

**REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE
2401 Colonial Drive, 3rd Floor
Helena, Montana
January 20 & 21, 2005**

AGENDA – Thursday, January 20, 2005

- I. CALL TO ORDER** **1:00 p.m.**
- A. Roll Call
 - B. Approval of the December 2, 2004 Regular Meeting Minutes
 - C. Public Comment
 - 1. Public Comment on Board Related Items
 - D. Administrative Business
 - 1. Personnel Committee Report
 - 2. Audit Committee Report
- II. MONTANA LOAN PROGRAM – Delrene Rasmussen** **2:00 p.m.**
- A. Consider Commercial/Multi-Family Loans
 - 1. Bozeman Lodging Investors LLC.
 - 2. 321 Associates LLC – Seasoned Loan Participation
 - 3. Great Falls Port Authority (Centene) Infrastructure Loan Request
 - B. Coal Tax Loan Program Activity Report – November
 - C. Pension Mortgage Program Activity Report – November
- III. PRESENTATION – Carlyle Group** **2:30 p.m.**
- Mr. David Rubenstein, Founder and Managing Director
Mr. Lee Carson, Managing Director
Recommendation: Carlyle Partners Fund III – Ed Kelly
- IV. EXECUTIVE DIRECTOR REPORTS – Carroll South** **3:30 p.m.**
- A. Budget Status Report
 - B. Questions and Answers
 - C. Code of Ethics
 - D. Fiscal 2003/2004 Audit
 - E. Legislative Update (Verbal)
- V. BOND PROGRAM – Louise Welsh** **4:00 p.m.**
- A. INTERCAP
 - 1. Activity Report
 - 2. Staff Approved Loans Report
 - 3. Loan Requests
- VI. CHIEF INVESTMENT OFFICER REPORTS – Bob Bugni, CFA** **4:15 p.m.**
- A. Asset Allocation
 - 1. Retirement Funds
 - 2. Equity Targets for the Retirement Funds
 - 3. MDEP Rebalancing update
 - 4. MTIP
 - B. Peer Comparisons as of 6/30/2004, by RV Kuhns
 - C. Educational Opportunities/Conferences/Seminars
- ADJOURN** **5:00 p.m.**

AGENDA – Friday, January 21, 2005

RECONVEYNE

8:30 a.m.

VII. INVESTMENT ACTIVITY – Equity

8:30 a.m.

- A. Domestic Equities (Montcomp) – Rande Muffick, CFA
 - 1. Transactions - November
 - 2. Holdings Report
 - 3. Strategy
- B. Montana Private Equity Pool (MPEP) – Ed Kelly
 - 1. Transactions - November
 - 2. Holdings Report
- C. Montana International Equity Pool (MTIP) – Rich Cooley, CFA

VIII. INVESTMENT ACTIVITY – Fixed Income

- A. Intermediate Funds – Rich Cooley, CFA
 - 1. Treasurer’s Fund Transactions - November
 - 2. Treasurer’s Fund Holdings Report
 - 3. State Fund Transactions - November
 - 4. State Fund Holdings Report
 - 5. Strategy
- B. Long Term Funds – Rich Cooley, CFA and Bob Bugni, CFA
 - 1. Transactions - November
 - 2. Strategy
 - 3. Periodic Reports
 - a. Non-Investment Grade Holdings Report
 - b. Retirement Funds Bond Pool Holdings Report
 - c. Trust Funds Bond Pool Holdings Report

IX. INVESTMENT ACTIVITY – FYI Items

- A. STIP Transactions/Holdings Report
- B. Security Lending Report
- C. External Active Manager Portfolio Holdings

X. ADJOURNMENT

10:30 a.m.

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.

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor
Helena, Montana
January 20, 2005**

MINUTES

BOARD MEMBERS PRESENT:

Dick Anderson, Chairman
Dennis Beams
Karen Fagg
Jay Klawon
Joel Long
Terry Moore

BOARD MEMBERS ABSENT:

Maureen Fleming
Tim Ryan
Calvin Wilson

STAFF PRESENT:

Robert T. Bugni, CFA, Chief Investment Officer - Interim
Dick Bridegroom, Mortgage Analyst
Geri Burton, Deputy Director
Richard Cooley, CFA, Senior Investment Officer
Kimberly Dallas, Program Assistant
Bobbie Ecklund, Research Manager
Edward Kelly, Assistant Investment Officer
Joe Kennebeck, Equity Trader
Herbert Kulow, Senior Portfolio Manager
Scott Moore, Investment Analyst
Rande Muffick, CFA, Assistant Investment Officer
Adam Nelson, Investment Analyst
Delrene Rasmussen, Assistant Investment Officer
Carroll V. South, Executive Director
Steve Strong, Investment Analyst

GUESTS:

Gordon Hoven, Piper Jaffray
David Rubenstein, Founder & Managing Director, Carlyle Group
Lee Carson, Managing Director, Carlyle Group
Bob Pancich, Representing Great Falls Port Authority
Drew Stevenson, Financial Officer, Centene Corp.

CALL TO ORDER

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 1:00 p.m. in the conference room at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with six members of the Board present. Member Fleming, Member Ryan and Member Wilson were absent.

Member Moore motioned for approval of the December 2, 2004 minutes; Member Klawon seconded the motion and the motion was passed 6-0.

ADMINISTRATIVE BUSINESS

Chairman Anderson presented the following Administrative Business:

1. Public Comment - Chairman Anderson called for Public Comment of Board-Related Items. No Public Comment was made.

2. Personnel Committee Report – Terry Moore, on behalf of Maureen Fleming, reported that the Personnel Committee met via conference call and after a lengthy discussion the committee would ask for the Boards authority and permission to proceed with the RFP Process to hire a firm that will assist in soliciting a new Chief Investment Officer. The RFP Process will need to be coordinated with Dept. of Administration.
Member Long motioned for approval of the Personnel Committee’s request and to give the Committee the authority to proceed with the RFP Process; Member Klawon seconded the motion and the motion was passed 6-0.

3. Audit Committee Report – Member Fagg reported that the Audit Committee will meet on Friday, January 21, 2004 in the small conference room. The Committee will review the draft Audit Committee Charter and Steve Harding will join the meeting via conference call.

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:	S & N Properties, LLP.
Lender:	Wells Fargo Bank, Billings
Purpose of Loan:	To refinance an existing SBA debt and to make improvements to the building.
Amount of Loan:	\$790,000
Board Loan Amount:	\$632,000
Board Participation:	80%
Term of Loan:	25 Years

Interest Rate:	7.50% + .25 LSF = 7.75%
Recommendation:	Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation:	Approve as presented

Member Klawon moved for ratification of loan committee recommendation; Member Long seconded the motion and the motion was passed 6-0.

Borrower:	321 Associates, LLC.
Lender:	Great Falls Development Authority, Corp.
Purpose of Loan:	(Seasoned Loan) - To provide additional funding for the Centene project in Great Falls.
Amount of Loan:	\$1,630,527.89
Board Loan Amount:	\$1,100,606.32
Board Participation:	67.5%
Term of Loan:	20 Years – 15 Years remaining.
Interest Rate:	4.75%
Recommendation:	Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation:	Approve as presented.

Member Moore moved for ratification of loan committee recommendation; Member Beams seconded the motion and the motion was passed 6-0.

Borrower:	Great Falls Port Authority
Lender:	Montana Board of Investments
Purpose of Loan:	Infrastructure Loan Request – To provide a facility to entice the Centene Corporation to move part of its operation to Great Falls. The loan proceeds will be used to construct a new 48,633 sq. ft. two-story office building.
Amount of Loan:	\$4,999,800
Board Loan Amount:	\$4,999,800
Board Participation:	100%
Term of Loan:	
Interest Rate:	4.43%
Recommendation:	Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation:	Approve as presented. Staff was authorized to negotiate additional, remove, or modify provisions in Schedule A with the borrower. Member Anderson abstained.

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

Coal Tax Loan Program Activity Report

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

Pension Mortgage Program Activity Report

The Board reviewed this report for November.

Presentation

Mr. David Rubenstein and Mr. Lee Carson presented to the Board their report on the Carlyle Partners Fund IV.

Mr. Ed Kelly presented to the Board staff recommendation that the Montana Board of Investments commit \$50 million to Carlyle Partners Fund IV. Mr. Kelly's recommendation is based on the following:

Market Opportunity:

- Corporate Restructuring and Divestiture – The global, broad based trend toward corporate restructuring is creating a growing source of investment opportunities as large corporations divest of profitable non-core holdings.

Manager Selection:

- Stable and Experienced Management Team – The Carlyle Group is one of the largest, most successful and most experienced global private equity firms in existence today.
- Superior Investment Track Record – Carlyle has a proven 17 year track record in the U.S. buyout market, via three previous funds, each of which has provided top quartile investment performance to their limited partners.
- Proven Investment Strategy – Carlyle's consistent, conservative and focused approach has allowed it to invest equity capital and produce attractive returns during varying economic, interest rate, stock market and industry cycles.
- Commitment by Carlyle Partners to the Fund – Carlyle and its affiliates will commit a minimum of \$300 million to Carlyle Partners Fund IV.

Portfolio Strategy:

- Investment Performance – The expected investment performance, net of fees and partnership carry, equals or exceeds the absolute benchmark return of 15% established for the Montana Private Equity Pool (MPEP).
- Investment Policy – The recommended investment in Carlyle Partners IV falls within the range established for the buyout sub-class for MPEP.

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

EXECUTIVE DIRECTOR REPORTS

Budget Status Report

Executive Director Carroll South presented this report for the period ending December 31, 2004.

Questions and Answers

Mr. South presented to the Board a document designed to provide information about the Board in a short, concise bullet format. This document will be included in the manual handed out to new Board members and will be posted on the website.

Code of Ethics

Mr. South presented the Code of Ethics for review. The preliminary report submitted by IFS suggests that Board Members and staff should be aware of the provisions of state law regarding the Code of Ethics for public officials and employees.

Legislative Updates

Mr. South updated the Board on activity taking place during the Legislative Session that has an impact or involvement with the Board of Investments.

1. A bill stating that “all state agencies that contract, cannot contract with anyone that is going to use non-US citizens to carry out a duty of the contract”. This bill would have a devastating effect on International Equity investing. Mr. South testified at the committee hearing and if the bill were to proceed, it would be amended to exempt BOI.
2. Mr. South testified as an expert witness on a bill heard by the Senate Taxation Committee which would establish a venture capital program in the state of Montana.
3. Mr. South met with the Governor’s Office on a bill called the “Equity Infusion Board Bill”. Under this bill, the Governor would appoint members to a Board and these members would in turn hire venture capitalists to invest in small companies in the state of Montana. The money would be borrowed from the Coal Tax Trust. Mr. South will continue to follow this bill closely.
4. A bill being drafted, but has not been introduced would require that any corporation doing business in the state would be required to comply with the Sarbanes/Oxley law. This bill includes a section which involves the Board of Investments and states “no investments could be made with a company which was not in compliance with that the Sarbanes/Oxley law”. Mr. South contacted the Securities Exchange Commission (SEC) to determine if the SEC maintains a list of the corporations which are in or out of violation with Sarbanes/Oxley. The SEC does not maintain a list because of the complexities of this bill, nor does anyone else. Mr. South will continue to follow this bill closely.

Two bills which are being introduced by the Governor’s Office on behalf of the Board of Investments relate to the INTERCAP Program.

During the Board’s audit in December, the Auditors disclosed that in their opinion there are several INTERCAP Loans to state agencies that are out of compliance with the state constitution relative to the incurring of state debt. This issue is being addressed with two bills requested by the Governor. The first bill lists all of the loans previously authorized by the Legislature that could be considered “state debt” under the state constitution. The bill reauthorizes the loans and affirms that they are state debt. A two thirds vote of both houses is required for passage of this bill.

The second bill clearly defines how state agencies may borrow from the INTERCAP Program in the future. The Legislature could authorize a state agency to borrow with a simple majority vote if the payback source is an enterprise or internal services fund. If the payback source is a general fund appropriation, any tax or fee levied by the Legislature a two-thirds vote would be required and the bill would have to affirm that the debt is state debt as authorized by the constitution. Mr. South will continue to monitor these two bills very closely.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending December 31, 2004.

Staff Approved Loans Report

Ms. Louise Welsh reported that:

Borrower:	City of Havre
Purpose:	To purchase replacement equipment for the Ice Hockey Dome.
Staff Approval Date	December 8, 2004
Board Loan Amount:	\$80,000
Term:	10 Years

Borrower:	Augusta Public Schools
Purpose:	To replace the boiler/heating system in the school.
Staff Approval Date	December 17, 2004
Board Loan Amount:	\$70,000
Term:	5 Years

Borrower:	Garrison School District #20
Purpose:	To purchase a new school bus.
Staff Approval Date	December 29, 2004
Board Loan Amount:	\$20,911
Term:	4 Years

has been approved by staff.

INTERCAP

Ms. Louise Welsh 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: City of Kalispell
Board Loan Amount: \$517,000
Term: 10 Years
Purpose: To finance Phase III of the Residential Water Meter/Hydrant/Water Main Extension project.

Borrower: Department of Transportation
Board Loan Amount: \$3,536,667.70
Term: <ul style="list-style-type: none">• \$2,296,774.70 – 5 year period

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|---|
| <ul style="list-style-type: none">• \$834,155 – 6 year period• \$405,738 – 7 year period |
| Purpose: To finance vehicle purchases for its Motor Pool. |

Member Klawon moved for approval of this recommendation; Member Long seconded the motion and the motion was passed 5-0. Member Moore was not present.

CHIEF INVESTMENT OFFICER REPORTS

Asset Allocation Report

Mr. Bob Bugni, Chief Investment Officer, presented the following Asset Allocation reports:

- Retirement Funds – No action required.
- Equity Targets for the Retirement Funds – Mr. Bugni recommended that staff stay fairly aggressive and keep the equity target at 67 percent. If 70 percent is reached, the rebalancing policy requires that the equity risk be reduced back to 68.5 percent. Member Beams moved for approval of the staff recommendation as presented; Member Klawon seconded the motion and the motion was passed 5-0. Member Moore was not present.
- MDEP Rebalancing Update – No action required.
- MTIP – Mr. Bugni presented staff recommendation to fund the small-cap mandate which was approved at the October Board meeting. Mr. Bugni’s recommendation includes the following: (1) Remain overweight in Asia given higher expected growth rates and reasonable valuations compared to Europe; (2) Limit overweighting of Asia to 8 percent; (3) Allow staff the flexibility to buy more pool units or sell existing assets to fund small-caps. However, no pool units will be purchased if pool assets are above 16.5 percent of total asset. Member Klawon moved for approval of the staff recommendation as presented; Member Fagg seconded the motion and the motion was passed 5-0. Member Moore was not present.

Peer Comparisons

Mr. Bugni presented the Public Fund Universe Analysis Report, period ending June 30, 2004. This report was prepared by R.V. Kuhns. The report is a compilation of data provided to R.V. Kuhns and Associates by 85 of the largest public funds nationwide.

INVESTMENT ACTIVITY

Montcomp

Mr. Rande Muffick presented November transactions, the holdings report as of November 30, 2004 and the current investment strategy. Member Klawon moved for approval of the Montcomp strategy as presented; Member Fagg seconded the motion and the motion was passed 5-0. Member Moore was not present.

Montana Private Equity Pool (MPEP)

Mr. Ed Kelly presented November transactions and the holdings report as of November 30, 2004.

Montana International Equity Pool (MTIP)

Mr. Rich Cooley presented the MTIP Overview for the period ending December 31, 2004.

Intermediate Funds

Mr. Cooley also presented November Treasurer’s Fund transactions, the Treasurer’s Fund holdings report as of December 31, 2004, the November State Fund transactions, the State Fund holdings report as of December 30, 2004 and the current investment strategy for both of these funds. Member Long moved for approval of the State Fund and Treasurer’s Fund strategy as presented; Member Beams seconded the motion and the motion was passed 5-0. Member Moore was not present.

Long Term Funds

Mr. Rich Cooley presented November transactions, and the current investment strategy. Member Long moved for approval of the Fixed Income strategy as presented; Member Fagg seconded the motion and the motion was passed 5-0. Member Moore was not present.

In addition, Mr. Cooley presented the following Periodic Reports for the period ending December 31, 2004:

- Non-Investment Grade Holdings Report
- Retirement Funds Bond Pool Holdings Report
- Trust Funds Bond Pool Holdings Report

INVESTMENT ACTIVITY – FYI Items

The following Investment Activity reports were presented and available for informational purposes. None of these items requires Board action.

- STIP Transactions/Holdings Report
- Security Lending Report

NEXT MEETING

The next regularly scheduled meeting of the Board will be February 23, 2005.

ADJOURNMENT

There being no further business, Member the meeting was adjourned at 4:30 p.m.

BOARD OF INVESTMENTS

APPROVE: _____
Dick Anderson, Chairman

ATTEST: _____
Carroll South, Executive Director

DATE: _____