

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

**University of Montana
Missoula, Montana**

November 30 and December 1, 2010

AGENDA – DAY 1

- | | | |
|----------------|---|--|
| Tab 1 | CALL TO ORDER <ul style="list-style-type: none">A. Roll CallB. John Engen, Mayor, City of MissoulaC. Approval of the August 11 and 12, 2010 Board Meeting MinutesD. Administrative Business<ul style="list-style-type: none">1. Human Resource Committee Report2. Audit Committee Report3. Loan Committee ReportE. Public Comment - <i>Public Comment on issues within Board Jurisdiction</i> | 12:30 p.m. |
| Tab 2 | EXECUTIVE DIRECTOR REPORTS – Carroll South <ul style="list-style-type: none">A. Legislation Update - InformationalB. Investment Manager Update/Status – InformationalC. Pension Fund Status Update – Informational Hand OutD. Pension Funds Investment Policy Statement – Board ActionE. Resolution No. 217 Update - Informational | 1:00 p.m. |
| Handout | QUARTERLY PERFORMANCE REPORTS <ul style="list-style-type: none">A. Pension Funds and Investment Pools – R.V. Kuhns & Associates BREAK – 15 min. | 2:00 p.m. 3:00 p.m. |
| Tab 3 | INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO <ul style="list-style-type: none">A. Retirement System Asset Allocation ReportB. Comparison to State Street Public Fund UniverseC. Public Asset Pool Reviews<ul style="list-style-type: none">1. Domestic Equity (MDEP)<ul style="list-style-type: none">i. Manager Transition Summary2. International Equity (MTIP)3. Manager Watch List4. Fixed Income<ul style="list-style-type: none">i. Short Term (STIP) and Other Fixed Income Portfolios<ul style="list-style-type: none">• Historical Society Investment Policy – Board Actionii. Bond Pools (RFBP and TFIP)iii. Below Investment Grade Holdings Report | 3:15 p.m. |
| | ADJOURNMENT | 4:30 p.m. |

The Board of Investments makes reasonable accommodations for any known disability that may interfere with a person's ability to participate in public meetings. Persons needing an accommodation must notify the Board at 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.

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

**University of Montana
Missoula, Montana**

November 30 and December 1, 2010

AGENDA – DAY 2

| | | |
|----------------------|---|-------------------|
| | RECONVENE AND CALL TO ORDER | 8:30 a.m. |
| | A. Roll Call | |
| | B. Public Comment – <i>Public Comment on issues within Board Jurisdiction</i> | |
| Tab 3, cont. | INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO | 8:45 a.m. |
| | D. Private Asset Pool Reviews | |
| | 1. Private Equity (MPEP) | |
| | i. Pacing Analysis Review | |
| | 2. Real Estate (MTRP) | |
| | 3. Partnership Focus Lists | |
| | 4. Real Estate Investment Policy – Board Action | |
| Tab 4 | MONTANA LOAN PROGRAM – Herb Kulow | 9:30 a.m. |
| | A. Commercial and Residential Portfolios Report | |
| | B. Low Income Housing Tax Credit Pool - Informational | |
| Tab 5 | BOND PROGRAM | 9:45 a.m. |
| | A. INTERCAP – Louise Welsh | |
| | 1. Activity Report | |
| | 2. Staff Approved Loans Report | |
| GUEST SPEAKER | | |
| | Dean Peggy Kuhr, School of Journalism, U of M Guest Speaker | 10:00 a.m. |
| | BREAK – 15 min. | 10:45 a.m. |
| GUEST SPEAKER | | 11:00 a.m. |
| | David Rubenstein, Co-founder and Managing Director, The Carlyle Group | |
| | Handout | |
| | ADJOURNMENT and LUNCH | 11:55 a.m. |

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**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor
Helena, Montana
August 11 & 12, 2010**

MINUTES

BOARD MEMBERS PRESENT:

Terry Moore, Chair
Eloise Cobell
Teresa Cohea
Karl Englund
Maureen Fleming
Patrick McKittrick
Jack Prothero
Jon Satre
Jim Turcotte
Senator Greg Barkus
Representative Brady Wiseman

STAFF PRESENT:

| | |
|---|---|
| Carol Ann Augustine, Board Secretary | Jon Putnam, Fixed Income Investment Analyst |
| Geri Burton, Deputy Director | John Romasko, Fixed Income Investment Analyst |
| Richard Cooley, CFA, Portfolio Manager | Nathan Sax, CFA, Portfolio Manager |
| Tim House, Investment Operations Chief | Clifford A. Sheets, CFA, Chief Investment Officer |
| Ed Kelly, Alternative Investment Analyst | Jon Shoen, CFA, Portfolio Manager |
| Teri Kolnik, Alternative Investment Analyst | Carroll South, Executive Director |
| Herb Kulow, Portfolio Manager | Steve Strong, Equity Investment Analyst |
| Gayle Moon, Accounting Fiscal Manager | Louise Welsh, Bond Program Officer |
| Rande Muffick, CFA, Portfolio Manager | Dan Zarling, CFA, Director of Research |
| Chris Phillips, Investment Staff | |

GUESTS:

Ann Benjamin, Portfolio Manager, Neuberger Berman
Eric Dole, Office of Budget and Program Planning
Becky Gratsinger, RV Kuhns and Associates
Robert I.H. Harleman, Director of Client Relations, Alliance Bernstein
Morgan C. Harting, CFA, Senior Portfolio Manager, Alliance Bernstein
Mark Higgins, RV Kuhns and Associates
Gordon Hoven, Piper Jaffray & Co.
Christine Hultin-Brus, Office of Budget and Program Planning
Chuck Johnson, Lee Newspapers
Dave Senn, Teachers' Retirement

CALL TO ORDER

Chairman Terry Moore called the regular meeting of the Board of Investments (Board) to order at 12:33 p.m. in the third floor conference room at 2401 Colonial Drive, Helena, Montana. As noted above, the meeting convened with all members of the Board present. Legislative Liaisons Senator Greg Barkus and Representative Brady Wiseman were also in attendance.

Member Karl Englund made a Motion to approve the May 18 and 19, 2010 Minutes; Member Jon Satre seconded the Motion. Member Patrick McKittrick abstained as he was not present at the May Board meeting. The Motion was carried 9-0.

ADMINISTRATIVE BUSINESS

Human Resources Committee Report

The HR Committee did not meet during the report period.

Audit Committee Report

Member Jim Turcotte, Audit Committee Chair, reported on the fiscal year 2010 report prepared by Galusha, Higgins and Galusha. The report contained no major issues; only minor recommendations. The Audit Committee directed staff to proceed to issue a request for proposal for future internal control review services.

Member Turcotte also reported on the June 23, 2010 Audit Committee conference call. At that time the Committee agreed to apply for co-lead plaintiff status in pending securities litigation against Goldman Sachs.

A Motion was made by Member Jim Turcotte and seconded by Member Maureen Fleming to approve the Audit Committee report. The Motion was carried 9-0.

Public Comment

Chairman Terry Moore called for public comment on Board issues. There was no public comment.

Member Maureen Fleming reported on the Adams Street Conference which she and Ed Kelly attended in Chicago. She also brought conference materials to share with the Board. Mr. Kelly said he saw improvement in the returns of the direct team and found them to be more late-stage focused in the venture capital world.

Chairman Moore urged Board Members to report on conferences that they might attend in the future.

EXECUTIVE DIRECTOR'S REPORT

State Administration and Veteran's Affair Committee Activity Update

Mr. Carroll South reported that the State Administration and Veteran's Affair (SAVA) Committee is considering a cash balance plan to replace the Teachers' Retirement System pension defined benefit plan. This would still provide employees a lifelong benefit but the State would no longer assume all the risk. Employee contributions currently have no affect on retirement benefits; the new plan would provide for employee contributions and interest paid to be factors in benefit calculations. The long term goal is a 7 percent return during the employee's career. Mr. South stated that the new plan would be for new employees only and would not reduce the current unfunded liability. The SAVA Committee has meetings scheduled in August and September; more information will be available for the next Board Meeting.

Real Asset Investment Overview – R.V. Kuhns & Associates

Mr. Mark Higgins and Ms. Rebecca Gratsinger shared the results of two projects. The first project entailed a review of real assets and their recommended role in an upcoming asset/liability study; the second was a proposal to establish a Board Member education policy, which is discussed later in the Board agenda.

Mr. Higgins reviewed real assets, which included an analysis of Timberland, Commodities and Inflation-Linked Bonds. Mr. Higgins and Ms. Gratsinger discussed pros and cons of each sub-asset class, relative diversification benefits, relationships to inflation, and the different types of investment vehicles within each asset class. Following R.V. Kuhns & Associates' (RVK) presentation, Mr. Carroll South presented staff's position on how real assets should be incorporated into the portfolio.

Asset Allocation

Mr. Carroll South and Mr. Clifford Sheets provided the Board with an update regarding asset allocation. The following recommendations were presented:

1. Asset Class Allocations - Staff recommends that a specific allocation for an "Inflation Hedge Composite" not be created and that any new retirement fund investments be held in one of the six existing investment pools.
2. Treasury Inflation-Protected Securities (TIPS) – Staff recommends that, at their discretion, TIPS may be purchased opportunistically and held in the Retirement Fund Bond Pool.
3. Timberland – Staff recommends that Timberland be an authorized investment to be made opportunistically over time and held in the Real Estate Pool where it will provide additional diversification. Staff recommends that the maximum allocation to the Real Estate Pool be increased from 8.0 percent to 10.0 percent to accommodate potential timberland investments.
4. Commodities – Staff recommends that an allocation not be made to commodities.

A Motion was made by Member Maureen Fleming and seconded by Member Teresa Cohea to accept the asset allocation recommendations. Discussion followed. Representative Brady Wiseman commented on his experience with commodities and that they can be highly responsive to inflation, adding that he is concerned we may be entering a high inflation period. By virtue of this decision he did not want to see commodities forever removed from the investment options available to deal with a high inflation environment. Mr. Sheets acknowledged that commodities can be highly volatile, but to use them to advantage in responding to high inflation requires good timing since volatility cuts both ways. He went on to discuss this current decision as one that addresses the infrastructure of the pension plans and the question of holding a long term position in commodities, not using it as an opportunistic temporary holding where timing can be problematic. It was in this context that the staff based its recommendation not to include commodities in the asset mix. Chairman Moore added that today's decision could always be re-addressed in the future by the Board if circumstances change. The Motion was carried 9-0.

Asset/Liability Study

Mr. Carroll South reported that staff recommends that the Board's consultant be commissioned to conduct an Asset/Liability Study of the Teachers' Retirement System. The new study would include only the asset classes to which the Board is willing to allocate retirement fund assets. Mr. South suggested that the Asset/Liability Study could be presented to the Board at a special meeting in December.

Discussion followed regarding the validity of the current study and the proper timing for conducting a new one. A Motion was made by Member Jim Turcotte to postpone the Asset/Liability Study until Spring; Member Maureen Fleming seconded the Motion. The Motion did not carry.

A Motion was made by Member Jon Satre to proceed with the Asset/Liability Study; Member Teresa Cohea seconded the Motion. During discussion, Mr. South stressed that the study would be for the Board rather than for the Legislature. The Motion was carried 6-3.

QUARTERLY PERFORMANCE REPORTS

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

Pension Funds and Investment Pools

Ms. Becky Gratsinger presented a review of the capital markets and a high level overview of portfolio performance. Key observations were the overall decline in portfolio value, driven mainly by the equity portfolios. While performance lagged the benchmark, the vast majority of this was attributed to private equity, which is benchmarked against the S&P 1500 Completion Index and is expected to deviate from the Private Equity Pool over short time horizons. Ms. Gratsinger also highlighted that trailing performance for the portfolio was above median (48th percentile) over the trailing six months for the first time in several years.

EXTERNAL MANAGER PRESENTATION

Neuberger Berman

Mr. Nathan Sax introduced Ms. Ann Benjamin, Portfolio Manager, who reviewed her firm and management style. Neuberger Berman is a private, independent employee-controlled asset management firm that manages high yield fixed income funds.

INVESTMENT ACTIVITIES/REPORTS

Retirement System Asset Allocation Report

Mr. Clifford Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending June 30, 2010. Mr. Sheets reported that overall pension assets were down \$372 million for the quarter, a 5.4 percent decline as a result of weak public equity markets. The decline in public stock prices resulted in a decline in total equities from 67.0 percent to 63.5 percent; this represents only a .2 percent change over last year. The bond market showed positive performance and strong returns for the quarter. Mr. Sheets said the real estate allocation increased slightly to 5.4 percent in spite of declining market values; an additional \$40M was invested into the pool. The fixed income allocation rose 2.1 percent reflecting strong quarterly performance.

Fixed Income

Mr. Nathan Sax presented the Fixed Income Overview and Strategy for the Retirement and Trust Funds Bond Pools.

ADJOURNED

The meeting adjourned for the day at 4:47 p.m.

CALL TO ORDER – Day 2 **August 12, 2010**

The meeting was reconvened Thursday, August 12, 2010 at 8:30 a.m. with all members of the Board present. Legislative Liaisons Senator Greg Barkus and Representative Brady Wiseman were also in attendance.

November-December 2010 Board Meeting

The November 30-December 1, 2010 Board meeting will be held at the University of Montana in Missoula. The following Board meeting will be February 8 and 9, 2011 in Helena, Montana.

INVESTMENT ACTIVITY/REPORTS continued

Fixed Income continued

Mr. Richard Cooley presented the Short-Term Investment Pool, State Fund Insurance and Treasurer’s Fund portfolio reports.

Mr. Clifford Sheets presented the Below Investment Grade Fixed Income Holdings report.

Domestic Equity (MDEP)

Mr. Rande Muffick presented the Montana Domestic Equity Pool Report as of June 30, 2010 and a summary of recent market trends.

International Equity (MTIP)

Mr. Rande Muffick presented the Montana International Equity Pool Report for the period ending June 30, 2010 and discussed market trends during the quarter.

Public Equity External Managers Watch List

Mr. Rande Muffick and Mr. Mark Higgins provided a joint review of manager performance. Mr. Muffick and Mr. Higgins focused on managers placed on staff’s Watch List. During the quarter, there was one manager added to the list, Renaissance Investment Management. There were no removals from the Watch List and there were no terminations. The new list is shown below.

| <u>Manager</u> | <u>Style Bucket</u> | <u>Reason</u> | <u>Inclusion Date</u> |
|-----------------------|---------------------------|-----------------------------|-----------------------|
| Western Asset | Domestic - LC Enhanced | Performance, Tracking Error | March 2008 |
| NorthPointe | Domestic- SC Growth | Performance | August 2008 |
| Acadian | International - LC Value | Performance, Process | February 2009 |
| Martin Currie | International - LC Growth | Performance, Risk Controls | February 2009 |
| Batterymarch | International - LC Core | Performance, Process | May 2009 |
| 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 |
| Renaissance Inv. Mgt. | Domestic – LC Growth | Performance, Process | August 2010 |

Private Equity (MPEP)

Mr. Jon Shoen reviewed the following Private Edge reports: quarterly cash flow; total exposure by strategy; market value exposure by industry; total exposure by geography; total exposure by investment vehicle; periodic return comparison and LPs by family of funds. One new fund commitment was made since the May 2010 Board Meeting.

| <u>Fund Name</u> | <u>Vintage</u> | <u>Subclass</u> | <u>Sector</u> | <u>Amount</u> | <u>Date</u> |
|------------------------------|----------------|-----------------|---------------|---------------|-------------|
| Veritas Capital Fund, IV, LP | 2010 | Buyout | Diverse | \$25M | 4/13/10 |
| Total New Commitments | | | | \$25M | |

Real Estate (MTRP)

Mr. Jon Shoen reviewed the following Private Edge reports: quarterly cash flow; total exposure by strategy; market value exposure by property type; total exposure by geography; time weighted and internal rates of return; and the portfolio status report. There were four new fund commitments made since the May 2010 Board Meeting.

| <u>Fund Name</u> | <u>Pool</u> | <u>Subclass</u> | <u>Sector</u> | <u>Amount</u> | <u>Date Funded (Core) or Date of Decision</u> |
|---|-------------|-----------------|---------------|---------------|---|
| American Core Realty Fund, LLC | TFIP | Core | Diverse | \$10 M | 7/1/10 |
| TIAA-CREF Asset Management Core Property Fund, LP | TFIP | Core | Diverse | \$10 M | 8/1/10 |
| UBS Trumbull Property Fund | MTRP | Core | Diverse | \$20 M | 7/1/10 |
| GEM Realty Fund IV, LP | MTRP | Opportunistic | Diverse | \$15 M | 6/1/10 |
| Total New Commitments | | | | \$55M | |

MPEP Investment Policy Statement

Mr. Jon Shoen presented recommended revisions to the Montana Private Equity Pool (MPEP) Investment Policy Statement (IPS). The material elements of the proposed revisions are:

1. The insertion of language defining what types of investments are eligible to be held in MPEP; and
2. Revisions to strategy policy ranges and the implementation of concentration limits on individual partnerships and managers.

A Motion was made by Member Maureen Fleming and seconded by Member Elouise Cobell to accept the recommended revisions to the MPEP IPS. The Motion was carried 9-0.

Upper Blackfoot Response Action and Restoration Fund - Investment Policy Statement

Mr. Clifford Sheets presented a new Investment Policy Statement for the Upper Blackfoot Response Action and Restoration Fund (the “Fund”). The Fund was created to provide funding of response and restoration actions at the Upper Blackfoot Mining Complex.

A Motion was made by Member Karl Englund and seconded by Member James Turcotte to accept the Investment Policy Statement as presented. The Motion was carried 9-0.

EXTERNAL MANAGER PRESENTATION

Alliance Bernstein

Mr. Rande Muffick introduced Mr. Robert I.H. Harleman, Director of Client Relations and Morgan C. Harting, CFA, Senior Portfolio Manager, Value Equities. Mr. Harleman and Mr. Harting reviewed their firm and management style. Alliance Bernstein is an international large cap value equity manager.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

Mr. Herb Kulow reported on the status of the commercial and residential loan programs as of June 30, 2010. The commercial loan portfolio totaled \$183,828,052 with a yield of 5.53 percent. There were no commercial loans past more than 90 days and only one loan past due less than 90 days. The

residential loan portfolio totaled \$25,862,973, with a yield of 6.64 percent. There were six loans past due totaling \$548,513 of which five were guaranteed totaling \$387,924.

Loan Committee Report

Member Jack Prothero reported that the Loan Committee reviewed and approved one Montana Loan Program loan request by email since the May Board Meeting. The Loan Committee authorized staff to proceed with processing and closing this loan using the Board’s standard Loan Program procedures.

| | |
|--------------------|--|
| Borrower: | Grant Creek, LLC, d.b.a. Holiday Inn Express, Missoula |
| Type of Loan | Participation Loan |
| Lender: | First Interstate Bank, Missoula |
| Purpose: | Permanent financing of an 82-room Holiday Inn Express motel to be constructed in Missoula, Montana by May of 2011. |
| LC Approval Date: | June 28, 2010 |
| Board Loan Amount: | \$2,106,599 |
| Term: | 20 Years |

BOND PROGRAM

Activity Report

Ms. Louise Welsh presented the INTERCAP report for the period ending June 30, 2010. Year to date commitments totaled \$25,405,633 with \$23,977,821 funded. Total loans outstanding are \$79,423,267; bonds outstanding are \$96,075,000. The current 1.95 percent interest rate is an incentive to borrowers.

Staff Approved Loans Report

The Board reviewed this report for the period of April 1 through June 30, 2010:

| | |
|------------------------|---|
| Borrower: | Town of Twin Bridges |
| Purpose: | Interim loan in anticipation of USDA RD long term financing for wastewater improvements |
| Staff Approval Date: | April 1, 2010 |
| Board Loan Amount: | \$1,000,000 |
| Other Funding Sources: | \$3,122,100 |
| Total Project Cost: | \$4,122,100 |
| Term: | 2 years |

| | |
|------------------------|--------------------|
| Borrower: | City of Boulder |
| Purpose: | Wastewater project |
| Staff Approval Date: | April 6, 2010 |
| Board Loan Amount: | \$ 50,000 |
| Other Funding Sources: | \$141,728 |
| Total Project Cost: | \$191,728 |
| Term: | 10 years |

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|-----------|--|
| Borrower: | Prairie County Hospital District (Terry) |
| Purpose: | Replace hospital and clinic roofs |

| | |
|------------------------|----------------|
| Staff Approval Date: | April 15, 2010 |
| Board Loan Amount: | \$180,000 |
| Other Funding Sources: | N/A |
| Total Project Cost: | \$180,000 |
| Term: | 15 years |

| | |
|------------------------|--|
| Borrower: | Ravalli County |
| Purpose: | Purchase building for County Search & Rescue |
| Staff Approval Date: | April 23, 2010 |
| Board Loan Amount: | \$425,000 |
| Other Funding Sources: | \$175,000 |
| Total Project Cost: | \$600,000 |
| Term: | 10 years |

| | |
|------------------------|--|
| Borrower: | Culbertson Elementary School District |
| Purpose: | School remodel, repave parking lot, & replace kitchen equip. |
| Staff Approval Date: | April 29, 2010 |
| Board Loan Amount: | \$800,000 |
| Other Funding Sources: | N/A |
| Total Project Cost: | \$800,000 |
| Term: | 10 years |

| | |
|------------------------|---|
| Borrower: | Canyon Creek School District (Billings) |
| Purpose: | Parking lot project |
| Staff Approval Date: | May 10, 2010 |
| Board Loan Amount: | \$ 70,000 |
| Other Funding Sources: | \$ 97,970 |
| Total Project Cost: | \$167,970 |
| Term: | 10 years |

| | |
|------------------------|--|
| Borrower: | City of Great Falls |
| Purpose: | Public Works building addition and remodel |
| Staff Approval Date: | May 12, 2010 |
| Board Loan Amount: | \$ 600,000 |
| Other Funding Sources: | \$ 467,270 |
| Total Project Cost: | \$1,067,270 |
| Term: | 10 years |

| | |
|------------------------|--|
| Borrower: | City of Sidney |
| Purpose: | Replace water treatment plant greensand pressure filters |
| Staff Approval Date: | May 26, 2010 |
| Board Loan Amount: | \$1,000,000 |
| Other Funding Sources: | \$ 200,000 |
| Total Project Cost: | \$1,200,000 |
| Term: | 15 years |

| | |
|------------------------|--------------------------------------|
| Borrower: | Valier School District |
| Purpose: | Swimming pool rehabilitation project |
| Staff Approval Date | May 26, 2010 |
| Board Loan Amount: | \$300,000 |
| Other Funding Sources: | N/A |
| Total Project Cost: | \$300,000 |
| Term: | 10 years |

| | |
|------------------------|------------------------|
| Borrower: | Custer County |
| Purpose: | Bridge/culvert project |
| Staff Approval Date | June 10, 2010 |
| Board Loan Amount: | \$250,000 |
| Other Funding Sources: | \$202,200 |
| Total Project Cost: | \$452,200 |
| Term: | 10 years |

| | |
|------------------------|---|
| Borrower: | Town of Whitehall |
| Purpose: | Assume debt to acquire sole ownership of municipal pool |
| Staff Approval Date: | June 11, 2010 |
| Board Loan Amount: | \$99,894 |
| Other Funding Sources: | N/A |
| Total Project Cost: | \$99,894 |
| Term: | 10 years |

| | |
|------------------------|---|
| Borrower: | Shelby High School District |
| Purpose: | Renovate football field and track complex |
| Staff Approval Date: | June 11, 2010 |
| Board Loan Amount: | \$100,000 |
| Other Funding Sources: | N/A |
| Total Project Cost: | \$100,000 |
| Term: | 10 years |

| | |
|------------------------|---|
| Borrower: | City of Thompson Falls |
| Purpose: | Purchase computer server & emergency backup generator |
| Staff Approval Date: | June 11, 2010 |
| Board Loan Amount: | \$78,563 |
| Other Funding Sources: | N/A |
| Total Project Cost: | \$78,563 |
| Term: | 5 years |

| | |
|------------------------|--|
| Borrower: | Flathead Valley Community College (Kalispell) |
| Purpose: | Purchase 7.52 acres w/home, garage, & tennis court |
| Staff Approval Date: | June 14, 2010 |
| Board Loan Amount: | \$495,000 |
| Other Funding Sources: | \$195,000 |

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|---------------------|-----------|
| Total Project Cost: | \$690,000 |
| Term: | 10 years |

| | |
|------------------------|--|
| Borrower: | Carter Chouteau County Water & Sewer District (Carter) |
| Purpose: | Preliminary engineering report |
| Staff Approval Date: | June 23, 2010 |
| Board Loan Amount: | \$ 7,500 |
| Other Funding Sources: | \$ 7,500 |
| Total Project Cost: | \$15,000 |
| Term: | 3 years |

| | |
|------------------------|----------------------------------|
| Borrower: | Toole County |
| Purpose: | Energy retrofit county buildings |
| Staff Approval Date: | June 24, 2010 |
| Board Loan Amount: | \$ 425,000 |
| Other Funding Sources: | \$1,947,888 |
| Total Project Cost: | \$2,372,888 |
| Term: | 10 years |



MONTANA UNIVERSITY SYSTEM

| | |
|------------------------|--|
| Borrower: | MSU-Bozeman |
| Purpose: | Football video server/software upgrade |
| Staff Approval Date: | April 26, 2010 |
| Board Loan Amount: | \$80,783 |
| Other Funding Sources: | N/A |
| Total Project Cost: | \$80,783 |
| Term: | 4 years |

Annual INTERCAP Loan Detail Report

Ms. Louise Welsh presented the annual report of local government, state agency and university loans for the fiscal year 2010.

ADMINISTRATIVE BUSINESS

Board Member Education Policy – R.V. Kuhns & Associates

Mr. Mark Higgins reviewed RVK’s recommendation on the establishment of a Board Education Policy and the Board approved the recommendation to move forward. RVK proposed as a next step to create a draft Board Education Policy (using five public fund samples as models); circulate a survey to assess needs; and create a basic model for a new Board Member orientation program.

Public Comment

Chairman Terry Moore called for public comment on Board issues. There was no public comment.

Next Meeting

The next regularly scheduled meeting of the Board will be November 30 and December 1, 2010 in Missoula, Montana.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:53 a.m.

BOARD OF INVESTMENTS

APPROVE: _____
Terry Moore, Chair

ATTEST: _____
Carroll South, Executive Director

DATE: _____

MBOI:caa
10/22/10

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Executive Director Reports

MEMORANDUM

Montana Board of Investments

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

To: Board Members
From: Carroll South, Executive Director
Date: November 30, 2010
Subject: Legislation Update

As of November 18, 2010 there have been 829 requests by legislators for the Legislative Services Division to draft legislation and 29 bills pre-introduced. I have attached the draft requests that we are currently monitoring. There may be other requests that impact the Board but are not reflected in the title. At this time, most of the requests are simply place holders without language in the body that would permit us to determine any Board impact. We will continue to monitor requested legislation as it is posted to the legislative web site.

| LC# | Requestor | Status | Status Date | Short Title |
|---------------|-------------------|---|--------------------|--|
| <u>LC0135</u> | Carol Williams | (C) Draft Canceled* | 10/28/2010 | Increase multiplier in retirement benefit formula over 15 yrs for judges |
| <u>LC0160</u> | SAVA Committee | (C) Draft to Requester for Review | 11/11/2010 | Revise laws related to public employees retirement system |
| <u>LC0161</u> | SAVA Committee | (C) Draft to Requester for Review | 11/11/2010 | Revise laws related to volunteer firefighters compensation |
| <u>LC0162</u> | SAVA Committee | (C) Draft in Legal Review | 11/17/2010 | Require employer contributions on working retirees in PERS, SRS, FURS |
| <u>LC0163</u> | SAVA Committee | (C) Draft Request Received | 6/29/2010 | Revise teachers' retirement system laws |
| <u>LC0251</u> | SAVA Committee | (C) Draft Request Received | 8/20/2010 | Establish two money purchase plans in TRS for new hires only |
| <u>LC0252</u> | SAVA Committee | (C) Pre-Introduction Letter Sent | 11/17/2010 | Professional retirement option for new hires into teachers' retirement system |
| <u>LC0405</u> | SAVA Committee | (C) Draft in Legal Review | 11/17/2010 | Provide benefit and funding changes to game wardens/peace officers retirement |
| <u>LC0406</u> | SAVA Committee | (C) Draft Request Received | 9/14/2010 | Provide benefit and funding changes to sheriffs retirement system |
| <u>LC0407</u> | SAVA Committee | (C) Draft to Requester for Review | 11/12/2010 | Provide for benefit and funding changes to public employees retirement system |
| <u>LC0408</u> | SAVA Committee | (C) Draft in Assembly/Executive Director Review | 11/17/2010 | Provide for actuarial funding for teachers retirement system |
| <u>LC0492</u> | Wayne Stahl | (C) Draft Request Received | 10/14/2010 | Generally revise retirement systems |
| <u>LC0494</u> | Llew Jones | (C) Draft On Hold | 10/15/2010 | Eliminate subsidy of MUS optional retirement program for certain positions |
| <u>LC0537</u> | Roy Hollandsworth | (C) Draft On Hold | 10/20/2010 | Generally revise public retirement programs |
| <u>LC0651</u> | Jesse O'Hara | (C) Draft Request Received | 11/8/2010 | Increase the university supplemental contribution rate |
| <u>LC0732</u> | Cynthia Hiner | (C) Draft Request Received | 11/15/2010 | Eliminate the subsidy of MUS optional retirement program for certain positions |
| <u>LC0768</u> | Larry Jent | (C) Draft Request Received | 11/17/2010 | Transfer statutory excess teachers' retirement funds in trust by counties to TRS |
| <u>LC0820</u> | Scott Reichner | (C) Draft Request Received | 11/18/2010 | Revise state public employee retirement system |
| <u>LC0017</u> | John Brueggeman | (C) Draft Request Received | 9/10/2009 | Revise prudent investor requirements for state investments |

MEMORANDUM

Montana Board of Investments

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

To: Board Members
From: Carroll South, Executive Director
Date: November 30, 2010
Subject: Public Equity Investment Manager Status

Attached is a table that shows the current status of active public equity managers hired by the Board. The managers are shown by domestic/international and style. The other table columns show:

- Date of hire
- Date of placement on Watch List
- Fraction of years to placement on Watch List
- Date of Termination
- Fraction of years to Termination
- Performance relative to appropriate benchmark at placement on Watch List
- Performance relative to appropriate benchmark at Termination

Although the table shows manager performance at the time of placement on the watch list or termination, there may be other factors leading to the decision. The rationale for manager placement on the watch list is presented to the Board at its quarterly meeting.

Public Equity Manager Status as of November 30, 2010

| <u>Manager Style</u> | <u>Date Hired</u> | <u>Date On Watch List</u> | <u>Time in Years</u> | <u>Date At Termination</u> | <u>Time in Years</u> | <u>Relative Performance To Benchmark At</u> | |
|--------------------------------------|-------------------|---------------------------|----------------------|----------------------------|----------------------|---|--------------------|
| | | | | | | <u>Watch List</u> | <u>Termination</u> |
| Currently Managing Assets | | | | | | | |
| Domestic 130/30 | 03/01/08 | | | | | | |
| Domestic Enhanced Index | 06/01/06 | | | | | | |
| Domestic Enhanced Index | 06/01/06 | | | | | | |
| Domestic Large Cap Growth | 09/01/07 | | | | | | |
| Domestic Large Cap Growth | 09/01/07 | | | | | | |
| Domestic Large Cap Value | 09/01/07 | | | | | | |
| Domestic Large Cap Value | 09/01/07 | | | | | | |
| Domestic Mid Cap Growth | 03/01/07 | | | | | | |
| Domestic Mid Cap Value | 03/01/07 | | | | | | |
| Domestic Small Cap Core | 03/01/03 | | | | | | |
| Domestic Small Cap Value | 03/01/07 | | | | | | |
| International Large Cap Growth | 11/01/06 | | | | | | |
| International Large Cap Value | 11/01/06 | | | | | | |
| International Small Cap Core | 11/01/04 | | | | | | |
| On Watch List Managing Assets | | | | | | | |
| Domestic 130/30 | 03/01/08 | 05/01/10 | 2.17 | | | -3.69% | |
| Domestic Enhanced Index | 06/01/06 | 03/01/08 | 1.75 | | | -7.53% | |
| International Large Cap Core | 11/01/06 | 05/01/09 | 2.50 | | | -3.78% | |
| International Large Cap Core | 10/01/06 | 11/01/10 | 4.09 | | | -0.83% | |
| International Large Cap Core | 11/01/06 | 11/01/10 | 4.00 | | | -1.96% | |
| International Large Cap Growth | 11/01/06 | 02/01/09 | 2.25 | | | -2.67% | |
| International Large Cap Value | 11/01/06 | 02/01/09 | 2.25 | | | -4.26% | |
| Terminated | | | | | | | |
| Domestic 130/30 | 03/01/08 | 02/01/10 | 1.92 | 09/13/10 | 2.54 | -3.55% | -3.36% |
| Domestic Enhanced Index | 06/01/06 | 05/01/09 | 2.92 | 09/17/09 | 3.30 | -1.63% | -1.56% |
| Domestic Large Cap Growth | 09/01/07 | 08/01/10 | 2.92 | 09/13/10 | 3.04 | -2.81% | -4.00% |
| Domestic Mid Cap Core | 03/01/07 | 02/01/10 | 2.93 | 09/13/10 | 3.54 | -2.52% | -3.24% |
| Domestic Small Cap Growth | 03/01/07 | 08/01/08 | 1.42 | 09/13/10 | 3.54 | -11.56% | -8.02% |
| International Large Cap Growth | 11/01/06 | 03/01/08 | 1.33 | 08/20/09 | 2.80 | -6.18% | -6.16% |
| International Small Cap Core | 10/01/06 | 02/01/10 | 3.34 | 04/16/10 | 3.54 | -4.24% | -4.31% |

MEMORANDUM

Montana Board of Investments

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

To: Board Members

From: Carroll South, Executive Director

Date: November 30, 2010

Subject: Retirement Fund Investment Policy Statements

Attached is the staff recommendation for a Retirement Funds Investment Policy Statement for your review and comment. Board approval of this policy will complete implementation of recommendations made by Independent Fiduciary Services (IFS), the consulting firm that conducted a thorough study of the Board's operational and investment policies and procedures.

This policy is intended to serve as a master template for all nine retirement funds until such time as individual fund objectives/liquidity requirements necessitate individual statements. The template is designed to be a web-based document with electronic links to the following:

- The Board's Governance Policy
- The Board's Governing Law and Constitutional Provisions
- The Short Term Investment Pool Investment Policy Statement
- The Retirement Funds Bond Pool Investment Policy Statement
- The Domestic Equity Pool Investment Policy Statement
- The International Equity Pool Investment Policy Statement
- The Private Equity Pool Investment Policy Statement
- The Real Estate Pool Investment Policy Statement

Recommendation: Staff recommends Board approval.

LEGAL AND CONSTITUTIONAL AUTHORITY

The Montana Constitution, Article VIII, Section 13, requires that the Legislature provide for a Unified Investment Program for public funds. Section 17-6-201, MCA established the Unified Investment Program, created the Montana Board of Investments (the “Board”) and gave the Board sole authority to invest state funds, including the public retirement plans (Plans) in accordance with state law and the state constitution. The Board finds that it is in the best interest of the state’s nine retirement Plans to set out investment policies for the Plans in one comprehensive document utilizing the same asset allocation. In the future, individual Plan requirements may vary and this common approach could change. The Board intends to keep this policy updated as it modifies or amends underlying investment related policies. **Click on the links below to view the Board’s Governing Law/Constitution and its Governance Policy.**

[Governing Law/Constitution](#)

[Governance Policy](#)

INTRODUCTION

The purpose of this policy statement is to provide a broad strategic framework for the Plans’ investments under the guidance of the Board. The Board manages the assets under the prudent expert principal (Section 17-6-201 MCA), which provides:

that the Board shall manage a portfolio

a) with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and 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.

Plan assets are commingled for investment purposes into six investment pools created by the Board. The pools are shared, that is co-mingled funds, which operate similar to mutual funds. The use of pools allows for simplified investing and accounting, broader diversification and thus less risk than would otherwise be available for the smaller Plans and provides additional opportunities for fee savings. Each investment pool has an underlying governing investment policy statement providing additional investment guidelines. Each of the nine Plans forming a part of the investment pools are separately identified for accounting and record keeping purposes. **Click on the links below to view the Investment Policy Statement for each pool.**

[Montana Domestic Equity Pool \(MDEP\)](#)

[Montana International Equity Pool \(MTIP\)](#)

[Montana Retirement Funds Bond Pool \(RFBP\)](#)

[Montana Real Estate Pool \(MTRP\)](#)

[Montana Private Equity Pool \(MPEP\)](#)

[Short-Term Investment Pool \(STIP\)](#)

Investment Objective

The Board's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Because of the long-term nature of the state's various pension liabilities, the Board maintains a long-term perspective in formulating and implementing its investment policies, and in evaluating its investment performance. Investment performance is measured by three integrated long-term return objectives:

- The *actuarial target rate of return* is the key actuarial assumption affecting future funding rates and liabilities. Investment performance that exceeds or underperforms the target rate may materially impact future funding rates and liabilities. The Board seeks to generate long term investment performance that will exceed the actuarial annual target rate of return of 7.75%, net of all investment and administrative expenses. There may be years, or a period of years, when the Plans do not achieve this goal followed by years when the goal is exceeded. But over a long period of time, the Board seeks to achieve an average net rate of return of 7.75% at risk levels (measured by expected volatility) broadly consistent with other public fund peers.
- The *investment policy benchmark* is calculated by applying the investment performance of the asset class benchmarks to the Plans' actual asset allocation during the measurement period. The investment policy benchmark represents the return that would be achieved if the Plan implemented a passively managed portfolio. Deviations from the policy benchmark measure the contribution of active investment management throughout the fund, rebalancing policy and its execution, and investment implementation generally.
- The Board also compares each Plan's total performance, before all fees, to appropriate *public plan sponsor universes*. This process permits the Board to compare its total performance to other public pension plans. While the Board seeks to rank consistently in the top half of comparable public pension plans, the Board recognizes that other plans may have investment objectives and risk tolerances that differ substantially from the Board's.

The Board expects to meet or exceed these objectives over a long-term investment horizon. Over shorter periods, the anticipated market volatility and specific actions, including risk mitigation efforts of the Board relative to other pension plans may lead to unfavorable, but expected, deviation from these objectives.

Asset Allocation

The Board, as the investment fiduciary of the Plans, is responsible for establishing the investment parameters for the Plans. The Board has the authority to allocate portfolios to any previously board-approved asset class in the proportions it considers prudent, under the prudent expert rule. There are currently no statutory or constitutional restrictions on the investment of the Plans. Asset allocation decisions made by the Board must be made in a public meeting.

The current asset allocation ranges for the Plans are attached as exhibit A. The asset allocation ranges are subject to change as modifications are adopted by the Board, at which time the attached exhibit A will be revised to reflect these changes. The Board will formally affirm or revise the asset allocation ranges for the Plans at least annually.

Rebalancing

The actual asset allocation mix may deviate from time to time from the approved asset allocation ranges due to financial market performance, cash flows, and manager performance. Material deviations from the asset allocation ranges can alter the expected return and risk of the Plans. Rebalancing the Plans' assets to remain within the Board-approved allocation ranges is delegated to the Chief Investment Officer (CIO), in consultation with the Executive Director. Any necessary rebalancing will be made in a timely manner and will take into consideration associated costs and current market conditions. In addition to maintaining actual allocations within the ranges, the CIO will also consider contractual investment commitments to private equity and real estate partnerships, the liquidity necessary to meet benefit payments and administrative costs for the Plans, and current market conditions. This may prompt asset rebalancing when asset allocations fall within the established ranges. The CIO shall inform the Board of rebalancing activity at the Board's next regularly scheduled meeting.

Exercise of Shareholder Rights

The Board recognizes that publicly traded securities and other assets of the Plans include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation. The Board will prudently manage these assets of the Plans for the exclusive purpose of enhancing the value of the Plans for its participating systems' members and beneficiaries through such means as adopting and implementing a proxy voting policy and undertaking productive, cost-effective action to exercise its rights as shareholders or claimants in litigation. The Board will participate in all class action securities litigation to which it is entitled and may, pursuant to its securities litigation policy, serve as lead or co-lead plaintiff for the benefit of the Plans. These policies are further described in the underlying investment policy statements appropriate for the respective investment pools and in the governance policy.

Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program. In addition, the Board requires that the risks assumed and the administrative resources committed to monitor those risks are commensurate with the program's income potential. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. The Board's participation in securities lending may change over time given Plan activity, market conditions and the agent agreement.

Exhibit A

| | | Pension Fund Asset Allocations | | | |
|--|---------------------|---|-----------------|---|---------------------|
| | | 70% Equities Cap | | | |
| <u>Domestic Equity Pool</u> | | | | <u>Real Estate Pool</u> | |
| <u>Investment Type</u> | <u>Range</u> | | | <u>Investment Type</u> | <u>Range</u> |
| Large Cap Core (passive) | 10% - 30% | 30% - 50% | 4% - 10% | Core/Timberland * | 35% - 65% |
| Large Cap Enhanced | 20% - 30% | | | Value Added | 20% - 45% |
| Large Cap Style-Based (long-only) | 20% - 30% | | | Opportunistic | 10% - 30% |
| Partial Long/Short (130/30) | 10% - 20% | | | * Timberland may not exceed 2% of total pension assets | |
| Total Large Cap | <u>82% - 92%</u> | | | | |
| Mid Cap | 5% - 11% | | | | |
| Small Cap | 3% - 8% | | | | |
| <u>International Equity Pool</u> | | | | <u>Private Equity Pool</u> | |
| <u>Investment Type</u> | <u>Range</u> | | | <u>Investment Type</u> | <u>Range</u> |
| Large Cap Core | 50% - 70% | 15% - 30% | 9% - 15% | Leveraged Buyouts | 40% - 75% |
| Large Cap Growth | 10% - 20% | | | Venture Capital | 10% - 50% |
| Large Cap Value | 10% - 20% | | | Mezzanine Financing | 0% - 10% |
| Small Cap Core | 5% - 15% | | | Distressed Securities | 0% - 40% |
| | | | | Special Situations | 0% - 10% |
| <u>Retirement Funds Bond Pool</u> | | | | <u>Short Term Investment Pool</u> | |
| <u>Investment Type</u> | <u>Range</u> | | | Short-term liquid investments | |
| Domestic High Yield | 0% - 15% | 22% - 32% | 1% - 5% | Investment Grade Securities | |
| International | 0% - 10% | | | 24 Hour Liquidity for Participants | |
| Total High Yield/International | <u>0% - 20%</u> | | | | |
| Domestic Core(investment grade) | 80% - 100% | | | | |

All nine Public Retirement Plans* currently share the same asset allocation ranges but this may change in the future as conditions and liquidity requirements for each of the individual plans change.

*The two largest Plans have legacy holdings of Montana Residential Mortgages/Real Property that are not included in the above table.

Nine Public Retirement Plans

Public Employees Retirement System*
Teachers Retirement System*
Police Officers Retirement
Firefighters Retirement
Sheriffs Retirement

Highway Patrol Retirement
Game Wardens Retirement
Judges Retirement
Volunteer Firefighters Retirement

MEMORANDUM

Montana Board of Investments

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

To: Board Members
From: Carroll South, Executive Director
Date: November 30, 2010
Subject: Resolution 217 Update

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

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

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

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

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

For the time period of November 2009 – November 2010 the following changes were made to Resolution No. 217, Appendix A:

Broker/Dealer (Fixed Income/STIP) - Brokers added:

- Piper Jaffray & Co.
- State Street Global Markets

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

- Buchanan Capital
- Lazard Capital
- State Street Global Markets
- UBS Financial Service

Public Equity Brokers – Brokers added:

- State Street Global Markets
- Citigroup Capital Markets, Inc.

Public Equity Managers – Managers no longer used by staff and removed from Appendix A:

- AXA Rosenberg Investment Management, LLC
- Martingale Asset Management, LP
- Martingale Asset Management, LP
- NorthPointe Capital, LLC
- Renaissance Group, LLC

Private Equity Managers – Investment Managers added:

- Opus Capital Group, LLC
- EIF Management, LLC
- Axiom Asia Private Capital
- CIVC Fund IV, LP
- Black Diamond Capital Management, LLC
- Veritas Capital Management, LLC
- Thayer Hidden Creek Management, LP

Private Real Estate Managers – Investment Managers added:

- American Realty Advisors
- UBS Global Asset Management
- GEM Realty Capital, Inc.

RESOLUTION 217 - APPENDIX A - UPDATED 7/19/10

PAGE 1

Broker/Dealer (Public Securities)

Designated/Authorized MBOI Staff (STIP/Fixed Income)

| | <u>Name & Title</u> | | <u>Email</u> | <u>Phone</u> |
|------|--|--------|--|---------------------|
| MBOI | Clifford A. Sheets, Chief Investment Officer | Nov-07 | csheets@mt.gov | 406/444-0058 |
| MBOI | Nathan Sax, Portfolio Manager | May-08 | nsax@mt.gov | 406/444-0049 |
| MBOI | Richard Cooley, Portfolio Manager | Nov-07 | rcooley@mt.gov | 406/444-1213 |
| MBOI | John Romasko, Investment Analyst | Nov-07 | jromasko@mt.gov | 406/444-0258 |
| MBOI | Jon Putnam, Investment Analyst | Nov-07 | jputnam@mt.gov | 406/444-0568 |
| MBOI | Geri Burton, Deputy Director | Nov-07 | gburton@mt.gov | 406/444-1365 |

Approved Fixed Income Brokers

| | | | | |
|-----|-------------------------------|--------|--|--|
| B/D | Barclays Capital, Inc. | Apr-09 | | |
| B/D | Bank of America | Aug-09 | | |
| B/D | Buchanan Capital | Jun-08 | | |
| B/D | Cantor Fitzgerald | Apr-09 | | |
| B/D | Citigroup Global Markets | May-08 | | |
| B/D | Credit Suisse (CSFB) | Apr-09 | | |
| B/D | D.A. Davidson & Co. | Jun-08 | | |
| B/D | FTN Financial | Jun-08 | | |
| B/D | Goldman Sachs & Co. | May-08 | | |
| B/D | Jefferies & Co., Inc. | Jun-08 | | |
| B/D | J.P. Morgan Securities, Inc. | May-08 | | |
| B/D | KeyBanc Capital Markets | May-08 | | |
| B/D | Lazard Capital | Jun-08 | | |
| B/D | Morgan Keegan | Aug-08 | | |
| B/D | Morgan Stanley | May-08 | | |
| B/D | Piper Jaffray | Dec-09 | | |
| B/D | RBC Dain Rauscher Inc. | Jun-08 | | |
| B/D | Raymond James Financial, Inc. | Dec-08 | | |
| B/D | State Street Capital | Jun-08 | | |
| B/D | State Street Global Markets | Nov-08 | | |
| B/D | UBS Global Asset Management | Jun-08 | | |
| B/D | US Bank Investments | Oct-02 | | |

Designated/Authorized MBOI Staff (Public Equities)

| | <u>Name & Title</u> | | <u>Email</u> | <u>Phone</u> |
|------|--|--------|--|---------------------|
| MBOI | Clifford A. Sheets, Chief Investment Officer | Jul-10 | csheets@mt.gov | 406/444-0058 |
| MBOI | Rande Muffick, Portfolio Manager | Jul-10 | ramuffick@mt.gov | 406/444-0586 |
| MBOI | Daniel Zarling, Research Director | Jul-10 | dzarling@mt.gov | 406/444-0086 |
| MBOI | Geri Burton, Deputy Director | Jul-10 | gburton@mt.gov | 406/444-1365 |

Approved Public Equity Brokers

| | | | | |
|-----|---------------------------------|--------|--|--|
| B/D | State Street Global Markets | Jul-10 | | |
| B/D | Citigroup Capital Markets, Inc. | Jul-10 | | |

RESOLUTION 217 - APPENDIX A - UPDATED 11/5/2010

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Public Security Managers

Designated/Authorized MBOI Staff

| | <i>Name & Title</i> | <i>Email</i> | <i>Phone</i> |
|------|--|--|---------------------|
| MBOI | Carroll South, Executive Director | csouth@mt.gov | 406/444-1285 |
| MBOI | Clifford A. Sheets, Chief Investment Officer | csheets@mt.gov | 406/444-0058 |
| MBOI | Rande Muffick, Portfolio Manager | ramuffick@mt.gov | 406/444-0586 |
| MBOI | Daniel Zarling, Research Director | dzarling@mt.gov | 406/444-0086 |
| MBOI | Nathan Sax, Portfolio Manager | nsax@mt.gov | 406/444-0049 |
| MBOI | Geri Burton, Deputy Director | gburton@mt.gov | 406/444-1365 |

Approved Public Equity Managers

| | | |
|--------|--|--------|
| Equity | Acadian Asset Management, Inc. | Sep-06 |
| Equity | AllianceBernstein LP | Sep-06 |
| Equity | Analytic Investors, Inc. | Feb-08 |
| Equity | Artio Global Management LLC. | Oct-08 |
| Equity | Artisan Partners Limited Partnership | Jan-07 |
| Equity | AXA Rosenberg Investment Management LLC | Sep-06 |
| Equity | Barclays Global Investors | Jan-07 |
| Equity | Barrow, Hanley, Mewhinney & Strauss, Inc. | Jun-07 |
| Equity | BatteryMarch Financial Management, Inc. | Sep-06 |
| Equity | Columbus Circle Investor | Jun-07 |
| Equity | Dimensional Fund Advisors | Dec-05 |
| Equity | Goldman Sachs Asset Management | May-06 |
| Equity | Hansberger Global Investors, Inc. | Aug-08 |
| Equity | INTECH | Aug-09 |
| Equity | J.P. Morgan Investment Management, Inc. | Feb-08 |
| Equity | Martingale Asset Management LP (Non-Large Cap) | Feb-07 |
| Equity | Martingale Asset Management LP (130/30) | Feb-08 |
| Equity | Martin Currie Inc. | Sep-06 |
| Equity | NorthPointe Capital, LLC | Jan-07 |
| Equity | Nomura Asset Management USA | Sep-04 |
| Equity | Principal Global Investors, LLC. | Sep-06 |
| Equity | Quantitative Management Associates, LLC. | Jun-07 |
| Equity | Rainier Investment Management, Inc. | Jun-07 |
| Equity | The Renaissance Group LLC | Jun-07 |
| Equity | State Street Global Advisors | Jun-07 |
| Equity | TimeSquare Capital Management, LLC | Jan-07 |
| Equity | T. Rowe Price Associates, Inc. | May-06 |
| Equity | Vaughan Nelson Investment Management, LP | Jan-07 |
| Equity | Western Asset Management Company | May-06 |

Approved Fixed Income Managers

| | | |
|----|---|--------|
| FI | Artio Global Management, LLC. | Aug-08 |
| FI | Barclays Global Investors | Jun-08 |
| FI | Blackrock | Jan-09 |
| FI | Fidelity Investments | Jun-08 |
| FI | Neuberger Berman (formerly Lehman Brothers) | Jan-09 |
| FI | Post Advisory Group, LLC. | Aug-08 |
| FI | Reams Asset Management Company, LLC. | Aug-08 |
| FI | State Street Global Advisors | Jun-08 |

RESOLUTION 217 - APPENDIX A - UPDATED 9/23/2010

PAGE 3 Private Equity Managers

Designated/Authorized MBOI Staff

| | <u>Name & Title</u> | | <u>Email</u> | <u>Phone</u> |
|------|--|--------|--|--------------|
| MBOI | Carroll South, Executive Director | Nov-07 | csouth@mt.gov | 406/444-1285 |
| MBOI | Clifford A. Sheets, Chief Investment Officer | Nov-07 | csheets@mt.gov | 406/444-0058 |
| MBOI | Daniel Zarling, Research Director | Apr-09 | dzarling@mt.gov | 406/444-0086 |
| MBOI | Jon Shoen, Alternative Investments Portfolio Manager | Jun-09 | jshoen@mt.gov | 406/444-0250 |
| MBOI | Geri Burton, Deputy Director | Nov-07 | gburton@mt.gov | 406/444-1365 |

Private Equity Managers

| PE | Adams Street Partners | Oct-02 | |
|----|---|--------|--|
| PE | Affinity Equity Partners/Affinity Asia | Jan-07 | |
| PE | Arclight Capital Partners | Sep-04 | |
| PE | Avenue Capital | Aug-09 | |
| PE | Axiom Asia Private Capital | Nov-09 | |
| PE | Black Diamond Capital Management L.L.C. | Apr-10 | |
| PE | Buerk Dale Victor | Mar-07 | |
| PE | Centerbridge Special Credit Partners Fund | Jun-09 | |
| PE | CCMP Capital Advisors | Aug-06 | |
| PE | CIVC Fund IV, LP | Sep-10 | |
| PE | Carlyle Group (The) | Jan-05 | |
| PE | EIF Management, L.L.C. | Apr-10 | |
| PE | First Reserve Corporation | Aug-09 | |
| PE | HarbourVest Partners | Apr-07 | |
| PE | Hellman & Friedman | Apr-09 | |
| PE | Highway 12 Ventures | Mar-07 | |
| PE | Industry Ventures | Oct-09 | |
| PE | JC Flowers | Jul-06 | |
| PE | JLL Partners | Nov-05 | |
| PE | KKR | Oct-02 | |
| PE | Lexington Capital Partners | Mar-09 | |
| PE | Madison Dearborn Partners | Oct-02 | |
| PE | Matlin Patterson | Apr-07 | |
| PE | MHR Institutional Partners | Apr-07 | |
| PE | Neuberger Berman (formerly Lehman Brothers) | May-09 | |
| PE | Oak Hill Capital Partners | Feb-08 | |
| PE | Oaktree Capital Management | Jul-09 | |
| PE | Odyssey Investment Partners | Dec-04 | |
| PE | Opus Capital Group, L.L.C. | Mar-10 | |
| PE | Performance Equity Management | May-08 | |
| PE | Portfolio Advisors | May-06 | |
| PE | Quintana Energy | Mar-07 | |
| PE | Siguler Guff Advisers | Aug-07 | |
| PE | TA Associates | May-09 | |
| PE | Terra Firma Capital Partners | Jan-07 | |
| PE | Thayer Hidden Creek Management, LP | Sep-10 | |
| PE | Trilantic Capital Partners (formerly Lehman Brothers) | May-09 | |
| PE | Veritas Capital Management, LLC | May-10 | |
| PE | Welsh Carson Anderson Stowe | Oct-02 | |

RESOLUTION 217 - APPENDIX A - UPDATED 6/21/2010**PAGE 4****Private Real Estate Managers*****Designated/Authorized MBOI Staff***

| | <i>Name & Title</i> | | <i>Email</i> |
|------|--|--------|--|
| MBOI | Carroll South, Executive Director | Nov-07 | csouth@mt.gov |
| MBOI | Clifford A. Sheets, Chief Investment Officer | Nov-07 | csheets@mt.gov |
| MBOI | Daniel Zarling, Research Director | Apr-09 | dzarling@mt.gov |
| MBOI | Jon Shoen, Alternative Investments Portfolio Manager | Jun-09 | jshoen@mt.gov |
| MBOI | Geri Burton, Deputy Director | Nov-07 | gburton@mt.gov |

Private Real Estate Managers

| | | |
|----|--|--------|
| RE | Alex Brown Realty Chesapeake Investors | Sep-06 |
| RE | American Realty Advisors | Nov-09 |
| RE | Angelo, Gordon Company | Aug-06 |
| RE | Apollo Real Estate Finance Corp. | Dec-06 |
| RE | AREA Property Partners | Oct-09 |
| RE | Beacon Capital Partners | Mar-07 |
| RE | The Carlyle Group | Jul-07 |
| RE | CIM Group | Mar-07 |
| RE | ING Clarion Real Estate | Oct-06 |
| RE | DRA Advisors, LLC | Aug-07 |
| RE | GEM Realty Capital, Inc. | Jun-10 |
| RE | Hudson Realty Capital | Feb-08 |
| RE | INVESCO Core Real Estate | Sep-06 |
| RE | JER Partners | Nov-06 |
| RE | JPM Asset Management - Strategic Property Fund | Oct-06 |
| RE | Liquid Realty Partners | Mar-07 |
| RE | Macquarie Global Property Advisors, Ltd. | Aug-07 |
| RE | Morgan Stanley - Global Real Estate Fund | Nov-06 |
| RE | O'Connor Capital Partners | May-08 |
| RE | Rothschild Realty Managers | Mar-07 |
| RE | Strategic Capital Partners | Nov-06 |
| RE | TIAA CREF Asset Management | Oct-09 |
| RE | TA Associates Realty | Sep-06 |
| RE | UBS Global Asset Management | Nov-09 |

[Return to Meeting Agenda](#)

Investment Activity

ALLOCATION REPORT

| Retirement Systems Asset Allocations as of 6/30/10 | | | | | | | | | | |
|--|--------------|--------------|--------------|---------------|--------------|-------------|-------------|---------------|-------------|-------------------------|
| | | | | Total | | | | Real Estate | | |
| <u>Pension Fund</u> | <u>MDEP</u> | <u>MTIP</u> | <u>MPEP</u> | <u>Equity</u> | <u>RFBP</u> | <u>STIP</u> | <u>Mtgs</u> | <u>Direct</u> | <u>Pool</u> | <u>Total Assets</u> |
| PUBLIC EMPLOYEES | 33.7% | 16.7% | 13.0% | 63.5% | 28.4% | 1.8% | 0.6% | 0.3% | 5.4% | \$ 3,304,243,795 |
| TEACHERS | 33.7% | 16.7% | 13.1% | 63.5% | 28.5% | 1.6% | 0.7% | 0.3% | 5.4% | \$ 2,491,322,409 |
| POLICE | 33.9% | 16.7% | 13.2% | 63.7% | 29.4% | 1.4% | | | 5.4% | \$ 175,814,321 |
| SHERIFFS | 33.8% | 16.7% | 12.8% | 63.3% | 28.6% | 2.8% | | | 5.4% | \$ 172,089,117 |
| FIREFIGHTERS | 33.8% | 16.8% | 13.1% | 63.7% | 29.2% | 1.6% | | | 5.4% | \$ 173,192,031 |
| HIGHWAY PATROL | 33.7% | 16.7% | 13.0% | 63.5% | 29.2% | 1.9% | | | 5.4% | \$ 82,525,737 |
| GAME WARDENS | 33.4% | 17.0% | 12.6% | 62.9% | 28.0% | 3.7% | | | 5.4% | \$ 73,774,470 |
| JUDGES | 33.6% | 16.7% | 12.8% | 63.1% | 28.7% | 2.8% | | | 5.4% | \$ 52,400,547 |
| VOL FIREFIGHTERS | 32.1% | 15.8% | 12.4% | 60.3% | 28.2% | 6.5% | | | 5.0% | \$ 22,595,537 |
| TOTAL | 33.7% | 16.7% | 13.1% | 63.5% | 28.5% | 1.8% | 0.5% | 0.3% | 5.4% | \$ 6,547,957,966 |
| 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 9/30/10 | | | | | | | | | | |
|--|--------------|--------------|--------------|---------------|--------------|-------------|-------------|---------------|-------------|----------------------|
| | | | | Total | | | | Real Estate | | |
| <u>Pension Fund</u> | <u>MDEP</u> | <u>MTIP</u> | <u>MPEP</u> | <u>Equity</u> | <u>RFBP</u> | <u>STIP</u> | <u>Mtgs</u> | <u>Direct</u> | <u>Pool</u> | <u>Total Assets</u> |
| PUBLIC EMPLOYEES | 35.3% | 18.5% | 12.4% | 66.2% | 26.5% | 1.0% | 0.5% | 0.3% | 5.5% | 3,544,093,413 |
| TEACHERS | 35.5% | 18.6% | 12.5% | 66.6% | 26.7% | 0.3% | 0.6% | 0.3% | 5.5% | 2,666,127,797 |
| POLICE | 33.5% | 17.6% | 11.8% | 62.9% | 25.6% | 6.4% | | | 5.2% | 198,518,131 |
| SHERIFFS | 35.2% | 18.5% | 12.2% | 65.9% | 26.6% | 2.1% | | | 5.4% | 186,116,642 |
| FIREFIGHTERS | 33.4% | 17.6% | 11.7% | 62.7% | 25.5% | 6.6% | | | 5.2% | 196,190,278 |
| HIGHWAY PATROL | 35.4% | 18.6% | 12.3% | 66.3% | 27.0% | 1.2% | | | 5.5% | 88,619,801 |
| GAME WARDENS | 35.1% | 18.4% | 12.1% | 65.7% | 26.4% | 2.6% | | | 5.4% | 80,525,538 |
| JUDGES | 35.2% | 18.5% | 12.3% | 66.0% | 26.8% | 1.7% | | | 5.4% | 56,486,271 |
| VOL FIREFIGHTERS | 35.6% | 18.6% | 12.3% | 66.5% | 27.0% | 1.0% | | | 5.5% | 23,904,455 |
| TOTAL | 35.3% | 18.5% | 12.4% | 66.2% | 26.5% | 1.1% | 0.5% | 0.2% | 5.5% | 7,040,582,326 |
| Approved Range | 30 - 50% | 15 - 30% | 9 - 15% | 60 - 70% | 22 - 32% | 1 - 5% | 0 - 4% | 0 - 1% | 4 - 10% | |

| Change From Last Quarter | | | | | | | | | | |
|--------------------------|-------------|-------------|--------------|---------------|--------------|--------------|--------------|---------------|-------------|---------------------|
| | | | | Total | | | | Real Estate | | |
| <u>Pension Fund</u> | <u>MDEP</u> | <u>MTIP</u> | <u>MPEP</u> | <u>Equity</u> | <u>RFBP</u> | <u>STIP</u> | <u>Mtgs</u> | <u>Direct</u> | <u>Pool</u> | <u>Total Assets</u> |
| PUBLIC EMPLOYEES | 1.6% | 1.8% | -0.7% | 2.8% | -1.9% | -0.8% | -0.1% | 0.0% | 0.1% | 239,849,618 |
| TEACHERS | 1.8% | 2.0% | -0.7% | 3.1% | -1.8% | -1.3% | -0.1% | 0.0% | 0.1% | 174,805,388 |
| POLICE | -0.3% | 0.9% | -1.4% | -0.9% | -3.9% | 5.0% | | | -0.2% | 22,703,811 |
| SHERIFFS | 1.4% | 1.8% | -0.6% | 2.6% | -2.0% | -0.7% | | | 0.0% | 14,027,525 |
| FIREFIGHTERS | -0.4% | 0.8% | -1.4% | -1.0% | -3.8% | 5.0% | | | -0.2% | 22,998,246 |
| HIGHWAY PATROL | 1.7% | 1.8% | -0.7% | 2.8% | -2.2% | -0.6% | | | 0.1% | 6,094,064 |
| GAME WARDENS | 1.7% | 1.5% | -0.4% | 2.8% | -1.7% | -1.1% | | | 0.0% | 6,751,067 |
| JUDGES | 1.6% | 1.8% | -0.6% | 2.9% | -1.9% | -1.1% | | | 0.1% | 4,085,723 |
| VOL FIREFIGHTERS | 3.5% | 2.9% | -0.1% | 6.2% | -1.2% | -5.5% | | | 0.5% | 1,308,918 |
| TOTAL | 1.6% | 1.8% | -0.7% | 2.7% | -2.0% | -0.7% | -0.1% | 0.0% | 0.1% | 492,624,361 |

| Allocations During Quarter | | | | | | |
|---------------------------------|--------------|--------------|---------------------|----------------|--------------------|---------------------|
| <u>MDEP</u> | <u>MTIP</u> | <u>MPEP</u> | <u>Total Equity</u> | <u>RFBP</u> | <u>Real Estate</u> | |
| \$31,000,000 | \$28,000,000 | \$17,000,000 | \$76,000,000 | (\$46,700,000) | \$17,070,000 | |
| Net New Investments for Quarter | | | | | → | \$46,370,000 |

Montana Board of Investments

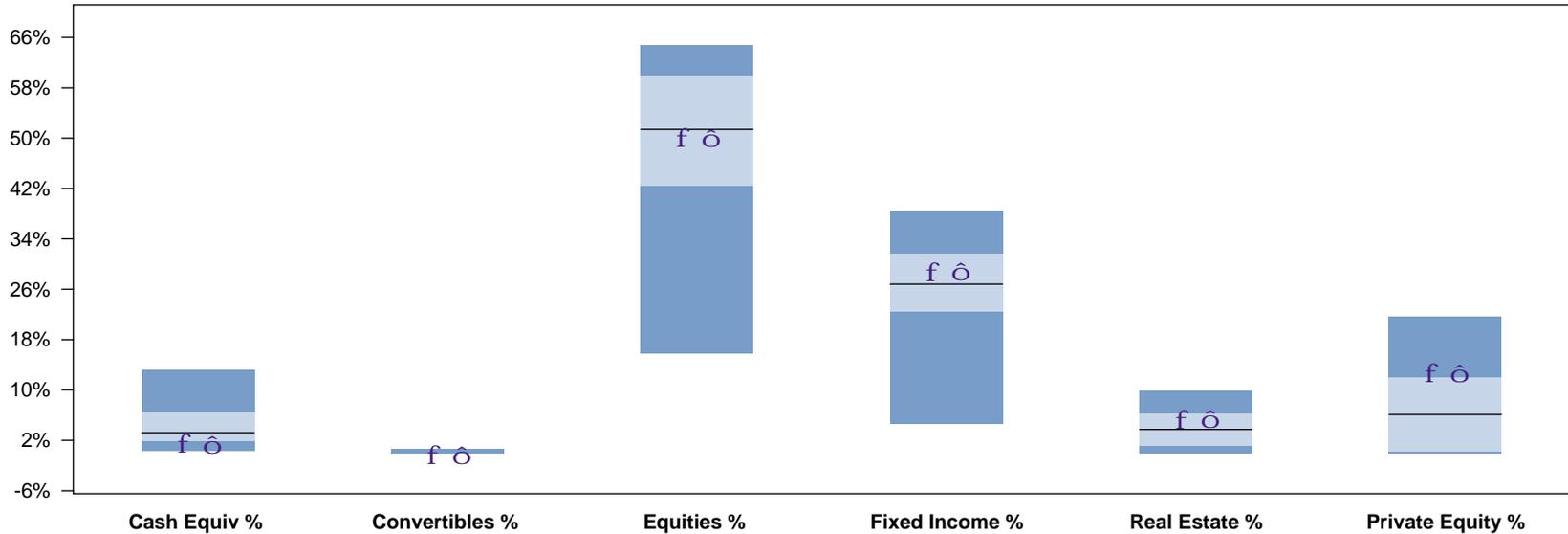
Public Funds (DB) > \$1 Billion(SSE)

PERIOD ENDING June 30, 2010



STATE STREET

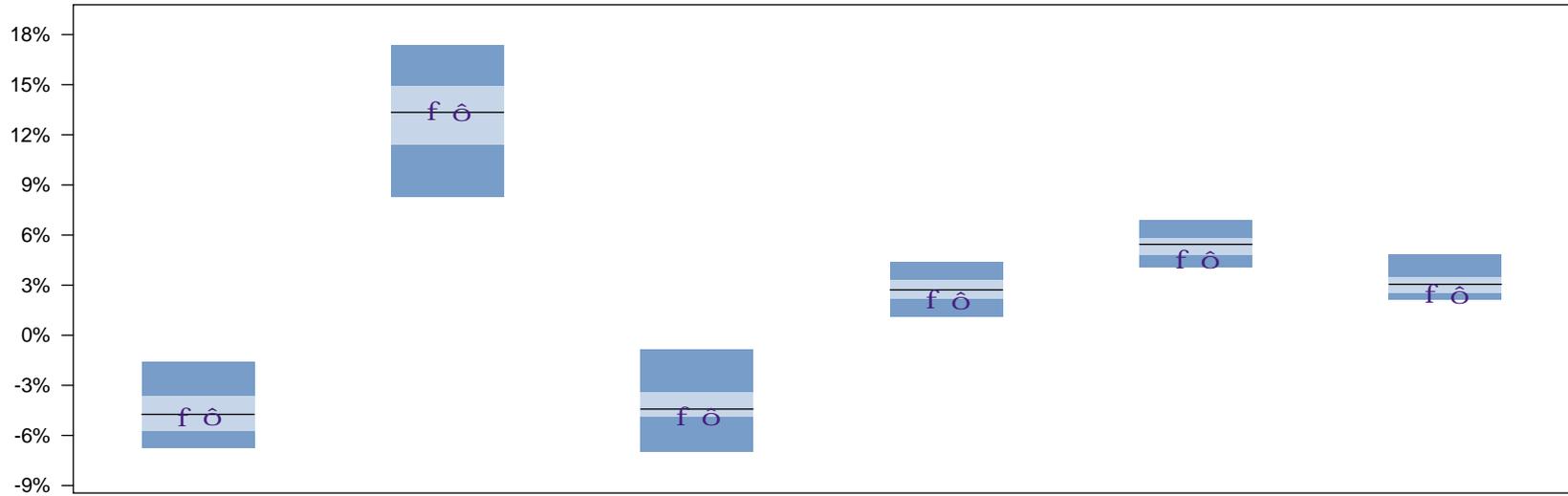
ALLOCATION



| | Cash Equiv % | Convertibles % | Equities % | Fixed Income % | Real Estate % | Private Equity % |
|------------------------|--------------|----------------|------------|----------------|---------------|------------------|
| 5th Percentile | 13.22 | 0.65 | 64.71 | 38.45 | 9.78 | 21.60 |
| 25th Percentile | 6.58 | 0.03 | 60.01 | 31.70 | 6.26 | 12.01 |
| 50th Percentile | 3.22 | 0.00 | 51.39 | 26.80 | 3.74 | 6.09 |
| 75th Percentile | 1.79 | 0.00 | 42.37 | 22.34 | 1.11 | 0.24 |
| 95th Percentile | 0.30 | 0.00 | 15.81 | 4.57 | 0.00 | 0.00 |
| No. of Obs | 60 | 59 | 62 | 62 | 63 | 62 |
| f PUBLIC EMPLOYEES RET | 1.82 73 | 0.00 50 | 50.41 53 | 29.08 37 | 5.67 30 | 13.02 21 |
| o TEACHERS RETIREMENT | 1.62 81 | 0.00 50 | 50.33 56 | 29.22 34 | 5.74 29 | 13.09 18 |

Montana Board of Investments

Public Funds (DB) > \$1 Billion (SSE) - MBOI PERS - TRS UNIVERSE
 PERIOD ENDING June 30, 2010



| | 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 | 62 | 63 | 60 | 62 | 62 | 58 |
| 5th Percentile | -1.61 | 17.35 | -0.87 | 4.38 | 6.91 | 4.85 |
| 25th Percentile | -3.64 | 14.93 | -3.39 | 3.34 | 5.87 | 3.49 |
| 50th Percentile | -4.74 | 13.35 | -4.42 | 2.72 | 5.44 | 3.05 |
| 75th Percentile | -5.73 | 11.43 | -4.92 | 2.17 | 4.79 | 2.52 |
| 95th Percentile | -6.76 | 8.30 | -7.01 | 1.10 | 4.10 | 2.14 |
| f PUBLIC EMPLOYEES RET | -4.76 53 | 13.53 43 | -4.70 63 | 2.26 70 | 4.66 83 | 2.60 72 |
| o TEACHERS RETIREMENT | -4.74 50 | 13.51 46 | -4.71 66 | 2.25 72 | 4.67 81 | 2.59 73 |

MONTANA DOMESTIC EQUITY POOL

Rande Muffick, CFA, Portfolio Manager
November 30, 2010

| 10/31/2010 Domestic Stock Pool By Manager | | | |
|--|----------------------|----------------|--------|
| <u>Manager Name</u> | <u>Market Value</u> | <u>%</u> | |
| BLACKROCK EQUITY INDEX FUND | 612,253,499 | 23.71% | |
| STATE STREET SPIF ALT INV | 32,618,644 | 1.26% | |
| LARGE CAP CORE Total | 644,872,143 | 24.97% | 10-30% |
| ENHANCED INVEST TECHNOLOGIES | 164,570,702 | 6.37% | |
| T ROWE PRICE ASSOCIATES INC | 264,388,847 | 10.24% | |
| WESTERN ASSET US INDX PLUS LLC | 140,452,163 | 5.44% | |
| LARGE CAP ENHANCED Total | 569,411,712 | 22.05% | 20-30% |
| BARROW HANLEY MEWHINNEY + STRS | 176,995,193 | 6.85% | |
| QUANTITATIVE MANAGEMENT ASSOC | 112,457,267 | 4.36% | |
| LARGE CAP VALUE Total | 289,452,459 | 11.21% | |
| COLUMBUS CIRCLE INVESTORS | 134,843,118 | 5.22% | |
| RAINIER INVESTMENT MGMT INC | 131,728,384 | 5.10% | |
| RENAISSANCE GROUP LLC | 117,097 | 0.00% | |
| LARGE CAP GROWTH Total | 266,688,598 | 10.33% | |
| LARGE CAP STYLE BASED Total | 556,141,058 | 21.54% | 20-30% |
| ANALYTIC INVESTORS MU3B | 100,459,112 | 3.89% | |
| JP MORGAN ASSET MGMT MU3E | 298,301,975 | 11.55% | |
| MARTINGALE ASSET MGMT MU3D | 75,056 | 0.00% | |
| 130-30 Total | 398,836,143 | 15.45% | 10-20% |
| COMBINED LARGE CAP Total | 2,169,261,055 | 84.01% | 82-92% |
| ARTISAN MID CAP VALUE | 93,719,213 | 3.63% | |
| BLACKROCK MIDCAP EQUITY IND FD | 87,868,551 | 3.40% | |
| MARTINGALE ASSET MGMT MID CAP | 129,038 | 0.00% | |
| TIMESQUARE CAPITAL MGMT | 94,915,809 | 3.68% | |
| MID CAP Total | 276,632,611 | 10.71% | 5-11% |
| DIMENSIONAL FUND ADVISORS INC | 59,419,752 | 2.30% | |
| ISHARES S+P SMALLCAP 600 INDEX | 13,702,572 | 0.53% | |
| VAUGHAN NELSON INV | 63,233,274 | 2.45% | |
| SMALL CAP Total | 136,355,598 | 5.28% | 3-8% |
| | | | |
| MDEP Total | 2,582,249,265 | 100.00% | |

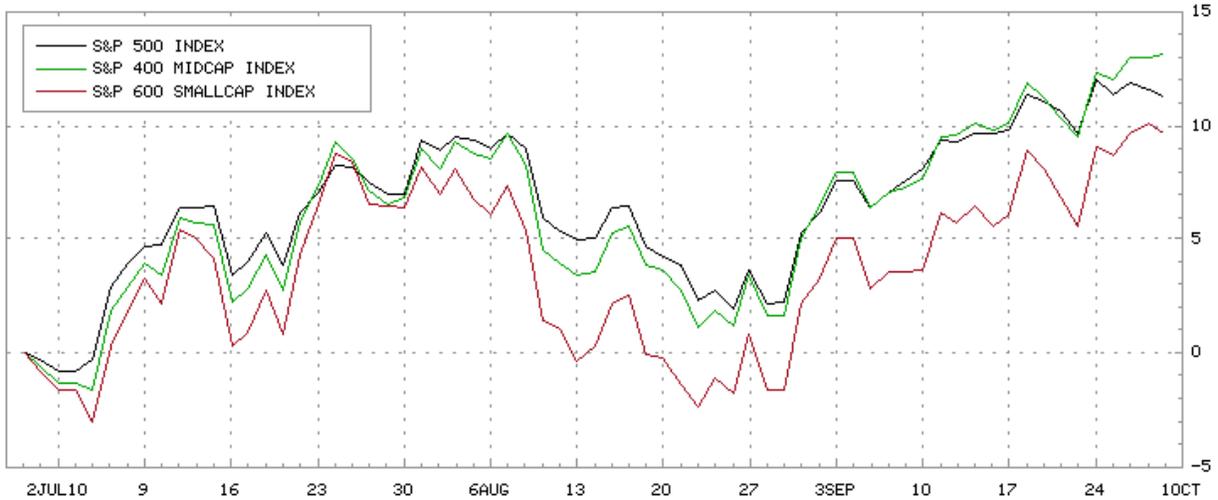
The table above displays the Montana Domestic Equity Pool (MDEP) allocation as of the end of October 2010. Due to the outstanding settlements within the transition that took place the last week of September, staff has chosen to show October allocations within this pool as they more accurately reflect the adjusted portfolio structure. At this time, all weightings are within the approved ranges.

An oversold equity market rallied with a steady vengeance near the end of the third quarter. The fundamental problems that troubled investors in the second quarter abated, enticing money to move back into stocks. A double dip threat that looked exaggerated, corporate earnings reports that were somewhat better than expected, a respite in the sovereign debt crisis, and a friendly Fed offering further quantitative easing stoked the rally.

COMPARATIVE RETURNS

| Securities | Crcncy | Prc Appr | Total Ret | Difference | Annual Eq |
|-------------|--------|----------|-----------|------------|-----------|
| 1 SPX Index | USD | 10.72 % | 11.29 % | -1.82 % | 52.89 % |
| 2 MID Index | USD | 12.70 % | 13.12 % | | 63.06 % |
| 3 SML Index | USD | 9.32 % | 9.62 % | -3.49 % | 43.98 % |

(* = No dividends or coupons)

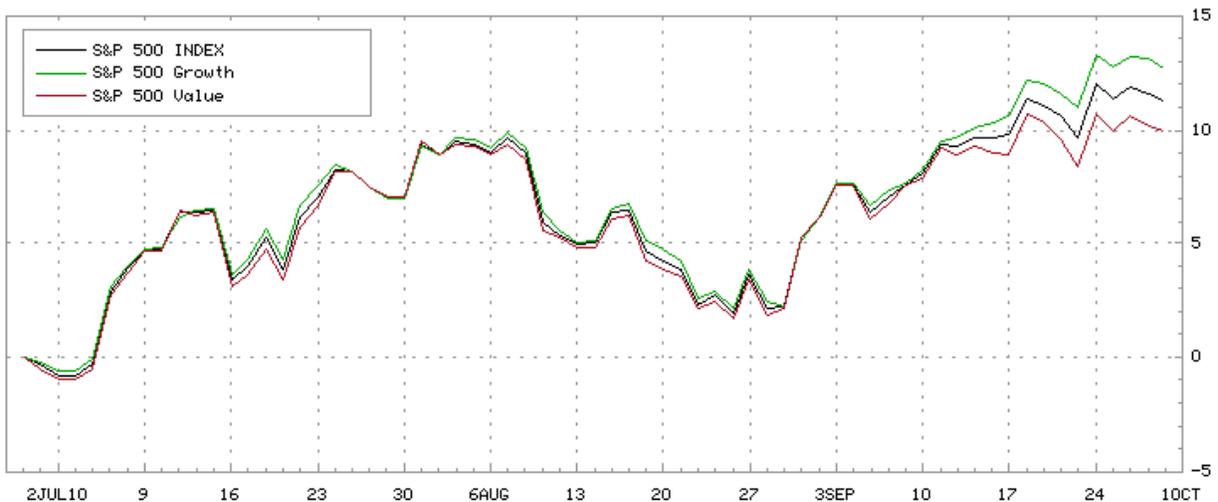


Performance across market capitalizations was robust. Mid caps lead the way with a return of 13.1% followed by large caps at 11.3% and small caps at 9.6%. Subsequently, MDEP's largest overweight in mid-caps added to the investment performance of the pool.

COMPARATIVE RETURNS

| Securities | Crcncy | Prc Appr | Total Ret | Difference | Annual Eq |
|-------------|--------|----------|-----------|------------|-----------|
| 1 SPX Index | USD | 10.72 % | 11.29 % | -1.34 % | 52.89 % |
| 2 SGX Index | USD | 12.16 % | 12.63 % | | 60.30 % |
| 3 SVX Index | USD | 9.30 % | 9.98 % | -2.65 % | 45.84 % |

(* = No dividends or coupons)



Performance among style categories was led by the growth stocks with a 12.6% return. Value stocks lagged a bit for the quarter but still returned 10%. As a result, MDEP's tilt toward growth versus value during the quarter added to the overall pool return.



The VIX demonstrates the positive momentum experienced by the equity market in the quarter. Typically a reading in the low 20's signifies investor confidence and as can be seen the index spent the third quarter easing into that area. This was a rather welcome sight following the spike up into the 40's during the market selloff in May and June.

The accuracy of manager style bucket performance was compromised this quarter by the recently completed transition and therefore will not be commented on this quarter. With that said, MDEP slightly underperformed the S&P 1500 benchmark by 12 basis points in the quarter. However, for the twelve months ended September 30th, the pool has outperformed by 18 basis points.

Going forward the strategy at the pool level is to continue the overweight in mid caps at the current albeit slightly reduced level along with a more moderate overweight in small caps. The passive weight in the pool is expected to be stable at these levels for awhile following the build up with proceeds from four recently terminated active portfolios. Finally, with the effect of the transition, the style tilt of MDEP now slightly favors value over growth.

DOMESTIC EXPOSURE-MARKET CAP %

September 30, 2010

| MANAGERS | MEGA | GIANT | LARGE | | | MID | SMALL | MICRO | WTD AVG MARKET CAP (\$B) |
|--|-------------|--------------|-------------|-------------|-------------|-------------|----------------|------------|--------------------------------|
| | \$200B+ | \$100-\$200B | \$50-\$100B | \$20-\$50B | \$10-\$20B | \$2.5-\$10B | \$500MM-\$2.5B | < \$500MM | |
| Analytic Investors, Inc | 8.5 | 15.8 | 9.9 | 31.7 | 17.9 | 17.7 | -3.9 | -0.2 | 66.1 |
| Artisan Partners | -- | -- | -- | -- | 25.1 | 70.2 | 4.7 | -- | 6.9 |
| Barrow Hanley | 1.2 | 14.4 | 9.0 | 22.1 | 21.7 | 28.2 | 3.4 | -- | 40.8 |
| Columbus Circle Investors | 5.0 | 15.0 | 12.7 | 27.1 | 27.4 | 12.8 | --- | -- | 56.4 |
| Dimensional Fund Advisors | -- | -- | -- | -- | -- | 0.3 | 69.6 | 30.0 | 0.9 |
| INTECH Investment Management | 7.8 | 23.4 | 8.7 | 14.0 | 16.4 | 29.6 | 0.2 | -- | 71.2 |
| J.P. Morgan | 8.6 | 26.4 | 18.3 | 29.2 | 13.5 | 1.8 | -0.7 | -- | 86.4 |
| Quantitative Management | 1.6 | 24.1 | 10.1 | 21.3 | 17.6 | 22.7 | 2.7 | -- | 58.6 |
| Rainier Investment Mgt | 8.0 | 14.9 | 13.2 | 27.8 | 17.3 | 18.4 | 0.4 | -- | 59.6 |
| T. Rowe Associates | 8.2 | 25.7 | 13.2 | 21.3 | 16.6 | 14.5 | 0.4 | -- | 79.2 |
| TimesSquare Cap Mgmt | -- | -- | -- | 6.3 | 14.4 | 73.2 | 6.0 | -- | 7.5 |
| Vaughan Nelson Mgmt | -- | -- | -- | -- | --- | 22.6 | 75.1 | 2.3 | 2.1 |
| Western Asset US Index Plus | 7.4 | 26.0 | 13.3 | 23.7 | 15.7 | 13.5 | 0.5 | -- | 78.1 |
| BlackRock S&P 500 Index Fund | 7.3 | 25.9 | 13.2 | 23.5 | 15.6 | 13.4 | 0.5 | -- | 78.1 |
| BlackRock Midcap Equity Index Fund | -- | -- | -- | -- | --- | 65.0 | 34.1 | --- | 3.3 |
| ALL DOMESTIC EQUITY PORTFOLIOS | 5.8 | 19.4 | 10.9 | 20.5 | 15.8 | 20.9 | 5.3 | 0.7 | 61.4 |
| Benchmark: S&P Composite 1500 | 6.5 | 22.9 | 11.7 | 20.8 | 13.8 | 17.4 | 6.4 | 0.6 | 69.0 |
| Over/underweight(-) | -0.7 | -3.5 | -0.8 | -0.3 | 2.0 | 3.5 | -1.1 | 0.2 | |

DOMESTIC EXPOSURE-SECTOR %

September 30, 2010

MANAGERS

| | Consumer Discretionary | Consumer Staples | Energy | Financials | Health Care | Industrials | Technology | Materials | Telecom Services | Utilities |
|--|-----------------------------------|-----------------------------|---------------|-------------------|------------------------|--------------------|-------------------|------------------|-----------------------------|------------------|
| Analytic Investors, Inc | 15.4 | 9.7 | 9.4 | 15.1 | 11.7 | 5.8 | 18.9 | 3.8 | 4.2 | 3.4 |
| Artisan Partners | 8.2 | 6.1 | 8.7 | 18.7 | 4.3 | 21.4 | 23.8 | -- | -- | 8.9 |
| Barrow Hanley | 12.8 | 8.0 | 10.1 | 21.2 | 14.4 | 13.3 | 11.7 | 1.0 | 1.4 | 6.1 |
| Columbus Circle Investors | 24.0 | 10.8 | -- | 10.1 | 10.1 | 10.2 | 30.3 | 4.5 | -- | -- |
| Dimensional Fund Advisors | 14.9 | 4.7 | 4.6 | 13.7 | 12.6 | 18.8 | 21.0 | 5.1 | 1.0 | 3.5 |
| INTECH Investment Management | 11.3 | 13.3 | 8.1 | 13.1 | 15.3 | 11.2 | 17.5 | 2.0 | 3.3 | 4.9 |
| J.P. Morgan | 13.3 | 9.9 | 11.1 | 13.1 | 10.6 | 7.0 | 19.8 | 4.9 | 3.5 | 3.9 |
| Quantitative Management | 10.6 | 6.5 | 13.7 | 18.5 | 14.9 | 11.2 | 5.5 | 4.1 | 6.1 | 8.8 |
| Rainier Investment Mgt | 15.6 | 7.9 | 7.2 | 6.7 | 10.3 | 17.5 | 28.8 | 3.4 | 1.8 | 0.8 |
| T. Rowe Associates | 11.7 | 10.7 | 11.4 | 15.3 | 11.7 | 11.2 | 18.8 | 3.1 | 2.9 | 3.1 |
| TimesSquare Cap Mgmt | 14.4 | 3.8 | 6.3 | 12.1 | 16.3 | 14.6 | 24.0 | 3.5 | 4.9 | -- |
| Vaughan Nelson Mgmt | 9.7 | -- | 8.2 | 30.2 | 2.3 | 19.9 | 9.0 | 10.9 | 1.0 | 3.8 |
| Western Asset US Index Plus | 10.4 | 11.3 | 10.9 | 15.7 | 11.6 | 10.8 | 18.8 | 3.5 | 3.2 | 3.6 |
| BlackRock S&P 500 Index Fund | 10.4 | 11.2 | 10.9 | 15.5 | 11.6 | 10.7 | 18.7 | 3.5 | 3.2 | 3.6 |
| BlackRock Midcap Equity Index Fund | 14.1 | 4.0 | 5.8 | 20.1 | 11.3 | 15.0 | 15.5 | 6.5 | 0.8 | 6.1 |
| All Domestic Equity Portfolios | 12.5 | 9.4 | 9.4 | 15.3 | 11.6 | 11.8 | 18.9 | 3.6 | 2.8 | 3.9 |
| Benchmark: S&P Composite 1500 | 10.9 | 10.4 | 10.3 | 16.2 | 11.7 | 11.3 | 18.5 | 3.8 | 2.9 | 3.9 |
| Over/underweight(-) | 1.6 | -1.0 | -0.9 | -0.8 | 0.0 | 0.4 | 0.3 | -0.2 | -0.1 | 0.0 |

DOMESTIC PORTFOLIO CHARACTERISTICS

September 30, 2010

MANAGERS

| | Market Value (mm) | Number of Securities | 3Yr Historical EPS Growth | Price/Earnings | Price/Book | Dividend Yield |
|------------------------------------|-------------------|----------------------|---------------------------|----------------|------------|----------------|
| Analytic Investors, Inc | 99.1 | 219 | 5.6 | 10.6 | 2.0 | 2.5 |
| Artisan Partners | 90.9 | 55 | 0.6 | 12.9 | 1.7 | 1.8 |
| Barrow Hanley | 172.7 | 91 | -6.1 | 12.7 | 1.6 | 2.4 |
| Columbus Circle Investors | 128.8 | 51 | 12.3 | 18.7 | 2.9 | 0.9 |
| Dimensional Fund Advisors | 57.0 | 2,736 | 2.2 | 15.5 | 1.6 | 1.0 |
| INTECH Investment Management | 159.3 | 354 | 5.7 | 14.6 | 2.1 | 2.0 |
| J.P. Morgan | 292.4 | 251 | 2.2 | 14.3 | 1.9 | 1.8 |
| Quantitative Management | 109.3 | 160 | -5.5 | 12.2 | 1.4 | 2.4 |
| Rainier Investment Mgt | 125.3 | 72 | 17.6 | 19.4 | 3.2 | 0.8 |
| T. Rowe Associates | 255.3 | 300 | 3.9 | 14.0 | 2.1 | 1.8 |
| TimesSquare Cap Mgmt | 91.6 | 71 | 13.1 | 15.8 | 2.7 | 0.6 |
| Vaughan Nelson Mgmt | 60.5 | 75 | 3.4 | 15.5 | 1.5 | 1.6 |
| Western Asset US Index Plus | 140.5 | 500 | 3.2 | 14.5 | 2.0 | 1.9 |
| Blackrock Equity Index Fund | 589.8 | 502 | 3.2 | 14.5 | 2.0 | 1.9 |
| Blackrock Midcap Equity Index Fund | 84.9 | 402 | 6.1 | 17.8 | 1.9 | 1.4 |

All Domestic Equity Portfolios

| | | | | | |
|----------------|--------------|------------|-------------|------------|------------|
| 2,491.1 | 3,633 | 3.9 | 14.4 | 2.0 | 1.8 |
|----------------|--------------|------------|-------------|------------|------------|

BENCHMARKS

| | | | | | |
|--------------------------------|--------------|------------|-------------|------------|------------|
| S&P Composite 1500 | 1,500 | 3.4 | 14.8 | 2.0 | 1.9 |
| S&P/Citigroup 1500 Pure Growth | 367 | 18.5 | 19.1 | 2.5 | 0.5 |
| S&P/Citigroup 1500 Pure Value | 327 | -5.2 | 14.5 | 1.0 | 1.3 |
| S&P 500 | 500 | 3.2 | 14.5 | 2.0 | 1.9 |
| Russell 1000 | 982 | 3.5 | 14.6 | 2.0 | 1.9 |
| Russell 1000 Growth | 627 | 10.2 | 16.5 | 3.3 | 1.5 |
| Russell 1000 Value | 669 | -3.4 | 13.0 | 1.4 | 2.3 |
| Russell Midcap | 789 | 4.8 | 16.1 | 1.9 | 1.6 |
| Russell Midcap Growth | 493 | 11.9 | 18.8 | 3.2 | 0.9 |
| Russell Midcap Value | 542 | -1.8 | 14.1 | 1.4 | 2.1 |
| Russell 2000 | 1,973 | 2.5 | 14.7 | 1.7 | 1.2 |
| Russell 2000 Growth | 1,261 | 9.5 | 17.9 | 2.8 | 0.6 |
| Russell 2000 Value | 1,282 | -3.8 | 12.3 | 1.2 | 2.0 |

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 Muffick, Portfolio Manager – Public Equities

Date: November 30, 2010

Subject: Repositioning of the Montana Domestic Equity Pool (MDEP)

A repositioning of assets in MDEP occurred in late September. The repositioning objective was to reduce active management in favor of increasing the overall passive allocation within the pool. Staff chose to terminate three managers that were both underperforming their benchmarks and had issues which caused staff to have less confidence in the management of the portfolios.

The size of the domestic transition amounted to \$267 million and included the following managers/funds:

| <u>Manager</u> | <u>Action</u> | <u>Amount(approx.)</u> |
|------------------------------|---------------|------------------------|
| BlackRock 500 Index Fund | Added | \$190 million |
| BlackRock 400 Index Fund | Added | \$63 million |
| iShares S&P 600 Index (ETF) | New | \$14 million |
| NorthPointe Small Cap Growth | Terminated | \$34 million |
| Martingale 130/30 | Terminated | \$65 million |
| Martingale Mid Cap Core | Terminated | \$68 million |
| Renaissance Large Cap Growth | Terminated | \$100 million |

The transition was performed by State Street Global Markets during the last week of September. The overall cost of the domestic transition amounted to 38 basis points of the market value of the transition or approximately \$1,014,000. Of this amount, 16 basis points of cost occurred due to the difference between closing prices the day before the transition and opening prices the day of the transition. The remaining cost was mainly the result of tracking error; i.e. underperformance of the active portfolios during the trading day.

As shown in the table above, an iShares exchange traded fund was purchased as a small cap passive investment due to the lack of availability of a suitable traditional index fund for the domestic small cap allocation.

The portfolio displayed in this quarter's MDEP strategy reflects the changes resulting from the transition.

MONTANA INTERNATIONAL STOCK POOL

Rande Muffick, CFA, Portfolio Manager
November 30, 2010

| 9/30/2010 International Stock Pool By Manager | | | |
|--|----------------------|----------------|-----------------------|
| <u>Manager Name</u> | <u>Market Value</u> | <u>%</u> | <u>Approved Range</u> |
| ARTIO GLOBAL MUIG | 113,392,214 | 8.69% | |
| BATTERYMARCH INTL EQUITY | 111,927,823 | 8.58% | |
| BLACKROCK GL EX US ALPHA TILT | 102,187,550 | 7.83% | |
| BLACKROCK ACWI EX US SUPERFUND | 485,350,119 | 37.21% | |
| EAFE STOCK PERFORMANCE INDEX | 38,676,498 | 2.97% | 0-10% |
| CORE Total | 851,534,205 | 65.29% | 50-70% |
| ACADIAN ACWI EX US VALUE | 85,585,769 | 6.56% | |
| BERNSTEIN ACWI EX | 106,618,499 | 8.17% | |
| VALUE Total | 192,204,267 | 14.74% | 10-20% |
| HANSBERGER INTL EQUITY GROWTH | 102,198,733 | 7.84% | |
| MARTIN CURRIE ACWI X | 96,144,035 | 7.37% | |
| PRINCIPAL GLOBAL | 17,818 | 0.00% | |
| GROWTH Total | 198,360,586 | 15.21% | 10-20% |
| DFA INTL SMALL CO PORTFOLIO | 62,233,775 | 4.77% | |
| SMALL CAP Total | 62,233,775 | 4.77% | 5-15% |
| MTIP Total | 1,304,332,833 | 100.00% | |

The table above displays the Montana International Equity Pool (MTIP) allocation at quarter end across market cap segments and manager styles. As this time, all weightings are within the approved ranges with the exception of small cap which is slightly below the range. Recall that a rather abrupt termination of a small cap manager has led to a temporary decrease in small cap and an increase in large cap core. Finding a replacement in the small cap space proved to offer no attractive choices in active management and thus a passive investment fund with BlackRock has been selected though funding has not yet occurred.

International equity markets rallied strongly in the third quarter, buoyed by encouraging corporate earnings reports and a sense that the sovereign debt crisis was at least somewhat under control. Economic data out of China dispelled earlier concerns of a global slowdown. Overall, economic growth in emerging markets continued to look robust and reinforced the theme supported by many that those economies are the new leaders of the globe.

COMPARATIVE RETURNS

Range **6/30/10** - **9/30/10** Period **D** Daily 92 Day Period

| Securities | Crcny | Prc Appr | Total Ret | Difference | Annual Eq |
|-----------------------|------------|----------------|----------------|----------------|----------------|
| 1 MXEA Index | USD | 15.79 % | 16.57 % | -1.54 % | 83.70 % |
| 2 MXEF Index | USD | 17.16 % | 18.10 % | | 93.51 % |
| 3 MXEASC Index | USD | 16.83 % | 17.66 % | -.45 % | 90.61 % |

(* = No dividends or coupons)



Performance among all market categories was terrific to say the least. Emerging markets led the liftoff with a return of 18.1% followed by small caps at 17.7% and developed market stocks at 16.6%. Keep in mind these are returns over just three months.

Growth outperformed value in the quarter, with a 17.1% return compared to a 16.1% return for value. Interestingly, growth stocks have dramatically outperformed value stocks in the international markets for the past year, 11.4% to 3.8%. Much of this reflects the poor performance of financials which constitute a larger proportion of value stocks in the international market than in the U.S.



The DXY chart shows the precipitous fall of the U.S. dollar compared to a basket of six major currencies during the quarter. Such action added almost 10% to international returns for U.S. investors. With all the problems in Europe, the Euro also strengthened against the dollar during the quarter although this was mostly due to dollar weakness rather than broad based strength of the Euro versus other currencies.

For the quarter, manager style bucket performances reflected what we have seen recently, with our value group outperforming while the growth bucket underperformed. The core bucket underperformed slightly and the small cap bucket performed in line with its benchmark.

Overall MTIP slightly underperformed the custom benchmark by 19 basis points in the quarter. For the twelve months ended September 30th, the pool has underperformed by 100 basis points.

Going forward the strategy at the pool level is to continue to carry a large passive weight and to remain style neutral. At some point, when given an opportunity by the market, increased investment in small caps and emerging markets is anticipated. BlackRock index funds were added for these allocations and are set to receive initial investments when deemed appropriate. This will give staff the ability to influence emerging market exposure and small cap exposure beyond the aggregate positioning of our external managers.

INTERNATIONAL EXPOSURE-MARKET CAP %

September 30, 2010

| Managers | MEGA \$200B+ | GIANT \$100-\$200B | \$50-\$100B | LARGE | | MID \$2.5-\$10B | SMALL \$500MM-\$2.5B | MICRO < \$500MM | WTD AVG MARKET CAP (\$B) |
|--|-------------------------|-------------------------------|--------------------|-------------------|-------------------|----------------------------|---------------------------------|-------------------------------|---|
| | | | | \$20-\$50B | \$10-\$20B | | | | |
| Acadian Asset Management | 2.3 | 7.4 | 16.8 | 19.3 | 20.0 | 18.5 | 10.9 | 4.9 | 33.9 |
| Artio Global - Intl Equity II with look throughs | 0.3 | 5.1 | 19.2 | 25.6 | 21.9 | 23.0 | 1.4 | --- | 34.8 |
| Batterymarch Financial Mgmt | 0.6 | 12.3 | 17.0 | 17.0 | 17.7 | 32.7 | 2.8 | --- | 39.2 |
| Bernstein Inv Mgt & Research with look throughs | 0.9 | 9.4 | 21.0 | 16.9 | 18.6 | 25.9 | 5.1 | --- | 38.3 |
| BlackRock Global Ex US Alpha Tilt Fd | 0.9 | 9.2 | 16.7 | 24.4 | 18.5 | 25.6 | 3.3 | --- | 38.9 |
| DFA International Small Cap | -- | -- | -- | -- | --- | 17.2 | 59.7 | 22.8 | 1.4 |
| Hansberger Global Investors | -- | 16.6 | 17.1 | 21.4 | 15.2 | 29.8 | 0.0 | --- | 45.2 |
| Martin Currie with look throughs | -- | 4.4 | 24.3 | 18.7 | 22.4 | 25.5 | 4.6 | --- | 36.2 |
| BlackRock ACWI Ex US Superfund A | 0.7 | 11.3 | 21.7 | 23.9 | 16.6 | 22.2 | 2.5 | --- | 43.1 |
| ALL INTERNATIONAL EQUITY PORTFOLIOS | 0.6 | 9.7 | 19.2 | 20.8 | 17.1 | 23.9 | 5.9 | 1.4 | 38.6 |
| International Custom Benchmark | 0.7 | 11.3 | 21.8 | 23.8 | 16.5 | 22.3 | 3.3 | 0.2 | 42.7 |
| Over/underweight(-) | -0.1 | -1.6 | -2.7 | -3.0 | 0.6 | 1.6 | 2.6 | 1.2 | |

INTERNATIONAL EXPOSURE-SECTOR %

September 30, 2010

MANAGERS

| | Consumer Discretionary | Consumer Staples | Energy | Financials | Health Care | Industrials | Technology | Materials | Telecom. Services | Utilities |
|--|-----------------------------------|-----------------------------|---------------|-------------------|------------------------|--------------------|-------------------|------------------|------------------------------|------------------|
| Acadian Asset Management | 11.7 | 1.0 | 11.9 | 27.9 | 5.6 | 12.1 | 10.3 | 7.2 | 8.6 | 3.7 |
| Artio Global - Intl Equity II with look throughs | 13.2 | 20.1 | 3.1 | 18.2 | 5.4 | 13.2 | 4.2 | 15.6 | 2.2 | 1.2 |
| Batterymarch Financial Mgmt | 9.5 | 7.2 | 10.3 | 25.9 | 5.5 | 11.1 | 6.7 | 12.0 | 7.6 | 4.1 |
| Bernstein Inv Mgt & Research with look through | 12.9 | 4.2 | 13.2 | 23.4 | 5.0 | 8.3 | 6.2 | 12.2 | 7.4 | 4.8 |
| Blackrock Global Ex US Alpha Tilt Fd | 12.0 | 10.0 | 8.6 | 22.2 | 6.0 | 12.4 | 5.7 | 13.1 | 5.9 | 2.9 |
| DFA International Small Cap | 18.3 | 6.6 | 6.2 | 13.1 | 5.4 | 24.1 | 9.1 | 13.7 | 1.0 | 2.1 |
| Hansberger Global Investors | 12.9 | 9.0 | 7.5 | 17.2 | 6.4 | 10.5 | 13.5 | 17.0 | 4.1 | 1.8 |
| Martin Currie with look throughs | 24.1 | 12.1 | 11.0 | 15.7 | 8.5 | 9.8 | 5.1 | 10.5 | 3.3 | 0.0 |
| Blackrock ACWI ex-US Superfund | 9.0 | 8.9 | 10.3 | 25.3 | 6.0 | 10.5 | 6.4 | 12.1 | 6.0 | 4.5 |
| All International Equity Portfolios | 12.0 | 9.0 | 9.4 | 22.5 | 6.1 | 11.5 | 6.9 | 12.4 | 5.5 | 3.4 |
| International Custom Benchmark | 9.1 | 9.0 | 10.4 | 25.6 | 6.1 | 10.7 | 6.5 | 12.2 | 6.0 | 4.5 |
| Over/underweight(-) | 2.8 | 0.1 | -1.0 | -3.0 | 0.0 | 0.8 | 0.5 | 0.2 | -0.5 | -1.1 |

INTERNATIONAL PORTFOLIO CHARACTERISTICS

September 30, 2010

| | Market Value | Number of Securities | 3Yr Hist EPS Growth | Price/Earnings | Price/Book | Dividend Yield |
|--|----------------|----------------------|---------------------|----------------|------------|----------------|
| International Accounts with look throughs | 1,333.8 | 6,640 | -1.4 | 14.1 | 1.6 | 2.63 |

International Equity Managers

| | | | | | | |
|--|-------|-------|------|------|-----|------|
| Acadian Asset Management | 85.6 | 311 | -1.6 | 10.9 | 1.2 | 2.74 |
| Artio Global - Intl Equity II with look throughs | 140.2 | 215 | -1.0 | 17.7 | 2.0 | 1.80 |
| Batterymarch Financial Mgmt | 112.0 | 223 | -1.8 | 12.8 | 1.6 | 2.98 |
| Bernstein Inv Mgt & Research with look throughs | 108.3 | 217 | -5.1 | 11.6 | 1.3 | 3.03 |
| Blackrock Global Ex US Alpha Tilt Fd | 102.2 | 1,269 | -3.9 | 13.4 | 1.5 | 2.57 |
| DFA International Small Cap | 62.3 | 4,586 | -0.6 | 14.2 | 1.3 | 2.22 |
| Hansberger Global Investors | 102.0 | 63 | 5.3 | 17.9 | 2.4 | 1.74 |
| Martin Currie with look throughs | 95.8 | 56 | 7.3 | 15.2 | 1.7 | 2.30 |
| Blackrock ACWI ex-US Superfund | 485.3 | 1,862 | -2.7 | 14.5 | 1.6 | 2.83 |

Benchmarks

| | | | | | | |
|--|--|-------|------|------|-----|------|
| MSCI All Country World Ex-United States | | 1,819 | -2.6 | 14.3 | 1.6 | 2.82 |
| MSCI All Country World Ex-United States Growth | | 1,079 | 1.9 | 16.9 | 2.2 | 1.99 |
| MSCI All Country World Ex-United States Value | | 1,008 | -7.5 | 12.3 | 1.3 | 3.68 |
| MSCI EAFE Small Cap | | 2,334 | -1.1 | 14.0 | 1.2 | 2.36 |
| MSCI World Ex-United States Small Cap | | 2,548 | -0.8 | 14.4 | 1.3 | 2.37 |
| MSCI All Country Pacific | | 924 | -4.1 | 15.2 | 1.5 | 2.50 |
| MSCI Europe | | 462 | -5.4 | 13.2 | 1.6 | 3.33 |

International Custom Benchmark

| | | | | | | |
|--|--|-------|------|------|-----|------|
| | | 6,245 | -2.6 | 14.3 | 1.6 | 2.81 |
|--|--|-------|------|------|-----|------|

INTERNATIONAL EQUITY
Region and Market Exposure
September 30, 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 | 23.1% | 23.5% | -0.43% | | | | |
| Australia | 4.9% | 5.9% | | 24.6% | 24.6% | 4.7% | 10.3% |
| Hong Kong | 2.3% | 1.8% | | 21.7% | 21.7% | 18.5% | 23.8% |
| Japan | 14.4% | 14.5% | | 5.5% | 5.5% | 3.6% | -0.2% |
| New Zealand | 0.1% | 0.1% | | 13.9% | 13.9% | -0.9% | 0.9% |
| Singapore | 1.4% | 1.2% | | 16.0% | 16.0% | 15.2% | 26.9% |
| European Union | 24.7% | 23.9% | 0.83% | | | | |
| Austria | 0.5% | 0.2% | | 26.6% | 26.6% | 0.0% | -6.7% |
| Belgium | 0.8% | 0.7% | | 20.8% | 20.8% | 5.2% | 6.8% |
| Denmark | 0.9% | 0.7% | | 18.1% | 18.1% | 18.6% | 16.6% |
| Finland | 0.7% | 0.8% | | 27.1% | 27.1% | 5.7% | 3.3% |
| France | 6.8% | 6.9% | | 21.1% | 21.1% | -5.0% | -3.3% |
| Germany | 6.3% | 5.5% | | 17.1% | 17.1% | -0.3% | 2.0% |
| Greece | 0.2% | 0.2% | | 17.0% | 17.0% | -37.9% | -50.6% |
| Ireland | 0.2% | 0.2% | | 1.1% | 1.1% | -19.7% | -31.3% |
| Italy | 1.9% | 2.0% | | 19.4% | 19.4% | -12.8% | -15.2% |
| Netherlands | 2.8% | 1.8% | | 17.0% | 17.0% | 0.3% | 4.0% |
| Portugal | 0.2% | 0.2% | | 19.0% | 19.0% | -12.2% | -12.7% |
| Spain | 1.8% | 2.6% | | 27.2% | 27.2% | -14.2% | -13.5% |
| Sweden | 1.7% | 2.2% | | 26.1% | 26.1% | 23.9% | 29.8% |
| Non-EU Europe | 5.3% | 5.9% | -0.64% | | | | |
| Norway | 0.5% | 0.6% | | 28.9% | 28.9% | 0.5% | 15.6% |
| Switzerland | 4.8% | 5.3% | | 13.7% | 13.7% | 5.1% | 8.6% |
| North America | 6.7% | 7.6% | -0.92% | | | | |
| Canada | 6.7% | 7.6% | | 14.0% | 14.0% | 9.0% | 15.7% |
| USA | 0.0% | 0.0% | | 11.5% | 11.5% | 4.5% | 10.5% |
| United Kingdom | 15.3% | 14.8% | 0.50% | | | | |
| United Kingdom | 15.3% | 14.8% | | 19.9% | 19.9% | 3.9% | 10.5% |
| Other | | | | | | | |
| Other | 0.9% | 0.6% | | | | | |
| DEVELOPED TOTAL | 76.0% | 76.3% | -0.30% | | | | |
| Emerging & Frontier Market Countries | | | | | | | |
| Asia/Pacific | 13.3% | 13.7% | -0.36% | | | | |
| China | 4.8% | 4.3% | | 11.8% | 11.8% | 4.8% | 16.4% |
| India | 1.7% | 1.9% | | 15.9% | 15.9% | 19.5% | 28.8% |
| Indonesia | 0.4% | 0.6% | | 18.9% | 18.9% | 35.8% | 40.5% |
| S. Korea | 3.2% | 3.2% | | 17.0% | 17.0% | 12.4% | 14.8% |
| Malaysia | 0.7% | 0.7% | | 18.1% | 18.1% | 29.9% | 38.4% |
| Philippines | 0.1% | 0.1% | | 31.9% | 31.9% | 45.6% | 59.2% |
| Taiwan | 1.9% | 2.5% | | 18.9% | 18.9% | 4.1% | 14.2% |
| Thailand | 0.6% | 0.4% | | 33.9% | 33.9% | 50.4% | 53.7% |
| European Union | 0.4% | 0.6% | -0.18% | | | | |
| Czech Republic | 0.1% | 0.1% | | 17.8% | 17.8% | 4.6% | -4.3% |
| Hungary | 0.1% | 0.1% | | 27.3% | 27.3% | -0.1% | 3.0% |
| Poland | 0.2% | 0.4% | | 34.9% | 34.9% | 10.6% | 22.5% |
| Non-EU Europe | 1.5% | 1.4% | 0.05% | | | | |
| Russia | 1.5% | 1.4% | | 13.6% | 13.6% | 3.0% | 13.9% |
| Latin America/Caribbean | 4.9% | 5.7% | -0.80% | | | | |
| Brazil | 3.5% | 3.9% | | 22.0% | 22.0% | 4.0% | 18.2% |
| Chile | 0.4% | 0.4% | | 33.0% | 33.0% | 38.0% | 58.8% |
| Colombia | 0.1% | 0.2% | | 32.1% | 32.1% | 50.7% | 50.4% |
| Mexico | 0.7% | 1.0% | | 11.2% | 11.2% | 9.1% | 24.0% |
| Peru | 0.1% | 0.2% | | 24.9% | 24.9% | 30.5% | 31.5% |
| Mid East/Africa | 2.3% | 2.4% | -0.09% | | | | |
| Egypt | 0.1% | 0.1% | | 10.9% | 10.9% | 7.7% | -2.0% |
| Morocco | 0.0% | 0.0% | | 8.3% | 8.3% | 11.3% | 3.0% |
| South Africa | 1.5% | 1.8% | | 25.0% | 25.0% | 19.3% | 30.2% |
| Turkey | 0.6% | 0.4% | | 31.5% | 31.5% | 30.8% | 44.1% |
| Frontier | 0.1% | 0.0% | 0.12% | | | | |
| EMERGING & FRONTIER TOTAL | 22.4% | 23.7% | -1.25% | | | | |

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 – Public Equities

Date: November 30, 2010

Subject: Public Equity External Managers Watch List - Quarterly Update

During the quarter there were several changes to the Watch List. First of all, four portfolios were terminated. NorthPointe Small Cap Growth was terminated due to performance and company-wide concerns. The Martingale 130/30 and Midcap Core portfolios were terminated for performance, process, and organizational concerns. The Renaissance Large Cap Growth portfolio was terminated due to concerns about performance and process.

Also, there were two portfolios added to the Watch List this quarter. Artio Global International Large Cap Core was added with performance and philosophy cited as concerns. BlackRock International Alpha Tilts was added due to concerns about model and process changes and major changes in personnel.

MANAGER WATCH LIST

November 2010

| <u>Manager</u> | <u>Style Bucket</u> | <u>Reason</u> | <u>\$ Invested (mil)</u> | <u>Inclusion Date</u> |
|--------------------------|---------------------------|------------------------------|--------------------------|-----------------------|
| Western Asset | Domestic - LC Enhanced | Performance, Tracking Error | \$140 | March 2008 |
| Acadian | International – LC Value | Performance, Process | \$86 | February 2009 |
| Martin Currie | International – LC Growth | Performance, Risk Controls | \$96 | February 2009 |
| Batterymarch | International – LC Core | Performance, Process | \$112 | May 2009 |
| Analytic Investors | Domestic - 130/30 | Performance, Process | \$96 | May 2010 |
| Artio Global | International – LC Core | Performance, Philosophy | \$114 | November 2010 |
| BlackRock Int AlphaTilts | International – LC Core | Personnel, Model and Process | \$102 | November 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.

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager

November 30, 2010

During the third quarter money market yields fell as the sovereign debt crisis abated in European markets. The European bank stress tests calmed the uncertainty regarding the credit quality of these banks and money market spreads narrowed across the board. The money market yield curve flattened as investors placed money at the longer end of the curve to pick up additional yield. Libor rates reversed during the third quarter dropping almost exactly what they had increased during the second quarter (24 bp for three month and 9bp for one month rates). Credit spreads narrowed dramatically during the quarter, as depicted by the spread between three month Treasury bills and three month LIBOR rates (TED spread). This spread ended the third quarter at about 13 basis points, down 22 basis points for the quarter.

TED Spread (09/30/09 – 09/30/10)

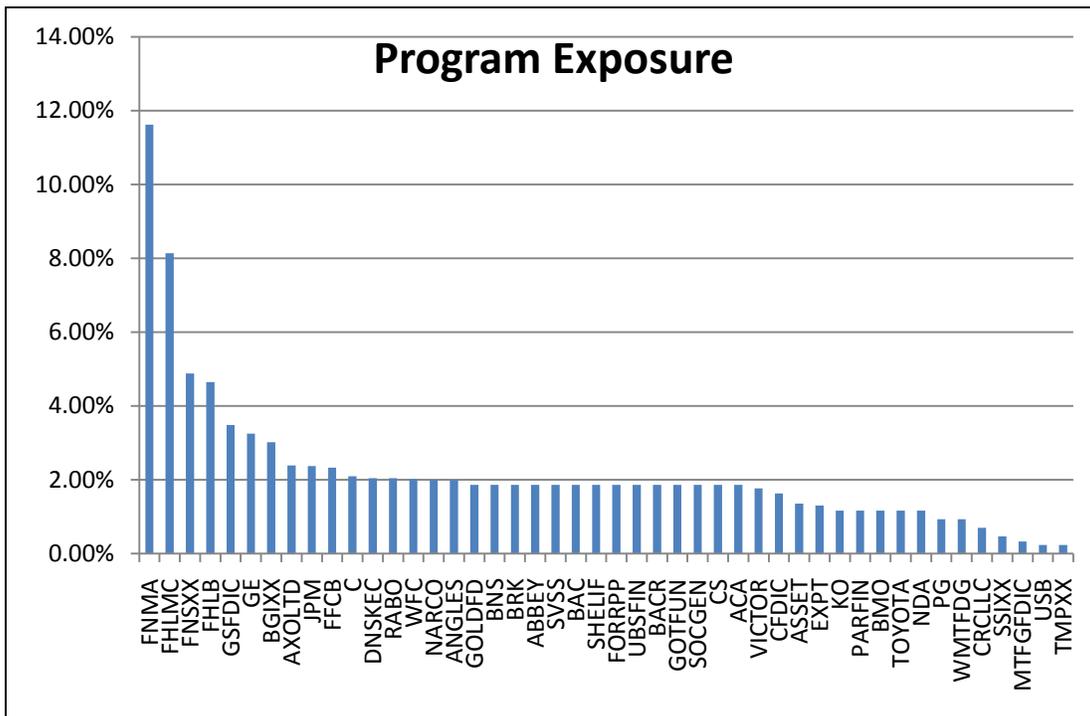
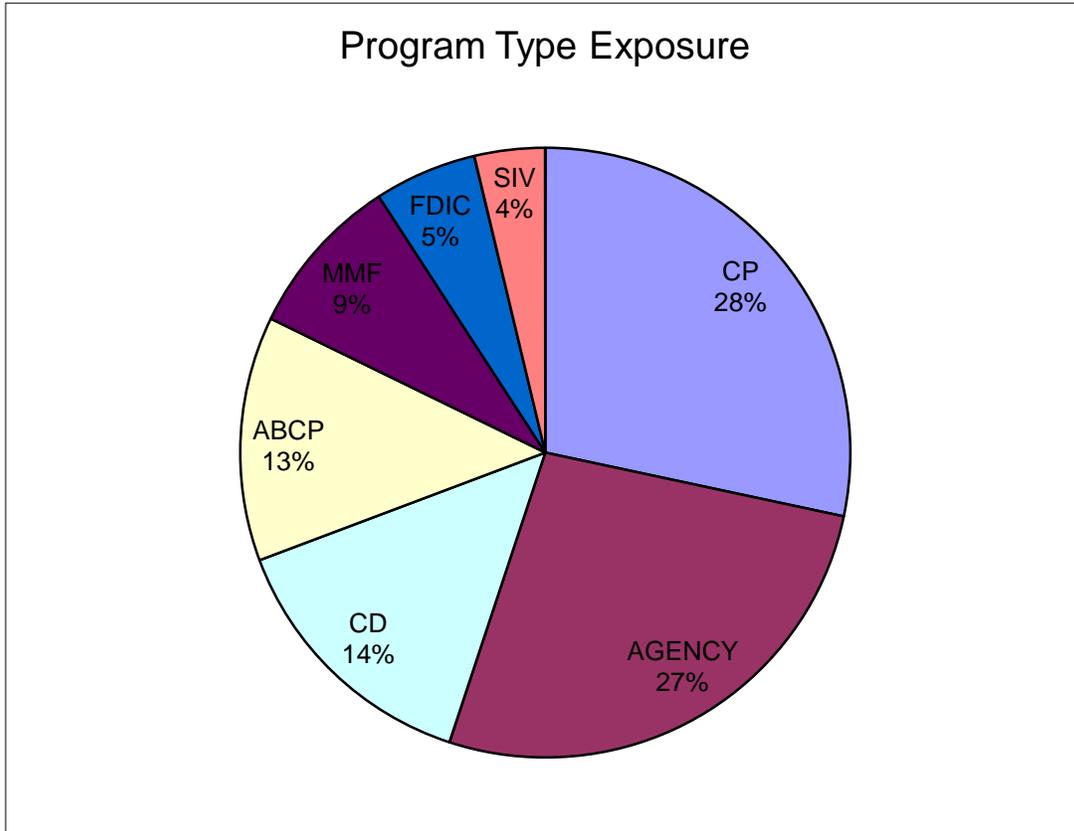


The STIP portfolio is currently well diversified and is operating within all the guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of \$150 million and weekly liquidity is at a minimum of \$250 million. The average days to maturity are about 38 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is about 14% of holdings (40% max) and corporate exposure is around 25% (40% max). We currently have approximately 35% in agency/FDIC paper, 14% in Yankee CD's (30% max) and 8% in four institutional money funds.

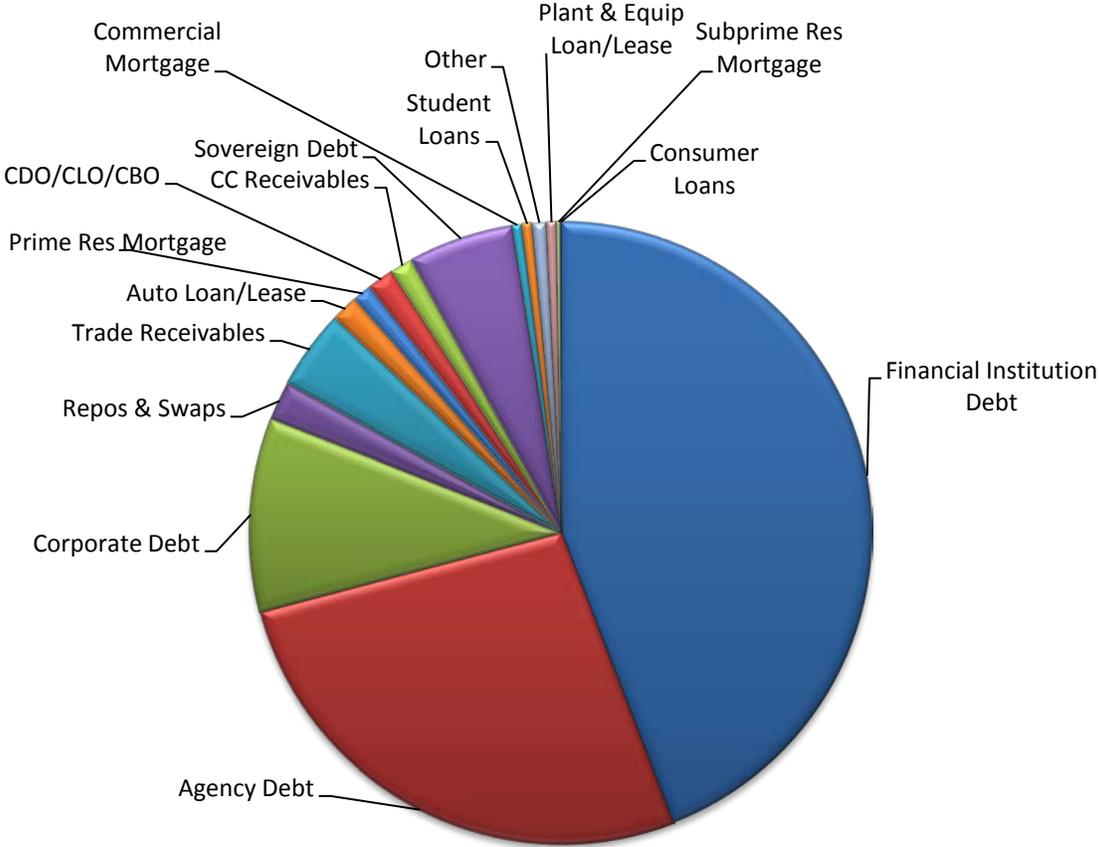
During the third quarter we purchased \$75 million of floating rate Agencies, pegged to one month Libor. We also purchased \$72 million of corporate floating rate securities and \$20 million of floating rate Yankee CDs. During the first half of the quarter, the portfolio yield benefited from still high Libor rates as floating rate securities reset at higher base rates. Lower Libor rates detracted from the portfolio yield during the second half of the quarter.

The net daily yield on STIP is currently 0.22% as compared with the current one-month LIBOR rate of 0.25% and current fed funds target rate of 0.0%-0.25%. The portfolio asset size is currently \$2.46 billion, up slightly from three months ago.

All charts below are as of November 16, 2010.



Portfolio Composition by Sector



State Fund Insurance

Richard Cooley, CFA, Portfolio Manager

November 30, 2010

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

| Benchmark Comparison Analysis | | | | | | |
|---|--------|--------|---------------|-------------------|--------------------|------------------|
| State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 09/30/2010 | | | | | | |
| Summary Characteristics | | | | | | |
| | Price | Coupon | Current Yield | Yield to Maturity | Effective Duration | Effective Spread |
| Portfolio | 107.47 | 4.48 | 4.08 | 2.27 | 3.70 | 3.57 |
| Benchmark | 107.89 | 3.64 | 3.29 | 1.71 | 3.87 | 0.55 |
| Difference | -0.42 | 0.84 | 0.79 | 0.56 | -0.16 | 3.02 |

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 has a shorter duration than the benchmark and is thus less sensitive to interest rate changes. This provides some defense against higher bond yields which may be important over the intermediate timeframe, while only having a minimal impact on the portfolio's yield.

Spread product ended the third quarter mixed as compared to the end of the second quarter. MBS spreads widened by 74 bp to 85 bp, agencies were unchanged at 24 bp and corporate spreads tightened by 18 bp to 175 bp. During the quarter, the ten year Treasury yield decreased by 42bp from 2.93% to 2.51%.

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 24 basis points during the September quarter and by 223 basis points over the past year. Longer term performance is +48 basis points for the past five years and +70 basis points for the past ten years (ended September 30).

During the September quarter, there were purchases of \$48 million including: \$43 million of corporate bonds and \$5 million of Treasury notes. These corporate purchases were in the utility, telecommunication, oil, insurance and food sectors. Equities were added to the total portfolio during the quarter during periods of market weakness. There were \$2 million of purchases of S&P 500 index units and \$10 million of purchases of international (ACWI ex-U.S.) index units during the quarter. The \$10 million international purchase was sourced out of a sale of S&P 500 index holdings.

The portfolio has a 56 basis point yield advantage over the benchmark with only a one notch lower quality rating. Client preferences include keeping the STIP balance of 1-5 percent (currently 1.84%) and limiting holdings rated lower than A3 or A- to 25 percent of fixed income (currently 22.0%).

| State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 09/30/2010 | | | |
|---|-----------------------|------------------|---------------|
| | SFBP Portfolio (%) | Benchmark (%) | Difference |
| Treasuries | 14.47 | 53.24 | -38.77 |
| Agencies & Govt Related | 21.32 | 19.19 | 2.14 |
| Total Government | 35.79 | 72.43 | -36.63 |
| Mortgage Backed | 3.60 | 0.00 | 3.60 |
| Asset Backed | 0.00 | 0.00 | 0.00 |
| CMBS | 1.90 | 0.00 | 1.90 |
| Securitized | 5.50 | 0.00 | 5.50 |
| Financial | 28.55 | 11.01 | 17.55 |
| Industrial | 21.30 | 14.73 | 6.57 |
| Utility | 6.10 | 1.83 | 4.27 |
| Total Corporates | 55.95 | 27.57 | 28.39 |
| Other | 0.72 | 0.00 | 0.72 |
| Cash | 2.04 | 0.00 | 2.04 |
| Total | 100.00 | 100.00 | |

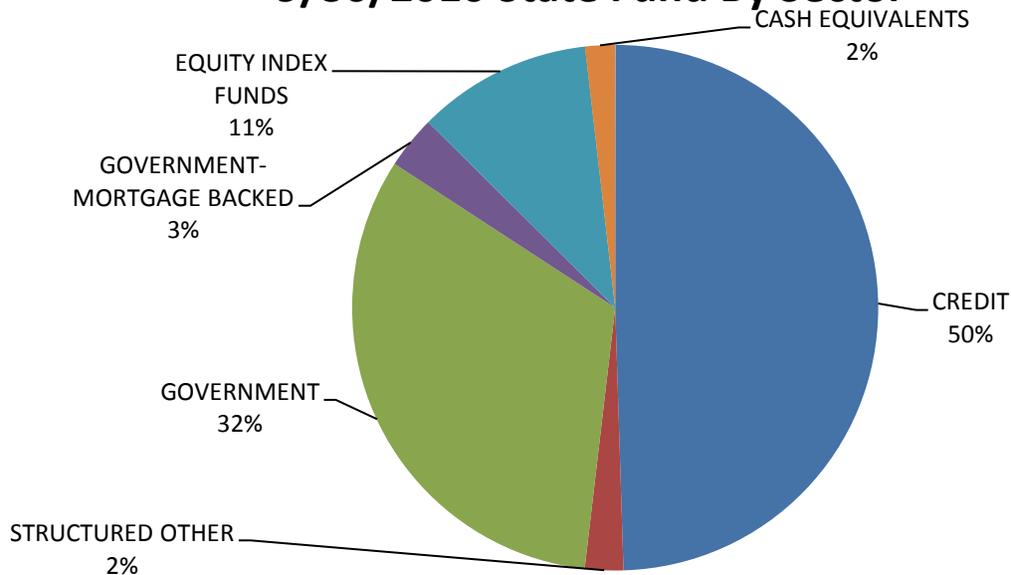
The following sector breakout is a look at the entire State Fund account including the S&P 500 and ACWI ex-U.S. equity holdings. The policy range for equities is currently 8%-12%. This is a client preference as the maximum allowed by statute is 25% of book value. We have been adding to equity holdings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

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

9/30/2010 State Fund By Sector

| <u>Sector</u> | <u>Market Value</u> | <u>%</u> |
|-----------------------------------|----------------------|----------------|
| BANKS | 88,526,902 | 7.53% |
| COMMUNICATIONS | 30,044,001 | 2.56% |
| ENERGY | 39,240,363 | 3.34% |
| GAS/PIPELINES | 6,327,797 | 0.54% |
| INSURANCE | 62,788,901 | 5.34% |
| OTHER FINANCE | 147,877,706 | 12.58% |
| RETAIL | 5,753,981 | 0.49% |
| TRANSPORTATION | 42,604,614 | 3.63% |
| UTILITIES | 67,751,592 | 5.76% |
| INDUSTRIAL | 90,780,020 | 7.72% |
| CREDIT | 581,695,877 | 49.49% |
| CDO | 7,500,000 | 0.64% |
| CMBS | 20,079,916 | 1.71% |
| STRUCTURED OTHER | 27,579,916 | 2.35% |
| TITLE XI | 7,322,085 | 0.62% |
| TREASURY NOTES/BONDS | 152,253,799 | 12.95% |
| AGENCY | 220,790,512 | 18.79% |
| GOVERNMENT | 380,366,396 | 32.36% |
| FHLMC | 19,603,851 | 1.67% |
| FNMA | 18,342,203 | 1.56% |
| GOVERNMENT-MORTGAGE BACKED | 37,946,054 | 3.23% |
| TOTAL FIXED INCOME | 1,027,588,244 | 87.43% |
| EQUITY INDEX FUNDS | 126,100,876 | 10.73% |
| CASH EQUIVALENTS | 21,572,858 | 1.84% |
| GRAND TOTAL | 1,175,261,978 | 100.00% |

9/30/2010 State Fund By Sector



MONTANA BOARD OF INVESTMENTS

SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending September 30, 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 | 1,185,317 | 100.0 | 1.41 | 3.81 | 3.81 | 9.89 | 6.12 | 5.98 | 6.22 | 6.26 | 12/01/1993 |
| CASH EQUIVALENTS | 21,579 | 1.8 | 0.03 | 0.09 | 0.09 | 0.30 | 3.14 | 3.98 | 3.33 | 4.25 | |
| EQUITIES | 126,101 | 10.6 | 9.04 | 11.87 | 11.87 | 10.89 | -6.35 | 1.17 | | 0.33 | 01/01/2001 |
| Domestic | 110,853 | 9.4 | 8.92 | 11.53 | 11.53 | 10.66 | -6.42 | 1.13 | | | |
| Foreign | 15,248 | 1.3 | 9.93 | 10.38 | 10.38 | | | | | | |
| FIXED INCOME | 1,037,637 | 87.5 | 0.58 | 3.00 | 3.00 | 10.00 | 7.51 | 6.43 | 6.75 | 6.58 | |
| STATE FUND INSURANCE CUSTOM COMPO | | | | | | | | | | | |
| S&P 500 | | | 8.92 | 11.29 | 11.29 | 10.16 | -7.16 | 0.64 | -0.43 | | |
| MSCI AC WORLD ex US (NET) | | | 9.95 | 16.58 | 16.58 | 7.56 | -7.42 | 4.26 | 4.33 | | |
| BC GOV/CREDIT INTERMEDIATE | | | 0.47 | 2.76 | 2.76 | 7.77 | 6.93 | 5.95 | 6.05 | | |
| LIBOR 1 MONTH INDEX | | | 0.02 | 0.07 | 0.07 | 0.27 | 1.45 | 2.92 | 2.71 | | |

Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

November 30, 2010

The fund totaled \$785 million as of September 30, 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 third 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 \$218 million.

INTRODUCTION

This is an aggregate of ~~6~~ seven underlying trust funds administered by the Montana Historical Society: Charles Bair, Acquisitions, Bradley, Teakle, Merritt Wheeler, Stewart and Sobotka Trusts.

~~The purpose of an investment policy statement is to give the investment manager guidance in developing an investment program to achieve the objectives agreed upon and enable the sponsor, Montana Historical Society, to monitor the progress of the plans.~~

This fund is governed by state law, 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.

OBJECTIVES

To maximize ~~the total rate of return~~ investment income through a broadly diversified portfolio of fixed income investments. Permitted investments for these accounts are limited to STIP and TFIP.

Current Income is important since investment earnings are designated for heritage purposes.

Risk Tolerance: ~~These are considered permanent trust funds; therefore, they have an above average ability to assume risk. The ability to tolerate volatility in value of the portfolios is greater than the ability to tolerate volatility in total spendable return.~~

Time Horizon: ~~The funds are considered permanent, long term funds that have a time horizon well beyond normal market cycles.~~

Liquidity Needs: ~~Liquidity needs are low, except for investment purposes.~~

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

Client Preferences: ~~Maximize investment income, while maintaining long term capital appreciation potential.~~

ASSET ALLOCATION (at market)

| | <u>Ranges</u> | <u>Ranges</u> |
|---------------------------------------|---------------|---------------|
| Trust Funds Investment Pool | 20-40% | 0-100% |
| MT Domestic Equity Pool (MDEP) | 50-80 | |
| Short-Term Investment Pool | <u>0-10</u> | <u>0-100</u> |
| Total Fixed Income | <u>100.0%</u> | <u>100.0%</u> |

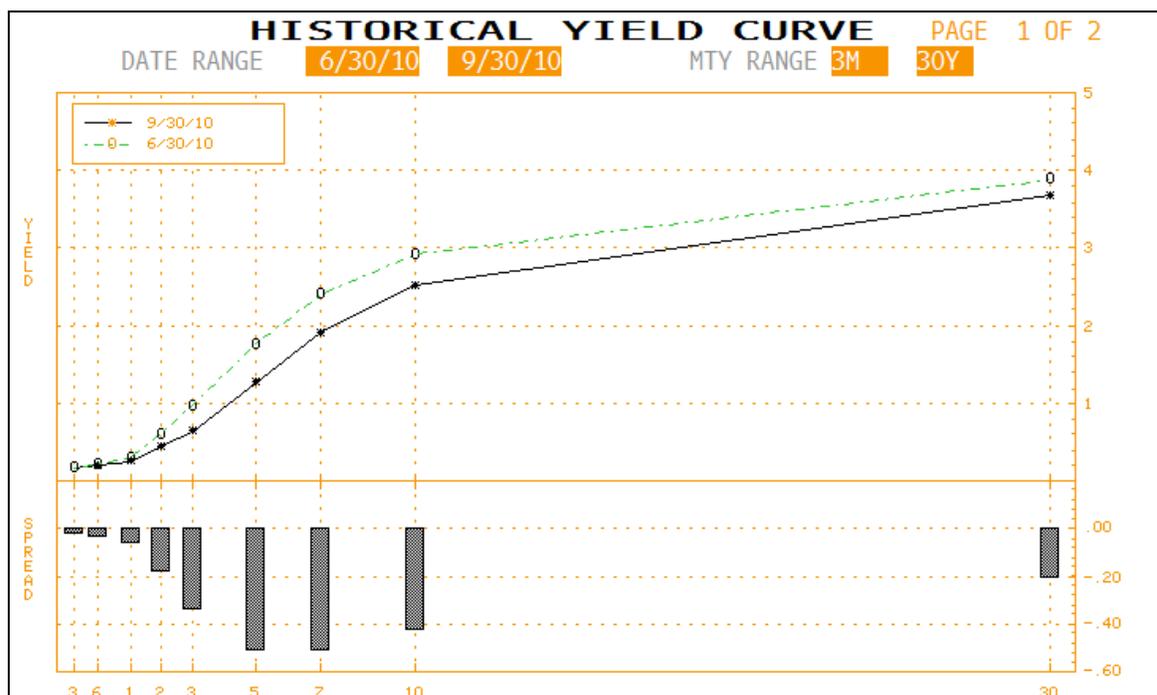
FIXED INCOME OVERVIEW & STRATEGY

Nathan Sax, CFA, Portfolio Manager

November 30, 2010

RETIREMENT & TRUST FUND BOND POOLS

The yield curve flattened again in the third quarter as interest rates continued to grind lower. The yield differential between the U.S. Treasury two and ten-year notes was 281 basis points on March 31, 2010. That gap narrowed to 233 basis points by June 30, 2010 and 206 basis points by September 30, 2010. The yield on the two-year note decreased from 1.02% to 0.60% to 0.37% over the same six month period. The bond market now views any chance of Fed tightening as being further into the future, and certainly no earlier than the second half of 2011. The yield to maturity on the Treasury ten-year note dropped a stunning 138 basis points, from 3.83% (March 31) to 2.93% (June 30) to 2.45% (September 30). The U.S. Treasury 10-year note peaked at 4.02% in early April before beginning its impressive decline to less than 2.50%. The rally, influenced by expectations for lower inflation and weaker economic growth, also reflected expectations for another round of Fed stimulus. This was confirmed after quarter end with the announcement of \$600 billion in additional Treasury purchases by the Fed through June 2011.



Treasury bonds posted a total return of +2.73% in the third quarter. Other Government related bonds returned +2.64%, mortgage backed securities +0.63%, corporate bonds +4.71%, and asset backed securities + 2.51% and CMBS + 6.41%. The Barclays Capital Aggregate Bond Index return was +2.48%. Investors seeking income drove corporate and CMBS returns while Government and Agency debt lagged. The flight to quality trade was not in favor through the summer months and risk assets outperformed as a result.

Real GDP growth for the year 2010 is still expected to be approximately 2.7%. Four months ago, the consensus forecast was for 3.3%. GDP came in at 2.0% annualized in the third quarter, led by inventory growth. GDP is forecast to grow at 2.4% in the fourth quarter. Real PCE (Personal Consumption Expenditures) is forecast to come in at 1.6% for the year and core (less food and energy) CPI at 0.9%.

RFBP/TFBP vs. Barclays Aggregate – 09/30/10

| | Retirement Fund Bond Pool | | | | | | | | |
|--------------------------|---------------------------|---------------|---------------|---------------|---------------|---------------|----------------------|--------------------|------------------------|
| | CIBP | Reams | Artio | Post | Neubgr Berman | Total RFBP | Trust Fund Bond Pool | Barclays Aggregate | CIBP/TFBP Policy Range |
| Treasuries | 16.43 | 27.52 | 29.94 | 0.00 | 0.00 | 17.07 | 16.40 | 33.40 | 10-35 |
| Agencies & Govt Related | 12.01 | 3.51 | 15.17 | 0.00 | 0.00 | 10.10 | 11.86 | 12.10 | 5-25 |
| Total Government | 28.44 | 31.03 | 45.11 | 0.00 | 0.00 | 27.17 | 28.26 | 45.50 | 15-60 |
| Mortgage Backed | 24.08 | 17.89 | 14.95 | 0.00 | 0.00 | 20.65 | 24.59 | 32.52 | 20-50 |
| Asset Backed | 2.18 | 6.21 | 3.14 | 0.00 | 0.67 | 2.56 | 2.32 | 0.27 | 0-10 |
| CMBS | 9.93 | 0.30 | 10.45 | 0.00 | 0.00 | 7.92 | 9.97 | 2.98 | 0-10 |
| Total Securitized | 36.19 | 24.40 | 28.54 | 0.00 | 0.67 | 31.13 | 36.88 | 35.77 | 20-75 |
| Financial | 14.27 | 27.26 | 9.78 | 7.37 | 10.10 | 15.32 | 14.22 | 6.64 | |
| Industrial | 13.66 | 6.87 | 13.63 | 87.89 | 82.86 | 19.14 | 13.98 | 9.95 | |
| Utility | 4.05 | 4.36 | 0.42 | 1.65 | 3.98 | 3.67 | 3.99 | 2.13 | |
| Total Corporate | 31.98 | 38.49 | 23.83 | 96.91 | 96.94 | 38.13 | 32.19 | 18.72 | 10-35 |
| Other | 1.26 | 0.00 | 0.00 | 0.00 | 0.29 | 0.93 | 0.63 | 0.00 | |
| Cash | 2.13 | 6.08 | 2.52 | 3.09 | 2.10 | 2.64 | 2.04 | 0.00 | 0-10 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

| Fixed Income Sector | Policy Range | RFBP on 09/30/10 |
|------------------------------|--------------|------------------|
| U.S. High Yield | 0-15% | 13.73% |
| Non-US (incl. EM) | 0-10% | 1.58% |
| Total "Plus" sectors | 0-20% | 15.31% |
| Core (U.S. Investment Grade) | 80-100% | 84.69% |

| Fixed Income Sector | Policy Range | TFIP on 09/30/10 |
|------------------------------|--------------|------------------|
| U.S. High Yield | 0-10% | 8.00% |
| Core Real Estate | 0-8% | 4.02% |
| Core (U.S. Investment Grade) | 0-100% | 87.98% |

The duration of the Core Investment Bond Pool (CIBP) has been maintained at a level slightly longer than that of the index. We have transitioned to a more laddered distribution of maturities from our prior emphasis on the shorter and longer ends of the yield curve. Fortunately, we did not emphasize long bonds, which lagged the market during the third quarter and so far this quarter. This was the case because the Fed's upcoming purchases favor the middle of the curve and because investors are anticipating inflation. Corporate bond spreads did tighten slightly but consistently as we predicted in this space last quarter. This occurred despite the lack of improvement in economic activity.

The mortgage market was on tenterhooks with the news that massive numbers of foreclosures on residential mortgage loans were under investigation by the federal government for fraud. Seizures of homes without proper investigation by banks are now a focus of audits and will slow foreclosures, at least temporarily. The odds of a "double dip" back into recession are considered to be relatively low by market economists. However, yield spreads got as tight as they did, in part, under the assumption that the U.S. will see a stronger economic recovery.

| Benchmark Comparison Analysis CIBP vs. Merrill US Broad Market Index on 09/30/2010 | | | | | | |
|---|--------|--------|---------------|-------------------|--------------------|------------------|
| Summary Characteristics | | | | | | |
| | Price | Coupon | Current Yield | Yield to Maturity | Effective Duration | Effective Spread |
| Portfolio | 103.92 | 4.44 | 4.07 | 3.06 | 4.56 | 3.97 |
| Benchmark | 108.22 | 4.39 | 4.00 | 2.30 | 4.35 | 0.69 |
| Difference | -4.30 | 0.04 | 0.07 | 0.76 | 0.21 | 3.28 |

| Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 09/30/2010 | | | | | | |
|---|--------|--------|---------------|-------------------|--------------------|------------------|
| Summary Characteristics | | | | | | |
| | Price | Coupon | Current Yield | Yield to Maturity | Effective Duration | Effective Spread |
| Portfolio | 102.59 | 4.64 | 4.38 | 3.54 | 4.56 | 3.74 |
| Benchmark | 108.22 | 4.39 | 4.00 | 2.30 | 4.35 | 0.69 |
| Difference | -5.63 | 0.25 | 0.38 | 1.24 | 0.21 | 3.05 |

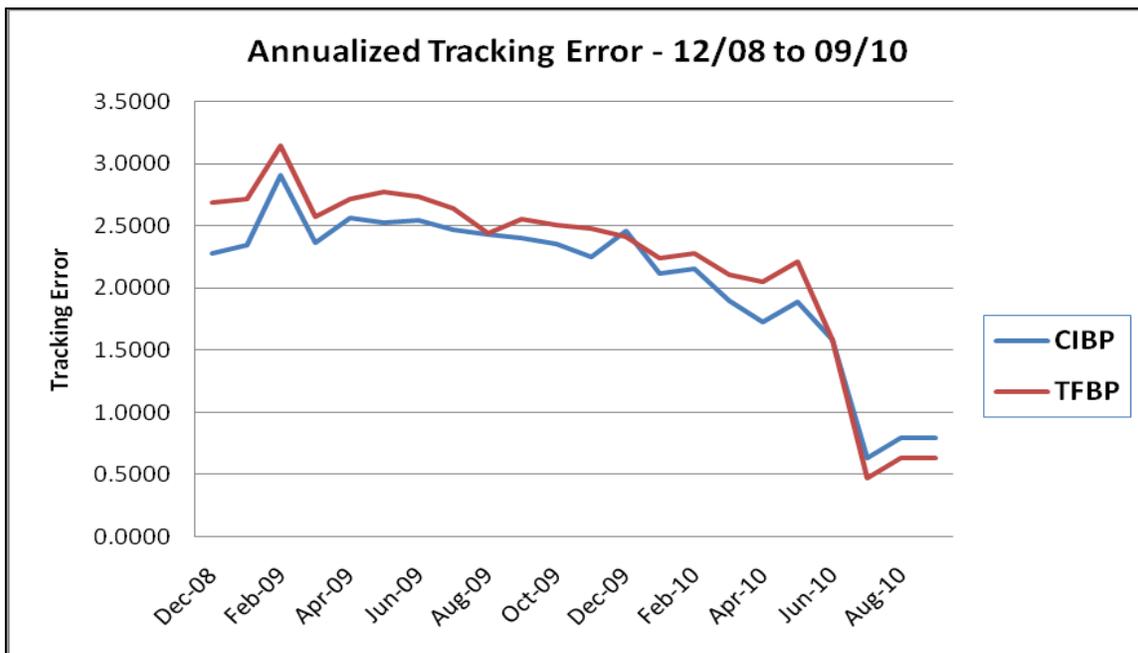
| Benchmark Comparison Analysis TFBP vs. Merrill US Broad Market Index on 09/30/2010 | | | | | | |
|---|--------|--------|---------------|-------------------|--------------------|------------------|
| Summary Characteristics | | | | | | |
| | Price | Coupon | Current Yield | Yield to Maturity | Effective Duration | Effective Spread |
| Portfolio | 95.28 | 4.02 | 3.69 | 2.96 | 4.52 | 2.85 |
| Benchmark | 108.22 | 4.39 | 4.00 | 2.30 | 4.35 | 0.69 |
| Difference | -12.94 | -0.37 | -0.31 | 0.66 | 0.17 | 2.16 |

High Yield spreads widened in August before rallying through quarter end and into November. Our High Yield managers performed well, beating the U.S. High Yield 2% issuer cap index. Post Advisory (\$58mm) beat the index by 20 basis points while Neuberger Berman (\$109mm) continued their excellent performance, outpacing the benchmark by 50 basis points. Among our Core Plus managers, Artio Global (\$108mm) had a stellar quarter, besting their benchmark by 119 basis points. Artio benefitted from a weaker dollar and good performance in spread product, especially securitized bonds. Reams beat the Barclays Universal Index by 36 basis points in the third quarter. The firm has been defensive, guarding against rising interest rates. They have kept their duration short and have been willing to give up yield in order to guard against market corrections. The graph on the next page shows the recent trend in high yield spreads.

Barclays U.S. High Yield 2% Issuer Cap, Average OAS – 09/09 to 11/10



The CIBP and TFIP continue to improve their liquidity profiles. Market demand for income presented an opportunity to sell a Goldman Sachs bond secured by Palo Alto real estate. That bond had previously been a challenge because of its specialized nature and illiquidity. Following that sale, we now have only 7.0% of the CIBP portfolio and 5.7% of the TFIP in illiquid positions. This will give us more portfolio flexibility and aid in the management of asset allocation. The CIBP will have less ability to generate alpha (excess return over the benchmark) because of its reduced level of risk. Within the broader pension plans, it will offer a pool of liquidity and will serve as a stable, low risk core within the fixed income asset class. The external fixed income managers will play a more prominent role in alpha generation, investing as they do in the “plus” sectors of the bond market. The following graph shows the trend in the tracking error (a measure of the standard deviation of a portfolio’s performance relative to the performance of its benchmark) for the CIBP and TFIP and reflects the more core-like expectation for these portfolios.



Summary

Yields dropped in the third quarter in tandem with sluggish growth and low inflation. The euro rallied strongly against the dollar, recouping ground lost in the first half of the year. Corporate bonds and CMBS substantially outperformed governments, agencies and mortgages.

The middle of the yield curve flattened appreciably, signaling expectations for slower growth than previously forecast. The Federal Reserve announced a second stage for quantitative easing at the start of the fourth quarter, sparking a steepening of the yield curve. The Fed purposefully avoided open market purchases in the 10 and 30 year part of the Treasury yield curve. Although many institutional investors are looking for interest rates to rise, the economic statistics are not yet showing increases in inflation or growth.

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS

September 30, 2010

(in millions)

| Par | Book | Market | Price | Name | Coupon % | Maturity | Rating M/S&P | Comments |
|--------------------------|------------------------------------|------------------|--------------|-----------------------------|-----------------|-----------------|-----------------------------|---|
| \$5.000 | \$5.000 | \$5.013 | \$100.25 | International Lease Finance | 5.125 | 11/01/10 | B1/BB+ | Matured at Par on 11/01/10 |
| \$2.000 | \$2.000 | \$2.023 | \$101.17 | Wilmington Trust Corp | 8.500 | 04/02/18 | BA1/BB- | On watch for upgrade; expect investment grade ratings when merger with M&T Bank is complete in mid 2011 |
| \$5.000 | \$5.004 | \$5.163 | \$103.25 | 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 | \$28.000 | \$70.00 | Cypresstree Synthetic CDO | FLT | 12/30/10 | NR/BB- | The portfolio of underlying CDS experienced deterioration in 2008/2009 but has stabilized. |
| \$8.000 | \$7.966 | \$7.933 | \$99.16 | 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. |
| \$50.000 | \$50.000 | \$51.523 | \$103.05 | 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 | \$2.200 | \$22.00 | Lehman Brothers | 5.500 | 05/25/10 | NR/NR | Currently in default and liquidation |
| \$5.000 | \$0.978 | \$1.088 | \$21.75 | Lehman Brothers | 5.000 | 01/14/11 | NR/NR | Currently in default and liquidation |
| \$125.000 | \$112.948 | \$102.941 | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| A | = Additions since 6/30/2010 - None | | | | | | | |
| | | | | | | | | |
| D | = Deletions since 6/30/10 - None | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| <u>In default</u> | | | | | | | | |
| \$10.000 | \$2.000 | \$2.200 | \$22.00 | Lehman Brothers | 5.500 | 05/25/10 | NR/NR | Currently in default and liquidation |
| \$5.000 | \$0.978 | \$1.088 | \$21.75 | Lehman Brothers | 5.000 | 01/14/11 | NR/NR | Currently in default and liquidation |
| \$15.000 | \$2.978 | \$3.288 | | | | | | |

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: December 1, 2010

Subject: Montana Private Equity Pool [MPEP]

Following this memo are the items listed below:

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

| Fund Name | Vintage | Subclass | Sector | Amount | Date |
|---------------------------------------|---------|----------|---------|--------|---------|
| CIVC Partners Fund IV, L.P. | 2009 | Buyout | Diverse | \$25M | 9/15/10 |
| Thayer Hidden Creek Partners II, L.P. | 2008 | Buyout | Diverse | \$20M | 9/24/10 |

- (iii) **Portfolio Index Comparison:**
Table comparing the performance of the private equity portfolio to the State Street Private Equity IndexSM.
- (iv) **Pacing Analysis Review:**
Review of the annual pacing study that is prepared by R.V. Kuhns & Associates.

Montana Board of Investments

Private Equity Board Report

Q2 2010

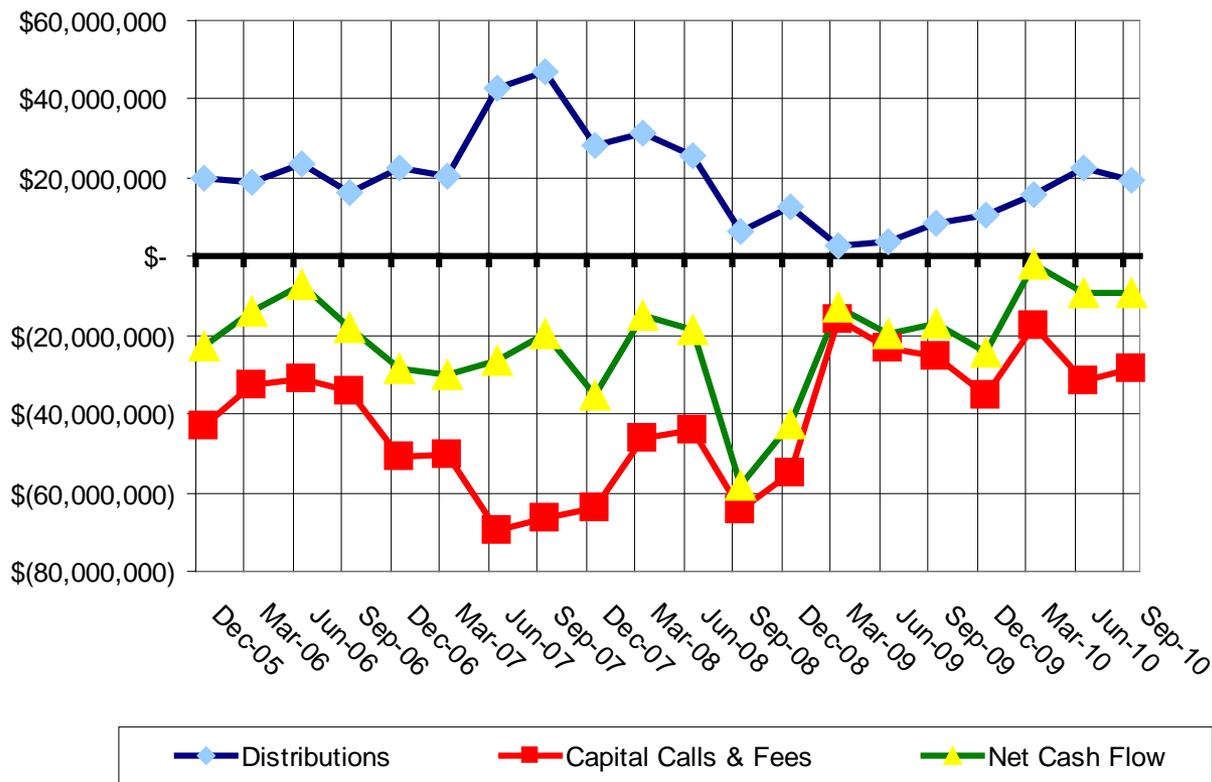
Contents

- **Quarterly Cash Flow Chart**
- **Strategy – Total Exposure Chart**
- **Industry – Market Value Exposure Chart**
- **Geography – Total Exposure Chart**
- **Investment Vehicle – Total Exposure Chart**
- **Periodic Return Comparison**
- **LPs by Family of Funds Table**

MPEP Quarterly Cash Flows

October 1, 2005 through September 30, 2010

MPEP Cash Flows



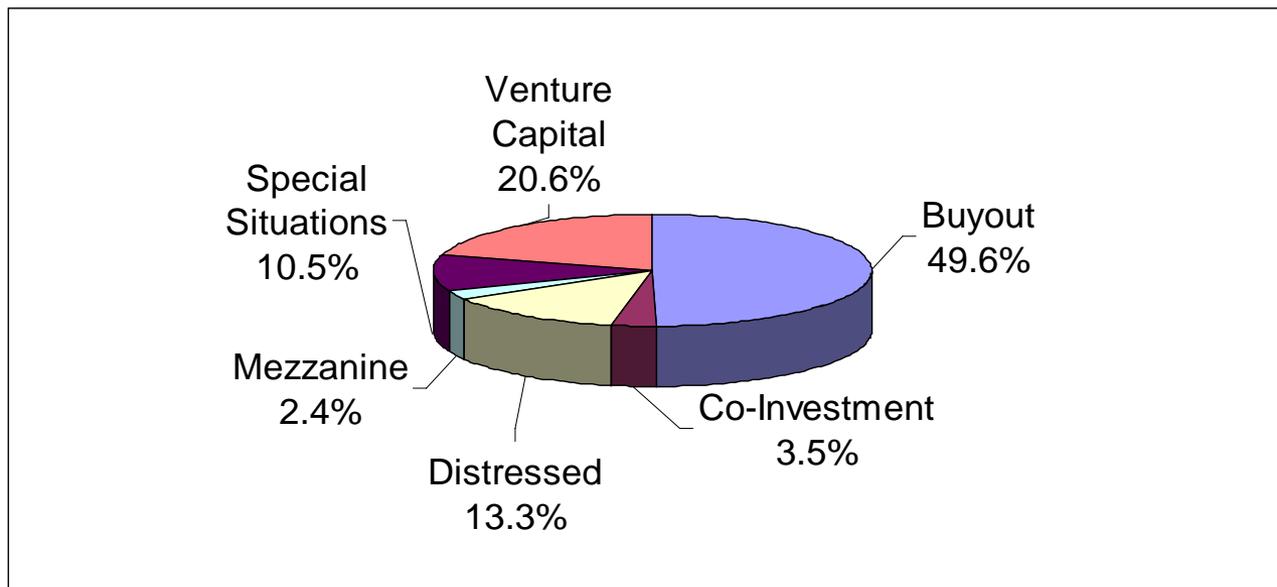
The most recent period saw a slight moderation in both call and distribution activity, leaving net cash flow flat versus the prior quarter. Call activity was driven by the Pool's buyout and secondary managers, while secondary, buyout, and venture managers were all active in returning capital.

Q2 2010 Strategy – Total Exposure

Montana Private Equity Pool

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

(since inception through June 30, 2010)

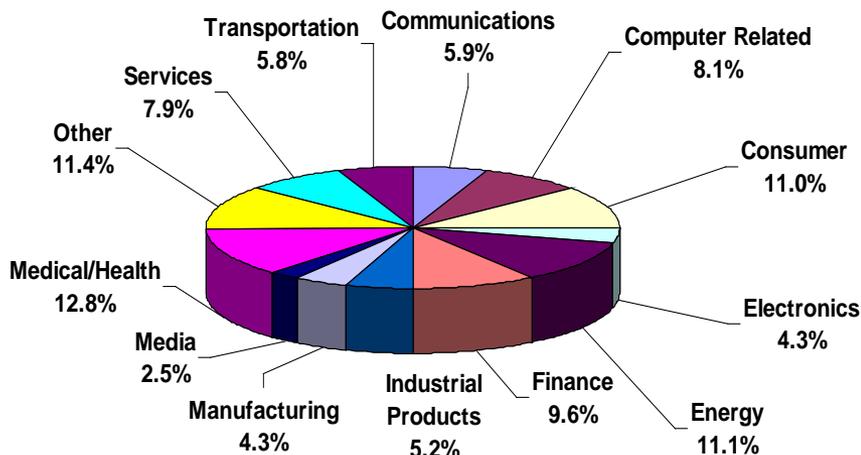


| Strategy | Remaining Commitments | Percentage | Market Value | Percentage | Total Exposure | Percentage |
|--------------------|-----------------------|---------------|----------------------|---------------|------------------------|---------------|
| Buyout | \$259,975,247 | 49.6% | \$418,308,138 | 49.7% | \$678,283,385 | 49.6% |
| Co-Investment | \$20,129,860 | 3.8% | \$27,990,858 | 3.3% | \$48,120,718 | 3.5% |
| Distressed | \$56,312,767 | 10.7% | \$125,814,199 | 14.9% | \$182,126,966 | 13.3% |
| Mezzanine | \$11,451,031 | 2.2% | \$21,314,120 | 2.5% | \$32,765,151 | 2.4% |
| Special Situations | \$59,854,292 | 11.4% | \$83,573,645 | 9.9% | \$143,427,937 | 10.5% |
| Venture Capital | \$116,337,548 | 22.2% | \$165,328,048 | 19.6% | \$281,665,596 | 20.6% |
| Total | \$524,060,745 | 100.0% | \$842,329,008 | 100.0% | \$1,366,389,753 | 100.0% |

The portfolio is well diversified by strategy, with the most significant weight consisting of Buyout at 49.6% of total exposure followed by Venture Capital at 20.6%. The Pool's strategic allocations are expected to be relatively stable going forward, although recent investment decisions are likely to slightly increase the Buyout component of the portfolio in coming periods.

Q2 2010 Industry – Market Value Exposure

Montana Private Equity Pool Underlying Investment Industry Exposure, by Market Value *(since inception through June 30, 2010)*



| Industry | Investments, At Market Value | Percentage |
|---------------------|------------------------------|---------------|
| Communications | \$47,955,004 | 5.9% |
| Computer Related | \$66,467,299 | 8.1% |
| Consumer | \$89,530,171 | 11.0% |
| Electronics | \$35,080,134 | 4.3% |
| Energy | \$90,496,278 | 11.1% |
| Finance | \$78,636,884 | 9.6% |
| Industrial Products | \$42,869,693 | 5.2% |
| Manufacturing | \$34,837,283 | 4.3% |
| Media | \$20,359,404 | 2.5% |
| Medical/Health | \$104,768,687 | 12.8% |
| Other | \$93,470,721 | 11.4% |
| Services | \$64,908,816 | 7.9% |
| Transportation | \$47,321,363 | 5.8% |
| Total | \$816,701,736 | 100.0% |

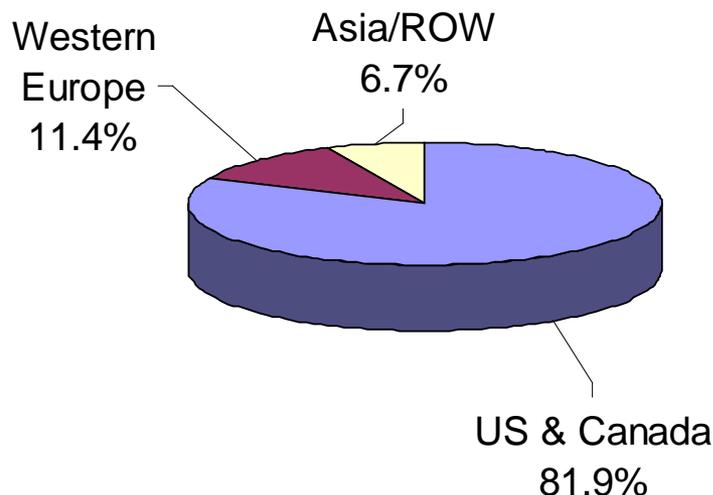
The portfolio is broadly diversified by industry, with Medical/Health representing the highest concentration at 12.8% of assets. With the exception of Energy and the technology-related industries, the portfolio's underlying managers tend to be multi-sector investors. Therefore, composition of the portfolio by industry is and will continue to be primarily an outflow of manager deal sourcing success rather than a function of Board staff's desire to over or underweight a specific industry.

Q2 2010 Geography – Total Exposure

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2010)



The portfolio's predominate geographic exposure is to developed North America, with 81.9% of market value and uncalled capital domiciled in or targeted for the U.S. and Canada. The ratio of domestic to international investments is not expected to change materially going forward. International investments are expected to 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 | \$455,312,081 | 86.9% | \$642,386,443 | 78.7% | \$1,097,698,524 | 81.9% |
| Western Europe | \$38,508,166 | 7.3% | \$114,679,851 | 14.0% | \$153,188,017 | 11.4% |
| Asia/ROW | \$30,240,498 | 5.8% | \$59,635,442 | 7.3% | \$89,875,940 | 6.7% |
| Total | \$524,060,745 | 100.0% | \$816,701,736 | 100.0% | \$1,340,762,481 | 100.0% |

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

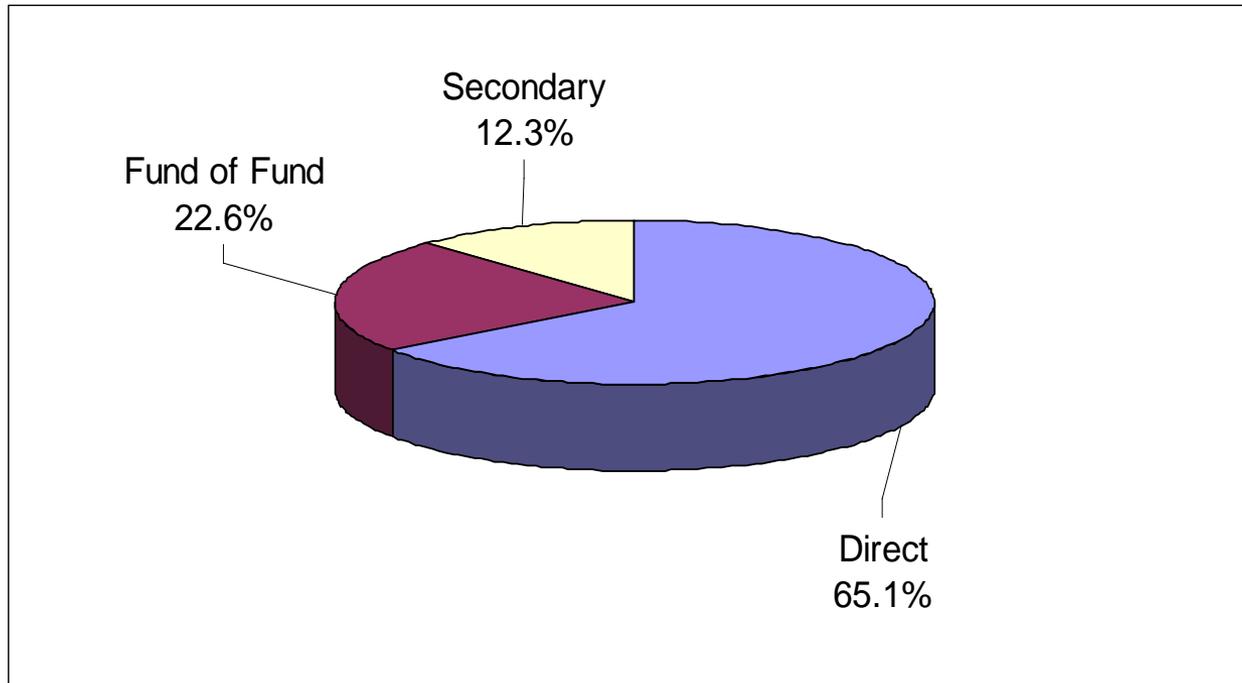
⁽²⁾ Market Value represents the aggregate market values of the underlying investment companies of the partnerships.

Q2 2010 Investment Vehicle – Total Exposure

Montana Private Equity Pool

Investment Vehicle Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2010)



The portfolio is invested primarily through direct private equity commitments. To the extent that the quality of managers invested in 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.

| Investment Vehicle | Remaining Commitments | Percentage | Market Value | Percentage | Total Exposure | Percentage |
|--------------------|-----------------------|---------------|-----------------------|---------------|-------------------------|---------------|
| Direct | \$ 317,844,162 | 60.7% | \$ 572,102,796 | 67.9% | \$ 889,946,958 | 65.1% |
| Fund of Fund | \$ 124,656,436 | 23.8% | \$ 183,437,320 | 21.8% | \$ 308,093,756 | 22.6% |
| Secondary | \$ 81,560,147 | 15.5% | \$ 86,788,892 | 10.3% | \$ 168,349,039 | 12.3% |
| Total | \$ 524,060,745 | 100.0% | \$ 842,329,008 | 100.0% | \$ 1,366,389,753 | 100.0% |

Q2 2010 1 – 3 – 5 Year Periodic Return Comparison

Montana Board of Investments Periodic Return Comparison

For the Period Ended June 30, 2010

| Description | Since Inception | | | | | 1 Year Return | 3 Year Return | 5 Year Return |
|------------------------------|-----------------|---------------------|---------------------|--------------|---------------------|---------------|---------------|---------------|
| | Fund Count | Ending Market Value | Investment Multiple | IRR | Contribution to IRR | IRR | IRR | IRR |
| Total | 120 | 842,329,008 | 1.31 | 11.58 | 11.58 | 13.44 | (2.65) | 4.73 |
| <i>Adams Street Funds</i> | 34 | 183,712,157 | 1.35 | 11.49 | 3.00 | 10.49 | (2.95) | 6.85 |
| ASP - Direct VC Funds | 4 | 30,313,832 | 1.35 | 13.88 | 0.63 | 7.30 | (4.50) | 4.60 |
| ASP - Secondary Funds | 7 | 18,583,613 | 1.52 | 43.87 | 0.47 | 1.91 | (1.07) | 10.38 |
| ASP - U.S. Partnership Funds | 14 | 118,522,775 | 1.32 | 9.08 | 1.64 | 13.12 | (2.36) | 6.56 |
| ASP Non-US Partnership Funds | 9 | 16,291,937 | 1.38 | 10.35 | 0.25 | 8.94 | (5.64) | 11.57 |
| <i>Buyout</i> | 26 | 261,280,047 | 1.40 | 10.82 | 5.07 | 13.40 | (5.03) | 3.88 |
| <i>Co-Investment</i> | 2 | 27,990,858 | 1.01 | 0.25 | 0.01 | 24.90 | (2.82) | N/A |
| <i>Distressed</i> | 9 | 124,678,872 | 1.31 | 26.27 | 1.64 | 25.44 | 5.87 | 4.41 |
| <i>Mezzanine</i> | 3 | 18,259,611 | 1.34 | 9.78 | 0.17 | (0.36) | 4.19 | 6.95 |
| <i>Non-US Private Equity</i> | 6 | 34,249,986 | 1.24 | 10.06 | 0.42 | 20.73 | (14.40) | 4.57 |
| <i>Secondary</i> | 7 | 68,205,279 | 1.26 | 11.99 | 0.80 | 16.60 | 0.00 | 7.88 |
| <i>Special Situations</i> | 6 | 70,766,457 | 1.07 | 2.85 | 0.17 | 3.92 | 1.31 | 2.57 |
| <i>Venture Capital</i> | 27 | 53,185,741 | 1.15 | 16.66 | 0.30 | 6.35 | (2.90) | (3.75) |

The portfolio's trailing one-year IRR is 13.44%. From inception investment multiple and IRR results decreased to 1.31 and 11.58%, respectively, from 1.32 and 11.97% at the end of the prior quarter. The slight backup in performance is unsurprising given the public market weakness that was experienced during the June quarter. In addition to the general market weakness, one of the Pool's Special Situations managers experienced a significant write-down on an over-leveraged investment, and a Distressed manager saw one of their public equity holdings depreciate materially during the quarter.

Q2 2010 LPs by Family of Funds

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2010

| 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 | IRR | Investment Multiple | Total Exposure | % of Total Exposure |
| Total | | 1,842,388,174 | 1,258,950,247 | 82,494,039 | 524,060,745 | 72.81 | 913,027,656 | 842,329,008 | 100.00 | 11.58 | 1.31 | 1,366,389,753 | 100.00 |
| LP's By Family of Funds (Active) | | | | | | | | | | | | | |
| Total | | 1,830,470,174 | 1,247,372,803 | 81,315,243 | 524,060,745 | 72.59 | 877,862,515 | 842,329,008 | 100.00 | 10.82 | 1.29 | 1,366,389,753 | 100.00 |
| Adams Street Partners | | 327,129,264 | 276,580,562 | 26,708,460 | 34,872,675 | 92.71 | 226,711,627 | 183,712,157 | 21.81 | 11.49 | 1.35 | 218,584,832 | 16.00 |
| Adams Street Partners Fund - U.S. | | 94,000,000 | 71,553,937 | 5,071,563 | 17,374,500 | 81.52 | 21,322,192 | 67,080,989 | 7.96 | 4.61 | 1.15 | 84,455,489 | 6.18 |
| Adams Street - 2002 U.S. Fund, L.P. | 2002 | 34,000,000 | 28,533,470 | 2,134,530 | 3,332,000 | 90.20 | 13,692,093 | 25,815,253 | 3.06 | 7.53 | 1.29 | 29,147,253 | 2.13 |
| Adams Street - 2003 U.S. Fund, L.P. | 2003 | 20,000,000 | 15,180,000 | 1,080,000 | 3,740,000 | 81.30 | 4,226,402 | 14,862,827 | 1.76 | 5.03 | 1.17 | 18,602,827 | 1.36 |
| Adams Street - 2004 U.S. Fund, L.P. | 2004 | 15,000,000 | 11,190,469 | 757,031 | 3,052,500 | 79.65 | 2,133,408 | 10,740,010 | 1.28 | 2.45 | 1.08 | 13,792,510 | 1.01 |
| Adams Street - 2005 U.S. Fund, L.P. | 2005 | 25,000,000 | 16,649,998 | 1,100,002 | 7,250,000 | 71.00 | 1,270,289 | 15,662,899 | 1.86 | (1.72) | 0.95 | 22,912,899 | 1.68 |
| Adams Street Partners Fund - Non-U.S. | | 16,000,000 | 13,030,366 | 833,634 | 2,136,000 | 86.65 | 6,077,493 | 11,108,877 | 1.32 | 7.92 | 1.24 | 13,244,877 | 0.97 |
| Adams Street - 2002 Non-U.S. Fund, L.P. | 2002 | 6,000,000 | 5,404,596 | 361,404 | 234,000 | 96.10 | 4,286,233 | 4,331,700 | 0.51 | 13.35 | 1.49 | 4,565,700 | 0.33 |
| Adams Street - 2004 Non-U.S. Fund, L.P. | 2004 | 5,000,000 | 3,989,834 | 255,666 | 754,500 | 84.91 | 1,298,064 | 3,482,751 | 0.41 | 4.41 | 1.13 | 4,237,251 | 0.31 |
| Adams Street - 2005 Non-U.S. Fund, L.P. | 2005 | 5,000,000 | 3,635,936 | 216,564 | 1,147,500 | 77.05 | 493,196 | 3,294,426 | 0.39 | (0.65) | 0.98 | 4,441,926 | 0.33 |
| Brinson Partnership Trust - Non-U.S | | 9,809,483 | 9,318,556 | 1,031,546 | 560,102 | 105.51 | 11,372,069 | 5,354,271 | 0.64 | 13.17 | 1.62 | 5,914,373 | 0.43 |
| Brinson Non-U.S. Trust-1999 Primary Fund | 1999 | 1,524,853 | 1,474,957 | 160,351 | 119,071 | 107.24 | 2,171,153 | 391,533 | 0.05 | 10.43 | 1.57 | 510,604 | 0.04 |
| Brinson Non-U.S. Trust-2000 Primary Fund | 2000 | 1,815,207 | 1,815,207 | 190,884 | 0 | 110.52 | 2,469,095 | 879,312 | 0.10 | 12.38 | 1.67 | 879,312 | 0.06 |
| Brinson Non-U.S. Trust-2001 Primary Fund | 2001 | 1,341,612 | 1,341,612 | 141,082 | 0 | 110.52 | 1,764,720 | 585,442 | 0.07 | 12.25 | 1.59 | 585,442 | 0.04 |
| Brinson Non-U.S. Trust-2002 Primary Fund | 2002 | 1,696,452 | 1,696,452 | 178,395 | 0 | 110.52 | 1,185,275 | 1,358,850 | 0.16 | 8.31 | 1.36 | 1,358,850 | 0.10 |
| Brinson Non-U.S. Trust-2002 Secondary | 2002 | 637,308 | 601,542 | 67,018 | 35,766 | 104.90 | 1,329,057 | 171,211 | 0.02 | 26.70 | 2.24 | 206,977 | 0.02 |
| Brinson Non-U.S. Trust-2003 Primary Fund | 2003 | 1,896,438 | 1,659,040 | 199,426 | 237,398 | 98.00 | 2,062,906 | 1,324,244 | 0.16 | 21.65 | 1.82 | 1,561,642 | 0.11 |
| Brinson Non-U.S. Trust-2004 Primary Fund | 2004 | 897,613 | 729,746 | 94,391 | 167,867 | 91.81 | 389,863 | 643,679 | 0.08 | 7.13 | 1.25 | 811,546 | 0.06 |
| Brinson Partnership Trust - U.S. | | 103,319,781 | 96,220,953 | 9,908,636 | 7,098,828 | 102.72 | 99,015,685 | 53,473,277 | 6.35 | 10.05 | 1.44 | 60,572,105 | 4.43 |
| Brinson Partners - 1996 Fund | 1996 | 3,950,740 | 3,708,316 | 452,103 | 242,424 | 105.31 | 6,824,237 | 266,148 | 0.03 | 14.97 | 1.70 | 508,572 | 0.04 |
| Brinson Partners - 1997 Primary Fund | 1997 | 3,554,935 | 3,554,935 | 405,488 | 0 | 111.41 | 14,267,325 | 230,666 | 0.03 | 71.47 | 3.66 | 230,666 | 0.02 |
| Brinson Partners - 1998 Primary Fund | 1998 | 7,161,019 | 7,122,251 | 816,922 | 38,768 | 110.87 | 10,085,017 | 933,519 | 0.11 | 6.68 | 1.39 | 972,287 | 0.07 |
| Brinson Partners - 1998 Secondary Fund | 1998 | 266,625 | 266,625 | 30,397 | 0 | 111.40 | 181,932 | 14,484 | 0.00 | (7.06) | 0.66 | 14,484 | 0.00 |
| Brinson Partners - 1999 Primary Fund | 1999 | 8,346,761 | 7,832,823 | 935,592 | 513,938 | 105.05 | 7,832,823 | 1,906,058 | 0.23 | 1.98 | 1.11 | 2,419,996 | 0.18 |
| Brinson Partners - 2000 Primary Fund | 2000 | 20,064,960 | 19,079,570 | 2,083,284 | 985,390 | 105.47 | 20,144,332 | 7,552,236 | 0.90 | 5.48 | 1.31 | 8,537,626 | 0.62 |
| Brinson Partners - 2001 Primary Fund | 2001 | 15,496,322 | 14,830,208 | 1,383,971 | 666,114 | 104.63 | 8,693,285 | 11,678,368 | 1.39 | 5.06 | 1.26 | 12,344,482 | 0.90 |
| Brinson Partners - 2002 Primary Fund | 2002 | 16,297,079 | 15,783,921 | 1,443,945 | 513,158 | 105.71 | 14,328,521 | 10,540,514 | 1.25 | 11.13 | 1.44 | 11,053,672 | 0.81 |
| Brinson Partners - 2002 Secondary Fund | 2002 | 2,608,820 | 2,498,592 | 225,038 | 110,228 | 104.40 | 3,259,035 | 1,280,847 | 0.15 | 13.70 | 1.67 | 1,391,075 | 0.10 |
| Brinson Partners - 2003 Primary Fund | 2003 | 15,589,100 | 13,272,620 | 1,349,105 | 2,316,480 | 93.79 | 9,523,225 | 10,814,328 | 1.28 | 9.72 | 1.39 | 13,130,808 | 0.96 |
| Brinson Partners - 2003 Secondary Fund | 2003 | 1,151,151 | 1,020,460 | 90,261 | 130,691 | 96.49 | 1,906,646 | 747,085 | 0.09 | 25.75 | 2.39 | 877,776 | 0.06 |
| Brinson Partners - 2004 Primary Fund | 2004 | 8,832,269 | 7,250,632 | 692,531 | 1,581,637 | 89.93 | 1,969,307 | 7,509,024 | 0.89 | 4.96 | 1.19 | 9,090,661 | 0.67 |

Q2 2010 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2010

| 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 | IRR | Investment Multiple | Total Exposure | % of Total Exposure |
| Remaining ASP Funds | | 104,000,000 | 86,456,750 | 9,863,081 | 7,703,245 | 92.62 | 88,924,188 | 46,694,743 | 5.54 | 20.62 | 1.41 | 54,397,988 | 3.98 |
| Adams Street Global Oppy Secondary Fund | 2004 | 25,000,000 | 18,185,145 | 752,355 | 6,062,500 | 75.75 | 6,547,446 | 16,197,089 | 1.92 | 7.89 | 1.20 | 22,259,589 | 1.63 |
| Adams Street V, L.P. | 2003 | 40,000,000 | 34,899,999 | 4,500,001 | 600,000 | 98.50 | 11,309,266 | 23,426,119 | 2.78 | (3.20) | 0.88 | 24,026,119 | 1.76 |
| Adams Street VPAF Fund II | 1990 | 4,000,000 | 3,621,830 | 378,170 | 0 | 100.00 | 7,879,041 | 10,925 | 0.00 | 25.25 | 1.97 | 10,925 | 0.00 |
| Brinson Venture Capital Fund III, L.P. | 1993 | 5,000,000 | 4,045,656 | 954,344 | 0 | 100.00 | 15,622,448 | 12,799 | 0.00 | 40.47 | 3.13 | 12,799 | 0.00 |
| Brinson VPF III | 1993 | 5,000,000 | 4,488,559 | 522,979 | 0 | 100.23 | 14,899,918 | 159,690 | 0.02 | 29.47 | 3.00 | 159,690 | 0.01 |
| Brinson VPF III - Secondary Interest | 1999 | 5,000,000 | 4,820,288 | 191,250 | 0 | 100.23 | 8,182,793 | 160,098 | 0.02 | 41.48 | 1.66 | 160,098 | 0.01 |
| BVCF III - Secondary Interest | 1999 | 5,000,000 | 3,602,735 | 356,520 | 1,040,745 | 79.19 | 9,634,305 | 12,799 | 0.00 | 97.02 | 2.44 | 1,053,544 | 0.08 |
| BVCF IV, L.P. | 1999 | 15,000,000 | 12,792,538 | 2,207,462 | 0 | 100.00 | 14,848,971 | 6,715,224 | 0.80 | 5.15 | 1.44 | 6,715,224 | 0.49 |
| Affinity Asia Capital | | 15,000,000 | 5,959,159 | 1,078,442 | 7,964,067 | 46.92 | 121,676 | 6,125,302 | 0.73 | (6.49) | 0.89 | 14,089,369 | 1.03 |
| Affinity Asia Pacific Fund III, LP | 2006 | 15,000,000 | 5,959,159 | 1,078,442 | 7,964,067 | 46.92 | 121,676 | 6,125,302 | 0.73 | (6.49) | 0.89 | 14,089,369 | 1.03 |
| ArcLight Energy Partners | | 50,000,000 | 41,876,389 | 1,479,449 | 6,644,162 | 86.71 | 23,157,763 | 33,359,283 | 3.96 | 10.43 | 1.30 | 40,003,445 | 2.93 |
| ArcLight Energy Partners Fund II | 2004 | 25,000,000 | 20,871,810 | 822,752 | 3,305,438 | 86.78 | 21,191,292 | 11,574,359 | 1.37 | 16.88 | 1.51 | 14,879,797 | 1.09 |
| ArcLight Energy Partners Fund III, LP | 2006 | 25,000,000 | 21,004,580 | 656,697 | 3,338,724 | 86.65 | 1,966,471 | 21,784,924 | 2.59 | 3.20 | 1.10 | 25,123,648 | 1.84 |
| Austin Ventures | | 500,000 | 424,416 | 129,154 | 1 | 110.71 | 1,216,717 | 15,728 | 0.00 | 20.56 | 2.23 | 15,729 | 0.00 |
| Austin Ventures III | 1991 | 500,000 | 424,416 | 129,154 | 1 | 110.71 | 1,216,717 | 15,728 | 0.00 | 20.56 | 2.23 | 15,729 | 0.00 |
| Avenue Investments | | 35,000,000 | 33,552,911 | 1,656,986 | 0 | 100.60 | 956,078 | 40,243,907 | 4.78 | 8.56 | 1.17 | 40,243,907 | 2.95 |
| Avenue Special Situations Fund V, LP | 2007 | 35,000,000 | 33,552,911 | 1,656,986 | 0 | 100.60 | 956,078 | 40,243,907 | 4.78 | 8.56 | 1.17 | 40,243,907 | 2.95 |
| Axiom Asia Private Capital | | 25,000,000 | 2,402,293 | 359,760 | 22,276,431 | 11.05 | 0 | 2,702,781 | 0.32 | (2.46) | 0.98 | 24,979,212 | 1.83 |
| Axiom Asia Private Capital II, LP ¹ | 2009 | 25,000,000 | 2,402,293 | 359,760 | 22,276,431 | 11.05 | 0 | 2,702,781 | 0.32 | (2.46) | 0.98 | 24,979,212 | 1.83 |
| Black Diamond Capital Management | | 25,000,000 | 0 | 0 | 25,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 25,000,000 | 1.83 |
| BDCM Opportunity Fund III, L.P. | 2010 | 25,000,000 | 0 | 0 | 25,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 25,000,000 | 1.83 |
| Carlyle Partners | | 60,000,000 | 47,011,691 | 3,618,180 | 9,469,131 | 84.38 | 5,129,689 | 55,225,758 | 6.56 | 5.88 | 1.19 | 64,694,889 | 4.73 |
| Carlyle Partners IV, L.P. | 2005 | 35,000,000 | 31,662,839 | 1,325,490 | 2,110,673 | 94.25 | 4,960,686 | 37,906,631 | 4.50 | 7.81 | 1.30 | 40,017,304 | 2.93 |
| Carlyle U.S. Growth Fund III, L.P. | 2006 | 25,000,000 | 15,348,852 | 2,292,690 | 7,358,458 | 70.57 | 169,003 | 17,319,127 | 2.06 | (0.38) | 0.99 | 24,677,585 | 1.81 |
| CCMP Associates | | 30,000,000 | 16,505,109 | 1,447,214 | 12,047,677 | 59.84 | 75,714 | 15,816,407 | 1.88 | (7.58) | 0.89 | 27,864,084 | 2.04 |
| CCMP Capital Investors II, L.P. | 2006 | 30,000,000 | 16,505,109 | 1,447,214 | 12,047,677 | 59.84 | 75,714 | 15,816,407 | 1.88 | (7.58) | 0.89 | 27,864,084 | 2.04 |
| Centerbridge | | 12,500,000 | 8,722,553 | 27,447 | 3,750,000 | 70.00 | 0 | 11,616,190 | 1.38 | 48.19 | 1.33 | 15,366,190 | 1.12 |
| Centerbridge Special Credit Partners | 2009 | 12,500,000 | 8,722,553 | 27,447 | 3,750,000 | 70.00 | 0 | 11,616,190 | 1.38 | 48.19 | 1.33 | 15,366,190 | 1.12 |
| Energy Investors Funds | | 25,000,000 | 0 | 0 | 25,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 25,000,000 | 1.83 |
| EIF US Power Fund IV, L.P. | 2010 | 25,000,000 | 0 | 0 | 25,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 25,000,000 | 1.83 |
| First Reserve | | 55,485,789 | 33,071,573 | 1,084,153 | 21,330,063 | 61.56 | 1,988,472 | 26,546,000 | 3.15 | (8.94) | 0.84 | 47,876,063 | 3.50 |
| First Reserve Fund XI, L.P. | 2006 | 30,000,000 | 22,390,519 | 695,904 | 6,913,577 | 76.95 | 1,099,726 | 19,690,000 | 2.34 | (4.50) | 0.90 | 26,603,577 | 1.95 |
| First Reserve Fund XII, L.P. | 2008 | 25,485,789 | 10,681,054 | 388,248 | 14,416,487 | 43.43 | 888,746 | 6,856,000 | 0.81 | (26.29) | 0.70 | 21,272,487 | 1.56 |
| HarbourVest | | 61,823,772 | 14,843,494 | 406,689 | 46,587,114 | 24.67 | 279,931 | 15,518,881 | 1.84 | 2.29 | 1.04 | 62,105,995 | 4.55 |
| Dover Street VII L.P. | 2008 | 20,000,000 | 5,719,321 | 194,204 | 14,100,000 | 29.57 | 279,931 | 6,181,205 | 0.73 | 7.30 | 1.09 | 20,281,205 | 1.48 |
| HarbourVest Direct 2007 Fund | 2007 | 20,000,000 | 8,209,665 | 140,335 | 11,650,000 | 41.75 | 0 | 8,418,763 | 1.00 | 0.44 | 1.01 | 20,068,763 | 1.47 |
| HarbourVest Intl Private Equity Fund VI | 2008 | 21,823,772 | 914,508 | 72,150 | 20,837,114 | 4.52 | 0 | 918,913 | 0.11 | (8.93) | 0.93 | 21,756,027 | 1.59 |
| Hellman & Friedman | | 40,000,000 | 17,667,671 | 776,874 | 21,555,455 | 46.11 | 843,208 | 20,155,526 | 2.39 | 6.03 | 1.14 | 41,710,981 | 3.05 |
| Hellman & Friedman Capital Partners VI | 2006 | 25,000,000 | 17,667,671 | 776,874 | 6,555,455 | 73.78 | 843,208 | 20,155,526 | 2.39 | 6.03 | 1.14 | 26,710,981 | 1.95 |
| Hellman & Friedman Capital Partners VII | 2010 | 15,000,000 | 0 | 0 | 15,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 15,000,000 | 1.10 |

Q2 2010 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2010

| 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 | IRR | Investment Multiple | Total Exposure | % of Total Exposure |
| Highway 12 Ventures | | 10,000,000 | 4,593,866 | 901,715 | 4,504,419 | 54.96 | 73,476 | 4,205,245 | 0.50 | (13.03) | 0.78 | 8,709,664 | 0.64 |
| Highway 12 Venture Fund II, L.P. | 2006 | 10,000,000 | 4,593,866 | 901,715 | 4,504,419 | 54.96 | 73,476 | 4,205,245 | 0.50 | (13.03) | 0.78 | 8,709,664 | 0.64 |
| Industry Ventures | | 10,000,000 | 9,283,723 | 525,056 | 595,358 | 98.09 | 3,312,903 | 6,773,068 | 0.80 | 1.20 | 1.03 | 7,368,426 | 0.54 |
| Industry Ventures Fund IV, L.P. | 2005 | 10,000,000 | 9,283,723 | 525,056 | 595,358 | 98.09 | 3,312,903 | 6,773,068 | 0.80 | 1.20 | 1.03 | 7,368,426 | 0.54 |
| JCF | | 25,000,000 | 23,899,985 | 622,502 | 488,309 | 98.09 | 617,334 | 6,420,318 | 0.76 | (40.34) | 0.29 | 6,908,627 | 0.51 |
| J.C. Flowers II L.P. | 2006 | 25,000,000 | 23,899,985 | 622,502 | 488,309 | 98.09 | 617,334 | 6,420,318 | 0.76 | (40.34) | 0.29 | 6,908,627 | 0.51 |
| Joseph Littlejohn & Levy | | 25,000,000 | 21,277,646 | 996,346 | 2,726,008 | 89.10 | 4,492,264 | 20,987,864 | 2.49 | 5.94 | 1.14 | 23,713,872 | 1.74 |
| JLL Partners Fund V, L.P. | 2005 | 25,000,000 | 21,277,646 | 996,346 | 2,726,008 | 89.10 | 4,492,264 | 20,987,864 | 2.49 | 5.94 | 1.14 | 23,713,872 | 1.74 |
| KKR | | 175,000,000 | 175,000,000 | 9,627,598 | 0 | 105.50 | 324,203,672 | 24,160,166 | 2.87 | 12.26 | 1.89 | 24,160,168 | 1.77 |
| KKR 1987 Fund | 1987 | 25,000,000 | 25,000,000 | 2,101,164 | 0 | 108.40 | 55,896,579 | 231,267 | 0.03 | 8.89 | 2.07 | 231,267 | 0.02 |
| KKR 1993 Fund | 1993 | 25,000,000 | 25,000,000 | 1,002,236 | 0 | 104.01 | 48,789,535 | 82,206 | 0.01 | 17.78 | 1.88 | 82,206 | 0.01 |
| KKR 1996 Fund | 1997 | 100,000,000 | 100,000,000 | 4,686,195 | 0 | 104.69 | 175,133,737 | 10,480,140 | 1.24 | 13.35 | 1.77 | 10,480,140 | 0.77 |
| KKR European Fund, L.P. | 1999 | 25,000,000 | 25,000,000 | 1,838,003 | 0 | 107.35 | 44,383,821 | 13,366,555 | 1.59 | 19.60 | 2.15 | 13,366,555 | 0.98 |
| Lexington Capital Partners | | 140,000,000 | 88,722,008 | 4,377,211 | 46,900,781 | 66.50 | 68,091,463 | 52,082,123 | 6.18 | 12.96 | 1.29 | 98,982,904 | 7.24 |
| Lexington Capital Partners V, L.P. | 2001 | 50,000,000 | 47,383,672 | 2,259,543 | 356,785 | 99.29 | 57,280,018 | 19,834,064 | 2.35 | 19.11 | 1.55 | 20,190,849 | 1.48 |
| Lexington Capital Partners VI-B, L.P. | 2005 | 50,000,000 | 39,709,387 | 1,661,994 | 8,628,619 | 82.74 | 10,753,455 | 30,350,797 | 3.60 | (0.31) | 0.99 | 38,979,416 | 2.85 |
| Lexington Capital Partners VII, L.P. | 2009 | 30,000,000 | 93,176 | 347,438 | 29,559,386 | 1.47 | 176 | 138,767 | 0.02 | (86.90) | 0.32 | 29,698,153 | 2.17 |
| Lexington Middle Market Investors II, LP | 2008 | 10,000,000 | 1,535,773 | 108,236 | 8,355,991 | 16.44 | 57,814 | 1,758,495 | 0.21 | 10.95 | 1.10 | 10,114,486 | 0.74 |
| Madison Dearborn Capital Partners | | 75,000,000 | 50,207,439 | 1,855,334 | 22,937,227 | 69.42 | 23,618,141 | 40,012,537 | 4.75 | 7.36 | 1.22 | 62,949,764 | 4.61 |
| Madison Dearborn Capital Partners IV, LP | 2001 | 25,000,000 | 23,571,230 | 533,864 | 894,906 | 96.42 | 22,578,316 | 18,223,169 | 2.16 | 15.03 | 1.69 | 19,118,075 | 1.40 |
| Madison Dearborn Capital Partners V, LP | 2006 | 25,000,000 | 21,190,118 | 753,482 | 3,056,400 | 87.77 | 1,039,825 | 16,576,100 | 1.97 | (7.77) | 0.80 | 19,632,500 | 1.44 |
| Madison Dearborn Capital Partners VI, LP | 2008 | 25,000,000 | 5,446,091 | 567,988 | 18,985,921 | 24.06 | 0 | 5,213,268 | 0.62 | (11.93) | 0.87 | 24,199,189 | 1.77 |
| Matlin Patterson | | 30,000,000 | 21,528,906 | 1,304,950 | 7,166,144 | 76.11 | 2,738,466 | 14,905,942 | 1.77 | (14.50) | 0.77 | 22,072,086 | 1.62 |
| MatlinPatterson Global Opps. Ptnrs. III | 2007 | 30,000,000 | 21,528,906 | 1,304,950 | 7,166,144 | 76.11 | 2,738,466 | 14,905,942 | 1.77 | (14.50) | 0.77 | 22,072,086 | 1.62 |
| MHR Institutional Partners | | 25,000,000 | 14,590,348 | 1,298,865 | 9,110,787 | 63.56 | 244,507 | 11,589,542 | 1.38 | (11.35) | 0.74 | 20,700,329 | 1.51 |
| MHR Institutional Partners III, L.P. | 2006 | 25,000,000 | 14,590,348 | 1,298,865 | 9,110,787 | 63.56 | 244,507 | 11,589,542 | 1.38 | (11.35) | 0.74 | 20,700,329 | 1.51 |
| Montlake Capital | | 15,000,000 | 6,344,937 | 1,305,063 | 7,350,000 | 51.00 | 0 | 6,061,572 | 0.72 | (11.20) | 0.79 | 13,411,572 | 0.98 |
| Montlake Capital II, L.P. | 2007 | 15,000,000 | 6,344,937 | 1,305,063 | 7,350,000 | 51.00 | 0 | 6,061,572 | 0.72 | (11.20) | 0.79 | 13,411,572 | 0.98 |
| Neuberger Berman Group, LLC | | 35,000,000 | 25,238,014 | 1,282,126 | 8,479,860 | 75.77 | 7,080,585 | 19,572,095 | 2.32 | 0.21 | 1.00 | 28,051,955 | 2.05 |
| NB Co-investment Partners, L.P. | 2006 | 35,000,000 | 25,238,014 | 1,282,126 | 8,479,860 | 75.77 | 7,080,585 | 19,572,095 | 2.32 | 0.21 | 1.00 | 28,051,955 | 2.05 |
| Oak Hill Capital Partners | | 45,000,000 | 32,913,149 | 2,218,489 | 9,949,715 | 78.07 | 3,405,744 | 34,593,599 | 4.11 | 3.14 | 1.08 | 44,543,314 | 3.26 |
| Oak Hill Capital Partners II, L.P. | 2005 | 25,000,000 | 22,210,182 | 1,441,506 | 1,348,312 | 94.61 | 3,361,628 | 24,921,046 | 2.96 | 5.81 | 1.20 | 26,269,358 | 1.92 |
| Oak Hill Capital Partners III, L.P. | 2008 | 20,000,000 | 10,702,967 | 776,983 | 8,601,403 | 57.40 | 44,115 | 9,672,553 | 1.15 | (13.37) | 0.85 | 18,273,956 | 1.34 |
| Oaktree Capital Partners | | 120,000,000 | 106,053,909 | 3,196,091 | 10,750,000 | 91.04 | 121,554,428 | 46,323,291 | 5.50 | 43.68 | 1.54 | 57,073,291 | 4.18 |
| Oaktree Opportunities Fund VIII, L.P. | 2009 | 10,000,000 | 2,639,498 | 110,502 | 7,250,000 | 27.50 | 0 | 2,827,608 | 0.34 | 4.79 | 1.03 | 10,077,608 | 0.74 |
| OCM Opportunities Fund IVb, L.P. | 2002 | 75,000,000 | 73,086,225 | 1,913,775 | 0 | 100.00 | 121,554,428 | (18,396) | 0.00 | 44.89 | 1.62 | (18,396) | 0.00 |
| OCM Opportunities Fund VIIb, L.P. | 2008 | 35,000,000 | 30,328,186 | 1,171,814 | 3,500,000 | 90.00 | 0 | 43,514,079 | 5.17 | 23.41 | 1.38 | 47,014,079 | 3.44 |
| Odyssey Partners Fund III | | 45,000,000 | 27,215,946 | 2,161,350 | 15,622,724 | 65.28 | 20,892,561 | 24,055,271 | 2.86 | 24.28 | 1.53 | 39,677,995 | 2.90 |
| Odyssey Investment Partners IV, L.P. | 2008 | 20,000,000 | 5,104,551 | 535,856 | 14,359,614 | 28.20 | 25,426 | 4,901,937 | 0.58 | (20.02) | 0.87 | 19,261,551 | 1.41 |
| Odyssey Partners Fund III, L.P. | 2004 | 25,000,000 | 22,111,396 | 1,625,494 | 1,263,110 | 94.95 | 20,867,136 | 19,153,334 | 2.27 | 25.80 | 1.69 | 20,416,444 | 1.49 |
| Opus Capital Venture Partners | | 10,000,000 | 0 | 0 | 10,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 10,000,000 | 0.73 |
| Opus Capital Venture Partners VI, LP | 2010 | 10,000,000 | 0 | 0 | 10,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 10,000,000 | 0.73 |
| Performance Venture Capital | | 25,000,000 | 2,520,319 | 511,815 | 21,967,866 | 12.13 | 383 | 2,450,190 | 0.29 | (19.47) | 0.81 | 24,418,056 | 1.79 |
| Performance Venture Capital II | 2008 | 25,000,000 | 2,520,319 | 511,815 | 21,967,866 | 12.13 | 383 | 2,450,190 | 0.29 | (19.47) | 0.81 | 24,418,056 | 1.79 |

Q2 2010 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2010

| 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 | IRR | Investment Multiple | Total Exposure | % of Total Exposure |
| Portfolio Advisors | | 70,000,000 | 34,788,421 | 1,668,174 | 33,790,256 | 52.08 | 1,275,155 | 32,741,768 | 3.89 | (3.61) | 0.93 | 66,532,024 | 4.87 |
| Port. Advisors Fund IV (B), L.P. | 2006 | 30,000,000 | 20,709,654 | 882,813 | 8,407,533 | 71.97 | 1,096,907 | 19,962,637 | 2.37 | (1.14) | 0.98 | 28,370,170 | 2.08 |
| Port. Advisors Fund IV (E), L.P. | 2006 | 15,000,000 | 8,047,542 | 582,950 | 6,369,508 | 57.54 | 4,731 | 6,441,762 | 0.76 | (15.72) | 0.75 | 12,811,270 | 0.94 |
| Port. Advisors Fund V (B), L.P. | 2008 | 10,000,000 | 3,534,486 | 153,125 | 6,429,136 | 36.88 | 150,959 | 3,168,486 | 0.38 | (7.52) | 0.90 | 9,597,622 | 0.70 |
| Portfolio Advisors Secondary Fund, L.P. | 2008 | 15,000,000 | 2,496,739 | 49,286 | 12,584,079 | 16.97 | 22,558 | 3,168,883 | 0.38 | 29.35 | 1.25 | 15,752,962 | 1.15 |
| Quintana Energy Partners | | 15,000,000 | 11,414,134 | 1,007,532 | 2,598,705 | 82.81 | 0 | 10,861,174 | 1.29 | (5.27) | 0.87 | 13,459,879 | 0.99 |
| Quintana Energy Partners Fund I, L.P. | 2006 | 15,000,000 | 11,414,134 | 1,007,532 | 2,598,705 | 82.81 | 0 | 10,861,174 | 1.29 | (5.27) | 0.87 | 13,459,879 | 0.99 |
| Siguler Guff & Company | | 25,000,000 | 13,077,809 | 578,375 | 11,476,103 | 54.62 | 666,379 | 12,977,839 | 1.54 | (0.05) | 1.00 | 24,453,942 | 1.79 |
| Siguler Guff Small Buyout Opportunities | 2007 | 25,000,000 | 13,077,809 | 578,375 | 11,476,103 | 54.62 | 666,379 | 12,977,839 | 1.54 | (0.05) | 1.00 | 24,453,942 | 1.79 |
| 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 | 2,756 | 0.00 | 28.32 | 2.52 | 27,759 | 0.00 |
| Summit Ventures II, L.P. | 1988 | 500,000 | 388,928 | 109,563 | 25,003 | 99.70 | 1,255,067 | 2,756 | 0.00 | 28.32 | 2.52 | 27,759 | 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 | 0.73 |
| TA XI, L.P. | 2010 | 10,000,000 | 0 | 0 | 10,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 10,000,000 | 0.73 |
| Terra Firma Capital Partners | | 25,432,997 | 15,345,292 | 1,987,624 | 8,117,134 | 68.15 | 0 | 4,694,673 | 0.56 | (47.49) | 0.27 | 12,811,806 | 0.94 |
| Terra Firma Capital Partners III, LP | 2007 | 25,432,997 | 15,345,292 | 1,987,624 | 8,117,134 | 68.15 | 0 | 4,694,673 | 0.56 | (47.49) | 0.27 | 12,811,806 | 0.94 |
| Trilantic Capital Partners | | 11,098,351 | 4,408,920 | 681,859 | 6,007,572 | 45.87 | 0 | 5,164,299 | 0.61 | 0.90 | 1.01 | 11,171,871 | 0.82 |
| Trilantic Capital Partners IV L.P. | 2007 | 11,098,351 | 4,408,920 | 681,859 | 6,007,572 | 45.87 | 0 | 5,164,299 | 0.61 | 0.90 | 1.01 | 11,171,871 | 0.82 |
| Veritas Capital | | 25,000,000 | 0 | 0 | 25,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 25,000,000 | 1.83 |
| Veritas Capital Fund IV | 2010 | 25,000,000 | 0 | 0 | 25,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 25,000,000 | 1.83 |
| Welsh, Carson, Anderson & Stowe | | 75,500,000 | 59,524,282 | 4,202,124 | 12,000,000 | 84.41 | 32,778,725 | 50,655,754 | 6.01 | 8.17 | 1.31 | 62,655,754 | 4.59 |
| Welsh, Carson, Anderson & Stowe II | 1990 | 500,000 | 455,663 | 88,404 | 0 | 108.81 | 694,053 | 115,958 | 0.01 | 8.83 | 1.49 | 115,958 | 0.01 |
| Welsh, Carson, Anderson & Stowe IV, LP | 2004 | 25,000,000 | 16,305,588 | 944,412 | 7,750,000 | 69.00 | 3,847,477 | 18,143,653 | 2.15 | 7.05 | 1.27 | 25,893,653 | 1.90 |
| Welsh, Carson, Anderson & Stowe IX, L.P. | 2000 | 25,000,000 | 22,050,235 | 1,949,765 | 1,000,000 | 96.00 | 27,413,832 | 11,353,629 | 1.35 | 12.35 | 1.62 | 12,353,629 | 0.90 |
| Welsh, Carson, Anderson & Stowe X, L.P. | 2005 | 25,000,000 | 20,712,796 | 1,219,543 | 3,250,000 | 87.73 | 823,363 | 21,042,514 | 2.50 | (0.10) | 1.00 | 24,292,514 | 1.78 |
| 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 |

Footnote:

1 Due to, among other things, the lack of a valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a fund's life, the internal rate of return information does not accurately reflect current or expected future returns. Prior to fund realization, internal rates of return should not be used to compare the investment success of a fund or to compare returns across funds, and the internal rates of return disclosed with respect to this Partnership have not been approved by the General Partner or the Partnership.

The portfolio experienced a modest deterioration in net IRR and investment multiple versus the prior quarter. Funds showing noteworthy improvement in performance during the period include Affinity Asia Pacific III and Carlyle Partners IV, while First Reserve XI and MatlinPatterson III led declines. The portfolio continues to be well diversified by manager, with only fund of funds Adams Street Partners and secondary manager Lexington Capital Partners accounting for more than 5% of total portfolio exposure.

State Street Private Equity IndexSM – MPEP Comparison

IRR Benchmark Comparison (Since 1980)

As of June 30, 2010

By Investment Focus

| Description | PIC Montana | | DPI Montana | | RVPI Montana | | TVPI Montana | | IRR Montana | |
|-----------------|-------------|------|-------------|------|--------------|------|--------------|------|-------------|-------|
| Buyout | 0.71 | 0.74 | 0.68 | 0.70 | 0.65 | 0.62 | 1.33 | 1.32 | 11.42 | 10.38 |
| Venture Capital | 0.76 | 0.67 | 0.69 | 0.63 | 0.52 | 0.62 | 1.21 | 1.25 | 8.71 | 15.53 |
| Other | 0.78 | 0.77 | 0.52 | 0.63 | 0.77 | 0.68 | 1.29 | 1.31 | 11.17 | 23.60 |
| Pooled Average | 0.72 | 0.73 | 0.66 | 0.68 | 0.64 | 0.63 | 1.30 | 1.31 | 10.96 | 11.58 |

By Origin

| Description | PIC Montana | | DPI Montana | | RVPI Montana | | TVPI Montana | | IRR Montana | |
|----------------|-------------|------|-------------|------|--------------|------|--------------|------|-------------|-------|
| US | 0.74 | 0.74 | 0.69 | 0.69 | 0.64 | 0.64 | 1.33 | 1.33 | 11.18 | 12.00 |
| Non-US | 0.68 | 0.63 | 0.58 | 0.56 | 0.65 | 0.51 | 1.23 | 1.07 | 9.82 | 3.06 |
| Pooled Average | 0.72 | 0.73 | 0.66 | 0.68 | 0.64 | 0.63 | 1.30 | 1.31 | 10.96 | 11.58 |

By Vintage Year

| Description | PIC Montana | | DPI Montana | | RVPI Montana | | TVPI Montana | | IRR Montana | |
|----------------|-------------|------|-------------|------|--------------|------|--------------|------|-------------|-------|
| 1990 | 1.01 | 1.04 | 2.45 | 2.40 | 0.02 | 0.02 | 2.47 | 2.41 | 18.04 | 27.63 |
| 1991 | 0.98 | 1.07 | 2.91 | 2.29 | 0.00 | 0.01 | 2.91 | 2.30 | 27.87 | 24.24 |
| 1992 | 0.99 | N/A | 2.24 | N/A | 0.00 | N/A | 2.24 | N/A | 23.09 | N/A |
| 1993 | 0.99 | 1.03 | 2.31 | 2.22 | 0.02 | 0.01 | 2.33 | 2.22 | 23.53 | 23.25 |
| 1994 | 0.95 | N/A | 2.35 | N/A | 0.03 | N/A | 2.38 | N/A | 24.81 | N/A |
| 1995 | 0.94 | N/A | 1.89 | N/A | 0.02 | N/A | 1.91 | N/A | 20.23 | N/A |
| 1996 | 0.98 | 1.05 | 1.57 | 1.64 | 0.06 | 0.06 | 1.63 | 1.70 | 11.08 | 14.97 |
| 1997 | 0.98 | 1.05 | 1.47 | 1.74 | 0.13 | 0.10 | 1.60 | 1.84 | 11.27 | 15.06 |
| 1998 | 0.97 | 1.11 | 1.28 | 1.25 | 0.14 | 0.12 | 1.43 | 1.36 | 7.76 | 6.24 |
| 1999 | 0.96 | 1.02 | 1.02 | 1.42 | 0.19 | 0.37 | 1.21 | 1.79 | 4.31 | 14.17 |
| 2000 | 0.96 | 1.01 | 1.13 | 1.06 | 0.39 | 0.42 | 1.52 | 1.48 | 10.52 | 8.99 |
| 2001 | 0.99 | 1.00 | 1.25 | 0.99 | 0.42 | 0.55 | 1.68 | 1.54 | 17.53 | 14.28 |
| 2002 | 0.94 | 0.98 | 1.08 | 1.19 | 0.57 | 0.32 | 1.65 | 1.52 | 19.46 | 26.89 |
| 2003 | 0.99 | 0.93 | 1.09 | 0.40 | 0.62 | 0.70 | 1.71 | 1.09 | 21.25 | 2.55 |
| 2004 | 0.93 | 0.82 | 0.63 | 0.55 | 0.78 | 0.82 | 1.40 | 1.37 | 11.62 | 12.05 |
| 2005 | 0.88 | 0.87 | 0.26 | 0.17 | 0.92 | 0.93 | 1.17 | 1.10 | 5.69 | 3.40 |
| 2006 | 0.76 | 0.74 | 0.08 | 0.06 | 0.81 | 0.81 | 0.90 | 0.87 | -4.67 | -5.92 |
| 2007 | 0.54 | 0.68 | 0.04 | 0.04 | 0.98 | 0.84 | 1.02 | 0.88 | 1.17 | -6.64 |
| 2008 | 0.36 | 0.37 | 0.06 | 0.02 | 0.94 | 1.05 | 1.00 | 1.07 | -0.09 | 5.34 |
| 2009 | 0.31 | 0.19 | 0.16 | 0.00 | 0.94 | 1.18 | 1.09 | 1.18 | 12.7 | 31.69 |
| 2010 | 0.16 | 0.00 | 0.01 | 0.00 | 0.81 | 0.00 | 0.82 | 0.00 | -9.89 | N/A |
| Pooled Average | 0.72 | 0.73 | 0.66 | 0.68 | 0.64 | 0.63 | 1.30 | 1.31 | 10.96 | 11.58 |

Based on data compiled from 1,859 Private Equity funds, including fully liquidated partnerships, formed between 1980 to 2010.

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 information presented is current through 6/30/10, the most recent period for which index data is available. With the exception of the vintage year information, all comparison data extends back to the inception of Montana's private equity investment activity.

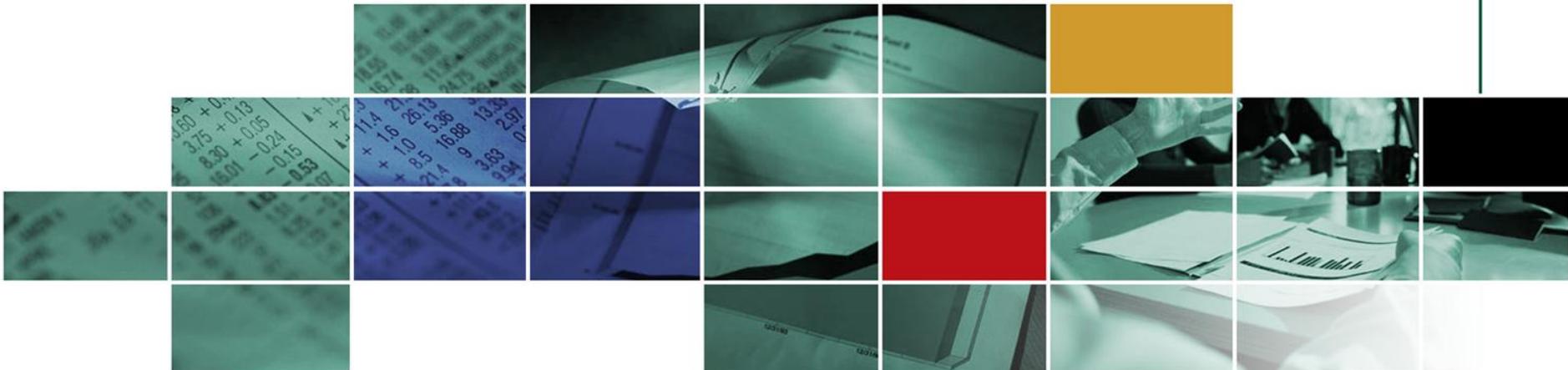
The table shows that MBOI's private equity portfolio has slightly exceeded the investment multiple and the IRR of the index. Montana's relatively attractive performance has been driven by its Venture Capital and Other (primarily Distressed Debt) holdings, both of which decisively outperformed the index.

RVKuhns

▶▶▶ & ASSOCIATES, INC.

Montana Board of Investments Private Equity Pacing Analysis

November, 2010





Agenda

- ▶ Purpose of Pacing Study
- ▶ Private Equity Pacing Analysis



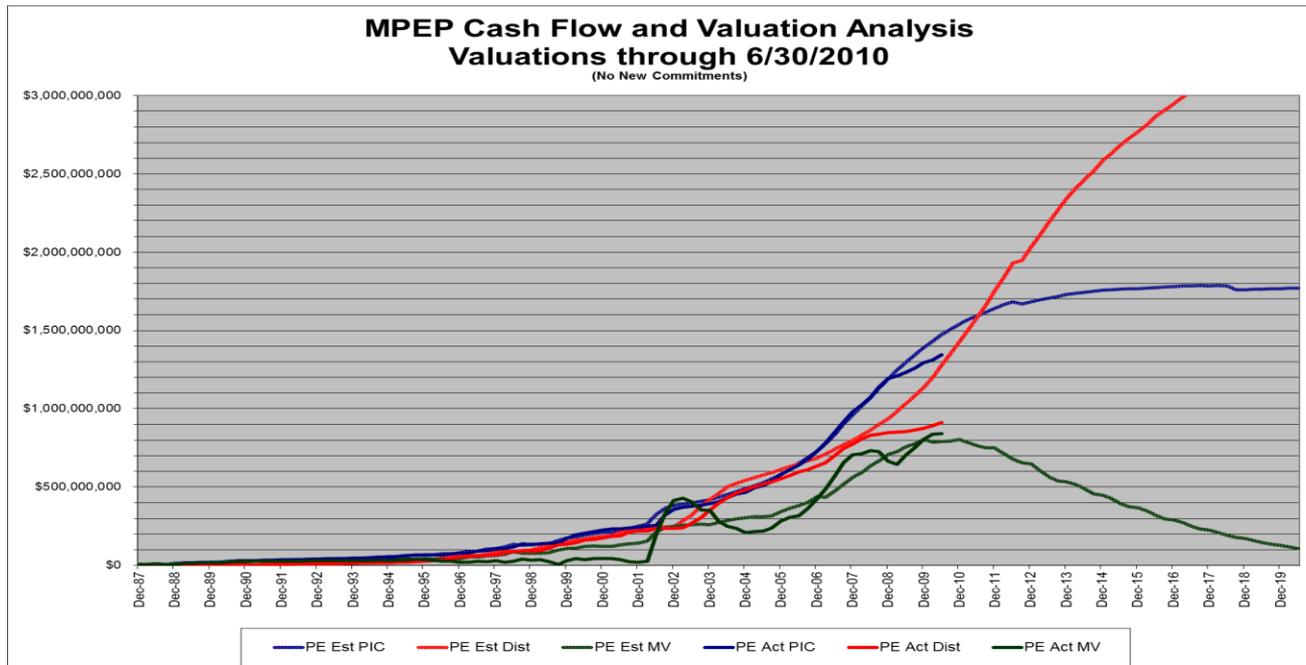
Purpose of Pacing Study

- ▶ RVK strives to move clients toward an annual budget cycle – via a pacing study.
 - ▶ Consistent asset class exposure.
 - ▶ Integration of actual data with projected data.
- ▶ Studies provide a long-term view of cash flow projections.
 - ▶ Smooths out short-term blips.
 - ▶ Utilizes 25+ years of historical industry data over multiple cycles.
- ▶ Our recommendations are to adopt a commitment budget that aims to attain and maintain the targeted allocation – a continually moving target.
 - ▶ Makes assumptions about what will come to pass.
 - ▶ Manage to historical trends, not individual market movements.
 - ▶ Typically updated on an annual basis.
 - ▶ Provide vintage year diversification.
 - ▶ Provide strategy diversification.

Private Equity Pacing Analysis Montana Private Equity Pool

No new investments:

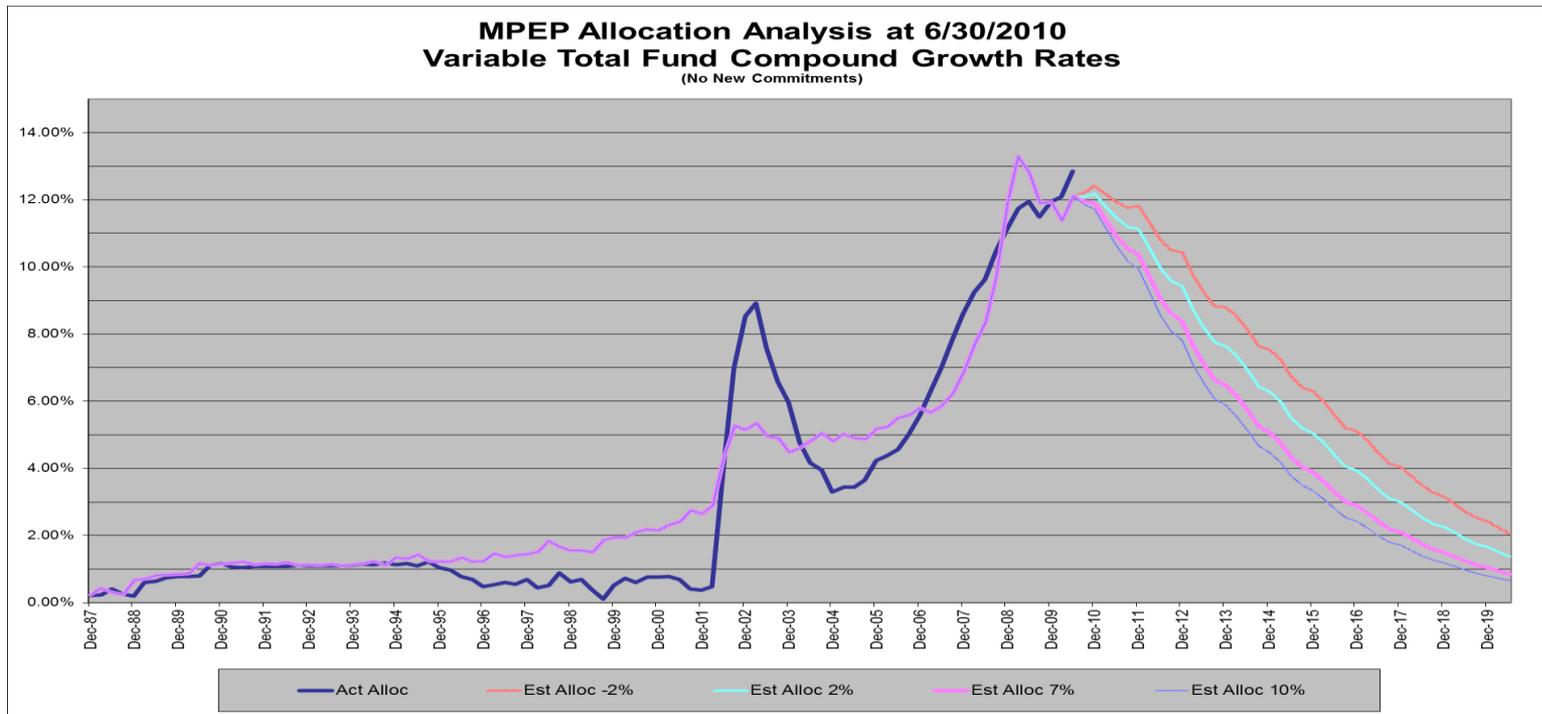
- ▶ Prior to the financial crisis in 2008, Actual Paid in Capital and Distributions trended closely to estimated levels. Post-financial crisis, investment and exit activity has slowed compared with historical trends.
- ▶ Valuations have experienced greater than normal volatility in recent periods. We expect that the valuation of the portfolio with no new investments will peak in the very near term and will begin to decline with continued distribution activities.



Private Equity Pacing Analysis Montana Private Equity Pool

Allocation % (no new investments):

With distribution activity slow in the recent periods, actual allocations have remained higher than estimated. With no new investments, we expect the allocation level of the portfolio will peak in the very near term, then begin to decline with distribution activities.





Private Equity Pacing Analysis Montana Private Equity Pool

Proposed Commitment Budget:

A commitment allocation plan to be revisited on an annual basis to assist the Montana Private Equity Pool with attaining and maintaining its allocation target to private equity.

Key Objectives:

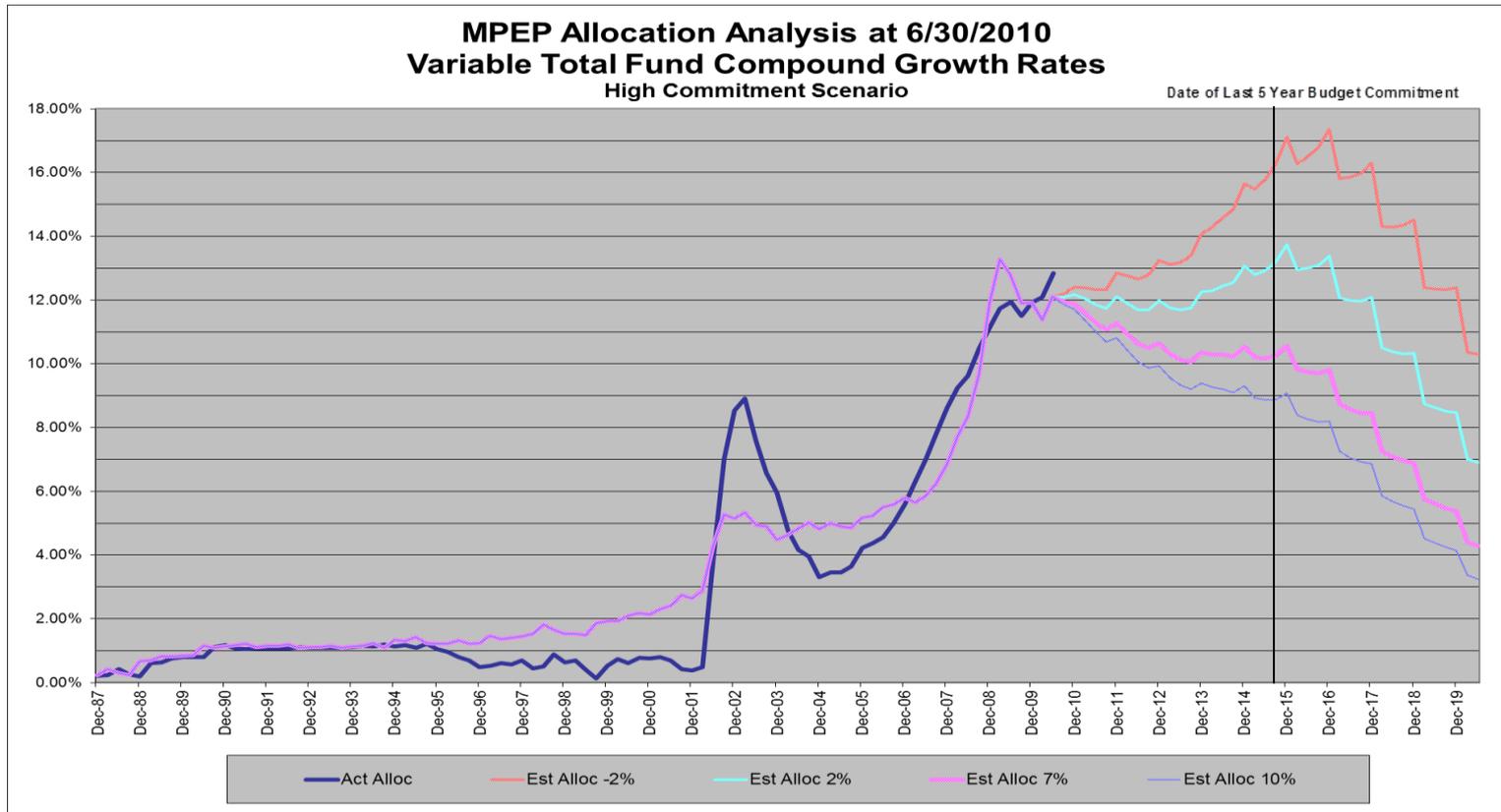
Set a reasonable 5-year target commitment allocation schedule to assist with regular planning exercises.

| Vintage | US Buyout | Non-US PE | Secondary | Special Situations | US Venture | TOTAL |
|---------|------------------|-----------------|-----------------|--------------------|-----------------|----------------|
| 2010 | \$45,000,000.00 | | | | | \$ 45,000,000 |
| 2011 | \$85,000,000.00 | \$30,000,000.00 | \$20,000,000.00 | \$32,500,000.00 | \$40,000,000.00 | \$ 207,500,000 |
| 2012 | \$85,000,000.00 | \$30,000,000.00 | \$20,000,000.00 | \$37,500,000.00 | \$40,000,000.00 | \$ 212,500,000 |
| 2013 | \$90,000,000.00 | \$35,000,000.00 | \$20,000,000.00 | \$37,500,000.00 | \$45,000,000.00 | \$ 227,500,000 |
| 2014 | \$100,000,000.00 | \$35,000,000.00 | \$20,000,000.00 | \$45,000,000.00 | \$45,000,000.00 | \$ 245,000,000 |
| 2015 | \$100,000,000.00 | \$40,000,000.00 | \$20,000,000.00 | \$45,000,000.00 | \$50,000,000.00 | \$ 255,000,000 |

| Vintage | US Buyout | Non-US PE | Secondary | Special Situations | US Venture | TOTAL |
|---------|-----------|-----------|-----------|--------------------|------------|---------|
| 2010 | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% |
| 2011 | 40.96% | 14.46% | 9.64% | 15.66% | 19.28% | 100.00% |
| 2012 | 40.00% | 14.12% | 9.41% | 17.65% | 18.82% | 100.00% |
| 2013 | 39.56% | 15.38% | 8.79% | 16.48% | 19.78% | 100.00% |
| 2014 | 40.82% | 14.29% | 8.16% | 18.37% | 18.37% | 100.00% |
| 2015 | 39.22% | 15.69% | 7.84% | 17.65% | 19.61% | 100.00% |

Private Equity Pacing Analysis Montana Private Equity Pool

Allocation % Levels with Proposed Commitment Budget





Private Equity Pacing Analysis Montana Private Equity Pool

Reduced Commitment Budget:

A second scenario to test the sensitivity of MPEP's allocation percentage to reduced commitments during the current period of market volatility.

Key Objectives:

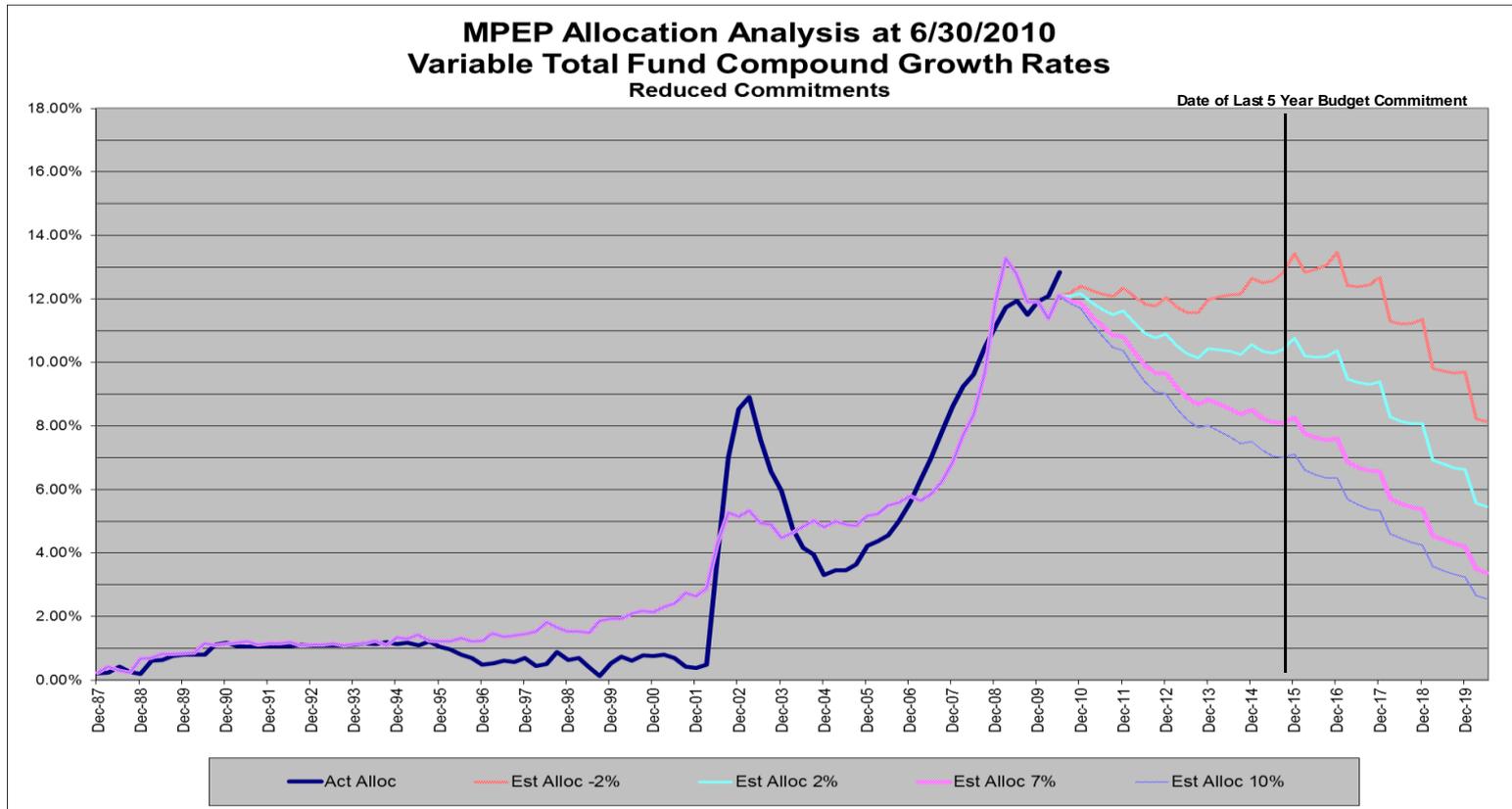
Set a reasonable 5-year target commitment allocation schedule to assist with regular planning exercises, while easing the over-allocation trend.

| Vintage | US Buyout | Non-US PE | Secondary | Special Situations | US Venture | TOTAL |
|---------|---------------|---------------|---------------|--------------------|---------------|----------------|
| 2010 | \$ 45,000,000 | | | | | \$ 45,000,000 |
| 2011 | \$ 65,000,000 | \$ 20,000,000 | \$ 13,000,000 | \$ 20,000,000 | \$ 25,000,000 | \$ 143,000,000 |
| 2012 | \$ 65,000,000 | \$ 20,000,000 | \$ 13,000,000 | \$ 22,500,000 | \$ 25,000,000 | \$ 145,500,000 |
| 2013 | \$ 70,000,000 | \$ 25,000,000 | \$ 13,000,000 | \$ 25,000,000 | \$ 30,000,000 | \$ 163,000,000 |
| 2014 | \$ 75,000,000 | \$ 25,000,000 | \$ 13,000,000 | \$ 30,000,000 | \$ 30,000,000 | \$ 173,000,000 |
| 2015 | \$ 75,000,000 | \$ 30,000,000 | \$ 13,000,000 | \$ 30,000,000 | \$ 35,000,000 | \$ 183,000,000 |

| Vintage | US Buyout | Non-US PE | Secondary | Special Situations | US Venture | TOTAL |
|---------|-----------|-----------|-----------|--------------------|------------|---------|
| 2010 | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% |
| 2011 | 45.45% | 13.99% | 9.09% | 13.99% | 17.48% | 100.00% |
| 2012 | 44.67% | 13.75% | 8.93% | 15.46% | 17.18% | 100.00% |
| 2013 | 42.94% | 15.34% | 7.98% | 15.34% | 18.40% | 100.00% |
| 2014 | 43.35% | 14.45% | 7.51% | 17.34% | 17.34% | 100.00% |
| 2015 | 40.98% | 16.39% | 7.10% | 16.39% | 19.13% | 100.00% |

Private Equity Pacing Analysis Montana Private Equity Pool

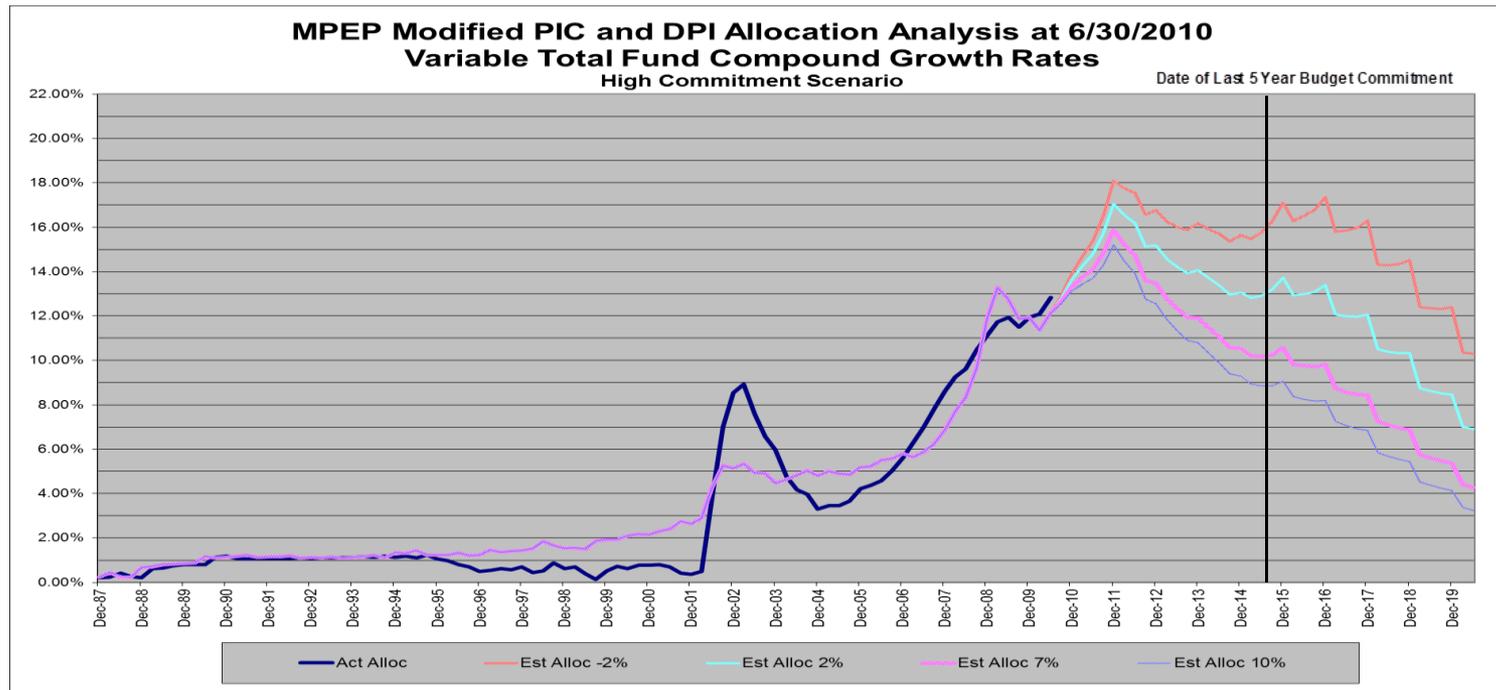
Allocation % Levels with Reduced Commitment Budget



Private Equity Pacing Analysis Montana Private Equity Pool

Allocation % Levels with Proposed Commitment Budget

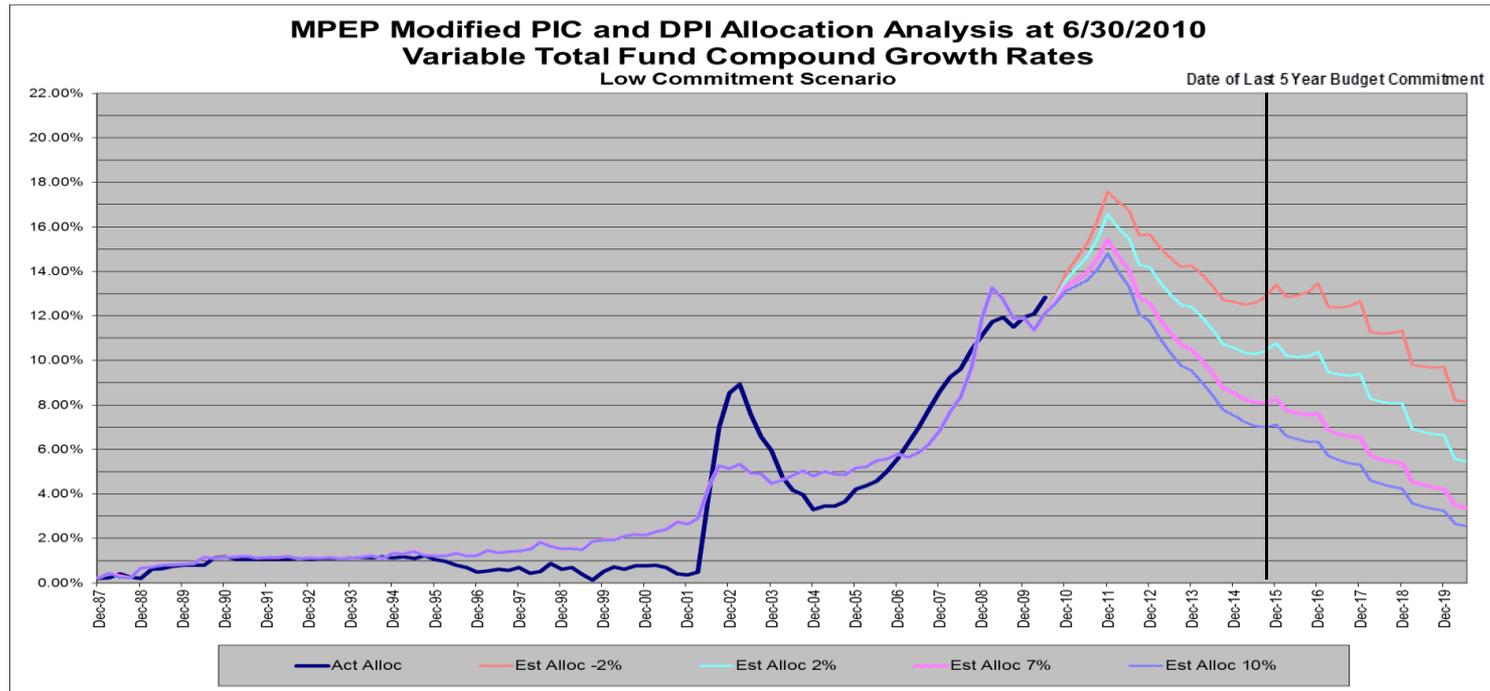
- ▶ The following table models potential MPEP allocation dynamics under a distressed financial market scenario assuming that commitments are made at the higher commitment level detailed on Page 6.
- ▶ The distressed scenario assumes that capital call activity falls to 50% of normal for a period of four quarters while distributions drop to 25% of normal for a period of six quarters.



Private Equity Pacing Analysis Montana Private Equity Pool

Allocation % Levels with Proposed Commitment Budget

- ▶ The following table models potential MPEP allocation dynamics under a distressed financial market scenario assuming that commitments are made at the lower commitment level detailed on Page 8.
- ▶ The distressed scenario assumes that capital call activity falls to 50% of normal for a period of four quarters while distributions drop to 25% of normal for a period of six quarters.





Private Equity Pacing Analysis Montana Private Equity Pool

- ▶ Private equity pacing analysis:
 - ▶ Provides a road map to guide the commitment process.
 - ▶ Allows the testing of multiple scenarios.
 - ▶ Requires annual updating.
- ▶ Allocation process is complicated by overall asset volatility.
 - ▶ Unpredictable denominator.
 - ▶ Normal private equity cash flows also in question. Near-term cash flows likely to differ from historical trends.
 - ▶ Lag of PE valuations to public valuations.
- ▶ Important to maintain market participation.
 - ▶ Cannot time valuation highs and lows; consistent allocation is most likely to achieve target industry returns.

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: December 1, 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. Additions to core funds were made in both MTRP and TFIP. There were two new commitments to closed-end funds. The investment briefs summarizing these funds and the general partners follows.

| Fund Name | Pool | Subclass | Sector | Amount | Date Funded (Core) or Date of Decision |
|---|------|---------------|---------|--------|--|
| American Core Realty Fund, L.L.C. | TFIP | Core | Diverse | \$5 M | 10/1/10 |
| TIAA-CREF Asset Management Core Property Fund, L.P. | TFIP | Core | Diverse | \$6 M | 11/1/10 |
| UBS Trumbull Property Fund, L.P. | MTRP | Core | Diverse | \$10 M | 10/1/10 |
| AG Realty Fund VIII, L.P. | MTRP | Opportunistic | Diverse | \$20M | 11/4/10 |
| AG Core Plus Realty Fund III, L.P. | MTRP | Value-Added | Diverse | \$30 M | 11/4/10 |

Montana Board of Investments

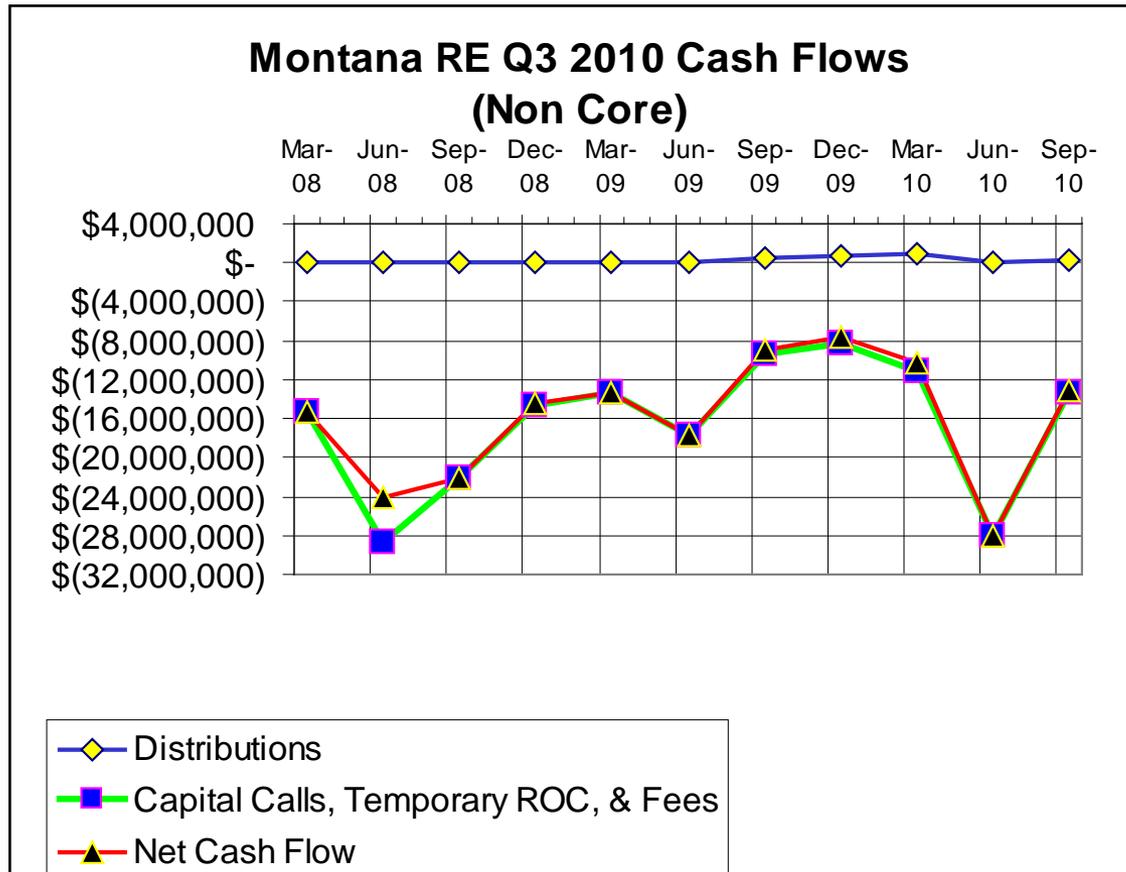
Real Estate Board Report

Q2 2010

Contents

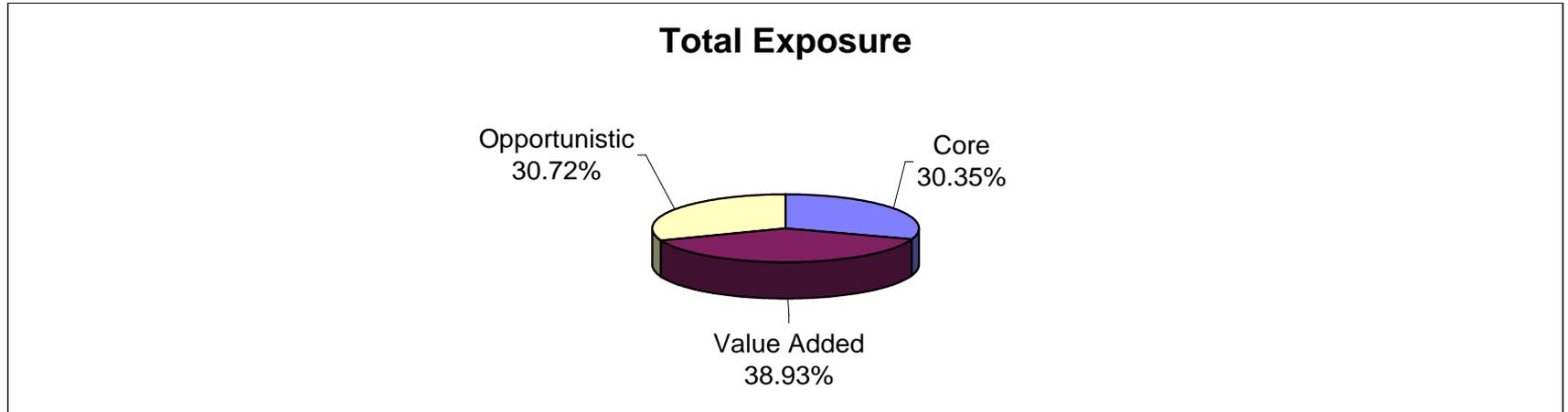
- **Quarterly Cash Flow Chart**
- **Strategy – Total Exposure Chart**
- **Property Type – Market Value Exposure Chart**
- **Geography – Total Exposure Chart**
- **Time Weighted Returns & Internal Rates of Return**
- **Portfolio Status Report**

Quarterly Cash Flows July 1 through September 30 2010



Call activity remained healthy in Q3. Credit is generally available for good quality real estate properties, and lenders are beginning to force resolutions on their troubled borrowers. Capital calls remained high in both the Value Added and Opportunistic segments of the portfolio, with funds managed by ABR Chesapeake, Angelo Gordon, Carlyle, and TA Realty Associates being particularly active.

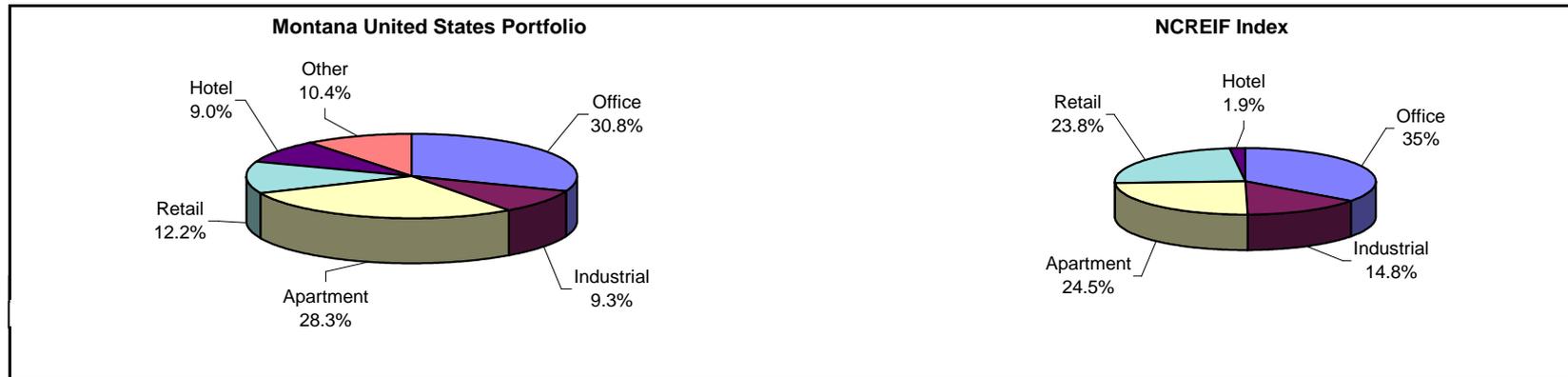
Q2 2010 Strategy – Total Exposure



| Strategy | Remaining Commitments | Percentage | Net Asset Value | Percentage | Total Exposure | Percentage |
|---------------|-----------------------|----------------|----------------------|----------------|----------------------|----------------|
| Core | \$0 | 0.00% | \$154,376,054 | 45.55% | \$154,376,054 | 30.35% |
| Value Added | \$76,364,441 | 44.98% | \$121,688,175 | 35.90% | \$198,052,616 | 38.93% |
| Opportunistic | \$93,416,955 | 55.02% | \$62,853,102 | 18.55% | \$156,270,057 | 30.72% |
| Total | \$169,781,396 | 100.00% | \$338,917,330 | 100.00% | \$508,698,727 | 100.00% |

The real estate portfolio is well diversified by strategy, although the Value Added and Opportunistic strategies continue to be outside of the 20-30% of NAV range suggested in the investment policy statement. The MTRP's policy is under review following the decision during the August board meeting to allow the MTRP to invest in timberland. The policy ranges applicable to Core, Opportunistic, and Value Added are likely to change as a result of the IPS review process.

Q2 2010 Property Type – Market Value Exposure



| | Office | Industrial | Apartment | Retail | Hotel | Other ² | Total |
|-----------------------------------|---------|------------|-----------|--------|--------|--------------------|---------|
| Montana US Value ² | \$212.5 | \$64.2 | \$195.1 | \$83.9 | \$61.7 | \$72.0 | \$689.4 |
| Montana US Total | 30.8% | 9.3% | 28.3% | 12.2% | 9.0% | 10.4% | 100.0% |
| NCREIF Value ^{2,4} | 82,034 | 34,588 | 57,543 | 55,825 | 4,495 | | 234,485 |
| NCREIF ¹ | 35.0% | 14.8% | 24.5% | 23.8% | 1.9% | | 100.0% |
| Difference | -4.2% | -5.4% | 3.8% | -11.6% | 7.0% | 10.4% | |
| Montana Non-US Value ² | \$34.2 | -\$0.1 | \$7.8 | \$5.2 | \$13.8 | \$36.3 | \$97.3 |
| Montana Non-US Total | 35.1% | -0.1% | 8.0% | 5.4% | 14.2% | 37.4% | 100.0% |
| Montana Total Value ² | \$246.7 | \$64.2 | \$202.9 | \$89.2 | \$75.6 | \$108.3 | \$786.7 |
| Montana Total ¹ | 31.4% | 8.2% | 25.8% | 11.3% | 9.6% | 13.8% | 100.0% |

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

2) Other consists of \$56,721,796 in mixed-use assets, \$36,151,388 in healthcare/senior living, \$11,692,868 in land, \$957,597 in storage, \$2,162,469 in debt assets, and \$578,884 in manufactured assets.

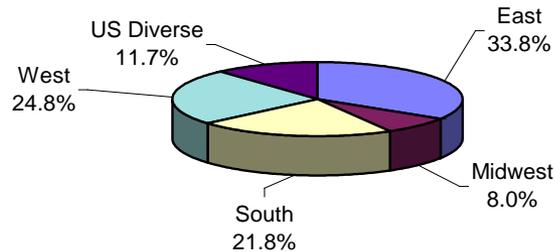
3) Values shown are in Millions.

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

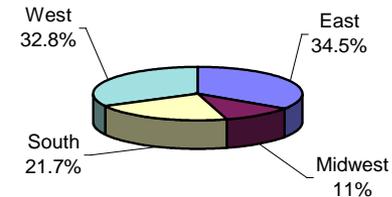
Relative to NCREIF, the domestic portion of the portfolio has a 12% underweight in Retail and modest underweights in Office and Industrial. The offsetting overweight positions are in Hotel, Apartment, and Other. Hotel, at 9.6%, is above its 0-5% policy range while Industrial is slightly below its policy range of 10-40%. While Other is above its 10% policy upper band, most of Other is composed of mixed-use properties which, if disaggregated, would fit into Office, Retail, and Apartment.

Q2 2010 Geography – Total Exposure

Montana United States Portfolio



NCREIF Index



| | East | Midwest | South | West | US Diverse | Non-US | Total |
|----------------------------------|---------|---------|---------|---------|------------|--------|---------|
| Montana US Value ² | \$233.1 | \$54.9 | \$150.0 | \$171.1 | \$80.4 | | \$689.4 |
| Montana US Total ¹ | 33.8% | 8.0% | 21.8% | 24.8% | 11.7% | | 100.0% |
| NCREIF Value ^{2,3} | 81,009 | 25,703 | 50,933 | 76,840 | | | 234,485 |
| NCREIF ¹ | 34.5% | 11.0% | 21.7% | 32.8% | | | 100.0% |
| Difference | -0.7% | -3.0% | 0.0% | -7.9% | 11.7% | | |
| Montana Total Value ² | \$233.1 | \$54.9 | \$150.0 | \$171.1 | \$80.4 | \$97.3 | \$786.7 |
| Montana Total ¹ | 29.6% | 7.0% | 19.1% | 21.8% | 10.2% | 12.4% | 100.0% |

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

2) Values shown are in Millions.

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

The real estate portfolio is geographically well-diversified. International properties account for 12.4% of the portfolio. In the domestic holdings, the portfolio is about 8% underweight in the West versus the NCREIF. None of the remaining geographic allocations vary by more than 3% when compared to the Index.

Q2 2010 Time Weighted & Internal Rates of Return

Time Weighted Returns

| | Current Quarter | | Year to Date | | 1 - Year | | 2 - Year | | 3 - Year | | Inception | | |
|-------------------------------------|--------------------|--------------|--------------|--------------|--------------|----------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | NAV | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross |
| Clarion Lion Properties Fund | 23,984,829 | 2.17% | 2.44% | 3.53% | 4.10% | -13.27% | -12.21% | -27.23% | -26.34% | -16.35% | -15.39% | -11.97% | -10.98% |
| INVESCO Core Real Estate-USA | 29,195,307 | 3.31% | 3.53% | 3.35% | 3.81% | -8.12% | -7.27% | -19.93% | -19.17% | - | - | -13.58% | -12.76% |
| JP Morgan Strategic Properties Fund | 80,010,340 | 4.12% | 4.38% | 4.47% | 5.00% | -6.32% | -5.34% | -17.33% | -16.46% | -9.18% | -8.24% | -9.18% | -8.24% |
| UBS-Trumbull Property Fund | 21,185,578 | 4.90% | 5.11% | - | - | - | - | - | - | - | - | 4.90% | 5.11% |
| Core Total | 154,376,054 | 3.75% | 4.00% | 4.26% | 4.77% | -8.29% | -7.33% | -20.66% | -19.81% | -11.58% | -10.66% | -7.67% | -6.72% |
| Value Added Total | 121,688,175 | 6.78% | 7.49% | 6.83% | 8.24% | -12.34% | -9.98% | -10.98% | -8.61% | -5.06% | -2.42% | -3.94% | -0.10% |
| Opportunistic Total | 62,853,102 | 3.92% | 4.96% | 1.60% | 3.89% | -4.80% | 0.62% | -46.05% | -42.86% | - | - | -37.35% | -33.51% |
| Total Portfolio | 338,917,330 | 4.83% | 5.38% | 4.59% | 5.77% | -9.53% | -7.23% | -23.13% | -21.22% | -14.06% | -12.01% | -9.12% | -6.60% |
| Benchmark (gross) | | | | | | | | | | | | | |
| NCREIF | 234,484,563,982 | | 3.31% | | 4.10% | | -1.48% | | -10.98% | | -4.70% | | 8.76% |
| NFI-ODCE | 50,752,000,000 | | 4.32% | | 5.10% | | -6.00% | | -19.24% | | -11.00% | | 7.80% |

Internal Rates of Return (Net of Fees)

| | | | | | | | | | | | | | |
|--|----------------------|--------------|--|--------------|--|----------------|--|----------------|--|----------------|--|----------------|--|
| ABR Chesapeake Fund III | 17,963,341 | 0.00% | | 1.20% | | -7.28% | | -4.05% | | -2.15% | | -1.60% | |
| AG Core Plus Realty Fund II | 11,350,964 | 6.45% | | 8.25% | | 0.06% | | -7.27% | | - | | -6.25% | |
| Apollo Real Estate Finance Corp. | 8,513,353 | 0.60% | | 0.50% | | -9.68% | | -9.44% | | -6.16% | | -6.50% | |
| AREFIN Co-Invest | 9,125,732 | -1.47% | | -6.05% | | -37.30% | | -23.68% | | - | | -23.39% | |
| DRA Growth & Income Fund VI | 14,148,340 | 3.93% | | 5.57% | | -1.78% | | -8.46% | | - | | -6.02% | |
| Five Arrows Securities V, L.P. | 6,439,150 | 2.28% | | 2.72% | | 1.09% | | 2.74% | | - | | 3.17% | |
| Hudson RE Fund IV Co-Invest | 9,543,281 | 0.62% | | 0.32% | | -7.11% | | -1.82% | | - | | -1.91% | |
| Hudson Realty Capital Fund IV | 10,337,740 | -0.77% | | -1.06% | | -7.30% | | -17.53% | | -12.64% | | -12.25% | |
| Realty Associates Fund IX | 7,648,095 | -8.24% | | - | | - | | - | | - | | -8.24% | |
| Realty Associates Fund VIII | 13,194,820 | -0.17% | | 0.74% | | -20.88% | | -19.42% | | -13.42% | | -13.56% | |
| Strategic Partners Value Enhancement Fund | 13,423,358 | 31.37% | | 25.52% | | -34.33% | | -20.03% | | -12.20% | | -13.48% | |
| Value Added | 121,688,175 | 4.17% | | 4.33% | | -13.54% | | -11.85% | | -7.97% | | -8.07% | |
| AG Realty Fund VII L.P. | 10,507,224 | 3.47% | | 4.20% | | 9.32% | | 7.90% | | - | | 2.56% | |
| Beacon Capital Strategic Partners V | 6,634,264 | 5.57% | | 5.13% | | -18.59% | | -45.63% | | - | | -38.63% | |
| Carlyle Europe Real Estate Partners III | 6,029,312 | -8.85% | | -16.22% | | -27.81% | | -33.42% | | - | | -34.44% | |
| CIM Fund III, L.P. | 3,651,558 | -0.97% | | -9.38% | | -26.62% | | -44.31% | | - | | -45.99% | |
| GEM Realty Fund IV | 1,703,806 | -9.18% | | - | | - | | - | | - | | -9.18% | |
| JER Real Estate Partners - Fund IV | 8,273,899 | 11.17% | | 16.91% | | 13.90% | | -25.40% | | - | | -19.18% | |
| Liquid Realty IV ¹ | 10,895,226 | 0.40% | | -1.17% | | -0.90% | | -20.11% | | - | | -17.99% | |
| MGP Asia Fund III, LP | 7,260,895 | 21.04% | | 20.21% | | 20.15% | | -52.49% | | - | | -49.85% | |
| MSREF VI International | 4,399,232 | -5.12% | | 2.26% | | 4.60% | | -66.79% | | - | | -65.42% | |
| O'Connor North American Property Partners II | 3,497,686 | 17.18% | | -2.83% | | -17.48% | | -44.44% | | - | | -44.23% | |
| Opportunistic | 62,853,102 | 3.60% | | 1.64% | | -4.36% | | -38.42% | | - | | -35.58% | |
| Total | \$184,541,276 | 3.98% | | 3.45% | | -10.64% | | -23.46% | | -20.01% | | -19.99% | |

The real estate portfolio returned 4.83% during the quarter. On a net basis, Core and Value Added all reported positive results that outperformed the NCREIF benchmark. An apples-to-apples comparison of the core funds to the NFI-ODCE shows that MTRP's core portfolio underperformed the gross performance of the index during the quarter.

Q2 2010 Commitment Summary

| | Vintage Year | Commitment | Since Inception | | | | | | | Investment Multiple |
|---|--------------|----------------------|----------------------------------|----------------------|---------------------|----------------------|---------------|--------------------|-----------------|---------------------|
| | | | Capital Contributed ¹ | Remaining Commitment | Capital Distributed | Net Asset Value | NAV % | Total Exposure | Total Exposure% | |
| Core | | 205,000,000 | 205,000,000 | - | 10,849,614 | 154,376,054 | 45.55% | 154,376,054 | 30.35% | 0.80 |
| Clarion Lion Properties Fund | 2006 | 45,000,000 | 45,000,000 | - | 6,153,739 | 23,984,829 | 7.08% | 23,984,829 | 4.71% | 0.66 |
| INVESCO Core Real Estate-USA | 2007 | 45,000,000 | 45,000,000 | - | 2,707,004 | 29,195,307 | 8.61% | 29,195,307 | 5.74% | 0.70 |
| JP Morgan Strategic Property Fund | 2007 | 95,000,000 | 95,000,000 | - | 1,759,599 | 80,010,340 | 23.61% | 80,010,340 | 15.73% | 0.85 |
| UBS-Trumbull Property Fund | 2010 | 20,000,000 | 20,000,000 | - | 229,271 | 21,185,578 | 6.25% | 21,185,578 | 4.16% | 1.07 |
| Value Added | | 226,200,000 | 149,835,559 | 76,364,441 | 7,518,077 | 121,688,175 | 35.90% | 198,052,616 | 38.93% | 0.86 |
| ABR Chesapeake Fund III | 2006 | 20,000,000 | 20,000,000 | - | 1,292,921 | 17,963,341 | 5.30% | 17,963,341 | 3.53% | 0.96 |
| ABR Chesapeake Fund IV ² | 2010 | 17,000,000 | - | 17,000,000 | - | - | 0.00% | 17,000,000 | 3.34% | - |
| AG Core Plus Realty Fund II | 2007 | 20,000,000 | 12,934,917 | 7,065,083 | 368,594 | 11,350,964 | 3.35% | 18,416,047 | 3.62% | 0.91 |
| Apollo Real Estate Finance Corp. | 2007 | 10,000,000 | 10,000,000 | - | 550,839 | 8,513,353 | 2.51% | 8,513,353 | 1.67% | 0.91 |
| AREFIN Co-Invest | 2008 | 10,000,000 | 10,000,000 | - | 34,254 | 9,125,732 | 2.69% | 9,125,732 | 1.79% | 0.92 |
| DRA Growth & Income Fund VI | 2007 | 35,000,000 | 17,971,854 | 17,028,146 | 3,147,628 | 14,148,340 | 4.17% | 31,176,486 | 6.13% | 0.91 |
| Five Arrows Securities V, L.P. | 2007 | 30,000,000 | 6,728,788 | 23,271,212 | 728,918 | 6,439,150 | 1.90% | 29,710,362 | 5.84% | 1.07 |
| Hudson RE Fund IV Co-Invest | 2008 | 10,000,000 | 10,000,000 | - | 61,473 | 9,543,281 | 2.82% | 9,543,281 | 1.88% | 0.96 |
| Hudson Realty Capital Fund IV | 2007 | 15,000,000 | 15,000,000 | - | 244,542 | 10,337,740 | 3.05% | 10,337,740 | 2.03% | 0.71 |
| Realty Associates Fund IX | 2008 | 20,000,000 | 8,000,000 | 12,000,000 | - | 7,648,095 | 2.26% | 19,648,095 | 3.86% | 0.96 |
| Realty Associates Fund VIII | 2007 | 20,000,000 | 20,000,000 | - | 800,908 | 13,194,820 | 3.89% | 13,194,820 | 2.59% | 0.70 |
| Strategic Partners Value Enhancement Fund | 2007 | 19,200,000 | 19,200,000 | - | 288,000 | 13,423,358 | 3.96% | 13,423,358 | 2.64% | 0.71 |
| Opportunistic | | 228,008,422 | 137,091,467 | 93,416,955 | 4,697,000 | 62,853,102 | 18.55% | 156,270,057 | 30.72% | 0.48 |
| AG Realty Fund VII L.P. | 2007 | 20,000,000 | 11,200,000 | 8,800,000 | 1,005,231 | 10,507,224 | 3.10% | 19,307,224 | 3.80% | 1.03 |
| Beacon Capital Strategic Partners V | 2007 | 25,000,000 | 18,500,000 | 6,500,000 | - | 6,634,264 | 1.96% | 13,134,264 | 2.58% | 0.36 |
| Carlyle Europe Real Estate Partners III ³ | 2007 | 30,994,690 | 12,483,213 | 18,511,477 | 13,995 | 6,029,312 | 1.78% | 24,540,788 | 4.82% | 0.48 |
| CIM Fund III, L.P. | 2007 | 25,000,000 | 5,242,784 | 19,757,216 | 159,240 | 3,651,558 | 1.08% | 23,408,774 | 4.60% | 0.57 |
| GEM Realty Fund IV | 2009 | 15,000,000 | 1,800,000 | 13,200,000 | - | 1,703,806 | - | 14,903,806 | 2.93% | 0.91 |
| JER Real Estate Partners - Fund IV | 2007 | 20,000,000 | 15,634,891 | 4,365,109 | 21,784 | 8,273,899 | 2.44% | 12,639,008 | 2.48% | 0.53 |
| Liquid Realty IV ^{4,5} | 2007 | 22,013,732 | 18,971,804 | 3,041,928 | 3,387,174 | 10,895,226 | 3.21% | 13,937,154 | 2.74% | 0.71 |
| MGP Asia Fund III, LP | 2007 | 30,000,000 | 16,068,434 | 13,931,566 | 19,892 | 7,260,895 | 2.14% | 21,192,461 | 4.17% | 0.45 |
| MSREF VI International 6 | 2007 | 25,000,000 | 27,500,000 | - | 17,313 | 4,399,232 | 1.30% | 4,399,232 | 0.86% | 0.16 |
| O'Connor North American Property Partners II ⁴ | 2008 | 15,000,000 | 9,690,340 | 5,309,660 | 72,371 | 3,497,686 | 1.03% | 8,807,346 | 1.73% | 0.36 |
| Montana Real Estate | | \$659,208,422 | \$491,927,026 | \$169,781,396 | \$23,064,690 | \$338,917,330 | | 508,698,727 | | 0.73 |

The MTRP maintains adequate diversification by fund and by manager. The JP Morgan Strategic Property Fund is the portfolio's highest concentration at 23.61% of NAV; this weight should decline in future periods as additional capital was allocated to other core managers subsequent to quarter end. Among the closed-end fund managers, Angelo Gordon, ABR Chesapeake, AREA Property Partners, TA Realty Associates, and Hudson Realty all account for ~5-6% of NAV.

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: December 1, 2010

Subject: MTRP Investment Policy Statement – Recommended Revisions

At the August 2010 Board Meeting, a timberland allocation of up to 2% of pension assets was approved for inclusion in the MTRP. In order to incorporate a timberland allocation, Staff has revised the MTRP Investment Policy Statement (IPS) which became effective in August of 2006, and the revised IPS is now being submitting for Board approval. The following are the material elements of the proposed revisions.

- i) The insertion of language describing the timberland investments which are expected to be held in the MTRP.
- ii) The addition of a timberland allocation to strategy policy ranges. The revised IPS calls for a 35% - 65% allocation to core real estate and timberland in combination. In isolation, timberland is subject to a policy range of 0% - 35% of MTRP net asset value.
- iii) Revisions to regional policy ranges to better reflect the actual distribution of institutionally investable real estate in the domestic real estate market.
- iv) A revision to the MTRP benchmark such that the new benchmark will be based on the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) rather than the NCREIF Property Index.

Complete copies of both the existing and the proposed IPS's are provided as attachments to this memo.

**BOARD OF INVESTMENTS
MONTANA REAL ESTATE POOL INVESTMENT GUIDELINES
REAL ESTATE INVESTMENT GUIDELINES AND RANGES**

The Montana Real Estate Pool (MTRP) was created to permit the nine Montana Retirement Systems to participate in a diversified real estate portfolio. Real estate investments in the MTRP shall be consistent with the following guidelines. *(These guidelines reflect long-term policy expectations and should not be interpreted strictly during the initial building phase of the portfolio.)*

a. Allocation Size

The target allocation to real estate shall be approximately 5.0 percent of the total Retirement Systems’ assets, or as otherwise authorized by the Board. The real estate target is long-term in nature (i.e., at least five years), and the allocation percentage will fluctuate according to the relative values among real estate and the other asset classes of the Retirement Systems.

b. Permissible Investment Structures/Vehicles and Public/Private Allocations

Investment Structures/Vehicles. The MTRP will include real estate investments, consisting of both open-end and closed-end pooled funds, the advantages and disadvantages of which are described in the following table.

| VEHICLE | ADVANTAGES | DISADVANTAGES | LIQUIDITY |
|-------------------|---|---|---|
| Open-Ended Fund | <ol style="list-style-type: none"> 1. Property type diversification. 2. Geographic diversification. 3. Existing investment portfolio to evaluate. 4. Existing manager and fund performance record. 5. Infinite life. 6. Can redeem units in fund. | <ol style="list-style-type: none"> 1. Passive investor. 2. Cannot replace manager. 3. Cannot influence manager decisions regarding acquisitions, financings, and sales. 4. Fee level and structures lack alignment of interests. 5. Lack of manager co-investment. 6. Historically have not sold assets to harvest gains. | Typically within 90 days unless there is an investor queue. |
| Closed-Ended Fund | <ol style="list-style-type: none"> 1. Skilled value/ opportunistic management. 2. Manager organizations and track records. 3. Manager co-investment. 4. Manager-investor enhanced alignment of interests. 5. Asset liquidations by end of term of fund. | <ol style="list-style-type: none"> 1. Illiquid-specified term. 2. Typically blind pools. 3. Cannot redeem interest. 4. Passive investor. 5. Cannot influence manager decisions regarding acquisitions, financings, and sales. | Typically 7 to 10 year terms. |

Open-end Commingled Funds. The MTRP portfolio may have a significant exposure to open-end commingled funds. The open-end fund investments shall be made primarily to provide (1) timely access to large existing, well-diversified portfolios, (2) reasonable property type and geographic diversification, (3) exposure to larger properties (i.e., over \$50 mil.), and (4) reasonable liquidity (i.e., ability to redeem within 90 days). Reasonable due diligence shall be completed to evaluate open-end commingled funds consistent with these objectives.

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Closed-end Commingled Funds. The MTRP portfolio may have a significant exposure to closed-end commingled funds. The closed-end fund investments may be made to obtain exposure to value and opportunistic investments. Reasonable due diligence shall be completed prior to selecting closed-end fund investments.

Liquidity. The table below describes different levels of liquidity of real estate investments.

| PORTFOLIO LIQUIDITY RANGES | |
|--|------------------------|
| | Investment Type |
| LIQUID (i.e., can redeem within 30 days) | Select Open-End Funds |
| MODERATE LIQUIDITY (i.e., can redeem within 90 to 120 days) | Open-End Funds |
| ILLIQUID (i.e., no liquidity until fund termination.) | Closed-End Funds |

c. **Expected Investment and Portfolio Risk/Returns.**

The risk/return categories utilized to classify real estate investment risk/return levels are:

Core. Equity investment in operating and substantially-leased institutional quality real estate in the traditional property types (apartment, office, retail, industrial and hotel). Net returns historically have been in the 4.0 percent to 6.0 percent range (inflation-adjusted and net of fees) and are typically comprised of greater levels of income (i.e., 67.0 percent of total returns) with appreciation matching or exceeding inflation.

Value. Equity or debt interests in assets requiring rehabilitation, redevelopment, development, lease-up or repositioning. Net returns historically have been in the 8%-10% range (inflation-adjusted and net of fees). Value investments frequently involve the repositioning of distressed assets (i.e., not fully leased and operating). For example, a value investment may be an office building that is 40.0 percent vacant and needs significant capital to rehabilitate and reposition the property. Investment may also include non-traditional property types (e.g., manufactured housing) which may contain greater risk. Value investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in place income and, in many cases, decreasing the capitalization rate used in selling the asset due to the reduced asset risk resulting from stabilized occupancy. Value returns are typically more dependent than core on appreciation returns with purchase prices based on income in place or asset replacement cost (i.e., at a discount to replacement cost).

Opportunistic. Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk. Risk may include real estate, financial restructuring, and non-real estate risk. Net returns have been in the 12.0 percent or higher range (inflation-adjusted and net of fees). Opportunistic investing includes distressed assets, financial restructurings, and/or

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financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REITs or REOCs. Investment may also be made in non-traditional property types (e.g., self-storage) which typically contain greater risk. Opportunistic returns typically require even greater appreciation returns than value (e.g., 50.0 percent of total returns) and in many cases are originated with minimal income in place.

The policy range targets will be reviewed and adjusted periodically going forward with respect to risk/return exposures. These targets may be adjusted on an annual basis and will be reflected in the MTRP quarterly performance reports. The following table sets forth the long-term risk/return policy ranges for the portfolio.

| INVESTMENT AND PORTFOLIO RISK/RETURN RANGES | | | |
|---|-----------------------------|-----------------|--------|
| Risk/Return | Nominal Return (Net)* | Policy Range | Target |
| Core | 6-8% | 40%-60% | 50% |
| Value | 10-12% | 20%-30% | 25% |
| Opportunistic | 13-15% | 20%-30% | 25% |

* Assumes 3% inflation overall and 100 basis points core management fee, 200 basis points value management fee, and 300 basis points opportunistic management fee.

d. Income and Appreciation Return Mix.

Real estate investments, depending on their risk/return level (i.e., core, value, opportunistic), offer varying proportions of expected income/cash yield and appreciation returns. Investments providing higher income/cash yield returns typically will be preferred among investments of comparable expected total returns since income/cash yield returns provide greater return certainty and therefore lower risk. In addition, investments providing preferred or senior income/cash yield returns typically will be preferred among investments providing comparable returns because such features enhance the certainty of return. Core investments have historically provided higher income returns, which equates to greater certainty of return and lower risk. As previously set forth, the core allocation therefore shall comprise the largest part of the Real Estate Portfolio.

e. Diversification. The MTRP portfolio diversification is important in reducing portfolio risk and accomplishing superior risk-adjusted returns. The impact of investments on portfolio diversification, portfolio risk, and risk-adjusted returns shall be considered when evaluating prospective investments. Additionally, the portfolio may have over-weighted exposure in select property types or regions as desired.

1. **Property Type.** Property type diversification is one of the most important diversification features in terms of impact on returns. The property types have historically performed differently during economic cycles. Residential and industrial investments have historically outperformed the other property types during economic downturns. Office has historically underperformed during

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economic downturns, as reduced tenant demand results in lower rents, higher owner operating and build-out costs, and reduced income and cash flow. Hotels historically also have underperformed during economic downturns.

Diversification ranges are based on the universe of available real estate investments and institutional investor portfolio information. The following table provides a guideline range with respect to the MTRP property type diversification.

| PROPERTY TYPE DIVERSIFICATION RANGES | |
|--------------------------------------|--------------|
| Property Type | Policy Range |
| Office | 10%-45% |
| Retail | 10%-40% |
| Industrial | 10%-40% |
| Residential | 10%-40% |
| Hotel | 0%-5% |
| Other | 0%-10% |

2. **Region/Location.** The importance of location to the long-term value of real estate is based on the economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of U.S. and international regions. The distribution of real estate investments by geographic region shall be monitored for compliance with the broad ranges set forth in the table below.

| REGIONAL DIVERSIFICATION RANGES | |
|---------------------------------|--------------|
| Regions | Policy Range |
| West | 10%-45% |
| South | 10%-40% |
| Midwest | 10%-40% |
| East | 10%-45% |
| International | 0%-30% |

Policy range targets with respect to regional exposures may be established and adjusted on an annual basis.

3. **Other.** In addition to property type and regional diversification, there are other real estate factors that impact the portfolio risk which may be reduced through diversification. These portfolio factors may include, but are not limited to, the following:
- a. **Investment Structure.** Equity, preferred equity, first mortgage debt or mezzanine equity. **Investments in public CMBS and REITs are not preferred.**

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- b. **Life Cycle.** Land, development/redevelopment, leasing (i.e., less than 90% leased) and operating (i.e., over 90% leased).
- c. **Investment Size.** \$0-\$10 mil., \$10-\$20 mil., \$20-\$50 mil., \$50-\$100 mil., \$100 mil.+.

While no formal diversification ranges are set forth for the above portfolio risk factors, these and other factors may be monitored in assessing overall portfolio risk and expected return.

f. **Other Risk Factors.**

- 1. **Leverage.** Leverage is a significant risk factor. Its importance is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels. It may be the case that the leverage level increases as market conditions worsen. Accordingly, the leverage level of the MTRP shall be closely monitored.

On an individual fund basis, the leverage level can range up to 75.0 percent. Leverage consists of the combined borrowing at the property level and the fund level. On a select basis, the leverage may exceed 75.0 percent for a given investment, if it is determined to be reasonable to do so. The total MTRP portfolio leverage shall not exceed 60.0 percent.

| LEVERAGE RANGES AND AVERAGE LTV TARGET | | |
|--|--------|--------|
| Risk | Range | Target |
| Core | 0%-50% | 35% |
| Non-Core | 0%-75% | 65% |
| Total Real Estate Portfolio | 0%-60% | 50% |

- 2. **Monitoring and Control.** All investments will be made through investment vehicles providing full discretion to investment managers.
- 3. **Manager Concentrations.** The MTRP exposure to each manager shall be reviewed regularly to determine the reasonableness of each. No manager shall have under management more than 25.0 percent of the MTRP on an allocation basis, unless specifically approved by the Board.
- 4. **Benchmark.** The MTRP benchmark shall be the NCREIF Property Index, reasonably adjusted to provide comparable risk/return with the MTRP portfolio given the level of non-core exposure.

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REAL ESTATE INVESTMENT GUIDELINES AND RANGES

The Montana Real Estate Pool (MTRP) was created to permit the nine Montana Retirement Systems to participate in a diversified real estate portfolio, consisting of commercial real estate and timberland. Real estate investments in the MTRP shall be consistent with the following guidelines.

a. **Allocation Size**

The target allocation range for real estate shall be 4.0 percent to 10.0 percent of the total Retirement Systems' assets, with the Timberland allocation subject to a maximum upper limit of 2.0 percent of total Retirement System assets. The real estate target range is long-term in nature, and the allocation percentage will fluctuate according to the relative values among real estate and the other asset classes of the Retirement Systems.

b. **Permissible Investment Structures/Vehicles and Public/Private Allocations**

Investment Structures/Vehicles. The MTRP will include real estate investments, consisting of both open-end and closed-end pooled funds, the advantages and disadvantages of which are described in the following table.

| VEHICLE | ADVANTAGES | DISADVANTAGES | LIQUIDITY |
|-------------------|---|---|---|
| Open-Ended Fund | <ol style="list-style-type: none"> 1. Property type diversification. 2. Geographic diversification. 3. Existing investment portfolio to evaluate. 4. Existing manager and fund performance record. 5. Infinite life. 6. Can redeem units in fund. | <ol style="list-style-type: none"> 1. Passive investor. 2. Cannot replace manager. 3. Cannot influence manager decisions regarding acquisitions, financings, and sales. 4. Fee level and structures lack alignment of interests. 5. Lack of manager co-investment. 6. Historically have not sold assets to harvest gains. | Typically within 90 days unless there is an investor queue. |
| Closed-Ended Fund | <ol style="list-style-type: none"> 1. Skilled value-added/opportunistic management. 2. Manager organizations and track records. 3. Manager co-investment. 4. Manager-investor enhanced alignment of interests. 5. Asset liquidations by end of term of fund. | <ol style="list-style-type: none"> 1. Illiquid-specified term. 2. Typically blind pools. 3. Cannot redeem interest. 4. Passive investor. 5. Cannot influence manager decisions regarding acquisitions, financings, and sales. | Typically 7 to 10 year terms. |

Open-end Commingled Funds. The MTRP portfolio may have a significant exposure to open-end commingled funds. The open-end fund investments shall be made primarily to provide (1) timely access to large existing, well-diversified portfolios, (2) reasonable property type and geographic diversification, (3) exposure to larger properties (i.e., over \$50 mil.), and (4) reasonable liquidity (i.e., ability to purchase or redeem within 90 days unless there is an investor queue). Reasonable due diligence shall be completed to evaluate open-end commingled funds consistent with these objectives.

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Closed-end Commingled Funds. The MTRP portfolio may have a significant exposure to closed-end commingled funds. The closed-end fund investments may be made to obtain exposure to timberland and value-added and opportunistic real estate investments. Reasonable due diligence shall be completed prior to selecting closed-end fund investments.

Liquidity. The table below describes different levels of liquidity of real estate investments.

| PORTFOLIO LIQUIDITY RANGES | |
|---|-----------------------|
| | Investment Type |
| LIQUID (i.e., can redeem within 30 days if no queue exists) | Select Open-End Funds |
| MODERATE LIQUIDITY (i.e., can redeem within 90 to 120 days if no queue exists) | Open-End Funds |
| ILLIQUID (i.e., liquidity is subject to GP discretion until fund termination.) | Closed-End Funds |

c. **Expected Investments.**

The categories utilized to classify MTRP real estate investments are: Timberland, Core, Value-Added, and Opportunistic. With the exception of Timberland, the categories are differentiated primarily by risk/return attributes rather than by property type. A description of each category follows.

Timberland. Equity investment in land that is populated with or is intended to produce commercially harvestable timber. Net inflation-adjusted returns are expected to be 5.0 percent to 7.0 percent. Proceeds from the sale of timber and ancillary revenue opportunities, such as recreational leases, will account for the majority of the real return, while land appreciation is expected to approximate the rate of inflation.

Core. Equity investment in operating and substantially-leased institutional quality real estate in the traditional property types (apartment, office, retail, industrial and hotel). Net returns historically have been in the 4.0 percent to 6.0 percent range (inflation-adjusted and net of fees) and are typically comprised of greater levels of income (i.e., 67.0 percent of total returns) with appreciation matching or exceeding inflation.

Value-Added. Equity or debt interests in assets requiring rehabilitation, redevelopment, development, lease-up or repositioning. Net returns historically have been in the 8%-10% range (inflation-adjusted and net of fees). Value-added investments frequently involve the repositioning of distressed assets (i.e., not fully leased and operating). For example, a value-added investment may be an office building that is 40.0 percent vacant and needs significant capital to rehabilitate and reposition the property. Investment may also include non-traditional property types (e.g., manufactured housing) which may contain greater risk. Value-added investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in place income and, in many

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cases, decreasing the capitalization rate used in selling the asset due to the reduced asset risk resulting from stabilized occupancy. Value-added returns are typically more dependent than core on appreciation returns with purchase prices based on income in place or asset replacement cost (i.e., at a discount to replacement cost).

Opportunistic. Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk. Risk may include real estate, financial restructuring, and non-real estate risk. Net returns have been in the 12.0 percent or higher range (inflation-adjusted and net of fees). Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REITs or REOCs. Investment may also be made in non-traditional property types (e.g., self-storage) which typically contain greater risk. Opportunistic returns typically require even greater appreciation returns than value-added (e.g., 50.0 percent of total returns) and in many cases are originated with minimal income in place.

d. Policy Constraints.

Policy range targets for MTRP will be reviewed and adjusted periodically going forward with respect to MTRP exposures. Policy range targets include those dealing with investment category (see below), property type (Section f. 1.), geography (Section f. 2.), and leverage (Section g. 1.). With the exception of the leverage policy range target, policy ranges will be measured based on the net asset value of MTRP holdings. Targets may be adjusted on an annual basis and will be reflected in the MTRP quarterly performance reports. Because MTRP investments have limited liquidity, it will typically be impractical to correct deviations from policy range targets through the purchase or sale of assets. Therefore, if actual portfolio holdings should fall outside of policy guidelines, the MTRP shall refrain from investing in funds that would be expected to increase the deviation from policy ranges.

The following table sets forth the long-term investment category policy ranges for the portfolio.

| INVESTMENT AND PORTFOLIO RISK/RETURN RANGES | | |
|---|-----------------------|--------------|
| Risk/Return | Nominal Return (Net)* | Policy Range |
| Core plus Timberland | 6-8% | 35%-65% |
| Value-Added | 10-12% | 20%-45% |
| Opportunistic | 13-15% | 10%-30% |

* Assumes 2.5% inflation overall and 100 basis points core management fee, 200 basis points value-added and timberland management and incentive fees, and 300 basis points opportunistic management and incentive fees.

e. Income and Appreciation Return Mix.

Real estate investments, depending on their risk/return level, offer varying proportions

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of expected income/cash yield and appreciation returns. Investments providing higher income/cash yield returns typically will be preferred among investments of comparable expected total returns since income/cash yield returns provide greater return certainty and therefore lower risk. In addition, investments providing preferred or senior income/cash yield returns typically will be preferred among investments providing comparable returns because such features enhance the certainty of return.

f. **Diversification.**

The MTRP portfolio diversification is important in reducing portfolio risk and accomplishing superior risk-adjusted returns. The impact of investments on portfolio diversification, portfolio risk, and risk-adjusted returns shall be considered when evaluating prospective investments. Additionally, the portfolio may have over-weighted exposure in select property types or regions as desired.

1. **Property Type.** Property type diversification is one of the most important diversification features in terms of impact on returns. The property types have historically performed differently during economic cycles. Residential and industrial investments have historically outperformed the other property types during economic downturns. Office has historically underperformed during economic downturns, as reduced tenant demand results in lower rents, higher owner operating and build-out costs, and reduced income and cash flow. Hotels historically also have underperformed during economic downturns.

Diversification ranges are based on the universe of available real estate investments and institutional investor portfolio information. The following table provides a guideline range with respect to the MTRP property type diversification.

| PROPERTY TYPE DIVERSIFICATION RANGES | |
|--------------------------------------|--------------|
| Property Type | Policy Range |
| Timberland | 0%-35% |
| Office | 15%-45% |
| Retail | 10%-40% |
| Industrial | 5%-35% |
| Residential | 10%-40% |
| Hotel/Other | 5%-25% |

2. **Region/Location.** The importance of location to the long-term value of real estate is based on the economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of U.S. and international regions. The distribution of real estate investments by geographic region shall be monitored for compliance with the broad ranges set forth in the table below. Policy range targets with respect to regional exposures may be established and adjusted on an annual basis.

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| REGIONAL DIVERSIFICATION RANGES | |
|---------------------------------|--------------|
| Regions | Policy Range |
| West | 20%-45% |
| South | 10%-40% |
| Midwest | 5%-25% |
| East | 20%-45% |
| International | 0%-30% |

Because domestic commercial timberland is primarily concentrated in the South and the Pacific Northwest, the preceding regional diversification ranges shall apply only to non-timberland real estate holdings. Timberland holdings shall be managed such that, upon maturity of the timberland strategy, no more than 50% of timberland holdings will be concentrated in a single timber-growing region.

3. **Other.** In addition to property type and regional diversification, there are other real estate factors that impact the portfolio risk which may be reduced through diversification. These portfolio factors may include, but are not limited to, the following:
 - a. **Investment Structure.** Equity, preferred equity, first mortgage debt or mezzanine equity. **Investments in public CMBS and REITs are not preferred.**
 - b. **Life Cycle.** Land, development/redevelopment, leasing (i.e., less than 90% leased) and operating (i.e., over 90% leased).
 - c. **Investment Size.** \$0-\$10 mil., \$10-\$20 mil., \$20-\$50 mil., \$50-\$100 mil., \$100 mil.+.

While no formal diversification ranges are set forth for the above portfolio risk factors, these and other factors may be monitored in assessing overall portfolio risk and expected return.

g. **Other Risk Factors.**

1. **Leverage.** Leverage is a significant risk factor. Its importance is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels. It may be the case that the leverage level increases as market conditions worsen.

On an individual fund basis, the leverage level can range up to 75.0 percent. Leverage consists of the combined borrowing at the property level and the fund level. On a select basis, the leverage may exceed 75.0 percent for a given investment, if it is determined to be reasonable to do so. Leverage shall be

BOARD OF INVESTMENTS
MONTANA REAL ESTATE POOL INVESTMENT GUIDELINES
PENDING APPROVAL DECEMBER 1, 2010

monitored on an individual fund level, and new investments shall be made with the intention that the total MTRP portfolio leverage shall not exceed 60.0 percent.

| LEVERAGE RANGES | |
|-----------------------------|--------|
| Risk | Range |
| Timberland | 0%-30% |
| Core | 0%-50% |
| Non-Core | 0%-75% |
| Total Real Estate Portfolio | 0%-60% |

2. **Monitoring and Control.** All investments will be made through investment vehicles providing full discretion to investment managers.
3. **Manager Concentrations.** The MTRP exposure to each manager shall be reviewed regularly to determine the reasonableness of each. No manager shall have under management more than 25.0 percent of the MTRP's net asset value, unless specifically approved by the Board.
4. **Benchmark.** The MTRP benchmark shall be the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE), reasonably adjusted to provide comparable risk/return with the MTRP portfolio given the level of non-core exposure. Because MTRP's underlying funds typically report their returns 30-60 days after quarter-end, the benchmark will be compared on a one-quarter lagged basis. Benchmarking of the Pool should emphasize the comparison of longer-term performance data, ideally a period of time sufficient to encompass an entire real estate market cycle.

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Montana Loan Program

MEMORANDUM

Montana Board of Investments

Department of Commerce

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

To: Board of Directors

From: Herb Kulow, CMB
Senior Portfolio Manager

Date: November 15, 2010

Subject: Commercial and Residential Loan Portfolio

Commercial loans totaled \$176,419,058 as of October 31, 2010. Reservations totaled \$12,639,747 and commitments totaled \$20,587,210 as of the same date. There were no commercial loans past due more than 90 days, however, there were six loans past due from 30 to 65 days totaling \$9,100,765. Of that past due total, \$7,769,478 were either guaranteed by the USDA or the SBA. The only non-guaranteed loan in the amount of, \$1,331,287 was brought current on November 10, 2010.

Residential loans totaled \$32,945,718 as of October 31, 2010. There were no outstanding reservations. There were nine residential loans past due more than 90 days, totaling \$594,566, representing 1.80% of the portfolio. Of those nine loans, two were conventional, totaling \$165,779 and the balance, \$428,787, were guaranteed by the FHA. Of the two conventional past due loans, one for \$160,589 will be repurchased by the lender in January 2011. Two of the FHA guaranteed loans totaling \$139,472, were making payments as agreed under their Chapter 13 bankruptcy plan. Three of the FHA loans totaling \$133,236, were in foreclosure and the remaining two FHA loans totaling \$156,179, were past due more than 90 days, but making payments.

MEMORANDUM

Montana Board of Investments

Department of Commerce

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

To: Board Loan Committee

From: Herb Kulow, CMB
Senior Portfolio Manager

Date: November 15, 2010

Subject: Low Income Housing Tax Credit Pool

The following is a brief overview of the Low Income Housing Tax Credit Program.

The low income housing tax credit is available under Section 42 of the Internal Revenue Code of 1986. The credit is a federal income tax credit for owners of qualifying rental housing which meets low income occupancy and rent limitation requirements.

Low Income Housing Tax Credits (LIHTC) are allocated by the State of Montana through the Montana Board of Housing (BOH) to applicants based on the information submitted within applications, market studies, other information obtained by BOH staff and justification with support documentation supplied by the applicants. At or before the allocation is made, the applicant must solicit an investor who will purchase the tax credits, if awarded.

Low Income Housing Tax Credits are distributed annually, by the federal government, to each state based on population. The BOH was allocated \$2,465,000 of tax credits in early November 2010. This number is representative of what BOH usually receives each year. The BOH normally has more applications for each year's allocation than it has funds available and awards five or six projects tax credits each year.

Tax credits are awarded each year for a ten-year period. Hypothetically, a project awarded \$100,000 in tax credits is essentially awarded \$1,000,000 (\$100,000 X 10 years) for the ten-year period. When an investor purchases the credits, the money from the purchase is infused into the financing for the building of the project. The investor purchases the tax credits, for example, \$.75 on the dollar (\$100,000 X \$.75 X 10 years) equating to \$750,000. Typically, the investor pays at a range of \$.70 to \$.90 on the dollar. The money directly reduces the amount of dollars financed in a project, thereby reducing the amount each tenant must pay as well as assuring the project cash flows.

There is a requirement that the investor, through a limited liability partnership (LLP) or a limited partnership (LP) be a 99.99% owner of the project for 15 years during which the investor declares \$100,000 each year for ten years as credit on the investor's income tax. Generally, once the 15 years have passed, the project is sold back to the applicant (the .01% managing partner) for a negotiated amount and the ownership is transferred. At that point the loan in the Pool would be paid off.

Throughout the tax credit life (a minimum of fifteen years) the project must comply with the requirements of tax credit administration and receives periodic file audits and inspections of housing units by the staff of the BOH. Failure to comply, reducing the number of low income units, or reducing floor space for which the credit is based during the 15-year compliance period, will result in a recapture, including nondeductible interest, of at least a portion of the credits taken previously by the owner.

A project is a qualifying low income project only if it meets one of the following two requirements:

- At least 20% of its units are rent-restricted and rented to households with income at 50% or less of area median gross income, adjusted for family size (the “20-50 test”)(maximum rent is calculated at 30% or 50% of Area Median Income);
- At least 40% of its units are rent-restricted and rented to households with income at 60% or less of area median income, adjusted for family size (the “40-60 test”)(maximum rent is calculated at 30% of 60% Area Median Income).

Staff has found that the term financing of the LIHTC projects are going out of state, through no fault of the Montana lenders. Historically, when staff has been asked if MBOI finances low income or subsidized housing, the answer has been “no”.

Staff feels it is time for MBOI to begin offering term financing for LIHTC loans through the utilization of a new MBOI loan product offered for your review, the Low Income Tax Credit Housing Pool (Pool).

The Pool would generally work this way.

In anticipation of financing a number of LIHTC projects, the lender would reserve sufficient funds to accommodate those projects. Upon receipt of the Pool reservation form, MBOI would establish an interest rate, reserve the funds and withdraw the reservation fee from the lender’s designated ACH account. The interest rate would be the average of the 20-year and 25-year interest rate. The maturity of the Pool would be 16 years from the funding date of the Pool. Why a 16-year term? The LLP or LP must own the project for a minimum of 15 years to qualify for the tax credits. A 16-year term allows the LLP or LP some time to negotiate the sale of the property.

As the lender approves the various Pool loans, they will send their loan analysis, appraisal and other financial information to MBOI. Upon receipt of those documents, MBOI will do its analysis and submit its recommendation to the Board Loan Committee for consideration. Upon approval, staff will issue a commitment letter to the lender to purchase 80% of the LIHTC loan. This process will be followed until the lender has filled the Pool. At the time the lender determines he has filled the Pool, the lender will submit a funding request along with all of the required documentation found in the commitment letter and Schedule A. Staff will review the documents and if they are complete, fund the Pool.

Payments will be made monthly and will be automatically withdrawn from the lender’s authorized ACH account on the 15th of the month. This payment will be taken irrespective of the lender receiving payment from the borrower. Since all of the Pool loans will be on a 30/360 day basis, all payments are due to the lender by the first of the month.

What are the advantages of pooling the loans rather than participating in each loan separately?

The main advantage is the reduction of operational costs for accounting. For example, rather than processing, let’s say, five individual reservations, there would only be one. Rather than processing five individual fundings, there would only be one. Rather than processing five individual monthly payments, there would only be one.

The Pool allows staff more pricing flexibility. Normally a LIHTC loan has a 30-year to 40-year amortization. MBOI does not have a participation loan term or interest rate greater than 25 years. The interest rate on the Pool would be the average of the 20-year and 25-year posted interest rate. The average interest rate would provide MBOI a greater yield than if the loan was priced at the 16-year interest rate.

MBOI relies directly on the lender for the payment, by charging the lender’s authorized ACH account monthly. This puts a greater responsibility on the lender to insure the payments are received for each individual loan in the Pool, prior to the 15th of the month.

Attached are the proposed Low Income Housing Tax Credit Pool terms and conditions.

Montana Board of Investments (MBOI)
Low Income Housing Tax Credit Pool (Pool)
Terms and Conditions

| | |
|---|--|
| <u>Minimum Pool Size</u> | The minimum Pool size will be \$1,000,000. |
| <u>Minimum number of Loans in Pool</u> | A minimum of two loans can make up a Pool. |
| <u>MBOI Participation</u> | Each loan in the Pool will be no more than 80% of each individual loan at the time of funding. The MBOI Pool participation percentage can be lower than 80% upon mutual agreement between the lender and MBOI. However, each loan in the Pool MUST be participated at the same percentage. |
| <u>Purpose:</u> | Proceeds of each Loan will be used for any of the following purposes: <ul style="list-style-type: none">• Permanent financing for new low income tax credit housing projects in the state of Montana• Permanent financing for rehabilitation of existing low income tax credit housing projects in the state of Montana |
| <u>Collateral:</u> | Collateral will include but not limited to the following: <ul style="list-style-type: none">• First perfected deed of trust on subject real estate• First perfected security interest in chattel assets. (Lien search required)• First perfected assignment of rents• First perfected assignment of unused tax credits, if assignable <p>All properties must include fee simple ownership interest in the real estate (ground leased properties are not eligible)</p> |
| <u>Loan to Value Limits:</u> | The loan to the appraised value must not exceed 75%. |
| <u>Debt Service Coverage Requirements:</u> | Individual properties placed in this Pool will each have a minimum debt service coverage of 1.25 , for a minimum of three consecutive months prior to submission to MBOI for funding. Net operating income must consider, at a minimum, the vacancy percentage, repairs expense and management fee expense used in the complete self-contained appraisal of the property. |
| <u>Guaranty Requirements:</u> | Guarantees are preferred, but not required. |
| <u>Loan Term:</u> | Sixteen year maximum term from the funding date of the Pool. |
| <u>Interest Rate To Board:</u> | The reservation interest rate will be the average of the 20-year and the 25-year posted monthly participation interest rate at the time of the receipt of the Pool reservation. |
| <u>Interest calculation:</u> | Interest will be calculated on a 30/360 day basis. |
| <u>Reservation Fee:</u> | MBOI policy requirements. |
| <u>Origination Fee:</u> | MBOI does not have an origination, commitment or loan fee. |
| <u>Late Charge:</u> | Standard lender late charge. |
| <u>Escrow Deposits:</u> | Lender reserves the right to require Borrower to make monthly tax, insurance, operating deficiency reserve and/or capital reserve deposits. |
| <u>Prepayment Penalty:</u> | To be determined by the lender. MBOI will share proportionately in the prepayment penalty. |

| | |
|--|--|
| <u>Title Insurance:</u> | Final ALTA extended coverage title policy. |
| <u>Insurance:</u> | Standard fire and extended coverage hazard and liability insurance. Flood insurance and unemployment insurance, if necessary. |
| <u>Appraisal Requirements:</u> | MBOI commercial loan policy appraisal requirements. |
| <u>Environmental Certification:</u> | Environmental Questionnaire or Phase I if required by Lender. |
| <u>Certificate of Occupancy:</u> | As required by the local municipal unit. |
| <u>ADA Certification:</u> | Certification by the lender that the property meets ADA requirements. |
| <u>Reconciliation:</u> | The Lender will reconcile the individual loans in the Pool to the Pool's total outstanding loan balance annually and will submit that reconciliation to MBOI within 30 days of its completion. |
| <u>Lender Certification:</u> | The Lender will certify that all of the required documents are in their respective loan files prior to funding. MBOI has the option to review the individual loan files of loans included in the Pool at any time. If any required documents are missing, the Lender will have 30 days to correct the deficiency. If the deficiency is not corrected within 30 days, MBOI may require the Lender to repurchase the individual loan from the Pool. |
| <u>Lender Loan Payment:</u> | MBOI will ACH from the Lender's designated account, MBOI's portion of the monthly Pool payment on the 15 th of every month. MBOI payment will be withdrawn from the Lender's designated ACH account irrespective of receipt by the Lender of the individual loan payments from loans in the Pool. |
| <u>Underwriting:</u> | For each loan included in the Pool, MBOI will require the following documents at the time the Lender determines the loan to be eligible for the Pool. (Do not wait until submission of the funding request to submit these documents). MBOI will complete its analysis and submit its analysis to the MBOI Board Loan Committee for approval. <ul style="list-style-type: none"> • Lender's detailed loan analysis. • Complete self-contained appraisal. • Tax Credit award letter. • Board of Housing tax credit analysis and supporting documents. (these documents will be obtained by MBOI). • Other such documents MBOI deems necessary. |
| <u>Commitment:</u> | Upon approval by the MBOI Board Loan Committee of each loan to be considered for inclusion in the Pool, MBOI will issue a commitment letter or revised commitment letter stating the terms and conditions under which MBOI will fund the Pool. |
| <u>Funding documents:</u> | Lender will provide to MBOI, at the time of the funding request, all required documents found in Schedule A of the MBOI Pool Commitment Letter. |

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Bond Program

INTERCAP Loan Program

Activity Summary

As of September 30, 2010

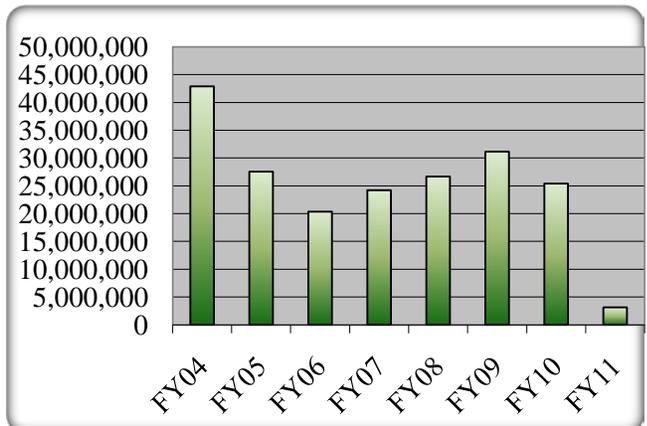
Since Inception 1987 - September 2010

| | |
|---------------------------------|--------------------|
| Total Bonds Issued | 136,000,000 |
| Total Loan Commitments | 349,894,641 |
| Total Loans Funded | 327,930,694 |
| Total Bonds Outstanding | 96,075,000 |
| Total Loans Outstanding | 74,842,871 |
| Loan Commitments Pending | 21,963,947 |

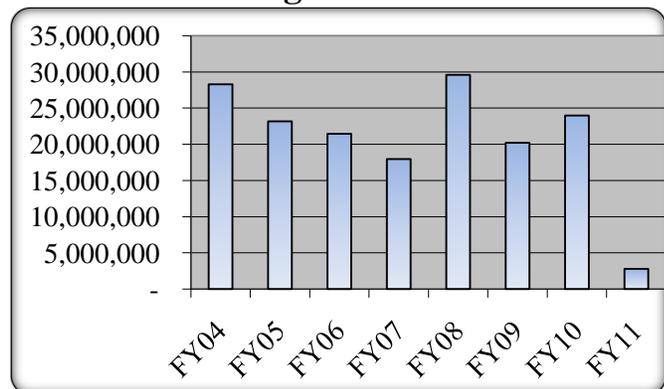
FY2011 To Date

| Month | Commitments | Fundings |
|----------------|---------------------|---------------------|
| July-10 | \$ 1,697,145 | \$ 1,475,213 |
| August | 875,000 | 817,598 |
| September | 566,039 | 500,288 |
| October | | |
| November | | |
| December | | |
| January | | |
| February | | |
| March | | |
| April | | |
| May | | |
| June-11 | | |
| To Date | \$ 3,138,184 | \$ 2,793,100 |

Commitments FY04-FY11



Fundings FY04-FY11



Note: Commitments include withdrawn and expired loans.

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

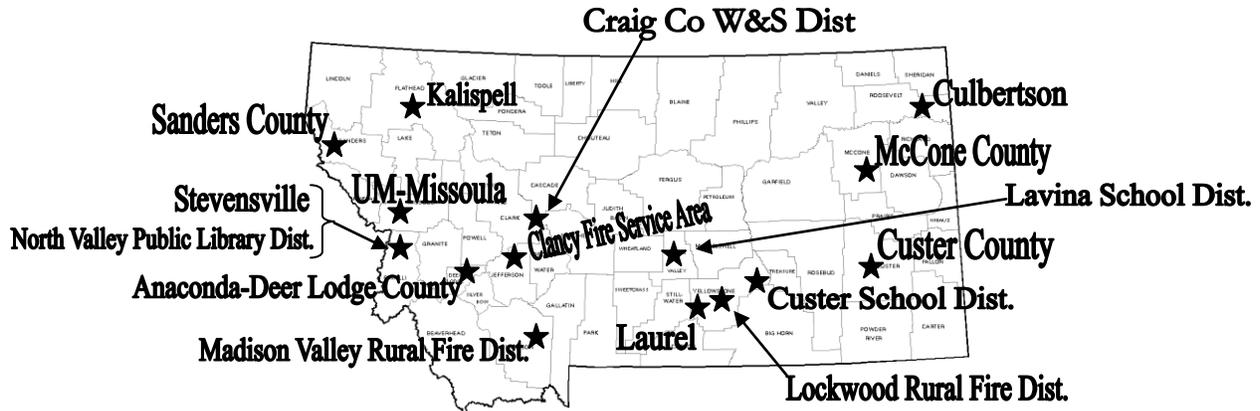
| | | | |
|---------------------------------------|--------------|---------------------------------------|--------------|
| February 16, 2003 - February 15, 2004 | <u>2.85%</u> | February 16, 2007 - February 15, 2008 | <u>4.85%</u> |
| February 16, 2004 - February 15, 2005 | <u>2.70%</u> | February 16, 2008 - February 15, 2009 | <u>4.25%</u> |
| February 16, 2005 - February 15, 2006 | <u>3.80%</u> | February 16, 2009 - February 15, 2010 | <u>3.25%</u> |
| February 16, 2006 - February 15, 2007 | <u>4.75%</u> | February 16, 2010 - February 15, 2011 | <u>1.95%</u> |

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: December 1, 2010
Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – July 1, 2010 through September 30, 2010.



| | |
|------------------------|--|
| Borrower: | Sanders County |
| Purpose: | Construct a concession stand and other related fairgrounds improvements. |
| Staff Approval Date: | July 1, 2010 |
| Board Loan Amount: | \$140,595 |
| Other Funding Sources: | |
| Total Project Cost: | \$140,595 |
| Term: | 10 years |

| | |
|------------------------|---|
| Borrower: | Town of Stevensville |
| Purpose: | Interim loan in anticipation of the United States Department of Agriculture (USDA) Rural Development Services (RD) long-term financing for water system improvements. |
| Staff Approval Date: | July 2, 2010 |
| Board Loan Amount: | \$ 780,000 |
| Other Funding Sources: | \$ 598,000 |
| Total Project Cost: | \$1,378,000 |
| Term: | 2 years |

| | |
|------------------------|---|
| Borrower: | Clancy Fire Service Area |
| Purpose: | Purchase a 2004 Kenworth truck outfitted with new water tender equipment. |
| Staff Approval Date: | July 2, 2010 |
| Board Loan Amount: | \$80,000 |
| Other Funding Sources: | \$ 8,000 |
| Total Project Cost: | \$88,000 |
| Term: | 10 years |

| | |
|------------------------|--|
| Borrower: | Craig County Water & Sewer District (Craig) |
| Purpose: | Update a preliminary engineering report (PER), grant writing, and related expenses for the District's wastewater system. |
| Staff Approval Date: | July 2, 2010 |
| Board Loan Amount: | \$25,000 |
| Other Funding Sources: | |
| Total Project Cost: | \$25,000 |
| Term: | 5 years |

| | |
|------------------------|---|
| Borrower: | McCone County |
| Purpose: | Finish a new multi-purpose/community facility at the fairgrounds. |
| Staff Approval Date: | July 19, 2010 |
| Board Loan Amount: | \$125,000 |
| Other Funding Sources: | \$168,740 |
| Total Project Cost: | \$293,740 |
| Term: | 10 years |

| | |
|------------------------|--|
| Borrower: | Madison Valley Rural Fire District (Ennis) |
| Purpose: | Refinance fire hall construction loan. |
| Staff Approval Date: | July 26, 2010 |
| Board Loan Amount: | \$245,000 |
| Other Funding Sources: | |
| Total Project Cost: | \$245,000 |
| Term: | 10 years |

| | |
|------------------------|--|
| Borrower: | Custer County |
| Purpose: | Purchase a 2010 John Deere (JD) 870G motor grader. |
| Staff Approval Date: | July 28, 2010 |
| Board Loan Amount: | \$120,000 |
| Other Funding Sources: | \$108,000 |
| Total Project Cost: | \$228,000 |
| Term: | 7 years |

| | |
|------------------------|--|
| Borrower: | Lockwood Rural Fire District (Billings) |
| Purpose: | Purchase a new fire engine, water tender, and related equipment. |
| Staff Approval Date: | July 29, 2010 |
| Board Loan Amount: | \$181,550 |
| Other Funding Sources: | \$438,450 |
| Total Project Cost: | \$620,000 |
| Term: | 7 years |

| | |
|------------------------|---|
| Borrower: | North Valley Public Library District (Stevensville) |
| Purpose: | Library renovation – phase I. |
| Staff Approval Date: | August 17, 2010 |
| Board Loan Amount: | \$75,000 |
| Other Funding Sources: | \$19,570 |
| Total Project Cost: | \$94,570 |
| Term: | 10 years |

| | |
|------------------------|---------------------------------|
| Borrower: | Anaconda-Deer Lodge County |
| Purpose: | Courthouse preservation project |
| Staff Approval Date: | August 19, 2010 |
| Board Loan Amount: | \$ 800,000 |
| Other Funding Sources: | \$ 915,797 |
| Total Project Cost: | \$1,715,797 |
| Term: | 15 years |

| | |
|------------------------|---|
| Borrower: | Custer School District #15 (Custer) |
| Purpose: | Remove and replace the school building's hypalon roof membrane. |
| Staff Approval Date: | September 8, 2010 |
| Board Loan Amount: | \$50,000 |
| Other Funding Sources: | |
| Total Project Cost: | \$50,000 |
| Term: | 10 years |

| | |
|------------------------|--|
| Borrower: | Lavina School District #2 |
| Purpose: | Purchase a 72 passenger Bluebird school bus. |
| Staff Approval Date: | September 9, 2010 |
| Board Loan Amount: | \$20,000 |
| Other Funding Sources: | \$70,000 |
| Total Project Cost: | \$90,000 |
| Term: | 2 years |

| | |
|------------------------|--|
| Borrower: | Town of Culbertson |
| Purpose: | Centennial Drive Special Improvement District (SID) #12 street, curb, and gutter improvements. |
| Staff Approval Date: | September 24, 2010 |
| Board Loan Amount: | \$101,700 |
| Other Funding Sources: | |
| Total Project Cost: | \$101,700 |
| Term: | 15 years |

| | |
|------------------------|---|
| Borrower: | City of Laurel |
| Purpose: | West Main Street Special Improvement District (SID) #112 street, curb, and gutter improvements. |
| Staff Approval Date: | September 27, 2010 |
| Board Loan Amount: | \$37,189 |
| Other Funding Sources: | |
| Total Project Cost: | \$37,189 |
| Term: | 10 years |

| | |
|------------------------|---|
| Borrower: | City of Kalispell |
| Purpose: | Purchase police cars and parks equipment. |
| Staff Approval Date: | September 30, 2010 |
| Board Loan Amount: | \$187,150 |
| Other Funding Sources: | |
| Total Project Cost: | \$187,150 |
| Term: | 5 years |



MONTANA UNIVERSITY SYSTEM

| | |
|------------------------|----------------------------------|
| Borrower: | University of Montana – Missoula |
| Purpose: | Replace passenger vans |
| Staff Approval Date: | September 8, 2010 |
| Board Loan Amount: | \$170,000 |
| Other Funding Sources: | \$ 38,690 |
| Total Project Cost: | \$208,690 |
| Term: | 5 years |