

CITY OF POLSON
RESOLUTION NO. 2018-011

RESOLUTION AUTHORIZING PARTICIPATION IN THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA SHORT TERM INVESTMENT POOL (STIP) AND AUTHORIZING THE EXECUTION AND DELIVERY OF DOCUMENTS RELATED THERETO

BE IT RESOLVED BY THE CITY COMMISSION (THE GOVERNING BODY) OF THE CITY OF POLSON (THE PARTICIPANT) AS FOLLOWS:

ARTICLE 1

DEFINITIONS

Section 1.01 The following terms will have the meanings indicated below for all purposes of this Resolution unless the context clearly requires otherwise:

Section 1.02 Account shall mean a specific Participant Bank account assigned by the Bank to be used in conducting transactions through the STIP Program

Section 1.03 Agreement shall mean the agreements of the Participant as contained within this Resolution.

Section 1.04 Authorized Representative shall mean the officer or official of the Participant designated and duly authorized by the Governing Body as set forth below to enable the Participant's participation in the STIP Program.

Section 1.05 Authorized Delegate shall mean any lawful officer, official or employee of the Participant who has been delegated authority by the Authorized Representative as provided in this Resolution to initiate transactions using the Board's STIP Program.

Section 1.06 Bank shall mean a financial institution designated and authorized as provided in this Resolution to send and receive money on behalf of the Participant for purposes of participation in the STIP Program.

Section 1.07 Board shall mean the Board of Investments of the State of Montana, a public body corporate organized and existing under the laws of the State and its successors and assigns.

Section 1.08 Exhibit A (STIP Participation Information Sheet) shall mean the document attached to and incorporated into this Resolution as provided in Article IV, Section 4.01, that provides information necessary for the Participant to participate in STIP.

Section 1.09 Exhibit B (Electronic Funds Transfer Authorization Form) shall mean the document attached to and incorporated into this Resolution as provided in Article IV, Section 4.01 that provides for instructions for the Board and its agents to administer and manage the Participant's participation, transactions and shares in the STIP Program.

Section 1.10 Governing Body shall mean the governing body of the above-named political subdivision (Participant) authorized by Montana state law to participate in the STIP Program as further specified in this Resolution.

Section 1.11 Participant shall mean the political subdivision requesting participation in the Board's Short Term Investment Pool.

Section 1.12 Short Term Investment Pool, STIP or Program shall mean the Board's Short Term Investment Pool Program as authorized by law and as more fully defined and described in the Board's policies and procedures, as may be amended from time to time.

ARTICLE II

SHORT TERM INVESTMENT POOL PARTICIPATION AGREEMENT

Section 2.01 Participation Agreement. By approving and adopting this Resolution and Exhibits A and B, the Government Body requests and agrees to participation of Participant in the STIP Program, and agrees that Participant will comply with and be bound by all laws, policies, procedures and participation requirements applicable to the STIP Program, as may be amended from time to time.

Section 2.02 STIP Program Description. The STIP Program is an investment program administered under the direction of the Montana Board of Investments as authorized by the Unified Investment Program. As more fully set forth in Board policies and procedures, STIP is available to state and local governments to serve their short term cash flow and deposit needs and its objectives are to preserve capital and to maintain high liquidity. The Program has the following attributes, as more fully set forth in applicable Board policies, procedures and participation requirements, which are subject to change upon the sole determination of the Board:

- 1) STIP transactions are fixed at \$1 per share;
- 2) STIP interest on pool assets accrues daily;
- 3) STIP earnings distribution method: Interest is distributed at the beginning of the month and can be distributed as cash to the designated Bank or the earnings can be reinvested into STIP;
- 4) Buying or selling shares in STIP requires one (1) business days' notice; transactions for which notice is received after 2:00 p.m. will be processed two (2) business days after receipt of the original notice;
- 5) Access to STIP is only through an electronic, web-based portal; no cash, checks or notifications by fax, phone or email will be accepted;
- 6) STIP's web portal provides real-time information on each account including: investment balances, buys, sells, pending transactions, and transaction notes, as determined by the authorized user; and
- 7) The Board accounts and reports on its financial statement STIP investment on a Net Asset Value (NAV) basis. A NAV per share of STIP unit will be shown on the Board's website for each month-end period <http://investmentmt.com/MonthlyNetAssetValue>.

Section 2.03 Review of Policies, Procedures and Participation Requirements. Participant acknowledges and represents that it has reviewed to its satisfaction all Board policies, procedures and participation requirements applicable to the STIP Program. <http://investments.com/STIP>

Section 2.04 Authorized Representative: The Governing Body designates Cynda M Dooley, who holds the position of Finance Officer as the Participant's Authorized Representative to make transactions between STIP and the Bank.

The Governing Body: DOES DOES NOT allow the Authorized Representative to appoint and delete additional Authorized Delegate(s) on behalf of the Participant. If "DOES" is checked, any addition or deletion of an Authorized Delegate requires notice via the submission of a completed Exhibit A (STIP Participation Information Sheet) to the Board by the Authorized Representative before transactions will be accepted and processed as directed by the Authorized Delegate.

The Governing Body designates and authorizes Participant's Bank, (the Bank), identified in Exhibit B attached, designating the Account Number and ABA Number to send or transfer funds to the State Treasurer for purchase of STIP shares and to deposit distributions of and withdraw proceeds resulting from sales of STIP shares in the Bank's Account identified in Exhibit B attached which is a (check one) checking account savings account .

The Governing Body: (check one) DOES DOES NOT allow the Authorized Representative to change either the Bank or the Account; if "DOES" is checked, the Board will notify both the office of the Authorized Representative AND the office of the Governing Body within three (3) business days that such a change has been made.

The Governing Body: (check one) DOES DOES NOT allow the Authorized Representative to change the earnings distribution method (check one) reinvest cash earnings into STIP distribute cash earnings to the Bank .

Section 2.05 Change of Authorized Representative. Any change to the Authorized Representative requires a new Resolution adopted by the Governing Body; however the absence of an Authorized Representative does not nullify the authority of the Authorized Delegate(s) then in effect and so authorized to make STIP transactions.

Section 2.06 Annual Confirmation. The Board will provide on an annual basis to both the Governing Body and the Authorized Representative the following information as appears on the Board's records:

1. The name of the Authorized Representative;
2. The name(s) of any Authorized Delegate(s); and
3. The name of the Bank and the associated Account Number (truncated).

Section 2.07 Effective Date. Participant's Agreement as set forth in this Resolution will take effect when the Certificate as to Resolution and Adopting Vote, this Resolution and Exhibits A and B, each completed, dated and duly executed, are delivered to and received by the Board and will stay in effect until terminated in writing by the Governing Body.

ARTICLE III

MISCELLANEOUS

Section 3.01 No Guaranteed Return. The Governing Body understands and agrees that there is no minimum or maximum amount of interest rate or any guaranteed rate of return on STIP shares or funds invested in STIP shares.

Section 3.02 Voluntary Participation. By adopting this Resolution, the Governing Body acknowledges that it is not compelled to participate in STIP and that its participation in STIP is

voluntary, and accepts and agrees to the Program, its administration and governance, and its policies, procedures and participation requirements as set forth by law and the Board.

Section 3.03 Responsibility for Participant Mistakes. The Governing Body and Participant agree to hold the State of Montana, the Board, and their members officials and employees harmless for the acts, omissions and mistakes of the Participant, Governing Body and their members, officials and employees, including but not limited to: Authorized Representative or Authorized Delegate who, for any reason, is not qualified or properly listed with the Board as a permissible representative to authorize transactions using the STIP Program; wrong instructions as to amounts or timing of sales or purchases; or missed deadlines.

Section 3.04 No Warranty. The Governing Body and Participant acknowledge and agree that the Board makes no warranty that funds will be immediately available in the event of any failure of a third party or that Governing Body will not suffer losses due to acts of God, or other calamities, or other market dislocations or interruptions.

Section 3.05 Participation Conditions; STIP Administration. The Governing Body and Participant acknowledge and agree that the Board will allow participation in STIP by and conduct STIP business with only those parties it determines are qualified and authorized to participate in the Program and which abide by the Board's policies, procedures and participation requirements; that the Board administers the STIP Program subject to Montana law and prudent fiduciary practices as required by Montana law and Board policy; and that the Board is legally bound to manage the Unified Investment Program, which includes STIP, in accordance with the prudent expert rule as set forth in Montana law.

Section 3.06 STIP Not Insured Against Loss. The Governing Body and Participant understand and acknowledge that the Board's STIP Program is NOT 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 Governing Body and Participant further understand and acknowledge that the Board's STIP policy requires maintenance of a reserve fund to offset possible losses and that STIP interest earnings may be used to fund this reserve before the net earnings are distributed to the STIP Participants, but that such reserves may not be adequate to cover investment losses.

ARTICLE IV

EXHIBITS A AND B

Section 4.01 Approval and Adoption of Exhibits A and B. Attached to this Resolution as Exhibits A and B, are the STIP Participation Information Sheet, and the Electronic Funds Transfer Authorization Form, which together provide the instructions and the details required by the Board to enable Participant's participation in the STIP Program. The Governing Body and Participant represent and agree that the attached Exhibits A and B have been completed and executed by the Participant's Authorized Representative and that Exhibits A and B must be complete and acceptable to the Board before participation will be allowed in the STIP Program. Exhibits A and B are hereby incorporated into and made a part of this Resolution, and are approved and adopted by the Governing Body as if set forth fully herein.

APPROVED AND ADOPTED by the City of Polson Commission this 20th day of August, 2018.

By _____
Its Mayor, Paul Briney

Attest:

By _____
Its City Clerk, Cora E. Pritt

Exhibit A

STIP PARTICIPATION INFORMATION SHEET						
STIP Program Manager Montana Board of Investments boi_stip@mt.gov PO Box 200126 Helena, MT 59620-0126 Phone 406.444.0003 Fax 406.444.4268				<i>For Official Use Only</i>		
Requests must be submitted by Authorized Representative of the Participant.				STIP DATA <input style="width: 60px; height: 15px;" type="text"/>		<input style="width: 60px; height: 15px;" type="text"/>
				INVEST TA <input style="width: 60px; height: 15px;" type="text"/>		<input style="width: 60px; height: 15px;" type="text"/>
The STIP Participant listed below hereby agrees to participate in the STIP Program as established under Section 17-6-204, MCA., and the terms and conditions of STIP operations as determined and set by the Montana Board of Investments and warrants as follows:						
Section 1. STIP Participant Information Summary						
STIP Participant Name →	CITY OF POLSON			Tax Identification Number (TIN) →		<input style="width: 60px; height: 15px;" type="text"/>
Mailing Address →	1061st St E	City →	POLSON	State →	MT	Zip → 59860
STIP Account # → <i>(For official use only)</i>	<input style="width: 100%; height: 20px;" type="text"/>					
Authorized Representative Name, First →	CYNDA	Name, Last →	DOOLEY	Title →		FINANCE OFFICER
Telephone Number →	406-883-8204	Fax Number →	406-883-8238	E-mail →		finance@cityofpolson.com
Section 2. Investment and Earnings Information						
The STIP Participant has the option to either reinvest their earnings or distribute earnings.						
Check one box only.						
Reinvest Earnings <input type="checkbox"/>			Distribute Earnings <input checked="" type="checkbox"/>			
Section 3. Authorized Delegates						
The Authorized Delegate(s) whose name(s) appears below is (are) authorized to purchase and sell shares in STIP for the Participant.						
Name, First →	<input style="width: 100%; height: 15px;" type="text"/>	Name, Last →	<input style="width: 100%; height: 15px;" type="text"/>	E-Mail →		<input style="width: 100%; height: 15px;" type="text"/>
Name, First →	<input style="width: 100%; height: 15px;" type="text"/>	Name, Last →	<input style="width: 100%; height: 15px;" type="text"/>	E-Mail →		<input style="width: 100%; height: 15px;" type="text"/>
Name, First →	<input style="width: 100%; height: 15px;" type="text"/>	Name, Last →	<input style="width: 100%; height: 15px;" type="text"/>	E-Mail →		<input style="width: 100%; height: 15px;" type="text"/>
I hereby certify as the Authorized Representative of the STIP Participant that all of the information contained herein is true, accurate and complete as of the date hereof.						
Signature →				Date →		<input style="width: 60px; height: 15px;" type="text"/>
Printed Name →	CYNDA M DOOLEY			Title →		FINANCE OFFICER

MCA Contents / TITLE 17 / CHAPTER 6 / Part 2 / 17-6-204 Short-term inv...

Montana Code Annotated 2017

TITLE 17. STATE FINANCE

CHAPTER 6. DEPOSITS AND INVESTMENTS

Part 2. Investments

Short-Term Investment Of Local Government Funds


17-6-204. Short-term investment of local government funds. (1) The governing body of any city, county, school district, or other local government unit or political subdivision that has funds that are available for investment and are not required by law or by any covenant or agreement with bondholders or others to be segregated and invested in a different manner may direct its treasurer to remit the funds to the state treasurer for investment under the direction of the board of investments as part of the short-term pooled investment fund.

(2) A separate account, designated by name and number for each participant in the fund, must be kept to record individual transactions and totals of all investments belonging to each participant. A monthly report must be furnished to each participant having a beneficial interest in the short-term pooled investment fund, showing the changes in investments made during the preceding month. Details of any investment transaction must be furnished to any participant upon request.

(3) The principal and accrued income, and any part of that amount, of each account maintained for a participant in the short-term pooled investment fund is subject to payment at any time from the fund upon request. Accumulated income must be remitted to each participant at least annually.

(4) An order or warrant may not be issued upon any account for a larger amount than the principal and accrued income of the account to which it applies. If any order or warrant is issued, the participant receiving it shall reimburse the excess amount to the fund from any funds not otherwise appropriated. The state treasurer is liable under the treasurer's official bond for any amount not reimbursed.

History: En. Sec. 8, Ch. 298, L. 1973; R.C.M. 1947, 79-311; amd. Sec. 217, Ch. 56, L. 2009; amd. Sec. 2, Ch. 84, L. 2015.

Created by  LAWS II

**MONTANA BOARD OF INVESTMENTS
STIP YIELD AND DAILY FACTOR CALCULATIONS**

<u>DATE</u>	<u>DAILY NET YIELD</u>	<u>DAILY FACTOR</u>	<u>MTD DAILY FACTOR</u>
07/01/18	2.0591699775322	0.000056448	0.0000564475
07/02/18	2.0668769077535	0.000056567	0.0001130141
07/03/18	2.0607323596886	0.000056400	0.0001694145
07/04/18	2.0606558555524	0.000056400	0.0002258150
07/05/18	2.0609232502858	0.000056412	0.0002822269
07/06/18	2.0534132621791	0.000056550	0.0003387770
07/07/18	2.0533367603884	0.000056550	0.0003953270
07/08/18	2.0532602642978	0.000056550	0.0004518770
07/09/18	2.0642238330045	0.000056513	0.0005083900
07/10/18	2.0650208765621	0.000056539	0.0005649294
07/11/18	2.0386322490415	0.000056583	0.0006215122
07/12/18	2.0533287645751	0.000056649	0.0006781612
07/13/18	2.0535597785759	0.000056672	0.0007348329
07/14/18	2.0534817979300	0.000056672	0.0007915046
07/15/18	2.0534037114871	0.000056672	0.0008481763
07/16/18	2.0564415544083	0.000056758	0.0009049341
07/17/18	2.0584089014683	0.000056818	0.0009617520
07/18/18	2.0636007106726	0.000056877	0.0010186286
07/19/18	2.0761920169709	0.000056884	0.0010755125
07/20/18	2.0445234730082	0.000056880	0.0011323925
07/21/18	2.0444467008904	0.000056880	0.0011892724
07/22/18	2.0443699345462	0.000056880	0.0012461523
07/23/18	2.0389188240714	0.000056738	0.0013028907
07/24/18	2.0937121547037	0.000057384	0.0013602752
07/25/18	2.0638711571886	0.000056935	0.0014172103
07/26/18	2.0773631171815	0.000056964	0.0014741739
07/27/18	2.0841838046658	0.000057153	0.0015313268
07/28/18	2.0841013486847	0.000057153	0.0015884797
07/29/18	2.0840187868966	0.000057153	0.0016456326
07/30/18	2.0835218785556	0.000057141	0.0017027736
07/31/18	2.0248945974945	0.000055528	0.0017583013
Average	2.0604061		

MONTANA BOARD OF INVESTMENTS
STIP RESERVE

MONTH	BALANCE	RESERVE FACTOR	DAILY EARNINGS DEDUCTION
Jan-18	28,354,091	0.008178	13,500
Feb-18	29,043,190	0.008802	13,500
Mar-18	30,286,600	0.009796	13,500
18-Apr	30,849,535	0.009766	13,500
31-May	31,716,177	0.010040	13,500
30-Jun	32,356,940	0.009815	13,500
31-Jul	33,868,012	0.010273	13,500

**SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY**

Approved April 3, 2018

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1. Introduction

This policy is effective upon adoption and supersedes all previous Investment Policies related to the investment management of the Short-Term Investment Pool (STIP).

STIP is an investment program managed and administered under the direction of the Montana Board of Investments (MBOI) as authorized by the Unified Investment Program. STIP invests the operating funds of the State of Montana, participating local government entity funds, and the liquidity requirements of the various pension and trust funds managed by MBOI.

STIP is a commingled pool for investment purposes. The use of a commingled pool allows for simplified investing and accounting, as well as broader investment diversification, and it provides opportunities for fee savings.

2. Purpose

The purpose of this policy statement is to provide a strategic framework for the STIP investments under the guidance of the Board of Investments.

3. Legal and Constitutional Authority

The Montana Constitution, Article VIII, Section 13, requires that the Legislature provide for a Unified Investment Program for public funds. Section 17-6-201, MCA, established the Unified Investment Program, created the Montana Board of Investments (the "Board") and gave the Board sole authority to invest state funds, including the Short-Term Investment Pool (STIP) in accordance with state law and the state constitution.

The Unified Investment program for public funds must be administered by the Board of Investments in accordance with the "prudent expert principle," defined as:

- 1) discharging its duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of like character with like aims;
- 2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so; and
- 3) discharging its duties solely in the interest of and for the beneficiaries of the funds managed.

The Board created the Short-Term Investment Pool (STIP) to allow qualifying funds, per sections 17-6-201, 202, and 204, MCA, to participate in a diversified pool. Although state agencies with accounts that retain their interest earnings are legally required to invest in STIP, local governments may voluntarily participate in the STIP.

The Board, as the investment fiduciary, is responsible for establishing the investment parameters for the STIP.

STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company and therefore is not required to abide by the SEC's rule 2a7 of the Investment Company Act of 1940.

STIP has a defined set of investment objectives and investment guidelines, including permitted investments, which are detailed in this policy statement.

4. Financial Reporting

The STIP financial statements are included in the Board's Consolidated Unified Investment Program financial statements, which are audited by the Montana Legislative Auditor.

On October 6, 2015, the Board approved, that for financial reporting purposes the STIP portfolio will be reported on a Net Asset Value basis versus amortized cost.

5. Strategic Investment Objectives

The Board's objective for STIP is to achieve a high level of investment income that is compatible with the preservation of principal, providing STIP participants with liquidity with one-day notification, and the prudent investment practices of the Board.

No Guaranteed Return – There is no minimum or maximum amount of interest rate or any guaranteed rate of return on STIP shares or funds invested in STIP shares.

No Warranty – The Board makes no warranty that funds will be immediately available in the event of any failure of a third party or that STIP participants will not suffer losses due to acts of God, or other calamities, or other market dislocations or interruptions.

STIP Not Insured Against Loss – STIP is NOT FDIC insured or otherwise insured or guaranteed by the federal government, the State of Montana, the Board or any other entity against investment losses.

Reserve fund – This Policy requires maintenance of a reserve fund to offset possible losses. STIP interest earnings may be used to fund this reserve before the net earnings are distributed to the STIP Participants. However, the reserves may not be adequate to cover investment losses.

6. Reserve

The STIP will maintain a reserve account. The reserve will be available to offset realized gains or losses. Additionally, the reserve will be available to offset unrealized gains or losses, or to limit fluctuations in the net asset value (NAV), to the extent deemed prudent by Staff.

A deduction from earnings will occur while the amount of the reserve is below 1.15% of the NAV.

The level of deduction will be calculated based on the deemed best balance between participants' need for current earnings and the increase in safety from building the reserve. When the reserve is between 0.50% and 1.15% of the NAV the deduction from earnings will be an amount, including recoveries, sufficient to reach the target within 3 years. Should the reserve fall below 0.50% of the NAV, staff will evaluate the amount of deduction appropriate to return the reserve to 0.50% and make recommendations to that effect to the Board.

The STIP NAV will be calculated based on the assumption that the STIP reserve is considered a liability on the financial statements.

Any use of the reserve will be reported to the Board.

7. Time Horizon

The STIP investment portfolio shall be managed with the goal of attaining its objectives throughout market and economic cycles, after giving prudent consideration to the investment risk constraints (described as part of the Investment Guidelines in Appendix I) and the liquidity needs of the participants.

The Board expects to meet or exceed these objectives over a long-term investment horizon. Over shorter periods, the anticipated market volatility and specific actions, including risk mitigation efforts of the Board, may lead to unfavorable, but expected, deviation from these objectives.

8. Performance Measurement

Investment performance is measured by two integrated long-term return objectives:

- 1) The **investment policy benchmark**. The investment policy benchmark represents the return that would be achieved if the Pool implemented a passively managed portfolio. Deviations from the policy benchmark measure the contribution of active investment management throughout the fund and investment implementation generally.
- 2) The Board also compares STIP's total performance, before all fees, to appropriate **peer universes**. While the Board seeks to rank favorably compared to peers, the Board recognizes that other short-term investment funds may have investment objectives and risk tolerances that differ substantially from STIP.

9. Roles and Responsibilities

Board of Investments – The Board is responsible for approving the STIP Investment Policy Statement and has the authority to manage STIP as it considers prudent, and subject to such limitations as contained in law and the Constitution. The Board reviews this document periodically and, as needed, approves any changes to the policy.

As described in the Board of Investments Governance Manual, the Board delegates authority to the Executive Director, Chief Investment Officer, and other Staff to execute the day to day duties required to carry out the Board's mission.

Executive Director – The Executive Director is empowered by the Board to sign any and all documents required to conduct Board business, unless there are specific written policies or instructions from the Board to the contrary. The Executive Director is responsible for the oversight of the STIP investment program and the establishment of the STIP financial reporting procedures and the collection and reporting of all income.

Chief Investment Officer – The Chief Investment Officer (CIO) is empowered by the Board to serve as the principal staff person responsible for overseeing the investment activities under the Board's jurisdiction in compliance with the Board's policies. The CIO, with the support of other staff, is responsible for recommending investment policy changes for Board approval.

Investment Staff – The investment staff is responsible for, but not limited to, the following:

- Managing day-to-day STIP investment operations;
- Investing STIP assets and monitoring compliance in accordance with this Policy;
- Reporting to the Board the STIP investment results and investment characteristics at the Quarterly Board meetings; and
- Reporting any deviations from this Investment Policy to the Board.

Investment Consultant – The investment consultant assists the CIO and Staff with policy recommendations and provides advice to the Board. The investment consultant shall provide assistance to Staff as requested in conjunction with the management of the STIP.

10. Risk Management

Short-term investments held within STIP are exposed to a number of risks. The objective will be to mitigate the inherent risks associated with these securities, primarily liquidity risk, credit risk and interest rate risk.

a) Liquidity Risk

Based on the percentage of STIP Units Value usually necessary to meet the daily distribution requests of STIP participants, the liquidity needs for the STIP are generally low. However, illiquidity risk still needs to be monitored and managed by staff on a regular basis to ensure that assets are not required to be sold too quickly, or at an unfavorable time, and potentially at a discount to fair value to meet the cash needs of STIP participants.

In order to improve liquidity and manage both the expected and unexpected STIP participants' need for cash, the STIP Investment Objectives and Guidelines (Appendix I) require certain percentages of the STIP Units Value to either be invested in cash, direct obligations of the U.S. government, or in securities that will have an effective maturity for specifically defined short periods or time (daily and weekly).

b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation in making full and timely principal and interest payments. The STIP will utilize credit ratings, issued by at least two of the nationally recognized statistical rating organizations (NRSRO), to assist in the monitoring and management of credit risk.

Approved List – Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved. The approved list shall be maintained by Staff with issuers added or removed from time to time depending on an analysis of their risk characteristics and suitability for use in the portfolio. At least two investment staff must approve names on the list. One of the investment staff should be part of the internally managed fixed income team and the other person from the Risk Management team. Issuers on the list shall be reviewed at least semi-annually for continued inclusion on the approved list.

The STIP will minimize credit risk by means of the following:

1. Limiting Permissible investments to securities on the “Approved List”;
2. Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with whom the STIP will conduct business;
3. Diversifying the investment portfolio so that potential losses on individual securities will be minimized; and
4. The STIP will maintain a reserve account.

c) Interest Rate Risk

The STIP portfolio will minimize the risk that the market value of the securities will deviate significantly from cost due to changes in the general level of interest rate by means of the following:

1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. Maintaining a dollar-weighted average portfolio maturity of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. The STIP will maintain a reserve account.

11. Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, through an explicit contract, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess counterparty and reinvestment risk, associated with each aspect of its securities lending program. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the collateral falls below the agreed-upon ratio of over-collateralization. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor. From time to time, Staff or the investment manager may restrict a security from the loan program upon notification to State Street Bank. Staff will monitor the securities lending program, and the CIO will periodically report to the Board on the status of the program. The Board's participation in securities lending may change over time given Plan activity, market conditions and the agent agreement.

STIP assets are currently not available for securities lending.

12. Investment Policy Review

The Board intends to keep this Policy updated as it modifies or amends the underlying contents. As stated in the Governance Policy, “the Board shall review this Investment Policy at least annually or more frequently at the request of Board staff. Statements may only be revised in a public meeting. All Statements shall be posted on the Board's web site for review by the public.”

Appendix I: Investment Objectives and Guidelines

Schedule I-A: Investment Objectives and Guidelines Short Term Investment Pool (STIP)

Effective Date of Schedule: May 1, 2018

This Schedule is effective upon adoption by the Board of Investments and supersedes all previous Investment Objectives and Guidelines for the STIP.

1. Statement of Purpose:

The purpose of these objectives and guidelines is to:

1. Establish the investment objectives and performance standards of the Pool; and
2. Provide diversified exposure to Cash Equivalent and Short-Term Fixed Income Investments in a prudent and cost-effective manner.

2. Investment Objective:

Strategic:

The objective of the STIP is to attain the highest possible total return within the parameters of the Investment Guidelines set forth below.

Performance:

Success in achieving this objective will be measured by comparing the risk and the net of expenses return of STIP to the **Federal Reserve US Treasury Constant Maturity 1 Month Index** (the "Benchmark"). Performance results will be monitored and evaluated quarterly. However, the success in achieving the objective will be measured on a three-year, five-year, and ten-year annualized basis.

3. Investment Guidelines:

The Montana Board Investment Staff will have full discretion to manage STIP consistent with the investment guidelines stated below. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of the Staff. Any exceptions or compliance violations are to be reported to the Board of Investments at the next scheduled quarterly Board meeting.

Permitted Investments:

Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved and part of an "Approved List." STIP may invest only in the following securities and investment vehicles:

1. U.S. Treasury or U.S. dollar denominated securities fully guaranteed by the U.S. Government;
2. U.S. Government Agency securities denominated in U.S. dollars;

3. Publicly traded U.S. dollar denominated corporate bonds, notes, and medium term notes (MTNs);
4. U.S. dollar denominated Commercial Paper (CP);
5. U.S. dollar denominated Bankers' Acceptance (BA);
6. U.S. dollar denominated Certificates of Deposits (CD);
7. U.S. dollar denominated Asset-Backed Commercial Paper (ABCP);
8. Repurchase or Reverse Repurchase Agreements with an approved primary dealer or the custodial bank, and under the terms of a written master repurchase agreement;
9. Investments required to implement the bond credit enhancement authorized by Resolution 219;
10. SEC registered 2a-7 Institutional Money Market Funds that are considered "U.S. Treasury" or "U.S. Government" money market mutual funds according to the SEC regulations; and
11. Short term investment vehicle available through the custodial bank.

Other Restrictions

1. A maximum of 65% of the STIP Units Value shall be held in U.S. Government Agency securities;
2. A maximum of 30% of the STIP Units Value shall be held in any single issuer of U.S. Agency securities;
3. STIP shall maintain a dollar-weighted average portfolio maturity of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities);
4. All securities, with the exception of securities fully guaranteed by the U.S. Government and approved Institutional Money Market Funds, must be rated by at least two of the three rating agencies (S&P, Moody's or Fitch) at the time of purchase.
5. A maximum of 25% of the STIP Units Value shall consist of corporate bonds, notes, or MTNs;
6. Risk assets will be purchased only when the estimated aggregate effect of a worst-case scenario spread widening event does not exceed the amount of the STIP Reserve. Risk assets are assets other than Treasuries, Agencies and Government money markets. The estimated worst-case scenario is a calculation equal to the days to maturity divided by 365 multiplied by 2.0% for securities maturing in less than one year and 3.5% for securities maturing in greater than one year.
7. ABCP, CP, BA or CD shall not have a rating lower than A-1 (S&P), P-1 (Moody's) or F1 (Fitch) at the time of purchase;
8. Corporate bonds, notes, or MTNs shall not have a rating lower than A (S&P), A2 (Moody's) or A (Fitch) at the time of purchase;
9. A maximum of 40% of the STIP Units Value shall be held in ABCP;
10. A maximum of 10% of the STIP Units Value shall be held in ABCP, CP, BA or CD rated at A-2 (S&P), P-2 (Moody's), or F2 (Fitch), or at a lower rating at any time;
11. ABCP purchases shall be limited to maturities of 90 days or less;
12. A maximum of 10% of the STIP Units Value in the aggregate shall be held in any one financial sponsor of ABCP as well as any direct obligations associated with the sponsor. Repurchase agreement obligations of a financial institution shall not be considered in this limit;
13. A maximum of 30% of the STIP Units Value shall be held in BAs and CDs combined;
14. A maximum of 10% of the STIP Units Value shall be held in Repurchase Agreements;
15. A maximum of 5% of the STIP Units Value shall be held in Repurchase Agreements with any single primary dealer or financial institution;
16. The maximum term of any Repurchase Agreement will be 30 days;

17. Acceptable forms of collateral under Repurchase Agreements will consist of U.S. Treasury Securities which will be required to be maintained at a market value of 102% of the value of the Repurchase Agreement;
18. The maximum term of any Reverse Repurchase Agreement will be 90 days and must be matched to anticipated cash flows adequate to liquidate the transaction;
19. A maximum of 10% of the STIP Units Value shall be pledged to secure Reverse Repurchase Agreements. Transactions will be used only to secure borrowings for temporary or emergency purposes;
20. A maximum of 15% of the STIP Units Value shall be held in permitted SEC registered 2a-7 Institutional Money Market Funds;
21. A maximum of 5% of the STIP Units Value shall be held in any single SEC registered 2a-7 Institutional Money Market Funds;
22. Any permitted investments with floating rate coupons shall have the floating rate tied to LIBOR, Fed Funds, Treasury Bills, or Commercial Paper indices;
23. The maximum final maturity of any Permitted Investment shall not exceed 397 days (not including securities used as collateral in Repurchase Agreements or Permitted Investments considered "Variable Rate" securities, which on any reset date can reasonably be expected to have a market value that approximates its amortized cost);
24. A Variable Rate security shall have a maximum maturity of 2 years;
25. A maximum of 25% of the STIP Units Value in the aggregate shall be held in all non- Government Variable Rate securities with maturities greater than 397 days;
26. A maximum of 3% of the STIP Units Value shall be invested in any one issuer with the exception of U.S. Treasury and U.S. Agency securities as well as any Repurchase Agreements with a financial institution; and
27. A minimum of 10% of the STIP Units Value shall qualify as "daily liquid assets." For this guideline is it assumed that "daily liquid assets" is defined as cash, direct obligations of the U.S. government, securities that will mature or are subject to a demand feature that is exercisable and payable within one business day, and a permitted SEC registered 2a-7 Institutional Money Market Fund;
28. A minimum of 15% of the STIP Units Value shall qualify as "weekly liquid assets." For the purpose of this guideline, it is assumed that "weekly liquid assets" is defined as "daily liquid assets" (as defined above), government agency discount notes with remaining maturities of 60 days or less, securities that will mature or are subject to a demand feature that is exercisable and payable within five business days, and a permitted SEC registered 2a-7 Institutional Money Market Fund; and
29. A maximum of 10% of the STIP Units Value shall be invested in Permitted Investments that are considered "illiquid." For the purpose of this guideline, "illiquid" shall be defined as "a security that cannot be sold or disposed of in the ordinary course of business within seven calendar days at approximately the value ascribed to it by STIP."

If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, Staff will use its best efforts to conform to these limits in a timely manner, while taking into account current market conditions and the associated costs. At the Board's next regularly scheduled quarterly meeting, the CIO or Staff shall inform the Board of any cases that the Pool allocations were outside of the limits and either inform the Board of the actions that were taken to return the Pool back within guidelines or a plan to do so.

Schedule I-B:

Investment Objectives and Guidelines Short Term Investment Pool (STIP) Reserve

Effective Date of Schedule: February 14, 2017

This Schedule is effective upon adoption by the Board of Investments and supersedes all previous Investment Objectives and Guidelines for the Reserve.

1. Statement of Purpose:

The purpose of these objectives and guidelines is to:

- 1) Establish the investment objectives and performance standards for the STIP Reserve
- 2) Provide exposure to low risk Cash Equivalent and Short-Term Fixed Income Investments in a prudent and cost-effective manner.

2. Investment Objective:

Strategic:

The objective of the Reserve is to attain the highest available total return within the parameters of the Investment Guidelines set forth below.

Performance:

Success in achieving this objective will be measured by comparing the risk and the net of expenses return of the Reserve to a **U.S. Treasury Constant Maturity 1 Month Index** (the "Benchmark"). Performance results will be monitored and evaluated quarterly. However, the success in achieving the objective will be measured on a three-year, five-year, and ten-year annualized basis.

3. Investment Guidelines:

The Montana Board Investment Staff will have full discretion to manage the STIP Reserve consistent with the investment guidelines stated below. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of the Staff. Any exceptions or compliance violations are to be reported to the Board of Investments at the next scheduled quarterly Board meeting.

Permitted Investments:

Purchases of securities other than U.S. government; U.S. Agency obligations or qualifying government money market funds are prohibited.

- 1) U.S. Treasury Securities
- 2) U.S. Government Agency securities issued at a discount
- 3) SEC registered 2a-7 Institutional Money Market Funds that are considered “U.S. Treasury” or “U.S. Government” money market mutual funds according to the SEC regulations

4. Other Restrictions

- 1) The maximum final maturity of any Permitted Investment shall not exceed 183 days
- 2) A minimum of 50% of the Reserve shall qualify as “daily liquid assets.” For this guideline it is assumed that “daily liquid assets” is defined as cash, direct obligations of the U.S. government, securities that will mature or are subject to a demand feature that is exercisable and payable within one business day, and a permitted SEC registered 2a-7 Institutional Money Market Fund;

If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, Staff will use its best efforts to conform to these limits in a timely manner, while taking into account current market conditions and the associated costs. At the Board’s next regularly scheduled quarterly meeting, the CIO or Staff shall inform the Board of any cases that the Pool allocations were outside of the limits and either inform the Board of the actions that were taken to return the Pool back within guidelines or a plan to do so.

Appendix II: Definitions

DEFINITIONS

1. Asset-Backed Security – Bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit; not mortgages.

2. Banker's Acceptance – A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. Often used in importing and exporting, and as a discount money market fund investment.

3. Certificate of Deposit (CD) – A short-or medium-term, interest-bearing deposit obligation offered by banks and savings and loans. These may include “Yankee CDs” which are CDs issued by foreign banks or their U.S. affiliates in the U.S. which are denominated in U.S. dollars.

4. Commercial Paper – An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days. Commercial paper is available in a wide range of denominations, can be either discounted or interest-bearing, and usually have a limited or nonexistent secondary market. Commercial paper is usually issued by companies with high credit ratings, meaning that the investment is almost always relatively low risk.

5. Corporate Note – A type of unsecured debt issued by a corporation that may be longer-term than Commercial Paper, but shorter-term than a typical Corporate Bond.

6. Repurchase Agreement – A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. May also be called “Repo” or “Buyback.” Typically used a short-term form of collateralized borrowing by a bank or securities dealer.

7. Reverse Repurchase Agreement – A purchase of securities with an agreement to resell them at a higher price at a specific future date. The investor essentially borrows money and allows its securities to be held as collateral. Reverse Repurchase Agreements occur most often in government securities or other securities that are highly valued and thus considered a good form of collateral.