REGULAR MEETING OF THE MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

Montana State University
Strand Union Building (SUB), Ballroom C
Bozeman, MT.

Wednesday, November 12, 2008

AGENDA

I.	**CALL TO ORDER**	**10:00 a.m.**
	A. Roll Call	
	B. Approval of the August 19 & 20, 2008 Regular Meeting Minutes	
	C. Approval of the September 24, 2008 Special Meeting Minutes	
	D. Administrative Business	**10:15 a.m.**
	1. Loan Committee Report	
	E. Public Comment - *Public Comment on issues with Board Jurisdiction*	**10:25 a.m.**
II.	**EXECUTIVE DIRECTOR REPORTS – Carroll South**	**10:30 a.m.**
	A. Legislation Update – Informational	
	B. Proxy Voting - Update	
	C. Socially Responsible Investing - Informational	
	D Hedge Fund-of-Funds RFP – Update	
	E. Exempt Salary Ranges (E-mailed later)	
	F. Resolution No. 217 – Update	
	G. ARCO Settlement - Verbal	
	QUARTERLY PERFORMANCE REPORTS	
	A. Pension Funds and Investment Pools – R.V. Kuhns and Associates	**11:15 a.m.**
	LUNCH	**12:00 p.m.**
III.	**INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO**	**1:30 p.m.**
	A. Retirement System Asset Allocation Report	
	B. Private Equity (MPEP)	
	1. Private Equity Allocation - Decision	
	2. Portfolio Holdings and Recent Activity	
	3. Private Edge Reports (as of June 30, 2008)	
	C. Real Estate	
	1. Portfolio Holdings and Recent Activity	
	2. Private Edge Reports (as of June 30, 2008)	
	D. Investment Pool Strategies	
	1. Domestic Equity (MDEP)	
	2. International Equity (MTIP)	
	3. Manager Watch List	
	4. Fixed Income Strategy Statements	
	i. Bond Pools (RFBP and TFBP)	
	ii. Short-term (STIP) and Other Fixed Income Portfolios	
	iii. Below Investment Grade Holdings Report	
	ADJOURNMENT	**5:00 p.m.**

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Thursday, November 13, 2008

RECONVENE AND CALL TO ORDER **9:30 a.m.**

A. Roll Call

B. Administrative Business **9:35 a.m.**

1. Human Resource Committee Report
   Exempt Staff Salary Ranges - Approval
   Exempt Staff Salaries - Approval

EXTERNAL MANAGER PRESENTATIONS

Columbus Circle Investors (Domestic large cap growth manager) **10:00 a.m.**

- Stephen J. Weeks, Vice President
- Thomas J. Bisighini, CFA, Senior Vice President/Senior Securities Analyst

BREAK 15 Min.

Barrow Hanley, Mewhinney & Strauss (Domestic large cap value manager) **11:00 a.m.**

- Matt Egenes, CFA, Principal – Client Service/Marketing
- Mark Giambrone, CPA, Principal – Portfolio Manager

LUNCH **12:00 p.m.**

IV. BOND PROGRAM – Louise Welsh **1:00 p.m.**

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

B. QZAB Bond Resolution No. 221 – Geri Burton

V. MONTANA LOAN PROGRAM – Herb Kulow **1:30 p.m.**

A. Commercial and Residential Portfolios Report

ADJOURNMENT **2:00 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.

Call to Order

Final

MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

Montana State University
Strand Union Building (SUB), Ballroom C
Bozeman, MT.

November 12 & 13, 2008

MINUTES

BOARD MEMBERS PRESENT:
Terry Moore, Chairman
Elouise Cobell
Teresa Cohea
Karl Englund
Maureen Fleming
John Paull
Jack Prothero
Jon Satre
Jim Turcotte
Senator Dan Weinberg

BOARD MEMBERS ABSENT:
Representative Tom McGillvray

STAFF PRESENT:
Jason Brent, Investment Analyst
Geri Burton, Deputy Director
Richard Cooley, CFA, Portfolio Manager
Kim Dallas, Program Assistant/Board Secretary
Ed Kelley, Portfolio Manager
Herb Kulow, Portfolio Manager
Rande Muffick, CFA, Portfolio Manager
Clifford A. Sheets, CFA, Chief Investment Officer
Carroll South, Executive Director
Steve Strong, Investment Analyst
Dan Zarling, CFA, Director of Research

GUESTS:
Jim Voytko, R.V. Kuhns and Associates
Steve Hahn, R.V. Kuhns and Associates
Stephen J. Weeks, Vice President, Columbus Circle Investors
Thomas J. Bisighini, CFA, Sr. Vice President, Columbus Circle Investors
Matt Egenes, CFA, Principal, Barrow, Hanley, Mewhinney & Strauss
Mark Gianbrone, Principal, Barrow, Hanley, Mewhinney & Strauss

CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order at 10:05 a.m. at Montana State University, Strand Union Building, Ballroom C. As noted above, the meeting convened with seven members of the Board present. Member Terry Cohea arrived at the completion of roll call and Member Karl Englund arrived later in the day, as noted in the minutes. Rep. Tom McGillvray was absent from the meeting.

Motion: Member Fleming motioned for approval of the August 19 & 20, 2008 minutes and the September 24, 2008 Special Conference Call minutes; Member Cohea seconded the motion and the motion was passed 8-0.

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

Loan Committee Report
Member Jack Prothero, Loan Committee Chairperson, reported that the Loan Committee reviewed staff recommendation to participate in a Qualified Zone Academy Bonds Request. Member Prothero will present Loan Committee recommendation during the Bond Program portion of the agenda.

In addition, Member Prothero reported that the Loan Committee reviewed and approved two INTERCAP loan requests for Cascade County on October 30, 2008 via email. The Loan Committee authorized staff to proceed with processing and closing these loans using the Board's standard Bond Program Office procedures.

Borrower:	Cascade County
Purpose:	To finance costs associated with (1) completing its Public Works Facility (PBF) and (2) remodeling the County's downtown campus.
LC Approval Date:	October 30, 2008
Board Loan Amount:	$1,250,000
Term:	10 years

Borrower:	Cascade County
Purpose:	To purchase two (2) new motor graders and one (1) new loader and to refinance eight (8) existing motor graders.
LC Approval Date:	October 30, 2008
Board Loan Amount:	$750,000
Term:	7 years

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

EXECUTIVE DIRECTOR REPORTS

Legislation Update
Mr. Carroll South reported that to date there have been 789 requests for draft legislation submitted to the 2009 Legislature, and request for legislation will increase significantly following the election. Staff is tracking the following drafts with special focus on the **bolded** requests:

LC0016 Transfer $30 million from general fund to work comp old fund
LC0017 Revise laws governing state fund
LC0021 Public school fund asset exchange
LC0033 Split short term investment pool between state and local government
LC0052 Require solar panels on all state-owned buildings
LC0053 Wind power pilot project to store compressed air
LC0062 Fund older Montanans trust fund using oil and gas production tax
LC0066 Revise or eliminate certain statutory appropriations
LC0085 Transparency in government act
LC0101 Revise volume cap bond laws
LC0102 Retroactively revise laws governing state leasing of buildings
LC0120 Revise volume cap bond allocation from MHESAC to Board of Regents
LC0121 Revise volume cap bond procurement laws
LC0144 Revise law for acquisition of state office space
LC0146 State rainy day fund
LC0147 Study student loan system
LC0155 Repeal termination date for coal tax trust-funded economic development programs
LC0166 General Appropriations act
LC0177 General Obligation bonds for state government
LC0209 Allow low-interest coal tax trust fund loans to expand rail passenger service
LC0261 Eliminate automatic trigger that decreases employer contribution
LC0273 Revise definition of enterprise funds
LC0358 Best value contracting
LC0369 Revise and clarify local government laws
LC0371 Revise local government laws
LC0449 Transfer police and fire pension payment function - department of administration
LC0457 Repeal termination on coal trust funding for economic development programs
LC0518 Study comparable worth for state employees
LC0576 Transfer office of economic opportunity to Department of Commerce
LC0637 TIF for county roads
LC0659 Authorize local governments to form investment pool

Chairman Moore encouraged Mr. South to contact the Board regarding the upcoming session and introduction of bills if and when there is a need or concern.

Proxy Voting Update

Mr. Carroll South reported that the current Proxy Policy, approved in December 2004, was adopted when the Board staff invested all actively-managed domestic stock and was solely responsible for voting proxies. Since the internal domestic stock portfolio was liquidated in August 2007, all public equity securities are managed externally by managers who have been delegated the responsibility to vote proxies. Currently, the Board's Proxy Policy is not being utilized because the external managers are not required to vote in compliance with the policy.

Recently staff subscribed to a service provided by State Street Bank that will permit them to monitor external manager proxy voting whether it is performed directly by the manager or contracted to one of the vendors that specializes in voting proxies. An additional service is available from State Street Bank which would provide notice of dates and subjects of all proxy votes for stocks held by the Board's external managers. The service will provide a gauge of how labor intensive it would be for staff to vote all proxies. If internal staff resources are adequate to vote proxies, they could be voted electronically by staff. If not, a third party could be engaged that specializes in voting proxies for institutional investors.

Mr. South stated that staff intends to make a recommendation on a voting process at the February Board meeting as well as present a revised Proxy Policy for review.

Socially Responsible Investing

At the August Board meeting, staff presented a report on socially responsible investing. At that time, the Board asked that staff and R.V. Kuhns, the Board's consultant, obtain additional information on socially responsible (SR) investing and to determine if and how other public funds may be targeting a portion of their portfolios to SR investments. Staff also asked R.V. Kuhns to survey the database it uses to compare investment performance to ascertain if dedicated SR investment managers report performances, and if so how their performance compares to other managers.

The database search conducted by R.V. Kuhns for SR investment manager performance did not result in definitive data that would allow a direct comparison of SR manager performance to non-SR managers.

The memorandum provided by R.V. Kuhns and Associates states:

> *"The capability of eVestment Alliance (EA) to monitor and compare SRI manager performance directly to non-SRI managers is somewhat limited. Investment managers can input their socially screened composite data into EA, but EA does not readily identify or create a universe of these products. However, RVK's Manager Research Group creates a universe of these products based on knowledge of each manager, screening for SRI benchmarks and key words in the product description."*

> *"Our research shows there are about 65 SRI composites in the EA database across all asset classes accounting for $34 billion in assets. In contrast, the database holds over $800 billion in US active large cap core composites alone. Approximately 50% of these SRI mandates are Large/All Cap US Equity, 30% are Non-US or Global Equity, and the residual 20% includes US Small Cap, Mid Cap and Fixed Income. Many of these strategies are global or all-cap or balanced, highlighting the difficulty of using these strategies from a "fill the boxes" asset class approach."*

Mr. South also provided a list of public funds identified as having an investment in SR investment products. The list does not specify the type or amount of SR Investments the funds may be pursuing and on what basis the funds were selected for the list. Another contributing problem may be that the definition of SR investing may not be clearly defined.

The US Department of Labor on October 16, 2008 published a news release announcing the issuance of new guidance for pension plans covered under the Employee Retirement Income Security Act (ERISA), pertinent sections of which are cited below:

> *"Today the department reiterates and clarifies its longstanding view that workers' money must be invested and used solely to provide for retirements, not for political, corporate or other purposes."*

> *"The guidance reiterates that plan fiduciaries, who are charged by law with the responsibility for operating employee benefit plans on behalf of plan participants, may never increase expenses, sacrifice investment returns, or reduce the security of plan benefits in order to promote legislative, regulatory or public policy goals that have no connection to the payment of benefits or plan administrative expenses."*

Mr. South stated that while public funds are not subject to ERISA, the Montana Constitution and Montana law imposes a similar fiduciary responsibility on the Board as part of the "Prudent Expert Principle", which requires it to discharge its duties solely in the interest of and for the benefit of the funds forming the unified investment program.

It was the consensus of the Board and staff that if there are concerns or suggestions regarding socially responsible investments that it be brought to each others attention.

Hedge Fund-of-Funds RFP - Update

Mr. South updated the Board on the Hedge Fund-of-Funds RFP process. The RFP was issued on August 6, 2008 and 24 responses were received on September 19.

Taking current conditions into consideration the period since June 30 has reportedly been the worst period in history for hedge funds, including major losses, liquidations, significant redemptions, and forced selling of assets at depressed prices.

Member Jim Turcotte stated that he has had conversations with members of the Teachers' Retirement Board and there is a concern about allocating to hedge funds.

Chairman Moore appreciates Member Turcotte's comments and emphasized that the Board has moved very cautiously in this area of investing and that there has been no allocation of funds made.

Mr. South stated in his memo that against this deteriorating background, staff and the Board's consultant will not only review respondent information from the five-year period ending June 30, but will keep abreast of current conditions which may temper much of the information provided by the RFP respondents.

Staff will have enough information to make a recommendation to the Board on hedge fund-of-funds at its February meeting.

ARCO Settlement

Mr. Carroll South provided a verbal update to the Board regarding the ARCO Settlement. The State recently settled with ARCO for approximately $165 million. Currently staff is reviewing the cash flow analysis to determine how the money will be used over the next 15 – 20 years. Depending upon the cash flow analysis, some of the money will be invested in the Trust Fund Bond Pool (TFBP) and Investment Policy Statements will be drafted and presented for approval. Approval of the Investment Policy Statements will require a conference call meeting since the money cannot be invested in the TFBP without Board approval of the Statements.

QUARTERLY PERFORMANCE REPORT

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

The Quarterly Performance Report for the period ending September 30, 2008 was presented by Mr. Jim Voytko.

He stated that the focus of the report will not be on individual managers because of the extreme events, which makes it difficult to draw very good conclusions. Focus will be on the actions and decisions made by the Board over the past three years. This report will show that even with the rather depressing performance report, there are signs that show some of the things that the Board has done have made a difference.

Fixed Income in general continues to be an issue given stress in the spread sectors of the market. Security Lending has recently been in the news as well. The lending of the securities is not the issue, but the investment of the collateral. Investment of the collateral is an investment product very similar to the short term investment pool, and the issues, types of investment and the kinds of problems that can arise are almost identical. To the credit of this Board, this issue has been addressed far in advance.

Hedge fund of funds showed a decline of -9.91 for the quarter and -9.65 for the year. This is the biggest negative decline for this investment type since the industry was created. The Board of Investments has completed an RFP process for this asset class; however no investments have been made.

Mr. Voytko also pointed out that in the Domestic Equity sector, there has been so much focus on the disasters taking place in the financial sector that it should be pointed out that during the third quarter, it was Energy and Materials that had the largest decline in the S & P 500. Financials experienced their greatest decline during the second quarter.

Mr. Voytko continued with his review of the Retirement Plans. There are three perspectives of comparison on which to judge the performance numbers. The three comparisons are versus peers, fund benchmark and the actuarial benchmark. At the end of the day from an economic perspective the actuarial benchmark is the most important, followed by peers and fund benchmark which tells more of how the fund is doing relative to the universe. The comments relating to these comparisons apply to both the quarter as well as the year. With respect to peers, a positive comparison - BOI was in the second quartile, which is a significant improvement of where the comparison was five years ago. The diversification that has been done has had a positive effect; diversification inside the asset classes and in general, to add real estate and to continue with the private equity program. With respect to the benchmark comparison – not as well. The problem is lodged in the quarter; longer term comparisons are OK. As compared to the actuarial benchmark – again, not as well. If you compare the need for a positive 7.75% – 8.00% return to a negative 15.6% return over a year that is a very tough comparison. The returns simply are not there.

The performance of the Investment Pools is not great news, which is not unexpected. The various pools are under their benchmarks. However STIP is on target, the Real Estate Pool has a positive return and the Private Equity Pool experienced outstanding relative returns. Private Equity has been a very positive contributor to the fund over the years and particularly during recent years. Mr. Voytko did point out that the big relative return is driven much more by the decline in the S&P 1500 than a positive return in the private equity pool and in fact there are widespread expectations of write downs in private equity funds in the coming quarters.

In a review of the external managers, Mr. Voytko pointed out that approximately five of the seven of the weakest managers who had particular poor performance have a very strong reliance on quantitative methodology. This dates back to August of 2007 when quantitative methods lost their ability to extract small amounts of excess returns from the market place. The method should not be abandoned; rather it is another way to diversify.

In conclusion, Mr. Voytko suggested consideration of the following over the next year:

1. In the very near term the private equity allocation is an issue because of the denominator effect of declining plan assets due to the large negative public equity returns. There is a recommendation and an action strategy on the table now.
2. Risk monitoring of external managers - Mr. Voytko stated that he is very impressed with the conference call schedule and what staff is doing in respect to monitoring and staying on top of the external managers.
3. Complete the consideration of absolute return strategies, or hedge fund of funds.
4. In an asset allocation sense, consider whether or not capital market assumptions for asset classes should change going forward. The 10-year trailing return on public equity securities is negative right now, and that is a far cry from an 8% long term return assumption.
5. In particular, consider return assumptions for asset classes using embedded leverage, including private equity, hedge fund of funds, and real estate, and whether or not those are going to affect the ability to produce returns either in the immediate future or over a 10-year period.
6. There is enough evidence in place, unless the fourth quarter shows a completely different story, that the diversification program that the Board has had underway has shown some material progress under circumstances that were worse that anyone could have imagined. He suggested the Board continue the

diversification within asset classes and in the fund as a whole, as much for risk mitigation as for return enhancement purposes.

INVESTMENT ACTIVITY

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

Member Karl Englund arrived at this time.

Private Equity Allocation
Mr. Cliff Sheets reported that the allocation to the Montana Private Equity Pool (MPEP) within the pension plans has grown above the allocation range as the denominator of total pension assets has declined in the wake of sizeable public equity market value declines.

The Board has been an investor in private equity partnerships for twenty years as a means of bolstering pension fund returns and further diversifying plan assets, and in particular reducing the dependence on public equity exposure. The partnerships invest in a variety of underlying investments including corporate buyouts, venture capital, distressed securities, mezzanine, and industry-focused special situations. The returns for the private equity pool have been very attractive and have exceeded benchmark expectations over time. Over the past year ended September 30 the pool return was 3.14%, as compared to the benchmark which is based off of public equity at negative 17.27%. The return for MPEP has looked especially attractive in recent quarters given the dramatic declines seen in public stocks.

Presently the approved allocation range is 5-10% though the target has been to reach an exposure of 8-10% of total pension assets. The private equity allocation as of September 30 was 11.5%. The fact we are now above the targeted 8-10% allocation range requires action on the part of the Board.

The merits of this asset class argue for an increase in the allocation range to accommodate continued commitments on a regular basis. The most recent pacing study estimates that under various reasonable assumptions for pension asset growth and annual commitments approximating $175 million annually the allocation will range between 11.0% and 16.0%.

Staff recommends that the Board approve a targeted allocation to private equity of 12.0% plus or minus 3.0%, or a range of 9.0% to 15.0%.

At this time the discussion turned to a review of the private equity pacing analysis process. Steve Hahn of R.V. Kuhns presented a review of the pacing analysis recently conducted in conjunction with staff. He discussed the purpose of the analysis and then described several scenarios of the projected allocation to private equity. These projections looked at different commitment budgets and growth rates for total pension assets in projecting a range of likely future allocations to private equity. It also included a scenario which incorporated a more conservative assumption of distributions on existing buyout fund investments given the expected investment environment in the near term. In conclusion the pacing analysis supports the revised allocation range recommended by staff.

Motion: Member Jack Prothero motioned for approval of the staff recommendation as presented; Member Terry Cohea seconded the motion and the motion was passed 9-0.

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

Fund Name	Vintage	Subclass	Amount	Date
Lexington Partners VII	2008	Secondary	$20 M	9/30/2008
HarbourVest Private Equity Int'l – Europe	2008	Buyout	$20 M	9/30/2008
Total New Commitments			**$40 M**	

Real Estate (MTRP)
Mr. Ed Kelly presented June 30, 2008 reports by Private Edge showing the real estate fund commitments made to date and holdings as of September 30, 2008. There were no new investment commitments made by staff since the August Board meeting to report.

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

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

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

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

Fixed Income
Mr. Nathan Sax presented the Fixed Income Overview and Strategy.

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

ADJOURNED
The meeting adjourned for the day at 5:00 p.m.

CALL TO ORDER
The meeting was reconvened Thursday, November 13, 2008 at 9:45 a.m. with nine members of the Board present. Rep. Tom McGillvray was absent from the meeting.

BOND PROGRAM

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

Staff Approved Loans Report
The Board reviewed this report for the period of July 1 – September 30, 2008:

Borrower:	City of Fort Benton
Purpose:	Digital Radio Equip. for Police Department
Staff Approval Date	July 31, 2008
Board Loan Amount:	$50,000.00
Term:	5 years

Borrower:	Dept. of Transportation
Purpose:	Motor Pool- Sedans
Staff Approval Date	July 31, 2008
Board Loan Amount:	$197,991.00
Term:	6 years

Borrower:	City of East Helena
Purpose:	Reconstruction of Municipal Swimming Pool
Staff Approval Date	August 7, 2008
Board Loan Amount:	$692,958.00
Term:	10 years

Borrower:	City of Helena
Purpose:	Sidewalk, Curb, Gutter, and Driveway/Ally Approach Replacement
Staff Approval Date	August 8, 2008
Board Loan Amount:	$350,000.00
Term:	10 years

Borrower:	Jefferson County
Purpose:	RID # 2506 Road Improvements
Staff Approval Date	August 14, 2008
Board Loan Amount:	$80,000.00
Term:	15 years

Borrower:	Winnett School District #1
Purpose:	Short Term Cash Flow Loan
Staff Approval Date	September 26, 2008
Board Loan Amount:	$100,000.00
Term:	Short Term through June 30, 2009

Commitment Date	Borrower	Project Description	Amount
8/8/2008	U of M Missoula	Replace Astro Turf at Washington Grizzly Stadium	$250,000.00
9/18/2008	MSU-Bozeman	Purchase Motion Based Driving Simulator	$280,000.00

<u>QZAB Bond Resolution No. 221</u>
Ms. Geri Burton presented to the Board a request from Billings Elementary School District #2 to issue a Qualified Zone Academy Bond in the amount of $773,250 to finance the purchase of the District's bonds.

The proceeds of the District's bonds will be used to finance all or a portion of the costs of improving, repairing, or rehabilitating Beartooth Elementary School, Riverside Middle School, and Ponderosa Elementary School by replacing, upgrading, adding, or repairing heating, air conditioning, and ventilation units and related controls; boilers and hot water systems; and related improvements

Resolution No. 221 authorizes the issuance and sale of the QZAB for School District #2 in the amount of $773,250. This authorizes the purchase by the Board of School District #2 bonds and the sale of the Board bonds to the purchaser for QZAB credit. The Resolution also authorizes the execution of various bond closing documents.

Ms. Burton presented staff recommendation for 1) approval of Resolution No. 221; 2) Authorize staff to proceed to complete the QZAB financing if it is determined to be in the best interest of the Board; and 3) Authorize staff to execute the bond closing documents.

Motion: Member Jack Prothero reported that the Loan Committee had met earlier and approved the QZAB Bond and Resolution No. 221. On behalf of the Loan Committee, Member Prothero motioned for approval of the staff recommendation as presented; Member Jim Turcotte seconded the motion and the motion was passed 9-0.

MONTANA LOAN PROGRAMS

<u>Commercial and Residential Portfolios Report</u>
Mr. Herb Kulow presented and the Board reviewed this report for the period ending September 30, 2008.

In addition, Mr. Kulow reported that the Board has been approached by a lender asking if the Board would consider buying back $12 million in Commercial Loans. Approximately 1 year ago, this lender paid the loans off in order for the loans to be managed in-house. This lender is now asking the Board to repurchase the loans.

Mr. Kulow stated that the lender will complete the required loan application process and a review of the credit will be completed by staff prior to the funding of these loans.

The record shows that Member Fleming abstained from this discussion.

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

<u>Human Resource Committee Report</u>
Member Terry Cohea, Chairperson of the Human Resource (HR) Committee, reported that the HR Committee met prior to the board meeting and approved the Exempt Employee Salary Ranges.

Motion: On behalf of the Human Resource Committee, Member Cohea motioned for approval of the HR Committee recommendation; Member Jack Prothero seconded the motion and the motion was passed 9-0.

Member Terry Cohea, Chairperson of the Human Resource (HR) Committee, reported that the HR Committee has also reviewed and approved the proposed salary increases for the exempt staff.

Motion: On behalf of the Human Resource Committee, Member Cohea motioned for approval of the HR Committee recommendation; Member Jack Prothero seconded the motion and the motion was passed 9-0.

PRESENTATIONS

Columbus Circle Investors
Mr. Rande Muffick introduced Mr. Stephen J. Weeks and Mr. Thomas J. Bisighini. Mr. Weeks and Mr. Bisighini reviewed their firm and management style. Columbus Circle Investors manage a domestic large-cap growth account held in the Domestic Equity Pool.

Barrow Hanley, Mewhinney & Strauss
Mr. Rande Muffick introduced Mr. Matt Egenes and Mr. Mark Giambrone. Mr. Egenes and Mr. Giambrone reviewed their firm and management style. Barrow Hanley, Mewhinney & Strauss manage a domestic large cap value account held in the Domestic Equity Pool.

NEXT MEETING

The next regularly scheduled meeting of the Board will be February 10 & 11, 2009.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:55 a.m.

BOARD OF INVESTMENTS

APPROVE:____________________________________
Terry Moore, Chairman

ATTEST:____________________________________
Carroll South, Executive Director

DATE:____________________________________

Executive Director Reports

MEMORANDUM

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

To: Board Members

From: Carroll South, Executive Director

Date: November 12, 2008

Subject: Legislation Update

As of November 3, there were 686 requests for draft legislation to be submitted to the 2009 Legislature. Most of the requests are simply placeholders with titles and have not yet been drafted. Requests for legislation will increase significantly after the election when newly elected or reelected legislator are able to submit draft requests. A list of the draft requests staff are tracking is attached with special focus on the highlighted requests.

LC Number	Short Title
LC0016	Transfer $30 million from general fund to work comp old fund
LC0017	Revise laws governing state fund
LC0021	Public school fund asset exchange
LC0033	Split short term investment pool between state and local government
LC0052	Require solar panels on all state-owned buildings
LC0053	Wind power pilot project to store compressed air
LC0062	Fund older Montanans trust fund using oil and gas production tax
LC0066	Revise or eliminate certain statutory appropriations
LC0085	Transparency in government act
LC0101	Revise volume cap bond laws
LC0102	Retroactively revise laws governing state leasing of buildings
LC0120	Revise volume cap bond allocation from MHESAC to Board of Regents
LC0121	Revise volume cap bond procurement laws
LC0144	Revise law for acquisition of state office space
LC0146	State rainy day fund
LC0147	Study student loan system
LC0155	Repeal termination date for coal tax trust-funded economic development programs
LC0166	General appropriations act
LC0177	General obligation bonds for state government
LC0209	Allow low-interest coal tax trust fund loans to expand rail passenger service
LC0261	Eliminate automatic trigger that decreases employer contribution
LC0273	Revise definition of enterprise funds
LC0358	Best value contracting
LC0369	Revise and clarify local government laws
LC0371	Revise local government laws
LC0449	Transfer police and fire pension payment function - department of administration
LC0457	Repeal termination on coal trust funding for economic development programs
LC0518	Study comparable worth for state employees
LC0576	Transfer office of economic opportunity to Department of Commerce
LC0637	TIF for county roads
LC0659	Authorize local governments to form investment pool

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: November 12, 2008

Subject: Proxy Voting

History - At the August Board meeting, staff presented a report on socially responsible (SR) investing, which included corporate governance and proxy voting with the following recommendations.

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

The Board's current Proxy Policy, approved in December 2004 (Exhibit A), was adopted when Board staff invested all actively-managed domestic stock and was solely responsible for voting proxies. Since the internal domestic stock portfolio was liquidated in August 2007, all public equity securities are managed externally by managers who have been delegated the responsibility to vote the proxies. Currently, the Board's Proxy Policy is not being utilized because the external managers are not required to vote in compliance with the policy. The proxy voting provisions of the contracts is shown below:

> **"4.14. Contractor shall provide to the Board no later than the execution of this Contract, and the Board acknowledges receipt of, a copy of its proxy voting guidelines. Contractor, or third party designee acting on its behalf and subject to its oversight, shall research and vote all proxies on behalf of the Board and shall keep accurate records of its votes. If the Contractor out-sources its proxy voting to a third party, it has submitted for approval and the Board has approved such third party. Any change in the third party designee shall be approved by Board staff in writing, which includes e-mail. The Board's Custodial Bank shall forward to the Contractor or its agent copies of all proxies and shareholder communications relating to securities held in the Assigned Account. Contractor, on an annual basis, shall report in writing all proxy actions and reasons for such actions that differ from its proxy voting guidelines."**

Currently, staff does not have the ability to monitor the proxy votes of external managers to ensure that they are voting consistently; that they are voting in the Board's best interests; and that all managers holding the same stock vote alike (not cancelling another's vote). For that reason, staff has recently subscribed to a service provided by State Street Bank that will permit them to monitor external manager proxy voting whether it is performed directly by the manager or contracted to one of the vendors that specializes in voting proxies.

An additional available service through the Bank would provide notice of dates and subjects of all proxy votes for stocks held by the Board's external managers. This service would provide a gauge of how labor intensive it would be for staff to vote all proxies. If internal staff resources are adequate to vote proxies, they could be voted electronically by staff. If not, a third party could be engaged that specializes in voting proxies for institutional investors. Staff should be able to make a recommendation on a voting process at the February Board meeting, which would be an appropriate time to review the 2004 Proxy Policy for possible revisions.

EXHIBIT A

Montana Board of Investments
PROXY GUIDELINES: EQUITIES
Revised: December 2, 2004

OVERVIEW

- Staff has the option to recall securities on loan so they can be voted.
- Proxy Guidelines are located on the Montana Board of Investments website: www.investmentmt.com

BOARD OF DIRECTORS

A. Votes may be cast against unopposed directors:
   1) In special cases of corporate underperformance or mismanagement.
   2) For non-independent directors serving on audit, compensation, or nominating committees of the board.
   3) For directors serving on more than three publicly listed company boards or more than five boards including non-profit or charity boards.
   4) For director interlocks.
   5) If directors are not paid partially in stock for services.
   6) For directors not owning company stock equal to one year's pay for serving as a director.
   7) For employee directors whose annual non-stock compensation exceeds $10 million.
   8) For employee directors whose salary and/or bonus was increased in a year that the company stock underperformed its peers.

MANAGEMENT PROPOSALS

A. Management proposals will generally be supported in voting routine corporate issues such as:
   1) Ratification of selection of auditors.
   2) Indemnification of directors.
   3) Liability insurance for Directors and Officers.
   4) Name change of corporation.

B. Management proposals will be voted on a case-by-case basis on non-routine structural and economic issues such as:
   1) Management compensation plans with no management takeover ramifications.
   2) Opposed elections.
   3) Increase of outstanding stock other than for stock splits and dividends.
   4) An increase in authorized shares.
   5) Profit sharing and stock option plans.
   6) Changes in corporate charter that relate to the scope of business description or change in the fiscal year.

Montana Board of Investments
PROXY GUIDELINES: EQUITIES
Revised: December 2, 2004

SHAREHOLDER PROPOSALS

A. Shareholder proposals will generally be opposed:
   1) When dealing with specific boycotts or restrictions based on special interests.
   2) Requesting reports for special interests.
   3) Restrictions on international trade.

B. Shareholder proposals will generally be supported:
   1) Advocating confidential proxy voting.
   2) Limiting or eliminating the excessive granting of stock options to management.
   3) Requiring shareholder approval prior to the renewal of poison pill rights plans.
   4) Asking a company to reincorporate back to the United States.
   5) Requiring the expensing of stock options.
   6) Requiring the CEO and Board Chair to be different persons and establishing a Lead Director or Presiding Director.
   7) Increasing the representation of independent directors on the Board.
   8) If shareholder submitting the proposal is a Public Pension Fund.

OTHER PROPOSALS

A. Generally, the following proposals will be opposed:
   1) Requests to alter the by-laws to require shareholder approval in excess of 50 percent to approve merger.
   2) Staggered board of directors.
   3) Cumulative voting.
   4) Super-voting common stock.
   5) Golden parachutes.
   6) “Poison Pill” rights plans.
   7) Stock option plans exceeding 5% of outstanding stock.
   8) Stock option plans that lower the “strike” price.
   9) Proposals to increase authorized stock by more than 50 percent when it appears to be detrimental to existing shareholders.
   10) Proposals to increase the number of authorized shares that can be issued without shareholder approval.

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: November 12, 2008

Subject: Socially Responsible Investing

History - At the August Board meeting, staff presented a report on socially responsible (SR) investing with the following recommendations.

> **"1. Staff recommends that the Board not consider negative SR investing and resist any external pressure to do so. Given the rigorous constitutionally-mandated fiduciary responsibilities imposed on the Board, it must at all times base its investment policies, processes, and decisions in the best interests of the pension beneficiaries. Reducing the investment universe through screens or other methods will only serve to distract the Board from its primary mission of enhancing pension fund performance.**
>
> **2. Staff recommends that the Board become more proactive as a shareholder in those companies whose stock is held as a strategic investment. This "proactive" process would require staff and consultant to create a corporate governance policy integral to a comprehensive proxy voting policy that represents best practices and present these policies for Board approval at a future meeting. The process would also require that the Board hire an external vendor to vote all Board proxies, rather than permitting the external equity managers to vote as is the current policy."**

The Board asked that staff and R.V. Kuhns, the Board's consultant, obtain additional information on SR investing and to determine if and how other public funds may be targeting a portion of their portfolios to SR investments. Additionally, staff asked the consultant to survey the database it uses to compare investment performance to ascertain if dedicated SR investment managers report performance, and if so how their performance compares to other managers.

The Surveys - The database search for SR investment manager performance did not result in definitive data that would allow a direct comparison of SR manager performance to non-SR managers. A summary of the search is attached as **Exhibit A**.

Public funds that may be targeting some of their portfolio towards SR investing was obtained from a list of public funds identified as having an investment in SR investment products. The source of the list is *The 2007 Report on Socially Responsible Investing Trends in the United States* compiled by The Social Investment Forum Foundation, a nonprofit organization focused on advancing the concept and growth of socially responsible investing. The list does not specify the type or amount of SR Investments the funds may be pursuing and on what basis the funds were selected for the list. Part of the problem with any survey of this type is that the definition of SR investing may not be clearly defined. The list of funds from the survey is attached as **Exhibit B**.

Recent Federal Guidelines - A discussion of SR investing should include recent guidelines published by the federal government. The US Department of Labor on October 16, 2008 published a news release announcing the issuance of new guidance for pension plans covered under the Employee Retirement Income Security Act (ERISA), pertinent sections of which are cited below:

> **"Today the department reiterates and clarifies its longstanding view that workers' money must be invested and used solely to provide for retirements, not for political, corporate or other purposes."**
>
> **"The guidance reiterates that plan fiduciaries, who are charged by law with the responsibility for operating employee benefit plans on behalf of plan participants, may never increase expenses, sacrifice investment returns, or reduce the security of plan benefits in order to promote legislative, regulatory or public policy goals that have no connection to the payment of benefits or plan administrative expenses."**

The federal guidelines issued on October 17 contained the following guidance regarding SR investing:

> **"ERISA's plain text thus establishes a clear rule that in the course of discharging their duties, fiduciaries may never subordinate the economic interests of the plan to unrelated objectives, and may not select investments on the basis of any factor outside the economic interest of the plan except in very limited circumstances enumerated below."**

The circumstances under which an exception may be made is explained further as requiring the fiduciary to document that, when there is more than one investment with similar risk and return characteristics, a selection may be made on a basis other than the economic interest of the plan. The documentation that the investments being considered had similar risk and return characteristics is critical to the fiduciary process as stated later in the guidelines:

> **"In light of the rigorous requirements established by ERISA, the Department believes that fiduciaries who rely on factors outside the economic interests of the plan in making investment choices and subsequently find their decision challenged will rarely be able to demonstrate compliance with ERISA absent a written record demonstrating that a contemporaneous economic analysis showed that the investment alternatives were of equal value."**

While public funds are not subject to ERISA, the Montana Constitution and Montana law imposes a similar fiduciary responsibility on the Board as part of the "Prudent Expert Principle", which requires it to discharge its duties solely in the interest of and for the benefit of the funds forming the unified investment program.

Summary – The surveys did not provide definitive information regarding the investment performance of SR investment managers compared to non-SR investment managers, or the amount/type of SR investing that peers may be engaging in. As staff suggested at the August meeting, the Board should be very cautious in basing investment decisions on any objectives other than risk and return. This suggestion has been reinforced by the recently issued guidelines from the Federal Department of Labor.

EXHIBIT A

RVKuhns
& ASSOCIATES, INC.

MEMORANDUM

To: Carroll South, Montana Board of Investments

From: R.V. Kuhns & Associates

Re: Evaluation of SRI Products in eVestment Alliance

Date: October 29, 2008

The capability of eVestment Alliance (EA) to monitor and compare SRI manager performance directly to non-SRI managers is somewhat limited. Investment managers can input their socially screened composite data into EA, but EA does not readily identify or create a universe of these products. However, RVK's Manager Research Group creates a universe of these products based on knowledge of each manager, screening for SRI benchmarks and key words in the product description.

Our research shows there are about 65 SRI composites in the EA database across all asset classes accounting for $34 billion in assets. In contrast, the database holds over $800 billion in US active large cap core composites alone. Approximately 50% of these SRI mandates are Large/All Cap US Equity, 30% are Non-US or Global Equity, and the residual 20% includes US Small Cap, Mid Cap and Fixed Income. Many of these strategies are global or all-cap or balanced, highlighting the difficulty of using these strategies from a "fill the boxes" asset class approach.

The relative lack of available/successful products may speak to either the ability of managers to consistently provide performance benefits or the lack of demand for SRI in general. It is difficult for managers to create GIPS compliant composites. Due to the varying nature of the definition for socially responsible investing, most clients requiring SRI mandates have unique restrictions that work against the concept of gathering similar portfolios into a composite.

It should also be noted that many managers in the EA database, not just the SRI composites, indicate their capabilities of running socially screened portfolios. An extremely high percentage of managers (95% +) will run a socially screened separate account. Most managers tend to ask the client to provide specific guidelines, rather than suggesting a social discipline.

Where applicable, RVK supports passive management in the SRI space because the effects of social screens are more easily quantified (as opposed to active management where you must track both the effects of the social screen and the manager's decisions). The utilization of passive management more clearly allows for the isolation of the effects of SRI policy on investment returns and risk.

We hope this initial research is useful in your decision making process and look forward to discussing further with you in the future.

EXHIBIT B

Public Institutions Involved in Social or Environmental Investing

Baltimore Elected Officials' Retirement System
Baltimore Employees' Retirement System (ERS)
Baltimore Fire & Police Employees' Retirement System (BCFPERS)
California Pooled Money Investment Account (PMIA)
California Public Employees' Retirement System (CalPERS)
City of Arcata, CA
City of Berkeley, CA
City of Boulder, CO
Connecticut Retirement Plans and Trust Funds (CRPTF)
District of Columbia Retirement Board
Employees' Retirement System of Rhode Island (ERSRI)
Florida State Board of Administration
Los Angeles County Employees' Retirement Association (LACERA)
Massachusetts Housing Finance Agency Employees' Retirement System
Massachusetts Pension Reserves Investment Trust (PRIT)
Massachusetts Public Employees' Retirement Administration Commission
Massachusetts Renewable Energy Trust
Minnesota State Board of Investments
Missouri Investment Trust
Missouri State Employees' Retirement System (MOSERS)
Missouri State Treasurer's Office
Nebraska Investment Council
New Jersey Division of Investment
New York City Employees' Retirement System (NYCERS)
North Carolina Employees' Retirement System
Oklahoma School Land Trust
Oregon State Treasurer's Office
Pennsylvania State Employees' Retirement System
Pennsylvania Tuition Account Program (TAP)
Philadelphia Board of Pensions and Retirement
Rockford, IL Fire & Police Pension
San Francisco Employees' Retirement System (SFERS)
State of Massachusetts*
State of Michigan Retirement System (SMRS)
Vermont Community Foundation
Vermont Office of the State Treasurer
Washington State Investment Board

* 27 underlying city/county Retirement Systems

Data provided by *The 2007 Report on Socially Responsible Investing Trends in the United States* by The Social Investment Forum Foundation

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: November 12, 2008

Subject: Hedge Fund-of-Funds Update

History - At its May meeting the Board authorized staff to issue a Request for Proposal (RFP) for Hedge Fund-of-Funds Managers. The Board had not yet authorized an allocation to hedge funds and staff suggested that a RFP be issued to assist them in making a recommendation to the Board regarding hedge funds. The staff recommended:

> **"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."**

In retrospect a staff recommendation to the Board at its August meeting was overly optimistic. The RFP was issued on August 6, 2008 and 24 responses were received on September 19. A list of respondents is attached.

The performance expectations embodied in the RFP were:

A hedge fund of funds manager is expected to achieve, over the course of a market cycle of three to five years, the following:

A. An annualized time-weighted rate of return (net of fees and expenses) in excess of 5% above three-month London Inter-Bank Offered Rate (LIBOR). The expected return premium should correspond with the strategy objectives of each separately managed account or commingled fund of funds investment, and shall be outlined in the respective management agreement;

B. An annualized time-weighted rate of return (net of fees and expenses) in excess of the return of the benchmark represented by the HedgeFund.Net (HFN) Fund of Funds Average; and

C. Maintain an acceptable risk level when measured by the standard deviation of monthly returns of the separately managed account or commingled fund of funds of less than half (50%) of the volatility of the equity market, represented by the S&P 500 Index.

The minimum requirements were:

Respondents must at a minimum:

A. Be a qualified investment organization registered under the Investment Advisors Act of 1940;

B. As of June 30, 2008, have at least $3.5 billion of assets under management in actively managed, multi manager hedge funds through separately managed accounts or a commingled fund of hedge funds;

C. As of June 30, 2008, have a five (5) year track record in the strategy(s) being proposed; and

D. Provide references of five (5) funds, two (2) of which should be public funds with mandates in excess of $100 million, for which the firm has been providing the services proposed for at least 3 years.

Current Conditions - The five-year time period covered in the RFP was intended to demonstrate returns, volatility, and correlation to other asset classes over a sufficient period of time to ascertain the way certain hedge fund strategies performed during the period and the consistency of that performance. However, the period since June 30 has reportedly been the worst period in history for hedge funds. Hardly a day goes by without bad news, which includes major losses, liquidations, significant redemptions, freezing of redemptions, prohibitions on shorting, forced selling of assets at depressed prices, and significant counterparty risk. Fundfire recently published the following comments on hedge funds:

October 16, 2008

"U.S. investors pulled $43 billion from hedge funds last month as continuing market turbulence led to unprecedented redemptions, according to data compiled by TrimTabs Investment Research. So reports the Financial Times. The results come as hedge funds are working to prevent clients from taking much larger withdrawals at the end of the year. Analysts say such redemptions can trigger a vicious circle of funds selling holdings to return money to clients and prices becoming depressed, leading to further redemptions.

TrimTabs COO Conrad Gunn says he expects this month's outflow to be even greater. Gunn says September's $43 billion in withdrawals could be the start of a series of outflows for the remainder of the year. Gunn stresses September's outflows are based on an analysis of preliminary data. He says the final number will probably be higher because funds with heavy redemptions tend to report data later, the Financial Times reports.

Meanwhile, worried hedge funds are offering incentives to clients such as suspending fees if they keep their money in place until March, says Marc Freed of Lyster Watson, an investor in hedge funds on behalf of

institutional and private clients. Freed says investors are concerned other investors will pull their money, sending them to the back of the line if they do not also withdraw. No one is investing in anything illiquid, Freed notes, because they doubt the assets will survive long enough to increase in value.

That lack of optimism is shared by a fundraiser for a major hedge fund who characterized the period between now and Dec. 1 as a death march for the industry. As well, the CEO of a leading hedge fund manager predicts the industry will shrink by 50% in the coming months. He says half the losses will come from withdrawals, while the other half will be from investment losses.

JPMorgan Chase also estimates hedge fund outflows could reach $150 billion over the coming year but says the loss of potential assets is far larger because the funds borrow so heavily. JPMorgan estimates an outflow of $150 billion will lead to sales of about $400 billion, the Financial Times reports."

October 28, 2008

"A number of high-profile global hedge-fund managers are restricting the amount and the timing of investor withdrawals. The moves limit access to assets worth an estimated $21 billion. So reports Dow Jones. Centaurus Capital and Polygon Investment Management have gated the proportion of assets investors can remove on one redemption date, while Gottex Fund Management, Wermuth Asset Management, Auriel Funds and Atlantis Investment Management have all suspended withdrawals this month and until further notice. Atlantis says it is taking the action to ensure all investors are treated fairly. Others funds, including RAB Capital, Ramius Capital, BlueBay Asset Management and Henderson Global Investors, have all offered investors a break on fees if they agree to leave their cash in-situ. All the fund managers are hoping to prevent a rout when the next redemption window opens for most funds on Dec. 31. Investors withdrew a record $31 billion from their funds last quarter, Dow Jones reports.

RAB, one of Britain's best known funds, has stopped investors pulling cash from two of its flagship funds. RAB's Energy fund, which was once worth more than $2 billion, has lost more than 50% of its value this year. Now, investors have been told they cannot liquidate their holdings. Those insisting on pulling out will receive so-called "redemption shares" instead of cash – an IOU promising to pay back investors as and when RAB sells out of enough stocks. Existing agreements with investors allow the managers to do so, the Times of London reports. Investors who agree to leave their money with RAB for three years will get a break on their management fee. A similar deal was offered to investors in RAB's Special Situations fund. The slamming gates come after former US Treasury advisor Nouriel Roubini warned last week that up to 500 hedge funds would collapse in the coming months."

October 29, 2008

"Hedge funds have seen significant outflows over the past few months spurred by poor performance. September may go on record as one of the worst performing hedge months on record, if not the worst. Callan Associates hedge fund researcher Jim McKee says the "huge" changes occurring in the markets are having significant impacts on hedge funds, citing short sale restrictions, disclosure requirements, and the effective elimination of the investment banking model and its attendant impact on sources of funds to provide leverage and liquidity."

Plan of Action - Against this deteriorating background, staff and the Board's consultant will not only review respondent information from the five-year period ending June 30, but will keep abreast of current conditions which may temper much of the information provided by the RFP respondents. Large scale redemptions or "runs on the banks" will not only impact individual hedge funds but could be problematic for hedge fund-of-funds. If investors in these funds request significant redemptions and the funds do not have adequate cash, they will be forced to withdraw funds from the individual hedge funds within their portfolios. If the hedge funds in the portfolios have to sell assets at fire sale prices or unwind it will significantly impact the performance of the hedge fund-of-fund even if it is diversified.

Recent months have dispelled any notion that hedge funds are "absolute return" funds that provide positive returns regardless of the performance of the financial markets. Nearly all hedge funds are in negative territory for the first four months of this fiscal year. However, because they have had negative returns during the period, is not of itself sufficient reason to exclude them as a part of a well diversified portfolio. The public equity markets have fallen even further but institutional investors continue to invest a significant portion of the portfolio in the public markets. During the year-to-date period ending September 30, 2008 hedge fund-of-funds were down 11.0-12.0 percent compared to a negative 19.3 percent for the S&P 500 index of public stocks.

It is likely going forward that the hedge fund playing field as we now know it may change dramatically. Those hedge funds that have used significant leverage to boost their returns will likely experience a dramatic reduction in the availability of leverage. There may be international restrictions on shorting. Government regulators and congress may demand more transparency and more regulation. Political fallout may also impact the future success of hedge funds as they have recently been blamed for distorting public equity and commodity markets. Expectations going forward for hedge fund performance may need to be tempered by the changing financial market landscape and more government regulation.

Staff believe they will have enough information to make a recommendation on hedge fund-of-funds to the Board at its February meeting.

1	AIG Investments
2	Arden Asset Management Group, LLC (2)
3	Blackrock Alternative Advisors
4	Blackstone Alternative Asset Management, Inc.
5	Cadogen Management
6	Crestline Investors, Inc
7	EIM Management, Inc
8	EnTrust Capital Diversified Funds
9	FRM Americas, LLC
10	GAM
11	Goldman Sachs Hedge Funds Strategies, LLC
12	Gottex Fund Management
13	Harris Alternatives, LLC
14	Investcorp, LLC
15	JP Morgan
16	K2 Advisors
17	Meridian Capital Partners, Inc.
18	Mesirow Advanced Strategies
19	North Water Capital
20	Optima Fund Management
21	RMF Investment Management (USA) Group
22	Silvercreek Capital Management, LLC
23	Thomas H. Lee Capital
24	UBP Asset Management, LLC

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: October 31, 2008

Subject: Resolutions 217 Update

At the November 2007 Board meeting, the Board unanimously approved Resolution No. 217.

Resolution No. 217 designates its Executive Director as agent of the Board to deal with investments firms in connection with Board accounts with such firms; and that the investment firms are hereby authorized to deal with the Executive Director or the Executive Director's designated staff as agents of the Board; to accept all orders for purchases and sales and all instructions given by any of them on behalf of the Board as and for the action of the Board without further inquiry as to their authority; to receive any funds, securities or property for the account of the Board; to sell, assign, transfer or deliver either in bearer form, in street certificates or in such names as said persons or any of them shall direct, any funds, securities or other property held for the account of the Board, to said persons or any of them or as they or any of them shall in writing, or verbally with subsequent confirmation in writing, order; and to send or communicate all confirmation, notices, demands and other communications to them or any of them and to the Attention of the Board of Investments, P.O. Box 200126, Helena, MT 59620-0126.

At the same time, Appendix "A" was established and the actions of the Executive Director or the Executive Director's designated staff members are shown in Appendix "A".

The Board hereby authorizes its Executive Director to close any of the accounts listed in Appendix "A", to open new accounts, to designate additional staff members to act on behalf of the Board for the purpose of dealing with investment firms regarding any account, and to remove the authority of any of the named staff members or other staff members designated by him/her to act on behalf of the Board for purposes of dealing with investment firms regarding any account.

The Executive Director shall annually, on or around the regularly scheduled October Board meeting, provide a report to the Board showing the staff members and the accounts added to or deleted from Appendix A, which information shall include the date on which the addition or deletion occurred.

Staff members added during the time period of November 2007 to October 2008 are Dan Zarling and Nathan Sax.

For the time period of November 2007 – October 2008 the following changes were made to Resolution No. 217, Appendix A:

Broker/Dealer (Fixed Income/STIP) - Investment Managers added or updated:

- Banc of America Securities
- Buchanan Capital
- Citigroup Global Markets
- Credit Suisse (CSFB)
- D.A. Davidson & Co.
- FTN Financial
- Goldman Sachs & Co.
- Jefferies & Co., Inc.
- J.P. Morgan Securities, Inc.
- Lazard Capital
- KeyBanc Capital Markets
- Merrill Lynch
- Morgan Keegan
- Morgan Stanley Dean Witter
- RBC Dain Rauscher Inc.
- State Street Capital
- State Street Global Markets
- Sutter Securities, Inc.
- UBS Financial Services

Broker/Dealer (Fixed Income/STIP) - Investment Managers no longer used by staff:

- Seattle-Northwest Securities
- Sander Morris Harris Group
- Zions First National Bank Capital Markets
- Bear Stearns & Co.
- Calyon
- HSBC Securities, Inc.
- Legg Mason Wood
- Piper Jaffray & Co.
- Sterne, Agee & Leach

Broker/Dealer (Fixed Income/STIP) - Investment Managers removed for other reasons:

- Lehman Brothers (acquired by Barclays)
- Wachovia (acquired by Wells Fargo)

Public Security Managers – Addition of "Approved Fixed Income Managers":

• Artio Global Management, LLC.	Approved ext. Core+ mgr
• Barclays Global Investors	Institutional MMF manager
• Fidelity Investments	Institutional MMF manager
• Neuberger Berman (formerly Lehman Asset Management)	Approved ext. HY mgr.
• Post Advisory Group, LLC.	Approved ext. HY mgr.
• Reams Asset Management Company, LLC.	Approved ext. Core+ mgr.
• State Street Global Advisors	Institutional MMF manager

Public Security Managers – Investment Managers added or updated:

- Analytic Investors, Inc.
- Artio Global Management LLC.
- Hansberger Global Investors, Inc.
- J.P. Morgan Investment Management, Inc.
- Martingale Asset Management LP

Private Equity Managers – Investment Managers added or updated:

- First Reserve Corporation
- Oak Hill Capital Partners
- Performance Equity Management

Private Real Estate Managers – Investment Managers added or updated:

- Hudson Realty Capital Fund
- O'Connor Capital Partners

Investment Activity

ASSET ALLOCATION REPORT

Retirement Systems Asset Allocations as of 9/30/08										
								Direct	Pooled	
				Total				Real	Real	
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Estate**	**Estate**	**Total Assets**
PUBLIC EMPLOYEES	38.6%	15.9%	11.6%	66.1%	26.9%	0.8%	0.9%	0.3%	5.1%	3,480,739,106
TEACHERS	38.9%	15.9%	11.5%	66.3%	27.0%	0.3%	1.0%	0.3%	5.1%	2,675,787,722
POLICE	37.1%	15.3%	10.9%	63.2%	26.9%	5.2%			4.7%	180,865,065
SHERIFFS	38.3%	15.6%	11.4%	65.4%	28.0%	1.5%			5.1%	171,526,446
FIREFIGHTERS	36.9%	15.1%	11.0%	63.0%	26.4%	5.8%			4.9%	175,988,735
HIGHWAY PATROL	38.6%	15.9%	11.5%	66.0%	27.7%	1.1%			5.1%	87,159,256
GAME WARDENS	37.7%	15.4%	11.3%	64.4%	27.4%	3.2%			5.0%	67,379,828
JUDGES	38.4%	15.6%	11.5%	65.5%	28.0%	1.4%			5.1%	53,397,638
VOL FIREFIGHTERS	38.3%	15.9%	11.3%	65.5%	27.9%	1.7%			5.0%	23,216,405
TOTAL	**38.6%**	**15.9%**	**11.5%**	**66.0%**	**27.0%**	**0.9%**	**0.8%**	**0.3%**	**5.1%**	**6,916,060,201**
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 as of September 30. The total value of pension assets declined by $704 million during the quarter. This decline reflected negative returns in all public asset classes while private equity and real estate were essentially flat for the quarter. As compared to June the following observations can be made.

- Total equity holdings declined to 66.0% from 67.7%. Public equity values suffered dramatic declines during the quarter, particularly non-US equities. The broad domestic equity index, the S&P 1500, was down 8.3% for the quarter, and the allocation to domestic public equity fell from 39.0% to 38.6%.
- International equity exposure fell from 19.0% to 15.9%. Returns were (22.2)% for our custom international benchmark. The negative return was exacerbated by the strength in the US dollar during the quarter.
- Private Equity holdings increased from 9.8% to 11.5%. The increased weighting during the quarter reflects additional purchases of pool units totaling $51 million and the shrinking denominator of total pension assets caused by the negative returns in public securities. Returns were flat for the quarter while the trailing one year return was 3.1%.
- Pooled fixed income holdings increased from 25.8% to 27.0% at the end of the quarter. Bond returns were negative during the quarter despite declines in Treasury rates. The positive Treasury market returns were overwhelmed by weakness in corporate securities as risk premiums widened. Sales of $21.75 million of RFBP units were made during the quarter to fund liquidity needs in other asset classes.
- The pooled real estate holdings increased to a 5.1% weighting from 4.3% at the end of June. The return for MTRP was slightly negative for the quarter at (0.1)%, while additional allocations of $29.0 million were made to fund ongoing capital calls.
- Cash invested in STIP edged down to 0.9%. With the exception of Police and Firefighters all plans were under the 5% range cap. The cash exposure in these two plans was due to large one-time contributions made during the last week of the quarter. These balances were reduced in October by purchases made across several of the long-term asset classes.

In recent quarterly reports I noted the risk that our private equity weighting may exceed the top of the approved allocation band if we see continued declines in public asset classes. This has now occurred with the allocation having increased to 11.5%, and can be explained almost entirely by the shrinkage of the denominator in this measure. This issue is addressed in a separate memo in this board report.

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, CFA; Chief Investment Officer

Date: November 12, 2008

Subject: Private Equity Allocation

The allocation to private equity within the pension plans has grown above our allocation range as the denominator of total pension assets has declined in the wake of sizeable public equity market value declines. The purpose of this memo is to summarize the current situation and present a recommendation to increase our allocation to private equity.

Background

The Board has been an investor in private equity partnerships for twenty years as a means of bolstering pension fund returns and further diversifying plan assets, and in particular reducing the dependence on public equity exposure. The partnerships invest in a variety of underlying investments including corporate buyouts, venture capital, distressed securities, mezzanine, and industry-focused special situations. The value-added return of these investments depend on a variety of strategies that range from starting new companies to managing and improving existing companies, or possibly re-structuring certain companies or securities.

Over time the investor expects to receive an incremental return as compared to pubic equities to compensate for the unique risks and illiquidity of these types of investments. Indeed we utilize a benchmark for private equity of the broad US stock market (S&P 1500 index) plus four percentage points. Because of the lack of daily public marks for the majority of underlying investments held in the partnership vehicles, returns are not as volatile as seen in public equity markets. The general partners who manage the underlying investments are required to recognize valuation changes as they occur, but the determination of these changes is much more difficult in the case of private companies and value changes tend to play out over the life of the fund which is typically 10-12 years.

The returns for our private equity pool (MPEP) have been very attractive and have exceeded benchmark expectations over time. Over the past year ended September 30 the pool return was 3.14%, as compared to the benchmark which is based off of public equity at negative 17.27%. The return for MPEP has looked especially attractive in recent quarters given the dramatic declines seen in public stocks. Still, over longer measurement periods which are more appropriate in judging the success of this asset class the returns have also been attractive on a nominal and relative basis. For the five years ended in September the returns were 19.87% and 9.64% for MPEP and the benchmark, respectively. Since the pool inception date of May 1, 2002 the returns have been 18.19% versus 7.53% for the benchmark. Our private equity investing record is actually much longer, dating back to 1988, although a commingled pool was not established until 2002. The inception-to-date net internal rate of return for the partnership holdings in the pool was 15.25% as of June 30, 2008.

Allocation Target

The process of gaining exposure to this asset class takes time since the investment vehicles are private partnerships that become available on an irregular schedule and have limited capacity. These funds must be underwritten by staff to assess the capability of the general partner and their appropriateness for investment in our pool. Legal documents are then executed to secure our position as a limited partner with a specific capital commitment amount that will be called periodically during the fund's investment period, typically 4-6 years. The capital invested and a return on that capital is then distributed to limited partners as underlying investments are liquidated throughout the remaining life of the fund.

We presently have an approved allocation range of 5-10% though our target has been to reach an exposure of 8-10% of total pension assets. To determine the necessary pace of commitments to reach this level RV Kuhns was asked to conduct the Board's first pacing study in late 2006. At that time we had an actual allocation of 5.3% using 9/30/06 private equity values against a denominator of total pension assets of $7.6 billion on 12/31/06. That initial study estimated that we would reach a 9% target allocation by calendar year end 2011 if we were to follow a five year commitment budget beginning with $195 million of new commitments in calendar 2007, $175 million each over the next three calendar years (2008-2010), and $190 million in calendar 2011. The study used a 5% growth assumption for total pension assets beginning with the calendar year end 2006 level of $7.6 billion.

An update to that pacing study was conducted at the end of calendar 2007, taking into account then current pension assets and actual commitments through 2007. This study showed that we would reach an allocation level approximating 9.3% by the end of calendar 2009, which would fall below 9% in calendar 2011 if no additional commitments were made. The targeted 9% allocation weight was expected to be reached earlier than the original pacing study suggested, primarily due to outsize commitments made in calendar 2007 to distressed debt funds. These represented about half of 2007 commitments and were viewed as an opportunistic decision given market conditions at that time and the availability of these particular funds. Also, the cash flow pattern associated with distressed debt funds typically involve capital calls over a shorter than normal investment period which would tend to accelerate estimated market value exposure. At the end of calendar 2007 our private equity pool value had grown to $700.2 million, representing 8.54% of total pension assets of $8.2 billion. Pension assets peaked with the equity market in early October, 2007, having reached $8.358 billion at the end of the calendar third quarter.

I have asked RV Kuhns to prepare an updated pacing study which encompasses various scenarios for pension asset growth beginning with the 2008 fiscal year end value of pension assets, or approximately $7.62 billion. They will present the findings of that study to the Board in order to provide you with a context for the allocation recommendation that follows.

Recommendation

Obviously the prior private equity pacing studies did not contemplate the decline in the value of pension assets caused by the decline in public equity market values. The denominator of the calculation has now dropped dramatically over a very short timeframe, skewing the allocation to private equity. The private equity allocation as of September 30 was 11.5%. The fact we are now above the targeted 8-10% allocation range requires action on the part of the Board. We are not alone in having to deal with this issue. Many other pension funds with a private equity allocation are facing the same decision given the impact of declining public equity market values.

This is an illiquid asset class that entails a long term holding period. Private equity commitments are drawn down over time and distribute a return of that capital over time as underlying investments are realized. The cash flows are uncertain and will vary by underlying strategy and market conditions. Nevertheless, it is important to maintain some level of new commitments each year in order to provide vintage year and strategy diversification while managing a long term allocation exposure to the asset class. A regular update to our pacing analysis is an important tool to gauge our estimated exposure given a certain planned level of commitments. One objective in calibrating a new allocation range is the need to establish a broader range to accommodate the volatility we might see in total pension asset values.

It is also important to remember that we continue to manage overall equity exposure, both public and private, within a range of 60-70%. Therefore as the private equity allocation grows the amount of public equity exposure is trimmed in order to stay within this range. Indeed this was the case when public equity values were rising in fiscal 2007 and our total equity allocation was pushing 70%. During that fiscal year a net total of $107.9 million of public equity pool units were sold versus a purchase of $117.5 million of private equity pool units. During fiscal 2008 we did not approach this upper limit as public equity values declined, though minor reductions in public equity were still made. Public equity pool sales netted $3.6 million versus private equity pool purchases of $63.1 million during the fiscal year.

The merits of this asset class argue for an increase in the allocation range to accommodate continued commitments on a regular basis. The most recent pacing study estimates that under various reasonable assumptions for pension asset growth and annual commitments approximating $175 million annually our allocation will range between 11.0% and 16.0%. Staff recommends that the Board approve a targeted allocation to private equity of 12.0% plus or minus 3.0%, or a range of 9.0% to 15.0%. The allocation weight as of this writing at the end of October is estimated at 13.2%. This would suggest a more conservative commitment pace be adopted until markets stabilize.

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: November 12, 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 06/30/08.

(ii) **Private Edge - Graph: Investment Geography Exposure by Market Value & Remaining Commitments**. This report summarizes the total market value of invested capital commitments plus the capital commitments remaining to be invested broken out by geography as of 06/30/08.

(iii) **Private Edge - Table: LP's by Family of Funds All Investments.** This report provides details of the underlying funds and their reported values and Investment performance from inception to 06/30/08.

(iv) **Private Equity Pool Holdings**. This report summarizes all portfolio fund holdings by shares, book value and market value as of 09/30/08.

(v) **New Commitments**. This table summarizes the investments made by Staff since the last Board meeting of 08/19/08

Fund Name	Vintage	Subclass	Sector	Amount	Date
Lexington Partners VII	2008*	Secondary	Mid-Lrg	$20 M	09/30/08
HarbourVest Private Equity Int'l –Europe	2008*	Buyout	Mid-Lrg	$20 M	09/30/08
Total New Commitments				$40 M	

Footnotes: * most likely call capital in 2008 but close the fund in 2009.

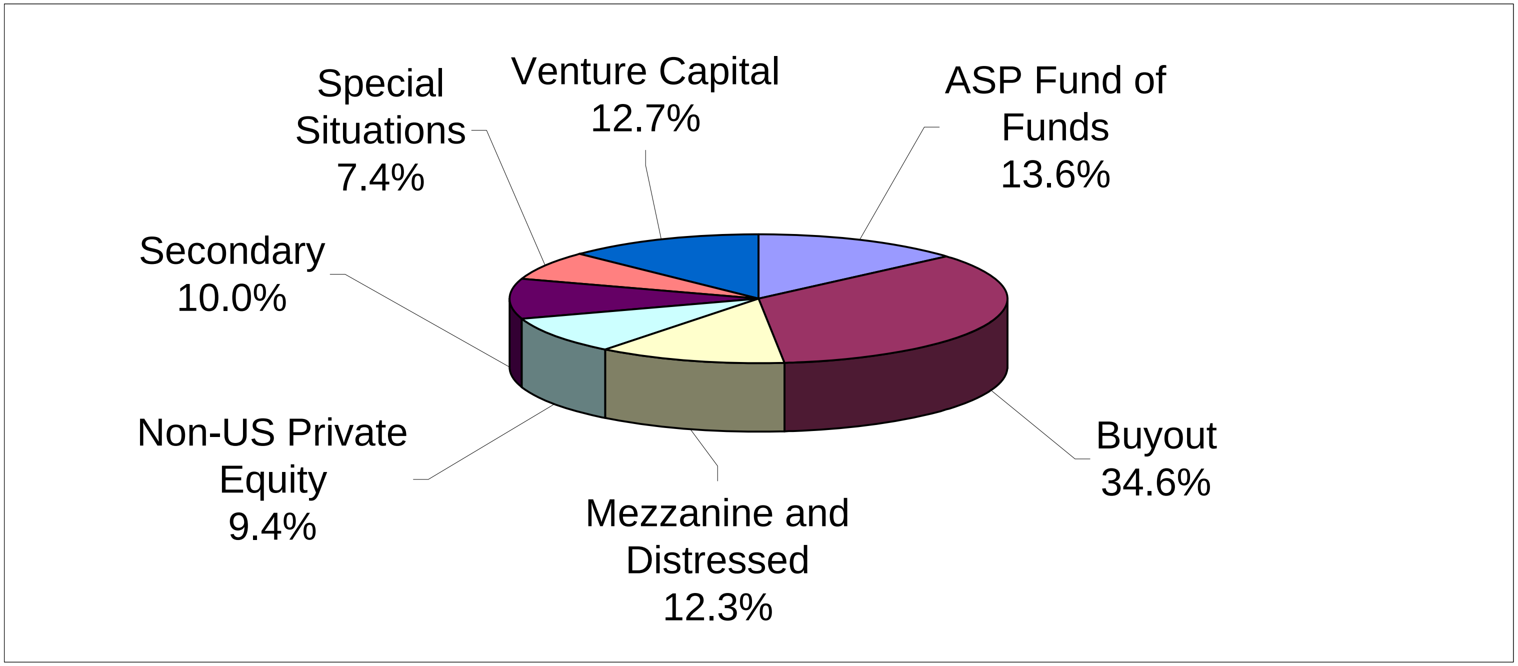
(vi) **Private Equity Investment Briefs.** These reports summarize the investment attributes and the qualifications of the investment managers who are responsible for the performance of the funds selected by Staff.

1. Lexington Capital Partners VII
2. HarbourVest Private Equity International VII – Europe Buyout

Montana Private Equity Pool

Strategy Total Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2008)

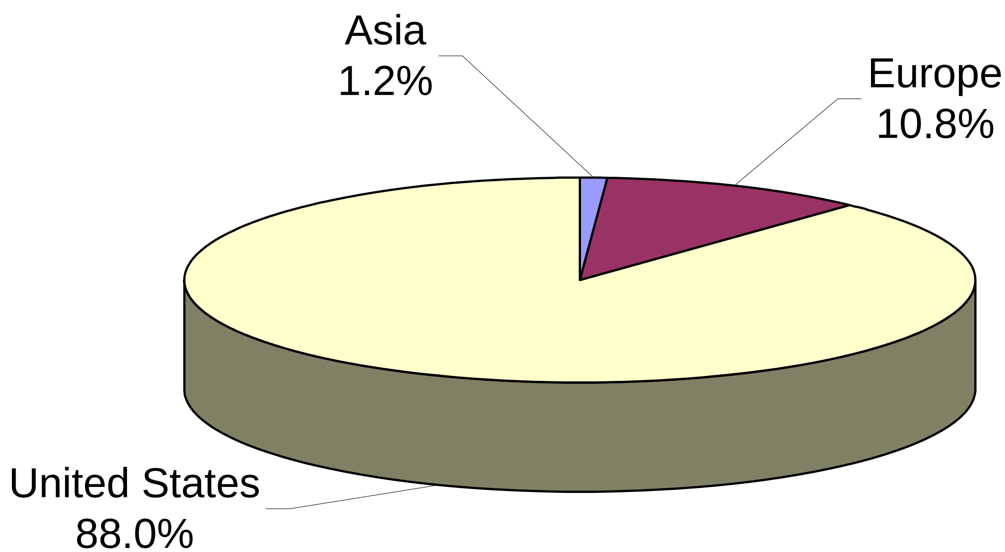


Strategy	Remaining Commitments	Market Value	Total Exposure	Percentage
ASP Fund of Funds	$39,667,358	$128,386,670	$168,054,028	13.6%
Buyout	$171,147,849	$256,671,559	$427,819,408	34.6%
Mezzanine and Distressed	$91,000,402	$61,135,281	$152,135,683	12.3%
Non-US Private Equity	$44,494,721	$71,274,445	$115,769,166	9.4%
Secondary	$45,349,723	$78,807,320	$124,157,043	10.0%
Special Situations	$25,433,097	$66,024,203	$91,457,300	7.4%
Venture Capital	$85,655,086	$70,853,827	$156,508,913	12.7%
Total	$502,748,235	$733,153,306	$1,235,901,541	100.0%

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2008)



Strategy	Remaining Commitments	Market Value	Total Exposure	Percentage
Asia	$11,538,712	$2,965,127	$14,503,839	1.2%
Europe	$44,093,835	$89,447,940	$133,541,774	10.8%
United States	$447,115,688	$640,740,239	$1,087,855,928	88.0%
Total	$502,748,235	$733,153,306	$1,235,901,541	100.0%

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2008

		Since Inception									
Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
LP's By Family of Funds		**$1,556,480,261**	**$1,014,096,148**	**$54,777,325**	**$502,748,235**	**67.70**	**$832,722,769**	**$733,153,306**	**15.25**	**1.46**	**$1,235,901,541**
Adams Street Partners		**$327,129,264**	**$257,574,095**	**$21,204,053**	**$56,943,617**	**82.59**	**$199,330,110**	**$212,196,709**	**17.16**	**1.47**	**$269,140,326**
Adams Street Partners Fund - U.S.		**$94,000,000**	**$58,677,104**	**$3,357,059**	**$31,663,000**	**66.32**	**$14,612,092**	**$62,521,563**	**10.33**	**1.24**	**$94,184,563**
Adams Street - 2002 U.S. Fund, L.P.	2002	$34,000,000	$24,955,075	$1,601,980	$7,378,000	78.30	$9,960,638	$26,177,188	12.55	1.36	$33,555,188
Adams Street - 2003 U.S. Fund, L.P.	2003	$20,000,000	$13,112,500	$712,500	$6,100,000	69.50	$3,254,606	$14,043,191	10.89	1.24	$20,143,191
Adams Street - 2004 U.S. Fund, L.P.	2004	$15,000,000	$8,872,031	$458,203	$5,610,000	62.60	$1,024,978	$9,896,180	8.17	1.16	$15,506,180
Adams Street - 2005 U.S. Fund, L.P.	2005	$25,000,000	$11,737,498	$584,376	$12,575,000	49.70	$371,870	$12,405,004	1.82	1.03	$24,980,004
Adams Street Partners Fund - Non-U.S.		**$16,000,000**	**$10,984,074**	**$525,456**	**$4,427,000**	**72.33**	**$4,791,381**	**$13,085,086**	**22.93**	**1.54**	**$17,512,086**
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	$6,000,000	$5,091,116	$255,962	$630,000	89.50	$3,811,687	$5,892,134	24.92	1.81	$6,522,134
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	$5,000,000	$3,222,022	$156,056	$1,602,000	67.96	$813,525	$4,049,442	22.35	1.43	$5,651,442
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	$5,000,000	$2,670,936	$113,438	$2,195,000	56.10	$166,169	$3,143,510	12.83	1.18	$5,338,510
Brinson Partnership Trust - Non-U.S		**$9,809,483**	**$9,229,388**	**$891,760**	**$580,095**	**94.09**	**$10,360,289**	**$8,338,786**	**18.39**	**1.84**	**$8,918,881**
Brinson Non-U.S. Trust-1999 Primary Fund	1999	$1,524,853	$1,405,782	$138,621	$119,071	92.19	$2,082,641	$576,100	12.28	1.72	$695,171
Brinson Non-U.S. Trust-2000 Primary Fund	2000	$1,815,207	$1,815,207	$165,017	$0	100.00	$2,287,580	$1,370,026	15.77	1.84	$1,370,026
Brinson Non-U.S. Trust-2001 Primary Fund	2001	$1,341,612	$1,341,612	$121,964	$0	100.00	$1,764,720	$877,619	16.79	1.80	$877,619
Brinson Non-U.S. Trust-2002 Primary Fund	2002	$1,696,452	$1,696,452	$154,221	$0	100.00	$963,850	$2,194,107	19.24	1.70	$2,194,107
Brinson Non-U.S. Trust-2002 Secondary	2002	$637,308	$601,542	$57,936	$35,766	94.39	$1,329,057	$233,621	28.70	2.37	$269,387
Brinson Non-U.S. Trust-2003 Primary Fund	2003	$1,896,438	$1,659,040	$172,401	$237,398	87.48	$1,612,553	$2,134,455	33.96	2.04	$2,371,853
Brinson Non-U.S. Trust-2004 Primary Fund	2004	$897,613	$709,753	$81,600	$187,860	79.07	$319,888	$952,858	24.08	1.61	$1,140,718
Brinson Partnership Trust - U.S.		**$103,319,781**	**$95,074,504**	**$8,495,496**	**$8,245,277**	**92.02**	**$89,290,650**	**$68,825,300**	**13.31**	**1.52**	**$77,070,577**
Brinson Partners - 1996 Fund	1996	$3,950,740	$3,708,316	$422,472	$242,424	93.86	$6,672,722	$384,518	15.09	1.71	$626,942
Brinson Partners - 1997 Primary Fund	1997	$3,554,935	$3,554,935	$373,300	$0	100.00	$14,133,470	$447,247	71.50	3.71	$447,247
Brinson Partners - 1998 Primary Fund	1998	$7,161,019	$7,122,251	$752,553	$38,768	99.46	$9,776,098	$1,387,191	7.19	1.42	$1,425,959
Brinson Partners - 1998 Secondary Fund	1998	$266,625	$266,625	$27,918	$0	100.00	$181,932	$15,712	(6.93)	0.67	$15,712
Brinson Partners - 1999 Primary Fund	1999	$8,346,761	$7,832,823	$851,075	$513,938	93.84	$7,563,083	$2,772,340	3.41	1.19	$3,286,278
Brinson Partners - 2000 Primary Fund	2000	$20,064,960	$19,079,570	$1,818,858	$985,390	95.09	$16,728,475	$11,934,013	7.16	1.37	$12,919,403
Brinson Partners - 2001 Primary Fund	*2001*	$15,496,322	$14,830,208	$1,146,155	$666,114	95.70	$7,585,806	$13,934,391	8.62	1.34	$14,600,505
Brinson Partners - 2002 Primary Fund	2002	$16,297,079	$15,425,196	$1,190,194	$871,883	94.65	$12,545,143	$13,638,766	16.95	1.57	$14,510,649
Brinson Partners - 2002 Secondary Fund	2002	$2,608,820	$2,498,592	$183,999	$110,228	95.77	$2,945,202	$1,977,257	18.24	1.83	$2,087,485
Brinson Partners - 2003 Primary Fund	*2003*	$15,589,100	$13,272,620	$1,104,794	$2,316,480	85.14	$7,989,926	$13,721,744	17.33	1.51	$16,038,224
Brinson Partners - 2003 Secondary Fund	2003	$1,151,151	$1,020,460	$71,972	$130,691	88.65	$1,611,250	$994,860	29.12	2.38	$1,125,551
Brinson Partners - 2004 Primary Fund	2004	$8,832,269	$6,462,908	$552,206	$2,369,361	73.17	$1,557,543	$7,617,261	11.98	1.30	$9,986,622
Remaining ASP Funds		**$104,000,000**	**$83,609,025**	**$7,934,282**	**$12,028,245**	**88.43**	**$80,275,698**	**$59,425,974**	**24.29**	**1.52**	**$71,454,219**
Adams Street Global Oppty Secondary Fund	2004	$25,000,000	$15,923,811	$200,241	$8,787,500	64.85	$4,452,996	$15,166,333	17.00	1.21	$23,953,833
Adams Street V, L.P.	2003	$40,000,000	$34,253,043	$3,266,957	$2,200,000	94.50	$9,604,997	$33,633,607	5.13	1.14	$35,833,607
Adams Street VPAF Fund II	1990	$4,000,000	$3,621,830	$378,170	$0	100.00	$7,861,041	$27,636	25.25	1.97	$27,636
Brinson Venture Capital Fund III, L.P.	1993	$5,000,000	$4,045,656	$954,344	$0	100.00	$15,622,448	$104,620	40.48	3.15	$104,620
Brinson VPF III	1993	$5,000,000	$4,477,021	$522,979	$0	100.00	$14,741,851	$300,431	29.48	3.01	$300,431
Brinson VPF III - Secondary Interest	1999	$5,000,000	$4,808,750	$191,250	$0	100.00	$8,024,726	$300,839	41.60	1.67	$300,839
BVCF III - Secondary Interest	1999	$5,000,000	$3,602,735	$356,520	$1,040,745	79.19	$9,634,305	$104,620	97.03	2.46	$1,145,365
BVCF IV, L.P.	1999	$15,000,000	$12,876,179	$2,063,821	$0	100.00	$10,333,334	$9,787,888	4.77	1.34	$9,787,888
Advent Partnerships		**$1,000,000**	**$1,000,000**	**$48,660**	**$0**	**100.00**	**$2,346,542**	**$0**	**19.60**	**2.24**	**$0**
Advent V	1989	$500,000	$500,000	$19,798	$0	100.00	$576,863	$0	2.53	1.11	$0
Advent VI	1988	$500,000	$500,000	$28,861	$0	100.00	$1,769,679	$0	30.67	3.35	$0
Affinity Asia Capital		**$15,000,000**	**$2,981,178**	**$478,442**	**$11,538,712**	**23.08**	**$0**	**$2,965,127**	**(22.49)**	**0.86**	**$14,503,839**
Affinity Asia Pacific Fund III, LP	2006	$15,000,000	$2,981,178	$478,442	$11,538,712	23.08	$0	$2,965,127	(22.49)	0.86	$14,503,839
Alta Partners		**$1,500,000**	**$1,419,719**	**$202,311**	**$0**	**100.00**	**$4,314,116**	**$192**	**18.41**	**2.66**	**$192**
Alta IV, LP	1988	$500,000	$500,000	$35,308	$0	100.00	$1,554,862	$0	21.67	2.90	$0
Alta Sub Debt Partners II	1988	$500,000	$500,000	$39,599	$0	100.00	$1,063,735	$0	11.18	1.97	$0
Alta Subordinated Debt Partners III	1993	$500,000	$419,719	$127,403	$0	100.00	$1,695,519	$192	27.79	3.10	$192
Arclight Energy Partners		**$50,000,000**	**$39,966,212**	**$1,402,499**	**$8,631,290**	**82.74**	**$17,598,087**	**$36,776,115**	**19.50**	**1.31**	**$45,407,405**
Arclight Energy Partners Fund II	2004	$25,000,000	$20,421,091	$873,002	$3,705,907	85.18	$16,100,418	$17,425,409	26.28	1.57	$21,131,316
ArcLight Energy Partners Fund III, LP	2006	$25,000,000	$19,545,120	$529,497	$4,925,383	80.30	$1,497,669	$19,350,706	3.38	1.04	$24,276,089
Austin Ventures		**$500,000**	**$424,416**	**$128,985**	**$0**	**100.00**	**$1,216,717**	**$16,947**	**20.58**	**2.23**	**$16,948**
Austin Ventures III	1991	$500,000	$424,416	$128,985	$0	100.00	$1,216,717	$16,947	20.58	2.23	$16,948
Avenue Investments		**$35,000,000**	**$15,807,715**	**$344,486**	**$18,375,402**	**47.50**	**$80,585**	**$15,568,042**	**(8.03)**	**0.94**	**$33,943,444**

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2008

		Since Inception									
Description	**Vintage Year**	**Commitment**	**Capital Contributed for Investment**	**Management Fees**	**Remaining Commitment**	**% Capital Contributed/Committed**	**Capital Distributed**	**Ending Market Value**	**Net IRR**	**Investment Multiple**	**Total Exposure**
Avenue Special Situations Fund V, LP	2007	$35,000,000	$15,807,715	$344,486	$18,375,402	47.50	$80,585	$15,568,042	(8.03)	0.94	$33,943,444
Buerk Dale Victor		**$15,000,000**	**$3,494,937**	**$367,563**	**$10,950,000**	**27.00**	**$0**	**$3,222,640**	**(23.70)**	**0.80**	**$14,172,640**
Buerk Dale Victor Fund II, L.P.	2007	$15,000,000	$3,494,937	$367,563	$10,950,000	27.00	$0	$3,222,640	(23.70)	0.80	$14,172,640
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**	**$40,500,641**	**$1,967,808**	**$17,425,034**	**70.96**	**$1,765,529**	**$43,723,798**	**4.41**	**1.07**	**$61,148,832**
Carlyle Partners IV, L.P.	2005	$35,000,000	$31,329,413	$836,662	$2,727,408	92.21	$1,623,205	$36,222,116	9.81	1.17	$38,949,524
Carlyle Venture Partners III, LP	2006	$25,000,000	$9,171,228	$1,131,146	$14,697,626	41.21	$142,324	$7,501,682	(26.92)	0.74	$22,199,308
CCMP Associates		**$30,000,000**	**$6,499,194**	**$590,182**	**$22,910,624**	**23.63**	**$73,524**	**$6,639,618**	**(3.55)**	**0.95**	**$29,550,242**
CCMP Capital Investors II, L.P.	2006	$30,000,000	$6,499,194	$590,182	$22,910,624	23.63	$73,524	$6,639,618	(3.55)	0.95	$29,550,242
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**	**$18,445,706**	**$452,234**	**$11,102,060**	**62.99**	**$0**	**$20,905,000**	**22.81**	**1.11**	**$32,007,060**
First Reserve Fund XI, L.P.	2006	$30,000,000	$18,445,706	$452,234	$11,102,060	62.99	$0	$20,905,000	22.81	1.11	$32,007,060
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**	**$4,500,000**	**$0**	**$15,500,000**	**22.50**	**$0**	**$4,195,322**	**(9.59)**	**0.93**	**$19,695,322**
HarbourVest Direct 2007 Fund	2007	$20,000,000	$4,500,000	$0	$15,500,000	22.50	$0	$4,195,322	(9.59)	0.93	$19,695,322
Hellman & Friedman		**$25,000,000**	**$12,581,356**	**$46,872**	**$12,371,772**	**50.51**	**$0**	**$12,820,061**	**2.16**	**1.02**	**$25,191,833**
Hellman & Friedman Capital Partners VI	2006	$25,000,000	$12,581,356	$46,872	$12,371,772	50.51	$0	$12,820,061	2.16	1.02	$25,191,833
Highway 12 Ventures		**$10,000,000**	**$2,095,805**	**$276,712**	**$7,502,483**	**24.98**	**$0**	**$1,928,441**	**(25.85)**	**0.77**	**$9,430,924**
Highway 12 Venture Fund II, L.P.	2006	$10,000,000	$2,095,805	$276,712	$7,502,483	24.98	$0	$1,928,441	(25.85)	0.77	$9,430,924
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**	**$7,656,950**	**$150,000**	**$1,713,913**	**82.86**	**$954,762**	**$7,537,842**	**3.16**	**1.02**	**$9,251,755**
Industry Ventures Fund IV, L.P.	2005	$10,000,000	$7,656,950	$150,000	$1,713,913	82.86	$954,762	$7,537,842	3.16	1.02	$9,251,755
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**	**$21,069,581**	**$308,008**	**$3,452,768**	**86.19**	**$1,964,991**	**$16,407,766**	**(20.32)**	**0.85**	**$19,860,534**
J.C. Flowers II L.P.	2006	$25,000,000	$21,069,581	$308,008	$3,452,768	86.19	$1,964,991	$16,407,766	(20.32)	0.85	$19,860,534
Joseph Littlejohn & Levy		**$25,548,000**	**$16,206,038**	**$726,338**	**$8,545,154**	**66.55**	**$5,666,856**	**$20,958,429**	**33.59**	**1.56**	**$29,503,583**
JLL Partners Fund V, L.P.	2005	$25,000,000	$15,672,978	$700,307	$8,530,218	65.88	$4,246,917	$20,958,429	39.49	1.53	$29,488,647
Joseph, Littlejohn & Levy Fund, L.P.	1991	$548,000	$533,060	$26,031	$14,936	97.27	$1,419,939	$0	32.38	2.54	$14,936
KKR		**$175,300,000**	**$175,300,000**	**$9,513,063**	**$0**	**100.00**	**$320,508,416**	**$30,910,409**	**12.74**	**1.90**	**$30,910,409**
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	$350,438	8.90	2.07	$350,438
KKR 1993 Fund - Montana	1993	$25,000,000	$25,000,000	$1,002,236	$0	100.00	$48,774,539	$128,530	17.79	1.88	$128,530
KKR 1996 Fund - Montana	1997	$100,000,000	$100,000,000	$4,641,871	$0	100.00	$171,314,439	$14,699,676	13.63	1.78	$14,699,676
KKR European Fund - Montana	1999	$25,000,000	$25,000,000	$1,767,792	$0	100.00	$39,627,558	$15,731,765	20.75	2.07	$15,731,765
Lehman Brothers		**$50,000,000**	**$22,874,290**	**$744,104**	**$26,268,181**	**47.46**	**$5,522,343**	**$24,588,823**	**22.31**	**1.27**	**$50,857,004**
Lehman Brothers Merchant Banking IV, LP	2007	$15,000,000	$460,796	$206,462	$14,219,317	5.20	$0	$502,010	(50.81)	0.64	$14,721,327
Lehman Co-investment Partners, L.P.	2006	$35,000,000	$22,413,494	$537,641	$12,048,865	65.57	$5,522,343	$24,086,813	23.50	1.29	$36,135,678
Lexington Capital Partners		**$110,000,000**	**$73,671,140**	**$2,456,592**	**$33,530,880**	**69.52**	**$56,541,726**	**$52,476,236**	**22.23**	**1.43**	**$86,007,116**
Lexington Capital Partners V, L.P.	2001	$50,000,000	$45,837,768	$1,657,269	$2,347,561	95.30	$51,061,311	$27,326,494	24.69	1.64	$29,674,055
Lexington Capital Partners VI-B, L.P.	2005	$50,000,000	$27,833,372	$799,323	$21,183,319	57.63	$5,480,415	$25,149,742	6.48	1.06	$46,333,061
Lexington Middle Market Investors II, LP	2008	$10,000,000	$0	$0	$10,000,000	0.00	$0	$0	N/A	0.00	$10,000,000
Madison Dearborn Capital Partners		**$75,000,000**	**$45,121,837**	**$1,464,066**	**$28,335,868**	**62.22**	**$17,391,900**	**$50,589,871**	**19.80**	**1.46**	**$78,925,739**
Madison Dearborn Capital Partners IV, LP	2001	$25,000,000	$22,327,698	$1,165,610	$1,506,692	93.97	$17,287,298	$26,570,899	22.38	1.87	$28,077,591
Madison Dearborn Capital Partners V, LP	2006	$25,000,000	$19,444,705	$298,456	$5,178,610	79.29	$104,602	$20,611,710	4.29	1.05	$25,790,320
Madison Dearborn Capital Partners VI, LP	2008	$25,000,000	$3,349,434	$0	$21,650,566	13.40	$0	$3,407,262	1.58	1.02	$25,057,828
Matlin Patterson		**$30,000,000**	**$12,278,557**	**$379,376**	**$17,250,000**	**42.50**	**$1,489**	**$12,490,683**	**(4.97)**	**0.98**	**$29,740,683**
MatlinPatterson Global Opps. Ptnrs. III	2007	$30,000,000	$12,278,557	$379,376	$17,250,000	42.50	$1,489	$12,490,683	(4.97)	0.98	$29,740,683
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

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2008

		Since Inception									
Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
MHR Institutional Partners		**$25,000,000**	**$10,950,968**	**$367,040**	**$13,500,000**	**46.00**	**$130,728**	**$12,325,989**	**10.13**	**1.08**	**$25,825,989**
MHR Institutional Partners III, L.P.	2006	$25,000,000	$10,950,968	$367,040	$13,500,000	46.00	$130,728	$12,325,989	10.13	1.08	$25,825,989
New Enterprise Associates		**$500,000**	**$443,993**	**$87,860**	**$0**	**100.00**	**$1,374,820**	**$0**	**29.90**	**2.58**	**$0**
New Enterprise Associates V	1990	$500,000	$443,993	$87,860	$0	100.00	$1,374,820	$0	29.90	2.58	$0
Noro-Moseley Partners		**$500,000**	**$500,000**	**$44,804**	**$0**	**100.00**	**$940,598**	**$0**	**8.33**	**1.73**	**$0**
Noro-Moseley Partners II	1988	$500,000	$500,000	$44,804	$0	100.00	$940,598	$0	8.33	1.73	$0
Oak Hill Capital Partners		**$45,000,000**	**$22,955,269**	**$1,227,910**	**$20,734,964**	**53.92**	**$2,149,854**	**$29,123,031**	**19.27**	**1.29**	**$49,857,995**
Oak Hill Capital Partners II, L.P.	2005	$25,000,000	$18,567,598	$985,618	$5,446,784	78.21	$1,864,392	$25,099,275	20.94	1.38	$30,546,059
Oak Hill Capital Partners III, L.P.	2008	$20,000,000	$4,387,671	$242,292	$15,288,180	23.56	$285,462	$4,023,756	(9.08)	0.91	$19,311,936
Oaktree Capital Partners		**$110,000,000**	**$75,640,634**	**$1,884,474**	**$32,375,000**	**70.57**	**$121,240,446**	**$3,035,989**	**44.90**	**1.60**	**$35,410,989**
OCM Opportunities Fund IVb, L.P.	2002	$75,000,000	$73,107,052	$1,884,474	$0	100.00	$121,240,446	$514,832	44.93	1.62	$514,832
OCM Opportunities Fund VIIb, L.P.	2008	$35,000,000	$2,533,582	$0	$32,375,000	7.50	$0	$2,521,157	(3.96)	0.96	$34,896,157
Odyssey Partners Fund III		**$25,000,000**	**$16,354,086**	**$1,471,452**	**$7,174,462**	**71.30**	**$20,429,525**	**$13,474,262**	**38.44**	**1.90**	**$20,648,724**
Odyssey Partners Fund III, L.P.	*2004*	$25,000,000	$16,354,086	$1,471,452	$7,174,462	71.30	$20,429,525	$13,474,262	38.44	1.90	$20,648,724
O'Donnell and Masur		**$1,000,000**	**$948,419**	**$127,952**	**$0**	**100.00**	**$2,348,672**	**$0**	**23.15**	**2.18**	**$0**
ODonnell and Masur	*1989*	$1,000,000	$948,419	$127,952	$0	100.00	$2,348,672	$0	23.15	2.18	$0
Performance Venture Capital		**$25,000,000**	**$0**	**$0**	**$25,000,000**	**0.00**	**$0**	**$0**	**N/A**	**0.00**	**$25,000,000**
Performance Venture Capital II	2008	$25,000,000	$0	$0	$25,000,000	0.00	$0	$0	N/A	0.00	$25,000,000
Portfolio Advisors		**$55,000,000**	**$16,301,182**	**$657,166**	**$37,725,244**	**31.41**	**$860,567**	**$16,398,645**	**(0.10)**	**1.00**	**$54,123,889**
Port. Advisors Fund IV (B), L.P.	2006	$30,000,000	$14,181,414	$460,938	$15,263,898	49.12	$855,836	$14,346,843	3.46	1.03	$29,610,741
Port. Advisors Fund IV (E), L.P.	2006	$15,000,000	$2,119,768	$196,228	$12,461,346	16.92	$4,731	$2,051,802	(30.55)	0.81	$14,513,148
Port. Advisors Fund V (B), L.P.	2008	$10,000,000	$0	$0	$10,000,000	0.00	$0	$0	N/A	0.00	$10,000,000
Quintana Energy Partners		**$15,000,000**	**$8,477,017**	**$728,274**	**$5,699,748**	**62.00**	**$0**	**$8,343,088**	**(10.35)**	**0.90**	**$14,042,836**
Quintana Energy Partners Fund I, L.P.	2006	$15,000,000	$8,477,017	$728,274	$5,699,748	62.00	$0	$8,343,088	(10.35)	0.90	$14,042,836
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**	**$5,946,583**	**$51,250**	**$18,761,754**	**24.95**	**$444,810**	**$5,429,199**	**(7.25)**	**0.94**	**$24,190,953**
Siguler Guff Small Buyout Opportunities	2007	$25,000,000	$5,946,583	$51,250	$18,761,754	24.95	$444,810	$5,429,199	(7.25)	0.94	$24,190,953
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**	**$7,913**	**17.71**	**2.00**	**$7,913**
Sprout Capital VI	1990	$500,000	$416,999	$122,592	$0	100.00	$1,070,772	$7,913	17.71	2.00	$7,913
Summit Ventures		**$500,000**	**$388,928**	**$109,535**	**$25,003**	**95.00**	**$1,255,067**	**$2,816**	**28.32**	**2.52**	**$27,819**
Summit Ventures II, L.P.	1988	$500,000	$388,928	$109,535	$25,003	95.00	$1,255,067	$2,816	28.32	2.52	$27,819
Technology Partners West		**$500,000**	**$500,000**	**$41,952**	**$0**	**100.00**	**$1,055,036**	**$0**	**10.72**	**1.95**	**$0**
Technology Partners West Fund IV, LP	1989	$500,000	$500,000	$41,952	$0	100.00	$1,055,036	$0	10.72	1.95	$0
Terra Firma Capital Partners		**$25,432,997**	**$12,173,472**	**$935,574**	**$12,070,566**	**52.54**	**$0**	**$12,927,734**	**(4.61)**	**0.97**	**$24,998,300**
Terra Firma Capital Partners III, LP	2007	$25,432,997	$12,173,472	$935,574	$12,070,566	52.54	$0	$12,927,734	(4.61)	0.97	$24,998,300
Welsh, Carson, Anderson & Stowe		**$76,000,000**	**$55,227,989**	**$3,108,524**	**$17,317,661**	**77.21**	**$29,608,421**	**$55,166,569**	**15.90**	**1.44**	**$72,484,230**
Welsh, Carson, Anderson & Stowe II	1990	$500,000	$455,663	$87,196	$0	100.00	$689,495	$106,946	8.91	1.47	$106,946
Welsh, Carson, Anderson & Stowe IV, LP	2004	$25,000,000	$15,034,388	$376,947	$9,500,000	62.00	$2,345,472	$17,607,440	11.95	1.29	$27,107,440
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	$25,000,000	$21,947,241	$1,776,365	$1,250,000	95.00	$24,820,560	$16,928,366	15.93	1.76	$18,178,366
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	$17,290,697	$827,553	$6,567,661	73.73	$0	$20,523,817	7.67	1.11	$27,091,478
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

9/30/2008 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
ADAMS ST PART FUND 2003 US	12,636,439	12,636,439	14,543,189	1.83%
ADAMS ST PART FUND 2004 NON US	3,306,291	3,306,291	4,256,942	0.54%
ADAMS ST PART FUND 2004 US	9,212,549	9,212,549	10,346,181	1.30%
ADAMS ST PARTNERS FUND 2002 US	21,535,412	21,535,412	26,177,198	3.30%
ADAMS STR GLOBAL OPPORTUNITES	14,589,947	14,589,947	15,166,337	1.91%
ADAMS STREET FUND V	29,828,534	29,828,534	33,633,611	4.23%
ADAMS STREET PARTNERSHIP	3,000,200	3,000,200	3,393,511	0.43%
ADAMS STREET PARTNERSHIP FUND	13,030,183	13,030,183	13,354,999	1.68%
ADAMS STREET PTNRSHP FND	3,687,447	3,687,447	5,892,135	0.74%
ALTA SUB DEBT PARTNERS III	1	0	192	0.00%
AUSTIN VENTURES III	214,255	214,255	17,225	0.00%
BRIN NON US TRUST 2001 PRIM	594,076	594,076	877,619	0.11%
BRIN VEN CAP III SECONDARY	1	1	104,620	0.01%
BRIN VEN PART III SECONDARY	1,517,128	1,517,128	300,839	0.04%
BRINSON NON U.S. TRUST 2000	854,057	854,057	1,313,753	0.17%
BRINSON NON US 1999 PRIMARY FD	299,308	299,308	576,100	0.07%
BRINSON NON US PARTNERSHIP FND	1,090,463	1,090,463	2,063,857	0.26%
BRINSON NON US PARTNERSHIP TR	636,330	636,330	952,858	0.12%
BRINSON NON US TRUST 2002 SEC	204,453	204,453	233,621	0.03%
BRINSON NON US TRUST 2003 PRIM	791,223	791,223	1,974,652	0.25%
BRINSON PART FUND TRUST 1996	1,478,727	1,478,727	384,518	0.05%
BRINSON PARTNERSHIP	11,245,609	11,245,609	11,164,674	1.41%
BRINSON PARTNERSHIP	6,104,245	6,104,245	7,975,318	1.00%
BRINSON PARTNERSHIP FUND	392,537	392,537	994,860	0.13%
BRINSON PARTNERSHIP FUND TR	9,556,721	9,556,721	12,952,673	1.63%
BRINSON PARTNERSHIP FUND TRUST	1,333,562	1,333,562	447,247	0.06%
BRINSON PARTNERSHIP FUND TRUST	3,033,007	3,033,007	1,387,191	0.17%
BRINSON PARTNERSHIP FUND TRUST	142,679	142,679	15,712	0.00%
BRINSON PARTNERSHIP FUND TRUST	4,580,647	4,580,647	2,772,340	0.35%
BRINSON PARTNERSHIP FUND TRUST	11,772,363	11,772,363	13,934,393	1.75%
BRINSON PARTNERSHIP FUND TRUST	10,449,535	10,449,535	13,721,744	1.73%
BRINSON PARTNERSHIP FUND TRUST	1,489,081	1,489,081	1,977,257	0.25%
BRINSON VEN CAP FUND IV	6,052,410	6,052,410	9,254,553	1.16%
BRINSON VENTURE CAPITAL FD III	1	1	104,620	0.01%
BRINSON VENTURE PARTNR FD III	1,285,662	1,285,662	300,431	0.04%
SPROUT CAPITAL VI	244,756	244,756	7,862	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	106,946	0.01%
ADAMS STREET Total	**186,769,942**	**186,769,941**	**212,706,369**	**26.78%**
AFFINITY ASIA PACIFIC FUND III	3,048,654	3,048,654	3,021,960	0.38%
AFFINITY Total	**3,048,654**	**3,048,654**	**3,021,960**	**0.38%**
ARCLIGHT ENERGY PTNRS FUND III	21,345,608	21,345,608	21,516,928	2.71%
ARCLIGHT ENRGY PARTNERS FD II	12,775,969	12,775,969	19,314,786	2.43%
ARCLIGHT Total	**34,121,577**	**34,121,577**	**40,831,714**	**5.14%**
AVENUE SPECIAL SITUATIONS V	19,307,715	19,307,715	19,068,048	2.40%
AVENUE CAPITAL Total	**19,307,715**	**19,307,715**	**19,068,048**	**2.40%**
BUERK DALE VICOTR II L.P.	4,050,000	4,050,000	3,222,642	0.41%
BUERK DALE. Total	**4,050,000**	**4,050,000**	**3,222,642**	**0.41%**
CARLYLE PARTNERS IV, L.P.	31,315,064	31,315,064	36,222,103	4.56%
CARLYLE VENTURE PARTNERS III	11,158,759	11,158,759	9,368,961	1.18%
CARLYLE Total	**42,473,823**	**42,473,823**	**45,591,064**	**5.74%**
CCMP II	6,580,987	6,580,987	6,669,284	0.84%

9/30/2008 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
CCMP Total	**6,580,987**	**6,580,987**	**6,669,284**	**0.84%**
FIRST RESERVE FUND XII	5,630,441	5,630,441	5,630,441	0.71%
FIRST RESERVE XI	21,719,806	21,719,806	24,103,098	3.03%
FIRST RESERVE Total	**27,350,247**	**27,350,247**	**29,733,539**	**3.74%**
DOVER STREET	3,000,000	3,000,000	3,000,000	0.38%
HARBOURVEST 2007 DIRECT	5,400,000	5,400,000	5,095,321	0.64%
HARBOUR VEST Total	**8,400,000**	**8,400,000**	**8,095,321**	**1.02%**
HFCP VI	15,178,957	15,178,957	15,431,338	1.94%
HELLMAN FRIEDMAN Total	**15,178,957**	**15,178,957**	**15,431,338**	**1.94%**
HIGHWAY 12 VENTURE II	2,095,805	2,095,805	1,928,440	0.24%
HIGHWAY 12 VENTURES Total	**2,095,805**	**2,095,805**	**1,928,440**	**0.24%**
INDUSTRY VENTURES FUND IV	7,776,179	7,776,179	8,431,618	1.06%
INDUSTRY VENTURES Total	**7,776,179**	**7,776,179**	**8,431,618**	**1.06%**
JCF II LP	21,819,145	21,819,145	20,019,611	2.52%
J.C. FLOWERS Total	**21,819,145**	**21,819,145**	**20,019,611**	**2.52%**
JLL PARTNERS FUND V LP	13,674,148	13,674,148	21,208,426	2.67%
JLL PARTNERS Total	**13,674,148**	**13,674,148**	**21,208,426**	**2.67%**
KKR 1987	2,021,493	2,021,493	350,438	0.04%
KKR 1993	1,285,300	1,285,300	128,530	0.02%
KKR 1996	18,967,917	18,967,917	14,699,680	1.85%
KKR EUROPEAN FUND	9,053,964	9,053,964	15,731,769	1.98%
KKR Total	**31,328,674**	**31,328,674**	**30,910,418**	**3.89%**
LEHMAN BROS MERCHANT BANK IV	3,342,216	3,342,216	3,326,127	0.42%
LEHMAN BROTHERS CO	17,796,240	17,796,240	24,874,267	3.13%
LEHMAN BROTHERS Total	**21,138,456**	**21,138,456**	**28,200,394**	**3.55%**
LEXINGTON CAPITAL PARTNERS VIB	26,195,862	26,195,862	25,894,059	3.26%
LEXINGTON CAPITAL PTRS V LP	5,140,681	5,140,681	26,871,499	3.38%
LEXINGTON Total	**31,336,543**	**31,336,543**	**52,765,559**	**6.64%**
MADISON DEARBORN CAP PART IV	17,152,528	17,152,528	26,570,896	3.34%
MADISON DEARBORN CAP PTNRS VI	2,735,009	2,735,009	2,792,838	0.35%
MDCP V	19,072,528	19,072,528	20,273,278	2.55%
MADISON DEARBORN Total	**38,960,066**	**38,960,066**	**49,637,012**	**6.25%**
MATLIN PATTERSON GLB OPP	12,278,557	12,278,557	12,490,681	1.57%
MATLIN PATTERSON Total	**12,278,557**	**12,278,557**	**12,490,681**	**1.57%**
MHR INSTITUTIONAL III	12,186,883	12,186,883	13,069,213	1.65%
MHR INSTITUTIONAL Total	**12,186,883**	**12,186,883**	**13,069,213**	**1.65%**
OAK HILL CAPITAL PARTNERS II	20,107,588	20,107,588	27,031,032	3.40%
OAK HILL III	5,550,755	5,550,755	5,463,264	0.69%
OAK HILL Total	**25,658,343**	**25,658,343**	**32,494,297**	**4.09%**
OAKTREE CPTL MGMT OPPTY FD VII	10,408,582	10,408,582	10,304,736	1.30%
OCM OPPORTUNITIES FD IVB LP	1	1	510,732	0.06%
OAK TREE Total	**10,408,583**	**10,408,583**	**10,815,468**	**1.36%**
ODYSSEY INVT PARTN FD III	14,740,841	14,740,841	16,969,214	2.14%
ODYSSEY INVESTMENTS Total	**14,740,841**	**14,740,841**	**16,969,214**	**2.14%**
PERFORMANCE VENTURE CAPITAL II	383,000	383,000	383,000	0.05%
PERFORMANCE EQUITY MANA(	**383,000**	**383,000**	**383,000**	**0.05%**
PORTFOLIO ADVISORS FUND V(B)	2,496,676	2,496,676	2,496,676	0.31%
PORTFOLIO ADVISORS IV (B)	14,708,264	14,708,264	16,419,438	2.07%

9/30/2008 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
PORTFOLIO ADVISORS IV (E)	5,677,243	5,677,243	5,588,831	0.70%
PORTFOLIO ADVISORS Total	**22,882,183**	**22,882,183**	**24,504,945**	**3.08%**
QUINTANA ENERGY PARTNERS TE LP	9,872,030	9,872,030	9,423,721	1.19%
QUINTANA ENERGY Total	**9,872,030**	**9,872,030**	**9,423,721**	**1.19%**
SIGULER GUFF SM BUYOUT	8,300,520	8,300,520	7,679,201	0.97%
SIGULER GUFF Total	**8,300,520**	**8,300,520**	**7,679,201**	**0.97%**
TERRA FIRMA III LIMITED PART	8,651,289	12,316,531	11,661,591	1.47%
TERRA FIRMA Total	**8,651,289**	**12,316,531**	**11,661,591**	**1.47%**
WCAS CAPITAL PARTNERS FUND IV	15,323,652	15,323,652	17,495,151	2.20%
WCAS IX	8,236,167	8,236,167	16,907,227	2.13%
WCAS X LP	18,040,697	18,040,697	21,273,824	2.68%
WELSH CARSON Total	**41,600,516**	**41,600,516**	**55,676,203**	**7.01%**
STATE STREET REPO	131,624	131,624	131,624	0.02%
STATE STREET SPIF ALT INV	10,283	1,781,285	1,647,730	0.21%
STATE STREET Total	**141,907**	**1,912,909**	**1,779,354**	**0.22%**
Grand Total	**682,515,567**	**687,951,810**	**794,419,645**	**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: November 12, 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 06/30/08.

(ii) **Private Edge - Graph: Portfolio Characteristics – Geographic Diversification.** This report summarizes the Gross Market Value of MTRP's share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property broken out by geography relative to the NCREIF Property Index as of 06/30/08.

(iii) **Private Edge – Graph: Portfolio Characteristics – Property Type Diversification.** This report summarizes the Gross Market Value of MTRP's share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property broken out by property type relative to the NCREIF Property Index as of 06/30/08.

(iv) **Private Edge - Table: Real Estate Portfolio Status Report.** This report summarizes the total market value of invested capital commitments plus the capital commitments remaining to be invested broken out by investment strategy as of 06/30/08.

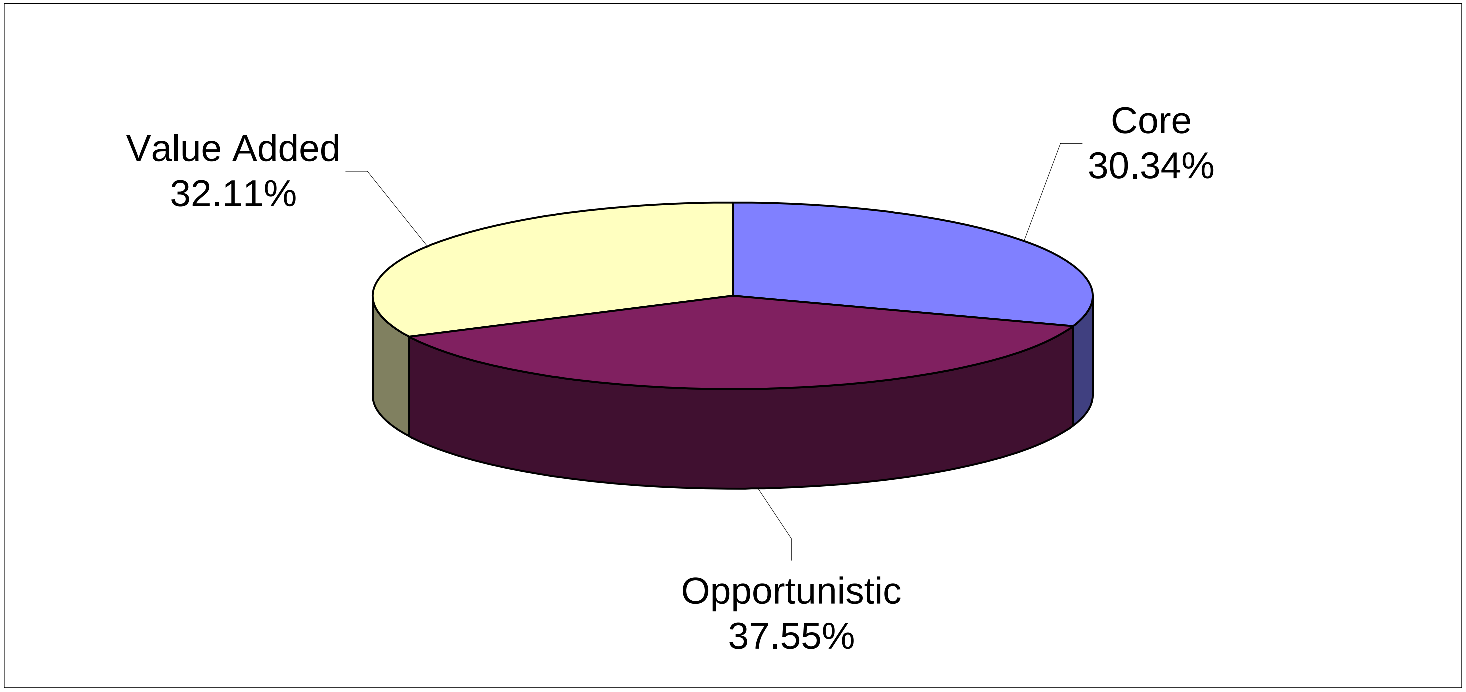
(v) **Real Estate Pool Holdings.** This report summarizes all MTRP portfolio fund holdings by shares, book value and market value as of 09/30/08.

(vi) **New Commitments**. There were no new fund commitments made to the MTRP since the August Board Meeting.

Montana Real Estate Pool

Strategy Total Exposure by Market Value & Remaining Commitments

(Since inception through June 30, 2008)

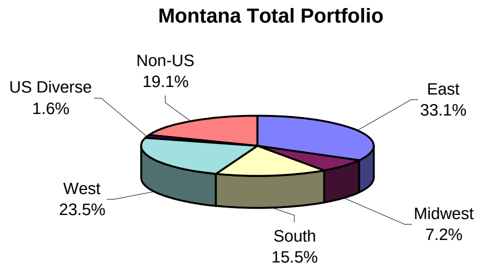


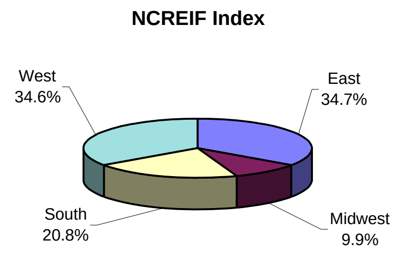
Strategy	Remaining Commitments	Market Value	Total Exposure	Percentage
Core	$0	$168,865,147	$168,865,147	30.34%
Opportunistic	$144,236,965	$64,783,069	$209,020,034	37.55%
Value Added	$88,281,574	$90,445,667	$178,727,241	32.11%
Total	$232,518,539	$324,093,883	$556,612,422	100.00%

Total Portfolio Characteristics

Geographic Diversification[1]

(as of June 30, 2008)





Geographically, Montana's domestic investments were overweighted in the East regions and underweighted in the Midwest, South, and West regions when compared to the NCREIF Property Index as of June 30, 2008. This can best be seen in the "Difference" line in the table below since the pie chart also includes the non-US exposure which dilutes the US regional exposures and magnifies the differences vs. NCREIF (a US-only benchmark).

	East	Midwest	South	West	US Diverse	Non-US	Total
Montana Total Value[2]	$238.9	$52.2	$111.5	$169.1	$11.6	$137.8	$721.1
Montana Total[1]	33.1%	7.2%	15.5%	23.5%	1.6%	19.1%	100.0%
Montana US Value[2]	$238.9	$52.2	$111.5	$169.1	$11.6	-	$583.3
Montana US Total[1]	41.0%	8.9%	19.1%	29.0%	2.0%	-	100.0%
NCREIF Value[2, 3]	$115,316.0	$32,918.0	$69,106.0	$115,534.0	$0.0	-	$332,874.0
NCREIF[1]	34.6%	9.9%	20.8%	34.7%	0.0%	-	100.0%
Difference	6.3%	-0.9%	-1.6%	-5.7%	2.0%		

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

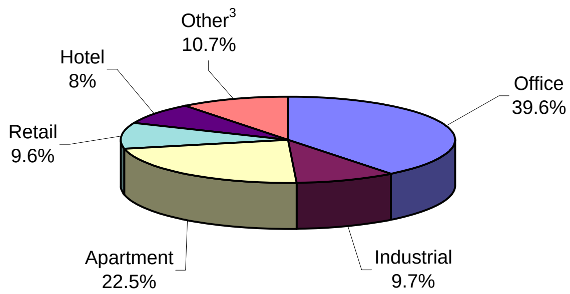
[2] *Values shown are in Millions.*

[3] *The NCREIF gross market values represent the total gross asset values of the participating funds exclusive of any underlying debt.*

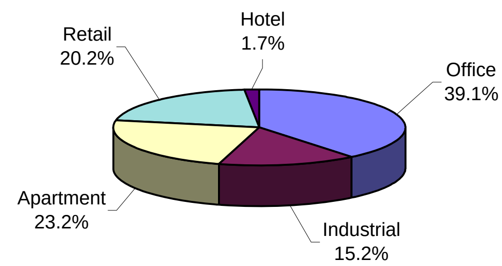
Total Portfolio Characteristics

Property Type Diversification[1]
(as of June 30, 2008)

Montana Total Portfolio



NCREIF Index



Relative to the NCREIF Property Index, Montana's domestic investments were overweighted in the apartment and hotel sectors yet underweighted in the office, industrial, and retail sectors, as of June 30, 2008.

	Office	Industrial	Apartment	Retail	Hotel	Other[3]	Total
Montana Total Value[2]	$285.4	$69.8	$162.3	$69.1	$57.7	$76.8	$721.1
Montana Total[1]	39.6%	9.7%	22.5%	9.6%	8.0%	10.7%	100.0%
Montana US Value[2]	$216.1	$69.8	$155.1	$67.1	$42.5	$32.7	$583.3
Montana US Total	37.0%	12.0%	26.6%	11.5%	7.3%	5.6%	100.0%
NCREIF Value[2,4]	$130,265	$50,612	$79,061	$67,157	$5,780	-	$332,875
NCREIF[1]	39.1%	15.2%	23.8%	20.2%	1.7%	-	100.0%
Difference	-2.1%	-3.2%	2.8%	-8.7%	5.5%	5.6%	
Montana Non-US Value[2]	$69.3	$0.0	$7.2	$2.0	$15.2	$44.1	$137.8
Montana Non-US Total	50.3%	0.0%	5.2%	1.5%	11.0%	32.0%	100.0%

[1] *Diversification percentages are based on the Gross Market Value, which represents the MBOI share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property.*
[2] *Values shown are in Millions.*
[3] *Other consists of $59,879,697 in diversified-use assets, $11,162,318 in healthcare/senior living, and $5,715,390 in land.*
[4] *The NCREIF gross market values represent the total gross asset values of the participating funds exclusive of any underlying debt.*

Real Estate Portfolio Status Report
All Investments
(as of June 30, 2008)

Description	Vintage Year	Commitment	Capital Contributed	Remaining Commitment	Capital Distributed	Net Asset Value	Investment Multiple
	Since Inception						
Total		**568,862,100**	**336,343,560**	**232,518,539**	**27,059,855**	**324,093,882**	**1.04**
Core		**155,000,000**	**155,000,000**	**-**	**3,608,249**	**168,865,147**	**1.11**
Clarion Lion Properties Fund	2006	45,000,000	45,000,000	-	2,367,771	49,600,799	1.15
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	-	822,097	46,937,170	1.06
JP Morgan Strategic Property Fund	2007	65,000,000	65,000,000	-	418,381	72,327,177	1.12
Opportunistic		**224,662,100**	**80,425,134**	**144,236,965**	**9,125,161**	**64,783,069**	**0.90**
AG Realty Fund VII L.P.	2007	20,000,000	3,600,000	16,400,000	-	3,133,167	0.87
Beacon Capital Strategic Partners V	2007	25,000,000	12,500,000	12,500,000	-	12,369,818	0.99
Carlyle Europe Real Estate Partners III	2007	34,662,100	6,600,088	28,062,011	-	6,160,556	0.86
CIM Fund III, L.P.	2007	25,000,000	1,737,101	23,262,899	455,763	464,324	0.52
JER Real Estate Partners - Fund IV	2007	20,000,000	20,000,000	-	5,054,633	13,983,727	0.95
Liquid Realty IV	2007	30,000,000	12,313,193	17,686,807	2,926,620	9,610,501	0.98
Macquarie Global Property Fund (Asia)	2007	30,000,000	3,794,964	26,205,036	-	3,624,936	0.96
MSREF VI International	2007	25,000,000	14,260,713	10,739,287	688,145	9,855,609	0.74
O'Connor North American Property Partners II [2]	2008	15,000,000	5,619,075	9,380,925	-	5,580,430	0.95
Value Added		**189,200,000**	**100,918,426**	**88,281,574**	**14,326,445**	**90,445,667**	**1.04**
ABR Chesapeake Fund III	2006	20,000,000	14,000,000	6,000,000	241,917	14,405,466	1.05
AG Core Plus Realty Fund II	2007	20,000,000	5,200,000	14,800,000	508,403	4,664,534	0.99
Apollo Real Estate Finance Corp.	2007	20,000,000	4,798,000	15,202,000	178,093	4,862,824	1.05
DRA Growth & Income Fund VI	2007	35,000,000	12,969,607	22,030,393	3,161,008	10,272,803	1.02
Hudson Realty Capital Fund IV	2007	25,000,000	21,500,000	3,500,000	-	21,872,579	1.02
Realty Associates Fund VIII	2007	20,000,000	16,014,355	3,985,645	309,248	16,548,218	1.05
Rothschild FARS Fund V LP	2007	30,000,000	11,992,225	18,007,775	9,927,777	2,304,522	1.02
Strategic Partners Value Enhancement Fd	2007	19,200,000	14,444,239	4,755,761	-	15,514,721	1.07

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

2 Industry standards require that the first period that a cash flow occurred be omitted from the return calculation for purposes of calculating a time-weighted return when it represents only a partial period of income. As a result O'Connor North American Partners II had its first contributions during Q2 2008 and was not subject to performance on the previous pages.

9/30/2008 Private Real Estate Holdings

Fund Name	Shares	Book Value	Market Value	%
ABR CHESAPEAKE III	15,845,514	15,845,514	16,405,463	4.64%
AG REALTY FUND VII LP	3,600,000	3,600,000	3,133,166	0.89%
AG CORE PLUS REALTY FD II	4,881,597	4,881,597	4,664,532	1.32%
APOLLO REAL ESTATE FINANCE COR	6,263	6,263,000	6,327,824	1.79%
BEACON CAPITAL PARTNERS FUND V	15,000,000	15,000,000	14,869,815	4.20%
CIM FUND III	1,074,902	1,074,902	885,854	0.25%
CLARION LION PROPERTIES FUND	31,957	45,000,000	48,903,924	13.83%
DRA ADVISORS VI	10,191,368	10,191,368	10,191,368	2.88%
JP MORGAN CB	37,804	68,566,093	72,215,334	20.42%
HUDSON REALTY CAPITAL FUND IV	25,000,000	25,000,000	25,274,225	7.15%
INVESCO CORE REAL ESTATE USA	309	45,000,000	46,756,238	13.22%
MORGAN STANLEY REAL ESTATE	13,600,275	13,600,275	11,768,644	3.33%
JER REAL EST PARTNERS FUND IV	14,961,499	14,961,499	13,983,720	3.95%
LIQUID REALTY FUN IV	13,497,943	13,497,943	13,757,010	3.89%
MACQUARIE GBL PROP III ASIA	3,794,964	3,794,964	3,624,934	1.03%
OCONNOR NTH AMER PROP PTNRS II	7,677,631	7,677,631	7,638,989	2.16%
STRATEGIC PARTNERS VALUE	14,492,239	14,492,239	16,282,726	4.60%
ROTHSCHILD FIVE ARROWS REALTY	2,135,771	2,135,771	1,941,218	0.55%
TA ASSOCIATES REALTY FUND	19,000,000	19,000,000	19,548,226	5.53%
CARLYLE EUROPE R E P III L P	5,676,618	8,842,256	7,741,900	2.19%
REAL ESTATE Total	**170,506,655**	**338,425,053**	**345,915,111**	**97.82%**
SHORT TERM INVESTMENT POOL	7,710,886	7,710,886	7,710,886	2.18%
CASH EQUIVALENT Total	**7,710,886**	**7,710,886**	**7,710,886**	**2.18%**
Grand Total	**178,217,541**	**346,135,939**	**353,625,998**	**100.00%**

Montana Domestic Equity Pool

9/30/2008 Domestic Stock Pool By Manager			
Manager Name	**Market Value**	**%**	**Approved Range**
-	-	-	
BGI EQUITY INDEX FUND	682,152,759	25.51%	
STATE STREET SPIF ALT INV	15,148,770	0.57%	0-5%
LARGE CAP CORE Total	**697,301,529**	**26.08%**	10-30%
ENHANCED INVEST TECHNOLOGIES	166,715,983	6.24%	
GOLDMAN SACHS ENHANCED LARGE	115,693,274	4.33%	
T ROWE PRICE ASSOCIATES INC	180,463,268	6.75%	
WESTERN ASSET US INDX PLUS LLC	140,446,047	5.25%	
LARGE CAP ENHANCED Total	**603,318,572**	**22.56%**	20-30%
BARROW HANLEY MEWHINNEY + STRS	167,613,843	6.27%	
QUANTITATIVE MANAGEMENT ASSOC	115,866,432	4.33%	
LARGE CAP VALUE Total	**283,480,275**	**10.60%**	
COLUMBUS CIRCLE INVESTORS	129,569,545	4.85%	
RAINIER INVESTMENT MGMNT INC	121,806,799	4.56%	
RENAISSANCE GROUP LLC	127,431,011	4.77%	
LARGE CAP GROWTH Total	**378,807,355**	**14.17%**	
LARGE CAP STYLE BASED Total	**662,287,630**	**24.77%**	20-30%
ANALYTIC INVESTORS MU3B	100,862,060	3.77%	
JP MORGAN ASSET MGMT MU3E	176,833,022	6.61%	
MARTINGALE ASSET MGMT MU3D	69,153,169	2.59%	
PARTIAL LONG/SHORT (130/30) Total	**346,848,251**	**12.97%**	10-20%
COMBINED LARGE CAP Total	**2,309,755,983**	**86.39%**	82-92%
ARTISAN MID CAP VALUE	57,196,182	2.14%	
BGI MIDCAP EQUITY INDEX FUND	19,229,442	0.72%	
MARTINGALE ASSET MGMT MID CAP	86,752,566	3.24%	
TIMESSQUARE CAPITAL MGMT	68,202,510	2.55%	
MID CAP Total	**231,380,700**	**8.65%**	5-11%
DIMENSIONAL FUND ADVISORS INC	52,981,541	1.98%	
NORTHPOINTE CAPITAL SMALL CAP	35,546,267	1.33%	
VAUGHAN NELSON INV	44,084,027	1.65%	
SMALL CAP Total	**132,611,834**	**4.96%**	3-8%
TOTAL MDEP	**2,673,748,517**	**100.00%**	

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

Returns across cap sizes reflect the difficult market environment. Small caps declined (0.9)% while mid caps declined (10.9)% and large caps lost (8.4)%. The fact that small caps did relatively well in such a negative market is surprising and suggests that market action was dominated by investors seeking to decrease exposure by selling the most liquid segments of the market - large and mid cap stocks. So far in October the small cap segment has caught up and underperformed relative to large caps in more characteristic fashion during the continued selloff. MDEP remained slightly overweight mid caps and small caps and slightly underweight large caps at the end of September.

COMPARATIVE RETURNS

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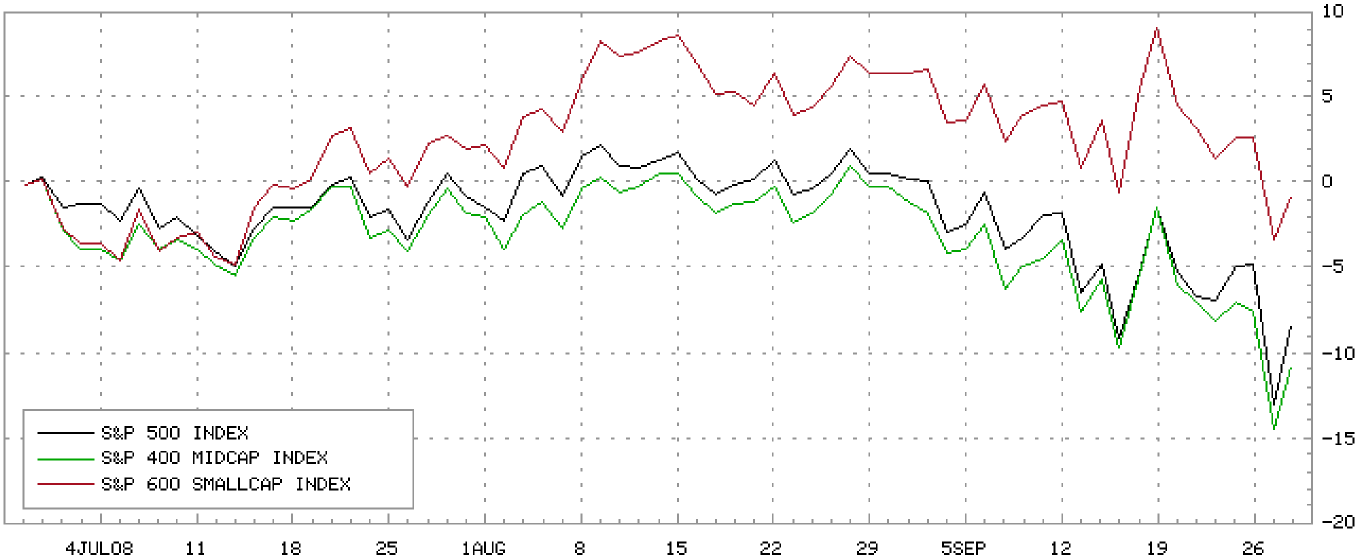
Range 6/30/08 - 9/30/08 Period D Daily 92 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	-8.88 %	-8.37 %	2.49 %	-29.30 %
2	MID Index	USD	-11.20 %	-10.86 %		-36.64 %
3	SML Index	USD	-1.17 %	-.86 %	10.01 %	-3.35 %

(* = No dividends or coupons)



Looking at style categories, value outperformed growth by a rather significant amount in the quarter, declining (5.0)% while growth returned (11.2)%. MDEP continues to have a tilt toward growth over value.

COMPARATIVE RETURNS

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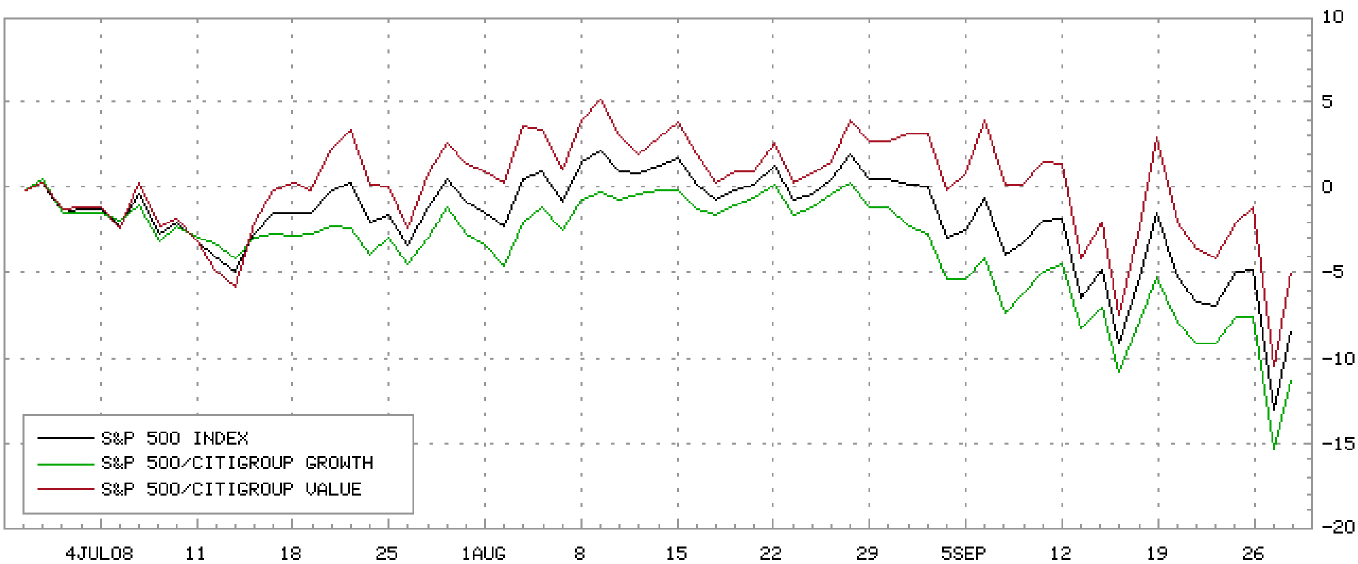
Range 6/30/08 - 9/30/08 Period D Daily 92 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	-8.88 %	-8.37 %	2.86 %	-29.30 %
2	SGX Index	USD	-11.54 %	-11.23 %		-37.66 %
3	SVX Index	USD	-5.73 %	-4.97 %	6.26 %	-18.30 %

(* = No dividends or coupons)



Volatility in the equity markets has been tremendous throughout this fall. With the exception of the 1930's, this type of volatility is unprecedented. A look at the volatility measure (VIX), sometimes called the "fear index," over the past year shows the stress level in the U.S. market. Recall that a VIX reading in the 30's has been characterized as evidence of a typical stress point. During the past few weeks, the VIX reading has been near twice that level and actually soared to an intraday high of 89 on October 24.

Volatility is expected to remain above normal given ongoing market anxiety and the potential downside from a continuation of what has appeared to be forced selling on the part of certain market participants. The problems that face the global economic system are very large. It will take continued nimble action on the part of central banks and fiscal authorities, and frankly a matter of time for repair to be successful. A quick and sustained recovery in the equity markets is not likely.

MDEP's managers as a whole struggled in the recent quarter. The performance of quantitative and value managers has been affected by hedge fund selling of similar holdings to meet their liquidity needs. The performance of growth managers has been dragged down by investors selling high beta shares as well. Overall, the portfolios that were more defensively positioned fared the best.

Going forward the strategy is to remain slightly overweight growth versus value and to remain fairly neutral in relation to cap size.

DOMESTIC EXPOSURE-MARKET CAP %

September 30, 2008

MANAGERS	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	LARGE $20-$50B	LARGE $10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Analytic Investors, Inc	13.4	15.3	6.4	27.9	20.9	14.4	-1.7	-0.3	88.6
Artisan Partners	--	--	--	--	6.1	68.1	25.8	--	4.5
Barrow Hanley	--	13.0	5.8	29.6	14.1	33.4	4.1	0.1	37.9
Columbus Circle Investors	5.5	15.0	15.4	41.9	17.2	4.0	1.0	--	62.1
Dimensional Fund Advisors	--	--	--	--	--	0.1	68.7	31.0	0.8
Enhanced Invest Technologies	12.9	18.3	8.1	24.5	17.8	17.8	0.7	--	83.8
Goldman Sachs Enhanced Large Cap	11.9	21.4	10.9	29.8	9.4	11.7	3.9	0.0	86.9
J.P. Morgan	12.7	20.3	23.4	29.5	10.7	3.1	-0.7	--	94.9
Martingale Asset Mgmt	--	--	--	0.2	11.0	65.1	23.7	--	5.0
Martingale Enhanced Alpha	13.6	23.0	8.3	19.2	13.3	21.2	0.1	0.0	92.1
NorthPointe Cap	--	--	--	--	0.0	3.5	63.9	32.6	1.0
Quantitative Management	9.8	25.4	8.9	18.5	9.0	25.1	3.3	--	88.9
Rainier Investment Mgt	4.4	14.1	16.1	37.6	12.0	15.5	0.3	--	54.6
Renaissance Investment Mgt	4.3	14.3	7.5	40.0	19.9	13.9	0.0	0.0	52.7
T. Rowe Associates	12.1	20.9	12.4	25.8	13.7	13.9	1.1	0.0	87.9
TimesSquare Cap Mgmt	--	--	--	--	13.6	75.9	9.6	0.9	6.1
Vaughan Nelson Mgmt	--	--	--	0.0	0.0	29.1	69.1	1.7	2.1
Western Asset US Index Plus	11.9	22.0	11.6	28.0	13.4	12.3	0.7	--	88.2
BGI Equity Index Fund	11.9	22.0	11.6	28.0	13.4	12.3	0.7	--	88.2
BGI Midcap Equity Index Fund	--	--	--	--	--	64.6	35.0	0.4	3.1
ALL DOMESTIC EQUITY PORTFOLIOS	**8.7**	**16.9**	**9.8**	**25.2**	**12.9**	**18.9**	**6.0**	**1.1**	**69.4**
Benchmark: S&P Composite 1500	**10.5**	**19.4**	**10.3**	**24.7**	**11.8**	**16.2**	**6.6**	**0.5**	**78.0**
Over/underweight(-)	**-1.8**	**-2.5**	**-0.4**	**0.5**	**1.1**	**2.7**	**-0.6**	**0.6**	

DOMESTIC EXPOSURE-SECTOR %

September 30, 2008

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Analytic Investors, Inc	5.9	10.5	13.8	16.2	14.7	9.9	17.7	1.7	3.4	2.6
Artisan Partners	19.2	0.9	4.6	21.1	2.2	29.2	22.0	--	--	0.9
Barrow Hanley	12.5	8.7	9.5	18.1	16.4	15.7	5.9	1.7	3.2	8.4
Columbus Circle Investors	7.6	13.3	7.8	9.3	21.7	8.8	24.6	5.9	1.0	--
Dimensional Fund Advisors	14.0	4.2	5.2	16.0	14.6	19.3	17.5	4.6	0.9	3.5
Enhanced Invest Technologies	10.0	12.2	14.3	14.7	12.5	12.6	12.6	3.2	3.3	4.5
Goldman Sachs Enhanced Large Cap	8.7	11.6	13.3	16.3	13.6	10.8	15.6	2.9	3.2	2.9
J.P. Morgan	10.1	12.1	13.7	13.7	12.8	8.7	19.4	3.1	3.1	2.4
Martingale Asset Mgmt	16.7	5.3	8.6	17.2	8.8	14.0	15.4	6.2	1.4	6.3
Martingale Enhanced Alpha	8.0	11.2	14.6	12.9	14.6	15.5	15.6	1.2	3.3	1.8
NorthPointe Cap	17.7	6.0	6.7	4.7	21.7	19.0	23.0	1.1	--	--
Quantitative Management	12.8	4.8	18.4	22.7	11.4	8.5	1.9	4.1	6.2	8.1
Rainier Investment Mgt	13.3	10.3	8.9	6.9	16.7	10.7	27.5	4.0	0.5	1.1
Renaissance Investment Mgt	13.1	12.8	13.4	1.5	15.2	19.7	18.8	3.9	1.6	--
T. Rowe Associates	9.4	11.9	13.7	15.6	13.1	10.2	16.3	3.3	3.0	3.5
TimesSquare Cap Mgmt	12.0	3.6	8.5	8.8	19.0	18.7	20.3	4.0	5.2	--
Vaughan Nelson Mgmt	5.1	3.8	6.7	20.6	8.8	19.7	13.2	7.1	1.1	6.6
Western Asset US Index Plus	8.5	12.2	13.4	15.8	13.1	11.1	16.0	3.4	3.0	3.6
BGI Equity Index Fund	8.5	12.2	13.4	15.8	13.1	11.1	16.0	3.4	3.0	3.6
BGI Midcap Equity Index Fund	13.7	3.9	7.4	19.2	12.3	15.4	13.0	6.9	0.5	7.8
All Domestic Equity Portfolios	**10.3**	**10.3**	**12.2**	**14.5**	**13.8**	**12.6**	**16.2**	**3.4**	**2.8**	**3.4**
Benchmark: S&P Composite 1500	**9.1**	**11.2**	**12.6**	**16.2**	**13.1**	**11.7**	**15.7**	**3.7**	**2.7**	**4.0**
Over/underweight(-)	**1.2**	**-1.0**	**-0.4**	**-1.8**	**0.8**	**0.9**	**0.4**	**-0.2**	**0.0**	**-0.5**

Domestic Portfolio Characteristics

September 30, 2008

MANAGERS	Market Value (mm)	Number of Securities	5Yr Historical EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
Analytic Investors, Inc	104.3	327	21.4	12.0	2.3	1.8
Artisan Partners	57.2	46	23.5	11.2	1.6	1.5
Barrow Hanley	168.9	85	14.3	12.2	1.8	3.2
Columbus Circle Investors	128.3	49	29.4	18.4	3.0	1.1
Dimensional Fund Advisors	52.9	2,959	17.3	15.9	1.6	1.3
Enhanced Invest Technologies	167.0	388	21.2	14.0	2.4	2.2
Goldman Sachs Enhanced Large Cap	114.9	374	20.9	14.2	2.2	2.3
J.P. Morgan	178.2	223	23.4	13.0	2.2	2.4
Martingale Asset Mgmt	86.9	145	19.1	12.1	1.8	2.0
Martingale Enhanced Alpha	70.1	258	19.6	12.9	2.3	1.9
NorthPointe Cap	35.4	73	24.6	15.0	2.1	0.3
Quantitative Management	116.0	131	17.0	11.9	1.6	3.6
Rainier Investment Mgt	122.0	71	32.3	15.6	3.4	0.9
Renaissance Investment Mgt	127.5	55	23.5	13.5	3.4	1.5
T. Rowe Associates	180.6	295	21.7	14.2	2.3	2.3
TimesSquare Cap Mgmt	68.3	72	21.5	18.9	2.7	1.6
Vaughan Nelson Mgmt	44.9	72	20.0	14.6	1.8	1.4
Western Asset US Index Plus	140.4	499	20.6	14.1	2.2	2.5
BGI Equity Index Fund	682.2	499	20.6	14.1	2.2	2.5
BGI Midcap Equity Index Fund	19.2	400	17.9	15.2	1.9	1.8
All Domestic Equity Portfolios	**2,660.7**	**3,895**	**21.3**	**13.8**	**2.2**	**2.2**
BENCHMARKS						
S&P Composite 1500		**1,499**	**20.5**	**14.2**	**2.2**	**2.4**
S&P/Citigroup 1500 Pure Growth		404	27.0	15.5	2.5	0.8
S&P/Citigroup 1500 Pure Value		400	3.1	16.7	1.0	4.0
S&P 500		499	20.6	14.1	2.2	2.5
Russell 1000		998	20.8	14.0	2.2	2.4
Russell 1000 Growth		647	25.5	15.1	3.4	1.5
Russell 1000 Value		662	16.5	13.0	1.6	3.3
Russell Midcap		804	18.4	14.2	1.9	2.0
Russell Midcap Growth		505	25.1	14.8	3.0	1.0
Russell Midcap Value		543	12.3	13.7	1.4	3.1
Russell 2000		1,961	17.4	15.8	1.7	1.8
Russell 2000 Growth		1,207	23.4	18.0	2.7	0.7
Russell 2000 Value		1,317	13.4	14.3	1.2	2.8

Montana International Equity Pool

International Stock Pool By Manager as of 9/30/2008			
Security Name	**Market Value**	**%**	**Approved Range**
-	-	-	
BATTERYMARCH INTL EQUITY	139,399,680	12.70%	
BGI GLOBAL EX US ALPHA TILT FD	90,188,311	8.22%	
EAFE STOCK PERFORMANCE INDEX	16,146,839	1.47%	
ARTIO GLOBAL MU1G	139,179,370	12.68%	0-10%
CORE Total	**384,914,200**	**35.07%**	25-50%
ACADIAN ACWI EX US VALUE	105,528,464	9.62%	
BERNSTEIN ACWI EX	99,990,437	9.11%	
VALUE Total	**205,518,900**	**18.73%**	15-25%
HANSBERGER INTL EQUITY GROWTH	89,374,501	8.14%	
MARTIN CURRIE ACWI X	95,232,927	8.68%	
PRINCIPAL GLOBAL	49,195,927	4.48%	
GROWTH Total	**233,803,355**	**21.30%**	15-25%
BGI MSCI EQUITY INDEX FD EUROP	122,898,657	11.20%	0-12%
NOMURA ASSET MGMT INC	69,421,740	6.33%	0-8%
REGIONAL Total	**192,320,398**	**17.52%**	
AXA ROSENBERG INTL SMALL CAP	36,798,734	3.35%	
DFA INTL SMALL CO PORTFOLIO	44,084,682	4.02%	
SMALL CAP Total	**80,883,415**	**7.37%**	5-15%
TOTAL MTIP	**1,097,440,268**	**100.00%**	

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

The overall value of the pool reflects the difficult market environment. During the quarter emerging market stocks collapsed -27.0% while large caps fell -20.6% and small caps lost -23.9%. There was somewhat less of a difference between the performance of the categories than in past quarters, reflecting an across the board sell-off. The strength of the US dollar contributed to the negative returns across all the international markets with the exception of Japan where yen strength helped cushion a negative local return.

COMPARATIVE RETURNS

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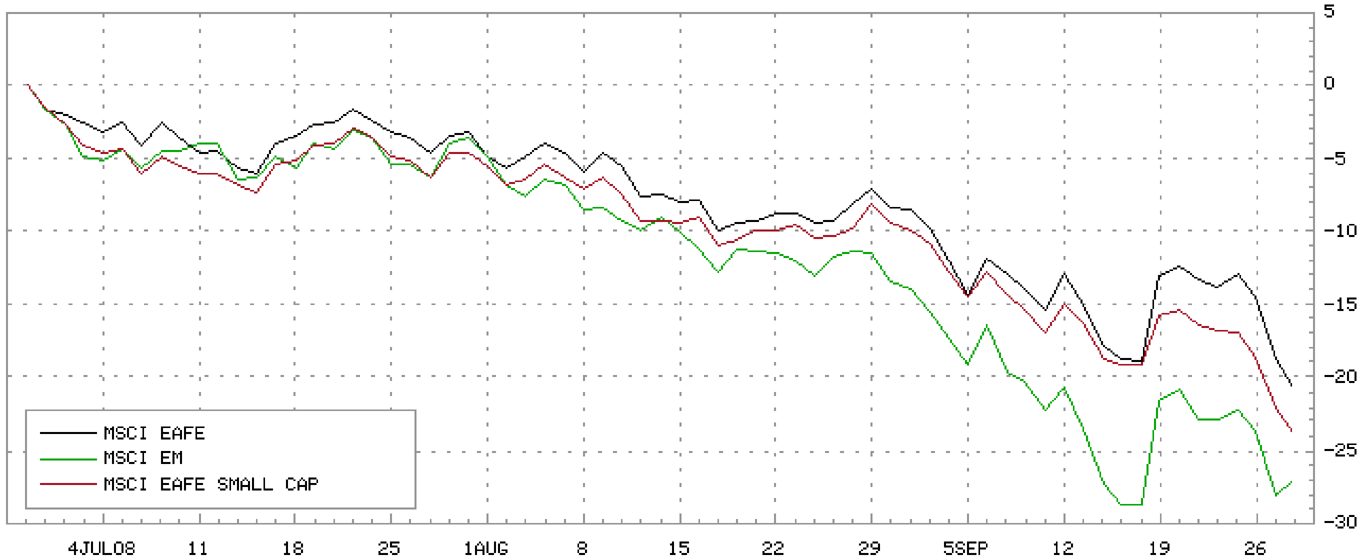
Range 6/30/08 - 9/30/08 Period D Daily 92 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	MXEA Index	USD	-21.05 %	-20.59 %	6.42 %	-59.94 %
2	MXEF Index	USD	-27.61 %	-27.01 %		-71.32 %
3	MXEASC Index	USD	-24.43 %	-23.93 %	3.08 %	-66.22 %

(* = No dividends or coupons)



Relative to the benchmark MTIP is still underweight emerging markets (EM). The weighting of the pool in emerging markets at quarter end stood at 15.2% compared to 18.6% for the benchmark. Recall that MTIP's weighting in EM is determined by the collective decisions of the individual managers within the pool. With regard to market capitalization, MTIP is overweight small cap stocks versus the benchmark.

Across style categories quarterly returns were disappointing for growth as well as value, with value doing comparatively better. Value returned -19.9% while growth fell -23.9%.
At this time, MTIP carries a slight growth bias.

MTIP's managers as a whole struggled in the quarter. Selling of crowded positions by investors who needed cash, primarily positions in commodity-related sectors, negatively affected performance. Exposure to EM contributed to the negative performance as well as these markets led the downward slide of stocks in general.

As with the domestic markets, a rapid and sustained rebound in international stock markets is not likely in the near future. In addition to problems with earnings growth globally, the U.S. dollar could continue to show strength against other currencies thereby making non-dollar investments less attractive. Again it will take time to repair the damaged global economic system and the financially challenged consumer.

Going forward the pool is positioned close to the benchmark in relation to cap size and style weights so manager performance collectively will be the more significant driver of MTIP performance. At some point, it is anticipated that the pool will be the beneficiary of rebalancing within the equity allocation.

INTERNATIONAL EXPOSURE-MARKET CAP %

September 30, 2008

Managers	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	LARGE $20-$50B	LARGE $10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Acadian Asset Management	---	13.6	10.5	19.4	16.4	29.1	9.9	1.0	26.1
Artio Global - Intl Equity II with look throughs	---	12.8	7.4	14.2	14.5	19.1	3.8	10.8	41.8
AXA Rosenberg	---	--	--	--	2.8	31.5	44.2	19.3	1.7
Batterymarch Financial Mgmt	---	17.1	16.8	16.6	13.7	31.3	4.2	0.5	34.9
Bernstein Inv Mgt & Research with look throughs	---	14.8	17.1	23.6	17.5	21.3	5.0	0.5	33.1
BGI Global Ex US Alpha Tilt Fd	---	14.9	15.7	25.3	13.4	21.1	7.4	0.7	35.5
DFA International Small Cap	---	--	0.0	0.1	0.0	6.1	61.9	30.9	0.8
Hansberger Global Investors	---	13.2	17.2	19.1	19.1	27.4	3.9	--	29.5
Martin Currie with look throughs	---	19.9	17.9	21.0	16.8	18.8	2.6	1.7	41.2
Nomura Asset Management	---	5.1	8.9	26.8	14.4	28.6	14.3	1.8	22.1
Principal Global Investors	---	16.0	14.8	28.3	14.6	20.6	5.6	--	34.6
BGI MSCI Europe Index Fund	---	24.3	22.1	23.6	12.6	15.9	1.4	--	50.1
ALL INTERNATIONAL EQUITY PORTFOLIOS	**0.0**	**14.4**	**13.7**	**19.2**	**14.1**	**22.8**	**9.0**	**3.9**	**33.1**
International Custom Benchmark	**0.0**	**14.6**	**15.7**	**26.0**	**15.5**	**22.6**	**5.2**	**0.4**	**39.1**
Over/underweight(-)	**0.0**	**-0.1**	**-2.0**	**-6.8**	**-1.4**	**0.1**	**3.8**	**3.5**	

INTERNATIONAL EXPOSURE-SECTOR %

September 30, 2008

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	12.0	2.0	13.2	33.6	0.6	7.5	7.4	10.0	8.0	5.3
Artio Global - Intl Equity II with look throughs	4.6	12.8	3.6	16.1	9.2	8.3	2.2	6.1	4.9	3.0
AXA Rosenberg	11.8	7.0	4.7	15.5	1.5	24.2	8.3	17.9	1.6	3.6
Batterymarch Financial Mgmt	8.3	6.1	13.1	20.7	8.6	10.7	5.8	12.7	8.8	5.4
Bernstein Inv Mgt & Research with look through	8.6	2.0	15.7	25.5	4.9	6.2	6.8	18.5	7.9	3.7
BGI Global Ex US Alpha Tilt Fd	8.9	6.4	11.0	24.4	7.4	11.8	5.7	9.9	7.3	5.6
DFA International Small Cap	17.3	7.6	5.9	13.4	6.0	26.3	8.3	11.4	0.7	2.2
Hansberger Global Investors	12.1	5.2	8.6	23.0	8.1	10.5	10.5	10.8	8.2	2.8
Martin Currie with look throughs	5.7	8.6	9.1	23.7	10.1	10.8	5.9	7.5	7.6	9.3
Nomura Asset Management	12.9	5.0	5.2	27.0	1.9	14.9	12.5	12.8	5.2	2.7
Principal Global Investors	9.4	13.3	6.8	12.8	11.3	14.6	8.4	11.8	3.9	7.1
BGI MSCI Europe Index Fund	7.9	10.9	10.8	25.6	10.1	9.7	3.0	7.9	6.9	7.3
All International Equity Portfolios	**9.1**	**7.3**	**9.5**	**22.6**	**7.1**	**11.1**	**6.4**	**10.7**	**6.6**	**5.0**
International Custom Benchmark	**8.6**	**8.0**	**11.4**	**26.2**	**6.7**	**10.4**	**6.1**	**10.3**	**6.7**	**5.6**
Over/underweight(-)	**0.5**	**-0.7**	**-1.8**	**-3.6**	**0.4**	**0.7**	**0.3**	**0.4**	**-0.1**	**-0.7**

International Portfolio Characteristics

September 30, 2008

	Market Value	Number of Securities	5Yr Hist EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
International Accounts with look throughs	**1,078.8**	**6,888**	**21.7**	**9.1**	**1.4**	**4.01**
International Equity Managers						
Acadian Asset Management	106.0	263	21.3	6.5	1.1	4.69
Artio Global - Intl Equity II with look throughs	136.8	266	18.7	10.8	1.7	3.57
AXA Rosenberg	36.8	1,122	17.6	8.4	0.9	4.47
Batterymarch Financial Mgmt	139.2	217	21.9	9.2	1.7	3.82
Bernstein Inv Mgt & Research with look throughs	99.2	227	22.5	6.9	1.0	5.54
BGI Global Ex US Alpha Tilt Fd	91.1	1,669	22.4	9.0	1.5	4.32
DFA International Small Cap	44.0	4,548	18.9	9.1	1.1	3.71
Hansberger Global Investors	89.3	69	28.5	12.9	2.4	2.27
Martin Currie with look throughs	95.2	128	22.7	10.5	1.8	3.78
Nomura Asset Management	69.6	198	23.8	10.3	1.3	3.09
Principal Global Investors	49.1	182	24.7	11.7	2.2	2.90
BGI MSCI Europe Index Fund	122.9	514	17.5	8.8	1.4	4.94
Benchmarks						
MSCI All Country World Ex-United States		1,910	21.6	9.6	1.5	4.06
MSCI All Country World Ex-United States Growth		1,057	24.9	12.0	2.1	2.78
MSCI All Country World Ex-United States Value		1,123	18.4	8.0	1.1	5.32
MSCI EAFE Small Cap		2,333	21.2	7.7	1.0	4.20
MSCI World Ex-United States Small Cap		2,537	21.3	7.8	1.0	4.10
MSCI All Country Pacific		922	22.0	10.8	1.4	3.27
MSCI Europe		514	17.5	8.8	1.4	4.94

MEMORANDUM

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

To: Members of the Board

From: Rande R. Muffick, CFA
Portfolio Manager

Date: November 5, 2008

Subject: Public Equity External Managers Watch List - Quarterly Update

There were no removals from or additions to the Watch List this quarter. The four managers on the list previously, remain on the list, as shown below.

There were no manager terminations during the quarter.

For reference, the manager evaluation policy approved in May, 2008 is attached.

MANAGER WATCH LIST

November 2008

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

FIXED INCOME OVERVIEW & STRATEGY

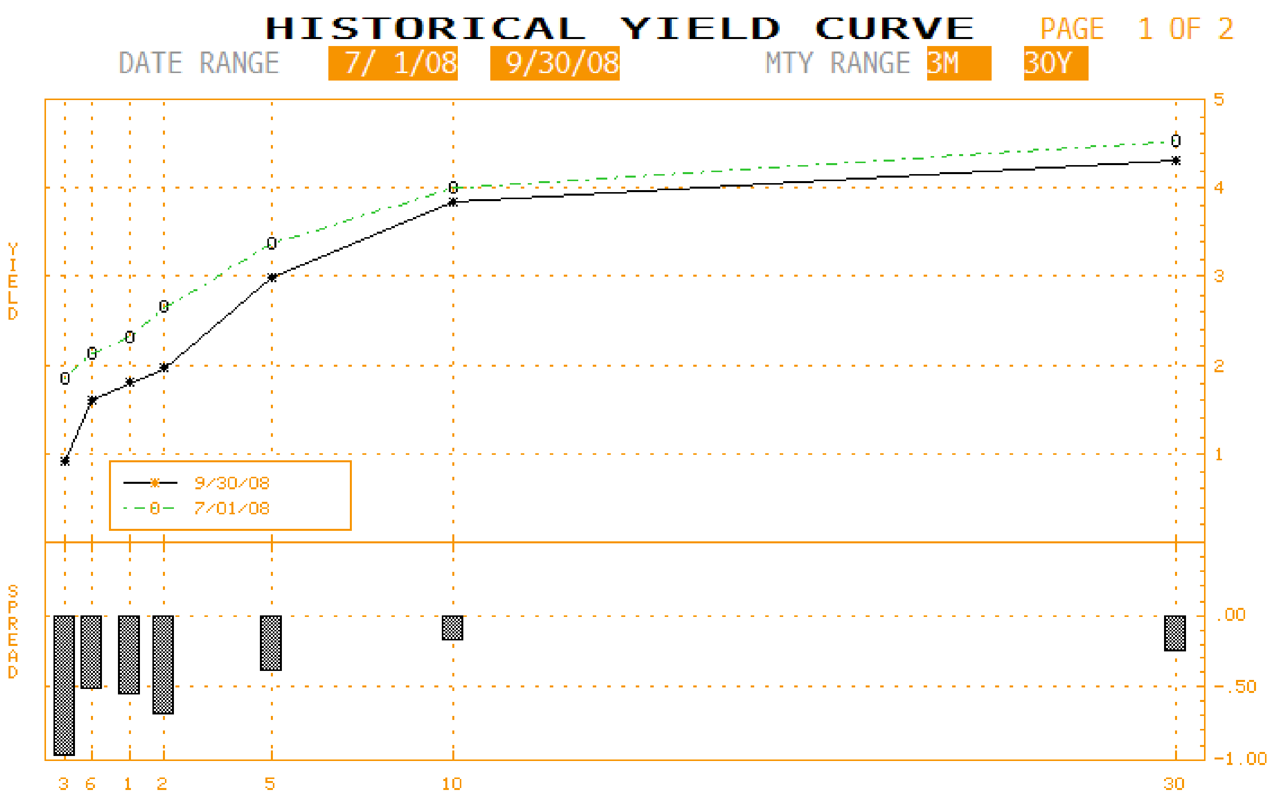
November 12, 2008

RETIREMENT & TRUST FUNDS BOND POOLS

The yield curve steepened during the third quarter with the yield differential between two and thirty year Treasury bonds increasing from 190 basis points to 235 during a period of falling interest rates. The yield on the 2-year Treasury note decreased by 66 basis points to 1.96% while the yield on the 30-year Treasury bond went down by only 21 basis points to 4.31%.

Inflation worries subsided, clearing the way for lower interest rates. Expectations for Fed easing worked their way into the market as well in the wake of headline-grabbing financial disasters. Worries about higher food and energy prices in the second quarter gave way with the emergence of economic weakness. Oil prices declined sharply, closing the quarter at $100 per barrel, down from $141 on June 30th. Prices continued to drop after quarter end, hitting $64 on October 24th. Central banks around the world are injecting massive amounts of liquidity into the capital markets in an effort to ease the credit crunch and avoid the threat of deflation.

The Federal Funds interbank lending rate was cut by 50 basis points to 1.50% just after quarter end, on October 8th as part of a coordinated cut by global central banks hoping to stem a growing financial panic. Rates were reduced another 50 basis points to 1.00% on October 29th at the scheduled FOMC meeting. The Fed began easing a little more than one year ago on September 18, 2007, when Fed Funds was at its high of 5¼%. The central bank lowered short term interest rates by a total of 325 basis points over the subsequent seven months before pausing at 2%.



The number of new non-farm jobs has contracted for nine consecutive months. Other indications that make the case for slower growth ahead: consumer sentiment is down, financial institutions are not lending and earnings are expected to decline. Third quarter GDP confirmed recession worries with the first negative posting of 0.3%. The technical definition of a recession is at least two consecutive quarters of negative GDP. Second quarter GDP was +2.8%.

Treasury bonds continued to perform well in relation to other sectors (+2.30% in the third quarter). The demand for liquidity remains strong as institutional investors opt for safety over yield. Conversely, yield spreads on corporate bonds are historically very wide, reflecting investors' unwillingness to take on credit risk. Financial issuers fared poorly in the third quarter (-13.79%), trailing utilities (-3.79%) and industrials (-3.21%). Mortgage pass through securities (+2.04%) held up well, although asset backed securities (-3.72%) and commercial mortgage backed bonds (-5.83%) performed poorly.

The story underlying this economic backdrop was a quarter which should live in infamy for its extreme and relentless volatility. During September and October, the federal government placed GSE's Fannie Mae and Freddie Mac into conservatorship, wiping out stockholders and injecting $200 billion into the agencies. Merrill Lynch was acquired by Bank of America while Lehman Brothers filed for bankruptcy, ending its 158-year history. The U.S. Government bought a 79.9% equity stake in AIG and loaned the insurance giant $123 billion. Morgan Stanley and Goldman Sachs reorganized as bank holding companies. The Reserve Primary money market fund broke the buck and shut down. Washington Mutual was seized by federal regulators. Wells Fargo bought Wachovia and Pittsburgh National Corp. bought National City. Congress approved a $700 billion bailout package at the urging of Secretary Treasury Paulson.

Because financial institutions are reluctant to lend to one another, the credit markets have seized up. Subprime mortgages and other illiquid securities are at the root of the problem because their values are difficult to quantify. Despite billions in write downs to date, the toxic securities may have to be isolated and/or purged from the financial system. The New York Fed is overseeing the opening of a clearinghouse for the very large credit default swaps market. The Treasury has set up a Troubled Assets Relief Program (TARP) to allow financial institutions to offload toxic assets, with the $700 billion program committed to not only buying troubled assets but now also purchasing equity stakes in banking companies.

The Retirement Fund Bond Pool (RFBP) funded its first of four external managers, Reams Asset Management, on October 1st. Approximately $200mm in cash and securities was transferred to the firm from the internally-managed portfolio. The third quarter performance of the RFBP and the Trust Fund Bond Pool (TFBP) continue to suffer from the historical overweight to credit-related securities during a period of widening risk premiums. They were also adversely affected by the Lehman and Washington Mutual defaults. Additionally, overstated market values were adjusted on four Collateralized Debt Obligations, causing further damage to returns.

Asset Allocation Sectors & Ranges

09/30/08

Sectors	RFBP	TFBP	Lehman Aggregate Index	Policy Ranges
U.S. Treasury	8.81%	6.32%	22.94%	0-25%
U.S. Agency & Government Related	6.70%	14.03%	10.81%	15-35%
Total Government	15.51%	20.35%	33.75%	20-45%
Mortgage-Backed Securities	34.07%	30.76%	36.88%	10-35%
Hybrid ARMS Mortgage-Backed	0.00%	0.00%	3.22%	0-5%
Asset-Backed Securities/Other	4.66%	2.71%	0.72%	0-10%
Commercial Mortgage-Backed	6.68%	5.16%	4.60%	0-10%
Total Structured	45.41%	38.63%	45.42%	20-45%
Corporate Credit	35.68%	37.18%	18.01%	20-50%
Non-Corporate Credit	0.00%	0.00%	2.82%	0-10%
Total Credit	35.68%	37.18%	20.83%	20-50%
Short-Term Investment Pool (STIP)	3.40%	3.84%	0.00%	0-10%
TOTAL	100.00%	100.00%	100.00%	100%
Market Value:	$1,852,556,871	$1,460,205,615		

The asset allocation table shows the bond pools as being below the target range for Agency and other Government related debt. In the future some income and other cash in the Retirement and Trust Funds will go into liquid agencies and additional Treasury securities. Up until this point, we had sold illiquid agencies and reinvested the proceeds into mortgage pass through securities which caused the agency debenture exposure to decline. We have increased our exposure to Treasuries and to mortgage pass through securities over the past several months in an effort to bolster quality and liquidity while reducing investments in illiquid, higher yielding bonds. Market conditions in September and October have greatly slowed the process of building up liquidity so that the restructuring will now take longer than we would have liked.

The table below shows the duration of the bond pools in comparison to that of the Lehman Aggregate Index. The duration of the portfolios has been kept relatively close to that of the benchmark since 2005. Duration or interest rate risk is close to neutral at this time given an expectation of generally stable to lower interest rates in a weak economy.

Pool Duration Relative to the Lehman Aggregate

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

The yield advantages offered in the corporate and agency sectors are very large and argue for maintaining the historical overweighting to the spread sectors in the near term. As you can see in the table shown below, the performance of the spread sectors trailed Treasuries by huge margins in the third quarter. Treasury bonds remain the best performing sector thus far in 2008. A flight to quality lasting this long is most unusual but it still shows few signs of abatement. Yields in the longer end of the maturity curve fell less than did shorter dated bonds because of growing expectations for easier monetary policy and the potential inflation threat that implies down the road.

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

	July-08	Aug-08	Sept-08
U.S. Aggregate	-0.50%	-0.20%	-1.90%
Aaa	-0.34%	-0.05%	-0.37%
Aa	-1.02%	-0.74%	-5.55%
A	-1.26%	-0.82%	-10.45%
Baa	-1.03%	-0.74%	-5.55%
U.S. Agency	0.04%	-0.36%	-0.49%
CMBS Investment Grade	-1.37%	-2.25%	-4.93%
U.S. Corporate Investment Grade	-1.14%	-0.72%	-8.38%
Industrial	-0.61%	-0.60%	-4.48%
Utility	-0.51%	-0.37%	-5.46%

Other portfolio characteristics as of 10/15/08

	Benchmark	RFBP	TFBP
Average maturity (yrs.)	7.27	7.06	7.87
Average yield to maturity	5.59%	7.39%	7.19%
Average coupon	5.33%	5.37%	4.83%
Average quality	Aa1/AA	Aa2/AA-	Aa2/AA-
Number of securities	9252	217	220

Summary

The federal government has become involved in the American economy to an extent not seen since the 1930's. Similar measures of intervention have taken place around the world, often in coordination with the U.S. Residential real estate debt has been the focal point of the weakness, but now concerns are rising over the quality of all forms of borrowing. Rising default rates in sub prime mortgage loans have resulted in the failure or sale of large banks. Surviving institutions are building up cash, rebuilding reserves and are not lending. Wall Street brokers and the banks that now own them are keeping securities inventories to a minimum, thus constraining liquidity.

Consumers are also paying down debt and increasing savings. A higher savings rate is part of the global de-leveraging trend being seen among all private sector borrowers. The Christmas retail season will offer more insight into the extent of the slowdown. Although new job creation has shown nine consecutive months of contracting jobs, the recent number of roughly 100,000 of net job losses per month is not as large as in past recessions. Still, though the severity and length of the current recession remains uncertain, it is certain that a weak economy will be the dominant theme for the fixed income markets for the foreseeable future.

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: October 30, 2008

Subject: Short Term Investment Pool (STIP)

Money markets continued to experience dislocations during the third quarter. The Fed left the fed funds rate unchanged at 2.00% throughout the quarter. 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 third quarter at about 315 basis points, which is above the previous peak of 240 in late August of 2007. Market participants became less concerned about inflation as everyone's attention shifted to surviving the credit and liquidity crunch. The Fed and Treasury are expected to continue to try different programs to unfreeze the money markets.

TED Spread (Sept 2007 – Sept 2008)

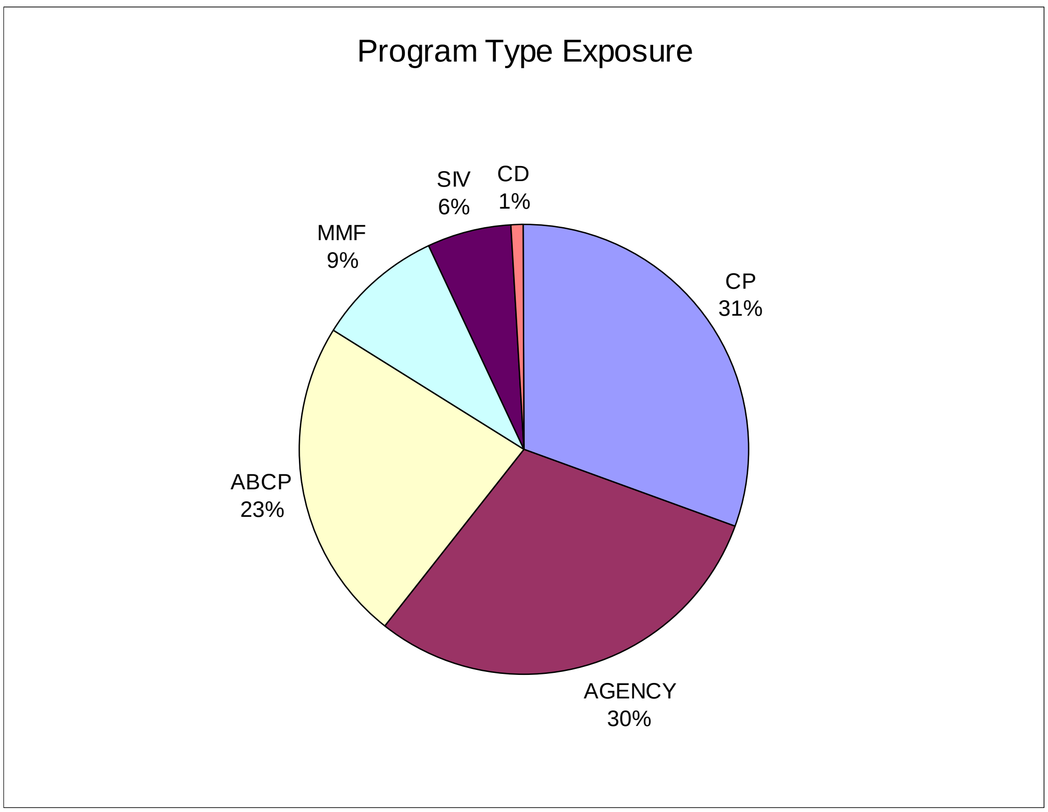
The STIP portfolio is currently well diversified and is operating within all the new guidelines adopted by the Board at the February meeting. Daily liquidity is at a minimum of $200 million and weekly liquidity is at a minimum of $350 million. The average days to maturity are about 51 days as compared to a policy maximum of 60 days. All securities purchased are from the approved list and are below the 2% maximum per name. Asset-backed commercial paper is about 23% of holdings

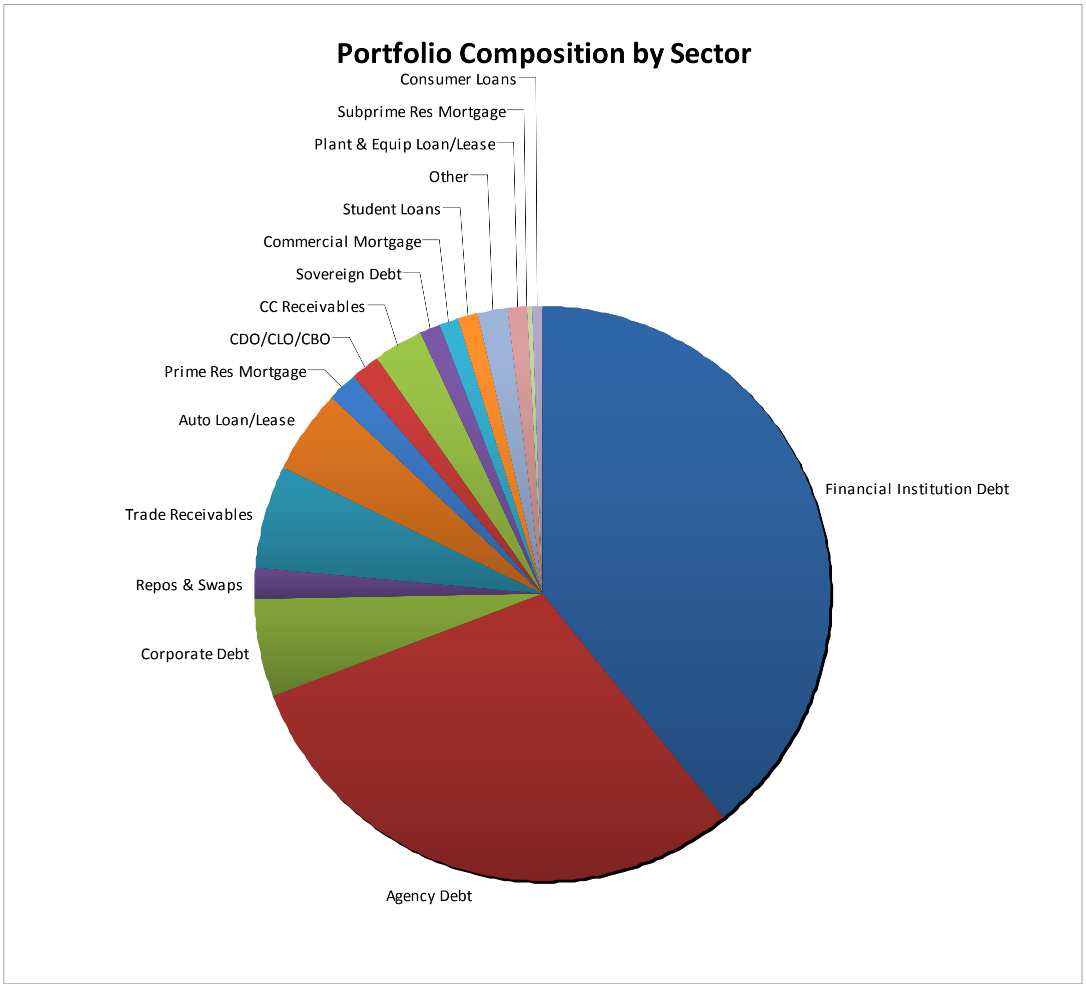
(40% max) and corporate exposure is around 28% (40% max). We currently have approximately 31% in agency paper and 10% in four institutional money funds.

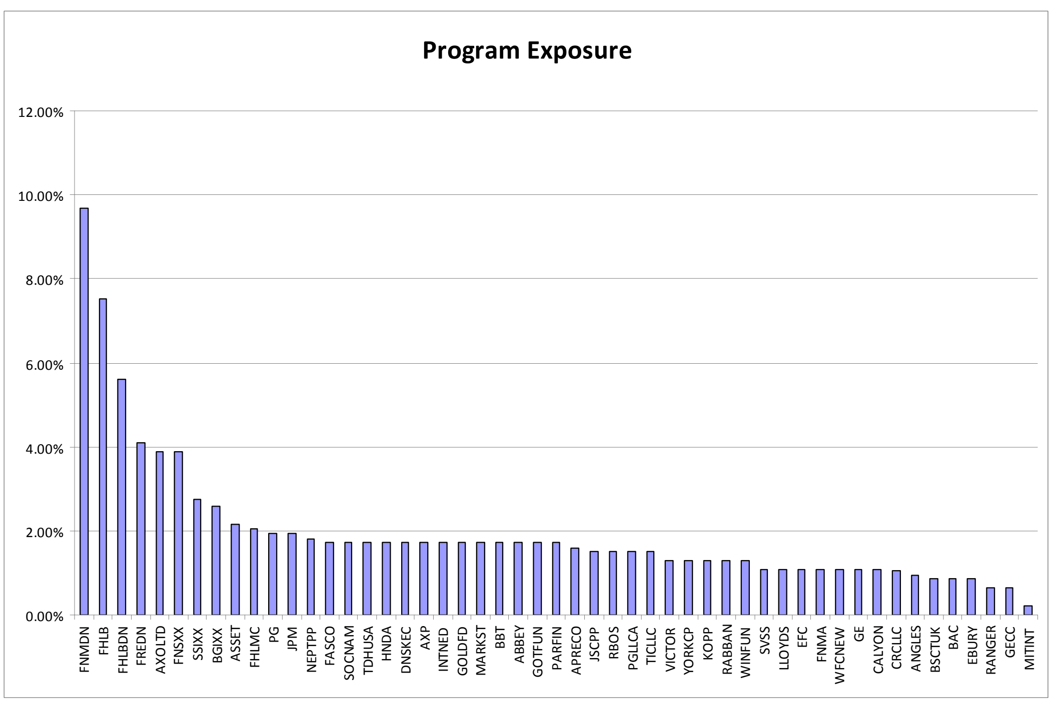
During the past three months, the agency sector of the portfolio has been extended by purchasing $250 million of securities with maturities longer than six months. Yields on agency money market securities increased as the market became concerned about the problems with Fannie Mae and Freddie Mac as well as the Federal Home Loan Bank. Increasing the agency exposure has increased the quality and liquidity of the portfolio as well as extending the average days to maturity. During the third quarter, twelve names were removed from the approved list and six were added. The removals consisted primarily of financial sector related issuers that presented a higher risk due to heightened uncertainty in the economy and financial markets.

The net yield on STIP is currently 2.72% as compared with the current one month LIBOR rate of 2.85% and current fed funds rate of 1.50%. The portfolio is currently $2.33 billion in assets.

All charts below are as of Oct 29, 2008.




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


Program Exposure
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
FNMDN FHLB FHLBDN FREDN AXOLTD FNSXX SSIXX BGIXX ASSET FHLMC PG JPM NEPTPP FASCO SOCNAM TDHUSA HNDA DNSKEC AXP INTNED GOLDFD MARKST BBT ABBEY GOTFUN PARFIN APRECO JSCPP RBOS PGLLCA TICLLC VICTOR YORKCP KOPP RABBAN WINFUN SVSS LLOYDS EFC FNMA WFCNEW GE CALYON CRCLLC ANGLES BSCTUK BAC EBURY RANGER GECC MITINT

STATE FUND INSURANCE- $841 million fixed income as of 09/30/08.
(Benchmark = Lehman Government/Credit Intermediate Index)

Portfolio characteristics as of 09/30/08:

	Benchmark	State Fund*
Duration (yrs.)	3.73	3.83
Quality (S&P)	AA+	AA
Yield to Maturity	4.53%	6.45%

Sectors	State Fund	Lehman Intermediate Govt/Credit Index
U.S. Treasury	6.1%	42.0%
U.S. Agency	34.4%	17.7%
Other Government	1.3%	7.3%
Total Government	41.8%	67.0%
Mortgage-Backed Securities	8.0%	0.0%
Asset-Backed Securities/Other	1.1%	0.0%
Commercial Mortgage-Backed	7.0%	0.0%
Total Structured	16.1%	0.0%
Industrial	13.8%	16.2%
Utility	2.5%	3.7%
Financial Institutions	25.8%	13.1%
Total Corporate	42.1%	33.0%
TOTAL	100.0%	100.0%

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

The portfolio has an overweight in agencies, mortgage backed securities (MBS), corporate bonds and commercial mortgage backed securities (CMBS) and is underweighted in Treasuries. Spread product ended the quarter at wider levels. 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.

During the third quarter, there were purchases of $35 million including: $5 million of corporate bonds, $10 million of MBS, $5 million of agencies and $15 million of Treasuries.

The portfolio has a 192 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 3.0%) and limiting holdings rated lower than A3 or A- to 20 percent of fixed income (currently 14.7%).

TREASURER'S FUND- $789 million including $80 million in fixed income as of 09/30/08. The strategy is to let maturities roll into STIP, at which point the account will hold only STIP.

Richard Cooley, CFA
Portfolio Manager- STIP/Fixed Income

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

	Par	Book	Market	Price	Name	Coupon %	Maturity	Ratings M/S&P	Comments
A	$50.000	$50.000	$40.000	$80.00	DOT Headquarters II Lease	6.001	11/15/11	NR/BB	The bond is Insured by XL Capital. Financial stress at XL resulted in a downgrade of the bond.
A	$15.000	$12.000	$2.100	$14.00	Lehman Brothers	2.951	05/25/10	B3/NR	Currently in default and liquidation
A	$5.000	$3.978	$0.650	$13.00	Lehman Brothers	5.000	01/14/11	B3/NR	Currently in default and liquidation
	$15.000	$15.003	$13.499	$89.99	Ford Motor Credit Corp	7.375	10/28/09	B1/B	Negative outlook due to deteriorating industry fundementals
	20.000	19.816	13.250	66.25	Kellwood Co	7.625	10/15/17	NR/NR	Agencies removed rating after buyout
	$105.000	$100.797	$69.499						

A = Additions since 6/30/2008

D = Deletions since 6/30/08 (none)

In default

	Par	Book	Market	Price	Name	Coupon %	Maturity	Ratings M/S&P	Comments
A	$15.000	$12.000	$2.100	$14.00	Lehman Brothers	2.951	05/25/10	B3/NR	Currently in default and liquidation
A	$5.000	$3.978	$0.650	$13.00	Lehman Brothers	5.000	01/14/11	B3/NR	Currently in default and liquidation
	$20.000	$15.978	$2.750						

Bond Program

INTERCAP Loan Program

Activity Summary

As of September 30, 2008

Since Inception 1987 - September 2008

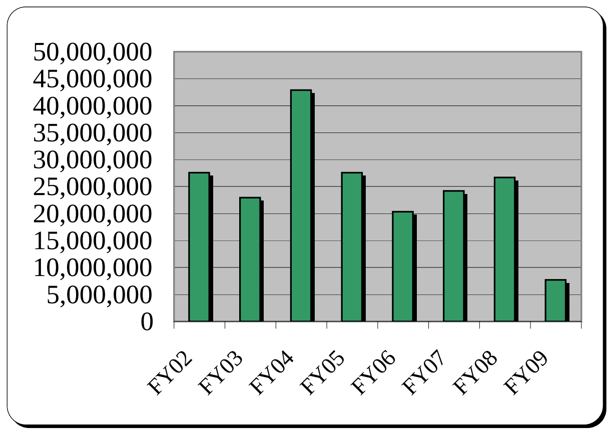
Total Bonds Issued	**124,000,000**
Total Loan Commitments	**308,340,769**
Total Loans Funded	**283,636,281**
Total Bonds Outstanding	**98,045,000**
Total Loans Outstanding	**74,239,584**
Loan Commitments Pending	**24,704,487**

FY2009 To Date

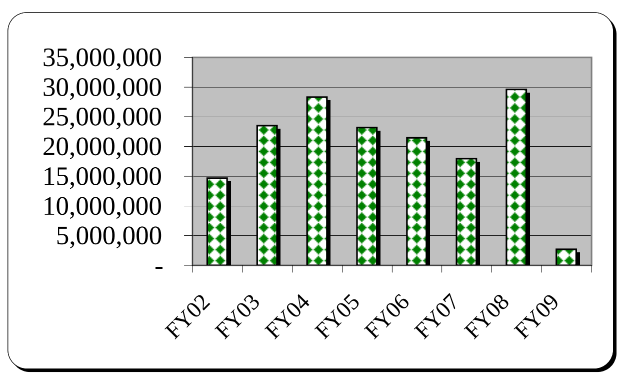
Month	Commitments	Fundings
July-08	$ 247,991	$ 1,066,447
August	1,372,958	662,931
September	6,078,958	959,160
October		
November		
December		
January		
February		
March		
April		
May		
June-09		
To Date	$ 7,699,907	$ 2,688,538

Note: Commitments include withdrawn and expired loans.

Commitments FY02-September 2008



Fundings FY02- September 2008



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

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

L:\INTERCAP\BOARD\ACTIVITY SUMMARY1

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: November 3, 2008

Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – July 1, 2008 through September 30, 2008.

Borrower:	City of Fort Benton
Purpose:	Digital Radio Equip. for Police Department
Staff Approval Date	July 31, 2008
Board Loan Amount:	$50,000.00
Term:	5 years

Borrower:	Dept. of Transportation
Purpose:	Motor Pool- Sedan
Staff Approval Date	July 31, 2008
Board Loan Amount:	$197,991.00
Term:	6 years

Borrower:	City of East Helena
Purpose:	Reconstruction of Municipal Swimming Pool
Staff Approval Date	August 7, 2008
Board Loan Amount:	$692,958.00
Term:	10 years

Borrower:	City of Helena
Purpose:	Sidewalk, Curb, Gutter, and Driveway/Ally Approach Replacement
Staff Approval Date	August 8, 2008
Board Loan Amount:	$350,000.00
Term:	10 years

Borrower:	Jefferson County
Purpose:	RID # 2506 Road Improvements
Staff Approval Date	August 14, 2008
Board Loan Amount:	$80,000.00
Term:	15 years

Borrower:	Winnett School District #1
Purpose:	Short Term Cash Flow Loan
Staff Approval Date	September 26, 2008
Board Loan Amount:	$100,000.00
Term:	Short Term through June 30, 2009

MONTANA UNIVERSITY SYSTEM

Commitment Date	**Borrower**	**Project Description**	**Amount**
8/8/2008	U of M Missoula	Replace Astro Turf at Washington Grizzly Stadium	$250,000.00
9/18/2008	MSU-Bozeman	Purchase Motion Based Driving Simulator	$280,000.00

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: November 3, 2008

Subject: INTERCAP Loan Committee E-mail Approved Loans Committed

Loan Committee (LC) approved the following loans –July 1, 2008 through October 31, 2008.

Borrower:	Cascade County
Purpose:	To finance costs associated with (1) completing its Public Works Facility (PBF) and (2) remodeling the County’s downtown campus.
LC Approval Date:	October 30, 2008
Board Loan Amount:	$1,250,000
Term:	10 years

Borrower:	Cascade County
Purpose:	To purchase two (2) new motor graders and one (1) new loader and to refinance eight (8) existing motor graders.
LC Approval Date:	October 30, 2008
Board Loan Amount:	$750,000
Term:	7 years

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: Geri Burton, Deputy Director

Date: November 13, 2008

Subject: Qualified Zone Academy Bonds
Billings Elementary School District #2 – Resolution No. 221

Qualified Zone Academy Bond Program Background

In 1997 Congress authorized Qualified Zone Academy Bonds (QZABs) to promote initiatives between public schools and the private sector. QZABs enable qualified school districts to finance eligible projects at little or no interest cost. QZABs provide a different form of subsidy from traditional tax-exempt bonds. Interest on QZABs is paid by the federal government in the form of tax credits to the purchasers of QZABs. The amount of the annual tax credit a purchaser receives is based on the QZAB rate set by the U.S. Treasury Department on the day the QZAB is sold. QZABs must be issued by a state or local government and may be purchased by banks, insurance companies, and corporations actively engaged in the business of loaning money. At its June 2000 meeting, the Board authorized the creation of the Qualified Zone Academy Bond Program (QZAB Program). The QZAB Program is administered under the Municipal Finance Consolidation Act. Since the Program's inception, the Board has issued six QZABs totaling $7,245,250.

There is a national QZAB bond limitation for each calendar year. The bond limitation is allocated among the states on the basis of populations of individuals below the poverty line. Unused allocations can be carried forward for two years. The Montana Office of Public Instruction must authorize a school district's request for a QZAB allocation. Montana's allocations were $1,314,000 for both calendar years 2006 and 2007. 2008 allocations have been authorized; however, Montana has not been notified of its allocation amount.

Billings Elementary School District #2

Billings Elementary School District #2 (the "District") has requested the Board to issue a QZAB in the amount of $773,250 to finance the purchase of the District's bonds. The District has received approval for its QZAB allocation from the Montana Office of Public Instruction. At its November 10, 2008 meeting, the District trustees will consider a resolution to authorize the District to sell its District bonds to the Board. The proceeds of the District's bonds will be used to finance 1) the replacement of three heating, ventilation and air conditioning units and energy management control system at Beartooth Elementary School; 2) window replacement at Washington Elementary School; and 3) replacement of heating boilers and energy management control systems at Riverside Middle School. The total cost of the project is $850,000; the District will contribute $76,750. The term of the QZAB will not exceed 10 years. QZABs require schools to have commitments from private entities to make qualified contributions of not less than 10 percent of the proceeds of the QZABs. The District has received a commitment from the Education Foundation for Billings Public Schools to provide the contribution. Rocky Mountain Bank of Montana will purchase the QZAB from the Board.

The QZAB bond will be a special, limited obligation of the Board. The State of Montana and the Board are not monetarily liable for repayment of the QZAB, which will be payable solely from the payments to be made by the District. Resolution No. 221 creates a Sinking Fund into which the District will be required to make annual payments. Funds in the Sinking Fund will be used to make principal payments on the QZAB.

Financial Report:

Elementary Schools General Fund	**FY08**	**FY07**
Beginning Fund Balance	$ 2,708,551	$ 2,593,893
Revenues	57,262,822	52,224,551
Expenditures	57,048,871	52,109,893
Prior Period Adjustments	247,632	
Ending Fund Balance	$ 3,170,134	$ 2,708,551
Net Change in Fund Balance	$ 213,951	$ 114,658
Fund Balance Cash	$ 2,847,943	$ 3,185,786
Fund Balance *Unrestricted*	$ 3,161,684	$ 2,645,530

As reflected above, FY08 saw an increase in revenues and expenditures of approximately $5 million. This was due to: 1) the District voters approving a mill levy increase of approximately $1.5 million, 2) implementing all-day kindergarten which generated approximately $2.7 million; and 3) the general state increase in the first year of the biennium. The additional funds were used to; 1) reopen two schools, 2) hire new staff; and 3) cover ongoing costs of existing programs.

Resolution No. 221

Resolution No. 221 (attached) authorizes the issuance and sale of the QZAB for School District #2 in the amount of $773,250. This authorizes the purchase by the Board of School District #2 bonds and the sale of the Board bonds to the purchaser for QZAB credit. The Resolution also authorizes the execution of various bond closing documents.

Please note, the resolution reflects *"Initial Draft 11/3/08"*. The District was notified on October 30th that it was approved for a portion of Montana's 2006 allocation and staff only received an application on October 31st. The State will lose the QZAB allocation should the bonds fail to be issued by December 31, 2008. Since the Board will not meet again until February 2009, it is necessary to consider the QZAB at the November meeting. Because of the circumstances and the short review time, bond counsel may determine changes need to be made to the resolution. If that is the case, a revised resolution may be submitted as a handout at the meeting and changes will be clearly marked.

Recommendation

Staff recommends the following:

1. Approval of Resolution No. 221.
2. Authorize staff to proceed to complete the QZAB financing if it is determined to be in the best interest of the Board.
3. Authorize staff to execute the bond closing documents.

CERTIFICATE AS TO RESOLUTION

I, the undersigned, being the duly qualified and acting Executive Director of the Board of Investments of the State of Montana (the "Board"), hereby certify that the attached resolution is a true copy of Resolution No. _______, entitled: "RESOLUTION RELATING TO $773,250 MUNICIPAL FINANCE CONSOLIDATION ACT BONDS, SERIES 2008 (BILLINGS ELEMENTARY SCHOOLS QUALIFIED ZONE ACADEMY PROGRAM); AUTHORIZING AND APPROVING THE SALE AND ISSUANCE THEREOF AND PLEDGES AND ASSIGNMENTS OF THE BOARD'S INTEREST IN THE SCHOOL DISTRICT BOND AND PAYMENTS THEREUNDER, FIXING THE FORM AND DETAILS, PROVIDING FOR THE PAYMENT AND SECURITY AND AUTHORIZING THE EXECUTION AND DELIVERY; AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH" (the "Resolution"), on file in the original records of the Board in my legal custody; that the Resolution was duly adopted by the Board at a meeting on November 13, 2008, and that the meeting was duly held by the Board and was attended throughout by a quorum, pursuant to call and notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.

WITNESS my hand officially as such recording officer this ____ day of November, 2008.

____
Carroll V. South
Executive Director

RESOLUTION NO. _______

RESOLUTION RELATING TO $773,250 MUNICIPAL FINANCE CONSOLIDATION ACT BONDS, SERIES 2008 (BILLINGS ELEMENTARY SCHOOLS QUALIFIED ZONE ACADEMY PROGRAM); AUTHORIZING AND APPROVING THE SALE AND ISSUANCE THEREOF AND PLEDGES AND ASSIGNMENTS OF THE BOARD'S INTEREST IN THE SCHOOL DISTRICT BOND AND PAYMENTS THEREUNDER, FIXING THE FORM AND DETAILS, PROVIDING FOR THE PAYMENT AND SECURITY AND AUTHORIZING THE EXECUTION AND DELIVERY; AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH

BE IT RESOLVED by the Board of Investments of the State of Montana (the "Board"), as follows:

Section 1. Recitals, Authorization and Sale.

1.1. Authority. The Board is a board of the Executive Branch of the Government of the State of Montana created pursuant to Montana Code Annotated, Section 2-15-1808, as amended. The Board is authorized under the Municipal Finance Consolidation Act of 1983, Montana Code Annotated, Title 17, Chapter 5, Part 16, as amended (the "Act"), to issue its obligations to provide funds to finance loans to and purchase the bonds and notes of other eligible governmental units, including school districts. Such bonds or notes may be sold at public or private sale, and must be authorized by a resolution of the Board.

1.2. The District; District Bonds and the Series 2008 Bonds. School District No. 2 (Billings), Yellowstone County, Montana (the "District"), has requested that the Board issue its revenue bonds under the Act in the aggregate principal amount of $773,250 (the "Series 2008 Bonds"), and use the proceeds thereof to purchase Limited Obligation School Building Bonds, Series 2008, in the aggregate principal amount of $773,250 (the "District Bonds") to be issued by the District. The proceeds of the District Bonds are to be used by the District for the purpose of paying all or a portion of the costs of improving, repairing, or rehabilitating Beartooth Elementary School, Riverside Middle School, and Washington Elementary School by replacing, upgrading, adding, or repairing heating, air conditioning, and ventilation units and related controls; boilers and hot water systems; windows; related improvements; and paying all or a portion of the costs associated with the sale and issuance of the bonds (collectively, the "Project), as authorized by Section 20-9-471, M.C.A., as amended. Costs of the Project in excess of the amounts available from the proceeds of the District Bonds will be paid from amounts on hand or available to the District.

The Series 2008 Bonds will not be secured by the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act or by any funds or assets of the Board other than its interest in the District Bonds and the payments to be made by the District thereunder and investment income thereon, if any.

1.3. Qualified Zone Academy Bonds. The Series 2008 Bonds are intended to be issued as "qualified zone academy bonds" within the meaning of the applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and the issuance of the Series 2008 Bonds by the Board will enhance the marketability of such obligations.

1.4. Finding. Giving effect to the issuance of the Series 2008 Bonds, the total outstanding indebtedness of the Board under the Act (exclusive of refunding bonds or indebtedness to purchase registered warrants or tax or revenue anticipation notes of a local government) is currently not greater than $190,000,000.

1.5. Sale. The sale of the Series 2008 Bonds is being facilitated by North by Northwest Capital, Inc., in the capacity of financial advisor to the District and the Board (the "Financial Advisor"). The Series 2008 Bonds may be sold at a private sale, as provided by Section 17-5-1606(5)(b) of the Act. Rocky Mountain Bank, of Billings, Montana (the "Purchaser"), has submitted a proposal to purchase the Series 2008 Bonds at a price of $773,250.00, on the further terms and conditions to be set forth in the agreement among the District, the Board, and the Purchaser, a form of which will be prepared prior to the issuance of the Series 2008 Bonds (the "Purchase Agreement"). The Purchase Agreement will also evidence the Board's agreement to purchase the District's Bonds. The Chair, Executive Director, Deputy Director, and Vice-Chair of the Board (collectively, the "Authorized Officers"), or any one or more of such officers, are hereby authorized to approve:

(i) the form and terms of the Purchase Agreement;

(ii) the purchase price of the Series 2008 Bonds; provided that the purchase price equals or exceeds the amount of the Series 2008 Bonds;

(iii) the principal amount of the Series 2008 Bonds; provided that such principal amount is not in excess of $773,250; and

(iv) the maturity schedule of the Series 2008 Bonds; provided that the Series 2008 Bonds mature at any time or times or in such amount or amounts not later than 10 fiscal years after the date of issuance of the Series 2008 Bonds.

1.6. Related Documents. The following documents (collectively, the "Operative Documents") relating to the Series 2008 Bonds will be prepared, subject to the approval of the Authorized Officers, who are each authorized to review and approve the same, and which, upon approval, shall be placed on file in the office of the Board:

(a) the Purchase Agreement;

(b) a fiscal agency agreement to be entered into by the Board, the District and U.S. Bank National Association, as registrar, paying agent, transfer agent, custodian, and fiscal agent (and, if appropriate, the Purchaser) (the "Fiscal Agency Agreement");

(c) a form of resolution to be adopted by the Board Trustees of the District on or about November 10, 2008, preliminarily authorizing the issuance of the District Bonds; and

(d) such other documents as are necessary or appropriate in connection with the issuance of the Series 2008 Bonds.

1.7. Recitals. All acts, conditions and things required by the Constitution and laws of the State of Montana, including the Act, in order to make the Series 2008 Bonds valid and binding special, limited obligations of the Board in accordance with their terms and in accordance with the terms of this resolution have been done, do exist, have happened and have been performed in regular and due form, time and manner as so required.

Section 2. Approval and Authorizations.

2.1. Subject to Section 2.6 below, to purchase the District Bonds, the Board hereby authorizes the issuance of the Series 2008 Bonds as a series of revenue bonds designated, "Board of Investments of the State of Montana, Municipal Finance Consolidation Act Bonds, Series 2008 (Billings Elementary Schools Qualified Zone Academy Program)," in the aggregate principal amount of $773,250.

2.2. The Authorized Officers, or any one or more of such officers, are hereby authorized to negotiate, approve, execute and deliver the Purchase Agreement, subject to the parameters set forth in Section 1.5. The Purchase Agreement shall be dated no later than December 10, 2008 and shall constitute a binding contract for the sale or exchange of the Series 2008 Bonds under Notice 99-35, 1999-28 I.R.B. 26. The approval of the Purchase Agreement shall be conclusively presumed by the execution thereof by one or more Authorized Officers.

2.3. The Authorized Officers, or any one or more of such Authorized Officers are authorized to negotiate, approve, execute, and deliver the Fiscal Agency Agreement. The approval of such agreement shall be conclusively presumed by the execution thereof by one or more Authorized Officers. The Board hereby authorizes and directs U.S. Bank National Association to enter into and deliver the Fiscal Agency Agreement.

2.4. In anticipation of the payments to be made under the District Bonds, the Board shall proceed forthwith to issue the Series 2008 Bonds in the form and upon the terms provided by this resolution. It is acknowledged that not all the terms of the Series 2008 Bonds have been established as of the date of adoption of this resolution. The Authorized Officers, or any one or more of such officers, are authorized to finalize the form of the Series 2008 Bonds attached hereto as Exhibit A, subject to the limitations in Section 1.5. The Chair and the Executive Director are authorized and directed to execute the Series 2008 Bonds as prescribed in this resolution and deliver them to the Registrar (as hereinafter defined), together with a certified copy of this resolution and the other documents required by the Purchase Agreement, Fiscal Agency Agreement, and such other documents as are required to be delivered in connection with the Series 2008 Bonds, for authentication of the Series 2008 Bonds by the Registrar and delivery by the Registrar of the Series 2008 Bonds to the Purchaser.

2.5. The Authorized Officers, or any one or more of such officers, are authorized and directed to negotiate, execute, and deliver such documents or agreements that are ancillary to and required or appropriate in connection with the Purchase Agreement, the Fiscal Agency Agreement, or the Series 2008 Bonds, and to prepare and furnish to the Purchaser and bond counsel, when the Series 2008 Bonds are issued, certified copies of all proceedings and records of the Board relating to the Series 2008 Bonds, and such other affidavits, certificates and documents as may be required to show the facts relating to the legality and marketability of the Series 2008 Bonds as such facts appear from the books and records in the officers' custody and control or as otherwise known to them, or as may be necessary or desirable to accomplish the issuance and sale of the Series 2008 Bonds, and all such certified copies, certificates, affidavits and documents, including any heretofore furnished, shall constitute representations of the Board as to the truth of all statements of fact contained therein.

2.6. Notwithstanding anything to the contrary herein, if the parties to any agreement relating to the Series 2008 Bonds fail to reach agreement on the terms of any agreement or if the Authorized Officers should determine, in their discretion, that the transactions contemplated by the District Bonds or the Series 2008 Bonds are not in the best interests of the Board, the Authorized Officers, acting on behalf of the Board, may elect not to proceed with the transactions contemplated herein.

Section 3. The Series 2008 Bonds.

3.1. Principal Amount, Maturity, Denominations, Date. For the purpose of purchasing the District Bonds, the Board shall forthwith issue and deliver the Series 2008 Bonds. The Series 2008 Bonds shall be denominated "Municipal Finance Consolidation Act Bonds, Series 2008 (Billings Elementary Schools Qualified Zone Academy Program)," shall be dated, as originally issued, and be registered, as of the date of their issuance.

The Series 2008 Bonds or principal installments thereof shall have the maximum term then permitted by the Secretary of the Treasury for qualified zone academy bonds, and shall be subject to redemption as provided in Section 6.1 below. The Series 2008 Bonds shall not bear interest.

In the event the date for the payment of principal or interest is not a Business Day, the Board shall make the payment on the following Business Day with the same effect as if it had been made on the date scheduled for such payment. As used in this resolution, "Business Day" means any day other than (i) a Saturday or a Sunday, (ii) a day that is a legal holiday in the State of Montana, (iii) a day on which commercial banks in the city or cities in which are located the Principal Office of the Fiscal Agent are authorized or required by law or executive order to close, or (iv) a day on which the New York Stock Exchange is closed.

3.2. Dating of Series 2008 Bonds. The Series 2008 Bonds shall be dated, as originally issued, as of the date of their issuance. Upon the original delivery of the Series 2008 Bonds to the Purchaser and upon each subsequent transfer or exchange of a Series 2008 Bond pursuant to Section 3.4, the Registrar shall date each Series 2008 Bond as of the date of its authentication.

3.3. Method of Payment. The Series 2008 Bonds shall be issued only in fully registered form. Upon surrender thereof at the operations center of the Registrar located in St. Paul, Minnesota (as hereinafter defined), the principal of and interest, if any, on each Series 2008 Bond shall be payable by check or draft drawn on the Registrar. The Series 2008 Bonds shall be payable in lawful money of the United States of America.

3.4. System of Registration. The Board shall appoint, and shall maintain, a bond registrar, transfer agent and paying agent (the "Registrar"). This Section 3.4 shall establish a system of registration for the Series 2008 Bonds as defined in the Model Public Obligations Registration Act of Montana, Montana Code Annotated, Title 17, Chapter 5, Part 11, as amended.

The effect of registration and the rights and duties of the Board and the Registrar with respect thereto shall be as follows:

(a) Bond Register. The Registrar shall keep a register (the "Bond Register") in which the Registrar shall provide for the registration of ownership of the Series 2008 Bonds and the registration of transfers and exchanges of the Series 2008 Bonds entitled to be registered, transferred or exchanged. The term "Holder" or "Bondholder" as used herein means the person (whether a natural person, corporation, association, partnership, trust, governmental unit, or other legal entity) in whose name, as of the date of reference, a Series 2008 Bond is registered in the Bond Register.

(b) Transfer. Upon surrender to the Registrar for transfer of any Series 2008 Bond duly endorsed by the registered owner thereof or accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner thereof or by an attorney duly authorized by the registered owner in writing, the Registrar shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Series 2008 Bonds in authorized denominations of a like aggregate principal amount and maturity, as requested by the transferor.

(c) Exchange. At the option of the Holder of any Series 2008 Bond in a denomination equal to or greater than $5,000, such Series 2008 Bond may be exchanged for other Series 2008 Bonds of authorized denominations, of the same maturity and a like aggregate principal amount, upon surrender of the Series 2008 Bond to be exchanged at the operations center of the Registrar. Whenever any Series 2008 Bonds are so surrendered for exchange the Board shall execute and the Registrar shall authenticate and deliver the Series 2008 Bonds which the Series 2008 Bondholder making the exchange is entitled to receive.

(d) Cancellation. All Series 2008 Bonds surrendered upon any transfer or exchange shall be promptly cancelled by the Registrar.

(e) Improper or Unauthorized Transfer. The Registrar may refuse to transfer any Series 2008 Bond presented to the Registrar for transfer until the Registrar is satisfied that the endorsement on such Series 2008 Bond or separate instrument of transfer is valid and genuine and that the requested transfer is legally authorized. The Registrar shall incur no liability for the refusal, in good faith, to make transfers which it, in its judgment, deems improper or unauthorized.

(f) Persons Deemed Owners. The Board and the Registrar may treat the person in whose name any Series 2008 Bond is at any time registered in the Series 2008 Bond Register as the absolute owner of such Series 2008 Bond, whether such Series 2008

Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest, if any, such Series 2008 Bond and for all other purposes, and all such payments so made to any such Holder shall be valid and effectual to satisfy and discharge the liability upon such Series 2008 Bond to the extent of the sum or sums so paid.

(g) Taxes, Fees and Charges. For every transfer of Series 2008 Bonds or exchange of Series 2008 Bonds, the Registrar may impose upon the owner thereof a charge sufficient to reimburse the Registrar for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange.

(h) Mutilated, Lost, Stolen or Destroyed Series 2008 Bonds. In case any Series 2008 Bond shall become mutilated or be destroyed, stolen or lost, the Registrar shall deliver a new Series 2008 Bond of like amount, number, maturity date and tenor in exchange and substitution for and upon cancellation of any such mutilated Series 2008 Bond or in lieu of and in substitution for any such Series 2008 Bond destroyed, stolen or lost, upon the payment of the reasonable expenses and charges of the Registrar in connection therewith; and, in the case of a Series 2008 Bond destroyed, stolen or lost, upon filing with the Registrar of evidence satisfactory to it that such Series 2008 Bond was destroyed, stolen or lost, and of the ownership thereof, and upon furnishing to the Registrar an appropriate Series 2008 Bond or indemnity in form, substance and amount satisfactory to it, in which both the Board and the Registrar shall be named as obligees. All Series 2008 Bonds so surrendered to the Registrar shall be canceled by it and evidence of such cancellation shall be given to the Board. If the mutilated, destroyed, stolen or lost Series 2008 Bond has already matured, it shall not be necessary to issue a new Series 2008 Bond prior to payment.

(i) Valid Obligations. All Series 2008 Bonds issued upon any transfer or exchange of Series 2008 Bonds shall be the valid obligations of the Board evidencing the same debt, and entitled to the same benefits under this Resolution as the Series 2008 Bonds surrendered upon such transfer or exchange.

3.5. Appointment of Registrar. The Board hereby appoints U.S. Bank National Association, with an office in Seattle, Washington, as the initial Registrar, as provided in the Fiscal Agency Agreement.

Upon merger or consolidation of the Registrar with another corporation, if the resulting corporation is a bank or trust company organized under the laws of the United States or one of the states of the United States and authorized by law to conduct such business, such corporation shall be authorized to act as successor Registrar. The Board reserves the right to remove the Registrar, effective upon not less than thirty days' written notice and upon the appointment and acceptance of a successor Registrar, in which event the predecessor Registrar shall deliver all cash and Series 2008 Bonds in its possession to the successor Registrar and shall deliver the Bond Register to the successor Registrar.

3.6. Form. The Series 2008 Bonds shall be prepared in substantially the form appearing in Exhibit A hereto (which is hereby incorporated herein and made a part hereof), with such variations therefrom as may be required or permitted by this resolution.

3.7. Execution and Delivery. The Series 2008 Bonds shall be forthwith prepared for execution under the direction of the Executive Director, and shall be executed on behalf of the Board by the signature of the Chair and attested by the signature of the Executive Director; provided that either or both of such signatures may be printed, engraved or lithographed facsimiles of the originals. The seal of the Board need not be affixed to or imprinted on any Series 2008 Bond. In case any officer whose signature or a facsimile of whose signature shall appear on any Series 2008 Bond shall cease to be such officer before the delivery of such Series 2008 Bond, such signature or facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery. Notwithstanding such execution, no Series 2008 Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit under this resolution unless a certificate of authentication on such Series 2008 Bond has been executed by the manual signature of an authorized representative of the Registrar. Certificates of authentication on different Series 2008 Bonds need not be signed by the same representative. The executed certificate of authentication on each Series 2008 Bond shall be conclusive evidence that it has been authenticated and delivered under this Resolution. When the Series 2008 Bonds have been fully executed and authenticated, they shall be delivered by the Registrar to the Purchaser upon payment of the purchase price in accordance with the contract of sale heretofore made and executed. The Purchaser shall not be obligated to see to the application of the purchase price.

3.8. Application of Proceeds of Series 2008 Bonds. All of the proceeds of the Series 2008 Bonds shall be applied to the purchase of the District Bonds.

Section 4. Security Provisions.

4.1. Sinking Fund. There is hereby created a debt service fund of the Board designated the "2008 Billings Elementary School District Sinking Fund" (the "Sinking Fund"), to be held and administered by the Registrar separate and apart from all other funds of the Board so long as any of the Series 2008 Bonds are outstanding and any principal thereof and interest, if any, thereon, are unpaid. The Sinking Fund shall be used solely to pay the principal of the Series 2008 Bonds and any interest thereon and the fees and expenses of the Registrar, subject to the conditions herein specified. The Board irrevocably appropriates to the Sinking Fund: (a) all payments made by the District on or with respect to the District Bonds, (b) all income derived from the investment of amounts on hand in the Sinking Fund, and (c) such other money, if any, as shall be received and appropriated to the Sinking Fund from time to time.

Whenever a payment of the District Bonds is credited by the Board to the Sinking Fund, such payment shall be applied as set forth in the Fiscal Agency Agreement. The provision, investment, application, deposit, and disbursement of amounts deposited in the Sinking Fund and earnings thereon and other rights and obligations regarding the Sinking Fund are set forth more particularly in the Fiscal Agency Agreement.

The Board hereby authorizes and directs U.S. Bank National Association to enter into the Fiscal Agency Agreement and perform its obligations thereunder.

4.2. Pledge of District Bonds. The Board hereby irrevocably pledges and assigns to the payment of the Series 2008 Bonds for the benefit of the holders from time to time of the outstanding Series 2008 Bonds all of the right, title and interest of the Board in the District

Bonds and all payments made by the District thereunder and any proceeds thereof, including investment income. The Board hereby acknowledges and agrees that if a default in the payment of the Series 2008 Bonds occurs, the Board will, at the request of all of the holders of the Series 2008 Bonds, transfer to such holders all of its interest in the District Bonds, without warranty or recourse.

4.3. Special, Limited Obligations. Except as provided in Section 4.2, no funds or assets of the Board (including the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act) have been or are pledged to the payment of the Series 2008 Bonds.

THE STATE OF MONTANA IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST, IF ANY, ON THE SERIES 2008 BONDS OR FOR THE PERFORMANCE OF ANY OBLIGATION THAT MAY BE UNDERTAKEN BY THE BOARD WITH RESPECT THERETO. THE SERIES 2008 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE STATE OF MONTANA AND NEITHER THE FAITH AND CREDIT OR TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE SERIES 2008 BONDS. THE BOARD DOES NOT HAVE ANY TAXING POWER.

Section 5. Tax Matters.

5.1. Designation of Bonds as Qualified Zone Academy Bonds. The Board hereby designates the Series 2008 Bonds as “qualified zone academy bonds” under the applicable provisions of the Code. In reliance on the representations and agreements of the District, including, without limitation, those regarding spend down requirements and compliance with arbitrage requirements of the Code, the Board makes the following representations and agreements to the holders from time to time of the Series 2008 Bonds:

(a) The District is an eligible local education agency as defined in Section 9101 of the federal Elementary and Secondary Education Act of 1965, as amended.

(b) The school facilities in the District at which the Project will be undertaken (collectively, the “Facilities”) constitute or, prior to the issuance of the Series 2008 Bonds will constitute, a qualified zone academy within the meaning of the applicable provisions of the Code. Specifically, the Facilities are public schools and are established by and operated under the supervision of the District to provide education or training below the postsecondary level. Furthermore, the program for students at the Facilities, including the Comprehensive Education Plan, has been designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates and better prepare students for the rigors of college and the increasingly complex workforce, students in the Facilities will be subject to the same academic standards and assessments as other students educated by the District, and the comprehensive education plan of the Facilities has been approved by the District. The District reasonably expects, as of the date of issuance of the Series 2008 Bonds, that at least 35 percent of the students attending the Facilities will be eligible for free or reduced-cost lunches established under the National School Lunch Act.

(c) The Board has received written assurances that the District will satisfy the requirements of Section 148 of the Code with respect to the proceeds of the District Bonds and the Board authorizes the Authorized Officers (i) to ensure that such proceeds satisfy such requirements by imposing such requirements on the District Bonds or the Series 2008 Bonds and executing and delivering such documents as are necessary or appropriate in connection therewith and (ii) to execute and deliver such certificates as may be appropriate or required under the Code or otherwise in respect of the Series 2008 Bonds.

(d) It is expected 100 percent or more of the available project proceeds to be spent for qualified purposes will be spent within the 3-year period beginning on the date of issuance of the District Bonds (and the Series 2008 Bonds) and a binding commitment to spend at least 10 percent of such available project proceeds will be incurred within the 6-month period beginning on the date of issuance..

(e) The Board has written assurances that the applicable contribution requirements of the Code will be met with respect to the Facilities. Specifically, the District has represented that it has received written assurance from the [Education Foundation] to make qualified contributions having a present value (as of the date of issuance of the issue) of not less than 10% of the proceeds of the issue.

(f) The term of the Series 2008 Bonds does not exceed the maximum term permitted by the Secretary of the Treasury under applicable provisions of the Code for qualified zone academy bonds.

(g) If any expenditures for qualified purposes were paid before the Series 2008 Bonds were issued and are to be reimbursed from the proceeds thereof, no such expenditure was paid before the date of adoption of this resolution.

(h) The Facilities have received an allocation by the State of Montana Office of Public Instruction of $773,250 of qualified zone academy bond limitation remaining outstanding and available calendar year 2008, and such allocation has not expired nor been revoked, rescinded or modified and is in full force and effect, and neither the District nor the Board has designated any bonds or obligations as qualified zone academy bonds from such allocation other than the Series 2008 Bonds.

(i) The District has given its written approval to the issuance of the Series 2008 Bonds by the Board.

(j) The District has agreed to file, or assist in the filing, of reports similar to those required under Section 149(e) of the Code.

5.2. <u>General Covenant</u>. The Board covenants and agrees with the holders from time to time of the Series 2008 Bonds that it will not take or permit to be taken by any of its officers, employees or agents any action which would cause the Series 2008 Bonds to lose their designation as “qualified zone academy bonds” under the Code and applicable Treasury Regulations (the “Regulations”), and covenants to take any and all actions within its powers to ensure that the Series 2008 Bonds are “qualified zone academy bonds” for federal income tax purposes under the Code and the Regulations.

5.3. Tax Credits to Purchaser. Since the Series 2008 Bonds are qualified zone academy bonds, an entity entitled to tax credits on account of owning qualified zone academy bonds that owns all or a portion of the Series 2008 Bonds on a credit allowance date is allowed a credit against the federal income taxes for the period, in an amount, and to the extent set forth in the Code and applicable Treasury Regulations. The Board makes no assurance as to the availability or amount of the credit.

Section 6. Redemption and Defeasance.

6.1. Redemption. The Series 2008 Bonds are subject to redemption from funds provided by the District at the option of the Board in whole or part, and if in part from such stated maturities and in such principal amounts as the Board may designate in writing to the Registrar (or, if no designation is made, in inverse order of maturities selected by the Registrar by lot or other manner it deems fair), on any date during the term of the Series 2008 Bonds, at a price equal to the principal amount thereof to be redeemed and without premium. An Authorized Officer, following receipt of appropriate instructions from the District and funds from the District or adequate assurance that the District shall fund the redemption price, shall provide or cause to be provided to the Registrar at least 10 days prior to the redemption date a request that the Registrar mail notice of redemption, and the Registrar shall mail or cause to be mailed, by first class mail, at least 10 days prior to the designated redemption date, a notice of redemption to the registered owners of each Series 2008 Bond to be redeemed at their addresses as they appear on the Bond Register maintained by the Registrar, but no defect in or failure to give such mailed notice shall affect the validity of proceedings for the redemption of any Series 2008 Bond not affected by such defect or failure. The notice of redemption shall specify the redemption date, redemption price, and the numbers and amounts of the Series 2008 Bonds to be redeemed and the place at which the Series 2008 Bonds are to be surrendered for payment. Official notice of redemption having been given as aforesaid, the Series 2008 Bonds or portions thereof so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and, if the Series 2008 Bonds bear interest, from and after such date (unless the District shall be in default of its obligation to pay the redemption price) such Series 2008 Bonds or portions thereof shall cease to bear interest.

6.2. Defeasance. When all of the Series 2008 Bonds have been discharged as provided in this Section 6, all pledges, covenants and other rights granted by this resolution to the owners of the Series 2008 Bonds shall cease. The Board may discharge its obligations with respect to any Series 2008 Bonds which are due on any date by irrevocably depositing with the Registrar on or before that date a sum sufficient for the payment thereof in full; or, if any Series 2008 Bond should not be paid when due, the Board may nevertheless discharge its liability with respect thereto by depositing with the Registrar a sum sufficient for the payment thereof in full. The Board may also discharge its obligations with respect to any Series 2008 Bonds called for redemption on any date when they are subject to redemption according to their terms, by depositing with the Registrar on or before such redemption date a sum sufficient for the payment thereof in full with interest accrued, if any, to such redemption date; provided that notice of the redemption thereof has been duly given or provided for as provided in Section 6.1. The Board may also at any time discharge its obligations with respect to any Series 2008 Bonds, subject to the provisions of law now or hereafter authorizing and regulating such action, by depositing irrevocably in escrow, with a bank qualified by law as an escrow agent for this purpose, cash or securities which are direct obligations of the United States or securities of United States agencies the timely payment of principal of and interest on which is guaranteed by the United States of America, bearing interest, if any, payable at such times and at such rates and maturing on such dates as shall be required, without reinvestment, to pay all principal to become due on such Series 2008 Bond to their stated maturity; provided, however, that if such deposit is made more than 90 days before the stated maturities or redemption date of the Series 2008 Bonds to be discharged, the Board shall have received a written opinion of Bond Counsel to the effect that such deposit does not adversely affect the exemption of interest on any Series 2008 Bond from federal income taxation and a written report of an accountant or investment banking firm verifying that the deposit is sufficient to pay when due all of the principal and interest on the Series 2008 Bonds to be discharged on and before their maturity date.

Section 7. Effective Date. All resolutions and parts of resolutions heretofore adopted by this Board which are in conflict herewith are hereby amended so as to conform with the provisions of this Resolution, and, as so amended, are hereby ratified and confirmed. This Resolution shall be effective upon passage.

PASSED AND APPROVED by the Board of Investments of the State of Montana on this 13th day of November, 2008.

____
Chair

Attest:

____
Executive Director

EXHIBIT A

[Form of Bond]

STATE OF MONTANA

BOARD OF INVESTMENTS
OF THE STATE OF MONTANA

MUNICIPAL FINANCE CONSOLIDATION ACT BOND, SERIES 2008
(BILLINGS ELEMENTARY SCHOOLS QUALIFIED ZONE ACADEMY PROGRAM)

No. R-____ $__________

INTEREST RATE	DATE OF ORIGINAL ISSUE
0.00%	[___________], 2008

REGISTERED HOLDER:

PRINCIPAL AMOUNT:

FOR VALUE RECEIVED, THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA, a board of the Executive Branch of the Government of the State of Montana (the "Issuer"), hereby promises to pay (but only out of the Sinking Fund as hereinafter described) to the Registered Holder named above, or registered assigns, on the principal maturity dates specified below, the corresponding principal amounts specified below, or if this Bond is subject to redemption as stated below, on any date on which this Bond or any principal maturity hereof or any portion of such principal maturity shall have been duly called for redemption in whole or in part:

Principal Maturity Dates	Principal Amounts
[June 30], 2009	$___________
[June 30], 2010	$___________
[June 30], 2011	$___________
[June 30], 2012	$___________
[June 30], 2013	$___________
[June 30], 2014	$___________
[June 30], 2015	$___________
[June 30], 2016	$___________
[June 30], 2017	$___________
[June 30], 2018	$___________

Principal of and interest, if any, on this Bond are payable upon presentation and surrender hereof at the office of U.S. Bank National Association, as Bond Registrar, Transfer Agent, Paying Agent, and Fiscal Agent, at its operations center in St. Paul, Minnesota, or its successor designated under the Resolution, as hereinafter defined (the "Registrar"). All such payments shall be made in lawful money of the United States of America which on the date of payment is lawful tender for the payment of public and private debts.

The Bonds are special, limited special obligations of the Issuer. The Bonds will not be secured by the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act or by any funds or assets of the Board other than its interest in the District Bonds (as hereinafter defined) and the payments to be made by the District (as hereinafter defined) thereunder and investment income thereon.

THE STATE OF MONTANA IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST, IF ANY, ON THE BONDS OR FOR THE PERFORMANCE OF ANY OBLIGATION THAT MAY BE UNDERTAKEN BY THE ISSUER WITH RESPECT THERETO. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE STATE OF MONTANA AND NEITHER THE FAITH AND CREDIT OR TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE BONDS. THE ISSUER DOES NOT HAVE ANY TAXING POWER.

This Bond is one of a duly authorized issue of bonds of the Issuer designated as Board of Investments of the State of Montana "Municipal Finance Consolidation Act Bonds, Series 2008 (Billings Elementary Schools Qualified Zone Academy Program)," in the aggregate principal amount of $773,250 (the "Bonds"), all of like date of original issue and tenor except as to serial number, denomination, and principal payment dates, issued pursuant to the provisions of Montana Code Annotated, Title 17, Chapter 5, Part 16, as amended (the "Act"), under a resolution adopted by the Issuer on November 13, 2008, authorizing the issuance of the Bonds (the "Resolution"). The Bonds are issuable only as fully registered bonds, in denominations of $5,000 or any integral multiple thereof, except that _____________.

The Bonds are being issued to provide funds to the Issuer to permit it to purchase $773,250 in aggregate principal amount of Limited Obligation School Building Bonds, Series 2008 (the "District Bonds"), issued by School District No. 2 (Billings), Yellowstone County, Montana (the "District").

The Bonds and the interest thereon are payable solely from the right, title and interest of the Board in the District Bonds and all payments made by the District thereunder and any proceeds thereof, including investment income, but not from any other funds or assets of the Board, including the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act. By the Resolution, the Issuer has pledged and assigned all of its right, title and interest in the District Bonds and the payments to be made by the District thereunder to the payment of the Bonds, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein. A sinking fund has been established under the Resolution (as defined therein, the "Sinking Fund"). This Bond is payable solely from the Sinking Fund. Reference is hereby made to the Resolution and the Fiscal Agency Agreement, dated as of [_______________], 2008, between the Issuer, the

District and the Registrar [and the Purchaser] (copies of which are on file at the office of the Registrar), and all resolutions and agreements, if any, supplemental thereto and to the Act for a description of the rights thereunder of the registered holders of the Bonds, of the nature and extent of the security, the rights, duties and immunities of the Registrar and of the rights and obligations of the Issuer thereunder, to all the provisions of which Resolution and Fiscal Agency Agreement the registered holder of this Bond, by acceptance hereof, assents and agrees.

The Series 2008 Bonds are subject to redemption from funds provided by the District at the option of the Board in whole or part, and if in part from such stated maturities and in such principal amounts as the Board may designate in writing to the Registrar (or, if no designation is made, in inverse order of maturities selected by the Registrar by lot or other manner it deems fair), on any date during the term of the Series 2008 Bonds, at a price equal to the principal amount thereof to be redeemed and without premium. An Authorized Officer of the Issuer, following receipt of appropriate instructions from the District and funds from the District or adequate assurance that the District shall fund the redemption price, shall provide or cause to be provided to the Registrar at least 10 days prior to the redemption date a request that the Registrar mail notice of redemption, and the Registrar shall mail or cause to be mailed, by first class mail, at least 10 days prior to the designated redemption date, a notice of redemption to the registered owners of each Series 2008 Bond to be redeemed at their addresses as they appear on the Bond Register maintained by the Registrar, but no defect in or failure to give such mailed notice shall affect the validity of proceedings for the redemption of any Series 2008 Bond not affected by such defect or failure. The notice of redemption shall specify the redemption date, redemption price, and the numbers and amounts of the Series 2008 Bonds to be redeemed and the place at which the Series 2008 Bonds are to be surrendered for payment. Official notice of redemption having been given as aforesaid, the Series 2008 Bonds or portions thereof so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and, if the Series 2008 Bonds bear interest, from and after such date (unless the District shall be in default of its obligation to pay the redemption price) such Series 2008 Bonds or portions thereof shall cease to bear interest.

As provided in the Resolution and subject to certain limitations set forth therein, this Bond is transferable upon the Bond Register, upon surrender of this Bond for transfer at the operations center of the Registrar, duly endorsed by the registered owner hereof or by the registered owner’s attorney duly authorized in writing, together with a written instrument of transfer satisfactory to the Registrar duly executed by the registered owner or registered owner’s attorney. Bonds in a denomination greater than $5,000 may also be surrendered in exchange for Bonds of other authorized denominations. Upon any such transfer or exchange, the Issuer will cause a new Bond or Bonds to be issued in the name of the transferee or registered owner, of the same aggregate principal amount and maturing on the same date, subject to reimbursement for any tax, fee or governmental charge required to be paid with respect to such transfer or exchange.

The Issuer and the Registrar may deem and treat the person in whose name this Bond is registered as the absolute owner hereof, whether this Bond is overdue or not, for the purpose of receiving payment as herein provided and for all other purposes, and neither the Issuer nor the Registrar shall be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law; and that this Bond, together with all other indebtedness of the Issuer, does not exceed any statutory or constitutional limit of indebtedness.

This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Resolution until the Certificate of Authentication hereon shall have been executed by the Registrar by the manual signature of one of its authorized representatives.

IN WITNESS WHEREOF, the BOARD OF INVESTMENTS OF THE STATE OF MONTANA has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Chair and attested by the facsimile signature of its Executive Director.

BOARD OF INVESTMENTS OF THE
STATE OF MONTANA

(Facsimile Signature)
Chair

Attest:

(Facsimile Signature)
Executive Director

Dated: ___________________

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated by its title and is issued under the provisions of the within-mentioned Resolution.

U.S. BANK NATIONAL ASSOCIATION,
as Registrar

By ________________________________
Authorized Representative

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM --	as tenants in common	UTMA. . . . . . .Custodian. . . . . . (Cust) (Minor)
TEN ENT --	as tenants by the entireties	under Uniform Transfers to Minors Act. . . . . (State)
JT TEN --	as joint tenants with right of survivorship and not as tenants in common	

Other abbreviations may also be used.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

____

(Please Print or Typewrite Name and Address of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints ____, attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _______________

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE:

____

/ ____________________________/

____

NOTICE: The signature(s) to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration, enlargement or any change whatsoever.

SIGNATURE GUARANTEE:

____

Signature(s) must be guaranteed by an “eligible guarantor institution” meeting the requirements of the Bond Registrar, which requirements include membership or participation in STAMP or such other “signature guaranty program” as may be” determined by the Registrar in addition to or in substitution for STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

Montana Loan Program

MEMORANDUM

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

To: Board Members

From: Herb Kulow, CMB
Senior Portfolio Manager

Date: October 27, 2008

Subject: Commercial and Residential Loans

As of September 30, 2008 the commercial loan portfolio totaled $180,983,741.

Type	Units	Amount	
Participation	99	83,897,940.18	46.4%
Guaranteed	90	56,062,232.67	31.0%
Infrastructure	6	19,809,445.85	10.9%
Value Added	15	16,344,129.01	9.0%
IRP	9	2,312,156.15	1.3%
Link	9	1,658,880.75	0.9%
Seasoned	1	898,957.09	0.5%
	229	180,983,741.70	100.0%

Reservations totaled $11,509,000 and commitments totaled $25,871,057. Although there were two participation loans past due slightly more than 30 days, as of September 30, 2008, those loans are now current. There were no other unguaranteed loans past due as of September 30, 2008.

The Coal Tax Trust cap percentage, as of September 30, 2008, was 20.09%

The residential loan portfolio totaled $57,321,848.05 as of September 30, 2008. As of the same date there was only one residential reservation outstanding for $98,400.

There were no conventional residential loans past due. There were three FHA guaranteed loans past due totaling $148,432. One of those guaranteed loans was 11 months past due and totaled $8,017.10. The lender has entered into an agreement for approximately $10,000 and we are awaiting payment.