

MONTANA PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION

TITLE: State of Montana Investment Policy Statement
401(a) Defined Contribution Retirement Plan

POLICY NO: BOARD Admin 11

EFFECTIVE DATE: 04/11/2024

I. INTRODUCTION

The State of Montana Public Employee Defined Contribution Plan (the “Plan”) was formally adopted by the 1999 legislature and began operation in 2002. The Plan is a qualified pension plan established for the exclusive benefit of participants and their beneficiaries.

The Montana Public Employees’ Retirement Board (the “Board”), the plan sponsor, is the named fiduciary of the Plan. Participants make individual investment decisions, subject to the investments offered under the Plan and, ultimately, bear the risks and rewards of investment returns. The Board has the duty to ensure the investment alternatives offered to Participants:

1. are prudent investments;
2. are diversified appropriately with materially different risk and return characteristics;
3. allow Participants the opportunity to exercise control; and
4. allow Participants to choose from a broad range of investment alternatives.

The purpose of this Investment Policy Statement (the “Policy”) is to:

1. provide investment guidelines for a long-term retirement-savings vehicle which permits Participants to invest employer and participant contributions on a tax-deferred basis;
2. create procedures and processes that allow the Board to meet its fiduciary responsibilities and evaluate the progress of the Plan, and;
3. address the duplication of investment alternatives between the Plan and the State of Montana 457(b) Deferred Compensation Plan (the “457(b) Plan”) while ensuring the above responsibilities, established investment structures,

and procedures for review and changing investment alternatives are met.

The Board will review this Policy periodically and can make modifications, in whole or in part, at any point in time.

II. OBJECTIVES

It is the intent of the Board to make available a broad range of diversified investment alternatives that have varying degrees of risk and return that allow participants, by choosing among such investment alternatives, the opportunity to diversify their account balances and construct portfolios consistent with their unique individual circumstances (e.g. age, income, and individual retirement goals).

It is also the intent of the Board to offer a series of asset allocation funds that allow participants to choose a single fund that is based on their expected target retirement date. Each target date fund includes a professionally managed portfolio where the investment manager adjusts and rebalances the allocation of investments over time to reduce the expected risk as each fund progresses toward its target date.

III. INVESTMENT ALTERNATIVES

The Board will maintain investment alternatives in the Plan. The investment alternatives must include a fixed income alternative and a stable value alternative. The investment alternatives may include publicly traded mutual funds, separate accounts, and/or commingled funds.

Investment guidelines for the stable value alternative are specified in a separate investment policy statement, within the “State of Montana Public Employees’ Pooled Trust – Montana Fixed Fund”. As such, the remainder of this Policy does not apply to the stable value alternative.

A. Investment Spectrum Guidelines

The Board expects to offer investment alternatives in the following categories, which may include active and/or passive fund management:

1. Bonds
2. US Large-cap equity
3. US Small/Mid-cap equity
4. International equity
5. Real return
6. Target date funds

The Board may offer additional investment alternatives such as, but not limited to, risk profile/asset allocation funds. The Board may also change the categories of investment alternatives to meet Participants’ changing needs or changes in the investment industry.

B. Investment Selection Guidelines

The minimum criteria for selecting and evaluating investment alternatives are:

1. Requirements:

Investment alternatives must:

- a. have a minimum of 3 years of measurable operating history. A fund that has not been operating for at least 3 years may be measured by its investment manager's history of at least 5 years operating funds that have similar management and investment objectives as the fund being measured. The investment manager's relevant operating history may consist of the management of commingled funds, mutual funds, or a composite of funds. A composite is a group of "separate account" funds managed under the performance standards of the CFA Institute.
- b. have no front or back-end load fees.

2. Quantitative Measures:

Actively managed investment alternatives are expected to:

- a. Meet or exceed the performance of an appropriate benchmark over a market cycle (3 to 5 years).
- b. Meet or exceed the median return of an appropriate peer group over a market cycle (3 to 5 years).
- c. Have competitive and reasonable fees.
- d. Adhere to stated investment objectives and style discipline over time.
- e. Have sufficient investment strategy and fund assets under management.

In addition to the expectations for actively managed investment alternatives, target date funds will be:

1. Measured against appropriate composite indices and peer groups.
2. Have the underlying investment funds measured against the appropriate index and the asset allocation compared to stated target weight objectives as established by the target date fund prospectus or similar disclosure.

Passively managed investment alternatives are expected to:

- a. Track the return and risk characteristics of a specific index.
- b. Have competitive and reasonable fees.
- c. Have sufficient investment strategy and funds under management.

Investment alternatives with strong performance records over longer time periods, such as ten years, may be retained within the Plan even if the investment alternative has underperformed peers or benchmarks over shorter time periods. Rolling 5-year periods, when available, is to be used when analyzing the above quantitative measures.

3. Qualitative Measures:

Investment alternatives will be reviewed for qualitative or non-quantifiable measures, including but not limited to:

- a. Investment philosophy and process, including the strategy objective, discipline, valuation process, implementation, and research capabilities, and any changes over time;
- b. Personnel structure, including portfolio manager and research team experience, quality, tenure, and any continuing or recent turnover;
- c. Business goals and structure, including ownership, compensation, and incentive practices; and
- d. Industry standard operations and technology platforms.

4. Duplication of Investment Alternatives:

Investment alternatives within the Plan and the 457(b) Plan may be the same to the extent that all criteria, benchmarks and other requirements of the Plans' Policies are met. When determining if duplication of investment alternatives is appropriate, the Board will exercise its fiduciary responsibilities by also assessing the continued ability for Participants to diversify, and cost efficiencies that may either be gained or lost by the duplication.

C. Evaluation of Investment Alternatives

Investment alternative evaluations will be conducted by an appropriate third-party provider, the Employee Investment Advisory Council (EIAC), or the Montana Board of Investments. Although investment alternatives are chosen with long-term expected return and risk profiles in mind, the performance will be reviewed periodically in an effort to identify adverse performance trends, and if necessary,

take steps to rectify them. Investment alternatives that are determined to have a sub-standard performance evaluation or other negative indicators 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 using the quantitative and qualitative measures established in Sections II and III B.
- b. Investment alternatives typically will be in a probation status prior to termination.

3. Continue an existing “Review” or “Probation” status

4. Termination

- a. Investment alternatives 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 investment alternative’s class and category, 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.

5. Investment Alternative Replacement

In the event a replacement investment alternative is needed, it is reasonable that a viable replacement may exist in the 457(b) Plan. It is also reasonable, in the event an investment alternative within the same asset class and category is discontinued within the Plan and the 457(b) Plan, that the replacement option could be the same across both Plans.

The EIAC will report the evaluation results and EIAC’s recommendations to the Board, which will make the final determination as to the action regarding the investment alternative’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.

D. Closure of an Investment Alternative

The Board will notify participants in a to-be terminated investment alternative to transfer their fund balance to another investment alternative within a reasonable period of time (usually 3 months). If a participant fails to transfer a fund balance in the time provided, the Board will direct the transfer of the fund balance from the terminated investment alternative to an investment alternative similar in investment category and style selected by the Board to replace the terminated investment alternative. If a terminated investment alternative is not replaced, the Board may direct the transfer of the fund balance into an existing investment alternative with similar objectives and strategies or to the default investment alternative.

IV. CONSTRAINTS

- A. Liquidity Needs: Participants may, on a daily basis, move their assets from one investment alternative to another, subject only to the limitations set by the specific investment alternative. The Board seeks to offer a range of investment alternatives within the plan that provides sufficient liquidity to accommodate participant-driven transfers and withdrawals.
- B. Time Horizon: Time horizons vary for individual participants. Because participants direct their own investments, there is no specific time horizon expressed for the total Plan.
- C. Tax Considerations: The Plan is exempt from federal and state income taxes. Participants' contributions to the Plan are not taxed. The appreciation of Participants' assets in the Plan is not taxed. Therefore, tax-advantaged investments are not offered by the Board.
- D. Legal Considerations: The Plan is governed by applicable federal and state statutes and regulations, including Section 401(a) of the Internal Revenue Code of 1986, as amended, and Title 19, chapters 2 and 3 of the Montana Code Annotated. MPERB's Defined Contribution Plan Document provides additional legal information.

V. CROSS REFERENCE GUIDE

Section 19-3-2104, MCA Section 19-3-2122, MCA ARM 2.43.1002
Transferred to ARM 2.43.3502

VI. HISTORY

Approved July 12, 2002
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