

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor
Helena, Montana
May 18 - 19, 2010**

MINUTES

BOARD MEMBERS PRESENT:

Terry Moore, Chair
Teresa Cohea
Karl Englund
Maureen Fleming
Jack Prothero
Jon Satre
Jim Turcotte
Representative Brady Wiseman

BOARD MEMBERS ABSENT:

Elouise Cobell
Patrick McKittrick
Senator Greg Barkus

STAFF PRESENT:

Jason Brent, Investment Analyst	Jon Putnam, Investment Analyst
Geri Burton, Deputy Director	Nancy Rivera, Credit Analyst
Richard Cooley, CFA, Portfolio Manager	John Romasko, Investment Analyst
Rachel Fairbank, Accountant	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
Herb Kulow, Portfolio Manager	Carroll South, Executive Director
Gayle Moon, Accounting Fiscal Manager	Steve Strong, Investment Analyst
Rande Muffick, CFA, Portfolio Manager	Louise Welsh, Bond Program Officer
Mary Noack, Network Administrator	Dan Zarling, CFA, Director of Research
Chris Phillips, Investment Staff	

GUESTS:

Mark Barry, Montana State Fund
James Fairweather, Head of Global Equities, Martin Currie, Inc.
Mark Higgins, RV Kuhns and Associates
Brian Holland, Portfolio Manager, International Equity, Artio Global Investors, Inc.
Gordon Hoven, Piper Jaffray & Co.
Chuck Johnson, Lee Newspapers
Patrick Maldari, CFA, Senior Portfolio Manager, Fixed Income, Artio Global Investors, Inc.
Anna Miller, Department of Natural Resources and Conservation
Jaime Sandison, Senior Vice President, Client Service and Sales, Martin Currie, Inc.
Teri Smith, Director of Client Services, Institutional Investments, Artio Global Investors, Inc.
Jim Voytko, RV Kuhns and Associates

CALL TO ORDER

Chairman Terry Moore called the regular meeting of the Board of Investments (Board) to order at 1:05 p.m. in the conference room at 2401 Colonial Drive, third floor, Helena, Montana. As noted above, the meeting convened with seven members of the Board present. Legislative Liaison Representative Brady Wiseman was also in attendance. Members Elouise Cobell and Patrick McKittrick and Legislative Liaison Senator Greg Barkus were absent.

Member Karl Englund made a Motion to approve the February 9 and 10, 2010 Minutes; Member Terry Cohea seconded the Motion. The Motion was unanimously carried.

ADMINISTRATIVE BUSINESS

Audit Committee Report

Member Jim Turcotte, Audit Committee Chair, reported that the legislative auditor will be on site in June to perform their FY10 preliminary review. The internal controls auditor, Galusha, Higgins & Galusha, will be on site May 29, 2010 to begin their FY10 internal controls review.

Loan Committee Report

Member Jack Prothero, Loan Committee Chair, reported that the Loan Committee reviewed and approved two loan enhancement requests from the Montana Facility Finance Authority that will be presented and discussed during the Montana Loan Program portion of the agenda.

The Loan Committee reviewed and approved two INTERCAP loan requests via email; the Loan Committee authorized staff to proceed with processing and closing these loans using the Board's standard Bond Program office procedures.

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

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

Public Comment

Chairman Terry Moore called for public comment on Board issues.

Member Karl Englund asked for the Board minutes to reflect the reason for Member Eloise Cobell's absence and offer support for her efforts. Member Cobell has been working on a class action suit that was recently resolved which will provide abundant resources on behalf of the people being represented. The Board wishes her well and admires her dedication to the project.

August 2010 Board Meeting

The August Board meeting was rescheduled for August 11-12, 2010.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

Mr. Herb Kulow reported on the status of the commercial and residential loan programs as of April 30, 2010. The commercial loan portfolio totaled \$185,953,585; the residential loan portfolio totaled \$36,999,286.

BOI Enhancement – Powell County Medical Center, Deer Lodge

Michelle Barstad, Executive Director of the Montana Facility Finance Authority, presented Master Loan Program, Resolution No. 226 entitled: "Resolution relating to Health Care Revenue Bonds (Master Loan Program) of the Montana Health Facility Authority; authorizing loans to the Authority for its Capital Reserve Account securing such Bonds and the execution and delivery of an amendment to Capital Reserve Account Agreement." On May 27, 2010, the MFFA Board will meet to approve issuing approximately \$17.72 million of bonds for financing the Powell County Medical Center project

Member Jack Prothero, Chairperson of the Loan Committee, presented Committee approval to participate in the Montana Facility Finance Authority Loan Request in an amount not to exceed \$15 million; Member Maureen Fleming seconded the Motion and the Motion was unanimously carried.

BOI Enhancement – Community Medical Center, Missoula

Michelle Barstad, Executive Director of the Montana Facility Finance Authority, presented Master Loan Program, Resolution No. 227 entitled: "Resolution relating to Health Care Revenue Bonds (Master Loan Program) of the Montana Health Facility Authority; authorizing loans to the Authority for its Capital Reserve Account securing such Bonds and the execution and delivery of an amendment to Capital Reserve Account Agreement." On May 27, 2010, the MFFA Board will meet to approve issuing approximately \$26,086,075 of bonds for financing the Community Medical Center project

Member Prothero, Chairperson of the Loan Committee, presented Committee approval to participate in the Montana Facility Finance Authority Loan Request in an amount not to exceed \$15 million plus the principal amount of the Series 2001 Bonds (\$4,015,000); Member Fleming seconded the Motion and the Motion was unanimously.

EXECUTIVE DIRECTOR'S REPORT

State Fund Building, Investment Policy

Executive Director Carroll South provided an update to the Board regarding the status of the State Fund building. Mr. South reported that the design and construction have proceeded smoothly and State Fund staff will occupy the building on June 1, 2010. After the property was purchased and construction of the building was underway, State Fund and Board of Investments' staff discovered that Generally Accepted Accounting Principles (GAAP) require that a building owned by an entity that will occupy more than half of the building should be recorded as an operational asset, rather than an invested asset. To comply with GAAP, the building was removed from the Board of Investments' Fiscal Year 2008 and Fiscal Year 2009 financial statements and recorded in the state accounting system as an operational asset of the State Fund.

Mr. South explained that because the Board of Investments held title to the property; had binding contracts with the architect/contractor; and had entered into a long-term agreement with the City of Helena to lease parking spaces; a decision was made for the Board to retain title to the property until the State Fund actually occupied the building.

Proposed changes to the State Fund's Investment Policy were reviewed and Mr. South made the following recommendations:

1. Authorize transfer of the State Fund Building title to the State Fund as an operational asset and remove the real estate allocation in the State Fund Investment Policy.
2. Authorize an allocation to international equities in the State Fund Investment Policy and approve the revised Investment Policy.

Member Jon Satre made a Motion to approve the staff recommendations as presented; Member Jim Turcotte seconded the Motion. The Motion was unanimously carried.

Unfinished Business

Carroll South, Executive Director, reported on the status of the remaining recommendations from the Independent Fiduciary Services report issued on February 28, 2005. There were 56 recommendations that were fully implemented or no longer applicable, 14 recommendations that staff recommended no implementation and three recommendations that were partially implemented as reflected below.

1. Rebalancing Recommendation – Expand the rebalancing policy approved on December 2, 2004 to include all asset classes and prescribe the required actions when an asset class falls below the bottom of the range.

Rebalancing is performed on a monthly basis to ensure that pension assets are within guideline ranges. Rebalancing within the investment pools has been addressed when the Investment Policy Statements are revised and approved by the Board. This recommendation will be fully implemented when staff revise all pension fund Investment Policy Statements; they will be presented for approval at the August Board Meeting.

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

The Board's Governance Policy delineates the respective roles for the Board and staff. While Board investment staff operate under parameters approved by the Board, the Pension Fund Investment Policy Statements should be updated to reflect the parameters. This recommendation will be fully implemented when staff revise all pension fund Investment Policy Statements; they will be presented for approval at the August Board Meeting.

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

There currently is no systematic process to orientate new Board members or provide ongoing Board member education. Basic orientation and education is provided by staff and the Board's consultant. Assistance is currently provided to Board staff that wish to pursue further education or credentials.

Member Maureen Fleming and Executive Director Carroll South will draft a policy regarding Board training, including type, frequency and cost of such.

Asset/Liability Studies - Mr. South and Cliff Sheets, Chief Investment Officer, reported on Asset/Liability studies allocation implementation.

Mr. Jim Voytko from R.V. Kuhns and Associates provided an overview of the benefits and drawbacks of investing in hedge funds. Mr. Voytko began with a review of historical returns and volatility for the asset class. The relative stability of returns and the diversification benefits were emphasized as key benefits. Mr. Voytko also acknowledged many of the drawbacks of hedge funds, such as lack of transparency, high fees, headline risk, etc., but insisted that these risks often accompany other investments as well.

Mr. Cliff Sheets, Chief Investment Officer, offered staff's perspective on hedge funds and its recommendation to exclude hedge funds from the retirement portfolios. First, he noted that hedge funds are not an asset class per se but simply a legal vehicle that invests in all kinds of underlying strategies. Drawbacks highlighted by Mr. Sheets included the lack of transparency and significant headline risk. He went on to question the diversification benefits by observing that the diversification benefits can potentially be attributed to the fact that multi-strategy hedge funds (the proxy being used to model a hedge fund allocation) reflect underlying portfolios that are diversified across a number of asset classes.

Mr. South made the following recommendations:

1. Continue efforts to strike a more optimal balance between US and international equities as opportunities arise. Keep the current ranges as these ranges will accommodate a more optimal balance.
2. Do not make an allocation to hedge funds-of-funds and remove hedge funds from the list of available assets in future Asset/Liability studies.
3. Present a recommendation to the Board at its August meeting on investing in any of the components within the inflation hedge composite in the Asset/Liability studies.

Terry Cohea made a Motion to approve the staff recommendations as presented; Member Jim Turcotte seconded the Motion. The Motion was unanimously carried.

Department of Natural Resources & Conservation Loan

Executive Director Carroll South reported that the Department of Natural Resources and Conservation (DNRC) requests to borrow up to \$15 million to fund loans through its Water Pollution Control State Revolving Fund Program which offers low interest loans for community wastewater treatment projects. The loan would be funded from the Coal Tax Trust Permanent Fund, would be for a maximum term of three years and would be in the form of a revenue anticipation note (RAN) that will be a general obligation of the State of Montana.

Staff recommends approval of a loan from the Coal Tax Trust Permanent Fund of up to \$15 million to DNRC in the form of a RAN.

Member Jack Prothero made a Motion to approve the \$15 million loan to DNRC; Member Karl Englund seconded the Motion. The Motion was unanimously carried.

QUARTERLY INVESTMENT PERFORMANCE REPORTS

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

Mr. Jim Voytko and Mr. Mark Higgins provided an overview of the current market environment and investment performance of the Retirement Plans for the first quarter of 2010. Mr. Voytko 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. Mr. Higgins followed with an overview of asset class and manager performance. Key observations that were discussed include:

1. Continued improvement in the international equity portfolio. Over the past quarter, the international equity pool nearly matched the index. Improvement is attributable to trimming underperforming active managers and shifting a greater portion of the portfolio to the passively managed BGI index fund.
2. Continued strong performance in the domestic equity and fixed income portfolios. Both portfolios continued to strongly outperform their benchmarks. Credit was given to internal manager Nathan Sax as well as recent diversification efforts into Core Plus and High Yield external managers (e.g., Reams, Post, and Neuberger Berman).

3. Attention was focused on the continued underperformance of the private equity and real estate portfolios, although caution was encouraged due to the benchmarking challenges and the lagged nature of valuation.
4. Finally, Mr. Higgins reviewed several managers on the watch list, drawing close attention to Northpointe, Martin Currie, Analytical Investors, Martingale and Western Asset.

EXTERNAL MANAGER PRESENTATION

Martin Currie, Inc.

Mr. Rande Muffick introduced Mr. Jamie Sandison and Mr. James Fairweather, who reviewed their firm and management style. Martin Currie, Inc. manages a large cap growth fund in the International Equity Pool.

INVESTMENT ACTIVITY/REPORTS

Retirement System Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending March 31, 2010. Total plan asset values increased by more than \$181 million during the quarter, primarily due to the continued rise in public equity markets and stable interest rates. Total equities increased slightly to 67.0%, up by 0.1%, and the allocation to bonds shrunk by 0.2% to 26.4%. The percent allocation for private equity and real estate increased slightly by 0.2% and 0.1%, respectively. The only significant allocation changes made to the Retirement Systems during the quarter ending March 31, 2010 were additions to Private Equity of \$11 million and reductions to Domestic Equity of \$65 million.

He also reviewed a comparison of the two large pension plans to the State Street public fund universe in terms of relative performance and asset allocation as a supplement to the R.V. Kuhns public fund universe return comparison.

ADJOURNED

The meeting adjourned for the day at 5:20 p.m.

CALL TO ORDER – Day 2

The meeting was reconvened Wednesday, May 19, 2010 at 8:00 a.m. with seven members of the Board present. Representative Brady Wiseman was also in attendance. Members Elouise Cobell and Patrick McKittrick were absent. Senator Greg Barkus was also absent.

INVESTMENT ACTIVITY/REPORTS continued

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. There were two new fund commitments made since the February 2010 Board Meeting.

<u>Fund Name</u>	<u>Vintage</u>	<u>Subclass</u>	<u>Amount</u>	<u>Date</u>
EIF United States Power Fund IV, LP	2010	Special Situations	\$25M	3/29/10
BDCM Opportunity Fund III, LP	2010	Distressed – Control	\$25M	4/13/09
Total New Commitments			\$50M	

Real Estate (MTRP)

Mr. Jon Shoen reviewed the following Private Edge reports: 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 six new fund commitments made since the February 2010 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	\$18M	4/1/10
TIAA-CREF Asset Management Core Property Fund, LP	TFIP	Core	\$10M	5/1/10
JPMorgan Strategic Property Fund	MTRP	Core	\$15M	4/1/10
JPMorgan Strategic Property Fund	MTRP	Core	\$15M	5/1/10
The Realty Associates Fund IX, L.P.	MTRP	Value Added	\$ 5M	3/25/10
ABR Chesapeake Investors Fund IV, L.P.	MTRP	Value Added	\$17M	3/15/10
Total New Commitments			\$80M	

Domestic Equity (MDEP)

Mr. Rande Muffick presented the Montana Domestic Equity Pool Report as of March 31, 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 March 31, 2010 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. During the quarter there was one manager added to the list, Analytic Investors, and one manager removed, AXA Rosenberg, due to termination. 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

Fixed Income

Mr. Nathan Sax presented the Fixed Income Overview and Strategy.

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

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

EXTERNAL MANAGER PRESENTATION

Artio Global Investors, Inc.

Mr. Rande Muffick introduced Mr. Brian Holland, Mr. Patrick Maldari and Ms. Teri Smith who reviewed their firm and management style. Artio Global Investors, Inc. manages a large cap core fund for the International Equity Pool and a core-plus fixed income portfolio within the Retirement Funds Bond Pool.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending March 31, 2010.

Staff Approved Loans Report

The Board reviewed this report for the period of January 1 through March 31, 2010:

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

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

Borrower:	Town of Sheridan
Purpose:	Interim financing in anticipation of USDA Rural Development loan for wastewater system improvements
Staff Approval Date	February 3, 2010

Board Loan Amount:	\$815,000
Other Funding Sources:	\$102,000
Total Project Cost:	\$917,000
Term:	2 years

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



MONTANA UNIVERSITY SYSTEM

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

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

ADMINISTRATIVE BUSINESS

Public Comment

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

NEXT MEETING

The next regularly scheduled meeting of the Board will be August 11 and 12, 2010 in Helena, Montana.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:40 a.m.

BOARD OF INVESTMENTS

APPROVE: _____
Terry Moore, Chair

ATTEST: _____
Carroll South, Executive Director

DATE: _____