

MONTANA

BOARD OF INVESTMENTS



2018 Annual Report



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Special Note: The numbers within this annual report are unaudited and may be subject to change in the audit process. The audited Unified Investment Program and Enterprise Fund Financial Statements will be made available once the Legislative Audit Division issues the Audit Opinions. Once issued, the Legislative Audit Division will have both Audit Opinions available online at <https://www.leg.mt.gov/publications/audit/agency-search-report> by selecting Board of Investments under Agency and the Board’s website <http://investmentmt.com/AnnualReportsAudits> will contain a link. Cover photo taken in Montana’s Absaroka – Beartooth Wilderness provided by staff.



It is my pleasure to present our 2018 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 (UIP)*. 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 \$18 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.

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 Tax 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."



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 added a Management Discussion and Analysis (MD&A) to both the UIP and the Enterprise financial statements that provides an overall review of the financial activities during the year as well as a comparison to the prior year's activities and results.

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



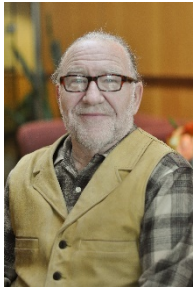
Karl Englund
 MISSOULA
 Board Vice Chair
Representing Law
 Term Ending:
 01/01/2019

- Human Resources (HR) Committee, Chair



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

- Audit Committee
- Loan Committee



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

- Loan Committee



Diane Fladmo
 HELENA
Representing Labor
 Term Ending:
 01/01/2019

- HR Committee



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

- Audit Committee



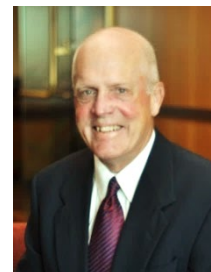
Maggie Peterson
 ANACONDA
Representing PERS, Agriculture
 Term Ending:
 01/01/2021

- Audit Committee
- Loan Committee



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

- HR Committee
- Loan Committee, Chair



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

- HR Committee
- Audit Committee, Chair

LEGISLATIVE LIAISONS



Representative Jim Hamilton
 BOZEMAN
House of Representatives Liaison
 Term Ending:
 12/31/2018



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

Senior Management

- ◆ **David Ewer (9/28/18 retired)**
Executive Director
- ◆ **Dan Villa (effective 9/29/18)**
Executive Director
- ◆ **Geri Burton (11/23/18 retired)**
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, CAIA**
Investment Officer
- ◆ **Frank Cornwell, CPA**
Associate Financial Manager
- ◆ **Roberta Diaz**
Investment Accountant
- ◆ **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
- ◆ **Pam Nelson**
Municipal Finance Programs
Bond Program Officer
- ◆ **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
- ◆ **Thomas Winkler, CAIA**
Investment Analyst
- ◆ **Daniel Zarling, CFA, CIPM**
Director of Risk Management

UNIFIED INVESTMENT PROGRAM

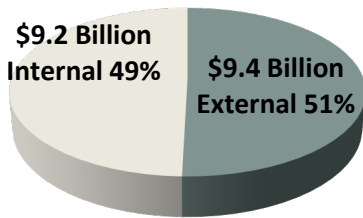
Montana’s State Constitution requires that the state’s financial assets be managed through the Unified Investment Program. The Board of Investments was established by the Montana Legislature to carry out that mandate. The Board manages the state’s investments within those constitutional and statutory guidelines.

As of June 30, 2018, the Board of Investments managed over \$18.6 billion in pension funds, trust funds, insurance reserves, state operating funds, and certain local government funds. Within these broad categories, a combination of investment pools and separately managed investments are utilized to meet the financial goals and expectations of the agencies and entities which entrust these funds to the Board. The Board’s portfolio is available for viewing on its [FY2018 Investment Holdings](#) webpage.

[Short Term Investment Pool \(STIP\)](#)
 [Trust Fund Investment Pool \(TFIP\)](#)
 [Consolidated Asset Pension Pool \(CAPP\)](#)
 [Separately Managed Investments \(SMI\)](#)

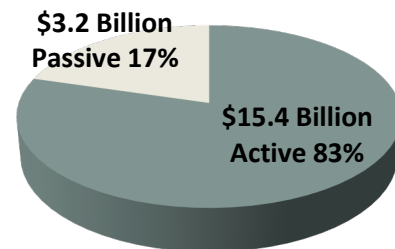
Total Fund Fiduciary Net Position Held in Trust for Participants* (In Millions)						
Fund Type	STIP	TFIP	CAPP	SMI**	STIP in Pool / AC	Grand Total
Pension Funds	\$ 228.4	\$ -	\$ 11,308.9	\$ -	\$ -	\$ 11,537.3
Trust Funds	112.4	1,393.1	-	17.9	-	1,523.4
Coal Severance Tax Trust	24.2	856.1	-	180.6	-	1,060.9
Insurance Reserves	141.7	34.1	-	1,452.6	-	1,628.4
Operating Funds	2,679.0	56.9	-	82.4	-	2,818.3
STIP in Pool / AC	111.2	-	-	-	(111.2)	-
STIP Reserve	32.6	-	-	-	-	32.6
6/30/2018	\$3,329.5	\$2,340.2	\$ 11,308.9	\$ 1,733.5	\$ (111.2)	\$ 18,600.9

Totals may not sum due to rounding differences.
 *Includes receivable and payable accruals.
 **Separately Managed Investments (SMI) formally referred to as Direct Holdings.




As shown in the chart on the left, just over half of the Board’s investments are managed internally by the Board’s own investment staff. These assets managed internally are often lower risk assets that can be better managed “in-house” to limit costs. The remaining assets are managed externally by professional investment managers in a variety of asset classes. Utilizing the professional and often specialized expertise of these external managers, the Board seeks to maximize the return available from a variety of market options. External managers are carefully selected and monitored by the Board’s staff.

As shown in the chart on the right, over three-quarters of the investments are managed actively; less than one-quarter are managed passively. The majority of the actively managed assets are fixed income assets managed internally by the Board at a lower cost than likely possible by an external manager managing a passive mandate.




PENSION FUNDS

The Board of Investments manages the Pension Funds of nine separate retirement plans that provide retirement benefits for public employees of state and local government entities. The two largest of these funds are the Public Employees Retirement System (PERS) and the Teachers Retirement Systems (TRS). The retirement system assets are invested within the Short Term Investment Pool (STIP) and the Consolidated Asset Pension Pool (CAPP) discussed in further detail in the Investment Pools section of this report.



Managing Pension Investments requires a skillful balance of:

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



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

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

Pensions			
Fiduciary Net Position Held in Trust for Participants* (In Millions)			
Fund Name	STIP	CAPP	Grand Total
Public Employees Retirement	\$ 111.6	\$ 5,652.7	\$ 5,764.3
Teachers Retirement	83.2	4,032.3	4,115.5
Firefighters Retirement	8.2	408.7	416.9
Police Retirement	7.8	393.8	401.6
Sheriffs Retirement	6.8	350.9	357.7
Game Wardens Retirement	3.5	189.1	192.6
Highway Patrol Retirement	2.6	145.5	148.1
Judges Retirement	1.9	100.3	102.2
Vol. Firefighters Retirement	2.8	35.6	38.4
6/30/2018	\$ 228.4	\$11,308.9	\$ 11,537.3
Totals may not sum due to rounding differences.			
*Includes net receivable and payable accruals.			

Pension funds are by their nature, long-term funds and require a long-term view when making investment decisions. Prudence, patience and professional discipline are hallmarks of the Board’s investment process.

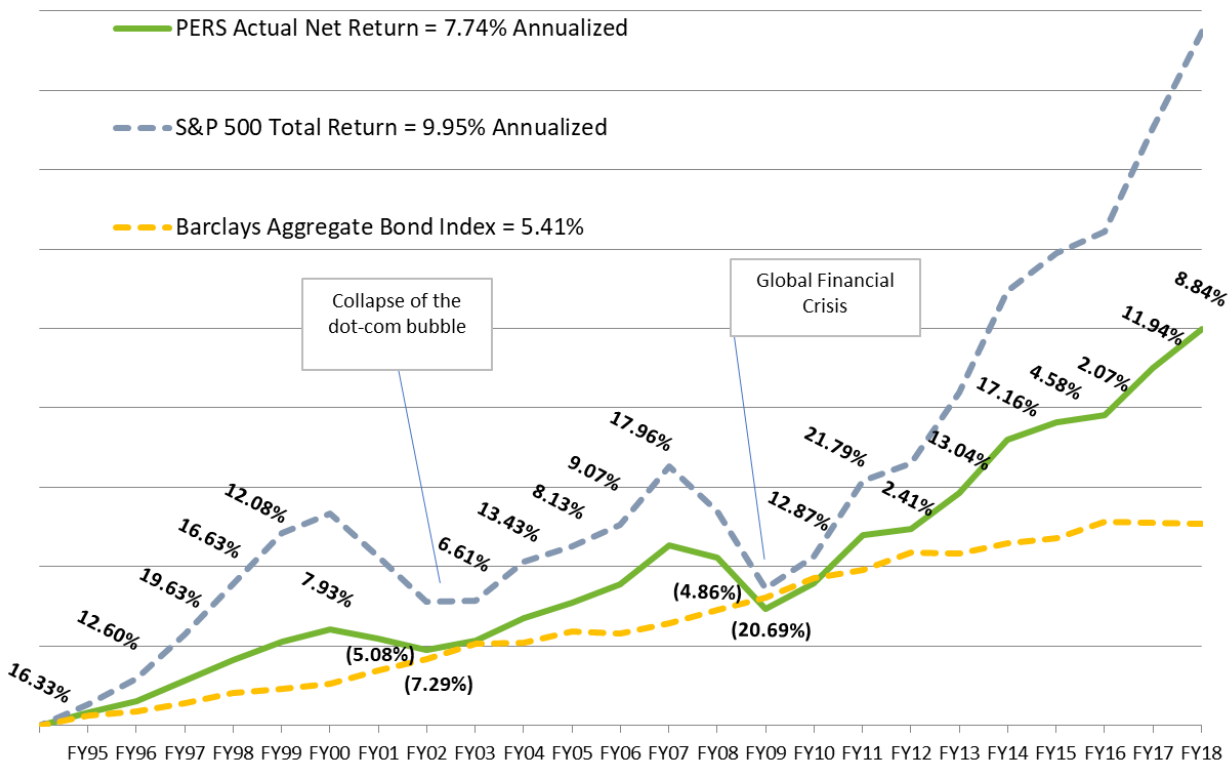
Factors considered in managing pension investments include long-term growth (expected rates of return), liquidity needs (how readily convertible to cash), risk (multi-dimensional), and cost. The Board addresses these factors through a strong governance model that requires the Board to engage annually in a review and confirmation of asset allocation.

During the review of asset allocation, the Board examines historic market performance, trends and long-term economic forecasts. Careful study of more specific considerations related to individual asset classes, including cost, risks, potential return and the correlation between asset classes is conducted.

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

The Board’s asset allocation mix is critical to the return on pension fund investments. Please refer to the Consolidated Asset Pension Pool (CAPP) section for the approved ranges established by Board policy as of April 3, 2018 and allocation as of June 30, 2018.

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 (Coal 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 Coal Trust in the Montana economy with emphasis on new or expanding businesses.

Over the years, the legislature has partitioned the Coal Trust into several sub-trust funds beginning with the Permanent Fund, then the Severance Tax Bond Fund, the Treasure State Endowment Fund, the Treasure State Endowment Regional Water Fund, the Big Sky Economic Development Fund, and the School Facilities Fund. The School Facilities Fund is receiving 75 percent of the coal severance tax revenue until its fund balance reaches \$200 million. The remaining 25 percent dedicated to the Big Sky Economic Development Fund terminates June 30, 2035.



Coal Severance Tax Trust Fund

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

Montana Constitution – Article IX



The principal of all the sub-trust 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 Trust sub-trust funds are shown below:

<u>Short Term Investment Pool</u> (STIP)	<u>Trust Fund Investment Pool</u> (TFIP)	<u>Seperately Managed Investments</u> (SMI)		
Coal Severance Tax Trust Fund				
Fiduciary Net Position Held in Trust for Participants* (In Millions)				
Sub-Trust Fund Name	STIP	TFIP	SMI**	Grand Total
Permanent Coal Trust	\$ 10.5	\$ 372.7	\$ 180.4	\$ 563.6
Treasure State Endowment	3.2	274.8	0.2	278.2
Economic Development Trust	4.0	99.7	-	103.7
Regional Water Fund	1.2	95.2	-	96.4
School Facilities Fund	3.1	13.7	-	16.8
Severance Tax Bond Fund	2.2	-	-	2.2
6/30/2018	\$ 24.2	\$ 856.1	\$ 180.6	\$ 1,060.9
Totals may not sum due to rounding differences.				
*Includes net receivable and payable accruals.				
**Separately Managed Investments (SMI) formally referred to as Direct Holdings.				

The table below reflects the Separately Managed Investments (SMI), formally referred to as Direct Holdings, held by the Coal Trust. The Board uses the In-State Loan Program to invest a portion of the Coal Trust in compliance with state law. The pages to follow provide more detail on the program and the various financing options available.

Coal Trust - Separately Managed Investments (SMI)*			
Fiduciary Net Position Held in Trust for Participants** (In Millions)			
	Permanent Coal Trust	Treasure State Endowment	Grand Total
Montana Mortgages and Loans			
In-State Loans and Mortgages:			
Commercial Loans	\$ 108.8	\$ 0.2	\$ 109.0
Local Government Infrastructure	19.9	0.0	19.9
Intermediary Relending Program (IRP) Loans	4.0	0.0	4.0
Veterans' Home Loan Mortgages	36.4	-	36.4
Montana Facility Finance	2.8	0.0	2.8
Montana University System	7.8	-	7.8
Science and Technology Alliance	0.7	0.0	0.7
6/30/2018	\$ 180.4	\$ 0.2	\$ 180.6
Totals may not sum due to rounding differences.			
*SMI formerly referred to as Direct Holdings			
**Includes net receivable and payable accruals.			

COAL SEVERANCE TAX PERMANENT SUB-TRUST 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.

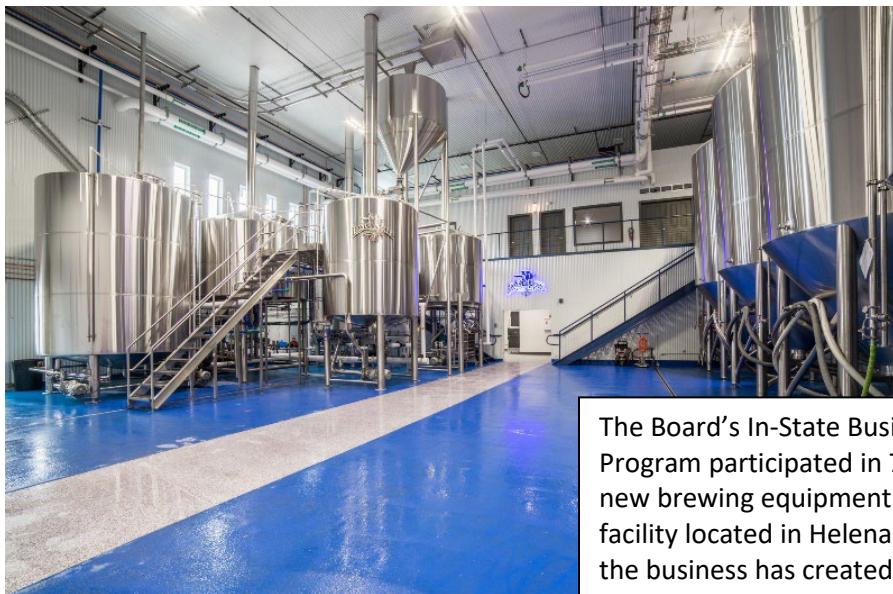
The In-State Loan Program, created in 1984 as part of the "Build Montana" program, invests Coal Severance Tax Trust (Coal Trust) funds in Montana to stimulate the state's economy. State law authorizes the Board to invest the Trust to increase employment and business opportunities, while maintaining and improving the state's physical environment. The In-State Loan Program balances are provided on the previous page in the Coal Severance Tax Trust Fund, SMI table.

Loan Types – Four different loan types are available in the In-State Loan Program, some of which offer a job credit interest rate reduction equal to 0.05 percent for each qualifying job created, up to a maximum reduction of 2.5 percent.

- The **Commercial Loans** allow the In-State Loan Program to participate up to 80% in a loan originated by an approved lender. Unencumbered land, buildings, and equipment may be financed with the loan proceeds.
- The **Local Government Infrastructure** provides loans to eligible local governments for constructing or purchasing infrastructure to be used by a basic sector business. Total loans outstanding in this Program are limited by law to \$80 million.
- The **Intermediary Relending Program (IRP) Loans** provide loans to local economic development organizations with revolving loan programs. Individual loans may not exceed \$500,000 and total 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 **Veterans' Home Loan Mortgages** provide 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



The Board's In-State Business Loan Participation Program participated in 70% of a \$3.99 million loan for new brewing equipment at a state of the art brewing facility located in Helena, MT. As a result of the loan, the business has created jobs and is entitled to an interest rate reduction of .05% for each qualifying job created.

HELENA BUSINESS EXPANSION AND GREAT FALLS LOW-INCOME HOUSING



The Board's In-State Loan Program provided \$324,000 long-term, fixed rate financing for the construction of a 16-unit low income senior living facility in Great Falls, Montana through its Low-Income Housing Tax Credit loan program.

OTHER TRUST FUNDS

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

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

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

Other Trust Funds				
Fiduciary Net Position Held in Trust for Participants* (In Millions)				
Fund Name	STIP	TFIP	SMI**	Grand Total
Abandoned Mine Trust	\$ 5.2	\$ -	\$ 1.2	\$ 6.4
Belt Water Treatment Plant Fund	9.6	13.8	-	23.4
Butte Area One Restoration	7.9	10.5	2.0	20.4
Butte-Silver Bow Redevelopment Trust	1.1	12.0	-	13.1
Clark Fork River Restoration Fund	7.0	21.7	3.0	31.7
Clark Fork Site Response	7.8	64.1	3.3	75.2
Coal Tax Park Acquisition Fund	1.1	25.3	0.0	26.4
Cultural Trust	0.4	14.1	0.0	14.5
East Helena Compensation Fund	2.9	2.9	0.0	5.8
Endowment For Children	0.1	1.2	0.0	1.3
Fish, Wildlife and Parks Mitigation	1.8	4.9	4.4	11.1
Harold Hamm Endowment	0.0	0.0	0.0	0.0
Montana Pole Superfund	5.3	22.1	0.0	27.4
Noxious Weed Management Trust	-	10.6	0.0	10.6
Older Montanans Trust	0.0	1.2	0.0	1.2
Potter Trust Fund	0.0	0.2	0.0	0.2
Public School Trust	-	697.2	0.0	697.2
Real Property Trust	0.3	6.8	0.0	7.1
Resource Indemnity Trust	0.0	108.8	0.0	108.8
Smelter Hill Uplands Restoration Fund	5.2	2.9	2.0	10.1
Streamside Tailings Fund	4.0	16.5	-	20.5
Tobacco Trust	5.8	220.4	0.0	226.2
Upper Blackfoot Response	5.6	3.3	2.0	10.9
UCFRB Reserve Fund	0.7	18.2	0.0	18.9
UCFRB Restoration Fund	5.5	101.2	0.0	106.7
Wildlife Habitat Trust	0.6	13.2	0.0	13.8
Zortman/Landusky Trust	19.5	0.0	-	19.5
Zortman/Landusky Water	15.0	0.0	-	15.0
6/30/2018	\$ 112.4	\$ 1,393.1	\$ 17.9	\$ 1,523.4
Totals may not sum due to rounding differences.				
*Includes net receivable and payable accruals.				
**Seperately Managed Investments (SMI) formally referred to as Direct Holdings.				

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



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 discussed in more detail on the next page. The fair values of the Insurance Reserves are shown below.

	<u>Short Term Investment Pool</u> (STIP)	<u>Trust Fund Investment Pool</u> (TFIP)	<u>Separately Managed Investments</u> (SMI)	
Insurance Reserves				
Fiduciary Net Position Held in Trust for Participants* (In Millions)				
Fund Name	STIP	TFIP	SMI**	Grand Total
State Fund Insurance	\$ 38.3	\$ -	\$1,415.0	\$ 1,453.3
Other Insurance Funds				
Agency Insurance	11.4	-	-	11.4
Employee Group Benefits	22.1	19.3	26.7	68.1
Hail Insurance	2.9	-	-	2.9
Montana University System (MUS) Group Insurance	49.4	10.0	6.8	66.2
MUS Workers Compensation	11.9	4.8	-	16.7
Defined Contribution Disability	0.3	-	4.1	4.4
Subsequent Injury	0.6	-	-	0.6
Unemployment Insurance Benefits	3.3	-	-	3.3
Uninsured Employers	1.5	-	-	1.5
6/30/2018	\$ 141.7	\$ 34.1	\$1,452.6	\$ 1,628.4
Totals may not sum due to rounding differences.				
*Includes net receivable and payable accruals.				
**Separately Managed Investments (SMI) formally referred to as Direct Holdings.				

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

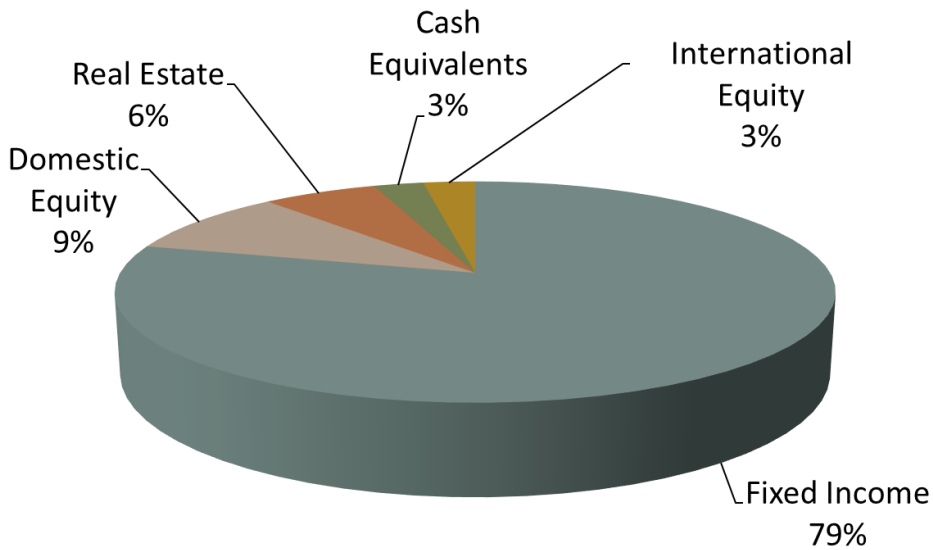
STATE FUND

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, 2018
was over \$1.45 Billion.

STATE FUND INSURANCE RETURNS	1-Year	2-Year	10-Year
	1.69%	2.09%	4.80%

State Fund By Investment Type



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.

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

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

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

Operating Funds				
Fiduciary Net Position Held in Trust for Participants* (In Millions)				
Fund Name	STIP	TFIP	SMI**	Grand Total
Local Governments	\$ 1,220.2	\$ -	\$ -	\$ 1,220.2
State Treasurer's Fund	1,002.4	-	49.8	1,052.2
State Agency	316.5	3.2	-	319.7
Montana State University - Bozeman	107.7	16.6	-	124.3
University of Montana - Missoula	-	29.8	27.2	57.0
FWP License	21.9	6.8	5.4	34.1
Montana Tech of the University of Montana	10.3	0.5	-	10.8
6/30/2018	\$ 2,679.0	\$ 56.9	\$ 82.4	\$ 2,818.3
Totals may not sum due to rounding differences.				
*Includes net receivable and payable accruals.				
**Separately Managed Investments (SMI) formally referred to as Direct Holdings.				

[Operating Funds Descriptions \(click here\)](#)

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 157 local government accounts invested in STIP as of June 30, 2018.

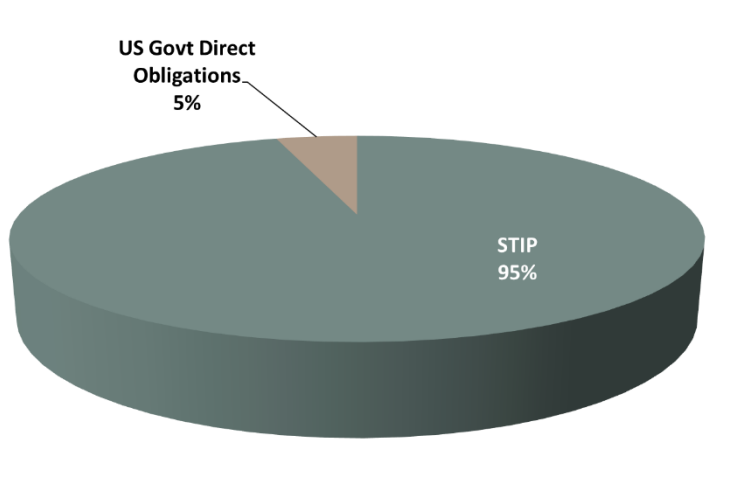
STATE TREASURER'S FUND

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, 2018 was nearly \$1.1 Billion.

STATE TREASURER'S FUND RETURNS	1-Year	2-Year	10-Year
	1.47%	1.12%	0.62%

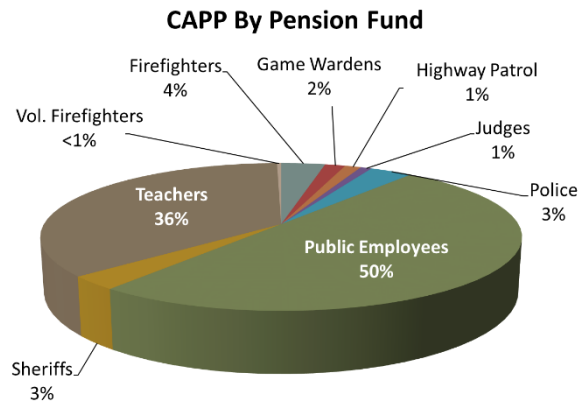
Treasurer's Fund By Investment Type



INVESTMENT POOLS

CONSOLIDATED ASSET PENSION POOL (CAPP)

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 brought 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 provided significant new flexibility to the management of the pension assets. Additionally, reconciliations are significantly streamlined. Shown in the table below, there are currently thirteen approved asset classes held within this combined investment pool. All pension funds are invested prudently with the diversification necessary to mitigate risk. All pension assets are governed by an investment policy statement that includes asset allocation policy categories and ranges established by the Board.



CAPP Asset Allocations			
Asset Class	Range	Range	Allocation As of 6/30/18
	Low	High	
Domestic Equities	24%	38%	36%
International Equities	12%	24%	18%
Private Equity	9%	15%	11%
US Treasury/Agency Fixed Income ²	5%	14%	8%
Real Estate	4%	12%	7%
Agency Mortgage-Backed Securities ²	2%	8%	4%
Investment Grade Credit ²	2%	6%	3%
TIPS	0%	4%	3%
High Yield ²	1%	5%	3%
Natural Resources ¹	0%	6%	2%
Cash ⁴	1%	6%	2%
Broad Fixed Income ²	1%	3%	1%
Diversifying Strategies ³	0%	4%	0%

¹Natural Resources will invest in strategies that include Timber, Energy, Agriculture, Water, and Other Commodities.

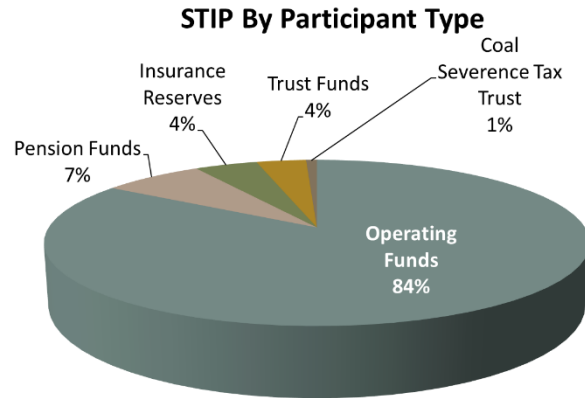
²Related fixed income asset classes may not go below a minimum of 15 percent of the portfolio.

³CAPP shall have no greater than 5% of its Fiduciary Net Position Held in Trust for Participants managed by any one external manager.

⁴The range for cash includes the plans' allocation to STIP and CAPP's allocation to the Cash Asset Class, but it does not include the cash held in the other Asset Classes or underlying Portfolios.

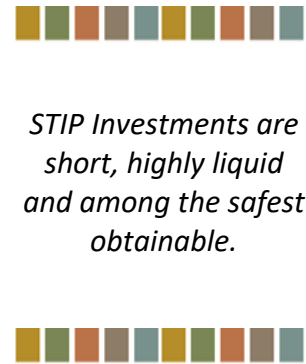
SHORT TERM INVESTMENT POOL (STIP)

Created in 1973, the Board’s Short Term Investment Pool (STIP) is used by state agencies, local governments and the retirement systems as an alternative to idle cash. STIP investments are short, 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)	
Fiduciary Net Position Held in Trust for Participants* (In Millions)	
Asset Class	Grand Total
Cash/Cash Equivalents**	\$ 2,250.7
Commercial Paper	288.9
Corporate Notes	225.1
Certificates of Deposit	546.6
Treasury	19.9
Net Receivable/Payable Adjustment	(1.7)
6/30/2018	\$ 3,329.5
Totals may not foot due to rounding differences.	
*Includes net receivable and payable accruals.	
**STIP cash and cash equivalents generally, are short-term, highly liquid investments with maturities of three months or less at time of purchase measured at cost and fair value.	

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



STIP provides participants ready access to cash. Shares are transacted at \$1.00, fractional shares may be purchased, and participants may buy or sell shares with one business days’ notice. The over \$3.3 billion in pool investments are managed by Board Staff. There were 490 accounts invested in STIP during the year, including 157 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 \$47.5 million (unaudited) in Fiscal Year 2018. The chart above shows the percent of shares by major participant type as of June 30, 2018.

TRUST FUNDS INVESTMENT POOL (TFIP)

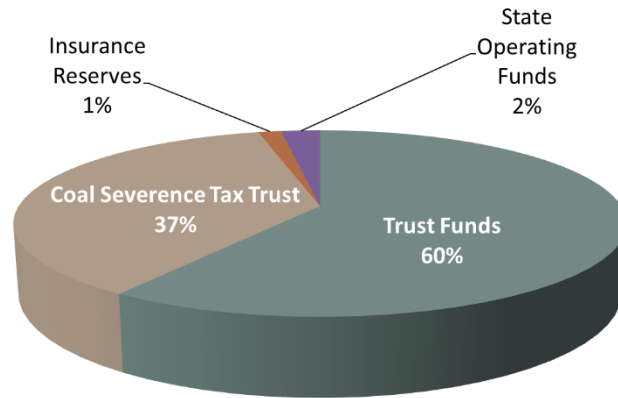
Created in 1995, the Trust Funds Investment Pool (TFIP) is designed to provide participants exposure to a portfolio of income-producing assets. The use of a commingled pool allows for simplified investing and accounting, broader diversification and thus less risk than would otherwise be available for individual participants.

TFIP participants consist primarily of the state’s trust funds. Each trust account participating in the TFIP is separately identified for accounting and record keeping purposes

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

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. The TFIP invests directly in the Asset Classes shown in the table to the left. Each Asset Class has an underlying set of investment objectives and investment guidelines All realized capital gains and losses are retained in the pool.

TFIP By Participant Type



Trust Funds Investment Pool (TFIP)	
Fiduciary Net Position Held in Trust for Participants*	
Asset Class	Grand Total
Corporate Bonds	\$ 819.7
US Agency Bonds	706.3
US Govt Direct Obligations	536.8
Real Estate	138.5
High Yield Bonds	101.0
Cash Equivalent	30.8
Other	7.1
6/30/2018	\$ 2,340.2
Totals may not foot due to rounding differences.	
*Includes net receivable and payable accruals.	



IN-STATE INVESTMENTS AND BOND GUARANTEES

In addition to the Board’s In-State Loan Program, the Montana Legislature has authorized other programs to use coal tax monies from various sub-funds. The Montana related investments made in the state including the Board’s bond guarantees are shown in the table below. The In-State Loan Program balances are provided in the Coal Severance Tax Trust Fund section, SMI table, of this report.

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

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

Montana Related Investments Made in the State and Bond Guarantees Fiduciary Net Position Held in Trust for Participants* (In Millions) As of June 30				
Investment	SMI**	CAPP	Bond Guarantees	Grand Total
Coal Severance Tax Trust Fund:				
In-State Loan Program	\$ 169.3	\$ -	\$ -	\$ 169.3
Montana Facility Finance Authority Loans (MFFA)	2.8	-	-	2.8
Montana University System	7.8	-	-	7.8
Science and Technology Alliance	0.7	-	-	0.7
Residential Mortgages	-	3.9	-	3.9
Direct Real Estate	-	19.2	-	19.2
INTERCAP Bond Guarantee	-	-	105.1	105.1
MFFA Bond Guarantee	-	-	81.5	81.5
6/30/2018	\$ 180.6	\$ 23.1	\$ 186.6	\$ 390.3
Totals may not sum due to rounding differences.				
*Includes net receivable and payable accruals.				
**Separately Managed Investments (SMI) formally referred to as Direct Holdings.				

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



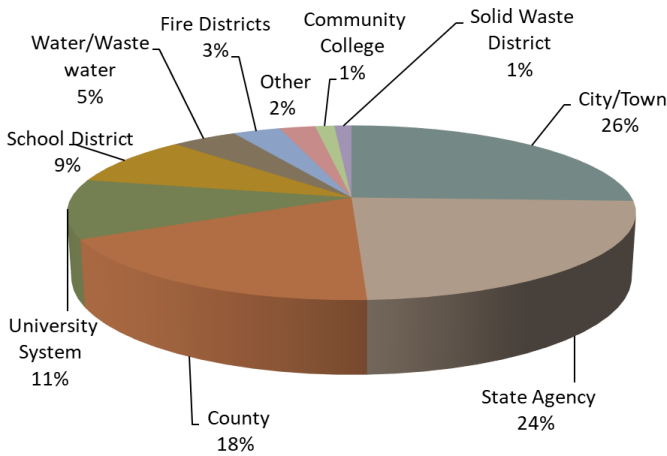
ENTERPRISE FUND

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

INTERCAP REVOLVING LOAN PROGRAM

For over 30 years, the Board has provided low interest loans to Montana state agencies, universities, and local governments for various projects. Since the program's inception, the Board's INTERCAP Revolving Loan Program (INTERCAP) has loaned \$553.9 million statewide and issued \$168.0 million in bonds with \$105.1 million outstanding at June 30, 2018. Loan interest rates are reset every February; the loan rate through February 15, 2019 is 3.15%.

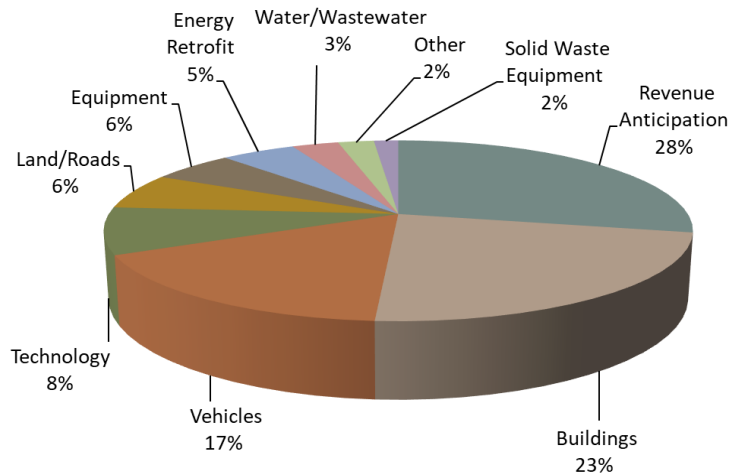
Loans By Borrower Type Since Inception



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

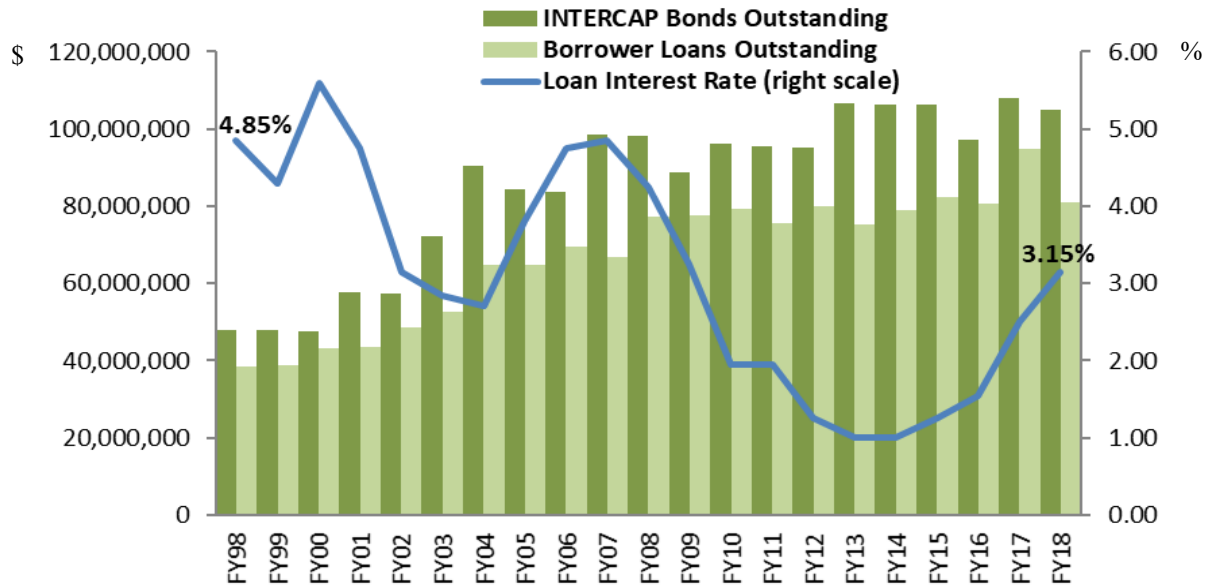


Loans By Project Type Since Inception



The Board makes firm one-year commitments to fund the loans. On average, over the past five fiscal years, the program committed to \$35.8 million and funded \$30.6 million in loans. In fiscal year 2017, the program estimated fiscal year 2018 commitments and fundings would be approximately \$35 million. In fiscal year 2018, the program committed to \$32.1 million and funded \$20.6 million in loans. For fiscal year 2019, the program estimates the Board will commit to and fund close to \$25 million.

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



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

INTERCAP loans have been very high credit quality, and to date, the Board has never suffered a loss, due in part to reasonable underwriting standards and the credit soundness of State of Montana agencies, boards, and authorities and Montana local governments.

INTERCAP PROGRAM HIGHLIGHTS

A sample project financing for this year is the Plains School District K-12. The District used INTERCAP to finance the replacement of the 1968 boiler in its high school building. On the next page are before and after photos of the project. This was the first state identified school maintenance project financed by INTERCAP that included the new school permissive levy passed by the 65th Legislature in 2017 as a repayment source.

The progressive efforts of the Legislature to address the statewide depreciated condition of many school facilities began in 2005. The Senate and House of Representatives 59th Legislature Special Session appropriated funds in House Bill 1 to the Department of Administration, Architect & Engineering Division, to pay for the costs to complete a statewide condition and needs assessment including an energy audit of K-12 public school facilities. In 2008, the Facility Condition Inventory (FCI) Report was completed and may be found online at <http://www.mtk12facilitysurveys2008.com/Reports.aspx>. In 2017, the 65th Legislature passed Senate Bills (SB) 5, 260 and 307 amending school and state finance laws that provided the means to fund projects identified in the FCI Report.



OTHER BOND PROGRAMS

- ***Qualified Zone Academy Bond Program (QZAB)***

This program allows qualifying school districts to borrow money at no or nominal interest rates by issuing qualified zone academy bonds. The Board acts as a legal funding conduit only and has no pecuniary liability for the repayment of the bonds. Nine school districts have issued over \$13.7 million in QZAB bonds as of June 30, 2018.

- ***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, 2018.



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