

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

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

**Special Conference Call Board Meeting
Wednesday, September 24, 2008**

AGENDA

- | | | |
|-------------|---|------------------|
| I. | CALL TO ORDER | 8:00 a.m. |
| | A. Roll Call | |
| | B. Public Comment - <i>Public Comment on issues with Board Jurisdiction</i> | |
| II. | EXECUTIVE DIRECTOR REPORTS – Carroll South | 8:10 a.m. |
| | A. Financial Market Update - Verbal | |
| III. | ADJOURNMENT | 9:30 a.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
SPECIAL CONFERENCE CALL BOARD MEETING**

**2401 Colonial Drive, 3rd Floor
Helena, Montana
Wednesday, September 24, 2008**

MINUTES

BOARD MEMBERS PRESENT:

Terry Moore, Chairman
Teresa Cohea
Karl Englund
Maureen Fleming
John Paull
Jack Prothero
Jon Satre
Jim Turcotte
Representative Tom McGillvray

BOARD MEMBERS ABSENT:

Elouise Cobell
Senator Dan Weinberg

STAFF PRESENT:

Jason Brent, Investment Analyst	Nancy Rivera, Credit Analyst
Geri Burton, Deputy Director	Nathan Sax, CFA, Portfolio Manager
Richard Cooley, CFA, Portfolio Manager	Clifford A. Sheets, CFA, Chief Investment Officer
Herb Kulow, Portfolio Manager	Carroll South, Executive Director
Rande Muffick, CFA, Portfolio Manager	Dan Zarling, CFA, Director of Research
Mary Noack, Network Administrator	

GUESTS:

Jim Voytko, R.V. Kuhns and Associates
Becky Gratsinger, R.V. Kuhns and Associates
Ryan Cunningham, R.V. Kuhns and Associates
Christine Phillips, Contractor - Montana Board of Investments
Dave Senn, Teachers' Retirement System
Roxanne Minnehan, Public Employees' Retirement System
Mark Barry, Montana State Fund
Chuck Johnson, Lee Newspapers

CALL TO ORDER

Chairman Moore called the Special Conference Call Board Meeting of the Board of Investments (Board) to order at 8:05 a.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 Terry Cohea was present at the BOI Office; and Member Elouise Cobell and Senator Dan Weinberg were absent.

Public Comment

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

EXECUTIVE DIRECTOR REPORTS

Financial Market Update - Verbal

Mr. Carroll South opened his comments stating that the information being provided will not only cover the past weeks events, but he will also discuss the performance of the investments during various fiscal years in order to provide an overall picture of the pension funds.

Since the beginning of September, investors have witnessed extreme volatility in the public equity markets. The Federal Administration and Congress are attempting to hammer out a broad comprehensive plan to unfreeze the debt markets and bring some stability to the equity markets. The S&P 1500 Index surged nearly 8.5 percent on September 18 & 19 only to fall nearly 4.0 percent on September 22 due to uncertainty about the composition of the comprehensive plan and the ability of Congress to enact it in a timely manner.

During this period of extreme volatility, it is important that pension fund investors focus on the goal of achieving the actuarial assumptions over long time periods, rather than daily “paper” losses or gains.

Mr. South provided seven detailed graphs in his memo accompanied by narrative and explanation of the graphs.

In closing, Mr. South stated that it is important that the Board keep its sights on the long-term investment performance of the pension funds and continue to diversify pension portfolios to dampen the volatility of the public equity markets while achieving the actuarial assumptions.

Mr. Cliff Sheets added that he would like to reiterate Mr. South’s point that despite the discomforts of recent activity in the markets, it is important to keep the long-term perspective in mind. Additionally, this is a perpetual fund that has a very long life. The effort taking place to create a massive fiscal response and the details of the plan may cause market volatility to remain high in the near term. The fiscal response should help to bring confidence back to the markets.

Member Satre requested an update on the 130/30 investments.

Mr. Sheets commented that the strategy remains viable despite recent restrictions on shorting financial stocks. This SEC restriction is temporary and only impacts new short sales of financial sector stocks, not existing positions. Based on a recent update call with one of our 130/30 managers, they do not expect the ban on short selling financial stocks to be broadened to an entire ban on all shorting.

Member Fleming requested an update on the STIP Program.

Mr. South responded by reporting that he recently spoke at the Montana Association of County Treasurers meeting. Mr. South reiterated that the dollar share value would be maintained and that the pool would never be liquidated. There are no problems with the Short-Term Investment Pool at this time.

Member Prothero requested an update on the Bond Portfolio.

Mr. Sheets explained that bond market liquidity has been dramatically impaired by the worsening credit crunch. The concern about rising default rates and market illiquidity have caused all non-Treasury sectors of the market to under-perform as their risk premiums increase. Our portfolio, due to its historical bias to higher yielding corporate securities, has been negatively impacted and relative performance is likely to be poor given current market conditions.

(A complete copy of Mr. South's and Mr. Sheets' memo "Update on Financial Markets" is kept on file with the documents of this meeting)

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: _____

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
Clifford Sheets, Chief Investment Officer

Date: September 24, 2008

Subject: Update on Financial Markets

Since the beginning of September, investors have witnessed extreme volatility in the public equity markets. Although the federal government has stepped in several times to settle the markets, as of this date the equity markets remain in turmoil. The Administration and Congress are attempting to hammer out a broad comprehensive plan to unfreeze the debt markets and bring some stability to the equity markets. The public presentation of the federal plan caused the S&P 1500 Index to surge nearly 8.5 percent on September 18 and 19 only to fall nearly 4.0 percent on the 22nd due to uncertainty about the composition of the final plan and the ability of Congress to enact it in a timely manner. At this time it is not clear who the corporate beneficiaries of the final plan might be.

During such a period of extreme volatility, it is important that pension fund investors focus on the goal of achieving the actuarial assumptions over long time periods, rather than daily “paper” losses or gains. The attached slides depict; the long-term pension investment performance compared to the actuarial assumptions, the difference that just one month’s performance made in Fiscal Year (FY) 2008 performance, and the recent daily volatility in the equity markets and how that volatility impacts pension fund daily performance.

Slides 2 and 3 – These slides depict the Public Employees’ and Teachers’ Retirement Systems (PERS) and (TRS) investment performance from FY 1995 through FY 2008. *Investment performance at the pension fund level was not calculated prior to January 1994.* During the period, the investment performance for PERS was 8.47 percent annually compared to the actuarial assumption of 8.00 percent. The return for TRS was 8.49 percent compared to the actuarial assumption of 8.00 percent through FY 2004 and 7.75 percent beginning FY 2005.

Slide 4 – This slide depicts the significant difference one month can make in pension fund performance during volatile markets. Through May 31, 2008, the PERS investment performance for FY 2008 was slightly positive, only to plummet 4.81 percent in June. Based on the fair value of all nine pension funds on May 31, 2008, this resulted in an unrealized loss of approximately \$385.3 million in just 30 days. Had the 12 month

rolling period ended on May 31, the performance results would have been completely different.

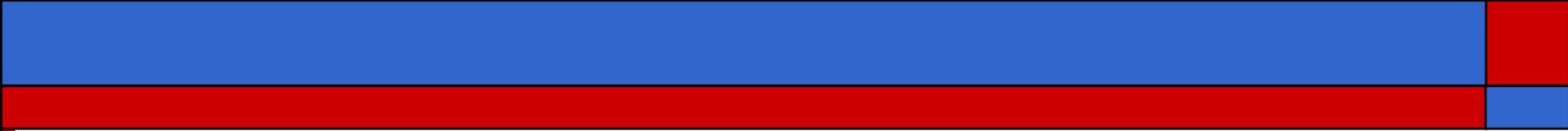
Slides 5 and 6 – These slides depict the volatility of the public equity markets from September 4, 2008 through September 22, 2008. The first slide depicts the Standard and Poor's (S&P) 1500 Index, which represents approximately 85.0 percent of all domestic stock. From September 17 - 18 there was a two-day positive performance swing of 9.11 percent, from 4.66 percent negative on the 17th to 4.45 percent positive on the 18th. Over the weekend there was a performance swing of negative 7.93, percent from 4.02 positive on the 19th to 3.91 negative on the 22nd.

The second slide depicts the volatility of the global stock market, excluding the US. While not quite as volatile on a daily basis as the S&P 1500 Index, on the Friday after the federal government announced a plan to intervene in the financial markets the index surged 7.86 percent.

Slide 7 – This slide depicts the volatility in PERS investment performance during the same period. While the performance volatility was dampened significantly compared to the equity markets due to the fixed income, private real estate, and private equity components of the portfolio, there was a two-day performance swing of a positive 3.42 percent from September 17 – 18, and an over-the-weekend performance swing of negative 4.01 percent. When extrapolated into unrealized gains or losses this volatility can be significant. Based on total pension fund portfolios of \$7.5 billion, just a 1.0 percent swing in investment performance equates to \$75.0 million.

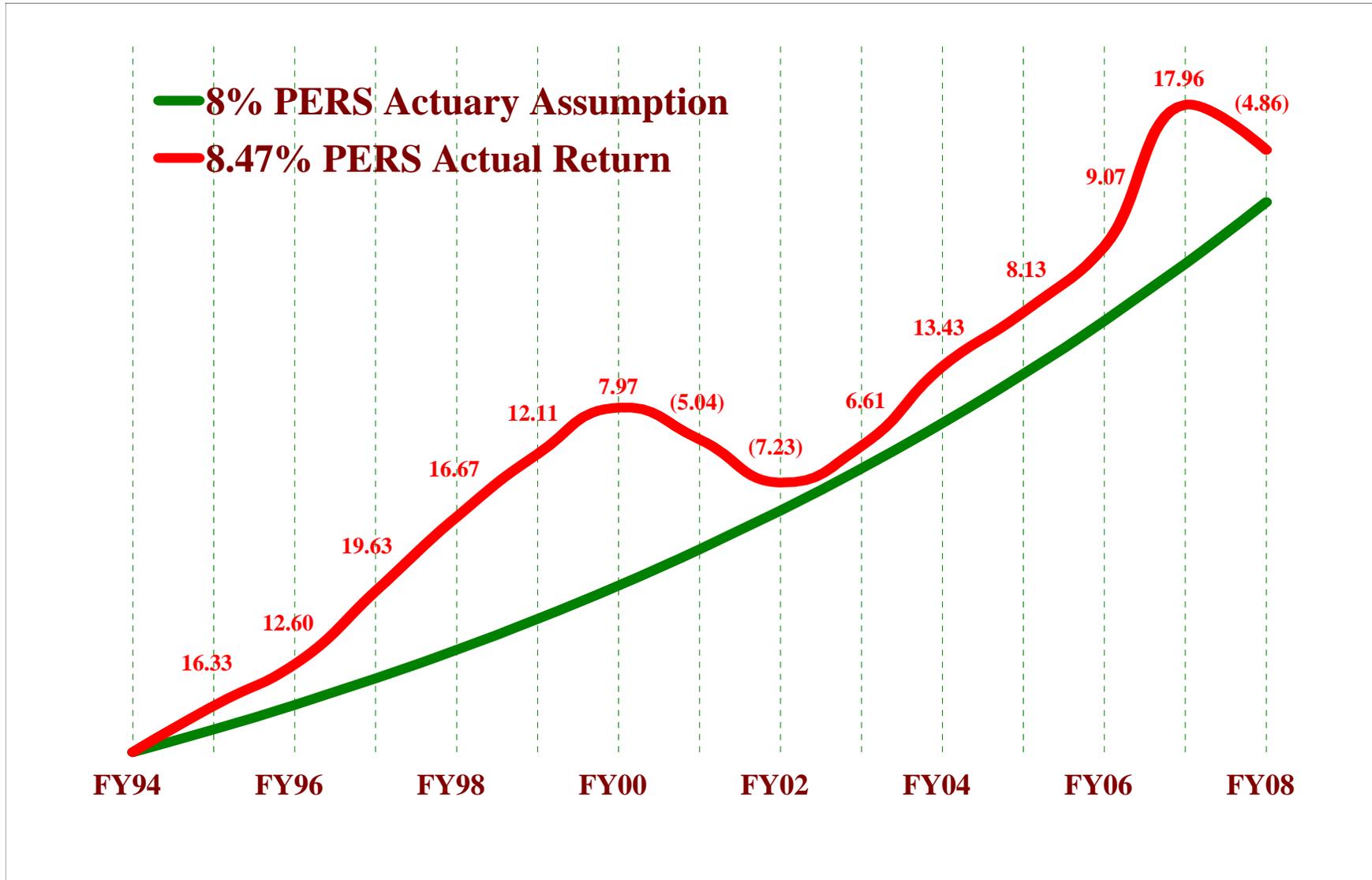
Summary – It is impossible to predict when the equity market volatility will subside and the uncertainty is reduced. If the Administration and Congress can come to terms on a comprehensive and understandable plan that will unfreeze the debt markets, this could remove some of the uncertainty currently reflected in recent equity market volatility. However, the many other variables that will influence equity prices – from corporate profitability to global growth concerns – will also influence the markets as this plan is implemented. It will take time for market participants to digest the details of the plan and determine if it is going to be effective in resolving many of the problems facing our financial system and the capital markets more broadly.

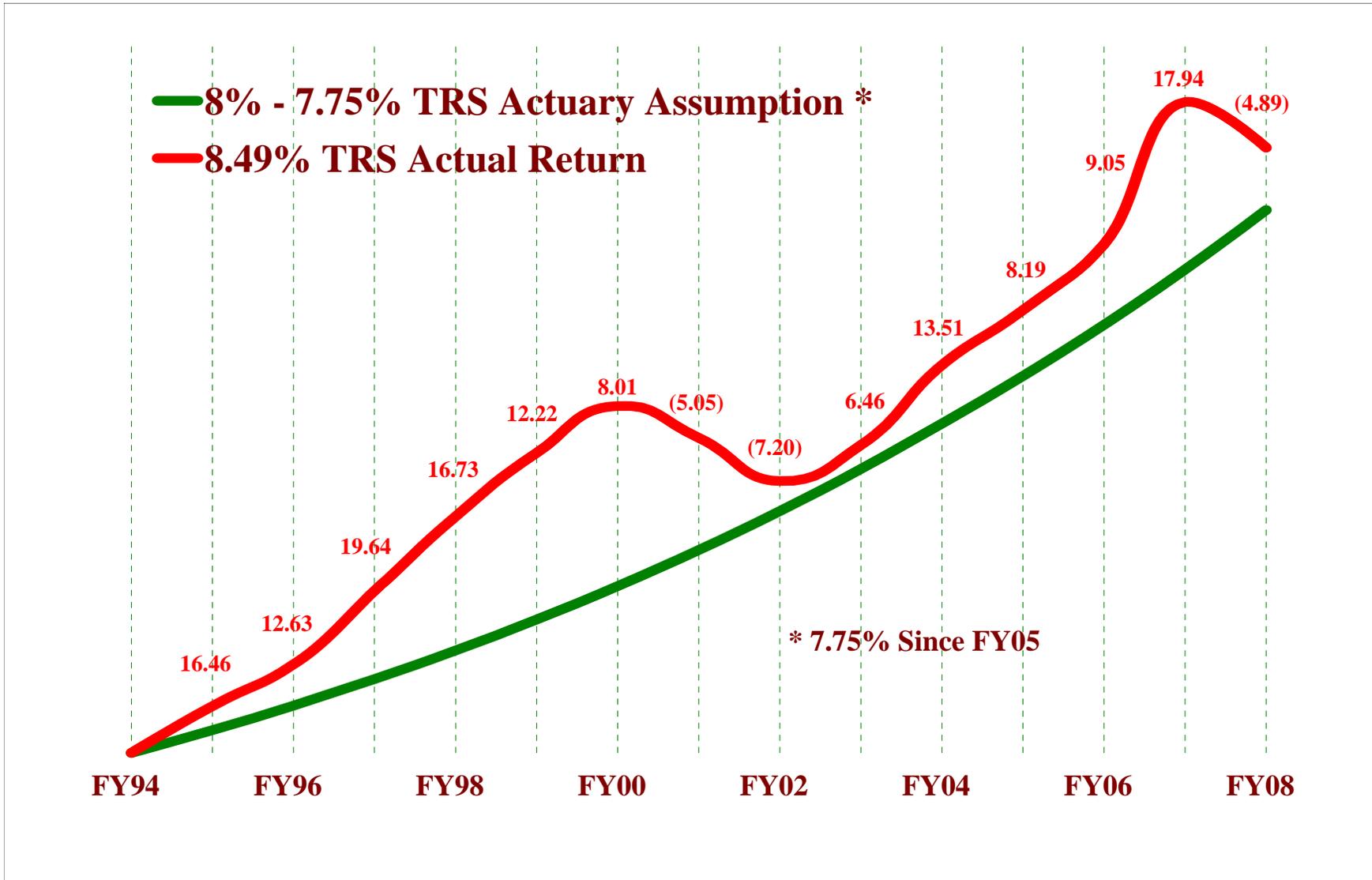
In the meantime, it is important that the Board keep its sights on the long-term investment performance of the pension funds and continue to diversify pension portfolios to dampen the volatility of the public equity markets while achieving the actuarial assumptions.



Board of Investments

September 24, 2008







PERS Monthly Performance FY 2008

