

**MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, Montana  
February 9 & 10, 2010**

**MINUTES**

**BOARD MEMBERS PRESENT:**

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

**BOARD MEMBERS ABSENT:**

Elouise Cobell  
Senator Greg Barkus

**STAFF PRESENT:**

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

**GUESTS:**

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

## **CALL TO ORDER**

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

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

## **ADMINISTRATIVE BUSINESS**

### **Audit Committee Report**

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

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

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

### **Loan Committee Report**

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

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

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

Public Comment

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

May 2010 Board Meeting

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

**MONTANA LOAN PROGRAMS**

Commercial and Residential Portfolios Report

Mr. Herb Kulow reported on the status of the commercial and residential loan programs.

**QUARTERLY INVESTMENT PERFORMANCE REPORTS**

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

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

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

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

**INVESTMENT ACTIVITY/REPORTS**

Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending December 31, 2009. Total plan asset values increased by approximately \$202 million during the

quarter. Mostly as a result of this increase in total value, or the denominator, the percent allocation to total equities increased to 66.8%, up by 0.9%, and the allocation to bonds shrunk by 0.7% to 26.6%. The percent allocation for private equity and real estate increased slightly by 0.6% and 0.1%, respectively. Notable allocation changes made to the Retirement Systems during the quarter ending December 31, 2009 were: Real Estate received an allocation of approximately \$38 million; the Montana Private Equity Pool received \$13 million; the Retirement Fund Bond Pool received \$5 million and the Montana International Equity Pool received approximately \$3 million. Reductions were made to the Montana Domestic Equity Pool of approximately \$54 million.

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

Fixed Income

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

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

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

Domestic Equity (MDEP)

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

International Equity (MTIP)

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

Public Equity External Managers Watch List

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

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

AXA Rosenberg	International – SC Core	Performance, Process	February 2010
Martingale	Domestic – 130/30	Performance, Process	February 2010
Martingale	Domestic - MC Core	Performance, Process	February 2010

**Private Equity (MPEP)**

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

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

**Real Estate (MTRP)**

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

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

**EXTERNAL MANAGER PRESENTATION**

**JP Morgan Investment Management Inc.**

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

**ADJOURNED**

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

**CALL TO ORDER**

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

**INVESTMENT ACTIVITY/REPORTS continued**

**Real Estate (MTRP) continued**

Mr. Jon Shoen reported on the 2010 investment plan for the MTRP.

### Securities Lending

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

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

## **EXECUTIVE DIRECTOR REPORTS**

### Pension Investments

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

### Teachers' Retirement System and Public Employee Retirement Administration Annual Report to the Board

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

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

## **EXTERNAL MANAGER PRESENTATION**

### Post Advisory Group, LLC

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

## **EXECUTIVE DIRECTOR REPORTS continued**

### 5% Budget Reduction

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

### Staff Reorganization

Executive Director Carroll South made the following recommendations;

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

2. Approval of the Functional Organization Chart.

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

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

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

**BOND PROGRAM**

Activity Report

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

Staff Approved Loans Report

The Board reviewed this report for the period of October 1 through December 31, 2009:

Borrower:	Madison County
Purpose:	Interim loan in anticipation of issuing RID 2009-1 Bond
Staff Approval Date	October 7, 2009
Board Loan Amount:	\$ 268,500
Other Funding Sources:	\$3,263,500
Total Project Cost:	\$3,532,000
Term:	2 years
Borrower:	Lewis and Clark County
Purpose:	Purchase 2005 Caterpillar 420D Backhoe
Staff Approval Date	October 26, 2009
Board Loan Amount:	\$31,975
Other Funding Sources:	\$ 9,350
Total Project Cost:	\$41,325
Term:	6 years

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

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

Term:	3 years
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Borrower:	Birdseye Rural Fire District (Helena)
Purpose:	Purchase 4x4 International structure engine
Staff Approval Date	November 12, 2009
Board Loan Amount:	\$176,000
Other Funding Sources:	\$ 50,800
Total Project Cost:	\$226,800
Term:	9 years

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

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

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

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



**MONTANA UNIVERSITY SYSTEM**

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

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

Resolution No. 225

At the November 10, 2009 meeting, the Board approved a preliminary resolution authorizing staff to proceed with the issuance of \$12 million in additional bonds for the INTERCAP Program. Ms. Louise Welsh presented Resolution No. 225, which serves as the Board’s authorization to bondholders that the bonds have been approved.

Ms. Louise Welsh presented the following staff recommendation:

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

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

**ADMINISTRATIVE BUSINESS**

Public Comment

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

**NEXT MEETING**

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

**ADJOURNMENT**

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

**BOARD OF INVESTMENTS**

APPROVE: \_\_\_\_\_  
Terry Moore, Chair

ATTEST: \_\_\_\_\_  
Carroll South, Executive Director

DATE: \_\_\_\_\_