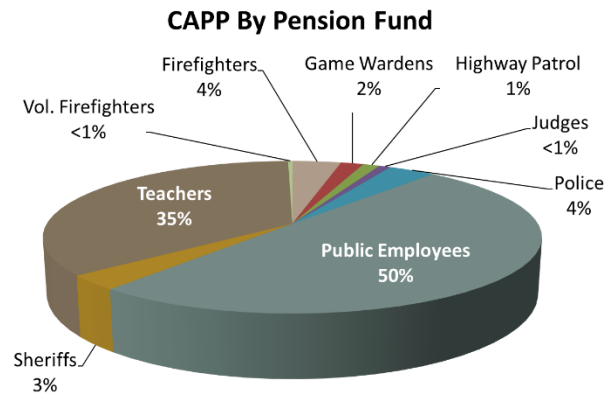
### State Treasurer's Fund By Investment Type



## 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 thirteen approved asset classes 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.



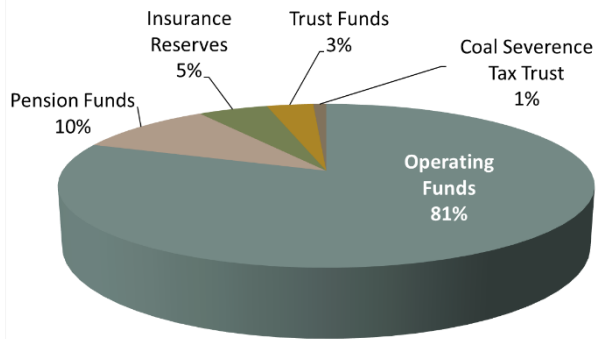
CAPP Asset Allocations			
Asset Class	Range Low	Range High	Allocation As of 6/30/19
Domestic Equities	24%	38%	30%
International Equities	12%	24%	18%
Private Equity	9%	15%	12%
US Treasury/Agency Fixed Income <sup>2</sup>	6%	15%	9%
Real Estate	4%	12%	8%
Agency Mortgage-Backed Securities <sup>2</sup>	2%	8%	4%
Investment Grade Credit <sup>2</sup>	2%	6%	4%
TIPS	2%	6%	4%
High Yield <sup>2</sup>	2%	6%	3%
Natural Resources <sup>1</sup>	0%	6%	3%
Cash <sup>4</sup>	0%	5%	3%
Broad Fixed Income <sup>2</sup>	0%	3%	1%
Diversifying Strategies <sup>3</sup>	0%	4%	1%
<sup>1</sup> Natural Resources will invest in strategies that include Timber, Energy, Agriculture, Water, and Other Commodities. <sup>2</sup> Related fixed income asset classes may not go below a minimum of 15 percent of the portfolio. <sup>3</sup> CAPP shall have no greater than 5% of its Fiduciary Net Position Held in Trust for Participants managed by any one external manager. <sup>4</sup> The range for cash includes the plans' allocation to STIP and CAPP's allocation to the Cash Asset Class, but it does not include the cash held in the other Asset Classes or underlying Portfolios.			



## SHORT TERM INVESTMENT POOL (STIP)

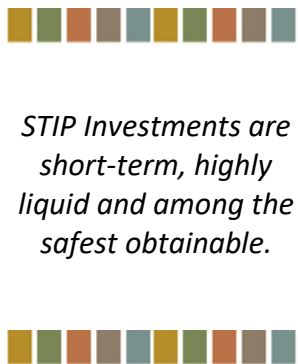
Created in 1973, the Board's Short-Term Investment Pool (STIP) is used by state agencies, local governments and the retirement systems as an alternative to idle cash. STIP investments are short-term, highly liquid and among the safest obtainable. Although not a money market fund, STIP is structured in 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.

**STIP By Participant Type**



Short Term Investment Pool (STIP)	
Fiduciary Net Position Held in Trust for Participants* (In Millions)	
Asset Class	Grand Total
Cash/Cash Equivalents**	\$ 1,995.1
Agency/Government Related	873.2
Commercial Paper	200.1
Corporate Notes	448.9
Certificates of Deposit	325.2
Treasury	129.9
Net Receivable/Payable Adjustment	4.9
<b>6/30/2019</b>	<b>\$ 3,977.3</b>
Totals may not foot due to rounding differences. *Includes net receivable and payable accruals. **STIP cash and cash equivalents generally, are short-term, highly liquid investments with maturities of three months or less at 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.

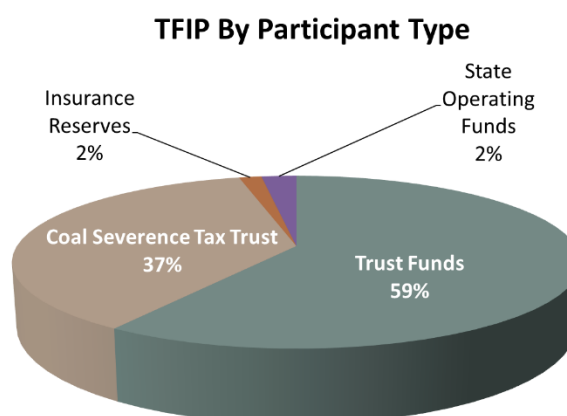


STIP provides participants ready access to cash. Shares are transacted at \$1.00, fractional shares may be purchased, and participants may buy or sell shares with one business day's notice. The nearly \$4.0 billion in pool investments are managed by Board Staff. There were over 516 accounts invested in STIP during the year, including 168 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 \$75.9 million (unaudited) in Fiscal Year 2019. The chart above shows the percent of shares by major participant type as of June 30, 2019.

## 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 record keeping purposes. The Board invests over \$2.3 billion in TFIP for 53 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.



Trust Funds Investment Pool (TFIP) Fiduciary Net Position Held in Trust for Participants* (In Millions)		
Asset Class	Grand Total	
Corporate	\$	846.4
Securitized		704.3
Treasury		481.5
Government-Related		180.2
Real Estate		155.9
Other		56.9
High Yield Bonds		52.0
STIP		35.1
<b>6/30/2019</b>	<b>\$</b>	<b>2,512.3</b>
Totals may not foot due to rounding differences.		
*Includes net receivable and payable accruals.		

Because current income is important to these participants 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 to the left. Each Asset Class has an underlying set of investment objectives and investment guidelines. All realized capital gains and losses are retained in the pool.

The sectors of securities set forth in the table to the left previously read, Corporate Bonds, United States Government Agency, United States Government Direct Obligations, Municipal Government Bonds, Core Real Estate, High Yield Bonds, and Short-Term

Investment Pool (STIP). The names of the sector classifications have been changed to better conform to the names used in the Bloomberg Barclays Indices Global Class 1 Sector Classification Scheme. The change in sector names has no bearing on the actual TFIP unit investments.



## 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, SMI table, of this report.

[Seperately Managed Investments  
\(SMI\)](#)

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

Montana Related Investments Made in the State and Bond Guarantees Fiduciary Net Position Held in Trust for Participants* (In Millions) As of June 30					
Investment	SMI	CAPP	TFIP	Bond Guarantees	Grand Total
Coal Severance Tax Trust Fund:					
In-State Loan Program	\$153.7	\$ -	\$ -	\$ -	\$ 153.7
Montana Facility Finance Authority Loans (MFFA)	5.3	-	-	-	5.3
Montana University System/MSTA**	8.3	-	-	-	8.3
Residential Mortgages	-	3.4	-	-	3.4
Direct Real Estate	-	-	19.5	-	19.5
INTERCAP Bond Guarantee	-	-	-	105.1	105.1
MFFA Bond Guarantee	-	-	-	88.9	88.9
<b>6/30/2019</b>	<b>\$167.4</b>	<b>\$ 3.4</b>	<b>\$ 19.5</b>	<b>\$ 194.0</b>	<b>\$ 384.3</b>
Totals may not sum due to rounding differences.					
*Includes net receivable and payable accruals.					
**Montana Science and Tech Alliance					

**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.



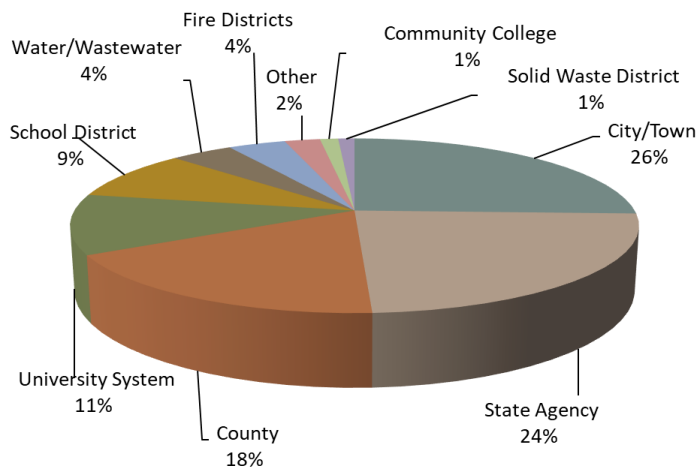
## ENTERPRISE FUND

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

For over 30 years, the Board has provided low interest loans to Montana state agencies, universities, and local governments for various projects. Since the program's inception, the Board's INTERCAP Revolving Loan Program (INTERCAP) has loaned \$580.87 million statewide and issued \$168.0 million in bonds with \$105.1 million outstanding at June 30, 2019. Loan interest rates are reset every February. The loan rate from February 16, 2018 to February 15, 2019 was 3.15% and the loan rate for February 16, 2019 to February 15, 2020 is 3.37%.

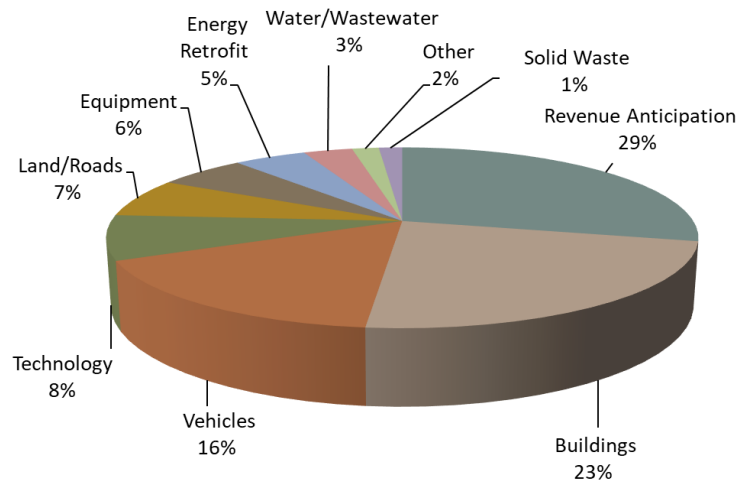
**Loans By Borrower Type Since Inception**



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

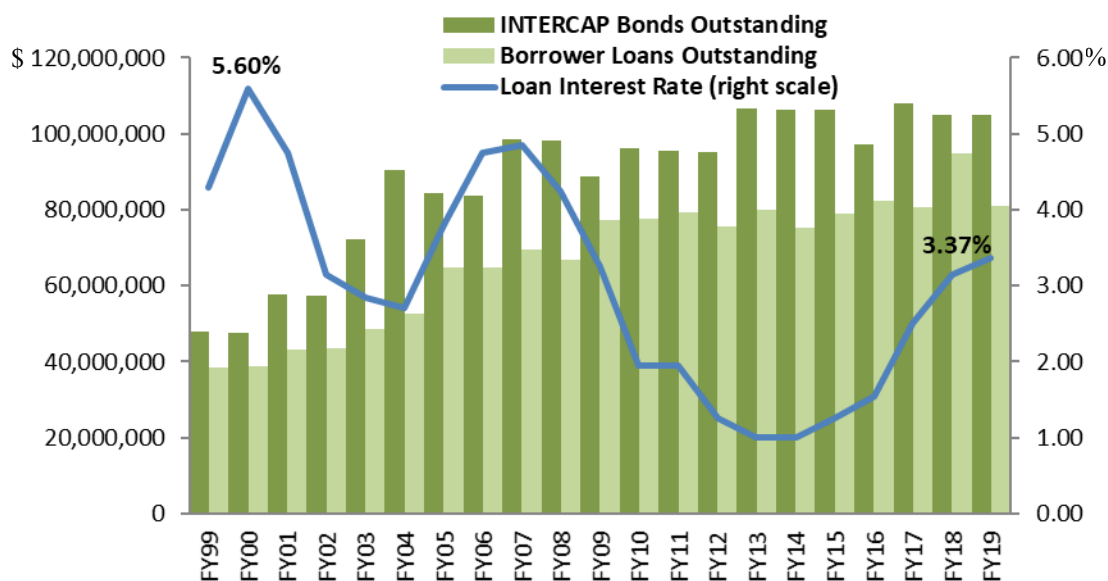


**Loans By Project Type Since Inception**



The Board makes firm one-year commitments to fund the loans. On average, over the past five fiscal years, the program committed to \$32.0 million and funded \$30.5 million in loans. In fiscal year 2018, the program estimated fiscal year 2019 commitments and fundings would be approximately \$25 million. In fiscal year 2019, the program committed to \$23.1 million and funded \$27.0 million in loans. For fiscal year 2020, the program estimates the Board will commit to and fund close to \$25 million.

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



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

During the 2019 Session, the 66<sup>th</sup> Legislature passed several House Bills (HB) that expanded the borrowing authority laws for city, county, school districts and, new to the program, tribal governments. The following is a brief summary of each bill.

- HB428 included Montana Indian Tribal Government's as an eligible borrower under the MFCA, Title 17, Chapter 5, Part 16, Montana Code Annotated (MCA).



- HB299 amended the special and rural improvement district laws for cities and counties in relation to issuing variable rate bonds to finance primarily street and road projects within the districts. The amendment removed the dollar amount cap and non-marketability requirement providing cities and counties more access to INTERCAP as a low interest financing option for these projects.
- HB247 amended school law broadening the field of authorized lenders from only borrowing through the Board to borrowing through a bank, building and loan association, savings and loans association, or credit union that is a regular lender for the non-voted projects in Title 20, Chapter 9, Part 471, MCA. Before seeking to secure a loan through another lender, the school trustees are required to first offer the Board a written notice of the Board's right of first refusal to issue the loan or purchase the obligation.

To highlight a few of this year's projects used to better serve Montana's communities, the Program partially financed a structure engine for Park County Rural Fire District, a jet boat for Stillwater County Search and Rescue, both pictured to the right, and Big Sky Rural Fire District's remodel of stations 1 & 2.



Big Sky Rural Fire District maintains an Emergency Services Master Plan to keep up with the rapid growth in the community. Part of the original 2015 plan was this fiscal year's remodel that included, but not limited to, providing adequate, safe crew accommodations, room for additional personnel, and housing for the aerial ladder truck at Station 1 to reduce response time. Station 2, pictured to the left, now has the ability to support 24-hour personnel including quarters, meeting space, kitchen, and bathrooms that, prior to this project, only housed apparatuses.

## 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. Nine school districts have issued over \$13.7 million in QZAB bonds as of June 30, 2019.

### • ***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, 2019.



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