REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

2401 Colonial Drive, 3rd Floor
Helena, Montana
August 19 & 20, 2008

AGENDA

I. CALL TO ORDER **1:00 p.m.**

- A. Roll Call
- B. Approval of the May 13 & 14, 2008 Regular Meeting Minutes
- C. Approval of the July 31, 2008 Special Conference Call Board Meeting Minutes
- D. Administrative Business **1:15 p.m.**
  1. Human Resource Committee Report
     - a. Exempt Employee Job Profile – Fixed Income Portfolio Manager / Decision
  2. Audit Committee Report
  3. Loan Committee Report
- E. Public Comment - *Public Comment on issues with Board Jurisdiction* **1:30 p.m.**

II. EXECUTIVE DIRECTOR REPORTS – Carroll South **1:35 p.m.**

- A. Executive Order No. 35-2008 - Discussion
- B. Securities Monitoring Litigation Services – Decision
- C. Hedge Fund-of-Funds RFP – Verbal Update
- D. Exempt Employee Job Profile – Fixed Income Portfolio Manager/Approval
- E. Socially Responsible Investing (SRI) – Discussion/Decision

III. QUARTERLY PERFORMANCE REPORTS (period ending June 30, 2008)

- A. Pension Funds and Investment Pools – R.V. Kuhns and Associates

IV. INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO **2:30 p.m.**

- A. Retirement System Asset Allocation Report
- B. Private Equity (MPEP)
  1. Portfolio Holdings and Recent Activity
  2. Private Edge Reports (as of 3/31/2008)
- C. Real Estate (MTRP)
  1. Portfolio Holdings and Recent Activity
  2. Private Edge Reports (as of 3/31/2008)
- D. Investment Pool Strategies
  1. Domestic Equity (MDEP)
  2. International Equity (MTIP)
  3. Manager Watch List
  4. Fixed Income Strategy Statements
     - i. Bond Pools (RFBP and TFBP); External Manager Update Memo
     - ii. Short-term (STIP) and Other Fixed Income Portfolios
     - iii. Below Investment Grade Holdings Report
- E. Securities Lending Report

V. EDUCATIONAL SESSION – COMMODITY RELATED INVESTMENTS –
R.V. Kuhns and Associates and Cliff Sheets, CFA, CIO

VI. ADJOURNMENT **5:00 p.m.**

REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

AGENDA – DAY 2

I. RECONVENE AND CALL TO ORDER **8:00 a.m.**

A. Roll Call

II. EXTERNAL MANAGER PRESENTATIONS

Vaughn Nelson Investment Management **8:15 a.m.**

- Chris Wallis, Senior Portfolio Manager
- George Holewyne, Director Client Services

BREAK 15 Min.

Renaissance Investment Management **9:15 a.m.**

- Michael Schroer, Managing Partner, CIO
- Carey Kruer, Director Client Services

III. BOND PROGRAM – Louise Welsh **10:30 a.m.**

A. INTERCAP

1. Activity Report
2. Staff Approved Loans Report
3. Loan Requests

IV. MONTANA LOAN PROGRAM – Herb Kulow **10:45 a.m.**

A. Commercial and Residential Portfolios Report

V. 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, 3rd Floor
Helena, Montana
August 19 & 20, 2008

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Elouise Cobell
Representative Tom McGillvray

STAFF PRESENT:

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

GUESTS:

Jim Voytko, R.V. Kuhns and Associates
Becky Gratsinger, R.V. Kuhns and Associates
Peter Madsen, R.V. Kuhns and Associates
George Holewyne, Director Client Services, Vaughn Nelson Investment Management
Chris Wallis, Senior Portfolio Manager, Vaughn Nelson Investment Management
Michael Schroer, Managing Partner, CIO, Renaissance Investment Management
Carey Kruer, Director Client Services, Renaissance Investment Management

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, 3rd Floor, Helena, Montana. As noted above, the meeting convened with eight members of the Board present. Member Elouise Cobell and Member Tom McGillvray were absent.

Motion: Member Jon Satre motioned for approval of the May 13 & 14, 2008 minutes and the July 31, 2008 Special Conference Call Meeting minutes; Member Jack Prothero seconded the motion and the motion was passed 8-0.

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

Human Resources Committee Report
Member Terry Cohea, Human Resource Committee Chairperson, reported that the Committee has reviewed the Exempt Employee Job Profile for the Fixed Income Portfolio Manager position. Member Cohea reported that the duty and responsibility of overseeing External Managers has been added to the Job Profile.

Motion: Member Terry Cohea motioned for approval of the Exempt Employee Job Profile for the Fixed Income Portfolio Manager position on behalf of the Human Resource Committee. Member Maureen Fleming seconded the motion and the motion was passed 8-0.

Audit Committee Report – No Report.

Loan Committee Report
Member Jack Prothero, Loan Committee Chairperson, reported that the Loan Committee approved an INTERCAP Loan Program request via conference call on June 19, 2008. The loan is less than $5 millions dollars and requires only Loan Committee approval. The Loan Committee authorized staff to proceed with processing and closing this loan using the Board's standard Bond Program Office procedures:

Borrower: MSU - Bozeman
Board Loan Amount: $4,000,000
Term: 10 Years
Purpose: To finance costs associated with renovating the Cooley Microbiological Laboratories.

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

EXECUTIVE DIRECTOR REPORTS

Executive Order No. 35-2008
Mr. Carroll South, Executive Director, presented Executive Order 35-2008. This Executive Order encourages Boards, Councils and Commissions to conserve energy by utilizing teleconference technology when possible.

After reviewing the Executive Order, the Board agrees that the current schedule of one meeting per quarter (4 meetings per year) seems to be very sufficient and works well. If the Board determines a need for additional "in-person" meetings, a meeting will be scheduled. The Board will continue to meet by conference call as needed.

Securities Monitoring Litigation Services - Decision

Mr. Carroll South, Executive Director, presented staff recommendation that Bernstein Litowitz Berger & Grossman and Barrack, Rodos & Bacine be hired for Securities Monitoring/Litigation Services subject to successful contract negotiations.

A Request for Proposal (RFP) was issued on March 24, 2008 and twenty four responses were received.

Motion: Member Maureen Fleming moved for approval of staff recommendation as presented; Member Jon Satre seconded the motion and the motion was passed 8-0.

Hedge Fund Of Funds Request For Proposal Update

Mr. Carroll South provided a verbal update on the Hedge Fund of Funds Request for Proposal (RFP). The RFP was issued on August 6th and will close on September 19th.

Socially Responsible Investing – Decision

Mr. Carroll South provided a detailed and in-depth report on Socially Responsible Investing. Socially Responsible (SR) investing is a term that has evolved into a broad category of investment philosophies that are intended to: influence country/company policies; impact certain products/services; impact the environment; and/or impact certain demographical groups or geographical areas. Targets of SR investing may be:

- **Countries –** Countries whose policies and conduct are perceived to be unacceptable.
- **Company Negative –** Companies with policies/products that are perceived to be socially unacceptable.
- **Company Positive -** Businesses that: are considered good corporate citizens with adequate corporate governance; are considered environmentally "green" with little impact on the environment; primarily focus on healthy products or manufacture products that improve the environment, conserve energy, and reduce fossil fuel consumption.
- **Products/Services Negative –** Products/services that are perceived to be harmful to persons or the environment.
- **Products/Services Positive –** Products/services that improve the environment, reduce waste, reduce energy consumption, improve living conditions, and in general are perceived to benefit society.
- **Demographic/Geographic Positive –** Sometimes referred to as economically-targeted investing.
- **Green Investing Positive –** As global warming has become a major topic of discussion, there has been increasing focus on "green" investing, which involves investing in companies whose primary focus is improving the environment.

There are two ways in which SR investing is practiced – positive and negative. The general theory is to reward good behavior and discourage bad behavior as it relates to company policies, company products/services, or company operations in countries with policies and conduct perceived to be socially unacceptable. In the case of companies providing products/services the SR investor believes harmful to society or the environment, the investor may simply choose to not invest, based on the belief that its investment would be used to provide the products/services.

The most recent examples of negative SR investment activity are the divestitures by several public funds in companies that operate in Sudan or Iran. A product-specific example of negative SR investing occurred in 2000 when the two large California pension funds sold all their investments in tobacco companies.

Generally, SR investors in the public equity markets would screen the universe of stocks against certain criteria important to them. The screens may be used positively (to invest in the company) or negatively (to not invest or divest in the company). There are several ways in which SR investors may attempt to change or encourage company policies:

1) Don't invest in a publicly-traded company.
2) Divest (sell) existing investments in a publicly-traded company.
3) Invest in the company and if necessary use that investment as a tool to improve the company policies.
4) Invest in private equity funds or publicly-traded companies dedicated to green and/or economically-targeted investments.

If a SR investor does not like a company's policies or products/services it may choose to not purchase its stock or to sell the stock it owns. If an SR investor chooses not to invest in a company because of its primary products/services, such as tobacco or alcohol, the company will still continue to provide the products/services. While the two California pension funds (the largest public pension funds in the US) divested all tobacco stocks in 2000 that action did not impact the companies' ability to manufacture and sell tobacco products.

There are usually many publically-traded domestic and international companies providing the same product\service. A SR investor would, after a financial analysis of company prospects, likely choose to invest in those companies whose social and environmental policies are most in tune with its own beliefs and values as opposed to investing in a competitor whose financial outlook was similar. Even if the SR investor was not totally happy with the company's policies, it may purchase its stock to become an active shareholder and a force for change.

Mr. South states "I can not overstate enough the fiduciary responsibility that this Board has as to how pension funds are to be managed." The Board is mandated by state law to manage the Program using the "prudent expert principle", which requires an investment manager to:

(a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
(b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
(c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

Letter (c) of the principle leaves little doubt that the Board must act "solely" in the interest of and for the benefit of the funds it invests.

Any SR investing activity undertaken by the Board would utilize pension funds because these are the only funds over which the Board has total discretion. As of June 30, 2007, there were 81,731 active and retired members of the nine pension funds. The protected status of the pension funds is clearly spelled out in the state Constitution:

> Section 15. Public retirement system assets. (1) Public retirement systems shall be funded on an actuarially sound basis. Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses.

This language protects the state's pension funds as "trust" assets – off limits to any legislative or investment activity that would diminish the trusts. The assets include contributions by state/local government entities and active employees, as well as investment income. Once these various funding sources are deposited in the pension accounts they lose their identity and become an integral part of the trusts, the investment of which is the Board's sole responsibility. When considering whether SR investing might conflict with its fiduciary responsibilities, the Board must consider its impact on pension beneficiaries.

Mr. South presented the following staff recommendations:

1. Staff recommends that the Board not consider negative SR investing and resist any external pressure to do so. Given the rigorous constitutionally-mandated fiduciary responsibilities imposed on the Board, it must at all times base its investment policies, processes, and decisions in the best interests of the pension beneficiaries. Reducing the investment universe through screens or other methods will only serve to distract the Board from its primary mission of enhancing pension fund performance.

2. Staff recommends that the Board become more proactive as a shareholder in those companies whose stock is held as a strategic investment. This "proactive" process would require staff and consultant to create a corporate governance policy integral to a comprehensive proxy voting policy that represents best practices and present these policies for Board approval at a future meeting. The process would also require that the Board hire an external vendor to vote all Board proxies, rather than permitting the external equity managers to vote as is the current policy.

An enhanced proxy policy was recommended by Independent Fiduciary Services when it conducted a comprehensive review of Board operations, processes, and policies.

Chairman Moore asked Mr. Jim Voytko to proceed with the Socially Responsible Investing presentation prepared by R.V. Kuhns.

Mr. Voytko reported that Proxy voting is the primary forum through which shareowners participate in the governance of corporations. Corporate management seeks affirmation and approval of existing and new policies from shareowners. Proxy voting equals investor involvement in the governance of the entities owned by the Fund. Public fund fiduciaries, including investment managers, are required to vote proxies in the best interest of plan participants and beneficiaries.

Mr. Voytko presented 4 options for Proxy Voting:

Option 1: Board delegates to each investment manager the complete authority and obligation to vote the fund's proxies.

Option 2: Board approves a customized proxy voting policy and asks each manager to vote according to the policy.

Option 3: Board approves a customized proxy voting policy and asks MBOI Staff to vote according to the policy.

Option 4: Board engages the services of an external proxy voting agent. The Board's viewpoints can be applied through (a) the development of a voting policy that reflects the Board's specific views, or (b) the adoption of a "pre-packaged" set of proxy policies offered by a proxy voting service.

There are assumptions, pros and cons relative to all of these options.

Confirmation of how Montana Board of Investments proxies are currently being cast is essential. This data is a critical element in the Board's consideration of any proxy policy revision. R.V. Kuhns & Associates recommends that the Board perform a comprehensive survey of proxy policies used by managers. R.V.

Kuhns & Associates will perform the survey on the Board's behalf and summarize those findings and develop a recommendation to be presented at a future board meeting.

Senator Dan Weinberg spoke on the Socially Responsible Investing topic. Mr. Weinberg thanked Chairman Moore, Mr. South and Mr. Voytko for researching the topic and bringing the topic to the table. He expressed his pleasure that the Board is discussing this issue and that the Board is pursuing the positive SR investing direction of paying attention to the kind of investor citizens we are.

Mr. Weinberg provided the following statistics:

- The SRI market has grown rapidly during the past 12 years – from $639 billion in 1995 to 2.71 trillion in 2007. That is 10.8% of the $25.1 trillion dollars under professional money management in the US in 2007 was invested in an SRI manner.
- Employees are seeking SRI options for retirement plan investments. Over 300 million investors are interested in retirement plan funds that integrate investment returns with quality of life issues. In 2005, 68% of employees who did not have an SRI option indicated that they would invest in one if it was offered. This information is according to CALPERS.
- In reference to the liability aspect of limiting the universe of investments, to what degree are fiduciaries liable? In response to a letter from CALPERS, the Dept. of Labor has clearly stated that fiduciaries can legally pursue an SRI investment strategy.

Mr. Weinberg introduced one recommendation for consideration – Make a space in the Board's Asset Allocation for Socially Responsible Investing. Hire an SRI manager to manage the allocation and watch the results over a period of time. If after that time period the allocation is making money, increase the allocation and if the allocation is not successful, then get rid of it.

Motion: Chairman Moore stated that it is the consensus of the Board that staff, with the assistance of R.V. Kuhns & Associates, move forward immediately with the recommendations of staff to undertake the survey and return with further recommendations.

Member Fleming stated that she is in favor of Mr. Weinberg's suggestion of a possible allocation to SRI investing.

Chairman Moore inquired as to how SRI would be integrated in to the Asset Allocation Policy.

Mr. Voytko responded that the integration could be further looked at and considered once the survey is complete and that R.V. Kuhns & Associates will poll other pension funds to determine if there are other funds that have an SRI asset allocation.

(A complete copy of Mr. South's report and the Socially Responsible Investing Report prepared by R.V. Kuhns & Associates is kept on file with the documents of this meeting)

QUARTERLY PERFORMANCE REPORT

(A complete copy of this report is kept on file with the documents of this meeting)

The Quarterly Performance Report for the period ending June 30, 2008 was presented.

INVESTMENT ACTIVITY

<u>Asset Allocation Report</u>

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report as of June 30, 2008.

Private Equity (MPEP)

Mr. Ed Kelly presented March 31, 2008 reports by Private Edge showing by strategy the total exposure by market value and outstanding commitments and the Portfolio Holdings Performance Report, holdings as of June 30, 2008 and investment briefs for the Montana Private Equity Portfolio for commitments made since the last Board meeting, as shown below.

Fund Name	Vintage	Subclass	Amount	Date
Lexington Middle Market Investors II	2008	Secondary	$10 M	6/20/08
HarbourVest / Dover St. VII	2008	Secondary	$20 M	7/02/08
Odyssey Investment Partners IV	2008	Buyout	$20 M	7/25/08
First Reserve Fund XII	2008	Buyout	$25 M	7/28/08
Total New Commitments			**$75M**	

Real Estate (MTRP)

Mr. Ed Kelly presented March 31, 2007 reports by Private Edge showing the real estate fund commitments made to date and holdings as of June 30, 2008. There were no new investment commitments made by staff since the May Board meeting to report.

Domestic Equity (MDEP)

Mr. Rande Muffick presented the Montana Domestic Equity Pool Report as of June 30, 2008 and a summary of recent market trends.

International Equity (MTIP)

Mr. Rande Muffick presented the Montana International Equity Pool Report for the period ending June 30, 2008 and discussed market trends during the quarter.

Public Equity External Managers Watch List

Mr. Rande Muffick presented the External Managers Watch List – Quarterly Update. The Watch List criteria were established in accordance with the Montana Board of Investments Public Equity Manager Evaluation Policy, adopted by the Board on May 14, 2008.

Manager	**Style Bucket**	**Reason**	**Inclusion Date**
Goldman Sachs	Domestic – LC Enhanced	Performance, Personnel	March 2008
NorthPointe	Domestic – SC Growth	Performance	August 2008
Principal Global	International – LC Growth	Performance	March 2008
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	March 2008

Fixed Income

Mr. Nathan Sax presented the Fixed Income Overview and Strategy and the External Manager Update.

Mr. Richard Cooley presented the Short-Term Investment Pool, State Fund Insurance and Treasurer's Fund Portfolio Reports and the Below Investment Grade Holdings Report.

Mr. Nathan Sax reported that two managers each for Core Plus and High Yield assignments have been chosen. The Core Plus managers are Artio Global Investors and Reams Asset Management Company. The High Yield managers are Post Advisory Group and Lehman Asset Management. The Investment Management Agreements and Guidelines are expected to be final and executed by the end of August.

Mr. Rich Cooley provided an update to the Board on the Short Term Investment Pool (STIP). Mr. Cooley reported that the STIP portfolio is currently well diversified and is operating within all the new guidelines adopted by the Board in February 2008.

Securities Lending Report
Mr. Cliff Sheets provided an in-depth report on Securities Lending.

State Street Bank is the master custodian and acts as the security lending agent on behalf of the Board of Investments. The income earned is split 80/20 between the Board of Investments and State Street Bank. The income earned represents an incremental return on assets.

There are risks associated with Securities Lending; however State Street Bank (SSB) acts to mitigate those risks as part of its actions as agent. As the agent, SSB selects borrowers and is able to screen out the weaker credits; manages collateral (can increase required margin and type of collateral accepted); manages cash collateral and invests it, and has recently acted to reduce investment risk. Most importantly, SSB indemnifies the Board of Investments against loss from borrower default, though not from investment losses suffered in the cash collateral pools.

The Board has seen a significant increase in securities lending income during fiscal year '08. Compared to fiscal year '07, there has been almost an 8-fold increase, to $7.4 million dollars. The increase is driven by several factors: (1) More lendable securities due to the restructuring of the Montana International Equity Pool (MTIP) in 2006; (2) The change to allow certain securities as collateral versus accepting cash collateral only; (3) A higher demand for securities, both stocks and bonds and especially agency securities, and therefore a higher negotiated (demand) spread with borrowers and higher utilization (higher proportion out of loan); and (4) Higher reinvestment spreads, due to wider spreads earned by the collateral pool investments.

In conclusion, Mr. Sheets stated that the expectations are for demand spreads to slowly decrease with reinvestment spreads holding up as long as there is an ongoing credit crunch. An overall slight downward trend in earnings may occur during the current fiscal year, but much will depend on stress in the money markets.

ADJOURNED
The meeting adjourned for the day at 5:50 p.m.

CALL TO ORDER
The meeting was reconvened Wednesday, August 20, 2008 at 8:00 a.m. with eight members of the Board present. Member Elouise Cobell and Member Tom McGillvray were absent.

PRESENTATIONS

Vaughan Nelson Investment Management
Mr. Rande Muffick introduced Mr. Chris Wallis and Mr. George Holewyne. Mr. Wallis and Mr. Holewyne reviewed their firm and management style. Vaughan Nelson Investment Management manages a small-cap growth account held in the Domestic Equity Pool.

Renaissance Investment Management
Mr. Rande Muffick introduced Mr. Michael Schroer and Mr. Carey Kruer. Mr. Schroer and Mr. Kruer reviewed their firm and management style. Renaissance Investment Management manages a large cap growth account held in the Domestic Equity Pool.

R.V. Kuhns and Associates
Ms. Becky Gratsinger and Mr. Peter Madsen provided to the Board an educational session on Commodity Investing. The educational presentation included information on:

Commodities Background

- Commodities include goods, such as energy, livestock, grains, precious metals, industrial metals.
- Investments are generally made indirectly through futures, swaps, and structured notes.
- Low correlation to traditional asset classes.
- Exposure to commodities can be either actively managed or passively managed through derivatives.

Returns

- Commodities have exhibited strong positive returns over recent years, but the returns can be very volatile year-to-year and have experienced large negative returns at times as well.
- Over the longer horizon commodity and developed market equity returns are similar.
- The three sources of commodity returns were discussed:
    - The price appreciation/depreciation of the underlying commodities.
    - "Roll" returns.
    - Cash collateral returns.

Commodity Indices

- Index oriented investing in commodities is a popular method.
- Different methods for replicating exposure to commodity indices were discussed.
- Index construction is highly varied across vendors.
    - Index differences create potentially conflicting definitions of commodity market beta.

Implementation Choices

Different management choices for gaining exposure to commodities were discussed, ranging from passive to active strategies, and including over-the-counter and exchange-listed instruments. Fees associated with the different types of management choices were also discussed.

Summary

- Commodities have historically provided an equity like return, and low correlations with traditional asset classes such as stocks and bonds.
- Volatility of the asset class justifies a phased approach to gaining exposure for investors new to this market.
- A limited allocation of assets may deliver a meaningful impact through diversification.
- Myriad of choices for implementation.
- Implementation decision based on return objectives, resources for monitoring, and risk tolerance.

After the presentation Chairman Moore expressed appreciation to R.V. Kuhns for presenting a good summary of this asset category for the Board's educational benefit. He then asked Mr. Sheets where he viewed this subject in terms of consideration in an asset allocation context.

Mr. Sheets commented that we should not be in any particular hurry to consider a commodities allocation given the pending consideration of hedge funds. Further, it was his view that commodities are not likely to do very well in a global economic slowdown that is likely to have disinflationary tendencies. Longer term, it deserves consideration for diversification sake but near-term we should be cautious about losing money for the sake of diversification.

The Board took no action and no decisions were made.

BOND PROGRAM

Activity Report
The Board reviewed this report for the period ending June 30, 2008.

Staff Approved Loans Report
Ms. Louise Welsh reported that the following loans have been approved by staff during the period of May 1 – June 30, 2008:

Borrower:	Ravalli County
Purpose:	To finance public safety vehicles
Staff Approval Date	May 19, 2008
Board Loan Amount:	$165,000.00
Term:	5 years

Borrower:	Pondera County
Purpose:	To purchase a building for a senior center
Staff Approval Date	June 6, 2008
Board Loan Amount:	$89,550.00
Term:	10 years

Borrower:	Sanders County
Purpose:	To finance costs associated with upgrading the County Fairgrounds arena holding pens
Staff Approval Date	June 12, 2008
Board Loan Amount:	$143,911.53
Term:	10 years

Commitment Date	Borrower	Project Description	Amount
5/5/08	MSU-Bozeman	IT Infrastructure Replacement Plan - Intermediate Frame Campus Network Infrastructure	$663,372.00
5/5/08	MSU-Bozeman	IT Infra. Replacement Plan - Banner Equipment Upgrade	$597,357.00
5/6/08	MSU- Bozeman	IT Infra. Replacement Plan - Banner Disaster Recovery	$62,544.00
6/06/08	MSU-Bozeman	IT Infra. Replacement Plan - IDF Upgrade	$150,000.00
6/9/08	MSU-Bozeman	IT Infra. Replacement Plan - Network Building Wiring	$163,000.00
6/18/08	MSU- Billings	Relocate College of Technology Soccer Field	$725,000.00
6/19/08	U of M-Western	Life Safety Improvements to P.E. Complex	$300,000.00

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

Mr. Herb Kulow presented and the Board reviewed this report for the period ending July 31, 2008.

In addition, Mr. Kulow reported that the Board met via Conference call on July 31, 2008 and approved (with a vote of 6 – 0; Member Moore, Member Cobell and Member Fleming were absent), a value-added loan to Summit Aeronautics Group, LLC with Board of Investments exposure of $2,625,000. At the same time, the Board also approved (with a vote of 6 – 0; Member Moore, Member Cobell and Member Fleming were absent), a future funding for Summit Aeronautics Group LLC under the value-added loan program in a Board of Investments maximum participation amount of $750,000.

NEXT MEETING

The next regularly scheduled meeting of the Board will be November 12 & 13, 2008 in Bozeman, MT.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:25 a.m.

BOARD OF INVESTMENTS

APPROVE:____
Terry Moore, Chairman

ATTEST:____
Carroll South, Executive Director

DATE: ____

MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE
SPECIAL CONFERENCE CALL BOARD MEETING

2401 Colonial Drive, 3rd Floor
Helena, Montana
Thursday, July 31, 2008

MINUTES

BOARD MEMBERS PRESENT:	Teresa Cohea Karl Englund John Paull Jack Prothero Jon Satre Jim Turcotte
BOARD MEMBERS ABSENT:	Terry Moore, Chairman Elouise Cobell Maureen Fleming Tom McGillvray Dan Weinberg
STAFF PRESENT:	Geri Burton, Deputy Director Kim Dallas, Program Assistant/Board Secretary Herb Kulow, Portfolio Manager

CALL TO ORDER

Vice Chairperson Cohea called the special conference call board meeting of the Board of Investments (Board) to order at 8:30 a.m. As noted above, the meeting convened with six members of the Board present. Members Terry Moore, Elouise Cobell and Maureen Fleming were absent.

Public Comment
Vice Chairperson Cohea called for Public Comment of Board-Related Items. *No Public Comment made*.

MONTANA LOAN PROGRAM

Mr. Jack Prothero, Chairperson of the Loan Committee, reported that the Loan Committee has reviewed and approved a staff recommended loan request submitted by First Interstate Bank, Billings in the total amount of $3,500,000. The Board's loan will be a $2,625,000 (75%) participation in the value-added loan for Summit Aeronautics Group, LLC.

		Amount	Rate	Term	Annualized Payment
First Interstate Bank, Billings	25%	$875,000	6.50%	10 Years	$119,225
BOI	75%	$2,625,000	2.50% Fixed (*2.00% + .50% LSF)	10 Years	$296,950
Sub-total	100%	$3,500,000			$416,175
SBA 504**		$2,789,524	7.00% fixed	10 Years	$388,665
Total Financing		$6,289,524			$804,840

*Value Added Pricing: 2% first five years, 6% second five years based on creation of 15 jobs
SBA 504 pending approval (pricing/annualized payment is unknown at this time; ***estimated*)

Summit Aeronautics Group, LLC (Summit) has an existing aggregate Board of Investments (BOI) loan balance of $2,703,954 as of July 15, 2008. The balance consists of three value-added loans approved and funded by the Board; one in 2002 and two in 2006 under the borrower's previous name, Summit Design & Manufacturing, LLC participated with Mountain West Bank of Helena. Maturity dates are October 2011, 2012 and 2013.

The proposed loan request will be the fourth value-added equipment loan to Summit and will increase BOI's share to $5,328,954, which represents 75% of $7,127,306. BHAM Development, LLC, (BHAM), which is a real estate holding company with similar ownership as Summit, leases the existing facility to Summit. On June 18, 2008, BOI funded a 60% participation of Valley Bank of Helena's $9,400,000 building expansion loan. **BOI's total exposure with Summit and BHAM equates to $10,968,954** or 6.26% of the $175,364,310 outstanding balance of the coal tax commercial loan portfolio as of June 30, 2008 and 5.7% of the maximum allowable (25%) coal tax trust loan balance which, as of June 30, 2008, was $192,595,509. Total credit exposure to Summit and BHAM in which BOI is a participant is $16,527,306. The proposed request is contingent upon an equity contribution by Summit of approximately $700,000 representing 10% of the total loan, as required by the SBA 504 loan program.

Motion: Member Jack Prothero motioned for approval of the loan request as recommended by staff; Member Turcotte seconded the motion and the motion was unanimously approved 6-0.

Mr. Herb Kulow brought to the Board's attention that First Interstate Bank will be submitting another loan request on behalf of Summit Aeronautics Group, LLC within the next 30 to 60 days. The request will be under the Value-Added Loan Program with MBOI participation of approximately $750,000 and the purpose of the loan will be to purchase machinery.

After further discussion, Member Prothero modified the motion to approve a future loan request under the Value-Added loan program in a maximum MBOI participation amount of $750,000. Member Turcotte seconded the motion and the motion was unanimously approved.

Summit Aeronautics Group, LLC will be required to follow the Board's application process when requesting the additional $750,000.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:00 a.m.

BOARD OF INVESTMENTS

APPROVE:______________________________________
Terry Moore, Chairman

ATTEST:______________________________________
Carroll South, Executive Director

DATE: ______________________________________

Executive Director Reports

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Board Members

From: Carroll South, Executive Director

Date: August 19, 2008

Subject: Executive Order 35-2008

Attached for your review is an Executive Order encouraging Board, Councils, and Commissions to conserve energy by utilizing teleconferencing technology when possible.

Chairman Moore has already reduced the number of regularly-scheduled "in person" Board meetings from eight to four per year and all meetings called between the quarterly meetings have been conducted by telephone. Although significant travel reductions have already occurred as a result of fewer meetings, the Board may wish to discuss its options for further reductions based on the Executive Order.

STATE OF MONTANA
OFFICE OF THE GOVERNOR
EXECUTIVE ORDER NO. 35-2008

EXECUTIVE ORDER ADVANCING THE USE OF TECHNOLOGY TO PROMOTE ENERGY CONSERVATION FOR MONTANA BOARD, COUNCIL AND COMMISSION MEETINGS

WHEREAS, the cost of fuel continues to rise with no indication of any price relief in the future; and

WHEREAS, overall efforts to reduce fuel consumption are a significant part of Montana's ability to address climate change; and

WHEREAS, the 20 x 10 Initiative, announced in January 2008, directs all state cabinet agencies to reduce their facility-related energy by 20% by the end of 2010; and

WHEREAS, Montana is a large state geographically, and it is vital that citizens who agree to serve as volunteers on state boards, councils and commissions come from all corners of the state; and

WHEREAS, citizens willing to commit their own time and energy to public service should not bear unnecessary time away from work or incur extraordinary out-of-pocket costs when alternatives exist; and

WHEREAS, meetings held through the use of technology such as teleconference, webinar or video conference, rather than in-person, may be more energy and cost efficient; and

WHEREAS, observation of and public participation in board, council and commission meetings is not only constitutionally and statutorily required, but is essential to the successful function of our state government, and the use of aforementioned technology may enhance citizen involvement in the operations of government; and

WHEREAS, a detailed list of options for conducting electronic meeting options is posted at: http://itsd.mt.gov/policy/advisory.asp. (Current options are subject to capacity limitations and schedule availability, and the website will be updated as additional options are identified.)

NOW, THEREFORE, I, BRIAN SCHWEITZER, Governor of the State of Montana, by virtue of the authority vested in me under the laws and the Constitution of the State of Montana, do hereby:

1. Direct that all boards, councils and commissions that are administratively attached to agencies under my supervision, as appropriate and within limits of availability and scheduling, take full advantage of options for holding meetings through technological means that will reduce taxpayer costs and travel hardship and encourage energy efficiency.

2. Ask that when scheduling meetings through technological means, boards, councils and commissions ensure that the meetings encourage and accommodate citizen involvement and participation.

3. Authorize meetings of Advisory Councils appointed by me pursuant to Mont. Code Ann. § 2-15-122, "outside the city of Helena," as provided in this Executive Order, and direct those under my supervision who have created advisory councils under 2-15-122, to provide the advisory councils they have created with the same authority.

4. Direct that copies of this Executive Order be sent to the Attorney General, Superintendent of Public Instruction, State Auditor, Secretary of State, Public Service Commission, Board of Regents and Board of Public Education for their information and interest.

Nothing in this Executive Order is intended to prevent or restrict boards, councils and commissions from meeting in person, as appropriate and when necessary in the proper performance of their duties.

This order is effective July 1, 2008, and shall remain in effect until modified or repealed by subsequent Executive Order.

GIVEN under my hand and the GREAT SEAL of the State of Montana this 1st day of July, 2008.

BRIAN SCHWEITZER, Governor

ATTEST:

Brad Johnson by Susan Ames, deputy

BRAD JOHNSON, Secretary of State

Supporting the Governor's 20x10 Energy Initiative
Meeting Resources
July 1, 2008

The Information Technology Services Division (ITSD) of the Department of Administration offers a variety of services that can assist advisory boards, councils and state employees reduce travel. All board and council members may participate. The State recommends a state employee meeting coordinator facilitate the use of these services.

Service	Use this for…	Advantages	Getting started	Costs
Speaker phone	• Small group meetings.	• All participants can hear each other. • Can call anyone.	• Verify that a speaker phone is available in meeting room • For help, contact the agency telephone coordinator	• Only costs incurred are for any long distance charges.
Conference Phone	• Two or more small groups. • 3-6 phones can be conferenced into one call.	• All participants can hear each other. • Can call anyone.	• Verify features of the phone to be used. • For help, contact meeting coordinator at the sponsoring agency.	• Only costs incurred are for any long distance charges.
Teleconference phone (often referred to by the brand name "Polycom")	• Connecting groups at two locations.	• Works with larger groups in larger rooms. • Can be a connection between two groups or one group and one individual. • Can call anyone.	• Many agencies own teleconference phones • They are also available to borrow from ITSD. • To request this service, open a service request through the ITSD Service Desk at 444-2000, 800-628-4917 or use Service Desk Online (available on the State network only).	• Only costs incurred are for any long distance charges.
Audio Conference Calling Coordination	• Connecting more than 2 locations.	• Conference bridging can accommodate up to 61 different parties, all in different locations.	• To request this service, open a service request through the ITSD Service Desk at 444-2000, 800-628-4917 or use Service Desk Online (available on the State network only).	• There is a setup charge based on the number of participants. The current charge for long distance, toll-free connections is $.10 / minute.
Interactive Video Conferencing (METNET)	• Face-to-face interaction is needed.	• Provides real time, two-way video and audio communication. • ITSD offers 13 managed video conferencing sites and has access to over 500 additional sites in Montana. National and international conferencing is also available.	• To request this service, contact a Video Conferencing Specialist at 444-6788. • Prior to the video conference, a confirmation with sites and costs is provided for review.	• There is a $52.50 charge per port per hour. • There may be additional charges to connect with off-network commercial bridges and/or sites.
Web Conferencing	• Virtual meetings conducted over the Internet.	• Many options available for information sharing and interaction.	• This is not a service ITSD offers at this time. • Agencies sponsoring meetings are responsible for assessing bandwidth impacts and security risks.	• Varies.

More information about these or other ITSD services is available from the ITSD Service Desk, 406-444-2000 or 800-628-4917.

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Board Members

From: Carroll South, Executive Director

Date: August 19, 2008

Subject: Securities Monitoring/Litigation Services Recommendation

<u>History</u> - A Request for Proposals (RFP) for securities monitoring/litigation services was issued on March 24, 2008 and twenty four responses were received. The roles of securities monitoring firms and the Custodial Bank are described in the Board's Securities Litigation Policy as follows:

1. *Custodian/Class Action Role and Authority*

- Establish and implement procedures to identify all securities class actions filed by others in which the Board is or may be a class member.
- Collect and distribute to Monitoring Firm all official notices of pendency of class actions in which the Board, according to this Policy, may consider applying for lead plaintiff status or pursuing separate litigation.
- Timely file accurate proofs of claim on behalf of the Board in all class actions in which the Board may participate as class member and notify the Monitoring Firm.
- Provide necessary custody data to the Monitoring Firm.

2. *Monitoring Firm Role and Authority*

- Ensure by written communication that the Custodian has filed the appropriate documents for Board participation in pending class action litigation.
- Identify circumstances in which the Board may have incurred investment losses in excess of the minimum threshold which give rise to potentially meritorious claims for the Board which are not yet the subject of litigation.
- Evaluate claims over $1,000,000 and recommend whether the Board should pursue separate litigation or lead or co-lead plaintiff designation.
- Evaluate settlements of actions in which Board is not lead plaintiff where losses exceed $500,000 and recommend whether Board should object to, comment upon or opt out of settlement.
- File objections to and comments upon settlements as authorized.

<u>Recommendation</u> - Staff evaluated and scored the responses and recommend that the two highest scoring firms be hired subject to successful contract negotiations.

Bernstein Litowitz Berger & Grossman
Barrack, Rodos & Bacine

Both firms were interviewed at the Board's office and demonstrated their on-line technology. The Board has had a relationship with Barrack, Rodos & Bacine since April 2005.

STATE OF MONTANA
JOB PROFILE AND EVALUATION

SECTION I – Identification – Leave Spaces Blank if Unknown		
Working Title Portfolio Manager – Fixed Income	Job Code Number 000112	Job Code Title Board of Investment - Professional
Pay Band 1	Position Number 66504	_X_FLSA Exempt __ FLSA Non-Exempt
Department Commerce		Division and Bureau Board of Investments
Section and Unit Investments		Work Address and Phone 2401 Colonial Drive 3rd Floor
Profile Produced By Cliff Sheets		Work Phone 444-0001

Work Unit Mission Statement or Functional Description - This section should include a complete statement of the mission or function as it relates to the work unit.

The Board of Investments invests and accounts for the investment of various long-term retirement and trust accounts including coal trust funds, State treasury cash, and city and municipal funds as permitted by statute. Asset under management are approximately $13.0 billion.

Describe the Job's Overall Purpose:

The incumbent's primary responsibilities are the portfolio management of the fixed income bond pools and select separate accounts as assigned. Additionally, the incumbent is responsible for the effective utilization of external fixed income managers.

SECTION II - Major Duties or Responsibilities

<u>Bond Portfolio Management</u> <u>100%</u>

1. Manage fixed income assets within assigned internally-managed portfolios with a primary objective of exceeding portfolio performance benchmarks over time, while respecting any explicit or implicit constraints. Internally-managed fixed income assets consist of securities rated investment grade at the time of purchase. Stays current on overall portfolio characteristics and that of underlying sectors and securities held.

2. Develop economic and capital market expectations for the broad public fixed income market

that will assist in the allocation and structure of investment exposure to this asset class. Collects, interprets, and judges the relevance and value of continuous input from government data sources, financial news media, capital market activity, and investment professionals including economists, market strategists, external public fixed income managers, as well as internal research staff. Leads discussion of investment policy for internally-managed accounts in regular meetings with other investment staff and CIO.

3. Oversees the allocation of assets across external fixed income managers and evaluates the ability of external managers to meet their respective investment objectives on an ongoing basis. Recommends and implements portfolio allocation adjustments in consultation with the CIO. Regularly reviews external portfolios for guideline compliance, individual portfolio characteristics, and their combined impact along with the internally-managed portfolio on the overall retirement fund bond pool. Presently, the Board has relationships with four external fixed income managers covering Core-plus and High Yield investment strategies.

4. Prepares, maintains, and recommends updates of the written investment policy statements (IPS) for the public fixed income pools (RFBP and TFBP) and presents these to the Board when changes are made.

5. Prepares other written fixed income investment-related documents for use in Board meetings as needed, including an investment strategy document, and makes oral presentations at each regular Board meeting as requested.

6. Maintains professional communication with dealer community and executes securities transactions to implement approved investment strategy. Evaluates the effectiveness of fixed income securities dealer relationships and recommends changes in coverage to CIO.

7. Assists accounting with settlement of trades and mediation of failed transactions when needed.

8. Shares responsibility with Research Director for selecting and effectively utilizing a fixed income analytical system and process for measuring the characteristics of internally-managed portfolios and measuring performance attribution. This information is essential in determining compliance with investment strategy and understanding the sources of relative investment performance.

9. Utilizes fixed income knowledge and bond portfolio management skills in support of other fixed income holdings and accounts managed by the Board which are not accounts for which incumbent has primary responsibility, such as the state insurance fund and STIP.

10. Performs special projects as assigned by Chief Investment Officer.

1. Give specific examples of the types of problems solved, decisions made or procedures followed when performing the most frequent duties.

Evaluating changes in the economy and capital markets as they may impact portfolio performance. Deciding on when and what securities to buy, sell, or hold for each portfolio under management. Evaluating the effectiveness of external fixed income managers.

2. What do you consider the most complicated part of the job?

Developing and implementing a strategy that results in a total rate of return that meets or exceeds performance expectations.

3. What guidelines, manuals or written established procedures are available for use by position?

Investment policy statements, investment guidelines, Board decisions, and BOI governing laws and constitution.

5. If this position directly supervises other positions, complete the following information.

Though incumbent does not have any direct supervisory duties, he participates in the managerial responsibility for the fixed income analysts by working with the Research Director and providing leadership and guidance to the research staff. Provides input to the evaluation of employee performance.

Please check box that indicates supervisory responsibilities.

Responsible for: __ Performance Management __ Supervision ____ Discipline
___ Recruitment and Selection __ Assigning Work

Recommends: __ Hiring ___ Firing __ Promotions __ Pay __ Organizational Structure

Approves: __ Leave Requests __ Travel __ Time sheets __ Work Schedules _ Training

6. Please attach an Organizational Chart (optional).

SECTION III - Minimum Qualifications

Knowledge:

The position requires extensive knowledge and understanding of the concepts, theories, and process of investment theory, financial analysis and portfolio management.

Qualifications:

- At least 8 years experience in institutional fixed income investment analysis and portfolio management
- CFA designation
- BA in Finance, Accounting, or Economics; MBA preferred.

Skills and Abilities: Incumbent must possess the skill necessary to be able to: (1) apply a working knowledge of the concepts of fixed income portfolio management; (2) interpret economic and market conditions and their expected impact on various fixed income strategies represented by both individual external managers and the internal portfolio; (3) develop suitable investment policies; (4) measure, evaluate and explain investment performance; and (5) monitor the overall portfolio and underlying management firms (in the case of the RFBP), and recommend and implement needed changes.

Strong communications skills, both oral and written, and an ability to listen and persuade others in taking a recommended course of action.

Computer Literate (Excel, Word) and has a working knowledge of Bloomberg, portfolio order management systems, and bond analytical software.

SECTION IV – Signatures

My signature below indicates I have received a copy of the job profile.

Employee:

Signature	**Date**

Signatures below (typed or hand written) indicate the statements in Section I to IV are accurate and complete.

Immediate Supervisor:

Signature	**Date**

Division Administrator:

Signature	**Date**

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Board Members

From: Carroll South, Executive Director

Date: August 19, 2008

Subject: Socially Responsible Investing

WHAT IS SOCIALLY RESPONSIBLE INVESTING?

Socially Responsible (SR) investing is a term that has evolved into a broad category of investment philosophies that are intended to: influence country/company policies; impact certain products/services; impact the environment; and/or impact certain demographical groups or geographical areas. Targets of SR investing may be:

Countries – Countries whose policies and conduct are perceived to be unacceptable. Such behavior could include threats to other countries, discriminatory internal policies, human rights violations, and callous disregard for the environment. Investors cannot interfere with the governance of these countries but SR investors believe they may be able to influence the policies of corporations that conduct business in the countries.

Screening for companies that conduct business in certain countries is problematic because of the types of products/services the companies may be providing. Some companies may be providing purely humanitarian aid to the populace, such as food, water, medicine, and shelter. Screens must be able to differentiate between these companies and other companies that may be working with and providing revenue to the country's leadership. Additionally, some companies may indirectly operate in a country via affiliates or joint venture partners which complicates the ability to ascertain company involvement.

Company Negative – Companies with policies/products that are perceived to be socially unacceptable. Such behavior could include a primary focus on products/services that may be harmful to persons and/or the environment; a disregard for the environment in its purchasing/selling practices; practicing poor labor/management relations; and inadequate corporate governance.

Company Positive - Businesses that: are considered good corporate citizens with adequate corporate governance; are considered environmentally "green" with little impact on the environment; primarily focus on healthy products or manufacture products that improve the environment, conserve energy, and reduce fossil fuel consumption.

Products/Services Negative – Products/services that are perceived to be harmful to persons or the environment, such as alcohol, tobacco, gambling, weapons, and products/services that pollute the environment. All businesses that produce or sell the products/services could be targeted.

Products/Services Positive – Products/services that improve the environment, reduce waste, reduce energy consumption, improve living conditions, and in general are perceived to benefit society. All businesses that produce or sell the products/services could be targeted.

Demographic/Geographic Positive – Sometimes referred to as economically-targeted investing. This would generally be a positive action intended to improve the status of certain geographic areas or certain segments of the general population.

Green Investing Positive – As global warming has become a major topic of discussion, there has been increasing focus on "green" investing, which involves investing in companies whose primary focus is improving the environment. Activities could include: creating or manufacturing alternative energy products; creating or manufacturing products that reduce pollution from existing operations; and creating or manufacturing products that facilitate recycling. Many of the businesses focusing on these activities are start-up, or fairly new companies that are not publically traded. Several private equity funds have begun raising funds dedicated solely to investment in these types of businesses.

HOW IS SOCIALLY RESPONSIBLE INVESTING CONDUCTED?

There are two ways in which SR investing is practiced – positive and negative. The general theory is to reward good behavior and discourage bad behavior as it relates to company policies, company products/services, or company operations in countries with policies and conduct perceived to be socially unacceptable. In the case of companies providing products/services the SR investor believes harmful to society or the environment, the investor may simply choose to not invest, based on the belief that its investment would be used to provide the products/services.

Perhaps the earliest highly visible effort of negative SR investing was targeted at South Africa due to its apartheid policies. Several large institutional investors chose not to invest in companies conducting business in the country in an attempt to change the country's policies. The most recent examples of negative SR investment activity are the divestitures by several public funds in companies that operate in Sudan or Iran. A product-specific example of negative SR investing occurred in 2000 when the two large California pension funds sold all their investments in tobacco companies.

Generally, SR investors in the public equity markets would screen the universe of stocks against certain criteria important to them. The screens may be used positively (to invest in the company) or negatively (to not invest or divest in the company). There are several ways in which SR investors may attempt to change or encourage company policies:

1) Don’t invest in a publicly-traded company.
2) Divest (sell) existing investments in a publicly-traded company.
3) Invest in the company and if necessary use that investment as a tool to improve the company policies.
4) Invest in private equity funds or publicly-traded companies dedicated to green and/or economically-targeted investments.

DOES SOCIALLY RESPONSIBLE INVESTING CHANGE POLICIES?

Negative SR Investing – If a SR investor does not like a company’s policies or products/services it may choose to not purchase its stock or to sell the stock it owns. Is this likely to change the company’s policies/products/services? Neither method actually takes “money” away from the corporation or impacts the financial compensation of executives and directors who set company policies. While this may send a message to the company if the action is coordinated and publicized, it does not financially “punish” the company. Other investors already own the stock the SR investor does not purchase and the SR investor cannot divest the stock it owns unless there is a willing buyer. The buyer may be more interested in return on investment than the company’s policies or the products/services it produces.

If enough large investors boycotted the stock would that force the stock price lower and result in a change in company policy? If the stock falls far enough, value shoppers who are concerned more about investment return than SR investing may purchase the stock. Or, investors who have shorted the company’s stock may see an opportunity to buy it back and make a profit. Even if the stock price fell significantly, would the financial compensation of the company’s executives be sufficiently impacted to change company policies? Recent experience has shown that executive financial compensation does not usually suffer when the company’s stock price falls.

If an SR investor chooses not to invest in a company because of its primary products/services, such as tobacco or alcohol, the company will still continue to provide the products/services. While the two California pension funds (the largest public pension funds in the US) divested all tobacco stocks in 2000 that action did not impact the companies’ ability to manufacture and sell tobacco products. One of the funds is now reevaluating its boycott of tobacco stock.

Positive SR Investing - There are usually many publically-traded domestic and international companies providing the same product\service. A SR investor would, after a financial analysis of company prospects, likely choose to invest in those companies whose social and environmental policies are most in tune with its own beliefs and values as opposed to investing in a competitor whose financial outlook was similar. Even if the SR investor was not totally happy with the company’s policies, it may purchase its stock to become an active shareholder and a force for change.

This may be the most effective way of changing individual company policies, whether they are social, environmental, labor relations, or corporate governance policies. It promotes change and improvement from the inside rather than attempting to send a message by boycotting the company's stock. The activities would include submitting shareholder proposals and systematically voting proxies that would lead to improvements in the company's policies. However, in order for this method to be truly effective it must be a concentrated effort by many large investors to force company management to take notice.

Sophisticated SR investors who are qualified to invest in private equity may become a limited partner in closed-end private equity funds that focus on the issues, products/services, or demographic/geographic areas it believes will benefit society and the environment. While this investment provides cash for the fund to carry out a mission in which the SR investor believes, as a limited partner in the fund the SR investor would have no influence on the decision-making process or the companies in which the fund invests.

COULD SR INVESTING CONFLICT WITH FIDUCIARY RESPONSIBLITIES?

Board staff and Board members are fiduciaries for the constitutionally-created Unified Investment Program. Excerpts from the constitution are shown below:

> **(1) The legislature shall provide for a unified investment program for public funds and public retirement system and state compensation insurance fund assets and provide rules therefor, including supervision of investment of surplus funds of all counties, cities, towns, and other local governmental entities.**
>
> **(3) Investment of public retirement system assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims. Public retirement system assets may be invested in private corporate capital stock.**
>
> **(4) Investment of state compensation insurance fund assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of a private insurance organization. State compensation insurance fund assets may be invested in private corporate capital stock. However, the stock investments shall not exceed 25 percent of the book value of the state compensation insurance fund's total invested assets.**

The Board is mandated by state law to manage the Program using the "prudent expert principle", which requires an investment manager to:

> **(a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;**
>
> **(b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and**
>
> **(c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.**

The last portion of the principle leaves little doubt that the Board must act "solely" in the interest of and for the benefit of the funds it invests. Any Board investment activity that would attempt to achieve social or other objectives at the financial expense of the funds it manages may be perceived as a violation of the explicit charge that the Board must act solely in the interest of the fund beneficiaries. The importance of an investment board's fiduciary responsibilities and the potential legal implications of violating that responsibility were demonstrated by two examples in California that were included in staff's February 2007 report to the Board on terrorism and investing, excerpts from which are cited below:

> "California's Sudan divestiture legislation is perhaps the most recent and also the most interesting because the California constitution is similar to Montana's relative to the fiduciary responsibility imposed upon pension fund managers. The California constitution, while requiring that its pension funds be administered in a fiduciary capacity, permits the legislature to prohibit certain investments as long as the fiduciary standards are still met. Montana's constitution has no exceptions to the fiduciary standards.
>
> The California legislation specifically stated that divestiture was to be used as a last resort and should not set a precedent:
>
> ***'The Legislature acknowledges that divestment is a course of last resort that should be used sparingly and under extraordinary circumstances. This act is based on unique circumstances, specifically, the reprehensible and abhorrent genocide occurring in Sudan. This act is not intended to set precedent with regard to divestment policies and practices by public retirement and pension funds in California.'***
>
> The California legislation 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 their fiduciary responsibility:
>
>> ***'(k) Nothing in this section shall require the board to take action as described in this section unless the board determines, in good faith, that the action described in this section is consistent with the fiduciary responsibilities of the board as described in Section 17 of Article XVI of the California Constitution'***
>
> The California Legislature went even further in this regard and recognized that pension boards, by implementing the law, could be sued for violating their fiduciary standards and provided a very broad "hold harmless" provision:
>
>> ***'Present, future, and former board members of the Public Employees' Retirement System or the State Teachers' Retirement System, jointly and individually, state officers and employees, research firms described in subdivision (d) of Section 7513.6, and investment managers under contract with the Public Employees' Retirement System or the State Teachers' Retirement System shall be indemnified from the General Fund and held harmless by the State of California from all claims, demands, suits, actions, damages, judgments, costs, charges and expenses, including court costs and attorney's fees, and against all liability, losses, and damages of any nature whatsoever that these present, future, or former board members, officers, employees, research firms, or contract investment managers shall or may at any time sustain by reason of any decision to restrict, reduce, or eliminate investments pursuant to Section7513.6'***

> Interestingly, prior to the enactment of this legislation the California Board of Regents had voted unanimously to divest nine companies doing business in Sudan but only if the Legislature provided indemnification for its action. It stated that the divestiture would be implemented only if the California Legislature:
>
>> ***'provided indemnification for … individual regents, the university, its officers, agents and employees, for all costs and defense of any claim arising from the decision to divest.'"***

The above examples demonstrate how important fiduciary responsibilities are and what the legal outcome might be if there is a breach of those responsibilities. Given the rigorous requirements for fiduciary responsibility in Montana's constitution, the Board must measure any decision to consider SR investing against those standards.

SR INVESTING IMPACT ON BENEFICIARIES

Who Are the Beneficiaries? – Any SR investing activity undertaken by the Board would utilize pension funds because these are the only funds over which the Board has total discretion. As of June 30, 2007, there were 81,731 active and retired members of the nine pension funds. The protected status of the pension funds is clearly spelled out in the state Constitution:

> **Section 15. Public retirement system assets. (1) Public retirement systems shall be funded on an actuarially sound basis. Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses.**

This language protects the state's pension funds as "trust" assets – off limits to any legislative or investment activity that would diminish the trusts. The assets include contributions by state/local government entities and active employees, as well as investment income. Once these various funding sources are deposited in the pension accounts they lose their identity and become an integral part of the trusts, the investment of which is the Board' sole responsibility. When considering whether SR investing might conflict with its fiduciary responsibilities, the Board must consider its impact on pension beneficiaries.

Negative SR Investing - If the divestment or exclusion of certain stocks would reduce long-term investment return, it would be detrimental to the beneficiaries and have a similar impact on the trusts as would the legislature reducing actuarially-required employer contributions, which is prohibited. It is difficult to envision a situation in which reducing or limiting the investment universe would not reduce long-term investment returns. Selecting stock to be held in the pension portfolios for any reason other than strategic investment purposes could be perceived by beneficiaries as a breach of the Board's fiduciary responsibility.

In addition to potential lost income, a divestment or exclusion of certain stocks would result in additional costs. A diligent research effort would be required to isolate company stocks to exclude from pension fund portfolios. The Board's 28 active public equity managers would then be required to implement the strategy by customizing their portfolios and the custodial bank may have to create new custom benchmarks against which the manager's performance would be measured. Additional costs would also be incurred in the "commingled" funds in which the Board invests because these accounts would likely contain the prohibited stocks. The Board would have to divest of the entire commingled fund or pay for a custom configuration that excluded the prohibited stock and would likely pay increased management fees. Divesting commingled funds would also entail transition costs if the Board attempted to replicate market exposure via separate accounts, which would require manager searches to find replacements.

Positive SR Investing – If applied prudently, positive SR investing may not be detrimental to pension trusts returns. All stock selection would continue to be based on strategic investment goals - that is investing in those companies that due diligence has concluded offer the best opportunity for growth, income, and return. Social or environmental considerations may enter into this decision if due diligence concluded that the company's products, services, or policies could result in litigation or other types of financial harm to the company. Once a stock is purchased for return objectives, the Board could become one of several active shareholders that systematically try to improve the company's policies and performance. This scenario would not require any change in the Board's current investment process. It would, however, require a more proactive posture in terms of corporate governance and proxy voting than the Board currently has in place.

SUMMARY

Given the turmoil and uncertainty in the equity and debt markets, it will be sufficiently difficult going forward to earn the 7.75 percent and 8.00 percent actuarial requirements of the pension funds with the entire investment universe at the Board's disposal. Limiting that universe for reasons other than return objectives is more likely to decrease rather than increase pension returns. Any negative SR investment activity that would decrease returns to the pension trusts would not be in the best interest of the thousands of pension beneficiaries.

Further, there is very little available evidence that negative SR investing actually changes things for the better. Those pension funds that divested tobacco stock did not impact the ability of the tobacco companies to manufacture and sell their products. Despite the recent publicized efforts of some state pension funds to divest of companies conducting business in Iran and Sudan, there is no conclusive evidence of which staff is aware that either the companies or the countries changed their policies as a result of that divestiture. Even if there is concerted selling by several owners of a company's stock, there is no guarantee that this action would independently act to drive down the market price and get management's attention.

While some proponents of negative SR investing claim that pension fund monies should not be used to support companies doing business in certain countries or companies that produce certain products, it is not pension fund monies that support these companies. The companies received their cash when they issued stock and any stock trading that occurred after the issuance is simply a transaction between investors – not a transaction between the investor and the company.

Positive SR investing may provide some benefit if the Board leverages its shareholder position with other investors in an attempt to improve company policies and performance. This assumes that the stock was initially purchased for return objectives and any improvement in the companies' policies and performance could enhance returns beyond initial expectations.

RECOMMENDATION

1. Staff recommends that the Board not consider negative SR investing and resist any external pressure to do so. Given the rigorous constitutionally-mandated fiduciary responsibilities imposed on the Board, it must at all times base its investment policies, processes, and decisions in the best interests of the pension beneficiaries. Reducing the investment universe through screens or other methods will only serve to distract the Board from its primary mission of enhancing pension fund performance.

2. Staff recommends that the Board become more proactive as a shareholder in those companies whose stock is held as a strategic investment. This "proactive" process would require staff and consultant to create a corporate governance policy integral to a comprehensive proxy voting policy that represents best practices and present these policies for Board approval at a future meeting. The process would also require that the Board hire an external vendor to vote all Board proxies, rather than permitting the external equity managers to vote as is the current policy.

An enhanced proxy policy was one of the recommendations made by Independent Fiduciary Services when it conducted a comprehensive review of Board operations, processes, and policies. Excerpts from the report are shown below:

"a. Proxy Voting Policy

Observed Condition
• The various IPS do not mention proxy voting, securities lending or brokerage policies, although we understand that proxy voting guidelines do exist.
• The retirement fund and equity IPS should address proxy voting. The IPS should indicate, at a minimum, who has responsibility for voting proxies. The proxy policy should also indicate whether managers are permitted to "abstain" from voting on any issue or whether votes should be either "for" or "against."

Risk
The Board may not be fully availing itself of its rights as shareholder and the Board risks inconsistent proxy votes.

Recommendation
The Board should develop a proxy voting policy with respect to domestic and international equities and document it in the IPS."

Investment Reports

ASSET ALLOCATION REPORT

Retirement Systems Asset Allocations as of 6/30/08										
								Direct	Pooled	
				Total				Real	Real	
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Estate**	**Estate**	**Total Assets**
PUBLIC EMPLOYEES	38.9%	19.0%	9.8%	67.7%	25.7%	1.2%	0.8%	0.2%	4.3%	3,840,967,298
TEACHERS	39.1%	19.0%	9.7%	67.7%	25.7%	1.1%	0.9%	0.3%	4.3%	2,961,960,654
POLICE	39.5%	19.3%	10.0%	68.7%	26.9%	0.0%			4.3%	190,589,682
SHERIFFS	38.8%	18.6%	9.7%	67.2%	26.6%	1.9%			4.3%	188,161,316
FIREFIGHTERS	39.2%	18.9%	9.8%	68.0%	26.8%	0.9%			4.3%	184,737,400
HIGHWAY PATROL	39.0%	19.1%	9.8%	67.9%	26.7%	1.2%			4.3%	95,999,795
GAME WARDENS	38.7%	18.5%	9.6%	66.8%	26.3%	2.7%			4.3%	73,124,533
JUDGES	38.9%	18.7%	9.8%	67.3%	26.6%	1.8%			4.3%	58,658,494
VOL FIREFIGHTERS	37.1%	18.2%	9.3%	64.6%	25.4%	6.0%			4.0%	25,992,748
TOTAL	**39.0%**	**19.0%**	**9.8%**	**67.7%**	**25.8%**	**1.2%**	**0.8%**	**0.2%**	**4.3%**	**7,620,191,919**
Approved Range	30.0%	15.0%	5.0%	60.0%	22.0%	1.0%	0.0%	0.0%	0.0%	
	50.0%	30.0%	10.0%	70.0%	32.0%	5.0%	4.0%	1.0%	8.0%	

The table above shows the asset allocation broken down by individual plan and in aggregate. The total value of pension assets declined by $79 million during the quarter. This decline reflected slight negative total returns in all asset classes except real estate. As compared to March the following observations can be made.

- Total equity holdings remained constant at 67.7%. There were small negative returns in both public equity pools as well as our private equity pool during the quarter. The broad domestic equity index, the S&P 1500, was down 1.97% for the quarter. The domestic public equity weight fell from 39.1% to 39.0%.
- International equity exposure declined from 19.1% to 19.0%%. Returns were down by 1.29% for our custom international benchmark.
- Private Equity holdings increased from 9.5% to 9.8%. The weight is up from 7.6% as of the prior fiscal year end. The increase during the quarter and fiscal year reflect continued capital calls in excess of distributions received. Returns were (0.5)% for the quarter which is the first negative quarterly return since the bear market in public equities began about a year ago. For the fiscal year the return was a healthy 9.8%. Of course the shrinking denominator of total pension assets caused by the negative returns in public equities over the past year also contributed to this increased allocation. Only $10 million of new purchases by the plans were made during the quarter to provide the liquidity needed to fund capital calls.
- Fixed income holdings decreased to 25.8% from 26.1% at the end of last quarter. Bond returns were slightly negative during the quarter in reaction to a moderate rise in interest rates offset in part by slight improvement in general corporate and mortgage-backed securities spreads. There were less than $1 million of purchases of RFBP units during the quarter.
- The pooled real estate holdings were up to 4.3% from 3.9% at the end of December. The return for MTRP was slightly positive for the quarter, at 0.25%, and additions of $23.5 million were made to fund ongoing capital calls.
- Cash invested in STIP remained constant at 1.2%. With the exception of Volunteer Firefighters all plans were under the 5% range cap. The 6.0% cash exposure in Volunteer Firefighters was due to the annual state contribution made into the plan during the last week of the quarter. This was reduced on July first by purchases made across all the long-term asset classes in this plan.

The aggregate plan portfolio and each individual plan are within the approved ranges for each of the asset classes with the exception of the cash level in Volunteer Firefighters as noted above. Although this was mentioned last quarter, I want to repeat the risk noted then regarding our weighting in private equity. Depending on how the overall plan market values are affected by public equity volatility there is a risk that our private equity weight might exceed the range cap of 10% in the near future. If this were to happen it should be interpreted as a technical violation since it would be driven primarily by the recent decline in other asset classes and not to an overly aggressive commitment pace. Our long term pacing study which was most recently updated in January shows we will stay within our targeted range at our present commitment rate assuming a reasonable long-term assumption for the growth of total assets.

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Members of the Board

From: Edward J. Kelly

Date: August 19, 2008

Subject: Montana Private Equity Pool [MPEP]

Attached to this memo are the following reports:

(i) **Private Edge - Graph: Strategy Total Exposure by Market Value & Remaining Commitments**. This report summarizes the total market value of invested capital commitments plus the capital commitments remaining to be invested broken out by investment strategy as of 03/31/08

(ii) **Private Edge - Graph: Investment Geography Exposure by Market Value & Remaining Commitments**. This report summarizes the total market value of invested capital commitments plus the capital commitments remaining to be invested broken out by geography as of 03/31/08

(iii) **Private Edge - Table: LP's by Family of Funds All Investments.** This report provides details of the underlying funds and their reported values and Investment performance from inception to 03/31/08

(iv) **Private Equity Pool Holdings**. This report summaries all portfolio fund holdings by shares, book value and market value as of 06/30/08

(v) **New Commitments Table**. This table summarizes the investments made by Staff since the last Board Meeting.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Lexington Middle Market Investors II	2008	Secondary	Mid	$ 10 M	06/20/08
HarbourVest / Dover St. VII	2008	Secondary	Mid-Lrg	$ 20 M	07/02/08
Odyssey Investment Partners IV	2008	Buyout	Mid	$ 20 M	07/25/08
First Reserve Corporation XII	2008	Buyout	Energy	$ 25 M	07/28/08
Total New Commitments				$ 75 M	

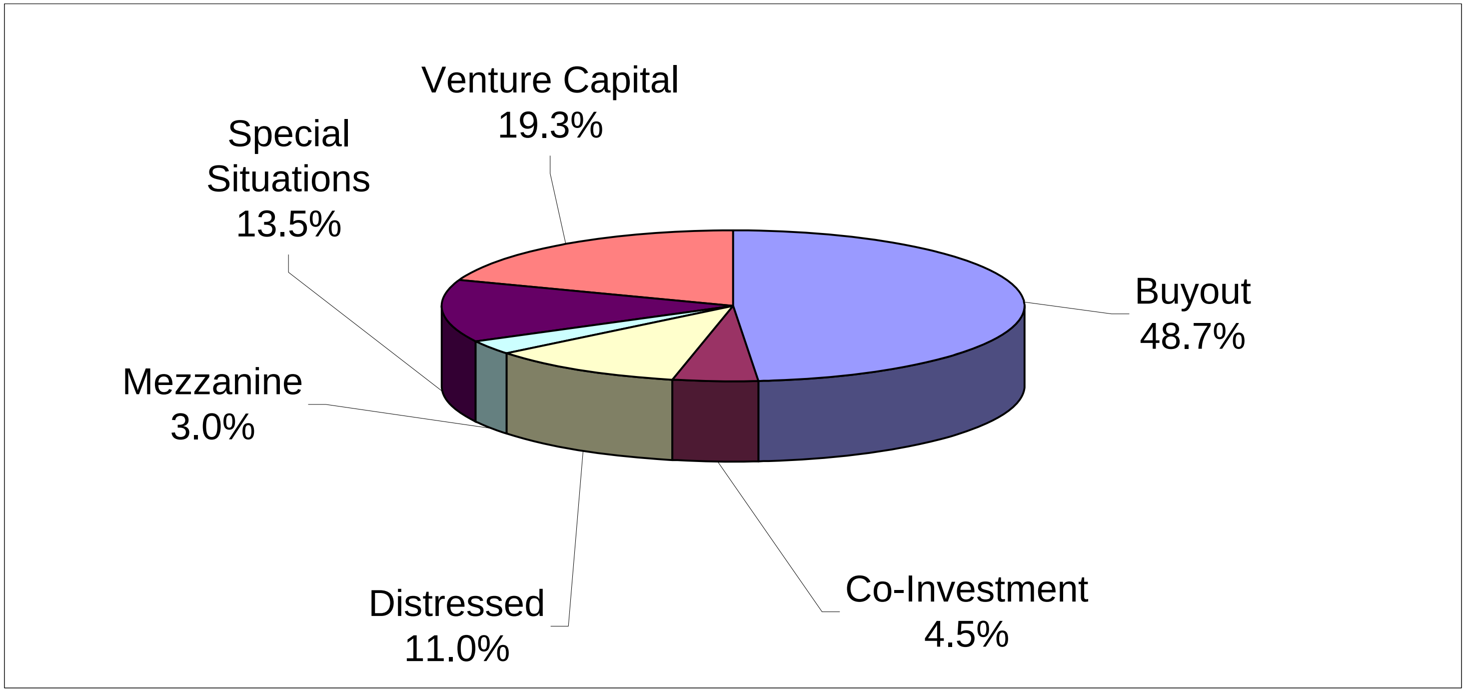
(vi) **MPEP - Private Equity Investment Briefs.** These reports summarize the investment attributes and the qualifications of the investment managers who are responsible for the performance of the funds selected by Staff.

(i) Lexington Middle Market Investors II
(ii) Harbour Vest / Dover St. VII
(iii) Odyssey Investment Partners IV
(iv) First Reserve Corporation XII

Montana Private Equity Pool

Strategy Total Exposure by Market Value & Remaining Commitments (Fund of Funds broken out)

(since inception through March 31, 2008)

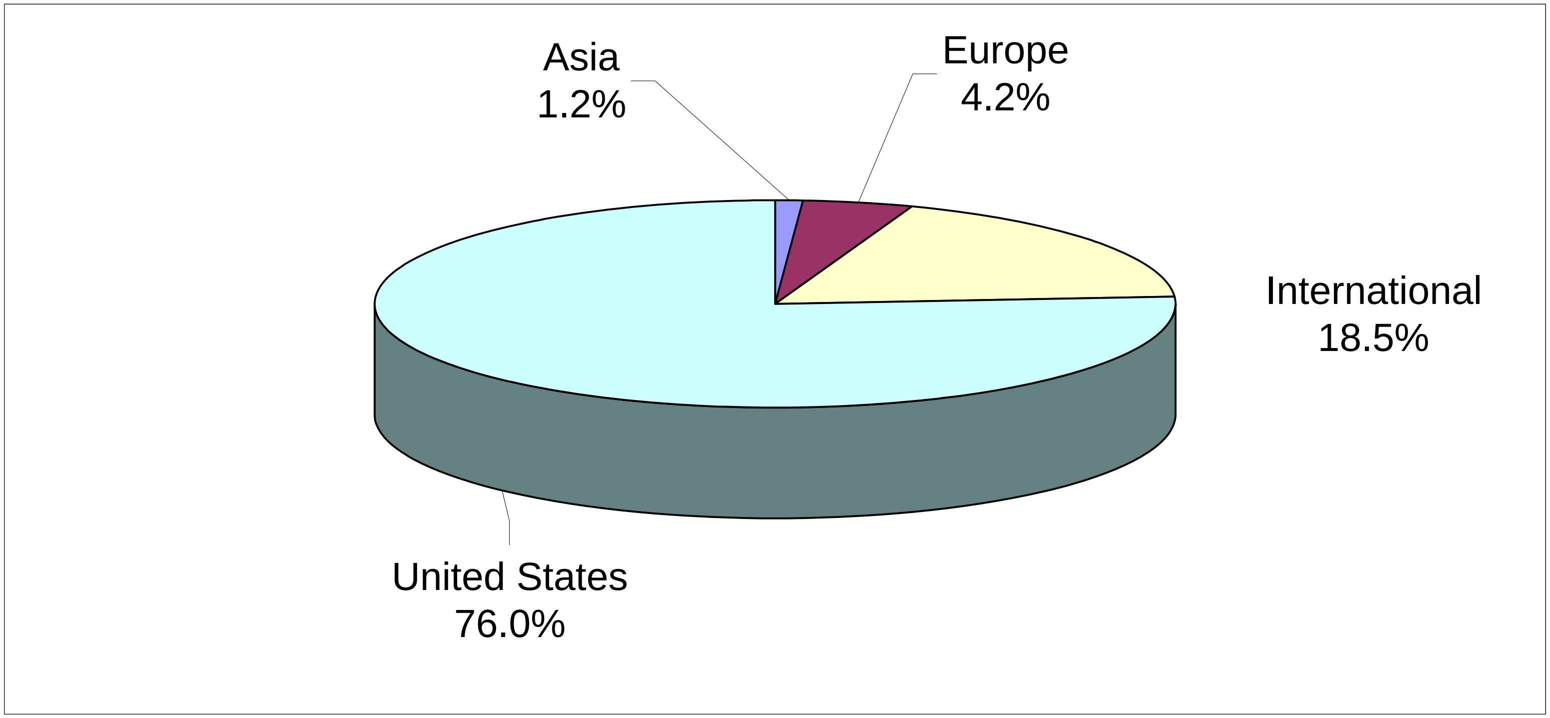


Strategy	Remaining Commitments	Market Value	Total Exposure	Percentage
Buyout	$198,504,700	$382,019,864	$580,524,564	48.7%
Co-Investment	$29,219,725	$25,037,729	$54,257,454	4.5%
Distressed	$94,016,167	$37,223,661	$131,239,828	11.0%
Mezzanine	$14,853,195	$21,377,523	$36,230,718	3.0%
Special Situations	$61,021,355	$99,453,371	$160,474,726	13.5%
Venture Capital	$83,353,858	$146,978,170	$230,332,028	19.3%
Total	$480,968,999	$712,090,318	$1,193,059,317	100.0%

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through March 31, 2008)



Strategy	Remaining Commitments	Market Value	Total Exposure	Percentage
Asia	$11,905,460	$2,602,013	$14,507,473	1.2%
Europe	$12,725,646	$37,694,074	$50,419,721	4.2%
International	$83,481,772	$137,558,390	$221,040,162	18.5%
United States	$372,856,121	$534,235,841	$907,091,961	76.0%
Total	$480,968,999	$712,090,318	$1,193,059,317	100.0%

Montana Board of Investments
LP's by Family of Funds
All Investments
As of March 31, 2008

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
					Since Inception						
LP's By Family of Funds		**$1,486,480,261**	**$968,190,451**	**$54,777,544**	**$480,968,999**	**67.64**	**$805,975,145**	**$712,090,318**	**15.57**	**1.48**	**$1,193,059,317**
Adams Street Partners		**$327,129,264**	**$251,889,176**	**$21,204,053**	**$63,066,101**	**80.72**	**$194,129,968**	**$212,699,623**	**17.90**	**1.49**	**$275,765,724**
Adams Street Partners Fund - U.S.		$94,000,000	$56,755,995	$3,357,059	$33,768,000	64.08	$14,612,092	$61,074,301	11.80	1.26	$94,842,301
Adams Street - 2002 U.S. Fund, L.P.	2002	$34,000,000	$24,000,020	$1,601,980	$8,398,000	75.30	$9,960,638	$25,501,824	13.84	1.39	$33,899,824
Adams Street - 2003 U.S. Fund, L.P.	2003	$20,000,000	$12,590,000	$712,500	$6,660,000	66.70	$3,254,606	$13,554,065	12.24	1.26	$20,214,065
Adams Street - 2004 U.S. Fund, L.P.	2004	$15,000,000	$8,376,914	$458,203	$6,135,000	59.10	$1,024,978	$9,448,809	9.70	1.18	$15,583,809
Adams Street - 2005 U.S. Fund, L.P.	2005	$25,000,000	$11,789,061	$584,376	$12,575,000	49.70	$371,870	$12,569,603	3.16	1.04	$25,144,603
Adams Street Partners Fund - Non-U.S.		$16,000,000	$10,590,809	$525,456	$4,852,000	69.68	$4,791,381	$12,928,666	25.73	1.59	$17,780,666
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	$6,000,000	$5,102,577	$255,962	$630,000	89.50	$3,811,687	$6,048,269	26.96	1.84	$6,678,269
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	$5,000,000	$3,081,983	$156,056	$1,752,000	64.96	$813,525	$3,977,475	26.35	1.48	$5,729,475
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	$5,000,000	$2,406,249	$113,438	$2,470,000	50.60	$166,169	$2,902,922	16.47	1.21	$5,372,922
Brinson Partnership Trust - Non-U.S		$9,809,483	$9,199,398	$891,760	$610,085	93.78	$10,238,919	$8,656,229	19.18	1.87	$9,266,314
Brinson Non-U.S. Trust-1999 Primary Fund	1999	$1,524,853	$1,405,782	$138,621	$119,071	92.19	$2,082,641	$582,577	12.44	1.72	$701,648
Brinson Non-U.S. Trust-2000 Primary Fund	2000	$1,815,207	$1,815,207	$165,017	$0	100.00	$2,287,580	$1,412,596	16.34	1.87	$1,412,596
Brinson Non-U.S. Trust-2001 Primary Fund	2001	$1,341,612	$1,341,612	$121,964	$0	100.00	$1,643,350	$1,075,775	17.88	1.85	$1,075,775
Brinson Non-U.S. Trust-2002 Primary Fund	2002	$1,696,452	$1,696,452	$154,221	$0	100.00	$963,850	$2,245,793	20.99	1.73	$2,245,793
Brinson Non-U.S. Trust-2002 Secondary	2002	$637,308	$601,542	$57,936	$35,766	94.39	$1,329,057	$304,201	30.01	2.47	$339,967
Brinson Non-U.S. Trust-2003 Primary Fund	2003	$1,896,438	$1,659,040	$172,401	$237,398	87.48	$1,612,553	$2,070,919	35.12	2.01	$2,308,317
Brinson Non-U.S. Trust-2004 Primary Fund	2004	$897,613	$679,763	$81,600	$217,850	75.73	$319,888	$964,368	28.18	1.68	$1,182,218
Brinson Partnership Trust - U.S.		$103,319,781	$94,787,010	$8,495,496	$8,532,771	91.74	$87,309,794	$71,602,467	13.85	1.54	$80,135,238
Brinson Partners - 1996 Fund	1996	$3,950,740	$3,708,316	$422,472	$242,424	93.86	$6,672,722	$386,993	15.12	1.71	$629,417
Brinson Partners - 1997 Primary Fund	1997	$3,554,935	$3,554,935	$373,300	$0	100.00	$14,133,470	$451,123	71.50	3.71	$451,123
Brinson Partners - 1998 Primary Fund	1998	$7,161,019	$7,122,251	$752,553	$38,768	99.46	$9,776,098	$1,443,321	7.31	1.42	$1,482,089
Brinson Partners - 1998 Secondary Fund	1998	$266,625	$266,625	$27,918	$0	100.00	$181,932	$15,845	(6.95)	0.67	$15,845
Brinson Partners - 1999 Primary Fund	1999	$8,346,761	$7,832,823	$851,075	$513,938	93.84	$7,148,099	$3,248,110	3.57	1.20	$3,762,048
Brinson Partners - 2000 Primary Fund	2000	$20,064,960	$19,079,570	$1,818,858	$985,390	95.09	$16,728,475	$12,014,899	7.37	1.37	$13,000,289
Brinson Partners - 2001 Primary Fund	*2001*	$15,496,322	$14,830,208	$1,146,155	$666,114	95.70	$6,503,309	$15,169,259	9.24	1.35	$15,835,373
Brinson Partners - 2002 Primary Fund	2002	$16,297,079	$15,425,196	$1,190,194	$871,883	94.65	$12,545,143	$14,438,142	18.73	1.62	$15,310,025
Brinson Partners - 2002 Secondary Fund	2002	$2,608,820	$2,498,592	$183,999	$110,228	95.77	$2,945,202	$2,086,148	19.33	1.87	$2,196,376
Brinson Partners - 2003 Primary Fund	*2003*	$15,589,100	$12,985,126	$1,104,794	$2,603,974	83.30	$7,989,926	$13,112,631	17.77	1.49	$15,716,605
Brinson Partners - 2003 Secondary Fund	2003	$1,151,151	$1,020,460	$71,972	$130,691	88.65	$1,611,250	$995,247	29.89	2.38	$1,125,938
Brinson Partners - 2004 Primary Fund	2004	$8,832,269	$6,462,908	$552,206	$2,369,361	73.17	$1,074,168	$8,240,749	13.99	1.32	$10,610,110
Remaining ASP Partnerships		$104,000,000	$80,555,964	$7,934,282	$15,303,245	85.29	$77,177,782	$58,437,960	24.56	1.53	$73,741,205
Adams Street Global Oppty Secondary Fund	2004	$25,000,000	$12,700,750	$200,241	$12,062,500	51.75	$4,452,996	$11,896,116	19.39	1.26	$23,958,616
Adams Street V, L.P.	2003	$40,000,000	$34,393,043	$3,266,957	$2,200,000	94.50	$6,507,081	$36,502,476	5.33	1.14	$38,702,476
Adams Street VPAF Fund II	1990	$4,000,000	$3,621,830	$378,170	$0	100.00	$7,861,041	$27,636	25.25	1.97	$27,636
Brinson Venture Capital Fund III, L.P.	1993	$5,000,000	$4,045,656	$954,344	$0	100.00	$15,622,448	$104,758	40.48	3.15	$104,758
Brinson VPF III	1993	$5,000,000	$4,477,021	$522,979	$0	100.00	$14,741,851	$312,887	29.49	3.01	$312,887
Brinson VPF III - Secondary Interest	1999	$5,000,000	$4,808,750	$191,250	$0	100.00	$8,024,726	$313,295	41.67	1.67	$313,295
BVCF III - Secondary Interest	1999	$5,000,000	$3,602,735	$356,520	$1,040,745	79.19	$9,634,305	$104,758	97.03	2.46	$1,145,503
BVCF IV, L.P.	1999	$15,000,000	$12,906,179	$2,063,821	$0	100.00	$10,333,334	$9,176,034	4.36	1.30	$9,176,034
Advent Partnerships		$1,000,000	$1,000,000	$48,660	$0	100.00	$2,346,542	$0	19.60	2.24	$0
Advent V	1989	$500,000	$500,000	$19,798	$0	100.00	$576,863	$0	2.53	1.11	$0
Advent VI	1988	$500,000	$500,000	$28,861	$0	100.00	$1,769,679	$0	30.67	3.35	$0
Affinity Asia Capital		$15,000,000	$2,614,431	$478,442	$11,905,460	20.63	$0	$2,602,013	(34.00)	0.84	$14,507,473
Affinity Asia Pacific Fund III, LP	2006	$15,000,000	$2,614,431	$478,442	$11,905,460	20.63	$0	$2,602,013	(34.00)	0.84	$14,507,473

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
Alta Partners		$1,500,000	$1,419,719	$202,311	$0	100.00	$4,314,116	$192	18.41	2.66	$192
Alta IV, LP	1988	$500,000	$500,000	$35,308	$0	100.00	$1,554,862	$0	21.67	2.90	$0
Alta Sub Debt Partners II	1988	$500,000	$500,000	$39,599	$0	100.00	$1,063,735	$0	11.18	1.97	$0
Alta Subordinated Debt Partners III	1993	$500,000	$419,719	$127,403	$0	100.00	$1,695,519	$192	27.79	3.10	$192
Arclight Energy Partners		$50,000,000	$39,966,212	$1,402,499	$8,631,290	82.74	$17,598,087	$33,251,383	16.55	1.23	$41,882,673
Arclight Energy Partners Fund II	2004	$25,000,000	$20,421,091	$873,002	$3,705,907	85.18	$16,100,418	$14,028,717	21.62	1.41	$17,734,624
ArcLight Energy Partners Fund III, LP	2006	$25,000,000	$19,545,120	$529,497	$4,925,383	80.30	$1,497,669	$19,222,666	3.55	1.03	$24,148,049
Austin Ventures		$500,000	$424,417	$128,985	$0	100.00	$1,216,717	$17,225	20.58	2.23	$17,225
Austin Ventures III	1991	$500,000	$424,417	$128,985	$0	100.00	$1,216,717	$17,225	20.58	2.23	$17,225
Avenue Investments		$35,000,000	$14,188,965	$344,486	$20,125,402	42.50	$80,585	$12,915,301	(17.48)	0.87	$33,040,703
Avenue Special Situations Fund V, LP	2007	$35,000,000	$14,188,965	$344,486	$20,125,402	42.50	$80,585	$12,915,301	(17.48)	0.87	$33,040,703
Buerk Dale Victor		$15,000,000	$3,588,687	$367,563	$10,950,000	27.00	$0	$3,315,285	(28.73)	0.82	$14,265,285
Buerk Dale Victor Fund II, L.P.	2007	$15,000,000	$3,588,687	$367,563	$10,950,000	27.00	$0	$3,315,285	(28.73)	0.82	$14,265,285
Capital Partners		$500,000	$462,921	$98,538	$0	100.00	$1,326,911	$0	8.50	2.36	$0
Capital Partners II, L.P.	1990	$500,000	$462,921	$98,538	$0	100.00	$1,326,911	$0	8.50	2.36	$0
Carlyle Partners		$60,000,000	$38,787,565	$1,967,808	$19,244,627	67.93	$1,624,612	$42,769,487	6.48	1.09	$62,014,114
Carlyle Partners IV, L.P.	2005	$35,000,000	$31,304,412	$836,662	$2,858,926	91.83	$1,482,288	$34,771,600	8.56	1.13	$37,630,526
Carlyle Venture Partners III, LP	2006	$25,000,000	$7,483,153	$1,131,146	$16,385,701	34.46	$142,324	$7,997,887	(5.76)	0.94	$24,383,588
CCMP Associates		$30,000,000	$6,499,194	$590,182	$22,910,624	23.63	$73,524	$6,720,932	(3.31)	0.96	$29,631,556
CCMP Capital Investors II, L.P.	2006	$30,000,000	$6,499,194	$590,182	$22,910,624	23.63	$73,524	$6,720,932	(3.31)	0.96	$29,631,556
Crosspoint Ventures		$500,000	$500,000	$36,405	($0)	100.00	$1,379,850	$0	20.35	2.57	($0)
Crosspoint Venture Partners III	1988	$500,000	$500,000	$36,405	($0)	100.00	$1,379,850	$0	20.35	2.57	($0)
Edison Ventures		$500,000	$500,000	$34,008	$0	100.00	$1,324,402	$0	20.81	2.48	$0
Edison Venture Fund II	1990	$500,000	$500,000	$34,008	$0	100.00	$1,324,402	$0	20.81	2.48	$0
First Reserve		$30,000,000	$13,702,166	$452,234	$15,845,600	47.18	$0	$15,536,000	30.45	1.10	$31,381,600
First Reserve Fund XI, L.P.	2006	$30,000,000	$13,702,166	$452,234	$15,845,600	47.18	$0	$15,536,000	30.45	1.10	$31,381,600
Gateway Ventures		$500,000	$500,000	$27,353	$0	100.00	$1,001,802	$0	16.02	1.90	$0
Gateway Venture Partners III	1990	$500,000	$500,000	$27,353	$0	100.00	$1,001,802	$0	16.02	1.90	$0
HarbourVest		$20,000,000	$3,599,781	$219	$16,400,000	18.00	$0	$3,585,747	(0.51)	1.00	$19,985,747
HarbourVest Direct 2007 Fund	2007	$20,000,000	$3,599,781	$219	$16,400,000	18.00	$0	$3,585,747	(0.51)	1.00	$19,985,747
Hellman & Friedman		$25,000,000	$12,302,496	$46,872	$12,650,632	49.40	$0	$12,634,047	4.06	1.02	$25,284,679
Hellman & Friedman Capital Partners VI	2006	$25,000,000	$12,302,496	$46,872	$12,650,632	49.40	$0	$12,634,047	4.06	1.02	$25,284,679
Highway 12 Ventures		$10,000,000	$1,858,305	$276,712	$7,802,483	21.98	$0	$1,691,777	(29.78)	0.77	$9,494,260
Highway 12 Venture Fund II, L.P.	2006	$10,000,000	$1,858,305	$276,712	$7,802,483	21.98	$0	$1,691,777	(29.78)	0.77	$9,494,260
Hill Venture Partners		$500,000	$500,000	$39,019	$0	100.00	$855,615	$0	6.88	1.59	$0
Hill Partnership III, L.P.	1989	$500,000	$500,000	$39,019	$0	100.00	$855,615	$0	6.88	1.59	$0
Industry Ventures		$10,000,000	$6,764,789	$150,000	$2,643,574	73.56	$954,762	$6,838,588	9.24	1.06	$9,482,162
Industry Ventures Fund IV, L.P.	2005	$10,000,000	$6,764,789	$150,000	$2,643,574	73.56	$954,762	$6,838,588	9.24	1.06	$9,482,162
Interwest Partners		$500,000	$500,000	$31,816	$0	100.00	$853,548	$0	10.09	1.60	$0
Interwest Partners IV	1989	$500,000	$500,000	$31,816	$0	100.00	$853,548	$0	10.09	1.60	$0
JCF		$25,000,000	$15,683,529	$308,008	$9,008,463	63.97	$1,681,055	$10,954,321	(28.16)	0.79	$19,962,784
J.C. Flowers II L.P.	2006	$25,000,000	$15,683,529	$308,008	$9,008,463	63.97	$1,681,055	$10,954,321	(28.16)	0.79	$19,962,784
Joseph Littlejohn & Levy		$25,548,000	$16,206,038	$726,338	$8,641,651	66.17	$5,666,856	$19,222,150	33.46	1.47	$27,863,801
JLL Partners Fund V, L.P.	2005	$25,000,000	$15,672,978	$700,307	$8,626,715	65.49	$4,246,917	$19,222,150	39.60	1.43	$27,848,865
Joseph, Littlejohn & Levy Fund, L.P.	1991	$548,000	$533,060	$26,031	$14,936	97.27	$1,419,939	$0	32.38	2.54	$14,936
KKR		$175,300,000	$175,300,000	$9,513,063	$0	100.00	$317,031,994	$36,203,614	12.82	1.91	$36,203,614
KKR 1986 Fund - Montana	1986	$300,000	$300,000	$0	$0	100.00	$4,933,877	$0	31.19	16.45	$0
KKR 1987 Fund - Montana	1987	$25,000,000	$25,000,000	$2,101,164	$0	100.00	$55,858,003	$530,918	8.92	2.08	$530,918
KKR 1993 Fund - Montana	1993	$25,000,000	$25,000,000	$1,002,236	$0	100.00	$48,774,539	$198,686	17.80	1.88	$198,686
KKR 1996 Fund - Montana	1997	$100,000,000	$100,000,000	$4,641,871	$0	100.00	$168,978,811	$17,705,046	13.73	1.78	$17,705,046
KKR European Fund - Montana	1999	$25,000,000	$25,000,000	$1,767,792	$0	100.00	$38,486,764	$17,768,964	21.44	2.10	$17,768,964
Lehman Brothers		$50,000,000	$21,908,422	$744,104	$27,347,475	45.31	$5,522,343	$21,701,680	19.74	1.20	$49,049,155
Lehman Brothers Merchant Banking IV, LP	2007	$15,000,000	$265,788	$206,462	$14,527,750	3.15	$0	$249,698	(53.13)	0.53	$14,777,448
Lehman Co-investment Partners, L.P.	2006	$35,000,000	$21,642,634	$537,641	$12,819,725	63.37	$5,522,343	$21,451,982	20.83	1.22	$34,271,707

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
Lexington Capital Partners		$100,000,000	$70,397,033	$2,456,592	$27,003,455	73.00	$54,744,141	$53,099,954	24.64	1.48	$80,103,409
Lexington Capital Partners V, L.P.	2001	$50,000,000	$45,923,272	$1,657,269	$2,347,561	95.30	$49,926,191	$29,739,124	26.15	1.67	$32,086,685
Lexington Capital Partners VI-B, L.P.	2005	$50,000,000	$24,473,761	$799,323	$24,655,894	50.69	$4,817,950	$23,360,830	12.59	1.11	$48,016,724
Madison Dearborn Capital Partners		$50,000,000	$41,584,891	$1,464,066	$6,951,043	86.10	$16,847,822	$47,978,776	21.78	1.51	$54,929,819
Madison Dearborn Capital Partners IV, LP	2001	$25,000,000	$22,098,511	$1,165,610	$1,735,879	93.06	$16,786,032	$28,039,337	24.36	1.93	$29,775,216
Madison Dearborn Capital Partners V, LP	2006	$25,000,000	$19,486,380	$298,456	$5,215,164	79.14	$61,790	$19,939,439	1.36	1.01	$25,154,603
Matlin Patterson		$30,000,000	$5,920,624	$379,376	$23,700,000	21.00	$1,489	$8,600,621	75.00	1.37	$32,300,621
MatlinPatterson Global Opps. Ptnrs. III	2007	$30,000,000	$5,920,624	$379,376	$23,700,000	21.00	$1,489	$8,600,621	75.00	1.37	$32,300,621
Matrix Partners		$500,000	$384,395	$152,794	$0	100.00	$3,906,325	$0	74.41	7.27	$0
Matrix Partners III, L.P.	1990	$500,000	$384,395	$152,794	$0	100.00	$3,906,325	$0	74.41	7.27	$0
MHR Institutional Partners		$25,000,000	$10,302,842	$367,040	$14,250,000	43.00	$130,728	$10,812,855	2.32	1.02	$25,062,855
MHR Institutional Partners III, L.P.	2006	$25,000,000	$10,302,842	$367,040	$14,250,000	43.00	$130,728	$10,812,855	2.32	1.02	$25,062,855
New Enterprise Associates		$500,000	$443,993	$87,860	$0	100.00	$1,374,820	$0	29.90	2.58	$0
New Enterprise Associates V	1990	$500,000	$443,993	$87,860	$0	100.00	$1,374,820	$0	29.90	2.58	$0
Noro-Moseley Partners		$500,000	$500,000	$44,804	$0	100.00	$940,598	$0	8.33	1.73	$0
Noro-Moseley Partners II	1988	$500,000	$500,000	$44,804	$0	100.00	$940,598	$0	8.33	1.73	$0
Oak Hill Capital Partners		$45,000,000	$22,642,052	$1,227,910	$21,048,684	53.23	$1,765,005	$28,295,310	20.36	1.26	$49,343,994
Oak Hill Capital Partners II, L.P.	2005	$25,000,000	$18,468,211	$985,618	$5,546,171	77.82	$1,765,005	$24,101,888	21.44	1.33	$29,648,059
Oak Hill Capital Partners III, L.P.	2008	$20,000,000	$4,173,841	$242,292	$15,502,513	22.49	$0	$4,193,422	(6.76)	0.93	$19,695,935
Oaktree Capital Partners		$110,000,000	$73,111,152	$1,884,474	$35,000,000	68.18	$121,236,346	$432,113	44.92	1.62	$35,432,113
OCM Opportunities Fund IVb, L.P.	2002	$75,000,000	$73,111,152	$1,884,474	$0	100.00	$121,236,346	$432,113	44.92	1.62	$432,113
OCM Opportunities Fund VIIb, L.P.	2008	$35,000,000	$0	$0	$35,000,000	0.00	$0	$0	N/A	NaN	$35,000,000
Odyssey Partners Fund III		$25,000,000	$16,354,086	$1,471,452	$7,174,462	71.30	$6,389,827	$27,493,343	41.59	1.90	$34,667,805
Odyssey Partners Fund III, L.P.	2004	$25,000,000	$16,354,086	$1,471,452	$7,174,462	71.30	$6,389,827	$27,493,343	41.59	1.90	$34,667,805
O'Donnell and Masur		$1,000,000	$948,419	$127,952	$0	100.00	$2,348,672	$0	23.15	2.18	$0
ODonnell and Masur	1989	$1,000,000	$948,419	$127,952	$0	100.00	$2,348,672	$0	23.15	2.18	$0
Portfolio Advisors		$45,000,000	$13,846,340	$657,166	$30,250,399	32.78	$759,504	$13,912,158	(0.69)	0.99	$44,162,557
Port. Advisors Fund IV (B), L.P.	2006	$30,000,000	$12,340,571	$460,938	$17,151,616	42.83	$754,773	$12,465,481	3.62	1.03	$29,617,097
Port. Advisors Fund IV (E), L.P.	2006	$15,000,000	$1,505,769	$196,228	$13,098,783	12.67	$4,731	$1,446,677	(40.63)	0.76	$14,545,460
Quintana Energy Partners		$15,000,000	$8,477,017	$728,274	$5,699,748	62.00	$0	$8,422,286	(12.50)	0.91	$14,122,034
Quintana Energy Partners Fund I, L.P.	2006	$15,000,000	$8,477,017	$728,274	$5,699,748	62.00	$0	$8,422,286	(12.50)	0.91	$14,122,034
Sierra Ventures III		$500,000	$500,000	$26,068	$0	100.00	$555,965	$0	1.17	1.06	$0
Sierra Ventures III	1987	$500,000	$500,000	$26,068	$0	100.00	$555,965	$0	1.17	1.06	$0
Siguler Guff & Company		$25,000,000	$4,753,458	$51,250	$20,006,129	19.98	$444,810	$4,207,679	(6.89)	0.93	$24,213,808
Siguler Guff Small Buyout Opportunities	2007	$25,000,000	$4,753,458	$51,250	$20,006,129	19.98	$444,810	$4,207,679	(6.89)	0.93	$24,213,808
South Atlantic Ventures		$500,000	$500,000	$45,517	$0	100.00	$1,145,890	$0	17.38	2.10	$0
South Atlantic Venture Fund II, L.P.	1989	$500,000	$500,000	$45,517	$0	100.00	$1,145,890	$0	17.38	2.10	$0
Sprout Capital Partners		$500,000	$416,999	$122,592	$0	100.00	$1,070,772	$7,862	17.71	2.00	$7,862
Sprout Capital VI	1990	$500,000	$416,999	$122,592	$0	100.00	$1,070,772	$7,862	17.71	2.00	$7,862
Summit Ventures		$500,000	$388,928	$109,535	$25,003	95.00	$1,255,067	$2,819	28.32	2.52	$27,822
Summit Ventures II, L.P.	1988	$500,000	$388,928	$109,535	$25,003	95.00	$1,255,067	$2,819	28.32	2.52	$27,822
Technology Partners West		$500,000	$500,000	$41,952	$0	100.00	$1,055,036	$0	10.72	1.95	$0
Technology Partners West Fund IV, LP	1989	$500,000	$500,000	$41,952	$0	100.00	$1,055,036	$0	10.72	1.95	$0
Terra Firma Capital Partners		$25,432,997	$12,127,411	$935,574	$12,352,959	51.43	$0	$13,339,800	4.29	1.02	$25,692,760
Terra Firma Capital Partners III, LP	2007	$25,432,997	$12,127,411	$935,574	$12,352,959	51.43	$0	$13,339,800	4.29	1.02	$25,692,760
Welsh, Carson, Anderson & Stowe		$76,000,000	$52,370,074	$3,108,524	$20,317,661	73.27	$28,833,587	$52,825,376	16.72	1.46	$73,143,037
Welsh, Carson, Anderson & Stowe II	1990	$500,000	$455,663	$87,196	$0	100.00	$689,495	$123,881	9.20	1.50	$123,881
Welsh, Carson, Anderson & Stowe IV, LP	2004	$25,000,000	$13,085,013	$376,947	$11,500,000	54.00	$1,977,123	$15,712,890	12.49	1.31	$27,212,890
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	$25,000,000	$21,968,377	$1,776,365	$1,250,000	95.00	$24,414,075	$17,465,582	16.39	1.76	$18,715,582
Welsh, Carson, Anderson & Stowe V, L.P	1989	$500,000	$500,000	$40,463	$0	100.00	$1,752,893	$0	32.31	3.24	$0
Welsh, Carson, Anderson & Stowe X, L.P.	2005	$25,000,000	$16,361,021	$827,553	$7,567,661	69.73	$0	$19,523,023	9.28	1.12	$27,090,684
Whitney		$570,000	$553,925	$32,190	$16,075	97.18	$1,301,943	$0	20.07	2.22	$16,075
Whitney 1990 Equity Fund	1991	$570,000	$553,925	$32,190	$16,075	97.18	$1,301,943	$0	20.07	2.22	$16,075
William Blair Venture Partners		$500,000	$500,000	$34,901	$0	100.00	$883,512	$0	9.57	1.65	$0
William Blair Venture Partners III, L.P.	1988	500,000	500,000	34,901	0	100.00	883,512	0	9.57	1.65	0

6/30/2008 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
ADAMS STR GLOBAL OPPORTUNITES	14,589,947	14,589,947	15,171,123	2.04%
ADAMS STREET FUND V	29,828,534	29,828,534	33,404,558	4.49%
ADAMS STREET PARTNERS FUND	21,535,412	21,535,412	26,521,829	3.56%
ADAMS STREET PARTNERSHIP	2,750,200	2,750,200	3,177,922	0.43%
ADAMS STREET PARTNERSHIP FUND	12,080,183	12,080,183	12,569,600	1.69%
ADAMS STREET PARTNERSHIP FUND	3,098,791	3,098,791	4,127,475	0.55%
ADAMS STREET PARTNERSHIP FUND	8,762,549	8,762,549	9,973,805	1.34%
ADAMS STREET PARTNERSHIP FUND	12,136,439	12,136,439	14,114,060	1.90%
ADAMS STREET PTNRSHP FND	3,687,447	3,687,447	6,048,269	0.81%
ALTA SUB DEBT PARTNERS III	1	0	192	0.00%
AUSTIN VENTURES III	214,255	214,255	17,225	0.00%
BRIN VEN CAP III SECONDARY	1	1	104,758	0.01%
BRIN VEN PART III SECONDARY	1,517,128	1,517,128	313,295	0.04%
BRINSON NON U.S. TRUST	862,437	862,437	1,412,596	0.19%
BRINSON NON U.S. TRUST	594,076	594,076	954,405	0.13%
BRINSON NON U.S. TRUST	204,453	204,453	304,201	0.04%
BRINSON NON U.S. TRUST	944,570	944,570	2,070,919	0.28%
BRINSON NON US 1999 PRIMARY FD	299,308	299,308	582,577	0.08%
BRINSON NON US PARTNERSHIP FND	1,090,463	1,090,463	2,245,793	0.30%
BRINSON NON US PARTNERSHIP TR	636,330	636,330	994,358	0.13%
BRINSON PARTNERSHIP	11,434,839	11,434,839	12,014,894	1.61%
BRINSON PARTNERSHIP	5,746,189	5,746,189	7,757,372	1.04%
BRINSON PARTNERSHIP FUND	392,537	392,537	995,247	0.13%
BRINSON PARTNERSHIP FUND TR	9,611,931	9,611,931	14,438,139	1.94%
BRINSON PARTNERSHIP FUND TRUST	1,333,562	1,333,562	451,123	0.06%
BRINSON PARTNERSHIP FUND TRUST	3,033,007	3,033,007	1,443,320	0.19%
BRINSON PARTNERSHIP FUND TRUST	142,679	142,679	15,845	0.00%
BRINSON PARTNERSHIP FUND TRUST	1,478,727	1,478,727	386,993	0.05%
BRINSON PARTNERSHIP FUND TRUST	4,580,647	4,580,647	2,856,876	0.38%
BRINSON PARTNERSHIP FUND TRUST	11,772,363	11,772,363	14,199,954	1.91%
BRINSON PARTNERSHIP FUND TRUST	10,449,535	10,449,535	13,400,128	1.80%
BRINSON PARTNERSHIP FUND TRUST	1,489,081	1,489,081	2,086,147	0.28%
BRINSON VEN CAP FUND IV	6,585,743	6,585,743	9,176,034	1.23%
BRINSON VENTURE CAPITAL FD III	1	1	104,758	0.01%
BRINSON VENTURE PARTNR FD III	1,285,662	1,285,662	312,886	0.04%
SPROUT CAPITAL VI	244,756	244,756	7,862	0.00%
SUMMIT VENTURE II	128,881	128,881	2,819	0.00%
VENTURE PARTNERSHIP ACQUIST	190,080	190,080	21,774	0.00%
WCAS CAPITAL PARTNERS II	261,141	261,141	123,881	0.02%
ADAMS STREET Total	**184,993,886**	**184,993,885**	**213,905,012**	**28.75%**
AFFINITY ASIA PACIFIC FUND III	2,995,454	2,995,454	2,968,762	0.40%
AFFINITY Total	**2,995,454**	**2,995,454**	**2,968,762**	**0.40%**
ARCLIGHT ENERGY PTNRS FUND III	19,179,384	19,179,384	19,222,672	2.58%
ARCLIGHT ENRGY PARTNERS FD II	12,995,881	12,995,881	14,028,716	1.89%
ARCLIGHT Total	**32,175,265**	**32,175,265**	**33,251,388**	**4.47%**
AVENUE SPECIAL SITUATIONS V	15,938,965	15,938,965	14,665,298	1.97%
AVENUE CAPITAL Total	**15,938,965**	**15,938,965**	**14,665,298**	**1.97%**
BUERK DALE VICOTR II L.P.	4,050,000	4,050,000	3,315,285	0.45%
BUERK DALE. Total	**4,050,000**	**4,050,000**	**3,315,285**	**0.45%**
CARLYLE PARTNERS IV, L.P.	31,315,064	31,315,064	34,655,692	4.66%
CARLYLE VENTURE PARTNERS III	9,291,475	9,291,475	9,685,963	1.30%
CARLYLE Total	**40,606,539**	**40,606,539**	**44,341,656**	**5.96%**
CCMP II	6,551,322	6,551,322	6,720,929	0.90%

6/30/2008 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
CCMP Total	**6,551,322**	**6,551,322**	**6,720,929**	**0.90%**
FIRST RESERVE XI	18,521,706	18,521,706	20,279,546	2.73%
FIRST RESERVE Total	**18,521,706**	**18,521,706**	**20,279,546**	**2.73%**
HARBOURVEST 2007 DIRECT	4,500,000	4,500,000	4,485,749	0.60%
HARBOUR VEST Total	**4,500,000**	**4,500,000**	**4,485,749**	**0.60%**
HFCP VI	12,567,684	12,567,684	12,912,906	1.74%
HELLMAN FRIEDMAN Total	**12,567,684**	**12,567,684**	**12,912,906**	**1.74%**
HIGHWAY 12 VENTURE II	2,158,305	2,158,305	1,991,776	0.27%
HIGHWAY 12 VENTURES Total	**2,158,305**	**2,158,305**	**1,991,776**	**0.27%**
INDUSTRY VENTURES FUND IV	6,909,491	6,909,491	7,768,251	1.04%
INDUSTRY VENTURES Total	**6,909,491**	**6,909,491**	**7,768,251**	**1.04%**
JCF II LP	18,207,293	18,207,293	12,963,283	1.74%
J.C. FLOWERS Total	**18,207,293**	**18,207,293**	**12,963,283**	**1.74%**
JLL PARTNERS FUND V LP	13,424,148	13,424,148	19,222,145	2.58%
JLL PARTNERS Total	**13,424,148**	**13,424,148**	**19,222,145**	**2.58%**
KKR 1987	2,021,493	2,021,493	530,919	0.07%
KKR 1993	1,285,300	1,285,300	198,686	0.03%
KKR 1996	18,967,917	18,967,917	15,608,585	2.10%
KKR EUROPEAN FUND	9,053,964	9,053,964	16,964,032	2.28%
KKR Total	**31,328,674**	**31,328,674**	**33,302,222**	**4.48%**
LEHMAN BROS MERCHANT BANK IV	460,796	460,796	444,706	0.06%
LEHMAN BROTHERS CO	17,008,789	17,008,789	22,222,850	2.99%
LEHMAN BROTHERS Total	**17,469,586**	**17,469,586**	**22,667,557**	**3.05%**
LEXINGTON CAPITAL PARTNERS VIB	25,194,125	25,194,125	26,236,784	3.53%
LEXINGTON CAPITAL PTRS V LP	5,269,400	5,269,400	28,640,298	3.85%
LEXINGTON Total	**30,463,525**	**30,463,525**	**54,877,081**	**7.37%**
MADISON DEARBORN CAP PART IV	17,152,528	17,152,528	27,812,945	3.74%
MADISON DEARBORN CAP PTNRS VI	3,349,434	3,349,434	3,349,434	0.45%
MDCP V	19,385,332	19,385,332	19,879,910	2.67%
MADISON DEARBORN Total	**39,887,294**	**39,887,294**	**51,042,289**	**6.86%**
MATLIN PATTERSON GLB OPP	12,370,624	12,370,624	15,050,621	2.02%
MATLIN PATTERSON Total	**12,370,624**	**12,370,624**	**15,050,621**	**2.02%**
MHR INSTITUTIONAL III	10,788,757	10,788,757	12,325,993	1.66%
MHR INSTITUTIONAL Total	**10,788,757**	**10,788,757**	**12,325,993**	**1.66%**
OAK HILL CAPITAL PARTNERS II	18,175,822	18,175,822	24,141,544	3.24%
OAK HILL III	4,111,244	4,111,244	4,130,826	0.56%
OAK HILL Total	**22,287,066**	**22,287,066**	**28,272,370**	**3.80%**
OAKTREE CPTL MGMT OPPTY FD VII	2,625,000	2,625,000	2,625,000	0.35%
OCM OPPORTUNITIES FD IVB LP	1	1	427,739	0.06%
OAK TREE Total	**2,625,001**	**2,625,001**	**3,052,739**	**0.41%**
ODYSSEY INVT PARTN FD III	11,245,894	11,245,894	13,453,643	1.81%
ODYSSEY INVESTMENTS Total	**11,245,894**	**11,245,894**	**13,453,643**	**1.81%**
PORTFOLIO ADVISORS IV (B)	13,591,127	13,591,127	14,252,132	1.92%
PORTFOLIO ADVISORS IV (E)	2,163,652	2,163,652	2,084,114	0.28%
PORTFOLIO ADVISORS Total	**15,754,779**	**15,754,779**	**16,336,246**	**2.20%**
QUINTANA ENERGY PARTNERS TE LP	8,791,401	8,791,401	8,422,285	1.13%
QUINTANA ENERGY Total	**8,791,401**	**8,791,401**	**8,422,285**	**1.13%**

6/30/2008 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
SIGULER GUFF SM BUYOUT	5,708,023	5,708,023	5,390,229	0.72%
SIGULER GUFF Total	**5,708,023**	**5,708,023**	**5,390,229**	**0.72%**
TERRA FIRMA III LIMITED PART	8,554,378	12,173,472	13,310,847	1.79%
TERRA FIRMA Total	**8,554,378**	**12,173,472**	**13,310,847**	**1.79%**
WCAS CAPITAL PARTNERS FUND IV	15,374,277	15,374,277	17,712,889	2.38%
WCAS IX	9,307,757	9,307,757	17,059,098	2.29%
WCAS X LP	17,361,021	17,361,021	20,523,018	2.76%
WELSH CARSON Total	**42,043,055**	**42,043,055**	**55,295,005**	**7.43%**
STATE STREET SPIF ALT INV	71,621	13,474,961	12,507,838	1.68%
STATE STREET Total	**71,621**	**13,474,961**	**12,507,838**	**1.68%**
Grand Total	**622,989,734**	**640,012,167**	**744,098,947**	**100.00%**

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Members of the Board

From: Edward J. Kelly

Date: August 19, 2008

Subject: Montana Real Estate Pool [MTRP]

Attached to this memo are the following reports:

(i) **Private Edge - Graph: Strategy Total Exposure by Market Value & Remaining Commitments.** This report summarizes the total market value of invested capital commitments plus the capital commitments remaining to be invested broken out by investment strategy as of 03/31/08.

(ii) **Private Edge - Graph: Portfolio Characteristics – Geographic Diversification.** This report summarizes the Gross Market Value of MTRP's share of the partnerships interests in properties exclusive of any underlying debt used to acquire each property broken out by geography relative to the NCREIF Property Index as of 03/31/08.

(iii) **Private Edge – Graph: Portfolio Characteristics – Property Type Diversification.** This report summarizes the Gross Market Value of MTRP's share of the partnerships interests in properties exclusive of any underlying debt used to acquire each property broken out by property type relative to the NCREIF Property Index as of 03/31/08.

(iv) **Private Edge - Table: Real Estate Portfolio Status Report.** This report summarizes the total market value of invested capital commitments plus the capital commitments remaining to be invested broken out by investment strategy as of 03/31/08.

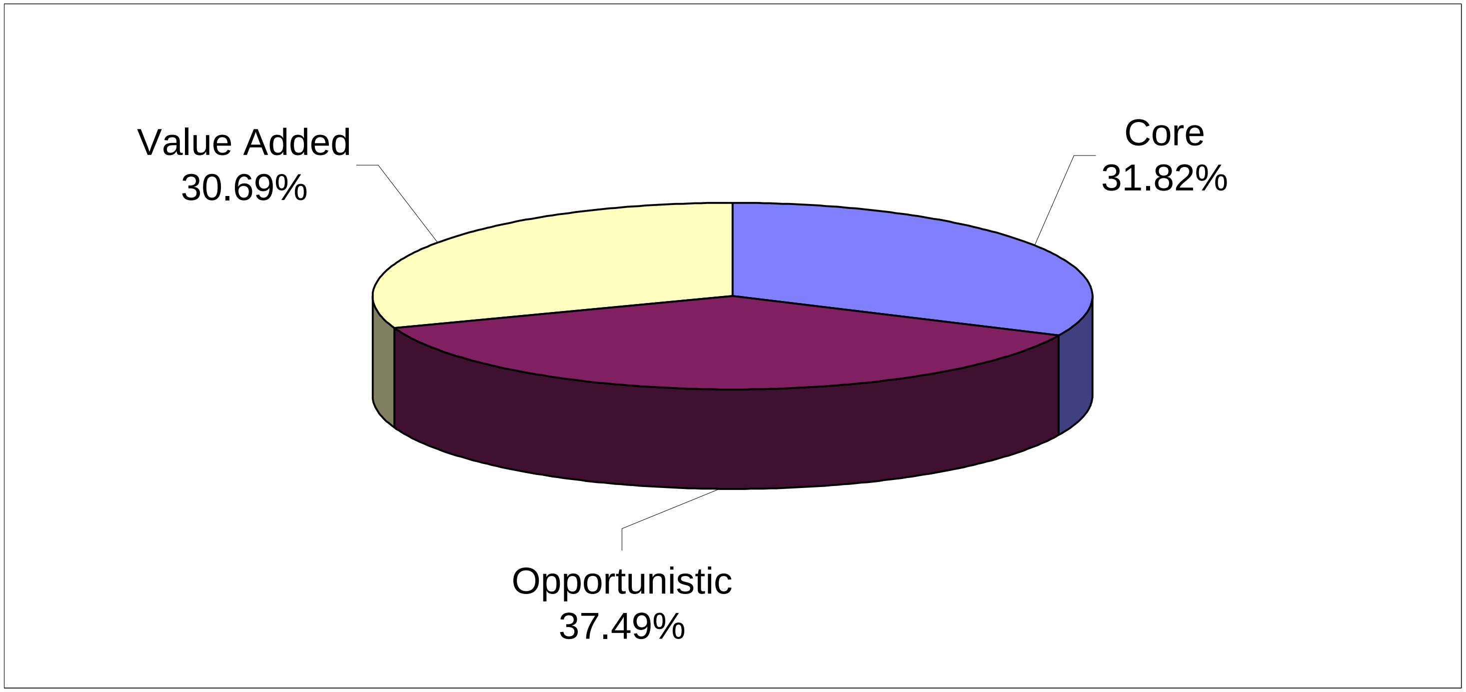
(v) **Real Estate Pool Holdings.** This report summaries all MTRP portfolio fund holdings by shares, book value and market value as of 06/30/08.

There were no new investment commitments made by Staff since the last Board meeting.

Montana Real Estate Pool

Strategy Total Exposure by Market Value & Remaining Commitments

(Since inception through March 31, 2008)



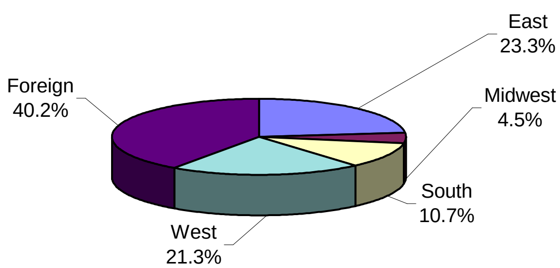
Strategy	Remaining Commitments	Market Value	Total Exposure	Percentage
Core	$0	$168,246,191	$168,246,191	31.82%
Opportunistic	$143,636,745	$54,596,777	$198,233,522	37.49%
Value Added	$86,875,328	$75,391,449	$162,266,777	30.69%
Total	$230,512,074	$298,234,416	$528,746,490	100.00%

Total Portfolio Characteristics

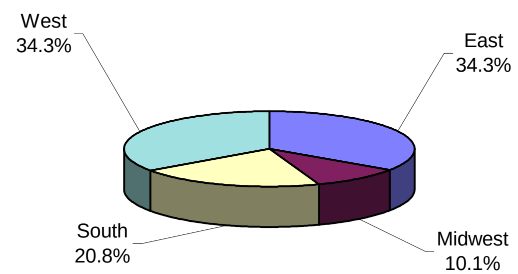
Geographic Diversification[1]

(as of March 31, 2008)

Montana Total Portfolio



NCREIF Index



Geographically, the Total Portfolio was underweighted in all United States geographic regions when compared to the NCREIF property index as of March 31, 2008. The NCREIF Property Index does not include properties outside the United States.

	East	Midwest	South	West	Foreign	Total
Montana Total Value[2]	$17,158.7	$3,329.6	$7,874.6	$15,684.9	$29,629.3	$73,677.1
Montana Total[1]	23.3%	4.5%	10.7%	21.3%	40.2%	100.0%
NCREIF Value[2]	$112,645.0	$33,064.0	$68,099.0	$114,334.0	$0.0	$328,142.0
NCREIF[1]	34.3%	10.1%	20.8%	34.8%	0.0%	100.0%

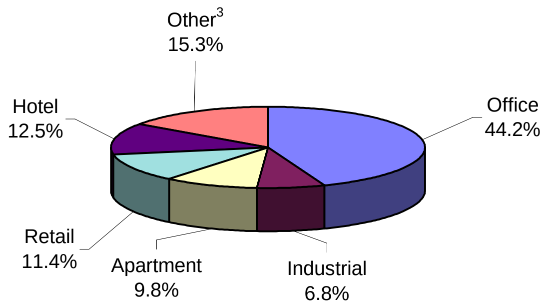
[1] *Diversification percentages are based on the Gross Market Value, which represents the MBOI share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property.*

[2] *Values shown are in Millions.*

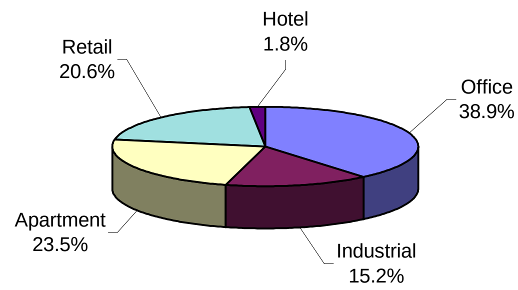
Total Portfolio Characteristics

Property Type Diversification[1]
(as of March 31, 2008)

Montana Total Portfolio



NCREIF Index



Relative to the NCREIF Property Index, the total portfolio was overweighted in the hotel and office sectors yet underweighted in the industrial, retail, and apartment sectors, as of March 31, 2008.

	Office	Industrial	Apartment	Retail	Hotel	Other[3]	Total
Montana Total Value[2]	$32,575.8	$4,994.1	$7,196.3	$8,411.7	$9,231.6	$11,267.6	$73,677.1
Montana Total[1]	44.2%	6.8%	9.8%	11.4%	12.5%	15.3%	100.0%
NCREIF Value[2]	$127,785	$49,859	$77,214	$67,439	$5,845		$328,142
NCREIF[1]	38.9%	15.2%	23.5%	20.6%	1.8%		100.0%

[1] *Diversification percentages are based on the Gross Market Value, which represents the MBOI share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property.*
[2] *Values shown are in Millions.*
[3] *Other includes diversified-use properties, land, senior living, and healthcare.*

Real Estate Portfolio Status Report
All Investments
(as of March 31, 2008)

Description	Vintage Year	Commitment	Since Inception Capital Contributed	Remaining Commitment	Capital Distributed	Net Asset Value	Investment Multiple
Total		**534,060,100.00**	**303,548,026.42**	**230,512,073.58**	**21,395,016.78**	**298,234,416.18**	**1.05**
Core		155,000,000.00	155,000,000.00	0.00	2,432,408.19	168,246,190.86	1.10
Clarion Lion Properties Fund	2006	45,000,000.00	45,000,000.00	0.00	1,714,607.00	49,847,051.91	1.14
INVESCO Core Real Estate-USA	2007	45,000,000.00	45,000,000.00	0.00	452,022.69	46,534,202.35	1.04
JP Morgan Strategic Property Fund	2007	65,000,000.00	65,000,000.00	0.00	265,778.50	71,864,936.60	1.12
Opportunistic		209,860,100.00	66,223,354.55	143,636,745.45	8,582,568.21	54,596,776.75	0.93
AG Realty Fund VII L.P.	2007	20,000,000.00	2,400,000.00	17,600,000.00	0.00	1,989,232.00	0.83
Beacon Capital Strategic Partners V	2007	25,000,000.00	12,500,000.00	12,500,000.00	0.00	12,097,993.00	0.97
Carlyle Europe Real Estate Partners III [2]	2007	34,860,100.00	4,509,793.34	30,350,306.66	0.00	4,253,302.99	0.85
CIM Fund III, L.P.	2007	25,000,000.00	1,031,503.00	23,968,497.00	408,703.00	482,560.00	0.67
JER Real Estate Partners - Fund IV	2007	20,000,000.00	20,000,000.00	0.00	4,862,023.00	14,916,524.00	0.99
Liquid Realty IV [3]	2007	30,000,000.00	8,527,933.10	21,472,066.90	2,926,620.21	5,931,320.13	0.98
Macquarie Global Property Fund (Asia)	2007	30,000,000.00	6,267,361.11	23,732,638.89	0.00	6,143,327.63	0.98
MSREF VI International	2007	25,000,000.00	10,986,764.00	14,013,236.00	385,222.00	8,782,517.00	0.83
Value Added		169,200,000.00	82,324,671.87	86,875,328.13	10,380,040.38	75,391,448.57	1.04
ABR Chesapeake Fund III	2006	20,000,000.00	12,000,000.00	8,000,000.00	0.00	12,688,682.69	1.06
AG Core Plus Realty Fund II	2007	20,000,000.00	5,200,000.00	14,800,000.00	8,403.00	5,174,090.00	1.00
Apollo Real Estate Finance Corp.	2007	10,000,000.00	2,900,000.00	7,100,000.00	80,118.00	2,918,109.00	1.03
DRA Growth & Income Fund VI	2007	35,000,000.00	12,969,607.00	22,030,393.00	2,958,441.00	10,272,803.00	1.02
Hudson Realty Capital Fund IV	2007	15,000,000.00	9,750,000.00	5,250,000.00	0.00	10,043,361.83	1.03
Realty Associates Fund VIII	2007	20,000,000.00	16,014,355.00	3,985,645.00	168,770.00	16,540,566.00	1.04
Rothschild FARS Fund V LP	2007	30,000,000.00	11,473,350.87	18,526,649.13	7,092,308.38	4,645,082.05	1.02
Strategic Partners Value Enhancement Fd	2007	19,200,000.00	12,017,359.00	7,182,641.00	72,000.00	13,108,754.00	1.10

1 Capital contributed does not include contributions for expenses outside of the commitment amounts.

2 Industry standards require that the first period that a cash flow occurred be omitted from the return calculation for purposes of calculating a time-weighted return when it represents only a partial period of income. As a result Carlyle Europe Real Estate Partners III had its first contributions during Q1 2008 and was not subject to performance on the previous pages.

3 Liquid Realty's net asset value was cash adjusted due to the GP not having completed their financial reporting for March 31, 2008.

6/30/2008 Private Real Estate Holdings

Fund Name	Shares	Book Value	Market Value	%
ABR CHESAPEAKE III	13,845,514	13,845,514	14,534,204	4.42%
AG REALTY FUND VII LP	3,600,000	3,600,000	3,189,233	0.97%
AG CORE PLUS REALTY FD II	4,881,597	4,881,597	4,674,090	1.42%
APOLLO REAL ESTATE FINANCE COR	4,798	4,798,000	4,718,134	1.43%
BEACON CAPITAL PARTNERS FUND V	12,500,000	12,500,000	12,097,988	3.68%
CIM FUND III	653,372	653,372	482,560	0.15%
CLARION LION PROPERTIES FUND	31,957	45,000,000	49,193,888	14.94%
DRA ADVISORS VI	10,272,803	10,272,803	10,272,803	3.12%
JP MORGAN CB	37,898	68,141,976	72,327,177	21.97%
HUDSON REALTY CAPITAL FUND IV	21,500,000	21,500,000	21,804,333	6.62%
INVESCO CORE REAL ESTATE USA	309	45,000,000	46,223,196	14.04%
MORGAN STANLEY REAL ESTATE	13,600,275	13,600,275	11,768,644	3.58%
JER REAL EST PARTNERS FUND IV	14,961,499	14,961,499	14,740,039	4.48%
LIQUID REALTY FUN IV	9,239,713	9,239,713	9,743,093	2.96%
MACQUARIE GBL PROP III ASIA	3,794,964	3,794,964	3,670,929	1.12%
OCONNOR NTH AMER PROP PTNRS II	5,619,075	5,619,075	5,619,075	1.71%
STRATEGIC PARTNERS VALUE	13,724,239	13,724,239	15,535,633	4.72%
ROTHSCHILD FIVE ARROWS REALTY	2,499,076	2,499,076	2,496,345	0.76%
TA ASSOCIATES REALTY FUND	16,000,000	16,000,000	16,540,560	5.02%
CARLYLE EUROPE R E P III L P	4,075,098	6,343,764	6,093,312	1.85%
REAL ESTATE Total	**150,842,188**	**315,975,867**	**325,725,235**	**98.95%**
SHORT TERM INVESTMENT POOL	3,461,067	3,461,067	3,461,067	1.05%
CASH EQUIVALENT Total	**3,461,067**	**3,461,067**	**3,461,067**	**1.05%**
Grand Total	**154,303,255**	**319,436,934**	**329,186,302**	**100.00%**

Montana Domestic Equity Pool

Domestic Stock Pool By Manager as of 6/30/08			
Manager Name	**Market Value**	**%**	**Approved Range**
-	-	-	
BGI EQUITY INDEX FUND	744,236,640	25.03%	
STATE STREET SPIF ALT INV	18,579,258	0.62%	0-5%
LARGE CAP CORE Total	**762,815,898**	**25.66%**	10-30%
ENHANCED INVEST TECHNOLOGIES	182,814,647	6.15%	
GOLDMAN SACHS ENHANCED LARGE	126,422,892	4.25%	
T ROWE PRICE ASSOCIATES INC	199,307,044	6.70%	
WESTERN ASSET US INDX PLUS LLC	164,767,126	5.54%	
LARGE CAP ENHANCED Total	**673,311,709**	**22.65%**	20-30%
BARROW HANLEY MEWHINNEY + STRS	182,807,403	6.15%	
QUANTITATIVE MANAGEMENT ASSOC	122,654,373	4.13%	
LARGE CAP VALUE Total	**305,461,776**	**10.27%**	
COLUMBUS CIRCLE INVESTORS	149,850,962	5.04%	
RAINIER INVESTMENT MGMNT INC	144,366,000	4.86%	
RENAISSANCE GROUP LLC	145,027,733	4.88%	
LARGE CAP GROWTH Total	**439,244,694**	**14.77%**	
LARGE CAP STYLE BASED Total	**744,706,471**	**25.05%**	20-30%
ANALYTIC INVESTORS MU3B	113,831,666	3.83%	
JP MORGAN ASSET MGMT MU3E	193,052,947	6.49%	
MARTINGALE ASSET MGMT MU3D	80,014,192	2.69%	
PARTIAL LONG/SHORT (130/30) Total	**386,898,805**	**13.01%**	10-20%
COMBINED LARGE CAP Total	**2,567,732,882**	**86.37%**	82-92%
ARTISAN MID CAP VALUE	61,202,942	2.06%	
BGI MIDCAP EQUITY INDEX FUND	21,559,922	0.73%	
MARTINGALE ASSET MGMT MID CAP	105,666,929	3.55%	
TIMESSQUARE CAPITAL MGMT	76,205,853	2.56%	
MID CAP Total	**264,635,647**	**8.90%**	5-11%
DIMENSIONAL FUND ADVISORS INC	53,150,403	1.79%	
NORTHPOINTE CAPITAL SMALL CAP	41,275,498	1.39%	
VAUGHAN NELSON INV	46,306,819	1.56%	
SMALL CAP Total	**140,732,720**	**4.73%**	3-8%
TOTAL MDEP	**2,973,101,248**	**100.00%**	

The table above displays the Montana Domestic Equity Pool (MDEP) allocation at quarter end across market cap segments and manager styles. At this time, all weightings are within approved ranges. There were no significant allocation changes during the quarter.

Returns across cap sizes were mixed during the quarter. Mid caps generated a 5.4% return while small caps were basically flat with a return of 0.4% and large caps were down -2.7%. The poor performance of large financial stocks continued to weigh on large cap performance overall. For the fiscal year, returns were negative for all cap sizes. The S&P 500 Index return was -13.1% compared to the S&P 400 Midcap Index return of -7.3% and the S&P 600 Smallcap Index return of -14.7%. Again, mid caps were the best performer while small caps underperformed slightly compared to large caps. Relative to its benchmark (S&P 1500 Index), MDEP is slightly overweight mid caps and small caps while being slightly underweight large caps.

COMPARATIVE RETURNS

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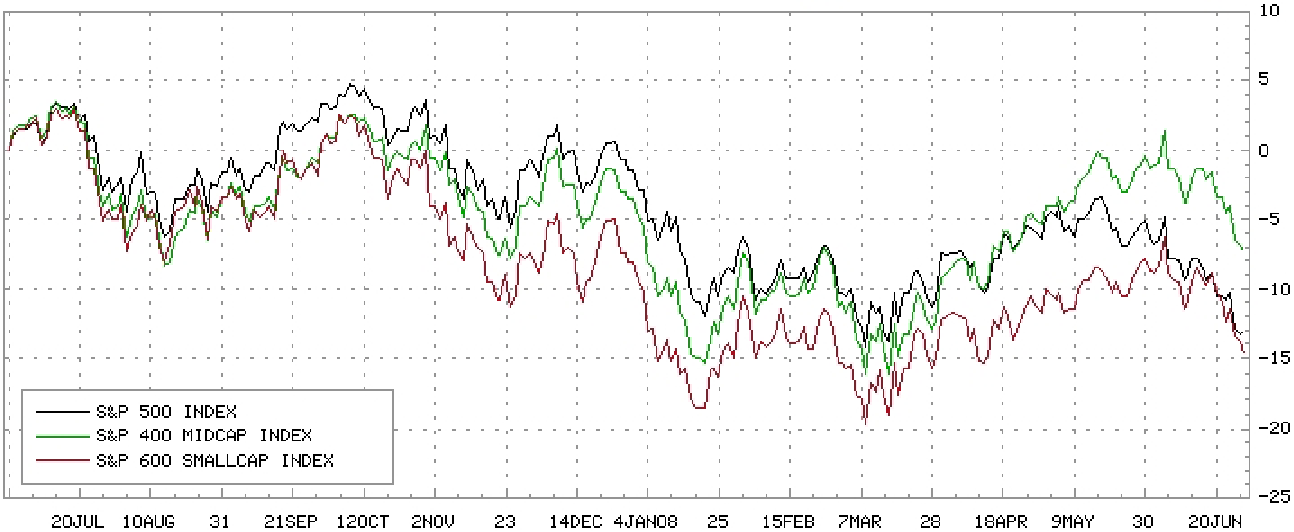
Range 6/29/07 - 6/30/08 Period D Daily 367 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	-14.86 %	-13.12 %	-5.78 %	-13.05 %
2	MID Index	USD	-8.54 %	-7.34 %		-7.30 %
3	SML Index	USD	-15.58 %	-14.67 %	-7.33 %	-14.59 %

(* = No dividends or coupons)



Across style categories, growth trounced value for the quarter and for the year. In the quarter the S&P500/Citigroup Growth Index returned 2.1% while the S&P500/Citigroup Value Index returned -7.8%. For the year, growth's dominance was even greater as growth returned -5.8% compared to a value return of -20.2%. Similar to their affect on cap size returns, the poor performance of financials had a major impact on returns in the value style. MDEP was tilted toward growth rather than value during the quarter and fiscal year.

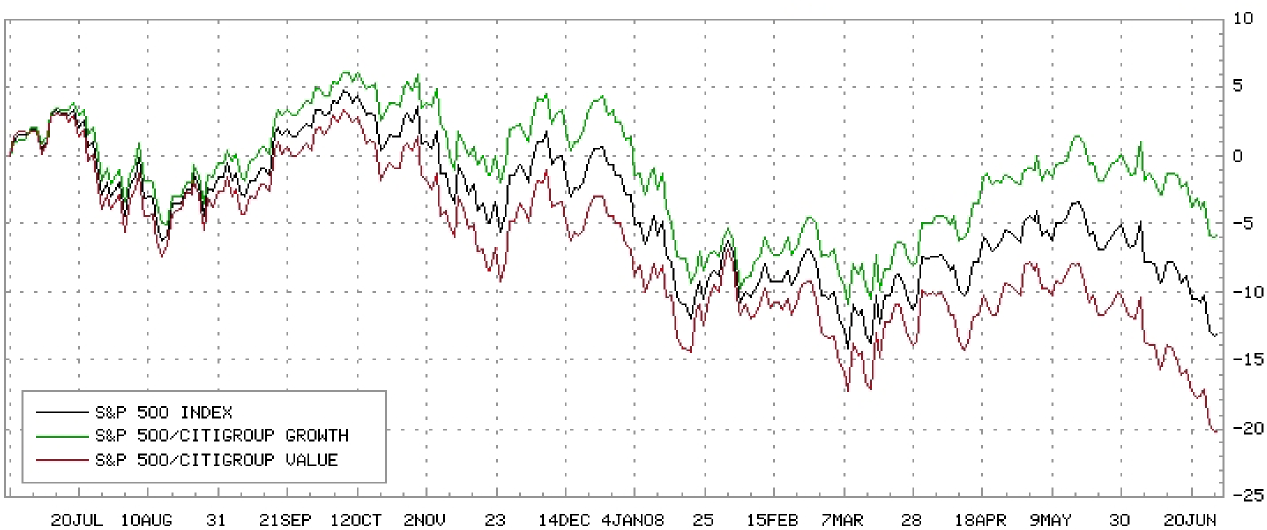
COMPARATIVE RETURNS

Page 1/19

Range 6/29/07 - 6/30/08 Period D Daily 367 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	-14.86 %	-13.12 %	-7.30 %	-13.05 %
2	SGX Index	USD	-7.07 %	-5.82 %		-5.79 %
3	SVX Index	USD	-22.40 %	-20.24 %	-14.42 %	-20.14 %

(* = No dividends or coupons)



Taking a look at MDEP for the year, the managers as a whole were competitive versus their benchmarks and the pool only slightly underperformed the S&P 1500 Index by 22 basis points. Overall by cap size, MDEP underperformed in large caps and small caps, but outperformed in mid caps.

When looking at MDEP with regard to particular style and strategy exposures, the enhanced style bucket underperformed to a large degree due to a manager specific performance issue with Western Asset Management. The quantitative managers struggled versus their benchmarks while the style based managers faired relatively well. The partial long/short bucket outperformed but was funded only recently in March.

Going forward the pool is positioned similar to the benchmark in relation to cap size while style remains tilted to growth. The markets will continue to be volatile and it is difficult to predict a sustained market rally. A sustained lower level of energy prices accompanied by an end to write-downs by financial companies and an improvement in consumer confidence is the necessary combination.

DOMESTIC EXPOSURE-MARKET CAP %

June 30, 2008

MANAGERS	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	LARGE $20-$50B	LARGE $10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Analytic Investors, Inc	21.0	10.2	4.5	30.4	13.4	18.8	-1.8	-0.1	88.5
Artisan Partners	--	--	--	--	8.7	64.5	26.8	--	4.8
Barrow Hanley	2.5	11.6	6.5	29.7	15.2	32.0	2.3	0.1	40.6
Columbus Circle Investors	9.0	16.6	19.2	40.7	11.9	2.7	0.0	--	68.5
Dimensional Fund Advisors	--	--	0.0	--	--	1.9	66.0	31.9	0.9
Enhanced Invest Technologies	14.2	17.5	8.0	26.9	18.0	14.7	0.6	--	84.6
Goldman Sachs Enhanced Large Cap	13.8	19.2	12.5	26.4	10.8	14.4	2.3	0.0	89.4
J.P. Morgan	12.2	20.1	20.3	33.9	8.5	4.3	-1.7	--	91.8
Martingale Asset Mgmt - Mid cap	--	--	0.3	2.8	17.1	67.6	12.2	--	6.8
Martingale Asset Mgmt - Enhanced Alpha	16.4	17.1	8.6	22.9	13.7	21.4	-0.9	-0.4	90.6
NorthPointe Cap	--	--	--	--	--	12.0	59.4	28.6	1.2
Quantitative Management	17.9	15.3	11.7	18.1	11.7	23.1	2.3	--	91.1
Rainier Investment Mgt	2.0	19.7	15.3	35.9	14.7	12.4	0.0	--	59.6
Renaissance Investment Mgt	5.4	13.3	9.4	38.8	24.2	9.0	0.0	--	53.8
T. Rowe Associates	14.8	17.4	12.0	28.0	14.8	11.8	0.9	--	89.1
TimesSquare Cap Mgmt	--	--	--	--	17.9	76.1	5.3	0.7	6.5
Vaughan Nelson Mgmt	--	--	--	--	--	40.3	54.7	5.0	2.3
Western Asset US Index Plus	13.3	20.4	11.8	29.7	13.9	10.4	0.6	--	89.2
BGI S&P500 Equity Index Fund	13.4	19.6	11.8	29.5	13.8	10.4	0.6	0.0	89.5
BGI Midcap Equity Index Fund	--	--	--	--	2.0	67.8	27.3	0.3	3.9
ALL DOMESTIC EQUITY PORTFOLIOS	**10.4**	**15.2**	**10.3**	**26.2**	**13.5**	**18.2**	**4.5**	**1.1**	**89.2**
Benchmark: S&P Composite 1500	**11.7**	**18.0**	**10.4**	**26.2**	**12.4**	**15.4**	**5.4**	**0.5**	**78.9**
Over/underweight(-)	**-1.3**	**-2.8**	**-0.1**	**0.0**	**1.1**	**2.8**	**-0.9**	**0.5**	

DOMESTIC EXPOSURE-SECTOR %

June 30, 2008

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Analytic Investors, Inc	5.8	9.8	12.5	15.1	11.3	16.8	14.1	4.0	4.3	3.0
Artisan Partners	15.9	2.4	17.1	16.6	2.3	23.3	20.7	--	--	1.7
Barrow Hanley	11.0	9.8	10.7	19.7	13.5	15.9	6.1	1.9	3.5	8.0
Columbus Circle Investors	5.6	13.2	9.9	7.7	20.9	8.4	30.2	4.2	--	--
Dimensional Fund Advisors	13.8	4.6	6.9	14.8	14.1	18.7	18.0	4.9	1.0	3.0
Enhanced Invest Technologies	9.9	12.0	12.6	11.7	13.1	14.3	12.8	2.8	4.9	5.9
Goldman Sachs Enhanced Large Cap	8.4	11.3	13.5	16.3	11.9	12.0	15.0	3.2	3.7	3.4
J.P. Morgan	9.5	12.4	13.0	15.7	10.7	9.4	15.3	3.7	4.9	4.3
Martingale Asset Mgmt - Mid cap	12.4	3.6	10.3	16.7	9.3	15.4	15.4	8.0	1.7	7.2
Martingale Asset Mgmt - Enhanced Alpha	6.7	8.5	14.4	15.7	13.7	15.5	17.2	2.8	3.1	1.3
NorthPointe Cap	21.4	1.9	2.6	11.4	15.4	16.7	30.0	0.6	--	--
Quantitative Management	10.6	4.9	20.9	24.9	6.6	9.1	2.2	4.8	6.8	7.5
Rainier Investment Mgt	9.4	6.3	10.5	7.4	18.2	13.8	25.3	6.2	1.6	1.4
Renaissance Investment Mgt	11.7	8.4	11.8	4.8	16.3	17.2	21.4	6.5	1.9	--
T. Rowe Associates	9.2	10.4	14.0	16.0	12.1	11.5	16.5	3.2	3.6	3.4
TimesSquare Cap Mgmt	13.1	1.8	9.7	6.5	21.0	20.8	18.0	3.5	5.4	--
Vaughan Nelson Mgmt	5.9	4.5	13.2	18.6	7.0	23.2	11.3	10.6	--	5.6
Western Asset US Index Plus	8.6	11.1	13.3	16.8	11.7	12.2	15.7	3.6	3.4	3.6
BGI S&P500 Equity Index Fund	8.7	10.6	13.3	16.6	11.6	12.2	15.6	3.6	3.5	3.6
BGI Midcap Equity Index Fund	12.3	3.4	9.7	15.7	12.0	16.1	13.2	7.4	0.5	7.9
All Domestic Equity Portfolios	**9.5**	**9.3**	**12.7**	**14.9**	**12.6**	**13.5**	**16.0**	**3.9**	**3.3**	**3.7**
Benchmark: S&P Composite 1500	**9.1**	**10.2**	**12.9**	**16.8**	**11.8**	**12.7**	**15.6**	**3.9**	**3.1**	**4.0**
Over/underweight(-)	**0.4**	**-0.9**	**-0.2**	**-1.8**	**0.9**	**0.8**	**0.4**	**0.0**	**0.2**	**-0.3**

Domestic Portfolio Characteristics

June 30, 2008

MANAGERS	Market Value (mm)	Number of Securities	5Yr Historical EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
Analytic Investors, Inc	118.2	297	26.5	14.2	2.3	1.7
Artisan Partners	61.3	50	27.3	13.5	1.7	1.4
Barrow Hanley	182.0	86	17.0	14.6	1.9	3.0
Columbus Circle Investors	148.0	52	39.5	27.6	3.7	0.9
Dimensional Fund Advisors	53.1	2,965	20.7	35.2	1.2	1.5
Enhanced Invest Technologies	183.1	372	23.3	19.2	2.5	2.1
Goldman Sachs Enhanced Large Cap	125.5	336	22.6	19.9	2.2	2.3
J.P. Morgan	197.4	222	25.1	14.4	2.4	2.2
Martingale Asset Mgmt - Mid cap	105.8	149	24.9	17.4	2.1	1.7
Martingale Enhanced Alpha	81.1	274	23.5	14.4	2.5	1.4
NorthPointe Cap	41.2	78	30.0	27.9	2.2	0.4
Quantitative Management	122.8	130	18.8	14.4	1.6	3.5
Rainier Investment Mgt	143.7	70	38.6	24.2	4.1	0.9
Renaissance Investment Mgt	145.2	55	25.1	17.2	3.9	1.4
T. Rowe Associates	199.6	299	24.7	28.7	2.5	2.1
TimesSquare Cap Mgmt	76.4	72	24.1	30.5	3.1	1.0
Vaughan Nelson Mgmt	46.5	70	22.9	20.4	2.0	1.0
Western Asset US Index Plus	183.8	500	23.0	20.2	2.4	2.3
BGI S&P500 Equity Index Fund	739.8	501	22.8	20.2	2.4	2.3
BGI Midcap Equity Index Fund	21.5	401	20.3	25.1	2.1	1.5
All Domestic Equity Portfolios	**2,976.0**	**3,904**	**25.9**	**21.4**	**2.4**	**2.0**
BENCHMARKS						
S&P Composite 1500		**1,500**	**22.8**	**20.9**	**2.3**	**2.2**
S&P/Citigroup 1500 Pure Growth		400	29.9	25.2	2.7	0.9
S&P/Citigroup 1500 Pure Value		414	4.0	27.4	0.9	5.0
S&P 500		500	23.0	20.2	2.4	2.3
Russell 1000		1,005	23.3	23.3	2.4	2.2
Russell 1000 Growth		647	28.3	27.5	3.9	1.3
Russell 1000 Value		666	18.5	18.7	1.6	3.2
Russell Midcap		808	21.2	33.5	2.1	1.8
Russell Midcap Growth		505	27.9	38.2	3.7	0.8
Russell Midcap Value		544	14.5	28.1	1.4	3.0
Russell 2000		1,982	19.2	38.5	1.4	1.9
Russell 2000 Growth		1,220	24.9	45.5	3.0	0.7
Russell 2000 Value		1,330	14.7	31.8	0.9	3.2

Montana International Equity Pool

International Stock Pool By Manager as of 6/30/2008			
Security Name	**Market Value**	**%**	**Approved Range**
-	-	-	
BATTERYMARCH INTL EQUITY	187,810,422	12.97%	
BGI GLOBAL EX US ALPHA TILT FD	117,096,633	8.09%	
EAFE STOCK PERFORMANCE INDEX	20,458,585	1.41%	0-10%
JULIUS BAER INTL EQUITY II	182,407,711	12.60%	
CORE Total	**507,773,351**	**35.08%**	25-50%
ACADIAN ACWI EX US VALUE	141,783,249	9.79%	
BERNSTEIN ACWI EX	133,470,713	9.22%	
VALUE Total	**275,253,962**	**19.02%**	15-25%
HANSBERGER INTL EQUITY GROWTH	118,337,525	8.18%	
MARTIN CURRIE ACWI X	125,759,173	8.69%	
PRINCIPAL GLOBAL	68,576,697	4.74%	
GROWTH Total	**312,673,394**	**21.60%**	15-25%
BGI MSCI EQUITY INDEX FD EUROP	155,043,812	10.71%	0-12%
NOMURA ASSET MGMT INC	89,864,513	6.21%	0-8%
REGIONAL Total	**244,908,325**	**16.92%**	
AXA ROSENBERG INTL SMALL CAP	49,747,613	3.44%	
DFA INTL SMALL CO PORTFOLIO	57,159,226	3.95%	
SMALL CAP Total	**106,906,839**	**7.39%**	5-15%
TOTAL MTIP	**1,447,515,871**	**100.00%**	

The table above reflects the quarter end allocation within the Montana International Equity Pool (MTIP). At this time, all weightings are within the approved ranges. There were no strategic allocations implemented within MTIP during the quarter.

The overall value of the pool reflects a significant correction in the international equity markets during the quarter and a difficult year overall. Despite global growth worries, emerging markets outperformed developed markets for the quarter and the fiscal year. Small caps performed the worst of the three major international market segments for the quarter and the fiscal year. For the quarter, small caps returned -4.2% while large caps returned -1.9% and emerging market stocks returned -0.9%. For the fiscal year, small caps returned -18.1% while large caps returned -10.1% and emerging market stocks returned 4.9%.

COMPARATIVE RETURNS

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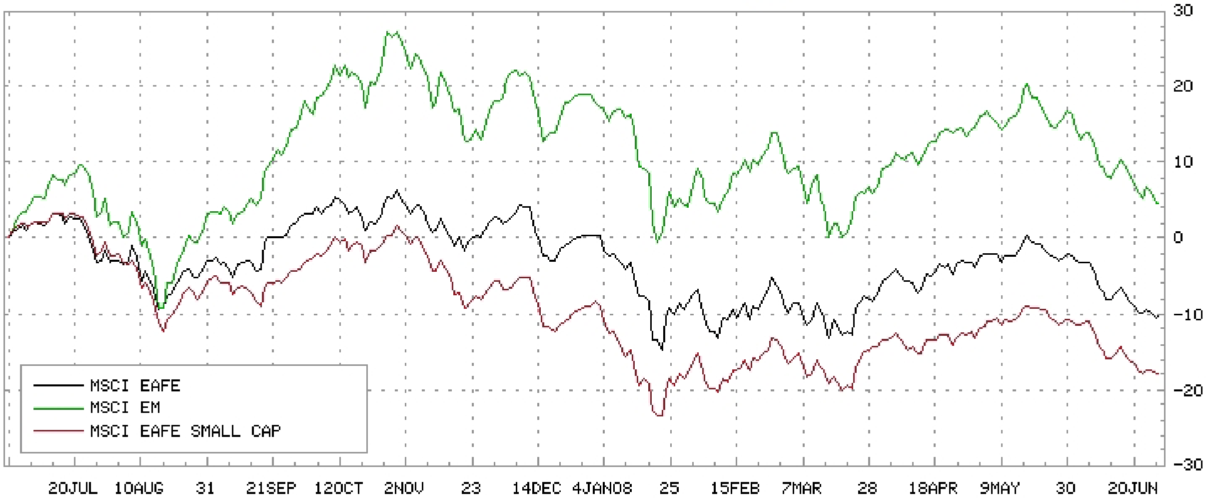
Range 6/29/07 - 6/30/08 Period D Daily 367 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	MXEA Index	USD	-13.04 %	-10.05 %	-14.93 %	-9.99 %
2	MXEF Index	USD	2.59 %	4.88 %		4.86 %
3	MXEASC Index	USD	-20.49 %	-18.05 %	-22.94 %	-17.96 %

(* = No dividends or coupons)



Relative to the benchmark (the custom MSCI ACWI ex-US IMI) the pool is underweight emerging markets (EM). The weighting of the pool in emerging markets at quarter end was 16.3% compared to 19.8% for the benchmark. Recall the pool's weighting in EM is determined by the collective decisions of the individual managers within the pool. Also, the EM exposure of the pool shows the impact of two managers making large moves into EM investments during the quarter. Last quarter the underweight position in EM was 4.6% whereas the underweight was 3.5% as of the end of June.

With regard to market capitalization, MTIP is relatively even with the benchmark in its weightings of large cap and small cap stocks.

Across style categories, quarterly returns and yearly returns were also negative and growth outperformed value. For the quarter, the MSCI ACWI-ex US Growth Index returned 1.0% while the MSCI ACWI-ex US Value Index returned -3.2%. For the fiscal year, growth returned -1.4% compared to a return of -11.8% for value. MTIP continues to carry a slight growth bias.

Looking at MTIP for the year, the managers as a whole pulled down pool performance as MTIP underperformed its custom benchmark by 2.1%. Much of this difficulty was centered in the growth managers as the growth style bucket underperformed by 500 basis points. The value style bucket and the core style bucket underperformed the respective benchmarks as well, although to a much smaller degree, while small cap mandates and regional mandates outperformed.

Going forward the pool is positioned conservatively in relation to the benchmark characteristics of cap size and style weights so manager performance collectively will be the more significant driver of MTIP performance. Similar to the U.S. market, international markets will see volatility and uncertainty for some time until investors are more confident in fundamental support from lower energy prices, consumer spending and the repair of the financial system.

INTERNATIONAL EXPOSURE-MARKET CAP %

June 30, 2008

Managers	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	$20-$50B	$10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Acadian Asset Management	--	9.9	23.6	22.0	17.3	22.3	4.7	0.3	47.5
AXA Rosenberg	--	--	--	3.1	9.7	34.1	41.0	12.2	3.4
Batterymarch Financial Mgmt	1.8	16.1	15.4	12.3	20.7	30.1	3.3	0.3	48.8
Bernstein Inv Mgt & Research with look throughs	--	19.3	33.5	19.1	15.9	11.2	1.0	0.0	47.8
BGI Global Ex US Alpha Tilt Fd	1.0	14.6	17.6	22.2	14.5	20.5	7.2	0.3	49.8
DFA International Small Cap	--	--	---	0.1	0.4	14.8	57.6	26.1	1.4
Hansberger Global Investors	--	17.4	18.4	27.2	18.1	16.3	2.5	--	47.9
Julius Baer - Intl Equity II with look throughs	0.8	11.4	15.7	20.6	16.6	21.8	4.0	6.0	49.8
Martin Currie with look throughs	4.8	15.5	21.8	20.0	22.9	10.7	1.7	0.3	63.3
Nomura Asset Management	2.7	4.0	10.6	23.5	18.9	28.0	11.1	1.2	34.0
Principal Global Investors	1.2	16.4	20.7	22.8	17.2	17.6	4.1	--	49.0
BGI MSCI Europe Index Fund	--	23.4	30.3	18.8	12.3	11.3	0.9	0.0	66.1
ALL INTERNATIONAL EQUITY PORTFOLIOS	**1.1**	**13.8**	**19.1**	**18.8**	**16.4**	**19.7**	**7.4**	**1.2**	**47.4**
International Custom Benchmark	**1.2**	**14.9**	**23.0**	**21.9**	**16.2**	**18.8**	**3.8**	**0.3**	**50.0**
Over/underweight(-)	**-0.1**	**-1.0**	**-3.9**	**-3.1**	**0.2**	**0.9**	**3.6**	**0.9**	

INTERNATIONAL EXPOSURE-SECTOR %

June 30, 2008

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	10.5	2.0	21.5	29.9	0.5	6.4	5.7	12.3	6.5	4.5
AXA Rosenberg	10.2	4.5	15.0	9.3	0.9	22.7	7.3	22.8	1.2	3.5
Batterymarch Financial Mgmt	9.6	5.6	13.9	19.3	6.5	12.9	5.0	16.2	6.8	4.2
Bernstein Inv Mgt & Research w/ look throughs	9.5	1.8	16.1	24.3	3.7	6.3	6.8	20.4	7.1	4.0
BGI Global Ex US Alpha Tilt Fd	7.4	5.1	13.1	22.0	5.2	12.4	5.5	14.2	7.7	5.7
DFA International Small Cap	16.2	7.4	7.7	12.7	5.4	26.1	8.8	12.4	0.7	1.8
Hansberger Global Investors	10.5	3.6	13.4	20.6	6.6	11.4	10.5	12.7	7.7	2.9
Julius Baer - Intl Equity II with look throughs	6.4	6.0	14.5	17.8	7.1	9.7	3.4	13.8	6.7	4.4
Martin Currie with look throughs	6.6	7.0	12.6	22.6	6.1	9.9	6.8	11.9	7.2	7.3
Nomura Asset Management	12.0	3.9	4.7	24.1	2.0	18.1	12.7	16.4	4.5	1.7
Principal Global Investors	8.4	10.5	9.1	10.3	9.6	16.3	7.7	18.7	4.0	5.4
BGI MSCI Europe Index Fund	7.7	9.4	12.2	24.0	8.7	9.9	3.0	9.8	6.7	7.4
All International Equity Portfolios	**9.1**	**5.4**	**13.5**	**21.0**	**5.4**	**11.9**	**6.3**	**14.6**	**6.2**	**4.6**
International Custom Benchmark	**8.2**	**6.9**	**13.1**	**24.3**	**5.7**	**10.7**	**6.3**	**13.2**	**6.4**	**5.3**
Over/underweight(-)	**0.9**	**-1.5**	**0.4**	**-3.3**	**-0.2**	**1.2**	**0.1**	**1.4**	**-0.2**	**-0.6**

INTERNATIONAL EQUITY
Region and Market Exposure
June 30, 2008

Developed Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	1 yr Return
Asia/Pacific	**22.2%**	**23.1%**	-0.87%			
Australia	4.5%	5.0%		3.2	-3.2	-3.2
Hong Kong	1.7%	1.6%		-3.9	-0.5	-0.5
Japan	14.9%	15.6%		1.9	-12.3	-12.3
New Zealand	0.1%	0.1%		-12.4	-27.6	-27.6
Singapore	1.1%	0.9%		-0.4	-4.1	-4.1
European Union	**34.2%**	**27.2%**	6.97%			
Austria	1.2%	0.5%		4.4	-13.2	-13.2
Belgium	0.9%	0.8%		-17.4	-27.7	-27.7
Denmark	1.2%	0.8%		-2.0	1.3	1.3
Finland	1.6%	1.1%		-13.7	-11.0	-11.0
France	7.5%	7.2%		-3.8	-12.2	-12.2
Germany	7.7%	6.6%		-2.4	-6.8	-6.8
Greece	0.7%	0.5%		-11.9	-14.2	-14.2
Ireland	1.0%	0.4%		-16.7	-34.2	-34.2
Italy	3.7%	2.8%		-5.6	-17.2	-17.2
Netherlands	3.6%	1.9%		-8.5	-11.0	-11.0
Portugal	0.3%	0.2%		-13.9	-25.0	-25.0
Spain	3.6%	3.0%		-9.0	-3.7	-3.7
Sweden	1.3%	1.6%		-10.1	-21.7	-21.7
Non-EU Europe	**6.3%**	**5.9%**	0.37%			
Norway	1.2%	0.8%		11.7	5.6	5.6
Switzerland	5.1%	5.2%		-5.4	-8.0	-8.0
North America	**5.9%**	**7.5%**	-1.55%			
Canada	5.6%	7.4%		10.3	11.6	11.6
USA	0.3%	0.1%				
United Kingdom	**14.5%**	**15.9%**	-1.43%			
United Kingdom	14.5%	15.9%		-1.1	-13.7	-13.7
Other						
Luxembourg	0.3%	0.1%				
DEVELOPED TOTAL	**83.5%**	**79.7%**	3.72%			

Emerging Market Countries

Emerging Market Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	1 yr Return
Asia/Pacific	**7.7%**	**9.5%**	-1.87%			
China	2.7%	2.7%		-3.6	-0.1	-0.1
India	0.5%	1.1%		-20.3	-14.3	-14.3
Indonesia	0.2%	0.3%		-2.9	20.5	20.5
S. Korea	2.4%	2.5%		-7.0	-12.9	-12.9
Malaysia	0.2%	0.5%		-8.4	-6.3	-6.3
Philippines	0.1%	0.1%		-24.6	-33.5	-33.5
Taiwan	1.3%	2.1%		-11.8	-9.0	-9.0
Thailand	0.3%	0.3%		-12.1	6.3	6.3
European Union	**1.5%**	**0.6%**	0.88%			
Czech Republic	0.5%	0.2%		10.9	42.9	42.9
Hungary	0.4%	0.1%		3.1	-17.4	-17.4
Poland	0.6%	0.3%		-9.9	-13.4	-13.4
Non-EU Europe	**2.3%**	**2.2%**	0.12%			
Russia	2.3%	2.2%		10.7	24.6	24.6
Latin America/Caribbean	**3.5%**	**4.9%**	-1.39%			
Argentina	0.0%	0.0%		28.0	25.7	25.7
Brazil	2.5%	3.5%		18.6	49.6	49.6
Chile	0.1%	0.2%		-13.1	-9.7	-9.7
Colombia	0.0%	0.1%		3.6	2.2	2.2
Mexico	0.9%	1.0%		-4.1	-6.1	-6.1
Peru	0.1%	0.1%		1.3	19.2	19.2
Mid East/Africa	**1.3%**	**2.3%**	-1.02%			
Egypt	0.0%	0.1%		-10.2	37.0	37.0
Israel	0.5%	0.5%		10.2	17.3	17.3
Jordan	0.0%	0.0%		21.6	48.5	48.5
Morocco	0.0%	0.1%		-2.5	51.7	51.7
Pakistan	0.0%	0.0%		-28.5	-25.2	-25.2
South Africa	0.7%	1.3%		2.9	-7.7	-7.7
Turkey	0.2%	0.3%		-1.3	-20.3	-20.3
EMERGING TOTAL	**16.3%**	**19.6%**	-3.26%			

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Members of the Board

From: Rande R. Muffick, CFA
Portfolio Manager

Date: August 11, 2008

Subject: Public Equity External Managers Watch List - Quarterly Update

Listed below are the public equity managers we have on the Watch List due to specific concerns. There were no removals from the Watch List this quarter. The three strategies on the list previously, Goldman Sachs Enhanced Large Cap, Principal Global International Growth, and Western Asset Management Enhanced Plus remain on the list.

There was one addition to the watch list this quarter. NorthPointe Capital was added due to concerns with their performance in the small cap growth strategy.

There were no manager terminations during the quarter.

MANAGER WATCH LIST

August 2008

Manager	Style Bucket	Reason	Inclusion Date
Goldman Sachs	Domestic – LC Enhanced	Performance, Personnel	March 2008
Principal Global	International – LC Growth	Performance	March 2008
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	March 2008
NorthPointe	Domestic- SC Growth	Performance	August 2008

FIXED INCOME OVERVIEW & STRATEGY

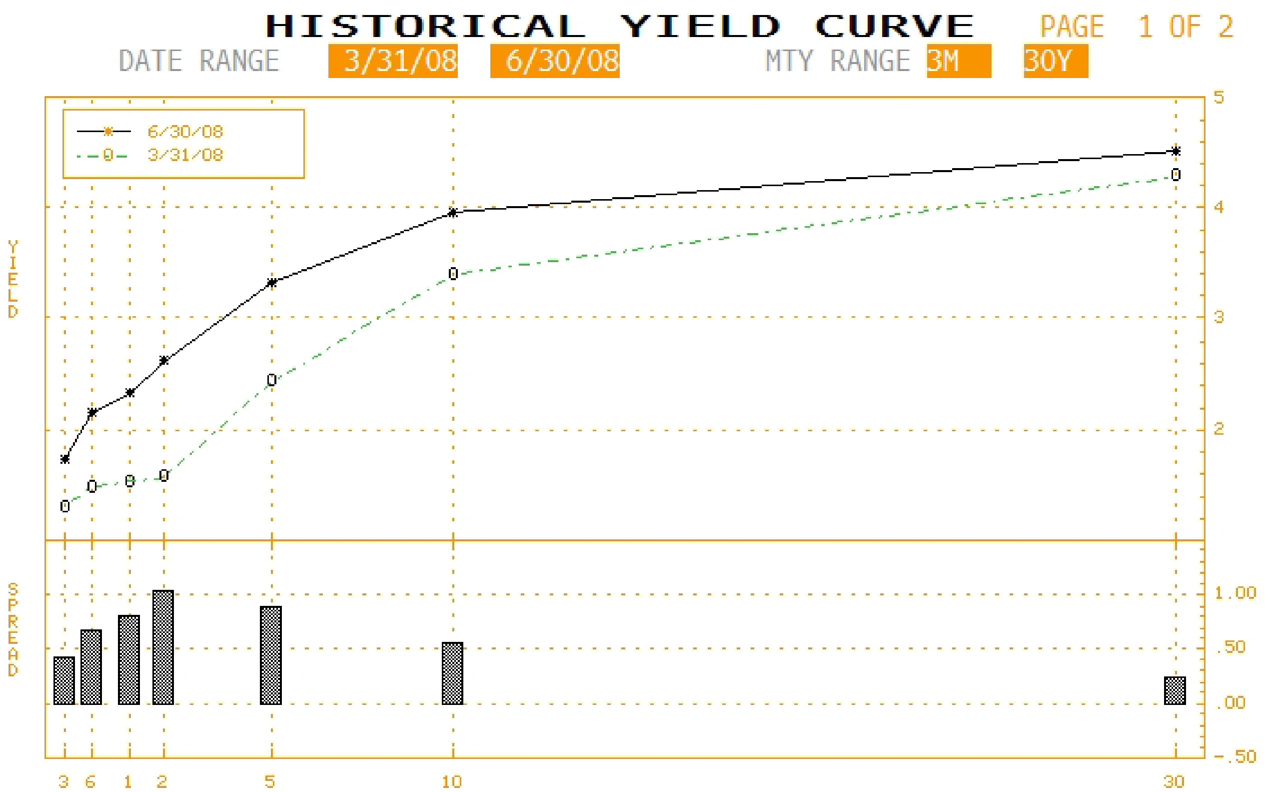
August 19, 2008

RETIREMENT & TRUST FUNDS BOND POOLS

The yield curve flattened during the second quarter as the difference in yield between two and thirty year Treasury bonds declined from 271 basis points to 190. This happened during a period of rising interest rates. The yield on the 2-year Treasury note increased by 104 basis points to 2.62% whereas the yield on the 30-year Treasury bond went up by only 23 basis points to 4.52%.

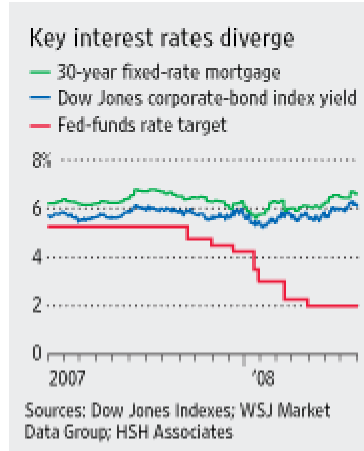
Inflation worries had something to do with the higher rates. Expectations for a Fed *tightening* worked their way into the market despite the weak housing market and poor prospects for job creation. Much of the attention paid to higher prices was focused on food and energy. Oil prices rose sharply, closing the quarter at $140 per barrel.

The Federal Funds interbank lending rate was cut to 2% on April 30th and remained at that level through June. The Fed began easing on September 18th, when Fed Funds was at its high of 5¼%. The central bank lowered short term interest rates by a total of 325 basis points over the subsequent seven months before pausing.



Despite market worries over the rate of inflation, many institutional investors believe that slower economic growth will offset rising prices. Inflation often spikes late in an economic growth cycle, eventually turning down with slower growth and rising unemployment. This is evident in the current cycle; wages and monetary growth are both stagnating and the number of new jobs is contracting.

Treasury bonds performed relatively well once again. The credit crunch or lack of liquidity in the credit markets has made large, liquid bond issues the investment of choice for an unusually long period of time. New issuance has been light and the secondary market has been lackluster. The usually strong spread sectors have been the laggards in total return performance since the middle of 2007.



Sources: Dow Jones Indexes; WSJ Market Data Group; HSH Associates

The entire process of securitization remains under a cloud because of the credit rating agencies and their travails in assessing the credit quality of asset backed securities. Additionally, Wall Street's tendency to include low grade collateral in securitized bond deals has made institutional investors skeptical about the structures. These effects have caused underwriting activity in mortgages, asset backed and similar deals to dry up. Exacerbating this are more stringent lending standards being imposed by capital-starved banks and other financial companies.

The Fed has been under pressure because of inflation and the falling dollar. Both typically require higher short term interest rates. Although the markets were pricing in a rate hike as implied by Federal Funds futures, the Fed may have little choice but to keep rates low in order to accommodate the struggling economy and to provide liquidity to the capital markets.

The Retirement and Trust Fund bond pools still have a significant overweight exposure to less liquid spread products. Although this emphasis has led to long term success in relative total return performance in years past, this strategy has been detrimental to performance given recent credit market conditions. We are now in the process of increasing the portfolio's liquidity. The coming hire of four external managers utilizing Core Plus and High Yield strategies will supplement what will become a purely investment grade internally managed portfolio. This necessarily calls for more liquidity than in the past.

Asset Allocation Sectors & Ranges

06/30/08

We have increased our exposure to Treasuries and to mortgage pass through securities. In turn, we

Sectors	**RFBP**	**TFBP**	**Lehman Aggregate Index**	**Policy Ranges**
U.S. Treasury	4.15%	4.28%	21.90%	0-25%
U.S. Agency	17.54%	18.18%	11.04%	15-35%
Total Government	21.69%	22.46%	32.94%	20-45%
Mortgage-Backed Securities	21.78%	22.72%	35.38%	10-35%
Hybrid ARMS Mortgage-Backed	0.00%	0.00%	3.36%	0-5%
Asset-Backed Securities/Other	5.38%	3.09%	0.77%	0-10%
Commercial Mortgage-Backed	6.53%	5.18%	5.02%	0-10%
Total Structured	33.69%	30.99%	44.53%	20-45%
Corporate Credit	38.79%	40.38%	19.83%	20-50%
Non-Corporate Credit	2.23%	3.20%	2.70%	0-10%
Total Credit	41.02%	43.58%	22.53%	20-50%
Short-Term Investment Pool (STIP)	3.60%	2.97%	0.00%	0-10%
TOTAL	100.00%	100.00%	100.00%	100%
Market Value:	$1,991,701,315	$1,546,906,693		

have incrementally reduced investments in illiquid, higher yielding bonds. Current market conditions have made the process slower than we had hoped for, given a limited number of buyers interested in our particular holdings.

The table below shows the duration of the bond pools in comparison to that of the Lehman Aggregate Index. The duration of the portfolios has been kept relatively close to that of benchmark since 2005. Because it had drifted lower during the first quarter, we have slowly increased duration, though it is still slightly shorter than the duration of the Lehman Aggregate Bond Index.

Pool Duration Relative to the Lehman Aggregate

	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Mar-08	Jun-08
RFBP	7.1	6.6	6.3	4.5	4.7	5.0	4.4	4.4
TFBP	6.8	6.4	6.1	4.6	4.7	5.0	4.2	4.3
Benchmark	4.4	4.2	4.7	4.3	4.8	4.9	4.5	4.7

The spread sectors outperformed Treasuries in the second quarter. This occurred primarily in April and May before Treasuries recovered in June. Treasury bonds are still the best performing sector thus far in 2008. Yields in the longer end of the maturity curve rose more slowly than shorter dated bonds because of growing expectations for tighter monetary policy.

Monthly Duration-Adjusted Excess Returns vs. Treasuries (%)

	Apr-08	**May-08**	**June-08**
U.S. Aggregate	1.17%	0.24%	-0.77%
Aaa	0.76%	.018%	-0.53%
Aa	1.97%	0.30%	-1.69%
A	2.82%	0.26%	-1.70%
Baa	3.25%	0.78%	-1.59%
U.S. Agency	0.54%	-0.13%	-0.37%
CMBS Investment Grade	4.12%	2.18%	-3.02%
U.S. Corporate Investment Grade	2.81%	0.40%	-1.63%
Industrial	2.69%	0.46%	-1.19%
Utility	1.99%	0.53%	-0.71%
Finance	3.14%	0.31%	-2.31%

Other portfolio characteristics as of 06/30/08

	Benchmark	RFBP	TFBP
Average maturity (yrs.)	7.48	7.77	7.95
Average yield to maturity	5.07%	5.89%	5.82%
Average coupon	5.41%	5.33%	5.30%
Average quality	Aa1/AA	Aa2/AA-	Aa2/AA-
Number of securities	9469	222	224

As discussed in the accompanying update, we have selected external managers for both Core Plus and High Yield mandates. The integration of these managers into the RFBP will provide expertise in the "plus sectors" that fall outside the purview of the Lehman Aggregate, including foreign bonds as well as below investment grade securities. After the transition that will fund the external managers, our internal portfolio will have a higher proportion of index eligible securities and serve as the core or anchor within the asset class.

Summary

The Federal Reserve Board is caught between competing demands. It appears the central bank has chosen to address poor liquidity and weaker economic growth by keeping short term interest rates low for the time being. Deteriorating credit conditions and a crisis of confidence among financial institutions requires this type of accommodative monetary policy. The other side of the coin is the Fed's desire to keep inflation low. Although the United States has not used monetary policy to defend its currency historically, there have also been cries in the financial community for a stronger dollar in order to stem the rising price of energy imports.

The bond pools are transitioning to prepare for the transfer of assets to external managers. We have also improved liquidity in order to make the internally managed portfolio more suitable for total return management. Our core portfolio will complement the riskier portfolios that are to be placed with our new money managers.

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Board Members

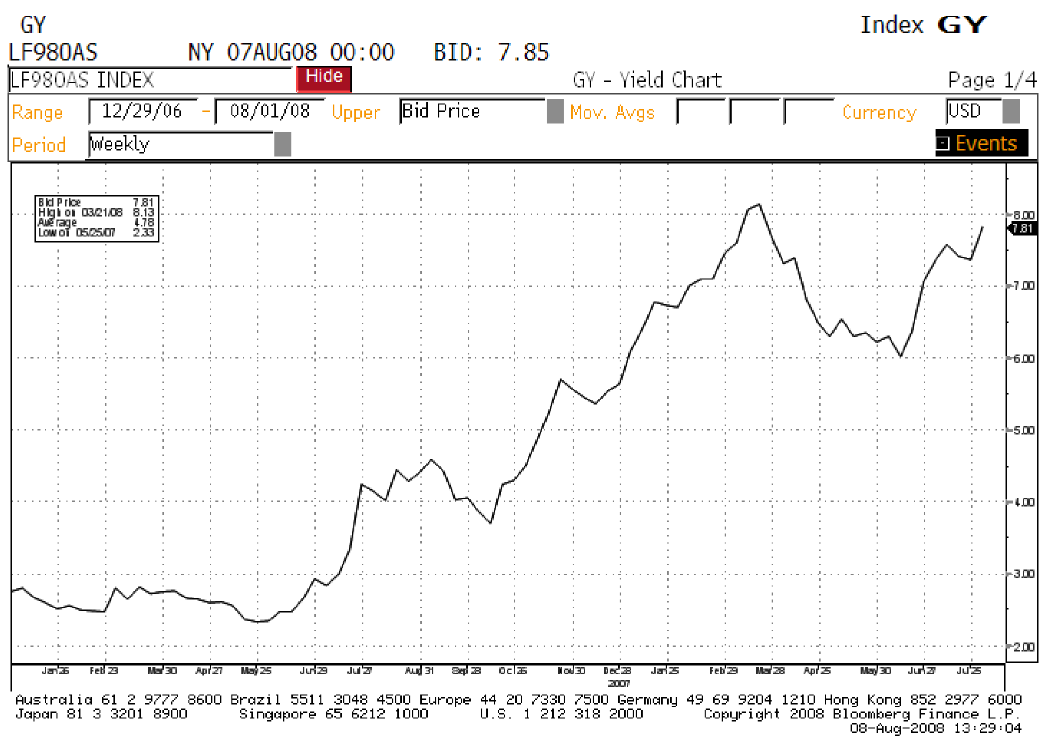
From: Nathan Sax, CFA

Date: August 8, 2008

Subject: External Fixed Income Managers

Two managers each for Core Plus and High Yield assignments have been chosen. The Core Plus managers are Artio Global Investors (formerly Julius Baer) and Reams Asset Management Company. The High Yield managers are Post Advisory Group and Lehman Asset Management. Investment Management Agreements and Investment Guidelines are in the process of being finalized. The agreements are expected to be executed by the end of August.

Option adjusted spreads for High Yield bonds are shown in the following chart:



As shown in the chart, the yield spread or risk premium on High Yield bonds has been rising after a period of stable, low spreads prior to the inception of the credit crunch a year ago. Because we expect the default rate on High Yield bonds to increase substantially, funding will be increased gradually to take full advantage of the cheapening of these securities in a weakening economy. High Yield bonds are relatively illiquid; hence funding the managers incrementally will often be a suitable approach. At this point, we estimate that funding of the High Yield managers will be complete by the end of first quarter 2009.

The core plus managers will serve the role of specialists in out-of-benchmark bonds. Artio has compiled an impressive performance track record by focusing on the global bond markets. Reams Asset Management will be involved in relatively more U.S. fixed income securities, with a tendency to buy out of favor securities with potential for improvement in credit spreads. They have excelled at avoiding the traps of 2007-2008, eschewing Alt-A loans and subprime mortgages. They also avoided lower quality corporate bonds when credit spreads were at their narrowest levels.

The internal or core portfolio will be funding the new managers primarily through the transfer of assets in kind. The process of restructuring the Retirement Fund Bond Pool began in May and will continue for some time. We will be transitioning from a portfolio with almost no Treasury bonds and heavy biases to highly illiquid corporate and Government Agency bonds to a more index like and much more liquid portfolio. This core portfolio will deviate from the index but not to the degree it has in the past.

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Members of the Board

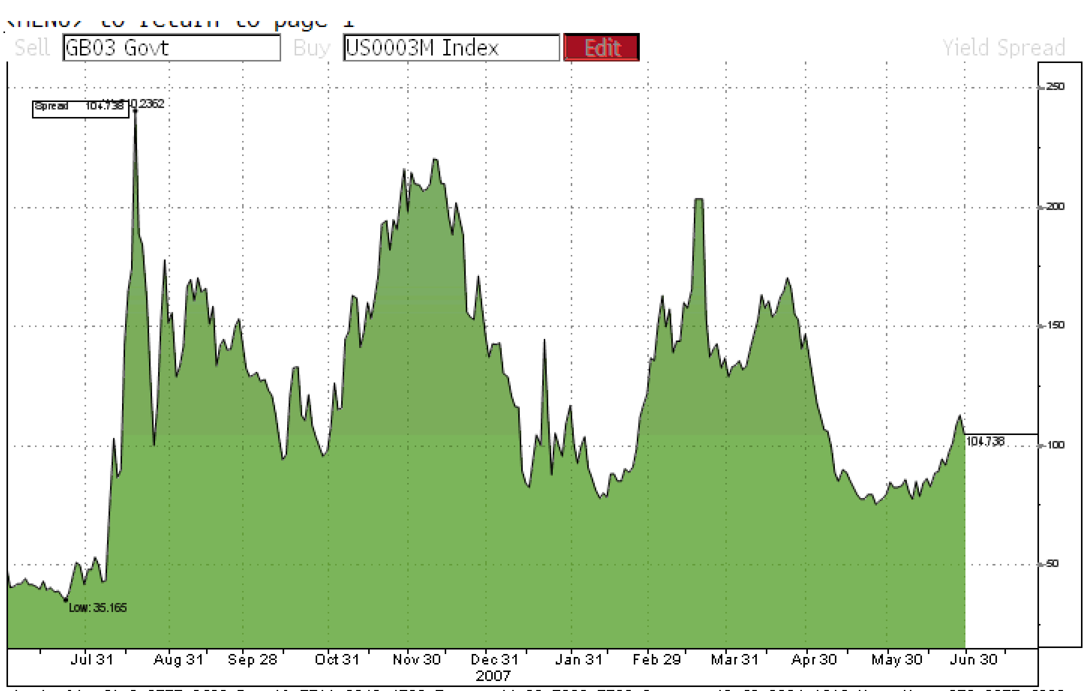
From: Richard Cooley, CFA

Date: August 7, 2008

Subject: Short Term Investment Pool (STIP)

Money markets continued to experience dislocations during the second quarter even as the Fed lowered the fed funds rate by an additional 25 basis points from 2.25% to 2.00%. Credit spreads remained wide as evidenced by the spread between three month Treasury bills and three month LIBOR rates (TED spread). This spread ended the second quarter at about 105 basis points, which is 65 basis points more than before the credit crisis began last summer but below the peak of 240 in late August of 2007. The spread had narrowed noticeably after spiking in mid-March during the Bear Stearns crisis. It then began to climb again in June and July as concerns with banks and the mortgage agencies escalated once again. Market participants continue to be concerned about the ongoing credit crisis and its implications on bank asset quality and capital adequacy. The Fed is expected to be on hold through the end of the year as concern about the weak economy and credit availability outweigh inflation concerns.

TED Spread (June 2007 – June 2008)

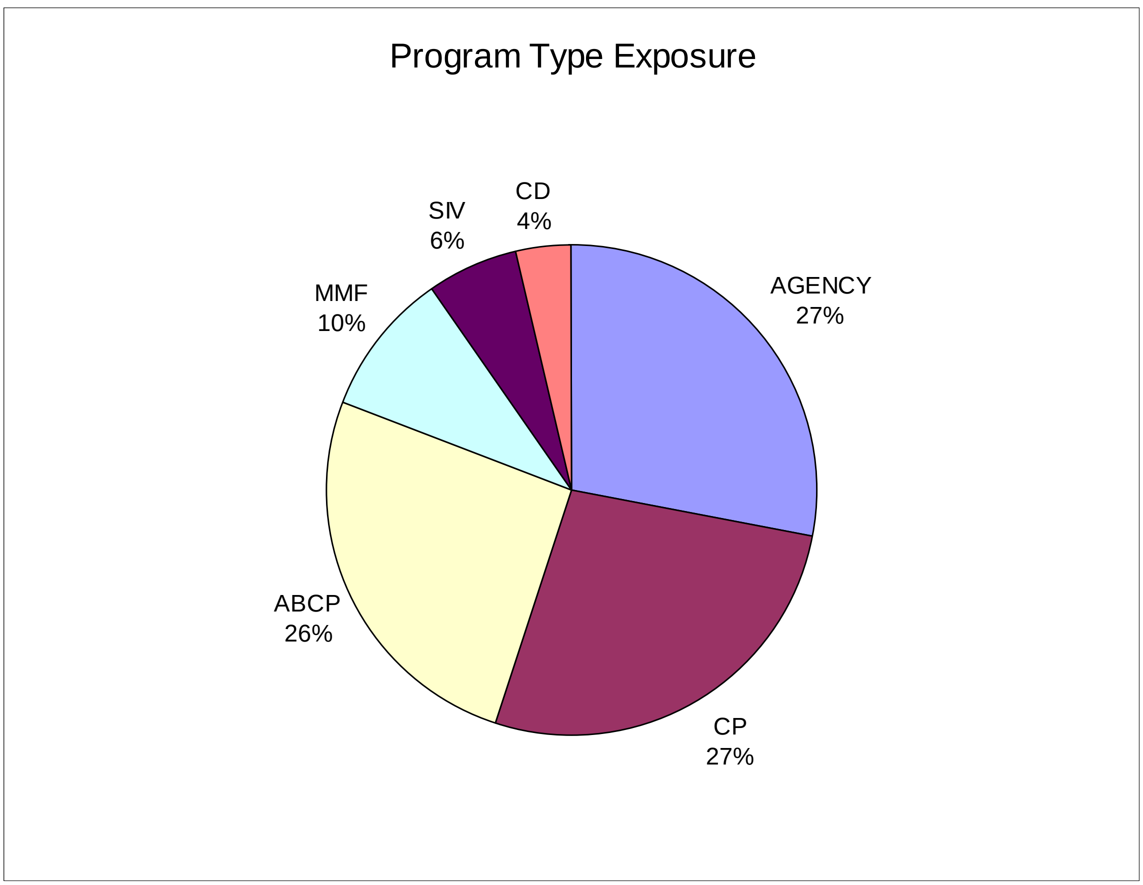


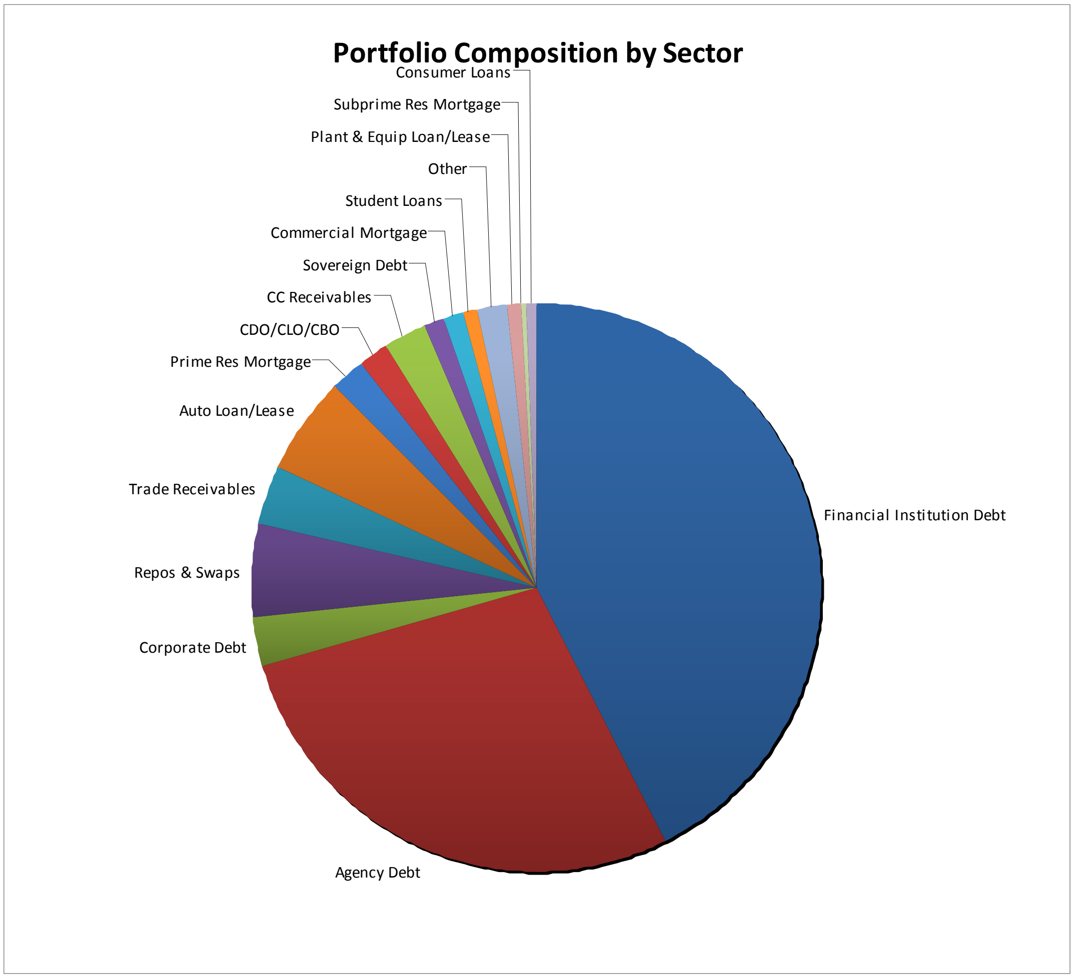
The STIP portfolio is currently well diversified and is operating within all the new guidelines adopted by the Board at the February meeting. Daily liquidity is at a minimum of $200 million and weekly liquidity is at a minimum of $350 million. The average days to maturity are about 43 days as compared to a policy maximum of 60 days. All securities purchased during the past nine months are from the approved list and are below the 2% maximum per name. Asset-backed commercial paper is about 26% of holdings (vs. 40% guideline max) and corporate exposure is around 27% (vs. 40% guideline max). We currently have approximately 28% in agency paper and 10% in four institutional money funds.

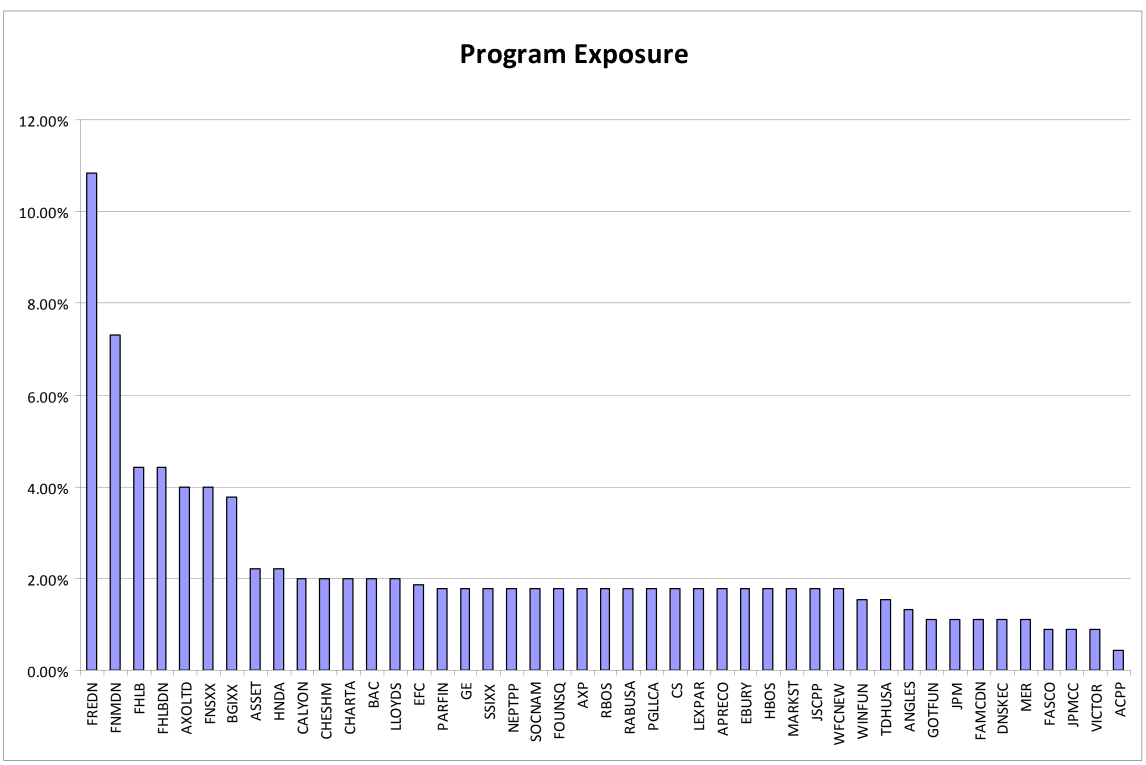
During the past three months, the agency sector of the portfolio has been increased by 15 percentage points. Funding for this increase came out of asset-backed commercial paper and maturing SIVs. Yields on agency discount notes increased as the market became concerned about the problems with Fannie Mae and Freddie Mac. The U.S. Government has since explicitly guaranteed funding for these two mortgage giants. Increasing the agency exposure has increased the quality and liquidity of the portfolio without much give up in yield.

The net yield on STIP is currently 2.30% as compared with the current one month LIBOR rate of 2.46% and current fed funds rate of 2.00%. The portfolio asset size is currently $2.26 billion.

(All charts below are as of Aug 5, 2008)




Portfolio Composition by Sector
Consumer Loans
Subprime Res Mortgage
Plant & Equip Loan/Lease
Other
Student Loans
Commercial Mortgage
Sovereign Debt
CC Receivables
CDO/CLO/CBO
Prime Res Mortgage
Auto Loan/Lease
Trade Receivables
Repos & Swaps
Corporate Debt
Agency Debt
Financial Institution Debt


Program Exposure
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
FREDN
FNMDN
FHLB
FHLBDN
AXOLTD
FNSXX
BGIXX
ASSET
HNDA
CALYON
CHESHM
CHARTA
BAC
LLOYDS
EFC
PARFIN
GE
SSIXX
NEPTPP
SOCNAM
FOUNSQ
AXP
RBOS
RABUSA
PGLLCA
CS
LEXPAR
APRECO
EBURY
HBOS
MARKST
JSCPP
WFCNEW
WINFUN
TDHUSA
ANGLES
GOTFUN
JPM
FAMCDN
DNSKEC
MER
FASCO
JPMCC
VICTOR
ACPP

STATE FUND INSURANCE- $864 million fixed income as of 06/30/08.
(Benchmark = Lehman Government/Credit Intermediate Index)

Portfolio characteristics as of 06/30/08:

	Benchmark	State Fund*
Duration (yrs.)	3.76	3.87
Quality (S&P)	AA+	AA
Yield to Maturity	4.30%	5.19%

Sectors	**State Fund**	**Lehman Intermediate Govt/Credit Index**
U.S. Treasury	4.2%	40.1%
U.S. Agency	34.0%	19.9%
Other Government	1.4%	6.3%
Total Government	39.6%	66.3%
Mortgage-Backed Securities	6.1%	0.0%
Asset-Backed Securities/Other	1.5%	0.0%
Commercial Mortgage-Backed	7.1%	0.0%
Total Structured	14.7%	0.0%
Industrial	14.3%	14.9%
Utility	2.5%	3.1%
Financial Institutions	28.9%	15.7%
Total Corporate	45.7%	33.7%
TOTAL	100.0%	100.0%

** excluding STIP and equities. Applies to fixed income holdings only.*

The portfolio has an overweight in agencies, mortgage backed securities (MBS), corporate bonds and commercial mortgage backed securities (CMBS) and is underweighted in Treasuries when compared to the intermediate market index. Spread product tightened substantially in April and May and ended the quarter flat to down slightly.

The overweight in spread product has been a drag on performance over the past year, especially the portfolio's overweight in financials. The portfolio outperformed in April (+92) as spreads tightened, especially in financials. For the quarter the portfolio's total return was -1.17%, as compared to the index at -1.53%, with the bulk of the performance advantage attributable to the improvement in credit performance.

During the second quarter, there were purchases of $40 million including: $8 million of corporate bonds, $17 million of MBS and $15 million of Treasuries. The corporate purchases were new issue five year maturities in JP Morgan and Allstate that offered attractive spreads. MBS purchases were two 15 year pools with spreads of 170-180 off the Treasury curve. The Treasury purchases were of a 9.5 year security with an average yield of 4.10%.

The portfolio has an 89 basis point yield advantage over the benchmark with only a one notch lower quality rating. Client preferences include keeping the STIP balance of 1-3 percent (currently 2.6%) and limiting holdings rated lower than A3 or A- to 20 percent of fixed income (currently 12.8%).

TREASURER'S FUND- $820 million including $111 million in fixed income as of 06/30/08.
The strategy is to let maturities roll into STIP, at which point the account will be a STIP only account.

Richard Cooley, CFA
Portfolio Manager- STIP/Fixed Income

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS
June 30, 2008
(in millions)

Par	Book	Market	Price	Name	Coupon %	Maturity	Ratings M/S&P	Comments
$15.000	$15.003	$13.499	$89.99	Ford Motor Credit Corp	7.375	10/28/09	B1/B	Negative outlook due to deteriorating industry fundementals
20.000	19.816	13.250	66.25	Kellwood Co	7.625	10/15/17	NR/NR	Agencies removed rating after buyout
$35.000	$34.819	$26.749						

A = Additions since 3/31/2008 (none)

D = Deletions since 3/31/08 (none)

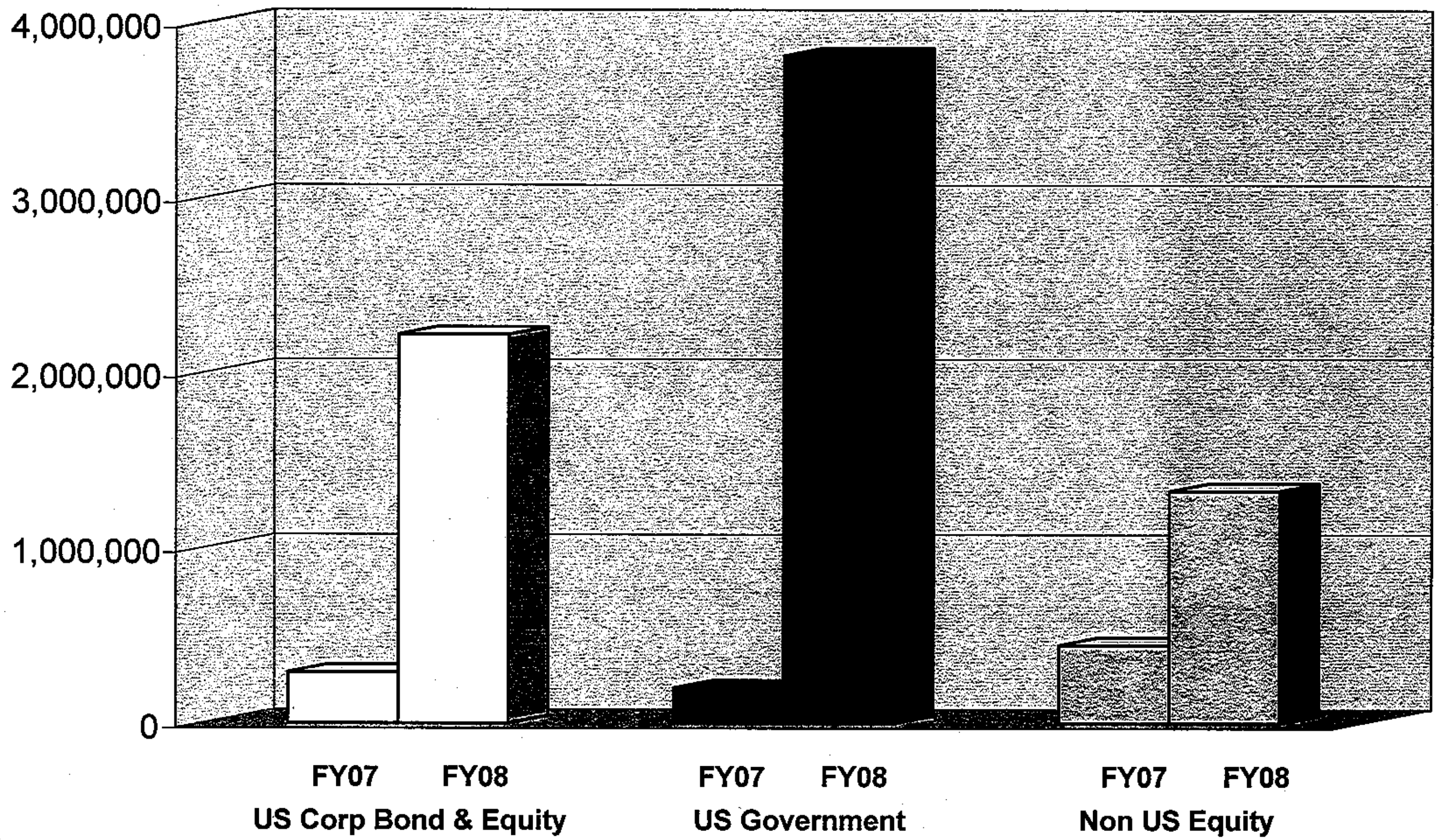
In default (none)

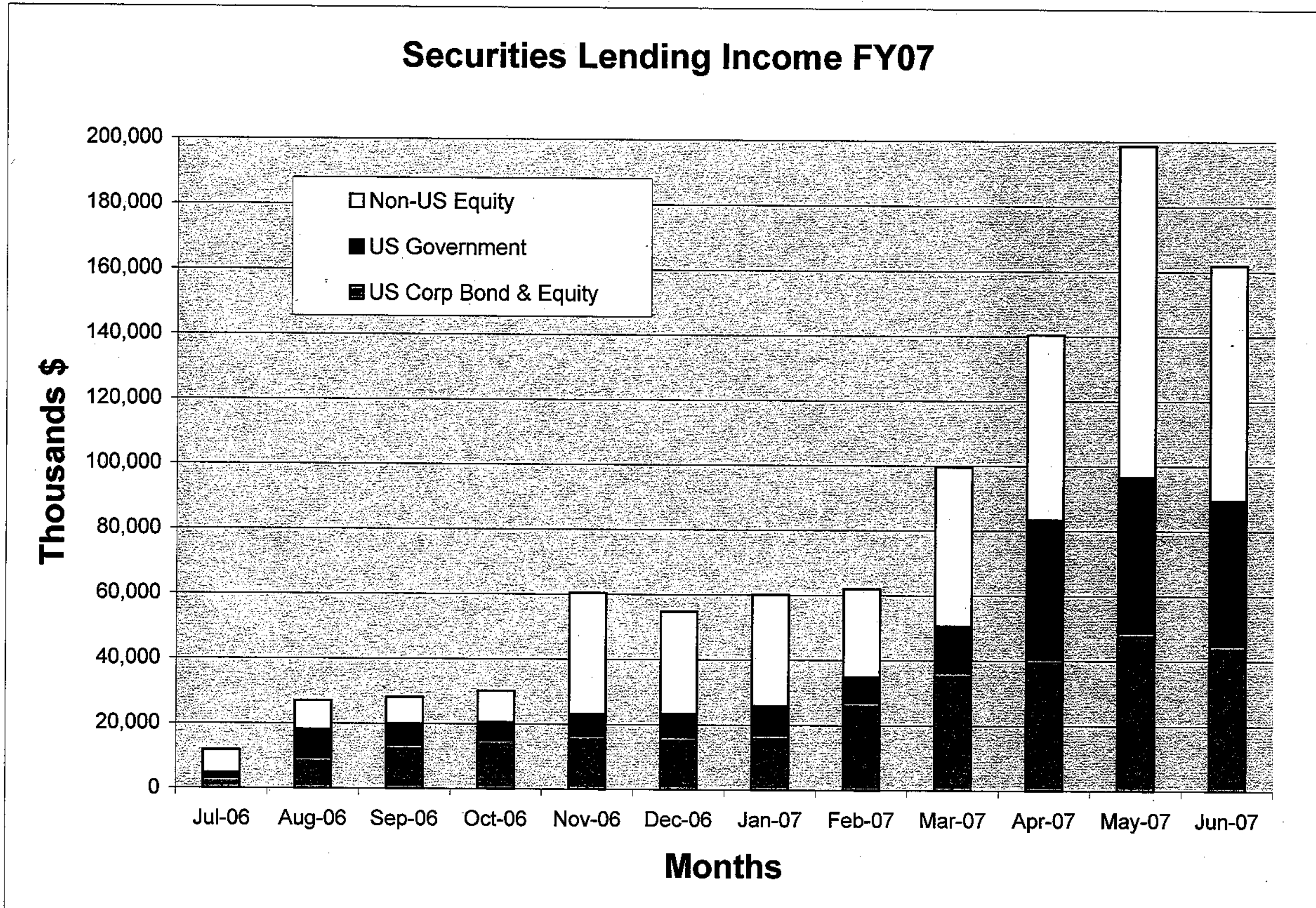
Securities Lending Monthly Earnings for All Types

PERIOD ENDING	US CORP BOND & EQUITY	US GOVERNMENT	NON-US EQUITY	MONTHLY EARNINGS	CUMULATIVE EARNINGS
Jul-06	3,364.38	1,435.36	7,023.05	11,822.79	11,822.79
Aug-06	9,600.65	8,565.08	8,891.40	27,057.13	38,879.92
Sep-06	13,625.70	6,306.64	8,322.17	28,254.51	67,134.43
Oct-06	15,154.62	5,378.01	9,708.22	30,240.85	97,375.28
Nov-06	16,613.03	6,450.14	37,408.99	60,472.16	157,847.44
Dec-06	16,364.27	6,909.53	31,565.77	54,839.57	212,687.01
Jan-07	17,006.37	8,888.77	34,263.65	60,158.79	272,845.80
Feb-07	27,159.98	7,672.11	27,243.29	62,075.38	334,921.18
Mar-07	36,439.04	14,162.22	49,048.91	99,650.17	434,571.35
Apr-07	40,674.13	42,737.35	57,045.20	140,456.68	575,028.03
May-07	48,967.90	47,573.61	102,176.48	198,717.99	773,746.02
Jun-07	44,971.92	44,400.39	72,596.15	161,968.46	935,714.48
FY07	**289,941.99**	**200,479.21**	**445,293.28**	**935,714.48**	
Jul-07	48,956.02	53,551.39	48,751.97	151,259.38	151,259.38
Aug-07	91,917.92	133,315.17	82,016.66	307,249.75	458,509.13
Sep-07	140,702.26	231,819.56	52,727.23	425,249.05	883,758.18
Oct-07	153,335.25	245,465.09	83,728.49	482,528.83	1,366,287.01
Nov-07	149,568.51	301,917.72	91,485.56	542,971.79	1,909,258.80
Dec-07	198,285.48	257,465.07	90,674.38	546,424.93	2,455,683.73
Jan-08	242,138.75	244,124.89	79,191.09	565,454.73	3,021,138.46
Feb-08	273,798.03	461,142.18	92,207.38	827,147.59	3,848,286.05
Mar-08	209,756.76	527,029.76	93,467.17	830,253.69	4,678,539.74
Apr-08	236,688.03	526,331.53	127,386.18	890,405.74	5,568,945.48
May-08	274,758.69	462,543.54	269,256.86	1,006,559.09	6,575,504.57
Jun-08	200,910.09	372,676.53	216,268.79	789,855.41	7,365,359.98
FY08	**2,220,815.79**	**3,817,382.43**	**1,327,161.76**	**7,365,359.98**	

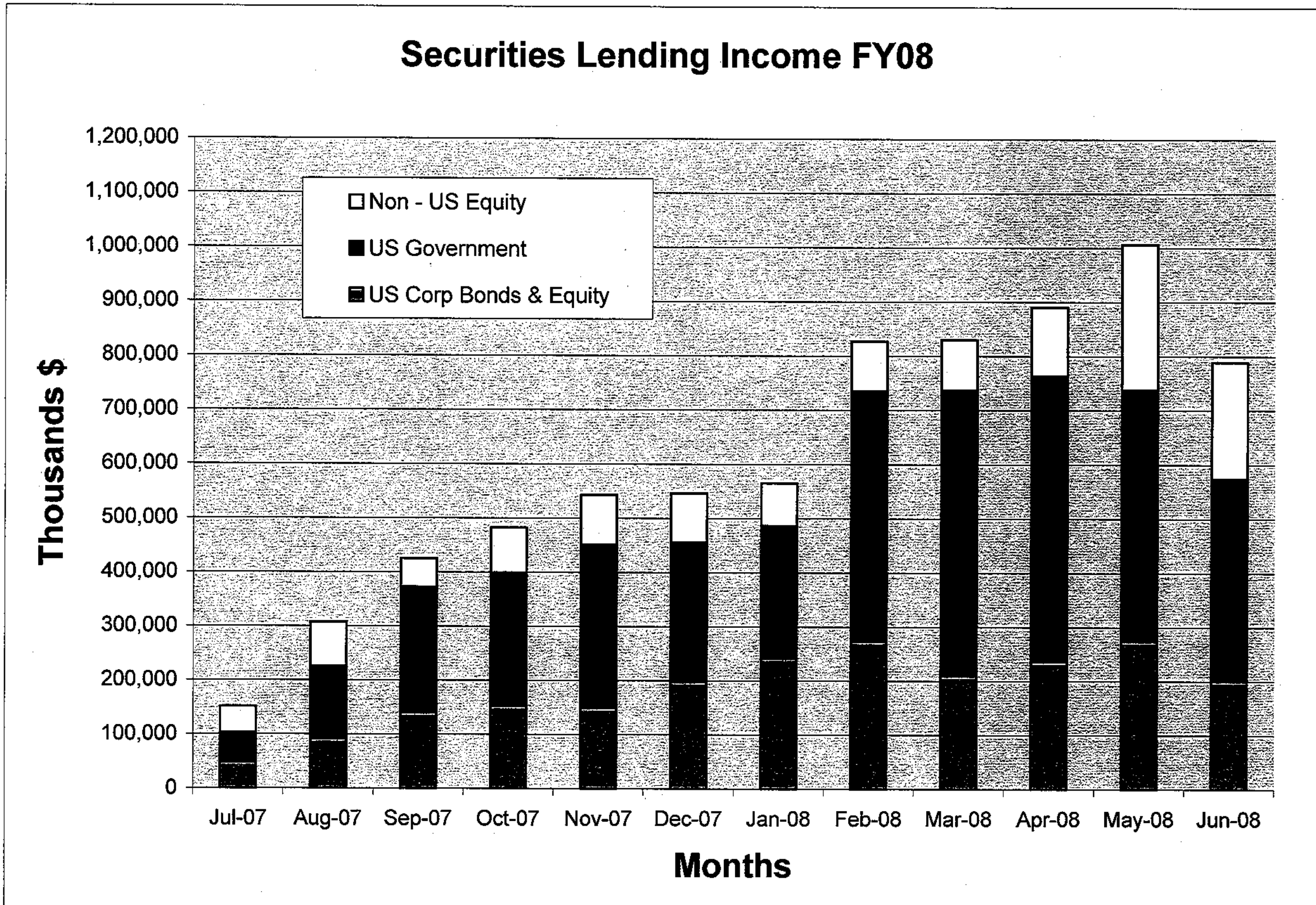
Figures in USD

Securities Lending Income, FY07 vs FY08





Securities Lending Income FY07
Non-US Equity
US Government
US Corp Bond & Equity
Thousands $
200,000
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
Jul-06
Aug-06
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Months


Securities Lending Income FY08
Non - US Equity
US Government
US Corp Bonds & Equity
Thousands $
1,200,000
1,100,000
1,000,000
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Months

Bond Program Reports

INTERCAP Loan Program
Activity Summary
As of June 30, 2008

Since Inception 1987 - June 2008

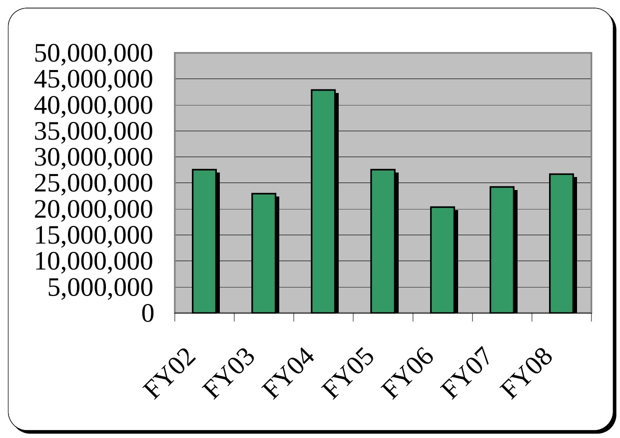
Total Bonds Issued	**124,000,000**
Total Loan Commitments	**311,874,299**
Total Loans Funded	**280,947,744**
Total Bonds Outstanding	**98,045,000**
Total Loans Outstanding	**77,344,278**
Loan Commitments Pending	**30,926,556**

FY2008 To Date

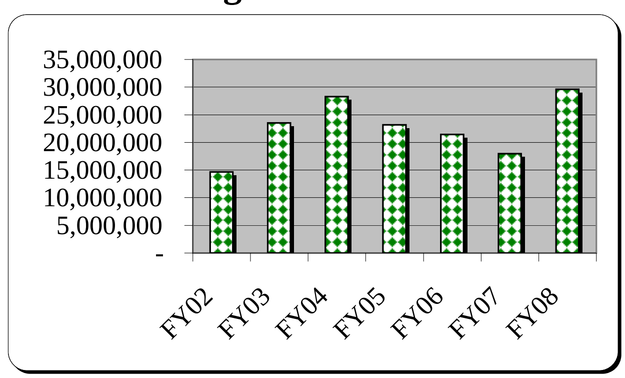
Month	Commitments	Fundings
July-07	$ 582,285	$ 2,524,132
August	6,594,010	1,844,850
September	1,127,265	2,915,308
October	2,081,007	4,183,054
November	950,000	1,711,148
December	442,200	3,124,922
January	1,209,900	435,944
February	1,420,692	2,966,037
March	3,597,000	875,318
April	1,609,000	3,285,753
May	1,488,273	2,746,410
June-08	5,571,462	2,983,313
To Date	$ 26,673,094	$ 29,596,189

Note: Commitments include withdrawn and expired loans.

Commitments FY02-June 2008



Fundings FY02- June 2008



Variable Loan Rate History February 16, 2001 - February 15, 2009

February 16, 2001 - February 15, 2002	**4.75%**	February 16, 2005 - February 15, 2006	**3.80%**
February 16, 2002 - February 15, 2003	**3.15%**	February 16, 2006 - February 15, 2007	**4.75%**
February 16, 2003 - February 15, 2004	**2.85%**	February 16, 2007 - February 15, 2008	**4.85%**
February 16, 2004 - February 15, 2005	**2.70%**	February 16, 2008 - February 15, 2009	**4.25%**

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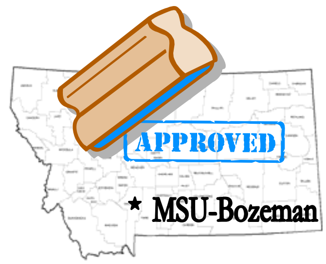
MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
(406) 444-0001



To: Members of the Board

From: Louise Welsh, Bond Program Officer

Date: August 11, 2008

Subject: INTERCAP Loan Committee E-mail Approved Loans Committed

Loan Committee (LC) approved the following loans –May 1, 2008 through June 30, 2008.

Borrower:	MSU-Bozeman
Purpose:	To finance costs associated with renovating the Cooley Microbiological Laboratories (the “Cooley Lab”).
LC Approval Date:	June 19, 2008
Board Loan Amount:	$4,000,000
Term:	10 years

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
(406) 444-0001

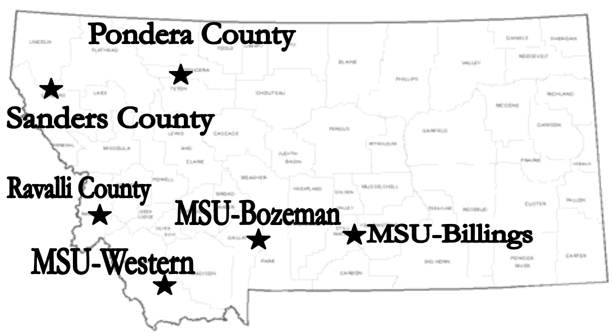
To: Members of the Board

From: Louise Welsh, Bond Program Officer

Date: August 11, 2008

Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – May 1, 2008 through June 30, 2008.



Borrower:	Ravalli County
Purpose:	To finance public safety vehicles
Staff Approval Date	May 19, 2008
Board Loan Amount:	$165,000.00
Term:	5 years

Borrower:	Pondera County
Purpose:	To purchase a building for a senior center
Staff Approval Date	June 6, 2008
Board Loan Amount:	$89,550.00
Term:	10 years

Borrower:	Sanders County
Purpose:	To finance costs associated with upgrading the County Fairgrounds arena holding pens
Staff Approval Date	June 12, 2008
Board Loan Amount:	$143,911.53
Term:	10 years

MONTANA UNIVERSITY SYSTEM

Commitment Date	**Borrower**	**Project Description**	**Amount**
5/5/08	MSU-Bozeman	IT Infrastructure Replacement Plan - Intermediate Frame Campus Network Infrastructure	$663,372.00
5/5/08	MSU-Bozeman	IT Infra. Replacement Plan - Banner Equipment Upgrade	$597,357.00
5/6/08	MSU- Bozeman	IT Infra. Replacement Plan - Banner Disaster Recovery	$62,544.00
6/06/08	MSU-Bozeman	IT Infra. Replacement Plan - IDF Upgrade	$150,000.00
6/9/08	MSU-Bozeman	IT Infra. Replacement Plan - Network Building Wiring	$163,000.00
6/18/08	MSU- Billings	Relocate College of Technology Soccer Field	$725,000.00
6/19/08	U of M-Western	Life Safety Improvements to P.E. Complex	$300,000.00

Montana Loan Program Reports

MEMORANDUM

Montana Board of Investments
Department of Commerce
2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Members of the Board

From: Herb Kulow, CMB
Senior Portfolio Manager

Date: August 11, 2008

Subject: Commercial and Residential Loans

On July 31, 2008, a telephoned-conference Board meeting was held. The Board unanimously approved a value-added loan to Summit Aeronautics Group, LLC with MBOI exposure of $2,625,000. At the same time, the Board also approved future funding for Summit Aeronautics Group, LLC under the value-added loan program in a MBOI maximum participation amount of $750,000.

There were 226 outstanding commercial loans as of July 31, 2008, totaling $179,979,042, an increase of $4,614,733 from the previous month and an increase of $1,177,879 from the previous year. Reservations were $19,592,581 and commitments were $20,018,839 as of July 31, 2008.

Type	Units	Amount	% of Portfolio	Overall Yield
Participation	97	90,377,955.54	50%	
Guaranteed	90	50,775,832.66	28%	
Infrastructure	6	19,902,851.03	11%	
Value Added	14	14,056,743.31	8%	
IRP	9	2,277,156.15	1%	
Link	9	1,680,279.11	1%	
Seasoned	1	908,224.62	1%	
	226	179,979,042.42	100%	5.41%

There were no unguaranteed loans past due 90 days or more, nor were any loans on non-accrual.

The following chart compares BOI 90-day past due percentages with the State of Montana and National commercial loan past due percentages. The comparison uses the most current FDIC statistical information, March 30, 2008.

Commercial Past Due

	Past due 90 days + and non-accrual loans	Total commercial loans	Past due %
BOI ($ in 000's)	0	179,979	0.00%
Montana ($ in 000's)	18,643	1,985,311	0.94%
National ($ in 000's)	11,812,196	1,485,856,188	0.79%

As of June 30, 2008, the commercial loan portfolio represents $175,364,310 or 19.69% of the Coal Tax Trust.

As of June 30, 2008, the residential loan portfolio was $59,809,963. The portfolio was distributed as follows:

Conventional	40,110,471.24	67.06%
FHA	17,586,772.31	29.40%
VA	2,112,719.65	3.53%
Total	$59,809,963.20	100.00%

There are two residential loans past due 90 days or more as of June 30, 2008 in the amount of $81,085 with one loan in foreclosure. The loan in foreclosure totals $8,017. The two loans are FHA guaranteed and there should be no risk of loss of principal.

The comparison uses the most current FDIC statistical information, March 30, 2008.

Residential Past Due

	Past due 90 days + and non-accrual loans	Total residential loans	Past due %
BOI ($ in 000's)	81	59,810	0.14%
Montana ($ in 000's)	11,956	1,991,118	0.60%
National ($ in 000's)	58,140,303	2,585,901,734	2.25%

The BOI residential loan portfolio past due percentage is below those of the State of Montana and the National residential past due percentages. BOI residential interest rates are higher than the market by approximately 65-80 basis points. BOI did not offer variable interest rate loans, interest only loans or any other non-traditional type of financing. All of the residential loans are long term with fixed interest rates.

As of June 30, 2008, MBOI had six residential reservations outstanding with Board of Housing totaling $394,947.