REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

Glacier Bank
Board Meeting Room
49 Commons Loop
Kalispell, MT.

Thursday, August 1, 2002

AGENDA

I. CALL TO ORDER 9:30 a.m.
A. Roll Call
B. Approval of the June 20, 2002 Regular Meeting Minutes

II. PRESENTATION - Pyrford International 9:35 a.m.
Bruce L. Campbell, Managing Director
Tony Cousins, CFA, Director, Portfolio Management

III. EXECUTIVE DIRECTOR REPORTS - Carroll South 10:15 a.m.
A. Out-of-State Travel Requests

IV. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 10:30 a.m.
A. Economic Overview - Newsletter
B. Asset Allocation
C. Asset Allocation - Index Fund Funding
D. Quarterly Investment Performance Review

V. MONTANA LOAN PROGRAM - Delrene Rasmussen 11:00 a.m.
A. Consider Commercial/Multi-Family Loans
   1. Dr. Antonia and Bernadette Santin
   2. Belgrade Big R, LLP.
   3. Viking Land, LLC - Value Added Loan
B. Coal Tax Loan Activity Report - June
C. Mortgage Program Activity Report - June

VI. INVESTMENT ACTIVITY - Internal Management 11:15 a.m.
A. Domestic Equities (Montcomp) - Rande Muffick, CFA
   1. Transactions - June
   2. Holdings Report
   3. Strategy
   4. Portfolio Additions
      a. Electronic Data Systems
      b. Omnicom Group

B. International Equities (MTIP) - David Ewer
   1. Europe and Americas
      a. Internal Transactions - June
      b. Internal International Holdings Report
      c. Strategy

C. Fixed Income - Rich Cooley, CFA
1. Transactions - June  
2. Strategy  
3. Investment Policy Statement  
a. University of Montana Operating  
4. Non-Investment Grade Fixed Income Holdings  

D. STIP and Treasurer's Funds - Rich Cooley, CFA  
1. STIP Transactions - June  
2. STIP Holdings Report  
3. Treasurer's Fund Transactions - June  
4. Treasurer's Fund Holdings Report  
5. Strategy  

VII. INVESTMENT ACTIVITY - External Management  
A. Security Lending - Ed Kelly  
1. Income Report - June  
B. International Equity Active - Ed Kelly  
1. Quarterly Holdings - June  
C. Private Equity - Ed Kelly  
1. MPEP Transactions - June  
2. MPEP Holdings Report - June  
3. Private Equity Update  

VIII. BOND PROGRAM - Geri Burton 12:00 p.m.  
A. INTERCAP  
1. Activity Report  
2. Staff Approved Loan Report  
3. Loan Requests  
B. Exempt Facility Revenue Bonds (Gainey Foundation) Preliminary Resolution #197  

IX. ADJOURNMENT  
The Board of Investments makes reasonable accommodations for any known disability that may interfere with a person's ability to participate in public meetings. Persons needing an accommodations must notify the Board (call 444-0001 or write to P.O. Box 200126, Helena, Montana 59620) no later than three days prior to the meeting to allow adequate time to make needed arrangements.
CALL TO ORDER

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 9:30 a.m. in the conference room at Glacier Bank, 49 Commons Loop, Kalispell, Montana. As noted above, the meeting convened with six members of the Board present.

Member Bardwell motioned for approval of the June 20, 2002 minutes; Member Long seconded the motion and the motion was passed 6-0.

PRESENTATION

Mr. Bruce Campbell and Mr. Tony Cousins, Pyrford International, gave their annual European Equity Fund Performance Review to the Board and staff.

EXECUTIVE DIRECTOR REPORTS

Out-of-State Travel

Deputy Director Geri Burton, presented travel recommendations for Jim Penner to attend the Pensions 2000 Summer Symposium Conference, Teton Village, WY., July 15 - 17, 2002; Jim Penner to attend the NASIO 2002 Conference, San Diego, CA., October 19 - 23, 2002; and Dana Chapman to attend the School of Mortgage Banking, College Park,
MD., September 28 - October 5, 2002. Member Fleming moved for approval of this recommendation; Member Long seconded the motion and the motion was passed 6-0.

CHIEF INVESTMENT OFFICER REPORTS

Asset Allocation Report

Mr. Jim Penner, Chief Investment Officer, presented the Asset Allocation report for August 15, August 30 and September 15 transactions.

In addition, per board authorization given on June 20, 2002, for staff to invest up to $50 million in the S&P 500 Domestic Index Fund as market conditions warrant, $25 million was invested on June 28 and July 15. Mr. Penner recommended that staff be authorized to invest an additional $25 million on August 1, 2002, if the market conditions so warrant.

Member Fleming moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 6-0.

Quarterly Investment Performance Report


ECONOMIC DEVELOPMENT BOND PRELIMINARY RESOLUTION #197

Ms. Geri Burton, Deputy Director, presented an Economic Development Bond request from the Gainey Foundation. The Gainey Foundation has requested that the Board issue up to $6 million of its Economic Development Revenue Bonds to finance the acquisition of real estate and construction of buildings and facilities and related improvements for a youth camp located near Glen, Montana in Madison and Beaverhead Counties.

The purpose of the Preliminary Inducement Resolution is to give preliminary approval to the issuance of bonds under the Economic Development Bond Act in an amount not to exceed $6 million and to call for public hearings on the project. The Preliminary Inducement Resolution is preliminary and does not obligate the Board to issue the bonds if it determines that the project is not in the public interest.

Staff recommends that the Board:
1. Accept the application of the Gainey Foundation youth camp project and allow the standard process to proceed under the Stand Alone Economic Development Bond Program including arranging for and overseeing the public hearings.
2. Adopt the Preliminary Inducement Resolution.
3. Acknowledge for the record that the Board is at this point only giving initial approval for the Board's involvement with the financing and that such approval is conditional as per the Preliminary Inducement Resolution and any additional requirements that the Board may make before considering a final recommendation for an issuance of bonds.

Member Fleming moved for approval of this recommendation; Member Fagg seconded the motion and the motion was passed 6-0.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending July 19, 2002.

Staff Approved Loans Report

Ms. Geri Burton reported that:
Borrower: Ramsey Elementary School District #3  
Purpose: To finance costs associated with upgrading the gymnasium.  
Staff Approval Date June 10, 2002  
Board Loan Amount: $90,323  
Term: 5 years

Borrower: Augusta Public Schools  
Purpose: To finance costs associated with renovating the School's two locker rooms.  
Staff Approval Date June 18, 2002  
Board Loan Amount: $85,000  
Term: 10 years

Borrower: Bigfork Public Schools  
Purpose: To finance costs associated with upgrading the gymnasium.  
Staff Approval Date June 18, 2002  
Board Loan Amount: $110,000  
Term: 2 years

Borrower: Department of Administration - Voluntary Employee Beneficiary Association  
Purpose: To finance start-up costs associated with implementing the Voluntary Employee Beneficiary Association plan.  
Staff Approval Date June 19, 2002  
Board Loan Amount: $145,000  
Term: 10 years

Borrower: Canyon Creek Volunteer Fire District  
Purpose: To finance a portion of the costs associated with construction of a fire hall.  
Staff Approval Date June 21, 2002  
Board Loan Amount: $90,000  
Term: 10 years

Borrower: Town of Saco  
Purpose: To finance the costs of drilling two natural gas wells.  
Staff Approval Date June 27, 2002  
Board Loan Amount: $200,000  
Term: 5 years

Borrower: Cascade County Loan Amount Increase  
Purpose: To finance the cost of purchasing condominium space.  
Staff Approval Date June 28, 2002  
Board Loan Amount: $36,350  
Term: 10 years

Borrower: Huntley Project Irrigation District (Ballantine)  
Purpose: Short term loan for cash flow purposes.  
Staff Approval Date July 2, 2002  
Board Loan Amount: $200,000  
Term: 1 year

Borrower: Town of Melstone  
Purpose: To finance a portion of the costs associated with a preliminary engineering report for the Town's water system.  
Staff Approval Date July 3, 2002  
Board Loan Amount: $9,500
Term: 3 years interest only; up to 3 additional years, principal and interest.

Borrower: Teton County Hospital District (Choteau)
Purpose: To finance several projects within the hospital/clinic buildings.
Staff Approval Date July 3, 2002
Board Loan Amount: $130,990
Term: 5 years

Borrower: Somers School District #29
Purpose: To finance a portion of the costs associated with replacing the heating system.
Staff Approval Date July 10, 2002
Board Loan Amount: $147,000
Term: 10 years

Borrower: Bridger Canyon Rural Fire District (Bozeman)
Purpose: To finance the purchase of a 2002 Hummer Wildlands Fire Truck.
Staff Approval Date July 12, 2002
Board Loan Amount: $102,000
Term: 7 years

has been approved by staff.

INTERCAP

Ms. Geri Burton presented staff's recommendation that the Board authorize staff to proceed with processing and closing the following loans using the Board's standard Bond Program Office procedures:

Borrower: Missoula Rural Fire District
Board Loan Amount: $206,293
Term: 10 years
Purpose: To finance the purchase of a new pumper fire engine.

Borrower: Somers School District #29
Board Loan Amount: $113,500
Term: 10 years
Purpose: To finance a portion of a renovation project.

Member Bardwell moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 6-0.

LOAN PROGRAMS

Consideration of Commercial Loan Participation - Permanent Coal Trust Fund

Ms. Delrene Rasmussen presented staff's recommendation to participate in the following loan request:

Borrower: Dr. Antonio and Bernadette Santin
Lender: Mountain West Bank, Great Falls
Purpose of Loan: To provide permanent financing for the construction of a new office/clinic for the Montana Plastic Surgery Center.
Amount of Loan: $853,600
Board Loan Amount: $682,880
Board Participation: 80%
Term of Loan: 20 Years
Interest Rate: 7.45% + .50% LSF = 7.95%
Recommendation: Approval, subject to the terms and conditions in Schedule A.

Loan Committee Recommendation:
Approve with additional requirement that there be an assignment of life insurance with home office acknowledgement in the amount of $500,000 on the life of Dr. Antonio Santin Member Anderson abstained from Loan Committee Recommendation.

Member Fleming moved for ratification of loan committee recommendation; Member Fagg seconded the motion and the motion was passed 5-0. Member Anderson abstained from the vote.

Borrower: Belgrade Big R, LLP,
Lender: Mountain West Bank of Bozeman
Purpose of Loan: To provide the borrower with a $945,000 commercial term loan to refinance two loans totaling $914,365 on a warehouse, $15,644 to asphalt the parking lot and $14,991 to make miscellaneous improvements to the property and to pay loan fees.
Amount of Loan: $945,000
Board Loan Amount: $661,500
Board Participation: 70%
Term of Loan: 15 Years
Interest Rate: 7.25% + .65% LSF = 7.90%
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Approve. Member Anderson abstained from Loan Committee Recommendation.

Member Fagg moved for ratification of loan committee recommendation; Member Fleming seconded the motion and the motion was passed 5-0. Member Anderson abstained from the vote.

Consideration of Value Added Loan Program - Coal Tax Trust Fund

Mr. Herb Kulow presented a loan request to participate in the following loan:

Borrower: Vikings Land, LLC.
Lender: First Interstate Bank, Miles City
Purpose of Loan: Is for the acquisition and construction of a new building and manufacturing plant, which will include a 29,300 sq. ft. metal structure on industrial zoned property.
Total Amount of Loan: $873,000
Board Loan Amount: $654,750
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation:
Approve with the additional requirement that there be a second deed of trust on all land owned by Viking Land, LLC. Member Long abstained from Loan Committee Recommendation.

Member Fagg moved for ratification of loan committee recommendation; Member Fleming seconded the motion and the motion was passed 5-0. Member Long abstained from the vote.

Coal Tax Loan Activity

Ms. Delrene Rasmussen presented and the Board reviewed this report for June.

Mortgage Program Activity Review

The Board reviewed this report for June.

INVESTMENT ACTIVITY

Montcomp
Mr. Rande Muffick presented June transactions, the holdings report as of June 30, 2002 and the current investment strategy. Member Beams moved for approval of the Montcomp strategy as presented; Member Bardwell seconded the motion and the motion was passed 6-0.

In addition, Mr. Muffick presented Electronic Data Systems and Omnicom Group as a Portfolio Additions.

**International Investment**

Mr. David Ewer presented June transactions, the holdings report as of June 30, 2002 and the current investment strategy. Member Fagg moved for approval of the International Investment strategy as presented; Member Beams seconded the motion and the motion was passed 6-0.

**Fixed Income**

Mr. Richard Cooley presented June transactions, and the current investment strategy. Member Beams moved for approval of the Fixed Income strategy as presented; Member Bardwell seconded the motion and the motion was passed 6-0.

In addition, Mr. Cooley presented the Investment Policy Statements for University of Montana Operating Fund. Member Bardwell moved for approval of the Investment Policy Statements as presented; Member Beams seconded the motion and the motion was passed 5-0. Member Fleming abstained from the vote.

Mr. Cooley also presented the annual report of Board of Investments Non-Investment Grade Holdings.

**Treasurer's and STIP Funds**

Mr. Cooley also presented June STIP transactions the STIP holdings report as of June 30, 2002, the June Treasure's Fund transactions, the Treasurer's Fund holdings report as of June 30, 2002 and the current investment strategy for both of these funds. Member Long moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Fleming seconded the motion and the motion was passed 6-0.

**Security Lending**

Mr. Ed Kelly presented this report for June.

**Montana Private Equity Pool (MPEP)**

Mr. Ed Kelly presented June transactions and the holdings report as of June 30, 2002.

**Next Meeting**

The next regularly scheduled meeting of the Board will be September 19 & 20, 2002.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 1:30 p.m.

**BOARD OF INVESTMENTS**

**APPROVE:**
Dick Anderson, Chairman

**ATTEST:**