

**MONTANA**  
BOARD OF INVESTMENTS



## **2017 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 <http://leg.mt.gov/css/publications/audit/reports.asp> and the complete audited financial statements will also be available on the Board's website <http://investmentmt.com/AnnualReportsAudits>.



It is my pleasure to present our 2017 annual report to the Legislature, the Governor and the public.

It is the highest honor and privilege for the Board of Investments to oversee the only program specifically required in the Montana

Constitution, the *Unified Investment Program*. Since its inception in 1972, the Board invests essentially all the State's money, its pension funds, trust funds, insurance reserves, operating funds, and certain local government funds. Today the Board manages over \$17 billion for all state agencies and many local governments.

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

*"Our investment horizon is for the very long term for the pension systems, intermediate term for our trust fund clientele, and short term for the state's daily cash needs."*

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

We are a nine-member board, chosen 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.

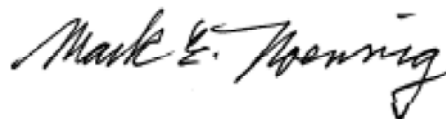
Our investment horizon is for the very long term for the pension systems, intermediate term for our trust fund clientele, and short term for the state's daily cash needs. While every year's investment performance is important, I urge we all remember that investing often requires a long-term view. We need to be patient, diligent, and thoughtful.

The Board is mindful about costs, especially managing pension dollars. We conduct an independent study yearly on 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. This study may be found online at <http://investmentmt.com/CEMBenchmarking>

Nearly half of the investments are internally managed by our own investment staff, and for these investments our costs are very low and performance is solid. We have a highly trained and professional staff. Many hold advanced degrees, and many hold financial and accounting professional designations.

This year we consolidated five retirement investment pools into a single consolidated asset pension pool. We believe this improves both investment flexibility and operational efficiencies.

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.



Mark Noennig, Chairman



# BOARD MEMBERS



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



**Karl Englund**  
MISSOULA  
Board Vice Chair  
*Attorney*  
Term Ending:  
01/01/2019

- Human Resources (HR) Committee, Chair



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

- Audit Committee



**Teresa Olcott Cohea**  
HELENA  
*Representing Financial Community*  
Term Ending:  
01/01/2019

- Audit Committee
- Loan Committee



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

- Loan Committee



**Vacant**

*Representing Agriculture*  
Term Ending: \_\_\_\_\_

- \_\_\_\_\_



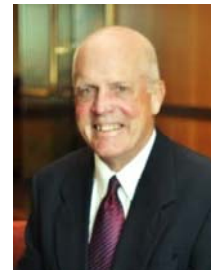
**Quinton Nyman**  
HELENA  
*Representing Labor*  
Term Ending:  
01/01/2019

- HR Committee



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

- HR Committee
- Loan Committee, Chair



**Jon Satre**  
HELENA  
*Representing Business*  
Term Ending:  
01/01/2019

- HR Committee
- Audit Committee, Chair

## LEGISLATIVE LIAISONS



**Representative Kelly McCarthy**  
BILLINGS  
*House of Representatives Liaison*  
Term Ending:  
12/31/2018



**Senator Scott Sales**  
BOZEMAN  
*Senate Liaison*  
Term Ending:  
12/31/2018

### *Senior Management*

- ◆ **David Ewer**  
Executive Director
- ◆ **Geri Burton**  
Deputy Director
- ◆ **Doug Hill**  
Director of In-State Loan Programs
- ◆ **Joseph M. Cullen, CFA, CAIA, FRM**  
Chief Investment Officer
- ◆ **Julie Feldman, CPA**  
Financial Manager
- ◆ **Dana Chapman**  
Office Manager – Board Secretary

### *Staff*

- ◆ **Polly Boutin**  
Associate Financial Manager
- ◆ **Jason Brent, CFA**  
Investment Officer
- ◆ **Frank Cornwell, CPA**  
Associate Financial Manager
- ◆ **Roberta Diaz**  
Investment Accountant
- ◆ **Julie Flynn**  
Municipal Finance Programs  
Bond Program Officer
- ◆ **Kelsey Gauthier, CPA**  
Investment Accountant
- ◆ **Kirsten Haswell**  
Investment Analyst
- ◆ **Tim House**  
Investment Analyst
- ◆ **Ethan Hurley, CAIA**  
Director of Private Investments
- ◆ **Teri Kolnik, CFA**  
Investment Analyst
- ◆ **Emily Kovarik, CPA**  
Investment Analyst
- ◆ **Eron Krpan, CFA, CIPM**  
Investment Analyst
- ◆ **Tammy Lindgren**  
Investment Accountant
- ◆ **April Madden**  
Investment Accountant
- ◆ **Savannah Morgan**  
Administrative Assistant
- ◆ **Rande Muffick, CFA**  
Director of Public Market Investments
- ◆ **Mary Noack**  
Network Administrator
- ◆ **Michael Nguyen**  
Investment Officer
- ◆ **Michael Pettit**  
Director of Investment Operations
- ◆ **Jon Putnam, CFA, FRM, CAIA**  
Director of Fixed Income
- ◆ **John Romasko, CFA**  
Investment Officer
- ◆ **Steve Strong**  
Investment Analyst
- ◆ **Louise Welsh**  
Municipal Finance Programs  
Senior Bond Program Officer
- ◆ **Maria Wise**  
Administrative Assistant
- ◆ **Daniel Zarling, CFA**  
Director of Risk Management

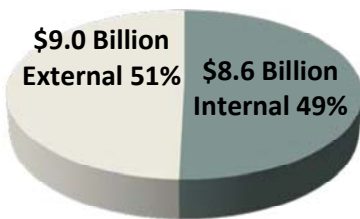
## UNIFIED INVESTMENT PROGRAM

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, 2017, the Board of Investments managed over \$17.6 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 separate accounts are utilized to meet the financial goals and expectations of the agencies and entities which entrust these funds to the Board. The Board's portfolio is available for viewing online on its [FY2017 Portfolio webpage](#).

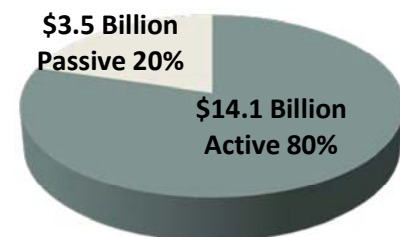
Fund Type	Total Fund Net Asset Value* (In Millions)			Direct Holdings	STIP in Pool / AC	Grand Total
	STIP	TFIP	CAPP			
Pension Funds	\$ 265.8	\$ -	\$ 10,637.1	\$ -	\$ -	\$10,902.9
Trust Funds	77.1	1,397.8	-	50.4	-	1,525.3
Coal Severance Tax Trust	30.4	867.3	-	160.6	-	1,058.3
Insurance Reserves	125.1	17.9	-	1,510.7	-	1,653.7
Operating Funds	2,306.5	51.3	-	136.4	-	2,494.2
STIP in Pool / AC	157.1	-	-	-	(157.1)	-
<b>6/30/2017</b>	<b>\$ 2,962.0</b>	<b>\$ 2,334.3</b>	<b>\$ 10,637.1</b>	<b>\$ 1,858.1</b>	<b>\$ (157.1)</b>	<b>\$17,634.4</b>
Pension Funds	\$ (14.7)	\$ -	\$ 912.1	\$ -	\$ -	\$ 897.4
Trust Funds	7.2	(22.1)	-	(19.3)	-	(34.2)
Coal Severance Tax Trust	5.8	(9.8)	-	6.9	-	2.9
Insurance Reserves	32.7	14.9	-	(14.0)	-	33.6
Operating Funds	57.6	(0.1)	-	(55.6)	-	1.9
STIP in Pool / AC	62.9	-	-	-	(62.9)	-
<b>Change From FY 2016</b>	<b>\$ 151.5</b>	<b>\$ (17.1)</b>	<b>\$ 912.1</b>	<b>\$ (82.0)</b>	<b>\$ (62.9)</b>	<b>\$ 901.6</b>

Totals may not sum due to rounding differences.  
\*Net Asset Value (NAV) includes receivable and payable accruals.



As shown in the chart on the left, just under 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). Prior to April 1, 2017, retirement system assets were invested within five separate investment pools and the Short Term Investment Pool (STIP). On March 31, 2017, these five pools, Retirement Funds Bond, Montana Domestic Equity, Montana International Equity, Montana Private Equity and Montana Real Estate, were dissolved and reconstituted into a single 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



Pensions			
Net Asset Value* (In Millions)			
Fund Name	STIP	CAPP	Grand Total
Public Employees Retirement	\$ 130.5	\$ 5,326.2	\$ 5,456.7
Teachers Retirement	98.3	3,820.6	3,918.9
Firefighters Retirement	9.4	371.0	380.4
Police Retirement	9.1	360.5	369.6
Sheriffs Retirement	8.3	322.0	330.3
Game Wardens Retirement	3.9	171.2	175.1
Highway Patrol Retirement	3.1	136.3	139.4
Judges Retirement	2.3	93.9	96.2
Vol. Firefighters Retirement	0.9	35.4	36.3
<b>6/30/2017</b>	<b>\$ 265.8</b>	<b>\$ 10,637.1</b>	<b>\$ 10,902.9</b>
Public Employees Retirement	(11.7)	450.5	438.8
Teachers Retirement	1.1	297.8	298.9
Firefighters Retirement	(0.1)	43.7	43.6
Police Retirement	(0.5)	41.0	40.5
Sheriffs Retirement	0.2	31.8	32.0
Game Wardens Retirement	(0.8)	21.7	20.9
Highway Patrol Retirement	(0.9)	11.9	11.0
Judges Retirement	(0.3)	9.1	8.8
Vol. Firefighters Retirement	(1.7)	4.5	2.8
<b>Change From FY 2016</b>	<b>\$ (14.7)</b>	<b>\$ 912.0</b>	<b>\$ 897.3</b>
Totals may not sum due to rounding differences.			
*Net Asset Value (NAV) 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.

Pension Fund Asset Allocations			
Asset Class	Range Low	Range High	6/30/17 Allocation
Domestic Equities	24%	38%	36%
International Equities	12%	18%	17%
Private Equity	9%	15%	10%
Natural Resources <sup>1</sup>	0%	6%	2%
Real Estate	4%	12%	8%
TIPS	0%	4%	3%
Broad Fixed Income <sup>2</sup>	1%	3%	2%
US Treasury/Agency Fixed Income <sup>2</sup>	5%	14%	7%
Investment Grade Credit <sup>2</sup>	2%	6%	5%
Agency Mortgage-Backed Securities <sup>2</sup>	2%	8%	4%
High Yield <sup>2</sup>	1%	5%	2%
Diversified Strategies <sup>3</sup>	0%	4%	0%
Cash <sup>4</sup>	1%	6%	4%
<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> Diversified Strategies will hold no investments until the Diversified Strategies objectives and guidelines are formally approved by the board. <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.			

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.

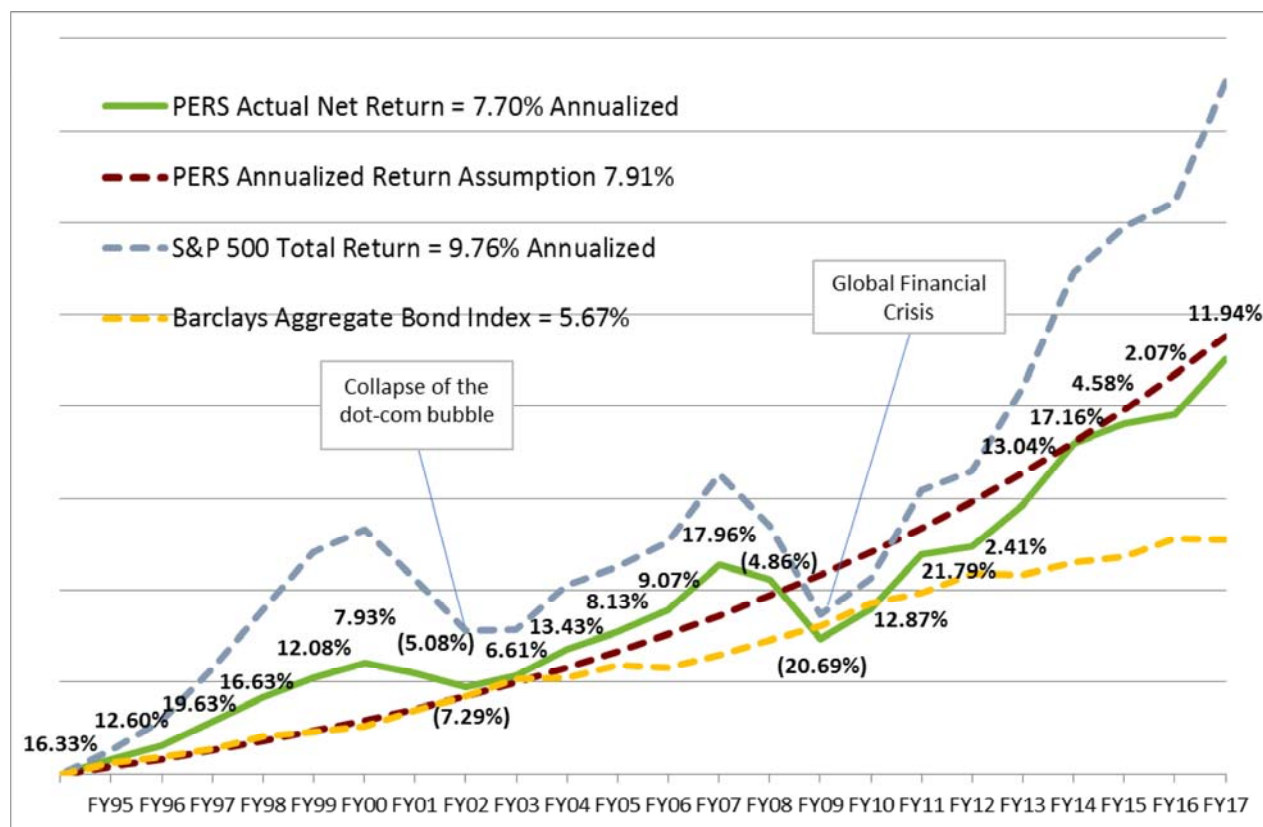
The Board's goal is to maximize investment returns, while keeping risk within prudent levels and maintaining sufficient liquidity to meet current benefit payments to retirees.

In April 2017, the Board adopted certain changes to the benchmarks of asset classes with an emphasis that the benchmark needed to be investable. New benchmarks will only be applied to future returns and not applied retroactively.

The Board's asset allocation mix is critical to the return on pension fund investments. The table to the left shows the approved ranges established by Board policy as of April 5, 2017.



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 (equity) and Barclay's aggregate (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. An example of a report comparing costs and performance may be found on the Board's website at: <http://investmentmt.com/CEMBenchmarking>.



## TRUST FUNDS

The Board invests nearly \$2.6 billion for more than 30 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 (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest 25 percent of the Trust in the Montana economy with emphasis on new or expanding businesses.

Over the years, the legislature has partitioned the Trust into several sub-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 effective July 1, 2017, the School Facilities Fund. The School Facilities Fund will receive 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 principal of all the sub-funds are protected by the State Constitution and may be appropriated only by a three-fourths vote of each house of the legislature. 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, 2015 through July 1, 2018, on July 1 of each year, up to \$21 million of the interest income that is transferred to the state's general fund is statutorily appropriated to the Public Employees' Retirement System Defined Benefit Plan Trust 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 Severance Tax Trust sub-funds are shown below:

Coal Severance Tax Trust Fund Net Asset Value* (In Millions)				
Fund Name	STIP	TFIP	Direct Holdings	Grand Total
Economic Development Trust	\$ 1.3	\$ 98.1	\$ -	\$ 99.4
Permanent Coal Trust	25.1	385.6	160.4	571.1
Permanent Fund Income	0.0	-	-	0.0
Regional Water Fund	0.6	98.7	-	99.3
Severance Tax Bond Fund	1.9	-	-	1.9
Treasure State Endowment	1.5	284.9	0.2	286.6
<b>6/30/2017</b>	<b>\$ 30.4</b>	<b>\$ 867.3</b>	<b>\$ 160.6</b>	<b>\$ 1,058.3</b>
Economic Development Trust	\$ 0.2	\$ 4.0	\$ -	\$ 4.2
Permanent Coal Trust	6.6	(11.5)	7.0	2.1
Permanent Fund Income	0.0	-	-	0.0
Regional Water Fund	(0.5)	0.0	-	(0.5)
Severance Tax Bond Fund	0.3	-	-	0.3
Treasure State Endowment	(0.8)	(2.2)	(0.1)	(3.1)
<b>Change From FY 2016</b>	<b>\$ 5.8</b>	<b>\$ (9.8)</b>	<b>\$ 6.9</b>	<b>\$ 2.9</b>
Totals may not sum due to rounding differences.				
*Net Asset Value (NAV) includes net receivable and payable accruals.				

The table below reflects the Direct Holdings held by the Coal Severance Tax Trust Fund. The Board uses the In-State Loan Program to invest a portion of the Coal Severance Tax Trust in compliance with state law. The pages to follow provide more detail on the program and the various financing options available.

Direct Holdings Net Asset Value* (In Millions)			
	Permanent Coal Trust	Treasure State Endowment	Grand Total
<b>Montana Mortgages and Loans</b>			
In-State Loans and Mortgages:			
Commercial Loan Participation Program	\$ 88.7	\$ 0.2	\$ 88.9
Infrastructure Loan Program	23.6	0.0	23.6
Intermediary Re-Lending Program	3.5	0.0	3.5
Value Added Loan Program	-	-	-
Veteran's Home Loan Program	32.6	-	32.6
Montana Facility Finance Authority Loans	3.3	0.0	3.3
Montana Science and Technology	8.7	0.0	8.7
<b>6/30/2017</b>	<b>\$ 160.4</b>	<b>\$ 0.2</b>	<b>\$160.6</b>
In-State Loans and Mortgages:			
Commercial Loan Participation Program	\$ 5.3	\$ (0.1)	\$ 5.2
Infrastructure Loan Program	(0.9)	(0.0)	(0.9)
Intermediary Re-Lending Program	0.4	(0.0)	0.4
Value Added Loan Program	(0.3)	(0.0)	(0.3)
Veteran's Home Loan Program	1.6	-	1.6
Montana Facility Finance Authority Loans	1.1	(0.0)	1.1
Montana Science and Technology	(0.2)	(0.0)	(0.2)
<b>Change From FY 2016</b>	<b>\$ 7.0</b>	<b>\$ (0.1)</b>	<b>\$ 6.9</b>
Totals may not sum due to rounding differences.			
*Net Asset Value (NAV) includes net receivable and payable accruals.			

## COAL SEVERANCE TAX PERMANENT FUND IN-STATE LOAN PROGRAM

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 Tax Trust (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, Direct Holdings 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 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 Re-Lending 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 \$5 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.

The **Veteran's Home Loan Program** provides low interest loans for Montana Veterans who are first-time home buyers. By law, the Montana Board of Housing administers the Program; however, the Board of Investments approves and funds all loans. Total loans outstanding in this Program are limited by law to \$40 million.



## IN-STATE LOAN PROGRAM HIGHLIGHTS



Consumer Direct Holdings, Inc. (Consumer Direct) provides care services and support that helps people of all ages, remain safe, healthy and independent in their own homes. Consumer Direct Grant Creek Campus is a four-story building financed by the combination of the Board's In-State Loan Program 80% participation in a \$16.4 million loan with nearly \$2 million in additional financing to purchase the land through the Board's In-State Infrastructure Loan Program, in cooperation with the City of Missoula. In consideration for the terms of the loan, Consumer Direct has agreed to create 120 jobs.

Consumer Direct Holdings, Inc. (Consumer Direct) provides care services and support that helps people of all ages, remain safe, healthy and independent in their own homes. Consumer Direct Grant Creek Campus is a four-story building financed by the combination of the Board's In-State Loan Program 80% participation in a \$16.4 million loan with nearly \$2 million in additional financing to purchase the land through the Board's In-State Infrastructure Loan Program, in cooperation with the City of Missoula. In consideration for the terms of the loan, Consumer Direct has agreed to create 120 jobs.

### JOB GROWTH IN WESTERN MONTANA

Neptune Aviation Services, Inc. (Neptune), based in Missoula, MT, is a leader in aviation firefighting and firefighting technology. The Board's In-State Loan Program participated in 80% of a \$18.3 million loan to Neptune, to finance six BAe-146 firefighting aircraft. The Board also financed \$1.1 million for the construction of a new hanger using the Infrastructure Loan Program, in cooperation with the Missoula County Airport Authority. In consideration for the terms of the loan, Neptune has agreed to create 69 jobs.



Under the Infrastructure Loan Program's governing statutes, both Consumer Direct and Neptune qualify to reduce their Montana state income tax liability which, over the term of the loans, could equal the total loan amounts.

## OTHER TRUST FUNDS

Other Trust Funds Net Asset Value* (In Millions)					
Fund Name	STIP	TFIP	Direct Holdings	Grand Total	
Abandoned Mine Trust	\$ 1.5	\$ -	\$ 4.8	\$ 6.3	
Butte Area One Rest	3.8	14.8	3.8	22.4	
Butte-Silver Bow Redevelopment Trust	0.3	12.8	-	13.1	
Clark Fork River Rs	7.7	20.8	4.3	32.8	
Clark Fork Site Resp	3.6	66.5	5.7	75.8	
Cultural Trust	0.3	14.3	-	14.6	
East Helena Comp. Fund	2.9	3.0	-	5.9	
Endowment For Children	0.0	1.2	-	1.2	
FWP Mitigation	3.6	-	7.8	11.4	
Harold Hamm Endowment	0.0	-	-	0.0	
Montana Pole	6.1	22.7	-	28.8	
Noxious Weeds	-	10.9	-	10.9	
Older Montanans Trust Fund	0.1	1.1	-	1.2	
Park Acquisition	0.5	25.8	-	26.3	
Potter Trust Fund	0.0	0.2	-	0.2	
Public School Trust	-	701.1	-	701.1	
Real Property Trust	0.5	6.6	-	7.1	
Resource Indemnity Trust	0.0	112.1	-	112.1	
Smelter Hill Upload	3.5	3.1	3.6	10.2	
Streamside Tailings	2.0	21.6	0.4	24.0	
Tobacco Trust	6.5	215.4	-	221.9	
UCFRB Reserve	1.6	17.3	-	18.9	
UCFRB Restoration	9.3	109.8	-	119.1	
Upper Blackfoot Response	5.9	4.0	3.2	13.1	
Wildlife Habitat	0.8	12.7	-	13.5	
Zortman Trust	1.8	-	16.8	18.6	
Zortman Water	14.8	-	-	14.8	
<b>6/30/2017</b>	<b>\$ 77.1</b>	<b>\$ 1,397.8</b>	<b>\$ 50.4</b>	<b>\$ 1,525.3</b>	
Abandoned Mine Trust	\$ (0.9)	\$ -	\$ 0.9	\$ 0.0	
Butte Area One Rest	0.8	(1.2)	(1.5)	(1.9)	
Butte-Silver Bow Redevelopment Trust	(0.5)	(0.4)	-	(0.9)	
Clark Fork River Rs	0.1	0.7	(1.0)	(0.2)	
Clark Fork Site Resp	3.6	(9.3)	(1.7)	(7.4)	
Cultural Trust	0.1	(0.1)	-	0.0	
East Helena Comp. Fund	(0.0)	0.0	-	(0.0)	
Endowment For Children	(0.0)	(0.0)	-	(0.0)	
FWP Mitigation	(0.9)	-	0.7	(0.2)	
Harold Hamm Endowment	0.0	-	-	0.0	
Montana Pole	(0.2)	(0.6)	-	(0.8)	
Noxious Weeds	-	(0.3)	-	(0.3)	
Older Montanans Trust Fund	0.0	0.0	-	0.0	
Park Acquisition	0.2	(0.3)	-	(0.1)	
Potter Trust Fund	0.0	(0.0)	-	0.0	
Public School Trust	-	(1.4)	-	(1.4)	
Real Property Trust	0.1	(0.2)	-	(0.1)	
Resource Indemnity Trust	(0.0)	(2.9)	-	(2.9)	
Smelter Hill Upload	(0.6)	(0.1)	0.4	(0.3)	
Streamside Tailings	(0.8)	(1.6)	(0.0)	(2.4)	
Tobacco Trust	5.7	1.7	-	7.4	
UCFRB Reserve	0.6	(0.4)	-	0.2	
UCFRB Restoration	(13.7)	(4.1)	-	(17.8)	
Upper Blackfoot Response	(2.9)	(1.8)	(2.0)	(6.7)	
Wildlife Habitat	0.2	0.1	-	0.3	
Zortman Trust	1.8	-	(0.3)	1.5	
Zortman Water	14.6	-	(14.5)	0.1	
<b>Change From FY 2016</b>	<b>\$ 7.3</b>	<b>\$ (22.2)</b>	<b>\$ (19.0)</b>	<b>\$ (33.9)</b>	
Totals may not sum due to rounding differences.					
*Net Asset Value (NAV) includes net receivable and payable accruals.					

**Abandoned Mine Trust** - an expendable trust funded by federal grants under the Surface Mining Control and Reclamation Act of 1977, Article IV. Ten percent of Montana's annual grant amount is deposited into this trust to fund programs related to abandoned mine land reclamation.

**Butte Area One Restoration** - funds derived from the 2008 consent decree between the Montana Department of Justice (DOJ) and Atlantic Richfield Company (ARCO) for projects that restore, replace or acquire the equivalent of injured natural resources or lost services at Butte Area One.

**Butte-Silver Bow Redevelopment Trust** - funds derived from a negotiated settlement between the City and County of Butte-Silver Bow and ARCO to fund projects and activities to include a variety of work to promote the redevelopment of the Butte Hill and adjacent areas as Superfund cleanup actions conclude.

**Clark Fork River Restoration** - funds derived from the 2008 consent decree between the DOJ and ARCO for restoration of the Clark Fork River and associated riparian areas from Warm Springs Ponds to Milltown Reservoir and related projects.

**Clark Fork Site Response** - funds derived from the 2008 consent decree between the Montana Department of Environmental Quality (DEQ), the U.S. Environmental Protection Agency (EPA), and ARCO to remediate the environmental contamination at the Clark Fork River Operable Unit of a federal Superfund site.

**Cultural Trust and Park Acquisition** - A portion of the coal severance tax is dedicated to a statutorily created Park Trust Fund and a Cultural Trust Fund (Trusts). Investment income generated by the Trusts is appropriated by the legislature to acquire/operate state parks and to fund cultural and aesthetics projects. The 1997 legislature appropriated \$3.9 million of Cultural Trust principal to purchase historical properties.



Trust Investments are managed primarily to generate income for the Board's Trust Fund clientele.



**East Helena Compensation Fund** - funds derived from the 2008 settlement between the DOJ and the American Smelting and Refining Company (ASARCO) for purposes of the restoration and oversight of environmental cleanup on and around the former site of the ASARCO smelter in East Helena.

**Endowment for Children** - funds derived from state appropriation, gifts, grants, and donations, or any other source for programs and services related to child abuse and neglect, primarily prevention activities and family resource programs.

**Fish, Wildlife, and Parks (FWP) Mitigation** - an expendable trust funded by a 1988 agreement between the Montana FWP and the Bonneville Power Administration to provide protection, mitigation, and enhancement of wildlife and wildlife habitat affected by the development of Libby and Hungry Horse Dams.

**Harold Hamm Endowment** - created for the benefit of Helena College via a gift from Harold W. Hamm. The endowment distributes scholarships to students and faculty in the Aviation and Maintenance Technology program on an annual basis.

**Montana Pole Superfund** - funds derived from the 1996 consent decree between the DEQ, EPA, ARCO, Burlington Northern Railroad, Montana Resources, Inc., and other responsible parties for the environmental cleanup of the former Montana Pole and Treatment Plant in Butte.

**Noxious Weeds** - a non-expendable \$10 million trust that receives funding from state and federal contributions and private donations for programs and services related to noxious weed control.

**Older Montanans Trust Fund** - funds derived from contributions and gifts to be used towards programs and services that promote dignity, respect, and enable an independent lifestyle in the least restrictive setting for Montana residents 60 years of age or older.

**Potter Trust Fund** - created for the benefit of Montana Tech per the Last Will and Testament of Peter Potter. The Trust is utilized by Montana Tech to provide financial aid assistance for students and to reimburse the university some administrative expenses.

**Public School Trust** - Article X, Sections 2 and 3 of the state Constitution requires that all royalties and other proceeds received from school lands granted to the state under federal enabling legislation be deposited in the Trust and Legacy (Schools) Fund, where it shall forever remain inviolate and guaranteed by the state against loss or diversion.

**Real Property Trust** - a non-expendable trust funded with proceeds from the sale of real property, oil, gas or mineral deposits, and from leases for the operation, development, and maintenance of real property under management of the Montana FWP.

**Resource Indemnity Trust** - Article IX, Section 2 of the state Constitution requires that revenues from the Resource Indemnity Tax on minerals be deposited in the Resource Indemnity Trust Fund, the principal of which "shall forever remain inviolate" until the principal reaches \$100 million. The fund's book value reached \$100 million in fiscal year 2002.

**Smelter Hill Uplands Restoration** - funds derived from the 2008 consent decree between the DOJ and ARCO for the restoration of the environment, vegetation and soils on lands affected by the Anaconda smelter.

**Streamside Tailings** - funds derived from a 1998 consent decree between the DEQ, EPA, ARCO, and other responsible parties, for the purpose of remediating the mine waste contamination at the Streamside Tailings Operable Unit of the Silver Bow Creek/Butte Area.

**Tobacco Trust** - funds derived from a 1999 master settlement agreement between the states and the nation's largest tobacco companies payable over 25 years beginning fiscal year 2000. Forty percent of Montana's share is deposited in this trust and funds programs related to health care benefits, services, or coverage and tobacco disease prevention.

**Upper Blackfoot Response** - funds derived from the 2008 settlement agreement between the DOJ, DEQ, EPA, ASARCO, and ARCO to be used, in consultation with the U.S. Forest Service, for conducting response and restoration activities within the Upper Blackfoot Mining Complex Site.



**Upper Clark Fork River Basin (UCFRB) Restoration and UCFRB Reserve** - funds derived from the 1998 consent decree between ARCO and the DOJ for the restoration, replacement, or acquisition of equivalent state natural resources injured in the Upper Clark Fork River Basin.

**Wildlife Habitat** - a non-expendable trust funded by twenty percent of the non-resident hunting license revenue collected between 1989 and 1994 for the acquisition, development, and maintenance of wildlife habitat.

**Zortman/Landusky Water** - funds paid by the Pegasus mining company and its insurer to provide long-term water treatment at the closed Zortman and Landusky mines near Malta.

**Zortman/Landusky Trust** - funds derived from state appropriations of \$1.2 million a year until there are sufficient funds to generate \$19.3 million by January 1, 2018 for long-term water treatment at the closed Zortman/Landusky mines near Malta.



## INSURANCE RESERVES

The Board invests over \$1.6 billion for several insurance programs, with the State Fund owning the largest dollar value of such securities. The fair values of the Insurance Reserves are shown below with fund definitions provided in the pages to follow.

Insurance Reserves Net Asset Value* (In Millions)				
Fund Name	STIP	TFIP	Direct Holdings	Grand Total
State Fund Insurance	\$ 22.0	\$ -	\$ 1,468.8	\$ 1,490.8
Other Insurance Funds:				
Agency Insurance	12.2	-	-	12.2
Employee Group Benefits	27.7	13.0	27.0	67.7
Hail Insurance	2.4	-	-	2.4
Montana University System (MUS) Group In:	40.6	-	11.5	52.1
MUS Workers Compensation	15.2	4.9	-	20.1
PERS Defined Cont Disability	0.3	-	3.4	3.7
Subsequent Injury Fund	0.5	-	-	0.5
Unemployment Insurance Benefits	2.8	-	-	2.8
Uninsured Employees	1.4	-	-	1.4
<b>6/30/2017</b>	<b>\$ 125.1</b>	<b>\$ 17.9</b>	<b>\$ 1,510.7</b>	<b>\$ 1,653.7</b>
State Fund Insurance	\$ (4.2)	\$ -	\$ 9.3	\$ 5.1
Other Insurance Funds:				
Agency Insurance	(8.8)	-	-	(8.8)
Employee Group Benefits	13.1	13.0	(10.9)	15.2
Hail Insurance	(1.9)	-	-	(1.9)
Montana University System (MUS) Group In:	36.3	-	(13.0)	23.3
MUS Workers Compensation	(1.1)	1.9	-	0.7
PERS Defined Cont Disability	0.0	-	0.6	0.7
Subsequent Injury Fund	0.5	-	-	0.5
Unemployment Insurance Benefits	(0.9)	-	-	(0.9)
Uninsured Employees	(0.3)	-	-	(0.3)
<b>Change From FY 2016</b>	<b>\$ 32.7</b>	<b>\$ 14.9</b>	<b>\$ (14.0)</b>	<b>\$ 33.6</b>
Totals may not sum due to rounding differences.				
*Net Asset Value (NAV) includes net receivable and payable accruals.				

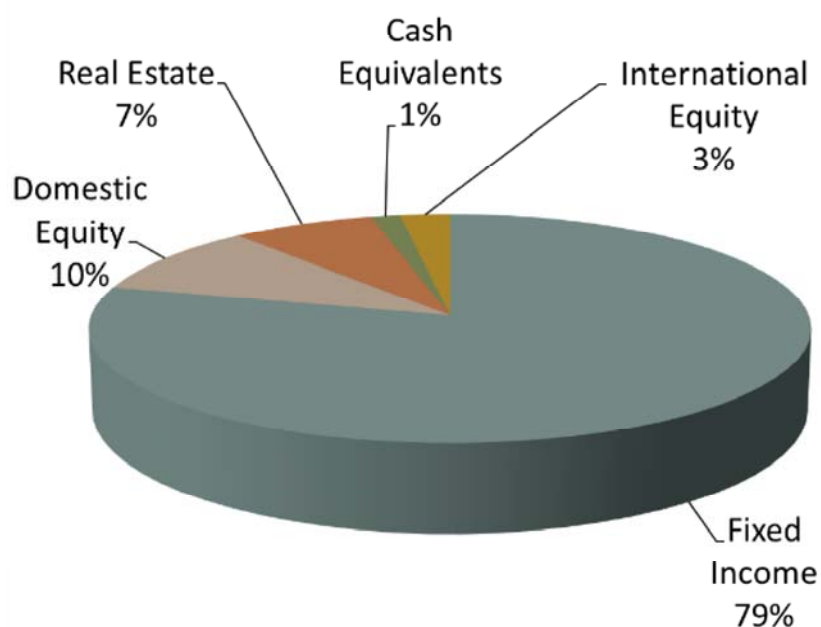
## STATE FUND

The State Compensation Insurance Fund (State Fund) provides workers' compensation and occupational disease insurance for claims arising from injuries. The investment returns for the State Fund shown below are net of fees. The State Fund's portfolio balances are provided on the previous page.

State Fund Balance  
as of June 30, 2017  
was \$1.49 Billion.

STATE FUND INSURANCE RETURNS	1-Year	2-Year	10-Year
	2.49%	3.64%	5.02%

### State Fund By Investment Type



## OTHER INSURANCE FUNDS

Below are the definitions for the other insurance funds the Board invests. Balances for these funds may be viewed on page 17.

**Agency Insurance** - reserve account for the state's property self-insurance program (including liability, property, flood, etc.).

**Employee Group Benefits** - created in 1981, provides health and life insurance to non-university state employees.

**Hail Insurance** - provides benefits to producers engaged in the growing of crops subject to hail damage.

**Montana University System (MUS) Group Insurance** - reserve account for the Montana University System's self-insured health plan.

**MUS Workers Compensation** - accounts for self-insured workers compensation coverage for employees of the Montana University System.

**Public Employees Retirement System (PERS) Defined Contribution Disability** - provides disability benefits to eligible members who elect the PERS Defined Contribution Retirement Plan (DCRP).

**Subsequent Injury** - provides benefits to workers who are vocationally handicapped and whose Workers' Compensation benefits have expired.

**Unemployment Insurance Benefits** - unemployment benefits are paid from this fund to eligible recipients.

**Uninsured Employees** - accounts for activity related to uninsured workers compensation employers and related benefits paid.





## OPERATING FUNDS

Statutes limit where most state agency funds may be invested. Agencies may have the legal authority to invest separately from the State's general cash account (the State Treasurer's Fund), and invest in 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 Fund Investment Pool or separate individual securities are available to meet that need.

Operating Funds Net Asset Value* (In Millions)				
Fund Name	STIP	TFIP	Direct Holdings	Grand Total
FWP License	21.7	-	9.2	30.9
Local Governments	1,033.1	-	-	1,033.1
Montana State University - Bozeman	116.7	17.1	-	133.8
State Agency	401.0	3.0	-	404.0
State Treasurer's Fund	723.3	-	99.8	823.1
University of Montana - Montana Tech	10.6	0.5	-	11.1
University of Montana-Missoula	0.1	30.7	27.4	58.2
<b>6/30/2017</b>	<b>2,306.5</b>	<b>51.3</b>	<b>136.4</b>	<b>2,494.2</b>
FWP License	13.2	-	(2.0)	11.2
Local Governments	144.1	-	-	144.1
Montana State University - Bozeman	3.9	0.7	-	4.6
State Agency	(2.3)	(0.0)	-	(2.3)
State Treasurer's Fund	(101.1)	-	(38.4)	(139.5)
University of Montana - Montana Tech	(0.3)	(0.0)	-	(0.3)
University of Montana-Missoula	0.1	(0.8)	(15.2)	(15.9)
<b>Change From FY 2016</b>	<b>57.6</b>	<b>(0.1)</b>	<b>(55.6)</b>	<b>1.9</b>
Totals may not sum due to rounding differences.				
*Net Asset Value (NAV) includes net receivable and payable accruals.				

Although state agencies with accounts that retain their interest earnings are legally required to invest in the Short Term Investment Pool (STIP), local government entities can by statute voluntarily invest in STIP as provided in 17-6-204, Montana Code Annotated (MCA). There are 163 local government accounts invested in STIP as of June 30, 2017.

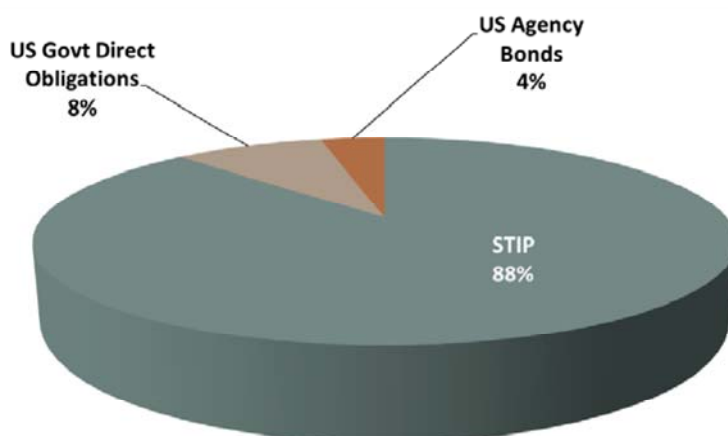
## STATE TREASURER'S FUND

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 has been 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, 2017  
was \$823.1 Million.

STATE TREASURER'S FUND RETURNS	1-Year	2-Year	10-Year
	0.77%	0.62%	0.93%

### Treasurer's Fund By Investment Type

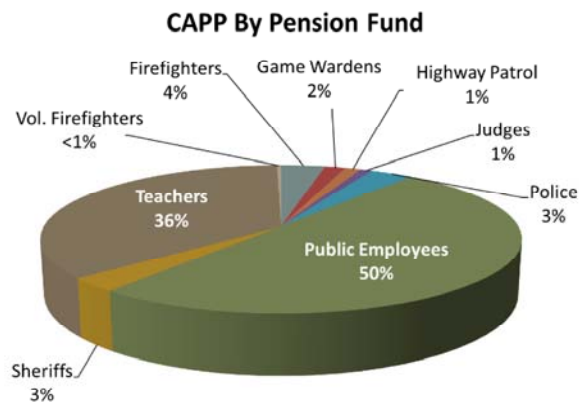


## INVESTMENT POOLS

## CONSOLIDATED ASSET PENSION POOL (CAPP)

Consolidated Asset Pension Pool (CAPP) Net Asset Value* (In Millions)	
Asset Class	Grand Total
Domestic Equity	\$ 3,885.9
International Equity	1,845.1
Private Equity	1,140.1
Real Estate	823.8
US Treasury & Agency	789.5
Investment Grade Credit	540.6
Mortgage-Backed	482.5
TIPS	329.6
Broad Fixed Income	247.0
Natural Resources	221.2
High Yield	215.3
Cash Equivalents	116.5
<b>6/30/2017</b>	<b>\$ 10,637.1</b>
Domestic Equity	\$ 111.7
International Equity	300.0
Private Equity	23.9
Real Estate	(103.8)
US Treasury & Agency	789.5
Investment Grade Credit	540.6
Mortgage-Backed	482.5
TIPS	329.6
Broad Fixed Income	(2,114.9)
Natural Resources	221.2
High Yield	215.3
Cash Equivalents	116.6
<b>Change From FY 2016</b>	<b>\$ 912.2</b>
Totals may not foot due to rounding differences.	
*Net Asset Value (NAV) includes net receivable and payable accruals.	

On March 31, 2017, the Retirement Funds Bond, Montana Domestic Equity, Montana International Equity, Montana Private Equity and Montana Real Estate Pools, were dissolved and reconstituted into a single Consolidated Asset Pension Pool (CAPP). The conversion brings many advantages. Previously the pension investment pools had their market prices established only monthly so trades between them were usually restricted to once a month. CAPP has its value set daily and can easily be managed daily. This provides significant new flexibility to the management of the pension assets. Additionally, reconciliations are significantly streamlined. Currently, there are 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 an investment policy statement that includes asset allocation policy categories and ranges established by the Board.



## SHORT TERM INVESTMENT POOL (STIP)

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, 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.

Short Term Investment Pool (STIP) Net Asset Value * (In Millions)	
Asset Class	Grand Total
Asset Backed Commerical Paper	\$ 1,089.8
Certificates Of Deposit	484.0
Federal Agencies	389.7
Corporate Notes	369.5
Corporate Commercial Paper	356.1
Money Market Funds	148.0
Treasury	124.8
Other	0.1
<b>6/30/2017</b>	<b>\$ 2,962.0</b>
Asset Backed Commerical Paper	\$ 303.3
Certificates Of Deposit	(41.0)
Federal Agencies	(115.5)
Corporate Notes	(167.1)
Corporate Commercial Paper	164.2
Money Market Funds	(54.1)
Treasury	49.7
Other	0.1
<b>Change From FY2016</b>	<b>\$ 139.6</b>
Totals may not foot due to rounding differences.	
*Net Asset Value (NAV) includes net receivable and payable accruals.	

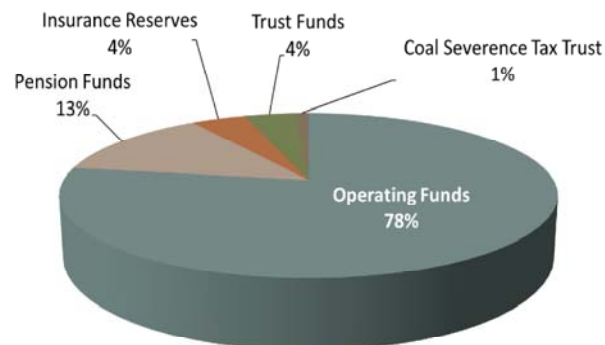
STIP is NOT Federal Deposit Insurance Corporation (FDIC) insured or otherwise insured or guaranteed by the federal government, the State of Montana, the Board or any other entity against investment losses. The Board maintains a reserve fund to offset possible losses and limit fluctuations in STIP's net asset value (NAV).



*STIP Investments are short, highly liquid and among the safest obtainable.*



STIP By Participant Type



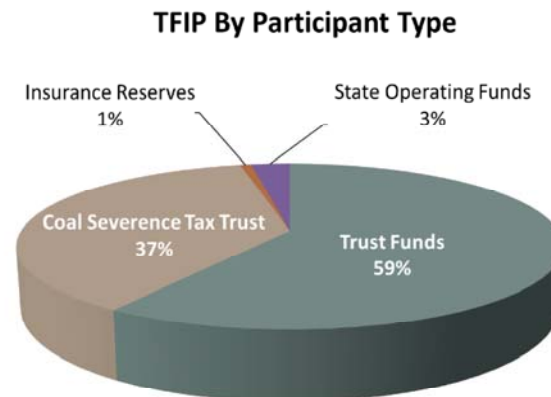
Created in 1973, STIP provides participants ready access to cash. Shares are transacted at \$1.00, fractional shares may be purchased, and participants may buy or sell shares with one business days' notice. The over \$2.96 billion in pool investments are managed by Board Staff. There were 484 accounts invested in STIP during the year, including 163 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 \$23.6 million (unaudited) in Fiscal Year 2017. The chart above shows the percent of shares by major participant type as of June 30, 2017.



**TRUST FUNDS INVESTMENT POOL (TFIP)**

<b>Trust Funds Investment Pool (TFIP) Net Asset Value (In Millions)</b>	
<b>Asset Class</b>	<b>Grand Total</b>
Corporate Bonds (Rated)	\$ 752.7
Us Agency Bonds	699.2
Us Govt Direct Obligations	526.6
Real Estate	200.7
High Yield Bonds	105.6
Cash Equivalent	41.4
Other	7.3
Municipal Government Bonds	0.8
<b>6/30/2017</b>	<b>\$ 2,334.3</b>
Corporate Bonds (Rated)	\$ (128.9)
Us Agency Bonds	62.6
Us Govt Direct Obligations	28.9
Real Estate	23.1
High Yield Bonds	3.8
Cash Equivalent	(7.5)
Other	7.3
Municipal Government Bonds	(0.0)
<b>Change From FY2016</b>	<b>\$ (10.7)</b>
<b>Totals may not foot due to rounding differences.</b>	
<b>*Net Asset Value (NAV) includes net receivable and payable accruals.</b>	

On October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to the newly-created Trust Funds Bond Pool, now known as the Trust Funds Investment Pool (TFIP). Each trust fund received TFIP shares equal to the fair value of its fixed-income portfolio on the date of the transfer. 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 securities lending income. All realized capital gains and losses are retained in the pool.



Trust Funds Investment Pool (TFIP) participants consist primarily of the state's trust funds. The pool is designed to provide the participants exposure to a portfolio of diversified income-producing assets. The Board invests over \$2.3 billion in TFIP for more than 30 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.



## 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, Direct Holdings table, of this report.

Montana Related Investments Made in the State and Bond Guarantees					
Net Asset Value* (In Millions)					
As of June 30					
Investment	Direct Holdings	TFIP	CAPP	Bond Guarantees	Grand Total
Coal Severance Tax Trust Fund:					
In-State Loan Program	\$ 148.6	\$ -	\$ -	\$ -	\$ 148.6
Montana Facility Finance Authority Loans (MFFA)	3.3	-	-	-	3.3
Montana Science and Technology	8.7	-	-	-	8.7
Board of Housing Bonds	-	0.8	-	-	0.8
Residential Mortgages	-	-	4.9	-	4.9
Direct Real Estate	-	-	18.5	-	18.5
INTERCAP Bond Guarantee	-	-	-	107.9	107.9
MFFA Bond Guarantee	-	-	-	71.4	71.4
<b>6/30/2017</b>	<b>\$ 160.6</b>	<b>\$ 0.8</b>	<b>\$ 23.4</b>	<b>\$ 179.3</b>	<b>\$ 364.1</b>
Coal Severance Tax Tust Fund:					
In-State Loan Program	\$ 6.0	\$ -	\$ -	\$ -	\$ 6.0
Montana Facility Finance Authority Loans	1.1	-	-	-	1.1
Montana Science and Technology	(0.2)	-	-	-	(0.2)
Board of Housing Bonds	-	(0.0)	-	-	(0.0)
Residential Mortgages	-	-	(1.9)	-	(1.9)
Direct Real Estate	-	-	(0.2)	-	(0.2)
INTERCAP Bond Guarantee	-	-	-	10.5	10.5
MFFA Bond Guarantee	-	-	-	(8.5)	(8.5)
<b>Change from FY2016</b>	<b>\$ 6.9</b>	<b>\$ (0.0)</b>	<b>\$ (2.1)</b>	<b>\$ 2.0</b>	<b>\$ 6.8</b>
Totals may not sum due to rounding differences.					
*Net Asset Value (NAV) includes net 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 two funds, 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.



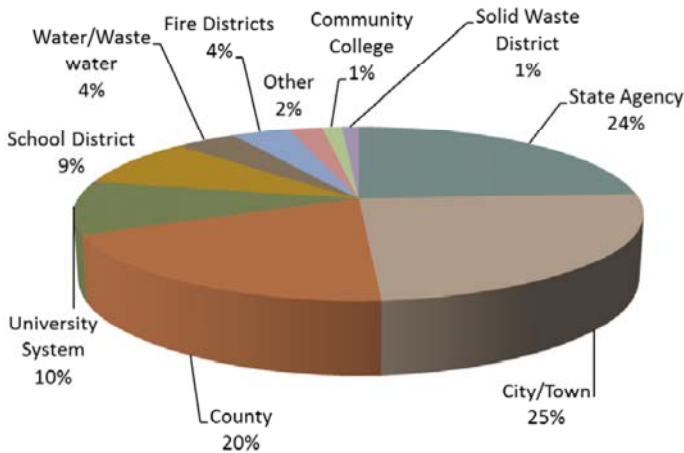
## ENTERPRISE FUND

The Board uses the Enterprise Fund to account for its programs created under the Economic Development Act and Municipal Finance Consolidation Act (MFCA). 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 \$533.3 million statewide and issued \$168.0 million in bonds with \$107.9 million outstanding at June 30, 2017. Loan interest rates are reset every February; the loan rate through February 15, 2018 is 2.50%.

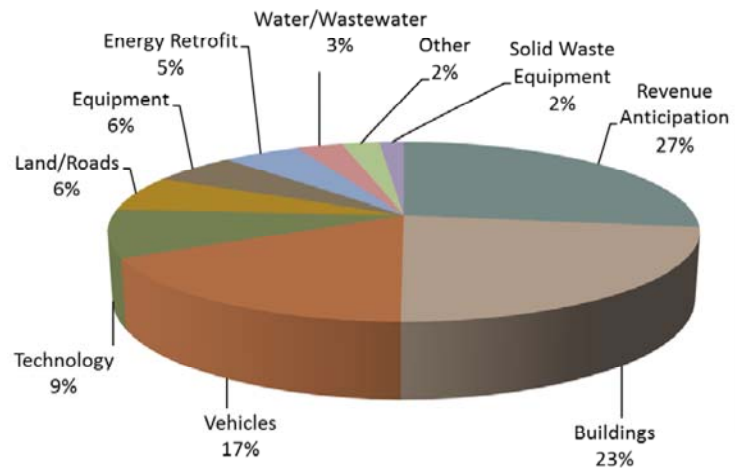
**Loans By Borrower Type Since Inception**



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



**Loans By Project Type Since Inception**

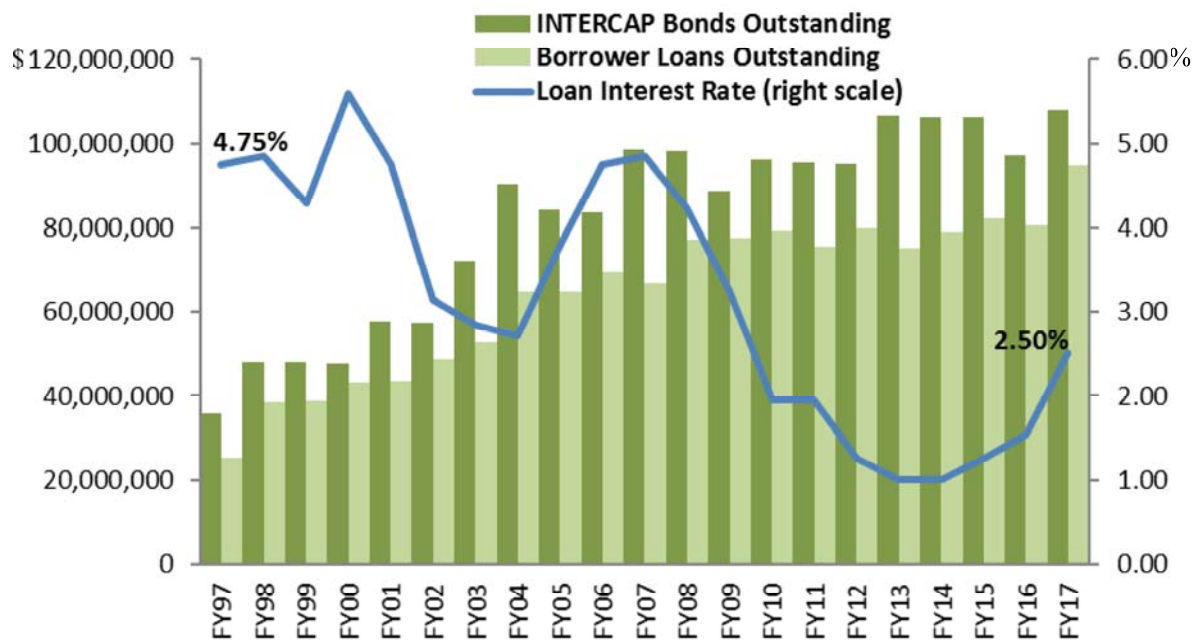


A sample project financing for this year is the West Valley Rural Fire District located in Anaconda. The District used INTERCAP to upgrade its water tender for a more reliable unit. Below is a photo the District submitted of the team and the new truck with the majestic Anaconda Mountain Range, more commonly known as “the Pintlers’, in the backdrop. The truck is one of over 100 fire apparatuses the Board has financed through the program.



The Board makes firm one-year commitments to fund the loans. On average, over the past five fiscal years, the program committed to \$36.4 million and funded \$32.8 million in loans. In fiscal year 2016, the program estimated fiscal year 2017 commitments and fundings would be approximately \$30 million. In fiscal year 2017, the program committed to \$37.8 million and funded \$46.7 million in loans. For fiscal year 2018, the program estimates the Board will commit to and fund close to \$35 million.

The table on the next page 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.

## 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 \$12.3 million in QZAB bonds as of June 30, 2017.

- **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, 2017.





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