

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

**2401 Colonial Drive, 3rd Floor
Helena, Montana
Wednesday, April 26, 2006**

Via Conference Call

AGENDA

- | | | |
|-------------|--|------------------|
| I. | CALL TO ORDER | 1:30 p.m. |
| | A. Roll Call | |
| II. | PUBLIC COMMENT | 1:35 p.m. |
| | A. Public Comment on Board-Related Items | |
| III. | PRESENTATION OF AGENDA ITEMS REQUIRING BOARD ACTION | 1:40 p.m. |
| | Carroll South, Executive Director and Cliff Sheets, Chief Investment Officer | |
| | A. Establishment of Real Estate Pool | |
| | B. Modification/Diversification of the International Equity Pool | |
| X. | 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.

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

**2401 Colonial Drive, 3rd Floor
Helena, Montana
Wednesday, April 26, 2006**

Via Conference Call

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Karen Fagg

STAFF PRESENT:

Robert T. Bugni, CFA, Senior Investment Officer
Richard Cooley, CFA, Senior Investment Officer
Kimberly Dallas, Program Assistant
Edward Kelly, Assistant Investment Officer
Gayle Moon, Accounting Fiscal Manager
Rande Muffick, CFA, Assistant Investment Officer
Mary Noack, Accountant
Clifford A. Sheets, CFA, Chief Investment Officer
Carroll V. South, Executive Director

GUESTS:

Gordon Hoven, Piper Jaffray
Jim Christnacht, President, Association of Montana Retired Public Employees
Becky Gratsinger, RV Kuhns and Associates

CALL TO ORDER

Chairman Moore called this Conference Call meeting of the Board of Investments (Board) to order at 1:30 p.m. As noted above, the meeting convened with eight members of the Board present. Member Fagg was absent.

Public Comment:

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

PRESENTATION OF AGENDA ITEMS REQUIRING BOARD ACTION

Establishment of Real Estate Pool

Carroll South and Cliff Sheets presented to the Board staff recommendation for the creation of an investment pool for the purpose of making and tracking real estate investments as follows:

1. Participation will be limited to the nine state pension funds.
2. Participants will purchase pool units sometime in early June.
3. The pool liquidity vehicle will be the Short Term Investment Pool.

Opportunities for exposure to the real estate asset class are being considered and establishment of this Real Estate Pool before the fiscal year end would allow staff to hold prospective real estate investments.

Staff will present a real estate allocation recommendation for Board approval at the May 18, 2006 regular meeting of the Board, and present the Investment Policy Statement for Board approval at the August meeting.

Member Fleming motioned for adoption of the recommendation as presented by staff to establish a Real Estate Pool; Member Cobell seconded the motion and the motion was passed 8-0. The Board requested that staff keep the Board informed of the progress in the establishment of this pool.

Modification/Diversification of the International Equity Pool (MTIP)

Cliff Sheets presented to the Board a memo that further described the plan to diversify the Board's international equity exposure. The changes are expected to present more opportunity to add value and enhance the total return of the portfolio above the incremental cost associated with more active management.

In March 2006 an RFP for international equity managers was issued. The response deadline is April 28, 2006 and responses will be reviewed by staff and R.V. Kuhns, with final selection anticipated by mid-June. It is anticipated that the new managers will be phased in beginning at the end of July. This RFP solicits managers with Value, Growth, and Core strategies, and contemplates one or more managers being selected in each style. The RFP also solicits a Small Cap manager to augment the small capitalization segment of the market. A range of \$500 million to \$800 million of assets are expected to be awarded.

In summary, staff is requesting Board approval of the shift to a more active manager line-up in MTIP, and approval is requested for a change in the pool benchmark to the MSCI AC x-US Index, to become effective when the new structure is in place.

Member Turcotte motioned for approval of the staff recommendation as presented; Member Cohea seconded the motion and the motion was passed 8-0.

Enhanced Index Manager Update

Cliff Sheets gave a verbal update on the Enhanced Index Manager search.

- The RFP was issued on March 3, 2006 and the deadline for submitting responses was March 24. Responses were received from 40 different managers.
- Consensus scoring took place on April 10.
- On April 17, phone interviews took place with the semi-finalists.
- Rande Muffick and Cliff Sheets traveled to Seattle on April 24th to complete the in-person interviews; Becky Gratsinger and Jennifer Nelson from R.V. Kuhns also participated.

The decision was made to utilize 4 different managers, each offering a unique methodology (all subject to final contract negotiations):

- T Rowe Price (fundamental stock selection)
- Enhanced Investment Technologies (INTECH) (Unique single-factor quantitative approach)
- Goldman Sachs Asset Mgt (Multi-factor quantitative approach)
- Western Asset Management (Synthetic)

A total of \$500 mm isto be divided evenly across these 4 managers, or approximately \$125 mm each. This will reduce MTCP to approximately \$1.1 billion, representing roughly one-third of MDEP. The final steps to complete the process are:

- Advise each manager & begin contract discussions.
- Work with State Street Bank to set up accounts.
- Plan transition of securities from MTCP to a transition management account.
- Expect all new manager accounts to be in place by end of May; June at the latest.

Cliff Sheets expressed his appreciation to Rande Muffick and the RV Kuhns staff for their work and assistance. Carroll South also thanked Geri Burton for all of her time and work.

ADJOURNMENT

There being no further business, the meeting was adjourned at 2:45 p.m.

BOARD OF INVESTMENTS

APPROVE: _____
Terry Moore, Chairman

ATTEST: _____
Carroll South, Executive Director

DATE: _____