

# Public Employees' Retirement Board

February 10, 2022

**Topic: PIMCO – Investment Management Agreement (IMA)**

PIMCO is the investment manager for the Board's Stable Value Fund, the Montana Fixed Fund. The Investment Management Agreement (IMA) between the Board and PIMCO incorporates by reference the Montana Fixed Funds' Investment Policy statement in exhibit A of their contract. Changes to the Stable Value Fund IPS necessitates updates to PIMCO's IMA. Attached are the required updates to Exhibit A of the IMA and the contract amendment incorporating the recommended changes.

Staff Recommendation:

Approve the amendment of the IMA between the Board and PIMCO following the approval of the IPS changes.

## Recommended Board motion:

Approve recommended changes PIMCO's IMA.

Recommend \_\_\_\_\_

\_\_\_\_\_  
Moved by

\_\_\_\_\_  
Seconded by

\_\_\_\_\_  
Vote

## **EXHIBIT A**

(PIMCO Account #1420)

### **INVESTMENT GUIDELINES**

[DATE]

PIMCO will have full discretion to seek to cause the Stable Value Option of the Plans and/or the Pooled Trust that are subject to this Agreement to be invested in compliance with these Investment Guidelines. Unless otherwise noted herein, these Investment Guidelines apply at time of purchase. If at any time the Stable Value Option is not invested fully in compliance with these Investment Guidelines, PIMCO shall take such corrective actions as it deems advisable, in light of its fiduciary obligations to the Plan and/or the Pooled Trust.

#### **Objectives**

The primary objectives for the Stable Value Option are safety of principal and to provide liquidity for participant withdrawals and transfers to other investment options in the Plans and/or the Pooled Trust. Within these objectives, PIMCO will manage the Stable Value Option to also provide a reasonably stable rate of interest, track changes to interest rates over time, and maximize the return subject to prudent diversification and management.

The Board acknowledges that meeting or exceeding any of the objectives, targets or benchmarks discussed in these Investment Guidelines is a target only, and PIMCO shall not be liable to the Board or to any third party for its failure to meet or outperform any such goal.

#### **Duration and Maturity**

- The total market value weighted average duration of the Stable Value Option's investments will normally be between 1.5 and 5 years. Duration will be calculated using a reasonable market methodology.
- The maximum maturity of any GAC or BIC shall not exceed six (6) years from date of settlement of such contract.

#### **Concentration Limits**

- The maximum allocation to any one issuer of securities, including Associated Assets held by the Stable Value Option shall not exceed 5% of the total Stable Value Option. This limitation excludes U.S. treasuries, U.S. agency MBS, U.S. agency securities, or securities issued by or explicitly guaranteed by the U.S. government. Also excluded are Derivatives, STIFs, collective investment trusts, and investment companies registered under the Investment Company Act of 1940, as amended, or Cash Vehicles and Pooled Funds. This limitation also does not apply to non-securities such as Benefit Responsive Contracts. Specific mortgage pools and funds are considered separate issuers, and each tranche within a CMO is considered a separate issue.
- The maximum allocation to any one provider or issuer of a GAC or BIC shall not exceed 10% of the total Stable Value Option

## Quality Ratings

- All Permitted Investments (other than Cash Vehicles, Derivatives, foreign currencies, Benefit Responsive Contracts, Money Market Instruments or Pooled Funds) will be rated a minimum of the equivalent of BBB- by at least one Nationally Recognized Statistical Ratings Organization (“NRSRO”), which will include Moody’s Investor Services Inc. or a successor (if any), Fitch Ratings Ltd. or a successor (if any), and Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or a successor (if any), or, if not rated by an NRSRO, will be of comparable quality as determined by PIMCO.
- All Benefit Responsive Contracts will be rated a minimum of the equivalent of A- by at least one NRSRO.
- All Money Market Instruments will be rated a minimum of the equivalent of A-1 by at least one NRSRO or, if not rated by an NRSRO, will be of comparable quality as determined by PIMCO.
- The maximum aggregate exposure to Associated Assets (other than investments in Cash Vehicles, Money Market Instruments, or other pooled investments) rated between BBB- and BBB+, inclusive, or, if not rated by an NRSRO, of comparable quality as determined by PIMCO, will not exceed 20% of the Stable Value Option.
- If the rating of any Permitted Investment falls below the minimum quality rating herein then PIMCO may determine to hold the Permitted Investment, sell, or terminate the Permitted Investment.
- PIMCO shall evaluate the creditworthiness of the Stable Value Option’s counterparties to transactions including, but not limited to, permitted derivatives, repurchase agreements, and TBAs.
- The Stable Value Option’s investment limitations apply at the time of acquisition of an investment. If a percentage limitation is adhered to at the time of investment, a later increase or decrease in percentage resulting from market fluctuations or other changes in the Stable Value Option’s total assets will not result in a violation of the limitation and will not require PIMCO to dispose of such investment.

## Permitted Investments

- Asset-backed Securities (ABS): ABS are securities collateralized by assets other than mortgages. The most common types of ABS are collateralized by credit card receivables, home equity loans, manufactured homes and automobile loans and are typically structured as pass throughs or as structures with multiple bond classes, like a [collateralized mortgage obligation \(CMO\)](#).
- Associated Assets: The financial obligation of some Benefit Responsive Contracts are supported first by one or more identifiable investments (the “Associated Assets”), which are typically bonds or portfolios of bonds, and then, to a lesser extent, the assets of the issuer of the Benefit Responsive Contract (the “Contract Provider”). There is usually no immediate recognition of investment gains and losses on Associated Assets in the Benefit Responsive Contract; instead, investment gains and losses are amortized over time into the Benefit Responsive Contract’s performance by adjusting the contract’s credited rate of interest. The terms, conditions, and investment guidelines of the Benefit Responsive Contract may limit the amounts and types of Associated Assets or may restrict or require certain actions by PIMCO, the trustee, Custodian, Plans, Pooled Trust, Board or its agents. The investment guidelines of Associated Assets will typically comply with the definition of Permitted Investments within these Investment Guidelines or will otherwise have stable value investment objectives and investments that PIMCO believes are similar to or consistent with this Stable Value Option.

- **Bank Investment Contracts (BICs):** A BIC is a type of Benefit Responsive Contract that is a general obligation of a bank or other financial institution that promise to repay principal and to pay interest at a specified or determinable rate over a certain period of time. The performance of the BIC is typically backed by the bank or financial company's assets and is subject to the financial strength of the issuing company.
- **Benefit Responsive Contract:** Benefit Responsive Contracts are stable value investment contracts issued by insurance companies, banks, and other financial institutions and are intended to help provide steady income and reduce investment volatility in the Stable Value Option. Generally, Benefit Responsive Contracts are intended to allow for book value accounting and the ability for qualifying participant-directed withdrawals to occur from such contracts at book value (typically, deposited principal plus accrued interest less redemptions). Benefit Responsive Contracts include, but are not limited to, insurance company Separate Account Contracts (SACs), Synthetic Investment Contracts (SICs), Bank Investment Contracts (BICs), and insurance company General Account Contracts (GACs). The Stable Value Option may also invest in funding agreements and other contract agreements, or instruments intended to perform similarly to SICs, BICs or GACs. The terms and conditions of a Benefit Responsive Contract may restrict or require certain actions by PIMCO, the trustee, Custodian, Plans, Pooled Trust, Board or its agents and may limit the amounts and types of Associated Assets held by the Stable Value Option.
- **Cash Equivalents:** Investment grade securities with a duration less than or equal to 1 year.
- **Cash Vehicles:** Cash in the Stable Value Option not invested in other Permitted Investments may be accumulated and invested in short-term investment vehicles and bank STIF accounts, U.S. money market funds and other investment companies registered under the Investment Company Act of 1940, and other pooled funds, whether or not registered, or in collective investment trusts that satisfy the credit criteria and investment objectives of the Stable Value Option, whether offered by PIMCO, the custodian bank, or any other entity.
- **Corporate Securities:** Securities issued by domestic or foreign corporations.
- **Credit Default Swaps:** Credit Default Swaps are a mechanism to either purchase or sell default insurance. As a purchaser of a Credit Default Swap, the buyer pays a premium to enter into an arrangement that protects a portfolio holding in the event of a default. When selling a Credit Default Swap, the seller collects a premium for underwriting default insurance.
- **Currencies:** Includes currency Forwards and Futures.
- **Derivative:** A security which derives its value from movements in an underlying security, such as Credit Default Swaps, Forwards, Futures, Options, Caps and Floors, and Swaps. Derivatives may be centrally-cleared, exchange-traded, or over-the-counter ("OTC").
- **Emerging Market Securities:** Emerging market debt covers a broad variety of emerging market country securities including Brady bonds (typically denominated in U.S. dollars) and debt denominated in local currency.
- **Futures and Forwards:** Futures and Forward contracts are agreements to buy or sell a specific amount of a financial instrument for a specific price or yield on a stipulated future or forward date. The future or forward underlying instrument may be a security or index of an asset type permitted in the guidelines. If otherwise allowed, currency forwards and futures may be used to hedge against foreign exchange risk, to increase exposure to a foreign currency, or to shift exposure to foreign currency fluctuation from one currency to another.

- **General Account Contracts (GACs):** A GAC is a type of Benefit Responsive Contract that is a general obligation of an insurance company that promises to repay principal and to pay interest at a specified or determinable rate over a certain period of time. The performance of the GAC is typically backed by the insurance company's general account's assets and is subject to the financial strength and claims paying ability of the issuing insurance company. A GAC may also be referred to as a GIC.
- **Government-related Securities:** Debt directly issued by a U.S. or foreign government-sponsored entity (GSE), a wholly-owned agency of the U.S. Government or a foreign government, a federally related institution where such debt is fully and explicitly backed by the full faith and credit of the federal government of the United States of America or foreign federal government, or related institutions (whether in the form of a full guaranty, an indirect guaranty, or an implied guaranty of such debt).
- **Money Market Instruments:** These assets include, but are not limited to, the following: Treasury bills, U.S. government and agency securities, commercial paper (including 4(2) CP programs), time deposits, bankers acceptances, certificates of deposits, repurchase agreements and reverse repurchase agreements that have a final maturity date not exceeding 397 days from the date of purchase. The above-mentioned security types may be either U.S. or Eurodollar issues.
- **Mortgage TBAs:** A contract for the purchase or sale of a MBS to be delivered at a future agreed-upon date.
- **Mortgage-backed Securities (MBS):** MBS are securities whose source of repayment is a mortgage or pool of mortgages, or whose repayments are collateralized by a mortgage or pool of mortgages. Mortgage-backed Securities include, but are not limited to, agency and non-agency pass-throughs and collateralized mortgage obligations (CMOs and REMICs).
- **Municipal Bonds:** Debt obligations of a state, territory, possession, or local government of the United States of America, the District of Columbia or any political subdivision of any of the foregoing.
- **Non-U.S. Dollar Denominated Securities:** Securities denominated in a currency other than U.S. dollars. If otherwise allowed herein, these securities must conform to the quality, concentration and other characteristics set forth by the guidelines.
- **Pooled Funds:** As a means of obtaining diversified fixed income exposure in an effective manner, upon approval from the client, the Stable Value Option may invest its assets in the shares of one or more other pooled funds, whether or not registered, or in collective investment trusts that PIMCO believes are similar to or consistent with the credit criteria and investment objectives of the Stable Value Option, whether offered by PIMCO, the custodian bank, or any other entity.
- **Rule 144A Offerings:** Securities issued or sold pursuant to Rule 144A under the Securities Act of 1933 provided that the Board meets the definition of a qualified institutional buyer (as defined in Rule 144A) at the time of purchase.
- **Separate Account Contracts (SACs):** A SAC is a type of Benefit Responsive Contract that is an obligation of an insurance company which is backed by one or more identifiable assets (Associated Assets) that are owned by the insurance company. The performance of the SAC is backed by the Associated Assets and, typically to a lesser extent, the insurance company that is the Contract Provider. SACs may be advised by the insurance company or one of its affiliates or the insurance company may appoint an investment adviser to act as investment adviser to the SAC, which may be PIMCO.

- Sovereign and Supranational Debt: Debt issued and backed by Sovereigns or supranational agencies, including but not limited to the World Bank and the European Union.
- Swaps: Swaps are contracts that allow two counter-parties to exchange liabilities and include, but are not limited to, interest rate swaps, total return swaps, spread locks and swaptions. These instruments may be used so long as the underlying instrument is a security or index of an asset type permitted in the guidelines.
- Synthetic Investment Contracts (SICs): A SIC is a combination of a Wrap Agreement and one or more identifiable investments (Associated Assets). The performance of the SIC is backed by the Associated Assets and, typically to a lesser extent, the Wrap Agreement Contract Provider. Under a SIC, typically the Associated Assets are owned in the name of the Plan or Trust. The Associated Assets for a SIC will also be Permitted Investments.
- U.S. Treasury and Agency Notes and Bonds: Issues of the United States government and its agencies.
- Variable and Floating Rate Securities: Variable and floating rate securities provide for a periodic adjustment in the interest rate paid on the obligations.
- Wrap Agreements: A Wrap Agreement is a type of Benefit Responsive Contract issued by insurance companies, banks, and other financial institutions which, when associated with one or more identifiable investments (Associated Assets), creates what is known as a Synthetic Investment Contract. The Wrap Agreement allows for book value accounting and benefit-responsiveness for Associated Assets.
- Yankee/Euro Bonds: Yankee bonds are U.S. dollar-denominated securities issued by non-U.S. issuers or foreign subsidiaries of U.S. issuers and are predominantly traded in U.S. markets. Eurobonds are traded in the global marketplace. Issuers of Eurobonds may be domiciled in or outside of the U.S. Global bonds are a hybrid of Yankee and Eurodollar bonds. Like Yankee bonds, Global bonds are US dollar denominated and issued by non-US issuers or foreign subsidiaries of U.S. issuers, though they are issued and traded in both the U.S. (Yankee) and Euro markets simultaneously.

In the event that PIMCO wishes to make changes to or additions to, or deletions from, the Permitted Investments set forth in the Investment Guidelines, PIMCO shall submit to the Board a written list of such changes or securities/transaction types that PIMCO proposes to designate as Permitted Investments for the Board's review. If appropriate, the Board will then coordinate amendments to the Investment Guidelines in accordance with a timeline mutually agreed to by the parties.

### **Prohibited Investments**

Except with the prior written approval of the Board, PIMCO will not invest assets of the Stable Value Option directly in:

- Securities whose issuer is in bankruptcy or similar proceeding at the time of purchase
- Commodities
- Equities (excluding shares of Pooled Funds, bank STIF accounts and US money market funds and equities distributed as part of a bankruptcy or reorganization)
- Non-U.S. Dollar denominated securities
- Emerging market debt securities in excess of 15% of the total assets

- Foreign currencies
- Direct real estate - direct ownership of real estate or real property
- Securities lending
- Auction rate securities
- Event-linked bonds
- High yield instruments

### **Benchmark**

The Stable Value Option will be benchmarked against the Lipper Money Market Index and the 3-Year Constant Maturity Treasury (CMT).

Each fixed income investment strategy employed by PIMCO will employ an appropriate market value benchmark for measuring the strategy's return on a market value basis.

## EXHIBIT A-1

### STATE OF MONTANA PUBLIC EMPLOYEES' POOLED TRUST – MONTANA FIXED FUND INVESTMENT POLICY STATEMENT

(PIMCO Account #1420)

Adopted \_\_\_\_\_

#### **I. INTRODUCTION**

The purpose of this statement is to establish an investment policy (the "Policy") for the management of the stable value assets held within the State of Montana Public Employee Defined Contribution Plan and the 457(b) Deferred Compensation Plan (each, a "Plan" and collectively, the "Plans"). The Montana Public Employees' Retirement Board (the "Board"), the plan sponsor and named fiduciary of the Plans, has established a pooled trust, State of Montana Public Employees' Pooled Trust ("Pooled Trust"), for the purpose of combining the stable value assets of the Plans into one distinct portfolio. The Pooled Trust qualifies as a group trust under Sections 401(a) (including Section 401(a)(24) and 501(a)) of the Internal Revenue Code of 1986, as amended.

The Pooled Trust is comprised of the stable value assets of the Plans, and has been made available for participant investment under the Plans as the Montana Fixed Fund (the "Fund").

The Fund is an actively managed, diversified investment strategy which invests primarily in investment grade fixed income investments including, but not limited to, U.S. government securities, corporate bonds, mortgage-backed securities, asset-backed securities, and derivative instruments, including futures and swaps. The Fund may also invest in cash and other liquid investments, such as a short-term investment fund with the custodian. Other Fund investments may include a variety of stable value investment contracts issued by insurance companies, banks, and other financial institutions, which are intended to help reduce principal volatility of, while providing steady income from, any associated fixed income investments. The stable value investment contracts provide assurance that future credited income will not be below zero. However, there may be certain circumstances that result in a loss of principal or limit the ability of participants in the Plans from transacting at the amount of their principal investment.

The Policy is administered and monitored by the Board with input from the Employee Investment Advisory Committee ("EIAC") and the Board's investment consultant.

#### **II. STATEMENT OF PURPOSE**

This Policy is intended to identify investment guidelines and objectives as well as establish policies and procedures for monitoring the performance standards of the Fund. The Policy is intended to incorporate sufficient flexibility and guidance so as to accommodate current and future economic and market conditions and changes in applicable accounting, regulatory and statutory requirements. The Board expects to review the Policy periodically, and may utilize the services of investment consultants and other professional advisors in its review, to determine if modifications are necessary or desirable. The Board may amend this Policy in writing at any time, and in its sole discretion. The Board may deviate from this Policy as it deems



appropriate in the fulfillment of its responsibilities.

### **III. INVESTMENT OBJECTIVE**

The Fund seeks to provide stable principal value and a competitive level of interest income by investing in a diversified portfolio of high-quality investment contracts and other high-quality fixed income instruments. The performance of the Fund is expected to exceed the 3-Year Constant Maturity Treasury (CMT) over longer periods of time.

### **IV. INVESTMENT MANAGEMENT**

#### Stable Value Manager

A Stable Value Manager has been retained by the Board to cause the assets subject to this Policy to be invested in compliance with the Policy, subject to any additional restrictions included in the contractual agreement between the Stable Value Manager and the Board, as described in the investment management agreement, including the investment guidelines thereunder.

The Board has delegated the Stable Value Manager with investment advisory responsibilities and the provision of certain services with respect to the Fund's benefit responsive contracts and associated fixed income assets.

#### Stable Value Investment Contracts

The Stable Value Manager may invest in or cause the Plans to invest in Stable Value Investment Contracts. Stable Value Investment Contracts are issued by insurance companies, banks, and other financial institutions and are intended to help provide steady income and reduce investment volatility in the Fund. Generally, Stable Value Investment Contracts may allow for book value accounting and the ability for qualified withdrawals to occur from such contracts at book value (typically, deposited principal plus accrued interest less redemptions). The ability for investors in the Fund to transact at book value for qualified withdrawals is referred to as being benefit responsive.

Investment Contracts include, but are not limited to, insurance company Separate Account Contracts (SACs), Synthetic Investment Contracts (SICs), Bank Investment Contracts (BIGs), and insurance company General Account Contracts (GAGs) which are sometimes called GIGs. The Fund may also invest in funding agreements and other contracts agreements, or instruments intended to perform similarly to SICs, BIGs or GAGs.

The terms and conditions of a benefit responsive contract may restrict or require certain actions by the Board or the Stable Value Manager, custodian, Plans, or its agents and may limit the amounts and types of other investments held by the Fund.

The Stable Value Manager will generally provide the following benefit responsive contract services:

- Negotiate commercially reasonable terms for agreements or investments that provide benefit responsiveness, as well as investment vehicles that invest in contracts with benefit responsive characteristics;
- Enter into, direct or otherwise cause the Board to enter into any and all

documentation for one or more such agreements, investments, or investment vehicles including but not limited to, benefit responsive contracts or other investments that invest in benefit responsive contracts;

- Exercise complete and ongoing discretion concerning the benefit responsive contracts and other investments that invest in benefit responsive contracts, including monitoring creditworthiness, directing execution, termination, reallocation, rebalancing, setting crediting rates, deposits, withdrawals and any other administrative or operational functions required in the execution of the Fund's strategy; and
- Direct the Fund's custodian to facilitate the purchase, sale, transfer, liquidation, withdrawal, or deposit of funds between, out of, or into benefit responsive contracts, other investments that invest in benefit responsive contracts, fixed income portfolios, liquidity, or individual securities held by the Fund consistent with its liquidity needs, hierarchy structure, and investment strategy.

### Fund Characteristics

The following duration, maturity and quality rating requirements will apply to the Fund:

#### Duration and Maturity

- The Fund's total weighted average duration of the investments shall not exceed 5 years.
- Duration will be calculated using a reasonable market methodology.
- The maximum maturity of any GAC or BIC shall not exceed seven (7) years from date of settlement of such contract.

#### Quality Ratings

- The minimum average credit quality of the Fund shall be AA-.
- The minimum credit quality of a benefit responsive contract provider should be A- at time of placement by at least one Nationally Recognized Statistical Ratings Organization ("NRSRO") or, if not rated by an NRSRO, will be of comparable quality as determined by the Manager.
- The minimum credit quality of a permitted investment should be BBB- at time of purchase or placement by at least one Nationally Recognized Statistical Ratings Organization ("NRSRO") or, if not rated by an NRSRO, will be of comparable quality as determined by the Manager.
- The Manager shall evaluate the creditworthiness of counterparties to transactions including, but not limited to, derivatives, repurchase agreements, and TBAs.
- Should the Fund or a holding of the Fund no longer meet these minimums, the manager will determine the appropriate action (sell or hold) based on the perceived risk and expected return and any contractual requirements in any benefit responsive investment contracts.

### Permitted Investments

In the execution of the strategy of the Fund, the Stable Value Manager will have discretion to invest in a broad array of public and private asset classes, instruments and investment vehicles, including but not limited to the ones specified below. Investments shall be made in accordance with the applicable allocation limitations and minimum credit quality limitations set forth in the Sector Allocations, Additional Limits & Other Restrictions, and Quality Ratings sections of this

IPS.

1. Agencies: U.S. Agency Securities and Non-U.S. Agency Securities.
2. Agency CMO: An Agency Residential Mortgage-Backed Security identified in the market as a CMO.
3. Agency Residential Mortgage-Backed Security: An Asset-Backed Security where the security is backed by cash flows from Residential Mortgage Loans that are not pay-option adjustable rate Residential Mortgage Loans.
4. Agency RMBS: Agency Residential Mortgage-Backed Pass-through Securities and Agency CMO's.
5. Asset-Backed CP: A senior secured debt obligation of a special purpose vehicle (other than a structured investment vehicle), which obligation has an original maturity of 270 days or less from its date of issuance. See Commercial Paper.
6. Asset-Backed Security (ABS): A security or other instrument evidencing an interest in, or the right to receive payments from, or payable from distributions on, an asset, a pool of assets or specifically divisible cash flows which are legally transferred to a trust or another special purpose bankruptcy-remote business entity. The most common types of ABS are collateralized by mortgages, credit card receivables, or automobile loans and are typically structured as pass throughs or as structures with multiple bond classes, like a CMO. Credit enhancement can take the form of over collateralization, a letter of credit, a third party guaranty, or a senior/subordinated structure.
7. Bank Investment Contracts (BIGsBICs): A GAC that is issued by a bank.
8. Cash: Cash is U.S. currency or interests in collective investment trusts that are managed to provide daily liquidity and that permit unrestricted redemption of interests on one business day notice, or interests in money market mutual funds registered with the Securities and Exchange Commission.
9. Cash Equivalents: US dollar denominated securities with a maturity of 1 year or less or an effective duration of 6 months or less.
10. Commercial Mortgage-Backed Security (CMBS): An Asset-Backed Security where the security is backed by cash flows from mortgage loans (or participation interests therein) primarily secured by first liens on mixed-use, commercial, or multifamily properties.
11. Commercial Paper (CP): Asset-Backed CP and Corporate CP, which shall include 4(2) programs (see "Permissible 144(a) Securities"). No investment shall be made in any Commercial Paper issued by a structured investment vehicle. For the avoidance of doubt, the term "structured investment vehicle" shall not include conduit structures.
12. Corporate CP: means an unsecured debt obligation of a foreign or domestic corporation which obligation has an original maturity of 270 days or less from its date of issuance. The above-mentioned security types may be either U.S. or Eurodollar issues. See Commercial Paper.

13. Corporate Securities: Bonds or other evidences of indebtedness which are issued, assumed, or guaranteed by domestic or foreign corporations that (i) are eligible for inclusion in [BarclaysBloomberg U.S. Intermediate Corporate Bond Index](#) or (ii) would be eligible for inclusion in such index but for said bonds' having (1) not been registered under the Securities Act (but otherwise compliant with the exceptions to registration set forth in Section 3(a)(2) or Section 3(a)(4) of the Securities Act or is a Permissible 144A Security as defined herein), (2) not been publicly issued, (3) a floating rate of interest or coupon that steps up according to a predetermined schedule, (4) a current term to maturity of less than twelve months from the date of purchase, or (5) an issue size of less than \$250 million. "Corporate Securities" shall include Yankee and EuroBonds, but shall not include Commercial Paper.
14. Credit Default Swaps: Credit default swaps are a mechanism to either purchase or sell default insurance. As a purchaser of a credit default swap, the Manager pays a premium to enter into an arrangement that protects a portfolio holding in the event of a default. As a seller of a credit default swap, the Manager collects a premium for underwriting default insurance. Credit Default Swaps may reference a single entity or may be an untranchéd ~~COX~~ CDX transaction.
15. Derivative: A security which derives its value from movements in an underlying security, such as Credit Default Swaps, Forwards, Futures (including exchange traded Swaps Futures), Options, and Swaps. See Hedging Transaction and Replication Transaction.
16. Emerging Market Securities: Debt from emerging market countries as defined by the World Bank, which is based on a GNI per capita ratio. Any country with a GNI per capita not eligible to be classified by the World Bank as a high-income economy is an emerging market country. Emerging market debt covers a variety of securities including Brady bonds (typically denominated in U.S. dollars) and debt denominated in local currency.
17. Futures and Forwards: Futures and Forward contracts are agreements to buy or sell a specific amount of a financial instrument for a specific price or yield on a stipulated future or forward date. Unlike forward contracts, futures are traded on exchanges, which are regulated by the CFTC. Manager may use futures and forwards whose underlying instrument is a security or index of an asset type permitted in the guidelines. If non-U.S. dollar exposure is allowed, Manager may also use currency futures and forwards to hedge non-U.S. currency exposure.
18. General Account Contracts (~~GAGs~~ GACs): A stable value investment contract that is issued by an insurance company and is supported by the insurance company general account assets and surplus. The contract will typically specify a rate of return for a specific period of time, offer book value accounting, and will typically pay benefits to plan participants for qualified benefit responsive transactions. The insurance company owns the invested assets and the obligation to the contract-holder is backed by the full financial strength and credit of the contract issuer. These contracts are also known as "traditional guaranteed investment contracts".
19. Money Market Instruments: These assets include U.S. Treasury bills, U.S. government and agency securities, time deposits, bankers acceptances, or certificates of deposits that have a final maturity date not exceeding 397 days from the date of purchase and

a credit rating, if applicable, at the time of purchase of the equivalent of at least A-1 by Standard and Poor's or its equivalent by any other Rating Agency. Money Market Instruments shall include any investments satisfying the criteria for purchase under Rule 2a-7 promulgated under the Investment Company Act of 1940. Further, Repurchase Agreements and Commercial Paper as defined herein are to be categorized as Money Market Instruments:

20. Municipal Bonds ('Munis): Any note, bond or other evidence of indebtedness of a state, territory or possession of the United States of America, the District of Columbia or any political subdivision of any of the foregoing, as such terms are used and defined in the code or any specific lease under which a state or local governmental unit is lessee or certificate of participation therein.
21. Non-Agency Residential Mortgage-Backed Security (RMBS): An Asset-Backed Security where the security is (i) backed by cash flows from Residential Mortgage Loans that are not pay-option adjustable rate Residential Mortgage Loans and (ii) neither issued nor guaranteed by GNMA, FNMA, FHLMC, FHLB, VA, or NCUA.
22. Non-Agency RMBS: Prime Non-Agency.
23. Non-U.S. Agency Securities: Debt directly issued by a foreign government-sponsored entity, a wholly-owned agency of a foreign government, or related institution where such debt is fully and explicitly backed by the full faith and credit of a foreign federal government (whether in the form of a direct guaranty or an indirect guaranty that is expressly stated and not just implied).
24. Options: An Option gives the purchaser the right to buy or the seller the obligation to deliver a specified amount of a financial instrument for a specific price or yield on or before a specific date in the future.
25. Permissible 144A Security: A Rule 144A security that, in the case of Commercial Paper, has a minimum issue size of \$250M and is 2(a)-7 eligible or, in the case of bonds, including Corporate Securities, ASS, and CMBS, has a minimum issue size of \$250M and has registration rights or is eligible for resale under Rule 144A.
26. Prime Non-Agency: A Non-Agency Residential Mortgage-Backed Security where the security is backed primarily by cash flows from Residential Mortgage Loans with respect to which the weighted average credit (FICO) score of the borrowers thereunder was greater than or equal to 720 at the time of origination.
27. Separate Account Contracts (SACs): A stable value investment contract that is issued by an insurance company that is supported first by a segregated separate account that is held by the issuing company, and second by the insurance company general account assets and surplus. The insurance company owns the assets held in the separate account. The crediting rate on a SAC will reset periodically and is typically based on the earnings of the separate account assets. SACs offer book value accounting, and will typically pay benefits to plan participants for qualified benefit responsive transactions.
28. Synthetic Investment Contracts (SICs): A stable value investment structure that offers similar characteristics as a SAC. A SIC includes an asset ownership component and

- a contractual component that is intended to be valued at book value. The associated assets backing the contract are owned and held in the name of the plan. To support the contractual component of the SIC, the contract-holder relies first on the associated assets backing the contract, and second, to the extent those assets are insufficient, on the financial backing of the contract issuer. The crediting rate on a SIC will reset periodically and is typically based on the earnings of the associated assets. SICs offer book value accounting, and will typically pay benefits to plan participants for qualified benefit responsive transactions. SICs are issued by banks, insurance companies, and other financial institutions and are also known as "Synthetic GIGs", or "wraps".
29. Residential Mortgage Loan: A mortgage loan secured primarily by a first lien on a one-to four-family residential property located in the U.S. or one of its territories.
  30. Sovereign and Supranational Debt: Debt issued and backed by Sovereigns or supranational agencies, including but not limited to the World Bank and the European Union.
  31. Swaps: Swaps are contracts that allow two counterparties to exchange liabilities and include, but are not limited to, Interest Rate Swaps, Total Return Swaps, and swaptions. An Interest Rate Swap allows two counterparties to exchange their fixed and variable rate liabilities. A Total Return Swap allows for the exchange of the rate of return on an index, such as the ~~Barclays Capital~~ [Bloomberg](#) Aggregate [Bond](#) Index, for a variable interest rate. A swaption gives the purchaser the right to enter into a specified amount of a swap contract on or before a specified future date. Manager may use these instruments so long as the underlying instrument is a security or index of an asset type permitted in the guidelines.
  32. To Be Announced (TBA): A contract for the purchase or sale of Agency RMBS to be delivered at a future agreed-upon date.
  33. TIPS: U.S. Treasuries issued in the form of Treasury Inflation-Protected Securities.
  34. U.S. Agency Securities: Debt directly issued by a U.S. government-sponsored entity, a wholly-owned agency of the U.S. Government, or federally related institution where such debt is fully and explicitly backed by the full faith and credit of the federal government of the United States of America (whether in the form of a full guaranty or an indirect guaranty of such debt or other similar arrangement that is expressly stated and not just implied).
  35. U.S. Treasuries: Bonds or other evidences of indebtedness issued by the U.S. Department of the Treasury.
  36. Yankee/Euro Bonds: Yankee bonds are U.S. dollar-denominated securities issued by non-U.S. issuers or foreign subsidiaries of U.S. issuers and are predominantly traded in U.S. markets. Eurobonds are traded in the global marketplace. Issuers of Eurobonds may be domiciled in or outside of the U.S. Global bonds are a hybrid of Yankee and Eurodollar bonds. Like Yankee bonds, global bonds are U.S. dollar denominated and issued by non-U.S. issuers or foreign subsidiaries of U.S. issuers, though they are issued and traded in both the U.S. (Yankee) and Euro markets simultaneously.

## Prohibited Investments

Unless otherwise granted an exception by the Board, the Stable Value Manager will not invest assets of the Fund directly in:

- Securities whose issuer is in bankruptcy at the time of purchase
- Commodities
- Equities (excluding shares of Pooled Funds, bank STIF accounts and US money market funds and equities distributed as part of a bankruptcy or reorganization)
- Direct ownership of real estate or real property

### Stable Value Investment Contract Allocations

Contact Types	Maximum Contract Value Allocation
Synthetic Investment Contracts (SICs)	100%
Separate Account Contracts (SACs)	0%
General Account Contracts (GAGs)	0%
Bank Investment Contracts (BIGs)	0%

### Sector Allocations

<a href="#">Barclays</a> <a href="#">Bloomberg</a> Aggregate <a href="#">Bond</a> Index Class Code 1/11	Maximum Allocations	<a href="#">Barclays</a> <a href="#">Bloomberg</a> Aggregate <a href="#">Bond</a> Index Class Code II	<a href="#">Barclays</a> <a href="#">Bloomberg</a> Aggregate <a href="#">Bond</a> Index Class Code III/IV	<a href="#">Barclays</a> <a href="#">Bloomberg</a> Class Code III/IV Maximum Allocations
Treasuries	100%	Treasuries	Treasuries	100%
Government Related	100%	Agencies	Government Guarantee	40%
			Owned No Guarantee	40%
			Government Sponsored	40%
		Local Authorities	Local Authorities (Munis)	5%
		Supranational	Supranational	15%
		Sovereign	Sovereign	10%
Securitized (Agency MBS)	55%	MBS Passthrough	Agency Fixed Rate (GNMA, FNMA and FHLMC)	55%
			Agency Fixed Rate (FHLB, VA, NCUA)	20%
			Agency Hybrid Arms	10%
		CMO	CMO (Agency only)	30%
Non-Agency	10%		Prime Only	10%

RMBS*				
Securitized (CMBS)	15%	CMBS	CMBS (Senior Only)	15%
Securitized (ABS)	25%	ABS	Credit Card	15%
			Auto Receivables (Prime Only)	10%
			Student Loan	10%
			Rate Reduction Bonds	5%
			Senior CLO (AAA-Only)	5%
Corporates	45%	Industrial		30%
		Utility		30%
		Financial Institutions		25%

\* Non-Agency RMBS does not have a [Bloomberg Index Barclays](#) Class Code.

#### Additional Limits & Other Restrictions

Security or Investment Type	Security	Aggregate
	Maximum	Limits
Cash and Money Market Instruments	100%	
Repurchase Agreements	25%	
Commercial Paper	25%	
Corporate CP	25%	
Asset-Backed CP	10%	
TIPs	40%	
Permissible 144A Securities	20%	
Agency MBS TBAs	50%	
Agency MBS and Non-Agency RMBS		60%
Non-Agency RMBS, Securitized (CMBS), and Securitized		40%
Non-U.S. Agencies, Supranational & Sovereigns, Yankee and EuroBonds, Eurodollar Corporate CP, and Non-U.S. Denominated Securities (including Emerging Markets)		40%
Yankee and Euro Bonds	20%	
Non-U.S. Denominated Securities**	<i>n/a</i>	
Emerging Markets	5%	
Foreign Currency Exposure (net)**	<i>n/a</i>	
Currency Futures and Forwards**	<i>n/a</i>	
Eurodollar Futures	±30%	
Treasury Futures	±25%	
Exchange-traded Options	15%	±30%



Interest Rate Swaps	±15%	
Total Return Swaps & Asset Swaps	5%	
Purchase Credit Default Swaps	10%	10%
Sell Credit Default Swaps	10%	

\*\* All assets must be USD denominated.

As a means of obtaining diversified fixed income exposure in an effective manner, upon approval of the Board, in writing, the Stable Value Manager may invest in shares of one or more other pooled funds that the Stable Value Manager believes are similar to or consistent with the credit criteria and investment objectives of the Fund.

#### Crediting Rate Calculation

The Stable Value Manager will consolidate information to calculate each benefit responsive contract crediting rate as necessary and provide such information to the Board, the Custodian, and benefit responsive contract provider, and communicate reset crediting rates to the Board, the Custodian and any other party as directed by the Board and assist the Custodian in reconciliation of benefit responsive contracts and portfolio valuation. The Stable Value Manager will work with the Board to calculate a blended crediting rate for the next immediate calendar quarter that is representative of the expected return on all of the benefit responsive contracts and unwrapped assets of the fund for the next immediate calendar quarter.

## **V. PERFORMANCE EVALUATION**

The Fund will be benchmarked against the 3-Year Constant Maturity Treasury (CMT). Additionally, each fixed income investment strategy employed by the Stable Value Manager will be benchmarked against the Bloomberg [Barclays](#)-Intermediate Government Credit [Bond](#) Index for measuring the strategy's return on a market value basis.

Fund evaluations will be conducted by an appropriate third-party provider, the Employee Investment Advisory Council ("EIAC"), or the Montana Board of Investments. The Fund's performance will be reviewed periodically in an effort to identify adverse performance trends, and if necessary, take steps to rectify them. Should it be determined that the Fund has a sub-standard performance evaluation or other negative indicators, it may be recommended for one of the following statuses by EIAC.

### 1. Review Status

- a. "Review" generally means that factors, including but not limited to performance, bear ongoing assessment and analysis for future action.
- b. Investment alternatives in a review status typically will be elevated to a "probation" status prior to termination.

### 2. Probation Status

- a. "Probation" generally means that factors, including but not limited to

performance, bear a higher level of assessment and analysis.

- b. Investment alternatives typically will be in a probation status prior to termination.
3. Continue an existing "Review" or "Probation" status
4. Termination
- a. The Fund will generally be terminated only when ongoing assessment and analysis over a reasonable period of time warrant termination. The reasonable period of time may vary depending upon the factors being assessed, and extent of the lapse from the established measures or potential harm to participants. Considerable judgement after thorough and documented analysis must be exercised in the termination decision process.

The EIAC will report the evaluation results and EIAC's recommendations to the Board, which will make the final determination as to action regarding the Fund's status. Additionally, EIAC will state the rationale for their recommendations, expectations for future actions and intended timelines. Plan investment alternatives which have been placed on a review or probation status by the Board will be evaluated on a quarterly basis.

## **VI. PROCEDURES FOR REPLACEMENT**

The Board will conduct a comprehensive and systematic search for the selection of the Stable Value Manager, consistent with the investment selection guidelines detailed in the State of Montana Investment Policy Statements for the Plans.

## **VII. CONCLUSION**

It is understood that the guidance set forth in this Policy are meant to serve as a general framework for prudent investment management and evaluation of investment performance of the Fund. Changing market conditions, economic trends or business needs may necessitate modification of this Investment Policy Statement. Until such modification this document will provide the investment objectives and guidelines for the portfolio, subject to the caveats stated herein.

## **VIII. HISTORY**

Approved \_\_\_\_\_

Amended \_\_\_\_\_