REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

2401 Colonial Drive, 3rd Floor
Helena, Montana

November 9 & 10, 2009

AGENDA – DAY 1

Tab 1	**CALL TO ORDER**	**1:00 p.m.**
	A. Roll Call	
	B. Approval of the August 11 & 12, 2009 Regular Meeting Minutes	
	C. Administrative Business	**1:15 p.m.**
	1. Audit Committee Report	
	2. Human Resource Committee Report	
	3. Loan Committee Report	
	E. Public Comment - *Public Comment on issues with Board Jurisdiction*	**1:45 p.m.**
Tab 2	**EXECUTIVE DIRECTOR REPORTS – Carroll South**	**1:50 p.m.**
	A. Resolution 217 - Update	
	B. House Bill 659 Retirement System Study - Informational	
	C. Report to the SAVA Committee – Informational	
	D. Pension Funds FY 2009 Status (Handout) - Informational	
Included	**BENEFITS & SHORTCOMINGS of MVO – R.V. Kuhns and Associates**	**2:30 p.m.**
Handout	**EXTERNAL MANAGER PRESENTATION**	**4:30 p.m.**
	Ream's Asset Management	
	o Thomas M. Fink, CFA, Managing Director	
	o Mark M. Egan, CFA, Managing Director	
	ADJOURNMENT	**5:30 p.m.**

REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

AGENDA – DAY 2

	RECONVENE AND CALL TO ORDER A. Roll Call	**8:00 a.m.**
Handout	**EXTERNAL MANAGER PRESENTATIONS** **Acadian Asset Management** o Gary L. Bergstrom, Chairman o Douglas C. Coughlin, Vice President o Patrick J. McCafferty, Associate Portfolio Manager	**8:15 a.m.**
Included	**QUARTERLY PERFORMANCE REPORTS** A. Pension Funds and Investment Pools – R.V. Kuhns and Associates	**9:30 a.m.**
	PRIVATE EQUITY PACING STUDY – R.V. Kuhns & Associates and Jon Shoen	**10:15 a.m.**
Tab 3	**INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO** A. Retirement System Asset Allocation Report B. Private Equity (MPEP) 1. Portfolio Holdings and Recent Activity 2. Private Edge Reports (as of June 30, 2009) C. Real Estate (MTRP) 1. Portfolio Holdings and Recent Activity 2. Private Edge Reports (as of June 30, 2009) D. Investment Pool Strategies 1. Reporting of Public Equity Pools - Informational 2. Manager Watch List 3. Domestic Equity (MDEP) 4. International Equity (MTIP) 5. MTIP Investment Policy Change Recommendation - Decision 6. 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	**11:00 a.m.**
Tab 4	**BOND PROGRAM – Louise Welsh** A. INTERCAP 1. Activity Report 2. Staff Approved Loans Report B. Resolution No. 224 - Decision	**12:30 p.m.**
Tab 5	**MONTANA LOAN PROGRAM – Herb Kulow** A. Commercial and Residential Portfolios Report	**1:00 p.m.**
	VII. ADJOURNMENT	**1:30 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

Approved: February 2010

MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

2401 Colonial Drive, 3rd Floor
Helena, Montana
November 9 & 10, 2009

MINUTES

BOARD MEMBERS PRESENT:

Terry Moore, Chairman
Elouise Cobell
Teresa Cohea
Karl Englund
Maureen Fleming
Patrick McKittrick
Jack Prothero
Jon Satre
Jim Turcotte
Representative Brady Wiseman

BOARD MEMBERS ABSENT:

Senator Greg Barkus

STAFF PRESENT:

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

GUESTS:

Jim Voytko, R.V. Kuhns and Associates
Steve Hahn, R.V. Kuhns and Associates
Mark Higgins, R.V. Kuhns and Associates
Chris Phillips, Montana Board of Investments
Dave Senn, Executive Director, Teachers' Retirement System
Gordon Hoven, Piper Jaffray
Thomas M. Fink, CFA, Managing Director, Ream's Asset Management
Mark M. Egan, CFA, Managing Director, Ream's Asset Management
Gary L. Bergstrom, Chairman, Acadian Asset Managements
Douglas C. Coughlin, Vice President, Acadian Asset Management
Patrick J. McCafferty, Associate Portfolio Manager, Acadian Asset Managements

CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order at 1:05 p.m. in the conference room at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with nine members of the Board present. Legislative Liaison Senator Greg Barkus was absent.

Member Prothero motioned for approval of the August 11 & 12, 2009 minutes; Member Cobell seconded the motion and the motion was passed 9-0.

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:
Future Meeting Dates

- February 9 & 10, 2010
- May 12 & 13, 2009
- August 18 & 19, 2010
- November 30 & December 1, 2010

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

EXECUTIVE DIRECTOR REPORTS

Resolution No. 217 Update
Executive Director Carroll South provided the annual update of Resolution No. 217.

Resolution No. 217 designates its Executive Director as agent of the Board to deal with investment 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.

HB 659 Retirement System Study
Executive Director Carroll South provided to the Board an informational review of House Bill No. 659.

House Bill No. 659 is a Bill for an act entitled: "An Act directing the State Administration and Veterans' Affairs interim committee to examine and recommend to the 62nd Legislature funding and benefit changes in the statewide public employees' and teachers' retirement systems; providing an appropriation; and providing an effective date."

Report to the SAVA Committee
Executive Director Carroll South provided to the Board and reviewed the report that was recently given to the State Administration and Veterans' Affairs (SAVA) Committee.

Pension Funds FY 2009 Status
Executive Director Carroll South provided to the Board a Pension Funds Status Report, as of June 30, 2009.

CONSULTANT REPORTS

Benefits & Shortcomings of Mean Variance Optimization
Mr. Jim Voytko and Mr. Mark Higgins provided to the Board an educational report on Benefits and Shortcomings of Using Mean Variance Optimization (MVO) for Asset Allocation Modeling.

A complete copy of this presentation is kept on file with other Board information relating to this meeting.

EXTERNAL MANAGER PRESENTATION

Ream's Asset Management Company LLC
Mr. Nathan Sax introduced Mr. Thomas M. Fink and Mr. Mark M. Egan. Mr. Fink and Mr. Egan reviewed their firm and management style. Ream's Asset Management manages a core plus fund in the Fixed Income Pool.

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

CALL TO ORDER
The meeting was reconvened Tuesday, November 10, 2009 at 8:00 a.m. with nine members of the Board present. Legislative Liaison Representative Brady Wiseman arrived immediately following roll call.

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

Human Resources Committee Report
Member Terry Cohea, Human Resource Committee Chair, reported that the HR Committee met on November 9, 2009.

Motion: On behalf of the Human Resource Committee, Member Terry Cohea presented and motioned for approval of the following recommendation:

- Because the Board's non-exempt staff will not receive base salary increases this year pursuant to legislative direction, the Committee recommends that there be no base salary increases granted for exempt staff.

Motion: On behalf of the Human Resource Committee, Member Terry Cohea presented and motioned for approval of the following recommendation:

- The Committee recommends that the Board approve Mr. Shoen's annual salary at the requested level.

Member Karl Englund seconded both of the motions and both motions were unanimously approved 9-0.

Audit Committee Report
Member Jim Turcotte, Audit Committee Chair, reported that the Audit Committee met on November 9, 2009.

The Committee met with the two representatives from the Legislative Audit Division. The Legislative Audit Division has completed its Financial Audit for the Fiscal Year Ended June 30, 2009 and the report contains unqualified Independent Auditor's Reports for the Board's Consolidated Unified Investment Program and Enterprise Fund. In addition, this report does not contain any recommendation to the Board.

The Committee also received updates from Ms. Geri Burton on the Internal Control Policy and Risk Assessment Process. Ms. Burton reported that both of these items will be ready for final review in February 2010.

EXTERNAL MANAGER PRESENTATION

Acadian Asset Management Inc.
Mr. Rande Muffick introduced Mr. Gary L. Bergstrom, Mr. Douglas C. Coughlin and Mr. Patrick J. McCafferty. Mr. Bergstrom, Mr. Coughlin and Mr. McCafferty reviewed their firm and management style. Acadian Asset Management manages an international large cap value portfolio in the International Equity Pool.

QUARTERLY INVESTMENT PERFORMANCE REPORTS

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

Quarterly Investment Performance Reports

Mr. Jim Voytko and Mr. Mark Higgins presented the Quarterly Performance Report for the period ending September 30, 2009. There was discussion of the pension plans' performance. Mr. Voytko noted that there are three ways to view performance; versus benchmarks, peers, and actuarial requirements. Now sponsors are focusing much more on actuarial requirements and less so on peer comparisons. There was a question regarding the peer ranking for the trailing one year which had fallen into the fourth quartile of the peer universe provided by RV Kuhns. It was noted by Mr. Voytko that although this was the case, the relative performance had already improved in the most recent quarter. Mr. Cliff Sheets added that peer group comparisons are difficult because various measures of the universe can vary significantly, and in a year of very low absolute returns like we have seen over the past year a slight performance difference can cause a large shift in percentile ranking. He alluded to the peer group ranking against the public fund universe provided by the custodian, State Street Bank and Trust Here the median performance was lower and the pension comparison ranked in the third quartile for the past year and the lower second quartile for the past quarter.

Member Elouise Cobell excused herself from the meeting at this time.

Private Equity Pacing Study

Mr. Steve Hahn presented to the Board the Private Equity Pacing Analysis.

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

INVESTMENT ACTIVITY

Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending September 30, 2009. There was a significant increase in the total value of pension assets during the quarter, driven primarily by the strong returns in public equity prices. Total plan asset values increased by $616 million during the quarter. Mostly as a result of this increase in total value, or the denominator, the percent allocation to total equities increased to 65.9%, up by 2.2%, and the allocation to bonds shrunk by 2.0% to 27.3%. Both private equity and real estate fell as a percent of total assets, despite added allocations to these pools. Notable allocation changes made to the Retirement Systems during the quarter ending September 30, 2009 were: MPEP received an allocation of approximately $23 million; Real Estate received $11 million and MTIP received $150,000. Reductions were made to MDEP of approximately $35 million and RFBP, $25 million. The net effect of these transactions was to raise approximately $26 million of cash to bolster liquidity and pay benefits.

Private Equity (MPEP)

Mr. Jon Shoen reviewed the Private Edge reports showing the total exposure by market value and outstanding commitments, the Attribution Analysis Report and the Portfolio Holdings Performance Report for the period ending June 30, 2009. Mr. Shoen also reviewed the MPEP Holdings Report as of September 30, 2009. There were no new fund commitments made since the August Board Meeting.

Real Estate (MTRP)

Mr. Jon Shoen reviewed the Private Edge reports showing the total exposure by market value, the geographic and property type diversification reports, the Detailed Portfolio Performance Report and real estate fund commitments made for the period ending June 30, 2009. Mr. Shoen also reviewed the MTRP Holdings Report as of September 30, 2009. There were no new fund commitments made since the August Board Meeting.

Repositioning of the Public Equity Pools (MTIP & MDEP)

The overall repositioning objectives for both pools were to reduce quantitative exposures, pare the growth tilts, and increase weightings in mid-caps and small caps at the expense of large caps. At the manager level, the repositioning is designed to increase allocations to managers that staff has built the most confidence in, as well as to downsize or terminate managers for underperformance or lack of confidence.

Within MTIP, the repositioning strategy also included the objectives of increasing the passive component by a significant amount and eliminating the legacy regional mandate. The size of the transition was $296 million and included several managers/funds which are listed below:

Manager	Action	Amount
Barclays ACWI ex US Superfund A	Added	$296 million
Acadian	Downsized	$15 million
Artio Global	Downsized	$25 million
Batterymarch	Downsized	$25 million
BGI European Index	Terminated	$115 million
Nomura	Terminated	$73 million
Principal Global	Terminated	$43 million

This transition was performed by Barclays Global Investors during the last week of August and the first week of September.

Within MDEP, the transition also included the objective of increasing the partial long/short strategy allocation. The size of the domestic transition amounted to $223 million and included the following managers/funds:

Manager	Action	Amount
Artisan Partners	Added	$25 million
JP Morgan	Added	$75 million
State Street SPIF	Added	$33 million
TimesSquare	Added	$10 million
T Rowe Price	Added	$70 million
Vaughan Nelson	Added	$10 million
BGI S&P 500 Index Fund	Downsized	$75 million
Martingale Mid Cap	Downsized	$20 million
Renaissance	Downsized	$20 million
Goldman Sachs	Terminated	$108 million

This transition was performed in two parts. The first part was performed by staff on September 3rd and involved the sale of $75 million of BGI S&P 500 Index Fund units and the investment of those proceeds directly into the JP Morgan partial long/short portfolio. The second part of the transition was performed by State Street Global Markets during the last week of September and involved the other managers listed above.

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**
Western Asset	Domestic – LC Enhanced	Performance, Tracking Error	March 2008
NorthPointe	Domestic – SC Growth	Performance	August 2008
Acadian	International – LC Value	Performance, Process	February 2008
Martin Currie	International – LC Growth	Performance, Risk Controls	February 2009
Batterymarch	International – LC Core	Performance, Process	May 2009

During the quarter there were no additions to the Watch List, while two managers left the list pursuant to terminations. Principal Global, an international growth manager, was terminated for performance reasons. Within the domestic pool, Goldman Sachs Enhanced Large Cap Collective Trust was terminated for performance and personnel issues.

Domestic Equity (MDEP)
Mr. Rande Muffick presented the Montana Domestic Equity Pool Report as of September 30, 2009 and a summary of the pool manager changes and recent market trends.

International Equity (MTIP)
Mr. Rande Muffick presented the Montana International Equity Pool Report for the period ending September 30, 2009 and discussed market trends during the quarter.

Trust Fund Investment Pool Update
Mr. Cliff Sheets provided to the Board an update of the Trust Fund Investment Pool.

In May 2009 the policy for the former Trust Fund Bond Pool was modified. The name of the Pool was changed to the Trust Fund Investment Pool, and an allocation was allowed for high yield and core real estate investments. In addition, staff planned to transition the balance of the pool to a more “core-like” portfolio that will be managed closer to the characteristics of the portfolio’s benchmark, the BC Aggregate index.

Since the August 2009 Board Meeting, staff has funded a Post High Yield Commingled Fund managed by Post Advisors. $30 million was invested as of September 1. Staff has also selected two Core Real Estate funds to be used in the pool, TIAA/CREF and American Core Realty. On November 2, a purchase of $10 million was made of the TIAA/CREF fund and staff intends to fund a $16 million purchase of the American Core Realty fund in early January 2010.

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

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

Mr. Cliff Sheets presented the Non-Investment Grade Holdings Report.

Representative Brady Wiseman excused himself from the meeting at this time.

Investment Policy Statements
Mr. Cliff Sheets presented changes and revisions made to the Montana International Equity Pool Investment Policy Statement to the Board for approval. The restructuring of the pool during September resulted in a significant increase in the allocation to Large Cap Core international equities. This occurred because of the elimination of the regional component, termination of one of the growth managers, and downsizing of one of the value managers. The only substantive changes are the approved ranges which reflect an increase in the range for the core allocation and a reduction for the style-based managers, as well as the elimination of the regional allocation. The result of this activity is an allocation to core that now exceeds the prior policy range of 25-50%. The allocation to core was 38.6% at the end of June and is now 60.7%. The style based allocations to growth and value also declined slightly due to the transition and fall near the bottom of the prior approved range of 15-25% each.

Motion: Member Fleming motioned for approval of the staff recommendations as presented; Member Prothero seconded the motion and the motion was unanimously approved 8-0.

ADMINISTRATIVE BUSINESS

Loan Committee Report

Member Jack Prothero, Loan Committee Chair, reported that the Loan Committee reviewed and approved one INTERCAP loan request by email, and the Loan Committee authorized staff to proceed with processing and closing this loan using the Board's standard Bond Program Office procedures.

Borrower:	Madison County
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for its Tobacco Root Mountains Care Center renovation and expansion project.
LC Approval Date:	November 5, 2009
Board Loan Amount:	$1,242,000
Other Funding Sources:	$1,042,000
Total Project Cost :	$2,284,000
Term:	2 years

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending September 30, 2009.

Staff Approved Loans Report

The Board reviewed this report for the period of July 1 – September 30, 2009:

Borrower:	Seeley Lake Rural Fire District
Purpose:	Purchase land/building to house trucks and equipment
Staff Approval Date	July 28, 2009
Board Loan Amount:	$325,000
Other Funding Sources:	$0
Total Project Cost:	$325,000
Term:	15 years

Borrower:	West Valley Fire District (Kalispell)
Purpose:	Construct new fire hall
Staff Approval Date	August 5, 2009
Board Loan Amount:	$650,000
Other Funding Sources:	$87,508
Total Project Cost:	$737,508
Term:	15 years

Borrower:	Wolf Creek/Craig Fire Service Area
Purpose:	Construct a 50' X 80' truck barn
Staff Approval Date	August 6, 2009
Board Loan Amount:	$150,000
Other Funding Sources:	$0
Total Project Cost:	$150,000
Term:	15 years

Borrower:	West Helena Valley Fire District

Purpose:	Remodel and expansion of fire hall
Staff Approval Date	August 6, 2009
Board Loan Amount:	$300,000
Other Funding Sources:	$200,000
Total Project Cost:	$500,000
Term:	7 years

Borrower:	Jefferson County
Purpose:	Martinez Gulch RID #2517 road improvement
Staff Approval Date	August 11, 2009
Board Loan Amount:	$271,333
Other Funding Sources:	$ 0
Total Project Cost:	$271,333
Term:	15 years

Borrower:	Tri-City Interlocal Equipment Pool
Purpose:	Purchase sewer jet truck
Staff Approval Date	August 19, 2009
Board Loan Amount:	$300,000
Other Funding Sources:	$0
Total Project Cost:	$300,000
Term:	7 years

Borrower:	Lewis and Clark County
Purpose:	Autumn Wind Court RID road improvements
Staff Approval Date	August 27, 2009
Board Loan Amount:	$44,431
Other Funding Sources:	$0
Total Project Cost:	$44,431
Term:	15 years

Borrower:	Park City Rural Fire District
Purpose:	Building demolition and building expansion
Staff Approval Date	September 2, 2009
Board Loan Amount:	$130,000
Other Funding Sources:	$10,000
Total Project Cost:	$140,000
Term:	10 years

Borrower:	Jefferson City Fire District
Purpose:	Purchase fire pumper engine
Staff Approval Date	September 3, 2009
Board Loan Amount:	$100,000
Other Funding Sources:	$0
Total Project Cost:	$100,000
Term:	7 years

Borrower:	Town of Sheridan
Purpose:	Engineering services-wastewater
Staff Approval Date	September 4, 2009
Board Loan Amount:	$100,000
Other Funding Sources:	$0
Total Project Cost:	$100,000
Term:	6 years

Borrower:	Town of Sheridan
Purpose:	Engineering services-water
Staff Approval Date	September 4, 2009
Board Loan Amount:	$75,000
Other Funding Sources:	$0
Total Project Cost:	$75,000
Term:	6 years

Borrower:	Jefferson County
Purpose:	Moonlight Ridge RID #2511 road improvements
Staff Approval Date	September 4, 2009
Board Loan Amount:	$249,999
Other Funding Sources:	$0
Total Project Cost:	$249,999
Term:	15 years

Borrower:	Victor School District #7
Purpose:	Insulation project, remodel/renovate cafeteria
Staff Approval Date	September 10, 2009
Board Loan Amount:	$150,000
Other Funding Sources:	$534,387
Total Project Cost:	$684,387
Term:	10 years

Borrower:	City of Billings
Purpose:	Zimmerman SID sewer improvement
Staff Approval Date	September 15, 2009
Board Loan Amount:	$80,500
Other Funding Sources:	$86,500
Total Project Cost:	$167,000
Term:	15 years

Borrower:	Laurel High School District
Purpose:	Purchase and install stadium scoreboard
Staff Approval Date	September 25, 2009
Board Loan Amount:	$130,000
Other Funding Sources:	$30,000
Total Project Cost:	$160,000

Term:	3 years

Borrower:	McCone County
Purpose:	Purchase 2010 Ford F250 4x4 pick-up
Staff Approval Date	September 29, 2009
Board Loan Amount:	$26,148
Other Funding Sources:	$0
Total Project Cost:	$26,148
Term:	5 years

<u>Resolution No. 224 – Decision</u>
Ms. Louise Welsh presented a staff request to authorize the issuance of a new $12 million bond, Series 2010, for the purpose of providing funds for the Board's INTERCAP Revolving Loan Program. Ms. Welsh projects the new issuance to take place in conjunction with the Program's bond remarketing period in March 2010.

Ms. Welsh presented the following staff recommendation:

1. Authorize staff to take steps as deemed necessary to issue up to $12 million in INTERCAP bonds for a term of 25 years;
2. Authorize the issuance of bond anticipation notes;
3. Adopt the INTERCAP Preliminary Resolution No. 224; and
4. Authorize the current INTERCAP Program finance team to provide the expertise to issue/underwrite the bonds.

Motion: On behalf of the Loan Committee, Member Jack Prothero motioned for approval of the staff recommendations as presented; Member Englund seconded the motion and the motion was unanimously approved 7-0. Member Cobell was absent and Member Cohea abstained.

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, 2009.

NEXT MEETING

The next regularly scheduled meeting of the Board will be February 9 & 10, 2010.

ADJOURNMENT

There being no further business, the meeting was adjourned at 1:15 p.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 9, 2009

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.

Only one staff member, Jon Shoen, was added during the time period of November 2008 to November 2009. Staff member, Ed Kelly, was removed during this same time period.

For the time period of November 2008 – November 2009 the following changes were made to Resolution No. 217, Appendix A:

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

- Barclays Capital Inc.
- Bank of America
- Cantor Fitzgerald
- Credit Suisse (CSFB)
- Raymond James Financial, Inc.
- State Street Global Markets

Broker/Dealer (Fixed Income/STIP) - Investment Managers no longer used by staff and removed from Appendix A:

- Artio Global Management, LLC.
- Bank of America
- Blackrock
- MarketAxess
- Merrill Lynch
- Sutter Securities, Inc.

Public Security Managers – Approved Fixed Income Managers added or updated:

- Blackrock — Previously listed as Broker/Dealer (STIP/Fixed Income)

Private Equity Managers – Investment Managers added or updated:

- Avenue Capital
- Centerbridge Special Credit Partners Fund
- First Reserve Corporation
- Hellman & Friedman
- Industry Ventures
- Lexington Capital Partners
- Neuberger Berman
- Oaktree Capital Management
- TA Associates
- Trilantic Capital Partners

Private Real Estate Managers – Investment Managers added or updated:

- AREA Property Partners
- TIAA CREF Asset Management

AN ACT DIRECTING THE STATE ADMINISTRATION AND VETERANS' AFFAIRS INTERIM COMMITTEE TO EXAMINE AND RECOMMEND TO THE 62ND LEGISLATURE FUNDING AND BENEFIT CHANGES IN THE STATEWIDE PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT SYSTEMS; PROVIDING AN APPROPRIATION; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, Article VIII, section 15, of the Montana Constitution requires all public retirement systems to be funded on an actuarially sound basis; and

WHEREAS, the recent economic collapse of the financial markets in the United States has severely affected the market value of investments and adversely affected the funding of Montana's statewide retirement systems; and

WHEREAS, the July 1, 2008, actuarial valuation for the Teachers' Retirement System (TRS) showed that current contribution rates will not amortize the system's unfunded liability within the 30-year amortization period considered to be the benchmark for actuarial soundness; and

WHEREAS, if investment earnings for TRS continue to dramatically decline, even with contribution increases, the system's liabilities may not amortize in any length of time unless significant funding is provided and TRS is redesigned to reduce the accrual of benefit liabilities; and

WHEREAS, based on actuarial projections that take into consideration continued market declines since the actuarial valuation of July 1, 2008, for the retirement systems administered by the public employees' retirement board, the unfunded liabilities in the public employees', game wardens' and peace officers', and sheriffs' retirement systems may also not amortize in any length of time without increased contributions and benefit or plan design changes; and

WHEREAS, an appropriate interim committee of the Legislature should examine the funding and benefits in all of the statewide retirement systems, which include the public employees', teachers', judges', game wardens' and peace officers', sheriffs', firefighters' unified, municipal police officers', and volunteer firefighters' retirement systems, review options for changing benefits and plan design, consider the purpose of retirement plans as a part of an overall compensation package for public employees, and develop legislation for consideration by the next

Legislature; and

WHEREAS, such an examination and the development of legislation to implement plan redesign and funding changes will require that the committee be authorized to hire actuarial and other expert consulting services.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Interim committee to examine and recommend changes to statewide retirement systems. (1) In addition to fulfilling its duties under 5-5-228(2)(a), the state administration and veterans' affairs interim committee established in 5-5-228 shall:

(a) review current trends and best practices in public retirement plan design and funding;

(b) examine various options for changes to each of the statewide retirement plans administered by the public employees' retirement board, such as but not limited to changes in:

(i) the benefit formula multiplier for each year of service;

(ii) the minimum age at which a retirement plan member is eligible for full benefits or for reduced, early retirement benefits; and

(iii) the minimum years of service required for a retirement plan member to be eligible for full retirement benefits or for reduced, early retirement benefits.

(2) With respect to the teachers' retirement system, the committee shall compare and contrast various options for redesigning the system, including money purchase plan design options and other alternative and hybrid defined benefit plan options, and shall develop legislation to implement a redesign of the teachers' retirement system that:

(a) ensures members will have a guaranteed benefit in retirement;

(b) provides that the employer and employee shall share in some manner the risk of actuarial gains and losses and allows for the adjustment of employer and employee contributions accordingly;

(c) is sustainable and funded on an actuarially sound basis;

(d) provides benefits designed to attract and retain qualified and competent employees in a competitive labor market and to facilitate effective workforce management;

(e) complies with the federal Internal Revenue Code governing tax-qualified public pension plans;

(f) provides that the system is administered by the teachers' retirement board and provides that system assets are invested by the board of investments, as required by the Montana constitution; and

(g) provides a foundation for financial security in retirement, taking into consideration that:

(i) a retirement plan is only one part of an employee's compensation package that also includes salary, health insurance benefits, and other benefits;

(ii) an employer-sponsored public retirement plan is not intended to be the sole provider of income to an employee in retirement; and

(iii) deferred compensation, personal savings and investments, and social security should be part of an employee's financial planning for retirement.

(3) (a) The committee may hire consulting services as needed.

(b) The public employees' retirement and teachers' retirement boards and their respective staffs shall provide requested information and actuarial analysis to the extent feasible within the framework of the retirement boards' fiduciary and constitutional responsibilities.

(c) The board of investments and its staff shall also provide requested information and analysis to the extent feasible and consistent with its fiduciary and constitutional responsibilities.

(4) The committee shall involve public employers, public employees, members of the current public employees' retirement systems, public employee and retiree representative organizations, public retirement plan administrators, and other interested parties in the process of developing options and recommendations.

(5) Subject to 5-5-211, the speaker of the house and the senate committee on committees are encouraged to:

(a) consult with the legislative council to determine the most appropriate number of members and support staff for the state administration and veterans' affairs interim committee; and

(b) appoint members from the 61st legislature's standing house and senate state administration committees, house appropriations committee, and senate finance and claims committee to the extent feasible.

Section 2. Appropriation. There is appropriated from the general fund to the legislative services division $200,000 for the purposes of [section 1].

Section 3. Effective date. [This act] is effective July 1, 2009.

- END -

MEMORANDUM

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

To: State Administration and Veterans' Affairs Committee

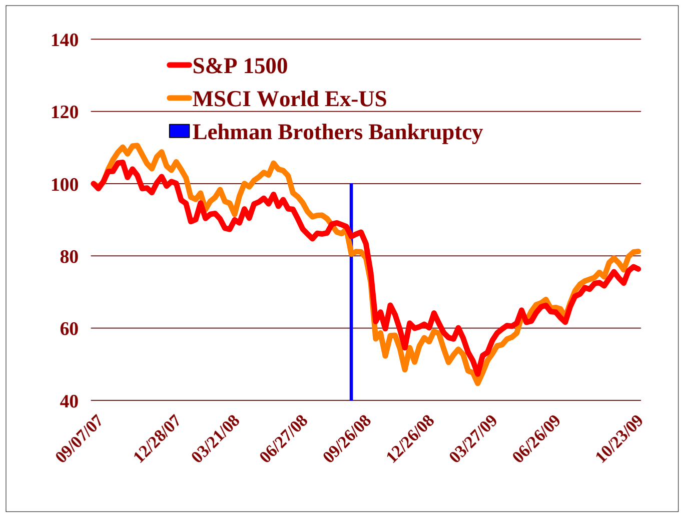
From: Carroll South, Executive Director

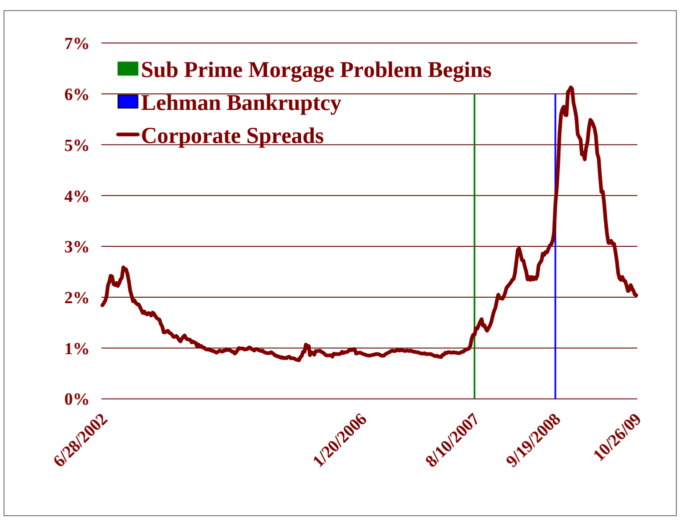
Date: October 29, 2009

Subject: Financial Markets and Pensions Investments

What Happened to the Financial Markets?

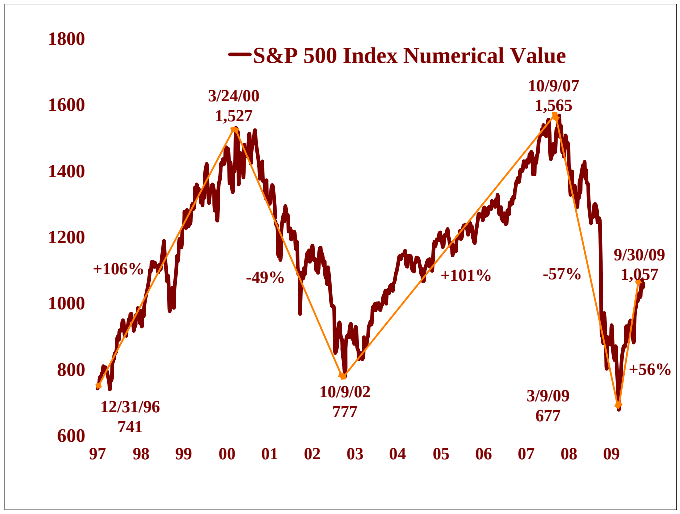
The recent trauma in the financial markets, called the worst since the Great Depression, has taken its toll on the asset values of all public and corporate retirement plans, particularly those with a large allocation to public equities. The adjacent chart depicts the performance of the Standard and Poor's (S&P) 1500 Index and the Morgan Stanley World Index (MSCI) excluding US Stocks. Together these indexes represent nearly all publicly-traded stocks in developed and emerging markets. Due to the global nature of the market meltdown there was very little difference between the performance of the US and international stock markets during the period. The public equity markets fell precipitously after the Lehman Brothers bankruptcy depicted as the blue bar in the chart.





The meltdown was not much kinder to investors who held significant allocations of corporate bonds when the trauma began. The adjacent chart depicts the "yield spread" of investment grade corporate bonds to US Government bonds of similar maturity. Corporate bond holders saw the prices of their bonds plummet (and yields go up) as investors flocked to less "risky" investments. The rush to safety forced prices up and yields down on 90-day US Treasury Bills, considered to be the safest investment. There were two days in December 2008 when the yield on these bills was negative, meaning investors were willing to "pay" the federal government to keep their money safe. The chart also shows the reaction of the credit markets to two major events – the first hint of subprime mortgage problems and the Lehman Brothers bankruptcy.

Major domestic public asset class returns have been tracked by Morningstar from January 1926 through December 2008, a period that includes the Great Depression and most of the recent market meltdown. During the period, large company US stocks returned 9.6 percent annually. However during the past 12 years, large company US stocks as represented by the S&P 500 Index have struggled to just break even as depicted in the adjacent chart. For any public retirement plan with significant allocations to public equities, this under performance (by historical standards) has seriously damaged funding ratios and increased unfunded liabilities. The chart depicts price movement only and does not include the reinvestment of dividends.



A cardinal rule of investing has historically been diversification – the theory being that when one asset class declines, others less correlated may actually increase (or at least not decline as much) and offset the decline. But, during fiscal year 2009, diversification did not help. Even alternative investments, such as private equity and real estate, provided no relief as they followed the public markets down. Hedge funds, once called "absolute return" funds, also suffered as they were forced to reduce leverage and sell assets to satisfy redemption demands.

Investment Type	4th Q FY 2009	Fiscal 2009	1st Q FY 2010
Short Term Investment Pool	0.33%	2.08%	0.24%
Bond Pool	4.98%	2.53%	5.91%
Domestic Equity Pool	16.24%	-27.24%	16.12%
International Equity Pool	25.84%	-35.17%	19.62%
Private Equity Pool	-7.88%	-25.09%	3.43%
Real Estate Pool	-20.07%	-27.84%	-5.04%

Nearly all state retirement fund assets are invested in the six pools shown in the adjacent table. Public equity, private equity, and real estate all plunged dramatically during the year. While the bond pool had a small positive performance, its performance trailed the aggregate bond index by 3.5 percent due to its large holdings of corporate bonds at the beginning of the year. As the previous yield spread chart illustrates, corporate bond investors were punished by the credit crisis. There were times during the year when investment grade corporate bonds held in the pool were priced at 80 cents on the dollar or less. The only good news is that the performance in the last quarter of fiscal year 2009 and the first quarter of 2010 has slowly started to rebuild retirement assets.

How Did the Board Respond to the Market Meltdown?

The Board sets broad investment parameters for retirement assets and delegates to staff the day-to-day management of the assets and the responsibility for keeping assets within the Board-approved ranges. The broad ranges for allocation to each of the six pools are set at the retirement fund level and allocations are further refined within each pool by the Board's adoption of an Investment Policy Statement. In investment-speak, the process of "keeping assets within approved ranges" is called rebalancing. Given the recent roller coaster performance of the equity markets, the most volatile range to manage has been the total equity allocation at 60.0 to 70.0 percent of assets and the various equity components within the allocation.

Retirement Funds Approved Ranges	
FIXED INCOME:	**Range**
Retirement Funds Bond Pool	22-32%
Short-Term Investment Pool (STIP)	1-5%
TOTAL FIXED-INCOME	**25-35%**
EQUITY:	
Domestic Equity Pool	30-50%
International Equity Pool	15-30%
Private Equity Pool	9-15%
TOTAL EQUITY	**60-70%**
REAL ESTATE:	
Real Estate Pool	4-8%
TOTAL REAL ESTATE	**4-8%**
TOTAL PORTFOLIO	**100.0%**

When the equity markets take off and other assets do not, total equities may exceed 70.0 percent, at which time equities would be sold and non-equity assets purchased. Conversely, when equity markets fall significantly as they did last fiscal year and equity exposure nears the bottom of the range, non-equity assets would be sold and equities purchased. This somewhat counterintuitive process brings discipline to the investment process and, at least in theory, conforms to the investor's ideal of buying low and selling high.

Total Equities	
09/30/08	65.97%
10/31/08	63.04%
11/30/08	61.60%
12/31/08	62.30%
01/31/09	61.35%
02/28/09	59.44%
03/31/09	60.59%
04/30/09	62.57%
05/31/09	63.82%
06/30/09	63.66%
07/31/09	65.03%
08/31/09	65.89%
09/30/09	65.88%

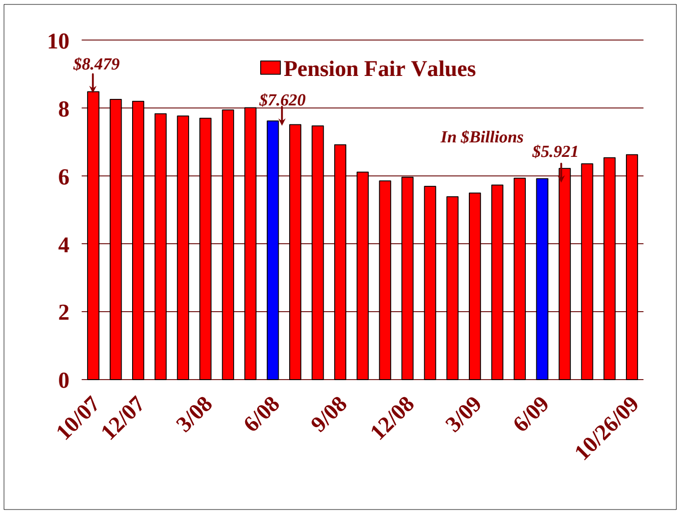
The table at left shows the declining total equity exposure during a 13-month period covering the worst of the equity market decline. During fiscal 2009, $181.6 million in fixed-income investments were sold and a net $173.6 million was pumped into international equity and private equity. During the fiscal year, staff also added $72.9 million to private real estate in a continuing effort to ramp up real estate exposure. Increased cash investments in private equity and private real estate are required to fund capital calls for earlier commitments. As part of the monthly rebalancing process, staff must ensure that adequate cash is available in the private equity and real estate pools to fund the capital calls.

During fiscal years 2007 and 2008 when the stock markets were taking off $292.5 million in stock investments were sold and $105.4 million in fixed income investments purchased to bring the assets back into balance. Staff has discussed the market trauma with the Board and recommended that major asset allocations revisions not be made during periods of extreme market volatility.

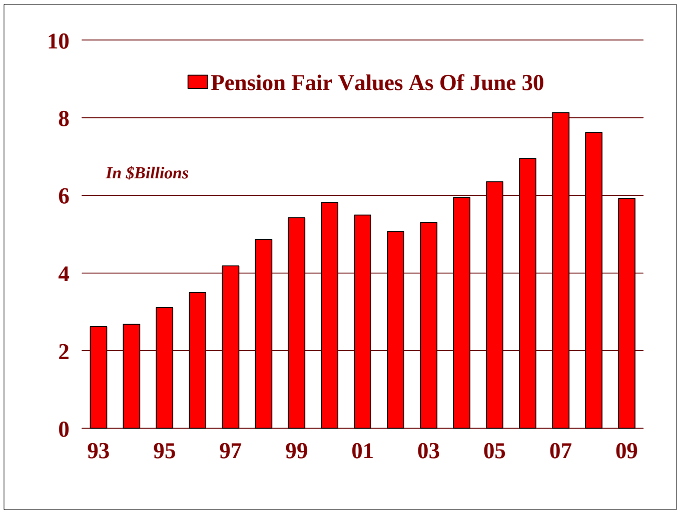
Asset Allocation 10/26/09

Pool Type	Fair Value	% Total
Short Term	132,040,119	1.99%
Bonds	1,836,128,880	27.72%
Domestic Equity	2,417,181,257	36.49%
International Equity	1,195,861,153	18.05%
Private Equity	725,780,019	10.96%
Real Estate	317,133,575	4.79%
Total	**6,624,125,004**	**100.00%**

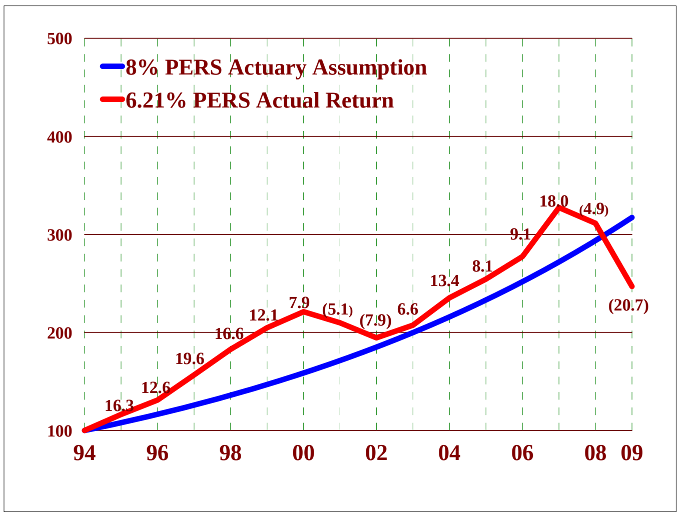
How Has the Financial Market Meltdown Impacted Retirement Assets?



The market value of the state's nine retirement fund assets reached an all time high of $8.5 billion in October 2007, but has dropped significantly since then as depicted in the chart at right. The blue bars represent the "slice in time" values captured in the annual actuarial valuations of the retirement funds. It is important to note that the asset values are based on close-of-business-day prices of the underlying investments in the six pools. The values could include significant amounts of unrealized gains/losses depending upon market conditions. The entire decline in assets cannot be solely attributed to financial market declines because some investment income has been used to pay benefits and has been removed from the asset base.



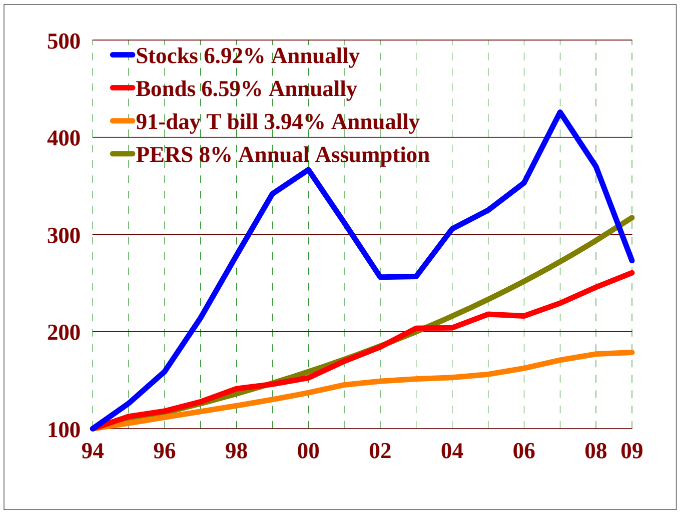
The chart at left shows longer-term impacts of financial market performance on the nine retirement fund assets beginning June 30, 1993. During the 1990's, strong stock market performance increased assets rapidly, but the assets followed the stock markets down in fiscal years 2001 and 2002. By fiscal 2004 the assets had recovered and began growing again. From the low point of fiscal 2002, there were five solid years of gains before the assets declined precipitously during the past two years. The market value of retirement fund assets is very sensitive to financial market performance and can move up and down erratically.

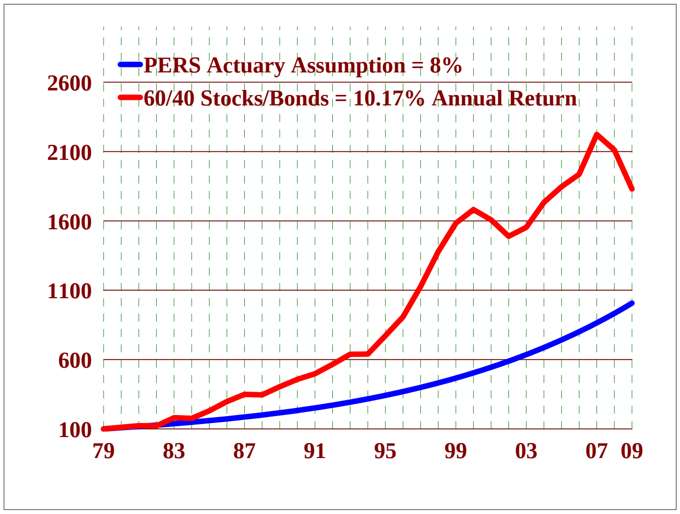


A more meaningful way to evaluate investment performance rather than absolute dollar value of assets is to utilize a total rate of return calculation that ignores non-investment related cash flows, such as benefit payments. The Board's custodial bank has calculated total rates of returns since fiscal 1995. The red line in the chart at right depicts the actual annual total rate of return for the PERS from fiscal year 1995 through fiscal year 2009. The blue line depicts the PERS actuarial return assumption of 8.0 percent. Despite the volatility of the financial markets, the actual returns had exceeded the actuarial assumption through fiscal year 2008. However, the negative

20.7 percent performance in 2009 significantly lowered the annualized return during the 15-year period. While the actuarial assumptions expected an 8.0 percent annual return, the actual return during the period was 6.21 percent annually.

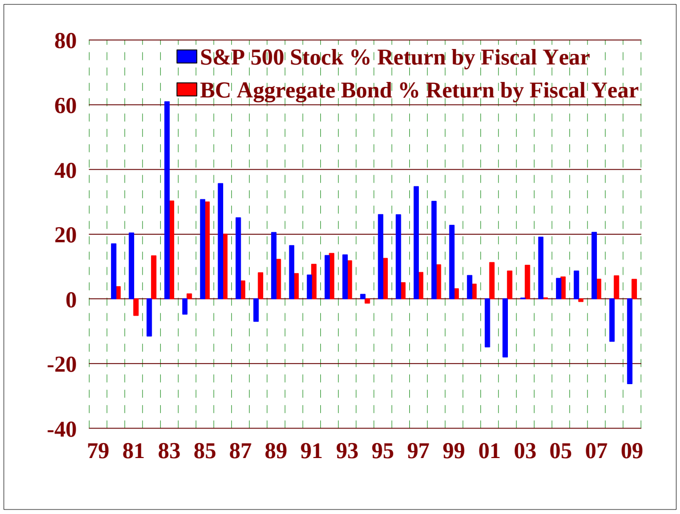
Was there anything the Board could have done differently during the period to meet the 8.0 percent actuarial return assumption? The adjacent chart shows the returns for three major public asset classes during the period compared to the PERS actuarial return assumption. Stocks are represented by the Standard & Poor's (S&P) 500 Index, which tracks approximately 75.0 percent of the US stock market value. Bonds are represented by the Barclays Aggregate Index that tracks approximately 8,820 US Government, securitized, and domestic corporate bonds. The 90-day US Treasury Bill is considered to be the safest, least volatile investment. Investing in any combination of these assets would not have met the 8.0 percent actuarial assumption during the period.





Because defined benefit retirement systems are long-term obligations and unfunded liabilities may be amortized over a 30-year period, it is reasonable to review investment returns over the same time horizon. Although major bond/stock asset class returns did not meet the actuarial return assumptions during the last 15 years, their returns were well in excess of the actuarial assumptions during the past 30 years. The adjacent chart depicts the returns of an asset allocation of 60.0 percent to the S&P500 Index and 40.0 percent to the Barclays Aggregate Index during the 30-year period ending June 30, 2009. This 60/40 asset mix would have returned 10.17 percent annually during the period.

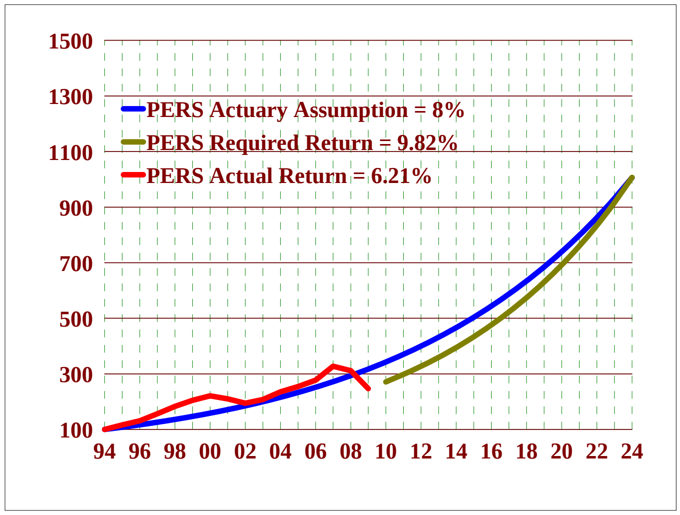
Future retirement fund investment returns will be at the mercy of the financial markets as they have in the past. The peak-to-trough price decline in the S&P500 index of 57.0 percent during the recent bear market was the worst since the stock market decline of the Great Depression. Unless there is a healthy stock market recovery soon, it will be difficult to meet an 8.0 percent actuarial return assumption in any 30-year period that includes the recent market trauma. As the adjacent chart shows, some recovery has usually occurred within a year or two after negative



performance but it is too early to predict when and how much the markets will rebound. However, just gaining back the loss of the last two years, while helpful, will not get the retirement fund assets back on track. The unfunded liabilities of the systems are based on PERS assets returning 8.0 percent annually and TRS assets returning 7.75 percent annually. When they return less, an "actuarial investment loss" occurs that increases the unfunded liabilities.

Can We Get There From Here?

Starting from the low point of June 30, 2009 it would require a future 9.8 percent annual return on PERS assets going forward to meet the 8.0 percent actuarial return assumption during the 30-year period beginning in 1995. A lower 9.4 percent annual return would be required for TRS due to its lower return assumption. If there is a sharp stock market rebound and the assets recover their two-year losses by June 30, 2010, an annual return of 8.4 percent on PERS assets would be required during the remaining period to get back on track.



The compounding that helps build assets when returns are positive does just the opposite when returns are negative. If the stock markets fall 50.0 percent, they must gain 100.0 percent to get back to their initial value. Even though the retirement fund actuaries "smooth" assets over several years to address the volatility of the financial markets, the significant "actuarial" investment losses of the past two years will linger for some time.

Can we get back on track, and if so, how and when? Major domestic public asset class returns have been tracked by Morningstar from January 1926 through December 2008, a period that includes the Great Depression and most of the recent market meltdown. If history repeats and these long-term annual returns carry forward, a 60/40 large stock/bond asset allocation would return just slightly more than 8.0 percent annually but would not compensate for the recent investment losses. Current forward-looking consultant estimates predict lower stock and bond returns than these historical numbers, making even an 8.0 percent annual return unlikely going forward with investments in only large company stocks and bonds.

Morningstar Historical Records	
Large Company Domestic Stock	9.6%
Small Company Domestic Stock	11.7%
Long-Term Corporate Bonds	5.9%
Long-Term Government Bonds	5.7%
Intermediate-Term Government Bonds	5.4%
US Treasury Bills	3.7%

The Board diversifies retirement fund assets beyond stock and bonds to increase returns while diversifying risk. The current ranges for assets approved by the Board are:

- International large and small company stock 15-30%
- Domestic large, mid, and small company stock 30-50%
- Government/corporate bonds, high yield bonds, and foreign bonds 22-32%
- Private equity, including distressed debt 9-15%
- Private real estate, including core, value-added, and opportunistic 4-8%

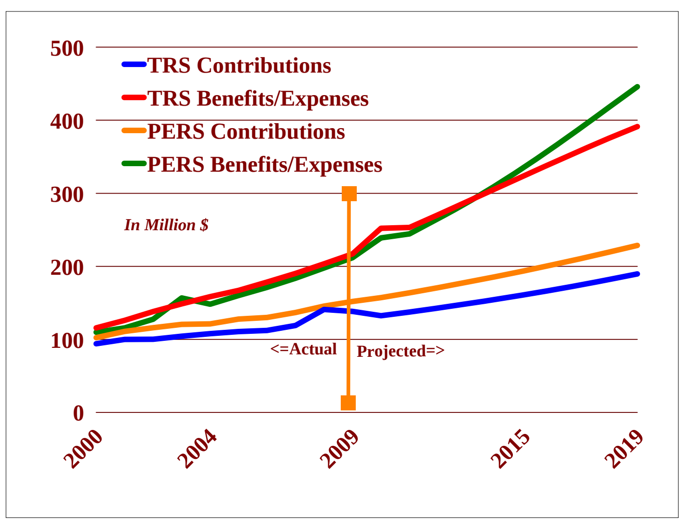
Investment returns at or near the actuarial return assumptions of the retirement funds will only be achieved by maintaining a healthy allocation to international equity, private equity, and private real estate investments. The forward-looking estimated returns for these asset classes are in excess of the actuarial return assumptions. It is important to understand that the return assumptions cannot be met without incurring investment risk and volatility. If the assumptions are not met, the unfunded liabilities will increase. A "risk free" portfolio of US Treasury Bills has returned only 3.7 percent annually since 1926, well short of the return assumptions requirements.

Will Growing Negative Cash Flow Eventually Impact Returns?

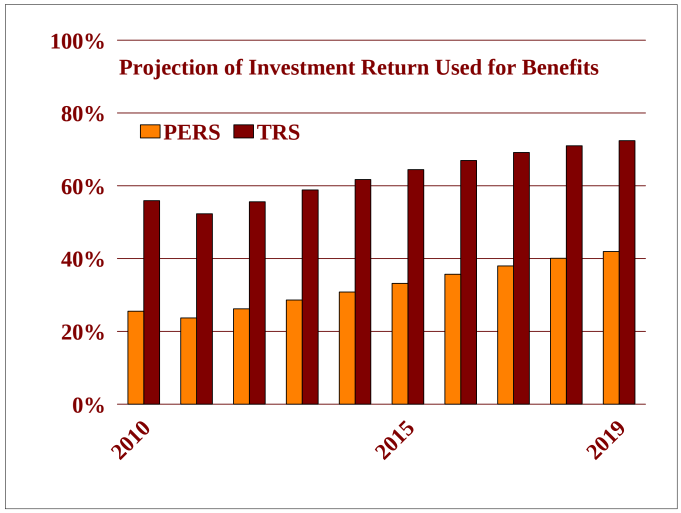
Defined benefit retirement fund assets are generated by "positive" cash flow – the excess of contributions received over benefits/expenses paid – plus investment income not used to pay benefits. When a defined benefit retirement system is created, the employer and employees begin contributing to the system and since there are no retirees drawing benefits in the early years, the contributions accumulate and are invested. Even after the original employees begin to retire there will be positive cash flow because there will be more contributing employees than retirees collecting benefits. The positive cash flow will continue to build the assets into a "nest egg" used to pay benefits for employees not yet retired. As long as contributions exceed benefits paid, the income on the assets is reinvested and adds to the growth of the assets. However, as defined benefit systems mature, the ratio of retirees to contributing employees increases and the positive cash flow eventually turns "negative" – benefit payments exceed contributions. When this occurs, a portion of investment income must be used to pay benefits and is not available for reinvestment in the pool of assets.

Historically, legislative scrutiny of the state's defined benefit retirement funds has focused on unfunded liabilities and the length of time required to amortize the liability. In order to be actuarially sound the unfunded liability must be amortized in 30 years or less with the contribution revenue stream. However, this analysis does not provide the type of information the Board needs to carry out its mission. Whether there is an unfunded liability or not, the Board must prudently invest retirement fund assets in an attempt to meet the actuarial returns assumptions, while ensuring that sufficient cash is generated by the invested assets to pay monthly benefits. In order to carry out this mission, the Board must be able to ascertain with some certainty the future impact of negative cash flow on the management of the assets.

The adjacent chart depicts the actual and projected growth of PERS/TRS contributions and benefit/expenses from fiscal 2000 through fiscal 2019 as supplied by the systems' actuaries. The spread between the growth of contributions and benefits widens over the 20-year period because the contribution revenue stream does not grow at the same rate as benefit/administrative expenditures. The gap between the contribution/benefit lines represents "negative cash flow" that must be filled with cash generated by the invested assets, either by current interest/dividend income (cash) or the sale of assets to generate cash.



The table at right depicts the percentage of investment return that would be used to fill the gap between PERS/TRS contributions and benefits. The return is calculated based on the "actuarial" value of assets on June 30, 2009, of $4,002,212,253 for PERS and $2,762,194,000 for TRS as provided by the systems' actuaries. Annual investment returns are 8.0 percent for PERS and 7.75 percent for TRS as embodied in the actuarial valuations. To fully understand the implication of this chart one must differentiate "return" from "cash", as they are not interchangeable. The term "return" as used by the actuaries and the Board is actually a total rate of return calculation, which is the combination of current income (cash) from dividend/interests and price appreciation/depreciation. The retirement assets cannot be invested in any type of configuration that will spin off 8.0 percent or 7.75 percent of free cash flow for benefit payments.



Over long periods of time, current income (cash) from bonds will usually track fairly close to the bond total rate of return. In contrast, most of the return on stocks derives from price appreciation (or depreciation) and the current income (cash) from dividends is a small portion of the total return. For example, if the stock portion of the assts returns 10.0 percent for the year, only 2.0 percent to 3.0 percent of the return would be comprised of cash dividends that could be used to pay benefits. The remaining return would be price appreciation which could only be converted to cash by selling stock and capturing a realized gain. With 55.0 percent to 60.0 percent of retirement assets invested in stock, this "cash" requirement will become more critical as the cash required to pay benefits continues to consume an ever increasing portion of the investment return, much of which is price appreciation. If the current cash flow from interest and dividends is not sufficient to pay benefits, assets will have to be sold to generate cash.

This growing cash flow requirement for benefit payments could at some point in the future necessitate a change in the asset mix with a higher allocation to cash-generating investments, such as bonds, and a reduction in stock. Should this become necessary, the trade off will be an increase in cash flow generated by the assets, but reduced returns, which may make it more difficult to meet the actuarial investment return assumptions.

Despite the havoc wreaked on retirement assets by the recent financial system meltdown it is important to keep things in perspective. Defined benefit obligations are very long-term and if history repeats there will be bad years and good years as the plans mature. It was just two short years ago this month that the retirement assets reached their highest value in history. Eighteen months later, the asset values had declined to 2003 levels. However, it is important to understand what these values actually mean. They are not hard "money in the bank" assets but simply slice-in-time values of the various assets held in the funds' investment portfolios that may contain several hundred million dollars of unrealized gains that can disappear as quickly as they appear. On the next business day after the slice-in-time snapshot, the asset values will change, sometimes up – sometimes down. Whatever impact the financial markets may have on retirement fund asset values, the Board's responsibility is to ensure that the assets are invested prudently and that there is always sufficient cash to pay monthly benefits for retired members.

Investment Activity Reports

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 06/30/09										
				Total				Real Etsate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	35.8%	16.6%	11.3%	63.7%	29.3%	1.0%	0.8%	0.3%	4.9%	2,988,472,865
TEACHERS	35.8%	16.5%	11.4%	63.7%	29.1%	1.1%	0.9%	0.4%	4.9%	2,277,722,642
POLICE	36.1%	16.6%	11.4%	64.1%	30.3%	0.7%			4.9%	151,577,486
SHERIFFS	35.5%	16.3%	11.3%	63.2%	30.3%	1.7%			4.8%	150,962,037
FIREFIGHTERS	35.9%	16.7%	11.3%	63.9%	30.3%	0.9%			4.9%	149,095,158
HIGHWAY PATROL	35.8%	16.6%	11.3%	63.8%	30.2%	1.1%			4.9%	74,423,099
GAME WARDENS	35.1%	16.2%	11.2%	62.6%	30.0%	2.7%			4.8%	61,822,709
JUDGES	35.5%	16.2%	11.2%	62.9%	30.1%	2.1%			4.8%	46,548,510
VOL FIREFIGHTERS	33.4%	15.4%	10.4%	59.1%	28.1%	8.4%			4.4%	20,447,188
TOTAL	**35.8%**	**16.5%**	**11.3%**	**63.7%**	**29.3%**	**1.1%**	**0.8%**	**0.3%**	**4.9%**	**5,921,071,695**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

Retirement Systems Asset Allocations as of 09/30/09										
				Total				Real Etsate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	37.1%	17.9%	11.0%	66.0%	27.4%	1.3%	0.7%	0.3%	4.3%	3,295,248,050
TEACHERS	37.2%	18.0%	11.1%	66.3%	27.3%	1.0%	0.8%	0.3%	4.3%	2,498,940,188
POLICE	35.0%	17.0%	10.4%	62.4%	26.7%	6.8%			4.1%	176,452,709
SHERIFFS	36.9%	17.6%	11.0%	65.5%	28.0%	2.2%			4.3%	167,674,463
FIREFIGHTERS	35.0%	17.0%	10.4%	62.4%	26.7%	6.9%			4.1%	173,860,449
HIGHWAY PATROL	37.1%	18.0%	11.0%	66.1%	28.2%	1.3%			4.3%	82,030,555
GAME WARDENS	36.9%	17.5%	10.9%	65.3%	27.6%	2.9%			4.3%	69,363,890
JUDGES	37.0%	17.7%	11.0%	65.7%	28.0%	2.0%			4.3%	51,481,618
VOL FIREFIGHTERS	36.9%	17.3%	10.8%	65.0%	27.2%	3.7%			4.2%	22,060,076
TOTAL	**37.0%**	**17.9%**	**11.0%**	**65.9%**	**27.3%**	**1.6%**	**0.6%**	**0.3%**	**4.3%**	**6,537,111,997**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

Change From Last Quarter										
				Total				Real Estate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	1.2%	1.4%	-0.3%	2.3%	-1.9%	0.3%	-0.1%	0.0%	-0.5%	306,775,184
TEACHERS	1.4%	1.5%	-0.3%	2.6%	-1.8%	-0.1%	-0.1%	0.0%	-0.5%	221,217,546
POLICE	-1.1%	0.4%	-0.9%	-1.7%	-3.7%	6.1%			-0.8%	24,875,223
SHERIFFS	1.4%	1.3%	-0.3%	2.3%	-2.2%	0.5%			-0.6%	16,712,426
FIREFIGHTERS	-0.9%	0.3%	-0.9%	-1.5%	-3.6%	5.9%			-0.8%	24,765,290
HIGHWAY PATROL	1.2%	1.4%	-0.3%	2.3%	-2.0%	0.2%			-0.5%	7,607,456
GAME WARDENS	1.7%	1.3%	-0.3%	2.7%	-2.4%	0.2%			-0.5%	7,541,182
JUDGES	1.5%	1.5%	-0.2%	2.8%	-2.1%	-0.2%			-0.5%	4,933,107
VOL FIREFIGHTERS	3.4%	2.0%	0.4%	5.8%	-0.9%	-4.7%			-0.2%	1,612,888
TOTAL	**1.2%**	**1.3%**	**-0.3%**	**2.2%**	**-2.0%**	**0.4%**	**-0.1%**	**0.0%**	**-0.5%**	**616,040,302**

Allocations During Quarter

MDEP	**MTIP**	**MPEP**	**Total Equity**	**RFBP**	**Real Estate**
($34,700,000)	$150,000	$23,080,000	($11,470,000)	($25,380,000)	$11,000,000

Net New Investments for Quarter **($25,850,000)**

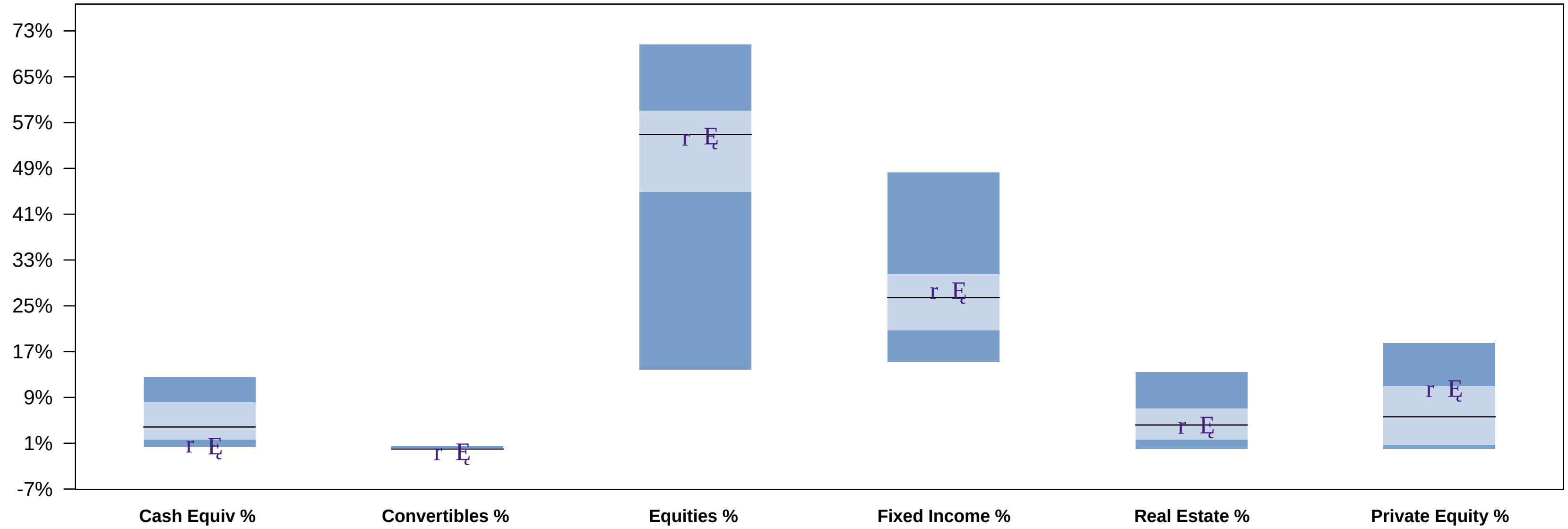
Montana Board of Investments

PUBLIC FUNDS (DB) > $1 BILLION(SSE)

PERIOD ENDING September 30, 2009

STATE STREET.

ALLOCATION



		Cash Equiv %		Convertibles %		Equities %		Fixed Income %		Real Estate %		Private Equity %	
	5th Percentile	12.59		0.39		70.63		48.28		13.36		18.55	
	25th Percentile	8.14		0.04		59.06		30.54		7.06		11.01	
	50th Percentile	3.84		0.00		54.91		26.44		4.18		5.61	
	75th Percentile	1.61		0.00		44.84		20.67		1.59		0.73	
	95th Percentile	0.36		0.00		13.85		15.18		0.00		0.00	
	No. of Obs	48		47		49		48		48		48	
r	PUBLIC EMPLOYEES RET	1.33	84	0.00	50	54.92	49	28.13	37	4.61	43	11.01	25
Ę	TEACHERS RETIREMENT	1.00	86	0.00	50	55.13	47	28.13	39	4.68	39	11.06	23

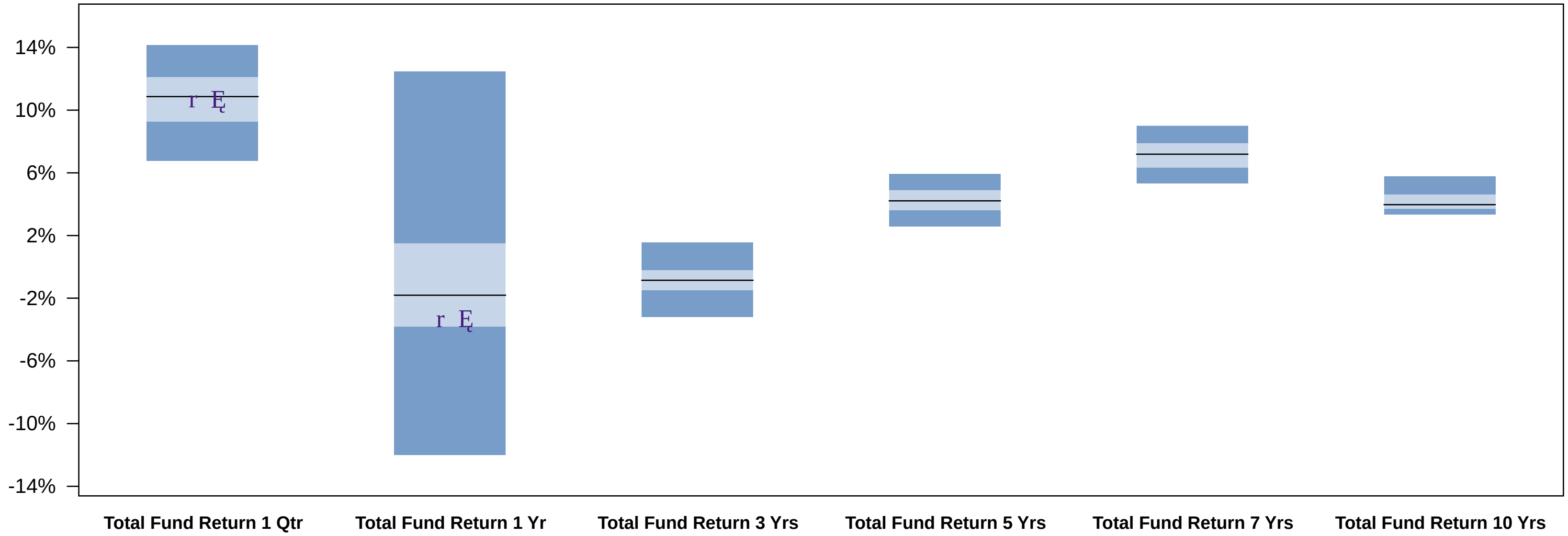
Provided by State Street Investment Analytics

Montana Board of Investments

PUBLIC FUNDS (DB) > $1 BILLION (SSE) - MBOI PERS - TRS UNIVERSE

PERIOD ENDING September 30, 2009

STATE STREET.



		Total Fund Return 1 Qtr		Total Fund Return 1 Yr		Total Fund Return 3 Yrs	Total Fund Return 5 Yrs	Total Fund Return 7 Yrs	Total Fund Return 10 Yrs
	No. of Obs	48		47		42	43	39	35
	5th Percentile	14.15		12.45		1.55	5.92	8.99	5.77
	25th Percentile	12.11		1.49		-0.20	4.88	7.89	4.62
	50th Percentile	10.86		-1.81		-0.86	4.21	7.19	3.97
	75th Percentile	9.27		-3.81		-1.52	3.61	6.31	3.71
	95th Percentile	6.78		-12.00		-3.21	2.60	5.32	3.34
r	MU68 - PUBLIC EMPLOYEES RET	10.90	45	-3.13	73				
Ę	MU74 - TEACHERS RETIREMENT	10.87	49	-3.12	69				

Provided by State Street Investment Analytics

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: Jon Shoen, Portfolio Manager – Alternative Investments

Date: November 11, 2009

Subject: Montana Private Equity Pool [MPEP]

Attached to this memo are the following reports:

(i) **Private Equity Monthly Cash Flow Trends – Graph:**
Summary of cash distributions, capital calls, and net cash flow changes.

(ii) **Private Edge – Table: Performance Attribution by Strategy.**
Summary of investment gains, investment multiple and net IRR by strategy.

(iii) **Private Edge - Graph: Strategy Total Exposure by Market Value & Remaining Commitments**. Summary of total market value of invested capital plus future capital commitments by investment strategy as of 06/30/09.

(iv) **Private Edge - Graph: Investment Geography Exposure by Market Value & Remaining Commitments**. Summary of total market value of invested capital plus future capital commitments by geography as of 06/30/09.

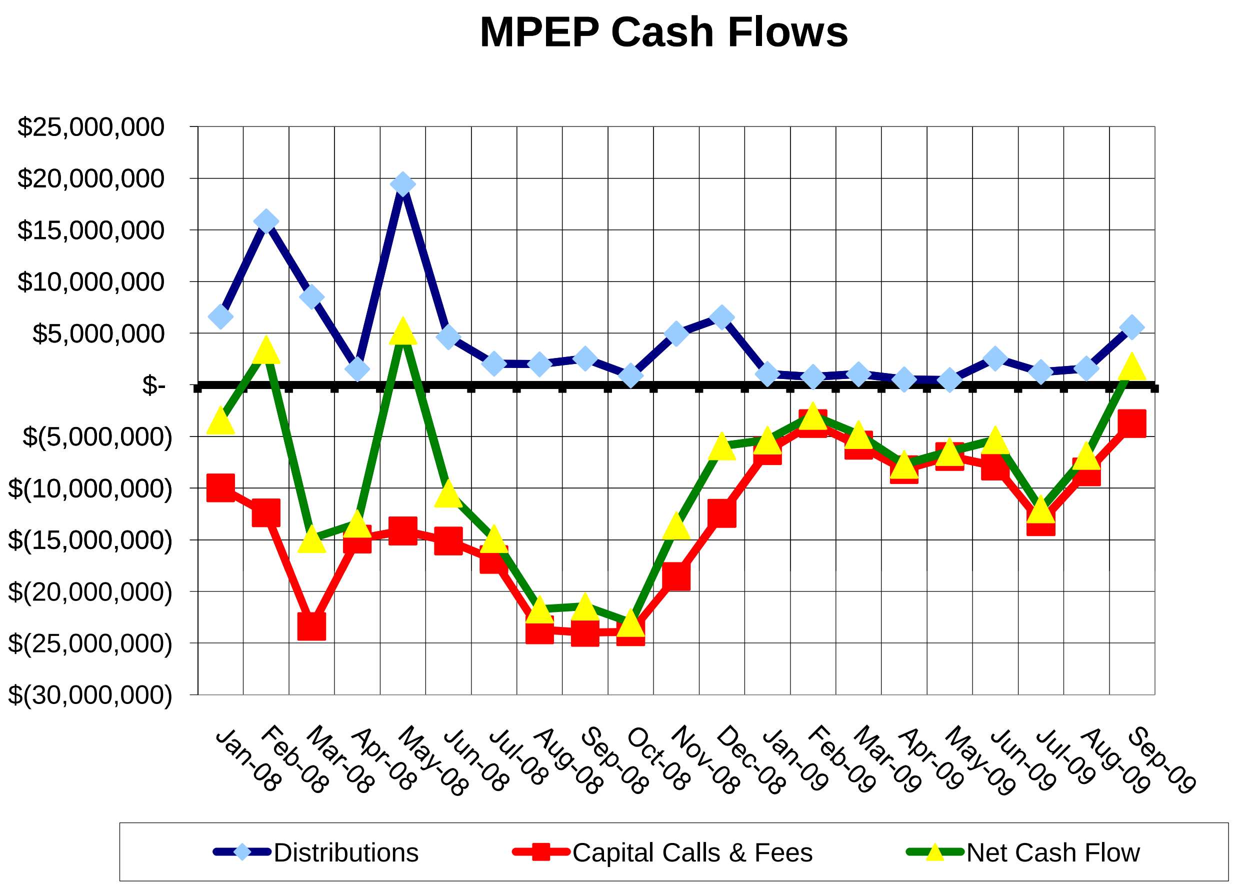
(v) **Private Edge - Table: LP's by Family of Funds All Investments.**
Listing of individual funds and their reported values and Investment performance from inception to 06/30/09.

(vi) **Private Equity Pool Holdings**.
Portfolio fund holdings by shares, book value and cash flow adjusted market values as of 09/30/09.

Montana Private Equity Pool

MPEP Monthly Cash Flow

(Since January 1, 2008 through September 30, 2009)



Montana Board of Investments
Performance Atttibution Analysis
June 30, 2009

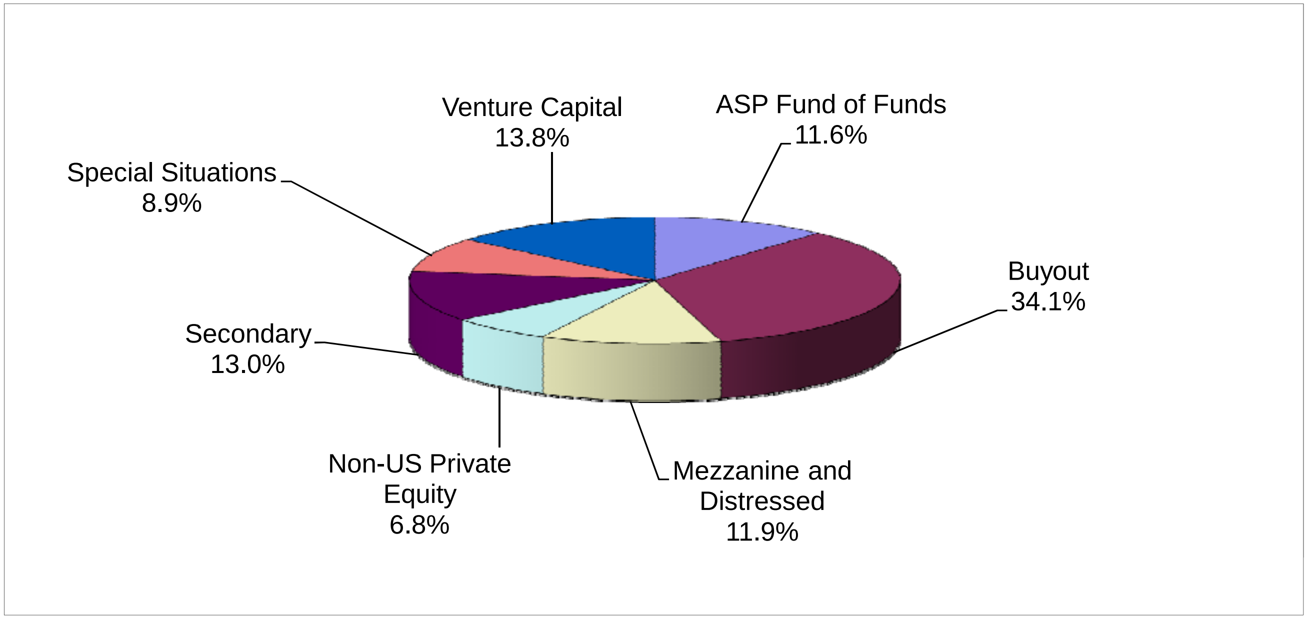
Alternate Investment Sub-Category	Capital Distributed	Ending Market Value	% of Total Market Value	Capital Contributed Net	Since Inception Total Gain*	Investment Multiple	Net IRR
Total	$ 855,882,684	$ 692,348,269	100%	$ 1,233,194,172	$ 315,036,781	1.26	11.34
ASP - Direct VC Funds	$ 50,994,030	$ 33,755,686	4.9%	$ 64,411,538	$ 20,338,178	1.32	14.55
ASP - Secondary Funds	$ 29,466,060	$ 19,516,421	2.8%	$ 32,429,172	$ 16,553,309	1.51	46.15
ASP - U.S. Partnership Funds	$ 114,978,587	$ 109,548,389	15.8%	$ 180,007,230	$ 44,519,746	1.25	8.51
ASP Non-US Partnership Funds	$ 15,484,292	$ 15,083,312	2.2%	$ 23,052,803	$ 7,514,801	1.33	10.55
Buyout	$ 361,223,996	$ 213,010,959	30.8%	$ 423,545,377	$ 150,689,578	1.36	10.63
Co-Investment	$ 5,522,343	$ 19,957,693	2.9%	$ 30,534,225	$ (5,054,189)	0.83	-10.23
Distressed	$ 121,767,230	$ 76,862,596	11.1%	$ 163,934,311	$ 34,695,515	1.21	35.55
Mezzanine	$ 6,663,706	$ 17,511,589	2.5%	$ 17,380,791	$ 6,794,504	1.39	12.12
Non-US Private Equity	$ 39,991,766	$ 22,683,295	3.3%	$ 53,006,206	$ 9,668,855	1.18	8.53
Secondary	$ 62,664,892	$ 58,228,545	8.4%	$ 102,654,118	$ 18,239,318	1.18	10.69
Special Situations	$ 19,346,423	$ 68,353,535	9.9%	$ 84,410,690	$ 3,289,268	1.04	2.35
Venture Capital	$ 27,779,360	$ 37,836,249	5.5%	$ 57,827,710	$ 7,787,898	1.13	17.37

****Total Gain = Capital Distributed + Ending Market Value - Capital Contributed Net***

Montana Private Equity Pool

Strategy Total Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2009)

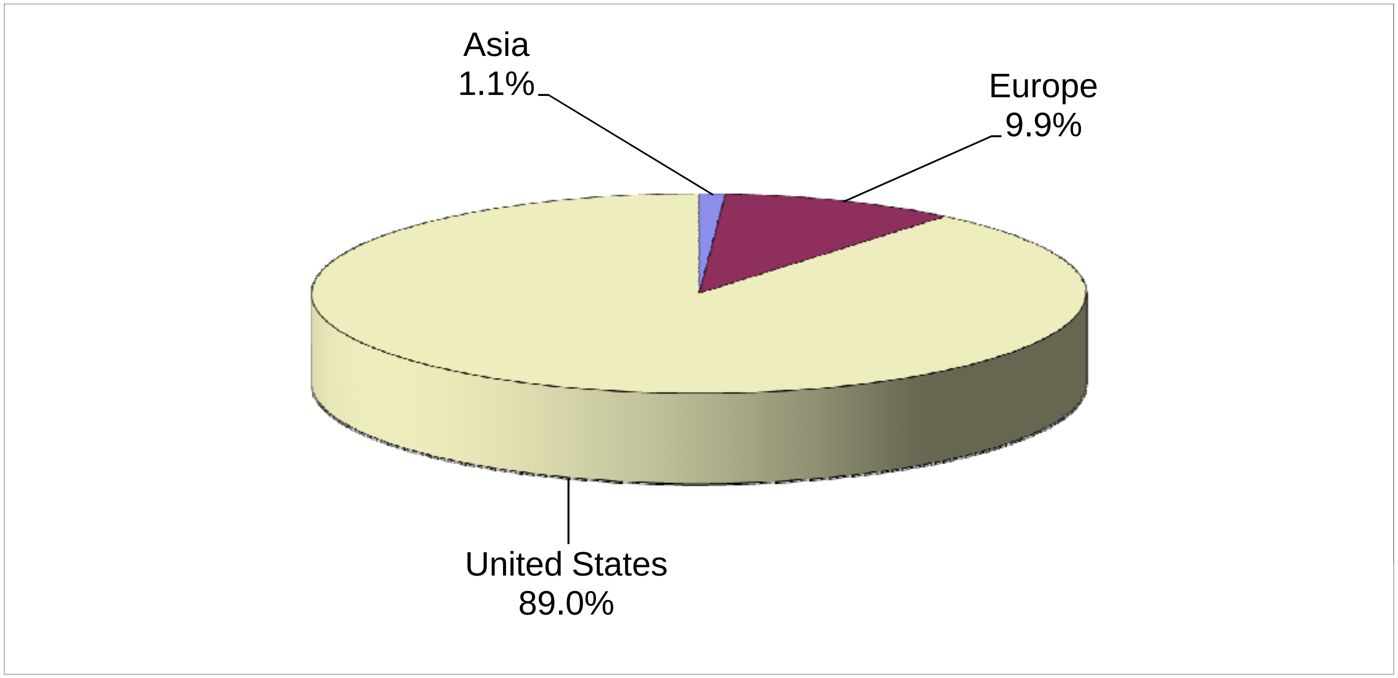


Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
ASP Fund of Funds	$ 26,302,409	5.4%	$ 109,548,389	15.8%	$ 135,850,798	11.6%
Buyout	$ 176,423,278	36.5%	$ 224,134,028	32.4%	$ 400,557,306	34.1%
Mezzanine and Distressed	$ 45,315,689	9.4%	$ 94,374,185	13.6%	$ 139,689,874	11.9%
Non-US Private Equity	$ 32,928,691	6.8%	$ 46,601,231	6.7%	$ 79,529,922	6.8%
Secondary	$ 74,989,337	15.5%	$ 77,744,966	11.2%	$ 152,734,303	13.0%
Special Situations	$ 35,816,792	7.4%	$ 68,353,535	9.9%	$ 104,170,327	8.9%
Venture Capital	$ 91,022,961	18.9%	$ 71,591,935	10.3%	$ 162,614,895	13.8%
Total	$ 482,799,156	100.0%	$ 692,348,269	100.0%	$ 1,175,147,425	100.0%

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2009)



Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Asia	$ 11,158,726	2.3%	$ 1,658,848	0.2%	$ 12,817,574	1.1%
Europe	$ 50,515,501	10.5%	$ 65,744,338	9.5%	$ 116,259,839	9.9%
United States	$ 421,124,929	87.2%	$ 624,945,083	90.3%	$ 1,046,070,012	89.0%
Total	$ 482,799,156	100.0%	$ 692,348,269	100.0%	$ 1,175,147,425	100.0%

Montana Board of Investments
LP's by Family of Funds
All Investments
as of June 30, 2009

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
		Since Inception									
LP's By Family of Funds (Active)											
Total		**1,682,484,384**	**1,152,147,852**	**68,290,080**	**482,799,157**	**72.54**	**820,717,543**	**692,348,269**	**10.46**	**1.24**	**1,175,147,425**
Adams Street Partners		**327,129,264**	**275,375,853**	**24,524,890**	**37,632,675**	**91.68**	**210,922,969**	**177,903,808**	**11.63**	**1.30**	**215,536,483**
Adams Street Partners Fund - U.S.		**94,000,000**	**70,173,031**	**4,382,469**	**19,444,500**	**79.31**	**19,707,116**	**58,974,157**	**2.24**	**1.06**	**78,418,657**
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000	28,329,283	1,913,717	3,757,000	88.95	12,077,017	23,452,643	5.91	1.17	27,209,643
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000	15,322,500	937,500	3,740,000	81.30	4,226,402	13,175,516	2.81	1.07	16,915,516
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000	11,115,000	637,500	3,247,500	78.35	2,133,408	9,374,027	(0.93)	0.98	12,621,527
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000	15,406,248	893,752	8,700,000	65.20	1,270,289	12,971,971	(6.57)	0.87	21,671,971
Adams Street Partners Fund - Non-U.S.		**16,000,000**	**12,710,428**	**713,572**	**2,576,000**	**83.90**	**5,787,951**	**10,039,801**	**7.62**	**1.18**	**12,615,801**
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000	5,443,564	322,436	234,000	96.10	4,286,233	3,931,307	13.82	1.43	4,165,307
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000	3,884,678	215,822	899,500	82.01	1,108,123	3,277,999	3.29	1.07	4,177,499
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000	3,382,186	175,314	1,442,500	71.15	393,595	2,830,495	(5.13)	0.91	4,272,995
Brinson Partnership Trust - Non-U.S		**9,809,483**	**9,318,556**	**975,142**	**560,102**	**104.94**	**11,025,398**	**5,160,175**	**13.42**	**1.57**	**5,720,277**
Brinson Non-U.S. Trust-1999 Primary Fund	1999	1,524,853	1,474,957	151,583	119,071	106.67	2,126,897	441,770	10.80	1.58	560,841
Brinson Non-U.S. Trust-2000 Primary Fund	2000	1,815,207	1,815,207	180,447	0	109.94	2,469,095	836,992	12.77	1.66	836,992
Brinson Non-U.S. Trust-2001 Primary Fund	2004	1,341,612	1,341,612	133,368	0	109.94	1,764,720	551,927	12.62	1.57	551,927
Brinson Non-U.S. Trust-2002 Primary Fund	2002	1,696,452	1,696,452	168,641	0	109.94	1,185,275	1,256,064	8.45	1.31	1,256,064
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308	601,542	63,353	35,766	104.33	1,329,057	116,664	26.50	2.17	152,430
Brinson Non-U.S. Trust-2003 Primary Fund	2003	1,896,438	1,659,040	188,521	237,398	97.42	1,830,466	1,284,843	21.73	1.69	1,522,241
Brinson Non-U.S. Trust-2004 Primary Fund	2004	897,613	729,746	89,230	167,867	91.24	319,888	671,915	7.48	1.21	839,782
Brinson Partnership Trust - U.S.		**103,319,781**	**96,220,953**	**9,336,761**	**7,098,828**	**102.17**	**92,546,915**	**52,818,183**	**9.83**	**1.38**	**59,917,011**
Brinson Partners - 1996 Fund	1996	3,950,740	3,708,316	441,238	242,424	105.03	6,824,237	270,208	15.05	1.71	512,632
Brinson Partners - 1997 Primary Fund	1997	3,554,935	3,554,935	393,256	0	111.06	14,267,325	265,154	71.48	3.68	265,154
Brinson Partners - 1998 Primary Fund	1998	7,161,019	7,122,251	792,491	38,768	110.53	10,085,017	942,601	6.82	1.39	981,369
Brinson Partners - 1998 Secondary Fund	1998	266,625	266,625	29,451	0	111.05	181,932	13,854	(7.15)	0.66	13,854
Brinson Partners - 1999 Primary Fund	1999	8,346,761	7,832,823	902,898	513,938	104.66	7,563,083	2,182,601	2.13	1.12	2,696,539
Brinson Partners - 2000 Primary Fund	2000	20,064,960	19,079,570	1,977,155	985,390	104.94	18,267,149	8,414,085	5.16	1.27	9,399,475
Brinson Partners - 2001 Primary Fund	2001	15,496,322	14,830,208	1,286,477	666,114	104.00	7,585,806	11,301,883	4.05	1.17	11,967,997
Brinson Partners - 2002 Primary Fund	2002	16,297,079	15,783,921	1,339,768	513,158	105.07	13,252,344	9,571,847	10.06	1.33	10,085,005
Brinson Partners - 2002 Secondary Fund	2002	2,608,820	2,498,592	208,155	110,228	103.75	3,065,907	1,409,525	14.35	1.65	1,519,753
Brinson Partners - 2003 Primary Fund	2003	15,589,100	13,272,620	1,248,642	2,316,480	93.15	7,989,926	10,774,700	8.99	1.29	13,091,180
Brinson Partners - 2003 Secondary Fund	2003	1,151,151	1,020,460	82,701	130,691	95.83	1,906,646	831,163	28.00	2.48	961,854
Brinson Partners - 2004 Primary Fund	2004	8,832,269	7,250,632	634,530	1,581,637	89.28	1,557,543	6,840,562	2.27	1.07	8,422,199
Remaining ASP Funds		**104,000,000**	**86,952,885**	**9,116,946**	**7,953,245**	**92.37**	**81,855,589**	**50,911,492**	**21.52**	**1.38**	**58,864,737**
Adams Street Global Oppty Secondary Fund	2004	25,000,000	18,183,617	503,883	6,312,500	74.75	5,165,420	16,989,339	10.36	1.19	23,301,839
Adams Street V, L.P.	2003	40,000,000	35,336,521	4,063,479	600,000	98.50	9,604,997	25,614,699	(3.46)	0.89	26,214,699
Adams Street VPAF Fund II	1990	4,000,000	3,621,830	378,170	0	100.00	7,879,041	10,591	25.25	1.97	10,591
Brinson Venture Capital Fund III, L.P.	1993	5,000,000	4,045,656	954,344	0	100.00	15,622,448	13,278	40.47	3.13	13,278
Brinson VPF III	1993	5,000,000	4,488,559	522,979	0	100.23	14,899,918	142,190	29.47	3.00	142,190
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	191,250	0	100.23	8,182,793	142,598	41.51	1.66	142,598
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,634,305	13,278	97.02	2.44	1,054,023

Montana Board of Investments
LP's by Family of Funds
All Investments
as of June 30, 2009

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
	Since Inception										
BVCF IV, L.P.	1999	15,000,000	12,853,679	2,146,321	0	100.00	10,866,667	7,985,519	3.50	1.26	7,985,519
Affinity Asia Capital		**15,000,000**	**3,062,832**	**778,442**	**11,158,726**	**25.61**	**0**	**1,658,848**	**(43.14)**	**0.43**	**12,817,574**
Affinity Asia Pacific Fund III, LP	2006	15,000,000	3,062,832	778,442	11,158,726	25.61	0	1,658,848	(43.14)	0.43	12,817,574
Arclight Energy Partners		**50,000,000**	**42,319,343**	**1,629,981**	**6,278,158**	**87.90**	**19,244,047**	**33,873,357**	**9.88**	**1.21**	**40,151,515**
Arclight Energy Partners Fund II	2004	25,000,000	20,721,278	973,284	3,405,720	86.78	17,277,576	12,790,692	15.94	1.39	16,196,412
ArcLight Energy Partners Fund III, LP	2006	25,000,000	21,598,066	656,697	2,872,438	89.02	1,966,471	21,082,665	1.82	1.04	23,955,103
Austin Ventures		**500,000**	**424,416**	**129,154**	**1**	**110.71**	**1,216,717**	**15,704**	**20.56**	**2.23**	**15,705**
Austin Ventures III	1991	500,000	424,416	129,154	1	110.71	1,216,717	15,704	20.56	2.23	15,705
Avenue Investments		**35,000,000**	**28,022,325**	**1,131,986**	**5,845,689**	**83.30**	**80,585**	**23,427,826**	**(17.95)**	**0.81**	**29,273,515**
Avenue Special Situations Fund V, LP	2007	35,000,000	28,022,325	1,131,986	5,845,689	83.30	80,585	23,427,826	(17.95)	0.81	29,273,515
Buerk Dale Victor		**15,000,000**	**5,669,937**	**930,063**	**8,400,000**	**44.00**	**0**	**4,913,346**	**(20.70)**	**0.74**	**13,313,346**
Buerk Dale Victor Fund II, L.P.	2007	15,000,000	5,669,937	930,063	8,400,000	44.00	0	4,913,346	(20.70)	0.74	13,313,346
Carlyle Partners		**60,000,000**	**43,744,693**	**3,020,911**	**13,333,398**	**77.94**	**3,558,549**	**39,335,997**	**(3.73)**	**0.92**	**52,669,395**
Carlyle Partners IV, L.P.	2005	35,000,000	31,662,839	1,139,765	2,296,398	93.72	3,416,225	27,928,492	(1.77)	0.96	30,224,890
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000	12,081,854	1,881,146	11,037,000	55.85	142,324	11,407,505	(10.94)	0.83	22,444,505
CCMP Associates		**30,000,000**	**7,891,940**	**1,029,689**	**21,078,371**	**29.74**	**73,524**	**6,449,050**	**(14.17)**	**0.73**	**27,527,421**
CCMP Capital Investors II, L.P.	2006	30,000,000	7,891,940	1,029,689	21,078,371	29.74	73,524	6,449,050	(14.17)	0.73	27,527,421
First Reserve		**55,000,000**	**29,520,616**	**529,523**	**24,949,862**	**54.64**	**102,376**	**25,892,000**	**(11.58)**	**0.87**	**50,841,862**
First Reserve Fund XI, L.P.	2006	30,000,000	22,381,950	529,523	7,088,528	76.37	70,853	20,569,000	(7.63)	0.90	27,657,528
First Reserve Fund XII, L.P.	2008	25,000,000	7,138,666	0	17,861,334	28.55	31,523	5,323,000	(27.23)	0.75	23,184,334
HarbourVest		**61,823,772**	**10,488,780**	**177,275**	**51,171,242**	**17.25**	**143,379**	**8,494,363**	**(18.24)**	**0.81**	**59,665,605**
Dover Street VII L.P.	2008	20,000,000	3,735,642	77,883	16,200,000	19.07	143,379	3,466,445	(6.13)	0.95	19,666,445
HarbourVest Direct 2007 Fund	2007	20,000,000	6,574,806	75,194	13,350,000	33.25	0	4,911,627	(22.72)	0.74	18,261,627
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	178,332	24,198	21,621,242	0.93	0	116,291	(61.77)	0.57	21,737,533
Hellman & Friedman		**40,000,000**	**15,377,448**	**273,434**	**24,349,118**	**39.13**	**98,100**	**13,802,523**	**(7.47)**	**0.89**	**38,151,641**
Hellman & Friedman Capital Partners VI	2006	25,000,000	15,377,448	273,434	9,349,118	62.60	98,100	13,802,523	(7.47)	0.89	23,151,641
Hellman & Friedman Capital Partners VII	2009	15,000,000	0	0	15,000,000	0.00	0	0	N/A	0.00	15,000,000
Highway 12 Ventures		**10,000,000**	**3,365,726**	**651,791**	**5,982,483**	**40.18**	**0**	**2,891,324**	**(23.06)**	**0.72**	**8,873,807**
Highway 12 Venture Fund II, L.P.	2006	10,000,000	3,365,726	651,791	5,982,483	40.18	0	2,891,324	(23.06)	0.72	8,873,807
Industry Ventures		**10,000,000**	**9,608,654**	**375,000**	**16,346**	**99.84**	**1,212,180**	**7,487,632**	**(8.94)**	**0.87**	**7,503,978**
Industry Ventures Fund IV, L.P.	2005	10,000,000	9,608,654	375,000	16,346	99.84	1,212,180	7,487,632	(8.94)	0.87	7,503,978
JCF		**25,000,000**	**23,847,440**	**590,942**	**565,404**	**97.75**	**265,646**	**8,834,624**	**(49.57)**	**0.37**	**9,400,028**
J.C. Flowers II L.P.	2006	25,000,000	23,847,440	590,942	565,404	97.75	265,646	8,834,624	(49.57)	0.37	9,400,028
Joseph Littlejohn & Levy		**25,000,000**	**21,081,311**	**873,523**	**3,045,166**	**87.82**	**4,246,917**	**17,043,574**	**(2.06)**	**0.97**	**20,088,740**
JLL Partners Fund V, L.P.	2005	25,000,000	21,081,311	873,523	3,045,166	87.82	4,246,917	17,043,574	(2.06)	0.97	20,088,740
KKR		**175,000,000**	**175,000,000**	**9,645,852**	**0**	**105.51**	**316,246,954**	**23,038,683**	**12.11**	**1.84**	**23,038,683**
KKR 1987 Fund - Montana	1987	25,000,000	25,000,000	2,101,164	0	108.40	55,877,291	167,892	8.88	2.07	167,892
KKR 1993 Fund - Montana	1993	25,000,000	25,000,000	1,002,236	0	104.01	48,782,037	57,571	17.78	1.88	57,571
KKR 1996 Fund - Montana	1997	100,000,000	100,000,000	4,706,291	0	104.71	171,600,591	10,358,026	13.20	1.74	10,358,026
KKR European Fund - Montana	1999	25,000,000	25,000,000	1,836,161	0	107.34	39,987,035	12,455,194	18.67	1.95	12,455,194
Lexington Capital Partners		**140,000,000**	**85,399,835**	**3,457,104**	**51,143,061**	**63.47**	**61,309,333**	**47,274,468**	**12.45**	**1.22**	**98,417,529**
Lexington Capital Partners V, L.P.	2001	50,000,000	46,981,108	2,057,311	961,581	98.08	53,376,961	19,613,718	19.13	1.49	20,575,299
Lexington Capital Partners VI-B, L.P.	2005	50,000,000	37,662,394	1,371,675	10,965,931	78.07	7,931,419	26,804,405	(8.27)	0.89	37,770,336

Montana Board of Investments
LP's by Family of Funds
All Investments
as of June 30, 2009

			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
Lexington Capital Partners VII, L.P.	2009	30,000,000	0	0	30,000,000	0.00	0	0	N/A	0.00	30,000,000
Lexington Middle Market Investors II, LP	2008	10,000,000	756,333	28,118	9,215,549	7.84	953	856,345	12.58	1.09	10,071,894
Madison Dearborn Capital Partners		**75,000,000**	**45,748,107**	**1,232,263**	**28,019,630**	**62.64**	**18,274,710**	**37,803,686**	**7.51**	**1.19**	**65,823,316**
Madison Dearborn Capital Partners IV, LP	2001	25,000,000	23,556,234	442,405	1,001,361	95.99	17,783,103	21,470,306	15.94	1.64	22,471,667
Madison Dearborn Capital Partners V, LP	2006	25,000,000	19,470,253	637,807	4,891,940	80.43	491,607	13,834,489	(15.60)	0.71	18,726,429
Madison Dearborn Capital Partners VI, LP	2008	25,000,000	2,721,620	152,051	22,126,329	11.49	0	2,498,891	(11.58)	0.87	24,625,220
Matlin Patterson		**30,000,000**	**17,155,821**	**874,179**	**11,970,000**	**60.10**	**1,489**	**11,723,401**	**(33.48)**	**0.65**	**23,693,401**
MatlinPatterson Global Opps. Ptnrs. III	2007	30,000,000	17,155,821	874,179	11,970,000	60.10	1,489	11,723,401	(33.48)	0.65	23,693,401
MHR Institutional Partners		**25,000,000**	**14,593,403**	**906,597**	**9,500,000**	**62.00**	**130,728**	**11,632,333**	**(16.77)**	**0.76**	**21,132,333**
MHR Institutional Partners III, L.P.	2006	25,000,000	14,593,403	906,597	9,500,000	62.00	130,728	11,632,333	(16.77)	0.76	21,132,333
Neuberger Berman Group, LLC		**35,000,000**	**23,200,945**	**683,280**	**11,115,775**	**68.24**	**5,522,343**	**15,046,066**	**(7.84)**	**0.86**	**26,161,841**
NB Co-investment Partners, L.P.	2006	35,000,000	23,200,945	683,280	11,115,775	68.24	5,522,343	15,046,066	(7.84)	0.86	26,161,841
Oak Hill Capital Partners		**45,000,000**	**27,334,426**	**1,608,288**	**16,138,640**	**64.32**	**2,435,098**	**27,849,560**	**2.22**	**1.05**	**43,988,200**
Oak Hill Capital Partners II, L.P.	2005	25,000,000	22,150,567	1,185,353	1,664,079	93.34	2,391,030	23,849,837	5.29	1.12	25,513,916
Oak Hill Capital Partners III, L.P.	2008	20,000,000	5,183,858	422,934	14,474,561	28.03	44,067	3,999,723	(22.95)	0.72	18,474,284
Oaktree Capital Partners		**110,000,000**	**98,703,572**	**2,546,428**	**8,750,000**	**92.05**	**121,554,428**	**30,079,036**	**44.35**	**1.50**	**38,829,036**
OCM Opportunities Fund IVb, L.P.	2002	75,000,000	73,090,470	1,909,530	0	100.00	121,554,428	313,473	44.93	1.62	313,473
OCM Opportunities Fund VIIb, L.P.	2008	35,000,000	25,613,102	636,898	8,750,000	75.00	0	29,765,563	19.70	1.13	38,515,563
Odyssey Partners		**45,000,000**	**22,205,659**	**1,922,592**	**20,871,749**	**53.62**	**20,674,290**	**18,016,552**	**28.94**	**1.60**	**38,888,301**
Odyssey Investment Partners IV, L.P.	2008	20,000,000	49,992	210,145	19,739,863	1.30	60	(109,550)	N/A	(0.42)	19,630,313
Odyssey Partners Fund III, L.P.	2004	25,000,000	22,155,667	1,712,447	1,131,886	95.47	20,674,230	18,126,102	29.47	1.63	19,257,988
Performance Venture Capital		**25,000,000**	**1,133,000**	**199,452**	**23,667,548**	**5.33**	**0**	**960,633**	**(35.35)**	**0.72**	**24,628,181**
Performance Venture Capital II	2008	25,000,000	1,133,000	199,452	23,667,548	5.33	0	960,633	(35.35)	0.72	24,628,181
Portfolio Advisors		**55,000,000**	**25,956,719**	**1,306,388**	**27,853,640**	**49.57**	**1,252,597**	**21,760,406**	**(11.52)**	**0.84**	**49,614,046**
Port. Advisors Fund IV (B), L.P.	2006	30,000,000	17,114,697	732,813	12,152,490	59.49	1,096,907	15,364,773	(4.90)	0.92	27,517,263
Port. Advisors Fund IV (E), L.P.	2006	15,000,000	6,328,093	507,950	8,163,957	45.57	4,731	4,240,114	(36.23)	0.62	12,404,071
Port. Advisors Fund V (B), L.P.	2008	10,000,000	2,513,929	65,625	7,537,193	25.80	150,959	2,155,519	(11.03)	0.89	9,692,712
Quintana Energy Partners		**15,000,000**	**9,652,607**	**758,621**	**4,588,772**	**69.41**	**0**	**8,588,178**	**(9.81)**	**0.82**	**13,176,950**
Quintana Energy Partners Fund I, L.P.	2006	15,000,000	9,652,607	758,621	4,588,772	69.41	0	8,588,178	(9.81)	0.82	13,176,950
Siguler Guff & Company		**25,000,000**	**10,356,996**	**386,875**	**14,256,129**	**42.98**	**289,352**	**9,140,818**	**(10.74)**	**0.88**	**23,396,947**
Siguler Guff Small Buyout Opportunities	2007	25,000,000	10,356,996	386,875	14,256,129	42.98	289,352	9,140,818	(10.74)	0.88	23,396,947
Sprout Capital Partners		**500,000**	**416,999**	**122,671**	**0**	**107.93**	**1,071,930**	**8,369**	**17.71**	**2.00**	**8,369**
Sprout Capital VI	1990	500,000	416,999	122,671	0	107.93	1,071,930	8,369	17.71	2.00	8,369
Summit Ventures		**500,000**	**388,926**	**109,565**	**25,003**	**99.70**	**1,255,067**	**2,784**	**28.32**	**2.52**	**27,787**
Summit Ventures II, L.P.	1988	500,000	388,926	109,565	25,003	99.70	1,255,067	2,784	28.32	2.52	27,787
TA Associates, Inc.		**10,000,000**	**0**	**0**	**10,000,000**	**0.00**	**0**	**0**	**N/A**	**0.00**	**10,000,000**
TA XI, L.P.	2009	10,000,000	0	0	10,000,000	0.00	0	0	N/A	0.00	10,000,000
Terra Firma Capital Partners		**25,432,997**	**13,903,822**	**1,588,906**	**9,940,268**	**60.92**	**0**	**4,329,139**	**(61.40)**	**0.28**	**14,269,407**
Terra Firma Capital Partners III, LP	2007	25,432,997	13,903,822	1,588,906	9,940,268	60.92	0	4,329,139	(61.40)	0.28	14,269,407
Trilantic Capital Partners		**11,098,351**	**3,471,692**	**515,384**	**7,111,275**	**35.92**	**0**	**3,342,177**	**(17.72)**	**0.84**	**10,453,452**
Trilantic Capital Partners IV L.P.	2007	11,098,351	3,471,692	515,384	7,111,275	35.92	0	3,342,177	(17.72)	0.84	10,453,452
Welsh, Carson, Anderson & Stowe		**75,500,000**	**57,724,009**	**3,779,032**	**14,041,026**	**81.46**	**29,534,235**	**49,728,003**	**8.87**	**1.29**	**63,769,029**
Welsh, Carson, Anderson & Stowe II	1990	500,000	455,663	88,404	0	108.81	689,495	91,558	8.56	1.44	91,558

Montana Board of Investments
LP's by Family of Funds
All Investments
as of June 30, 2009

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
	Since Inception										
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	15,047,905	702,095	9,250,000	63.00	3,163,578	17,420,031	9.22	1.31	26,670,031
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000	22,147,567	1,879,068	973,365	96.11	25,681,162	13,335,959	13.09	1.62	14,309,324
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	20,072,874	1,109,465	3,817,661	84.73	0	18,880,455	(5.15)	0.89	22,698,116
LP's by Family of Funds (Inactive)											
Total		**11,918,000**	**11,577,444**	**1,178,796**	**0**	**107.03**	**35,165,141**	**0**	**21.42**	**2.76**	**0**
Total - All Investments		**1,694,402,384**	**1,163,725,295**	**69,468,876**	**482,799,156**	**72.78**	**855,882,684**	**692,348,269**	**11.34**	**1.26**	**1,175,147,425**

9/30/2009 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
ADAMS ST PART FUND 2003 US	14,231,349	14,231,349	13,175,511	1.83%
ADAMS ST PART FUND 2004 NON US	3,719,468	3,719,468	3,278,001	0.46%
ADAMS ST PART FUND 2004 US	10,630,422	10,630,422	9,374,023	1.30%
ADAMS ST PARTNERS FUND 2002 US	24,666,518	24,666,518	23,452,654	3.26%
ADAMS STR GLOBAL OPPORTUNITES	16,587,920	16,587,920	16,989,331	2.36%
ADAMS STREET FUND V	29,724,265	29,724,265	23,910,437	3.32%
ADAMS STREET PARTNERSHIP	3,441,621	3,441,621	2,895,494	0.40%
ADAMS STREET PARTNERSHIP FUND	15,516,434	15,516,434	12,971,972	1.80%
ADAMS STREET PTNRSHP FND	3,943,307	3,943,307	3,931,308	0.55%
AUSTIN VENTURES III	214,255	214,255	15,704	0.00%
BRIN NON US TRUST 2001 PRIM	594,076	594,076	551,927	0.08%
BRIN VEN CAP III SECONDARY	1	1	13,278	0.00%
BRIN VEN PART III SECONDARY	1,192,322	1,192,322	142,190	0.02%
BRINSON NON U.S. TRUST 2000	832,015	832,015	836,992	0.12%
BRINSON NON US 1999 PRIMARY FD	279,000	279,000	441,770	0.06%
BRINSON NON US PARTNERSHIP FND	1,090,463	1,090,463	1,256,064	0.17%
BRINSON NON US PARTNERSHIP TR	656,323	656,323	671,915	0.09%
BRINSON NON US TRUST 2002 SEC	204,453	204,453	116,664	0.02%
BRINSON NON US TRUST 2003 PRIM	785,125	785,125	1,284,843	0.18%
BRINSON PART FUND TRUST 1996	1,347,645	1,347,645	270,208	0.04%
BRINSON PARTNERSHIP	11,014,572	11,014,572	8,414,087	1.17%
BRINSON PARTNERSHIP	6,533,913	6,533,913	6,840,563	0.95%
BRINSON PARTNERSHIP FUND	336,495	336,495	831,163	0.12%
BRINSON PARTNERSHIP FUND TR	9,712,510	9,915,446	9,571,844	1.33%
BRINSON PARTNERSHIP FUND TRUST	1,255,301	1,255,301	265,153	0.04%
BRINSON PARTNERSHIP FUND TRUST	2,974,620	2,974,620	942,601	0.13%
BRINSON PARTNERSHIP FUND TRUST	142,679	142,679	13,854	0.00%
BRINSON PARTNERSHIP FUND TRUST	4,580,647	4,580,647	2,182,600	0.30%
BRINSON PARTNERSHIP FUND TRUST	11,772,363	11,772,363	11,301,881	1.57%
BRINSON PARTNERSHIP FUND TRUST	10,449,535	10,449,535	10,774,704	1.50%
BRINSON PARTNERSHIP FUND TRUST	1,431,358	1,431,358	1,409,526	0.20%
BRINSON VEN CAP FUND IV	4,909,258	4,909,258	6,842,367	0.95%
BRINSON VENTURE CAPITAL FD III	1	1	13,278	0.00%
BRINSON VENTURE PARTNR FD III	960,856	960,856	142,190	0.02%
SPROUT CAPITAL VI	244,756	244,756	8,369	0.00%
SUMMIT VENTURE II	128,881	128,881	2,784	0.00%
VENTURE PARTNERSHIP ACQUIST	190,080	190,080	10,591	0.00%
WCAS CAPITAL PARTNERS II	261,141	261,141	91,558	0.01%
ADAMS STREET Total	**196,555,948**	**196,758,885**	**175,239,396**	**24.35%**
AFFINITY ASIA PACIFIC FUND III	5,646,027	5,646,027	4,229,433	0.59%
AFFINITY Total	**5,646,027**	**5,646,027**	**4,229,433**	**0.59%**
ARCLIGHT ENERGY PTNRS FUND III	21,177,148	21,177,148	21,082,656	2.93%
ARCLIGHT ENRGY PARTNERS FD II	12,001,787	12,001,787	11,421,092	1.59%
ARCLIGHT Total	**33,178,935**	**33,178,935**	**32,503,748**	**4.52%**
AVENUE SPECIAL SITUATIONS V	29,562,428	29,562,428	25,177,817	3.50%
AVENUE CAPITAL Total	**29,562,428**	**29,562,428**	**25,177,817**	**3.50%**
BUERK DALE VICTOR II L.P.	6,600,000	6,600,000	4,819,597	0.67%
BUERK DALE. Total	**6,600,000**	**6,600,000**	**4,819,597**	**0.67%**
CARLYLE PARTNERS IV, L.P.	30,290,338	30,290,338	27,833,277	3.87%
CARLYLE VENTURE PARTNERS III	14,639,251	14,639,251	13,844,662	1.92%
CARLYLE Total	**44,929,589**	**44,929,589**	**41,677,938**	**5.79%**
CCMP II	7,944,068	7,944,068	6,449,050	0.90%
CCMP Total	**7,944,068**	**7,944,068**	**6,449,050**	**0.90%**
CENTERBRIDGE SPECIAL CREDIT PR	4,375,000	4,375,000	4,375,000	0.61%

9/30/2009 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
CENTERBRIDGE Total	**4,375,000**	**4,375,000**	**4,375,000**	**0.61%**
FIRST RESERVE FUND XII	7,321,026	7,321,026	5,505,360	0.76%
FIRST RESERVE XI	22,683,594	22,683,594	20,779,828	2.89%
FIRST RESERVE Total	**30,004,620**	**30,004,620**	**26,285,189**	**3.65%**
DOVER STREET	3,800,000	3,800,000	3,466,444	0.48%
HARBOURVEST 2007 DIRECT	7,324,806	7,324,806	5,661,628	0.79%
HARBOURVEST INTL PVT EQTY VI	296,385	399,167	350,673	0.05%
HARBOUR VEST Total	**11,421,191**	**11,523,973**	**9,478,745**	**1.32%**
HFCP VI	15,368,941	15,368,941	13,807,687	1.92%
HELLMAN FRIEDMAN Total	**15,368,941**	**15,368,941**	**13,807,687**	**1.92%**
HIGHWAY 12 VENTURE II	3,969,373	3,969,373	3,494,970	0.49%
HIGHWAY 12 VENTURES Total	**3,969,373**	**3,969,373**	**3,494,970**	**0.49%**
INDUSTRY VENTURES FUND IV	7,721,415	7,721,415	7,450,116	1.04%
INDUSTRY VENTURES Total	**7,721,415**	**7,721,415**	**7,450,116**	**1.04%**
JCF II LP	22,922,867	22,922,783	8,881,190	1.23%
J.C. FLOWERS Total	**22,922,867**	**22,922,783**	**8,881,190**	**1.23%**
JLL PARTNERS FUND V LP	18,667,758	18,667,758	16,878,845	2.35%
JLL PARTNERS Total	**18,667,758**	**18,667,758**	**16,878,845**	**2.35%**
KKR 1987	2,021,493	2,021,493	167,891	0.02%
KKR 1993	1,285,300	1,285,300	57,571	0.01%
KKR 1996	18,967,917	18,967,917	10,358,019	1.44%
KKR EUROPEAN FUND	8,868,471	8,868,471	11,936,900	1.66%
KKR Total	**31,143,181**	**31,143,181**	**22,520,381**	**3.13%**
LEXINGTON CAPITAL PARTNERS VIB	34,128,505	34,128,505	26,979,198	3.75%
LEXINGTON CAPITAL PTRS V LP	5,082,253	5,082,253	19,360,025	2.69%
LEXINGTON MID MARKET II LP	930,654	930,654	1,030,666	0.14%
LEXINGTON Total	**40,141,412**	**40,141,412**	**47,369,889**	**6.58%**
MADISON DEARBORN CAP PART IV	18,038,619	18,038,619	20,136,835	2.80%
MADISON DEARBORN CAP PTNRS VI	3,417,594	3,417,594	3,194,866	0.44%
MDCP V	19,509,275	19,509,275	14,260,656	1.98%
MADISON DEARBORN Total	**40,965,488**	**40,965,488**	**37,592,357**	**5.22%**
MATLIN PATTERSON GLB OPP	17,155,821	17,155,821	11,723,396	1.63%
MATLIN PATTERSON Total	**17,155,821**	**17,155,821**	**11,723,396**	**1.63%**
MHR INSTITUTIONAL III	14,329,318	14,329,318	10,759,570	1.49%
MHR INSTITUTIONAL Total	**14,329,318**	**14,329,318**	**10,759,570**	**1.49%**
NB CO INVESTMENT PARTNERS LP	17,938,321	17,938,321	14,803,402	2.06%
NB COINVEST Total	**17,938,321**	**17,938,321**	**14,803,402**	**2.06%**
OAK HILL CAPITAL PARTNERS II	21,915,057	21,915,057	24,018,421	3.34%
OAK HILL III	5,913,897	5,913,897	4,812,387	0.67%
OAK HILL Total	**27,828,955**	**27,828,955**	**28,830,807**	**4.01%**
OAKTREE CPTL MGMT OPPTY FD VII	27,363,102	27,363,102	31,515,562	4.38%
OCM OPPORTUNITIES FD IVB LP	1	1	313,473	0.04%
OAK TREE Total	**27,363,103**	**27,363,103**	**31,829,035**	**4.42%**
ODYSSEY INVESTMENT PTNRS IV	82,553	82,553	0	0.00%
ODYSSEY INVT PARTN FD III	17,319,936	17,319,936	18,153,856	2.52%
ODYSSEY INVESTMENTS Total	**17,402,489**	**17,402,489**	**18,153,856**	**2.52%**
PERFORMANCE VENTURE CAPITAL II	1,404,610	1,404,610	1,232,243	0.17%
PERFORMANCE EQUITY MANAG	**1,404,610**	**1,404,610**	**1,232,243**	**0.17%**

9/30/2009 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
PORTFOLIO ADVISORS FUND V(B)	2,560,623	2,560,623	2,379,113	0.33%
PORTFOLIO ADVISORS IV (B)	17,581,075	17,581,075	16,606,046	2.31%
PORTFOLIO ADVISORS IV (E)	6,811,731	6,811,731	4,707,996	0.65%
PORTFOLIO ADVISORS SECONDARY	2,044,994	2,044,994	2,044,994	0.28%
PORTFOLIO ADVISORS Total	**28,998,423**	**28,998,423**	**25,738,149**	**3.58%**
QUINTANA ENERGY PARTNERS TE LP	9,946,620	9,946,620	8,588,180	1.19%
QUINTANA ENERGY Total	**9,946,620**	**9,946,620**	**8,588,180**	**1.19%**
SIGULER GUFF SM BUYOUT	11,050,520	11,050,520	9,640,816	1.34%
SIGULER GUFF Total	**11,050,520**	**11,050,520**	**9,640,816**	**1.34%**
TERRA FIRMA III LIMITED PART	9,864,022	13,886,770	4,511,395	0.63%
TERRA FIRMA Total	**9,864,022**	**13,886,770**	**4,511,395**	**0.63%**
TRILANTIC CAPITAL PARTNERS IV	3,471,692	3,471,692	3,342,177	0.46%
TRILANTIC CAPITAL PARTNERS	**3,471,692**	**3,471,692**	**3,342,177**	**0.46%**
WCAS CAPITAL PARTNERS FUND IV	15,587,169	15,587,169	17,670,036	2.45%
WCAS IX	9,002,178	9,002,178	13,335,961	1.85%
WCAS X LP	20,140,535	20,140,535	19,130,447	2.66%
WELSH CARSON Total	**44,729,882**	**44,729,882**	**50,136,443**	**6.97%**
STATE STREET REPO	1,474,377	1,474,377	1,474,377	0.20%
STATE STREET SPIF ALT INV	73,162	10,294,212	10,766,701	1.50%
STATE STREET Total	**1,547,539**	**11,768,589**	**12,241,078**	**1.70%**
Grand Total	**784,149,555**	**798,698,987**	**719,761,896**	**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: Jon Shoen, Portfolio Manager – Alternative Investments

Date: November 11, 2009

Subject: Montana Real Estate Pool [MTRP]

Attached to this memo are the following reports:

(i) **Private Edge - Table: Detailed Portfolio Performance.**
Fund manager time weighted returns, net and gross, for various time horizons as of 06/30/09.

(ii) **Private Edge - Graph: Strategy Total Exposure by Market Value & Remaining Commitments.** Summary of total market value of invested capital plus future capital commitments by investment strategy as of 06/30/09.

(iii) **Private Edge - Graph: Portfolio Characteristics – Geographic Diversification.**
Summary of the gross market value of MTRP's share of the partnerships' interest in properties by geography relative to the NCREIF Property Index as of 06/30/09.

(iv) **Private Edge – Graph: Portfolio Characteristics – Property Type Diversification.**
Summary of the gross market value of MTRP's share of the partnerships' interests in properties by property type relative to the NCREIF Property Index as of 06/30/09.

(v) **Private Edge - Table: Real Estate Portfolio Status Report.**
Summary of the total market value of invested capital plus the future capital commitments by investment strategy as of 06/30/09.

(vi) **Real Estate Pool Holdings.**
Summary of all MTRP portfolio fund holdings by shares, book value and cash flow adjusted market values as of 09/30/09.

Detailed Portfolio Performance
Time Weighted Returns (Net of Fees)
(as of June 30, 2009)

		Current Quarter		Year to Date		1 - Year		2 - Year		3 - Year		Inception		
	NAV	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**IRR**
Core	**114,164,652**	**-10.49%**	**-10.23%**	**-22.85%**	**-22.40%**	**-31.36%**	**-30.61%**	**-13.18%**	**-12.28%**	**-**	**-**	**-7.42%**	**-6.48%**	**-12.04%**
Clarion Lion Properties Fund	28,991,337	-11.69%	-11.38%	-27.56%	-27.05%	-38.94%	-38.19%	-17.84%	-16.94%	-	-	-11.44%	-10.48%	-13.56%
INVESCO Core Real Estate-USA	32,119,071	-15.96%	-15.73%	-24.39%	-24.00%	-30.23%	-29.54%	-	-	-	-	-16.55%	-15.75%	-15.03%
JP Morgan Strategic Properties Fund	53,054,243	-6.08%	-5.83%	-18.94%	-18.49%	-27.05%	-26.28%	-10.58%	-9.66%	-	-	-10.58%	-9.66%	-9.23%
Value Added	**103,421,312**	**-3.66%**	**-3.03%**	**-3.24%**	**-1.99%**	**-9.59%**	**-7.22%**	**-1.20%**	**1.60%**	**-**	**-**	**-0.69%**	**3.76%**	**-3.88%**
ABR Chesapeake Fund III	18,122,480	0.48%	0.93%	1.16%	2.07%	0.00%	1.87%	2.75%	5.26%	-	-	3.83%	7.49%	2.19%
AG Core Plus Realty Fund II	5,970,466	-2.05%	-1.43%	-2.52%	-1.30%	-18.66%	-16.36%	-	-	-	-	-8.77%	-5.93%	-12.99%
Apollo Real Estate Finance Corp.	6,963,371	-9.60%	-9.01%	-3.92%	-2.52%	-6.83%	-3.92%	2.90%	8.54%	-	-	1.58%	11.11%	-2.92%
AREFIN Co-Invest	1,604,868	3.02%	3.19%	8.02%	8.36%	22.05%	22.86%	-	-	-	-	22.05%	22.86%	22.78%
DRA Growth & Income Fund VI	10,521,233	-10.04%	-8.83%	-8.16%	-5.72%	-17.51%	-11.98%	-	-	-	-	-8.31%	-3.72%	-9.93%
Five Arrows Securities V, L.P.	3,507,314	1.63%	3.94%	2.40%	6.78%	4.95%	16.24%	-	-	-	-	3.91%	12.86%	4.01%
Hudson RE Fund IV Co-Invest	10,273,790	1.15%	1.49%	2.18%	2.87%	3.88%	5.29%	-	-	-	-	3.88%	5.29%	3.06%
Hudson Realty Capital Fund IV	11,152,408	-6.28%	-5.81%	-7.76%	-6.85%	-26.48%	-25.12%	-11.90%	-9.88%	-	-	-10.89%	-8.62%	-15.03%
Realty Associates Fund VIII	16,750,557	-7.68%	-7.04%	-6.58%	-5.29%	-17.28%	-15.66%	-5.26%	-3.66%	-	-	-5.26%	-3.66%	-8.53%
Strategic Partners Value Enhancement Fund	18,554,825	-0.97%	-0.57%	-2.99%	-2.17%	0.12%	1.86%	7.35%	9.99%	-	-	-1.18%	4.43%	3.84%
Opportunistic	**44,993,221**	**-18.06%**	**-16.39%**	**-47.04%**	**-45.13%**	**-69.43%**	**-67.55%**	-	-	**-**	**-**	**-50.67%**	**-47.52%**	**-59.97%**
AG Realty Fund VII L.P.	4,960,214	9.94%	11.33%	12.00%	15.18%	2.51%	9.64%	-	-	-	-	-2.48%	5.68%	-4.07%
Beacon Capital Strategic Partners V	5,917,509	-18.38%	-17.15%	-32.70%	-30.84%	-67.08%	-65.48%	-	- -	-	-	-46.98%	-44.68%	-51.11%
Carlyle Europe Real Estate Partners III	5,617,668	-1.34%	0.88%	-8.41%	-4.46%	-41.35%	-36.77%	-	- -	-	-	-36.84%	-31.35%	-41.58%
CIM Fund III, L.P.	231,219	-26.30%	-0.67%	-99.80%	-90.72%	-99.88%	-92.13%	-	- -	-	-	-98.38%	-73.55%	-95.39%
JER Real Estate Partners - Fund IV	7,263,990	-16.14%	-15.31%	-35.78%	-34.62%	-52.68%	-51.11%	-	- -	-	-	-36.47%	-34.89%	-32.31%
Liquid Realty IV	10,684,121	-9.18%	-7.82%	-31.12%	-30.08%	-35.25%	-33.91%	-	- -	-	-	-5.91%	1.38%	-30.27%
MGP Asia Fund III, LP	3,149,708	-102.48%	-95.20%	-98.95%	-101.92%	-99.37%	-101.24%	-	- -	-	-	-96.58%	-101.29%	-99.85%
MSREF VI International	3,945,031	-59.99%	-59.08%	-92.74%	-92.45%	-99.60%	-99.56%	-	- -	-	-	-96.55%	-96.29%	-97.90%
O'Connor North American Partners II	3,223,761	-1.17%	0.62%	-4.31%	-0.84%	-66.54%	-64.33%	-	- -	-	-	-66.54%	-64.33%	-65.30%
Montana Real Estate	**262,579,184**	**-9.32%**	**-8.68%**	**-21.52%**	**-20.49%**	**-34.69%**	**-33.11%**	**-16.24%**	**-14.31%**	**-**	**-**	**-8.96%**	**-6.36%**	**-19.83%**

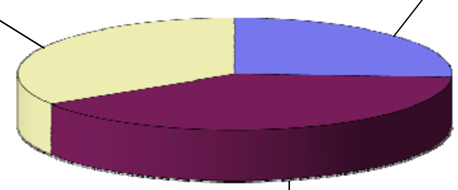
Benchmark (gross)

	NAV	Current Quarter Net	Current Quarter Gross	YTD Net	YTD Gross	1-Year Net	1-Year Gross	2-Year Net	2-Year Gross	3-Year Net	3-Year Gross	Inception Net	Inception Gross	IRR
NCREIF	**254,124,100,000**		**-5.20%**		**-12.15%**		**-19.56%**		**-12.17%**		**0.99%**		**9.10%**	
NFI-ODCE	**50,860,800,000**		**-9.03%**		**-21.64%**		**-30.50%**		**-25.09%**		**-4.10%**		**8.30%**	

Real Estate Portfolio Status

Strategy Exposure by Net Asset Value & Remaining Commitments

(Since inception through June 30, 2009)

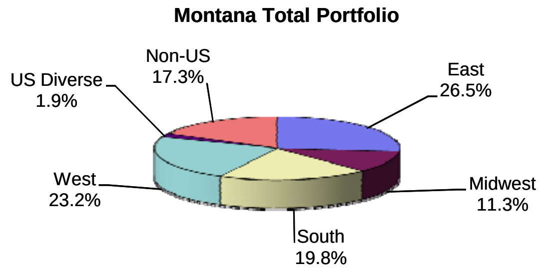


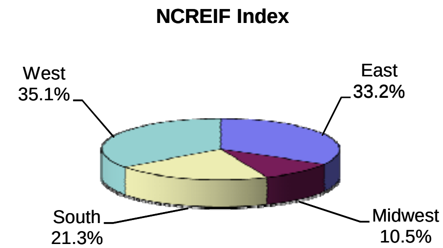
Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core	$0	0.00%	$114,164,652	43.48%	$114,164,652	25.99%
Value Added	$72,314,655	40.92%	$103,421,312	39.39%	$175,735,966	40.00%
Opportunistic	$104,424,812	59.08%	$44,993,221	17.14%	$149,418,033	34.01%
Total	$176,739,467	100.00%	$262,579,184	100.00%	$439,318,651	100.00%

Total Portfolio Characteristics

Geographic Diversification[1]

(as of June 30, 2009)





Geographically, Montana's domestic investments were overweighted in the Midwest and South regions and underweighted in the East and West regions when compared to the NCREIF Property Index as of June 30, 2009.

	East	Midwest	South	West	US Diverse	Non-US	Total
Montana Total Value[2]	$181.4	$76.9	$135.6	$158.7	$12.7	$118.1	$683.5
Montana Total[1]	26.5%	11.3%	19.8%	23.2%	1.9%	17.3%	100.0%
Montana US Value[2]	$181.9	$76.4	$135.6	$158.7	$12.7		$565.4
Montana US Total[1]	32.2%	13.5%	24.0%	28.1%	2.2%		100.0%
NCREIF Value[2, 3]	$84,380	$26,560	$54,070	$89,115			$254,124
NCREIF[1]	33.2%	10.5%	21.3%	35.1%			100.0%
Difference	-1.0%	3.1%	2.7%	-7.0%	2.2%		

[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.

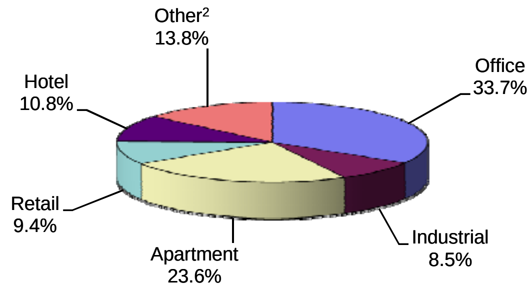
[2] Values shown are in Millions.

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

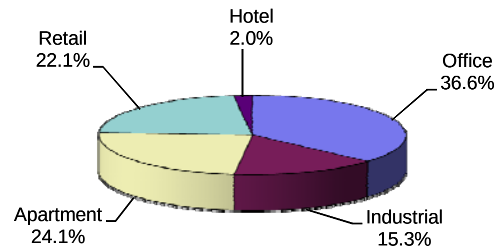
Total Portfolio Characteristics

Property Type Diversification[1]
(as of June 30, 2009)

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, 2009.

	Office	Industrial	Apartment	Retail	Hotel	Other[2]	Total
Montana Total Value[2]	$230.6	$58.4	$161.3	$64.5	$74.0	$94.6	$683.5
Montana Total[1]	33.7%	8.5%	23.6%	9.4%	10.8%	13.8%	100.0%
Montana US Value[2]	$174.0	$58.4	$152.5	$57.9	$59.7	$62.9	$565.4
Montana US Total	30.8%	10.3%	27.0%	10.2%	10.6%	11.1%	100.0%
NCREIF Value[2,4]	$92,933	$38,992	$61,132	$56,051	$5,016		$254,124
NCREIF[1]	36.6%	15.3%	24.1%	22.1%	2.0%		100.0%
Difference	-5.8%	-5.0%	2.9%	-11.8%	8.6%	11.1%	
Montana Non-US Value[2]	$56.6	$0.0	$8.8	$6.6	$14.3	$31.7	$118.0
Montana Non-US Total	48.0%	0.0%	7.5%	5.6%	12.1%	26.9%	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] *Other consists of $45,655,230 in mixed-use assets, $37,317,383 in healthcare/senior living, $7,115,348 in land, and $1,157,156 in storage.*

[3] *Values shown are in Millions.*

[4] *The NCREIF gross market values represent the total gross asset values of the participating funds exclusive of any underlying debt. This amount differs from the index total due to rounding in the NCREIF report.*

Real Estate Portfolio Status Report
All Investments
(as of June 30, 2009)

	Since Inception						
	Vintage Year	Commitment	Capital Contributed	Remaining Commitment	Capital Distributed	Net Asset Value	Investment Multiple
Core		**155,000,000**	**155,000,000**	**-**	**7,388,131**	**114,164,652**	**0.78**
Clarion Lion Properties Fund	2006	45,000,000	45,000,000	-	4,667,058	28,991,337	0.74
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	-	2,122,999	32,119,071	0.75
JP Morgan Strategic Property Fund	2007	65,000,000	65,000,000	-	598,073	53,054,243	0.82
Value Added		**204,200,000**	**116,885,345**	**72,314,655**	**7,622,953**	**103,421,312**	**0.95**
ABR Chesapeake Fund III	2006	20,000,000	18,000,000	2,000,000	515,437	18,122,480	1.04
AG Core Plus Realty Fund II	2007	20,000,000	7,700,000	12,300,000	508,403	5,970,466	0.84
Apollo Real Estate Finance Corp.	2007	10,000,000	7,727,000	2,273,000	550,839	6,963,371	0.97
AREFIN Co-Invest	2008	10,000,000	1,352,000	8,648,000	31,642	1,604,868	1.21
DRA Growth & Income Fund VI	2007	35,000,000	16,039,595	18,960,405	4,515,519	10,521,233	0.91
Five Arrows Securities V, L.P.	2007	30,000,000	3,581,231	26,418,769	467,415	3,507,314	1.11
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	-	61,473	10,273,790	1.03
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	-	241,000	11,152,408	0.76
Realty Associates Fund IX[2]		15,000,000	-	-	-	-	-
Realty Associates Fund VIII	2007	20,000,000	20,000,000	-	731,224	16,750,557	0.87
Strategic Partners Value Enhancement Fund	2007	19,200,000	17,485,519	1,714,481	-	18,554,825	1.06
Opportunistic		**220,994,690**	**116,569,878**	**104,424,812**	**3,173,120**	**44,993,221**	**0.41**
AG Realty Fund VII L.P.	2007	20,000,000	5,200,000	14,800,000	5,231	4,960,214	0.95
Beacon Capital Strategic Partners V	2007	25,000,000	16,562,500	8,437,500	-	5,917,509	0.36
Carlyle Europe Real Estate Partners III[3]	2007	30,994,690	10,072,870	20,921,820	-	5,617,668	0.56
CIM Fund III, L.P.	2007	25,000,000	1,496,432	23,503,568	115,372	231,219	0.13
JER Real Estate Partners - Fund IV	2007	20,000,000	15,634,891	4,365,109	21,784	7,263,990	0.47
Liquid Realty IV	2007	30,000,000	18,609,177	11,390,823	2,926,620	10,684,121	0.71
MGP Asia Fund III, LP	2007	30,000,000	12,737,011	17,262,989	14,428	3,149,708	0.25
MSREF VI International[4]	2007	25,000,000	27,500,000	(2,500,000)	17,313	3,945,031	0.14
O'Connor North American Property Partners II	2008	15,000,000	8,756,997	6,243,003	72,371	3,223,761	0.37
Montana Real Estate		**$580,194,690**	**$388,455,223**	**$176,739,467**	**$18,184,204**	**$262,579,184**	**0.71**

1 Capital contributed does not include contributions for expenses outside of the commitment amounts.
2 As of June 30, 2009 Realty Associates Fund IX has not been funded yet. As a result, there is no vintage year.
3 Carlyle Europe III's Commitment amount is converted to USD by using the EUR exchange rate from 10/9/2007, the date Montana commited to the fund. The current unfunded capital is based on this figure less the cumulative USD activity.
4 Morgan Stanley has the ability to call a 10% reserve from the investors. The full reserve, $2.5 million, was called on 5/21/2009.

9/30/2009 Private Real Estate Holdings

Fund Name	Shares	Book Value	Market Value	%
ABR CHESAPEAKE III	17,770,784	17,770,784	18,109,957	6.39%
ABR CHESAPEAKE Total	**17,770,784**	**17,770,784**	**18,109,957**	**6.39%**
AG CORE PLUS REALTY FD II	9,081,597	9,081,597	7,670,471	2.71%
AG REALTY FUND VII LP	5,894,769	5,894,769	5,260,209	1.86%
ANGELO GORDON Total	**14,976,366**	**14,976,366**	**12,930,680**	**4.57%**
APOLLO REAL ESTATE FINANCE COR	7,727	7,727,000	6,963,371	2.46%
AREFIN CO INVEST CORPORATION	1,352	1,352,000	1,604,868	0.57%
AREA PROPERTY PARTNERS Tota	**9,079**	**9,079,000**	**8,568,239**	**3.03%**
BEACON CAPITAL PARTNERS FUND V	16,562,500	16,562,500	5,917,516	2.09%
BEACON CAPITAL PARTNERS To	**16,562,500**	**16,562,500**	**5,917,516**	**2.09%**
CARLYLE EUROPE R E P III L P	6,903,864	10,647,604	7,633,602	2.70%
CARLYLE Total	**6,903,864**	**10,647,604**	**7,633,602**	**2.70%**
CIM FUND III	1,665,044	1,665,044	399,830	0.14%
CIM FUND Total	**1,665,044**	**1,665,044**	**399,830**	**0.14%**
CLARION LION PROPERTIES FUND	31,957	45,000,000	28,520,618	10.07%
CLARION LION PROPERTIES Tota	**31,957**	**45,000,000**	**28,520,618**	**10.07%**
DRA ADVISORS VI	16,078,171	16,078,171	13,338,049	4.71%
DRA ADVISORS Total	**16,078,171**	**16,078,171**	**13,338,049**	**4.71%**
HUDSON REAL ESTATE FD IV CO IN	10,000,000	10,000,000	10,273,790	3.63%
HUDSON REALTY CAPITAL FUND IV	15,000,000	15,000,000	11,152,410	3.94%
HUDSON REALTY CAPITAL Total	**25,000,000**	**25,000,000**	**21,426,200**	**7.57%**
INVESCO CORE REAL ESTATE USA	309	45,000,000	31,949,670	11.28%
INVESCO REAL ESTATE Total	**309**	**45,000,000**	**31,949,670**	**11.28%**
JER REAL EST PARTNERS FUND IV	15,311,878	15,311,878	7,263,986	2.57%
JER REAL EST PARTNERS Total	**15,311,878**	**15,311,878**	**7,263,986**	**2.57%**
JP MORGAN CB	37,507	71,357,824	51,382,379	18.14%
JP MORGAN Total	**37,507**	**71,357,824**	**51,382,379**	**18.14%**
LIQUID REALTY FUN IV	15,535,697	15,535,697	13,574,455	4.79%
LIQUID REALTY Total	**15,535,697**	**15,535,697**	**13,574,455**	**4.79%**
MACQUARIE GBL PROP III ASIA	13,423,671	13,423,671	4,513,884	1.59%
MACQUARIE GBL PROP Total	**13,423,671**	**13,423,671**	**4,513,884**	**1.59%**
MORGAN STANLEY REAL ESTATE	27,536,302	27,536,302	7,695,928	2.72%
MORGAN STANLEY REAL ESTAT	**27,536,302**	**27,536,302**	**7,695,928**	**2.72%**
OCONNOR NTH AMER PROP PTNRS II	8,528,983	8,528,983	3,507,544	1.24%
OCONNOR NTH AMER Total	**8,528,983**	**8,528,983**	**3,507,544**	**1.24%**
ROTHSCHILD FIVE ARROWS REALTY	3,381,578	3,381,578	3,680,678	1.30%
ROTHSCHILD REALTY Total	**3,381,578**	**3,381,578**	**3,680,678**	**1.30%**
SHORT TERM INVESTMENT POOL	6,597,089	6,597,089	6,597,089	2.33%
SHORT TERM INVESTMENT POO	**6,597,089**	**6,597,089**	**6,597,089**	**2.33%**
STRATEGIC PARTNERS VALUE	17,641,039	17,641,039	19,430,352	6.86%
STRATEGIC PARTNERS Total	**17,641,039**	**17,641,039**	**19,430,352**	**6.86%**
TA ASSOCIATES REALTY FUND	20,000,000	20,000,000	16,750,560	5.91%
TA ASSOCIATES REALTY Total	**20,000,000**	**20,000,000**	**16,750,560**	**5.91%**
Grand Total	**226,991,819**	**401,093,530**	**283,191,217**	**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: Cliff Sheets, CIO
Rande Muffick, Portfolio Manager – Public Equities

Date: November 2, 2009

Subject: Repositioning of the Public Equity Pools (MTIP and MDEP)

The overall repositioning objectives for both pools were to reduce quantitative exposures, pare the growth tilts, and to increase weightings in mid caps and small caps at the expense of large caps. At the manager level, the repositioning was designed to increase allocations to managers that staff has built the most confidence in based upon staff due diligence and performance of the managers, as well as to downsize or terminate managers that have been underperforming or where we have less confidence.

Montana International Equity Pool (MTIP)
Within MTIP the repositioning strategy also included the objectives of increasing the passive component by a significant amount and eliminating the legacy regional mandate. The size of the transition was $296 million and included several managers/funds which are listed below:

Manager	Action	Amount
Barclays ACWI ex US Superfund A	Added	$296 million
Acadian	Downsized	$15 million
Artio Global	Downsized	$25 million
Batterymarch	Downsized	$25 million
BGI European Index	Terminated	$115 million
Nomura	Terminated	$73 million
Principal Global	Terminated	$43 million

This transition was performed by Barclays Global Investors during the last week of August and the first week of September. The overall cost of the transition was actually a cost savings of two basis points, meaning that after commissions incurred in trading, taxes, the impact of bid/ask spreads, and market impact, the result was a gain of 2 basis points of the $296 million or $50,362. This was due to a favorable trading day in which the stocks within the legacy portfolios outperformed the target portfolio.

Increased investments into international small cap managers are still being considered by staff and were held out of this transition. The portfolio displayed in this quarter's MTIP strategy reflects the changes made.

Montana Domestic Equity Pool (MDEP)

In addition to the overall repositioning strategy, within MDEP the transition also included the objective of increasing the partial long/short strategy allocation. The size of the domestic transition amounted to $223 million and included the following managers/funds:

Manager	Action	Amount
Artisan Partners	Added	$25 million
JP Morgan	Added	$75 million
State Street SPIF	Added	$33 million
TimesSquare	Added	$10 million
T Rowe Price	Added	$70 million
Vaughan Nelson	Added	$10 million
BGI S&P 500 Index Fund	Downsized	$75 million
Martingale Mid Cap	Downsized	$20 million
Renaissance	Downsized	$20 million
Goldman Sachs	Terminated	$108 million

This transition was performed in two parts. The first part was performed by staff on September 3rd and involved the sale of $75 million of BGI S&P 500 Index Fund units and the investment of those proceeds directly into the JP Morgan 130/30 partial long/short portfolio. The second part of the transition was performed by State Street Global Markets during the last week of September and involved the other managers listed above.

The overall cost of the domestic transition amounted to seven basis points. Similar to the international pool, the legacy portfolios outperformed the target portfolios and offset some of the costs of commissions and market impact.

The portfolio displayed in this quarter's MDEP strategy reflects the changes made.

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 2, 2009

Subject: Public Equity External Managers Watch List - Quarterly Update

During the quarter there were no additions to the Watch List, while two managers left the list pursuant to terminations.

Principal Global, an international growth manager, was terminated for performance reasons. Within the domestic pool, Goldman Sachs Enhanced Large Cap Collective Trust was terminated for performance and personnel issues.

MANAGER WATCH LIST
November 2009

Manager	Style Bucket	Reason	Inclusion Date
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	March 2008
NorthPointe	Domestic- SC Growth	Performance	August 2008
Acadian	International – LC Value	Performance, Process	February 2009
Martin Currie	International – LC Growth	Performance, Risk Controls	February 2009
Batterymarch	International – LC Core	Performance, Process	May 2009

Attached for reference is the Public Equity Manager Evaluation Policy.

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

INTRODUCTION

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

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

MONITORING PROCESS

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

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

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

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

MANAGER EVALUATIONS

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

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

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

PERFORMANCE MEASUREMENT

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

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

ACTIONS

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

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

ROLES AND RESPONSIBILITIES

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

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

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

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

Montana Domestic Equity Pool

Rande Muffick, CFA, Portfolio Manager

November 10, 2009

Domestic Stock Pool By Manager 9/30/2009			
Manager Name	**Market Value**	**%**	**Approved Range**
-	-	-	
BGI EQUITY INDEX FUND	505,479,897	20.88%	
STATE STREET SPIF ALT INV	5,475,960	0.23%	
LARGE CAP CORE Total	**510,955,857**	**21.11%**	10-30%
ENHANCED INVEST TECHNOLOGIES	149,723,322	6.19%	
T ROWE PRICE ASSOCIATES INC	238,454,505	9.85%	
WESTERN ASSET US INDX PLUS LLC	117,201,967	4.84%	
LARGE CAP ENHANCED Total	**505,379,794**	**20.88%**	20-30%
BARROW HANLEY MEWHINNEY + STRS	157,450,062	6.51%	
QUANTITATIVE MANAGEMENT ASSOC	101,499,969	4.19%	
LARGE CAP VALUE Total	**258,950,031**	**10.70%**	
COLUMBUS CIRCLE INVESTORS	114,713,580	4.74%	
RAINIER INVESTMENT MGMNT INC	112,644,543	4.65%	
RENAISSANCE GROUP LLC	95,880,897	3.96%	
LARGE CAP GROWTH Total	**323,239,020**	**13.35%**	
LARGE CAP STYLE BASED Total	**582,189,051**	**24.05%**	20-30%
ANALYTIC INVESTORS MU3B	90,383,745	3.73%	
JP MORGAN ASSET MGMT MU3E	259,215,202	10.71%	
MARTINGALE ASSET MGMT MU3D	62,109,302	2.57%	
PARTIAL LONG/SHORT (130-30) Total	**411,708,249**	**17.01%**	10-20%
COMBINED LARGE CAP Total	**2,010,232,951**	**83.05%**	82-92%
ARTISAN MID CAP VALUE	81,590,094	3.37%	
BGI MIDCAP EQUITY INDEX FUND	18,612,804	0.77%	
MARTINGALE ASSET MGMT MID CAP	62,306,772	2.57%	
TIMESSQUARE CAPITAL MGMT	79,505,257	3.28%	
MID CAP Total	**242,014,928**	**10.00%**	5-11%
DIMENSIONAL FUND ADVISORS INC	49,230,492	2.03%	
NORTHPOINTE CAPITAL SMALL CAP	33,068,536	1.37%	
VAUGHAN NELSON INV	53,539,841	2.21%	
SMALL CAP Total	**135,838,869**	**5.61%**	3-8%
TRANSITION POOL	32,321,816	1.34%	
TOTAL MDEP	**2,420,408,564**	**100.00%**	

The table above displays the Montana Domestic Equity Pool (MDEP) allocation at quarter end. The balances within the respective style buckets and for each manager reflect the completion of the September repositioning and related transition of funds.

During a $148 million transition done in September, the balances of the following managers were increased by the amounts shown: T Rowe Price ($70 million), JP Morgan ($75 million), Artisan ($25 million), TimesSquare ($10 million), and Vaughan Nelson ($10 million). Balances of Renaissance ($20 million) and Martingale Mid Cap ($20 million) were decreased while the Goldman Sachs portfolio was terminated. The transition pool balance represents S&P 500 futures which were used for tracking purposes during the transition. These futures were subsequently sold shortly after quarter end and allocated to the State Street SPIF fund.

The market value of MDEP continued to rise during the quarter to $2.4 billion as the U.S. stock market rally which began in March was extended through September. MDEP added $300 million in market value during the quarter.

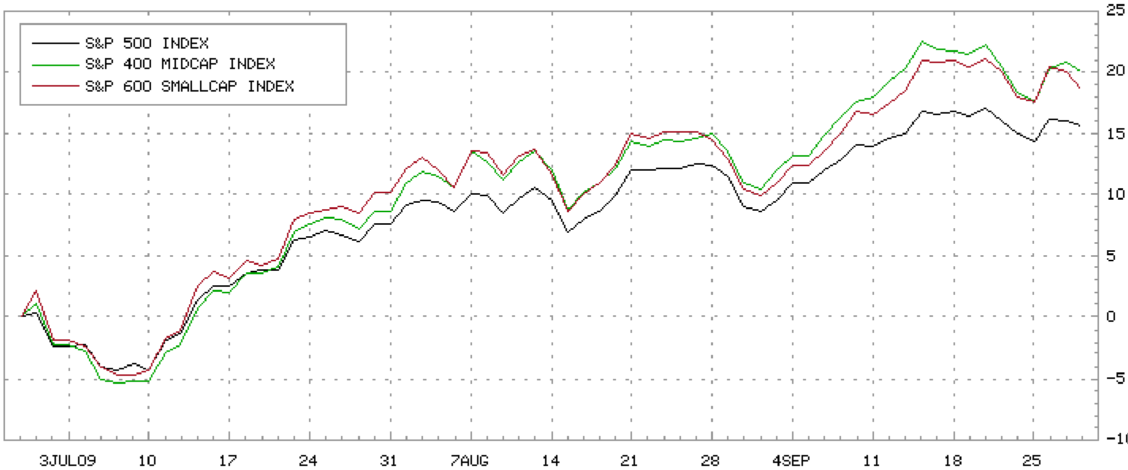
Across market capitalizations, mid caps and small caps continued to outpace large cap stocks. Small caps returned 18.7% while mid caps returned 20.0% and large caps added 15.6%. With that said, MDEP is more overweight mid caps and small caps and underweight large caps than at any time within the past couple of years, in part due to some of the shifts made during the transition in September.

COMPARATIVE RETURNS Page 1/ 6

Range 6/30/09 - 9/30/09 Period D Daily 92 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	14.98 %	15.61 %	-4.37 %	77.78 %
2	MID Index	USD	19.52 %	19.98 %		106.00 %
3	SML Index	USD	18.30 %	18.66 %	-1.32 %	97.13 %

(* = No dividends or coupons)



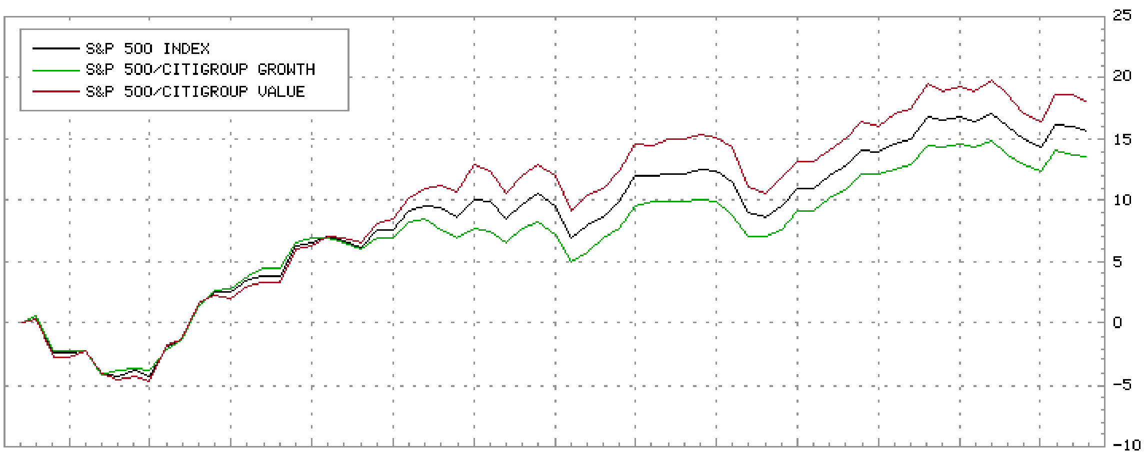
Looking at style categories, value trumped growth overall with a third quarter return of 17.9% compared to 13.6% for growth. With that said, MDEP's growth tilt was pared in the transition.

COMPARATIVE RETURNS Page 1/ 6

Range 6/30/09 - 9/30/09 Period D Daily 92 Day Period

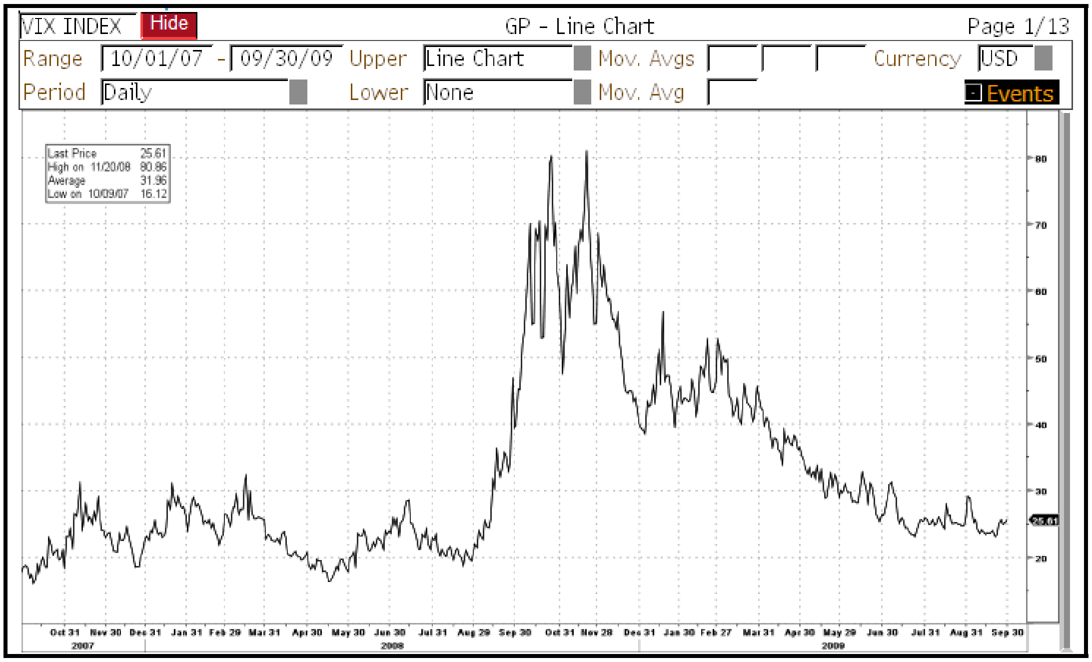
	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	14.98 %	15.61 %	2.05 %	77.78 %
2	SGX Index	USD	13.09 %	13.56 %		65.60 %
3	SVX Index	USD	17.14 %	17.93 %	4.38 %	92.40 %

(* = No dividends or coupons)



Volatility drifted a bit lower during the quarter with the VIX trending in the mid to low 20's, levels not seen since before the financial crisis.

Investors continue to buy the dips given the consensus view that 2010 will offer positive economic growth. Although longer term there are major fundamental challenges to be worked through, the general mood of investors is to not be left behind. Despite being drawn down in favor of stock purchases, cash levels remain high for many investors.



The manager performance within MDEP was mixed for the quarter. The large cap enhanced manager group outperformed while the large cap partial long/short, large cap value, and mid cap buckets underperformed. The large cap growth style bucket which has had difficulty in previous quarters managed to eke out 15 basis points of outperformance for the quarter. Overall MDEP outperformed the S&P 1500 benchmark by 5 basis points net of fees.

The moderate tilt toward growth versus value resulted in a detraction in pool performance given the stellar performance of value stocks. The tilt toward mid caps and small caps rather than large caps added value.

Going forward the strategy reflects a less aggressive approach to growth versus value, an increased weight in the partial long/short category, and an overweight in mid caps and small caps.

DOMESTIC EXPOSURE-MARKET CAP %

September 30, 2009

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	5.8	16.0	11.8	29.5	25.3	12.6	-3.4	0.0	62.3
Artisan Partners	--	--	--	2.8	17.9	63.4	15.9	0.0	6.5
Barrow Hanley	1.2	14.9	6.3	24.2	15.9	35.1	2.3	0.0	41.0
Columbus Circle Investors	--	21.3	11.5	24.3	27.6	15.4	0.0	0.0	52.9
Dimensional Fund Advisors	--	--	--	--	--	0.5	64.2	35.3	0.8
INTECH Investment Management	6.2	24.3	10.1	18.4	13.8	25.4	1.7	0.0	72.2
J.P. Morgan	6.3	28.0	22.6	23.3	14.2	3.1	0.0	0.0	85.1
Martingale Asset Mgmt	--	--	--	--	6.7	72.1	21.2	0.0	4.7
Martingale Enhanced Alpha	5.9	29.9	8.7	15.9	14.8	18.7	4.4	0.0	77.5
NorthPointe Cap	--	--	--	--	--	6.3	50.2	43.4	0.9
Quantitative Management	5.3	23.0	10.7	19.7	12.1	27.0	2.1	0.0	69.8
Rainier Investment Mgt	2.1	16.3	11.2	36.4	20.4	13.6	0.0	0.0	50.5
Renaissance Investment Mgt	2.1	13.5	12.7	30.7	15.0	25.9	0.0	0.0	44.7
T. Rowe Associates	6.4	26.8	13.8	22.0	15.2	15.3	0.4	0.0	78.9
TimesSquare Cap Mgmt	--	--	--	2.4	27.0	64.9	5.7	0.0	8.0
Vaughan Nelson Mgmt	--	--	--	--	--	26.1	70.1	3.8	2.0
Western Asset US Index Plus	5.7	27.3	12.7	24.2	14.3	15.1	0.7	0.0	76.9
BGI Equity Index Fund	5.6	27.2	12.6	24.1	14.3	15.0	0.7	0.0	76.9
BGI Midcap Equity Index Fund	--	--	--	--	--	55.7	42.2	0.3	2.8
ALL DOMESTIC EQUITY PORTFOLIOS	**4.1**	**20.2**	**11.0**	**20.5**	**15.2**	**21.5**	**5.7**	**1.4**	**59.5**
Benchmark: S&P Composite 1500	**5.0**	**24.1**	**11.2**	**21.4**	**12.7**	**18.0**	**7.0**	**0.7**	**68.0**
Over/underweight(-)	**-0.9**	**-3.9**	**-0.2**	**-0.8**	**2.5**	**3.4**	**-1.3**	**0.7**	

DOMESTIC EXPOSURE-SECTOR %

September 30, 2009

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Analytic Investors, Inc	9.7	10.0	12.3	14.2	13.3	9.8	19.2	2.1	3.7	3.4
Artisan Partners	13.7	7.3	10.9	15.1	7.4	24.9	17.4	--	--	3.3
Barrow Hanley	9.2	5.3	11.0	21.4	13.6	17.7	11.5	1.2	2.4	6.7
Columbus Circle Investors	20.9	6.0	3.7	14.9	11.5	2.5	36.7	3.9	--	--
Dimensional Fund Advisors	14.8	4.5	4.7	13.6	14.5	18.0	21.1	4.7	1.0	3.2
INTECH Investment Management	11.5	12.7	11.7	14.0	12.3	8.1	16.4	2.7	4.6	6.0
J.P. Morgan	8.5	10.6	12.3	14.6	12.5	6.1	23.3	3.8	3.2	2.6
Martingale Asset Mgmt	13.9	6.1	4.6	15.5	5.8	13.2	20.8	9.2	1.9	8.9
Martingale Enhanced Alpha	8.0	11.7	10.1	11.6	12.1	8.8	22.5	5.4	3.7	4.3
NorthPointe Cap	13.1	3.9	8.5	5.2	19.9	14.2	33.8	--	1.5	--
Quantitative Management	12.1	4.2	17.6	18.1	12.3	12.6	4.0	5.8	6.1	7.3
Rainier Investment Mgt	13.0	9.3	5.0	9.2	14.0	11.1	31.7	4.3	1.3	1.2
Renaissance Investment Mgt	20.0	2.0	9.3	6.0	14.4	12.9	33.5	1.9	--	--
T. Rowe Associates	9.4	11.5	12.2	14.8	13.4	10.0	18.8	3.2	3.2	3.5
TimesSquare Cap Mgmt	13.1	2.6	6.9	10.4	16.3	15.6	26.3	3.7	5.2	--
Vaughan Nelson Mgmt	11.4	1.2	7.0	24.7	6.4	18.5	16.0	8.0	1.9	--
Western Asset US Index Plus	9.1	11.5	11.7	15.2	13.1	10.3	18.6	3.5	3.2	3.7
BGI Equity Index Fund	9.1	11.5	11.6	15.2	13.0	10.2	18.5	3.5	3.2	3.7
BGI Midcap Equity Index Fund	15.5	3.7	6.4	17.9	12.1	14.5	14.9	6.7	0.6	6.0
All Domestic Equity Portfolios	**11.2**	**8.9**	**10.5**	**14.7**	**12.7**	**11.1**	**20.5**	**3.5**	**2.8**	**3.5**
Benchmark: S&P Composite 1500	**9.9**	**10.6**	**11.1**	**15.6**	**13.0**	**10.9**	**18.3**	**3.8**	**2.9**	**3.9**
Over/underweight(-)	**1.3**	**-1.8**	**-0.6**	**-0.9**	**-0.3**	**0.2**	**2.2**	**-0.3**	**0.0**	**-0.4**

DOMESTIC PORTFOLIO CHARACTERISTICS

September 30, 2009

MANAGERS	Market Value (mm)	Number of Securities	3Yr Historical EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
Analytic Investors, Inc	92.6	261	17.5	14.2	2.1	2.3
Artisan Partners	81.8	60	10.5	15.5	1.8	1.7
Barrow Hanley	157.8	89	5.3	15.2	1.6	2.9
Columbus Circle Investors	115.0	50	12.6	24.2	2.4	0.7
Dimensional Fund Advisors	49.2	2,899	12.8	17.2	1.4	1.1
INTECH Investment Management	149.8	426	12.6	15.5	2.1	2.4
J.P. Morgan	265.7	256	15.9	15.8	2.1	2.1
Martingale Asset Mgmt	62.4	145	15.0	13.6	1.8	1.5
Martingale Enhanced Alpha	63.2	259	19.5	13.7	2.0	2.0
NorthPointe Cap	32.9	67	16.3	15.3	1.7	0.4
Quantitative Management	101.6	146	2.4	13.8	1.5	3.1
Rainier Investment Mgt	112.1	81	23.0	22.0	3.0	0.9
Renaissance Investment Mgt	96.3	55	21.1	16.4	3.3	1.1
T. Rowe Associates	238.5	300	12.3	16.7	2.2	2.2
TimesSquare Cap Mgmt	79.6	73	17.8	21.2	2.7	0.8
Vaughan Nelson Mgmt	53.6	85	22.0	17.2	0.9	1.5
Western Asset US Index Plus	117.2	500	11.0	16.5	2.1	2.4
BGI Equity Index Fund	505.4	502	11.0	16.5	2.1	2.4
BGI Midcap Equity Index Fund	18.6	402	15.0	18.3	1.7	1.6
All Domestic Equity Portfolios	**2,398.9**	**3,771**	**13.2**	**16.4**	**2.0**	**2.0**
BENCHMARKS						
S&P Composite 1500		**1,500**	**11.5**	**16.7**	**2.1**	**2.3**
S&P/Citigroup 1500 Pure Growth		424	17.2	18.6	2.3	0.6
S&P/Citigroup 1500 Pure Value		310	1.1	17.1	1.2	2.7
S&P 500		500	11.0	16.5	2.1	2.4
Russell 1000		965	12.1	16.6	2.1	2.2
Russell 1000 Growth		624	18.9	18.4	3.5	1.6
Russell 1000 Value		675	5.3	14.8	1.5	2.9
Russell Midcap		772	14.4	17.2	1.9	1.8
Russell Midcap Growth		491	18.7	19.4	3.0	1.1
Russell Midcap Value		549	10.3	15.1	1.4	2.6
Russell 2000		2,003	14.6	14.4	1.4	1.6
Russell 2000 Growth		1,261	20.9	16.7	2.4	0.6
Russell 2000 Value		1,385	9.5	12.5	1.0	2.5

Montana International Stock Pool

Rande Muffick, CFA, Portfolio Manager

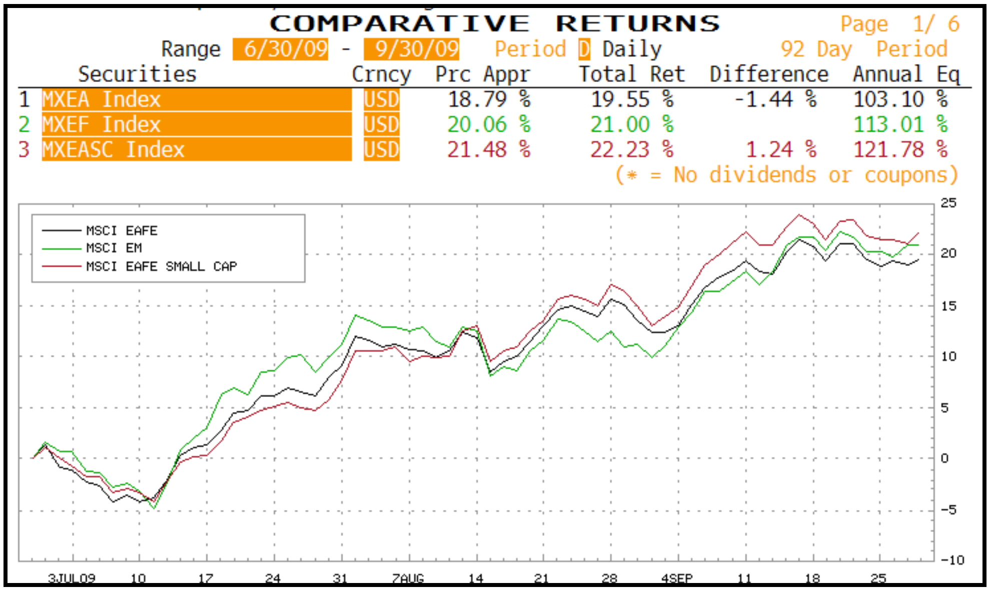
November 10, 2009

International Stock Pool By Manager 9/30/2009			
Manager Name	**Market Value**	**%**	**Approved Range**
ARTIO GLOBAL	108,809,432	9.31%	
BATTERYMARCH INTL EQUITY	106,164,054	9.08%	
BGI ACWI EX US SUPERFUND A	381,963,199	32.68%	
BGI GLOBAL EX US ALPHA TILT FD	94,699,639	8.10%	
EAFE STOCK PERFORMANCE INDEX	17,308,536	1.48%	0-10%
CORE Total	**708,944,860**	**60.66%**	25-50%
ACADIAN ACWI EX US VALUE	82,402,855	7.05%	
BERNSTEIN ACWI EX-US	104,760,709	8.96%	
VALUE Total	**187,163,565**	**16.02%**	15-25%
HANSBERGER INTL EQUITY GROWTH	94,225,490	8.06%	
MARTIN CURRIE ACWI X-US	91,739,510	7.85%	
PRINCIPAL GLOBAL	951,101	0.08%	
GROWTH Total	**186,916,101**	**15.99%**	15-25%
NOMURA ASSET MGMT INC	921,145	0.08%	
REGIONAL Total	**921,145**	**0.08%**	
AXA ROSENBERG INTL SMALL CAP	36,554,473	3.13%	
DFA INTL SMALL CO PORTFOLIO	47,772,374	4.09%	
SMALL CAP Total	**84,326,847**	**7.22%**	5-15%
TRANSITION POOL	356,583	0.03%	
TOTAL MTIP	**1,168,629,101**	**100.00%**	

The table above shows the quarter end allocation within the Montana International Equity Pool (MTIP). The balances within the respective style buckets and with each manager reflect the completion of the September repositioning and the related $296 million transition.

The BGI ACWI ex US Index SuperFund A received the entire amount of the transition as beneficiary of the effort to increase the passive component of MTIP and reduce or eliminate certain active managers. Managers that were downsized in order to raise proceeds for the BGI purchase were Acadian ($15 million), Artio Global ($25 million), and Batterymarch ($25 million). In addition, the Principal Global portfolio, Nomura portfolio, and the BGI Europe Index Fund were terminated and those proceeds were also used for the BGI purchase.

The value of the pool jumped by $190 million in the quarter to $1.17 billion as international equity markets surged further in the third quarter. Interestingly, developed small caps led the way with a return of 22.2%. Emerging market stocks followed with a return of 21.0% while developed market large caps lagged with a return for the quarter of 19.6%. With respect to market capitalization, MTIP is slightly underweight small cap stocks in relation to the custom benchmark.



MTIP is now only slightly underweight emerging markets (EM), by 1.2%, after having historically been 4-5% underweight. The recent repositioning of the pool's manager line-up helped narrow the gap with the higher allocation to the passive BGI fund and termination of a manager that was consistently underweight EM. The weighting of the pool in emerging markets at quarter end stood at 20.0% compared to 21.2% for the benchmark. Recall that MTIP's weighting in EM is determined by the collective decisions of the individual managers within the pool.

Similar to the domestic market, performance disparity across style categories was significant as international value stocks trounced growth. Value returned 22.1% compared to 17.3% for growth. Presently, MTIP carries an even weighting between growth and value styles.

The dollar drifted lower in the quarter as investors continued to feel more comfortable with risk and with holding other currencies. This added incrementally to overall international equity returns for U. S. investors. The year-to-date trend of the dollar index is shown below.

Manager performance within MTIP for the quarter improved versus the second quarter but was still rather mixed. The large cap growth and large cap value groups outperformed while large cap core and small cap buckets underperformed. Overall MTIP lagged its benchmark in the quarter by 31 basis points.

Going forward, the pool is positioned relatively close to the benchmark in relation to cap size and style weighting is neutral. The effect of a significant passive component within the pool should provide better tracking to the custom benchmark going forward.

INTERNATIONAL EXPOSURE-MARKET CAP %

September 30, 2009

Managers	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	$20-$50B	$10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Acadian Asset Management	--	9.6	21.4	13.8	15.8	21.8	12.6	4.9	37.1
Artio Global - Intl Equity II with look throughs	0.4	17.7	23.3	29.3	15.3	12.8	1.0	0.2	54.3
AXA Rosenberg	--	--	--	--	0.4	28.1	53.6	17.0	2.1
Batterymarch Financial Mgmt	--	14.6	15.0	13.0	17.2	37.0	3.1	--	38.9
Bernstein Inv Mgt & Research with look throughs	--	14.3	23.0	18.0	12.9	24.8	5.2	0.1	44.0
BGI Global Ex US Alpha Tilt Fd	--	14.7	17.4	22.5	14.2	23.4	6.8	0.1	43.7
DFA International Small Cap	--	--	--	0.0	0.0	11.4	61.7	26.4	1.2
Hansberger Global Investors	--	17.7	14.7	22.8	17.3	27.5	0.0	--	43.6
Martin Currie with look throughs	--	18.2	18.2	25.6	9.2	28.7	0.0	--	47.4
BGI ACWI ex-US Superfund	--	14.4	18.8	23.8	16.1	23.2	3.0	0.0	44.4
ALL INTERNATIONAL EQUITY PORTFOLIOS	**0.0**	**13.6**	**17.2**	**19.9**	**13.7**	**23.5**	**7.4**	**2.3**	**41.2**
International Custom Benchmark	**--**	**14.3**	**18.8**	**23.7**	**16.0**	**23.2**	**3.7**	**0.2**	**44.1**
Over/underweight(-)	**0.0**	**-0.7**	**-1.6**	**-3.9**	**-2.3**	**0.3**	**3.7**	**2.1**	

INTERNATIONAL EXPOSURE-SECTOR %

September 30, 2009

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	7.1	3.0	13.0	31.7	7.4	11.1	10.2	5.3	6.1	5.0
Artio Global - Intl Equity II with look throughs	7.7	7.7	10.8	27.4	6.3	11.1	4.8	14.5	7.0	3.0
AXA Rosenberg	22.4	7.8	2.6	17.5	3.3	22.4	9.5	11.6	1.3	0.6
Batterymarch Financial Mgmt	7.7	6.9	7.8	27.9	6.1	11.6	8.8	11.9	6.6	4.8
Bernstein Inv Mgt & Research with look through	8.1	3.1	12.7	30.1	6.2	7.8	8.8	5.8	10.1	5.6
BGI Global Ex US Alpha Tilt Fd	9.6	6.8	10.1	26.6	7.2	8.9	6.5	11.6	7.3	4.5
DFA International Small Cap	17.7	6.6	5.6	13.6	5.9	26.0	9.6	11.8	0.7	2.0
Hansberger Global Investors	6.9	10.3	8.6	18.8	9.2	10.0	13.5	12.8	7.7	2.2
Martin Currie with look throughs	11.9	9.4	10.0	17.4	10.2	13.7	10.3	12.4	3.3	1.3
BGI ACWI ex-US Superfund	8.2	8.2	10.8	26.6	6.3	9.8	6.7	11.0	6.4	5.2
All International Equity Portfolios	**9.0**	**7.1**	**9.9**	**25.0**	**6.7**	**11.1**	**7.9**	**10.7**	**6.2**	**4.0**
International Custom Benchmark	**8.4**	**8.3**	**10.9**	**26.7**	**6.3**	**10.0**	**6.8**	**11.1**	**6.4**	**5.2**
Over/underweight(-)	**0.6**	**-1.1**	**-1.0**	**-1.7**	**0.4**	**1.0**	**1.1**	**-0.4**	**-0.2**	**-1.2**

INTERNATIONAL PORTFOLIO CHARACTERISTICS

September 30, 2009

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
International Accounts with look throughs	**1,188.9**	**6,435**	**11.7**	**14.2**	**1.6**	**2.73**
International Equity Managers						
Acadian Asset Management	82.7	302	9.0	12.3	1.2	2.72
Artio Global - Intl Equity II with look throughs	128.8	515	7.4	14.0	1.7	2.87
AXA Rosenberg	36.7	931	7.7	12.5	1.0	2.50
Batterymarch Financial Mgmt	106.0	232	9.1	13.8	1.6	2.82
Bernstein Inv Mgt & Research with look throughs	105.5	221	4.6	11.8	1.4	3.29
BGI Global Ex US Alpha Tilt Fd	94.7	1,757	10.3	14.3	1.7	2.90
DFA International Small Cap	47.8	4,178	15.1	13.8	1.3	2.17
Hansberger Global Investors	94.1	67	33.8	19.8	2.7	1.85
Martin Currie with look throughs	91.5	55	20.7	14.4	1.8	2.24
BGI ACWI ex-US Superfund	381.9	1,866	9.2	14.9	1.7	2.83
Benchmarks						
MSCI All Country World Ex-United States		1,808	9.1	14.9	1.7	2.83
MSCI All Country World Ex-United States Growth		1,035	16.0	16.9	2.3	2.19
MSCI All Country World Ex-United States Value		1,094	2.6	13.3	1.3	3.44
MSCI EAFE Small Cap		2,260	17.0	13.6	1.2	2.34
MSCI World Ex-United States Small Cap		2,470	17.6	13.4	1.2	2.39
MSCI All Country Pacific		918	7.1	19.3	1.5	2.10
MSCI Europe		466	7.9	13.2	1.7	3.45
International Custom Benchmark		5,968	9.2	14.9	1.7	2.83

INTERNATIONAL EQUITY
Region and Market Exposure
September 30, 2009

Developed Countries		Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
Asia/Pacific		**22.7%**	**24.0%**	-1.31%				
	Australia	5.1%	5.9%		33.5%	33.5%	70.2%	21.9%
	Hong Kong	1.9%	1.7%		14.7%	14.7%	57.7%	26.8%
	Japan	14.5%	15.4%		6.7%	6.7%	10.1%	1.5%
	New Zealand	0.1%	0.1%		25.6%	25.6%	44.6%	11.6%
	Singapore	1.0%	1.0%		20.5%	20.5%	63.2%	19.6%
European Union		**28.8%**	**26.7%**	2.10%				
	Austria	0.3%	0.3%		35.5%	35.5%	74.4%	5.7%
	Belgium	0.7%	0.7%		28.9%	28.9%	55.8%	-1.3%
	Denmark	0.8%	0.7%		20.3%	20.3%	43.6%	1.2%
	Finland	0.8%	0.9%		15.9%	15.9%	22.4%	-3.5%
	France	8.5%	7.8%		27.1%	27.1%	30.6%	3.1%
	Germany	6.5%	5.8%		23.9%	23.9%	24.4%	-1.3%
	Greece	0.4%	0.5%		28.8%	28.8%	59.8%	-4.9%
	Ireland	0.3%	0.2%		33.9%	33.9%	54.5%	-5.7%
	Italy	2.6%	2.7%		26.4%	26.4%	30.5%	0.5%
	Netherlands	2.7%	1.8%		31.5%	31.5%	39.4%	6.4%
	Portugal	0.4%	0.2%		21.6%	21.6%	42.5%	13.1%
	Spain	3.3%	3.4%		27.0%	27.0%	41.9%	17.5%
	Sweden	1.4%	1.8%		27.1%	27.1%	61.4%	18.2%
Non-EU Europe		**6.2%**	**6.0%**	0.17%				
	Norway	0.8%	0.5%		25.9%	25.9%	71.2%	2.5%
	Switzerland	5.4%	5.5%		23.0%	23.0%	21.6%	4.6%
North America		**6.7%**	**7.2%**	-0.44%				
	Canada	6.2%	7.2%		19.6%	19.6%	51.0%	0.4%
	USA	0.5%	0.0%		16.2%	16.2%	20.9%	-6.8%
United Kingdom		**14.5%**	**14.9%**	-0.42%				
	United Kingdom	14.5%	14.9%		18.9%	18.9%	37.0%	-0.3%
Other								
	Other	0.2%	0.0%					
DEVELOPED TOTAL		**79.1%**	**78.8%**	0.28%				

Emerging Market Countries

Emerging Market Countries		Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
Asia/Pacific		**11.2%**	**12.1%**	-0.88%				
	China	3.4%	3.7%		8.0%	8.0%	52.0%	36.2%
	India	1.2%	1.6%		20.7%	20.7%	91.8%	33.4%
	Indonesia	0.4%	0.4%		35.7%	35.7%	117.5%	39.9%
	S. Korea	3.4%	2.9%		32.2%	32.2%	66.8%	23.0%
	Malaysia	0.4%	0.6%		14.8%	14.8%	44.9%	24.1%
	Philippines	0.1%	0.1%		19.6%	19.6%	60.4%	17.5%
	Taiwan	1.9%	2.5%		22.6%	22.6%	72.0%	32.5%
	Thailand	0.4%	0.3%		22.9%	22.9%	79.4%	28.8%
European Union		**0.5%**	**0.5%**	0.07%				
	Czech Republic	0.1%	0.1%		26.1%	26.1%	40.7%	-2.7%
	Hungary	0.3%	0.1%		41.8%	41.8%	71.5%	-7.3%
	Poland	0.2%	0.2%		34.6%	34.6%	30.3%	-22.1%
Non-EU Europe		**1.3%**	**1.3%**	-0.01%				
	Russia	1.3%	1.3%		27.4%	27.4%	86.4%	-9.7%
Latin America/Caribbean		**4.2%**	**4.8%**	-0.55%				
	Brazil	2.9%	3.3%		29.1%	29.1%	106.7%	29.8%
	Chile	0.3%	0.3%		5.6%	5.6%	62.8%	21.7%
	Colombia	0.1%	0.1%		36.3%	36.3%	88.4%	57.0%
	Mexico	0.9%	0.9%		18.7%	18.7%	38.8%	-3.3%
	Peru	0.1%	0.1%		42.9%	42.9%	70.9%	40.2%
Mid East/Africa		**2.7%**	**2.6%**	0.17%				
	Egypt	0.1%	0.1%		22.2%	22.2%	50.8%	2.1%
	Israel	0.7%	0.6%		11.5%	11.5%	39.9%	7.1%
	Morocco	0.0%	0.1%		-6.3%	-6.3%	1.0%	-11.6%
	South Africa	1.4%	1.5%		15.0%	15.0%	44.7%	21.1%
	Turkey	0.6%	0.3%		32.8%	32.8%	89.7%	16.6%
EMERGING TOTAL		**20.0%**	**21.2%**	-1.20%				

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: Clifford A. Sheets, CFA, Chief Investment Officer

Date: November 10, 2009

Subject: Montana International Equity Pool (MTIP) Policy Changes

The restructuring of the pool during September resulted in a significant increase in the allocation to Large Cap Core international equities. This occurred because of the elimination of the regional component, termination of one of the growth managers, and downsizing of one of the value managers. As discussed in the memo describing the restructuring of the pool, the assets from these categories were added to the passive ACWI ex-US index fund which represents part of the core allocation. Also, though it did not impact the core holdings, two other core managers were downsized and the proceeds also added to the passive fund.

The result of this activity is an allocation to core that now exceeds the prior policy range of 25-50%. The allocation to core was 38.6% at the end of June and is now 60.7%. The style based allocations to growth and value also declined slightly due to the transition and fall near the bottom of the prior approved range of 15-25% each.

The motivation behind the restructuring of pool assets is described more fully in the memo summarizing the transition, but in short the new structure contains a higher allocation to passive and less to active strategies. To accommodate this new structure of the pool a revised policy has been drafted for Board review and approval. The only substantive changes are the approved ranges which reflect an increase in the range for the core allocation and a reduction for the style-based managers, as well as the elimination of the regional allocation.

Following is a marked copy of the MTIP policy which shows these changes. Staff recommends the Board approve the revised investment policy.

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

This policy is effective upon adoption and supersedes all previous Montana International Equity Pool (MTIP) policies.

INTRODUCTION

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

OBJECTIVES

Strategic: Attaining investment returns from international equity markets while diversifying investment risk and manager risk.

- The primary objective of the international equity investment program is to provide diversified exposure to the international equity markets for the benefit of the pension fund ~~and other participants~~ in a prudent and cost effective manner.
- The objective of active management is to add value by achieving a rate of return that exceeds the relevant benchmark(s) after fees.
- The objective of passive management is to diversify risk within the program as well as to act as a mechanism for liquidity within the program's strategy and manager allocations. It is also the primary liquidity source to absorb changes to the overall allocation to international equities.

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

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

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

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

RISK MANAGEMENT

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

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

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

LIQUDITY

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

ELIGIBLE INVESTMENTS

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

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

Currency: At the pool level, MTIP will be managed on an un-hedged basis. However, the active managers are allowed to hedge in a defensive manner. The managers are not allowed to engage in

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

ALLOCATION

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

Strategy	Approved Range	
Large Cap Core	~~25 – 50%~~	50 – 70%
Large Cap Growth	~~15 – 25%~~	10 – 20%
Large Cap Value	~~15 – 25%~~	10 – 20%
Small Cap Core	5 – 15%	
~~Regional~~	~~0 – 20%~~	

ROLES AND RESPONSIBILITIES

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

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

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

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

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

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

LEGAL

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

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

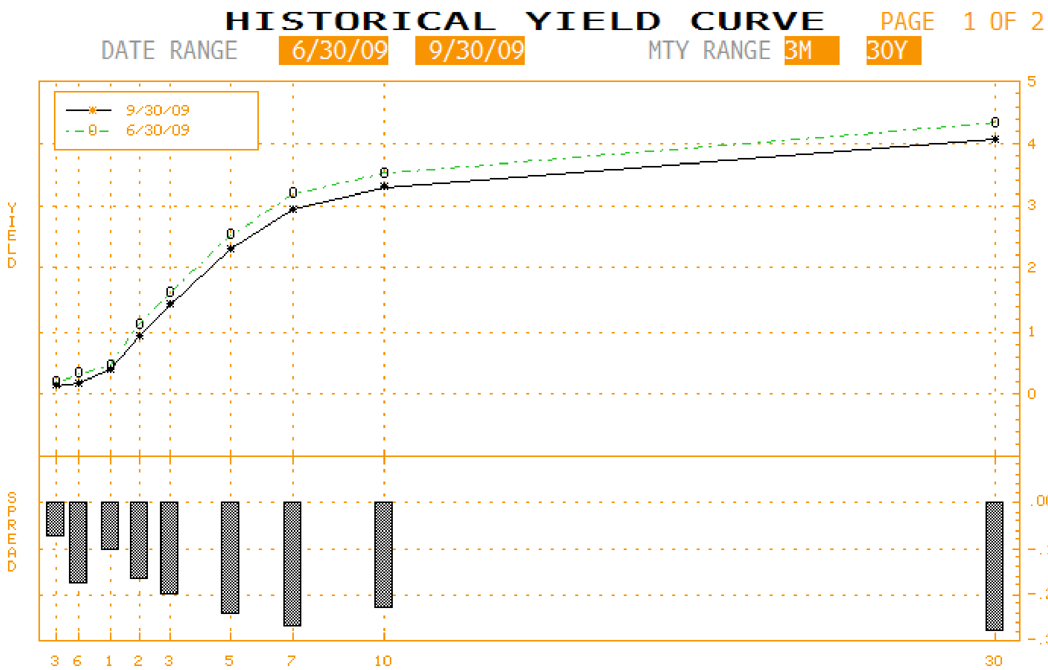
(2) Retirement funds may be invested in common stocks of any corporation.

FIXED INCOME OVERVIEW & STRATEGY
Nathan Sax, CFA, Portfolio Manager
November 10, 2009

RETIREMENT & TRUST FUNDS BOND POOLS

The yield curve flattened in the third quarter as interest rates dropped. The Treasury curve is still steeper and at higher rates for the calendar year-to-date. The difference in yield between the Treasury 3-month Bill and the long bond began 2009 at 260 basis points and was last at 430 basis points on October 26th. The yield on 90-day Bills barely moved while the yield to maturity on the Treasury 30-year bond went from 2.68% to 4.35% this calendar year.

The Federal Reserve signaled its intention to end its quantitative easing program on March 31, 2010. The central bank has purchased roughly three quarters of mortgage pass-through securities underwritten in 2009. This has propped up the mortgage market, keeping interest rates low on residential mortgage loans. Quantitative easing is the outright purchase of Treasury, Agency and mortgage pass-through securities by the Federal Reserve. Because the Federal Funds rate is effectively at zero, these purchases extend the Fed's accommodative monetary policy. Their aim is to keep interest rates low, to facilitate borrowing in the mortgage market and to provide liquidity to the credit markets.

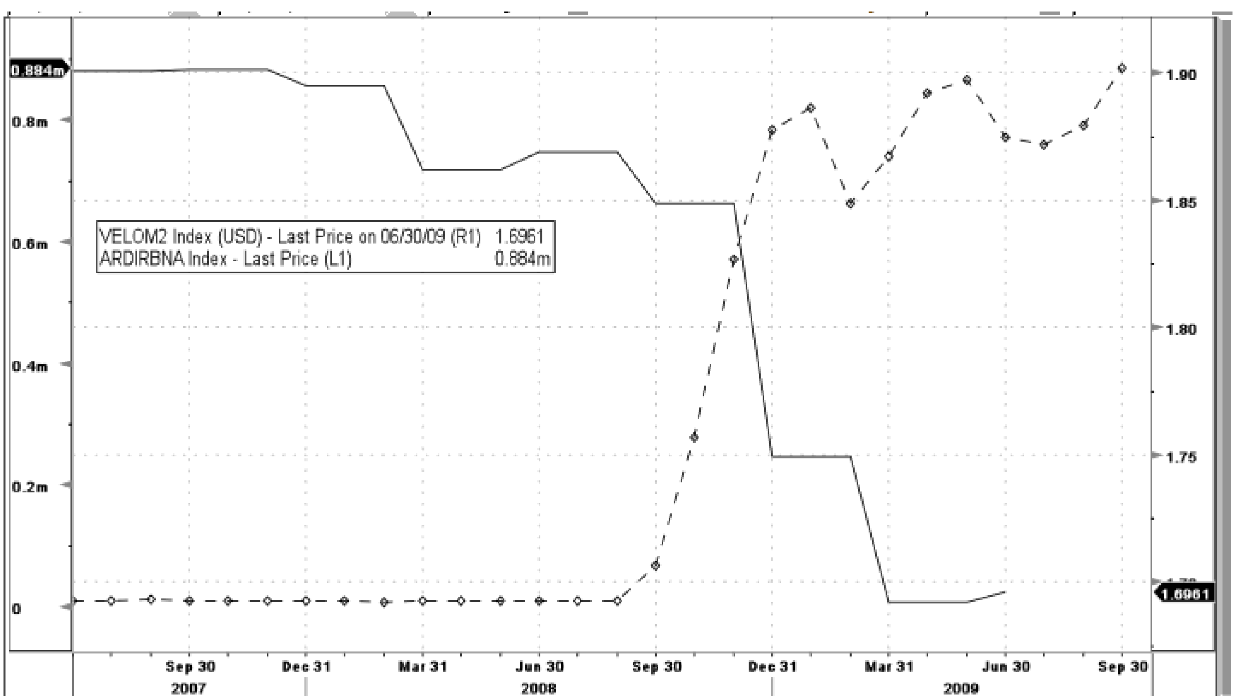


Treasury bonds posted a total return of +2.10% for the third quarter although they were -2.29% year-to-date through September. Mortgage agency pass through securities were +2.31% for the quarter and +5.29% for the year. CMBS were +12.70% and +24.38%, respectively. Corporate bonds were +8.12% in the third quarter and are +17.11% for the calendar year. The year 2009 has been marked by heavy investor demand for risk securities, i.e., down in credit quality. This has been in sharp contrast to the "flight to quality" we saw for the prior two years when Treasury bonds outperformed the spread sectors.

Fixed income investors stepped up their interest in risk assets in December and continued buying through October 2009. Shunning low interest rates on Treasuries, institutional dollars flowed to the "spread sectors." Purchases of corporate bonds, agencies, mortgage pass-through securities, asset backed securities and commercial mortgage backed securities boosted the yields of portfolios that had been hoarding cash and lower yielding Treasury bonds. Large scale buying by the Fed also supported prices after the central bank announced its plans earlier this year to buy $300 billion of Treasury bonds, $100 billion worth of agency securities and $1.25 trillion in mortgage pass-through securities.

Economic statistics showed improvement in several areas although unemployment is closing in on 10% and the housing markets remain weak. Although many economists and institutional investors have concerns about inflation resulting from growth in the money supply and greater government spending, central bankers and some economists think that deflation may prove to be the bigger concern. Renowned economist Allan Meltzer of Carnegie Mellon University noted in October that bank reserves available for lending passed the trillion dollar mark the week of October 18, 2009. Reserves available for lending have been passively held, reducing the velocity of money. These excess funds, thus, have not stirred inflation. Downward pressure on prices coming from asset sales, and stagnant or falling income, prices and asset valuations have the Fed's attention. Focusing policy on the containment of inflation now could push up interest rates and choke off what limited economic activity there is.

Velocity of M2 vs. Aggregate Reserves of Depository Institutions – (06/30/07 – 09/30/09)



Earlier in the year, both bond pools were below the newly instituted target range for Treasury securities as shown below. However, we have gradually increased exposure to Treasuries and mortgage pass-through securities in the past year to bolster quality and liquidity while reducing investments in illiquid bonds. Additional progress in this direction was accomplished in the latest quarter.

RFBP/TFBP vs. Barclays Aggregate – 09/30/09

	Retirement Fund Bond Pool							
	CIBP	Reams	Artio	Post	Total RFBP	Trust Fund Bond Pool	Barclays Aggregate	CIBP/TFBP Policy Range
Treasuries	14.79	37.63	7.35	0.00	16.94	15.43	26.01	10-35
Agencies & Govt Related	12.16	0.00	36.88	0.00	11.58	12.43	13.40	5-25
Total Government	**26.95**	**37.63**	**44.23**	**0.00**	**28.52**	**27.86**	**39.41**	**15-60**
Mortgage Backed	31.87	18.25	3.85	0.00	27.47	31.49	35.85	20-50
Asset Backed	1.47	4.10	1.79	0.00	1.79	1.45	0.40	0-10
Hybrid ARMS	0.00	0.00	0.00	0.00	0.00	0.00	1.92	0-5
CMBS	4.88	2.64	8.13	0.00	4.62	5.49	3.34	0-10
Total Securitized	**38.22**	**24.99**	**13.77**	**0.00**	**33.88**	**38.43**	**41.51**	**20-75**
Financial	11.00	17.31	10.18	1.50	11.50	11.07	6.75	
Industrial	15.25	12.57	21.20	89.47	17.49	15.42	10.09	
Utility	3.75	1.62	1.52	5.04	3.38	3.41	2.23	
Total Corporate	**30.00**	**31.50**	**32.90**	**96.00**	**32.37**	**29.90**	**19.07**	**10-35**
Other	2.73	1.04	1.93	0.00	2.42	0.88	0.00	
Cash	2.09	4.84	7.18	4.00	2.80	2.92	0.00	0-10
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

The Benchmark Comparison Analysis table shown below compares the duration of the bond pools to that of the Lehman Aggregate Index. The duration of the portfolios has been kept relatively close to that of the benchmark since 2005. Our exposure to interest rate risk is slightly higher at this time given our expectations for stable to lower interest rates in the context of a weak economic environment. Corporate bond spreads have narrowed sufficiently that yield curve management is now more of a factor in our portfolio management strategy.

The yield advantages offered in corporate and agency bonds have tightened (narrowed) significantly of late. Thus far in 2009, investors appear to be paring their Treasury holdings in favor of corporate bonds. Treasury bonds, which historically trail the spread sectors in total return performance, outperformed in both 2007 and 2008. This "flight to quality" has been fading, although economic activity is far from robust. Yields in the longer end of the yield curve rose because of expectations for inflation. Although inflation is not expected to return imminently, aggressive Fed easing could imply the threat of rising prices in the not too distant future.

Benchmark Comparison Analysis
CIBP vs. Merrill US Broad Market Index on 09/30/2009

Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	96.35	4.74	5.07	5.05	4.43	3.07
Benchmark	104.64	4.79	4.57	3.41	4.26	0.67
Difference	-8.29	-0.06	0.50	1.63	0.18	2.40

Benchmark Comparison Analysis Reams vs. Merrill US Broad Market Index on 09/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	93.68	3.87	6.25	5.08	4.18	3.22
Benchmark	104.64	4.79	4.57	3.41	4.26	0.67
Difference	-10.96	-0.92	1.68	1.67	-0.07	2.55

Benchmark Comparison Analysis Artio vs. Merrill US Broad Market Index on 09/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	106.63	4.89	4.65	2.80	4.68	-0.25
Benchmark	104.64	4.79	4.57	3.41	4.26	0.67
Difference	1.99	0.10	0.08	-0.62	0.42	-0.92

Benchmark Comparison Analysis Post vs. Merrill US HY Master II 2% Constrained Index on 09/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	98.95	8.06	8.18	8.31	3.31	6.67
Benchmark	90.97	8.19	9.62	10.25	4.22	7.93
Difference	7.97	-0.14	-1.44	-1.95	-0.90	-1.26

Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 09/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	96.59	4.73	5.31	5.03	4.38	3.01
Benchmark	104.64	4.79	4.57	3.41	4.26	0.67
Difference	-8.05	-0.07	0.73	1.61	0.12	2.34

Benchmark Comparison Analysis TFBP vs. Merrill US Broad Market Index on 09/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	91.09	4.29	4.35	4.33	4.26	2.16
Benchmark	104.64	4.79	4.57	3.41	4.26	0.67
Difference	-13.55	-0.50	-0.22	0.92	0.00	1.49

Summary

The private sector has been replenishing capital and paying down debt, confounding government efforts to stimulate lending. Tax burdens are expected to increase at the federal, state and local levels. These are some of the trends contributing to deflationary forces. Although easier fiscal and monetary policy does promote inflation, it may not be enough to offset countervailing deflationary forces. Therefore, we expect interest rates to remain relatively low.

We are still concerned with foreclosures, bankruptcies and defaults as we head into 2010. The Fed has declared its intention to support the market should rates begin to rise significantly. Fears that rising interest rates would choke off any economic recovery and a desire to support the mortgage market has kept the Federal Reserve focused on quantitative easing to keep financing costs under control.

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager

October 30, 2009

During the third quarter, money market investors looked to increase duration and take on slightly more risk in order to remain competitive as money market yields continued to compress. Commercial paper (CP) outstanding has dropped by 26% year to date as companies try to term out their liabilities and rely less on the uncertainty of the CP market. The Fed held the fed funds rate at 0-.25% during the quarter and is slowly withdrawing various support programs put in place over the past twelve months. The Fed is studying options to withdraw liquidity and unwind the easy money policy, when the time is appropriate. Credit spreads continued to tighten during the quarter, 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 17 basis points down an additional 24 basis points during the quarter, after peaking last October at 463 basis points.

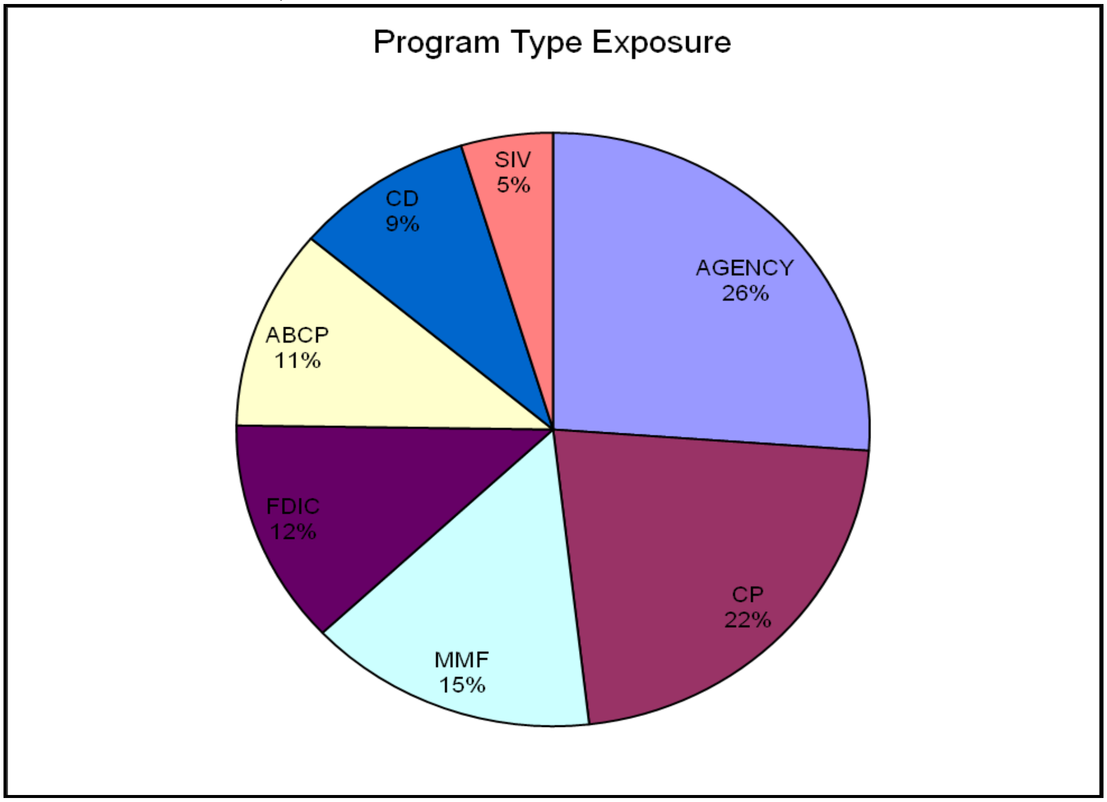
TED Spread (09/30/08 – 09/30/09)

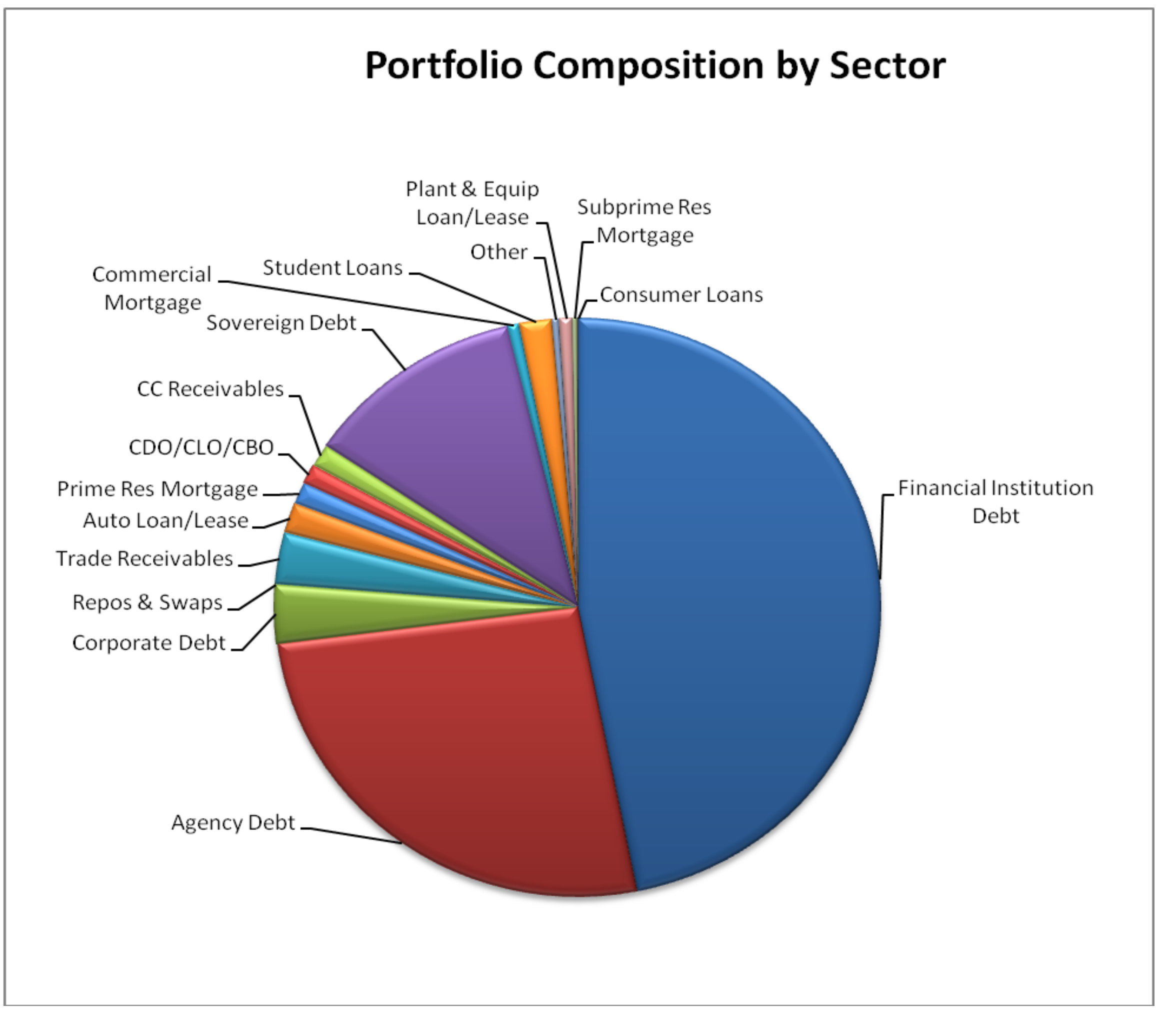
The STIP portfolio is currently well diversified and is operating within all the new guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of $200 million and weekly liquidity is at a minimum of $350 million. The average days to maturity are about 53 days as compared 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 11% of holdings (40% max) and corporate exposure is around 22% (40% max). We currently have approximately 41% in agency/FDIC paper and 15% in four institutional money funds. These sector weights reflect an upgrading of overall quality during the quarter.

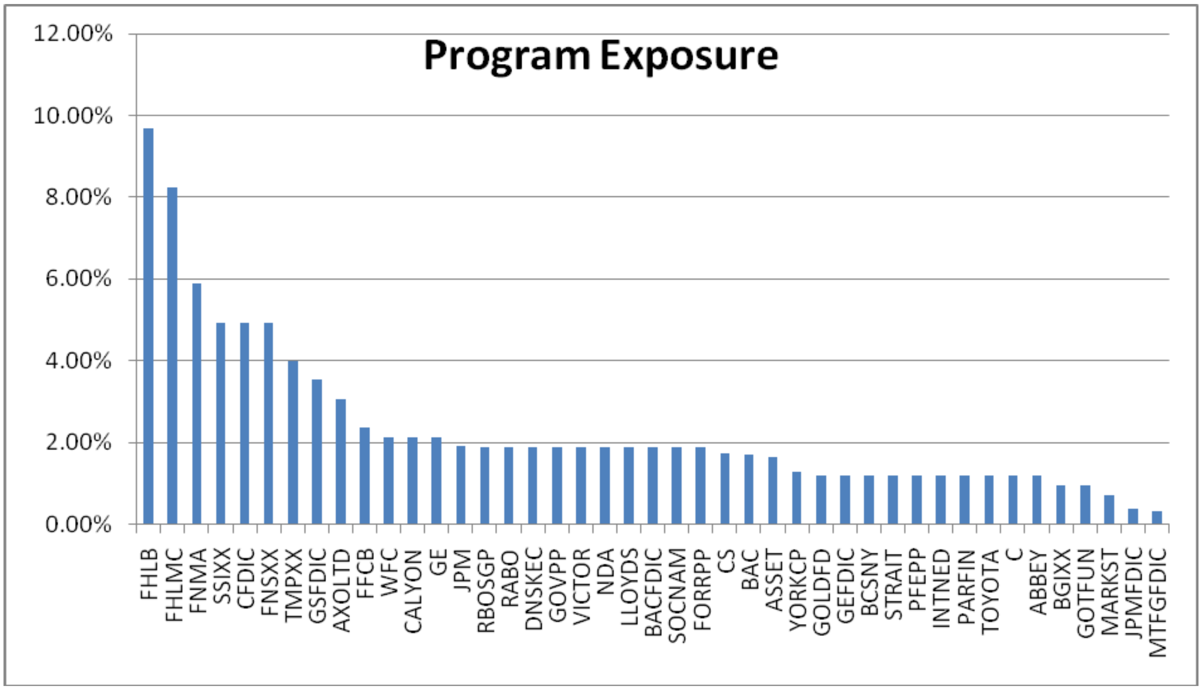
During the third quarter, we bought $25 million of Agency floating rate securities that are pegged to one month LIBOR and $25 million of fixed rate Agencies. We also purchased $15 million of corporate floating rate securities and $105 million of fixed rate Yankee CDs. The portfolio yield has drifted towards the fed funds target rate as securities purchased over the past year have matured and been replaced at lower yields. Three month LIBOR hit an all time low of .28% today; this is the lowest rate since LIBOR was created in 1986.

The net daily yield on STIP is currently 0.27% as compared with the current one month LIBOR rate of 0.24% and current fed funds target rate of 0.0%-0.25%. The portfolio is currently $2.12 billion in assets.

All charts below are as of Oct 27, 2009.






Program Exposure
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
FHLB
FHLMC
FNMA
SSIXX
CFDIC
FNSXX
TMPXX
GSFDIC
AXOLTD
FFCB
WFC
CALYON
GE
JPM
RBOSGP
RABO
DNSKEC
GOVPP
VICTOR
NDA
LLOYDS
BACFDIC
SOCNAM
FORRPP
CS
BAC
ASSET
YORKCP
GOLDFD
GEFDIC
BCSNY
STRAIT
PFEPP
INTNED
PARFIN
TOYOTA
C
ABBEY
BGIXX
GOTFUN
MARKST
JPMFDIC
MTFGFDIC

State Fund Insurance

Richard Cooley, CFA, Portfolio Manager

October 30, 2009

During the quarter we met with State Fund senior executives and also did a presentation for their team leaders as well as a presentation at their September Board Meeting. We also have a pending review of investment policy with the executive management at State Fund.

The table below lays out the basic characteristics of the State Fund fixed income portfolio in comparison to a Merrill Lynch index. The Merrill Lynch index serves as a proxy for the account's actual benchmark, which is the Barclays Capital Government/Credit Intermediate Index.

Benchmark Comparison Analysis State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 09/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	101.95	4.74	4.84	3.84	3.75	2.46
Benchmark	104.84	4.11	3.87	2.75	3.80	0.82
Difference	-2.89	0.63	0.96	1.09	-0.05	1.64

The portfolio has an overweight in agencies, mortgage backed securities (MBS), corporate bonds and commercial mortgage backed securities (CMBS) and is underweighted in Treasuries. The sector table on the following page provides more detail on the differences between the portfolio and the benchmark. We have been slowly increasing the Treasury portion of the government holdings, as agency spreads have tightened substantially and do not offer much relative value.

Spread product ended the quarter at mostly tighter levels as compared to the end of the second quarter. MBS spreads were unchanged at 36 bp, agencies tightened by 7 bp to 33 bp and corporate spreads tightened by 88 bp to 218 bp. During the quarter, the ten year Treasury yield dropped by 23bp from 3.54% to 3.31%.

The overweight in spread product (all non-Treasuries) was a drag on performance over the past three years (-13 basis points), but has added substantial value during the past three quarters as spreads tightened. The fixed income portion of the account outperformed the benchmark by 152 basis points during the September quarter and by 425 basis points over the past year. Longer term performance is +25 basis points for the past five years and +50 basis points for the past ten years (ended September 30).

During the September quarter, there were purchases of $55 million including: $10 million of corporate bonds, $20 million of Treasuries and $25 million of Agencies/TLGP. The Treasury and Agency purchases were in the two to five year part of the curve. We sold $30 million of CMBS as prices rebounded from earlier lows. There were no purchases of S&P 500 index units during the quarter.

The portfolio has a 109 basis point yield advantage over the benchmark with only a one notch lower quality rating. Client preferences include keeping the STIP balance of 1-3 percent (currently 2.0%) and limiting holdings rated lower than A3 or A- to 20 percent of fixed income (currently 19.9%).

State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 09/30/2009			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	11.54	46.91	-35.37
Agencies & Govt Related	31.42	22.71	8.71
Total Government	**42.96**	**69.62**	**-26.66**
Mortgage Backed	5.40	0.00	5.40
Asset Backed	0.35	0.00	0.35
Hybrid ARMS	0.00	0.00	0.00
CMBS	2.87	0.00	2.87
Securitized	**8.62**	**0.00**	**8.62**
Financial	24.49	11.68	12.81
Industrial	18.99	16.34	2.65
Utility	2.42	2.09	0.33
Total Corporates	**45.90**	**30.11**	**15.79**
Other	0.36	0.00	0.36
Cash	2.17	0.27	1.90
Total	**100.00**	**100.00**	

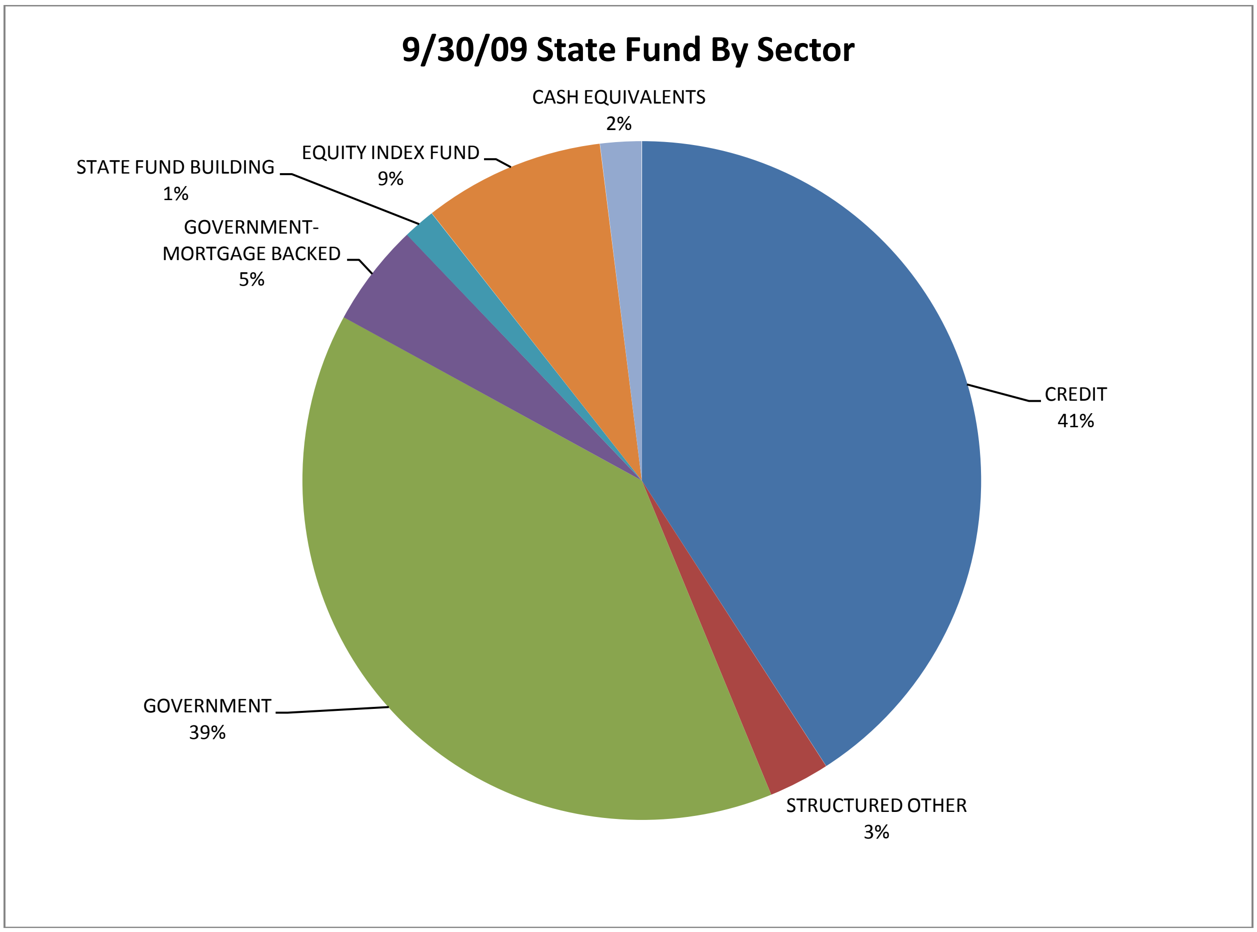
The following sector breakout is a look at the entire State Fund account including the State Fund building and the S&P 500 equity holdings. The policy range for equities is currently 8%-12%. This is a client preference as the maximum allowed by statute is 25% of book value. We have been adding to equity holdings based on market conditions.

The last page is the monthly performace report from State Street. The custom composite index is an asset- weighted index that holds the same weights as the portfolio in each of the underlying benchmarks. The fixed income returns have been over the benchmark during recent periods due to an historical overweight in spread product versus the benchmark.

9/30/2009 State Fund By Sector

Sector	Market Value	%
BANKS	*57,477,561*	*5.25%*
COMMUNICATIONS	*24,374,141*	*2.23%*
ENERGY	*28,114,257*	*2.57%*
GAS/PIPELINES	*5,838,793*	*0.53%*
INSURANCE	*47,966,426*	*4.38%*
OTHER FINANCE	*129,519,694*	*11.84%*
RETAIL	*5,348,259*	*0.49%*
TRANSPORTATION	*45,626,318*	*4.17%*
UTILITIES	*27,710,512*	*2.53%*
INDUSTRIAL	*75,047,681*	*6.86%*
CREDIT	**447,023,643**	**40.87%**
CDO	*3,400,000*	*0.31%*
CMBS	*28,382,242*	*2.59%*
STRUCTURED OTHER	**31,782,242**	**2.91%**
TITLE XI	*9,352,960*	*0.86%*

TREASURY NOTES/BONDS	*113,687,751*	*10.39%*
AGENCY	*305,757,056*	*27.95%*
GOVERNMENT	**428,797,767**	**39.20%**
FHLMC	*28,089,231*	*2.57%*
FNMA	*25,322,794*	*2.31%*
GOVERNMENT-MORTGAGE BACKED	**53,412,025**	**4.88%**
TOTAL FIXED INCOME	**961,015,677**	**87.85%**
REAL ESTATE	*16,843,807*	*1.54%*
STATE FUND BUILDING	**16,843,807**	**1.54%**
EQUITY INDEX FUND	**94,484,641**	**8.64%**
CASH EQUIVALENTS	**21,540,531**	**1.97%**
GRAND TOTAL	**1,093,884,656**	**100.00%**



MONTANA BOARD OF INVESTMENTS

SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending September 30, 2009

	MKT VAL $(000)	ALLOC	MONTH	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
STATE FUND INSURANCE											
TOTAL	1,099,327	100.0	1.34	5.48	5.48	12.31	5.06	4.73	5.90	6.03	12/01/1993
CASH EQUIVALENTS	21,548	2.0	0.02	0.11	0.11	1.15	4.96	4.49	3.94	4.51	
EQUITIES	94,485	8.6	3.73	15.59	15.59	-5.19	-4.81	1.43		-0.83	01/01/2001
FIXED INCOME	988,284	89.9	1.16	4.77	4.77	14.27	6.02	4.93	6.41	6.37	
STATE FUND INSURANCE CUSTOM COMPO			1.07	4.13	4.13	8.43	3.88	3.73			
CITIGROUP 3 MONTH T-BILL			0.01	0.04	0.04	0.39	2.63	2.96	2.96		
S&P 500			3.73	15.61	15.61	-6.91	-5.43	1.02	-0.15		
BC GOV/CREDIT INTERMEDIATE			0.85	3.25	3.25	10.01	6.15	4.68	5.90		

Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

October 30, 2009

The fund totaled $774 million as of September 30, 2009, consisting of approximately half general fund monies and the balance in various other state operating accounts. After approval of the updated investment policy statement, purchases of $70 million of short dated government bonds were completed at an average book yield of 0.75%.

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS									
	September 30, 2009								
	(in millions)								
	Par	**Book**	**Market**	**Price**	**Name**	**Coupon %**	**Maturity**	**Rating M/S&P**	**Comments**
A	$13.230	$13.230	$8.401	$63.50	CIT Equipment Trust	6.490	01/05/21	Caa3/CCC-	The equipment trust is not a direct obligation of CIT. The structure is not bankruptcy remote but the leases continue to perform and asset coverage is good.
A	$5.000	$5.000	$4.725	$94.50	Continental Airlines	6.563	02/15/12	Ba1/BB	Issured by AMBAC. Financial stress at AMBAC resulted in the downgrade of the bond.
A	$40.000	$40.000	$16.000	$40.00	Cypresstree Synthetic CDO	FLT	12/30/10	NR/BB-	The portfolio of underlying CDS experienced deterioration in 2008/2009 but has recently stabilized.
A	$8.000	$7.957	$6.138	$76.73	Zions Bancorporation	5.650	05/15/14	B3/BB+	Zions credit quality has been severely stressed but they were able to issue debt and equity during the quarter and remain relatively well capitalized.
	$25.000	$2.500	$2.500	$10.00	Galena CDO	4.313	01/11/13	Ca/CCC-	The portfolio of underlying CDS has experienced several defaults. The principal is likely to be impaired prior to maturity.
	$50.000	$50.000	$45.214	$90.43	DOT Headquarters II Lease	6.001	12/07/21	NR/NR	The bond was insured by XL Capital which has defaulted. However, lease payments are guaranteed by the US govt and the bond is collateralized by the building.
	$10.000	$2.000	$1.650	$16.50	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	$5.000	$0.978	$0.838	$16.75	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	$15.000	$15.003	$14.700	$98.00	Ford Motor Credit Corp	7.375	10/28/09	Caa1/CCC+	Matured and paid 10/28/09
	$171.230	$136.667	$100.166						
D	$18.550	$1.855	$2.783	$15.00	Kellwood Co	7.625	10/15/17	NR	Sold 7/24/09 at $19.0
A	= Additions since 6/30/2009								
D	= Deletions since 6/30/2009								
	In default								
	$10.000	$2.000	$1.650	$16.50	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	$5.000	$0.978	$0.838	$16.75	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	$15.000	$2.978	$2.488						

Bond Program

INTERCAP Loan Program
Activity Summary
As of September 30, 2009

Since Inception 1987 - September 2009

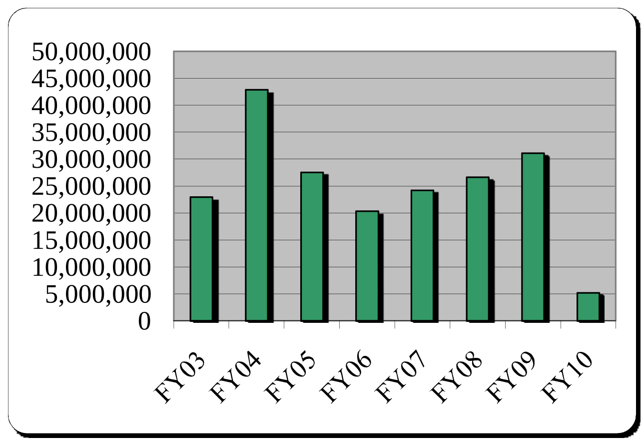
Total Bonds Issued	**124,000,000**
Total Loan Commitments	**335,497,870**
Total Loans Funded	**307,791,110**
Total Bonds Outstanding	**88,620,000**
Total Loans Outstanding	**77,800,599**
Loan Commitments Pending	**27,706,760**

FY2010 To Date

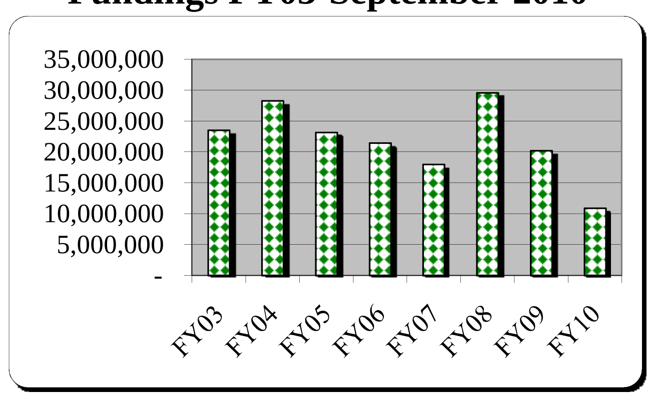
Month	Commitments	Fundings
July-09	$ 325,000	$ 874,505
August	3,750,764	2,813,883
September	1,041,647	2,942,949
October		
November		
December		
January		
February		
March		
April		
May		
June-10		
To Date	$ 5,117,411	$ 6,631,337

Note: Commitments include withdrawn and expired loans.

Commitments FY03-September 2010



Fundings FY03-September 2010



Variable Loan Rate History February 16, 2002 - February 15, 2010

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%**
February 16, 2005 - February 15, 2006	**3.80%**	February 16, 2009 - February 15, 2010	**3.25%**

MEMORANDUM

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

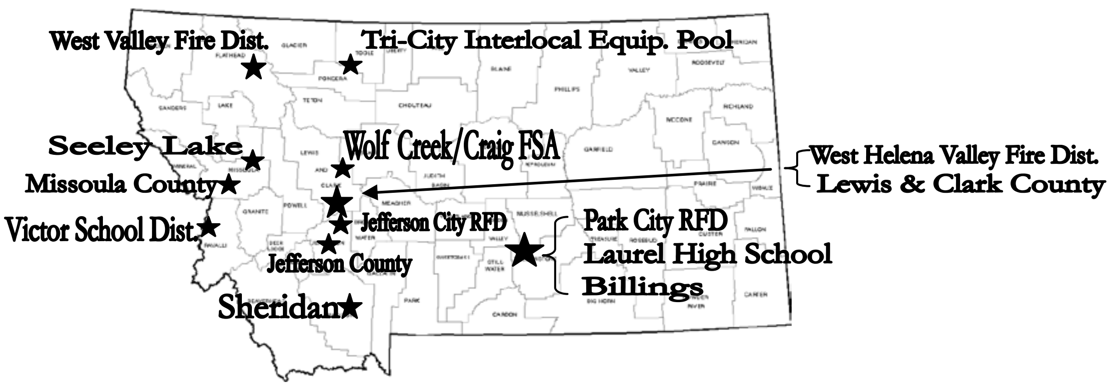
To: Members of the Board

From: Louise Welsh, Bond Program Officer

Date: November 10, 2009

Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – July 1, 2009 through September 30, 2009.



Borrower:	Seeley Lake Rural Fire District
Purpose:	Purchase land/building to house trucks and equipment
Staff Approval Date	July 28, 2009
Board Loan Amount:	$325,000
Other Funding Sources:	$0
Total Project Cost:	$325,000
Term:	15 years

Borrower:	West Valley Fire District (Kalispell)
Purpose:	Construct new fire hall
Staff Approval Date	August 5, 2009
Board Loan Amount:	$650,000
Other Funding Sources:	$87,508
Total Project Cost:	$737,508
Term:	15 years

Borrower:	Wolf Creek/Craig Fire Service Area
Purpose:	Construct a 50’ X 80’ truck barn
Staff Approval Date	August 6, 2009
Board Loan Amount:	$150,000
Other Funding Sources:	$0
Total Project Cost:	$150,000
Term:	15 years

Borrower:	West Helena Valley Fire District
Purpose:	Remodel and expansion of fire hall
Staff Approval Date	August 6, 2009
Board Loan Amount:	$300,000
Other Funding Sources:	$200,000
Total Project Cost:	$500,000
Term:	7 years

Borrower:	Jefferson County
Purpose:	Martinez Gulch RID #2517 road improvement
Staff Approval Date	August 11, 2009
Board Loan Amount:	$271,333
Other Funding Sources:	$ 0
Total Project Cost:	$271,333
Term:	15 years

Borrower:	Tri-City Interlocal Equipment Pool
Purpose:	Purchase sewer jet truck
Staff Approval Date	August 19, 2009
Board Loan Amount:	$300,000
Other Funding Sources:	0
Total Project Cost:	$300,000
Term:	7 years

Borrower:	Lewis and Clark County
Purpose:	Autumn Wind Court RID road improvements
Staff Approval Date	August 27, 2009
Board Loan Amount:	$44,431
Other Funding Sources:	$0
Total Project Cost:	$44,431
Term:	15 years

Borrower:	Park City Rural Fire District
Purpose:	Building demolition and building expansion
Staff Approval Date	September 2, 2009
Board Loan Amount:	$130,000
Other Funding Sources:	$10,000
Total Project Cost:	$140,000
Term:	10 years

Borrower:	Jefferson City Fire District
Purpose:	Purchase fire pumper engine
Staff Approval Date	September 3, 2009
Board Loan Amount:	$100,000
Other Funding Sources:	$0
Total Project Cost:	$100,000
Term:	7 years

Borrower:	Town of Sheridan
Purpose:	Engineering services-wastewater
Staff Approval Date	September 4, 2009
Board Loan Amount:	$100,000
Other Funding Sources:	$0
Total Project Cost:	$100,000
Term:	6 years

Borrower:	Town of Sheridan
Purpose:	Engineering services-water
Staff Approval Date	September 4, 2009
Board Loan Amount:	$75,000
Other Funding Sources:	$0
Total Project Cost:	$75,000
Term:	6 years

Borrower:	Jefferson County
Purpose:	Moonlight Ridge RID #2511 road improvements
Staff Approval Date	September 4, 2009
Board Loan Amount:	$249,999
Other Funding Sources:	$0
Total Project Cost:	$249,999
Term:	15 years

Borrower:	Victor School District #7
Purpose:	Insulation project, remodel/renovate cafeteria
Staff Approval Date	September 10, 2009
Board Loan Amount:	$150,000
Other Funding Sources:	$534,387
Total Project Cost:	$684,387
Term:	10 years

Borrower:	City of Billings
Purpose:	Zimmerman SID sewer improvement
Staff Approval Date	September 15, 2009
Board Loan Amount:	$80,500
Other Funding Sources:	$86,500
Total Project Cost:	$167,000
Term:	15 years

Borrower:	Laurel High School District
Purpose:	Purchase and install stadium scoreboard
Staff Approval Date	September 25, 2009
Board Loan Amount:	$130,000
Other Funding Sources:	$30,000
Total Project Cost:	$160,000
Term:	3 years

Borrower:	McCone County
Purpose:	Purchase 2010 Ford F250 4x4 pick-up
Staff Approval Date	September 29, 2009
Board Loan Amount:	$26,148
Other Funding Sources:	$0
Total Project Cost:	$26,148
Term:	5 years

MEMORANDUM

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

To: Members of the Board

From: Louise Welsh, Bond Program Officer

Date: November 10, 2009

Subject: Additional INTERCAP Bonds - Preliminary Resolution

Staff requests the authorization to issue a new $12,000,000 bond, Series 2010, for the purpose of providing funds for the Board of Investments of the State of Montana (the "Board") INTERCAP Revolving Loan Program (the "Program"). Staff projects the new issuance will take place in conjunction with the Program's bond remarketing period in March 2010.

Factors:

As of November 1, 2009, the Program had $1.26 million available to loan. Based on the Program's historical fundings and repayments as well as large state agency loan draw projections, funds available to loan will be depleted in April 2010 *or earlier*.

Demand governs the bond amount and issuance date. Staff requests preauthorization during this November meeting and will finalize the amount and issuance date at the Board's February meeting.

If necessary, the INTERCAP Program may borrow from the Board to make loans in anticipation of the issuance of the Series 2010 bonds. Should the Program borrow from the Board, repayment will occur upon issuance of the Series 2010 bonds.

Bond Authority

With the exception of refundings or issues to purchase tax or revenue anticipation notes, the Board of Investments (the "Board") may not have more than $190,000,000 of its bonds issued and outstanding under the Municipal Finance Consolidation Act of 1983, Title 17, Chapter 5, Part 16, Montana Code Annotated. As shown below, the Board will remain within the statutory limit.

$94,680,750	Bonds Outstanding
12,000,000	New Series 2010 Bond Issue
$106,680,750	

Preliminary Resolution No. 224

The purpose of the attached Preliminary Resolution No. 224 is

- ✓ to give preliminary approval to the issuance of bonds under the Municipal Finance Consolidation Act in an amount up to $12 million.

- ✓ to allow staff to work with the current INTERCAP Program finance team to prepare the necessary documents to accomplish the sale.

- ✓ to authorize the issuance of bond anticipation notes should it be necessary to borrow from the Board as may be required to meet the needs of the Program prior to the issuance of bonds.

Because the new issue will coincide with the remarketing of the outstanding bonds on March 1, the Board's final resolution authorizing the approval of the Series 2010 bonds will take place during the regular Board meeting scheduled for February 17 & 18, 2010.

Recommendation

Staff recommends that the Board:

1. Authorize staff to take steps as deemed necessary to issue up to $12 million in INTERCAP bonds for a term of 25 years;

2. Authorize the issuance of bond anticipation notes;

3. Adopt the INTERCAP Preliminary Resolution No. 224;

4. Authorize the current INTERCAP Program finance team to provide the expertise to issue/underwrite the bonds.

CERTIFICATE AS TO RESOLUTION AND ADOPTING VOTE

I, the undersigned, being the duly qualified and acting recording officer of the Board of Investments of the State of Montana (the "Board"), hereby certify that the attached resolution is a true copy of a Resolution entitled: "RESOLUTION OF THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA RELATING TO ITS ANNUAL ADJUSTABLE RATE TENDER OPTION MUNICIPAL FINANCE CONSOLIDATION ACT BONDS (INTERCAP REVOLVING PROGRAM), SERIES 2010, AUTHORIZING ISSUANCE AND SALE OF THE SERIES 2010 BONDS" (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 regular meeting on November 10, 2009 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.

I further certify that, upon vote being taken on the Resolution at said meeting, the following members voted in favor thereof:____ _____________________________________; voted against the same: __________; abstained from voting thereon: _______; or were absent: ___________________________________.

WITNESS my hand and seal officially this 10th day of November, 2009

(SEAL)

____
Carroll South
Executive Director

RESOLUTION NO. 224

RESOLUTION OF THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA RELATING TO ITS ANNUAL ADJUSTABLE RATE TENDER OPTION MUNICIPAL FINANCE CONSOLIDATION ACT BONDS (INTERCAP REVOLVING PROGRAM), SERIES 2010, AUTHORIZING ISSUANCE AND SALE OF THE SERIES 2010 BONDS

BE IT RESOLVED by the Board of Investments of the State of Montana (the “Board”), As Follows:

Section 1. Recitals.

1. 1.01. General Authority. The Board is authorized by Title 17, Chapter 5, Part 16, Montana Code Annotated (the “Act”), to issue notes and bonds to finance loans or refinance its loans to Montana governmental units and its purchases of their bonds and notes, to establish or replenish revenue securing the payments of its bonds and notes, and to finance all other expenditures of the Board incident to and necessary or convenient to carry out the provisions of the Act. Bonds so issued may be secured by a trust indenture, by a municipal finance consolidation act reserve fund to which the Board may agree to advance monies to restore reserve fund deficiencies. The Board is further authorized to issue temporary notes in anticipation of the sale of its securities. The Board is also authorized by Section 17-6-201, M.C.A., to invest funds in its control in bonds issued by the Board. Any bonds so issued shall not constitute a liability or obligation of or a pledge of the faith and credit of the State of Montana (the “State”) but are payable solely from the revenues or funds of the Board generated or received by purposes of the Act. Montana governmental units are authorized by various provisions of the Montana Code Annotated to issue bonds, notes or other obligations for the purpose of financing or refinancing the acquisition and installation of equipment, personal and real property improvements or provide temporary financing of projects or for other authorized corporate purposes (the “Borrowers Acts”).

1.02. Pursuant to the Act, the Board has issued the following series of Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) (the “Bonds”), which are currently outstanding:

- $7,500,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 1995.
- $10,000,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 1997.
- $12,500,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 1998.
- $15,000,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2000.
- $15,000,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2003.

- $18,500,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2004.
- $15,000,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2007.

Under the Program, the Board uses the original proceeds of the Bonds to make loans and the repayments of such loans (the "Recycled Funds") to make more loans. The Bond Program Officer of the Board has informed the Board that additional funds are needed to make loans under the Program. Based on historical data and additional requests for funding during the next 24 months, the Bond Program Officer recommends and requests that the Board issue up to $12,000,000 in aggregate principal amount of Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2010 (the "Series 2010 Bonds").

Section 2. Authorization. The Board authorizes the Executive Director, Deputy Director and Bond Program Officer to proceed with the sale of the Series 2010 Bonds, to specifically work with Piper Jaffray & Co. and D.A. Davidson & Co. (the "Underwriters"), Dorsey & Whitney LLP as Bond Counsel and such others as may be required to prepare and present to the Board at its next meeting the necessary documents to effectuate the sale, including but not limited to the Supplemental Indenture, the Bond Purchase Agreement, the Remarketing Agreement, the Reserve Fund Resolution, a Preliminary Official Statement and the Agreement Concerning Continuing Disclosure between the Board and the Trustee.

PASSED AND APPROVED by the Board of Investments of the State of Montana this 10th day of November, 2009.

____

Chairman

Attest:

____

Executive Director

Montana Loan Program

MEMORANDUM

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

To: Board of Directors

From: Herb Kulow, CMB
Senior Portfolio Manager

Date: October 26, 2009

Subject: Commercial and Residential Loans

Total outstanding commercial loans as of September 30, 2009 were $188,538,536 and yields 5.40%. Reservations and commitments as of September 30, 2009 were $23,000,697 and $23,485,224 respectively. There were no past due commercial loans. The following is a review and breakdown of the commercial loan balance for the past four years. The Coal Tax Trust percentage is 20.74%

Commercial Loan Portfolio as of September 30

	2006	2007	2008	2009
Participation	84,221,224	86,346,194	83,897,940	91,932,428
Guaranteed	60,850,359	52,853,436	56,062,233	60,000,844
Infrastructure	7,271,111	19,952,405	19,809,446	21,052,840
Value Added	8,904,334	17,176,136	16,344,129	11,732,126
Link	1,926,583	2,175,043	1,658,881	549,680
IRP	1,154,207	1,822,943	2,312,156	2,575,658
Seasoned	1,001,269	966,014	898,957	694,960
	165,329,087	181,292,171	180,983,742	188,538,536
Yield	5.66%	5.27%	5.31%	5.40%
FHA	1,980,909	1,814,087	1,656,480	971,106
FSA	4,288,350	3,895,156	2,890,733	2,660,082
RBS	41,226,085	37,475,848	43,432,209	49,650,059
SBA	13,355,015	9,668,345	8,082,811	6,719,597
	60,850,359	52,853,436	56,062,233	60,000,844

As of September 30, 2009, residential loans totaled $42,064,263.78. This reflects a decrease of $15,257,585 from a year ago. The following is a current distribution of the residential mortgage portfolio by loan type.

Residential Mortgage Loans by Type as of September 30, 2009

Conventional	5,814,456
Conventional - PMI	20,115,063
FHA	14,633,295
VA	1,501,449
	42,064,263

Conventional – PMI loans are those loans/borrowers that did not have adequate down payment and required mortgage insurance. There were five loans past due more than 90 days totaling $269,006.11 and were all FHA guaranteed.