



MONTANA BOARD OF INVESTMENTS
Department of Commerce
2401 Colonial Drive, 3rd Floor
PO Box 200126
Helena, MT 59620-0126
www.investmentmt.com
The Honorable Brian Schweitzer, Governor

BOARD MEMBERS

Gary Buchanan, Chairman
Principal, Chief Executive Officer
Buchanan Capital
201 N Broadway, Billings, MT 59101
Business Phone: 406-294-3000
gary.buchanan@prosperafinancial.com
Term Ending: 01/01/2015

David Aageson
24884 Road 165N
Gildford, MT 59525
Phone: 406-355-4928
David@milkriverranch.net
Term Ending: 01/01/2013
Representing Agriculture

Mark Noennig
Attorney
3621 Spalding
Billings, MT 59106
Business Phone: 406-245-6238
mark@hendricksonlawmt.com
Term Ending: 01/01/2013
Representing Business

Jon Satre
President - Partner
Gordon - Prill - Drapes, Inc.
2028 LeGrande Cannon Blvd
Helena, MT 59601
Business Phone: 406-442-6582
jsatre@satetch.com
Term Ending: 01/01/2015
Representing Business

Bob Bugni, CFA
Investment Analyst
Mountain West Bank
3865 Remington Street
East Helena, MT 59635
Business Phone: 406-449-2265
Home phone: 406-227-8749
bobb@mtwestbank.com
Term Ending: 01/01/2013
PERS Representative

Quinton Nyman
Executive Director
Montana Public Employees Assoc.
2711 Airport Road
Helena, MT 59602
Business Phone: 406-442-4600
quint@mympea.org
Term Ending: 01/01/2015
Representing Labor

Jim Turcotte
Financial Advisor
Raymond James Financial Services
1376 Beaverhead Road
Helena, MT 59602
Home Phone: 406-442-0113
jturcotte@mt.gov
Term Ending: 01/01/2013
TRS Representative

Karl Englund, Vice Chair
Attorney
401 N Washington Street
Missoula, MT 59802
Business Phone: 406-721-2729
karljenglund@aol.com
Term Ending: 01/01/2015
Representing Law

Jack Prothero
Retired - Banking
619 3rd Avenue SW
Great Falls, MT 59404
Phone: 406-761-3683
jprothero@bresnan.net
Term Ending: 01/01/2013
Representing Small Business

Legislative Liaisons

Representative Franke Wilmer
House of Representatives Liaison
541 E Mendenhall Street
Bozeman, MT 59715-3728
Phone: 406-599-3639
franke.wilmer@gmail.com
Term Ending: 01/01/2013

Senator Edward Buttrey
Senate Liaison
27 Granite Hill Lane
Great Falls, MT 59405-8041
Phone: 406-750-6798
ebuttrey@senate13.com
Appointed: 09/04/2012

MONTANA BOARD OF INVESTMENTS

Senior Management

- ◆ **David Ewer**
Executive Director
- ◆ **Geri Burton**
Deputy Director
- ◆ **Gayle Moon, CPA**
Financial Manager
- ◆ **Clifford A. Sheets, CFA**
Chief Investment Officer
- ◆ **Herbert Kulow, CMB**
Portfolio Manager –
Montana Investments

Staff

- ◆ **Louise Welsh**
Senior Bond Program Officer
- ◆ **Julie Flynn**
Bond Program Officer
- ◆ **Mary Noack**
Network Administrator
- ◆ **Dana Chapman**
Office Manager - Board Secretary
- ◆ **Sara LaFontaine**
Administrative Assistant
- ◆ **Frank Cornwell, CPA**
Deputy Financial Manager
- ◆ **Polly Boutin**
Accountant
- ◆ **Roberta Diaz**
Accountant
- ◆ **Tammy Lindgren**
Accountant
- ◆ **April Madden**
Accountant
- ◆ **Nancy Rivera**
Credit Analyst –
Montana Investments
- ◆ **Richard Cooley, CFA**
Portfolio Manager – Fixed Income/STIP
- ◆ **Rande Muffick, CFA**
Portfolio Manager –
Domestic & International Equities
- ◆ **Ethan Hurley**
Portfolio Manager – Alternative Investments
- ◆ **Nathan Sax, CFA**
Portfolio Manager – Fixed Income
- ◆ **Daniel Zarling, CFA**
Director of Research
- ◆ **Jason Brent, CFA**
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

TABLE OF CONTENTS

Introduction	1
Total Fund	7
Retirement Funds Bond Pool	9
Trust Funds Investment Pool	11
Short Term Investment Pool	13
Montana Domestic Equity Pool	14
Montana International Stock Pool	16
Montana Private Equity Pool	18
Montana Real Estate Pool	21
Pension Funds	23
Public Employees' Retirement System Fund	30
Teachers' Retirement System Fund	32
Other Retirement Systems	34
Trust Funds	35
Coal Tax Trust Fund	36
Trust and Legacy Fund	37
Resource Indemnity Trust Fund	38
Coal Tax Parks/Cultural Trust Funds	38
Other Trust Funds	39
State Fund Insurance	41
Other Insurance Funds	41
Treasurer's Fund	42
Coal Tax Trust Loans	43
Bond Programs	46
 <i>Appendix A, Following Page 47:</i>	
Total Income by Fund	A-1
Securities Listing by Portfolio	A-6
Fund Histories	A-17
 <i>Appendix B, Financial Statements, Following Page A-24:</i>	
Consolidated Pool Financial Statements and Independent Auditors Opinion	B-1
Enterprise Fund Financial Statements and Independent Auditors Opinion	B-41

INTRODUCTION

The Montana Board of Investments (Board) is pleased to submit its Annual Report for the fiscal year ended June 30, 2012. 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. Quarterly performance reports can be found on the Board's website <http://www.investmentmt.com/Investments/default.mcp> (see Quarterly Performance Reports). 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 \$12.91 billion at year-end 2012 - an annual average increase of 9.7 percent. During the same period, the number of accounts invested by the Board increased from 40 accounts to 498 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 million allocation, the

Value-Added Loan Program with an allocation of \$70 million, and the Intermediary Re-lending Program with an allocation of \$5 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, the Board has funded 1,268 loans totaling \$654.4 million in 44 of Montana's 56 counties. Loans funded by county are shown on Page 44.

Mortgages - The Board also purchases Montana mortgages with pension funds as a part of the in-state investment program. At year-end 2012 the Board held Montana mortgages with total book values of \$19.6 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 for the largest of the several bond programs it administers, INTERCAP, and lends the proceeds to eligible governments for a variety of projects. INTERCAP loan terms range from one to fifteen years, and short-term loans are also available to finance cash flow deficits or interim financing. Since INTERCAP's inception in 1987, \$369.4 million has been loaned to eligible governments. Additional information on the Bond Program is shown beginning on Page 46.

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.

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 net securities lending income of \$5.0 million in 2012, compared to \$5.5 million in 2011. 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 an Executive Director and a Chief Investment Officer who hire staff as authorized by the legislature. There are currently 32 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. The total investment fees charged, which includes BOI internal management 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 – A benchmark represents a generic measure of a specific asset class and is made up of a passively managed representation of the available holdings within a given market. One measure of investment performance is to compare actual returns with the returns of the benchmark to discern whether or not a given manager or strategy is adding relative value. 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 – 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 2012. All historical data were extracted from the Board's annual published reports. Statistical data are provided on the Board's investment activity in 2012 and changes in investments from 2011. 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.

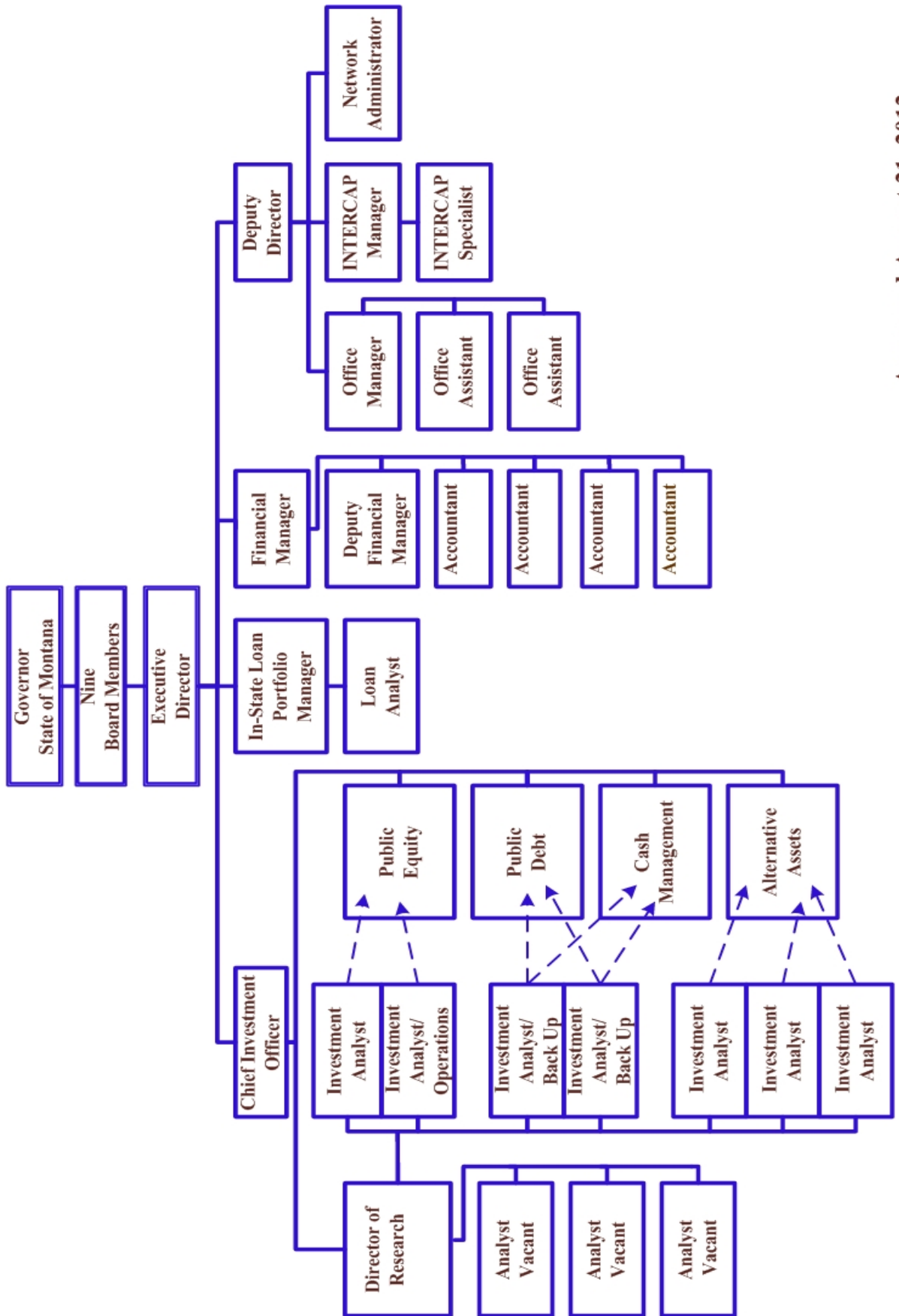
Net Asset Value (NAV) as it relates to investment pools reflects the fair value of the pool securities, adjusted for payables, receivables, and cash on hand at year end. The aggregate fair value of the pool units held by pool participants equals the NAV of the pool.

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 performance to various benchmarks selected by the Board.

The next page reflects the Board's organizational chart.

Montana Board of Investment Functional Organization Chart



Approved August 21, 2012

ECONOMIC & FINANCIAL MARKETS OVERVIEW

The current fiscal year presented a more volatile period, both in terms of economic events and capital market returns, than we saw in the first two years of the post-recession recovery. During the summer of 2011 the economy began to show signs of slowing which was worsened by the late summer political standoff over the debt ceiling and a flare up in the European sovereign credit crisis. These events acted to undermine investor confidence and the stock market suffered a significant decline in the third calendar quarter. The negative impact on the return of the overall pension system was so large that it took the rest of the fiscal year to dig out of the hole, with the fiscal year return ending at 2.41 percent. Despite this performance, the current fiscal year's pension plans' return followed the strong returns of the prior two years and helped to maintain positive momentum in the recovery of longer term returns following the 2008-2009 bear market.

The U.S. economy accelerated during the second half of 2011, following what has become a pattern of stronger fourth and first quarter growth which then weakens in the second and third quarters. We've seen a similar pattern so far in 2012, though perhaps of lesser magnitude and concern than during 2010 and 2011. At this time, it appears that 2012 growth rate for U.S. gross domestic product will finish at near a 2.0 percent level, despite the earlier growth concern and the worsening recession in many European countries, and a slowdown in China and other developing economies earlier this year.

As noted above, the pension system return for the 2012 fiscal year was 2.41 percent. This compares to the 2011 and 2010 fiscal year returns of 21.79 percent and 12.85 percent, respectively. The combination of these three positive years resulted in a dramatic improvement in the trailing three year return to 12.07 percent from last year's 2.93 percent. The five year return remained weak, at 1.21 percent, by virtue of the impact of the major stock market decline during this timeframe, while the ten year return at 5.98 percent continued to recover from last year's trailing ten year return of 4.93 percent. These results have been prepared by State Street, the custodian for the plan's assets, and are time-weighted returns computed in conformance with industry standards.

This fiscal year's weak return is attributable to the weakness in the global public stock market. Overall, stocks were down, posting a negative 3.25 percent return, comprised of a 3.0 percent positive return for domestic stocks which was offset by a dismal negative 15.5 percent return for international stocks. Stocks represent 50-55 percent of the plans' assets, the largest asset exposure represented in the portfolio, therefore weakness here has a big impact on the overall plans' return. Fortunately, other segments of the portfolio did much better and acted to pull up the total plans' return into positive territory, demonstrating the benefit of diversification by asset class. Bonds, the second largest asset class held in the portfolio, had a return of 8.05 percent for the fiscal year. The return for bonds was bolstered by a general decline in interest rates which acted to increase prices. Alternative assets in the plans include private equity and real estate investments, both of which continued to post strong returns, though down from the prior fiscal year. Private equity investments were up 11.07 percent for the year, and real estate returned 11.49 percent. Both of these asset types have an inherent reporting lag, with valuations typically lagged by one quarter.

Market changes during the year caused the net allocation to public equity to decline slightly during the fiscal year. Rebalancing activities involved net sales of domestic stocks and purchases of international stocks. This and the general decline in stock market values had a net effect of decreasing the overall exposure to public stocks by 2 percent. The allocation to private equity increased slightly, by 0.8 percent to 13.1 percent, due to its stronger relative return, despite sales of the private equity pool as heavy cash distributions were received from the underlying fund interests. Overall, combining public

and private equity, the total equity exposure declined slightly to end the fiscal year at 66.1 percent. The allocation to bonds was flat during the year, ending the period at 24.9 percent, despite net sales over the course of the year. There was an ongoing effort to increase the allocation to real estate. The allocation ended the fiscal year at 8.0 percent, reflecting the combination of additional purchases and the strong returns noted earlier.

As of this writing in early December, 2012, recent events have enabled stocks to stage a rally since the end of the fiscal year. Despite a weaker trend of economic growth in the middle of this year, market confidence has been bolstered by central bank actions in both Europe and the U.S. Specifically, during August there was talk of more aggressive efforts by the European Central Bank (ECB) to stem the sovereign debt crisis in the peripheral countries which is threatening the viability of the euro zone. In early September, the ECB announced a new program to buy shorter term bonds of a country in distress but only on condition the country's fiscal budget meet austerity requirements established by outside authorities. The ECB's announcement was shortly followed by a decision by the U.S. Federal Reserve to launch a new bond buying program focused on mortgage securities in an effort to indirectly stimulate the economy and help the struggling employment situation in the U.S. Now, the positive market reaction to these central bank actions is at risk of being interrupted by the uncertainty in the U.S. of the so-called "fiscal cliff" at the end of the year, when absent Congressional action, large tax increases and spending reductions are scheduled to occur. For this reason and the impact of hurricane Sandy, this may be the year the pattern of a seasonal pickup in fourth quarter economic activity is broken. A more cautious attitude in the business sector has appeared in recent months resulting in lower investment spending, perhaps in reaction to fiscal uncertainty. On a more positive note, the recent pick up in the housing market after years of decline and the ongoing though slow recovery in jobs provides some optimism.

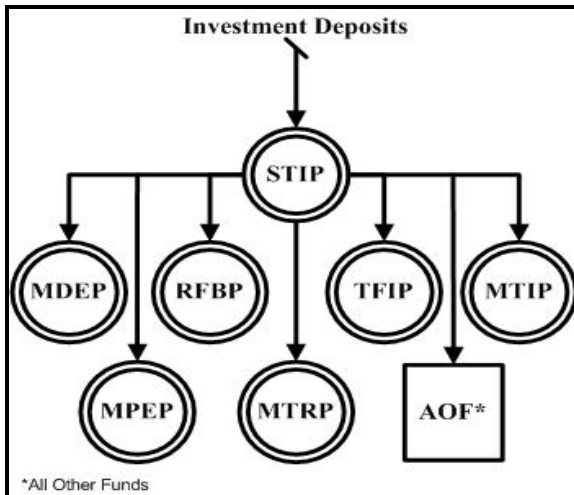
So far there has been a positive reaction in the capital markets to recent events which has enabled returns to get off to a good start in the current fiscal year. As of the end of October, public stocks are up about 5 percent, which has driven pension plan returns to approximately 4 percent. Still, the markets face a lot of uncertainty over the balance of the fiscal year so confidence is low that these strong returns will be sustained. If the Congress and the President can make timely post-election decisions to minimize the potential negative impacts in the government sector of the economy, both households and businesses are currently in much better shape to continue to contribute to the economic expansion, at least in the U.S. Nervous investors would be happy to see any semblance of stability in the global economy, and if we achieve it, capital market volatility would likely subside and set a backdrop for continued gains over the balance of the fiscal year.

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 498 individual accounts, consisting of 329 state agency accounts and 169 local government accounts. The tables below show the June 30, 2012 fair value of invested assets by major fund type and individual funds.

Fund Type	Cash Equivalents	Public Stock	Fixed Income	Loans	Other (1)	6/30/2012 Total
Pensions	72,292,061	4,123,364,708	1,934,409,921		1,642,596,756	7,772,663,446
Trusts	214,294,603		2,092,513,127	151,797,368		2,458,605,098
Insurance	127,249,142	141,839,697	1,173,341,170			1,442,430,009
Treasurer's	1,067,069,893		34,722,741			1,101,792,634
Local Gov.	450,226,142					450,226,142
Agency Cash	227,075,813		13,631,221			240,707,035
Universities	155,011,872	1,259,087	66,651,058			222,922,017
Debt Service	27,165,259					27,165,259
Total	2,340,384,785	4,266,463,493	5,315,269,238	151,797,368	1,642,596,756	13,716,511,640
(1) Private Equity and Real Estate						
Fund	6/30/2012			6/30/2012		
	Fair Value \$			Fair Value \$		
Public Employees Retirement	3,912,330,268			MT University Sys Group Ins	42,811,711	
Teachers Retirement	2,902,903,488			Higher Ed STIP	36,159,705	
State Fund Insurance	1,284,881,465			Blackfoot Response	35,069,689	
Treasurers Fund	1,101,792,634			Montana Pole	33,714,112	
Permanent Coal Trust	571,011,449			Butte Area One Rest	32,764,865	
Public School Trust	558,006,911			Clark Fork River Rs	32,006,128	
Local Governments	450,226,142			FWP License	27,320,570	
Treasure State Endowment	226,575,705			Debt Service STIP	27,165,259	
Police Retirement	225,865,253			Volunteer Firefighters Retirement	27,063,167	
Firefighters Retirement	225,395,683			Park Acquisition	23,581,458	
Sheriffs Retirement	216,137,461			UCFRB Litigation	15,930,400	
State Agency STIP	213,386,465			Zortman Water	13,898,975	
Tobacco Trust	158,252,909			Cultural Trust	12,825,928	
UCFRB Restoration	142,392,157			FWP Mitigation	12,221,209	
Resource Indemnity Trust	112,668,707			Smelter Hill Upload	11,822,466	
Clark Fork Site Resp	110,745,302			Zortman Trust	11,667,794	
Montana State University	108,429,520			Noxious Weeds	11,244,545	
Other Trusts STIP	100,937,762			Wildlife Habitat	10,940,871	
Game Wardens Retirement	99,345,298			Montana Tech Uofmontana	9,839,545	
Highway Patrol Retirement	98,991,746			Real Property Trust	6,194,262	
Group Benefits	70,345,439			Abandoned Mine Trust	5,953,741	
Streamside Tailings	69,736,747			Other Trust TFIP	2,465,080	
Regional Water Fund	69,091,154			Endowment For Children	1,285,322	
University Of Montana	68,339,527			Older Montanans Trust Fund	1,008,415	
Judges Retirement	64,631,082			Subsequent Injury Fund	914,901	
Economic Development Trust	64,591,034			Higher Ed MDEP	153,720	
Insurance STIP	43,476,494					
				Total	13,716,511,640	

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



At year-end the Board managed 88.4 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 2012, \$351.7 million in investment income was distributed to the accounts.

Total Fund Annual Change by Major Asset Type						
Investment Type	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% of Change
Domestic Stock	2,605,001,434	20.2	2,517,174,039	19.7	87,827,395	3.5
International Stocks	1,236,623,096	9.6	1,230,825,422	9.6	5,797,674	0.5
Fixed Income (Domestic and Int'l)	4,841,960,022	37.5	4,811,629,918	37.7	30,330,104	0.6
Cash Equivalents	2,403,128,784	18.6	2,445,268,257	19.1	(42,139,473)	(1.7)
Private Equity	894,511,029	6.9	875,119,048	6.8	19,391,981	2.2
Loans/Mortgages	171,401,409	1.3	204,986,779	1.6	(33,585,370)	(16.4)
Real Estate	758,782,215	5.9	691,587,912	5.4	67,194,303	9.7
Total	12,911,407,989	100.0	12,776,591,375	100.0	134,816,614	1.1
Investment Type	6/30/2012 Fair Value	% of Total	6/30/2011 Fair Value	% of Total	\$ Change	% of Change
Domestic Stock	3,015,158,101	22.0	2,965,076,884	21.7	50,081,217	1.7
International Stocks	1,251,174,436	9.1	1,462,305,196	10.7	(211,130,760)	(14.4)
Fixed Income (Domestic and Int'l)	5,117,266,377	37.3	5,004,061,567	36.7	113,204,810	2.3
Cash Equivalents	2,403,128,784	17.5	2,445,268,257	17.9	(42,139,473)	(1.7)
Private Equity	1,017,844,318	7.4	960,833,766	7.0	57,010,553	5.9
Loans/Mortgages	171,206,114	1.2	204,604,292	1.5	(33,398,178)	(16.3)
Real Estate	728,977,672	5.3	604,774,979	4.4	124,202,693	20.5
Total	13,704,755,803	100.0	13,646,924,940	100.0	57,830,863	0.4
Income Distributed	351,683,947		372,082,927		(20,398,980)	(5.5)

[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 RFBP shares equal to the fair value of its fixed-income portfolio on the date of the transfer. The RFBP participant book value in the table below reports the initial pool investment and subsequent RFBP participant buys and sells as determined by an asset allocation plan. The RFBP participant fair value represents the RFBP participants' shares valued at the RFBP June 30 price. Participant income distributions include interest accruals, discount/premium accretion/amortization and securities lending income. All realized capital gains and losses are retained in the pool.

RFBP Annual Change by Participant						
Participant	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Public Employees	876,592,588	50.3	904,925,847	50.4	(28,333,259)	(3.1)
Teachers	648,763,551	37.3	676,694,083	37.7	(27,930,532)	(4.1)
Police	51,259,899	2.9	50,439,796	2.8	820,103	1.6
Firefighters	51,013,880	2.9	50,136,721	2.8	877,159	1.7
Sheriffs	48,408,006	2.8	47,931,339	2.7	476,667	1.0
Game Wardens	22,441,953	1.3	21,617,321	1.2	824,632	3.8
Highway Patrol	22,325,879	1.3	22,844,553	1.3	(518,674)	(2.3)
Judges	14,659,064	0.8	14,682,449	0.8	(23,385)	(0.2)
Volunteer Firefighters	5,829,711	0.3	6,079,440	0.3	(249,729)	(4.1)
Total	1,741,294,531	100.0	1,795,351,549	100.0	(54,057,018)	(3.0)
Participant	6/30/2012 Fair Value	% of Total	6/30/2011 Fair Value	% of Total	\$ Change	% Change
Public Employees	974,139,458	50.4	969,118,608	50.4	5,020,850	0.5
Teachers	722,417,757	37.3	726,164,390	37.8	(3,746,633)	(0.5)
Police	56,430,996	2.9	53,728,827	2.8	2,702,169	5.0
Firefighters	56,219,461	2.9	53,466,832	2.8	2,752,629	5.1
Sheriffs	53,636,097	2.8	51,323,160	2.7	2,312,937	4.5
Highway Patrol	24,652,578	1.3	24,318,404	1.3	334,174	1.4
Game Wardens	24,510,464	1.3	22,834,041	1.2	1,676,423	7.3
Judges	16,030,598	0.8	15,497,354	0.8	533,244	3.4
Volunteer Firefighters	6,372,511	0.3	6,415,462	0.3	(42,951)	(0.7)
Total	1,934,409,920	100.0	1,922,867,078	100.0	11,542,842	0.6
Income Distributed	78,896,017		84,150,805		(5,254,788)	(6.2)

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

In Fall 2008, the RFBP was restructured, for portfolio diversification, by funding the external managers listed below. The book value for these managers represents the original manager funding from the Internal Core Portfolio and subsequent manager subscriptions and redemptions. The Internal Core Portfolio represents the April 1, 1995 book value increased or decreased by subsequent subscriptions or redemptions. The Mortgage book value is the original purchase price of the residential mortgages.

RFBP Annual Change by Manager						
Manager	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Internal Core Portfolio	1,240,757,426	72.2	1,285,418,371	72.5	(44,660,945)	(3.5)
Reams Asset Management	193,215,529	11.2	201,637,716	11.4	(8,422,187)	(4.2)
Neuberger Berman	101,635,313	5.9	101,635,313	5.7	0	0.0
Artio Global Management	100,553,795	5.8	100,553,795	5.7	0	0.0
Post Advisory Group	50,760,954	3.0	50,760,954	2.9	0	0.0
Montana Mortgages	19,604,041	1.1	26,484,439	1.5	(6,880,398)	(26.0)
Cash Equivalents	12,740,113	0.7	5,862,303	0.3	6,877,810	117.3
Total	1,719,267,171	100.0	1,772,352,891	100.0	(53,085,720)	(3.0)

RFBP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2012	8.07	Barclays Capital Aggregate	7.47	0.60
3 Year Annualized Average	9.71	Barclays Capital Aggregate	6.93	2.78
5 Year Annualized Average	7.45	Barclays Capital Aggregate	6.79	0.66
10 Year Annualized Average	6.87	Barclays Capital Aggregate	5.63	1.24

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 TFIP shares equal to the fair value of their fixed-income portfolio on the date of the transfer. The TFIP participants book value in the table below reports the initial pool investment and subsequent TFIP participant buys and sells. Because current income is important to these participants the pool is managed for income generation, rather than total rate of return. Income distributed includes interest accruals, discount/premium accretion/amortization and securities lending income. All realized capital gains and losses are retained in the pool.

TFIP Annual Change by Participant						
Participant	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Trust and Legacy	498,053,456	26.6	464,553,456	26.2	33,500,000	7.2
Permanent Coal Trust	369,514,591	19.7	343,014,591	19.4	26,500,000	7.7
Treasure State Endowment	205,133,300	11.0	194,848,300	11.0	10,285,000	5.3
Tobacco Trust	145,059,265	7.7	134,316,503	7.6	10,742,763	8.0
UCFRB Restoration	121,996,852	6.5	126,784,417	7.2	(4,787,565)	(3.8)
Resource Indemnity	99,999,976	5.3	99,999,976	5.6	0	0.0
Clark Fork Site	70,557,648	3.8	71,000,000	4.0	(442,352)	(0.6)
Treasure State Water	62,341,879	3.3	57,291,879	3.2	5,050,000	8.8
Big Sky Economic Develop	58,549,091	3.1	53,499,091	3.0	5,050,000	9.4
Streamside Tailings	56,459,385	3.0	59,675,530	3.4	(3,216,145)	(5.4)
University of Montana	29,552,921	1.6	14,552,921	0.8	15,000,000	103.1
MT Pole Superfund	24,472,634	1.3	24,472,634	1.4	0	0.0
Coal Tax Park ACQ	21,300,586	1.1	20,550,586	1.2	750,000	3.6
Clark Fork River RS	16,500,000	0.9	16,500,000	0.9	0	0.0
Montana State University	14,999,130	0.8	14,999,130	0.8	0	0.0
ButteArea One Rest	14,500,000	0.8	14,500,000	0.8	0	0.0
Clark Fork River CD	14,415,507	0.8	11,715,507	0.7	2,700,000	23.0
Cultural Trust	11,710,349	0.6	11,430,349	0.6	280,000	2.4
Noxious Weed Trust	10,029,783	0.5	8,864,783	0.5	1,165,000	13.1
Wildlife Habitat	9,339,265	0.5	9,289,265	0.5	50,000	0.5
Real Property Trust	5,519,626	0.3	5,428,884	0.3	90,742	1.7
Blackfoot Response	5,500,000	0.3	5,500,000	0.3	0	0.0
Smelter Hill Upload	3,085,686	0.2	3,175,000	0.2	(89,315)	(2.8)
Children Endowment	1,160,690	0.1	1,189,864	0.1	(29,174)	(2.5)
Older Montana Trust	698,762	0.0	698,762	0.0	0	0.0
Harriet E. Miller Trust	476,000	0.0	476,000	0.0	0	0.0
Montana College of Tech	458,450	0.0	458,450	0.0	0	0.0
Bradley Trust	414,403	0.0	414,403	0.0	0	0.0
Charles Bair Trust	373,590	0.0	373,590	0.0	0	0.0
Teakle Trust	371,484	0.0	371,484	0.0	0	0.0
Ronald Schmid Trust	350,000	0.0	350,000	0.0	0	0.0
Merritt Wheeler Trust	104,827	0.0	104,827	0.0	0	0.0
Sobotka Memorial Trust	99,929	0.0	99,929	0.0	0	0.0
Acquisition Trust	95,448	0.0	95,448	0.0	0	0.0
Stewart Trust Fund	79,912	0.0	79,912	0.0	0	0.0
Total	1,873,274,425	100.0	1,770,675,471	100.0	102,598,954	5.8
Income Distributed	90,200,636		87,678,651		2,521,985	2.9

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

The book value for the managers listed below represents the original manager funding from the Internal Core Portfolio and subsequent manager subscriptions and redemptions. The Internal Core Portfolio represents the October 1, 1995 book value increased or decreased by subsequent subscriptions or redemptions.

TFIP Annual Change by Manager						
Manager	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Internal Core Portfolio	1,686,681,968	88.1	1,570,681,294	87.0	116,000,674	7.4
Post Traditional High Yield	96,000,000	5.0	90,000,000	5.0	6,000,000	6.7
Cash Equivalents	40,089,575	2.1	54,761,411	3.0	(14,671,836)	(26.8)
American Core Real Estate	49,000,000	2.6	49,000,000	2.7	0	0.0
TIAACREF Real Estate	43,000,000	2.2	41,632,000	2.3	1,368,000	3.3
Total	1,914,771,543	100.0	1,806,074,705	100.0	108,696,838	6.0

TFIP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2012	8.17	Barclays Capital Aggregate	7.47	0.70
3 Year Annualized Average	8.94	Barclays Capital Aggregate	6.93	2.01
5 Year Annualized Average	7.54	Barclays Capital Aggregate	6.79	0.75
10 Year Annualized Average	6.82	Barclays Capital Aggregate	5.63	1.19

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 498 accounts invested in STIP during the year, consisting of 329 state accounts and 169 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	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Treasurer's Fund	1,059,329,201	44.4	976,647,515	40.3	82,681,686	8.5
Local Governments	450,226,142	18.9	415,221,685	17.1	35,004,457	8.4
State Agencies Operating	227,075,813	9.5	342,015,686	14.1	(114,939,873)	(33.6)
Trust Funds	214,294,603	9.0	201,460,349	8.3	12,834,254	6.4
University Funds	155,011,872	6.5	152,251,238	6.3	2,760,634	1.8
Insurance Funds	127,249,142	5.3	134,884,032	5.6	(7,634,890)	(5.7)
Pension Funds	72,292,061	3.0	115,651,022	4.8	(43,358,961)	(37.5)
Board Investment Pools	53,012,030	2.2	60,035,775	2.5	(7,023,745)	(11.7)
Debt Service Funds	27,165,259	1.1	26,906,460	1.1	258,799	1.0
Total	2,385,656,123	100.0	2,425,073,762	100.0	(39,417,639)	(1.6)
Income Distributed	6,891,076		6,595,801		295,275	4.5

[Click here for a complete listing of STIP securities](#)

The table below shows the historical percentage yield, by year, since 1974 to 2012, 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	11	0.3
77	6.8	82	13.8	87	6.3	92	5.4	97	5.7	02	2.8	07	5.3	12	0.3
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
2012	0.30	LIBOR 1 Month	0.25	0.05
3 Year Annualized Average	0.31	LIBOR 1 Month	0.25	0.06
5 Year Annualized Average	1.36	LIBOR 1 Month	1.23	0.13
10 Year Annualized Average	2.14	LIBOR 1 Month	2.10	0.04

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. The MDEP participant book value in the table below reports the initial pool investment and subsequent MDEP participant buys and sells. The MDEP participant fair value represents the MDEP participants' shares valued at the MDEP June 30 price. Income distributed includes dividends, security lending and miscellaneous income. All realized capital gains and losses are retained in the pool.

MDEP Annual Change by Participant						
Participant	6/30/2012	% of	6/30/2011	% of	\$	%
	Book Value	Total	Book Value	Total	Change	Change
Public Employees	637,353,943	49.1	632,740,646	49.1	4,613,297	0.7
Teachers	465,392,294	35.8	469,900,673	36.5	(4,508,379)	(1.0)
Firefighters	49,330,750	3.8	45,806,228	3.6	3,524,522	7.7
Police	48,824,211	3.8	45,515,403	3.5	3,308,808	7.3
Sheriffs	41,208,065	3.2	39,262,676	3.0	1,945,389	5.0
Game Wardens	22,054,711	1.7	20,244,412	1.6	1,810,299	8.9
Highway Patrol	16,992,525	1.3	16,631,780	1.3	360,745	2.2
Judges	11,181,595	0.9	10,736,612	0.8	444,983	4.1
Volunteer Firefighters	6,245,345	0.5	6,156,635	0.5	88,710	1.4
University of Montana	531,639	0.0	531,639	0.0	0	0.0
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
Total	1,299,141,331	100.0	1,287,552,957	100.0	11,588,374	0.9
Participant	6/30/2012	% of	6/30/2011	% of	\$	%
	Fair Value	Total	Fair Value	Total	Change	Change
Public Employees	1,455,188,392	50.4	1,434,773,301	50.4	20,415,091	1.4
Teachers	1,078,537,835	37.3	1,074,185,991	37.7	4,351,844	0.4
Police	84,109,165	2.9	79,542,357	2.8	4,566,808	5.7
Firefighters	83,939,541	2.9	78,946,676	2.8	4,992,865	6.3
Sheriffs	80,065,281	2.8	76,579,639	2.7	3,485,643	4.6
Highway Patrol	36,839,691	1.3	35,968,884	1.3	870,807	2.4
Game Wardens	36,685,426	1.3	34,016,826	1.2	2,668,600	7.8
Judges	23,932,783	0.8	23,097,726	0.8	835,057	3.6
Volunteer Firefighters	9,516,060	0.3	9,375,580	0.3	140,480	1.5
University of Montana	1,105,367	0.0	1,082,408	0.0	22,959	2.1
Potter Trust	127,290	0.0	124,646	0.0	2,644	2.1
Harold Hamm Endowment	26,431	0.0	25,882	0.0	549	2.1
Total	2,890,073,262	100.0	2,847,719,915	100.0	42,353,346	1.5
Income Distributed	23,760,465		21,269,025		2,491,440	11.7

[Click here for a complete listing of MDEP securities](#)

The book value for the managers in the table below represents the original manager funding from MDEP and subsequent manager subscriptions and redemptions.

MDEP Annual Change by Manager						
Manager	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
BlackRock Equity Index (S&P 500)	1,519,997,893	60.6	492,022,616	19.0	1,027,975,277	208.9
T Rowe Price Large Cap	222,040,678	8.9	274,941,352	10.6	(52,900,674)	(19.2)
JP Morgan Partial L/S	209,820,775	8.4	282,143,860	10.9	(72,323,085)	(25.6)
Artisan Mid Cap Value	89,486,502	3.6	89,486,502	3.5	0	0.0
TimesSquare Mid Cap Growth	88,098,978	3.5	88,098,978	3.4	0	0.0
Analytic Partial L/S	84,091,326	3.4	123,913,382	4.8	(39,822,056)	(32.1)
INTECH Large Cap Enh Index	80,161,581	3.2	183,163,171	7.1	(103,001,589)	(56.2)
BlackRock Midcap Index	73,330,659	2.9	80,935,598	3.1	(7,604,939)	(9.4)
Vaughan Nelson Small Cap	55,026,838	2.2	55,026,838	2.1	0	0.0
DFA US Small Cap	35,190,238	1.4	35,190,238	1.4	0	0.0
Alliance Bernstein US Small Cap Growth	25,000,000	1.0	0	0.0	25,000,000	N/A
IShares S&P Small Cap Index	13,135,707	0.5	13,135,707	0.5	0	0.0
State Street Stock Performance Index Fund	10,513,033	0.4	8,724,388	0.3	1,788,645	20.5
WAMCO Large Cap	1,894,588	0.1	192,745,764	7.4	(190,851,177)	(99.0)
Rainier Large Cap Growth	138,333	0.0	151,038,838	5.8	(150,900,505)	(99.9)
Columbus Large Cap Growth	118,164	0.0	151,379,559	5.8	(151,261,395)	(99.9)
Barrow Hanley Large Cap	110,295	0.0	220,784,450	8.5	(220,674,155)	(100.0)
Quantitative Large Cap Value	107,855	0.0	150,069,581	5.8	(149,961,726)	(99.9)
Total	2,508,263,443	100.0	2,592,800,822	100.0	(84,537,379)	(3.3)

MDEP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2012	3.01	S & P 1500	4.63	(1.62)
3 Year Annualized Average	16.35	S & P 1500	16.76	(0.41)
5 Year Annualized Average	(0.06)	S & P 1500	0.46	(0.52)

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. The MTIP participant book value in the table below reports the initial pool investment and subsequent MTIP participant buys and sells as determined by an asset allocation plan. The MTIP participant fair value represents the MTIP participants' shares valued at the MTIP June 30 price. Cash dividends, interest and related income currency gains/losses are distributed monthly. All realized capital gains and losses are retained in the pool.

MTIP Annual Change by Participant						
Participant	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Public Employees	471,216,854	50.0	458,740,189	50.0	12,476,665	2.7
Teachers	347,211,112	36.8	341,942,013	37.3	5,269,099	1.5
Firefighters	30,058,795	3.2	27,577,620	3.0	2,481,175	9.0
Police	29,917,006	3.2	27,564,199	3.0	2,352,807	8.5
Sheriffs	27,757,000	2.9	26,042,000	2.8	1,715,000	6.6
Game Wardens	13,806,561	1.5	12,521,561	1.4	1,285,000	10.3
Highway Patrol	11,973,040	1.3	11,527,539	1.3	445,501	3.9
Judges	7,950,000	0.8	7,550,000	0.8	400,000	5.3
Volunteer Firefighters	3,354,374	0.4	3,217,936	0.4	136,438	4.2
Total	943,244,742	100.0	916,683,058	100.0	26,561,684	2.9
Participant	6/30/2012 Fair Value	% of Total	6/30/2011 Fair Value	% of Total	\$ Change	% Change
Public Employees	621,886,728	50.4	727,764,569	50.4	(105,877,841)	(14.5)
Teachers	460,866,355	37.3	544,950,429	37.7	(84,084,074)	(15.4)
Police	35,975,360	2.9	40,333,517	2.8	(4,358,157)	(10.8)
Firefighters	35,868,861	2.9	40,044,384	2.8	(4,175,523)	(10.4)
Sheriffs	34,234,117	2.8	38,871,334	2.7	(4,637,217)	(11.9)
Highway Patrol	15,732,119	1.3	18,258,320	1.3	(2,526,201)	(13.8)
Game Wardens	15,697,128	1.3	17,251,933	1.2	(1,554,805)	(9.0)
Judges	10,223,579	0.8	11,733,045	0.8	(1,509,466)	(12.9)
Volunteer Firefighters	4,066,285	0.3	4,752,704	0.3	(686,419)	(14.4)
Total	1,234,550,532	100.0	1,443,960,235	100.0	(209,409,703)	(14.5)
Income Distributed	12,310,576		13,574,775		(1,264,199)	(9.3)

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

The book value for the managers in the table below represents the original manager funding from MTIP and subsequent manager subscriptions and redemptions.

MTIP Annual Change by Manager						
	6/30/2012	% of	6/30/2011	% of	\$	%
	Book Value	Total	Book Value	Total	Change	Change
BlackRock ACWI EX US Super Fund A	518,278,995	38.7	446,575,834	33.3	71,703,161	16.1
Batterymarch	135,749,400	10.1	135,749,400	10.1	0	0.0
AllianceBernstein	125,787,325	9.4	125,787,325	9.4	0	0.0
Acadian	116,360,644	8.7	116,360,644	8.7	0	0.0
Martin Currie	115,980,459	8.7	115,980,459	8.6	0	0.0
Hansburger	102,651,230	7.7	102,651,230	7.7	0	0.0
BlackRock International Alpha Tilts	100,126,273	7.5	100,126,273	7.5	0	0.0
DFA International Small Company	61,698,379	4.6	60,564,305	4.5	1,134,074	1.9
BlackRock ACWI EX US Small Cap	20,656,720	1.5	0	0.0	20,656,720	N/A
BlackRock MSCI Emerging Mkt Free	25,820,900	1.9	0	0.0	25,820,900	N/A
State Street Int'l Stock Perf Index Fund	17,314,138	1.3	10,267,638	0.8	7,046,500	68.6
Artio Global	52,145	0.0	126,829,463	9.5	(126,777,318)	(100.0)
Money Market Fund for EBT	204	0.0	177	0.0	27	15.3
Total	1,340,476,812	100.0	1,340,892,747	100.0	(415,936)	(0.0)

MTIP Total Rates of Returns Versus Benchmark				
Year	%	Benchmarks	Benchmark	Return +/-
	Return		% Return	Benchmark
2012	(15.45)	MTIP Custom Benchmark	(14.70)	(0.75)
3 Year Annualized Average	6.68	MTIP Custom Benchmark	7.23	(0.55)
5 Year Annualized Average	(6.55)	MTIP Custom Benchmark	(4.49)	(2.06)
10 Year Annualized Average	5.10	MTIP Custom Benchmark	6.25	(1.15)

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 MPEP participant book value in the table below reports the initial pool investment and subsequent MPEP participant buys and sells as determined by an asset allocation plan. The MPEP participant fair value represents the MPEP participants shares valued at the MPEP June 30 price.

MPEP Annual Change by Participant						
Participant	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Public Employees	302,272,160	50.3	311,755,350	50.4	(9,483,190)	(3.0)
Teachers	221,446,781	36.9	231,772,017	37.4	(10,325,236)	(4.5)
Firefighters	18,659,456	3.1	17,941,419	2.9	718,037	4.0
Police	18,461,657	3.1	17,829,351	2.9	632,306	3.5
Sheriffs	17,201,324	2.9	17,034,258	2.8	167,066	1.0
Game Wardens	8,370,062	1.4	8,071,114	1.3	298,948	3.7
Highway Patrol	7,502,960	1.2	7,628,213	1.2	(125,253)	(1.6)
Judges	4,981,607	0.8	4,992,673	0.8	(11,066)	(0.2)
Volunteer Firefighters	1,964,039	0.3	2,002,441	0.3	(38,402)	(1.9)
Total	600,860,046	100.0	619,026,836	100.0	(18,166,790)	(2.9)
Participant	6/30/2012 Fair Value	% of Total	6/30/2011 Fair Value	% of Total	\$ Change	% Change
Public Employees	512,314,695	50.4	484,323,775	50.4	27,990,920	5.8
Teachers	379,889,785	37.3	362,293,217	37.7	17,596,568	4.9
Police	29,657,240	2.9	26,844,317	2.8	2,812,924	10.5
Firefighters	29,560,709	2.9	26,634,789	2.8	2,925,920	11.0
Sheriffs	28,178,933	2.8	25,805,704	2.7	2,373,229	9.2
Highway Patrol	12,957,630	1.3	12,135,734	1.3	821,896	6.8
Game Wardens	12,939,604	1.3	11,524,425	1.2	1,415,179	12.3
Judges	8,428,346	0.8	7,787,966	0.8	640,380	8.2
Volunteer Firefighters	3,347,888	0.3	3,145,275	0.3	202,613	6.4
Total	1,017,274,830	100.0	960,495,202	100.0	56,779,628	5.9
Income Distributed	2,278,957		1,709,645		569,312	33.3

MPEP Annual Change by Manager

Manager	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Adams Street Partners	161,727,368	18.1	180,035,564	20.6	(18,308,196)	(10.2)
Lexington Capital	59,771,936	6.7	58,220,921	6.7	1,551,015	2.7
Portfolio Advisors	47,671,204	5.3	42,640,590	4.9	5,030,614	11.8
Welsh Carson Anderson&Stowe	40,544,572	4.5	43,925,417	5.0	(3,380,845)	(7.7)
First Reserve	40,493,541	4.5	32,544,786	3.7	7,948,755	24.4
Madison Dearborn Capital	38,997,917	4.4	40,264,018	4.6	(1,266,101)	(3.1)
Carlyle Partners	36,118,953	4.0	39,703,869	4.5	(3,584,916)	(9.0)
Harbour Vest	32,389,367	3.6	26,204,024	3.0	6,185,343	23.6
Oak Hill Capital	31,907,702	3.6	33,930,070	3.9	(2,022,368)	(6.0)
Siguler Guff	26,904,258	3.0	17,654,258	2.0	9,250,000	52.4
Centerbridge	23,415,520	2.6	12,852,563	1.5	10,562,957	82.2
Matlin Patterson	23,327,420	2.6	22,848,240	2.6	479,180	2.1
Terra Firma	22,296,997	2.5	17,260,165	2.0	5,036,832	29.2
CCMP	18,974,916	2.1	17,023,081	1.9	1,951,835	11.5
Hellman & Friedman	18,832,821	2.1	17,946,455	2.1	886,366	4.9
J.C. Flowers	18,699,008	2.1	22,639,506	2.6	(3,940,498)	(17.4)
Odyssey Partners	18,522,136	2.1	18,062,220	2.1	459,916	2.5
Arclight Capital	17,678,492	2.0	19,933,164	2.3	(2,254,672)	(11.3)
NB Coinvest	17,624,481	2.0	17,335,533	2.0	288,948	1.7
MHR Institutional	17,196,708	1.9	16,438,837	1.9	757,871	4.6
JLL Partners	15,605,908	1.7	15,949,059	1.8	(343,151)	(2.2)
Veritas	13,291,876	1.5	8,117,027	0.9	5,174,849	63.8
State Street	11,873,619	1.3	40,980,382	4.7	(29,106,763)	(71.0)
Performance Equity Mgmt	10,532,253	1.2	5,867,494	0.7	4,664,759	79.5
Oaktree Capital	9,657,828	1.1	23,060,366	2.6	(13,402,538)	(58.1)
GTCR Partners	8,968,173	1.0	0	0.0	8,968,173	N/A
Black Diamond Capital Mgmt	8,683,534	1.0	1,524,638	0.2	7,158,896	469.5
MontLake	8,567,649	1.0	9,652,160	1.1	(1,084,511)	(11.2)
Axiom Asia	8,482,208	0.9	5,317,355	0.6	3,164,853	59.5
Quintana Energy	8,407,621	0.9	11,123,680	1.3	(2,716,059)	(24.4)
Northgate	8,040,000	0.9	4,500,000	0.5	3,540,000	78.7
Highway 12 Ventures	7,836,732	0.9	6,576,539	0.8	1,260,193	19.2
HCI Equity	7,684,136	0.9	6,161,470	0.7	1,522,666	24.7
Trilantic Capital Partners	7,523,773	0.8	4,308,278	0.5	3,215,495	74.6
CIVC	6,589,109	0.7	2,783,306	0.3	3,805,803	136.7
Industry Ventures	5,975,426	0.7	6,364,875	0.7	(389,449)	(6.1)
Affinity	5,782,275	0.6	4,639,958	0.5	1,142,317	24.6
American Securities Partners	5,700,341	0.6	0	0.0	5,700,341	N/A
Gridiron Capital	5,402,638	0.6	0	0.0	5,402,638	N/A
Kolberg Kravis & Roberts	4,684,652	0.5	18,371,130	2.1	(13,686,478)	(74.5)
EIF	4,563,786	0.5	0	0.0	4,563,786	N/A
TA Associates	3,836,543	0.4	1,850,000	0.2	1,986,543	107.4
Opus	1,736,222	0.2	508,049	0.1	1,228,173	241.7
Cartesian Capital	1,089,409	0.1	0	0.0	1,089,409	N/A
Summit Partners	900,000	0.1	0	0.0	900,000	N/A
Avenue Capital	1	0.0	1	0.0	0	0.0
Total	894,511,029	100.0	875,119,048	100.0	19,391,981	2.2

MPEP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2012	11.05	S&P 1500 + 4.0% *	11.84	(0.79)
3 Year Annualized Average	16.84	S&P 1500 + 4.0% *	28.03	(11.19)
5 Year Annualized Average	5.76	S&P 1500 + 4.0% *	6.29	(0.53)
10 Year Annualized Average	11.46	S&P 1500 + 4.0% *	8.54	2.92
*1 quarter lag				

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:

- **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 investments in a particular industry such as energy exploration and production, or the media industry.
- **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 funded June 1, 2006 to permit the nine pension funds to participate in a diversified real estate portfolio. The Board has approved an allocation of up to 10.0 percent of pension funds to real estate. The MTRP participant book value in the table below reports the initial pool investment and subsequent MTRP participant buys and sells as determined by an asset allocation plan. The MTRP participant fair value represents the MTRP participants' shares valued at the MTRP June 30 price.

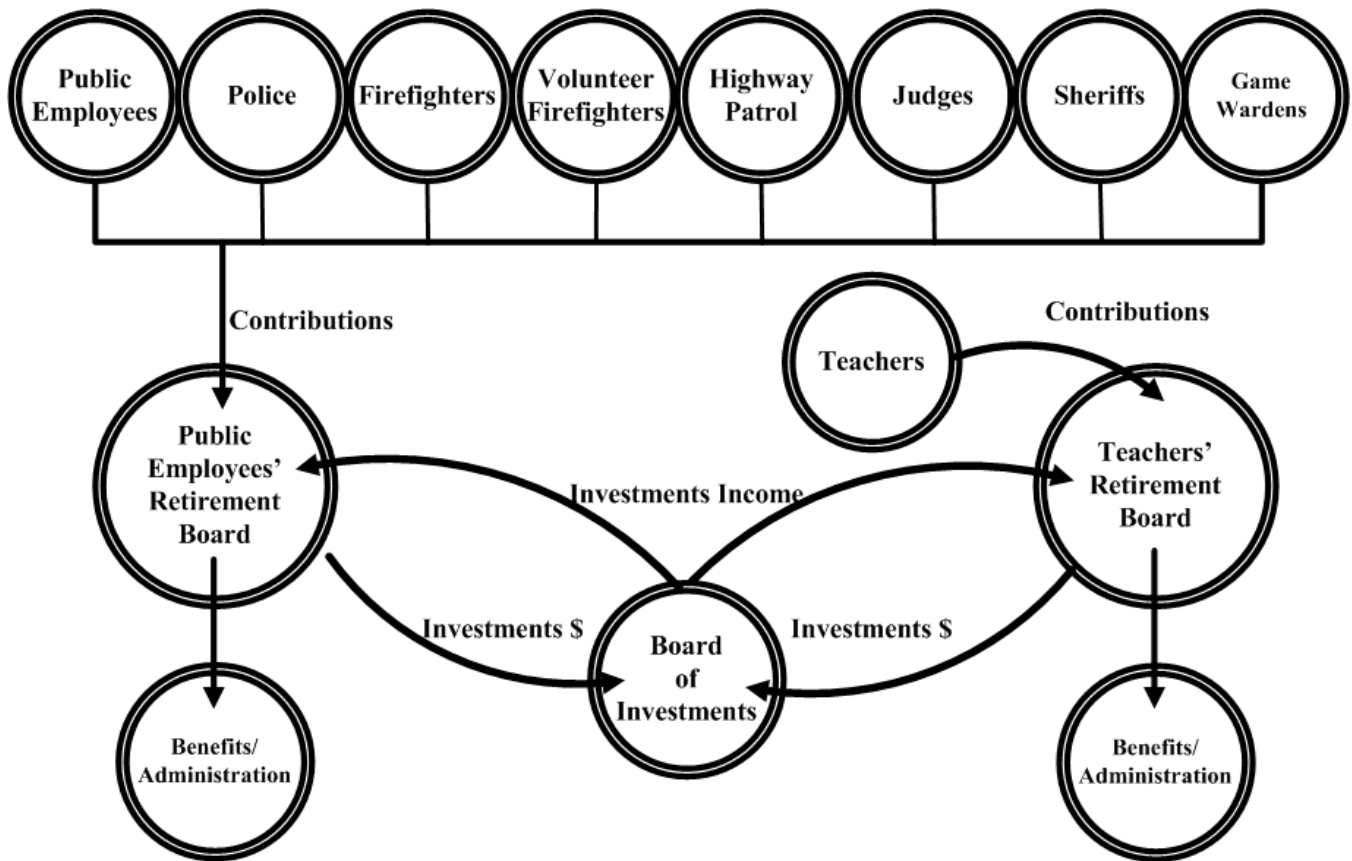
MTRP Annual Change by Participant						
Participant	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Public Employees	334,409,566	50.4	303,005,543	50.5	31,404,023	10.4
Teachers	248,227,301	37.4	227,674,109	37.9	20,553,192	9.0
Police	19,061,534	2.9	16,372,000	2.7	2,689,534	16.4
Firefighters	18,956,277	2.9	16,182,000	2.7	2,774,277	17.1
Sheriffs	18,176,885	2.7	15,762,000	2.6	2,414,885	15.3
Highway Patrol	8,457,300	1.3	7,489,000	1.2	968,300	12.9
Game Wardens	8,299,000	1.3	6,910,000	1.2	1,389,000	20.1
Judges	5,453,349	0.8	4,770,000	0.8	683,349	14.3
Volunteer Firefighters	2,160,233	0.3	1,925,000	0.3	235,233	12.2
Total	663,201,445	100.0	600,089,652	100.0	63,111,793	10.5
Participant	6/30/2012 Fair Value	% of Total	6/30/2011 Fair Value	% of Total	\$ Change	% Change
Public Employees	315,092,832	50.4	256,367,581	50.5	58,725,251	22.9
Teachers	233,301,857	37.3	192,374,448	37.9	40,927,409	21.3
Police	18,220,028	2.9	13,980,617	2.8	4,239,411	30.3
Firefighters	18,175,105	2.9	13,868,842	2.7	4,306,263	31.0
Sheriffs	17,308,005	2.8	13,434,402	2.6	3,873,603	28.8
Highway Patrol	7,963,159	1.3	6,313,128	1.2	1,650,031	26.1
Game Wardens	8,036,273	1.3	6,002,774	1.2	2,033,499	33.9
Judges	5,167,773	0.8	4,046,036	0.8	1,121,737	27.7
Volunteer Firefighters	2,056,894	0.3	1,637,491	0.3	419,403	25.6
Total	625,321,926	100.0	508,025,319	100.0	117,296,607	23.1
Income Distributed	9,466,759		5,106,130		4,360,629	85.4

MTRP Annual Change by Manager						
Manager	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
JP Morgan Strategic Property Fund	92,733,975	13.8	92,733,976	15.3	(1)	(0.0)
UBS Realty Investors LLC	50,000,000	7.4	50,000,000	8.3	0	0.0
Clarion Lion Properties Fund	48,702,275	7.2	45,000,000	7.4	3,702,275	8.2
INVESCO Core RE- USA	45,000,000	6.7	45,000,000	7.4	0	0.0
Angelo Gordon	42,127,823	6.3	42,628,823	7.1	(501,000)	(1.2)
Molpus Woodlands Group	41,350,000	6.1	700,000	0.1	40,650,000	5,807.1
TA Associates Realty Fund VIII	38,932,004	5.8	37,000,000	6.1	1,932,004	5.2
DRA Advisors VI	29,491,000	4.4	20,496,000	3.4	8,995,000	43.9
Morgan Stanley RE Fund VI Intl	27,536,302	4.1	27,536,302	4.6	0	0.0
Hudson Realty Capital Fund IV	25,000,000	3.7	25,000,000	4.1	0	0.0
ABR Chesapeake Fund III	23,618,168	3.5	20,898,140	3.5	2,720,028	13.0
Almanac Realty	21,528,019	3.2	0	0.0	21,528,019	N/A
CIM Fund III	20,212,386	3.0	15,206,712	2.5	5,005,674	32.9
Beacon Capital Partners Fund V	20,202,970	3.0	19,250,000	3.2	952,970	5.0
Carlyle Europe RE Partners III	20,125,236	3.0	16,802,465	2.8	3,322,771	19.8
Direct Real Estate	18,377,850	2.7	17,715,770	2.9	662,080	3.7
Macquarie Global Prop Fund III	17,628,919	2.6	16,887,872	2.8	741,047	4.4
Strategic Partners Value	17,319,224	2.6	17,566,301	2.9	(247,077)	(1.4)
AREA Property Partners	16,234,908	2.4	18,336,000	3.0	(2,101,092)	(11.5)
Liquid Realty Fund IV	13,455,259	2.0	15,487,684	2.6	(2,032,425)	(13.1)
O'Connor North Amer Prop	13,044,548	1.9	10,867,785	1.8	2,176,763	20.0
Landmark Real Estate	6,443,085	1.0	4,257,987	0.7	2,185,098	51.3
JER RE Partners Fund IV	6,236,748	0.9	6,236,748	1.0	0	0.0
GEM Realty Fund IV	5,962,500	0.9	2,962,500	0.5	3,000,000	101.3
Cash Equivalents	5,887,302	0.9	3,367,711	0.6	2,519,591	74.8
RMS Timberland	5,519,016	0.8	19,372,553	3.2	(13,853,537)	(71.5)
Almanac Realty Sec Fund V	0	0.0	13,012,294	2.2	(13,012,294)	(100.0)
Total	<u>672,669,517</u>	<u>100.0</u>	<u>604,323,623</u>	<u>100.0</u>	<u>68,345,895</u>	<u>11.3</u>

MTRP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2012	11.51	NCREIF-ODCE	13.59	(2.08)
3 Year Annualized Average	2.40	NCREIF-ODCE	3.17	(0.77)
5 Year Annualized Average	(4.15)	NCREIF-ODCE	(1.33)	(2.82)

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, 2012, four systems were not actuarially sound as determined by the system's actuary. Those four were the Public Employees' Retirement System, Teachers' Retirement System, Game Wardens' and Peace Officers' Retirement System and the Sheriffs' Retirement System.

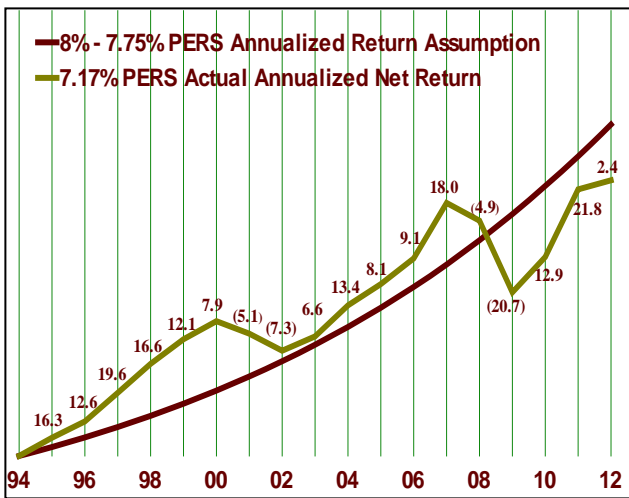
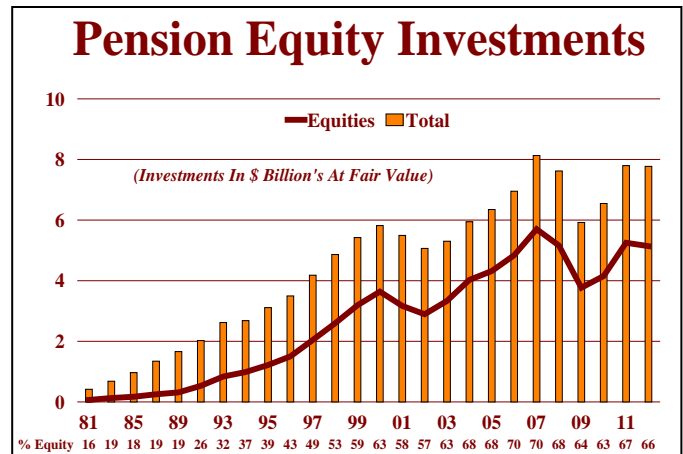
ASSET ALLOCATION

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 pension 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 allow for daily market movements and 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 60 -70% Equities Range			
<u>Domestic Equity Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Large Cap Core (passive)	45% - 70%	30% - 50%	4% - 10%
Large Cap Enhanced	8% - 12%		
Partial Long/Short (130/30)	8% - 12%		
Total Large Cap	72% - 91%		
Mid Cap	6% - 17%		
Small Cap	3% - 11%		
<u>International Equity Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Large Cap Passive	42% - 66%	15% - 30%	9% - 15%
Large Cap Active	22% - 32%		
Small Cap	10% - 16%		
Dedicated Emerging Markets	2% - 10%		
<u>Retirement Funds Bond Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Domestic High Yield	0% - 15%	22% - 32%	1% - 5%
International	0% - 10%		
Total High Yield/International	0% - 20%		
Domestic Core(investment grade)	80% - 100%		
<u>Real Estate Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Core/Timberland *	35% - 65%		
Value Added	20% - 45%		
Opportunistic	10% - 30%		
* Timberland may not exceed 2% of total pension assets			
<u>Private Equity Pool</u>			
<u>Investment Type</u>	<u>Range</u>		
Leveraged Buyouts	40% - 75%		
Venture Capital	10% - 50%		
Mezzanine Financing	0% - 10%		
Distressed Securities	0% - 40%		
Special Situations	0% - 10%		
<u>Short Term Investment Pool</u>			
Short-term liquid investments			
High-quality Investments			
24 Hour Liquidity for Participants			

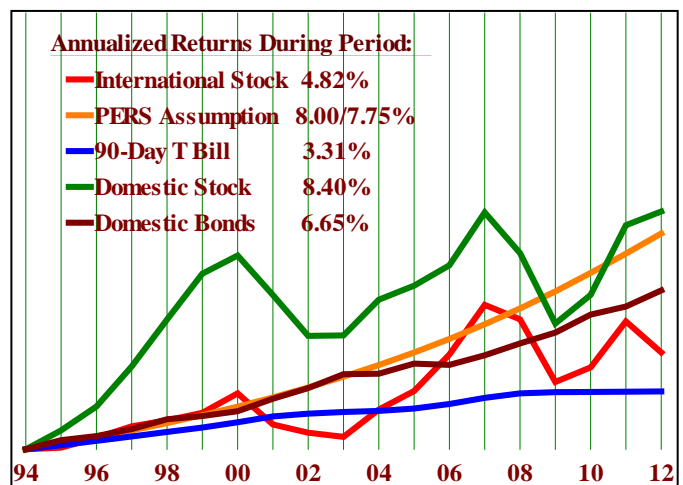
The Board's asset allocation mix is critical to the return on pension fund investments. The investment returns that pension fund contributions are expected to earn have already been determined when the Board receives the contributions to invest. These pension returns are used in the calculations that 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 used in the 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 the investment risk and volatility that have been demonstrated during the past 10 years. The asset allocation process must balance risk and 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 20 years of the period but caused significant volatility since 2001.



The Board has calculated returns on pension fund investments since Fiscal Year 1995 as depicted in the adjacent chart. As an example, through Fiscal Year 2008, the investment return had exceeded the 8.0 percent return assumptions of the PERS System despite the equity market's downturn in 2001 and 2002. However, despite the positive returns in 2010, 2011 and 2012, the investment portfolio has not recovered from the significant losses of 2008 and 2009. The PERS portfolio was up 2.4 percent during the 2012 fiscal year, resulting in a cumulative net annualized return of 7.17 percent, which remains below the current 7.75 percent assumption. The returns for the other eight retirement systems have been nearly identical to the PERS.

This has been an exceptionally volatile 18 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 7.75 percent return required to keep the retirement systems actuarially sound. Domestic stocks exceeded the return assumption; however, as the adjacent chart depicts, there is no combination of these asset classes that would have generated the required returns during the period.



The fiscal year change in the systems' book value is shown below.

Fund	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% of Change
Public Employees	2,655,553,273	49.9	2,669,210,331	50.0	(13,657,058)	(0.5)
Police	168,996,772	3.2	160,358,990	3.0	8,637,782	5.4
Game Wardens	76,448,690	1.4	71,660,238	1.3	4,788,452	6.7
Sheriffs	155,466,306	2.9	150,833,248	2.8	4,633,058	3.1
Judges	45,073,618	0.8	44,066,574	0.8	1,007,044	2.3
Highway Patrol	68,098,271	1.3	67,648,196	1.3	450,075	0.7
Teachers	1,958,930,938	36.8	1,988,496,817	37.3	(29,565,879)	(1.5)
Volunteer Firefighters	21,257,230	0.4	21,064,981	0.4	192,248	0.9
Firefighters	169,651,163	3.2	160,457,806	3.0	9,193,357	5.7
Total	5,319,476,260	100.0	5,333,797,182	100.0	(14,320,921)	(0.3)
Investment Type						
Domestic Equity Pool	1,298,583,438	24.4	1,286,995,065	24.1	11,588,373	0.9
International Equity Pool	943,244,742	17.7	916,683,058	17.2	26,561,684	2.9
Private Equity Pool	600,860,045	11.3	619,026,836	11.6	(18,166,790)	(2.9)
Real Estate Pool	663,201,443	12.5	600,089,652	11.3	63,111,791	10.5
Retirement Funds Bond Pool	1,741,294,530	32.7	1,795,351,549	33.7	(54,057,019)	(3.0)
Short Term Investment Pool	72,292,061	1.4	115,651,022	2.2	(43,358,960)	(37.5)
Total	5,319,476,260	100.0	5,333,797,182	100.0	(14,320,921)	(0.3)

The fiscal year change in the systems' fair value is shown below.

Fund	6/30/2012 Fair Value	% of Total	6/30/2011 Fair Value	% of Total	\$ Change	% of Change
Public Employees	3,912,330,268	50.3	3,930,390,589	50.4	(18,060,321)	(0.5)
Police	225,865,253	2.9	217,067,875	2.8	8,797,378	4.1
Game Wardens	99,345,298	1.3	93,925,828	1.2	5,419,471	5.8
Sheriffs	216,137,461	2.8	210,815,214	2.7	5,322,247	2.5
Judges	64,631,082	0.8	63,496,968	0.8	1,134,114	1.8
Highway Patrol	98,991,746	1.3	98,521,582	1.3	470,164	0.5
Teachers	2,902,903,488	37.3	2,940,482,398	37.7	(37,578,910)	(1.3)
Volunteer Firefighters	27,063,167	0.3	27,010,041	0.3	53,125	0.2
Firefighters	225,395,683	2.9	215,775,342	2.8	9,620,341	4.5
Total	7,772,663,446	100.0	7,797,485,837	100.0	(24,822,390)	(0.3)
Investment Type						
Domestic Equity Pool	2,888,814,175	37.2	2,846,486,980	36.5	42,327,195	1.5
International Equity Pool	1,234,550,534	15.9	1,443,960,235	18.5	(209,409,702)	(14.5)
Private Equity Pool	1,017,274,831	13.1	960,495,202	12.3	56,779,629	5.9
Real Estate Pool	625,321,924	8.0	508,025,320	6.5	117,296,605	23.1
Retirement Funds Bond Pool	1,934,409,921	24.9	1,922,867,078	24.7	11,542,843	0.6
Short Term Investment Pool	72,292,061	0.9	115,651,022	1.5	(43,358,960)	(37.5)
Total	7,772,663,446	100.0	7,797,485,837	100.0	(24,822,390)	(0.3)
Income	191,560,279		207,907,137		(16,346,857)	(7.9)

MEMBERSHIP

<u>PERS</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Retirees & Beneficiaries	18,738	18,123
Vested Terminated	2,560	2,535
Non-vested Terminated	6,164	5,787
Active Members	<u>28,548</u>	<u>28,659</u>
Total	<u>56,010</u>	<u>55,104</u>

<u>Sheriffs</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Retirees & Beneficiaries	469	441
Vested Terminated	60	48
Non-vested Terminated	212	196
Active Members	<u>1,241</u>	<u>1,230</u>
Total	<u>1,982</u>	<u>1,915</u>

<u>Firefighters</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Retirees & Beneficiaries	571	552
Vested Terminated	13	13
Non-vested Terminated	62	60
Active Members	<u>590</u>	<u>579</u>
Total	<u>1,236</u>	<u>1,204</u>

<u>Highway Patrol</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Retirees & Beneficiaries	305	302
Vested Terminated	11	11
Non-vested Terminated	10	9
Active Members	<u>218</u>	<u>214</u>
Total	<u>544</u>	<u>536</u>

<u>Game Wardens</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Retirees & Beneficiaries	163	145
Vested Terminated	64	61
Non-vested Terminated	146	113
Active Members	<u>972</u>	<u>951</u>
Total	<u>1,345</u>	<u>1,270</u>

<u>Volunteer Firefighters</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Retirees & Beneficiaries	1,242	1,183
Vested Terminated	879	870
Active Members	<u>2,106</u>	<u>2,105</u>
Total	<u>4,227</u>	<u>4,158</u>

<u>Judges</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Retirees & Beneficiaries	56	58
Vested Terminated	-	-
Active Members	<u>54</u>	<u>54</u>
Total	<u>110</u>	<u>112</u>

<u>Teachers</u>	<u>7/01/2012</u>	<u>7/01/2011</u>
Retirees & Beneficiaries	13,363	12,899
Vested Terminated	1,566	1,580
Non-vested Terminated	11,172	10,727
Contributing Members	<u>17,736</u>	<u>17,906</u>
Total	<u>43,837</u>	<u>43,112</u>

<u>Police</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Retirees & Beneficiaries	683	676
Vested Terminated	49	40
Non-vested Terminated	76	71
Active Members	<u>736</u>	<u>739</u>
Total	<u>1,544</u>	<u>1,526</u>

<u>Total</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Retirees & Beneficiaries	35,590	34,379
Vested Terminated	5,202	5,158
Non-vested Terminated	17,842	16,963
Active Members	<u>52,201</u>	<u>52,437</u>
System Total	<u>110,835</u>	<u>108,937</u>

Source: Pension Systems' Actuarial Valuation as of June 30, 2012 and Teachers' Retirement System Actuarial Valuation as of July 1, 2012.

ASSETS AND LIABILITIES *(In Thousands \$)*

<u>PERS</u>	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Sheriffs</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Actuarial Liability	5,661,281	5,410,144	Actuarial Liability	284,559	266,506
Actuarial Assets	<u>3,816,920</u>	<u>3,800,479</u>	Actuarial Assets	<u>211,535</u>	<u>203,689</u>
Unfunded Actuarial Liability	<u>1,844,361</u>	<u>1,609,665</u>	Unfunded Actuarial Liability	<u>73,024</u>	<u>62,817</u>
Funded Ratio	<u>67.42%</u>	<u>70.25%</u>	Funded Ratio	<u>74.34%</u>	<u>76.43%</u>
<u>Firefighters</u>	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Highway Patrol</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Actuarial Liability	377,211	355,188	Actuarial Liability	167,824	155,742
Actuarial Assets	<u>233,121</u>	<u>219,959</u>	Actuarial Assets	<u>96,655</u>	<u>95,274</u>
Unfunded Actuarial Liability	<u>144,090</u>	<u>135,229</u>	Unfunded Actuarial Liability	<u>71,169</u>	<u>60,468</u>
Funded Ratio	<u>61.80%</u>	<u>61.93%</u>	Funded Ratio	<u>57.59%</u>	<u>61.17%</u>
<u>Game Wardens</u>	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Volunteer Firefighters</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Actuarial Liability	128,926	119,881	Actuarial Liability	36,146	35,195
Actuarial Assets	<u>97,691</u>	<u>90,437</u>	Actuarial Assets	<u>26,531</u>	<u>26,183</u>
Unfunded Actuarial Liability	<u>31,235</u>	<u>29,444</u>	Unfunded Actuarial Liability	<u>9,615</u>	<u>9,012</u>
Funded Ratio	<u>75.77%</u>	<u>75.44%</u>	Funded Ratio	<u>73.40%</u>	<u>74.40%</u>
<u>Judges</u>	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Teachers</u>	<u>7/01/2012</u>	<u>7/01/2011</u>
Actuarial Liability	46,190	43,414	Actuarial Liability	4,814,726	4,658,594
Actuarial Assets	<u>63,195</u>	<u>61,274</u>	Actuarial Assets	<u>2,852,007</u>	<u>2,866,483</u>
Unfunded Actuarial Liability	<u>(17,005)</u>	<u>(17,860)</u>	Unfunded Actuarial Liability	<u>1,962,719</u>	<u>1,792,111</u>
Funded Ratio	<u>136.82%</u>	<u>141.14%</u>	Funded Ratio	<u>59.24%</u>	<u>61.53%</u>
<u>Police</u>	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Total</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Actuarial Liability	427,257	401,381	Actuarial Liability	11,944,120	11,446,045
Actuarial Assets	<u>234,025</u>	<u>221,669</u>	Actuarial Assets	<u>7,631,680</u>	<u>7,585,447</u>
Unfunded Actuarial Liability	<u>193,232</u>	<u>179,712</u>	Unfunded Actuarial Liability	<u>4,312,440</u>	<u>3,860,598</u>
Funded Ratio	<u>54.77%</u>	<u>55.23%</u>			

Source: Pension Systems' Actuarial Valuation as of June 30, 2012 and Teachers' Retirement System Actuarial Valuation as of July 1, 2012.

CASH FLOW (In Thousands \$)

<u>PERS</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Employees	79,261	77,798
Employers	79,498	78,657
State	<u>536</u>	<u>546</u>
Contributions	159,295	157,001
Benefits/Administration	<u>(268,931)</u>	<u>(246,579)</u>
Cash Flow	<u>(109,636)</u>	<u>(89,578)</u>

<u>Sheriffs</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Employees	5,694	5,824
Employers	<u>6,028</u>	<u>6,014</u>
Contributions	11,722	11,838
Benefits/Administration	<u>(11,857)</u>	<u>(10,326)</u>
Cash Flow	<u>(135)</u>	<u>1,512</u>

<u>Firefighters</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Employees	4,100	3,748
Employers	5,281	5,009
State	<u>11,797</u>	<u>11,365</u>
Contributions	21,178	20,122
Benefits/Administration	<u>(16,801)</u>	<u>(15,825)</u>
Cash Flow	<u>4,377</u>	<u>4,297</u>

<u>Highway Patrol</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Employees	1,272	1,268
Employers	4,966	4,542
State	<u>269</u>	<u>278</u>
Contributions	6,507	6,088
Benefits/Administration	<u>(8,413)</u>	<u>(8,042)</u>
Cash Flow	<u>(1,906)</u>	<u>(1,954)</u>

<u>Game Wardens</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Employees	4,143	4,173
Employers	<u>3,470</u>	<u>3,523</u>
Contributions	7,613	7,696
Benefits/Administration	<u>(4,618)</u>	<u>(3,944)</u>
Cash Flow	<u>2,995</u>	<u>3,752</u>

<u>Volunteer Firefighters</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
State	<u>1,635</u>	<u>1,596</u>
Contributions	1,635	1,596
Benefits/Administration	<u>(2,203)</u>	<u>(2,034)</u>
Cash Flow	<u>(568)</u>	<u>(438)</u>

<u>Judges</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Employees	447	479
Employers	<u>1,598</u>	<u>1,477</u>
Contributions	2,045	1,956
Benefits/Administration	<u>(2,462)</u>	<u>(2,278)</u>
Cash Flow	<u>(417)</u>	<u>(322)</u>

<u>Teachers</u>	<u>7/01/2012</u>	<u>7/01/2011</u>
Employees	62,745	62,993
Employers	72,422	72,880
State	<u>16,844</u>	<u>17,437</u>
Total Contributions	152,011	153,310
Benefits/Administration	<u>(258,581)</u>	<u>(241,382)</u>
Cash Flow	<u>(106,570)</u>	<u>(88,072)</u>

<u>Police</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Employees	3,791	3,580
Employers	6,055	5,670
State	<u>12,274</u>	<u>11,594</u>
Contributions	22,120	20,844
Benefits/Administration	<u>(18,243)</u>	<u>(18,119)</u>
Cash Flow	<u>3,877</u>	<u>2,725</u>

<u>Total</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Members	161,453	159,863
Employers	179,318	177,772
State/Other	<u>43,355</u>	<u>42,816</u>
Contributions	384,126	380,451
Benefits/Administration	<u>(592,109)</u>	<u>(548,529)</u>
Cash Flow	<u>(207,983)</u>	<u>(168,078)</u>

Source: Pension Systems' Actuarial Valuation as of June 30, 2012 and Teachers' Retirement System Actuarial Valuation as of July 1, 2012.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND (PERS)

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

<u>PERS Annual Change</u>						
Investment Type	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	876,592,588	33.0	904,925,847	33.9	(28,333,259)	(3.1)
Domestic Equity Pool	637,353,943	24.0	632,740,646	23.7	4,613,297	0.7
International Equity Pool	471,216,854	17.7	458,740,189	17.2	12,476,665	2.7
Montana Private Equity Pool	<u>302,272,160</u>	<u>11.4</u>	<u>311,755,350</u>	<u>11.7</u>	<u>(9,483,190)</u>	<u>(3.0)</u>
Total Equity	<u>1,410,842,957</u>	<u>53.1</u>	<u>1,403,236,185</u>	<u>52.6</u>	<u>7,606,772</u>	<u>0.5</u>
Real Estate Pool	334,409,566	12.6	303,005,543	11.4	31,404,023	10.4
Short Term Investment Pool	33,708,163	1.3	58,042,756	2.2	(24,334,593)	(41.9)
Total	2,655,553,273	100.0	2,669,210,331	100.0	(13,657,058)	(0.5)

Investment Type	6/30/2012 Fair Value	% of Total	6/30/2011 Fair Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	974,139,458	24.9	969,118,608	24.7	5,020,850	0.5
Domestic Equity Pool	1,455,188,392	37.2	1,434,773,301	36.5	20,415,092	1.4
International Equity Pool	621,886,728	15.9	727,764,569	18.5	(105,877,841)	(14.5)
Montana Private Equity Pool	<u>512,314,695</u>	<u>13.1</u>	<u>484,323,775</u>	<u>12.3</u>	<u>27,990,921</u>	<u>5.8</u>
Total Equity	<u>2,589,389,816</u>	<u>66.2</u>	<u>2,646,861,645</u>	<u>67.3</u>	<u>(57,471,829)</u>	<u>(2.2)</u>
Real Estate Pool	315,092,832	8.1	256,367,581	6.5	58,725,252	22.9
Short Term Investment Pool	33,708,163	0.9	58,042,756	1.5	(24,334,593)	(41.9)
Total	3,912,330,268	100.0	3,930,390,589	100.0	(18,060,321)	(0.5)

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

PERS Annual Change in Income

Income Type	2012 \$	% Of	2011 \$	% Of	\$	%
	Income	Total	Income	Total	Change	Change
Gain on Sale of Pool Units	31,840,536	27.2	36,912,897	30.0	(5,072,360)	(13.7)
Retirement Funds Bond Pool	40,879,987	34.9	43,445,110	35.3	(2,565,123)	(5.9)
Domestic Stock Pool	17,250,282	14.7	16,028,043	13.0	1,222,239	7.6
International Stock Pool	8,362,065	7.1	9,378,955	7.6	(1,016,889)	(10.8)
Short Term Investment Pool	171,754	0.1	190,943	0.2	(19,189)	(10.0)
Montana Private Equity Pool	9,506,878	8.1	8,906,584	7.2	600,294	6.7
Montana Mortgages*	0	0.0	895,295	0.7	(895,295)	(100.0)
Real Estate Pool	9,074,662	7.8	6,733,908	5.5	2,340,755	34.8
Direct Real Estate**	0	0.0	570,097	0.5	(570,097)	(100.0)
All Other Funds	0	0.0	144	0.0	(144)	(100.0)
Total Gross Income	<u>117,086,166</u>	<u>100.0</u>	<u>123,061,975</u>	<u>100.0</u>	<u>(5,975,809)</u>	<u>(4.9)</u>
Board Management Fees	(1,460,798)		(1,393,952)		(66,846)	4.8
Custodial Bank Fees	(557,155)		(549,649)		(7,505)	1.4
External Manager Fees	(19,316,567)		(19,305,010)		(11,557)	0.1
Total Net Income	<u>95,751,646</u>		<u>101,813,364</u>		<u>(6,061,718)</u>	<u>(6.0)</u>

* Montana Mortgages were transferred to the Real Estate Pool in FY11.
**Direct Real Estate was transferred to the Retirement Funds Bond Pool in FY11.

PERS 2012 Total Rates of Returns By Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Short Term Investment Pool	0.30	LIBOR 1 Month	0.25	0.05
Domestic Stock Pool	3.01	S&P 1500 Index	4.63	(1.62)
International Stock Pool	(15.45)	MTIP Custom Benchmark	(14.70)	(0.75)
Private Equity Pool	11.07	S&P 1500 Index + 4% (1)	11.84	(0.77)
Fixed Income	8.05	BC Aggregate	7.47	0.58
Real Estate	11.49	NCREIF-Property Index	13.59	(2.10)
Total Net of Fees	<u>2.41</u>	Composite (2)	<u>3.51</u>	<u>(1.10)</u>
Total Gross of Fees	<u>2.98</u>	Peer Universe (3)	<u>2.98</u>	<u>0.00</u>

(1) 1 Quarter Lag
(2) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value
(3) Median return of the 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
2012	2.41	PERS Composite	3.51	(1.10)
3 Year Annualized Average	12.08	PERS Composite	13.27	(1.19)
5 Year Annualized Average	1.22	PERS Composite	1.52	(0.30)
10 Year Annualized Average	5.98	PERS Composite	5.92	0.06

(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	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	648,763,551	33.1	676,694,083	34.0	(27,930,533)	(4.1)
Domestic Equity Pool	465,392,294	23.8	469,900,673	23.6	(4,508,379)	(1.0)
International Equity Pool	347,211,112	17.7	341,942,013	17.2	5,269,099	1.5
Montana Private Equity Pool	<u>221,446,781</u>	<u>11.3</u>	<u>231,772,017</u>	<u>11.7</u>	<u>(10,325,235)</u>	<u>(4.5)</u>
Total Equity	<u>1,034,050,187</u>	<u>52.8</u>	<u>1,043,614,702</u>	<u>52.5</u>	<u>(9,564,515)</u>	<u>(0.9)</u>
Real Estate Pool	248,227,301	12.7	227,674,109	11.4	20,553,192	9.0
Short Term Investment Pool	27,889,900	1.4	40,513,923	2.0	(12,624,023)	(31.2)
Total	1,958,930,938	100.0	1,988,496,817	100.0	(29,565,879)	(1.5)

Investment Type	6/30/2012 Fair Value	% of Total	6/30/2011 Fair Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	722,417,757	24.9	726,164,390	24.7	(3,746,633)	(0.5)
Domestic Equity Pool	1,078,537,835	37.2	1,074,185,991	36.5	4,351,844	0.4
International Equity Pool	460,866,355	15.9	544,950,429	18.5	(84,084,075)	(15.4)
Montana Private Equity Pool	<u>379,889,785</u>	<u>13.1</u>	<u>362,293,217</u>	<u>12.3</u>	<u>17,596,568</u>	<u>4.9</u>
Total Equity	<u>1,919,293,975</u>	<u>66.1</u>	<u>1,981,429,637</u>	<u>67.4</u>	<u>(62,135,663)</u>	<u>(3.1)</u>
Real Estate Pool	233,301,857	8.0	192,374,448	6.5	40,927,409	21.3
Short Term Investment Pool	27,889,900	1.0	40,513,923	1.4	(12,624,023)	(31.2)
Total	2,902,903,488	100.0	2,940,482,398	100.0	(37,578,910)	(1.3)

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

TRS Annual Change in Income

Income Type	2012 \$	% Of	2011 \$	% Of	\$	%
	Income	Total	Income	Total	Change	Change
Gain on Sale of Pool Units	26,722,144	29.6	35,082,446	35.1	(8,360,302)	(23.8)
Retirement Funds Bond Pool	30,477,025	33.8	32,637,369	32.6	(2,160,344)	(6.6)
Domestic Stock Pool	12,864,967	14.3	12,051,434	12.1	813,533	6.8
International Stock Pool	6,228,406	6.9	7,040,311	7.0	(811,905)	(11.5)
Short Term Investment Pool	120,716	0.1	121,813	0.1	(1,097)	(0.9)
Montana Private Equity Pool	7,078,805	7.8	6,693,520	6.7	385,285	5.8
Montana Mortgages	0	0.0	762,659	0.8	(762,659)	(100.0)
Real Estate Pool	6,753,453	7.5	5,066,809	5.1	1,686,644	33.3
Direct Real Estate	0	0.0	529,806	0.5	(529,806)	(100.0)
All Other Funds	0	0.0	122	0.0	(122)	(100.0)
Total Gross Income	<u>90,245,515</u>	<u>100.0</u>	<u>99,986,289</u>	<u>100.0</u>	<u>(9,740,774)</u>	<u>(9.7)</u>
Board Management Fees	(1,087,779)		(1,051,989)		(35,791)	3.4
Custodial Bank Fees	(415,099)		(412,519)		(2,580)	0.6
External Manager Fees	(14,388,314)		(14,514,393)		126,079	(0.9)
Total Net Income	<u>74,354,324</u>		<u>84,007,388</u>		<u>(9,653,066)</u>	<u>(11.5)</u>

* Montana Mortgages were transferred to the Real Estate Pool in FY11.
**Direct Real Estate was transferred to the Retirement Funds Bond Pool in FY11.

TRS 2012 Total Rates of Return by Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Short Term Investment Pool	0.30	LIBOR 1 Month	0.25	0.05
Domestic Stock Pool	3.01	S&P 1500 Index	4.63	(1.62)
International Stock Pool	(15.45)	MTIP Custom Benchmark	(14.70)	(0.75)
Private Equity Pool	11.07	S&P 1500 Index + 4% (1)	11.84	(0.77)
Fixed Income	8.05	BC Aggregate	7.47	0.58
Real Estate	11.49	NCREIF-Property Index	13.59	(2.10)
Total Net of Fees	<u>2.42</u>	Composite (2)	<u>3.48</u>	<u>(1.06)</u>
Total Gross of Fees	<u>2.98</u>	Peer Universe (3)	<u>2.98</u>	<u>0.00</u>

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

TRS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return Benchmark
2012	2.42	TRS Composite	3.48	(1.06)
3 Year Annualized Average	12.08	TRS Composite	13.26	(1.18)
5 Year Annualized Average	1.22	TRS Composite	1.52	(0.30)
10 Year Annualized Average	5.97	TRS Composite	5.88	0.09

(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.

Other Pensions Annual Change by Asset Type						
Investment Type	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	215,938,392	30.6	213,731,619	31.6	2,206,773	1.0
Domestic Equity Pool	195,837,201	27.8	184,353,746	27.3	11,483,454	6.2
International Equity Pool	124,816,776	17.7	116,000,856	17.2	8,815,920	7.6
Montana Private Equity Pool	<u>77,141,105</u>	<u>10.9</u>	<u>75,499,469</u>	<u>11.2</u>	<u>1,641,635</u>	<u>2.2</u>
Total Equity	<u>397,795,082</u>	<u>56.4</u>	<u>375,854,072</u>	<u>55.6</u>	<u>21,941,010</u>	<u>5.8</u>
Real Estate Pool	80,564,577	11.4	69,410,000	10.3	11,154,577	16.1
Short Term Investment Pool	10,693,999	1.5	17,094,344	2.5	(6,400,344)	(37.4)
Total	704,992,050	100.0	676,090,034	100.0	28,902,016	4.3

Investment Type	6/30/2012 Fair Value	% of Total	6/30/2011 Fair Value	% of Total	\$ Change	% of Change
Retirement Funds Bond Pool	237,852,707	24.8	227,584,080	24.6	10,268,626	4.5
Domestic Equity Pool	355,087,947	37.1	337,527,688	36.4	17,560,259	5.2
International Equity Pool	151,797,451	15.9	171,245,237	18.5	(19,447,786)	(11.4)
Montana Private Equity Pool	<u>125,070,351</u>	<u>13.1</u>	<u>113,878,210</u>	12.3	<u>11,192,140</u>	<u>9.8</u>
Total Equity	<u>631,955,749</u>	<u>66.0</u>	<u>622,651,135</u>	<u>67.2</u>	<u>9,304,614</u>	<u>1.5</u>
Real Estate Pool	76,927,235	8.0	59,283,291	6.4	17,643,944	29.8
Short Term Investment Pool	10,693,999	1.1	17,094,344	1.8	(6,400,344)	(37.4)
Total	957,429,690	100.0	926,612,850	100.0	30,816,840	3.3

Other Retirement Systems 2012 Total Rates of Return				
Fund	% Return	Index (1)	% Return	Fund +/- Index
Sheriffs	2.40	Composite	3.50	(1.10)
Police	2.38	Composite	3.52	(1.14)
Firefighters	2.38	Composite	3.65	(1.27)
Highway Patrol	2.40	Composite	3.51	(1.11)
Judges	2.40	Composite	3.49	(1.09)
Game Warden	2.41	Composite	3.51	(1.10)
Vol. Firefighters	2.42	Composite	3.91	(1.49)

(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	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Permanent Coal Tax Trust	868,605,237	38.2	843,314,832	38.0	25,290,404	3.0
Schools (Trust and Legacy)	504,503,125	22.2	473,452,474	21.3	31,050,651	6.6
Tobacco Trust	147,168,406	6.5	134,421,236	6.1	12,747,170	9.5
UCFRB Restoration	129,208,532	5.7	137,379,646	6.2	(8,171,114)	(5.9)
Clark Fork Site Response	100,991,014	4.4	101,687,738	4.6	(696,724)	(0.7)
Other Trusts in STIP	100,937,762	4.4	98,351,403	4.4	2,586,359	2.6
Resource Indemnity Trust	100,023,109	4.4	100,023,109	4.5	0	0.0
Streamside Tailings	64,099,105	2.8	69,674,053	3.1	(5,574,948)	(8.0)
Blackfoot Response	34,772,027	1.5	35,312,612	1.6	(540,585)	(1.5)
Montana Pole	31,322,537	1.4	31,021,817	1.4	300,720	1.0
Butte Area One Restoration	30,699,333	1.4	29,821,383	1.3	877,950	2.9
Clark Fork River Restoration	29,658,848	1.3	28,687,938	1.3	970,909	3.4
Parks Trust	21,589,427	1.0	20,802,504	0.9	786,924	3.8
UCFRB Litigation	14,717,748	0.6	14,116,602	0.6	601,146	4.3
FWP Mitigation	12,072,044	0.5	12,038,019	0.5	34,025	0.3
Cultural Trust	11,785,371	0.5	11,435,371	0.5	350,000	3.1
Smelter Hill Uplands Restoration	11,407,138	0.5	12,146,106	0.5	(738,968)	(6.1)
Zortman Water	10,954,353	0.5	10,276,235	0.5	678,118	6.6
Wildlife Habitat	10,274,961	0.5	9,825,704	0.4	449,257	4.6
Weed Control	10,270,116	0.5	10,182,871	0.5	87,244	0.9
Zort/Land LT H2O Trust	10,248,714	0.5	8,651,852	0.4	1,596,862	18.5
Abandoned Mines	5,878,554	0.3	5,659,223	0.3	219,331	3.9
FWP Real Property	5,819,109	0.3	5,712,723	0.3	106,386	1.9
Other Trusts in TFIP	2,365,593	0.1	2,365,593	0.1	0	0.0
Endowment for Children	1,175,810	0.1	1,221,883	0.1	(46,074)	(3.8)
Older Montanans Trust	940,730	0.0	10,068,091	0.5	(9,127,361)	(90.7)
Litigation Cost Recovery	0	0.0	111	0.0	(111)	(100.0)
Total	2,271,488,701	100.0	2,217,651,130	100.0	53,837,571	2.4
Fixed-Income/Real Estate (TFIP)	1,825,617,054	80.4	1,740,664,971	78.5	84,952,084	4.9
Other Fixed Income	79,779,676	3.5	97,023,470	4.4	(17,243,794)	(17.8)
Montana Loans	151,797,368	6.7	178,502,340	8.0	(26,704,972)	(15.0)
Cash Equivalents (STIP)	214,294,603	9.4	201,460,349	9.1	12,834,255	6.4
Total	2,271,488,701	100.0	2,217,651,130	100.0	53,837,571	2.4

[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:

Coal Tax Trust Subfunds Annual Change						
Subfund	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Permanent Fund	527,624,268	60.7	531,304,875	63.0	(3,680,607)	(0.7)
Treasure State Endowment	210,091,607	24.2	196,337,004	23.3	13,754,604	7.0
Treasure State Regional Water	64,214,692	7.4	57,336,254	6.8	6,878,439	12.0
Economic Development Fund	60,422,774	7.0	53,544,336	6.3	6,878,439	12.8
Severance Tax Bond Fund	4,277,125	0.5	2,397,829	0.3	1,879,296	78.4
Permanent Fund Income	1,974,770	0.2	2,394,535	0.3	(419,765)	(17.5)
Total Coal Tax Trust	868,605,237	100.0	843,314,832	100.0	25,290,404	3.0

[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	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Fixed Income (TFIP)	<u>695,538,860</u>	<u>80.1</u>	<u>648,653,860</u>	<u>76.9</u>	<u>46,885,000</u>	<u>7.2</u>
Commercial Loans	104,201,029	12.0	128,350,272	15.2	(24,149,243)	(18.8)
Local Gov. Infrastructure	22,540,729	2.6	23,557,398	2.8	(1,016,669)	(4.3)
Value-added Loans	2,688,501	0.3	3,178,860	0.4	(490,359)	(15.4)
Science and Technology	10,530,305	1.2	12,185,010	1.4	(1,654,706)	(13.6)
Montana Facility Finance	6,175,640	0.7	8,286,258	1.0	(2,110,618)	(25.5)
Intermediary Loan Program	3,014,294	0.3	2,944,542	0.3	69,752	2.4
Veterans Home Loans	<u>2,646,870</u>	<u>0.3</u>	<u>0</u>	<u>0.0</u>	<u>2,646,870</u>	<u>N/A</u>
Total In-State Investments	<u>151,797,368</u>	<u>17.5</u>	<u>178,502,340</u>	<u>21.2</u>	<u>(26,704,972)</u>	<u>(15.0)</u>
S'TIP Permanent Fund	7,302,518	0.8	11,215,389	1.3	(3,912,871)	(34.9)
S'TIP Sev. Tax Bond Fund	4,277,125	0.5	2,397,829	0.3	1,879,296	78.4
S'TIP Permanent Trust Income	1,974,770	0.2	2,394,535	0.3	(419,765)	(17.5)
S'TIP Tr. St. Endow Trust	3,968,098	0.5	61,259	0.0	3,906,840	6,377.6
S'TIP Tr. St. Regional Water	1,872,814	0.2	44,375	0.0	1,828,439	4,120.4
S'TIP Economic Development Fund	<u>1,873,684</u>	<u>0.2</u>	<u>45,245</u>	<u>0.0</u>	<u>1,828,439</u>	<u>4,041.2</u>
Cash Equivalents (STIP)	21,269,008	2.4	16,158,632	1.9	5,110,377	31.6
Total	868,605,237	100.0	843,314,832	100.0	25,290,404	3.0
Income	41,366,751		41,347,183		19,568	0.0

The Coal Tax Trust is also used to fund the in-state investment program on Page 43.

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	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Fixed Income (TFIP)	498,053,456	98.7	464,553,456	98.1	33,500,000	7.2
Cash Equivalents (STIP)	6,449,669	1.3	8,899,018	1.9	(2,449,349)	(27.5)
Total	504,503,125	100.0	473,452,474	100.0	31,050,651	6.6
Income	24,201,837		23,227,158		974,679	4.2

[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	6/30/2012 Book Value	% of Total	6/30/2011 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
<hr/>						
Income	5,063,566		5,134,587		(71,020)	(1.4)

[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	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Parks Trust	21,589,427	64.7	20,802,504	64.5	786,924	3.8
Cultural Trust	11,785,371	35.3	11,435,371	35.5	350,000	3.1
Total	33,374,798	100.0	32,237,875	100.0	1,136,924	3.5
<hr/>						
Investment Type	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% Change
Fixed Income (TFIP)	33,010,936	98.9	31,980,936	99.2	1,030,000	3.2
Cash Equivalents (STIP)	363,863	1.1	256,939	0.8	106,924	41.6
Total	33,374,798	100.0	32,237,875	100.0	1,136,923	3.5
<hr/>						
Income	1,601,636		1,573,573		28,063	1.8

[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.

Upper Blackfoot Mine Complex Fund - funds derived from the 2008 consent decree between the Montana Department of Justice and Atlantic Richfield Company for the cleanup of the national forest portion of the Upper Blackfoot Mining Complex Site.

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	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% of Change
Corporate/Asset-Backed Bonds	640,638,614	55.3	610,768,368	54.8	29,870,246	4.9
US Govt Direct Obligations	148,231,174	12.8	158,060,411	14.2	(9,829,237)	(6.2)
US Agency Bonds	<u>246,356,592</u>	<u>21.3</u>	<u>232,457,755</u>	<u>20.8</u>	<u>13,898,837</u>	<u>6.0</u>
Total Fixed Income	<u>1,035,226,380</u>	<u>89.4</u>	<u>1,001,286,533</u>	<u>89.8</u>	<u>33,939,846</u>	<u>3.4</u>
Blackrock ACWI EX US Super Fund	14,000,530	1.2	14,000,530	1.3	0	0.0
Blackrock Equity Index (S&P 500)	<u>86,062,697</u>	<u>7.4</u>	<u>85,007,008</u>	<u>7.6</u>	<u>1,055,689</u>	<u>1.2</u>
Total Equity	<u>100,063,227</u>	<u>8.6</u>	<u>99,007,538</u>	<u>8.9</u>	<u>1,055,689</u>	<u>1.1</u>
Cash Equivalents (STIP)	22,170,659	1.9	15,146,197	1.4	7,024,462	46.4
Total	1,157,460,266	100.0	1,115,440,268	100.0	42,019,997	3.8
Income	48,894,468		50,132,859		(1,238,391)	(2.5)

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

State Fund Insurance 2012 Total Rates of Return				
Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	0.30	LIBOR 1 Month	0.25	0.05
Equities	3.12	S & P 500 Index	5.45	(2.33)
Fixed Income	6.32	BC Gov/Credit Intermediate	5.42	0.90
All Assets	6.04	Composite (1)	5.13	0.91

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

OTHER INSURANCE FUNDS INVESTMENTS

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.

Montana University Group Insurance - reserve account for the Montana University System's self-insured health plan.

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

Agency Insurance.....	2,803,221
University Workers Compensation.....	16,928,243
Hail Insurance.....	11,419,567
Uninsured Employees.....	3,510,830
Unemployment Insurance Benefits.....	8,814,633
Total.....	<u>\$43,476,494</u>

Other Insurance Annual Change						
Fund Type	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% of Change
Group Insurance	69,487,911	61.5	59,030,223	98.5	10,457,688	17.7
Montana University Group Ins.	42,641,153	37.7	0	0.0	42,641,153	N/A
Subsequent Injury	914,901	0.8	901,602	1.5	13,299	1.5
Total	<u>113,043,965</u>	<u>100.0</u>	<u>59,931,825</u>	<u>100.0</u>	<u>53,112,140</u>	<u>88.6</u>
Investment Type						
Corporate/Asset-Backed Bonds	25,998,385	23.0	11,263,580	18.8	14,734,805	130.8
US Government Agency	25,443,590	22.5	26,057,279	43.5	(613,689)	(2.4)
Cash Equivalents (STIP)	61,601,990	54.5	22,610,966	37.7	38,991,024	172.4
Total	<u>113,043,965</u>	<u>100</u>	<u>59,931,825</u>	<u>100</u>	<u>53,112,140</u>	<u>88.6</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 1973 when STIP was created.

Treasurer's Fund Annual Change						
Investment Type	6/30/2012 Book Value	% of Total	6/30/2011 Book Value	% of Total	\$ Change	% of Change
US Bank Sweep Repo	7,740,691	0.7	15,077,839	1.5	(7,337,148)	(48.7)
US Agency Bonds	34,628,978	3.1	30,969,504	3.0	3,659,474	11.8
Cash Equivalents (STIP)	1,059,329,201	96.2	976,647,515	95.5	82,681,686	8.5
Total	<u>1,101,698,870</u>	<u>100.0</u>	<u>1,022,694,858</u>	<u>100.0</u>	<u>79,004,012</u>	<u>7.7</u>
Income	<u>2,653,812</u>		<u>2,535,104</u>		<u>118,708</u>	<u>4.7</u>

Treasurer's Fund 2012 Total Rates of Return				
Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents	0.30	3 Month Treasury	0.04	0.26
All Assets	0.32			

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.

The Veteran's Home Loan Program provides low interest loans for first-time home buying Montana Veterans. By law, the Montana Board of Housing administers the Program; however, the Board of Investments approves and funds all loans. Total loans outstanding in this Program are limited by law to \$15.0 million.

Loans By Sector From Inception						
Sector	6/30/2012 Cumulative	% of Total	6/30/2011 Cumulative	% Of Total	\$ Change	% Change
Service Industry	278,264,769	42.5	278,264,769	43.1	0	(0.0)
Manufacturing	90,540,415	13.8	90,540,415	14.0	0	0.0
Finance/Insurance/Real Estate	98,088,439	15.0	90,217,363	14.0	7,871,076	8.7
Retail Trade	78,238,338	12.0	77,688,814	12.0	549,525	0.7
Agriculture/Forestry/Fishing	61,022,673	9.3	61,022,673	9.4	0	0
Transportation/Utilities/Comm.	22,670,985	3.5	22,670,985	3.5	0	0
Wholesale Trade	12,347,115	1.9	12,347,115	1.9	0	0
Construction	10,106,827	1.5	10,106,827	1.6	0	0
Mining	3,139,768	0.5	3,139,768	0.5	0	0
Total	654,419,328	100.0	645,998,728	100.0	8,420,600	1.3
Annual Change by Loan and Mortgage Type						
Loan Type	6/30/2012 Outstanding	% of Total	6/30/2011 Outstanding	% Of Total	\$ Change	% Change
Commercial Loans	104,201,029	77.1	128,350,272	81.2	(24,149,243)	(18.8)
Infrastructure Loans	22,540,729	16.7	23,557,398	14.9	(1,016,669)	(4.3)
Value-added Loans	2,688,501	2.0	3,178,860	2.0	(490,359)	(15.4)
Intermediary Program Loans	3,014,294	2.2	2,944,542	1.9	69,752	2.4
Veteran's Home Loan Mortgages	2,646,870	2.0	0	0.0	2,646,870	N/A
Total	135,091,423	100.0	158,031,072	100.0	(22,939,649)	(14.5)
Loan Yield at 6/30 (1)	5.35%		5.30%			
Loans 90 Days in Arrears	0		0.14%			
Loan Losses	0		0			

(1) Excludes Value-added, Intermediary Program, and Veteran's Home Loans With Interest Rates Set By Law

Loans From Inception By County Annual Change At June 30

County	Through 2012	% Of Total	Through 2011	% Of Total	11-12 \$ Increase	2012 Loans	2011 Loans	11-12 Inc
Missoula	124,878,570	19.1	123,473,130	19.1	1,405,440	228	227	1
Yellowstone	100,023,528	15.3	100,023,528	15.5	0	145	145	0
Gallatin	96,645,116	14.8	96,595,116	15.0	50,000	127	127	0
Lewis & Clark	61,006,428	9.3	54,540,792	8.4	6,465,636	101	100	1
Cascade	60,767,015	9.3	60,767,015	9.4	0	54	54	0
Flathead	47,159,507	7.2	47,159,507	7.3	0	88	88	0
Park	22,709,631	3.5	22,709,631	3.5	0	30	30	0
Lake	19,432,991	3.0	19,432,991	3.0	0	90	90	0
Silver Bow	18,584,476	2.8	18,584,476	2.9	0	13	13	0
Ravalli	14,995,545	2.3	14,992,506	2.3	3,040	47	47	0
Madison	13,713,554	2.1	13,713,554	2.1	0	70	70	0
Beaverhead	10,874,710	1.7	10,874,710	1.7	0	29	29	0
Stillwater	9,757,796	1.5	9,289,630	1.4	468,166	50	49	1
Blaine	6,231,325	1.0	6,231,325	1.0	0	35	35	0
Hill	5,265,248	0.8	5,265,248	0.8	0	10	10	0
Richland	3,580,953	0.5	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	0.4	2,863,980	0.4	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	0.2	1,611,093	0.2	0	3	3	0
Granite	1,524,095	0.2	1,524,095	0.2	0	6	6	0
Fergus	1,444,809	0.2	1,416,491	0.2	28,319	4	4	0
Meagher	1,424,517	0.2	1,424,517	0.2	0	5	5	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	2	0
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	<u>57,105</u>	<u>0.0</u>	<u>57,105</u>	<u>0.0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>
Total	654,419,328	100.0	645,998,728	100.0	8,420,600	1,268	1,265	3

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, Other In-State Investments and Bond Guarantees</u>			
	6/30/2012	6/30/2011	\$
Loans and Mortgages	Book Value	Book Value	Change
Coal Tax Trust Loans	132,444,553	158,031,072	(25,586,519)
Veteran's Home Loan Mortgages	2,646,870	0	2,646,870
Montana Science and Technology	10,530,305	12,185,010	(1,654,706)
Facility Finance Authority Loans	6,175,640	8,286,258	(2,110,618)
Total AOF Loans and Mortgages	<u>151,797,368</u>	<u>178,502,340</u>	<u>(26,704,972)</u>
PPL Montana	24,374,141	28,690,522	(4,316,380)
Med Map LLC (St. Vincent's Hospital, Billings)	8,849,020	9,307,487	(458,467)
Board of Housing	1,080,000	1,090,000	(10,000)
Total Bonds	<u>34,303,161</u>	<u>39,088,009</u>	<u>(4,784,847)</u>
Total RFBP Residential Mortgages	19,604,041	26,484,439	(6,880,398)
Total MTRP Direct Real Estate	18,377,850	17,715,770	662,080
Bond Guarantees (1)	<u>220,454,677</u>	<u>226,374,677</u>	<u>(5,920,000)</u>
Total In-State Investments	444,537,097	488,165,235	(43,628,138)
(1) Guarantees of INTERCAP and Montana Facility Finance Authority Bonds			

The above table reflects only what the Board of Investments directly manages or directly guarantees. The Montana Legislature has authorized other programs to use coal tax monies from various sub-accounts. See page 36 for more information on these sub accounts.

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 Montana governments for a variety of purposes. Since the program's inception, the Board has issued \$136.0 million in bonds with \$95.03 million outstanding at June 30, 2012. The Board anticipates issuing ~\$12 million additional bonds in fiscal year 2013. The Board makes firm one-year commitments to fund the loans. Over the past five fiscal years, the program averaged funding \$26.6 million of \$31.1 million in loan commitments. In fiscal year 2012, the program committed to \$40.8 million and funded \$26.6 million. For fiscal year 2013, the program estimates the Board will commit to and fund ~\$30 million. The table below shows INTERCAP loans from inception by project and borrower type.

INTERCAP Loans From Inception By Project Type						
Project Type	6/30/2012 Cumulative	% Of Total	6/30/2011 Cumulative	% Of Total	\$ Change	% Change
Revenue Anticipation	80,044,840	21.7	67,757,680	19.8	12,287,160	18.1
Buildings	77,683,308	21.0	70,280,415	20.5	7,402,893	10.5
Vehicles	67,123,512	18.2	64,044,375	18.7	3,079,137	4.8
Computer/Printers	43,025,614	11.6	43,025,614	12.5	0	0.0
Land/Roads	27,661,691	7.5	26,151,182	7.6	1,510,508	5.8
Equipment	23,976,511	6.5	23,944,941	7.0	31,570	0.1
Water/Wastewater	14,243,932	3.9	13,607,095	4.0	636,837	4.7
Energy Retrofit	14,647,031	4.0	13,119,645	3.8	1,527,387	11.6
Other	12,557,584	3.4	12,557,584	3.7	0	0.0
Solid Waste Equipment	8,471,762	2.3	8,371,290	2.4	100,472	1.2
Total	369,435,785	100.0	342,859,821	100.0	26,575,964	7.8

INTERCAP Loans From Inception By Borrower Type						
Borrower Type	6/30/2012 Cumulative	% Of Tot...	6/30/2011 Cumulative	% Of Total	\$ Change	% Change
State Agency	90,202,862	24.4	86,041,691	25.1	4,161,171	4.8
City/Town	84,396,468	22.8	73,850,274	21.5	10,546,194	14.3
County	76,995,988	20.8	74,072,423	21.5	2,923,565	3.9
University	37,486,887	10.1	31,339,868	9.1	6,147,019	19.6
School District	31,876,609	8.6	31,134,367	9.1	742,242	2.4
Water/Sewer District	16,180,393	4.4	16,129,064	4.7	51,329	0.3
Other	13,067,565	3.5	12,644,148	3.7	423,417	3.3
Fire Jurisdiction	13,761,214	3.7	12,280,659	3.6	1,480,555	12.1
Solid Waste District	5,467,799	1.5	5,367,327	1.6	100,472	1.9
Total	369,435,785	100.0	342,859,821	100.0	26,575,964	7.8

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 2012.

87	5.625	92	4.950	97	4.750	02	3.150	07	4.850	12	1.250
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	11	1.950		

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	6/30/2012 Balance
Huntley Project Schools	12/01/00	750,000	750,000
Bozeman Public Schools	11/25/03	1,586,000	1,586,000
Phillipsburg 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

- ***Qualified School Construction Bond Program (QSCB)***

This program allows qualifying school districts to borrow money at no or nominal interest rates by issuing qualified school construction bonds. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/2012 Balance
Great Falls Elementary	04/27/11	6,510,000	6,204,890
Great Falls High School	04/27/11	1,855,000	1,768,060
Total		8,365,000	7,972,950

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	6/30/2012 Balance
Coldstrip Energy Project	10/01/89	60,800,000	32,100,000
BGI-Yellowstone Ltd.	07/01/93	118,345,000	89,345,000
Stillwater Mining	07/01/00	30,000,000	30,000,000
Total		209,145,000	151,445,000

- ***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 264 loans, totaling \$33.6 million have been funded under this program.