

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor
Helena, Montana
February 12 & 13, 2008**

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Elouise Cobell
Jim Turcotte

STAFF PRESENT:

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

GUESTS:

Jim Voytko, R.V. Kuhns and Associates
Becky Gratsinger, R.V. Kuhns and Associates
Peter Madsen, R.V. Kuhns and Associates
Chris Phillips, BOI Contract Consultant
Gordon Hoven, Piper Jaffray
Emily Collella, Institutional Client Services, Artisan Partners LP
Darren DeVore, Managing Director, Client Services, Artisan Partners LP
James Kieffer, CFA, Managing Director, Portfolio Manager, Artisan Partners LP
Steve Fulton, Product Specialist, Western Asset Management
Joseph Carieri, Client Service Executive Western Asset Management
Neil Collins, Managing Director, BlackRock Alternative Advisors
Dan McLaughlin, Managing Director, BlackRock Alternative Advisors
Stephen Brewster, Managing Director, Grosvenor Capital Management, LP.
Brad Meyers, Vice President, Investments, Grosvenor Capital Management, LP.

Scott Miller, Public Employees' Retirement System
Dave Senn, Executive Director, Teachers' Retirement System
Roxanne Minnehan, Executive Director, Public Employees' Retirement System
Susan Gallagher, Associated Press
Hope Stockwell, Montana Public Radio

CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order at 10:02 a.m. in the conference room at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with seven members of the Board present. Member Turcotte and Member Cobell were absent.

Motion: Member Prothero motioned for approval of the November 6 & 7, 2007 minutes; Member Cohea seconded the motion and the motion was unanimously approved 7-0.

Public Comment

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

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

1. Human Resources Committee Report – No report.
2. Audit Committee Report – No report.
3. Loan Committee Report
 - Member Prothero, Chairperson of the Loan Committee, reported that the Committee reviewed staff recommendation to participate in the following INTERCAP Loan Request.

Borrower: Montana Dept. of Transportation
Board Loan Amount: \$1,420,692
Term: 6 year term (\$1,112,314) and 7 year term (\$308,378)
Purpose: To finance vehicles purchases for its Motor Pool.

Motion: Member Prothero motioned for approval of this loan request and authorize staff to proceed with processing and closing this loan using the Board's standard Bond Program Office procedures; Member Fleming seconded the motion and the motion was unanimously approved 7-0.

Member John Paull also took a moment to compliment and extend a thank you to Louise Welsh from the Butte Silver Bow Fire Department. Ms. Welsh worked very closely with the Fire Department in the purchase of three new fire trucks.

BOND PROGRAM

Activity Report

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

Staff Approved Loans Report

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

Borrower:	City of Thompson Falls
Purpose:	To purchase a front end loader and two (2) police vehicles.
Staff Approval Date	October 19, 2007
Board Loan Amount:	\$140,000 and \$40,000
Term:	Ten (10) and five (5) years

Borrower:	Wapati Acres County Water and/or Sewer District (Kalispell)
Purpose:	To finance costs associated with a preliminary engineering report (PER) for water system upgrades.
Staff Approval Date	October 24, 2007
Board Loan Amount:	\$9,000
Term:	Six (6) years

Borrower:	State of Montana Department of Natural Resources and Conservation (DNRC)
Purpose:	Interim loan in anticipation of issuing state general obligation bonds (GO Bonds) for its Drinking Water State Revolving Fund (DWSRF) Loan Program.
Staff Approval Date	October 29, 2007
Board Loan Amount:	\$1,000,000
Term:	Three (3) years

Borrower:	State of Montana Department of Natural Resources and Conservation (DNRC)
Purpose:	Interim loan in anticipation of issuing state general obligation bonds (GO Bonds) for its Water Pollution Control State Revolving Fund (WPCSRF) Loan Program.
Staff Approval Date	October 29, 2007
Board Loan Amount:	\$350,000
Term:	Three (3) years

Borrower:	City of Helena
Purpose:	To finance costs associated City golf course improvements.
Staff Approval Date	October 30, 2007
Board Loan Amount:	\$207,000
Term:	Ten (10) year

Borrower:	Lewis and Clark County
Purpose:	To finance costs associated with elevator, air conditioning and mechanical room upgrades, roof repairs, and 2 nd floor remodel of the City-County Building.

Staff Approval Date	November 23, 2007
Board Loan Amount:	\$950,000
Term:	Ten (10) year

Borrower:	Northern Express Transportation Authority (Shelby)
Purpose:	Land purchase.
Staff Approval Date	November 29, 2007
Board Loan Amount:	\$100,000
Term:	Ten (10) year

Borrower:	Three Forks School District J-24
Purpose:	To finance costs associated with providing utilities and roadway to school land.
Staff Approval Date	December 6, 2007
Board Loan Amount:	\$240,000
Term:	Four (4) years

Borrower:	City of Great Falls
Purpose:	To finance costs associated with design and installation of Eagle Crossing II & III street lights.
Staff Approval Date	December 12, 2007
Board Loan Amount:	\$46,600
Term:	Fifteen (15) years

Borrower:	Town of Geraldine
Purpose:	To finance legal fees for a well drilling lawsuit.
Staff Approval Date	December 26, 2007
Board Loan Amount:	\$30,600
Term:	Ten (10) years

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

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

INVESTMENT ACTIVITY

State Street Performance Report by Manager

Mr. Cliff Sheets presented the Summary of External Active Managers (Net of fees) Report for the period ending December 31, 2007.

Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report as of December 31, 2007.

Private Equity (MPEP)

Mr. Cliff Sheets presented September 30, 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 December 31, 2007 and an investment brief for the Montana Private Equity Portfolio for a commitment 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>
Oak Hill Capital Partners III	2008	Buyout	\$20M	1/8/2008
Total New Commitments			\$20M	

Real Estate (MTRP)

Mr. Cliff Sheets presented September 30, 2007 reports by Private Edge showing the real estate fund commitments made to date and holdings as of December 31, 2007. There were no new commitments made since the last Board meeting.

Domestic Equity (MDEP)

Mr. Rande Muffick presented the Montana Domestic Equity Pool Report as of December 31, 2007 and a summary of the pool manager changes and recent market trends.

Domestic Equity Transition Plan – 130/30 Strategy

Mr. Rande Muffick presented an update on the Domestic Equity Transition Plan – 130/30 Strategy. The funding of the partial long/short style allocation is scheduled for the second week in February. The total amount to be allocated among three 130/30 portfolios will be approximately \$410 million and this amount will be sourced from the Barclays Global Investors Index 500 Fund. Management firms to receive funding with their approximate dollar amount are: Analytic Investors \$120M, JP Morgan Asset Management \$210M and Martingale Asset Management \$80 million.

State Street Global Markets has been selected as the transition manager and Citigroup Global Markets Inc. was selected as prime broker for the three portfolios. A report of the completed transition will be presented to the Board at the May meeting.

MDEP Approved Ranges Recommendation

Mr. Cliff Sheets presented a staff recommendation for Board approval of new asset allocation ranges by strategy within the domestic equity pool as presented in the following table.

Strategy	Post transition weight (approx.)	Current Approved Range	Proposed Approved Range
Large Cap Core (passive)	26%	20-40%	10-30%
Large Cap Enhances	23%	15-25%	20-30%
Large Cap Style-based	25%		20-30%
Partial long/short (130/30)	13%		10-30%
Total Large Cap	87%	82-92%	82-92%
Mid Cap	8%	5-11%	5-11%
Small Cap	5%	3-8%	3-8%

The table shows the current approved ranges by strategy type and also proposed ranges. The new ranges are designed to accommodate both the immediate situation of funding the new 130/30 managers

and the potential increase in this allocation in the future. It also adds a range for the style-based managers which are a combination of both the large cap value and growth managers.

Motion: Member Cohea motioned that the range for “Partial long/short (130/30)” be changed from the Proposed Approved Range of 10-30% as recommended by staff to 10-20%, and the other Proposed Approved Ranges remain as recommended. Member Fleming seconded the motion and the motion was unanimously approved 7-0.

International Equity (MTIP)

Mr. Rande Muffick presented the Montana International Equity Pool Report for the period ending December 31, 2007 and discussed market trends during the quarter.

Fixed Income

Mr. Cliff Sheets presented the Fixed Income Overview and Strategy, the Below Investment Grade Holdings Report, State Fund Insurance and Treasurer’s Fund Portfolio Reports.

Fixed Income Strategy Diversification Recommendation

Mr. Cliff Sheets presented a staff recommendation that the Board approve the utilization of non-core sectors of the bond market as part of the Retirement Funds Bond Pool portfolio and adopt the proposed ranges for these sectors as discussed. This recommendation only addresses the Retirement Funds Bond Pool (RFBP).

The recommended ranges for the use within the RFBP are as follows:

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%

*% of total RFBP

The Board currently manages only U.S. investment grade fixed income portfolios. The addition of “plus” sector exposure would be accomplished through external management by firms with the necessary resources to effectively manage these more specialized sectors of the market.

The additional sector exposures would include U.S. High Yield and Non-U.S. Fixed Income. The Non-U.S. category could include both emerging market debt (EMD) and developed country debt. The Non-U.S. segment of the portfolio would be expected to consist predominantly of sovereign debt, though limited exposure to corporate credit may be allowed. The U.S. High Yield sector would be restricted to predominantly corporate credits, whether in the form of bonds or loans.

Motion: Member Jack Prothero motioned for approval of the Fixed Income Strategy Diversification as recommended by staff; Member Fleming seconded the motion and the motion was unanimously approved 7-0.

PRESENTATION

Artisan Partners, LP.

Mr. Rande Muffick introduced Ms. Emily Collella, Mr. Darren DeVore and Mr. James Kieffer. Artisan Partners manages mid cap funds held in the Domestic Equity Pool. Ms. Collella, Mr. DeVore and Mr. Kieffer reviewed their firm and management strategy.

Western Asset Management

Mr. Rande Muffick introduced Mr. Steve Fulton and Mr. Joseph Carieri. Western Asset Management manages large cap enhanced index funds held in the Domestic Equity Pool. Mr. Fulton and Mr. Carieri reviewed their firm and management strategy.

QUARTERLY PERFORMANCE REPORTS

The Quarterly Performance Report for the period ending December 31, 2007 was presented.

REVIEW OF THE SHORT TERM INVESTMENT POOL

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

At the request of Chairman Terry Moore, R.V. Kuhns and Associates conducted an extensive examination of the Short-Term Investment Pool. The report presented by R.V. Kuhns and Associates serves as an independent and objective discussion of the policy, objectives, and execution of the STIP portfolio and a summary view of the underlying securities.

Ms. Becky Gratsinger, Mr. Jim Voytko and Mr. Pete Madsen, R.V. Kuhns and Associates, presented the review and report of the Montana Short-Term Investment Pool.

The STIP Review and Analysis Report performed and completed by R.V. Kuhns and Associates answered some of the basic questions about STIP, as well as the questions relating to recent market and investment concerns.

The STIP Fund is an internally managed investment vehicle intended to preserve principal, maintain appropriate levels of liquidity, and provide a market rate of return. Investments utilized to achieve these objectives have historically included the following: 1) Government Agency short duration securities; 2) Corporate issued notes for short-term financing; and 3) Asset-backed securities for short-term financing.

The portfolio has within it several securities issued by Structured Investment Vehicles (SIVs), and upon learning of the SIV exposure, some local governments withdrew all or a portion of their assets. SIVs are a subset of the asset-backed segment of the short-term market. The withdrawals took place during the fourth quarter of 2007 and local government assets decreased from 34% to approximately 25%. Sudden, ongoing withdrawals could have forced the sale of assets prematurely at a loss to generate the liquidity needed to fund redemptions, penalizing other participants invested in the STIP.

BOI responded proactively to the situation at hand. The STIP investment policy includes parameters designed to ensure a reasonable level of liquidity for the portfolio. As market events began to unfold in 2007, BOI staff further strengthened policy limitations before any security specific problems emerged, and during the third and fourth quarters of 2007, BOI established additional controls and policy exposure limits were reduced and pool liquidity levels adjusted further.

In conclusion, R.V. Kuhns and Associates observed that BOI staff reacted quickly and effectively, and in a prudent manner to pre-empt a crisis.

ADJOURNED

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

CALL TO ORDER

The meeting was reconvened Wednesday, February 13, 2007 at 8:00 a.m. with seven members of the Board present. Member Turcotte and Member Cobell were absent.

EDUCATIONAL PRESENTATION

Blackrock Alternative Advisors

Mr. Neil Collins and Mr. Dan McLaughlin gave an educational presentation to the Board on Hedge Funds – Fund of Funds.

Grosvenor Capital Management, LP.

Mr. Stephen Brewster and Mr. Brad Meyers gave an educational presentation to the Board on Hedge Funds – Fund of Funds.

At the conclusion of these two presentations, the Board discussed at length its thoughts about Hedge Funds as an investment avenue.

Terry Cohea: This is a valid area and we should continue to explore it. It would be useful, if staff has time, to go through an RFP Process to see what is available. But before a decision is made, the board and staff must look closely at the amount that would be allocated and what constraints there would be.

Jack Prothero: Echo Terry's comments and add that we must make sure that we do this right.

Dan Weinberg: Please continue the investigation cautiously and continue with the education. There are some negatives in this investment area and maybe we should hear more about those. The things that we heard today were all the positive views.

Maureen Fleming: Staff should continue exploring; however it may be too soon to begin an RFP Process. This is not urgent and not something that is going to be rushed into. Member Fleming stated that at this time she would not endorse putting money into this investment vehicle.

Karl Englund: Agreement with Member Fleming and Senator Weinberg's thoughts. Would like to hear other perspectives and views, specifically someone that can tell the Board why we should not be investing in Hedge Funds.

Tom McGillvray: Board and staff should pursue more allocation of resources to hedge funds; it makes sense from an investment perspective and a diversification perspective. The Fund of Funds investment may be a great opportunity; however more knowledge and a better understanding is needed to make us comfortable in this area.

Jon Satre: In the pursuit of diversification that the Board has been on over the past few years, this is an area that bears a lot of examination, and some of the remarks that R. V. Kuhns made about missing

some components of diversification and how that may be hurting the returns. This element is worth looking at more.

John Paull: The information that R.V. Kuhns and staff are providing is very helpful and he would like to receive more education on the issue. Board and staff have been looking for diversification and that has been the goal since R. V. Kuhns was hired.

Terry Moore: The consensus is to proceed with caution; continue assessing the area and the education. Investing is not a priority today, rather the Board is giving staff the yellow light to move forward and put energy along side with R.V. Kuhns to take the steps of continual assessment and education to understand both the pitfalls as well as the possible opportunities. It is not the number one objective in the next quarter or two, but that there is a prospect of bringing a recommendation to the Board at some point in the future. There are no decisions to be made today.

Member Englund asked Carroll South and Cliff Sheets for their view of the fees.

Representative McGillvray commented that the biggest criticism of the Board of Investments from the legislators is where the S&P and Nasdaq stocks in general just went down 2,000 points. If the Board had had a position in a fund of funds hedge fund, which did not have that same reaction in that market environment, the performance would have been incredibly better. These types of alternative investments do have merit, and board has real opportunity to look at these. Yes, the fee may be more expensive but you must also look at what you get for that fee.

Mr. South stated that the fees may also be a topic of concern. It would be helpful if R.V. Kuhns would ask a representative from another public fund that has made a decision to utilize hedge funds such as CALPERS or CALSTRS to come before the Board and present a peer's perspective. This may be the last component of the education of Hedge Funds – Fund of Funds needed.

Member Fleming also asked Mr. Sheets to state his view point on Hedge Funds.

Mr. Sheets stated that he has opinions in both directions and could have asked the two presenting firms many more questions that what there was time for. Further research and education will be beneficial to all involved.

EXECUTIVE DIRECTOR REPORTS

Fixed Income Portfolio Manager Search - Decision

Mr. Carroll South reported that the Executive Director and Chief Investment Officer are currently searching for a fixed-income Portfolio Manager. Advertisements have been posted on the Chartered Financial Analyst and Wall Street Journal web sites.

In addition to managing fixed-income portfolios, the new incumbent in this position will be required to manage the external fixed-income managers to be hired through the current fixed-income RFP process. Staff will present a detailed job description to the Human Resource Committee for review and approval prior to submitting it to the full Board in May.

The Board is required to set the salary of this position; however staff will not know what salary must be offered to a successful applicant until the interview process is completed and finalists are selected. The Board at its discretion may delegate the salary setting approval to the Human Resource Committee.

Mr. Carroll South presented staff recommendation that the Board authorize the Human Resource Committee to approve a salary for the successful applicant based on a staff recommendation and report its approval to the Board at its May 13 & 14, 2008 meeting.

Motion: Member Karl Englund motioned for approval of staff recommendation as presented; Member Paull seconded the motion and the motion was unanimously approved 7-0.

STIP Update & Investment Policy Revisions - Decision

Mr. Carroll South presented an update on the Short-Term Investment Pool and presented to the Board a staff recommendation for revisions to the investment policy statement for this Pool.

The Short Term Investment Pool (STIP) was created by the Legislature on July 1, 1973 as an investment vehicle to manage state and local government cash. State agencies utilize STIP for accounts that are entitled to retain their interest earnings and have no other options for the investment of their cash. Local governments have other options as permitted by law and use STIP at their discretion.

The STIP investments on June 30, 2007 totaled \$2.8 billion with 479 individual accounts participating throughout the fiscal year, including 193 local government accounts. Since its creation the STIP has provided a convenient way for state and local government agencies to invest and withdraw cash with only 24-hours notice. The pool distributed \$125 million in income to state and local government agencies for Fiscal Year 2007.

Shortly after a Bloomberg news article listed the STIP as having Structured Investment Vehicles (SIV's) in its portfolio, several large local governments began withdrawing their STIP investments, essentially closing their accounts. From November 28 through December 7, local government net withdrawals totaled \$356.0 million. Board staff was able to accommodate the large withdrawals without being forced to liquidate securities for two primary reasons. 1) In August, staff began shortening the pool duration and increasing liquidity to ensure that sufficient funds were available to accommodate unpredictable local government withdrawals; and 2) the state funds component remained stable during the period. Through February 4th, local governments had withdrawn \$599 million and deposited \$219 million, for a net reduction of \$380 million. Local government participation has stabilized since the first week in December, while state funds have increased by \$200.0 million. As of February 4, state agency funds comprised 77.4 percent of the pool.

A detailed analysis of the withdrawals found that 41 local government accounts were either closed out completely or the balances reduced significantly - reflecting more than a typical "business as usual" withdrawal. In total, these accounts withdrew \$347.9 million. As of February 4, there remained in the pool 152 accounts ranging in size from \$386.00 to \$54.1 million, with an average size of \$3.4 million.

As the fiduciary for the Unified Investment Program, the Board establishes broad investment policies for each investment pool and all separate accounts. Investment staff must comply with the approved policies as they carry out the day-to-day securities trading activity. The STIP Investment Policy Statement was revised in August 2006 to include the following provisions applying to Asset Backed Securities (ABS - which includes SIV's). The maximum limit for one issuer was reduced from 5.0 percent to 4.0 percent of the portfolio. The overall limit on ABS was reduced from no limit to 70.0 percent of the portfolio

Mr. South reported that the Short Term Investment Pool Policy does authorize Structured Investment Vehicles as outlined below:

- **Investment Type** - The current STIP Investment Policy authorizes a maximum of 70.0 percent of the portfolio to be invested in Asset-Backed Securities (ABS) of any type. The policy specifically includes “structured investment vehicles” within the definition of ABS. On November 15, 2007 the SIV’s comprised 22.6 percent of the portfolio. As of February, 13, 2008 SIV exposure is 17 percent of the portfolio.
- **Investment Ratings** – The policy requires that SIV’s be rated triple-A by at least one rating service at the time of purchase. At the time of purchase these investments were rated triple-A by two rating agencies.
- **Maximum Investment per Issuer** – The policy requires that one issuer must be limited to no more than 4.0 percent of the portfolio. When the \$90.0 million Axon securities were purchased (the largest SIV), they comprised 3.67 percent of the STIP portfolio.
- **Maturity Limit** – The policy requires that, with a few exceptions for variable rate or floating rate securities, an investment may not have a maturity date exceeding 397 days from the date of purchase. The longest maturity date for any of the SIV’s currently held in the portfolio was 370 days on the purchase date.
- **Other Policy Provisions** – The policy authorizes ABS investments with the following caveat: “Asset-backed securities (ABS) collateralized by: credit cards, automobile loans, leases and other receivables acceptable to staff in their analysis of this type of structure”

There has been no material impact on the assets in the STIP portfolio due to the SIV holdings. The STIP is operated as an “amortized cost” fund, which means that the individual securities in the portfolio are not priced daily, weekly, or monthly, but are held at “cost” until maturity. This accounting methodology is based on the premise that all investments will be “purchased and held” to maturity rather than sold at a loss or gain prior to maturity. This is the only process by which a constant share price can be maintained. If securities were priced daily, there could be a different share value each business day.

All current securities in STIP are held at amortized cost until maturity. The SIV’s currently undergoing restructuring will also be held at cost until the restructuring is complete and the final outcome is known. The unpaid \$25.0 million Orion note is held on the books as a receivable and included in the pool’s Net Asset Value.

Proposed staff revisions to the policy codify the current day-to-day management policies that were implemented and updated by staff since the debt crises and ensuing market volatility began to surface in August. While the proposed revisions tighten up the day-to-day procedures and operations of the pool, they also provide sufficient flexibility and discretion to ensure that a rigid adherence to the policy would not force staff to take an action that could be deemed imprudent. For example, a forced, untimely sale of a security because of a ratings downgrade or an extended maturity due to a restructuring would not be in the best interest of pool participants. The prudent expert principle law requires the Board among other things to: *“discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.”*

Following Mr. South’s presentation to the Board, Mr. Cliff Sheets reviewed the proposed changes to the Investment Policy Statement.

Chairman Moore opened the discussion to comments and suggestions by the Board: *Senator Weinberg* stated that there is a constitutional guarantee that local governments can withdraw funds. The Senator suggested asking local governments and municipalities to voluntarily limit their ability to pull out their money.

Mr. South stated that the guarantee seems to be in wording of the law, not the constitution. In order for a voluntary system to work, the STIP Participation agreement would have to be modified. Another consideration would be whether local governments that closed their account should be allowed to invest again. By withdrawing large sums and reinvesting, these local governments could be adversely impacting state agencies and local government that remained invested.

Motion: Member Terry Cohea motioned for approval of the changes recommended by staff to the Investment Policy Statement for the Short Term Investment Pool; Member Fleming seconded the motion and the motion was unanimously approved 7-0.

A complete copy of the Short Term Investment Pool Investment Policy is kept on file with the documents of this meeting. This includes the proposed changes to the Investment Policy as recommended by staff. The approved policy is posted on the Board's web site.

Proposed STIP Legislation

Mr. Carroll South presented to the Board proposed STIP Legislation. This legislation relates to the management of the local government deposits and withdrawals in the Short Term Investment Pool. Local governments invest in STIP at their discretion. They may invest as much as they wish at any time and withdraw any or all of their deposited funds with 24 hour notice. Under current law, the Board has no control over the amount or frequency of local government deposits and withdrawals.

The proposed legislation would authorize the Board to adopt policies to better manage local government STIP deposits and withdrawals. The Board would incorporate into the STIP Investment Policy a procedure for exercising some monitoring and control of local government STIP transactions. The following legislation is being recommended:

17-6-204. Investment of local government funds. (1) *The governing body of any city, county, school district, or other local government unit or political subdivision having funds which are available for investment and are not required by law or by any covenant or agreement with bondholders or others to be segregated and invested in a different manner may direct its treasurer to remit such funds to the state treasurer for investment under the direction of the board of investments as part of the pooled investment fund. The amount and frequency of such remittances shall be subject to the pooled investment fund policy established by the board of investments and published on its web site.*

(2) *A separate account, designated by name and number for each such participant in the fund, shall be kept to record individual transactions and totals of all investments belonging to each participant. A monthly report shall be furnished to each participant having a beneficial interest in the pooled investment fund, showing the changes in investments made during the preceding month. Details of any investment transaction shall be furnished to any participant upon request.*

(3) *The principal and accrued income, and any part thereof, of each and every account maintained for a participant in the pooled investment fund shall be subject to payment at any time from the fund upon request, subject to the pooled investment fund policy established by the board of investments and published on its website. Accumulated income shall be remitted to each participant at least annually.*

(4) *No order or warrant shall be issued upon any account for a larger amount than the principal and accrued income of the account to which it applies, and if any such order or warrant is issued, the participant receiving it shall reimburse the excess amount to the fund from any funds not otherwise appropriated, and the state treasurer shall be liable under his official bond for any amount not so reimbursed.*

Motion: Member Karl Englund motioned for approval of the proposed legislation as recommended by staff; Member Satre seconded the motion.

Chairman Moore commented that he would like staff to explore the alternatives suggested by RV Kuhns during the previous day's educational presentations. It is prudent that these options be explored.

Chairman Moore called for the question and the motion was unanimously approved 7-0.

In closing, Chairman Moore complimented and thanked Carroll South, Cliff Sheets and staff. The focus and attention on the Board of Investments recently in regards to the STIP fund. Staff rose to the occasion and challenge and has done an excellent job in communicating with municipalities, the Board and the Legislative Audit Committees.

NEXT MEETING

The next regularly scheduled meeting of the Board will be May 13 & 14, 2008. The meeting will take place in Billings, MT.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:45 a.m.

BOARD OF INVESTMENTS

APPROVE: _____
Terry Moore, Chairman

ATTEST: _____
Carroll South, Executive Director

DATE: _____