REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

2401 Colonial Drive, 3rd Floor
Helena, Montana

May 18 & 19, 2010

AGENDA

PICTURE WITH GOVERNOR SCHWEITZER AT THE GOVERNOR'S OFFICE — ***12:00 p.m.***

Tab 1 — CALL TO ORDER — **12:50 p.m.**

A. Roll Call
B. Approval of the February 9 & 10, 2010 Regular Meeting Minutes
C. Administrative Business
   1. Human Resource Committee Report
   2. Audit Committee Report
   3. Loan Committee Report
D. Public Comment - *Public Comment on issues within Board Jurisdiction*

Tab 2 — MONTANA LOAN PROGRAM – Herb Kulow — **1:15 p.m.**

A. Commercial and Residential Portfolios Report
B. BOI Enhancement – Powell County Hospital, Deer Lodge – Board Action
C. BOI Enhancement – Community Medical Center, Missoula – Board Action

Tab 3 — EXECUTIVE DIRECTOR REPORTS – Carroll South — **1:30 p.m.**

A. State Fund Building, Investment Policy – Board Action
B. Unfinished Business – Board Action
C. Hedge Fund Discussion - R.V. Kuhns & Associates
D. Department of Natural Resources & Conservation Loan – Board Action

QUARTERLY PERFORMANCE REPORTS — **2:15 p.m.**

A. Pension Funds and Investment Pools – R.V. Kuhns & Associates

BREAK - 15 min.

Handout — EXTERNAL MANAGER PRESENTATION — **3:30 p.m.**

A. Martin Currie Inc. – International Large Cap Growth
   - Jamie Sandison, Senior Vice President, Client Services and Sales
   - James Fairweather, Head of Global Equities

Tab 4 — INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO — **4:30 p.m.**

A. Retirement System Asset Allocation Report
B. Comparison to State Street Public Fund Universe

ADJOURNMENT — **5:00 p.m.**

REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

AGENDA – DAY 2

RECONVENE AND CALL TO ORDER — **8:30 a.m.**

A. Roll Call

B. Public Comment – *Public Comment on issues within Board Jurisdiction* — **8:35 a.m.**

Tab 4 con't — **INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO** — **8:40 a.m.**

C. Private Equity (MPEP)
   1. Pool Review and Recent Activity

D. Real Estate (MTRP)
   1. Pool Review and Recent Activity

E. Investment Pool Reviews
   1. Domestic Equity (MDEP)
   2. International Equity (MTIP)
   3. Manager Watch List
   4. Fixed Income
      - i. Bond Pools (RFBP and TFIP)
      - ii. Short Term (STIP) and Other Fixed Income Portfolios
      - iii. Below Investment Grade Holdings Report

BREAK – 15 min.

Handout — **EXTERNAL MANAGER PRESENTATION** — **10:00 a.m.**

A. Artio Global Investors, Inc.
   - Teri Smith, Director of Client Services, Institutional Investments
   - Brian Holland, Portfolio Manager, International Equity Large Cap Core
   - Patrick Maldari, CFA, Senior Portfolio Manager, Fixed Income

Tab 5 — **BOND PROGRAM – Louise Welsh** — **11:15 a.m.**

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

ADJOURNMENT — **11:30 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 accommodation 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. Actual times may vary from those in the agenda.

Return to Meeting Agenda

Call to Order

Pending Approval: May 2010

MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

2401 Colonial Drive, 3rd Floor
Helena, Montana
February 9 & 10, 2010

MINUTES

BOARD MEMBERS PRESENT:

Terry Moore, Chair - February 9, 2010
Teresa Cohea
Karl Englund
Maureen Fleming
Patrick McKittrick
Jack Prothero
Jon Satre
Jim Turcotte – February 9, 2010
Representative Brady Wiseman

BOARD MEMBERS ABSENT:

Elouise Cobell
Senator Greg Barkus

STAFF PRESENT:

Jason Brent, Investment Analyst
Geri Burton, Deputy Director
Richard Cooley, CFA, Portfolio Manager
Rachel Fairbank, Accountant
Tim House, Investment Operations Chief
Ed Kelly, Alternative Investment Analyst
Teri Kolnik, Alternative Investment Analyst
Herb Kulow, Portfolio Manager
Sara LaFountaine, Administrative Assistant
Cynthia McDonnell, Administrative Assistant
Rande Muffick, CFA, Portfolio Manager
Mary Noack, Network Administrator
Chris Phillips, Investment Staff
Jon Putnam, Investment Analyst
John Romasko, Investment Analyst
Nathan Sax, CFA, Portfolio Manager
Clifford A. Sheets, CFA, Chief Investment Officer
Jon Shoen, CFA, Portfolio Manager
Carroll South, Executive Director
Steve Strong, Investment Analyst
Louise Welsh, Bond Program Officer
Dan Zarling, CFA, Director of Research

GUESTS:

Mark Higgins, RV Kuhns and Associates
Becky Gratsinger, RV Kuhns and Associates
Dave Senn, Executive Director, Teachers' Retirement System
Roxanne Minnehan, Executive Director, Public Employee Retirement Administration
Eileen Cohen, Managing Director, JP Morgan Investment Management Inc.
Joel Damon, Vice President, JP Morgan Investment Management Inc.
Allan Schweitzer, Chief Investment Officer, Post Advisory Group, LLC
Ralph Canada, Managing Director, Post Advisory Group, LLC
Chuck Johnson, Lee Newspapers
Pat Murdo, Legislative Services
Gordon Hoven, Piper Jaffray & Co.

CALL TO ORDER

Chairman Terry Moore called the regular meeting of the Board of Investments (Board) to order at 12:35 p.m. in the conference room at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with eight members of the Board present. Legislative Liaison Representative Brady Wiseman was also in attendance. Member Elouise Cobell and Legislative Liaison Senator Greg Barkus were absent.

Member Karl Englund motioned for approval of the November 9 & 10, 2009 minutes; Member Jim Turcotte seconded the motion and the motion was passed 8-0.

ADMINISTRATIVE BUSINESS

Audit Committee Report

Member Jim Turcotte, Audit Committee Chair, reported that the Audit Committee met February 9, 2010.

The Committee met with representatives from the Legislative Audit Division regarding the two audits that will be performed: 1) financial-compliance audit for fiscal years 2010 and 2009, which includes auditing the financial statements for fiscal year 2010; and, 2) a financial audit for fiscal year 2011. The representatives discussed the procedures and expectations of the upcoming audits.

Member Turcotte also reported that the Committee approved the updated Internal Control Policy, the Risk Assessment Model and the Internal Control Testing Schedule. It was noted that Galusha, Higgins & Galusha will perform the fiscal year 2010 internal control review and testing.

Loan Committee Report

Member Jack Prothero, Loan Committee Chair, reported that the Loan Committee reviewed and approved two INTERCAP loan requests via email, and the Loan Committee authorized staff to proceed with processing and closing these loans using the Board's standard Bond Program Office procedures.

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

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

May 2010 Board Meeting
The May Board meeting was rescheduled to May 18 and 19, 2010.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report
Mr. Herb Kulow reported on the status of the commercial and residential loan programs.

QUARTERLY INVESTMENT PERFORMANCE REPORTS

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

Ms. Rebecca Gratsinger and Mr. Mark Higgins from RV Kuhns reviewed the current market environment and investment performance of the Retirement Plans for Q4 2009. Ms. Gratsinger began by highlighting the continued strength of the global economic recovery, which was evidenced across virtually all asset classes with the exception of real estate and private equity. Despite these economic improvements, Ms. Gratsinger cautioned that fragility remains in the system, as economic activity continues to be constrained by high levels of U.S. unemployment, declining consumer debt capacity, and increased domestic saving rates.

Following the market review, Mr. Higgins reviewed investment portfolio performance. The broad market recovery translated into strongly positive absolute returns for the quarter ending December 31, 2009. Net of fees, the Retirement Plans, as represented by the Public Employees Retirement Plan, returned 3.62% for the quarter and 15.42% for calendar year 2009. On a relative basis, performance was somewhat mixed. Overall performance for the retirement plans lagged the benchmark by 83 basis points over Q4 2009 and 14 basis points for calendar year 2009. Performance highlights include:

1. The Domestic Equity Pool, which trailed the benchmark in 2008, strongly outperformed its benchmark in 2009 by 190 basis points.
2. The Retirement Funds Bond Pool and Trust Funds Investment Pool continued to outperform relative to benchmarks for both the fourth quarter and trailing multi-year periods.
3. The Real Estate and Private Equity portfolios both lagged their respective benchmarks for the quarter, although the Private Equity Pool continues to post strong long term performance. The International Equity Pool continued to trail its benchmark for the quarter, although the performance lag was mitigated somewhat over the past six months due to improved performance among previously underperforming managers. In addition, the Chief Investment Officer has taken steps to reduce exposure to underperforming managers by terminating or trimming positions in the portfolios managed by Principal Global Investors, Nomura Asset Management, Acadian Asset Management, Batterymarch and Artio Global. These actions were also part of an effort to increase the allocation to an index fund in an effort to reduce tracking error in the pool.

INVESTMENT ACTIVITY/REPORTS

Asset Allocation Report
Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending December 31, 2009. Total plan asset values increased by approximately $202 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 66.8%, up by 0.9%, and the allocation to bonds shrunk by 0.7% to 26.6%. The percent allocation for private equity and real estate increased slightly by 0.6% and 0.1%, respectively. Notable allocation changes made to the Retirement Systems during the quarter ending December 31, 2009 were: Real Estate received an allocation of approximately $38 million; the Montana Private Equity Pool received $13 million; the Retirement Fund Bond Pool received $5 million and the Montana International Equity Pool received approximately $3 million. Reductions were made to the Montana Domestic Equity Pool of approximately $54 million.

Mr. Sheets also discussed the asset allocation of the two largest pension plans as compared to peers based on the State Street universe for public plans with assets above $1 billion. This shows the plans having total public equity exposure very near the median level, but an above median exposure to private equity. Fixed income exposure is also above median, as is real estate. Performance ending in December for the two large plans was also shown versus this same universe. The one quarter return ranked in the second quartile and the one year return fell into the third quartile against this particular universe. These ranks were slightly better than those shown against the universe used in the R.V. Kuhn's performance report.

Fixed Income

Mr. Nathan Sax presented the Fixed Income Overview and Strategy. Mr. Sax noted that Neuberger Berman was funded in the 4th quarter. Neuberger Berman is a high yield manager within the Retirement Fund Bond Pool.

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.

Domestic Equity (MDEP)

Mr. Rande Muffick presented the Montana Domestic Equity Pool Report as of December 31, 2009 and a summary of the recent market trends.

International Equity (MTIP)

Mr. Rande Muffick presented the Montana International Equity Pool Report for the period ending December 31, 2009 and discussed market trends during the quarter.

Public Equity External Managers Watch List

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

Manager	**Style Bucket**	**Reason**	**Inclusion Date**
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

Private Equity (MPEP)
Mr. Jon Shoen reviewed the Private Edge reports showing by strategy the total exposure by market value and outstanding commitments, the Attribution Analysis Report and the Portfolio Holdings Performance Report for the period ending September 30, 2009. Mr. Shoen also reviewed the MPEP Holdings Report as of December 31, 2009. There was one new fund commitment made since the November 2009 Board Meeting.

Fund Name	Vintage	Subclass	Amount	Date
Axiom Asia Private Capital II, L.P.	2009	Asia – FoF	$25 M	10/28/09
Total New Commitments			**$25 M**	

Real Estate (MTRP)
Mr. Jon Shoen reviewed the Private Edge reports showing the total exposure by net asset value, the geographic and property type diversification reports and the Detailed Portfolio Performance Report for the period ending September 30, 2009. Mr. Shoen also reviewed the MTRP Holdings Report as of December 31, 2009. There were three new fund commitments made since the November 2009 Board Meeting.

Fund Name	Pool	Subclass	Amount	Date
American Core Realty Fund, LLC	TFIP	Core	$25 M	01/04/10
TIAA-CREF Asset Management Core Property Fund, LP	TFIP	Core	$10 M	11/01/09
UBS Trumbull Property Fund, LP	MTRP	Core	$20 M	01/04/10
Total New Commitments			**$55 M**	

EXTERNAL MANAGER PRESENTATION

JP Morgan Investment Management Inc.
Mr. Rande Muffick introduced Ms. Eileen Cohen and Mr. Joel Damon. Ms. Cohen and Mr. Damon reviewed their firm and management style. JP Morgan Investment Management Inc. manages a 130/30 portfolio in the Domestic Equity Pool.

ADJOURNED
The meeting adjourned for the day at 5:40 p.m.

CALL TO ORDER
The meeting was reconvened Wednesday, February 10, 2010 at 8:00 a.m. with six members of the Board present. Chair Terry Moore, Members Jim Turcotte and Elouise Cobell were absent. Legislative Liaison Senator Greg Barkus was also absent. Member Teresa Cohea was acting Chair.

INVESTMENT ACTIVITY/REPORTS continued

Real Estate (MTRP) continued
Mr. Jon Shoen reported on the 2010 investment plan for the MTRP.

Securities Lending
Mr. Cliff Sheets presented to the Board a status report on the Board's securities lending program, which is managed by State Street Bank and Trust (SSBT), the state's custodial bank. Mr. Sheets noted that the problems with the holdings in the cash collateral pools, used by SSBT, have diminished notably. In addition, the unrealized losses in the cash collateral pools have shrunk dramatically. SSBT has changed their investment practices to become more liquid and to focus on higher quality instruments.

Mr. Sheets noted that 2009 was a period of decline in the securities lending program earnings; down approximately 30 percent. We still remain restricted from moving assets out of the program, specifically assets that are collateralized by cash, but this hasn't hampered our ability to make changes in our investment program.

EXECUTIVE DIRECTOR REPORTS

Pension Investments
Executive Director Carroll South presented a report to the Board on Pension Investments, Past, Present and Future. *(A complete copy of this report is kept on file with the documents of this meeting.)*

Teachers' Retirement System and Public Employee Retirement Administration Annual Report to the Board
Pursuant to 19-20-215, MCA, the retirement board shall annually at a public meeting present to the board of investments established in 2-15-1808 a financial and actuarial report of the retirement system and brief the board of investments on any benefit changes being considered by the retirement board that may affect trust fund obligations.

Mr. Dave Senn presented the report on behalf of the Teachers' Retirement System and Ms. Roxanne Minnehan presented the report on behalf of the Public Employee Retirement Administration.

EXTERNAL MANAGER PRESENTATION

Post Advisory Group, LLC
Mr. Nathan Sax introduced Mr. Allan Schweitzer and Mr. Ralph Canada. Mr. Schweitzer and Mr. Canada reviewed their firm and management style. Post Advisory Group, LLC manages a High Yield portfolio in the Fixed Income Pool.

EXECUTIVE DIRECTOR REPORTS continued

5% Budget Reduction
Executive Director Carroll South reported that the Governor has directed all general fund state agencies to submit proposed budget reductions of 5%. The Board is not a general fund agency; the Legislature does not appropriate our budget. The Legislature authorizes the total amount of fee that we can charge the accounts that we invest. Based on our projections, we will spend less than 90% of that authorized fee in fiscal year 2010.

Staff Reorganization
Executive Director Carroll South made the following recommendations;

1. Transition supervision of the Office Manager/Board Secretary from the Executive Director to the Deputy Director; and

2. Approval of the Functional Organization Chart.

Member Jack Prothero motioned for approval of the staff reorganization recommendations, with the following change:

the Functional Organization Chart will reflect "Office Manager", rather than "Front Office Manager".

Member Karl Englund seconded the motion and the motion was passed 6-0.

BOND PROGRAM

Activity Report
The Board reviewed this report for the period ending December 31, 2009.

Staff Approved Loans Report
The Board reviewed this report for the period of October 1 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

<u>Resolution No. 225</u>
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. Ms. Louise Welsh presented Resolution No. 225, which serves as the Board's authorization to bondholders that the bonds have been approved.

Ms. Louise Welsh presented the following staff recommendation:

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.

On behalf of the Loan Committee, Member Jack Prothero motioned for the approval of the staff recommendations as presented; Member Maureen Fleming seconded the motion and the motion passed 5-0. Acting Chair Teresa Cohea abstained.

<u>ADMINISTRATIVE BUSINESS</u>

<u>Public Comment</u>
Acting Chair Teresa Cohea called for Public Comment of Board-Related Items. *No Public Comment made.*

NEXT MEETING

The next regularly scheduled meeting of the Board will be May 18 & 19, 2010.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:30 a.m.

BOARD OF INVESTMENTS

APPROVE:____
Terry Moore, Chair

ATTEST:____
Carroll South, Executive Director

DATE:____

Return to Meeting Agenda

Montana Loan Program

MEMORANDUM

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

To: Board of Directors

From: Herb Kulow, CMB

Date: May 7, 2010

Subject: Commercial and Residential Loan Portfolio

The commercial loan portfolio, as of April 30, 2010, totaled $185,953,585, consisting of 204 individual loans with a yield of 5.39%. There were 10 reservations outstanding totaling $24,004,100 and seven committed loans totaling $26,385,848. There were no past due loans over 90 days. There was only one SBA guaranteed loan 56 days past due.

The residential loan portfolio, as of April 30, 2010, totaled $36,999,286, consisting of 754 individual loans with a yield of 6.287%. There was one reservation outstanding in the amount of $128,000. Six residential loans were past due more than 90 days, totaling $397,819.79, and represents 1.08% of the residential portfolio. All of the 90-day past due loans are FHA guaranteed.

CERTIFICATE AS TO RESOLUTION

I, the undersigned, being the duly qualified and acting Executive Director of the Board of Investments of the State of Montana (the "Board"), hereby certify that the attached resolution is a true copy of Resolution No. 226 entitled: "RESOLUTION RELATING TO HEALTH CARE REVENUE BONDS (MASTER LOAN PROGRAM) OF THE MONTANA FACILITY FINANCE AUTHORITY; AUTHORIZING LOANS TO THE AUTHORITY FOR ITS CAPITAL RESERVE ACCOUNT SECURING SUCH BONDS AND THE EXECUTION AND DELIVERY OF AN AMENDMENT TO CAPITAL RESERVE ACCOUNT AGREEMENT RELATING THERETO" (the "Resolution"), on file in the original records of the Board in my legal custody; that the Resolution was duly adopted by the Board at a meeting on May 18, 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.

WITNESS my hand officially as such recording officer this 18th day of May, 2010.

Carroll V. South
Executive Director

RESOLUTION NO. 226

RESOLUTION RELATING TO HEALTH CARE REVENUE BONDS (MASTER LOAN PROGRAM) OF THE MONTANA FACILITY FINANCE AUTHORITY; AUTHORIZING LOANS TO THE AUTHORITY FOR ITS CAPITAL RESERVE ACCOUNT SECURING SUCH BONDS AND THE EXECUTION AND DELIVERY OF AN AMENDMENT TO CAPITAL RESERVE ACCOUNT AGREEMENT RELATING THERETO

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

1. Montana Code Annotated, Sections 90-7-317 through 90-7-320, as amended (the "Act"), authorizes the Board, upon terms and conditions it considers reasonable, to loan money to the Montana Facility Finance Authority (the "Authority") for deposit in a capital reserve account to secure bonds issued by the Authority (the "Capital Reserve Account").

2. The Authority has advised the Board that the Authority proposes to issue, as specifically authorized by Montana Code Annotated, Title 90, Chapter 7, parts 1, 2 and 3, as amended, additional series of its revenue bonds, entitled Health Care Facilities Revenue Bonds (Master Loan Program-Powell County Medical Center Project, Deer Lodge, Montana) (the "Bonds"), in one or more series and in a principal amount estimated not to exceed $15,000,000 and to loan the proceeds thereof to Powell County Memorial Hospital Association, a Montana nonprofit corporation doing business as Powell County Medical Center (the "Borrower"), for the purpose of (i) financing the acquisition, construction and equipping of health care facilities (the "Facilities") on behalf of the Borrower, (ii) refunding the Unlimited Tax-Supported Health Care Facilities Revenue Bonds, Series 2000 issued by Powell County, Montana, (iii) paying interest on the Bonds, (iv) funding a debt service reserve funds for the Bonds, and (v) paying certain costs of issuance of the Bonds. The Authority has also advised the Board that the marketability of the Bonds will be improved, and the interest rates thereon more favorable to the Authority and the Borrower, and, as a result, the Facilities more feasible, and the cost of health care provided thereby lower, if the Board agrees to loan money to the Authority pursuant to the Act for deposit in the Capital Reserve Account to secure the Bonds.

3. The Board and the Authority have heretofore entered into a Capital Reserve Account Agreement, dated as of October 1, 1994, as supplemented and amended (as so supplemented and amended, the "Capital Reserve Account Agreement"), and propose to enter into an additional amendment to Capital Reserve Account Agreement (the "Additional Amendment") with respect to the proposed loans in order to secure the Bonds. The Additional Amendment would, among other things, identify the series of Bonds and the fee to be charged by the Board.

4. The Borrower has filed an application with the Authority and the Board describing and providing information, including financial information, regarding the Borrower and the Facilities to be financed. Staff of the Authority and the Portfolio Manager of the Board have reviewed the application or a summary thereof and have preliminarily determined that the Facilities qualify under the Act and that the Borrower meets the underwriting criteria of the

Board and the Authority. The Portfolio Manager of the Board is authorized and directed to finalize and confirm his review and determination of the creditworthiness of the Borrower.

5. The Board hereby finds, determines and declares, as follows:

(a) The Board is hereby authorized to make loans to the Authority for its Capital Reserve Account with respect to the Bonds issued in an aggregate principal amount estimated not to exceed $15,000,000 with respect to the Borrower as contemplated and provided in the Capital Reserve Account Agreement and the Act.

(b) The officers and staff of the Board are authorized and directed to negotiate and approve the final form of the Additional Amendment and the other documentation contemplated or required thereby. The Capital Reserve Account Agreement, as amended and supplemented by the Additional Amendment and such other documentation shall be consistent with the provisions hereof and comply with the Act and other applicable provisions of law.

(c) When the documents for issuance of the Bonds have been finalized, reviewed and are satisfactory to the Executive Director of the Board and legal counsel to the Board and the Executive Director of the Board has finalized and confirmed that the underwriting criteria of the Board has been satisfied by the Borrower, the Chairman and the Executive Director of the Board (or, in the event of the absence or disability of either of them, any other officer of the Board) are hereby authorized and directed, in the name and on behalf of the Board, to execute and deliver the Additional Amendment and such other documents and certifications as are required or contemplated thereby.

PASSED AND APPROVED by the Board of Investments of the State of Montana this 18th day of May, 2010.

____
Terry Moore, Chairman

Attest:

____
Carroll V. South, Executive Director

CERTIFICATE AS TO RESOLUTION

I, the undersigned, being the duly qualified and acting Executive Director of the Board of Investments of the State of Montana (the "Board"), hereby certify that the attached resolution is a true copy of Resolution No. 227 entitled: "RESOLUTION RELATING TO HEALTH CARE REVENUE BONDS (MASTER LOAN PROGRAM) OF THE MONTANA FACILITY FINANCE AUTHORITY; AUTHORIZING LOANS TO THE AUTHORITY FOR ITS CAPITAL RESERVE ACCOUNT SECURING SUCH BONDS AND THE EXECUTION AND DELIVERY OF AN AMENDMENT TO CAPITAL RESERVE ACCOUNT AGREEMENT RELATING THERETO" (the "Resolution"), on file in the original records of the Board in my legal custody; that the Resolution was duly adopted by the Board at a meeting on May 18, 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.

WITNESS my hand officially as such recording officer this 18th day of May, 2010.

____

Carroll V. South
Executive Director

RESOLUTION NO. 227

RESOLUTION RELATING TO HEALTH CARE REVENUE BONDS (MASTER LOAN PROGRAM) OF THE MONTANA FACILITY FINANCE AUTHORITY; AUTHORIZING LOANS TO THE AUTHORITY FOR ITS CAPITAL RESERVE ACCOUNT SECURING SUCH BONDS AND THE EXECUTION AND DELIVERY OF AN AMENDMENT TO CAPITAL RESERVE ACCOUNT AGREEMENT RELATING THERETO

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

1. Montana Code Annotated, Sections 90-7-317 through 90-7-320, as amended (the "Act"), authorizes the Board, upon terms and conditions it considers reasonable, to loan money to the Montana Facility Finance Authority (the "Authority") for deposit in a capital reserve account to secure bonds issued by the Authority (the "Capital Reserve Account").

2. The Authority has advised the Board that the Authority proposes to issue, as specifically authorized by Montana Code Annotated, Title 90, Chapter 7, parts 1, 2 and 3, as amended, additional series of its revenue bonds, entitled Health Care Facilities Revenue Bonds (Master Loan Program-Community Medical Center Project, Missoula, Montana) (the "Bonds"), in one or more series and to loan the proceeds thereof to Community Medical Center, Inc., a Montana nonprofit corporation (the "Borrower), for the purpose of (i) financing the acquisition, construction and equipping of health care facilities (the "Facilities") on behalf of the Borrower, (ii) paying interest on the Bonds, (iii) funding a debt service reserve funds for the Bonds, and (iv) paying certain costs of issuance of the Bonds. The Authority has also advised the Board that the marketability of the Bonds will be improved, and the interest rates thereon more favorable to the Authority and the Borrower, and, as a result, the Facilities more feasible, and the cost of health care provided thereby lower, if the Board agrees to loan money to the Authority pursuant to the Act for deposit in the Capital Reserve Account to secure the Bonds. The Board has previously agreed to loan money to the Authority pursuant to the Act to secure the Authority's Health Care Facilities Revenue Bonds (Master Loan Program – Community Medical Center Project, Missoula, Montana), Series 2001A (Tax Exempt) and Series 2001B (Taxable) (the "Series 2001 Bonds"), the proceeds of which were loaned to the Borrower and which are presently outstanding in the aggregate principal amount of $4,015,000.

3. The Board and the Authority have heretofore entered into a Capital Reserve Account Agreement, dated as of October 1, 1994, as supplemented and amended (as so supplemented and amended, the "Capital Reserve Account Agreement"), and propose to enter into an additional amendment to Capital Reserve Account Agreement (the "Additional Amendment") with respect to the proposed loans in order to secure the Bonds. The Additional Amendment would, among other things, identify the series of Bonds and the fee to be charged by the Board.

4. The Borrower has filed an application with the Authority and the Board describing and providing information, including financial information, regarding the Borrower and the Facilities to be financed. Staff of the Authority and the Portfolio Manager of the Board have reviewed the application or a summary thereof and have preliminarily determined that the

Facilities qualify under the Act and that the Borrower meets the underwriting criteria of the Board and the Authority. The Portfolio Manager of the Board is authorized and directed to finalize and confirm his review and determination of the creditworthiness of the Borrower.

5. The Board hereby finds, determines and declares, as follows:

(a) The Board is hereby authorized to make loans to the Authority for its Capital Reserve Account with respect to the Bonds issued in an aggregate principal amount estimated not to exceed $15,000,000, plus the principal amount of the Series 2001 Bonds currently outstanding ($4,015,000) which are paid or defeased prior to the issuance of the Bonds, with respect to the Borrower as contemplated and provided in the Capital Reserve Account Agreement and the Act.

(b) The officers and staff of the Board are authorized and directed to negotiate and approve the final form of the Additional Amendment and the other documentation contemplated or required thereby. The Capital Reserve Account Agreement, as amended and supplemented by the Additional Amendment and such other documentation shall be consistent with the provisions hereof and comply with the Act and other applicable provisions of law.

(c) When the documents for issuance of the Bonds have been finalized, reviewed and are satisfactory to the Executive Director of the Board and legal counsel to the Board and the Executive Director of the Board has finalized and confirmed that the underwriting criteria of the Board has been satisfied by the Borrower, the Chairman and the Executive Director of the Board (or, in the event of the absence or disability of either of them, any other officer of the Board) are hereby authorized and directed, in the name and on behalf of the Board, to execute and deliver the Additional Amendment and such other documents and certifications as are required or contemplated thereby.

PASSED AND APPROVED by the Board of Investments of the State of Montana this 18th day of May, 2010.

Terry Moore, Chairman

Attest:

Carroll V. South, Executive Director

Return to Meeting Agenda

Executive Director Reports

MEMORANDUM

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

To: Board Members

From: Carroll South, Executive Director
Cliff Sheets, Chief Investment Officer

Date: May 18, 2010

Subject: State Fund Investment Policy Revisions

Recommendations

1. Staff recommends that the Board authorize transfer of the State Fund Building title to the State Fund as an operational asset and remove the real estate allocation in the State Fund Investment Policy.
2. Staff recommends that the Board authorize an allocation to international equities in the State Fund Investment Policy and approve the attached revised Investment Policy.

State Fund Building History - On May 5, 2006, the State Fund Board authorized its staff to begin planning for the construction of a Helena office building that would consolidate the Fund's operations and accommodate future growth. The building was to be funded from the State Fund investment portfolio and held as a portfolio asset. At its May 18, 2006 meeting the Board of Investments approved a staff recommendation to authorize a real estate allocation in the State Fund investment portfolio up to the cost of a new building. On May 8, 2007, the Board of Investments authorized its staff to purchase property in downtown Helena and begin to plan the construction of an office building as an asset in the State Fund investment portfolio. Construction of the building was contingent upon the City of Helena providing a parking garage with 350 parking spaces for building tenants.

Subsequent to Board of Investments approval, Board staff purchased property; hired an Architect/Engineer and Contractor to design and build the structure; and entered into a long-term agreement with the City of Helena to lease parking spaces in the City-owned garage. The design and construction have proceeded smoothly and State Fund staff will occupy the building on June1, 2010. The City parking garage will also be ready to accommodate staff parking at that time.

After the property was purchased and construction of the building was underway, State Fund and Board of Investment staff discovered that Generally Accepted Accounting Practices (GAAP) requires that a building owned by an entity that will occupy more than half of the building should be recorded as an operational asset, rather than an invested asset. To comply with GAAP, the building was removed from the Board of Investments Fiscal Year 2008 and Fiscal Year 2009 financial statements and recorded in the state accounting system as an operational asset of the State Fund.

However, because the Board of Investments held title to the property; had binding contracts with the architect/contractor; and had entered into a long-term agreement with the City of Helena to lease parking spaces, a mutual decision was made for the Board to retain title to the property until the State Fund actually occupied the building. Board staff recommends that the Board approve the transfer of the legal ownership of the property to the State Fund after it occupies the building.

State Fund Equity Investments – The state constitution, adopted in 1972, authorized the investment of pension fund assets in equities, but limited the investment of other public funds to fixed-income type investments. On November 7, 2000, Montana voters approved a constitutional amendment that authorized the investment of State Fund assets in equities.

> ***Section 13,(4) Investment of state compensation insurance fund assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of a private insurance organization. State compensation insurance fund assets may be invested in private corporate capital stock. However, the stock investments shall not exceed 25 percent of the book value of the state compensation insurance fund's total invested assets.***

The constitution limits State Fund equity investments to 25.0 percent of its assets but the State Fund Board has by policy set the maximum at 12.0 percent of invested assets. After the constitution was amended, Board staff began investing State Fund assets in a domestic Standard and Poor's 500 Index Fund. As of February 28, 2010, the portfolio held $105.8 million in the index fund, or 9.4 percent of total invested assets.

Staff recommends that the total equity allocation remain unchanged but that a portion of the allocation be dedicated to international equities to provide additional portfolio diversification. Domestic equities currently comprise less than half the global publically-traded equity markets. The international exposure will be accomplished by investing in a MSCI ACWI Ex U.S. Index Fund, which includes emerging markets. This index fund is identical to the passive fund being used within the pension fund international equity pool.

Other Policy Revisions - Other recommended revisions have been approved by the State Fund executives and include the following.

- Objectives: The primary return objective has been changed from maximizing total rate of return to maximizing investment income, which is consistent with the client's goals of a stable and predictable flow of investment income, over interest rate cycles.
- Permitted and prohibited fixed income investment sections were added consistent with the policy guidelines for the Board's two fixed income pools.
- Liquidity: The STIP balance range was widened from 1%-3% to 1%-5% to add more flexibility, particularly in a rising interest rate environment.
- Fixed income quality: The maximum fixed income credit risk per name was reduced from 3% to 2% and the distinction for AAA rated names was dropped from 6% to 2% as well.
- The lower rated (less than A3 or A-) portion of the fixed income portfolio was changed from a range of 15%-20% to a maximum of 25%, to be measured at the time of purchase.

- Sector allocation: The sector allocation was expanded to allow for the purchase of non-U.S. developed country government bonds (0-5%) and international stocks (0-4%).

Attached are a marked-up version and a clean version of the proposed revisions for your review and approval.

STATE FUND INSURANCE – NEW FUND (FUND: 06035) (MU26)
INVESTMENT POLICY STATEMENT

INTRODUCTION

~~The purpose of this investment policy statement is to provide the investment manager guidance in managing an investment portfolio to meet the objectives agreed upon and enable the sponsor, State Fund, understand the portfolio characteristics and its associated risks and return expectations~~.

This fund is governed by state regulations, specifically, the "prudent expert principle" which requires the Board of Investments to: (a) discharge its duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like manners exercises in the conduct of an enterprise of a like character with like aims; (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and (c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

The Montana Constitution, Article VIII, Section 13 (4) requires that "Investment of state compensation insurance fund assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of a private insurance organization. State compensation insurance fund assets may be invested in private corporate capital stock. However, the stock investments shall not exceed 25 percent of the book value of the state compensation insurance fund's total invested assets."~~restricts stock investments to 25% of book value~~.

OBJECTIVES

~~Return Objectives~~ To maximize ~~total rate of return~~ investment income consistent with safety of principal through a broadly diversified portfolio of fixed income securities.~~ and U.S. common stocks~~ In addition the portfolio will contain an allocation to public stocks in order to provide dividend income and long-term price appreciation potential.

Performance: The primary objective of the fixed income portfolio is to obtain a relatively high level of book (purchase) yield versus the benchmark. A secondary objective is to provide a total return in excess of the benchmark. Success in attaining the return objective will be measured against the return on the ~~Lehman~~ Barclays Capital Government /Credit Intermediate Term Index, the return on the S&P 500 index and the return on the MSCI ACWI Ex U.S. Index (international equity index), each weighted proportionately to the portfolio's holdings, over a five-year moving average.

~~Current Income: The amount and stability of current income is the primary objective since investment earnings are used to pay claims and expenses and fund reserves.~~

~~Risk Tolerance: This fund is being managed as an intermediate-term insurance account with limited tolerance for investment risk. Accordingly, equity risk will be kept low by constraining exposure to stocks, and fixed income assets will be constrained by quality and duration.~~

PERMITTED FIXED INCOME INVESTMENTS

- Debt obligations of the U.S. Government, including its agencies and instrumentalities. These include Treasuries, Treasury Inflation Protected Securities (TIPS) and fixed and floating rate agency obligations.
- Dollar denominated debt obligations of developed country foreign governments.
- Dollar denominated debt obligations of index-eligible supranational agencies (e.g., EIB, IFC, IADB).
- Dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) up to 2% of portfolio assets per issuer. These may include trust preferred securities and be fixed or floating rate coupon structures.
- Securitized assets, including U.S. Agency mortgage pass through securities (MBS), non-agency MBS (limited to 3% of portfolio market value in total), collateralized mortgage obligations (CMOs), commercial mortgage backed securities (CMBS), hybrid ARMS and asset backed securities.
- When-issued securities.

STATE FUND INSURANCE – NEW FUND (FUND: 06035) (MU26)
INVESTMENT POLICY STATEMENT

- Rule 144a securities.
- Medium term notes.

PROHIBITED FIXED INCOME INVESTMENTS

- Over the counter derivatives, including interest rate swaps and credit default swaps.
- Short sales and securities margin loans.
- Bank loans.
- Interest only (IO) and principal only (PO) mortgage strips.
- Companion/residual/equity tranches of CMOs or other structured securitizations.
- Capital securities (convertible from fixed to floating)
- Inverse floaters.
- Convertible bonds.

CONSTRAINTS

~~Fixed income securities purchased must be investment grade and be rated by either Moody's or S & P and the maximum fixed income credit risk will be limited to 3 2 percent of the total securities portfolio in any one name except AAA rated issues will be limited to 6%. There will be no limitation on US Government/Agency Securities.~~

Liquidity: Liquidity is needed to pay claims on a daily basis. A STIP balance of ~~1-3~~ 1-5 percent will be held for liquidity purposes.

Term: This fund is considered an intermediate-term insurance account. The maximum maturity will be approximately ten years for fixed income securities and the average duration of the fixed income segment of the portfolio will be maintained in a range of 2 to 5 years, except in extraordinary circumstances where a shorter duration may be advisable in order to preserve principal.

~~Tax Considerations: This fund is tax-exempt; therefore, tax advantaged investments will not normally be used~~

Equity Allocation: ~~S&P 500 target of~~ The allocation to public equities is targeted at 10 percent of total portfolio market value. The allocation range is ~~rebalancing~~ ~~ranges are~~ set at +/-2% or 8% to ~~and~~ 12%. ~~When portfolio falls outside balancing range, portfolio will be balanced to half the difference at the discretion of BOI.~~

~~Concentration of Holdings~~ **Fixed Income Quality:**

- ~~STIP balance of 1 – 3 1 - 5%~~.
- Fixed income securities purchased must be investment grade and be rated by either Moody's or S & P and the maximum fixed income credit risk will be limited to ~~3~~ 2 percent of the total securities portfolio in any one name ~~except AAA rated issues will be limited to 6%~~. There will be no limitation on US Government/Agency Securities.
- ~~Limit~~ Fixed income holdings rated lower than A3 or A- are limited to a ~~range~~ maximum of ~~15-20~~ 25 percent of the fixed income portfolio at the time of purchase In the case of split rated securities, the lowest rating will apply.
- ~~Fixed income derivative securities may not be purchased without prior authorization from State Fund. These would include, but not be limited to, options, futures, forwards, and swaps.~~
- ~~Exotic mortgage backed securities may not be purchased. Examples would include, but not be limited to, interest-only swaps, principal-only strips, inverse floaters, and equity-linked notes~~.
- On a quarterly basis, the BOI will notify the State Fund of any issues out of compliance or issues that have fallen below investment grade.
- ~~Investment in the following security types is limited to the maximum exposures listed below, based on market value of the total fixed income portfolio:~~
  a. ~~U.S. Treasuries and Government Agencies 100%~~

STATE FUND INSURANCE – NEW FUND (FUND: 06035) (MU26)
INVESTMENT POLICY STATEMENT

~~b.~~	~~Investment grade non-government bonds~~	~~75%~~	~~55%~~
~~c.~~	~~BBB or Baa-rated fixed income securities~~	~~20%~~	~~25%~~
~~d.~~	~~Mortgage backed securities~~	~~35%~~	~~20%~~
~~e.~~	~~Asset backed securities~~	~~10%~~	
~~f.~~	~~Preferred stocks~~	~~5%~~	

Sector Allocation:

Fixed Income – Government/Agency Bonds	**20 – 70%**	
▪ U.S. Treasury/Agency	20 – 45%	
▪ U.S. Mortgage Backed Securities	0 – 20%	
▪ Non-U.S. Developed Country (U.S. Pay)	0 – 5%	
Fixed Income - Corporate Bonds	**30 - 55%**	
▪ Domestic	30 – 50%	
▪ International (U.S. Pay)	0 – 5%	
Cash - Short- Term Investment Pool (STIP)	~~1 – 3%~~	**1 – 5%**
Real Estate – Office Building		
Equity – Common Stock	**8 – 12%**	
▪ S & P 500 Index Fund	~~8 – 12~~%	6-12%
▪ MSCI ACWI Ex U.S. Index Fund	0 – 4%	
Total Portfolio	**100%**	

STATE FUND INSURANCE – NEW FUND (FUND (MU26)
INVESTMENT POLICY STATEMENT

INTRODUCTION

This fund is governed by state regulations, specifically, the "prudent expert principle" which requires the Board of Investments to: (a) discharge its duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like manners exercises in the conduct of an enterprise of a like character with like aims; (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and (c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

The Montana Constitution, Article VIII, Section 13 (4) requires that "Investment of state compensation insurance fund assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of a private insurance organization. State compensation insurance fund assets may be invested in private corporate capital stock. However, the stock investments shall not exceed 25 percent of the book value of the state compensation insurance fund's total invested assets.

OBJECTIVES

To maximize investment income consistent with safety of principal through a broadly diversified portfolio of fixed income securities. In addition the portfolio will contain an allocation to public stocks in order to provide dividend income and long-term price appreciation potential.

Performance: The primary objective of the fixed income portfolio is to obtain a relatively high level of book (purchase) yield versus the benchmark. A secondary objective is to provide a total return in excess of the benchmark. Success in attaining the return objective will be measured against the return on the Barclays Capital Government /Credit Intermediate Term Index, the return on the S&P 500 index and the return on the MSCI ACWI Ex U.S. Index (international equity index), each weighted proportionately to the portfolio's holdings, over a five-year moving average.

PERMITTED FIXED INCOME INVESTMENTS

- Debt obligations of the U.S. Government, including its agencies and instrumentalities. These include Treasuries, Treasury Inflation Protected Securities (TIPS) and fixed and floating rate agency obligations.
- Dollar denominated debt obligations of developed country foreign governments.
- Dollar denominated debt obligations of index-eligible supranational agencies (e.g., EIB, IFC, IADB).
- Dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) up to 2% of portfolio assets per issuer. These may include trust preferred securities and be fixed or floating rate coupon structures.
- Securitized assets, including U.S. Agency mortgage pass through securities (MBS), non-agency MBS (limited to 3% of portfolio market value in total), collateralized mortgage obligations (CMOs), commercial mortgage backed securities (CMBS), hybrid ARMS and asset backed securities.
- When-issued securities.
- Rule 144a securities.
- Medium term notes.

PROHIBITED FIXED INCOME INVESTMENTS

- Over the counter derivatives, including interest rate swaps and credit default swaps.
- Short sales and securities margin loans.
- Bank loans.
- Interest only (IO) and principal only (PO) mortgage strips.
- Companion/residual/equity tranches of CMOs or other structured securitizations.
- Capital securities (convertible from fixed to floating)
- Inverse floaters.

STATE FUND INSURANCE – NEW FUND (FUND (MU26)
INVESTMENT POLICY STATEMENT

- Convertible bonds.

CONSTRAINTS

Liquidity: Liquidity is needed to pay claims on a daily basis. A STIP balance of 1 percent to 5 percent will be held for liquidity purposes.

Term: This fund is considered an intermediate-term insurance account. The maximum maturity will be approximately ten years for fixed income securities and the average duration of the fixed income segment of the portfolio will be maintained in a range of 2 to 5 years, except in extraordinary circumstances where a shorter duration may be advisable in order to preserve principal.

Equity Allocation: The allocation to public equities is targeted at 10 percent of total portfolio market value. The allocation range is set at +/-2% or 8% to 12%.

Fixed Income Quality:
- Fixed income securities purchased must be investment grade and be rated by either Moody's or S & P and the maximum fixed income credit risk will be limited to 2 percent of the total securities portfolio in any one name. There will be no limitation on US Government/Agency Securities.
- Fixed income holdings rated lower than "A3" or" A-" are limited to a maximum of 25 percent of the fixed income portfolio at the time of purchase. In the case of split rated securities, the lowest rating will apply.
- On a quarterly basis, the BOI will notify the State Fund of any issues out of compliance or issues that have fallen below investment grade.

Sector Allocation:	
Fixed Income – Government/Agency Bonds	**20% - 70%**
▪ U.S. Treasury/Agency	20% - 45%
▪ U.S. Mortgage Backed Securities	0% - 20%
▪ Non-U.S. Developed Country (U.S. Pay)	0% - 5%
Fixed Income - Corporate Bonds	**30% - 55%**
▪ Domestic	30% - 50%
▪ International (U.S. Pay)	0% - 5%
Cash - Short- Term Investment Pool (STIP)	**1% - 5%**
Equity – Common Stock	**8% - 12%**
▪ S & P 500 Index Fund	6% - 12%
▪ MSCI ACWI Ex U.S. Index Fund	0% - 4%
Total Portfolio	**100%**

MEMORANDUM

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

To: Board Members

From: Carroll South, Executive Director
Cliff Sheets, Chief Investment Officer

Date: May 18, 2010

Subject: Unfinished Business

Chairman Moore asked staff to take an inventory of any unfinished business that could be addressed in 2010. For purposes of this report, staff reviewed progress to date in implementing: 1) The "best" practices" recommendations made by the consulting firm, Independent Fiduciary Services (IFS); and 2) The asset allocation recommendations contained in the pension fund asset/liability studies conducted by the Board's consultant, RV Kuhns.

IFS Recommendations

History - On September 21, 2004, the Board hired Independent Fiduciary Services (IFS) to conduct a thorough review of the Board's operations and investment processes. The final report, issued on February 28, 2005, contained observations of Board procedures, staffing, and other important issues. The 194 page report included numerous recommendations which for the purpose of this report are condensed into 73 substantive recommendations. At the August 22, 2007 Board meeting, staff reported the following progress in implementing the recommendations.

1.	Fully Implemented or No Longer Applicable	35
2.	Partially Implemented	13
3.	Not yet Implemented	9
4.	To be Implemented at the Board's Discretion	6
5.	Staff recommends no Implementation	10
Total		73

The current status of recommendation implementation is shown below.

1.	Fully Implemented or No Longer Applicable	56
2.	Partially Implemented	3
4.	Staff recommends no Implementation	14
Total		73

The three partially implemented recommendations and progress to date are shown below.

1. **Rebalancing Recommendation** - Expand the rebalancing policy approved on December 2, 2004 to include all asset classes and prescribe the required actions when an asset class falls below the bottom of the range. The retirement fund Investment Policy Statements (IPS') should also include a provision so that if an asset class falls outside the approved policy range, staff is required to rebalance. Rebalancing should be required on a periodic basis, e.g., quarterly, if the asset class falls outside the policy range. Rebalancing should bring the allocation back within the approved range (but not necessarily to the middle of the range or target), unless the Board votes not to follow its policy under extreme or unusual circumstances. Staff should continue to be allowed to rebalance to within range without prior Board approval. We believe that this type of policy should be documented in writing in the appropriate IPS even though authority has already been delegated to the CIO. A rebalancing policy should be documented in the IPS.

1a. **<u>Progress</u> -** The CIO currently rebalances monthly to ensure that pension assets are within guideline ranges. Rebalancing within the investment pools has been addressed when the IPS's have been revised and approved by the Board. The individual pension fund IPS's should be updated to reflect the Board-approved asset allocation ranges, including more specific rebalancing language.

2. **Investment Policy Statements Recommendation-** Revise the approved pension fund policy ranges so that they are more appropriately aligned with the targets. The IPS should be revised to establish the overall target asset allocation as well as the ranges.

The Board should revise the investment objectives portion of IPS and develop additional investment objectives and benchmarks for the total Pension Funds (including a Total Fund Policy Index and Total Fund Asset Allocation Index) and document them in the appropriate IPS. The IPS might also specify the frequency with which the asset allocation and/or asset liability studies should be conducted, e.g., at least every three to five years and by whom it should be done.

The IPS should be clarified to reflect guidelines only at the level of broad asset classes. Distinct guidelines, apart from the IPS, should be tailored to the particulars of each individual investment manager (both internal and external). The Board should develop a consistent policy on hedging and revise the IPS so that hedging is not allowed unless specified otherwise in individual investment manager guidelines. The IPS should allow partial as well as full replication in constructing passive portfolios. The Board should develop a proxy voting policy with respect to domestic and international equities and document it in the IPS.

Add policy on securities lending to each of the appropriate IPS where public securities are involved. Add policy on brokerage practices to each of the appropriate IPS, which acknowledges that commissions are a plan asset and, as such, the Board will monitor commission and other trading expenses. The parties (Board and staff) should reach a consensus regarding their respective roles and responsibilities, and specifically outline those roles and responsibilities in the appropriate IPS.

If the Board chooses not to document the above in the IPS, it should explicitly state what authority is delegated to staff or other parties. We recommend that the Board be required to review the IPS and investment guidelines and procedures on an annual basis – with the assistance of staff.

2a. <u>Progress</u> - The Board's Governance Policy clearly delineates the respective roles for the Board and staff. While Board investment staff currently operates under parameters approved by the Board, the Pension Fund Investment Policy Statements should be updated to reflect the parameters. Staff will work with the consultant to update the policies and bring them to the Board for approval.

3. Board/Staff Educational Opportunities - The Board should authorize a comprehensive orientation program for new Board members and an ongoing curriculum for education of all Board Members. The Board should develop a professional development curriculum for staff to ensure that all staff are at an expected level of educational achievement or are making progress there toward.

<u>3a. Progress</u> - There currently is no systematic process to orientate new Board members or provide ongoing Board Member education. Basic orientation and education is provided by staff and the Board's consultant. Staff currently informs Board Members of pending out-of-state educational opportunities, but it would be up to the Board to determine whether this process should be formalized in a policy. Assistance is currently provided to Board staff that wish to pursue further education or credentials. Assistance includes paying for courses, educational material, and testing, plus the encouragement to pursue these activities.

<u>Summary</u> - The first two recommendations will be fully implemented when staff revise all pension fund Investment Policy Statements and bring them to the Board for approval at the August meeting. If the Board wishes to formalize an orientation and continuing education policy for Board Members, staff will provide assistance as necessary.

Many of the 73 recommendations were implemented when the Board adopted its comprehensive Governance Policy. Exhibit A shows the recommendations already implemented or those that staff recommends not be implemented.

Asset/Liability Studies Allocation Implementation

<u>What is an Asset/Liability (A/L) Study?</u> - The Board commissioned its consultant, RV Kuhns, to conduct asset/liability (A/L) studies of the state's two largest pension systems, the Teachers' Retirement System (TRS) and the Public Employees' Retirement System (PERS). The TRS study was published in May 2006 and the PERS study in February 2007. The studies articulated the purpose of an A/L study as follows:

What is an A/L Study?

> **Investment Programs do not exist in a vacuum. They seek to satisfy one or more investment objectives. The purpose of an Asset/Liability study is to examine how well alternative investment strategies (i.e., differing asset allocations) address the objectives served by the fund. In doing so, it creates an important "guidepost" for the actual asset allocation for the fund.**
>
> **For the Montana Retirement Systems, we assume the objectives are:**
>
> - **Fund all participants' benefits over time**
> - **Assure sufficient liquidity to pay benefits at all times.**
> - **Foster a stable contribution stream consistent with objectives 1 and 2.**
> - **Achieve adequate returns without accepting unnecessary or imprudent levels of risk.**

An A/L Study is not:

- **An actuarial study of the Montana Retirement Systems' pension liabilities—that is the purview of the System's actuary.**
- **A prescription for plan benefits—that is the purview of the legislature.**
- **An assessment of the affordability of contribution levels—that is the purview of the elected officials and their constituents.**
- **The sole determinant of the final asset allocation adopted for the fund—there are a number of factors, including insights from an Asset/Liability study that will bear on optimal asset allocation.**

<u>General Diversification Progress</u> - Before discussing the progress in implementing the recommendations of the A/L studies, it may be helpful to measure the actual progress the Board has made in its diversification efforts since the consultant was hired in December 2005. When the Board began its diversification effort in 2006, staff recommended that the Board first diversify in those assets classes in which it was currently invested and make an initial allocation to real estate – an asset class that was well understood and widely used by Board peers. The Board adopted that strategy and authorized the staff to hire external managers as necessary to diversify within existing assets and also authorized an initial allocation to real estate.

The table on the next page shows portfolio diversification progress from June 30, 2005 to February 28, 2010. Because nearly all pension fund assets are invested in six investment pools, it is necessary to "look through" the pools to determine the actual benefit provided to the pension funds by diversification within the pools. For the 1 percent of investments not held in pools, the direct real estate holdings are included with the real estate pool and Montana mortgages are included with the fixed-income pool. The table includes the total assets of all nine state pension funds.

Diversification Progress			
Investment Type	**06/30/05 Allocation**	**02/28/10 Allocation**	**% Change**
Fixed-Income:			
Core Fixed-Income	30.37%	25.60%	-4.78%
High Yield Fixed-Income		1.91%	1.91%
International Fixed-Income		0.26%	0.26%
Fixed-Income Total	**30.37%**	**27.77%**	**-2.61%**
Domestic Stock:			
Large Cap Stock Core	41.88%	6.86%	-35.02%
Mid-Cap Core	1.68%	1.28%	-0.39%
Small-Cap Core	3.84%	0.78%	-3.06%
130/30 Long/Short		6.52%	6.52%
Large-Cap Enhanced Index		8.00%	8.00%
Large-Cap Value		4.13%	4.13%
Large-Cap Growth		5.09%	5.09%
Mid-Cap Value		1.30%	1.30%
Mid-Cap Growth		1.28%	1.28%
Small-Cap Value		0.85%	0.85%
Small-Cap Growth		0.49%	0.49%
Domestic Stock Total	**47.40%**	**36.58%**	**-10.82%**
International Stock:			
Regional Europe Only	9.76%	0.13%	-9.63%
Regional Asia Only	4.04%		-4.04%
Small-Cap Developed Markets	1.21%	1.20%	-0.01%
Global Ex-US Developed Markets Core		8.03%	8.03%
Global Ex-US Developed Markets Value		2.06%	2.06%
Global Ex-US Developed Markets Growth		2.17%	2.17%
Emerging/Frontier Markets	0.68%	3.59%	2.91%
International Stock Total	**15.69%**	**17.18%**	**1.49%**
Private Equity:			
Private Equity Total	**4.68%**	**11.98%**	**7.30%**
Real Estate:			
Core Real Estate	0.26%	2.27%	2.01%
Value-Added Real Estate		1.86%	1.86%
Opportunistic Real Estate		0.86%	0.86%
Real Estate Total	**0.26%**	**4.98%**	**4.72%**
Cash Equivalents:			
Cash Equivalents (STIP)	**1.59%**	**1.51%**	**-0.08%**
Pension Fund Total	**100.00%**	**100.00%**	

A/L Studies Parameters - This report focuses on the "Efficient Portfolio" asset mixes that were calculated to meet the investment return assumptions of the pension funds. While the use of Mean Variance Optimization to achieve an efficient portfolio has its shortcomings and is subject to interpretation, it is currently the quantitative framework available for establishing allocation preferences. Prior to calculating efficient portfolio scenarios, it is necessary to set lower and upper limits for each asset class to ensure that the results will not be skewed by unrealistic, high-risk allocation mixes. The table below shows the minimum/maximum for each asset class and two of the 10 mixes that were highlighted in the AL studies as being the most likely to generate the required annual return (8.0 percent for PERS and 7.75 percent for TRS) without incurring excessive risk. The 2006 annual return assumptions for each asset class are also shown.

Asset Class	2006 Return Assumptions	MIN %	MAX %	Mix 1 %	Mix 2 %
		<=============	=>		
Large Cap US Equity	8.00%	15	35	15	19
Small Cap US Equity	9.00%	3	8	3	8
Large Cap Int'l Equity	8.25%	15	25	15	25
Small Cap Int'l Equity	9.25%	3	8	8	8
Emerging Markets Equity	9.75%	2	6	6	6
Fixed Income Composite*	5.20%	15	40	24	15
Real Estate	7.50%	3	8	8	3
Absolute Return	8.25%	0	5	5	5
Private Equity	12.75%	5	10	10	10
Inflation Hedge Composite**	6.15%	0	5	5	0
Cash Equivalents	3.25%	1	3	1	1
Total				**100**	**100**
Total Equity Exposure				**57**	**76**
Assumed Annual Return				**7.91**	**8.35**

* Comprised of 85% US Core, 5% International, and 10% High Yield
** Comprised of 60% TIPS, 20% Timber, and 20% Commodities

There are problems with these highlighted mixes. The first mix falls slightly short of the return assumptions of eight of the nine state pension funds, and the second mix requires a maximum equity exposure in excess of the 70.0 percent cap the Board has set as the maximum equity risk it is willing to accept. Consequently, it may be more reasonable to compare diversification progress against other more appropriate mixes.

Other Asset Mixes - There were eight other asset mixes included in the A/L studies, two of which (8&9) were estimated to return a minimum 8.0 percent without exceeding the maximum equity exposure set by the Board. The table on the next page compares Mix 9 with actual pension fund asset allocations as of February 28, 2010. For comparison purposes, half of the mid-cap equities have been counted with large cap equities and the remaining half with small cap.

Asset Class	2006 Return Assumptions	Mix 9	2/28/10 Actual	Difference
Large Cap US Equity	8.00%	15	32.53	17.53
Small Cap US Equity	9.00%	8	4.05	(3.95)
Total US Equity		**23**	**36.58**	**13.58**
Large Cap Int'l Equity	8.25%	19	12.39	(6.61)
Small Cap Int'l Equity	9.25%	8	1.20	(6.80)
Emerging Markets Equity	9.75%	6	3.59	(2.41)
Total International Equity		**33**	**17.18**	**(15.82)**
Fixed Income Core		12.75	25.60	12.85
Fixed Income High Yield		1.5	1.91	0.41
Fixed Income International		0.75	0.26	(0.49)
Total Fixed Income	**5.20%**	**15**	**27.77**	**12.77**
Real Estate	**7.50%**	**8**	**4.98**	**(3.02)**
Absolute Return	**8.25%**	**5**	**0.00**	**(5.00)**
Private Equity	**12.75%**	**10**	**11.98**	**1.98**
Inflation Hedge Composite*	**6.15%**	**5**	**0.00**	**(5.00)**
Cash Equivalents	**3.25%**	**1**	**1.51**	**0.51**
Total		**100**	**100**	
Total Equity Exposure		**66**	**65.74**	
Assumed Annual Return		**8.21**		
* Comprised of 60% TIPS, 20% Timber, and 20% Commodities				

**Current Asset Allocation Ranges - ** The current pension fund asset allocations approved by the Board and the actual portfolios as of February 28, 2010 are compared to Mix 9 below.

		Board-Approved			
		<=======Range========>			Mix
Asset Class	**Mix 9**	**Minimum**	**Actual 2/2/10**	**Maximum**	**Out of Range**
Total US Equity	**23**	**30**	**36.58**	**50**	**-7**
Total International Equity	**33**	**15**	**17.18**	**30**	**3**
Total Fixed Income	**15**	**22**	**27.77**	**32**	**-7**
Real Estate	**8**	**4**	**4.98**	**8**	
Absolute Return	**5**	**0**		**0**	**5**
Private Equity	**10**	**9**	**11.98**	**15**	
Inflation Hedge Composite*	**5**	**0**		**0**	**5**
Cash Equivalents	**1**	**1**	**1.51**	**5**	
* Comprised of 60% TIPS, 20% Timber, and 20% Commodities					

Pension Fund Return Assumptions – Before discussing the progress in implementing Mix 9, it may be helpful to discuss the pension fund investment return assumptions that provide the rationale for A/L studies. Although it could be argued that the Board should first decide the investment risk it is willing to incur and invest assets accordingly, in reality that is not how it works. The investment returns that pension fund contributions are expected to earn has already been determined when the Board receives the contributions to invest. These assumptions are "baked" into the calculations that drive funding ratios and unfunded liabilities and the required level of contributions.

Funding ratios are calculated by using the assumed investment return on contributions and discounting future benefit payments to present values using the same return assumptions. A small reduction in the return assumptions will reduce the funding ratios and add millions of dollars to unfunded liabilities. Once these return assumptions are hard wired into actuarial valuations, if investments returns do not meet the return assumptions the funding ratios will go down and unfunded liabilities will increase.

In theory, an A/L study provides a rough map of how to generate the returns necessary to meet the return assumptions of the pension plans. However projecting future returns of investments in different asset classes is not an exact science. If the assumptions driving the return projections are incorrect the actual results over long periods of time could vary significantly from the projections.

A discussion by asset class of current Board-approved asset allocation ranges compared to Mix 9 follows.

US/International Equities – Board-approved ranges for public equities over allocate to US equities and under allocate to international equities compared to the mix. All 10 mixes included in the A/L studies provide for maximum allocations of US equities less than the minimum range approved by the Board. The three mixes that meet or exceed the 8.0 percent pension fund return assumptions have minimum international equities allocations greater than the maximum range approved by the Board. An optimal mix of US/international equities may be an important factor in meeting pension fund return assumptions and sufficient diversification because: 1) Forward-looking return expectations for international equities are greater than for US equity returns; and 2) US equities comprise 35.0 percent of the global public equity markets on a market-cap basis, but currently comprise 68.0 percent of pension fund public equities. However, it is worth noting in this context that many major US companies derive a healthy portion of their revenues from international operations. Any significant shift from domestic equities into international equities should recognize the increasing trend of globalization across economies and capital markets and the consequent impact on US/international equities correlations. International equities also impose a currency risk.

Fixed-income – The Board-approved fixed-income range does not align with the mix, but primarily because the Board's current asset allocation pie has fewer slices than the mix. The Board has not made an allocation to absolute return or inflation hedges; assets that together comprise 10.0 percent of the mix. To prevent total equity exposure from exceeding 70.0 percent of assets, fixed-income investments must comprise at least 22.0 percent of assets, if real estate is capped at 8.0 percent.

Real Estate/Private Equity – The Board-approved real estate and private equity ranges fall within the parameters of the mix.

Absolute Return – This term is used to describe hedge fund strategies that were once thought to provide an absolute return regardless of financial market volatility. The Board has heard several discussions on the pros and cons of hedge fund investing with most of the discussion devoted to a "fund-of-funds" investment approach that is purported to:

- provide immediate diversification into many different strategies and managers
- provide better manager selection than an individual investor is able to achieve
- provide access to successful managers that individual investors may not be able to access

The down side of this approach is that it imposes another level of fees/costs and increases the opacity of an already opaque asset class.

History - At its May 2008 meeting the Board authorized staff to issue a Request for Proposal (RFP) for Hedge Fund-of-Funds Managers. The intent was not to invest in the asset but to explore the hedge fund universe, including historical performance relative to other asset classes during good and bad times - and the different types of strategies available in the market. The RFP was issued in August 2008 and respondents were required to submit five years of performance data through June 2008. While a five-year time period was considered sufficient to demonstrate returns, volatility, and correlation to other asset classes, the subsequent financial market meltdown diminished the value of the data. The period after the performance data cut-off was the worst period in history for hedge funds and the trauma raised serious questions as to whether the performance data could be used to predict future performance.

Twenty four RFP responses were received in September 2008. Staff reviewed the responses and continued to monitor the hedge fund space and, in particular, any sign of problems experienced by the 24 respondents. After the responses were received, there was a constant flow of bad hedge fund news, including major losses, liquidations, significant redemptions, freezing of redemptions, prohibitions on shorting, forced selling of assets at depressed prices, and significant counterparty risk. While it is true that other financial assets were under severe stress during the same period, hedge funds were thought to be a less volatile asset. Perhaps the most troubling discovery was that three of the 24 RFP respondents had exposure to the Madoff "Ponzi" scheme. This failure of these managers to detect fraud raised serious questions about the due diligence efforts conducted by some funds-of-funds managers. Staff has the following concerns regarding investments in hedge funds and, in particular, hedge fund-of-fund managers.

Fees/Transparency - A fund-of-funds manager not only siphons off some of the expected returns with additional fees, but may actually blur the transparency that the Board's fiduciary responsibility requires. It is critical for the Board and its staff to know how pension fund assets are invested and to be able to explain the strategies used by the underlying managers to the media, beneficiaries, and the legislature. A fund-of-funds manager would assume the Board's due diligence responsibility in the selection of underlying managers, but the Board would still be responsible for problems encountered by the managers and their strategies.

***Headline Risk* –** Hedge fund investments could pose a potential "headline" risk that may damage the Board's reputation and invite legislative intervention in the Board's investment mission. Immediately after the Madoff scheme was revealed, staff received media, public, and legislative inquiries asking if the Board had invested in the scheme. Any blow-up of a hedge fund faces much more media, public, and legislative scrutiny than does a publicly-traded company's bankruptcy, even if the Board incurs an investment loss due to the bankruptcy. The fact that there is an intermediary (a fund-of-funds manager) between the Board and the problematic hedge fund manager does not protect the Board from any ensuing reputational risk.

Government Regulation - Hedge fund strategies that have been successful in the past may be constrained in the future given the federal government's stated intent to impose regulation and more transparency on hedge fund managers. Given government reactions to the recent financial meltdown, it is likely that additional scrutiny and regulation will impact some hedge fund strategies and performance.

***Liquidity* -** While hedge funds investments have been considered liquid, recent experience has demonstrated that they may be illiquid under certain circumstances. During the recent financial turmoil, many funds froze or constrained redemptions. Even if liquidity is available it may come at a cost to those investors who remain in commingled funds while others redeem their investments. If the fund must liquidate assets at a loss to cover redemptions, those remaining in the fund will suffer as losses are incurred on asset sales. While the Board's closed-end private equity and private real estate investments include commingled funds, they do not impose the same risk of redemptions by other investors in the funds. These investments are locked-up for specific periods of time and the only way for an investor to exit is to sell its interest in the fund to another party.

***Complexity* –** The term "absolute return" is a misnomer. Recent experience has shown that there are few, if any, absolutes in the investment universe. There were days during the recent financial meltdown when the 90-day US Treasury Bill, considered a risk-free investment, actually provided a negative return - investors paid the federal government to keep their money safe. If absolute return is a euphemism for hedge funds, what exactly is a hedge fund? The term hedge fund implies that an investor is hedging his/her risks by utilizing some type of hedging strategy. The website "eurekahedge" contains the following short definition:

> ***"There are many types of perceivable risk - Market, Interest rate, Inflation, Sector, Regional, Currency, etc. Hedge fund managers utilize the complete arsenal of financial weapons (holding cash, short selling, buying selling or swapping options, futures, commodity and/or currency futures, etc.) and are expert in concocting hedging positions for most conceivable risks"***

As the above definition demonstrates, the tools available to a hedge fund manager are many and complex. It is the complexity of the strategy that is problematic. Investing in a fund-of-funds places the responsibility for selecting the strategy with the fund manager, rather than the investor. The investor is simply buying a product that includes a basket of strategies, some of which may be difficult to understand or explain. Even with improved levels of transparency in the wake of the industry's problems, understanding the strategy and its associated risk implications (e.g., use of derivatives and leverage) can be difficult. If Board members and staff cannot easily explain to beneficiaries and the legislature the strategies into which it invests pension funds, it may lose its credibility. Explaining in layperson's terms what convertible arbitrage and global macro hedge fund managers do with pension fund assets would be difficult at best.

It is important to understand that hedge funds are not an asset class per se in that they represent a multitude of various underlying strategies. However, they are treated as a single asset class for purposes of the allocation framework via the fund of funds approach. If the Board chose to invest in hedge funds, a better choice may be to choose strategies with which it has a comfort level and invest directly with managers specializing in the strategies.

***The Trade-offs* –** Pension fund assets are currently fully invested. If the Board chose to invest in hedge funds, it would have to determine which of its approved allocations would be reduced to fund the investment. The Board has approved up to 23.0 percent of pension assets in private equity and private real estate. Staff would be reluctant to recommend funding hedge funds by reducing these allocations because private equity and real estate will be critical in meeting the long-term investment return assumptions of the pension funds, while providing some inflation protection and diversification benefit. Reducing the fixed-income allocation to accommodate hedge fund investments would reduce fixed-income's reliable, predictable cash flow, which is becoming increasingly important for paying benefits in PERS and TRS. Swapping public equity for hedge funds would accomplish little given that the return expectations are similar for both assets.

Inflation Hedge Composite – The Inflation Hedge Composite contained in the A/L Studies is comprised of US Treasury Inflation Protected Securities (TIPS), timber land, and commodities. Inflation protected securities are interest-bearing bonds whose par value is linked to inflation, thus offsetting some of the damage that inflation otherwise inflicts on fixed-income investments. Staff does not believe that a separate allocation to TIPS is necessary because they could be purchased and held in the Retirement Funds Bond Pool, where they would provide a small measure of inflation protection.

Commodities and timber land are expected to provide some inflation protection due primarily to supply and demand. The world's population is growing but the resources required to meet the demands of that population growth may not be able to keep pace, resulting in price increases for the resources. Recently, farm land has also been discussed as an inflation protection, because the amount of suitable farm land is limited but global food demand is expected to increase commensurate with population growth.

Although all three of these assets may have some inflation protection qualities, farm/timber land should spin off cash for benefit payments as crops are harvested and sold, while commodities do not. Investors hold commodity investments to reap the benefits of price appreciation over time, particularly as a hedge against a highly inflationary period.

Summary – Although the previous discussion covers all the asset "buckets" included in the A/L studies, there are two assets for which the Board has yet to make an allocation; hedge funds and inflation hedge composites. Given that these assets comprise 10.0 percent of the total asset mix in the previous A/L studies, it is important that the Board determine whether these assets should be included in the asset mix of future A/L studies.

Recommendations

1. The table on page 5 shows that staff has significantly reduced US equities and slightly increased international equities as a percentage of total pension assets since June 2005. Staff recommends that efforts continue to strike a more optimal balance between US and international equities as opportunities arise. There is no need for the Board to change the ranges as the current ranges will accommodate a more optimal balance.
2. Staff recommends that the Board not make an allocation to hedge funds-of-funds and that hedge funds be removed from the list of available assets in future A/L studies.
3. Staff recommends that it present to the Board at the August meeting a recommendation on investing in any of the components within the inflation hedge composite in the A/L studies.

RECOMMENDATIONS FULLY IMPLEMENTED

1. **Vacant Positions -** Fill existing vacancies among investment staff unless other considerations such as performance result in a decision to reduce internal management, or reduce active management of internally managed assets, in which case staff needs should be reassessed.

- The elimination of the internally-managed domestic equity portfolio freed up sufficient staff to meet other needs.

2. **Staff Deployment -** Consider adding staff devoted to supervision of external managers as a function separate from internal portfolio management. Consider adding staff focused on asset allocation.

- The reorganization authorized by the Board resulted in seven staff being redeployed to supervising external managers in the Alternative, Real Estate, and Public Security assets. These staff assist the Chief Investment Officer in the asset allocation process as well.

3. **Internal/External Investment Management -** If budget or other constraints prevent adding staff needed to support existing combination of internal and external management, consider combination of reducing reliance on internal management or introducing more passive management of internally managed assets.

- The internally-managed domestic equity pool was liquidated and seven of the eight positions formally devoted solely to the portfolio are now responsible for "managing" the external managers.

4. **Staff Compensation -** The Board has appropriately changed the compensation structure to emphasize performance over credentials, and should retain that focus.

- Hudepohl & Associates was commissioned to create new performance appraisal forms for the Board's exempt staff, which were used for the first time in 2006. The securities analysts pay plan has been revised to de-emphasize credentials and emphasize performance.

5. **Staff Qualifications -** The Board should consider requiring candidates for senior positions to have achieved higher educational attainments (e.g. MBA) and certifications (CFA) as prerequisites for employment so that staff energies are not diverted to achieving those credentials and the Board has the benefit of the learning associated with those credentials.

- The Board's new recruitment policy for security analysts requires these credentials or at least five years of relevant experience. The Board no longer hires staff in a training mode for these positions. Since the IFS report was published, three exempt employees were hired with full CFA credentials and extensive investment experience.

6. **Legal Counsel -** The agreement with legal counsel should be revised to set forth a scope of services that would include critical legal functions such as rendering advice on issues of fiduciary responsibility, and review of proposed and newly enacted legislation affecting the Board. Review utilization of legal counsel and engagement agreement to assure Board and Staff have access to and receive timely input from legal counsel. Consider whether dedicated in-house counsel is cost beneficial.

- There was some confusion on the part of the consultant relative to the services provided by the Board's Legal Counsel. The contract with the Board's legal counsel has always been "wide open" and would include any activity Board Members or staff may request. Legal counsel currently reviews all legislation proposed by the Board and when necessary reviews pending legislation that may impact the Board's operations or duties. The legal counsel thoroughly reviewed the Governance Policy before it was presented to the Board.
- The legal counsel contract has never had any restrictions relative to staff or Board Member access to counsel at any time for any reason. The legal counsel serves staff as well as Board Members. Board members may go directly to legal counsel if there are staff personnel issues and there is no obligation for legal counsel to notify staff of such contacts.
- In-house counsel would not be cost beneficial given the Board's operations. There would simply be too much "down" time during which there would be no work for the legal counsel to perform. The current "on call" system is much more efficient because the Board pays only for the hours the counsel works on its behalf.

7. **Deputy Director Job Description** - Develop job description for Deputy Director.

- The Deputy Director's job description was completed in December 2004.

8. **Retainer Consultant** - Consider engaging a retainer investment consultant to assist the Board in evaluating staff's recommendations and investment performance.

- The Board retained R.V. Kuhns as its general consultant in December 2005.

9. **Meeting Agendas** - Continue practice of avoiding using Board meeting time for routine matters such as ratification of completed investment transactions.

- The Board no longer reviews completed investment transactions but devotes its quarterly meetings to substantive investment issues.

10. **Audit Committee –** Audits are a routine part of any large organization. An appropriate mechanism for administering audits is through the audit committee of the Board. We recommend establishing an audit committee.

- This Board has created an Audit Committee.

11. **Committee Charters** - Develop charters and work plans for each committee.

- The Board has created three committees – Human Resources Committee, Audit Committee, and Loan Committee. Charters have been approved for all committees and the charters are included in the Governance Policy.

12. **Contracting Authority -** The Board should have the authority to select investment consultants, custodians, law firms, auditors, and IT services, in addition to its current authority over investment management firms and general overhead.

- The Board has always had such authority. However even if the Board should hire an outside auditor, the Legislative Auditor is required by the state constitution to audit the Board annually.

13. **Diversification -** The Board should work with the retirement systems to conduct asset liability studies of all the plans. In light of its public pension fund peers and industry best practices, the Board should contemplate ways to more broadly diversify the retirement systems' investment portfolio and consider adding equity real estate (beyond dedicated Montana portfolio) and hedge funds to the mix after conducting an updated asset allocation study. We recognize that both of these asset classes are potentially time consuming for staff and that the Board may initially be constrained.

Staff should consider revising their capital market assumptions and review available third party assumptions, develop assumptions for risk and correlation and use a quantitative model approach to asset allocation. Use MVO or other form of accepted quantitative asset allocation analysis. Develop consensus capital market projections for risk, return and correlation for the asset classes being considered.

- The Board has completed asset/liability studies for the state's two largest pension funds and has implemented much of the increased diversification recommended by the studies. The Board began investing in Real Estate in June 2006 and has greatly increased diversification of its public equity portfolios and fixed-income portfolios.
- Third party capital market assumptions were employed during the recent asset/liability studies and the accompanying asset allocation studies conducted by the Board's consultant.

14. **Asset Allocation Committee -** The Board should form a new staff committee to work on asset allocation with all asset class heads as members.

- The recent staff reorganization is designed, to among other activities, involve the CIO, Research Director, Asset Class Head, and analysts in asset class discussions. The Board's consultant assists the Board in re-evaluating asset allocation strategy on an ongoing basis.

15. **Board Education -** Provide Board with education session on asset allocation process.

- The Board's consultant has conducted several education sessions on asset allocation and will continue to do so as other asset classes are explored.

16. **Alternative Investments -** Incorporate into the job description and critical objectives for the CIO requirements for developing a strategic alternative investment plan and a program for implementation and ongoing management. Expand the current Alternatives Investment plan to include projections of cash flows from existing investments, funding timetables for new investments, and the dollar or percent distribution among various types of alternatives.

The ability to find, consider, contract with, administer and evaluate a large number of investment partnerships requires considerable resources. Under the guidance of the CIO, given cost benefit tradeoffs, and considering the Board's ability and willingness to increase staff, some or all of the following means of securing those resources should be considered.

Using additional outside sources and contacts for structuring the portfolio and identifying and vetting potential general partners. Hiring a general consultant with experience and expertise in alternative investments. Such a firm can assist staff to integrate alternatives into the overall asset mix, to plan the mix of alternative investments, and to evaluate performance. They may also be helpful in securing investment opportunities. This would be one consideration in a broader decision to hire a general consultant.

Hiring a specialty alternatives consultant to advise on – or even manage – the alternatives portfolio. Consultants working in the alternatives area have use of sophisticated measurement and evaluation tools, and strong contacts with a wide range of general partners. This route would be an alternative to increasing staff and subscribing to various measurement tools.

Adding additional fund of funds managers, incorporating a wider range of exposure to different strategies. Although Funds of Funds add an additional layer of costs to a program, they can be valuable in developing a more broadly diversified portfolio, avoiding minimum investment requirements, and taking some of the due diligence burden off staff.

- These requirements are included in the new CIO job profile. Pacing studies are conducted to provide a basis for systematic investing in the asset class. The most recent pacing study for private equity was completed and presented to the Board in November 2009.
- The Board has contracted with a general consultant and, for a period of time, a real estate consultant to assist in the selection of real estate managers. The real estate consultant was utilized to keep Board staff apprised of quality funds coming to market and assist in the selection of the managers. The general consultant assists in the selection and monitoring of "core" real estate managers.
- Board staff has been hiring managers in the private equity asset class since 1987 and have considerable experience in selecting managers. Many of the funds selected are "follow on" funds, with managers in which the Board has previously invested and have good performance. The Board also has committed to additional fund-of-fund managers to further diversify the private equity portfolio. These funds will assist the Board in vetting managers with whom the Board has no previous experience, and in providing diversified access to top tier funds that would be difficult or impractical to commit to on a direct basis (venture capital, international buyout, and small cap buyout funds).
- The staff reorganization resulted in the dedication of three additional staff to the Alternative Asset Class, which will provide the necessary resources to vet new managers and monitor existing managers.

- Access to a third party private equity and real estate administrator was formalized with the new custodial bank contract in November 2007.

17. **Trading Compliance** - The Investment Company Institute and the SEC recommend a third party notification process. It requires that employees with a personal securities account direct each financial institution with whom the employee maintains such an account to send monthly statements to the individual designated as the Compliance Officer for accounts in which the employee has a direct or indirect beneficial ownership interest. This third party notification provides a further "check and balance" in maintaining a successfully executed policy. We recommend that the Board adopt such a policy for its employees and add it to the Compliance/Trading Policy document.

We recommend that the Board assign its chair or his/her designee to serve as the Compliance Officer when the Executive Director wishes to engage in PST and that the change be added to the Compliance/Trading Policy document.

- Since the internally-managed domestic equity portfolio has been liquidated there is no need for a "Trading" policy which was designed to prevent conflicts related to personal trading. All equity trading is now conducted by external managers, trading information from which is not available concurrently to Board staff or members for personal trading purposes.

18. **Staff Compensation** - Compensation levels for the Portfolio Manager for Debt and Equities should be reviewed. Comparable compensation levels for exempt staff for In-state Loans, STIP, and Research should be reviewed. The Board should also consider our discussion of incentive compensation below. The Board should consider reviving and reviewing its incentive compensation program after it determines whether to continue or curtail internal management. The benchmarks used in the incentive compensation program should tie directly to the benchmarks used to measure "success" in the fund's investment program. External indices can be used to measure success in the compensation program as long as the indices relate to plan performance, are readily accessible from a third party, are measured net of all fees. Incentive compensation ranges should be established for each affected position. Eligibility for the Incentive compensation program should be clearly articulated. The time period of measuring achievement should reflect the time periods used to monitor each respective asset class and total fund performance. The incentive compensation program should incorporate a deferral feature. The overall incentive plan should be enhanced by reducing the emphasis on a "team" payout, and incorporating elements that reflect individual accountability.

- The Board sets its exempt employee salary ranges based on surveys of comparable public funds. The current salary ranges were approved by the Board in November 2008 based on a broad-based survey conducted by McLagan Partners. This survey includes 55 public funds and will continue to be used to set proposed salary ranges for exempt employees. The current exempt employee pay plan provides a bonus provision up to 20.0 percent of base salary.
- Hudepohl & Associates was commissioned to create new performance appraisal forms for the Board's exempt staff, which were used for the first time in 2006. These forms include not only individual investment performance but team performance and behavioral components as well.

19. External/Internal Investment Management - The Board can consider spending more on investment management and resources, whether internal or external, and still be well within the reasonable range of costs. The Board can consider the use of additional external managers and its total costs will remain reasonable (assuming that the Board pays routine and average costs for external investment management). Should it decide to expand the use of external managers, the Board should also budget for the services of an investment consultant to monitor those managers and to advise the Board.

- The Board has greatly expanded external management and transitioned the $866 million internally managed domestic equity portfolio to external managers. In addition, the Board hired several external managers to further diversify fixed income investments in sectors, such as high yield. The Board will continue to evaluate internal versus external management going forward using the following rationale – if external managers can consistently outperform internal managers net of fees, the Board will consider using external managers. The Board has hired an investment consultant to assist staff in screening and hiring external managers.
- After the staff reorganization in late 2007, there are more positions dedicated to monitoring external managers. The Board's consultant also monitors and reports on external manager performance.

20. Passive Investment Fees - The Board should, on a continuing or regular basis, review the fees charged by BGI for the two passive international equity funds. As the amount of assets invested by the Board in these funds increases, the Board should evaluate whether the negotiated fee with BGI should be further reduced to reflect the economies of scale associated with the growth of the accounts.

- Board staff have reviewed the passive management fees and found them competitive and reasonable.

21. International Investment Strategy/Style - The issue of investment strategy and style should be addressed by the new CIO and Board. The issue of investment strategy, style and diversification among external active managers needs to be addressed by the new CIO and Board. The guidelines for MTIP should memorialize the results of that review and should set specific standards (or portfolio characteristics) against which the Board can compare the risk metrics and characteristics of each component of the MTIP portfolio.

- This has been accomplished with the assistance of the Board's consultant.

22. MTCP Guidelines - The guidelines for MTCP should memorialize the results of the review of investment strategy and style and should set specific risk standards (or portfolio characteristics) against which the Board can compare the risk metrics and characteristics of the MTCP portfolio.

- The MTCP, the internally managed domestic equity pool has been liquidated.

23. CIO & Research Director Positions - The Board should make recruitment of a new CIO a top priority. The selection of a new CIO should include consideration of each candidate's ideas about strategies of active management, a clear statement of each candidate's knowledge of public and private equity, fixed income and real estate investment, and evaluation of each candidates ability to articulate a compelling vision about how to earn superior returns in capital markets. Once hired, a new CIO should be charged with the responsibility to rebuild the investment "culture" within the Board, focusing on strategy, style, security selection, research, staff development, internal communication, and resources. Impatience with inexperience and inability to teach are common among highly qualified technical experts. The Board should find a replacement for the Director of Research who has demonstrated technical analysis experience, analytical management experience, and demonstrated capability to foster communication. The new CIO and Director of Research must pay particular attention to the quality of the communication between members of the team, not just the quantity of reports or frequency of meetings.

- With the assistance of a national search firm both the CIO and Research Director Positions have been filled. Communications have improved significantly since the hiring of these positions.

24. **Staff Communication** - Communication between the equity Portfolio Manager and the equity analysts must be improved, especially with respect to situations in which the analysts believe a specific holding ought to be sold. Team management and development are essential resources for investment management and internal management in particular. The CIO needs to be expert in accomplishing this and must focus on achieving it. The reasoning behind the analysts' recommendations should be rigorous, thorough, and consistent with the organization's stated investment strategy. With respect to construction of the equity portfolio, the decision-making process should be open and clear. The Portfolio Manager should provide feedback whenever possible (in any verbal or written form), especially if analysts' recommendations are rejected or postponed.

- The internally managed domestic equity portfolio for which this recommendation was addressed was liquidated on July 31, 2007

25. **Equity Team Support** - Board should hire an experienced equity trader for its internally managed equity portfolios. The equity team, and in particular the Portfolio Manager, ought to have clerical support to allow team members to work more efficiently and to shift clerical and administrative work to lower paid staff The travel budget should be expanded dramatically. The CIO, in consultation with the equity team, should be charged with responsibility for determining how to allocate that budget, the number and frequency of company visits to conduct, the industry and brokerage conferences to attend, and how best to deploy the analysts.

- A trader was hired but has been reassigned after the internally managed domestic equity portfolio was liquidated. The equity team has been reassigned to other critical duties. There has never been a travel budget per se that would limit equity team travel. The reassigned equity team will likely travel more than in the past as they visit external managers.

26. **Investment Performance Reports** - The CIO should determine an appropriate format and content of regular investment performance reports, both for internal and external use. The reports should include rates of return for multiple time periods, benchmark returns, peer group rankings, and risk metrics. Such reports should be circulated among all investment professionals (equity, fixed and alternative) and discussed regularly with the aim of creating a common understanding of what the Board's performance has been, in total and by asset class, and the reasons behind the returns.

- This has been accomplished with the assistance of the Board's consultant. The Board has contracted with the Custodial Bank to provide performance calculations for alternative investments which are presented to the Board quarterly.

27. **Analysts Experience/Credentials** - The new CIO needs to give careful consideration not only to the development of an investment strategy for Board, but must also consider how to build the professional staff's understanding and application of that strategy. Executive management at the Board should make it a priority to develop a strategy to stabilize and strengthen its roster of analysts. To the extent that the Board continues to hire analysts with relatively modest professional experience, the organization needs to reconfigure the training and staff development process to rely on more than just successful completion of the CFA examinations. The analysts should all have individual desktop access to Bloomberg or some other comparable system for research, market news, security modeling and analysis and other portfolio construction purposes.

- The only security analysts remaining after the liquidation of the internally managed domestic equity portfolio are the two fixed income analysts who have considerable experience and have full access to Bloomberg. The equity analysts have been assigned to "manage the manager" activities and will be using the appropriate research tools.

28. **Domestic Equity Pool Benchmarks** - With the continued evolution of the MDEP, it is appropriate that a broad equity market index be used as the Policy going forward. In addition to providing an objective evaluation tool for performance, the Policy benchmark may also assist staff in structuring the pool in terms of allocations to the various market capitalization bands. Appropriate equity indexes include the Wilshire 5000, Russell 3000 and the S&P 1500. Performance evaluations relative to any of these benchmarks should be tempered to acknowledge the gradual broadening of market exposure with the addition of passive large cap and active small/mid cap mandates.

- The Board has adopted the S&P 1500 Completion Index as the benchmark for the Domestic Equity Pool and has adopted the appropriate benchmark for each of the external managers in the Pool. The benchmarks for individual managers are tailored to their style – core, growth, and value, as well as capitalization – large cap, mid cap, and small cap.

29. **Private Equity Pool Benchmark** - We recommend that the Board change the MPEP Policy Index to the S&P 1500 plus 5%.

- This recommendation was implemented in April 2005, though the "add on" was 4% which was deemed appropriate given the utilization of "special situations" funds (mezzanine, distressed, and energy-related) which help dampen the J-curve effect, but may result in slightly lower returns relative to a portfolio made up of only buyout and venture capital funds.

30. **International Equity Pool Benchmark** - We recommend that the Board adopt the MSCI ACWI ex-US Index as the MTIP Policy Index to reflect more appropriately the investment authority allowed within investment manager guidelines. The MTIP should be evaluated versus the MSCI ACWI ex-US even if the policy benchmark is not changed.

- This recommendation has been implemented. The Board has adopted the MSCI ACWI ex-US as the policy benchmark for the International Equity Pool (MTIP).

31. **Value Internally Managed Portfolios** - The Board should establish policies to value internally-managed portfolios on at least a monthly basis and reconcile their accounting to the Bank's accounting.

- This is no longer an issue with equity portfolios. Fixed income portfolio managers/analysts may use Bloomberg to reconcile bond prices with the Custodian, and have provided broker contacts to the Custodian for pricing of less liquid securities that are not readily available through pricing services.

32. **Performance Calculations** - The Board should allocate resources for an internal performance measurement function. Resources would include staff, software and data. The function should be independent of the portfolio management functions to reduce the potential for manipulation of results. Standard, off-the-shelf software, such as Advent Axys, is available to provide the platform for performance calculation. Implementing an internal performance measurement function would also provide a check for portfolio valuation relative to custodian values if an independent pricing source is used. Typically, the performance measurement software comes with standard interfaces for retrieving the data, but pricing data feeds are costly.

The Board should obtain peer group comparisons for the investment program and its components. Peer comparisons should be added as additional benchmarks to the regular fund reporting as a supplement to fund and account policy and strategic benchmarks. The Board should hire a retainer investment consultant to provide interpretation of the performance reports and greater insight into the operation of the investment program. It is essential that this party be fully independent of the internal and external portfolio managers employed by Board.

- The Board has hired a custodial bank and consultant to calculate investment performance and compare performance to benchmarks and peers. These calculations are independent of internal and external managers.

33. **Trader Position** - Assuming no change in the decision to maintain internal equity management, actively pursue the effort to hire a full time, experienced equity trader. Implement the trading functions by documenting communication processes and controls that foster active interplay between manager and trader to increase the likelihood of achieving optimal trading results, without creating a structure in which the trader has insufficient authority to manage the process. As part of the job description of the separate trader, include responsibility for measuring all trading costs, which are then reviewed by the portfolio manager and CIO.

- A trader was hired but since the liquidation of the internally managed domestic equity pool the incumbent has been reassigned to other duties.

34. Trade Order Management System - Consider using a trade order management system as a tool for tracking trading quality.

- Staff use a Portfolio/Trading Management System provided by Bloomberg.

35. **Soft Dollars** - Focus the soft dollar budgeting process on using the amount of soft dollar credits that can reasonably be generated without undue execution risk. Pay for services above that level with hard dollars.

- Since the liquidation of the internally managed domestic equity pool there are no soft dollar credits. All services are purchased with "hard dollars."

36. Meeting Minutes - Meeting minutes should reflect rationales for key decisions.

- All Board meetings are taped for archival purposes and the written minutes reflect the "official" action of the Board. Under Montana law, the Board can take no substantive action unless such action is included in the agenda. The Board usually acts on recommendations made by staff and the rationale for making the recommendation are clearly spelled out in the recommendation. The written staff recommendations become a permanent part of the record for the Board meeting along with the minutes.
- If the Board desires to see more of the "rationale" for making a decision in the official minutes, staff will provide the information. All staff reports containing the rationale for Board decisions are linked to the minutes on the Board's web site.

37. **Governance Policy** - Develop a Governance Statement and Board By-laws. Provide new Board members with orientation as to fiduciary responsibility, with annual updates from legal counsel. Require all new Board members to acknowledge fiduciary responsibility in writing

- A Governance Policy was approved by the Board on November 6, 2007.

38. **Staff Authority** - The authorizations of staff members should be limited to their respective areas of expertise and responsibility.

- The different levels of authority and responsibility are clearly spelled out in the Governance Policy.

39. **External Manager Monitoring** - Document the process for monitoring compliance to investment guidelines by external managers. Utilize a consultant and/or increase staff to monitor and document manager compliance in a more detailed way. Review available compliance monitoring systems, such as those available through custody banks, against specific guidelines to determine if their use is cost effective.

- Six staff are now dedicated to monitoring and managing external public security managers and software is available to, among other things, asses risk in external manager portfolios.

40. **Code of Ethics** - We recommend that the Board's policies and procedures acknowledge the application of state laws and regulations, such as the Code of Ethics, to board members and employees. Moreover, the acknowledgment of the Code, the Code itself, and the compliance policy that deals with personal securities trading, and any other policy should appear as a single unified document for ease of use by board members and employees. We recommend that Board members and employees, including investment staff, annually make the following certifications:

They have read and understood the Code of Ethics and its accompanying policies and procedures (including the Personal Securities Trading Policy located in the Board's Compliance/Trading Policy, if applicable to them). They acknowledge that they are subject to the Code of Ethics and its accompanying policies and procedures. They have complied with all requirements, including all reporting and disclosure.

We recommend that the Board adopt rules to supplement the Code in two ways:
Require investment staff to comply with a reporting requirement similar to that in the Code; and
Expand the reporting to include personal financial interests, in addition to business interests. We recommend providing board members and employees the opportunity to seek the advice of a designated individual regarding the Code of Ethics and its policies and procedures. In some jurisdictions, an attorney serves this role. We recommend Board Counsel advise the Board on the necessity of reporting gifts.

- Since the internally-managed domestic equity portfolio has been liquidated there is no need for a "Trading" policy which was designed to prevent conflicts related to personal trading. All public equity trading is now conducted by external managers, trading information from which is not available concurrently to Board staff or members for personal trading purposes.
- A Code of Ethics designed specifically for Board members and staff was approved as part of the Governance Policy on November 6, 2007.

41. **Board Travel** - We recommend adopting the following principles regarding Board travel and entertainment:

No approval is granted to accept payment or reimbursement if the source of the payment or reimbursement is a person who provides or seeks to provide goods and services to the Board and the recipient of the travel is either a board member or an employee who participates in the acquisition of the goods or services that will be sought.

If the foregoing is inapplicable, approval is granted if payment is for reasonable expenses incurred in connection with making a presentation or attending an educational seminar. Board members and employees should address the request to accept such payment or reimbursement in writing to the Executive Director or his/her designee. The Executive Director should address the request in writing to the Board Chair or his/her designee.

A designated individual should maintain a copy of each travel request. The individual should annually review all filed requests to ensure compliance and report such review to the Board. Entertainment in connection with the travel and if provided at hosted receptions or as part of the event's activities is permissible unless the board member or employee has reason to believe that the entertainment is being provided to obtain contractual business or financial relations with the Board.

- This recommendation is addressed in the Governance Policy adopted by the Board on November 6, 2007.

42. **Personal Trading Policy** - The PST policy should be enhanced to require disclosure of facts relevant to investments in non-publicly traded securities. Examples of additional safeguards the Board should consider include:
Investment policies and procedures that require appropriate disclosures from any Board members or staff when such persons know or should have known they are financially or personally related to the general partner, underlying portfolio company management or other recipient of the investment (e.g., a borrower on a mortgage loan).

Policies and procedures designed to prevent investments that are motivated by undue inappropriate outside factors, e.g., "investment motivated by "pay back" to governmental officials with influence over the Board's investment program.

We recommend that the Board add the following text below the two signature lines of the Compliance/Trading Policy: "After the employee and supervisor sign this policy, the employee shall submit it to the Executive Director who shall accept it and retain it."

- These are addressed in the Governance Policy approved by the Board on November 6, 2007.

43. **Information Technology Staff** - A key resource in the planning for business resumption following a disaster is the IT staff. The Board should determine the appropriate IT staff levels adequate for the organization. Once adequate IT staff are hired most of the IT functions currently performed by the Executive Director should be delegated to staff.

- The staff reorganization provided for an "Investment Operations Chief" position that assumed the IT activities formerly provided by the ED to investment staff. The Network Administrator has assumed the IT activities formerly provided by the ED to accounting and loan program staff.

44. **Staff Communications across Asset Classes** - The new CIO should ensure that there is adequate and effective communication across asset class boundaries. The leaders of the equity and fixed income teams should support, encourage, and reward such communication.

- Communications among assets classes occurs systematically.

45. **Performance & Analytics** - The Board should instruct staff to work with State Street to enhance the performance reports with respect to equity style and fixed income attribution.

- The current custodial bank contract provides for more robust P & A, including web access to private equity and private real estate performance and peer group comparisons. Board staff utilizes Fact Set for equity analytics and Wilshire for fixed-income analytics.

46. **Securities Lending** - Clarify the Board's financial statement footnotes on securities lending to reflect actual practice and Board's policy, e.g., the Board's policy is to recall loans prior to record date for voting events. Do not require Board approval of borrowers.

- Under the current securities lending agreement with the custodial bank, the bank is responsible for recalling the loaned security or substituting from its lending portfolio. The agreement does not require the Board to approve borrowers.

47. **Position Descriptions** - Review and revise Position Descriptions for Executive Director and Chief Investment Officer to establish scope and limits of authority of each position, reporting relationships and accountability to the Board. For example, authority to make personnel decisions regarding investment staff needs to be clearly identified.

- The Chief Investment Officer (CIO) job profile was totally revised prior to the recruitment for the position. The profile was revised to reflect the different management structure in which the Executive Director (ED) is administratively responsible for all Board operations. Previously the ED and the CIO reported to the Board as equals. The Board's Governance Policy clearly spells out the respective duties of the CIO, ED, and Deputy Director.

48. **Fixed Income Investment Policies** - The Board should ask the fixed income team leaders to report on opportunities and risks in a wider universe of fixed income securities, and to recommend the extent that investment in any such securities might benefit the RFBP and TFIP. The Board should instruct staff to further define the lists of allowed and prohibited securities, taking into account the proliferation of new and complex securities available in bond markets. The Board should instruct staff to propose well-defined limits on the effective duration of the bond pools, such as a range in which the pools' effective duration may move.

The Board should instruct staff to propose language that provides what action should be taken in the event that an investment-grade corporate security is down-graded to below-investment grade. Following the reports by staff indicated above, the Board should revise the RFBP and TFIP guidelines to incorporate more specific requirements for allowable and prohibited securities, for effective duration, and for downgrades.

- The RFBP now includes high yield and international bonds and the TFIP includes high yield bonds. Both Investment Policy Statements have been revised to clarify that the internally-managed portion of the portfolio will be more "core-like."

49. **Fixed Income Support** - The Board should add research staff to the fixed income team. New additions should be sought with substantial experience in mortgage securities and investment-grade corporate bonds. The Board should also strengthen the resources available to the fixed income team (data sources, modeling software and systems, and external research). Alternatively, Board should consider hiring external investment management firms that specialize in mortgages, high yield corporate bonds, asset-backed securities, and TIPS. Should the Board consider at some point creating a role for non-U.S. dollar denominated securities and emerging market debt (to the extent that Board's asset allocation analysis determines that such asset classes offered benefits in terms of risk, return and portfolio diversification), the Board will need to hire external investment management firms with appropriate skills in these areas.

The regular internal reports summarizing the fixed income holdings of Board should be enhanced to include a wider range of common descriptive characteristics and risk metrics. The Board should consider the acquisition of a sophisticated fixed income portfolio management system that can 1) draw holdings data directly from the custodian's system, 2) price all holdings quickly and accurately, 3) eliminate the need for manual data entry, 4) produce accurate summaries of the fixed income portfolio in a manner that more closely approaches real time, 5) provide more descriptive characteristics and common risk metrics, and 6) provide the staff with better tools to model (stress) the reaction of the portfolio to changes in market conditions and interest rates.

- Two full time fixed-income analysts with considerable experience are on board and additional fixed income research tools are available. All fixed income trades are processed in the Bloomberg Portfolio Management System, which eliminates manual trade entries. The Board subscribes to Wilshire fixed-income analytical software that provides detailed information on fixed income holdings, performance attributions, and scenario analysis.

50. Bond Index - The addition of a secondary long-term bond index, such as the Lehman Long-Term Government/Credit, would provide a good supplementary benchmark that represents the upper boundary of the Pool's investment style. At September 30, the Lehman Long-Term Government/Credit had a Yield to Maturity of 5.3%, an Effective Duration of 11.0 years and an average Quality of AA.

- This is no longer relevant given the revisions discussed in 49.

51. Internal Auditor –The Board should establish an Internal Audit activity in conformity with Professional Standards for the Practice of Internal Auditing. The internal auditor should report directly to the Board and administratively to the Executive Director. The internal auditor should be responsible for the development and implementation of a comprehensive internal financial, procedural and compliance audit program that includes, in addition to administrative management of the internal audit function, evaluation of internal controls, policies, and information systems. Additionally, the internal auditor should be responsible for reporting conditions that pose a risk of loss and for bringing to management's attention any irregularities, fraud or other acts that are subject to detection through the application of normal audit procedures.

- The Board has hired a contracted Internal Auditor that has reviewed the Internal Control Policy and provided random checks against the policy. The Auditor reports directly to the Audit Committee.

52. Proxy Voting - Board should receive reports of how proxies are voted.

- Board staff now has access to reports of how proxies are voted through software provided by the custodial bank and could make the information available to the Board if members wish.

53. Enterprise Risk Management Program - The Board should implement an enterprise risk management program. In order to efficiently and effectively implement the ERM, the Board may first need to identify staff and support resources necessary. The ERM process should include a report of risks, controls, and residual risk to the Executive Director and the Board.

- This was addressed with the adoption of an Internal Control Policy that was and will continue to be reviewed by the Board's contracted Internal Auditor and Audit Committee.

54. Disaster Recovery - The Board should direct staff to develop a comprehensive disaster recovery plan. The Board, Commerce, and ITSD should develop a written memo of understanding regarding routine responsibilities and responsibilities in the event of disaster. The Board should consider whether it risks undue liability exposure by the language in the WSIB letter agreement that requires the Board to provide WSIB such facilities and equipment as is necessary [emphasis added]. All components of the DRP, even those described in the letter agreements with SSB and WSIB, should be tested.

- The Board currently has three separate locations from which it can operate in the event of a disaster that disables its offices – State Street Bank in Alameda, Washington Investment Board, and the Department of Commerce in Helena. All data files are backed up daily and stored off site. Staff is currently setting up a remote location at which the data can be recovered. Ultimately, staff hopes to use the state's new data centers in Helena and Miles City as a back-up for all data.
- All critical accounting systems used by Board are hosted by others. The Board's securities accounting system is hosted by the custodial bank which has a comprehensive disaster recovery plan in place. The Board's participant accounting system is also provided by the custodial bank. The Board's web site and commercial loan accounting system are hosted by the State with and are covered by its associated recovery plan.
- Because the Board no longer trades equity securities, the only trading operations at risk are fixed income and the Short Term Investment Pool. The Board utilizes Bloomberg Anywhere terminals that can connect to the trading system from any location where trading can be accomplished. All other security trades are linked directly from external managers to the custodial bank.

55. Risk Analysis - The Board should expand its risk analysis to include measuring and evaluating the investment risk statistics of each investment pool (or asset class composite) and pension fund as a whole and measure them versus the appropriate benchmarks. The Board should adopt a Policy Index and an Asset Allocation Index as benchmarks for total Pension Fund performance.

- The custodial bank calculates a Policy Index for the pension funds and the consultant compares the pension funds "risk and reward" spectrum to Board peers. This information is presented quarterly to the Board.

56. Written Policies - Staff should develop written policies and procedures for:
Information Technology
Voluntary Corporate Actions
Proxy voting
Whether, when, and how staff may input prices for securities,

How to allocate securities and clearing accounts of funds, and
Security class litigation

- Voluntary Corporate Actions and Proxy Voting policies will be addressed in the revision of the appropriate pension fund Investment Policy Statements.
- Staff no longer price securities, except for minor holdings of fixed income private placements which are now priced using a market-based formula (as opposed to carried at par).
- Staff are unsure of the meaning of "How to allocate securities and clearing accounts of funds."
- A securities class litigation policy is in place as part of the Governance Policy.

RECOMMENDATIONS NOT TO BE IMPLEMENTED

1. Budget Committee - The Board should establish a Budget Committee to supervise the preparation of the annual budget and otherwise supervise the administrative expense function.

- This decision should be made by Board members if they desire to closely supervise the budget process. Historically, the Executive Director (ED) has requested that the Board approve budget additions from current level, such as additional staff positions, new contractual relationships, and investment research platforms. The budget process for state agencies is very labor intensive and starts in July, the year prior to the biennial legislative session. The Board's budget is submitted to the Department of Commerce for approval and is then sent to the Governor's Office of Budget and Program Planning for final approval.

2. Policy and Asset Allocation Committees - A policy committee may help the Board centralize administration of policies for the purpose of reviewing existing policies, establishing new policies, and eliminating policies that are not effective or efficient. Establish a committee for Asset Allocation.

- Currently Board policy is to use the entire nine-member Board as an Asset Allocation Committee. The Board has not discussed the creation of a Policy Committee.

3. Proxy Voting Committee – A proxy committee may help the Board exercise fiduciary responsibility as a shareholder.

- The Board does not believe this committee is necessary.

4. Resolution 199 - The Executive Director should promptly notify the Board of changes in authorizations under Resolution 199, and those reports should be reflected in the Board's minutes.

- Resolution 199 was replaced with Resolution 217 that empowers the ED to authorize/delete brokers/money managers to an approved list of vendors with which the Board conducts business. It also authorizes the ED to authorize/delete Board staff eligible to conduct business with the vendors. Under current Board policy, the ED updates the Board on Resolution 217 activity on or around its November meeting and the changes are reflected in the meeting minutes

5. Legal Counsel - Legal counsel should regularly attend Board meetings and review drafts of meeting minutes.

- Staff does not believe it is necessary for the Board's contracted legal counsel to attend Board meetings and review meeting minutes. Board staff at all levels are in continuous communications with legal counsel on a variety of issues. Legal counsel reviews and signs all contracts and alternative investment documents. If staff believes there are legal issues that may be addressed during a specific meeting, legal counsel is invited to attend.

6. **Executive Session Minutes** - Minutes or other records should document subjects discussed and decisions made in Executive Sessions.

- The Board operates under the "open meeting" laws of Montana and can only close meetings (go into Executive Session) to discuss personnel issues where privacy rights of the employees trump the publics right to know, or in the case of litigation involving a non state agency the strategy discussion which, if divulged, would be detrimental to the Board. Minutes taken in these sessions would have to be made public to the detriment of the Board and its staff.

7. **Board Membership** - Retirement System participation in the Board's business could be enhanced by creating non-voting Board seats for additional Retirement System representatives. The Washington State Investment Board uses non-voting seats to add investment expertise to the Board's processes. Since there are already investment expert Board members, the advice of non-voting membership could be used to add voices from the Retirement Systems to the Board's deliberations.

- This recommendation would require legislation to codify any such arrangement for non-voting members. The law creating the Board is very specific relative to membership and the Board has no independent authority to change its makeup. Current law requires that two of the nine Board members also be members of the two pension Boards. All Board meetings are open to the public and contain an agenda item called "public comment" at which time any member of the public, including members of the retirement systems may comment.

8. **Board Appointment Authority** - The Legislature's decision to vest in the Governor the power to appoint the entire Board is unusual. But the Legislature did not intend that power to be unchecked since Board members must meet certain qualifications and Senate approval is needed. So long as there is no change in the appointment power, the appointment process should be formalized to assure a record is created demonstrating that Board members meet the statutory criteria and that both the Governor and the Senate acted responsibly in nominating and approving Board members.

Even in the absence of legislative change, the Governor could decide to appoint the PERS and TRS representatives from a list of nominees submitted by the employee or retiree organizations that represent PERS and TRS-covered employees. The Governor could also appoint nominating committees from each of the economic sectors to be represented on the Board (labor, small business, financial community, agriculture) and select appointees from candidates presented by those committees.

- The Board has no control over the appointment process. Any change in the process would require legislation that would ultimately have to be signed by the Governor. In the absence of legislation any change in the process would be at the Governor's discretion.

9. **Budget Setting Authority** - The Board should have budget-setting authority. If the Board cannot gain such authority, it should have the power to fund its operations by drawing on fund assets or changing the fees paid by the retirement systems, within the confines of its fiduciary duties, if revenues appropriated are insufficient.

- It is doubtful that the legislature will ever grant the Board the authority to set its budget without legislative oversight/concurrence. The Board essentially operates as a "monopoly" because state agencies have no choice but to invest their funds with the Board. The legislature will likely always ensure that state agencies who receive "monopoly" type services will not be overcharged by authorizing the maximum fee the Board may charge.

10. **Exempt All Board Staff** - The Board's existing authority should be expanded to hire and set compensation for all staff.

- The Board, by state law, currently has eight of 34 authorized staff exempt from the state's classification and pay plan set by the legislature. A blanket exemption for all Board staff would have to be approved by the Governor and legislature through a modification of state law and is highly unlikely.

11. **Political Contributions** - The Board should adopt a policy that imposes the disclosure of certain political contributions. The policy would require service providers (and candidates seeking to become service providers) to specify whether, when, and to whom in relevant offices of state government or candidate for state government a service provider or prospective service provider has made any political contributions within the relevant past. The policy would include the use of a contractual warranty that requires immediate notification, in writing, to an employee designated by the Board, if and when the service provider makes any such contribution. The policy would require Board employees to implement a systematic process for reviewing service provider disclosures.

- This recommendation is not relevant to the Board's operations. There are no elected officials on the Board or are there Montana elected officials that could in any way influence the Board's selection of providers. While Board members are appointed by the Governor they do not serve at the pleasure of the Governor but rather serve out their term unless they are removed for "cause." Board staff who ultimately select the providers serve at the pleasure of the Board and are not subject to political pressure.

12. **Passive Index Investment Guidelines** - The Board should further enhance the guidelines for the Passive Large-Cap Equity and the Enhanced Small Cap Domestic Equity components to include specific risk metrics against which the portfolios can be compared. These risk metrics should be developed by staff by taking into account each manager's style and portfolio construction techniques. Thereafter, staff should monitor these risk metrics for each component and report to the Board on the success of each manager in generating acceptable returns while operating within the risk guidelines.

- When the Board invests in commingled fund such as these it must accept the guidelines in place for all other participants in the fund and does not have the option of promulgating its own guidelines.

13. **International Passive Investment Guidelines** - The guidelines for the active and passive managers (European and Pacific Basin) should consistently address the extent to which the managers are allowed to future contracts or other derivatives, and the extent to which the active managers are allowed or expected to hedge the foreign currency exposures in their portfolios. The guidelines for the passive managers (European and Pacific Basin) should indicate the amount of tracking error that is acceptable to the Board.

- European and Pacific Basin portfolios have been liquidated. When the Board invests in passive commingled funds, it has no influence on the guidelines, but must accept the existing guidelines. The active manager contracts include guidelines for currency risk that limit currency hedging to 15% of portfolio value and be utilized primarily for defensive purposes. Each manager's guidelines vary, but derivative instruments are addressed by most of the managers that utilize these as a portfolio tool. In certain cases these are constrained, but generally are not limited. Given the variety of markets and instruments available to international equity managers, and the challenges of buying local shares in some countries due to onerous custodial ownership rules, derivatives are often necessary as an indirect means of obtaining market exposure to some countries and companies.

14. **Unaudited Statements -** Prepare unaudited only combining statements of position, income and expense, supporting statements for all funds and activities and meaningful footnotes. Such statement would be designed primarily as management tools for the Board and senior staff. The statements would be for internal use. These statements would not need to be audited but could be easily checked against the audited statements.

- Staff do not believe this is necessary and would result in an additional staff workload. The custodial bank provides the Board's official book of record and those records are reconciled with investment managers monthly. Monthly reports from the custodial bank, which include the Board's entire portfolio by account/asset class and major funds portfolios, are posted on the Board's website and are available to all Board staff.

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

To: Board Members

From: Carroll South, Executive Director

Date: May 18, 2010

Subject: Coal Tax Trust Permanent Fund Loan
Department of Natural Resources and Conservation

Water Pollution Control State Revolving Fund - The Water Pollution Control State Revolving Fund (WPCSRF) was created by the 1989 Legislature. The fund combines federal grant money with state matching money to create a low-interest loan program for community wastewater treatment projects. The Department of Natural Resources and Conservation (DNRC) and the Department of Environmental Quality (DEQ) co-administer the WPCSRF Loan Program (the Program). The U.S. Environmental Protection Agency (EPA) grants federal funds to the state and the state must match 20 percent of the grant. The state's share is derived from the sale of state general obligation bonds or other funds, such as the recycled money from the Program's loan repayments. Loans are made by DNRC to public entities at interest rates of up to 4 percent and loan terms up to 20 years.

Loan Request – DNRC requests to borrow up to $15 million for a maximum term of three years. The short-term loan will be in the form of a revenue anticipation note (RAN) that will be a general obligation of the State of Montana. [See box.] The Program grew considerably in FY10 due in part to an increase in federal grant money attributed to the American Recovery and Reinvestment Act of 2009 (Recovery Act). An additional $8.1 million was received from the EPA through the Recovery Act, allowing DNRC to make additional loans.

> This RAN is a general obligation of the State under the enabling legislation Montana Code Annotated, Title 75, Chapter 5, Part 11 and the Program's Trust Indenture dated June 1, 1991. Therefore, the ultimate security is the full faith, credit and taxing power of the state, which would presumably mean the state general fund or any fund of the state legally available for the payment of the RANs.

The Program has approximately $29 million in outstanding loan commitments to be funded by December 31, 2010. The Program operates similar to the INTERCAP by using loan repayments to fund additional loans. However, timing of the loan repayments and the significant increase in loan commitments doesn't allow DNRC to fund the outstanding commitments by December 31. The Program anticipates drawing down the loan by July 2011.

The INTERCAP has funded two RANs for the Program; one for $700,000 in September 2008 and one for $2 million in April 2009. Both loans have been repaid. While this loan would normally be funded through INTERCAP, the loan's large size and short term precludes the use of INTERCAP.

State Agency Loan Precedents – The Board has made several loans to state agencies from the Coal Tax Trust. In the early 90's, the Board jump-started the Treasure State Endowment grant program by lending Coal Tax Trust funds to the Department of Commerce. In the mid 90's, the Board loaned Coal Tax Trust funds to the Department of Administration for renovation/expansion at the Montana State Hospital. This loan was repaid when bonds were issued for the project. During most of the 90's, the Board loaned Coal Tax Trust funds to the Department of Justice to fund its environmental litigation activities. As of fiscal year end 2009, the outstanding balance for the Department of Justice loan was $373,010. In 2001, the Board loaned $46.3 million from the Coal Tax Trust to the Department of Natural Resources and Conservation for the purpose of purchasing mineral production rights. In 2004, the Board loaned Coal Tax Trust funds to the Department of Revenue to finance the replacement of its computer system. These loans have been repaid.

Loan Parameters - Loan repayments of the Program will be pledged to repay the loan and the loan will be a general obligation of the State of Montana. The table below shows the required debt service on the loan and the Program's revenues pledged to repay the loan.

MONTANA BOARD OF INVESTMENTS
Coal Tax Trust Fund Loan (CTTF)
Department of Natural Resources & Conservation
(Water Pollution Control State Revolving Fund)
December 31, 2010
$15,000,000

Payment Due	Interest Payment	Principal Payment	Total Amount of Payment	O/S Loan Balance	Available Revenue to Pay CTTF Debt Serv	Excess After Debt Serv	Debt Serv Coverage
				15,000,000			
07/15/11	261,781	2,886,041	3,147,821	12,113,959	7,436,991	4,289,169	2.36
01/15/12	198,470	2,949,352	3,147,821	9,164,608	8,433,216	5,285,394	2.68
07/15/12	148,111	2,999,710	3,147,821	6,164,897	7,465,328	4,317,506	2.37
01/15/13	100,727	3,047,094	3,147,821	3,117,803	8,497,891	5,350,069	2.70
07/15/13	50,248	3,117,803	3,168,051	0	7,689,930	4,521,879	2.43
	759,337	15,000,000	15,759,337				

Recommendation – Staff recommends approval of a loan from the Coal Tax Trust Permanent Fund of up to $15 million to DNRC with the following conditions:

1. Loan will be in the form of a Revenue Anticipation Note (RAN).

2. Loan term will be for a maximum of three (3) years, as allowed by state statute; or such earlier date if the Program receives sufficient loan repayments sooner.

3. RAN interest rate will be set at 3.25 percent. (The Program's borrower loan rates are 2.75 percent for short-term loans and up to 4 percent for long-term loans.)

4. Principal and interest payments will be required every January 15th and July 15th, beginning July 15, 2011.

5. DNRC staff will utilize the multiple advance method used by the Board's Intermediary Relending Loan Program. Draws will be limited to one per month.

6. DNRC's bond counsel, Dorsey & Whitney, will prepare the loan documents including but not limited to the RAN, the Resolution approved by the Board of Examiners, and Attorney's Opinion.

Return to Meeting Agenda

Investment Activity

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 12/31/09

				Total			Real Etsate			
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
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
TOTAL	**37.2%**	**17.9%**	**11.6%**	**66.8%**	**26.6%**	**1.3%**	**0.6%**	**0.3%**	**4.4%**	**6,738,653,183**
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 3/31/10

				Total			Real Etsate			
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	37.4%	17.7%	11.9%	67.0%	26.3%	1.3%	0.6%	0.3%	4.6%	3,493,807,871
TEACHERS	37.2%	17.8%	11.9%	67.0%	26.4%	1.1%	0.6%	0.3%	4.6%	2,633,686,432
POLICE	37.6%	17.8%	12.0%	67.3%	27.1%	1.0%			4.6%	186,787,862
SHERIFFS	37.3%	17.5%	11.7%	66.5%	26.6%	2.3%			4.6%	180,855,594
FIREFIGHTERS	37.3%	17.8%	11.9%	67.0%	27.0%	1.5%			4.6%	183,814,219
HIGHWAY PATROL	37.5%	17.7%	11.9%	67.0%	27.0%	1.3%			4.6%	87,158,427
GAME WARDENS	37.3%	17.4%	11.7%	66.3%	26.5%	2.7%			4.5%	76,516,543
JUDGES	37.5%	17.4%	11.8%	66.7%	26.7%	2.0%			4.6%	55,062,288
VOL FIREFIGHTERS	37.8%	17.7%	11.9%	67.4%	27.5%	0.6%			4.5%	22,667,929
TOTAL	**37.3%**	**17.8%**	**11.9%**	**67.0%**	**26.4%**	**1.3%**	**0.5%**	**0.3%**	**4.6%**	**6,920,357,165**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

Change From Last Quarter

				Total				Real Estate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	0.2%	-0.2%	0.2%	0.2%	-0.2%	-0.1%	0.0%	0.0%	0.1%	93,855,740
TEACHERS	-0.1%	-0.2%	0.2%	0.0%	-0.2%	0.1%	0.0%	0.0%	0.1%	64,519,901
POLICE	0.6%	-0.1%	0.4%	0.9%	0.1%	-1.1%			0.2%	3,922,157
SHERIFFS	0.2%	-0.2%	0.2%	0.2%	-0.3%	0.0%			0.2%	6,377,235
FIREFIGHTERS	0.0%	-0.2%	0.2%	0.0%	-0.3%	0.1%			0.1%	5,126,611
HIGHWAY PATROL	0.3%	-0.2%	0.2%	0.3%	-0.3%	-0.1%			0.2%	2,436,191
GAME WARDENS	0.2%	0.0%	0.2%	0.4%	-0.1%	-0.4%			0.2%	3,430,757
JUDGES	0.2%	-0.3%	0.2%	0.1%	-0.4%	0.1%			0.2%	1,748,682
VOL FIREFIGHTERS	-0.2%	0.0%	0.3%	0.2%	0.1%	-0.5%			0.2%	286,708
TOTAL	**0.1%**	**-0.2%**	**0.2%**	**0.1%**	**-0.2%**	**0.0%**	**0.0%**	**0.0%**	**0.1%**	**181,703,982**

Allocations During Quarter

MDEP	**MTIP**	**MPEP**	**Total Equity**	**RFBP**	**Real Estate**
($65,000,000)	$620,000	$11,000,000	($53,380,000)	$970,000	$30,070,000

Net New Investments for Quarter → **($22,340,000)**

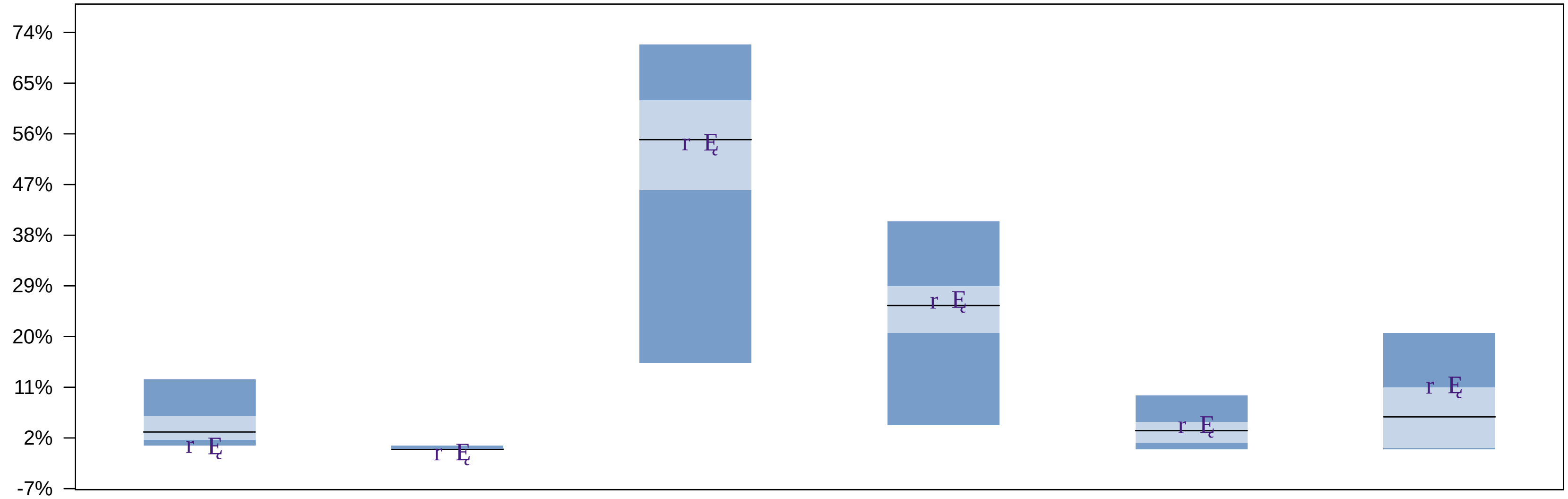
Montana Board of Investments

Public Funds (DB) > $1 Billion(SSE)

PERIOD ENDING March 31, 2010

STATE STREET.

ALLOCATION



		Cash Equiv %		Convertibles %		Equities %		Fixed Income %		Real Estate %		Private Equity %	
	5th Percentile	12.41		0.60		71.86		40.47		9.56		20.66	
	25th Percentile	5.89		0.04		62.02		29.01		4.88		11.03	
	50th Percentile	3.06		0.00		54.97		25.52		3.29		5.74	
	75th Percentile	1.59		0.00		45.95		20.63		1.17		0.24	
	95th Percentile	0.66		0.00		15.26		4.30		0.00		0.00	
	No. of Obs	53		53		56		56		57		56	
r	PUBLIC EMPLOYEES RET	1.32	80	0.00	50	55.05	44	26.95	39	4.82	26	11.85	22
Ę	TEACHERS RETIREMENT	1.08	88	0.00	50	55.02	48	27.09	36	4.88	25	11.92	18

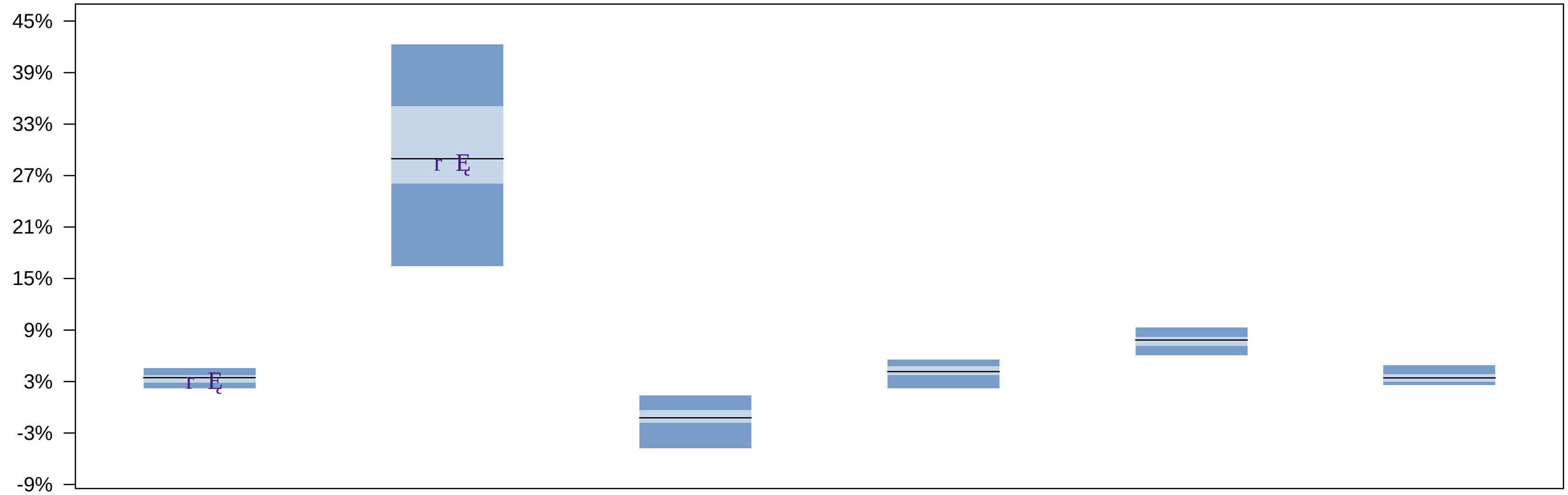
Provided by State Street Investment Analytics

Montana Board of Investments

Public Funds (DB) > $1 Billion (SSE) - MBOI PERS - TRS UNIVERSE

PERIOD ENDING March 31, 2010

STATE STREET.



		Total Fund Return 1 Qtr		Total Fund Return 1 Yr		Total Fund Return 3 Yrs	Total Fund Return 5 Yrs	Total Fund Return 7 Yrs	Total Fund Return 10 Yrs
	No. of Obs	56		57		52	53	52	48
	5th Percentile	4.57		42.28		1.37	5.54	9.26	4.87
	25th Percentile	3.76		35.12		-0.30	4.78	8.21	3.86
	50th Percentile	3.45		28.96		-1.22	4.15	7.83	3.42
	75th Percentile	2.87		26.03		-1.81	3.72	7.14	2.95
	95th Percentile	2.23		16.44		-4.76	2.20	6.08	2.61
r	PUBLIC EMPLOYEES RET	3.45	48	28.87	53				
Ȩ	TEACHERS RETIREMENT	3.43	51	28.85	56				

MEMORANDUM

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

To: Members of the Board

From: Jon Shoen, Portfolio Manager – Alternative Investments

Date: May 18, 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 briefs summarizing each fund and the general partners follow.

Fund Name	Vintage	Subclass	Sector	Amount	Date
EIF United States Power Fund IV, L.P.	2010	Special Situations	Energy	$25M	3/29/10
BDCM Opportunity Fund III, L.P.	2010	Distressed - Control	Diverse	$25 M	4/13/09

(iii) **Portfolio Index Comparison:**
Table comparing the performance of the private equity portfolio to the State Street Private Equity Index.

(iv) **Montana Investments:**
MBOI private equity managers Highway 12 Ventures and Montlake Capital have agreed to seek appropriate investments within Montana and to work to promote private investment within the state. Letters from each of these General Partners describing their activities in this regard are attached.

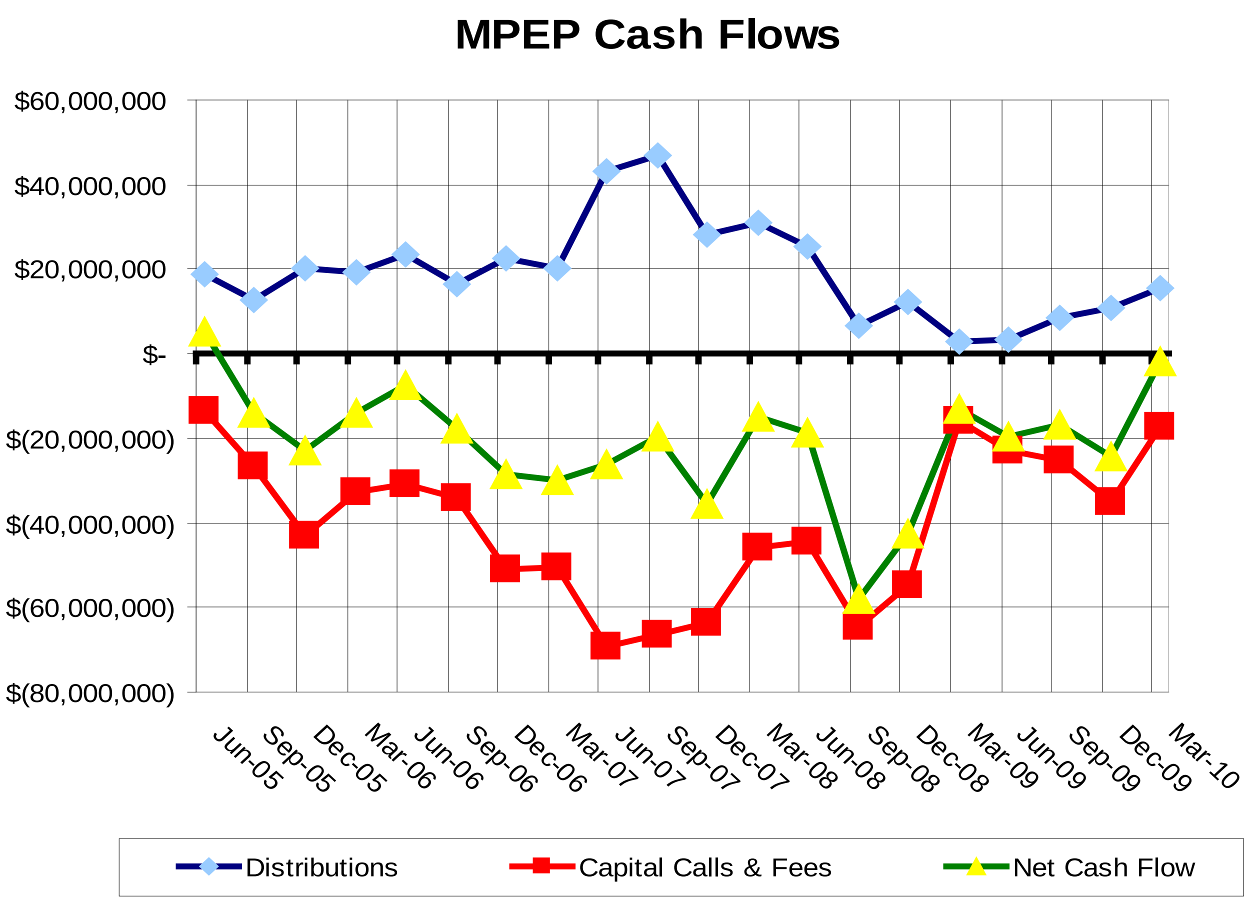
Montana Board of Investments

Private Equity Board Report

Q4 2009

Contents

MPEP Quarterly Cash Flows
April 1, 2005 through March 31, 2010



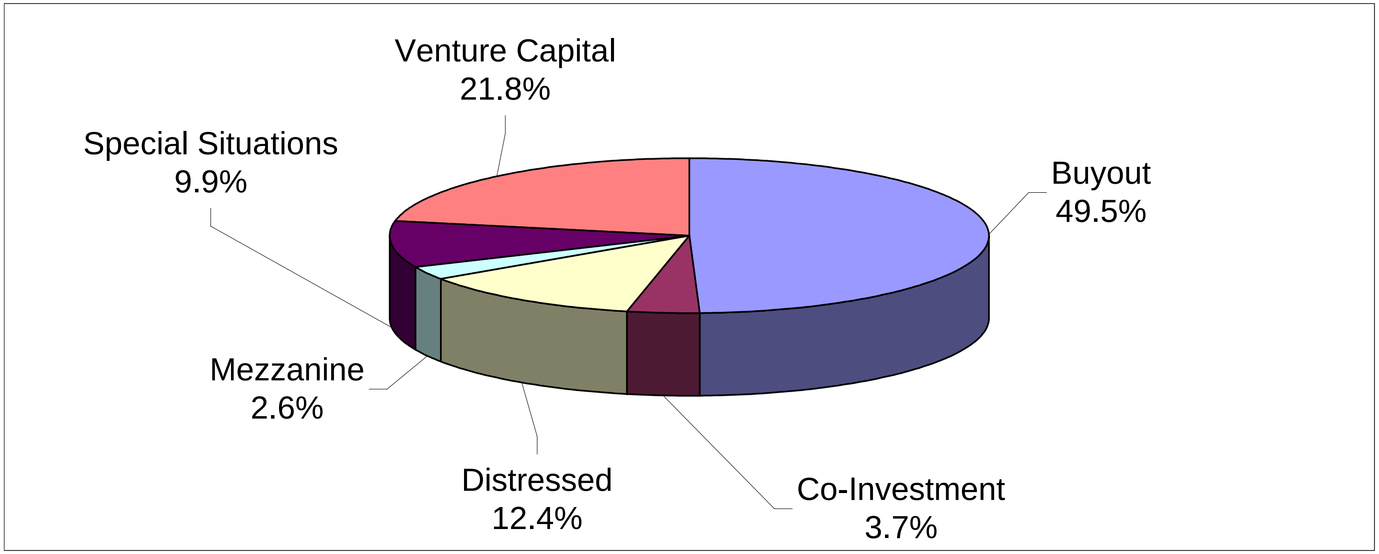
The first quarter of 2010 saw the portfolio's net cash flows tick meaningfully higher, falling just $1.7 million short of the point at which cash inflows would have been sufficient to offset cash outflows. Similar to the prior quarter, the fund's distressed and buyout managers were active in calling capital during the March quarter. Significant distribution activity was seen by the portfolio's venture, secondary, buyout, and distressed managers. Barring a recurrence of economic weakness or stress in global credit markets, it appears likely that both distribution and call activity will continue to increase in the quarters to come.

Q4 2009 Strategy – Total Exposure

Montana Private Equity Pool

Strategy Total Exposure by Market Value & Remaining Commitments (Fund of Funds broken out)

(since inception through December 31, 2009)



Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Buyout	$250,263,053	54.1%	$377,220,886	46.9%	$627,483,939	49.5%
Co-Investment	$21,591,212	4.7%	$25,556,499	3.2%	$47,147,711	3.7%
Distressed	$39,740,794	8.6%	$117,739,558	14.6%	$157,480,352	12.4%
Mezzanine	$10,693,407	2.3%	$22,635,377	2.8%	$33,328,784	2.6%
Special Situations	$34,909,667	7.5%	$90,822,366	11.3%	$125,732,032	9.9%
Venture Capital	$105,650,544	22.8%	$171,165,838	21.3%	$276,816,382	21.8%
Total	$462,848,677	100.0%	$805,140,524	100.0%	$1,267,989,200	100.0%

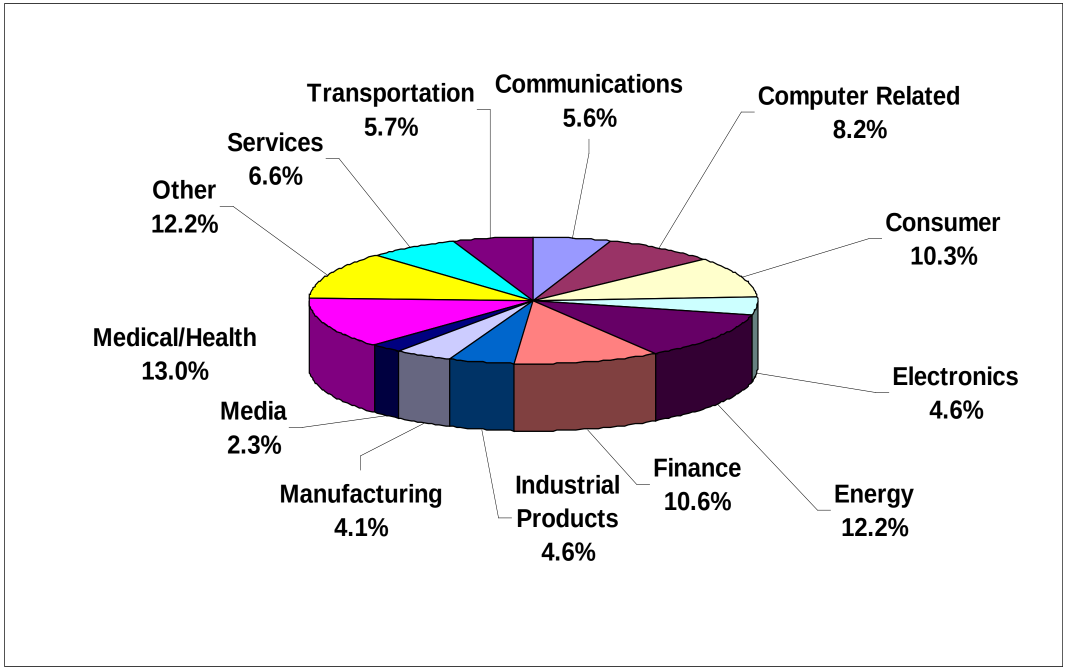
The portfolio is well diversified by strategy, with the most significant strategy weight consisting of Buyout at 49.5% of total exposure. None of the portfolio's strategy exposures are significantly changed from the prior quarter. Given that the timing of investments and realizations are controlled by the fund manager, it is not possible to precisely predict the future direction of the portfolio's exposure to any given strategy. However, commitments which have closed subsequent to 12/31/09 should incrementally increase the portfolio's exposure to Special Situations and Distressed at the expense of the other strategies.

Q4 2009 Industry – Market Value Exposure

Montana Private Equity Pool

Underlying Investment Industry Exposure, by Market Value

(since inception through December 31, 2009)



Industry	Investments, At Market Value	Percentage
Communications	$43,225,881	5.6%
Computer Related	$63,205,691	8.2%
Consumer	$80,079,541	10.3%
Electronics	$35,542,085	4.6%
Energy	$94,346,707	12.2%
Finance	$82,549,806	10.6%
Industrial Products	$35,943,990	4.6%
Manufacturing	$31,533,250	4.1%
Media	$17,988,055	2.3%
Medical/Health	$100,654,480	13.0%
Other	$94,569,806	12.2%
Services	$51,062,182	6.6%
Transportation	$44,560,926	5.7%
Total	$775,262,400	100.0%

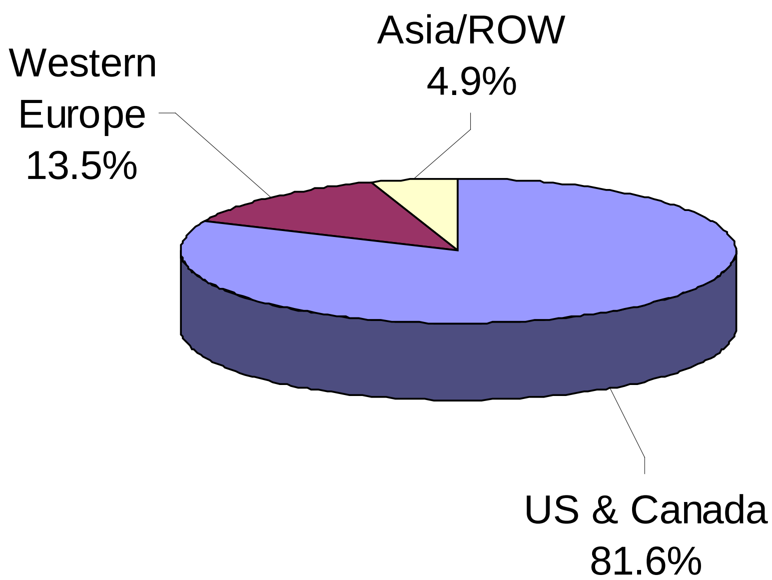
The portfolio has broad industry diversification, with Medical/Health representing the highest industry concentration at 13.0% of assets. With the exception of Energy and the technology-related industries, the portfolio's underlying managers tend to be multi-sector investors. Therefore, composition of 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.

Q4 2009 Geography – Total Exposure

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through December 31, 2009)



The portfolio's geographic exposure continues to be heavily weighted towards developed North America, with 81.6% 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.

Geography	Remaining Commitments (1)	Percentage	Market Value (2)	Percentage	Total Exposure	Percentage
US & Canada	$ 408,498,459	88.3%	$ 602,125,209	77.7%	$ 1,010,623,667	81.6%
Western Europe	$ 46,503,213	10.0%	$ 120,699,669	15.6%	$ 167,202,882	13.5%
Asia/ROW	$ 7,847,005	1.7%	$ 52,437,522	6.8%	$ 60,284,527	4.9%
Total	$ 462,848,677	100.0%	$ 775,262,400	100.0%	$ 1,238,111,076	100.0%

(1) Remaining commitments are based upon the investment location of the partnerships.

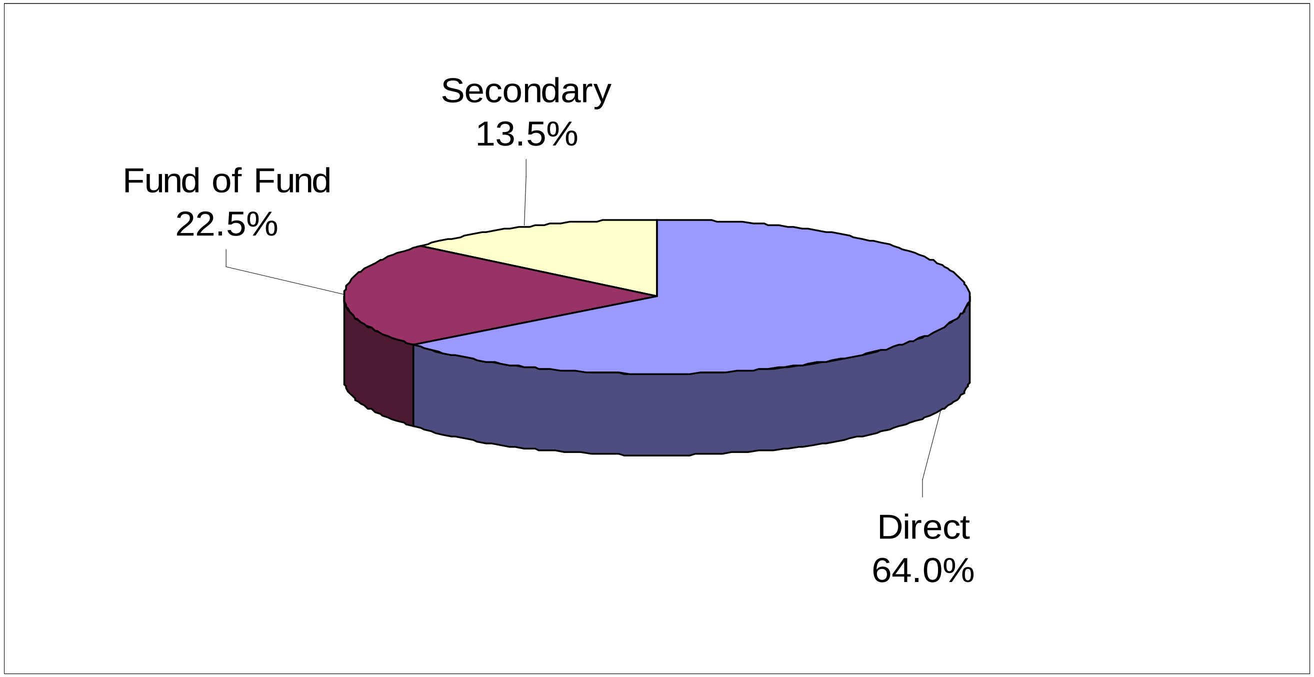
(2) Market Value represents the agrregate market values of the underlying investment companies of the partnerships.

Q4 2009 Investment Vehicle – Total Exposure

Montana Private Equity Pool

Investment Vehicle Exposure by Market Value & Remaining Commitments

(since inception through December 31, 2009)



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. Based on recent and expected future commitment activity, it is likely that coming quarters will see the portfolio's exposure to fund of funds and direct commitments increase at the expense of secondary commitments.

Geography	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Direct	**$ 269,407,600**	**58.2%**	**$ 542,714,462**	**66.9%**	**$ 812,122,063**	**64.0%**
Fund of Fund	**$ 108,017,796**	**23.3%**	**$ 176,804,230**	**22.1%**	**$ 284,822,026**	**22.5%**
Secondary	**$ 85,423,281**	**18.5%**	**$ 85,621,832**	**11.0%**	**$ 171,045,112**	**13.5%**
Total	**$ 462,848,677**	**100.0%**	**$ 805,140,524**	**100.0%**	**$ 1,267,989,201**	**100.0%**

Q4 2009 1 – 3 – 5 Year Periodic Return Comparison

Montana Board of Investments
Periodic Return Comparison

For the Period Ended December 31, 2009

	Since Inception					1 Year Return	3 Year Return	5 Year Return
Description	Fund Count	Ending Market Value	Investment Multiple	IRR	Contribution to IRR	IRR	IRR	IRR
Total	115	805,140,524	1.30	11.82	11.82	9.38	(0.10)	4.87
Adams Street Funds	34	189,855,347	1.35	12.09	3.21	8.30	0.61	7.16
ASP - Direct VC Funds	4	32,818,518	1.35	14.54	0.69	0.45	(0.92)	3.97
ASP - Secondary Funds	7	19,797,626	1.54	45.22	0.54	8.79	5.64	12.02
ASP - U.S. Partnership Funds	14	119,872,821	1.30	9.27	1.69	9.59	0.33	6.94
ASP Non-US Partnership Funds	9	17,366,382	1.42	11.85	0.30	16.52	1.06	12.47
Buyout	25	237,971,848	1.38	10.78	5.13	7.68	(0.89)	5.22
Co-Investment	2	25,556,499	0.96	(2.01)	(0.04)	7.79	(2.74)	N/A
Distressed	8	116,138,566	1.30	27.36	1.69	47.38	7.30	(0.20)
Mezzanine	3	18,340,827	1.37	11.44	0.20	1.99	7.23	8.44
Non-US Private Equity	5	30,349,579	1.22	9.75	0.40	13.42	(14.87)	5.26
Secondary	7	65,824,206	1.21	11.33	0.70	(9.63)	0.48	6.51
Special Situations	5	76,008,494	1.10	4.96	0.27	10.45	3.77	4.68
Venture Capital	26	45,095,158	1.13	16.86	0.25	(5.65)	(6.90)	(7.71)

The portfolio generated a one-year 9.38% IRR at 12/31/09, and from inception investment multiple and IRR results rose to 1.30 and 11.82%, respectively, from 1.29 and 11.73%, respectively, at the end of the prior quarter. Buyout, Co-Investment, Special Situations, and Secondary were positive contributors to quarterly performance while Non-US (including ASP) and Distressed were the standout contributors for positive performance during the year. Regarding Non-US, it should be noted that the USD/EUR exchange rate reached its recent peak of more than $1.50/EUR near the end of C4Q09, and this likely contributed to the outperformance of Non-US funds.

Q4 2009 LPs by Family of Funds

Montana Board of Investments
LP's by Family of Funds
All Investments
As of December 31, 2009

	Since Inception												
Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	% of Ending Market Value	Net IRR	Investment Multiple	Total Exposure	% of Total Exposure
Total		**1,732,388,174**	**1,216,246,139**	**76,361,866**	**462,848,677**	**74.61**	**873,822,297**	**805,140,524**	**100.00**	**11.82**	**1.30**	**1,267,989,200**	**100.00**
LP's By Family of Funds (Active)													
Total		**1,720,470,174**	**1,204,668,695**	**75,183,070**	**462,848,677**	**74.39**	**838,657,156**	**805,140,524**	**100.00**	**11.04**	**1.28**	**1,267,989,200**	**100.00**
Adams Street Partners		**327,129,264**	**276,177,988**	**25,660,161**	**36,022,675**	**92.27**	**217,041,028**	**189,855,347**	**23.58**	**12.09**	**1.35**	**225,878,022**	**17.81**
Adams Street Partners Fund - U.S.		**94,000,000**	**70,813,241**	**4,737,259**	**18,449,500**	**80.37**	**20,326,648**	**64,472,190**	**8.01**	**4.17**	**1.12**	**82,921,690**	**6.54**
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000	28,637,382	2,030,618	3,332,000	90.20	12,696,549	25,636,320	3.18	7.34	1.25	28,968,320	2.28
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000	15,247,500	1,012,500	3,740,000	81.30	4,226,402	14,290,797	1.77	4.63	1.14	18,030,797	1.42
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000	11,250,235	697,265	3,052,500	79.65	2,133,408	10,327,715	1.28	1.59	1.04	13,380,215	1.06
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000	15,678,124	996,876	8,325,000	66.70	1,270,289	14,217,358	1.77	(3.01)	0.93	22,542,358	1.78
Adams Street Partners Fund - Non-U.S.		**16,000,000**	**13,014,252**	**774,748**	**2,211,000**	**86.18**	**6,077,493**	**11,538,289**	**1.43**	**10.00**	**1.28**	**13,749,289**	**1.08**
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000	5,422,934	343,066	234,000	96.10	4,286,233	4,536,935	0.56	15.04	1.53	4,770,935	0.38
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000	4,009,756	235,744	754,500	84.91	1,298,064	3,666,698	0.46	6.65	1.17	4,421,198	0.35
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000	3,581,562	195,938	1,222,500	75.55	493,196	3,334,656	0.41	0.60	1.01	4,557,156	0.36
Brinson Partnership Trust - Non-U.S		**9,809,483**	**9,318,556**	**1,004,570**	**560,102**	**105.24**	**11,065,384**	**5,967,768**	**0.74**	**14.03**	**1.65**	**6,527,870**	**0.51**
Brinson Non-U.S. Trust-1999 Primary Fund	1999	1,524,853	1,474,957	156,157	119,071	106.97	2,126,897	514,042	0.06	11.08	1.62	633,113	0.05
Brinson Non-U.S. Trust-2000 Primary Fund	2000	1,815,207	1,815,207	185,892	0	110.24	2,469,095	939,715	0.12	13.02	1.70	939,715	0.07
Brinson Non-U.S. Trust-2001 Primary Fund	2001	1,341,612	1,341,612	137,392	0	110.24	1,764,720	657,009	0.08	13.22	1.64	657,009	0.05
Brinson Non-U.S. Trust-2002 Primary Fund	2002	1,696,452	1,696,452	173,730	0	110.24	1,185,275	1,440,864	0.18	9.79	1.40	1,440,864	0.11
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308	601,542	65,265	35,766	104.63	1,329,057	139,675	0.02	26.58	2.20	175,441	0.01
Brinson Non-U.S. Trust-2003 Primary Fund	2003	1,896,438	1,659,040	194,210	237,398	97.72	1,830,466	1,562,324	0.19	23.05	1.83	1,799,722	0.14
Brinson Non-U.S. Trust-2004 Primary Fund	2004	897,613	729,746	91,922	167,867	91.54	359,874	714,139	0.09	9.26	1.31	882,006	0.07
Brinson Partnership Trust - U.S.		**103,319,781**	**96,220,953**	**9,634,739**	**7,098,828**	**102.45**	**93,594,700**	**57,630,285**	**7.16**	**10.29**	**1.43**	**64,729,113**	**5.10**
Brinson Partners - 1996 Fund	1996	3,950,740	3,708,316	447,164	242,424	105.18	6,824,237	242,561	0.03	14.97	1.70	484,985	0.04
Brinson Partners - 1997 Primary Fund	1997	3,554,935	3,554,935	399,816	0	111.25	14,267,325	252,448	0.03	71.47	3.67	252,448	0.02
Brinson Partners - 1998 Primary Fund	1998	7,161,019	7,122,251	805,602	38,768	110.71	10,085,017	944,785	0.12	6.75	1.39	983,553	0.08
Brinson Partners - 1998 Secondary Fund	1998	266,625	266,625	29,957	0	111.24	181,932	14,989	0.00	(7.02)	0.66	14,989	0.00
Brinson Partners - 1999 Primary Fund	1999	8,346,761	7,832,823	920,288	513,938	104.87	7,563,083	2,285,472	0.28	2.24	1.13	2,799,410	0.22
Brinson Partners - 2000 Primary Fund	2000	20,064,960	19,079,570	2,032,661	985,390	105.22	18,267,149	9,502,704	1.18	5.72	1.32	10,488,094	0.83
Brinson Partners - 2001 Primary Fund	2001	15,496,322	14,830,208	1,336,982	666,114	104.33	8,127,055	11,962,192	1.49	5.12	1.24	12,628,306	1.00
Brinson Partners - 2002 Primary Fund	2002	16,297,079	15,783,921	1,393,699	513,158	105.40	13,662,316	10,482,624	1.30	11.00	1.41	10,995,782	0.87
Brinson Partners - 2002 Secondary Fund	2002	2,608,820	2,498,592	216,887	110,228	104.09	3,162,471	1,423,691	0.18	14.37	1.69	1,533,919	0.12
Brinson Partners - 2003 Primary Fund	2003	15,589,100	13,272,620	1,300,614	2,316,480	93.48	7,989,926	12,107,107	1.50	10.22	1.38	14,423,587	1.14
Brinson Partners - 2003 Secondary Fund	2003	1,151,151	1,020,460	86,603	130,691	96.17	1,906,646	801,565	0.10	26.88	2.45	932,256	0.07
Brinson Partners - 2004 Primary Fund	2004	8,832,269	7,250,632	664,466	1,581,637	89.62	1,557,543	7,610,147	0.95	4.62	1.16	9,191,784	0.72

Q4 2009 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of December 31, 2009

Description	Since Inception												
	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	% of Ending Market Value	Net IRR	Investment Multiple	Total Exposure	% of Total Exposure
Remaining ASP Funds		**104,000,000**	**86,810,986**	**9,508,845**	**7,703,245**	**92.62**	**85,976,803**	**50,246,815**	**6.24**	**21.28**	**1.41**	**57,950,060**	**4.57**
Adams Street Global Oppty Secondary Fund	2004	25,000,000	18,309,381	628,119	6,062,500	75.75	6,115,263	17,255,661	2.14	10.59	1.23	23,318,161	1.84
Adams Street V, L.P.	2003	40,000,000	35,099,999	4,300,001	600,000	98.50	11,309,266	24,630,710	3.06	(2.55)	0.91	25,230,710	1.99
Adams Street VPAF Fund II	1990	4,000,000	3,621,830	378,170	0	100.00	7,879,041	10,591	0.00	25.25	1.97	10,591	0.00
Brinson Venture Capital Fund III, L.P.	1993	5,000,000	4,045,656	954,344	0	100.00	15,622,448	12,904	0.00	40.47	3.13	12,904	0.00
Brinson VPF III	1993	5,000,000	4,488,559	522,979	0	100.23	14,899,918	148,732	0.02	29.47	3.00	148,732	0.01
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	191,250	0	100.23	8,182,793	149,141	0.02	41.49	1.66	149,141	0.01
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,634,305	12,904	0.00	97.02	2.44	1,053,649	0.08
BVCF IV, L.P.	1999	15,000,000	12,822,538	2,177,462	0	100.00	12,333,769	8,026,172	1.00	4.48	1.36	8,026,172	0.63
Affinity Asia Capital		**15,000,000**	**6,226,220**	**928,442**	**7,847,005**	**47.70**	**121,676**	**5,272,513**	**0.65**	**(20.88)**	**0.75**	**13,119,518**	**1.03**
Affinity Asia Pacific Fund III, LP	2006	15,000,000	6,226,220	928,442	7,847,005	47.70	121,676	5,272,513	0.65	(20.88)	0.75	13,119,518	1.03
Arclight Energy Partners		**50,000,000**	**41,725,857**	**1,629,981**	**6,871,644**	**86.71**	**20,795,732**	**33,541,509**	**4.17**	**10.04**	**1.25**	**40,413,153**	**3.19**
Arclight Energy Partners Fund II	2004	25,000,000	20,721,278	973,284	3,405,720	86.78	18,829,261	12,053,249	1.50	15.79	1.42	15,458,969	1.22
ArcLight Energy Partners Fund III, LP	2006	25,000,000	21,004,580	656,697	3,465,924	86.65	1,966,471	21,488,260	2.67	3.27	1.08	24,954,184	1.97
Austin Ventures		**500,000**	**424,416**	**129,154**	**1**	**110.71**	**1,216,717**	**15,881**	**0.00**	**20.56**	**2.23**	**15,882**	**0.00**
Austin Ventures III	1991	500,000	424,416	129,154	1	110.71	1,216,717	15,881	0.00	20.56	2.23	15,882	0.00
Avenue Investments		**35,000,000**	**33,815,411**	**1,394,486**	**0**	**100.60**	**80,585**	**39,019,852**	**4.85**	**7.69**	**1.11**	**39,019,852**	**3.08**
Avenue Special Situations Fund V, LP	2007	35,000,000	33,815,411	1,394,486	0	100.60	80,585	39,019,852	4.85	7.69	1.11	39,019,852	3.08
Carlyle Partners		**60,000,000**	**46,814,137**	**3,270,911**	**10,013,954**	**83.48**	**3,846,196**	**45,781,011**	**5.69**	**(0.35)**	**0.99**	**55,794,965**	**4.40**
Carlyle Partners IV, L.P.	2005	35,000,000	31,662,839	1,139,765	2,296,398	93.72	3,677,193	30,960,189	3.85	1.82	1.06	33,256,587	2.62
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000	15,151,298	2,131,146	7,717,556	69.13	169,003	14,820,822	1.84	(7.67)	0.87	22,538,378	1.78
CCMP Associates		**30,000,000**	**7,959,607**	**1,222,249**	**20,818,144**	**30.61**	**75,714**	**7,054,077**	**0.88**	**(9.65)**	**0.78**	**27,872,221**	**2.20**
CCMP Capital Investors II, L.P.	2006	30,000,000	7,959,607	1,222,249	20,818,144	30.61	75,714	7,054,077	0.88	(9.65)	0.78	27,872,221	2.20
Centerbridge		**12,500,000**	**6,562,500**	**0**	**5,937,500**	**52.50**	**0**	**7,977,702**	**0.99**	**33.35**	**1.22**	**13,915,202**	**1.10**
Centerbridge Special Credit Partners	2009	12,500,000	6,562,500	0	5,937,500	52.50	0	7,977,702	0.99	33.35	1.22	13,915,202	1.10
First Reserve		**55,485,789**	**31,857,528**	**779,131**	**22,849,130**	**58.82**	**502,954**	**31,602,000**	**3.93**	**(1.04)**	**0.98**	**54,451,130**	**4.29**
First Reserve Fund XI, L.P.	2006	30,000,000	22,711,458	631,244	6,657,298	77.81	471,431	24,380,000	3.03	3.54	1.06	31,037,298	2.45
First Reserve Fund XII, L.P.	2008	25,485,789	9,146,070	147,887	16,191,832	36.47	31,523	7,222,000	0.90	(22.73)	0.78	23,413,832	1.85
HarbourVest		**61,823,772**	**12,919,292**	**280,891**	**48,637,114**	**21.35**	**143,379**	**12,949,759**	**1.61**	**(0.63)**	**0.99**	**61,586,872**	**4.86**
Dover Street VII L.P.	2008	20,000,000	4,090,663	122,862	15,800,000	21.07	143,379	4,099,645	0.51	0.57	1.01	19,899,645	1.57
HarbourVest Direct 2007 Fund	2007	20,000,000	7,889,039	110,961	12,000,000	40.00	0	7,860,923	0.98	(1.20)	0.98	19,860,923	1.57
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	939,590	47,068	20,837,114	4.52	0	989,191	0.12	0.95	1.00	21,826,304	1.72
Hellman & Friedman		**40,000,000**	**16,891,779**	**558,832**	**22,549,389**	**43.63**	**704,054**	**16,681,667**	**2.07**	**(0.20)**	**1.00**	**39,231,056**	**3.09**
Hellman & Friedman Capital Partners VI	2006	25,000,000	16,891,779	558,832	7,549,389	69.80	704,054	16,681,667	2.07	(0.20)	1.00	24,231,056	1.91
Hellman & Friedman Capital Partners VII	2009	15,000,000	0	0	15,000,000	0.00	0	0	0.00	N/A	0.00	15,000,000	1.18
Highway 12 Ventures		**10,000,000**	**4,222,836**	**776,715**	**5,000,448**	**50.00**	**73,476**	**3,837,148**	**0.48**	**(15.46)**	**0.78**	**8,837,596**	**0.70**
Highway 12 Venture Fund II, L.P.	2006	10,000,000	4,222,836	776,715	5,000,448	50.00	73,476	3,837,148	0.48	(15.46)	0.78	8,837,596	0.70

Q4 2009 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of December 31, 2009

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	% of Ending Market Value	Net IRR	Investment Multiple	Total Exposure	% of Total Exposure
	Since Inception												
Industry Ventures		**10,000,000**	**9,533,626**	**450,028**	**420,483**	**99.84**	**1,314,442**	**7,706,571**	**0.96**	**(5.15)**	**0.90**	**8,127,054**	**0.64**
Industry Ventures Fund IV, L.P.[1]	2005	10,000,000	9,533,626	450,028	420,483	99.84	1,314,442	7,706,571	0.96	(5.15)	0.90	8,127,054	0.64
JCF		**25,000,000**	**23,899,985**	**622,502**	**488,309**	**98.09**	**617,334**	**7,536,011**	**0.94**	**(43.22)**	**0.33**	**8,024,320**	**0.63**
J.C. Flowers II L.P.	2006	25,000,000	23,899,985	622,502	488,309	98.09	617,334	7,536,011	0.94	(43.22)	0.33	8,024,320	0.63
Joseph Littlejohn & Levy		**25,000,000**	**20,597,763**	**884,994**	**3,517,243**	**85.93**	**4,261,425**	**18,807,597**	**2.34**	**3.67**	**1.07**	**22,324,840**	**1.76**
JLL Partners Fund V, L.P.	2005	25,000,000	20,597,763	884,994	3,517,243	85.93	4,261,425	18,807,597	2.34	3.67	1.07	22,324,840	1.76
KKR		**175,000,000**	**175,000,000**	**9,691,144**	**0**	**105.54**	**319,776,640**	**25,835,541**	**3.21**	**12.23**	**1.87**	**25,835,541**	**2.04**
KKR 1987 Fund	1987	25,000,000	25,000,000	2,101,164	0	108.40	55,896,579	268,465	0.03	8.89	2.07	268,465	0.02
KKR 1993 Fund	1993	25,000,000	25,000,000	1,002,236	0	104.01	48,789,535	96,665	0.01	17.78	1.88	96,665	0.01
KKR 1996 Fund	1997	100,000,000	100,000,000	4,739,775	0	104.74	172,867,326	11,905,899	1.48	13.34	1.76	11,905,899	0.94
KKR European Fund, L. P.	1999	25,000,000	25,000,000	1,847,969	0	107.39	42,223,200	13,564,512	1.68	19.38	2.08	13,564,512	1.07
Lexington Capital Partners		**140,000,000**	**87,187,935**	**3,944,203**	**48,867,862**	**65.09**	**63,261,511**	**51,560,706**	**6.40**	**12.88**	**1.26**	**100,428,568**	**7.92**
Lexington Capital Partners V, L.P.	2001	50,000,000	47,159,352	2,156,267	684,381	98.63	54,295,718	20,796,116	2.58	19.15	1.52	21,480,497	1.69
Lexington Capital Partners VI-B, L.P.	2005	50,000,000	38,858,133	1,511,542	9,630,325	80.74	8,964,840	29,250,995	3.63	(3.13)	0.95	38,881,320	3.07
Lexington Capital Partners VII, L.P.[1]	2009	30,000,000	84,840	211,475	29,703,685	0.99	0	296,315	0.04	0.00	1.00	30,000,000	2.37
Lexington Middle Market Investors II, LP	2008	10,000,000	1,085,610	64,919	8,849,471	11.51	953	1,217,280	0.15	7.48	1.06	10,066,751	0.79
Madison Dearborn Capital Partners		**75,000,000**	**46,899,496**	**1,532,600**	**26,567,904**	**64.58**	**20,864,382**	**40,804,457**	**5.07**	**9.15**	**1.27**	**67,372,361**	**5.31**
Madison Dearborn Capital Partners IV, LP	2001	25,000,000	23,567,823	500,132	932,045	96.27	20,286,820	21,559,342	2.68	16.53	1.74	22,491,387	1.77
Madison Dearborn Capital Partners V, LP	2006	25,000,000	19,910,527	690,747	4,398,726	82.41	577,562	15,788,494	1.96	(9.01)	0.79	20,187,220	1.59
Madison Dearborn Capital Partners VI, LP	2008	25,000,000	3,421,146	341,721	21,237,133	15.05	0	3,456,621	0.43	(6.18)	0.92	24,693,754	1.95
Matlin Patterson		**30,000,000**	**18,805,537**	**1,084,463**	**10,110,000**	**66.30**	**1,489**	**15,465,037**	**1.92**	**(16.14)**	**0.78**	**25,575,037**	**2.02**
MatlinPatterson Global Opps. Ptnrs. III	2007	30,000,000	18,805,537	1,084,463	10,110,000	66.30	1,489	15,465,037	1.92	(16.14)	0.78	25,575,037	2.02
MHR Institutional Partners		**25,000,000**	**14,790,519**	**1,098,694**	**9,110,787**	**63.56**	**244,507**	**12,315,490**	**1.53**	**(11.30)**	**0.79**	**21,426,277**	**1.69**
MHR Institutional Partners III, L.P.	2006	25,000,000	14,790,519	1,098,694	9,110,787	63.56	244,507	12,315,490	1.53	(11.30)	0.79	21,426,277	1.69
Montlake Capital		**15,000,000**	**5,482,437**	**1,117,563**	**8,400,000**	**44.00**	**0**	**5,172,083**	**0.64**	**(12.65)**	**0.78**	**13,572,083**	**1.07**
Montlake Capital II, L.P.	2007	15,000,000	5,482,437	1,117,563	8,400,000	44.00	0	5,172,083	0.64	(12.65)	0.78	13,572,083	1.07
Neuberger Berman Group, LLC		**35,000,000**	**24,268,465**	**1,140,323**	**9,591,212**	**72.60**	**6,553,783**	**17,695,576**	**2.20**	**(2.19)**	**0.95**	**27,286,788**	**2.15**
NB Co-investment Partners, L.P.	2006	35,000,000	24,268,465	1,140,323	9,591,212	72.60	6,553,783	17,695,576	2.20	(2.19)	0.95	27,286,788	2.15
Oak Hill Capital Partners		**45,000,000**	**28,603,564**	**1,908,964**	**14,568,825**	**67.81**	**1,229,337**	**32,331,211**	**4.02**	**3.99**	**1.10**	**46,900,036**	**3.70**
Oak Hill Capital Partners II, L.P.	2005	25,000,000	22,438,716	1,314,604	1,246,680	95.01	1,185,222	27,149,329	3.37	6.73	1.19	28,396,009	2.24
Oak Hill Capital Partners III, L.P.	2008	20,000,000	6,164,848	594,361	13,322,145	33.80	44,115	5,181,882	0.64	(15.86)	0.77	18,504,027	1.46
Oaktree Capital Partners		**120,000,000**	**102,891,877**	**2,858,123**	**14,250,000**	**88.13**	**121,554,428**	**41,360,485**	**5.14**	**44.36**	**1.54**	**55,610,485**	**4.39**
OCM Opportunities Fund IVb, L.P.	2002	75,000,000	73,089,034	1,910,966	0	100.00	121,554,428	(17,060)	(0.00)	44.89	1.62	-17,060	0.00
OCM Opportunities Fund VIIb, L.P.	2008	35,000,000	28,840,411	909,589	5,250,000	85.00	0	40,299,627	5.01	31.41	1.35	45,549,627	3.59
OCM Opportunities Fund VIII, L.P.	2009	10,000,000	962,432	37,568	9,000,000	10.00	0	1,077,918	0.13	7.79	1.08	10,077,918	0.79
Odyssey Partners Fund III		**45,000,000**	**25,963,333**	**2,195,705**	**16,840,962**	**62.58**	**20,674,290**	**21,759,021**	**2.70**	**25.74**	**1.51**	**38,599,983**	**3.04**
Odyssey Investment Partners IV, L.P.	2008	20,000,000	3,779,910	390,898	15,829,192	20.85	60	3,591,378	0.45	(73.15)	0.86	19,420,570	1.53
Odyssey Partners Fund III, L.P.[1]	2004	25,000,000	22,183,423	1,804,807	1,011,770	95.95	20,674,230	18,167,643	2.26	26.58	1.62	19,179,413	1.51
Performance Venture Capital		**25,000,000**	**1,470,319**	**386,815**	**23,142,866**	**7.43**	**383**	**1,333,193**	**0.17**	**(30.13)**	**0.72**	**24,476,059**	**1.93**
Performance Venture Capital II[1]	2008	25,000,000	1,470,319	386,815	23,142,866	7.43	383	1,333,193	0.17	(30.13)	0.72	24,476,059	1.93

Q4 2009 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of December 31, 2009

	Since Inception												
Description	**Vintage Year**	**Commitment**	**Capital Contributed for Investment**	**Management Fees**	**Remaining Commitment**	**% Capital Contributed/ Committed**	**Capital Distributed**	**Ending Market Value**	**% of Ending Market Value**	**Net IRR**	**Investment Multiple**	**Total Exposure**	**% of Total Exposure**
Portfolio Advisors		**70,000,000**	**31,440,757**	**1,494,434**	**37,311,660**	**47.05**	**1,252,597**	**27,957,704**	**3.47**	**(7.30)**	**0.89**	**65,269,364**	**5.15**
Port. Advisors Fund IV (B), L.P.	2006	30,000,000	18,775,165	807,813	10,417,022	65.28	1,096,907	17,223,117	2.14	(3.42)	0.94	27,640,139	2.18
Port. Advisors Fund IV (E), L.P.	2006	15,000,000	7,400,718	545,450	7,053,832	52.97	4,731	5,587,160	0.69	(22.95)	0.70	12,640,992	1.00
Port. Advisors Fund V (B), L.P.	2008	10,000,000	3,121,572	109,375	6,885,800	32.31	150,959	2,690,144	0.33	(11.50)	0.88	9,575,944	0.76
Portfolio Advisors Secondary Fund, L.P.	2008	15,000,000	2,143,302	31,796	12,955,006	14.50	0	2,457,283	0.31	12.97	1.13	15,412,289	1.22
Quintana Energy Partners		**15,000,000**	**11,414,134**	**1,007,532**	**2,598,705**	**82.81**	**0**	**10,864,985**	**1.35**	**(6.55)**	**0.87**	**13,463,690**	**1.06**
Quintana Energy Partners Fund I, L.P.	2006	15,000,000	11,414,134	1,007,532	2,598,705	82.81	0	10,864,985	1.35	(6.55)	0.87	13,463,690	1.06
Siguler Guff & Company		**25,000,000**	**12,993,246**	**500,625**	**11,638,417**	**53.98**	**300,602**	**11,742,223**	**1.46**	**(8.30)**	**0.89**	**23,380,640**	**1.84**
Siguler Guff Small Buyout Opportunities	2007	25,000,000	12,993,246	500,625	11,638,417	53.98	300,602	11,742,223	1.46	(8.30)	0.89	23,380,640	1.84
Sprout Capital Partners		**500,000**	**416,999**	**122,671**	**0**	**107.93**	**1,080,388**	**0**	**0.00**	**17.71**	**2.00**	**0**	**0.00**
Sprout Capital VI	1990	500,000	416,999	122,671	0	107.93	1,080,388	0	0.00	17.71	2.00	0	0.00
Summit Ventures		**500,000**	**388,928**	**109,563**	**25,003**	**99.70**	**1,255,067**	**2,770**	**0.00**	**28.32**	**2.52**	**27,773**	**0.00**
Summit Ventures II, L.P.	1988	500,000	388,928	109,563	25,003	99.70	1,255,067	2,770	0.00	28.32	2.52	27,773	0.00
TA Associates, Inc.		**10,000,000**	**0**	**0**	**10,000,000**	**0.00**	**0**	**0**	**0.00**	**N/A**	**0.00**	**10,000,000**	**0.79**
TA XI, L.P.	2009	10,000,000	0	0	10,000,000	0.00	0	0	0.00	N/A	0.00	10,000,000	0.79
Terra Firma Capital Partners		**25,432,997**	**14,950,034**	**1,804,456**	**8,695,559**	**65.88**	**0**	**4,936,204**	**0.61**	**(52.39)**	**0.29**	**13,631,763**	**1.08**
Terra Firma Capital Partners III, LP	2007	25,432,997	14,950,034	1,804,456	8,695,559	65.88	0	4,936,204	0.61	(52.39)	0.29	13,631,763	1.08
Trilantic Capital Partners		**11,098,351**	**3,567,903**	**597,937**	**6,932,511**	**37.54**	**0**	**4,066,251**	**0.51**	**(1.76)**	**0.98**	**10,998,762**	**0.87**
Trilantic Capital Partners IV L.P.	2007	11,098,351	3,567,903	597,937	6,932,511	37.54	0	4,066,251	0.51	(1.76)	0.98	10,998,762	0.87
Welsh, Carson, Anderson & Stowe		**75,500,000**	**58,504,265**	**3,998,776**	**13,223,365**	**82.79**	**29,813,039**	**52,298,942**	**6.50**	**8.75**	**1.31**	**65,522,307**	**5.17**
Welsh, Carson, Anderson & Stowe II	1990	500,000	455,663	88,404	0	108.81	694,053	109,659	0.01	8.81	1.48	109,659	0.01
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	15,678,851	821,149	8,500,000	66.00	3,437,824	18,231,168	2.26	8.56	1.31	26,731,168	2.11
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000	22,111,790	1,914,845	973,365	96.11	25,681,162	13,421,728	1.67	12.69	1.63	14,395,093	1.14
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	20,257,961	1,174,378	3,750,000	85.73	0	20,536,387	2.55	(1.59)	0.96	24,286,387	1.92
LP's by Family of Funds (Inactive)													
Total		**11,918,000**	**11,577,444**	**1,178,796**	**0**	**107.03**	**35,165,141**	**0**	**0.00**	**21.42**	**2.76**	**0**	**0.00**

[1] Market Value reflects a 9/30/09 valuation, adjusted for subsequent cash flows, because the 12/31/09 valuation was unavailable as of the date of this report.

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 Net IRR. Distressed debt funds managed by Avenue Investments and Centerbridge continued to see noteworthy gains in their Net IRR's, as did buyout funds managed by Trilantic Capital Partners and First Reserve, among others. The preceding table also display's the portfolio's high degree of fund and manager diversification. With the exception of managers of funds of funds and secondary funds, only Madison Dearborn Capital Partners and Welsh, Carson, Anderson & Stowe account for more than 5% of total portfolio exposure, and both of these managers are only slightly above this 5% threshold.

State Street Private Equity Index SM-- Q3 2009 IRR Benchmark Comparison (Since 1980)

As of 09/30/2009

Description	SSPE % Contrib	Montana % Contrib	SSPE DPI	Montana DPI	SSPE RVPI	Montana RVPI	SSPE Inv Multiple	Montana Inv Multiple	SSPE Index IRR	Montana IRR
Pooled IRR	**0.68**	**0.73**	**0.66**	**0.69**	**0.63**	**0.60**	**1.29**	**1.29**	**10.03**	**11.73**
By Investment Focus										
Buyout	0.66	0.72	0.69	0.85	0.63	0.55	1.32	1.40	10.27	11.06
Venture Capital	0.74	0.67	0.66	0.64	0.55	0.59	1.21	1.23	9.05	16.12
Mezzanine & Distressed	0.79	0.76	0.49	0.68	0.75	0.62	1.24	1.30	9.69	25.12
By Investment Origin										
US	0.70	0.73	0.68	0.71	0.62	0.60	1.30	1.31	9.95	12.22
Non-US	0.65	0.70	0.61	0.45	0.65	0.59	1.27	1.04	10.40	2.37
By Vintage Year										
Vintage Year 1990	1.00	1.04	2.45	2.40	0.02	0.02	2.47	2.41	17.98	27.63
Vintage Year 1991	0.98	1.07	2.98	2.29	0.00	0.01	2.98	2.30	28.44	24.24
Vintage Year 1992	0.98	N/A	2.36	N/A	0.00	N/A	2.36	N/A	19.90	N/A
Vintage Year 1993	0.99	1.03	2.45	2.22	0.02	0.01	2.47	2.22	24.63	23.25
Vintage Year 1994	0.95	N/A	2.37	N/A	0.04	N/A	2.42	N/A	24.40	N/A
Vintage Year 1995	0.93	N/A	1.87	N/A	0.02	N/A	1.89	N/A	18.16	N/A
Vintage Year 1996	0.97	1.05	1.59	1.64	0.08	0.06	1.66	1.70	11.49	15.00
Vintage Year 1997	0.98	1.05	1.55	1.71	0.16	0.12	1.70	1.83	12.62	15.04
Vintage Year 1998	0.94	1.11	1.29	1.25	0.16	0.12	1.45	1.37	6.85	6.37
Vintage Year 1999	0.94	1.02	1.02	1.31	0.24	0.43	1.26	1.73	3.16	14.02
Vintage Year 2000	0.95	1.00	1.05	0.99	0.47	0.49	1.52	1.48	9.32	9.29
Vintage Year 2001	0.97	0.99	1.18	0.91	0.48	0.59	1.66	1.50	16.70	14.56
Vintage Year 2002	0.93	0.98	1.00	1.18	0.59	0.32	1.59	1.49	19.05	27.50
Vintage Year 2003	0.94	0.93	0.95	0.37	0.70	0.71	1.65	1.09	21.69	2.70
Vintage Year 2004	0.90	0.81	0.50	0.51	0.82	0.82	1.32	1.33	9.39	12.88
Vintage Year 2005	0.84	0.84	0.18	0.12	0.94	0.86	1.12	0.98	3.09	(0.77)
Vintage Year 2006	0.67	0.67	0.07	0.05	0.77	0.76	0.84	0.81	(8.84)	(10.81)
Vintage Year 2007	0.46	0.58	0.02	0.00	0.90	0.82	0.92	0.82	(6.11)	(13.31)
Vintage Year 2008	0.23	0.26	0.03	0.01	0.90	1.04	0.92	1.05	(6.63)	5.36
Vintage Year 2009 Q3	0.23	0.06	0.01	0.00	1.09	1.11	1.10	1.11	16.68	15.81

Based on data compiled from 1650 Private Equity funds, including fully liquidated partnerships, formed between 1990 to 2009 Q3.
IRR: Pooled Average IRR is net of fees, expenses and carried interest.

The preceding table presents a performance comparison between State Street Private Equity Index data and the MBOI's private equity portfolio. The data presented is current through 9/30/09, the most recent period for which index data is available. In order to understand the table, several abbreviations need to be defined:

1. % Contrib – This figure represents the aggregate dollars that have been contributed to investment partnerships divided by the aggregate dollars committed for investment. A higher number is preferable to a lower number as a higher number indicates that a portfolio has less "blind pool" risk remaining.
2. DPI – This figure calculates the ratio of aggregate distributions received from investment partnerships divided by the aggregate dollars contributed, or paid in, to those partnerships. Other things being equal, a higher number is preferable to a lower number for this ratio.

3. RVPI – This figure is a ratio of the aggregate residual value of investment partnerships (in other words the, partnerships' remaining net asset value) divided by the aggregate dollars contributed to those partnerships. Other things being equal, a higher number is preferable to a lower number for this ratio.

The table shows that from inception, MBOI's private equity portfolio has equaled the investment multiple of the index and exceeded the IRR of the index. Further, the portfolio has outperformed the investment multiple and IRR of the index in all three of the asset classes shown (Buyout, Venture Capital, and Mezzanine & Distressed).

March 8, 2010

Montana Board of Investments
2401 Colonial Drive, 3rd Floor
Helena, MT 59601

Ladies and Gentlemen:

In accordance with the November 22, 2006 letter executed between the Montana Board of Investments (MBOI) and Highway 12 Ventures, we are pleased to update MBOI on the activities of Highway 12 Ventures during the year ended December 31, 2009.

Per Section 7 of the letter, Highway 12 Ventures will report annually on its activities conducted to carry out the intent of the letter.

Highway 12 Ventures performed the following activities:

1. Highway 12 Ventures was proud to bring Bill Joos, formerly a partner with Garage Ventures in Silicon Valley, and now a renowned trainer on business plans and pitching your idea, to present a seminar for approximately 50 entrepreneurs in Bozeman, MT in November 2008. Due to the success in Bozeman, TechRanch brought Bill Joos to Missoula, MT in March, 2009. Glenn Michael attended the event and worked with a number of the companies at the event on their business plans. Glenn also participated on a panel at the event.
2. In June, 2009, Mark Solon and Glenn Michael travelled to Bozeman, MT and spent the afternoon with a young, promising company in the area. We are tracking this company and introduced the company to 2 companies in the Boise area for possible collaboration. One company worked on a joint grant with this company and we were notified they received the grant for R&D work together. Our venture partner, Archie Clemens, also worked with this company to assist them with possible introductions within governmental agencies. We also met with several companies at TechRanch on the trip.
3. Mark Solon wrote a letter on behalf of the company in #2 above that helped them obtain a Phase II grant for their technology.
4. Highway 12 Ventures mentored several companies and entrepreneurs. Highway 12 Ventures specifically tracked 7 new companies in 2009, where we met with the company and reviewed and provided feedback on business plans, financing plans, etc.
5. Highway 12 has been tracking a company in Missoula, MT for the last few years. The company has continued to perform and Highway 12 issued a term sheet in January, 2010. We are currently in final due diligence and legal documentation and should close before the end of March, 2010.

Please let us know if you have any questions. We look forward to a productive 2010 in Montana.

Very truly yours,

Mark Solon
Managing Partner
Highway 12 Ventures

May 7, 2010

Montana Board of Investments
2401 Colonial Drive, 3rd Floor
Helena, MT 59601

Dear Mr. Shoen,

In accordance with Section 4 of the Montlake Capital II, L.P. "side letter" executed between the Montana Board of Investments (MBOI) and Montlake Capital, I am happy to report on the activities of the firm within the state of Montana as it relates to MBOI's investment in Montlake Capital II.

Sourcing investments and supporting the Montana entrepreneurial ecosystem

As Montlake Capital's Montana partner, I am currently the only full-time resident Venture Capital Fund investor living in Montana with (or without) an allocation from MBOI. The Montlake Capital Montana office is based in Bozeman and I frequently travel to Billings, Missoula, Kalispell, Helena, Great Falls and Butte to meet with entrepreneurs, businesses and strategic partners. The Montlake partners located in Seattle, Portland and Boise also all make regular trips to Montana.

I am highly active in several local entrepreneurial and industry organizations, and see a number of investment opportunities in Montana as a result. A partial list of my involvement includes:

- TechRanch (*www.techranch.org*): Founder and Director
- MSU College of Business (*www.montana.edu/cob*): Board of Advisers
- Montana Ambassadors (*www.montanaambassadors.com)*: Board of Directors, "2009 Entrepreneur of the Year"
- Leadership Montana (*www.leadershipmontana.org*): Graduate of class #1, active alumni
- Bridger Private Capital Network: Founder and Manager

Through these roles, Montlake Capital is able to connect and engage with a broad range of Montana-based businesses. While these companies are not always a fit for an investment from Montlake Capital, we have developed broad relationships that could yield an opportunity down the road and have been able to provide many entrepreneurs and management teams with advice, assistance and introductions to strategic partners.

I also represent Montana on the board of the Rocky Mountain Venture Capital Association (*www.rockymountainvca.com*), of which Montlake Capital is a member firm. In addition to being the Membership Chair, I serve on the venture capital conference selection committee. This bi-annual venture conference showcases the rocky mountain region's most promising emerging growth companies for an audience of hundreds of venture investors, CEOs, entrepreneurs and service professionals. We strongly encourage Montana-based companies to participate, assist them in the application process and lobby on their behalf.

Building a network of partners and resources in Montana

Montlake Capital has strong relationships throughout the region, which enhances deal flow to our Fund and provides broader opportunities for businesses in Montana.

We have a strategic partnership with D.A. Davidson based in Great Falls and meet with their investment bankers and senior managers frequently. To date, we have evaluated five deals referred directly from D.A. Davidson. Montlake also has a good working relationship with First Interstate Bank, which has been the source of four deals we have evaluated. I have strong relationships with state government in Helena, including the Commerce Department, Small Business Administration and the Montana Economic Developers Association; in addition to relationships with the state universities and our delegation in Washington DC. We have looked at 8-10 deals from this network and have been actively involved in discussions around policy and initiatives that affect Montana business.

A number of our industry partners, including those listed above and others, were invited to attend an event we hosted last summer in Bozeman called the “Montlake Capital Equity Round-Up.” This was a unique opportunity to bring together local and visiting investors, service providers, government officials and Montana-based companies, to discuss entrepreneurship and the regional investment landscape. Our goal is to build and bring together a network of partners and resources that will help us make good investments in the region and generally bolster the Montana business ecosystem.

Making an investment in a Montana-based business

Since MBOI invested in Montlake Capital in 2007, we have spoken with over 40 Montana-based companies about a potential investment from Montlake Capital. Many of the companies are too early for Montlake, given our focus on growth equity, but we continue to build relationships and provide assistance as appropriate.

- A site visit by myself and/or another Montlake partner occurred for almost all the opportunities
- 12 companies fit our investment criteria and presented to the Montlake partnership in Seattle
- 8 companies received a written LOI from Montlake
- 2 companies received a formal term sheet
- No companies have received an investment at this time

It is important to note that in many of these instances we cultivated syndicate partners and resources from outside the region to assist in due diligence and potentially invest in the business. As of May 1, 2010, we are still in active discussions with five Montana-based companies. In addition to the communities listed above, we have also met with companies based in Red Lodge, Livingston, Lincoln, Big Sky, Big Fork, Whitefish, Hamilton, Three Forks and Dillon.

This is just a snapshot of our activity in the region, highlighting what we find to be the most value-add for the Fund and for businesses in Montana. Please let me know if you would like specific information or more market data.

Best,

John O'Donnell

John O’Donnell

Venture Partner
Montlake Capital
1100 Stonegate Drive
Bozeman, MT 59715
(406) 581-8779

MEMORANDUM

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

To: Members of the Board

From: Jon Shoen, Portfolio Manager – Alternative Investments

Date: May 19, 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. In the case of commitments made to new funds, the investment briefs summarizing these funds and the general partners follow.

Fund Name	Pool	Subclass	Sector	Amount	Date Funded (Core) or Date of Decision
American Core Realty Fund, LLC	TFIP	Core	Diverse	$18 M	4/1/10
TIAA-CREF Asset Management Core Property Fund, LP	TFIP	Core	Diverse	$10 M	5/1/10
JPMorgan Strategic Property Fund	MTRP	Core	Diverse	$15 M	4/1/10
JPMorgan Strategic Property Fund	MTRP	Core	Diverse	$15 M	5/1/10
The Realty Associates Fund IX, L.P.	MTRP	Value Added	Diverse	$5 M	3/25/10
ABR Chesapeake Investors Fund IV, L.P.	MTRP	Value Added	Diverse	$17 M	3/15/10

Montana Board of Investments

Real Estate Board Report

Q4 2009

Contents

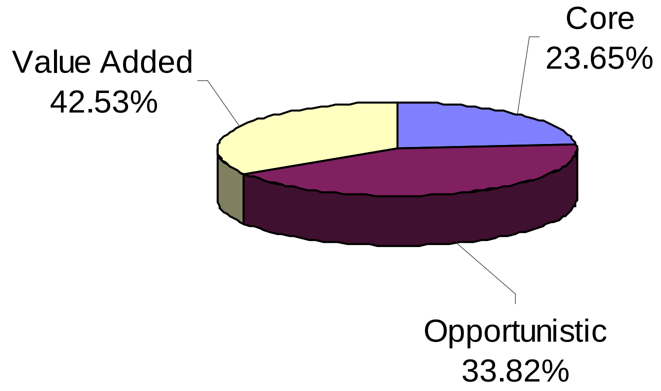
Q4 2009 Strategy – Total Exposure

Real Estate Portfolio Status

Strategy Exposure by Net Asset Value & Remaining Commitments

(Since inception through December 31, 2009)

Total Exposure



Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core	$0	0.00%	$99,117,306	41.12%	$99,117,306	23.65%
Value Added	$82,568,330	46.38%	$95,667,470	39.69%	$178,235,800	42.53%
Opportunistic	$95,442,166	53.62%	$46,273,676	19.20%	$141,715,842	33.82%
Total	$178,010,496	100.00%	$241,058,451	100.00%	$419,068,947	100.00%

The real estate portfolio is 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, it is anticipated that an additional $50 million will have been added to core by the end of the fiscal year. This should drive the value added allocation significantly closer to the 30% level, while further shrinking the already underweighted allocation to opportunistic.

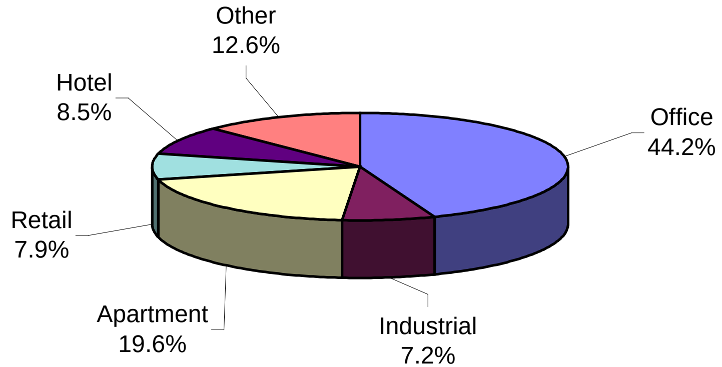
Q4 2009 Property Type – Market Value Exposure

Total Portfolio Characteristics

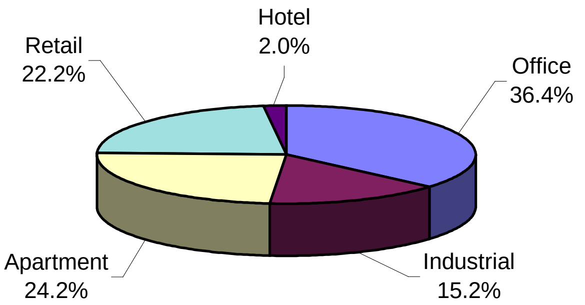
Property Type Diversification[1]

(as of December 31, 2009)

Montana Total Portfolio



NCREIF Index



	Office	Industrial	Apartment	Retail	Hotel	Other[2]	Total
Montana Total Value	$367.1	$59.7	$163.1	$65.5	$70.3	$104.5	$830.2
Montana Total	44.2%	7.2%	19.6%	7.9%	8.5%	12.6%	100.0%
Montana US Value	$315.7	$59.7	$153.0	$58.9	$58.6	$62.0	$707.9
Montana US Total	44.6%	8.4%	21.6%	8.3%	8.3%	8.8%	100.0%
NCREIF Value	86,618	35,819	57,329	53,842	4,633		238,242
NCREIF	36.4%	15.0%	24.1%	22.6%	1.9%		100.0%
Difference	8.2%	-6.6%	-2.4%	-14.3%	6.3%	8.8%	
Montana Non-US Value	$51.4	$0.0	$10.1	$6.6	$11.8	$42.4	$122.3
Montana Non-US Total	42.0%	0.0%	8.2%	5.4%	9.6%	34.7%	100.0%

1 Values are in Millions.

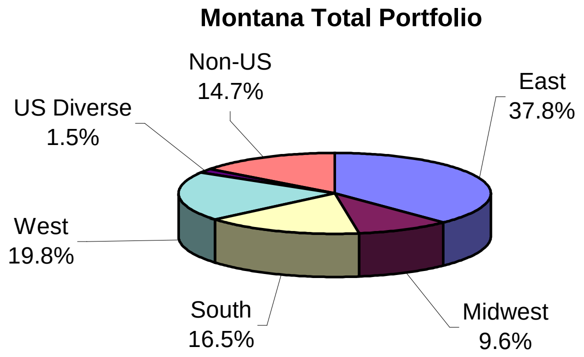
The domestic portion of the portfolio has an 8% overweight to Office and 14% underweight to Retail. Recent and anticipated core investment activity should have the impact of moving the portfolio's allocation by property type closer to that of the NCREIF. In addition, it should be noted that the largest component of the portfolio's "Other" category consists of mixed-use assets. These assets would typically consist of a Retail component combined with either Office or Apartments.

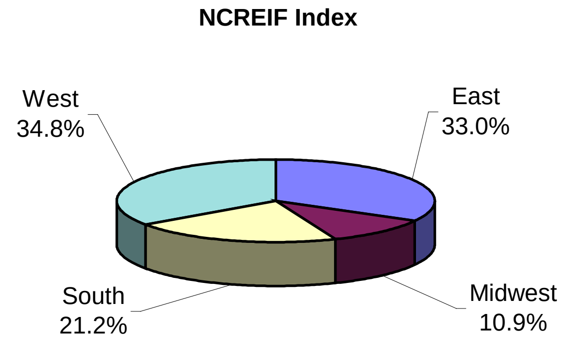
Q4 2009 Geography – Total Exposure

Total Portfolio Characteristics

Geographic Diversification[1]

(as of December 31, 2009)





	East	Midwest	South	West	US Diverse	Non-US	Total
Montana Total Value	$314.2	$79.7	$136.8	$164.5	$12.7	$122.3	$830.2
Montana Total	37.8%	9.6%	16.5%	19.8%	1.5%	14.7%	100.0%
Montana US Value	$314.2	$79.7	$136.8	$164.5	$12.7		$707.9
Montana US Total	44.4%	11.3%	19.3%	23.2%	1.8%		100.0%
NCREIF Value	78,734	26,052	50,547	82,909			238,242
NCREIF	33.0%	10.9%	21.2%	34.8%			100.0%
Difference	11.3%	0.3%	-1.9%	-11.6%	1.8%		

1 Values are in Millions.

The real estate portfolio continues to be geographically well-diversified. International properties account for 14.7% of the portfolio. In the domestic holdings, the portfolio is about 11% 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 and anticipated core investments will have the effect of incrementally reducing international exposure and exposure to the East U.S. while exposure to the West U.S. should increase.

Q4 2009 TWR and IRR Returns

Detailed Portfolio Performance

(as of December 31, 2009)

Time Weighted Returns

	Current Quarter			Year to Date		1 - Year		2 - Year		3 - Year	
	NAV	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross
Clarion Lion Properties Fund	23,599,132	-4.65%	-4.34%	-39.31%	-38.48%	-39.31%	-38.48%	-27.29%	-26.43%	-14.81%	-13.85%
INVESCO Core Real Estate-USA	28,450,655	-4.13%	-3.90%	-32.78%	-32.11%	-32.78%	-32.11%	-20.22%	-19.45%	-	-
JP Morgan Strategic Properties Fund	47,067,519	-3.02%	-2.77%	-27.31%	-26.52%	-27.31%	-26.52%	-18.37%	-17.52%	-	-
Core Total	**99,117,306**	**-3.73%**	**-3.47%**	**-32.14%**	**-31.37%**	**-32.14%**	**-31.37%**	**-21.32%**	**-20.49%**	**-10.15%**	**-9.22%**
Value Added Total	**95,667,470**	**-16.96%**	**-16.36%**	**-20.60%**	**-18.48%**	**-20.60%**	**-18.48%**	**-11.84%**	**-9.53%**	**-8.04%**	**-4.42%**
Opportunistic Total	**46,273,676**	**-2.62%**	**-0.97%**	**-50.38%**	**-46.86%**	**-50.38%**	**-46.86%**	**-47.51%**	**-44.36%**	-	-
Total Portfolio	**241,058,451**	**-9.10%**	**-8.44%**	**-32.11%**	**-30.26%**	**-32.11%**	**-30.26%**	**-24.15%**	**-22.32%**	**-13.58%**	**-11.45%**
Benchmark (gross)											
NCREIF	**238,242,028,162**		**-2.11%**		**-16.85%**		**-16.85%**		**-11.81%**		**-3.41%**
NFI-ODCE	**47,732,700,000**		**-3.48%**		**-29.80%**		**-29.80%**		**-34.45%**		**-9.80%**

Internal Rates of Return (Net of Fees)

	NAV	Current Quarter	Year to Date	1 - Year	2 - Year	3 - Year
ABR Chesapeake Fund III	18,362,301	-7.05%	-8.22%	-8.22%	-5.25%	-2.94%
AG Core Plus Realty Fund II	8,850,048	-7.78%	-13.99%	-13.99%	-16.69%	-
Apollo Real Estate Finance Corp.	6,204,355	-9.74%	-16.75%	-16.75%	-10.32%	-8.60%
AREFIN Co-Invest	663,782	-44.27%	-55.24%	-55.24%	-	-
DRA Growth & Income Fund VI	13,843,885	-8.79%	-16.27%	-16.27%	-13.10%	-
Five Arrows Securities V, L.P.	4,212,051	-0.30%	2.29%	2.29%	3.06%	-
Hudson RE Fund IV Co-Invest	9,512,407	-8.03%	-5.35%	-5.35%	-	-
Hudson Realty Capital Fund IV	10,448,988	-5.77%	-13.58%	-13.58%	-17.69%	-
Realty Associates Fund IX [1]	-231,473	-	-	-	-	-
Realty Associates Fund VIII	13,107,158	-22.07%	-26.95%	-26.95%	-20.10%	-
Strategic Partners Value Enhancement Fund	10,693,967	-46.23%	-52.85%	-52.85%	-28.70%	-27.02%
Value Added	**95,667,470**	**-16.95%**	**-21.84%**	**-21.84%**	**-14.61%**	**-12.43%**
AG Realty Fund VII L.P.	5,122,076	-0.47%	17.61%	17.61%	4.41%	-
Beacon Capital Strategic Partners V	4,408,847	-12.62%	-49.86%	-49.86%	-51.79%	-
Carlyle Europe Real Estate Partners III	6,760,902	-9.00%	-21.33%	-21.33%	-34.65%	-
CIM Fund III, L.P.	605,689	-26.23%	-87.92%	-87.92%	-85.72%	-
JER Real Estate Partners - Fund IV	7,077,161	3.85%	-36.37%	-36.37%	-34.67%	-
Liquid Realty IV [2]	11,042,511	-0.79%	-29.30%	-29.30%	-18.61%	-
MGP Asia Fund III, LP	3,657,091	1.47%	-79.14%	-79.14%	-75.82%	-
MSREF VI International	4,114,569	2.83%	-75.81%	-75.81%	-80.02%	-
O'Connor North American Property Partners II [2]	3,484,830	-3.51%	-20.34%	-20.34%	-	-
Opportunistic	**46,273,676**	**-2.62%**	**-45.39%**	**-45.39%**	**-47.72%**	-
Total	**$141,941,145**	**-12.63%**	**-31.41%**	**-31.41%**	**-29.23%**	**-27.32%**

The real estate portfolio reported a 9.10% net decline during the fourth quarter of 2009. As expected, several of the portfolio's value added managers recognized a significant downward adjustment in valuations at the time of their year-end audit. On a gross basis, value added weakness caused the portfolio to materially underperformed the return of its NCREIF benchmark. Making a more "apples-to-apples" comparison of the core funds to the NFI-ODCE, on a gross basis, the portfolio's core managers performed approximately inline with the index during the quarter.

Q4 2009 Commitment Summary

Real Estate Portfolio Status Report

All Investments

(as of December 31, 2009)

	Since Inception									
	Vintage Year	Commitment	Capital Contributed	Remaining Commitment	Capital Distributed	Net Asset Value	% of Total NAV	Total Exposure	Total Exposure %	Investment Multiple
Core		**155,000,000**	**155,000,000**	**-**	**9,358,119**	**99,117,306**	**41.12%**	**99,117,306**	**23.65%**	**0.69**
Clarion Lion Properties Fund	2006	45,000,000	45,000,000	-	5,583,477	23,599,132	9.79%	23,599,132	**5.63%**	0.64
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	-	2,375,304	28,450,655	11.80%	28,450,655	**6.79%**	0.67
JP Morgan Strategic Property Fund	2007	65,000,000	65,000,000	-	1,399,338	47,067,519	19.53%	47,067,519	**11.23%**	0.74
Value Added		**209,200,000**	**126,631,670**	**82,568,330**	**5,414,168**	**95,667,470**	**39.69%**	**178,235,800**	**42.53%**	**0.80**
ABR Chesapeake Fund III	2006	20,000,000	20,000,000	-	677,212	18,362,301	7.62%	18,362,301	**4.38%**	0.95
AG Core Plus Realty Fund II	2007	20,000,000	11,090,000	8,910,000	198,403	8,850,048	3.67%	17,760,048	**4.24%**	0.82
Apollo Real Estate Finance Corp.	2007	10,000,000	7,727,000	2,273,000	550,839	6,204,355	2.57%	8,477,355	**2.02%**	0.87
AREFIN Co-Invest	2008	10,000,000	1,352,000	8,648,000	31,642	663,782	0.28%	9,311,782	**2.22%**	0.51
DRA Growth & Income Fund VI	2007	35,000,000	17,971,854	17,028,146	2,394,930	13,843,885	5.74%	30,872,031	**7.37%**	0.88
Five Arrows Securities V, L.P.	2007	30,000,000	4,290,816	25,709,184	467,415	4,212,051	1.75%	29,921,235	**7.14%**	1.09
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	-	61,473	9,512,407	3.95%	9,512,407	**2.27%**	0.96
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	-	241,000	10,448,988	4.33%	10,448,988	**2.49%**	0.71
Realty Associates Fund IX	2008	20,000,000	-	20,000,000	-	-231,473	-0.10%	19,768,527	**4.72%**	-
Realty Associates Fund VIII	2007	20,000,000	20,000,000	-	791,253	13,107,158	5.44%	13,107,158	**3.13%**	0.69
Strategic Partners Value Enhancement	2007	19,200,000	19,200,000	-	-	10,693,967	4.44%	10,693,967	**2.55%**	0.56
Opportunistic		**214,332,525**	**121,390,359**	**95,442,166**	**4,178,583**	**46,273,676**	**19.20%**	**141,715,842**	**33.82%**	**0.40**
AG Realty Fund VII L.P.	2007	20,000,000	6,100,000	13,900,000	1,005,231	5,122,076	2.12%	19,022,076	**4.54%**	1.00
Beacon Capital Strategic Partners V	2007	25,000,000	16,562,500	8,437,500	-	4,408,847	1.83%	12,846,347	**3.07%**	0.27
Carlyle Europe Real Estate Partners III	2007	32,318,793	12,117,353	20,201,440	-	6,760,902	2.80%	26,962,342	**6.43%**	0.56
CIM Fund III, L.P.	2007	25,000,000	1,975,923	23,024,077	115,372	605,689	0.25%	23,629,766	**5.64%**	0.22
JER Real Estate Partners - Fund IV	2007	20,000,000	15,634,891	4,365,109	21,784	7,077,161	2.94%	11,442,270	**2.73%**	0.45
Liquid Realty IV	2007	22,013,732	18,609,177	3,404,555	2,926,620	11,042,511	4.58%	14,447,066	**3.45%**	0.71
MGP Asia Fund III, LP	2007	30,000,000	13,311,559	16,688,442	19,892	3,657,091	1.52%	20,345,533	**4.85%**	0.28
MSREF VI International	2007	25,000,000	27,500,000	-	17,313	4,114,569	1.71%	4,114,569	**0.98%**	0.15
O'Connor North American II	2008	15,000,000	9,578,957	5,421,043	72,371	3,484,830	1.45%	8,905,873	**2.13%**	0.36
Montana Real Estate		**$578,532,525**	**$403,022,029**	**$178,010,496**	**$18,950,870**	**$241,058,451**	**100.00%**	**$419,068,947**	**100.00%**	**0.64**

The portfolio is well diversified by fund and by manager. The only fund or manager that accounts for more than 10% of the pool's total exposure is the core JP Morgan Strategic Property Fund; at 12/31/09 that fund was 11.2% of total exposure and 19.5% of NAV. INVESCO Core Real Estate-USA, at 11.8% of NAV, was the portfolio's next highest concentration by market value and the only other fund accounting for at least 10% of total NAV.

MONTANA DOMESTIC EQUITY POOL

Rande Muffick, CFA, Portfolio Manager

May 18, 2010

3/31/2010 Domestic Stock Pool By Manager			
Manager Name	**Market Value**	**%**	**Approved Range**
BLACKROCK EQUITY INDEX FUND	424,807,965	16.77%	
STATE STREET SPIF ALT INV	6,955,457	0.27%	0-5%
LARGE CAP CORE Total	**431,763,422**	**17.05%**	10-30%
ENHANCED INVEST TECHNOLOGIES	161,189,124	6.36%	
T ROWE PRICE ASSOCIATES INC	264,242,827	10.43%	
WESTERN ASSET US INDX PLUS LLC	140,282,453	5.54%	
LARGE CAP ENHANCED Total	**565,714,404**	**22.34%**	20-30%
BARROW HANLEY MEWHINNEY + STRS	178,763,773	7.06%	
QUANTITATIVE MANAGEMENT ASSOC	113,114,647	4.47%	
LARGE CAP VALUE Total	**291,878,420**	**11.53%**	
COLUMBUS CIRCLE INVESTORS	129,501,219	5.11%	
RAINIER INVESTMENT MGMNT INC	125,851,565	4.97%	
RENAISSANCE GROUP LLC	103,903,543	4.10%	
LARGE CAP GROWTH Total	**359,256,328**	**14.19%**	
LARGE CAP STYLE BASED Total	**651,134,747**	**25.71%**	20-30%
ANALYTIC INVESTORS MU3B	100,000,456	3.95%	
JP MORGAN ASSET MGMT MU3E	293,321,619	11.58%	
MARTINGALE ASSET MGMT MU3D	67,843,891	2.68%	
130-30 Total	**461,165,967**	**18.21%**	10-20%
COMBINED LARGE CAP Total	**2,109,778,540**	**83.31%**	82-92%
ARTISAN MID CAP VALUE	89,931,164	3.55%	
BLACKROCK MIDCAP EQUITY IND FD	21,306,670	0.84%	
MARTINGALE ASSET MGMT MID CAP	69,676,127	2.75%	
TIMESSQUARE CAPITAL MGMT	90,130,250	3.56%	
MID CAP Total	**271,044,211**	**10.70%**	5-11%
DIMENSIONAL FUND ADVISORS INC	55,870,502	2.21%	
NORTHPOINTE CAPITAL SMALL CAP	35,176,069	1.39%	
VAUGHAN NELSON INV	60,640,422	2.39%	
SMALL CAP Total	**151,686,994**	**5.99%**	3-8%
MDEP Total	**2,532,509,745**	**100.00%**	

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

There was a reduction in the BlackRock 500 Index fund of $82 million that was sold to facilitate rebalancing of the retirement plan allocations.

The market rally that began in March 2009 continued in the quarter, with the Standard & Poor's 500 Index returning 5.4%. MDEP ended the quarter $32 million higher in market value and stood at $2.53 billion. The dollar gain was actually much better as the balance reflects the market gains along with the effects of $65 million which left the pool as a result of rebalancing.

Performance across market capitalizations was dominated by the mid and small caps. Mid caps returned 9.1% for the quarter as small caps returned 8.6% and large caps returned 5.4%. With that said, MDEP is overweight the midcaps and small caps so value was added to returns at the pool level.

COMPARATIVE RETURNS Page 1/ 6

Range 12/31/09 - 3/31/10 Period D Daily 90 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	4.87 %	5.39 %	-3.71 %	23.71 %
2	MID Index	USD	8.70 %	9.09 %		42.33 %
3	SML Index	USD	8.32 %	8.61 %	-.48 %	39.79 %

(* = No dividends or coupons)

Looking at performance among style categories, value bested growth. This was also the case across all market cap sizes. The chart below shows that within the S&P 500 Index, for the quarter, value stocks returned 7.1% while growth stocks returned 3.7%. This was almost an exact reversal of the outperformance of growth stocks over value in the fourth quarter. Within the mid caps, value stocks returned 9.6% compared to 7.7% of growth stocks. And following the trend for the quarter, within small caps, value returned 10.0% while growth returned 7.6%. MDEP is slightly overweight growth versus value so this tilt detracted slightly from returns for the pool.

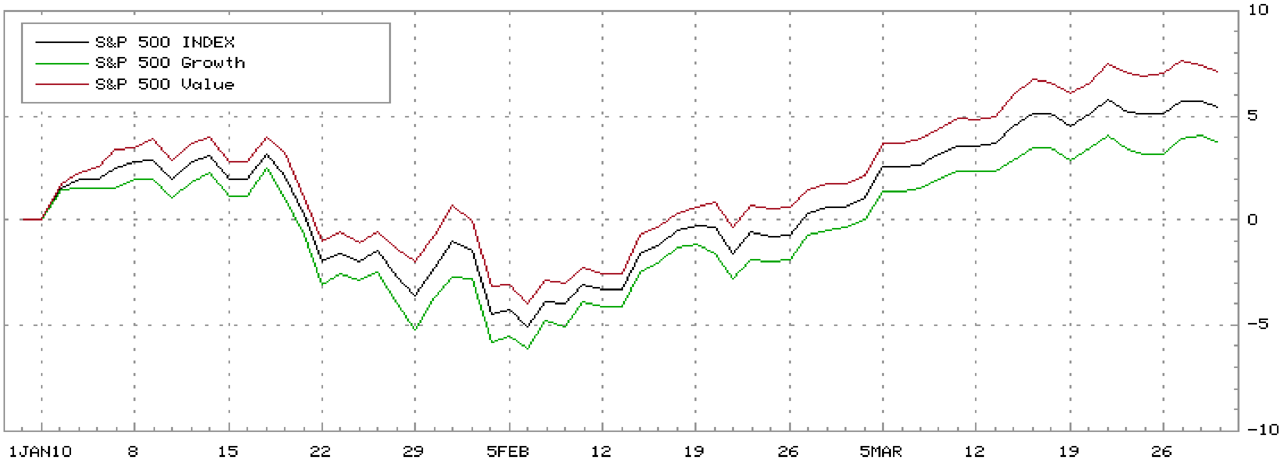
COMPARATIVE RETURNS

Page 1/ 6

Range 12/31/09 - 3/31/10 Period D Daily 90 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	4.87 %	5.39 %	1.67 %	23.71 %
2	SGX Index	USD	3.30 %	3.71 %		15.94 %
3	SVX Index	USD	6.47 %	7.09 %	3.38 %	32.04 %

(* = No dividends or coupons)



Volatility continued to drop in the quarter as corporate earnings and domestic economic data have been encouraging. Through March these types of data points offset growing concerns regarding sovereign debt, particularly in the Euro zone.

Equity Volatility Index

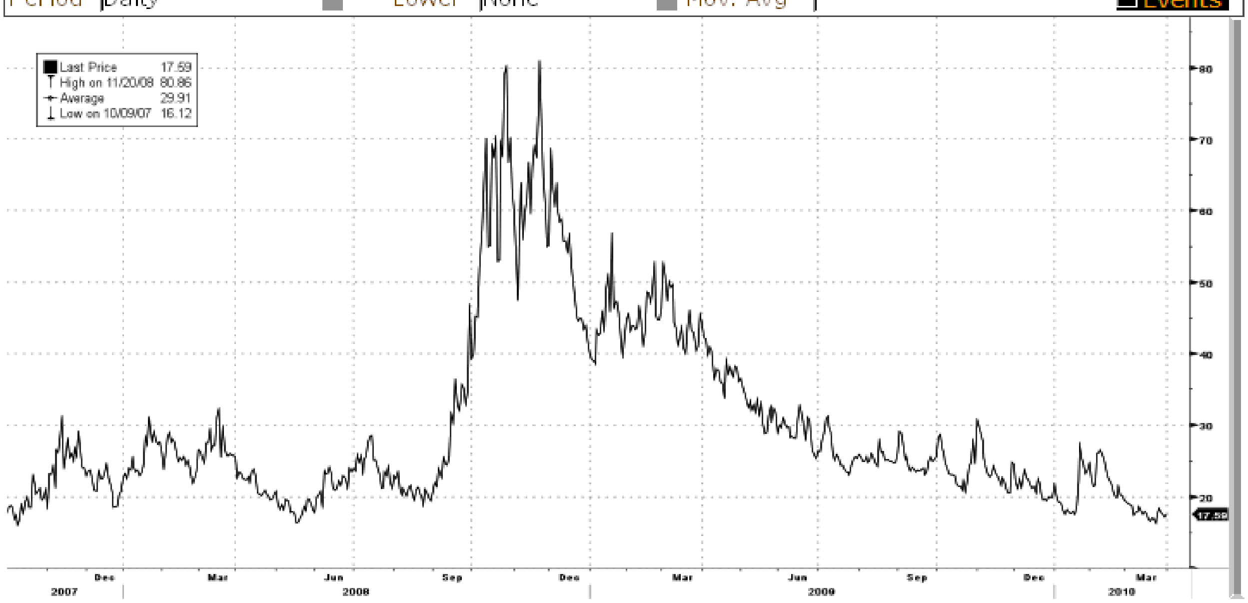
VIX ↑ 17.22 +.60 m Index GP

DELAY 12:39 Op 17.52 Hi 17.52 Lo 17.07 Prev 16.62

VIX INDEX Advanced Hide GP - Line Chart Page 1/16

Range 10/01/07 - 03/31/10 Upper Line Chart Mov. Avgs Currency USD

Period Daily Lower None Mov. Avg Events



Overall MDEP outperformed the S&P 1500 benchmark by 14 basis points in the quarter. Within the pool, large cap performance led the quarter as large cap active managers as a whole outperformed by 14 basis points. The enhanced manager group, led by WAMCO and the value group generated alpha for the quarter. The partial long/short group and the growth group detracted from performance.

The mid cap and small cap buckets underperformed by 268 basis points and 100 basis points respectively. This was largely due to the rather defensive positioning of these portfolios by the managers within the mid cap and small cap groups.

Going forward the strategy at the pool level is to continue with the overweight in mid caps and small caps and a slight overweight in growth versus value. The active weight in the pool compared to the passive weight is increasing due to outflows for plan asset rebalancings. Staff plans to address this yet this calendar year.

DOMESTIC EXPOSURE-MARKET CAP %

March 31, 2010

MANAGERS	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	LARGE $20-$50B	LARGE $10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Analytic Investors, Inc	5.4	16.5	12.1	30.4	23.9	12.4	-2.7	-0.3	66.3
Artisan Partners	--	--	--	3.0	24.3	66.7	6.0	--	7.1
Barrow Hanley	1.2	14.6	7.6	27.2	19.4	28.9	1.1	--	45.2
Columbus Circle Investors	5.3	18.0	11.1	27.7	25.6	12.3	--	--	59.3
Dimensional Fund Advisors	--	--	--	--	--	0.1	69.4	30.5	0.9
INTECH Investment Management	9.2	24.8	9.1	17.3	17.0	22.1	0.6	--	78.6
J.P. Morgan	9.4	27.1	18.3	25.3	11.1	3.4	0.5	--	92.4
Martingale Asset Mgmt	--	--	--	--	8.9	78.1	13.0	--	5.6
Martingale Enhanced Alpha	8.3	28.2	7.8	19.0	16.2	22.5	-3.7	--	84.2
NorthPointe Cap	--	--	--	--	--	13.8	44.3	41.9	1.1
Quantitative Management	4.7	23.9	9.3	21.4	15.6	23.6	1.5	--	70.5
Rainier Investment Mgt	7.2	13.4	18.0	28.3	19.7	13.5	--	--	60.6
Renaissance Investment Mgt	3.6	13.5	8.6	22.7	15.2	32.7	3.7	--	46.6
T. Rowe Associates	9.1	26.1	13.0	22.2	15.1	14.1	---	--	84.0
TimesSquare Cap Mgmt	--	--	--	6.7	22.6	67.4	3.3	--	8.6
Vaughan Nelson Mgmt	--	--	--	--	--	35.0	63.4	1.6	2.2
Western Asset US Index Plus	8.3	26.0	13.0	24.6	14.4	13.4	0.3	--	82.0
BlackRock S&P 500 Index Fund	8.2	25.9	12.9	24.5	14.3	13.3	0.3	--	82.0
BlackRock Midcap Equity Index Fund	--	--	--	--	--	65.3	33.1	---	3.2
ALL DOMESTIC EQUITY PORTFOLIOS	**6.0**	**19.0**	**10.5**	**20.6**	**15.4**	**21.5**	**4.8**	**1.3**	**63.0**
Benchmark: S&P Composite 1500	**7.3**	**23.0**	**11.4**	**21.7**	**12.7**	**17.3**	**6.1**	**0.5**	**72.6**
Over/underweight(-)	**-1.3**	**-4.0**	**-1.0**	**-1.1**	**2.7**	**4.2**	**-1.3**	**0.8**	

DOMESTIC EXPOSURE-SECTOR %

March 31, 2010

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Analytic Investors, Inc	10.2	12.0	10.6	15.1	13.8	9.9	16.6	3.4	3.2	3.0
Artisan Partners	11.2	7.9	9.4	18.3	3.9	21.1	20.1	--	--	8.2
Barrow Hanley	12.1	7.0	9.0	23.2	14.5	14.1	11.4	1.2	1.6	5.8
Columbus Circle Investors	21.0	10.2	--	12.4	15.5	4.9	30.5	5.5	--	--
Dimensional Fund Advisors	15.9	4.5	4.3	13.8	14.1	18.1	20.6	4.7	0.9	3.2
INTECH Investment Management	12.6	10.7	10.5	13.0	12.1	7.9	24.1	3.0	3.6	2.5
J.P. Morgan	11.0	10.5	11.0	14.2	10.3	8.0	20.8	3.7	3.1	2.5
Martingale Asset Mgmt	20.1	7.9	5.5	15.0	8.6	9.3	18.0	8.2	0.1	7.3
Martingale Enhanced Alpha	15.5	9.5	10.4	13.1	11.6	11.0	19.2	3.3	1.8	2.8
NorthPointe Cap	15.6	4.5	3.0	4.3	22.2	12.4	32.4	5.7	--	--
Quantitative Management	12.7	5.0	16.2	20.0	11.2	12.4	4.2	5.1	5.4	7.9
Rainier Investment Mgt	15.9	7.5	3.1	7.2	15.4	11.7	31.9	4.9	1.6	0.8
Renaissance Investment Mgt	23.7	3.9	5.1	3.4	13.9	12.8	35.1	2.1	--	--
T. Rowe Associates	10.6	11.2	11.4	15.7	12.4	10.9	19.2	3.0	2.6	2.6
TimesSquare Cap Mgmt	13.2	3.8	6.9	11.9	17.2	16.5	24.0	2.2	4.3	--
Vaughan Nelson Mgmt	18.0	--	5.9	27.2	4.0	16.6	13.4	8.6	1.9	--
Western Asset US Index Plus	10.1	11.3	10.9	16.5	12.2	10.5	18.9	3.5	2.8	3.4
BlackRock S&P 500 Index Fund	10.1	11.2	10.8	16.4	12.1	10.4	18.8	3.5	2.8	3.4
BlackRock Midcap Equity Index Fund	14.4	3.9	5.8	20.0	12.4	14.2	14.6	6.7	0.8	5.7
All Domestic Equity Portfolios	**13.0**	**9.0**	**9.1**	**15.1**	**12.3**	**11.2**	**20.3**	**3.6**	**2.3**	**3.1**
Benchmark: S&P Composite 1500	**10.7**	**10.4**	**10.3**	**16.9**	**12.2**	**11.1**	**18.5**	**3.8**	**2.6**	**3.6**
Over/underweight(-)	**2.3**	**-1.4**	**-1.2**	**-1.8**	**0.0**	**0.1**	**1.8**	**-0.2**	**-0.2**	**-0.5**

DOMESTIC PORTFOLIO CHARACTERISTICS

March 31, 2010

	Market Value (mm)	Number of Securities	3Yr Historical EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
MANAGERS						
Analytic Investors, Inc	102.3	189	3.0	13.8	3.0	2.2
Artisan Partners	90.0	58	-2.2	14.0	1.8	1.7
Barrow Hanley	179.0	90	-3.1	15.0	1.8	2.3
Columbus Circle Investors	128.7	52	15.1	21.5	2.8	0.6
Dimensional Fund Advisors	55.8	2,786	2.5	17.0	0.8	1.1
INTECH Investment Management	161.3	406	4.1	15.7	2.3	1.7
J.P. Morgan	305.9	267	4.5	16.0	2.4	1.8
Martingale Asset Mgmt	69.7	132	6.0	13.4	1.9	1.4
Martingale Enhanced Alpha	69.1	240	4.0	11.1	2.0	1.8
NorthPointe Cap	34.5	69	2.1	19.0	1.9	0.2
Quantitative Management	113.2	152	-9.0	14.4	1.6	2.3
Rainier Investment Mgt	125.3	75	16.3	20.2	3.1	0.9
Renaissance Investment Mgt	103.3	55	11.5	15.1	3.3	1.0
T. Rowe Associates	264.4	300	4.0	13.6	2.3	1.7
TimesSquare Cap Mgmt	90.2	73	14.8	18.4	2.9	0.7
Vaughan Nelson Mgmt	60.6	78	2.9	17.2	1.6	1.4
Western Asset US Index Plus	140.3	500	2.9	13.1	2.2	1.8
Blackrock Equity Index Fund	424.8	502	2.9	13.1	2.2	1.8
Blackrock Midcap Equity Index Fund	21.3	402	5.5	19.3	2.0	1.3
All Domestic Equity Portfolios	**2,546.8**	**3,678**	**4.3**	**14.9**	**2.2**	**1.6**
BENCHMARKS						
S&P Composite 1500		**1,500**	**3.1**	**13.6**	**2.2**	**1.8**
S&P/Citigroup 1500 Pure Growth		364	17.6	21.8	2.7	0.4
S&P/Citigroup 1500 Pure Value		328	-5.3	15.5	1.1	1.3
S&P 500		500	2.9	13.1	2.2	1.8
Russell 1000		957	3.4	16.9	2.2	1.8
Russell 1000 Growth		621	13.5	18.2	3.4	1.5
Russell 1000 Value		672	-7.4	15.6	1.6	2.1
Russell Midcap		766	4.1	17.9	2.0	1.5
Russell Midcap Growth		489	11.7	19.6	2.8	1.0
Russell Midcap Value		547	-3.4	16.5	1.5	2.0
Russell 2000		1,993	4.3	17.0	1.1	1.4
Russell 2000 Growth		1,266	13.6	20.2	1.5	0.5
Russell 2000 Value		1,383	-3.7	14.8	0.9	2.2

Montana International Stock Pool

Rande Muffick, CFA, Portfolio Manager

May 19, 2010

3/31/2010 International Stock Pool By Manager			
Manager Name	**Market Value**	**%**	**Approved Range**
ARTIO GLOBAL MU1G	112,274,028	9.14%	
BATTERYMARCH INTL EQUITY	112,016,029	9.11%	
BLACKROCK GL EX US ALPHA TILT	99,484,549	8.09%	
BLACKROCK ACWI EX US SUPERFUND	416,930,159	33.92%	
EAFE STOCK PERFORMANCE INDEX	9,410,707	0.77%	0-10%
CORE Total	**750,115,472**	**61.03%**	50-70%
ACADIAN ACWI EX US VALUE	84,685,922	6.89%	
BERNSTEIN ACWI EX	108,835,190	8.86%	
VALUE Total	**193,521,112**	**15.75%**	10-20%
HANSBERGER INTL EQUITY GROWTH	101,219,744	8.24%	
MARTIN CURRIE ACWI X	96,248,820	7.83%	
PRINCIPAL GLOBAL	62,110	0.01%	
GROWTH Total	**197,530,674**	**16.07%**	10-20%
NOMURA ASSET MGMT INC	1,353	0.00%	
REGIONAL Total	**1,353**	**0.00%**	
AXA ROSENBERG INTL SMALL CAP	37,655,437	3.06%	
DFA INTL SMALL CO PORTFOLIO	50,219,660	4.09%	
SMALL CAP Total	**87,875,097**	**7.15%**	5-15%
MTIP Total	**1,229,043,708**	**100.00%**	

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. All weightings are within the approved ranges at this time.

The value of the pool rose to $1.23 billion as international equity markets rose in the quarter. Returns were tempered to a large degree though by a rising dollar. As a result, international markets underperformed the domestic market for U.S. investors. The custom benchmark for MTIP returned 1.86% compared to 5.80% for the S&P 1500 (benchmark for the domestic equity pool).

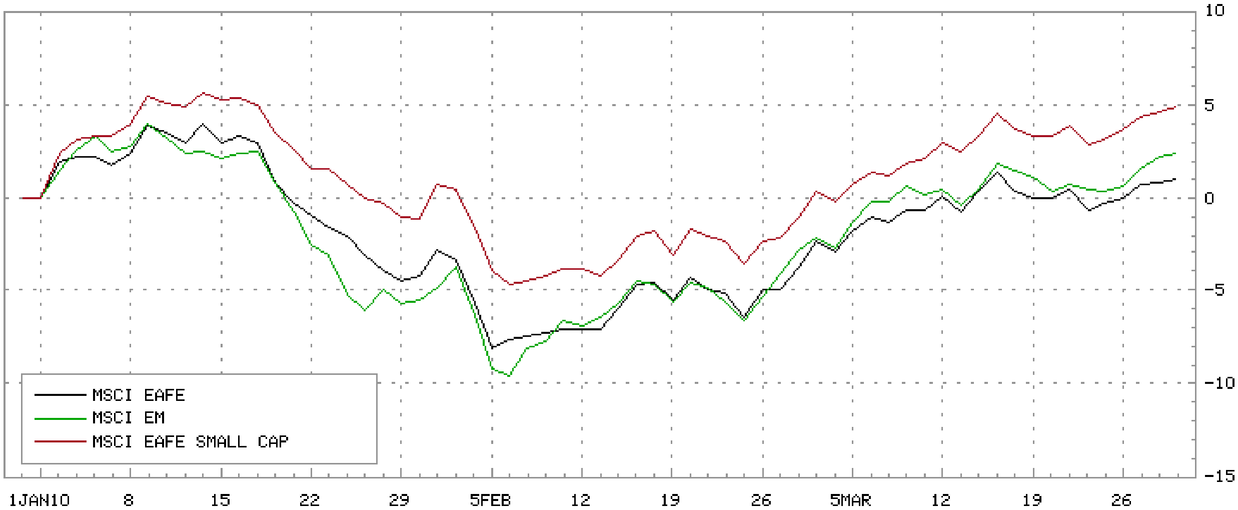
Small cap stocks were the best performers in the quarter, returning 4.9%. Large cap stocks returned 1.0% while emerging market stocks returned 2.3%. MTIP carries basically a neutral weight between large cap and small cap stocks and is slightly underweight emerging market stocks.

COMPARATIVE RETURNS Page 1/ 6

Range 12/31/09 - 3/31/10 Period D Daily 90 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	MXEA Index	USD	.22 %	.98 %	-1.36 %	4.05 %
2	MXEF Index	USD	2.11 %	2.34 %		9.86 %
3	MXEASC Index	USD	4.19 %	4.87 %	2.52 %	21.25 %

(* = No dividends or coupons)



Contrary to US markets, growth outperformed value in international markets. The MSCI ACWI ex US Growth Index returned 2.0% for the quarter compared to the MSCI ACWI ex US Value index return of 1.1%. MTIP has a neutral weighting between growth and value styles.

As mentioned, the strength of the US dollar had a significant effect on international returns for US investors. During the quarter, the dollar rallied about 4%. Sovereign debt concerns in Europe were the major influence in this move, along with what appears to be a strengthening US economy. This trend is likely to persist for at least a couple of quarters.

Collectively the managers within MTIP underperformed their benchmarks by 16 basis points net of fees during the quarter. Our large cap value managers added value while large cap core and large cap growth detracted from performance.

Going forward the strategy is to remain neutral with regard to style (i.e. growth versus value) and to continue to carry a sizeable passive weight. It is anticipated that small caps will be increased to an overweight should the market provide an opportunity. In addition, with the termination of one of the active small cap managers, a passive small cap component and actively managed small cap funds being offered by current managers under contract and in good standing with the Board are being evaluated.

INTERNATIONAL EXPOSURE-MARKET CAP %

March 31, 2010

Managers	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	LARGE $20-$50B	LARGE $10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Acadian Asset Management	--	9.6	18.0	12.5	24.7	19.7	10.3	5.0	34.5
Artio Global - Intl Equity II with look throughs	--	11.5	27.5	23.1	15.8	15.6	0.8	0.6	47.8
AXA Rosenberg	--	--	--	--	0.5	28.5	54.8	15.7	2.0
Batterymarch Financial Mgmt	--	11.3	18.4	14.9	18.1	34.2	2.8	--	38.8
Bernstein Inv Mgt & Research with look throughs	--	12.1	19.7	18.5	16.4	24.8	5.1	--	45.4
BlackRock Global Ex US Alpha Tilt Fd	--	12.4	19.1	23.8	15.5	25.0	3.2	0.1	43.7
DFA International Small Cap	--	--	--	--	--	15.8	60.5	23.6	1.4
Hansberger Global Investors	--	19.9	18.1	16.2	20.9	25.0	--	--	46.2
Martin Currie with look throughs	--	10.9	28.2	13.1	20.0	26.7	1.1	--	42.6
BlackRock ACWI Ex US Superfund A	--	12.9	22.4	21.8	16.8	22.6	2.7	0.1	44.9
ALL INTERNATIONAL EQUITY PORTFOLIOS	**--**	**11.7**	**20.0**	**17.7**	**16.5**	**23.4**	**6.8**	**2.0**	**40.3**
International Custom Benchmark	**--**	**12.8**	**22.4**	**21.7**	**16.9**	**22.5**	**3.4**	**0.3**	**44.5**
Over/underweight(-)	**--**	**-1.1**	**-2.4**	**-4.0**	**-0.4**	**0.9**	**3.4**	**1.7**	

INTERNATIONAL EXPOSURE-SECTOR %

March 31, 2010

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	8.5	1.9	15.6	27.4	5.5	13.9	10.1	5.0	7.9	4.2
Artio Global - Intl Equity II with look throughs	7.7	11.6	7.1	21.7	7.5	10.5	7.1	16.0	3.9	1.7
AXA Rosenberg	19.9	5.5	3.3	16.9	3.1	24.9	9.8	15.2	0.4	0.4
Batterymarch Financial Mgmt	6.6	6.7	9.0	25.0	7.0	11.1	8.2	15.4	6.7	4.2
Bernstein Inv Mgt & Research with look throughs	9.1	3.4	11.1	27.6	4.4	10.5	8.8	10.4	7.6	3.7
Blackrock Global Ex US Alpha Tilt Fd	10.7	8.2	9.5	22.5	7.3	9.9	7.7	14.6	5.6	3.3
DFA International Small Cap	18.1	6.4	5.9	13.0	5.8	25.6	9.5	12.9	0.9	1.8
Hansberger Global Investors	11.8	9.4	7.7	17.2	8.7	9.0	14.1	15.1	5.3	1.7
Martin Currie with look throughs	16.5	13.6	9.8	17.5	7.5	9.8	9.0	13.7	1.4	1.0
Blackrock ACWI ex-US Superfund	8.4	8.4	10.6	25.7	6.2	10.1	7.0	12.1	5.9	4.8
All International Equity Portfolios	**10.0**	**7.9**	**9.8**	**23.6**	**6.3**	**11.3**	**9.0**	**13.1**	**5.2**	**3.3**
International Custom Benchmark	**8.6**	**8.5**	**10.7**	**25.8**	**6.2**	**10.3**	**7.0**	**12.2**	**5.9**	**4.8**
Over/underweight(-)	**1.4**	**-0.6**	**-0.9**	**-2.2**	**0.1**	**1.0**	**1.9**	**0.9**	**-0.7**	**-1.5**

INTERNATIONAL PORTFOLIO CHARACTERISTICS

March 31, 2010

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
International Accounts with look throughs	**1,286.1**	**6,746**	**0.2**	**16.1**	**1.7**	**2.44**
International Equity Managers						
Acadian Asset Management	84.7	283	(0.7)	13.9	1.3	2.75
Artio Global - Intl Equity II with look throughs	140.1	535	(1.6)	17.6	1.9	2.10
AXA Rosenberg	37.7	835	(4.1)	12.8	1.1	2.39
Batterymarch Financial Mgmt	112.2	233	2.6	15.1	1.8	2.65
Bernstein Inv Mgt & Research with look throughs	138.1	213	(4.7)	12.8	1.5	2.66
Blackrock Global Ex US Alpha Tilt Fd	99.5	1,542	(3.2)	16.5	1.7	2.56
DFA International Small Cap	50.2	4,431	0.5	16.1	1.4	2.03
Hansberger Global Investors	101.3	62	12.7	22.4	2.8	1.65
Martin Currie with look throughs	96.3	59	5.3	17.5	1.9	1.92
Blackrock ACWI ex-US Superfund	416.8	1,868	(1.3)	16.7	1.7	2.63
Benchmarks						
MSCI All Country World Ex-United States		1,822	(1.3)	16.7	1.7	2.63
MSCI All Country World Ex-United States Growth		1,047	3.4	19.3	2.3	1.90
MSCI All Country World Ex-United States Value		1,066	(6.5)	14.7	1.4	3.37
MSCI EAFE Small Cap		2,245	0.2	15.3	1.3	2.18
MSCI World Ex-United States Small Cap		2,452	1.0	15.5	1.3	2.19
MSCI All Country Pacific		922	0.4	20.1	1.6	2.14
MSCI Europe		464	(5.7)	14.8	1.7	3.21
International Custom Benchmark		6,056	(1.3)	16.7	1.7	2.62

INTERNATIONAL EQUITY
Region and Market Exposure
March 31, 2010

Developed Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
Asia/Pacific	23.5%	24.2%	-0.69%				
Australia	5.5%	6.0%		3.8%	45.9%	3.8%	89.5%
Hong Kong	1.7%	1.7%		3.3%	23.7%	3.3%	70.8%
Japan	15.1%	15.4%		8.3%	11.3%	8.3%	37.4%
New Zealand	0.1%	0.1%		-2.6%	24.5%	-2.6%	51.5%
Singapore	1.1%	1.0%		-0.5%	32.1%	-0.5%	96.6%
European Union	25.8%	24.7%	1.05%				
Austria	0.5%	0.2%		-0.3%	26.0%	-0.3%	69.6%
Belgium	0.7%	0.7%		0.3%	31.3%	0.3%	67.5%
Denmark	1.1%	0.7%		8.4%	28.2%	8.4%	72.7%
Finland	0.7%	0.9%		11.0%	25.7%	11.0%	66.8%
France	7.0%	7.4%		-3.5%	24.8%	-3.5%	51.9%
Germany	6.3%	5.5%		-2.2%	23.9%	-2.2%	54.2%
Greece	0.2%	0.3%		-13.6%	-11.5%	-13.6%	25.2%
Ireland	0.2%	0.2%		-0.7%	13.7%	-0.7%	46.4%
Italy	2.2%	2.3%		-6.9%	14.4%	-6.9%	47.8%
Netherlands	3.0%	1.8%		-0.8%	35.2%	-0.8%	70.5%
Portugal	0.2%	0.2%		-10.1%	8.7%	-10.1%	36.9%
Spain	2.1%	2.7%		-14.8%	9.2%	-14.8%	49.1%
Sweden	1.5%	1.9%		8.0%	43.7%	8.0%	94.3%
Non-EU Europe	6.3%	6.0%	0.29%				
Norway	0.9%	0.5%		-1.6%	42.4%	-1.6%	85.0%
Switzerland	5.5%	5.5%		4.6%	33.0%	4.6%	55.7%
North America	6.7%	7.6%	-0.94%				
Canada	6.7%	7.6%		6.6%	35.4%	6.6%	76.9%
USA	0.0%	0.0%		5.8%	30.1%	5.8%	51.7%
United Kingdom	14.2%	14.7%	-0.47%				
United Kingdom	14.2%	14.7%		-0.2%	26.3%	-0.2%	61.1%
Other							
Other	0.2%	0.0%					
DEVELOPED TOTAL	76.7%	77.3%	-0.58%				

Emerging & Frontier Market Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
Asia/Pacific	12.3%	12.6%	-0.34%				
China	3.7%	4.0%		-0.6%	19.3%	-0.6%	64.6%
India	1.5%	1.8%		5.0%	36.5%	5.0%	124.9%
Indonesia	0.4%	0.5%		10.8%	55.5%	10.8%	147.8%
S. Korea	3.5%	2.9%		3.5%	39.7%	3.5%	75.3%
Malaysia	0.7%	0.6%		10.2%	34.8%	10.2%	76.4%
Philippines	0.1%	0.1%		6.6%	39.4%	6.6%	75.6%
Taiwan	2.0%	2.5%		-3.4%	29.8%	-3.4%	65.2%
Thailand	0.5%	0.3%		12.6%	41.4%	12.6%	117.9%
European Union	0.6%	0.5%	0.09%				
Czech Republic	0.1%	0.1%		1.5%	17.1%	1.5%	54.8%
Hungary	0.2%	0.1%		12.4%	64.3%	12.4%	177.7%
Poland	0.4%	0.3%		5.3%	56.9%	5.3%	115.2%
Non-EU Europe	1.5%	1.5%	0.04%				
Russia	1.5%	1.5%		7.6%	51.5%	7.6%	109.5%
Latin America/Caribbean	4.4%	5.3%	-0.91%				
Brazil	3.0%	3.7%		-0.2%	46.3%	-0.2%	109.0%
Chile	0.4%	0.3%		0.9%	22.6%	0.9%	66.4%
Colombia	0.1%	0.2%		10.4%	50.2%	10.4%	129.8%
Mexico	0.9%	1.0%		8.0%	45.7%	8.0%	98.8%
Peru	0.1%	0.1%		0.8%	45.1%	0.8%	62.1%
Mid East/Africa	2.5%	2.8%	-0.28%				
Egypt	0.1%	0.1%		12.6%	25.2%	12.6%	70.7%
Israel	0.7%	0.7%		10.7%	40.6%	10.7%	66.2%
Morocco	0.0%	0.0%		6.4%	-7.8%	6.4%	10.2%
South Africa	1.2%	1.6%		4.9%	31.6%	4.9%	73.9%
Turkey	0.5%	0.3%		5.0%	53.6%	5.0%	147.4%
Frontier	0.3%	0.0%	0.30%				
EMERGING & FRONTIER TOTAL	21.6%	22.7%	-1.10%				

MEMORANDUM

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

To: Members of the Board

From: Rande R. Muffick, CFA
Portfolio Manager

Date: May 19, 2010

Subject: Public Equity External Managers Watch List - Quarterly Update

During the quarter Analytic Investors was added to the Watch List. Analytic's quantitative process has struggled badly within the past several months causing performance to slip behind the benchmark.

There was one removal from the Watch List which was also a termination. AXA Rosenberg International Small Cap was terminated due to poor performance and process issues. An error within one of the three components of AXA's risk model was discovered during the firm's review of the model and yet the error had been concealed by senior executives for some time prior to the review. This breach of confidence when combined with poor performance of the portfolio since inception led to a decision to terminate the manager.

MANAGER WATCH LIST
February 2010

Manager	Style Bucket	Reason	Inclusion Date
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	March 2008
NorthPointe	Domestic- SC Growth	Performance	August 2008
Acadian	International – LC Value	Performance, Process	February 2009
Martin Currie	International – LC Growth	Performance, Risk Controls	February 2009
Batterymarch	International – LC Core	Performance, Process	May 2009
Martingale	Domestic – 130/30	Performance, Process	February 2010
Martingale	Domestic – MC Core	Performance, Process	February 2010
Analytic Investors	Domestic - 130/30	Performance, Process	May 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.

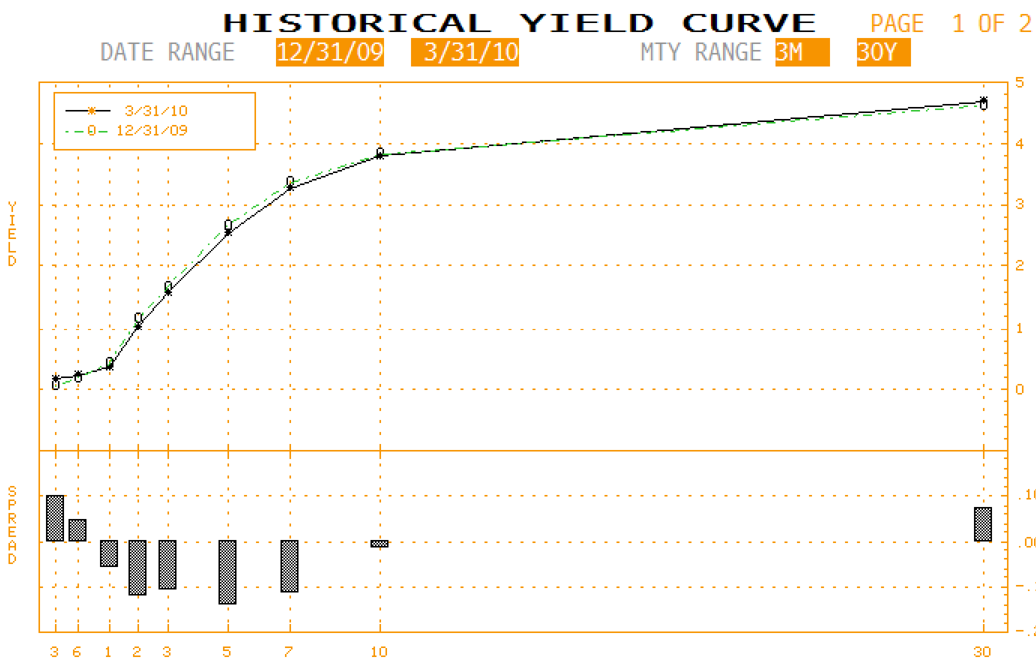
External Managers: The external managers are responsible for all aspects of portfolio management as set forth in their respective contracts and investment guidelines. Managers also must communicate with staff as needed regarding investment strategies and results in a consistent manner. Managers must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

FIXED INCOME OVERVIEW & STRATEGY
Nathan Sax, CFA, Portfolio Manager
May 19, 2010

RETIREMENT & TRUST FUND BOND POOLS

The yield curve showed little movement in the first quarter, with short term and long-term rates rising slightly and the middle of the curve flattening somewhat at lower rates. The yield differential between U.S. Treasury two and ten-year notes was 270 basis points on December 31, 2009 before steepening slightly to 281 basis points by March 31, 2010. The yield on the two-year note decreased from 1.14% to 1.02%. The yield to maturity on the Treasury ten-year note moved only a basis point, from 3.84% to 3.83%. The yield curve remains steep by historical standards, which may signal expectations for higher inflation, faster economic growth and a heavy supply of debt flooding the market.

The Federal Reserve completed its quantitative easing program on March 31, 2010, as expected. In all, the central bank purchased $1.4 trillion in GSE agency debentures and mortgage pass-through securities. The largest Government purchases have been in the mortgage market ($1.25 trillion) as the Fed suppressed mortgage lending rates in support of the housing market. Mortgage backed bond spreads have widened 35-40 basis points since the completion of the Fed buying program, less than many had feared.



Treasury bonds posted a total return of +1.12% in the first quarter. Other Government related bonds returned +1.44%, mortgage backed securities were +1.61%, corporate bonds were +2.30% and CMBS returned +9.10%. The Barclays Capital Aggregate Bond Index return was +1.78%. Risk assets, led by lower credit quality bonds, continued their strong performance.

The consensus among Wall Street economists is that inflation will remain subdued, with consumer price inflation forecast to increase at a 2% annual rate through 2011. The core CPI (Consumer Price Index less food and energy) is still decelerating. According to Bloomberg News, “yields show bond investors aren’t troubled that growth will spur inflation. Consumer prices excluding food and energy costs rose 1.5% in February from a year earlier in the 30 countries that form the Organization for Economic Cooperation and Development, the smallest gain on record.” Real GDP is estimated to post 3% growth over the next several quarters, avoiding a fallback into recession, yet growing slowly enough that inflation is not expected to pose a problem. This should limit any rise in long-term interest rates. In the shorter end of the curve, rates could be impacted by a modestly higher Federal Funds rate beginning late in 2010 or in the first quarter of 2011.

RFBP/TFBP vs. Barclays Aggregate – 3/31/10

	Retirement Fund Bond Pool								
	CIBP	Reams	Artio	Post	Neubgr Berman	Total RFBP	Trust Fund Bond Pool	Barclays Aggregate	CIBP/TFBP Policy Range
Treasuries	15.95	39.08	9.11	0.00	0.00	17.29	15.47	29.53	10-35
Agencies & Govt Related	11.82	0.00	25.24	0.00	0.00	10.47	12.47	12.75	5-25
Total Government	**27.77**	**39.08**	**34.35**	**0.00**	**0.00**	**27.76**	**27.94**	**42.28**	**15-60**
Mortgage Backed	28.88	19.90	13.44	0.00	0.00	25.16	28.66	35.68	20-50
Asset Backed	1.79	9.38	4.83	0.71	1.01	2.80	2.01	0.36	0-10
CMBS	7.03	1.67	12.30	0.00	0.00	6.27	6.89	3.23	0-10
Total Securitized	**37.70**	**30.95**	**30.57**	**0.71**	**1.01**	**34.23**	**37.56**	**39.27**	**20-75**
Financial	12.29	14.12	11.89	2.98	12.90	12.19	12.33	6.62	
Industrial	13.24	5.68	16.20	87.74	77.58	16.82	13.35	9.75	
Utility	3.91	3.84	0.99	3.80	7.88	3.84	3.90	2.08	
Total Corporate	**29.44**	**23.64**	**29.08**	**94.52**	**98.36**	**32.85**	**29.58**	**18.45**	**10-35**
Other	2.39	0.06	0.16	0.29	0.00	1.86	0.95	0.00	
Cash	2.69	6.27	5.84	4.48	0.64	3.29	3.98	0.00	0-10
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

The duration of the CIBP remains relatively neutral. We are easing out of intermediate term maturities toward the poles of the curve in expectation of a flatter yield curve. Although yield spreads have narrowed substantially in the spread sectors, we will maintain our overweight to corporate debt. We have improved the credit profile and liquidity of the portfolios. Illiquid positions are approaching 10% of market value, down a great deal from 2008. Narrowing yield spreads in corporate, mortgage and agency bonds have persuaded us to sell into strength and move up in credit quality. Improving conditions in the credit markets allowed us to exit the Aria and Galena CDO's at attractive levels.

In spite of narrowing yield spreads in the corporate and agency sectors, investors have continued to pare Treasury holdings in favor of lower quality corporate bonds. Bloomberg News reports that, "Besides taxpayers, the biggest beneficiaries of low borrowing cost are companies. The average corporate bond yields 3.93 percent, down from 6.68 percent a year earlier." Last year investors plowed $465 billion into bond funds, compared with a net $4 billion into equity funds. This year (through April 22), another $123 billion, on a net basis, has come into bond funds, while a net $30 billion has gone into equity funds, according to Lipper FMI. 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 economic recovery and the inflation expected to accompany new growth. Although inflation is not a threat at the moment, aggressive Fed easing has raised investor apprehension regarding price increases.

Benchmark Comparison Analysis CIBP vs. Merrill US Broad Market Index on 03/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	99.95	4.61	4.75	4.70	4.36	3.62
Benchmark	104.13	4.58	4.34	3.34	4.39	0.47
Difference	-4.18	0.03	0.41	1.35	-0.03	3.15

Benchmark Comparison Analysis Reams vs. Barclays US Universal Index on 03/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	94.50	3.10	3.30	4.21	4.30	N/A
Benchmark	103.67	4.84	4.70	3.82	4.68	N/A
Difference	-9.17	-1.74	-1.40	0.39	-0.38	N/A

Benchmark Comparison Analysis Artio vs. Merrill US Broad Market Index on 03/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	103.81	4.64	4.54	4.05	4.35	-0.54
Benchmark	104.13	4.58	4.34	3.34	4.39	0.47
Difference	-0.32	0.06	0.19	0.71	-0.04	-1.01

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	100.28	8.44	8.41	8.51	3.66	6.08
Benchmark	98.07	8.35	8.65	8.52	4.32	5.78
Difference	2.21	0.10	-0.24	-0.01	-0.66	0.30

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	96.27	8.36	8.72	9.01	4.78	6.07
Benchmark	98.07	8.35	8.65	8.52	4.32	5.78
Difference	-1.80	0.01	0.07	0.50	0.47	0.30

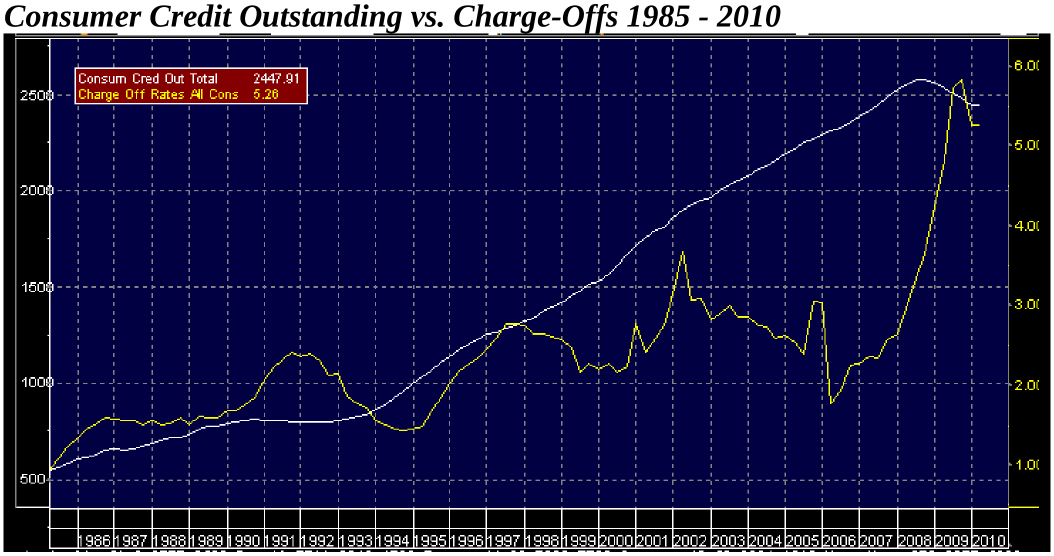
Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 03/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	97.16	4.54	4.72	4.78	4.43	3.38
Benchmark	104.13	4.58	4.34	3.34	4.39	0.47
Difference	-6.97	-0.04	0.38	1.44	0.05	2.91

Benchmark Comparison Analysis TFBP vs. Merrill US Broad Market Index on 03/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	91.23	4.02	4.03	4.11	4.33	2.18
Benchmark	104.13	4.58	4.34	3.34	4.39	0.47
Difference	-12.91	-0.55	-0.31	0.76	-0.06	1.71

Summary

Consumers and businesses continue to repair their balance sheets. While U.S. Government debt outstanding has increased $1.44 trillion since 2008 to $7.68 trillion, private sector debt fell $1.86 trillion to $40.19 trillion, according to UBS Securities. Individuals have been reducing credit card balances. Damaged retirement savings, diminished house values and concerns about job security are driving frugality among formerly spendthrift American consumers and may contribute to deflationary pressures. As an example, Wal-Mart and Home Depot have initiated widespread price cutting to stimulate sales. Although easier fiscal and monetary policy does augur for inflation, it may not be enough to offset deflationary secular trends; deleveraging and falling property values in the commercial and residential real estate markets. Therefore, interest rates could remain low for an extended period.

Consumer Credit Outstanding vs. Charge-Offs 1985 - 2010



The Fed is still calling for an extended period of low short term interest rates. Expectations for modest economic growth along with low inflation have created a positive environment for the bond market.

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager

May 4, 2010

During the first quarter, money market yields began to creep upwards as minor technical adjustments occurred in these markets. Increasing outflows from money funds due to low yields along with additional requirements for front-end liquidity due to SEC mandated changes led to less money available to buy the longer end of the money market curve and those rates increased. This trend has continued into the second quarter as Libor rates have increased by 10 bp for 3 month and 5bp for 1 month since the first of the year. The recent dislocations in the Euro markets have also put upward pressure on Libor rates. 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 first quarter at about 14 basis points, down slightly for the quarter.

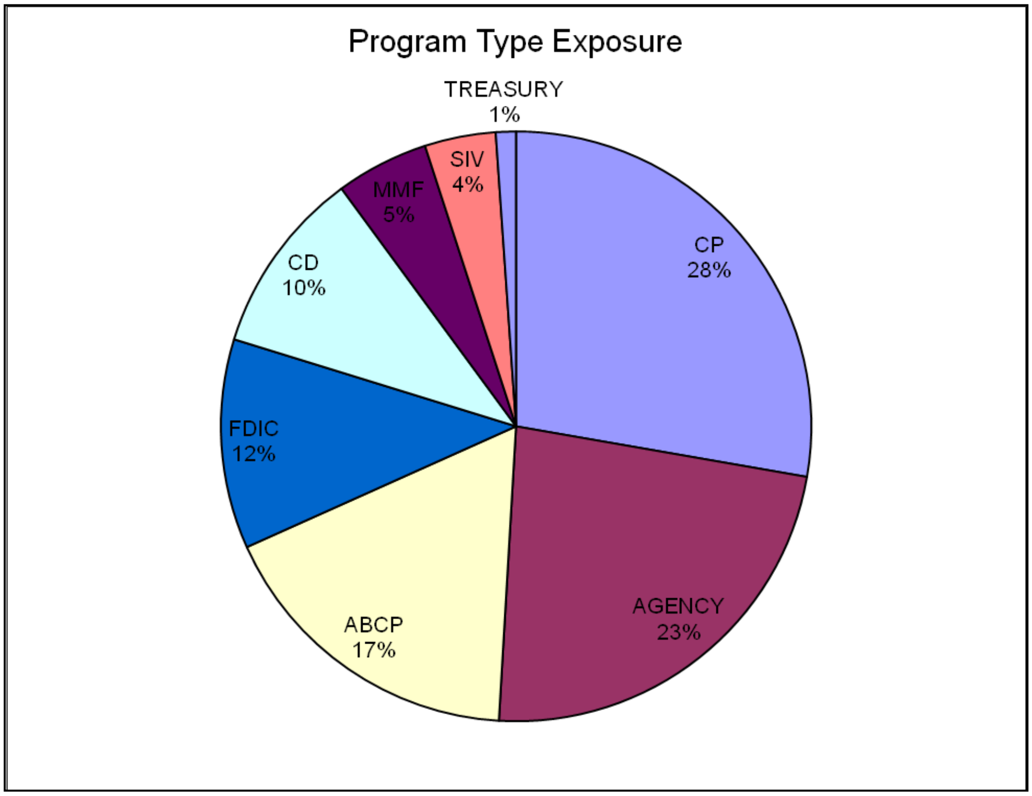
TED Spread (03/31/09 – 03/31/10)

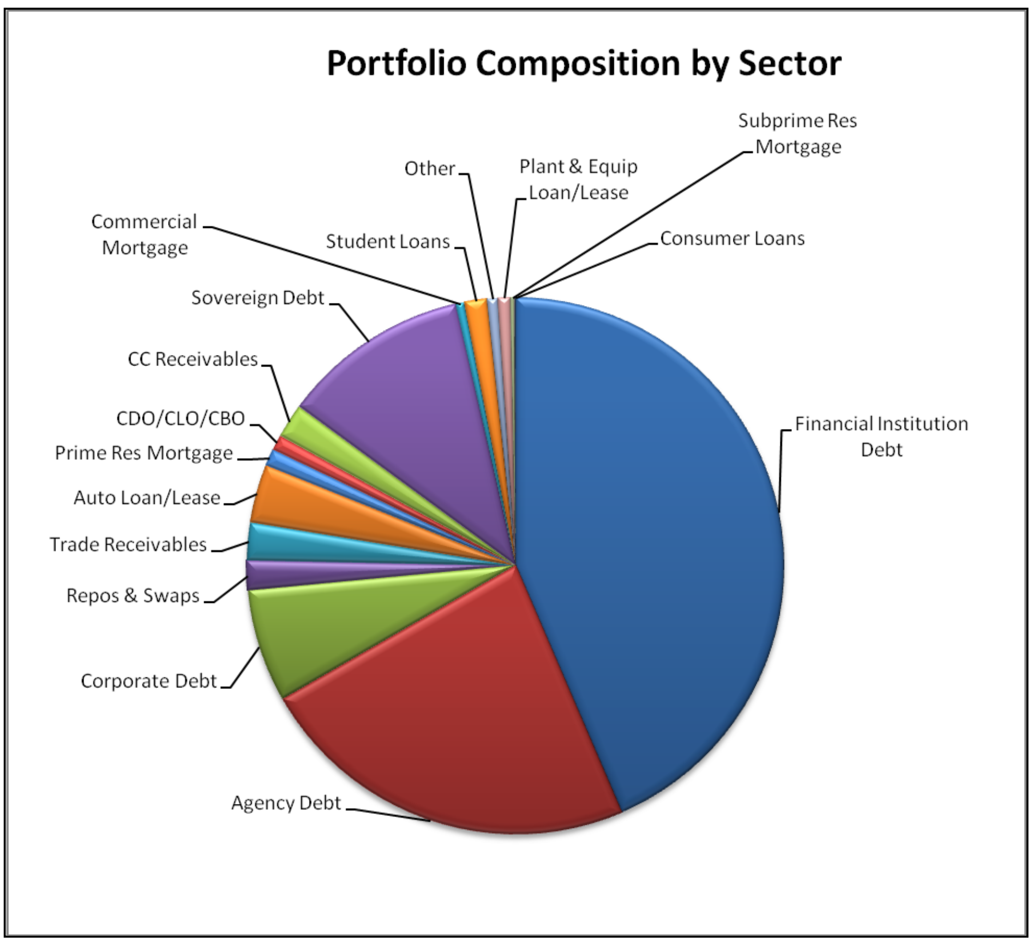
The STIP portfolio is currently well diversified and is operating within all the new guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of $200 million and weekly liquidity is at a minimum of $300 million. The average days to maturity are about 46 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is about 16% of holdings (40% max) and corporate exposure is around 22% (40% max). We currently have approximately 37% in agency/FDIC paper, 16% in Yankee CD's (30% max) and 5% in four institutional money funds. These sector weights reflect an increase in exposure to slightly higher yielding securities during the quarter.

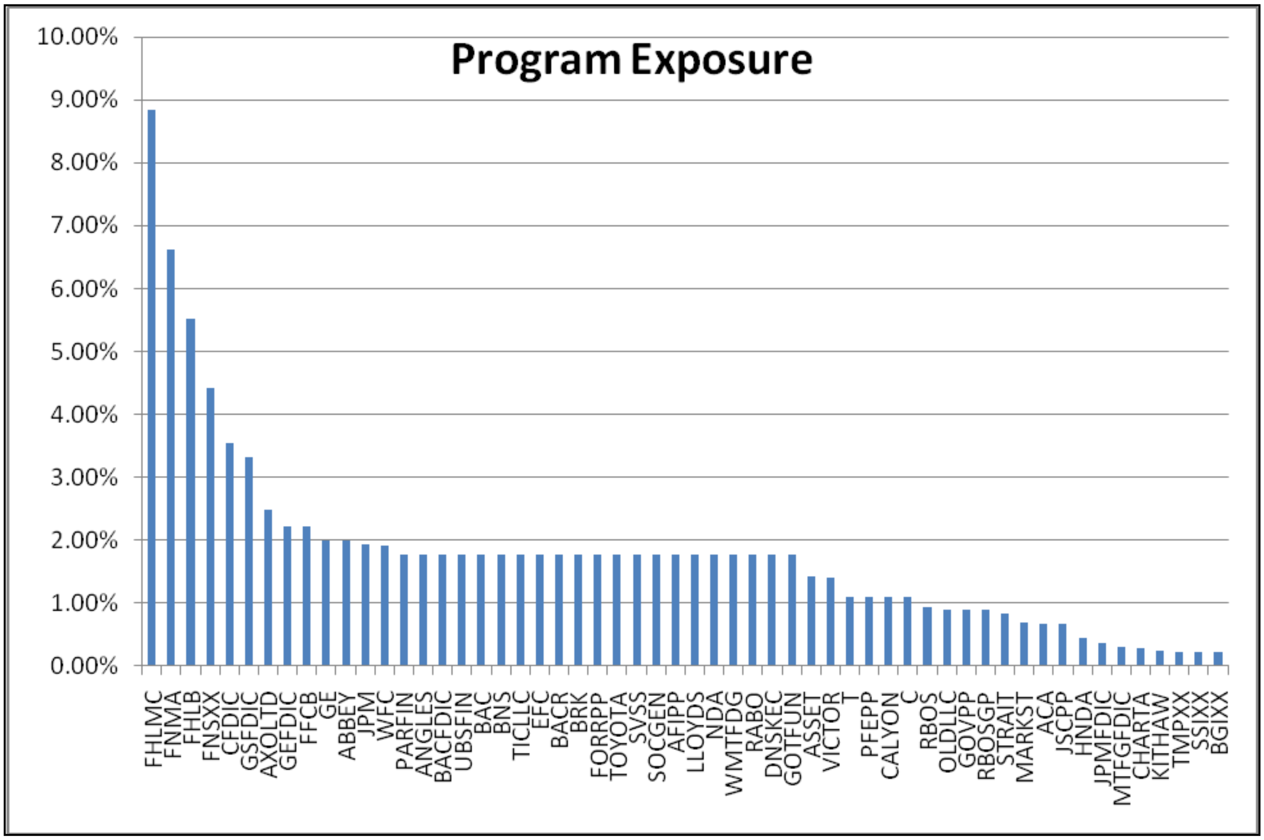
During the first quarter, we purchased $75 million of floating rate Agencies and $25 million of 13 month FDIC backed notes. We also purchased $59 million of corporate floating rate securities and $165 million of floating rate Yankee CDs. The portfolio yield will benefit from the increase in Libor rates as floating rate securities reset at higher base rates.

The net daily yield on STIP is currently 0.27% as compared with the current one-month LIBOR rate of 0.28% and current fed funds target rate of 0.0%-0.25%. The portfolio is currently $2.26 billion in assets, flat from three months ago.

All charts below are as of May 3, 2010.






Program Exposure
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
FHLMC
FNMA
FHLB
FNSXX
CFDIC
GSFDIC
AXOLTD
GEFDIC
FFCB
GE
ABBEY
JPM
WFC
PARFIN
ANGLES
BACFDIC
UBSFIN
BAC
BNS
TICLLC
EFC
BACR
BRK
FORRPP
TOYOTA
SVSS
SOCGEN
AFIPP
LLOYDS
NDA
WMTFDG
RABO
DNSKEC
GOTFUN
ASSET
VICTOR
T
PFEPP
CALYON
C
RBOS
OLDLLC
GOVPP
RBOSGP
STRAIT
MARKST
ACA
JSCPP
HNDA
JPMFDIC
MTFGFDIC
CHARTA
KITHAW
TMPXX
SSIXX
BGIXX

State Fund Insurance

Richard Cooley, CFA, Portfolio Manager

May 4, 2010

During the quarter we reviewed the investment policy with the executive management at State Fund. Proposed changes to the policy are in the May Board report under separate cover.

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 03/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	103.11	4.54	4.46	3.13	3.58	1.63
Benchmark	104.16	3.85	3.63	2.64	3.81	0.48
Difference	-1.05	0.69	0.84	0.49	-0.23	1.15

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.

Spread product ended the first quarter mixed as compared to the end of the fourth quarter. MBS spreads widened by 2 bp to 20 bp, agencies tightened by 6 bp to 24 bp and corporate spreads tightened by 22 bp to 150 bp. During the quarter, the ten year Treasury yield decreased by 1bp from 3.84% to 3.83%.

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 104 basis points during the March quarter and by 659 basis points over the past year. Longer term performance is +46 basis points for the past five years and +69 basis points for the past ten years (ended March 31).

During the March quarter, there were purchases of $50 million including: $45 million of corporate bonds and $5 million of Treasuries. The Treasury purchase was in the ten year part of the curve and the corporate purchases were mostly in the five year and shorter areas. There were $6 million of purchases of S&P 500 index units during the quarter.

The portfolio has a 49 basis point yield advantage over the benchmark with only a one notch lower quality rating. Client preferences include keeping the STIP balance of 1-3 percent (currently 3.0%) and limiting holdings rated lower than A3 or A- to 20 percent of fixed income (currently 18.3%).

State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 03/31/2010			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	13.66	50.54	-36.88
Agencies & Govt Related	26.69	20.97	5.72
Total Government	**40.35**	**71.51**	**-31.16**
Mortgage Backed	4.52	0.00	4.52
Asset Backed	0.00	0.00	0.00
CMBS	2.69	0.00	2.69
Securitized	**7.21**	**0.00**	**7.21**
Financial	27.13	11.19	15.94
Industrial	19.70	15.35	4.35
Utility	2.37	1.94	0.43
Total Corporates	**49.20**	**28.48**	**20.72**
Other	0.80	0.00	0.80
Cash	2.45	0.00	2.45
Total	**100.00**	**100.00**	

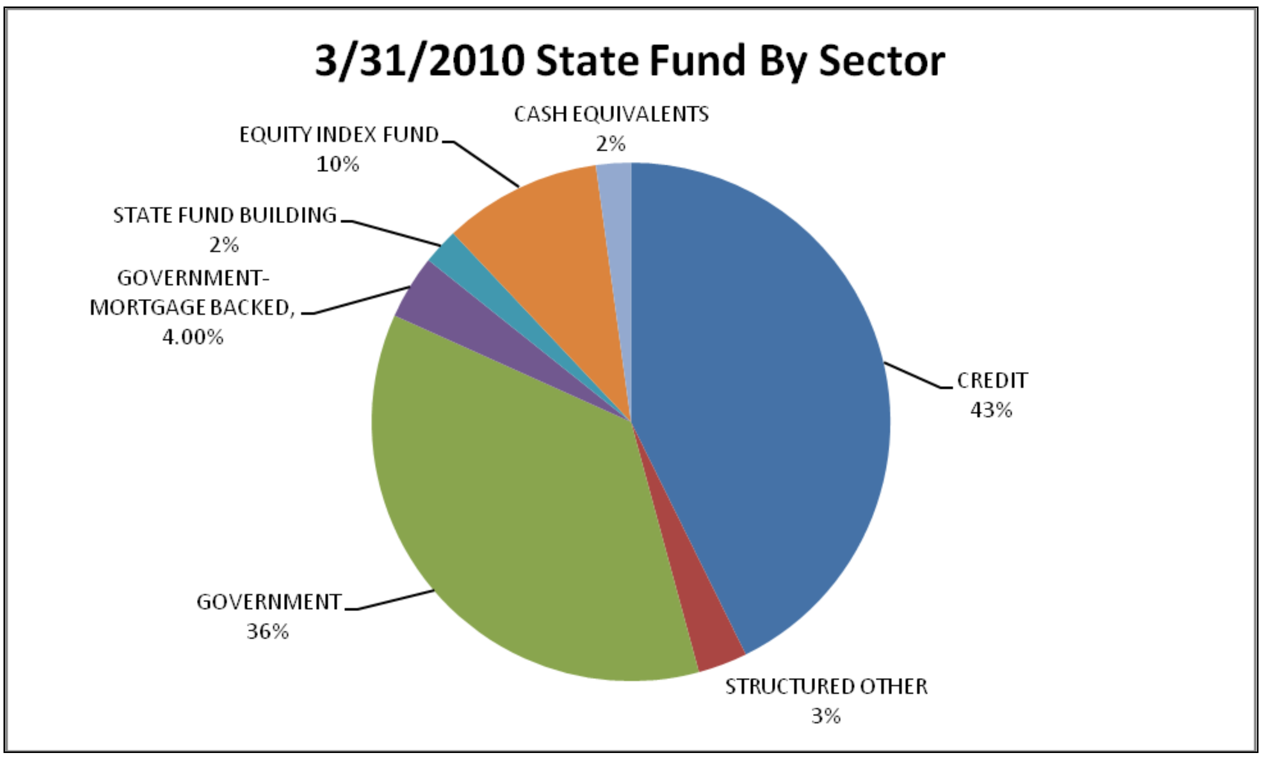
The following sector breakout is a look at the entire State Fund account including the State Fund building and the S&P 500 equity holdings. The policy range for equities is currently 8%-12%. This is a client preference as the maximum allowed by statute is 25% of book value. We have been adding to equity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

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

3/31/2010 State Fund By Sector

Sector	Market Value	%
BANKS	*81,334,806*	*7.15%*
COMMUNICATIONS	*24,194,185*	*2.13%*
ENERGY	*30,382,264*	*2.67%*
GAS/PIPELINES	*5,850,402*	*0.51%*
INSURANCE	*46,896,438*	*4.12%*
OTHER FINANCE	*143,079,870*	*12.57%*
RETAIL	*5,367,715*	*0.47%*
TRANSPORTATION	*41,696,821*	*3.66%*
UTILITIES	*27,464,300*	*2.41%*

INDUSTRIAL	*79,614,476*	*7.00%*
CREDIT	**485,881,276**	**42.70%**
CDO	*7,900,000*	*0.69%*
CMBS	*27,082,636*	*2.38%*
STRUCTURED OTHER	**34,982,636**	**3.07%**
TITLE XI	*8,332,278*	*0.73%*
TREASURY NOTES/BONDS	*137,013,251*	*12.04%*
AGENCY	*263,739,033*	*23.18%*
GOVERNMENT	**409,084,562**	**35.95%**
FHLMC	*23,616,298*	*2.08%*
FNMA	*21,891,296*	*1.92%*
GOVERNMENT-MORTGAGE BACKED	**45,507,594**	**4.00%**
TOTAL FIXED INCOME	**975,456,068**	**85.73%**
REAL ESTATE	*25,512,033*	*2.24%*
STATE FUND BUILDING	**25,512,033**	**2.24%**
EQUITY INDEX FUND	**112,158,830**	**9.86%**
CASH EQUIVALENTS	**24,703,096**	**2.17%**
GRAND TOTAL	**1,137,830,026**	**100.00%**



MONTANA BOARD OF INVESTMENTS

SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending March 31, 2010

STATE STREET.

	MKT VAL $(000)	ALLOC	MONTH	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
STATE FUND INSURANCE											
TOTAL	1,147,772	100.0	0.92	2.82	9.88	15.78	5.34	5.40	6.16	6.11	12/01/1993
CASH EQUIVALENTS	24,708	2.2	0.02	0.06	0.25	0.45	4.08	4.28	3.65	4.37	
EQUITIES	112,159	9.8	6.04	5.45	29.28	49.90	-3.51	2.35		0.44	01/01/2001
FIXED INCOME	1,010,905	88.1	0.40	2.58	8.44	13.51	6.23	5.62	6.62	6.39	
STATE FUND INSURANCE CUSTOM COMPO			0.31	1.89	6.92	9.76	3.72	4.20			
CITIGROUP 3 MONTH T-BILL			0.01	0.02	0.08	0.13	1.80	2.77	2.70		
S&P 500			6.03	5.39	29.19	49.77	-4.17	1.92	-0.65		
BC GOV/CREDIT INTERMEDIATE			-0.28	1.54	5.17	6.92	5.88	5.16	5.93		

Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

May 4, 2010

The fund totaled $638 million as of March 31, 2010, 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 first quarter. Current securities holdings total $70 million. The investment policy for the fund limits security holdings to 50% of the projected General Fund FYE balance of the current period. The latest estimated balance is $248 million.

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS

March 31, 2010

(in millions)

	Par	Book	Market	Price	Name	Coupon %	Maturity	Rating M/S&P	Comments
A	$5.000	$5.000	$5.000	$100.00	International Lease Finance	5.125	11/01/10	B1/BB+	Poor liquidity and weak operating results are no longer offset by strong support from the parent (AIG)
	$2.000	$2.000	$1.997	$99.85	Wilmington Trust Corp	8.500	04/02/18	BA1/BB-	A subordinate note of the Baa3/BB+ parent; experienced stress from increased nonperforming assets and exposure to commercial real estate
	$5.000	$5.000	$5.000	$100.00	American General Fin. Corp.	4.875	05/15/10	B2/B	Poor liquidity and weak operating results are no longer offset by strong support from the parent (AIG)
	$13.200	$13.178	$12.573	$95.25	American General Fin. Corp.	5.900	09/15/12	B2/BB+	Sold 4/16/10 at $95.75
	$5.000	$5.006	$4.963	$99.25	Continental Airlines	6.563	02/15/12	Ba1/BB	Insured 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	$7.961	$7.320	$91.50	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	$50.480	$100.96	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	$2.300	$23.00	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	$5.000	$0.978	$1.138	$22.75	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	$168.200	$133.622	$109.270						

A = Additions since 12/31/2009

D = Deletions since 12/31/09 - None

In default

	Par	Book	Market	Price	Name	Coupon %	Maturity	Rating M/S&P	Comments
	$10.000	$2.000	$2.300	$23.00	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	$5.000	$0.978	$1.138	$22.75	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	$15.000	$2.978	$3.438						

Return to Meeting Agenda

Bond Program

INTERCAP Loan Program
Activity Summary
As of March 31, 2010

Since Inception 1987 - March 2010

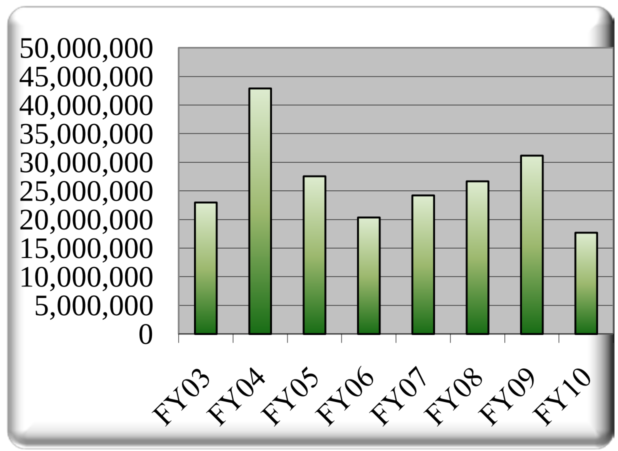
Total Bonds Issued	**136,000,000**
Total Loan Commitments	**347,788,911**
Total Loans Funded	**320,271,851**
Total Bonds Outstanding	**96,075,000**
Total Loans Outstanding	**79,696,486**
Loan Commitments Pending	**27,517,060**

FY2010 To Date

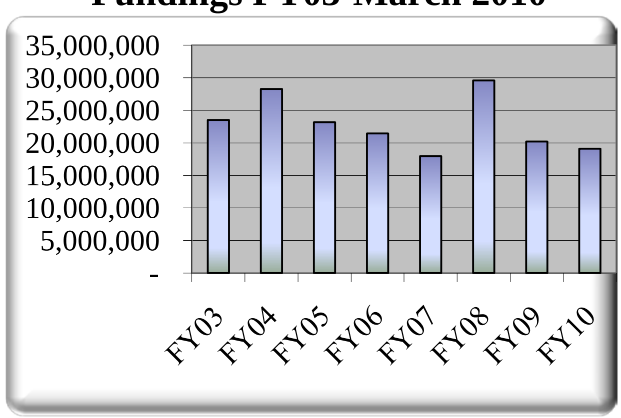
Month	Commitments	Fundings
July-09	$ 425,000	$ 874,505
August	3,750,764	2,813,883
September	1,191,647	2,942,949
October	1,940,475	4,274,125
November	2,831,000	1,692,801
December	3,083,057	2,527,716
January	3,176,950	1,333,090
February	1,015,000	716,305
March	280,000	1,936,704
April		
May		
June-10		
To Date	$ 17,693,893	$ 19,112,078

Note: Commitments include withdrawn and expired loans.

Commitments FY03-March 2010



Fundings FY03-March 2010



Variable Loan Rate History February 16, 2003 - February 15, 2011

February 16, 2003 - February 15, 2004	**2.85%**	February 16, 2007 - February 15, 2008	**4.85%**
February 16, 2004 - February 15, 2005	**2.70%**	February 16, 2008 - February 15, 2009	**4.25%**
February 16, 2005 - February 15, 2006	**3.80%**	February 16, 2009 - February 15, 2010	**3.25%**
February 16, 2006 - February 15, 2007	**4.75%**	February 16, 2010 - February 15, 2011	**1.95%**

MEMORANDUM

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

To: Members of the Board

From: Louise Welsh, Bond Program Officer

Date: May 19, 2010

Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – January 1, 2010 through March 31, 2010.

Borrower:	City of Havre
Purpose:	Purchase an asphalt reclaiming machine
Staff Approval Date	January 22, 2010
Board Loan Amount:	$86,950
Other Funding Sources:	$ 0
Total Project Cost:	$86,950
Term:	10 years

Borrower:	Sweet Grass County
Purpose:	Purchase road equipment [motor grader, skid steer, & mower]
Staff Approval Date	February 1, 2010
Board Loan Amount:	$200,000
Other Funding Sources:	$ 1,895
Total Project Cost:	$201,895
Term:	5 years

Borrower:	Town of Sheridan
Purpose:	Interim financing in anticipation of USDA Rural Development loan for wastewater system improvements
Staff Approval Date	February 3, 2010
Board Loan Amount:	$815,000
Other Funding Sources:	$102,000
Total Project Cost:	$917,000
Term:	2 years

Borrower:	Town of Twin Bridges
Purpose:	Engineering services for water & wastewater meter installation project
Staff Approval Date	March 15, 2010
Board Loan Amount:	$130,000
Other Funding Sources:	$ 0
Total Project Cost:	$130,000
Term:	6 years

MONTANA UNIVERSITY SYSTEM

Borrower:	University of Montana - Missoula
Purpose:	Addition to Building 24 for bus storage
Staff Approval Date	January 5, 2010
Board Loan Amount:	$350,000
Other Funding Sources:	$100,000
Total Project Cost:	$450,000
Term:	10 years

Borrower:	Montana State University - Billings
Purpose:	Replace indoor tennis air supported membrane
Staff Approval Date	March 30, 2010
Board Loan Amount:	$150,000
Other Funding Sources:	$ 50,000
Total Project Cost:	$200,000
Term:	6 years

MEMORANDUM

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

To: Members of the Board

From: Louise Welsh, Bond Program Officer

Date: May 19, 2010

Subject: INTERCAP Loan Committee E-mail Approved Loans Committed

Loan Committee (LC) approved the following loans – February 11, 2010 through May 19, 2010.

Borrower:	Gallatin County/Gallatin County Solid Waste District
Purpose:	Purchase 694.56 acres located in Logan, MT for future expansion
LC Approval Date:	April 26, 2010
Board Loan Amount:	$1,250,000
Other Funding Sources:	$ 400,000
Total Project Cost :	$1,650,000
Term:	10 years

Borrower:	MSU-Bozeman
Purpose:	Cooley Microbiological Laboratories building renovations
LC Approval Date:	May 5, 2010
Board Loan Amount:	$ 1,300,000
Other Funding Sources:	$15,700,000
Total Project Cost :	$17,000,000
Term:	5 years