



Montana

Board Of Investments

Fiscal Year 2010 Annual Report

MONTANA BOARD OF INVESTMENTS

Department of Commerce

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PO Box 200126

Helena, MT 59620-0126

www.investmentmt.com

The Honorable Brian Schweitzer, Governor

BOARD MEMBERS

◆ ***Terry Moore, Chair***

Executive Vice President & Chief Financial Officer

First Interstate Bank

Billings

Term Ending 01/01/2011

◆ ***Elouise Cobell***

Chair

Blackfeet National Bank

Browning

Term Ending 01/01/2013

◆ ***Karl Englund***

Attorney

Missoula

Term Ending 01/01/2011

◆ ***Patrick McKittrick***

Attorney

Great Falls

Term Ending 01/01/2013

◆ ***Jon Satre***

President - Partner

Gordon, Prill, Drapes, Inc.

Helena

Term Ending 01/01/2011

◆ ***Senator Greg Barkus***

Senate Liaison

Kalispell

◆ ***Teresa Cohea***

Vice President

D.A. Davidson & Co.

Helena

Term Ending 01/01/2013

◆ ***Maureen Fleming***

Retired - Professor of Management

University of Montana, Missoula

Term Ending 01/01/2011

◆ ***Jack Prothero***

Retired - Financial Representative

Great Falls

Term Ending 01/01/2013

◆ ***Jim Turcotte***

Financial Adviser

Raymond James Financial Services

Helena

Term Ending 01/01/2013

◆ ***Representative Brady Wiseman***

House of Representatives Liaison

Bozeman

MONTANA BOARD OF INVESTMENTS
Staff as of June 30, 2010

- ◆ **Carroll V. South**
Executive Director
- ◆ **Geri Burton**
Deputy Director
- ◆ **Louise Welsh**
Bond Program Officer
- ◆ **Mary Noack**
Network Administrator
- ◆ **Carol Ann Augustine**
Office Manager - Board Secretary
- ◆ **Sara LaFontaine**
Administrative Assistant
- ◆ **Gayle Moon, CPA**
Accounting Fiscal Manager
- ◆ **Polly Boutin**
Accountant
- ◆ **Roberta Diaz**
Accountant
- ◆ **Rachel Fairbank**
Accountant
- ◆ **April Madden**
Accountant
- ◆ **Herbert Kulow, CMB**
Sr. Portfolio Manager – Montana Investments
- ◆ **Nancy Rivera**
Credit Analyst – Montana Investments
- ◆ **Clifford A. Sheets, CFA**
Chief Investment Officer
- ◆ **Richard Cooley, CFA**
Portfolio Manager – Fixed Income/STIP
- ◆ **Rande Muffick, CFA**
Portfolio Manager – Domestic & International Equities
- ◆ **Nathan Sax, CFA**
Portfolio Manager – Fixed Income
- ◆ **Jon Shoen, CFA**
Portfolio Manager – Alternative Investments
- ◆ **Daniel Zarling, CFA**
Director of Research
- ◆ **Jason Brent**
Investment Analyst
- ◆ **Tim House**
Investment Operations Chief
- ◆ **Edward Kelly**
Investment Analyst
- ◆ **Teri Kolnik**
Investment Analyst
- ◆ **Jon Putnam, CFA, FRM**
Investment Analyst
- ◆ **John Romasko, CFA, CPA**
Investment Analyst
- ◆ **Steve Strong**
Investment Analyst

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INTRODUCTION

The Montana Board of Investments (Board) is pleased to submit its Annual Report for the fiscal year ended June 30, 2010. This report, required by law, discloses investment performance for the past fiscal year, summarizes the in-state investment activities of the Board, and provides public access to audited financial statements. Unless otherwise noted, all references to years in this report are state fiscal years beginning July 1 and ending June 30.

General Board Responsibilities

Unified Investment Program - Article VIII, Section 13 of the Montana Constitution requires that the legislature provide for a unified investment program for public funds and that the program be audited annually. Section 17-6-201, MCA established the unified investment program, created the Board, and gave the Board sole authority to invest state funds in accordance with state law and the state Constitution. State law requires that the Board operate under the "prudent expert principle," defined as: 1) discharging its duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; 2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return; and 3) discharging its duties solely in the interest of and for the benefit of the funds managed.

Prior to the Board's assumption of the state's investment program, state funds were invested by individual state agency staff, usually on a part-time basis. The creation of the Board in 1972 permitted a full-time professional investment staff to invest all state and (at the discretion of local governments) local government funds. At its first meeting in August 1971 the Board established four major goals:

- to centralize the state's investments;
- to invest the state's idle cash;
- to increase earnings on the state's investments; and
- to establish a sound system of control over the investment process, including provisions for systematic financial reporting, measurement of investment results, and a regular independent audit.

The unified investment program has grown from a book value of \$321 million at year-end 1972 to a book value of \$12.09 billion at year-end 2010 - an annual average increase of 10.0 percent. During the same period, the number of accounts invested by the Board increased from 40 accounts to 496 accounts. The Board's financial statements are audited annually by the Legislative Auditor.

[Click here to view the financial statements and independent auditor's report](#)

In-State Investments - In addition to the Board's primary role of managing the state's unified investment program, the Board assists in Montana's economic development. Montana law (17-6-304, MCA) states that the "objectives for investment of the Permanent Coal Tax Trust Fund are to diversify, strengthen, and stabilize the Montana economy, and to increase Montana employment and business opportunities while maintaining and improving a clean and healthful environment." Section 17-6-305, MCA, states that "the Board shall endeavor to invest 25 percent of the Permanent Coal Tax Trust Fund . . . in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises." In addition to the 25 percent dedicated to this loan program, the Board manages three other loan programs from the Trust; "the Infrastructure Loan Program with an \$80.0 million allocation, the Value-Added Loan Program with an allocation of \$70.0 million, and the Intermediary Re-lending Program with an allocation of \$5.0 million.

Commercial/Infrastructure/Value-Added Loans - The Board manages these programs in conformance with the "prudent expert principle" and does not invest solely to improve Montana's economy. Operating the in-state investment program under the "prudent expert principle" has not prevented the Board from effectively investing the Trust to spur Montana's economy. Since the program's inception in 1984 through 2010, the Board has funded 1,258 loans totaling \$635.7 million in 44 of Montana's 56 counties. Loans funded by county are shown on Page 43.

Mortgages - The Board also purchases Montana mortgages with pension funds as a part of the in-state investment program. At year-end 2010 the Board held Montana mortgages with total book values of \$35.8 million. The Board serves as a secondary market to qualified financial institutions in the in-state investment programs and does not lend directly to borrowers.

Bond Program - As a part of the Board's in-state investment activities, it also sells bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to fifteen years, and short-term loans are also available to finance cash flow deficits or interim financing. Both the bond program and the in-state investment program, funded from the Permanent Coal Tax Trust, were created in fiscal year 1984 as part of the "Build Montana" program. Since the program's inception, \$325.1 million has been loaned to eligible governments. Additional information on the bond program is shown beginning on Page 45.

Securities Lending - Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. Investment firms borrow securities to cover short positions, failed deliveries, arbitrage trades, and other brokerage activities. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program and retains 20 percent of the income generated as compensation for managing the program. The state earned securities lending income of \$4,590,877 in 2010, compared to \$13,902,332 in 2009. Because this program is demand driven by the markets, earnings are volatile.

Board Operations

Board Staff - The Board is comprised of nine members appointed by the Governor to staggered four-year terms. The Board also has two non-voting legislative liaisons, from different political parties; one appointed by the President of the Senate and one appointed by the Speaker of the House. The Board employs a Chief Investment Officer and an Executive Director who hire staff as authorized by the legislature. There are currently 33 full-time equivalents authorized. Board staff also provides administrative support to the Montana Facility Finance Authority.

Board Administrative Costs - The investment portion of Board operations is funded by administrative charges against the funds it invests, while the bond program is primarily funded by the "spread" between the interest paid on bonds issued and interest received on loans made. Effective in 1998, the legislature has set the maximum fees the Board may charge in the investment program. The total investment fees charged, which includes BOI fees, external manager fees, and custodial bank fees are shown in the financial statements.

Board Policies and Procedures

Investment Policies - The Board adopts an investment policy for each individual fund it invests, except for funds investing in STIP only. The policies are tailored to the specific needs of the fund and are implemented only after consultation with the administrators of the funds. Asset allocations and

investment time horizons are established by policy, as are the benchmarks against which investment performance is measured.

Benchmarks - The Board establishes benchmarks for each asset class and the custodial bank develops a composite benchmark for each pension fund that parallels the fund's asset allocation at market value.

Board Meetings – Regular Board meetings are held quarterly. Meeting dates, agendas, and minutes are posted on the Board’s web page at www.investmentmt.com. All Board decisions are discussed and voted on in meetings open to the public.

Report Content

This report contains historical data from 1972 (the first fiscal year the Board managed the unified investment program) through 2010. All historical data were extracted from the Board's annual published reports. Statistical data are provided on the Board's investment activity in 2010 and changes in investments from 2009. Links are provided for other pertinent information not included in the report.

Report Terminology

Book Values of fixed-income investments represent the securities' par values, plus or minus amortized premiums or discounts. Book value of equity securities is the average cost of the securities at the time of purchase.

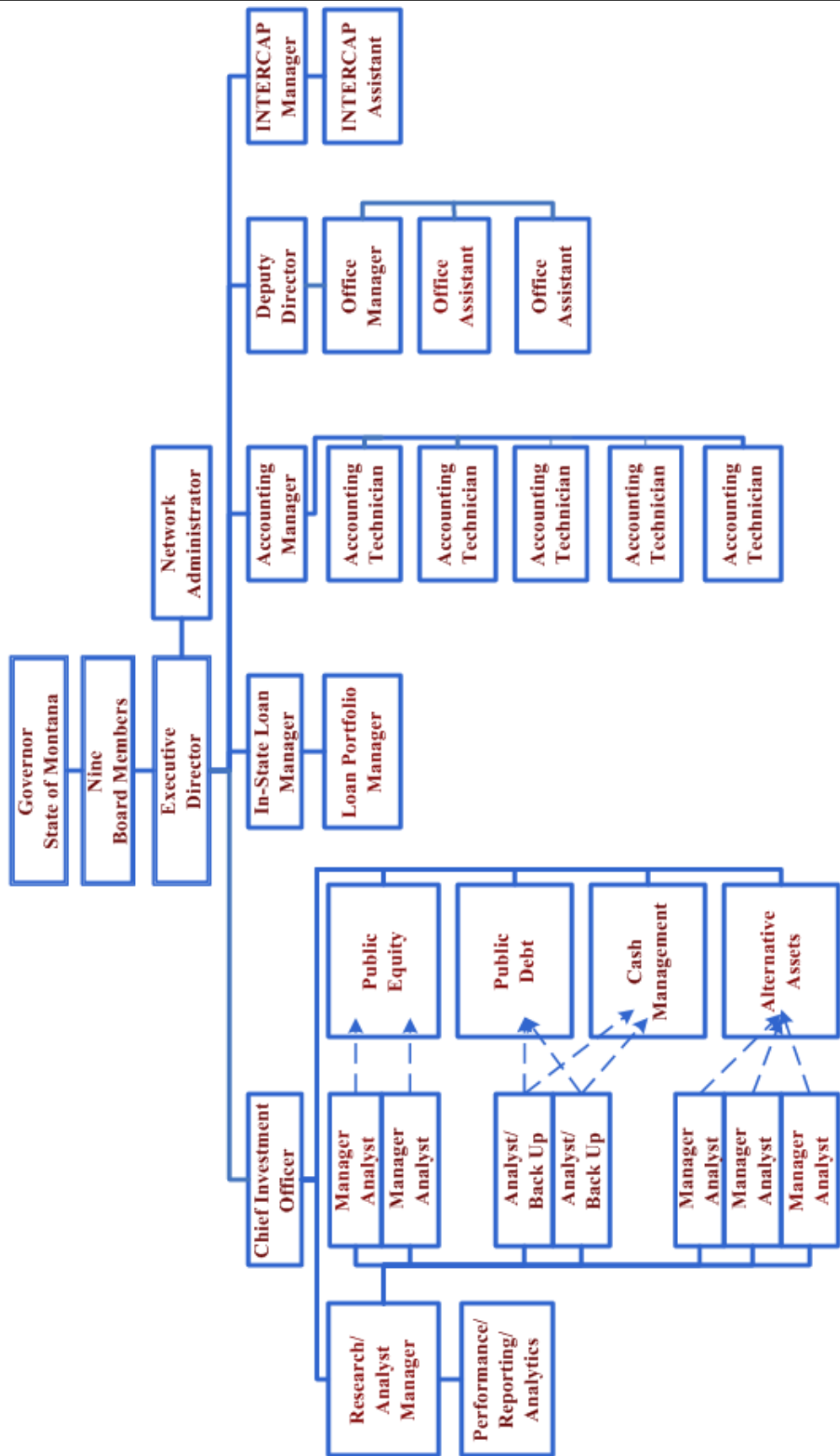
Fair Market Values reflect the value of securities on June 30 as priced by the custodial bank, or other sources.

Net Asset Value (NAV) as it relates to investment pools reflects the fair value of the pool securities, adjusted for payables, receivables, and cash on hand at year end. The aggregate fair value of the pool units held by pool participants equals the NAV of the pool.

Income Return utilizes actual invested balances and investment income as recorded in the state accounting system. The calculation divides the annual net income by one-half the sum of the beginning and ending invested balances. The income includes interest, dividends, amortization of premiums/discounts, securities lending income, and distributed realized gain/loss. The calculation is performed by Board staff. Income return does not consider any change in the fair market value of the portfolio during the period.

Total Rates of Return, calculated by the custodial bank, includes all investment income and the unrealized gains/losses resulting from annual changes in the market value of investments, after cash flows are netted. For periods longer than one year, the returns are compounded and annualized. The total rate of return is used by the Board to compare investment staff performance to various stock/bond indices selected by the Board.

Montana Board of Investment Functional Organization Chart



Approved February 10, 2010

ECONOMIC & FINANCIAL MARKETS OVERVIEW

Fiscal Year 2010 witnessed a dramatic recovery in the economy and capital market conditions. Although it has yet to be officially declared, the end of the recession is estimated by many economists to have occurred sometime in the third quarter of calendar 2009. If there is currently an official economic recovery underway, it is shaping up as a relatively weak recovery considering the severity of the downturn. Assuming the last year marked the end of the “Great Recession,” there are still millions of unemployed whose prospects for finding a job remain limited given the slow pace of recovery.

Despite the severity of the recession, the positive trend was greeted with enthusiasm in the capital markets. The performance of both equities and credit, or risk assets in general, bottomed in the first quarter of calendar 2009, and gained traction over the balance of the year. The rally in risk assets continued trended upward until the first quarter of calendar 2010 when it began to lose momentum. Stocks peaked during January, then faded for a month and rallied to a new high in late April. However, during the remainder of the second quarter, stocks and low quality corporate bonds fell. Investment grade fixed income reacted positively to the concerns that suppressed stocks and posted a strong finish to the end of the fiscal year.

In summary, 2010 was a fiscal year marked by capital market recovery in reaction to the anticipated end of the recession. The recovery in asset values was reflected in pension plan performance that turned strongly positive, although the weak stock market during the last quarter of the fiscal year dampened returns. The 2010 fiscal year return for the nine pension plans was 12.85 percent net of fees, as compared to the fiscal year 2009 return of negative 20.67 percent net of fees. While the 2010 return was a vast improvement, it did not compensate for the previous two years of negative returns. The longer term plan returns remained weak with an annualized three year return of negative 5.21 percent, five years return of positive 1.84 percent, and ten years returns of positive 2.35 percent.

Returns were particularly strong for those assets that were beaten down the most during the bear market. For the fiscal year, the plans enjoyed a 13.90 percent return from public stocks, with domestic stocks up 15.91 percent and international stocks up 9.94 percent. Bonds, which represent the next largest public asset class after stocks, also experienced high returns during the fiscal year, returning 14.38 percent. This is unusual for the bond market in a recovery year for the economy when interest rates are typically rising. Bond returns were enhanced by allocations to Core-Plus and High Yield strategies within the Retirement Fund Bond Pool, which did especially well as investors stretched for income once the credit markets stabilized. Interest rates declined moderately over the course of the fiscal year which acted to bolster government bond returns, but the best performing sectors in the bond market were the so-called spread sectors, primarily corporate bonds, and certain areas within the securitized markets. As bankruptcy risk faded, corporate bond risk premiums shrank and corporate bond returns more than doubled that of U.S. Treasury securities.

Alternative assets held by the funds include private equity and real estate investments. Performance for these asset classes diverged during the fiscal year as private equity returns turned strongly positive while real estate continued to suffer. Because of the inherent reporting lag for these assets their valuations typically lag the public markets by one quarter. Private equity valuations, which tend to be sensitive to public equity prices, turned upward beginning mid-year 2009 and continued to increase over the balance of the fiscal year. Private equity returned in excess of 18 percent for the fiscal year. Real estate valuations, however, continued to decline during the fiscal year, though began to show signs of stabilization during the spring of 2010. The fiscal year return for private real estate was more than 17 percent negative. Occupancy and leasing rates continue to suffer, compounded by an ongoing lack of available credit for many commercial properties.

Pension fund asset allocation changes during the fiscal year were driven by both market moves and transaction activity. Total public stock holdings fell slightly over the course of the year, ending at a total of 50.4 percent of pension portfolios. Sales of domestic stocks were made after the large market rally, beginning in the fall of 2009 through the spring of this year. These proceeds were primarily used to add to the real estate allocation, and to a lesser extent private equity and international stocks, as well as to help pay plan benefits. The portfolio allocation to fixed income was down about one percent and ended the fiscal year at 29.1%. Fixed income sales were minimal and occurred early in the fiscal year in order to bolster liquidity needed to pay plan benefits and fund the private asset pools, much like the pattern during the prior fiscal year. The allocation to both private equity and real estate increased during the fiscal year, ending at 13.1 percent and 5.7 percent respectively. The increase in private equity reflected both ongoing allocation additions as well as the positive returns. Given the decline in valuations throughout the fiscal year, the increase in the real estate allocation was driven by increased investments. The new funds allocated to real estate were primarily used to purchase open-end core real estate funds during the second half of the fiscal year while draw downs of prior closed-end fund commitments remained slow for much of the year. There was little change in the cash level of the portfolios over the fiscal year, ending at 1.8 percent of assets. Cash was kept low given the extremely low yields available and higher priority uses of liquidity to pay benefits and invest in longer term assets with higher return potential.

The Board chose not to invest in hedge funds at its May meeting. At year-end a decision had not yet been made on investing in additional strategies that represent “real assets” as broadly defined to include such things as commodities and timberland. The Board at its August meeting approved an allocation to timberland and chose not to invest in commodities.

Risk aversion led to negative returns for equities and low quality bonds during the second calendar quarter after perceptions of the economic recovery began to change in May. U.S. stocks fell 11 percent during the quarter, and were down 16 percent from the April high while Treasury rates in the fixed income market fell significantly as investors sought safety. Anxiety regarding Europe’s sovereign debt crisis and a potential policy overshoot in China’s efforts to dampen real estate speculation caused many investors to question the economic recovery. Three months of weaker-than-expected U.S. employment data and other measures of economic activity confirm that the strong initial growth coming out of the bottom of the recession has slowed. Market confidence remains fragile and there are many concerns facing investors. Aside from doubts surrounding the consumer there are questions regarding fiscal policy and regulatory changes that will continue to present uncertainty. But while the pace of economic growth appears to be slowing, the recovery is still intact and, according to most economists, appears likely to be sustained.

The financial crisis that began in earnest during the fall of 2008 was arguably the worst seen in the U.S. and the rest of the world since the Great Depression. Lessons learned in that era sparked a concerted response by the fiscal and monetary authorities in this country, and to varying degrees across the globe, which eventually succeeded in restoring confidence in the financial system. In this long term context, current market jitters notwithstanding, we are likely to see less volatility in the capital markets in fiscal year 2011 than that experienced during the past two years. The pension portfolios are well-positioned for this more stable economic environment.

TOTAL FUND

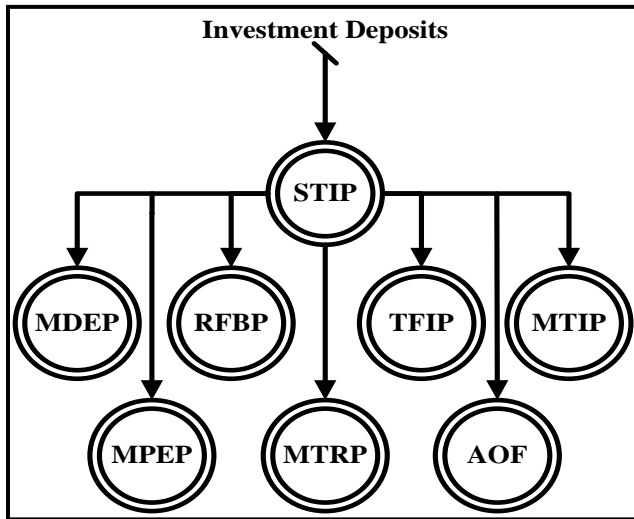
The Total Fund is comprised of all state and local government funds invested by the Board. Fund types invested include pensions, trusts, insurance, debt service, state agency and higher education operating accounts, and local government funds. Unless otherwise provided by law, the Board must invest all state funds. Local governments at their discretion may invest funds with the Board. All local government funds are invested in the Short Term Investment Pool (STIP). During the year the Board invested 496 individual accounts, consisting of 320 state agency accounts and 176 local government accounts. The tables below show the June 30, 2010 fair value of invested assets by major fund type and individual funds.

Fund Type	Cash Equivalents	Public Stock	Fixed Income	Mortgage/ Loans	Other (1)	Total
Pensions	118,143,962	3,300,778,543	1,867,210,462	35,527,234	1,226,297,764	6,547,957,966
Trusts	205,670,905	761,159	1,864,093,127	205,427,525		2,275,952,716
Insurance	136,383,310	110,790,189	1,026,600,894			1,273,774,393
Treasurer's	828,267,153		82,427,004			910,694,157
Local Gov.	358,539,815					358,539,815
Agency Cash	374,971,130		17,815,868			392,786,998
Universities	105,592,053	942,076	56,543,391			163,077,519
Debt Service	51,621,780					51,621,780
Total	2,179,190,108	3,413,271,967	4,914,690,745	240,954,759	1,226,297,764	11,974,405,342

(1) Private Equity, and Real Estate

Fund	Fair Value \$	Fund	Fair Value \$
Public Employees' Retirement	3,304,243,795	Montana Pole	31,910,843
Teachers' Retirement	2,491,322,409	FWP License Account	31,647,113
State Fund Insurance	1,125,169,366	Butte Area One Rest	30,477,055
Treasurer's Fund	910,694,157	Clark Fork River RS	29,387,889
Permanent Coal Tax Trust	556,841,413	Higher Education STIP	28,701,800
Schools (Trust and Legacy)	483,173,852	Vol. Firefighters' Retirement	22,595,537
St Agency Operations STIP	361,139,885	Parks Coal Trust	20,911,419
Local Government STIP	358,539,815	UCFRB Reserve Fund	14,121,026
Treasure State Endowment	189,708,693	Smelter Hill Upload	13,452,854
Police Officers' Retirement	175,814,321	FWP Mitigation	12,391,349
Firefighters' Retirement	173,192,031	Zortman/Landusky	11,848,032
Sheriffs' Retirement	172,089,117	Cultural Coal Tax Trust	11,567,630
UCFRB Restoration Fund	168,817,874	Weed Control Trust	10,697,990
Other Trusts STIP	131,025,566	Old Fund Insurance	9,681,427
Tobacco Trust	126,603,866	Older Montanans	9,443,102
Resource Indemnity Trust	107,515,311	Wildlife Habitat Trust	9,397,108
Clark Fork Site Response	105,968,152	Zort/Land LT H2O Trust	7,820,409
Insurance STIP	90,242,572	MT Tech UM Agency	6,405,400
Montana State University	83,063,228	Abandoned Mines	5,713,040
Highway Patrol Retirement	82,525,737	FWP Real Property	5,661,971
Streamside Tailings	76,056,242	Litigation Cost Recvr	1,755,758
Game Wardens' Retirement	73,774,470	Endowment for Children	1,220,394
Treasure State Water	52,647,151	Other Trusts MDEP	761,159
Judges' Retirement	52,400,547	Other Trusts TFIP	702,622
Debt Service STIP	51,621,780	Subsequent Injury	537,317
Big Sky Economic Devlp Fund	48,352,945	Higher Education MDEP	115,017
Group Benefits Insurance	48,143,712		
UM Other Funds	44,792,075		
		Total	11,974,405,342

[Click here for a listing of all individual investments for the funds](#)



At year-end the Board managed 86.6 percent of the Total Fund in seven investment pools. All cash is initially deposited in STIP, which operates as a money market fund with a \$1.00 share value. Participants may invest and withdraw funds with 24 hours notice. Depending upon the investment parameters of individual accounts, some or most of the account balances may be transferred from STIP to other investment pools, which include equity, fixed-income, and alternative investments. If accounts may be invested in longer-term investments but their investment parameters do not permit investment in the pools, they are invested in individual portfolios included in the All Other Funds.

Most state agency accounts authorized by law to retain interest earnings and all local government accounts are limited to STIP investments only. State agency accounts that invest in other investment pools or individual investment portfolios may maintain a minimum STIP balance for liquidity. Since the state's trust funds cannot be invested in equities, they are invested in the Trust Funds Investment Pool (TFIP), or individual fixed-income portfolios. Because there are no constitutional or legal restraints on the investment of state pension funds, they are invested in the Retirement Funds Bond Pool (RFBP), the Montana Real Estate Pool (MTRP), and the three equity pools – the Montana Domestic Equity Pool (MDEP), the Montana International Equity Pool (MTIP), and the Montana Private Equity Pool (MPEP). Investment pool information is provided beginning on Page 9. During 2010, \$393.2 million in investment income was distributed to the accounts.

Total Fund Annual Change by Major Asset Type						
Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% of Change
Domestic Stock	2,445,914,626	20.2	2,614,373,294	22.0	(168,458,667)	(6.4)
International Stocks	1,145,096,163	9.5	1,065,174,221	9.0	79,921,942	7.5
Fixed Income	4,640,068,838	38.4	4,432,426,123	37.4	207,642,715	4.7
Cash Equivalents	2,218,686,105	18.4	2,317,127,242	19.5	(98,441,137)	(4.2)
Private Equity	845,012,499	7.0	774,019,864	6.5	70,992,635	9.2
Loans/Mortgages	241,205,590	2.0	257,293,821	2.2	(16,088,232)	(6.3)
Real Estate	552,461,067	4.6	402,086,792	3.4	150,374,275	37.4
Total	12,088,444,888	100.0	11,862,501,357	100.0	225,943,530	1.9

Investment Type	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% of Change
Domestic Stock	2,312,926,588	19.4	2,199,081,874	19.8	113,844,714	5.2
International Stocks	1,098,849,170	9.2	979,209,524	8.8	119,639,646	12.2
Fixed Income	4,825,688,420	40.4	4,372,489,297	39.4	453,199,123	10.4
Cash Equivalents	2,218,686,105	18.6	2,317,127,242	20.9	(98,441,137)	(4.2)
Private Equity	854,832,113	7.2	671,456,318	6.1	183,375,795	27.3
Loans/Mortgages	240,954,759	2.0	256,570,896	2.3	(15,616,137)	(6.1)
Real Estate	398,348,880	3.3	300,767,930	2.7	97,580,950	32.4
Total	11,950,286,034	100.0	11,096,703,081	100.0	853,582,954	7.7

Income Distributed	393,195,593	312,244,801	80,950,793	25.9
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[Click here for a complete listing of income by fund](#)

RETIREMENT FUNDS BOND POOL

On April 1, 1995, all fixed-income investments held by the nine pension funds were transferred to the newly-created Retirement Funds Bond Pool (RFBP). Each pension fund received shares in the pool equal in value to the fair value of its fixed-income portfolio on the date of the transfer. Income distributed includes interest accruals, discount/premium, and securities lending income. All realized capital gains and losses are retained in the pool. The tables below show the annual change in book/fair value of the participant shares. The tables below show the annual change in book/fair value of the participant shares.

RFBP Annual Change by Participant						
Participant	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Public Employees	893,496,301	50.3	906,395,420	50.5	(12,899,119)	(1.4)
Police	49,376,172	2.8	47,710,944	2.7	1,665,227	3.5
Game Wardens	19,917,321	1.1	19,384,616	1.1	532,705	2.7
Sheriffs	46,775,417	2.6	47,262,343	2.6	(486,926)	(1.0)
Judges	14,528,523	0.8	14,731,262	0.8	(202,739)	(1.4)
Highway Patrol	23,083,161	1.3	23,413,088	1.3	(329,927)	(1.4)
Teachers	673,872,463	38.0	683,779,834	38.1	(9,907,371)	(1.4)
Volunteer Firefighters	6,171,766	0.3	6,041,766	0.3	130,000	2.2
Firefighters	48,265,618	2.7	46,768,864	2.6	1,496,754	3.2
Total	1,775,486,741	100.0	1,795,488,138	100.0	(20,001,397)	(1.1)

Participant	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% Change
Public Employees	939,430,189	50.3	876,389,757	50.5	63,040,432	7.2
Police	51,741,759	2.8	45,994,651	2.6	5,747,108	12.5
Game Wardens	20,690,655	1.1	18,518,446	1.1	2,172,208	11.7
Sheriffs	49,172,017	2.6	45,692,533	2.6	3,479,484	7.6
Judges	15,034,409	0.8	14,018,860	0.8	1,015,549	7.2
Highway Patrol	24,091,112	1.3	22,471,295	1.3	1,619,817	7.2
Teachers	710,013,885	38.0	662,541,761	38.2	47,472,124	7.2
Volunteer Firefighters	6,379,298	0.3	5,742,231	0.3	637,067	11.1
Firefighters	50,657,137	2.7	45,159,503	2.6	5,497,635	12.2
Total	1,867,210,461	100.0	1,736,529,037	100.0	130,681,424	7.5

Income Distributed	91,067,072		90,931,775		135,297	0.1
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[Click here for a complete listing of RFBP securities and cash](#)

RFBP Annual Change by Manager						
Manager	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Neuberger Berman	101,635,313	5.8	0	0.0	101,635,313	NA
Reams Asset Management	190,274,708	10.9	190,274,708	10.8	0	0.0
Post Advisory Group	50,760,954	2.9	50,760,954	2.9	0	0.0
Artio Global Management	100,553,795	5.7	0	0.0	100,553,795	NA
Internal Core Portfolio	1,303,887,625	74.4	1,526,493,629	86.4	(222,606,004)	(14.6)
Cash Equivalents	4,645,437	0.3	118,747	0.0	4,526,690	3,812.0
Total	1,751,757,833	100.0	1,767,648,039	100.0	(15,890,206)	(0.9)

RFBP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2010	14.38	Barclays Capital Aggregate	9.50	4.88
3 Year Annualized Average	7.45	Barclays Capital Aggregate	7.55	(0.10)
5 Year Annualized Average	5.88	Barclays Capital Aggregate	5.54	0.34
10 Year Annualized Average	7.27	Barclays Capital Aggregate	6.47	0.80

TRUST FUNDS INVESTMENT POOL

On October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to the newly-created Trust Funds Bond Pool, now known as the Trust Funds Investment Pool (TFIP). Each trust fund received shares in the pool equal in value to the fair value of their fixed-income portfolio on the date of the transfer. Because current income is important to these participants the pool is managed for income generation, rather than total rate of return. Income distributed includes interest accruals, discount/premium, and securities lending income. All realized capital gains and losses are retained in the pool. The table below shows the annual change in book value of the participant shares.

TFIP Annual Change by Participant						
Participant	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Charles Bair Trust	184,942	0.0	184,942	0.0	0	0.0
Clark Fork River CD	11,715,507	0.7	11,715,507	0.7	0	0.0
UCFRB Restoration	156,357,045	9.1	156,357,045	9.4	0	0.0
MT Pole Superfund	24,948,399	1.5	24,948,399	1.5	0	0.0
Streamside Tailings	60,997,992	3.6	59,997,992	3.6	1,000,000	1.7
Clark Fork Site	71,000,000	4.1	69,000,000	4.2	2,000,000	2.9
ButteArea One Rest	14,500,000	0.8	14,000,000	0.8	500,000	3.6
Clark Fork River RS	16,500,000	1.0	16,000,000	1.0	500,000	3.1
Smelter Hill Upload	2,675,000	0.2	2,675,000	0.2	0	0.0
Permanent Coal Trust	315,514,591	18.4	307,514,591	18.5	8,000,000	2.6
Real Property Trust	5,243,884	0.3	5,123,884	0.3	120,000	2.3
Resource Indemnity	99,999,976	5.8	99,999,976	6.0	0	0.0
Coal Tax Park ACQ	19,710,586	1.2	19,145,586	1.2	565,000	3.0
Wildlife Habitat	8,654,265	0.5	8,329,265	0.5	325,000	3.9
Stewart Trust Fund	79,912	0.0	79,912	0.0	0	0.0
Acquisition Trust	49,965	0.0	49,965	0.0	0	0.0
Trust and Legacy	444,653,456	25.9	441,153,456	26.6	3,500,000	0.8
Older Montana Trust	8,944,874	0.5	8,454,874	0.5	490,000	5.8
Bradley Trust	119,890	0.0	119,890	0.0	0	0.0
Teakle Trust	129,904	0.0	129,904	0.0	0	0.0
Merritt Wheeler Trust	29,937	0.0	29,937	0.0	0	0.0
Sobotka Memorial Trust	99,929	0.0	99,929	0.0	0	0.0
Noxious Weed Trust	8,829,783	0.5	8,449,783	0.5	380,000	4.5
Cultural Trust	11,024,349	0.6	10,724,349	0.6	300,000	2.8
Treasure State Endowment	181,247,300	10.6	169,552,300	10.2	11,695,000	6.9
Children Endowment	1,129,864	0.1	1,049,864	0.1	80,000	7.6
Treasure State Water	50,571,879	3.0	44,806,879	2.7	5,765,000	12.9
Tobacco Trust	121,892,772	7.1	108,677,772	6.6	13,215,000	12.2
Big Sky Economic Developmen	46,779,091	2.7	41,019,091	2.5	5,760,000	14.0
University of Montana	14,552,921	0.8	13,552,921	0.8	1,000,000	7.4
Montana State University	14,999,130	0.9	14,999,130	0.9	0	0.0
Montana College of Technology	458,450	0.0	458,450	0.0	0	0.0
Total	1,713,595,593	100.0	1,658,400,593	100.0	55,195,000	3.3
Income Distributed	86,227,707		80,159,536		6,068,171	7.6

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TFIP Annual Change by Manager						
Manager	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Post Traditional High Yield	90,000,000	5.1	0	0.0	90,000,000	NA
Internal Core Portfolio	1,567,405,212	89.6	1,619,664,008	98.3	(52,258,796)	(3.2)
TIAACREF Real Estate	20,000,000	1.1	0	0.0	20,000,000	NA
American Core Real Estate	34,000,000	1.9	0	0.0	34,000,000	NA
Cash Equivalents	38,594,874	2.2	27,648,388	1.7	10,946,486	39.6
Total	1,750,000,086	100.0	1,647,312,396	100.0	102,687,690	6.2

TFIP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2010	12.37	Barclays Capital Aggregate	9.50	2.87
3 Year Annualized Average	7.72	Barclays Capital Aggregate	7.55	0.17
5 Year Annualized Average	6.04	Barclays Capital Aggregate	5.54	0.50
10 Year Annualized Average	7.49	Barclays Capital Aggregate	6.47	1.02

SHORT TERM INVESTMENT POOL

The Short Term Investment Pool (STIP), created in 1973, provides participants access to a short-term money market fund. Shares are fixed at \$1.00, fractional shares may be purchased, and participants may buy or sell shares with one business day's notice. Income is distributed on the first day of the month. Pool investments are managed by Board Staff. There were 496 accounts invested in STIP during the year, consisting of 320 state accounts and 176 local government accounts. All investments are made by Board staff and all income is distributed to participants. The table below shows the annual change in the value of shares by major participant type.

STIP Annual Change by Major Participant Type						
Participant	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Trust Funds	205,670,905	9.1	160,017,184	7.0	45,653,721	28.5
Insurance Funds	136,383,310	6.1	131,597,503	5.7	4,785,807	3.6
University Funds	105,592,053	4.7	90,223,294	3.9	15,368,758	17.0
Debt Service Funds	51,621,780	2.3	93,160,158	4.0	(41,538,377)	(44.6)
State Agencies Operating	374,971,130	16.7	368,702,969	16.0	6,268,161	1.7
Board Investment Pools	68,987,480	3.1	31,055,316	1.3	37,932,164	122.1
Treasurer's Fund	828,267,153	36.8	935,740,008	40.7	(107,472,855)	(11.5)
Pension Funds	118,143,962	5.3	65,672,282	2.9	52,471,680	79.9
Local Governments	358,539,815	15.9	425,320,891	18.5	(66,781,077)	(15.7)
Total	2,248,177,588	100.0	2,301,489,605	100.0	(53,312,017)	(2.3)
Income Distributed	6,999,570		37,384,533		(30,384,962)	(81.3)

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The table below shows the historical yield, by year, since 1974 to 2010, to STIP participants net of all fees.

74	8.8	79	8.1	84	10.6	89	8.6	94	3.4	99	5.4	04	1.1	09	1.7
75	9.0	80	10.2	85	10.1	90	8.7	95	5.8	00	6.0	05	2.3	10	0.3
76	7.0	81	12.0	86	8.3	91	7.9	96	5.8	01	6.6	06	4.2		
77	6.8	82	13.8	87	6.3	92	5.4	97	5.7	02	2.8	07	5.3		
78	7.2	83	11.3	88	7.1	93	3.7	98	5.9	03	1.5	08	4.2		

STIP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2010	0.33	LIBOR 1 Month	0.27	0.06
3 Year Annualized Average	2.07	LIBOR 1 Month	1.89	0.18
5 Year Annualized Average	3.20	LIBOR 1 Month	3.10	0.10
10 Year Annualized Average	3.03	LIBOR 1 Month	2.87	0.16

MONTANA DOMESTIC EQUITY POOL

The Montana Domestic Equity Pool (MDEP) was created May 1, 2003, when all investments held in the Montana Common Stock Pool, the Standard and Poor's 500 Index Fund A and the Dimensional Fund Advisors U.S. Small Cap Index were combined to create the pool. Income distributed includes dividends, security lending and miscellaneous income. All realized capital gains and losses are retained in the pool. The tables below show the annual change in book/fair value of the participant shares.

MDEP Annual Change by Participant						
Participant	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Charles Bair Trust	51,486	0.0	51,486	0.0	0	0.0
Acquisition Trust	23,360	0.0	23,360	0.0	0	0.0
Bradley Trust	54,478	0.0	54,478	0.0	0	0.0
Teakle Trust	41,746	0.0	41,746	0.0	0	0.0
Merritt Wheeler Trust	15,803	0.0	15,803	0.0	0	0.0
Public Employees	636,962,413	49.4	703,416,287	49.5	(66,453,874)	(9.4)
Police	43,393,202	3.4	45,156,810	3.2	(1,763,608)	(3.9)
Game Wardens	18,663,495	1.4	18,714,843	1.3	(51,349)	(0.3)
Sheriffs	38,629,001	3.0	40,720,665	2.9	(2,091,664)	(5.1)
Judges	10,548,804	0.8	11,348,202	0.8	(799,398)	(7.0)
Highway Patrol	16,671,171	1.3	18,357,122	1.3	(1,685,951)	(9.2)
Teachers	474,936,242	36.8	529,924,277	37.3	(54,988,036)	(10.4)
Volunteer Firefighters	6,168,454	0.5	6,659,500	0.5	(491,046)	(7.4)
Firefighters	43,209,222	3.3	44,797,061	3.2	(1,587,839)	(3.5)
Potter Trust	19,815	0.0	19,815	0.0	0	0.0
Harold Hamm Endowment	6,438	0.0	6,438	0.0	0	0.0
University of Montana	531,639	0.0	531,639	0.0	0	0.0
Total	1,289,926,769	100.0	1,419,839,534	100.0	(129,912,765)	(9.1)

Participant	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% Change
Charles Bair Trust	169,907	0.0	147,829	0.0	22,078	14.9
Acquisition Trust	40,965	0.0	35,642	0.0	5,323	14.9
Bradley Trust	265,256	0.0	230,788	0.0	34,468	14.9
Teakle Trust	217,581	0.0	189,309	0.0	28,273	14.9
Merritt Wheeler Trust	67,450	0.0	58,686	0.0	8,765	14.9
Public Employees	1,114,071,635	50.4	1,070,435,421	50.5	43,636,214	4.1
Police	59,531,718	2.7	54,681,205	2.6	4,850,513	8.9
Game Wardens	24,643,489	1.1	21,722,419	1.0	2,921,070	13.4
Sheriffs	58,158,788	2.6	53,629,795	2.5	4,528,993	8.4
Judges	17,607,951	0.8	16,507,206	0.8	1,100,745	6.7
Highway Patrol	27,848,267	1.3	26,679,973	1.3	1,168,294	4.4
Teachers	839,405,532	38.0	814,890,157	38.4	24,515,374	3.0
Volunteer Firefighters	7,245,440	0.3	6,836,212	0.3	409,228	6.0
Firefighters	58,543,318	2.7	53,531,678	2.5	5,011,640	9.4
Potter Trust	95,241	0.0	82,865	0.0	12,376	14.9
Harold Hamm Endowment	19,776	0.0	17,206	0.0	2,570	14.9
University of Montana	827,059	0.0	719,590	0.0	107,469	14.9
Total	2,208,759,373	100.0	2,120,395,983	100.0	88,363,391	4.2

Income Distributed	19,657,457		25,778,292		(6,120,835)	(23.7)
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[Click here for a complete listing of MDEP securities](#)

MDEP Annual Change by Manager						
Manager	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Analytic Partial L/S	122,242,568	4.5	120,809,492	4.1	1,433,076	1.2
JP Morgan Partial L/S	278,889,480	10.3	201,469,595	6.8	77,419,885	38.4
Martingale Partial L/S	81,791,388	3.0	80,962,435	2.7	828,953	1.0
Stock Performance Index Futu	17,835,092	0.7	3,395,598	0.1	14,439,494	425.2
INTECH Large Cap Enh Index	183,163,171	6.8	189,281,071	6.4	(6,117,900)	(3.2)
T Rowe Price Large Cap Enh Ir	274,941,352	10.2	205,104,672	6.9	69,836,680	34.0
WAMCO Large Cap Enh Index	192,745,764	7.1	206,937,301	7.0	(14,191,536)	(6.9)
Barrow Hanley Large Cap Valt	220,784,450	8.2	220,784,450	7.5	0	0.0
S & P 500 Index (Passive)	327,461,132	12.1	591,551,226	20.0	(264,090,094)	(44.6)
Columbus Large Cap Growth	151,379,559	5.6	151,379,559	5.1	0	0.0
Quantitative Large Cap Value	150,069,581	5.5	150,069,581	5.1	0	0.0
Rainier Large Cap Growth	151,038,838	5.6	151,038,838	5.1	0	0.0
Renaissance Large Cap Growth	128,011,074	4.7	154,558,709	5.2	(26,547,635)	(17.2)
Artisan Mid Cap Value	89,486,502	3.3	64,469,569	2.2	25,016,933	38.8
S & P 400 Midcap Index	17,801,133	0.7	17,955,912	0.6	(154,780)	(0.9)
Martingale Mid Cap Core	89,323,847	3.3	118,122,822	4.0	(28,798,976)	(24.4)
Goldman Large Cap Enh Index	0	0.0	125,956,387	4.3	(125,956,387)	(100.0)
TimesSquare Mid Cap Growth	88,098,978	3.3	78,100,420	2.6	9,998,558	12.8
DFA Small Cap Enhanced Index	35,190,238	1.3	35,190,238	1.2	0	0.0
NorthPointe Small Cap Growth	50,000,000	1.8	50,000,000	1.7	0	0.0
Vaughan Nelson Small Cap Val	55,026,838	2.0	45,000,000	1.5	10,026,838	22.3
Total	2,705,280,984	100.0	2,962,137,876	100.0	(256,856,892)	(8.7)

MDEP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2010	15.91	S & P 1500	15.57	0.34
3 Year Annualized Average	(9.81)	S & P 1500	(9.43)	(0.38)
5 Year Annualized Average	(1.06)	S & P 1500	(0.49)	(0.57)

MONTANA INTERNATIONAL EQUITY POOL

The Montana International Equity Pool (MTIP) was created in 1997 when the nine pension funds purchased pool shares to fund investments in international stock. Cash dividends, interest and related income currency gains/losses are distributed monthly. All realized capital gains and losses are retained in the pool. The tables below show the annual change in book/fair value of the participant shares.

MTIP Annual Change by Participant						
Participant	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Public Employees	447,553,000	50.3	433,953,000	50.3	13,600,000	3.1
Police	25,411,175	2.9	23,368,884	2.7	2,042,291	8.7
Game Wardens	11,546,561	1.3	9,836,561	1.1	1,710,000	17.4
Sheriffs	24,512,000	2.8	22,582,000	2.6	1,930,000	8.5
Judges	7,175,000	0.8	6,655,000	0.8	520,000	7.8
Highway Patrol	11,191,629	1.3	10,840,957	1.3	350,672	3.2
Teachers	334,585,518	37.6	328,858,701	38.1	5,726,817	1.7
Volunteer Firefighters	3,089,408	0.3	2,949,408	0.3	140,000	4.7
Firefighters	25,386,420	2.9	23,221,000	2.7	2,165,420	9.3
Total	890,450,712	100.0	862,265,511	100.0	28,185,201	3.3
Participant	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% Change
Public Employees	552,711,749	50.5	494,790,123	50.5	57,921,626	11.7
Police	29,350,073	2.7	25,206,793	2.6	4,143,280	16.4
Game Wardens	12,512,730	1.1	9,999,504	1.0	2,513,226	25.1
Sheriffs	28,702,620	2.6	24,673,042	2.5	4,029,578	16.3
Judges	8,731,640	0.8	7,551,017	0.8	1,180,623	15.6
Highway Patrol	13,814,882	1.3	12,387,487	1.3	1,427,395	11.5
Teachers	415,264,157	38.0	376,245,403	38.4	39,018,753	10.4
Volunteer Firefighters	3,567,182	0.3	3,140,390	0.3	426,793	13.6
Firefighters	29,067,373	2.7	24,861,806	2.5	4,205,567	16.9
Total	1,093,722,405	100.0	978,855,564	100.0	114,866,841	11.7
Income Distributed	9,856,272		18,371,449		(8,515,177)	(46.4)

[Click here for a complete listing of MTIP securities and cash](#)

MTIP Annual Change by Manager						
	6/30/2010	% of	6/30/2009	% of	\$	%
	Book Value	Total	Book Value	Total	Change	Change
Artio Global (Julius Baer)	126,829,463	9.7	157,143,091	12.1	(30,313,628)	(19.3)
Batterymarch	135,749,400	10.4	169,090,926	13.1	(33,341,526)	(19.7)
BGI MSCI Europe Index	0	0.0	93,208,727	7.2	(93,208,727)	(100.0)
BGI Global Ex US Alpha Tilt	100,126,273	7.6	101,210,818	7.8	(1,084,545)	(1.1)
Hansburger	102,651,230	7.8	102,651,230	7.9	0	0.0
Martin Currie	115,980,459	8.8	115,980,459	9.0	0	0.0
Principal Global	27,519	0.0	60,813,237	4.7	(60,785,718)	(100.0)
BGI ACWI EX US Superfund A	381,612,138	29.1	60,000,587	4.6	321,611,551	536.0
SSB EAFE Index	45,497,466	3.5	13,604,025	1.1	31,893,441	234.4
DFA International Index	60,564,305	4.6	50,564,305	3.9	10,000,000	19.8
Acadian	116,360,644	8.9	137,952,746	10.7	(21,592,101)	(15.7)
AllianceBernstein	125,787,325	9.6	125,787,325	9.7	0	0.0
Nomura Pacific Basin	0	0.0	59,537,728	4.6	(59,537,728)	(100.0)
AXA Rosenberg Small Cap	0	0.0	46,908,465	3.6	(46,908,465)	(100.0)
Total	1,311,186,222	100.0	1,294,453,669	100.0	16,732,554	1.3

MTIP Total Rates of Returns Versus Benchmark				
Year	%	Benchmarks	Benchmark	Return +/-
	Return		% Return	Benchmark
2010	9.94	MTIP Custom Benchmark	11.13	(1.19)
3 Year Annualized Average	(13.58)	MTIP Custom Benchmark	(10.52)	(3.06)
5 Year Annualized Average	1.34	MTIP Custom Benchmark	3.26	(1.92)
10 Year Annualized Average	1.15	MTIP Custom Benchmark	1.32	(0.17)

MONTANA PRIVATE EQUITY POOL

The Montana Private Equity Pool (MPEP) was created on May 1, 2002 when all private equity investments held by the nine pension funds were transferred to the pool. Each pension fund received shares in the pool equal to the fair value of their private equity investments and also transferred cash to the pool to provide liquidity for investments. The Board has approved an allocation of up to 15.0 percent of pension funds to private equity. The tables below show the annual change in book/fair value of the participant shares.

MPEP Annual Change by Participant						
Participant	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Public Employees	333,597,330	50.4	306,318,330	50.4	27,279,000	8.9
Police	18,326,901	2.8	15,825,901	2.6	2,501,000	15.8
Game Wardens	7,703,885	1.2	6,763,885	1.1	940,000	13.9
Sheriffs	17,433,194	2.6	15,767,194	2.6	1,666,000	10.6
Judges	5,164,161	0.8	4,676,161	0.8	488,000	10.4
Highway Patrol	8,109,566	1.2	7,398,566	1.2	711,000	9.6
Teachers	251,910,970	38.0	233,113,970	38.4	18,797,000	8.1
Volunteer Firefighters	2,096,048	0.3	1,830,048	0.3	266,000	14.5
Firefighters	18,183,265	2.7	15,751,265	2.6	2,432,000	15.4
Total	662,525,321	100.0	607,445,321	100.0	55,080,000	9.1
Participant	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% Change
Public Employees	430,729,235	50.4	338,783,739	50.5	91,945,495	27.1
Police	23,191,706	2.7	17,253,971	2.6	5,937,735	34.4
Game Wardens	9,262,128	1.1	6,950,169	1.0	2,311,959	33.3
Sheriffs	22,036,662	2.6	17,070,275	2.5	4,966,387	29.1
Judges	6,725,427	0.8	5,228,830	0.8	1,496,597	28.6
Highway Patrol	10,751,010	1.3	8,427,580	1.3	2,323,430	27.6
Teachers	326,593,292	38.2	258,660,734	38.5	67,932,558	26.3
Volunteer Firefighters	2,805,903	0.3	2,117,848	0.3	688,055	32.5
Firefighters	22,702,625	2.7	16,899,356	2.5	5,803,269	34.3
Total	854,797,988	100.0	671,392,502	100.0	183,405,486	27.3
Income Distributed	483,602		2,007,776		(1,524,174)	(75.9)

MPEP Annual Change by Manager						
Manager	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Adams Street Partners	192,309,210	22.8	199,541,306	25.8	(7,232,095)	(3.6)
Affinity	5,850,091	0.7	3,075,440	0.4	2,774,651	90.2
Arclight Capital	31,747,433	3.8	33,953,117	4.4	(2,205,683)	(6.5)
Avenue Capital	32,598,771	3.9	27,943,678	3.6	4,655,093	16.7
Axiom Asia	2,363,809	0.3	0	0.0	2,363,809	NA
Buerk Dale Victor	7,650,000	0.9	6,600,000	0.9	1,050,000	15.9
Carlyle Partners	44,450,339	5.3	42,563,474	5.5	1,886,865	4.4
CCMP	16,555,047	2.0	7,944,068	1.0	8,610,979	108.4
Centerbridge	8,722,553	1.0		0.0	8,722,553	NA
First Reserve	31,854,132	3.8	29,611,426	3.8	2,242,706	7.6
Harbour Vest	14,753,518	1.7	10,578,431	1.4	4,175,087	39.5
Hellman & Friedman	17,049,894	2.0	15,363,776	2.0	1,686,118	11.0
Highway 12 Ventures	4,656,366	0.6	3,428,226	0.4	1,228,139	35.8
Industry Ventures	9,166,185	1.1	7,758,929	1.0	1,407,256	18.1
J.C. Flowers	22,741,578	2.7	22,876,213	3.0	(134,635)	(0.6)
JLL Partners	19,479,038	2.3	18,832,481	2.4	646,557	3.4
Kolberg Kravis & Roberts (KK)	25,551,709	3.0	31,328,674	4.0	(5,776,965)	(18.4)
Lexington Capital	40,344,080	4.8	39,841,724	5.1	502,357	1.3
Madison Dearborn Capital	42,699,977	5.1	40,516,906	5.2	2,183,070	5.4
Matlin Patterson	19,514,207	2.3	17,285,321	2.2	2,228,886	12.9
MHR Institutional	14,719,539	1.7	14,438,692	1.9	280,847	1.9
NB Coinvest	19,031,014	2.3	17,796,240	2.3	1,234,774	6.9
Oak Hill Capital	33,859,691	4.0	26,847,715	3.5	7,011,977	26.1
Oaktree Capital	33,140,105	3.9	25,749,461	3.3	7,390,644	28.7
Odyssey Partners	22,079,994	2.6	17,342,172	2.2	4,737,822	27.3
Performance Equity Manageme	2,520,319	0.3	1,133,000	0.1	1,387,320	122.4
Portfolio Advisors	33,823,441	4.0	25,042,564	3.2	8,780,877	35.1
Quintana Energy	11,708,147	1.4	9,946,620	1.3	1,761,527	17.7
Siguler Guff	13,326,750	1.6	10,550,520	1.4	2,776,230	26.3
Terra Firma	15,328,240	1.8	13,886,770	1.8	1,441,470	10.4
Trilantic Capital Partners	4,408,920	0.5	3,471,692	0.4	937,228	27.0
Welsh Carson Anderson&Stov	44,485,578	5.3	43,292,321	5.6	1,193,258	2.8
Stock Index Futures Fund	6,522,824	0.8	5,478,742	0.7	1,044,082	19.1
Total	845,012,499	100.0	774,019,696	100.0	70,992,803	9.2

MPEP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2010	17.01	S&P 1500 + 4.0%	55.35	(38.34)
3 Year Annualized Average	(1.56)	S&P 1500 + 4.0%	0.13	(1.69)
5 Year Annualized Average	6.54	S&P 1500 + 4.0%	6.24	0.30

Private equity investments are participations in non-publicly traded equity ownership of a fund or operating company either directly or more commonly through a partnership. The types of investments made by private equity managers generally fall into the following categories:

- **Private Equity** – Private equity investments in funds or operating companies in an asset class other than cash, stocks, or fixed income securities and real estate.

- **Venture Capital** – Equity or equity-like investments in companies that have undeveloped or developing products or revenue.
- **Leveraged Buy-Outs** – Equity investments in public or private companies that purchase a significant portion or majority control of the company.
- **Mezzanine** – Investments in the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options.
- **Special Situations** – Includes: 1) investments in the exploration for oil and/or gas reserves or in the development of proven reserves; 2) investments in land to harvest timber; and 3) investments that have a special component usually related to geographical, economic, or social issues sometimes referred to as Economically Targeted Investments.
- **Secondary Investments** – Investments in a previously-owned limited partnership or investment in previously owned limited partnership via a secondary fund.
- **Distressed Debt** – Public and private debt of companies that appear unlikely to meet their financial obligations but are attractive to investors, not for repayment of interest and principal which are unlikely to be paid, but for the claim placed on the firm's value by unpaid creditors.

MONTANA REAL ESTATE POOL

The Montana Real Estate Pool (MTRP) was created April 26, 2006 to permit the nine pension funds to participate in a diversified real estate portfolio. The Board has approved an allocation of up to 8.0 percent of pension funds to real estate. The tables below show the annual change in book/fair value of the participant shares.

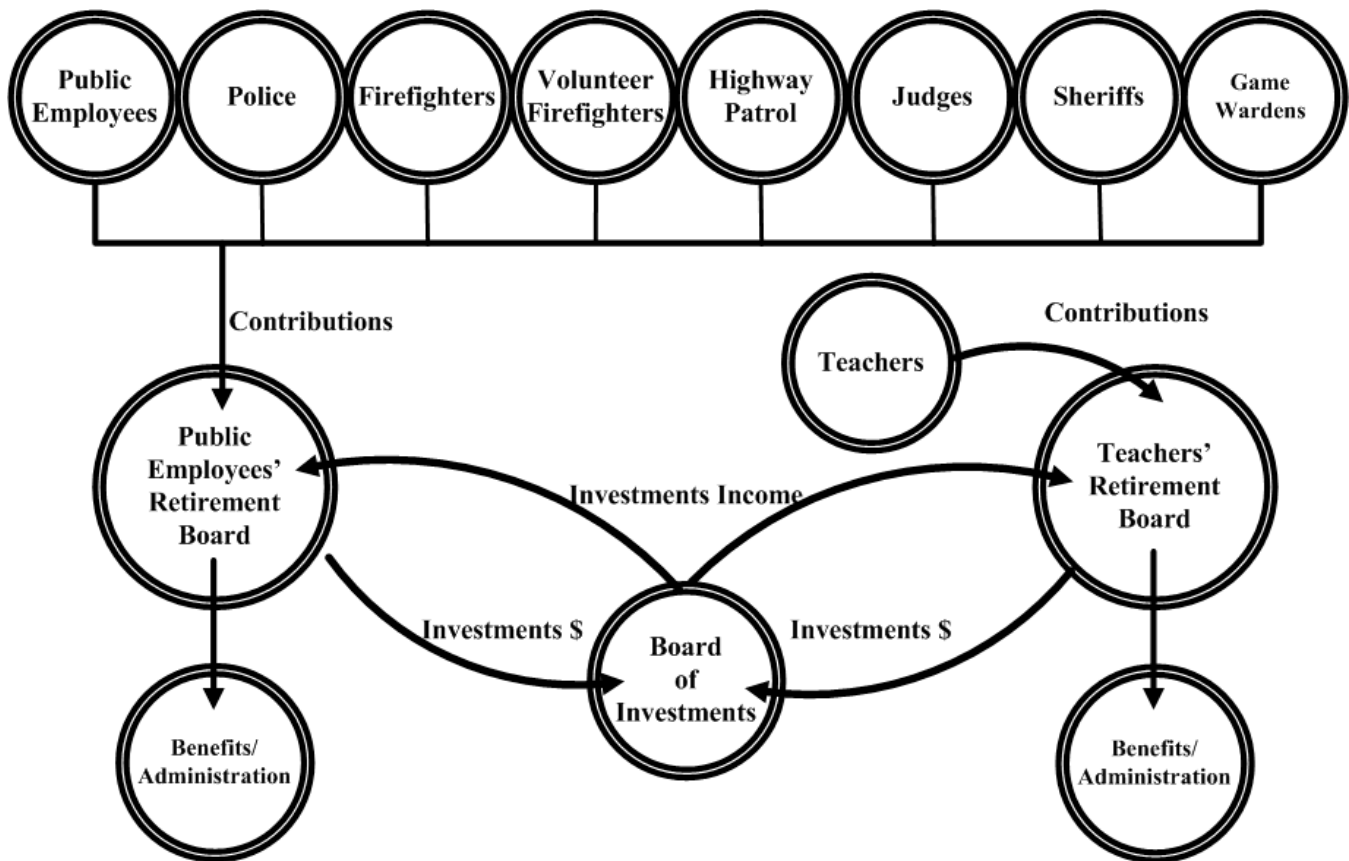
MTRP Annual Change by Participant						
Participant	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Public Employees	256,575,000	50.5	196,855,000	50.5	59,720,000	30.3
Police	13,591,000	2.7	10,086,000	2.6	3,505,000	34.8
Game Wardens	5,556,000	1.1	4,026,000	1.0	1,530,000	38.0
Sheriffs	13,169,000	2.6	9,884,000	2.5	3,285,000	33.2
Judges	4,023,000	0.8	3,038,000	0.8	985,000	32.4
Highway Patrol	6,393,000	1.3	4,883,000	1.3	1,510,000	30.9
Teachers	193,814,000	38.1	149,634,000	38.4	44,180,000	29.5
Volunteer Firefighters	1,610,000	0.3	1,215,000	0.3	395,000	32.5
Firefighters	13,354,000	2.6	9,844,000	2.5	3,510,000	35.7
Total	508,085,000	100.0	389,465,000	100.0	118,620,000	30.5
Participant	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% Change
Public Employees	178,786,541	50.5	145,478,002	50.5	33,308,539	22.9
Police	9,547,302	2.7	7,437,423	2.6	2,109,879	28.4
Game Wardens	3,953,649	1.1	2,980,788	1.0	972,861	32.6
Sheriffs	9,258,612	2.6	7,311,423	2.5	1,947,189	26.6
Judges	2,820,260	0.8	2,246,796	0.8	573,464	25.5
Highway Patrol	4,465,606	1.3	3,612,804	1.3	852,803	23.6
Teachers	134,795,233	38.1	110,641,764	38.4	24,153,469	21.8
Volunteer Firefighters	1,123,836	0.3	897,960	0.3	225,876	25.2
Firefighters	9,402,972	2.7	7,259,766	2.5	2,143,206	29.5
Total	354,154,010	100.0	287,866,725	100.0	66,287,285	23.0
Income Distributed	(2,023,313)		4,824,364		(6,847,677)	(141.9)

MTRP Annual Change by Manager						
Manager	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
ABR Chesapeake Fund III	19,313,352	3.8	17,770,784	4.6	1,542,568	8.7
Angelo Gordon	25,156,323	4.9	12,576,366	3.2	12,579,957	100.0
Apollo Real Estate Finance Cor	20,000,000	3.9	9,079,000	2.3	10,921,000	120.3
Beacon Capital Partners Fund	18,500,000	3.6	16,562,500	4.3	1,937,500	11.7
Carlyle Europe RE Partners III	10,883,981	2.1	8,844,179	2.3	2,039,802	23.1
CIM Fund III	5,242,784	1.0	1,496,432	0.4	3,746,352	250.4
Clarion Lion Properties Fund	45,000,000	8.9	45,000,000	11.6	0	0.0
DRA Advisors VI	17,971,854	3.5	13,261,356	3.4	4,710,498	35.5
GEM Realty Fund IV	1,462,500	0.3	0	0.0	1,462,500	NA
Hudson Realty Capital Fund IV	25,000,000	4.9	25,000,000	6.4	0	0.0
INVESCO Core RE - USA	45,000,000	8.9	45,000,000	11.6	0	0.0
JER RE Partners Fund IV	15,311,878	3.0	15,311,878	3.9	0	0.0
JP Morgan Chase Bank	92,733,561	18.2	71,383,708	18.3	21,349,853	29.9
Liquid Realty Fund IV	15,897,097	3.1	15,535,698	4.0	361,399	2.3
Macquarie Global Prop Fund III	15,358,586	3.0	12,529,074	3.2	2,829,512	22.6
Morgan Stanley RE Fund VI Int	27,536,302	5.4	27,536,302	7.1	0	0.0
O'Connor North Amer Prop	8,954,659	1.8	8,245,199	2.1	709,460	8.6
Rothschild: Realty Sec Fund V	6,277,175	1.2	3,208,215	0.8	3,068,960	95.7
Strategic Partners Value	17,834,306	3.5	16,765,519	4.3	1,068,787	6.4
TA Associates Realty Fund VII	28,000,000	5.5	20,000,000	5.1	8,000,000	40.0
UBS Realty Investors LLC	20,000,000	3.9	0	0.0	20,000,000	NA
Cash Equivalents	26,782,869	5.3	4,469,890	1.1	22,312,979	499.2
Total	508,217,228	100.0	389,576,100	100.0	118,641,127	30.5

MTRP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2010	(17.56)	NCREIF-ODCE	(9.60)	(7.96)
3 Year Annualized Average	(14.67)	NCREIF-ODCE	(4.32)	(10.35)

PENSION FUNDS

By law, all public pension funds in the state, including local governments and school districts, are managed by the state. The Board of Investments manages all pension fund investments, while two boards appointed by the Governor manage the benefits. The chart below depicts the relationship of the pension boards and the Board of Investments in managing the state's nine pension fund assets and liabilities.



Employee/employer contribution levels and the formulas for benefits are set by the legislature. The pension boards provide the assumptions used by their contracted actuaries to value the systems. Article VIII, Section 15 of the Montana State Constitution requires that the systems be “actuarially sound” as follows:

(1) Public retirement systems shall be funded on an actuarially sound basis. Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses.

(2) The governing boards of public retirement systems shall administer the system, including actuarial determinations, as fiduciaries of system participants and their beneficiaries.

State law defines a system as actuarially sound when any unfunded liability can be amortized in 30 years or less with the current level of contributions. As of June 30, 2010, four systems were not actuarially sound as determined by the system's actuary:

- Public Employees Teachers Game Wardens Sheriffs

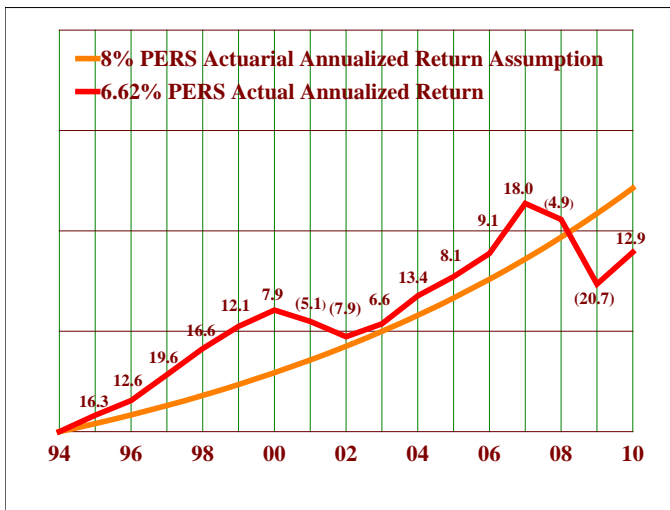
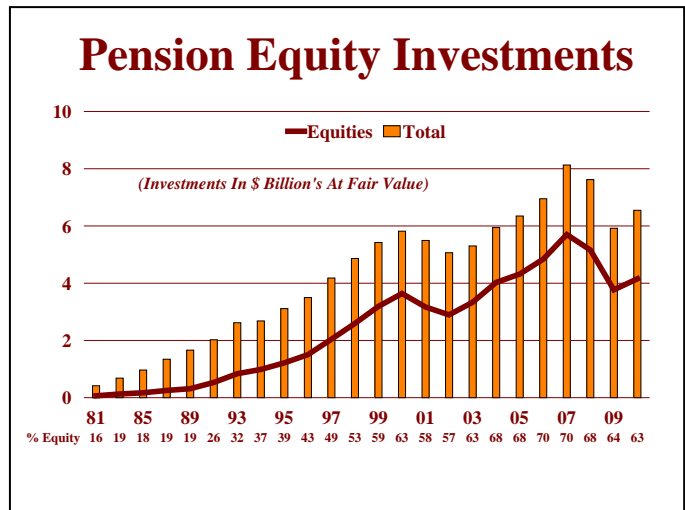
ASSET ALLOCATION

Approximately 99 percent of pension fund investments are managed in six investment pools created by the Board. These pools, which operate similar to mutual funds, simplify investing and accounting, and provide broader diversification for the smaller funds. Current income is distributed monthly to pool participants. Because the law imposes no restrictions on the investment of pension funds other than the prudent expert principle, the Board must determine the types of investments to be made and the portion that each investment type will comprise of total assets. This process requires a two-tier allocation structure to ensure that the Board approves the types and levels of investments at the pension fund level as well as within each investment pool. To provide day-to-day flexibility in the management of assets, the allocations are approved in ranges rather than absolute percentages. The asset allocations are currently identical for all nine pension funds and the Board has set a fund-level maximum of 70.0 percent for public/private equity. The table below shows the current Board-approved asset allocations at the fund and investment pool level.

		Pension Fund Asset Allocations			
		70% Equities Cap			
Domestic Equity Pool				Real Estate Pool	
<u>Investment Type</u>	<u>Range</u>			<u>Investment Type</u>	<u>Range</u>
Large Cap Core (passive)	10% - 30%	30% - 50%	4% - 10%	Core/Timberland *	35% - 65%
Large Cap Enhanced	20% - 30%			Value Added	20% - 45%
Large Cap Style-Based (long-only)	20% - 30%			Opportunistic	10% - 30%
Partial Long/Short (130/30)	10% - 20%			* Timber Land may not exceed 2% of total pension assets	
Total Large Cap	<u>82% - 92%</u>				
Mid Cap	5% - 11%				
Small Cap	3% - 8%				
International Equity Pool				Private Equity Pool	
<u>Investment Type</u>	<u>Range</u>			<u>Investment Type</u>	<u>Range</u>
Large Cap Core	50% - 70%	15% - 30%	9% - 15%	Leveraged Buyouts	40% - 75%
Large Cap Growth	10% - 20%			Venture Capital	10% - 50%
Large Cap Value	10% - 20%			Mezzanine Financing	0% - 10.0%
Small Cap Core	5% - 15%			Distressed Securities	0% - 40.0%
				Special Situations	0% - 10.0%
Retirement Funds Bond Pool				Short Term Investment Pool	
<u>Investment Type</u>	<u>Range</u>			Short-term liquid investments	
Domestic High Yield	0% - 15%	22% - 32%	1% - 5%	Investment Grade Securities	
International	0% - 10%			24 Hour Liquidity for Participants	
Total High Yield/International	<u>0% - 20%</u>				
Domestic Core(investment grade)	80% - 100%				

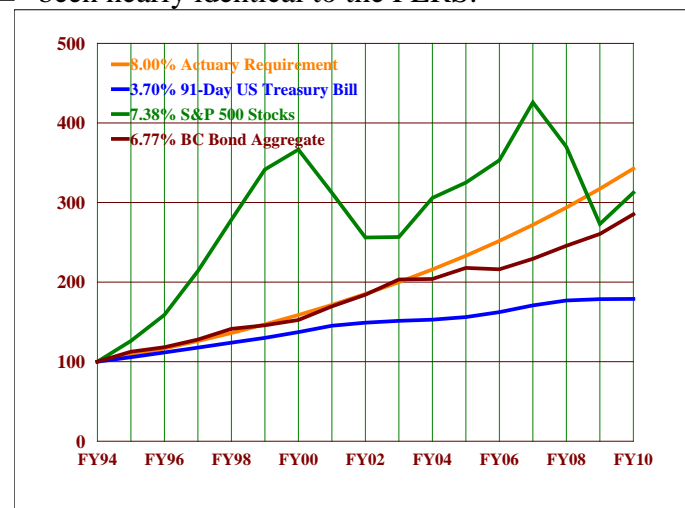
The Board’s asset allocation is critical to the return on pension fund investments. The investment returns that pension fund contributions are expected to earn have already been determined when the Board receives the contributions to invest. These assumptions are “baked” into the calculations that drive funding ratios, unfunded liabilities, and the required level of contributions. A small reduction in the return assumptions will reduce the funding ratios and increase unfunded liabilities. Once these return assumptions are hard wired into actuarial valuations, if investment returns do not meet the return assumptions the funding ratios will go down and unfunded liabilities will grow.

These return assumptions cannot be met without incurring investment risk and volatility that have been demonstrated during the past 10 years. The asset allocation process must balance risk/return in an attempt to generate the required investment returns while not incurring excessive risk. To meet the actuarial assumptions, a significant portion of pension assets must be invested in equities. The adjacent chart shows the Board’s effort to increase equity exposure. Increasing equity exposure maximized growth of the funds during the first 10 years of the period but caused significant volatility since 2001.



The Board has calculated returns on pension fund investments Fiscal Year 1995 as depicted in the adjacent chart. Through Fiscal Year 2008, the investment return had exceeded the 8.0 percent return assumptions of the PERS System despite the equity market downturn in 2001 and 2002. However, despite the positive returns in 2010, the investment portfolio has not recovered from the significant losses of 2008 and 2009. The portfolio was up nearly 19.0 percent through March 31, but lost nearly 5.0 percent during the last quarter of the fiscal year as the equity markets fell. The returns for the other eight retirement systems have been nearly identical to the PERS.

This has been an exceptionally volatile 16 year period for domestic stocks as represented by the S&P 500 Index. Although bonds and U.S. Treasury Bills were not as volatile as stocks, neither of them generated the 8.0 return required to keep the retirement systems actuarially sound. As the adjacent chart depicts, there were no single asset class, or combination of asset classes that would have generated the required returns during the period.



The fiscal year change in the systems' book and fair value are shown below.

Fund	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% of Change
Public Employees	2,656,641,972	50.2	2,609,734,943	50.2	46,907,029	1.8
Police	152,550,213	2.9	143,151,983	2.8	9,398,230	6.6
Game Wardens	66,099,081	1.2	60,377,287	1.2	5,721,794	9.5
Sheriffs	145,279,031	2.7	138,801,173	2.7	6,477,858	4.7
Judges	42,920,348	0.8	41,444,427	0.8	1,475,922	3.6
Highway Patrol	67,003,388	1.3	65,736,693	1.3	1,266,694	1.9
Teachers	1,994,357,795	37.7	1,980,261,731	38.1	14,096,064	0.7
Volunteer Firefighters	20,609,553	0.4	20,408,268	0.4	201,285	1.0
Firefighters	151,217,132	2.9	141,765,240	2.7	9,451,892	6.7
Total	5,296,678,512	100.0	5,201,681,746	100.0	94,996,766	1.8
Investment Type						
Direct Real Estate	17,026,708	0.3	16,980,582	0.3	46,125	0.3
Domestic Equity Pool	1,289,182,003	24.3	1,419,094,769	27.3	(129,912,765)	(9.2)
International Equity Pool	890,450,712	16.8	862,265,511	16.6	28,185,201	3.3
Private Equity Pool	662,525,321	12.5	607,445,321	11.7	55,080,000	9.1
Real Estate Pool	508,085,000	9.6	389,465,000	7.5	118,620,000	30.5
Montana Mortgages	35,778,065	0.7	45,270,143	0.9	(9,492,078)	(21.0)
Retirement Funds Bond Pool	1,775,486,741	33.5	1,795,488,138	34.5	(20,001,397)	(1.1)
Short Term Investment Pool	118,143,962	2.2	65,672,282	1.3	52,471,680	79.9
Total	5,296,678,512	100.0	5,201,681,746	100.0	94,996,766	1.8
Fund						
Fund	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% of Change
Public Employees	3,304,243,795	50.5	2,988,207,751	50.5	316,036,044	10.6
Police	175,814,321	2.7	151,563,984	2.6	24,250,337	16.0
Game Wardens	73,774,470	1.1	61,817,270	1.0	11,957,201	19.3
Sheriffs	172,089,117	2.6	150,948,679	2.5	21,140,438	14.0
Judges	52,400,547	0.8	46,544,418	0.8	5,856,129	12.6
Highway Patrol	82,525,737	1.3	74,416,504	1.3	8,109,233	10.9
Teachers	2,491,322,409	38.0	2,277,520,228	38.5	213,802,181	9.4
Volunteer Firefighters	22,595,537	0.3	20,445,531	0.3	2,150,006	10.5
Firefighters	173,192,031	2.6	149,081,934	2.5	24,110,098	16.2
Total	6,547,957,966	100.0	5,920,546,299	100.0	627,411,667	10.6
Investment Type						
Direct Real Estate	17,345,765	0.3	17,294,299	0.3	51,466	0.3
Domestic Equity Pool	2,207,056,138	33.7	2,118,914,067	35.8	88,142,071	4.2
International Equity Pool	1,093,722,405	16.7	978,855,564	16.5	114,866,841	11.7
Private Equity Pool	854,797,989	13.1	670,867,107	11.3	183,930,882	27.4
Real Estate Pool	354,154,010	5.4	287,866,725	4.9	66,287,285	23.0
Montana Mortgages	35,527,234	0.5	44,547,217	0.8	(9,019,983)	(20.2)
Retirement Funds Bond Pool	1,867,210,462	28.5	1,736,529,037	29.3	130,681,424	7.5
Short Term Investment Pool	118,143,962	1.8	65,672,282	1.1	52,471,680	79.9
Total	6,547,957,966	100.0	5,920,546,299	100.0	627,411,667	10.6
Income	236,185,091		143,696,693		92,488,398	64.4

MEMBERSHIP

<u>PERS</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Retirees & Beneficiaries	17,512	17,075
Vested Terminated	2,471	2,476
Non-vested Terminated	5,402	5,670
Active Members	<u>28,834</u>	<u>28,983</u>
Total	<u>54,219</u>	<u>54,204</u>

<u>Sheriffs</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Retirees & Beneficiaries	415	406
Vested Terminated	36	41
Non-vested Terminated	157	155
Active Members	<u>1,181</u>	<u>1,185</u>
Total	<u>1,789</u>	<u>1,787</u>

<u>Firefighters</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Retirees & Beneficiaries	546	542
Vested Terminated	13	9
Non-vested Terminated	53	49
Active Members	<u>570</u>	<u>558</u>
Total	<u>1,182</u>	<u>1,158</u>

<u>Highway Patrol</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Retirees & Beneficiaries	295	291
Vested Terminated	13	14
Non-vested Terminated	6	8
Active Members	<u>230</u>	<u>222</u>
Total	<u>544</u>	<u>535</u>

<u>Game Wardens</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Retirees & Beneficiaries	136	127
Vested Terminated	47	40
Non-vested Terminated	100	103
Active Members	<u>966</u>	<u>950</u>
Total	<u>1,249</u>	<u>1,220</u>

<u>Volunteer Firefighters</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Retirees & Beneficiaries	1,149	1,103
Vested Terminated	827	840
Active Members	<u>2,315</u>	<u>2,253</u>
Total	<u>4,291</u>	<u>4,196</u>

<u>Judges</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Retirees & Beneficiaries	55	55
Vested Terminated	1	1
Active Members	<u>51</u>	<u>51</u>
Total	<u>107</u>	<u>107</u>

<u>Teachers</u>	<u>7/01/2010</u>	<u>7/01/2009</u>
Retirees & Beneficiaries	12,440	12,036
Vested Terminated	1,553	1,640
Non-vested Terminated	10,304	9,868
Contributing Members	<u>18,353</u>	<u>17,943</u>
Total	<u>42,650</u>	<u>41,487</u>

<u>Police</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Retirees & Beneficiaries	670	646
Vested Terminated	47	48
Non-vested Terminated	65	59
Active Members	<u>727</u>	<u>692</u>
Total	<u>1,509</u>	<u>1,445</u>

<u>Total</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Retirees & Beneficiaries	33,218	32,281
Vested Terminated	5,008	5,109
Non-vested Terminated	16,087	15,912
Active Members	<u>53,227</u>	<u>52,837</u>
System Total	<u>107,540</u>	<u>106,139</u>

ASSETS AND LIABILITIES (In Thousands \$)

PERS	6/30/2010	6/30/2009
Actuarial Liability	5,241,819	4,792,819
Actuarial Assets	<u>3,889,890</u>	<u>4,002,212</u>
Unfunded Actuarial Liability	<u>1,351,929</u>	<u>790,607</u>
Funded Ratio	<u>74.21%</u>	<u>83.50%</u>

Sheriffs	6/30/2010	6/30/2009
Actuarial Liability	246,734	223,893
Actuarial Assets	<u>200,739</u>	<u>200,690</u>
Unfunded Actuarial Liability	<u>45,995</u>	<u>23,203</u>
Funded Ratio	<u>81.36%</u>	<u>89.64%</u>

Firefighters	6/30/2010	6/30/2009
Actuarial Liability	335,463	306,236
Actuarial Assets	<u>213,755</u>	<u>209,775</u>
Unfunded Actuarial Liability	<u>121,708</u>	<u>96,460</u>
Funded Ratio	<u>63.72%</u>	<u>68.50%</u>

Highway Patrol	6/30/2010	6/30/2009
Actuarial Liability	151,177	137,815
Actuarial Assets	<u>97,204</u>	<u>99,652</u>
Unfunded Actuarial Liability	<u>53,973</u>	<u>38,163</u>
Funded Ratio	<u>64.30%</u>	<u>72.31%</u>

Game Wardens	6/30/2010	6/30/2009
Actuarial Liability	113,855	92,155
Actuarial Assets	<u>85,151</u>	<u>81,177</u>
Unfunded Actuarial Liability	<u>28,704</u>	<u>10,978</u>
Funded Ratio	<u>74.79%</u>	<u>88.09%</u>

Volunteer Firefighters	6/30/2010	6/30/2009
Actuarial Liability	34,512	33,548
Actuarial Assets	<u>26,575</u>	<u>27,226</u>
Unfunded Actuarial Liability	<u>7,937</u>	<u>6,322</u>
Funded Ratio	<u>77.00%</u>	<u>81.16%</u>

Judges	6/30/2010	6/30/2009
Actuarial Liability	42,513	41,848
Actuarial Assets	<u>61,277</u>	<u>61,929</u>
Unfunded Actuarial Liability	<u>(18,764)</u>	<u>(20,081)</u>
Funded Ratio	<u>144.14%</u>	<u>147.98%</u>

Teachers	7/01/2010	7/01/2009
Actuarial Liability	4,518,168	4,330,996
Actuarial Assets	2,956,583	2,762,194
Unfunded Actuarial Liability	<u>1,561,585</u>	<u>1,568,802</u>
Less University Contributions		<u>157,200</u>
Unfunded Actuarial Liability	<u>1,561,585</u>	<u>1,411,602</u>

Police	6/30/2010	6/30/2009
Actuarial Liability	380,393	345,261
Actuarial Assets	<u>217,545</u>	<u>214,345</u>
Unfunded Actuarial Liability	<u>162,848</u>	<u>130,916</u>
Funded Ratio	<u>57.19%</u>	<u>62.08%</u>

Total	6/30/2010	6/30/2009
Actuarial Liability	11,064,634	10,304,571
Actuarial Assets	7,748,719	7,659,200
Unfunded Actuarial Liability	<u>3,315,915</u>	<u>2,645,371</u>
Less University Contributions	-	<u>157,200</u>
Total Unfunded Liability	<u>3,315,915</u>	<u>2,488,171</u>

CASH FLOW *(In Thousands \$)*

PERS	2010	2009
Employees	78,614	76,004
Employers	80,246	75,948
State	<u>537</u>	<u>357</u>
Contributions	159,397	152,309
Benefits/Administration	(228,327)	(211,883)
Cash Flow	(68,930)	(59,574)

Sheriffs	2010	2009
Employees	5,325	5,207
Employers	<u>5,637</u>	<u>5,193</u>
Contributions	10,962	10,400
Benefits/Administration	(9,173)	(8,969)
Cash Flow	1,789	1,431

Firefighters	2010	2009
Employees	4,362	3,701
Employers	5,129	4,531
State	<u>10,872</u>	<u>9,832</u>
Contributions	20,363	18,064
Benefits/Administration	(14,756)	(14,154)
Cash Flow	5,607	3,910

Highway Patrol	2010	2009
Employees	1,261	1,035
Employers	4,763	4,151
State	<u>287</u>	<u>285</u>
Contributions	6,311	5,471
Benefits/Administration	(7,649)	(7,220)
Cash Flow	(1,338)	(1,749)

Game Wardens	2010	2009
Employees	4,334	3,912
Employers	<u>3,612</u>	<u>3,292</u>
Contributions	7,946	7,204
Benefits/Administration	(3,583)	(3,439)
Cash Flow	4,363	3,765

Volunteer Firefighters	2010	2009
State	<u>1,575</u>	<u>1,580</u>
Contributions	1,575	1,580
Benefits/Administration	(1,932)	(1,856)
Cash Flow	(357)	(276)

Judges	2010	2009
Employees	595	584
Employers	<u>1,468</u>	<u>1,347</u>
Contributions	2,063	1,931
Benefits/Administration	(2,128)	(1,989)
Cash Flow	(65)	(58)

Teachers	2010	2009
Employees	62,844	57,256
Employers	72,179	66,851
State	<u>17,242</u>	<u>14,147</u>
Total Contributions	152,265	138,254
Benefits/Administration	(226,311)	(217,016)
Cash Flow	(74,046)	(78,762)

Police	2010	2009
Employees	4,046	5,859
Employers	6,860	5,056
State	<u>10,932</u>	<u>10,186</u>
Contributions	21,838	21,101
Benefits/Administration	(16,721)	(15,963)
Cash Flow	5,117	5,138

Total	2010	2009
Members	161,381	153,558
Employers	179,894	166,369
State/Other	<u>41,445</u>	<u>36,387</u>
Contributions	382,720	356,314
Benefits/Administration	(510,580)	(482,489)
Cash Flow	(127,860)	(126,175)

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND (PERS)

The tables below show the annual change in the PERS book and fair values.

PERS Annual Change						
Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	893,496,301	33.6	906,395,420	34.7	(12,899,119)	(1.4)
Domestic Stock Pool	636,962,413	24.0	703,416,287	27.0	(66,453,874)	(9.4)
International Stock Pool	447,553,000	16.8	433,953,000	16.6	13,600,000	3.1
Montana Private Equity Pool	<u>333,597,330</u>	<u>12.6</u>	<u>306,318,330</u>	<u>11.7</u>	<u>27,279,000</u>	<u>8.9</u>
Total Equity	<u>1,418,112,743</u>	<u>53.4</u>	<u>1,443,687,617</u>	<u>55.3</u>	<u>(25,574,874)</u>	<u>(1.8)</u>
Real Estate Pool	256,575,000	9.7	196,855,000	7.5	59,720,000	30.3
Direct Real Estate	8,770,728	0.3	8,747,666	0.3	23,063	0.3
Montana Mortgages	19,320,155	0.7	24,445,877	0.9	(5,125,722)	(21.0)
Short Term Investment Pool	60,367,044	2.3	29,603,363	1.1	30,763,681	103.9
Total	2,656,641,972	100.0	2,609,734,943	100.0	46,907,029	1.8

Investment Type	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	939,430,189	28.4	876,389,757	29.3	63,040,432	7.2
Domestic Stock Pool	1,114,071,635	33.7	1,070,435,421	35.8	43,636,214	4.1
International Stock Pool	552,711,749	16.7	494,790,123	16.6	57,921,626	11.7
Montana Private Equity Pool	<u>430,729,235</u>	<u>13.0</u>	<u>338,518,625</u>	<u>11.3</u>	<u>92,210,609</u>	<u>27.2</u>
Total Equity	<u>2,097,512,619</u>	<u>63.5</u>	<u>1,903,744,170</u>	<u>63.7</u>	<u>193,768,449</u>	<u>10.2</u>
Real Estate Pool	178,786,541	5.4	145,478,002	4.9	33,308,539	22.9
Direct Real Estate	8,962,696	0.3	8,936,962	0.3	25,733	0.3
Montana Mortgages	19,184,707	0.6	24,055,497	0.8	(4,870,791)	(20.2)
Short Term Investment Pool	60,367,044	1.8	29,603,363	1.0	30,763,681	103.9
Total	3,304,243,795	100.0	2,988,207,751	100.0	316,036,044	10.6

[Click here for a history of PERS book values and income](#)

PERS Annual Change in Income

Income Type	2010 \$	% Of	2009 \$	% Of	\$	%
	Income	Total	Income	Total	Change	Change
Gain on Sale of Pool Units	56,877,013	40.9	(5,078,141)	(5.8)	61,955,154	(1,220.0)
Retirement Funds Bond Pool	46,744,689	33.6	46,182,809	53.0	561,880	1.2
Domestic Stock Pool	15,416,104	11.1	17,435,020	20.0	(2,018,915)	(11.6)
International Stock Pool	7,812,598	5.6	11,842,072	13.6	(4,029,474)	(34.0)
Short Term Investment Pool	207,792	0.1	590,750	0.7	(382,958)	(64.8)
Montana Private Equity Pool	7,299,524	5.2	7,288,925	8.4	10,598	0.1
Montana Mortgages	1,335,370	1.0	1,839,514	2.1	(504,144)	(27.4)
Real Estate Pool	2,820,007	2.0	6,307,111	7.2	(3,487,103)	(55.3)
Direct Real Estate	706,867	0.5	668,961	0.8	37,906	5.7
All Other Funds	0	0.0	1,177	0.0	(1,177)	(100.0)
Total Gross Income	<u>139,219,964</u>	<u>100.0</u>	<u>87,078,197</u>	<u>100.0</u>	<u>52,141,767</u>	<u>59.9</u>
Board Management Fees	(1,604,019)		(1,539,496)		(64,523)	4.2
Custodial Bank Fees	(529,379)		(504,474)		(24,904)	4.9
External Manager Fees	(18,095,615)		(15,714,068)		(2,381,548)	15.2
Total Net Income	<u>118,990,951</u>		<u>69,320,159</u>		<u>49,670,792</u>	<u>71.7</u>

PERS 2010 Total Rates of Returns By Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Short Term Investment Pool	0.33	LIBOR 1 Month	0.27	0.06
Domestic Stock Pool	15.87	S&P 1500 Index	15.57	0.30
International Stock Pool	9.96	MTIP Custom Benchmark	11.13	(1.17)
Private Equity Pool	18.19	S&P 1500 Index + 4%	19.57	(1.38)
Retirement Funds Bond Pool	14.20	BC Aggregate	9.50	4.70
Real Estate Pool	(17.32)	NCREIF-Property Index	(9.60)	(7.72)
Montana Mortgages	7.89	NA	NA	NA
Direct Real Estate	7.94	NA	NA	NA
Total Net of Fees	<u>12.87</u>	Composite (1)	<u>15.99</u>	<u>(3.12)</u>
Total Gross of Fees	<u>13.53</u>	Peer Universe (2)	<u>13.35</u>	<u>0.18</u>

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

(2) State Street Bank Public Fund Universe Comprised of Plans greater than \$1 Billion in Assets

PERS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return +/- Benchmark
2010	12.87	PERS Composite	15.99	(3.12)
3 Year Annualized Average	(5.21)	PERS Composite	(4.88)	(0.33)
5 Year Annualized Average	1.85	PERS Composite	2.01	(0.16)
10 Year Annualized Average	2.35	PERS Composite	2.52	(0.17)

(1) An Index Composite Paralleling the Fund's Asset Allocation At Fair Value

TEACHERS' RETIREMENT SYSTEM FUND (TRS)

The tables below show the annual change in the TRS book and fair values.

TRS Annual Change						
Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	673,872,463	33.8	683,779,834	34.5	(9,907,371)	(1.4)
Domestic Stock Pool	474,936,242	23.8	529,924,277	26.8	(54,988,036)	(10.4)
International Stock Pool	334,585,518	16.8	328,858,701	16.6	5,726,817	1.7
Montana Private Equity Pool	<u>251,910,970</u>	<u>12.6</u>	<u>233,113,970</u>	<u>11.8</u>	<u>18,797,000</u>	<u>8.1</u>
Total Equity	<u>1,061,432,730</u>	<u>53.2</u>	<u>1,091,896,949</u>	<u>55.1</u>	<u>(30,464,219)</u>	<u>(2.8)</u>
Real Estate Pool	193,814,000	9.7	149,634,000	7.6	44,180,000	29.5
Direct Real Estate	8,255,980	0.4	8,232,917	0.4	23,063	0.3
Montana Mortgages	16,457,910	0.8	20,824,266	1.1	(4,366,356)	(21.0)
Short Term Investment Pool	40,524,713	2.0	25,893,766	1.3	14,630,947	56.5
Total	1,994,357,795	100.0	1,980,261,731	100.0	14,096,064	0.7

Investment Type	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	710,013,885	28.5	662,541,761	29.1	47,472,124	7.2
Domestic Stock Pool	839,405,532	33.7	814,890,157	35.8	24,515,374	3.0
International Stock Pool	415,264,157	16.7	376,245,403	16.5	39,018,753	10.4
Montana Private Equity Pool	<u>326,593,292</u>	<u>13.1</u>	<u>258,458,320</u>	<u>11.3</u>	<u>68,134,972</u>	<u>26.4</u>
Total Equity	<u>1,581,262,981</u>	<u>63.5</u>	<u>1,449,593,880</u>	<u>63.6</u>	<u>131,669,100</u>	<u>9.1</u>
Real Estate Pool	134,795,233	5.4	110,641,764	4.9	24,153,469	21.8
Direct Real Estate	8,383,070	0.3	8,357,337	0.4	25,733	0.3
Montana Mortgages	16,342,528	0.7	20,491,720	0.9	(4,149,192)	(20.2)
Short Term Investment Pool	40,524,713	1.6	25,893,766	1.1	14,630,947	56.5
Total	2,491,322,409	100.0	2,277,520,228	100.0	213,802,181	9.4

[Click here for a history of TRS book values and income](#)

<u>TRS Annual Change in Income</u>						
Income Type	2010 \$	% Of	2009 \$	% Of	\$	%
	Income	Total	Income	Total	Change	Change
Gain on Sale of Pool Units	48,246,417	43.5	1,659,468	2.3	46,586,949	2,807.3
Retirement Funds Bond Pool	35,330,183	31.9	35,359,427	48.8	(29,244)	(0.1)
Domestic Stock Pool	11,659,674	10.5	13,378,977	18.5	(1,719,303)	(12.9)
International Stock Pool	5,914,669	5.3	9,059,984	12.5	(3,145,314)	(34.7)
Short Term Investment Pool	145,817	0.1	446,975	0.6	(301,158)	(67.4)
Montana Private Equity Pool	5,556,843	5.0	5,519,352	7.6	37,491	0.7
Montana Mortgages	1,137,537	1.0	1,566,993	2.2	(429,456)	(27.4)
Real Estate Pool	2,146,804	1.9	4,832,685	6.7	(2,685,881)	(55.6)
Direct Real Estate	663,826	0.6	628,921	0.9	34,906	5.6
All Other Funds	0	0.0	998	0.0	(998)	(100.0)
Total Gross Income	<u>110,801,771</u>	<u>100.0</u>	<u>72,453,779</u>	<u>100.0</u>	<u>38,347,992</u>	<u>52.9</u>
Board Management Fees	(1,221,690)		(1,184,645)		(37,046)	3.1
Custodial Bank Fees	(400,331)		(386,285)		(14,046)	3.6
External Manager Fees	(13,728,922)		(11,991,838)		(1,737,084)	14.5
Total Net Income	<u>95,450,828</u>		<u>58,891,011</u>		<u>36,559,817</u>	<u>62.1</u>

<u>TRS 2010 Total Rates of Return by Asset</u>				
Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Short Term Investment Pool	0.33	LIBOR 1 Month	0.27	0.06
Domestic Stock Pool	15.87	S&P 1500 Index	15.57	0.30
International Stock Pool	9.96	MTIP Custom Benchmark	11.13	(1.17)
Private Equity Pool	18.19	S&P 1500 Index + 4%	19.57	(1.38)
Retirement Funds Bond Pool	14.20	BC Aggregate	9.50	4.70
Real Estate Pool	(17.32)	NCREIF-Property Index	(9.60)	(7.72)
Montana Mortgages	7.90	NA	NA	NA
Direct Real Estate	8.01	NA	NA	NA
Total Net of Fees	<u>12.84</u>	Composite (1)	<u>15.95</u>	<u>(3.11)</u>
Total Gross of Fees	<u>13.51</u>	Peer Universe (2)	<u>13.35</u>	<u>0.16</u>

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value
(2) State Street Bank Public Fund Universe Comprised of Plans greater than \$1 Billion in Assets

<u>TRS Historical Rates of Returns Versus Benchmark</u>				
Year	% Return	Benchmark (1)	Benchmark % Return	Return Benchmark
2010	12.84	TRS Composite	15.95	(3.11)
3 Year Annualized Average	(5.22)	TRS Composite	(4.89)	(0.33)
5 Year Annualized Average	1.83	TRS Composite	1.99	(0.16)
10 Year Annualized Average	2.34	TRS Composite	2.47	(0.13)

(1) An Index Composite Paralleling the Fund's Asset Allocation At Fair Value

OTHER RETIREMENT SYSTEMS

The seven other retirement funds are administered by the Public Employees' Retirement Board, the same board that administers the Public Employees' Retirement System. These smaller systems participate with the Public Employees' Retirement Fund and the Teachers' Retirement Fund in all investment pools managed by the Board, but do not participate in the Montana Residential Mortgage Program or direct real estate investments.

Other Pensions Annual Change by Asset Type						
Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	208,117,977	32.2	205,312,884	33.6	2,805,093	1.4
Domestic Stock Pool	177,283,348	27.5	185,754,204	30.4	(8,470,855)	(4.6)
International Stock Pool	108,312,194	16.8	99,453,810	16.3	8,858,384	8.9
Montana Private Equity Pool	<u>77,017,021</u>	<u>11.9</u>	<u>68,013,021</u>	<u>11.1</u>	<u>9,004,000</u>	<u>13.2</u>
Total Equity	<u>362,612,563</u>	<u>56.2</u>	<u>353,221,035</u>	<u>57.7</u>	<u>9,391,529</u>	<u>2.7</u>
Real Estate Pool	57,696,000	8.9	42,976,000	7.0	14,720,000	34.3
Short Term Investment Pool	17,252,205	2.7	10,175,153	1.7	7,077,052	69.6
Total	645,678,745	100.0	611,685,072	100.0	33,993,674	5.6

Investment Type	6/30/2010 Fair Value	% of Total	6/30/2009 Fair Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	217,766,388	28.9	197,597,519	30.2	20,168,868	10.2
Domestic Stock Pool	253,578,971	33.7	233,588,489	35.7	19,990,482	8.6
International Stock Pool	125,746,499	16.7	107,820,037	16.5	17,926,462	16.6
Montana Private Equity Pool	<u>97,475,462</u>	<u>13.0</u>	<u>73,890,161</u>	<u>11.3</u>	<u>23,585,301</u>	<u>31.9</u>
Total Equity	<u>476,800,933</u>	<u>63.4</u>	<u>415,298,688</u>	<u>63.4</u>	<u>61,502,245</u>	<u>14.8</u>
Real Estate Pool	40,572,236	5.4	31,746,960	4.8	8,825,276	27.8
Short Term Investment Pool	17,252,205	2.3	10,175,153	1.6	7,077,052	69.6
Total	752,391,761	100.0	654,818,319	100.0	97,573,442	14.9

Other Retirement Systems 2010 Total Rates of Return				
Fund	% Return	Index (1)	% Return	Fund +/- Index
Sheriffs	12.77	Composite	15.91	(3.14)
Police	12.88	Composite	16.02	(3.14)
Firefighters	12.84	Composite	15.97	(3.13)
Highway Patrol	12.95	Composite	16.10	(3.15)
Judges	12.83	Composite	15.95	(3.12)
Game Warden	12.72	Composite	15.81	(3.09)
Vol. Firefighters	12.67	Composite	15.58	(2.91)

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

TRUST FUNDS

The Board invests several 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 a part of settlements between the state and private corporations to ensure environmental clean-up of polluted sites. The trusts are managed for income, rather than total rate of return. The fiscal year changes in the trusts' book are shown below.

Trust	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Permanent Coal Tax Trust	817,330,328	37.6	795,086,649	38.3	22,243,679	2.8
Schools (Trust and Legacy)	453,739,857	20.9	443,855,288	21.4	9,884,568	2.2
UCFRB Restoration	159,594,572	7.3	168,901,566	8.1	(9,306,994)	(5.5)
Tobacco Trust	121,956,900	5.6	108,775,893	5.2	13,181,007	12.1
Resource Indemnity Trust	100,023,109	4.6	100,023,109	4.8	0	0.0
Clark Fork Site Response	99,667,569	4.6	97,414,684	4.7	2,252,885	2.3
Streamside Tailings	72,733,978	3.3	77,376,864	3.7	(4,642,887)	(6.0)
Other Trusts in STIP	131,025,566	6.0	75,920,054	3.7	55,105,512	72.6
Montana Pole	30,685,356	1.4	30,272,876	1.5	412,479	1.4
Butte Area One Restoration	29,064,712	1.3	28,232,250	1.4	832,463	2.9
Clark Fork River Restoration	27,818,844	1.3	26,896,947	1.3	921,897	3.4
Parks Trust	19,952,506	0.9	19,283,763	0.9	668,743	3.5
Smelter Hill Uplands Restoration	13,132,904	0.6	13,298,532	0.6	(165,628)	(1.2)
UCFRB Reserve	13,520,253	0.6	12,903,593	0.6	616,661	4.8
FWP Mitigation	11,893,012	0.5	11,778,079	0.6	114,933	1.0
Cultural Trust	11,094,915	0.5	10,812,015	0.5	282,900	2.6
Weed Control	10,133,142	0.5	9,934,164	0.5	198,978	2.0
Zort/Land LT H2O Trust	9,627,353	0.4	9,031,455	0.4	595,898	6.6
Wildlife Habitat	9,175,791	0.4	8,746,382	0.4	429,409	4.9
Older Montanans Trust	9,005,119	0.4	8,553,107	0.4	452,012	5.3
Zortman/Landusky	7,073,943	0.3	5,559,636	0.3	1,514,308	27.2
FWP Real Property	5,544,497	0.3	5,376,471	0.3	168,026	3.1
Abandoned Mines	5,472,603	0.3	5,256,827	0.3	215,776	4.1
Litigation Cost Recovery	1,755,758	0.1	1,749,440	0.1	6,317	0.4
Endowment for Children	1,163,614	0.1	1,106,396	0.1	57,218	5.2
Other Trusts in TFIP	694,479	0.0	694,479	0.0	0	0.0
Other Trusts in MDEP	186,873	0.0	186,873	0.0	0	0.0
Total	2,173,067,553	100.0	2,077,027,392	100.0	96,040,161	4.6
Fixed-Income/Real Estate (TFIP)	1,683,585,092	77.5	1,629,390,092	78.4	54,195,000	3.3
Other Fixed Income	78,197,158	3.6	75,409,565	3.6	2,787,593	3.7
Montana Loans	205,427,525	9.5	212,023,678	10.2	(6,596,153)	(3.1)
Cash Equivalents (STIP)	205,670,905	9.5	160,017,184	7.7	45,653,721	28.5
Equity (MDEP)	186,873	0.0	186,873	0.0	0	0.0
Total	2,173,067,553	100.0	2,077,027,392	100.0	96,040,161	4.6

[Click here to view individual portfolios for the trust funds](#)

COAL TAX TRUST FUND

Article IX, Section 5 of the state Constitution requires that 50 percent of all coal severance tax revenues be deposited in a permanent trust fund (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest 25 percent of the Trust in Montana businesses.

The legislature has partitioned the Trust into several sub-funds. The Permanent Fund was initially established when the Trust was created, while the Severance Tax Bond Fund, created later, provides debt service guarantees and is invested solely in STIP. The Treasure State Endowment Fund was created July 1, 1993, with a \$10.0 million transfer from the Permanent Fund. From July 1, 1993 through June 30, 1999 one-half of the coal severance tax earmarked for the Trust was deposited in the Permanent Fund and the remaining 50 percent was deposited in the Treasure State Endowment Fund.

Effective July 1, 1999, a new Treasure State Endowment Regional Water Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account.

Effective July 1, 2005, a new Big Sky Economic Development Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account. There is currently no new revenue dedicated to the Permanent Fund.

Income from the Permanent Fund and the Bond Fund is deposited in the Permanent Fund Income Fund where it is swept periodically to the state general fund. All sub-funds, except the income fund, are protected by the Constitution and may be appropriated only by a three-fourths vote of each house of the legislature. Income from the Treasure State Endowment Fund is appropriated by the legislature for local government infrastructure projects. Treasure State Endowment Regional Water Fund income is appropriated by the legislature for local government water projects. Big Sky Economic Development Fund income is appropriated by the legislature for economic development projects.

The annual change in the book values of the Coal Tax Trust sub-funds is shown below:

<u>Coal Tax Trust Subfunds Annual Change</u>						
Subfund	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Permanent Fund	531,373,279	65.0	531,301,257	66.8	72,022	0.0
Treasure State Endowment	182,831,950	22.4	171,350,309	21.6	11,481,642	6.7
Treasure State Regional Water	50,583,727	6.2	44,842,907	5.6	5,740,821	12.8
Economic Development Fund	46,791,809	5.7	41,050,989	5.2	5,740,821	14.0
Severance Tax Bond Fund	3,637,608	0.4	4,345,372	0.5	(707,764)	(16.3)
Permanent Fund Income	2,111,954	0.3	2,195,817	0.3	(83,863)	(3.8)
Total Coal Tax Trust	817,330,328	100.0	795,086,649	100.0	22,243,679	2.8

[**Click here for a history of the Coal Tax Trust book values and income**](#)

The annual change in the Trust's book value by investment is shown below.

Permanent Coal Tax Trust Annual Change						
Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Fixed Income (TFIP)	<u>594,112,860</u>	<u>72.7</u>	<u>562,892,860</u>	<u>70.8</u>	<u>31,220,000</u>	<u>5.5</u>
Commercial Loans	148,708,515	18.2	155,778,853	19.6	(7,070,338)	(4.5)
Local Gov. Infrastructure	24,530,674	3.0	20,591,953	2.6	3,938,721	19.1
Value-added Loans	8,002,834	1.0	13,538,774	1.7	(5,535,940)	(40.9)
Science and Technology	12,336,133	1.5	12,452,295	1.6	(116,162)	(0.9)
Montana Facility Finance	8,742,035	1.1	6,821,687	0.9	1,920,348	28.2
Intermediary Loan Program	2,734,325	0.3	2,467,107	0.3	267,218	10.8
Department of Justice	<u>373,010</u>	<u>0.0</u>	<u>373,010</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>
Total In-State Investments	<u>205,427,525</u>	<u>25.1</u>	<u>212,023,678</u>	<u>26.7</u>	<u>(6,596,153)</u>	<u>(3.1)</u>
STIP Permanent Fund	11,992,395	1.5	13,489,970	1.7	(1,497,575)	(11.1)
STIP Sev. Tax Bond Fund	3,637,608	0.4	4,345,372	0.5	(707,764)	(16.3)
STIP Permanent Trust Income	2,111,954	0.3	2,195,817	0.3	(83,863)	(3.8)
STIP Tr. St. Endow Trust	23,419	0.0	71,027	0.0	(47,608)	(67.0)
STIP Tr. St. Regional Water	11,849	0.0	36,028	0.0	(24,179)	(67.1)
STIP Economic Development Fund	<u>12,719</u>	<u>0.0</u>	<u>31,898</u>	<u>0.0</u>	<u>(19,179)</u>	<u>(60.1)</u>
Cash Equivalents (STIP)	17,789,943	2.2	20,170,111	2.5	(2,380,168)	(11.8)
Total	817,330,328	100.0	795,086,649	100.0	22,243,679	2.8
Income	40,457,940		39,149,803		1,308,137	3.3

The Coal Tax Trust is also used to fund the in-state investment program on Page 42.

TRUST AND LEGACY FUND

Article X, Sections 2 and 3 of the state Constitution requires that all royalties and other proceeds received from school lands granted to the state under federal enabling legislation be deposited in the Trust and Legacy Fund, where it shall forever remain inviolate and guaranteed by the state against loss or diversion. The fiscal year changes in the Trust's book and fair value are shown below.

Trust & Legacy Fund Annual Change						
Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Fixed Income (TFIP)	444,653,456	98.0	441,153,456	99.4	3,500,000	0.8
Cash Equivalents (STIP)	9,086,400	2.0	2,701,832	0.6	6,384,568	236.3
Total	453,739,857	100.0	443,855,288	100.0	9,884,568	2.2
Income	22,934,486		22,777,821		156,665	0.7

[Click here for a history of the T & L Fund book values and income](#)

RESOURCE INDEMNITY TRUST FUND

Article IX, Section 2 of the state Constitution requires that revenues from the Resource Indemnity Tax on minerals be deposited in the Resource Indemnity Trust Fund, the principal of which "shall forever remain inviolate" until the principal reaches \$100 million. The fund's book value reached \$100.0 million in fiscal 2002. The fiscal year changes in the Trust's book and fair value are shown below.

Resource Indemnity Trust Annual Change						
Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Fixed Income (TFIP)	99,999,976	100.0	99,999,976	100.0	0	0.0
Cash Equivalents (STIP)	23,133	0.0	23,133	0.0	0	0.0
Total	100,023,109	100.0	100,023,109	100.0	0	0.0
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Income	5,212,968		5,197,073		15,896	0.3

[Click here for a history of the RIT book values and income](#)

COAL TAX PARKS/CULTURAL TRUST FUNDS

A portion of the coal severance tax is dedicated to a statutorily created Parks Trust Fund and a Cultural Trust Fund (Trusts). Investment income generated by the Trusts is appropriated by the legislature to acquire/operate state parks and to fund cultural and aesthetics projects. The 1997 legislature appropriated \$3.9 million of Cultural Trust principal to purchase historical properties. The fiscal year changes in the Trusts' book and fair value are shown below.

Coal Tax Parks/Cultural Funds Annual Change						
Fund Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Parks Trust	19,952,506	64.3	19,283,763	64.1	668,743	3.5
Cultural Trust	11,094,915	35.7	10,812,015	35.9	282,900	2.6
Total	31,047,421	100.0	30,095,777	100.0	951,643	3.2
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Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% Change
Fixed Income (TFIP)	30,734,936	99.0	29,869,936	99.2	865,000	2.9
Cash Equivalents (STIP)	312,485	1.0	225,842	0.8	86,643	38.4
Total	31,047,421	100.0	30,095,777	100.0	951,643	3.2
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Income	1,542,457		1,489,622		52,835	3.5

[Click here for a history of these trusts book values and income](#)

OTHER TRUST FUNDS

Fish, Wildlife, and Parks (FWP) Mitigation Trust - expendable trust funds fish and wildlife mitigation/enhancements.

Abandoned Mine Trust - expendable trust funds abandoned mine reclamation.

FWP Real Property Trust - non-expendable trust funds operations, development, and maintenance of FWP real property.

Weed Control Trust - non-expendable \$2.5 million trust funds noxious weed control.

Wildlife Habitat Trust - funds acquisition/development/maintenance of wildlife habitat.

Montana Post and Pole Trust - funds environmental cleanup of the former Montana Pole and Treatment Plant in Butte.

The UCFRB Funds represent proceeds from state settlements with the Atlantic Richfield Company for restoration of the Upper Clark Fork River Basin.

Streamside Tailing Funds are derived from a consent decree between the state and the Atlantic Richfield Company for remedial treatment of the Silver Bow Creek/Butte area.

Tobacco Trust – the nation’s largest tobacco companies are required to pay at least \$205.0 billion over the next 25 years to the states. Forty percent of Montana’s share is deposited in a trust fund.

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

Zortman/Landusky LT H2O Trust – this fund has the same purpose as the existing Zortman/Landusky account; however, the source of funds is different. The legislature requires a deposit of \$1.2 million a year into this account until there are sufficient funds to generate \$19.3 million by January 1, 2018.

Endowment for Children Fund – funds used to support programs and services related to child abuse and neglect, primary prevention activities and family resource programs.

Older Montanans Trust Fund - funds used to create new, innovative services or expand existing services for Montana residents 60 years of age or older.

Clark Fork Site Response Action Fund – funds derived from the 2008 consent decree between the Montana Department of Environmental Quality and Atlantic Richfield Company to remediate the Clark Fork River.

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

Litigation Cost Recovery Fund – funds derived from the 2008 consent decree between the Montana Department of Justice and Atlantic Richfield Company to reimburse the Department of Justice for the legal costs associated with the litigation with ARCO over the remediation necessary in the Upper Clark Fork River Basin area.

Clark Fork River Restoration Fund – funds derived from the 2008 consent decree between the Montana Department of Justice and Atlantic Richfield Company for restoration of the Clark Fork River and associated riparian areas from Warm Springs Ponds to Milltown Reservoir and related projects.

Smelter Hill Uplands Restoration Fund – funds derived from the 2008 consent decree between the Montana Department of Justice and Atlantic Richfield Company for the restoration of the environment, vegetation and soils on lands affected by the Anaconda smelter.

STATE FUND INSURANCE

The State Compensation Insurance Fund (State Fund) provides workers' compensation and occupational disease insurance for claims arising from injuries occurring on or after July 1, 1990. Effective on that date, the state's workers' compensation fund was divided into two funds with separate liabilities. The "old" fund retained all financial obligations for claims for injuries occurring prior to July 1, 1990, while the "new" fund assumed claim obligations for injuries occurring after that date.

State Fund Insurance Annual Change						
Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% of Change
Corporate/Asset-Backed Bonds	565,907,160	53.7	516,210,021	50.6	49,697,139	9.6
US Govt Direct Obligations	146,710,310	13.9	98,530,003	9.7	48,180,306	48.9
US Agency Bonds	215,092,150	20.4	294,997,644	28.9	(79,905,493)	(27.1)
Total Fixed Income	927,709,620	88.0	909,737,668	89.1	17,971,952	2.0
ACWI EX US Global Index	4,000,000	0.4	0		4,000,000	NA
S&P 500 Equity Index	98,406,677	9.3	84,406,677	8.3	14,000,000	16.6
Total Equity	102,406,677	9.7	84,406,677	8.3	18,000,000	21.3
Cash Equivalents (STIP)	24,213,560	2.3	26,404,184	2.6	(2,190,624)	(8.3)
Total	1,054,329,856	100.0	1,020,548,529	100.0	33,781,328	3.3
Income	47,115,197		34,336,864		12,778,333	37.2

[Click here for a full listing of securities in the State Fund portfolio](#)

State Fund Insurance 2010 Total Rates of Return				
Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	0.32	LIBOR 1 Month	0.27	0.05
Equities	14.58	S & P 500 Index	14.43	0.15
Fixed Income	11.90	BC Gov/Credit Intermediate	8.29	3.61
All Assets	11.67	Composite (1)	8.45	3.22

(1) An Index Composite paralleling the Fund's asset allocation at fair value

OTHER INSURANCE FUNDS INVESTMENTS

Old Workers - Compensation Fund - pays claims for all injury claims occurring prior to July 1, 1990.

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

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

Other insurance programs whose investments are held solely in STIP include:

University Group Benefits.....	\$ 33,868,709
Agency Insurance.....	21,471,908
University Workers Compensation.....	14,598,378
Hail Insurance.....	11,509,455
Uninsured Employees.....	3,222,043
Unemployment Insurance Benefits.....	5,572,078
Total.....	<u>\$90,242,571</u>

TREASURER'S FUND

The Treasurer's Fund (Fund) is comprised of surplus 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. Invested balances at book value vary widely due to varying levels of excess cash in the state's general fund and other accounts comprising the Fund. The Fund is managed to maximize income, rather than for total rate of return. This Fund has been a major investor in STIP since 1974 when STIP was created.

Treasurer's Fund Annual Change						
Investment Type	6/30/2010 Book Value	% of Total	6/30/2009 Book Value	% of Total	\$ Change	% of Change
US Bank Sweep Repo	11,659,113	1.3	15,845,774	1.7	(4,186,661)	(26.4)
US Agency Bonds	50,538,642	5.6	0	0.0	50,538,642	NA
US Treasury Bills/Bonds	4,992,673	0.5	0	0.0	0	NA
Corporate Bonds	15,066,906	1.7	0	0.0	0	NA
Cash Equivalents (STIP)	828,267,153	91.0	935,740,008	98.3	(107,472,855)	(11.5)
Total	910,524,487	100.0	951,585,782	100.0	(41,061,295)	(4.3)
Income	2,692,285		15,506,889		(12,814,604)	(82.6)

COAL TAX TRUST LOANS

Created in 1984 as part of the "Build Montana" program, this program invests Coal Tax Trust (Trust) funds in Montana to stimulate the state's economy. State law authorizes the Board to invest the Trust to increase employment and business opportunities, while maintaining and improving the state's physical environment.

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

The Commercial Loan Participation Program purchases from originating financial institutions up to 80 percent of a participation loan. Unencumbered land, buildings, and equipment may be financed with the loan proceeds. The financial institutions charge a fee to service the loan and the Board's loan is collateralized proportionally to the Board's share of the loan. These loans may not exceed 25.0 percent of the Trust and the individual loans may not exceed 10.0 percent of the Trust. Loans exceeding 6.0 percent of the Trust must have lender participation of at least 30.0 percent.

The Infrastructure Loan Program provides loans to eligible local governments for constructing infrastructure required by job creating businesses in their jurisdiction. Total loans outstanding in this Program are limited by law to \$80.0 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 \$70.0 million.

The Intermediary Re-lending Program provides loans to local economic development organizations with revolving loan programs. Individual loans may not exceed \$500,000 and total loans outstanding in this Program are limited by law to \$5.0 million.

Loans By Sector From Inception						
Sector	6/30/2010 Cumulative	% of Total	6/30/2009 Cumulative	% Of Total	\$ Change	% Change
Service Industry	270,984,690	42.6	267,566,597	42.9	3,418,093	1.3
Manufacturing	90,415,242	14.2	90,415,242	14.5	0	0.0
Finance/Insurance/Real Estate	90,217,363	14.2	82,964,905	13.3	7,252,458	8.7
Retail Trade	74,764,168	11.8	73,868,029	11.8	896,140	1.2
Agriculture/Forestry/Fishing	61,022,673	9.6	61,022,673	9.8	0	0
Transportation/Utilities/Comm.	22,670,985	3.6	22,670,985	3.6	0	0
Wholesale Trade	12,347,115	1.9	12,347,115	2.0	0	0
Construction	10,106,827	1.6	10,106,827	1.6	0	0
Mining	3,139,768	0.5	3,139,768	0.5	0	0
Total	635,668,831	100.0	624,102,140	100.0	11,566,691	1.9
Annual Change by Loan Type						
Loan Type	6/30/2010 Outstanding	% of Total	6/30/2009 Outstanding	% Of Total	\$ Change	% Change
Commercial Loans	148,708,515	80.8	155,778,853	81.0	(7,070,338)	(4.5)
Infrastructure Loans	24,530,674	13.3	20,591,953	10.7	3,938,721	19.1
Value-added Loans	8,002,834	4.3	13,538,774	7.0	(5,535,940)	(40.9)
Intermediary Program Loans	2,734,325	1.5	2,467,107	1.3	267,218	10.8
Total	183,976,347	100.0	192,376,687	100.0	(8,400,339)	(4.4)
Loan Yield at 6/30 (1)	5.53%		5.35%			
Loans 90 Days in Arrears	0		0			
Loan Losses	0		0			

(1) Excludes Value-added and Intermediary Program Loans With Interest Rates Set By Law

Loans From Inception By County Annual Change At June 30

County	Through 2010	% Of Total	Through 2009	% Of Total	09-10 \$ Increase	2010 Loans	2009 Loans	09-10 Inc
Missoula	123,337,871	19.4	121,532,119	19.5	1,805,752	226	219	7
Gallatin	95,444,116	15.0	95,394,116	15.3	50,000	126	121	5
Yellowstone	91,114,427	14.3	83,170,329	13.3	7,944,097	143	138	5
Cascade	60,767,015	9.6	60,767,015	9.7	1	54	51	3
Lewis & Clark	54,540,792	8.6	52,853,451	8.5	1,687,341	100	94	6
Flathead	47,159,507	7.4	47,159,507	7.6	0	88	88	0
Park	22,709,631	3.6	22,709,631	3.6	0	30	29	1
Lake	19,432,991	3.1	19,432,991	3.1	0	90	90	0
Silver Bow	18,491,976	2.9	18,454,476	3.0	37,500	12	9	3
Ravalli	14,987,006	2.4	14,987,006	2.4	0	46	46	0
Madison	13,713,554	2.2	13,713,554	2.2	0	70	70	0
Beaverhead	10,874,710	1.7	11,150,710	1.8	(276,000)	29	30	(1)
Stillwater	9,289,630	1.5	9,289,630	1.5	0	49	49	0
Blaine	6,231,325	1.0	5,955,325	1.0	276,000	35	34	1
Hill	5,265,248	0.8	5,265,248	0.8	0	10	10	0
Richland	3,580,953	0.6	3,580,953	0.6	0	26	26	0
Roosevelt	3,222,856	0.5	3,222,856	0.5	0	8	8	0
Rosebud	3,162,078	0.5	3,162,078	0.5	0	2	2	0
Carbon	3,154,586	0.5	3,154,586	0.5	0	13	13	0
Phillips	3,097,177	0.5	3,097,177	0.5	0	5	5	0
Jefferson	2,863,980	0.5	2,863,980	0.5	0	12	12	0
Sanders	2,721,699	0.4	2,721,699	0.4	0	9	9	0
Valley	2,308,767	0.4	2,308,767	0.4	0	17	17	0
Custer	1,960,399	0.3	1,960,399	0.3	0	3	3	0
Lincoln	1,923,608	0.3	1,923,608	0.3	0	6	6	0
Choteau	1,701,998	0.3	1,701,998	0.3	0	4	4	0
Mineral	1,611,093	0.3	1,611,093	0.3	0	3	3	0
Granite	1,524,095	0.2	1,524,095	0.2	0	6	6	0
Meagher	1,424,517	0.2	1,424,517	0.2	0	5	5	0
Fergus	1,379,955	0.2	1,337,955	0.2	42,000	3	3	0
Dawson	874,285	0.1	874,285	0.1	0	1	1	0
Toole	848,195	0.1	848,195	0.1	0	2	1	1
Pondera	782,199	0.1	782,199	0.1	0	3	3	0
Sweet Grass	751,737	0.1	751,737	0.1	0	3	3	0
Bighorn	676,400	0.1	676,400	0.1	0	3	3	0
Powell	616,500	0.1	616,500	0.1	0	1	1	0
Fallon	476,429	0.1	476,429	0.1	0	2	2	0
Broadwater	463,199	0.1	463,199	0.1	0	3	3	0
Liberty	455,439	0.1	455,439	0.1	0	3	3	0
McCone	295,148	0.0	295,148	0.0	0	3	3	0
Musselshell	163,000	0.0	163,000	0.0	0	1	1	0
Daniels	121,637	0.0	121,637	0.0	0	1	1	0
Wibaux	90,000	0.0	90,000	0.0	0	1	1	0
Powder River	57,105	0.0	57,105	0.0	0	1	1	0
Total	635,668,832	100.0	624,102,140	100.0	11,566,692	1,258	1,227	31

In addition to the Coal Tax Loan Program, the Board also invests other state funds in Montana and guarantees bonds as shown below:

<u>In-state Loans and Other In-State Investments</u>			
Loan Type	6/30/2010 Book Value	6/30/2009 Book Value	\$ Change
Coal Tax Trust Loans	183,976,347	192,376,687	(8,400,339)
Residential Mortgages	35,778,065	45,270,143	(9,492,078)
Real Estate	17,026,708	16,980,582	46,125
Montana Science and Technology	12,336,133	12,452,295	(116,162)
Department of Justice Loan	373,010	373,010	0
Facility Finance Authority Loans	8,742,035	6,821,687	1,920,348
Total Loans	<u>258,232,298</u>	<u>274,274,404</u>	<u>(16,042,106)</u>
PPL Montana	32,575,712	35,873,615	(3,297,903)
Med Map LLC (St. Vincent's Hospital, Billings)	21,841,146	22,735,000	(893,854)
Montana CRP Bonds	120,328	880,150	(759,822)
Board of Housing	1,100,000	1,110,000	(10,000)
Total Bonds	<u>55,637,186</u>	<u>60,598,764</u>	<u>(4,961,578)</u>
Total In-State Investments	<u>313,869,483</u>	<u>334,873,168</u>	<u>(21,003,685)</u>
Bond Guarantees (1)	<u>197,444,677</u>	<u>198,465,022</u>	<u>(1,020,345)</u>
(1) Guarantees of INTERCAP and Montana Facility Finance Authority Bonds			

MONTANA RESIDENTIAL MORTGAGES

The Board invests the Public Employees' and Teachers' Retirement Funds in Montana mortgages by purchasing all or a portion of mortgages from qualified financial institutions. Interest rates are set weekly, based on quotes from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, the two major U.S. secondary mortgage markets. Financial institutions charge a fee for servicing the loans. The number and location of mortgages purchased by the Board depend upon the mortgage lending activities of individual financial institutions and their interest in the Board's mortgage program. All mortgages are secured by single-family residential or multi-family residential properties in Montana. The mortgage portfolio peaked in 2002 at \$324.0 million but has since declined significantly due to market conditions and the fact that the retirement fund investment return assumptions are well in excess of the recent yield on mortgages. The table below shows the annual change in outstanding mortgage balances by type.

<u>Outstanding Mortgages By Type</u>						
Mortgage Type	6/30/2010 Outstanding	% of Total	6/30/2009 Outstanding	% Of Total	\$ Change	% Change
Residential Conventional	21,762,427	60.6	28,490,458	62.9	(6,728,031)	(23.6)
Residential FHA	12,637,004	35.3	15,195,528	33.6	(2,558,523)	(16.8)
Residential VA	1,463,541	4.1	1,587,859	3.5	(124,318)	(7.8)
Total	<u>35,778,065</u>	<u>100.0</u>	<u>45,270,143</u>	<u>100.0</u>	<u>(9,492,078)</u>	<u>(21.0)</u>
Mortgages 90 Days in Arrears	<u>1.53%</u>		<u>0.74%</u>			
Losses on Mortgages	<u>0</u>		<u>0</u>			

BOND PROGRAMS

The Board administers several bond programs under the Montana Economic Development Bond and the Municipal Finance Consolidation Acts, created as part of the "Build Montana" program in 1984.

INTERCAP - The Board issues bonds and lends the proceeds to eligible governments for a variety of purposes. Since the program's inception, the Board has issued \$136.0 million in bonds with \$96.1 million outstanding at June 30, 2010. The table below shows INTERCAP loans from inception by project and borrower type.

INTERCAP Loans From Inception By Project Type						
Project Type	6/30/2010 Cumulative	% Of Total	6/30/2009 Cumulative	% Of Total	\$ Change	% Change
Buildings	64,469,032	19.8	60,045,982	19.9	4,423,050	7.4
Vehicles	63,355,712	19.5	58,283,410	19.4	5,072,302	8.7
Revenue Anticipation	61,251,957	18.8	53,458,695	17.8	7,793,262	14.6
Computer/Printers	42,987,553	13.2	40,308,969	13.4	2,678,584	6.6
Land/Roads	25,426,344	7.8	23,033,664	7.6	2,392,680	10.4
Equipment	22,549,722	6.9	22,105,234	7.3	444,488	2.0
Water/Wastewater	12,562,451	3.9	11,769,593	3.9	792,858	6.7
Energy Retrofit	12,527,685	3.9	12,354,087	4.1	173,597	1.4
Other	12,535,848	3.9	12,328,848	4.1	207,000	1.7
Solid Waste Equipment	7,471,290	2.3	7,471,290	2.5	0	0.0
Total	325,137,595	100.0	301,159,773	100.0	23,977,822	8.0

INTERCAP Loans From Inception By Borrower Type						
Borrower Type	6/30/2010 Cumulative	% Of Total	6/30/2009 Cumulative	% Of Total	\$ Change	% Change
State Agency	84,012,140	25.8	76,855,466	25.5	7,156,675	9.3
County	68,178,193	21.0	66,164,701	22.0	2,013,492	3.0
City/Town	70,924,886	21.8	65,888,566	21.9	5,036,320	7.6
School District	30,126,922	9.3	29,606,922	9.8	520,000	1.8
University	27,917,901	8.6	25,097,537	8.3	2,820,364	11.2
Water/Sewer District	15,425,471	4.7	13,093,712	4.3	2,331,760	17.8
Other	12,436,693	3.8	12,192,693	4.0	244,000	2.0
Fire Jurisdiction	11,648,061	3.6	9,042,849	3.0	2,605,212	28.8
Solid Waste District	4,467,327	1.4	3,217,327	1.1	1,250,000	38.9
Total	325,137,595	100.0	301,159,773	100.0	23,977,822	8.0

INTERCAP interest rates are reset each February 16 based on the interest on the bonds funding the loans. The table below shows the rate history, by year, since 1987 to 2010.

87	5.625	92	4.950	97	4.750	02	3.150	07	4.850
88	6.625	93	4.350	98	4.850	03	2.850	08	4.250
89	7.950	94	4.500	99	4.300	04	2.700	09	3.250
90	7.500	95	6.400	00	5.600	05	3.800	10	1.950
91	6.350	96	4.850	01	4.750	06	4.750		

Other bond programs managed by the Board are:

- ***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. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/2010 Balance
Huntley Project Schools	12/01/00	750,000	750,000
Bozeman Public Schools	11/25/03	1,586,000	1,586,000
Philipsburg Schools	12/10/03	2,000,000	2,000,000
Cut Bank Elementary	08/18/05	825,000	825,000
Cut Bank High School	08/18/05	625,000	625,000
Bozeman Public Schools	12/21/06	1,459,250	1,459,250
Billings School District	12/29/08	773,250	773,250
Lewistown Elementary	06/16/09	2,087,250	2,087,250
Total		10,105,750	10,105,750

Economic Development Bond Act

- ***Stand Alone Economic Development Bond Program***

This program provides qualifying businesses access to tax-exempt funds and the Board has issued bonds to finance several projects. The Board acts as a legal funding conduit only and is not pecuniarily liable for the repayment of the bonds. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/2010 Balance
Colstrip	10/01/89	60,800,000	39,100,000
BGI	07/01/93	118,345,000	101,045,000
Stillwater Mining	07/01/00	30,000,000	30,000,000
Gainey Foundation*	10/01/02	6,000,000	0
Total		215,145,000	170,145,000
* Bonds were redeemed July 1, 2009			

- ***Montana Conservation Reserve Payment (CRP) Enhancement Program***

This program provides loans to Montana farmers to refinance outstanding loans and/or to purchase additional land and farm equipment. The borrowers assign their remaining federal CRP contract payments to the Board to repay the debt service on these loans. When the program began, bonds were issued to provide funding for the loans. Currently, the loans are funded from the Trust Funds Investment Pool, formerly known as the Trust Funds Bond Pool, as an investment. Loan interest rates are typically set at 0.50 higher than the interest set by the Trust Funds Investment Pool manager. A total of 259 loans, totaling \$33.5 million have been funded under this program.