

MONTANA

BOARD OF INVESTMENTS



2015 Annual Report



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The Board is committed to employing proven, long-term investment strategies and finding creative solutions to financial issues facing government entities and new and expanding businesses in the state.

The cover photo is the location of the Montana Board of Investments’ offices at 2401 Colonial Drive, Helena, Montana. The building was designed and constructed under the leadership of the Board’s previous Executive Director, Carroll South, and is administered as an investment of Montana’s nine pension funds. The building was completed in 1999 and houses Board staff and other Montana state agencies.



It is my pleasure to present our 2015 annual report to the Legislature, the Governor and the public.

It is the highest honor and privilege for the Board of Investments to oversee the only program specifically required in the Montana

Constitution, the *Unified Investment Program*. Since its inception in 1972, the Board invests essentially all of the State's money, its operating funds, trust funds, and its pension funds. Today the Board manages over \$16 billion for all state agencies and many local governments.

This is a great responsibility. We must discharge our duties with care, skill, prudence, and diligence. We must be mindful of both maximizing returns and minimizing losses. We must discharge our duties solely in the interest of and for the benefit of the funds forming the Unified Investment Program. This is the law.

We also oversee some of the most important economic development and local government funding programs in the state using the financial strength of Montana's Coal Severance Trust Fund. These programs have helped create hundreds of jobs and have saved local governments millions of dollars in interest expense.

We are a nine member board, chosen by the Governor, confirmed by the Montana Senate, and qualified as required by law. We operate under a strong governance system. We act only through our official capacity in meetings that are open and publicly accessible. We delegate by policy only those duties to our staff that are appropriate, as the Board bears the ultimate responsibility to the public.

Our investment horizon is for the very long term for the pension systems, intermediate term for our trust fund clientele, and very short term for the state's daily cash needs. While every year's investment performance is important, I urge we all remember that investing often requires a long term view. We need to be patient, diligent, and thoughtful.

As we further describe in this report, achieving a diversified mix of investment assets is what drives over 90% of total returns.

The Board is mindful about costs, especially managing pension dollars. We conduct an independent study yearly on our pension investments and compare our results and costs to our peers. Over the last five years, we have earned more than our peers and have slightly lower costs. This study may be found online at <http://investmentmt.com/CEMBenchmarking>

Almost \$8 billion in investments is internally managed by our own investment staff, and for these investments our costs are very low and performance is solid. We have a highly trained and professional staff. Many hold advanced degrees, and many hold financial and accounting professional designations.

Our Chief Investment Officer, Clifford A. Sheets, CFA, retired in October. He brought tremendous skills and achievements to our Board. We are very grateful for his service. In November we welcomed Joseph M. Cullen, CFA, CAIA, FRM to the Board's investment team as the new Chief Investment Officer.

Our website has a great deal of information about the Board's activities, its investment holdings and performance. I invite you to contact me or our Executive Director if you have any questions.



Mark Noennig, Chairman



"Our investment horizon is for the very long term for the pension systems, intermediate term for our trust fund clientele, and very short term for the state's daily cash needs."



BOARD MEMBERS



Mark Noennig
BILLINGS
Board Chairman
*Representing
Business*
Term Ending:
01/01/2017



Karl Englund
MISSOULA
Board Vice Chair
Attorney
Term Ending:
01/01/2019

- Human Resources (HR) Committee, Chair



Marilyn Ryan
MISSOULA
Representing TRS
Term Ending:
01/01/2017

- HR Committee
- Loan Committee



Teresa Olcott Cohea
HELENA
*Representing
Financial Community*
Term Ending:
01/01/2019

- Audit Committee
- Loan Committee



Sheena Wilson
HELENA
*Representing
PERS*
Term Ending:
01/01/2017

- Audit Committee



Kathy Bessette
HAVRE
*Representing
Agriculture*
Term Ending:
01/01/2017

- Loan Committee



Quinton Nyman
HELENA
*Representing
Labor*
Term Ending:
01/01/2019

- HR Committee



Jack Prothero
GREAT FALLS
*Representing
Business*
Term Ending:
01/01/2017

- HR Committee
- Loan Committee, Chair



Jon Satre
HELENA
*Representing
Business*
Term Ending:
01/01/2019

- HR Committee
- Audit Committee, Chair

LEGISLATIVE LIAISONS



**Representative
Kelly McCarthy**
BILLINGS
*House of
Representatives Liaison*
Term Ending:
12/31/2016



**Senator
Bob Keenan**
BIG FORK
Senate Liaison
Term Ending:
12/31/2016

Senior Management

- ◆ **David Ewer**
Executive Director
- ◆ **Geri Burton**
Deputy Director
- ◆ **Herbert Kulow, CMB**
Portfolio Manager –
Montana Investments
- ◆ **Clifford A. Sheets, CFA**
Chief Investment Officer (retired)
- ◆ **Joseph M. Cullen, CFA, CAIA, FRM**
Chief Investment Officer (effective 11/2/15)
- ◆ **Julie Feldman, CPA**
Financial Manager
- ◆ **Dana Chapman**
Office Manager – Board Secretary

Staff

- ◆ **Polly Boutin**
Associate Financial Manager
- ◆ **Jason Brent, CFA**
Investment Analyst
- ◆ **Richard Cooley, CFA**
Portfolio Manager –
Fixed Income/STIP
- ◆ **Frank Cornwell, CPA**
Associate Financial Manager
- ◆ **Craig Coulter**
Investment Analyst
- ◆ **Roberta Diaz**
Investment Accountant
- ◆ **Julie Flynn**
Bond Program Officer
- ◆ **Tim House**
Investment Analyst –
Investment Operations Chief
- ◆ **Ethan Hurley, CAIA**
Portfolio Manager –
Alternative Investments
- ◆ **Edward Kelly**
Investment Analyst
- ◆ **Teri Kolnik, CFA**
Investment Analyst
- ◆ **Eron Krpan, CIPM**
Investment Data Analyst
- ◆ **April Madden**
Investment Accountant
- ◆ **Savannah McCormack**
Administrative Assistant
- ◆ **Rande Muffick, CFA**
Portfolio Manager –
Domestic & International Equities
- ◆ **Mary Noack**
Network Administrator
- ◆ **Kelsey Poore, CPA**
Investment Accountant
- ◆ **Jon Putnam, CFA, CAIA, FRM**
Investment Analyst
- ◆ **John Romasko, CFA**
Investment Analyst
- ◆ **Nathan Sax, CFA**
Portfolio Manager –
Fixed Income
- ◆ **Steve Strong**
Investment Analyst
- ◆ **Louise Welsh**
Senior Bond Program Officer
- ◆ **Maria Wise**
Administrative Assistant
- ◆ **Daniel Zarling, CFA**
Director of Research

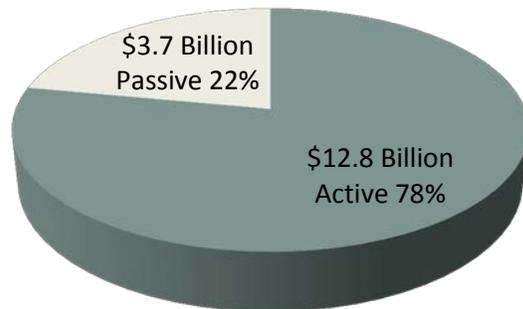
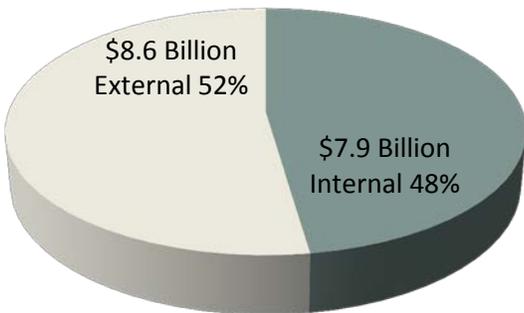


Montana’s State Constitution requires that the state’s financial assets be managed through the **UNIFIED INVESTMENTS PROGRAM**. The Board of Investments was established by the Montana Legislature to carry out that mandate. The Board manages the state’s investments within those constitutional and statutory guidelines.

As of June 30, 2015, the Board of Investments managed just over \$16 billion in state operating funds, trust funds, pension funds, insurance reserves and certain local government funds. Within these five broad categories, a combination of investment pools and specific accounts are utilized to meet the financial goals and expectations of the agencies and entities which entrust these funds to the Board.

As shown in the chart on the left below, just over half of the Board’s investments are managed internally by the Board’s own investment staff. These assets managed internally are often lower risk assets that can be better managed “in-house” to limit costs. The remaining assets are managed externally by professional investment managers in a variety of asset classes. Utilizing the professional and often specialized expertise of these external managers, the Board seeks to maximize the return available from a variety of market options. External managers are carefully selected and monitored by the Board’s staff for both performance and cost.

As shown in the chart on the right, over three-quarters of the investments are managed actively; less than one-quarter are managed passively. Passive investments are those managed at less cost by simply mirroring existing global and domestic equity markets. Active management utilizes the professional expertise of both internal and external asset managers to seek a stronger return.



Total Fund							
Net Asset Value* (In Millions) With Time Weighted Annualized Returns							
As of June 30, 2015							
Fund	NAV	1-Year Return %	10-Year Return %	Fund	NAV	1-Year Return %	10-Year Return %
Pension Funds				\$10,055.9			
Firefighters	326.3	4.58	6.56	Real Property	6.8	3.03	5.29
Game Wardens	148.0	4.57	6.53	Regional Water Fund	90.1	3.17	5.42
Highway Patrol	128.2	4.58	6.59	Resource Indemnity	111.5	3.21	5.43
Judges	86.7	4.58	6.58	Smelter Hill Upload	10.5	1.37	-
Police	320.8	4.57	6.54	Streamside Tailings	43.8	2.97	5.10
Public Employees	5,043.6	4.58	6.59	Tobacco	195.2	3.21	5.46
Sheriffs	295.0	4.58	6.57	Treasure State Endowment	267.7	3.19	5.48
Teachers	3,673.4	4.60	6.59	UCFRB Reserve	17.6	2.86	5.24
Volunteer Firefighters	33.9	4.67	6.57	UCFRB Restoration	122.9	2.95	5.21
Trust Funds				\$ 2,510.3			
Abandoned Mine	6.2	1.16	3.12	Wildlife Habitat	12.1	2.97	5.30
Blackfoot Response	26.1	1.11	-	Zortman/Landusky	15.8	1.64	-
Butte Area One Rest	31.7	1.91	-	Zortman/Landusky Water	14.5	1.24	5.42
Clark Fork River Rs	32.4	2.24	-	Insurance Reserves			
Clark Fork Site Resp	97.1	2.62	-	\$ 1,542.6			
Cultural Trust	13.8	3.14	5.44	Group Benefits	47.8	1.20	3.05
East Helena Comp. Fund	5.8	1.46	-	MT University Sys Group In	36.3	1.38	-
Economic Development	85.6	3.17	5.41	State Fund Insurance	1,458.2	3.04	5.21
Endowment For Children	1.3	3.07	-	Subsequent Injury Fund	0.3	0.13	-
FWP Mitigation	11.5	1.05	2.98	State Operating Funds			
Montana Pole	33.8	2.58	4.80	\$ 1,794.5			
Noxious Weeds	10.9	3.21	5.21	FWP License	16.4	0.54	2.54
Older Montanans	1.1	3.02	-	Montana State University	106.7	0.47	2.18
Park Acquisition	25.5	3.11	5.40	Montana Tech UofMontana	12.1	0.24	1.88
Permanent Coal Trust	559.3	3.32	5.24	State Agency**	455.0	-	-
Trust & Legacy (School)	659.5	3.21	5.44	Treasurers Fund	1,124.3	0.27	1.70
				University Of Montana	79.8	1.67	2.97
				Local Government Funds			
				\$ 574.5			
				Local Governments	574.5	-	-
				Total	\$16,477.7		

Totals may not sum due to rounding differences.

*Net Asset Value (NAV) includes net receivable & payable accruals.

**State Agency is an umbrella account for 272 sub-accounts including 5 insurance funds holding \$43.7M in STIP. The insurance funds are broken out on page 19.

Total Fund by Participant Type & Major Asset Type						
Net Asset Value* (In Millions)						
As of June 30, 2015						
	Cash					
	Equivalents	Public Stocks	Fixed Income	Loans	Other (1)	Total
Pension Funds	\$ 186.7	\$ 5,660.8	\$ 2,245.3	\$ -	\$ 1,963.1	\$ 10,055.9
Trust Funds	91.3	-	2,284.9	134.1	-	2,510.3
Insurance Reserves	57.2	165.4	1,235.5	-	84.6	1,542.6
State Operating Funds**	1,553.3	0.2	240.9	-	-	1,794.5
Local Government Funds	574.5	-	-	-	-	574.5
Total	\$ 2,463.0	\$ 5,826.4	\$ 6,006.6	\$ 134.1	\$ 2,047.6	\$ 16,477.7

Totals may not sum due to rounding differences.

(1) Private Equity and Real Estate

*Net Asset Value (NAV) includes net receivable & payable accruals.

**State Operating Funds participant type includes the State Agency account which includes sub-accounts that hold \$248K in public stocks which were donated. Under statute, State Agencies may not invest in public corporate capital stock.

Investment Pools

The Board primarily uses seven internal investment pools in managing money. Over \$14 billion (88%) is managed through these pools. Each pool has its own type of investment focus such as domestic stocks, foreign stocks, fixed income (e.g., bonds), real estate, private equity, and cash/cash equivalents. Almost all of the Board’s clients use one or several of these investment pools as a way to invest. Separate securities outside of these seven investment pools are also purchased when circumstances merit. Currently, separate investments account for \$1.9 billion, with the State Fund owning the largest dollar value of such securities, approximately \$1.5 billion.

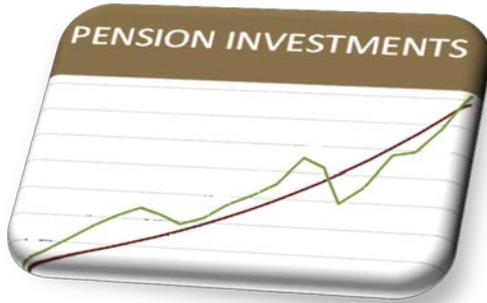
The following are the Board’s current investment pools and principal users:

<u>Name of Pool</u>	<u>Abbreviation</u>	<u>Eligible Participants</u>
• Trust Funds Investment Pool	TFIP	Various state trust funds
• Retirement Funds Bond Pool	RFBP	Retirement systems funds only
• Montana Domestic Equity Pool	MDEP	Retirement systems funds only
• Montana International Equity Pool	MTIP	Retirement systems funds only
• Montana Private Equity Pool	MPEP	Retirement systems funds only
• Montana Real Estate Pool	MTRP	Retirement systems funds only
• Short Term Investment Pool	STIP	Eligible local & state agencies

Total Fund Annual Change by Pool Net Asset Value* (In Millions) As of June 30						
Investment Pool	2015	Total %	2014	Total %	Change \$	Change %
Short Term Investment Pool	\$ 2,510.8	15.24	\$ 2,511.5	15.60	\$ (0.7)	(0.03)
Montana Domestic Equity Pool	3,992.0	24.23	3,851.6	23.93	140.4	3.64
Montana International Pool	1,669.0	10.13	1,747.6	10.86	(78.6)	(4.50)
Retirement Funds Bond Pool	2,245.3	13.63	2,131.0	13.24	114.3	5.36
Trust Funds Investment Pool	2,256.2	13.69	2,195.7	13.64	60.5	2.76
Montana Private Equity Pool	1,075.4	6.53	1,031.2	6.41	44.3	4.29
Montana Real Estate Pool	887.6	5.39	849.8	5.28	37.9	4.45
All Other Funds	1,904.6	11.56	1,840.7	11.44	63.8	3.47
STIP Included in Investment Pools	(63.3)	(0.38)	(62.0)	(0.39)	(1.3)	2.02
Total	\$ 16,477.7	100.00	\$ 16,097.1	100.00	\$ 380.6	2.36

Totals may not sum due to rounding differences.
*Net Asset Value (NAV) includes net receivable & payable accruals.

The State’s largest general operating account is the Treasurer’s Fund and is the largest participant in the Short Term Investment Pool (STIP). Statutes limit where most state agency funds may be invested. Agencies may have the legal authority to invest separately from the State’s general cash account (the Treasurer’s Fund) and can then invest in STIP. An agency may have funds other than ordinary operating monies that can prudently have a longer term investment outlook and have a need for better returns. The Trust Funds Investment Pool or separate individual securities are available to meet that need. The Montana Constitution limits the investment in equities to the state’s retirement systems and to a more limited extent, the state’s workers compensation insurance agency, the State Fund.



The Board of Investments manages the **PENSION FUNDS** of nine separate retirement plans that provide retirement benefits for public employees of state and local government entities. The largest of these funds are the Public Employees Retirement System (PERS) and the Teachers Retirement Systems (TRS). The Montana Constitution specifically allows pension funds to be invested in common stock and the Board has created several investment pools to meet the expectations and

requirements of those systems. The Short Term Investment Pool, the Montana Domestic Equity Pool, the Retirement Funds Bond Pool, the Montana International Equity Pool, the Montana Private Equity Pool and the Montana Real Estate Pool ensure the pension funds are invested prudently and with the diversification necessary to mitigate risk. Investments in these pools are governed by separate investment policy statements and asset allocation policy established by the Board.

Pension funds are by their nature, long-term funds and require a long term view (at least 10 years) when making investment decisions. Professional investment standards *require* establishing asset allocation ranges and staying within them even if it requires selling down assets that are performing well and buying into other asset classes. A steady hand, patience and professional discipline are hallmarks of the Board's pension outlook.

Factors considered in managing pension investments include long-term growth (expected rates of return), liquidity needs (how readily convertible to cash), risk (volatility) and correlation to other asset classes and cost. The Board addresses these factors through a strong governance model that requires the Board to engage annually in a review and confirmation of asset allocation, the prime driver of almost 90% of total investment performance.

During the review of asset allocation, the Board examines historic market performance, trends and long-term economic forecasts. Careful study of more specific considerations related to individual asset classes, including cost, risks, potential return and the correlation between asset classes is conducted. With the help of the Board's professional staff, asset allocation ranges are established annually and reviewed quarterly.

The Board's goal is to maximize investment returns, keep risk within prudent levels and maintain sufficient liquidity to meet current benefit payments to retirees. In meeting that goal, the Board has chosen to avoid investing in hedge funds (by policy) and at this time neither commodities nor infrastructure are included in the investment lineups.



Managing Pension Investments requires a skillful balance of:

- Maximizing long term growth
- Analyzing plan liquidity needs
- Limiting risks
- Controlling costs

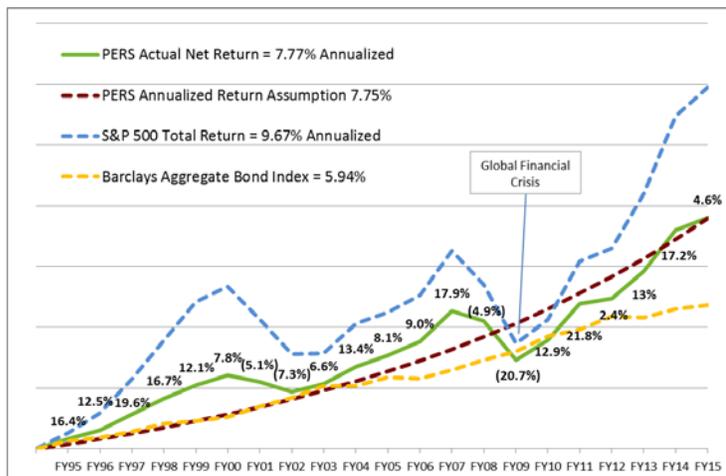


The Board's asset allocation mix is critical to the return on pension fund investments. The following table shows the major and sub asset classes approved ranges established by Board policy including the actual relative weight as of June 30, 2015.

Pension Fund Asset Allocations & Board Approved Ranges As of 6/30/15		
Investment Type	%	Annually Approved Range
Asset Class - Domestic Equity*	39.7%	28% - 44%
Large	81.1%	72% - 91%
Passive	57.0%	45% - 70%
Enhanced	12.0%	8% - 12%
Equity Long/Short Managers	12.0%	8% - 12%
Mid	12.3%	6% - 17%
Passive	2.1%	0% - 17%
Active	10.2%	0% - 17%
Small	6.6%	3% - 11%
Passive	0.2%	0% - 11%
Active	6.5%	0% - 11%
Asset Class - International Equity*	16.6%	14% - 22%
Large	86.5%	79% - 92%
Passive	63.8%	42% - 66%
Active	22.7%	22% - 32%
Small	11.5%	8% - 16%
Passive	1.7%	0% - 16%
Active	9.7%	0% - 16%
Emerging	2.0%	0% - 5%
Passive	2.0%	0% - 5%
Asset Class - Private Equity*	10.7%	9% - 15%
Buyouts	69.0%	50% - 80%
Venture Capital	21.8%	10% - 25%
Debt Related	9.2%	0% - 25%
Asset Class - Fixed Income	22.3%	22% - 30%
Domestic High Yield	8.5%	0% - 15%
International	1.9%	0% - 10%
Core (U.S. Investment Grade)	89.6%	80% - 100%
Asset Class - Real Estate	8.8%	6% - 10%
Core/Timberland	44.2%	35% - 65%
Value Added	39.3%	20% - 45%
Opportunistic	16.6%	10% - 30%
Asset Class - Cash Equivalents	1.9%	1% - 5%
All Investment Classes	100.0%	
Totals may not sum due to rounding differences.		
*Equities represent 67% of the pension portfolio. Policy allows total equity range of 58% - 72%.		

The chart below shows investment returns for the Public Employees’ Retirement System (PERS) since fiscal year 1995. These returns reflect the effects of the total asset allocation of the various investment pool performances, net of fees. The returns for the other eight retirement systems are consistent with that of PERS. As shown by the S&P 500 and Barclay’s aggregate (fixed income) in the chart, economic conditions heavily influence returns.

When considering the combination of assets to invest, the Board works to optimize three broad investment traits: expected return, risk, and historical performance compared to other investment classes in the same time period. The Board uses various simulation models which assign estimated future returns for each investment category, and then summarizes an expected return for the entire investment mix.



Pension Funds 10-Year Comparison Fair Value (In Millions) As of June 30, 2015							
Fund	Fair Value	% of Total	10-Year		Change \$	Change %	
			Fair Value	% of Total			
Firefighters Retirement	\$ 326.3	3.25	\$ 146.7	2.31	\$ 179.6	122.46	
Game Wardens Retirement	148.0	1.47	51.8	0.82	96.2	185.95	
Highway Patrol Retirement	128.2	1.28	83.6	1.32	44.7	53.43	
Judges Retirement	86.7	0.86	48.4	0.76	38.3	79.04	
Police Retirement	320.8	3.19	153.7	2.42	167.1	108.68	
Public Employees Retirement	5,043.6	50.16	3,232.8	50.92	1,810.8	56.01	
Sheriffs Retirement	295.0	2.93	151.0	2.38	143.9	95.32	
Teachers Retirement	3,673.4	36.53	2,461.2	38.76	1,212.3	49.26	
Vol. Firefighters Retirement	33.9	0.34	20.1	0.32	13.8	69.00	
Grand Total	\$ 10,055.9	100.00	\$ 6,349.2	100.00	\$ 3,706.7	58.38	
Investment Type							
Montana Domestic Equity Pool	\$ 3,991.7	39.70	\$ 3,009.3	47.40	\$ 982.5	32.65	
Montana International Pool	1,669.0	16.60	996.5	15.69	672.6	67.50	
Montana Private Equity Pool	1,075.4	10.69	297.4	4.68	778.0	261.58	
Montana Real Estate Pool	887.6	8.83	16.5	0.26	871.2	5,287.89	
Retirement Funds Bond Pool	2,245.3	22.33	1,928.4	30.37	316.9	16.43	
Short Term Investment Pool	186.7	1.86	101.1	1.59	85.6	84.67	
Grand Total	\$ 10,055.9	100.00	\$ 6,349.2	100.00	\$ 3,706.7	58.38	
Totals may not sum due to rounding differences.							

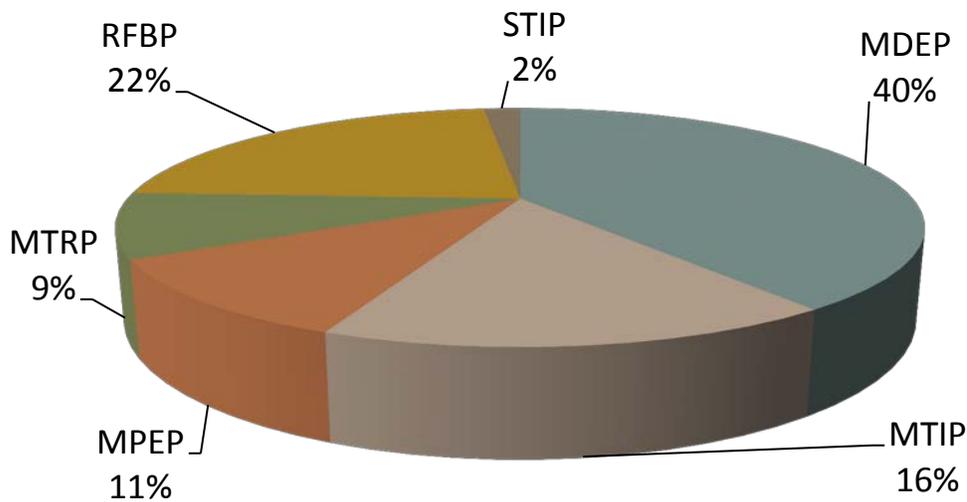
The Board reviews both absolute return performance and performance to internally established benchmarks. Further, several external sources provide the Board independent comparisons of its performance and costs to that of other large public pension systems. That report can be found on the Board’s website at: <http://investmentmt.com/CEMBenchmarking>.

The Board of Investments manages all pension fund investments through six investment pools. Each investment pool is governed by a separate investment policy and concentrations into any one pool are limited by the Board’s asset allocation policy. Selective return performance of the retirement systems is shown here:

Pension Fund By Investment Pool					
Fair Value (In Millions) With Time Weighted Annualized Net Returns					
As of June 30, 2015					
Investment Pool	Fair Value	1-Year Return %	2-Year Return %	10-Year Return %	*21-Year Return %
Montana Domestic Equity Pool (MDEP)	\$ 3,991.7	7.35	25.18	7.77	
Montana International Pool (MTIP)	1,669.0	(4.21)	21.67	4.64	
Montana Real Estate Pool (MTRP)	887.6	13.12	11.67	-	
Montana Private Equity Pool (MPEP)	1,075.4	8.44	16.51	10.55	
Retirement Funds Bond Pool (RFBP)	2,245.3	2.30	5.22	5.32	
Short Term Investment Pool (STIP)	186.8	0.12	0.14	1.70	
All Pension Funds	\$ 10,055.9	4.58	17.17	6.59	7.77

Totals may not sum due to rounding differences.
 *Since inception of current custodial bank records.

Pension Funds By Investment Pool





The Board's **SHORT TERM INVESTMENT POOL (STIP) PROGRAM** is used by state agencies, local governments and the retirement systems as an alternative to idle cash. STIP investments are short, highly liquid and among the safest obtainable. Although not a money market fund, STIP is structured in a similar way. Its yield tends to be higher due to lower expenses and an ability to make investments of a longer duration due to the predictable nature of government cash needs.

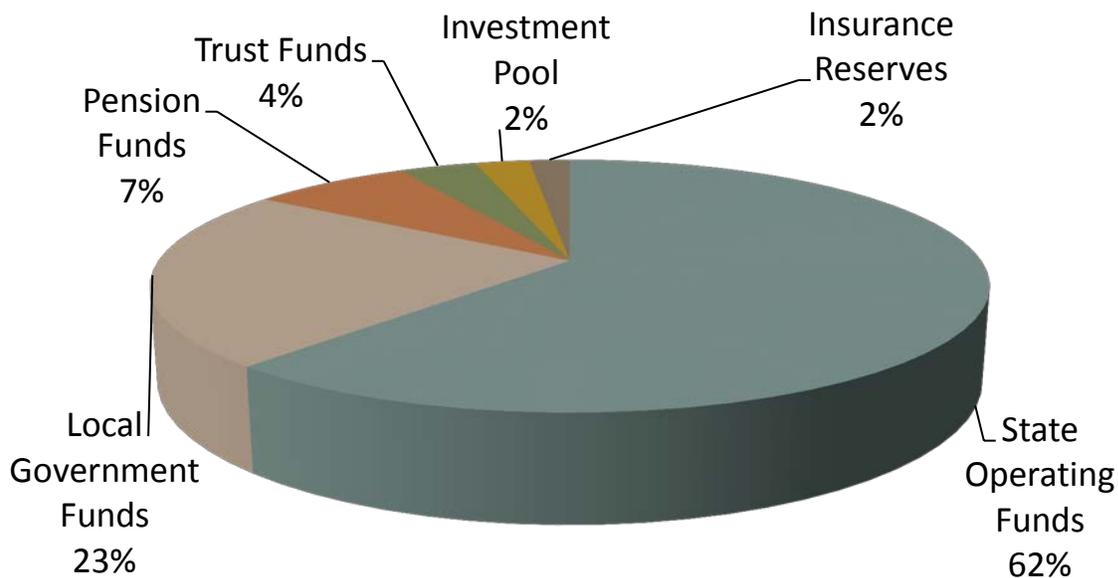
On October 6, 2015 the Board approved, that for financial reporting purposes the STIP portfolio will be reported on a Net Asset Value basis beginning with the month of October 2015 versus amortized cost.

STIP is NOT Federal Deposit Insurance Corporation (FDIC) insured or otherwise insured or guaranteed by the federal government, the State of Montana, the Board or any other entity against investment losses. The Board maintains a reserve fund to offset possible losses and limit fluctuations in STIP's net asset value (NAV).

Created in 1973, STIP provides participants ready access to cash. Shares are fixed at \$1.00, fractional shares may be purchased, and participants may buy or sell shares with one business days' notice. The over \$2.5 billion in pool investments are managed by Board Staff. There were 490 accounts invested in STIP during the year, including 170 local government accounts. All investments are made by Board staff and all income is distributed to participants on the first day of the month. The pool reported earnings for state and local government agencies of \$2.82 million (unaudited) in Fiscal Year 2015. The table below shows the percent of shares by major participant type.

STIP Investments are short, highly liquid and among the safest obtainable.

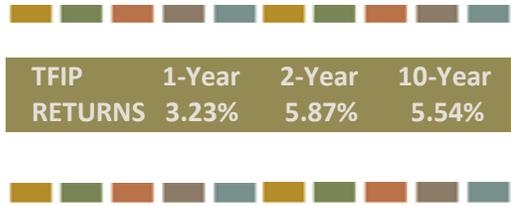
STIP By Participant Type





The Board invests over \$2.5 billion for several **TRUST FUNDS**, some of which were created and protected by the state Constitution. The trusts are managed for income, rather than total rate of return. Other trusts have been created statutorily by the legislature or involve federal funds. Several trust funds were established as part of settlements

between the state and private corporations to ensure environmental clean-up of polluted sites. The fiscal year changes in the trusts' fair value are shown below.



Total Trust Funds By Type & Major Asset Type Fair Value (In Millions) As of June 30, 2015						
Trust Fund	Cash Equivalents	Fixed Income	Fixed Income/Real Estate (TFIP)	Loans	Total	
Abandoned Mine Trust	\$ 1.1	\$ 5.1	\$ -	\$ -	\$ 6.2	
Blackfoot Response	13.8	6.7	5.6	0.0	26.1	
Butte Area One Rest	9.5	6.5	15.6	0.0	31.6	
Clark Fork River Rs	6.9	6.9	18.6	0.0	32.4	
Clark Fork Site Resp	7.0	10.8	79.3	0.0	97.1	
Cultural Trust	0.2	0.0	13.6	0.0	13.8	
East Helena Comp. Fund	3.3	0.0	2.5	0.0	5.8	
Economic Development Trust	1.3	0.0	84.3	0.0	85.6	
Endowment For Children	0.0	0.0	1.3	0.0	1.3	
FWP Mitigation	2.0	9.5	0.0	0.0	11.5	
Montana Pole	6.7	0.0	27.1	0.0	33.8	
Noxious Weeds	0.0	0.0	10.9	0.0	10.9	
Older Montanans Trust Fund	0.0	0.0	1.1	0.0	1.1	
Park Acquisition	0.4	0.0	25.1	0.0	25.5	
Permanent Coal Trust	18.0	0.0	407.1	133.7	558.8	
Public School Trust	0.0	0.0	659.5	0.0	659.5	
Real Property Trust	0.3	0.0	6.4	0.0	6.8	
Regional Water Fund	1.3	0.0	88.8	0.0	90.1	
Resource Indemnity Trust	0.0	0.0	111.5	0.0	111.5	
Smelter Hill Upload	4.8	2.7	2.9	0.0	10.5	
Streamside Tailings	2.8	0.1	41.0	0.0	43.8	
Tobacco Trust	0.3	0.0	195.0	0.0	195.2	
Treasure State Endowment	2.2	0.0	265.1	0.4	267.7	
UCFRB Reserve	0.7	0.0	16.9	0.0	17.6	
UCFRB Restoration	7.2	0.0	115.7	0.0	122.9	
Wildlife Habitat	0.5	0.0	11.5	0.0	12.1	
Zortman Trust	0.0	15.8	0.0	0.0	15.8	
Zortman Water	0.2	14.4	0.0	0.0	14.5	
Total	\$ 90.7	\$ 78.5	\$ 2,206.4	\$ 134.1	\$ 2,509.6	

Table excludes the receivable and payables accruals. Totals may not sum due to rounding differences.

COAL SEVERANCE 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 economy with emphasis on new or expanding 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. There is currently no new coal severance tax revenue dedicated to the Permanent Fund.

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. The deposit of coal severance tax revenue to this fund terminates June 30, 2016.



Coal Severance Tax Trust Fund

... "principal of the trust shall forever remain inviolate unless appropriated by vote of three-fourths (3/4) of the members of each house of the legislature."

Montana Constitution – Article IX



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. The deposit of coal severance tax revenue to this fund terminates June 30, 2016.

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. The deposit of coal severance tax revenue to this fund terminates June 30, 2025.

Income from the Permanent Fund and the Bond Fund is deposited in the Permanent Fund Income Fund where it is transferred periodically to the state general fund. Effective July 1, 2015 through July 1, 2018, on July 1 of each year, up to \$21 million of the interest income that is transferred to the general fund is statutorily appropriated to the Public Employees’ Retirement System Defined Benefit Plan Trust Fund. Effective July 1, 2019, on July 1 of each year, up to \$24 million of the interest income that is transferred to the general fund is statutorily appropriated to the Public Employees’ Retirement System Defined Benefit Plan Trust 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 fair values of the Coal Severance Tax Trust sub-funds is shown below:

Coal Severance Tax Trust Fair Value (In Millions)							
Annual Change By Sub Fund & Investment Type							
As of June 30							
Sub Fund	2015	Total %	2014	Total %	Change \$	Change %	
Permanent Coal Trust	\$ 558.8	55.64	\$ 559.9	57.30	\$ (1.1)	(0.19)	
Treasure State Endowment	267.7	26.66	254.1	26.00	13.6	5.37	
Regional Water Fund	90.1	8.97	83.0	8.50	7.1	8.50	
Economic Development Trust	85.6	8.53	78.6	8.04	7.1	9.01	
Severance Tax Bond Fund	2.1	0.21	1.5	0.15	0.6	42.05	
Permanent Fund Income	0.0	0.00	0.0	0.00	(0.0)	(88.29)	
Grand Total	\$ 1,004.4	100.00	\$ 977.1	100.00	\$ 27.3	2.79	
Investment Type							
Fixed Income (TFIP)	\$ 845.4	84.17	\$ 821.8	84.11	\$ 23.5	2.86	
Loans - Commercial	68.7	6.84	74.7	7.65	(6.0)	(8.06)	
Loans - Local Gov Infrastructure	21.3	2.13	22.7	2.32	(1.3)	(5.78)	
Loans - Value Added	0.6	0.06	1.1	0.11	(0.5)	(43.74)	
Loans - Science & Tech	10.0	1.00	10.2	1.04	(0.1)	(1.44)	
Loans - Montana Facility Finance	2.3	0.22	3.2	0.32	(0.9)	(28.36)	
Loans - Intermediary	3.2	0.32	3.3	0.34	(0.0)	(0.96)	
Loans - Veterans	27.9	2.78	22.9	2.34	5.0	22.00	
Cash Equivalents (STIP)	24.9	2.48	17.3	1.77	7.6	43.76	
Grand Total	\$ 1,004.4	100.00	\$ 977.1	100.00	\$ 27.3	2.79	

Table excludes the receivable and payables accruals. Totals may not sum due to rounding differences.



OTHER TRUST FUNDS

Abandoned Mine - an expendable trust funded by federal grants under the Surface Mining Control and Reclamation Act of 1977, Article IV. Ten percent of Montana’s annual grant amount is deposited into this trust to fund programs related to abandoned mine land reclamation.

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

Clark Fork River Restoration - funds derived from the 2008 consent decree between the DOJ and ARCO for restoration of the Clark Fork River and associated riparian areas from Warm Springs Ponds to Milltown Reservoir and related projects.

Clark Fork Site Response Action - funds derived from the 2008 consent decree between the Montana Department of Environmental Quality (DEQ), the U.S. Environmental Protection Agency (EPA), and ARCO to remediate the environmental contamination at the Clark Fork River Operable Unit of a federal Superfund site.

Coal Tax Parks/Cultural Trust Funds (i.e. Cultural Trust & Parks Acquisition) - 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.

East Helena Compensation - funds derived from the 2008 settlement between the DOJ and the American Smelting and Refining Company (ASARCO) for purposes of the restoration and oversight of environmental cleanup on and around the former site of the ASARCO smelter in East Helena.

Endowment for Children - funds derived from state appropriation, gifts, grants, and donations, or any other source for programs and services related to child abuse and neglect, primarily prevention activities and family resource programs.

Fish, Wildlife, and Parks (FWP) Mitigation - an expendable trust funded by a 1988 agreement between the Montana FWP and the Bonneville Power Administration to provide protection, mitigation, and enhancement of wildlife and wildlife habitat affected by the development of Libby and Hungry Horse Dams.

FWP Real Property - a non-expendable trust funded with proceeds from the sale of real property, oil, gas or mineral deposits, and from leases for the operation, development, and maintenance of real property under management of the Montana FWP.



Trust Investments are managed primarily to generate income for the Board's Trust Fund clientele.



Montana Post and Pole - funds derived from the 1996 consent decree between the DEQ, EPA, ARCO, Burlington Northern Railroad, Montana Resources, Inc., and other responsible parties for the environmental cleanup of the former Montana Pole and Treatment Plant in Butte.

Noxious Weed Management - a non-expendable \$10 million trust that receives funding from state and federal contributions and private donations for programs and services related to noxious weed control.

Older Montanans - funds derived from contributions and gifts to be used towards programs and services that promote dignity, respect, and enable an independent lifestyle in the least restrictive setting for Montana residents 60 years of age or older.

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 million in fiscal year 2002.

Smelter Hill Uplands Restoration - funds derived from the 2008 consent decree between the DOJ and ARCO for the restoration of the environment, vegetation and soils on lands affected by the Anaconda smelter.

Streamside Tailing - funds derived from a 1998 consent decree between the DEQ, EPA, ARCO, and other responsible parties, for the purpose of remediating the mine waste contamination at the Streamside Tailings Operable Unit of the Silver Bow Creek/Butte Area.

Tobacco - funds derived from a 1999 master settlement agreement between the states and the nation's largest tobacco companies payable over 25 years beginning fiscal year 2000. Forty percent of Montana's share is deposited in this trust and funds programs related to health care benefits, services, or coverage and tobacco disease prevention.

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.

Upper Blackfoot Mine Complex - funds derived from the 2008 settlement agreement between the DOJ, DEQ, EPA, ASARCO, and ARCO to be used, in consultation with the U.S. Forest Service, for conducting response and restoration activities within the Upper Blackfoot Mining Complex Site.

UCFRB Restoration/Reserve - funds derived from the 1998 consent decree between ARCO and the DOJ for the restoration, replacement, or acquisition of equivalent state natural resources injured in the Upper Clark Fork River Basin.

Wildlife Habitat - a non-expendable trust funded by twenty percent of the non-resident hunting license revenue collected between 1989 and 1994 for the acquisition, development, and maintenance of wildlife habitat.

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

Zortman/Landusky LT H2O - funds derived from state appropriations of \$1.2 million a year until there are sufficient funds to generate \$19.3 million by January 1, 2018 for long-term water treatment at the closed Zortman/Landusky mines near Malta.





The Board invests over \$1.5 billion for several **INSURANCE PROGRAMS**, with the State Fund owning the largest dollar value of such securities.

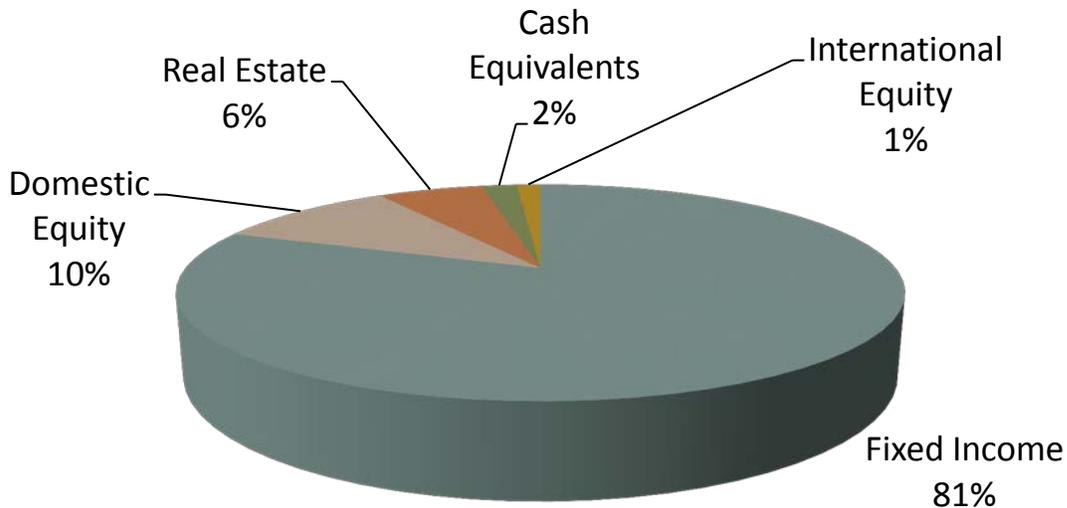
The State Compensation Insurance Fund (State Fund) provides workers' compensation and occupational disease insurance for claims arising from injuries including those that occurred prior to July 1, 1990.

STATE FUND INSURANCE RETURNS	1-Year	2-Year	10-Year
	3.04%	6.13%	5.20%

MONTANA STATE FUND		State Fund Insurance Fair Value (In Millions) Annual Change As of June 30, 2015					
	2015	Total %	2014	Total%	\$ Change	Change %	
Corporate/Asset-Backed Bonds	\$ 697.3	48.12	\$ 685.2	48.57	\$ 12.1	1.76	
International Government	21.2	1.46	20.9	1.48	0.4	1.68	
US Govt Direct Obligations	196.6	13.57	177.3	12.57	19.3	10.89	
US Agency Bonds	256.1	17.67	254.9	18.07	1.2	0.45	
Blackrock ACWI EX US Super Fund	19.1	1.32	20.1	1.43	(1.0)	(5.20)	
Blackrock Equity Index (S&P 500)	146.3	10.09	147.4	10.45	(1.1)	(0.75)	
American Core Realty	44.8	3.09	42.0	2.98	2.7	6.54	
TIAA CREF Asset Management	39.8	2.75	32.1	2.27	7.8	24.24	
Cash Equivalents (STIP)	28.0	1.93	31.0	2.20	(3.0)	(9.66)	
Grand Total	\$ 1,449.1	100.00	\$ 1,410.9	100.00	\$ 38.3	2.71	

Table excludes receivable & payable accruals. Totals may not sum due to rounding differences.

State Fund By Investment Type





OTHER INSURANCE FUNDS INVESTMENTS

Other Insurance Funds By Investment Type			
Fair Value (In Millions)			
As of June 30, 2015			
Other Insurance Funds	Cash		Total
	Equivalents	Fixed Income	
Agency Insurance*	\$ 15.9	\$ -	\$ 15.9
Group Benefits	11.3	36.3	47.6
Hail Insurance*	3.0	-	3.0
MT University Sys Group Ins	8.1	28.1	36.2
Subsequent Injury Fund	0.3	-	0.3
Unemployment Insurance Benefits*	5.2	-	5.2
Uninsured Employees*	1.6	-	1.6
University Workers Compensation*	18.0	-	18.0
Total	\$ 63.5	\$ 64.3	\$ 127.8

Table excludes the receivable and payables accruals. Totals may not sum due to rounding differences.

*These are sub-accounts of the State Agency account and are included under State Operating Funds rather than Insurance Reserves on pg.6.

Agency Insurance - reserve account for the state's property self-insurance program (including liability, property, flood, etc.).

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

Hail Insurance - provides benefits to producers engaged in the growing of crops subject to hail damage.

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

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

Unemployment Insurance Benefits - Unemployment benefits are paid from this fund to eligible recipients.

Uninsured Employees - accounts for activity related to uninsured workers compensation employers and related benefits paid.

University Workers Compensation - accounts for self-insured workers compensation coverage for employees of the Montana University System.





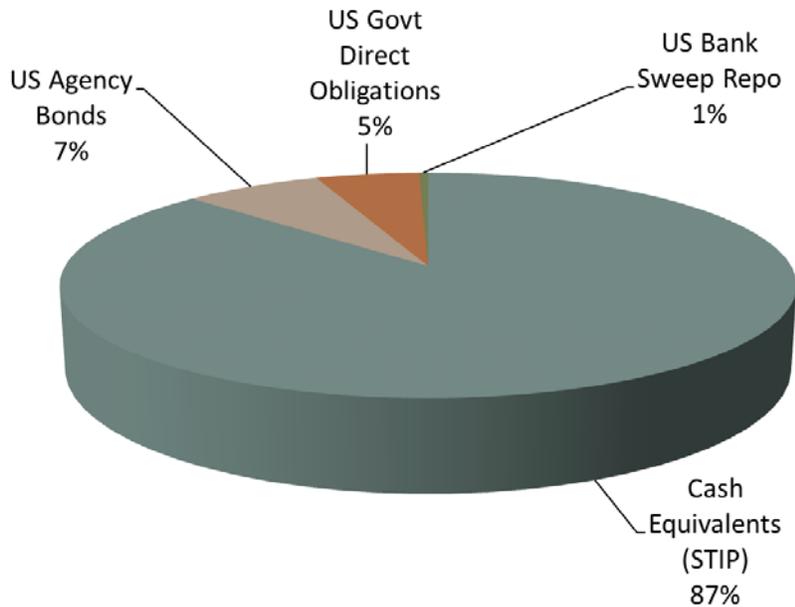
The **TREASURER'S FUND** (Fund) is comprised of surplus cash in all state accounts that do not retain their investment earnings. All earnings are deposited in the state general fund. State law authorizes the Board to determine the amount of surplus cash in the Fund to be invested and the type of investments 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 participant in STIP since 1973 when STIP was created.

Treasurer's Fund Balance as of June 30, 2015 was \$1.1 Billion.

TREASURER'S FUND RETURNS	1-Year	2-Year	10-Year
	.27%	.21%	1.70%

Treasurer's Fund By Investment Type





Over the years, the Montana Legislature has directed that the Board provide certain financial incentives, typically at below-market interest rates, to certain borrowers who meet the program requirements set in law.

The In-State Loan Program, created in 1984 as part of the "Build Montana" 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.

Over the past 15 years staff has funded 530 loans, totaling \$472.1 million creating approximately 5,000 new jobs in the state of Montana. The current reservations and commitments anticipate creating an additional 680 jobs, when funded.



 Over the past 15 years, the Board has invested \$472 million in low interest loans into the state's economy creating approximately 5,000 new jobs.



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 qualifying job created, up to a maximum reduction of 2.5 percent.

- **The Commercial Loan Participation Program** allows the In-State Loan Program to participate up to 80% in a loan originated by an approved lender. 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 percent of the Trust and the individual loans may not exceed 10 percent of the Trust. Loans exceeding 6percent of the Trust must have lender participation of at least 30 percent.
- **The Infrastructure Loan Program** provides loans to eligible local governments for constructing or purchasing infrastructure to be used by a basic sector business. Total loans outstanding in this Program are limited by law to \$80 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 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 million.

The Veteran's Home Loan Program provides low interest loans for Montana Veterans who are first-time home buyers. 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 million (increased to \$40 million July 1, 2015).

Annual Change by Loan and Mortgage Type						
Fair Value (In Millions)						
As of June 30						
	2015	Total %	2014	Total %	Change \$	Change %
Commercial Loans	\$ 68.7	56.40	\$ 74.7	59.96	\$ (6.0)	(8.06)
Infrastructure Loans	21.3	17.53	22.7	18.18	(1.3)	(5.78)
Veteran's Home Loan Mortgage	27.9	22.92	22.9	18.36	5.0	22.00
Intermediary Program Loans	3.2	2.66	3.3	2.63	(0.0)	(0.96)
Value-added Loans	0.6	0.50	1.1	0.86	(0.5)	(43.74)
Total	\$ 121.8	100.00	\$ 124.6	100.00	\$ (2.8)	(2.25)

Totals may not sum due to rounding differences.

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						
Fair Value (In Millions)						
As of June 30						
	2015	Total %	2014	Total %	Change \$	Change %
Coal Tax Trust Loans	\$ 93.9	25.82	\$ 101.7	25.46	\$ (7.8)	(7.70)
Veteran's Home Loan Mortgage	27.9	7.68	22.9	5.73	5.0	22.00
Montana Science and Technology	10.0	2.76	10.2	2.55	(0.1)	(1.44)
Montana Facility Finance Authority Loans	2.3	0.62	3.2	0.79	(0.9)	(28.36)
Total AOF Loans and Mortgages	\$ 134.1	36.88	\$ 137.9	34.52	\$ (3.8)	(2.78)
Med Map LLC (St. Vincent Hospital, Billings)	7.9	2.17	8.5	2.13	(0.6)	(7.06)
Board of Housing	0.8	0.22	0.8	0.20	0.0	0.00
Total Bonds	\$ 8.7	2.39	\$ 9.3	2.33	\$ (0.6)	(6.45)
Totals RFBP Residential Mortgages	8.0	2.20	10.6	2.65	(2.6)	(24.34)
Total MTRP Direct Real Estate	19.5	5.36	19.1	4.79	0.3	1.80
Bond Guarantees (1)	193.3	53.17	222.6	55.72	(29.3)	(13.16)
Total Other In-State and Bond Guarantees	\$ 220.8	60.73	\$ 252.3	63.15	\$ (31.5)	(12.50)
Total	\$ 363.6	100.00	\$ 399.5	100.00	\$ (36.6)	(8.94)

(1) Guarantees of INTERCAP and Montana Facility Finance Bonds

Totals may not sum due to rounding differences.

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-funds. See page 15 for more information on these sub-funds.

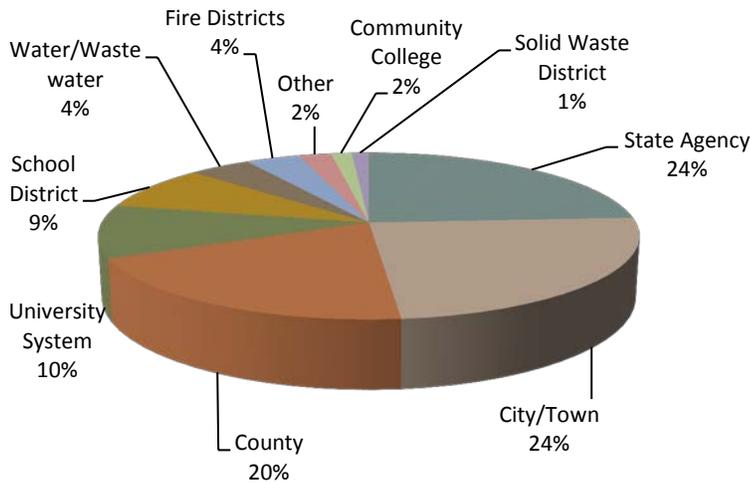


For nearly 30 years, the Board has provided low interest loans to Montana state agencies, universities, and local governments for various projects. Since the program's inception, the Board's INTERCAP Loan Program (INTERCAP) has loaned \$456.5 million statewide and issued \$148.0 million in bonds with \$106.4 million outstanding at June 30, 2015. The Board makes firm one-year commitments to fund the loans. On

average, over the past five fiscal years, the program committed to \$35.1 million and funded \$26.3 million in loans. In fiscal year 2014, the program estimated fiscal year 2015 commitments and fundings would be ~\$30 million. In fiscal year 2015, the program committed to \$26.2 million and funded \$28.2 million in loans. For fiscal year 2016, the program estimates the Board will commit to and fund approximately \$30 million.

Loan interest rates are reset every February; the loan rate through February 15, 2016 is 1.25%.

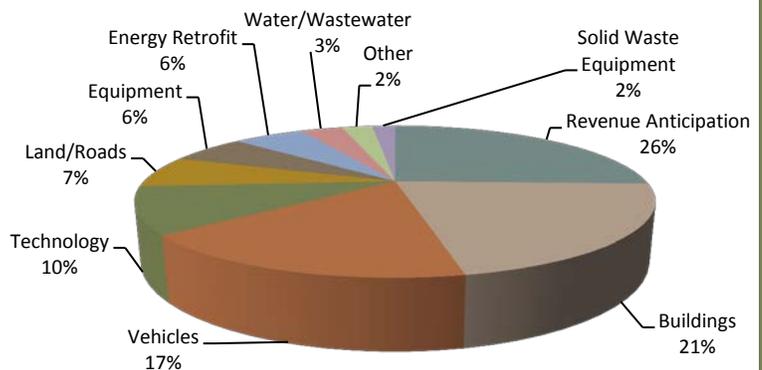
Loans By Borrower Type Since Inception



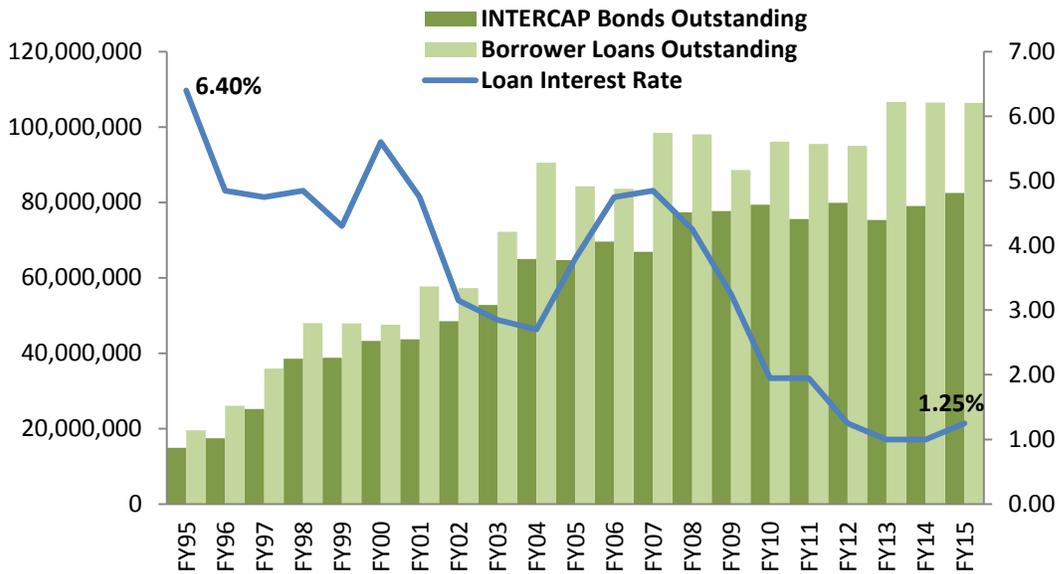
Over 75% of all Montana counties and municipalities have financed projects through INTERCAP.



Loans By Project Type Since Inception



The table below compares the INTERCAP bonds outstanding vs. borrower loans in relation to the loan interest rate in effect at the time.



Through a statutory mechanism, the Board is allowed to pledge certain moneys as a guarantee on these loans, which allows for the low interest rate. To date (without intending any limitation) the Board has identified two funds, the Treasurer's Fund and the Coal Severance Tax Trust Fund, as being legally available for such purposes.

INTERCAP loans have been very high credit quality, and to date, the Board has never suffered a loss, due in part to reasonable underwriting standards and the credit soundness of State of Montana agencies, boards, and authorities and Montana local governments.

Other programs the Board administers under the Bond Program are as follows:

- **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. The Board acts as a legal funding conduit only and has no pecuniary liability for the repayment of the bonds. Nine school districts have issued over \$9.98 million in QZAB bonds as of June 30, 2015.

- **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. The Board acts as a legal funding conduit only and has no pecuniary liability for the repayment of the bonds. Two school districts have issued over \$8.37 million in QSCB bonds as of June 30, 2015.



JOB GROWTH IN GREAT FALLS



The Board’s In-State Loan Program, in cooperation with the City of Great Falls and Great Falls Developments was able to attract ADF International, Inc., a complex structural steel fabrication company with headquarters in Toronto, Ontario Canada, through the use of Board’s Infrastructure Loan Program that provided \$4,999,800 at 1.98% fixed interest rate for 15 years. In consideration for the terms of the loan, ADF International, Inc.



...ADF has agreed to create 300 jobs...

has agreed to create 300 jobs over a four-year period. Currently, ADF has 200 employees and expects to grow to 250 by next year. The Infrastructure Loan Program also provides tax incentives to ADF International, Inc., which over the term of the loan, would at least equal the total amount of the loan.

LOW INCOME HOUSING IN KALISPELL



The Board’s In-State Loan Program provided long-term, fixed-rate financing for the construction of a 40-unit low income housing facility in Kalispell, Montana through the use of its Low Income Housing Tax Credit loan program. The facility has been very well received.



Expanding Health Services in Seeley

INTERCAP leveraged almost \$550,000 loan to help finance a \$1.14 million expansion and renovation of the Seeley-Swan Hospital District's Medical Center.

The project allows the District to provide expanded services offered by Partnership Health Center at the Seeley Lake location. The dental and behavior health services now offered had previously been intermittently available and at the patient's expense. The expansion provides these additional services on a regular and more affordable basis, to greatly enhance the health care opportunities for area residents.



Frenchtown Rural Fire District used INTERCAP financing to purchase a new water tender. Pictured is one of many equipped and ready units financed through INTERCAP used to extinguish the fires of 2015.

Improving Public Safety around the State

Musselshell County used an INTERCAP loan to replace an aging ambulance that faced expensive major repairs. The new ambulance will help the Ambulance Service continue to meet the needs of residents throughout the large, rural county.





MONTANA
BOARD OF INVESTMENTS

Financial Section

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Asset Value/Investments Managed of the Montana Board of Investments (board) Consolidated Unified Investment Program as of June 30, 2015, and 2014, the related Statement of Changes in Net Asset Value/Investments Managed, and Statement of Investment Income and Distribution for each of the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value/investments managed of the Montana Board of Investments Consolidated Unified Investment Program as of June 30, 2015, and 2014, and the changes in net asset value/investments managed and investment income and distribution for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2E and in Note 13 to the financial statements the board restated the fiscal year 2014 distribution of income from All Other Funds to the applicable individual pools. Our opinion is not modified with respect to this matter.

Other Information

All sections listed in the foregoing table of contents, except for the Unified Investments Financial Section and the Enterprise Fund Financial Section, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (14-04B).

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 18, 2015

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

The Consolidated Unified Investment Program Financial Statement follows this page 30.

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

STATEMENT OF NET ASSET VALUE/INVESTMENTS MANAGED JUNE 30, 2015 AND 2014		
(in thousands)		
Assets	<u>2015</u>	<u>2014 Restated</u>
Investments at fair value (Note 2B, 13, 14)	\$ 13,924,575	\$ 13,555,010
STIP investment portfolio at amortized cost (Note 2B)	2,538,469	2,535,153
Cash	4,627	4,023
Security lending cash collateral (Note 5)	620,221	814,616
Security lending income receivable	335	350
Broker receivable for securities sold but not settled (Note 2A)	46,073	43,024
Dividend and interest receivable (Note 2E)	43,048	41,675
Currency forward contracts (Note 6)	\$ 151	\$ -
Total assets (Note 2B, 13)	<u>\$ 17,177,499</u>	<u>\$ 16,993,851</u>
Liabilities		
Income due participants (Note 2E)	\$ 20,510	\$ 17,532
Broker payable for securities purchased but not settled (Note 2A)	26,477	36,004
Security lending obligations (Note 5)	620,221	814,616
Security lending expense payable	77	55
Other payables	369	185
Administrative fee payable	3,553	3,697
Currency forward contracts (Note 6)	-	210
STIP reserve (Note 7)	<u>\$ 28,591</u>	<u>\$ 24,440</u>
Total liabilities (Note 2B)	<u>\$ 699,798</u>	<u>\$ 896,739</u>
Net asset value/investments managed (Note 2B, 2C, 13)	<u>\$ 16,477,701</u>	<u>\$ 16,097,112</u>
The accompanying notes are an integral part of these financial statements.		

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

STATEMENT OF CHANGES IN NET ASSET VALUE/INVESTMENTS MANAGED FOR FISCAL YEARS ENDING JUNE 30, 2015 AND 2014 (in thousands)		
	<u>2015</u>	<u>2014 Restated</u>
Net asset value/investments, beginning of year (Note 13)	\$ 16,097,112	\$ 14,684,802
Value of pool units/investments purchased (Note 2D)	11,277,155	10,531,609
Value of pool units/investments sold/matured (Note 2D)	(11,022,133)	(10,313,372)
Increase (decrease) in AOF interest receivable	(364)	(728)
Increase (decrease) in AOF security lending income receivable	(15)	(34)
(Increase) decrease in AOF security lending expense payable	(8)	11
(Increase) decrease in STIP included in investment pools (Note 2D, 13)	(1,250)	27,188
Changes in current value of investments managed (Note 2D)	<u>\$ 127,204</u>	<u>\$ 1,167,636</u>
Net asset value/investments managed (Note 2B, 2C, 13)	<u>\$ 16,477,701</u>	<u>\$ 16,097,112</u>
STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION FOR FISCAL YEARS ENDED JUNE 30, 2015 AND 2014 (in thousands)		
	<u>2015</u>	<u>2014 Restated</u>
Distributable net realized gain/(loss) (Note 2E)	\$ 189,537	\$ 267,261
Dividend/interest income (Note 2E, 13)	318,613	301,258
Amortization/accretion (Note 2E)	2,514	2,692
Security lending income (Note 5)	3,848	3,676
Other income (Note 7, 13)	394	753
Security lending expense (Note 5)	(778)	(495)
Security lending collateral sale gain/(loss) (Note 5)	(226)	-
Administrative expenses (Note 2F)	(50,745)	(51,531)
Other investment expenses	(8,898)	(6,150)
STIP reserve expense (Note 7, 13)	(4,151)	(6,206)
Income due participants, beginning of year	<u>\$ 17,532</u>	<u>\$ 15,414</u>
Income available for distribution (Note 2E, 13)	467,640	526,672
Distribution (Note 2E, 13)	<u>\$ (447,130)</u>	<u>\$ (509,140)</u>
Income due participants, end of year (Note 2E)	<u>\$ 20,510</u>	<u>\$ 17,532</u>
The accompanying notes are an integral part of these financial statements.		

STATE OF MONTANA BOARD OF INVESTMENTS
 CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015 AND 2014

1. HISTORY AND ORGANIZATION

The Board was created by the Legislature to manage the Unified Investment Program established by the State Constitution. The Investment Program is comprised of all state funds, including pensions, trusts, insurance, and cash. Local government entities only invest in the Short Term Investment Pool portion of the Program. The Board manages the Investment Program pursuant to the “Prudent Expert Principle” mandated by State law, which requires an investment manager to:

- (a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, 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;
- (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
- (c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

Currently, only the nine retirement funds and the Montana State Fund (Workers’ Compensation) may invest in stock. All other state funds must be invested in fixed-income type investments. Neither State law nor the State Constitution place restrictions on retirement fund investments. The funds are invested solely at the discretion of the Board pursuant to the “Prudent Expert Principle.”

To facilitate management of the Investment Program, the Board created seven investment pools (Pools) that operate similar to mutual funds. All state agencies and many local government entities may participate in one or more Pools. By investing in large Pools with other participants the smaller participants are provided broad diversification not otherwise possible. Some Pools are dedicated solely to the state’s nine retirement funds, while others are open to other state and local government funds. State agencies, ineligible to participate in a long-term investment pool, have direct fixed income, equity and loan investments. These investments are combined and reported as All Other Funds (AOF) Investments Managed. The Pools, AOF Investments Managed, Pool creation date and eligible participants are shown in the following table.

<u>Pool/Investments Managed Name</u>	<u>Creation Date</u>	<u>Eligible Participants</u>
Retirement Funds Bond Pool (RFBP)	04/01/95	Nine Retirement Funds Only
Trust Funds Investment Pool (TFIP)	10/01/95	Various State Trust Funds
Montana Domestic Equity Pool (MDEP)	07/01/80	Nine Retirement Funds/Small Trusts
Montana International Equity Pool (MTIP)	06/01/96	Nine Retirement Funds Only
Montana Private Equity Pool (MPEP)	05/01/02	Nine Retirement Funds Only
Montana Real Estate Pool (MTRP)	06/01/06	Nine Retirement Funds Only
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

This financial statement presents only the activity of the Unified Investment Program as managed by the Board. The financial statements do not present the financial position or the results of operating expenses of the Board. The financial information pertaining to the operations of the Board can be found in the Investment Division internal service fund contained within the State of Montana’s Comprehensive Annual Financial Report and in the Enterprise fund financial statements contained within this report.

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Valuation and Timing – The value of stocks and bonds are recorded at both “book” and “fair” value. The book or carrying value of a stock is the average cost of the shares held. If the same stock has been purchased several times, the average of the purchase prices is the book value. The book value of bonds is the “amortized” cost, which represents the original cost, adjusted for premium and discount amortization where applicable. If bonds are purchased at more than the par value, the difference is called a premium. If they are purchased for less than par value, the difference is called a discount. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers’ valuation reports. The book or carrying value of these private investments is the capital invested less capital returned. Except for the Short Term Investment Pool (STIP), all investment portfolios presented in the Statement of Net Asset Value are at “fair” value.

Accounting for stock and bond securities is based on the “trade date”, which means the sale or purchase of a security is recorded on the trade date, rather than the “settlement” date. This generally accepted practice results in a purchased security included in the investment portfolio on the trade date even though payment will not occur until the settlement date. Conversely, a sold security will be eliminated from the investment portfolio on the trade date even though the sale proceeds will not be received until the settlement date. This delayed timing requires that “receivables” and “payables” for securities sold/purchased but not yet settled must be reported in the financial statement and calculated in the Net Asset Value. Private equity and real estate investments are included in the portfolio when funds are wired.

Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investments made. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

B. Pool Net Asset Value/Investments Managed – The Pool Net Asset Value (NAV) must be calculated accurately to ensure participants are paying or receiving a “fair” price when units are purchased and sold. The NAV must include not only the fair value of the investment portfolio (except for STIP at book value) but any liabilities payable by the Pool and receivables due the Pool on the NAV calculation date. Investment accounting uses the “accrual” basis, which means bond interest due is recorded when earned, rather than when cash is received. Interest “due” is recorded as a receivable (asset) and included in the NAV on the date of the calculation. Dividends are recorded as of “ex-dividend date.” Income due to Pool participants is recorded on the date due to the participants, rather than on actual distribution date. Income Due Participants is a payable (liability) and included in the NAV on the calculation date. The effect of assets and liabilities on the Pool NAV is depicted in the following table. The difference between Pool investment portfolios at fair value and the NAV is the net of other assets and liabilities. The STIP portfolio is shown in the Statement of Net Asset Value at amortized cost or “book” value. The RFBP, TFIP and MTRP participate in STIP. The total investment NAV as reported reflects the elimination of other pool participation in STIP. The All Other Funds (AOF) Investments Managed represent direct investments by approximately 20 state agencies in fixed income securities, two equity index funds, residential mortgages and commercial loans. These state agencies do not buy or sell participant units based on a NAV calculation for their AOF Investments Managed. The real estate buildings and pension residential mortgages are included in the MTRP and RFBP portfolios. The book value, fair value, Pool NAV and AOF Investments managed are shown in the following table.

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

June 30, 2015 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM) (in thousands)			
<u>Pool</u>	<u>Book Value</u>	<u>Fair Value *</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,202,707	\$ 2,220,321	\$ 2,245,297
Trust Funds Investment Pool (TFIP)	2,137,529	2,255,336	2,256,235
Montana Domestic Equity Pool (MDEP)	2,586,532	3,983,061	3,991,969
Montana International Equity Pool (MTIP)	1,384,595	1,667,787	1,669,042
Montana Private Equity Pool (MPEP)	961,696	1,075,838	1,075,428
Montana Real Estate Pool (MTRP)	787,262	891,291	887,625
All Other Funds (AOF) Investments Managed	1,752,271	1,894,239	1,904,580
STIP included in investment pools	<u>\$ (63,298)</u>	<u>\$ (63,298)</u>	<u>\$ (63,298)</u>
Total Investments	<u>\$ 11,749,294</u>	<u>\$ 13,924,575</u>	<u>\$ 13,966,878</u>
Short Term Investment Pool (STIP)*	<u>\$ 2,538,469</u>	<u>\$ 2,538,469</u>	<u>\$ 2,510,823</u>
Total	<u><u>\$ 14,287,763</u></u>	<u><u>\$ 16,463,044</u></u>	<u><u>\$ 16,477,701</u></u>
June 30, 2014 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM) (in thousands)			
<u>Pool</u>	<u>Book Value</u>	<u>Fair Value *</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,097,741	\$ 2,142,497	\$ 2,130,976
Trust Funds Investment Pool (TFIP)	2,060,978	2,188,659	2,195,741
Montana Domestic Equity Pool (MDEP)	2,491,555	3,835,790	3,851,599
Montana International Equity Pool (MTIP)	1,335,041	1,747,476	1,747,646
Montana Private Equity Pool (MPEP)	877,756	1,031,448	1,031,168
Montana Real Estate Pool (MTRP)	786,065	841,169	849,771
All Other Funds (AOF) Investments Managed	1,680,214	1,830,019	1,840,747
STIP included in investment pools	<u>\$ (62,048)</u>	<u>\$ (62,048)</u>	<u>\$ (62,048)</u>
Total Investments**	<u>\$ 11,267,302</u>	<u>\$ 13,555,010</u>	<u>\$ 13,585,600</u>
Short Term Investment Pool (STIP)*	<u>\$ 2,535,153</u>	<u>\$ 2,535,153</u>	<u>\$ 2,511,512</u>
Total**	<u><u>\$ 13,802,455</u></u>	<u><u>\$ 16,090,163</u></u>	<u><u>\$ 16,097,112</u></u>
<i>** Refer to Note 13 - Restatements</i>			
<i>* The STIP portfolio is recorded at amortized cost in the Fair Value column.</i>			

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

The following table shows the individual Pool and AOF assets, liabilities, and NAV/Investments Managed. Included in the Pool and Investments Managed assets are the value of the investment portfolios, cash, receivables for securities sold but not yet settled, and dividend/interest receivables. Included in the liabilities are payables for securities purchased but not yet settled, income due participants, and other miscellaneous payables. The “securities lending” asset/liability shown in the Statement of Net Asset Value/Investments Managed nets to zero and has no “net” effect on the Pool NAV and AOF Investments Managed.

2015 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)			
(in thousands)			
<u>Pool</u>	<u>Assets</u>	<u>Liabilities</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,419,805	\$ 174,508	\$ 2,245,297
Trust Funds Investment Pool (TFIP)	2,364,684	108,449	2,256,235
Montana Domestic Equity Pool (MDEP)	4,210,794	218,825	3,991,969
Montana International Equity Pool (MTIP)	1,691,906	22,864	1,669,042
Montana Private Equity Pool (MPEP)	1,075,839	411	1,075,428
Montana Real Estate Pool (MTRP)	892,335	4,710	887,625
All Other Funds (AOF) Investments Managed	2,039,805	135,225	1,904,580
STIP included in investment pools	\$ (63,298)	\$ -	\$ (63,298)
Total Investments	\$ 14,631,870	\$ 664,992	\$ 13,966,878
Short Term Investment Pool (STIP)	\$ 2,545,629	\$ 34,806	\$ 2,510,823
Total	<u>\$ 17,177,499</u>	<u>\$ 699,798</u>	<u>\$ 16,477,701</u>
2014 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)			
(in thousands)			
<u>Pool</u>	<u>Assets</u>	<u>Liabilities</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,322,401	\$ 191,425	\$ 2,130,976
Trust Funds Investment Pool (TFIP)	2,313,645	117,904	2,195,741
Montana Domestic Equity Pool (MDEP)	4,089,509	237,910	3,851,599
Montana International Equity Pool (MTIP)	1,779,805	32,159	1,747,646
Montana Private Equity Pool (MPEP)	1,031,564	396	1,031,168
Montana Real Estate Pool (MTRP)	851,653	1,882	849,771
All Other Funds (AOF) Investments Managed	2,129,263	288,516	1,840,747
STIP included in investment pools	\$ (62,048)	\$ -	\$ (62,048)
Total Investments**	\$ 14,455,792	\$ 870,192	\$ 13,585,600
Short Term Investment Pool (STIP)	\$ 2,538,059	\$ 26,547	\$ 2,511,512
Total**	<u>\$ 16,993,851</u>	<u>\$ 896,739</u>	<u>\$ 16,097,112</u>
<u>** Refer to Note 13 - Restatements</u>			

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

C. Pool Participant Units – Pool units are purchased and sold similar to individuals investing in mutual funds. The STIP participants purchase and sell units, at \$1 per unit, at their discretion. All non-STIP Pool units and AOF direct investments are purchased and sold at the discretion of Board investment staff based on asset allocations approved by the Board. For non-STIP Pool participants to purchase and sell units, the units must be “priced.” Once the Pool NAV is calculated, the unit value is priced by dividing the NAV by the number of outstanding units. The unit value is then used when units are purchased or sold. Like securities, Pool units also have a “book” value, which is the price of the unit when it was purchased. The book value does not change unless the participant purchases additional units at different prices. Because the treatment of the Pool units is similar to individual mutual funds and the AOF Investments Managed is not an investment Pool, there is no Units Outstanding or a Unit Value calculated on a consolidated financial statement basis. The calculations for individual Pool unit values are shown in the following table.

2015 NAV/IM - Units Outstanding - Unit Value (in thousands)			
<u>Pool Name</u>	<u>NAV/IM</u>	<u>Units Outstanding</u>	<u>Unit Value*</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,245,297	20,012	\$ 112.20
Trust Funds Investment Pool (TFIP)	2,256,235	21,197	106.44
Montana Domestic Equity Pool (MDEP)	3,991,969	15,748	253.49
Montana International Equity Pool (MTIP)	1,669,042	9,672	172.56
Montana Private Equity Pool (MPEP)	1,075,428	3,571	301.16
Montana Real Estate Pool (MTRP)	887,625	8,813	100.72
All Other Funds (AOF) Investments Managed	1,904,580	NA	NA
Short Term Investment Pool (STIP)	2,510,823	2,510,823	1.00
STIP included in investment pools	\$ (63,298)	NA	NA
Total	\$ 16,477,701		
2014 NAV/IM - Units Outstanding - Unit Value (in thousands)			
<u>Pool Name</u>	<u>NAV/IM</u>	<u>Units Outstanding</u>	<u>Unit Value*</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,130,976	18,823	\$ 113.21
Trust Funds Investment Pool (TFIP)	2,195,741	20,519	107.01
Montana Domestic Equity Pool (MDEP)	3,851,599	16,246	237.08
Montana International Equity Pool (MTIP)	1,747,646	9,652	181.06
Montana Private Equity Pool (MPEP)	1,031,168	3,687	279.64
Montana Real Estate Pool (MTRP)	849,771	9,209	92.27
All Other Funds (AOF) Investments Managed	1,840,747	NA	NA
Short Term Investment Pool (STIP)	2,511,512	2,511,512	1.00
STIP included in investment pools	\$ (62,048)	NA	NA
Total**	\$ 16,097,112		
** Refer to Note 13 - Restatements			
* Unit value is not in thousands.			

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

D. Changes in Net Asset Value/Investments Managed – The following table depicts the change in NAV/IM from the previous year to the current year. There are three components contributing to the changes: 1) the value of Pool participant units and AOF investments purchased; 2) the value of Pool participant units and AOF investments sold; and 3) the change in the value of investments managed. The change in NAV for each Pool and AOF Investments Managed is shown in the following table.

2015 Pool Unit/AOF Investment Activity and Change in Value of Investments			
(in thousands)			
<u>Pool</u>	Value of Pool Units/Investments <u>Purchased</u>	Value of Pool Units/Investments <u>Sold/Matured</u>	Change in Value of <u>Investments</u>
Retirement Funds Bond Pool (RFBP)	\$ 141,400	\$ (5,855)	\$ (21,224)
Trust Funds Investment Pool (TFIP)	93,333	(18,358)	(14,481)
Montana Domestic Equity Pool (MDEP)	43,710	(49,107)	145,767
Montana International Equity Pool (MTIP)	25,290	(13,036)	(90,858)
Montana Private Equity Pool (MPEP)	24,655	(26,731)	46,336
Montana Real Estate Pool (MTRP)	21,190	(51,864)	68,528
All Other Funds (AOF) Investments Managed	4,310,807	(4,239,723)	(6,864)
Short Term Investment Pool (STIP)	<u>\$ 6,616,770</u>	<u>\$ (6,617,459)</u>	<u>\$ -</u>
Total	<u>\$ 11,277,155</u>	<u>\$ (11,022,133)</u>	<u>\$ 127,204</u>
STIP included in investment pools	<u>\$ (740,420)</u>	<u>\$ 739,170</u>	<u>\$ (1,250)</u>
2014 Pool Unit/AOF Investment Activity and Change in Value of Investments			
(in thousands)			
<u>Pool</u>	Value of Pool Units/Investments <u>Purchased</u>	Value of Pool Units/Investments <u>Sold/Matured</u>	Change in Value of <u>Investments</u>
Retirement Funds Bond Pool (RFBP)	\$ 205,070	\$ (984)	\$ 37,717
Trust Funds Investment Pool (TFIP)	98,385	(17,360)	37,139
Montana Domestic Equity Pool (MDEP)	11,460	(70,826)	643,876
Montana International Equity Pool (MTIP)	39,335	(4,795)	296,940
Montana Private Equity Pool (MPEP)	10,300	(100,608)	54,801
Montana Real Estate Pool (MTRP)	26,060	(28,187)	70,563
All Other Funds (AOF) Investments Managed	3,465,220	(3,297,242)	26,600
Short Term Investment Pool (STIP)	<u>\$ 6,675,779</u>	<u>\$ (6,793,370)</u>	<u>\$ -</u>
Total	<u>\$ 10,531,609</u>	<u>\$ (10,313,372)</u>	<u>\$ 1,167,636</u>
STIP included in investment pools**	<u>\$ (649,050)</u>	<u>\$ 676,238</u>	<u>\$ 27,188</u>
<u>** Refer to Note 13 - Restatements</u>			

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

E. Distributable Income – RFBP, TFIP, and AOF distributable income reported in the Statement of Investment Income and Distribution includes accrued interest, miscellaneous income, amortization/accretion of discount/premium, and realized gains/losses on pool participant and security sales. STIP income is comprised of accrued interest and amortization of discount. MDEP, MTIP, MPEP, and MTRP distributable income consists primarily of dividends. The pools retain net realized capital gains unless there is sale of pool units or a pool's expenses cause the Income Due Participants (IDP) balance to be negative. If there is a negative IDP balance at end of a month, there is a partial transfer of the pool's accumulated net realized capital gain to the IDP account to create a positive balance available for distribution. On settlement date, AOF portfolio receives gains/losses. On the first calendar day of each month, the IDP balance is distributed. Shown in the following table are the major sources of distributable income for each Pool and the AOF.

2015 Major Sources of Distributable Income (in thousands)				
<u>Pool</u>	Gain\((Loss)		Dividend\ Interest	Amortization\ Accretion
	<u>Participant Sales</u>	<u>Transferred</u>		
Retirement Funds Bond Pool (RFBP)	\$ 545	\$ -	\$ 72,178	\$ (74)
Trust Funds Investment Pool (TFIP)	1,881	-	84,890	-
Montana Domestic Equity Pool (MDEP)	119,303	-	29,992	-
Montana International Equity Pool (MTIP)	9,255	400	12,817	-
Montana Private Equity Pool (MPEP)	31,924	9,500	18,430	-
Montana Real Estate Pool (MTRP)	7,326	-	43,197	1,615
All Other Funds (AOF) Investments Managed	9,403	-	51,058	-
Short Term Investment Pool (STIP)	-	-	6,132	973
STIP included in investment pools	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (81)</u>	<u>\$ -</u>
Total	<u>\$ 179,637</u>	<u>\$ 9,900</u>	<u>\$ 318,613</u>	<u>\$ 2,514</u>
2014 Major Sources of Distributable Income (in thousands)				
<u>Pool</u>	Gain\((Loss)		Dividend\ Interest	Amortization\ Accretion
	<u>Participant Sales</u>	<u>Transferred</u>		
Retirement Funds Bond Pool (RFBP)*	\$ 86	\$ -	\$ 67,790	\$ -
Trust Funds Investment Pool (TFIP)*	1,420	-	86,160	(559)
Montana Domestic Equity Pool (MDEP)*	134,119	-	25,604	-
Montana International Equity Pool (MTIP)*	3,040	250	14,934	-
Montana Private Equity Pool (MPEP)*	101,192	11,000	19,407	-
Montana Real Estate Pool (MTRP)*	1,873	-	29,285	-
All Other Funds (AOF) Investments Managed	14,281	-	50,633	999
Short Term Investment Pool (STIP)	-	-	7,569	2,252
STIP included in investment pools	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (124)</u>	<u>\$ -</u>
Total**	<u>\$ 256,011</u>	<u>\$ 11,250</u>	<u>\$ 301,258</u>	<u>\$ 2,692</u>
<i>*The allocation of pool participant sales gains/losses has been reallocated from a single line item to the respective pool.</i>				
<i>** Refer to Note 13 - Restatements</i>				

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Distributable income for the fiscal year may not be distributed by June 30. Any undistributed amount is recorded as a payable against the NAV of the Pool at year-end. The distributable and undistributed income is shown in the following table.

2015 Distributable and Undistributed Income (in thousands)			
<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)	\$ 76,734	\$ (70,652)	\$ 6,082
Trust Funds Investment Pool (TFIP)	91,359	(85,029)	6,330
Montana Domestic Equity Pool (MDEP)	137,039	(135,405)	1,634
Montana International Equity Pool (MTIP)	18,968	(17,999)	969
Montana Private Equity Pool (MPEP)	39,599	(39,188)	411
Montana Real Estate Pool (MTRP)	40,133	(35,458)	4,675
All Other Funds (AOF) Investments Managed	60,415	(60,415)	-
Short Term Investment Pool (STIP)	3,474	(3,065)	409
STIP included in investment pools	<u>\$ (81)</u>	<u>\$ 81</u>	<u>\$ -</u>
Total	<u><u>\$ 467,640</u></u>	<u><u>\$ (447,130)</u></u>	<u><u>\$ 20,510</u></u>
2014 Distributable and Undistributed Income (in thousands)			
<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)*	\$ 71,927	\$ (66,219)	\$ 5,708
Trust Funds Investment Pool (TFIP)*	90,811	(84,375)	6,436
Montana Domestic Equity Pool (MDEP)*	148,624	(147,031)	1,593
Montana International Equity Pool (MTIP)*	15,423	(14,150)	1,273
Montana Private Equity Pool (MPEP)*	109,140	(108,744)	396
Montana Real Estate Pool (MTRP)*	21,945	(20,064)	1,881
All Other Funds (AOF) Investments Managed*	64,893	(64,893)	-
Short Term Investment Pool (STIP)	4,033	(3,788)	245
STIP included in investment pools	<u>\$ (124)</u>	<u>\$ 124</u>	<u>\$ -</u>
Total**	<u><u>\$ 526,672</u></u>	<u><u>\$ (509,140)</u></u>	<u><u>\$ 17,532</u></u>
<i>*The allocation of all distributed gains/losses from pool participant sales in AOF Investments Managed has been reallocated to the respective pool distributable and distributed income. See prior table for amounts.</i>			
<i>** Refer to Note 13 - Restatements</i>			

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F. Investment Management Fees – The Legislature sets the maximum management fee the Board may charge the accounts it manages. The maximum fee is set at the aggregate level at the beginning of each fiscal year. The Board allocates the aggregate fees across the Pools and AOF investments managed outside the Pools. Custodial bank fees are paid by a statutory appropriation from the state general fund. The Board allocates custodial bank fees across the Pools and accounts invested outside the Pools and deposits the funds required to pay the fee in the general fund. The State Treasurer then pays the monthly custodial bank fees from the general fund. External manager fees are paid directly from the accounts they manage. Investment management fees charged each Pool and the AOF investments are shown in the following table.

Fiscal Year 2015 Management Fees (in thousands)				
<u>Pool</u>	<u>Board</u>	Custodial <u>Bank</u>	External <u>Managers</u>	<u>Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 668	\$ 179	\$ 1,543	\$ 2,390
Trust Funds Investment Pool (TFIP)	467	113	1,868	2,448
Montana Domestic Equity Pool (MDEP)	675	660	9,383	10,718
Montana International Equity Pool (MTIP)	582	178	3,708	4,468
Montana Private Equity Pool (MPEP)	953	96	16,083	17,132
Montana Real Estate Pool (MTRP)	609	81	10,563	11,253
Short Term Investment Pool (STIP)	565	205	0	770
All Other Funds (AOF) Investments Managed	<u>\$ 771</u>	<u>\$ 145</u>	<u>\$ 650</u>	<u>\$ 1,566</u>
Total	<u><u>\$ 5,290</u></u>	<u><u>\$ 1,657</u></u>	<u><u>\$ 43,798</u></u>	<u><u>\$ 50,745</u></u>
Fiscal Year 2014 Management Fees (in thousands)				
<u>Pool</u>	<u>Board</u>	Custodial <u>Bank</u>	External <u>Managers</u>	<u>Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 675	\$ 198	\$ 1,534	\$ 2,407
Trust Funds Investment Pool (TFIP)	445	117	1,732	2,294
Montana Domestic Equity Pool (MDEP)	613	610	8,591	9,814
Montana International Equity Pool (MTIP)	548	137	3,344	4,029
Montana Private Equity Pool (MPEP)	984	121	19,323	20,428
Montana Real Estate Pool (MTRP)	593	88	9,712	10,393
Short Term Investment Pool (STIP)	548	204	0	752
All Other Funds (AOF) Investments Managed	<u>\$ 758</u>	<u>\$ 139</u>	<u>\$ 517</u>	<u>\$ 1,414</u>
Total	<u><u>\$ 5,164</u></u>	<u><u>\$ 1,614</u></u>	<u><u>\$ 44,753</u></u>	<u><u>\$ 51,531</u></u>

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3. INVESTMENT COMMITMENTS

Investments in private equity and private real estate are usually made via Limited Partnership Agreements that involve many limited partners and a General Partner who is responsible for all investment decisions. The Limited Partners make an original commitment, after which capital is called as needed by the General Partner to make investments. These Agreements will usually last for a minimum of 10 years. The following table shows the remaining Board commitments to private equity and private real estate funds.

Commitments to Fund Managers as of June 30, 2015 (in thousands)				
<u>Pool</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
MPEP Commitments	\$ 2,115,722	\$ 590,314	\$ 906,840	\$ 1,011,488
MTRP Commitments	<u>602,598</u>	<u>189,831</u>	<u>283,714</u>	<u>300,000</u>
Total	<u>\$ 2,718,320</u>	<u>\$ 780,145</u>	<u>\$ 1,190,554</u>	<u>\$ 1,311,488</u>
Commitments to Fund Managers as of June 30, 2014 (in thousands)				
<u>Pool</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
MPEP Commitments	\$ 2,035,722	\$ 671,586	\$ 832,495	\$ 964,757
MTRP Commitments	<u>555,604</u>	<u>137,451</u>	<u>327,550</u>	<u>343,589</u>
Total	<u>\$ 2,591,326</u>	<u>\$ 809,037</u>	<u>\$ 1,160,045</u>	<u>\$ 1,308,346</u>

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4. TYPES OF INVESTMENTS

Bond Pools and AOF Investments – The RFBP, TFIP, and AOF fixed income portfolios include U.S. Treasury securities, U.S. agency and government related securities, asset backed securities, mortgage backed securities, commercial mortgage backed securities, and corporate securities categorized as financial, industrial or utility. These three portfolios may include variable-rate (floating rate) instruments with the interest rate tied to a specific rate such as LIBOR (London Interbank Offered Rate). Variable rate securities pay a variable rate of interest until maturity. To diversify income sources one participant of the AOF is investing in two core real estate funds and an international and domestic equity index fund.

Public Equity Pools -The public equity Pools may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR), equity derivatives, and commingled funds. Common stock represents ownership units (shares) of a public corporation. Common stock owners may vote on director selection and other important matters and receive dividends if the company pays dividends. Equity index investments are comprised of shares in institutional commingled funds with equity portfolios that match a broad based index or specific industry composite. Preferred stocks pay dividends at a specified rate and have preference in the payment of dividends and liquidation of assets. Preferred stock holders do not usually have voting rights.

Convertible securities permit the holder to exchange, or “convert” the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer’s common stock. ADR investments are receipts issued by a U.S. depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository bank. Equity derivatives, such as futures and options, “derive” their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together to reduce management and administration costs. The investor buys shares in the fund.

The MDEP portfolio is limited to domestic stock investments, while the MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges as depository receipts. The MTIP portfolio invests in both developed and emerging markets.

Alternative Investment Pools - The Montana Private Equity Pool (MPEP) includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation, and secondary investments. These investments are made via Limited Partnership Agreements in which the Board and other institutional investors invest as Limited Partners in funds managed by a General Partner. These investments are less liquid because the funds are usually committed for at least 10 years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only. The MPEP invests its cash in the State Street STIF (Short Term Investment Fund) and may also invest in State Street SPIFF (Stock Performance Index Futures Fund).

The Montana Real Estate Pool (MTRP) includes investments in private core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk and return and are less liquid than core investments. These investments are usually made through Limited Partnership Agreements. The MTRP invests its cash in STIP.

STIP - This Pool is managed to preserve principal, while obtaining money market type returns and 24-hour liquidity. Funds may be invested for one or more days. Although not registered with the Securities and Exchange Commission (SEC) as an investment company, STIP is managed similar to money market funds that are governed by SEC rule 2a7 of the Investment Company Act of 1940. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The portfolio may include asset-backed securities, commercial paper, corporate, U.S. Government direct obligations, U.S. Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit, and variable-rate (floating-rate) instruments. Investments must have a

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maximum maturity of 397 days or less unless they are a variable rate security. The portfolio is carried at amortized cost or book value with a constant unit value of \$1.00.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. U.S. Government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. Government. U.S. Government indirect-backed obligations include U.S. Government agency and mortgage-backed securities. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities reset to LIBOR (London Interbank Offered Rate).

AOF - In addition to fixed income investments, the AOF portfolio includes two equity index funds, Veteran's Home Loan residential mortgages, two real estate funds, and commercial loans. On May 1, 2011 the direct real estate buildings and pension residential mortgages, owned by the Public Employees' and Teachers' pension funds, were sold to the MTRP and the RFBP, and are no longer included in the AOF. Equity index investments are investments in institutional commingled funds whose equity portfolios match a broad based index or composite.

The AOF Montana loans receivable represent commercial loans funded from the Coal Severance Tax Trust Fund by the Board and Montana Facility Finance Authority. The Veteran's Home Loan residential mortgages are also funded from the Coal Severance Tax Trust Fund. The Coal Severance Tax Trust loan portfolio also includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTA Board was abolished on July 1, 1999 and the MSTA portfolio was assigned to the Board. There are no uncollectible account balances for Montana mortgages and loans receivable as of June 30, 2015 and 2014. In fiscal year 2015, the Board received \$94 thousand as recovery proceeds related to a May 2012 MSTA loan written off. In fiscal year 2014, the Board wrote off \$62 thousand related to a commercial loan foreclosure and received \$3 thousand as recovery proceeds related to a May 2012 MSTA loan written off. (See Note 9 for the Montana mortgages and loans portfolio.)

5. SECURITIES LENDING

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The Board and the Bank split the earnings, 80/20% respectively, on security lending activities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2015 and 2014, the Bank loaned the Board's public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2015 and 2014. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal years 2015 and 2014 resulting from a borrower default.

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During fiscal years 2015 and 2014, the Board and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds, the Quality D Short Term Investment Fund and the Security Lending Quality Trust. Each is comprised of a liquidity pool and a duration pool. Pension funds participate in the Quality D Short Term Investment Fund and non-pension entities participate in the Security Lending Quality Trust. In March 2015, the Board sold all of the holding within the duration pool of both the Quality D Short Term Investment Fund and the Security Lending Quality Trust, which resulted in a loss of \$200 thousand and \$26 thousand, respectively. Security lending income offset the entire amount of the loss within each investment fund. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2015 and 2014, State Street Bank indemnified the Board’s credit risk exposure to borrowers. The private equity and real estate Pools do not participate in securities lending. The average duration and average weighted final maturity for each investment fund is as follows:

	Quality D ST Investment Fund		Security Lending Quality Trust	
Liquidity Pool	FY15	FY14	FY15	FY14
Average Duration	28 days	37 days	30 days	41 days
Average Weighted Final Maturity	109 days	104 days	115 days	114 days
	Quality D ST Investment Fund		Security Lending Quality Trust	
Duration Pool	FY15	FY14	FY15	FY14
Average Duration	n/a	42 days	n/a	33 days
Average Weighted Final Maturity	n/a	1,770 days	n/a	548 days

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Securities on loan and pledged collateral (in thousands)					
June 30, 2015					
<u>Pool/AOF</u>	<u>Fair Value On Loan</u>	<u>Collateral Cash</u>	<u>Collateral Securities</u>	<u>Collateral Total</u>	<u>% of Fair Value</u>
Retirement Funds Bond Pool (RFBP)	\$ 284,889	\$161,990	\$128,833	\$ 290,823	102%
Trust Funds Investment Pool (TFIP)	250,536	95,558	160,112	255,670	102%
Montana Domestic Equity Pool (MDEP)	304,237	202,954	106,142	309,096	102%
Montana International Equity Pool (MTIP)	39,790	18,702	23,044	41,746	105%
Short Term Investment Pool (STIP)	5,686	5,806	-	5,806	102%
AOF Investments Managed	<u>\$ 218,794</u>	<u>\$135,211</u>	<u>\$ 88,091</u>	<u>\$ 223,302</u>	<u>102%</u>
 Total	 <u>\$ 1,103,932</u>	 <u>\$620,221</u>	 <u>\$506,222</u>	 <u>\$ 1,126,443</u>	
June 30, 2014					
<u>Pool/AOF</u>	<u>Fair Value On Loan</u>	<u>Collateral Cash</u>	<u>Collateral Securities</u>	<u>Collateral Total</u>	<u>% of Fair Value</u>
Retirement Funds Bond Pool (RFBP)	\$ 269,192	\$158,456	\$115,993	\$ 274,449	102%
Trust Funds Investment Pool (TFIP)	229,745	111,403	122,758	234,161	102%
Montana Domestic Equity Pool (MDEP)	314,502	225,091	94,289	319,380	102%
Montana International Equity Pool (MTIP)	39,050	29,295	11,644	40,939	105%
Short Term Investment Pool (STIP)	1,822	1,862	-	1,862	102%
AOF Investments Managed	<u>\$ 326,569</u>	<u>\$288,509</u>	<u>\$ 44,364</u>	<u>\$ 332,873</u>	<u>102%</u>
 Total	 <u>\$ 1,180,880</u>	 <u>\$814,616</u>	 <u>\$389,048</u>	 <u>\$ 1,203,664</u>	

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Securities lending income and expenses
(in thousands)

Pool/AOF	Fiscal Year 2015			
	Gross Income	Expenses	Collateral Sale Gain/(Loss)	Net Income
Retirement Funds Bond Pool (RFBP)	\$ 953	\$ (181)	\$ (72)	\$ 700
Trust Funds Investment Pool (TFIP)	884	(195)	(15)	674
Montana Domestic Equity Pool (MDEP)	1,011	(208)	(91)	712
Montana International Equity Pool (MTIP)	296	(57)	(37)	202
Short Term Investment Pool (STIP)	10	(1)	-	9
AOF Investments Managed	<u>\$ 694</u>	<u>\$ (136)</u>	<u>\$ (11)</u>	<u>\$ 547</u>
Total	<u>\$ 3,848</u>	<u>\$ (778)</u>	<u>\$ (226)</u>	<u>\$ 2,844</u>

Pool/AOF	Fiscal Year 2014			
	Gross Income	Expenses	Collateral Sale Gain/(Loss)	Net Income
Retirement Funds Bond Pool (RFBP)	\$ 1,067	\$ (146)	\$ -	\$ 921
Trust Funds Investment Pool (TFIP)	824	(144)	-	680
Montana Domestic Equity Pool (MDEP)	733	(127)	-	606
Montana International Equity Pool (MTIP)	229	(43)	-	186
Short Term Investment Pool (STIP)	4	-	-	4
AOF Investments Managed	<u>\$ 819</u>	<u>\$ (35)</u>	<u>\$ -</u>	<u>\$ 784</u>
Total	<u>\$ 3,676</u>	<u>\$ (495)</u>	<u>\$ -</u>	<u>\$ 3,181</u>

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6. INVESTMENT RISK DISCLOSURES AND DERIVATIVES

Deposit and Investment Risk Disclosures

In the following paragraphs described below are the investment risk disclosures.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of U.S. Government securities, the pools' fixed income instruments have credit risk as measured by major credit rating services. The Board of Investments' policy requires TFIP fixed income investments to be invested in investment grade securities (Baa3/BBB- or higher) with the exception of up to 10% of the pool which may be invested in below investment grade securities. Credit risk for the internal and external managers for the RFBP is as follows:

- 1) Core Internal Bond Pool (CIBP) – “Securities must be rated investment grade, or no lower than triple-B-minus, by two Nationally Recognized Statistical Rating Organizations (NRSRO) at the time of purchase with the exception of non-rated securities or guaranteed by agencies or instrumentalities of the U.S. government.”
- 2) Reams Asset Management Company LLC – “At time of purchase, securities must be rated at least single-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase.”
- 3) Aberdeen Asset Management Inc. formerly Artio Global Management LLC. – “At time of purchase, securities must be rated at least double-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase.”
- 4) Neuberger Berman Fixed Income LLC – “At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value.”
- 5) Post Advisory Group LLC - “At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value.”

As stated in the STIP Investment Policy, “the STIP portfolio will minimize credit risk by:

- 1) limiting investments to Permissible Securities on the Approved List
- 2) prequalifying the financial institutions, brokers/dealers, intermediaries and advisers with whom the STIP will conduct business; and
- 3) diversifying the portfolio so potential losses on individual securities will be minimized.”

The U.S. Government guarantees the U.S. Government securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The S&P rating service provide the credit ratings presented in the following tables. If an S&P rating is not available, a NRSRO rating is used.

Per the MDEP, RFBP, MPEP, MTRP and MTIP investment policies, cash investments are only allowed in the custodian bank's short-term investment fund, STIP, or any SEC-registered money market fund, all of which specifically address credit risk in their respective investment guidelines.

Of the 18 individual Investment Policy Statements for the funds categorized as the AOF, 14 funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. One fund requires corporate securities be rated A3/A- or higher by NRSRO to qualify for purchase. One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by NRSRO. This fund's investment policy states, “the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name.” Five funds require, at the time of purchase, “the quality rating of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (e.g. A1/A+ or higher) and

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have at least two ratings. Exposure to the securities of any one U.S. Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase.” Two funds require “fixed income securities must be rated at least A- or A3 at the time of purchase.” A portion of one fund’s portfolio may have modest credit risk while the remainder has a low tolerance for credit risk. One fund assumes some risk of loss of principal to provide a return sufficient to fund objectives. Three funds may assume low risk of principal loss.

Asset-backed securities held in the Bond Pools, AOF and STIP portfolios are based on the cash flows from principal and interest payments emanating from a Trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization, and quality of collateral.

Custodial Credit Risk - Per policy, the Board’s custodial institution must hold short-term and long-term credit rating by at least one Nationally Recognized Statistical Rating Organization with a minimum requirement of A1/P1 (short term) and A3/A-1 (long-term).

Cash– Custodial risk for cash is the risk that, in the event of the failure of the custodial institution, the cash or collateral securities may not be recovered from an outside party. For any cash balances held as deposits of the Custodial bank or sub-custodial bank, they are held in the name of the Board or its accounts. As of June 30, 2015 and 2014, the Board recorded cash of \$4.627 million and \$4.023 million, respectively.

Investments - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Board may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2015 and 2014, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board’s custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in the Board’s name. Commingled fund investments are registered in the name of the Montana Board of Investments.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. In October 2008, the U.S. government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, the Board had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in either the Bond Pools or STIP.

Bond Pools- Both the RFBP Core Internal Bond Portfolios and TFIP Investment Policy Statements (IPS) provide for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities. The four RFBP external managers are limited to debt obligations of domestic and foreign corporations up to 3% of portfolio assets per issuer.

STIP – The STIP Investment Policy specifies concentration of credit risk exposure by limiting portfolio investment types by 2% per non-government issuer except up to 3% may be invested per issuer as long as not more than 2% is invested in securities maturing in more than seven days.

AOF - With the exception of nine funds, the 18 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, “the fixed income holdings rated lower than A3 or A- are limited to 25 percent of the fixed income portfolio at the time of purchase.” This same fund is limited to stock investments not to exceed 12 percent of the book value of its total invested assets. In addition, this fund’s and another fund’s IPS provides for a “2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations

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(Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities.” One fund’s corporate risk is limited to investing 3% in any one name. The policy for five funds sets “investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower.” Limits are also set by corporate bond sector for these five funds. Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2015 and 2014.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP, and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the “external managers to hedge currency in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments. The managers’ Investment Guidelines provide for currency hedging and emerging market limitations. At the Pool level, MTIP will be managed on an un-hedged basis.” The MPEP policy does not address foreign currency risk, but identifies “country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States.” As of the June 30, 2015 and 2014 exchange dates, the Boards’ foreign currency exposure by forward contracts, deposits and investment type are reported, in U. S. dollars, at fair value in the following tables excluding the foreign investments denominated in U. S. dollars for the American Depositary Receipts (ADRs), sovereign debt and commingled index funds.

MTIP and RFBP Currency Forward Contracts by Foreign Currency (in thousands)						
<u>Currency</u>	2015			2014		
	<u>Receivables</u>	<u>Payables</u>	<u>Total</u>	<u>Receivables</u>	<u>Payables</u>	<u>Total</u>
Australian Dollar	\$ -	\$ 10	\$ 10	\$ 31	\$ (75)	\$ (44)
Brazilian Real	-	(16)	(16)	70	(125)	(55)
Canadian Dollar	-	22	22	1	(8)	(7)
Chilean Peso	-	-	-	3	-	3
Euro	(10)	67	57	1	(17)	(16)
Indonesian Rupiah	17	-	17	-	-	-
Indian Rupee	(3)	-	(3)	-	-	-
Japanese Yen	-	-	-	-	(90)	(90)
Mexican Peso	-	40	40	5	5	10
New Israeli Sheqel	20	(22)	(2)	-	-	-
New Zealand Dollar	(114)	163	49	26	(20)	6
Norwegian Krone	-	-	-	(15)	12	(3)
Swiss Franc	-	-	-	8	(17)	(9)
UK Pound Sterling	\$ -	\$ (23)	\$ (23)	\$ 26	\$ (31)	\$ (5)
Total	<u>\$ (90)</u>	<u>\$ 241</u>	<u>\$ 151</u>	<u>\$ 156</u>	<u>\$ (366)</u>	<u>\$ (210)</u>

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Foreign Currency Exposure by Country Investment Type in U.S. Dollar Equivalent (in thousands) June 30, 2015						
Foreign Currency Denomination	Currency	Fixed Income	Equities	Rights	Private Equity	Real Estate
Australian Dollar	\$ 79	\$ 1,396	\$ 21,298	\$ -	\$ -	\$ -
Brazilian Real	57	1,733	9,779			
Canadian Dollar	66	1,579	24,504			
Danish Krone			8,136			
EMU-Euro	97	4,907	78,700		25,150	10,911
Hong Kong Dollar	284		19,899			
Hungarian Forint	1					
Indonesian Rupiah	1		159			
Israeli Shekel			318			
Japanese Yen	447		68,528			
Korean Fortnit			12,068			
Malaysian Ringgit	17		493			
Mexican Peso	67	1,800	2,666			
New Zealand Dollar	11	2,095				
New Israeli Sheqel	165		767			
Norwegian Krone	8		3,956			
Philippine Peso	6		3,454			
Polish Zloty			1,778			
Singapore Dollar	64		7,509			
South Africian Rand	5		6,594			
South Korean Won	51					
Swedish Krona	(1)		17,631			
Swiss Franc	41		21,309			
New Taiwan Dollar	7		11,318			
Thailand Baht	6		2,450			
Turkish Lira	17		3,080			
UK Pound Sterling	\$ 172	\$ 916	\$ 79,757	\$ -	\$ -	\$ -
Total	<u>\$ 1,668</u>	<u>\$ 14,426</u>	<u>\$ 406,151</u>	<u>\$ -</u>	<u>\$ 25,150</u>	<u>\$ 10,911</u>

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Foreign Currency Exposure by Country Investment Type in U.S. Dollar Equivalent (in thousands) June 30, 2014						
<u>Foreign Currency Denomination</u>	<u>Currency</u>	<u>Fixed Income</u>	<u>Equities</u>	<u>Rights</u>	<u>Private Equity</u>	<u>Real Estate</u>
Australian Dollar	\$ 37	\$ 1,130	\$ 13,691	\$ -	\$ -	\$ -
Brazilian Real	126	2,254	5,981			
Canadian Dollar	49	127	30,067			
Danish Krone	15		6,137			
EMU-Euro	160	4,095	123,285	24	26,187	19,199
Hong Kong Dollar	104		32,907			
Hungarian Forint	1					
Indonesian Rupiah	1		1,915			
Israeli Shekel	21		924			
Japanese Yen	339		86,365			
Korean Fortnit			14,186	14		
Malaysian Ringgit	5		2,045			
Mexican Peso	98	2,195	4,607			
New Zealand Dollar	4	1,673	83			
Norwegian Krone	36		8,466			
Philippine Peso	1		1,097			
Polish Zloty	9		790			
Singapore Dollar	34		3,760			
South Africian Rand	-		3,653			
South Korean Won	41		-			
Swedish Krona	20		14,466			
Swiss Franc	13		32,525			
New Taiwan Dollar	4		9,356			
Thailand Baht	8		1,288			
Turkish Lira			1,194			
UK Pound Sterling	\$ 50	\$ 722	\$ 67,509	\$ -	\$ -	\$ -
Total	<u>\$ 1,176</u>	<u>\$ 12,196</u>	<u>\$ 466,297</u>	<u>\$ 38</u>	<u>\$ 26,187</u>	<u>\$ 19,199</u>

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Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement No. 40, the Board uses effective duration as a measure of interest rate risk for the Bond Pool and AOF portfolios. Our analytic software uses “an option-adjusted measure of a bond’s (or portfolio’s) sensitivity to changes in interest rates. Duration is the average percentage change in a bond’s price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, Collateralized Mortgage Obligation (CMO), and Adjustable Rate Mortgage (ARM) securities).” Per policy, the TFIP and the CIBP’s duration are to remain within 20% of the established Index duration. Duration for two fixed income external managers must be within 25% of the established Index duration. MDEP domestic equity managers are allowed to maintain up to 5% of assets in short-term investments and index domestic equity managers are allowed to maintain up to 3% of assets in short-term investments and individual securities. MTIP international equity managers are allowed to maintain up to 5% of assets in short-term investments. With the exception of three funds, the AOFs’ investment policies do not formally address interest rate risk. One fund limits securities to three years to maturity and repurchase agreements seven days to maturity. A second fund’s policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. A third fund’s policy limits securities to 1-5 year U.S. Treasury/Agency securities tolerating modest interest rate risk. Eight funds have the “ability to assume interest rate risk.” According to the STIP investment policy “the STIP portfolio will minimize interest rate risk by:

- 1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
- 2) investing funds primarily in short-term maturities of money market securities; and
- 3) maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).”

The fixed coupon holdings in the Bond Pools and AOF accounts pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2015 and 2014, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying reference rate, e.g., LIBOR.

Bond Pool and AOF investments are categorized on the subsequent pages to disclose credit and interest rate risk as of June 30, 2015 and June 30, 2014. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated.

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RFBP Credit Quality Rating and Effective Duration as of June 30, 2015 (in thousands)				
<u>Security Investment Type*</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>	
Treasuries	\$ 458,084	AA+	8.04	
Agency/Government Related	113,958	AA-	6.16	
Asset Backed Securities	108,113	AA+	2.40	
Mortgage Backed Securities	442,453	AA+	5.17	
Commercial Mortgage Backed Securities	188,443	AA+	4.19	
Financial-Corporate	288,443	A-	3.74	
Industrial-Corporate	470,416	BBB	5.84	
Utility-Corporate	53,782	BBB-	6.10	
Short Term Investment Pool (STIP)	1,143	NR	0.14	
State Street Short Term Investment Fund (STIF)	85,807	AAA	0.09	
Other	<u>\$ 658</u>	<u>BB</u>	<u>3.97</u>	
Total Fixed Income Investments	<u>\$ 2,211,300</u>	A+	5.37	
<u>Direct Investments</u>				
Montana Mortgages	7,999	NR	NA	
Preferred Stock***	1,017	BB+	NA	
Common Stock***	<u>\$ 5</u>			
Total Direct Investments	<u>\$ 9,021</u>			
Total Investments	<u>\$ 2,220,321</u>			
Securities Lending Collateral Investment Pool	<u>\$ 161,990</u>	NR	0.08**	

* For June 30, 2015 the Security Investment Type categories were changed to more accurately reflect the categories reported to the Board.

** Previously the Securities Lending Collateral Investment Pool was comprised of the Securities Lending Quality D Short Term Investment Fund liquidity Pool and the Securities Lending Duration Pool. In March 2015 all holdings in the Securities Lending Duration Pool were sold.

*** Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for its investment in General Maritime Corporation. In addition to the common stock and warrants, the RFBP held 4,400 shares of Southern Cal Ed as perpetual preferred stock and 15,000 shares of GMAC Capital Trust I as cumulative preferred stock as of June 30, 2015.

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RFBP Credit Quality Rating and Effective Duration as of June 30, 2014 (in thousands)			
<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 1,116,730	A-	4.89
Corporate Bonds (Unrated)	1,015	NR	12.41
International Government Bonds	12,196	BBB+	4.57
Municipal Government Bonds	4,131	AA-	10.88
Sovereign Bonds	31,502	AA-	5.33
U.S. Government Direct Obligations	471,749	AA+	6.50
U.S. Government Agency	419,853	AA+	4.75
State Street Short Term Investment Fund (STIF)	73,733	NR	0.11
Short Term Investment Pool (STIP)	\$ 555	NR	0.12
Total Fixed Income Investments	<u>\$ 2,131,464</u>	A+	5.07
Direct Investments			
Montana Mortgages	10,573	NR	NA
Preferred Stock**	453	BBB-	NA
Common Stock**	\$ 7		
Total Direct Investments	<u>\$ 11,033</u>		
Total Investments	<u>\$ 2,142,497</u>		
Securities Lending Collateral Investment Pool	<u>\$ 158,456</u>	NR	*
<p>*As of June 30, 2014, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .10 and an average weighted final maturity of .28 for U.S. dollar collateral. The duration pool had an average duration of .11 and an average weighted final maturity of 4.85 for U.S. dollar collateral.</p> <p>** Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for its investment in General Maritime Corporation. In addition to the common stock and warrants, the RFBP held 4,400 shares of Southern Cal Ed as a perpetual preferred stock as of June 30, 2014.</p>			

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TFIP Credit Quality Rating and Effective Duration as of June 30, 2015
(in thousands)

<u>Security Investment Type*</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Treasuries	\$ 437,060	AA+	7.24
Agency/Government Related	101,462	AA-	7.49
Asset Backed Securities	110,402	AAA	2.19
Mortgage Backed Securities	491,533	AA+	4.63
Commercial Mortgage Backed Securities	185,672	AA+	4.59
Financial-Corporate	214,548	A-	4.59
Industrial-Corporate	327,586	A-	6.44
Utility-Corporate	66,061	BBB	5.85
Short Term Investment Pool (STIP)	41,971	NR	0.14
State Street Repurchase Agreement	6,497	AA-	0.00
Core Real Estate	166,310	NR	NA
High Yield Bond Fund	<u>106,234</u>	<u>B+</u>	<u>4.40</u>
Total Investments	<u>\$ 2,255,336</u>	AA-	5.39
Securities Lending Collateral Investment Pool	<u>\$ 95,558</u>	NR	.08**

*For June 30, 2015 the Security Investment Type categories were changed to more accurately reflect the categories reported to the Board.

**Previously the Securities Lending Collateral Investment Pool was comprised of the Securities Lending Quality Trust Liquidity Pool and the Securities Lending Duration Pool. In March 2015 all holdings in the Securities Lending Duration Pool were sold.

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TFIP Credit Quality Rating and Effective Duration as of June 30, 2014
(in thousands)

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Core Real Estate	\$ 155,334	NR	NA
Corporate Bonds (Rated)	944,877	A+	5.20
Corporate Bonds (Unrated)	969	NR	NA
High Yield Bond Fund	109,785	B	3.70
Municipal Government Bonds (Rated)	829	AA	0.09
Sovereign Bonds	14,808	A+	7.82
U.S. Government Direct Obligations	435,527	AA+	6.57
U.S. Government Agency	480,049	AA+	4.43
Short Term Investment Pool (STIP)	<u>46,481</u>	<u>NR</u>	<u>0.12</u>
Total Investments	<u>\$ 2,188,659</u>	AA-	5.13
Securities Lending Collateral Investment Pool	<u>\$ 111,403</u>	NR	*

*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of .11 and an average weighted final maturity of .31 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.50 for U.S. dollar collateral.

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AOF Credit Quality Rating and Effective Duration as of June 30, 2015
(in thousands)

<u>Security Investment Type*</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Treasuries	\$ 274,462	AA+	3.47
Agency/Government Related	495,577	AA+	2.85
Asset Backed Securities	59,451	AAA	2.15
Mortgage Backed Securities	5,293	AA+	2.21
Financial-Corporate	347,541	A	3.38
Industrial-Corporate	274,182	A	3.69
Utility-Corporate	48,558	BBB+	4.43
US Bank Sweep Repurchase Agreement**	<u>5,141</u>	<u>AA+</u>	<u>0</u>
Total Fixed Income Investments	<u>\$ 1,510,205</u>	AA-	3.26
<u>Direct Investments</u>			
Equity Index Fund-Domestic	\$ 146,277		
Equity Index Fund-International	<u>19,085</u>		
Total Equity Index Funds	165,362		
Core Real Estate	84,590		
MT Mortgages and Loans	<u>134,082</u>		
Total Direct Investments	<u>\$ 384,034</u>		
TOTAL INVESTMENTS	<u>\$ 1,894,239</u>		
Securities Lending Collateral Investment Pool	<u>\$ 135,211</u>	NR	0.08***

*For June 30, 2015 the Security Investment Type categories were changed to more accurately reflect the categories reported to the Board.

**At June 30, 2015, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$5.243 million by a Federal Home Loan Mortgage Corporation Gold securities maturing November 1, 2024. This security carries AA+ credit quality rating.

***Previously the Securities Lending Collateral Investment Pool was comprised of the Securities Lending Quality Trust Liquidity Pool and the Securities Lending Duration Pool. In March 2015 all holdings in the Securities Lending Duration Pool were sold.

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AOF Credit Quality Rating and Effective Duration as of June 30, 2014 (in thousands)			
<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 738,806	A	3.56
Corporate Bonds (Unrated)	969	NR	NA
Sovereign Bonds	20,856	AA-	5.51
U.S. Government Direct Obligations	228,009	AA+	4.55
U.S. Government Agency	451,523	AA+	3.30
US Bank Sweep Repurchase Agreement*	<u>10,349</u>	<u>NR</u>	<u>0</u>
Total Fixed Income Investments	<u>\$ 1,450,512</u>	AA-	3.66
<u>Direct Investments</u>			
Equity Index Fund-Domestic	\$ 147,383		
Equity Index Fund-International	<u>20,132</u>		
Total Equity Index Funds	167,515		
Core Real Estate	74,073		
MT Mortgages and Loans	<u>137,919</u>		
Total Direct Investments	<u>\$ 379,507</u>		
TOTAL INVESTMENTS	<u><u>\$ 1,830,019</u></u>		
Securities Lending Collateral Investment Pool	<u><u>\$ 288,510</u></u>	NR	**

* At June 30, 2014, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$10.556 million by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and November 1, 2024. These securities carry AA+ credit quality ratings.

**As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of .11 and an average weighted final maturity of .31 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.50 for U.S. dollar collateral.

STIP investments are categorized in the following table to disclose credit risk and weighted average maturity (WAM) as of June 30, 2015 and June 30, 2014. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. The short-term credit ratings, provided by S&P's rating services, are presented in the following table. An A1+ rating is the highest short-term rating by the S&P rating service. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months or years – weighted to reflect the dollar size of the individual investments within an investment type. The WAM, calculated in days, for the STIP portfolio is shown on the next page.

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STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2015
(in thousands)

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 779,579	A-1	25
Corporate Commercial Paper	101,299	A-1	102
Corporate Variable Rate	571,672	A-1+	42
Certificates of Deposit Fixed Rate	150,000	A-1	259
Certificates of Deposit Variable Rate	450,000	A-1+	47
Other Asset Backed	27,821	NR	NA
U.S. Government Agency Fixed	54,498	A-1+	236
U.S. Government Agency Variable Rate	239,008	A-1+	24
Money Market Funds (Unrated)	161,592	NR	1
Money Market Funds (Rated)	<u>3,000</u>	<u>A-1+</u>	<u>1</u>
Total Investments	<u>\$ 2,538,469</u>	A-1	52
Securities Lending Collateral Investment Pool	<u>\$ 5,806</u>	NR	30*

*As of June 30, 2015, the Securities Lending Quality Trust liquidity pool had an average duration of 30 days and an average weighted final maturity of 115 days for U.S. dollar collateral. In March 2015, all holdings in the Securities Lending Duration Pool were sold.

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STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2014
(in thousands)

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 777,418	A-1	30
Corporate Commercial Paper	138,958	A-1	39
Corporate Variable Rate	658,894	A-1	38
Certificates of Deposit Fixed Rate	100,000	A-1	219
Certificates of Deposit Variable Rate	391,996	A-1+	32
Other Asset Backed	38,441	NR	NA
U.S. Government Agency Fixed	75,003	A-1+	194
U.S. Government Agency Variable Rate	200,003	A-1+	31
Money Market Funds (Unrated)	133,440	NR	1
Money Market Funds (Rated)	<u>21,000</u>	<u>A-1+</u>	<u>1</u>
Total Investments	<u>\$ 2,535,153</u>	A-1	43
Securities Lending Collateral Investment Pool	<u>\$ 1,862</u>	NR	*

*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.

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Legal and Credit Risk

STIP - In January 2007, the Board purchased a \$25 million par issue of Orion Finance USA. In April 2007, the Board purchased two issues of Axon Financial Funding totaling \$90 million par and another \$25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of \$139.991 million representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poor's and Aaa by Moody's. Since June 30, 2008 and through June 30, 2010, these issues carried a D rating by Standard & Poor's. On November 20, 2007, Axon Financial Funding declared an insolvency event. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of \$140 million. The Board has determined it is in the best interest of the STIP to continue to hold these securities in the investment portfolio as further described in the following paragraphs.

Axon Financial Funding payments total \$27.463 million from November 2008 to October 2011. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for \$66.832 million from AFF Financing LLC with a July 5, 2011 maturity date. Fiscal year 2015 payments from AFF Financing LLC totaled \$8.237 million consisting of \$8.185 million in principal and \$52 thousand in interest. The Board, with the majority of other holders, elected on June 3, 2015 to extend the AFF Financing LLC promissory note maturity date to July 2, 2016. In June and December 2009, the Board applied \$13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. As of June 30, 2015 and 2014, the AFF Financing LLC, classified as an Other Asset Backed security, had outstanding amortized cost balances, respectively, of \$14.664 million and \$22.849 million. Refer to Note 12 – Subsequent Events for additional information.

On October 14, 2009, the Board received its initial payment from Orion Finance USA. From this date through November 2010, payments from Orion Finance USA included principal of \$13.433 million and interest compensation of \$1.805 million in excess of the \$904 thousand accrued interest receivable for a total of \$16.142 million. In November 2010, Orion Finance Corporation “granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee”. On December 8, 2010, the Security Trustee conducted “a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral”. The Board participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2015, the Board received principal and interest payments of \$15.909 million and \$2.600 million, respectively. In June and December 2009, the Board applied \$7.5 million, in total; from the STIP reserve to the outstanding principal for the Orion Finance USA securities. As of June 30, 2015 and 2014, the Orion Finance collective holding, classified as Other Asset Backed, had outstanding amortized cost balances, respectively, of \$13.157 million and \$15.592 million. Refer to Note 12 – Subsequent Events for additional information.

STIP, Bond Pool and AOF – As of June 30, 2015 and 2014, the Federal National Mortgage Association and Federal Home Loan Mortgage Corp. remain in conservatorship from September 7, 2008.

Bond Pool and AOF - On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and AOF portfolios held a \$15 million position in a Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010 maturity. The AOF portfolio also includes a \$5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011 maturity. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. In May 2009, the Board sold a \$5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internally managed bond portfolio. This holding, written down to \$1 million, was sold at a loss of \$313 thousand. As of June 30, 2011, the book value of the remaining bonds represents 20% of par.

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The Board sold the \$5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of \$26 on December 6, 2011. Because the bonds were previously written down to a price of \$20, this sale generated a gain of \$322 thousand. For the remaining \$10 million variable rate position in Lehman Brothers Holdings, Inc. held in the TFIP and AOF portfolios, the Board applied \$519 thousand in principal from the October 2013 bankruptcy payment resulting in a book value of \$1 each as of June 30, 2014. For fiscal year ending June 30, 2015 the Board recorded a \$464 thousand dollar October 2014 payment to gain and a \$319 thousand dollar April payment to gain. For fiscal year ending June 30, 2014, the \$56 thousand October 2013 payment balance and the April 2014 payment of \$638 thousand were recorded to gain.

In August 2011, S&P downgraded the U.S. AAA bond rating to AA+.

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Derivative Instruments

Described in the following paragraphs are the derivative instrument disclosures. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2015 and 2014, classified by type, are as follows:

<u>List of Derivatives Aggregated by Investment Type</u>		<u>June 30, 2015</u>		<u>June 30, 2014</u>	
(in thousands)		<u>Fair Value</u>	<u>Notional</u>	<u>Fair Value</u>	<u>Notional</u>
<u>Investment Derivatives</u>	<u>Classification</u>	<u>Amount</u>		<u>Amount</u>	
Credit default swaps	Swaps	\$ 69	\$ 1,099	\$ -	\$ -
Currency forward contracts	Long term debt/equity	151	22,750	(210)	41,943
Index futures long	Futures	-	4	-	4
Rights	Equity	-	162	38	40
Warrants	Equity	-	-	-	-
Total derivatives		<u>\$ 220</u>		<u>\$ (172)</u>	
		<u>Changes in Fair Value</u>			
<u>Investment Derivatives</u>	<u>Classification</u>	<u>2015 Amount</u>	<u>2014 Amount</u>		
Credit default swaps	Investment revenue	\$ 425	\$ -		
Currency forward contracts	Investment revenue	2,946	(818)		
Index futures long	Investment revenue	735	2,173		
Rights	Investment revenue	81	31		
Warrants	Investment revenue	-	2		
Total derivatives		<u>\$ 4,187</u>	<u>\$ 1,388</u>		

A credit default swap is a contract to transfer credit exposure of fixed income products between parties. A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of yearend and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long are an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price. Warrants are a security type, usually issued together with a bond or preferred stock, entitling the owner to purchase additional securities from the issuer.

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Counterparty Credit Risk - Counterparty Credit risk is the risk that the counterparty will not fulfill its obligations. The following table depicts the Board's counterparty credit risk exposure to its investment derivatives.

<u>Counterparty Credit Risk</u>		
<u>Maximum Loss before/after Netting and Collateral</u> (in thousands)	<u>2015 Amount</u>	<u>2014 Amount</u>
Maximum amount of loss the Board would face in case of default of all counterparties, i.e. aggregated (positive) fair value of OTC (Over-the-Counter) positions as of June 30.	\$ 421	\$ 193
Effect of collateral reducing maximum exposure.	-	-
Liabilities subject to netting arrangements reducing exposure.	-	-
Resulting net exposure	<u>\$ 421</u>	<u>\$ 193</u>

This table reflects the applicable counterparty credit ratings and risk concentrations for both fiscal years.

<u>Counterparty Risk Concentrations</u>					
<u>Counterparty Name</u>	<u>2015 Percentage of Net Exposure</u>	<u>2014 Percentage of Net Exposure</u>	<u>2015/2014 S&P Rating</u>	<u>2015/2014 Fitch Rating</u>	<u>2015/2014 Moody's Rating</u>
Deutsche Bank London	27%	25%	BBB+/A	A/A+	A3/A2
Westpac Banking Corp	25%	17%	AA-/AA-	AA-/AA-	Aa2/Aa2
Goldman Sachs Capital	16%	0%	A-/NA	A/NA	A3/NA
JP Morgan Chase Bank	12%	25%	A+/A+	AA-/A+	Aa3/Aa3
Royal Bank of Canada	10%	0%	AA-/NA	AA/NA	Aa3/NA
Citibank N.A.	5%	0%	A/NA	A+/NA	A1/NA
Royal Bank of Scotland	5%	14%	BBB+/A-	BBB+/A	A3/Baa1
Credit Suisse London	0%	14%	NA/A	NA/A	NA/A1
Morgan Stanley Capital	0%	4%	NA/A-	NA/A	NA/Baa2
State Street Bank	0%	1%	NA/AA-	NA/A+	NA/Aa3

7. STIP RESERVE

In November 2007, the STIP Reserve account was established. The STIP reserve account may be used to offset losses within the STIP portfolio. STIP distributes income to STIP participants based on accrued interest and discount amortization, net of fees and STIP reserve expense. The STIP reserve expense is detailed as follows:

STIP Reserve Expense (in thousands)	<u>2015</u>	<u>2014</u>
Other income		
Accrued interest received on SIV related assets	\$ 260	\$ 748
Realized gains on sale of any STIP asset	134	5
Daily reserve accrual	<u>\$ 3,757</u>	<u>\$ 5,453</u>
Total reserve expense	<u>\$ 4,151</u>	<u>\$ 6,206</u>

The STIP Reserve balance was \$28.591 million and \$24.440 million as of June 30, 2015 and June 30, 2014, respectively.

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8. COAL TAX LOAN AND MORTGAGE COMMITMENTS

The Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2015, the BOI had committed, but not yet purchased, \$8.2 million in loans from Montana lenders, compared to \$8.3 million as of June 30, 2014. In addition to the above commitments, lenders had reserved \$73.4 million for loans as of June 30, 2015, compared to \$30.0 million on the same date in 2014. As of June 30, 2015 and 2014, \$1.1 million and \$0.8 million, respectively, represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the state's pension funds. Prior to May 1, 2011, the Public Employees' and Teachers' retirement funds provided resources for residential mortgage purchases. Effective May 1, 2011, the Montana Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2015 and 2014, there were no mortgage reservations. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

As of June 30, 2015, the BOI has committed, but not yet funded \$1.5 million to the Department of Natural Resources and Conservation (DNRC) to purchase tax bonds to finance two projects. No outstanding commitment to the DNRC existed as of June 30, 2014.

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9. AOF MONTANA MORTGAGES AND LOANS

The AOF portfolio includes mortgages and loans, funded by the Permanent Coal Trust as authorized by statute. These mortgages and loans are shown in the following table.

Montana Mortgages and Loans (in thousands)	2015 Carrying Value	2014 Carrying Value
Science and Technology Alliance ⁽¹⁾	\$ 1,933	\$ 1,984
Montana University System	8,102	8,197
Montana Facility Finance	2,257	3,151
Local Government Infrastructure	21,345	22,653
Value-added Loans	604	1,073
Veterans' Home Loan Mortgages ⁽²⁾	27,913	22,880
Other Real Estate Owned (OREO) ⁽³⁾	560	560
Commercial Loans	<u>\$ 71,368</u>	<u>\$ 77,421</u>
Total Montana Mortgages and Loans	<u><u>\$ 134,082</u></u>	<u><u>\$ 137,919</u></u>

(1) The Montana Science and Technology Alliance (MSTA) loans include funding for research and development, mezzanine and seed capital loans.

(2) The Veterans' Home Loan Mortgage program was implemented in January 2012 as legislated by Senate Bill 326, 2011 Legislature.

(3) In June 2014, the lender acquired OREO through a loan foreclosure in which the Board had a 70% participation. This foreclosure resulted in a commercial loan write off. The property is currently for sale.

10. BOND / LOAN GUARANTEES

As of June 30, 2015, loan guarantees provided by the Coal Severance Tax Permanent Trust, as authorized by statute, to the Enterprise Fund and the Montana Facility Finance Authority total \$193.313 million. Board exposure to bond issues of the Enterprise Fund is \$106.445 million while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$86.868 million.

As of June 30, 2014, loan guarantees provided by the Coal Severance Tax Permanent Trust, as authorized by statute, to the Enterprise Fund and the Montana Facility Finance Authority total \$222.603 million. Board exposure to bond issues of the Enterprise Fund is \$106.450 million while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$116.153 million.

11. POOL RESTRUCTURE

On June 1, 2015, the Board funded three new MTIP external managers for a total of approximately \$286 million. The source of these funds was from the termination of three external manager accounts, totaling approximately \$370 million. In addition to funding the three new external manager accounts, it added \$10 million to an existing external manager, and the balance, approximately \$74 million, was added to an existing external commingled index fund account.

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On March 1, 2014, the Board funded two new MTIP external managers approximately \$70 million by reducing a passive manager portfolio and the index futures fund.

12. SUBSEQUENT EVENTS

From July 1 through November 9, 2015, AFF Financing LLC payments total \$1.533 million, representing \$1.510 million in principal and \$23 thousand in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of \$725 thousand with \$530 thousand and \$195 thousand applied to principal and interest, respectively. Please see the STIP Legal and Credit Risk section of Note 6 for further information on AFF and Orion.

In October of 2014, the Board approved a change to the investment policy of the PERS Defined Contribution Disability plan to allow for the investment in stock. As of September 25, 2015, no investments in stock have been made for this plan.

On August 3, 2015, the Board terminated one manager for poor relative performance in RFBP. Another manager was hired to liquidate much of the portfolio and transferred cash and securities to the Core Internal Bond Portfolio. Market value of the transfer was approximately \$105 million.

On August 12, 2015, the Board thru the Permanent Coal Tax Fund purchased \$1.5 million DNRC CST Tax bonds in the Renewable Resource Program, 2015 Series B Taxable.

August 18, 2015, the Board approved a \$24 million in-state loan program request.

On October 1, 2015, the Board received a bankruptcy payment of \$238 thousand related to the Lehman Brothers Holdings, Inc.

During the October 6, 2015 board meeting, the Board wrote down \$922 thousand in MSTA loans.

On October 6, 2015 the Board approved, that for financial reporting purposes the STIP portfolio will be reported on a Net Asset Value basis beginning with the month of October 2015 versus amortized cost.

The Board's Chief Investment Officer (CIO) retired October 9, 2015. The new CIO started November 2, 2015.

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13. RESTATEMENTS

Because the treatment of the Pool units is similar to individual mutual funds and the AOF Investments Managed is not an investment Pool, there is no Units Outstanding calculated on a consolidated financial statement basis. Therefore, the Board has restated its previously reported Statement of Net Asset Value/Investments Managed for fiscal year ended June 30, 2014 to not include Pool Units Outstanding.

The Board has restated its previously reported Consolidated Unified Investment Program Financial Statements for fiscal year ended June 30, 2014 not to include STIP investments within other STIP participating pool portfolios. In prior years, these holdings were included in the STIP investment portfolio and the other portfolios of participating pools. In addition, income has been restated not to include STIP income distributed by other STIP participating pools. In prior years, the income was included in the STIP income distribution and the other participating pools income. See column (A) restatement adjustment in the following tables.

The Statement of Investment Income and Distribution for fiscal year ended June 30, 2014 has been restated to include other income, which is offset by the STIP reserve expense. See column (B) restatement adjustment in the following tables.

The following tables summarize the restatement on each of the affected financial statement line items for June 30, 2014.

STATEMENT OF NET ASSET VALUE/INVESTMENTS MANAGED				
(in thousands)				
	2014	(A)	(B)	2014
	Restated	Restatement	Restatement	As Previously
Assets		Adjustment	Adjustment	Reported
Investments at fair value	\$ 13,555,010	\$ (62,048)	\$ -	\$ 13,617,058
STIP investment portfolio at amortized cost	2,535,153	-	-	2,535,153
Cash	4,023	-	-	4,023
Security lending cash collateral	814,616	-	-	814,616
Security lending income receivable	350	-	-	350
Broker receivable for securities sold but not settled	43,024	-	-	43,024
Dividend and interest receivable	41,675	-	-	41,675
Currency forward contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets	<u>\$ 16,993,851</u>	<u>\$ (62,048)</u>	<u>\$ -</u>	<u>\$ 17,055,899</u>
Liabilities				
Income due participants	\$ 17,532	\$ -	\$ -	\$ 17,532
Broker payable for securities purchased but not settled	36,004	-	-	36,004
Security lending obligations	814,616	-	-	814,616
Security lending expense payable	55	-	-	55
Other payables	185	-	-	185
Administrative fee payable	3,697	-	-	3,697
Currency forward contracts	210	-	-	210
STIP reserve	<u>\$ 24,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,440</u>
Total liabilities	<u>\$ 896,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 896,739</u>
Net asset value/investments managed	<u>\$ 16,097,112</u>	<u>\$ (62,048)</u>	<u>\$ -</u>	<u>\$ 16,159,160</u>

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STATEMENT OF CHANGES IN NET ASSET VALUE/INVESTMENTS MANAGED
(in thousands)

	2014 Restated	(A) Restatement Adjustment	(B) Restatement Adjustment	2014 As Previously Reported
Net asset value/investments, beginning of year	\$ 14,684,802	\$ (89,236)	\$ -	\$ 14,774,038
Value of pool units/investments purchased	10,531,609	-	-	10,531,609
Value of pool units/investments sold/matured	(10,313,372)	-	-	(10,313,372)
Increase (decrease) in AOF interest receivable	(728)	-	-	(728)
Increase (decrease) in AOF security lending income receivable	(34)	-	-	(34)
(Increase) decrease in AOF security lending expense payable	11	-	-	11
(Increase) decrease in STIP included in investment pools	27,188	27,188	-	-
Changes in current value of investments managed	<u>\$ 1,167,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,167,636</u>
Net asset value/investments managed	<u>\$ 16,097,112</u>	<u>\$ (62,048)</u>	<u>\$ -</u>	<u>\$ 16,159,160</u>

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
(in thousands)

	2014 Restated	(A) Restatement Adjustment	(B) Restatement Adjustment	2014 As Previously Reported
Distributable net realized gain/(loss)	\$ 267,261	\$ -	\$ -	\$ 267,261
Dividend/interest income	301,258	(124)	-	301,382
Amortization/accretion	2,692	-	-	2,692
Security lending income	3,676	-	-	3,676
Other income	753	-	753	-
Security lending expense	(495)	-	-	(495)
Security lending collateral sale gain/(loss)	-	-	-	-
Administrative expenses	(51,531)	-	-	(51,531)
Other investment expenses	(6,150)	-	-	(6,150)
STIP reserve expense	(6,206)	-	(753)	(5,453)
Income due participants, beginning of year	<u>\$ 15,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,414</u>
Income available for distribution	526,672	(124)	-	526,796
Distribution	<u>\$ (509,140)</u>	<u>\$ 124</u>	<u>\$ -</u>	<u>\$ (509,264)</u>
Income due participants, end of year	<u>\$ 17,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,532</u>

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14. YEAREND PORTFOLIOS

The June 30, 2015 portfolios of the Pools by Manager, STIP and AOF are listed in the following tables. The percentage is based on the fair value by manager or the fixed income or equity security to the total portfolio. Portfolios, detailed by security, are electronically accessible in the Board's annual report.

The June 30, 2014 portfolios are available in the prior year's audit financial statements.

RETIREMENT FUNDS BOND POOL (RFBP) BY MANAGER (in thousands)				
<u>Manager</u>	<u>Shares</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
CORE INTERNAL BOND PORTFOLIO - 278 Issues	1,653,957	1,679,110	1,701,180	76.62%
REAMS ASSET MANAGEMENT - 125 Issues	236,994	234,353	235,113	10.59%
ABERDEEN ASSET MANAGERMENT - 279 Issues	132,896	110,226	108,214	4.87%
NEUBERGER BERMAN - 386 Issues	108,497	109,472	107,642	4.85%
POST ADVISORY GROUP - 145 Issues	57,716	59,796	59,030	2.66%
MONTANA RESIDENTIAL MORTGAGES - 1 Issue	8,607	8,607	7,999	0.36%
SHORT TERM INVESTMENT POOL - 1 Issue	1,143	1,143	1,143	0.05%
RFBP TOTAL - 1,215 Issues	2,199,810	2,202,707	2,220,321	100.00%

TRUST FUNDS INVESTMENT POOL (TFIP) BY MANAGER (in thousands)				
<u>Manager</u>	<u>Shares</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
CORE BOND TOTAL - 326 Issues	1,890,969	1,874,558	1,940,821	87.92%
POST TRADITIONAL HIGH YIELD FD - 1 Issue	96,000	96,000	106,234	4.71%
AMERICAN CORE REALTY FUND LLC - 1 Issue	1	73,000	95,034	4.21%
TIAA CREF ASSET MANAGEMENT - 1 Issue	136	52,000	71,276	3.16%
SHORT TERM INVESTMENT POOL	41,971	41,971	41,971	1.86%
TFIP TOTAL - 320 Issues	2,029,077	2,137,529	2,255,336	100.00%

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MONTANA DOMESTIC EQUITY POOL (MDEP) BY MANAGER				
(in thousands)				
<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BLACKROCK EQUITY INDEX FUND	3,208	1,235,436	2,246,496	56.40%
DIMENSIONAL FUND ADVISORS INC	34	22,693	78,634	1.97%
BLACKROCK MIDCAP EQUITY IND FD	1,674	34,345	72,646	1.82%
STATE STREET SPIF ALT INV	24	7,495	7,588	0.19%
ISHARES CORE S+P SMALL CAP ETF	54	3,274	6,413	0.16%
MONEY MARKET FD FOR EBT	0	0	0	0.00%
BLACKROCK CASH	0	0	0	0.00%
STATE STREET BANK + TRUST CO	1,000	1,000	1,000	0.03%
Total Commingled Accounts - 8 Issues	5,994	1,304,243	2,412,777	60.58%
JP MORGAN INVESTMENTS - 294 Issues	13,676	289,512	350,671	8.80%
T ROWE PRICE - 260 Issues	7,345	256,946	348,143	8.74%
ARTISAN - 61 Issues	10,009	113,913	134,300	3.37%
TIMESSQUARE - 77 Issues	7,297	113,738	152,779	3.84%
ANALYTICS INVESTMENTS - 207 Issues	3,928	122,591	127,527	3.20%
INTECH - 331 Issues	2,971	106,787	129,752	3.26%
VAUGHAN NELSON - 66 Issues	5,344	65,678	86,661	2.18%
IRIDIAN ASSET MGT - 43 Issues	5,220	63,692	69,102	1.73%
NICHOLAS INVESTMENT PARTNERS - 109 Is:	1,725	61,343	68,276	1.71%
ALLIANCE BERNSTEIN - 105 Issues	1,134	30,469	38,449	0.97%
ING INVESTMENT MGT - 158 Issues	1,987	30,857	36,545	0.92%
MET WEST CAPITAL MGT - 68 Issues	2,296	26,763	28,079	0.70%
Total Manager Accounts - 1,779 Issues	62,932	1,282,289	1,570,284	39.42%
MDEP TOTAL BY MANAGER - 1,787 Issues	68,926	2,586,532	3,983,061	100.00%

MONTANA INTERNATIONAL EQUITY POOL (MTIP) BY MANAGER				
(in thousands)				
<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BLACKROCK ACWI EX US SUPERFUND	44,728	806,057	1,057,357	63.40%
DFA INTERNATIONAL SMALL COMPAN	4,383	66,729	80,997	4.86%
BLACKROCK MSCI EM MKT FR FD B	785	32,355	33,766	2.02%
BLACKROCK ACWI EX US SMALL CAP	2,534	20,657	28,963	1.74%
EAFE STOCK PERFORMANCE INDEX	186	5,622	5,730	0.34%
STATE STREET BANK + TRUST CO	1,144	1,144	1,144	0.07%
MONEY MARKET FD FOR EBT	23	23	23	0.00%
COMMINGLED - 7 Issues	53,783	932,587	1,207,980	72.43%
ACADIAN - 464 Issues	24,521	96,327	102,506	6.15%
LAZARD ASSET MGMT - 75 Issues	13,805	97,213	95,460	5.72%
BAILLIE GIFFORD - 78 Issues	6,953	88,864	90,326	5.42%
INVESCO - 74 Issues	11,722	92,492	89,479	5.37%
TEMPLETON INVESTMENT COUNSEL - 118 Issues	17,369	49,864	50,984	3.06%
AMERICAN CENTURY INV MGMT - 111 Issues	5,550	26,636	30,436	1.82%
MTIP TRANSITION - 6 Issues	371	499	503	0.03%
MARTIN CURRIE - 1 Issues	113	113	113	0.01%
Total Manager Accounts - 927 Issues	80,404	452,008	459,807	27.57%
MTIP TOTAL BY MANAGER - 934 Issues	134,187	1,384,595	1,667,787	100.00%

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MONTANA PRIVATE EQUITY POOL (MPEP) BY MANAGER (in thousands)				
<u>Fund Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
ADAMS STREET	108,157	108,157	86,823	8.07%
LEXINGTON	53,663	53,663	57,364	5.33%
PORTFOLIO ADVISORS	34,496	34,496	50,840	4.73%
HARBOUR VEST	36,519	38,959	50,101	4.66%
CENTERBRIDGE	41,519	41,519	47,294	4.40%
VERITAS	29,477	29,477	41,733	3.88%
NORTHGATE	28,146	28,146	38,055	3.54%
STATE STREET	21,608	34,707	34,434	3.20%
AXIOM	23,779	23,779	33,181	3.08%
HCI EQUITY	23,895	23,895	32,636	3.03%
NB COINVEST	24,738	24,738	32,424	3.01%
AMERICAN SECURITIES PARTNERS	22,972	22,972	31,244	2.90%
SIGULER GUFF	30,738	30,738	31,206	2.90%
PERFORMANCE EQUITY	19,406	19,406	26,684	2.48%
CCMP	25,682	25,682	25,510	2.37%
BLACK DIAMOND CAPITAL	21,206	21,206	24,265	2.26%
WELSH CARSON	20,316	20,316	23,160	2.15%
MATLIN PATTERSON	24,016	24,016	21,009	1.95%
AUDAX	17,752	17,752	19,977	1.86%
OAK HILL	21,456	21,456	17,266	1.60%
TENEX CAPITAL PARTNERS	11,098	11,098	17,161	1.60%
TENAYA CAPITAL	14,285	14,285	16,370	1.52%
ODYSSEY INVESTMENTS	10,770	10,770	16,310	1.52%
CARLYLE	14,314	14,314	16,109	1.50%
CATALYST	14,146	14,146	15,928	1.48%
TRILANTIC CAPITAL PARTNERS	12,332	12,332	14,928	1.39%
MHR INSTITUTIONAL	12,198	12,198	14,896	1.38%
ARES	11,573	11,573	14,646	1.36%
TERRA FIRMA	17,083	23,490	14,560	1.35%
GRIDIRON CAPITAL	12,864	12,864	14,446	1.34%
ARCLIGHT	16,268	16,268	14,047	1.31%
SUMMIT PARTNERS	12,242	12,242	12,597	1.17%
MONTLAKE	9,593	9,593	11,751	1.09%
JLL PARTNERS	9,289	9,289	11,732	1.09%
AFFINITY	8,375	8,375	11,715	1.09%
OAKTREE	1,009	1,009	11,204	1.04%
PINE BROOK	10,384	10,384	10,240	0.95%
SOUTHERN CAPITAL	10,078	10,078	9,776	0.91%
HIGHWAY 12 VENTURES	6,740	6,740	9,461	0.88%
TA ASSOCIATES	6,745	6,745	9,139	0.85%
CIVC	13,394	13,394	8,962	0.83%
CARTESIAN CAPITAL	8,499	8,499	8,530	0.79%
STERLING CAPITAL PARTNERS	9,510	9,510	8,219	0.76%

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MONTANA PRIVATE EQUITY POOL (MPEP) BY MANAGER (in thousands)				
<u>Fund Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
QUINTANA ENERGY	6,586	6,586	7,897	0.73%
J.C. FLOWERS	11,147	11,147	7,264	0.68%
HKW CAPITAL	7,249	7,249	7,125	0.66%
EUREKA	2,859	2,859	6,587	0.61%
WHITE DEER ENERGY	6,546	6,546	5,947	0.55%
GI PARTNERS	5,327	5,327	5,109	0.47%
OPUS	3,022	3,022	4,765	0.44%
SPIRE CAPITAL	4,204	4,204	3,743	0.35%
INDUSTRY VENTURES	4,803	4,803	3,681	0.34%
GUARDIAN	2,877	2,877	2,716	0.25%
KINDERHOOK	2,800	2,800	2,565	0.24%
KKR	-	-	255	0.02%
AVENUE CAPITAL	-	-	251	0.02%
MPEP Total	939,750	961,696	1,075,838	100.00%

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REAL ESTATE POOL (MTRP) BY MANAGER				
(in thousands)				
<u>Fund Manager Name</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
JP MORGAN	60	92,734	151,947	17.05%
UBS REALTY INVESTORS LLC	7	50,000	72,963	8.19%
ANGELO GORDON	51,232	51,232	50,161	5.63%
MOLPUS WOODLANDS	39,060	39,059	46,358	5.20%
TIAA CREF	88	40,000	46,027	5.16%
INVESCO REAL ESTATE	-	45,000	45,996	5.16%
DRA ADVISORS	40,986	40,985	43,246	4.85%
CIM FUND	20,837	20,837	36,190	4.06%
ABR CHESAPEAKE	34,177	34,177	35,017	3.93%
CBRE STRATEGIC PARTNERS	29,874	29,874	33,141	3.72%
STOCKBRIDGE LP	27,519	27,519	31,780	3.57%
TA ASSOCIATES REALTY	31,139	31,139	30,211	3.39%
RESOURCE MANAGEMENT SERVICE	23,165	23,165	27,298	3.06%
ORM TIMBER LLC	20,817	20,817	21,948	2.46%
CLARION LION PROPERTIES	18	24,392	21,520	2.41%
BPG INVESTMENT PARTNERSHIP	20,570	20,570	21,481	2.41%
THE REALTY ASSOCIATES	19,730	19,730	21,043	2.36%
MACQUARIE GLOBAL PROPERTIES	10,885	10,885	19,224	2.16%
ALMANAC REALTY	14,555	14,555	17,327	1.94%
HARBERT	11,814	11,814	12,081	1.36%
GEM REALTY FUND	8,927	8,927	11,391	1.28%
CARLYLE	12,955	17,921	10,911	1.22%
LANDMARK REAL ESTATE PARTNER	1,244	1,244	10,724	1.20%
STRATEGIC PARTNERS	5,938	5,938	6,173	0.69%
MORGAN STANLEY REAL ESTATE	25,870	25,870	5,906	0.66%
HUDSON REALTY CAPITAL	9,605	9,605	5,593	0.63%
BEACON CAPITAL PARTNERS	13,498	13,498	5,029	0.56%
OCONNOR NORTH AMERICAN	4,884	4,884	4,633	0.52%
AREA PROPERTY PARTNERS	10	5,663	3,464	0.39%
LIQUID REALTY	3,144	3,144	2,844	0.32%
JER REAL EST PARTNERS	2,425	2,425	5	0.00%
FUND MANAGERS	485,033	747,603	851,632	95.55%
MT COLONIAL DRIVE	8,789	8,789	8,789	0.99%
NORTH PARK AVENUE	7,561	7,561	7,561	0.85%
BOZEMAN PROPERTY	2,212	2,212	2,212	0.25%
NINTH AVENUE	690	690	690	0.08%
CALIFORNIA STREET PROPERTY	223	223	223	0.02%
DIRECT REAL ESTATE	19,475	19,475	19,475	2.18%
SHORT TERM INVESTMENT POOL	20,184	20,184	20,184	2.26%
MTRP TOTAL	524,692	787,262	891,291	100.00%

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SHORT TERM INVESTMENT POOL					
(in thousands)					
<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
BUNGE ASSET FDG. COR	0.3700	07/01/15	75,000	75,000	2.95%
ALBION CAPITAL CORP	0.2100	07/27/15	51,376	51,368	2.02%
INSTITUTIONAL SECURED	0.4760	07/24/15	50,000	49,985	1.97%
COLLTRZD COML PAPER II	0.1600	07/10/15	30,000	29,999	1.18%
ANGLESEA FDG PLC & ANG	0.2000	07/16/15	30,000	29,998	1.18%
VICTORY RECEIVABLES	0.2000	08/20/15	30,000	29,992	1.18%
NIEUW AMSTERDAM RECV	0.2100	08/25/15	29,250	29,241	1.15%
CROWN POINT CAP CO.	0.1600	07/06/15	28,000	27,999	1.10%
GOTHAM FDG CORP	0.1900	08/20/15	27,000	26,993	1.06%
LEXINGTN PKR CAP CO LL	0.2100	08/17/15	23,000	22,994	0.91%
ANGLESEA FDG PLC & ANG	0.2100	07/09/15	22,000	21,999	0.87%
LEXINGTN PKR CAP CO LL	0.1600	07/07/15	22,000	21,999	0.87%
LEGACY CAPITAL COMPANY	0.2700	07/27/15	21,000	20,996	0.83%
LEGACY CAPITAL COMPANY	0.2700	07/28/15	21,000	20,996	0.83%
CONCORD MIN CPTL CO	0.1700	07/08/15	20,000	19,999	0.79%
COLLTRZD COML PAPER II	0.2100	07/20/15	20,000	19,998	0.79%
GOLDEN FUNDING CORP	0.2600	07/14/15	18,365	18,363	0.72%
GOLDEN FUNDING CORP	0.2600	07/22/15	17,092	17,089	0.67%
LEXINGTN PKR CAP CO LL	0.2100	08/04/15	17,000	16,997	0.67%
ALBION CAPITAL CORP	0.2000	07/20/15	16,000	15,998	0.63%
GOTHAM FDG CORP	0.1900	08/18/15	16,000	15,996	0.63%
VICTORY RECEIVABLES	0.2000	08/03/15	13,000	12,998	0.51%
GOLDEN FUNDING CORP	0.2600	07/02/15	12,010	12,010	0.47%
CROWN POINT CAP CO.	0.1700	07/13/15	12,000	11,999	0.47%
CROWN POINT CAP CO.	0.1600	07/15/15	12,000	11,999	0.47%
GOLDEN FUNDING CORP	0.2000	07/06/15	11,602	11,602	0.46%
LEXINGTN PKR CAP CO LL	0.1600	07/10/15	11,000	11,000	0.43%
GOLDEN FUNDING CORP	0.1900	07/14/15	11,000	10,999	0.43%
GOLDEN FUNDING CORP	0.2600	09/10/15	11,000	10,994	0.43%
INSTITUTIONAL SECURED	0.3200	07/07/15	10,000	9,999	0.39%
VICTORY RECEIVABLES	0.1800	07/22/15	10,000	9,999	0.39%
ALBION CAPITAL CORP	0.2200	08/17/15	10,002	9,999	0.39%
CONCORD MIN CPTL CO	0.2100	08/05/15	10,000	9,998	0.39%
CONCORD MIN CPTL CO	0.2100	08/06/15	10,000	9,998	0.39%
CONCORD MIN CPTL CO	0.2100	08/07/15	10,000	9,998	0.39%
CONCORD MIN CPTL CO	0.2100	08/10/15	10,000	9,998	0.39%
GOTHAM FDG CORP	0.1900	08/19/15	10,000	9,997	0.39%
LEGACY CAPITAL COMPANY	0.2700	08/17/15	10,000	9,996	0.39%
INSTITUTIONAL SECURED	0.3000	07/23/15	6,000	5,999	0.24%
LEGACY CAPITAL COMPANY	0.2600	08/05/15	6,000	5,998	0.24%
Asset Backed Commerical Paper	40 Issue(s)		779,697	779,579	30.71%
BARCLAYS BANK PLC	0.8800	05/02/16	50,000	50,000	1.97%
CREDIT SUISSE NY	0.8300	04/13/16	50,000	50,000	1.97%
UBS AG STAMFORD BRAN	0.8000	06/13/16	25,000	25,000	0.98%

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SHORT TERM INVESTMENT POOL					
(in thousands)					
Security Name	Coupon	Maturity	Par	Amortized Cost	%
UBS AG STAMFORD BRAN	0.3550	07/17/15	25,000	25,000	0.98%
Certificate of Deposit Fixed Rate	4 Issue(s)		150,000	150,000	5.90%
BANK OF MONTREAL-	0.5761	06/16/17	50,000	50,000	1.97%
BANK OF NOVA SCOTIA/THE	0.5718	06/30/17	50,000	50,000	1.97%
COOPERATIEVE CENTRALE	0.4998	05/05/17	50,000	50,000	1.97%
NATIONAL BK OF CANAD	0.4490	07/29/16	50,000	50,000	1.97%
SVENSKA HANDLSBNKN A	0.4560	08/17/16	50,000	50,000	1.97%
BANK OF MONTREAL-	0.4944	07/17/15	25,000	25,000	0.98%
BNK OF TKYO-MTBSHI L	0.6008	04/04/16	25,000	25,000	0.98%
BNK OF TKYO MTBSHI L	0.6845	08/27/15	25,000	25,000	0.98%
CANADIAN IMPERIAL BK	0.4490	10/28/16	25,000	25,000	0.98%
CANADIAN IMPERIAL BK	0.5489	06/08/17	25,000	25,000	0.98%
NORDEA BANK FLD PLC	0.4270	10/14/16	25,000	25,000	0.98%
NORDEA BANK FLD PLC	0.5566	02/13/17	25,000	25,000	0.98%
WESTPAC BKING CORP N	0.4288	02/04/16	25,000	25,000	0.98%
Certificate of Deposit Variable Rate	13 Issue(s)		450,000	450,000	17.72%
MITSUBISHI INT'L CO	0.1900	07/30/15	30,000	29,995	1.18%
WESTPAC BANKING CORP	0.9500	01/12/16	25,000	25,070	0.99%
MITSUBISHI INT'L CO	0.1800	07/23/15	20,000	19,998	0.79%
STATE STREET CORP	2.8750	03/07/16	15,000	15,238	0.60%
ING (US) FUNDING LLC	0.2500	07/21/15	11,000	10,998	0.43%
Corporate Commercial Paper	5 Issue(s)		101,000	101,299	3.99%
AUST + NZ BANKING GROUP	0.4318	09/30/15	50,000	50,000	1.97%
COMMONWEALTH BANK AUST	0.4290	04/29/16	50,000	50,000	1.97%
ING BANK NV	0.7259	06/15/17	50,000	50,000	1.97%
MET LIFE GLOB FUNDING I	0.4770	07/14/16	50,000	50,000	1.97%
NATIONAL AUSTRALIA BANK	0.4288	02/04/16	50,000	50,000	1.97%
TORONTO DOMINION BANK	0.5308	01/06/17	50,000	50,000	1.97%
ROYAL BANK OF CANADA	0.5388	02/03/17	41,490	41,521	1.64%
JPMORGAN CHASE + CO	0.9020	02/26/16	30,000	30,060	1.18%
BANK OF AMERICA NA	0.7292	06/05/17	30,000	30,000	1.18%
GENERAL ELEC CAP CORP	0.5538	01/09/17	30,000	30,000	1.18%
WELLS FARGO + COMPANY	0.5838	06/02/17	30,000	29,978	1.18%
WACHOVIA CORP	0.5559	06/15/17	20,104	20,076	0.79%
JPMORGAN CHASE + CO	0.7939	02/15/17	20,000	20,037	0.79%
PEPSICO INC	0.4782	07/30/15	20,000	20,000	0.79%
TOYOTA MOTOR CREDIT CORP	0.4208	01/07/16	20,000	20,000	0.79%
WELLS FARGO BANK NA	0.5551	07/20/15	20,000	20,000	0.79%
GENERAL ELEC CAP CORP	0.5070	01/14/16	10,000	10,000	0.39%
Corporate Variable Rate	17 Issue(s)		571,594	571,672	22.52%
STATE STR INSTL LIQUID RESVS	0.1098	12/31/99	2,000	2,000	0.08%
BLACKROCK MONEY MARKET	0.0907	12/31/49	1,000	1,000	0.04%
Money Market Funds (Rated)	2 Issue(s)		3,000	3,000	0.12%
BGI INSTITUTIONAL MMF	0.1579	12/31/99	89,000	89,000	3.51%

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SHORT TERM INVESTMENT POOL					
(in thousands)					
Security Name	Coupon	Maturity	Par	Amortized Cost	%
FIDELITY INSTL MONEY MARKET	0.1500	N\A	44,000	44,000	1.73%
STATE STREET BANK + TRUST CO	0.0920	N\A	28,592	28,592	1.13%
Money Market Funds (Unrated)	3 Issue(s)		161,592	161,592	6.37%
AFF FINANCING	-	07/02/16	14,664	14,664	0.58%
ORION FINANCE	-	N\A	13,157	13,157	0.52%
Other Asset Backed	2 Issue(s)		27,821	27,821	1.10%
FEDERAL FARM CREDIT BANK	0.3300	03/23/16	25,000	25,000	0.98%
FEDERAL HOME LOAN BANK	0.4000	03/11/16	15,000	15,000	0.59%
FEDERAL HOME LOAN BANK	0.2500	12/10/15	14,500	14,498	0.57%
U.S. Government Agency Fixed Rate	3 Issue(s)		54,500	54,498	2.15%
FEDERAL FARM CREDIT BANK	0.1988	06/12/17	50,000	50,010	1.97%
FEDERAL HOME LOAN BANK	0.2110	12/09/15	25,000	25,000	0.98%
FEDERAL HOME LOAN BANK	0.1520	07/21/15	25,000	25,000	0.98%
FEDERAL HOME LOAN BANK	0.1990	02/10/16	25,000	25,000	0.98%
FREDDIE MAC	0.1648	10/16/15	25,000	25,000	0.98%
FEDERAL HOME LOAN BANK	0.1670	11/25/15	25,000	24,999	0.98%
FREDDIE MAC	0.1905	01/13/17	25,000	24,996	0.98%
FREDDIE MAC	0.1788	12/12/16	25,000	24,994	0.98%
FANNIE MAE	0.2055	08/15/16	14,005	14,009	0.55%
U.S. Government Agency Variable Rate	9 Issue(s)		239,005	239,008	9.42%
STIP Total	98 Issue(s)		2,538,209	2,538,469	100.00%

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All Other Funds (in thousands)						
Security Name	Coupon	Maturity	Par	Amortized Cost	Fair Value	%
BLACKROCK EQUITY INDEX FD B	NA	NA	426	61,260	146,277	7.72%
BLACKROCK ACWI EX US SUPERFD E	NA	NA	735	14,001	19,085	1.01%
Equity Index Funds			1,161	75,261	165,362	8.73%
PERMANENT COAL TRUST	NA	NA	106,169	106,169	106,169	5.60%
MONTANA ST	NA	NA	27,913	27,913	27,913	1.47%
MT Mortgages and Loans			134,082	134,082	134,082	7.08%
AMERICAN CORE REALTY FUND LLC	0.000	07/08/20	-	40,000	44,766	2.36%
TIAA CREF ASSET MANAGEMENT	0.000	02/27/19	76	35,000	39,824	2.10%
Core Real Estate			76	75,000	84,590	4.47%
US TREASURY N/B	2.625	11/15/20	25,000	24,277	26,111	1.38%
US TREASURY N/B	0.875	05/15/17	20,000	20,014	20,093	1.06%
US TREASURY N/B	1.625	08/15/22	20,000	19,725	19,388	1.02%
US TREASURY N/B	3.875	05/15/18	15,000	15,015	16,241	0.86%
US TREASURY N/B	4.250	11/15/17	15,000	15,050	16,220	0.86%
US TREASURY N/B	2.500	05/15/24	15,000	14,924	15,257	0.81%
US TREASURY N/B	4.000	08/15/18	10,000	10,027	10,923	0.58%
US TREASURY N/B	3.625	08/15/19	10,000	9,971	10,886	0.57%
US TREASURY N/B	2.750	02/15/19	10,000	9,958	10,531	0.56%
US TREASURY N/B	2.625	04/30/16	10,000	9,976	10,192	0.54%
US TREASURY N/B	2.125	08/15/21	10,000	9,937	10,113	0.53%
US TREASURY N/B	0.875	06/15/17	10,000	9,980	10,045	0.53%
US TREASURY N/B	0.875	07/15/17	10,000	9,970	10,041	0.53%
US TREASURY N/B	0.875	08/15/17	10,000	9,967	10,036	0.53%
US TREASURY N/B	0.750	03/15/17	10,000	9,980	10,035	0.53%
US TREASURY N/B	1.125	04/30/20	10,000	9,750	9,770	0.52%
STRIPS	0.000	11/15/17	7,600	6,857	7,455	0.39%
US TREASURY N/B	1.000	09/15/17	6,000	5,991	6,035	0.32%
US TREASURY N/B	3.625	02/15/20	5,000	4,946	5,461	0.29%
US TREASURY N/B	2.625	08/15/20	5,000	4,959	5,229	0.28%
US TREASURY N/B	3.250	05/31/16	5,000	4,983	5,133	0.27%
US TREASURY N/B	2.250	03/31/21	5,000	4,988	5,108	0.27%
US TREASURY N/B	2.125	08/31/20	5,000	4,921	5,107	0.27%
US TREASURY N/B	2.625	02/29/16	5,000	5,001	5,081	0.27%
US TREASURY N/B	2.000	05/31/21	5,000	4,995	5,032	0.27%
US TREASURY N/B	2.000	02/15/25	5,000	5,025	4,858	0.26%
US TREASURY N/B	0.875	12/31/16	2,500	2,507	2,515	0.13%
STRIPS	0.000	08/15/17	1,590	1,501	1,566	0.08%
Treasuries			267,690	265,195	274,462	14.49%
FEDERAL FARM CREDIT BANK	5.100	04/12/17	20,000	19,939	21,601	1.14%
FREDDIE MAC	2.375	01/13/22	20,000	19,813	20,249	1.07%
FANNIE MAE	0.000	06/01/17	20,150	18,286	19,840	1.05%
FEDERAL HOME LOAN BANK	1.625	06/14/19	17,950	17,830	18,039	0.95%
FEDERAL HOME LOAN BANK	4.750	12/16/16	15,000	14,974	15,892	0.84%
FANNIE MAE	1.125	04/27/17	15,000	14,943	15,114	0.80%
FREDDIE MAC	0.875	02/22/17	15,000	15,007	15,067	0.80%
FANNIE MAE	1.625	11/27/18	12,000	12,001	12,145	0.64%
FEDERAL HOME LOAN BANK	5.125	03/10/17	10,000	10,019	10,746	0.57%

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Security Name	Coupon	Maturity	Par	Amortized Cost	Fair Value	%
FREDDIE MAC	5.000	02/16/17	10,000	9,977	10,708	0.57%
FEDERAL HOME LOAN BANK	3.375	12/08/23	10,000	10,069	10,553	0.56%
FEDERAL HOME LOAN BANK	3.250	03/08/24	10,000	9,989	10,513	0.55%
FANNIE MAE	1.875	02/19/19	10,000	10,079	10,188	0.54%
FEDERAL FARM CREDIT BANK	1.900	09/18/19	10,000	9,998	10,142	0.54%
FANNIE MAE	1.750	11/26/19	10,000	9,961	10,053	0.53%
FEDERAL FARM CREDIT BANK	1.125	12/18/17	10,000	9,993	10,040	0.53%
FANNIE MAE	0.625	08/26/16	10,000	9,973	10,024	0.53%
FREDDIE MAC	1.000	09/29/17	10,000	10,015	10,024	0.53%
FREDDIE MAC	1.000	11/28/17	10,000	10,000	10,014	0.53%
FANNIE MAE	0.750	04/20/17	10,000	9,976	10,012	0.53%
FREDDIE MAC	1.250	06/22/18	10,000	10,000	10,003	0.53%
FEDERAL HOME LOAN BANK	0.375	06/24/16	10,000	9,962	9,999	0.53%
FEDERAL FARM CREDIT BANK	1.030	05/11/18	10,000	9,980	9,998	0.53%
FANNIE MAE	0.375	07/05/16	10,000	9,940	9,998	0.53%
FEDERAL FARM CREDIT BANK	1.020	01/22/18	10,000	10,000	9,990	0.53%
FANNIE MAE	1.050	05/25/18	10,000	9,997	9,952	0.53%
FANNIE MAE	0.875	05/21/18	10,000	9,820	9,940	0.52%
FEDERAL FARM CREDIT BANK	1.670	03/18/19	7,000	7,000	7,016	0.37%
ONTARIO (PROVINCE OF)	1.200	02/14/18	7,000	6,996	7,000	0.37%
FEDERAL FARM CREDIT BANK	3.875	01/12/21	5,000	5,014	5,512	0.29%
FANNIE MAE	0.500	03/30/16	5,500	5,501	5,508	0.29%
FEDERAL FARM CREDIT BANK	5.500	08/16/21	4,500	5,265	5,383	0.28%
FEDERAL FARM CREDIT BANK	3.500	12/20/23	5,000	5,115	5,342	0.28%
ONTARIO (PROVINCE OF)	3.200	05/16/24	5,000	4,994	5,199	0.27%
FEDERAL HOME LOAN BANK	2.375	12/13/19	5,000	5,187	5,164	0.27%
FEDERAL HOME LOAN BANK	2.625	12/10/21	5,000	4,995	5,161	0.27%
FEDERAL HOME LOAN BANK	2.780	11/04/21	5,000	4,971	5,153	0.27%
FEDERAL FARM CREDIT BANK	1.850	09/19/18	5,000	4,998	5,116	0.27%
FEDERAL FARM CREDIT BANK	1.875	03/29/19	5,000	4,997	5,081	0.27%
FEDERAL FARM CREDIT BANK	2.850	08/26/24	5,000	4,992	5,081	0.27%
FEDERAL FARM CREDIT BANK	2.260	09/29/20	5,000	4,955	5,079	0.27%
PRIVATE EXPORT FUNDING	2.250	03/15/20	5,000	4,991	5,069	0.27%
FEDERAL HOME LOAN BANK	2.875	06/14/24	5,000	5,021	5,065	0.27%
FREDDIE MAC	1.250	05/12/17	5,000	5,010	5,056	0.27%
ONTARIO (PROVINCE OF)	2.500	09/10/21	5,000	5,022	5,055	0.27%
FANNIE MAE	1.250	01/30/17	5,000	5,003	5,052	0.27%
FEDERAL HOME LOAN BANK	2.250	03/11/22	5,000	5,024	5,032	0.27%
FEDERAL HOME LOAN BANK	1.000	06/21/17	5,000	5,023	5,026	0.27%
FEDERAL FARM CREDIT BANK	1.020	10/27/17	5,000	4,993	5,000	0.26%
FANNIE MAE	0.500	09/28/15	5,000	5,001	4,999	0.26%
FEDERAL HOME LOAN BANK	1.000	04/16/18	5,000	4,969	4,989	0.26%
FEDERAL FARM CREDIT BANK	0.720	12/27/16	5,000	4,998	4,987	0.26%
MANITOBA (PROVINCE OF)	1.125	06/01/18	5,000	4,997	4,985	0.26%
FEDERAL HOME LOAN BANK	1.875	06/11/21	5,000	4,906	4,974	0.26%
FEDERAL HOME LOAN BANK	1.375	09/13/19	5,000	4,991	4,961	0.26%
FEDERAL HOME LOAN BANK	4.875	10/30/17	4,000	4,077	4,358	0.23%

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PROVINCE OF QUEBEC	2.625	02/13/23	4,000	3,987	4,023	0.21%
FEDERAL HOME LOAN BANK	5.375	09/30/22	3,080	3,737	3,695	0.20%
FRANKLIN RESOURCES INC	1.375	09/15/17	3,000	2,993	3,001	0.16%
FREDDIE MAC	1.125	11/15/18	1,350	1,327	1,340	0.07%
FICO STRIP PRN 3	0.000	11/30/17	1,300	1,256	1,271	0.07%
Agency/Government Relate			485,830	484,847	495,577	26.16%
HERTZ VEHICLE FINANCING LLC	3.740	02/25/17	10,000	10,273	10,123	0.53%
AVIS BUDGET RENTAL CAR FUNDIN	2.100	03/20/19	10,000	9,998	10,069	0.53%
FORD CREDIT FLOORPLAN MASTER	1.490	09/15/19	8,000	7,998	8,017	0.42%
CNH EQUIPMENT TRUST	0.990	11/15/18	6,000	5,999	5,987	0.32%
GE CAPITAL CREDIT CARD MASTER	1.360	08/17/20	5,000	4,999	4,997	0.26%
SBA TOWER TRUST	2.933	12/15/42	4,000	4,000	4,059	0.21%
SMART TRUST	1.180	02/14/19	4,000	4,000	3,990	0.21%
ENTERPRISE FLEET FINANCING LLC	1.410	11/20/17	3,158	3,158	3,159	0.17%
FORD CREDIT AUTO OWNER TRUST,	2.260	11/15/25	3,000	2,999	3,037	0.16%
MMAF EQUIPMENT FINANCE LLC	1.350	10/10/18	3,000	3,000	3,012	0.16%
NISSAN MASTER OWNER TRUST REI	1.440	01/15/20	3,000	2,999	3,001	0.16%
Asset Backed Securities			59,158	59,423	59,451	3.14%
FNMA POOL 962078	4.500	03/01/23	957	952	1,020	0.05%
FED HM LN PC POOL J08160	5.000	12/01/22	814	813	880	0.05%
FED HM LN PC POOL G13081	5.000	04/01/23	797	797	867	0.05%
FED HM LN PC POOL G18244	4.500	02/01/23	786	777	835	0.04%
FNMA POOL 844915	4.500	11/01/20	510	507	535	0.03%
FED HM LN PC POOL G12310	5.500	08/01/21	443	443	481	0.03%
FNMA POOL 888932	4.500	11/01/22	388	388	408	0.02%
FNMA POOL 254140	5.500	01/01/17	197	197	202	0.01%
FNMA POOL 254233	5.000	03/01/17	53	52	55	0.00%
FNMA POOL 572220	6.000	03/01/16	5	5	5	0.00%
FNMA POOL 592327	5.500	06/01/16	5	5	5	0.00%
Mortgage Backed Securities			4,955	4,936	5,293	0.28%
US BANCORP	1.950	11/15/18	12,000	11,990	12,108	0.64%
WELLS FARGO + COMPANY	2.150	01/30/20	10,000	9,987	9,905	0.52%
BANK OF AMERICA CORP	2.250	04/21/20	8,000	7,984	7,855	0.41%
MANUF + TRADERS TRUST CO	2.300	01/30/19	7,000	6,991	7,056	0.37%
CITIGROUP INC	3.750	06/16/24	7,000	6,992	7,046	0.37%
PNC BANK NA	2.400	10/18/19	7,000	6,996	7,046	0.37%
AMERICAN EXPRESS CREDIT	2.125	03/18/19	7,000	6,990	7,015	0.37%
KEY BANK NA	1.650	02/01/18	7,000	6,980	7,005	0.37%
JPMORGAN CHASE + CO	3.625	05/13/24	7,000	6,969	6,949	0.37%
JPMORGAN CHASE + CO	1.625	05/15/18	7,000	6,991	6,945	0.37%
RELIANCE STAND LIFE II	2.375	05/04/20	7,000	6,979	6,931	0.37%
AFLAC INC	2.650	02/15/17	6,000	6,121	6,141	0.32%
CNA FINANCIAL CORP	5.875	08/15/20	5,000	4,997	5,696	0.30%
GOLDMAN SACHS GROUP INC	5.750	01/24/22	5,000	4,995	5,687	0.30%
MORGAN STANLEY	5.625	09/23/19	5,000	4,990	5,603	0.30%
HARTFORD FINL SVCS GRP	6.300	03/15/18	5,000	5,002	5,561	0.29%
CAPITAL ONE FINANCIAL CO	6.750	09/15/17	5,000	4,993	5,533	0.29%

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FRANKLIN RESOURCES INC	4.625	05/20/20	5,000	4,997	5,530	0.29%
JPMORGAN CHASE + CO	4.950	03/25/20	5,000	5,009	5,511	0.29%
LINCOLN NATIONAL CORP	4.850	06/24/21	5,000	5,011	5,482	0.29%
BANK OF AMERICA CORP	6.400	08/28/17	5,000	4,998	5,482	0.29%
LIBERTY MUTUAL GROUP INC	4.950	05/01/22	5,000	5,006	5,375	0.28%
JPMORGAN CHASE + CO	4.500	01/24/22	5,000	4,982	5,358	0.28%
HARTFORD FINL SVCS GRP	5.375	03/15/17	5,000	4,997	5,313	0.28%
FIFTH THIRD BANCORP	5.450	01/15/17	5,000	4,997	5,300	0.28%
WACHOVIA CORP	5.625	10/15/16	5,000	4,997	5,287	0.28%
NATL CITY BANK CLEV OH	5.250	12/15/16	5,000	4,999	5,274	0.28%
TRAVELERS COS INC	6.250	06/20/16	5,000	4,998	5,264	0.28%
AMERICAN EXPRESS CO	5.500	09/12/16	5,000	4,996	5,260	0.28%
MUFG UNION BANK NA	5.950	05/11/16	5,000	5,000	5,207	0.27%
PRUDENTIAL FINANCIAL INC	5.500	03/15/16	5,000	4,979	5,158	0.27%
CITIGROUP INC	3.875	10/25/23	5,000	5,026	5,103	0.27%
GOLDMAN SACHS GROUP INC	4.000	03/03/24	5,000	5,041	5,087	0.27%
BERKSHIRE HATHAWAY FIN	2.000	08/15/18	5,000	4,968	5,072	0.27%
MORGAN STANLEY	3.450	11/02/15	5,000	4,932	5,045	0.27%
MET LIFE GLOB FUNDING I	1.875	06/22/18	5,000	4,973	5,037	0.27%
SWEDBANK AB	2.375	02/27/19	5,000	4,994	5,035	0.27%
SUNTRUST BANKS INC	2.500	05/01/19	5,000	5,007	5,028	0.27%
PNC BANK NA	1.300	10/03/16	5,000	4,998	5,021	0.27%
JACKSON NATL LIFE GLOBAL	2.300	04/16/19	5,000	5,073	5,012	0.26%
MORGAN STANLEY	4.000	07/24/15	5,000	5,002	5,008	0.26%
CITIGROUP INC	1.550	08/14/17	5,000	4,995	4,991	0.26%
NEW YORK LIFE GLOBAL FDG	1.300	10/30/17	5,000	4,996	4,986	0.26%
MORGAN STANLEY	2.375	07/23/19	5,000	4,980	4,967	0.26%
KEY BANK NA	2.250	03/16/20	5,000	4,993	4,958	0.26%
CAPITAL ONE NA	2.400	09/05/19	5,000	4,984	4,955	0.26%
MET LIFE GLOB FUNDING I	2.000	04/14/20	5,000	4,992	4,930	0.26%
AFLAC INC	3.250	03/17/25	5,000	4,981	4,827	0.25%
BARCLAYS PLC	3.650	03/16/25	5,000	4,974	4,729	0.25%
BERKSHIRE HATHAWAY INC	3.400	01/31/22	4,000	3,992	4,169	0.22%
AMERICAN EXPRESS CO	7.000	03/19/18	3,000	2,996	3,402	0.18%
AMERICAN INTL GROUP	5.850	01/16/18	3,000	3,127	3,308	0.17%
AFLAC INC	4.000	02/15/22	3,000	2,996	3,172	0.17%
JPMORGAN CHASE + CO	3.150	07/05/16	3,000	2,998	3,061	0.16%
PNC FUNDING CORP	2.700	09/19/16	3,000	2,999	3,052	0.16%
FIRST HORIZON NATIONAL	5.375	12/15/15	3,000	2,999	3,046	0.16%
BERKSHIRE HATHAWAY INC	2.100	08/14/19	3,000	3,000	3,021	0.16%
BAXTER INTERNATIONAL INC	1.850	01/15/17	3,000	2,999	3,020	0.16%
RABOBANK NEDERLAND	2.125	10/13/15	3,000	3,000	3,014	0.16%
CREDIT SUISSE NEW YORK	2.300	05/28/19	3,000	2,995	2,995	0.16%
CAPITAL ONE BANK USA NA	2.300	06/05/19	3,000	2,996	2,978	0.16%
COMMONWEALTH BANK AUST	2.250	03/16/17	2,500	2,499	2,554	0.13%
GOLDMAN SACHS GROUP INC	3.625	02/07/16	2,500	2,490	2,540	0.13%
WILMINGTON TRUST CORP	8.500	04/02/18	2,000	2,000	2,319	0.12%

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BANK OF AMERICA CORP	5.875	01/05/21	2,000	1,992	2,288	0.12%
METLIFE INC	4.750	02/08/21	2,000	2,000	2,209	0.12%
BANK OF AMERICA CORP	3.750	07/12/16	2,000	1,999	2,050	0.11%
MASSMUTUAL GLOBAL FUNDIN	3.600	04/09/24	2,000	1,995	2,041	0.11%
SUNTRUST BANKS INC	3.600	04/15/16	2,000	2,000	2,038	0.11%
WESTPAC BANKING CORP	3.000	12/09/15	2,000	2,000	2,021	0.11%
TORONTO DOMINION BANK	1.625	09/14/16	2,000	2,000	2,020	0.11%
DANAHER CORP	2.300	06/23/16	1,000	1,000	1,013	0.05%
BANK OF MONTREAL	1.300	07/15/16	1,000	1,000	1,005	0.05%
ESC LEHMAN BRTH HLDH PROD	1.000	12/31/49	5,000	-	531	0.03%
Financial-Corporate			342,000	336,894	347,541	18.35%
TOTAL CAPITAL INTL SA	2.750	06/19/21	10,000	9,984	10,087	0.53%
WAL MART STORES INC	3.625	07/08/20	8,000	8,488	8,515	0.45%
STATOIL ASA	3.125	08/17/17	7,000	6,995	7,273	0.38%
GENERAL ELEC CAP CORP	2.900	01/09/17	7,000	6,997	7,207	0.38%
AT+T INC	3.400	05/15/25	7,000	6,980	6,676	0.35%
CONOCOPHILLIPS CANADA	5.625	10/15/16	6,000	6,000	6,343	0.33%
TRANS CANADA PIPELINES	7.125	01/15/19	5,000	5,024	5,807	0.31%
CONOCOPHILLIPS	5.750	02/01/19	5,000	4,998	5,652	0.30%
AT+T INC	5.800	02/15/19	5,000	4,994	5,590	0.30%
NOVARTIS SECS INVEST LTD	5.125	02/10/19	5,000	4,996	5,562	0.29%
UNITED PARCEL SERVICE	5.500	01/15/18	5,000	4,997	5,514	0.29%
GENERAL ELEC CAP CORP	4.650	10/17/21	5,000	4,993	5,478	0.29%
GENERAL ELECTRIC CO	5.250	12/06/17	5,000	5,004	5,447	0.29%
ANTHEM INC	5.875	06/15/17	5,000	4,982	5,430	0.29%
CVS HEALTH CORP	4.125	05/15/21	5,000	5,195	5,348	0.28%
BUNGE NA FINANCE LP	5.900	04/01/17	5,000	4,999	5,341	0.28%
AMERICAN HONDA FINANCE	3.800	09/20/21	5,000	4,991	5,303	0.28%
UNION PACIFIC CORP	3.750	03/15/24	5,000	5,264	5,258	0.28%
PHILLIPS 66	4.300	04/01/22	5,000	4,992	5,247	0.28%
ILLINOIS TOOL WORKS INC	3.375	09/15/21	5,000	5,115	5,223	0.28%
CATERPILLAR FINANCIAL SE	3.750	11/24/23	5,000	5,073	5,215	0.28%
BOEING CO	3.750	11/20/16	5,000	5,192	5,199	0.27%
BUNGE LIMITED FINANCE CO	3.200	06/15/17	5,000	4,996	5,148	0.27%
BUNGE LIMITED FINANCE CO	4.100	03/15/16	5,000	5,000	5,098	0.27%
GENERAL ELEC CAP CORP	2.300	04/27/17	5,000	4,998	5,098	0.27%
BURLINGTN NORTH SANTA FE	3.750	04/01/24	5,000	4,994	5,096	0.27%
E.I. DU PONT DE NEMOURS	2.750	04/01/16	5,000	4,999	5,082	0.27%
QUESTAR CORP	2.750	02/01/16	5,025	5,023	5,082	0.27%
JOHN DEERE CAPITAL CORP	2.250	06/07/16	5,000	4,998	5,071	0.27%
CINTAS CORPORATION NO. 2	2.850	06/01/16	5,000	5,000	5,064	0.27%
JOHN DEERE CAPITAL CORP	2.250	04/17/19	5,000	5,129	5,045	0.27%
HEWLETT PACKARD CO	2.200	12/01/15	5,000	5,000	5,027	0.27%
PFIZER INC	1.500	06/15/18	5,000	4,998	5,003	0.26%
WAL MART STORES INC	4.500	07/01/15	5,000	5,000	5,000	0.26%
MARATHON OIL CORP	5.900	03/15/18	4,546	4,541	4,992	0.26%
BURLINGTN NORTH SANTA FE	3.050	03/15/22	5,000	4,985	4,991	0.26%

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NORFOLK SOUTHERN CORP	3.000	04/01/22	5,000	4,963	4,974	0.26%
SHELL INTERNATIONAL FIN	3.250	05/11/25	5,000	4,985	4,951	0.26%
ABBVIE INC	3.600	05/14/25	5,000	4,991	4,942	0.26%
ABBOTT LABORATORIES	2.550	03/15/22	5,000	4,992	4,885	0.26%
EMERSON ELECTRIC CO	2.625	02/15/23	4,790	4,613	4,678	0.25%
FLUOR CORP	3.375	09/15/21	4,000	4,059	4,136	0.22%
CVS HEALTH CORP	5.750	06/01/17	3,093	3,063	3,343	0.18%
AT+T INC	2.500	08/15/15	3,333	3,333	3,339	0.18%
VERIZON COMMUNICATIONS	5.150	09/15/23	3,000	2,992	3,285	0.17%
MEDTRONIC INC	3.625	03/15/24	3,000	2,995	3,075	0.16%
CHURCH + DWIGHT CO INC	3.350	12/15/15	3,000	3,000	3,035	0.16%
BAXTER INTERNATIONAL INC	1.850	06/15/18	3,000	3,000	2,990	0.16%
MERCK + CO INC	1.300	05/18/18	3,000	2,996	2,988	0.16%
TEXAS INSTRUMENTS INC	1.650	08/03/19	3,000	2,981	2,958	0.16%
BEMIS COMPANY INC	4.500	10/15/21	2,500	2,489	2,685	0.14%
MERCK SHARP + DOHME CORP	5.000	06/30/19	2,000	1,994	2,227	0.12%
BOEING CAPITAL CORP	2.900	08/15/18	2,000	2,063	2,085	0.11%
NORFOLK SOUTHERN CORP	5.750	01/15/16	2,000	1,998	2,053	0.11%
CISCO SYSTEMS INC	2.900	03/04/21	2,000	1,997	2,041	0.11%
BURLINGTN NO SF 99 1 TR	7.160	01/02/20	1,784	1,784	2,006	0.11%
CARDINAL HEALTH INC	2.400	11/15/19	2,000	1,997	1,984	0.10%
KCT INTERMODAL TRANS	6.884	08/01/18	1,339	1,339	1,453	0.08%
BEAM INC	5.375	01/15/16	544	544	557	0.03%
Industrial-Corporate			263,954	265,082	274,182	14.47%
NIAGARA MOHAWK POWER	4.881	08/15/19	8,000	8,651	8,779	0.46%
NORTHWESTERN CORP	6.340	04/01/19	5,000	4,997	5,740	0.30%
BLACK HILLS CORP	5.875	07/15/20	5,000	5,089	5,674	0.30%
PSEG POWER LLC	4.150	09/15/21	5,000	4,987	5,244	0.28%
EXELON CORP	3.950	06/15/25	5,000	4,990	5,030	0.27%
WISC ELEC POWER	1.700	06/15/18	5,000	5,000	5,010	0.26%
PSEG POWER LLC	4.300	11/15/23	4,000	3,997	4,132	0.22%
JERSEY CENTRAL PWR + LT	5.650	06/01/17	3,000	2,997	3,225	0.17%
ENTERGY CORP	4.000	07/15/22	3,000	2,996	3,023	0.16%
EXXON MOBIL CORPORATION	0.921	03/15/17	2,700	2,706	2,701	0.14%
Utility-Corporate			45,700	46,410	48,558	2.56%
US BANK SWEEP REPO	NA	NA	5,141	5,141	5,141	0.27%
Cash Equivalent			5,141	5,141	5,141	0.27%
AOF Total			1,609,747	1,752,271	1,894,239	100.00%



Financial Section Enterprise Fund

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Position of the Montana Board of Investments' Enterprise Fund as of June 30, 2015, and 2014, the related Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows for each of the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Montana Board of Investments' Enterprise Fund as of June 30, 2015, and 2014, and the changes in fund net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Montana Board of Investments' Enterprise Fund financial statements are intended to present the financial position, changes in financial position, and cash flows of only the portion of the financial reporting entity of the state of Montana that are attributed to the transactions of the Enterprise Fund. They do not purport to, and do not present fairly the financial position of the state of Montana as of June 30, 2015, or June 30, 2014, or the changes in its financial position and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Information

All sections listed in the foregoing table of contents, except for the Unified Investments Financial Section and the Enterprise Fund Financial Section, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (14-04B).

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 18, 2015

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

The Enterprise Fund Financial Statement follows this page 88.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

STATEMENT OF NET POSITION AS OF JUNE 30, 2015 AND 2014		
(in thousands)		
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 20,865	\$ 24,374
Interest receivable	270	215
Notes/loans receivable (Note 1)	13,862	8,648
Interfund notes/loans and interest receivable (Note 1)	1,852	1,494
Component Unit notes/loans and interest receivable (Note 1)	2,223	2,424
Short-term investments at fair value (Notes 1, 2)	3,132	1,570
Security lending cash collateral (Note 3)	<u>1</u>	<u>0</u>
Total current assets	<u>42,205</u>	<u>38,725</u>
Noncurrent assets:		
Restricted investments at fair value (Notes 1, 2)	5,124	6,662
Long-term investments at fair value (Notes 1, 2)	3	5
Notes/loans receivable (Note 1)	40,161	44,148
Interfund notes/loans and interest receivable (Note 1)	9,646	7,477
Component Unit notes/loans receivable (Note 1)	14,957	15,100
Equipment	4	4
Accumulated depreciation	<u>(2)</u>	<u>(1)</u>
Total noncurrent assets	<u>69,893</u>	<u>73,395</u>
Total assets	<u>112,098</u>	<u>112,120</u>
Pension deferred outflows (Notes 9, 12)	<u>23</u>	<u>0</u>
Liabilities		
Current liabilities:		
Due to other funds	0	15
Accrued expenses	18	19
Accrued interest payable	82	57
Security lending obligations (Note 3)	1	0
Arbitrage rebate tax payable	0	8
Compensated absences (Note 8)	30	36
Current bonds/notes payable (Note 4)	<u>106,445</u>	<u>106,450</u>
Total current liabilities	<u>106,576</u>	<u>106,585</u>
Noncurrent liabilities		
Compensated absences (Note 8)	28	36
Arbitrage rebate tax payable	0	1
OPEB implicit rate subsidy (Note 11)	69	60
Net pension liability (Notes 9, 12)	<u>245</u>	<u>0</u>
Total noncurrent liabilities	<u>342</u>	<u>97</u>
Total liabilities	<u>106,918</u>	<u>106,682</u>
Pension deferred inflows (Notes 9, 12)	<u>63</u>	<u>0</u>
Net position		
Net investment in capital assets	2	3
Restricted (Note 1)	1,670	1,564
Unrestricted	<u>3,468</u>	<u>3,871</u>
Total net position (Note 13)	\$ <u>5,140</u>	\$ <u>5,438</u>
The accompanying notes are an integral part of these financial statements.		

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION				
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014				
(in thousands)				
	2015		2014	
Operating revenue				
Reimbursements	\$	30	\$	19
Investment income		99		47
Financing income		<u>846</u>		<u>763</u>
Total operating revenue		<u>975</u>		<u>829</u>
Operating expenses				
Personal services (Note 9)		322		370
Contracted services		25		30
Supplies and materials		6		9
Communications		7		8
Travel		4		3
Rent		48		46
Indirect and other costs		51		53
OPEB (Notes 9, 11)		15		12
Pension expense (Notes 9, 12)		19		0
Depreciation expense		1		0
Arbitrage rebate tax expense (Note 7)		(4)		(4)
Debt service				
Interest expense		195		214
Trustee fee expense		72		72
Other debt service expense		<u>228</u>		<u>285</u>
Total operating expenses		<u>989</u>		<u>1,098</u>
Operating income		<u>(14)</u>		<u>(269)</u>
Nonoperating revenue				
Pension revenue (Notes 9, 12)		<u>7</u>		<u>0</u>
Nonoperating income		<u>7</u>		<u>0</u>
Change in fund net position		<u>(7)</u>		<u>(269)</u>
Total fund net position, July 1, as previously reported		5,438		5,707
Prior period adjustment (Note 9)		5		0
Adjustments to beginning net position (Notes 9, 12)		<u>(296)</u>		<u>0</u>
Total fund net position, July 1, as restated		<u>5,147</u>		<u>5,707</u>
Total fund net position, June 30 (Note 13)	\$	<u>5,140</u>	\$	<u>5,438</u>
The accompanying notes are an integral part of these financial statements.				

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014			
(in thousands)			
	2015		2014
Cash flows from operating activities:			
Receipts for sales and services	\$ 30	\$	19
Payments to suppliers for goods and services	(140)		(150)
Payments to employees	(343)		(323)
Other revenue	7		0
Transfers from other funds	<u>0</u>		<u>15</u>
Net cash (used for) operating activities	<u>(446)</u>		<u>(439)</u>
Cash flows from non-capital financing activities:			
Payment of principal and interest on bonds and notes	(476)		(829)
Net pension deferred inflows/outflows (Note 12)	<u>(40)</u>		<u>0</u>
Net cash (used for) provided by non-capital financing activities	<u>(516)</u>		<u>(829)</u>
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	<u>0</u>		<u>(3)</u>
Net cash (used for) capital and related financing activities	<u>0</u>		<u>(3)</u>
Cash flows from investing activities:			
Collections for principal and interest on loans	25,592		25,911
Cash payments for loans	(28,210)		(28,746)
Purchase of deposits/investments	(1,596)		(8,229)
Proceeds from sales or maturities of deposits/investments	1,571		4,722
Interest on deposits/investments	101		28
(Payment for) refund from arbitrage rebate tax	<u>(5)</u>		<u>0</u>
Net cash (used for) provided by investing activities	<u>(2,547)</u>		<u>(6,314)</u>
Net (decrease) increase in cash and cash equivalents	(3,509)		(7,585)
Cash and cash equivalents, July 1	<u>24,374</u>		<u>31,959</u>
Cash and cash equivalents, June 30	\$ <u>20,865</u>	\$	<u>24,374</u>

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(in thousands)

	2015	2014
Reconciliation of net income to net cash (used for) operating activities:		
Net operating income	\$ (14)	\$ (269)
Adjustments to reconcile net income to net cash (used for) operating activities		
Depreciation	1	0
Other revenue	7	0
Interest on investments	(99)	(47)
Financing income	(846)	(763)
Interest expense	495	571
Arbitrage rebate tax expense (Note 7)	(4)	(4)
Change in assets and liabilities:		
(Decrease) increase in other payables	(1)	8
(Decrease) increase in due to other funds	(15)	15
(Decrease) increase in compensated absences payable	(14)	40
(Decrease) increase in net pension liability (Note 12)	(10)	0
Increase (decrease) in OPEB implicit rate subsidy (Notes 9, 11)	14	10
Increase (decrease) in pension deferred inflows/outflows (Note 12)	<u>40</u>	<u>0</u>
Total adjustments	<u>(432)</u>	<u>(170)</u>
Net cash (used for) operating activities	<u>(446)</u>	<u>(439)</u>
Schedule of noncash transactions:		
Increase/(decrease) in fair value of investments	<u>(25)</u>	<u>(13)</u>
Total noncash transactions	\$ <u>(25)</u>	\$ <u>(13)</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO ENTERPRISE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The Board uses the accrual basis of accounting for the Enterprise Fund. Under the accrual basis of accounting, expenses are recorded when incurred and revenues are recorded when earned. The financial statements are prepared from the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) and information contained in the bond trustee statements. These financial statements are intended to present the financial position and changes in financial position of only the portions of the financial reporting entities for the State of Montana that are attributed to the transactions of the Economic Development Bond and Municipal Finance Consolidation programs, known as the Enterprise Fund administered by the Board.

b. Presentation of Programs

The Board uses the Enterprise Fund to account for its programs created under the Economic Development Bond Act and the Municipal Finance Consolidation Act.

Economic Development Bond Act programs include:

- The Stand Alone Economic Development Bond Program provides access to limited economic development projects through the issuance of conduit debt.

The Conservation Reserve Enhancement Program (CRP), created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The Montana Trust Funds Investment Pool funded the Conservation Reserve Enhancement Program.

Municipal Finance Consolidation Act programs include:

- The INTERCAP loan program provides funds to eligible Montana governments to finance capital expenditures for up to fifteen years.
- The Irrigation District Pooled Loan Program provided funds for the Board to purchase the refunding bonds from participating irrigation districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans.
- Qualified Zone Academy Bond (QZAB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The federal government pays the interest on the QZABs in the form of an annual tax credit to a bank (or other eligible financial institution) that holds the QZAB. The Board acts as a legal funding conduit only and is not pecuniary liable for the repayment of the bonds.
- Qualified School Construction Bond (QSCB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The revenues of the borrower are pledged to repay the bonds. The Board acts as a legal funding conduit only and is not pecuniary liable for the repayment of the bonds.

c. Fixed Asset Depreciation

The equipment fixed assets recorded in the Enterprise Fund are depreciated on a straight-line basis value, in accordance with state policy.

d. Receivables

The Enterprise Fund notes/loans receivables of \$82.584 million as of June 30, 2015 and \$79.193 million as of June 30, 2014, represent loans made to state agencies, local governments, and the state university system. The Enterprise Fund notes/loans are classified in three categories as follows:

- 1) Notes/loans receivable from local governments and Montana universities.
- 2) Interfund notes/loans receivable from state agency governments.
- 3) Component Unit notes/loans receivable from certain state agencies and university units for which the State is financially accountable.

The interest accruals from state agencies and university units on the Interfund notes/loans receivable total \$117 thousand and \$98 thousand as of June 30, 2015 and 2014, respectively.

e. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents, as identified in the Statement of Net Position, are as follows: (in thousands)

	June 30, 2015	June 30, 2014
Cash in treasury	\$ 11	\$ 2
Cash with fiscal agent	0	19
Short Term Investment Pool (STIP)	311	454
First American Government Obligation Fund	17,053	20,505
First American Prime Obligation Fund	<u>3,490</u>	<u>3,394</u>
Total Cash and Cash Equivalents	\$ <u>20,865</u>	\$ <u>24,374</u>

The Enterprise Fund invests its operational cash in the Board's Short Term Investment Pool (STIP), an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. Although not registered with the Securities and Exchange Commission (SEC) as an investment company, STIP is managed similar to money market funds that are governed by SEC rule 2a7 of the Investment Company Act of 1940. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The portfolio is carried at amortized cost or book value with a constant unit value of \$1.00.

f. Net Position Restricted

Net Position represents the accumulated net profits of the Enterprise Fund programs. The Statement of Net Position for the Enterprise Fund reports a restricted net position. A net position is reported as restricted when constraints placed on the net position use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation.

The net position of all Enterprise Fund programs with the exception of MEDB (Montana Economic Development Bonds) Guarantee Fund Account, MEDB Guarantee CRP Note Reserve, MEDB Contingency Account, and CRP are restricted under bond indentures governing the use of these funds.

g. Investments

Investments are presented in the Statement of Net Position at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied by the Board's trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line method to the maturity date of the securities. The Net Position for fiscal years ended June 30, 2015 and June 30, 2014 include \$38 thousand and \$14 thousand, respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

2. INVESTMENT RISK DISCLOSURES

The investment risk disclosures are described in the following paragraphs.

The Enterprise Fund deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the Short Term Investment Pool (STIP) administered by the Board.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Enterprise Fund's U.S. government direct-backed securities, consisting of U.S. Treasury notes and bills, are guaranteed directly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The credit ratings presented in the table below are provided by the S&P rating service. If an S&P rating is not available, a NRSRO rating is used. The Enterprise Fund does not have a formal investment policy addressing credit risk for Permitted Investments as provided in the Indenture or investment in the STIP. Permitted Investments, as described in the indenture, include "either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the Bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)." The STIP cash equivalent fund has not been rated by a nationally recognized securities rating organization (NRSRO).

Custodial Credit Risk – Cash – Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by U.S. Bank's Trust Department in the name of the Board.

Investments - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2015 and 2014, Enterprise Fund securities were recorded in book entry form in the name of U.S. Bank National Association as Trustee for the Montana Board of Investments by specific account. The Enterprise Fund does not have a policy addressing custodial credit risk for deposits and investments, specifically, uninsured, collateralized deposits.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Enterprise Fund investments include investments directly issued or explicitly guaranteed by the U.S. government, and investments in mutual funds. These investments are excluded from the concentration of credit risk requirement.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Enterprise Fund does not have a formal investment policy addressing interest risk for Permitted Investments as provided in the Indenture or the cash equivalent investment in the STIP. The Enterprise Funds' bond indenture does not address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the duration method to disclose interest rate risk.

State of Montana Enterprise Fund investments are categorized below to disclose credit and interest rate risk as of June 30, 2015 and June 30, 2014. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using duration as calculated by Board staff. If a bond investment type is unrated, the quality type is indicated by NR (not rated). NA (not applicable) indicates if duration has not been calculated. Both the credit quality ratings and duration have been calculated excluding cash equivalents with credit ratings of NR or NA duration calculations. There were no derivative transactions during the above fiscal years for investments held by the trustee.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

Credit Quality Rating and Effective Duration as of June 30, 2015 (in thousands)				
<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>	
First American Government Obligation Fund	\$ 17,052	AAA	0.13	
First American Prime Obligation Fund	3,491	AAA	0.12	
Short Term Investment Pool (STIP)	314	NR	0.14	
U.S. Government Indirect Obligations	<u>8,256</u>	<u>AA+</u>	<u>1.85</u>	
Total Investments	\$ <u>29,113</u>	<u>AAA</u>	<u>0.62</u>	
Securities Lending Collateral Investment Pool	\$ <u>1</u>	NR	0.08*	
*As of June 30, 2015, the Securities Lending Quality Trust liquidity pool had an average duration of .08 and an average weighted final maturity of .32 for U.S. dollar collateral. In March 2015, all holdings in the Securities Lending Duration Pool were sold.				
Credit Quality Rating and Effective Duration as of June 30, 2014 (in thousands)				
<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>	
First American Government Obligation Fund	\$ 20,504	AAA	0.11	
First American Prime Obligation Fund	3,394	AAA	0.11	
Short Term Investment Pool (STIP)	459	NR	0.12	
U.S. Government Indirect Obligations	<u>8,233</u>	<u>AA+</u>	<u>2.65</u>	
Total Investments	\$ <u>32,590</u>	<u>AAA</u>	<u>0.75</u>	
Securities Lending Collateral Investment Pool	\$ <u>0</u>	NR	*	
*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of .11 and an average weighted final maturity of .31 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.50 for U.S. dollar collateral.				

3. SECURITY LENDING

The Enterprise Fund is a participant in the Board's Short Term Investment Pool (STIP). In fiscal years 2015 and 2014, security lending transactions were recorded for STIP.

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend the Board's securities on a collateralized basis to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The Board

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

and the Bank split the earnings, 80/20% respectively, on security lending activities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2015 and 2014, the Bank lent Board public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2015 and 2014. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal years 2015 and 2014 resulting from a borrower default.

During fiscal years 2015 and 2014, the Board and the borrowers maintained the right to terminate all securities lending transactions on notice. Security lending collateral is invested in one of two investment funds, the Quality D Short Term Investment Fund or the Security Lending Quality Lending Trust Fund. Each fund is comprised of a duration and a liquidity pool. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders. STIP was the only Enterprise fund investment with exposure to security lending transactions and STIP was invested in only the Securities Lending Quality Trust Fund. In March 2015, the Board sold all of the holding within the duration pool, which resulted in a loss of \$26 thousand. Security lending income offset the entire amount of the loss within the investment fund. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2015 and 2014, State Street Bank indemnified the Board's credit risk exposure to borrowers. The average duration and average weighted final maturity for each investment fund is as follows: (in thousands)

Security Lending Quality Trust	Liquidity Pool		Duration Pool	
	FY15	FY14	FY15	FY14
Average Duration	30 days	41 days	n/a	33 days
Average Weighted Final Maturity	115 days	114 days	n/a	548 days

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

4. BONDS PAYABLE

Long-Term Bonds Payable

Economic Development Bonds (EDB) and Municipal Finance Consolidation Act Bonds (MFCAB)

These bonds are issued under the Economic Development Bond Act, and the Municipal Finance Consolidation Act, for the purpose of assisting Montana's small businesses and local governments in obtaining low cost financing. As of June 30, 2015 and June 30, 2014, the Enterprise Fund reported no long term bonds/notes payable.

Current Bonds Payable

The Enterprise Fund is authorized to issue INTERCAP bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190 million as amended by the 2007 Legislature. The INTERCAP bonds provide funds for the Board to make loans to eligible government units. The bonds are not a debt or liability of the State of Montana. The bonds are limited obligations of the Board payable solely from: a) repayments of principal and interest on loans made by the Board to participating eligible Montana governments; b) investment income under the indenture; and c) an irrevocable pledge by the Board. The Board has no taxing power. These bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. The Board did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are recorded as current liabilities of the Enterprise Fund.

The INTERCAP obligations at June 30, 2015 and June 30, 2014, are listed below:					
(in thousands)					
<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range</u>	<u>Maturity</u>	<u>Balance June 30, 2015</u>	<u>Balance June 30, 2014</u>
1997	\$ 10,000	Variable	2017	\$ 9,035	\$ 9,040
1998	12,500	Variable	2018	11,695	11,695
2000	15,000	Variable	2025	14,335	14,335
2003	15,000	Variable	2028	14,430	14,430
2004	18,500	Variable	2029	18,200	18,200
2007	15,000	Variable	2032	14,775	14,775
2010	12,000	Variable	2035	11,975	11,975
2013	<u>12,000</u>	Variable	2038	<u>12,000</u>	<u>12,000</u>
Total INTERCAP Debt	<u>\$ 110,000</u>			<u>106,445</u>	<u>106,450</u>
Current Bonds Payable				<u>\$ 106,445</u>	<u>\$ 106,450</u>

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5. OTHER DEBT

Conduit Debt

In this program, the Board is authorized to issue stand-alone industrial revenue bonds, under the Economic Development Act, as conduit (no commitment) debt. Assets and revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as conduit (no-commitment) debt are listed below (in thousands):

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	Amount	Balance	Balance
			<u>Issued</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Stillwater Mining	July 2000	07/01/20	\$ 30,000	\$ -	\$ 30,000
Total conduit debt			<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>

QZAB Debt

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases the taxing power, of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as QZAB conduit (no-commitment) debt are listed below (in thousands):

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	Amount	Balance	Balance
			<u>Issued</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Philipsburg Schools	December 2003	12/10/17	\$ 2,000	\$ 2,000	\$ 2,000
Cut Bank Elementary	August 2005	08/18/21	825	825	825
Cut Bank High School	August 2005	08/18/21	625	625	625
Bozeman Public Schools	December 2006	12/19/15	1,459	1,459	1,459
Billings School	December 2008	06/15/18	773	773	773
Lewistown Elementary	June 2009	06/15/17	2,087	2,087	2,087
Kalispell Elementary	October 2013	06/15/28	620	620	620
Kalispell High School	October 2013	06/15/28	<u>1,587</u>	<u>1,587</u>	<u>1,587</u>
Total QZAB conduit debt			<u>\$ 9,976</u>	<u>\$ 9,976</u>	<u>\$ 9,976</u>

QSCB Debt

In this program, the Board is authorized to issue Qualified School Construction Bonds (QSCB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as QSCB conduit (no-commitment) debt are listed below (in thousands):

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	Amount	Balance	Balance
			<u>Issued</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Great Falls High Schools	April 2011	12/15/25	\$ 1,855	\$ 1,469	\$ 1,574
Great Falls Elementary	April 2011	12/15/25	<u>6,510</u>	<u>5,157</u>	<u>5,524</u>
Total QSCB conduit debt			<u>\$ 8,365</u>	<u>\$ 6,626</u>	<u>\$ 7,098</u>

6. INTERCAP PROGRAM LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. The Board's outstanding commitments to eligible Montana governments, as of June 30, 2015 and 2014, total \$38.0 million and \$39.7 million, respectively.

7. ARBITRAGE

The fiscal year 2015 and 2014 Arbitrage Rebate Tax Expense represents an over accrual of estimated arbitrage liability as calculated by a contracted vendor.

8. COMPENSATED ABSENCES AND PERSONAL SERVICES

Compensated absences liabilities represent the unpaid leave balances for employees at fiscal yearend. The liability identifies the vacation, sick leave and exempt compensatory time which state employees have earned but not taken. Annually, the compensated absences liabilities balances are adjusted between prior year and current year balances with an offset to personal services expense.

9. PRIOR PERIOD ADJUSTMENT

The prior period adjustment increasing net position by \$5 thousand and related increases to personal services for \$2 thousand and OPEB expense for \$3 thousand is associated with the OPEB restatement that occurred in FY14 (refer to Note 11).

The adjustment to decrease beginning net position by \$296 thousand in FY15 is associated with the implementation of GASB Statement 68 Accounting and Financial Reporting for Pensions. There were several other adjustments associated with this change in FY15. The other adjustments are: increases in pension deferred outflows of \$23 thousand and pension deferred inflows of \$63 thousand, an increase in pension expense of \$19 thousand and a decrease in personal services expense of \$23 thousand and finally increases to pension revenue of \$7 and pension liability of \$245 thousand. (Refer to Note 12.)

10. NON-PENSION EMPLOYEE BENEFITS PLANS

Deferred Compensation Plan

The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

Health Care

Board staff and dependents are eligible to receive medical and dental health care through the State Group Benefits Plan administered by the Montana Department of Administration Health Care & Benefits Division. Montana Department of Administration established medical premiums vary between \$845 and \$1,134 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between \$22.00 and \$68.50 per month for dental and between \$5.76 and \$16.76 per month for an optional vision hardware plan depending on family coverage and eligibility. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

11. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The State of Montana provides optional post-employment health care benefits in accordance with Montana Code Annotated (MCA), Title 2, Chapter 18, Section 704, to employees and dependents that elect to continue coverage and pay administratively established premiums. Coverage is provided through the State Group Benefits Plan.

The Board follows GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires the following disclosure of employer liability for retiree medical subsidies and other post-employment benefits. For financial statement reporting purposes, the State Group Benefits Plan is considered an agent multiple-employer plan and the Board is considered to be a separate employer participating in the plan. Each participating employer is required by GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The State Group Benefits Plan allows retirees to participate as a group, at a rate that does not cover all of the related costs. Retiree participation results in the reporting of an "implied rate" subsidy in the Board's financial statements and footnotes as OPEB liability. The OPEB liability is disclosed for financial statement purposes but does not represent a legal liability of the State Group Benefits Plan or the Board.

Post-employment Healthcare Plan Description

Board staff and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with Section 2-18-704 MCA, the State provides optional post-employment medical, vision and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees.

In addition to the employee benefits described in Note 10, NonPension Employee Benefit Plans, the following post-employment benefits are provided:

Montana Department of Administration established retiree medical premiums vary between \$371 and \$1,345, administratively established dental premiums vary between \$22.00 and \$68.50; vision hardware premiums vary between \$5.76 and \$16.76 both premiums vary depending on the coverage selected. Basic life insurance in the amount of \$14,000 is provided until age 65 at a cost of \$1.90 per month to the retiree. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed up to \$600 for diagnostic/preventative and \$1,800 for repair/reconstructive services annually. The State acts as secondary payer for retired Medicare-eligible claimants.

Benefits Not Included in the Valuation

Retirees pay 100 percent of dental premiums. Thus, there is no liability for dental valued in this valuation. The vision benefit is fully-insured and retirees pay 100 percent of the cost. Thus, there is no liability for vision valued in this valuation. The life insurance benefit is a fully-insured benefit that is payable until age 65 with the retiree required to pay the full premium. There is no liability valued in this valuation for the retirees, though the required premium is an active/retiree blended premium. This liability would be insignificant to the overall results of this valuation.

Funding Policy

The following estimates were prepared for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the Board's data and is available through:

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Montana Department of Administration,
State Financial Services Division
Rm 255, Mitchell Bldg.,
125 N Roberts St
PO Box 200102,
Helena, MT 59620-0102.

GASB Statement No. 45 requires the plan's participants, including the Board, to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The 2015 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2015 ARC is estimated at \$12 thousand and is based on the plan's current ARC rate of 4.40% of participants' annual covered payroll. The Board's 2015 ARC is equal to an annual amount required each year to fully fund the liability over 30 years.

The amount of the estimated OPEB actuarial accrued liability is determined in accordance with the GASB Statement No. 45, as of June 30, 2015 the liability is estimated at \$69 thousand for the Board. (The actuarial accrued liability is the present value of future retiree benefits and expenses.)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows the actuarial value of plan assets and liabilities.

The actuarial valuation method used is the projected unit credit funding method. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB Statement No. 43 or No. 45. Annual healthcare cost trend rates of 9% percent for medical and 8% percent for prescription claims are used for the 2013 plan year. The unfunded actuarial accrued liability is amortized following a 30-year level percentage of payroll amortization schedule on an open basis beginning for calendar year 2015.

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. Therefore the following cost information shows no plan assets made by the Board.

Annual OPEB Cost:

For 2015, the Board's allocated annual OPEB cost (expense) of \$15 thousand, adjusted for amortization of the net OPEB obligation plus interest on the prior year obligation amount, less employer contributions. The Board's annual

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OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows: (in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015**	\$ 13	28%	\$ 69
6/30/2014	12	9%	60
6/30/2013*	9	12%	50

* Restated due to an error in the calculation of annual OPEB costs, which did not previously include amortization adjustments or employer contributions.

** Cost reflected does not include prior period adjustment of (\$2) thousand which is included in the (\$5) thousand prior period adjustment from Note 9.

Funded Status and Funding Progress

The funded status of the Board’s allocation of the plan as of June 30, 2015 and June 30, 2014, were as follows: (in thousands)

FY2015	
Actuarial Accrued Liability (AAL)	\$ 124
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 124
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	\$ 270
UAAL as a Percentage of Covered Payroll	45.95%
FY2014	
Actuarial Accrued Liability (AAL)	\$ 123
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 123
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	\$ 249
UAAL as a Percentage of Covered Payroll	49.27%

12. PENSION FOOTNOTE

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees’ Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

Plan Description

The Board and its employees contribute to either the PERS-Defined Benefit Retirement Plan (DBRP) or the PERS-Defined Contribution Retirement Plan (DCRP). Both the DBRP and the DCRP are administered by the Montana Public Employee Retirement Administration (MPERA). The DBRP is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). The DCRP is a multiple employer plan established in July 1, 2002, and governed by Title 19 chapters 2 & 3.

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All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP. DBRP Benefits are based on eligibility, years of service and highest average compensation. DCRP benefits are based on the balance in the member's account, which includes the total contributions made, the length of time the funds have remained in the plan and the investment earnings less administrative costs.

Both the DBRP and DCRP provide retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Employees of the Enterprise Fund may or may not be members the DCRP. Based on confidentiality requirements, PERS is not able to provide detail as to what percentage of the pension liability, pension expense, or pension deferred in/outflows as recorded relates to DBRP versus DCRP members. Therefore, the pension disclosure as follows applies to both DBRP and DCRP, unless specifically stated otherwise.

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended. It is available from the MPERA at 100 North Park, PO Box 200131, Helena MT 59620-0131, 406-444-3154. The MPERA's CAFR information including MPERA stand-alone financial statements and latest actuarial valuation reports can be found on MPERA's web site at <http://mpera.mt.gov/index.shtml>. The information contained within MPERA's CAFR will only display information in regard to PERS in total and will not display information specific to the Enterprise fund as an entity.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2011	HAC during any consecutive 36 months;
Hired on or after July 1, 2011	HAC during any consecutive 60 months;
Hired on or after July 1, 2013	110% annual cap on compensation considered as part of a member's HAC.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011	Age 55, 5 years of membership service.

Monthly benefit formula

Members hired prior to July 1, 2011

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

*At this time, as a result of permanent injunction issued in the *AMRPE vs State* litigation, the GABA rate in effect is being used in the calculation. Per court order on August 19, 2015, the permanent injunction is only applicable to public employees that were hired prior to July 1, 2013. For employees hired on or after July 1, 2013 the funding will be at a maximum of 1.5% for each year PERS is funded at or above 90%, for each 2% PERS is funded below 90% the 1.5% is reduced by 0.1% and 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend the statutory contribution rates to the plan.

Currently, plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. By statute, the 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

As the employer, the State of Montana employers was required to contribute 8.27% of members' compensation. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. The additional contribution were not terminated on January 1, 2015.

Effective July 1, 2013, DBRP received other contributions including 1% of the DCRP employer contributions for participants, additional Plan Choice Rate contributions, and additional contributions from the coal severance tax fund and interest income from the coal severance tax permanent fund. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required. PERS received 100% of the required contributions from the Enterprise Fund in the amount of \$23 thousand.

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience

study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00% (includes Inflation at 3.00%)
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.
- Postretirement Benefit Increases
 - o 3% for members hired prior to July 1, 2007
 - o 1.5% for members hired on or after July 1, 2007

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

*At this time as a result of permanent injunction issued in the *AMRPE vs State* litigation, the GABA rate in effect is being used in the calculation. Per court order on August 19, 2015, the permanent injunction is only applicable to public employees that were hired prior to July 1, 2013. For employees hired on or after July 1, 2013 the funding will be at a maximum of 1.5% for each year PERS is funded at or above 90%, for each 2% PERS is funded below 90% the 1.5% is reduced by 0.1% and 0% whenever the amortization period for PERS is 40 years or more.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund.

Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized

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in the below table. The assumed asset allocation of the pension plan's portfolio and the long-term expected real rate of return for each major asset class are as follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	(0.25%)
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The below table represents the Net Position Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Net Pension Liability Sensitivity Analysis (in thousands)	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75)
DBRP Total Plan	\$ 1,982,274	\$ 1,246,011	\$ 625,045
Enterprise Fund	\$ 391	\$ 245	\$ 123

Summary of Significant Accounting Policies - DBRP

DBRP financial statements are prepared using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

In accordance with Statement 68, PERA has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf local government and school district employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. Contributions provided by the Coal Tax revenue attributable to the Enterprise Fund were \$7 thousand.

At June 30, 2015, the Enterprise Fund recorded a liability of \$245 thousand for its proportionate share of the DBRP Net Pension Liability and \$19 thousand for its proportionate share of the pension expense. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2014, the Enterprise Fund's proportion was .0197025% percent. There were no changes in assumptions or other

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inputs that affected the measurement of the Total Pension Liability. There have been no changes in benefit terms since the previous measurement date. There were no changes between the measurement date of the collective Net Pension Liability and the employer’s reporting date that are expected to have a significant effect on the employer’s proportionate share of the collective NPL.

Deferred pension inflow / outflow

At June 30, 2015, the employer recognized a deferred outflow of resources of \$23 thousand for the employers contributions. The pension deferred inflows was \$63 thousand, which related to the net difference between projected and actual earning on pension plan investments.

Amounts reported as deferred outflows of resources related to pensions resulting from the employer’s contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

Year ended June 30:	Deferred Outflows/Inflows of Resources (in thousands)
2016	\$ (16)
2017	(16)
2018	(16)
2019	(16)
2020	n/a
Thereafter	n/a

The FY14 statements as presented were not restated. It was not practical to calculate all of the pension related items for FY14.

13. NET POSITION

Net Position represents the accumulated net profits of the Enterprise Fund programs. The Net Position for fiscal years ended June 30, 2015 and 2014 include \$38 thousand and \$14 thousand, respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015

Schedule of Funding Progress for Montana Board of Investments
Other Post-Employment Benefits (Financial Statements Note 11)

As of June 30, 2015, the most recent actuarial valuation available that was completed by the State of Montana was as of January 1, 2013 for the year ending December 31, 2013. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2015. The following information is presented in thousands.

Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability * (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/(C))
1/1/2013	\$ 0	\$ 123	\$ 123	\$ 0	\$ 249	49.27%
1/1/2011	0	71	71	0	130	54.73%
1/1/2009	0	109	109	0	153	71.45%

RSI regarding the pension information is below, see also Footnote 12. Only one year of data is available at this time. As additional years of data are available, a total of 10 years will be presented.

Schedule of Required Supplementary Information Schedule of Net Position Liability As of June 30, 2014 (in thousands)	
Proportion of NPL	.019702%
Proportionate share of NPL	\$ 245
Pensionable payroll	\$ 220
Proportionate share of NPL as % of pensionable payroll	111.436000%
Plan fiduciary net position as % of total NPL	79.900000%

Schedule of Required Supplementary Information Schedule of Contributions As of June 30, 2015 (in thousands)	
Contractually required contribution	\$ 19
Contributions made	(19)
Contribution deficiency / (excess)	\$ 0
Share of FY14 pensionable payroll	\$ 220
Contributions as a % of pensionable payroll	8.797000%

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