

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

**2401 Colonial Drive, 3rd Floor
Helena, Montana**

**AGENDA
November 30, 2006**

- | | | |
|-------------|---|------------------|
| I. | CALL TO ORDER | 1:30 p.m. |
| | A. Roll Call | |
| II. | INTERNATIONAL EQUITY PRESENTATIONS | |
| | A. Acadian Asset Management | 1:45 p.m. |
| | Jack Gastler, Senior Vice President, Marketing | |
| | Brendan Bradley, Senior Vice President and Research Officer | |
| | B. Martin Currie | 3:00 p.m. |
| | Jamie Sandison, Senior Vice President, Client Relations | |
| III. | CLOSED MEETING (PERSONNEL ISSUES) | 4:15 p.m. |
| IV. | OPEN MEETING & ADJOURNMENT | 5:00 p.m. |

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

**2401 Colonial Drive, 3rd Floor
Helena, Montana**

**AGENDA
December 1, 2006**

- | | |
|--|-------------------|
| I. CALL TO ORDER | 8:00 a.m. |
| A. Roll Call | |
| B. Approval of the August 24, 2006 Regular Meeting Minutes | |
| C. Service Pin Awards | |
| D. New Accounting Staff Introduction | |
| E. Administrative Business | 8:30 a.m. |
| 1. Human Resource Committee Report | |
| a. Exempt employee salary recommendations | |
| 2. Audit Committee Report | |
| 3. Loan Committee Report | |
| a. DIRECTTV – Increase Request | |
| b. Flathead Valley Community College - Intercap Loan Request | |
| c. Master Loan Program, Resolution No. 215 – Montana Facility Finance Authority | |
| E. Public Comment - <i>Public Comment on issues with Board Jurisdiction</i> | 9:30 a.m. |
| II. EXECUTIVE DIRECTOR REPORTS – Carroll South | 9:35 a.m. |
| A. Legislative Update - Informational | |
| B. The Coal Tax Trust & In-State Investment Program - Informational | |
| C. Resolution No. 199 - Informational | |
| III. QUARTERLY PERFORMANCE REPORT
RV Kuhns & Cliff Sheets, CFA, CIO | 10:00 a.m. |
| IV. BOND PROGRAM – Louise Welsh | 10:45 a.m. |
| A. INTERCAP | |
| 1. Activity Report | |
| 2. Staff Approved Loans Report | |
| 3. Loan Requests | |
| B. INTERCAP Series 2007 – Resolution No. 213 | |
| C. Qualified Zone Academy Bond Resolution - Decision | |
| D. Clean Renewable Energy Bond Program - Decision | |
| V. MONTANA LOAN PROGRAM – Herbert J.C. Kulow | 11:15 a.m. |
| A. Commercial and Residential Portfolios Report | |

VI. INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO

11:30 a.m.

- A. Retirement System Asset Allocation Report
- B. Private Equity (MPEP)
 - 1. Portfolio Holdings and Recent Activity
 - 2. Annual Plan
- C. Real Estate Update
- D. Investment Pool Strategies
 - 1. Domestic Equity (MDEP)
 - 2. International Equity (MTIP)
 - i. Portfolio Summary
 - ii. Transition Summary
 - 3. Fixed Income
 - i. Bond Pools (RFBP and TFBP)
 - ii. Short-term (STIP)

VII. ADJOURNMENT

1:00 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, 3rd Floor
Helena, Montana
November 30 and December 1, 2006**

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Karen Fagg
Calvin Wilson

STAFF PRESENT:

Robert T. Bugni, CFA, Portfolio Manager
Geri Burton, Deputy Director
Richard Cooley, CFA, Portfolio Manager
Kimberly Dallas, Program Assistant/Board Secretary
Tim House, Equity Investment Analyst
Linda Hunter, Accountant
Ed Kelley, Portfolio Manager
Teri Kolnik, Equity Investment Analyst
Herb Kulow, Portfolio Manager
Rande Muffick, Portfolio Manager
Jon Putnam, Equity Investment Analyst
Nancy Rivera, Credit Analyst
John Romasko, Fixed Income Investment Analyst
Clifford A. Sheets, CFA, Chief Investment Officer
Jon Shoen, Equity Investment Analyst
Carroll V. South, Executive Director
Louise Welsh, Bond Program Officer
Charlie Williamson, Equity Investment Analyst
Dan Zarling, CFA, Director or Research

GUESTS:

Gordon Hoven, Piper Jaffray
Becky Gratsinger, R.V. Kuhns and Associates
Peter Madsen, R.V. Kuhns and Associates
Russ Kuhns, R.V. Kuhns and Associates
Jim Voytko, R.V. Kuhns and Associates
Jack Gastler, Acadian Asset Management
Brendan Bradley, Acadian Asset Management
Jamie Sandison, Martin Currie
Scott Miller, Montana Public Employees' Retirement Association

CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order On Thursday, November 30, 2006 at 1:40 p.m. in the conference room at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with seven members of the Board present. Member Karen Fagg and Member Calvin Wilson were absent.

PRESENTATION

Acadian Asset Management:

Mr. Jack Gastler and Mr. Brendan Bradley presented to the Board the All-Country World ex-U.S. Value Equity Strategy Presentation for the Montana Board of Investments. A complete copy of this presentation is on file at the Montana Board of Investments.

Martin Currie:

Mr. Jamie Sandison presented to the Board the Martin Currie International Growth Equity Presentation. A complete copy of this presentation is on file at the Montana Board of Investments.

Closed Meeting:

Chairman Moore, as presiding officer, determined that the demands of individual privacy clearly exceed the merits of public disclosure, as such; the regular meeting was adjourned and went into a Closed Executive session at 4:15 p.m.

ADJOURNED

The meeting adjourned for the day at 5:30 p.m.

CALL TO ORDER

The meeting was reconvened Friday, December 1, 2006 at 8:15 a.m. Seven members of the Board were present. Member Karen Fagg and Member Calvin Wilson were absent.

Member Paull motioned for approval of the August 24, 2006 minutes; Member Prothero seconded the motion and the motion was passed 7-0.

Staff Introductions:

Gayle Moon introduced Ms. Linda Hunter. Ms. Hunter has joined the Board of Investments staff in the Accounting section and will work with the In-State Loan Programs.

Service Pin Awards:

Chairman Moore presented the following Board of Investments staff with service pins:

John Romasko – 5 years	Kim Dallas – 10 years
Geri Burton – 15 years	Ed Kelly – 25 years
Gayle Moon – 25 years	Coralie Sciuchetti – 25 years

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

1. Human Resources Committee Report

Committee Chair Maureen Fleming presented Committee recommendation to accept the salaries recommended by the Human Resource Committee. Member Cohea seconded the motion and the motion was passed 7-0.

2. Audit Committee Report

Committee Vice-Chair Jim Turcotte reported that the Legislative Audit Division’s Financial-Compliance Audit Report for Fiscal Year 2006 contained no recommendations and issued unqualified opinions on the financial statements of the Board of Investments. Mr. Turcotte also stated that the Auditor’s were very complimentary of the BOI staff. Congratulations to Gayle Moon and her accounting staff.

3. Loan Committee Report

- Member Prothero, Chairperson of the Loan Committee, reported that the Committee reviewed staff recommendation to participate in the following INTERCAP Loan Request:

Borrower: Flathead Valley Community College
Board Loan Amount: \$3,500,000
Term: 10 Years
Purpose: To finance costs associated with completing its campus expansion project.

The Loan Committee authorized staff to proceed with processing and closing this loan using the Board’s standard Bond Program Office procedures.

- Member Prothero, Chairperson of the Loan Committee, reported that the Committee reviewed a request from the Montana Facility Finance Authority to participate in the following:

Borrower: Master Loan Program
Board Loan Amount: \$7.5 million
Purpose: Marcus Daly Memorial Hospital.

Member Prothero motioned for approval of this request as recommended by the Loan Committee, Member Fleming seconded the motion and the motion was passed 6-0. Member Cohea abstained.

- Member Prothero, Chairperson of the Loan Committee, reported that the Committee reviewed staff recommendation to participate in the following Commercial Loan Program loan request:

Borrower:	KK&B Partnership
Lender:	Glacier Bank, Kalispell
Purpose of Loan:	To provide long term financing for the construction of a centralized repair and maintenance facility.
Amount of Loan:	\$2,000,000
Board Loan Amount:	\$1,600,000
Board Participation:	80%
Term of Loan:	20 Years
Interest Rate:	7.43% + .25 LSF = 7.68% fixed.
Loan Committee Decision:	Approval, subject to the terms and conditions in Schedule A.

- Member Prothero presented Loan Committee approval for a request from Missoula County to increase the total loan amount for DIRECTV Customer Services, Inc. to \$10,640,000. The

original amount approved was \$9,600,000. The increase is a result of a reduction and reclassification in the Economic Development Administration grant.

Member Prothero motioned for approval as recommended by the Loan Committee; Member Paull seconded the motion and the motion was passed 7-0.

Public Comment:

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

Future Meeting Dates:

The following dates were tentatively scheduled for future meetings:

February 21 & 22, 2007	May 9 & 10, 2007
August 15 & 16, 2007	November 7 & 8, 2007

The Public Employees' Retirement System meets the second Thursday of each month, and the Teachers' Retirement System meets quarterly. The Board suggested that the three Retirement Boards hold a joint meeting in May. Staff will work together to develop this meeting and scheduling.

In addition, January is the target completion date of the Public Employees' Retirement System Asset Liability Study. The February meeting agenda will include the Presentation of this Study by R.V. Kuhns.

EXECUTIVE DIRECTOR REPORTS

Legislative update

Carroll South updated the Board on the activities taking place in anticipation of the upcoming Legislative Session. Mr. South states that to date there are 40 bill requests relating to the pension funds. At this time many of these are simply a placeholder with a title. The two that staff are most concerned about at this time address the prudent expert principle, and replace that principle with legislatively mandated risk and asset allocation parameters. Staff will continue to monitor these bills.

Chairman Moore asked Mr. South if it would be beneficial or advantageous to have a motion from the Board endorsing their support of legislative issues concerning the Board of Investments. This legislation includes Confidentiality Protection for Alternative Investment documents and an increase in authority for the Value Added Loan Program legislation and the Infrastructure Loan Program legislation. Member Fleming motioned that the Board show their support and endorse proposed legislation; Member Turcotte seconded the motion and the motion was passed 7-0.

Coal Tax Trust:

Carroll South gave an educational review of the Coal Tax Trust and the In-State Investment Program. The Board invests the entire Trust as part of the Unified Investment Program and also manages the In-State Investment Program under which Trust funds are loaned to Montana businesses. The review discussed the Trust's history, the purpose of the Trust as expressed by the Legislature, how the Trust is currently partitioned and invested, the different types of loan programs funded by the Trust, and how those loans are allocated to the partitioned accounts.

Resolution No. 199

Carroll South presented the annual update on Resolution No. 199. The Resolution authorizes the Executive Director to remove and add staff and investment firms as necessary and inform the Board of such changes on an annual basis. The first such report was presented to the Board by the Executive Director in October 2003.

Since the October 2005 report was presented, two staff members were removed from the authorized list – Bobbi Ecklund and Joe P. Kennebeck, and two staff members were added to the authorized list – Daniel Zarling and Geri Burton.

The following staff persons are authorized to trade:

- Clifford Sheets
- Robert T. Bugni
- Edward Kelly
- Rande Muffick
- Richard Cooley
- Daniel Zarling
- Jon Putnam
- John Romasko
- Tim House
- Geri Burton

The following changes to the investment firms authorized to conduct business with the Board were made.

- Eight International Equity Managers were added, and one was updated;
- Three Enhanced Index Managers were added, and one was updated;
- Four Managers were added, and one was updated for Private Equity;
- 12 Real Estate Managers were added;
- Five Fixed Income brokers were added; and
- Five brokers were deleted as no longer relevant since staff is not using them.

QUARTERLY PERFORMANCE REPORTS

The Quarterly Performance Report for the period ending September 30, 2006 was presented.

BOND PROGRAM

INTERCAP Series 2007 – Final Resolution No. 213

At the August 24, 2006 meeting, the Board approved a preliminary resolution authorizing staff to proceed with the issuance of \$15 million in additional bonds for the INTERCAP Program. Ms. Louise Welsh presented Resolution No. 213, which serves as the Board’s authorization to bondholders that the bonds have been approved.

Staff recommends that the Board:

1. Authorize staff to take steps as deemed necessary to issue \$15 million in INTERCAP bonds for a term of 25 years.
2. Adopt the final bond resolution.

Member Prothero motioned for approval of the staff recommendation as presented; Member Cobell seconded the motion and the motion was passed 6-0. Member Cohea abstained.

Qualified Zone Academy Bonds – Resolution No. 214

Ms. Geri Burton presented Resolution No. 214 which authorizes the issuance and sale of the Qualified Zone Academy Bonds (QZAB) to the Bozeman Public School District in the amount of \$1,459,250. This authorizes the purchase by the Board of the District bonds and the sale of the Board bonds to the

purchaser for QZAB credit. The Resolution authorizes the execution of various bond closing documents. The Resolution also authorizes the District to pay for all costs and expenses incurred in connection with the issuance of the QZAB.

Staff recommends the following:

1. Approval of Resolution No. 214.
2. Authorize staff to proceed to complete the QZAB financing.
3. Authorize staff to execute the bond closing documents.

Member Turcotte motioned for approval of the staff recommendation as presented; Member Paull seconded the motion and the motion was passed 7-0.

Clean Renewable Energy Bonds

Ms. Geri Burton presented new information on the Clean Renewable Energy Bonds Program (CREBS).

At the May 18, 2006 meeting, the Board authorized staff to research the possibility of a new pooled bond program for Montana local governments. Clean Renewable Energy Bonds (CREBS) offer governmental entities and electric cooperatives the ability to obtain interest free financing for these projects. The bonds provide the purchaser with an income tax credit in lieu of cash interest payments.

To create efficiencies in time and cost and to provide better access to the capital markets for local governments, staff is proposing a pooled bond program; the Clean Renewable Energy Bonds Pooled Bond Program (CREBS Program). The CREBS Program would be administered under the Municipal Finance Consolidation Act, as is the case with the INTERCAP Program. The Board's role would be only to facilitate the use of CREB credits.

Staff recommends that the Board:

1. Subject to the passage of authorizing legislation, authorize the creation of a new program, under the Municipal Finance Consolidation Act, to finance renewable energy projects for Montana governmental entities with Clean Renewable Energy Bonds.
2. Direct staff to proceed to design and implement the new program and provide a progress report at each Board meeting until either the program is fully implemented or a decision is made to terminate the program.

Member Turcotte motioned for approval of the staff recommendation as presented; Member Prothero seconded the motion and the motion was passed 7-0.

Activity Report

The Board reviewed this report for the period ending October 31, 2006.

Staff Approved Loans Report

Ms. Louise Welsh reported that:

Borrower:	Lewis & Clark County
Purpose:	To finance costs associated with Ten Mile Creek Estates RID 97-2 road improvements.
Staff Approval Date	August 1, 2006

Board Loan Amount:	\$23,684
Term:	7 years

Borrower:	Lewis & Clark County
Purpose:	To finance costs associated with Treasure State Acres RID 90-5 road improvements.
Staff Approval Date	August 1, 2006
Board Loan Amount:	\$223,027
Term:	7 years

Borrower:	Beaverhead Co. Water & Sewer District (Wisdom)
Purpose:	<u>Increase</u> to \$212,000 loan staff approved June 2006 for an interim loan in anticipation of Rural Development (RD) long term financing for water system improvements for the District.
Staff Approval Date	August 18, 2006
Board Loan Amount:	\$45,800 increase to this loan; \$257,800 total loan.
Term:	Interim financing (up to 3 years)

Borrower:	Great Falls
Purpose:	To finance costs associated with design and installation of Meadowlark No. 4 street lights.
Staff Approval Date	August 18, 2006
Board Loan Amount:	\$23,000
Term:	10 years

Borrower:	Panoramic Mountain River Heights County Water District (Kalispell)
Purpose:	To finance costs associated with a preliminary engineering report (PER) and grant writing.
Staff Approval Date	August 19, 2006
Board Loan Amount:	\$15,000
Term:	3 years

Borrower:	Helena
Purpose:	To finance costs associated with the Special Improvement District (SID) No. 408.
Staff Approval Date	August 23, 2006
Board Loan Amount:	\$382,298
Term:	10 years

Borrower:	St. Ignatius
Purpose:	To finance an interim loan in anticipation of USDA Rural Development (RD) long term financing for water system improvements.
Staff Approval Date	August 23, 2006
Board Loan Amount:	\$1,465,000
Term:	2 years

Borrower:	Goodan Keil County Water District (Missoula)
Purpose:	To finance costs associated with installing three-phase power to the District's booster pump station.
Staff Approval Date	August 30, 2006

Board Loan Amount:	\$30,000
Term:	10 years

Borrower:	West Yellowstone
Purpose:	To finance an interim loan in anticipation of issuing long term bonds for the construction costs of the Povah Community Center (the "Center").
Staff Approval Date	September 1, 2006
Board Loan Amount:	\$1,000,000
Term:	3 years

Borrower:	Billings
Purpose:	To finance costs associated with upgrading integrated computer servers.
Staff Approval Date	September 19, 2006
Board Loan Amount:	\$125,000
Term:	4 years

Borrower:	Big Sky Economic Development Authority (Billings)
Purpose:	To finance the purchase of the land and building located at 2603 2 nd Avenue, Billings, MT.
Staff Approval Date	October 11, 2006
Board Loan Amount:	\$370,000
Term:	10 years

Borrower:	Troy Public Schools District #1
Purpose:	To finance costs associated with the purchase and installation of a "qualified energy project" pellet fired boiler to heat Morrison Elementary School.
Staff Approval Date	October 24, 2006
Board Loan Amount:	\$59,000
Term:	10 years

has been approved by staff.

LOAN PROGRAMS

Commercial Loan and Residential Portfolios

The Board reviewed this report for the period ending October 31, 2006.

INVESTMENT ACTIVITY

Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report as of September 30, 2006.

Montana Private Equity Pool (MPEP)

Mr. Ed Kelly presented the MPEP Activity Summary and two investment briefs:

1. Highway 12 Venture Fund II, L.P. – On November 17, 2006, staff closed on a \$10 million commitment.
2. Terra Firma Capital Partners III - On October 30, 2006, staff committed \$25.6 million (20 million Euros) to the Terra Firma Capital Partners III, Non-US Private Equity category.

In addition, Mr. Kelly and Mr. Sheets presented the Annual Plan for the Montana Private Equity Pool. The Plan will review the current status of the portfolio and outline the steps expected to be taken in order to achieve the long term objective of the portfolio. The Plan will be updated when year-end 2006 data is finalized.

Member Cohea motioned for approval of the Annual Plan as presented; Member Fleming seconded the motion and the motion was passed 7-0.

Montana Real Estate Pool (MTRP)

Mr. Cliff Sheets presented an update of the Montana Real Estate Pool.

Mr. Ed Kelly provided summary information for each real estate manager hired since the last meeting and provided the following table of commitments made during calendar year 2006.

<u>Fund Name</u>	<u>Subclass</u>	<u>Original Commitment Amount (Millions)</u>	<u>Commitment Date</u>	<u>Domestic or International</u>
AG Core Plus Realty II	Value Added	\$20.0	7/26/2006	Domestic
Apollo Real Estate Finance Corp.	Value Added	\$10.0	7/26/2006	Domestic
ABR Chesapeake III	Value Added	\$20.0	8/29/2006	Domestic
TA Associates Realty VIII	Value Added	\$20.0	8/29/2006	Domestic
Clarion Lion Properties	Core	\$30.0	9/21/2006	Domestic
INVESCO Core Real Estate – USA	Core	\$30.0	9/21/2006	Domestic
JP Morgan Chase Strategic Properties Fund	Core	\$30.0	9/21/2006	Domestic
Strategic Partners Value Enhancement	Value Added	\$25.0	10/26/2006	Domestic
Hudson Realty Capital Fund IV	Value Added	\$15.0	10/26/2006	Domestic
Morgan Stanley Real Estate Fund VI Int'l	Opportunistic	\$40.0	10/26/2006	International
JER Real Estate Partners IV	Opportunistic	\$20.0	10/26/2006	Domestic

Domestic Equity Pool (Montcomp)

Mr. Cliff Sheets presented the Montana Domestic Equity Pool Report as of September 30, 2006 and provided a verbal update on the status of the non-large cap manager search. Over 200 responses to the RFP were received across nine different product styles. Semi-finalist interviews were held via teleconference on November 15 - 17, 2006, and finalist in-person interviews are scheduled for December 4 & 5, 2006 in Seattle.

Montana International Equity Pool (MTIP)

Mr. Cliff Sheets presented the Montana International Equity Pool Report as of November 17, 2006, and reported to the Board on the results of the international equity transition.

Mr. Sheets reported that Barclay Global Investors was hired as the transition agent in September, and the following external managers were funded via the transition that commenced at the end of September:

- Value Managers: Acadian and AllianceBerstein
- Core Managers: Batterymarch, Julius Baer, and BGI ACWI ex-US Alpha Tilts (CF)
- Growth Managers: Martin Currie, Hansberger, and Principal Global
- Small Cap Manager: AXA Rosenberg (CF)

Fixed Income

Mr. Cliff Sheets presented the Retirement Fund and Trust Fund Bond Pool Overview & Strategy, and the State Fund Insurance, Treasurer's Fund and Short Term Investment Pool Strategy. No action was required.

NEXT MEETING

The next regularly scheduled meeting of the Board will be February 21 & 22, 2007.

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:45 p.m.

BOARD OF INVESTMENTS

APPROVE: _____
Terry Moore, Chairman

ATTEST: _____
Carroll South, Executive Director

DATE: _____