

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

**2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, Montana**

**February 9 & 10, 2010**

**AGENDA**

- |                |   |   |
|----------------|---|---|
| <b>Tab 1</b>   | <b>CALL TO ORDER</b><br>A. Roll Call<br>B. Approval of the November 9 & 10, 2009 Regular Meeting Minutes<br>C. Administrative Business<br>1. Human Resource Committee Report<br>2. Audit Committee Report<br>3. Loan Committee Report<br>D. Public Comment - <i>Public Comment on issues with Board Jurisdiction</i>  | <b>12:30 p.m.</b><br><br><br><br><br><br><br><br><br><b>1:00 p.m.</b> |
| <b>Tab 2</b>   | <b>MONTANA LOAN PROGRAM – Herb Kulow</b><br>A. Commercial and Residential Portfolios Report   | <b>1:05 p.m.</b>  |
|                | <b>QUARTERLY PERFORMANCE REPORTS</b><br>A. Pension Funds and Investment Pools – R.V. Kuhns and Associates<br><i>*Will be mailed separately or will be handed out at the meeting.</i>  | <b>1:30 p.m.</b>  |
|                | <b>BREAK - 15 min.</b>  |   |
| <b>Tab 3</b>   | <b>INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO</b><br>A. Retirement System Asset Allocation Report<br>B. Investment Pool Strategies<br>1. Fixed Income Strategy Statements<br>i. Bond Pools (RFBP and TFIP)<br>ii. Short-term (STIP) and Other Fixed Income Portfolios<br>iii. Below Investment Grade Holdings Report<br>2. Domestic Equity (MDEP)<br>3. International Equity (MTIP)<br>4. Manager Watch List<br>C. Private Equity (MPEP)<br>1. Portfolio Holdings and Recent Activity<br>2. Private Edge Reports<br>D. Real Estate<br>1. Portfolio Holdings and Recent Activity<br>2. Private Edge Reports<br>3. 2010 Investment Plan - Informational<br>E. Securities Lending Update - Informational | <b>2:30 p.m.</b>  |
|                | <b>BREAK – 15 min.</b>  |   |
| <b>Handout</b> | <b>EXTERNAL MANAGER PRESENTATION</b><br>A. JP Morgan Investment Management Inc. - Large Cap Core 130/30<br>▪ Eileen Cohen, Managing Director<br>▪ Joel Damon, VP Client Advisor   | <b>4:00 p.m.</b>  |
|                | <b>ADJOURNMENT</b>  | <b>5:00 p.m.</b>  |

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

**AGENDA – DAY 2**

- RECONVENE AND CALL TO ORDER** **8:00 a.m.**
- A. Roll Call
- Tab 4 EXECUTIVE DIRECTOR REPORTS – Carroll South** **8:05 a.m.**
- A. Pensions Investments, Past, Present, and Future - Informational
- B. Annual Pension Fund Reports To Board:  
    PERS, Roxanne Minnehan, Executive Director  
    TRS, Dave Senn, Executive Director
- C. 5% Budget Reduction – Informational, Verbal
- D. Staff Reorganization – Decision
- Handout EXTERNAL MANAGER PRESENTATION-**
- A. Post Advisory Group, LLC - Fixed Income **9:30 a.m.**
- Allan Schweitzer, Chief Investment Officer-Senior Portfolio Manager
  - Ralph Canada, Managing Director-Marketing and Relationship Management
- Tab 5 BOND PROGRAM – Louise Welsh** **10:30a.m.**
- A. INTERCAP
1. Activity Report
  2. Staff Approved Loans Report
  3. Loan Committee Approved Loans Report
- B. INTERCAP Series 2010 Resolution No. 225
- ADJOURNMENT** **11:00 a.m.**

The Board of Investments makes reasonable accommodations for any known disability that may interfere with a person's ability to participate in public meetings. Persons needing an accommodations must notify the Board (call 444-0001) or write to (P.O. Box 200126, Helena, Montana 59620) no later than three days prior to the meeting to allow adequate time to make needed arrangements.

**Call to Order**

**MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3<sup>rd</sup> 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	Rande Muffick, CFA, Portfolio Manager
Jason Brent, Investment Analyst	Jon Putnam, Investment Analyst
Geri Burton, Deputy Director	Nancy Rivera, Credit Analyst
Richard Cooley, CFA, Portfolio Manager	John Romasko, Fixed Income Investment Analyst
Kim Dallas, Program Assistant/Board Secretary	Nathan Sax, CFA, Portfolio Manager
Rachel Fairbank, Accountant	Clifford A. Sheets, CFA, Chief Investment Officer
Tim House, Chief of Investment Operations	Jon Shoen, CFA, Portfolio Manager
Ed Kelly, Alternative Investment Analyst	Carroll South, Executive Director
Teri Kolnik, Alternative Investment Analyst	Steve Strong, Investment Analyst
Herb Kulow, Portfolio Manager	Louise Welsh, Bond Program Officer
Gayle Moon, Accounting Fiscal Manager	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, 3<sup>rd</sup> 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 62<sup>nd</sup> 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:

<u>Manager</u>	<u>Action</u>	<u>Amount</u>
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:

<u>Manager</u>	<u>Action</u>	<u>Amount</u>
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 3<sup>rd</sup> 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.

<u>Manager</u>	<u>Style Bucket</u>	<u>Reason</u>	<u>Inclusion Date</u>
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
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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

**Resolution No. 224 – Decision**

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**

**Commercial and Residential Portfolios Report**

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: \_\_\_\_\_

# Montana Loan Program

# MEMORANDUM

Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, MT 59601 (406) 444-0001

**To:** Members of the Board

**From:** Herb Kulow, CMB  
Senior Portfolio Manager

**Date:** February 9, 2010

**Subject:** Commercial and Residential Portfolios Report

Activity has been slow, other than phone calls and emails asking for my opinion on possible projects and how they could be structured using the In-State Loan Program.

MBOI funded the GE Capital project December 16, 2009. MBOI contributed \$4,166,500 of Infrastructure loan money and \$3,085,958 participation, 60%, of a \$5,143,264 loan from Stockman Bank. GE Capital was pleased to finally get the loan closed.

Staff also completed an application with the Department of Energy (DOE) to become an approved lender, which will allow MBOI to get a percentage of its Infrastructure loans guaranteed by the DOE. The guarantee is only available for clean or alternative energy projects or for manufactures of clean or alternative energy components. A decision on the applications should arrive within the next 30 days.

The commercial loan portfolio totaled \$191,053,499 as of 12-31-09. There were \$17,286,000 reservations and \$28,582,848 commitments outstanding. There were no loans past due more than 30 days.

The residential portfolio totaled \$39,374,351 as of 12-31-09. There was only one reservation outstanding in the amount of \$214,625. There were two loans over 90 days past due totaling \$158,293. Both loans were FHA guaranteed. These two loans represent four tenth of a percent (00.40%) of the total portfolio. Since the last board meeting, two severely past due FHA loans were paid in full.

The outstanding commercial loan balance is 20.81 percent of the total Coal Tax Trust Fund, leaving \$33,676,145 available for funding before reaching the 25 percent legislative limit. Loan payments and prepayments total about \$2,000,000 monthly, which adds to the funding capability. In addition, Infrastructure loans totaled \$25,088,442, as of 12-31-09, out of a total allocation of \$80,000,000 and Value-Added loans totaled \$8,632,173, out of a total allocation of \$70,000,000, for the same period.

# Investment Activity

## ALLOCATION REPORT

Retirement Systems Asset Allocations as of 09/30/09										
Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	STIP	Mtgs	Real Etsate		Total Assets
								Direct	Pool	
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
<b>TOTAL</b>	<b>37.0%</b>	<b>17.9%</b>	<b>11.0%</b>	<b>65.9%</b>	<b>27.3%</b>	<b>1.6%</b>	<b>0.6%</b>	<b>0.3%</b>	<b>4.3%</b>	<b>6,537,111,997</b>
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 12/31/09										
Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	STIP	Mtgs	Real Etsate		Total Assets
								Direct	Pool	
PUBLIC EMPLOYEES	37.2%	17.9%	11.6%	66.7%	26.6%	1.4%	0.6%	0.3%	4.4%	3,399,952,130
TEACHERS	37.3%	18.0%	11.7%	67.0%	26.6%	0.9%	0.7%	0.3%	4.5%	2,569,166,531
POLICE	37.0%	17.9%	11.6%	66.5%	27.0%	2.1%			4.4%	182,865,705
SHERIFFS	37.1%	17.7%	11.6%	66.3%	27.0%	2.4%			4.4%	174,478,359
FIREFIGHTERS	37.2%	18.1%	11.7%	67.0%	27.2%	1.3%			4.4%	178,687,608
HIGHWAY PATROL	37.3%	17.9%	11.6%	66.8%	27.3%	1.5%			4.4%	84,722,236
GAME WARDENS	37.1%	17.4%	11.4%	66.0%	26.6%	3.1%			4.4%	73,085,786
JUDGES	37.3%	17.7%	11.6%	66.5%	27.1%	2.0%			4.4%	53,313,606
VOL FIREFIGHTERS	38.0%	17.6%	11.6%	67.2%	27.4%	1.1%			4.3%	22,381,221
<b>TOTAL</b>	<b>37.2%</b>	<b>17.9%</b>	<b>11.6%</b>	<b>66.8%</b>	<b>26.6%</b>	<b>1.3%</b>	<b>0.6%</b>	<b>0.3%</b>	<b>4.4%</b>	<b>6,738,653,183</b>
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

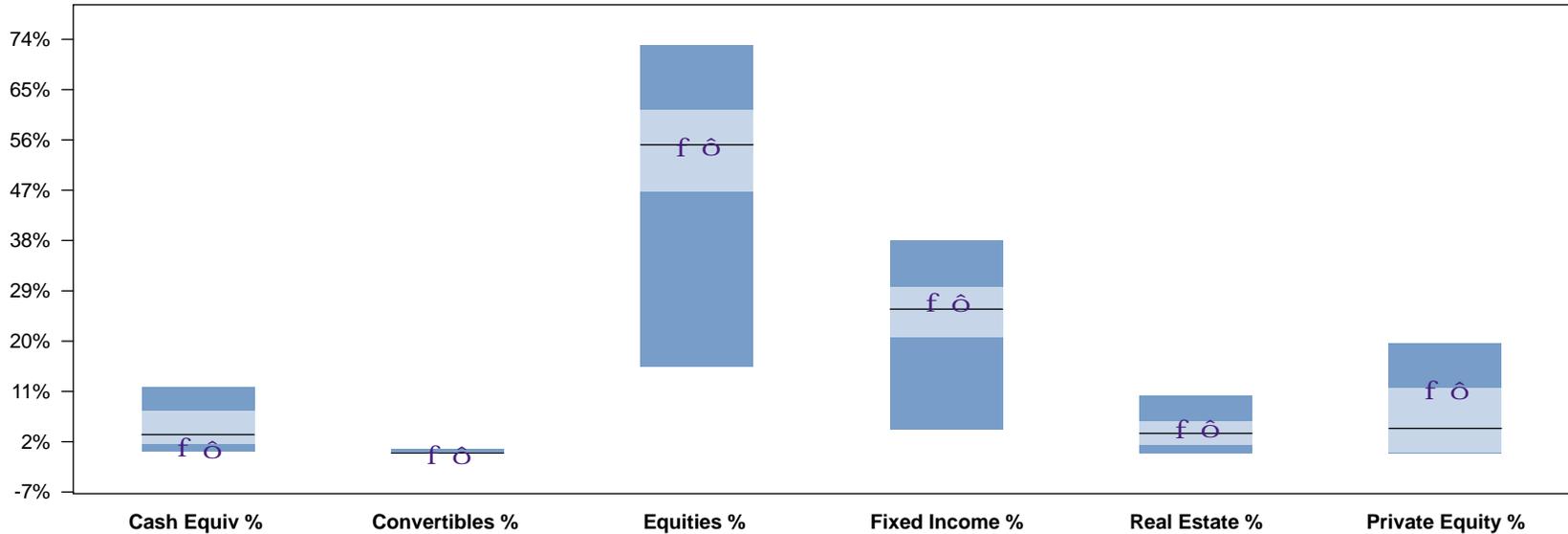
Change From Last Quarter										
Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	STIP	Mtgs	Real Estate		Total Assets
								Direct	Pool	
PUBLIC EMPLOYEES	0.1%	0.0%	0.6%	0.7%	-0.8%	0.1%	-0.1%	0.0%	0.1%	104,704,080
TEACHERS	0.1%	0.0%	0.6%	0.8%	-0.7%	-0.1%	-0.1%	0.0%	0.1%	70,226,343
POLICE	2.0%	0.9%	1.1%	4.0%	0.3%	-4.7%			0.3%	6,412,996
SHERIFFS	0.2%	0.1%	0.6%	0.8%	-1.1%	0.2%			0.1%	6,803,896
FIREFIGHTERS	2.2%	1.1%	1.3%	4.6%	0.6%	-5.5%			0.3%	4,827,159
HIGHWAY PATROL	0.2%	-0.1%	0.6%	0.6%	-0.9%	0.2%			0.1%	2,691,681
GAME WARDENS	0.2%	-0.1%	0.5%	0.7%	-1.0%	0.2%			0.1%	3,721,896
JUDGES	0.3%	0.0%	0.6%	0.9%	-0.9%	0.0%			0.1%	1,831,989
VOL FIREFIGHTERS	1.1%	0.3%	0.8%	2.2%	0.2%	-2.5%			0.1%	321,145
<b>TOTAL</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.6%</b>	<b>0.9%</b>	<b>-0.7%</b>	<b>-0.3%</b>	<b>-0.1%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>201,541,186</b>

Allocations During Quarter						
MDEP	MTIP	MPEP	Total Equity	RFBP	Real Estate	
(\$53,810,000)	\$2,625,000	\$13,000,000	(\$38,185,000)	\$5,000,000	\$37,550,000	
Net New Investments for Quarter					→	<b>\$4,365,000</b>

**Montana Board of Investments**  
 PUBLIC FUNDS (DB) > \$1 BILLION(SSE)  
 PERIOD ENDING December 31, 2009



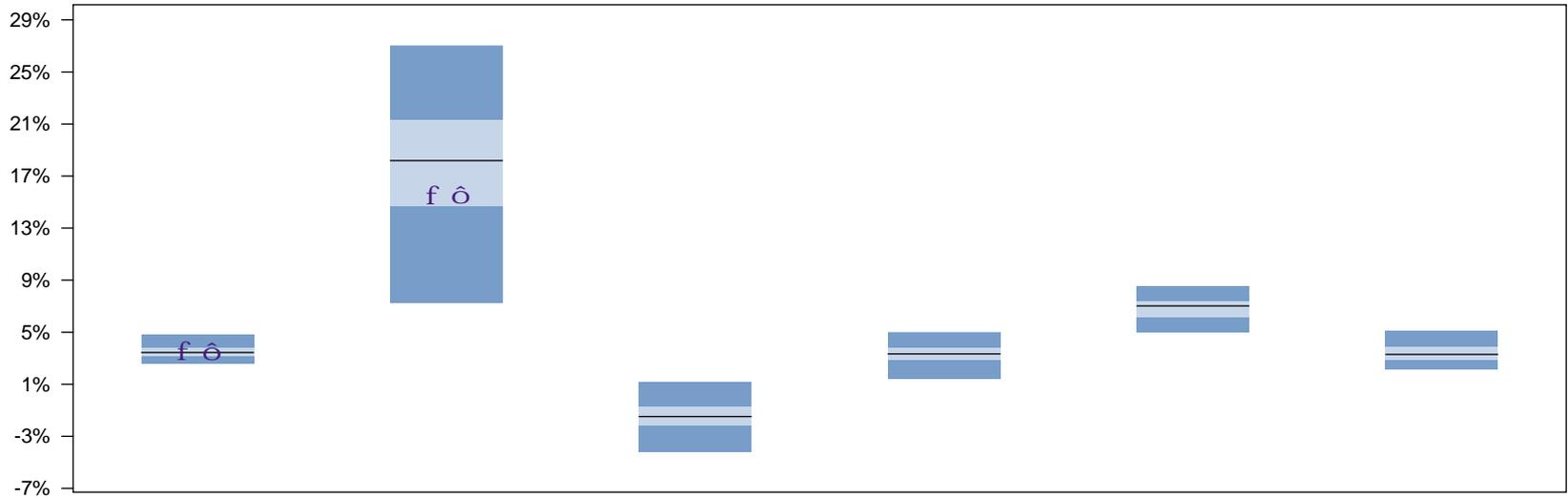
**ALLOCATION**



	Cash Equiv %		Convertibles %		Equities %		Fixed Income %		Real Estate %		Private Equity %	
5th Percentile	11.80		0.68		72.88		38.07		10.22		19.61	
25th Percentile	7.61		0.09		61.36		29.80		5.70		11.61	
50th Percentile	3.28		0.00		55.13		25.71		3.51		4.39	
75th Percentile	1.45		0.00		46.69		20.68		1.44		0.02	
95th Percentile	0.23		0.00		15.47		4.27		0.00		0.00	
No. of Obs	51		52		54		54		55		53	
f PUBLIC EMPLOYEES RET	1.39	77	0.00	50	55.06	51	27.25	42	4.69	36	11.61	25
o TEACHERS RETIREMENT	0.95	87	0.00	50	55.28	48	27.33	39	4.78	33	11.67	21

**Montana Board of Investments**

PUBLIC FUNDS (DB) > \$1 BILLION (SSE) - MBOI PERS - TRS UNIVERSE  
 PERIOD ENDING December 31, 2009



	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	54	54	50	51	49	46
5th Percentile	4.76	27.04	1.16	4.99	8.50	5.12
25th Percentile	3.81	21.35	-0.67	3.85	7.38	3.90
50th Percentile	3.44	18.19	-1.48	3.33	7.02	3.29
75th Percentile	3.09	14.63	-2.19	2.82	6.16	2.84
95th Percentile	2.57	7.22	-4.17	1.41	5.02	2.16
f MU68 - PUBLIC EMPLOYEES	3.70	33	15.72	66		
o MU74 - TEACHERS RETIREM	3.72	30	15.73	62		

# FIXED INCOME OVERVIEW & STRATEGY

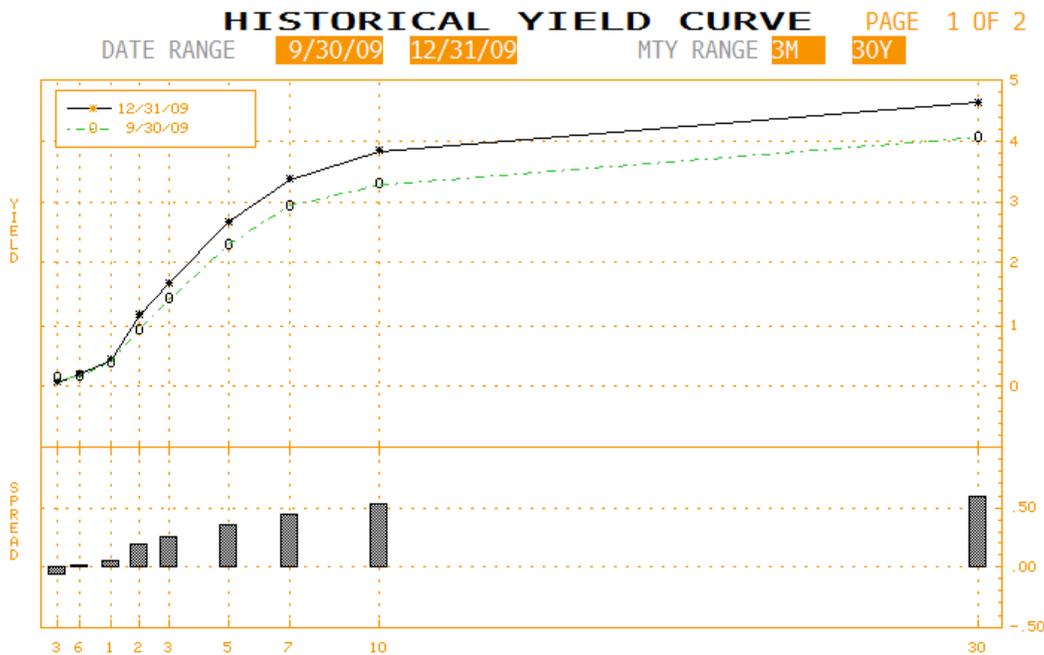
Nathan Sax, CFA, Portfolio Manager

February 9, 2010

## RETIREMENT & TRUST FUNDS BOND POOLS

The yield curve steepened in the fourth quarter as interest rates rose. The difference in yield between the U.S. Treasury 2-year and 10-year notes was 235 basis points on September 30, 2009 and rose to 270 basis points by year end. The yield on the 2-year note increased from 0.95% to 1.14%. The yield to maturity on the Treasury 10-year bond went from 3.30% to 3.84%. A steeper yield curve may signal expectations for higher inflation, faster economic growth and/or a greater supply of debt flooding the market. The front end of the curve remains anchored near zero.

The Federal Reserve still plans to end its quantitative easing program on March 31, 2010. The central bank has been supporting the Treasury, Agency and mortgage pass-through sectors with outright purchases. The largest Government purchases have been in the mortgage market (\$1.25 trillion) as the Fed has sought to keep mortgage lending rates down in support of the housing market. Quantitative easing gave the Fed the ability to loosen monetary policy above and beyond a Federal Funds rate of zero. The Fed will stand ready to provide additional support should the bond market have an adverse reaction to the cessation of government purchases.



Treasury bonds posted a total return of -1.30% for the fourth quarter and -3.57% for the year; easily the poorest performing sector in the bond universe. Other Government related bonds posted -0.19% for the quarter and +2.48% for the year. Mortgage backed securities returned +0.55% in the final quarter and +5.75% for all of 2009. Corporate bonds were +1.35% in the fourth quarter and were +18.68% for the calendar year. The theme in 2009 was heavy investor demand for risk securities. This was in sharp contrast to the “flight to quality” we saw in 2008, when Treasury bonds outperformed the spread sectors.

Institutional investors flocked to corporate and High Yield bonds as well as commercial mortgage backed and asset backed securities. This boosted portfolio yields and replaced low yielding cash and Treasury bonds. The combination of efforts by the Fed and the U.S. Treasury to restore liquidity to the once frozen capital markets finally showed results. The securitization of new debt has begun with limited issuance of high quality asset backed and commercial mortgage backed securities. Volume, however, has been low in comparison with pre-crisis activity. Please note the addition of Neuberger Berman to the following table of portfolio assets. Neuberger is the most recent manager to be funded within the Retirement Fund Bond Pool. The funding date of the account was mid-December. They are a high yield manager and were selected along with Post Advisors to represent that asset class.

RFBP/TFBP vs. Barclays Aggregate – 12/31/09

	Retirement Fund Bond Pool								
	CIBP	Reams	Artio	Post	Neubgr Berman	Total RFBP	Trust Fund Bond Pool	Barclays Aggregate	CIBP/TFBP Policy Range
Treasuries	15.63	48.49	6.84	0.00	0.00	18.26	16.56	27.65	10-35
Agencies & Govt Related	13.24	9.34	26.35	0.00	0.00	12.74	13.17	13.21	5-25
<b>Total Government</b>	<b>28.87</b>	<b>57.83</b>	<b>33.19</b>	<b>0.00</b>	<b>0.00</b>	<b>31.00</b>	<b>29.73</b>	<b>40.86</b>	<b>15-60</b>
Mortgage Backed	29.58	9.60	13.00	0.00	0.00	24.31	29.86	36.78	20-50
Asset Backed	1.55	7.73	5.03	0.00	0.27	2.44	1.18	0.36	0-10
CMBS	5.45	3.17	10.11	0.00	0.00	5.12	5.67	3.19	0-10
<b>Total Securitized</b>	<b>36.59</b>	<b>20.50</b>	<b>28.14</b>	<b>0.00</b>	<b>0.27</b>	<b>31.87</b>	<b>36.71</b>	<b>40.33</b>	<b>20-75</b>
Financial	13.01	7.48	8.44	1.78	10.06	11.61	12.66	6.71	
Industrial	12.83	5.10	19.88	90.80	77.52	16.60	13.27	9.94	
Utility	3.68	2.57	1.45	4.93	8.04	3.58	3.40	2.16	
<b>Total Corporate</b>	<b>29.52</b>	<b>15.15</b>	<b>29.77</b>	<b>97.51</b>	<b>95.62</b>	<b>31.79</b>	<b>29.33</b>	<b>18.81</b>	<b>10-35</b>
Other	2.82	0.07	0.11	0.32	0.00	2.15	0.89	0.00	
Cash	2.20	6.45	8.80	2.18	4.11	3.18	3.34	0.00	0-10
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

The Benchmark Comparison Analysis tables on the following pages shows the duration of the bond pools and component accounts relative to the Barclays Capital Aggregate Bond Index. The duration of the internally-managed portfolios remains relatively neutral. We are easing out of intermediate term maturities and tilting towards the extremes in expectation of a flatter yield curve. Because Fed tightening could be delayed for six months or more, we will do this gradually. Narrowing yield spreads in corporate, mortgage and agency bonds have persuaded us to increase our investment in Treasury bonds and variable rate debt. The latter include adjustable rate mortgage securities (ARMS), corporate floating rate notes and variable rate agency notes.

In spite of narrowing yield spreads in the corporate and agency sectors, investors have continued to pare 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” faded substantially in 2009, although economic activity is still far from robust. Yields in the longer end of the curve rose because of growing expectations for inflation. Although inflation is not expected imminently, aggressive Fed easing has raised investor concerns regarding rising prices in the not too distant future.

Benchmark Comparison Analysis CIBP vs. Merrill US Broad Market Index on 12/31/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	96.01	4.70	5.02	5.38	4.50	3.66
Benchmark	103.49	4.68	4.49	3.60	4.27	0.54
Difference	-7.48	0.02	0.53	1.78	0.23	3.12

Benchmark Comparison Analysis Reams vs. Merrill US Broad Market Index on 12/31/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	84.70	2.86	3.99	4.71	5.23	2.43
Benchmark	103.49	4.68	4.49	3.60	4.27	0.54
Difference	-18.79	-1.82	-0.50	1.12	0.96	1.89

Benchmark Comparison Analysis Artio vs. Merrill US Broad Market Index on 12/31/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	104.47	4.57	4.42	2.82	4.52	-0.44
Benchmark	103.49	4.68	4.49	3.60	4.27	0.54
Difference	0.98	-0.11	-0.07	-0.78	0.25	-0.98

Benchmark Comparison Analysis Post vs. Merrill US HY Master II 2% Constrained Index on 12/31/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	100.10	8.31	8.28	8.39	3.56	5.92
Benchmark	95.47	8.29	9.19	9.16	4.28	6.38
Difference	4.63	0.02	-0.91	-0.77	-0.72	-0.46

Benchmark Comparison Analysis Neuberger vs. Merrill US HY Master II 2% Constrained Index on 12/31/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	93.19	7.89	8.44	9.25	4.58	6.35
Benchmark	95.47	8.29	9.19	9.16	4.28	6.38
Difference	-2.28	-0.40	-0.75	0.09	0.30	-0.03

Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 12/31/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	94.91	4.63	5.04	5.35	4.57	3.41
Benchmark	103.49	4.68	4.49	3.60	4.27	0.54
Difference	-8.58	-0.05	0.55	1.75	0.30	2.87

Benchmark Comparison Analysis TFBP vs. Merrill US Broad Market Index on 12/31/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	90.81	4.24	4.29	4.42	4.38	2.76
Benchmark	103.49	4.68	4.49	3.60	4.27	0.54
Difference	-12.68	-0.45	-0.20	0.83	0.10	2.22

### Summary

Consumers and businesses continue to repair their balance sheets. The former have reduced net balances on credit card debt for ten consecutive months and that trend is accelerating. Consumers are spending for necessities but favoring cash over credit. This deleveraging has been occurring at a time of lower valuations in retirement savings plans and diminishing house values. The fear of declining job security is another factor driving frugality among American consumers. This sea change in consumer behavior compared to the recent past will contribute to deflationary pressures. Although easier fiscal and monetary policy does promote inflation, it may not be enough to offset the secular trends of deleveraging falling property values in the commercial and residential real estate markets. Therefore, interest rates could remain low for an extended period.

We are still wary of bank failures, sovereign defaults, foreclosures, bankruptcies and defaults as we move through 2010. Creditors are in a stronger position as companies forego stock repurchases and pay down debt. Without better top line growth, however, their financial flexibility may be restricted. Credit conditions in the corporate sector have improved but we are less confident that the Treasury, Agency and mortgage sectors will function efficiently once quantitative easing has ended.

## Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager

January 28, 2010

During the past year, money market investors have seen the supply of investable product plummet mostly due to the deleveraging of financial institutions and a general decrease in their reliance on short term funding. Over the past two years, the supply of money market product maturing in one year or less has declined by 25%, and excluding T-bills is down closer to 36%. In dollars this represents a decline of almost \$2.4 trillion. Credit spreads remained tight during the quarter, as evidenced by the spread between three month Treasury bills and three month LIBOR rates (TED spread). This spread ended the fourth quarter at about 20 basis points, flat for the quarter.

TED Spread (12/31/08 – 12/31/09)



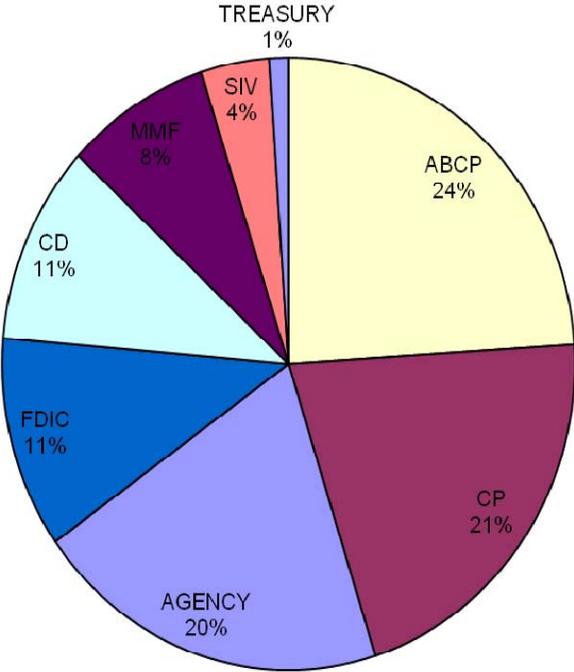
The STIP portfolio is currently well diversified and is operating within all the new guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of \$200 million and weekly liquidity is at a minimum of \$300 million. The weekly minimum was reduced from \$350 million in December in order to pick up additional yield. The average days to maturity are about 54 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is about 23% of holdings (40% max) and corporate exposure is around 22% (40% max). We currently have approximately 33% in agency/FDIC paper and 8% in four institutional money funds. These sector weights reflect an increase in exposure to slightly higher yielding securities during the quarter.

During the fourth quarter we purchased \$50 million of fixed rate Agencies and \$25 million of 13 month Treasuries. We also purchased \$15 million of corporate floating rate securities, \$40 million of fixed rate Yankee CDs and \$15 million of floating rate Yankee CDs. The portfolio yield has drifted towards the upper end of the fed funds target range as securities purchased over the past year have matured and been replaced at lower yields.

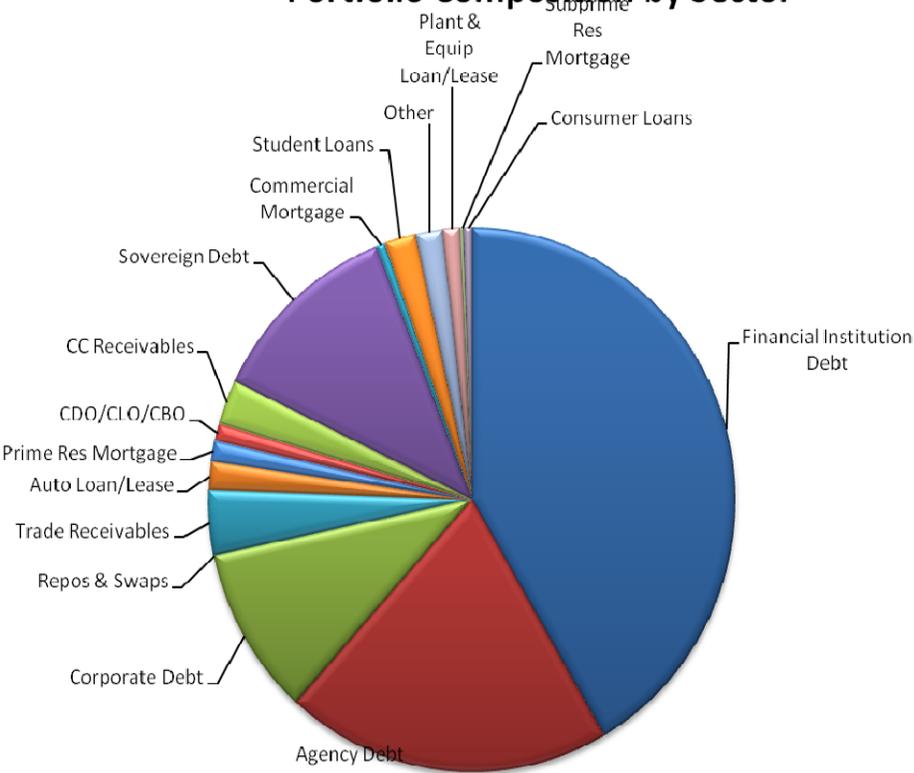
The net daily yield on STIP is currently 0.27% as compared with the current one month LIBOR rate of 0.23% and current fed funds target rate of 0.0%-0.25%. The portfolio is currently \$2.26 billion in assets, up approximately \$140 million during the quarter.

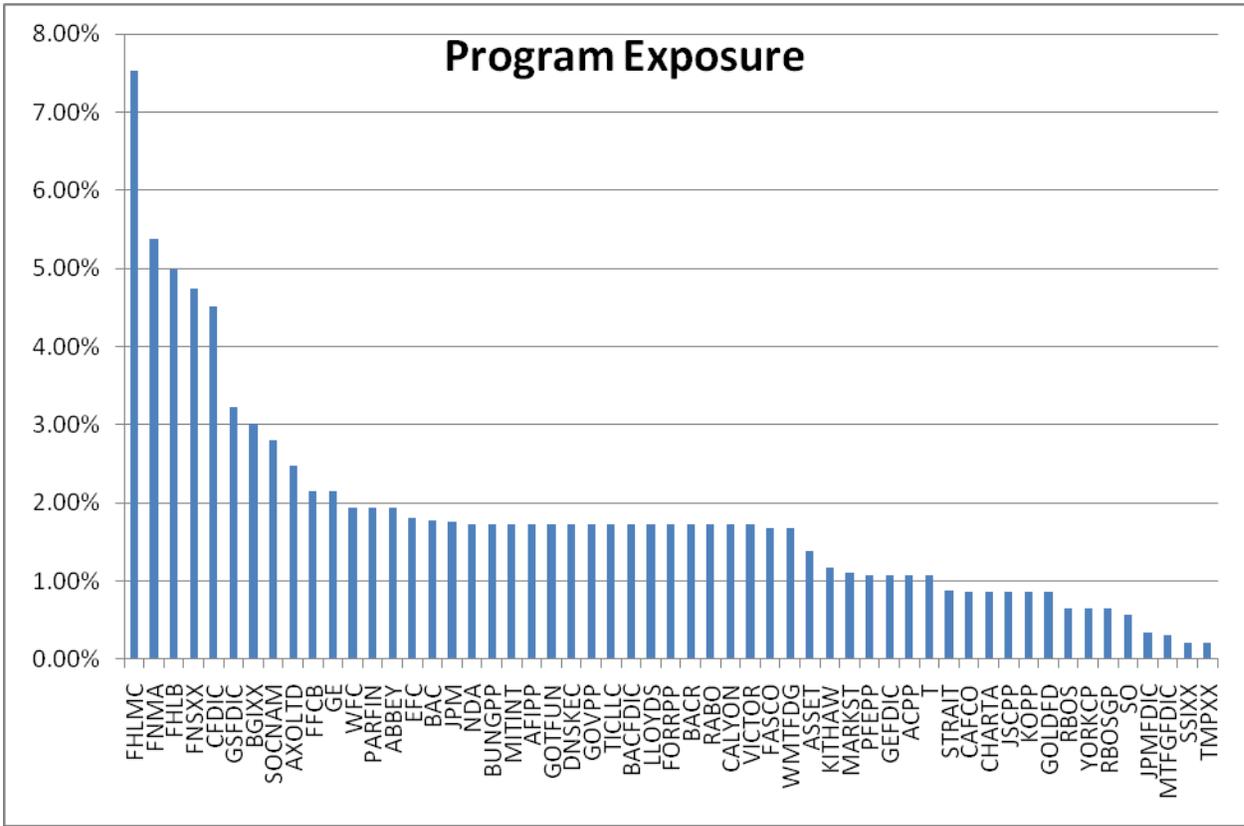
All charts below are as of January 26, 2010.

### Program Type Exposure



### Portfolio Composition by Sector





## State Fund Insurance

Richard Cooley, CFA, Portfolio Manager

January 28, 2010

During the quarter we reviewed the investment policy with the executive management at State Fund. Proposed changes to the policy will be discussed with the client over the next few weeks, with the intention of bringing a revised policy recommendation to the Board in May.

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 12/31/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	101.67	4.68	4.75	3.69	3.62	3.06
Benchmark	103.74	3.97	3.76	2.84	3.74	0.62
Difference	-2.07	0.71	0.99	0.85	-0.12	2.44

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. The portfolio is short duration versus the benchmark as interest rates are expected to rise in anticipation of the Fed withdrawing liquidity from the system. The strategy is also to increase the credit quality the portfolio by reducing corporate purchases and by increasing the government portion, if spreads continue to tighten.

Spread product ended the fourth quarter at tighter levels as compared to the end of the third quarter. MBS spreads tightened by 20 bp to 18 bp, agencies tightened by 3 bp to 30 bp and corporate spreads tightened by 46 bp to 172 bp. During the quarter, the ten year Treasury yield increased by 53bp from 3.31% to 3.84%.

The overweight in spread product (all non-Treasuries) has added substantial value during the past year as spreads tightened. The fixed income portion of the account outperformed the benchmark by 59 basis points during the December quarter and by 504 basis points over the past year. Longer term performance is +30 basis points for the past five years and +59 basis points for the past ten years (ended December 31).

During the December quarter, there were purchases of \$33 million including: \$8 million of corporate bonds, \$20 million of Treasuries and \$5 million of Agencies/TLGP. The Treasury and Agency purchases were in the three year and ten year part of the curve. There were no purchases of S&P 500 index units during the quarter.

The portfolio has an 85 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 18.3%, down from 19.9% at September 30).

State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 12/31/2009			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	13.32	48.12	-34.80
Agencies & Govt Related	30.66	22.38	8.28
<b>Total Government</b>	<b>43.98</b>	<b>70.50</b>	<b>-26.52</b>
Mortgage Backed	4.97	0.00	4.97
Asset Backed	0.00	0.00	0.00
CMBS	2.73	0.00	2.73
<b>Securitized</b>	<b>7.70</b>	<b>0.00</b>	<b>7.70</b>
Financial	24.27	11.51	12.76
Industrial	19.22	15.75	3.47
Utility	2.38	2.04	0.34
<b>Total Corporates</b>	<b>45.87</b>	<b>29.30</b>	<b>16.57</b>
Other	0.34	0.00	0.34
Cash	2.11	0.20	1.91
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

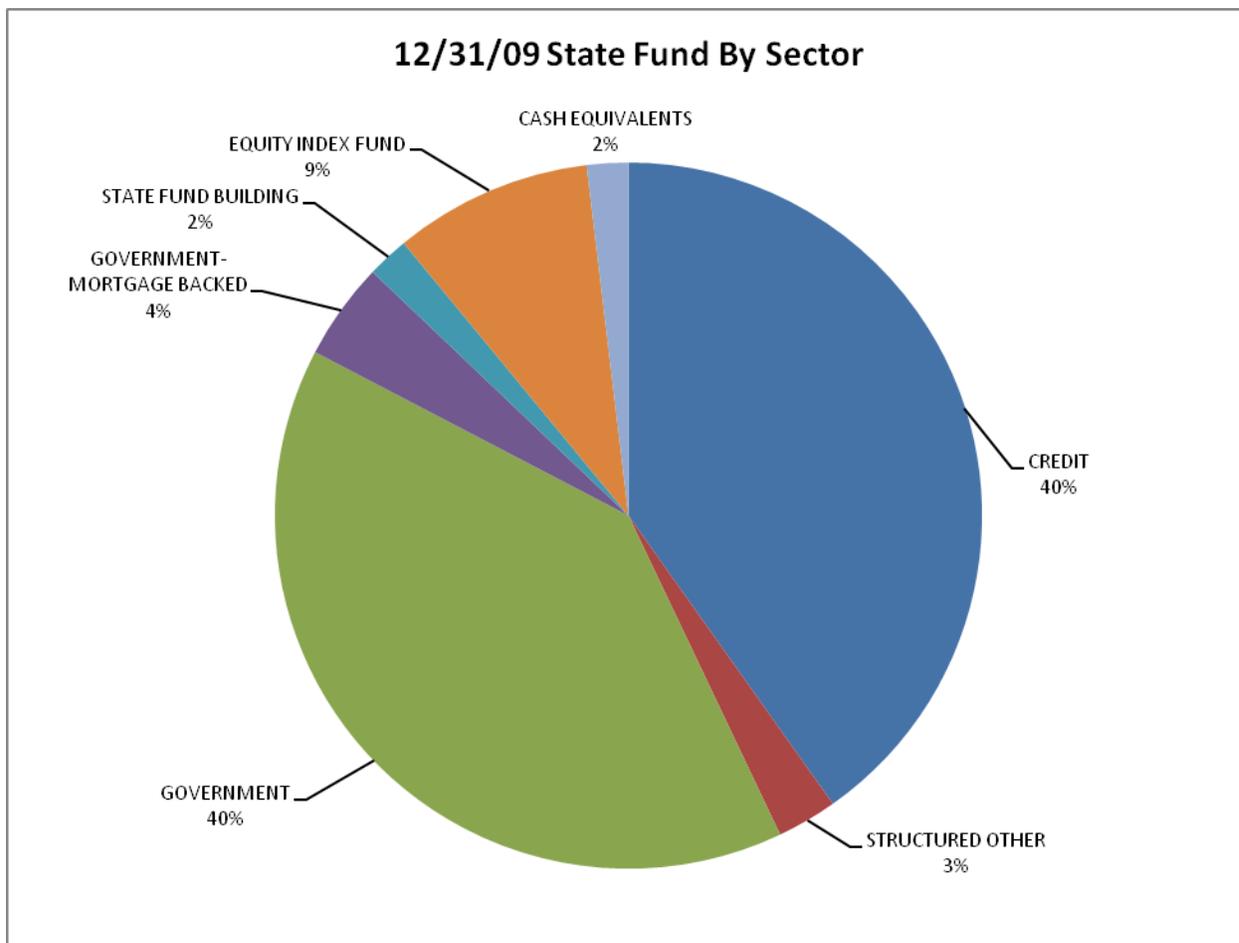
The following sector breakout is a look at the entire State Fund account including the State Fund building and the S&P 500 equity holdings. The policy range for equities is currently 8%-12%. This is a client preference as the maximum allowed by statute is 25% of book value. We have been adding to equity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

The last page is the monthly performance 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.

### 12/31/2009 State Fund By Sector

<u>Sector</u>	<u>Market Value</u>	<u>%</u>
<i>BANKS</i>	57,697,966	5.23%
<i>COMMUNICATIONS</i>	24,191,154	2.19%
<i>ENERGY</i>	30,080,054	2.73%
<i>GAS/PIPELINES</i>	5,847,505	0.53%
<i>INSURANCE</i>	48,786,879	4.42%
<i>OTHER FINANCE</i>	126,009,400	11.43%
<i>RETAIL</i>	5,263,948	0.48%
<i>TRANSPORTATION</i>	41,814,715	3.79%
<i>UTILITIES</i>	27,338,555	2.48%
<i>INDUSTRIAL</i>	76,008,215	6.89%

<b>CREDIT</b>	<b>443,038,391</b>	<b>40.18%</b>
<i>CDO</i>	3,400,000	0.31%
<i>CMBS</i>	26,983,777	2.45%
<b>STRUCTURED OTHER</b>	<b>30,383,777</b>	<b>2.76%</b>
<i>TITLE XI</i>	9,150,560	0.83%
<i>TREASURY NOTES/BONDS</i>	131,080,700	11.89%
<i>AGENCY</i>	297,661,573	27.00%
<b>GOVERNMENT</b>	<b>437,892,833</b>	<b>39.72%</b>
<i>FHLMC</i>	25,719,918	2.33%
<i>FNMA</i>	23,414,150	2.12%
<b>GOVERNMENT-MORTGAGE BACKED</b>	<b>49,134,069</b>	<b>4.45%</b>
<b>TOTAL FIXED INCOME</b>	<b>960,449,070</b>	<b>87.11%</b>
<i>REAL ESTATE</i>	21,053,389	1.91%
<b>STATE FUND BUILDING</b>	<b>21,053,389</b>	<b>1.91%</b>
<b>EQUITY INDEX FUND</b>	<b>100,218,873</b>	<b>9.09%</b>
<b>CASH EQUIVALENTS</b>	<b>20,904,814</b>	<b>1.90%</b>
<b>GRAND TOTAL</b>	<b>1,102,626,146</b>	<b>100.00%</b>



# MONTANA BOARD OF INVESTMENTS

## SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending December 31, 2009



STATE STREET

	MKT VAL \$(000)	ALLOC	MONTH	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
STATE FUND INSURANCE											
TOTAL	1,113,843	100.0	-0.73	1.31	6.87	11.36	4.89	4.65	6.03	6.02	12/01/1993
CASH EQUIVALENTS	20,910	1.9	0.03	0.08	0.19	0.67	4.51	4.40	3.80	4.44	
EQUITIES	100,219	9.0	1.96	6.07	22.60	26.81	-5.00	0.83		-0.15	01/01/2001
FIXED INCOME	992,715	89.1	-1.01	0.90	5.71	10.28	5.91	4.95	6.51	6.33	
STATE FUND INSURANCE CUSTOM COMPO			-1.14	0.78	4.94	6.80	3.58	3.60			
CITIGROUP 3 MONTH T-BILL			0.01	0.03	0.07	0.16	2.22	2.88	2.84		
S&P 500			1.93	6.04	22.59	26.46	-5.63	0.42	-0.95		
BC GOV/CREDIT INTERMEDIATE			-1.46	0.31	3.57	5.24	5.90	4.65	5.92		

**Treasurer's Fund**

Richard Cooley, CFA, Portfolio Manager

January 28, 2010

The fund totaled \$676 million as of December 31, 2009, consisting of approximately half general fund monies and the balance in various other state operating accounts. There were no additional purchases of securities in the fourth quarter.

**BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS**

**December 31, 2009**

**(in millions)**

	<u>Par</u>	<u>Book</u>	<u>Market</u>	<u>Price</u>	<u>Name</u>	<u>Coupon %</u>	<u>Maturity</u>	<u>Rating M/S&amp;P</u>	<u>Comments</u>
A	\$2.000	\$2.000	\$1.932	\$96.60	Wilmington Trust Corp	8.500	04/02/18	BA1/BB+	A subordinate note of the Baa3/BBB- parent; experienced stress from increased nonperforming assets and exposure to commercial real estate
A	\$5.000	\$5.000	\$4.938	\$98.75	American General Fin. Corp.	4.875	05/15/10	B2/BB+	Poor liquidity and weaken operating results are no longer offset by strong support from the parent (AIG)
A	\$13.200	\$13.175	\$11.055	\$83.75	American General Fin. Corp.	5.900	09/15/12	B2/BB+	
	\$5.000	\$5.006	\$4.756	\$95.12	Continental Airlines	6.563	02/15/12	Ba1/BB	Issued by AMBAC. Financial stress at AMBAC resulted in the downgrade of the bond.
	\$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.
	\$8.000	\$7.959	\$5.828	\$72.85	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 in 2009 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	\$50.903	\$101.81	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	\$1.975	\$19.75	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	\$5.000	\$0.978	\$0.963	\$19.25	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	<u>\$163.200</u>	<u>\$128.618</u>	<u>\$100.849</u>						
D	\$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
D	\$13.230	\$13.230	\$8.401	\$63.50	CIT Equipment Trust	6.490	01/05/21	Caa3/CCC-	Called at par 12/15/09
A = Additions since 9/30/2009									
D = Deletions since 9/30/2009									
<b><u>In default</u></b>									
	\$10.000	\$2.000	\$1.975	\$19.75	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	\$5.000	\$0.978	\$0.963	\$19.25	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	<u>\$15.000</u>	<u>\$2.978</u>	<u>\$2.938</u>						

## Montana Domestic Equity Pool

Rande Muffick, CFA, Portfolio Manager

February 9, 2010

<b>Domestic Stock Pool By Manager 12/31/2009</b>			
<u>Manager Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved Range</u>
BLACKROCK EQUITY INDEX FUND	483,603,828	19.34%	
STATE STREET SPIF ALT INV	31,775,037	1.27%	0-5%
<b>LARGE CAP CORE Total</b>	<b>515,378,865</b>	<b>20.61%</b>	10-30%
ENHANCED INVEST TECHNOLOGIES	153,356,727	6.13%	
T ROWE PRICE ASSOCIATES INC	251,771,872	10.07%	
WESTERN ASSET US INDX PLUS LLC	128,299,141	5.13%	
<b>LARGE CAP ENHANCED Total</b>	<b>1,048,806,604</b>	<b>21.33%</b>	20-30%
BARROW HANLEY MEWHINNEY + STRS	167,848,002	6.71%	
QUANTITATIVE MANAGEMENT ASSOC	106,846,386	4.27%	
<b>LARGE CAP VALUE Total</b>	<b>274,694,388</b>	<b>10.98%</b>	
COLUMBUS CIRCLE INVESTORS	121,400,937	4.85%	
RAINIER INVESTMENT MGMT INC	120,539,831	4.82%	
RENAISSANCE GROUP LLC	99,712,864	3.99%	
<b>LARGE CAP GROWTH Total</b>	<b>341,653,632</b>	<b>13.66%</b>	
<b>LARGE CAP STYLE BASED Total</b>	<b>616,348,020</b>	<b>24.64%</b>	20-30%
ANALYTIC INVESTORS	96,795,498	3.87%	
JP MORGAN ASSET MGMT	277,749,316	11.11%	
MARTINGALE ASSET MGMT	64,462,622	2.58%	
<b>PARTIAL LONG/SHORT (130-30) Total</b>	<b>439,007,437</b>	<b>17.55%</b>	10-20%
<b>COMBINED LARGE CAP Total</b>	<b>2,135,937,098</b>	<b>84.14%</b>	82-92%
ARTISAN MID CAP VALUE	87,285,819	3.49%	
BLACKROCK MIDCAP EQUITY INDEX FUND	19,578,348	0.78%	
MARTINGALE ASSET MGMT MID CAP	64,481,713	2.58%	
TIMESQUARE CAPITAL MGMT	84,843,385	3.39%	
<b>MID CAP Total</b>	<b>256,189,265</b>	<b>10.24%</b>	5-11%
DIMENSIONAL FUND ADVISORS INC	51,103,141	2.04%	
NORTHPOINTE CAPITAL SMALL CAP	33,305,458	1.33%	
VAUGHAN NELSON INV	56,163,992	2.25%	
<b>SMALL CAP Total</b>	<b>140,572,590</b>	<b>5.62%</b>	3-8%
<b>TOTAL MDEP</b>	<b>2,500,923,916</b>	<b>100.00%</b>	

The table above displays the Montana Domestic Equity Pool (MDEP) allocation at quarter end across market cap segments and manager styles. At this time, all weightings are within the approved ranges. There were no major changes in manager allocations during the quarter. However, the BlackRock Equity Index Fund was reduced by approximately \$50 million as a result of the rebalancing of the overall asset allocation for the pension funds.

The market rally continued in the fourth quarter albeit at a slower pace. MDEP ended the quarter \$80 million higher in market value and stood at \$2.5 billion. This balance reflects the market gains along with the effects of the net \$53.8 million which left the pool.

Performance across market capitalizations was largely balanced although large cap stocks did outperform mid cap stocks and small cap stocks. For the quarter, large caps returned 6.0% while mid caps returned 5.6% and small caps returned 5.1%. With that said, MDEP is overweight midcaps and small caps, so allocation by market cap detracted slightly from pool performance.

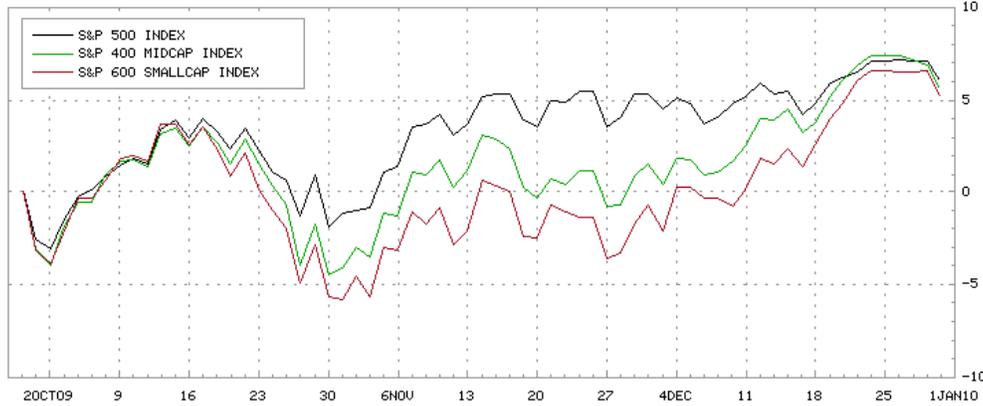
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**COMPARATIVE RETURNS**

Range **9/30/09** - **12/31/09** Period **D** Daily 92 Day Period

Securities	Crcny	Prc Appr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	5.49 %	6.04 %	.48 %	26.19 %
2 MID Index	USD	5.16 %	5.56 %		23.95 %
3 SML Index	USD	4.79 %	5.12 %	-.44 %	21.89 %

(\* = No dividends or coupons)



Looking at style performances, growth stocks bested value stocks for the quarter and the calendar year. The chart below shows that within the S&P 500 Index for the quarter, growth stocks returned 7.8% while value stocks returned 4.2%.

The outperformance by growth was also evident across each of the size segments in the domestic equity market. In other words growth beat value in each of the large, mid, and small capitalization categories. With that said, MDEP continues to carry a slight growth tilt.

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**COMPARATIVE RETURNS**

Range **9/30/09** - **12/31/09** Period **D** Daily 92 Day Period

Securities	Crcny	Prc Appr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	5.49 %	6.04 %	-1.73 %	26.19 %
2 SGX Index	USD	7.32 %	7.77 %		34.56 %
3 SVX Index	USD	3.55 %	4.22 %	-3.55 %	17.81 %

(\* = No dividends or coupons)



Volatility reached levels not seen since before the Lehman Brothers bankruptcy which marked the beginning of market declines that lasted until March. Expect this measure to pick up as the Fed removes its support from certain areas of the financial markets and 2010 becomes a “show me” year. Top line growth is necessary for further gains in the equity markets.

### Equity Volatility Index



Manager performance within MDEP was mixed for the quarter. The large cap enhanced managers outperformed as a whole along with the large cap value, partial long/short, and mid cap manager groupings. The large cap growth and small cap style buckets underperformed. Much of this reflects what we have seen in previous quarters where quantitative managers and fundamental growth managers have had the most difficulty. Overall MDEP outperformed the S&P 1500 Index by 34 basis points for the quarter and by 190 basis points for the calendar year.

Going forward MDEP is slightly overweight growth versus value and overweight mid cap and small caps at the expense of large caps.

**DOMESTIC EXPOSURE-MARKET CAP %**

December 31, 2009

MANAGERS	MEGA \$200B+	GIANT \$100-\$200B	LARGE			MID \$2.5-\$10B	SMALL \$500MM-\$2.5B	MICRO < \$500MM	WTD AVG MARKET CAP (\$B)
			\$50-\$100B	\$20-\$50B	\$10-\$20B				
Analytic Investors, Inc	7.1	16.4	12.3	26.5	26.9	12.7	-3.9	-0.1	70.2
Artisan Partners	--	--	--	3.4	18.9	65.2	12.6	--	6.8
Barrow Hanley	1.3	15.3	4.8	24.5	21.2	30.0	2.3	0.7	43.9
Columbus Circle Investors	--	19.7	9.8	27.4	26.7	16.4	--	--	52.6
Dimensional Fund Advisors	--	--	--	--	--	0.1	66.4	33.5	0.8
INTECH Investment Management	7.4	24.9	8.3	19.5	15.1	23.6	1.2	--	76.5
J.P. Morgan	7.7	31.1	19.3	20.7	15.7	4.2	--	--	92.7
Martingale Asset Mgmt	--	--	--	--	8.5	69.8	21.7	--	5.0
Martingale Enhanced Alpha	8.2	28.4	9.2	21.7	13.3	14.3	3.1	--	84.2
NorthPointe Cap	--	--	--	--	--	4.7	47.8	47.5	0.9
Quantitative Management	5.0	24.0	8.1	20.8	15.0	24.8	2.2	--	69.4
Rainier Investment Mgt	3.1	14.9	16.9	31.0	22.7	11.3	--	--	58.1
Renaissance Investment Mgt	1.8	15.7	12.4	30.7	12.7	25.0	1.5	--	50.5
T. Rowe Associates	7.5	26.7	12.4	23.9	15.1	14.1	0.3	--	82.4
TimesSquare Cap Mgmt	--	--	--	4.9	27.9	62.5	4.6	--	8.5
Vaughan Nelson Mgmt	--	--	--	--	--	27.7	68.9	3.3	2.1
Western Asset US Index Plus	6.8	26.8	11.7	25.6	14.4	14.1	0.6	--	80.5
Blackrock Equity Index Fund	6.7	26.6	11.7	25.5	14.3	14.0	0.6	--	80.5
Blackrock Midcap Equity Index Fund	--	--	--	--	--	59.7	38.7	0.2	3.0
<b>ALL DOMESTIC EQUITY PORTFOLIOS</b>	<b>4.8</b>	<b>20.3</b>	<b>10.1</b>	<b>21.0</b>	<b>16.0</b>	<b>20.5</b>	<b>5.4</b>	<b>1.4</b>	<b>63.1</b>
<b>Benchmark: S&amp;P Composite 1500</b>	<b>6.0</b>	<b>23.7</b>	<b>10.4</b>	<b>22.6</b>	<b>12.7</b>	<b>17.4</b>	<b>6.6</b>	<b>0.7</b>	<b>71.5</b>
<b>Over/underweight(-)</b>	<b>-1.2</b>	<b>-3.3</b>	<b>-0.3</b>	<b>-1.7</b>	<b>3.3</b>	<b>3.1</b>	<b>-1.1</b>	<b>0.8</b>	

**DOMESTIC EXPOSURE-SECTOR %**

December 31, 2009

**MANAGERS**

Analytic Investors, Inc  
 Artisan Partners  
 Barrow Hanley  
 Columbus Circle Investors  
 Dimensional Fund Advisors  
 INTECH Investment Management  
 J.P. Morgan  
 Martingale Asset Mgmt  
 Martingale Enhanced Alpha  
 NorthPointe Cap  
 Quantitative Management  
 Rainier Investment Mgt  
 Renaissance Investment Mgt  
 T. Rowe Associates  
 TimesSquare Cap Mgmt  
 Vaughan Nelson Mgmt  
 Western Asset US Index Plus  
 Blackrock Equity Index Fund  
 Blackrock Midcap Equity Index Fund

Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
9.7	9.6	11.8	15.1	13.5	7.1	21.2	2.5	4.2	3.1
13.4	7.3	7.8	17.7	6.7	22.8	18.4	--	--	6.0
7.7	6.6	9.5	22.7	14.7	17.1	11.5	1.3	1.9	6.9
22.5	8.4	1.6	13.3	12.2	2.2	34.7	5.3	--	--
14.9	4.8	4.5	13.2	14.3	18.6	20.7	4.8	0.9	3.3
12.4	9.7	11.7	13.4	11.0	8.1	21.7	3.4	4.3	4.3
9.1	9.6	11.9	14.8	11.7	7.6	24.6	3.6	3.2	2.7
15.1	6.7	4.8	14.5	7.2	13.7	19.4	8.8	1.5	8.2
14.7	12.4	9.9	10.2	11.0	9.5	21.4	4.0	2.1	3.2
10.4	3.1	6.9	2.0	28.2	13.9	34.4	1.0	--	--
11.9	4.7	17.0	17.3	12.3	12.7	4.1	5.4	6.1	8.5
13.2	8.7	4.7	7.5	14.0	11.5	32.9	4.4	1.7	1.2
23.0	5.6	7.4	5.2	14.3	10.5	32.5	1.6	--	--
9.9	11.2	12.2	14.1	12.8	10.4	19.8	3.2	3.0	3.3
13.9	2.9	6.5	9.9	15.7	16.7	25.6	3.6	5.2	--
14.2	1.4	7.6	25.9	6.0	19.6	14.2	9.3	1.9	--
9.6	11.4	11.5	14.4	12.6	10.2	19.9	3.6	3.2	3.7
9.5	11.3	11.4	14.3	12.6	10.2	19.7	3.6	3.1	3.7
14.1	3.9	6.7	18.9	12.0	14.4	15.0	6.1	0.8	6.6

**All Domestic Equity Portfolios****Benchmark: S&P Composite 1500****Over/underweight(-)**

<b>11.8</b>	<b>8.8</b>	<b>9.9</b>	<b>14.2</b>	<b>12.5</b>	<b>11.1</b>	<b>21.4</b>	<b>3.6</b>	<b>2.7</b>	<b>3.5</b>
<b>10.2</b>	<b>10.5</b>	<b>10.9</b>	<b>14.9</b>	<b>12.6</b>	<b>10.8</b>	<b>19.4</b>	<b>3.9</b>	<b>2.9</b>	<b>3.9</b>
<b>1.7</b>	<b>-1.7</b>	<b>-1.0</b>	<b>-0.7</b>	<b>-0.1</b>	<b>0.3</b>	<b>2.0</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.5</b>

**DOMESTIC PORTFOLIO CHARACTERISTICS**

December 31, 2009

<b>MANAGERS</b>	<b>Market Value (mm)</b>	<b>Number of Securities</b>	<b>3Yr Historical EPS Growth</b>	<b>Price/Earnings</b>	<b>Price/Book</b>	<b>Dividend Yield</b>
Analytic Investors, Inc	99.0	228	18.0	15.8	2.2	2.1
Artisan Partners	87.4	59	6.4	16.9	1.8	1.8
Barrow Hanley	168.0	89	5.2	16.6	1.6	2.6
Columbus Circle Investors	121.5	51	5.5	24.3	2.7	0.6
Dimensional Fund Advisors	51.1	2,842	10.6	17.8	1.6	1.0
INTECH Investment Management	153.5	419	9.7	17.8	2.2	1.9
J.P. Morgan	280.6	260	10.2	17.8	2.2	1.9
Martingale Asset Mgmt	64.6	133	12.9	15.4	1.8	1.5
Martingale Enhanced Alpha	65.6	246	11.5	14.3	2.0	2.1
NorthPointe Cap	32.8	69	17.7	18.2	1.9	0.3
Quantitative Management	107.0	148	1.4	15.3	1.6	2.6
Rainier Investment Mgt	120.7	79	17.0	22.7	3.2	0.9
Renaissance Investment Mgt	99.8	55	17.9	17.6	3.4	1.2
T. Rowe Associates	251.9	302	9.7	18.1	2.3	1.9
TimesSquare Cap Mgmt	85.0	70	14.2	20.4	2.9	0.8
Vaughan Nelson Mgmt	56.0	81	20.8	17.9	1.6	1.4
Western Asset US Index Plus	128.3	500	8.9	18.0	2.2	2.0
Blackrock Equity Index Fund	483.6	502	8.9	18.0	2.2	2.0
Blackrock Midcap Equity Index Fund	19.6	402	13.2	19.9	1.9	1.5
<b>All Domestic Equity Portfolios</b>	<b>2,508.0</b>	<b>3,728</b>	<b>10.3</b>	<b>17.9</b>	<b>2.1</b>	<b>1.8</b>

**BENCHMARKS**

<b>S&amp;P Composite 1500</b>	<b>1,500</b>	<b>9.4</b>	<b>18.2</b>	<b>2.1</b>	<b>2.0</b>
S&P/Citigroup 1500 Pure Growth	367	23.2	21.4	2.6	0.5
S&P/Citigroup 1500 Pure Value	328	1.4	12.9	0.9	1.8
S&P 500	500	8.9	18.0	2.2	2.0
Russell 1000	965	9.9	18.0	2.2	2.0
Russell 1000 Growth	623	14.9	19.6	3.5	1.5
Russell 1000 Value	679	4.2	16.4	1.5	2.4
Russell Midcap	773	11.8	18.6	1.9	1.6
Russell Midcap Growth	492	14.6	20.7	3.0	1.0
Russell Midcap Value	553	8.8	16.6	1.4	2.2
Russell 2000	2,007	12.0	16.0	0.1	1.4
Russell 2000 Growth	1,275	19.6	16.6	0.0	0.5
Russell 2000 Value	1,393	5.2	15.4	0.1	2.2

## Montana International Stock Pool

Rande Muffick, CFA, Portfolio Manager

February 9, 2010

<b>International Stock Pool By Manager 12/31/2009</b>			
<b>Manager Name</b>	<b>Market Value</b>	<b>%</b>	<b>Approved Range</b>
ARTIO GLOBAL MUIG	112,532,721	9.30%	
BATTERYMARCH INTL EQUITY	109,292,201	9.03%	
BLACKROCK GLOBAL EX US ALPHA TILT FD	97,939,329	8.09%	
BLACKROCK ACWI EX US SUPERFUND A	394,948,610	32.64%	
EAFE STOCK PERFORMANCE INDEX	24,546,468	2.03%	0-10%
<b>CORE Total</b>	<b>739,259,329</b>	<b>61.09%</b>	<b>50-70%</b>
ACADIAN ACWI EX US VALUE	83,105,201	6.87%	
BERNSTEIN ACWI EX US	107,729,865	8.90%	
<b>VALUE Total</b>	<b>190,835,066</b>	<b>15.77%</b>	<b>10-20%</b>
HANSBERGER INTL EQUITY GROWTH	100,330,305	8.29%	
MARTIN CURRIE ACWI X-US	95,573,551	7.90%	
PRINCIPAL GLOBAL	158,867	0.01%	
<b>GROWTH Total</b>	<b>196,062,723</b>	<b>16.20%</b>	<b>10-20%</b>
NOMURA ASSET MGMT INC	149,769	0.01%	
<b>REGIONAL Total</b>	<b>149,769</b>	<b>0.01%</b>	
AXA ROSENBERG INTL SMALL CAP	36,065,893	2.98%	
DFA INTL SMALL CO PORTFOLIO	47,705,325	3.94%	
<b>SMALL CAP Total</b>	<b>83,771,218</b>	<b>6.92%</b>	<b>5-15%</b>
<b>TOTAL MTIP</b>	<b>1,210,078,104</b>	<b>100.00%</b>	

The table above shows the quarter end allocation within the Montana International Equity Pool (MTIP). There were no major allocation changes among managers during the quarter. The approved ranges reflect the changes made to the investment policy in November.

The value of the pool has continued to rise along with international markets in general. At the end of December MTIP carried a market value of \$1.2 billion. The pool has gained \$429 million since the end of last March, owing much of this rebound to the performance of emerging markets.

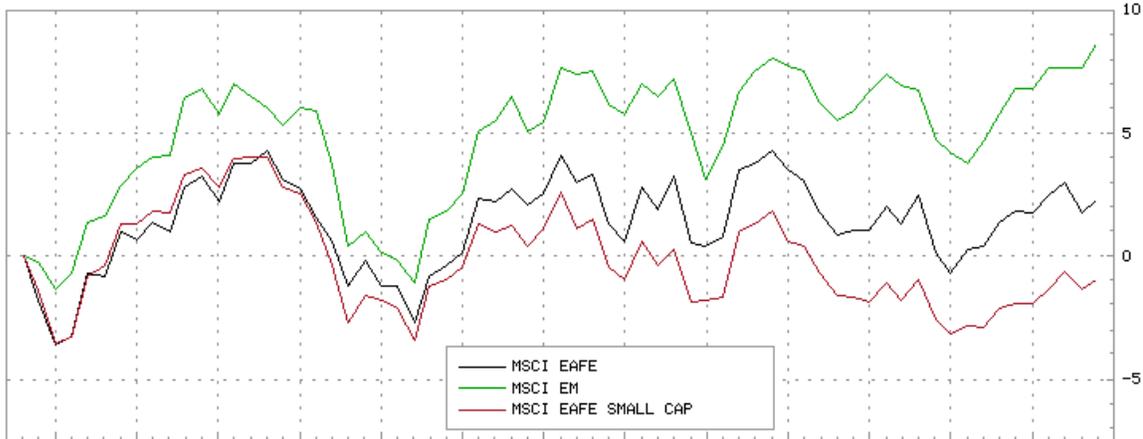
Emerging markets returned 8.9% in the quarter alone, far and away outdistancing large cap stocks and small stocks in developed markets. For the quarter, developed large caps returned 2.3% and developed small caps actually lost -0.9%. For the year, EM stocks returned 68.9%. MTIP is slightly underweight its benchmark in EM at 21.8% versus 22.3%. With respect to market capitalization, the pool is slightly underweight small caps at 7.2% compared to 7.5% for the custom benchmark.

## COMPARATIVE RETURNS

Range **9/30/09** - **12/31/09**    Period **D** Daily    92 Day Period

Securities	Crcncy	Prc Appr	Total Ret	Difference	Annual Eq
1 MXEA Index	USD	1.80 %	2.25 %	-6.32 %	9.25 %
2 MXEF Index	USD	8.25 %	8.57 %		38.58 %
3 MXEASC Index	USD	-1.27 %	-.94 %	-9.51 %	-3.67 %

(\* = No dividends or coupons)



Similar to the domestic market, growth stocks outperformed value stocks in the quarter. The ACWI ex US Growth Index returned 5.3% in the quarter while the ACWI ex US Value Index returned 2.3%. Style performance for the year was contrary to the US market as the international value index returned 44.3% compared to the international growth index at 38.7%. With that said MTIP continues to carry an equal weighting between growth and value.

A closer to benchmark weight in emerging markets added value in the quarter. Recall that MTIP's weighting in EM is determined by the collective decisions of the individual managers within the pool. However, MTIP's underweight was reduced substantially through the repositioning of the pool last September.



**INTERNATIONAL EXPOSURE-MARKET CAP %**

December 31, 2009

Managers	MEGA	GIANT	LARGE			MID	SMALL	MICRO	WTD AVG MARKET CAP (\$B)
	\$200B+	\$100-\$200B	\$50-\$100B	\$20-\$50B	\$10-\$20B	\$2.5-\$10B	\$500MM-\$2.5B	< \$500MM	
Acadian Asset Management	--	15.7	16.2	13.6	13.2	23.9	11.2	6.2	40.1
Artio Global - Intl Equity II with look throughs	--	15.1	23.1	23.2	18.2	16.5	1.5	1.2	52.2
AXA Rosenberg	--	--	--	--	0.4	26.8	54.1	17.4	2.1
Batterymarch Financial Mgmt	--	13.5	14.3	11.9	18.9	38.0	3.2	--	37.0
Bernstein Inv Mgt & Research with look throughs	--	16.9	20.0	16.5	14.8	23.0	5.3	--	45.4
Blackrock Global Ex US Alpha Tilt Fd	--	15.7	19.8	20.2	14.1	23.3	6.2	0.2	45.9
DFA International Small Cap	--	--	--	--	--	13.8	60.4	25.6	1.3
Hansberger Global Investors	--	18.4	18.2	17.5	20.0	25.9	--	--	47.1
Martin Currie with look throughs	--	19.2	22.0	19.7	16.0	21.9	1.1	--	49.3
Blackrock ACWI Ex US Superfund A	--	15.2	21.0	21.7	16.1	22.4	3.0	0.1	46.5
<b>ALL INTERNATIONAL EQUITY PORTFOLIOS</b>	--	<b>14.3</b>	<b>17.8</b>	<b>17.0</b>	<b>14.4</b>	<b>22.5</b>	<b>6.9</b>	<b>2.0</b>	<b>42.7</b>
<b>International Custom Benchmark</b>	--	<b>15.1</b>	<b>20.9</b>	<b>21.6</b>	<b>16.0</b>	<b>22.4</b>	<b>3.7</b>	<b>0.3</b>	<b>46.1</b>
<b>Over/underweight(-)</b>	--	<b>-0.8</b>	<b>-3.2</b>	<b>-4.6</b>	<b>-1.5</b>	<b>0.1</b>	<b>3.2</b>	<b>1.8</b>	

**INTERNATIONAL EXPOSURE-SECTOR %**

December 31, 2009

**MANAGERS**

Acadian Asset Management  
 Artio Global - Intl Equity II with look throughs  
 AXA Rosenberg  
 Batterymarch Financial Mgmt  
 Bernstein Inv Mgt & Research with look through  
 Blackrock Global Ex US Alpha Tilt Fd  
 DFA International Small Cap  
 Hansberger Global Investors  
 Martin Currie with look throughs  
 Blackrock ACWI ex-US Superfund

	<b>Consumer Discretionary</b>	<b>Consumer Staples</b>	<b>Energy</b>	<b>Financials</b>	<b>Health Care</b>	<b>Industrials</b>	<b>Technology</b>	<b>Materials</b>	<b>Telecom. Services</b>	<b>Utilities</b>
Acadian Asset Management	8.6	1.7	14.8	31.7	7.1	11.8	9.4	6.3	4.3	4.4
Artio Global - Intl Equity II with look throughs	8.7	7.6	10.2	24.6	5.3	10.7	6.1	17.2	5.8	2.0
AXA Rosenberg	21.1	6.8	3.6	16.4	3.3	23.7	9.0	13.0	1.0	0.9
Batterymarch Financial Mgmt	7.4	6.8	8.6	26.7	6.2	11.0	7.0	15.9	5.8	4.6
Bernstein Inv Mgt & Research with look through	9.1	2.6	13.1	28.8	6.3	9.8	8.8	7.4	9.2	3.8
Blackrock Global Ex US Alpha Tilt Fd	9.6	7.5	10.3	24.8	6.9	9.7	5.6	13.9	6.2	5.0
DFA International Small Cap	17.9	6.5	5.8	13.2	5.9	25.6	9.5	12.6	0.8	1.9
Hansberger Global Investors	9.5	9.2	8.1	18.7	8.5	8.7	13.6	15.4	6.6	1.9
Martin Currie with look throughs	12.9	13.4	8.2	15.2	10.4	11.6	9.6	14.1	3.5	1.2
Blackrock ACWI ex-US Superfund	8.4	8.5	11.1	25.6	6.4	9.8	6.6	12.0	6.2	5.0
<b>All International Equity Portfolios</b>	<b>9.5</b>	<b>7.3</b>	<b>10.0</b>	<b>23.5</b>	<b>6.6</b>	<b>11.0</b>	<b>7.6</b>	<b>12.4</b>	<b>5.6</b>	<b>3.6</b>
<b>International Custom Benchmark</b>	<b>8.5</b>	<b>8.5</b>	<b>11.1</b>	<b>25.6</b>	<b>6.4</b>	<b>9.9</b>	<b>6.7</b>	<b>12.0</b>	<b>6.2</b>	<b>5.0</b>
<b>Over/underweight(-)</b>	<b>1.0</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-2.1</b>	<b>0.2</b>	<b>1.1</b>	<b>0.9</b>	<b>0.3</b>	<b>-0.6</b>	<b>-1.4</b>

**INTERNATIONAL PORTFOLIO CHARACTERISTICS**

December 31, 2009

	<b>Market Value</b>	<b>Number of Securities</b>	<b>3Yr Hist EPS Growth</b>	<b>Price/Earnings</b>	<b>Price/Book</b>	<b>Dividend Yield</b>
<b>International Accounts with look throughs</b>	<b>1,237.9</b>	<b>6,646</b>	<b>8.8</b>	<b>15.5</b>	<b>1.6</b>	<b>2.60</b>

**International Equity Managers**

Acadian Asset Management	83.1	310	7.2	13.9	1.2	2.78
Artio Global - Intl Equity II with look throughs	140.2	488	3.7	15.7	1.7	2.49
AXA Rosenberg	36.1	890	4.9	12.1	1.0	2.61
Batterymarch Financial Mgmt	110.2	241	8.5	15.0	1.7	2.73
Bernstein Inv Mgt & Research with look throughs	108.5	219	2.0	13.0	1.4	3.07
Blackrock Global Ex US Alpha Tilt Fd	97.8	1,864	6.1	15.7	1.7	2.75
DFA International Small Cap	47.8	4,236	12.2	15.5	1.3	2.19
Hansberger Global Investors	100.2	66	25.7	22.4	3.0	1.77
Martin Currie with look throughs	95.4	58	19.1	15.5	1.9	2.03
Blackrock ACWI ex-US Superfund	394.2	1,868	6.2	16.0	1.7	2.71

**Benchmarks**

MSCI All Country World Ex-United States		1,823	6.2	16.0	1.7	2.71
MSCI All Country World Ex-United States Growth		1,044	10.7	18.1	2.3	1.94
MSCI All Country World Ex-United States Value		1,070	1.2	14.3	1.4	3.50
MSCI EAFE Small Cap		2,256	13.7	14.7	1.2	2.33
MSCI World Ex-United States Small Cap		2,465	13.4	14.8	1.3	2.36
MSCI All Country Pacific		923	4.1	19.6	1.6	2.18
MSCI Europe		463	4.9	14.0	1.7	3.24
<b>International Custom Benchmark</b>		<b>6,097</b>	<b>6.2</b>	<b>16.0</b>	<b>1.7</b>	<b>2.71</b>

**INTERNATIONAL EQUITY**  
**Region and Market Exposure**  
December 31, 2009

Developed Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
<b>Asia/Pacific</b>	<b>21.8%</b>	<b>23.3%</b>	<b>-1.56%</b>				
Australia	5.2%	5.9%		5.3%	40.6%	79.2%	79.2%
Hong Kong	1.8%	1.6%		4.4%	19.8%	64.6%	64.6%
Japan	13.6%	14.6%		-3.6%	2.8%	6.1%	6.1%
New Zealand	0.1%	0.1%		1.8%	27.9%	47.2%	47.2%
Singapore	1.0%	1.1%		10.2%	32.8%	79.9%	79.9%
<b>European Union</b>	<b>27.7%</b>	<b>25.9%</b>	<b>1.80%</b>				
Austria	0.5%	0.2%		-6.7%	26.4%	62.6%	62.6%
Belgium	0.7%	0.7%		1.6%	30.9%	58.3%	58.3%
Denmark	0.9%	0.6%		-1.7%	18.3%	41.2%	41.2%
Finland	0.8%	0.8%		-2.2%	13.3%	19.7%	19.7%
France	7.8%	7.7%		1.8%	29.3%	33.0%	33.0%
Germany	6.4%	5.7%		2.2%	26.7%	27.2%	27.2%
Greece	0.3%	0.4%		-20.5%	2.4%	27.1%	27.1%
Ireland	0.2%	0.2%		-14.5%	14.5%	32.2%	32.2%
Italy	2.3%	2.4%		-2.8%	22.9%	26.8%	26.8%
Netherlands	3.0%	1.9%		3.7%	36.4%	44.6%	44.6%
Portugal	0.4%	0.2%		-0.6%	20.9%	41.7%	41.7%
Spain	2.9%	3.2%		0.8%	28.1%	43.1%	43.1%
Sweden	1.5%	1.8%		4.8%	33.1%	69.1%	69.1%
<b>Non-EU Europe</b>	<b>6.4%</b>	<b>6.0%</b>	<b>0.39%</b>				
Norway	0.9%	0.6%		15.1%	44.8%	97.0%	97.0%
Switzerland	5.4%	5.4%		3.4%	27.2%	25.8%	25.8%
<b>North America</b>	<b>6.1%</b>	<b>7.3%</b>	<b>-1.15%</b>				
Canada	6.1%	7.3%		6.2%	27.0%	60.3%	60.3%
USA	0.0%	0.0%		5.8%	22.9%	27.9%	27.9%
<b>United Kingdom</b>	<b>14.8%</b>	<b>15.2%</b>	<b>-0.40%</b>				
United Kingdom	14.8%	15.2%		6.4%	26.5%	45.7%	45.7%
<b>Other</b>							
Other	0.2%	0.0%					
<b>DEVELOPED TOTAL</b>	<b>77.0%</b>	<b>77.7%</b>	<b>-0.75%</b>				
<b>Emerging Market Countries</b>							
<b>Asia/Pacific</b>	<b>12.2%</b>	<b>12.6%</b>	<b>-0.34%</b>				
China	4.1%	4.0%		11.1%	20.1%	69.0%	69.0%
India	1.4%	1.7%		7.8%	30.1%	106.7%	106.7%
Indonesia	0.4%	0.4%		3.4%	40.4%	125.0%	125.0%
S. Korea	3.3%	2.9%		2.2%	35.0%	70.4%	70.4%
Malaysia	0.4%	0.6%		6.5%	22.3%	54.3%	54.3%
Philippines	0.1%	0.1%		9.3%	30.8%	75.4%	75.4%
Taiwan	2.2%	2.6%		9.7%	34.4%	88.7%	88.7%
Thailand	0.4%	0.3%		2.2%	25.5%	83.3%	83.3%
<b>European Union</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.03%</b>				
Czech Republic	0.1%	0.1%		-8.4%	15.4%	28.8%	28.8%
Hungary	0.2%	0.1%		3.1%	46.2%	76.8%	76.8%
Poland	0.2%	0.3%		10.7%	49.1%	44.3%	44.3%
<b>Non-EU Europe</b>	<b>1.4%</b>	<b>1.2%</b>	<b>0.12%</b>				
Russia	1.4%	1.2%		10.6%	40.9%	106.1%	106.1%
<b>Latin America/Caribbean</b>	<b>5.0%</b>	<b>5.3%</b>	<b>-0.30%</b>				
Brazil	3.6%	3.8%		13.6%	46.7%	134.9%	134.9%
Chile	0.4%	0.3%		15.1%	21.5%	87.4%	87.4%
Colombia	0.1%	0.1%		-0.2%	36.1%	88.0%	88.0%
Mexico	0.9%	1.0%		13.7%	34.9%	57.8%	57.8%
Peru	0.1%	0.1%		0.8%	44.0%	72.2%	72.2%
<b>Mid East/Africa</b>	<b>2.7%</b>	<b>2.7%</b>	<b>0.06%</b>				
Egypt	0.1%	0.1%		-9.0%	11.2%	37.2%	37.2%
Israel	0.7%	0.6%		13.9%	27.0%	59.4%	59.4%
Morocco	0.0%	0.0%		-7.4%	-13.3%	-6.5%	-6.5%
South Africa	1.3%	1.6%		9.1%	25.5%	58.0%	58.0%
Turkey	0.6%	0.3%		10.2%	46.3%	109.0%	109.0%
<b>EMERGING TOTAL</b>	<b>21.8%</b>	<b>22.3%</b>	<b>-0.43%</b>				

# MEMORANDUM

Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3<sup>rd</sup> Floor

Helena, MT 59601 (406) 444-0001

**To:** Members of the Board

**From:** Rande R. Muffick, CFA  
Portfolio Manager

**Date:** February 9, 2010

**Subject:** Public Equity External Managers Watch List - Quarterly Update

During the quarter there were three portfolios added to the Watch List. The quantitative process of AXA Rosenberg International Small Cap continues to struggle with three year and since inception numbers below the benchmark. The quantitative process at Martingale continues to struggle as well. The Martingale Mid Cap Core portfolio will have three year performance below the benchmark beginning in March. The Martingale 130/30 portfolio, although having a performance history shorter than three years, is managed within a similar process and has below benchmark performance to date.

There were no managers removed from the Watch List and there were no managers terminated during the quarter.

## MANAGER WATCH LIST

February 2010

<u>Manager</u>	<u>Style Bucket</u>	<u>Reason</u>	<u>Inclusion Date</u>
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
AXA Rosenberg	International – SC Core	Performance, Process	February 2010
Martingale	Domestic – 130/30	Performance, Process	February 2010
Martingale	Domestic - MC Core	Performance, Process	February 2010

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.

# MEMORANDUM

Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3<sup>rd</sup> Floor

Helena, MT 59601 (406) 444-0001

**To:** Members of the Board  
**From:** Jon Shoen, Portfolio Manager – Alternative Investments  
**Date:** February 9, 2010  
**Subject:** Montana Private Equity Pool [MPEP]

Attached to this memo are the following reports:

- (i) **Montana Private Equity Pool Review:**  
Comprehensive overview of the private equity portfolio.
- (ii) **New Commitments.** The table below summarizes the investment decisions made by Staff since the last Board meeting. The investment brief summarizing this fund and the general partners follows.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Axiom Asia Private Capital II, L.P.	2009	Asia - FoF	Diverse	\$25 M	10/28/09

# Montana Private Equity Pool

Jon Shoen, CFA, Portfolio Manager

February 9, 2010

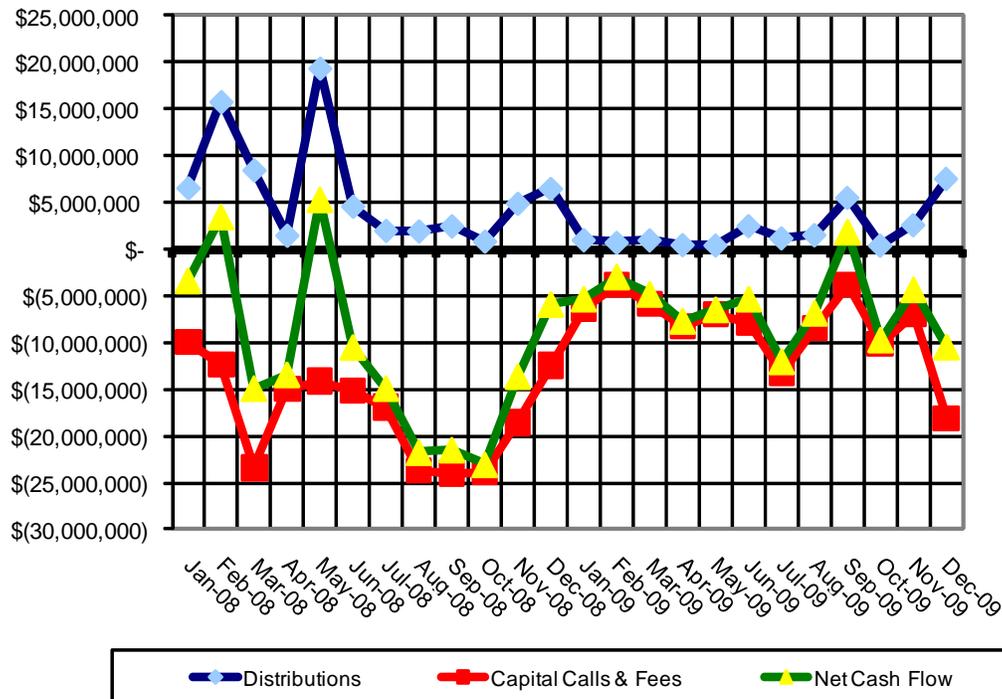
## Montana Private Equity Pool Cash Flows

# Montana Private Equity Pool

## MPEP Monthly Cash Flow

(Since January 1, 2008 through December 31, 2009)

### MPEP Cash Flows



Consistent with the recovery of activity in broader markets, the portfolio experienced an uptick in calls and distributions during the most recent quarter. The portfolio's distressed managers continued to call capital at a moderate pace, and they were joined by a resurgence in investing activity from buyout managers. Distribution activity was driven by investment realizations in mature funds managed by Adams Street Partners, Welsh Carson, and KKR. Some of the distribution activity also related to buyout managers who recently called capital but ended up returning a portion of those funds as anticipated investments required less partnership equity than had been expected. Despite the increase in call and distribution activity, net cash flows stayed in the range experienced during much of the year, an approximate net outflow of \$5-10 million per month.

Montana Private Equity Pool Performance Attribution Analysis

Montana Board of Investments  
Performance Attribution Analysis  
September 30, 2009

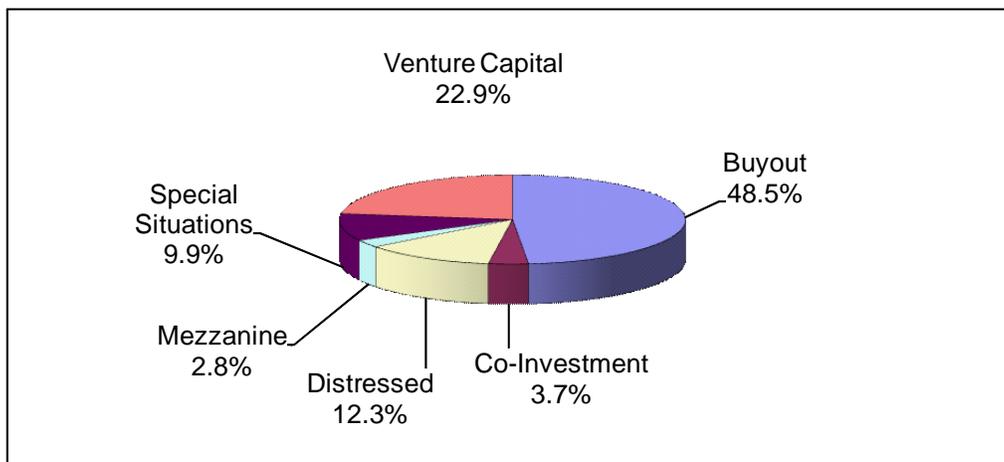
Alternate Investment Sub-Category	Capital Distributed	Ending Market Value	% of Total Market Value	Capital Contributed Net	Since Inception Total Gain*	Investment Multiple	Net IRR
<b>Total</b>	\$ 863,089,862	\$ 753,045,046	100%	\$ 1,257,397,389	\$ 358,737,519	1.29	11.73
<i>ASP - Direct VC Funds</i>	\$ 53,841,451	\$ 32,658,480	4.3%	\$ 64,411,538	\$ 22,088,393	1.34	14.75
<i>ASP - Secondary Funds</i>	\$ 29,466,060	\$ 19,959,183	2.7%	\$ 32,436,698	\$ 16,988,545	1.52	45.64
<i>ASP - U.S. Partnership Funds</i>	\$ 114,978,587	\$ 114,949,226	15.3%	\$ 180,149,649	\$ 49,778,164	1.28	8.91
<i>ASP Non-US Partnership Funds</i>	\$ 15,484,292	\$ 16,312,757	2.2%	\$ 23,131,561	\$ 8,665,488	1.37	11.30
<i>Buyout</i>	\$ 361,763,914	\$ 224,217,406	29.8%	\$ 425,984,343	\$ 159,996,977	1.38	10.74
<i>Co-Investment</i>	\$ 6,367,204	\$ 23,304,404	3.1%	\$ 32,004,204	\$ (2,332,596)	0.93	-4.06
<i>Distressed</i>	\$ 122,882,343	\$ 100,046,021	13.3%	\$ 172,348,910	\$ 50,579,453	1.29	27.56
<i>Mezzanine</i>	\$ 5,607,943	\$ 18,034,767	2.4%	\$ 17,091,191	\$ 6,551,519	1.38	12.07
<i>Non-US Private Equity</i>	\$ 40,510,056	\$ 29,490,390	3.9%	\$ 56,647,121	\$ 13,353,325	1.24	10.31
<i>Secondary</i>	\$ 63,510,161	\$ 63,214,061	8.4%	\$ 105,746,941	\$ 20,977,280	1.20	11.20
<i>Special Situations</i>	\$ 20,898,108	\$ 68,688,855	9.1%	\$ 84,858,545	\$ 4,728,418	1.06	2.99
<i>Venture Capital</i>	\$ 27,779,742	\$ 42,169,496	5.6%	\$ 62,586,686	\$ 7,362,553	1.12	17.02

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

Performance improved modestly from the prior quarter, with the 9/30 net IRR rising to 11.73% from 11.34% and the investment multiple moving to 1.29 from 1.26 previously. Improvement in performance during the quarter was widespread, with only Venture Capital failing to show an improvement in either its net IRR or investment multiple. Over the life of the portfolio, the highest returns as measured by net IRR have been generated by Secondary Funds (particularly those managed by Adams Street), Distressed, and Venture Capital.

## Montana Private Equity Pool Diversification

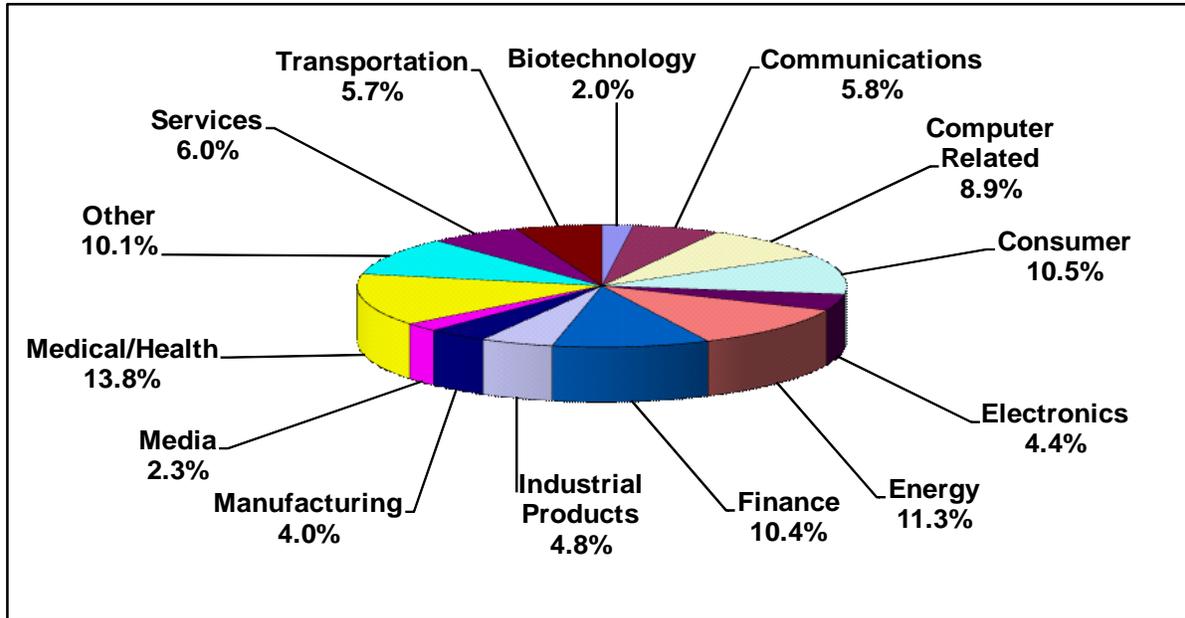
### Montana Private Equity Pool Strategy Total Exposure by Market Value & Remaining Commitments (Fund of Funds broken out) *(since inception through September 30, 2009)*



Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Buyout	\$251,773,299	50.6%	\$355,000,651	47.1%	\$606,773,950	48.5%
Co-Investment	\$22,995,796	4.6%	\$23,304,404	3.1%	\$46,300,200	3.7%
Distressed	\$51,457,732	10.3%	\$101,757,006	13.5%	\$153,214,739	12.3%
Mezzanine	\$12,582,945	2.5%	\$22,138,215	2.9%	\$34,721,160	2.8%
Special Situations	\$39,856,837	8.0%	\$83,336,237	11.1%	\$123,193,074	9.9%
Venture Capital	\$118,726,448	23.9%	\$167,508,534	22.2%	\$286,234,982	22.9%
<b>Total</b>	<b>\$497,393,058</b>	<b>100.0%</b>	<b>\$753,045,046</b>	<b>100.0%</b>	<b>\$1,250,438,104</b>	<b>100.0%</b>

The portfolio is well diversified by strategy, with the most significant strategy weight consisting of Buyout at 48.5% of total exposure. Given that the timing of investments and realizations are controlled by the fund manager, it is not possible to precisely predict the future direction of the portfolio's exposure to any given strategy. That being said, Board staff intends to allocate commitments to Venture Capital and Buyout in every vintage year, subject to the availability of quality managers. Commitments to Special Situations, Distressed, and other private equity strategies will be made on a more opportunistic basis and thus should continue to account for a less significant portion of portfolio exposure.

**Montana Private Equity Pool**  
**Underlying Investment Industry Exposure, by Market Value**  
*(since inception through September 30, 2009)*



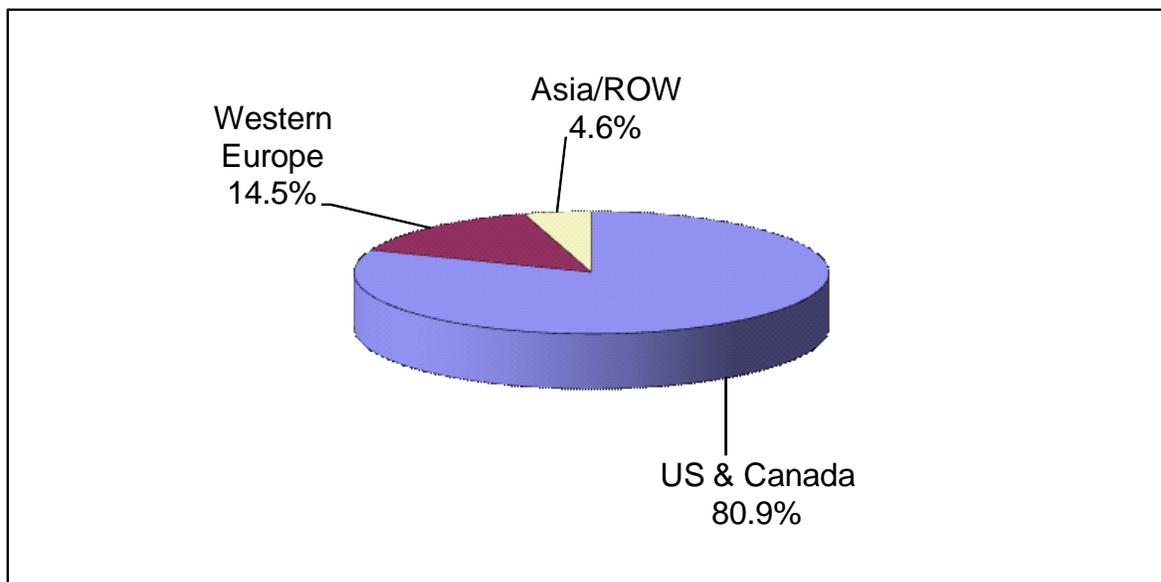
Industry	Investments, At Market Value	Percentage
Biotechnology	\$15,071,554	2.0%
Communications	\$42,675,245	5.8%
Computer Related	\$66,072,638	8.9%
Consumer	\$77,306,538	10.5%
Electronics	\$32,170,696	4.4%
Energy	\$83,791,894	11.3%
Finance	\$76,660,466	10.4%
Industrial Products	\$35,632,073	4.8%
Manufacturing	\$29,307,160	4.0%
Media	\$16,871,283	2.3%
Medical/Health	\$102,097,775	13.8%
Other	\$74,704,605	10.1%
Services	\$44,663,234	6.0%
Transportation	\$42,359,212	5.7%
<b>Total</b>	<b>\$739,384,374</b>	<b>100%</b>

The portfolio has broad industry diversification, with Medical/Health and Biotech combined representing the highest industry concentration at 15.8% of assets. With the exception of Energy and the technology-related industries, the portfolio's underlying managers tend to be multi-sector investors. Therefore, composition of the portfolio by industry is and will continue to be primarily an outflow of manager deal sourcing success rather than a function of Board staff's desire to over or underweight a specific industry.

## Montana Private Equity Pool

### Investment Geography Exposure by Market Value & Remaining Commitments

*(since inception through September 30, 2009)*



Geography	Remaining Commitments <sup>(1)</sup>	Percentage	Market Value <sup>(2)</sup>	Percentage	Total Exposure	Percentage
<b>US &amp; Canada</b>	\$ 439,503,752	88.4%	\$ 561,203,465	75.9%	\$ 1,000,707,217	80.9%
<b>Western Europe</b>	\$ 49,449,498	9.9%	\$ 129,820,345	17.6%	\$ 179,269,843	14.5%
<b>Asia/ROW</b>	\$ 8,439,807	1.7%	\$ 48,361,917	6.5%	\$ 56,801,724	4.6%
<b>Total</b>	\$ 497,393,058	100.0%	\$ 739,385,727	100.0%	\$ 1,236,778,784	100.0%

<sup>(1)</sup> Remaining commitments are based upon the investment location of the partnerships.

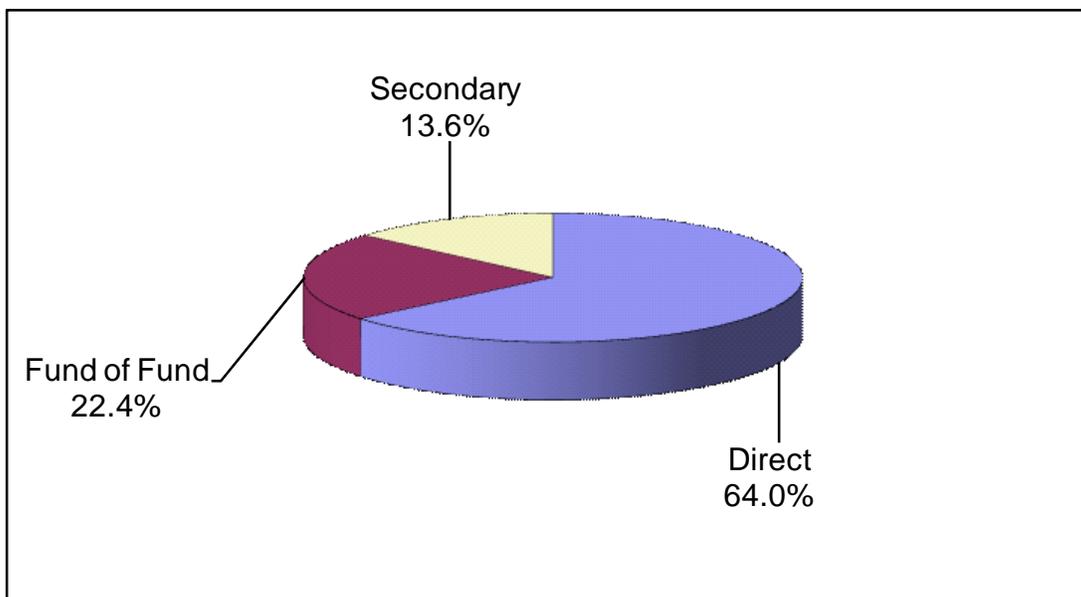
<sup>(2)</sup> Market Value represents the aggregate market values of the underlying investment companies of the partnerships.

The portfolio's predominate geographic exposure is to developed North America, with 80.9% of market value and uncalled capital domiciled in or targeted for the U.S. and Canada. Recent and future commitment activity is likely to incrementally increase exposure to international markets, most notably to Asia. These international investments will be made largely through fund of funds given that internal resources are not adequate to support a consistent and competent global fund-sourcing effort.

## Montana Private Equity Pool

### Investment Vehicle Exposure by Market Value & Remaining Commitments

*(since inception through September 30, 2009)*



Geography	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Direct	\$ 296,220,409	59.6%	\$ 503,601,827	66.9%	\$ 799,822,236	64.0%
Fund of Fund	\$ 113,741,894	22.9%	\$ 166,269,976	22.1%	\$ 280,011,870	22.4%
Secondary	\$ 87,430,755	17.6%	\$ 83,173,244	11.0%	\$ 170,603,999	13.6%
<b>Total</b>	<b>\$ 497,393,058</b>	<b>100.0%</b>	<b>\$ 753,045,046</b>	<b>100.0%</b>	<b>\$ 1,250,438,104</b>	<b>100.0%</b>

The portfolio is invested primarily through direct private equity commitments. To the extent that the quality of managers invested with directly is comparable to the quality of managers available through a fund of funds, a direct strategy should outperform fund of funds due to a reduced fee burden. In future periods, the portfolio is likely to depend upon fund of funds managers for international investments as well as for exposure to domestic venture capital, while non-venture domestic exposure will be accessed directly.

Secondary fund investments also have the drawback of adding a layer of management fees relative to direct investments. However, secondary fund structures have an advantage in that private equity assets in the secondary market can typically be purchased at a discount to NAV. It is currently anticipated that Board staff will make commitments to secondary funds at a pace that roughly maintains the portfolio's current exposure.

## 12/31/2009 Private Equity Pool Holdings

<u>Fund Name</u>	<u>Shares</u>	<u>Book Value</u>	<u>Market Value</u>	<u>%</u>
ADAMS STREET PARTNERSHIP FUND	15,891,434	15,891,434	13,782,307	1.76%
ADAMS STREET PTNRSH FND	3,943,307	3,943,307	4,266,118	0.54%
ADAMS STREET FUND V	29,724,265	29,724,265	24,886,552	3.17%
ADAMS STR GLOBAL OPPORTUNITES	16,362,189	16,362,189	16,674,478	2.12%
ADAMS ST PART FUND 2004 NON US	3,830,219	3,830,219	3,460,247	0.44%
ADAMS ST PART FUND 2004 US	10,825,422	10,825,422	9,929,131	1.27%
ADAMS ST PART FUND 2003 US	14,231,349	14,231,349	13,727,203	1.75%
ADAMS ST PARTNERS FUND 2002 US	24,743,347	24,743,347	24,538,645	3.13%
ADAMS STREET PARTNERSHIP	3,569,721	3,569,721	3,161,509	0.40%
AUSTIN VENTURES III	214,255	214,255	15,511	0.00%
BRINSON VENTURE CAPITAL FD III	1	1	13,107	0.00%
BRINSON PARTNERSHIP FUND TRUST	1,255,301	1,255,301	268,693	0.03%
BRINSON PARTNERSHIP FUND TRUST	2,974,620	2,974,620	961,439	0.12%
BRINSON VENTURE PARTNR FD III	960,856	960,856	149,602	0.02%
BRINSON VEN CAP FUND IV	4,629,976	4,629,976	7,285,272	0.93%
BRINSON NON US 1999 PRIMARY FD	279,000	279,000	472,835	0.06%
BRINSON NON US PARTNERSHIP FND	1,090,463	1,090,463	1,397,946	0.18%
BRINSON NON U.S. TRUST 2000	832,015	832,015	854,447	0.11%
BRINSON PARTNERSHIP FUND TRUST	142,679	142,679	14,944	0.00%
BRINSON PART FUND TRUST 1996	1,347,645	1,347,645	247,097	0.03%
BRIN VEN PART III SECONDARY	1,192,322	1,192,322	150,011	0.02%
BRIN VEN CAP III SECONDARY	1	1	13,107	0.00%
BRINSON PARTNERSHIP FUND TRUST	4,580,647	4,580,647	2,275,537	0.29%
BRIN NON US TRUST 2001 PRIM	594,076	594,076	574,838	0.07%
BRINSON PARTNERSHIP	11,014,572	11,014,572	8,774,814	1.12%
BRINSON PARTNERSHIP FUND TRUST	11,471,731	11,471,731	11,275,840	1.44%
BRINSON PARTNERSHIP FUND TRUST	10,449,535	10,449,535	11,374,831	1.45%
BRINSON PARTNERSHIP	6,533,913	6,533,913	7,240,647	0.92%
BRINSON PARTNERSHIP FUND TRUST	1,431,358	1,431,358	1,366,945	0.17%
BRINSON PARTNERSHIP FUND TR	9,570,905	9,773,841	9,966,671	1.27%
BRINSON NON US PARTNERSHIP TR	642,998	642,998	658,987	0.08%
BRINSON NON US TRUST 2002 SEC	204,453	204,453	117,679	0.01%
BRINSON NON US TRUST 2003 PRIM	785,125	785,125	1,436,301	0.18%
SPROUT CAPITAL VI	237,144	237,144	0	0.00%
SUMMIT VENTURE II	128,881	128,881	2,775	0.00%
VENTURE PARTNERSHIP ACQUIST	190,080	190,080	10,591	0.00%
WCAS CAPITAL PARTNERS II	256,583	256,583	108,892	0.01%
BRINSON PARTNERSHIP FUND	336,495	336,495	825,605	0.11%
<b>ADAMS STREET Total</b>	<b>196,468,883</b>	<b>196,671,820</b>	<b>182,281,155</b>	<b>23.22%</b>
AFFINITY ASIA PACIFIC FUND III	6,117,152	6,117,152	4,703,900	0.60%
<b>AFFINITY Total</b>	<b>6,117,152</b>	<b>6,117,152</b>	<b>4,703,900</b>	<b>0.60%</b>
ARCLIGHT ENRGY PARTNERS FD II	12,001,787	12,001,787	11,690,772	1.49%
ARCLIGHT ENERGY PTNRS FUND III	20,583,662	20,583,662	20,756,565	2.64%
<b>ARCLIGHT Total</b>	<b>32,585,449</b>	<b>32,585,449</b>	<b>32,447,337</b>	<b>4.13%</b>
AVENUE SPECIAL SITUATIONS V	33,736,764	33,736,764	35,831,648	4.57%
<b>AVENUE CAPITAL Total</b>	<b>33,736,764</b>	<b>33,736,764</b>	<b>35,831,648</b>	<b>4.57%</b>
BUERK DALE VICTOR II L.P.	6,600,000	6,600,000	4,741,057	0.60%
<b>BUERK DALE Total</b>	<b>6,600,000</b>	<b>6,600,000</b>	<b>4,741,057</b>	<b>0.60%</b>
CARLYLE PARTNERS IV, L.P.	30,124,590	30,124,590	28,755,879	3.66%
CARLYLE VENTURE PARTNERS III	15,244,866	15,244,866	14,225,411	1.81%
<b>CARLYLE Total</b>	<b>45,369,456</b>	<b>45,369,456</b>	<b>42,981,291</b>	<b>5.48%</b>

CCMP II	8,009,545	8,009,545	6,414,564	0.82%
<b>CCMP Total</b>	<b>8,009,545</b>	<b>8,009,545</b>	<b>6,414,564</b>	<b>0.82%</b>
CENTERBRIDGE SPECIAL CREDIT PR	6,562,500	6,562,500	7,033,898	0.90%
<b>CENTERBRIDGE Total</b>	<b>6,562,500</b>	<b>6,562,500</b>	<b>7,033,898</b>	<b>0.90%</b>
FIRST RESERVE FUND XII	9,146,070	9,146,070	7,113,045	0.91%
FIRST RESERVE XI	22,682,095	22,682,095	21,243,097	2.71%
<b>FIRST RESERVE Total</b>	<b>31,828,165</b>	<b>31,828,165</b>	<b>28,356,143</b>	<b>3.61%</b>
DOVER STREET	4,200,000	4,200,000	3,898,503	0.50%
HARBOURVEST 2007 DIRECT	7,907,839	7,907,839	7,751,034	0.99%
HARBOURVEST INTL PVT EQTY VI	688,885	963,935	874,674	0.11%
<b>HARBOUR VEST Total</b>	<b>12,796,724</b>	<b>13,071,774</b>	<b>12,524,212</b>	<b>1.60%</b>
HFCP VI	16,343,769	16,343,769	15,895,492	2.03%
<b>HELLMAN FRIEDMAN Total</b>	<b>16,343,769</b>	<b>16,343,769</b>	<b>15,895,492</b>	<b>2.03%</b>
HIGHWAY 12 VENTURE II	4,285,414	4,285,414	3,738,476	0.48%
<b>HIGHWAY 12 VENTURES Total</b>	<b>4,285,414</b>	<b>4,285,414</b>	<b>3,738,476</b>	<b>0.48%</b>
INDUSTRY VENTURES FUND IV	7,648,109	7,648,109	7,706,571	0.98%
<b>INDUSTRY VENTURES Total</b>	<b>7,648,109</b>	<b>7,648,109</b>	<b>7,706,571</b>	<b>0.98%</b>
JCF II LP	22,774,090	22,774,006	8,219,260	1.05%
<b>J.C. FLOWERS Total</b>	<b>22,774,090</b>	<b>22,774,006</b>	<b>8,219,260</b>	<b>1.05%</b>
JLL PARTNERS FUND V LP	18,334,425	18,334,425	18,248,492	2.33%
<b>JLL PARTNERS Total</b>	<b>18,334,425</b>	<b>18,334,425</b>	<b>18,248,492</b>	<b>2.33%</b>
KKR 1993	1,285,300	1,285,300	73,101	0.01%
KKR 1996	18,594,198	18,594,198	11,217,471	1.43%
KKR EUROPEAN FUND	8,345,145	8,345,145	13,888,783	1.77%
KKR 1987	2,021,493	2,021,493	207,846	0.03%
<b>KKR Total</b>	<b>30,246,136</b>	<b>30,246,136</b>	<b>25,387,201</b>	<b>3.23%</b>
LEXINGTON MID MARKET II LP	1,104,360	1,104,360	1,166,721	0.15%
LEXINGTON CAPITAL PTRS V LP	5,078,433	5,078,433	19,756,855	2.52%
LEXINGTON CAPITAL PARTNERS VIB	34,377,767	34,377,767	28,366,334	3.61%
LEXINGTON CAPITAL PTNRS VII LP	296,315	296,315	296,315	0.04%
<b>LEXINGTON Total</b>	<b>40,856,875</b>	<b>40,856,875</b>	<b>49,586,225</b>	<b>6.32%</b>
MADISON DEARBORN CAP PART IV	17,636,222	17,636,222	20,236,119	2.58%
MADISON DEARBORN CAP PTNRS VI	3,421,146	3,421,146	3,469,702	0.44%
MDCP V	19,469,409	19,469,409	15,057,038	1.92%
<b>MADISON DEARBORN Total</b>	<b>40,526,777</b>	<b>40,526,777</b>	<b>38,762,859</b>	<b>4.94%</b>
MATLIN PATTERSON GLB OPP	18,931,185	18,931,185	17,468,732	2.23%
<b>MATLIN PATTERSON Total</b>	<b>18,931,185</b>	<b>18,931,185</b>	<b>17,468,732</b>	<b>2.23%</b>
MHR INSTITUTIONAL III	14,912,165	14,912,165	12,328,439	1.57%
<b>MHR INSTITUTIONAL Total</b>	<b>14,912,165</b>	<b>14,912,165</b>	<b>12,328,439</b>	<b>1.57%</b>
NB CO INVESTMENT PARTNERS LP	18,397,164	18,397,163	16,464,836	2.10%
<b>NB COINVEST Total</b>	<b>18,397,164</b>	<b>18,397,163</b>	<b>16,464,836</b>	<b>2.10%</b>
OAK HILL CAPITAL PARTNERS II	23,291,803	23,291,803	26,257,175	3.35%
OAK HILL III	6,082,224	6,082,224	5,051,938	0.64%
<b>OAK HILL Total</b>	<b>29,374,027</b>	<b>29,374,027</b>	<b>31,309,113</b>	<b>3.99%</b>
OCM OPPORTUNITIES FD IVB LP	1	1	0	0.00%
OAKTREE OPPORTUNITIES FND VIII	1,000,000	1,000,000	1,000,000	0.13%
OAKTREE CPTL MGMT OPPTY FD VII	28,976,757	28,976,757	37,739,937	4.81%
<b>OAK TREE Total</b>	<b>29,976,758</b>	<b>29,976,758</b>	<b>38,739,937</b>	<b>4.94%</b>

ODYSSEY INVT PARTN FD III	17,319,936	17,319,936	18,167,643	2.31%
ODYSSEY INVESTMENT PTNRS IV	3,779,910	3,779,910	3,687,892	0.47%
<b>ODYSSEY INVESTMENTS Total</b>	<b>21,099,846</b>	<b>21,099,846</b>	<b>21,855,535</b>	<b>2.78%</b>
PERFORMANCE VENTURE CAPITAL II	1,470,319	1,470,319	1,333,193	0.17%
<b>PERFORMANCE EQUITY MANAGE</b>	<b>1,470,319</b>	<b>1,470,319</b>	<b>1,333,193</b>	<b>0.17%</b>
PORTFOLIO ADVISORS IV (B)	18,009,652	18,009,652	17,109,404	2.18%
PORTFOLIO ADVISORS IV (E)	7,421,164	7,421,164	5,580,136	0.71%
PORTFOLIO ADVISORS FUND V(B)	2,944,672	2,944,672	2,681,088	0.34%
PORTFOLIO ADVISORS SECONDARY	2,044,994	2,044,994	2,566,559	0.33%
<b>PORTFOLIO ADVISORS Total</b>	<b>30,420,482</b>	<b>30,420,482</b>	<b>27,937,188</b>	<b>3.56%</b>
QUINTANA ENERGY PARTNERS TE LP	11,708,147	11,708,147	10,596,564	1.35%
<b>QUINTANA ENERGY Total</b>	<b>11,708,147</b>	<b>11,708,147</b>	<b>10,596,564</b>	<b>1.35%</b>
SIGULER GUFF SM BUYOUT	13,300,520	13,300,520	11,710,483	1.49%
<b>SIGULER GUFF Total</b>	<b>13,300,520</b>	<b>13,300,520</b>	<b>11,710,483</b>	<b>1.49%</b>
TERRA FIRMA III LIMITED PART	10,573,865	14,932,982	5,296,263	0.67%
<b>TERRA FIRMA Total</b>	<b>10,573,865</b>	<b>14,932,982</b>	<b>5,296,263</b>	<b>0.67%</b>
TRILANTIC CAPITAL PARTNERS IV	3,567,903	3,567,903	3,600,535	0.46%
<b>TRILANTIC CAPITAL PARTNERS '</b>	<b>3,567,903</b>	<b>3,567,903</b>	<b>3,600,535</b>	<b>0.46%</b>
WCAS IX	8,984,260	8,984,260	13,593,301	1.73%
WCAS CAPITAL PARTNERS FUND IV	16,028,120	16,028,120	18,421,311	2.35%
WCAS X LP	20,111,477	20,111,477	20,064,999	2.56%
<b>WELSH CARSON Total</b>	<b>45,123,857</b>	<b>45,123,857</b>	<b>52,079,612</b>	<b>6.64%</b>
STATE STREET SPIF ALT INV	59,640	9,183,399	9,292,739	1.18%
<b>STATE STREET Total</b>	<b>59,640</b>	<b>9,183,399</b>	<b>9,292,739</b>	<b>1.18%</b>
<b>MPEP Total</b>	<b>810,006,111</b>	<b>823,966,889</b>	<b>784,872,946</b>	<b>100.00%</b>

The portfolio has 23.22% of its market value concentrated in Adams Street Partners. Much of this exposure is in the form of legacy domestic fund of fund investments, and Adams Street Partners' weight in the portfolio should decrease over time. The remaining 76.78% of the portfolio's market value is well diversified by manager and by fund. Three funds managed by Welsh Carson, who has the highest manager concentration after Adams Street, account for just 6.64% of the portfolio's market value.

## Montana Private Equity Pool LP's by Family of Funds

Montana Board of Investments  
LP's by Family of Funds  
All Investments  
As of September 30, 2009

Description	Since Inception										
	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
<b>Total</b>		<b>1,731,902,384</b>	<b>1,184,974,438</b>	<b>72,422,952</b>	<b>497,393,058</b>	<b>72.60</b>	<b>863,089,862</b>	<b>753,045,046</b>	<b>11.73</b>	<b>1.29</b>	<b>1,250,438,104</b>
<i>LP's By Family of Funds (Active)</i>											
<b>Total</b>		<b>1,719,984,384</b>	<b>1,173,396,994</b>	<b>71,244,155</b>	<b>497,393,058</b>	<b>72.36</b>	<b>827,924,721</b>	<b>753,045,046</b>	<b>10.92</b>	<b>1.27</b>	<b>1,250,438,104</b>
<b>Adams Street Partners</b>		<b>327,129,264</b>	<b>275,034,608</b>	<b>25,094,838</b>	<b>37,567,675</b>	<b>91.75</b>	<b>213,770,390</b>	<b>183,879,646</b>	<b>11.92</b>	<b>1.32</b>	<b>221,447,321</b>
<b>Adams Street Partners Fund - U.S.</b>		<b>94,000,000</b>	<b>69,995,634</b>	<b>4,559,866</b>	<b>19,444,500</b>	<b>79.31</b>	<b>19,707,116</b>	<b>61,601,827</b>	<b>3.33</b>	<b>1.09</b>	<b>81,046,327</b>
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000	28,270,832	1,972,168	3,757,000	88.95	12,077,017	24,733,176	6.77	1.22	28,490,176
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000	15,285,000	975,000	3,740,000	81.30	4,226,402	13,727,206	3.79	1.10	17,467,206
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000	11,085,117	667,383	3,247,500	78.35	2,133,408	9,734,132	0.39	1.01	12,981,632
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000	15,354,685	945,315	8,700,000	65.20	1,270,289	13,407,313	(4.59)	0.90	22,107,313
<b>Adams Street Partners Fund - Non-U.S.</b>		<b>16,000,000</b>	<b>12,744,839</b>	<b>744,161</b>	<b>2,511,000</b>	<b>84.31</b>	<b>5,787,951</b>	<b>10,877,417</b>	<b>9.09</b>	<b>1.24</b>	<b>13,388,417</b>
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000	5,433,249	332,751	234,000	96.10	4,286,233	4,266,117	14.61	1.48	4,500,117
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000	3,874,717	225,783	899,500	82.01	1,108,123	3,505,189	5.26	1.13	4,404,689
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000	3,436,873	185,627	1,377,500	72.45	393,595	3,106,111	(1.64)	0.97	4,483,611
<b>Brinson Partnership Trust - Non-U.S.</b>		<b>9,809,483</b>	<b>9,318,556</b>	<b>989,856</b>	<b>560,102</b>	<b>105.09</b>	<b>11,025,398</b>	<b>5,553,019</b>	<b>13.70</b>	<b>1.61</b>	<b>6,113,121</b>
Brinson Non-U.S. Trust-1999 Primary Fund	1999	1,524,853	1,474,957	153,870	119,071	106.82	2,126,897	472,835	10.91	1.60	591,906
Brinson Non-U.S. Trust-2000 Primary Fund	2000	1,815,207	1,815,207	183,169	0	110.09	2,469,095	854,447	12.71	1.66	854,447
Brinson Non-U.S. Trust-2001 Primary Fund	2001	1,341,612	1,341,612	135,380	0	110.09	1,764,720	574,838	12.66	1.58	574,838
Brinson Non-U.S. Trust-2002 Primary Fund	2002	1,696,452	1,696,452	171,185	0	110.09	1,185,275	1,397,946	9.72	1.38	1,397,946
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308	601,542	64,309	35,766	104.48	1,329,057	117,679	26.42	2.17	153,445
Brinson Non-U.S. Trust-2003 Primary Fund	2003	1,896,438	1,659,040	191,366	237,398	97.57	1,830,466	1,436,301	22.60	1.77	1,673,699
Brinson Non-U.S. Trust-2004 Primary Fund	2004	897,613	729,746	90,576	167,867	91.39	319,888	698,973	7.95	1.24	866,840
<b>Brinson Partnership Trust - U.S.</b>		<b>103,319,781</b>	<b>96,220,953</b>	<b>9,485,750</b>	<b>7,098,828</b>	<b>102.31</b>	<b>92,546,915</b>	<b>55,640,866</b>	<b>10.06</b>	<b>1.40</b>	<b>62,739,694</b>
Brinson Partners - 1996 Fund	1996	3,950,740	3,708,316	444,201	242,424	105.11	6,824,237	247,098	15.00	1.70	489,522
Brinson Partners - 1997 Primary Fund	1997	3,554,935	3,554,935	396,536	0	111.15	14,267,325	268,694	71.47	3.68	268,694
Brinson Partners - 1998 Primary Fund	1998	7,161,019	7,122,251	799,046	38,768	110.62	10,085,017	961,439	6.81	1.39	1,000,207
Brinson Partners - 1998 Secondary Fund	1998	266,625	266,625	29,704	0	111.14	181,932	14,944	(7.02)	0.66	14,944
Brinson Partners - 1999 Primary Fund	1999	8,346,761	7,832,823	911,593	513,938	104.76	7,563,083	2,275,539	2.26	1.13	2,789,477
Brinson Partners - 2000 Primary Fund	2000	20,064,960	19,079,570	2,004,908	985,390	105.08	18,267,149	8,774,819	5.32	1.28	9,760,209
Brinson Partners - 2001 Primary Fund	2001	15,496,322	14,830,208	1,311,730	666,114	104.17	7,585,806	11,817,093	4.51	1.20	12,483,207
Brinson Partners - 2002 Primary Fund	2002	16,297,079	15,783,921	1,366,733	513,158	105.24	13,252,344	10,376,647	10.75	1.38	10,889,805
Brinson Partners - 2002 Secondary Fund	2002	2,608,820	2,498,592	212,521	110,228	103.92	3,065,907	1,463,509	14.36	1.67	1,573,737
Brinson Partners - 2003 Primary Fund	2003	15,589,100	13,272,620	1,274,628	2,316,480	93.32	7,989,926	11,374,833	9.55	1.33	13,691,313
Brinson Partners - 2003 Secondary Fund	2003	1,151,151	1,020,460	84,652	130,691	96.00	1,906,646	825,605	27.50	2.47	956,296
Brinson Partners - 2004 Primary Fund	2004	8,832,269	7,250,632	649,498	1,581,637	89.45	1,557,543	7,240,646	3.62	1.11	8,822,283

Description	Since Inception										
	Vintage Year	Capital Committed	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
<b>Remaining ASP Funds</b>		<b>104,000,000</b>	<b>86,754,626</b>	<b>9,315,205</b>	<b>7,953,245</b>	<b>92.37</b>	<b>84,703,010</b>	<b>50,206,517</b>	<b>21.46</b>	<b>1.40</b>	<b>58,159,762</b>
Adams Street Global Oppty Secondary Fund	2004	25,000,000	18,121,499	566,001	6,312,500	74.75	5,165,420	17,374,328	10.26	1.21	23,686,828
Adams Street V, L.P.	2003	40,000,000	35,216,521	4,183,479	600,000	98.50	11,309,266	24,886,547	(2.47)	0.92	25,486,547
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	13,107	40.47	3.13	13,107
Brinson VPF III	1993	5,000,000	4,488,559	522,979	0	100.23	14,899,918	149,602	29.47	3.00	149,602
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	191,250	0	100.23	8,182,793	150,011	41.50	1.66	150,011
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,634,305	13,107	97.02	2.44	1,053,852
BVCF IV, L.P.	1999	15,000,000	12,837,538	2,162,462	0	100.00	12,009,819	7,609,224	4.02	1.31	7,609,224
<b>Affinity Asia Capital</b>		<b>15,000,000</b>	<b>5,633,418</b>	<b>928,442</b>	<b>8,439,807</b>	<b>43.75</b>	<b>0</b>	<b>4,232,776</b>	<b>(35.58)</b>	<b>0.65</b>	<b>12,672,583</b>
Affinity Asia Pacific Fund III, LP	2006	15,000,000	5,633,418	928,442	8,439,807	43.75	0	4,232,776	(35.58)	0.65	12,672,583
<b>Arclight Energy Partners</b>		<b>50,000,000</b>	<b>42,319,343</b>	<b>1,629,981</b>	<b>6,278,158</b>	<b>87.90</b>	<b>20,795,732</b>	<b>33,040,818</b>	<b>9.80</b>	<b>1.22</b>	<b>39,318,976</b>
Arclight Energy Partners Fund II	2004	25,000,000	20,721,278	973,284	3,405,720	86.78	18,829,261	11,690,770	15.89	1.41	15,096,490
Arclight Energy Partners Fund III, LP	2006	25,000,000	21,598,066	656,697	2,872,438	89.02	1,966,471	21,350,048	2.16	1.05	24,222,486
<b>Austin Ventures</b>		<b>500,000</b>	<b>424,416</b>	<b>129,154</b>	<b>1</b>	<b>110.71</b>	<b>1,216,717</b>	<b>15,447</b>	<b>20.56</b>	<b>2.23</b>	<b>15,448</b>
Austin Ventures III	1991	500,000	424,416	129,154	1	110.71	1,216,717	15,447	20.56	2.23	15,448
<b>Avenue Investments</b>		<b>35,000,000</b>	<b>29,641,075</b>	<b>1,263,236</b>	<b>4,305,586</b>	<b>88.30</b>	<b>80,585</b>	<b>31,526,078</b>	<b>1.72</b>	<b>1.02</b>	<b>35,831,664</b>
Avenue Special Situations Fund V, LP	2007	35,000,000	29,641,075	1,263,236	4,305,586	88.30	80,585	31,526,078	1.72	1.02	35,831,664
<b>Buerk Dale Victor</b>		<b>15,000,000</b>	<b>5,576,187</b>	<b>1,023,813</b>	<b>8,400,000</b>	<b>44.00</b>	<b>0</b>	<b>4,834,810</b>	<b>(18.38)</b>	<b>0.73</b>	<b>13,234,810</b>
Buerk Dale Victor Fund II, L.P.	2007	15,000,000	5,576,187	1,023,813	8,400,000	44.00	0	4,834,810	(18.38)	0.73	13,234,810
<b>Carlyle Partners</b>		<b>60,000,000</b>	<b>46,181,843</b>	<b>3,020,911</b>	<b>10,896,248</b>	<b>82.00</b>	<b>3,653,769</b>	<b>42,541,441</b>	<b>(2.60)</b>	<b>0.94</b>	<b>53,437,689</b>
Carlyle Partners IV, L.P.	2005	35,000,000	31,662,839	1,139,765	2,296,398	93.72	3,511,445	28,921,642	(0.41)	0.99	31,218,040
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000	14,519,004	1,881,146	8,599,850	65.60	142,324	13,619,799	(10.30)	0.84	22,219,649
<b>CCMP Associates</b>		<b>30,000,000</b>	<b>7,891,940</b>	<b>1,029,689</b>	<b>21,078,371</b>	<b>29.74</b>	<b>73,524</b>	<b>6,349,090</b>	<b>(13.30)</b>	<b>0.72</b>	<b>27,427,461</b>
CCMP Capital Investors II, L.P.	2006	30,000,000	7,891,940	1,029,689	21,078,371	29.74	73,524	6,349,090	(13.30)	0.72	27,427,461
<b>Centerbridge</b>		<b>12,500,000</b>	<b>4,375,000</b>	<b>0</b>	<b>8,125,000</b>	<b>35.00</b>	<b>0</b>	<b>4,846,398</b>	<b>15.81</b>	<b>1.11</b>	<b>12,971,398</b>
Centerbridge Special Credit Partners	2009	12,500,000	4,375,000	0	8,125,000	35.00	0	4,846,398	15.81	1.11	12,971,398
<b>First Reserve</b>		<b>55,000,000</b>	<b>29,913,810</b>	<b>584,183</b>	<b>24,502,007</b>	<b>55.45</b>	<b>102,376</b>	<b>26,813,000</b>	<b>(8.47)</b>	<b>0.88</b>	<b>51,315,007</b>
First Reserve Fund XI, L.P.	2006	30,000,000	22,592,784	584,183	6,823,033	77.26	70,853	21,525,000	(4.45)	0.93	28,348,033
First Reserve Fund XII, L.P.	2008	25,000,000	7,321,026	0	17,678,974	29.28	31,523	5,288,000	(27.48)	0.73	22,966,974
<b>HarbourVest</b>		<b>61,823,772</b>	<b>11,412,506</b>	<b>222,909</b>	<b>50,201,882</b>	<b>18.82</b>	<b>143,379</b>	<b>10,966,931</b>	<b>(3.75)</b>	<b>0.95</b>	<b>61,168,813</b>
Dover Street VII L.P.	2008	20,000,000	3,715,651	97,874	16,200,000	19.07	143,379	3,498,505	(4.07)	0.95	19,698,505
HarbourVest Direct 2007 Fund	2007	20,000,000	7,307,839	92,161	12,600,000	37.00	0	7,151,038	(2.57)	0.97	19,751,038
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	389,016	32,874	21,401,882	1.93	0	317,388	(45.55)	0.75	21,719,270
<b>Hellman &amp; Friedman</b>		<b>40,000,000</b>	<b>15,382,613</b>	<b>367,184</b>	<b>24,250,203</b>	<b>39.37</b>	<b>137,096</b>	<b>14,920,664</b>	<b>(2.50)</b>	<b>0.96</b>	<b>39,170,867</b>
Hellman & Friedman Capital Partners VI	2006	25,000,000	15,382,613	367,184	9,250,203	63.00	137,096	14,920,664	(2.50)	0.96	24,170,867
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
<b>Highway 12 Ventures</b>		<b>10,000,000</b>	<b>3,907,027</b>	<b>714,137</b>	<b>5,378,836</b>	<b>46.21</b>	<b>0</b>	<b>3,433,566</b>	<b>(20.24)</b>	<b>0.74</b>	<b>8,812,402</b>
Highway 12 Venture Fund II, L.P.	2006	10,000,000	3,907,027	714,137	5,378,836	46.21	0	3,433,566	(20.24)	0.74	8,812,402
<b>Industry Ventures</b>		<b>10,000,000</b>	<b>9,571,140</b>	<b>412,514</b>	<b>420,483</b>	<b>99.84</b>	<b>1,212,180</b>	<b>7,846,349</b>	<b>(5.56)</b>	<b>0.91</b>	<b>8,266,832</b>
Industry Ventures Fund IV, L.P.	2005	10,000,000	9,571,140	412,514	420,483	99.84	1,212,180	7,846,349	(5.56)	0.91	8,266,832
<b>JCF</b>		<b>25,000,000</b>	<b>23,901,020</b>	<b>590,942</b>	<b>518,834</b>	<b>97.97</b>	<b>406,163</b>	<b>8,368,031</b>	<b>(45.32)</b>	<b>0.36</b>	<b>8,886,865</b>
J.C. Flowers II L.P.	2006	25,000,000	23,901,020	590,942	518,834	97.97	406,163	8,368,031	(45.32)	0.36	8,886,865
<b>Joseph Littlejohn &amp; Levy</b>		<b>25,000,000</b>	<b>20,931,096</b>	<b>884,994</b>	<b>3,183,910</b>	<b>87.26</b>	<b>4,261,425</b>	<b>18,581,828</b>	<b>2.69</b>	<b>1.05</b>	<b>21,765,738</b>
JLL Partners Fund V, L.P.	2005	25,000,000	20,931,096	884,994	3,183,910	87.26	4,261,425	18,581,828	2.69	1.05	21,765,738

Description	Since Inception										
	Vintage Year	Capital Committed	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
<b>KKR</b>		<b>175,000,000</b>	<b>175,000,000</b>	<b>9,674,402</b>	<b>0</b>	<b>105.53</b>	<b>316,765,244</b>	<b>28,341,345</b>	<b>12.24</b>	<b>1.87</b>	<b>28,341,345</b>
KKR 1987 Fund	1987	25,000,000	25,000,000	2,101,164	0	108.40	55,877,291	207,845	8.88	2.07	207,845
KKR 1993 Fund	1993	25,000,000	25,000,000	1,002,236	0	104.01	48,782,037	73,101	17.78	1.88	73,101
KKR 1996 Fund	1997	100,000,000	100,000,000	4,723,033	0	104.72	171,600,591	12,453,738	13.32	1.76	12,453,738
KKR European Fund, L. P.	1999	25,000,000	25,000,000	1,847,969	0	107.39	40,505,325	15,606,661	19.70	2.09	15,606,661
<b>Lexington Capital Partners</b>		<b>140,000,000</b>	<b>86,185,422</b>	<b>3,589,242</b>	<b>50,225,336</b>	<b>64.12</b>	<b>62,154,602</b>	<b>49,302,647</b>	<b>12.68</b>	<b>1.24</b>	<b>99,527,983</b>
Lexington Capital Partners V, L.P.	2001	50,000,000	47,008,210	2,105,810	885,980	98.23	53,718,768	20,130,990	19.09	1.50	21,016,970
Lexington Capital Partners VI-B, L.P.	2005	50,000,000	38,264,609	1,437,263	10,298,128	79.40	8,434,881	28,196,693	(5.08)	0.92	38,494,821
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	912,603	46,169	9,041,228	9.59	953	974,964	2.54	1.02	10,016,192
<b>Madison Dearborn Capital Partners</b>		<b>75,000,000</b>	<b>46,881,516</b>	<b>1,377,172</b>	<b>26,741,312</b>	<b>64.34</b>	<b>19,725,522</b>	<b>39,796,127</b>	<b>8.47</b>	<b>1.23</b>	<b>66,537,439</b>
Madison Dearborn Capital Partners IV, LP	2001	25,000,000	23,567,498	470,543	961,959	96.15	19,233,915	21,233,082	16.20	1.68	22,195,041
Madison Dearborn Capital Partners V, LP	2006	25,000,000	19,896,424	658,591	4,444,985	82.22	491,607	15,096,894	(11.84)	0.76	19,541,879
Madison Dearborn Capital Partners VI, LP	2008	25,000,000	3,417,594	248,038	21,334,368	14.66	0	3,466,151	(4.91)	0.95	24,800,519
<b>Matlin Patterson</b>		<b>30,000,000</b>	<b>17,071,185</b>	<b>958,815</b>	<b>11,970,000</b>	<b>60.10</b>	<b>1,489</b>	<b>15,608,739</b>	<b>(10.12)</b>	<b>0.87</b>	<b>27,578,739</b>
MatlinPatterson Global Opps. Ptnrs. III	2007	30,000,000	17,071,185	958,815	11,970,000	60.10	1,489	15,608,739	(10.12)	0.87	27,578,739
<b>MHR Institutional Partners</b>		<b>25,000,000</b>	<b>14,503,048</b>	<b>996,952</b>	<b>9,500,000</b>	<b>62.00</b>	<b>130,728</b>	<b>12,089,314</b>	<b>(12.63)</b>	<b>0.79</b>	<b>21,589,314</b>
MHR Institutional Partners III, L.P.	2006	25,000,000	14,503,048	996,952	9,500,000	62.00	130,728	12,089,314	(12.63)	0.79	21,589,314
<b>Neuberger Berman Group, LLC</b>		<b>35,000,000</b>	<b>23,770,425</b>	<b>833,780</b>	<b>10,395,796</b>	<b>70.30</b>	<b>6,367,204</b>	<b>16,153,366</b>	<b>(4.37)</b>	<b>0.92</b>	<b>26,549,162</b>
NB Co-investment Partners, L.P.	2006	35,000,000	23,770,425	833,780	10,395,796	70.30	6,367,204	16,153,366	(4.37)	0.92	26,549,162
<b>Oak Hill Capital Partners</b>		<b>45,000,000</b>	<b>27,085,238</b>	<b>1,904,201</b>	<b>16,091,915</b>	<b>64.42</b>	<b>1,229,337</b>	<b>29,764,048</b>	<b>2.95</b>	<b>1.07</b>	<b>45,855,963</b>
Oak Hill Capital Partners II, L.P.	2005	25,000,000	21,088,716	1,313,730	2,597,554	89.61	1,185,222	24,880,437	5.98	1.16	27,477,991
Oak Hill Capital Partners III, L.P.	2008	20,000,000	5,996,521	590,471	13,494,361	32.93	44,115	4,883,611	(20.44)	0.75	18,377,972
<b>Oaktree Capital Partners</b>		<b>120,000,000</b>	<b>100,315,822</b>	<b>2,684,178</b>	<b>17,000,000</b>	<b>85.83</b>	<b>121,554,428</b>	<b>35,975,492</b>	<b>44.49</b>	<b>1.53</b>	<b>52,975,492</b>
OCM Opportunities Fund IVb, L.P.	2002	75,000,000	73,089,065	1,910,935	0	100.00	121,554,428	(14,451)	44.89	1.62	(14,451)
OCM Opportunities Fund VIIb, L.P.	2008	35,000,000	27,226,757	773,243	7,000,000	80.00	0	35,989,943	31.83	1.29	42,989,943
OCM Opportunities Fund VIII, L.P.	2009	10,000,000	0	0	10,000,000	0.00	0	0	N/A	0.00	10,000,000
<b>Odyssey Partners Fund III</b>		<b>45,000,000</b>	<b>22,265,976</b>	<b>2,195,705</b>	<b>20,538,319</b>	<b>54.36</b>	<b>20,674,290</b>	<b>18,158,184</b>	<b>27.22</b>	<b>1.59</b>	<b>38,696,503</b>
Odyssey Investment Partners IV, L.P.	2008	20,000,000	82,553	390,898	19,526,549	2.37	60	(9,467)	N/A	(0.02)	19,517,082
Odyssey Partners Fund III, L.P.	2004	25,000,000	22,183,423	1,804,807	1,011,770	95.95	20,674,230	18,167,651	27.90	1.62	19,179,421
<b>Performance Venture Capital</b>		<b>25,000,000</b>	<b>1,404,610</b>	<b>324,315</b>	<b>23,271,075</b>	<b>6.92</b>	<b>383</b>	<b>1,267,483</b>	<b>(34.19)</b>	<b>0.73</b>	<b>24,538,558</b>
Performance Venture Capital II	2008	25,000,000	1,404,610	324,315	23,271,075	6.92	383	1,267,483	(34.19)	0.73	24,538,558
<b>Portfolio Advisors</b>		<b>70,000,000</b>	<b>30,064,557</b>	<b>1,384,513</b>	<b>38,797,781</b>	<b>44.93</b>	<b>1,252,597</b>	<b>26,529,199</b>	<b>(8.39)</b>	<b>0.88</b>	<b>65,326,980</b>
Port. Advisors Fund IV (B), L.P.	2006	30,000,000	18,355,963	770,313	10,873,724	63.75	1,096,907	16,690,207	(4.12)	0.93	27,563,931
Port. Advisors Fund IV (E), L.P.	2006	15,000,000	6,795,973	526,700	7,677,327	48.82	4,731	4,975,392	(27.02)	0.68	12,652,719
Port. Advisors Fund V (B), L.P.	2008	10,000,000	2,737,523	87,500	7,291,724	28.25	150,959	2,297,040	(13.73)	0.87	9,588,764
Portfolio Advisors Secondary Fund, L.P.	2008	15,000,000	2,175,098	0	12,955,006	14.50	0	2,566,560	18.00	1.18	15,521,566
<b>Quintana Energy Partners</b>		<b>15,000,000</b>	<b>9,652,607</b>	<b>758,621</b>	<b>4,609,143</b>	<b>69.41</b>	<b>0</b>	<b>8,835,037</b>	<b>(7.45)</b>	<b>0.85</b>	<b>13,444,180</b>
Quintana Energy Partners Fund I, L.P.	2006	15,000,000	9,652,607	758,621	4,609,143	69.41	0	8,835,037	(7.45)	0.85	13,444,180
<b>Siguler Guff &amp; Company</b>		<b>25,000,000</b>	<b>10,800,121</b>	<b>443,750</b>	<b>13,888,417</b>	<b>44.98</b>	<b>294,977</b>	<b>9,460,483</b>	<b>(10.12)</b>	<b>0.87</b>	<b>23,348,900</b>
Siguler Guff Small Buyout Opportunities	2007	25,000,000	10,800,121	443,750	13,888,417	44.98	294,977	9,460,483	(10.12)	0.87	23,348,900
<b>Sprout Capital Partners</b>		<b>500,000</b>	<b>416,999</b>	<b>122,671</b>	<b>0</b>	<b>107.93</b>	<b>1,071,930</b>	<b>8,369</b>	<b>17.71</b>	<b>2.00</b>	<b>8,369</b>
Sprout Capital VI	1990	500,000	416,999	122,671	0	107.93	1,071,930	8,369	17.71	2.00	8,369
<b>Summit Ventures</b>		<b>500,000</b>	<b>388,928</b>	<b>109,563</b>	<b>25,003</b>	<b>99.70</b>	<b>1,255,067</b>	<b>2,775</b>	<b>28.32</b>	<b>2.52</b>	<b>27,778</b>
Summit Ventures II, L.P.	1988	500,000	388,928	109,563	25,003	99.70	1,255,067	2,775	28.32	2.52	27,778
<b>TA Associates, Inc.</b>		<b>10,000,000</b>	<b>0</b>	<b>0</b>	<b>10,000,000</b>	<b>0.00</b>	<b>0</b>	<b>0</b>	<b>N/A</b>	<b>0.00</b>	<b>10,000,000</b>
TA XI, L.P.	2009	10,000,000	0	0	10,000,000	0.00	0	0	N/A	0.00	10,000,000
<b>Terra Firma Capital Partners</b>		<b>25,432,997</b>	<b>13,903,822</b>	<b>1,588,906</b>	<b>9,957,321</b>	<b>60.92</b>	<b>0</b>	<b>4,358,173</b>	<b>(54.13)</b>	<b>0.28</b>	<b>14,315,494</b>
Terra Firma Capital Partners III, LP	2007	25,432,997	13,903,822	1,588,906	9,957,321	60.92	0	4,358,173	(54.13)	0.28	14,315,494

Description	Since Inception										
	Vintage Year	Capital Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
<b>Trilantic Capital Partners</b>		<b>11,098,351</b>	<b>3,471,692</b>	<b>515,384</b>	<b>7,111,275</b>	<b>35.92</b>	<b>0</b>	<b>3,504,325</b>	<b>(10.52)</b>	<b>0.88</b>	<b>10,615,600</b>
Trilantic Capital Partners IV L.P.	2007	11,098,351	3,471,692	515,384	7,111,275	35.92	0	3,504,325	(10.52)	0.88	10,615,600
<b>Welsh, Carson, Anderson &amp; Stowe</b>		<b>75,500,000</b>	<b>58,117,984</b>	<b>3,885,057</b>	<b>13,723,365</b>	<b>82.12</b>	<b>29,593,586</b>	<b>51,693,067</b>	<b>9.03</b>	<b>1.31</b>	<b>65,416,432</b>
Welsh, Carson, Anderson & Stowe II	1990	500,000	455,663	88,404	0	108.81	689,495	113,450	8.83	1.48	113,450
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	15,238,856	761,144	9,000,000	64.00	3,222,929	17,921,317	9.09	1.32	26,921,317
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000	22,129,649	1,896,986	973,365	96.11	25,681,162	13,593,305	13.00	1.63	14,566,670
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	20,293,816	1,138,523	3,750,000	85.73	0	20,064,995	(2.70)	0.94	23,814,995
<b>LP's by Family of Funds (Inactive)</b>											
<b>Total</b>		<b>11,918,000</b>	<b>11,577,444</b>	<b>1,178,796</b>	<b>0</b>	<b>107.03</b>	<b>35,165,141</b>	<b>0</b>	<b>21.42</b>	<b>2.76</b>	<b>(0)</b>

As has been indicated previously, the portfolio experienced a modest improvement in net IRR and investment multiple versus the prior quarter. The improvement in performance was broad in nature, with the significant majority of funds reporting some increase in their investment multiple. Distressed debt fund Avenue Special Situations Fund V was a standout in terms of its improvement during the quarter as it saw its net IRR rise to 1.72% from -17.95% and its investment multiple rise to 1.02 from 0.81 in the prior quarter. Centerbridge Special Credit Partners, another distressed fund, made a strong debut in the portfolio by reporting a net IRR of 15.81% and an investment multiple of 1.11.

# MEMORANDUM

Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3<sup>rd</sup> Floor

Helena, MT 59601 (406) 444-0001

**To:** Members of the Board

**From:** Jon Shoen, Portfolio Manager – Alternative Investments

**Date:** February 9, 2010

**Subject:** Montana Real Estate Pool [MTRP]

Attached to this memo are the following reports:

- (i) **Montana Real Estate Pool Review:**  
Comprehensive overview of the real estate portfolio.
- (ii) **New Commitments.** The table below summarizes the investment decisions made by Staff since the last Board meeting. The investment briefs summarizing these funds and the general partners follow.

Fund Name	Pool	Subclass	Sector	Amount	Date Funded
American Core Realty Fund, LLC	TFIP	Core	Diverse	\$25 M	1/4/10
TIAA-CREF Asset Management Core Property Fund, LP	TFIP	Core	Diverse	\$10 M	11/1/09
UBS Trumbull Property Fund, LP	MTRP	Core	Diverse	\$20 M	1/4/10

## Montana Real Estate Pool

Jon Shoen, CFA, Portfolio Manager

February 9, 2010

### Market Real Estate Pool Portfolio Performance

As detailed in the table on the following page, the real estate portfolio reported a 4.84% net decline during the third quarter of 2009. On a gross basis, the portfolio slightly underperformed the return of its NCREIF benchmark. The driver of the quarter's weakness was the portfolio's core funds. Most notably, the Clarion Lion Properties Fund declined 11.85% on a gross basis during the quarter, significantly worse than the 7.32% decline of the NFI-ODCE index of core funds. The Clarion fund has above average leverage for a core fund, and this is the primary reason for the fund's poor returns.

While the value-added and opportunistic portfolios appeared to generate relatively strong gross returns during the quarter, it should be highlighted that these funds hold many assets that are under development, in transition, or are materially un-leased. This complicates the process of determining a market value for the properties, and the managers of these funds have significant flexibility in their approach to valuing these assets. In addition, because these funds are illiquid, many of the managers do a full review of their valuations only in conjunction with their annual audit. To the extent that most audits take place at the end of the calendar year, it should be expected that changes to the value of these funds during the first three quarters of the year will be understated while changes during the final quarter will be exaggerated. Since real estate markets in general have performed poorly in 2009, it should be expected that some of the value-added and opportunistic managers will recognize more material declines when the December quarter is reported.

Another item to note while viewing the performance attributed to value-added and opportunistic funds is that these funds tend to experience large and irregular cash flows as investments are entered into and realized. Therefore, the performance of these funds is best measured by IRR, and the use of time weighted returns can be highly misleading. For example, the MGPA Asia Fund III is currently showing a gross negative 101.28% return since inception with a *higher* net return of negative 94.57%. This nonsensical return is the result of a negative NAV that the fund reported in a prior period combined with the time weighted return calculation methodology. While this >100% negative return and gross/net return imbalance should eventually reverse itself, it helps illustrate the shortcomings of applying time weighted returns to the portfolio's value-added and opportunistic holdings.

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

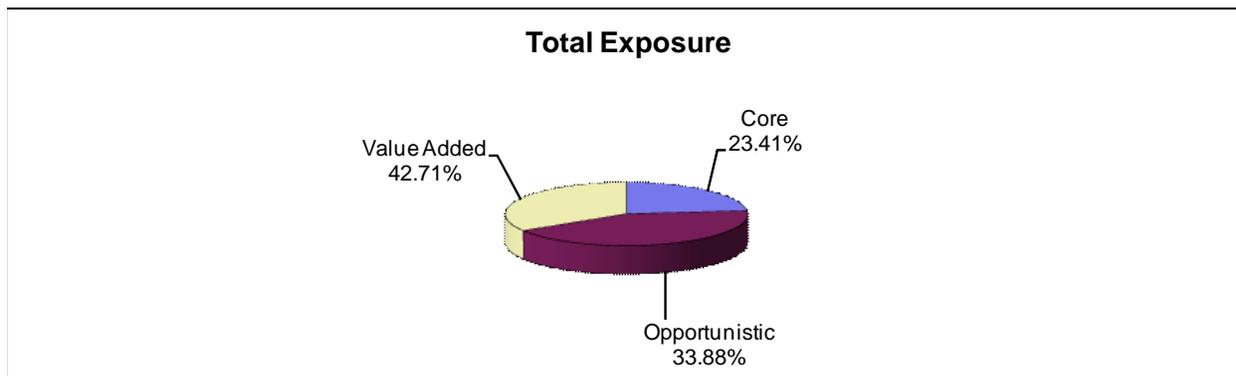
	Current Quarter			Year to Date		1 - Year		2 - Year		3 - Year		Inception		IRR
	NAV	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	
<b>Core</b>	<b>103,609,681</b>	<b>-8.63%</b>	<b>-8.37%</b>	<b>-29.51%</b>	<b>-28.90%</b>	<b>-37.10%</b>	<b>-36.39%</b>	<b>-18.93%</b>	<b>-18.08%</b>	-	-	<b>-9.78%</b>	<b>-8.85%</b>	<b>-14.18%</b>
Clarion Lion Properties Fund	25,122,487	-12.14%	-11.85%	-36.35%	-35.69%	-46.36%	-45.64%	-24.94%	-24.08%	-	-	-14.58%	-13.63%	-16.55%
INVESCO Core Real Estate-USA	29,691,919	-7.27%	-7.05%	-29.89%	-29.35%	-35.85%	-35.20%	-17.81%	-17.02%	-	-	-17.81%	-17.02%	-16.40%
JP Morgan Strategic Properties Fund	48,795,274	-7.54%	-7.29%	-25.05%	-24.43%	-31.73%	-30.99%	-15.88%	-15.01%	-	-	-12.56%	-11.65%	-11.30%
<b>Value Added</b>	<b>107,272,868</b>	<b>-1.18%</b>	<b>-0.56%</b>	<b>-4.38%</b>	<b>-2.54%</b>	<b>-11.39%</b>	<b>-9.03%</b>	<b>-2.22%</b>	<b>0.36%</b>	<b>-1.03%</b>	<b>3.25%</b>	<b>-1.03%</b>	<b>3.25%</b>	<b>-3.99%</b>
ABR Chesapeake Fund III	17,705,031	-1.78%	-1.37%	-0.64%	0.67%	-2.48%	-0.73%	-0.16%	2.04%	2.89%	6.35%	2.89%	6.35%	0.94%
AG Core Plus Realty Fund II	7,467,682	-2.89%	-2.32%	-5.34%	-3.58%	-19.44%	-17.38%	-9.06%	-6.32%	-	-	-9.06%	-6.32%	-12.63%
Apollo Real Estate Finance Corp.	6,873,887	-1.29%	-0.80%	-5.15%	-3.30%	-11.64%	-9.19%	1.07%	5.16%	-	-	0.96%	9.73%	-3.34%
AREFIN Co-Invest	1,191,042	-25.79%	-25.63%	-19.83%	-19.41%	-15.40%	-14.81%	-	-	-	-	-7.61%	-6.96%	-8.21%
DRA Growth & Income Fund VI	13,328,771	1.86%	3.19%	-6.46%	-2.72%	-18.24%	-12.62%	-6.45%	-1.74%	-	-	-6.45%	-1.74%	-7.31%
Five Arrows Securities V, L.P.	3,687,337	0.21%	2.68%	2.61%	9.64%	3.92%	13.77%	3.51%	12.65%	-	-	3.51%	12.65%	3.78%
Hudson RE Fund IV Co-Invest	10,343,410	0.68%	1.01%	2.87%	3.91%	3.41%	4.81%	-	-	-	-	3.65%	5.05%	3.00%
Hudson Realty Capital Fund IV	11,089,338	-0.57%	-0.05%	-8.28%	-6.90%	-26.22%	-24.77%	-12.28%	-10.48%	-	-	-10.06%	-7.82%	-13.47%
Realty Associates Fund IX <sup>1</sup>	(130,466)	-	-	-	-	-	-	-	-	-	-	-	-	-
Realty Associates Fund VIII	16,833,200	0.78%	1.47%	-5.85%	-3.90%	-17.39%	-15.43%	-5.14%	-3.51%	-	-	-4.36%	-2.63%	-7.00%
Strategic Partners Value Enhancement Fund	18,883,635	-2.88%	-2.50%	-5.78%	-4.62%	-3.21%	-1.60%	7.14%	9.33%	-	-	-2.12%	3.06%	1.62%
<b>Opportunistic</b>	<b>46,886,484</b>	<b>-3.78%</b>	<b>-2.20%</b>	<b>-49.05%</b>	<b>-46.34%</b>	<b>-66.05%</b>	<b>-63.76%</b>	<b>-47.14%</b>	<b>-43.75%</b>	-	-	<b>-47.14%</b>	<b>-43.75%</b>	<b>-52.47%</b>
AG Realty Fund VII L.P.	5,547,536	5.30%	6.45%	17.93%	22.61%	10.59%	17.18%	-	-	-	-	0.80%	8.66%	0.70%
Beacon Capital Strategic Partners V	5,045,850	-14.73%	-13.22%	-42.61%	-39.98%	-62.16%	-59.97%	-47.00%	-44.51%	-	-	-47.00%	-44.51%	-50.46%
Carlyle Europe Real Estate Partners III	7,163,783	-4.45%	-2.18%	-12.48%	-6.55%	-31.04%	-24.92%	-	-	-	-	-33.85%	-27.98%	-37.35%
CIM Fund III, L.P.	362,458	-39.51%	-11.54%	-99.88%	-91.79%	-99.91%	-92.68%	-97.90%	-70.62%	-	-	-97.90%	-70.62%	-92.76%
JER Real Estate Partners - Fund IV	6,814,835	-6.18%	-5.26%	-39.75%	-38.06%	-48.47%	-46.57%	-34.88%	-33.13%	-	-	-34.88%	-33.13%	-31.18%
Liquid Realty IV <sup>2</sup>	11,042,511	2.52%	3.33%	-29.38%	-27.76%	-33.25%	-31.71%	-4.00%	2.88%	-	-	-4.00%	2.88%	-24.56%
MGP Asia Fund III, LP	3,926,837	-3.65%	-1.10%	-98.99%	-101.90%	-99.27%	-101.42%	-	-	-	-	-94.57%	-101.28%	-90.39%
MSREF VI International	3,923,520	-0.55%	0.93%	-92.78%	-92.38%	-99.54%	-99.48%	-94.76%	-94.37%	-	-	-94.76%	-94.37%	-89.21%
O'Connor North American Partners II	3,059,154	-13.65%	-11.94%	-17.37%	-12.67%	-70.36%	-68.07%	-	-	-	-	-62.96%	-60.40%	-61.55%
<b>Montana Real Estate</b>	<b>257,769,033</b>	<b>-4.84%</b>	<b>-4.21%</b>	<b>-25.31%</b>	<b>-23.83%</b>	<b>-36.11%</b>	<b>-34.46%</b>	<b>-19.78%</b>	<b>-17.85%</b>	<b>-9.75%</b>	<b>-7.19%</b>	<b>-9.75%</b>	<b>-7.19%</b>	<b>-19.56%</b>
<b>Benchmark (gross)</b>														
NCREIF	243,818,266,089		-3.32%		-15.07%		-22.09%		-9.45%		-1.28%		8.91%	
NFI-ODCE	40,878,400,000		-7.32%		-27.37%		-35.20%		-30.66%		-7.50%		8.00%	

<sup>1</sup> As of September 30, 2009 Realty Associates Fund IX has not been funded.

<sup>2</sup> Liquid Realty IVs NAV is an estimated NAV provided by the GP due to the Q3 reports not being finalized.

Montana Real Estate Pool Diversification

**Real Estate Portfolio Status**  
**Strategy Exposure by Net Asset Value & Remaining Commitments**  
*(Since inception through September 30, 2009)*



Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core	\$0	0.00%	\$103,609,681	40.19%	\$103,609,681	23.41%
Value Added	\$81,748,957	44.23%	\$107,272,868	41.62%	\$189,021,824	42.71%
Opportunistic	\$103,075,776	55.77%	\$46,886,484	18.19%	\$149,962,260	33.88%
<b>Total</b>	<b>\$184,824,733</b>	<b>100.00%</b>	<b>\$257,769,033</b>	<b>100.00%</b>	<b>\$442,593,766</b>	<b>100.00%</b>

The preceding chart and table show that assets in the real estate portfolio are well diversified by strategy. It should, however, be noted that the value-added and opportunistic strategies are currently outside of the 20-30% of NAV range specified in the investment policy statement. To the extent that opportunistic has more uncalled capital than value-added, this imbalance should partially self-correct as opportunistic managers draw additional funds. In addition, the portfolio's current exposure by strategy must be assessed in light of the investment plan for 2010, which has a focus on core funds. This 2010 investment plan is discussed in a separate memo.

Whether or not the dynamics of capital calls, expected core investments and valuation changes bring the portfolio allocation into targeted ranges in the near-term, Board staff does not recommend taking extreme corrective measures such as discontinuing new commitments to value-added funds or selling these funds in the secondary market. In addition to the secondary market's high transaction costs and price discounts, in the course of 2010, Board staff intends to recommend changes to the real estate investment policy statement. Taking extreme action to bring the real estate strategies into targeted ranges prior to any possible investment policy statement revisions would likely be self-defeating.

**Total Portfolio Characteristics**  
**Geographic Diversification<sup>1</sup>**  
(as of September 30, 2009)



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

	East	Midwest	South	West	US Diverse	Non-US	Total
Montana Total Value <sup>2</sup>	\$331.0	\$80.4	\$145.0	\$167.0	\$12.1	\$124.1	\$859.6
Montana Total <sup>1</sup>	38.5%	9.4%	16.9%	19.4%	1.4%	14.4%	100.0%
Montana US Value <sup>2</sup>	\$331.0	\$80.4	\$145.0	\$167.0	\$12.1		\$735.5
Montana US Total <sup>1</sup>	45.0%	10.9%	19.7%	22.7%	1.6%		100.0%
NCREIF Value <sup>2, 3</sup>	\$80,720	\$25,809	\$51,696	\$85,595			\$243,818
NCREIF <sup>1</sup>	33.1%	10.6%	21.2%	35.1%			100.0%
Difference	11.9%	0.3%	-1.5%	-12.4%	1.6%		

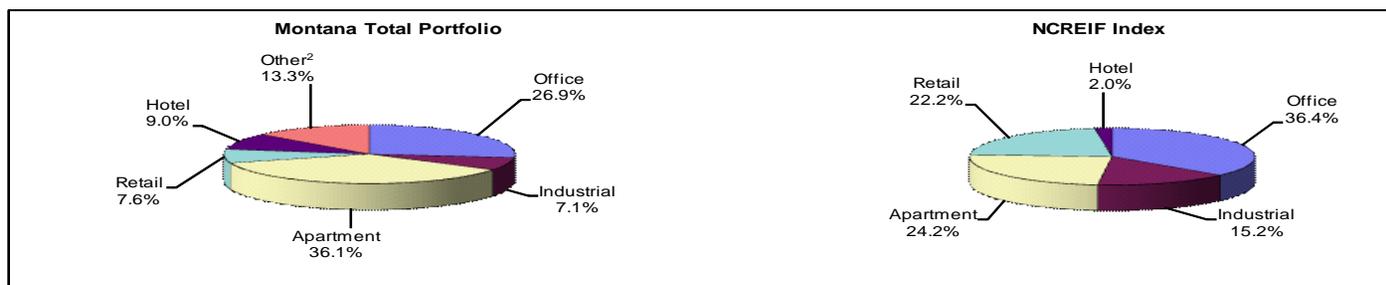
<sup>1</sup> Diversification percentages are based on the Gross Market Value, which represents the MBOI share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property.

<sup>2</sup> Values shown are in Millions.

<sup>3</sup> The NCREIF gross market values represent the total gross asset values of the participating funds exclusive of any underlying debt.

The real estate portfolio continues to be geographically well-diversified. International properties account for 14.4% of the portfolio. In the domestic holdings, the portfolio is about 12% overweight in the East versus the NCREIF, with a similarly sized underweight in the West. While it is difficult to predict near-term fluctuations in the portfolio's exposure by geography, it is likely that recent investments will have the effect of incrementally reducing international exposure and exposure to the East U.S. while exposure in the West U.S. should increase.

**Total Portfolio Characteristics**  
**Property Type Diversification<sup>1</sup>**  
(as of September 30, 2009)



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 September 30, 2009.

	Office	Industrial	Apartment	Retail	Hotel	Other <sup>2</sup>	Total
Montana Total Value <sup>2</sup>	\$231.1	\$61.0	\$310.6	\$65.1	\$77.7	\$114.1	\$859.6
Montana Total <sup>1</sup>	26.9%	7.1%	36.1%	7.6%	9.0%	13.3%	100.0%
Montana US Value <sup>2</sup>	\$183.0	\$61.0	\$301.0	\$58.7	\$62.7	\$69.2	\$735.5
Montana US Total	24.9%	8.3%	40.9%	8.0%	8.5%	9.4%	100.0%
NCREIF Value <sup>2,4</sup>	\$88,748	\$37,091	\$59,097	\$54,126	\$4,756		\$243,818
NCREIF <sup>1</sup>	36.4%	15.2%	24.2%	22.2%	2.0%		100.0%
Difference	-11.5%	-6.9%	16.7%	-14.2%	6.6%	9.4%	
Montana Non-US Value <sup>2</sup>	\$48.0	\$0.0	\$9.6	\$6.4	\$15.1	\$44.9	\$124.1
Montana Non-US Total	38.7%	0.0%	7.7%	5.2%	12.1%	36.2%	100.0%

<sup>1</sup> 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.

<sup>2</sup> Other consists of \$63,627,954 in mixed-use assets, \$39,081,262 in healthcare/senior living, \$8,338,936 in land, and \$1,116,595 in storage.

<sup>3</sup> Values shown are in Millions.

<sup>4</sup> 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.

The domestic portion of the portfolio has a 17% overweight to Apartments and sizeable underweights to Office and Retail. Recent investment activity should have the impact of moving the portfolio's allocation by property type closer to that of the NCREIF. That said, to the extent that real estate markets may be nearing their trough, history would suggest that an overweight to the Apartment sector may lead to outperformance as we enter the early stages of a real estate recovery. This is the case because apartments typically operate under one year lease contracts versus leases of three or more years for office, retail, and industrial buildings. Therefore, as rental rates begin to increase, apartment leases rollover relatively quickly and are able to take advantage of improved pricing on a more timely basis that most other real estate sectors.

### 12/31/2009 Private Real Estate Holdings

<u>Fund Name</u>	<u>Shares</u>	<u>Book Value</u>	<u>Market Value</u>	<u>%</u>
ABR CHESAPEAKE III	19,756,557	19,756,557	19,690,807	6.58%
<b>ABR CHESAPEAKE Total</b>	<b>19,756,557</b>	<b>19,756,557</b>	<b>19,690,807</b>	<b>6.58%</b>
AG CORE PLUS REALTY FD II	11,081,597	11,081,597	9,467,684	3.16%
AG REALTY FUND VII LP	7,300,000	7,300,000	5,147,537	1.72%
<b>ANGELO GORDON Total</b>	<b>18,381,597</b>	<b>18,381,597</b>	<b>14,615,221</b>	<b>4.88%</b>
APOLLO REAL ESTATE FINANCE COR	7,727	7,727,000	6,873,887	2.30%
AREFIN CO INVEST CORPORATION	1,352	1,352,000	1,191,042	0.40%
<b>AREA PROPERTY PARTNERS Total</b>	<b>9,079</b>	<b>9,079,000</b>	<b>8,064,929</b>	<b>2.69%</b>
BEACON CAPITAL PARTNERS FUND V	16,562,500	16,562,500	5,045,848	1.69%
<b>BEACON CAPITAL PARTNERS Tot</b>	<b>16,562,500</b>	<b>16,562,500</b>	<b>5,045,848</b>	<b>1.69%</b>
CARLYLE EUROPE R E P III L P	6,935,346	10,688,286	7,076,862	2.36%
<b>CARLYLE Total</b>	<b>6,935,346</b>	<b>10,688,286</b>	<b>7,076,862</b>	<b>2.36%</b>
CIM FUND III	1,975,923	1,975,923	673,337	0.22%
<b>CIM FUND Total</b>	<b>1,975,923</b>	<b>1,975,923</b>	<b>673,337</b>	<b>0.22%</b>
CLARION LION PROPERTIES FUND	31,957	45,000,000	24,676,790	8.24%
<b>CLARION LION PROPERTIES Total</b>	<b>31,957</b>	<b>45,000,000</b>	<b>24,676,790</b>	<b>8.24%</b>
DRA ADVISORS VI	17,971,854	17,971,854	15,221,855	5.08%
<b>DRA ADVISORS Total</b>	<b>17,971,854</b>	<b>17,971,854</b>	<b>15,221,855</b>	<b>5.08%</b>
HUDSON REAL ESTATE FD IV CO IN	10,000,000	10,000,000	10,343,410	3.45%
HUDSON REALTY CAPITAL FUND IV	15,000,000	15,000,000	11,089,335	3.70%
<b>HUDSON REALTY CAPITAL Total</b>	<b>25,000,000</b>	<b>25,000,000</b>	<b>21,432,745</b>	<b>7.16%</b>
INVESCO CORE REAL ESTATE USA	309	45,000,000	29,609,015	9.89%
<b>INVESCO REAL ESTATE Total</b>	<b>309</b>	<b>45,000,000</b>	<b>29,609,015</b>	<b>9.89%</b>
JER REAL EST PARTNERS FUND IV	15,311,878	15,311,878	6,814,842	2.28%
<b>JER REAL EST PARTNERS Total</b>	<b>15,311,878</b>	<b>15,311,878</b>	<b>6,814,842</b>	<b>2.28%</b>
JP MORGAN CB	37,211	71,597,683	48,032,604	16.04%
<b>JP MORGAN Total</b>	<b>37,211</b>	<b>71,597,683</b>	<b>48,032,604</b>	<b>16.04%</b>
LIQUID REALTY FUN IV	15,535,697	15,535,697	10,684,117	3.57%
<b>LIQUID REALTY Total</b>	<b>15,535,697</b>	<b>15,535,697</b>	<b>10,684,117</b>	<b>3.57%</b>
MACQUARIE GBL PROP III ASIA	12,956,980	12,956,980	3,606,783	1.20%
<b>MACQUARIE GBL PROP Total</b>	<b>12,956,980</b>	<b>12,956,980</b>	<b>3,606,783</b>	<b>1.20%</b>
MORGAN STANLEY REAL ESTATE	27,536,302	27,536,302	3,923,510	1.31%
<b>MORGAN STANLEY REAL ESTATI</b>	<b>27,536,302</b>	<b>27,536,302</b>	<b>3,923,510</b>	<b>1.31%</b>
OCONNOR NTH AMER PROP PTNRS II	8,954,659	8,954,659	3,484,831	1.16%
<b>OCONNOR NTH AMER Total</b>	<b>8,954,659</b>	<b>8,954,659</b>	<b>3,484,831</b>	<b>1.16%</b>
ROTHSCHILD FIVE ARROWS REALTY	3,917,800	3,917,800	4,223,560	1.41%
<b>ROTHSCHILD REALTY Total</b>	<b>3,917,800</b>	<b>3,917,800</b>	<b>4,223,560</b>	<b>1.41%</b>
SHORT TERM INVESTMENT POOL	35,854,171	35,854,171	35,854,171	11.98%
<b>SHORT TERM INVESTMENT POOL</b>	<b>35,854,171</b>	<b>35,854,171</b>	<b>35,854,171</b>	<b>11.98%</b>
STRATEGIC PARTNERS VALUE	18,480,000	18,480,000	19,722,595	6.59%
<b>STRATEGIC PARTNERS Total</b>	<b>18,480,000</b>	<b>18,480,000</b>	<b>19,722,595</b>	<b>6.59%</b>
TA ASSOCIATES REALTY FUND	20,000,000	20,000,000	16,833,200	5.62%
<b>TA ASSOCIATES REALTY Total</b>	<b>20,000,000</b>	<b>20,000,000</b>	<b>16,833,200</b>	<b>5.62%</b>
<b>MTRP Total</b>	<b>265,276,665</b>	<b>439,656,653</b>	<b>299,383,528</b>	<b>100.00%</b>

As the preceding table shows, the portfolio is well diversified by fund and by manager. The only fund or manager that accounts for more than 10% of pool assets is the core JP Morgan Strategic Property Fund; that fund is currently 16.04% of assets.

# Montana Real Estate Pool Status Report

MONTANA BOARD OF INVESTMENTS  
Real Estate Report

September 30, 2009

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

	Vintage Year	Commitment	Since Inception				Investment Multiple
			Capital Contributed <sup>1</sup>	Remaining Commitment	Capital Distributed	Net Asset Value	
<b>Core</b>		<b>155,000,000</b>	<b>155,000,000</b>	-	<b>8,444,150</b>	<b>103,609,681</b>	<b>0.71</b>
Clarion Lion Properties Fund	2006	45,000,000	45,000,000	-	5,137,778	25,122,487	0.66
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	-	2,292,400	29,691,919	0.70
JP Morgan Strategic Property Fund	2007	65,000,000	65,000,000	-	1,013,971	48,795,274	0.76
<b>Value Added</b>		<b>204,200,000</b>	<b>122,451,043</b>	<b>81,748,957</b>	<b>7,998,880</b>	<b>107,272,868</b>	<b>0.94</b>
ABR Chesapeake Fund III	2006	20,000,000	18,000,000	2,000,000	515,437	17,705,031	1.01
AG Core Plus Realty Fund II	2007	20,000,000	9,400,000	10,600,000	508,403	7,467,682	0.85
Apollo Real Estate Finance Corp.	2007	10,000,000	7,727,000	2,273,000	550,839	6,873,887	0.96
AREFIN Co-Invest	2008	10,000,000	1,352,000	8,648,000	31,642	1,191,042	0.90
DRA Growth & Income Fund VI	2007	35,000,000	18,856,410	16,143,590	4,843,545	13,328,771	0.93
Five Arrows Securities V, L.P.	2007	30,000,000	3,754,594	26,245,406	467,415	3,687,337	1.11
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	-	61,473	10,343,410	1.04
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	-	241,000	11,089,338	0.76
Realty Associates Fund IX <sup>2</sup>		15,000,000	-	15,000,000	-	-130,466	-
Realty Associates Fund VIII	2007	20,000,000	20,000,000	-	779,125	16,833,200	0.88
Strategic Partners Value Enhancement Fund	2007	19,200,000	18,361,039	838,961	-	18,883,635	1.03
<b>Opportunistic</b>		<b>220,994,690</b>	<b>120,418,914</b>	<b>103,075,776</b>	<b>3,573,120</b>	<b>46,886,484</b>	<b>0.41</b>
AG Realty Fund VII L.P.	2007	20,000,000	5,900,000	14,100,000	405,231	5,547,536	1.01
Beacon Capital Strategic Partners V	2007	25,000,000	16,562,500	8,437,500	-	5,045,850	0.30
Carlyle Europe Real Estate Partners III <sup>3</sup>	2007	30,994,690	11,874,913	19,119,777	-	7,163,783	0.60
CIM Fund III, L.P.	2007	25,000,000	1,665,044	23,334,956	115,372	362,458	0.17
JER Real Estate Partners - Fund IV	2007	20,000,000	15,634,891	4,365,109	21,784	6,814,835	0.44
Liquid Realty IV <sup>4</sup>	2007	30,000,000	18,609,177	11,390,823	2,926,620	11,042,511	0.72
MGP Asia Fund III, LP	2007	30,000,000	13,631,608	16,368,392	14,428	3,926,837	0.29
MSREF VI International <sup>5</sup>	2007	25,000,000	27,500,000	-	17,313	3,923,520	0.14
O'Connor North American Property Partners II	2008	15,000,000	9,040,781	5,959,219	72,371	3,059,154	0.34
<b>Montana Real Estate</b>		<b>\$580,194,690</b>	<b>\$397,869,957</b>	<b>\$184,824,733</b>	<b>\$20,016,150</b>	<b>\$257,769,033</b>	<b>0.69</b>

<sup>1</sup> Capital contributed does not include contributions for expenses outside of the commitment amounts.

<sup>2</sup> As of September 30, 2009 Realty Associates Fund IX has not been funded yet. As a result, there is no vintage year.

<sup>3</sup> Carlyle Europe III's Commitment amount is converted to USD by using the EUR exchange rate from 10/9/2007, the date Montana committed to the fund. The current unfunded capital is based on this figure less the cumulative USD activity.

<sup>4</sup> Liquid Realty IV's NAV is an estimated NAV provided by the GP due to the Q3 reports not being finalized.

<sup>5</sup> 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.

The real estate portfolio's investment multiple declined slightly to 0.69 from 0.71 in the prior quarter. The decline was driven by the core funds, which in aggregate saw their multiple decrease to 0.71 from 0.78 previously. While the multiples of the Value-added and Opportunistic portions of the portfolio showed little movement against the prior quarter, it should be anticipated that some level of decline will be experienced in the December quarter as the managers and their auditors perform a thorough review of asset valuations as part of the funds' annual audit.

In assessing the outlook for the portfolio's closed end funds, it should be noted that 43% of the funds committed to Value-added and Opportunistic managers have yet to be drawn. A significant portion of this uncalled capital should ultimately be invested at or near the bottom of the real estate cycle.

# **MEMORANDUM**

**Montana Board of Investments**

**Department of Commerce**

**2401 Colonial Drive, 3<sup>rd</sup> Floor**

**Helena, MT 59601 (406) 444-0001**

**To:** Members of the Board

**From:** Jon Shoen, Portfolio Manager – Alternative Investments

**Date:** February 9, 2010

**Subject:** Montana Real Estate Pool (MTRP) 2010 Investment Plan

Commercial real estate investments have suffered a significant decline in valuation in sympathy with all risk assets. As of 12/31/09, private market real estate valuations as measured by the NFI-ODCE index of core funds have declined by 38% from their peak in the second quarter of 2008. The rate of decline in real estate valuations peaked in the first quarter of 2009 and has decreased steadily since then. The fourth quarter of 2009 experienced a relatively modest decline of 3.4%.

The causes of the decline in real estate are linked to an increase in unemployment, which is driving an increase in vacancy and a decrease in rental rates, as well as an increase in the discount rate used to value real estate cash flows. With the economy having begun to grow again, it appears likely that unemployment is nearing its cyclical peak. A peak in unemployment combined with a discount rate in real estate markets that is now at or above its historical norm indicates that private market real estate valuations should be nearing their lows for the cycle. While persistently high unemployment and unsustainable capital structures are likely to lead to a long bottom in real estate valuations, it appears that now is an appropriate time to begin “averaging in” to real estate.

The pension plans have an approved asset allocation to the real estate pool of 0 – 8%. The floor of zero percent was designed to accommodate the fact we started at that level in mid-2006 when the asset class was approved, however the intended range discussed at that time was 4 – 8%. As of 12/31/09, the total pension allocation was 4.4%. To the extent that the numerator of this figure is based on cash-adjusted 9/30/09 real estate fund valuations and that real estate values continued to decline, the actual pension allocation to the real estate pool is likely below the reported 4.4% figure. In order to take advantage of the weakness in real estate market values, Board staff intends to increase the pension real estate exposure to a level approaching 6.0% over the course of 2010.

Given the illiquid nature of private real estate and the lack of staff control over the timing of capital to be called from closed-end partnership commitments, let alone the volatility of the denominator, it will not be possible to meet the 6.0% target with precision. However, an internal pacing tool indicates that an investment of \$40-60 million in core real estate and an additional \$30-50 million commitment to closed-end value-added or opportunistic partnerships will bring the pension real estate allocation close to the 6.0% target. The first step in the process of increasing the real estate allocation was completed on 1/4/10, when staff invested \$20 million in the UBS Trumbull Property Fund, a core real estate fund. However, the cash to fund this investment was already included in the real estate pool as of 12/31/09 so the \$40-60 million targeted for core real estate in 2010 is exclusive of this investment.

The UBS fund was added as a fourth core fund within the pool. This fund and the three prior core funds held in the pool will be monitored and further additions made over the course of this year. We are presently evaluating a limited number of value-add closed-end real estate funds that are in the market and believe commitments made this year will provide attractive returns over time as the economy and real estate markets stabilize and recover.

Staff plans to also review our real estate pool policy during this year and bring recommended changes to the Board. The existing policy was crafted at the inception of the real estate allocation efforts in mid-2006 and now that we have an established portfolio and a more refined process for managing it, the policy deserves a review.

# **MEMORANDUM**

**Montana Board of Investments**

**Department of Commerce  
2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, MT 59601 (406) 444-0001**

**To:** Members of the Board

**From:** Clifford A. Sheets, CFA  
Chief Investment Officer

**Date:** February 9, 2010

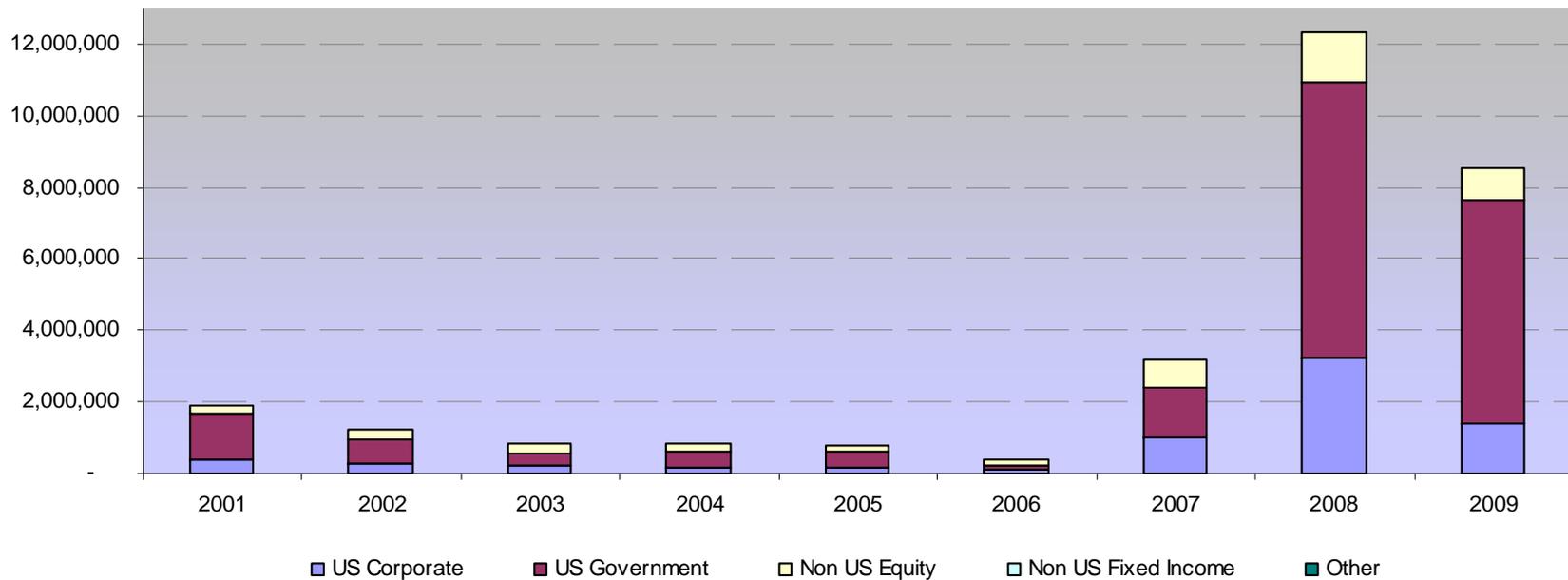
**Subject:** Securities Lending Update

The purpose of this memo is simply to update the Board on the securities lending program which is conducted on our behalf through our custodian, State Street. The underlying investment risk inherent in this program has been discussed with the Board previously. This risk became evident during the credit crisis and is also associated with a heightened level of earnings from the program.

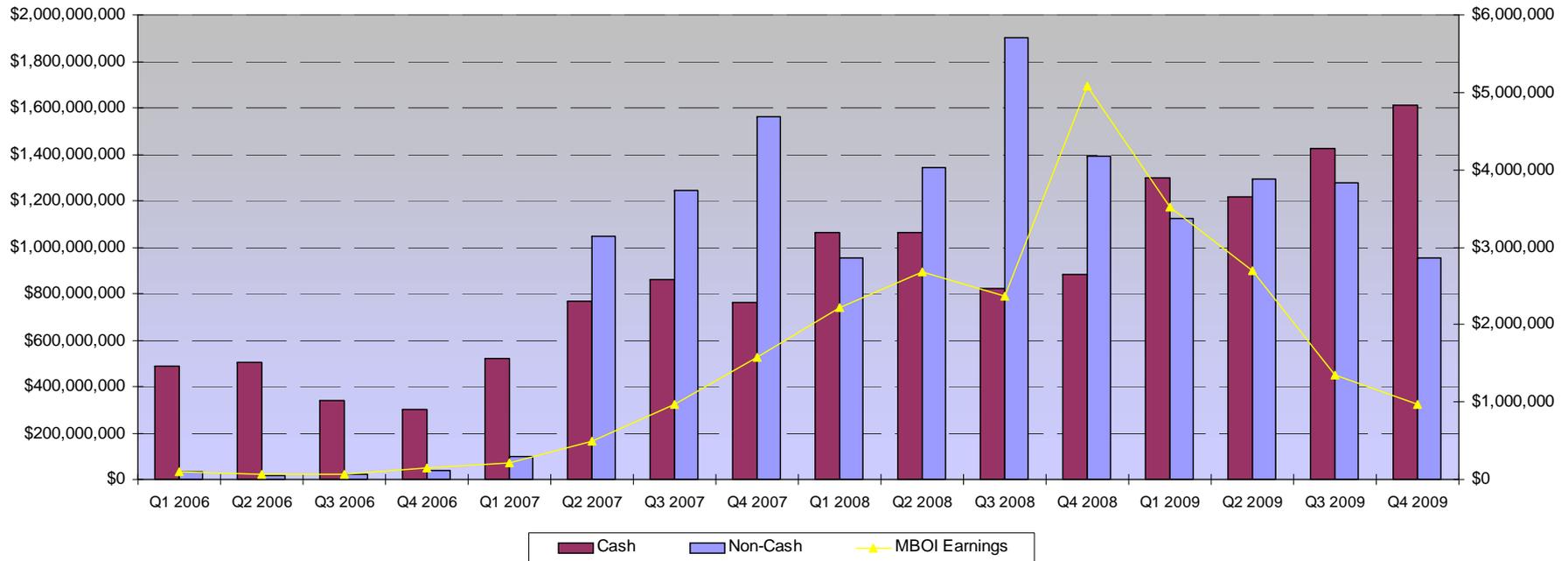
The attached pages show the level of activity in our program and the associated earnings. Overall, the profitability of the program has declined in recent months. At the same time the underlying cash collateral pools have seen a substantial recovery of valuations of the underlying investment holdings. The charts will be discussed in more depth during the meeting.

## Program Summary

### MBOI Performance Summary – Historical Earnings Calendar Year



## MBOI Cash vs. Non-Cash Collateral Balances (Quarterly)

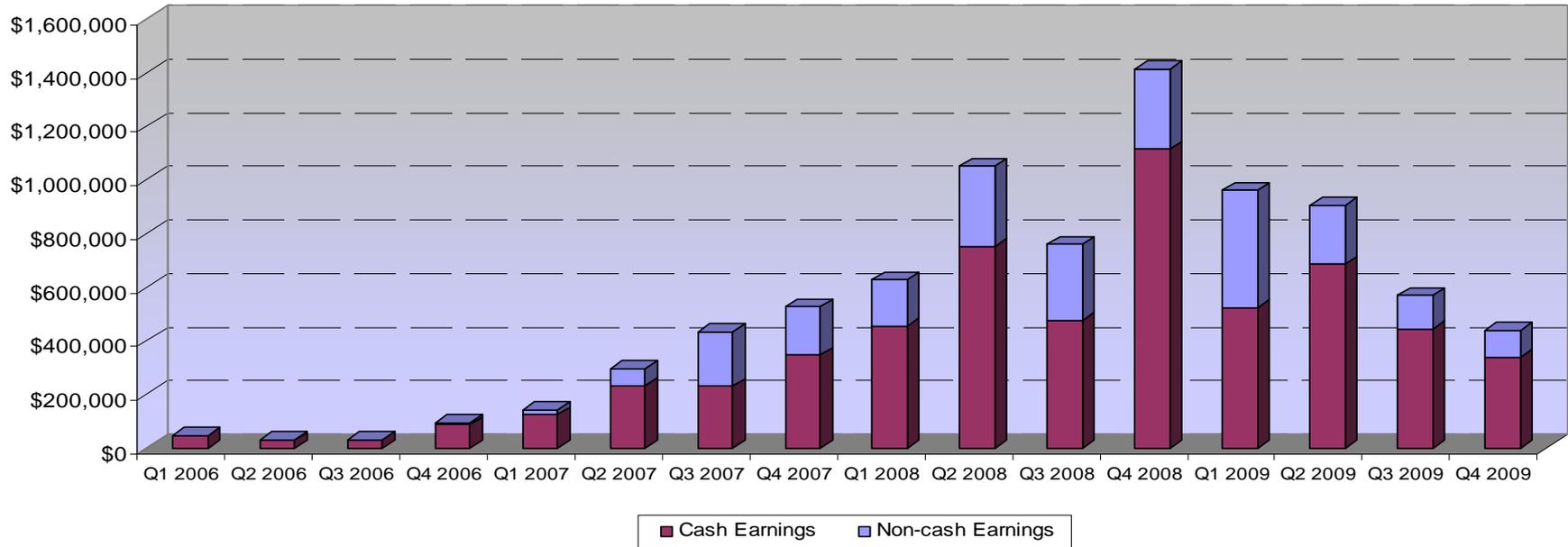


	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Cash	\$489,826,410.13	\$504,625,421.60	\$339,311,642.98	\$298,647,199.43	\$519,563,107.23	\$769,154,586.46	\$858,317,796.41	\$759,126,111.58
Non-Cash	\$32,510,633.38	\$17,271,050.77	\$22,738,621.18	\$39,840,822.11	\$97,048,217.11	\$1,046,441,346.75	\$1,242,694,252.54	\$1,560,620,063.92
MBOI Earnings	\$102,935.45	\$58,806.49	\$67,062.73	\$145,552.58	\$221,252.84	\$501,143.13	\$964,607.01	\$1,571,925.55

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Cash	\$1,065,612,768.14	\$1,065,593,629.74	\$819,523,518.53	\$883,570,277.71	\$1,299,845,347.86	\$1,215,237,241.37	\$1,422,735,265.39	\$1,610,913,401.80
Non-Cash	\$953,320,490.25	\$1,343,548,840.10	\$1,901,672,572.78	\$1,390,571,981.16	\$1,124,657,169.33	\$1,295,432,849.34	\$1,274,448,655.75	\$951,346,126.04
MBOI Earnings	\$2,222,856.01	\$2,686,051.52	\$2,365,534.71	\$5,082,718.44	\$3,510,750.59	\$2,700,172.61	\$1,341,451.91	\$965,103.70

# MBOI Cash vs. Non-Cash Earnings – Pension (Quarterly)

## Montana Pension - Quality D

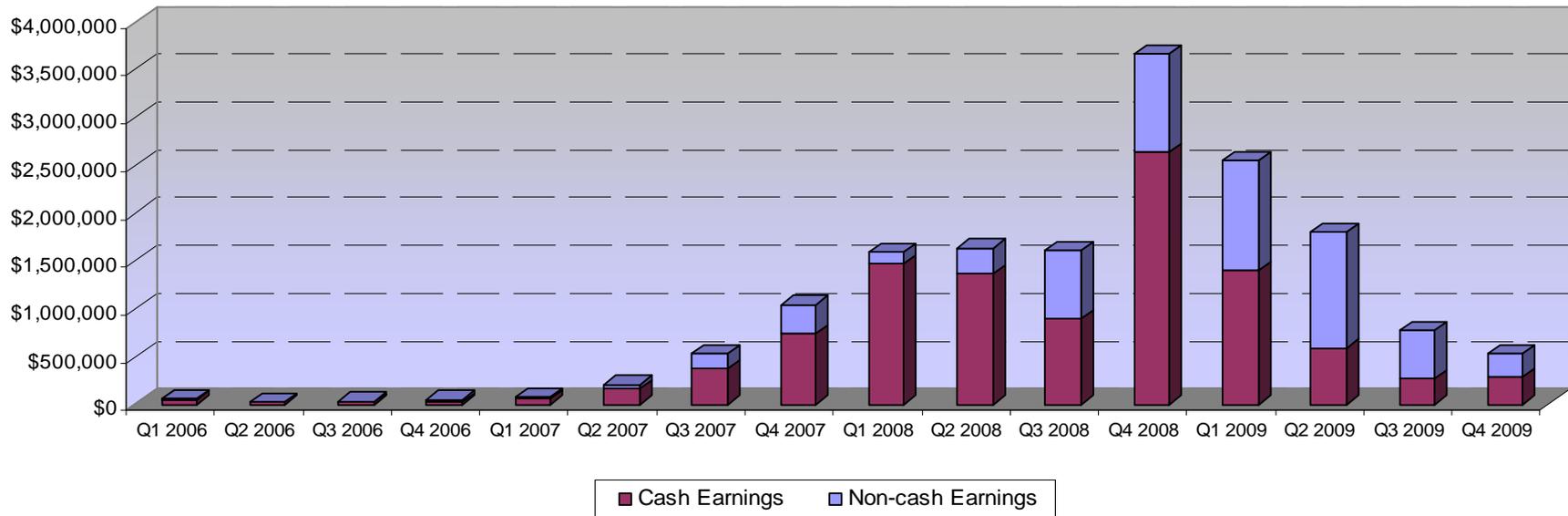


Montana	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Cash Earnings	\$47,493.91	\$30,345.13	\$31,364.98	\$87,801.42	\$124,650.30	\$233,186.42	\$231,602.26	\$348,023.31
Non-cash Earnings	\$298.55	\$283.91	\$869.54	\$9,121.22	\$17,232.35	\$63,030.57	\$203,269.99	\$179,837.96
Total	\$47,792.46	\$30,629.04	\$32,234.52	\$96,922.64	\$141,882.65	\$296,216.99	\$434,872.25	\$527,861.27

Montana	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Cash Earnings	\$454,288.95	\$750,801.43	\$477,468.02	\$1,114,444.70	\$525,996.02	\$686,407.65	\$444,566.49	\$339,077.35
Non-cash Earnings	\$173,177.25	\$301,287.25	\$283,491.65	\$299,582.62	\$435,769.56	\$219,455.54	\$124,949.74	\$102,093.53
Total	\$627,466.20	\$1,052,088.68	\$760,959.67	\$1,414,027.32	\$961,765.58	\$905,863.19	\$569,516.23	\$441,170.88

## MBOI Cash vs. Non-Cash Earnings – Non-Pension (Quarterly)

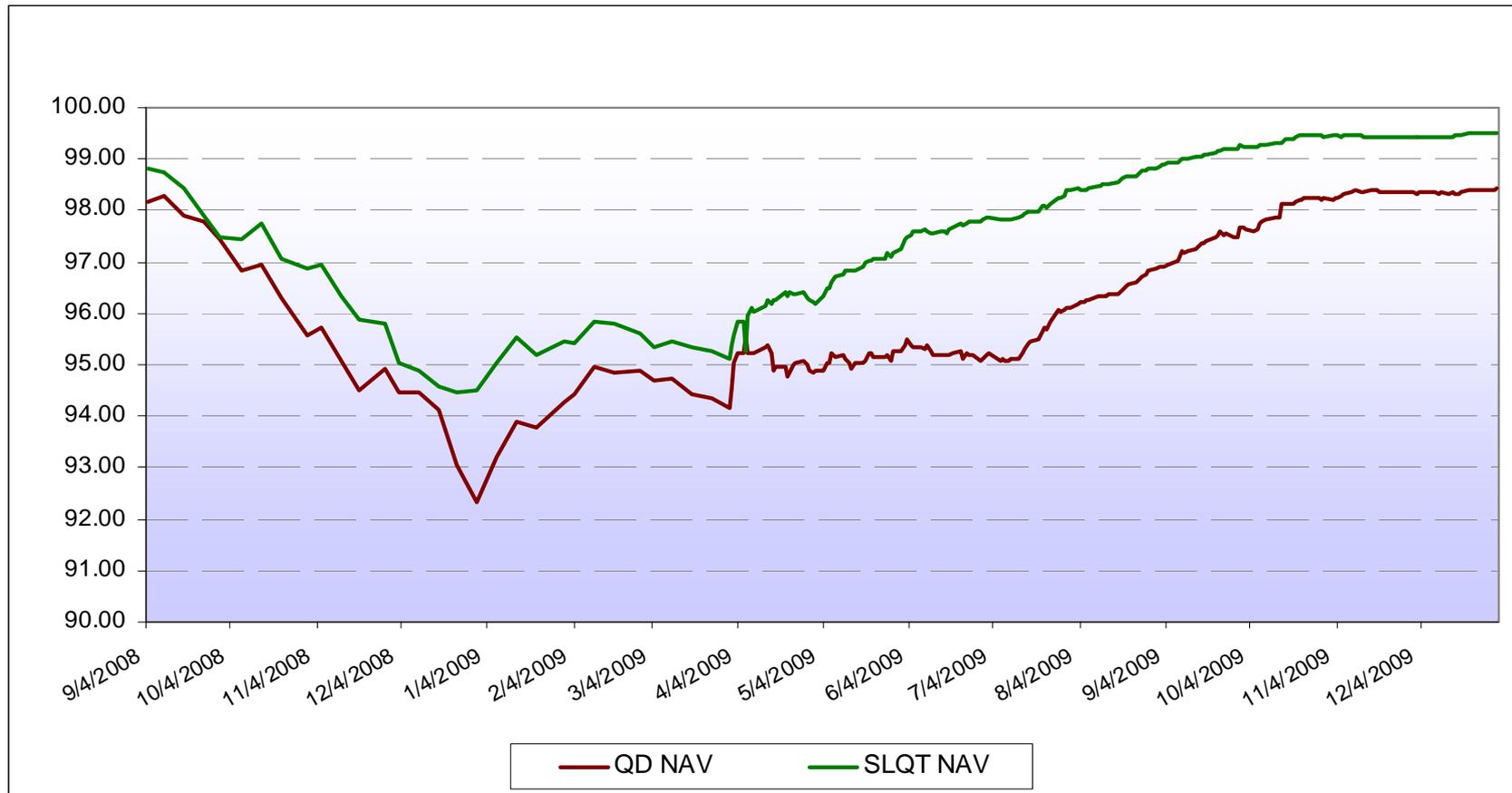
Montana Non Pension - SLQT



Montana	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Cash Earnings	\$51,258.36	\$25,673.35	\$22,814.46	\$27,677.58	\$61,224.57	\$159,530.31	\$375,052.63	\$738,788.50
Non-cash Earnings	\$3,884.63	\$2,504.10	\$12,013.75	\$20,952.36	\$18,145.62	\$45,395.83	\$154,682.13	\$305,275.78
Total	\$55,142.99	\$28,177.45	\$34,828.21	\$48,629.94	\$79,370.19	\$204,926.14	\$529,734.76	\$1,044,064.28

Montana	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Cash Earnings	\$1,471,471.23	\$1,361,060.84	\$892,962.06	\$2,629,937.40	\$1,395,897.97	\$589,266.84	\$273,446.45	\$284,083.19
Non-cash Earnings	\$123,918.58	\$272,902.00	\$711,612.98	\$1,038,753.72	\$1,153,087.04	\$1,205,042.58	\$498,489.23	\$239,849.63
Total	\$1,595,389.81	\$1,633,962.84	\$1,604,575.04	\$3,668,691.12	\$2,548,985.01	\$1,794,309.42	\$771,935.68	\$523,932.82

## Pension and Non-Pension Cash Collateral Pool NAV Trend



# Executive Director Reports

# **Pension Investments Past, Present, and Future**

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**Presented to: Montana Board of Investment**  
**By: Carroll South, Executive Director**  
**Date: February 10, 2010**



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# Defined Benefit Pension Systems

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- ❑ **Montana manages nine defined benefit systems**
- ❑ **Benefit formulas are set by legislature**
- ❑ **Benefits are guaranteed by the state**
- ❑ **Benefits levels are not subject to financial market performance**
- ❑ **Actuarial asset values are smoothed to mitigate financial market volatility**
- ❑ **Smoothed asset values = “Actuarial” values**
- ❑ **Actual asset values as priced = “Market” values**
- ❑ **The Teachers System establishes a corridor for asset smoothing**
  - **Actuarial value may not be less than 80% of current market value**
  - **Actuarial value may not be more than 120% of current market value**
- ❑ **The systems’ market and actuarial values are shown on the next slide**

## Asset Values as of June 30, 2009

<u>Pension Fund</u>	<u>Market Value</u>	<u>Actuarial Value</u>	<u>Actuarial Value Over \$ Market Value</u>	<u>%</u>
Public Employees	2,998,626,255	4,002,212,253	1,003,585,998	133.47%
Teachers	2,301,828,565	2,762,194,278	460,365,713	120.00%
Police	162,053,923	214,344,558	52,290,635	132.27%
Firefighters	159,304,345	209,775,081	50,470,736	131.68%
Sheriffs	151,457,615	200,690,401	49,232,786	132.51%
Highway Patrol	74,557,199	99,651,544	25,094,345	133.66%
Game Wardens	61,881,766	81,176,976	19,295,210	131.18%
Judges	46,645,640	61,928,749	15,283,109	132.76%
Vol Firefighters	20,438,182	27,225,915	6,787,733	133.21%
<b>Total</b>	<b><u>5,976,793,490</u></b>	<b><u>7,659,199,755</u></b>	<b><u>1,682,406,265</u></b>	<b><u>128.15%</u></b>



# Systems Must be Actuarially Sound

---

- **Systems must be maintained on an “actuarially” sound basis**
  - Any unfunded liability must be amortized by contributions in 30 years or less
- **Unfunded liabilities are calculated on “actuarial” asset values**
  - $\text{Actuarial liabilities} - \text{Actuarial Assets} = \text{Unfunded liabilities}$
- **Amortization periods are based on current contribution levels**
  - Contribution rates established in law by the legislature
- **Components contributing to unfunded liabilities are:**
  - Projections of future benefit payments for current members as of June 30
  - Net present value of the normal cost portion of future contributions
  - Assumptions of future investment return on assets
- **Unfunded liabilities may fluctuate from year-to-year based on:**
  - Revised projections for future benefits
  - Investment returns during the year that are more/less than assumptions



# Systems Must be Actuarially Sound

---

- **System soundness is sometimes referred to as the “funding level”**
  - A fully funded system has no unfunded liability
  - If a system is not fully funded it has an unfunded liability
- **An unfunded liability in itself does not make a system unsound**
  - A system may have a large unfunded liability and be sound
  - A system may have a small unfunded liability and not be sound
  - Whatever the unfunded liability, it must be amortized in 30 years or less
  - If current contributions cannot amortize the liability in 30 years the system is unsound
- **The next slide shows unfunded liabilities and amortization periods**
  - The unfunded liability is based on the “smoothed” asset values
  - If the unfunded liability was based on “market” value it would be much greater
  - The Sheriffs System is 90% funded but is unsound based on state law
  - The Police System is only 62% funded but is sound based on state law

## Unfunded Liabilities as of June 30, 2009

<u>Pension Fund</u>	<u>Actuarial Liability</u>	<u>Actuarial Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Years To Amortize</u>
Public Employees	4,792,819,291	4,002,212,253	(790,607,038)	83.50%	Does Not
Teachers	4,173,800,000	2,762,194,278	(1,411,605,722)	66.18%	Does Not
Police	345,261,260	214,344,558	(130,916,702)	62.08%	22.1
Firefighters	306,235,565	209,775,081	(96,460,484)	68.50%	12.7
Sheriffs	223,893,395	200,690,401	(23,202,994)	89.64%	Does Not
Highway Patrol	137,814,552	99,651,544	(38,163,008)	72.31%	21.5
Game Wardens	92,155,438	81,176,976	(10,978,462)	88.09%	Does Not
Judges	41,848,128	61,928,749	20,080,621	147.98%	NA
Vol Firefighters	33,547,784	27,225,915	(6,321,869)	81.16%	6.9
<b>Total</b>	<b><u>10,147,375,413</u></b>	<b><u>7,659,199,755</u></b>	<b><u>(2,488,175,658)</u></b>	<b>NA</b>	<b>NA</b>



# Contribution Rates

---

- **Cash contributions are a critical component of system funding**
  - Contributions are more reliable and less volatile than investment returns
  - Contributions are based on a percentage of payroll
  - Contributions provide reliable, predictable cash flow to pay benefits
- **Contribution rates consist of two components**
  - The normal cost rate that would fund a system with no unfunded liability
  - The remainder of the contribution rate available to amortize any unfunded liability
  - The legislature sets the total contribution rate
  - The system actuaries determine the normal cost rate
  - If the normal cost rate rises the remaining amount available for amortization is reduced
- **The next slide shows contribution rates by system**
  - The Sheriffs System's normal cost rate is greater than the contribution rate

## Contribution Percentage Rates of Payroll

<u>Pension Fund</u>	<u>Normal Cost</u>	<u>Available to Amortize</u>	<u>Total Rate *</u>	<u>Required to Amortize</u>	
				<u>Additional</u>	<u>Total</u>
Public Employees *	12.16%	1.87%	14.07%	2.35%	16.42%
Teachers	10.69%	6.42%	17.11%	4.11%	21.22%
Police	26.82%	25.96%	52.78%	0.00%	52.78%
Firefighters	26.34%	31.32%	57.66%	0.00%	57.66%
Sheriffs	19.41%	-0.05%	19.36%	2.53%	21.89%
Highway Patrol	22.35%	23.03%	45.38%	0.00%	45.38%
Game Wardens	18.53%	1.03%	19.56%	0.69%	20.25%
Judges	25.90%	6.91%	32.81%	0.00%	32.81%
Vol Firefighters**	394,094	619,590	1,013,684	0	1,013,684
<p>* <i>PERS has 0.04% allocated to education</i></p> <p>** <i>Not based on a percentage of payroll</i></p>					



# Employee/Employer Contributions

---

- **Most systems require contributions from both employees/employers**
  - **The Volunteer Firefighters System utilizes a different process**
- **Each system has a distinct set of contribution rates for employees/employers**
- **The state general fund makes an additional contribution to some systems**
- **Employee rates range from 6.90% to 10.69% of payroll**
- **Employer rates range from 7.17% to 26.15% of payroll**
- **Total contribution rates range from 14.07% to 57.66% of payroll**
- **The next slide shows contributions by payer**
- **The number of contributing members is shown in the last column**

## Payroll Contributions by Payer

<u>Pension Fund</u>	<u>Employees</u>	<u>Employer</u>	<u>State</u>	<u>Total</u>	<u># Contributing Members</u>
Public Employees *	6.900%	7.170%	0.000%	14.070%	28,983
Teachers	7.150%	7.470%	2.490%	17.110%	18,456
Police	9.000%	14.410%	29.370%	52.780%	692
Firefighters	10.690%	14.360%	32.610%	57.660%	558
Sheriffs	9.245%	10.115%	0.000%	19.360%	1,185
Highway Patrol	9.050%	26.150%	10.180%	45.380%	222
Game Wardens	10.560%	9.000%	0.000%	19.560%	950
Judges	7.000%	25.810%	0.000%	32.810%	51
Vol Firefighters**	NA	NA	NA	NA	2,253
<b>Total</b>					<b>53,350</b>

\* *The state assists local government PERS members - \$357,260 in Fiscal Year 2009*

\*\* *State General Fund Contributes 5.0% of the Fire Insurance Premium Tax*



## **Fiscal 2009 Contributions & Benefits**

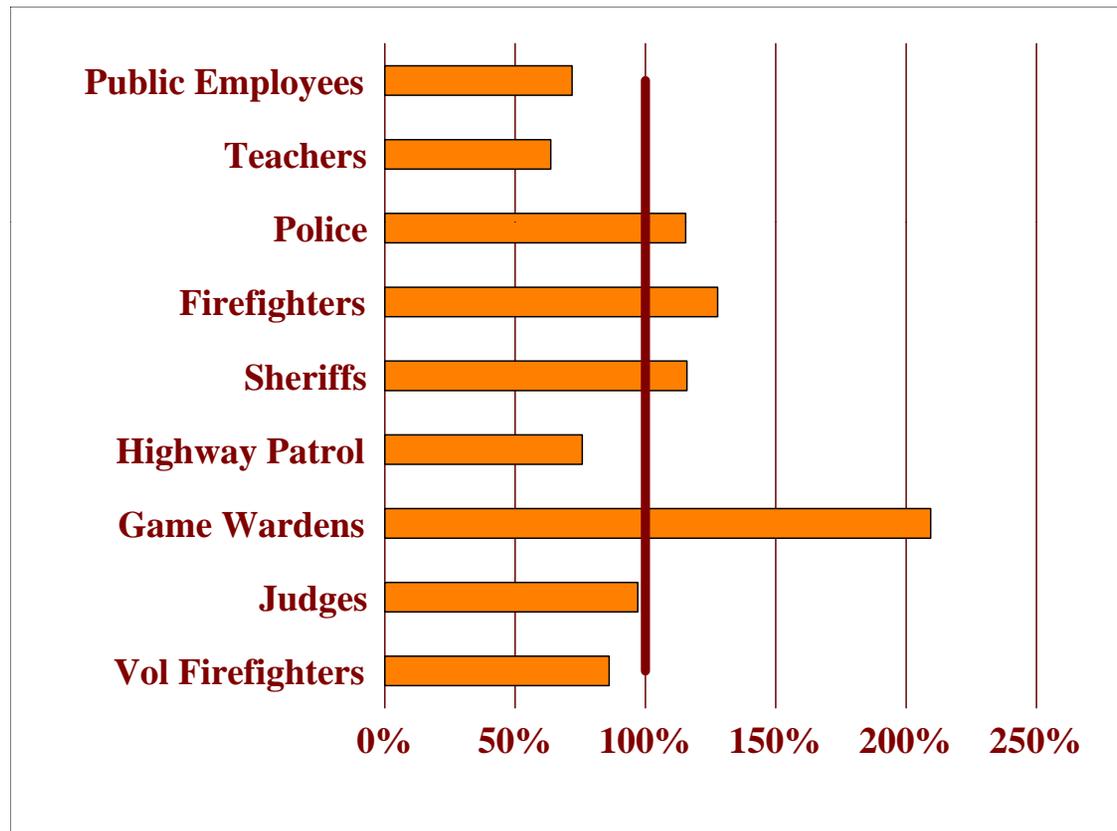
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- Contribution rates by system vary significantly**
- Contribution receipts as a percentage of benefits paid also varies**
- Contribution/benefit ratios range from 71.88% to 209.47%**
- When system contributions are less than benefits**
  - System investment income/assets are used to pay benefits**
- When system contributions are greater than benefits**
  - Excess contributions are invested along with the assets**
  - System assets will grow faster than systems with benefits greater than contributions**
- The next slide shows contributions/benefits and number of retirees**
- The second slide graphically displays contribution/benefits ratios**

## Fiscal 2009 Contributions & Benefits

<u>Pension Fund</u>	<u>Contributions</u>	<u>Benefits/ Expenses</u>	<u>Contributions +/- Benefits</u>	<u>Contributions % Benefits</u>	<u># Retired Members</u>
Public Employees	152,308,844	211,883,439	(59,574,595)	71.88%	17,075
Teachers	138,254,333	217,016,060	(78,761,727)	63.71%	12,036
Police	18,428,470	15,962,766	2,465,704	115.45%	646
Firefighters	18,063,893	14,154,424	3,909,469	127.62%	542
Sheriffs	10,400,496	8,969,107	1,431,389	115.96%	406
Highway Patrol	5,470,783	7,219,601	(1,748,818)	75.78%	291
Game Wardens	7,203,975	3,439,178	3,764,797	209.47%	127
Judges	1,930,835	1,988,593	(57,758)	97.10%	55
Vol Firefighters	1,597,887	1,855,612	(257,725)	86.11%	1,103
<b>Total</b>	<b><u>353,659,516</u></b>	<b><u>482,488,780</u></b>	<b><u>(128,829,264)</u></b>	<b><u>73.30%</u></b>	<b><u>32,281</u></b>

# Contributions as a Percentage of Benefits



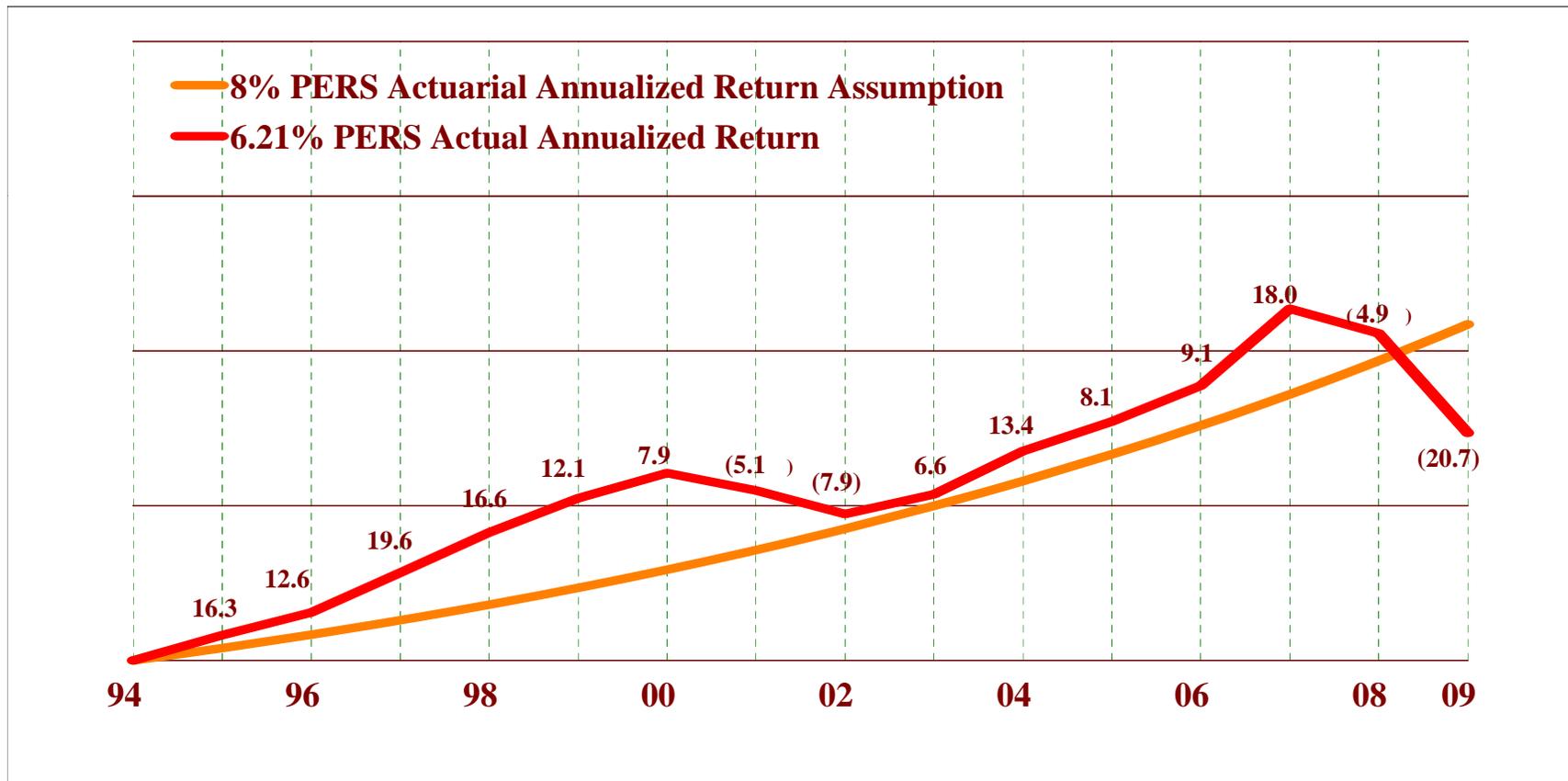


# Pension Investment History

---

- **Investment return assumptions are set by the two pension boards**
  - Annual investment return assumptions are 8.00%, except for Teachers
  - Teachers annual return assumptions are 7.75%
  - Unfunded liabilities are calculated based on meeting these assumptions in the future
  - If return assumptions are not met unfunded liabilities will increase
- **Pension total rates of return have been calculated since Fiscal 1995**
- **Through Fiscal 2008 annualized returns exceeded actuarial assumptions**
- **Through Fiscal 2009 annualized returns fell to 6.2%**
  - Annual returns were negative for fiscal years 2001, 2002, 2008, and 2009
- **The next slide shows investment returns for PERS during the period**

# Pension Investment History





## Current Investment Markets

---

- ❑ **Financial markets have improved in the past 9 months**
- ❑ **Stock market volatility has decreased**
- ❑ **Credit default risk is declining; the aversion to risk is lessening**
- ❑ **Corporate bond spreads have decreased; returns have been strong**
- ❑ **Private equity is improving as the stock market improves**
- ❑ **Real estate is still underperforming, but signs of stabilization beginning**
- ❑ **The low federal funds rate is depressing returns on cash**
- ❑ **Housing prices stabilizing but inventory still high**
- ❑ **Commercial property prices are weak but most of the decline has occurred**
- ❑ **Layoffs slowing and job gains expected this year**
- ❑ **Market liquidity has improved dramatically**
- ❑ **Leading economic indicators up nine months in a row**
- ❑ **The next slide shows 12/31/09 pension allocations and current performance**

## Pension Allocations and Returns as of 12/31/09

<u>Investment Type</u>	<u>Percentage of Assets</u>	<u>Investment Return</u>				
		<u>Quarter</u>	<u>FYTD</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
Cash Equivalents	1.29%	0.15%	0.39%	1.13%	3.22%	3.63%
Bonds	27.18%	1.32%	7.31%	12.15%	5.72%	5.18%
Domestic Stock	37.23%	6.31%	23.44%	29.15%	-5.75%	0.05%
International Stock	17.95%	3.41%	23.70%	36.71%	-6.27%	3.83%
Private Equity	11.65%	5.76%	9.39%	-11.62%	1.64%	7.07%
Private Real Estate	4.70%	-6.65%	-11.36%	-33.61%	-11.08%	NA
<b>Total Pensions</b>	<b>100.00%</b>	<b><u>3.63%</u></b>	<b><u>14.83%</u></b>	<b><u>15.41%</u></b>	<b><u>-2.45%</u></b>	<b><u>2.42%</u></b>

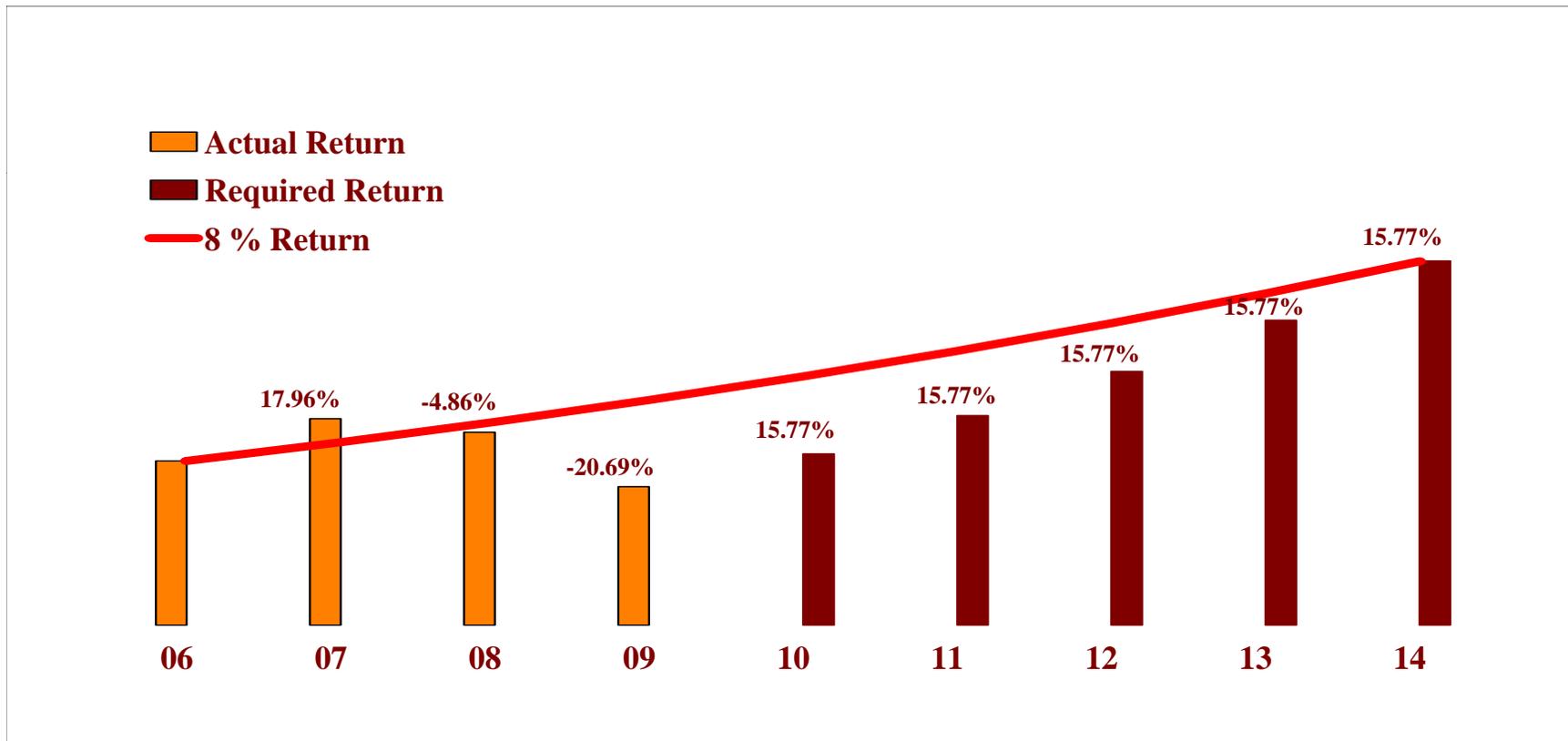


## What about the future?

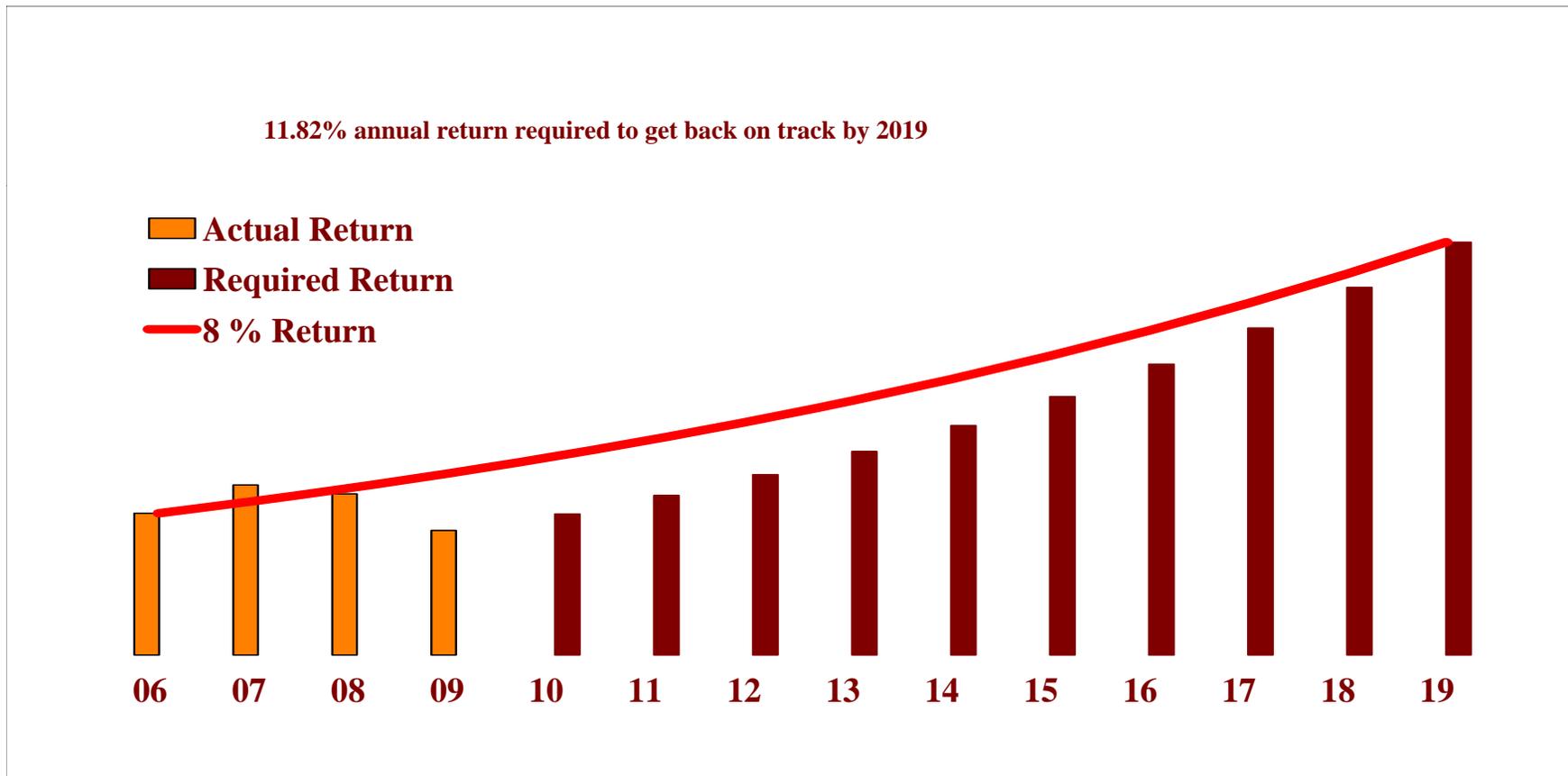
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- **The financial market meltdown significantly impacted pension assets**
- **Assets lost a quarter of their value during fiscal years 2008 and 2009**
  - While smoothing the assets helps, it cannot undue the damage
  - The back-to-back negative returns will impact pensions far into the future
  - While the absolute negative returns were bad the “actuarial” returns were worse
  - The absolute negative return in 2009 was 20.7%, but the actuarial loss was 28.7%
  - The reduced asset values significantly increased unfunded liabilities
  - Carrying forward the “smoothed” losses will impact future unfunded liabilities
  - Significant future out performance will be required to get back on track
- **The next 3 slides show future returns required to get back on track**
  - The time period starts in FY2007 the first year of PERS asset smoothing
  - The 8% PERS actuarial return assumption is used to project the required track

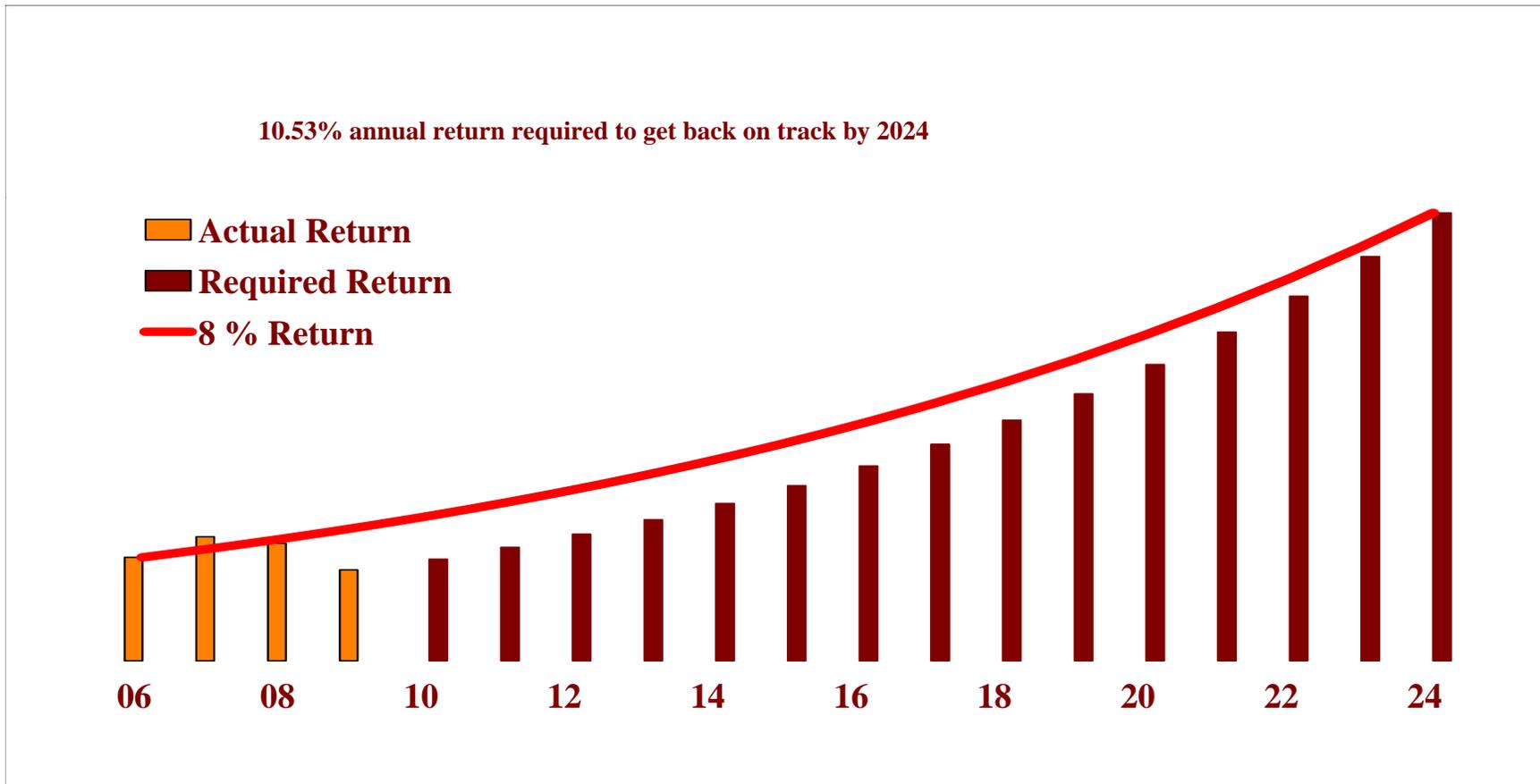
# Back on Track in 5 Years?



# Back on Track in 10 Years?



# Back on Track in 15 Years?



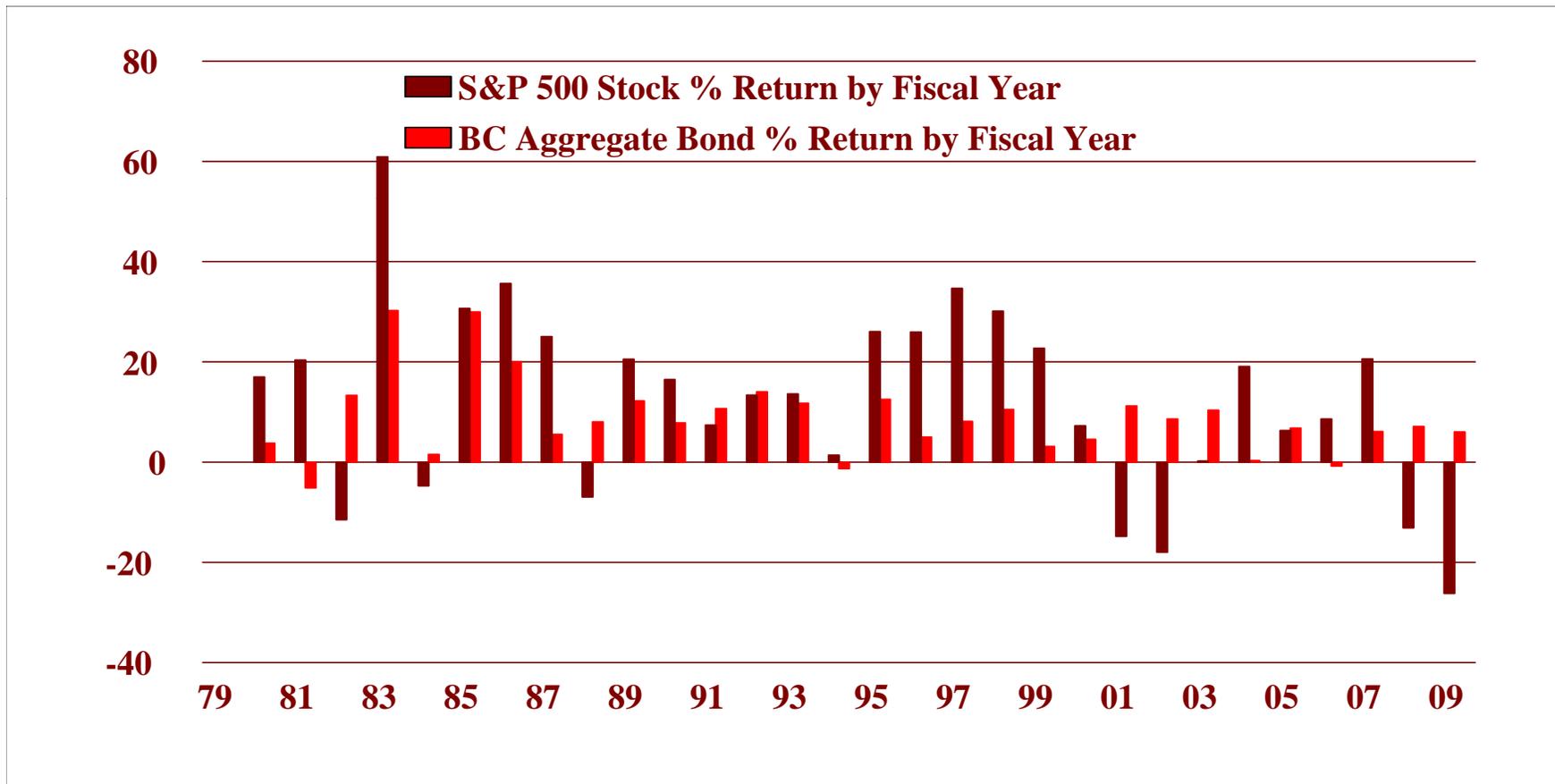


# Is Recovery Feasible Given History?

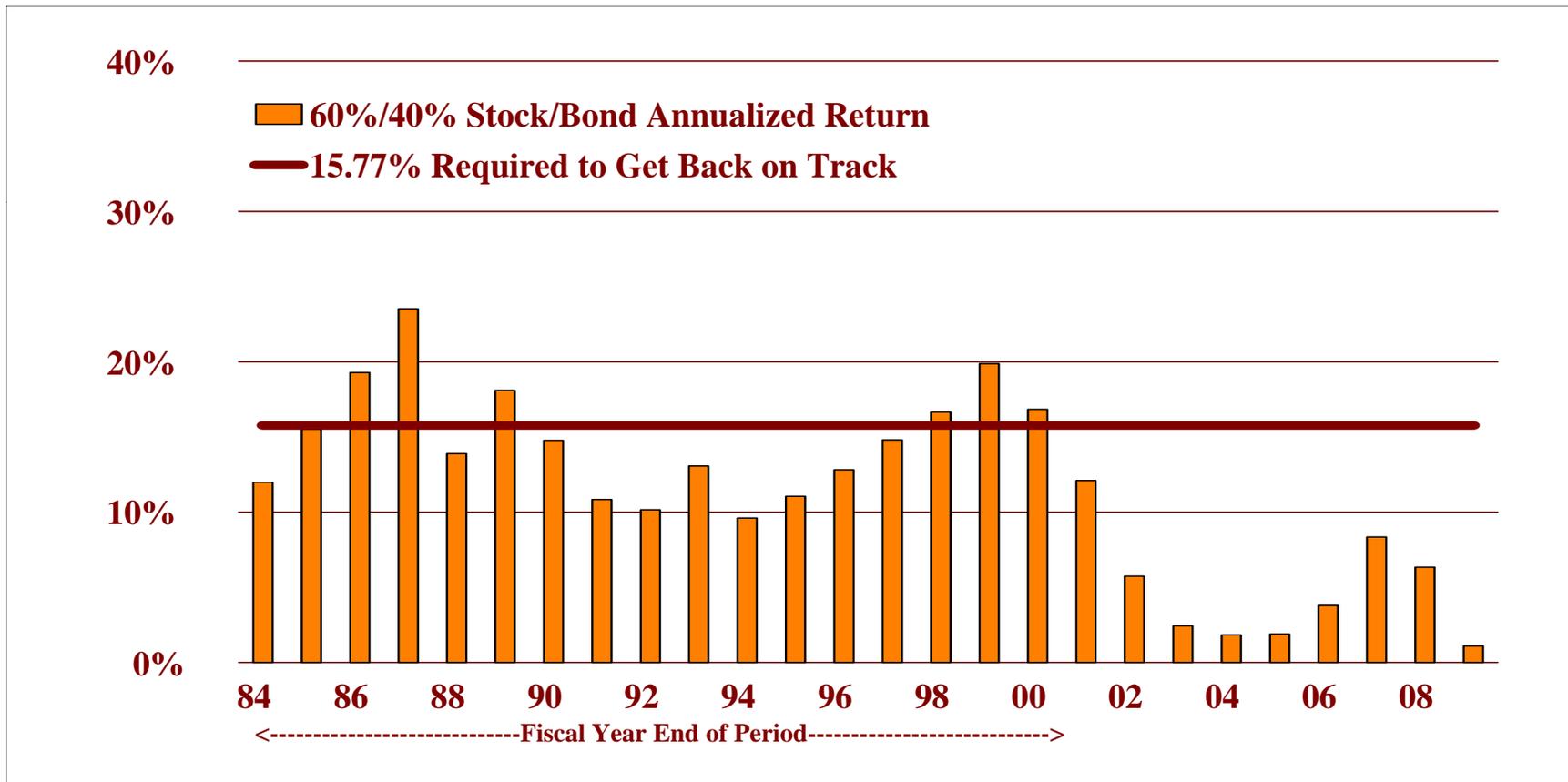
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- **To ascertain recovery feasibility a look at history may be useful**
- **The slide on page 24 shows 30 years of annualized stock and bond returns**
- **The annualized return of this asset mix during the period was 10.17%**
- **The slides beginning on page 25 show performance by 3 rolling periods**
  - **The 30-year period included:**
    - **26 5-year rolling periods**
    - **21 10-year rolling periods**
    - **16 15-year rolling periods**
- **A 60/40 stock/bond portfolio is used as a proxy for pension assets**
  - **Stocks are represented by the S&P 500 Index**
  - **Bonds are represented by the BC Aggregate Index**
- **The year under the bars represent the last fiscal year of each rolling period**
- **The bars represent the annualized returns during the period**
- **The line represents required annualized returns to get “back on track”**

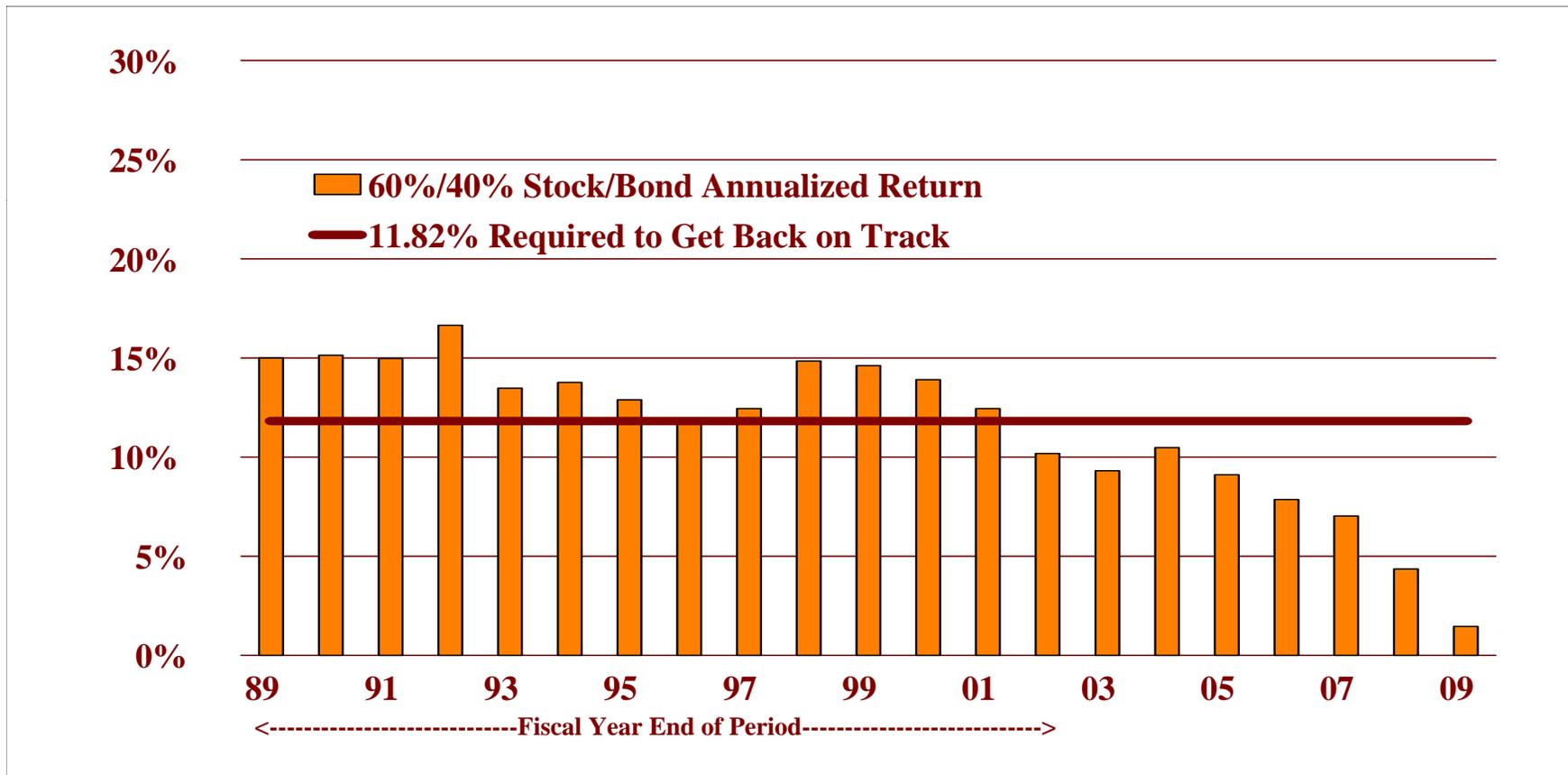
# Historical Stock/Bond Returns



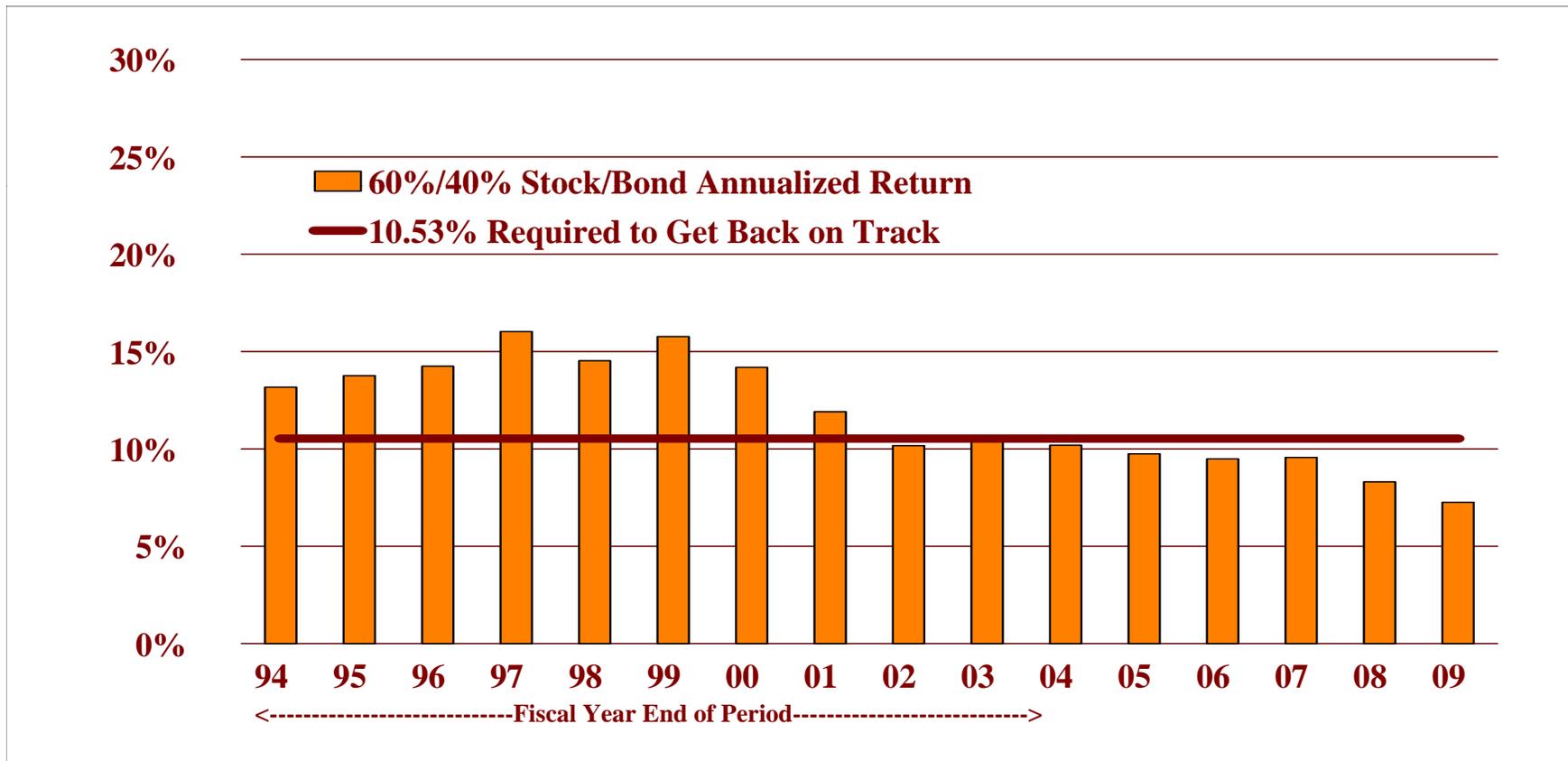
## Feasibility in 5-years rolling periods?



## Feasibility in 10-year rolling periods?



# Feasibility in 15-year rolling periods?





# Will History Repeat?

---

- **No one can predict whether history will repeat itself in the future**
- **Financial markets have changed significantly since 1979**
  - **Markets are more global and interconnected**
  - **Most major domestic corporations now have worldwide operations**
  - **There are more players - think hedge funds and private equity funds**
  - **There are more derivatives - think credit default swaps and interest rate swaps**
  - **Most trading is now conducted electronically**
  - **Much more leverage is used to increase yields**
  - **Securitization of debt instruments is widely used**
- **Whether or not history is repeated, the preceding slides demonstrate that:**
  - **Year-to-year returns were volatile throughout the period (page 24)**
  - **Longer rolling periods dampen volatility**
  - **Pension investors should have “long” horizons and expect yearly asset volatility**
  - **Recoveries from losses are more feasible over longer periods**



## Will History Repeat? (Continued)

---

- **On the positive side**
  - Pension assets are now more diversified than the asset mix depicted in the slides
  - The additional assets may generate greater returns than a simple 60/40 mix
  - Pension assets now include:
    - Small and mid cap domestic stock as well as international stock
    - International and high yield bonds
    - Private equity and private real estate
- **On the negative side, some experts say**
  - The recent financial market meltdown will diminish returns far into the future
  - Due to the meltdown there is a new “normal” that may prevent a repeat of the past
  - Future economic growth will slow
  - There will be more government regulation in the financial markets
  - There is a serious debt “overhang” that must be de-levered

# MEMORANDUM

Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3<sup>rd</sup> Floor

Helena, MT 59601

(406) 444-0001

**To:** Members of the Board  
**From:** Carroll South, Executive Director  
**Date:** February 10, 2010  
**Subject:** Organizational Change Recommendation

The Board's long-time Office Manager/Board Secretary, Kim Dallas, recently resigned to take a position in another state agency and we are currently recruiting for the position. This staff change provides a window of opportunity to review the current staff organizational structure as it relates to this position. The position is currently one of seven staff directly supervised by the Executive Director. Upon the filling of the vacancy we recommend that the position be supervised by the Deputy Director (Geri Burton) who currently has no direct supervision responsibilities on paper but has regularly assisted me in managing the Front Office.

Geri is a valuable employee to whom I continue to delegate more responsibilities as she becomes more familiar with all aspects of the Board's operations. She actually started her career at the Board in the Front Office and has been promoted several times through the INTERCAP Program and ultimately to the Deputy Director's position.

Another recommended organizational change results from the retirement of the part time staff member who was assisting me in managing the remnants of the Science and Technology portfolio that the Board inherited. These duties will be assumed by others and the position will not be filled.

After these recommended changes, the Executive Director will still have six direct reports – two exempt staff, and four classified staff.

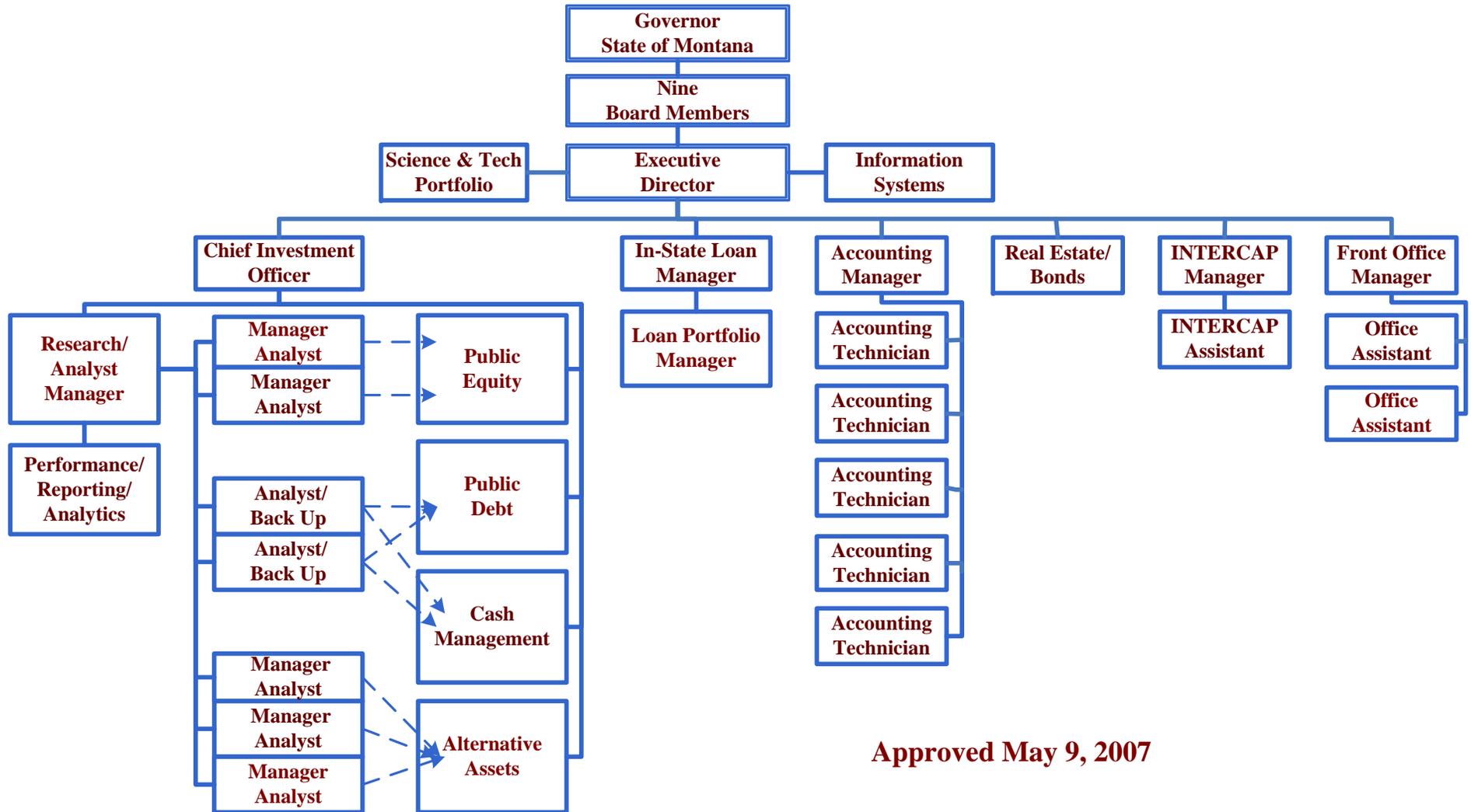
Attached, for your review and approval are the current Organization Chart (Current Chart) and a proposed Organization Chart (Proposed Chart).

## Recommendation

Staff recommends:

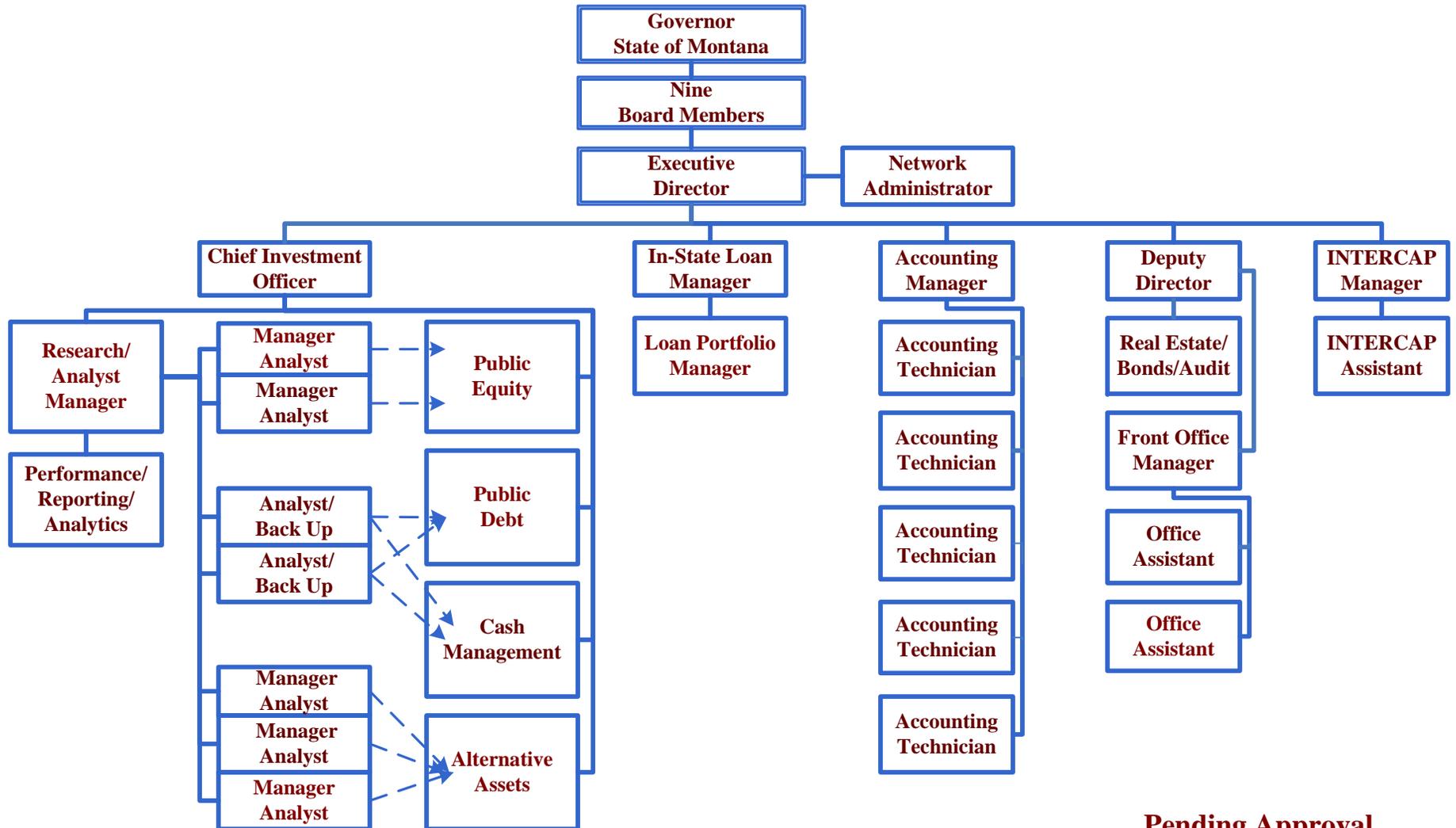
1. Transitioning supervision of the Office Manager/Board Secretary from the Executive Director to the Deputy Director; and
2. Approval of the attached Functional Organization Chart (Proposed Chart).

Montana Board of Investment Functional Organization Chart



Approved May 9, 2007

Montana Board of Investment Functional Organization Chart



Pending Approval  
February 10, 2010

# Bond Program

# INTERCAP Loan Program

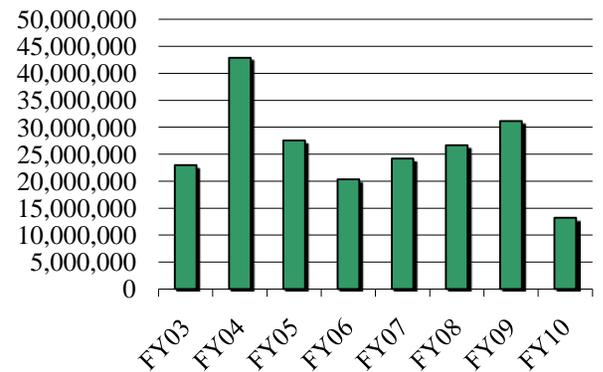
## Activity Summary

As of December 31, 2009

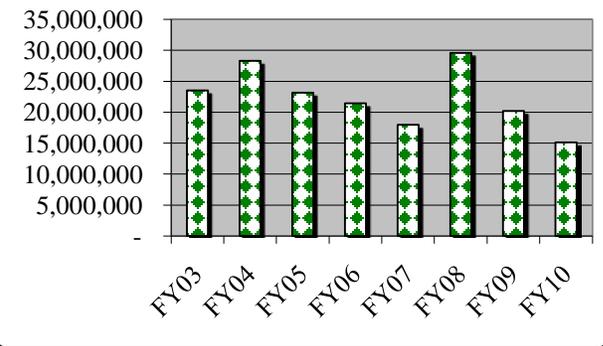
### Since Inception 1987 - December 2009

<b>Total Bonds Issued</b>	<b>124,000,000</b>
<b>Total Loan Commitments</b>	<b>343,511,658</b>
<b>Total Loans Funded</b>	<b>316,285,752</b>
<b>Total Bonds Outstanding</b>	<b>88,620,000</b>
<b>Total Loans Outstanding</b>	<b>83,230,300</b>
<b>Loan Commitments Pending</b>	<b>27,225,906</b>

### Commitments FY03-December 2010



### Fundings FY03-December 2010



FY2010 To Date		
Month	Commitments	Fundings
July-09	\$ 425,000	\$ 874,505
August	3,750,764	2,813,883
September	1,191,647	2,942,949
October	1,940,475	4,274,125
November	2,831,000	1,692,801
December	3,083,057	2,527,716
January		
February		
March		
April		
May		
June-10		
<b>To Date</b>	<b>\$ 13,221,943</b>	<b>\$ 15,125,979</b>

Note: Commitments include withdrawn and expired loans.

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

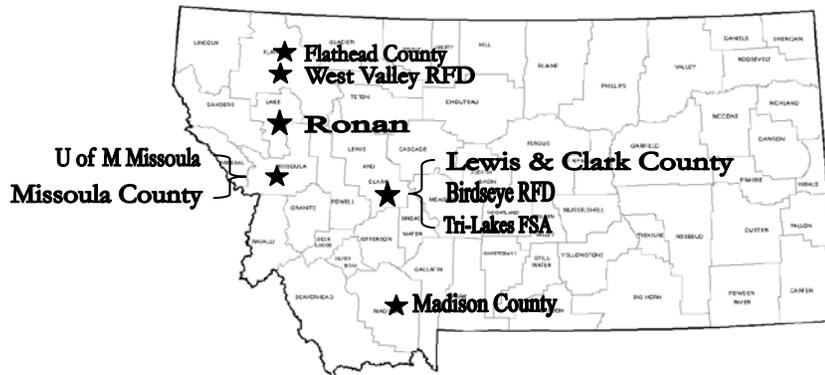
February 16, 2002 - February 15, 2003	<b>3.15%</b>	February 16, 2006 - February 15, 2007	<b>4.75%</b>
February 16, 2003 - February 15, 2004	<b>2.85%</b>	February 16, 2007 - February 15, 2008	<b>4.85%</b>
February 16, 2004 - February 15, 2005	<b>2.70%</b>	February 16, 2008 - February 15, 2009	<b>4.25%</b>
February 16, 2005 - February 15, 2006	<b>3.80%</b>	February 16, 2009 - February 15, 2010	<b>3.25%</b>

# MEMORANDUM

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

**To:** Members of the Board  
**From:** Louise Welsh, Bond Program Officer  
**Date:** February 10, 2010  
**Subject:** INTERCAP Staff Approved Loans Committed

Staff approved the following loans – October 1, 2009 through December 31, 2009.



Borrower:	Madison County
Purpose:	Interim loan in anticipation of issuing RID 2009-1 Bond
Staff Approval Date	October 7, 2009
Board Loan Amount:	\$ 268,500
Other Funding Sources:	\$3,263,500
Total Project Cost:	\$3,532,000
Term:	2 years

Borrower:	Lewis and Clark County
Purpose:	Purchase 2005 Caterpillar 420D Backhoe
Staff Approval Date	October 26, 2009
Board Loan Amount:	\$31,975
Other Funding Sources:	\$ 9,350
Total Project Cost:	\$41,325
Term:	6 years

Borrower:	Missoula County
Purpose:	Williams Addition RID sewer system improvements
Staff Approval Date	November 4, 2009
Board Loan Amount:	\$118,000
Other Funding Sources:	\$ 51,117
Total Project Cost:	\$169,117
Term:	15 years

Borrower:	City of Ronan
Purpose:	Preliminary Engineering Report-storm water
Staff Approval Date	November 5, 2009
Board Loan Amount:	\$15,000
Other Funding Sources:	\$15,000
Total Project Cost:	\$30,000
Term:	3 years

Borrower:	Birdseye Rural Fire District (Helena)
Purpose:	Purchase 4x4 International structure engine
Staff Approval Date	November 12, 2009
Board Loan Amount:	\$176,000
Other Funding Sources:	\$ 50,800
Total Project Cost:	\$226,800
Term:	9 years

Borrower:	Tri-Lakes Fire Service Area aka Tri-Lakes Volunteer Fire Department (Helena)
Purpose:	Purchase a Sutphen CAFS rescue pumper
Staff Approval Date	November 17, 2009
Board Loan Amount:	\$175,000
Other Funding Sources:	\$ 0
Total Project Cost:	\$175,000
Term:	10 years

Borrower:	Lewis and Clark County
Purpose:	Remodel City/County Administration Building second floor
Staff Approval Date	November 17, 2009
Board Loan Amount:	\$505,000
Other Funding Sources:	\$ 42,000
Total Project Cost:	\$547,000
Term:	10 years

Borrower:	West Valley Fire District (Kalispell)
Purpose:	Purchase a new aerial ladder truck
Staff Approval Date	November 23, 2009
Board Loan Amount:	\$600,000
Other Funding Sources:	\$ 45,984
Total Project Cost:	\$645,984
Term:	10 years

Borrower:	Flathead County
Purpose:	Interim loan in anticipation of Rural Development loan-water
Staff Approval Date	December 29, 2009
Board Loan Amount:	\$ 700,000
Other Funding Sources:	\$ 508,000
Total Project Cost:	\$1,208,000
Term:	2 years



## MONTANA UNIVERSITY SYSTEM

Borrower:	University of Montana-Missoula
Purpose:	Purchase Real Property at 820 Arthur
Staff Approval Date	October 5, 2009
Board Loan Amount:	\$640,000
Other Funding Sources:	\$ 0
Total Project Cost:	\$640,000
Term:	15 years

Borrower:	University of Montana-Missoula
Purpose:	Northern Tier Project
Staff Approval Date	October 5, 2009
Board Loan Amount:	\$1,000,000
Other Funding Sources:	\$ 550,000
Total Project Cost:	\$1,550,000
Term:	7 years

# MEMORANDUM

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

**To:** Members of the Board  
**From:** Louise Welsh, Bond Program Officer  
**Date:** February 10, 2010  
**Subject:** INTERCAP Loan Committee E-mail Approved Loans Committed



Loan Committee (LC) approved the following loans – November 11, 2009 through February 10, 2010.

Borrower:	Montana Department of Transportation (MDT)
Purpose:	Purchase various vehicles for the State Motor Pool
LC Approval Date:	December 28, 2009
Board Loan Amount:	\$2,383,058
Other Funding Sources:	\$ 0
Total Project Cost :	\$2,383,058
Term:	7 years

Borrower:	Montana Tech of the University of Montana (Butte)
Purpose:	Finance costs associated with the renovation, design, construction and expansion of the MT-Tech Health, Physical Education and Recreation (HPER) Building
LC Approval Date:	January 13, 2010
Board Loan Amount:	\$2,740,000
Other Funding Sources:	\$ 260,000
Total Project Cost :	\$3,000,000
Term:	15 years

# **MEMORANDUM**

**Montana Board of Investments**

**Department of Commerce**  
2401 Colonial Drive, 3<sup>rd</sup> Floor  
(406) 444-0001

**To:** Members of the Board  
**From:** Louise Welsh, Bond Program Officer  
**Date:** February 10, 2010  
**Subject:** INTERCAP Series 2010 Bonds – Final Bond Resolution No. 225

At the November 10, 2009 meeting, the Board approved a preliminary resolution authorizing staff to proceed with the issuance of \$12 million in additional bonds for the INTERCAP Program and to borrow from the Board as may be required to meet the needs of the Program prior to the issuance of bonds.

The purpose of the attached Resolution No. 225 is

- ✓ to serve as the Board's authorization to bondholders that the INTERCAP Series 2010 Bonds (the "Bond") have been approved and are on parity with all other outstanding INTERCAP bonds.
- ✓ to acknowledge the Board resources used to fund loans to eligible Montana government units in the interim of its INTERCAP Program receiving Bond proceeds. [Over \$3.8 million funded as of the end of January.]
- ✓ to approve the Supplemental Indenture amendment updating the definition of Investment Securities.
- ✓ to pledge the Bond's reserve account enhanced with a promise for the Board to loan monies to restore any deficiency in the reserve account and to purchase tendered Bonds that have not been redeemed by the trustee or remarketed by the remarketing agent.
- ✓ to authorize staff to approve and execute the necessary documents to accomplish the sale.

## **Recommendation:**

Staff recommends that the Board:

1. Authorize staff to take steps as deemed necessary to issue \$12 million in INTERCAP bonds for a term of 25 years.
2. Authorize staff to use the Bond proceeds to purchase those loans temporarily funded by the Board.
3. Adopt the final bond resolution.

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, AUTHORIZING AND APPROVING THE LOAN TO RESERVE ACCOUNT H, AUTHORIZING AND APPROVING THE PURCHASE OF TENDERED SERIES 2010 BONDS, APPROVING FORM OF DOCUMENTATION, MAKING CERTAIN FINDINGS AND DETERMINATIONS REGARDING THE SERIES 2010 BONDS AND PROJECTS TO BE FINANCED THEREBY AND AUTHORIZING THE SALE OF THE SERIES 2010 BONDS TO PIPER JAFFRAY & CO. AND D.A. DAVIDSON & CO." (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 February 10, 2010, 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 \_\_ day of \_\_\_\_\_, 2010.

(SEAL)

\_\_\_\_\_  
Carroll South  
Executive Director

## RESOLUTION NO. 225

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, AUTHORIZING AND APPROVING THE LOAN TO RESERVE ACCOUNT H, AUTHORIZING AND APPROVING THE PURCHASE OF TENDERED SERIES 2010 BONDS, APPROVING FORM OF DOCUMENTATION, MAKING CERTAIN FINDINGS AND DETERMINATIONS REGARDING THE SERIES 2010 BONDS AND PROJECTS TO BE FINANCED THEREBY AND AUTHORIZING THE SALE OF THE SERIES 2010 BONDS TO PIPER JAFFRAY & CO. AND D.A. DAVIDSON & CO.

Be It Resolved by the Board of Investments of the State of Montana (the “Board”), As Follows:

### Section 1. Recitals.

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 (the “Borrowers Acts”) 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.

1.02. Proposed Financing. The following financing has been proposed to be undertaken by the Board pursuant to the Act: (a) the Board would issue its Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2010 (the “Series 2010 Bonds”) in an aggregate principal amount not to exceed \$12,000,000, pursuant to the Indenture of Trust dated as of March 1, 1991, as amended and supplemented (the “Indenture”), and a Series Supplemental Indenture to be dated as of March 1, 2010 (the “Supplemental Indenture”), both between the Board and U.S. Bank National

Association (successor by merger to First Trust Company of Montana National Association), as Trustee (the "Trustee"), and on a parity with the Board's Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 1995, Series 1997, Series 1998, Series 2000, Series 2003, Series 2004, and Series 2007 (collectively, the "Outstanding Bonds") of which the Series 1995 will be redeemed on March 1, 2010; (b) the Series 2010 Bonds will be sold to Piper Jaffray & Co., of Minneapolis, Minnesota, and D.A. Davidson & Co., of Great Falls, Montana (the "Underwriters") pursuant to the terms of a Bond Purchase Agreement (the "Bond Purchase Agreement"); (c) pursuant to the Program, the Board makes loans to eligible Montana Governmental Units (the "Borrowers") and which loans are evidenced by the execution and delivery of a loan agreement, an installment purchase contract, if, or as may be required (the "Contract"), and a note or bond (the "Note") for the purpose of financing or refinancing the cost of acquiring and installing equipment, personal and real property improvements or to provide temporary financing of projects or for other authorized corporate purposes; (d) the proceeds realized from the sale of the Series 2010 Bonds would be applied by the Board to make loans (the "Loans") to Borrowers, to pay costs of issuance, to provide funds to pay interest on the Series 2010 Bonds and to fund a deposit to Reserve Account H; (e) proceeds of the Series 2010 Bonds not immediately loaned to Borrowers shall be invested at the maximum rate of interest permissible under the Internal Revenue Code of 1986, as amended (the "Code") to the extent available for permitted investments; (f) each of the Contracts and Notes would be issued pursuant to and secured by a resolution of the Borrower or an act of the Montana Legislature (the "Contract Resolution") and would constitute a valid and binding obligation of the Borrower; (g) Loan repayments not required to pay principal of and interest on Outstanding Bonds as specified in the Indenture will be used to make additional Loans to Borrowers; (h) pursuant to Resolution Number 68 of the Board (the "Reserve Fund Resolution") the Board has established the municipal finance consolidation act reserve fund (the "Reserve Fund") and authorized the creation of accounts therein to secure bonds and notes issued by the Board, including the Series 2010 Bonds; (i) pursuant to the Indenture various funds and accounts have been established, including Reserve Account H as an account within the Reserve Fund, and a Reserve Account H Reserve Requirement has been established at seven and one-half percent (7.5%) of the aggregate original principal amount of all series of Bonds of which any Bonds are outstanding; (j) upon issuance of the Series 2010 Bonds proceeds thereof will be deposited in Reserve Account H to satisfy the Reserve Requirement; (k) pursuant to the Indenture the Board would agree to loan amounts sufficient to restore deficiencies in the Reserve Account H as provided and defined in the Indenture, which loan would be repaid from revenues in the Bond Fund under the Indenture; (l) pursuant to the Indenture and Supplemental Indenture, the Board would agree to purchase the Series 2010 Bonds tendered by Bondholders or Beneficial Owners in accordance with the provisions of the Indenture and Supplemental Indenture; (m) pursuant to the Indenture and Supplemental Indenture, the Series 2010 Bonds would be limited obligations of the Board payable on a parity with other Outstanding Bonds, solely from and secured by the Revenues (as therein defined), including repayments of principal and interest on the Loans, investment income, monies in the various funds and accounts under the Indenture and proceeds of the loan from the Board, if necessary; (n) the Series 2010 Bonds will be offered and sold by the Underwriters pursuant to an Official Statement (the "Official Statement"); and (o) the Series 2010 Bonds tendered for purchase in accordance with the Indenture and Supplemental Indenture shall be remarketed by Piper Jaffray & Co. and D.A. Davidson & Co., as Remarketing Agent

under a Remarketing Agreement to be entered into between the Board and the Remarketing Agent (the “Remarketing Agreement”).

1.03. Other Funds Used to Make Loans to Borrowers. The Executive Director of the Montana Board of Investments authorized the Deputy Director and Bond Program Officer to use certain funds of the Board (“Reserve Fund G”) to finance loans to various Borrowers pending the issuance of the Series 2010 Bonds. To date, \$1,400,000 of Loans were made from Reserve Fund G. Pursuant to the Preliminary Resolution, the Board authorized the issuance of a Municipal Finance Consolidation Act Note (the “Series 2009 Note”) in the principal amount of \$5,000,000 and authorized the Board of Investments to purchase the Series 2009 as an investment and to advance principal amounts thereof as may be required to make Loans to Borrowers pending the issuance of the Series 2010 Bonds. Loans to Borrowers may be made from the proceeds of the Series 2009 Note through February 24. Proceeds of the Series 2010 Bonds will be used to acquire for the Program the Loans made from Reserve Fund G and from the proceeds of the Series 2009 Note at a price equal to the outstanding aggregate principal amount of the Loans, plus any accrued and unpaid interest. The Deputy Director and Bond Program Officer shall certify such amounts to the Trustee on the day of closing on the Series 2010 Bonds. The Deputy Director shall direct the Trustee to apply the purchase price of the Loans made from the Reserve Fund G and the Series 2009 Note to the Reserve Fund G Account and the Series 2009 Note Account maintained by the Trustee and redeem the Reserve Fund G Note and the Series 2009 Note therefrom.

1.04. Other Documents. The Executive Director or Deputy Director and Bond Program Officer are authorized to approve the following documents in consultation with and upon recommendation of the Board’s general counsel and bond counsel:

- (A) the Supplemental Indenture;
- (B) the Bond Purchase Agreement;
- (C) the Remarketing Agreement;
- (D) a Preliminary Official Statement (the “Preliminary Official Statement”);  
and
- (E) the Agreement Concerning Continuing Disclosure between the Board and the Trustee (the “Continuing Disclosure Agreement”).

1.05. Supplemental Indenture. Article V of the Supplemental Indenture amends the definition of Investment Securities. That amendment is shown on Exhibit A to this Resolution, and is hereby approved.

Section 2. Findings and Determinations. The Board hereby finds, determines and declares, as follows:

- (A) The Board is authorized by the Act to issue and sell the Series 2010 Bonds to finance Loans to Borrowers from the proceeds thereof, to repay the Advances and to enter into, execute and perform its obligations under the Indenture, the Supplemental Indenture, the Bond Purchase Agreement, the Contracts, the Remarketing Agreement and the Continuing Disclosure Agreement.

(B) The issuance and sale of the Series 2010 Bonds and the purchase of Notes from the proceeds thereof will further the purpose and policies of the Act by obtaining economies of scale and providing additional security for indebtedness of the Borrowers, thereby reducing their marketing, financing and interest costs.

Section 3. Loan to Reserve Account H and Purchase of Tendered Series 2010 Bonds.

3.01. Reserve Account H. To further secure the Series 2010 Bonds and assure their marketability on terms most favorable to the Board, thereby reducing the costs to be paid on the Loans by Borrowers, the Board has determined to exercise its authority under the Act and agree to loan funds to the Reserve Account H created pursuant to Resolution No. 68 and the Indenture in an amount equal to the deficiency, if any, therein, all as set forth in Section 6.09 of the Indenture.

3.02. Tendered Series 2010 Bonds. To further reduce the interest costs to be paid on the Loans by Borrowers, the Board has determined to issue the Series 2010 Bonds as variable rate obligations, the interest rate of which will be annually adjusted in accordance with the terms of the Indenture. To provide the liquidity necessary for the variable rate financing, the Board has agreed to purchase any Series 2010 Bonds that are tendered for purchase and that cannot be remarketed at the adjusted interest rate, at a rate not to exceed 15% per annum for a fee equal to 0.25% of the principal amount of the Series 2010 Bonds so purchased, all as provided and set forth in Section 6.10 of the Indenture.

3.03. Ratification of Obligations and Source for Satisfaction of Obligations. The Indenture, pursuant to which the Board agrees to make loans to the Reserve Account H as described in Section 3.01 of this Resolution and pursuant to which it agrees to purchase the Series 2010 Bonds as described in Section 3.02 hereof, has been presented to this Board. Counsel to and staff of the Board have reviewed the Indenture and the form of the Supplemental Indenture and have assessed the risks to the Board in executing the Supplemental Indenture and have informed the Board of such risks. The Board recognizes that pursuant to the Indenture it may be obligated to make a loan to Reserve Account H in the event that: (a) a Borrower defaults on the payment of principal and interest on its Loan, (b) the Board does not make loans in the amounts anticipated, or (c) the investments of the funds under the Indenture do not generate anticipated revenues. The Board further recognizes that in the event the interest rate on tax exempt bonds exceeds 15% per annum, it may be required to purchase the Series 2010 Bonds. The Board further represents that in the event it is required to purchase the Series 2010 Bonds or make a loan to Reserve Account H as described in this section, it would utilize money on hand in the Treasurer's Fund and the Permanent Coal Severance Tax Trust Fund and, to the extent necessary other legally available funds, to honor its obligations.

Section 4. Document Approval and Authorization. The final approval of the Supplemental Indenture, Bond Purchase Agreement, Continuing Disclosure Agreement, Remarketing Agreement and Preliminary Official Statement, referenced in Section 1.04 by the Executive Director or Deputy Director and the Bond Program Officer shall constitute approval by this Board, which approval shall be conclusively evidenced by the execution of the documents by the Executive Director or his designee. The Chairman, Executive Director,

Deputy Director or Bond Program Officer are hereby authorized to execute the Supplemental Indenture, Bond Purchase Agreement, Continuing Disclosure Agreement, Remarketing Agreement and Official Statement on behalf of the Board.

Section 5. The Series 2010 Bonds.

5.01. Bonds. The Series 2010 Bonds, in the aggregate principal amount not to exceed \$12,000,000, are hereby authorized to be issued, sold and secured pursuant to and as provided for in the Indenture, the Supplemental Indenture, the Reserve Fund Resolution and this resolution. The Series 2010 Bonds shall be dated, as originally issued, as of March 1, 2010 and shall mature on March 1, 2035, all as provided in the Supplemental Indenture. The Series 2010 Bonds shall bear interest at the initial rate of interest and yield to be agreed upon by the Executive Director, Deputy Director, Bond Program Officer and the Underwriters as of the day of sale, which rate and yield shall not exceed 3.5% per annum and which rate shall be adjusted annually as provided in the Indenture and shall be in the form and contain such other terms and provisions as provided for in the Indenture and Supplemental Indenture. The purchase price of the Series 2010 Bonds shall not be less than 99% of the principal amount thereof.

5.02. Execution and Delivery. The Chairman and Executive Director, Deputy Director, or Bond Program Officer shall execute the Series 2010 Bonds pursuant to the Indenture and cause them to be delivered by the Trustee to the original purchasers designated herein in exchange for the purchase price thereof. The Chairman and Executive Director, or Deputy Director, are also authorized to execute such other agreements, instruments, and certificates as are necessary or appropriate to the issuance and delivery of the Series 2010 Bonds and the other documents described herein.

PASSED AND APPROVED by the Board of Investments of the State of Montana this \_\_\_\_\_ day of \_\_\_\_\_, 2010.

\_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Executive Director

EXHIBIT A

AMENDMENT TO DEFINITION FROM SUPPLEMENTAL INDENTURE

ARTICLE V

AMENDMENT OF ORIGINAL INDENTURE

Section 5.01. Authority. In Section 15.01 of the Original Indenture, the Issuer reserved the right to enter into one or more Supplemental Resolutions, without notice to or consent of the Holders of any Bonds, to cure any ambiguity or correct any defect or inconsistent provision if such amendments do not have a material adverse effect on the interests of the Holders of any Bonds then Outstanding. The Issuer hereby finds, determines and declares that the amendment of Section 1.1 of the Original Indenture by this Series 2010 Supplemental Indenture is necessary, desirable and consistent with above described provision and does not adversely affect the interest of the Holders of the Bonds.

Section 5.02. Amendment of Section 1.1. Definitions. Clause (i) of the definition of Investment Securities shall be amended to read as follows:

“(i) shares of a money market fund or other collective investment fund ~~an investment company~~ registered under the Federal Investment Company Act of 1940, whose shares are invested in securities described in subparagraphs (a) through (h) above, whose shares are registered under the Federal Securities Act of 1933, and having assets of at least \$100,000,000 and having a rating AAAM or AAAM-G by a nationally recognized rating agency, including money market mutual funds from which the Trustee or its affiliates derive a fee for investment advisory or other services to the fund. ~~and whose only permitted investments are Qualified Investments described in clauses (a) through (h).~~”