

**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

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

These minutes are Approved and Final.

Full Board review and decision took place at the November 30 & December 1, 2010 Regular Meeting of the Board.

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

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.

These minutes are Approved and Final.

Full Board review and decision took place at the November 30 & December 1, 2010 Regular Meeting of the Board.

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