

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

**First Interstate Bank Building
401 North 31st Street
18th Floor Boardroom
Billings, MT**

May 13 & 14, 2008

AGENDA – DAY 1

- | | |
|---|-------------------------|
| I. CALL TO ORDER | 1:00 p.m. |
| A. Roll Call | |
| B. Approval of the February 12 & 13, 2008 Regular Meeting Minutes | |
| C. Approval of the April 22, 2008 Conference Call Meeting Minutes | |
| D. Administrative Business | |
| 1. Loan Committee Report | |
| E. Public Comment - <i>Public Comment on issues with Board Jurisdiction</i> | |
| II. MONTANA LOAN PROGRAM – Herb Kulow | 1:10 p.m. |
| A. Conventional and Residential Loan Program Summary | |
| B. BOI Credit Enhancement Resolution No. 220 - Decision | |
| III. BOND PROGRAM – Louise Welsh | 1:30 p.m. |
| A. INTERCAP | |
| 1. Activity Report | |
| 2. Staff Approved Loans Report | |
| 3. Loan Requests | |
| IV. EXTERNAL MANAGER PRESENTATIONS | |
| TimeSquare Capital Management LLC. | |
| ○ Tony Rosenthal, Portfolio Manager | |
| ○ Jeff Braemer, Product Manager | |
| BREAK 15 Min. | |
| NorthPointe Capital LLC. | |
| ○ Michael Hayden, Managing Director | |
| ○ Karl Knas, Portfolio Manager | |
| BREAK 15 Min. | |
| V. BOARD OF INVESTMENTS EDUCATIONAL PRESENTATION | 2:00 – 2:45 p.m. |
| Carroll South, Executive Director – Handout | |
| VI. ADJOURNMENT | 3:00 – 3:45 p.m. |
| | 4:00 p.m. |
| | 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. QUARTERLY PERFORMANCE REPORTS** **8:10 a.m.**
A. Pension Funds and Investment Pools – R.V. Kuhns and Cliff Sheets
- III. EDUCATIONAL PRESENTATION – Hedge Funds** **9:00 – 10:30 a.m.**
Mr. Bob Maynard, Chief Investment Officer, Idaho PERS
Mr. Bill Atwood, Executive Director, Illinois State Board of Investment
- IV. HEDGE FUNDS OVERVIEW - R.V. Kuhns** **10:30 - 11:00 a.m.**
Hedge Funds of Funds RFP – Decision
Carroll South, Executive Director – Clifford Sheets, Chief Investment Officer
- V. EXECUTIVE DIRECTOR REPORTS – Carroll South** **11:00 a.m.**
A. Securities Monitoring/Litigation Services Update - Informational
B. Credit Enhancement Resolution No. 219/Investment Policies - Decision
- LUNCH** **12:00 P.M.**
- VI. INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO** **12:30 p.m.**
A. Retirement System Asset Allocation Report
B. Private Equity (MPEP)
 1. Portfolio Holdings and Recent Activity
 2. Private Edge Performance Report (as of December 31, 2007)
C. Real Estate (MTRP)
 1. Portfolio Holdings and Recent Activity
 2. Private Edge Report (as of December 31, 2007)
D. Investment Pool Strategies
 1. Public Equity
 i. Domestic Equity (MDEP)
 a. Partial Long/Short Managers Transition Memo
 ii. International Equity (MTIP)
 2. Fixed Income
 i. Bond Pools (RFBP and TFBP)
 a. Fixed Income RFP – Verbal Update
 ii. Short-term (STIP) and Other Fixed Income Portfolios
E. Policy – Related Items
 1. Public Equity External Manager Evaluation Policy
 2. MDEP Investment Policy Revisions
 3. MTIP Benchmark Recommendation – Decision
 4. MTIP Investment Policy Revisions
 5. Retirement Funds Bond Pool Investment Policy Statement
- VII. ADJOURNMENT** **3:00 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**

**First Interstate Bank Building
401 North 31st Street
18th Floor Boardroom
Billings, MT**

May 13 & 14, 2008

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

STAFF PRESENT:

Jason Brent, Investment Analyst
Geri Burton, Deputy Director
Richard Cooley, CFA, Portfolio Manager
Ed Kelly, Portfolio Manager
Herb Kulow, Portfolio Manager

Rande Muffick, CFA, Portfolio Manager
Nancy Rivera, Credit Analyst
Nathan Sax, Portfolio Manager
Clifford A. Sheets, CFA, Chief Investment Officer
Carroll South, Executive Director
Dan Zarling, CFA, Director of Research

GUESTS:

Jim Voytko, R.V. Kuhns and Associates
Peter Madsen, R.V. Kuhns and Associates
Tony Rosenthal, Portfolio Manager, TimeSquare Capital Management, LLC.
Jeff Braemer, Product Manager, TimeSquare Capital Management, LLC.
Michael Hayden, Managing Director, NorthPointe Capital LLC.
Karl Knas, Portfolio Manager, NorthPointe Capital LLC.
Bob Maynard, Chief Investment Officer, Idaho PERS
Bill Atwood, Executive Director, Illinois State Board of Investment

CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order at 1:00 p.m. in the 18th Floor Boardroom of the First Interstate Bank Building, located at 401 North 31st Street, Billings, Montana. As noted above, the meeting convened with eight members of the Board present. Member Cobell was absent at the time roll call was taken, but did arrive later in the meeting as indicated.

Motion: Member Prothero motioned for approval of the February 12 & 13, 2008 minutes and the April 22, 2008 Conference Call Meeting minutes; Member Satre seconded the motion and the motion was passed 8-0.

Public Comment

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

ADMINISTRATIVE BUSINESS

The following Administrative Business was presented:

Human Resources Committee Report

At the February 2008 the Board delegated to the Human Resource Committee the authority to approve the salary of the Fixed Income Portfolio Manager. The Human Resource Committee met by a tele-conference call on April 7, 2008 and upon recommendation of the Executive Director approved the annual salary which is within the salary range approved by the Board at the November 2007 meeting.

Mr. Cliff Sheets introduced Mr. Nathan Sax as the newest member of the Board of Investments staff.

Loan Committee Report - BOI Enhancement – Glendive Medical Center

Resolution No. 220 entitled: “Resolution relating to Health Care Revenue Bonds (Master Loan Program) of the Montana Facility Finance Authority; authorizing loans to the Authority for its Capital Reserve Account securing such Bonds and the execution and delivery of a tenth amendment to Capital Reserve Account Agreement.” On April 11, 2008, the MFFA Board approved issuing approximately \$30 million of bonds for financing the Glendive Medical Center project, pending BOI approval of Resolution No. 220.

Motion: Loan Committee Chair Prothero presented Loan Committee recommendation for approval of Resolution No. 220 as presented; Member Cohea seconded the motion and the motion was passed 8-0.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

Mr. Herb Kulow presented and the Board reviewed this report for the months of March and April.

Approved Loans

Mr. Herb Kulow reported that two loans had been approved by the Loan Committee between the February and May Board Meeting. The two loans are less than \$5 millions dollars each and require only Loan Committee approval. The Loan Committee authorized staff to proceed with processing and closing this loan using the Board’s standard Commercial Loan Program procedures.

Borrower:	Center Field Properties
Lender:	Treasure State Bank, Missoula
Purpose of Loan:	101 – room extended stay Hawthorne Suites Hotel

Amount of Loan:	\$7,236,802
Board Loan Amount:	\$3,618,401
Board Participation:	50%
Term of Loan:	20 Years
Interest Rate:	To be determined at time of funding.
Recommendation:	Approval, subject to the terms and conditions in Schedule A.

Borrower:	DSS, LLP
Lender:	First Interstate Bank, Billings
Purpose of Loan:	A new health and fitness center in Billings.
Amount of Loan:	\$4,108,348
Board Loan Amount:	\$3,286,678
Board Participation:	80%
Term of Loan:	20 Years
Interest Rate:	7.14% + .25% Lender Service Fee = 7.39%
Recommendation:	Approval, subject to the terms and conditions in Schedule A.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending April 2008.

Approved Loans

Ms. Geri Burton reported that two loans had been approved by the Loan Committee between the February and May Board Meeting. The two loans are less than \$5 millions dollars each and require 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: Town of Darby
Board Loan Amount: \$1,543,000
Term: 2 Years
Purpose: Interim loan in anticipation of Rural Development (RD) long term financing for water system improvements.

Borrower: North Valley County Water & Sewer District (Saint Marie)
Board Loan Amount: \$1,609,000
Term: 2 Years
Purpose: Interim loan in anticipation of Rural Development (RD) long term financing for water system improvements.

Staff Approved Loans Report

Ms. Geri Burton reported that the following loans have been approved by staff:

Borrower:	City of Great Falls
Purpose:	To finance costs associated with design and installation of Meadowlark Addition No. 5 street lights.
Staff Approval Date	January 2, 2008
Board Loan Amount:	\$29,900.00
Term:	15 years

Borrower:	Wolf Creek Water & Sewer District
Purpose:	To finance costs associated with grant writing and administrative start up costs.
Staff Approval Date	January 22, 2008
Board Loan Amount:	\$20,000.00
Term:	6 years

Borrower:	Department of Natural Resources and Conservation (DNRC)
Purpose:	In anticipation of borrower repayment revenue from the DNRC's Drinking Water State Revolving Fund (DWSRF) Loan Program (see box).
Staff Approval Date	January 29, 2008
Board Loan Amount:	\$1,000,000.00
Term:	2 years

Borrower:	City of Laurel
Purpose:	To purchase a new ambulance vehicle and used fire tender chassis with a new vacuum tank.
Staff Approval Date	January 31, 2008
Board Loan Amount:	\$160,000.00
Term:	7 years

Borrower:	Ravalli County
Purpose:	To purchase a dump truck water tank assembly.
Staff Approval Date	March 7, 2008
Board Loan Amount:	\$65,000.00
Term:	5 years

Borrower:	Power School District #30
Purpose:	To finance costs associated with the remodel and addition to existing gym locker rooms, offices and weight room.
Staff Approval Date	March 13, 2008
Board Loan Amount:	\$250,000.00
Term:	10 years

Borrower:	Brady County Water & Sewer District (Brady)
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for waste water system.
Staff Approval Date	March 27, 2008
Board Loan Amount:	\$439,000.00
Term:	1 year

PRESENTATION

TimeSquare Capital Management LLC.

Mr. Rande Muffick introduced Mr. Tony Rosenthal and Mr. Jeffrey Braemer. Mr. Rosenthal and Mr. Braemer reviewed their firm and management style. TimeSquare Capital Management manages a mid-cap growth account held in the Domestic Equity Pool

Member Elouise Cobell arrived at this time.

NorthPointe Capital LLC.

Mr. Rande Muffick introduced Mr. Michael Hayden and Mr. Karl Knas. Mr. Hayden and Mr. Knas reviewed their firm and management style. NorthPointe Capital manages a small cap growth account held in the Domestic Equity Pool.

BOARD OF INVESTMENTS EDUCATIONAL PRESENTATION

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

Mr. Carroll South presented an educational review of the Montana Board of Investments to representatives from Yellowstone County, the City of Billings and surrounding areas.

ADJOURNED

The meeting adjourned for the day at 5:15 p.m.

CALL TO ORDER

The meeting was reconvened Wednesday, May 14, 2008 at 8:10 a.m. with nine members of the Board present.

QUARTERLY PERFORMANCE REPORT

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

The Quarterly Performance Report for the period ending March 31, 2008 was presented.

EDUCATIONAL PRESENTATION

Mr. Bill Atwood and Mr. Bob Maynard gave a verbal presentation to the Board and Staff of the pros and cons of investing in hedge funds as part of an ongoing educational effort. These two individuals provided different perspectives on the usefulness of this asset category in the context of other public funds.

HEDGE FUNDS OVERVIEW

Hedge Fund-of-Funds Request for Proposal

In May 2006, the Board's consultant, R.V. Kuhns and Associates, completed an asset liability study of the Teachers' Retirement System. The study suggested several different portfolio mixes that when interacting with the Plan's liability requirement, would be expected to generate the returns required to protect and increase funding levels, while adequately providing liquidity for benefit payments.

Since the completion of the study, the consultant has provided Board members educational presentations on the asset class. At the February Board meeting an educational presentation was made by two hedge fund-of-funds managers. During this Board meeting, Board members were provided the opportunity to interact with a peer who has extensive experience investing in the asset class and a peer that has chosen not to invest in the asset class.

Given that all portfolio scenarios in the asset liability study include an allocation to hedge funds, the Board will need to make a decision regarding this asset class. If the Board were to decide not to include this asset in the pension fund portfolios, the "asset allocation" process that generated the scenarios would need to be reconsidered to determine different portfolio configurations that would provide acceptable return and volatility characteristics.

Recommendation: To assist staff in making a recommendation to the Board at its August meeting, staff suggests that the Board authorize staff to issue a Request for Proposal (RFP) for hedge fund-of-fund managers, without making any commitment to fund the managers, unless the Board approves an allocation. This process would permit staff to explore the hedge fund-of-funds manager universe, including historical performance relative to other asset classes during good and bad times - and the different types of strategies available in the market. This knowledge would better equip staff to make an informed recommendation to the Board regarding investing in the asset and an appropriate mix of strategies and number of managers if the Board chooses to invest in this asset. By issuing a RFP, the Board would not commit to any contractual or funding obligations. The RFP would contain the following language:

2.4 BOARD'S RIGHTS RESERVED

Issuance of this RFP in no way constitutes a commitment by the Board to award a contract. Upon a determination that such action would be in its best interest, the Board, in its sole discretion, reserves the right to:

- *cancel or terminate this RFP (Mont. Code Ann. § 18-4-307);*
- *reject any or all proposals received in response to this RFP (ARM 2.5.602);*
- *waive any undesirable, inconsequential, or inconsistent provisions of this RFP which would not have significant impact on any proposal (ARM 2.5.505); or*
- *not award if it is in the best interest of the Board not to proceed with contract execution or the signing of terms and agreement documents (ARM 2.5.602).*

Motion: Member Prothero motioned for the approval of the recommendation as presented; Member Cobell seconded the motion and the motion was approved 9-0.

EXECUTIVE DIRECTOR REPORTS

Securities Monitoring/Litigation Services Update

Mr. Carroll South reported that the Request for Proposals for Securities Monitoring/Litigation Services was issued March 24, 2008 with responses due April 18, 2008. Staff is currently reviewing and ranking the 24 responses received. Staff suggests that the Board hold a teleconference meeting in June to consider staffs recommendation and make a final decision.

Credit Enhancement Resolution No. 219/Investment Policies – Decision

Mr. Carroll South reported that the Board currently credit enhances bonds issued by the Board of Investments (INTERCAP) and the Montana Facility Finance Authority.

In 1991, the legislature authorized the Board of Investments to credit enhance MFFA bonds. The credit enhancement procedure requires that the Board adopt a resolution each time bonds are issued that articulates the credit enhancement provided for the issue.

In February 2006, the Board approved a “Credit Enhancement Policy” and revised the Loan Committee Charter to define the role of staff, the Committee, and the Board in the credit enhancement process. The Credit Enhancement Policy conceptually defines the Board’s intent and suffices for bond rating purposes, it does not address the process that would be used if the credit enhancement provisions were triggered. The policy states the Board may use any funds legally available to the Board for credit enhancement purposes. However, none of the Investment Policies currently approved by the Board for the funds it manages authorize this credit enhancement activity. Consequently, if the credit enhancement provisions were triggered and staff had to purchase the bonds or make bond payment, it could not do so under current Board-approved Investment Policies.

The credit enhancement offered by the Board is authorized under two distinct sets of laws as well as under its broad authority to choose the types of investments it makes. Given the disparate authority under which the Board authorizes credit enhancement, the policy would best be embodied in a standing resolution that would be referenced each time the Board adopted an issue-specific credit enhancement resolution. By incorporating the standing resolution into the Board's Governance Policy, it would be posted on the Board's web site and readily accessible to the legislature and the public. From a public policy perspective, it is important that the Board clearly spell out the authority by which it "credit enhances" these bonds.

Investment Policies for funds that may be appropriate for credit enhancement activities should include standing provisions to authorize staff to "implement" these provisions if required. Those Investment Policies are the Short-Term Investment Pool, Treasurer's Fund and the Permanent Coal Tax Fund.

Recommendation:

Staff recommends that:

1. The Board approve the enclosed Resolution 219 and incorporate it into the Board's Governance Policy. The Board revise its Governance Policy to authorize staff to implement credit enhancement activity when required. The proposed language is attached.
2. The Board approve the revised Investment Policies for the Permanent Fund, the Short Term Investment Pool, and the Treasurer's Fund. To provide for the greatest flexibility, the revisions simply make investments pursuant to Resolution 219 an authorized investment without being specific as to the type of event.

Motion: Member Fleming motioned for the approval of the Credit Enhancement Resolution No. 219 and the three revised Investment Policies as presented; Member Turcotte seconded the motion and the motion was approved 9-0.

INVESTMENT ACTIVITY

Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report as of March 31, 2008.

Private Equity (MPEP)

Mr. Ed Kelly presented December 31, 2007 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 March 31, 2008 and investment briefs for the Montana Private Equity Portfolio for commitments made since the last Board meeting, as shown below.

<u>Fund Name</u>	<u>Vintage</u>	<u>Subclass</u>	<u>Amount</u>	<u>Date</u>
Madison Dearborn Capital VI	2008	Buyout	\$25M	04/03/2008
Performance Venture Capital II	2008	Venture	\$25M	05/01/2008
Portfolio Advisors – PAPEF V	2008	Venture	\$10M	03/03/2008
Total New Commitments			\$60M	

Real Estate (MTRP)

Mr. Ed Kelly presented December 31, 2007 reports by Private Edge showing the real estate fund commitments made to date and holdings as of March 31, 2008, and investment briefs for the Montana Real Estate Pool Portfolio for commitments made since the last Board meeting, as shown below.

<u>Fund Name</u>	<u>Vintage</u>	<u>Subclass</u>	<u>Amount</u>	<u>Date</u>
AREFIN – Co-Investment	2008	Value Add	\$10M	03/29/2008
Hudson Realty IV Co-Investment	2008	Value Add	\$10M	02/15/2008
O'Connor NO Properties II	2008	Opportunistic	\$15M	04/08/2008

Total New Commitments			\$35M	
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Domestic Equity (MDEP)

Mr. Rande Muffick presented the Montana Domestic Equity Pool Report as of March 31, 2008 and a summary of the pool manager changes and recent market trends.

MDEP Transition – 130/30 Mandate Update

Mr. Rande Muffick reported that the transition of \$400 million of assets from the passive component of MDEP to three new partial long/short (130/30) managers was completed at the end of February. The three managers that received funding and the amounts of funding allocated are: JP Morgan Asset Management - \$200 million; Analytic Investors - \$120 million; and Martingale Asset Management - \$80 million. State Street Global Markets was selected as transition manager based upon a low cost estimate, a short (one day) trading period, and the importance of close communication between the transition manager and the master custodian (State Street Bank & Trust).

International Equity (MTIP)

Mr. Rande Muffick presented the Montana International Equity Pool Report for the period ending March 31, 2008 and discussed market trends during the quarter.

Fixed Income

Mr. Cliff Sheets presented the Fixed Income Overview and Strategy.

Mr. Rich Cooley presented the Short-Term Investment Pool, State Fund Insurance and Treasurer's Fund Portfolio Reports.

Fixed Income RFP – Verbal Update

Mr. Cliff Sheets reported that staff is closing in on completion of the Fixed Income RFP Process. The RFP was issued in February, with 89 responses received from 63 different managers. The initial screening narrowed the pool down to 18 semi-finalists - 8 Core Plus, 7 High Yield and 3 Core Managers. A teleconference meeting with the semi-finalists was held May 7 – 9, 2008, and staff will travel to Seattle on May 28 to interview the nine finalists – 4 High Yield and 5 Core Plus Managers.

Policy Related Items

The following Policy Related Items were presented by staff for the Board's consideration and approval.

Public Equity External Manager Evaluation Policy: This is a new policy which is designed to formalize the process by which public equity managers are reviewed.

Montana Domestic Equity Pool (MDEP) Policy Revision: The policy was re-done with some significant changes in structure and content. The policy removes all reference to the internal portfolio, and introduces the new allocation ranges by strategy categories that were approved at the February meeting.

Montana International Equity Pool (MTIP) Benchmark Recommendation: This memo recommends the Board approve a change in the benchmark used for pool comparison purposes. Given recent changes in the market environment and the differences between the portfolio structure and the current benchmark, a new benchmark is recommended. This new benchmark will adapt to the new methodology being used by MSCI.

Montana International Equity Pool (MTIP) Policy Revision: The policy was re-done with some significant changes in structure and content. It reflects the same general format at the proposed policy for MDEP and incorporates the new benchmark proposal.

Retirement Funds Bond Pool Policy: This is a new policy being proposed which will create the framework for holding both the internally managed portfolio and the external portfolios that will be created pursuant to the pending search for external managers.

Motion: Member Cohea motioned for the approval of the Policy Related Items as presented; Member Prothero seconded the motion and the motion was approved 9-0.

NEXT MEETING

The next regularly scheduled meeting of the Board will be August 19 & 20, 2008.

ADJOURNMENT

There being no further business, the meeting was adjourned at 3:30 p.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: Members of the Board

From: Herb Kulow, CMB
Senior Portfolio Manager

Date: May 5, 2008

Subject: Commercial and Residential Loans

As of April 30, 2008, the Commercial Loan program had \$165,383,680 of outstanding loans. There were \$35,385,739 of commitments and \$24,710,313 of reservations. There were no loans past due greater than 90 days. The 7 loans that were past due greater than 30 days, but less than 90 days were all guaranteed loans and represented 0.65% of the total commercial loan portfolio.

As of 3-31-08, the commercial loan portfolio represented 18.59% of the Coal Tax Trust and is legislatively compliant. As a comparison, on June 30, 2007 and March 31, 2007 the commercial loan portfolio represented 22.89% and 24.60% of the Coal Tax Trust, respectively.

The Board Loan Committee approved the following loans via email:

Center Field Properties - \$3,618,401 (50%) participation in a total loan request of \$7,236,802 offered by Treasure State Bank, Missoula. The project is a 101-room, limited-service, extended-stay Hawthorn Suites hotel in Missoula.

DSS, LLP - \$3,286,678 (80%) participation in a total loan request of \$5,108,348 offered by First Interstate Bank, Billings. This loan also has a \$1,000,000 SBA 504 loan in a subordinate collateral position. The project is a new health and fitness center in Billings.

The residential loan portfolio, as of April 30, 2008, reflected a balance of \$61,800,121. There were only three loans past due 90 days or more totaling \$153,612 representing 0.24% of the total portfolio. All three loans are FHA guaranteed.

INTERCAP Loan Program

Activity Summary

As of April 30, 2008

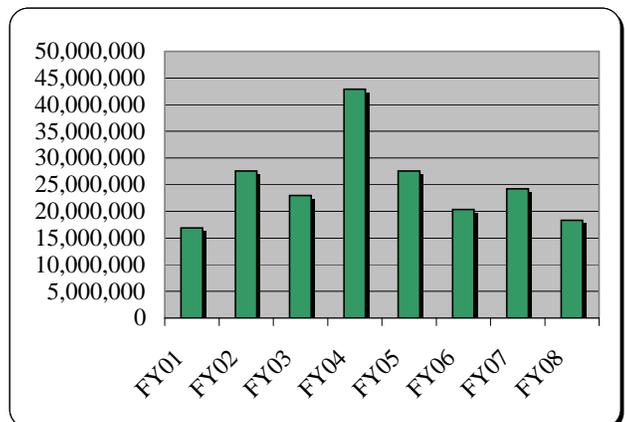
Since Inception 1987 - April 2008

Total Bonds Issued **124,000,000**
Total Loan Commitments **305,787,565**
Total Loans Funded **275,218,020**

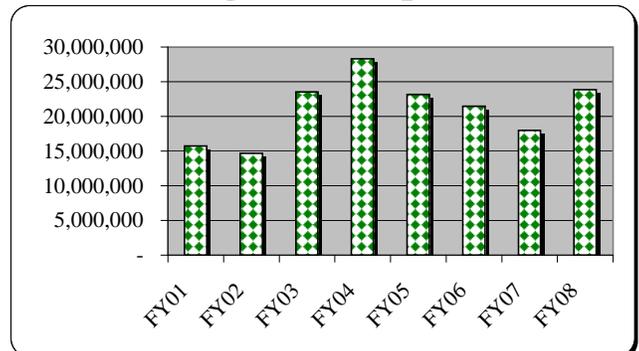
Total Bonds Outstanding **98,045,000**
Total Loans Outstanding **75,170,617**

Loan Commitments Pending **30,569,545**

Commitments FY01-April 2008



Fundings FY01- April 2008



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	2,297,000	875,318
April	1,609,000	3,285,753
May		
June-08		
To Date	\$ 18,313,359	\$ 23,866,466

Note: Commitments include withdrawn and expired loans.

Variable Loan Rate History February 16, 2000 - February 15, 2008

February 16, 2000 - February 15, 2001	<u>5.60%</u>	February 16, 2004 - February 15, 2005	<u>2.70%</u>
February 16, 2001 - February 15, 2002	<u>4.75%</u>	February 16, 2005 - February 15, 2006	<u>3.80%</u>
February 16, 2002 - February 15, 2003	<u>3.15%</u>	February 16, 2006 - February 15, 2007	<u>4.75%</u>
February 16, 2003 - February 15, 2004	<u>2.85%</u>	February 16, 2007 - February 15, 2008	<u>4.85%</u>

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: May 5, 2008
Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – January 1, 2008 through April 30, 2008.



Borrower:	City of Great Falls
Purpose:	To finance costs associated with design and installation of Meadowlark Addition No. 5 street lights.
Staff Approval Date	January 2, 2008
Board Loan Amount:	\$29,900.00
Term:	15 years

Borrower:	Wolf Creek Water & Sewer District
Purpose:	To finance costs associated with grant writing and administrative start up costs.
Staff Approval Date	January 22, 2008
Board Loan Amount:	\$20,000.00
Term:	6 years

Borrower:	Department of Natural Resources and Conservation (DNRC)
Purpose:	In anticipation of borrower repayment revenue from the DNRC's Drinking Water State Revolving Fund (DWSRF) Loan Program (see box).
Staff Approval Date	January 29, 2008
Board Loan Amount:	\$1,000,000.00
Term:	2 years

The DWSRF provides low interest rate loans to finance the entire cost of qualified community water system projects by combining a U.S. Environmental Protection Agency (EPA) capitalization grant with the required state match.

Borrower:	City of Laurel
Purpose:	To purchase a new ambulance vehicle and used fire tender chassis with a new vacuum tank.
Staff Approval Date	January 31, 2008
Board Loan Amount:	\$160,000.00
Term:	7 years

Borrower:	Ravalli County
Purpose:	To purchase a dump truck water tank assembly.
Staff Approval Date	March 7, 2008
Board Loan Amount:	\$65,000.00
Term:	5 years

Borrower:	Power School District #30
Purpose:	To finance costs associated with the remodel and addition to existing gym locker rooms, offices and weight room.
Staff Approval Date	March 13, 2008
Board Loan Amount:	\$250,000.00
Term:	10 years

Borrower:	Brady County Water & Sewer District (Brady)
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for waste water system.
Staff Approval Date	March 27, 2008
Board Loan Amount:	\$439,000.00
Term:	1 year

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: May 5, 2008
Subject: INTERCAP Loan Committee E-mail Approved Loans Committed



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

Borrower:	Town of Darby
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for water system improvements.
LC Approval Date:	February 29, 2008
Board Loan Amount:	\$1,543,000.00 (Borrower reduced amount from original \$2,183,790.00 to not include RD grant portion).
Term:	2 years

Borrower:	North Valley County Water & Sewer District (Saint Marie)
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for water system improvements.
LC Approval Date:	April 24, 2008
Board Loan Amount:	\$1,609,000.00
Term:	2 years



Montana Board of Investments

Investment Performance Analysis

Quarter Ended

March 31, 2008

Prepared By

Bret van Roden

RVKuhns

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Capital Markets Review As of March 31, 2008

Capital Markets Review

First Quarter Economic Environment

Volatility in the capital markets continued amid growing concerns of a U.S. recession, a further declining U.S. Dollar, escalating energy prices, and continued fallout from subprime adversity. The U.S. Federal Reserve took several actions during the first quarter in an attempt to ease concerns and further increase liquidity in the credit markets. The Federal Reserve lowered the Fed Funds Rate three times during the quarter, for a total decrease of 200 basis points. The benchmark lending rate now sits at 2.25%, representing a decline of 3.00% since August 2007. The Fed also opened its lending window to brokerage firms for the first time in its history, in yet another attempt to provide liquidity to the market. In addition, the Fed controversially backed JPMorgan Chase & Co.'s purchase of Bear Stearns to contain the financial crisis.

The U.S. unemployment rate increased marginally during the first quarter from 5.0% to 5.1%. Oil prices increased substantially during the first two months of the quarter, piercing \$110 per barrel, which represents the commodity's inflation-adjusted high previously set in 1980, but Oil closed the quarter at just over \$100 per barrel. The U.S. Dollar continues to struggle falling more than 3% during the quarter as measured against a weighted average basket of currencies and over 7% when compared to the Euro. The Consumer Price Index has increased 4.0% over the past 12 months once again led by increases in energy costs. The core CPI, which excludes food and energy, has increased only 2.4% during the past 12 months.

First Quarter Equities

With a few exceptions, equity markets across the globe suffered significant losses during the quarter. Domestically, increased unemployment, accelerating housing price declines, further concerns in the credit markets, and fear that the U.S. has entered a recession played major roles in equity losses. The S&P 500 suffered its sixth-largest first quarter decline in its history and its largest quarterly loss since the third quarter of 2002. Value indexes performed slightly better than their growth counterparts, with large and small cap stocks performing equally poorly. Prospering international stocks finally slowed during the quarter, exceeding losses in the U.S. equity market in their local-currency terms. Emerging markets experienced significant losses during the quarter, underperforming the domestic market and posting their largest quarterly losses since 2002.

First Quarter Fixed Income

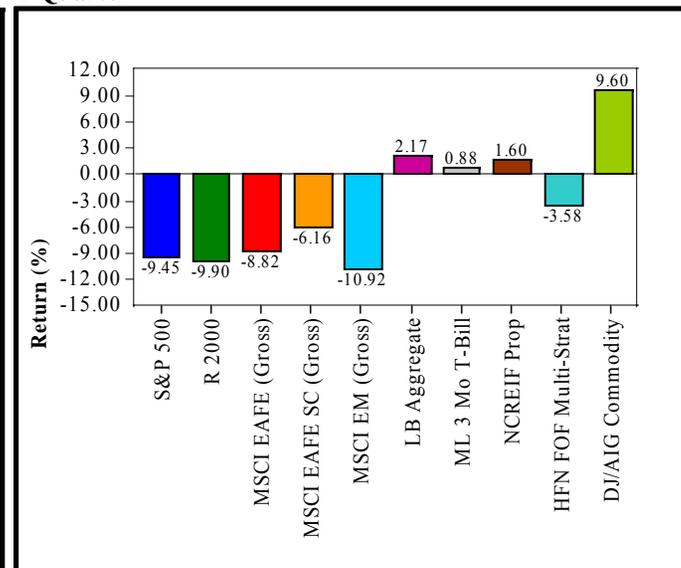
The bond markets posted positive returns in most sectors, led by the safest sovereign debt. Short-term Treasuries benefited from the Federal Reserve's engineering of declining short-term interest rates, while the High Yield sector continued to struggle as risk premiums increased and prices fell. New High Yield debt offering decreased over 80% from the previous quarter. The Lehman Brothers Aggregate Bond Index posted a positive return of 2.2% during the quarter. Yields across all maturities decreased from last quarter. The yield curve became less inverted and more upward sloping across all maturities.

Trailing-Period Performance

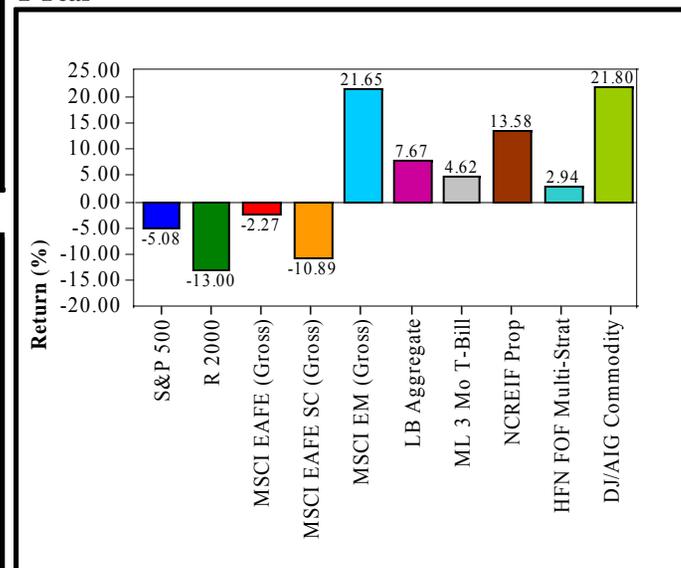
	1 Month Ending Jan-2008	1 Month Ending Feb-2008	1 Month	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
S&P 500	-6.00	-3.25	-0.43	-9.45	-9.45	-5.08	5.85	11.32	3.50
R 2000	-6.82	-3.71	0.42	-9.90	-9.90	-13.00	5.06	14.90	4.96
MSCI EAFE (Gross)	-9.23	1.46	-1.00	-8.82	-8.82	-2.27	13.79	21.90	6.56
MSCI EAFE SC (Gross)	-9.76	4.26	-0.27	-6.16	-6.16	-10.89	11.51	26.05	N/A
MSCI EM (Gross)	-12.45	7.42	-5.28	-10.92	-10.92	21.65	29.64	35.95	12.54
LB Aggregate	1.68	0.14	0.34	2.17	2.17	7.67	5.48	4.58	6.04
ML 3 Mo T-Bill	0.50	0.15	0.23	0.88	0.88	4.62	4.41	3.18	3.73
NCREIF Prop	N/A	N/A	N/A	1.60	1.60	13.58	16.75	15.07	12.63
HFN FOF Multi-Strat	-2.58	1.42	-2.42	-3.58	-3.58	2.94	7.20	7.91	8.49
DJ/AIG Commodity	4.22	12.28	-6.34	9.60	9.60	21.80	12.10	15.71	10.39

Performance for periods greater than one year is annualized.

1 Quarter



1 Year



Capital Markets Review
As of March 31, 2008

35 Worst Quarters Since 1926 (S&P 500)

	Year	Quarter	Quarter Return	Following 4 Quarters Cumulative Return
1.	1932	Q2	-37.68	162.90
2.	1931	Q3	-33.62	-9.62
3.	1929	Q4	-27.75	-24.90
4.	1974	Q3	-25.18	38.42
5.	1987	Q4	-22.52	16.61
6.	1937	Q4	-21.40	31.14
7.	1962	Q2	-20.64	31.32
8.	1938	Q1	-18.59	35.18
9.	1970	Q2	-18.07	41.93
10.	1946	Q3	-18.05	6.44
11.	1930	Q2	-17.72	-23.45
12.	2002	Q3	-17.28	24.40
13.	1940	Q2	-16.85	5.67
14.	1939	Q1	-16.08	17.62
15.	1930	Q4	-15.76	-43.35
16.	2001	Q3	-14.68	-20.49
17.	1933	Q1	-14.07	91.96
18.	1931	Q4	-13.77	-8.19
19.	1990	Q3	-13.74	31.16
20.	2002	Q2	-13.40	0.25
21.	1937	Q2	-12.93	-19.98
22.	1941	Q4	-12.92	20.33
23.	1932	Q4	-12.41	53.96
24.	2001	Q1	-11.86	0.24
25.	1975	Q3	-10.97	30.49
26.	1981	Q3	-10.23	9.91
27.	1935	Q1	-10.03	83.83
28.	1998	Q3	-9.95	27.80
29.	1931	Q2	-9.71	-67.56
30.	1937	Q3	-9.64	-5.45
31.	1957	Q3	-9.55	22.83
32.	2008	Q1	-9.45	???
33.	1926	Q1	-9.38	28.38
34.	1973	Q4	-9.19	-26.44
35.	1932	Q1	-9.07	-13.24
Average			-15.83	16.18

15 Worst 1st Quarters Since 1926 (S&P 500)

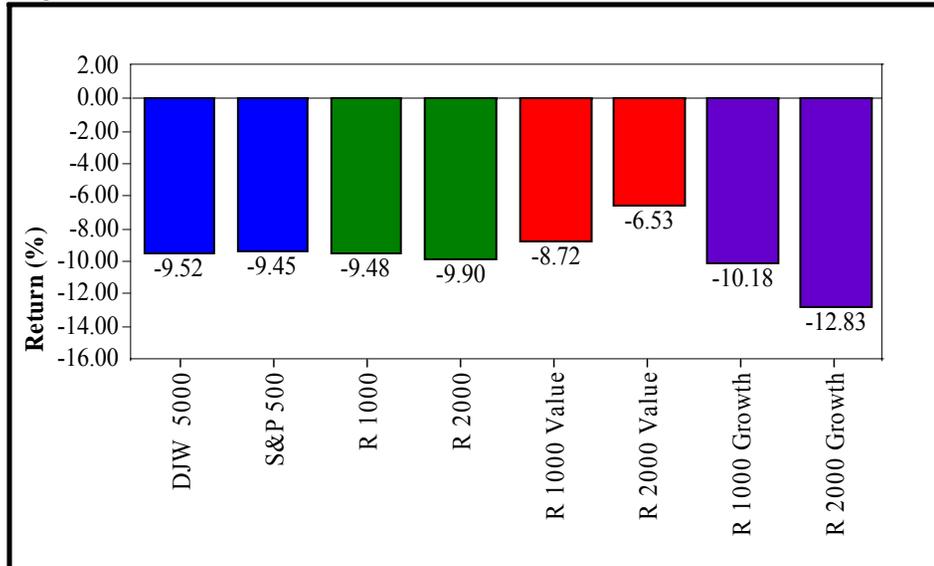
	Year	1st Quarter Return	Following 3 Quarters Cumulative Return	Calendar Year Return
1.	1938	-18.59	61.08	31.14
2.	1939	-16.08	18.64	-0.43
3.	1933	-14.07	79.17	53.96
4.	2001	-11.86	-0.03	-11.89
5.	1935	-10.03	64.12	47.66
6.	2008	-9.45	???	???
7.	1926	-9.38	23.17	11.61
8.	1932	-9.07	0.97	-8.19
9.	1977	-7.45	0.31	-7.16
10.	1982	-7.31	31.13	21.55
11.	1960	-6.81	7.80	0.46
12.	1942	-6.53	28.73	20.33
13.	1968	-5.75	17.88	11.10
14.	1978	-4.94	12.10	6.57
15.	1973	-4.89	-10.32	-14.71
Average		-9.48	23.91	11.57

4th Year of Presidential Terms (S&P 500)

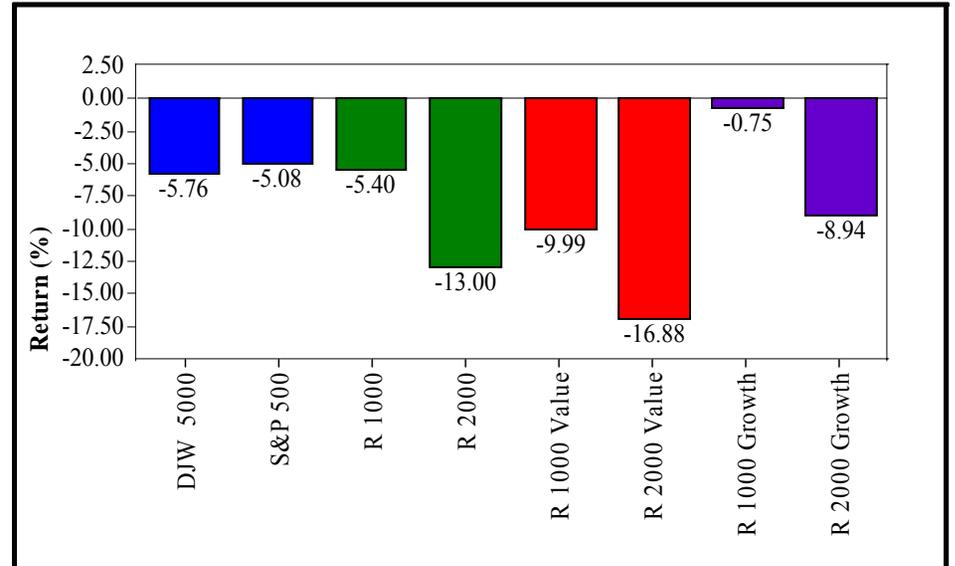
Year	Calendar Year Return	President
2008	???	George W. Bush
2004	10.88	George W. Bush
2000	-9.10	William J. Clinton
1996	22.96	William J. Clinton
1992	7.62	George H. W. Bush
1988	16.61	Ronald Reagan
1984	6.27	Ronald Reagan
1980	32.50	Jimmy Carter
1976	23.93	Gerald R. Ford
1972	19.03	Richard M. Nixon
1968	11.10	Lyndon B. Johnson
1964	16.50	John F. Kennedy
1960	0.46	Dwight D. Eisenhower
1956	6.49	Dwight D. Eisenhower
1952	18.36	Harry S. Truman
1948	5.51	Harry S. Truman
1944	19.72	Franklin D. Roosevelt
1940	-9.77	Franklin D. Roosevelt
1936	33.92	Franklin D. Roosevelt
1932	-8.19	Herbert Hoover
1928	43.62	Calvin Coolidge
Average	13.42	

**Domestic Equity Market Performance
As of March 31, 2008**

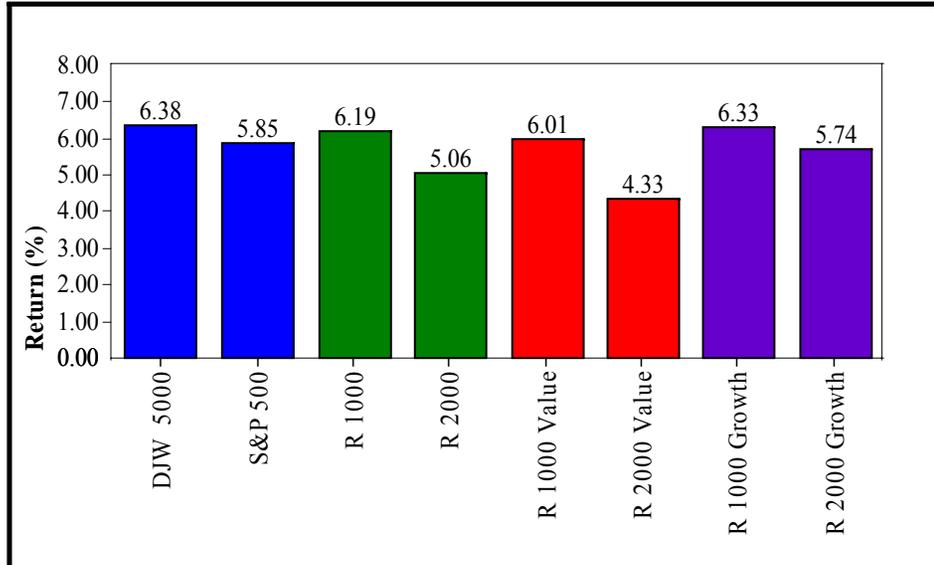
1 Quarter



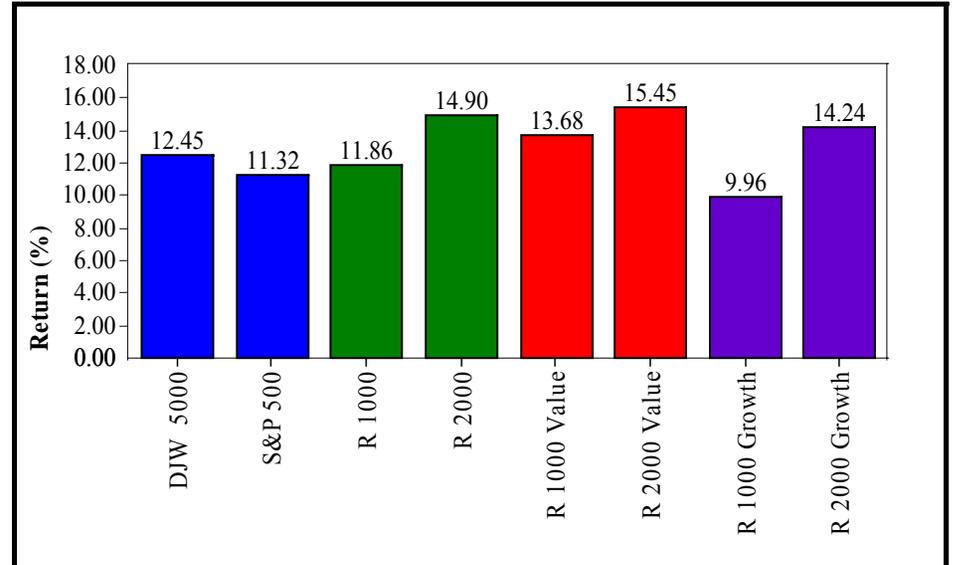
1 Year



3 Years



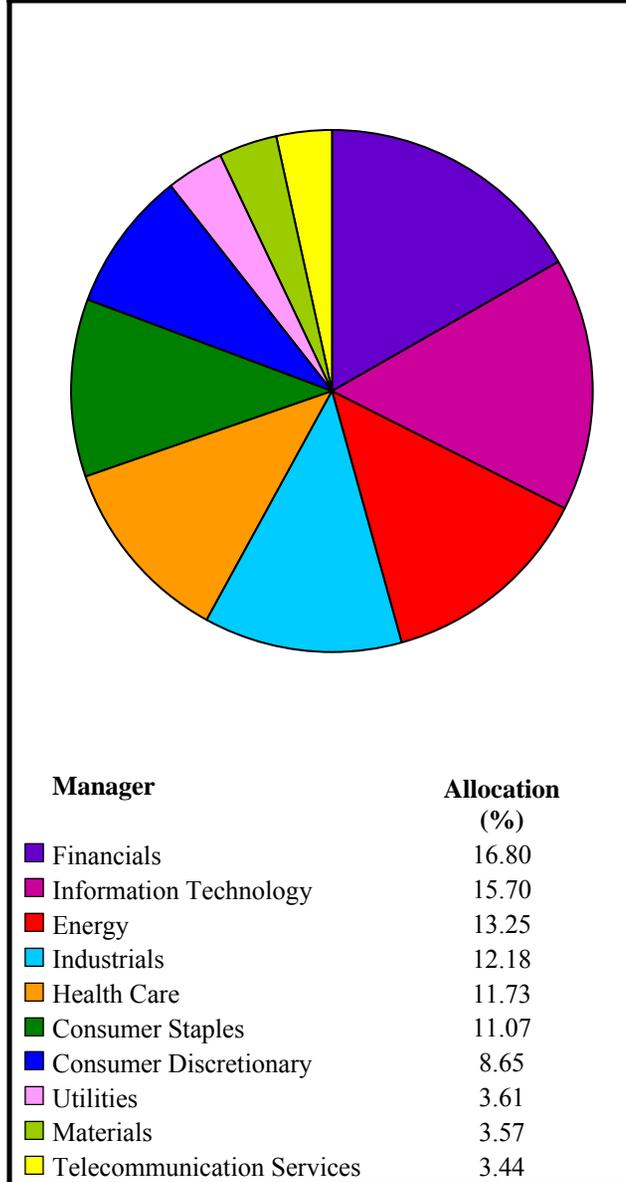
5 Years



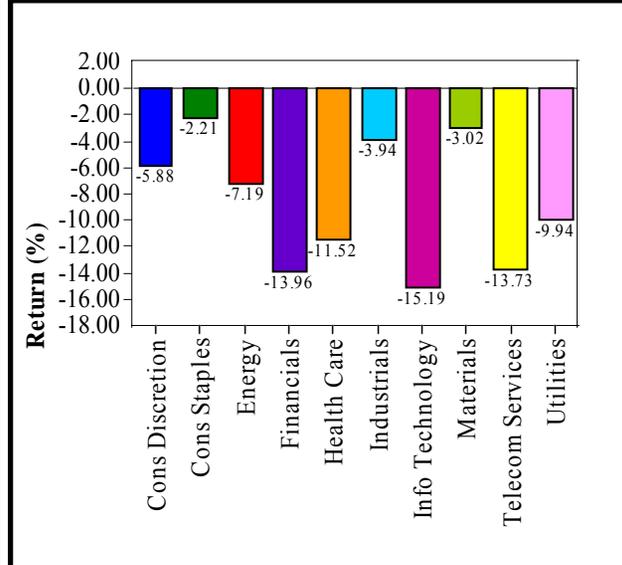
Performance for periods greater than one year is annualized.

U.S. Equity Sector Weights and Returns
As of March 31, 2008

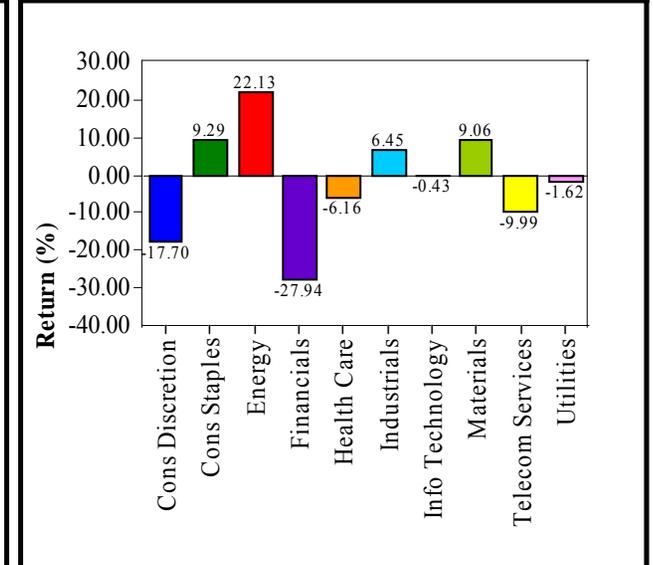
S&P 500 Sector Weights



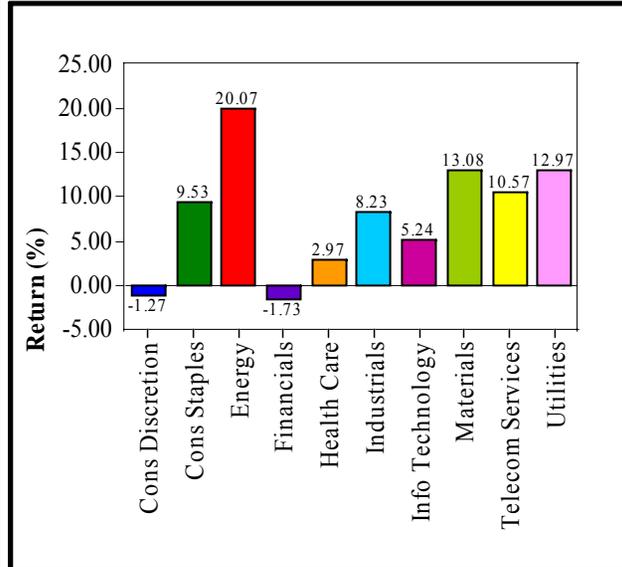
S&P 500 Sector Returns - 1 Quarter



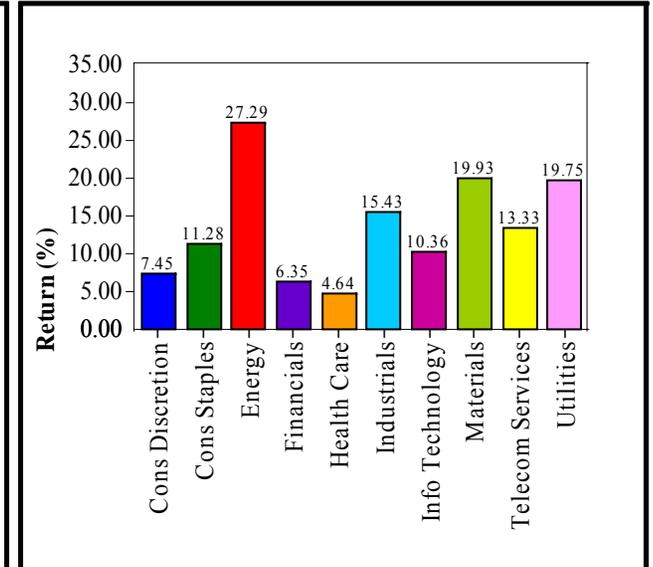
S&P 500 Sector Returns - 1 Year



S&P 500 Sector Returns - 3 Years



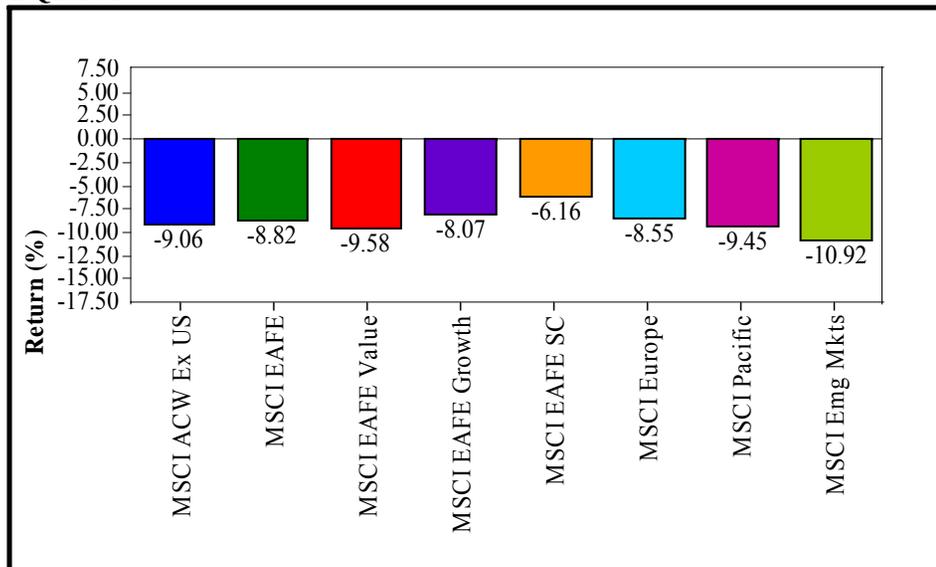
S&P 500 Sector Returns - 5 Years



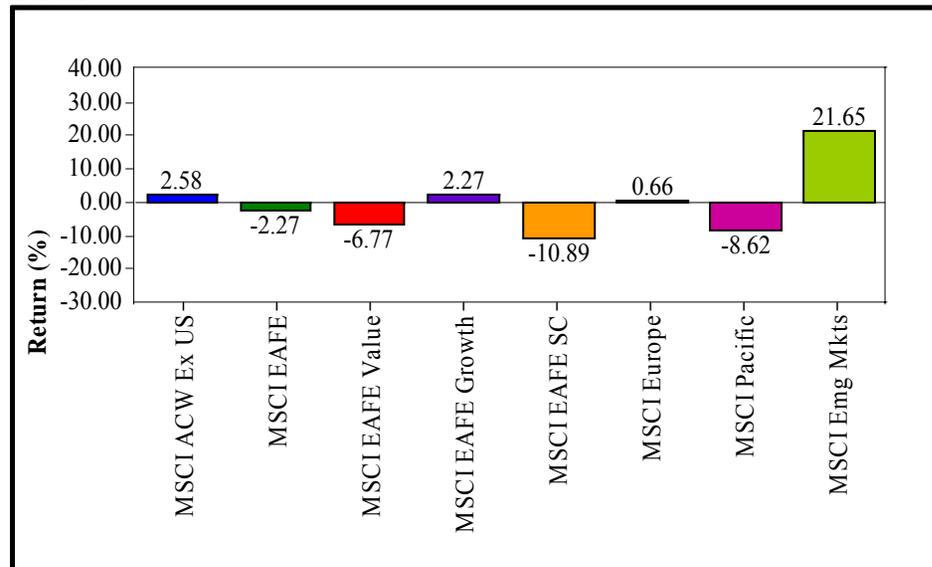
Performance for periods greater than one year is annualized. Returns provided by MPI Stylus, allocations provided by Standard & Poor's.

International Equity Market Performance As of March 31, 2008

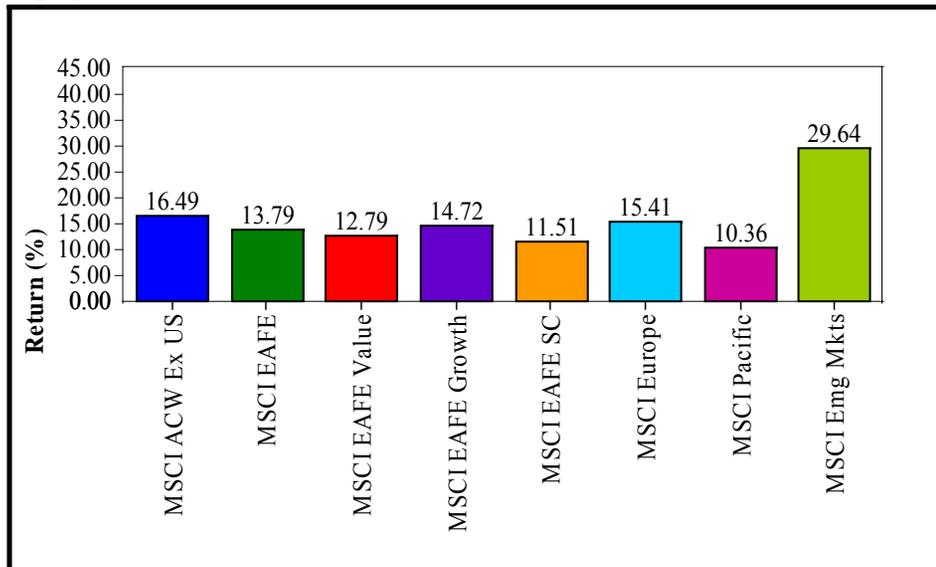
1 Quarter



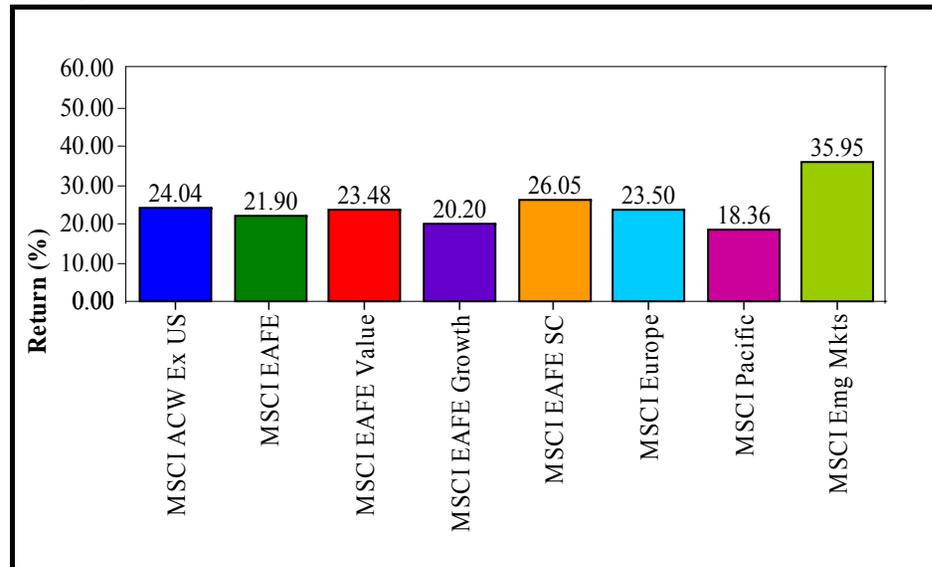
1 Year



3 Years



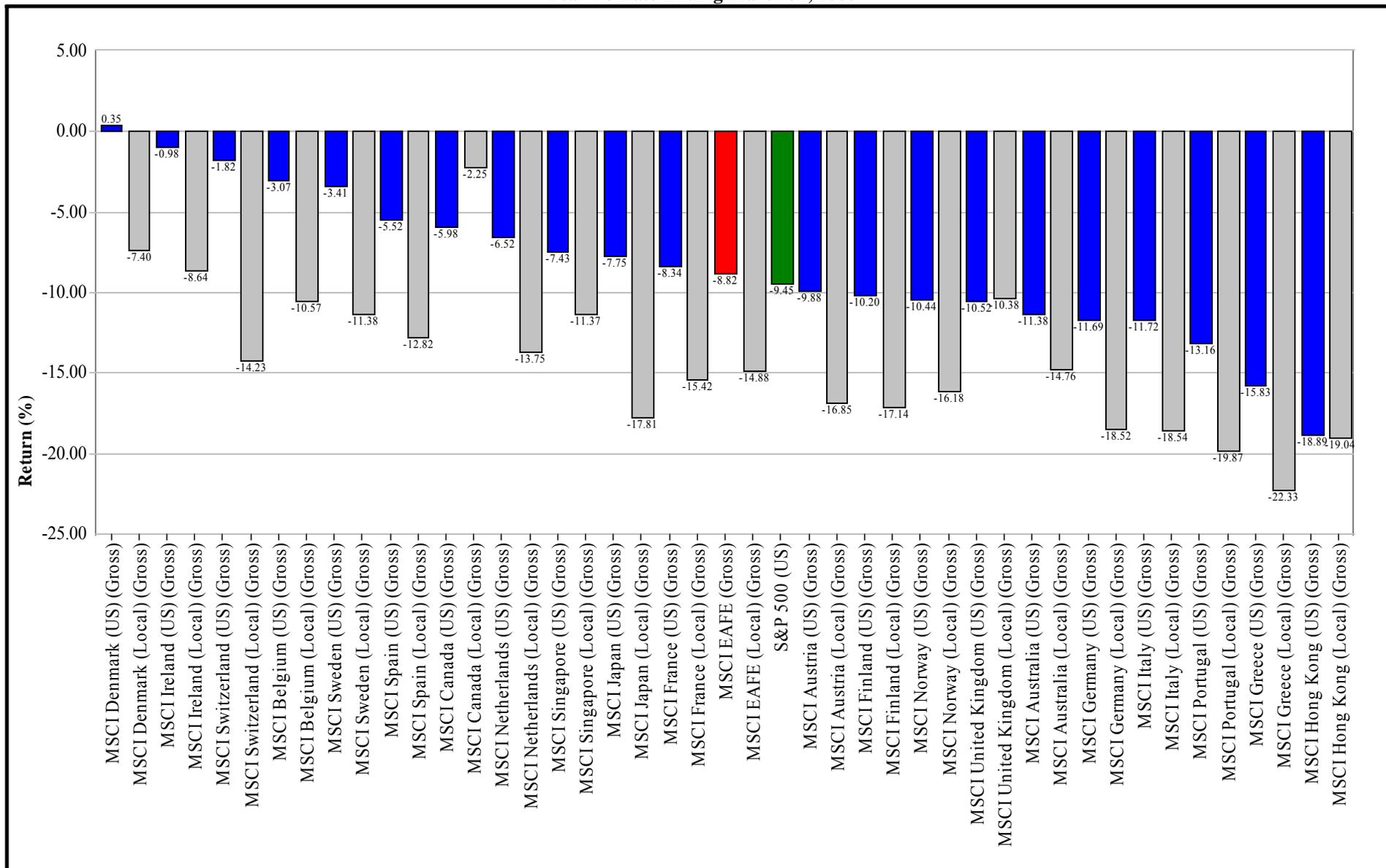
5 Years



Performance for periods greater than one year is annualized.

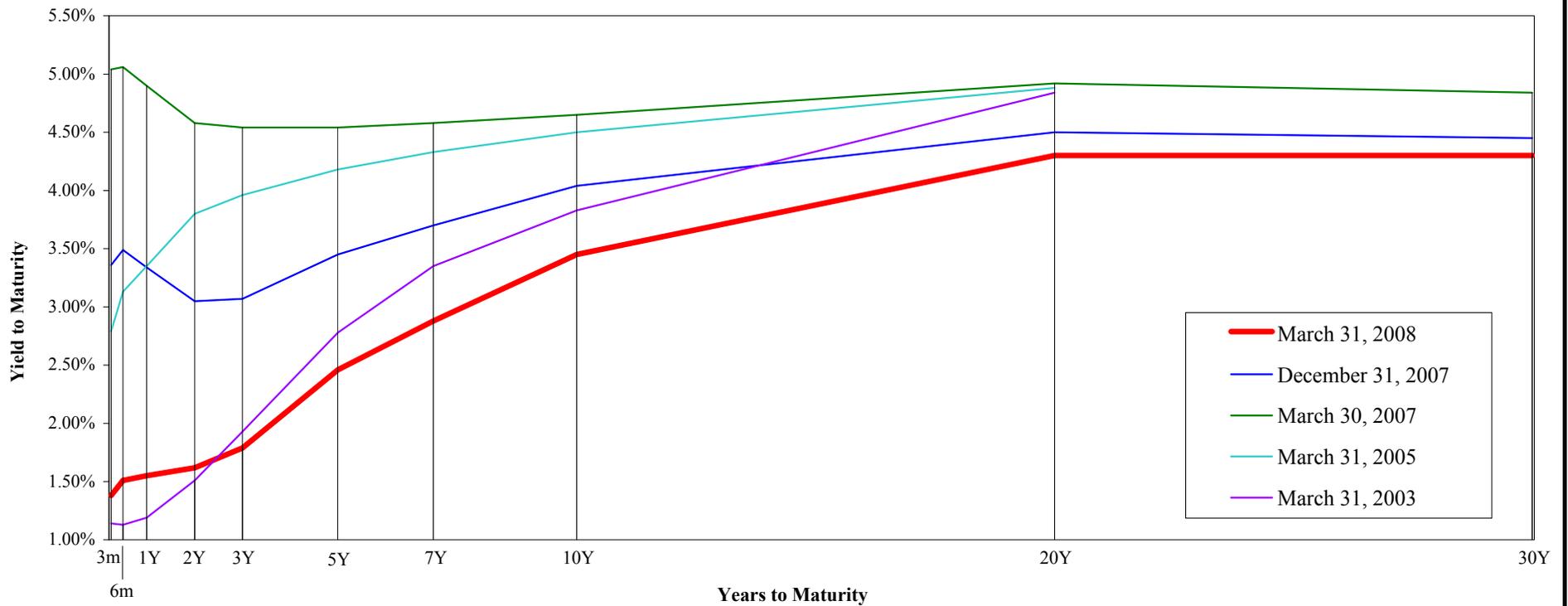
**International Equity Market Performance
As of March 31, 2008**

Year To Date Ending March 31, 2008



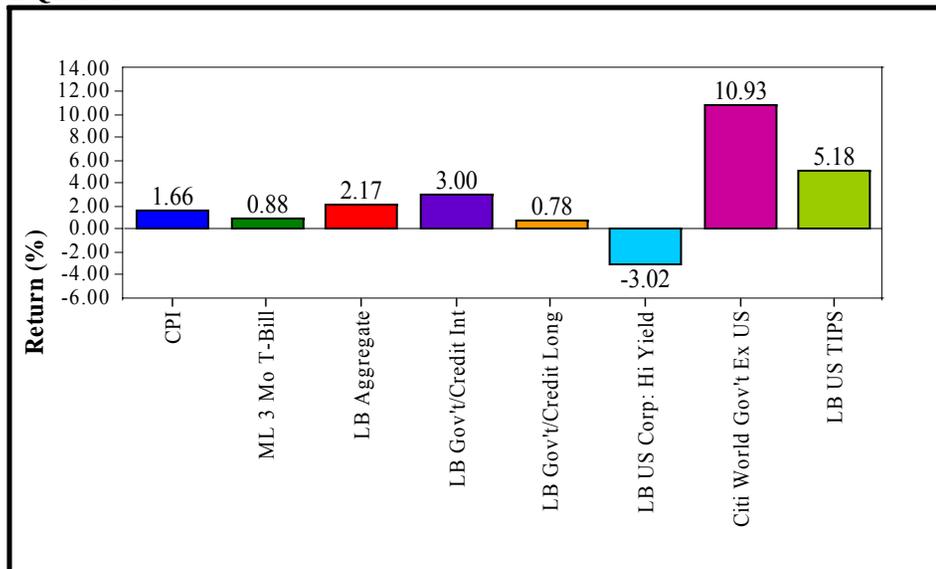
**Treasury Yield Curve
As of March 31, 2008**

	March 31, 2008	December 31, 2007	March 30, 2007	March 31, 2005	March 31, 2003
3 Month	1.38%	3.36%	5.04%	2.79%	1.14%
6 Month	1.51%	3.49%	5.06%	3.13%	1.13%
1 Year	1.55%	3.34%	4.90%	3.35%	1.19%
2 Year	1.62%	3.05%	4.58%	3.80%	1.51%
3 Year	1.79%	3.07%	4.54%	3.96%	1.93%
5 Year	2.46%	3.45%	4.54%	4.18%	2.78%
7 Year	2.88%	3.70%	4.58%	4.33%	3.35%
10 Year	3.45%	4.04%	4.65%	4.50%	3.83%
20 Year	4.30%	4.50%	4.92%	4.88%	4.84%
30 Year	4.30%	4.45%	4.84%	N/A	N/A

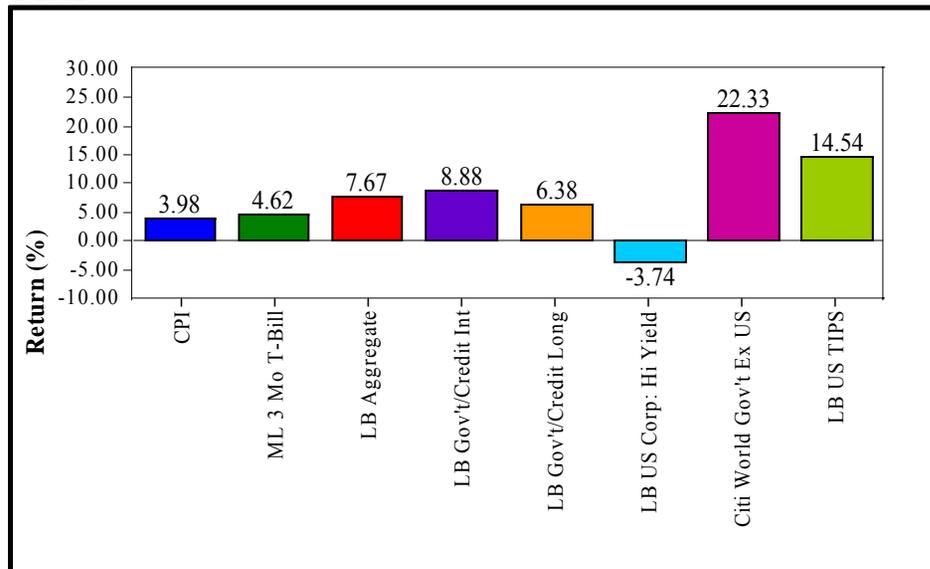


Fixed Income Market Performance As of March 31, 2008

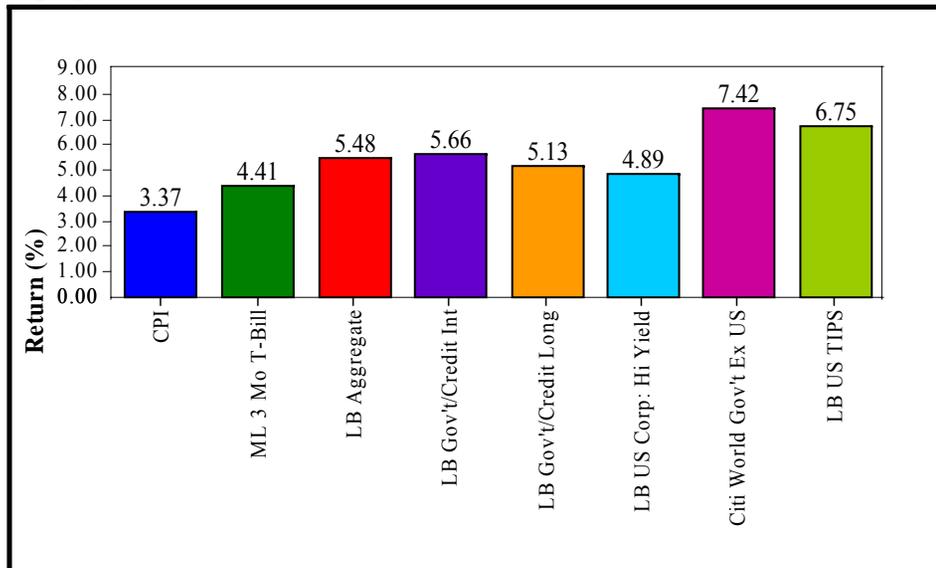
1 Quarter



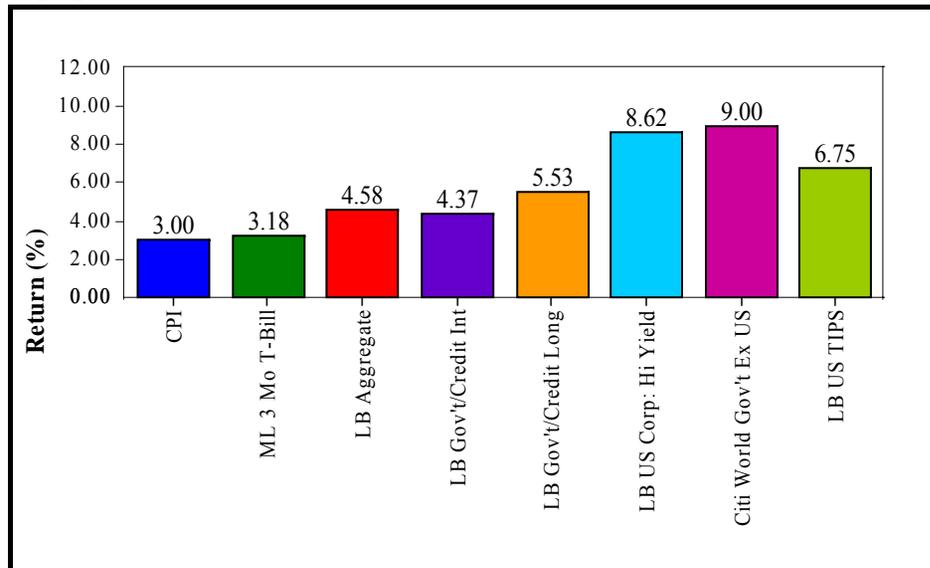
1 Year



3 Years



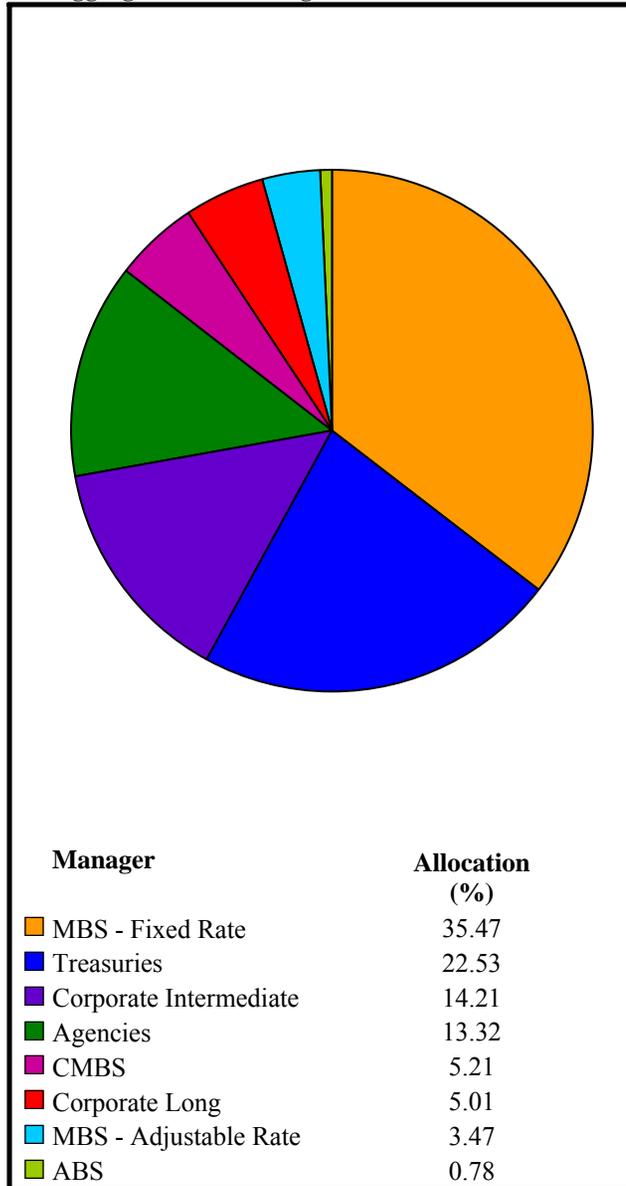
5 Years



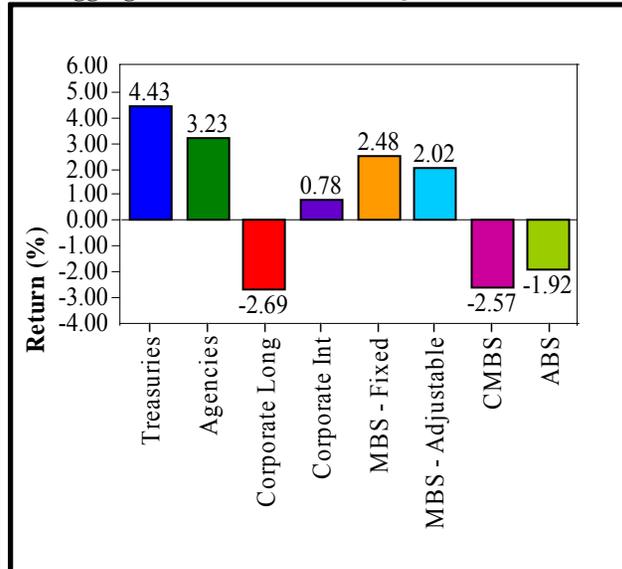
Performance for periods greater than one year is annualized.

Bond Sector Weights and Returns
As of March 31, 2008

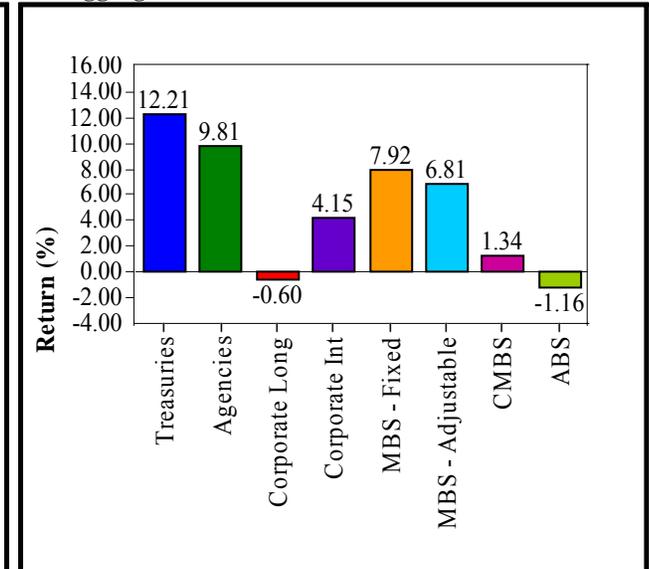
LB Aggregate Sector Weights



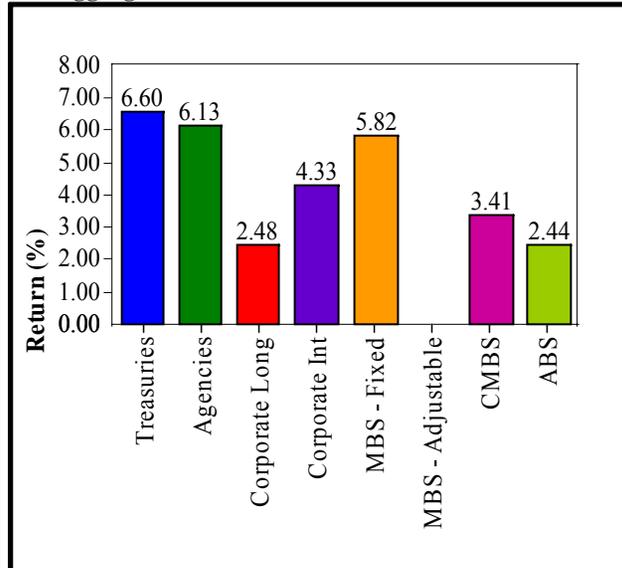
LB Aggregate Sector Returns - 1 Quarter



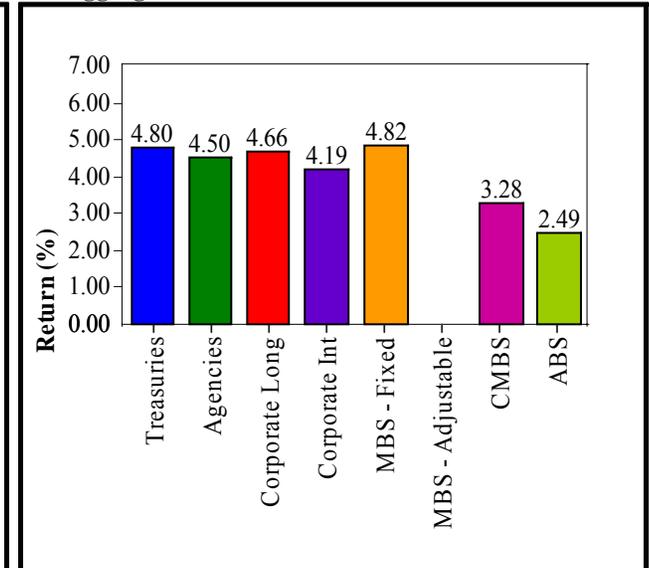
LB Aggregate Sector Returns - 1 Year



LB Aggregate Sector Returns - 3 Years



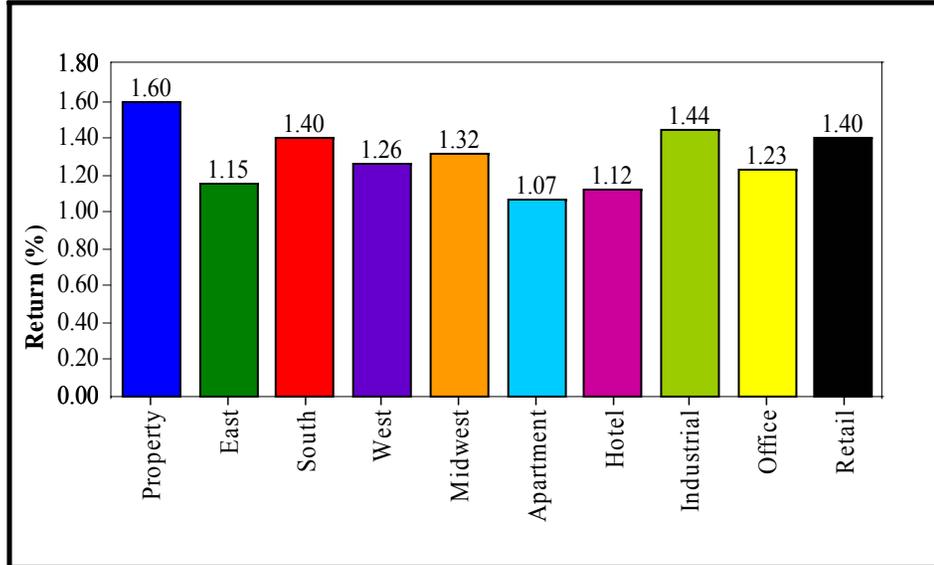
LB Aggregate Sector Returns - 5 Years



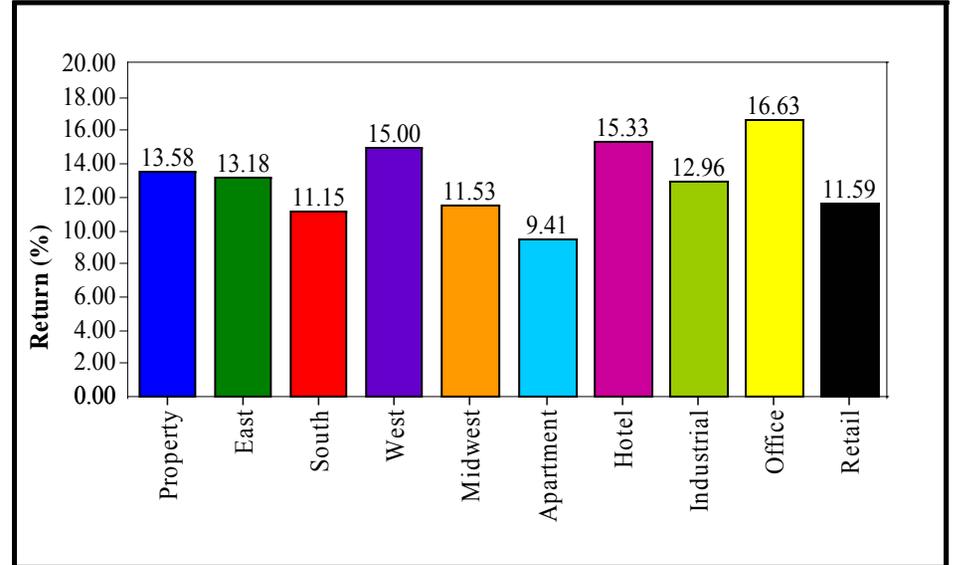
Performance for periods greater than one year is annualized. Returns and allocations provided by Lehman Brothers.

**Real Estate Market Performance
As of March 31, 2008**

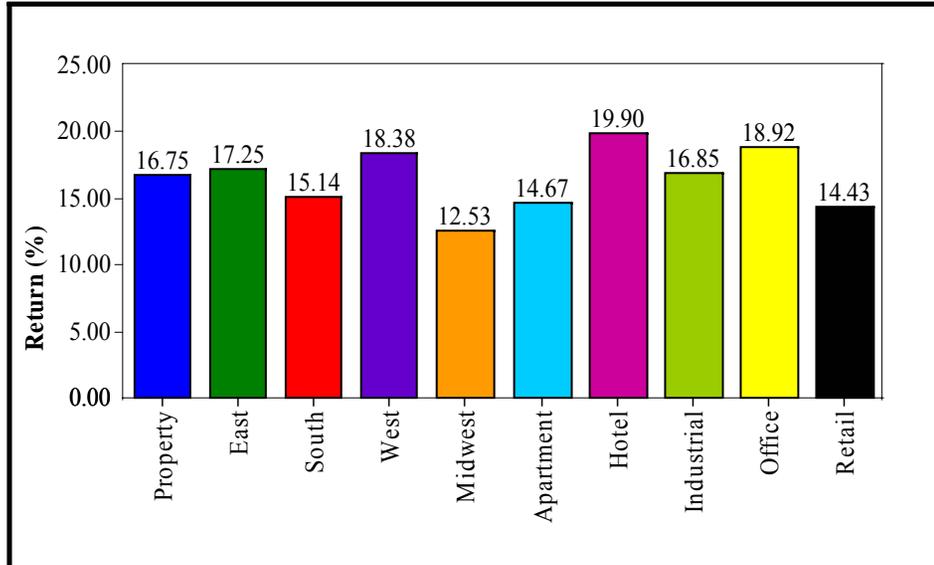
1 Quarter



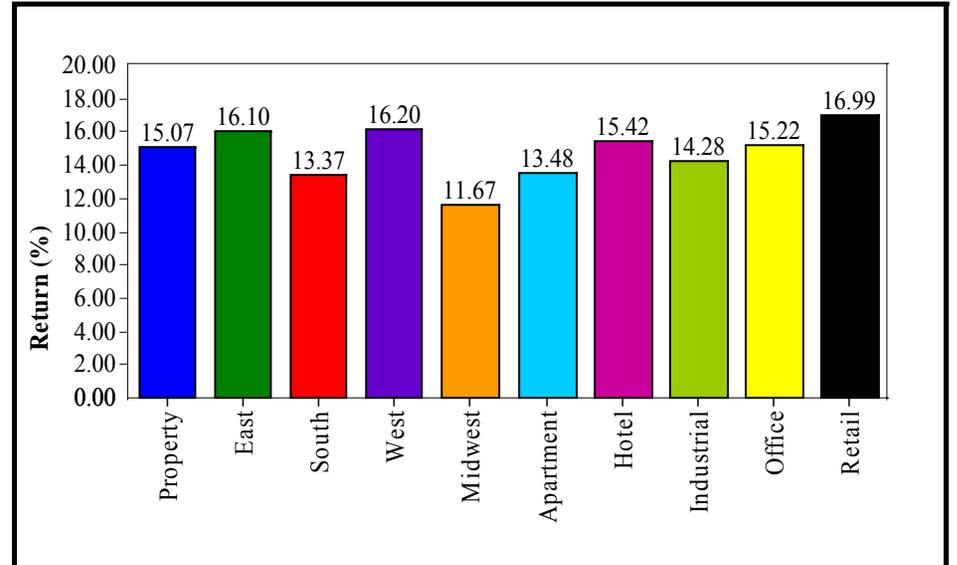
1 Year



3 Years



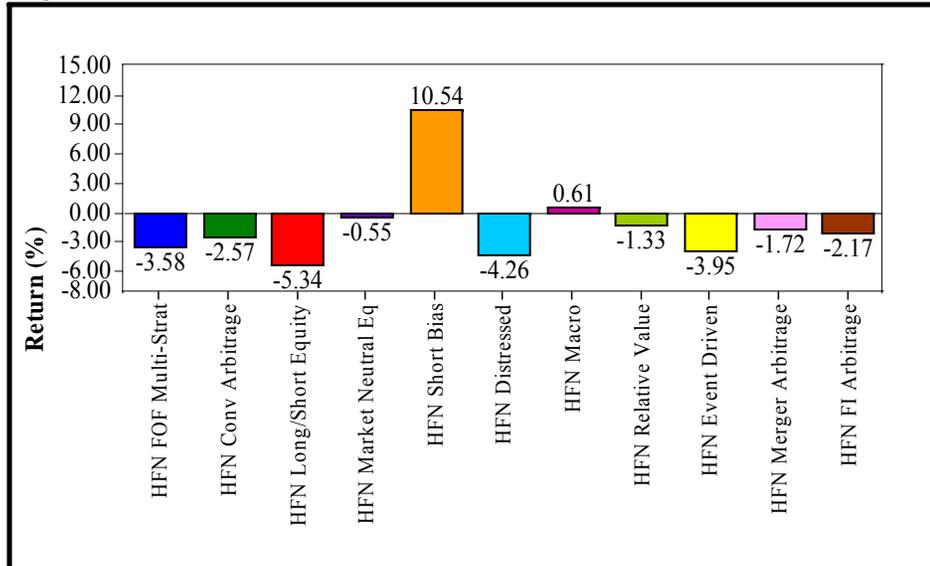
5 Years



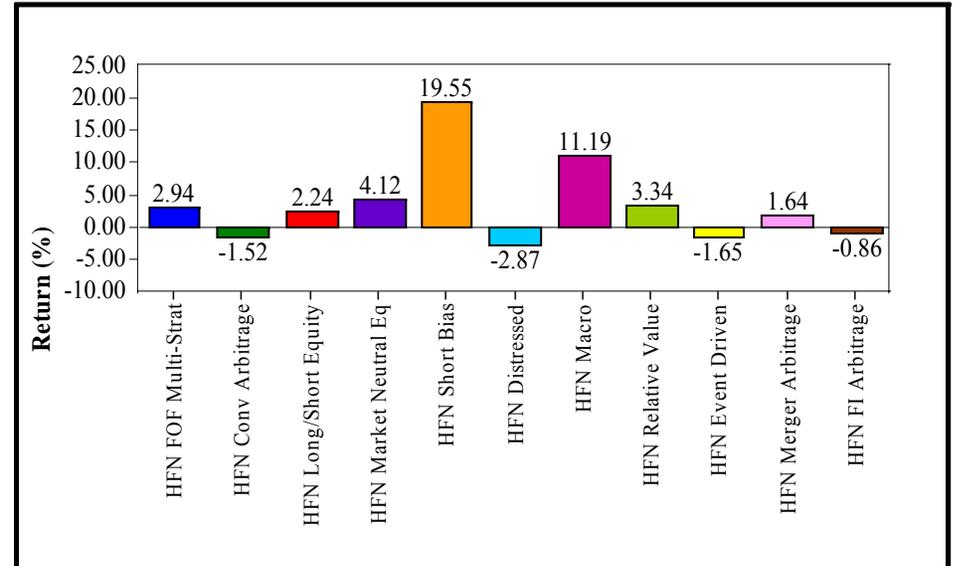
Performance for periods greater than one year is annualized.

Hedge Fund Market Performance As of March 31, 2008

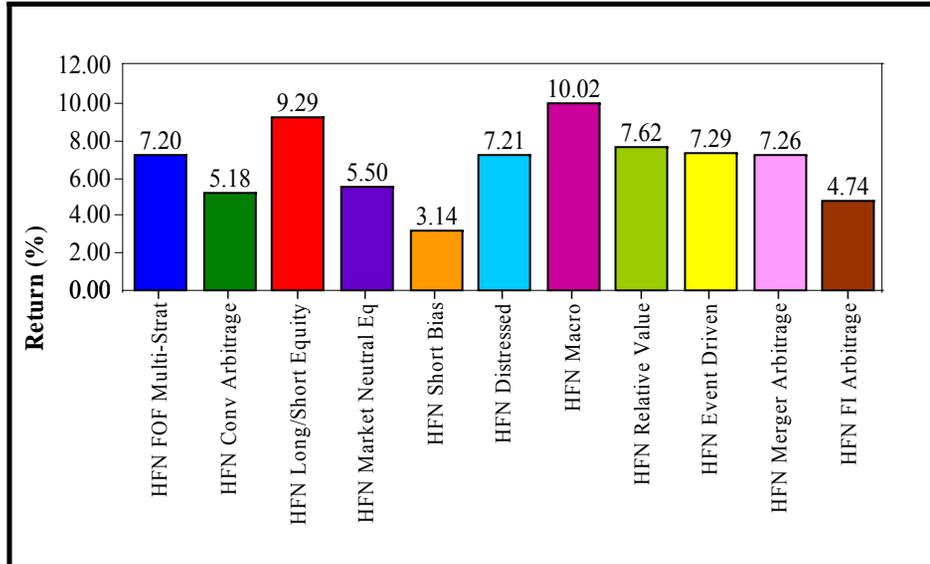
1 Quarter



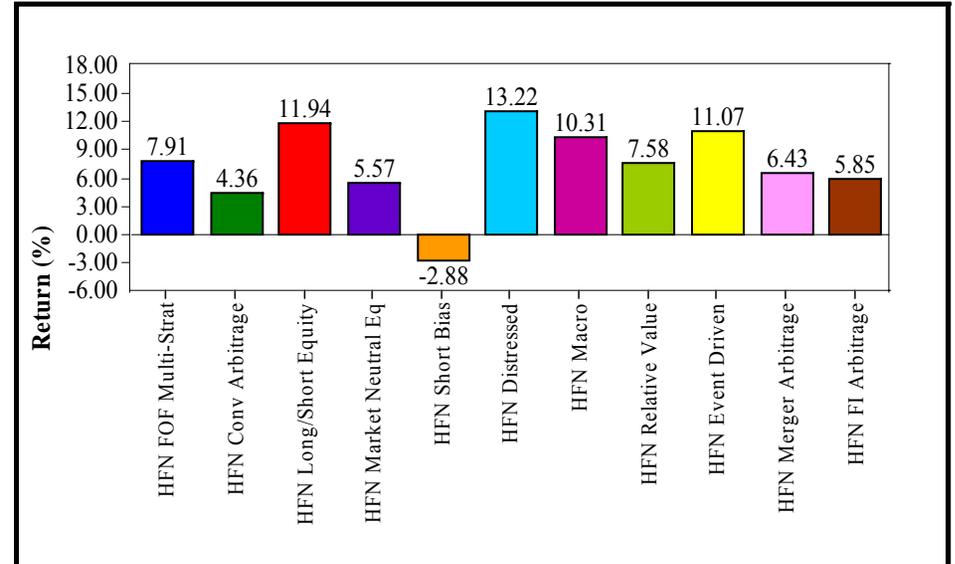
1 Year



3 Years



5 Years



Performance for periods greater than one year is annualized. Values are preliminary and subject to change.

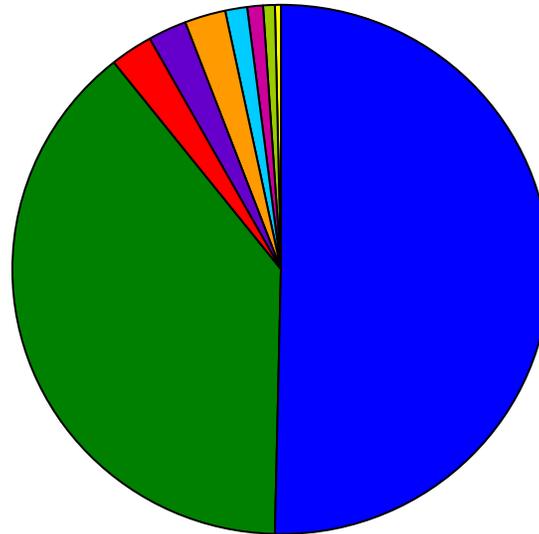
**Annual Asset Class Performance
As of March 31, 2008**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	YTD
Best	16.61%	37.58%	23.17%	33.36%	28.58%	66.42%	31.84%	8.44%	25.91%	62.14%	31.94%	34.54%	32.59%	39.78%	9.60%
	8.06%	29.95%	22.96%	22.36%	20.34%	27.31%	16.16%	7.89%	16.56%	56.28%	25.95%	26.65%	26.86%	16.23%	5.18%
	6.39%	28.44%	17.38%	17.65%	16.24%	24.69%	13.15%	7.29%	14.81%	47.25%	20.70%	21.36%	19.67%	15.84%	2.17%
	4.19%	19.17%	16.49%	14.52%	11.77%	24.35%	12.40%	7.28%	10.25%	39.17%	18.33%	20.06%	18.37%	11.63%	1.60%
	1.32%	18.47%	11.35%	13.90%	8.69%	21.26%	12.24%	6.61%	6.74%	28.97%	14.48%	14.02%	16.59%	11.63%	0.88%
	0.62%	15.21%	10.31%	12.76%	5.23%	21.04%	11.63%	5.28%	3.12%	28.68%	11.13%	6.75%	15.80%	9.91%	0.78%
	-1.03%	13.54%	6.34%	9.65%	3.94%	20.19%	6.18%	4.42%	1.78%	23.93%	10.88%	5.33%	11.85%	6.97%	-3.02%
	-1.82%	11.55%	6.04%	5.33%	3.75%	11.36%	-3.02%	2.49%	-1.41%	11.93%	9.15%	4.91%	9.85%	6.60%	-3.58%
	-2.92%	7.54%	5.30%	2.05%	1.87%	4.85%	-5.86%	-2.37%	-6.00%	8.99%	8.56%	4.55%	4.85%	5.49%	-6.16%
	-7.10%	6.03%	3.63%	-3.39%	-2.55%	2.40%	-7.22%	-11.89%	-7.46%	8.39%	8.46%	3.07%	4.33%	5.00%	-8.82%
	-7.31%	-5.21%	0.14%	-11.60%	-25.33%	2.39%	-9.10%	-12.11%	-15.66%	5.87%	6.79%	2.84%	2.71%	1.87%	-9.45%
	N/A	N/A	N/A	N/A	-27.03%	-0.82%	-13.96%	-19.51%	-20.48%	4.10%	4.34%	2.74%	2.07%	1.78%	-9.90%
Worst	N/A	N/A	N/A	N/A	N/A	-7.65%	-30.61%	-21.21%	-22.10%	1.15%	1.33%	2.43%	0.41%	-1.57%	-10.92%

S & P 500 - US Large Cap	R 2000 - US Small Cap	MSCI EAFE (Gross) - Int'l Dev.	MSCI EAFE Sm Cap (Gross) - SC Int'l	MSCI EMF - Int'l Emerging Markets	LB Agg Bond - FI	LB US Corp: Hi Yield - FI	LB US Treasury: US TIPS - FI	LB Gov't/Credit: Long Term Bond - FI	NCREIF Property - Real Estate	HFN FOF Multi-Strat (Net) - Hedge Fund	DJ/AIG - Commodity	ML 3 Mo T-Bill - Cash Equiv
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**Montana Board of Investments
Asset Allocation
Retirement Plans
As of March 31, 2008**

March 31, 2008 : \$7,714,409,777



Manager	Market Value (\$)	Allocation (%)
Public Employees' Retirement	3,888,044,664	50.40
Teachers' Retirement	2,998,751,469	38.87
Police Retirement	195,691,403	2.54
Sheriff's Retirement	189,609,396	2.46
Firefighters' Retirement	188,034,863	2.44
Highway Patrol Retirement	97,291,222	1.26
Game Wardens' Retirement	72,698,335	0.94
Judges' Retirement	59,199,407	0.77
Volunteer Firefighter's Retirement	25,089,018	0.33

Allocations shown may not sum up to 100% exactly due to rounding.

**Montana Board of Investments
Asset Allocation
Retirement Plans by Asset Class
As of March 31, 2008**

	Domestic Equity		International Equity		Domestic Fixed Income		Real Estate		Alternative Investment		Cash Equivalent		Total Fund	
	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)
Public Employees	1,513,168,720	38.92	743,811,523	19.13	1,048,140,947	26.96	161,466,949	4.15	371,224,718	9.55	50,231,807	1.29	3,888,044,664	50.40
Teachers	1,175,790,269	39.21	571,991,730	19.07	809,260,318	26.99	126,753,158	4.23	284,482,061	9.49	30,473,933	1.02	2,998,751,469	38.87
Police Retirement	76,989,902	39.34	37,477,870	19.15	52,612,199	26.89	7,674,284	3.92	18,774,288	9.59	2,162,860	1.11	195,691,403	2.54
Firefighters	74,134,850	39.43	35,614,283	18.94	50,744,315	26.99	7,331,752	3.90	18,190,461	9.67	2,019,202	1.07	188,034,863	2.44
Sheriffs	73,996,079	39.03	35,705,576	18.83	50,895,591	26.84	7,383,979	3.89	17,810,549	9.39	3,817,622	2.01	189,609,396	2.46
Highway Patrol	37,878,413	38.93	18,644,042	19.16	26,300,696	27.03	3,811,703	3.92	9,306,450	9.57	1,349,918	1.39	97,291,222	1.26
Game Wardens	28,135,022	38.70	13,724,625	18.88	19,350,113	26.62	2,818,771	3.88	6,833,657	9.40	1,836,147	2.53	72,698,335	0.94
Judges	23,077,650	38.98	11,175,107	18.88	15,999,097	27.03	2,318,406	3.92	5,638,152	9.52	990,995	1.67	59,199,407	0.77
Volunteer Firefighters	9,842,999	39.23	4,841,945	19.30	6,786,347	27.05	998,084	3.98	2,413,353	9.62	206,290	0.82	25,089,018	0.33
Total Retirement Plans	3,013,013,904	39.06	1,472,986,701	19.09	2,080,089,623	26.96	320,557,086	4.16	734,673,689	9.52	93,088,774	1.21	7,714,409,777	100.00

Allocations shown may not sum up to 100% exactly due to rounding.

**Montana Board of Investments
Comparative Performance
Retirement Plans
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	10 Years	2007	2006	2005	2004	2003
Public Employees' Retirement - Net	-5.65	-4.25	0.40	7.89	10.92	5.76	8.72	13.82	6.69	9.29	22.52
Public Employees' Benchmark	-5.87	-4.11	0.22	7.25	10.24	5.67	7.37	14.11	5.93	10.15	19.66
<i>Difference</i>	0.22	-0.14	0.18	0.64	0.68	0.09	1.35	-0.29	0.76	-0.86	2.86
Public Employees' Retirement - Gross	-5.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Public Plans-Total Fund Median	-5.02	-3.66	0.80	8.18	12.42	6.52	8.41	13.81	7.90	12.13	24.02
Percentile Rank	71	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Teachers' Retirement - Net	-5.69	-4.30	0.33	7.86	10.92	5.76	8.70	13.76	6.74	9.35	22.54
Teachers' Benchmark	-5.89	-4.14	0.18	7.23	10.25	5.64	7.35	14.06	5.97	10.21	19.60
<i>Difference</i>	0.20	-0.16	0.15	0.63	0.67	0.12	1.35	-0.30	0.77	-0.86	2.94
Teachers' Retirement - Gross	-5.63	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Public Plans-Total Fund Median	-5.02	-3.66	0.80	8.18	12.42	6.52	8.41	13.81	7.90	12.13	24.02
Percentile Rank	71	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Police Retirement - Net	-5.71	-4.37	0.26	7.79	10.77	5.61	8.61	13.72	6.66	9.07	22.31
Police Benchmark	-5.92	-4.22	0.10	7.14	10.05	5.50	7.27	13.98	5.86	9.92	19.06
<i>Difference</i>	0.21	-0.15	0.16	0.65	0.72	0.11	1.34	-0.26	0.80	-0.85	3.25
Police Retirement - Gross	-5.65	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Public Plans-Total Fund Median	-5.02	-3.66	0.80	8.18	12.42	6.52	8.41	13.81	7.90	12.13	24.02
Percentile Rank	71	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Performance is annualized for periods greater than one year.
All Public Plans - Total Fund Median is reported gross of fees.

**Montana Board of Investments
Comparative Performance
Retirement Plans
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	10 Years	2007	2006	2005	2004	2003
Firefighters' Retirement - Net	-5.65	-4.29	0.34	7.82	10.80	5.62	8.64	13.73	6.65	9.08	22.41
Firefighters' Benchmark	-5.87	-4.15	0.15	7.16	10.08	5.49	7.28	13.99	5.85	9.93	19.14
<i>Difference</i>	0.22	-0.14	0.19	0.66	0.72	0.13	1.36	-0.26	0.80	-0.85	3.27
Firefighters' Retirement - Gross	-5.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Public Plans-Total Fund Median	-5.02	-3.66	0.80	8.18	12.42	6.52	8.41	13.81	7.90	12.13	24.02
Percentile Rank	71	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sheriff's Retirement - Net	-5.62	-4.23	0.38	7.83	10.87	5.69	8.64	13.74	6.62	9.26	22.63
Sheriff's Benchmark	N/A	N/A	N/A	N/A	N/A	N/A	7.30	14.01	5.82	10.10	19.36
<i>Difference</i>	N/A	N/A	N/A	N/A	N/A	N/A	1.34	-0.27	0.80	-0.84	3.27
Sheriff's Retirement - Gross	-5.56	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Public Plans-Total Fund Median	-5.02	-3.66	0.80	8.18	12.42	6.52	8.41	13.81	7.90	12.13	24.02
Percentile Rank	70	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Highway Patrol Retirement - Net	-5.66	-4.23	0.41	7.89	10.93	5.65	8.74	13.82	6.65	9.34	22.67
Highway Patrol Benchmark	-5.86	-4.07	0.23	7.24	10.20	5.55	7.39	14.11	5.84	10.19	19.39
<i>Difference</i>	0.20	-0.16	0.18	0.65	0.73	0.10	1.35	-0.29	0.81	-0.85	3.28
Highway Patrol Retirement - Gross	-5.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Public Plans-Total Fund Median	-5.02	-3.66	0.80	8.18	12.42	6.52	8.41	13.81	7.90	12.13	24.02
Percentile Rank	71	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

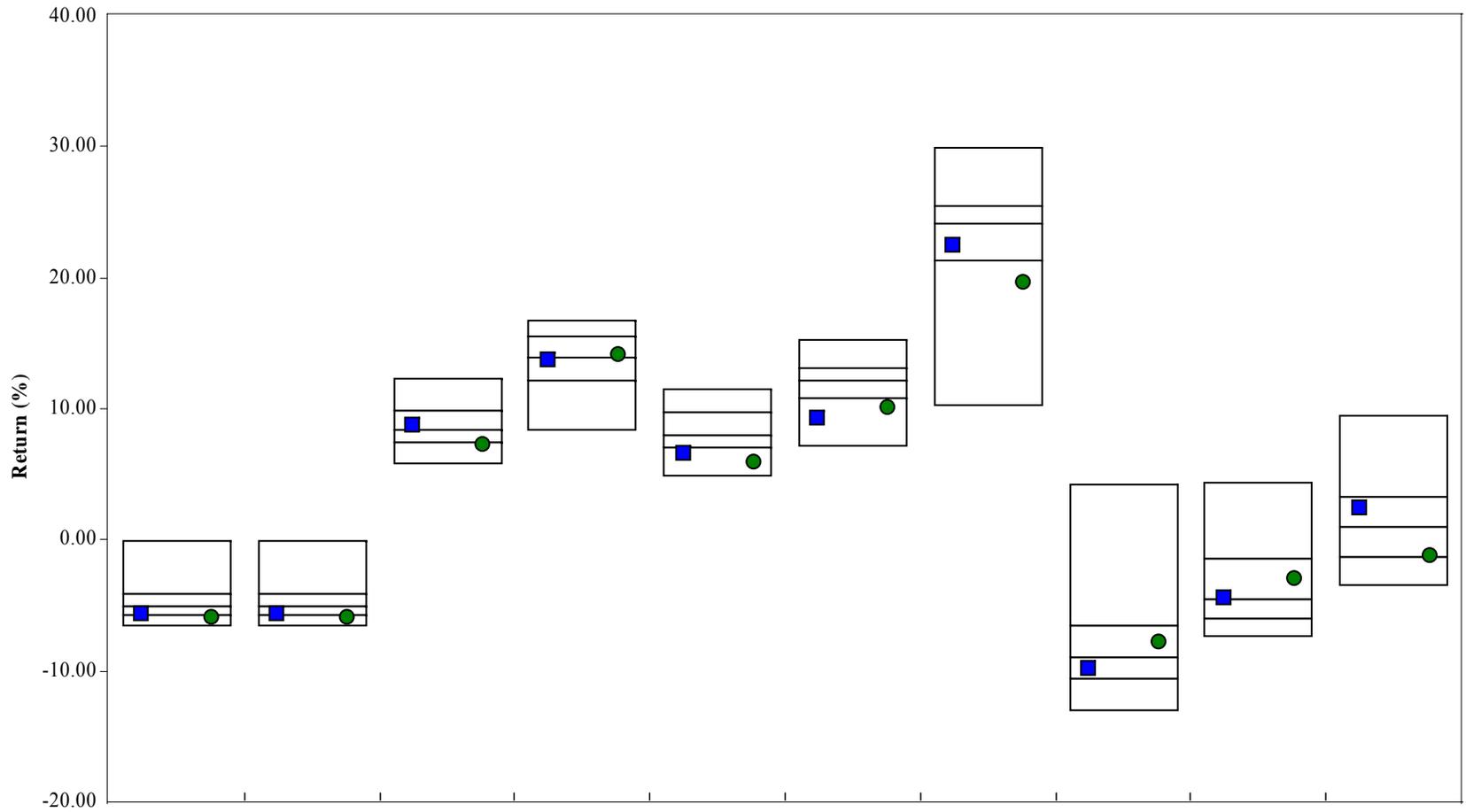
Performance is annualized for periods greater than one year.
All Public Plans - Total Fund Median is reported gross of fees.

**Montana Board of Investments
Comparative Performance
Retirement Plans
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	10 Years	2007	2006	2005	2004	2003
Game Wardens' Retirement - Net	-5.61	-4.20	0.41	7.72	10.73	5.65	8.65	13.66	6.38	8.97	22.54
Game Wardens' Benchmark	-5.80	-4.04	0.24	7.09	10.03	5.55	7.32	13.91	5.62	9.80	19.33
<i>Difference</i>	0.19	-0.16	0.17	0.63	0.70	0.10	1.33	-0.25	0.76	-0.83	3.21
Game Wardens' Retirement - Gross	-5.54	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Public Plans-Total Fund Median	-5.02	-3.66	0.80	8.18	12.42	6.52	8.41	13.81	7.90	12.13	24.02
Percentile Rank	70	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Judges' Retirement - Net	-5.63	-4.23	0.39	7.85	10.88	5.66	8.68	13.78	6.61	9.25	22.65
Judges' Benchmark	-5.84	-4.08	0.22	7.20	10.16	5.57	7.33	14.05	5.82	10.09	19.38
<i>Difference</i>	0.21	-0.15	0.17	0.65	0.72	0.09	1.35	-0.27	0.79	-0.84	3.27
Judges' Retirement - Gross	-5.57	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Public Plans-Total Fund Median	-5.02	-3.66	0.80	8.18	12.42	6.52	8.41	13.81	7.90	12.13	24.02
Percentile Rank	70	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Volunteer Firefighter's Retirement - Net	-5.72	-4.25	0.40	7.81	10.85	6.35	8.80	13.82	6.44	9.12	22.61
Volunteer Firefighter's Benchmark	-5.93	-4.10	0.23	7.14	10.10	6.18	7.43	14.05	5.65	9.95	19.31
<i>Difference</i>	0.21	-0.15	0.17	0.67	0.75	0.17	1.37	-0.23	0.79	-0.83	3.30
Volunteer Firefighter's Retirement - Gross	-5.66	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All Public Plans-Total Fund Median	-5.02	-3.66	0.80	8.18	12.42	6.52	8.41	13.81	7.90	12.13	24.02
Percentile Rank	71	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Performance is annualized for periods greater than one year.
All Public Plans - Total Fund Median is reported gross of fees.

**Montana Board of Investments
All Public Plans-Total Fund
Plan Sponsor Peer Group Analysis
As of March 31, 2008**



	1 Quarter	Year To Date	2007	2006	2005	2004	2003	2002	2001	2000
■ Public Employees' Retirement	-5.65 (71)	-5.65 (71)	8.72 (45)	13.82 (51)	6.69 (83)	9.29 (91)	22.52 (66)	-9.80 (68)	-4.44 (50)	2.52 (37)
● Public Employees' Benchmark	-5.87 (77)	-5.87 (77)	7.37 (77)	14.11 (47)	5.93 (91)	10.15 (83)	19.66 (80)	-7.73 (40)	-2.87 (36)	-1.22 (75)
Median	-5.04	-5.04	8.44	13.89	7.93	12.14	24.12	-8.98	-4.51	0.94
Population	63	63	59	58	58	57	57	54	51	47

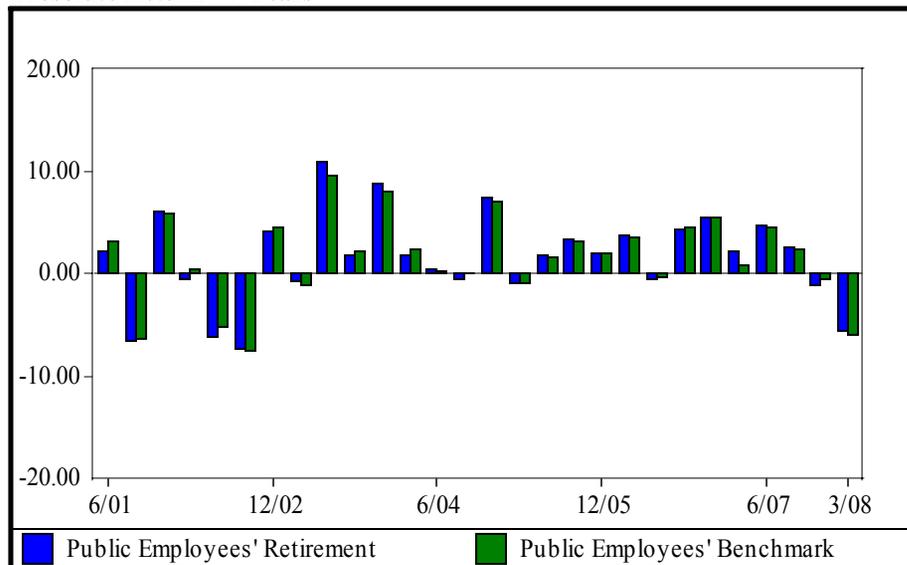
Performance shown is net of fees. Performance is annualized for periods greater than one year. Parentheses contain percentile ranks.
All Public Plans - Total Fund is reported gross of fees.

Montana Board of Investments
Public Employees' Retirement vs. All Public Plans - Total Fund
As of March 31, 2008

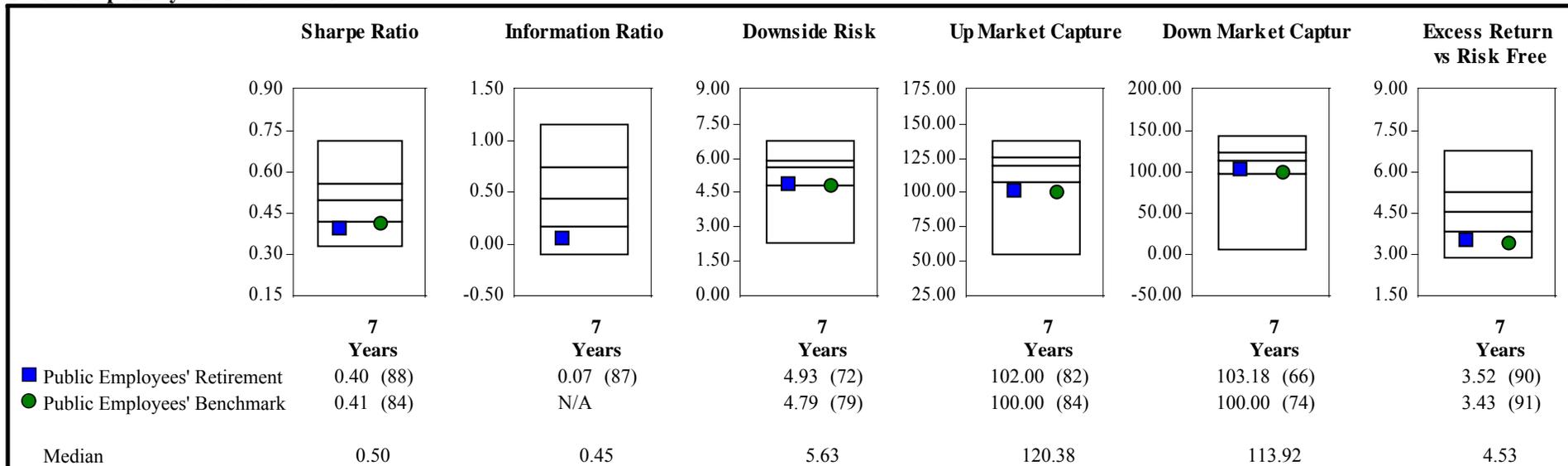
Plan Sponsor Scattergram - 7 Years



Absolute Return - 7 Years



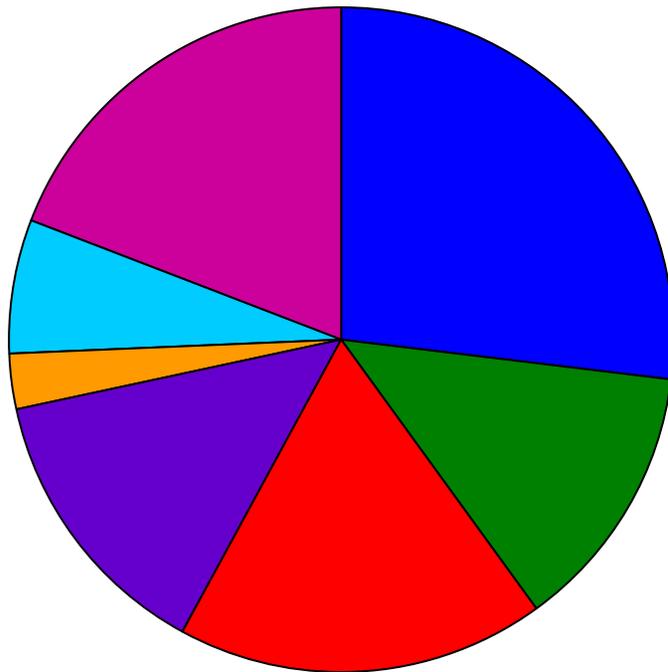
Peer Group Analysis-Multi Statistics



Performance shown is net of fees. Calculation is based on quarterly periodicity. Parentheses contain percentile ranks. All Public Plans - Total Fund is reported gross of fees.

**Montana Board of Investments
Asset Allocation
Investment Pools
As of March 31, 2008**

March 31, 2008 : \$11,203,072,881



Manager	Market Value (\$)	Allocation (%)
Montana Domestic Equity Pool	3,013,712,811	26.90
Montana International Equity Pool	1,469,538,065	13.12
Retirement Funds Bond Pool	2,008,008,848	17.92
Trust Funds Bond Pool	1,530,496,920	13.66
Real Estate Pool	303,449,248	2.71
Private Equity Pool	734,538,170	6.56
Short Term Investment Pool	2,143,328,819	19.13

Allocation shown may not sum up to 100% exactly due to rounding.

**Montana Board of Investments
Comparative Performance
Investment Pools
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	10 Years	2007	2006	2005	2004	2003
Montana Domestic Equity Pool	-10.50	-12.09	-6.57	4.82	N/A	N/A	5.12	14.02	4.91	9.13	N/A
S&P 1500 Super Composite Index	-9.33	-10.96	-5.45	5.94	11.80	3.99	5.47	15.34	5.65	11.78	29.60
<i>Difference</i>	<i>-1.17</i>	<i>-1.13</i>	<i>-1.12</i>	<i>-1.12</i>	<i>N/A</i>	<i>N/A</i>	<i>-0.35</i>	<i>-1.32</i>	<i>-0.74</i>	<i>-2.65</i>	<i>N/A</i>
Montana International Equity Pool	-9.85	-8.59	-0.77	14.71	21.65	8.05	14.56	28.75	13.73	18.87	35.77
International Custom Benchmark	-9.15	-5.58	2.15	15.34	22.89	6.99	16.65	26.86	14.02	20.70	39.17
<i>Difference</i>	<i>-0.70</i>	<i>-3.01</i>	<i>-2.92</i>	<i>-0.63</i>	<i>-1.24</i>	<i>1.06</i>	<i>-2.09</i>	<i>1.89</i>	<i>-0.29</i>	<i>-1.83</i>	<i>-3.40</i>
Retirement Funds Bond Pool	1.37	6.61	6.38	5.52	5.50	6.76	6.74	5.19	3.58	5.34	8.94
LB Aggregate Bond Index	2.17	8.23	7.67	5.48	4.58	6.04	6.97	4.33	2.43	4.34	4.10
<i>Difference</i>	<i>-0.80</i>	<i>-1.62</i>	<i>-1.29</i>	<i>0.04</i>	<i>0.92</i>	<i>0.72</i>	<i>-0.23</i>	<i>0.86</i>	<i>1.15</i>	<i>1.00</i>	<i>4.84</i>
Trust Funds Bond Pool	1.83	7.30	6.94	5.79	5.69	6.73	6.83	5.24	3.79	5.31	7.94
LB Aggregate Bond Index	2.17	8.23	7.67	5.48	4.58	6.04	6.97	4.33	2.43	4.34	4.10
<i>Difference</i>	<i>-0.34</i>	<i>-0.93</i>	<i>-0.73</i>	<i>0.31</i>	<i>1.11</i>	<i>0.69</i>	<i>-0.14</i>	<i>0.91</i>	<i>1.36</i>	<i>0.97</i>	<i>3.84</i>
Real Estate Pool	1.92	4.61	7.64	N/A	N/A	N/A	6.26	N/A	N/A	N/A	N/A
NCREIF ODCE Index (Net) (Asset Wtd Avg)	1.13	6.83	11.98	15.55	13.94	11.66	14.83	15.27	20.17	12.01	8.28
<i>Difference</i>	<i>0.79</i>	<i>-2.22</i>	<i>-4.34</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>-8.57</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Short Term Investment Pool	1.00	3.74	5.14	4.79	3.46	4.09	5.49	5.16	3.36	1.46	1.24
1 Month LIBOR Index	0.89	3.50	4.85	4.70	3.42	3.87	5.28	5.13	3.46	1.54	1.20
<i>Difference</i>	<i>0.11</i>	<i>0.24</i>	<i>0.29</i>	<i>0.09</i>	<i>0.04</i>	<i>0.22</i>	<i>0.21</i>	<i>0.03</i>	<i>-0.10</i>	<i>-0.08</i>	<i>0.04</i>
Short Term Investment Pool	1.00	3.74	5.14	4.79	3.46	4.09	5.49	5.16	3.36	1.46	1.24
iMoneynet Money Fund (Gross) Median	1.01	3.71	5.10	4.78	3.45	3.96	5.44	5.18	3.32	1.44	1.26
<i>Difference</i>	<i>-0.01</i>	<i>0.03</i>	<i>0.04</i>	<i>0.01</i>	<i>0.01</i>	<i>0.13</i>	<i>0.05</i>	<i>-0.02</i>	<i>0.04</i>	<i>0.02</i>	<i>-0.02</i>

Performance shown is net of fees. Performance is annualized for periods greater than one year.

**Montana Board of Investments
Comparative Performance
Investment Pools
As of December 31, 2007**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	10 Years	2007	2006	2005	2004	2003
Private Equity Pool	2.44	9.53	16.34	16.27	21.31	N/A	23.79	17.48	22.81	22.81	27.82
S&P 1500 + 4%	-8.33	-7.96	-1.45	9.94	15.80	7.99	9.47	19.34	9.65	15.78	33.60
Difference	10.77	17.49	17.79	6.33	5.51	N/A	14.32	-1.86	13.16	7.03	N/A

Performance is shown net of fees. Performance is annualized for periods greater than one year.

**Montana Board of Investments
Comparative Performance
Equity Composites
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003
Domestic Large Cap Equity - Net	-10.74	-11.53	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
R 1000 Index	-9.48	-10.67	-5.40	6.19	11.86	5.77	15.46	6.27	11.40	29.89
<i>Difference</i>	-1.26	-0.86	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Domestic Large Cap Equity - Gross	-10.68	-11.41	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
US Large Cap Equity (SA+CF) Median	-9.55	-9.93	-4.31	6.54	12.37	6.76	15.30	7.37	12.00	29.54
Percentile Rank	69	66	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Domestic Mid Cap Equity - Net	-7.11	-12.42	-6.94	6.38	N/A	3.68	10.46	15.04	N/A	N/A
R Mid Cap Index	-9.98	-13.50	-8.92	7.36	16.31	5.60	15.26	12.65	20.22	40.06
<i>Difference</i>	2.87	1.08	1.98	-0.98	N/A	-1.92	-4.80	2.39	N/A	N/A
Domestic Mid Cap Equity - Gross	-6.98	-11.95	-6.33	6.61	N/A	4.22	10.46	15.04	N/A	N/A
US Mid Cap Equity (SA+CF) Median	-10.12	-12.04	-6.38	7.94	15.78	8.69	13.55	12.02	18.00	36.85
Percentile Rank	15	48	50	70	N/A	73	72	22	N/A	N/A
Domestic Small Cap Equity - Net	-12.91	-18.58	-13.64	5.23	N/A	1.57	16.91	7.47	20.27	N/A
R 2000 Index	-9.90	-16.68	-13.00	5.06	14.90	-1.57	18.37	4.55	18.33	47.25
<i>Difference</i>	-3.01	-1.90	-0.64	0.17	N/A	3.14	-1.46	2.92	1.94	N/A
Domestic Small Cap Equity - Gross	-12.82	-18.20	-13.15	5.58	16.36	2.12	17.33	7.47	20.27	N/A
US Small Cap Equity (SA+CF) Median	-10.64	-16.87	-11.76	5.76	15.72	2.16	15.71	7.83	19.15	46.05
Percentile Rank	69	58	59	54	43	51	39	54	45	N/A

Performance is annualized for periods greater than one year.

**Montana Board of Investments
Comparative Performance
Equity Composites
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003
International Large Cap Equity - Net	-10.19	-8.19	-0.12	N/A	N/A	15.43	25.72	N/A	N/A	N/A
MSCI ACW Ex US Index	-9.15	-5.58	2.15	16.01	23.54	16.65	26.65	16.62	20.91	40.83
<i>Difference</i>	<i>-1.04</i>	<i>-2.61</i>	<i>-2.27</i>	N/A	N/A	<i>-1.22</i>	<i>-0.93</i>	N/A	N/A	N/A
International Large Cap Equity - Gross	-10.08	-7.89	0.37	N/A	N/A	15.95	25.80	N/A	N/A	N/A
International Active Equity (SA+CF) Median	-8.69	-6.53	0.67	14.78	22.70	13.30	26.70	16.10	19.58	37.80
Percentile Rank	78	64	52	N/A	N/A	39	60	N/A	N/A	N/A
International Small Cap Equity - Net	-5.38	-13.70	-8.58	N/A	N/A	3.78	N/A	N/A	N/A	N/A
MSCI EAFE Sm Cap Index	-6.24	-14.78	-11.18	11.15	25.61	1.45	19.31	26.19	31.45	61.34
<i>Difference</i>	<i>0.86</i>	<i>1.08</i>	<i>2.60</i>	N/A	N/A	<i>2.33</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
International Small Cap Equity - Gross	-5.32	-13.55	-8.34	N/A	N/A	4.06	N/A	N/A	N/A	N/A
International Small Cap Equity (SA+CF) Median	-7.57	-13.33	-8.00	16.59	28.95	7.53	29.07	26.23	29.75	57.61
Percentile Rank	9	52	55	N/A	N/A	70	N/A	N/A	N/A	N/A

Performance is annualized for periods greater than one year.

**Montana Board of Investments
Comparative Performance
Equity Sub Composites
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003
Domestic Large Cap Value - Net	-10.46	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
R 1000 Value Index	-8.72	-14.22	-9.99	6.01	13.68	-0.17	22.25	7.05	16.49	30.03
<i>Difference</i>	-1.74	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Domestic Large Cap Value - Gross	-10.40	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
US Value/Large Cap Equity (SA+CF) Median	-8.86	-12.57	-6.89	6.66	13.99	2.95	18.95	8.20	15.35	30.84
Percentile Rank	74	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Domestic Large Cap Enhanced - Net	-12.45	-15.19	-10.47	N/A	N/A	3.09	N/A	N/A	N/A	N/A
S&P 500 Index (Cap Weighted)	-9.45	-10.68	-5.08	5.85	11.32	5.49	15.80	4.91	10.88	28.68
<i>Difference</i>	-3.00	-4.51	-5.39	N/A	N/A	-2.40	N/A	N/A	N/A	N/A
Domestic Large Cap Enhanced - Gross	-12.38	-14.99	-10.19	N/A	N/A	3.41	N/A	N/A	N/A	N/A
US Core/Large Cap Equity (SA+CF) Median	-9.47	-10.67	-5.10	6.30	11.90	6.12	15.75	6.73	11.65	28.84
Percentile Rank	94	92	94	N/A	N/A	80	N/A	N/A	N/A	N/A
Domestic Large Cap Passive - Net	-9.60	-10.43	-4.59	5.06	10.37	5.68	13.89	4.58	7.95	N/A
S&P 500 Index (Cap Weighted)	-9.45	-10.68	-5.08	5.85	11.32	5.49	15.80	4.91	10.88	28.68
<i>Difference</i>	-0.15	0.25	0.49	-0.79	-0.95	0.19	-1.91	-0.33	-2.93	N/A
Domestic Large Cap Passive - Gross	-9.60	-10.43	-4.59	5.07	10.37	5.68	13.89	4.58	7.95	N/A
US Core/Large Cap Equity (SA+CF) Median	-9.47	-10.67	-5.10	6.30	11.90	6.12	15.75	6.73	11.65	28.84
Percentile Rank	57	44	40	86	90	60	75	86	91	N/A
Domestic Large Cap Growth - Net	-11.44	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
R 1000 Growth Index	-10.18	-7.12	-0.75	6.33	9.96	11.81	9.07	5.26	6.30	29.75
<i>Difference</i>	-1.26	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Domestic Large Cap Growth - Gross	-11.29	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
US Growth/Large Cap Equity (SA+CF) Median	-10.78	-6.16	-0.26	6.94	11.21	13.23	9.06	7.41	9.33	28.88
Percentile Rank	60	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Performance is annualized for periods greater than one year.

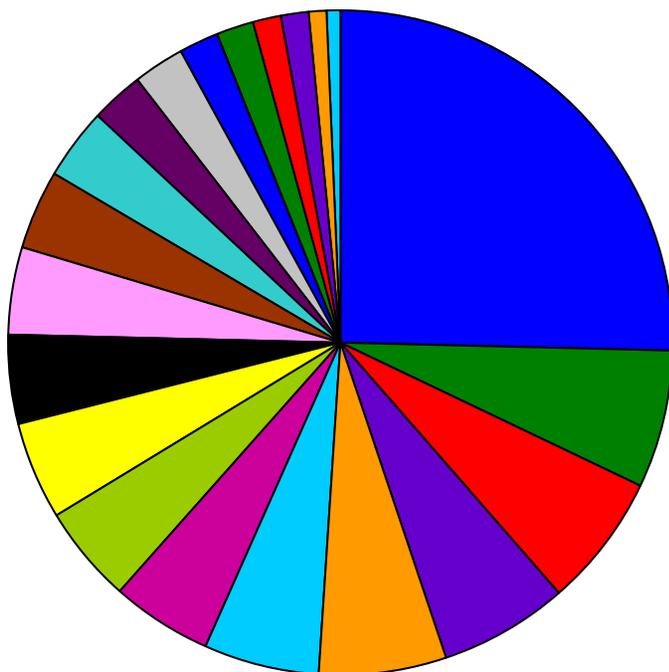
**Montana Board of Investments
Comparative Performance
Equity Sub Composites
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003
International Large Cap Value - Net	-10.21	-11.37	-2.94	N/A	N/A	12.93	N/A	N/A	N/A	N/A
MSCI ACW Ex US Value Index	-9.53	-8.80	-1.51	15.09	25.07	12.31	29.74	16.53	25.08	47.34
<i>Difference</i>	<i>-0.68</i>	<i>-2.57</i>	<i>-1.43</i>	<i>N/A</i>	<i>N/A</i>	<i>0.62</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
International Large Cap Value - Gross	-10.07	-10.94	-2.23	N/A	N/A	13.71	N/A	N/A	N/A	N/A
International Active Value Equity (SA+CF) Median	-8.04	-8.10	-1.61	13.78	23.42	10.96	28.42	14.69	23.69	42.36
Percentile Rank	85	79	55	N/A	N/A	25	N/A	N/A	N/A	N/A
International Large Cap Core - Net	-9.38	-7.05	0.91	N/A	N/A	15.63	29.15	N/A	N/A	N/A
MSCI ACW Ex US Index	-9.15	-5.58	2.15	16.01	23.54	16.65	26.65	16.62	20.91	40.83
<i>Difference</i>	<i>-0.23</i>	<i>-1.47</i>	<i>-1.24</i>	<i>N/A</i>	<i>N/A</i>	<i>-1.02</i>	<i>2.50</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
International Large Cap Core - Gross	-9.27	-6.75	1.34	N/A	N/A	16.11	29.15	N/A	N/A	N/A
International Active Core Equity (SA+CF) Median	-8.82	-6.50	1.33	15.49	22.24	15.35	27.95	17.51	17.96	36.21
Percentile Rank	71	54	50	N/A	N/A	40	34	N/A	N/A	N/A
International Large Cap Growth - Net	-11.81	-7.56	0.70	N/A	N/A	18.29	N/A	N/A	N/A	N/A
MSCI ACW Ex US Growth Index	-8.76	-2.35	5.83	16.90	21.94	21.03	23.61	16.71	16.73	34.42
<i>Difference</i>	<i>-3.05</i>	<i>-5.21</i>	<i>-5.13</i>	<i>N/A</i>	<i>N/A</i>	<i>-2.74</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
International Large Cap Growth - Gross	-11.68	-7.22	1.28	N/A	N/A	18.88	N/A	N/A	N/A	N/A
International Active Growth Equity (SA+CF) Median	-9.20	-4.31	2.49	15.98	21.73	17.74	25.17	17.34	17.82	34.23
Percentile Rank	87	76	62	N/A	N/A	46	N/A	N/A	N/A	N/A

Performance is annualized for periods greater than one year.

**Montana Board of Investments
Asset Allocation
Montana Domestic Equity Pool
As of March 31, 2008**

March 31, 2008 : \$3,014,125,891



Manager	Market Value (\$)	Allocation (%)
BGI Equity Index Fund A (CF)	764,925,579	25.38
T. Rowe U.S. Structured Research (SA)	202,652,535	6.72
J.P. Morgan 130/30 (SA)	196,073,858	6.51
Barrow Hanley (SA)	188,100,321	6.24
INTECH Enhanced Plus (SA)	186,942,399	6.20
Western Asset U.S. Index Plus (CF)	168,979,689	5.61
Columbus Circle Investors (SA)	147,200,402	4.88
Renaissance Investment (SA)	143,870,535	4.77
Rainier Investment (SA)	142,574,893	4.73
Quantitative Mgmt (SA)	130,254,353	4.32
Goldman Sachs Enhanced Large Cap (CF)	128,775,418	4.27
Analytic Investors 130/30 (SA)	117,052,137	3.88
Martingale Asset Mgmt. (SA)	101,879,525	3.38
Martingale 130/30 (SA)	79,248,158	2.63
TimesSquare Capital Mgmt. (SA)	74,406,588	2.47
Artisan Partners (SA)	58,899,773	1.95
DFA US Small Cap Trust (CF)	54,241,998	1.80
Vaughan Nelson Mgmt. (SA)	42,414,798	1.41
NorthPointe Capital (SA)	40,215,829	1.33
State Street SPIF Alternative Investment	24,975,038	0.83
BGI Mid Cap Equity Index A (CF)	20,442,065	0.68

Allocation shown may not sum up to 100% exactly due to rounding. Market values do not include pending trades.

**Montana Board of Investments
Comparative Performance
Domestic Equity Managers
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003	Since Inception	Inception Date
Barrow Hanley (SA) - Net	-11.64	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-13.72	09/01/2007
R 1000 Value Index	-8.72	-14.22	-9.99	6.01	13.68	-0.17	22.25	7.05	16.49	30.03	-11.06	
<i>Difference</i>	-2.92	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-2.66	
Barrow Hanley (SA) - Gross	-11.57	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-13.58	09/01/2007
US Value/Large Cap Equity (SA+CF) Median	-8.86	-12.57	-6.89	6.66	13.99	2.95	18.95	8.20	15.35	30.84	N/A	
Percentile Rank	87	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Quantitative Mgmt (SA) - Net	-8.69	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-11.45	09/01/2007
R 1000 Value Index	-8.72	-14.22	-9.99	6.01	13.68	-0.17	22.25	7.05	16.49	30.03	-11.06	
<i>Difference</i>	0.03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.39	
Quantitative Mgmt (SA) - Gross	-8.64	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-11.32	09/01/2007
US Value/Large Cap Equity (SA+CF) Median	-8.86	-12.57	-6.89	6.66	13.99	2.95	18.95	8.20	15.35	30.84	N/A	
Percentile Rank	45	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
BGI Equity Index Fund A (CF) - Net	-9.44	-10.65	-5.04	5.89	N/A	5.54	15.85	4.97	10.93	N/A	4.48	12/01/2005
S&P 500 Index (Cap Weighted)	-9.45	-10.68	-5.08	5.85	11.32	5.49	15.80	4.91	10.88	28.68	4.44	
<i>Difference</i>	0.01	0.03	0.04	0.04	N/A	0.05	0.05	0.06	0.05	N/A	0.04	
BGI Equity Index Fund A (CF) - Gross	-9.44	-10.62	-5.01	5.90	11.39	5.56	15.85	4.97	10.93	28.79	0.56	05/01/2000
US Core/Large Cap Equity (SA+CF) Median	-9.47	-10.67	-5.10	6.30	11.90	6.12	15.75	6.73	11.65	28.84	N/A	
Percentile Rank	46	48	47	66	68	63	44	78	61	51	N/A	
INTECH Enhanced Plus (SA) -Net	-10.40	-9.25	-5.77	N/A	N/A	7.15	N/A	N/A	N/A	N/A	3.92	06/01/2006
S&P 500 Index (Cap Weighted)	-9.45	-10.68	-5.08	5.85	11.32	5.49	15.80	4.91	10.88	28.68	4.21	
<i>Difference</i>	-0.95	1.43	-0.69	N/A	N/A	1.66	N/A	N/A	N/A	N/A	-0.29	
INTECH Enhanced Plus (SA) - Gross	-10.32	-9.00	-5.37	N/A	N/A	7.63	N/A	N/A	N/A	N/A	4.22	06/01/2006
US Core/Large Cap Equity (SA+CF) Median	-9.47	-10.67	-5.10	6.30	11.90	6.12	15.75	6.73	11.65	28.84	N/A	
Percentile Rank	75	28	55	N/A	N/A	33	N/A	N/A	N/A	N/A	N/A	

Performance is annualized for periods greater than one year.

**Montana Board of Investments
Comparative Performance
Domestic Equity Managers
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003	Since Inception	Inception Date
T. Rowe U.S. Research (SA) - Net	-9.13	-10.43	-4.32	N/A	N/A	6.04	N/A	N/A	N/A	N/A	5.26	07/01/2006
S&P 500 Index (Cap Weighted)	-9.45	-10.68	-5.08	5.85	11.32	5.49	15.80	4.91	10.88	28.68	4.33	
<i>Difference</i>	0.32	0.25	0.76	N/A	N/A	0.55	N/A	N/A	N/A	N/A	0.93	
T. Rowe U.S. Research (SA) - Gross	-9.06	-10.22	-4.02	N/A	N/A	6.39	N/A	N/A	N/A	N/A	5.51	07/01/2006
US Core/Large Cap Equity (SA+CF) Median	-9.47	-10.67	-5.10	6.30	11.90	6.12	15.75	6.73	11.65	28.84	N/A	
Percentile Rank	32	40	34	N/A	N/A	48	N/A	N/A	N/A	N/A	N/A	
Goldman Sachs Large Cap (CF) - Net	-9.56	-12.85	-7.75	N/A	N/A	2.09	N/A	N/A	N/A	N/A	1.75	07/01/2006
S&P 500 Index (Cap Weighted)	-9.45	-10.68	-5.08	5.85	11.32	5.49	15.80	4.91	10.88	28.68	4.33	
<i>Difference</i>	-0.11	-2.17	-2.67	N/A	N/A	-3.40	N/A	N/A	N/A	N/A	-2.58	
Goldman Sachs Large Cap (CF) - Gross	-9.51	-12.71	-7.57	N/A	N/A	2.28	N/A	N/A	N/A	N/A	1.96	07/01/2006
US Core/Large Cap Equity (SA+CF) Median	-9.47	-10.67	-5.10	6.30	11.90	6.12	15.75	6.73	11.65	28.84	N/A	
Percentile Rank	52	79	79	N/A	N/A	87	N/A	N/A	N/A	N/A	N/A	
Western Asset U.S. Index Plus (CF) - Net	-19.93	-26.70	-22.33	N/A	N/A	-2.42	N/A	N/A	N/A	N/A	-6.86	07/01/2006
S&P 500 Index (Cap Weighted)	-9.45	-10.68	-5.08	5.85	11.32	5.49	15.80	4.91	10.88	28.68	4.33	
<i>Difference</i>	-10.48	-16.02	-17.25	N/A	N/A	-7.91	N/A	N/A	N/A	N/A	-11.19	
Western Asset U.S. Index Plus (CF) - Gross	-19.86	-26.54	-22.12	N/A	N/A	-2.18	N/A	N/A	N/A	N/A	-6.61	07/01/2006
US Core/Large Cap Equity (SA+CF) Median	-9.47	-10.67	-5.10	6.30	11.90	6.12	15.75	6.73	11.65	28.84	N/A	
Percentile Rank	100	100	100	N/A	N/A	99	N/A	N/A	N/A	N/A	N/A	
Columbus Circle Investors (SA) - Net	-12.62	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-2.70	09/01/2007
R 1000 Growth Index	-10.18	-7.12	-0.75	6.33	9.96	11.81	9.07	5.26	6.30	29.75	-7.13	
<i>Difference</i>	-2.44	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.43	
Columbus Circle Investors (SA) - Gross	-12.46	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-2.43	09/01/2007
US Growth/Large Cap Equity (SA+CF) Median	-10.78	-6.16	-0.26	6.94	11.21	13.23	9.06	7.41	9.33	28.88	N/A	
Percentile Rank	76	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

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**Montana Board of Investments
Comparative Performance
Domestic Equity Managers
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003	Since Inception	Inception Date
Rainier Investment (SA) - Net	-12.36	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-5.53	09/01/2007
R 1000 Growth Index	-10.18	-7.12	-0.75	6.33	9.96	11.81	9.07	5.26	6.30	29.75	-7.13	
<i>Difference</i>	-2.18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.60	
Rainier Investment (SA) - Gross	-12.20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-5.30	09/01/2007
US Growth/Large Cap Equity (SA+CF) Median	-10.78	-6.16	-0.26	6.94	11.21	13.23	9.06	7.41	9.33	28.88	N/A	
Percentile Rank	73	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Renaissance Investment (SA) - Net	-9.24	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-6.45	09/01/2007
R 1000 Growth Index	-10.18	-7.12	-0.75	6.33	9.96	11.81	9.07	5.26	6.30	29.75	-7.13	
<i>Difference</i>	0.94	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.68	
Renaissance Investment (SA) - Gross	-9.10	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-6.25	09/01/2007
US Growth/Large Cap Equity (SA+CF) Median	-10.78	-6.16	-0.26	6.94	11.21	13.23	9.06	7.41	9.33	28.88	N/A	
Percentile Rank	26	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Artisan Partners (SA) - Net	-2.96	-12.72	-5.98	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-5.07	03/01/2007
R Mid Cap Value Index	-8.64	-17.14	-14.12	6.57	16.77	-1.42	20.22	12.65	23.71	38.07	-12.21	
<i>Difference</i>	5.68	4.42	8.14	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.14	
Artisan Partners (SA) - Gross	-2.77	-12.10	-5.17	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-4.32	03/01/2007
US Value/Mid Cap Equity (SA+CF) Median	-8.55	-14.48	-9.18	7.66	16.37	3.27	17.65	10.95	20.15	37.22	N/A	
Percentile Rank	1	30	23	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
BGI Mid Cap Equity Index A (CF) - Net	-8.80	-11.99	-6.85	7.21	N/A	8.10	10.46	12.71	N/A	N/A	6.50	01/01/2005
S&P Mid Cap 400 Index (Cap Weighted)	-8.85	-12.11	-6.97	7.05	15.11	7.98	10.32	12.55	16.50	35.64	6.36	
<i>Difference</i>	0.05	0.12	0.12	0.16	N/A	0.12	0.14	0.16	N/A	N/A	0.14	
BGI Mid Cap Equity Index A (CF) - Gross	-8.80	-11.97	-6.82	7.22	N/A	8.12	10.46	12.71	N/A	N/A	6.51	01/01/2005
US Core/Mid Cap Equity (SA+CF) Median	-9.48	-13.04	-6.91	7.18	15.16	8.03	12.10	12.67	18.00	35.65	N/A	
Percentile Rank	28	31	40	48	N/A	43	68	49	N/A	N/A	N/A	

Performance is annualized for periods greater than one year.

**Montana Board of Investments
Comparative Performance
Domestic Equity Managers
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003	Since Inception	Inception Date
Martingale Asset Mgmt. (SA) - Net	-7.99	-15.00	-11.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-8.97	03/01/2007
R Mid Cap Index	-9.98	-13.50	-8.92	7.36	16.31	5.60	15.26	12.65	20.22	40.06	-7.59	
<i>Difference</i>	1.99	-1.50	-2.38	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-1.38	
Martingale Asset Mgmt. (SA) - Gross	-7.86	-14.56	-10.75	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-8.45	03/01/2007
US Core/Mid Cap Equity (SA+CF) Median	-9.48	-13.04	-6.91	7.18	15.16	8.03	12.10	12.67	18.00	35.65	N/A	
Percentile Rank	12	64	80	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
TimesSquare Capital Mgmt. (SA) - Net	-8.54	-8.50	-1.08	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-1.27	03/01/2007
R Mid Cap Growth Index	-10.95	-10.58	-4.55	7.77	15.20	11.43	10.66	12.10	15.48	42.71	-3.75	
<i>Difference</i>	2.41	2.08	3.47	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.48	
TimesSquare Capital Mgmt. (SA) - Gross	-8.43	-7.96	-0.35	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.61	03/01/2007
US Growth/Mid Cap Equity (SA+CF) Median	-12.15	-8.98	-1.77	9.03	15.42	17.23	10.64	12.16	15.65	37.24	N/A	
Percentile Rank	11	39	41	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Vaughan Nelson Mgmt. (SA) - Net	-9.74	-12.12	-6.37	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-3.70	03/01/2007
R 2000 Value Index	-6.53	-18.75	-16.88	4.33	15.45	-9.78	23.48	4.71	22.25	46.03	-14.75	
<i>Difference</i>	-3.21	6.63	10.51	N/A	N/A	N/A	N/A	N/A	N/A	N/A	11.05	
Vaughan Nelson Mgmt. (SA) - Gross	-9.51	-11.35	-5.47	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-2.85	03/01/2007
US Value/Small Cap Equity (SA+CF) Median	-7.54	-17.31	-12.81	5.71	16.78	-2.50	18.72	8.05	22.19	45.38	N/A	
Percentile Rank	74	12	12	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
DFA US Small Cap Trust (CF) - Net	-9.07	-17.19	-13.52	5.13	16.07	-3.01	16.91	7.47	20.27	N/A	16.06	03/01/2003
S&P Small Cap 600 Index (Cap Weighted)	-7.46	-15.01	-10.61	5.30	15.63	-0.30	15.12	7.68	22.65	38.80	15.53	
<i>Difference</i>	-1.61	-2.18	-2.91	-0.17	0.44	-2.71	1.79	-0.21	-2.38	N/A	0.53	
DFA US Small Cap Trust (CF) - Gross	-9.11	-17.07	-13.24	5.40	16.25	-2.55	17.33	7.47	20.27	N/A	16.23	03/01/2003
US Core/Small Cap Equity (SA+CF) Median	-9.92	-18.20	-13.20	4.87	15.14	-1.17	16.22	7.83	20.72	44.73	N/A	
Percentile Rank	37	39	52	43	35	68	37	55	55	N/A	N/A	

Performance is annualized for periods greater than one year.

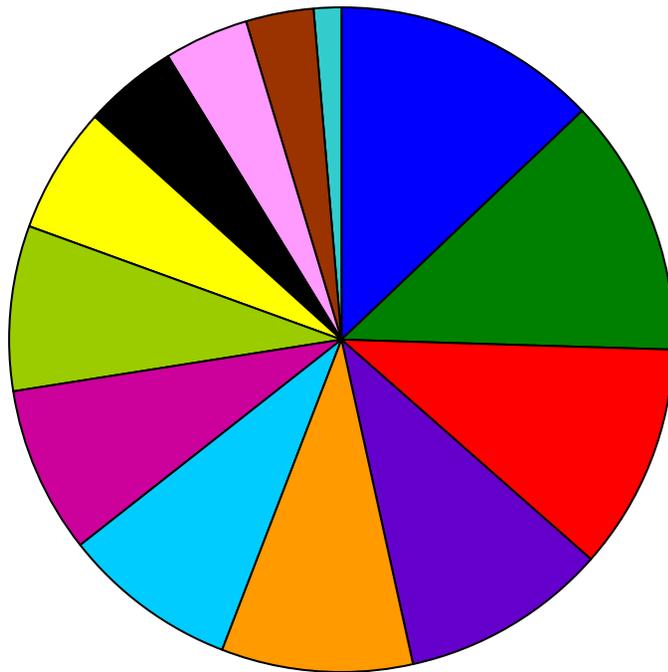
**Montana Board of Investments
Comparative Performance
Domestic Equity Managers
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003	Since Inception	Inception Date
NorthPointe Capital (SA) - Net	-20.64	-25.79	-19.82	N/A	-17.20	03/01/2007						
R 2000 Growth Index	-12.83	-14.65	-8.94	5.74	14.24	7.05	13.35	4.15	14.31	48.54	-7.50	
<i>Difference</i>	<i>-7.81</i>	<i>-11.14</i>	<i>-10.88</i>	<i>N/A</i>	<i>-9.70</i>							
NorthPointe Capital (SA) - Gross	-20.53	-25.43	-19.40	N/A	-16.80	03/01/2007						
US Growth/Small Cap Equity (SA+CF) Median	-14.77	-15.23	-8.48	6.45	15.24	10.89	11.88	7.58	13.48	47.93	N/A	
Percentile Rank	91	95	92	N/A								

Performance is annualized for periods greater than one year.

**Montana Board of Investments
Asset Allocation
Montana International Equity Pool
As of March 31, 2008**

March 31, 2008 : \$1,469,789,158



Manager	Market Value (\$)	Allocation (%)
Batterymarch International Equity (SA)	189,176,103	12.87
Julius Baer Int'l Equity II (SA)	185,692,485	12.63
BGI MSCI Europe Index (CF)	161,157,804	10.96
Acadian Asset Non-US Equity (SA)	147,569,358	10.04
AllianceBernstein International Value (SA)	137,762,768	9.37
Martin Currie (SA)	125,143,635	8.51
Hansberger Global Investors (SA)	119,686,961	8.14
BGI Global Ex-US Alpha Tilts A (CF)	117,650,805	8.00
Nomura Asset Management (SA)	90,165,821	6.13
Principal Global Investors (SA)	67,368,241	4.58
DFA Intl Small Company (DFISX)	59,673,562	4.06
AXA Rosenberg Int'l Small Cap (CF)	48,984,220	3.33
EAFE SPIF Alternative Investment	19,757,396	1.34

Allocation shown may not sum up to 100% exactly due to rounding. Market values do not include pending trades.

**Montana Board of Investments
Comparative Performance
International Equity Managers
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003	Since Inception	Inception Date
Acadian Asset Non-US Equity (SA) - Net	-11.14	-12.68	-4.90	N/A	N/A	12.73	N/A	N/A	N/A	N/A	6.61	11/01/2006
MSCI ACW Ex US Value Index	-9.53	-8.80	-1.51	15.09	25.07	12.31	29.74	16.53	25.08	47.34	6.14	
<i>Difference</i>	<i>-1.61</i>	<i>-3.88</i>	<i>-3.39</i>	<i>N/A</i>	<i>N/A</i>	<i>0.42</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>0.47</i>	
Acadian Asset Non-US Equity (SA) - Gross	-11.00	-12.27	-4.24	N/A	N/A	13.46	N/A	N/A	N/A	N/A	7.21	11/01/2006
Int'l Active Value Equity (SA+CF) Median	-8.04	-8.10	-1.61	13.78	23.42	10.96	28.42	14.69	23.69	42.36	N/A	
Percentile Rank	95	83	74	N/A	N/A	25	N/A	N/A	N/A	N/A	N/A	
AllianceBernstein Int'l Value (SA) - Net	-9.18	-10.01	-0.84	N/A	N/A	13.09	N/A	N/A	N/A	N/A	7.00	11/01/2006
MSCI ACW Ex US Value Index	-9.53	-8.80	-1.51	15.09	25.07	12.31	29.74	16.53	25.08	47.34	6.14	
<i>Difference</i>	<i>0.35</i>	<i>-1.21</i>	<i>0.67</i>	<i>N/A</i>	<i>N/A</i>	<i>0.78</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>0.86</i>	
AllianceBernstein Int'l Value (SA) - Gross	-9.04	-9.56	-0.09	N/A	N/A	13.92	N/A	N/A	N/A	N/A	7.67	11/01/2006
Int'l Active Value Equity (SA+CF) Median	-8.04	-8.10	-1.61	13.78	23.42	10.96	28.42	14.69	23.69	42.36	N/A	
Percentile Rank	68	71	33	N/A	N/A	25	N/A	N/A	N/A	N/A	N/A	
Batterymarch Int'l Equity (SA) - Net	-10.10	-8.34	-0.43	N/A	N/A	14.90	N/A	N/A	N/A	N/A	7.43	11/01/2006
MSCI ACW Ex US Index	-9.15	-5.58	2.15	16.01	23.54	16.65	26.65	16.62	20.91	40.83	9.15	
<i>Difference</i>	<i>-0.95</i>	<i>-2.76</i>	<i>-2.58</i>	<i>N/A</i>	<i>N/A</i>	<i>-1.75</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>-1.72</i>	
Batterymarch Int'l Equity (SA) - Gross	-10.01	-8.11	-0.04	N/A	N/A	15.32	N/A	N/A	N/A	N/A	7.78	11/01/2006
Int'l Active Core Equity (SA+CF) Median	-8.82	-6.50	1.33	15.49	22.24	15.35	27.95	17.51	17.96	36.21	N/A	
Percentile Rank	86	69	62	N/A	N/A	51	N/A	N/A	N/A	N/A	N/A	
Julius Baer Int'l Equity II (SA) - Net	-9.13	-4.92	3.48	N/A	N/A	18.59	N/A	N/A	N/A	N/A	11.60	11/01/2006
MSCI ACW Ex US Index	-9.15	-5.58	2.15	16.01	23.54	16.65	26.65	16.62	20.91	40.83	9.15	
<i>Difference</i>	<i>0.02</i>	<i>0.66</i>	<i>1.33</i>	<i>N/A</i>	<i>N/A</i>	<i>1.94</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>2.45</i>	
Julius Baer Int'l Equity II (SA) - Gross	-9.00	-4.54	3.98	N/A	N/A	19.25	N/A	N/A	N/A	N/A	12.14	11/01/2006
Int'l Active Core Equity (SA+CF) Median	-8.82	-6.50	1.33	15.49	22.24	15.35	27.95	17.51	17.96	36.21	N/A	
Percentile Rank	58	25	20	N/A	N/A	16	N/A	N/A	N/A	N/A	N/A	

Performance is annualized for periods greater than one year.

**Montana Board of Investments
Comparative Performance
International Equity Managers
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003	Since Inception	Inception Date
BGI Global Ex-US Alpha Tilts A (CF) - Net	-8.51	-7.36	0.62	N/A	N/A	13.84	N/A	N/A	N/A	N/A	10.06	10/01/2006
MSCI ACW Ex US Index	-9.15	-5.58	2.15	16.01	23.54	16.65	26.65	16.62	20.91	40.83	11.55	
<i>Difference</i>	0.64	-1.78	-1.53	N/A	N/A	-2.81	N/A	N/A	N/A	N/A	-1.49	
BGI Global Ex-US Alpha Tilts A (CF) - Gross	-8.37	-6.98	1.14	N/A	N/A	14.39	N/A	N/A	N/A	N/A	10.56	10/01/2006
Int'l Active Core Equity (SA+CF) Median	-8.82	-6.50	1.33	15.49	22.24	15.35	27.95	17.51	17.96	36.21	N/A	
Percentile Rank	37	56	51	N/A	N/A	55	N/A	N/A	N/A	N/A	N/A	
Martin Currie (SA) - Net	-13.90	-9.14	-0.09	N/A	N/A	19.21	N/A	N/A	N/A	N/A	6.84	11/01/2006
MSCI ACW Ex US Growth Index	-8.76	-2.35	5.83	16.90	21.94	21.03	23.61	16.71	16.73	34.42	12.18	
<i>Difference</i>	-5.14	-6.79	-5.92	N/A	N/A	-1.82	N/A	N/A	N/A	N/A	-5.34	
Martin Currie (SA) - Gross	-13.80	-8.88	0.40	N/A	N/A	19.66	N/A	N/A	N/A	N/A	7.21	11/01/2006
Int'l Active Growth Equity (SA+CF) Median	-9.20	-4.31	2.49	15.98	21.73	17.74	25.17	17.34	17.82	34.23	N/A	
Percentile Rank	95	91	73	N/A	N/A	41	N/A	N/A	N/A	N/A	N/A	
Hansberger Global Investors (SA) - Net	-10.84	-5.57	2.92	N/A	N/A	19.96	N/A	N/A	N/A	N/A	9.87	11/01/2006
MSCI ACW Ex US Growth Index	-8.76	-2.35	5.83	16.90	21.94	21.03	23.61	16.71	16.73	34.42	12.18	
<i>Difference</i>	-2.08	-3.22	-2.91	N/A	N/A	-1.07	N/A	N/A	N/A	N/A	-2.31	
Hansberger Global Investors (SA) - Gross	-10.70	-5.18	3.61	N/A	N/A	20.71	N/A	N/A	N/A	N/A	10.47	11/01/2006
Int'l Active Growth Equity (SA+CF) Median	-9.20	-4.31	2.49	15.98	21.73	17.74	25.17	17.34	17.82	34.23	N/A	
Percentile Rank	71	59	43	N/A	N/A	31	N/A	N/A	N/A	N/A	N/A	
Principal Global Investors (SA) - Net	-9.45	-7.77	-1.16	N/A	N/A	14.11	N/A	N/A	N/A	N/A	6.74	11/01/2006
MSCI ACW Ex US Growth Index	-8.76	-2.35	5.83	16.90	21.94	21.03	23.61	16.71	16.73	34.42	12.18	
<i>Difference</i>	-0.69	-5.42	-6.99	N/A	N/A	-6.92	N/A	N/A	N/A	N/A	-5.44	
Principal Global Investors (SA) - Gross	-9.30	-7.35	-0.59	N/A	N/A	14.72	N/A	N/A	N/A	N/A	7.27	11/01/2006
Int'l Active Growth Equity (SA+CF) Median	-9.20	-4.31	2.49	15.98	21.73	17.74	25.17	17.34	17.82	34.23	N/A	
Percentile Rank	56	77	81	N/A	N/A	71	N/A	N/A	N/A	N/A	N/A	

Performance is annualized for periods greater than one year.

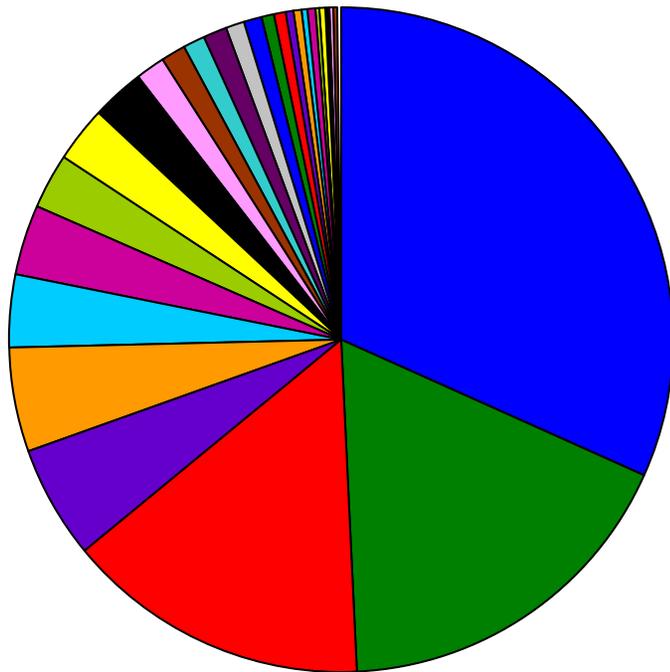
**Montana Board of Investments
Comparative Performance
International Equity Managers
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003	Since Inception	Inception Date
BGI MSCI Europe Index (CF) - Net	-8.59	-7.49	0.39	15.17	N/A	14.12	34.09	9.77	21.26	N/A	20.49	05/01/2003
MSCI Europe Index (US Currency)	-8.62	-7.50	0.18	14.86	22.94	13.86	33.72	9.42	20.88	38.54	20.24	
<i>Difference</i>	<i>0.03</i>	<i>0.01</i>	<i>0.21</i>	<i>0.31</i>	<i>N/A</i>	<i>0.26</i>	<i>0.37</i>	<i>0.35</i>	<i>0.38</i>	<i>N/A</i>	<i>0.25</i>	
BGI MSCI Europe Index (CF) - Gross	-8.56	-7.42	0.48	15.20	N/A	14.18	34.09	9.77	21.26	N/A	20.51	05/01/2003
European Equity (SA+CF) Median	-8.66	-9.85	-2.13	16.13	24.66	12.09	34.76	11.36	22.83	39.44	N/A	
Percentile Rank	49	40	40	57	N/A	40	62	74	62	N/A	N/A	
Nomura Asset Management (SA) - Net	-11.84	-7.63	-0.21	13.51	N/A	15.41	14.38	25.24	18.85	N/A	15.20	12/01/2003
MSCI AC Pacific Index	-10.25	-7.93	-2.75	13.10	20.37	12.35	15.67	23.02	18.21	39.84	14.69	
<i>Difference</i>	<i>-1.59</i>	<i>0.30</i>	<i>2.54</i>	<i>0.41</i>	<i>N/A</i>	<i>3.06</i>	<i>-1.29</i>	<i>2.22</i>	<i>0.64</i>	<i>N/A</i>	<i>0.51</i>	
Nomura Asset Management (SA) - Gross	-11.72	-7.38	0.36	13.88	N/A	15.91	14.69	25.45	18.89	N/A	15.48	12/01/2003
International Equity All (SA+CF) Median	-8.54	-7.75	-1.10	14.70	22.56	11.60	26.64	16.01	20.45	38.87	N/A	
Percentile Rank	94	46	41	61	N/A	30	96	11	62	N/A	N/A	
AXA Rosenberg Int'l Small Cap (CF) - Net	-5.67	-15.74	-10.02	N/A	N/A	1.48	N/A	N/A	N/A	N/A	5.19	10/01/2006
S&P/Citi World EM Ex US Index	-6.95	-11.60	-6.39	15.01	26.78	7.32	29.42	22.10	28.76	53.73	8.19	
<i>Difference</i>	<i>1.28</i>	<i>-4.14</i>	<i>-3.63</i>	<i>N/A</i>	<i>N/A</i>	<i>-5.84</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>-3.00</i>	
AXA Rosenberg Int'l Small Cap (CF) - Gross	-5.53	-15.42	-9.49	N/A	N/A	2.10	N/A	N/A	N/A	N/A	5.86	10/01/2006
Int'l Small Cap Equity (SA+CF) Median	-7.57	-13.33	-8.00	16.59	28.95	7.53	29.07	26.23	29.75	57.61	N/A	
Percentile Rank	10	72	63	N/A	N/A	79	N/A	N/A	N/A	N/A	N/A	
DFA Intl Small Company (DFISX) - Net	-5.15	-11.96	-7.35	13.33	N/A	5.63	24.80	22.24	N/A	N/A	17.09	11/01/2004
MSCI EAFE Sm Cap Index	-6.24	-14.78	-11.18	11.15	25.61	1.45	19.31	26.19	31.45	61.34	15.23	
<i>Difference</i>	<i>1.09</i>	<i>2.82</i>	<i>3.83</i>	<i>2.18</i>	<i>N/A</i>	<i>4.18</i>	<i>5.49</i>	<i>-3.95</i>	<i>N/A</i>	<i>N/A</i>	<i>1.86</i>	
DFA Intl Small Company (DFISX) - Gross	-5.01	-11.58	-6.83	13.96	N/A	6.22	25.48	22.91	N/A	N/A	17.74	11/01/2004
Int'l Small Cap Equity (SA+CF) Median	-7.57	-13.33	-8.00	16.59	28.95	7.53	29.07	26.23	29.75	57.61	N/A	
Percentile Rank	7	35	43	75	N/A	59	71	66	N/A	N/A	N/A	

Performance is annualized for periods greater than one year.

**Montana Board of Investments
Asset Allocation
Trust Accounts
As of March 31, 2008**

March 31, 2008 : \$3,101,753,231



Manager	Market Value (\$)	Allocation (%)
State Fund Insurance	983,221,038	31.70
Permanent Coal Trust Fund	542,694,343	17.50
Trust and Legacy Account	462,506,655	14.91
UCFRB Restoration Fund	169,604,574	5.47
Treasure State Endowment	156,847,189	5.06
Montana State University	109,409,914	3.53
Resource Indemnity Trust	104,509,784	3.37
University of Montana	84,472,242	2.72
Streamside Tailings Operable Unit	83,800,331	2.70
Tobacco Trust Fund	79,599,621	2.57
Group Benefits	44,750,893	1.44
Treasure State Reg. Water System	37,389,558	1.21
Old Fund Insurance	34,038,095	1.10
Big Sky Economic Development Fund	33,214,783	1.07
Montana Pole	30,119,979	0.97
FWP License Account	25,704,080	0.83
Coal Tax Park Acquisition	18,676,984	0.60
UCFRB Assess/Litig Cost Rec	18,189,917	0.59
BPA Mitigation Trust Fund	12,202,680	0.39
Coal Tax Cultural Trust Fund	10,657,392	0.34
Weed Control Trust	10,207,950	0.33
Zortman/Landusky LT H2O	10,059,469	0.32
Older Montanans Trust	8,166,650	0.26
Wildlife Habitat Trust	7,838,328	0.25
Abandoned Mine Trust	6,241,250	0.20
Montana Tech-UM Agency Funds	5,987,720	0.19
FWP Real Property Trust	5,156,276	0.17
Z/L Long Term H2O Trust Fund	4,397,406	0.14
Endowment for Children	1,045,902	0.03
Subsequent Injury Fund	1,042,229	0.03

Allocations shown may not sum up to 100% exactly due to rounding.

**Montana Board of Investments
Comparative Performance
Trust Accounts
As of March 31, 2008**

	1 Quarter	Jul-2007 To Mar-2008	1 Year	3 Years	5 Years	2007	2006	2005	2004	2003
Group Benefits	1.33	4.49	5.83	4.80	3.58	5.81	4.92	2.85	1.48	2.73
Subsequent Injury Fund	1.29	5.85	6.28	5.12	3.71	6.56	5.01	1.94	1.85	3.09
State Fund Insurance	0.62	5.06	5.67	5.55	5.38	6.63	6.06	2.53	4.82	7.24
Old Fund Insurance	0.80	4.98	6.01	5.05	3.84	6.73	4.86	2.36	1.72	3.98
Abandoned Mine Trust	1.69	6.14	6.65	5.15	3.81	6.55	4.70	2.49	1.82	2.96
Trust and Legacy Account	1.81	7.17	7.02	5.86	5.61	6.76	5.17	4.15	5.48	7.07
Endowment for Children	1.80	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BPA Mitigation Trust Fund	1.50	5.91	6.40	5.11	3.68	6.50	4.85	2.21	1.78	2.71
FWP Real Property Trust	1.75	6.99	6.91	5.60	4.50	6.67	5.11	3.48	3.01	3.72
Montana Pole	1.60	6.42	6.66	5.48	4.58	6.52	5.09	3.51	3.43	4.13
Older Montanans Trust	1.76	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Streamside Tailings Operable Unit	1.64	7.67	7.67	5.94	5.35	7.29	5.15	3.93	4.61	5.31
UCFRB Restoration Fund	1.76	7.00	6.99	5.79	5.47	6.77	5.08	4.00	5.07	6.93
UCFRB Assess/Litig Cost Rec	1.81	7.19	7.03	5.87	5.64	6.76	5.15	4.21	5.50	7.18
Weed Control Trust	1.74	6.49	7.06	5.25	3.91	6.91	4.66	2.40	1.83	3.32
Wildlife Habitat Trust	1.76	7.00	6.98	5.71	4.66	6.74	5.18	3.66	3.43	3.69
Tobacco Trust Fund	1.81	7.19	7.09	5.86	5.59	6.83	5.21	4.03	5.83	6.60
Zortman/Landusky LT H2O	5.01	17.56	15.43	8.33	7.62	10.56	2.88	7.59	10.77	5.89
Z/L Long Term H2O Trust Fund	5.54	18.58	16.03	N/A	N/A	11.41	6.48	N/A	N/A	N/A
Resource Indemnity Trust	1.81	7.19	7.03	5.87	5.64	6.76	5.15	4.20	5.51	7.18
Coal Tax Park Acquisition	1.79	7.11	6.97	5.85	5.60	6.71	5.13	4.21	5.42	7.14
Coal Tax Cultural Trust Fund	1.81	7.11	6.97	5.92	5.63	6.71	5.16	4.41	5.40	7.05
Permanent Coal Trust Fund	1.62	5.73	6.37	5.73	5.68	6.22	5.41	5.00	5.60	6.57
Treasure State Reg. Water System	1.82	7.14	7.02	5.86	5.57	6.72	5.15	4.22	5.45	6.74
Treasure State Endowment	1.81	7.11	7.05	5.92	5.71	6.77	5.23	4.39	5.67	6.90
Big Sky Economic Development Fund	1.82	7.13	7.01	N/A	N/A	6.71	5.15	N/A	N/A	N/A
Treasurers	1.15	4.05	5.38	4.70	3.41	5.56	4.89	2.72	1.32	1.89
FWP License Account	1.09	3.95	5.29	4.72	3.42	5.54	4.92	2.90	1.40	2.13
University of Montana	1.03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Montana Tech-UM Agency Funds	0.97	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Montana State University	1.03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Performance shown is gross of fees. Performance is annualized for periods greater than one year.

Glossary
As of March 31, 2008

Statistics Definitions

Alpha - A measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by beta. It is a measure of the portfolio's historical performance not explained by movements of the market or a portfolio's non-systematic return.

Alpha Ratio - A measure of a portfolio's non-systematic return per unit of downside risk. It is measured by dividing the alpha of a portfolio by the downside risk. The non-systematic return is a measure of a portfolio's historical performance not explained by movements of the market.

Average Quality - Bond quality ratings are reported using the investment managers' and the index providers' preferred rating agency. There are two primary rating agencies in the U.S. *Moody's* assigns ratings on a system that employs up to four symbols (consisting of letters and numbers) such as, Aaa, Aa2, etc., with Aaa being the highest or safest rating. *Standard & Poor's (S&P)* employs a system that uses + and - along with letters such as AAA, AA+, etc. The two rating agencies' systems are summarized below:

<u>S&P</u>	<u>Moody's</u>	<u>Explanation</u>
Higher Credit Quality - Investment Grade		
AAA	Aaa	Prime grade, highest safety
AA+	Aa1	High credit quality
AA	Aa2	
AA-	Aa3	
A+	A1	Upper-medium credit quality
A	A2	
A-	A3	
BBB+	Baa1	Lower-medium credit quality
BBB	Baa2	
BBB-	Baa3	
Lower Credit Quality - Speculative Grade		
BB+	Ba1	Speculative - low quality
BB	Ba2	
BB-	Ba3	
	B1	Highly speculative
B	B2	
	B3	
Extremely Low Credit Quality - High Speculative or in Default		
CCC+	Caa	Very high risk, poor quality
CCC		
CC	Ca	May be in default soon
C	C	Very speculative
CI		For income bonds - interest not being paid
D		Securities already in default

Beta - A measure of the sensitivity of a portfolio to the movements in the market. It is a measure of a portfolio's non-diversifiable or systematic risk.

Glossary
As of March 31, 2008

Buy and Hold Attribution - At the beginning of the time period under analysis, the manager and benchmark portfolios are broken down into segments (i.e., styles, sectors, countries, and regions) based on the desired type of attribution. One assumes zero turn-over to the manager and benchmark portfolios throughout the period and calculates the segment returns ("buy and hold returns") to arrive at performance attribution. Country, region, sector, and style allocations are as of the date one quarter prior to the reporting date, and the returns shown are for those segments throughout the quarter reported. The following is the methodology for segment classification:

- **Country/Region** - Stocks will be classified by their domicile country/region, as defined by Worldscope data.
- **Sector** - Stocks will be classified by their primary sector, as defined by Worldscope data.
- **Style** - Stocks will be classified into the following style boxes: large/mid/small vs. growth/neutral/value. Stocks will be classified along large/mid/small categories at the time of the Frank Russell index rebalancing, using the index market cap boundaries as cutoff points. Stocks will be classified along growth/neutral/value categories at the time of the Frank Russell index rebalancing, using the price/book ratio as supplied by Worldscope. Stocks in the Russell 3000 Index portfolio will be sorted by price/book ratio; names with the highest price/book ratio that make up 1/3 of the total market capitalization will be assigned to the growth category, names that make up the subsequent 1/3 of the total market capitalization will be assigned to the neutral category, while the balance of the names will be assigned to the value category.

Consistency - The percentage of quarters that a product achieved a rate of return higher than that of its benchmark. The higher the consistency figure, the more value a manager has contributed to the product's performance.

Convexity - A measure of the shape of the curve that describes the relationship between bond prices and bond yields.

Coupon Rate - The percentage rate of interest paid on a bond or fixed income security; it is typically paid twice per year.

Current Yield - The annual income of a security divided by the security's current price.

Down Market Capture - Down market by definition is negative benchmark return and down market capture represents the ratio in % terms of the average portfolios return over the benchmark during the down market period. The lower the value of the down market capture the better the product's performance.

Downside Risk - A measure similar to standard deviation, but focuses only on the negative movements of the return series. It is calculated by taking the standard deviation of the negative quarterly set of returns. The higher the factor, the riskier the product.

Earnings Per Share - It is backward looking, calculated using the one year current EPS divided by the one year EPS five years ago.

Excess Return vs. Market - Average of the monthly arithmetic difference between the manager's return and the benchmark return over a specified time period, shown on an annualized basis.

Excess Return vs. Risk Free - Average of the monthly arithmetic difference between the manager's return and the risk-free return over a specified time period, shown on an annualized basis.

Excess Risk - A measure of the standard deviation of a portfolio's performance relative to the risk free return.

Gain/Loss - The net increase or decrease in the market value of a portfolio excluding its Net Cash Flow for a given period.

Glossary
As of March 31, 2008

Information Ratio - Measured by dividing the active rate of return by the tracking error. The higher the information ratio, the more value-added contribution by the manager.

Modified Duration - The approximate percentage change in a bond's price for a 100 basis point change in yield.

Net Cash Flow - The sum, in dollars, of a portfolio's contributions and withdrawals. This includes all management fees and expenses only when performance shown is gross of fees.

Peer Groups - RVK utilizes the Mellon Analytical Solutions Trust Universe and the RogersCasey Manager Universe for peer comparison and rankings. The Mellon Analytical Solutions Trust Universe, which is used for comparison of Total Fund composite results, utilizes actual client returns compiled from consultant and custodial data. The RogersCasey Manager Universe database includes performance and other quantitative data for over 1,400 investment management firms, over 17,000 investment products, including separate accounts, commingled funds, and mutual funds, and 160 standard peer groups.

Peer Group Definitions

SA = Separately Managed Fund

CF = Commingled Fund

MF = Mutual Fund

Peer Group Percentile Rankings

1 - Highest Statistical Value

100 - Lowest Statistical Value

Portfolio Duration - The weighted average duration of all the bonds in a given portfolio, weighted by their dollar values.

Region Attribution - Calculated using the Morgan Stanley Capital International (MSCI) region standards.

Return - Compounded rate of return for the period.

%Return - The time-weighted rate of return of a portfolio for a given period.

R-Squared - The percentage of a portfolio's performance explained by the behavior of the appropriate benchmark. High R-Squared means a higher correlation of the portfolio's performance to the appropriate benchmark.

Sector Attribution - Calculated using the Industry Classification Benchmark (ICB).

Sharpe Ratio - Represents the excess rate of return over the risk-free return, divided by the standard deviation of the excess return. The result is the absolute rate of return per unit of risk. The higher the value, the better the product's historical risk-adjusted performance.

Simple Alpha - The difference between the manager's return and the benchmark's return.

Glossary
As of March 31, 2008

Spread Duration - A measure of the price sensitivity of a bond to a 100 basis-point movement of the bond's spread relative to Treasuries.

Standard Deviation - A statistical measure of the range of a portfolio's performance. The variability of a return around its average return over a specified time period.

Tracking Error - A measure of the standard deviation of a portfolio's performance relative to the performance of an appropriate market benchmark.

Treynor Ratio - Similar to Sharpe ratio, but focuses on beta rather than excess risk (standard deviation). Treynor ratio represents the excess rate of return over the risk-free rate divided by the beta. The result is the absolute rate of return per unit of risk. The higher the value, the better the product's historical risk-adjusted performance.

Unit Value - The dollar value of a portfolio, assuming an initial nominal investment of \$100, growing at the compounded rate of % Return for a given period.

Up Market Capture - Up market by definition is positive benchmark return and up market capture represents the ratio in % terms of the average portfolios return over the benchmark during the up market period. The higher the value of the up market capture the better the product's performance.

Yield to Maturity - The rate of return achieved on a bond or other fixed income security assuming the security is bought and held to maturity and that the coupon interest paid over the life of the bond will be reinvested at the same rate of return.

Yield to Worst - The bond yield calculated by using the worst possible yield taking into consideration all call, put, and optional sink dates.

**Montana Board of Investments
Writeup
As of March 31, 2008**

Performance Notes:

All gross and net performance data is provided by State Street Analytics (SSA) except for DFA International Company (DFISX) gross returns, which are calculated by RVK based on SSA net returns.

Gross performance for the retirement plans are calculated with fee accruals provided by Montana's Accounting department.

Retirement Plans Custom Benchmarks are provided by State Street Bank and are calculated daily using actual allocations.

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: May 14, 2008

Subject: Hedge Fund-of-Funds Request for Proposals

HISTORY

In May 2006, the Board's consultant, R.V. Kuhns, completed an asset liability study of the Teachers' Retirement System. The study suggested several different portfolios mixes that when interacting with the Plan's liability requirements, would be expected to generate the returns required to protect and increase funding levels, while adequately providing liquidity for benefit payments (Exhibit A). Given a minimum-maximum constraint of 0.0 percent to 5.0 percent in hedge funds, each of the scenarios included a 5.0 percent allocation to the "Absolute Return" or Hedge Fund asset class.

Since the study was completed, the consultant has provided Board members educational presentations on the asset class. Additionally, at the February meeting additional information was provided by two hedge fund-of-funds managers. At the May Board meeting, Board members will be provided an opportunity to interact with peers who have extensive experience investing in the asset and those who have chosen not to invest in the asset. Because this is a new asset, staff wanted to ensure that Board members were well informed about the pros and cons, prior to making a decision.

BOARD DECISION

Given that all portfolio scenarios in the study include an allocation to hedge funds, the Board at some point will need to make a decision regarding this asset class. If the Board decides not to include this asset in the pension fund portfolios, the "asset allocation" process that generated these scenarios may need to be reconsidered to determine different portfolio configurations that would provide similar return and volatility characteristics while making the same contribution to the bottom line return.

The next step in the Board's decision-making process should be a recommendation by staff on which the Board may act. If staff recommends that the Board not invest in this asset class, it would be incumbent upon them to suggest other portfolio alternatives to generate similar volatility and returns.

RECOMMENDATION

To assist staff in making a recommendation to the Board at its August meeting, we suggest that the Board authorize staff to issue a Request for Proposal (RFP) for hedge fund-of-fund managers, without making any commitment to fund the managers, unless the Board approves an allocation. This process would permit staff to explore the hedge fund-of-funds manager universe, including historical performance relative to other asset classes during good and bad times - and the different types of strategies available in the market. This knowledge would better equip staff to make an informed recommendation to the Board regarding investing in the asset and an appropriate mix of strategies and number of managers if the Board chooses to invest in this asset. By issuing a RFP, the Board would not commit to any contractual or funding obligations. The RFP would contain the following language:

2.4 BOARD'S RIGHTS RESERVED

Issuance of this RFP in no way constitutes a commitment by the Board to award a contract. Upon a determination that such action would be in its best interest, the Board, in its sole discretion, reserves the right to:

- **cancel or terminate this RFP (Mont. Code Ann. § 18-4-307);**
- **reject any or all proposals received in response to this RFP (ARM 2.5.602);**
- **waive any undesirable, inconsequential, or inconsistent provisions of this RFP which would not have significant impact on any proposal (ARM 2.5.505); or**
- **not award if it is in the best interest of the Board not to proceed with contract execution or the signing of terms and agreement documents (ARM 2.5.602).**

An incidental benefit of this process would be to eliminate the many solicitations staff are currently receiving from hedge fund managers who anticipate that the Board may be entering the asset class for the first time. Since the February Board meeting agenda containing hedge fund education was posted on the web site and picked up by the financial media, staff have been inundated with requests for manager presentations. Once an RFP is issued there will be "quiet period" during which all contact must be through the formal RFP process.

EXHIBIT A

Asset Classes	Min		Max		Current Allocation	Mix 1	Mix 2	1	2	3	4	5	6	7	8	9	10
	15	3	15	35													
Large Cap US Equity	15	3	15	35	40	15	19	15	15	15	15	15	15	15	15	15	19
Small Cap US Equity	3	8	3	8	6	3	8	3	3	3	3	3	3	3	3	6	8
Large Cap Int'l Equity	15	25	15	25	14	15	25	15	15	15	15	15	15	15	16	19	25
Small Cap Int'l Equity	3	8	3	8	1	8	8	3	3	3	3	5	7	8	8	8	8
Emerging Markets Equity	2	6	2	6	2	6	6	2	2	2	2	4	5	6	6	6	6
Fixed Income Composite*	15	40	15	40	28	24	15	40	40	40	38	34	31	24	20	15	15
Real Estate	3	8	3	8	0	8	3	8	8	8	8	8	8	8	8	8	3
Absolute Return	0	5	0	5	0	5	5	5	5	5	5	5	5	5	5	5	5
Private Equity	5	10	5	10	5	10	10	5	6	8	10	10	10	10	10	10	10
Inflation Hedge Composite**	0	5	0	5	0	5	0	1	2	0	0	0	0	5	5	5	0
Cash Equivalents	1	3	1	3	4	1	1	3	1	1	1	1	1	1	1	1	1
Total					100	100	100	100	100	100	100	100	100	100	100	100	100
Total Public Equity	38	76	63	66	63	47	66	38	38	38	38	42	45	47	51	56	66
Return			7.41	8.35	7.41	7.91	8.35	7.07	7.21	7.35	7.50	7.64	7.78	7.92	8.07	8.21	8.35
Risk (1 Year Holding Period)			11.88	13.65	11.88	10.98	13.65	8.40	8.71	9.06	9.46	9.95	10.48	11.05	11.71	12.38	13.65
Risk (3 Year Holding Period)			6.86	7.88	6.86	6.34	7.88	4.85	5.03	5.23	5.46	5.74	6.05	6.38	6.76	7.15	7.88
Risk (5 Year Holding Period)			5.31	6.10	5.31	4.91	6.10	3.76	3.90	4.05	4.23	4.45	4.69	4.94	5.24	5.54	6.10
Risk (7 Year Holding Period)			4.49	5.16	4.49	4.15	5.16	3.17	3.29	3.42	3.58	3.76	3.96	4.18	4.43	4.68	5.16
Risk (10 Year Holding Period)			3.76	4.32	3.76	3.47	4.32	2.66	2.75	2.87	2.99	3.15	3.31	3.49	3.70	3.91	4.32

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: May 14, 2008

Subject: Securities Monitoring/Litigation Firm Update

At its February 17, 2006 meeting, the Board authorized staff to issue a Request for Proposals (RFP) for securities monitoring/litigation services. The RFP was issued March 24, 2008 with responses due April 18, 2008. Staff are currently reviewing and ranking the 24 responses received. The Board's Securities Litigation Policy requires the Board to select the Monitoring/Litigation Service Provider:

1. Board Role and Authority:

- Review staff reports regarding securities litigation matters
- Periodically review and, as appropriate, modify this Policy
- Establish, periodically review and, as appropriate, modify Protocols for implementation of this Policy
- **Select a securities class action "Monitoring Firm" to identify and evaluate potential claims and oversee the process for selecting such firm**
- Approve, modify or terminate agreements with service providers responsible for implementation of this Policy

The staff review and ranking will not be completed by the May Board meeting but should be completed well in advance of the August meeting. Staff suggest that the Board hold a teleconference meeting sometime in June to consider the staff recommendation and make a final decision.

RESOLUTION 219
MONTANA BOARD OF INVESTMENTS CREDIT ENHANCEMENT OF BONDS
ADOPTED May 14, 2008

Be It Resolved by the Montana Board of Investments (the "Board") as follows:

Section 1. Recitals.

Section 1.01. History, Authorization of Unified Investment Program and the Board. Article VIII, Section 13 of the Montana Constitution (the "Constitution") directs the legislature to provide for a unified investment program for public funds and public retirement system and state compensation insurance fund assets. The Legislature, pursuant to Title 17, Chapter 6, Part 21, Montana Code Annotated (the "Unified Investment Program Act"), has created and directed the Board to administer the unified investment program mandated by the Constitution. The Board has the primary authority to invest state funds, and to determine the types of investments to be made, subject to the restrictions of the Constitution and the Unified Investment Program Act.

Section 1.02. History, Authorization of Montana Economic Development Board and Municipal Finance Consolidation Act Bonds. The 1983 Legislature created the Montana Economic Development Authority Board ("MEDB"), to among other things issue notes and bonds to finance loans to and the purchase of bonds and notes of Montana governmental units, to establish or replenish reserves securing the payments of its bonds and notes, and to finance all expenditures incident to and necessary or convenient to carry out the provisions of Title 17, Chapter 5, Part 16, Montana Code Annotated (the "Municipal Finance Consolidation Act" or "MFCA Act"). As set forth in Section 17-5-1602(2)(b) of the Municipal Finance Consolidation Act, the State's goal was to foster the provisions of efficient capital markets, to reduce costs of borrowing and, among other things, to provide additional security for the payment of bonds and notes held by investors. In conjunction with issuing its Municipal Finance Consolidation Act Bonds in 1985 ("Intermediate Capital Finance Program" or "INTERCAP") the MEDB adopted Resolution No. 68 on July 24, 1985, establishing a Municipal Finance Consolidation Act Reserve Fund (the "Reserve Fund") to secure bonds or obligations issued under the Municipal Finance Consolidation Act ("MFCA Bonds"). Pursuant to a Resolution, the MEDB and the Board entered into an agreement whereby the Board agreed to make an interest bearing loan to the MEDB to restore any deficiency in the Reserve Fund and also agreed, for a fee, to purchase MFCA Bonds tendered for purchase and not remarketed (the "Security Agreement"). An identical Security Agreement was approved by Resolution by the Board for each series of MFCA Bonds credit enhanced by the Board (the "Security Agreements"). The Board has never been called upon to make any loans or purchase any Bonds under the Security Agreements.

Section 1.03. Authorization for the Board to Issue Municipal Finance Consolidation Act Bonds. Pursuant to Chapter 581, Montana Session Laws of 1987, the Board assumed the role of the MEDB with respect to the issuance of the Montana Finance Consolidation Act Bonds and other bond programs authorized by the State. The Board issued its first series of Municipal Finance Consolidation Act Bonds ("Intermediate Term Capital Program" [INTERCAP]) in 1988 (the "Series 1988 INTERCAP Bonds"). The Series 1988 INTERCAP Bonds and all series of INTERCAP Bonds subsequently issued by the Board have also been secured by the Reserve Fund. In the Resolution authorizing and approving the issuance of the Series 1988 INTERCAP Bonds, the Board approved the Indenture of Trust pursuant to which the Series 1988 INTERCAP Bonds were to be issued and secured (the "Trust Indenture"); agreed to make an interest bearing loan to the Reserve Fund and agreed, for a fee, to purchase any Series 1988 INTERCAP Bonds tendered for repurchase that were not remarketed (the "Authorizing Resolution"). Each subsequent series of INTERCAP Bonds issued by the Board have been approved by an Authorizing Resolution and a Supplemental Indenture. The Authorizing Resolutions, the Trust Indenture and Supplemental Indenture are collectively referred to as the "Bond Documents." The Board has never been

RESOLUTION 219
MONTANA BOARD OF INVESTMENTS CREDIT ENHANCEMENT OF BONDS
ADOPTED May 14, 2008

called on to make a loan to the Reserve Fund or purchase tendered MFCA Bonds under the Bond Documents.

Section 1.04. History, Authorizations, Montana Facility Finance Authority Bonds. Pursuant to Chapter 703, Montana Session Laws of 1987, now codified in Montana Code Annotated, Title 90, Chapter 7, Parts 1, 2 and 3, as amended (the “MFFA Act”), the Montana Health Facility Finance Authority, now the Montana Facility Finance Authority (the “MFFA”) is authorized to issue revenue bonds to finance nonprofit hospitals, prelease centers and other nonprofit health-care providers or entities. The MFFA has created a capital reserve account to provide additional security (“Capital Reserve Account”) for the Bonds it issues under the MFFA Act (“MFFA Bonds”). Pursuant to the MFFA Act, the Board is authorized to loan money to the MFFA for deposit in its capital reserve account and to purchase its bonds and notes. Pursuant to resolutions of the Board relating to each series of MFFA Bonds for which credit enhancement is provided, the Board is authorized to enter into an agreement with the MFFA whereby the Board agrees to make an interest bearing loan to the Capital Reserve Account to restore any deficiency (the “MFFA Capital Reserve Account Agreement”). For each series of MFFA Bonds credit enhanced by the Board, the Board has by Resolution approved entering into additional Capital Reserve Account Agreements. The Board has never been called upon to make a loan to the MFFA Capital Reserve Account. To date, the Board has not entered into any agreements to purchase tendered MFFA Bonds.

Section 1.05. Previous Credit Enhancement Policies. The Board adopted a “Credit Enhancement Policy” on February 17, 2006.

Section 2. Findings and Determinations of the Board.

Section 2.01. The Board desires to continue to enhance the marketability of bonds and notes issued under both the MFCA Act and the MFFA Act and to assist the Board and the MFFA in obtaining the lowest possible interest rates on loans to eligible governmental units and non-profit corporations providing needed and essential services and facilities to the public.

Section 2.02. The Board adopts this resolution to codify and clarify the circumstances under which the Board has and will continue to provide credit enhancement; to authorize its Executive Director to honor and fulfill the Board’s obligations under the Bond Documents (and Capital Reserve Account Agreement); and to make this resolution a part of the Board Governance Policy.

Section 2.03. Resolution No. 68 adopted by the Montana Economic Development Board on July 24, 1985, establishing the Reserve Fund to secure bonds or obligations issued by the Board [is attached hereto as Schedule 1 and incorporated by reference.]

Section. 3. Decision to Provide Credit Enhancement; source of Credit Enhancement.

Section 3.01. The decision to provide credit enhancement as authorized by the MFFA Act and the MFCA Act shall be made by the Board pursuant to a duly authorized resolution of the Board related to each series of Bonds to be issued.

Section 3.02. The Board’s policy shall be to provide credit enhancement when it is prudent to do so and in the Board’s judgment would result in a lower interest rate to the borrowers under the MFCA Act and MFFA Act than could be otherwise obtained.

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MONTANA BOARD OF INVESTMENTS CREDIT ENHANCEMENT OF BONDS
ADOPTED May 14, 2008

Section 3.03. The funds in the Unified Investment Program from which the Board's Credit Enhancement obligations could be satisfied include, but are not limited to: the Permanent Fund sub-fund of the Coal Tax Trust, the Short Term Investment Pool, and the Treasurer's Fund.

Section 4. Duties of the Executive Director.

Section 4.01. Loans. When required under the terms of the Bond Documents, the Executive Director of the Board is authorized to loan funds to the Board Reserve Fund and the MFFA Capital Reserve Account pursuant to the requirements of the Bond Documents.

Section 4.02. Purchase of Bonds. When required to do so under the Bond Documents, the Executive Director is authorized to purchase Bonds pursuant to the requirements of the Bond Documents.

Section 4.03. Use of Funds. The Executive Director is authorized to determine which legally available funds to use for the above purposes.

Section 4.04. Notification of Board. If the Executive Director makes a loan to the Reserve Funds, Capital Reserve Account or purchases bonds pursuant to the Bond Documents, he/she shall notify Board members via e-mail within three (3) business days of such action and provide a full report to the Board at its next regularly schedule meeting specifying the reasons for such action, the dollar amount, the terms, and the funding source for the loan or bond purchase.

Section 5. Effective Date; No Repeals Policy.

Section 5.01. This resolution shall become effective upon passage by the Board and execution and certification by the Chairman of the Board. This Resolution shall supersede in every respect and replace in its entirety the "Credit Enhancement Policy" adopted by the Board on February 17, 2006.

Section 5.02. This resolution is not intended and shall not be construed to modify any commitment, obligations or agreements, the Board has made pursuant to any duly authorized resolution or agreement relating to Bonds issued under the MFCA Act or the MFFA Act.

Section 5.03. The policies and procedures established by resolution become an integral part of the Board's Governance Policy.

Dated and approved this 14th day of May 2008.

ATTEST

By: _____
Chairman

SCHEDULE 1
MONTANA BOARD OF INVESTMENTS CREDIT ENHANCEMENT OF BONDS

**CERTIFICATE OF MINUTES RELATING TO
RESOLUTION NO. 068**

Issuer: Montana Economic Development Board

Kind, date, time and place of meeting: A board meeting held on July 24, 1985, at 8:00 o'clock a.m. at Jorgenson's Holiday Motel in Helena, Montana.

Members present: Pat McKittrick, Jack Schutte, Yvonne Snider, Karen Locke, John Orth, and Jerry Sullivan.

Members absent: Steve Brown.

Documents attached:

Minutes of said meeting (pages):

RESOLUTION NO. 068

**RESOLUTION OF THE MONTANA ECONOMIC DEVELOPMENT BOARD
ESTABLISHING A MUNICIPAL FINANCE CONSOLIDATION ACT
RESERVE FUND**

I, the undersigned, being the fully qualified and acting recording officer of the public body issuing the obligations referred to in the title of this certificate, certify that the documents attached hereto, as described above, have been carefully compared with the original records of the public body in my legal custody, from which they have been transcribed; that the documents are a correct and complete transcript of the minutes of a meeting of the governing body at the meeting, insofar as they relate to the obligations; and that the meeting was duly held by the governing body at the time and place and was attended throughout by the members indicated above, pursuant to call and notice of such meeting given as required by law.

WITNESS my hand officially as such recording officer this
24 day of July, 1985.



John Orth
Secretary

SCHEDULE 1
MONTANA BOARD OF INVESTMENTS CREDIT ENHANCEMENT OF BONDS

RESOLUTION 068

Member Jack Schutte introduced the following resolution and moved its adoption:

RESOLUTION OF THE MONTANA ECONOMIC DEVELOPMENT BOARD ESTABLISHING A MUNICIPAL FINANCE CONSOLIDATION ACT RESERVE FUND

BE IT RESOLVED by The Montana Economic Development Board (the Board) as follows:

1. Recitals. The Board is authorized and directed by Title 17, Chapter 5, Part 15, Montana Code Annotated, as amended (the Act) to create funds and accounts necessary to implement the Act, including a municipal consolidation finance act reserve fund and other funds and accounts; to issue and sell bonds and notes for the purpose of financing programs thereunder; and to secure the bonds and notes pursuant to an indenture of trust and resolution. Pursuant to the Act, the Board has undertaken a Cash Anticipation Financing Program to acquire Notes Issued by local government units (the Borrowers) to finance their cash flow requirements. To provide funds to acquire the Notes, the Board has authorized the execution of an Indenture of Trust (the Indenture) between the Board and First Trust Company of Montana (the Trustee) pursuant to which the Board is authorized to issue and sell its Bonds. In order to provide for the segregation of and accounting for certain of its revenues and funds and in furtherance of the Act, the Board hereby determines it necessary and appropriate to adopt this resolution (the Resolution).

2. Definitions. Capitalized terms used but not defined herein shall have the meanings assigned them in the Indenture.

3. Municipal Finance Consolidation Act Reserve Fund. The Board hereby creates and establishes the Municipal Finance Consolidation Act Reserve Fund and authorizes the creation of accounts therein for the purpose of securing one or more series of bonds or obligations issued by the Board. Accounts may be created pursuant to indentures or resolutions with respect to series of bonds or obligations secured thereby and may be held by a Trust and invested pursuant to the provisions of such indentures or resolutions. A reserve fund requirement may be established with respect to each account. So long as the reserve fund requirement of each

SCHEDULE 1
MONTANA BOARD OF INVESTMENTS CREDIT ENHANCEMENT OF BONDS

account is maintained, all investment income therefrom may be transferred to other accounts and funds of the Board as provided in the indenture and resolution securing the bonds.

4. Other Funds and Accounts. Nothing contained in this Resolution shall be deemed to limit the authority of the Board to create other funds and accounts pursuant to the Act in addition to the Municipal Finance Consolidation Act Reserve Fund.


Chairman

ASSET ALLOCATION REPORT

Retirement Systems Asset Allocations as of 3/31/08										
								Direct	Pooled	
				Total				Real	Real	
Pension Fund	MDEP	MTIP	MPEP	Equity	RFBP	STIP	Mtgs	Estate	Estate	Total Assets
PUBLIC EMPLOYEES	39.0%	19.1%	9.6%	67.7%	26.0%	1.3%	0.9%	0.2%	3.9%	3,880,373,684
TEACHERS	39.3%	19.1%	9.5%	67.8%	26.0%	1.0%	1.0%	0.3%	4.0%	2,992,869,630
POLICE	39.4%	19.1%	9.6%	68.2%	26.8%	1.1%			3.9%	195,295,829
SHERIFFS	39.1%	18.8%	9.4%	67.3%	26.8%	2.0%			3.9%	189,224,836
FIREFIGHTERS	39.5%	18.9%	9.7%	68.1%	26.9%	1.1%			3.9%	187,654,481
HIGHWAY PATROL	39.0%	19.2%	9.6%	67.7%	27.0%	1.4%			3.9%	97,093,478
GAME WARDENS	38.8%	18.9%	9.4%	67.1%	26.5%	2.5%			3.9%	72,551,133
JUDGES	39.0%	18.9%	9.5%	67.5%	26.9%	1.7%			3.9%	59,079,398
VOL FIREFIGHTERS	39.3%	19.3%	9.6%	68.2%	27.0%	0.8%			4.0%	25,038,163
TOTAL	39.1%	19.1%	9.5%	67.7%	26.1%	1.2%	0.8%	0.2%	3.9%	7,699,180,633
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 \$500 million during the quarter. This reflected primarily the decline in public equity markets offset by positive returns in all other asset categories. As compared to December the following observations can be made.

- Total equity holdings declined from 69.7% to 67.7%. This decline can be attributed to the negative return in public equities offset by an increase in private equity exposure. The broad domestic equity index, the S&P 1500, was down 9.3% for the quarter. The domestic public equity weight fell from 41.2% to 39.1%.
- International equity exposure declined from 19.9% to 19.1%. Returns were down by 9.1% for the international benchmark.
- Private Equity holdings increased noticeably from 8.5% to 9.5%. The weight is up from 7.6% as of the prior fiscal year end. This increase during the quarter and fiscal year to date reflect positive returns of 2.7% and 10.3%, respectively, and continued capital calls. Of course the shrinking denominator caused by the negative returns in public equities also had a significant impact on this increased allocation. Only \$17 million of new purchases by the plans were made during the quarter to provide the liquidity needed to fund capital calls.
- Fixed income holdings rose to 26.1% from 24.6% at the end of last quarter. Bond returns were moderately positive during the quarter, with strongly positive Treasury returns offset by poor performing corporate and mortgage-backed securities. There were no allocations of note affecting the RFBP during the quarter.
- The pooled real estate holdings were up to 3.9% from 3.3% at the end of December. The return for MTRP was positive for the quarter, at 2.1%, and additions of \$30 million were made to fund ongoing capital calls.
- Cash invested in STIP was down to 1.2% compared to 1.5% and all plans were under the 5% range cap.

The aggregate plan portfolio and each individual plan are within the approved ranges for each of the asset classes. 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. While this might be a technical violation, it would be driven primarily due to a 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 given 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: May 13, 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 12/31/07.
- (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 12/31/07.
- (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 12/31/07.
- (iv) **Private Equity Pool Holdings.** This report summaries all portfolio fund holdings by shares, book value and market value as of 03/31/08.
- (v) **New Commitments Table.** This table summarizes the investments made by Staff since the last Board Meeting.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Madison Dearborn Capital VI	2008	Buyout	Large Cap	\$ 25 M	04/03/08
Performance Venture Capital II	2008	Venture	FOF	\$ 25 M	05/01/08
Portfolio Advisors –PAPEF V	2008	Venture	FOF	\$ <u>10 M</u>	03/03/08
Total New Commitments				\$ 60 M	

- (vi) **MBOI - Private Real Estate 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) Madison Dearborn Capital VI
 - (ii) Performance Equity Management II
 - (iii) Portfolio Advisors - PAPEF V

Montana Board of Investments
LP's by Family of Funds
All Investments
As of December 31, 2007

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	Since Inception		Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
						% Capital Contributed/Committed	Capital Distributed					
LP's By Family of Funds		\$1,466,480,261	\$925,277,022	\$53,155,678	\$506,740,219	65.45		\$774,856,947	\$705,589,759	15.99	1.51	\$1,212,329,978
Adams Street Partners		\$327,129,264	\$252,148,811	\$20,922,339	\$63,228,601	80.67		\$178,453,714	\$232,020,647	18.91	1.50	\$295,249,248
Adams Street Partners Fund - U.S.		\$94,000,000	\$55,939,886	\$3,292,114	\$34,768,000	63.01		\$12,293,423	\$62,468,932	13.10	1.26	\$97,236,932
Adams Street - 2002 U.S. Fund, L.P.	2002	\$34,000,000	\$24,064,965	\$1,537,035	\$8,398,000	75.30		\$8,214,640	\$27,288,508	14.94	1.39	\$35,686,508
Adams Street - 2003 U.S. Fund, L.P.	2003	\$20,000,000	\$12,627,500	\$712,500	\$6,660,000	66.70		\$2,681,935	\$14,024,545	13.28	1.25	\$20,684,545
Adams Street - 2004 U.S. Fund, L.P.	2004	\$15,000,000	\$8,406,797	\$458,203	\$6,135,000	59.10		\$1,024,978	\$9,436,644	11.02	1.18	\$15,571,644
Adams Street - 2005 U.S. Fund, L.P.	2005	\$25,000,000	\$10,840,624	\$584,376	\$13,575,000	45.70		\$371,870	\$11,719,235	4.91	1.06	\$25,294,235
Adams Street Partners Fund - Non-U.S.		\$16,000,000	\$10,210,044	\$525,456	\$5,264,500	67.10		\$4,403,993	\$12,807,622	27.81	1.60	\$18,072,122
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	\$6,000,000	\$5,114,038	\$255,962	\$630,000	89.50		\$3,424,299	\$6,399,637	28.47	1.83	\$7,029,637
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	\$5,000,000	\$2,954,444	\$156,056	\$1,889,500	62.21		\$813,525	\$3,790,466	29.22	1.48	\$5,679,966
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	\$5,000,000	\$2,141,562	\$113,438	\$2,745,000	45.10		\$166,169	\$2,617,519	19.89	1.23	\$5,362,519
Brinson Partnership Trust - Non-U.S.		\$9,809,483	\$9,199,398	\$872,141	\$610,085	93.78		\$8,752,408	\$10,105,019	19.75	1.87	\$10,715,104
Brinson Non-U.S. Trust-1999 Primary Fund	1999	\$1,524,853	\$1,405,782	\$135,572	\$119,071	92.19		\$1,968,096	\$699,959	12.63	1.73	\$819,030
Brinson Non-U.S. Trust-2000 Primary Fund	2000	\$1,815,207	\$1,815,207	\$161,387	\$0	100.00		\$1,740,550	\$1,982,929	16.90	1.88	\$1,982,929
Brinson Non-U.S. Trust-2001 Primary Fund	2001	\$1,341,612	\$1,341,612	\$119,280	\$0	100.00		\$1,521,980	\$1,146,876	17.88	1.83	\$1,146,876
Brinson Non-U.S. Trust-2002 Primary Fund	2002	\$1,696,452	\$1,696,452	\$150,828	\$0	100.00		\$859,650	\$2,233,622	20.93	1.67	\$2,233,622
Brinson Non-U.S. Trust-2002 Secondary	2002	\$637,308	\$601,542	\$56,662	\$35,766	94.39		\$1,329,057	\$303,618	30.35	2.48	\$339,384
Brinson Non-U.S. Trust-2003 Primary Fund	2003	\$1,896,438	\$1,659,040	\$168,608	\$237,398	87.48		\$1,133,145	\$2,675,625	39.56	2.08	\$2,913,023
Brinson Non-U.S. Trust-2004 Primary Fund	2004	\$897,613	\$679,763	\$79,804	\$217,850	75.73		\$199,930	\$1,062,390	30.30	1.66	\$1,280,240
Brinson Partnership Trust - U.S.		\$103,319,781	\$94,787,010	\$8,298,346	\$8,532,771	91.74		\$78,746,703	\$80,920,179	14.45	1.55	\$89,452,950
Brinson Partners - 1996 Fund	1996	\$3,950,740	\$3,708,316	\$417,533	\$242,424	93.86		\$6,672,722	\$512,216	15.41	1.74	\$754,640
Brinson Partners - 1997 Primary Fund	1997	\$3,554,935	\$3,554,935	\$368,242	\$0	100.00		\$13,897,256	\$697,882	71.51	3.72	\$697,882
Brinson Partners - 1998 Primary Fund	1998	\$7,161,019	\$7,122,251	\$742,418	\$38,768	99.46		\$8,849,341	\$2,510,364	7.61	1.44	\$2,549,132
Brinson Partners - 1998 Secondary Fund	1998	\$266,625	\$266,625	\$27,532	\$0	100.00		\$181,932	\$15,445	(6.94)	0.67	\$15,445
Brinson Partners - 1999 Primary Fund	1999	\$8,346,761	\$7,832,823	\$838,206	\$513,938	93.84		\$7,148,099	\$3,267,348	3.70	1.20	\$3,781,286
Brinson Partners - 2000 Primary Fund	2000	\$20,064,960	\$19,079,570	\$1,781,339	\$985,390	95.09		\$13,343,390	\$15,579,149	7.75	1.39	\$16,564,539
Brinson Partners - 2001 Primary Fund	2001	\$15,496,322	\$14,830,208	\$1,113,872	\$666,114	95.70		\$6,503,309	\$15,489,633	10.26	1.38	\$16,155,747
Brinson Partners - 2002 Primary Fund	2002	\$16,297,079	\$15,425,196	\$1,155,856	\$871,883	94.65		\$12,545,143	\$14,403,536	19.61	1.63	\$15,275,419
Brinson Partners - 2002 Secondary Fund	2002	\$2,608,820	\$2,498,592	\$178,471	\$110,228	95.77		\$2,426,170	\$2,551,254	19.70	1.86	\$2,661,482
Brinson Partners - 2003 Primary Fund	2003	\$15,589,100	\$12,985,126	\$1,071,848	\$2,603,974	83.30		\$4,995,201	\$16,262,428	19.66	1.51	\$18,866,402
Brinson Partners - 2003 Secondary Fund	2003	\$1,151,151	\$1,020,460	\$69,533	\$130,691	88.65		\$1,109,972	\$1,416,782	29.94	2.32	\$1,547,473
Brinson Partners - 2004 Primary Fund	2004	\$8,832,269	\$6,462,908	\$533,496	\$2,369,361	73.17		\$1,074,168	\$8,214,142	15.68	1.33	\$10,583,503
Adams Street Global Oppty Secondary Fund	2004	\$25,000,000	\$13,987,259	\$200,241	\$10,812,500	56.75		\$4,452,996	\$13,408,834	24.05	1.26	\$24,221,334
Adams Street V, L.P.	2003	\$40,000,000	\$34,533,043	\$3,266,957	\$2,200,000	94.50		\$3,919,819	\$38,687,239	5.44	1.13	\$40,887,239
Adams Street VPAF Fund II	1990	\$4,000,000	\$3,621,830	\$378,170	\$0	100.00		\$7,861,041	\$21,774	25.25	1.97	\$21,774
Brinson Venture Capital Fund III, L.P.	1993	\$5,000,000	\$4,045,656	\$954,344	\$0	100.00		\$15,622,448	\$104,851	40.48	3.15	\$104,851
Brinson VPF III	1993	\$5,000,000	\$4,477,021	\$522,979	\$0	100.00		\$14,741,851	\$322,244	29.50	3.01	\$322,244
Brinson VPF III - Secondary Interest	1999	\$5,000,000	\$4,808,750	\$191,250	\$0	100.00		\$8,024,726	\$322,653	41.72	1.67	\$322,653
BVCF III - Secondary Interest	1999	\$5,000,000	\$3,602,735	\$356,520	\$1,040,745	79.19		\$9,634,305	\$104,851	97.04	2.46	\$1,145,596
BVCF IV, L.P.	1999	\$15,000,000	\$12,936,179	\$2,063,821	\$0	100.00		\$10,000,001	\$12,746,449	6.98	1.52	\$12,746,449
Advent Partnerships		\$1,000,000	\$1,000,000	\$48,660	\$0	100.00		\$2,346,542	\$0	19.60	2.24	\$40
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	\$2,343,922	\$478,442	\$12,175,969	18.83		\$0	\$2,481,675	(44.53)	0.88	\$14,657,644
Affinity Asia Pacific Fund III, LP	2006	\$15,000,000	\$2,343,922	\$478,442	\$12,175,969	18.83		\$0	\$2,481,675	(44.53)	0.88	\$14,657,644
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	\$36,888,641	\$1,282,255	\$11,829,105	76.34		\$15,014,407	\$32,560,482	18.55	1.25	\$44,389,587
ArcLight Energy Partners Fund II	2004	\$25,000,000	\$19,276,727	\$862,412	\$4,860,861	80.56		\$13,770,074	\$14,887,371	22.38	1.42	\$19,748,232
ArcLight Energy Partners Fund III, LP	2006	\$25,000,000	\$17,611,914	\$419,843	\$6,968,244	72.13		\$1,244,333	\$17,673,111	6.41	1.05	\$24,641,355
Austin Ventures		\$500,000	\$424,417	\$128,985	\$0	100.00		\$1,216,717	\$17,167	20.58	2.23	\$17,167
Austin Ventures III	1991	\$500,000	\$424,417	\$128,985	\$0	100.00		\$1,216,717	\$17,167	20.58	2.23	\$17,167

Montana Board of Investments
LP's by Family of Funds
All Investments
As of December 31, 2007

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	Since Inception		Ending Market Value	Net IRR	Investment Multiple	Total Exposure
						% Capital Contributed/Committed	Capital Distributed				
Avenue Investments		\$35,000,000	\$10,820,215	\$344,486	\$23,625,402	32.50	\$80,585	\$10,368,401	(10.55)	0.92	\$33,993,803
Avenue Special Situations Fund V, LP	2007	\$35,000,000	\$10,820,215	\$344,486	\$23,625,402	32.50	\$80,585	\$10,368,401	(10.55)	0.92	\$33,993,803
Buerk Dale Victor		\$15,000,000	\$2,632,437	\$367,563	\$12,000,000	20.00	\$0	\$2,361,195	(28.22)	0.79	\$14,361,195
Buerk Dale Victor Fund II, L.P.	2007	\$15,000,000	\$2,632,437	\$367,563	\$12,000,000	20.00	\$0	\$2,361,195	(28.22)	0.79	\$14,361,195
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	\$36,129,385	\$1,680,793	\$22,189,822	63.02	\$1,624,612	\$40,157,517	8.52	1.11	\$62,347,339
Carlyle Partners IV, L.P.	2005	\$35,000,000	\$31,304,412	\$799,647	\$2,895,941	91.73	\$1,482,288	\$34,886,549	10.64	1.13	\$37,782,490
Carlyle Venture Partners III, LP	2006	\$25,000,000	\$4,824,973	\$881,146	\$19,293,881	22.82	\$142,324	\$5,270,968	(4.38)	0.95	\$24,564,849
CCMP Associates		\$30,000,000	\$6,764,495	\$365,217	\$22,870,288	23.77	\$73,524	\$6,832,387	(3.12)	0.97	\$29,702,675
CCMP Capital Investors II, L.P.	2006	\$30,000,000	\$6,764,495	\$365,217	\$22,870,288	23.77	\$73,524	\$6,832,387	(3.12)	0.97	\$29,702,675
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	\$5,289,361	\$452,234	\$24,258,405	19.14	\$0	\$6,723,000	37.77	1.17	\$30,981,405
First Reserve Fund XI, L.P.	2006	\$30,000,000	\$5,289,361	\$452,234	\$24,258,405	19.14	\$0	\$6,723,000	37.77	1.17	\$30,981,405
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	\$3,581,679	(0.92)	0.99	\$19,981,679
HarbourVest Direct 2007 Fund	2007	\$20,000,000	\$3,599,781	\$219	\$16,400,000	18.00	\$0	\$3,581,679	(0.92)	0.99	\$19,981,679
Hellman & Friedman		\$25,000,000	\$8,661,916	\$33,200	\$16,304,884	34.78	\$0	\$7,527,021	(20.87)	0.87	\$23,831,905
Hellman & Friedman Capital Partners VI	2006	\$25,000,000	\$8,661,916	\$33,200	\$16,304,884	34.78	\$0	\$7,527,021	(20.87)	0.87	\$23,831,905
Highway 12 Ventures		\$10,000,000	\$1,670,805	\$276,712	\$8,052,483	19.48	\$0	\$1,505,442	(35.18)	0.77	\$9,557,925
Highway 12 Venture Fund II, L.P.	2006	\$10,000,000	\$1,670,805	\$276,712	\$8,052,483	19.48	\$0	\$1,505,442	(35.18)	0.77	\$9,557,925
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	\$6,802,289	\$150,000	\$2,643,574	73.56	\$359,779	\$7,424,528	13.81	1.06	\$10,068,102
Industry Ventures Fund IV, L.P.	2005	\$10,000,000	\$6,802,289	\$150,000	\$2,643,574	73.56	\$359,779	\$7,424,528	13.81	1.06	\$10,068,102
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	\$9,608,903	\$308,008	\$15,083,089	39.67	\$27,227	\$7,379,207	(28.88)	0.75	\$22,462,296
J.C. Flowers II L.P.	2006	\$25,000,000	\$9,608,903	\$308,008	\$15,083,089	39.67	\$27,227	\$7,379,207	(28.88)	0.75	\$22,462,296
Joseph Littlejohn & Levy		\$25,548,000	\$16,206,038	\$573,489	\$8,794,500	65.58	\$5,666,856	\$19,078,986	34.41	1.47	\$27,873,486
JLL Partners Fund V, L.P.	2005	\$25,000,000	\$15,672,978	\$547,458	\$8,779,564	64.88	\$4,246,917	\$19,078,986	49.45	1.44	\$27,858,550
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	\$9,492,520	\$0	100.00	\$315,821,468	\$40,037,531	12.92	1.93	\$40,037,531
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	\$605,315	8.93	2.08	\$605,315
KKR 1993 Fund - Montana	1993	\$25,000,000	\$25,000,000	\$1,002,236	\$0	100.00	\$48,774,539	\$227,605	17.81	1.88	\$227,605
KKR 1996 Fund - Montana	1997	\$100,000,000	\$100,000,000	\$4,623,649	\$0	100.00	\$168,810,481	\$19,564,417	13.92	1.80	\$19,564,417
KKR European Fund - Montana	1999	\$25,000,000	\$25,000,000	\$1,765,471	\$0	100.00	\$37,444,568	\$19,640,194	22.15	2.13	\$19,640,194
Lehman Brothers		\$50,000,000	\$20,568,771	\$744,104	\$28,687,125	42.63	\$5,522,343	\$20,961,054	27.94	1.24	\$49,648,179
Lehman Brothers Merchant Banking IV, LP	2007	\$15,000,000	\$187,476	\$206,462	\$14,606,062	2.63	\$0	\$223,320	(46.26)	0.57	\$14,829,382
Lehman Co-investment Partners, L.P.	2006	\$35,000,000	\$20,381,295	\$537,641	\$14,081,063	59.77	\$5,522,343	\$20,737,734	28.95	1.26	\$34,818,797
Lexington Capital Partners		\$100,000,000	\$69,404,688	\$2,456,592	\$28,138,720	71.86	\$52,489,172	\$52,872,943	25.44	1.47	\$81,011,663
Lexington Capital Partners V, L.P.	2001	\$50,000,000	\$45,995,170	\$1,657,269	\$2,347,561	95.30	\$48,532,407	\$30,466,261	26.74	1.66	\$32,813,822
Lexington Capital Partners VI-B, L.P.	2005	\$50,000,000	\$23,409,518	\$799,323	\$25,791,159	48.42	\$3,956,765	\$22,406,682	12.52	1.09	\$48,197,841
Madison Dearborn Capital Partners		\$50,000,000	\$41,871,554	\$1,464,066	\$6,664,380	86.67	\$10,751,493	\$57,982,262	26.53	1.59	\$64,646,642
Madison Dearborn Capital Partners IV, LP	2001	\$25,000,000	\$22,098,511	\$1,165,610	\$1,735,879	93.06	\$10,751,493	\$37,683,893	28.52	2.08	\$39,419,772
Madison Dearborn Capital Partners V, LP	2006	\$25,000,000	\$19,773,043	\$298,456	\$4,928,501	80.29	\$0	\$20,298,369	2.08	1.01	\$25,226,870
Matlin Patterson		\$30,000,000	\$2,720,733	\$279,267	\$27,000,000	10.00	\$1,489	\$4,385,982	60.92	1.46	\$31,385,982
MatlinPatterson Global Opps. Ptnrs. III	2007	\$30,000,000	\$2,720,733	\$279,267	\$27,000,000	10.00	\$1,489	\$4,385,982	60.92	1.46	\$31,385,982
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	\$9,632,960	\$367,040	\$15,000,000	40.00	\$130,728	\$9,882,950	0.18	1.00	\$24,882,950

Montana Board of Investments
LP's by Family of Funds
All Investments
As of December 31, 2007

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	Since Inception		Ending Market Value	Net IRR	Investment Multiple	Total Exposure
						% Capital Contributed/Committed	Capital Distributed				
MHR Institutional Partners III, L.P.	2006	\$25,000,000	\$9,632,960	\$367,040	\$15,000,000	40.00	\$130,728	\$9,882,950	0.18	1.00	\$24,882,950
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		\$25,000,000	\$17,817,055	\$957,127	\$6,225,818	75.10	\$1,765,005	\$24,588,989	29.82	1.40	\$30,814,807
Oak Hill Capital Partners II, L.P.	2005	\$25,000,000	\$17,817,055	\$957,127	\$6,225,818	75.10	\$1,765,005	\$24,588,989	29.82	1.40	\$30,814,807
Oaktree Capital Partners		\$110,000,000	\$73,115,526	\$1,884,474	\$35,000,000	68.18	\$121,236,346	\$312,971	44.91	1.62	\$35,312,971
OCM Opportunities Fund IVb, L.P.	2002	\$75,000,000	\$73,115,526	\$1,884,474	\$0	100.00	\$121,236,346	\$312,971	44.91	1.62	\$312,971
OCM Opportunities Fund VIIIb, 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	\$16,666,512	\$1,315,855	\$7,017,633	71.93	\$6,387,851	\$25,346,739	41.57	1.76	\$32,364,372
Odyssey Partners Fund III, L.P.	2004	\$25,000,000	\$16,666,512	\$1,315,855	\$7,017,633	71.93	\$6,387,851	\$25,346,739	41.57	1.76	\$32,364,372
O'Donnell and Masur		\$1,000,000	\$948,419	\$127,952	\$0	100.00	\$2,348,672	\$0	23.15	2.18	\$0
O'Donnell 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	\$12,242,343	\$657,166	\$32,100,491	28.67	\$187,134	\$12,168,956	(6.72)	0.96	\$44,269,447
Port. Advisors Fund IV (B), L.P.	2006	\$30,000,000	\$10,804,198	\$460,938	\$18,734,864	37.55	\$182,403	\$10,843,522	(3.19)	0.98	\$29,578,386
Port. Advisors Fund IV (E), L.P.	2006	\$15,000,000	\$1,438,145	\$196,228	\$13,365,627	10.90	\$4,731	\$1,325,434	(37.56)	0.81	\$14,691,061
Quintana Energy Partners		\$15,000,000	\$7,443,390	\$728,274	\$6,807,965	54.61	\$0	\$7,386,431	(14.89)	0.90	\$14,194,396
Quintana Energy Partners Fund I, L.P.	2006	\$15,000,000	\$7,443,390	\$728,274	\$6,807,965	54.61	\$0	\$7,386,431	(14.89)	0.90	\$14,194,396
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	\$4,825,319	\$56,875	\$19,985,518	20.06	\$94,514	\$4,344,092	(11.51)	0.89	\$24,329,610
Siguler Guff Small Buyout Opportunities	2007	\$25,000,000	\$4,825,319	\$56,875	\$19,985,518	20.06	\$94,514	\$4,344,092	(11.51)	0.89	\$24,329,610
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	\$7,786	17.71	2.00	\$7,786
Sprout Capital VI	1990	\$500,000	\$416,999	\$122,592	\$0	100.00	\$1,070,772	\$7,786	17.71	2.00	\$7,786
Summit Ventures		\$500,000	\$388,928	\$109,535	\$25,000	95.00	\$1,255,067	\$2,816	28.33	2.52	\$27,816
Summit Ventures II, L.P.	1988	\$500,000	\$388,928	\$109,535	\$25,000	95.00	\$1,255,067	\$2,816	28.33	2.52	\$27,816
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	\$11,182,657	\$935,574	\$13,297,713	47.71	\$0	\$12,434,539	9.13	1.02	\$25,732,251
Terra Firma Capital Partners III, LP	2007	\$25,432,997	\$11,182,657	\$935,574	\$13,297,713	47.71	\$0	\$12,434,539	9.13	1.02	\$25,732,251
Welsh, Carson, Anderson & Stowe		\$76,000,000	\$51,474,798	\$3,108,524	\$21,317,661	71.95	\$28,710,600	\$52,854,192	18.03	1.49	\$74,171,853
Welsh, Carson, Anderson & Stowe II	1990	\$500,000	\$455,663	\$87,196	\$0	100.00	\$689,495	\$145,362	9.54	1.54	\$145,362
Welsh, Carson, Anderson & Stowe IV, LP	2004	\$25,000,000	\$13,123,053	\$376,947	\$11,500,000	54.00	\$1,854,136	\$15,528,984	12.94	1.29	\$27,028,984
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	\$25,000,000	\$21,473,635	\$1,776,365	\$1,750,000	93.00	\$24,414,075	\$17,791,580	17.29	1.82	\$19,541,580
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	\$15,922,447	\$827,553	\$8,067,661	67.73	\$0	\$19,388,266	13.53	1.15	\$27,455,927
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

3/31/2008 Private Equity Pool Holdings

<u>Fund Name</u>	<u>Shares</u>	<u>Book Value</u>	<u>Market Value</u>	<u>%</u>
ADAMS STR GLOBAL OPPORTUNITES	11,314,947	11,314,947	12,158,838	1.65%
ADAMS STREET FUND V	32,926,450	32,926,450	36,099,967	4.91%
ADAMS STREET PARTNERS FUND	20,515,412	20,515,412	25,542,509	3.48%
ADAMS STREET PARTNERSHIP	2,475,200	2,475,200	2,892,519	0.39%
ADAMS STREET PARTNERSHIP FUND	12,080,183	12,080,183	12,719,237	1.73%
ADAMS STREET PARTNERSHIP FUND	2,948,791	2,948,791	3,927,967	0.53%
ADAMS STREET PARTNERSHIP FUND	8,237,549	8,237,549	9,436,648	1.28%
ADAMS STREET PARTNERSHIP FUND	11,576,439	11,576,439	13,451,868	1.83%
ADAMS STREET PTNRSH FND	3,687,447	3,687,447	6,012,250	0.82%
AUSTIN VENTURES III	214,255	214,255	17,167	0.00%
BRIN VEN CAP III SECONDARY	1	1	104,851	0.01%
BRIN VEN PART III SECONDARY	1,517,128	1,517,128	322,654	0.04%
BRINSON NON U.S. TRUST	862,437	862,437	1,435,899	0.20%
BRINSON NON U.S. TRUST	612,055	612,055	1,025,506	0.14%
BRINSON NON U.S. TRUST	204,453	204,453	303,618	0.04%
BRINSON NON U.S. TRUST	944,570	944,570	2,196,218	0.30%
BRINSON NON US 1999 PRIMARY FD	299,308	299,308	585,414	0.08%
BRINSON NON US PARTNERSHIP FND	1,090,463	1,090,463	2,129,422	0.29%
BRINSON NON US PARTNERSHIP TR	606,340	606,340	942,430	0.13%
BRINSON PARTNERSHIP	11,434,839	11,434,839	12,194,067	1.66%
BRINSON PARTNERSHIP	6,079,488	6,079,488	8,214,142	1.12%
BRINSON PARTNERSHIP FUND	392,537	392,537	915,504	0.12%
BRINSON PARTNERSHIP FUND TR	9,611,931	9,611,931	14,403,536	1.96%
BRINSON PARTNERSHIP FUND TRUST	1,333,562	1,333,562	461,669	0.06%
BRINSON PARTNERSHIP FUND TRUST	3,033,007	3,033,007	1,583,606	0.22%
BRINSON PARTNERSHIP FUND TRUST	142,679	142,679	15,445	0.00%
BRINSON PARTNERSHIP FUND TRUST	1,478,727	1,478,727	512,216	0.07%
BRINSON PARTNERSHIP FUND TRUST	4,704,585	4,704,585	3,267,348	0.44%
BRINSON PARTNERSHIP FUND TRUST	11,950,647	11,950,647	15,489,640	2.11%
BRINSON PARTNERSHIP FUND TRUST	10,162,041	10,162,041	13,267,703	1.81%
BRINSON PARTNERSHIP FUND TRUST	1,489,081	1,489,081	2,032,223	0.28%
BRINSON VEN CAP FUND IV	6,585,743	6,585,743	12,413,118	1.69%
BRINSON VENTURE CAPITAL FD III	1	1	104,851	0.01%
BRINSON VENTURE PARTNR FD III	1,285,662	1,285,662	322,243	0.04%
SPROUT CAPITAL VI	244,756	244,756	7,786	0.00%
SUMMIT VENTURE II	128,881	128,881	2,816	0.00%
VENTURE PARTNERSHIP ACQUIST	190,080	190,080	21,774	0.00%
WCAS CAPITAL PARTNERS II	261,141	261,141	145,362	0.02%
ADAMS STREET Total	182,622,817	182,622,817	216,680,030	29.49%
AFFINITY ASIA PACIFIC FUND III	2,628,706	2,628,706	2,628,010	0.36%
AFFINITY Total	2,628,706	2,628,706	2,628,010	0.36%
ARCLIGHT ENERGY PTNRS FUND III	19,179,384	19,179,384	19,356,314	2.63%
ARCLIGHT ENRGY PARTNERS FD II	12,995,881	12,995,881	11,920,355	1.62%
ARCLIGHT Total	32,175,265	32,175,265	31,276,669	4.26%
AVENUE SPECIAL SITUATIONS V	14,320,215	14,320,215	14,320,215	1.95%
AVENUE CAPITAL Total	14,320,215	14,320,215	14,320,215	1.95%
BUERK DALE VICOTR II L.P.	4,050,000	4,050,000	3,512,618	0.48%
BUERK DALE. Total	4,050,000	4,050,000	3,512,618	0.48%
CARLYLE PARTNERS IV, L.P.	31,430,980	31,430,980	35,035,705	4.77%
CARLYLE VENTURE PARTNERS III	7,543,648	7,543,648	7,651,386	1.04%
CARLYLE Total	38,974,628	38,974,628	42,687,091	5.81%
CCMP II	6,551,322	6,551,322	5,532,722	0.75%
CCMP Total	6,551,322	6,551,322	5,532,722	0.75%

3/31/2008 Private Equity Pool Holdings

<u>Fund Name</u>	<u>Shares</u>	<u>Book Value</u>	<u>Market Value</u>	<u>%</u>
FIRST RESERVE XI	13,778,166	13,778,166	13,833,912	1.88%
FIRST RESERVE Total	13,778,166	13,778,166	13,833,912	1.88%
HARBOURVEST 2007 DIRECT	3,600,000	3,600,000	3,600,000	0.49%
HARBOUR VEST Total	3,600,000	3,600,000	3,600,000	0.49%
HFCP VI	12,288,824	12,288,824	12,454,330	1.70%
HELLMAN FRIEDMAN Total	12,288,824	12,288,824	12,454,330	1.70%
HIGHWAY 12 VENTURE II	1,983,305	1,983,305	1,959,279	0.27%
HIGHWAY 12 VENTURES Total	1,983,305	1,983,305	1,959,279	0.27%
INDUSTRY VENTURES FUND IV	6,391,146	6,391,146	6,065,255	0.83%
INDUSTRY VENTURES Total	6,391,146	6,391,146	6,065,255	0.83%
JCF II LP	13,099,108	13,099,108	12,891,605	1.75%
J.C. FLOWERS Total	13,099,108	13,099,108	12,891,605	1.75%
JLL PARTNERS FUND V LP	13,424,148	13,424,148	14,815,198	2.02%
JLL PARTNERS Total	13,424,148	13,424,148	14,815,198	2.02%
KKR 1987	2,021,493	2,021,493	605,316	0.08%
KKR 1993	1,285,300	1,285,300	227,605	0.03%
KKR 1996	19,878,747	19,878,747	19,565,438	2.66%
KKR EUROPEAN FUND	9,360,194	9,360,194	19,640,196	2.67%
KKR Total	32,545,734	32,545,734	40,038,554	5.45%
LEHMAN BROS MERCHANT BANK IV	265,788	265,788	265,788	0.04%
LEHMAN BROTHERS CO	16,237,929	16,237,929	20,081,723	2.73%
LEHMAN BROTHERS Total	16,503,717	16,503,717	20,347,511	2.77%
LEXINGTON CAPITAL PARTNERS VIB	22,049,682	22,049,682	22,742,218	3.10%
LEXINGTON CAPITAL PTRS V LP	5,873,169	5,873,169	28,786,721	3.92%
LEXINGTON Total	27,922,851	27,922,851	51,528,940	7.01%
MADISON DEARBORN CAP PART IV	16,923,341	16,923,341	37,019,961	5.04%
MDCP V	19,444,860	19,444,860	19,415,032	2.64%
MADISON DEARBORN Total	36,368,201	36,368,201	56,434,993	7.68%
MATLIN PATTERSON GLB OPP	6,141,704	6,141,704	6,023,218	0.82%
MATLIN PATTERSON Total	6,141,704	6,141,704	6,023,218	0.82%
MHR INSTITUTIONAL III	10,282,789	10,282,789	10,481,175	1.43%
MHR INSTITUTIONAL Total	10,282,789	10,282,789	10,481,175	1.43%
OAK HILL CAPITAL PARTNERS II	18,076,435	18,076,435	24,903,362	3.39%
OAK HILL III	4,173,841	4,173,841	4,173,841	0.57%
OAK HILL Total	22,250,276	22,250,276	29,077,203	3.96%
OCM OPPORTUNITIES FD IVB LP	1	1	391,214	0.05%
OAK TREE Total	1	1	391,214	0.05%
ODYSSEY INVT PARTN FD III	14,272,892	14,272,892	22,842,393	3.11%
ODYSSEY INVESTMENTS Total	14,272,892	14,272,892	22,842,393	3.11%
PORTFOLIO ADVISORS IV (B)	12,173,345	12,173,345	12,019,778	1.64%
PORTFOLIO ADVISORS IV (E)	1,725,435	1,725,435	1,725,435	0.23%
PORTFOLIO ADVISORS Total	13,898,780	13,898,780	13,745,213	1.87%
QUINTANA ENERGY PARTNERS TE LP	8,865,991	8,865,991	8,865,991	1.21%
QUINTANA ENERGY Total	8,865,991	8,865,991	8,865,991	1.21%
SIGULER GUFF SM BUYOUT	4,800,520	4,800,520	4,660,061	0.63%
SIGULER GUFF Total	4,800,520	4,800,520	4,660,061	0.63%
TERRA FIRMA III LIMITED PART	8,524,661	12,127,411	13,578,627	1.85%

3/31/2008 Private Equity Pool Holdings

<u>Fund Name</u>	<u>Shares</u>	<u>Book Value</u>	<u>Market Value</u>	<u>%</u>
TERRA FIRMA Total	8,524,661	12,127,411	13,578,627	1.85%
WCAS CAPITAL PARTNERS FUND IV	13,500,000	13,500,000	14,933,511	2.03%
WCAS IX	8,787,788	8,787,788	17,293,733	2.35%
WCAS X LP	16,591,194	16,591,194	17,212,070	2.34%
WELSH CARSON Total	38,878,982	38,878,982	49,439,314	6.73%
STATE STREET REPO	192,949	192,949	192,949	0.03%
STATE STREET SPIF ALT INV	137,796	24,951,709	24,769,390	3.37%
STATE STREET Total	330,745	25,144,658	24,962,338	3.40%
Grand Total	587,475,492	615,892,155	734,673,680	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: May 13, 2008

Subject: Montana Real Estate Pool [MTRP]

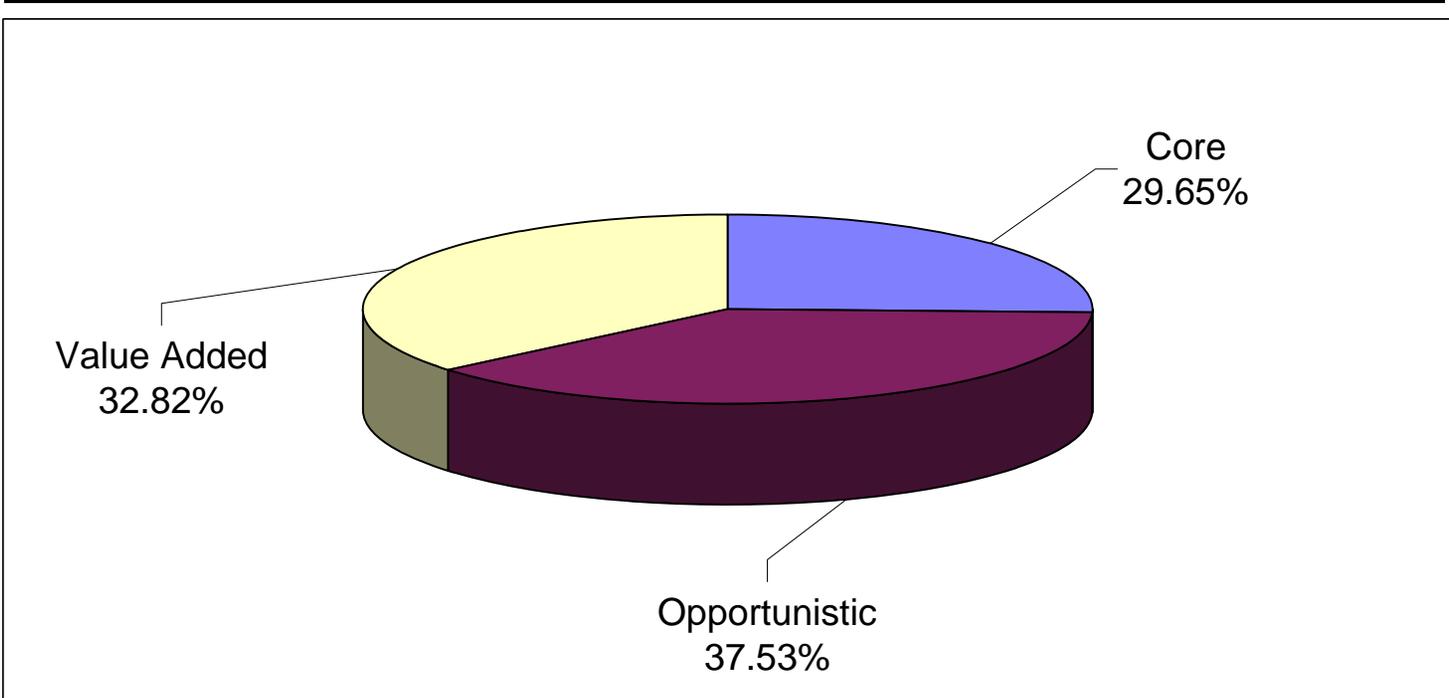
Attached to this memo are the following reports:

- (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 12/31/07.
- (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 12/31/07.
- (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 12/31/07.
- (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 12/31/07.
- (v) **Real Estate Pool Holdings.** This report summaries all MTRP portfolio fund holdings by shares, book value and market value as of 03/31/08.
- (vi) **New Commitments Table.** This report summarizes the investments made by Staff since the last Board Meeting.

Fund Name	Vintage	Subclass	Sector	Amount	Date
AREFIN – Co-Investment	2008	Value Add	Co-Invest	\$ 10 M	03/29/08
Hudson Realty IV Co-Investment	2008	Value Add	Co-Invest	\$ 10 M	02/15/08
O'Connor NA Properties II	2008	Opportunistic	Various	\$ 15 M	04/08/08
Total New Commitments				\$ 35 M	

- (vi) **MBOI - Private Real Estate 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) AREFIN – Co-Investment Vehicle
 - (ii) Hudson Realty IV – Co-Investment Vehicle
 - (iii) O'Connor North American Property Partners Fund II

Montana Real Estate Pool
Strategy Total Exposure by Market Value & Remaining Commitments
(Since inception through December 31, 2007)



Strategy	Remaining Commitments	Market Value	Total Exposure	Percentage
Core	\$0	\$151,663,330	\$151,663,330	29.65%
Opportunistic	\$148,613,528	\$43,326,016	\$191,939,544	37.53%
Value Added	\$99,197,917	\$68,675,748	\$167,873,666	32.82%
Total	\$247,811,445	\$263,665,094	\$511,476,539	100.00%

3/31/2008 Private Real Estate Holdings

<u>Fund Name</u>	<u>Shares</u>	<u>Book Value</u>	<u>Market Value</u>	<u>%</u>
ABR CHESAPEAKE III	12,000,000	12,000,000	12,000,000	3.93%
AG REALTY FUND VII LP	2,400,000	2,400,000	2,400,000	0.79%
AG CORE PLUS REALTY FD II	5,191,597	5,191,597	5,191,597	1.70%
APOLLO REAL ESTATE FINANCE COR	2,900	2,900,000	2,816,147	0.92%
BEACON CAPITAL PARTNERS FUND V	12,500,000	12,500,000	12,093,988	3.96%
CIM FUND III	700,432	700,432	700,432	0.23%
CLARION LION PROPERTIES FUND	31,957	45,000,000	48,626,068	15.93%
DRA ADVISORS VI	10,272,803	10,272,803	10,272,803	3.37%
JP MORGAN CB	37,978	67,398,504	71,864,937	23.55%
HUDSON REALTY CAPITAL FUND IV	9,750,000	9,750,000	9,685,046	3.17%
INVESCO CORE REAL ESTATE USA	309	45,000,000	45,958,891	15.06%
MORGAN STANLEY REAL ESTATE	10,614,149	10,614,149	9,954,395	3.26%
JER REAL EST PARTNERS FUND IV	15,137,977	15,137,977	14,769,095	4.84%
LIQUID REALTY FUN IV	5,826,477	5,826,477	5,826,477	1.91%
MACQUARIE GBL PROP III ASIA	6,267,361	6,267,361	6,267,361	2.05%
STRATEGIC PARTNERS VALUE	11,297,359	11,297,359	11,006,203	3.61%
ROTHSCHILD FIVE ARROWS REALTY	4,647,814	4,647,814	4,695,519	1.54%
TA ASSOCIATES REALTY FUND	16,000,000	16,000,000	16,494,384	5.40%
CARLYLE EUROPE R.E.P. III, L.P	2,891,912	4,509,790	7,145,987	2.34%
REAL ESTATE Total	125,571,025	287,414,263	297,769,328	97.57%
SHORT TERM INVESTMENT POOL	7,419,718	7,419,718	7,419,718	2.43%
CASH EQUIVALENT Total	7,419,718	7,419,718	7,419,718	2.43%
Grand Total	132,990,744	294,833,981	305,189,046	100.00%

Montana Domestic Equity Pool

Domestic Stock Pool By Manager as of 3/31/2008			
<u>Manager Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved Range</u>
BGI EQUITY INDEX FUND	764,925,579	25.38%	
STATE STREET SPIF ALT INV	24,975,038	0.83%	0-5%
LARGE CAP CORE Total	789,900,617	26.21%	10-30%
ENHANCED INVEST TECHNOLOGIES	186,942,399	6.20%	
GOLDMAN SACHS ENHANCED LARGE	128,755,418	4.27%	
T ROWE PRICE ASSOCIATES INC	202,652,535	6.72%	
WESTERN ASSET US INDX PLUS LLC	168,979,689	5.61%	
LARGE CAP ENHANCED Total	687,330,040	22.80%	20-30%
BARROW HANLEY MEWHINNEY + STRS	188,100,321	6.24%	
QUANTITATIVE MANAGEMENT ASSOC	130,254,353	4.32%	
LARGE CAP VALUE Total	318,354,674	10.56%	
COLUMBUS CIRCLE INVESTORS	147,200,402	4.88%	
RAINIER INVESTMENT MGMNT INC	142,574,893	4.73%	
RENAISSANCE GROUP LLC	143,870,535	4.77%	
LARGE CAP GROWTH Total	433,645,831	14.39%	
LARGE CAP STYLE BASED Total	752,000,506	24.95%	20-30%
ANALYTIC INVESTORS MU3B	117,052,137	3.88%	
JP MORGAN ASSET MGMT MU3E	196,073,858	6.51%	
MARTINGALE ASSET MGMT MU3D	79,248,158	2.63%	
PARTIAL LONG/SHORT (130-30) Total	392,374,153	13.02%	10-20%
COMBINED LARGE CAP Total	2,621,605,316	86.98%	82-92%
ARTISAN MID CAP VALUE	58,899,773	1.95%	
BGI MIDCAP EQUITY INDEX FUND	20,442,065	0.68%	
MARTINGALE ASSET MGMT MID CAP	101,879,525	3.38%	
TIMESQUARE CAPITAL MGMT	74,406,588	2.47%	
MID CAP Total	255,627,950	8.48%	5-11%
DIMENSIONAL FUND ADVISORS INC	54,241,998	1.80%	
NORTHPOINTE CAPITAL SMALL CAP	40,215,829	1.33%	
VAUGHAN NELSON INV	42,414,798	1.41%	
SMALL CAP Total	136,872,625	4.54%	3-8%
TOTAL MDEP	3,014,105,891	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 appropriate weightings are within approved ranges, including the new partial long/short (130/30) allocation.

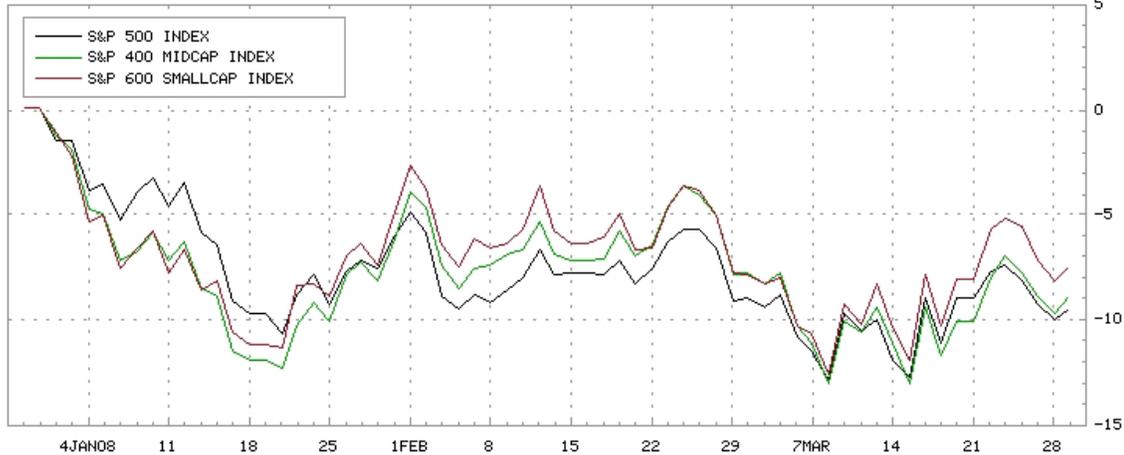
During the quarter, three partial long/short managers were funded with \$400 million sourced from the Barclays Index 500 fund. Note the addition of these managers and the partial long/short allocation within MDEP. Presently, the partial long/short allocation comprises 13% of the total pool. A detailed review of the transition of assets in this funding is included in this Board packet.

COMPARATIVE RETURNS

Range 12/31/07 - 3/31/08 Period Daily 91 Day Period

Securities	Crcny	Prc Aprr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	-9.92 %	-9.45 %	-.59 %	-32.83 %
2 MID Index	USD	-9.17 %	-8.85 %		-31.05 %
3 SML Index	USD	-7.73 %	-7.46 %	1.39 %	-26.74 %

(* = No dividends or coupons)



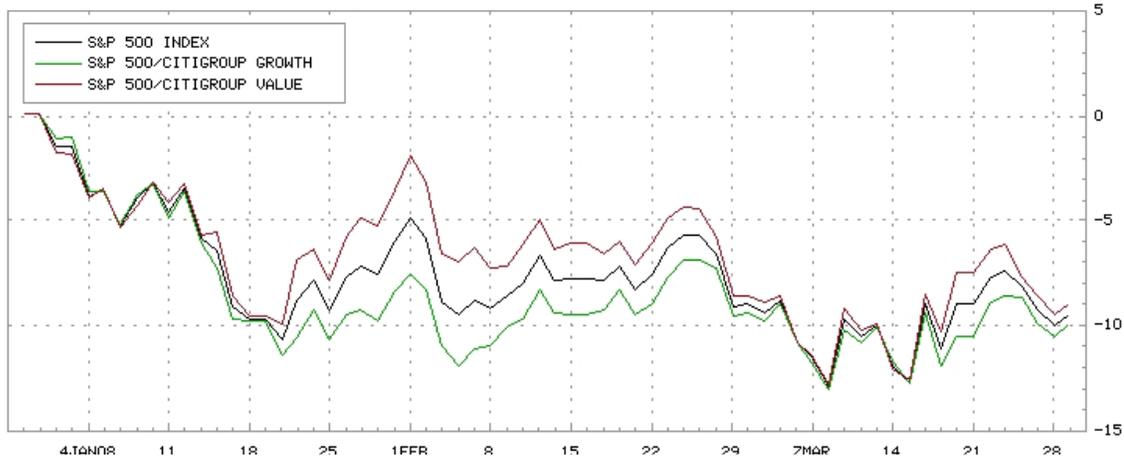
Returns were negative across all cap sizes in the quarter just ended. Reversing the trend from 2007, large caps underperformed mid caps and mid caps underperformed small caps. This was largely due to investors selling the more liquid stocks to raise cash quickly and the poor performance of large financial stocks and large high beta tech stocks. The S&P 500 Index return for the quarter was -9.5% compared to the S&P 400 Midcap Index return of -8.9% and the S&P 600 Smallcap Index return of -7.5%. 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

Range 12/31/07 - 3/31/08 Period Daily 91 Day Period

Securities	Crcny	Prc Aprr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	-9.92 %	-9.45 %	.47 %	-32.83 %
2 SGX Index	USD	-10.21 %	-9.92 %		-34.23 %
3 SVX Index	USD	-9.62 %	-8.95 %	.97 %	-31.33 %

(* = No dividends or coupons)



Across style categories, returns were negative as well. The Citigroup Growth Index returned -9.9% while the Citigroup Value Index returned -9.0%. This marks the first quarter that value has outperformed growth

since the first quarter of 2007. Currently MDEP is tilted slightly toward growth rather than value. All in all, it was the worst start to a calendar year for the stock market in several years.



The domestic economy is in the midst of a slowdown brought on by the subprime/credit crisis. A look at the volatility measure (VIX) over the past year shows how investors have dealt with the unfolding events. Volatility in the market has improved recently after soaring on four different occasions. With the VIX currently below a reading of 20, it is apparent that investors have become less stressed about market prospects.

The unprecedented rescue of Bear Stearns was possibly the climactic event that marks a bottom in the equity market. Yet given the economic challenges it is difficult to believe equity markets have much upside over the next couple of quarters. Soaring commodity prices occurring as housing prices continue to fall is a very big challenge to the overleveraged U.S. consumer. The amount of impact a burdened consumer will have on the global economy in the coming months is unknown. These ongoing fundamental challenges will remain for the foreseeable future and will weigh on any recovery in market sentiment.

Compared to last quarter, our portfolio managers are generally more confident in market prospects. They cite swift and unorthodox central bank actions, fiscal stimulus, and improvement in credit spreads. They also consider stock valuations as favorable given the strength of corporate balance sheets and still solid growth in developing economies. Within MDEP, the quantitative managers continue to struggle versus their benchmarks while the growth managers are fairing the best on a relative basis. The pool is relatively balanced between quantitative and fundamental strategies.

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, Portfolio Manager
Date: May 5, 2008
Subject: Montana Domestic Equity Pool (MDEP) Transition – 130/30 Mandate

The transition of \$400 million of assets from the passive component of MDEP, the Barclays 500 Index Fund, to three new partial long/short (130/30) managers was completed at the end of February. This reallocation of assets within MDEP is designed to increase the actively managed proportion of the pool in order to add incremental return.

As a reminder, the three managers to receive funding were Analytic Investors, Martingale Asset Management, and JP Morgan Asset Management. The amounts of funding allocated to each manager are summarized below:

Analytic Investors	\$120 million
Martingale Asset Management	\$80 million
JP Morgan Asset Management	\$200 million

JP Morgan received the largest allocation due to the fund's strong performance to date and the fact that it is a fundamental-based manager while Analytic and Martingale are quantitative-based managers. Funding in these amounts creates a balance between fundamental and quantitative management methodologies.

State Street Global Markets was selected as transition manager based upon a low cost estimate, a short (one day) trading period, and the importance of close communication between the transition manager and the master custodian, State Street Bank & Trust (SSBT). Recall that this transition included the establishment of the prime broker, Citigroup Global Markets, as custodian of the 130/30 assets and the transfer of the assets from SSBT to Citigroup Global Markets.

A summary of the transition is attached and shows the return during the transition period (February 15th) for the legacy portfolio and the combined target portfolios, as well as the total cost of the transition. "The Total Implementation Shortfall" characterizes the total transition cost as \$394,703 or 10 basis points of the funds that were transitioned. Of this total cost, \$247,153 or 6.2 basis points of cost resulted from the outperformance of the target portfolios versus the legacy portfolio which is known as the opportunity cost. The remainder of the total cost included the costs to trade the portfolios. Commissions, bid-ask spread costs, market impact, and taxes totaled \$147,551 or 3.7 basis points.

Following the settlement of the trades into the three 130/30 portfolios, assets were then transferred from SSBT to Citigroup Global Markets. This process was completed on February 22nd and the new managers were able to begin trading on February 25th. In the interest of simplicity, no short positions or leveraged long positions were established for the new portfolios during the transition. Instead, the new managers were given the final week of February to establish their respective leveraged longs and shorts, with performance measurement for the managers beginning with the first day of March.

The end result of the transition is a more diversified MDEP with expectations of improved risk-adjusted returns. The partial long/short allocation is off to a good start as all three managers outperformed their benchmark (the S&P 500 Index) in the month of March. Analytic outperformed by 26 basis points after fees, followed by Martingale and JP Morgan with net outperformance of 21 basis points and 13 basis points respectively. The total style bucket outperformed by 18 basis points net of fees.

Montana International Equity Pool

International Stock Pool By Manager as of 3/31/2008			
<u>Security Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved Range</u>
BATTERYMARCH INTL EQUITY	189,176,103	12.87%	
BGI GLOBAL EX US ALPHA TILT FD	117,650,805	8.00%	
EAFE STOCK PERFORMANCE INDEX	19,757,396	1.34%	0-10%
JULUIS BAER INTL EQUITY II	185,692,485	12.63%	
CORE Total	512,276,788	34.85%	25-50%
ACADIAN ACWI EX US VALUE	147,569,358	10.04%	
BERNSTEIN ACWI EX	137,762,768	9.37%	
VALUE Total	285,332,127	19.41%	15-25%
HANSBERGER INTL EQUITY GROWTH	119,686,961	8.14%	
MARTIN CURRIE ACWI X	125,143,635	8.51%	
PRINCIPAL GLOBAL	67,368,241	4.58%	
GROWTH Total	312,198,837	21.24%	15-25%
BGI MSCI EQUITY INDEX FD EUROP	161,157,804	10.96%	0-12%
NOMURA ASSET MGMT INC	90,165,821	6.13%	0-8%
REGIONAL Total	251,323,625	17.10%	
AXA ROSENBERG INTL SMALL CAP	48,984,220	3.33%	
DFA INTL SMALL CO PORTFOLIO	59,673,562	4.06%	
SMALL CAP Total	108,657,781	7.39%	5-15%
TOTAL MTIP	1,469,789,158	100.00%	

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

The overall value of the pool reflects significant corrections in the international equity markets. Emerging markets underperformed developed markets for the first time in several quarters. Small caps in developed markets outperformed for the first time in several quarters, besting both developed market large caps and emerging market stocks. For the quarter, developed market small caps returned -6.1% while developed market large caps returned -8.8% and emerging market stocks returned -11.0%.

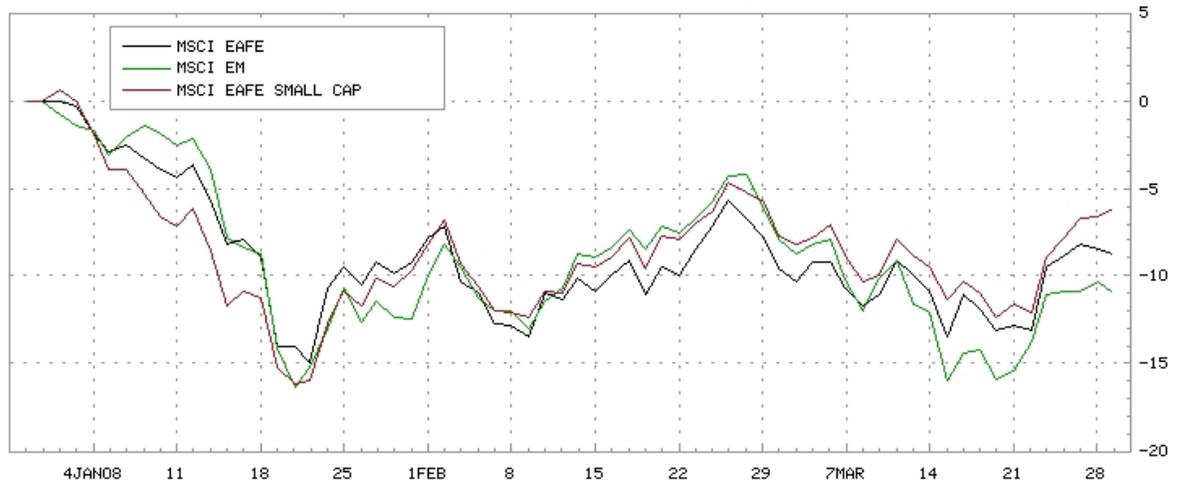
Relative to its current benchmark (MSCI ACWI-ex US) the pool is underweight emerging markets (EM). The weighting of the pool in EM stands at 14.7% compared to 19.2% for the benchmark. The 4.5% underweight is the largest in EM for the pool within the past 12 months and contrasts with the smallest underweight of 1.5% last June. Recall the pool's weighting in EM is determined by the collective decisions of the individual managers within the pool.

COMPARATIVE RETURNS

Range 12/31/07 - 3/31/08 Period Daily 91 Day Period

Securities	Crcny	Prc Appr	Total Ret	Difference	Annual Eq
1 MXEA Index	USD	-9.53 %	-8.75 %	2.24 %	-30.73 %
2 MXEF Index	USD	-11.32 %	-10.99 %		-37.31 %
3 MXEASC Index	USD	-6.74 %	-6.11 %	4.88 %	-22.34 %

(* = No dividends or coupons)



With regard to market capitalization, MTIP is substantially overweight small caps in relation to the MSCI ACWI-ex US. The pool's small cap exposure is 7.4% compared to virtually no weighting within the MSCI ACWI-ex US. A memo addressing this issue and containing a recommendation for a new benchmark is included in this Board packet.

Across style categories quarterly returns were also negative and growth outperformed value. The MSCI ACWI-ex US Growth Index returned -8.8% while the MSCI ACWI- ex US Value Index returned -9.5%. This continued the trend of the past year where growth has been the dominant style performer. MTIP continues to be slightly tilted toward growth.

Despite their current collective aversion to EM, our international managers are generally more positive about market prospects and the attractiveness of individual stocks than they were last winter.

FIXED INCOME OVERVIEW & STRATEGY

May 13, 2008

RETIREMENT & TRUST FUNDS BOND POOLS

The first quarter of 2008 exposed the bond market to unprecedented difficulties as economic indicators flashed red and a number of problems roiled the financial sector.

Consumer sentiment dropped precipitously during the quarter as home prices continued to fall and jobless claims trended higher. Food and energy prices continued to hit new highs during the quarter which also raised concerns about consumer spending.

Highly leveraged financial entities dependent on short-term financing scrambled to reduce their balance sheet exposures and bolster their capital levels during the quarter. Securitized products were shunned by most market participants amid concerns about the complexity of some instruments and the proper valuation of collateral.

An extreme aversion to risk caused the Lehman U.S. Aggregate Index to experience the worst quarterly excess returns relative to Treasuries in the 20 year history of the index. Returns were weak across all non-Treasury sectors of the bond market as investors sought safety and simplicity in their portfolios. The table below shows the excess returns of the Lehman Aggregate and the excess returns of some of the key sectors within the index over the quarter.

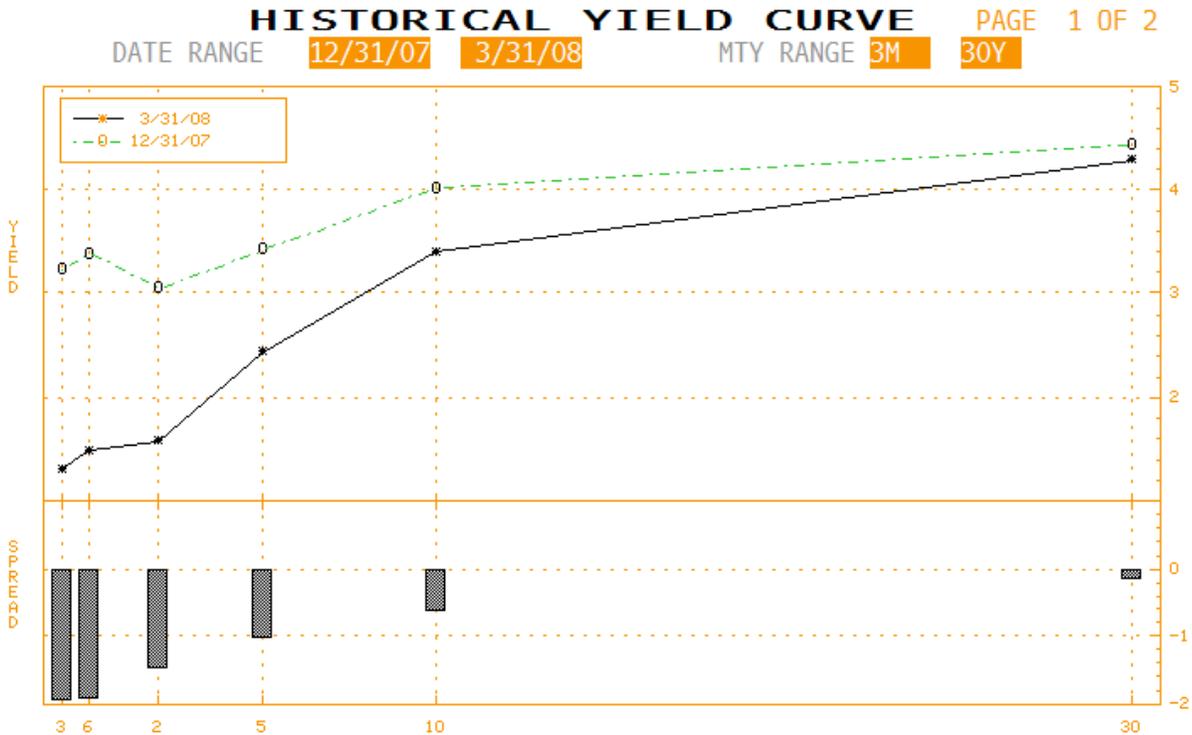
	Jan-08	Feb-08	Mar-08
U.S. Aggregate	-0.69%	-0.88%	-0.22%
Aaa	-0.42%	-0.81%	0.22%
Aa	-0.91%	-1.05%	-1.48%
A	-1.62%	-0.92%	-2.18%
Baa	-2.39%	-1.49%	-1.90%
U.S. Agency	-0.23%	-0.57%	0.14%
CMBS Investment Grade	-4.70%	-5.66%	1.45%
U.S. Corporate Investment Grade	-1.71%	-1.06%	-2.02%
Industrial	-1.98%	-1.03%	-1.58%
Utility	-1.35%	-0.81%	-1.70%
Finance	-1.51%	-1.15%	-2.56%

During the quarter, the Federal Reserve took aggressive action to stabilize the financial markets and alleviate fears about economic growth. The yield curve steepened dramatically in the first quarter as the Fed cut rates a total of 200 bps. Treasury yields declined from 16 to 192 bps along the curve as shown graphically on the next page.

The Fed made an inter-meeting cut of 75 bps on January 22nd followed by an additional 50 bps on January 30th at its regularly scheduled meeting citing market stress and risk to growth.

On March 16th, J.P. Morgan announced the acquisition of Bear Stearns with assistance from the Fed. The move was made in order to stave off a collapse of the financial markets due to a crisis of confidence and a cascading problem of counterparty exposures. In addition, the Fed allowed brokerage firms to borrow from the discount window using a broad range of collateral. The Fed cut the discount window rate to 3.25% and extended loan terms from 30 to 90 days.

Finally, the Fed Funds rate was cut an additional 75 bps at the regular meeting on March 18th. The Fed statement noted a further weakening in the outlook for economic activity, the tightening of credit and the continued contraction of the housing market in its decision.



Another measure of the risk aversion in the market is demonstrated by corporate credit spreads. The average U.S. investment grade corporate spread as measured by the Lehman index increased 91 bps during the quarter to settle at 289 bps. This is only 10 bps off the historical high set on March 17th. The two following charts show the dramatic rise in corporate spreads during the quarter and relative to the history of the index.

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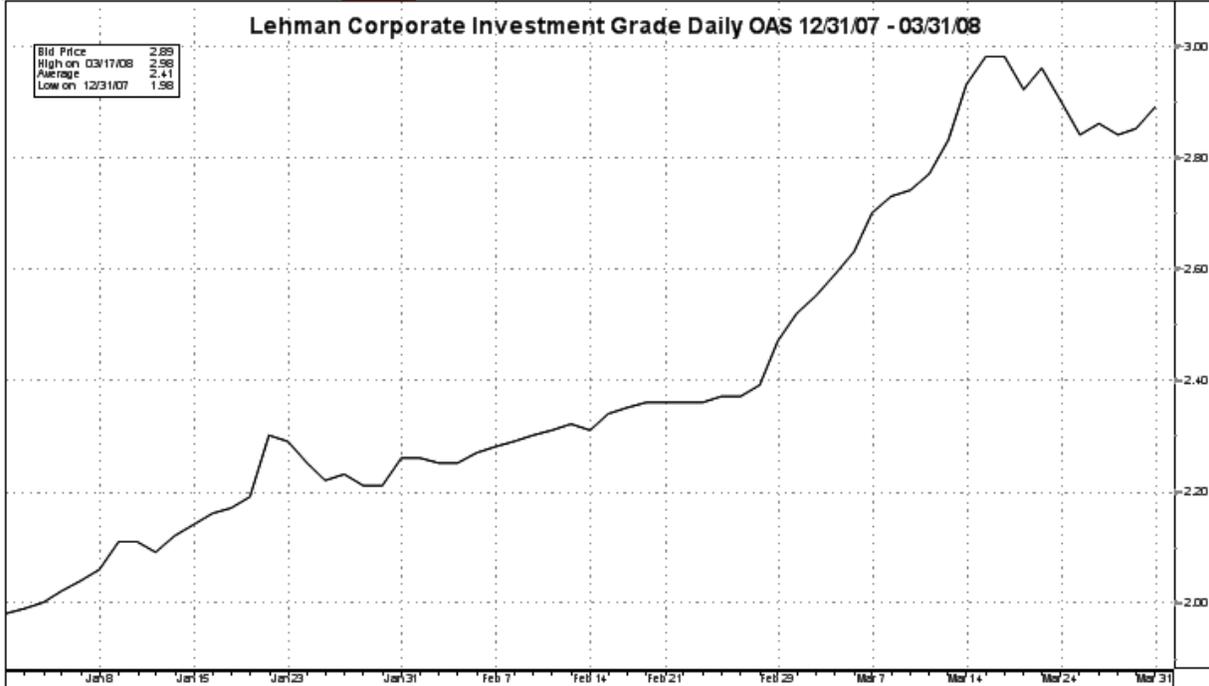
Index **GPO**

LUACOAS INDEX

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GP - Line Chart

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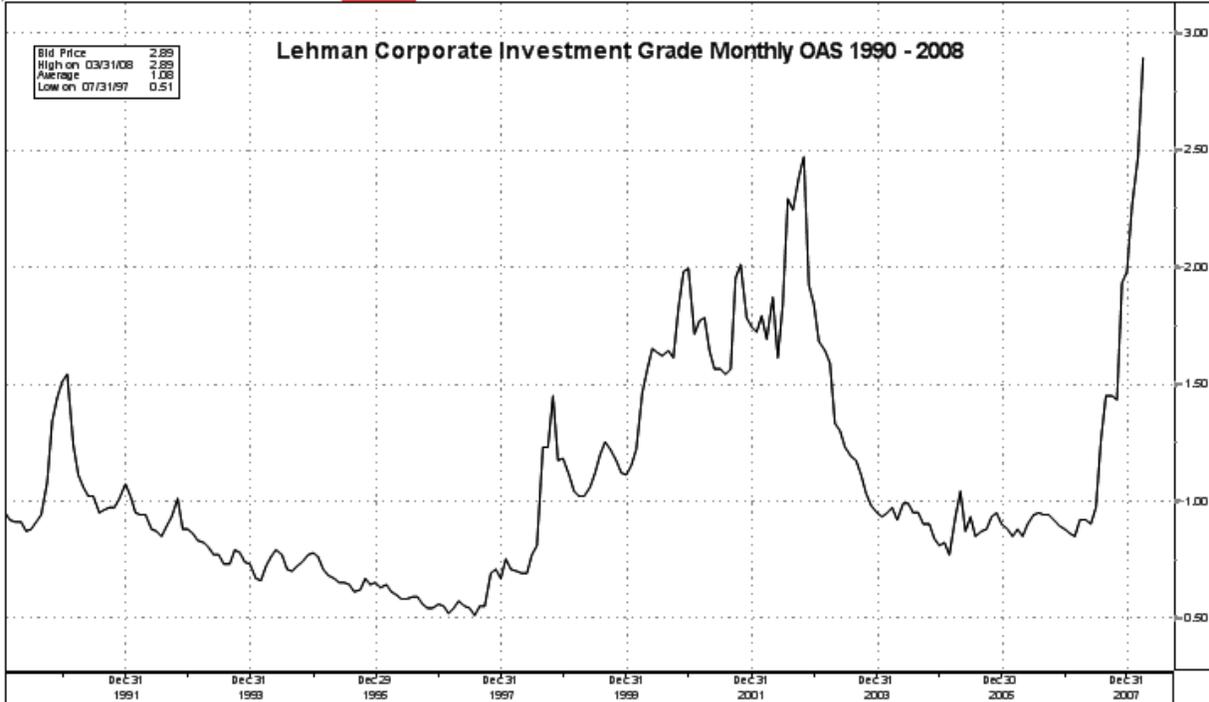
Index **GPO**

LUACOAS INDEX

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GP - Line Chart

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The sector weightings of the retirement and trust fund bond pools are shown in the table below. The portfolios have an overweight exposure to spread products which has existed for some time. This emphasis led to relative underperformance during the quarter given the continued trend of increasing risk premiums experienced by all of the non-Treasury sectors of the bond market.

Compared to last quarter, we have incrementally increased exposure to Treasuries, allowed the cash balances to build modestly and reduced exposure to spread products as securities have matured.

Asset Allocation Sectors & Ranges

3/31/08

<u>Sectors</u>	<u>RFBP</u>	<u>TFBP</u>	<u>Lehman Aggregate Index</u>	<u>Policy Ranges</u>
U.S. Treasury	0.66%	1.31%	22.53%	0-25%
U.S. Agency	<u>23.17%</u>	<u>24.32%</u>	<u>9.89%</u>	15-35%
Total Government	<u>23.83%</u>	<u>25.63%</u>	<u>32.42%</u>	20-45%
Mortgage-Backed Securities	21.24%	22.52%	35.47%	10-35%
Hybrid ARMS Mortgage-Backed	0.00%	0.00%	3.47%	0-5%
Asset-Backed Securities/Other	5.33%	3.11%	0.78%	0-10%
Commercial Mortgage-Backed	<u>6.50%</u>	<u>5.28%</u>	<u>5.21%</u>	0-10%
Total Structured	<u>33.07%</u>	<u>30.91%</u>	<u>44.93%</u>	20-45%
Corporate Credit	39.92%	39.38%	19.21%	20-50%
Non-Corporate Credit	<u>0.00%</u>	<u>0.00%</u>	<u>3.44%</u>	0-10%
Total Credit	<u>39.92%</u>	<u>39.38%</u>	<u>22.65%</u>	20-50%
Short-Term Investment Pool (STIP)	3.18%	4.08%	0.00%	0-10%
TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	100%
Market Value:	\$1,997,411,476	\$1,522,939,629		

The table below shows the duration of the portfolios compared to the Lehman Aggregate Index. The duration of the portfolios has been kept relatively close to the benchmark but has drifted lower over the quarter. Duration has declined relative to the benchmark over the fiscal year-to-date because of a higher cash allocation and a general shortening of maturities through time decay. The duration for the market as a whole, and to a lesser extent the pools, declined because of the shortening of duration for mortgage backed securities. The duration measure for mortgage backed securities falls along with interest rates because prepayment speeds are expected to increase.

Pool Duration Relative to the Lehman Aggregate

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

Other portfolio characteristics as of 03/31/08

	Benchmark	RFBP	TFBP
Average maturity (yrs.)	7.21	7.83	8.03
Average yield to maturity	4.55%	5.54%	5.36
Average coupon	5.41%	4.69%	4.38
Average quality	AAA	AA	AA
Number of securities	9267	215	212

Summary

This was an extremely difficult quarter for fixed income investments with an unprecedented widening of spreads. It appears that the actions taken by the Fed thus far are starting to have a calming effect but the market remains volatile. Risk premiums have continued to narrow so far this quarter after their mid-March peak. The Fed lowered rates another 25 bp on April 30th and the market expects limited, if any, further reductions.

There are no immediate plans to significantly alter the characteristics of the pools. However, modifications are expected over time as we review portfolio policy and structure. In addition, we will be selecting external managers via the fixed income RFP process in the next few weeks which will present an opportunity to reshape the RFBP's portfolio characteristics.

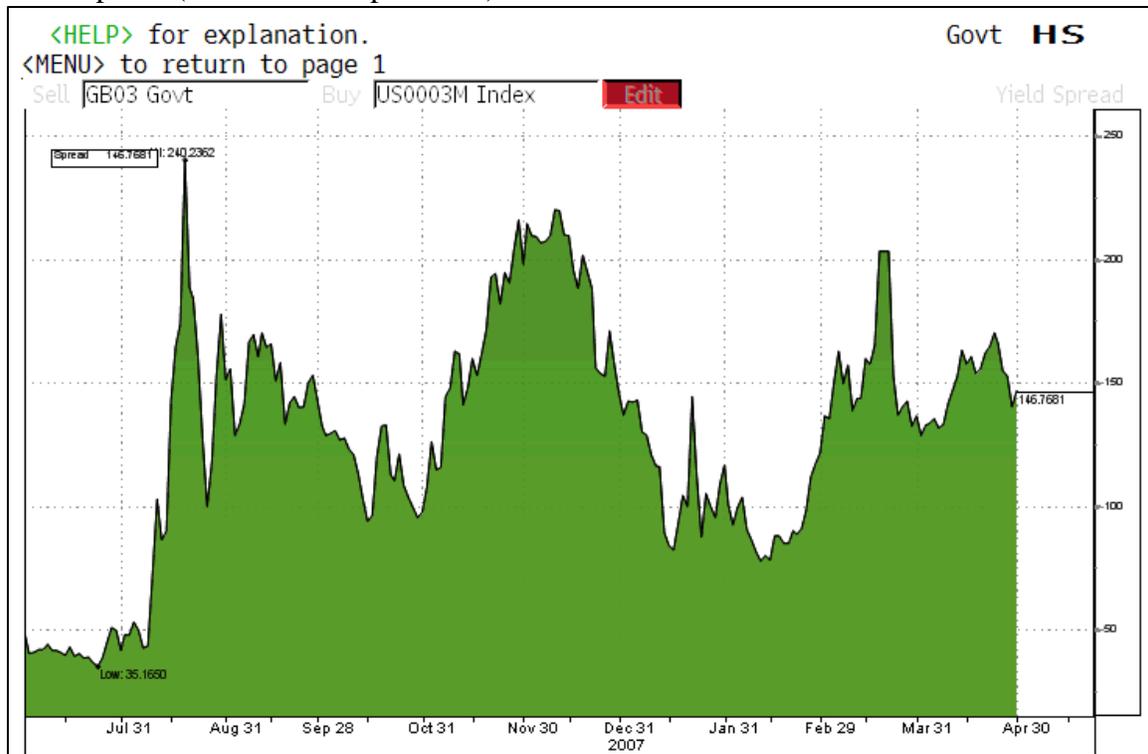
MEMORANDUM

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: May 2, 2008
Subject: Short Term Investment Pool (STIP)

Money markets continued to experience dislocations during the first quarter even as the Fed lowered the fed funds rate by 200 basis points from 4.25% to 2.25%. 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 first quarter at about 140 basis points, which is 100 basis points more than before the credit crisis began last summer but below the peak of 240 in late August of 2007. Market participants are becoming concerned about inflation as commodity prices continue to soar. These inflation concerns may cause the Fed to put lower rates on hold for the next several months.

TED Spread (June 2007 – April 2008)

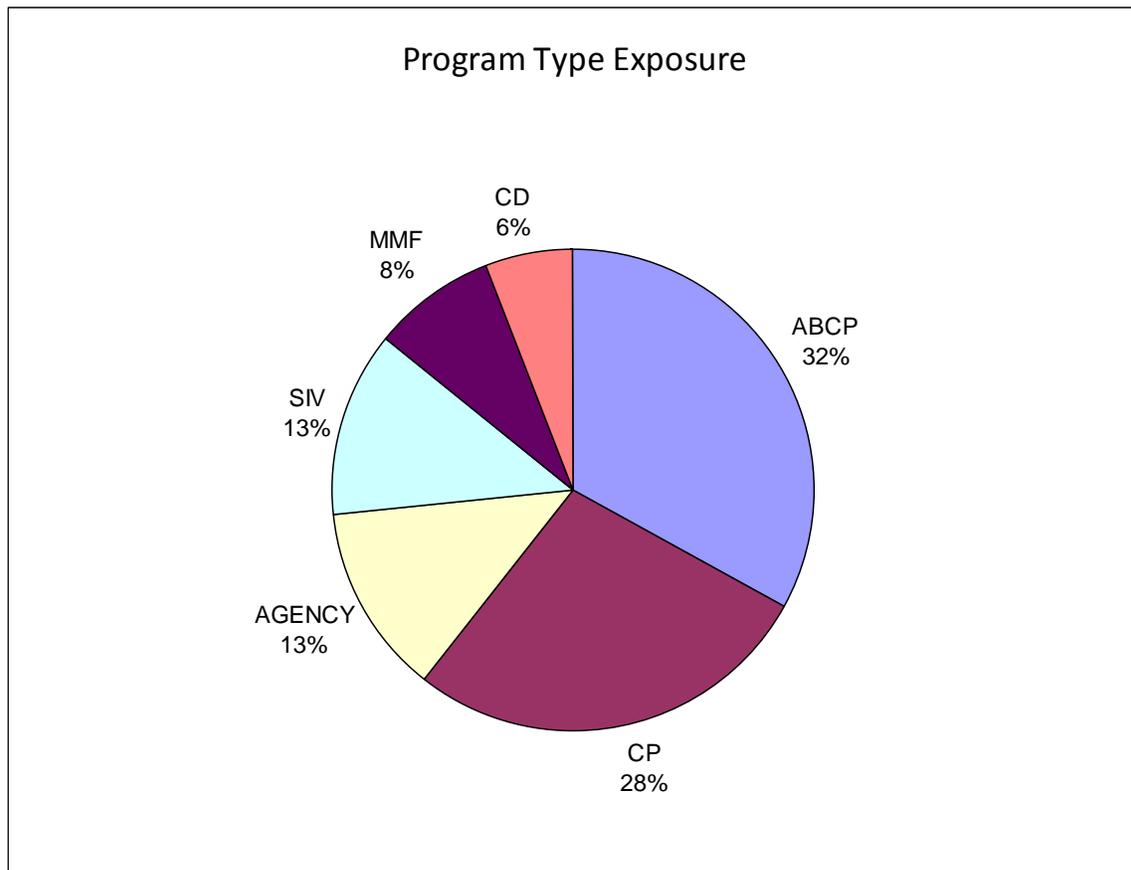


The STIP portfolio is currently well diversified and is operating within all the new guidelines adopted by the Board at the February meeting. Daily liquidity is at a minimum of \$200 million and weekly liquidity is at a minimum of \$350 million. The average days to maturity are about 40 days as compared to a policy maximum of 60 days. All securities purchased during the past six months are from the approved list and are below the 2% maximum per name. Asset-backed commercial paper is running about 33% of holdings (40% max) and corporate exposure is around 28% (40% max). We currently have approximately 12% in agency paper and 9% in four institutional money funds.

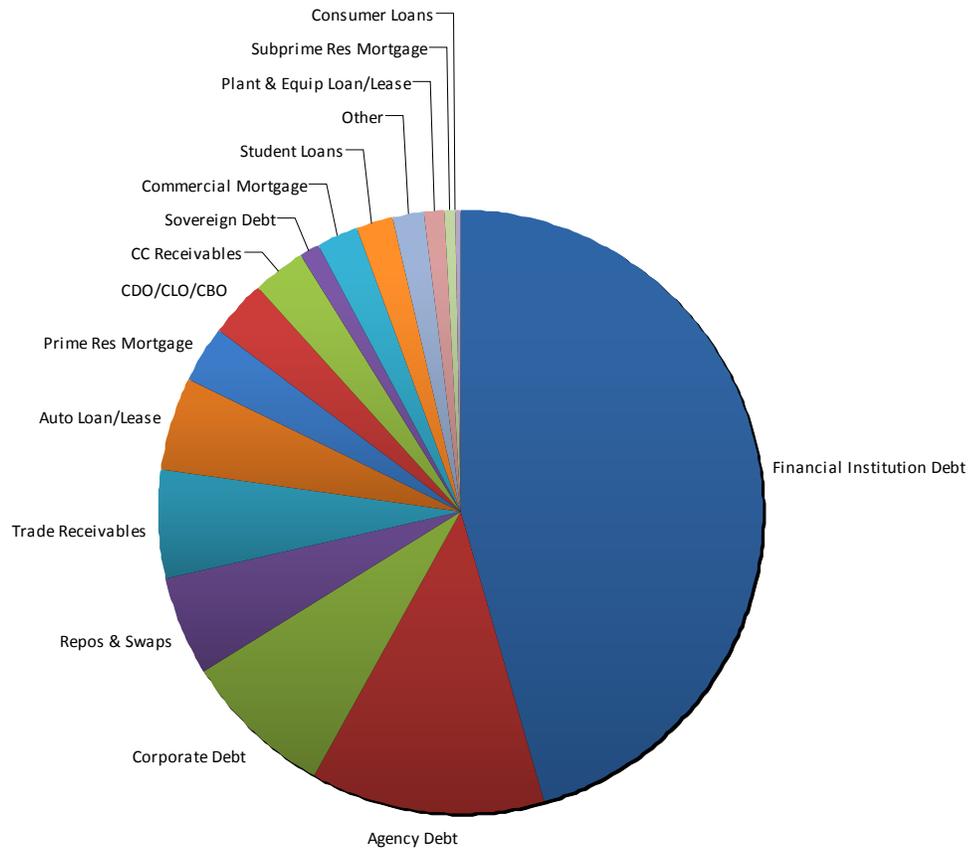
Two additional institutional money funds managed by Barclays and Fidelity have been added to the approved list and were funded in the first quarter. There are currently two tri-party repo facilities in place and two additional facilities in process; these will add to potential liquidity management tools, even though they are not currently being utilized due to relative yields.

Three issues of agency securities (\$25 million each) with one year maturities were purchased in April as a hedge against lower short term rates. The average yield on these purchases was 2.38%. The net yield on STIP is currently 2.85% as compared with the current one month LIBOR rate of 2.72% and current fed funds rate of 2.00%.

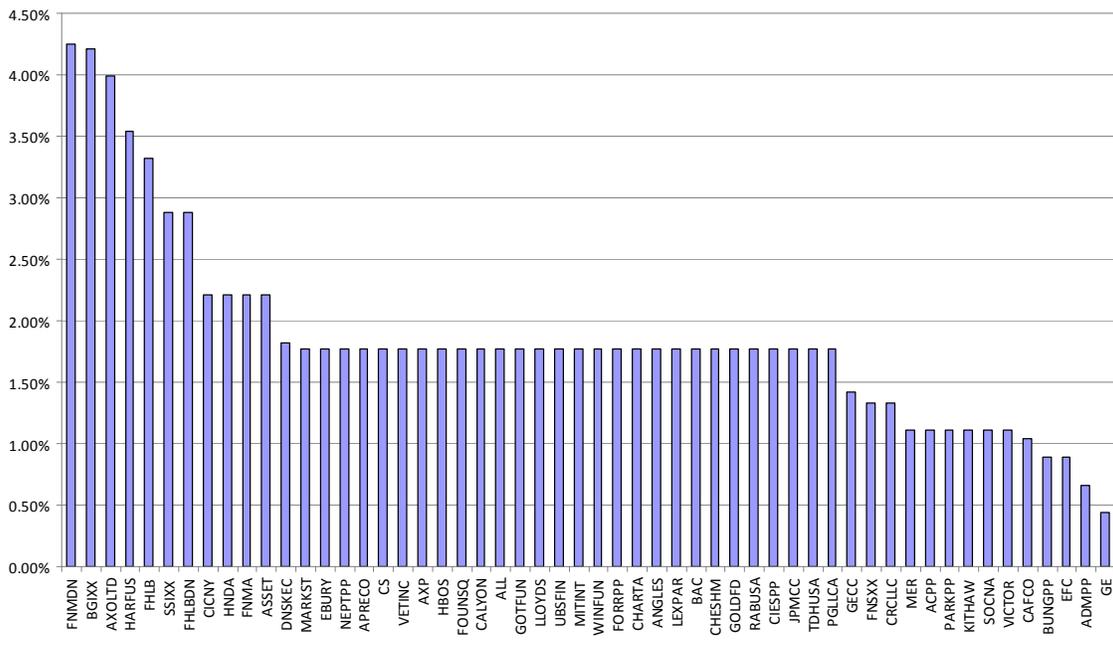
All charts below are as of May 2, 2008.



Portfolio Composition by Sector



Program Exposure



STATE FUND INSURANCE- \$864 million fixed income as of 03/31/08.
(Benchmark = Lehman Government/Credit Intermediate Index)

Portfolio characteristics as of 03/31/08:

	<u>Benchmark</u>	<u>State Fund*</u>
Duration (yrs.)	3.80	3.95
Quality (S&P)	AA+	AA
Yield to Maturity	3.58%	4.64%

<u>Sectors</u>	<u>State Fund</u>	<u>Lehman Intermediate Govt/Credit Index</u>
U.S. Treasury	2.5%	40.8%
U.S. Agency	37.0%	22.8%
Other Government	<u>1.7%</u>	<u>4.0%</u>
<u>Total Government</u>	<u>41.1%</u>	<u>67.6%</u>
Mortgage-Backed Securities	4.4%	0.0%
Asset-Backed Securities/Other	1.5%	0.0%
Commercial Mortgage-Backed	<u>7.1%</u>	<u>0.0%</u>
<u>Total Structured</u>	<u>13.0%</u>	<u>0.0%</u>
Industrial	14.5%	14.0%
Utility	2.6%	2.7%
Financial Institutions	<u>28.7%</u>	<u>15.8%</u>
<u>Total Corporate</u>	<u>45.9%</u>	<u>32.5%</u>
<u>TOTAL</u>	<u>100.0%</u>	<u>100.0%</u>

* 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. Spread product widened out substantially during the quarter, peaking in mid March with the near failure of Bear Stearns.

The overweight in spread product (all non-Treasuries) has been a drag on performance over the past year, especially the portfolio's overweight in financials. As the credit markets return to normalcy over the next several years, the portfolio is expected to recover.

During the first quarter, there were purchases of \$71 million including: \$31 million of corporate bonds, \$25 million of MBS and \$15 million of agencies. The corporate purchases were mostly new issue ten year maturities with attractive spreads. Names included GE, UPS, Verizon, Hartford, PPL Energy, American Express, Marathon Oil and Wilmington Trust.

MBS purchases were all 15 year pools with spreads of 160-180 off the Treasury curve. MBS spreads were at all time wide levels during March, and subsequently narrowed by as much as 100 basis points, in the case of thirty year pools.

The portfolio has a 106 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 2.1%) and limiting holdings rated lower than A3 or A- to 20 percent of fixed income (currently 12.1%).

TREASURER'S FUND- \$820 million including \$132 million in fixed income as of 04/30/08.
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

MEMORANDUM

Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3rd Floor

Helena, MT 59601 (406) 444-0001

To: Board Members

From: Clifford A. Sheets, Chief Investment Officer

Date: May 6, 2008

Subject: Investment Policy-related Items

There are several investment policy-related items for the Board's consideration and approval at this time. These are summarized below.

Public Equity Manager Evaluation Policy

This is a new policy which is designed to formalize the process by which public equity managers are reviewed.

Montana Domestic Equity Pool (MDEP) Policy Revision

The policy was re-done with some significant changes in structure and content. The policy removes all reference to the internal portfolio, and introduces the new allocation ranges by strategy categories that were approved at the prior meeting. A copy of the prior policy marked for changes and a final version of the proposed policy are included.

Montana International Equity Pool (MTIP) Benchmark Recommendation

This memo recommends the Board approve a change in the benchmark used for pool comparison purposes. Given recent changes in the market environment and the differences between the portfolio structure and the current benchmark, a new benchmark is recommended. This new benchmark will adapt to the new methodology being used by MSCI.

Montana International Equity Pool (MTIP) Policy Revision

The policy was re-done with some significant changes in structure and content. It reflects the same general format at the proposed policy for MDEP and incorporates the new benchmark proposal. A copy of the prior policy marked for changes and a final version of the proposed policy are included.

Retirement Funds Bond Pool Policy

This is a new policy being proposed which will create the framework for holding both the internally managed portfolio and the external portfolios that will be created pursuant to the pending search for external managers. A cover memo explaining this and the proposed policy are included.

MONTANA BOARD OF INVESTMENTS PUBLIC EQUITY MANAGER
EVALUATION POLICY
(May 14, 2008)

INTRODUCTION

The purpose of this policy is to broadly define the monitoring and evaluation of external public equity managers. This policy also provides a basis for the retention and/or termination of managers employed within the Montana Domestic Equity Pool (MDEP) and the Montana International Equity Pool (MTIP).

The costs involved in transitioning assets between managed portfolios can be significant and have the potential to detract from MDEP and MTIP returns. Therefore it is important that the decision process be based on a thorough assessment of relevant evaluation criteria prior to implementing any manager changes. Staff will consider such transition costs when deciding to add or subtract to manager weights within the pools as well as in deciding to retain or terminate managers.

MONITORING PROCESS

Periodic Reviews: Staff will conduct periodic reviews of external managers and will document such periodic reviews and subsequent conclusions. Periodic reviews may include quarterly conference calls on portfolio performance and organizational issues as well as reviews conducted in the offices of the Montana Board of Investments (MBOI) and on-site at the offices of the external managers. Reviews will cover the broad manager evaluation criteria indicated in this policy as well as further, more-detailed analysis related to the criteria as needed.

Continual Assessment: Staff will make a continual assessment of the external managers by establishing and maintaining manager profiles, monitoring company actions, and analyzing the performance of the portfolios managed with the use of in-house data bases and sophisticated analytical systems, including systems accessed through the Master Custodian and the Investment Consultant. This process culminates in a judgment which takes into account all aspects of the manager's working relationship with MBOI, including portfolio performance.

Staff will actively work with the Investment Consultant in the assessment of managers which will include use of database research, conference calls and discussions specific to each manager, and in any consideration of actions to be taken with respect to managers.

It is also important to note that our manager contracts are limited to a seven year term. While we may choose to issue a RFP at any time as deemed appropriate, this contractual provision will eventually force us to issue a RFP to which the manager may respond and be subject to re-evaluation against his/her peers.

MANAGER EVALUATIONS

The evaluation of managers includes the assessment of the managers with respect to the following qualitative and quantitative criteria.

Qualitative Criteria:

- Firm ownership and/or structure
- Stability of personnel
- Client base and/or assets under management
- Adherence to investment philosophy and style (style drift)
- Unique macroeconomic and capital market events that affect manager performance
- Client service, reporting, and reconciliation issues
- Ethics and regulatory issues
- Compliance with respect to contract and investment guidelines
- Asset allocation strategy changes that affect manager funding levels

Quantitative Criteria:

- Performance versus benchmark – Performance of managers is evaluated on a three-year rolling period after fees.
- Performance versus peer group – Performance of managers is evaluated on a three-year rolling period before fees.
- Performance attribution versus benchmark – Performance of managers is evaluated on a quarterly and annual basis.
- Other measures of performance, including the following statistical measures:
 - Tracking error
 - Information ratio
 - Sharpe ratio
 - Alpha and Beta

PERFORMANCE MEASUREMENT

Performance calculations and relative performance measurement compared to the relevant benchmark(s) and peer groups are based on a daily time-weighted rate of return. The official book of record for performance measurement is the Master Custodian.

The performance periods relevant to the manager review process will depend in part on market conditions and whether any unique circumstances are apparent that may impact a manager's performance strength or weakness. Generally, however, a measurement period should be sufficiently long to enable observation across a variety of different market conditions. This would suggest a normal evaluation period of three to five years.

ACTIONS

Watch List Status: Staff will maintain a “Watch List” of external managers that have been noted to have deficiencies in one or more evaluation criteria. An external manager may be put on the “Watch List” for deficiencies in any of the above mentioned criteria or for any other reason deemed necessary by the Chief Investment Officer (CIO). A manager may be removed from the “Watch List” if the CIO is satisfied that the concerns which led to such status have been remedied and/or no longer apply.

Termination: The CIO may terminate a manager at any time for any reason deemed to be prudent and necessary and consistent with the terms of the appropriate contract. A termination can effectively be made on very short notice if not immediately.

ROLES AND RESPONSIBILITIES

CIO: The CIO is responsible for the final decision regarding retention of managers, placement on and removal of “Watch List” status, and termination of managers.

Staff: Staff is responsible for monitoring external managers, portfolio allocations and recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO.

Investment Consultant: The consultant is responsible for assisting staff in monitoring and evaluating managers and for reporting independently to the Board on a quarterly basis.

External Managers: The external managers are responsible for all aspects of portfolio management as set forth in their respective contracts and investment guidelines. Managers also must communicate with staff as needed regarding investment strategies and results in a consistent manner. Managers must cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the Investment Consultant and the Custodian.

MANAGER WATCH LIST

May 14, 2008

<u>Manager</u>	<u>Style Bucket</u>	<u>Reason</u>	<u>Date</u>
Goldman Sachs	Domestic – LC Enhanced	Performance, Personnel	March, 2008
Principal Global	Int'l – LC Growth	Performance	March, 2008
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	March, 2008

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

This policy is effective ~~December 2, 2004~~ upon adoption and supersedes all previous Montana Domestic Equity Pool (MDEP) policies.

INTRODUCTION

The purpose of this policy statement is to provide ~~investment objectives and constraints~~ a broad strategic framework for domestic equity investments, which are consolidated into the Montana Domestic Equity Pool (MDEP). ~~The~~ This statement provides a basis on which to invest in the publicly traded equity securities of domestic companies and enables the participants to monitor the progress of domestic equity investments made on their behalf through the employment of external managers and enables staff to monitor the progress of the domestic equity managers on behalf of the retirement funds and other participants. ~~The domestic equity investment program consists of internal and external portfolios. The managers of the portfolios are governed by the Investment Manager Guidelines included herein. The public domestic equity investment program consists of several externally managed portfolios. The managers of the portfolios are governed by their respective investment management contracts and investment guidelines.~~

The array of managers utilized are classified in the following strategy categories:

1. Passive
2. Enhanced index
3. Style-based (Value and Growth)
4. Partial Long/Short (also called 130/30)

OBJECTIVES

Strategic: Attaining investment returns from publicly traded domestic equity markets while diversifying investment risk is the strategic objective of the Montana domestic equity investment program and manager risk.

- ~~The primary objective of the domestic equity investment program is to diversify the asset mix of pension fund portfolios across domestic equity markets in order to achieve higher risk-adjusted portfolio returns. The secondary objective of the program is to achieve incremental investment returns provide diversified exposure to the domestic equity market for the benefit of the pension fund and other participants in a prudent and cost effective manner.~~
- ~~The purpose of active management is to add value over the relevant benchmark(s) after fees.~~
- The objective of enhanced index management and other active management strategies is to add value by achieving a rate of return that exceeds the relevant benchmark(s) after fees.
- The objective of passive management is to diversify risk within the program as well as to act as a mechanism for liquidity within the program's strategy and manager allocations. It is also the primary liquidity source to absorb changes to the overall allocation to domestic equities.

Return Requirements Performance: The domestic equity investment program ~~allows active, passive provides~~ passive, and enhanced index, and active investment management strategies in order to achieve the stated investment objectives.

**MONTANA DOMESTIC EQUITY POOL (MDEP)
INVESTMENT POLICY STATEMENT**

- ~~• The benchmark for the pool is the S&P 1500 Index effective December 2, 2004.~~
- The return objective for the Montana Domestic Equity Pool is the achievement of an annualized, time-weighted total rate of return exceeding that of the S&P 1500 Index over any three-year rolling period after fees.
- The return ~~requirement~~ objective for all ~~enhanced index and other~~ active domestic equity managers is the achievement of an annualized, time-weighted total rate of return exceeding that of the relevant benchmark over any ~~five-year~~ three-year rolling period after fees. (see Public Equity Manager Evaluation Policy).
- The return ~~requirement~~ objective for all passive domestic equity index funds is the achievement of an annualized, time-weighted total rate of return equaling that of the relevant benchmark on an annual basis before fees (see Public Equity Manager Evaluation Policy).
- ~~• The return requirement for all enhanced domestic equity managers is the achievement of an annualized, time-weighted total rate of return exceeding that of the relevant benchmark over any five-year rolling period after fees.~~

Risk Tolerance RISK MANAGEMENT

The domestic equity investment program ~~allows~~ utilizes active, ~~and enhanced index, and passive~~ investment management strategies ~~that have different~~ with various risk tolerance parameters.

- ~~• Active domestic equity managers are able to assume above average market risk subject to the following:~~
 - ~~○ Investments will be well diversified among securities.~~
 - ~~○ Normally, at least 95% of assets will be invested in common or preferred stocks or securities convertible into common or preferred stocks.~~
 - ~~○ Up to 5% of assets may be held in short term investments.~~
- ~~• Passive domestic equity managers are able to assume only the market risk of their respective benchmark and investments will fully replicate the relevant benchmark index.~~
- ~~• Enhanced domestic equity managers are able to assume above average market risk subject to the following:~~
 - ~~○ Investments will be well diversified among securities.~~
 - ~~○ Up to 3% of assets may be held in short term investments.~~
- Style-based and partial long/short strategies entail active management. These active domestic equity managers are able to assume greater than market risk subject to the following:
 - Investments will be well diversified among market sectors and individual securities, though deviations from benchmark characteristics may be taken in an effort to add value above benchmark returns.
 - Normally, at least 95% of assets will be invested in common or preferred stocks or securities convertible into common or preferred stocks.
 - Up to 5% of assets may be held in short-term investments.
- Enhanced index domestic equity managers also entail active management, though typically less than the above category. These managers are able to assume above-market risk subject to the following:
 - Investments will be well diversified among market sectors and individual securities.
 - Up to 3% of assets may be held in short-term investments or securitized cash equivalents.
- Passive domestic equity managers are able to assume only the market risk of their respective benchmark.

**MONTANA DOMESTIC EQUITY POOL (MDEP)
INVESTMENT POLICY STATEMENT**

Underlying investments are designed to replicate the relevant benchmark(s) index characteristics in an effort to produce market-like risk and returns.

The description of risk characteristics by type of manager can also be quantified by tracking error, a statistical measure that is defined as the standard deviation of a portfolio's performance relative to the performance of an appropriate benchmark. These are summarized in the table below.

Style Category	Tracking Error Range (in basis points)
Passive	0-20
Enhanced-index	50-250
Style-based (Value & Growth)	400-700
Partial Long/Short	250-500

Staff monitors the overall pool portfolio and individual external managers using various analytical systems designed to show the risk characteristics at the pool and manager level, and the sources of value-added for each manager.

CONSTRAINTS LIQUIDITY

The liquidity needs for the domestic equity program are is-low, as participant capital allocated to this program is not expected to be available for payout change dramatically on short notice. Nevertheless, the underlying assets held are publicly traded securities which can be liquidated in a relatively short period to accommodate broad asset allocation changes between domestic equities and other asset categories held by the participants. Up to 5% of total MDEP assets may be held in short-term investments, securitized cash investment vehicles or a combination of both.

~~**Time Horizon:** Retirement benefit plans are long term obligations. Therefore, the time horizon for this program is long term.~~

~~**Tax Considerations:** Taxes are not a consideration for these investments as all eligible participants are tax-exempt.~~

UNIQUE CIRCUMSTANCES ELIGIBLE INVESTMENTS

Securities: Either directly held in separate accounts, or via commingled funds, securities eligible for investment include the equity securities of domestic and foreign-based corporations listed on legal and recognized domestic exchanges. Security types may include ordinary common shares, preferred shares, American Depository Receipts (ADRs), and other security types deemed by the Chief Investment Officer as equivalent to the above listed types.

Derivatives: Investment managers are authorized to invest in derivatives such as index futures contracts in accordance with the Investment Manager Guidelines.

~~**Management:** Assets may be managed internally by Board staff, externally by private money managers, or a combination of both. External managers may be chosen to manage assets where particular expertise is required~~

**MONTANA DOMESTIC EQUITY POOL (MDEP)
INVESTMENT POLICY STATEMENT**

~~that cannot be duplicated internally or where the external manager can cost effectively provide particular information/assistance to internal staff that is deemed useful for the program by the Chief Investment Officer.~~

BACKGROUND

~~On April 4, 2003, the Board approved the creation of an additional investment pool for all domestic equity funds. On May 1, 2003, the assets of the Montana Stock Pool (MTCP), Dimensional Fund Advisors (DFA) Small Cap Trust Fund, and Barclay's (BGI) S&P Index Fund were combined to create the Montana Domestic Equity Pool (MDEP).~~

~~On January 30, 2003, the Board approved a Staff recommendation to hire Dimensional Fund Advisors (DFA) in response to the Board's Request for Proposal for a Domestic Small Capitalization Enhanced Equity Index Manager.~~

~~On March 2, 2000, the Board approved Staff's recommendation to hire Barclay's Global Investors (BGI) to manage a fully replicated large cap domestic equity index fund based on the S&P 500 Index.~~

~~In March 1996, the Board approved the MTCP Investment Policy Statement allowing for the investment in common or preferred stock and changed the name to the Montana Stock Pool to be referred to as Montecomp or MTCP.~~

~~On July 1, 1980, the Montana Common Stock Pool (MTCP) was created by the transfer of all common stock owned by the Public Employees' Retirement System, Teachers' Retirement System, and other funds into the MTCP.~~

**MONTANA DOMESTIC EQUITY POOL (MDEP)
Asset Allocation (At Fair Value)**

	<u>June 2002</u>	<u>June 2003</u>	<u>Dec 2004</u>	<u>Approved Range</u>	<u>MDEP Target</u>
<u>LARGE CAP (S & P 500 Benchmark)</u>					
Active Management (Internal)	83.9%	70.5%	66.8%	40.0% - 60.0%	54.0%
Passive Index (External)	16.1%	25.7%	21.6%	10.0% - 40.0%	19.0%
Enhanced Index (External)	0.0%	0.0%	0.0%	8.0% - 16.0%	12.0%
TOTAL LARGE CAP	100.0%	96.2%	88.4%	82.0% - 92.0%	85.0%
<u>MID CAP (S & P 400 Benchmark)</u>					
Passive Index (External)	0.0%	0.0%	0.3%	4.0% - 10.0%	8.0%
TOTAL MID CAP	0.0%	0.0%	0.3%	4.0% - 10.0%	8.0%
<u>SMALL CAP (Russell 2000 Benchmark)</u>					
Active Management (External)	0.0%	2.4%	9.8%	4.0% - 8.0%	6.0%
TOTAL SMALL CAP	0.0%	2.4%	9.8%	4.0% - 8.0%	6.0%
<u>SHORT-TERM</u>					
SPIFF	0.0%	1.4%	1.8%	0.0% - 5.0%	1.0%
STIP	0.0%	0.0%	0.0%	0.0% - 5.0%	
TOTAL SHORT-TERM	0.0%	1.4%	1.8%	0.0% - 5.0%	1.0%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100%	100.0%

**MONTANA DOMESTIC EQUITY POOL (MDEP)
INVESTMENT POLICY STATEMENT**

~~INVESTMENT GUIDELINES ACTIVE LARGE-CAPE EQUITY (MTCP)~~

INTRODUCTION

The investment actions of the Investment Manager will be governed and evaluated by the following guidelines:

The purpose of an investment policy statement is to provide direction for the development and implementation of an investment program that meets the objectives established within the retirement plan and to enable pool participants to monitor the progress of the plan.

OBJECTIVES

Return Requirement: The investment objective of MTCP is to provide an acceptable total rate of return on invested funds. Capital appreciation is the primary objective with current income considered as a secondary objective. Attainment of the investment objective is characterized by achieving an annualized, time-weighted total rate of return, which exceeds the Standard & Poor's 500 Index (S&P 500 Index) return over a five-year rolling period.

Risk Tolerance: MTCP is a highly diversified stock pool, which assumes market risk subject to the following:

- ~~Maximum tracking error of 400 basis points compared to the S&P 500 Index as calculated by Barra or similar products.~~
- ~~A minimum of 100 issues will be held within the portfolio.~~
- ~~No issue shall constitute more than 10 percent of the total market value of the portfolio.~~
- ~~Stock holdings of MTCP are restricted to issues on the Approved Stock List. The Approved Stock List is comprised of all the S&P 500 Index issues plus issues approved by the Chief Investment Officer. Staff will submit a company report to the Board for ratification of each initial purchase of any company's shares not previously owned by the Board. Staff will submit a copy of the Approved Stock List to the Board semiannually.~~
- ~~MTCP assets will be fully invested; defined as invested 95% in common stocks, preferred stocks, securities convertible into common or preferred stocks, or equity derivatives. MTCP may invest in the American Depository Receipts (ADRs) or comparable securities of large capitalization foreign firms.~~
- ~~MTCP may hold up to 5% of its assets in a Stock Performance Index Futures Fund (SPIFF) or in STIP.~~

CONSTRAINTS

Liquidity: Liquidity needs are minimal. MTCP will maintain a minimum of \$4,000,000 in the Stock Performance Index Futures Fund (SPIFF) or in STIP.

Time Horizon: Retirement benefit payments are long-term obligations. Therefore, the time horizon of MTCP is long-term in nature. Common stocks, by definition, do not have maturity dates and thus are consistent with the long-term objective of MTCP.

**MONTANA DOMESTIC EQUITY POOL (MDEP)
INVESTMENT POLICY STATEMENT**

~~**Tax Considerations:** Taxes are not a consideration as all participants are tax exempt.~~

~~**Legal/Authorized Securities:** Legal constraints on the management of investment funds for the State of Montana are defined in the Montana Code Annotated 17-6-201 (the "Montana Code").~~

~~**Unique Circumstances:** None.~~

**MONTANA COMMON STOCK POOL (MTCP)
CASH FLOW IN MILLIONS ⁽¹⁾**

<u>Fiscal Year</u> ⁽²⁾	<u>Book Value</u>	<u>Market Value</u>	<u>Increase to Book \$</u>	<u>Increase to Book %</u>
1980	\$34.6	\$ 43.2		
1981	\$51.6	\$ 67.5	\$ 17.0 #	49.1%
1982	\$74.9	\$ 77.8	\$ 23.3 #	45.2%
1983	\$91.1	\$ 130.0	\$ 16.2 #	21.6%
1984	\$103.1	\$ 130.2	\$ 12.0 #	13.2%
1985	\$121.0	\$ 173.6	\$ 17.9 #	17.4%
1986	\$138.5	\$ 220.5	\$ 17.5 #	14.5%
1987	\$150.3	\$ 254.1	\$ 11.8 #	8.5%
1988	\$169.2	\$ 255.9	\$ 18.9 #	12.6%
1989	\$190.0	\$ 296.6	\$ 20.8 #	12.3%
1990	\$247.9	\$ 370.1	\$ 57.9 #	30.5%
1991	\$352.6	\$ 480.1	\$ 104.7 #	42.2%
1992	\$498.4	\$ 640.0	\$ 145.8 #	41.3%
1993	\$628.4	\$ 728.3	\$ 130.0 #	26.1%
1994	\$773.5	\$ 846.8	\$ 145.1 #	23.1%
1995	\$896.2	\$ 1,059.6	\$ 122.7 #	15.9%
1996	\$1,007.6	\$ 1,320.5	\$ 111.4 #	12.4%
1997	\$1,161.3	\$ 1,822.7	\$ 153.7 #	15.3%
1998	\$1,419.2	\$ 2,310.0	\$ 257.9 #	22.2%
1999	\$1,436.6	\$ 2,639.2	\$ 17.4 #	1.2%
2000	\$1,684.6	\$ 2,815.2	\$ 248.0 #	17.3%
2001	\$1,756.4	\$ 2,333.6	\$ 71.8 #	4.3%
2002	\$1,829.3	\$ 1,883.0	\$ 72.9 #	4.2%
2003	\$1,709.9	\$ 1,852.7	\$ (119.4) #	-6.5%
2004	\$1,641.4	\$ 1,948.1	\$ (68.5)	-4.0%

¹ Source: BOI Annual Reports

² MTCP Created on 7/1/80, Beginning Date for FYE 1981

**MONTANA DOMESTIC EQUITY POOL (MDEP)
INVESTMENT POLICY STATEMENT**

INVESTMENT GUIDELINES - PASSIVE LARGE-CAP EQUITY

INTRODUCTION

The investment actions of the Investment Manager will be governed and evaluated by the following guidelines:

OBJECTIVES

Return Requirement: The investment objective of the Board's domestic equity program is to provide long-term capital appreciation for its retirement fund participants. As a component of that program, this account is expected to provide benchmark total returns over the life of the contract governing the account. Specific to this account, the Investment Manager is expected to track the cumulative returns equal to the performance of the Standard and Poor's 500 Index.

Risk Tolerance: The account has the ability to assume benchmark risk and full investment is required.

CONSTRAINTS

Liquidity: Liquidity needs of the account are low.

Tax Considerations: Taxes are not a consideration as all participants are tax exempt.

Legal/Authorized Securities: Legal constraints on the management of investment funds for the State of Montana are defined in the Montana Code Annotated 17-6-201 (the "Montana Code"). A copy of this section of Code is attached to these guidelines. The relationship between the Board and the Investment Manager is governed by the Investment Management Contract, which is also attached to these guidelines. The Investment Manager is expected to be familiar with the Montana code and the Investment Management Contract and act in a manner that is in keeping with these documents.

The account shall be invested and reinvested in a portfolio of domestic equity securities with the objective of approximating as closely as practicable the capitalization weighted total rate of return of that segment of the United States domestic market for publicly traded common stocks represented by the larger capitalized companies. The criterion for selection of investments shall be the S&P 500 Index.

The Investment Manager is authorized to invest in the following securities: common stocks, preferred stocks or securities convertible into common or preferred stocks. When deemed appropriate, the Investment Manager may invest a portion of the account in futures contracts for the purpose of acting as a temporary substitute for investment in domestic equities.

Ineligible securities include: physical commodities and physical commodity contracts; private, direct or other investments not marketable on a national exchange except rule 144A securities and securities which trade over the counter; and any other investments not specifically authorized in the above paragraph. The Investment Manager may not engage in short sales with this account.

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

~~The Investment Manager is not constrained regarding transaction turnover or number of issues held.~~

~~**Unique Circumstances:** These guidelines will be reviewed at least annually and may be modified at any time to ensure that the investments made comply with objectives and constraints of the Board's overall domestic equity program.~~

INVESTMENT GUIDELINES ENHANCED SMALL CAP DOMESTIC EQUITY

INTRODUCTION

~~The investment actions of the Investment Manager will be governed and evaluated by the following guidelines:~~

OBJECTIVES

~~**Return Requirement:** The investment objective of the Board's domestic equity program is to provide long-term capital appreciation for its retirement fund participants. As a component of that program, this account is expected to exceed benchmark total returns over the life of the contract governing the account. Specific to this account, the Investment Manager is expected to achieve an annualized, time-weighted total rate of return, which exceeds the Russell 2000 Index (R-2000) return over a five-year rolling period. The Investment Manager shall seek to out perform the Russell 2000 Index by 1% to 2% annually.~~

~~**Risk Tolerance:** The account has the ability to assume above average benchmark risk.~~

CONSTRAINTS

~~**Liquidity:** Liquidity needs of the account are low.~~

~~**Tax Considerations:** Taxes are not a consideration as all participants are tax exempt.~~

~~**Legal/Authorized Securities:** Legal constraints on the management of investment funds for the State of Montana are defined in the Montana Code Annotated 17-6-201 (the "Montana Code"). A copy of this section of Code is attached to these guidelines. The relationship between the Board and the Investment Manager is governed by the Investment Management Contract, which is also attached to these guidelines. The Investment Manager is expected to be familiar with the Montana code and the Investment Management Contract and act in a manner that is in keeping with these documents.~~

~~The account shall be invested and reinvested in a portfolio of domestic equity securities with the objective of approximating the capitalization weighted total rate of return of that segment of the domestic market for publicly traded common stocks represented by the small capitalization companies. The criterion for selection of investments shall be the lowest eight percent (8%) of the domestic market universe, defined as the aggregate of NYSE, AMEX and NASDAQ firms.~~

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

~~The Investment Manager is authorized to invest in the following securities: common stocks, preferred stocks or securities convertible into common or preferred stocks. When deemed appropriate, the Investment Manager may invest a portion of the account in futures contracts for the purpose of acting as a temporary substitute for investment in domestic equities.~~

~~Ineligible securities include: physical commodities and physical commodity contracts; private, direct or other investments not marketable on a national exchange except rule 144A securities and securities which trade over the counter; and any other investments not specifically authorized in the above paragraph. The Investment Manager may not engage in short sales with this account.~~

~~The Investment Manager is not constrained regarding transaction turnover or number of issues held.~~

~~**Unique Circumstances:** These guidelines will be reviewed at least annually and may be modified at any time to ensure that the investments made comply with objectives and constraints of the Board's overall domestic equity program.~~

ALLOCATION

Allocation ranges are approved by the Board. The current allocation ranges by strategy category are shown below. It is the responsibility of staff to manage individual manager and strategy allocations within these ranges in order to attain the objectives of the pool.

<u>Strategy</u>	<u>Approved Range</u>
Large Cap Core (passive)	10 – 30%
Large Cap Enhanced	20 – 30%
Large Cap Style-Based (long-only)	20 – 30%
Partial Long/Short (130/30)	10 – 20%
Total Large Cap	82 – 92%
Mid Cap	5 – 11%
Small Cap	3 – 8%

ROLES AND RESPONSIBILITIES

Board of Investments – The Board is responsible for approving the Investment Policy Statement for the Montana Domestic Equity Pool. The Board reviews this document periodically and, as needed, approves any changes to the policy and allocation ranges.

Chief Investment Officer - The Chief Investment Officer (CIO), with the support of other staff, is responsible for recommending policy changes, including any changes in allocation ranges, for Board approval.

Staff - Staff is responsible for monitoring allocations and external managers, recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO (see Public Equities –

**MONTANA DOMESTIC EQUITY POOL (MDEP)
INVESTMENT POLICY STATEMENT**

External Manager Evaluation Policy).

Investment Consultant – The investment consultant assists the CIO and staff with policy recommendations and provides advice to the Board. The investment consultant also assists staff in monitoring all external managers and reports to the Board independently.

External Managers – Managers are responsible for all aspects of portfolio management as set forth in the contract specific to each manager. Managers must communicate with staff as needed, regarding investment strategies and results. Managers must also cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the investment consultant and the master custodian.

LEGAL

According to the unified investment program directed by Article VIII, section 13, of the 1972 Montana Constitution (MCA 17-6-201: Unified investment program-General Provisions):

- (1) Public funds must be administered by the Board of Investments in accordance with the prudent expert rule, which requires any investment manager to:
 - (a) discharge 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 duties solely in the interest of and for the benefit of the funds forming the unified investment program.
- (2) Retirement funds may be invested in common stocks of any corporation.

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: Cliff Sheets, Chief Investment Officer
Rande Muffick, Portfolio Manager

Date: May 5, 2008

Subject: Montana International Equity Pool (MTIP) Benchmark Recommendation

The benchmark used to compare performance for the international equity allocation, the Montana International Equity Pool (MTIP), has been the Morgan Stanley Capital International (MSCI) benchmark exclusive of United States equities, also known as the MSCI All Country ex-US Index (ACWI ex-US). Although this has been a widely recognized index for international allocations the index does not contain a measurable small cap segment. Our portfolio has had a small cap exposure both prior to and after the pool was restructured in October, 2006. This fact and the recent increased level of volatility in small cap stocks make the ACWI ex-US index less appropriate as a representative benchmark for the pool.

New benchmark methodologies called Investable Market Indices (IMI) have been created by MSCI to expand the universe of international equities. These new methodologies also contain more clearly defined style delineations similar to what investors have become accustomed to within domestic indices provided by such sources as S&P and Russell. Specifically, the IMI will include delineations by market capitalization as well as by style (growth and value).

The major differences in the MSCI ex-US IMI compared to previous MSCI international index are the number of stocks within the IMI and its substantial small cap weighting. There will be an additional 3,800 stocks within the MSCI ex-US IMI with virtually all in the small cap segment. It is projected that small caps will account for roughly a 14% weighting when the IMI is officially launched at the end of May. Country weights will also be affected but to a limited degree.

The historical small cap allocation in our pool has averaged 7.34% in the current fiscal year period. The new MSCI ex-US IMI benchmark will have twice this weight, making this benchmark also an inaccurate reflection of portfolio exposure. Over time we may wish to increase our pool allocation to the small cap segment, but this poses additional questions regarding introducing potentially higher volatility of returns. Further, additional small cap exposure will likely entail a new RFP since our existing managers have imposed capacity constraints.

At this time staff would prefer to adapt to the new MSCI ex-US IMI framework but create a custom benchmark that more appropriately reflects our exposure to small caps. This benchmark change would apply only at the pool level and does not affect the benchmarks used at the manager level.

Recommendation

It is the recommendation of staff that the Board adopt a new benchmark for MTIP. The proposed benchmark is a proportional weighting of the MSCI ex-US IMI to include a mix of the large and mid cap components of this index at a 92.5% pro rata weight and the small cap component at a 7.5% weight. This proposed benchmark will be applied beginning with the current fiscal year and used going forward until a meaningful change in the small cap exposure is implemented in the pool's actual allocation.

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

This policy is effective ~~OCTOBER 21, 2004~~ upon adoption and supersedes all previous Montana International Equity Pool (MTIP) policies.

INTRODUCTION

The purpose of this policy statement is to provide ~~investment objectives and constraints~~ a broad strategic framework for international equity investments, which are consolidated into the Montana International Equity Pool (MTIP). This statement provides a basis on which to invest in the publicly traded equity securities of foreign (non-U.S.) companies through the employment of external managers and enables ~~the participants' staff~~ to monitor the progress of the international equity managers investments made on their behalf of the retirement funds and other participants. The international equity investment program consists of ~~external~~ several externally managed portfolios. The managers of the portfolios are governed by Investment Manager Guidelines, copies of which are attached their respective investment management contracts and investment guidelines.

OBJECTIVES

Strategic: Attaining investment returns from international equity markets while diversifying investment risk is ~~the strategic objective of the Montana international equity program and manager risk~~.

- The primary objective of the international equity investment program is to ~~diversify the asset mix~~ provide diversified exposure to the international equity markets for the benefit of the pension fund portfolios across international equity markets in order to achieve higher risk-adjusted portfolio returns and other participants in a prudent and cost effective manner. The secondary objective of the program is to ~~achieve incremental investment returns~~.
- The purpose objective of active management is to add value by achieving ~~over the~~ a rate of return that exceeds the relevant benchmark(s) after fees.
- ~~To manage the majority of the program on a regional basis to increase the expected return.~~
- ~~The purpose of using a broader benchmark for Asia is to diversify the program and increase expected return.~~
- The objective of passive management is to diversify risk within the program as well as to act as a mechanism for liquidity within the program's strategy and manager allocations. It is also the primary liquidity source to absorb changes to the overall allocation to international equities.

Return Requirements Performance: The international equity investment program ~~utilizes~~ provides for both active and passive investment management strategies in order to achieve the stated investment objectives.

- ~~The benchmark for the pool is the MSCI EAFE Index. The benchmark for Europe is MSCI Europe Index. The benchmark for Asia is MSCI All Country Pacific Free Index. We will use MSCI as the index provider.~~
- The return requirement for all objective for the Montana International Equity Pool is the achievement of an annualized, time-weighted rate of return exceeding that of the custom pool benchmark* over any three-year rolling period after fees.

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

- The return ~~requirement~~ objective for all active international ~~equities~~ equity managers is the achievement of an annualized, time-weighted total rate of return exceeding that of the relevant benchmark(s) over any ~~five~~ three-year rolling period after fees.
- The return ~~requirement~~ objective for all passive international equities is the achievement of an annualized, time-weighted total rate of return equaling that of the relevant benchmark(s) on an annual basis before fees.

* The custom benchmark is a linkage of the following MSCI indices: EAFE (prior to November, 2006), ACWI ex-US (Nov., 2006 – June, 2007), and IMI (after June, 2007, using a 92.5%/7.5% mix of the Standard and Small Cap components).

RISK ~~Tolerance~~ MANAGEMENT

The international equity investment program utilizes both active and passive investment management strategies ~~that have different~~ with various risk tolerance parameters.

- ~~Minimum of 33 percent of pool assets in passive management and a minimum of 33 percent in active management.~~
- Active international equity managers are able to assume ~~above average~~ greater than market risk subject to the following:
 - Investments will be well diversified among market sectors and individual securities, though deviations from benchmark characteristics may be taken in an effort to add value above benchmark returns.
 - Normally, at least ~~90%~~ 95% of assets will be invested in common or preferred stocks or securities convertible into common or preferred stocks.
 - Up to ~~40%~~ 5% of assets may be held in short-term investments.
- Passive international equity managers are able to assume only the market risk of their respective benchmark(s) index(s). Underlying investments are designed to replicate the relevant benchmark(s) index characteristics in an effort to produce market like risk and returns.

Staff monitors the overall pool portfolio and individual external managers using various analytical systems designed to show the risk characteristics at the pool and manager level, and the sources of value-added for each manager.

CONSTRAINTS LIQUIDITY

Liquidity The liquidity needs for the international equity program is are low, as participant capital allocated to this program is not expected to be available for payout change dramatically on short notice. Nevertheless, the underlying assets held are publicly traded securities which can be liquidated in a relatively short period to accommodate broad asset allocation changes between international equities and other asset categories held by the participants. Up to 5% of total MTIP assets may be held in short-term investments, securitized cash investment vehicles or a combination of both.

Time Horizon: ~~Retirement benefit plans are long term obligations. Therefore, the time horizon for~~

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

~~this program is long term.~~

~~**Tax Considerations:** Taxes are not a consideration for these investments as all eligible participants are tax exempt.~~

UNIQUE CIRCUMSTANCES ELIGIBLE INVESTMENTS

Securities: Either directly held in separate accounts, or via commingled funds, securities eligible for investment include the equity securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Security types may include ordinary common shares, preferred shares, American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and other security types deemed by the Chief Investment Officer as equivalent to the above listed types.

Derivatives: External investment managers are authorized to invest in derivatives such as equity call and put options contracts, index futures contracts and forward currency contracts in accordance with ~~the Investment Management Guidelines~~ their respective management contract and investment guidelines.

~~**Management:** Assets will be managed externally by private money managers.~~

Currency: At the pool level, MTIP will be managed on an un-hedged basis. However, the active managers are allowed to hedge ~~partially or fully, to preserve the U.S. dollar value of investments made in a defensive manner~~. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

BACKGROUND

~~The Board of Investments approved the creation of an additional investment pool at the June 6th, 1996 Board meeting. The Montana International Equity Pool (MTIP) pool was funded on January 3rd, 1997. In January 1997, MTIP initially invested \$30 million each in external managers, Schroder Capital Management International and Yamaichi Capital Management, which were selected by the Board in October 1996. In August 1998, the Board selected Pyrford International as an external manager for Europe. In October 2003, the Board rehired Schroder Capital Management and replaced Yamaichi Capital Management with Normura Asset Management. In January 2004, the internal portfolio was closed.~~

ALLOCATION

Allocation ranges are approved by the Board. The current allocation ranges by strategy category are shown below. It is the responsibility of staff to manage individual manager and strategy allocations within these ranges in order to attain the objective of the pool.

**MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT**

<u>Strategy</u>	<u>Approved Range</u>
<u>Large Cap Core</u>	<u>25 – 50%</u>
<u>Large Cap Growth</u>	<u>15 – 25%</u>
<u>Large Cap Value</u>	<u>15 – 25%</u>
<u>Regional</u>	<u>0 – 20%</u>
<u>Small Cap Core</u>	<u>5 – 15%</u>

ROLES AND RESPONSIBILITIES

Board of Investments - The Board is responsible for approving the Investment Policy Statement for the Montana International Equity Pool. The Board reviews this document periodically and as needed and approves any changes to the policy and allocation ranges.

Chief Investment Officer – The Chief Investment Officer (CIO), with support of other staff is responsible for recommending policy changes, including any changes in allocation ranges for Board approval.

Staff – Staff is responsible for monitoring allocations and external managers, recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO (see Public Equities – External Manager Evaluation Policy).

Investment Consultant – The investment consultant assists the CIO and staff with policy recommendations and provides advice to the Board. The investment consultant also assists staff in monitoring all external managers and reports to the Board independently.

External Managers – Managers are responsible for all aspects of portfolio management as set forth in the contract specific to each manager. Managers must communicate with staff as needed, regarding investment strategies and results. Managers must also cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the investment consultant and the master custodian.

LEGAL

According to the unified investment program directed by Article VIII, section 13, of the 1972 Montana Constitution (MCA 17-6-201: Unified investment program-General Provisions):

- (1) Public funds must be administered by the Board of Investments in accordance with the prudent expert rule, which requires any investment manager to:
 - (a) discharge 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 duties solely in the interest of and for the benefit of the funds forming the unified investment program.
- (2) Retirement funds may be invested in common stocks of any corporation.

**MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT**

CASH FLOW IN MILLIONS ⁽¹⁾

<u>Fiscal Year</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Increase to Book \$</u>	<u>Increase to Book %</u>
1/3/1997	\$ 60.0	\$ 60.0	\$ 60.0	
1997	\$ 120.1	\$ 129.9	\$ 60.1	100.2%
1998	\$ 156.1	\$ 154.3	\$ 36.0	30.0%
1999	\$ 230.5	\$ 272.7	\$ 74.4	47.7%
2000	\$ 348.4	\$ 416.1	\$ 117.9	51.1%
2001	\$ 403.8	\$ 389.4	\$ 55.4	15.9%
2002	\$ 442.9	\$ 429.6	\$ 39.1	9.7%
2003	\$ 489.4	\$ 470.7	\$ 46.5	10.5%
2004	\$ 786.5	\$ 853.9	\$ 297.1	60.7%

1 Source: BOI Annual Reports

Asset Allocation (At Fair Value)

	<u>June 2004</u>	<u>June 2005</u>	<u>June 2006</u>	<u>Current Range</u>	<u>Proposed Range</u>
<u>EUROPE</u>					
(MSCI Europe Benchmark)					
Active Management (External)	15.2%	15.1%	0.0%	0-25%	0.0%
Passive Index (External)	45.6%	46.9%	61.8%	25-50%	0-12%
TOTAL EUROPE	60.7%	62.0%	61.8%	50-75%	0-12%
<u>PACIFIC BASIN</u>					
(MSCI All Country Pacific Free Benchmark)					
Active Management (External)	29.6%	25.0%	23.0%	0-50%	0-8%
Passive Index (External)	5.41%	5.10%	5.30%	0-25%	0.0%
TOTAL PACIFIC BASIN	35.0%	30.1%	28.3%	25-50%	0-8%
EAFE SMALL CAP	0.0%	7.7%	7.5%	0-15%	5-15%
EMERGING MARKETS	NA	NA	NA	0-5%	NA ⁽¹⁾
SSB EAFE (Liquidity Fund)	4.3%	0.2%	2.5%	0-10%	0-10%
<u>INTERNATIONAL</u>					

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

INTRODUCTION

The investment actions of the Investment Manager will be governed and evaluated by the following guidelines:

OBJECTIVES

Return Requirement: The investment objective of the Board's international equity program is to provide long term capital appreciation for its retirement fund participants. As a component of that program, this account is expected to provide above benchmark total returns with an emphasis on capital gains over the life of the contract governing the account. Specific to this account, the Investment Manager is expected to deliver cumulative returns in excess of the Morgan Stanley Capital International Europe Index.

Risk Tolerance: The account has the ability to assume above average market risk and full investment is encouraged. The Investment Manager should diversify the assets of the account within and among authorized countries and securities (detailed in Constraints section) to minimize non-systematic risk over the life of the contract governing the account.

CONSTRAINTS

Liquidity: Liquidity needs of the account are low. The Investment Manager is expected to maintain the liquidity necessary to take full advantage of opportunities in the marketplace as they present themselves, but no more than 10% of the assets of the account may be in cash or cash equivalents.

Tax Considerations: This account belongs to participants exempt from U.S. taxes. The Investment Manager is expected to invest in a manner as to minimize any foreign tax obligation the account may have, subject to the objectives of the account, and to work with the Board's master custodian (presently State Street Bank) in a reasonable manner in securing tax recaptures and exemptions as allowed under U.S. tax treaties.

Legal/Authorized Countries and Securities: Legal constraints on the management of investment funds for the State of Montana are defined in the Montana Code Annotated 17-6-201 (the "Montana Code"). A copy of this section of Code is attached to these guidelines. The relationship between the Board and the Investment Manager is governed by the Investment Management Contract, which is also attached to these guidelines. The Investment Manager is expected to be familiar with the Montana code and the Investment Management Contract and act in a manner that is in keeping with these documents

The Investment Manager is expected to invest the account primarily in the securities of large capitalization companies domiciled in, or whose equity securities are listed on the exchanges of, the following countries:

Austria	France	Italy	Spain
Belgium	Germany	Netherlands	Sweden
Denmark	Greece	Norway	Switzerland
Finland	Ireland	Portugal	United Kingdom

The Investment Manager is authorized to invest in the following securities: common stocks, preferred stocks, convertible securities and derivatives thereof such as American Depository Receipts, Global Depository Receipts, closed-end country funds/investment trusts and World Equity Benchmark Shares.

Ineligible securities include: physical commodities and physical commodity contracts; private, direct or other investments not marketable on a national exchange except rule 144A securities and securities which trade over the counter; and any other investments not specifically authorized in the above paragraph. The

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

~~Investment Manager may not engage in short sales with this account.~~

~~The Investment Manager is not constrained regarding transaction turnover or number of issues held (subject to adequate diversification).~~

~~**Unique Circumstances:** These guidelines will be reviewed at least annually and may be modified at any time to ensure that the investments made comply with objectives and constraints of the Board's overall international program.~~

INVESTMENT GUIDELINES PASSIVE EUROPEAN EQUITY
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INTRODUCTION

~~The investment actions of the Investment Manager will be governed and evaluated by the following guidelines:~~

OBJECTIVES

~~**Return Requirement:** The investment objective of the Board's international equity program is to provide long term capital appreciation for its retirement fund participants. As a component of that program, this account is expected to provide benchmark total returns over the life of the contract governing the account. Specific to this account, the Investment Manager is expected to track the cumulative returns equal to the performance of the Morgan Stanley Capital International (MSCI) Europe Index.~~

~~**Risk Tolerance:** The account has the ability to assume only benchmark risk and full investment is required.~~

CONSTRAINTS

~~**Liquidity:** Liquidity needs of the account are low.~~

~~**Tax Considerations:** This account belongs to participants exempt from U.S. taxes. The Investment Manager is expected to invest in a manner as to minimize any foreign tax obligation the account may have, subject to the objectives of the account, and to work with the Board's master custodian (presently State Street Bank) in a reasonable manner in securing tax recaptures and exemptions as allowed under U.S. tax treaties.~~

~~**Legal/Authorized Countries and Securities:** Legal constraints on the management of investment funds for the State of Montana are defined in the Montana Code Annotated 17-6-201 (the "Montana Code"). A copy of this section of Code is attached to these guidelines. The relationship between the Board and the Investment Manager is governed by the Investment Management Contract, which is also attached to these guidelines. The Investment Manager is expected to be familiar with the Montana code and the Investment Management Contract and act in a manner that is in keeping with these documents~~

~~The MSCI Europe Index is constructed from the following individual national markets:~~

Austria	France	Italy	Spain
Belgium	Germany	Netherlands	Sweden
Denmark	Greece	Norway	Switzerland
Finland	Ireland	Portugal	United Kingdom

~~The MSCI Europe Index is comprised of the European developed markets, and measures returns on an un-hedged basis. The markets and securities in the benchmark are capitalization weighted. MSCI is responsible~~

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

for maintaining the index as well as calculating and reporting the returns of the index.

Unique Circumstances: These guidelines will be reviewed at least annually and may be modified at any time to ensure that the investments made comply with objectives and constraints of the Board's overall international program.

INVESTMENT GUIDELINES ACTIVE PACIFIC BASIN EQUITY
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INTRODUCTION

The investment actions of the Investment Manager will be governed and evaluated by the following guidelines:

OBJECTIVES

Return Requirement: The investment objective of the Board's international equity program is to provide long term capital appreciation for its retirement fund participants. As a component of that program, this account is expected to provide above benchmark total returns with an emphasis on capital gains over the life of the contract governing the account. Specific to this account, the Investment Manager is expected to deliver cumulative returns in excess of the Morgan Stanley Capital International All Country Pacific Free Index.

Risk Tolerance: The account has the ability to assume market risk and full investment is encouraged. The Investment Manager should diversify the assets of the account within and among the authorized countries (detailed in Constraints section) to minimize non-systematic risk over the life of the contract governing the account.

CONSTRAINTS

Liquidity: Liquidity needs of the account are low. The Investment Manager is expected to maintain the liquidity necessary to take full advantage of opportunities in the marketplace as they present themselves, but no more than 10% of the assets of the account may be in cash or cash equivalents.

Tax Considerations: This account belongs to participants exempt from U.S. taxes. The Investment Manager is expected to invest in a manner as to minimize any foreign tax obligation the account may have, subject to the objectives of the account, and to work with the Board's master custodian (presently State Street Bank) in a reasonable manner in securing tax recaptures and exemptions as allowed under U.S. tax treaties.

Legal/Authorized Countries and Securities: Legal constraints on the management of investment funds for the State of Montana are defined in the Montana Code Annotated 17-6-201 (the "Montana Code"). A copy of this section of Code is attached to these guidelines. The relationship between the Board and the Investment Manager is governed by the Investment Management Contract, which is also attached to these guidelines. The Investment Manager is expected to be familiar with the Montana code and the Investment Management Contract and act in a manner that is in keeping with these documents.

The Investment Manager is expected to invest the account primarily in the securities of large capitalization companies domiciled in, or whose equity securities are listed on the exchanges of, the following countries:

Australia	Indonesia	Malaysia	Singapore
China	Japan	New Zealand	Taiwan
Hong Kong	Korea	Philippines	Thailand

The Investment Manager is authorized to invest in the following securities: common stocks, preferred stocks, convertible securities and derivatives thereof such as American Depository Receipts, Global Depository

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

Receipts, closed end country funds/investment trusts and World Equity Benchmark Shares. The Account may be invested in other derivative securities such as equity call and put options and index futures contracts, provided that the appropriate amount of cash is retained to prevent leveraging the portfolio. The Account may enter into forward currency contracts or own currency futures contracts in order to reduce the currency risk represented by the equity securities held. Cash equivalent securities may be held, provided at the time of purchase these securities are issues with an S&P or Moody rating of A1/P1, or the equivalent in the best judgment of the Investment Manager.

Ineligible securities include: physical commodities and physical commodity contracts; private, direct or other investments not marketable on a national exchange except rule 144A securities and securities which trade over the counter; and any other investments not specifically authorized in the above paragraph. The Investment Manger may not engage in short sales with this account.

The Investment Manager is not constrained regarding transaction turnover or number of issues held (subject to adequate diversification).

Unique Circumstances: These guidelines will be reviewed at least annually and may be modified at any time to ensure that the investments made comply with objectives and constraints of the Board's overall international program. The Investment Manager is encouraged to make suggestions as to changes that could enhance returns without violating the constraints of the program.

INVESTMENT GUIDELINES PASSIVE PACIFIC BASIN EQUITY

INTRODUCTION

The investment actions of the Investment Manager will be governed and evaluated by the following guidelines:

OBJECTIVES

Return Requirement: The investment objective of the Board's international equity program is to provide long term capital appreciation for its retirement fund participants. As a component of that program, this account is expected to provide benchmark total returns over the life of the contract governing the account. Specific to this account, the Investment Manager is expected to track the cumulative returns equal to the performance of the Morgan Stanley Capital International (MSCI) All Country Pacific Free Index.

Risk Tolerance: The account has the ability to assume only benchmark risk and full investment is required.

CONSTRAINTS

Liquidity: Liquidity needs of the account are low.

Tax Considerations: This account belongs to participants exempt from U.S. taxes. The Investment Manager is expected to invest in a manner as to minimize any foreign tax obligation the account may have, subject to the objectives of the account, and to work with the Board's master custodian (presently State Street Bank) in a reasonable manner in securing tax recaptures and exemptions as allowed under U.S. tax treaties.

Legal/Authorized Countries and Securities: Legal constraints on the management of investment funds for the State of Montana are defined in the Montana Code Annotated 17-6-201 (the "Montana Code"). A copy of this section of Code is attached to these guidelines. The relationship between the Board and the Investment Manager is governed by the Investment Management Contract, which is also attached to these guidelines.

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

~~The Investment Manager is expected to be familiar with the Montana code and the Investment Management Contract and act in a manner that is in keeping with these documents.~~

~~The MSCI All Country Pacific Free Index is constructed from the following individual national markets.~~

Australia	Indonesia	Malaysia	Singapore
China	Japan	New Zealand	Taiwan
Hong Kong	Korea	Philippines	Thailand

~~The MSCI All Country Pacific Free Index includes both developed and emerging markets components, and measures returns on an un-hedged basis. The markets and securities in the index are capitalization-weighted. MSCI is responsible for maintaining the index as well as calculating and reporting the returns of the index.~~

~~**Unique Circumstances:** These guidelines will be reviewed at least annually and may be modified at any time to ensure that the investments made comply with objectives and constraints of the Board's overall international program.~~

MEMORANDUM

Montana Board of Investments

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

To: Board Members
From: Clifford A. Sheets, Chief Investment Officer
Date: May 14, 2008
Subject: Fixed Income Policy Statement

Background

At the February 2008 board meeting staff recommended, and the board approved, the utilization of non-core sectors of the fixed income market for the Retirement Funds Bond Pool. This recommendation was made in the context of diversifying within the existing fixed income asset class, such as has been done within public equities. In February the Board approved the recommended ranges for fixed income investments within the Retirement Funds Bond Pool as presented below.

Fixed Income Sector	Proposed Range
U.S. High Yield	0 – 15%
Non-U.S. (including EMD)	0 – 10%
Total “Plus” Sectors	0 – 20%
Core (U.S. Investment Grade)	80 – 100%

Investment Policy Statement

Expanding the sectors for fixed income investments will require approving a newly developed fixed income investment policy statement for the overall asset class. There will also be a need for authorization of a new fixed income investment pool, of which the internal portfolio will become the first underlying asset class sub-portfolio.

Attached is a proposed policy document that addresses the overarching fixed income investment pool. As diversification of fixed income assets occurs, underlying policy guidelines will be developed for each fixed income asset class sub-portfolio, including a review and possible revisions to the internal fixed income portfolio policy. Further definitions and refinements of investment mandates and guidelines will be developed through individual fixed income management contracts as we finalize the search for external managers.

Recommendation

To allow for expansion and diversification of fixed income investments across these new sectors, staff recommends that the Board approve the attached overall Retirement Funds Bond Pool Investment Policy Statement. The Board will also need to approve the setup of a new overarching retirement fixed income investment pool, which will include MU40, the internally managed fixed income portfolio, as the first sub-portfolio in this new pool.

BOARD OF INVESTMENTS INVESTMENT POLICY STATEMENT
RETIREMENT FUND BOND POOL (RFBP) (Effective 05/14/08)

INTRODUCTION

The purpose of this policy statement is to provide a broad strategic framework for fixed income investments, which are consolidated in the Retirement Fund Bond Pool (RFBP). This statement provides a basis on which to invest in fixed income securities through the employment of both internal and external managers and enables appropriate staff to monitor the progress of the fixed income managers on behalf of the retirement funds. The managers of the various portfolios and strategies are governed by their respective investment management guidelines. External manager are also governed by their investment management contract.

The types of fixed income managers are classified in the following broad strategy categories:

- Core fixed income
- Core Plus fixed income
- High Yield

OBJECTIVES

Strategic: Attaining investment returns from fixed income markets while diversifying investment risk and manager risk.

- The primary objective of the fixed income investment program is to provide diversified exposure to the various fixed income markets for the benefit of the pension fund participants in a prudent and cost effective manner.
 - The majority of the core fixed income allocation will be managed internally to provide cost effective management as well as to act as a mechanism for liquidity within the program's overall allocation. The internal portfolio will also provide primary liquidity to retirement fund participants.
 - The balance of the fixed income assets will be invested with external fixed income managers selected with experience outside the core fixed income markets to provide broader exposure to the fixed income universe.

Performance:

The return objective of the overall Retirement Fund Bond Pool (RFBP) is to achieve an annualized time weighted total rate of return exceeding that of the Lehman Government Aggregate Bond Index over any three year rolling period, after fees.

The return objective for the individual fixed income managers is the achievement of an annualized, time weighted total rate of return exceeding that of the relevant benchmark over any three year rolling period, after fees.

BOARD OF INVESTMENTS INVESTMENT POLICY STATEMENT
RETIREMENT FUND BOND POOL (RFBP) (Effective 05/14/08)

ALLOCATION BY STRATEGY

Pool assets will be allocated within the following ranges by sector category:

Fixed Income Sector	Range
U.S. High Yield	0 – 15%
Non-U.S. (including emerging market debt)	0 – 10%
Total “Plus” Sectors	0 – 20%
Core (U.S. Investment Grade)	80 – 100%

These sector descriptions are more fully described below. The underlying security types listed here are not meant to be an exhaustive list but to capture the general market sector categories. Each portfolio will also include an allocation to a short term investment fund which is used to invest cash not utilized for the purchase of individual securities.

Core: This strategy primarily consists of U.S. investment grade rated securities, though may also contain an allocation to dollar denominated obligations of a foreign investment grade rated issuer (Yankee bonds). Sector exposures include government obligations, predominantly U.S. Treasury and Agency obligations; securitized obligations, including mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities; and credit obligations primarily in the form of corporate bonds.

Non-U.S.: This category includes both emerging market debt and developed market debt. Either of these could be denominated in dollars or non-dollar currencies. The underlying holdings utilized in the non-U.S. segment of the portfolio would be expected to consist predominantly of sovereign debt, though a limited exposure to corporate credit may be allowed. With respect to currency risk posed by non-U.S., non-dollar holdings, this will be hedged as fully as practicable with respect to the major currencies where liquid instruments exist to hedge assets back into dollars at low cost; primarily developed market debt instruments. This would not apply to emerging market holdings denominated in local currencies.

High Yield: This sector consists of predominantly U.S. corporate credits, whether in the form of bonds or loans that are rated below investment grade. Specific portfolio guidelines that prohibit or constrain certain types of securities will be addressed in the manager’s specific investment guidelines.

LIQUIDITY

Liquidity needs for the fixed income program are low, as participant capital allocated to the pool is not expected to change dramatically on short notice. Nevertheless, the underlying assets held are predominantly publicly traded securities which can normally be liquidated in a relatively short period to accommodate broad asset allocation changes between fixed income and other asset categories held by the retirement plan participants.

ROLES AND RESPONSIBILITIES

BOARD OF INVESTMENTS INVESTMENT POLICY STATEMENT
RETIREMENT FUND BOND POOL (RFBP) (Effective 05/14/08)

Board of Investments – The Board is responsible for approving the Investment Policy Statement for the Retirement Fund Bond Pool. The Board reviews this document periodically and, as needed, approves any changes to the policy and allocation ranges.

Chief Investment Officer - The Chief Investment Officer (CIO), with the support of other staff, is responsible for recommending policy changes, including any changes in allocation ranges, for Board approval.

Staff - Staff is responsible for investing the internal fixed income portfolio, monitoring allocations and external managers, recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO.

Investment Consultant – The investment consultant assists the CIO and staff with policy recommendations and provides advice to the Board. The investment consultant also assists staff in monitoring all external managers and reports to the Board independently.

External Managers – Managers are responsible for all aspects of portfolio management as set forth in the contract specific to each manager. Managers must communicate with staff as needed, regarding investment strategies and results. Managers must also cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the investment consultant and the master custodian.

LEGAL

According to the unified investment program directed by Article VIII, section 13, of the 1972 Montana Constitution (MCA 17-6-201: Unified investment program-General Provisions):

- (1) Public funds must be administered by the Board of Investments in accordance with the prudent expert rule, which requires any investment manager to:
 - (a) discharge 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 within each fund of Retirement Fund Bond Pool 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 duties solely in the interest of and for the benefit of the funds forming the Retirement Fund Bond Pool.