

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

**2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, Montana  
November 6 & 7, 2007**

**AGENDA – DAY 1**

- |   |                  |
|---|------------------|
| <b>I. CALL TO ORDER</b>   | <b>1:00 p.m.</b> |
| A. Roll Call  |                  |
| B. Approval of the August 21 & 22, 2007 Regular Meeting Minutes             |                  |
| C. Administrative Business  | <b>1:10 p.m.</b> |
| 1. Human Resource Committee Report  |                  |
| a) Exempt Employee Salary Range Recommendations - Decision                  |                  |
| b) Exempt Employee Salary Recommendations – Decision                        |                  |
| c) Exempt Employee Position Job Profiles - Decision                         |                  |
| 2. Audit Committee Report   |                  |
| 3. Loan Committee Report  |                  |
| E. Public Comment - <i>Public Comment on issues with Board Jurisdiction</i> | <b>1:40 p.m.</b> |
| <br><b>II. EXTERNAL MANAGER PRESENTATIONS</b>                               |                  |
| A. <b>Dimensional Fund Advisors</b>   | <b>1:45 p.m.</b> |
| John Gray, Regional Director  |                  |
| Robert T. Deere, Vice President, Portfolio Manager                          |                  |
| <br>B. <b>Principal Global</b>  | <b>2:35 p.m.</b> |
| Susan Lowery, Client Rep  |                  |
| John Pihlblod, Portfolio Co-Manager   |                  |
| Steve Larson, Portfolio Co-Manager  |                  |
| <br>C. <b>AXA Rosenberg</b>   | <b>3:35 p.m.</b> |
| Mike Mulvihill, Portfolio Manager   |                  |
| <br><b>III. EXECUTIVE DIRECTOR REPORTS – Carroll South</b>                  | <b>4:35 p.m.</b> |
| A. Board Governance/Ethics Policy - Decision                                |                  |
| B. Resolution 217 - Decision  |                  |
| C. Resolution 218 – Decision  |                  |
| D. Internal Control Policy - Decision                                       |                  |
| E. Exempt Employee Job Profiles – Decision                                  |                  |
| E. Exempt Employee Salary Survey/Ranges - Decision                          |                  |
| <br><b>IV. ADJOURN</b>  | <b>5:30 p.m.</b> |

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**AGENDA – DAY 2**

- V. RECONVENE AND CALL TO ORDER** **8:00 a.m.**  
A. Roll Call
- VI. PRESENTATION – House Bill 771 Presentations** **8:10 a.m.**  
Roxanne Minnehan, Executive Director, Public Employees’ Retirement System  
Dave Senn, Executive Director, Teachers’ Retirement System
- VII. BOND PROGRAM – Louise Welsh** **8:45 a.m.**  
A. INTERCAP  
1. Activity Report  
2. Staff Approved Loans Report  
3. Loan Requests
- VIII. MONTANA LOAN PROGRAM – Herb Kulow** **9:00 a.m.**  
A. Commercial and Residential Portfolios Report  
B. BOI Enhancement - Marcus Daly Memorial Hospital - Decision
- IX. GENERAL CONSULTANT REPORTS** **9:15 a.m.**  
A. Quarterly Performance Reports - R.V. Kuhns and Cliff Sheets  
B. Educational Review of Additional Asset Classes – R.V. Kuhns
- X. INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO** **10:30 a.m.**  
A. State Street Performance Report by Manager, Net of Fees  
B. Retirement System Asset Allocation Report  
C. Private Equity (MPEP)  
1. Portfolio Holdings and Recent Activity  
2. Performance by Fund – Private Edge (as of June 30, 2007)  
D. Real Estate  
1. Portfolio Holdings and Recent Activity  
E. Timber Investments - Executive Summary - Informational  
F. Investment Pool Strategies  
1. Domestic Equity (MDEP)  
2. International Equity (MTIP)  
3. Short Term Investment Pool Update  
4. Fixed Income Strategy Statements  
i. Bond Pools (RFBP and TFBP)  
ii. Non-Investment Grade Holdings  
iii. Short-term (STIP) and Other Fixed Income Portfolios

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**AGENDA – DAY 2 continued**

G. Investment Policy Statements - Decision

1. Trust Funds Bond Pool
2. Retirement Funds Bond Pool
3. Streamside Tailings Settlement Fund
4. Old Fund Insurance

**XI. ADJOURNMENT**

**12:00 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  
November 6 & 7, 2007**

**MINUTES**

**BOARD MEMBERS PRESENT:**

Terry Moore, Chairman	John Paull
Elouise Cobell	Jack Prothero
Teresa Cohea	Jon Satre
Karl Englund	Jim Turcotte
Senator Dan Weinberg	

**BOARD MEMBERS ABSENT:**

Maureen Fleming – November 6, 2007  
Representative Tom McGillvray – November 6 & 7, 2007

**STAFF PRESENT:**

Polly Boutin, Accountant	Gayle Moon, Accounting Fiscal Manager
Jason Brent, Investment Analyst	Rande Muffick, CFA, Portfolio Manager
Robert T. Bugni, CFA, Portfolio Manager	Jon Putnam, Investment Analyst
Geri Burton, Deputy Director	Nancy Rivera, Credit Analyst
Richard Cooley, CFA, Portfolio Manager	Mari Rohrig, Accountant
Kim Dallas, Program Assistant/Board Secretary	John Romasko, Fixed Income Investment Analyst
Roberta Diaz, Accountant	Clifford A. Sheets, CFA, Chief Investment Officer
Tim House, Chief of Investment Operations	Jon Shoen, Investment Analyst
Linda Hunter, Accountant	Carroll South, Executive Director
Ed Kelley, Portfolio Manager	Steve Strong, Investment Analyst
Teri Kolnik, Equity Investment Analyst	Louise Welsh, Bond Program Officer
Herb Kulow, Portfolio Manager	Dan Zarling, CFA, Director of Research

**GUESTS:**

Russ Kuhns, R.V. Kuhns and Associates  
Becky Gratsinger, R.V. Kuhns and Associates  
Peter Madsen, R.V. Kuhns and Associates  
John Gray, Regional Director, Dimensional Fund Advisors  
Robert T. Deere, Vice President, Portfolio Manager, Dimensional Fund Advisors  
Susan Lowery, Client Representative, Principal Global  
John Pihlblod, Portfolio Co-Manager, Principal Global  
Steve Larson, Portfolio Co-Manager, Principal Global  
Mike Mulvihill, Portfolio Manager, AXA Rosenberg  
Scott Miller, Public Employees' Retirement System  
Dave Senn, Executive Director, Teachers' Retirement System  
Roxanne Minnehan, Executive Director, Public Employees' Retirement System  
Dick Anderson, BHAM Development, LLC.  
Tom Hoffman, BHAM Development, LLC.

## CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order at 1:00 p.m. in the conference room at 2401 Colonial Drive, 3<sup>rd</sup> Floor, Helena, Montana. As noted above, the meeting convened with seven members of the Board present. Member Maureen Fleming and Member Elouise Cobell, Senator Weinberg and Representative McGillvray were absent at the time of roll call. Member Cobell and Senator Weinberg arrived later as reflected in the minutes.

Member Englund motioned for approval of the August 21 & 22, 2007 and the September 7, 2007 minutes; Member Terry Cohea seconded the motion and the motion was passed 7-0.

### Staff Introductions

Ms. Gayle Moon introduced Ms. Rachel Fairbank as the newest addition to the accounting staff.

## ADMINISTRATIVE BUSINESS

Chairman Moore requested the following Committee Reports:

### Human Resources Committee Report

- Exempt Employee Salary Range Recommendations – Decision

**Motion:** Board Member Jack Prothero motioned for approval of the Exempt Employee Salary Range Recommendations as outlined in the November 6, 2007 memo titled “Exempt Employee Salary Range Recommendations”. Member Karl Englund seconded the motion and the motion was passed 7-0.

- Exempt Employee Salary Recommendations – Decision

Terry Cohea, Chairperson of the Human Resource Committee, presented Exempt Employee salary increase recommendations for the current fiscal year retroactive to October 1, 2007.

**Motion:** Board Member Karl Englund motioned for approval of the Exempt Employee salary increase as recommended by the Human Resource Committee. Member Jack Prothero seconded the motion and the motion was passed 7-0.

- Exempt Employee Position Job Profiles - Decision

By law, the Board must approve the job duties and salaries of its eight exempt employees. The Board reviewed two revised job profiles, Portfolio Manager – Public Equities and Director of Research. These positions were affected by the recent liquidation of the internally-managed domestic equity portfolio. The job profiles were approved by the Human Resource Committee on October 26, 2007.

**Motion:** Board Member Karl Englund motioned for approval of the Exempt Employee Position Job Profiles as recommended by the Human Resource Committee. Member John Paull seconded the motion and the motion was passed 7-0.

Member Elouise Cobell arrived for the meeting at this time.

### Audit Committee Report

Member Turcotte, Chairperson of the Audit Committee, reported that the Audit Committee met with the Legislative Audit Committee to review the Financial Audit for the Fiscal Year Ended June 30, 2007, and to discuss new accounting standards which will be enforced.

Mr. Turcotte was pleased to announce that the Financial Audit is complete and no Audit Recommendations were made. It was an unqualified audit report.

Also discussed were the new Statements of Auditing Standards (SAS) and the effect they would have on the Board of Investments. SAS 112 has the most impact and will require the most attention from the Audit Committee to assure compliance. The American Institute of Certified Public Accountants issued the following Purpose of this standard:

Establish a standard for determining seriousness of a control issue and classifying into three categories:

- Control deficiency
- Significant deficiency
- Material Weakness

Ensure effectiveness of internal controls that impact financial statements. The following are some key underlying concepts that will help in successfully implementing SAS No. 112:

- The auditor cannot be part of a client's internal control. Becoming part of a client's internal control impairs the auditor's independence.
- What the auditor does is independent of the client's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the client.
- The client's designation of an individual who possesses suitable skill, knowledge, and/or experience to oversee a service performed by the CPA (Ethics Interpretation 101-3 *Performance of Nonattest Services*) is not a control.
- SAS No. 112 does not require the auditor to search for control deficiencies, but rather to evaluate them if they have been identified.
- A system of internal control over financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements.
- To properly apply SAS No. 112 the auditor has to have a working knowledge of the COSO framework. COSO's *Internal Control – Integrated Framework* describes the elements of internal control over financial reporting. SAS No. 112 directs the auditor to evaluate control deficiencies when identified, and communicate certain deficiencies to management and those charged with governance.

Keeping these simple but important underlying concepts in mind will help auditors successfully implement the new Standard.

#### Loan Committee Report

Member Prothero, Chairperson of the Loan Committee, stated the following INTERCAP Loan Request was reviewed and approved by the Loan Committee on November 6, 2007. The Loan Committee authorized staff to proceed with processing and closing these loans using the Board's standard INTERCAP Loan Program Office procedures. The total loan request is less than \$5 million dollars and only requires the approval of Loan Committee.

Borrower:	Ravalli County
Purpose:	Interim loan for a three year maximum term in anticipation of issuing long term general obligation bonds.

Board Loan Amount:	\$2,000,000
Terms:	3 Year Maximum

**Montana Loan Program**

Member Prothero, Chairperson of the Loan Committee, reported that the Committee reviewed and approved the following Montana Loan Program Loan Request on November 6, 2007. The Loan Committee authorized staff to proceed with processing and closing these loans using the Board’s standard Montana Loan Program Office procedures. The total loan request is less than \$5 million dollars and only requires the approval of Loan Committee.

Borrower:	C & H Properties, LLC.
Lender:	American Bank, Bozeman
Purpose:	To provide long-term financing for the construction of a new commercial office building.
Total Loan Amount:	1,655,000
BOI Participation:	1,290,900 – 78%

In addition, a loan enhancement request from the Montana Facility Finance Authority, and a loan request from Valley Bank of Helena will be presented and discussed during the Montana Loan Program agenda.

**Future Meeting Dates**

Chairman Moore suggested the following dates for future meetings:

- |                        |                                  |
|------------------------|----------------------------------|
| February 12 & 13, 2008 | May 13 & 14, 2008                |
| August 19 & 20, 2008   | November 12 & 13, 2008 (Bozeman) |

**Public Comment**

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

**PRESENTATION**

**Dimensional Fund Advisors**

Mr. Rande Muffick introduced Mr. John Gray and Mr. Robert T. Deere, Dimensional Fund Advisors (DFA). DFA manages both Domestic and International Small Cap funds held in the Domestic and International Equity Pools. Mr. Gray and Mr. Deere reviewed their firm and management strategy.

Senator Dan Weinberg arrived for the meeting at this time.

**Principal Global**

Mr. Rande Muffick introduced Ms. Susan Lowery, Mr. John Pihlblod, and Mr. Steve Larson, Principal Global Advisors (Principal). Principal manages an International Growth account in the International Equity Pool. Ms. Lowery, Mr. Pihlblod and Mr. Larson reviewed their firm and management strategy.

**AXA Rosenberg**

Mr. Rande Muffick introduced Mr. Mike Mulvihill, AXA Rosenberg. AXA Rosenberg manages an International Small Cap fund in the International Equity Pool. Mr. Mulvihill reviewed the firm and management strategy.

## EXECUTIVE DIRECTOR REPORTS

### Board Governance/Ethics Policy - Decision

Mr. Carroll South presented a draft of the Governance Manual for Board review and consideration. This document was considered by the Board at its August meeting, however the Board concluded that action on the document would be postponed until the November meeting to allow for Board comment via email to the Executive Director.

One of the purposes of a public investment board Governance Policy (Policy) is to clearly spell out the fiduciary responsibilities of the Montana Board of Investments (Board) as an entity and how those responsibilities, if any, are delegated to staff to carry out the Board's mission on a day to day basis. State law assigns to Board members the fiduciary responsibility of managing the Unified Investment Program and gives the Board the authority to hire staff as it deems necessary. Because the fiduciary responsibility ultimately lies with the Board it is important that the authority and roles of the Board as an entity and Board staff be clearly defined. Board staff has only those powers specifically delegated to them by the Board as specified in this Policy. This Policy shall be published on the Board's web site and may only be revised by the Board at a public meeting. Staff may update Board membership rosters as necessary.

**Motion:** Member Turcotte moved for the approval and adoption of the Board Governance Policy as presented; Member Cohea seconded the motion and the motion was unanimously approved 8-0.

### Resolution 217 - Decision

Mr. Carroll South presented Resolution 217 which supersedes and replaces Resolution 199 in its entirety. The new Resolution is much more specific relative to the authority that each staff person has to transact and interact with Board vendors. The new Resolution limits staff authority to the area in which they have jurisdiction and authority to act on behalf of the Board. The Executive Director will provide a report to the Board annually, on or around the regularly scheduled October Board meeting, showing the staff members added to or deleted from the authorized list and showing the accounts added to or deleted.

The only staff member added since the last update was the Executive Director for purposes of signing vendor contracts, vendor agreements, side letters, and other legal and implementation documents, as well as initialing, when necessary, capital calls.

**Motion:** Member Prothero motioned for the approval and adoption of Resolution 217 as presented; Member Paull seconded the motion and the motion was unanimously approved 8-0.

### Resolution 218 – Decision

In addition, Mr. South presented Resolution 218 which establishes the protocol required by the Board Governance Policy in Section III. 2:

**“2. Deputy Director** To ensure continuity the Deputy Director is empowered by the Board to carry out the duties of the Executive Director in his/her absence unless there are specific written polices or instructions from the Board to the contrary. The Executive Director shall establish a written protocol to ensure continuity in his/her absence.”

This Resolution ensures that there is written procedure in place to provide continuity and authority in the absence of the Executive Director.

**Motion:** Member Cobell motioned for the approval and adoption of Resolution 218 as presented; Member Prothero seconded the motion and the motion was unanimously approved 8-0.

Resolution 217 and 218 will be incorporated into the Governance Manual upon approval by the Board.

#### Internal Control Policy - Decision

Mr. Carroll South presented a copy of the newly formalized Internal Controls Policy. At the August Board meeting the internal control processes of Board staff was discussed. There is a process which is followed however that process has never been formalized in a policy. This policy will be considered a “work in progress” as staff continues to review all procedures and update the policy as needed.

The purpose of an internal controls policy is to safeguard assets, ensure validity of records and reports, promote adherence to policies and procedures, and improve the effectiveness and efficiency of operations. The Montana Board of Investments’ (the “Board”) Internal Control Policy is created to ensure that proper controls and monitoring procedures are in place to prevent fraud and reduce risks.

The Board discussed the Internal Control Policy extensively and determined that this policy will become the responsibility of the Audit Committee. The Audit Committee will oversee any changes or updates made to the policy and present an annual update to the Board.

**Motion:** Member Karl Englund made the following motion: 1.) The Board is directing staff to continue the process of developing a written set of internal controls. 2.) The Board is passing to the Audit Committee the responsibility to review the internal controls. 3.) The Board is authorizing the Audit Committee to hire an appropriate outside consultant to assist in the review of the procedures and to monitor the responsibility.

Member Jon Satre seconded the motion and the motion was unanimously approved 8-0.

#### ADJOURNED

The meeting adjourned for the day at 5:20 p.m.

#### CALL TO ORDER

The meeting was reconvened Wednesday, November 7, 2007 at 8:05 a.m. with eight members of the Board present. Member Fleming joined the meeting via conference call as reflected in the minutes.

### PRESENTATION

#### Presentation - House Bill 771

House Bill 771 requires enacted by the 2007 Legislature requires that the Pension Board make an annual presentation to the Board of Investments, as well as requiring that the Board of Investments give an annual presentation to the Pension Boards.

Dave Senn and Roxanne Minnehan presented to the Board the annual review of the Teachers’ Retirement System and Public Employees’ Retirement System respectively.

## **BOND PROGRAM**

### Activity Report

The Board reviewed this report for the period ending September 30, 2007.

### Staff Approved Loans Report

Ms. Louise Welsh reported that the following loan requests have been approved by staff and staff will process and close these loans using the Board's standard Bond Program Office procedures:

Borrower:	Smith Valley Fire District #1 (Kalispell)
Purpose:	To finance a new water tender
Staff Approval Date	August 7, 2007
Board Loan Amount:	\$154,002
Term:	10 years

Borrower:	Montana City Rural Fire District
Purpose:	To assume an existing INTERCAP loan and purchase a new water tender
Staff Approval Date	August 8, 2007
Board Loan Amount:	\$58,428.03 and \$388,000.00
Term:	5 years and 10 years

Borrower:	Lewis & Clark County
Purpose:	To finance costs associated with road improvements for the Rural Improvement Districts (RIDs): Green Acres RID No. 2001-8, Riddock RID No.1985-1, Town View RID No.1990-9
Staff Approval Date	August 17, 2007
Board Loan Amount:	\$83,979.00
Term:	10 years

Borrower:	Big Sandy School Districts 2 & 11
Purpose:	To finance costs associated with replacing the Districts' boilers and water heaters
Staff Approval Date	August 17, 2007
Board Loan Amount:	\$241,071.00
Term:	5 years

Borrower:	Custer County
Purpose:	To finance costs associated with a lighting retrofit for Custer County Court House
Staff Approval Date	August 21, 2007
Board Loan Amount:	\$20,000.00
Term:	4 years

Borrower:	Custer County
Purpose:	To purchase a rock crusher for road repair

Staff Approval Date	September 4, 2007
Board Loan Amount:	\$50,000.00
Term:	10 years

Borrower:	Lewis & Clark County
Purpose:	To finance costs associated with road and curb improvements for the Rural Improvement Districts (RIDs): Bel Air Addition RID No. 2006-5 and Bel Air Curb RID No. 2006-6
Staff Approval Date	September 12, 2007
Board Loan Amount:	\$242,265.00
Term:	10 years

Borrower:	Cooke City Park County Water District (Livingston)
Purpose:	In anticipation of Rural Development long term financing of costs associated with constructing a water transmission main.
Staff Approval Date	September 13, 2007
Board Loan Amount:	\$835,000.00
Term:	2 years

### **MONTANA LOAN PROGRAMS**

#### **BOI Enhancement - Marcus Daly Memorial Hospital**

Ms. Michelle Barstad presented a request from the Montana Facility Finance Authority on behalf of Marcus Daly Memorial Hospital. The loan will be made from the Montana Facility Finance Authority's Variable Rate Program and requires a Letter of Credit to be issued for loans where the underlying borrower is not "A" rated or better and the Letter of Credit must be issued or confirmed by an "A" rated or better bank. The Board of Investments was deemed an allowable Letter of Credit Enhancement provider in 1999 by the bond insurer of the Variable Rate Program.

Marcus Daly Memorial Hospital is requesting a \$2.7 million loan to remodel, expand and relocate the rehabilitation department, laboratory department, and convenient care clinic. This project is Phase 2 of a six-phase Master Facility Plan. The multi-phase project is anticipated to cost approximately \$32 million over a projected eight to 10 years with funding coming from general operations revenue bonds and a capital fundraising campaign.

The Loan Request was reviewed and approved by the Loan Committee on November 6, 2007.

**Motion:** Member Prothero, Chairperson of the Loan Committee, motioned for the approval of this loan enhancement as presented; Member Satre seconded the motion and the motion was unanimously approved 8-0.

#### **Montana Loan Program Loan Request**

Staff presented the following Loan Request to the Loan Committee:

Borrower:	BHAM Development, LLC.
Lender:	Valley Bank of Helena
Purpose:	Expansion of the Summit Aeronautic Group manufacturing facility.

Total Loan Amount:	\$9,500,000
BOI Participation:	\$7,600,000 – 80%

**Motion:** Member Prothero, Chairperson of the Loan Committee, motioned for approval of this loan request contingent on the following:

1. Board of Investments participation will be no more than 60% of the total loan amount or \$5,700,000;
2. Unlimited guarantee of the subject loan by guarantors;
3. In the event of a change in ownership of BHAM Development, LLC, the new owner(s) will provide a personal, unlimited guarantee to the lender for the debt of BHAM Development, LLC. If the new owner is a business, the business will be required to provide an unlimited guarantee to the lender for the debt of BHAM Development, LLC.
4. If at any time during the term of BOI's participation in subject loan, the controlling ownership of BHAM Development, LLC or Summit Aeronautics Group changes, BOI will require that either the subject loan to BHAM Development, LLC be paid in full or the Lender repurchase the then outstanding principal plus interest of BOI's participation.

Member Satre seconded the motion and the motion was unanimously approved 7-0. Member Turcotte abstained from the vote. The total loan request is in excess of \$5 million dollars and requires a vote by the full Board.

Commercial and Residential Portfolios Report

Mr. Herb Kulow presented and the Board reviewed this report for the period ending September 30, 2007.

**PRESENTATION**

Absolute Return Education Presentation

Mr. Jim Voytko gave an educational presentation on Absolute Return. RV Kuhns describes absolute return investing as a “fund of funds” strategy using a diversified range of underlying hedge funds. Absolute return strategies seek to provide consistent positive returns, with relatively low correlation to other asset classes.

Real Return Educational Presentation

Ms. Becky Gratsinger gave an educational presentation on Real Return investing. A “Real Return” Strategy targets a return which is correlated to inflation over time. Real return strategies can include individual investments in real return assets or tactical or strategic allocations in a portfolio of several real return assets. Real return assets typically include: Treasury Inflation Protected Securities (TIPS), Commodities, Real Estate, Timber Products, Infrastructure and shares in Global Natural Resource companies.

Fixed Income Educational Presentation

Mr. Peter Madsen gave an educational presentation on non-core Fixed Income asset classes. These include high yield debt and non-dollar debt issued in both developed and developing countries. Fixed income exposure serves an important role in asset allocation: Low correlation with equity oriented asset classes, and low volatility compared to other asset classes.

Mr. Cliff Sheets stated that the next asset diversification step would be to pursue diversification within the Fixed Income asset class. Mr. Sheets and Mr. Carroll South recommend issuing an RFP in order to research the managers and strategies which are available. Staff will then come back to the February 2008 meeting with a more definitive plan.

Senator Weinberg commented that he agrees about the usefulness of the educational presentations and that there is a lot to learn. He hopes that the Board will not skip over the philosophical discussion about, particularly hedge funds, with respect to risk and the risk that Board and staff ought to be collaring. He hopes that the discussion is not missed and that the Board does not launch right in to which hedge fund or which advisor to go with.

**Decision:** The Board concurred with staff to pursue the issuance of the RFP for the Fixed Income Asset Class, and to return to the February meeting with an update.

Member Turcotte suggested that R. V. Kuhns schedule experienced managers to give an educational presentation to the Board on the Absolute Return Asset Class and the Real Return Class. These managers should discuss the merits of the asset class, the associated risks, the types of management decisions involved, and how these decisions add value.

### QUARTERLY PERFORMANCE REPORTS

The Quarterly Performance Report for the period ending September 30, 2007 was presented.

### INVESTMENT ACTIVITY

#### State Street Performance Report by Manager

Mr. Cliff Sheets presented the Summary of External Active Managers (Net of Fees) Report for the period ending September 30, 2007.

#### Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report as of September 30, 2007.

#### Private Equity (MPEP)

Mr. Cliff Sheets presented the Private Edge Portfolio Holdings Performance Report, MPEP Activity Summary of the fund investments and investment briefs for the Montana Private Equity Portfolio for commitments made since the last Board meeting, as shown below.

<u>Fund Name</u>	<u>Vintage</u>	<u>Subclass</u>	<u>Amount</u>	<u>Date</u>
Siguler Guff Small Buyout Opportunities Fund	2007	Buyout	\$25M	7/25/2007
<b>Total New Commitments</b>			<b>\$25M</b>	

#### Real Estate (MTRP)

Mr. Cliff Sheets presented the real estate fund commitments made to date, with the MTRP Activity Summary, and investment briefs for the Montana Real Estate Pool Portfolio for commitments made since the last Board meeting, as shown below.

<u>Fund Name</u>	<u>Vintage</u>	<u>Subclass</u>	<u>Amount</u>	<u>Date</u>
AG Realty Fund VII, L.P.	2007	Opportunistic	\$20M	9/20/07
<b>Total New Commitments</b>			<b>\$20M</b>	

### Domestic Equity (MDEP)

Mr. Cliff Sheets presented the Montana Domestic Equity Pool Report as of September 30, 2007 and a summary of the pool manager changes and recent market trends as prepared by Rande Muffick.

### International Equity (MTIP)

Mr. Cliff Sheets presented the Montana International Equity Pool Report for the period ending September 30, 2007, and discussed market trends during the quarter.

### Short Term Investment Pool Update

Mr. Rich Cooley presented a summary of the current status of the Short Term Investment Pool (STIP) and investment actions taken over the past three months. The pool is currently \$2.46 billion in size, and the average maturity is 47 days, down from 68 days in mid-August. Local governments represent approximately \$736 million or 30% of the total pool assets. The net yield on STIP has been about 5.25% over the past week.

Asset-backed commercial paper (ABCP) and structured investment vehicles (SIVs) are the largest components of the pool at about 35% and 25%, respectively. The exposures to SIV's is decreasing as these securities mature and are replaced by other investment types such as agencies, commercial paper or CD's. The pool's exposure to sub-prime mortgages is currently less than 1% and exposure to collateralized debt obligations (CDO's) is less than 4%.

The current portfolio operating practices are to maintain daily liquidity at a minimum of \$300 million and weekly liquidity at a minimum of \$500 million, while limiting ABCP maturities on new purchases to 30 days and limiting credit exposures per name to 3% at the time of purchase.

Staff will be considering modifying the current investment guidelines to incorporate additional diversification and risk guidelines. The revised STIP policy statement should be available for review at the February 2008 Board meeting.

### Fixed Income

Mr. Cliff Sheets presented the Fixed Income Overview and Strategy, the Below Investment Grade Holdings Report, the Short-Term Investment Pool, State Fund Insurance and Treasurer's Fund Portfolio Reports as prepared by the respective portfolio managers, Mr. Bob Bugni and Mr. Richard Cooley.

### Investment Policy Statements

Mr. Bob Bugni presented four Investment Policy Statements. The changes are presented for approval by the Board.

- Retirement Funds Bond Pool (RFBP) – At the August Board meeting, staff received Board permission to invest in U.S. Agency Hybrid ARMS securities up to 5 percent. The Investment Policy Statement for RFBP was not revised at that time to reflect this change. This revision will align our Fixed Income Strategy and the Investment Policy Statement for RFBP.
- Trust Funds Bond Pool (TFBP) - At the August Board meeting, staff received Board permission to invest in U.S. Agency Hybrid ARMS securities up to 5 percent. The Investment Policy Statement for TFBP was not revised at that time to reflect this change. This revision will align our Fixed Income Strategy and the Investment Policy Statement for TFBP.

- Streamside Tailing Settlement Fund - Staff recommended various changes to the Streamside Tailing Settlement Fund Investment Policy Statement.
- Old Fund Insurance - Staff recommended various changes to the Old Fund Insurance Investment Policy Statement.

**Motion:** Member Jim Turcotte motioned for approval of the staff recommendations as presented; Member Maureen Fleming seconded the motion and the motion was unanimously approved 8-0.

**NEXT MEETING**

The next regularly scheduled meeting of the Board will be February 12 & 13, 2008.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 1:05 p.m.

**BOARD OF INVESTMENTS**

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

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

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