

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

2401 Colonial Drive, 3rd Floor
Helena, Montana

November 15-16, 2011

AGENDA – DAY 1

COMMITTEE MEETINGS	
A. Loan Committee	9:15 AM
1. INTERCAP Loan Approvals (behind Tab 5) – Discussion/Decision	
2. Department of Commerce Loan Request – (behind Tab 2) Discussion/Decision	
B. Human Resource Committee	10:00 AM
1. Exempt Staff Performance Appraisals – Discussion	
2. Executive Director Recruitment Process Update	
LUNCH SERVED	12:00 PM
Tab 1 CALL TO ORDER	12:30 PM
A. Roll Call and New Board Member Introductions	
B. Approval of the August 16 and 17, 2011 Meeting Minutes	
C. Administrative Business	
1. Audit Committee Report	
2. Human Resource Committee Report	
3. Loan Committee Report	
D. Public Comment – <i>Public Comment on issues with Board Jurisdiction</i>	
Tab 2 EXECUTIVE DIRECTOR REPORTS – Carroll South	1:00 PM
A. Resolution 217 Update – Informational	
B. Coal Tax Loan Request – Department of Commerce – Informational	
C. Montana Veterans' Home Mortgage Loan Program - Informational	
D. Pension Investment Management Fees – Informational Handout	
CONSULTANT REPORT – R.V. Kuhns and Associates	2:00 PM
A. CEM Benchmarking Report - Handout	
B. Quarterly Performance Report	
BREAK	3:05 PM
TEACHERS' RETIREMENT SYSTEM ANNUAL REPORT	3:20 PM
Dave Senn, Director	
PUBLIC EMPLOYEES RETIREMENT SYSTEM ANNUAL REPORT	3:40 PM
Roxanne Minnehan, Executive Director	
Tab 3 INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO	4:00 PM
A. Retirement System Asset Allocation Report	
B. Private Asset Pool Reviews	
1. Private Equity – Individual Fund Review (continuation of August 16 th presentation)	

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DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor
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**November 15-16, 2011
AGENDA – DAY 1 con't**

DINNER SERVED	5:00 PM
EXECUTIVE DIRECTOR CANDIDATE INTERVIEW	5:45 PM
CLOSED MEETING	6:30 PM
A. Board discussion of selection of Executive Director Candidate	
OPEN MEETING	7:00 PM
A. Board action on selection of Candidate	
ADJOURN	7:15 PM

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 (call 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.

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

November 15-16, 2011

AGENDA – DAY 2

- RECONVENE AND CALL TO ORDER** **8:30 AM**
- A. Roll Call
- B. Public Comment – *Public Comment on issues with Board Jurisdiction*
- Tab 3 INVESTMENT ACTIVITIES/REPORTS, con't – Cliff Sheets, CFA, CIO** **8:40 AM**
- B. Private Asset Pool Reviews
1. Private Equity - Individual Fund Review, con't (continuation of August 16th presentation)
2. Private Equity Pool (MPEP)
3. Real Estate Pool (MTRP)
4. Partnership Focus List
- C. Public Asset Pool Reviews
1. Domestic Equity (MDEP)
2. International Equity (MTIP)
3. Manager Watch List
4. Fixed Income Strategy Reports
- i. Bond Pools (RFBP and TFIP)
- ii. Below Investment Grade Holdings
- iii. Short-term (STIP) and Other Fixed Income Portfolios
- Tab 4 MONTANA LOAN PROGRAM – Herb Kulow** **10:10 AM**
- A. Commercial and Residential Portfolios Report
- Tab 5 BOND PROGRAM – Louise Welsh** **10:25 AM**
- A. INTERCAP
1. Activity Report
2. Staff Approved Loans Report
3. Loan Requests
- ADJOURNMENT** **10:40 AM**
- COMMITTEE MEETINGS, Cont'd**
- A. **Audit Committee Cancelled** **10:40 AM**
- ~~1. Exit Interview – Legislative Audit Division
BOI Financial Audit Report
For the Two Fiscal Years Ended June 30, 2011~~

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**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE
2401 Colonial Drive, 3rd Floor
Helena, Montana**

**MINUTES OF THE MEETING
August 16-17, 2011**

BOARD MEMBERS PRESENT:

Gary Buchanan, Chairman
Karl Englund
Patrick McKittrick
Quinton Nyman
Jack Prothero
Jon Satre
Jim Turcotte
Representative Franke Wilmer

BOARD MEMBERS ABSENT:

Senator Joe Balyeat

STAFF PRESENT:

Carol Ann Augustine, Board Secretary	Nancy Rivera, Credit Analyst
Jason Brent, Investment Analyst	John Romasko, CFA, CPA, Fixed Income Investment Analyst
Geri Burton, Deputy Director	Nathan Sax, CFA, Portfolio Manager
Richard Cooley, CFA, Portfolio Manager	Clifford A. Sheets, CFA, Chief Investment Officer
Tim House, Investment Operations Chief	Carroll South, Executive Director
Teri Kolnik, Alternative Investment Analyst	Louise Welsh, Bond Program Officer
Herb Kulow, Portfolio Manager	Dan Zarlino, CFA, Director of Research
Gayle Moon, Fiscal Accounting Manager	
Rande Muffick, CFA, Portfolio Manager	

GUESTS:

Becky Gratsinger, RV Kuhns & Associates
Mark Higgins, RV Kuhns & Associates
Gordon Hoven, Piper Jaffray
Jeff Lowe, Bitterroot Financial Ventures
John O'Donnell, Montlake Capital
Jim Voytko, RV Kuhns & Associates

CALL TO ORDER

Acting Chairman Jack Prothero called the regular meeting of the Board of Investments (Board) to order at 12:30 p.m. in the Board Room on the third floor at 2401 Colonial Drive, Helena, Montana. As noted above, a quorum of Board Members was present.

Acting Chairman Prothero asked for introductions from Board Members, staff and the audience.

Board Member Karl Englund made a Motion to approve the Minutes of the July 2011 Board Meeting; Board Member Jon Satre seconded the Motion; Board Member Pat McKittrick abstained because he was unable to attend the July 2011 meeting. The Motion was carried 6-0.

ADMINISTRATIVE BUSINESS

Human Resource Committee (HR)

HR Committee Chair Karl Englund reported that the hiring process is moving forward to fill the Alternative Investments Portfolio Manager position. Interviews have been conducted and an offer will be made soon. HR Committee approval is needed to authorize the salary level; this will be done via teleconference at a publicly posted meeting.

HR Chair Englund also reported on the status of the Executive Director recruitment. He thanked Deputy Director Geri Burton for her work on this project. Mr. Englund also thanked staff for their input in the process and stated that the HR Committee would ask for further input as the hiring process continues. The HR Committee would like to be prepared to present a recommendation to the full Board at its November meeting in order to hire someone by Thanksgiving, which would allow the individual to work with Mr. Carroll South before his retirement on December 31, 2011.

At the July 14, 2011 meeting, the Board authorized the Human Resource Committee to conduct a candidate search to fill the Executive Director position. HR Chair Englund reported that the HR Committee would like to include Board Chairman Gary Buchanan as a voting member of the Committee for the Executive Director position hiring process.

Board Member and HR Committee Chair Karl Englund made a Motion to form an Executive Director Hiring Committee consisting of the Human Resource Committee and the Board Chair; Board Member Jon Satre seconded the Motion. The Motion was carried 7-0.

Loan Committee

Loan Committee Chair Jack Prothero noted that the Loan Committee is authorized to approve loans up to \$5 million without full Board approval. Loan Committee Chair Prothero reported that the Loan Committee reviewed and approved three INTERCAP loan requests; the Loan Committee authorized staff to proceed with processing and closing these loans using the Board's standard Bond Program office procedures.

Borrower:	Department of Natural Resources and Conservation
Purpose:	In anticipation of receiving DWSRF loan repayments
LC Approval Date	August 16, 2011
Board Loan Amount:	\$1.1 million
Other Funding Sources:	None
Total Project Cost:	\$1.1 million
Term:	Three years

Borrower:	Department of Natural Resources and Conservation
Purpose:	In anticipation of receiving WPCSRF loan repayments
LC Approval Date	August 16, 2011

Board Loan Amount:	\$1.9 million
Other Funding Sources:	None
Total Project Cost:	\$1.9 million
Term:	Three years

Borrower:	Town of Big Sandy
Purpose:	In anticipation of RD long term financing for wastewater plant improvement
LC Approval Date	August 16, 2011
Board Loan Amount:	\$2,314,000
Other Funding Sources:	\$2,435,000
Total Project Cost:	\$4,749,000
Term:	Two years

Board Education Policy

The approved Board Education Policy was included in the Board packet. Board Member Jim Turcotte told the Board that he has attended Teachers’ Retirement System meetings and they are occasionally holding investment conferences, some of which are directed toward the money management side of retirement systems. Mr. Turcotte stated that Dave Senn, TRS Director will be contacting Mr. Carroll South regarding these meetings.

Public Comment

Acting Chairman Jack Prothero called for public comment on Board issues. There was no public comment.

EXECUTIVE DIRECTOR’S REPORT

Mr. Carroll South distributed a copy of the Board Member page as it appears on the BOI website. Effective July 1, 2011 Board Members must have their mailing address, email address and phone number posted; we have always done this. Mr. South asked the Board to verify their current listing and make any desired changes.

Pension Fund Investment Returns

Mr. Carroll South presented his pensions and investments report for the fiscal year. He noted that actuarial evaluations will not be complete until September. Mr. South stated that investment income is being used to pay current benefits.

In response to a question about the difference between gross and net returns and whether this is a proxy for investment costs, Mr. South said it is a good estimate, though the fiscal year accounting data will provide better cost information. Mr. South noted that the net return for the plans is based on pool returns that reflect fees that were already taken out before the pool income is distributed to the plans. Alternative investment fees differ from public equity manager fees; and if the alternative investment fees are deemed too high, our only recourse is to change the asset allocation since these costs are a function of the underlying holdings.

Open Meeting Law

Mr. Carroll South reviewed proposed amendments to the Governance Policy pertaining to open meetings and public participation procedures to ensure that all Board committee meetings are posted on the BOI website 48 hours in advance. Mr. South also reviewed a proposed amendment to the Loan Committee Charter which would remove language that allows the Loan

Committee to approve loans via email, as that is technically not a public meeting. Loan information may continue to be emailed to the Committee; then a conference call will be arranged for discussion and approval.

Board Member Pat McKittrick made a Motion to approve the changes to the Governance Policy and Loan Committee Charter as recommended; Board Member Jim Turcotte seconded the Motion. The Motion was carried 7-0.

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. Mark Higgins provided an overview of the current market environment and portfolio performance for the quarter ended June 30, 2011. Mr. Higgins cited problems with the sovereign debt in Europe, weakening economic indicators across the board, and declining Treasury yields as key contributors to the market's increased volatility over the past six weeks.

Ms. Becky Gratsinger reviewed performance of the retirement plans by asset class as of June 30, 2011.

INVESTMENT ACTIVITIES/REPORTS

Retirement System Asset Allocation Report

Mr. Clifford Sheets presented the Retirement Systems Asset Allocation Report for the quarter and fiscal year ending June 30, 2011. Overall pension assets rose 1.1% for the quarter, up \$84 million due to continued strong performance of private equity and real estate assets. Our total equity exposure declined slightly to 67.3%, reflecting \$42.6 million in sales during the quarter. The fixed income allocation was up by 0.3% for the quarter due to its stronger relative performance.

It was a fairly volatile quarter with spikes in oil and gas; additional distress in the European sovereign debt markets; and the disaster in Japan having a large impact. Our total equity allocation decreased slightly to 67.3% from 67.9%, reflecting \$42.6 million in total sales of public and private equity during the quarter.

The fixed allocation was up by 0.3% for the quarter; real estate was up by 0.5%; and cash was up by .3%, reflecting sales in the long term pools net of benefit payments.

Changes in asset allocation for the full fiscal year were more significant and were driven primarily by the outsized returns for public stocks of approximately 30%. Despite net sales of public and private equity totaling \$96.8 million, the total equity weight increased by 3.9% to 67.3%. Plan assets overall were up by about \$1.25 billion reflecting positive returns across all asset classes. The allocation to fixed income fell by 3.9% to 24.7% despite positive returns simply because of the dilution effect of the stronger equity returns. The real estate allocation increased by 1.1% to 6.5% which reflected additional purchases of \$76.2 million during the year.

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. During this review he also noted the asset allocation weight for private equity from the RV Kuhns survey of public plans as an additional comparison.

Private Asset Pool Reviews

Private Equity (MPEP)

The following private equity reports were not presented verbally but are included in the Board packet: quarterly cash flow; total exposure by strategy; market value exposure by industry, geography and investment vehicle; and internal rates of return and return multiples overall, by strategy sub-groups, and for individual funds. There were three new fund commitments presented in the packet but not discussed.

Fund Name	Vintage	Subclass	Sector	Amount	Date
ArcLight Energy Partners V	2011	Buyout	Energy	\$20M	06/22/11
Lexington Capital Partners VII	2008	Secondary	Diverse	Add'l \$15M	05/24/11
Summit Partners Growth Equity VIII	2011	Buyout	Diverse	\$20M	06/29/11

Real Estate (MTRP)

The following real estate reports were not presented verbally but are included in the Board packet: quarterly cash flow; total exposure by strategy; market value exposure by property type and geography; and time weighted and internal rates of return for the portfolio and the underlying funds. There were four new fund commitments presented in the packet but not discussed.

Fund Name	Pool	Subclass	Sector	Amount	Date of Decision or Funding Date - Core
DRA Growth & Income Fund VII, LLC	MTRP	Value Add	Diverse	\$30 M	06/21/11
TIAA-CREF Asset Management Core Property Fund, LP	TFIP	Core	Diverse	\$1 M	6/1/11
TIAA-CREF Asset Management Core Property Fund, LP	TFIP	Core	Diverse	\$1 M	7/1/11
TIAA-CREF Asset Management Core Property Fund, LP	TFIP	Core	Diverse	\$368 K	8/1/11

Partnership Focus Lists

There have been no changes to the MPEP and MTRP Partnership Focus Lists since the May 2011 Board Meeting.

Mr. Cliff Sheets proceeded with a review and discussion on the real estate and private equity portfolios, a continuation from the July 14, 2011 Special Board Meeting. He began by noting that we have 24 real estate manager relationships which represent 31 fund exposures. Nine of these had been discussed during July. He completed a review of each of the remaining real estate managers and funds, providing only high level information on the general strategy and returns of each fund or manager. Mr. Sheets then went on to discuss the managers and funds held in the private equity pool, noting that we have 40 manager relationships and a total of 99 active funds, 34 of which are Adams Street and Brinson funds. He provided basic information on the active funds in alpha sequence and was able to cover about half of the managers before the allotted time for this agenda item expired. The chairman requested the balance of the funds be reviewed at the next board meeting.

Public Asset Pool Reviews

Domestic Equity (MDEP)

Mr. Rande Muffick reported on the Montana Domestic Equity Pool as of June 30, 2011, including a summary of recent market trends. Mr. Muffick stated that FY 2011 was a good year for both pools, an indication of an active management turnaround for us.

International Equity (MTIP)

Mr. Muffick presented the Montana International Equity Pool Report for the period ending June 30, 2011 and reviewed market trends during the quarter.

Public Equity External Managers Watch List

Mr. Rande Muffick reported that BlackRock International Alpha Tilts was removed from the Watch List during the quarter and Times Square Midcap Growth was added. There were no terminations.

Manager	Style Bucket	Reason	\$ Invested (mil)	Inclusion Date
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	\$161	March 2008
Martin Currie	International – LC Growth	Performance, Risk Controls	\$108	February 2009
Analytic Investors	Domestic - 130/30	Performance, Process	\$118	May 2010
Artio Global	International – LC Core	Performance, Philosophy	\$122	November 2010
Columbus Circle	Domestic – LC Growth	Performance, Process	\$149	May 2011
TimesSquare	Domestic – MC Growth	Performance	\$108	August 2011

ADJOURNED

The meeting was adjourned for the day at 4:59 p.m.

CALL TO ORDER – Day 2
August 17, 2011

Chairman Gary Buchanan reconvened the meeting Wednesday, August 17, 2011 at 8:30 a.m. with six members of the Board present.

ADMINISTRATIVE BUSINESS

Public Comment

Chairman Gary Buchanan called for public comment on Board issues. There was no public comment. Member Jack Prothero was not present.

INVESTMENT ACTIVITIES/REPORTS, continued

Public Asset Pool Reviews

Fixed Income

Mr. Nathan Sax presented the Fixed Income overview and strategy for the Retirement and Trust Fund Bond Pools. Mr. Sax noted that interest rates have dropped significantly in the last six weeks in reaction to the growing concern over signs of a slowing economy and flight to quality.

Mr. Sax also presented the Below Investment Grade Fixed Income Holdings report; one bond was added to the list and one was removed.

Mr. Richard Cooley reported on the Short Term Investment Pool, State Fund Insurance and Treasurer’s Fund portfolios. The total return for fixed income during the fiscal year was 4.7%.

Investment Policy Statement – Montana State University

Mr. Richard Cooley presented the Montana University System Group Insurance Investment Policy Statement for Board review and approval. Total assets approximate \$32 million. The fund will be allowed to buy fixed income securities in a one to five year maturity range in addition to holding STIP.

Board Member Karl Englund made a Motion to approve the Montana University System Group Insurance IPS; Board Member Jim Turcotte seconded the Motion; Board Member Quinton Nyman abstained because he is Vice-Chair of the Committee that oversees the plan. The Motion was carried 5-0.

Actuarial Assumptions

Mr. Carroll South and Mr. Jim Voytko presented a report regarding actuarial assumptions for the retirement funds.

BOND PROGRAM

Activity Report

Ms. Louise Welsh presented the INTERCAP Activity Summary as of June 30, 2011. Commitments for FY 11 totaled \$31,213,453 with \$17,719,727 funded. Total loans outstanding are \$75,552,672; bonds outstanding are \$95,530,000.

Staff Approved Loans Report

The Board reviewed this report for the period April 1 through June 30, 2011.

Borrower:	Stillwater County/Stillwater County Solid Waste District
Purpose:	Purchase new roll-off truck
Staff Approval Date	April 7, 2011
Board Loan Amount:	\$165,000
Other Funding Sources:	\$0
Total Project Cost:	\$165,000
Term:	10 years

Borrower:	City of Polson
Purpose:	Purchase a used wheel loader
Staff Approval Date	April 13, 2011
Board Loan Amount:	\$47,200
Other Funding Sources:	\$15,000
Total Project Cost:	\$62,200
Term:	3 years

Borrower:	Tri-Lakes Fire Service Area (Helena)
Purpose:	Purchase three used fire apparatuses
Staff Approval Date	April 21, 2011
Board Loan Amount:	\$200,000
Other Funding Sources:	\$0
Total Project Cost:	\$200,000
Term:	10 years

Borrower:	City of Shelby
Purpose:	Interim financing to construct a fire hall in anticipation of USDA Community Facilities Program long-term financing
Staff Approval Date:	April 29, 2011
Board Loan Amount:	\$350,000
Other Funding Sources:	\$0
Total Project Cost:	\$350,000
Term:	1 year

Borrower:	Missoula Rural Fire District
Purpose:	Purchase a new fire engine and water tender
Staff Approval Date:	April 29, 2011 (increased June 27, 2011)
Board Loan Amount:	\$475,000
Other Funding Sources:	\$0
Total Project Cost:	\$475,000
Term:	10 years

Borrower:	Fisher River Valley Fire Service Area (Libby)
Purpose:	Refinance fire station construction loan
Staff Approval Date:	May 10, 2011
Board Loan Amount:	\$136,245
Other Funding Sources:	\$0
Total Project Cost:	\$136,245
Term:	15 years

Borrower:	McCone County
Purpose:	Refinance sheriff vehicle loan
Staff Approval Date:	May 12, 2011
Board Loan Amount:	\$22,877

Other Funding Sources:	\$0
Total Project Cost:	\$22,877
Term:	3 years

Borrower:	City of Columbus
Purpose:	Construct a 10,500 sq. ft. public works facility
Staff Approval Date:	May 18, 2011
Board Loan Amount:	\$300,000
Other Funding Sources:	\$550,000
Total Project Cost:	\$850,000
Term:	10 years

Borrower:	Fergus County
Purpose:	Emergency road & bridge repairs
Staff Approval Date:	June 7, 2011
Board Loan Amount:	\$999,000
Other Funding Sources:	\$0
Total Project Cost:	\$999,000
Term:	15 years

Borrower:	Mineral County Hospital District (Superior)
Purpose:	Design/feasibility study for new hospital/clinic
Staff Approval Date:	June 8, 2011
Board Loan Amount:	\$450,000
Other Funding Sources:	\$50,000
Total Project Cost:	\$500,000
Term:	6 years

Borrower:	City of Miles City
Purpose:	Purchase three ambulances
Staff Approval Date:	June 16, 2011
Board Loan Amount:	\$127,900
Other Funding Sources:	\$0
Total Project Cost:	\$127,900
Term:	5 years

Borrower:	City of Billings
Purpose:	Interim financing in anticipation of issuing its Pooled Special Improvement District Bonds (SID Nos. 1369 and 1391)
Staff Approval Date:	June 21, 2011
Board Loan Amount:	\$700,000
Other Funding Sources:	\$741,351
Total Project Cost:	\$1,441,351
Term:	1 year

Borrower:	Lewis & Clark County
Purpose:	Fantasy Road (East of Ferry Drive) Rural Improvement District #2011-1 road improvements
Staff Approval Date:	June 28, 2011
Board Loan Amount:	\$19,451
Other Funding Sources:	\$0
Total Project Cost:	\$19,451
Term:	15 years



MONTANA UNIVERSITY SYSTEM

Borrower:	University of Montana-Western MT College (Dillon)
Purpose:	Purchase Suburbans to replace motor pool vans
Staff Approval Date	April 21, 2011
Board Loan Amount:	\$99,078
Other Funding Sources:	\$0
Total Project Cost:	\$99,078
Term:	5 years
Borrower:	University of Montana – Missoula
Purpose:	Remodeling the O'Connor Center
Staff Approval Date	May 12, 2011
Board Loan Amount:	\$75,000
Other Funding Sources:	\$0
Total Project Cost:	\$75,000
Term:	10 years

Annual INTERCAP Loan Detail Report

Ms. Welsh presented the annual report of local government, state agency and university loans for fiscal year 2011.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

Mr. Herb Kulow reported that as of June 30, 2011 commercial loans totaled \$157,546,000; Participation Loans make up 51.10% of the portfolio. At the end of the quarter there were five loans over 30 days past due and two loans over 90 days past due; these are now current.

The residential loan portfolio has an outstanding balance of \$26,891,645 with no outstanding reservations. Three loans were past due greater than 90 days; staff began foreclosure on one, one is making payments under Chapter 13 and one is now current.

ADJOURNMENT

There being no further business, Chairman Buchanan adjourned the meeting at 10:48 a.m.

Next Meeting

The next regular meeting of the Board will be November 15-16, 2011 in Helena, Montana.

Complete copies of all reports presented to the Board are on file with the Board of Investments.

BOARD OF INVESTMENTS

APPROVE: _____
Gary Buchanan, Chairman

ATTEST: _____
Carroll South, Executive Director

DATE: _____

MBOI:caa
9/19/11

[Return to Meeting Agenda](#)

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 15, 2011
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.

When Resolution 217 was passed, Appendix "A" was created to show all vendors authorized to conduct financial transactions with the Board and all staff authorized to conduct financial transactions with the vendors.

The Board authorized its Executive Director to close any of the accounts listed in the original 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.

One staff member, Ethan Hurley, was added during the time period of November 2010 to November 2011. Past staff member, Jon Shoen, was removed during this same time period. These changes were specific to private equity and private real estate managers.

For the time period of November 2010 – November 2011 the following changes were made to Resolution No. 217, Appendix A:

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

- CRT Capital Group, LLC

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

- US Bank Investments

Private Equity Managers – Investment Managers added:

- American Securities LLC
- Northgate Capital LLC
- GTCR Partners
- Summit Partners

Private Real Estate Managers – Investment Managers added:

- Landmark Partners
- Resource Management Service LLC
- Molpus Woodlands Group

RESOLUTION 217 - APPENDIX A - UPDATED 11/4/11

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 Merrill Lynch	Aug-09		
B/D	CRT Capital Group, LLC	Dec-10		
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	Morgan Keegan	Aug-08		
B/D	Morgan Stanley	May-08		
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	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	Richard Cooley, Portfolio Manager	Nov-07	rcooley@mt.gov	406/444-1213
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		

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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 R. 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	Richard Cooley, Portfolio Manager	rcooley@mt.gov	406/444-1213
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	Blackrock	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	Hansberger Global Investors, Inc.	Aug-08
Equity	INTECH	Aug-09
Equity	J.P. Morgan Investment Management, Inc.	Feb-08
Equity	Martin Currie Inc.	Sep-06
Equity	Quantitative Management Associates, LLC.	Jun-07
Equity	Rainier Investment Management, Inc.	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	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

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Designated/Authorized MBOI Staff

	<i>Name & Title</i>		<i>Email</i>	<i>Phone</i>
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	Ethan Hurley, Portfolio Manager-Alternative Inv	Oct-11	ehurley@mt.gov	406/444-0250
MBOI	Jon Shoen, Portfolio Manager-Alternative Inv	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	American Securities LLC	May-11	
PE	Arclight Capital Partners	Sep-04	
PE	Avenue Capital Group	Aug-09	
PE	Axiom Asia Private Capital	Nov-09	
PE	Black Diamond Capital Management L.L.C.	Apr-10	
PE	Centerbridge Capital Partners	Jun-09	
PE	CCMP Capital Advisors	Aug-06	
PE	CIVC Partners	Sep-10	
PE	Carlyle Group (The)	Jan-05	
PE	EIF Management, L.L.C.	Apr-10	
PE	First Reserve Corporation	Aug-09	
PE	GTCR Partners	Dec-10	
PE	HarbourVest Partners	Apr-07	
PE	HCI Equity Partners (formerly Thayer Hidden Creek)	Sep-10	
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	Montlake Capital (formerly Buerk Dale Victor)	Mar-07	
PE	NB Alternatives Advisors LLC (formerly Lehman Brothers)	May-09	
PE	Northgate Capital, LLC	Mar-11	
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 LLC	Aug-07	
PE	Summit Partners	Jul-11	
PE	TA Associates	May-09	
PE	Terra Firma Capital Partners	Jan-07	
PE	Trilantic Capital Partners (formerly Lehman Brothers)	May-09	
PE	Veritas Capital Management, LLC	May-10	
PE	Welsh Carson Anderson Stowe	Oct-02	

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Private Real Estate 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	Ethan Hurley, Portfolio Manager-Alternative Inv	Oct-11	ehurley@mt.gov	406/444-0250
MBOI	Jon Shoen, Portfolio Manager-Alternative Inv	Jun-09	jshoen@mt.gov	406/444-0250
MBOI	Geri Burton, Deputy Director	Nov-07	gburton@mt.gov	406/444-1365

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	AREA Property Partners (formerly Apollo Real Estate)	Dec-06	
RE	Beacon Capital Partners	Mar-07	
RE	The Carlyle Group	Jul-07	
RE	CIM Group	Mar-07	
RE	Clarion Partners (formerly ING Clarion)	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 - USA, LLC	Sep-06	
RE	JER Partners	Nov-06	
RE	J.P. Morgan Asset Management, Strategic Property Fund	Oct-06	
RE	Landmark Partners	Mar-11	
RE	Liquid Realty Partners	Mar-07	
RE	Macquarie Global Property Advisors, Ltd.	Aug-07	
RE	Molpus Woodlands Group	Feb-11	
RE	Morgan Stanley - Real Estate Fund International	Nov-06	
RE	O'Connor Capital Partners	May-08	
RE	Resource Management Service LLC	Mar-11	
RE	Rothschild Realty Managers	Mar-07	
RE	Strategic Capital Partners	Nov-06	
RE	TIAA CREF Asset Management - Core Property Fund	Oct-09	
RE	TA Associates Realty	Sep-06	
RE	UBS Realty Investors LLC - Trumbull Property Fund	Nov-09	

MEMORANDUM

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

To: Loan Committee
From: Carroll South, Executive Director
Date: November 15, 2011
Subject: Department of Commerce Loan

Loan Request – The Department of Commerce requests to borrow up to \$2,625,000 to fund Treasure State Endowment Program (TSEP) grants for the 2011 biennium projects authorized by the Legislature. The loan will ensure adequate funds are available to fund the 59 projects approved by the 2009 Legislature that met start-up conditions by the statutory deadline, plus an additional two projects that still have time to meet start-up conditions.

Source of Funds – The loan would be funded from the Permanent Fund sub-fund of the Coal Tax Trust and would be repaid by the interest earnings on the Treasure State Endowment sub-fund of the Coal Tax Trust. The Coal Tax Trust sub-funds are shown in the adjacent table as of June 30, 2010.

Subfund	6/30/2010 Book Value	% of Total
Permanent Fund	531,373,279	65.0
Treasure State Endowment	182,831,950	22.4
Treasure State Regional Water	50,583,727	6.2
Economic Development Fund	46,791,809	5.7
Severance Tax Bond Fund	3,637,608	0.4
Permanent Fund Income	2,111,954	0.3
Total Coal Tax Trust	817,330,328	100.0

Loan Parameters – Interest on the loan would be set at 4.7 percent annually based on the current interest earned on the Permanent Fund investment in the Trust Funds Investment Pool. The term will be a maximum of 10 years with debt service of approximately \$333,000 annually. Debt service will be funded by a statutory appropriation from the interest earnings of the TSEP, which is invested in the Trust Funds Investment Pool. The TSEP earned \$9.4 million in interest during Fiscal Year 2011.

Past Loans to State Agencies – While nearly all loans from the Coal Tax Trust are to private entities, the Board has made loans to the following state agencies.

- Department of Commerce - jump start the TSEP Program
 - Department of Administration –renovate Montana State Hospital
 - Department of Justice – fund environmental litigation activities
 - Department of Natural Resources – purchase mineral production rights
 - Department of Revenue – fund replacement of its computer system
 - Department of Natural Resources – fund Water Pollution Control loans
- (The Department of Natural Resources has yet to draw funds for this loan.)

Recommendation – Staff recommends approval of a loan from the Coal Tax Trust Permanent Fund of up to \$2,625,000 to the Department of Commerce with the following conditions:

1. The loan will be evidenced by a Loan Agreement.
2. Loan term will be for a maximum of ten (10) years.
3. Loan rate will be set at 4.70 percent.
4. Principal and interest payments will be required every January 1st and July 1st, beginning July 1, 2012.
5. Department of Commerce will utilize the multiple advance method used by the Board's Intermediary Relending Loan Program. Draws will be limited to one per month.

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: Herb Kulow, CMB
Date: November 15, 2011
Subject: The Montana Veterans Home Mortgage Loan Program

Senator Larson of Missoula introduced Senate Bill 326, The Montana Veterans' Home Loan Mortgage Program, at the last legislative session, which allocates \$15,000,000 from the Montana Coal Tax Trust into a revolving loan fund for home loans to veterans. It also instructed the Montana Board of Housing (BOH) to develop a veterans' home mortgage loan program following the parameters found in the bill. Senate Bill 326 became effective July 1, 2011.

On November 1, 2011, the Montana Board of Housing kicked off the new Montana Veterans' Home Loan Mortgage Program. The first mortgage loans will be administered and serviced by the BOH and purchased by the Montana Board of Investments (MBOI).

Who is eligible?

- Members of the Montana National Guard or national armed forces and reserves, serving or honorably discharged.
- Un-remarried spouse of eligible veteran killed in the line of duty.
- Montana resident.
- First-time home buyers (no home ownership for 3 years).
- BOH approved Homebuyer Education graduate.
- No income or asset limitations, but requires \$2,500 minimum investment.

What Property is eligible?

- Purchase price is \$234,681 or less, as of November 1, 2011. (this amount is determined by BOH and changes annually)
- Either existing home or new construction in Montana
- Residential property and must be maintained as a primary residence.

Loan Criteria.

- Loan interest rate is 1.00% below the BOH regular program rate of the Fannie Mae 60-day lock rate, whichever is lower. (currently approximately 2.75%)
- Interest rate changes every two weeks.
- Must be a first mortgage lien under the Montana Small Tract Financing Act.
- 30-year amortization fixed rate loan.
- Loan must be insured (guaranteed) by FHA, VA, RD or HUD 184 (Native American housing program).
- Additional terms and conditions may apply.

The applications are taken by approved BOH and MBOI lenders, submitted to the BOH and processed and serviced by BOH. BOH will submit funding requests twice monthly to MBOI and provide monthly reports, similar to the current residential mortgage program.

[Return to Meeting Agenda](#)

Investment Activity

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 6/30/11								
				Total				
<u>Pension Fund</u>	<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Equity</u>	<u>RFBP</u>	<u>MTRP</u>	<u>STIP</u>	<u>Total Assets</u>
PUBLIC EMPLOYEES	36.5%	18.5%	12.3%	67.3%	24.7%	6.5%	1.5%	\$ 3,930,390,589
TEACHERS	36.5%	18.5%	12.3%	67.4%	24.7%	6.5%	1.4%	\$ 2,940,482,398
POLICE	36.6%	18.6%	12.4%	67.6%	24.8%	6.4%	1.2%	\$ 217,067,875
SHERIFFS	36.3%	18.4%	12.2%	67.0%	24.3%	6.4%	2.3%	\$ 210,815,214
FIREFIGHTERS	36.6%	18.6%	12.3%	67.5%	24.8%	6.4%	1.3%	\$ 215,775,342
HIGHWAY PATROL	36.5%	18.5%	12.3%	67.4%	24.7%	6.4%	1.6%	\$ 98,521,582
GAME WARDENS	36.2%	18.4%	12.3%	66.9%	24.3%	6.4%	2.4%	\$ 93,925,828
JUDGES	36.4%	18.5%	12.3%	67.1%	24.4%	6.4%	2.1%	\$ 63,496,968
VOL FIREFIGHTERS	34.7%	17.6%	11.6%	64.0%	23.8%	6.1%	6.2%	\$ 27,010,041
TOTAL	36.5%	18.5%	12.3%	67.3%	24.7%	6.5%	1.5%	\$ 7,797,485,837
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

Retirement Systems Asset Allocations as of 9/30/11								
				Total				
<u>Pension Fund</u>	<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Equity</u>	<u>RFBP</u>	<u>MTRP</u>	<u>STIP</u>	<u>Total Assets</u>
PUBLIC EMPLOYEES	33.8%	16.1%	13.6%	63.4%	27.4%	7.8%	1.4%	\$ 3,583,617,269
TEACHERS	34.0%	16.2%	13.6%	63.8%	27.5%	7.8%	0.8%	\$ 2,672,564,949
POLICE	33.9%	16.1%	13.6%	63.6%	27.5%	7.8%	1.2%	\$ 208,018,483
SHERIFFS	33.7%	16.0%	13.5%	63.1%	27.3%	7.8%	1.9%	\$ 193,787,893
FIREFIGHTERS	33.8%	16.0%	13.6%	63.4%	27.4%	7.8%	1.4%	\$ 207,239,340
HIGHWAY PATROL	33.8%	16.1%	13.5%	63.4%	27.4%	7.8%	1.4%	\$ 89,948,258
GAME WARDENS	33.5%	15.9%	13.5%	62.9%	27.1%	7.7%	2.3%	\$ 87,091,070
JUDGES	33.7%	16.0%	13.5%	63.1%	27.3%	7.8%	1.8%	\$ 58,226,282
VOL FIREFIGHTERS	34.0%	16.1%	13.6%	63.7%	27.6%	7.9%	0.8%	\$ 24,270,136
TOTAL	33.9%	16.1%	13.6%	63.6%	27.4%	7.8%	1.2%	\$ 7,124,763,680
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

Change From Last Quarter								
				Total				
<u>Pension Fund</u>	<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Equity</u>	<u>RFBP</u>	<u>MTRP</u>	<u>STIP</u>	<u>Total Assets</u>
PUBLIC EMPLOYEES	-2.7%	-2.4%	1.2%	-3.9%	2.7%	1.3%	-0.1%	(346,773,320)
TEACHERS	-2.5%	-2.4%	1.3%	-3.6%	2.8%	1.3%	-0.5%	(267,917,449)
POLICE	-2.7%	-2.5%	1.2%	-4.0%	2.7%	1.3%	0.0%	(9,049,393)
SHERIFFS	-2.6%	-2.5%	1.2%	-3.9%	2.9%	1.4%	-0.4%	(17,027,321)
FIREFIGHTERS	-2.8%	-2.5%	1.2%	-4.1%	2.6%	1.3%	0.1%	(8,536,001)
HIGHWAY PATROL	-2.7%	-2.5%	1.2%	-3.9%	2.7%	1.4%	-0.2%	(8,573,324)
GAME WARDENS	-2.7%	-2.5%	1.3%	-3.9%	2.8%	1.3%	-0.2%	(6,834,757)
JUDGES	-2.7%	-2.5%	1.2%	-4.0%	2.9%	1.4%	-0.3%	(5,270,686)
VOL FIREFIGHTERS	-0.7%	-1.5%	2.0%	-0.2%	3.8%	1.8%	-5.4%	(2,739,905)
TOTAL	-2.6%	-2.4%	1.3%	-3.8%	2.8%	1.3%	-0.3%	(672,722,157)

Allocations During Quarter						
<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Total Equity</u>	<u>RFBP</u>	<u>MTRP</u>	
\$12,890,000	\$7,830,000	(\$27,000,000)	(\$6,280,000)	\$4,745,000	\$18,930,000	
Net New Investments for Quarter					➔	\$17,395,000

Montana Board of Investments

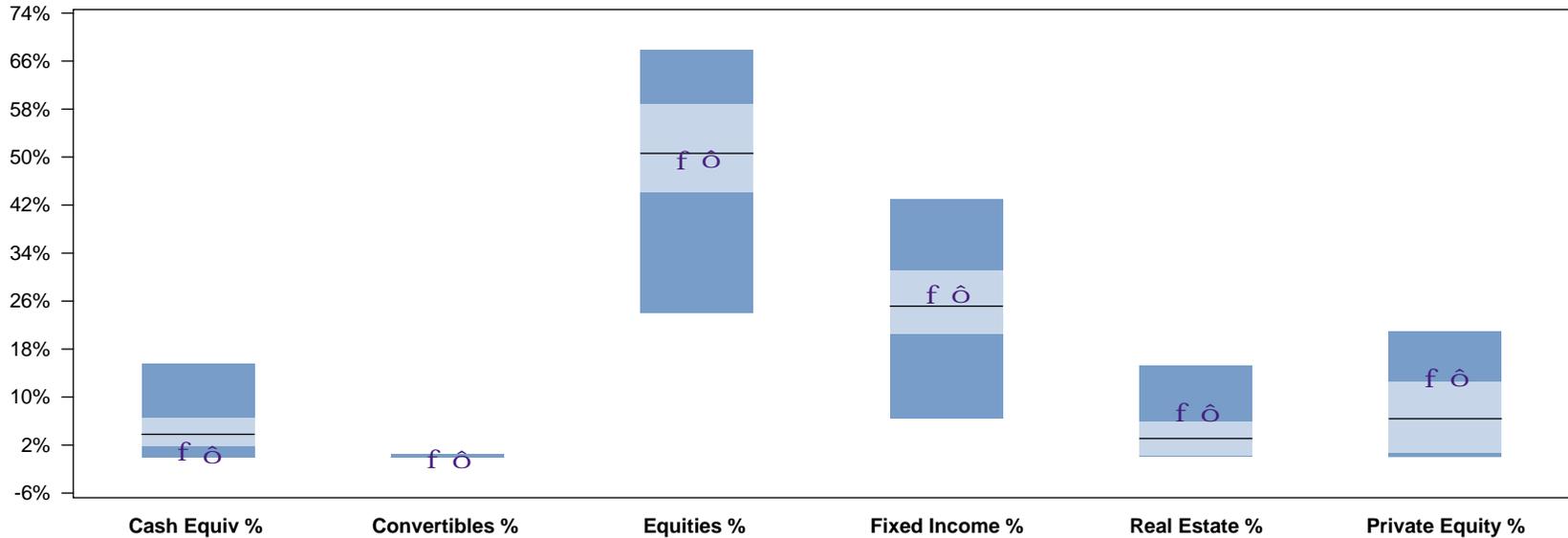
Public Funds (DB) > \$1 Billion(SSE)

PERIOD ENDING September 30, 2011



STATE STREET

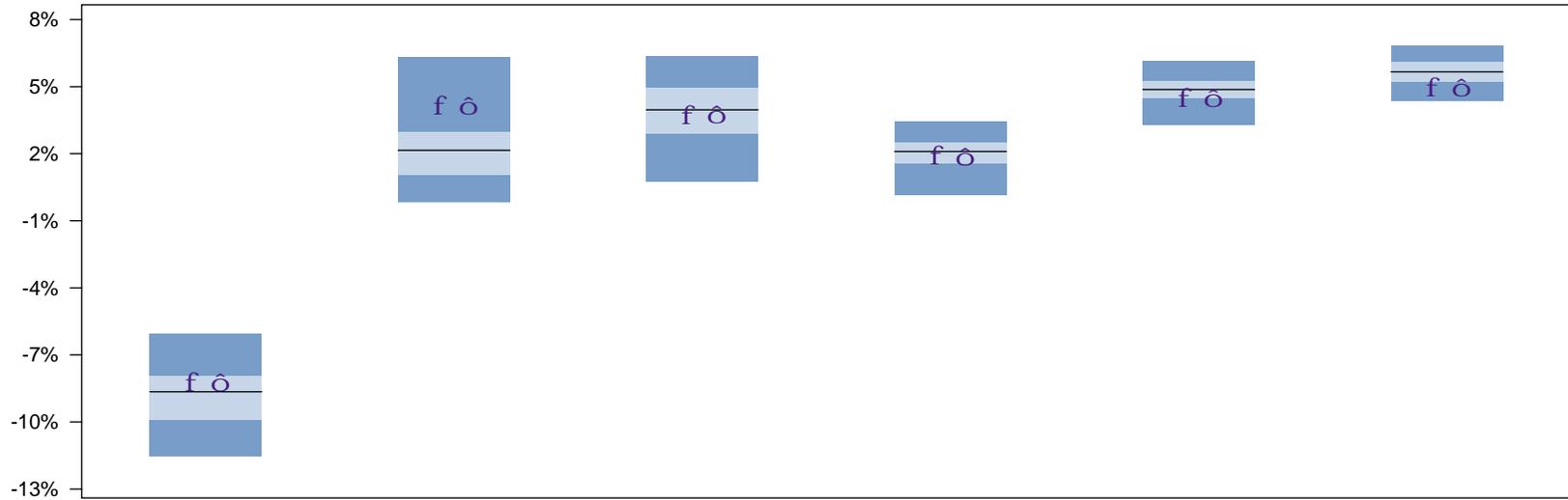
ALLOCATION



	Cash Equiv %	Convertibles %	Equities %	Fixed Income %	Real Estate %	Private Equity %
5th Percentile	15.61	0.54	67.81	43.00	15.21	20.84
25th Percentile	6.64	0.01	58.90	31.13	5.95	12.57
50th Percentile	3.78	0.00	50.62	25.16	3.08	6.38
75th Percentile	1.82	0.00	44.13	20.47	0.14	0.62
95th Percentile	0.02	0.00	24.06	6.41	0.00	0.00
No. of Obs	66	66	66	66	66	66
f PUBLIC EMPLOYEES RET	1.35 84	0.00 30	49.86 55	27.46 43	7.79 13	13.53 25
o TEACHERS RETIREMENT	0.84 89	0.00 30	50.15 53	27.59 42	7.81 12	13.61 24

Montana Board of Investments

Public Funds (DB) > \$1 Billion (SSE) - MBOI PERS - TRS UNIVERSE
 PERIOD ENDING September 30, 2011



	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	63	63	62	62	62	61
5th Percentile	-6.07	6.33	6.35	3.44	6.15	6.82
25th Percentile	-7.95	3.01	4.97	2.53	5.25	6.11
50th Percentile	-8.65	2.15	3.96	2.10	4.87	5.66
75th Percentile	-9.93	1.03	2.88	1.54	4.49	5.21
95th Percentile	-11.56	-0.17	0.74	0.15	3.30	4.39
f PUBLIC EMPLOYEES RET	-8.12 30	4.24 17	3.84 54	2.00 56	4.61 67	5.07 82
o TEACHERS RETIREMENT	-8.13 31	4.26 13	3.86 53	1.99 56	4.61 67	5.06 82

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: Clifford A. Sheets, Chief Investment Officer
Date: November 15, 2011
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 for the quarter ended June 30.

(ii) **New Commitments:**
The table below summarizes the investment decisions made by Staff since the last Board meeting. A commitment of \$25M was made to Siguler Guff Small Buyout Opportunities Fund II. This is our second commitment to Siguler Guff and brings our total commitment to their small buyout fund of funds series to \$50M. The investment brief summarizing this fund and the general partner follows.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Siguler Guff Small Buyout Opportunities Fund II	2011	Buyout – Fund of Fund	Diverse	\$25M	08/31/11

(iii) **Portfolio Index Comparison:**
Table comparing the performance of the private equity portfolio to the State Street Private Equity IndexTM.

Montana Board of Investments

Private Equity Board Report

Q2 2011

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 may not accurately reflect current or expected future returns, and the internal rates of return and all other disclosures with respect to the Partnerships have not been prepared, reviewed or approved by the Partnerships, the General Partners, or any other affiliates.

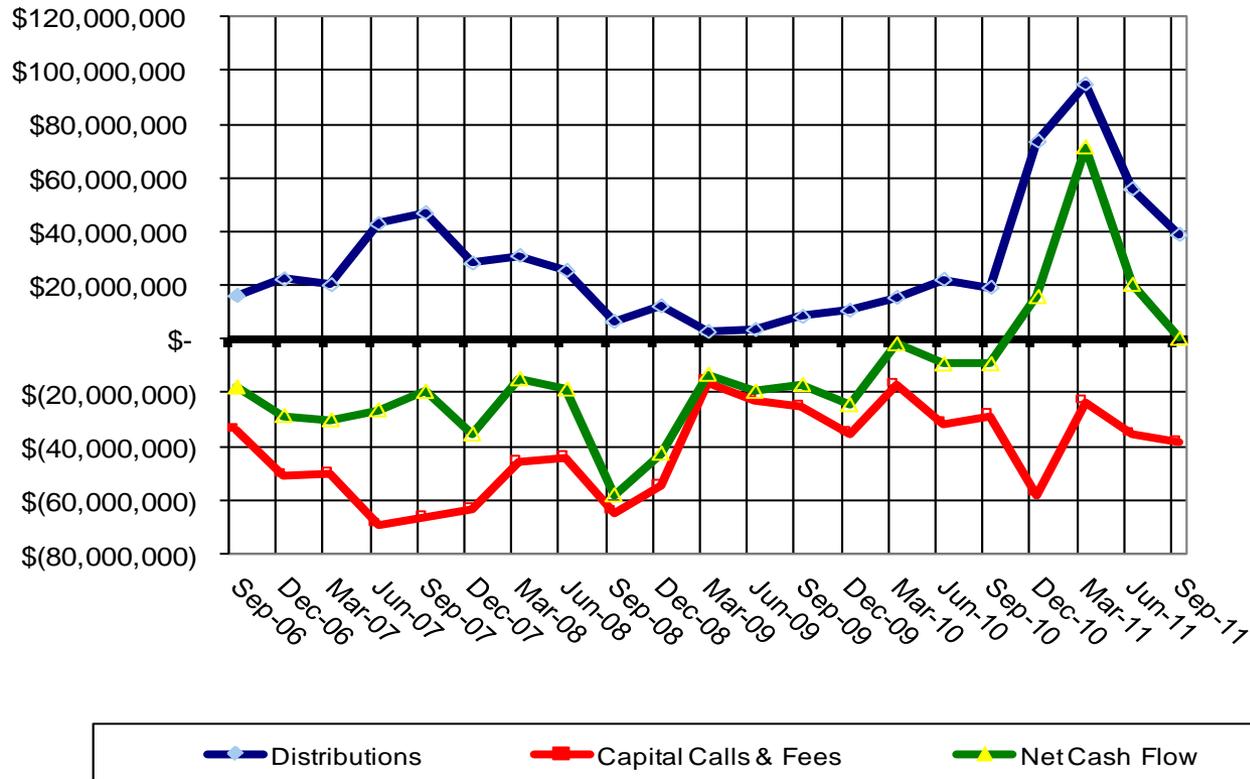
Contents

- **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

Sep 30, 2006 through Sep 30, 2011

MPEP Cash Flows



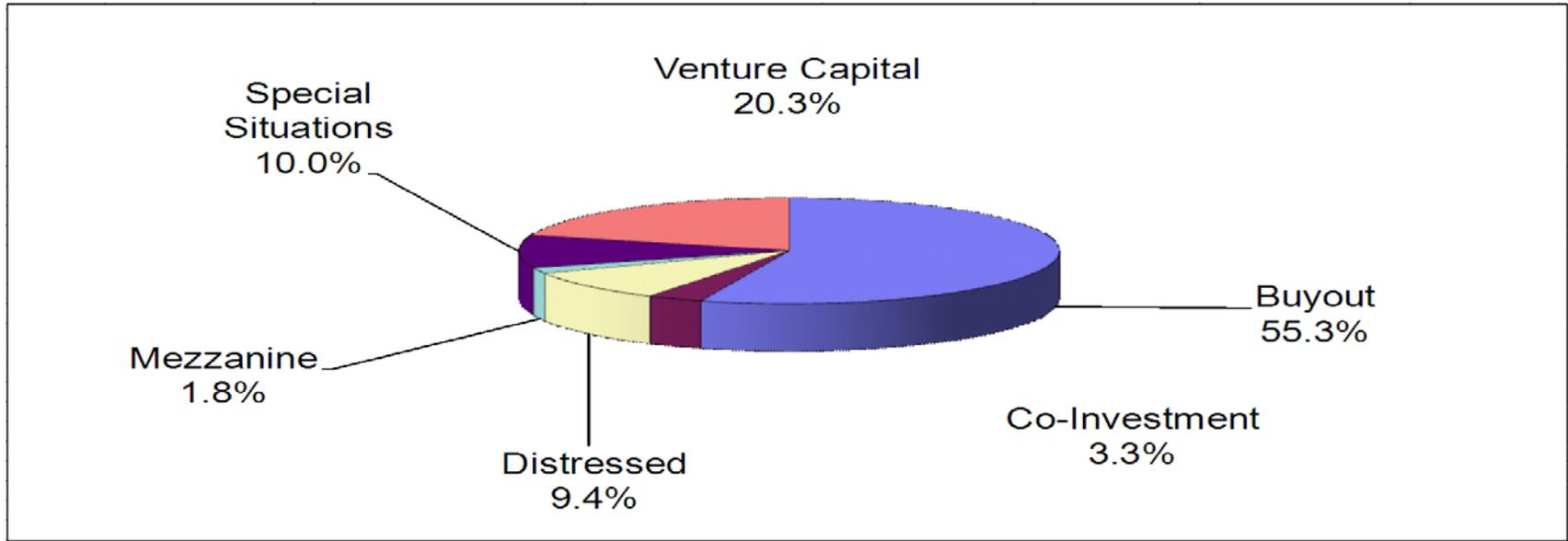
For the quarter ending 9/30/11, the amount of distributions and capital calls netted to almost zero. Capital calls outpaced distributions in the month of September due in large part to quarterly management fees being paid. Broadly speaking, public-to-private and M&A activity slowed in the 3rd quarter given the recent uptick in purchase price multiples and the decline in the public equity markets. The IPO market has also slowed substantially.

Q2 2011 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, 2011)

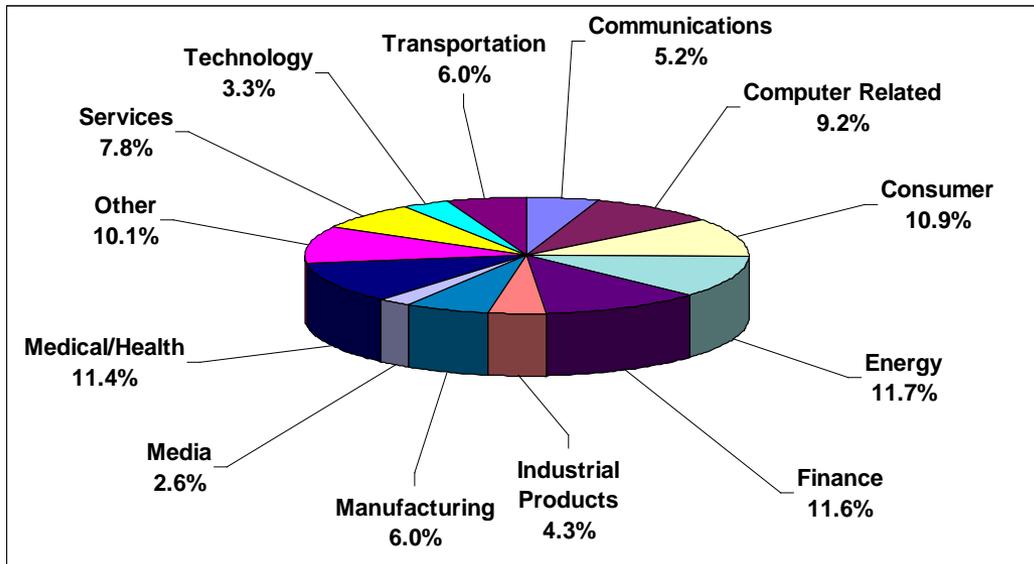


Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Buyout	\$346,352,175	62.5%	\$491,369,559	51.1%	\$837,721,734	55.3%
Co-Investment	\$11,053,670	2.0%	\$39,242,350	4.1%	\$50,296,020	3.3%
Distressed	\$41,719,131	7.5%	\$100,009,394	10.4%	\$141,728,525	9.4%
Mezzanine	\$7,146,714	1.3%	\$19,843,992	2.1%	\$26,990,706	1.8%
Special Situations	\$56,106,912	10.1%	\$95,210,080	9.9%	\$151,316,991	10.0%
Venture Capital	\$92,069,341	16.6%	\$215,455,642	22.4%	\$307,524,984	20.3%
Total	\$554,447,944	100.0%	\$961,131,016	100.0%	\$1,515,578,960	100.0%

The portfolio is well diversified by strategy, with the most significant strategy weight consisting of Buyout at 55.3% of total exposure. When combined with co-investment and special situations, the overall exposure to Buyout strategies is almost 70%. Strategic allocations are expected to remain relatively stable going forward. That said, the Distressed allocation may continue to decline in the near term given the ongoing liquidation of mature funds in this category.

Q2 2011 Industry – Market Value Exposure

Montana Private Equity Pool Underlying Investment Industry Exposure, by Market Value *(since inception through June 30, 2011)*



Industry	Investments, At Market Value	Percentage
Communications	\$48,491,071	5.2%
Computer Related	\$85,044,404	9.2%
Consumer	\$100,457,262	10.9%
Energy	\$108,112,466	11.7%
Finance	\$106,992,039	11.6%
Industrial Products	\$39,763,697	4.3%
Manufacturing	\$55,842,513	6.0%
Media	\$23,614,797	2.6%
Medical/Health	\$105,619,231	11.4%
Other	\$93,424,313	10.1%
Services	\$71,720,333	7.8%
Technology	\$30,428,725	3.3%
Transportation	\$55,164,883	6.0%
Total	\$924,675,735	100%

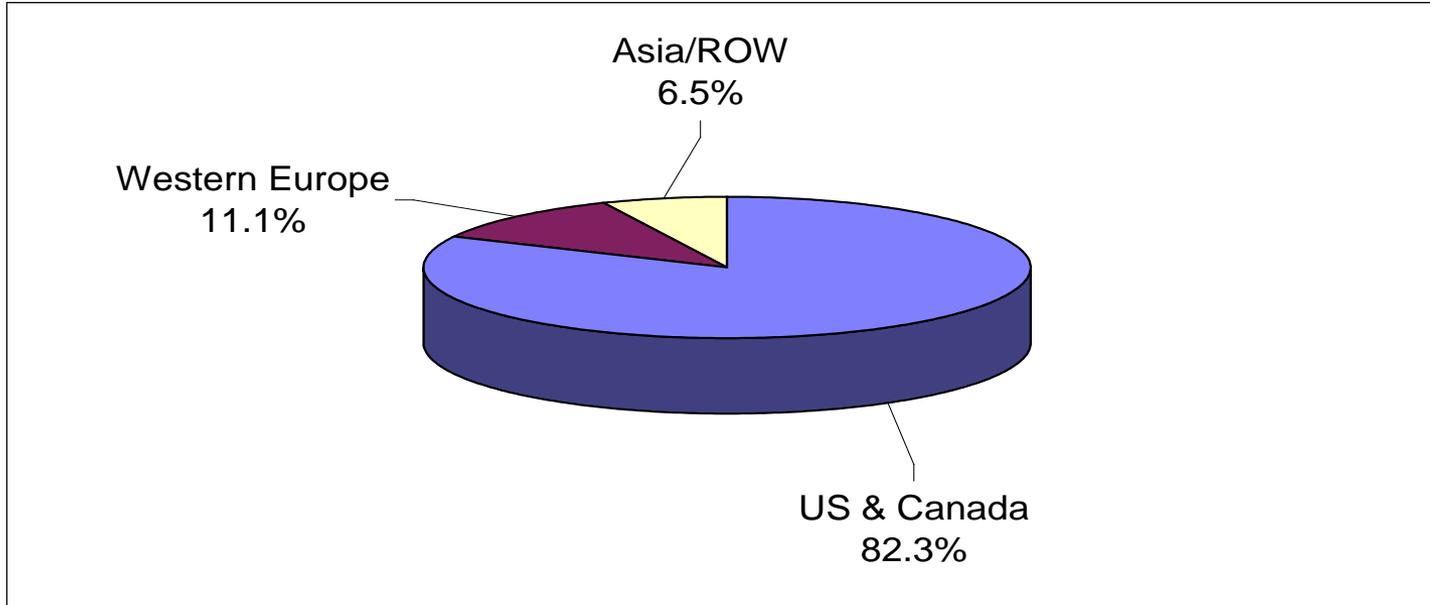
The portfolio is broadly diversified by industry with the energy, finance and medical/health sectors being the highest industry concentrations representing 34.7% of total assets. With the exception of energy and the technology-related industries, the portfolio's underlying managers tend to be multi-sector investors. Therefore, composition of the portfolio by industry is and will continue to primarily be a function of a manager's industry expertise and success in sourcing deals rather than a function of Board staff's desire to over or underweight a specific industry.

Q2 2011 Geography – Total Exposure

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2011)



The portfolio's predominate geographic exposure is to developed North America, with 82.3% of the market value and uncalled capital domiciled in or targeted for the US and Canada. No significant divergence from this is expected in the near-term. Targeted international investments will continue to be made largely through fund of funds given existing constraints on internal resources.

Geography	Remaining Commitments ⁽¹⁾	Percentage	Market Value ⁽²⁾	Percentage	Total Exposure	Percentage
US & Canada	\$ 496,073,223	89.5%	\$ 721,718,047	78.1%	\$ 1,217,791,270	82.3%
Western Europe	\$ 32,380,371	5.8%	\$ 132,189,562	14.3%	\$ 164,569,932	11.1%
Asia/ROW	\$ 25,994,350	4.7%	\$ 70,768,123	7.7%	\$ 96,762,473	6.5%
Total	\$ 554,447,943	100.0%	\$ 924,675,734	100.0%	\$ 1,479,123,675	100.0%

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

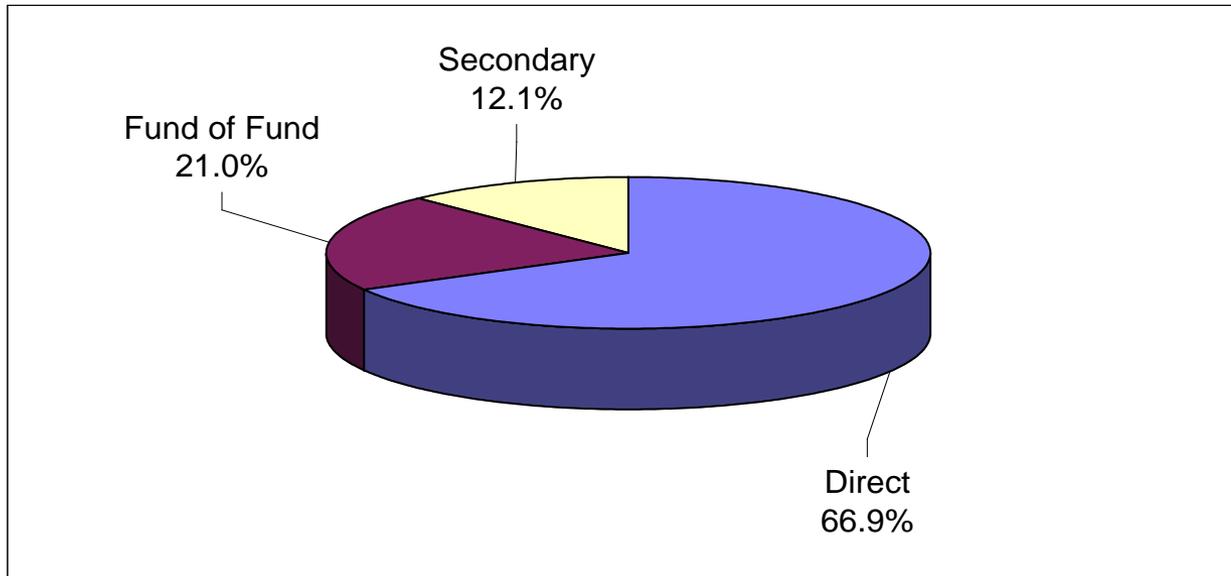
⁽²⁾ Market Value represents the aggregate market values of the underlying investment companies of the partnerships.

Q2 2011 Investment Vehicle – Total Exposure

Montana Private Equity Pool

Investment Vehicle Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2011)



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

Investment Vehicle	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Direct	\$ 392,843,096	70.9%	\$ 621,044,193	64.6%	\$ 1,013,887,290	66.9%
Fund of Fund	\$ 100,454,450	18.1%	\$ 218,086,408	22.7%	\$ 318,540,858	21.0%
Secondary	\$ 61,150,397	11.0%	\$ 122,000,415	12.7%	\$ 183,150,812	12.1%
Total	\$ 554,447,944	100.0%	\$ 961,131,016	100.0%	\$ 1,515,578,960	100.0%

Q2 2011 1 – 3 – 5 Year Periodic Return Comparison

Montana Board of Investments Periodic Return Comparison

For the Period Ended June 30, 2011

Description	Current					1 Year Return	3 Year Return	5 Year Return
	Count	Ending Market Value	Inv Multiple	IRR ¹	Contribution to IRR	IRR	IRR	IRR
Total	126	961,131,016.05	1.42	12.82	12.82	26.65	5.00	7.99
<i>Adams Street Funds</i>	34	191,292,709.00	1.49	12.91	3.11	27.60	3.29	8.02
ASP - Direct VC Funds	4	30,021,655.00	1.53	15.68	0.69	46.16	2.09	7.37
ASP - Secondary Funds	7	18,163,369.00	1.67	43.46	0.45	32.15	8.45	10.79
ASP - U.S. Partnership Funds	14	123,409,924.00	1.44	10.37	1.70	22.51	3.53	7.58
ASP Non-US Partnership Funds	9	19,697,761.00	1.56	12.27	0.27	29.52	(0.77)	9.91
<i>Buyout</i>	31	308,428,667.00	1.51	11.71	5.18	28.91	4.24	8.08
<i>Co-Investment</i>	2	39,242,350.00	1.23	8.34	0.21	35.35	3.81	N/A
<i>Distressed</i>	9	103,199,406.00	1.40	25.87	1.68	21.58	11.81	11.02
<i>Mezzanine</i>	3	16,998,788.00	1.27	7.73	0.12	(0.92)	0.22	4.50
<i>Non-US Private Equity</i>	6	44,217,658.16	1.37	12.87	0.56	35.44	0.31	3.69
<i>Secondary</i>	7	103,837,046.00	1.31	13.84	0.94	22.82	5.65	8.83
<i>Special Situations</i>	6	72,357,377.00	1.28	8.79	0.54	32.35	5.31	8.82
<i>Venture Capital</i>	28	81,557,014.89	1.27	17.08	0.49	22.28	8.10	4.59

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, and the internal rates of return and all other disclosures with respect to the Partnerships have not been prepared, reviewed or approved by the Partnerships, the General Partners, or any other affiliates.

As of 6/30/11, the portfolio's trailing 1-year IRR was 26.7%, up 600bps from last quarter. The since inception investment multiple and IRR results rose slightly relative to last quarter to 1.42x and 12.82%, respectively, from 1.41x and 12.72%. All strategy categories essentially performed in line relative to last quarter's performance with no significant outliers.

Q2 2011 LPs by Family of Funds

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2011

Description	Vintage Year	Since Inception									
		Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	IRR ¹	Investment Multiple	Total Exposure
Total		2,017,363,174	1,389,169,132	98,027,396	554,447,943	73.72	1,157,158,393	961,131,016	12.82	1.42	1,515,578,960
Active		2,004,470,174	1,376,785,761	96,616,365	554,447,944	73.51	1,119,654,979	961,131,016	12.19	1.41	1,515,578,960
Adams Street Partners		327,129,264	282,839,685	28,625,327	27,240,031	95.21	273,115,741	191,292,709	12.91	1.49	218,532,740
Adams Street Partners Fund - U.S.		94,000,000	75,749,296	5,713,704	12,537,000	86.66	35,489,093	71,778,047	7.53	1.32	84,315,047
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000	29,018,634	2,329,366	2,652,000	92.20	18,871,307	26,229,696	9.23	1.44	28,881,696
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000	16,472,500	1,207,500	2,320,000	88.40	7,845,707	15,802,754	7.94	1.34	18,122,754
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000	12,014,414	870,586	2,115,000	85.90	4,585,341	11,655,965	6.44	1.26	13,770,965
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000	18,243,748	1,306,252	5,450,000	78.20	4,186,738	18,089,632	3.94	1.14	23,539,632
Adams Street Partners Fund - Non-U.S.		16,000,000	13,261,881	947,119	1,791,000	88.81	6,671,768	13,998,569	11.19	1.45	15,789,569
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000	5,370,213	395,787	234,000	96.10	4,541,017	5,260,100	14.90	1.70	5,494,100
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000	4,196,982	293,518	509,500	89.81	1,637,555	4,346,950	8.75	1.33	4,856,450
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000	3,694,686	257,814	1,047,500	79.05	493,196	4,391,519	6.24	1.24	5,439,019
Brinson Partnership Trust - Non-U.S.		9,809,483	9,517,154	1,078,142	367,319	108.01	12,627,480	5,852,091	14.04	1.74	6,219,410
Brinson Non-U.S. Trust-1999 Primary Fund	1999	1,524,853	1,480,772	167,594	119,071	108.10	2,332,558	405,696	11.11	1.66	524,767
Brinson Non-U.S. Trust-2000 Primary Fund	2000	1,815,207	1,815,207	199,506	0	110.99	2,814,719	779,065	13.04	1.78	779,065
Brinson Non-U.S. Trust-2001 Primary Fund	2001	1,341,612	1,341,612	147,455	0	110.99	1,910,364	512,629	12.25	1.63	512,629
Brinson Non-U.S. Trust-2002 Primary Fund	2002	1,696,452	1,696,452	186,453	0	110.99	1,185,275	1,881,566	11.28	1.63	1,881,566
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308	601,542	70,045	35,766	105.38	1,387,203	152,899	26.71	2.29	188,665
Brinson Non-U.S. Trust-2003 Primary Fund	2003	1,896,438	1,725,867	208,434	170,571	102.00	2,411,566	1,360,176	22.08	1.95	1,530,747
Brinson Non-U.S. Trust-2004 Primary Fund	2004	897,613	855,702	98,654	41,911	106.32	585,795	760,060	10.20	1.41	801,971
Brinson Partnership Trust - U.S.		103,319,781	98,065,814	10,384,187	5,253,967	104.97	112,101,351	53,590,432	10.74	1.53	58,844,399
Brinson Partners - 1996 Fund	1996	3,950,740	3,708,316	459,016	242,424	105.48	6,824,237	285,075	14.94	1.71	527,499
Brinson Partners - 1997 Primary Fund	1997	3,554,935	3,554,935	414,165	0	111.65	14,267,325	276,396	71.47	3.66	276,396
Brinson Partners - 1998 Primary Fund	1998	7,161,019	7,122,251	834,192	38,768	111.11	10,241,853	884,601	6.72	1.40	923,369
Brinson Partners - 1998 Secondary Fund	1998	266,625	266,625	31,076	0	111.66	181,932	11,503	(7.41)	0.65	11,503
Brinson Partners - 1999 Primary Fund	1999	8,346,761	7,832,823	959,939	513,938	105.34	8,424,175	1,732,456	2.57	1.16	2,246,394
Brinson Partners - 2000 Primary Fund	2000	20,064,960	19,079,570	2,169,881	985,390	105.90	22,489,272	7,132,026	6.31	1.39	8,117,416
Brinson Partners - 2001 Primary Fund	2001	15,496,322	14,830,208	1,467,405	666,114	105.17	11,507,776	10,714,330	6.12	1.36	11,380,444
Brinson Partners - 2002 Primary Fund	2002	16,297,079	15,783,921	1,533,378	513,158	106.26	16,142,647	11,517,855	12.45	1.60	12,031,013
Brinson Partners - 2002 Secondary Fund	2002	2,608,820	2,498,592	239,597	110,228	104.96	3,464,234	1,272,559	13.74	1.73	1,382,787
Brinson Partners - 2003 Primary Fund	2003	15,589,100	14,472,981	1,435,646	1,116,119	102.05	12,721,591	10,489,715	10.43	1.46	11,605,834
Brinson Partners - 2003 Secondary Fund	2003	1,151,151	1,020,460	96,845	130,691	97.06	1,969,306	684,383	24.63	2.38	815,074
Brinson Partners - 2004 Primary Fund	2004	8,832,269	7,895,132	743,048	937,137	97.80	3,867,003	8,589,533	9.10	1.44	9,526,670

Q2 2011 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2011

Description	Vintage Year	Since Inception									
		Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	IRR ¹	Investment Multiple	Total Exposure
Remaining ASP Funds		104,000,000	86,245,540	10,502,175	7,290,745	93.03	106,226,049	46,073,570	21.41	1.57	53,364,315
Adams Street Global Oppty Secondary Fund	2004	25,000,000	18,361,597	988,403	5,650,000	77.40	12,160,961	15,965,764	12.82	1.45	21,615,764
Adams Street V, L.P.	2003	40,000,000	34,543,478	4,856,522	600,000	98.50	15,427,106	27,420,813	1.80	1.09	28,020,813
Adams Street VPAF Fund II	1990	4,000,000	3,621,830	378,170	0	100.00	7,879,041	9,890	25.25	1.97	9,890
Brinson Venture Capital Fund III, L.P.	1993	5,000,000	4,045,656	954,344	0	100.00	15,622,448	12,520	40.47	3.13	12,520
Brinson VPF III	1993	5,000,000	4,488,559	530,671	0	100.38	15,024,708	63,333	29.47	3.01	63,333
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	198,942	0	100.38	8,307,583	63,741	41.47	1.67	63,741
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,634,305	12,520	97.02	2.44	1,053,265
BVCF IV, L.P.	1999	15,000,000	12,761,397	2,238,603	0	100.00	22,169,897	2,524,989	6.72	1.65	2,524,989
Affinity Asia Capital		15,000,000	6,942,807	1,528,442	6,530,419	56.47	1,356,853	9,847,978	12.32	1.32	16,378,397
Affinity Asia Pacific Fund III, L.P.	2006	15,000,000	6,942,807	1,528,442	6,530,419	56.47	1,356,853	9,847,978	12.32	1.32	16,378,397
American Securities LLC		35,000,000	0	0	35,000,000	0.00	0	0	N/A	0.00	35,000,000
American Securities Partners VI, L.P.	2011	35,000,000	0	0	35,000,000	0.00	0	0	N/A	0.00	35,000,000
ArcLight Energy Partners		50,000,000	41,876,389	1,479,449	6,644,162	86.71	40,558,714	25,420,604	13.61	1.52	32,064,766
ArcLight Energy Partners Fund II, L.P.	2004	25,000,000	20,871,810	822,752	3,305,438	86.78	29,970,815	7,163,883	19.31	1.71	10,469,321
ArcLight Energy Partners Fund III, L.P.	2006	25,000,000	21,004,580	656,697	3,338,724	86.65	10,587,899	18,256,721	7.81	1.33	21,595,445
Austin Ventures		500,000	424,416	129,154	1	110.71	1,216,717	15,377	20.55	2.23	15,378
Austin Ventures III, L.P.	1991	500,000	424,416	129,154	1	110.71	1,216,717	15,377	20.55	2.23	15,378
Avenue Investments		35,000,000	33,123,011	2,086,886	0	100.60	42,597,268	4,605,875	12.22	1.34	4,605,875
Avenue Special Situations Fund V, LP	2007	35,000,000	33,123,011	2,086,886	0	100.60	42,597,268	4,605,875	12.22	1.34	4,605,875
Axiom Asia Private Capital		25,000,000	4,964,793	609,760	19,463,931	22.30	0	6,337,770	15.20	1.14	25,801,701
Axiom Asia Private Capital II, LP	2009	25,000,000	4,964,793	609,760	19,463,931	22.30	0	6,337,770	15.20	1.14	25,801,701
Black Diamond Capital Management		25,000,000	1,524,638	94,692	23,380,670	6.48	793	1,693,578	4.72	1.05	25,074,248
BDCM Opportunity Fund III, L.P.	2011	25,000,000	1,524,638	94,692	23,380,670	6.48	793	1,693,578	4.72	1.05	25,074,248
Carlyle Partners		60,000,000	50,283,839	4,212,043	5,603,120	90.83	24,602,734	55,201,432	10.78	1.46	60,804,552
Carlyle Partners IV, L.P.	2005	35,000,000	31,662,839	1,419,353	2,016,810	94.52	19,688,685	33,652,472	11.89	1.61	35,669,282
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000	18,621,000	2,792,690	3,586,310	85.65	4,914,049	21,548,960	7.70	1.24	25,135,270
CCMP Associates		30,000,000	17,968,680	1,810,141	10,221,179	65.93	2,481,377	25,882,336	15.00	1.43	36,103,515
CCMP Capital Investors II, L.P.	2006	30,000,000	17,968,680	1,810,141	10,221,179	65.93	2,481,377	25,882,336	15.00	1.43	36,103,515
Centerbridge		37,500,000	12,888,638	354,793	24,256,569	35.32	229,509	17,878,980	27.15	1.37	42,135,549
Centerbridge Capital Partners II, L.P.	2011	25,000,000	2,136,073	169,858	22,694,069	9.22	169	2,059,880	(12.96)	0.89	24,753,949
Centerbridge Special Credit Partners	2009	12,500,000	10,752,565	184,935	1,562,500	87.50	229,340	15,819,100	28.78	1.47	17,381,600
CIVC Partners		25,000,000	2,877,977	874,981	21,341,713	15.01	90,925	3,741,721	2.74	1.02	25,083,434
CIVC Partners Fund IV, L.P.	2010	25,000,000	2,877,977	874,981	21,341,713	15.01	90,925	3,741,721	2.74	1.02	25,083,434
Energy Investors Funds		25,000,000	0	0	25,000,000	0.00	0	0	N/A	0.00	25,000,000
EIF US Power Fund IV, L.P.	2011	25,000,000	0	0	25,000,000	0.00	0	0	N/A	0.00	25,000,000
First Reserve		55,485,789	36,462,475	1,534,581	17,510,670	68.48	7,561,649	32,718,000	2.28	1.06	50,228,670
First Reserve Fund XI, L.P.	2006	30,000,000	22,375,447	834,654	6,811,835	77.37	6,316,973	19,037,000	2.85	1.09	25,848,835
First Reserve Fund XII, L.P.	2008	25,485,789	14,087,028	699,927	10,698,835	58.02	1,244,677	13,681,000	0.55	1.01	24,379,835

Q2 2011 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2011

		Since Inception										
Description	Vintage Year	Capital Contributed for			Remaining Commitment	% Capital Committed	Capital Distributed	Ending		IRR ¹	Investment	
		Commitment	Investment	Management Fees				Market Value	Multiple		Total Exposure	
GTCR LLC		25,000,000	0	0	25,000,000	0.00	0	0	N/A	0.00	25,000,000	
GTCR X/A, L.P.	2011	25,000,000	0	0	25,000,000	0.00	0	0	N/A	0.00	25,000,000	
HarbourVest		61,823,772	27,033,021	743,860	34,060,417	44.93	1,194,328	34,314,804	15.73	1.28	68,375,221	
Dover Street VII L.P.	2008	20,000,000	11,563,958	349,567	8,100,000	59.57	976,345	15,222,327	24.06	1.36	23,322,327	
HarbourVest Direct 2007 Fund	2007	20,000,000	14,007,274	242,726	5,750,000	71.25	217,983	17,318,591	11.43	1.23	23,068,591	
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	1,461,789	151,567	20,210,417	7.39	0	1,773,886	7.12	1.10	21,984,303	
Hellman & Friedman		40,000,000	20,527,609	1,335,185	18,137,206	54.66	3,742,831	21,991,058	6.14	1.18	40,128,264	
Hellman & Friedman Capital Partners VI	2006	25,000,000	20,527,609	1,335,185	3,137,206	87.45	3,742,831	21,991,058	6.14	1.18	25,128,264	
Hellman & Friedman Capital Partners VII	2011	15,000,000	0	0	15,000,000	0.00	0	0	N/A	0.00	15,000,000	
Highway 12 Ventures		10,000,000	6,514,039	1,151,715	2,334,245	76.66	73,476	7,750,688	0.94	1.02	10,084,933	
Highway 12 Venture Fund II, L.P.	2006	10,000,000	6,514,039	1,151,715	2,334,245	76.66	73,476	7,750,688	0.94	1.02	10,084,933	
Industry Ventures		10,000,000	9,162,429	646,350	595,358	98.09	4,530,759	7,016,792	5.51	1.18	7,612,150	
Industry Ventures Fund IV, L.P.	2005	10,000,000	9,162,429	646,350	595,358	98.09	4,530,759	7,016,792	5.51	1.18	7,612,150	
JCF		25,000,000	23,767,225	766,534	477,037	98.14	796,934	6,678,310	(29.60)	0.30	7,155,347	
J.C. Flowers II, L.P.	2006	25,000,000	23,767,225	766,534	477,037	98.14	796,934	6,678,310	(29.60)	0.30	7,155,347	
Joseph Littlejohn & Levy		25,000,000	21,518,676	1,072,196	2,409,128	90.36	11,401,161	18,203,335	9.30	1.31	20,612,463	
JLL Partners Fund V, L.P.	2005	25,000,000	21,518,676	1,072,196	2,409,128	90.36	11,401,161	18,203,335	9.30	1.31	20,612,463	
KKR		175,000,000	175,000,000	9,498,724	0	105.43	344,841,576	13,863,061	12.42	1.94	13,863,061	
KKR 1987 Fund	1987	25,000,000	25,000,000	2,101,164	0	108.40	55,915,867	498,730	8.91	2.08	498,730	
KKR 1993 Fund	1993	25,000,000	25,000,000	1,002,236	0	104.01	48,789,535	193,866	17.79	1.88	193,866	
KKR 1996 Fund	1997	100,000,000	100,000,000	4,623,747	0	104.62	185,494,459	4,653,299	13.55	1.82	4,653,299	
KKR European Fund, L. P.	1999	25,000,000	25,000,000	1,771,577	0	107.09	54,641,715	8,517,166	20.34	2.36	8,517,166	
Lexington Capital Partners		155,000,000	112,352,172	5,386,355	37,336,019	75.96	82,341,263	73,755,669	13.94	1.33	111,091,688	
Lexington Capital Partners V, L.P.	2001	50,000,000	47,520,459	2,450,360	29,181	99.94	64,432,835	16,979,226	19.33	1.63	17,008,407	
Lexington Capital Partners VI-B, L.P.	2005	50,000,000	45,924,181	1,970,476	2,105,343	95.79	17,488,716	37,413,008	5.46	1.15	39,518,351	
Lexington Capital Partners VII, L.P.	2009	45,000,000	15,965,235	790,402	28,318,909	37.23	46,514	16,197,133	(6.89)	0.97	44,516,042	
Lexington Middle Market Investors II, LP	2008	10,000,000	2,942,297	175,117	6,882,586	31.17	373,198	3,166,302	11.57	1.14	10,048,888	
Madison Dearborn Capital Partners		75,000,000	51,117,012	2,246,915	21,659,917	71.15	33,918,759	41,610,762	10.37	1.42	63,270,679	
Madison Dearborn Capital Partners IV, LP	2001	25,000,000	23,692,136	595,557	736,151	97.15	29,707,269	13,940,628	15.01	1.80	14,676,779	
Madison Dearborn Capital Partners V, LP.	2006	25,000,000	21,433,966	840,002	2,726,032	89.10	2,985,001	21,120,296	2.20	1.08	23,846,328	
Madison Dearborn Capital Partners VI, LP	2008	25,000,000	5,990,911	811,355	18,197,734	27.21	1,226,489	6,549,838	6.85	1.14	24,747,572	
Matlin Patterson		30,000,000	26,759,047	1,758,939	1,482,014	95.06	6,395,544	17,384,238	(8.64)	0.83	18,866,252	
Matlin Patterson Global Opps. Ptnrs. III	2007	30,000,000	26,759,047	1,758,939	1,482,014	95.06	6,395,544	17,384,238	(8.64)	0.83	18,866,252	
MHR Institutional Partners		25,000,000	14,523,183	1,696,840	8,779,977	64.88	287,705	19,116,811	5.25	1.20	27,896,788	
MHR Institutional Partners III, L.P.	2006	25,000,000	14,523,183	1,696,840	8,779,977	64.88	287,705	19,116,811	5.25	1.20	27,896,788	
Montlake Capital		15,000,000	8,376,619	1,673,381	4,950,000	67.00	466,922	9,340,177	(1.02)	0.98	14,290,177	
Montlake Capital II, L.P.	2007	15,000,000	8,376,619	1,673,381	4,950,000	67.00	466,922	9,340,177	(1.02)	0.98	14,290,177	
Neuberger Berman Group, LLC		35,000,000	28,328,944	1,573,036	5,303,670	85.43	14,878,802	21,923,759	7.44	1.23	27,227,429	
NB Co-Investment Partners, L.P.	2006	35,000,000	28,328,944	1,573,036	5,303,670	85.43	14,878,802	21,923,759	7.44	1.23	27,227,429	
Northgate Capital Partners		30,000,000	4,500,000	0	25,500,000	15.00	0	4,500,000	0.00	1.00	30,000,000	
Northgate V, L.P. ²	2010	30,000,000	4,500,000	0	25,500,000	15.00	0	4,500,000	0.00	1.00	30,000,000	
Oak Hill Capital Partners		45,000,000	32,763,995	2,969,908	9,347,450	79.41	4,593,735	43,925,122	9.20	1.36	53,272,572	
Oak Hill Capital Partners II, L.P.	2005	25,000,000	21,916,923	1,778,153	1,304,924	94.78	4,549,620	32,350,635	11.41	1.56	33,655,559	
Oak Hill Capital Partners III, L.P.	2008	20,000,000	10,847,072	1,191,755	8,042,527	60.19	44,115	11,574,487	(1.65)	0.97	19,617,014	

Q2 2011 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2011

Description	Vintage Year	Since Inception									Investment Multiple	Total Exposure
		Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	IRR ¹			
Oaktree Capital Partners		120,000,000	110,165,953	3,834,047	6,000,000	95.00	135,818,746	44,579,804	42.90	1.58	50,579,804	
Oaktree Opportunities Fund VIII, L.P.	2009	10,000,000	7,253,578	246,422	2,500,000	75.00	89,318	8,205,761	12.59	1.11	10,705,761	
OCM Opportunities Fund IVb, L.P.	2002	75,000,000	73,086,225	1,913,775	0	100.00	121,554,428	2,969	44.89	1.62	2,969	
OCM Opportunities Fund VIIb, L.P.	2008	35,000,000	29,826,150	1,673,850	3,500,000	90.00	14,175,000	36,371,074	21.51	1.60	39,871,074	
Odyssey Partners Fund III		45,000,000	27,087,440	2,696,660	15,215,920	66.19	25,806,071	29,321,183	27.11	1.85	44,537,103	
Odyssey Investment Partners III, L.P.	2004	25,000,000	21,842,347	1,800,414	1,357,239	94.57	25,780,645	22,033,937	28.11	2.02	23,391,176	
Odyssey Investment Partners IV, L.P.	2008	20,000,000	5,245,093	896,246	13,858,682	30.71	25,426	7,287,246	12.03	1.19	21,145,928	
Opus Capital Venture Partners		10,000,000	508,048	125,000	9,366,952	6.33	0	502,299	(31.12)	0.79	9,869,251	
Opus Capital Venture Partners VI, LP	2011	10,000,000	508,048	125,000	9,366,952	6.33	0	502,299	(31.12)	0.79	9,869,251	
Performance Venture Capital		25,000,000	5,867,494	761,815	18,370,691	26.52	383	7,619,122	12.08	1.15	25,989,813	
Performance Venture Capital II	2008	25,000,000	5,867,494	761,815	18,370,691	26.52	383	7,619,122	12.08	1.15	25,989,813	
Portfolio Advisors		70,000,000	44,054,171	2,048,361	24,144,319	65.86	2,220,945	47,800,217	3.48	1.08	71,944,536	
Port. Advisors Fund IV (B), L.P.	2006	30,000,000	21,625,292	1,032,813	7,341,895	75.53	1,096,907	24,429,353	3.98	1.13	31,771,248	
Port. Advisors Fund IV (E), L.P.	2006	15,000,000	9,995,099	657,950	4,346,951	71.02	4,731	9,677,568	(4.07)	0.91	14,024,519	
Port. Advisors Fund V (B), L.P.	2008	10,000,000	5,572,239	240,625	4,303,883	58.13	310,587	5,851,038	3.63	1.06	10,154,921	
Portfolio Advisors Secondary Fund, L.P.	2008	15,000,000	6,861,541	116,973	8,151,590	46.52	808,720	7,842,258	26.91	1.24	15,993,848	
Quintana Energy Partners		15,000,000	11,919,088	1,492,876	1,608,407	89.41	1,089,421	14,218,773	4.11	1.14	15,827,180	
Quintana Energy Partners Fund I, L.P.	2006	15,000,000	11,919,088	1,492,876	1,608,407	89.41	1,089,421	14,218,773	4.11	1.14	15,827,180	
Siguler Guff & Company		25,000,000	17,582,331	805,875	6,744,081	73.55	1,569,725	19,289,986	5.82	1.13	26,034,067	
Siguler Guff Small Buyout Opportunities	2007	25,000,000	17,582,331	805,875	6,744,081	73.55	1,569,725	19,289,986	5.82	1.13	26,034,067	
TA Associates, Inc.		10,000,000	1,769,689	80,311	8,150,000	18.50	0	2,001,816	16.15	1.08	10,151,816	
TA XI, L.P.	2010	10,000,000	1,769,689	80,311	8,150,000	18.50	0	2,001,816	16.15	1.08	10,151,816	
Terra Firma Capital Partners		25,432,997	17,866,038	2,396,364	5,187,647	79.67	587,167	8,063,290	(28.43)	0.43	13,250,937	
Terra Firma Capital Partners III, L.P.	2007	25,432,997	17,866,038	2,396,364	5,187,647	79.67	587,167	8,063,290	(28.43)	0.43	13,250,937	
Thayer Hidden Creek Management, L.P.		20,000,000	6,488,168	1,018,173	12,820,357	37.53	191,977	10,918,411	51.59	1.48	23,738,768	
HCI Equity Partners III, LP	2008	20,000,000	6,488,168	1,018,173	12,820,357	37.53	191,977	10,918,411	51.59	1.48	23,738,768	
Trilantic Capital Partners		11,098,351	5,860,950	848,334	4,391,693	60.45	2,960,158	6,123,150	14.82	1.35	10,514,843	
Trilantic Capital Partners IV L.P.	2007	11,098,351	5,860,950	848,334	4,391,693	60.45	2,960,158	6,123,150	14.82	1.35	10,514,843	
Veritas Capital		25,000,000	8,117,027	0	16,882,973	32.47	0	7,673,747	(6.18)	0.95	24,556,720	
The Veritas Capital Fund IV, L.P.	2010	25,000,000	8,117,027	0	16,882,973	32.47	0	7,673,747	(6.18)	0.95	24,556,720	
Welsh, Carson, Anderson & Stowe		75,500,000	65,078,045	4,648,361	6,000,000	92.35	46,134,312	47,008,271	8.09	1.34	53,008,271	
Welsh, Carson, Anderson & Stowe II	1990	500,000	455,663	88,404	0	108.81	694,053	112,730	8.68	1.48	112,730	
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	19,791,059	1,208,941	4,000,000	84.00	8,678,876	16,886,058	5.46	1.22	20,886,058	
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000	21,994,888	2,005,112	1,000,000	96.00	32,939,188	7,202,319	12.48	1.67	8,202,319	
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	22,836,435	1,345,904	1,000,000	96.73	3,822,195	22,807,164	2.64	1.10	23,807,164	

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, and the internal rates of return and all other disclosures with respect to the Partnerships have not been prepared, reviewed or approved by the Partnerships, the General Partners, or any other affiliates.

² Represents a Cash Adjusted Market Value.

As indicated previously, the portfolio experienced a modest improvement in net IRR and investment multiple versus the prior quarter. The improvement in performance was broad in nature. Noteworthy improvements for the recent quarter were evident in Affinity Asia Pacific Fund III having jumped from a 7.5% IRR and 1.19x MOIC last quarter to a 12.3% IRR and 1.32x MOIC this quarter, CCMP Capital Investors II jumping from a 5.3% IRR and 1.13x MOIC to a 15.0% IRR and 1.43x MOIC, Performance Venture Capital II jumping from a 4.7% IRR and 1.05x MOIC to 12.1% IRR and 1.15x MOIC and Trilantic Capital Partners IV increasing from an 8.8% IRR and 1.18x MOIC to a 14.8% IRR and 1.35x MOIC. TA Associates continues to impress, having only briefly experienced the J-curve and continuing to report sequentially improved numbers with a net IRR of 16.15% and an investment multiple of 1.08 as of quarter end.

IRR Benchmark Comparison (Since 1980)
As of June 30, 2011

By Investment Focus

Description	PIC	Montana	DPI	Montana	RVPI	Montana	TVPI	Montana	IRR	Montana
Buyout	0.76	0.72	0.72	0.77	0.74	0.66	1.45	1.44	13.48	11.77
Venture Capital	0.82	0.67	0.71	0.65	0.59	0.72	1.31	1.37	10.39	16.53
Other	0.78	0.84	0.64	0.86	0.75	0.52	1.39	1.39	12.25	23.03
Pooled IRR	0.77	0.74	0.71	0.78	0.71	0.65	1.42	1.42	12.85	12.82

By Origin

Description	PIC	Montana	DPI	Montana	RVPI	Montana	TVPI	Montana	IRR	Montana
US	0.77	0.74	0.74	0.79	0.69	0.65	1.43	1.44	12.77	13.12
Non-US	0.76	0.69	0.61	0.63	0.78	0.58	1.39	1.20	13.21	7.16
Pooled IRR	0.77	0.74	0.71	0.78	0.71	0.65	1.42	1.42	12.85	12.82

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	2.46	2.41	18.54	27.63
1991	1.03	1.07	2.83	2.29	0.00	0.01	2.83	2.30	27.07	24.24
1992	0.99	N/A	2.28	N/A	0.00	N/A	2.28	N/A	23.49	N/A
1993	0.99	1.03	2.29	2.22	0.01	0.01	2.30	2.23	25.08	23.25
1994	0.96	N/A	2.50	N/A	0.00	N/A	2.50	N/A	26.10	N/A
1995	0.92	N/A	1.96	N/A	0.02	N/A	1.98	N/A	21.66	N/A
1996	0.98	1.05	1.67	1.64	0.03	0.07	1.71	1.71	13.06	14.94
1997	0.99	1.05	1.52	1.84	0.10	0.05	1.62	1.88	10.91	15.22
1998	0.98	1.11	1.32	1.26	0.07	0.11	1.38	1.37	6.89	6.28
1999	0.96	1.02	1.11	1.72	0.19	0.22	1.30	1.94	5.82	15.02
2000	0.96	1.01	1.33	1.23	0.28	0.32	1.61	1.55	11.21	9.45
2001	0.98	1.00	1.35	1.17	0.39	0.46	1.74	1.63	16.50	14.57
2002	0.97	0.99	1.31	1.24	0.44	0.34	1.75	1.58	20.90	26.75
2003	0.99	0.97	1.16	0.53	0.71	0.73	1.86	1.26	21.43	5.73
2004	0.97	0.87	0.88	0.77	0.75	0.78	1.63	1.55	15.64	14.44
2005	0.93	0.92	0.49	0.36	0.94	0.94	1.43	1.30	10.89	7.95
2006	0.86	0.80	0.19	0.19	0.94	0.92	1.13	1.11	3.89	3.39
2007	0.72	0.83	0.18	0.41	1.01	0.62	1.20	1.03	7.27	1.14
2008	0.51	0.46	0.14	0.17	1.07	1.11	1.22	1.28	11.10	14.83
2009	0.44	0.44	0.14	0.01	1.09	1.14	1.23	1.15	20.03	17.20
2010	0.31	0.20	0.05	0.00	0.99	0.98	1.04	0.99	5.75	-2.30
2011 Q2	0.11	0.03	0.00	0.00	0.99	0.93	0.99	0.93	-1.84	-12.55
Pooled IRR	0.77	0.74	0.71	0.78	0.71	0.65	1.42	1.42	12.85	12.82

Based on data compiled from 1,961 Private Equity funds, including fully liquidated partnerships, formed between 1980 to 2011.

IRR: Pooled Average IRR is net of fees, expenses and carried interest.

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: Clifford A. Sheets, Chief Investment Officer
Date: November 15, 2011
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 for the quarter ended June 30.
- (ii) **New Commitments:**
There were no new commitments to closed-end funds since the last Board meeting.

Montana Board of Investments

Real Estate Board Report

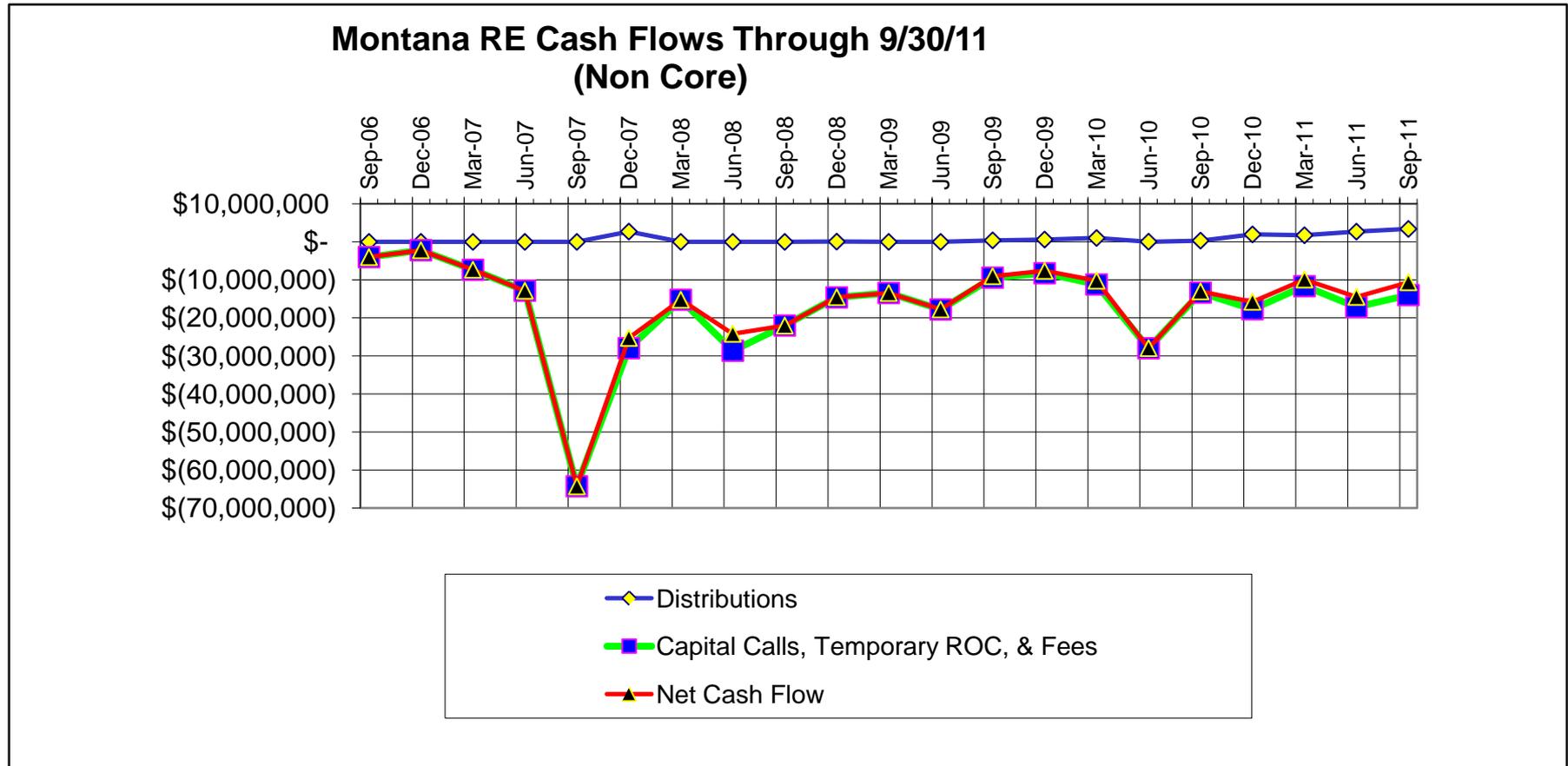
Q2 2011

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 may not accurately reflect current or expected future returns, and the internal rates of return and all other disclosures with respect to the Partnerships have not been prepared, reviewed or approved by the Partnerships, the General Partners, or any other affiliates.

Contents

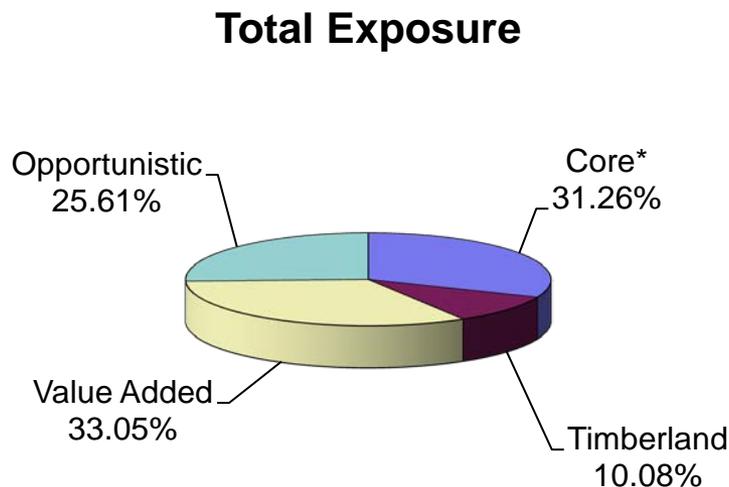
- **Quarterly Cash Flow Chart**
- **Strategy – Total Exposure Chart**
- **Property Type – Market Value Exposure Chart**
- **Geography – Total Exposure Chart**
- **Time Weighted Returns & Internal Rates of Return**
- **Portfolio Status Report**

Quarterly Cash Flows through September 30, 2011



Capital calls slowed relative to the 2nd quarter. The pace of distributions continues to be minimal given market conditions, but remain on an upward trajectory.

Q2 2011 Strategy – Total Exposure

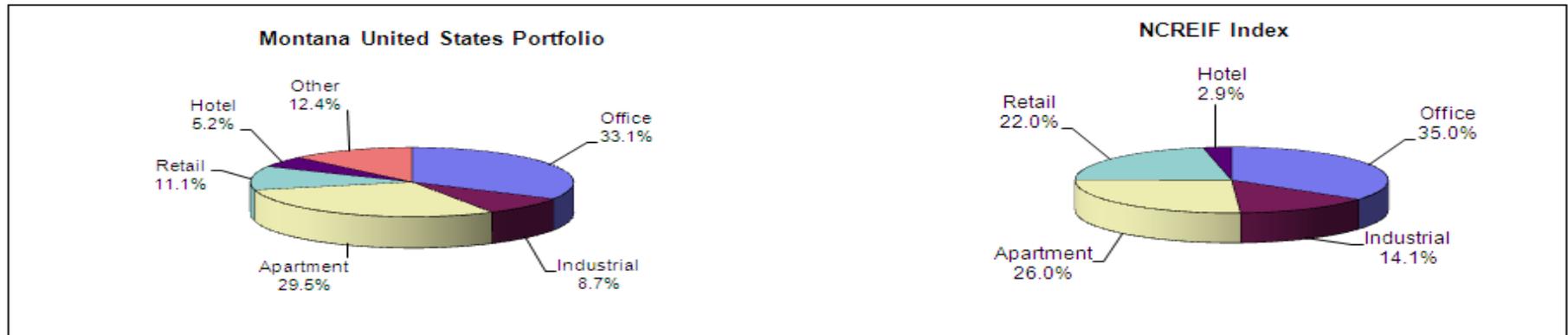


Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core*	\$0	0.00%	\$233,990,348	44.51%	\$233,990,348	31.26%
Timberland	\$54,927,447	24.66%	\$20,487,342	3.90%	\$75,414,789	10.08%
Value Added	\$87,612,144	39.33%	\$159,749,252	30.39%	\$247,361,395	33.05%
Opportunistic	\$80,205,798	36.01%	\$111,485,500	21.21%	\$191,691,298	25.61%
Total	\$222,745,389	100.00%	\$525,712,442	100.00%	\$748,457,830	100.00%

Timberland is a recent addition to the real estate portfolio and represents approximately 4% of to the total portfolio's NAV and 10% of the aggregate exposure which includes unfunded commitments. Core real estate dominates assets in ground at 44.5% and now includes the directly owned Montana office buildings. Value Add and Opportunistic account for 30.4% and 21.2% respectively.

* Includes MT Office Portfolio

Q2 2011 Property Type – Market Value Exposure



	Office	Industrial	Apartment	Retail	Hotel	Other ²	Total
Montana US Value ²	\$258.2	\$67.7	\$230.3	\$86.6	\$40.2	\$97.0	\$780.2
Montana US Total	33.1%	8.7%	29.5%	11.1%	5.2%	12.4%	100.0%
NCREIF Value ^{2,4}	91,959	36,984	68,341	57,673	7,700		262,658
NCREIF ¹	35.0%	14.1%	26.0%	22.0%	2.9%		100.0%
Difference	-1.9%	-5.4%	3.5%	-10.9%	2.2%	12.4%	
Montana Non-US Value ²	\$50.1	\$0.0	\$11.4	\$8.3	\$13.5	\$71.8	\$155.1
Montana Non-US Total	32.3%	0.0%	7.3%	5.3%	8.7%	46.3%	100.0%
Montana Total Value ²	\$308.3	\$67.7	\$241.7	\$94.9	\$53.7	\$168.8	\$935.2
Montana Total ¹	33.0%	7.2%	25.8%	10.1%	5.7%	18.1%	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) Total Other includes \$80,352,644 in mixed-use assets, \$9,644,301 in healthcare/senior living, \$11,888,252 in land, \$1,021,850 in storage, \$7,138,722 in debt assets, \$177,531 in parking, \$433,599 in manufactured assets, and \$19,658,678 in timber.

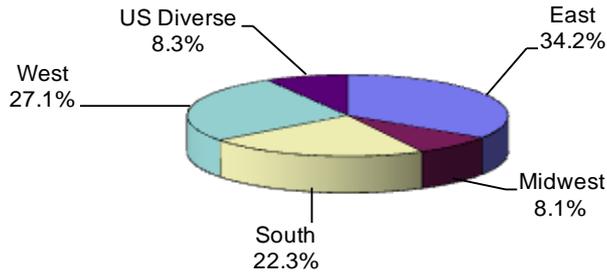
3) Values shown are in Millions.

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.

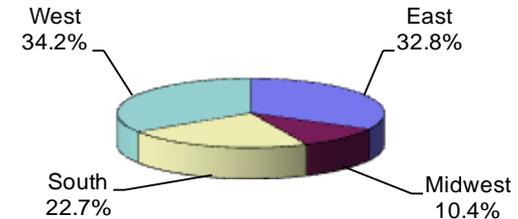
The real estate portfolio is well diversified across the major property types and is underweight relative to NCREIF in Office, Retail and Industrial and overweight in Apartments and Hotels. Other is representative of the portfolio's exposure to Timberland, Mixed-Use properties, Land, Manufactured Housing, Senior Living and Healthcare related properties. As has been noted in the past, composition of the portfolio by property type is and will continue to primarily be a function of a manager's expertise and success in sourcing deals rather than a function of Board staff's desire to over or underweight a specific property type.

Q2 2011 Geography – Total Exposure

Montana United States Portfolio



NCREIF Index



	East	Midwest	South	West	US Diverse	Non-US	Total
Montana US Value ²	\$267.2	\$62.9	\$173.7	\$211.3	\$65.1		\$780.2
Montana US Total ¹	34.2%	8.1%	22.3%	27.1%	8.3%		100.0%
NCREIF Value ^{2, 3}	86,081	27,248	59,572	89,757			262,658
NCREIF ¹	32.8%	10.4%	22.7%	34.2%			100.0%
Difference	1.5%	-2.3%	-0.4%	-7.1%	8.3%		
Montana Total Value ²	\$267.2	\$62.9	\$173.7	\$211.3	\$65.1	\$155.1	\$935.2
Montana Total ¹	28.6%	6.7%	18.6%	22.6%	7.0%	16.6%	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 geographical mix of the real estate portfolio is fairly aligned with NCREIF, although exposure in the West is 7% less than the benchmark. 8.3% of the portfolio is broadly diversified across the remainder of the US and the portfolio's international exposure represents 16.6% of the mix.

Q2 2011 Time Weighted & Internal Rates of Return

Time Weighted Returns											
	Current Quarter			Year to Date		1 - Year		3 - Year		Inception	
	NAV	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross
Clarion Lion Properties Fund	28,730,817	3.93%	4.18%	10.16%	10.68%	25.39%	26.57%	-12.76%	-11.77%	-4.77%	-3.74%
INVESCO Core Real Estate-USA	35,048,651	6.68%	6.91%	10.53%	11.00%	23.65%	24.72%	-7.45%	-6.59%	-4.92%	-4.04%
JP Morgan Strategic Properties Fund	95,147,961	5.07%	5.32%	8.49%	9.02%	17.78%	18.94%	-6.98%	-6.02%	-3.08%	-2.09%
UBS-Trumbull Property Fund	57,347,659	3.48%	3.73%	6.75%	7.30%	16.11%	17.01%	-	-	17.09%	18.01%
Core Total	216,275,087	4.75%	4.99%	8.57%	9.09%	19.22%	20.30%	-9.12%	-8.20%	-2.28%	-1.30%
Montana Office Portfolio*	17,715,261	-	-	-	-	-	-	-	-	2.47%	2.47%
Timberland Total**	20,487,342	2.47%	2.47%	-	-	-	-	-	-	2.47%	2.47%
Value Added Total	159,749,252	3.40%	3.82%	4.27%	5.16%	8.42%	10.48%	-4.93%	-2.64%	-1.46%	2.04%
Opportunistic Total	111,485,500	6.31%	6.79%	16.95%	18.21%	37.47%	41.13%	-26.31%	-22.76%	-22.74%	-18.73%
Total Portfolio	525,712,442	4.57%	4.91%	8.91%	9.69%	19.06%	20.93%	-11.06%	-9.13%	-3.80%	-1.38%
Benchmark (gross)											
NCREIF	262,658,243,772		3.94%		7.43%		16.73%		-2.56%		8.99%
NFI-ODCE	70,438,000,000		4.62%		8.82%		20.50%		-7.70%		8.20%
Internal Rates of Return (Net of Fees)											
Montana Office Portfolio	17,715,261	0.23%		0.23%		-	-	-	-	0.23%	
Molpus Woodlands Fund III, LP	695,622	-0.63%		-0.63%		-	-	-	-	-0.63%	
RMS Forest Growth III LP	19,791,720	2.47%		2.11%		-	-	-	-	2.11%	
Timberland	20,487,342	2.42%		2.07%		-	-	-	-	2.07%	
ABR Chesapeake Fund III	17,751,007	0.44%		-0.46%		2.51%	-	-1.65%	-	-0.35%	
ABR Chesapeake Fund IV	1,700,000	-		-		-	-	-	-	0.00%	
AG Core Plus Realty Fund II	15,382,885	4.03%		5.86%		20.46%	-	4.62%	-	4.06%	
AG Core Plus Realty Fund III	5,356,157	-2.62%		-2.62%		-	-	-	-	-2.62%	
Apollo Real Estate Finance Corp.	7,351,738	-1.12%		-0.94%		-2.07%	-	-6.24%	-	-4.70%	
AREFIN Co-Invest	7,297,284	1.65%		3.56%		5.79%	-	-3.49%	-	-3.37%	
DRA Growth & Income Fund VI	17,233,003	2.14%		5.04%		8.98%	-	-1.86%	-	-1.03%	
Five Arrows Securities V, L.P.	13,165,550	2.46%		4.86%		5.66%	-	4.85%	-	4.47%	
Hudson RE Fund IV Co-Invest	9,861,337	3.96%		4.84%		5.17%	-	0.57%	-	0.42%	
Hudson Realty Capital Fund IV	10,503,880	7.00%		7.32%		3.08%	-	-11.04%	-	-8.26%	
Landmark Real Estate Partners VI	6,612,717	52.48%		52.48%		-	-	-	-	52.48%	
Realty Associates Fund IX	18,309,454	5.29%		7.66%		16.51%	-	-	-	12.75%	
Realty Associates Fund VIII	13,417,056	1.14%		2.71%		4.02%	-	-11.97%	-	-8.83%	
Strategic Partners Value Enhancement Fund	15,807,184	9.30%		8.88%		21.21%	-	-7.06%	-	-4.28%	
Value Added	159,749,252	4.62%		5.85%		10.13%		-3.16%		-1.87%	
AG Realty Fund VII L.P.	12,925,795	7.72%		6.99%		14.83%	-	11.76%	-	8.58%	
AG Realty Fund VIII L.P.	5,799,079	-5.00%		-5.00%		-	-	-	-	-5.00%	
Beacon Capital Strategic Partners V	9,554,916	8.17%		23.40%		34.86%	-	-22.40%	-	-19.63%	
Carlyle Europe Real Estate Partners III	16,283,850	4.29%		13.04%		40.42%	-	-4.03%	-	-6.21%	
CIM Fund III, L.P.	16,511,401	0.55%		26.36%		30.02%	-	3.70%	-	-1.25%	
GEM Realty Fund IV	3,198,878	-4.24%		1.05%		28.94%	-	-	-	15.77%	
JER Real Estate Partners - Fund IV	3,444,453	2.50%		31.78%		50.59%	-	-6.90%	-	-6.64%	
Liquid Realty IV	13,130,657	2.73%		16.72%		21.52%	-	-7.49%	-	-7.17%	
MGP Asia Fund III, LP	18,771,192	20.90%		25.54%		120.53%	-	2.97%	-	2.30%	
MSREF VI International	6,094,920	4.95%		5.95%		33.42%	-	-41.87%	-	-41.98%	
O'Connor North American Property Partners II	5,770,359	-0.63%		0.99%		3.67%	-	-27.98%	-	-28.20%	
Opportunistic	111,485,500	5.90%		16.77%		37.99%		-11.75%		-12.23%	
Total	\$309,437,355	4.76%		9.98%		19.53%		-5.80%		-2.79%	

* First Quarter for all investments in this portfolio is Q2 2011. Q2 2011 is a partial period and Time-Weighted Returns commence in Q3 2011.

** RMS Growth III was not able to calculate a Gross TVR due to GP not providing appropriate information. This will be resolved in Q3.

The real estate portfolio exhibited another strong quarter of performance as general real estate market conditions continued to show signs of improvement. Core continues its upward momentum having outperformed the prior quarter by 110bps, though returns are expected to moderate as pricing is approaching peak levels seen in 2007. Value-Add significantly outperformed the prior quarter by almost 400bps. Opportunistic returns lagged the previous quarter by a similar margin.

Q2 2011 Commitment Summary

	Vintage Year	Commitment	Since Inception				
			Capital Contributed ¹	Remaining Commitment	Capital Distributed	Net Asset Value	NAV %
Core		235,000,000	235,000,000	-	15,336,789	216,275,087	41.14%
Clarion Lion Properties Fund	2006	45,000,000	45,000,000	-	7,596,550	28,730,817	5.47%
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	-	3,931,273	35,048,651	6.67%
JP Morgan Strategic Property Fund	2007	95,000,000	95,000,000	-	1,759,599	95,147,961	18.10%
UBS-Trumbull Property Fund	2010	50,000,000	50,000,000	-	2,049,366	57,347,659	10.91%
Montana Office Portfolio	2011	-	17,674,045	-	-	17,715,261	3.37%
Timberland		75,000,000	20,072,553	54,927,447	-	20,487,342	3.90%
Molpus Woodlands Fund III, LP ²	2011	50,000,000	700,000	49,300,000	-	695,622	0.13%
RMS Forest Growth III LP	2011	25,000,000	19,372,553	5,627,447	-	19,791,720	3.76%
Value Added		271,200,000	183,587,856	87,612,144	17,589,962	159,749,252	30.39%
ABR Chesapeake Fund III	2006	20,000,000	20,000,000	-	2,020,058	17,751,007	3.38%
ABR Chesapeake Fund IV	2010	17,000,000	1,700,000	15,300,000	0	1,700,000	0.32%
AG Core Plus Realty Fund II	2007	20,000,000	16,742,334	3,257,666	2,799,260	15,382,885	2.93%
AG Core Plus Realty Fund III ²	2011	25,000,000	5,500,000	19,500,000	-	5,356,157	1.02%
Apollo Real Estate Finance Corp.	2007	10,000,000	10,000,000	-	1,580,659	7,351,738	1.40%
AREFIN Co-Invest	2008	10,000,000	10,000,000	-	2,301,574	7,297,284	1.39%
DRA Growth & Income Fund VI	2007	35,000,000	20,496,000	14,504,000	4,341,697	17,233,003	3.28%
Five Arrows Securities V, L.P.	2007	30,000,000	13,381,857	16,618,143	1,494,849	13,165,550	2.50%
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	-	267,054	9,861,337	1.88%
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	-	447,674	10,503,880	2.00%
Landmark Real Estate Partners VI	█ 2011	20,000,000	4,567,665	15,432,335	0	6,612,717	1.26%
Realty Associates Fund IX	█ 2008	20,000,000	17,000,000	3,000,000	352,103	18,309,454	3.48%
Realty Associates Fund VIII	█ 2007	20,000,000	20,000,000	-	1,198,629	13,417,056	2.55%
Strategic Partners Value Enhancement Fund	█ 2007	19,200,000	19,200,000	-	786,405	15,807,184	3.01%
Opportunistic		248,008,422	170,302,624	80,205,798	19,157,115	111,485,500	21.21%
AG Realty Fund VII L.P.	█ 2007	20,000,000	14,654,000	5,346,000	3,923,418	12,925,795	2.46%
AG Realty Fund VIII L.P. ²	█ 2011	20,000,000	6,000,000	14,000,000	-	5,799,079	1.10%
Beacon Capital Strategic Partners V	█ 2007	25,000,000	19,250,000	5,750,000	318,752	9,554,916	1.82%
Carlyle Europe Real Estate Partners III ³	█ 2007	30,994,690	18,616,785	12,377,905	21,556	16,283,850	3.10%
CIM Fund III, L.P.	█ 2007	25,000,000	15,206,712	9,793,288	159,240	16,511,401	3.14%
GEM Realty Fund IV	█ 2009	15,000,000	3,300,000	11,700,000	443,992	3,198,878	0.61%
JER Real Estate Partners - Fund IV	█ 2007	20,000,000	16,853,466	3,146,534	9,757,652	3,444,453	0.66%
Liquid Realty IV	█ 2007	22,013,732	18,971,804	3,041,928	3,796,588	13,130,657	2.50%
MGP Asia Fund III, LP	█ 2007	30,000,000	17,735,305	12,264,695	35,146	18,771,192	3.57%
MSREF VI International ⁴	█ 2007	25,000,000	27,500,000	-	17,313	6,094,920	1.16%
O'Connor North American Property Partners II	█ 2008	15,000,000	12,214,552	2,785,448	683,457	5,770,359	1.10%
Montana Real Estate		829,208,422	626,637,079	222,745,389	52,083,865.13	525,712,442	

One new real estate manager has been added, Landmark Real Estate Partners IV, a specialist in the acquisition of real estate secondaries.

MONTANA DOMESTIC EQUITY POOL

Rande Muffick, CFA, Portfolio Manager

November 15, 2011

9/30/2011 Domestic Stock Pool By Manager			
<u>Manager Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved Range</u>
BLACKROCK EQUITY INDEX FUND	547,833,559	22.68%	
STATE STREET SPIF ALT INV	18,513,178	0.77%	
LARGE CAP CORE Total	566,346,737	23.45%	10-30%
ENHANCED INVEST TECHNOLOGIES	158,960,332	6.58%	
T ROWE PRICE ASSOCIATES INC	253,730,597	10.51%	
WESTERN ASSET US INDX PLUS LLC	136,058,668	5.63%	
LARGE CAP ENHANCED Total	548,749,597	22.72%	20-30%
BARROW HANLEY MEWHINNEY + STRS	166,842,404	6.91%	
QUANTITATIVE MANAGEMENT ASSOC	106,804,515	4.42%	
LARGE CAP VALUE Total	273,646,919	11.33%	
COLUMBUS CIRCLE INVESTORS	126,486,099	5.24%	
RAINIER INVESTMENT MGMNT INC	125,154,891	5.18%	
LARGE CAP GROWTH Total	251,640,990	10.42%	
LARGE CAP STYLE BASED Total	525,287,909	21.75%	20-30%
ANALYTIC INVESTORS MU3B	102,648,315	4.25%	
JP MORGAN ASSET MGMT MU3E	279,084,820	11.55%	
130-30 Total	381,733,135	15.80%	10-20%
COMBINED LARGE CAP Total	2,022,117,379	83.72%	82-92%
ARTISAN MID CAP VALUE	92,740,112	3.84%	
BLACKROCK MIDCAP EQUITY IND FD	83,928,392	3.47%	
TIMESQUARE CAPITAL MGMT	87,538,406	3.62%	
MID CAP Total	264,206,911	10.94%	5-11%
DIMENSIONAL FUND ADVISORS INC	56,742,523	2.35%	
ISHARES S+P SMALLCAP 600 INDEX	13,004,550	0.54%	
VAUGHAN NELSON INV	59,214,129	2.45%	
SMALL CAP Total	128,961,202	5.34%	3-8%
MDEP Total	\$ 2,415,285,492	100.00%	

The table above displays the Montana Domestic Equity Pool (MDEP) allocation as of the end of September 2011. At this time, all weightings are within the approved ranges. There were no significant changes to manager allocations during the quarter.

Fear returned to the equity markets in the third quarter. Weaker economic data, stubbornly high unemployment, and the heating up of the European sovereign debt saga drove investors out of risk assets once again. The loss of the U.S. debt AAA rating and the lack of cohesive action in Washington didn't help matters either. The S&P 500 Index dropped -13.9% for the quarter, wiping out the calendar year's previously hard earned gain. Financials and cyclical stocks performed the worst of the stock sectors within the index. Only utilities had a positive return for the quarter as their defensive nature was appreciated by investors to some extent.

COMPARATIVE RETURNS

Range **6/30/11** - **9/30/11** Period **D** Daily 92 Day Period

Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	-14.33 %	-13.87 %	6.01 %	-44.69 %
2 MID Index	USD	-20.17 %	-19.88 %		-58.50 %
3 SML Index	USD	-20.08 %	-19.83 %	.05 %	-58.39 %

(* = No dividends or coupons)



Performance among market capitalizations showed the effects of a flight to quality by investors as large caps soundly outperformed mid caps and small caps. The large capitalization stocks returned -13.9% while mid caps returned -19.9% and small caps -19.8%. MDEP continued to be most overweight in mid caps with a moderate overweight in small caps relative to the overall pool benchmark, the S&P 1500. This positioning detracted from the relative performance of the pool.

COMPARATIVE RETURNS

Range **6/30/11** - **9/30/11** Period **D** Daily 92 Day Period

Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	-14.33 %	-13.87 %	-2.31 %	-44.69 %
2 SGX Index	USD	-11.96 %	-11.56 %		-38.58 %
3 SVX Index	USD	-16.82 %	-16.30 %	-4.74 %	-50.64 %

(* = No dividends or coupons)



Growth stocks significantly outperformed value stocks, largely because financial stocks sold off the most of any of the stock groups as worries about the global banking system surfaced again. Within the large caps, growth stocks returned -11.6% while value stocks returned -16.3%. However, when looking at the mid cap and small cap areas, growth stocks and value stocks were actually down similar amounts as investors were indiscriminant in their selling. MDEP carries slightly more value than growth within the pool so this positioning detracted slightly from relative performance for the quarter.



The VIX vaulted to near 50 during the quarter reflecting investor fears. Interestingly, the indicator exhibited similar action and levels to the second quarter of 2010 when economic growth concerns were heightened at that time. Compared to the peak of the financial crisis in 2008, the VIX is still rather well behaved.

Active management was a disappointment in the quarter as the majority of style-based managers did not meet their respective benchmarks. Enhanced, large cap growth, large cap value, and partial long/short buckets underperformed while mid cap and small cap buckets outperformed. Overall, MDEP underperformed its benchmark by 82 basis points in the third quarter.

Going forward the strategy at the pool level is to continue the overweights in mid caps and small caps. Secondly, passive/active weights within the pool are expected to remain about the same. And finally, further diversification of actively managed portfolios within the mid cap and small cap allocations is likely.

DOMESTIC EXPOSURE-MARKET CAP %

September 30, 2011

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	11.3	22.6	8.6	18.3	17.1	25.3	-5.7	--	84.2
Artisan Partners	--	--	--	--	25.9	65.8	8.2	--	6.7
Barrow Hanley	3.2	15.4	9.1	19.2	20.6	28.7	3.9	--	45.0
Columbus Circle Investors	6.1	7.6	14.5	39.6	19.7	12.5	0.0	--	60.2
Dimensional Fund Advisors	--	--	--	--	--	1.1	69.3	29.6	0.9
INTECH Investment Management	9.6	16.6	6.1	20.4	19.9	26.7	0.7	--	70.3
J.P. Morgan	10.8	21.3	17.9	28.0	16.8	3.2	-0.7	0.3	91.1
Quantitative Management	2.5	27.1	9.4	22.2	17.1	19.2	2.5	--	64.2
Rainier Investment Mgt	6.8	8.3	10.5	26.8	26.2	21.5	0.0	--	57.9
T. Rowe Associates	11.1	19.8	14.5	24.0	15.7	14.4	0.4	--	85.5
TimesSquare Cap Mgmt	--	--	--	2.0	13.7	73.4	10.8	--	6.6
Vaughan Nelson Mgmt	--	0.0	--	--	--	23.9	74.1	2.0	1.9
Western Asset US Index Plus	10.7	21.0	14.5	24.3	15.9	13.2	0.5	--	84.8
BlackRock S&P 500 Index Fund	10.7	21.0	14.4	24.3	15.9	13.2	0.5	--	84.8
BlackRock Midcap Equity Index Fund	--	--	--	--	1.3	64.1	34.4	0.2	3.3
ALL DOMESTIC EQUITY PORTFOLIOS	7.7	15.9	10.9	20.8	16.4	21.1	5.9	0.9	65.3
Benchmark: S&P Composite 1500	9.4	18.5	12.8	21.5	14.1	17.0	6.0	0.6	75.2
Over/underweight(-)	-1.8	-2.7	-1.8	-0.7	2.2	4.1	0.0	0.2	

DOMESTIC EXPOSURE-SECTOR %

September 30, 2011

MANAGERS

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Analytic Investors, Inc	11.1	11.7	11.4	11.6	12.9	8.1	21.3	2.5	3.2	3.8
Artisan Partners	7.5	5.6	7.4	22.6	3.3	19.8	25.7	--	--	8.2
Barrow Hanley	6.9	8.7	9.7	23.6	17.0	15.3	10.8	0.6	2.6	4.7
Columbus Circle Investors	23.1	7.5	7.9	5.7	13.2	7.4	31.3	3.9	--	--
Dimensional Fund Advisors	15.7	5.7	4.3	14.7	11.1	19.1	19.1	5.2	1.0	4.2
INTECH Investment Management	9.8	13.6	14.3	9.1	13.3	10.4	15.2	4.1	4.6	5.6
J.P. Morgan	16.5	7.9	10.4	12.0	14.3	7.9	19.5	2.0	3.4	3.6
Quantitative Management	8.7	9.0	12.5	19.0	17.8	8.3	9.7	1.4	5.4	8.3
Rainier Investment Mgt	13.5	7.7	8.0	5.5	13.3	12.2	33.3	3.9	2.1	0.6
T. Rowe Associates	12.2	10.6	12.3	13.3	12.1	10.6	19.1	3.1	3.3	3.3
TimesSquare Cap Mgmt	14.6	5.3	7.5	8.8	10.9	18.4	25.6	4.1	4.9	--
Vaughan Nelson Mgmt	12.7	0.9	4.5	25.4	3.6	23.1	9.7	9.6	--	10.5
Western Asset US Index Plus	10.6	11.8	11.6	13.6	12.1	10.3	19.4	3.4	3.3	4.0
BlackRock S&P 500 Index Fund	10.6	11.7	11.6	13.6	12.1	10.3	19.4	3.4	3.3	4.0
BlackRock Midcap Equity Index Fund	13.9	5.2	6.5	19.0	11.7	14.4	15.9	6.3	0.5	6.5
All Domestic Equity Portfolios	12.2	9.4	10.4	13.8	12.6	11.5	19.6	3.2	2.9	4.1
Benchmark: S&P Composite 1500	11.0	11.0	10.9	14.3	12.1	10.8	19.1	3.7	3.0	4.2
Over/underweight(-)	1.2	-1.6	-0.6	-0.5	0.4	0.7	0.5	-0.5	-0.1	-0.1

DOMESTIC PORTFOLIO CHARACTERISTICS

September 30, 2011

MANAGERS

	Market Value (mm)	Number of Securities	3Yr Historical EPS Growth	Price/Earnings	Price/Book	Dividend Yield
Analytic Investors, Inc	105.5	242	17.5	9.8	1.7	1.9
Artisan Partners	93.0	57	6.3	10.8	1.4	2.1
Barrow Hanley	166.7	85	-0.7	10.2	1.3	2.8
Columbus Circle Investors	126.6	56	12.2	15.4	3.1	1.1
Dimensional Fund Advisors	56.7	2,532	8.0	13.1	0.3	1.3
INTECH Investment Management	159.4	361	5.6	12.7	2.0	2.5
J.P. Morgan	287.7	249	4.3	13.0	1.6	2.0
Quantitative Management	107.1	158	-1.1	10.5	1.3	2.8
Rainier Investment Mgt	124.6	70	14.0	18.5	3.3	0.8
T. Rowe Associates	254.1	282	6.1	12.7	1.9	2.1
TimesSquare Cap Mgmt	87.8	78	11.5	17.3	2.5	1.0
Vaughan Nelson Mgmt	59.7	74	3.0	12.6	1.4	2.3
Western Asset US Index Plus	136.1	500	5.5	12.6	1.8	2.2
Blackrock Equity Index Fund	547.8	501	5.5	12.6	1.8	2.2
Blackrock Midcap Equity Index Fund	83.9	402	4.8	15.1	1.7	1.6

All Domestic Equity Portfolios

2,428.3	3,457	6.2	12.6	1.6	2.0
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BENCHMARKS

S&P Composite 1500	1,500	5.5	12.8	1.8	2.2
S&P/Citigroup 1500 Pure Growth	390	23.0	16.1	2.7	0.5
S&P/Citigroup 1500 Pure Value	359	1.1	11.2	0.8	1.8
S&P 500	500	5.5	12.6	1.8	2.2
Russell 1000	979	5.6	12.7	1.8	2.2
Russell 1000 Growth	587	11.8	14.5	3.3	1.7
Russell 1000 Value	653	-0.8	11.2	1.2	2.6
Russell Midcap	782	4.8	13.9	1.7	1.9
Russell Midcap Growth	465	10.3	16.6	3.0	1.2
Russell Midcap Value	525	-0.7	11.9	1.2	2.6
Russell 2000	1,959	7.2	12.1	1.4	1.7
Russell 2000 Growth	1,141	11.3	15.3	2.6	0.8
Russell 2000 Value	1,345	3.6	9.9	1.0	2.6

MONTANA INTERNATIONAL STOCK POOL

Rande Muffick, CFA, Portfolio Manager
November 15, 2011

9/30/2011 International Stock Pool By Manager			
Manager Name	Market Value	%	Approved Range
MONEY MARKET FD FOR EBT	177	0.00%	
ARTIO GLOBAL MUIG	93,098,179	8.11%	
BATTERYMARCH INTL EQUITY	99,116,958	8.64%	
BLACKROCK GL EX US ALPHA TILT	91,686,609	7.99%	
BLACKROCK ACWI EX US SUPERFUND	455,852,196	39.73%	
EAFE STOCK PERFORMANCE INDEX	14,936,143	1.30%	0-10%
CORE Total	754,690,263	65.78%	50-70%
ACADIAN ACWI EX US VALUE	77,667,606	6.77%	
BERNSTEIN ACWI EX	87,850,294	7.66%	
VALUE Total	165,517,900	14.43%	10-20%
HANSBERGER INTL EQUITY GROWTH	85,335,281	7.44%	
MARTIN CURRIE ACWI X	85,175,710	7.42%	
GROWTH Total	170,510,992	14.86%	10-20%
DFA INTL SMALL CO PORTFOLIO	56,623,518	4.94%	
SMALL CAP Total	56,623,518	4.94%	5-15%

The table above displays the Montana International Equity Pool (MTIP) allocation at quarter end across market cap segments and manager styles. At 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. We continue to monitor market conditions for a good opportunity to implement an allocation increase to small cap.

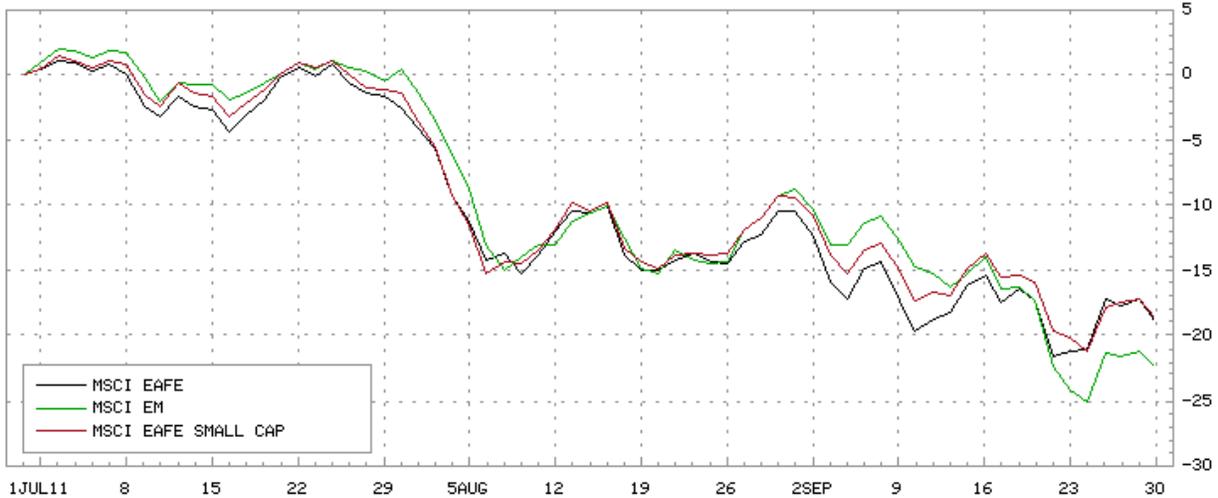
International equity markets were pummeled in the third quarter. It was a perfect storm consisting of recession concerns, and sovereign debt issues. There seemed to be no end to the euro zone dysfunction with the continual attempts to quell the financial crises of Greece and other beleaguered governments. Investors sold all risk assets including equities and the MSCI ACWI ex US Index dropped -19.9% for the quarter. Banking stocks were the hardest hit due to the banks' holdings of country debt, some of which are destined to be marked down in any sovereign bailout scenario.

COMPARATIVE RETURNS

Range **6/30/11** - **9/30/11** Period **D** Daily 92 Day Period

Securities	Crcncy	Prc Appr	Total Ret	Difference	Annual Eq
1 MXEA Index	USD	-19.60 %	-18.92 %	3.56 %	-56.49 %
2 MXEF Index	USD	-23.19 %	-22.49 %		-63.60 %
3 MXEASC Index	USD	-19.17 %	-18.50 %	3.98 %	-55.59 %

(* = No dividends or coupons)



Performance among market categories for the quarter was dismal to say the least. Large cap developed stocks lost -18.9% while small cap developed stocks lost -18.5% and emerging market stocks lost -22.2%. MTIP was slightly underweight EM exposure and therefore added a small amount of value with this allocation. Large cap and small cap stocks performed roughly in line with each other and as a result the overweight in large versus small within the pool had a neutral effect on performance.

When assessing style performance, international value stocks and growth stocks were down by similar amounts in the quarter. Value stocks returned -19.5% while growth stocks returned -20.1%. MTIP is equal weight; i.e. positioned as style neutral between growth and value.



The U.S. dollar benefited from the flight from risk as it appreciated over 5% in the quarter when compared to the basket of six major currencies included in the DXY Index. As a result dollar strength penalized already dismal returns from equity investments denominated in most of the foreign currencies.

Active management within MTIP was a disappointment in the quarter as the majority of style-based managers within the pool did not meet their respective benchmarks. Large cap growth, large cap core, and small cap buckets underperformed while the large cap value bucket outperformed. Overall MTIP underperformed its benchmark by 101 basis points in the third quarter.

Going forward the strategy at the pool level is to continue with a heavy passive weight and to remain style neutral. At some point, when given the opportunity by the market, increased investment in small caps and emerging markets is anticipated as the pool is slightly underweight both areas at this time.

INTERNATIONAL EXPOSURE-MARKET CAP %

September 30, 2011

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	
Acadian Asset Management	0.0	15.9	17.2	17.0	17.9	14.3	12.0	5.7	36.1
Artio Global - Intl Equity II with look throughs	0.0	6.4	11.4	32.7	22.5	21.9	5.5	0.0	31.8
Batterymarch Financial Mgmt	0.9	13.6	17.2	18.5	15.6	31.6	2.5	--	37.8
Bernstein Inv Mgt & Research with look throughs	1.2	15.4	9.5	25.3	16.6	28.6	7.6	0.2	37.3
BlackRock Global Ex US Alpha Tilt Fd	0.5	11.3	18.1	18.8	16.5	19.5	6.0	0.0	36.7
DFA International Small Cap	0.0	0.0	0.0	0.0	0.0	23.4	57.6	18.8	1.4
Hansberger Global Investors	1.6	9.5	25.4	22.4	16.5	24.6	0.0	0.0	39.2
Martin Currie with look throughs	3.5	12.0	14.0	25.4	19.3	22.8	3.0	0.0	43.9
BlackRock ACWI Ex US Superfund A	1.3	12.5	21.0	24.0	16.7	21.6	2.0	0.1	39.2
ALL INTERNATIONAL EQUITY PORTFOLIOS	0.6	11.0	11.5	26.0	16.8	24.0	8.3	1.7	36.5
International Custom Benchmark	1.3	12.5	21.1	24.6	16.7	20.9	2.8	0.2	39.1
Over/underweight(-)	-0.7	-1.5	-9.6	1.4	0.1	3.1	5.5	1.5	

INTERNATIONAL EXPOSURE-SECTOR %

September 30, 2011

MANAGERS

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	10.8	1.7	17.9	28.1	6.1	7.4	4.5	6.5	14.0	3.0
Artio Global - Intl Equity II with look throughs	22.5	8.3	11.1	11.3	10.1	14.5	3.3	14.5	3.1	1.3
Batterymarch Financial Mgmt	8.8	10.4	12.1	19.7	8.4	8.9	5.0	13.1	9.8	3.8
Bernstein Inv Mgt & Research with look throughs	14.6	4.6	12.7	23.2	7.3	7.4	6.7	12.1	7.0	3.9
Blackrock Global Ex US Alpha Tilt Fd	10.9	8.1	8.5	22.6	8.2	11.0	6.0	12.8	7.4	3.9
DFA International Small Cap	18.2	6.9	6.2	13.5	5.4	24.5	8.8	12.7	1.2	2.5
Hansberger Global Investors	15.3	8.8	8.9	13.1	5.2	12.2	14.4	12.6	5.6	3.8
Martin Currie with look throughs	17.3	10.2	10.2	16.3	6.7	12.6	5.1	13.4	6.2	2.0
Blackrock ACWI ex-US Superfund	9.1	9.7	10.8	23.2	6.9	10.3	6.5	11.8	6.5	4.3

All International Equity Portfolios**International Custom Benchmark****Over/underweight(-)**

12.4	8.4	10.9	20.5	7.2	11.2	6.5	12.1	6.8	3.6
9.3	9.8	10.8	23.3	7.0	10.5	6.5	12.0	6.5	4.3
3.1	-1.4	0.1	-2.8	0.2	0.7	0.0	0.1	0.3	-0.7

INTERNATIONAL PORTFOLIO CHARACTERISTICS

September 30, 2011

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/Earnings	Price/Book	Dividend Yield
International Accounts with look throughs	1,163.2	6,836	4.4	10.1	1.3	3.45

International Equity Managers

Acadian Asset Management	77.9	374	5.9	7.8	0.9	4.10
Artio Global - Intl Equity II with look throughs	112.2	144	11.8	11.8	1.7	2.45
Batterymarch Financial Mgmt	98.7	238	7.0	9.3	1.3	3.80
Bernstein Inv Mgt & Research with look throughs	84.3	211	-1.5	7.9	0.9	3.91
Blackrock Global Ex US Alpha Tilt Fd	91.7	982	4.8	9.2	1.2	3.84
DFA International Small Cap	57.1	4,758	0.6	11.2	1.0	3.05
Hansberger Global Investors	85.6	61	8.2	12.4	1.8	2.23
Martin Currie with look throughs	84.8	71	9.7	11.2	1.5	2.86
Blackrock ACWI ex-US Superfund	455.9	1,904	2.2	10.6	1.3	3.63

Benchmarks

MSCI All Country World Ex-United States		1,869	2.3	10.6	1.3	3.63
MSCI All Country World Ex-United States Growth		1,048	6.7	12.4	1.8	2.59
MSCI All Country World Ex-United States Value		1,047	-2.0	9.3	1.0	4.67
MSCI EAFE Small Cap		2,407	2.6	11.2	1.0	3.14
MSCI World Ex-United States Small Cap		2,652	3.0	11.4	1.1	3.14
MSCI All Country Pacific		944	2.1	11.4	1.2	3.16
MSCI Europe		463	0.6	9.9	1.3	4.38
International Custom Benchmark		6,482	2.3	10.6	1.3	3.63

INTERNATIONAL EQUITY
Region and Market Exposure
September 30, 2011

Developed Countries	Aggregate	International		3 Month	FYTD	Calendar	1 yr
	Int'l Portfolio	Custom Benchmark					
	Weight (%)	Weight	difference	Return	Return	YTD Return	Return
Asia/Pacific	25.6%	24.9%	0.72%				
Australia	5.4%	5.8%		-21.5%	-21.5%	-20.6%	-12.9%
Hong Kong	2.1%	1.9%		-21.9%	-21.9%	-24.2%	-20.3%
Japan	16.9%	15.9%		-6.3%	-6.3%	-11.1%	-0.5%
New Zealand	0.1%	0.1%		-9.9%	-9.9%	-1.8%	8.1%
Singapore	1.1%	1.2%		-20.3%	-20.3%	-20.8%	-15.8%
European Union	22.8%	21.7%	1.08%				
Austria	0.4%	0.2%		-33.3%	-33.3%	-31.5%	-22.8%
Belgium	0.7%	0.7%		-20.4%	-20.4%	-15.2%	-16.6%
Denmark	0.8%	0.7%		-24.9%	-24.9%	-23.6%	-17.5%
Finland	0.5%	0.6%		-28.2%	-28.2%	-33.8%	-29.6%
France	6.6%	6.2%		-30.1%	-30.1%	-20.9%	-19.3%
Germany	6.0%	5.3%		-31.0%	-31.0%	-23.0%	-15.2%
Greece	0.1%	0.1%		-46.4%	-46.4%	-50.5%	-54.7%
Ireland	0.3%	0.2%		-21.7%	-21.7%	-12.4%	-7.9%
Italy	1.6%	1.6%		-30.7%	-30.7%	-25.2%	-27.0%
Netherlands	2.3%	1.7%		-23.0%	-23.0%	-20.5%	-18.3%
Portugal	0.1%	0.2%		-23.9%	-23.9%	-20.4%	-21.3%
Spain	1.6%	2.4%		-23.7%	-23.7%	-14.1%	-22.3%
Sweden	1.8%	2.0%		-26.4%	-26.4%	-24.4%	-18.4%
Non-EU Europe	5.9%	6.5%	-0.60%				
Norway	0.8%	0.6%		-24.4%	-24.4%	-24.3%	-12.7%
Switzerland	5.1%	5.9%		-18.3%	-18.3%	-13.6%	-6.4%
North America	6.9%	8.2%	-1.37%				
Canada	6.9%	8.2%		-19.7%	-19.7%	-18.8%	-8.4%
USA	0.0%	0.0%		-15.6%	-15.6%	-11.0%	-1.1%
United Kingdom	15.6%	15.2%	0.37%				
United Kingdom	15.6%	15.2%		-16.7%	-16.7%	-13.7%	-8.5%
Other							
Other	0.5%	0.4%					
DEVELOPED TOTAL	77.2%	77.0%	0.20%				
Emerging & Frontier Market Countries							
Asia/Pacific	13.9%	13.7%	0.27%				
China	5.3%	3.9%		-26.4%	-26.4%	-28.0%	-27.0%
India	1.7%	1.7%		-20.2%	-20.2%	-28.2%	-27.5%
Indonesia	0.4%	0.7%		-12.1%	-12.1%	-3.0%	-2.7%
South Korea	3.4%	3.4%		-22.9%	-22.9%	-17.0%	-7.4%
Malaysia	0.6%	0.8%		-18.6%	-18.6%	-13.4%	-8.6%
Philippines	0.1%	0.2%		-8.2%	-8.2%	-10.8%	-12.5%
Taiwan	2.0%	2.7%		-21.5%	-21.5%	-24.5%	-12.3%
Thailand	0.5%	0.4%		-14.8%	-14.8%	-15.8%	-11.8%
European Union	0.5%	0.5%	-0.01%				
Czech Republic	0.2%	0.1%		-23.6%	-23.6%	-11.8%	-14.8%
Hungary	0.0%	0.1%		-44.1%	-44.1%	-33.0%	-39.4%
Poland	0.3%	0.3%		-35.7%	-35.7%	-29.5%	-27.1%
Non-EU Europe	1.5%	1.4%	0.02%				
Russia	1.5%	1.4%		-31.1%	-31.1%	-25.8%	-13.5%
Latin America/Caribbean	4.5%	5.1%	-0.57%				
Brazil	3.3%	3.3%		-27.7%	-27.7%	-30.1%	-27.7%
Chile	0.3%	0.4%		-27.1%	-27.1%	-30.7%	-26.3%
Colombia	0.1%	0.2%		-13.2%	-13.2%	-8.7%	-13.8%
Mexico	0.8%	1.1%		-20.8%	-20.8%	-21.7%	-8.9%
Peru	0.1%	0.1%		-5.2%	-5.2%	-31.7%	-20.4%
Mid East/Africa	1.8%	2.3%	-0.49%				
Egypt	0.0%	0.1%		-22.5%	-22.5%	-41.5%	-38.9%
Morocco	0.0%	0.0%		-7.0%	-7.0%	-6.5%	-2.2%
South Africa	1.3%	1.8%		-17.9%	-17.9%	-22.2%	-12.1%
Turkey	0.5%	0.3%		-17.8%	-17.8%	-25.8%	-29.8%
Frontier	0.0%	0.0%	0.05%				
EMERGING & FRONTIER TOTAL	22.2%	23.0%	-0.73%				

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 15, 2011

Subject: Public Equity External Managers Watch List - Quarterly Update

During the quarter there were no additions to the Watch List. However, one manager was removed from the List. Analytic Investors was removed based upon improved relative performance of the portfolio, increased confidence in the management team and increased confidence in the investment process.

There were no manager terminations during the quarter.

MANAGER WATCH LIST

November 2011

<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	\$136	March 2008
Martin Currie	International – LC Growth	Performance, Risk Controls	\$85	February 2009
Artio Global	International – LC Core	Performance, Philosophy	\$93	November 2010
Columbus Circle	Domestic – LC Growth	Performance, Process	\$126	May 2011
TimesSquare	Domestic – MC Growth	Performance	\$87	August 2011

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.

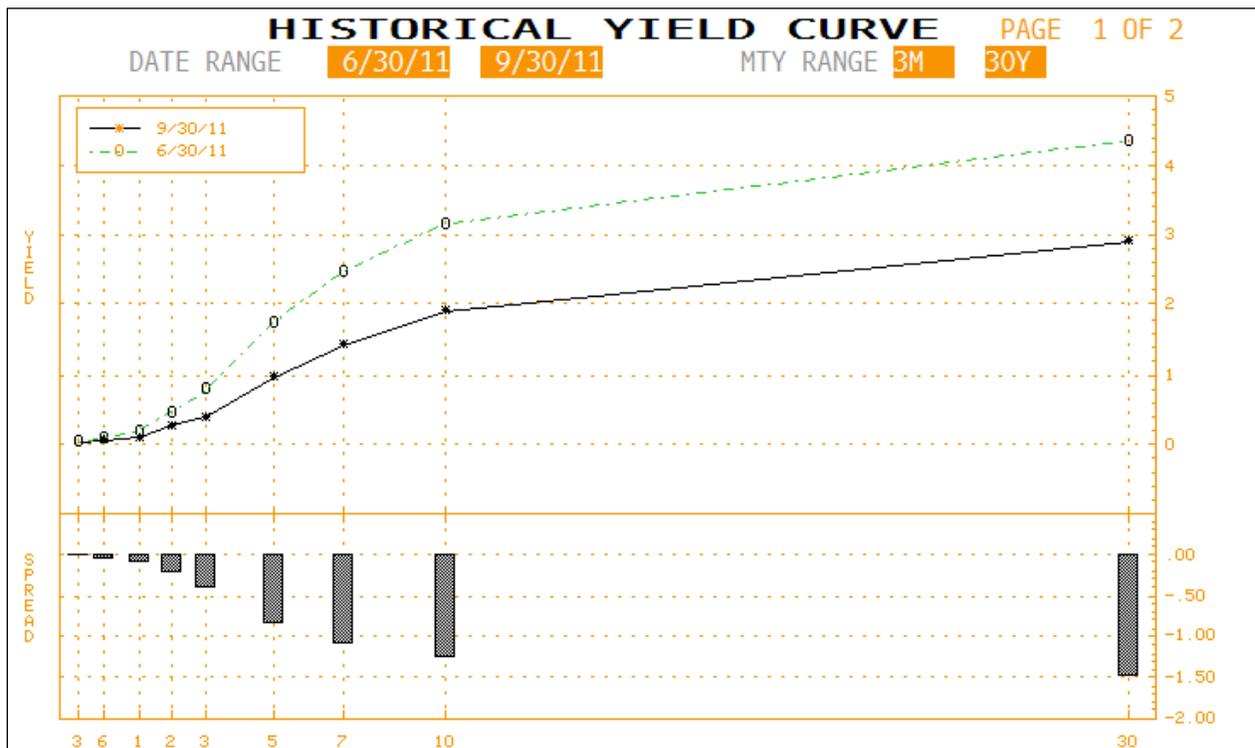
FIXED INCOME OVERVIEW & STRATEGY

Nathan Sax, CFA, Portfolio Manager

November 16, 2011

RETIREMENT & TRUST FUND BOND POOLS

Interest rates fell significantly in the third quarter. Slow growth in the United States and continued fears of a sovereign debt crisis in the Euro zone drove Treasury prices higher. For the quarter, Treasuries posted a total return of +6.48% while corporate bonds were +2.85% and mortgage backed securities were +2.36%. The Barclays Aggregate Index was +3.82%. On June 30, 2011 the Treasury two-year was yielding 0.46% versus a yield of 3.16% on the 10-year note, a difference of 270 basis points. On September 30, those numbers were 0.24% and 1.91%, a difference of 167 basis points or 103 basis points flatter.



The CRB commodities index fell from 338.05 to 298.15 during the third quarter, a drop of 11.80%. The price of oil decreased 18.4%, to \$79.20, from \$97.04 per barrel three months earlier. Commodity prices, in general, fell as economic growth slowed.

The tables on the next page show sector weightings among the external bond managers and internally managed funds, as well as holdings compared to policy constraints.

RFBP/TFBP vs. Barclays Aggregate – 09/30/11

	Retirement Fund Bond Pool						Trust Fund Bond Pool	Barclays Aggregate	CIBP/TFBP Policy Range
	CIBP	Reams	Artio	Post	Neubgr Berman	Total RFBP			
Treasuries	14.90	11.35	18.19	0.00	0.00	13.44	16.06	34.29	10-35
Agencies & Govt Related	9.29	3.96	17.98	0.00	0.00	8.30	7.91	11.23	5-25
Total Government	24.19	15.31	36.17	0.00	0.00	21.74	23.97	45.52	15-60
Mortgage Backed	31.30	36.83	15.02	0.00	0.00	28.81	30.97	32.41	20-50
Asset Backed	2.77	3.84	4.14	0.00	0.00	2.80	2.79	0.25	0-10
CMBS	9.51	3.19	11.96	0.00	0.00	8.02	9.21	2.08	0-10
Total Securitized	43.58	43.86	31.12	0.00	0.00	39.63	42.97	34.74	20-75
Financial	11.08	20.23	9.69	8.43	11.19	12.28	12.85	6.70	
Industrial	11.81	10.60	13.76	86.31	80.31	17.07	11.54	10.80	
Utility	2.89	0.91	1.52	0.00	6.47	2.62	3.83	2.24	
Total Corporate	25.78	31.74	24.97	94.74	97.97	31.97	28.22	19.74	10-35
Other	0.00	0.00	2.07	0.13	0.20	0.13	0.00	0.00	
Cash	6.45	9.09	5.67	5.13	1.83	6.53	4.84	0.00	0-10
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

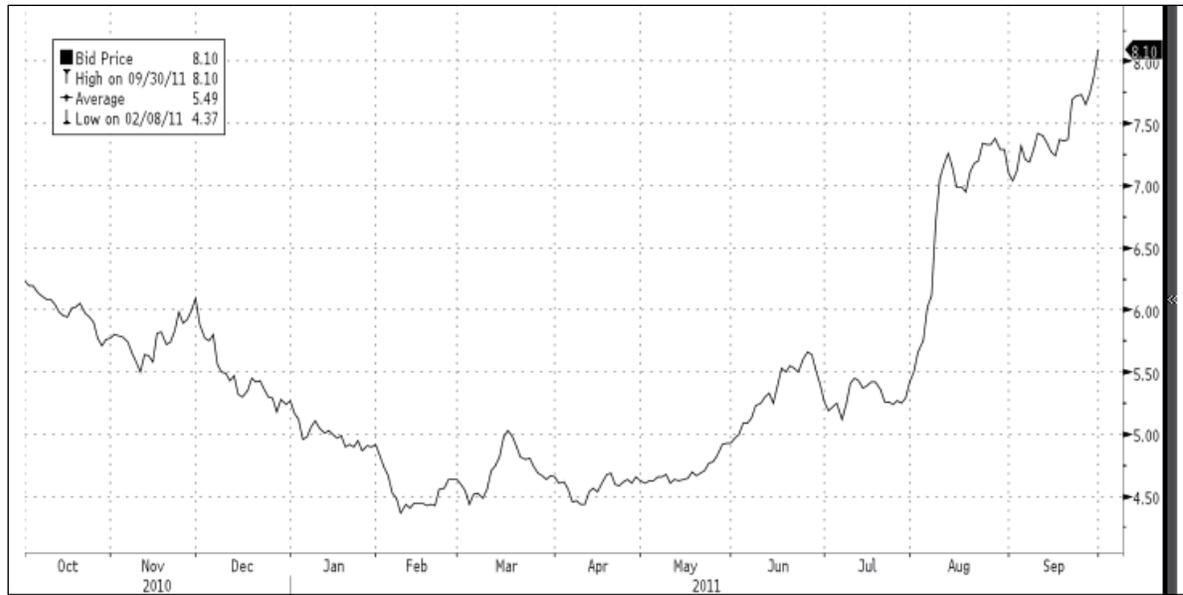
RFBP Fixed Income Sector	Policy Range	RFBP on 09/30/11
U.S. High Yield	0-15%	12.41%
Non-US (incl. EM)	0-10%	2.25%
Total "Plus" sectors	0-20%	14.66%
Core (U.S. Investment Grade)	80-100%	85.34%

TFIP Fixed Income Sector	Policy Range	TFIP on 09/30/11
High Yield	0-10%	8.07%
Core Real Estate	0-8%	5.31%
Core (U.S. Investment Grade)	0-100%	86.62%

Yield spreads on investment grade and below investment grade corporate bonds widened. The average yield spread for investment grade corporate bonds widened from 153 to 238 basis points between June 30th and September 30th. The internally managed portfolio (CIBP) is maintaining an over-weight to credit because of improved fundamentals and deleveraging. High yield spreads widened to 829 basis points from 525 at mid-year as shown in the graph on the next page.

High Yield manager Post Advisors (-6.78%) trailed the Barclays High Yield Index (-6.10%) for the quarter by 68 basis points. Neuberger Berman (-7.28%), our other High Yield manager, trailed the index by 118 basis points. The below-investment-grade market fared poorly in the third quarter amid rapidly widening credit spreads and a flight to quality caused by economic weakness in the U.S. and a brewing debt crisis in Europe. Core-plus manager Artio (+3.18%) trailed their index (+3.95%) by 77 basis points. Reams Asset Management (+2.40%) finished 48 basis points behind Barclays Universal index (+2.88%) over the past three months. Finally the CIBP (+3.70%) return for the third quarter was 12 basis points behind the Barclays Aggregate Bond Index (+3.82%).

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



The bond portfolios as compared to the benchmark are shown below. The Merrill index shown here is used as a proxy for the actual benchmark, the Barclays Capital Aggregate Bond Index.

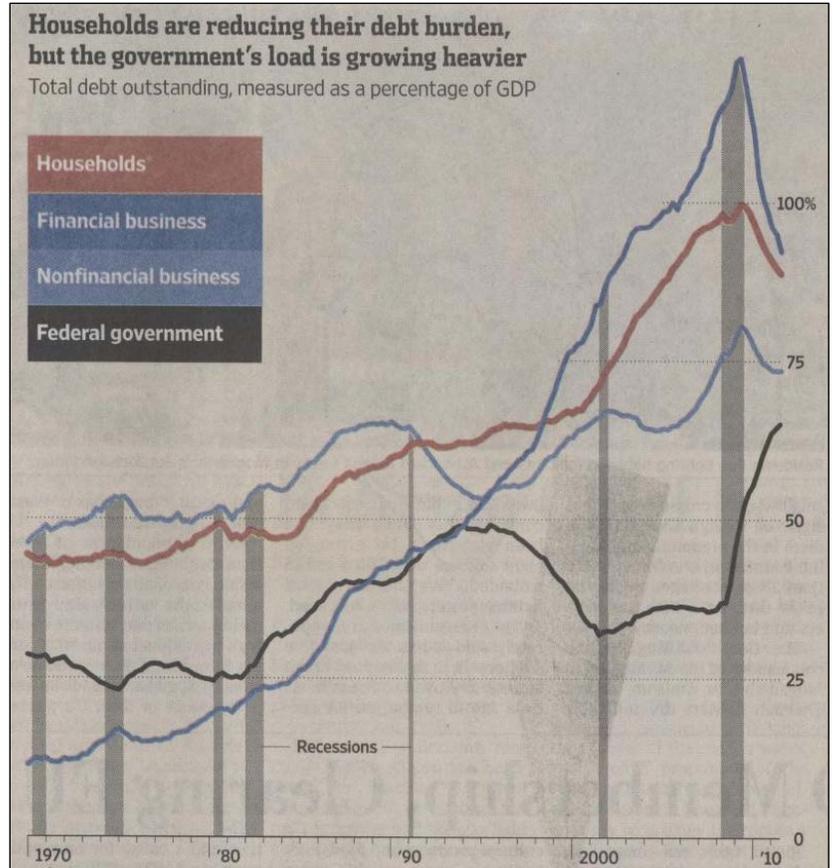
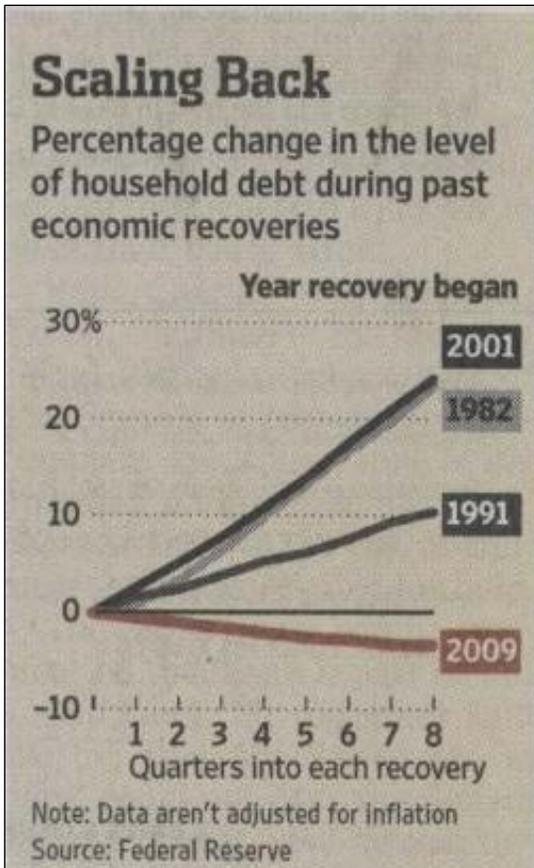
Benchmark Comparison Analysis						
CIBP vs. Merrill US Broad Market Index on 09/30/2011						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	106.86	4.28	4.04	2.96	4.63	1.25
Benchmark	110.26	4.13	3.79	2.11	4.66	0.85
Difference	-3.40	0.15	0.25	0.84	-0.03	0.40

Benchmark Comparison Analysis						
RFBP vs. Merrill US Broad Market Index on 09/30/11						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	104.94	4.43	4.31	3.49	4.55	1.88
Benchmark	110.26	4.13	3.79	2.11	4.66	0.85
Difference	-5.32	0.30	0.52	1.37	-0.11	1.03

Benchmark Comparison Analysis						
TFBP vs. Merrill US Broad Market Index on 09/30/11						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	105.56	3.94	4.08	2.92	4.54	1.50
Benchmark	110.26	4.13	3.79	2.11	4.66	0.85
Difference	-4.70	-0.19	0.29	0.80	-0.12	0.65

The Federal Reserve announced “Operation Twist” on September 21st. Named after the initial project in 1962, the idea is to sell approximately \$400 billion in shorter term Treasury securities from the Fed’s balance sheet and purchase an equal amount in longer range maturities. The thinking is that this will encourage longer term borrowing, thus stimulating economic activity.

Deleveraging has held back the recovery as illustrated in the table shown below:



Concluding Comments

Yields continued to fall through the third quarter and the Treasury yield curve flattened, primarily in intermediate term maturities. Real GDP is expected to be approximately 1.7% for the calendar year 2011, according to the consensus forecast published in *Blue Chip Economic Indicators*. Should growth improve, there could be better performance in the spread sectors, likely paired with relatively lower returns in Treasury securities.

We have been focusing on the liquidity and credit quality of the internally managed portfolios, tightening tracking error relative to the index and keeping volatility contained. Fiscal problems in countries around the globe may make periodic flights to quality more likely, at which time risk assets may suffer due to their lower credit quality and weaker demand. Indeed, dealers have been loath to carry inventories of late. The private sector in the U.S. has done a good job of deleveraging. The public sector is overly indebted and appears unwilling to address long term budgetary issues save for state and local governments, which must balance their budgets by statute. Paradoxically, investors flock to public sector securities in times of worry, shedding risk assets to do so.

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS

September 30, 2011

(in millions)

	Par	Book	Market	Price	Name	Coupon %	Maturity	Rating M/S&P	Comments
A	\$15.000	\$14.737	\$14.306	\$95.37	R R Donnelley & Sons	4.950	04/01/14	Ba1/BB+	Downgraded 5/16/11 around the time when RRD announced \$1 billion share buyback. The printing industry is under long-term stress. Liquidity remains strong.
	\$5.000	\$5.002	\$4.950	\$99.00	Continental Airlines	6.563	02/15/12	Ba1/BB-	Insured by AMBAC. Financial stress at AMBAC resulted in the downgrade of the bond.
	\$8.000	\$7.970	\$8.074	\$100.93	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	\$53.833	\$107.67	DOT Headquarters II Lease	6.001	12/07/21	NR/BB	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.
	\$3.000	\$2.970	\$2.818	\$93.93	Regions Financial Corp	5.750	06/15/15	Ba3/BB-	Large number of distressed assets and departures of upper management resulted in downgrade.
	\$10.000	\$2.000	\$2.300	\$23.00	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	\$5.000	\$0.978	\$1.150	\$23.00	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	<u>\$96.000</u>	<u>\$83.657</u>	<u>\$87.431</u>						
A	= Additions since 6/30/11								
D	= Deletions since 6/30/11								
	<u>\$10.000</u>	<u>\$2.000</u>	<u>\$2.300</u>	<u>\$23.00</u>	Lehman Brothers	<u>5.500</u>	<u>05/25/10</u>	<u>NR/NR</u>	Currently in default and liquidation
	<u>\$5.000</u>	<u>\$0.978</u>	<u>\$1.150</u>	<u>\$23.00</u>	Lehman Brothers	<u>5.000</u>	<u>01/14/11</u>	<u>NR/NR</u>	Currently in default and liquidation
	<u>\$15.000</u>	<u>\$2.978</u>	<u>\$3.450</u>						

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager
November 15, 2011

During the third quarter money market yields were flat as the Federal Reserve continued its two and a half- year-old policy of low fed funds rates. The money market credit curve steepened as the European debt crisis flared up once again and investors shortened maturities and declined to roll investments in many of the European banks. Three month Libor rates increased by 12.9 basis points and one month Libor rates increased by 5.4 basis points during the quarter. Credit spreads were wider 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 35 basis points, 14 basis points wider for the quarter.

TED Spread (09/30/10 – 09/30/11)

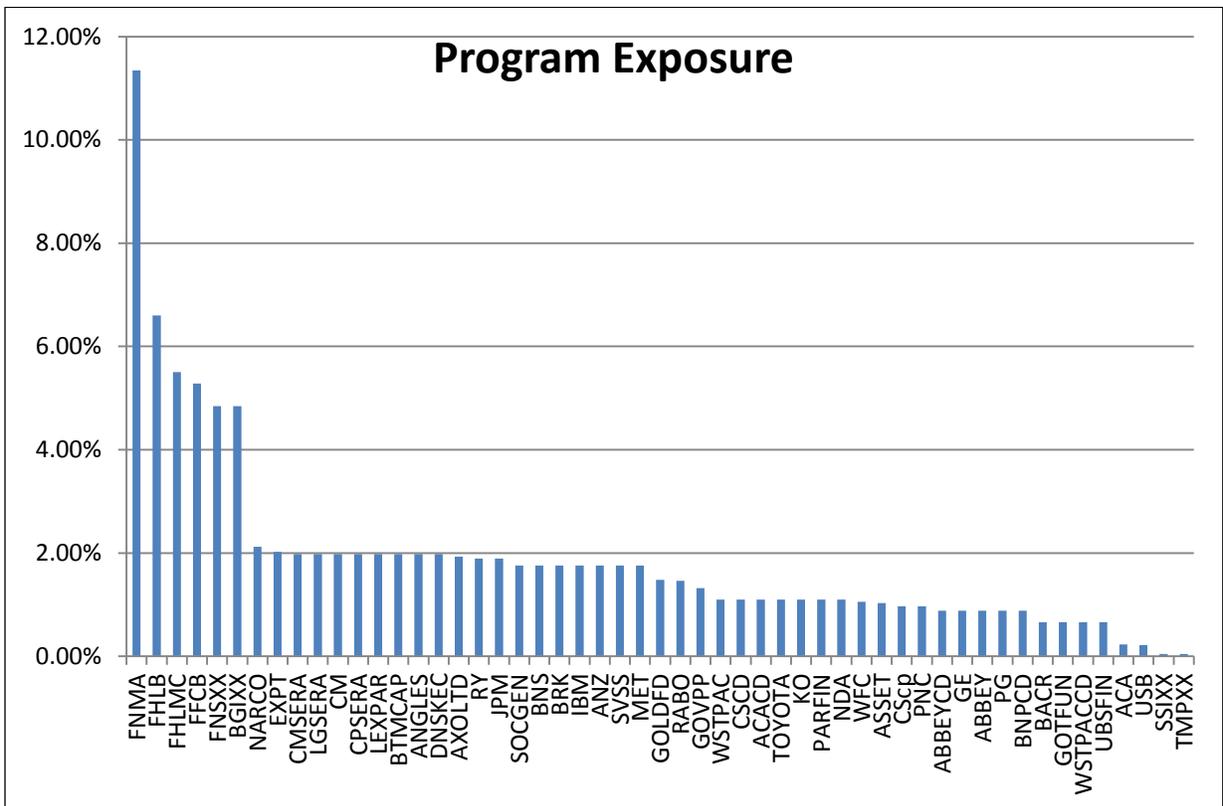
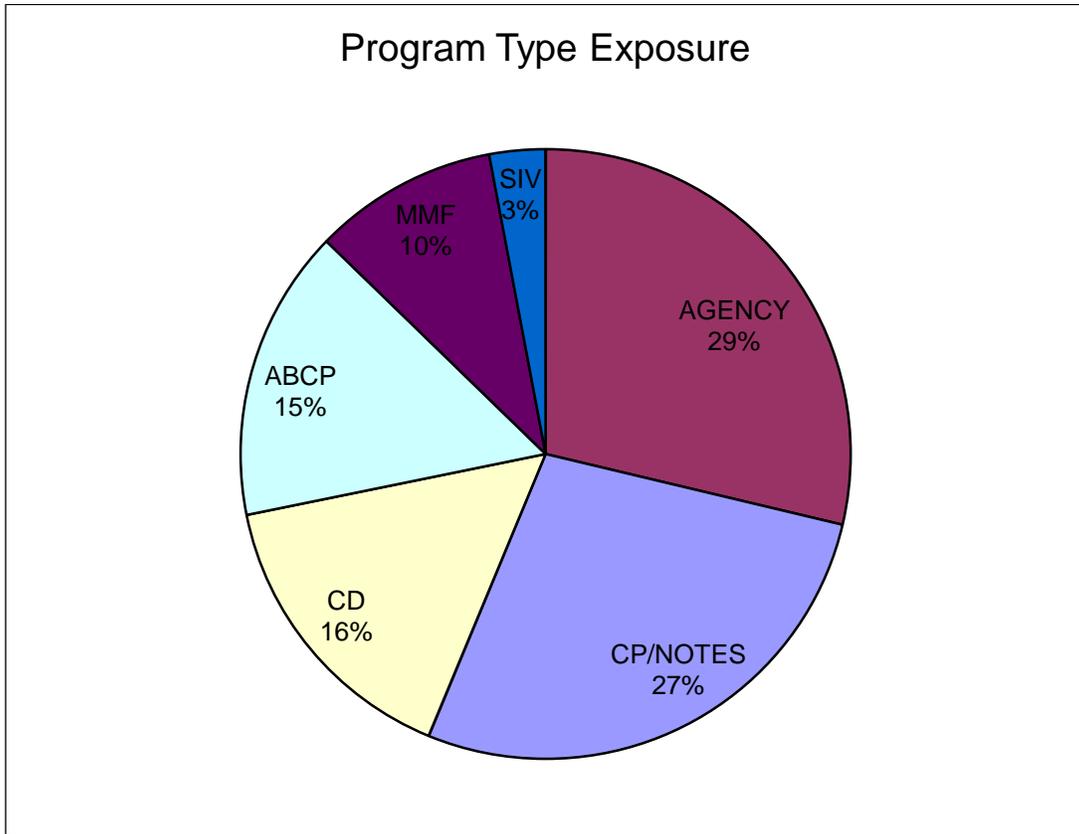


The STIP portfolio is currently well diversified and is operating within all the guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of \$150 million and weekly liquidity is at a minimum of \$250 million. The average days to maturity are about 45 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is about 15% of holdings (40% max) and corporate exposure is around 27% (40% max). We currently have approximately 29% in agency paper, 16% in Yankee CD's (30% max) and 10% in four institutional money funds. Several of the asset-backed commercial paper programs we have had on the approved list have withdrawn from the market and are not expected to return.

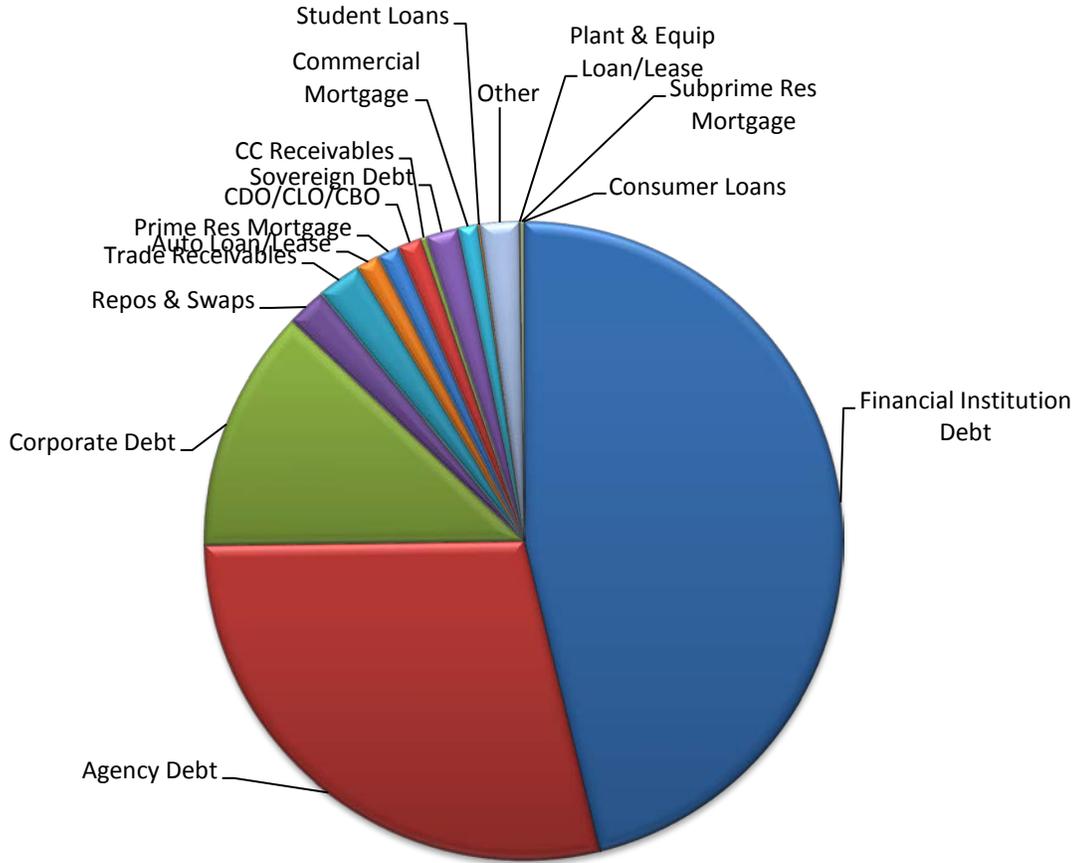
During the third quarter we purchased \$128 million of floating rate Agencies, pegged to one or three month Libor, as well as \$50 million of one year fixed rate callable Agencies. We also purchased \$33 million of floating rate Yankee CDs. Higher one month and three month Libor rates added to the portfolio yield during the quarter.

The net daily yield on STIP is currently 0.23% as compared with the current one-month LIBOR rate of 0.24% and current fed funds target rate of 0.0%-0.25%. The portfolio asset size is currently \$2.28 billion, down from three months ago.

All charts below are as of November 1, 2011.



Portfolio Composition by Sector



Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

November 15, 2011

The fund totaled \$883 million as of September 30, 2011, consisting of approximately one third general fund monies and the balance in various other state operating accounts. There was an additional purchase of \$20 million in securities in the third quarter. Current securities holdings total \$40 million. The investment policy for the fund limits security holdings to 50% of the projected General Fund FYE balance of the current period. The September 30 balance estimate was \$424 million.

State Fund Insurance

Richard Cooley, CFA, Portfolio Manager

November 15, 2011

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 09/30/2011						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	107.32	4.20	3.96	4.39	3.64	3.59
Benchmark	108.03	3.40	3.18	1.65	3.96	0.80
Difference	-0.71	0.81	0.79	2.74	-0.32	2.79

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. 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 wider as compared to the end of the second quarter. MBS spreads widened by 41 basis points to 75 basis points, agencies widened by 10 basis points to 31 basis points and corporate spreads widened by 96 basis points to 238 basis points. During the quarter, the ten year Treasury yield dropped by 125 basis points from 3.16% to 1.91%.

The overweight in spread product (all non-Treasuries) hurt performance during the quarter as spreads widened. The total fixed income (including STIP) portion of the account underperformed the benchmark by 48 basis points during the September quarter and outperformed by 26 basis points over the past year. Longer term performance is +200 basis points for the past three years, -9 basis points for the past five years and +27 basis points for the past ten years (ended September 30).

As a reminder, the primary investment objective is to maximize investment income consistent with safety of principal.

During the September quarter, there were purchases of \$19 million of corporate bonds in the 10 year part of the curve and broadly diversified by sector. We also purchased \$25 million of Agencies. There were \$5 million of domestic equity index units purchased during the quarter.

The portfolio has a 274 basis point yield advantage over the benchmark with only a one notch lower quality rating. Client preferences include keeping the STIP balance in a 1-5 percent range (currently 1.74%) and limiting holdings rated lower than A3 or A- to 25 percent of fixed income, at the time of purchase, (currently 25.0%).

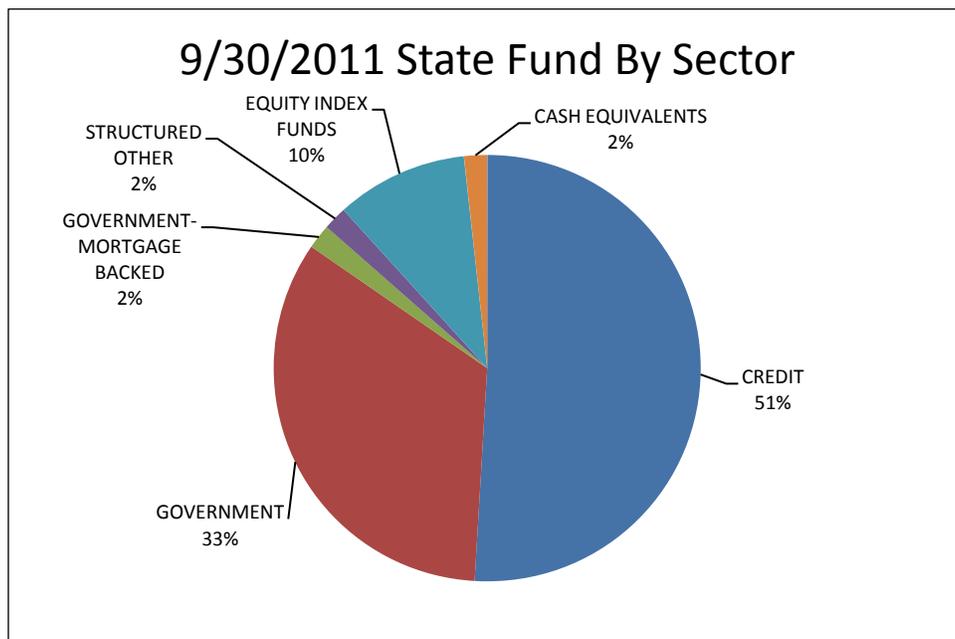
State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 09/30/2011			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	15.06	56.85	-41.79
Agencies & Govt Related	22.05	15.59	6.46
Total Government	37.11	72.44	-35.33
Mortgage Backed	2.06	0.00	2.06
Asset Backed	0.00	0.00	0.00
CMBS	1.30	0.00	1.30
Securitized	3.36	0.00	3.36
Financial	29.12	10.70	18.42
Industrial	21.47	15.16	6.31
Utility	6.33	1.70	4.63
Total Corporates	56.91	27.56	29.35
Other	0.69	0.00	0.69
Cash	1.92	0.00	1.92
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.

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 overweight in spread product versus the benchmark.

9/30/2011 State Fund By Sector

<u>Sector</u>	<u>Market Value</u>	<u>%</u>
BANKS	109,182,311	8.91%
COMMUNICATIONS	24,808,025	2.02%
ENERGY	32,905,296	2.68%
GAS/PIPELINES	6,311,509	0.51%
INSURANCE	66,163,659	5.40%
OTHER FINANCE	149,513,255	12.20%
RETAIL	9,647,712	0.79%
TRANSPORTATION	46,833,778	3.82%
UTILITIES	73,670,470	6.01%
INDUSTRIAL	105,226,488	8.58%
CREDIT	624,262,504	50.93%
TITLE XI	5,823,225	0.48%
TREASURY NOTES/BONDS	166,540,104	13.59%
AGENCY	240,615,857	19.63%
GOVERNMENT	412,979,185	33.69%
FHLMC	12,558,409	1.02%
FNMA	10,275,092	0.84%
GOVERNMENT-MORTGAGE BACKED	22,833,501	1.86%
CDO	7,500,000	0.61%
CMBS	14,445,933	1.18%
STRUCTURED OTHER	21,945,933	1.79%
TOTAL FIXED INCOME	1,082,021,123	88.27%
EQUITY INDEX FUNDS	122,378,812	9.98%
CASH EQUIVALENTS	21,355,614	1.74%
GRAND TOTAL	1,225,755,548	100.00%



MONTANA BOARD OF INVESTMENTS
SUMMARY OF INDIVIDUAL PLAN PERFORMANCE
Rates of Returns
Periods Ending September 30, 2011



	MKT VAL \$(000)	ALLOC	MONTH	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
STATE FUND INSURANCE											
TOTAL	1,233,425	100.0	-0.91	0.06	0.06	3.34	8.45	5.66	5.38	6.09	12/01/1993
EQUITIES	122,379	9.9	-7.47	-14.55	-14.55	-0.24	1.61	-0.93	2.96		
Domestic	108,760	8.8	-6.98	-13.82	-13.82	1.28	2.05	-0.67	3.00		
Foreign	13,619	1.1	-11.10	-19.84	-19.84	-10.69					
STATE FUND INSURANCE CUSTOM COMPO			0.87	2.21	2.21	4.90	7.04	5.59	4.98		
S&P 500			-7.03	-13.87	-13.87	1.14	1.23	-1.18	2.82		
MSCI AC WORLD ex US (NET)			-11.13	-19.85	-19.85	-10.81	0.52	-1.57	6.83		
BC GOV/CREDIT INTERMEDIATE			-0.12	2.39	2.39	3.40	7.02	5.92	5.12		
LIBOR 1 MONTH INDEX			0.02	0.05	0.05	0.23	0.39	1.99	2.23		

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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
Date: November 4, 2011
Subject: Commercial and Residential Portfolios

As of October 31, 2011 the commercial loan portfolio totaled \$149,422,370. Reservations totaled \$5,510,492 and commitments totaled \$11,298,259. Past due loans totaled \$7,101,121 or 4.75% of the total portfolio. Accounting did receive a payment on the last day of the month on one of the past due loans which accounted for \$4,432,588 of the past due total, however commercial payments received on the last day of the month are processed after the first of the following month. This is due to the one-day delay in the ACH payment process. If that payment would have been received prior to the last day of the month, the past due percentage would have been a more respectful 1.79%.

At this writing the totals for the residential loan portfolio were not received from the Board of Housing. As a result, the following residential information reflects the residential loan portfolio as of September 30, 2011. As of September 30, 2011, the residential loan portfolio totaled \$25,411,018. There were no outstanding residential reservations outstanding. Past due loans totaled \$554,579 or 2.18% of the portfolio, of which four loans totaling \$204,035 or 0.80% of the portfolio, were over 90 days past due. One of these loans, totaling \$20,810, was paid in October. The remaining three loans are all guaranteed; with one of those borrowers is making payments under a Chapter 13 reorganization.

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Bond Program

INTERCAP Loan Program

Activity Summary

As of September 30, 2011

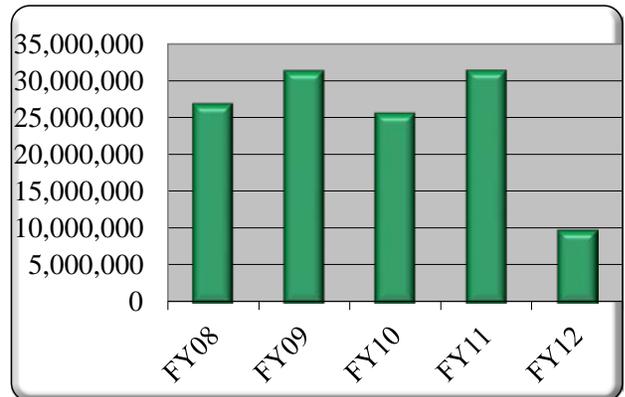
Since Inception 1987 - September 2011

Total Bonds Issued	136,000,000
Total Loan Commitments	383,990,114
Total Loans Funded	350,001,295
Total Bonds Outstanding	95,530,000
Total Loans Outstanding	75,794,992
Loan Commitments Pending	33,988,819

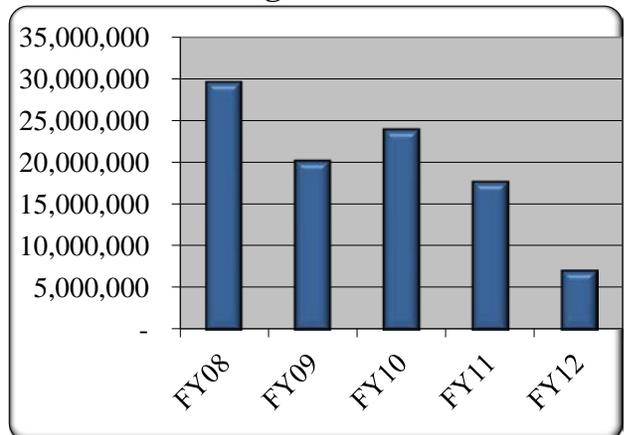
FY2012 To Date

Month	Commitments	Fundings
July-11	\$ 2,349,050	\$ 2,869,239
August	6,916,343	2,722,666
September	245,000	1,549,568
October		
November		
December		
January		
February		
March		
April		
May		
June-12		
To Date	\$ 9,510,393	\$ 7,141,474

Commitments FY08-FY12



Fundings FY08-FY12



Note: Commitments include withdrawn and expired loans.

Variable Loan Rate History February 16, 2004 - February 15, 2012

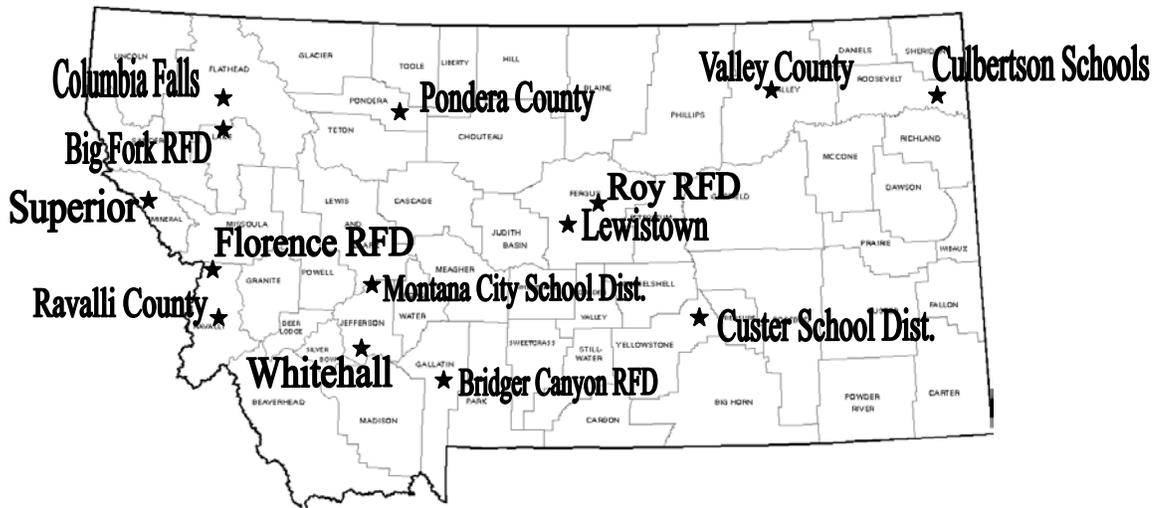
February 16, 2004 - February 15, 2005	<u>2.70%</u>	February 16, 2008 - February 15, 2009	<u>4.25%</u>
February 16, 2005 - February 15, 2006	<u>3.80%</u>	February 16, 2009 - February 15, 2010	<u>3.25%</u>
February 16, 2006 - February 15, 2007	<u>4.75%</u>	February 16, 2010 - February 15, 2011	<u>1.95%</u>
February 16, 2007 - February 15, 2008	<u>4.85%</u>	February 16, 2011 - February 15, 2012	<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: November 16, 2011
Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – July 1, 2011 through September 30, 2011.



Borrower:	Custer School District #15
Purpose:	Roof repairs
Staff Approval Date:	July 5, 2011
Board Loan Amount:	\$41,556
Other Funding Sources:	\$0
Total Project Cost:	\$41,556
Term:	5 years

Borrower:	Valley County
Purpose:	Emergency road & bridge repairs
Staff Approval Date:	July 8, 2011
Board Loan Amount:	\$1,000,000
Other Funding Sources:	\$0
Total Project Cost:	\$1,000,000
Term:	10 years

Borrower:	Pondera County
Purpose:	Senior Center remodel
Staff Approval Date:	July 13, 2011
Board Loan Amount:	\$ 150,000
Other Funding Sources:	\$1,043,598
Total Project Cost:	\$1,193,598
Term:	15 years

Borrower:	City of Lewistown
Purpose:	Extend water & sewer services at the city/county airport
Staff Approval Date:	July 14, 2011
Board Loan Amount:	\$90,000
Other Funding Sources:	\$0
Total Project Cost:	\$90,000
Term:	10 years

Borrower:	Bigfork Rural Fire District
Purpose:	Refinance Ladder Truck
Staff Approval Date:	July 26, 2011
Board Loan Amount:	\$673,045
Other Funding Sources:	\$0
Total Project Cost:	\$673,045
Term:	10 years

Borrower:	Roy Rural Fire District
Purpose:	Construct an Emergency Services Building
Staff Approval Date:	July 27, 2011
Board Loan Amount:	\$ 30,000
Other Funding Sources:	\$270,000
Total Project Cost:	\$300,000
Term:	15 years

Borrower:	City of Columbia Falls
Purpose:	Finish street improvement project
Staff Approval Date:	July 28, 2011
Board Loan Amount:	\$ 364,449
Other Funding Sources:	\$ 740,766
Total Project Cost:	\$1,105,215
Term:	10 years

Borrower:	Town of Superior
Purpose:	Interim loan in anticipation of USDA Rural Development Community Facilities Program long term loan - new fire hall
Staff Approval Date:	August 3, 2011
Board Loan Amount:	\$498,000
Other Funding Sources:	\$458,500
Total Project Cost:	\$956,500
Term:	1 year

Borrower:	Bridger Canyon Rural Fire District
Purpose:	Refinance its fire station loan
Staff Approval Date:	August 22, 2011
Board Loan Amount:	\$125,000
Other Funding Sources:	\$0
Total Project Cost:	\$125,000
Term:	15 years

Borrower:	Culbertson Elementary School
Purpose:	Reroofing the school wings
Staff Approval Date:	August 23, 2011
Board Loan Amount:	\$125,000
Other Funding Sources:	\$0
Total Project Cost:	\$125,000
Term:	10 years

Borrower:	Culbertson High School
Purpose:	Reroofing the school wings
Staff Approval Date:	August 23, 2011
Board Loan Amount:	\$125,000
Other Funding Sources:	\$0
Total Project Cost:	\$125,000
Term:	10 years

Borrower:	Montana City School District
Purpose:	Energy retrofit project using energy performance contracting
Staff Approval Date:	August 25, 2011
Board Loan Amount:	\$134,343
Other Funding Sources:	\$163,600
Total Project Cost:	\$297,943
Term:	15 years

Borrower:	Ravalli County
Purpose:	Refinance Fair Trade Center
Staff Approval Date:	August 30, 2011
Board Loan Amount:	\$560,000
Other Funding Sources:	\$0
Total Project Cost:	\$560,000
Term:	15 years

Borrower:	Town of Whitehall
Purpose:	Emergency backup generator for Division Street well
Staff Approval Date:	August 31, 2011
Board Loan Amount:	\$35,000
Other Funding Sources:	\$0
Total Project Cost:	\$35,000
Term:	10 years

Borrower:	Florence Rural Fire District
Purpose:	Purchase a new Type III Fire Truck
Staff Approval Date:	September 29, 2011
Board Loan Amount:	\$245,000
Other Funding Sources:	\$ 30,000
Total Project Cost:	\$275,000
Term:	10 years

**Montana Board of Investments
Loan Committee
INTERCAP Loan Summary and Approval**



Borrower: Town of Philipsburg

Date: November 15, 2011

The Town requests a \$3,652,000 interim loan in anticipation of the United States Department of Agriculture (USDA) Rural Development Services (RD)¹ long-term financing for its wastewater improvement project. The loan will be for potentially two (2) years and in the form of a bond anticipation note (BAN). The projected drawdown schedule for the loan begins August 2012 through August 2013 at which point the Town anticipates closing on the RD loan. The funding package for the \$6,000,000 total project cost is as follows:

Borrower Portion	\$	27,000
Treasure State Endowment Program (TSEP) Grant		750,000
Department of Natural Resources		
-Renewable Resource Grant & Loan Program (RRGL) Grant		100,000
Rural Development (RD) Grant		1,471,000
INTERCAP Interim loan		3,652,000
Rural Development (RD) Loan		<u>3,652,000</u>
Total	\$	<u>6,000,000</u>

¹<http://www.rurdev.usda.gov/>

Authorization:

7-7-109 Montana Code Annotated (MCA) (2) (a) When all conditions exist precedent to the offering for sale of bonds of a political subdivision in any amount and for any purpose authorized by law or the political subdivision has applied for and received a commitment for a grant or loan of state or federal funds, its governing body may by resolution issue and sell, in anticipation of the receipt of the grant, loan, or bonds in an amount not exceeding the total amount of bonds authorized or the total amount of the loan or grant that is committed, notes maturing within not more than three years from the date on which the notes are issued.

INTERCAP Debt:

The Town borrowed through INTERCAP once in 1989 to finance a \$15,255 shop building that matured in 1994. In 1998, the Town obtained two commitments from the Board to finance the Fred Burr Dam project but was able to complete the project without needing the funds. The Town has no INTERCAP debt outstanding at this time.

Repayment:

The bond proceeds from the Town's issuance and sale of a revenue bond to RD will repay the BAN. Special conditions to the Board's commitment to ensure the revenue bond takes out the BAN are as follows:

1. Prior to disbursing funds, the Board requires evidence of RD's commitment to pay off the BAN with a long-term loan. Copies of the following will provide sufficient evidence:

- RD Letter of Intent to Fund ("I" Letter)
- RD Letter of Conditions (**MBOI has on file**)
- USDA Office of General Council (OGC) Loan Closing Instructions

2. The Board will require approval from RD for each specific draw on the loan.
3. The Board requires the Town to hire Bond Counsel to prepare the necessary BAN documents and provide the opinion at closing. The Bond Counsel needs to be nationally recognized and rendering a bond counsel opinion in the last ten years.

Recommendation:

Approval recommended.

Staff Loan Committee

Carroll South, Executive Director	_____	Approval Date: _____
Geri Burton, Deputy Director	_____	Approval Date: _____
Louise Welsh, Bond Program Officer	_____	Approval Date: _____

Board Loan Committee – November 15, 2011

Jack Prothero, Chairperson – Loan Committee	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Abstain
Patrick McKittrick, Member	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Abstain
James Turcotte, Member	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Abstain

**Montana Board of Investments
Loan Committee
INTERCAP Loan Summary and Approval**



Borrower: Gallatin Gateway County Water & Sewer District

Date: November 15, 2011

The District requests a \$1,650,000 interim loan in anticipation of the United States Department of Agriculture (USDA) Rural Development Services (RD)¹ long-term financing for its wastewater improvement project. The loan will be for potentially two (2) years and in the form of a bond anticipation note (BAN). The projected drawdown schedule for the loan begins March 2012 through December 2012 at which point the District anticipates closing on the RD loan. The funding package for the \$4,315,000 total project cost is as follows:

Treasure State Endowment Program (TSEP) Grant	\$	750,000
Department of Natural Resources		
-Renewable Resource Grant & Loan Program (RRGL) Grant		100,000
Rural Development (RD) Grant		1,815,000
INTERCAP Interim loan		1,650,000
Rural Development (RD) Loan		<u>1,650,000</u>
Total	\$	4,315,000

¹<http://www.rurdev.usda.gov/>

Authorization:

7-7-109 Montana Code Annotated (MCA) (2) (a) When all conditions exist precedent to the offering for sale of bonds of a political subdivision in any amount and for any purpose authorized by law or the political subdivision has applied for and received a commitment for a grant or loan of state or federal funds, its governing body may by resolution issue and sell, in anticipation of the receipt of the grant, loan, or bonds in an amount not exceeding the total amount of bonds authorized or the total amount of the loan or grant that is committed, notes maturing within not more than three years from the date on which the notes are issued.

INTERCAP Debt:

The District is a new borrower to INTERCAP.

Repayment:

The bond proceeds from the District's issuance and sale of a revenue bond to RD will repay the BAN. Special conditions to the Board's commitment to ensure the revenue bond takes out the BAN are as follows:

1. Prior to disbursing funds, the Board requires evidence of RD's commitment to pay off the BAN with a long-term loan. Copies of the following will provide sufficient evidence:
 - RD Letter of Intent to Fund ("I" Letter)
 - RD Letter of Conditions (**MBOI has on file**)
 - USDA Office of General Council (OGC) Loan Closing Instructions
2. The Board will require approval from RD for each specific draw on the loan.

3. The Board requires the District to hire Bond Counsel to prepare the necessary BAN documents and provide the opinion at closing. The Bond Counsel needs to be nationally recognized and rendering a bond counsel opinion in the last ten years.

Recommendation:

Approval recommended.

Staff Loan Committee

Carroll South, Executive Director _____ Approval Date: _____

Geri Burton, Deputy Director _____ Approval Date: _____

Louise Welsh, Bond Program Officer _____ Approval Date: _____

Board Loan Committee – November 15, 2011

Jack Prothero, Chairperson – Loan Committee
Patrick McKittrick, Member
James Turcotte, Member

Approval
 Yes No Abstain
 Yes No Abstain
 Yes No Abstain