Board Of Investments

Fiscal Year 2013 Annual Report

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The Honorable Steve Bullock, Governor

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MONTANA BOARD OF INVESTMENTS

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  Executive Director
- ***Geri Burton***
  Deputy Director
- ***Herbert Kulow, CMB***
  Portfolio Manager –
  Montana Investments
- ***Clifford A. Sheets, CFA***
  Chief Investment Officer
- ***Gayle Moon, CPA***
  Financial Manager
- ***Dana Chapman***
  Office Manager – Board Secretary

Staff

- ***Polly Boutin***
  Accountant
- ***Jason Brent, CFA***
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- ***Richard Cooley, CFA***
  Portfolio Manager – Fixed Income/STIP
- ***Frank Cornwell, CPA***
  Deputy Financial Manager
- ***Roberta Diaz***
  Accountant
- ***Julie Flynn***
  Bond Program Officer
- ***Tim House***
  Equity Analyst –
  Investment Operations Chief
- ***Ethan Hurley, CAIA***
  Portfolio Manager –
  Alternative Investments
- ***Edward Kelly***
  Investment Analyst
- ***Teri Kolnik, CFA***
  Investment Analyst
- ***Sara LaFountaine***
  Administrative Assistant
- ***Tammy Lindgren***
  Accountant
- ***April Madden***
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- ***Savannah McCormick***
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  Network Administrator
- ***Jon Putnam, CFA, FRM***
  Investment Analyst
- ***John Romasko, CFA, CPA***
  Investment Analyst
- ***Nathan Sax, CFA***
  Portfolio Manager –
  Fixed Income
- ***Steve Strong***
  Investment Analyst
- ***Louise Welsh***
  Senior Bond Program Officer
- ***Daniel Zarling, CFA***
  Director of Research

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INTRODUCTION

The Montana Board of Investments (Board) is pleased to submit its Annual Report for the fiscal year ended June 30, 2013. As required by law, this report discloses investment performance for the past fiscal year, summarizes the in-state investment activities of the Board, provides public access to audited financial statements, and Appendix C shows the relative investment performance of its peers. 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 $13.41 billion at year-end 2013 - an annual average increase of 9.5 percent. During the same period, the number of accounts invested by the Board increased from 40 accounts to 495 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 four 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, the Intermediary Re-lending Program with an allocation of $5 million, and the Veteran's Home Loan Program with an allocation of $30 million.

Commercial\Infrastructure\Value-Added\Veteran's Home 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.

Mortgages - The Board also purchases Montana mortgages with pension funds as a part of the in-state investment program. At year-end 2013 the Board held Montana mortgages with total book values of $14.3 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, $400.9 million has been loaned to eligible governments. Additional information on the Bond Program is shown beginning on Page 46.

Both the In-State Investment Program, funded from the Permanent Coal Tax Trust, and the Bond Program 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 $3.4 million in 2013, compared to $5.0 million in 2012. 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 2013. All historical data were extracted from the Board's annual published reports. Statistical data are provided on the Board's investment activity in 2013 and changes in investments from 2012. 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.

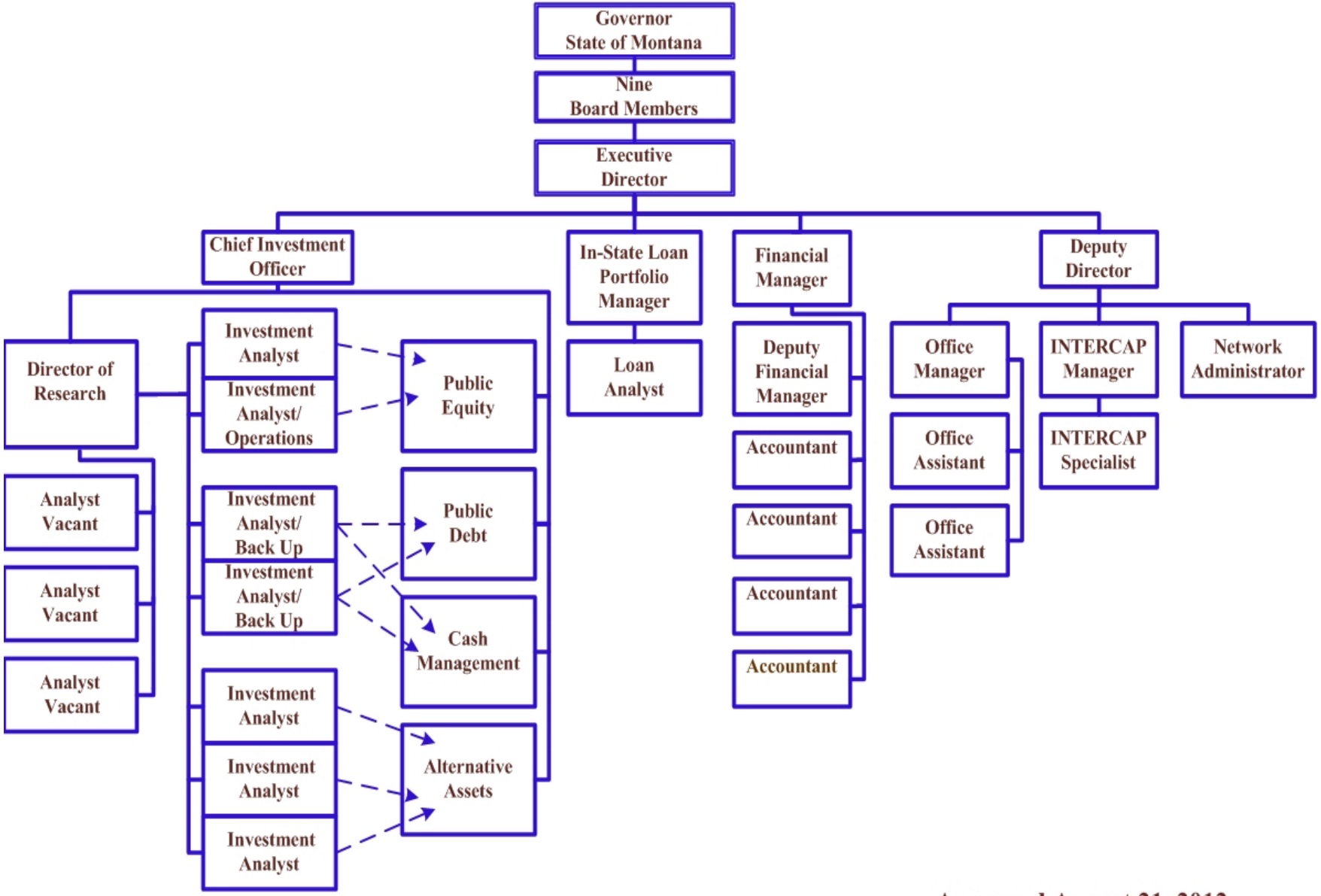
***Net Asset Value* (NAV)** as it relates to investment pools reflects the fair value of the pool securities, adjusted for payables, receivables, and cash on hand at year end. The aggregate fair value of the pool units held by pool participants equals the NAV of the pool.

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

PENSION AND FINANCIAL MARKETS REVIEW

Fiscal year 2013 was a strong year for returns, even though the economy continued a pattern of positive, but somewhat weak growth. The fiscal year return of 13.04% for the pension plans was the third year of double digit returns out of the last four fiscal years, and continued the trend of recovery after the 2008-2009 equity bear market. With the exception of a minor setback during the December quarter, US stocks posted steady gains over the fiscal year, after a much more volatile pattern during fiscal 2012. The latest fiscal year return had a major impact on returns for the longer time periods. The trailing three year return stayed high at 12.13%, while the five year return jumped to 4.77% from only 1.21% a year ago, and the ten year return edged up to 6.60% from last year's 5.98%. These results are prepared by State Street, the custodian for the plan's assets, and are time-weighted net returns computed in conformance with industry standards. Also encouraging was the return relative to our public fund peers. The latest fiscal year return ranked in the top quartile compared to peers, as did the latest two, three and four year returns, while the longer five and seven year periods were solidly in the second quartile.

While it is hard to equate economic growth with market performance, the past fiscal year was one where growth in the US remained mediocre but positive and corporate profits continued to increase. This was contrasted with the rest of the world where the economic backdrop was less positive. Europe fell into recession for the second time in the past five years, while China and many of the other emerging market countries suffered a slowdown in growth that rattled confidence in their markets. This US and global economic backdrop kept interest rates low for much of the year and monetary policy accommodative which acted to support stock market gains, especially US stocks. The exception was emerging market stock returns which suffered compared to developed country stock returns.

Clearly, the strong rally in stocks was the driver of the strong fiscal year pension plan total returns. The plan asset mix is heavily equity oriented, and this risk bias paid off handsomely. This risk exposure has been very beneficial since the market and economic recovery began in early 2009. Asset class returns for our three equity pools were 22.0%, 14.4%, and 12.5% for the domestic, international and private equity pools, respectively. Domestic stocks were the clear leader over international stocks, as they have been over the past several years. The private equity pool results tend to lag those of public markets, but still represented a strong return. In contrast to recent fiscal years, fixed income returns suffered this year after interest rates increased dramatically during the last quarter of the fiscal year in reaction to fears of a shift to a less accommodative monetary policy by the Federal Reserve. The bond pool posted a return of only 1.6% for the year, as compared to over 8% last fiscal year. Given the low level of interest rates, the impact of any rise in rates can be especially harmful to price returns as we saw in the June quarter. The real estate pool continued to post positive returns, with an 8.6% return for the fiscal year, down from 11.5% last fiscal year when it was the leading asset class performer across the portfolio.

The strong public equity returns led to an increase in their total portfolio share during the fiscal year. The portfolio share of domestic stocks rose by 1.1% despite significant sales during the year while a small net addition to international stocks combined with their strong return led to an increased portfolio share of 0.7%. This combined increase in public equity exposure by 1.8% was partly offset by a decline of (0.6)% in the allocation weight to private equity, as strong distributions from the underlying funds provided excess liquidity which was withdrawn and used for other purposes. Combined these three pools represent the total equity allocation that rose by 1.2% to represent 67.4% of total assets at the end of the fiscal year, which is about the middle of the upper half of our total equity range that came into effect in November 2013 of 58% – 72%. Exposure to fixed income fell notably to 22.1%, near the bottom of the allocation range for this asset class, primarily because the relatively weak return here was

swamped by the remarkable equity returns which drove the large increase in total assets. The portfolio share of real estate grew by 1.1% to 9.2% as significant purchases were made to increase exposure to this asset class. Real estate is expected to continue to perform well and acts as a good diversifier versus the predominant equity-related assets in the portfolio.

The negative cash flow status of the state's combined pension plans continued to worsen during fiscal 2013, with net outflows of approximately $127 million. While small relative to the total plan assets of over $8 billion, this explains the need to remain mindful of liquidity needs and the ability to raise cash from asset sales to offset the difference between income and contribution inflows and benefit outflows. The two major pension bills passed during the 2013 legislative session impacting the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) plans helped mitigate this problem, particularly in fiscal 2014. A review of historical and forecast of cash flows over the next five years that was done this fall shows a notable improvement in the cash flow status of the two largest plans. While the cash flow status remains negative for these two large plans, there was meaningful improvement in contribution amounts which will provide more flexibility in managing investment assets than there would be otherwise. After completing this cash flow review, our Board reviewed the asset allocation ranges for the pension system during November. They decided to adjust to individual asset class allocation ranges while maintaining the same overall liquidity and risk profile suggested by the allocation ranges.

Since the end of the fiscal year, markets have been concerned about the Federal Reserve's (Fed) monetary policy given an expectation there could soon be a reduction in the quantity of bond buying currently being conducted by the Fed. The so-called "tapering" of this extraordinary policy, known as quantitative easing, is only being considered by virtue of the improvement in the economy and is hardly as significant as an outright increase in the fed funds rate. Just recently, at the September meeting of the Federal Open Market Committee, there was a decision to continue with the status quo bond buying program. This decision was based on doubts about the current strength of the economy combined with the uncertainty of a near term budget and debt ceiling debate. The Fed is also sensitive to the economic effect already seen from higher long term interest rates since early May that resulted in higher mortgage rates which negatively impacted the rebound in housing, at least on the margin. Since September, however, the employment picture has improved, and after the November employment report released in early December, the outlook for a tapering of Fed bond buying appears imminent. At the same time, the employment picture is not as robust as it might seem since much of the decline in the unemployment rate is explained by a drop in the number of people looking for work.

Aside from all the noise around Fed policy, economies in Europe appear to have emerged from recession and growth in China appears to have picked up recently. This has enabled international stocks to post strong gains along with US stocks, and in some cases exceed domestic stock returns. US corporate profits continue to post moderate gains and consumer spending also has remained steady at a moderate pace, providing support for ongoing gains in stock prices. Primarily due to global equity performance in this first half of fiscal 2014, pension portfolio returns are up over 8% for the fiscal year-to-date period as of this writing in early December. Whether this is sustainable is hard to know, especially with the near term uncertainties surrounding fiscal and monetary policies. Nevertheless, the longer term outlook for most risk assets such as stocks, credit, and real estate is positive. There are no major imbalances that would lead to higher inflation or any of the typical resource constraints that could choke off expansion and lead to a cyclical downturn in the economy, profits and, in turn, returns for the majority of the assets held in the portfolio.

TOTAL FUND

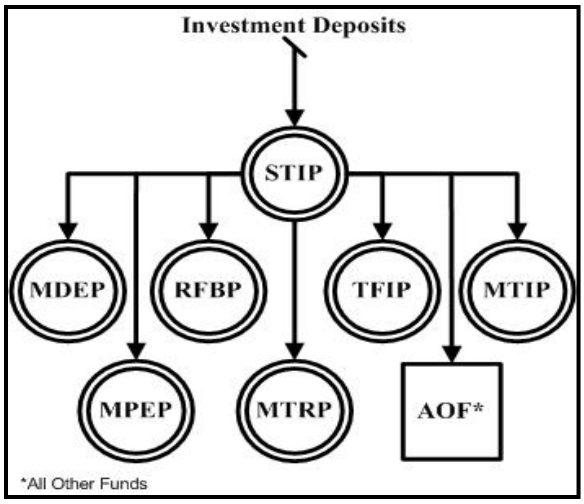
The Total Fund is comprised of all state and local government funds invested by the Board. Fund types invested include pensions, trusts, insurance, debt service, state agency and higher education operating accounts, and local government funds. Unless otherwise provided by law, the Board must invest all 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 495 individual accounts, consisting of 326 state agency accounts and 169 local government accounts. The tables below show the June 30, 2013 fair value of invested assets by major fund type and individual funds.

Fund Type	Cash Equivalents	Public Stock	Fixed Income	Loans	Other (1)	6/30/2013 Total
Pensions	111,725,454	4,681,725,325	1,889,308,703		1,848,010,448	8,530,769,930
Trusts	205,389,962		2,108,743,624	137,570,558		2,451,704,144
Insurance	156,814,643	154,628,154	1,150,738,404		36,095,610	1,498,276,811
Treasurer's	1,252,753,406		19,908,916			1,272,662,322
Local Gov.	494,836,035					494,836,035
Agency Cash	217,658,964		11,473,979			229,132,943
Universities	86,974,740	1,529,127	83,512,472			172,016,339
Debt Service	22,504,572					22,504,572
Total	2,548,657,776	4,837,882,606	5,263,686,098	137,570,558	1,884,106,058	14,671,903,096

(1)Private Equity and Real Estate

Fund	6/30/2013 Fair Value $	Fund	6/30/2013 Fair Value $
Public Employees Retirement	4,290,306,086	MT University Sys Group Ins	47,407,026
Teachers Retirement	3,153,447,617	Higher Ed STIP	34,448,898
State Fund Insurance	1,327,077,363	Blackfoot Response	34,026,558
Treasurers Fund	1,272,662,322	Montana Pole	33,540,216
Public School Trust	570,798,327	Butte Area One Rest	31,914,790
Permanent Coal Trust	558,566,279	Clark Fork River Rs	31,700,166
Local Governments	494,836,035	Volunteer Firefighters Retire	29,096,619
Firefighters Retirement	258,910,031	Park Acquisition	23,635,231
Police Retirement	257,931,552	Debt Service STIP	22,504,572
Sheriffs Retirement	243,520,912	UCFRB Litigation	16,213,676
Treasure State Endowment	235,844,079	Zortman Water	14,023,929
State Agency STIP	216,223,060	FWP License	12,909,883
Tobacco Trust	166,891,985	Cultural Trust	12,868,142
UCFRB Restoration	135,307,599	Zortman Trust	12,847,227
Game Wardens Retirement	115,561,406	FWP Mitigation	11,889,055
Resource Indemnity Trust	110,066,014	Wildlife Habitat	10,805,849
Highway Patrol Retirement	109,363,561	Noxious Weeds	10,749,958
Clark Fork Site Resp	107,250,502	Montana Tech Uofmontana	10,396,081
Other Trusts STIP	85,657,329	Smelter Hill Upload	10,211,098
Regional Water Fund	74,725,418	Real Property Trust	6,423,759
Judges Retirement	72,632,146	Abandoned Mine Trust	6,033,461
Group Benefits	70,915,945	East Helena Comp. Fund	5,558,283
Economic Development Trust	70,326,075	Other Trust TFIP	2,383,998
University Of Montana	68,710,235	Endowment For Children	1,283,252
Streamside Tailings	59,135,923	Older Montanans Trust Fund	1,025,967
Montana State University	58,274,435	Higher Ed MDEP	186,689
Insurance STIP	52,876,477		
		Total	14,671,903,096

Click here for a listing of all individual investments for the funds



At year-end the Board managed 88.9 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 2013, $459.9 million in investment income was distributed to the accounts.

Total Fund Annual Change by Major Asset Type

Investment Type	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% of Change
Domestic Stock	2,545,223,294	19.0	2,605,001,434	20.2	(59,778,140)	(2.3)
International Stocks	1,272,268,608	9.5	1,236,623,096	9.6	35,645,512	2.9
Fixed Income (Domestic and Int'l)	4,936,471,911	36.8	4,841,960,022	37.5	94,511,889	2.0
Cash Equivalents	2,655,073,514	19.8	2,403,128,784	18.6	251,944,730	10.5
Private Equity	927,348,728	6.9	894,511,029	6.9	32,837,699	3.7
Loans/Mortgages	151,868,933	1.1	171,401,409	1.3	(19,532,476)	(11.4)
Real Estate	918,241,656	6.8	758,782,215	5.9	159,459,441	21.0
Total	**13,406,496,644**	**100.0**	**12,911,407,989**	**100.0**	**495,088,655**	**3.8**

Investment Type	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% of Change
Domestic Stock	3,401,690,264	23.1	3,015,158,101	22.0	386,532,163	12.8
International Stocks	1,433,684,112	9.7	1,251,174,436	9.1	182,509,676	14.6
Fixed Income (Domestic and Int'l)	5,066,384,704	34.4	5,117,266,377	37.3	(50,881,673)	(1.0)
Cash Equivalents	2,655,073,514	18.0	2,403,128,784	17.5	251,944,730	10.5
Private Equity	1,066,828,893	7.3	1,017,844,318	7.4	48,984,575	4.8
Loans/Mortgages	151,623,342	1.0	171,206,114	1.2	(19,582,772)	(11.4)
Real Estate	935,283,555	6.4	728,977,672	5.3	206,305,883	28.3
Total	**14,710,568,384**	**100.0**	**13,704,755,802**	**100.0**	**1,005,812,582**	**7.3**
Income Distributed	**459,938,239**		**351,683,947**		**108,254,292**	**30.8**

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Public Employees	873,049,048	50.3	876,592,588	50.3	(3,543,540)	(0.4)
Teachers	640,701,331	36.9	648,763,551	37.3	(8,062,220)	(1.2)
Firefighters	53,429,540	3.1	51,013,880	2.9	2,415,660	4.7
Police	53,358,008	3.1	51,259,899	2.9	2,098,109	4.1
Sheriffs	49,634,035	2.9	48,408,006	2.8	1,226,029	2.5
Game Wardens	23,920,392	1.4	22,441,953	1.3	1,478,439	6.6
Highway Patrol	22,434,687	1.3	22,325,879	1.3	108,808	0.5
Judges	14,997,887	0.9	14,659,064	0.8	338,823	2.3
Volunteer Firefighters	5,700,261	0.3	5,829,711	0.3	(129,450)	(2.2)
Total	**1,737,225,189**	**100.0**	**1,741,294,531**	**100.0**	**(4,069,342)**	**(0.2)**

Participant	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% Change
Public Employees	950,298,397	50.3	974,139,458	50.4	(23,841,061)	(2.4)
Teachers	698,850,177	37.0	722,417,756	37.3	(23,567,579)	(3.3)
Firefighters	57,369,261	3.0	56,219,461	2.9	1,149,800	2.0
Police	57,237,466	3.0	56,430,996	2.9	806,470	1.4
Sheriffs	53,723,874	2.8	53,636,097	2.8	87,777	0.2
Game Wardens	25,465,569	1.3	24,510,464	1.3	955,105	3.9
Highway Patrol	24,238,671	1.3	24,652,578	1.3	(413,907)	(1.7)
Judges	16,033,714	0.8	16,030,598	0.8	3,116	0.0
Volunteer Firefighters	6,091,573	0.3	6,372,511	0.3	(280,938)	(4.4)
Total	**1,889,308,702**	**100.0**	**1,934,409,920**	**100.0**	**(45,101,218)**	**(2.3)**
Income Distributed	**68,029,317**		**78,896,017**		**(10,866,700)**	**(13.8)**

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Internal Core Portfolio	1,239,507,166	72.3	1,240,757,426	72.2	(1,250,260)	(0.1)
Reams Asset Management	189,156,059	11.0	193,215,529	11.2	(4,059,470)	(2.1)
Neuberger Berman	101,635,313	5.9	101,635,313	5.9	0	0.0
Artio Global Management	96,981,067	5.7	100,553,795	5.8	(3,572,728)	(3.6)
Post Advisory Group	50,760,954	3.0	50,760,954	3.0	0	0.0
Montana Mortgages	14,298,375	0.8	19,604,041	1.1	(5,305,666)	(27.1)
Cash Equivalents	23,026,506	1.3	12,740,113	0.7	10,286,393	80.7
Total	**1,715,365,440**	**100.0**	**1,719,267,171**	**100.0**	**(3,901,731)**	**(0.2)**

RFBP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2013	1.62	**Barclays Capital Aggregate**	(0.69)	2.31
3 Year Annualized Average	5.47	**Barclays Capital Aggregate**	3.51	1.96
5 Year Annualized Average	6.58	**Barclays Capital Aggregate**	5.19	1.39
10 Year Annualized Average	5.48	**Barclays Capital Aggregate**	4.52	0.96

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 participant 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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Trust and Legacy (Schools)	531,053,456	27.3	498,053,456	26.6	33,000,000	6.6
Permanent Coal Trust	373,828,906	19.2	369,514,591	19.7	4,314,315	1.2
Treasure State Endowment	219,433,300	11.3	205,133,300	11.0	14,300,000	7.0
Tobacco Trust	159,609,265	8.2	145,059,265	7.7	14,550,000	10.0
UCFRB Restoration	114,862,683	5.9	121,996,852	6.5	(7,134,169)	(5.8)
Resource Indemnity	99,999,976	5.1	99,999,976	5.3	0	0.0
Clark Fork Site	70,557,648	3.6	70,557,648	3.8	0	0.0
Treasure State Water	70,291,879	3.6	62,341,879	3.3	7,950,000	12.8
Big Sky Economic Develop	65,999,091	3.4	58,549,091	3.1	7,450,000	12.7
Streamside Tailings	48,799,835	2.5	56,459,385	3.0	(7,659,550)	(13.6)
University of Montana	29,552,921	1.5	29,552,921	1.6	0	0.0
MT Pole Superfund	24,472,634	1.3	24,472,634	1.3	0	0.0
Coal Tax Park ACQ	21,650,586	1.1	21,300,586	1.1	350,000	1.6
Clark Fork River RS	16,500,000	0.8	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	14,062,880	0.7	14,500,000	0.8	(437,120)	(3.0)
Clark Fork River CD	14,835,076	0.8	14,415,507	0.8	419,569	2.9
Cultural Trust	11,930,349	0.6	11,710,349	0.6	220,000	1.9
Noxious Weed Trust	10,029,783	0.5	10,029,783	0.5	0	0.0
Wildlife Habitat	9,774,265	0.5	9,339,265	0.5	435,000	4.7
Real Property Trust	5,619,626	0.3	5,519,626	0.3	100,000	1.8
Blackfoot Response	5,500,000	0.3	5,500,000	0.3	0	0.0
Smelter Hill Upload	3,085,686	0.2	3,085,686	0.2	0	0.0
East Helena Compensation Fund	2,500,000	0.1	0	0.0	2,500,000	N/A
Children Endowment	1,171,553	0.1	1,160,690	0.1	10,863	0.9
Older Montana Trust	928,762	0.0	698,762	0.0	230,000	32.9
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	349,616	0.0	373,590	0.0	(23,974)	(6.4)
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	**1,943,849,359**	**100.0**	**1,873,274,425**	**100.0**	**70,574,934**	**3.8**
Income Distributed	**85,150,646**		**90,200,636**		**(5,049,989)**	**(5.6)**

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Internal Core Portfolio	1,729,612,098	87.1	1,686,681,968	88.1	42,930,130	2.5
Post Traditional High Yield	96,000,000	4.8	96,000,000	5.0	0	0.0
Cash Equivalents	56,225,823	2.8	40,089,575	2.1	16,136,248	40.3
American Core Real Estate	52,750,000	2.7	49,000,000	2.6	3,750,000	7.7
TIAACREF Real Estate	52,000,000	2.6	43,000,000	2.2	9,000,000	20.9
Total	**1,986,587,921**	**100.0**	**1,914,771,543**	**100.0**	**71,816,377**	**3.8**

TFIP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2013	1.77	**Barclays Capital Aggregate**	(0.69)	2.46
3 Year Annualized Average	5.41	**Barclays Capital Aggregate**	3.51	1.90
5 Year Annualized Average	6.61	**Barclays Capital Aggregate**	5.19	1.42
10 Year Annualized Average	5.57	**Barclays Capital Aggregate**	4.52	1.05

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 495 accounts invested in STIP during the year, consisting of 326 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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Treasurer's Fund	1,243,963,357	47.3	1,059,329,201	44.4	184,634,156	17.4
Local Governments	494,836,035	18.8	450,226,142	18.9	44,609,893	9.9
State Agencies Operating	217,658,964	8.3	227,075,813	9.5	(9,416,849)	(4.1)
Trust Funds	205,389,962	7.8	214,294,603	9.0	(8,904,641)	(4.2)
University Funds	86,974,740	3.3	155,011,872	6.5	(68,037,132)	(43.9)
Insurance Funds	156,814,519	6.0	127,249,142	5.3	29,565,377	23.2
Pension Funds	111,725,454	4.2	72,292,061	3.0	39,433,393	54.5
Board Investment Pools	89,235,720	3.4	53,012,030	2.2	36,223,690	68.3
Debt Service Funds	22,504,572	0.9	27,165,259	1.1	(4,660,687)	(17.2)
Total	**2,629,103,323**	**100.0**	**2,385,656,123**	**100.0**	**243,447,200**	**10.2**
Income Distributed	**5,973,699**		**6,891,076**		**(917,377)**	**(13.3)**

Click here for a complete listing of STIP securities

The table below shows the historical percentage yield, by year, since 1974 to 2013, 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		13	0.2

STIP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2013	0.25	**LIBOR 1 Month**	0.21	0.04
3 Year Annualized Average	0.29	**LIBOR 1 Month**	0.23	0.06
5 Year Annualized Average	0.57	**LIBOR 1 Month**	0.46	0.11
10 Year Annualized Average	2.01	**LIBOR 1 Month**	1.97	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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Public Employees	593,264,489	48.7	637,353,943	49.1	(44,089,454)	(6.9)
Teachers	430,802,242	35.4	465,392,294	35.8	(34,590,052)	(7.4)
Firefighters	49,570,502	4.1	49,330,750	3.8	239,752	0.5
Police	48,880,196	4.0	48,824,211	3.8	55,985	0.1
Sheriffs	39,704,613	3.3	41,208,065	3.2	(1,503,452)	(3.6)
Game Wardens	22,160,032	1.8	22,054,711	1.7	105,321	0.5
Highway Patrol	15,912,328	1.3	16,992,525	1.3	(1,080,197)	(6.4)
Judges	10,819,135	0.9	11,181,595	0.9	(362,460)	(3.2)
Volunteer Firefighters	5,833,061	0.5	6,245,345	0.5	(412,284)	(6.6)
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	**1,217,504,490**	**100.0**	**1,299,141,331**	**100.0**	**(81,636,841)**	**(6.3)**

Participant	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% Change
Public Employees	1,643,008,768	50.3	1,455,188,392	50.4	187,820,376	12.9
Teachers	1,207,310,806	37.0	1,078,537,835	37.3	128,772,971	11.9
Police	98,915,958	3.0	84,109,165	2.9	14,806,793	17.6
Firefighters	99,212,609	3.0	83,939,541	2.9	15,273,068	18.2
Sheriffs	92,867,702	2.8	80,065,281	2.8	12,802,421	16.0
Highway Patrol	41,882,905	1.3	36,839,691	1.3	5,043,214	13.7
Game Wardens	44,057,713	1.3	36,685,426	1.3	7,372,287	20.1
Judges	27,759,197	0.8	23,932,783	0.8	3,826,414	16.0
Volunteer Firefighters	10,544,116	0.3	9,516,060	0.3	1,028,056	10.8
University of Montana	1,342,438	0.0	1,105,367	0.0	237,071	21.4
Potter Trust	154,590	0.0	127,290	0.0	27,300	21.4
Harold Hamm Endowment	32,099	0.0	26,431	0.0	5,668	21.4
Total	**3,267,088,901**	**100.0**	**2,890,073,262**	**100.0**	**377,015,639**	**13.0**
Income Distributed	**14,460,575**		**23,760,465**		**(9,299,890)**	**(39.1)**

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
BlackRock Equity Index (S&P 500)	1,356,004,315	57.1	1,519,997,893	60.6	(163,993,578)	(10.8)
T Rowe Price Large Cap	220,104,944	9.3	222,040,678	8.9	(1,935,734)	(0.9)
JP Morgan Partial L/S	198,911,826	8.4	209,820,775	8.4	(10,908,949)	(5.2)
Analytic Partial L/S	84,091,326	3.5	84,091,326	3.4	0	0.0
INTECH Large Cap Enh Index	79,804,407	3.4	80,161,581	3.2	(357,174)	(0.4)
Artisan Mid Cap Value	75,667,605	3.2	89,486,502	3.6	(13,818,897)	(15.4)
Times Square Mid Cap Growth	74,572,370	3.1	88,098,978	3.5	(13,526,608)	(15.4)
BlackRock Midcap Index	46,717,181	2.0	73,330,659	2.9	(26,613,478)	(36.3)
Vaughan Nelson Small Cap	41,454,243	1.7	55,026,838	2.2	(13,572,595)	(24.7)
Nicholas Investment Mid Cap	41,078,407	1.7	0	0.0	41,078,407	N/A
Iridian Mid Cap	40,790,378	1.7	0	0.0	40,790,378	N/A
DFA US Small Cap	28,963,044	1.2	35,190,238	1.4	(6,227,194)	(17.7)
ING Investment Small Cap	25,694,164	1.1	0	0.0	25,694,164	N/A
Alliance Bernstein US Small Cap Growth	25,000,000	1.1	25,000,000	1.0	0	0.0
Met West Small Cap	20,769,688	0.9	0	0.0	20,769,688	N/A
IShares S&P Small Cap Index	6,454,617	0.3	13,135,707	0.5	(6,681,090)	(50.9)
State Street Stock Performance Index Fund	5,341,406	0.2	10,513,033	0.4	(5,171,627)	(49.2)
WAMCO Large Cap	1,894,588	0.1	1,894,588	0.1	0	0.0
Rainier Large Cap Growth	0	0.0	138,333	0.0	(138,333)	(100.0)
Columbus Large Cap Growth	0	0.0	118,164	0.0	(118,164)	(100.0)
Barrow Hanley Large Cap	0	0.0	110,295	0.0	(110,295)	(100.0)
Quantitative Large Cap Value	0	0.0	107,855	0.0	(107,855)	(100.0)
Total	**2,373,314,509**	**100.0**	**2,508,263,443**	**100.0**	**(134,948,934)**	**(5.4)**

MDEP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2013	22.01	**S & P 1500**	21.13	0.88
3 Year Annualized Average	18.36	**S & P 1500**	18.60	(0.24)
5 Year Annualized Average	6.92	**S & P 1500**	7.27	(0.35)
10 Year Annualized Average	6.93	**S & P 1500**	7.71	(0.78)

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Public Employees	479,236,090	49.8	471,216,854	50.0	8,019,236	1.7
Teachers	349,681,991	36.4	347,211,112	36.8	2,470,879	0.7
Firefighters	32,315,773	3.4	30,058,795	3.2	2,256,978	7.5
Police	32,033,378	3.3	29,917,006	3.2	2,116,372	7.1
Sheriffs	29,217,000	3.0	27,757,000	2.9	1,460,000	5.3
Game Wardens	15,086,561	1.6	13,806,561	1.5	1,280,000	9.3
Highway Patrol	12,303,059	1.3	11,973,040	1.3	330,019	2.8
Judges	8,384,905	0.9	7,950,000	0.8	434,905	5.5
Volunteer Firefighters	3,353,567	0.3	3,354,374	0.4	(807)	(0.0)
Total	**961,612,324**	**100.0**	**943,244,742**	**100.0**	**18,367,581**	**1.9**

Participant	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% Change
Public Employees	712,586,855	50.3	621,886,728	50.4	90,700,127	14.6
Teachers	523,437,456	37.0	460,866,355	37.3	62,571,101	13.6
Firefighters	43,017,344	3.0	35,868,861	2.9	7,148,483	19.9
Police	42,936,209	3.0	35,975,360	2.9	6,960,849	19.3
Sheriffs	40,321,173	2.8	34,234,117	2.8	6,087,056	17.8
Game Wardens	19,106,327	1.3	15,697,128	1.3	3,409,199	21.7
Highway Patrol	18,165,192	1.3	15,732,119	1.3	2,433,073	15.5
Judges	12,035,802	0.8	10,223,579	0.8	1,812,223	17.7
Volunteer Firefighters	4,559,193	0.3	4,066,285	0.3	492,908	12.1
Total	**1,416,165,551**	**100.0**	**1,234,550,532**	**100.0**	**181,615,019**	**14.7**
Income Distributed	**9,826,940**		**12,310,576**		**(2,483,637)**	**(20.2)**

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

	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
BlackRock ACWI EX US Super Fund A	747,849,718	55.7	518,278,995	38.7	229,570,723	44.3
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	8.6	115,980,459	8.7	0	0.0
Hansburger	102,651,230	7.6	102,651,230	7.7	0	0.0
DFA International Small Company	62,078,809	4.6	61,698,379	4.6	380,430	0.6
BlackRock MSCI Emerging Mkt Free	36,163,202	2.7	25,820,900	1.9	10,342,302	40.1
BlackRock ACWI EX US Small Cap	20,656,720	1.5	20,656,720	1.5	0	0.0
State Street Int'l Stock Perf Index Fund	15,316,426	1.1	17,314,138	1.3	(1,997,712)	(11.5)
Money Market Fund for EBT	155	0.0	204	0.0	(49)	(24.0)
Blackrock Cash	1	0.0	0	0.0	1	N/A
Batterymarch	0	0.0	135,749,400	10.1	(135,749,400)	(100.0)
BlackRock International Alpha Tilts	0	0.0	100,126,273	7.5	(100,126,273)	(100.0)
Artio Global	0	0.0	52,145	0.0	(52,145)	(100.0)
Total	**1,342,844,689**	**100.0**	**1,340,476,812**	**100.0**	**2,367,877**	**0.2**

MTIP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
2013	14.40	**MTIP Custom Benchmark**	13.81	0.59
3 Year Annualized Average	8.11	**MTIP Custom Benchmark**	8.08	0.03
5 Year Annualized Average	(2.11)	**MTIP Custom Benchmark**	(0.53)	(1.58)
10 Year Annualized Average	7.23	**MTIP Custom Benchmark**	8.35	(1.12)

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Public Employees	287,917,198	50.1	302,272,160	50.3	(14,354,962)	(4.7)
Teachers	209,887,966	36.5	221,446,781	36.9	(11,558,815)	(5.2)
Firefighters	19,084,715	3.3	18,659,456	3.1	425,259	2.3
Police	18,763,818	3.3	18,461,657	3.1	302,161	1.6
Sheriffs	16,952,835	2.9	17,201,324	2.9	(248,489)	(1.4)
Game Wardens	8,580,688	1.5	8,370,062	1.4	210,626	2.5
Highway Patrol	7,226,763	1.3	7,502,960	1.2	(276,197)	(3.7)
Judges	4,911,764	0.9	4,981,607	0.8	(69,843)	(1.4)
Volunteer Firefighters	1,895,697	0.3	1,964,039	0.3	(68,342)	(3.5)
Total	**575,221,444**	**100.0**	**600,860,046**	**100.0**	**(25,638,602)**	**(4.3)**

Participant	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% Change
Public Employees	536,542,371	50.3	512,314,695	50.4	24,227,676	4.7
Teachers	394,496,433	37.0	379,889,785	37.3	14,606,648	3.8
Firefighters	32,422,699	3.0	29,560,709	2.9	2,861,990	9.7
Police	32,304,911	3.0	29,657,240	2.9	2,647,671	8.9
Sheriffs	30,325,464	2.8	28,178,933	2.8	2,146,531	7.6
Game Wardens	14,410,854	1.4	12,939,604	1.3	1,471,250	11.4
Highway Patrol	13,672,606	1.3	12,957,630	1.3	714,976	5.5
Judges	9,064,027	0.8	8,428,346	0.8	635,681	7.5
Volunteer Firefighters	3,436,251	0.3	3,347,888	0.3	88,363	2.6
Total	**1,066,675,616**	**100.0**	**1,017,274,830**	**100.0**	**49,400,786**	**4.9**
Income Distributed	**16,850,031**		**2,278,957**		**14,571,073**	**639.4**

MPEP Annual Change by Manager

Manager	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Adams Street Partners	144,143,162	15.5	161,727,368	18.1	(17,584,206)	(10.9)
Lexington Capital	63,672,507	6.9	59,771,936	6.7	3,900,571	6.5
Portfolio Advisors	45,983,943	5.0	47,671,204	5.3	(1,687,261)	(3.5)
First Reserve	43,504,234	4.7	40,493,541	4.5	3,010,693	7.4
Welsh Carson Anderson&Stowe	37,139,303	4.0	40,544,572	4.5	(3,405,269)	(8.4)
Madison Dearborn Capital	36,948,300	4.0	38,997,917	4.4	(2,049,617)	(5.3)
Harbour Vest	35,073,053	3.8	32,389,367	3.6	2,683,686	8.3
State Street	28,367,175	3.1	11,873,619	1.3	16,493,556	138.9
Carlyle Partners	27,758,245	3.0	36,118,953	4.0	(8,360,708)	(23.1)
Oak Hill Capital	27,102,504	2.9	31,907,702	3.6	(4,805,198)	(15.1)
Siguler Guff	25,523,219	2.8	26,904,258	3.0	(1,381,039)	(5.1)
Odyssey Partners	23,264,340	2.5	18,522,136	2.1	4,742,204	25.6
CCMP	22,579,396	2.4	18,974,916	2.1	3,604,480	19.0
Terra Firma	22,524,732	2.4	22,296,997	2.5	227,735	1.0
Matlin Patterson	22,503,184	2.4	23,327,420	2.6	(824,236)	(3.5)
Centerbridge	20,907,445	2.3	23,415,520	2.6	(2,508,075)	(10.7)
Arclight Capital	19,315,257	2.1	17,678,492	2.0	1,636,765	9.3
NB Coinvest	18,554,127	2.0	17,624,481	2.0	929,646	5.3
Hellman & Friedman	16,080,851	1.7	18,832,821	2.1	(2,751,970)	(14.6)
GTCR Partners	15,564,826	1.7	8,968,173	1.0	6,596,653	73.6
Performance Equity Mgmt	14,254,285	1.5	10,532,253	1.2	3,722,032	35.3
Northgate	13,830,000	1.5	8,040,000	0.9	5,790,000	72.0
Axiom Asia	13,465,294	1.5	8,482,208	0.9	4,983,086	58.7
Veritas	13,443,952	1.4	13,291,876	1.5	152,076	1.1
JLL Partners	13,342,188	1.4	15,605,908	1.7	(2,263,720)	(14.5)
MHR Institutional	12,919,020	1.4	17,196,708	1.9	(4,277,688)	(24.9)
J.C. Flowers	11,288,367	1.2	18,699,008	2.1	(7,410,641)	(39.6)
HCI Equity	10,680,786	1.2	7,684,136	0.9	2,996,650	39.0
Black Diamond Capital Mgmt	10,529,491	1.1	8,683,534	1.0	1,845,957	21.3
CIVC	9,430,021	1.0	6,589,109	0.7	2,840,912	43.1
MontLake	9,260,408	1.0	8,567,649	1.0	692,759	8.1
American Securities Partners	7,734,820	0.8	5,700,341	0.6	2,034,479	35.7
Highway 12 Ventures	7,621,367	0.8	7,836,732	0.9	(215,365)	(2.7)
Affinity	7,234,064	0.8	5,782,275	0.6	1,451,789	25.1
Gridiron Capital	7,222,150	0.8	5,402,638	0.6	1,819,512	33.7
Quintana Energy	7,200,634	0.8	8,407,621	0.9	(1,206,987)	(14.4)
Tenex Captial Partners	6,282,691	0.7	0	0.0	6,282,691	N/A
Oaktree Capital	6,267,266	0.7	9,657,828	1.1	(3,390,562)	(35.1)
Industry Ventures	5,475,980	0.6	5,975,426	0.7	(499,446)	(8.4)
Tenaya Capital	5,265,927	0.6	0	0.0	5,265,927	N/A
Trilantic Capital Partners	5,099,664	0.5	7,523,773	0.8	(2,424,109)	(32.2)
EIF	4,703,437	0.5	4,563,786	0.5	139,651	3.1
TA Associates	4,502,668	0.5	3,836,543	0.4	666,125	17.4
Cartesian Capital	4,400,183	0.5	1,089,409	0.1	3,310,774	303.9
Audax	4,097,741	0.4	0	0.0	4,097,741	N/A
Catalyst	3,750,000	0.4	0	0.0	3,750,000	N/A
Kolberg Kravis & Roberts	3,210,001	0.3	4,684,652	0.5	(1,474,651)	(31.5)
Sterling Capital Partners	3,065,377	0.3	0	0.0	3,065,377	N/A
Summit Partners	2,800,000	0.3	900,000	0.1	1,900,000	211.1
Opus	2,451,575	0.3	1,736,222	0.2	715,353	41.2
White Deer Energy	9,568	0.0	0	0.0	9,568	N/A
Avenue Capital	1	0.0	1	0.0	0	0.0
Total	**927,348,728**	**100.0**	**894,511,029**	**100.0**	**32,837,699**	**3.7**

MPEP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2013	12.55	**S&P 1500 + 4.0% ***	18.36	(5.81)
3 Year Annualized Average	14.95	**S&P 1500 + 4.0% ***	16.97	(2.02)
5 Year Annualized Average	6.32	**S&P 1500 + 4.0% ***	10.26	(3.94)
10 Year Annualized Average	12.39	**S&P 1500 + 4.0% ***	12.99	(0.60)

***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.

- **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 allow 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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Public Employees	389,209,566	50.4	334,409,566	50.4	54,800,000	16.4
Teachers	286,502,301	37.1	248,227,301	37.4	38,275,000	15.4
Firefighters	23,167,277	3.0	18,956,277	2.9	4,211,000	22.2
Police	23,137,534	3.0	19,061,534	2.9	4,076,000	21.4
Sheriffs	21,815,885	2.8	18,176,885	2.7	3,639,000	20.0
Game Wardens	10,255,000	1.3	8,299,000	1.3	1,956,000	23.6
Highway Patrol	9,934,300	1.3	8,457,300	1.3	1,477,000	17.5
Judges	6,538,349	0.8	5,453,349	0.8	1,085,000	19.9
Volunteer Firefighters	2,439,857	0.3	2,160,233	0.3	279,624	12.9
Total	**773,000,069**	**100.0**	**663,201,445**	**100.0**	**109,798,624**	**16.6**

Participant	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% Change
Public Employees	393,155,170	50.3	315,092,832	50.4	78,062,338	24.8
Teachers	288,720,756	37.0	233,301,857	37.3	55,418,899	23.8
Firefighters	23,770,814	3.0	18,175,105	2.9	5,595,709	30.8
Police	23,680,813	3.0	18,220,028	2.9	5,460,785	30.0
Sheriffs	22,244,864	2.8	17,308,005	2.8	4,936,859	28.5
Game Wardens	10,600,247	1.4	8,036,273	1.3	2,563,974	31.9
Highway Patrol	10,030,802	1.3	7,963,159	1.3	2,067,643	26.0
Judges	6,640,736	0.8	5,167,773	0.8	1,472,963	28.5
Volunteer Firefighters	2,490,630	0.3	2,056,894	0.3	433,736	21.1
Total	**781,334,832**	**100.0**	**625,321,926**	**100.0**	**156,012,906**	**24.9**
Income Distributed	**11,228,787**		**9,466,759**		**1,762,028**	**18.6**

MTRP Annual Change by Manager

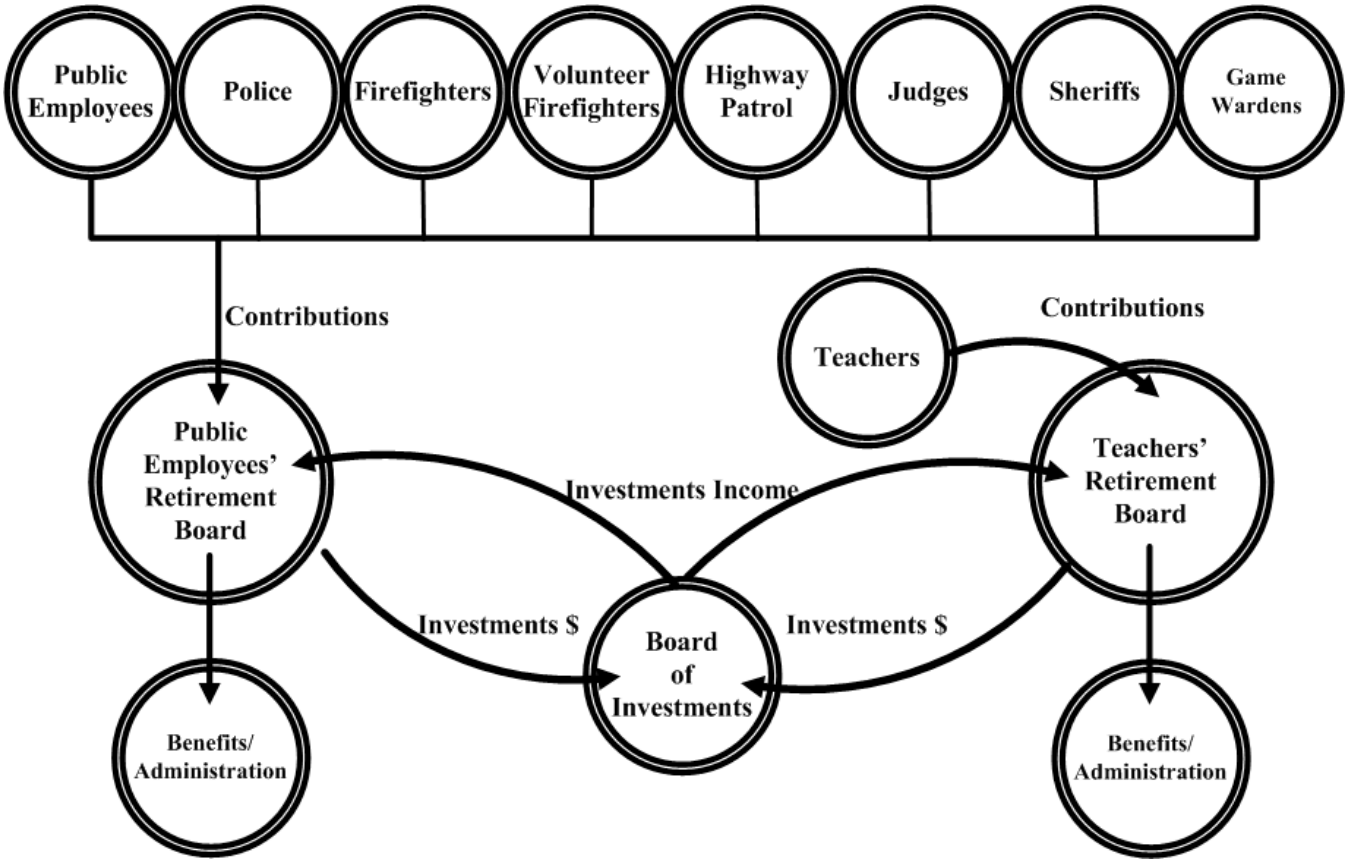
Manager	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
JP Morgan Strategic Property Fund	92,733,975	11.8	92,733,975	13.8	0	0.0
UBS Realty Investors LLC	50,000,000	6.3	50,000,000	7.4	0	0.0
Angelo Gordon	48,845,678	6.2	42,127,823	6.3	6,717,855	15.9
Clarion Lion Properties Fund	48,702,275	6.2	48,702,275	7.2	0	0.0
INVESCO Core RE - USA	45,000,000	5.7	45,000,000	6.7	0	0.0
DRA Advisors VI	42,559,000	5.4	29,491,000	4.4	13,068,000	44.3
TA Associates Realty Fund VIII	42,365,195	5.4	38,932,004	5.8	3,433,191	8.8
TIAA CREF	40,000,000	5.1	0	0.0	40,000,000	N/A
Molpus Woodlands Group	38,619,686	4.9	41,350,000	6.1	(2,730,314)	(6.6)
ABR Chesapeake Fund III	28,619,855	3.6	23,618,168	3.5	5,001,687	21.2
Morgan Stanley RE Fund VI Intnl	26,996,112	3.4	27,536,302	4.1	(540,190)	(2.0)
Almanac Realty	26,671,110	3.4	21,528,019	3.2	5,143,091	23.9
Hudson Realty Capital Fund IV	24,246,156	3.1	25,000,000	3.7	(753,844)	(3.0)
Carlyle Europe RE Partners III	23,618,402	3.0	20,125,236	3.0	3,493,166	17.4
CIM Fund III	22,688,877	2.9	20,212,386	3.0	2,476,491	12.3
Direct Real Estate	18,745,617	2.4	18,377,850	2.7	367,767	2.0
Beacon Capital Partners Fund V	18,535,891	2.4	20,202,970	3.0	(1,667,079)	(8.3)
Macquarie Global Prop Fund III	18,196,093	2.3	17,628,919	2.6	567,174	3.2
Strategic Partners Value	16,138,498	2.0	17,319,224	2.6	(1,180,726)	(6.8)
RMS Timberland	15,977,469	2.0	5,519,016	0.8	10,458,453	189.5
Stockbridge LP	14,493,765	1.8	0	0.0	14,493,765	N/A
Liquid Realty Fund IV	13,455,259	1.7	13,455,259	2.0	0	0.0
AREA Property Partners	11,448,235	1.5	16,234,908	2.4	(4,786,673)	(29.5)
O'Connor North Amer Prop	10,835,729	1.4	13,044,548	1.9	(2,208,819)	(16.9)
Cash Equivalents	10,306,106	1.3	5,887,302	0.9	4,418,804	75.1
CBRE Strategic Partners	9,737,014	1.2	0	0.0	9,737,014	N/A
GEM Realty Fund IV	9,166,015	1.2	5,962,500	0.9	3,203,515	53.7
ORM Timber LLC	7,635,000	1.0	0	0.0	7,635,000	N/A
Landmark Real Estate	6,473,072	0.8	6,443,085	1.0	29,987	0.5
JER RE Partners Fund IV	4,937,678	0.6	6,236,748	0.9	(1,299,070)	(20.8)
Total	**787,747,762**	**100.0**	**672,669,517**	**100.0**	**115,078,245**	**17.1**

MTRP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2013	8.55	NCREIF-ODCE	9.68	(1.13)
3 Year Annualized Average	12.13	NCREIF-ODCE	14.03	(1.90)
5 Year Annualized Average	(3.44)	NCREIF-ODCE	(1.75)	(1.69)

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, 2013, three systems were not actuarially sound as determined by the system's actuary. Those three were the Highway Patrol Officer's 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 72.0 percent for public/private equity. The table below shows the Board-approved asset allocations at the fund and investment pool level in effect as of November 19, 2013.

Pension Fund
Asset Allocations
58 -72% Equities Range

Domestic Equity Pool — **28% - 44%**

Investment Type	Range
Large Cap Core (passive)	45% - 70%
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%

Real Estate Pool — **6% - 10%**

Investment Type	Range
Core/Timberland *	35% - 65%
Value Added	20% - 45%
Opportunistic	10% - 30%

* Timberland may not exceed 2% of total pension assets

International Equity Pool — **14% - 22%**

Investment Type	Range
Large Cap Passive	42% - 66%
Large Cap Active	22% - 32%
Small Cap	10% - 16%
Dedicated Emerging Markets	2% - 10%

Private Equity Pool — **9% - 15%**

Investment Type	Range
Buyouts	40% - 75%
Venture Capital	10% - 25%
Debt Related	0% - 25%

Retirement Funds Bond Pool — **22% - 30%**

Investment Type	Range
Domestic High Yield	0% - 15%
International	0% - 10%
Total High Yield/International	0% - 20%
Domestic Core (investment grade)	80% - 100%

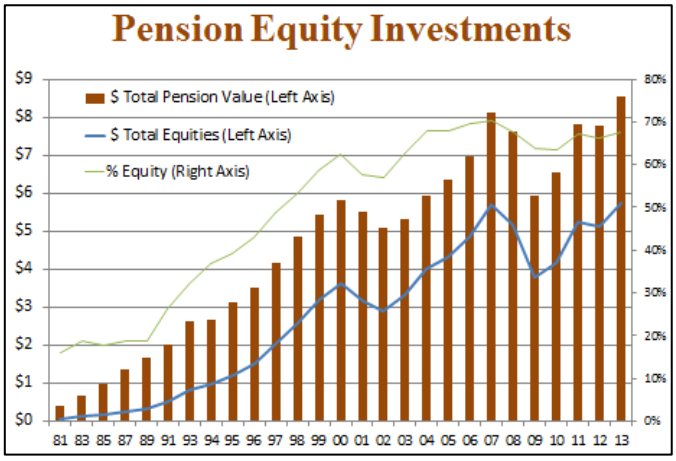
Short Term Investment Pool — **1% - 5%**

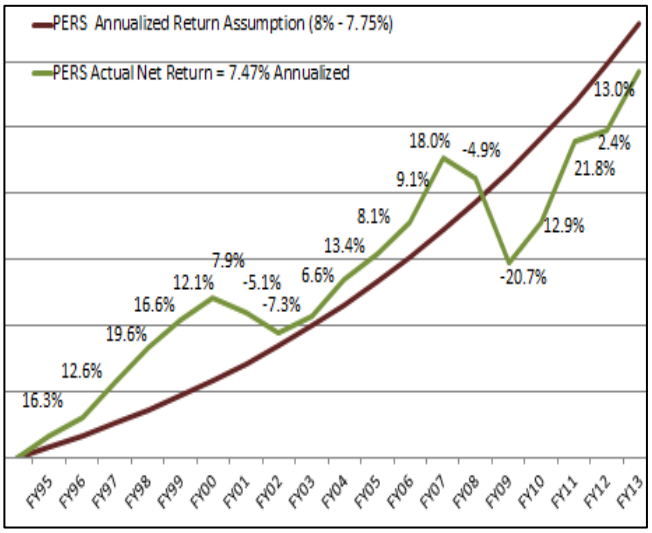
Short-term liquid investments
High-quality Investments
24 Hour Liquidity for Participants

Pension Fund asset allocations in effect as of November 19, 2013.

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.

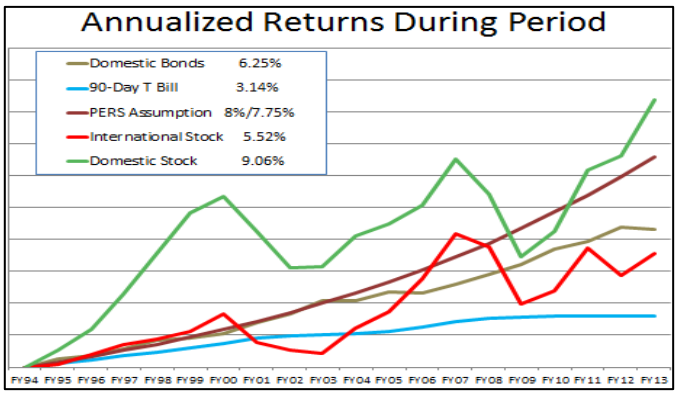
These return assumptions cannot be met without incurring the investment risk and volatility that have been demonstrated during the past 13 years. The asset allocation process must balance risk and return in an attempt to generate the required investment returns while not incurring excessive risk. To 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 beginning in 2010, the investment portfolio has not quite recovered from the significant losses of 2008 and 2009. The PERS portfolio was up 13.0 percent during the 2013 fiscal year, resulting in a cumulative net annualized return of 7.47 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 19 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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% of Change
Public Employees	2,677,390,914	49.8	2,655,553,273	49.9	21,837,641	0.8
Teachers	1,958,207,821	36.4	1,958,930,938	36.8	(723,117)	(0.0)
Firefighters	180,685,111	3.4	169,651,163	3.2	11,033,948	6.5
Police	179,029,127	3.3	168,996,772	3.2	10,032,355	5.9
Sheriffs	161,362,203	3.0	155,466,306	2.9	5,895,897	3.8
Game Wardens	81,923,371	1.5	76,448,690	1.4	5,474,681	7.2
Highway Patrol	69,184,521	1.3	68,098,271	1.3	1,086,250	1.6
Judges	46,750,707	0.9	45,073,618	0.8	1,677,089	3.7
Volunteer Firefighters	21,197,301	0.4	21,257,229	0.4	(59,928)	(0.3)
Total	**5,375,731,076**	**100.0**	**5,319,476,260**	**100.0**	**56,254,816**	**1.1**
Investment Type						
Retirement Funds Bond Pool	1,737,225,189	32.3	1,741,294,530	32.7	(4,069,341)	(0.2)
Domestic Equity Pool	1,216,946,597	22.6	1,298,583,438	24.4	(81,636,841)	(6.3)
International Equity Pool	961,612,324	17.9	943,244,742	17.7	18,367,582	1.9
Real Estate Pool	773,000,069	14.4	663,201,443	12.5	109,798,626	16.6
Private Equity Pool	575,221,444	10.7	600,860,045	11.3	(25,638,601)	(4.3)
Short Term Investment Pool	111,725,454	2.1	72,292,061	1.4	39,433,392	54.5
Total	**5,375,731,076**	**100.0**	**5,319,476,260**	**100.0**	**56,254,817**	**1.1**

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

Fund	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% of Change
Public Employees	4,290,306,086	50.3	3,912,330,268	50.3	377,975,818	9.7
Teachers	3,153,447,617	37.0	2,902,903,488	37.3	250,544,129	8.6
Firefighters	258,910,031	3.0	225,395,683	2.9	33,514,348	14.9
Police	257,931,552	3.0	225,865,253	2.9	32,066,299	14.2
Sheriffs	243,520,912	2.9	216,137,461	2.8	27,383,451	12.7
Game Wardens	115,561,406	1.4	99,345,298	1.3	16,216,108	16.3
Highway Patrol	109,363,561	1.3	98,991,746	1.3	10,371,815	10.5
Judges	72,632,146	0.9	64,631,082	0.8	8,001,064	12.4
Volunteer Firefighters	29,096,619	0.3	27,063,167	0.3	2,033,452	7.5
Total	**8,530,769,930**	**100.0**	**7,772,663,446**	**100.0**	**758,106,484**	**9.8**
Investment Type						
Retirement Funds Bond Pool	1,889,308,703	22.1	1,934,409,921	24.9	(45,101,218)	(2.3)
Domestic Equity Pool	3,265,559,774	38.3	2,888,814,175	37.2	376,745,600	13.0
International Equity Pool	1,416,165,551	16.6	1,234,550,534	15.9	181,615,017	14.7
Real Estate Pool	781,334,832	9.2	625,321,924	8.0	156,012,908	24.9
Private Equity Pool	1,066,675,616	12.5	1,017,274,831	13.1	49,400,784	4.9
Short Term Investment Pool	111,725,454	1.3	72,292,061	0.9	39,433,392	54.5
Total	**8,530,769,930**	**100.0**	**7,772,663,446**	**100.0**	**758,106,484**	**9.8**
Income	**302,864,362**		**191,560,279**		**111,304,083**	**58.1**

MEMBERSHIP

PERS	6/30/2013	6/30/2012
Retirees & Beneficiaries	19,451	18,738
Vested Terminated	2,686	2,560
Non-vested Terminated	6,712	6,164
Active Members	28,401	28,548
Total	**57,250**	**56,010**

Sheriffs	6/30/2013	6/30/2012
Retirees & Beneficiaries	503	469
Vested Terminated	67	60
Non-vested Terminated	235	212
Active Members	1,276	1,241
Total	**2,081**	**1,982**

Firefighters	6/30/2013	6/30/2012
Retirees & Beneficiaries	587	571
Vested Terminated	15	13
Non-vested Terminated	63	62
Active Members	610	590
Total	**1,275**	**1,236**

Highway Patrol	6/30/2013	6/30/2012
Retirees & Beneficiaries	310	305
Vested Terminated	14	11
Non-vested Terminated	11	10
Active Members	219	218
Total	**554**	**544**

Game Wardens	6/30/2013	6/30/2012
Retirees & Beneficiaries	180	163
Vested Terminated	69	64
Non-vested Terminated	148	146
Active Members	971	972
Total	**1,368**	**1,345**

Volunteer Firefighters	6/30/2013	6/30/2012
Retirees & Beneficiaries	1,285	1,242
Vested Terminated	884	879
Active Members	2,101	2,106
Total	**4,270**	**4,227**

Judges	6/30/2013	6/30/2012
Retirees & Beneficiaries	65	56
Vested Terminated	-	-
Active Members	54	54
Total	**119**	**110**

Teachers	7/01/2013	7/01/2012
Retirees & Beneficiaries	13,868	13,363
Vested Terminated	1,566	1,566
Non-vested Terminated	11,710	11,172
Contributing Members	17,616	17,736
Total	**44,760**	**43,837**

Police	6/30/2013	6/30/2012
Retirees & Beneficiaries	710	683
Vested Terminated	52	49
Non-vested Terminated	77	76
Active Members	734	736
Total	**1,573**	**1,544**

Total	6/30/2013	6/30/2012
Retirees & Beneficiaries	36,959	35,590
Vested Terminated	5,353	5,202
Non-vested Terminated	18,956	17,842
Active Members	51,982	52,201
System Total	**113,250**	**110,835**

Source: Pension Systems' Actuarial Valuation as of June 30, 2013 and Teachers' Retirement System Actuarial Valuation as of July 1, 2013.

ASSETS AND LIABILITIES *(In Thousands $)*

PERS	6/30/2013	6/30/2012
Actuarial Liability	5,160,950	5,661,281
Actuarial Assets	4,139,921	3,816,920
Unfunded Actuarial Liability	**1,021,029**	**1,844,361**
Funded Ratio	**80.22%**	**67.42%**

Sheriffs	6/30/2013	6/30/2012
Actuarial Liability	304,184	284,559
Actuarial Assets	235,310	211,535
Unfunded Actuarial Liability	**68,874**	**73,024**
Funded Ratio	**77.36%**	**74.34%**

Firefighters	6/30/2013	6/30/2012
Actuarial Liability	396,769	377,211
Actuarial Assets	263,483	233,121
Unfunded Actuarial Liability	**133,286**	**144,090**
Funded Ratio	**66.41%**	**61.80%**

Highway Patrol	6/30/2013	6/30/2012
Actuarial Liability	175,593	167,824
Actuarial Assets	105,735	96,655
Unfunded Actuarial Liability	**69,858**	**71,169**
Funded Ratio	**60.22%**	**57.59%**

Game Wardens	6/30/2013	6/30/2012
Actuarial Liability	139,985	128,926
Actuarial Assets	112,100	97,691
Unfunded Actuarial Liability	**27,885**	**31,235**
Funded Ratio	**80.08%**	**75.77%**

Volunteer Firefighters	6/30/2013	6/30/2012
Actuarial Liability	37,829	36,146
Actuarial Assets	28,294	26,531
Unfunded Actuarial Liability	**9,535**	**9,615**
Funded Ratio	**74.79%**	**73.41%**

Judges	6/30/2013	6/30/2012
Actuarial Liability	49,236	46,190
Actuarial Assets	70,322	63,195
Unfunded Actuarial Liability	**(21,086)**	**(17,005)**
Funded Ratio	**142.83%**	**136.82%**

Teachers	7/01/2013	7/01/2012
Actuarial Liability	4,592,658	4,814,726
Actuarial Assets	3,067,878	2,852,007
Unfunded Actuarial Liability	**1,524,780**	**1,962,719**
Funded Ratio	**66.80%**	**59.24%**

Police	6/30/2013	6/30/2012
Actuarial Liability	450,043	427,257
Actuarial Assets	262,678	234,025
Unfunded Actuarial Liability	**187,365**	**193,232**
Funded Ratio	**58.37%**	**54.77%**

Total	6/30/2013	6/30/2012
Actuarial Liability	11,307,247	11,944,120
Actuarial Assets	8,285,721	7,631,680
Unfunded Actuarial Liability	**3,021,526**	**4,312,440**

Source: Pension Systems' Actuarial Valuation as of June 30, 2013 and Teachers' Retirement System Actuarial Valuation as of July 1, 2013.

CASH FLOW *(In Thousands $)*

PERS	6/30/2013	6/30/2012
Employees	80,769	79,261
Employers	81,337	79,498
State	532	536
Contributions	**162,638**	**159,295**
Benefits/Administration	**(290,462)**	**(268,931)**
Cash Flow	**(127,824)**	**(109,636)**

Sheriffs	6/30/2013	6/30/2012
Employees	5,831	5,694
Employers	6,273	6,028
Contributions	**12,104**	**11,722**
Benefits/Administration	**(13,054)**	**(11,857)**
Cash Flow	**(950)**	**(135)**

Firefighters	6/30/2013	6/30/2012
Employees	4,253	4,100
Employers	5,499	5,281
State	12,358	11,797
Contributions	**22,110**	**21,178**
Benefits/Administration	**(17,972)**	**(16,801)**
Cash Flow	**4,138**	**4,377**

Highway Patrol	6/30/2013	6/30/2012
Employees	1,337	1,272
Employers	4,903	4,966
State	275	269
Contributions	**6,515**	**6,507**
Benefits/Administration	**(8,941)**	**(8,413)**
Cash Flow	**(2,426)**	**(1,906)**

Game Wardens	6/30/2013	6/30/2012
Employees	4,206	4,143
Employers	3,576	3,470
Contributions	**7,782**	**7,613**
Benefits/Administration	**(4,686)**	**(4,618)**
Cash Flow	**3,096**	**2,995**

Volunteer Firefighters	6/30/2013	6/30/2012
State	1,711	1,635
Contributions	**1,711**	**1,635**
Benefits/Administration	**(3,040)**	**(2,203)**
Cash Flow	**(1,329)**	**(568)**

Judges	6/30/2013	6/30/2012
Employees	737	447
Employers	1,622	1,598
Contributions	**2,359**	**2,045**
Benefits/Administration	**(2,738)**	**(2,462)**
Cash Flow	**(379)**	**(417)**

Teachers	7/01/2013	7/01/2012
Employees	62,850	62,745
Employers	74,113	72,422
State	17,521	16,844
Total Contributions	**154,484**	**152,011**
Benefits/Administration	**(275,352)**	**(258,581)**
Cash Flow	**(120,868)**	**(106,570)**

Police	6/30/2013	6/30/2012
Employees	4,026	3,791
Employers	6,280	6,055
State	12,573	12,274
Contributions	**22,879**	**22,120**
Benefits/Administration	**(20,546)**	**(18,243)**
Cash Flow	**2,333**	**3,877**

Total	6/30/2013	6/30/2012
Members	164,009	161,453
Employers	183,603	179,318
State/Other	44,970	43,355
Contributions	**392,582**	**384,126**
Benefits/Administration	**(636,791)**	**(592,109)**
Cash Flow	**(244,209)**	**(207,983)**

Source: Pension Systems' Actuarial Valuation as of June 30, 2013 and Teachers' Retirement System Actuarial Valuation as of July 1, 2013.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM FUND (PERS)

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

PERS Annual Change

Investment Type	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% of Change
Retirement Funds Bond Pool	873,049,048	32.6	876,592,588	33.0	(3,543,540)	(0.4)
Domestic Equity Pool	593,264,488	22.2	637,353,943	24.0	(44,089,456)	(6.9)
International Equity Pool	479,236,090	17.9	471,216,854	17.7	8,019,236	1.7
Montana Private Equity Pool	287,917,199	10.8	302,272,160	11.4	(14,354,961)	(4.7)
Total Equity	1,360,417,776	50.8	1,410,842,957	53.1	(50,425,181)	(3.6)
Real Estate Pool	389,209,566	14.5	334,409,566	12.6	54,800,000	16.4
Short Term Investment Pool	54,714,525	2.0	33,708,163	1.3	21,006,362	62.3
Total	**2,677,390,914**	**100.0**	**2,655,553,273**	**100.0**	**21,837,641**	**0.8**

Investment Type	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% of Change
Retirement Funds Bond Pool	950,298,397	22.1	974,139,458	24.9	(23,841,061)	(2.4)
Domestic Equity Pool	1,643,008,769	38.3	1,455,188,392	37.2	187,820,377	12.9
International Equity Pool	712,586,855	16.6	621,886,728	15.9	90,700,127	14.6
Montana Private Equity Pool	536,542,371	12.5	512,314,695	13.1	24,227,676	4.7
Total Equity	2,892,137,996	67.4	2,589,389,816	66.2	302,748,180	11.7
Real Estate Pool	393,155,169	9.2	315,092,832	8.1	78,062,337	24.8
Short Term Investment Pool	54,714,525	1.3	33,708,163	0.9	21,006,362	62.3
Total	**4,290,306,086**	**100.0**	**3,912,330,268**	**100.0**	**377,975,818**	**9.7**

Click here for a history of PERS book values and income

PERS Annual Change in Income

Income Type	2013 $ Income	% Of Total	2012 $ Income	% Of Total	$ Change	% Change
Gain on Sale of Pool Units	88,222,279	52.2	31,840,536	27.2	56,381,743	177.1
Retirement Funds Bond Pool	35,376,217	20.9	40,879,987	34.9	(5,503,770)	(13.5)
Domestic Stock Pool	11,105,545	6.6	17,250,282	14.7	(6,144,737)	(35.6)
International Stock Pool	6,723,613	4.0	8,362,065	7.1	(1,638,453)	(19.6)
Short Term Investment Pool	168,695	0.1	171,754	0.1	(3,059)	(1.8)
Montana Private Equity Pool	16,980,975	10.0	9,506,878	8.1	7,474,097	78.6
Real Estate Pool	10,555,445	6.2	9,074,662	7.8	1,480,782	16.3
Total Gross Income	169,132,769	100.0	117,086,166	100.0	52,046,603	44.5
Board Management Fees	(1,298,177)		(1,460,798)		162,622	(11.1)
Custodial Bank Fees	(555,681)		(557,155)		1,474	(0.3)
External Manager Fees	(18,371,865)		(19,316,567)		944,702	(4.9)
Total Net Income	148,907,046		95,751,646		53,155,400	55.5

PERS 2013 Total Rates of Returns By Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Short Term Investment Pool	0.25	LIBOR 1 Month	0.21	0.04
Domestic Stock Pool	21.97	S&P 1500 Index	21.13	0.84
International Stock Pool	14.40	MTIP Custom Benchmark	13.81	0.59
Private Equity Pool	12.54	S&P 1500 Index + 4% (1)	18.36	(5.82)
Fixed Income	1.61	BC Aggregate	(0.69)	2.30
Real Estate	8.52	NCREIF-Property Index	9.68	(1.16)
Total Net of Fees	13.04	Composite (2)	13.01	0.03
Total Gross of Fees	13.59	Peer Universe (3)	12.39	1.20

(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 between $3 Billion to $20 Billion in Assets

PERS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return +/- Benchmark
2013	13.04	PERS Composite	13.01	0.03
3 Year Annualized Average	12.13	PERS Composite	12.45	(0.32)
5 Year Annualized Average	4.77	PERS Composite	5.19	(0.42)
10 Year Annualized Average	6.60	PERS Composite	6.71	(0.11)

(1) An Index Composite Parallelling 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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% of Change
Retirement Funds Bond Pool	640,701,331	32.7	648,763,551	33.1	(8,062,219)	(1.2)
Domestic Equity Pool	430,802,242	22.0	465,392,294	23.8	(34,590,051)	(7.4)
International Equity Pool	349,681,991	17.9	347,211,112	17.7	2,470,880	0.7
Montana Private Equity Pool	209,887,966	10.7	221,446,781	11.3	(11,558,815)	(5.2)
Total Equity	990,372,200	50.6	1,034,050,187	52.8	(43,677,987)	(4.2)
Real Estate Pool	286,502,301	14.6	248,227,301	12.7	38,275,000	15.4
Short Term Investment Pool	40,631,989	2.1	27,889,900	1.4	12,742,089	45.7
Total	**1,958,207,821**	**100.0**	**1,958,930,938**	**100.0**	**(723,117)**	**(0.0)**

Investment Type	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% of Change
Retirement Funds Bond Pool	698,850,177	22.2	722,417,757	24.9	(23,567,579)	(3.3)
Domestic Equity Pool	1,207,310,806	38.3	1,078,537,835	37.2	128,772,971	11.9
International Equity Pool	523,437,455	16.6	460,866,355	15.9	62,571,101	13.6
Montana Private Equity Pool	394,496,433	12.5	379,889,785	13.1	14,606,648	3.8
Total Equity	2,125,244,695	67.4	1,919,293,975	66.1	205,950,720	10.7
Real Estate Pool	288,720,756	9.2	233,301,857	8.0	55,418,899	23.8
Short Term Investment Pool	40,631,989	1.3	27,889,900	1.0	12,742,089	45.7
Total	**3,153,447,617**	**100.0**	**2,902,903,488**	**100.0**	**250,544,129**	**8.6**

Click here for a history of TRS book values and income

TRS Annual Change in Income

Income Type	2013 $ Income	% Of Total	2012 $ Income	% Of Total	$ Change	% Change
Gain on Sale of Pool Units	77,644,793	56.5	26,722,144	29.6	50,922,649	190.6
Retirement Funds Bond Pool	26,130,202	19.0	30,477,025	33.8	(4,346,823)	(14.3)
Domestic Stock Pool	8,211,301	6.0	12,864,967	14.3	(4,653,666)	(36.2)
International Stock Pool	4,961,874	3.6	6,228,406	6.9	(1,266,531)	(20.3)
Short Term Investment Pool	119,567	0.1	120,716	0.1	(1,149)	(1.0)
Montana Private Equity Pool	12,542,605	9.1	7,078,805	7.8	5,463,800	77.2
Real Estate Pool	7,774,028	5.7	6,753,453	7.5	1,020,575	15.1
Total Gross Income	137,384,370	100.0	90,245,515	100.0	47,138,855	52.2
Board Management Fees	(958,137)		(1,087,779)		129,642	(11.9)
Custodial Bank Fees	(410,365)		(415,099)		4,734	(1.1)
External Manager Fees	(13,561,581)		(14,388,314)		826,733	(5.7)
Total Net Income	122,454,287		74,354,323		48,099,964	64.7

TRS 2013 Total Rates of Return by Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Short Term Investment Pool	0.28	LIBOR 1 Month	0.21	0.07
Domestic Stock Pool	21.96	S&P 1500 Index	21.13	0.83
International Stock Pool	14.40	MTIP Custom Benchmark	13.81	0.59
Private Equity Pool	12.54	S&P 1500 Index + 4% (1)	18.36	(5.82)
Fixed Income	1.61	BC Aggregate	(0.69)	2.30
Real Estate	8.52	NCREIF-Property Index	9.68	(1.16)
Total Net of Fees	13.06	Composite (2)	13.04	0.02
Total Gross of Fees	13.61	Peer Universe (3)	12.39	1.22

(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 between $3 Billion to $20 Billion in Assets

TRS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return Benchmark
2013	13.06	TRS Composite	13.04	0.02
3 Year Annualized Average	12.15	TRS Composite	12.47	(0.32)
5 Year Annualized Average	4.78	TRS Composite	5.19	(0.41)
10 Year Annualized Average	6.61	TRS Composite	6.72	(0.11)

(1) An Index Composite Parallelling 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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% of Change
Retirement Funds Bond Pool	223,474,810	30.2	215,938,392	30.6	7,536,418	3.5
Domestic Equity Pool	192,879,867	26.1	195,837,201	27.8	(2,957,334)	(1.5)
International Equity Pool	132,694,243	17.9	124,816,776	17.7	7,877,467	6.3
Montana Private Equity Pool	77,416,279	10.5	77,141,105	10.9	275,174	0.4
Total Equity	402,990,389	54.4	397,795,082	56.4	5,195,307	1.3
Real Estate Pool	97,288,203	13.1	80,564,577	11.4	16,723,626	20.8
Short Term Investment Pool	16,378,940	2.2	10,693,999	1.5	5,684,941	53.2
Total	**740,132,342**	**100.0**	**704,992,050**	**100.0**	**35,140,292**	**5.0**

Investment Type	6/30/2013 Fair Value	% of Total	6/30/2012 Fair Value	% of Total	$ Change	% of Change
Retirement Funds Bond Pool	240,160,129	22.1	237,852,707	24.8	2,307,422	1.0
Domestic Equity Pool	415,240,199	38.2	355,087,947	37.1	60,152,252	16.9
International Equity Pool	180,141,241	16.6	151,797,451	15.9	28,343,790	18.7
Montana Private Equity Pool	135,636,811	12.5	125,070,351	13.1	10,566,460	8.4
Total Equity	731,018,251	67.2	631,955,749	66.0	99,062,502	15.7
Real Estate Pool	99,458,907	9.1	76,927,235	8.0	22,531,672	29.3
Short Term Investment Pool	16,378,940	1.5	10,693,999	1.1	5,684,941	53.2
Total	**1,087,016,227**	**100.0**	**957,429,690**	**100.0**	**129,586,537**	**13.5**

Other Retirement Systems 2013 Total Rates of Return

Fund	% Return	Index (1)	% Return	Fund +/- Index
Sheriffs	13.00	**Composite**	12.98	0.02
Police	13.03	**Composite**	12.93	0.10
Firefighters	13.02	**Composite**	12.93	0.09
Highway Patrol	13.05	**Composite**	13.01	0.04
Judges	13.01	**Composite**	12.98	0.03
Game Warden	12.99	**Composite**	12.98	0.01
Vol. Firefighters	13.04	**Composite**	13.05	(0.01)

(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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Permanent Coal Tax Trust	895,635,595	38.7	868,605,237	38.2	27,030,358	3.1
Trust and Legacy (Schools)	531,053,456	22.9	504,503,125	22.2	26,550,331	5.3
Tobacco Trust	159,903,436	6.9	147,168,406	6.5	12,735,030	8.7
UCFRB Restoration	125,835,647	5.4	129,208,532	5.7	(3,372,885)	(2.6)
Resource Indemnity Trust	100,023,109	4.3	100,023,109	4.4	0	0.0
Clark Fork Site Response	99,430,909	4.3	100,991,014	4.4	(1,560,105)	(1.5)
Other Trusts in STIP	85,657,329	3.7	100,937,762	4.4	(15,280,433)	(15.1)
Streamside Tailings	55,513,917	2.4	64,099,105	2.8	(8,585,188)	(13.4)
Blackfoot Response	33,963,781	1.5	34,772,027	1.5	(808,246)	(2.3)
Montana Pole	31,772,596	1.4	31,322,537	1.4	450,059	1.4
Butte Area One Restoration	30,351,556	1.3	30,699,333	1.4	(347,777)	(1.1)
Clark Fork River Restoration	29,851,054	1.3	29,658,848	1.3	192,206	0.6
Parks Trust	22,193,496	1.0	21,589,427	1.0	604,069	2.8
UCFRB Litigation	15,585,721	0.7	14,717,748	0.6	867,973	5.9
Cultural Trust	12,130,371	0.5	11,785,371	0.5	345,000	2.9
Zort/Land LT H20 Trust	11,845,470	0.5	10,248,714	0.5	1,596,756	15.6
FWP Mitigation	11,816,091	0.5	12,072,044	0.5	(255,953)	(2.1)
Zortman Water	11,646,788	0.5	10,954,353	0.5	692,435	6.3
Wildlife Habitat	10,386,266	0.4	10,274,961	0.5	111,305	1.1
Weed Control	10,029,783	0.4	10,270,116	0.5	(240,333)	(2.3)
Smelter Hill Uplands Restoration	9,905,605	0.4	11,407,138	0.5	(1,501,533)	(13.2)
FWP Real Property	6,186,661	0.3	5,819,109	0.3	367,552	6.3
Abandoned Mines	5,997,737	0.3	5,878,554	0.3	119,183	2.0
East Helena Compensation Fund	5,637,271	0.2	0	0.0	5,637,271	N/A
Other Trusts in TFIP	2,341,619	0.1	2,365,593	0.1	(23,974)	(1.0)
Endowment for Children	1,204,467	0.1	1,175,810	0.1	28,657	2.4
Older Montanans Trust	981,305	0.0	940,730	0.0	40,575	4.3
Total	**2,316,881,033**	**100.0**	**2,271,488,701**	**100.0**	**45,392,332**	**2.0**
Fixed-Income/Real Estate (TFIP)	1,887,057,408	81.4	1,825,617,054	80.4	61,440,354	3.4
Other Fixed Income	86,863,105	3.7	79,779,676	3.5	7,083,429	8.9
Montana Loans	137,570,558	5.9	151,797,368	6.7	(14,226,810)	(9.4)
Cash Equivalents (STIP)	205,389,962	8.9	214,294,603	9.4	(8,904,641)	(4.2)
Total	**2,316,881,033**	**100.0**	**2,271,488,701**	**100.0**	**45,392,332**	**2.0**

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Permanent Fund	527,750,434	58.9	527,624,268	60.7	126,166	0.0
Treasure State Endowment	224,935,398	25.1	210,091,607	24.2	14,843,791	7.1
Treasure State Regional Water	71,637,576	8.0	64,214,692	7.4	7,422,884	11.6
Economic Development Fund	67,845,658	7.6	60,422,774	7.0	7,422,884	12.3
Severance Tax Bond Fund	1,718,494	0.2	4,277,125	0.5	(2,558,631)	(59.8)
Permanent Fund Income	1,748,035	0.2	1,974,770	0.2	(226,735)	(11.5)
Total Coal Tax Trust	**895,635,595**	**100.0**	**868,605,237**	**100.0**	**27,030,358**	**3.1**

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Fixed Income (TFIP)	729,553,175	81.5	695,538,860	80.1	34,014,315	4.9
Commercial Loans	86,751,339	9.7	104,201,029	12.0	(17,449,690)	(16.7)
Local Gov. Infrastructure	18,680,293	2.1	22,540,729	2.6	(3,860,436)	(17.1)
Value-added Loans	1,773,751	0.2	2,688,501	0.3	(914,750)	(34.0)
Science and Technology	10,319,206	1.2	10,530,305	1.2	(211,099)	(2.0)
Montana Facility Finance	5,072,194	0.6	6,175,640	0.7	(1,103,446)	(17.9)
Intermediary Loan Program	3,192,327	0.4	3,014,294	0.3	178,033	5.9
Veterans Home Loans	11,781,448	1.3	2,646,870	0.3	9,134,578	345.1
Total In-State Investments	137,570,557	15.4	151,797,368	17.5	(14,226,810)	(9.4)
STIP Permanent Fund	16,952,058	1.9	7,302,518	0.8	9,649,540	132.1
STIP Sev. Tax Bond Fund	1,718,494	0.2	4,277,125	0.5	(2,558,631)	(59.8)
STIP Permanent Trust Income	1,748,035	0.2	1,974,770	0.2	(226,735)	(11.5)
STIP Tr. St. Endow Trust	4,901,010	0.5	3,968,098	0.5	932,912	23.5
STIP Tr. St. Regional Water	1,345,698	0.2	1,872,814	0.2	(527,116)	(28.1)
STIP Economic Development Fund	1,846,568	0.2	1,873,684	0.2	(27,116)	(1.4)
Cash Equivalents (STIP)	28,511,862	3.2	21,269,008	2.4	7,242,854	34.1
Total	**895,635,595**	**100.0**	**868,605,237**	**100.0**	**27,030,359**	**3.1**
Income	**39,252,714**		**41,366,751**		**(2,114,037)**	**(5.1)**

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

TRUST AND LEGACY (SCHOOLS) 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 (Schools) 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 and Legacy (Schools) Fund Annual Change

Investment Type	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Fixed Income (TFIP)	531,053,456	100.0	498,053,456	98.7	33,000,000	6.6
Cash Equivalents (STIP)	0	0.0	6,449,669	1.3	(6,449,669)	(100.0)
Total	**531,053,456**	**100.0**	**504,503,125**	**100.0**	**26,550,331**	**5.3**
Income	**23,211,806**		**24,201,837**		**(990,031)**	**(4.1)**

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	6/30/2013 Book Value	% of Total	6/30/2012 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**
Income	**4,601,612**		**5,063,566**		**(461,955)**	**(9.1)**

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% Change
Parks Trust	22,193,496	64.7	21,589,427	64.7	604,069	2.8
Cultural Trust	12,130,371	35.3	11,785,371	35.3	345,000	2.9
Total	**34,323,867**	**100.0**	**33,374,798**	**100.0**	**949,069**	**2.8**
Investment Type						
Fixed Income (TFIP)	33,580,936	97.8	33,010,936	98.9	570,000	1.7
Cash Equivalents (STIP)	742,931	2.2	363,863	1.1	379,068	104.2
Total	**34,323,867**	**100.0**	**33,374,798**	**100.0**	**949,068**	**2.8**
Income	**1,486,335**		**1,601,636**		**(115,301)**	**(7.2)**

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 H20 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.

East Helena Compensation Fund - funds derived from the 2009 settlement between the Montana Department of Justice – Natural Resource Damage Program and ASARCO for purposes of the restoration and oversight of environmental cleanup on and around the former site of the ASARCO smelter in East Helena.

STATE FUND INSURANCE

The State Compensation Insurance Fund (State Fund) provides workers' compensation and occupational disease insurance for claims arising from injuries including those that occurred prior to July 1, 1990.

State Fund Insurance Annual Change

Investment Type	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% of Change
Corporate/Asset-Backed Bonds	620,244,694	51.4	640,638,614	55.3	(20,393,920)	(3.2)
International Government	15,972,595	1.3	0	0.0	15,972,595	N/A
US Govt Direct Obligations	168,215,603	13.9	148,231,174	12.8	19,984,429	13.5
US Agency Bonds	226,556,591	18.8	246,356,592	21.3	(19,800,001)	(8.0)
Total Fixed Income	1,030,989,483	85.4	1,035,226,380	89.4	(4,236,897)	(0.4)
Blackrock ACWI EX US Super Fund	14,000,530	1.2	14,000,530	1.2	0	0.0
Blackrock Equity Index (S&P 500)	77,440,519	6.4	86,062,697	7.4	(8,622,178)	(10.0)
American Core Realty	5,750,000	0.5	0	0.0	5,750,000	N/A
TIAA CREF Asset Management	30,000,000	2.5	0	0.0	30,000,000	N/A
Total Equity	127,191,049	10.5	100,063,227	8.6	27,127,822	27.1
Cash Equivalents (STIP)	49,043,686	4.1	22,170,659	1.9	26,873,027	121.2
Total	**1,207,224,217**	**100.0**	**1,157,460,266**	**100.0**	**49,763,953**	**4.3**
Income	**52,826,810**		**48,894,468**		**3,932,342**	**8.0**

Click here for a full listing of securities in the State Fund portfolio

State Fund Insurance 2013 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	0.25	LIBOR 1 Month	0.21	0.04
Equities	19.89	S & P 500 Index	20.60	(0.71)
Fixed Income	1.45	BC Gov/Credit Intermediate	0.28	1.17
All Assets	3.49	Composite (1)	2.40	1.09

(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 **11,315,531**
University Workers Compensation **18,328,631**
Hail Insurance **10,754,875**
Uninsured Employees **3,229,507**
Unemployment Insurance Benefits **9,247,933**
Total **$52,876,477**

Other Insurance Annual Change

Fund Type	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% of Change
Group Insurance	70,647,330	59.8	69,487,911	61.5	1,159,419	1.7
Montana University Group Ins.	47,460,074	40.2	42,641,153	37.7	4,818,921	11.3
Subsequent Injury	0	0.0	914,901	0.8	(914,901)	(100.0)
Total	118,107,404	100.0	113,043,965	100.0	5,063,439	4.5
Investment Type						
Corporate/Asset-Backed Bonds	32,247,322	27.3	25,998,385	23.0	6,248,937	24.0
US Government Agency	30,965,602	26.2	25,443,590	22.5	5,522,012	21.7
Cash Equivalents (STIP)	54,894,479	46.5	61,601,990	54.5	(6,707,511)	(10.9)
Total	**118,107,403**	**100**	**113,043,965**	**100**	**5,063,438**	**4.5**

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	6/30/2013 Book Value	% of Total	6/30/2012 Book Value	% of Total	$ Change	% of Change
US Bank Sweep Repo	8,790,049	0.7	7,740,691	0.7	1,049,358	13.6
US Agency Bonds	19,891,121	1.6	34,628,978	3.1	(14,737,857)	(42.6)
Cash Equivalents (STIP)	1,243,963,357	97.7	1,059,329,201	96.2	184,634,156	17.4
Total	**1,272,644,527**	**100.0**	**1,101,698,870**	**100.0**	**170,945,657**	**15.5**
Income	**2,464,517**		**2,653,812**		**(189,295)**	**(7.1)**

Treasurer's Fund 2013 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents	0.26	3 Month Treasury	0.08	0.18
All Assets	0.26			

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 $30.0 million.

Annual Change by Loan and Mortgage Type

Loan Type	6/30/2013 Outstanding	% of Total	6/30/2012 Outstanding	% Of Total	$ Change	% Change
Commercial Loans	86,751,339	71.0	104,201,029	77.1	(17,449,690)	(16.7)
Infrastructure Loans	18,680,293	15.3	22,540,729	16.7	(3,860,436)	(17.1)
Veteran's Home Loan Mortgages	11,781,448	9.6	2,646,870	2.0	9,134,578	345.1
Intermediary Program Loans	3,192,327	2.6	3,014,294	2.2	178,033	5.9
Value-added Loans	1,773,751	1.5	2,688,501	2.0	(914,750)	(34.0)
Total	**122,179,158**	**100.0**	**135,091,423**	**100.0**	**(12,912,265)**	**(9.6)**
Loan Yield at 6/30 (1)	**5.00%**		**5.35%**			
Loans 90 Days in Arrears	**0.52%**		**0**			
Loan Losses	**0**		**0**			

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

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

In-State Loans, Other In-State Investments and Bond Guarantees

Loans and Mortgages	6/30/2013 Book Value	6/30/2012 Book Value	$ Change
Coal Tax Trust Loans	110,397,710	132,444,553	(22,046,843)
Veteran's Home Loan Mortgages	11,781,448	2,646,870	9,134,578
Montana Science and Technology	10,319,206	10,530,305	(211,099)
Facility Finance Authority Loans	5,072,194	6,175,640	(1,103,446)
Total AOF Loans and Mortgages	**137,570,558**	**151,797,368**	**(14,226,810)**
PPL Montana	20,377,714	24,374,141	(3,996,428)
Med Map LLC (St. Vincent's Hospital, Billings)	8,357,897	8,849,020	(491,123)
Board of Housing	840,000	1,080,000	(240,000)
Total Bonds	**29,575,611**	**34,303,161**	**(4,727,551)**
Total RFBP Residential Mortgages	**14,298,374**	**19,604,041**	**(5,305,667)**
Total MTRP Direct Real Estate	**18,745,617**	**18,377,850**	**367,767**
Bond Guarantees (1)	**227,524,677**	**220,454,677**	**7,070,000**
Total In-State Investments	**427,714,837**	**444,537,097**	**(16,822,260)**

(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. The Board issued $12 million additional bonds in fiscal year 2013. Since the program's inception, the Board has issued $148.0 million in bonds with $106.6 million outstanding at June 30, 2013. The Board makes firm one-year commitments to fund the loans. Over the past five fiscal years, the program averaged funding $24.0 million of $32.8 million in loan commitments. In fiscal year 2013, the program committed to $35.2 million in loans and funded $31.5 million. For fiscal year 2014, 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	6/30/2013 Cumulative	% Of Total	6/30/2012 Cumulative	% Of Total	$ Change	% Change
Revenue Anticipation	90,409,636	22.5	80,044,840	21.7	10,364,796	12.9
Buildings	85,487,132	21.3	77,683,308	21.0	7,803,824	10.0
Vehicles	68,767,351	17.2	67,123,512	18.2	1,643,839	2.4
Computer/Printers	44,252,606	11.0	43,025,614	11.6	1,226,992	2.9
Land/Roads	29,875,865	7.5	27,661,691	7.5	2,214,174	8.0
Equipment	25,269,971	6.3	23,976,511	6.5	1,293,460	5.4
Energy Retrofit	20,697,975	5.2	14,647,031	4.0	6,050,944	41.3
Water/Wastewater	15,034,051	3.7	14,243,932	3.9	790,119	5.5
Other	12,667,769	3.2	12,557,584	3.4	110,185	0.9
Solid Waste Equipment	8,471,762	2.1	8,471,762	2.3	0	0.0
Total	**400,934,118**	**100.0**	**369,435,785**	**100.0**	**31,498,333**	**8.5**

INTERCAP Loans From Inception By Borrower Type

Borrower Type	6/30/2013 Cumulative	% Of Total	6/30/2012 Cumulative	% Of Total	$ Change	% Change
State Agency	94,452,862	23.6	90,202,862	24.4	4,250,000	4.7
City/Town	94,679,005	23.6	84,396,468	22.8	10,282,537	12.2
County	79,442,377	19.8	76,995,988	20.8	2,446,389	3.2
University	43,793,505	10.9	37,486,887	10.1	6,306,618	16.8
School District	34,037,403	8.5	31,876,609	8.6	2,160,794	6.8
Water/Sewer District	17,446,459	4.4	16,180,393	4.4	1,266,066	7.8
Other	16,286,277	4.1	13,067,565	3.5	3,218,712	24.6
Fire Jurisdiction	15,328,431	3.8	13,761,214	3.7	1,567,217	11.4
Solid Waste District	5,467,799	1.4	5,467,799	1.5	0	0.0
Total	**400,934,118**	**100.0**	**369,435,785**	**100.0**	**31,498,333**	**8.5**

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 2013.

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		13	1.000
89	7.950		94	4.500		99	4.300		04	2.700		09	3.250		14	
90	7.500		95	6.400		00	5.600		05	3.800		10	1.950		15	
91	6.350		96	4.850		01	4.750		06	4.750		11	1.950		16	

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	6/30/2013 Balance
Huntley Project Schools	12/01/00	750,000	750,000
Bozeman Public Schools	11/25/03	1,586,000	1,586,000
Philipsburg Schools	12/10/03	2,000,000	2,000,000
Cut Bank Elementary	08/18/05	825,000	825,000
Cut Bank High School	08/18/05	625,000	625,000
Bozeman Public Schools	12/21/06	1,459,250	1,459,250
Billings School District	12/29/08	773,250	773,250
Lewistown Elementary	06/16/09	2,087,250	2,087,250
Total		**10,105,750**	**10,105,750**

- ***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	6/30/2013 Balance
Great Falls Elementary	04/27/11	6,510,000	5,873,431
Great Falls High School	04/27/11	1,855,000	1,673,612
Total		**8,365,000**	**7,547,043**

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	6/30/2013 Balance
Stillwater Mining	07/01/00	30,000,000	30,000,000
Total		**30,000,000**	**30,000,000**

- ***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**.**