

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor
Helena, Montana
February 21 & 22, 2007**

MINUTES

BOARD MEMBERS PRESENT: Terry Moore, Chairman
Elouise Cobell
Teresa Cohea
Karl Englund
John Paull
Jack Prothero
Jon Satre
Jim Turcotte

BOARD MEMBERS ABSENT: Maureen Fleming

STAFF PRESENT:

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

GUESTS:

Gordon Hoven, Piper Jaffray
Becky Gratsinger, R.V. Kuhns and Associates
Jim Voytko, R.V. Kuhns and Associates
Dan Yates, R.V. Kuhns and Associates
Thomas A. Cosmer, CFA, Martingale Asset Management, LP.
Samuel Nathans, CFA, Martingale Asset Management, LP.
Senator Dan Weinberg, Senate District 2
Blaine Townsend, Trillium Asset Management
Chris Phillips, Alaska Retirement System
Dave Senn, Executive Director, Teachers' Retirement System
Roxanne Minnehan, Executive Director, Public Employees' Retirement System
Troy McGee, Public Employees' Retirement System
Melanie Symons, Public Employees' Retirement System
Scott Miller, Public Employees' Retirement System
Barbara Quinn, Public Employees' Retirement System

Public Employees' Retirement System Asset/Liability Study

The meeting commenced with a presentation by R.V. Kuhns and Associates of the Public Employees' Retirement System Asset Liability Study.

This Study was prepared for the purpose of:

- Present projected valuation results of the Retirement Plan with respect to the funded status of the Plan.
- Present projected benefit payments of the Plan.
- Select an asset mix that helps protect and increase funding levels, while providing adequate liquidity for benefit payments.

The purpose of an Asset/Liability study is to examine how well alternative investment strategies (i.e., differing asset allocations) address the objectives served by the fund. In doing so, it creates an important guidepost for the actual asset allocation for the fund. The assumed objective of this Asset/Liability study is:

- Fund all participants' benefits over time.
- Assure sufficient liquidity to pay benefits at all times.
- Foster a stable contribution stream consistent with objectives 1 and 2.
- Achieve adequate returns without accepting unnecessary or imprudent levels of risk.

This Asset/Liability Study:

- Uses the most recent Public Employees' Retirement System of the State of Montana actuarial valuation to project pension liabilities.
- Includes proposed increases to the current 13.80% total contribution policy – model includes an increase of 0.56% effective July 1, 2007 and an additional increase of 0.57% effective July 1, 2009, for a long-term contribution rate of 14.93%.
- Compares these specific investment strategies—(A) current, (B) diversified moderate risk (Mix 1), and (C) diversified higher risk (Mix 2)—expressed as total fund asset allocations to the projection of System liabilities.
- Explores how each asset allocation affects the probability of meeting the System's (1) actuarial benchmark, (2) full funding, (3) contribution rates, and (4) ability to pay benefits as they come due.
- Explores the potential consequences should long-term investment returns come in moderately lower than those in the base case.
- Does not assume any actuarial adjustments that will take place in future years.

In conclusion and based upon the study and the current financial status of the Public Employees' Retirement System of the State of Montana, R.V. Kuhns recommends the following:

- Mix 1—the moderate risk, diversified strategy—as the asset allocation best matched to the PERS liability stream. Further, RVK suggests Mix 1 be used as the A/L "guidepost" when setting asset allocation policy for the fund at this point in time.

The Board took no action on the recommendation made by R.V. Kuhns; however, the recommendation will be kept under consideration.

CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order at 2:30 p.m. in the conference room at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with eight members of the Board present. Member Fleming was absent.

ADMINISTRATIVE BUSINESS

Chairman Moore announced the following Committee appointments:

Audit Committee:

Jim Turcotte, Committee Chair
John Paull
Elouise Cobell
Maureen Fleming

Loan Committee:

Jack Prothero, Committee Chair
Elouise Cobell
Jim Turcotte
Jon Satre

Human Resource Committee:

Terry Cohea, Committee Chair
Maureen Fleming
Jack Prothero
Karl Englund

Chairman Moore announced that he has named Ms. Terry Cohea, Vice Chair of the Board. In addition, Chairman Moore asked the Audit Committee to please review the Independent Fiduciary Services report and to prioritize the recommendations that were made in that report. Upon completion by the Committee, the Committee will report its findings back to the Board.

Chairman Moore also asked Mr. South to present a brief review of the Code of Ethics to the Board at the next meeting.

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 3:00 p.m.

ADJOURNED

The meeting adjourned for the day at 4:00 p.m.

CALL TO ORDER

The meeting was reconvened Thursday, February 22, 2007 at 8:00 a.m. with seven members of the Board present. Member Fleming and Member Englund were absent.

Member Prothero motioned for approval of the November 30/December 1, 2006 minutes; Member Turcotte seconded the motion and the motion was passed 7-0.

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

1. Human Resources Committee Report

Committee Chair Teri Cohea recommends that Herb Kulow receive a 4 percent raise in February, the same amount that all non-exempt Board employees received. Herb was appointed In-State Investment Portfolio manager in February 2006. This is an exempt position, and the salary range for this position will be established in October 2007. Member Paull seconded the motion and the motion was passed 7-0.

2. Audit Committee Report

Committee Chair Jim Turcotte reported that the Audit Committee met with the Legislative Audit Committee on January 8, 2007. This was an Entrance Meeting to review the schedule for the coming year.

3. Loan Committee Report

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:	Morrison-Maierle, Inc.
Lender:	American Federal Savings Bank, Helena
Purpose of Loan:	To provide long term financing for the construction of a new commercial office building.
Amount of Loan:	\$7,650,000
Board Loan Amount:	\$6,120,000
Board Participation:	80%
Term of Loan:	20 Years
Interest Rate:	8.25% + .15% LSF = 8.40%
Recommendation:	Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation:	Approve

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

Public Comment:

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

EXECUTIVE DIRECTOR REPORTS

Legislative Update

Mr. Carroll South updated the Board on Legislative activity taking place:

Senate Bill 69:

A BILL FOR AN ACT ENTITLED: "AN ACT INCREASING THE ALLOCATION OF COAL SEVERANCE TAX TRUST FUNDS AVAILABLE FOR THE VALUE-ADDED LOAN PROGRAM AND THE INFRASTRUCTURE LOAN PROGRAM; AMENDING SECTION 17-6-311, MCA; AND PROVIDING AN EFFECTIVE DATE."

This Bill passed its third reading in the Senate and was transmitted to the House on January 16, 2007.

Senate Bill 68:

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING FOR CONFIDENTIALITY OF CERTAIN ALTERNATIVE INVESTMENT INFORMATION SUBMITTED TO THE BOARD OF INVESTMENTS; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

Mr. South stated that this bill has been amended and a hearing was held in the Senate Finance and Claims Committee. This Bill passed its third reading in the Senate and was transmitted to the House on February 22, 2007.

Mr. South briefly reviewed two Bills sponsored by the Administration for the Pension Plans:

House Bill 63:

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING FOR THE ACTUARIAL FUNDING OF THE TEACHERS' RETIREMENT SYSTEM; PROVIDING A SUPPLEMENTAL CONTRIBUTION, PAYABLE BY THE STATE, TO THE TEACHERS' RETIREMENT SYSTEM FOR EMPLOYEES OF SCHOOL DISTRICTS AND COMMUNITY COLLEGES; PROVIDING FOR A STATUTORY APPROPRIATION; REVISING DEFINITIONS; ESTABLISHING STATE POLICY REGARDING TEACHERS' RETIREMENT; REVISING THE REQUIREMENTS FOR THE TEACHERS' RETIREMENT BOARD TO SET THE TEACHERS' RETIREMENT SYSTEM'S REGULAR INTEREST RATE; INCREASING THE EMPLOYER CONTRIBUTION RATE FOR TEACHERS' RETIREMENT; INCREASING THE SUPPLEMENTAL CONTRIBUTION TO THE OPTIONAL RETIREMENT PROGRAM; ELIMINATING THE AUTHORITY OF THE TEACHERS' RETIREMENT BOARD TO INCREASE THE GUARANTEED ANNUAL BENEFIT ADJUSTMENT; CLARIFYING THE MAXIMUM AMOUNT OF COMPENSATION A RETIRED MEMBER OF THE TEACHERS' RETIREMENT SYSTEM MAY EARN UNDER CERTAIN CIRCUMSTANCES; PROVIDING APPROPRIATIONS; AMENDING SECTIONS 17-7-502, 19-20-101, 19-20-102, 19-20-501, 19-20-605, 19-20-621, 19-20-716, 19-20-719, AND 19-20-731, MCA; AND PROVIDING EFFECTIVE DATES."

House Bill 159:

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING FOR THE ACTUARIAL FUNDING OF THE PUBLIC EMPLOYEES', SHERIFFS', AND GAME WARDENS' AND PEACE OFFICERS' RETIREMENT SYSTEMS BY INCREASING EMPLOYER CONTRIBUTION RATES; PROVIDING THAT THE INCREASE WILL NOT BE IMPOSED IF CERTAIN ACTUARIAL CONDITIONS ARE MET; ALLOCATING A PORTION OF THE EMPLOYER CONTRIBUTION IN THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN TO PAY FOR THE PLAN'S STARTUP LOAN; AMENDING SECTIONS 19-3-316, 19-3-319, 19-3-2117, 19-3-2121, 19-7-404, 19-8-504, AND 19-21-214, MCA; AND PROVIDING AN EFFECTIVE DATE."

Mr. South stated that all of the Bills involving the Pension Plans could be taken to Committee in order for a complete review to take place.

Mr. South presented two pieces of legislation recently introduced. LC 1756 (SB467) will significantly revise the Board's membership and meetings schedules. LC 1757 (SB 468) moves the economic development bond program to the Department of Commerce.

Senate Bill 467:

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING THE LAWS GOVERNING THE BOARD OF INVESTMENTS; INCREASING PROFESSIONAL STAFF POSITIONS; REVISING MEMBERSHIP OF THE BOARD; SPECIFYING REQUIRED MEETINGS; PROVIDING FOR A TRANSITION IN MEMBERSHIP; ADDING LEGISLATIVE LIAISONS TO THE BOARD; AMENDING SECTIONS SECTION 2-15-1808 AND 2-18-103, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY DATE."

This Bill was amended and passed its third reading in the Senate and was transmitted to the House on February 27, 2007.

Senate Bill 468:

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING THE POWERS AND DUTIES OF THE BOARD OF INVESTMENTS; TRANSFERRING THE BOARD OF INVESTMENTS' DUTIES UNDER THE MONTANA ECONOMIC DEVELOPMENT BOND ACT OF 1983 AND DUTIES REGARDING FREIGHT RAIL REVENUE BONDS TO THE DEPARTMENT OF COMMERCE; REVISING THE BOARD OF INVESTMENTS' REPORTING AND FUND ADMINISTRATION REQUIREMENTS; AMENDING SECTIONS 2-15-1808, 17-5-1502, 17-5-1503, 17-5-1504, 17-5-1505, 17-5-1506, 17-5-1507, 17-5-1508, 17-5-1509, 17-5-1510, 17-5-1511, 17-5-1512, 17-5-1513, 17-5-1514, 17-5-1515, 17-5-1516, 17-5-1517, 17-5-1518, 17-5-1521,

17-5-1522, 17-5-1523, 17-5-1524, 17-5-1525, 17-5-1526, 17-5-1527, 17-5-1528, 17-5-1529, 17-6-201, 17-6-308, 60-11-115, 60-11-117, AND 60-11-119, MCA; AND PROVIDING AN APPLICABILITY DATE."

This Bill was tabled in Committee on February 22, 2007.

Senate Bill 197 – Terrorism and Investments

Mr. Carroll South discussed Senate Bill 197, which would have prevented the Board from investing in any company doing business in states listed by the U.S. State Department as supporting terrorism.

The staff began researching the effect of this legislation and found the U.S. State Department's website lists five countries it deems to be supporting terrorism: Cuba, Iran, North Korea, Sudan, and Syria. The State Department does not provide a list of U.S. or foreign companies that conduct business with or within these countries. Staff could not find any agency within the federal government, including the Securities and Exchange Commission that offers guidance or assistance to investors in identifying companies and recommending appropriate action.

Staff contacted other state pension funds to ascertain if they had encountered legislation similar to Senate Bill 197. They were unable to find any other public pension plan that had considered such broad-based divestment legislation. However, several state funds had considered legislation requiring divestiture of certain companies doing business in Sudan. California's Sudan divestiture legislation is the most recent. The California legislation specifically stated that divestiture was to be used as a last resort and should not set a precedent. It also recognized that requiring divestiture of certain pension fund investments by law may interfere with pension board fiduciary standards and included specific instructions to the pension boards relative to fiduciary responsibility. The California legislature also recognized that pension boards could be sued for violating their fiduciary standards and provided a very broad "hold harmless" provision.

The California legislature clearly recognized that divestment by law is a serious action that could violate the fiduciary requirements of its constitution and provided for such contingencies. Senate Bill 197 contained no specific instructions to the Board and provided no immunity from litigation.

Staff has met with Senator Dan Weinberg, sponsor of SB 197, and expressed concern about the bill. Based on staff concern, Senator Weinberg agreed to have the bill "tabled" – in effect killing it without a hearing. Board staff agreed to:

- Ascertain from its investment managers what if any screens are being used to ensure that the Board's portfolios were not invested in companies that may be assisting terrorists.
- To continue to pursue any federal government guidance or direction on this issue, and wrote to the state's congressional delegation requesting assistance.

Board staff believes that the simplest solution to this issue is for the federal government to clearly identify those companies in which public pension funds should not invest because they are believed to be assisting terrorist or proliferation activities.

State Senator Dan Weinberg Presentation

At the invitation of the staff, Senator Weinberg attended the meeting and expressed his concern about the issue. Senator Weinberg encouraged investing in "values" of Montana, and Mr. Blaine Townsend also spoke on the issue, and explained the philosophy of socially responsible investing.

EXTERNAL MANAGER PRESENTATION

Mr. Cliff Sheets introduced Mr. Thomas Cosmer and Mr. Samuel Nathans, Martingale Asset Management, L.P. Martingale was recently selected as a MidCap Core manager for a portion of the externally managed Domestic Equity pool. Mr. Cosmer and Mr. Nathans reviewed their firm and MidCap Equity management strategy.

ENHANCED ALPHA STRATEGY PRESENTATION

Mr. Jim Voytko and Mr. Cliff Sheets presented to the Board an educational presentation on "Partial Long/Short Equity Portfolios." It is sometimes called "130/30," or "Enhanced Alpha," implying the strategy involves leveraging the managers' insight to provide alpha or excess return vs. a benchmark. Partial long/short is an actively managed equity strategy utilizing both long and short positions. The strategy entails a limited amount of shorting (usually 20% or 30%) of securities that are expected to under perform. The proceeds of the short sales are used to buy an equivalent amount of long positions in names that are expected to outperform, so that net market exposure is maintained at 100%.

The concept rests in the limitation posed in a long-only portfolio of taking a meaningful active weight, or difference from the benchmark weight, in a particular stock. This stems from the fact that market cap weighted benchmarks are dominated by the top 15-20 names. Thus there are only a few names in the large cap market universe that long-only managers can underweight to a degree that will have a noticeable impact on performance if they are correct in expecting the name to under-perform. By relaxing this long-only constraint, a manager has the potential of adding more return by establishing a more significant active weight through shorting those names they dislike, while adding additional exposure to those names they like.

Portfolio positions must be carefully controlled so that the additional positions do not skew the overall portfolio characteristics. The strategy is best practiced by managers who have experience dealing with the logistical issues and risks represented by shorting stocks and have strong quantitative skills to manage the overall portfolio characteristics. It is also necessary that their stock ranking systems be sufficiently robust that they cover a large number of names in the available universe in order to build a portfolio. Other considerations are higher fees associated with these strategies and a limited number of seasoned managers.

Following the presentation by Mr. Voytko of R.V. Kuhns, Mr. Thomas Cosmer and Mr. Samuel Nathans, Martingale Asset Management, L.P. also made an educational presentation to the Board on this subject from a manager's perspective. In addition to being a long-only manager of U.S. equities, Martingale has been managing this type of strategy for over two years. Their presentation emphasized the ability of a limited short position in adding value, while still managing the additional risk inherent in the strategy within prudent limits.

Mr. Sheets requested Board approval to pursue this type of strategy as part of a pending RFP process for large cap U.S. equity management, with the expectation any such strategy will be employed as a sub-component within our Domestic Equity Pool.

Member Cohea motioned to allow staff to proceed with the RFP; Member Turcotte seconded the motion and the motion was passed 7-0.

QUARTERLY PERFORMANCE REPORTS

The Quarterly Performance Report for the period ending December 31, 2006 was presented.

BOND PROGRAM

Member Prothero, Chairperson of the Loan Committee, presented Committee approval to participate in the following INTERCAP Loan Request; Member Cobell seconded the motion and the motion was unanimously approved 7-0.

Borrower: Montana Department of Transportation
Board Loan Amount: \$2,452,169
Purpose: Motor Pool Vehicles

INTERCAP Loan Policy/Decision

Ms. Geri Burton presented staff recommendation to increase the maximum term for an INTERCAP loan to 15 years.

The Board of Investments issues tax-exempt bonds to finance INTERCAP loans to eligible governments to finance capital improvements and other needs as authorized by law. Since 1987, 422 eligible governments have received 1,182 loans, totaling \$242.53 million. No loan defaults have occurred in the Program. When the INTERCAP Program began in 1987, loan terms were limited to five years. In December 1990, the Board authorized INTERCAP to “fund projects as allowable by state law”. There were laws that authorized eligible governments to borrow long term; however, the Board limited INTERCAP loan terms to 10 years.

The goal of INTERCAP is to provide eligible governments with maximum flexibility for ways to borrow money in a cost effective manner. There are instances that an eligible government would like to finance a project through INTERCAP, but are financially unable to because of the 10 year loan term limitation. If a 15 year maximum loan term is authorized, eligible governments must adhere to State law when financing capital projects and cannot finance projects for a term longer than allowed. Staff will continue to consider the maximum loan term authorized in statute, as well as the repayment ability of the eligible borrower when reviewing loan requests. In addition, loan terms can not exceed the useful life of the project being financed.

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

Ms. Burton also announced that the INTERCAP Program will be celebrating 20 Years next week.

Montana Facility Finance Authority/Northeast Montana Health Services

Michelle Barstad presented Master Loan Program, Resolution No. 216 entitled: “Resolution relating to Health Care Revenue Bonds (Master Loan Program) of the Montana Health Facility Authority; authorizing loans to the Authority for its Capital Reserve Account securing such Bonds and the execution and delivery of a eighth amendment to Capital Reserve Account Agreement.” On January 30, 2007, the MFFA Board approved issuing approximately \$13 million of bonds for financing the Northeast Montana Health Services, Inc. project, pending BOI approval of Resolution No. 216.

Member Prothero, Chairperson of the Loan Committee, presented Committee approval to participate in the Montana Facility Finance Authority Loan Request; Member Turcotte seconded the motion and the motion was approved 6-0. Member Cohea abstained.

Activity Report

The Board reviewed this report for the period ending January 31, 2007.

Staff Approved Loans Report

Ms. Louise Welsh reported that the following loans have been approved by staff:

Borrower:	City of Baker
Purpose:	Partial financing for a new grader patrol, garbage truck and packer purchases.
Staff Approval Date	November 29, 2006
Board Loan Amount:	\$210,157 total; two separate loans \$118,000 general promise to pay and \$92,157 revenue bond.
Term:	7 years

Borrower:	Baxendale Volunteer Fire District (Helena)
Purpose:	To finance costs associated with constructing a fire hall addition.
Staff Approval Date	November 29, 2006
Board Loan Amount:	\$50,000
Term:	10 years

Borrower:	Teton County Hospital District d/b/a Teton Medical Center (Choteau)
Purpose:	To finance the purchase/installation of fire alarm/nurse call systems/constructing a helicopter landing site/entrance and miscellaneous medical equipment.
Staff Approval Date	December 28, 2006
Board Loan Amount:	\$249,134
Term:	10 years

Borrower:	Teton County Hospital District d/b/a Teton Medical Center (Choteau)
Purpose:	To finance the purchase/installation of a time/attendance system and other equipment.
Staff Approval Date	December 28, 2006
Board Loan Amount:	\$54,991
Term:	5 years

Borrower:	Choteau County District Hospital (dba Missouri River Medical Center) Fort Benton
Purpose:	\$27,500 to purchase a Vitros 350 Chemistry Analyzer over a period of five (5) years
Staff Approval Date	January 2, 2007
Board Loan Amount:	27,500.00
Term:	5 years

Borrower:	Lewis & Clark County
Purpose:	To finance costs associated with the Middlemas Road Rural Improvement District (RID) No. 1987-4 and 4C road improvements.
Staff Approval Date	January 25, 2007

Board Loan Amount:	\$11,037
Term:	10 years

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

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

Commercial Loan Policy

Mr. Herb Kulow presented staff recommendation and a request to make the following revisions to the Coal Tax Loan Policies:

Commercial Loan Policy –

- Page A2, #8 Ineligible Loan, (e): will be revised as follows: “Revolving lines of credit, working capital or operating money, and”

Value-Added Loan Policy –

- Page A1, #1 General Loan Provisions, (d): will be revised as follows: “Loan term limited to 15 years from date of note, including any construction financing, if BOI participates in the construction loan.”
- Page A1 & A2, #3 Interest Rate Setting Procedures, (a): will be revised as follows: “During construction financing or permanent loan funding, prior to the borrower’s meeting the minimum job requirements, the interest rate will be set at the Commercial Loan Program’s posted rate (The Rate Posted on the Board’s Web Page)”.
- Page A1 & A2, #3 Interest Rate Setting Procedures, (d), Loan Funded*: will be revised as follows: “*The Board’s posted rate when a complete value-added loan application is received by BOI staff for consideration.”
- Page A3, #6 Lender Requirements, (b): will be revised as follows: “At the borrower's discretion, the borrower may request the lead lender to change this prime rate to an adjustable or fixed rate on terms acceptable to the borrower and lender. However, the interest rate may not be less than 6% and no greater than 12%.”

Member Prothero motioned for approval of this request as recommended by the Loan Committee, Member Satre seconded the motion and the motion was passed 7-0.

DIRECTV Update

In addition, Mr. Kulow updated the Board on the DIRECTV Loan. Mr. Kulow reported that:

- As of December 31, 2006, DIRECTV had 773 employees;
- 315 people that had been unemployed prior to going to work for DIRECTV;
- 658 (85%) of the 773 employees’ were low to moderate income prior to being employed by DIRECTV;
- As of February 7, 2007, DIRECTV had 842 employees.

INVESTMENT ACTIVITY

Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report as of December 31, 2006.

Investment Pool Strategies

Mr. Cliff Sheets presented the Fixed Income – Bond Pools (RFBP & TFBP) and Short-term (STIP) Overview & Strategy, and the State Fund Insurance, Treasurer’s Fund and Short Term Investment Pool Strategy. No action was required.

Private Equity (MPEP)

Mr. Cliff Sheets presented the MPEP Activity Summary of the fund investments and investment briefs for the Montana Private Equity Portfolio for commitments made since the last Board meeting.

<u>Fund Name</u>	<u>Vintage</u>	<u>Subclass</u>	<u>Market</u>	<u>Sector</u>	<u>Amount</u>	<u>Date</u>
Affinity Asia Pacific III	2007	Buyout	Middle	Various	\$15M	12/6/2006
Hellman & Friedman VI	2007	Buyout	Large	Media/Finance	\$25M	1/31/2007
Industry Ventures IV	2006	Secondary	Small	Venture Capital	\$10M	12/8/2006
Portfolio Advisors – Private Equity Fund IV	2006	Fund of Funds	Various	Venture	\$30M	12/1/2006
				International	\$15M	
Quintana Energy Partners III	2006	Buyout	Middle	Energy	\$15M	12/1/2006

Real Estate (MTRP)

Mr. Cliff Sheets presented the real estate fund commitments made to date, with the actual capital drawn as of year-end.

<u>Strategy</u>	<u>Fund Name</u>	<u>Original Commitment Date</u>	<u>Original Commitment</u>	<u>% of Total</u>	<u>Capital Called</u>
Core	Clarion Lion Properties Fund	9/21/2006	\$30,000,000		\$ 30,000,000
Core	INVESCO Core Real Estate - USA	9/21/2006	\$30,000,000		\$ -
Core	JP Morgan Strategic Property Fund	9/21/2006	\$30,000,000		\$ -
			\$90,000,000	37.6%	
Value-Added	AG Core Plus Realty Fund II	7/26/2006	\$20,000,000		\$ -
Value-Added	Apollo Real Estate Finance Corp.	7/26/2006	\$10,000,000		\$534,000
Value-Added	ABR Chesapeake Fund III	8/26/2006	\$20,000,000		\$4,000,000
Value-Added	TA Associates Realty Fund VIII	8/29/2006	\$20,000,000		\$ -
Value-Added	Hudson Realty Capital Fund IV	10/26/2006	\$15,000,000		\$750,000
Value-Added	Strategic Partners Value Enhancement Fund	10/26/2006	\$19,200,000		\$1,005,889
			\$ 104,200,000	43.6%	
Opportunistic	JER Real Estate Partners Fund IV	10/26/2006	\$20,000,000		\$ -
Opportunistic	Morgan Stanley Real Estate Fund VI Int'l.	10/26/2006	\$25,000,000		\$ -
			\$45,000,000	18.8%	
	Total MTRP Commitments		\$239,200,000	100.0%	\$ 36,289,889

Total commitments represent approximately 3.2% of total pension assets as of year-end. Staff recently extended its relationship with Courtland Partners in order to facilitate access to and due diligence on new non-core funds. Staff will interview four additional non-core managers at the end of the month.

Domestic Equity (MDEP)

Mr. Cliff Sheets presented the Montana Domestic Equity Pool Report as of December 31, 2006 and provided a verbal update on the status of the non-large cap manager search. Finalist in-person interviews took place December 4 & 5, 2006 in Seattle. Five managers were selected and the contract process is complete. The transition process is near completion with the mid-cap manager transition completed on February 15. BGI was used as transition manager. The two new small cap managers are

being funded via periodic reductions of DFA fund holdings. This transition is being managed by staff. The managers selected with their approximate dollar allocations are:

- Mid-Cap Managers:
 - Core Manager - Martingale Asset Management - - \$115M
 - Growth Manager - Time Square Capital Management - - \$75M
 - Value Manager - Artisan Partners - -\$65M
 - *Retained \$21 million in the BGI Mid-Cap Index Fund. This fund can provide liquidity on a short basis.
- Small Cap Managers:
 - Core Manager – Retained Dimensional Fund Advisors - - \$75M
 - Growth Manager – NorthPointe - - \$50M
 - Value Manager – Vaughan Nelson - - \$45M

Montana International Equity Pool (MTIP)

Mr. Cliff Sheets presented the Montana International Equity Pool Report as of December 31, 2006.

ADJOURNED

The meeting adjourned for the day at 2:05 p.m.

NEXT MEETING

The next regularly scheduled meeting of the Board will be May 8 & 9, 2007.

BOARD OF INVESTMENTS

APPROVE: _____
Terry Moore, Chairman

ATTEST: _____
Carroll South, Executive Director

DATE: _____