

**REGULAR MEETING OF THE  
MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, Montana  
Friday, June 24, 2005**

**AGENDA**

- I. CALL TO ORDER** **8:30 a.m.**
- A. Roll Call
  - B. Approval of the April 15, 2005 Regular Meeting Minutes
  - C. Approval of the May 10, 2005 Conference Call Meeting Minutes
  - D. Public Comment on Board Related Items
  - E. Update of CIO Search – Gary Hudepohl
  - F. Administrative Business
    - 1. Board Member Report on Conferences Attended
    - 2. Human Resource Committee Report
    - 3. Audit Committee Report
    - 4. Loan Committee Report
- II. EXECUTIVE DIRECTOR REPORTS – Carroll South** **9:30 a.m.**
- A. Regional Fund-of-Funds Private Equity Update (Credit Suisse First Boston)
  - B. Budget Status Report
  - C. Budgeting & Fee Setting Process Report
  - D. Out-of-State Travel Requests
- III. BOND PROGRAM – Louise Welsh** **10:30 a.m.**
- A. INTERCAP
    - 1. Activity Report
    - 2. Staff Approved Loans Report
    - 3. Loan Requests
  - B. Qualified Zone Academy Bond Program – Geri Burton
    - 1. Cut Bank Elementary School – Resolution No. 208
    - 2. Cut Bank High School – Resolution No. 209
- IV. CHIEF INVESTMENT OFFICER REPORTS – Bob Bugni, CFA** **11:00 a.m.**
- A. MDEP Reallocation Report
  - B. MTIP Plan of Action
  - C. Performance Reports for the period ending 4/30/2005
  - D. Educational Opportunities/Conferences/Seminars
- V. MONTANA LOAN PROGRAM – Delrene Rasmussen** **11:30 a.m.**
- A. Consider Commercial/Multi-Family Loans
    - 1. Yellowstone Motor Sports, LLC.
    - 2. Lodge at Whitefish Lake, LLC.
  - B. Memo – Name change request, Autumn Springs Assisted Living Company
  - C. Memo – Request to change term of loan, Great Harvest Franchise

**VI. INVESTMENT ACTIVITY**

**11:45 a.m.**

- A. Long Term Funds – Rich Cooley, CFA and Bob Bugni, CFA
  - 1. Investment Policy Statements
    - a. State Fund Insurance – New Fund
    - b. Highway 93 Bond Proceeds
    - c. Zortman/Landusky Long Term Water Trust

**VII. ADJOURNMENT**

**1:30 p.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, 3<sup>rd</sup> Floor  
Helena, Montana  
Friday, June 24, 2005**

MINUTES

**BOARD MEMBERS PRESENT:**

Terry Moore, Chairman  
Teresa Cohea  
Maureen Fleming  
John Paull  
Jack Prothero  
Jim Turcotte  
Calvin Wilson

**BOARD MEMBERS ABSENT:**

Elouise Cobell  
Karen Fagg

**STAFF PRESENT:**

Robert T. Bugni, CFA, Chief Investment Officer - Interim  
Geri Burton, Deputy Director  
Richard Cooley, CFA, Senior Investment Officer  
Kimberly Dallas, Program Assistant  
Bobbie Ecklund, Research Manager – Interim  
Edward Kelly, Assistant Investment Officer  
Herbert Kulow, Senior Portfolio Manager  
Rande Muffick, CFA, Assistant Investment Officer  
Adam Nelson, Investment Analyst  
Delrene Rasmussen, Assistant Investment Officer  
Louise Welsh, Bond Program Officer

**GUESTS:**

David Ewer, Budget Director, Governor's Office  
Gary Hudepohl, Hudepohl & Associates  
David Almodovar, Credit Suisse First Boston

## CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order at 8:30 a.m. in the conference room at 2401 Colonial Drive, 3<sup>rd</sup> Floor, Helena, Montana. As noted above, the meeting convened with 7 members of the Board present. Member Fagg arrived at the end of roll call.

Member Prothero motioned for approval of the April 15, 2005 minutes and the May 10, 2005 minutes; Member Fleming seconded the motion and the motion was passed 8-0.

Chairman Moore called for Public Comment of Board-Related Items. *No Public Comment was made.*

### Update of CIO Search – Gary Hudepohl

Mr. Gary Hudepohl gave a brief presentation to the Board regarding the Search Process for the CIO Position. Mr. Hudepohl discussed with the Board the in-depth explanation of the Search Process, activities which have taken place in the Search Process and the results, and what the next steps will be. Mr. Hudepohl was pleased to report that all activities are on schedule and the process is proceeding as expected.

### House Joint Resolution No. 42

David Ewer spoke to the Board regarding House Joint Resolution No. 42. This Joint Resolution of the Senate and the House of Representatives of the State of Montana requesting that a legislative study be conducted on how public employee retirement funds are invested and how investment performance, retirement plan benefits, and legislative policy decisions interact to affect the actuarial soundness of the public employee retirement plans and employer's funding obligations.

Member Cobell arrived at this time.

## ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

### 1. Appointment – Vice Chair

Chairman Moore announced that he has asked Member Karen Fagg to serve as Vice Chair of the Montana Board of Investments, and that she has accepted.

### 2. Board Member Report – Conferences Attended

- Member Turcotte reported that he had recently attended the KKR Conference. Member Turcotte stated that it was a great conference and very educational.
- Member Fleming reported that she had recently attending the Adams Street Conference. Member Fleming has attended this conference many times, and finds it to be a very positive and educational conference. Chairman Moore also attended this conference.

### 3. Human Resources Committee Report

- Member Fleming stated that the HR Committee will meet in August regarding Performance Appraisals.

### 4. Audit Committee Report

- Member Fagg reported that the Audit Committee will meet with the Legislative Audit Division as part of the Entrance Meeting prior to the start of the Financial Audit.

5. Loan Committee Report

- Member Prothero reported that the Loan Committee met earlier this morning. The Committee reviewed one loan request and three modifications were presented by Herb Kulow.

Borrower:	Yellowstone Motor Sports, LLC.
Lender:	First Interstate Bank, Billings
Purpose of Loan:	To provide long-term financing for the purchase of real estate located in Belgrade, MT.
Amount of Loan:	\$2,292,000
Board Loan Amount:	\$1,604,400
Board Participation:	70%
Term of Loan:	20 Years
Interest Rate:	6.84% + .25 LSF = 7.09%
Recommendation:	Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation:	Approve as presented.

Member Wilson moved for ratification of loan committee recommendation; Member Paull seconded the motion and the motion was passed 8-0. Chairman Moore abstained.

The Lodge at Whitefish Lake, LLC. and NDI, Inc.

On March 11, 2004, the Board approved a loan request in the amount of \$3,317,612 from First National Bank of Montana, Missoula for the borrower, The Lodge at Whitefish Lake, LLC., and NDI, Inc. This loan request is for an increase in the previously approved loan.

The requested increase is \$1,250,000 of which BOI would take 60% or \$750,000. Board of Investments will participate in a revised loan amount of \$4,067,612.

Staff recommends approval of this request.

Autumn Springs Assisted Living Company

The Board approved the BOI participation in a loan to Autumn Springs Assisted Living Company, LLC in the amount of \$1,712,000 on May 10, 2005. Stockman Bank of Billings is requesting that the borrower be changed to the individual owners of the LLC rather than the LLC itself.

Staff recommends approval of this request.

Great Harvest Franchise

On May 17, 2001 the Board approved a \$3,400,000 loan to Great Harvest Franchising, Inc. through the value-added loan program. The Board's participation amount was \$2,550,000.

The borrower approached the lender, Northwest Farm Credit Services, and asked if they could reapply to BOI for a fixed interest rate loan for the remaining eight years of the loan. The lender approached BOI staff with this request. It was staff's suggestion the lender request an extension of the original seven-year term to a total term of 15 years and use the interest rates prescribed by law. Staff is also recommending limiting the payment of dividends to the owners to no more than 40% of taxable income.

Staff recommends approval of the extension of the maturity date subject to the dividend recommendation.

Member Wilson moved for approval of the requested modifications and changes for the above three borrowers; Member Cohea seconded the motion and the motion was passed 9-0.

#### Loan Committee Charter

In addition, the Loan Committee reviewed the draft version of the Loan Committee Charter. This Charter delegates authority to Board staff and the Loan Committee. The Committee made three changes to the document, including:

1. Under "Purpose of Committee" added, "To review and approve Coal Tax Loan Program and Residential Loan Program Policy prior to presentation to the Board. Provide guidance regarding pricing of loans."
2. "Confidentiality" Paragraph – deleted
3. "Prohibitions" Paragraph – deleted.

The Committee approved the Charter with these modifications. The Committee will also ask Board legal counsel to review and recommend any additional changes or revisions at a later date.

### **EXECUTIVE DIRECTOR REPORTS**

#### Regional Fund-of-Funds Private Equity Update – Credit Suisse First Boston (CSFB)

Mr. David Almodovar presented to the Board a brief overview of CSFB. CSFB and the Board of Investments recently completed the process of finalizing the agreements for the "Inter-Mountain Private Equity Partners LP Fund". This Fund will become part of the CSFB Customized Fund Investment Group (CFG). This Group develops in-state private equity investment programs and will work to create deal flow and compelling reasons for investors, entrepreneurs and established businesses to work in Montana and the Inter Mountain region. Mr. Almodovar stated that due to the securities laws surrounding general solicitation, the amount of information that he can share with the Board during the fund raising process is very limited.

#### Budget Status Report

The Board reviewed this report for the period ending May 31, 2005.

#### Budgeting & Fee Setting Process Report

With the absence of Mr. South from this meeting, Chairman Moore asked that this report be added to the August agenda for representation.

#### **Out-of-State Travel**

Travel recommendations for:

- Calvin Wilson to attend the IFE International Investing Conference, July 17-22, 2005 in Vancouver. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$1,600.

Member Prothero moved for approval of this recommendation; Member Cohea seconded the motion and the motion was passed 9-0.

### **BOND PROGRAM**

#### **Activity Report**

The Board reviewed this report for the period ending May 31, 2005.

#### **Staff Approved Loans Report**

Ms. Louise Welsh reported that:

Borrower:	City of Harlem
Purpose:	To finance costs associated with upgrading their computer system.
Staff Approval Date	April 21, 2005
Board Loan Amount:	\$7,125
Term:	3 Years

Borrower:	Garrison Fire District
Purpose:	To construct a fire hall.
Staff Approval Date	April 27, 2005
Board Loan Amount:	\$107,000
Term:	10 Years

Borrower:	City of Shelby
Purpose:	To finance golf carts.
Staff Approval Date	April 29, 2005
Board Loan Amount:	\$97,250
Term:	5 Years

Borrower:	Canyon Creek Volunteer Fire District (Helena)
Purpose:	To finance a new fire truck.
Staff Approval Date	May 4, 2005
Board Loan Amount:	\$35,000
Term:	3 Years

Borrower:	Lewis & Clark County
Purpose:	To finance three separate Rural Improvement Districts.
Staff Approval Date	May 5, 2005
Board Loan Amount:	\$93,474
Term:	10 Years

Borrower:	Missoula County/Seeley Lake Refuse District – Increase
Purpose:	Request to increase loan amount.
Staff Approval Date	May 10, 2005
Board Loan Amount:	\$1,643 increase amount to \$51,088
Term:	10 Years

Borrower:	Missoula County
Purpose:	To finance Motor Pool vehicles and Central Services copiers.
Staff Approval Date	May 10, 2005
Board Loan Amount:	\$59,539
Term:	3 Years

Borrower:	Lewis & Clark County
Purpose:	To finance the Applegate Rural Improvement District.
Staff Approval Date	May 24, 2005

Board Loan Amount:	\$61,559
Term:	7 Years

Borrower:	Valier School District #18
Purpose:	To finance costs associated with replacing the elementary school's boiler/heating system.
Staff Approval Date	May 25, 2005
Board Loan Amount:	\$100,000
Term:	10 Years

Borrower:	Sweet Grass County
Purpose:	To finance installation of a new telephone system.
Staff Approval Date	May 25, 2005
Board Loan Amount:	\$30,000
Term:	5 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: Department of Transportation
Board Loan Amount: \$555,642
Term: \$321,712 – 5 Years; \$94,940 – 6 Years; \$138,990 – 7 Years = \$555,642 Total
Purpose: To finance vehicle purchases for the State Motor Pool.

Borrower: Lewis & Clark County
Board Loan Amount: \$638,726
Term: 10 Years
Purpose: To finance two separate Rural Improvement Districts.

Borrower: Department of Natural Resources and Conservation (DNRC)
Board Loan Amount: \$6,000,000
Term: In the form of a Revenue Anticipation Note (RAN) for up to a 2 year period.
Purpose: In anticipation of repayment revenue from the DNRC's Water Pollution Control State Revolving Fund Loan Program.

Borrower: City of Circle
Board Loan Amount: \$315,900
Term: In anticipation of Rural Development long term financing.
Purpose: Wastewater System Improvements

Borrower: Toole County
Board Loan Amount: \$749,518
Term: 10 Years
Purpose: Toole County Airport, Shelby - \$212,318; Toole County Fair - \$60,000; North Toole County Fire Dept. - \$60,000; South Toole County Fire Department - \$179,500; Public Safety (Sheriff's Dept.) - \$237,700 = \$749,518 Total

Member Prothero moved for approval of this recommendation; Member Fagg seconded the motion and the motion was passed 9-0.

#### Qualified Zone Academy Bond Program

Ms. Geri Burton presented to the Board Resolution No. 208 and Resolution No. 209, Qualified Zone Academy Bonds (QZABs). QZABs promote initiatives between public schools and the private sector. QZABs enable qualified school districts to finance eligible projects at little or no interest cost, they are taxable, however the interest is paid by the federal government in the form of tax credits to the purchasers. Eligible projects for QZAB financing include rehabilitating or repairing a public school facility, equipment purchases, course material development, and teacher and other school personnel training.

Cut Bank Elementary School District No. 15 and Cut Bank High School District No. 15 have requested the Board to purchase general obligation bonds by issuing two QZABs in the amounts of \$825,000 and \$625,000. The proceeds of Elementary School District #15 will be used to finance the costs of renovating the heating systems at Anna Jeffries Elementary School and Cut Bank Middle School. The proceeds of High School District #15 will be used to finance the costs of renovating the heating systems at Cut Bank High School.

Resolution Nos. 208 and 209 authorize the issuance and sale of the QZABs for Elementary School District #15 in the amount of \$825,000 and High School District #15 in the amount of \$625,000. The Resolutions authorize the purchase by the Board of Elementary School District #15 bonds and High School District #15 bonds and the sale of the Board bonds to the purchaser for QZAB credit. The Resolutions also authorize the execution of various bond closing documents.

Staff recommends the following:

1. Approval of Resolution Nos. 208 and 209.
2. Authorize staff to proceed to complete the QZAB financings for Elementary School District #15 and High School District #15.
3. Authorize staff to execute the bond closing documents for Elementary School District #15 and High School District #15.

Member Wilson moved for approval of staff recommendation as presented; Member Fleming seconded the motion and the motion was passed 9-0.

### **CHIEF INVESTMENT OFFICER REPORTS**

#### MDEP Rebalancing Update and Plan

Mr. Bob Bugni presented a summary of transactions since the rebalancing plan was approved at the December 2004 Board meeting. This summary included:

- Small-Caps/DFA Sold \$110 million;
- Mid-Caps/Index Purchased \$100 million;
- Large-Cap/MTCOMP Sold \$495 million;
- Large-Cap/Index Purchased \$395 million.

Staff's plan will be to continue to increase mid-caps and decrease small-caps when market conditions are favorable.

Staff recommendation is to reduce the target for large-cap active to 50 percent to reflect the Board April decision to reallocate \$100 million from large-cap active to large-cap passive and increase the target on large-cap passive to 24 percent.

Member Prothero moved for approval of staff recommendation as presented; Member Turcotte seconded the motion and the motion was passed 9-0.

#### Large Cap Enhanced Mandate for Retirement Funds

Mr. Bugni presented staff recommendation to add an enhanced component to the large-cap portfolio which would provide diversification and add possible source of consistent alpha that is not available from a passive portfolio or from active managers.

Staff recommends issuing an RFP for an enhanced domestic equity manager using the following criteria:

- Benchmark will be the S&P 500;
- Minimum investment per manager would be \$100 million;
- Strategy has to be a synthetic or derivative-based that minimizes the tracking error against the benchmark;
- Preference is for a commingled fund that has been in existence for at least 5 years;
- Manager must have at least 3 other public fund clients using the same strategy;
- Consistent and positive performance after fees that generates a high information ratio.

Member Fagg moved for approval of staff recommendation and that staff proceed with RFP for a large-cap manager; Member Cohea seconded the motion and the motion was passed 9-0.

#### Large Cap Strategy

Mr. Bugni presented staff recommendation that the Board consider using the S&P 500 Aristocrats Index for part of the large-cap equity strategy. With approval by the Board, staff will prepare a “white paper” on the index and return with a final recommendation. The Board concurred and directed staff to proceed with the “white paper” and to return to the Board when the final recommendation is complete.

#### **MTIP Plan of Action**

Mr. Bugni discussed with the Board that the contract with the European manager, Pyrford, expires at the end of September. Staff recommends waiting until a permanent CIO is hired before preparing and issuing an RFP. If the contract expires before an RFP can be issued and respondents selected, the Pyrford contract could be extended until they or another manager is selected.

The Board asked if the contract can be extended for any period of time if it is at the 7 year limit, and if so, how long could the extension period could be.

Member Fagg motioned to request the opinion of Board legal counsel on the extension and time period of the Pyrford contract, beyond the State’s 7 year limit. Member Cohea seconded the motion and the motion was passed 9-0.

#### Performance Reports

Mr. Bugni presented the Board Performance Reports for the period ending April 30, 2005.

### **LOAN PROGRAMS**

All reports were presented under Administrative Business, Loan Committee.

**INVESTMENT ACTIVITY**

Long Term Funds

Mr. Rich Cooley presented the Investment Policy Statements for State Fund Insurance – New Fund, Highway 93 Bond Proceeds and Zortman/Landusky Long Term Water Trust. Member Wilson moved for approval of the Investment Policy Statements as presented; Member Cohea seconded the motion and the motion was passed 9-0.

Private Equity

Member Fleming discussed a comment made by David Almodavar, CSFB, about “co-investing”. The Board has not authorized any type of “co-investment”. Member Fleming requested additional information on the “co-investment” issue. Mr. Bugni explained that staff has been working with and negotiating with CSFB to look in to the private equity investment option/vehicle of “Co-Investing” with CSFB. Member Fleming asked that this information be brought to the Board. Member Wilson also questioned staffs involvement in “co-investing”. Chairman Moore instructed staff to update the Board as new information becomes available, and that no commitment can be made without Board approval.

**NEXT MEETING**

The next regularly scheduled meeting of the Board will be August 18, 2005.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 1:00 p.m.

**BOARD OF INVESTMENTS**

APPROVE: \_\_\_\_\_  
Terry Moore, Chairman

ATTEST: \_\_\_\_\_  
Carroll South, Executive Director

DATE: \_\_\_\_\_