

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

**The University of Montana
32 Campus Drive
Missoula, Montana**

November 30 and December 1, 2010

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Elouise Cobell
Senator Greg Barkus

STAFF PRESENT:

Carol Ann Augustine, Board Secretary	Nathan Sax, CFA, Portfolio Manager
Geri Burton, Deputy Director	Clifford A. Sheets, CFA, Chief Investment Officer
Richard Cooley, CFA, Portfolio Manager	Jon Shoen, CFA, Portfolio Manager
Herb Kulow, Portfolio Manager	Carroll South, Executive Director
Rande Muffick, CFA, Portfolio Manager	Dan Zarling, CFA, Director of Research

GUESTS:

Ather Bajwa, SG Long & Co./SGL Investment Advisors
Tom Boudrac, First Interstate Bank
Josh Denney, SG Long & Co./SGL Investment Advisors
John Engen, Mayor, City of Missoula
Dr. Richard Erb, School of Business Administration, The University of Montana
Becky Gratsinger, RV Kuhns and Associates
Dr. Terri Herron, School of Business Administration, The University of Montana
Jack Jenks, Summit Housing Group, Inc.
Dean Peggy Kuhr, School of Business Administration, The University of Montana
Roxanne Minnehan, Montana Public Employees Retirement Administration
Sue Williams, SG Long & Co./SGL Investment Advisors
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 12:33 p.m. in the Board Room on the third floor of the Gallagher Business Building, The University of Montana, Missoula, Montana. As noted above, a quorum of Board Members was present.

Chairman Terry Moore and Board Member Karl Englund introduced Missoula Mayor John Engen. Mayor Engen welcomed the Board and staff to Missoula. He touted The University of Montana as a fine facility, one of Montana's most important investments.

Mayor Engen went on to discuss the City's increased economic development in spite of adversity, including major layoffs; closure of the mill and other businesses; and many jobs lost. The City's leaders reached out to the community and have been working together toward economic stability.

Chairman Moore commended the City for its great leadership, and the Mayor for his active role in stirring economic development.

In further business, a Motion was made by Member Karl Englund and seconded by Member Terry Cohea to approve the August 11 and 12, 2010 Minutes. The Motion was carried 8-0.

ADMINISTRATIVE BUSINESS

Human Resources Committee Report

Terry Cohea, Human Resources Committee Chair reported that performance appraisals were reviewed by the Committee. Additionally, members decided not to consider pay raises in 2011.

Audit Committee Report

The Audit Committee met via teleconference on August 30, 2010. Jim Turcotte, Audit Committee Chair reported that the Committee voted to opt-out of the Countrywide Financial Corporation class action litigation and authorized Bernstein Litowitz Berger & Grossmann LLP, one of the Board's securities litigation firms, to attempt to negotiate a better settlement. The action was reviewed by the Board's legal counsel prior to the Committee's decision.

The Audit Committee also met via teleconference on November 17, 2010 to review the results of the Board's fiscal year 2010 Legislative Audit. Committee Chair Turcotte reported that the Audit contained one recommendation regarding the investment of state funds in equity securities. The Legislative Auditors recommended the Board: 1) ensure that only those public funds allowed by the Montana Constitution are invested in private corporate capital stock; and 2) strengthen its Montana Domestic Equity Pool (the "Pool") investment policy to provide guidance regarding allowed participants in the Pool according to the Montana Constitution. The Committee accepted the Legislative Audit as presented. A Legislative Audit Committee meeting is scheduled for December 16, 2010 when the final audit report will be presented.

Committee Chair Turcotte also reported that the Committee conducted its annual review of the Board's Internal Control Policy and accepted the internal control changes as amended.

Chairman Terry Moore expressed appreciation for the work the Audit Committee has been doing to maintain the integrity of the Board of Investments.

Loan Committee Report

Jack Prothero, Loan Committee Chair reported there were no loans to approve and that Mr. Herb Kulow had been busy working on the Low Income Housing Tax Credit Program. The Loan Committee voted to

recommend approval of the program, which will be presented to the full Board during Mr. Kulow's agenda item.

Committee Chair Prothero commended Mr. Kulow and staff on the low delinquency rate which he credited to strong underwriting over a period of years.

Public Comment

Chairman Terry Moore called for public comment on Board issues.

Member Maureen Fleming introduced and thanked Dr. Terri Herron, Chair of the Department of Accounting and Finance at The University of Montana, for the invitation to hold the Board's meeting at The University. Conducting the Board's meeting at The University allowed University staff and students and community members to participate in the Board's meeting. Member Fleming reported that staff members Jon Shoen and Nathan Sax met with students earlier in the day.

EXECUTIVE DIRECTOR'S REPORT

Mr. Carroll South reported that during a recent audit of the Montana Historical Society (MHS), the Legislative Auditors cited the MHS for having investments in equity securities. The State Constitution specifies that no public funds, except public retirement system assets and state compensation insurance fund assets, be invested in equity securities. The Board sold the MHS's equities in October 2010. Mr. South also reported that the Legislative Auditor requested an Attorney General's Opinion as to whether the University Endowment Funds invested in the Board's Domestic Equity Pool were public funds, subject to the constitutional restriction on equity investments. The Opinion found that the endowment funds were not public funds.

The Historical Society Trust Funds Investment Policy Statement will be presented later in the agenda.

Legislation Update - Informational

Mr. Carroll South reported that as of November 18, 2010 there have been 29 bills pre-introduced for the upcoming legislative session. Mr. South stated he is currently monitoring several bills.

Chairman Moore confirmed that Mr. South will be reviewing wording and monitoring progress of bills through legislative committee. Mr. South will inform the Chairman if the Board should take action or look at a particular bill.

Investment Manager Update/Status – Informational

Mr. Carroll South reported that seven of the Board's 28 investment managers are on the watch list. Seven managers have been terminated. Mr. South presented a report that reflects managers by investment type only; the watch list presented later in the agenda will identify the managers.

Chairman Terry Moore commended staff on being proactive and taking action with the managers. He conveyed that the Board appreciates staff's effort toward a positive return.

Pension Fund Status Update – Informational Hand Out

Mr. South presented the pension fund status for fiscal year 2010. In 1993, benefits for the Public Employees Retirement System (PERS) and the Teachers' Retirement System (TRS) nearly equaled contributions, but benefits are growing much faster than contributions and currently there is significant negative cash flow (benefits exceed contributions), which must be covered by investment income or sale of assets. At some point in the future, all investment income will be used to pay benefits. The assumed annual rate of return for all nine pension plans is 7.75 percent as of July 2010.

Pension Funds Investment Policy Statement – Board Action

Mr. Carroll South presented the staff recommendation for a Retirement Funds Investment Policy Statement for Board approval. The policy is a web-based document that will serve as the master template for all nine retirement funds.

A Motion was made by Member Jack Prothero and seconded by Member Jim Turcotte to adopt the Pension Funds Investment Policy Statement. The Motion was carried 8-0.

Resolution No. 217 Update - Informational

Mr. Carroll South presented the annual Resolution No. 217 update to the Board, including broker/dealers and managers that have been added as well as those terminated. No Board action was required.

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 authorized to deal with the Executive Director or the Executive Director's designated staff as agents of the Board.

Chairman Moore asked if any Board Members had attended any educational seminars or meetings. None were reported.

QUARTERLY PERFORMANCE REPORTS

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

Pension Funds and Investment Pools

Mr. Jim Voytko provided an overview of the current market environment and portfolio performance for the quarter ended September 30, 2010. Over a ten year period the annualized return on stocks has been negative .43%, compared to the actuarial required return of 7.75%. The challenge facing us going forward is containing risk when asset classes are correlated. Mr. Voytko noted higher correlation across all asset classes over rolling five year periods, and poor returns vs. volatility over the last ten years. He also noted the challenge to future returns posed by the low absolute level of bond rates currently.

Mr. Voytko discussed performance of the pension plans. Returns are trending upward, and relative returns vs. benchmarks were positive over ten years by a minor amount. The asset liability study being prepared by RV Kuhns & Associates will provide guidelines for future investments.

Finally, Mr. Voytko reviewed managers on the watch list, drawing close attention to Analytic, Artio and Blackrock Alpha Tilts.

Chairman Moore asked for a status report on the proposed Board Education Policy. Mr. Voytko stated RV Kuhns had delivered a memo and the draft policy to Member Maureen Fleming. The final document will be presented at the next Board Meeting.

Chairman Moore then asked about the Asset/Liability Study being done by RV Kuhns. Mr. Voytko said that they now have the data and will be able to meet the mid-December deadline. He inquired about presenting the material to the Board. Chairman Moore suggested setting a prospective date for a Board Meeting by teleconference sometime after December 15, 2010 to address the findings.

INVESTMENT ACTIVITIES/REPORTS

Retirement System Asset Allocation Report

Mr. Clifford Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending September 30, 2010. Overall pension assets were up \$627 million for the quarter, a 10.6% increase, as a result of the recent strong rally in public equity markets. The allocation to domestic and international equities was up 1.6% and 1.8% respectively, while private equity fell 0.7%. Total equities rose to 66.2%, up from 63.5% last quarter. The bond market also posted positive returns for the quarter.

Significant changes made to the Retirement Systems during the quarter were additions to the equity pools of \$76 million; increased real estate allocation of \$17 million; and sales of \$46.7 million in fixed income.

Comparison to State Street Public Fund Universe

Mr. Sheets 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 RV Kuhns public fund universe return comparison.

Public Asset Pool Reviews

Domestic Equity (MDEP)

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

Mr. Muffick also gave a summary of manager transitioning for the quarter.

International Equity (MTIP)

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

Public Equity External Managers Watch List

Mr. Rande Muffick reported that there were several changes to the Watch List during the quarter. Four managers were terminated and removed from the list, and two managers were added, as shown below.

<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

Fixed Income

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

Historical Society Investment Policy – Board Action

Mr. Cooley referred the Board to Mr. South's comments earlier relating to the Historical Society Trust Fund. Mr. Cooley stated there are seven accounts totaling \$1.5 million.

A Motion was made by Member Jim Turcotte and seconded by Member Pat McKittrick to adopt the Historical Society Trust Funds Investment Policy Statement.
The Motion was carried 8-0.

Chairman Terry Moore asked about the Board's availability for a teleconference on Monday, December 20, 2010 at 1:30 p.m. Mr. Jim Voytko committed to December 15 for completion of the Asset Liability Study. Member Jon Satre stated he would not be available on December 20. There being no other conflicts, the Asset Liability Study teleconference was tentatively scheduled December 20, 2010 at 1:30 p.m.

ADJOURNED

The meeting adjourned for the day at 4:53 p.m.

CALL TO ORDER – Day 2
December 1, 2010

The meeting was reconvened Wednesday, December 1, 2010 at 8:31 a.m. with 8 members of the Board present. Legislative Liaison Representative Brady Wiseman was also in attendance. Absent were Member Elouise Cobell and Legislative Liaison Senator Greg Barkus.

Chairman Terry Moore declared that Board and staff were held in high esteem and honor by University President Royce Engstrom and Ms. Mary Engstrom at the dinner at their home the previous evening. He also thanked Dr. Terri Herron and her staff, and Carol Ann Augustine and Geri Burton for the work that went into arranging the meetings at The University.

Public Comment

Chairman Terry Moore called for public comment on Board issues.

Mr. Jack Jenx, Summit Housing Group expressed gratitude to the Board for the efforts of Mr. Herb Kulow and staff for initiating the Low Income Housing Tax Credit Program. He stated that he thinks these will be good solid loans that provide a good investment for the Board and important housing for the people of Montana.

Mr. Tom Boudrac, First Interstate Bank also thanked Mr. Herb Kulow and staff for listening to the bank and working with them, developing a win/win project that affects a significant part of their community.

Chairman Terry Moore reported this to be his last day as Chairman because he is stepping down. He told the Board it has been an honor and a pleasure to know them, work with them and accomplish what they've done as a team. Chairman Moore went on to thank Mr. Carroll South and his staff for their contribution to uphold the integrity of the Board of Investments.

Member Jim Turcotte said Chairman Moore has done an excellent job and encouraged him to stay; the other members of the Board and staff concurred.

INVESTMENT ACTIVITY/REPORTS, continued

Fixed Income

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

Mr. Sax also presented the Below Investment Grade Fixed Income Holdings report.

Chairman Terry Moore thanked Dr. Terri Herron, as she was not present when he thanked her earlier. Mr. Clifford Sheets thanked Mr. Jon Shoen and Mr. Nathan Sax for participating in finance classes yesterday regarding the investment functions of Board of Investments staff.

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.

Two new fund commitments were made since the August 2010 Board Meeting.

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

Mr. Shoen also reviewed the annual Pacing Study prepared by RV Kuhns & Associates.

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 five new fund commitments made since the August 2010 Board Meeting.

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

Partnership Focus Lists

There were no changes to the MPEP Partnership Focus List since the August 2010 Board Meeting. There was one addition to the MTRP Partnership Focus List; this partnership was included on the list due to concerns regarding performance and platform stability.

Real Estate Investment Policy Statement

Mr. Jon Shoen presented proposed revisions to the MTRP Investment Policy to address the inclusion of a timberland allocation approved by the Board in August 2010. Additional changes include revisions in certain allocation ranges and a change in the benchmark for the pool.

A Motion was made by Member Jack Prothero and seconded by Member Jim Turcotte to adopt the MTRP Investment Policy Statement. The Motion was carried 8-0.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

Mr. Herb Kulow reported on the status of the commercial and residential loan programs as of October 31, 2010. Mr. Kulow stated that both programs look good and the delinquencies are being resolved.

The commercial loan portfolio totaled \$176,419,058. There were no commercial loans past due more than 90 days. There were six loans past due less than 90 days totaling \$9,100,765. The only non-guaranteed loan in the amount of \$1,331,287 was brought current on November 10, 2010.

The residential loan portfolio totaled \$32,945,718. There were nine loans past due more than 90 days totaling \$594,566.

Low Income Housing Tax Credit Program – Informational

Mr. Herb Kulow reported that he presented a brief overview of the Low Income Housing Tax Credit Program to the Loan Committee yesterday. Chairman Moore stated that the program does not require action from the Board, and that the Loan Committee supports the program going forward. We will be making it easier for banks to do business with the Board of Investments, especially larger banks, while enabling us to improve our return on loans through the pool.

BOND PROGRAM

Activity Report

Ms. Geri Burton presented the INTERCAP report for the period July 1 through September 30, 2010. Year to date commitments totaled \$3,138,184 with \$2,793,100 funded. Total loans outstanding are \$74,842,871; bonds outstanding are \$96,075,000.

Staff Approved Loans Report

The Board reviewed this report for the period of July 1 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.

*These minutes are Approved and Final.
Full Board review and decision took place at the February 8 & 9, 2011 Regular Meeting of the Board.*

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

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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.

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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

Guest Speaker – Dean Peggy Kuhr

Board Member Maureen Fleming introduced Dean Peggy Kuhr, University of Montana School of Journalism. Member Fleming gave a brief overview of Dean Kuhr’s background as well as her academic and newspaper experience.

These minutes are Approved and Final.
Full Board review and decision took place at the February 8 & 9, 2011 Regular Meeting of the Board.

Dean Peggy Kuhr administered a quiz to the Board Members and staff to assess everyone's knowledge of current events. She reported that 14% of those who took the quiz in June answered all four questions correctly and 15% did not answer any correctly. Dean Kuhr gave an interesting and informative presentation on technology and the media.

ADJOURNMENT

Chairman Terry Moore adjourned the meeting at 10:55 a.m. Board Members, staff and guests reconvened in the Auditorium to hear guest speaker Dr. David Rubenstein, Co-founder and Managing Director of the Carlyle Group.

Next Meeting

The next regularly scheduled meeting of the Board will be February 8 and 9, 2011 in Helena, Montana.

BOARD OF INVESTMENTS

APPROVE: _____
Terry Moore, Chair

ATTEST: _____
Carroll South, Executive Director

DATE: _____

MBOI:caa
1/19/11