

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

**2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, Montana  
Thursday, November 10, 2005**

**AGENDA**

- |  |                   |
|--|-------------------|
| <b>I. CALL TO ORDER</b>  | <b>8:30 a.m.</b>  |
| A. Roll Call   |                   |
| B. Approval of the August 18, 2005 Regular Meeting Minutes           |                   |
| C. Approval of the September 1, 2005 Regular Meeting Minutes         |                   |
| D. Approval of the September 9, 2005 Conference Call Meeting Minutes |                   |
| E. Approval of the October 26, 2005 Regular Meeting Minutes          |                   |
| F. Administrative Business   |                   |
| 1. Human Resource Committee Report                                   |                   |
| 2. Audit Committee Report  |                   |
| 3. Loan Committee Report   |                   |
| <br>   |                   |
| <b>II. PUBLIC COMMENT</b>  | <b>8:45 a.m.</b>  |
| A. Public Comment on Board-Related Items                             |                   |
| <br>   |                   |
| <b>III. EXECUTIVE DIRECTOR REPORTS – Carroll South</b>               | <b>8:50 a.m.</b>  |
| A. Class Action Litigation Policy – Discussion/Adoption              |                   |
| B. Legislative Update on Pension Issues (Verbal)                     |                   |
| C. Update on Retainer Consultant Contract (Verbal)                   |                   |
| D. Expansion of Hudepohl & Associates, Inc. Contract                 |                   |
| E. MFFA Master Loan Program  |                   |
| <br>   |                   |
| <b>IV. BOND PROGRAM – Louise Welsh</b>                               | <b>9:50 a.m.</b>  |
| A. INTERCAP  |                   |
| 1. Activity Report   |                   |
| 2. Staff Approved Loans Report                                       |                   |
| <br>   |                   |
| <b>VI. MONTANA LOAN PROGRAM – Delrene Rasmussen</b>                  | <b>10:00 a.m.</b> |
| A. Coal Tax Loan Program Activity Report                             |                   |
| B. Pension Mortgage Program Activity Report                          |                   |
| <br>   |                   |
| <b>15 - MINUTE BREAK</b>   |                   |
| <br>   |                   |
| <b>V. CHIEF INVESTMENT OFFICER REPORTS – Cliff Sheets, CFA</b>       | <b>10:15 a.m.</b> |
| A. Capital Markets Overview  |                   |
| B. Asset Allocation Report   |                   |
| C. Quarterly Performance Reports                                     |                   |
| D. Board Education (Verbal)  |                   |

**VII. INVESTMENT ACTIVITY – Equities** **11:15 a.m.**

- A. Domestic Equities (MDEP)
  - 1. Overview – Cliff Sheets, CFA
  - 2. MTCP Strategy – Rande Muffick, CFA
- B. Montana International Equity Pool (MTIP) – Cliff Sheets, CFA
  - 1. Overview
- C. Montana Private Equity Pool (MPEP) – Ed Kelly
  - 1. Activity
  - 2. Holdings

**VIII. INVESTMENT ACTIVITY – Fixed Income** **12:15 p.m.**

- A. Intermediate Funds – Rich Cooley, CFA
  - 1. Overview and Strategy
- B. Long Term Funds – Bob Bugni, CFA
  - 1. Overview and Strategy
  - 2. Below Investment Grade Holdings
- C. Short-Term Investment Pool – Ed Kelly
  - 1. Overview and Strategy

**IX. ADJOURNMENT** **3:00 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  
Thursday, November 10, 2005**

MINUTES

**BOARD MEMBERS PRESENT:**

Elouise Cobell  
Teresa Cohea  
Maureen Fleming  
John Paull  
Jack Prothero  
Jim Turcotte

**BOARD MEMBERS ABSENT:**

Terry Moore, Chairman  
Karen Fagg  
Calvin Wilson

**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  
Tim House, Investment Analyst  
Edward Kelly, Assistant Investment Officer  
Teri Kolnik, Investment Analyst  
Gayle Moon, Accounting Fiscal Manager  
Rande Muffick, CFA, Assistant Investment Officer  
Jon Putnam, Investment Analyst  
Delrene Rasmussen, Assistant Investment Officer  
John Romasko, Investment Analyst  
Carroll V. South, Executive Director  
Steve Strong, Investment Analyst  
Louise Welsh, Bond Program Officer

**GUESTS:**

Gordon Hoven, Piper Jaffray  
Dave Senn, Teachers' Retirement System  
Jerry Hoover, DA Davidson & Co.  
Michelle Barstad, Montana Facility Finance Authority  
Sarah Cooke, Associated Press

## CALL TO ORDER

Acting Chairman Jack Prothero 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 six members of the Board present. Member Moore, Member Fagg and Member Wilson were absent.

Member Paull motioned for approval of the August 18, 2005 minutes; the September 1, 2005 minutes; the September 9, 2005 minutes; the October 26, 2005 minutes; Member Turcotte seconded the motion and the motion was passed 6-0.

Acting Chairman Jack Prothero called for Public Comment of Board-Related Items. *No Public Comment was made.*

## ADMINISTRATIVE BUSINESS

The following reports were made by Board of Investment Committees.

1. Human Resources Committee Report  
Maureen Fleming, Human Resource Committee Chair, distributed to the Board the summary report for the BOI Compensation and Performance Management System.
2. Loan Committee Report
  - Delrene Rasmussen reported that the Loan Committee reviewed staff recommendation to participate in the following Commercial Loan Program loan requests:

Borrower:	Sunrise Properties
Lender:	Independence Bank, Havre
Purpose of Loan:	To provide long-term financing for a new Border Patrol Facility.
Amount of Loan:	\$2,500,000
Board Loan Amount:	\$2,000,000
Board Participation:	80%
Term of Loan:	20 Years
Interest Rate:	6.94% + .50% = 7.44%
Recommendation:	Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation:	Approve as presented.

Borrower:	Kennedy Properties, LLC.
Lender:	Stockman Bank, Billings
Purpose of Loan:	To provide long-term financing for the construction of a new facility.
Amount of Loan:	\$1,490,630
Board Loan Amount:	\$1,192,504
Board Participation:	80%
Term of Loan:	20 Years
Interest Rate:	7.18% + .50% SF = 7.68%
Recommendation:	Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation:	Approve

The Loan Committee authorized staff to proceed with processing and closing these loans using the Board's standard Commercial Loan Program procedures.

## **EXECUTIVE DIRECTOR REPORTS**

At this time Member Moore and Member Fagg joined the meeting via conference call.

### Class Action Litigation Policy

Mr. Carroll South reported to the Board that in April of 2005, a contract was signed with the law firm Barrack, Rodos & Bacine as a monitoring firm to ensure that the Board participates in all class action litigation to which it is entitled. Historically, the Board has relied on State Street Bank to complete and file class action claims on the Board's behalf.

The law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will have access to Board portfolios and securities transactions using the State Street accounting system. The law firm will request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. Under some circumstance the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity. In order to do this, the Board must adopt a policy with procedures by which it could assume a lead plaintiff or co-lead plaintiff role.

The draft Policy submitted to the Board for review was prepared by Independent Fiduciary Services, and has been reviewed and revised by staff and by Mr. Pat Melby, Legal Counsel.

Member Turcotte moved for approval of the Securities Litigation Policy as drafted; Member Cohea seconded the motion and the motion was passed 8-0.

### Legislative Update on Pension Issues

At the request of the Legislative Committee studying pension issues, Mr. South developed a report with information regarding the Board of Investments' investment transactions that relate to the actual and actuarial losses in the state's retirement system during the calendar year 2000 – 2003 time frame.

The Board complimented Mr. South on his report and stated for the record that this report is supported by the Board Members of the Montana Board of Investments.

### Private Equity Update

The Board asked Mr. South to update them on the Regional Venture Capital Fund. Currently Credit Suisse First Boston is attempting to raise \$15 million dollars and under SEC regulations, this is considered a "quiet period" and little information can be shared at this time.

Mr. South presented a history of the Fund for the newer board members. In 2004, the Board authorized a \$25 million dollar investment in a regional fund-of-funds, to be managed by Credit Suisse First Boston (CSFB). The Board's investment was contingent upon CSFB raising an additional \$15 million dollars for a \$40 million dollar total fund. The goal of the Board was to address state law that encourages the Board to invest 3% of pension funds in venture capital and if possible to invest in companies that will invest in Montana. The contract was signed on May 9, 2005 and currently CSFB is

in the process of raising those funds. Under the terms of the contract they have one-year to raise the funds or the BOI commitment expires.

Update on Retainer Consultant Contract

Mr. South and Mr. Cliff Sheets have reviewed the Retainer Consultant contract and forwarded it to R.V. Kuhns & Associates for review. Initially, the estimated date of having the contract in place was November 15, 2005. However, this date will not be met but it should be completed within a reasonable time frame soon after.

Expansion of Hudepohl & Associates, Inc. Contract

Mr. Carroll South reported to the Board that at the request of the Human Resource Committee, the Contract with Hudepohl & Associates has been expanded to include two additional activities. 1) To conduct a survey of salaries and other compensation for the Board's Exempt Positions and to make recommendations to the Board to reflect the survey results. 2) To review and update the Exempt Positions Performance Evaluation System and recommend quantifiable and measurable milestones for basing salary increases and bonuses on performance. The time allotted in the contract for task 1 will be completion by December 31, 2005 and for task 2 completion by January 31, 2006.

MFFA Master Loan Program

Mr. Carroll South presented to the Board a request from the Montana Facility Finance Authority Permanent Coal Tax Trust Fund guaranty one bond issue of approximately \$7.3 million to Northern Montana Health Care in Havre.

MCA 90-7-317 through 90-7-320 authorizes the Board of Investments to guarantee bonds for the Montana Facility Finance Authority. Board of Investments requires a fee to compensate the Trust for risk and each bond issue will have a bond-funded reserve. There have been no defaults on any Montana Facility Finance Authority bonds backed by the Trust.

Member Fleming moved for approval of the request from the Montana Facility Finance Authority; Member Cobell seconded the motion and the motion was passed 5-0. Member Cohea abstained from the vote.

**BOND PROGRAM**

**Activity Report**

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

**Staff Approved Loans Report**

Ms. Louise Welsh reported that:

Borrower:	Lame Deer Public Schools
Purpose:	To finance costs related to various remodeling projects.
Staff Approval Date	August 10, 2005
Board Loan Amount:	\$500,000
Term:	10 years

Borrower:	Woodsbay Homesites-Lake Co. W&S Dist. (Big Fork)
Purpose:	Increase – On July 20, 2004 staff approved \$10,700.00 to finance costs

	associated with preliminary engineering – District requested \$114,300.00 increase for engineering, design, and easement expenses.
Staff Approval Date	August 19, 2005
Board Loan Amount:	\$114,300 increase; \$125,000 total loan
Term:	3 years

Borrower:	Colstrip Park and Recreation District
Purpose:	To finance cost overruns related to renovating/remodeling the Colstrip Community Center including but not limited to handicap accessibility, energy efficient heating, etc.
Staff Approval Date	August 31, 2005
Board Loan Amount:	\$200,000
Term:	10 years

Borrower:	West Yellowstone
Purpose:	To finance the purchase of a used dump truck & pickup for its Public Works Department.
Staff Approval Date	September 6, 2005
Board Loan Amount:	\$28,500
Term:	5 years

Borrower:	Powder River County/Powder River County Solid Waste District
Purpose:	To finance costs associated with a landfill project including but not limited to a lined expansion of the existing landfill cell, installation of a composite liner and leachate collection system.
Staff Approval Date	September 7, 2005
Board Loan Amount:	\$300,000
Term:	10 years

Borrower:	Drummond
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for wastewater improvements.
Staff Approval Date	September 9, 2005
Board Loan Amount:	\$421,000
Term:	2 years

Borrower:	Cascade County
Purpose:	To finance the Whitetail Lane Rural Improvement District (RID) No.11346 road improvements.
Staff Approval Date	September 13, 2005
Board Loan Amount:	\$48,990
Term:	10 years

Borrower:	Great Falls
Purpose:	To finance costs associated with design and installation of street lights.
Staff Approval Date	September 14, 2005
Board Loan Amount:	\$20,000
Term:	10 years

Borrower:	Cascade County
Purpose:	To finance the Flood/Gannon Road Rural Improvement District (RID) No. 11347 road improvements.
Staff Approval Date	September 22, 2005
Board Loan Amount:	\$269,342
Term:	10 years

Borrower:	Kila School District #20
Purpose:	To finance costs associated with paving the District's parking lot.
Staff Approval Date	September 28, 2005
Board Loan Amount:	\$30,000
Term:	5 years

Borrower:	Gallatin County
Purpose:	Increase - On August 26, 2004, the Board approved \$700,000 loan to finance costs associated with constructing a re-entry facility. County requested an additional \$100,000 to cover additional unanticipated costs.
Staff Approval Date	October 11, 2005
Board Loan Amount:	\$100,000 increase; \$800,000 total loan
Term:	10 years

Borrower:	Lewis & Clark County
Purpose:	To finance costs associated with the Lambkin Road Rural Improvement District (RID) No. 1989-1 road improvements.
Staff Approval Date	October 21, 2005
Board Loan Amount:	\$30,121
Term:	10 years

These loans have been approved by staff.

## **LOAN PROGRAMS**

### Coal Tax Loan Program Activity Report

The Board reviewed this report for the months of August and September.

### **Pension Mortgage Program Activity Report**

The Board reviewed this report for months of August and September.

## **CHIEF INVESTMENT OFFICER REPORTS**

### Asset Allocation Report

Mr. Cliff Sheets, Chief Investment Officer, presented the Pension Fund Asset Allocation report for the period ending September 30, 2005.

## **Quarterly Investment Performance Report**

Mr. Sheets presented the Montana Board of Investments Quarterly Board Performance Report for the period ending September 30, 2005.

### **INVESTMENT ACTIVITY - Equities**

#### Domestic Equities (MDEP)

Mr. Sheets presented the Domestic Equity Pool Overview as of September 30, 2005.

Mr. Rande Muffick presented the current investment strategy for the Montana Common Stock Pool. Member Fleming moved for approval of the Domestic Equity - MTCP strategy as presented; Member Cohea seconded the motion and the motion was passed 6-0.

#### Montana International Equity Pool (MTIP)

Mr. Sheets presented the International Equity Pool Overview as of September 30, 2005. Mr. Sheets reported that the Pyrford portfolio will be transitioned into the BGI Europe Passive Index fund on December 1, 2005. This decision was based on a combination of contract expiration and poor manager performance. A search for an active manager for the European region will likely be one of the first manager search conducted by the new retainer consultant.

#### Montana Private Equity Pool (MPEP)

Mr. Ed Kelly presented an Investment Brief for Lexington Capital Partners VI. Lexington Capital Partners Fund VI represents an opportunity to invest with a manager with a proven investment track record that focuses on a specialized private equity investment strategy that provides the risk profile and return potential appropriate for inclusion in the MPEP portfolio.

After the staff completed the due diligence requirements specified in the MPEP investment policy statement, a \$50 million subscription to the Lexington Capital Partners Fund VI was executed on September 29, 2005.

### **INVESTMENT ACTIVITY – Fixed Income**

#### **Intermediate Funds**

Mr. Rich Cooley presented the current investment strategy for State Fund and Treasurer's Fund. Member Fleming moved for approval of these two funds as presented; Member Turcotte seconded the motion and the motion was passed 6-0.

#### Long Term Funds

Mr. Bob Bugni presented the current investment strategy for the Retirement and Trust Fund Pools. Member Fleming moved for approval of the strategy as presented; Member Cohea seconded the motion and the motion was passed 6-0.

#### Below Investment Grade Holdings

In addition, Mr. Bugni presented the Below Investment Grade Holdings Report for the quarter ending September 30, 2005.

Short-Term Investment Pool (STIP)

Mr. Ed Kelly presented the market overview and investment strategy for the Short-Term Investment Pool. Member Fleming moved for approval of the strategy as presented; Member Cobell seconded the motion and the motion was passed 6-0.

**NEXT MEETING**

The next regularly scheduled meeting of the Board will be February 2 & 3, 2006.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 12:00 p.m.

**BOARD OF INVESTMENTS**

APPROVE: \_\_\_\_\_  
Jack Prothero, Acting Chairman

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

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