

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

**2401 Colonial Drive, 3rd Floor
Helena, Montana**

February 8 and 9, 2011

AGENDA – DAY 1

- | | | |
|----------------|---|-------------------|
| Tab 1 | CALL TO ORDER | 12:30 p.m. |
| | A. Roll Call | |
| | B. Approval of the November 30 and December 1, 2010 Board Meeting Minutes | |
| | C. Approval of the December 20, 2010 Special Board Meeting Minutes | |
| | D. Administrative Business | |
| | 1. Human Resource Committee Report | |
| | 2. Audit Committee Report | |
| | 3. Loan Committee Report | |
| | E. Public Comment - <i>Public Comment on issues within Board Jurisdiction</i> | |
| Tab 2 | EXECUTIVE DIRECTOR REPORTS – Carroll South | 12:50 p.m. |
| | A. Legislative/Legislation Update – Informational – Handout | |
| | B. Revised Language for Investment Pool IPS – Board Action | |
| Handout | QUARTERLY PERFORMANCE REPORTS | 1:35 p.m. |
| | A. Pension Funds and Investment Pools – R.V. Kuhns & Associates | |
| | B. Board Member Education Policy – Board Action | |
| | BREAK – 15 min. | 2:50 p.m. |
| Tab 3 | INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO | 3:05 p.m. |
| | A. Retirement System Asset Allocation Report | |
| | B. Comparison to State Street Public Fund Universe | |
| | C. Private Asset Pool Reviews | |
| | 1. Private Equity (MPEP) | |
| | 2. Real Estate (MTRP) | |
| | 3. Partnership Focus Lists | |
| | D. Public Asset Pool Reviews | |
| | 1. Fixed Income | |
| | i. Bond Pools (RFBP and TFIP) | |
| | ii. Below Investment Grade Holdings Report | |
| | iii. Short Term (STIP) and Other Fixed Income Portfolios | |
| | 2. Domestic Equity (MDEP) | |
| | 3. International Equity (MTIP) | |
| | 4. Manager Watch List | |
| | ADJOURNMENT | 5:00 p.m. |

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 at 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.

Actual times may vary from those in the agenda.

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

**2401 Colonial Drive, 3rd Floor
Helena, Montana**

February 8 and 9, 2011

AGENDA – DAY 2

	RECONVENE AND CALL TO ORDER	8:30 a.m.
	A. Roll Call	
	B. Public Comment – <i>Public Comment on issues within Board Jurisdiction</i>	
Handout	EXTERNAL MANAGER PRESENTATION	8:45 a.m.
	A. T. Rowe Price, Domestic Enhanced Index Equity Manager	
	• John Plowright, Vice President and Client Service Executive	
	• Ann Holcomb, Vice President and Portfolio Manager	
	BREAK – 15 min.	9:45 a.m.
Tab 4	MONTANA LOAN PROGRAM – Herb Kulow	10:00 a.m.
	A. Commercial and Residential Portfolios Report	
Tab 5	BOND PROGRAM	10:15 a.m.
	A. INTERCAP – Louise Welsh	
	1. Activity Report	
	2. Staff Approved Loans Report	
	B. Qualified School Construction Bonds – Geri Burton	
	1. Great Falls School District, Resolutions 228 and 229 – Board Action	
	ADJOURNMENT	10:45 a.m.

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**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

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

November 30 and December 1, 2010

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Elouise Cobell
Senator Greg Barkus

STAFF PRESENT:

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

GUESTS:

Ather Bajwa, SG Long & Co./SGL Investment Advisors
Tom Boudrac, First Interstate Bank
Josh Denney, SG Long & Co./SGL Investment Advisors
John Engen, Mayor, City of Missoula
Dr. Richard Erb, School of Business Administration, The University of Montana
Becky Gratsinger, RV Kuhns and Associates
Dr. Terri Herron, School of Business Administration, The University of Montana
Jack Jenks, Summit Housing Group, Inc.
Dean Peggy Kuhr, School of Business Administration, The University of Montana
Roxanne Minnehan, Montana Public Employees Retirement Administration
Sue Williams, SG Long & Co./SGL Investment Advisors
Jim Voytko, RV Kuhns and Associates

CALL TO ORDER

Chairman Terry Moore called the regular meeting of the Board of Investments (Board) to order at 12:33 p.m. in the Board Room on the third floor of the Gallagher Business Building, The University of Montana, Missoula, Montana. As noted above, a quorum of Board Members was present.

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

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

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

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

ADMINISTRATIVE BUSINESS

Human Resources Committee Report

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

Audit Committee Report

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

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

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

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

Loan Committee Report

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

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

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

Public Comment

Chairman Terry Moore called for public comment on Board issues.

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

EXECUTIVE DIRECTOR'S REPORT

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

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

Legislation Update - Informational

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

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

Investment Manager Update/Status – Informational

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

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

Pension Fund Status Update – Informational Hand Out

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

Pension Funds Investment Policy Statement – Board Action

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

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

Resolution No. 217 Update - Informational

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

Resolution No. 217 designates its Executive Director as agent of the Board to deal with investment firms in connection with Board accounts with such firms; and that the investment firms are authorized to deal with the Executive Director or the Executive Director's designated staff as agents of the Board.

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

QUARTERLY PERFORMANCE REPORTS

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

Pension Funds and Investment Pools

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

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

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

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

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

INVESTMENT ACTIVITIES/REPORTS

Retirement System Asset Allocation Report

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

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

Comparison to State Street Public Fund Universe

Mr. Sheets reviewed a comparison of the two large pension plans to the State Street public fund universe in terms of relative performance and asset allocation as a supplement to the RV Kuhns public fund universe return comparison.

Public Asset Pool Reviews

Domestic Equity (MDEP)

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

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

International Equity (MTIP)

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

Public Equity External Managers Watch List

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

<u>Manager</u>	<u>Style Bucket</u>	<u>Reason</u>	<u>\$ Invested (mil)</u>	<u>Inclusion Date</u>
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	\$140	March 2008
Acadian	International – LC Value	Performance, Process	\$86	February 2009
Martin Currie	International – LC Growth	Performance, Risk Controls	\$96	February 2009
Batterymarch	International – LC Core	Performance, Process	\$112	May 2009
Analytic Investors	Domestic - 130/30	Performance, Process	\$96	May 2010
Artio Global	International – LC Core	Performance, Philosophy	\$114	November 2010
BlackRock Int AlphaTilts	International – LC Core	Personnel, Model and Process	\$102	November 2010

Fixed Income

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

Historical Society Investment Policy – Board Action

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

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

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

ADJOURNED

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

CALL TO ORDER – Day 2
December 1, 2010

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

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

Public Comment

Chairman Terry Moore called for public comment on Board issues.

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

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

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

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

INVESTMENT ACTIVITY/REPORTS, continued

Fixed Income

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

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

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

Private Equity (MPEP)

Mr. Jon Shoen reviewed the following Private Edge reports: quarterly cash flow; total exposure by strategy; market value exposure by industry; total exposure by geography; total exposure by investment vehicle; periodic return comparison and LPs by family of funds.

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

Fund Name	Vintage	Subclass	Sector	Amount	Date
CIVC Partners Fund IV, L.P.	2009	Buyout	Diverse	\$25M	9/15/10
Thayer Hidden Creek Partners II, L.P.	2008	Buyout	Diverse	\$20M	9/24/10

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

Real Estate (MTRP)

Mr. Jon Shoen reviewed the following Private Edge reports: quarterly cash flow; total exposure by strategy; market value exposure by property type; total exposure by geography; time weighted and internal rates of return; and the portfolio status report.

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

Fund Name	Pool	Subclass	Sector	Amount	Date Funded (Core) or Date of Decision
American Core Realty Fund, L.L.C.	TFIP	Core	Diverse	\$5 M	10/1/10
TIAA-CREF Asset Management Core Property Fund, L.P.	TFIP	Core	Diverse	\$6 M	11/1/10
UBS Trumbull Property Fund, L.P.	MTRP	Core	Diverse	\$10 M	10/1/10
AG Realty Fund VIII, L.P.	MTRP	Opportunistic	Diverse	\$20M	11/4/10
AG Core Plus Realty Fund III, L.P.	MTRP	Value-Added	Diverse	\$30 M	11/4/10

Partnership Focus Lists

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

Real Estate Investment Policy Statement

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

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

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

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

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

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

Low Income Housing Tax Credit Program – Informational

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

BOND PROGRAM

Activity Report

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

Staff Approved Loans Report

The Board reviewed this report for the period of July 1 through September 30, 2010.

Borrower:	Sanders County
Purpose:	Construct a concession stand and other related fairgrounds improvements.
Staff Approval Date:	July 1, 2010
Board Loan Amount:	\$140,595
Other Funding Sources:	
Total Project Cost:	\$140,595
Term:	10 years

Borrower:	Town of Stevensville
Purpose:	Interim loan in anticipation of the United States Department of Agriculture (USDA) Rural Development Services (RD) long-term financing for water system improvements.

Staff Approval Date:	July 2, 2010
Board Loan Amount:	\$ 780,000
Other Funding Sources:	\$ 598,000
Total Project Cost:	\$1,378,000
Term:	2 years

Borrower:	Clancy Fire Service Area
Purpose:	Purchase a 2004 Kenworth truck outfitted with new water tender equipment.
Staff Approval Date:	July 2, 2010
Board Loan Amount:	\$80,000
Other Funding Sources:	\$ 8,000
Total Project Cost:	\$88,000
Term:	10 years

Borrower:	Craig County Water & Sewer District (Craig)
Purpose:	Update a preliminary engineering report (PER), grant writing, and related expenses for the District's wastewater system.
Staff Approval Date:	July 2, 2010
Board Loan Amount:	\$25,000
Other Funding Sources:	
Total Project Cost:	\$25,000
Term:	5 years

Borrower:	McCone County
Purpose:	Finish a new multi-purpose/community facility at the fairgrounds.
Staff Approval Date:	July 19, 2010
Board Loan Amount:	\$125,000
Other Funding Sources:	\$168,740
Total Project Cost:	\$293,740
Term:	10 years

Borrower:	Madison Valley Rural Fire District (Ennis)
Purpose:	Refinance fire hall construction loan.
Staff Approval Date:	July 26, 2010
Board Loan Amount:	\$245,000
Other Funding Sources:	
Total Project Cost:	\$245,000
Term:	10 years

Borrower:	Custer County
Purpose:	Purchase a 2010 John Deere (JD) 870G motor grader.
Staff Approval Date:	July 28, 2010
Board Loan Amount:	\$120,000
Other Funding Sources:	\$108,000
Total Project Cost:	\$228,000

Term:	7 years
Borrower:	Lockwood Rural Fire District (Billings)
Purpose:	Purchase a new fire engine, water tender, and related equipment.
Staff Approval Date:	July 29, 2010
Board Loan Amount:	\$181,550
Other Funding Sources:	\$438,450
Total Project Cost:	\$620,000
Term:	7 years
Borrower:	North Valley Public Library District (Stevensville)
Purpose:	Library renovation – phase I.
Staff Approval Date:	August 17, 2010
Board Loan Amount:	\$75,000
Other Funding Sources:	\$19,570
Total Project Cost:	\$94,570
Term:	10 years

Borrower:	Anaconda-Deer Lodge County
Purpose:	Courthouse preservation project
Staff Approval Date:	August 19, 2010
Board Loan Amount:	\$ 800,000
Other Funding Sources:	\$ 915,797
Total Project Cost:	\$1,715,797
Term:	15 years

Borrower:	Custer School District #15 (Custer)
Purpose:	Remove and replace the school building’s hypalon roof membrane.
Staff Approval Date:	September 8, 2010
Board Loan Amount:	\$50,000
Other Funding Sources:	
Total Project Cost:	\$50,000
Term:	10 years

Borrower:	Lavina School District #2
Purpose:	Purchase a 72 passenger Bluebird school bus.
Staff Approval Date:	September 9, 2010
Board Loan Amount:	\$20,000
Other Funding Sources:	\$70,000
Total Project Cost:	\$90,000
Term:	2 years

Borrower:	Town of Culbertson
Purpose:	Centennial Drive Special Improvement District (SID) #12 street, curb, and gutter improvements.

Staff Approval Date:	September 24, 2010
Board Loan Amount:	\$101,700
Other Funding Sources:	
Total Project Cost:	\$101,700
Term:	15 years

Borrower:	City of Laurel
Purpose:	West Main Street Special Improvement District (SID) #112 street, curb, and gutter improvements.
Staff Approval Date:	September 27, 2010
Board Loan Amount:	\$37,189
Other Funding Sources:	
Total Project Cost:	\$37,189
Term:	10 years

Borrower:	City of Kalispell
Purpose:	Purchase police cars and parks equipment.
Staff Approval Date:	September 30, 2010
Board Loan Amount:	\$187,150
Other Funding Sources:	
Total Project Cost:	\$187,150
Term:	5 years



MONTANA UNIVERSITY SYSTEM

Borrower:	University of Montana – Missoula
Purpose:	Replace passenger vans
Staff Approval Date	September 8, 2010
Board Loan Amount:	\$170,000
Other Funding Sources:	\$ 38,690
Total Project Cost:	\$208,690
Term:	5 years

Guest Speaker – Dean Peggy Kuhr

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

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

ADJOURNMENT

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

Next Meeting

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

BOARD OF INVESTMENTS

APPROVE: _____
Terry Moore, Chair

ATTEST: _____
Carroll South, Executive Director

DATE: _____

MBOI:caa
1/19/11

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

2401 Colonial Drive, Helena, Montana

**December 20, 2010
Special Meeting of the Board**

MINUTES

BOARD MEMBERS PRESENT:

Terry Moore, Chair
Elouise Cobell
Teresa Cohea
Karl Englund
Maureen Fleming
Patrick McKittrick
Jack Prothero
Jim Turcotte

BOARD MEMBERS ABSENT:

Jon Satre
Senator Greg Barkus
Representative Brady Wiseman

STAFF PRESENT:

Carol Ann Augustine, Board Secretary	Chris Phillips, Investment Staff Contract
Jason Brent, Investment Analyst	Nathan Sax, CFA, Portfolio Manager
Geri Burton, Deputy Director	Clifford A. Sheets, CFA, Chief Investment Officer
Richard Cooley, CFA, Portfolio Manager	Carroll South, Executive Director
Rande Muffick, CFA, Portfolio Manager	

GUESTS:

Matthias Bauer, RV Kuhns & Associates, Inc.
Roxanne Minnehan, Montana Public Employees' Retirement Administration
Ashlee Moehring, RV Kuhns & Associates, Inc.
Dave Senn, Teachers' Retirement System
Ryan Sullivan, RV Kuhns & Associates, Inc.
Jim Voytko, RV Kuhns & Associates, Inc.

CALL TO ORDER

Chairman Terry Moore called the Special Meeting of the Board of Investments (Board) to order at 1:35 p.m. in the third floor conference room at 2401 Colonial Drive, Helena, Montana. As noted above, a quorum of Board Members was present. Chairman Terry Moore and Board Members Elouise Cobell, Karl Englund, Maureen Fleming, Patrick McKittrick and Jack Prothero attended by telephone. Board Members Teresa Cohea and Jim Turcotte attended in person. Staff of R V Kuhns & Associates, Inc., and BOI staff contract Chris Phillips attended by teleconference.

ADMINISTRATIVE BUSINESS

Public Comment

Chairman Terry Moore called for public comment on Board issues. There was no public comment.

TEACHERS' RETIREMENT SYSTEM ASSET LIABILITY STUDY

Prepared and Presented by R.V. Kuhns & Associates, Inc.

Mr. Jim Voytko presented an overview of the Teachers' Retirement System Asset Liability Study. The study is intended to compare investment strategies over time to pay benefits, and to determine if investments cover liabilities.

Contributions to the Teachers' Retirement System (TRS) are currently below the actuarial requirements. The contribution policy is fixed and the assumed rate of return is 7.75%. The accumulated unfunded actuarial liability (UAL) will increase given the current policy and the actual funded ratio will decrease. Additionally, the current 11% payout ratio will go to nearly 31% by 2030. If contributions stay at 17% it is not likely that returns can compensate for contributions below the actuarial required level.

Mr. Voytko explained that the report projections are shown using both a deterministic and stochastic process. The deterministic process allows for no variation in asset assumptions and no changes to the current contribution policy; the stochastic process allows for changes in asset assumptions and provides best and worst case scenarios along with the probabilities of such outcomes. Mr. Voytko presented a comparison of several specific portfolio investment strategies and outcomes. He then encouraged the Board to consult with staff regarding the potential aspects of making any changes to the portfolio.

Discussion followed about the current Legislative Session and several bills that have been introduced that would potentially affect the retirement systems. Mr. Dave Senn, Teachers' Retirement System and Ms. Roxanne Minnehan, Public Employees' Retirement System, expressed their concerns about the ability to either increase contributions or reduce the liabilities. They will thoroughly review the study and have their actuaries do the same.

ADJOURNMENT

Chairman Terry Moore adjourned the meeting at 3:02 p.m.

BOARD OF INVESTMENTS

APPROVE: _____
Terry Moore, Chair

ATTEST: _____
Carroll South, Executive Director

DATE: _____

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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: February 8, 2011
Subject: Language Revisions to Investment Policy Statements

At the November Board meeting, the Board approved a revised pension fund Investment Policy Statement (IPS) that contained the following language:

Exercise of Shareholder Rights

The Board recognizes that publicly traded securities and other assets of the Plans include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation. The Board will prudently manage these assets of the Plans for the exclusive purpose of enhancing the value of the Plans for its participating systems' members and beneficiaries through such means as adopting and implementing a proxy voting policy and undertaking productive, cost-effective action to exercise its rights as shareholders or claimants in litigation. The Board will participate in all class action securities litigation to which it is entitled and may, pursuant to its securities litigation policy, serve as lead or co-lead plaintiff for the benefit of the Plans. These policies are further described in the underlying investment policy statements appropriate for the respective investment pools and in the governance policy.

Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program. In addition, the Board requires that the risks assumed and the administrative resources committed to monitor those risks are commensurate with the program's income potential. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. The Board's participation in securities lending may change over time given Plan activity, market conditions and the agent agreement.

To complete the revision process, staff recommends that language addressing these procedures be embodied in the investment pools in which the pension funds participate and in other IPS's as appropriate. Attached is proposed language that would be inserted in the listed IPS's.

Language to be added to:

Montana Domestic Equity Pool (MDEP) Investment Policy Statement

Montana International Equity Pool (MTIP) Investment Policy Statement

Shareholder Rights

The Board recognizes that publicly traded securities and other assets of the Retirement Plans include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation.

Proxy Voting

Active voting of proxies is an important part of the Board's investment program. Under the contractual arrangements between the Board and its investment managers, the responsibility for voting proxies on the investments is delegated to the managers. They are contractually required to establish a proxy voting program in coordination with Board Staff and are required to vote proxies, excluding shares on loan under the Board's securities lending program, in the interest of the Plans' beneficiaries. Records of proxy votes shall be maintained by the Managers, and/or its third party designee, and submitted to Staff and/or an external service provider annually.

Staff will monitor the proxy voting practices of the Board's external investment managers. External service providers may be retained by either the board or the managers to assist in monitoring efforts. This monitoring will be coordinated with each manager to reasonably assure the Staff that managers are fulfilling their fiduciary responsibilities with respect to proxy voting.

Class Action Litigation

Claims under state and federal securities laws arising out of losses on securities under the Board's management are assets subject to the Board's fiduciary duty of prudent management. The Board shall take reasonable, cost effective steps to identify, pursue and collect upon claims under securities laws for losses suffered by the Board on its investment. The Board will participate in all class action securities litigation to which it is entitled and may, pursuant to its securities litigation policy, serve as lead or co-lead plaintiff for the benefit of the Plans. Accordingly, the Board maintains a detailed litigation policy, including process steps, outlined in the Montana Board of Investments Governance Manual, Appendix F.

Language to be added to:

Montana Domestic Equity Pool (MDEP) Investment Policy Statement

Montana International Equity Pool (MTIP) Investment Policy Statement

Retirement Fund Bond Pool (RFBP) Investment Policy Statement

Short-Term Investment Pool (STIP) Investment Policy

Trust Funds Investment Pool (TFIP) Investment Policy Statement

State Fund Insurance Investment Policy Statement

Treasurer's Fund Investment Policy Statement and all other separate account Investment Policy Statements where appropriate

Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, through an explicit contract, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor. From time to time, Staff or the investment manager may restrict a security from the loan program upon notification to State Street Bank. Staff will monitor the securities lending program, and the CIO will periodically report to the Board on the status of the program.

Montana Board of Investments

Trustee Education Policy

Original: February 8, 2011
Last Revised: February 8, 2011

I. PURPOSE

The purpose of this Trustee Education Policy is to establish guidelines and procedures for the Trustees of the Montana Board of Investments that recognize and affirm the importance of education to the success of fulfilling their fiduciary responsibilities.

II. POLICY OBJECTIVES

1. All Trustees will be able to leverage continuing education opportunities to maintain the knowledge they need to carry out their fiduciary responsibilities and engage in effective group discussion, debate and decision making with regard to the Fund as a whole.
2. Newly appointed or elected Trustees will be provided with the general introductory knowledge they need to enable them to effectively participate in Board and Committee deliberations in a timely manner.
3. Trustees will have the opportunity to learn through networking with the Trustees of other public retirement systems and learn of alternate approaches to common issues and problems.

III. ASSUMPTIONS AND PRINCIPLES

1. The Trustees are responsible for making policy decisions affecting all major aspects of plan administration. They, therefore, must acquire an appropriate level of knowledge of all significant facets of the investment management process rather than specializing in particular areas.
2. A variety of educational methods are necessary and appropriate since no single, educational method is optimal.
3. The Trustee Education Policy is not intended to dictate that Trustees attend only specific conferences or programs. Although a list is included in this Policy as a reference, the Policy is a framework for the types of opportunities that the Trustees should use in their fiduciary education.

IV. POLICY GUIDELINES

1. GENERAL PROVISIONS

- A. All Trustees are encouraged to develop and maintain their knowledge and understanding of the issues involved in the policy direction and management of the Montana Board of Investments throughout their terms as Trustees.
- B. Trustees are encouraged to develop an appropriate level of knowledge across a broad spectrum of issues, including:
 - i. Governance and fiduciary duty
 - ii. Actuarial policies and pension funding
 - iii. Best practices in total fund, asset class composite and investment manager monitoring, funding and decision-making
 - iv. Key institutional investment management concepts, including, but not limited to:
 - a. Portfolio management theory and strategies
 - b. Asset class attributes and investment strategies
 - c. Performance evaluation concepts
- C. Trustees are encouraged to help seek out, evaluate and take advantage of appropriate educational tools, which may include, but are not limited to:
 - i. External conferences, seminars, workshops, roundtables, courses or similar vehicles
 - ii. In-house presentations by the Board's service providers, staff, or non-affiliated investment experts
 - iii. Relevant periodicals, trade journals, textbooks, electronic media, etc.
- D. The Board Chair shall review and evaluate available educational conferences and bring to the attention of the Board those they believe are appropriate. Trustees may also bring forward appropriate educational conferences for consideration.
- E. Standards for determining the appropriateness of a potential educational opportunity shall include, without limitation:
 - i. The extent to which the opportunity is expected to provide Trustees with the knowledge they need to carry out their roles and responsibilities, and

- ii. The relative value of the program, taking into account the expected educational benefits weighed against the expected costs.
- F. Trustees are encouraged to assist in identifying the educational vehicles that best meet their needs, and to attempt to meet the following minimum goals:
 - i. Secure an appropriate level of knowledge in each of the areas listed in Section B of this Policy; and
 - ii. Attend one external conference annually, preferably one that is (1) highly relevant to current investment issues before the board and/or, (2) specifically dealing with public fund issues, and (3) additive to external education events attended by fellow MTBOI trustees.

Due diligence activities such as meetings with existing or prospective service providers shall not substitute for other educational programs.

- G. The Board shall establish an annual budget to cover the cost of providing continuing fiduciary education for its Trustees. The Board shall reimburse Board members for all reasonable and necessary expenses incurred in attending educational programs encouraged hereunder as provided in this Policy.
- H. Each Trustee is encouraged to report to the Board, either verbally or in writing, on the most important pieces of knowledge or information gained from the conference/seminar/workshop attended and recommend whether to attend in the future.

2. TRUSTEE ORIENTATION PROGRAM

- A. An orientation program will be formalized and maintained for the benefit of new Trustees.
- B. All new Trustees shall be required to participate in the orientation program within 45 days of election or appointment.
- C. The aim of the orientation program shall be to ensure that new Trustees are in a position to contribute fully to Board and Committee deliberations and effectively carry out their fiduciary duties as soon as possible after joining the Board.
- D. The orientation program shall include:
 - i. In-person introduction to MTBOI management and staff

- ii. A tour of the staff office
- iii. An orientation handbook, which is presented to Trustees via an orientation seminar. The handbook and accompanying seminar should cover the following:
 - a. Most recent Governance Policy and Investment Policy Statements
 - b. Roles and responsibilities of Trustees, Committees and staff
 - c. An overview of relevant State laws relevant to fund management
 - d. Material from legal counsel on fiduciary responsibility
 - e. Copies of Board and general operating policies and procedures
 - f. Most recent Comprehensive Annual Financial Report
 - g. Most recent Actuarial Valuation Report and Asset Liability Study
 - h. Most recent Investment performance report
 - i. Most recent MTBOI budget
 - j. Up-to-date organization chart
 - k. Names and telephone numbers of other MTBOI Trustees and Staff
 - l. A copy of the Board's Fiduciary Liability Insurance Policy
- ii. A briefing by MTBOI legal counsel on the role of the Board and fiduciary responsibility
- iii. A briefing by MTBOI management on the history of the Fund

3. ATTENDANCE AT CONFERENCES AND SEMINARS

- A. Illustrative examples of conferences that Trustees may consider attending would include:
 - i. Council of Institutional Investors (CII)
 - ii. Institutional Investor Conference on Alternative Investments
 - iii. Institutional Investor Conference on Fund Management
 - iv. International Foundation of Employee Benefit Plans
 - v. Portfolio Concepts and Management sponsored by the Wharton School, University of Pennsylvania (Wharton)
 - vi. Public Pension Investment Management Program (SACRS)
 - vii. Semi-annual conference sponsored by the State Association of County Retirement Systems (SACRS)
- B. Trustees wishing to attend other conferences or seminars will submit their request to the Board Chair for approval.

- C. In attending external conferences, preference will be given to those sponsored by educational institutions or pension industry associations as opposed to conferences with agendas that are largely determined and executed by current or potential vendors to the MTBOI.
- D. In no event will the expense of attending a Professional Conference by a Trustee who attends the Professional Conference in his or her own professional capacity be reimbursed by the Board. Only with the written permission of the Board may a Trustee attend a Professional Conference in his or her capacity as a Trustee.

V. POLICY REVIEW

The Board shall review this Policy at least every three years to ensure that it remains relevant and appropriate.

VI. AMENDMENT HISTORY

[Return to Meeting Agenda](#)

Investment Activity

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 9/30/10										
<u>Pension Fund</u>	<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Total Equity</u>	<u>RFBP</u>	<u>STIP</u>	<u>Mtgs</u>	<u>Real Estate</u>		<u>Total Assets</u>
								<u>Direct</u>	<u>Pool</u>	
PUBLIC EMPLOYEES	35.3%	18.5%	12.4%	66.2%	26.5%	1.0%	0.5%	0.3%	5.5%	\$ 3,544,093,413
TEACHERS	35.5%	18.6%	12.5%	66.6%	26.7%	0.3%	0.6%	0.3%	5.5%	\$ 2,666,127,797
POLICE	33.5%	17.6%	11.8%	62.9%	25.6%	6.4%			5.2%	\$ 198,518,131
SHERIFFS	35.2%	18.5%	12.2%	65.9%	26.6%	2.1%			5.4%	\$ 186,116,642
FIREFIGHTERS	33.4%	17.6%	11.7%	62.7%	25.5%	6.6%			5.2%	\$ 196,190,278
HIGHWAY PATROL	35.4%	18.6%	12.3%	66.3%	27.0%	1.2%			5.5%	\$ 88,619,801
GAME WARDENS	35.1%	18.4%	12.1%	65.7%	26.4%	2.6%			5.4%	\$ 80,525,538
JUDGES	35.2%	18.5%	12.3%	66.0%	26.8%	1.7%			5.4%	\$ 56,486,271
VOL FIREFIGHTERS	35.6%	18.6%	12.3%	66.5%	27.0%	1.0%			5.5%	\$ 23,904,455
TOTAL	35.3%	18.5%	12.4%	66.2%	26.5%	1.1%	0.5%	0.2%	5.5%	\$ 7,040,582,326
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

Retirement Systems Asset Allocations as of 12/31/10										
<u>Pension Fund</u>	<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Total Equity</u>	<u>RFBP</u>	<u>STIP</u>	<u>Mtgs</u>	<u>Real Estate</u>		<u>Total Assets</u>
								<u>Direct</u>	<u>Pool</u>	
PUBLIC EMPLOYEES	36.9%	18.8%	12.6%	68.3%	24.6%	0.8%	0.4%	0.2%	5.6%	\$ 3,749,783,294
TEACHERS	37.0%	18.9%	12.6%	68.6%	24.6%	0.4%	0.5%	0.3%	5.6%	\$ 2,809,903,407
POLICE	37.2%	18.8%	12.6%	68.6%	25.3%	0.4%			5.6%	\$ 208,523,279
SHERIFFS	36.7%	18.6%	12.4%	67.7%	24.8%	1.9%			5.6%	\$ 198,337,512
FIREFIGHTERS	37.1%	18.9%	12.6%	68.6%	25.2%	0.6%			5.6%	\$ 206,719,801
HIGHWAY PATROL	36.9%	18.9%	12.5%	68.3%	25.1%	1.0%			5.6%	\$ 93,907,702
GAME WARDENS	36.4%	18.8%	12.3%	67.5%	24.5%	2.3%			5.7%	\$ 86,942,281
JUDGES	36.9%	18.7%	12.4%	68.0%	24.9%	1.5%			5.6%	\$ 59,995,080
VOL FIREFIGHTERS	37.4%	18.8%	12.6%	68.8%	25.3%	0.3%			5.6%	\$ 24,913,569
TOTAL	37.0%	18.9%	12.6%	68.4%	24.7%	0.7%	0.4%	0.2%	5.6%	\$ 7,439,025,925
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

Change From Last Quarter										
<u>Pension Fund</u>	<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Total Equity</u>	<u>RFBP</u>	<u>STIP</u>	<u>Mtgs</u>	<u>Real Estate</u>		<u>Total Assets</u>
								<u>Direct</u>	<u>Pool</u>	
PUBLIC EMPLOYEES	1.6%	0.3%	0.2%	2.1%	-1.9%	-0.2%	-0.1%	0.0%	0.1%	205,689,881
TEACHERS	1.5%	0.3%	0.2%	2.0%	-2.0%	0.1%	-0.1%	0.0%	0.1%	143,775,609
POLICE	3.6%	1.2%	0.9%	5.7%	-0.2%	-5.9%			0.4%	10,005,147
SHERIFFS	1.5%	0.2%	0.2%	1.8%	-1.8%	-0.2%			0.2%	12,220,869
FIREFIGHTERS	3.7%	1.3%	0.9%	5.9%	-0.2%	-6.0%			0.4%	10,529,524
HIGHWAY PATROL	1.5%	0.3%	0.2%	2.0%	-1.9%	-0.3%			0.1%	5,287,901
GAME WARDENS	1.3%	0.4%	0.1%	1.8%	-1.8%	-0.3%			0.3%	6,416,744
JUDGES	1.6%	0.2%	0.2%	2.0%	-1.9%	-0.2%			0.2%	3,508,809
VOL FIREFIGHTERS	1.8%	0.2%	0.3%	2.3%	-1.6%	-0.7%			0.1%	1,009,114
TOTAL	1.7%	0.3%	0.2%	2.2%	-1.9%	-0.4%	-0.1%	0.0%	0.1%	398,443,598

Allocations During Quarter					
<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Total Equity</u>	<u>RFBP</u>	<u>Real Estate</u>
(\$9,200,000)	\$0	\$8,225,000	(\$975,000)	(\$6,660,000)	\$20,280,000
Net New Investments for Quarter					\$12,645,000

Montana Board of Investments

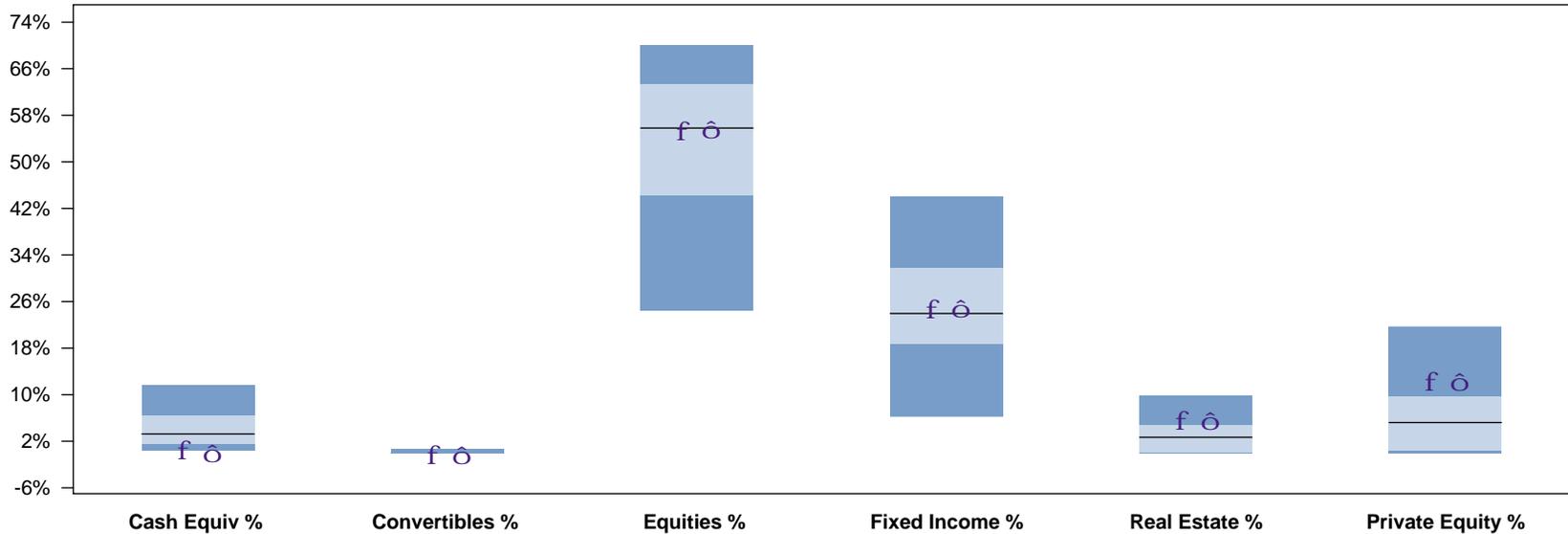
Public Funds (DB) > \$1 Billion(SSE)

PERIOD ENDING December 31, 2010



STATE STREET

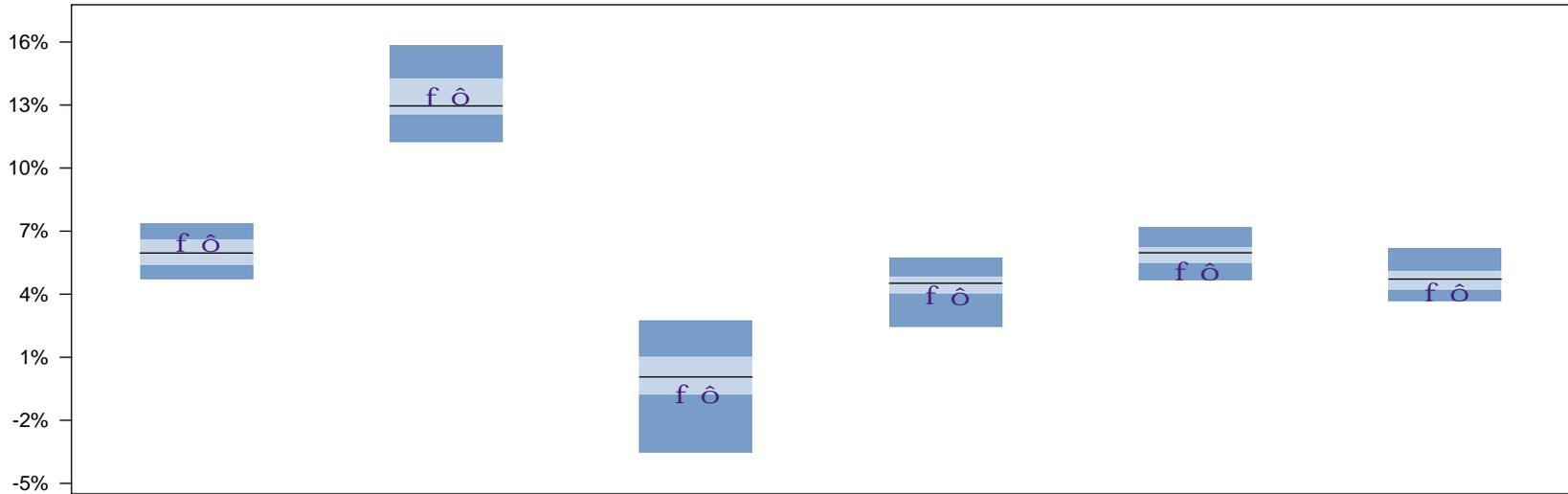
ALLOCATION



	Cash Equiv %	Convertibles %	Equities %	Fixed Income %	Real Estate %	Private Equity %
5th Percentile	11.70	0.75	69.98	44.01	9.86	21.70
25th Percentile	6.51	0.01	63.32	31.85	4.87	9.80
50th Percentile	3.25	0.00	55.79	23.96	2.69	5.22
75th Percentile	1.54	0.00	44.17	18.63	0.09	0.37
95th Percentile	0.42	0.00	24.46	6.22	0.00	0.00
No. of Obs	62	62	62	62	62	62
f PUBLIC EMPLOYEES RET	0.80 87	0.00 31	55.71 51	25.11 48	5.84 14	12.54 19
o TEACHERS RETIREMENT	0.40 96	0.00 31	55.93 50	25.18 47	5.90 13	12.59 18

Montana Board of Investments

Public Funds (DB) > \$1 Billion (SSE) - MBOI PERS - TRS UNIVERSE
 PERIOD ENDING December 31, 2010



	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	60	60	58	59	58	58
5th Percentile	7.38	15.83	2.74	5.74	7.19	6.19
25th Percentile	6.62	14.26	1.05	4.88	6.27	5.14
50th Percentile	5.96	12.96	0.06	4.52	5.97	4.72
75th Percentile	5.36	12.53	-0.80	3.99	5.49	4.22
95th Percentile	4.71	11.25	-3.56	2.44	4.67	3.69
f PUBLIC EMPLOYEES RET	6.55 33	13.51 36	-0.66 72	4.04 66	5.20 85	4.20 79
o TEACHERS RETIREMENT	6.57 30	13.54 35	-0.66 72	4.03 68	5.20 85	4.20 79

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: Jon Shoen, Portfolio Manager – Alternative Investments
Date: February 9, 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.
- (ii) **New Commitments:**
The table below summarizes the investment decisions made by Staff since the last Board meeting. The investment briefs summarizing these funds and the general partners follow.

Fund Name	Vintage	Subclass	Sector	Amount	Date
GTCR Fund X, L.P.	2011	Buyout	Diverse	\$25M	12/13/10
Northgate V, L.P.	2010	Venture Capital	Diverse	\$30M	12/22/10

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

Montana Board of Investments

Private Equity Board Report

Q3 2010

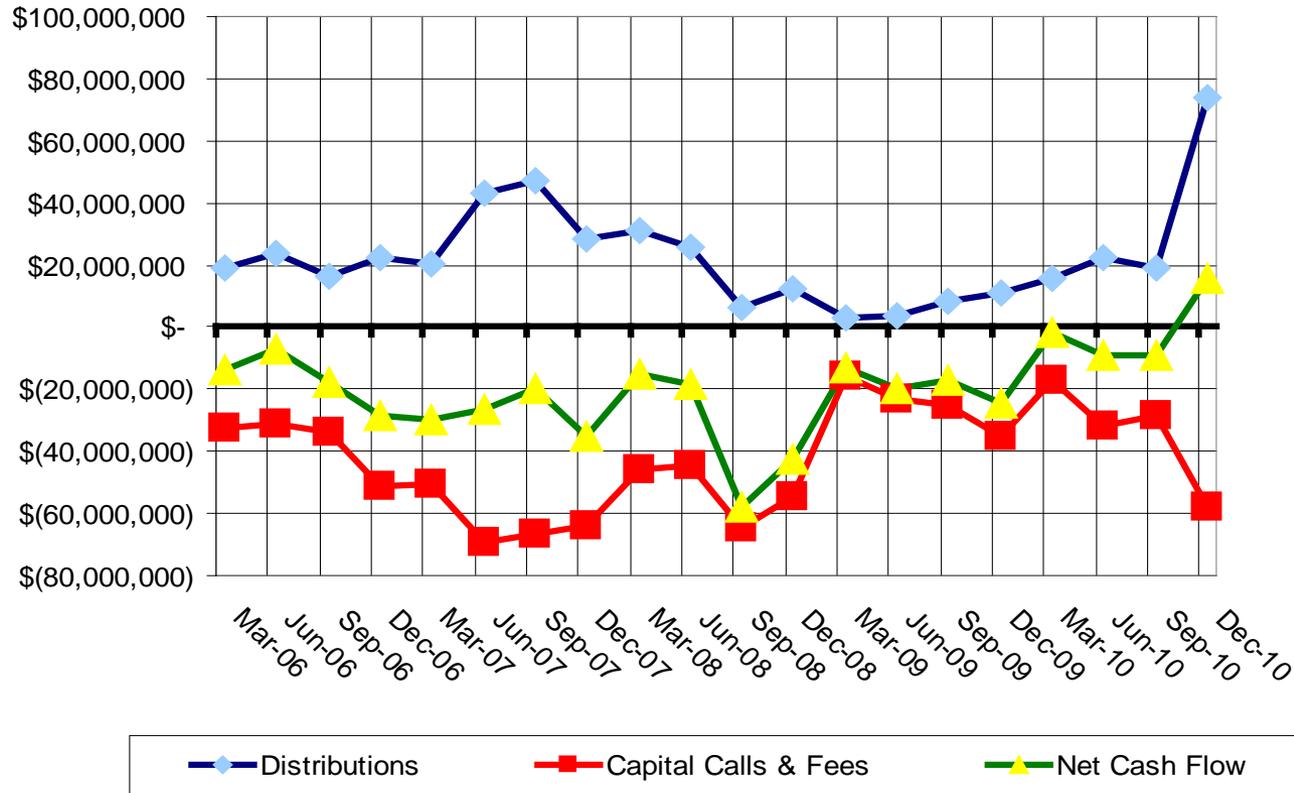
Contents

- **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

January 1, 2006 through December 31, 2010

MPEP Cash Flows



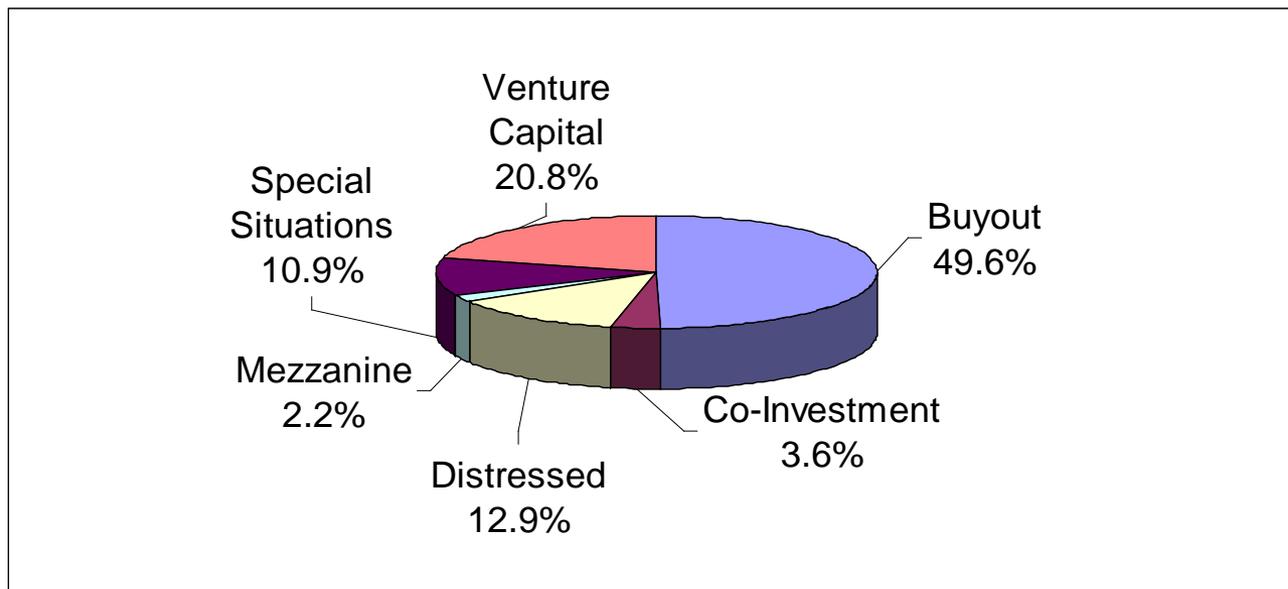
Both call and distribution activity increased significantly during the quarter, resulting in a net cash inflow of \$16M during the period. Call activity was driven by the Pool's buyout managers, while its buyout and distressed managers accounted for most of the distributions. A high level of distressed manager distributions has continued into January.

Q3 2010 Strategy – Total Exposure

Montana Private Equity Pool

Strategy Total Exposure by Market Value & Remaining Commitments (Fund of Funds broken out)

(since inception through September 30, 2010)

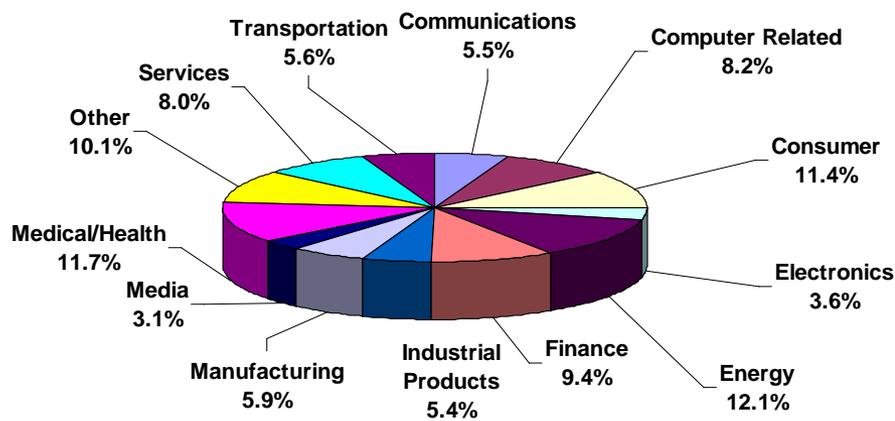


Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Buyout	\$290,161,674	53.7%	\$425,855,883	47.1%	\$716,017,557	49.6%
Co-Investment	\$19,829,860	3.7%	\$32,005,475	3.5%	\$51,835,335	3.6%
Distressed	\$49,035,032	9.1%	\$137,004,680	15.2%	\$186,039,711	12.9%
Mezzanine	\$9,265,225	1.7%	\$22,459,661	2.5%	\$31,724,886	2.2%
Special Situations	\$60,634,965	11.2%	\$97,444,371	10.8%	\$158,079,336	10.9%
Venture Capital	\$111,765,788	20.7%	\$188,653,990	20.9%	\$300,419,778	20.8%
Total	\$540,692,542	100.0%	\$903,424,060	100.0%	\$1,444,116,602	100.0%

The portfolio is well diversified by strategy, with the most significant weight consisting of Buyout at 49.6% of total exposure followed by Venture Capital at 20.8%. The Pool's strategic allocations are expected to be relatively stable going forward, with Buyout and Venture remaining the dominant allocations. Distressed may decrease in the near term as debt markets are unsupportive of new investment, and current investments are being liquidated by fund managers.

Q3 2010 Industry – Market Value Exposure

Montana Private Equity Pool Underlying Investment Industry Exposure, by Market Value *(since inception through September 30, 2010)*



Industry	Investments, At Market Value	Percentage
Communications	\$47,498,549	5.5%
Computer Related	\$70,974,626	8.2%
Consumer	\$97,942,197	11.4%
Electronics	\$30,752,471	3.6%
Energy	\$104,177,515	12.1%
Finance	\$81,222,879	9.4%
Industrial Products	\$46,330,993	5.4%
Manufacturing	\$50,710,975	5.9%
Media	\$26,488,267	3.1%
Medical/Health	\$100,950,078	11.7%
Other	\$86,679,331	10.1%
Services	\$69,156,430	8.0%
Transportation	\$48,450,798	5.6%
Total	\$861,335,109	100.0%

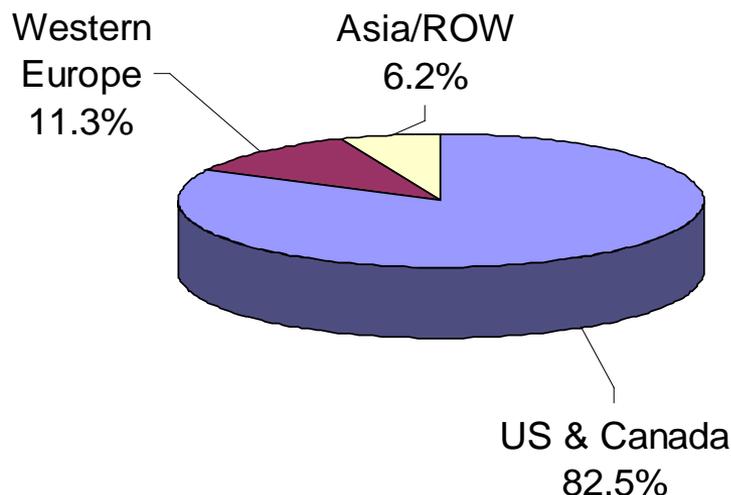
The portfolio is broadly diversified by industry, with Energy representing the highest concentration at 12.1% of assets. With the exception of Energy and the technology-related industries, the portfolio's underlying managers tend to be multi-sector investors. Therefore, composition of the portfolio by industry is and will continue to be primarily an outflow of manager deal sourcing success rather than a function of Board staff's desire to over or underweight a specific industry.

Q3 2010 Geography – Total Exposure

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through September 30, 2010)



The portfolio's predominate geographic exposure is to developed North America, with 82.5% of market value and uncalled capital domiciled in or targeted for the U.S. and Canada. The ratio of domestic to international investments is not expected to change materially going forward. International investments are expected to be made largely through fund of funds given that internal resources are not adequate to support a consistent and competent global fund-sourcing effort.

Geography	Remaining Commitments ⁽¹⁾	Percentage	Market Value ⁽²⁾	Percentage	Total Exposure	Percentage
US & Canada	\$474,044,932	87.7%	\$682,123,860	79.2%	\$1,156,168,792	82.5%
Western Europe	\$36,994,612	6.8%	\$121,559,918	14.1%	\$158,554,530	11.3%
Asia/ROW	\$29,652,998	5.5%	\$57,651,330	6.7%	\$87,304,328	6.2%
Total	\$540,692,542	100.0%	\$861,335,109	100.0%	\$1,402,027,651	100.0%

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

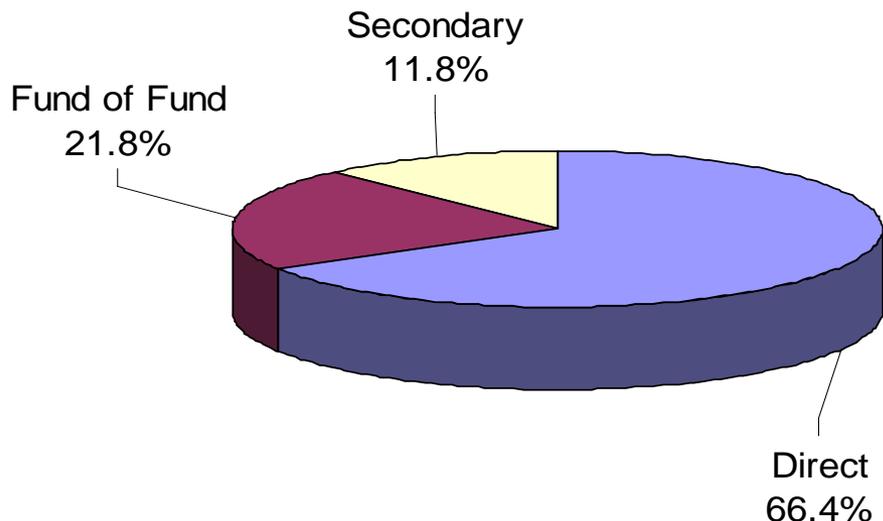
⁽²⁾ Market Value represents the aggregate market values of the underlying investment companies of the partnerships.

Q3 2010 Investment Vehicle – Total Exposure

Montana Private Equity Pool

Investment Vehicle Exposure by Market Value & Remaining Commitments

(since inception through September 30, 2010)



The portfolio is invested primarily through direct private equity commitments. To the extent that the quality of managers invested in 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	\$ 348,948,477	64.5%	\$ 609,269,156	67.4%	\$ 958,217,633	66.4%
Fund of Fund	\$ 121,123,270	22.4%	\$ 193,939,096	21.5%	\$ 315,062,366	21.8%
Secondary	\$ 70,620,795	13.1%	\$ 100,215,808	11.1%	\$ 170,836,603	11.8%
Total	\$ 540,692,542	100.0%	\$ 903,424,060	100.0%	\$ 1,444,116,602	100.0%

Q3 2010 1 – 3 – 5 Year Periodic Return Comparison

Montana Board of Investments Periodic Return Comparison

For the Period Ended September 30, 2010

Description	Since Inception					1 Year Return	3 Year Return	5 Year Return
	Fund Count	Ending Market Value	Investment Multiple	IRR	Contribution to IRR	IRR	IRR	IRR
Total	122	903,424,060	1.34	11.93	11.93	13.55	(0.82)	5.98
<i>Adams Street Funds</i>	34	192,968,804	1.40	12.01	3.08	12.74	(0.87)	7.48
ASP - Direct VC Funds	4	32,321,013	1.41	14.71	0.68	14.28	(0.78)	6.25
ASP - Secondary Funds	7	19,947,491	1.56	43.75	0.47	6.73	1.83	9.91
ASP - U.S. Partnership Funds	14	123,185,182	1.36	9.47	1.67	13.59	(0.80)	6.99
ASP Non-US Partnership Funds	9	17,515,118	1.44	11.27	0.27	11.06	(4.18)	12.04
<i>Buyout</i>	28	273,515,570	1.43	11.02	5.04	15.27	(3.16)	5.54
<i>Co-Investment</i>	2	32,005,475	1.11	4.31	0.10	25.44	0.44	N/A
<i>Distressed</i>	9	135,557,055	1.33	26.26	1.70	13.90	8.39	6.57
<i>Mezzanine</i>	3	18,761,924	1.24	7.69	0.13	(9.02)	0.69	4.74
<i>Non-US Private Equity</i>	6	36,980,175	1.25	10.16	0.42	9.13	(12.28)	5.04
<i>Secondary</i>	7	80,268,317	1.27	12.63	0.84	18.22	(0.26)	8.43
<i>Special Situations</i>	6	76,753,431	1.14	5.42	0.33	11.52	3.44	5.07
<i>Venture Capital</i>	27	56,613,309	1.16	16.51	0.30	9.66	(1.64)	(2.42)

The portfolio's trailing one-year IRR is 13.55%. From inception investment multiple and IRR results increased to 1.34 and 11.93%, respectively, from 1.31 and 11.58% at the end of the prior quarter. The increase in performance was driven by investment realizations from some of the Pool's Buyout, Co-Investment, and Special Situations managers. Unrealized valuation increases related to public market strength also contributed to the positive results.

Q3 2010 LPs by Family of Funds

Montana Board of Investments
LP's by Family of Funds
All Investments
As of September 30, 2010

Description	Since Inception												
	Vintage Year	Capital Contributed for Commitment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	% of Ending Market Value	IRR ¹	Investment Multiple	Total Exposure	% of Total Exposure	
Total		1,887,388,174	1,284,121,725	85,838,360	540,692,542	72.58	932,318,675	903,424,060	100.00	11.93	1.34	1,444,116,602	100.00
Active		1,874,970,174	1,272,127,282	84,536,893	540,692,542	72.36	896,073,146	903,424,060	100.00	11.21	1.33	1,444,116,602	100.00
Adams Street Partners		327,129,264	276,263,208	27,212,984	34,822,675	92.77	230,798,122	192,968,804	21.36	12.01	1.40	227,791,479	15.77
Adams Street Partners Fund - U.S.		94,000,000	71,386,785	5,238,715	17,374,500	81.52	22,100,946	69,587,376	7.70	5.44	1.20	86,961,876	6.02
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000	28,481,514	2,186,486	3,332,000	90.20	13,692,093	27,147,382	3.00	8.09	1.33	30,479,382	2.11
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000	15,146,250	1,113,750	3,740,000	81.30	5,005,156	14,799,910	1.64	5.83	1.22	18,539,910	1.28
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000	11,160,586	786,914	3,052,500	79.65	2,133,408	11,244,849	1.24	3.47	1.12	14,297,349	0.99
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000	16,598,435	1,151,565	7,250,000	71.00	1,270,289	16,395,235	1.81	(0.16)	1.00	23,645,235	1.64
Adams Street Partners Fund - Non-U.S.		16,000,000	13,050,923	863,077	2,086,000	86.96	6,077,493	12,214,572	1.35	9.46	1.31	14,300,572	0.99
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000	5,395,427	370,573	234,000	96.10	4,286,233	4,731,854	0.52	14.15	1.56	4,965,854	0.34
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000	3,979,873	265,627	754,500	84.91	1,298,064	3,824,045	0.42	6.49	1.21	4,578,545	0.32
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000	3,675,623	226,877	1,097,500	78.05	493,196	3,658,673	0.40	2.22	1.06	4,756,173	0.33
Brinson Partnership Trust - Non-U.S.		9,809,483	9,318,556	1,043,808	560,102	105.64	11,796,998	5,486,886	0.61	13.61	1.67	6,046,988	0.42
Brinson Non-U.S. Trust-1999 Primary Fund	1999	1,524,853	1,474,957	162,257	119,071	107.37	2,249,252	359,471	0.04	10.63	1.59	478,542	0.03
Brinson Non-U.S. Trust-2000 Primary Fund	2000	1,815,207	1,815,207	193,153	0	110.64	2,568,555	889,443	0.10	12.80	1.72	889,443	0.06
Brinson Non-U.S. Trust-2001 Primary Fund	2001	1,341,612	1,341,612	142,759	0	110.64	1,764,720	635,944	0.07	12.51	1.62	635,944	0.04
Brinson Non-U.S. Trust-2002 Primary Fund	2002	1,696,452	1,696,452	180,516	0	110.64	1,185,275	1,492,842	0.17	9.27	1.43	1,492,842	0.10
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308	601,542	67,815	35,766	105.03	1,329,057	186,340	0.02	26.74	2.26	222,106	0.02
Brinson Non-U.S. Trust-2003 Primary Fund	2003	1,896,438	1,659,040	201,796	237,398	98.12	2,266,291	1,279,493	0.14	22.40	1.91	1,516,891	0.11
Brinson Non-U.S. Trust-2004 Primary Fund	2004	897,613	729,746	95,513	167,867	91.94	433,848	643,353	0.07	7.99	1.31	811,220	0.06
Brinson Partnership Trust - U.S.		103,319,781	96,220,953	10,033,544	7,098,828	102.84	99,973,997	55,861,990	6.18	10.30	1.47	62,960,818	4.36
Brinson Partners - 1996 Fund	1996	3,950,740	3,708,316	454,078	242,424	105.36	6,824,237	270,561	0.03	14.97	1.70	512,985	0.04
Brinson Partners - 1997 Primary Fund	1997	3,554,935	3,554,935	407,879	0	111.47	14,267,325	253,379	0.03	71.47	3.66	253,379	0.02
Brinson Partners - 1998 Primary Fund	1998	7,161,019	7,122,251	821,687	38,768	110.93	10,085,017	976,038	0.11	6.71	1.39	1,014,806	0.07
Brinson Partners - 1998 Secondary Fund	1998	266,625	266,625	30,583	0	111.47	181,932	8,792	0.00	(7.79)	0.64	8,792	0.00
Brinson Partners - 1999 Primary Fund	1999	8,346,761	7,832,823	942,201	513,938	105.13	7,832,823	2,071,982	0.23	2.24	1.13	2,585,920	0.18
Brinson Partners - 2000 Primary Fund	2000	20,064,960	19,079,570	2,106,154	985,390	105.59	20,144,332	7,942,684	0.88	5.65	1.33	8,928,074	0.62
Brinson Partners - 2001 Primary Fund	2001	15,496,322	14,830,208	1,405,708	666,114	104.77	8,693,285	12,071,640	1.34	5.28	1.28	12,737,754	0.88
Brinson Partners - 2002 Primary Fund	2002	16,297,079	15,783,921	1,467,225	513,158	105.85	14,328,521	11,455,499	1.27	11.72	1.49	11,968,657	0.83
Brinson Partners - 2002 Secondary Fund	2002	2,608,820	2,498,592	228,823	110,228	104.55	3,259,035	1,437,752	0.16	14.17	1.72	1,547,980	0.11
Brinson Partners - 2003 Primary Fund	2003	15,589,100	13,272,620	1,371,610	2,316,480	93.94	10,481,537	10,613,263	1.17	10.34	1.44	12,929,743	0.90
Brinson Partners - 2003 Secondary Fund	2003	1,151,151	1,020,460	91,968	130,691	96.64	1,906,646	828,565	0.09	25.99	2.46	959,256	0.07
Brinson Partners - 2004 Primary Fund	2004	8,832,269	7,250,632	705,628	1,581,637	90.08	1,969,307	7,931,835	0.88	5.82	1.24	9,513,472	0.66

Q3 2010 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of September 30, 2010

Description	Vintage Year	Since Inception										% of Total Exposure	
		Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	% of Ending Market Value	IRR [†]	Investment Multiple		Total Exposure
Remaining ASP Funds		104,000,000	86,285,991	10,033,840	7,703,245	92.62	90,848,688	49,817,980	5.51	20.95	1.46	57,521,225	3.98
Adams Street Global Oppty Secondary Fund	2004	25,000,000	18,123,027	814,473	6,062,500	75.75	6,547,446	17,313,274	1.92	9.23	1.26	23,375,774	1.62
Adams Street V, L.P.	2003	40,000,000	34,799,999	4,600,001	600,000	98.50	12,505,504	24,303,936	2.69	(1.65)	0.93	24,903,936	1.72
Adams Street VPAF Fund II	1990	4,000,000	3,621,830	378,170	0	100.00	7,879,041	10,925	0.00	25.25	1.97	10,925	0.00
Brinson Venture Capital Fund III, L.P.	1993	5,000,000	4,045,656	954,344	0	100.00	15,622,448	12,670	0.00	40.47	3.13	12,670	0.00
Brinson VPF III	1993	5,000,000	4,488,559	522,979	0	100.23	14,899,918	159,690	0.02	29.47	3.00	159,690	0.01
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	191,250	0	100.23	8,182,793	160,098	0.02	41.47	1.66	160,098	0.01
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,634,305	12,670	0.00	97.02	2.44	1,053,415	0.07
BVCF IV, L.P.	1999	15,000,000	12,783,897	2,216,103	0	100.00	15,577,233	7,844,717	0.87	6.16	1.56	7,844,717	0.54
Affinity Asia Capital		15,000,000	5,959,159	1,228,442	7,814,067	47.92	170,208	6,074,840	0.67	(6.86)	0.87	13,888,907	0.96
Affinity Asia Pacific Fund III, LP	2006	15,000,000	5,959,159	1,228,442	7,814,067	47.92	170,208	6,074,840	0.67	(6.86)	0.87	13,888,907	0.96
Arclight Energy Partners		50,000,000	41,876,389	1,479,449	6,644,162	86.71	23,925,456	35,880,626	3.97	11.91	1.38	42,524,788	2.94
Arclight Energy Partners Fund II	2004	25,000,000	20,871,810	822,752	3,305,438	86.78	21,958,985	12,456,265	1.38	18.04	1.59	15,761,703	1.09
Arclight Energy Partners Fund III, LP	2006	25,000,000	21,004,580	656,697	3,338,724	86.65	1,966,471	23,424,361	2.59	5.14	1.17	26,763,085	1.85
Austin Ventures		500,000	424,416	129,154	1	110.71	1,216,717	15,693	0.00	20.55	2.23	15,694	0.00
Austin Ventures III	1991	500,000	424,416	129,154	1	110.71	1,216,717	15,693	0.00	20.55	2.23	15,694	0.00
Avenue Investments		35,000,000	33,424,943	1,784,954	0	100.60	956,078	42,271,172	4.68	9.95	1.23	42,271,172	2.93
Avenue Special Situations Fund V, LP	2007	35,000,000	33,424,943	1,784,954	0	100.60	956,078	42,271,172	4.68	9.95	1.23	42,271,172	2.93
Axiom Asia Private Capital		25,000,000	2,777,293	422,260	21,838,931	12.80	0	3,177,131	0.35	(0.84)	0.99	25,016,062	1.73
Axiom Asia Private Capital II, LP	2009	25,000,000	2,777,293	422,260	21,838,931	12.80	0	3,177,131	0.35	(0.84)	0.99	25,016,062	1.73
Black Diamond Capital Management		25,000,000	0	0	25,000,000	0.00	0	0	0.00	N/A	0.00	25,000,000	1.73
BDCM Opportunity Fund III, L.P.	2010	25,000,000	0	0	25,000,000	0.00	0	0	0.00	N/A	0.00	25,000,000	1.73
Carlyle Partners		60,000,000	48,294,196	3,618,180	8,186,626	86.52	10,793,593	54,236,249	6.00	7.20	1.25	62,422,875	4.32
Carlyle Partners IV, L.P.	2005	35,000,000	31,662,839	1,325,490	2,110,673	94.25	10,624,590	34,450,744	3.81	8.79	1.37	36,561,417	2.53
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000	16,631,357	2,292,690	6,075,953	75.70	169,003	19,785,505	2.19	2.25	1.05	25,861,458	1.79
CCMP Associates		30,000,000	16,384,286	1,586,347	12,029,367	59.90	75,714	16,995,270	1.88	(2.73)	0.95	29,024,637	2.01
CCMP Capital Investors II, L.P.	2006	30,000,000	16,384,286	1,586,347	12,029,367	59.90	75,714	16,995,270	1.88	(2.73)	0.95	29,024,637	2.01
Centerbridge		12,500,000	9,602,887	84,613	2,812,500	77.50	0	13,270,227	1.47	42.56	1.37	16,082,727	1.11
Centerbridge Special Credit Partners	2009	12,500,000	9,602,887	84,613	2,812,500	77.50	0	13,270,227	1.47	42.56	1.37	16,082,727	1.11
CIVC Partners		25,000,000	0	0	25,000,000	0.00	0	0	0.00	N/A	0.00	25,000,000	1.73
CIVC Partners Fund IV, L.P.	2010	25,000,000	0	0	25,000,000	0.00	0	0	0.00	N/A	0.00	25,000,000	1.73
Energy Investors Funds		25,000,000	0	0	25,000,000	0.00	0	0	0.00	N/A	0.00	25,000,000	1.73
EIF US Power Fund IV, L.P.	2010	25,000,000	0	0	25,000,000	0.00	0	0	0.00	N/A	0.00	25,000,000	1.73
First Reserve		55,485,789	33,191,586	1,084,153	21,210,050	61.77	2,251,819	28,926,000	3.20	(4.28)	0.91	50,136,050	3.47
First Reserve Fund XI, L.P.	2006	30,000,000	22,562,570	695,904	6,741,526	77.53	1,099,726	22,500,000	2.49	0.58	1.01	29,241,526	2.02
First Reserve Fund XII, L.P.	2008	25,485,789	10,629,016	388,248	14,468,525	43.23	1,152,093	6,426,000	0.71	(23.17)	0.69	20,894,525	1.45
HarbourVest		61,823,772	15,779,860	469,902	45,587,535	26.28	279,931	18,100,930	2.00	7.40	1.13	63,688,465	4.41
Dover Street VII L.P.	2008	20,000,000	6,190,858	222,667	13,600,000	32.07	279,931	7,160,371	0.79	11.16	1.16	20,760,371	1.44
HarbourVest Direct 2007 Fund	2007	20,000,000	8,488,421	161,579	11,350,000	43.25	0	9,742,569	1.08	5.89	1.13	21,092,569	1.46
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	1,100,581	85,656	20,637,535	5.44	0	1,197,990	0.13	1.12	1.01	21,835,525	1.51
Hellman & Friedman		40,000,000	17,641,497	870,562	21,487,941	46.28	889,616	20,942,645	2.32	6.96	1.18	42,430,586	2.94
Hellman & Friedman Capital Partners VI	2006	25,000,000	17,641,497	870,562	6,487,941	74.05	889,616	20,942,645	2.32	6.96	1.18	27,430,586	1.90
Hellman & Friedman Capital Partners VII	2010	15,000,000	0	0	15,000,000	0.00	0	0	0.00	N/A	0.00	15,000,000	1.04

Q3 2010 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of September 30, 2010

Description	Since Inception												
	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	% of Ending Market Value	IRR ¹	Investment Multiple	Total Exposure	% of Total Exposure
Highway 12 Ventures		10,000,000	4,710,022	964,215	4,325,762	56.74	73,476	4,319,827	0.48	(12.12)	0.77	8,645,589	0.60
Highway 12 Venture Fund II, L.P.	2006	10,000,000	4,710,022	964,215	4,325,762	56.74	73,476	4,319,827	0.48	(12.12)	0.77	8,645,589	0.60
Industry Ventures		10,000,000	9,246,223	562,556	595,358	98.09	3,312,903	7,319,148	0.81	3.24	1.08	7,914,506	0.55
Industry Ventures Fund IV, L.P.	2005	10,000,000	9,246,223	562,556	595,358	98.09	3,312,903	7,319,148	0.81	3.24	1.08	7,914,506	0.55
JCF		25,000,000	23,857,333	679,014	474,449	98.15	748,323	6,168,615	0.68	(37.93)	0.28	6,643,064	0.46
J.C. Flowers II L.P.	2006	25,000,000	23,857,333	679,014	474,449	98.15	748,323	6,168,615	0.68	(37.93)	0.28	6,643,064	0.46
Joseph Littlejohn & Levy		25,000,000	21,244,981	1,113,256	2,641,763	89.43	4,492,264	23,095,586	2.56	8.55	1.23	25,737,349	1.78
JLL Partners Fund V, L.P.	2005	25,000,000	21,244,981	1,113,256	2,641,763	89.43	4,492,264	23,095,586	2.56	8.55	1.23	25,737,349	1.78
KKR		175,000,000	175,000,000	9,638,024	0	105.51	324,542,138	26,968,620	2.99	12.31	1.90	26,968,620	1.87
KKR 1987 Fund	1987	25,000,000	25,000,000	2,101,164	0	108.40	55,896,579	296,019	0.03	8.89	2.07	296,019	0.02
KKR 1993 Fund	1993	25,000,000	25,000,000	1,002,236	0	104.01	48,789,535	107,376	0.01	17.78	1.88	107,376	0.01
KKR 1996 Fund	1997	100,000,000	100,000,000	4,699,113	0	104.70	175,133,737	12,103,431	1.34	13.43	1.79	12,103,431	0.84
KKR European Fund, L. P.	1999	25,000,000	25,000,000	1,835,511	0	107.34	44,722,287	14,461,794	1.60	19.81	2.21	14,461,794	1.00
Lexington Capital Partners		140,000,000	98,729,998	4,603,416	36,666,586	73.81	71,040,028	62,323,463	6.90	13.37	1.29	98,990,049	6.85
Lexington Capital Partners V, L.P.	2001	50,000,000	47,457,955	2,311,262	230,783	99.54	59,203,357	18,434,096	2.04	18.93	1.56	18,664,879	1.29
Lexington Capital Partners VI-B, L.P.	2005	50,000,000	43,032,029	1,745,147	5,222,824	89.55	11,747,129	34,259,790	3.79	1.29	1.03	39,482,614	2.73
Lexington Capital Partners VII, L.P.	2009	30,000,000	6,564,768	423,144	23,012,088	23.29	958	7,714,842	0.85	131.68	1.10	30,726,930	2.13
Lexington Middle Market Investors II, LP	2008	10,000,000	1,675,246	123,863	8,200,891	17.99	88,584	1,914,735	0.21	10.22	1.11	10,115,626	0.70
Madison Dearborn Capital Partners		75,000,000	50,207,439	1,881,660	22,910,901	69.45	23,701,993	43,451,724	4.81	8.72	1.29	66,362,625	4.60
Madison Dearborn Capital Partners IV, LP	2001	25,000,000	23,571,230	1,368,864	560,190	96.53	22,618,124	19,852,773	2.20	15.57	1.76	20,721,353	1.43
Madison Dearborn Capital Partners V, LP	2006	25,000,000	21,190,118	753,482	3,056,400	87.77	1,083,869	17,986,624	1.99	(4.62)	0.87	21,043,024	1.46
Madison Dearborn Capital Partners VI, LP	2008	25,000,000	5,446,091	567,988	18,985,921	24.06	0	5,612,327	0.62	(4.78)	0.93	24,598,248	1.70
Matlin Patterson		30,000,000	24,103,401	1,414,585	4,482,014	85.06	6,395,544	13,373,533	1.48	(14.55)	0.77	17,855,547	1.24
MatlinPatterson Global Opps. Ptnrs. III	2007	30,000,000	24,103,401	1,414,585	4,482,014	85.06	6,395,544	13,373,533	1.48	(14.55)	0.77	17,855,547	1.24
MHR Institutional Partners		25,000,000	16,520,349	1,368,864	7,110,787	71.56	244,507	16,731,601	1.85	(2.14)	0.95	23,842,388	1.65
MHR Institutional Partners III, L.P.	2006	25,000,000	16,520,349	1,368,864	7,110,787	71.56	244,507	16,731,601	1.85	(2.14)	0.95	23,842,388	1.65
Montlake Capital		15,000,000	6,251,187	1,398,813	7,350,000	51.00	0	5,983,699	0.66	(10.49)	0.78	13,333,699	0.92
Montlake Capital II, L.P.	2007	15,000,000	6,251,187	1,398,813	7,350,000	51.00	0	5,983,699	0.66	(10.49)	0.78	13,333,699	0.92
Neuberger Berman Group, LLC		35,000,000	25,238,014	1,282,126	8,479,860	75.77	7,080,585	22,262,906	2.46	3.91	1.11	30,742,766	2.13
NB Co-investment Partners, L.P.	2006	35,000,000	25,238,014	1,282,126	8,479,860	75.77	7,080,585	22,262,906	2.46	3.91	1.11	30,742,766	2.13
Oak Hill Capital Partners		45,000,000	32,917,459	2,519,596	9,644,299	78.75	3,405,744	37,886,890	4.19	5.66	1.17	47,531,189	3.29
Oak Hill Capital Partners II, L.P.	2005	25,000,000	22,210,182	1,574,976	1,214,842	95.14	3,361,628	27,560,394	3.05	8.04	1.30	28,775,236	1.99
Oak Hill Capital Partners III, L.P.	2008	20,000,000	10,707,277	944,620	8,429,457	58.26	44,115	10,326,496	1.14	(7.85)	0.89	18,755,953	1.30
Oaktree Capital Partners		120,000,000	107,410,105	3,339,895	9,250,000	92.29	121,643,746	49,910,522	5.52	43.48	1.55	59,160,522	4.10
OCM Opportunities Fund IVb, L.P.	2002	75,000,000	73,086,225	1,913,775	0	100.00	121,554,428	10,427	0.00	44.89	1.62	10,427	0.00
OCM Opportunities Fund VIIb, L.P.	2008	35,000,000	30,216,904	1,283,096	3,500,000	90.00	0	45,535,089	5.04	22.89	1.45	49,035,089	3.40
Oaktree Opportunities Fund VIII, L.P.	2009	10,000,000	4,106,976	143,024	5,750,000	42.50	89,318	4,365,006	0.48	9.76	1.05	10,115,006	0.70
Odyssey Partners Fund III		45,000,000	27,261,916	2,428,844	15,309,261	65.98	20,892,561	25,464,746	2.82	24.03	1.56	40,774,007	2.82
Odyssey Investment Partners IV, L.P.	2008	20,000,000	5,137,259	712,858	14,149,903	29.25	25,426	5,001,460	0.55	(16.64)	0.86	19,151,363	1.33
Odyssey Partners Fund III, L.P.	2004	25,000,000	22,124,656	1,715,986	1,159,357	95.36	20,867,136	20,463,286	2.27	25.86	1.73	21,622,643	1.50
Opus Capital Venture Partners		10,000,000	0	0	10,000,000	0.00	0	0	0.00	N/A	0.00	10,000,000	0.69
Opus Capital Venture Partners VI, LP	2010	10,000,000	0	0	10,000,000	0.00	0	0	0.00	N/A	0.00	10,000,000	0.69
Performance Venture Capital		25,000,000	2,945,319	574,315	21,480,366	14.08	383	2,926,149	0.32	(15.53)	0.83	24,406,515	1.69
Performance Venture Capital II	2008	25,000,000	2,945,319	574,315	21,480,366	14.08	383	2,926,149	0.32	(15.53)	0.83	24,406,515	1.69

Q3 2010 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of September 30, 2010

Description	Since Inception												
	Vintage Year	Capital Committed	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	% of Ending Market Value	IRR ¹	Investment Multiple	Total Exposure	% of Total Exposure
Portfolio Advisors		70,000,000	35,514,742	1,755,598	32,976,511	53.24	1,436,354	33,772,040	3.74	(2.69)	0.94	66,748,551	4.62
Port. Advisors Fund IV (B), L.P.	2006	30,000,000	20,672,154	920,313	8,407,533	71.97	1,096,907	20,070,414	2.22	(0.82)	0.98	28,477,947	1.97
Port. Advisors Fund IV (E), L.P.	2006	15,000,000	8,332,936	601,700	6,065,364	59.56	4,731	6,727,011	0.74	(13.88)	0.75	12,792,375	0.89
Port. Advisors Fund V (B), L.P.	2008	10,000,000	3,817,054	175,000	6,124,693	39.92	150,959	3,509,280	0.39	(5.71)	0.92	9,633,973	0.67
Portfolio Advisors Secondary Fund, L.P.	2008	15,000,000	2,692,598	58,585	12,378,921	18.34	183,757	3,465,335	0.38	35.28	1.33	15,844,256	1.10
Quintana Energy Partners		15,000,000	11,683,191	1,306,249	2,030,931	86.60	477,473	11,946,805	1.32	(1.68)	0.96	13,977,736	0.97
Quintana Energy Partners Fund I, L.P.	2006	15,000,000	11,683,191	1,306,249	2,030,931	86.60	477,473	11,946,805	1.32	(1.68)	0.96	13,977,736	0.97
Siguler Guff & Company		25,000,000	14,770,934	635,250	9,726,103	61.62	672,004	15,630,821	1.73	3.13	1.06	25,356,924	1.76
Siguler Guff Small Buyout Opportunities	2007	25,000,000	14,770,934	635,250	9,726,103	61.62	672,004	15,630,821	1.73	3.13	1.06	25,356,924	1.76
Summit Ventures		500,000	388,928	109,563	25,003	99.70	1,255,067	2,742	0.00	28.32	2.52	27,745	0.00
Summit Ventures II, L.P.	1988	500,000	388,928	109,563	25,003	99.70	1,255,067	2,742	0.00	28.32	2.52	27,745	0.00
TA Associates, Inc.		10,000,000	400,000	0	9,600,000	4.00	0	386,230	0.04	(3.44)	0.97	9,986,230	0.69
TA XI, L.P.	2010	10,000,000	400,000	0	9,600,000	4.00	0	386,230	0.04	(3.44)	0.97	9,986,230	0.69
Terra Firma Capital Partners		25,432,997	16,291,264	1,987,624	7,171,162	71.87	0	5,341,409	0.59	(44.74)	0.29	12,512,571	0.87
Terra Firma Capital Partners III, LP	2007	25,432,997	16,291,264	1,987,624	7,171,162	71.87	0	5,341,409	0.59	(44.74)	0.29	12,512,571	0.87
Thayer Hidden Creek Management, L.P.		20,000,000	0	0	20,000,000	0.00	0	0	0.00	N/A	0.00	20,000,000	1.38
Thayer Hidden Creek Partners II, L.P.	2008	20,000,000	0	0	20,000,000	0.00	0	0	0.00	N/A	0.00	20,000,000	1.38
Trilantic Capital Partners		11,098,351	4,408,920	681,859	6,007,572	45.87	0	5,656,506	0.63	5.83	1.11	11,664,078	0.81
Trilantic Capital Partners IV L.P.	2007	11,098,351	4,408,920	681,859	6,007,572	45.87	0	5,656,506	0.63	5.83	1.11	11,664,078	0.81
Veritas Capital		25,000,000	0	0	25,000,000	0.00	0	0	0.00	N/A	0.00	25,000,000	1.73
The Veritas Capital Fund IV, L.P.	2010	25,000,000	0	0	25,000,000	0.00	0	0	0.00	N/A	0.00	25,000,000	1.73
Welsh, Carson, Anderson & Stowe		75,500,000	61,405,837	4,320,569	10,000,000	87.05	33,300,801	49,640,891	5.49	7.05	1.26	59,640,891	4.13
Welsh, Carson, Anderson & Stowe II	1990	500,000	455,663	88,404	0	108.81	694,053	114,086	0.01	8.78	1.49	114,086	0.01
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	18,240,103	1,009,897	5,750,000	77.00	4,077,255	18,647,838	2.06	5.03	1.18	24,397,838	1.69
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000	22,033,599	1,966,401	1,000,000	96.00	27,413,832	11,048,157	1.22	12.04	1.60	12,048,157	0.83
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	20,676,472	1,255,867	3,250,000	87.73	1,115,661	19,830,810	2.20	(1.37)	0.96	23,080,810	1.60
Inactive		12,418,000	11,994,443	1,301,467	0	107.07	36,245,529	0	0.00	21.33	2.73	0	0.00

Footnote:

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.

The portfolio slightly improved its net IRR and investment multiple versus the prior quarter. Funds showing noteworthy improvement in performance during the period include MHR Institutional Partners III, HarbourVest Direct 2007, NB Co-Investment Partners, First Reserve Fund XI, and Trilantic Capital Partners IV. The portfolio continues to be well diversified by manager, with only fund of funds Adams Street Partners and secondary manager Lexington Capital Partners accounting for more than 5% of total portfolio exposure. Net asset value diversification is adequate as, with the exception of Adams Street Partners, no manager accounts for greater than 7% of total NAV.

State Street Private Equity IndexSM – MPEP Comparison

IRR Benchmark Comparison (Since 1980)
As of September 30, 2010

By Investment Focus

Description	PIC Montana		DPI Montana		RVPI Montana		TVPI Montana		IRR Montana	
Buyout	0.73	0.72	0.68	0.70	0.68	0.65	1.35	1.35	12.35	10.79
Venture Capital	0.78	0.68	0.70	0.63	0.54	0.65	1.23	1.28	9.20	15.75
Other	0.78	0.80	0.53	0.62	0.78	0.70	1.32	1.32	11.70	23.43
Pooled IRR	0.74	0.73	0.66	0.68	0.67	0.66	1.33	1.34	11.77	11.93

By Origin

Description	PIC Montana		DPI Montana		RVPI Montana		TVPI Montana		IRR Montana	
US	0.75	0.73	0.69	0.69	0.66	0.67	1.35	1.36	11.94	12.34
Non-US	0.71	0.64	0.56	0.56	0.70	0.53	1.26	1.09	10.92	3.79
Pooled IRR	0.74	0.73	0.66	0.68	0.67	0.66	1.33	1.34	11.77	11.93

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	0.98	1.07	2.91	2.29	0.00	0.01	2.91	2.30	27.94	24.24
1992	0.99	NA	2.24	NA	0.00	NA	2.24	NA	23.09	NA
1993	0.99	1.03	2.31	2.22	0.02	0.01	2.33	2.22	24.91	23.25
1994	0.95	NA	2.36	NA	0.02	NA	2.38	NA	24.80	NA
1995	0.94	NA	1.90	NA	0.02	NA	1.92	NA	20.42	NA
1996	0.98	1.05	1.57	1.64	0.06	0.07	1.63	1.70	11.10	14.97
1997	0.99	1.05	1.47	1.74	0.13	0.11	1.60	1.86	11.28	15.13
1998	0.97	1.11	1.32	1.25	0.12	0.12	1.44	1.37	8.08	6.26
1999	0.96	1.02	1.03	1.44	0.20	0.41	1.23	1.85	4.67	14.55
2000	0.95	1.01	1.15	1.06	0.39	0.42	1.55	1.48	11.11	8.93
2001	0.99	1.00	1.28	1.01	0.43	0.56	1.71	1.56	17.68	14.41
2002	0.94	0.98	1.10	1.19	0.56	0.35	1.66	1.54	19.77	26.92
2003	0.98	0.93	1.11	0.44	0.63	0.71	1.74	1.15	22.52	3.65
2004	0.93	0.84	0.66	0.55	0.79	0.85	1.45	1.40	13.04	12.38
2005	0.90	0.89	0.29	0.21	0.92	0.94	1.22	1.14	6.80	4.73
2006	0.79	0.75	0.10	0.06	0.84	0.87	0.94	0.93	-2.31	-2.70
2007	0.60	0.72	0.06	0.07	1.00	0.85	1.06	0.92	2.84	-4.28
2008	0.41	0.35	0.08	0.02	0.98	1.09	1.06	1.11	4.03	7.11
2009	0.30	0.31	0.16	0.00	0.98	1.18	1.14	1.19	17.62	35.72
2010	0.15	0.00	0.02	0.00	0.87	0.97	0.88	0.97	-4.01	-3.44
Pooled IRR	0.74	0.73	0.66	0.68	0.67	0.66	1.33	1.34	11.77	11.93

Based on data compiled from 1,859 Private Equity funds, including fully liquidated partnerships, formed between 1980 to 2010.

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

The preceding table presents a performance comparison between State Street Private Equity Index data and the MBOI's private equity portfolio. The information presented is current through 9/30/10, the most recent period for which index data is available. With the exception of the vintage year information, all comparison data extends back to the inception of Montana's private equity investment activity.

The table shows that MBOI's private equity portfolio has slightly exceeded the investment multiple and the IRR of the index. Montana's relatively attractive performance has been driven by its Venture Capital and Other (primarily Distressed Debt) holdings, both of which decisively outperformed the index.

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: Jon Shoen, Portfolio Manager – Alternative Investments

Date: February 9, 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.
- (ii) **New Commitments:**
The table below summarizes the investment decisions made by Staff since the last Board meeting. An addition to a core fund was made in TFIP. There were no new commitments to closed-end funds.

Fund Name	Pool	Subclass	Sector	Amount	Date Funded (Core) or Date of Decision
TIAA-CREF Asset Management Core Property Fund, LP	TFIP	Core	Diverse	\$2 M	1/3/11

Montana Board of Investments

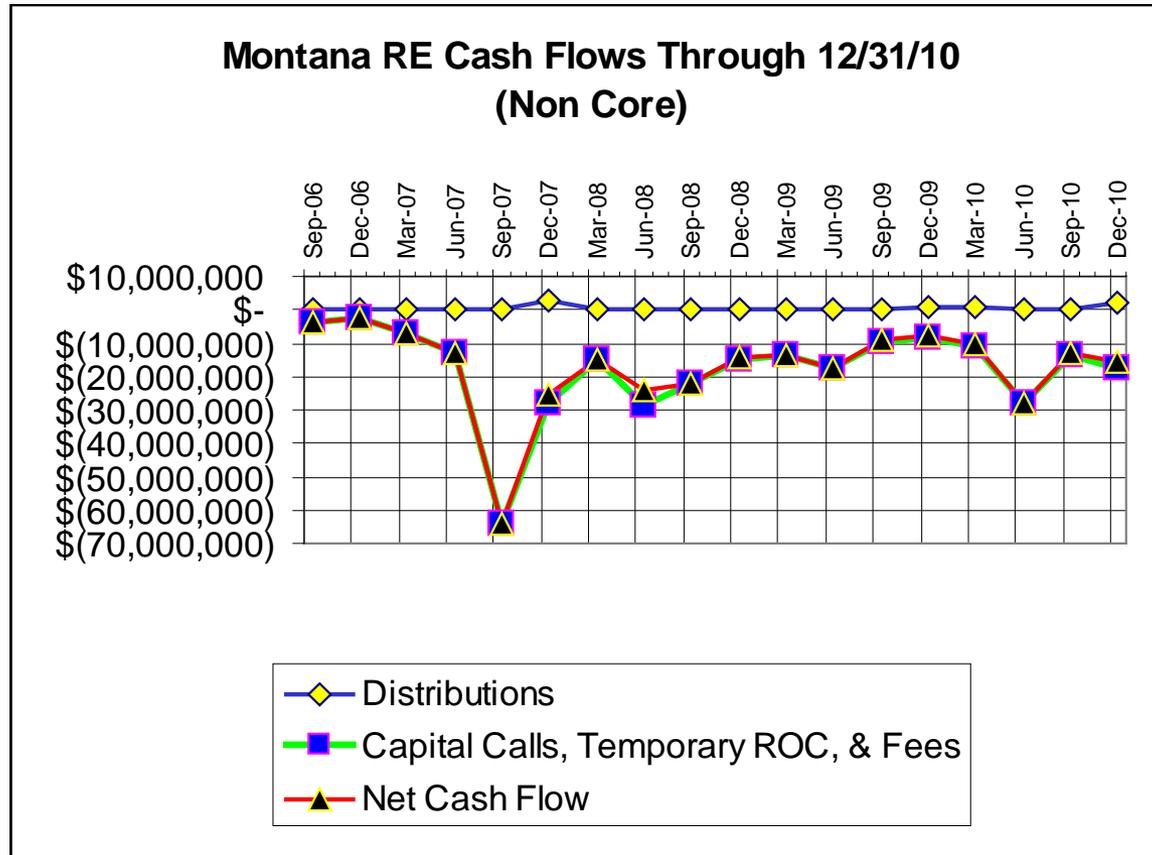
Real Estate Board Report

Q3 2010

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**

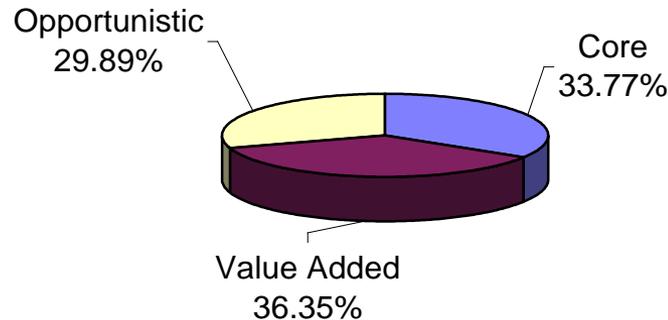
Quarterly Cash Flows through December 31, 2010



Call activity remained healthy in Q4. Credit is generally available for good quality real estate properties, and lenders are beginning to force resolutions on their troubled borrowers. Capital calls were high in both the Value Added and Opportunistic segments of the portfolio, with funds managed by Rothschild (Five Arrows Securities), Angelo Gordon, Carlyle, and CIM being particularly active.

Q3 2010 Strategy – Total Exposure

Total Exposure

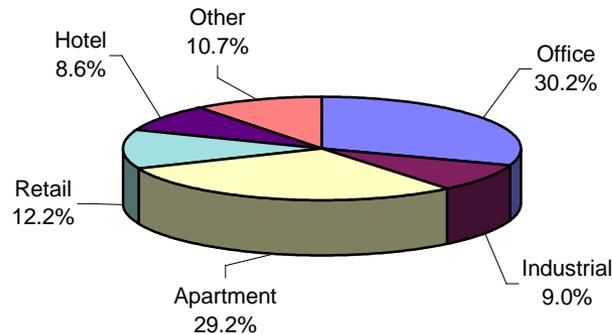


Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core	\$0	0.00%	\$182,718,146	47.56%	\$182,718,146	33.77%
Value Added	\$69,917,782	44.56%	\$126,752,333	32.99%	\$196,670,115	36.35%
Opportunistic	\$86,975,159	55.44%	\$74,746,372	19.45%	\$161,721,531	29.89%
Total	\$156,892,941	100.00%	\$384,216,851	100.00%	\$541,109,792	100.00%

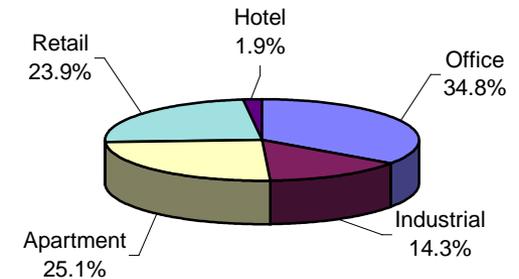
The real estate portfolio is well diversified by strategy. At the end of Q3, Core investments accounted for 48% of the Pool's NAV followed by Value Added at 33% and Opportunistic at 19%. While no Timber investments have been made to date, it is likely that one or more Timber commitments will be made in the first half of calendar 2011.

Q3 2010 Property Type – Market Value Exposure

Montana United States Portfolio



NCREIF Index



	Office	Industrial	Apartment	Retail	Hotel	Other ²	Total
Montana US Value ²	\$216.8	\$64.8	\$209.6	\$87.7	\$61.5	\$76.4	\$716.7
Montana US Total	30.2%	9.0%	29.2%	12.2%	8.6%	10.7%	100.0%
NCREIF Value ^{2,4}	82,851	34,048	59,876	56,941	4,621		238,338
NCREIF ¹	34.8%	14.3%	25.1%	23.9%	1.9%		100.0%
Difference	-4.5%	-5.2%	4.1%	-11.7%	6.6%	10.7%	
Montana Non-US Value ²	\$54.0	\$0.0	\$9.6	\$7.0	\$17.0	\$52.6	\$140.2
Montana Non-US Total	38.5%	0.0%	6.9%	5.0%	12.1%	37.5%	100.0%
Montana Total Value ²	\$270.8	\$64.8	\$219.2	\$94.7	\$78.4	\$129.0	\$856.9
Montana Total ¹	31.6%	7.6%	25.6%	11.1%	9.2%	15.1%	100.0%

1) Diversification percentages are based on the Gross Market Value of MBOI's share

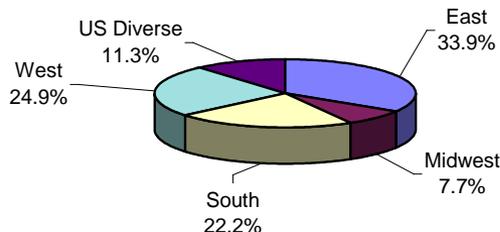
2) Other consists of \$72,618,032 in mixed-use assets, \$39,279,280 in healthcare/senior living, \$12,360,252 in land, \$936,016 in storage, \$2,624,681 in debt assets, and \$1,179,927 in manufactured assets.

3) Values shown are in Millions.

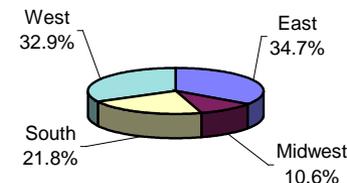
Relative to NCREIF, the domestic portion of the portfolio has a 12% underweight in Retail and more modest underweights in Office and Industrial. The offsetting overweight positions are in Hotel, Apartment, and Other. It should be noted that most of Other is composed of mixed-use properties, much of which, if disaggregated, would fit into Office, Retail, and Apartment.

Q3 2010 Geography – Total Exposure

Montana United States Portfolio



NCREIF Index



	East	Midwest	South	West	US Diverse	Non-US	Total
Montana US Value ²	\$242.7	\$55.2	\$159.2	\$178.4	\$81.3		\$716.7
Montana US Total ¹	33.9%	7.7%	22.2%	24.9%	11.3%		100.0%
NCREIF Value ^{2,3}	82,678	25,355	51,967	78,338			238,338
NCREIF ¹	34.7%	10.6%	21.8%	32.9%			100.0%
Difference	-0.8%	-2.9%	0.4%	-8.0%	11.3%		
Montana Total Value ²	\$242.7	\$55.2	\$159.2	\$178.4	\$81.3	\$140.2	\$856.9
Montana Total ¹	28.3%	6.4%	18.6%	20.8%	9.5%	16.4%	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 real estate portfolio is geographically well-diversified. International properties account for 16.4% of the portfolio. In the domestic holdings, the portfolio is about 8% underweight in the West versus the NCREIF. None of the remaining geographic allocations vary by more than 3% when compared to the Index.

Q3 2010 Time Weighted & Internal Rates of Return

	Time Weighted Returns												
	Current Quarter			Year to Date		1 - Year		2 - Year		3 - Year		Inception	
	NAV	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross
Clarion Lion Properties Fund	25,265,808	6.86%	7.13%	10.64%	11.52%	5.50%	6.68%	-24.77%	-23.85%	-15.92%	-14.97%	-9.63%	-8.63%
INVESCO Core Real Estate-USA	31,096,305	7.19%	7.42%	10.78%	11.51%	6.21%	7.16%	-17.46%	-16.67%	-10.47%	-9.63%	-10.47%	-9.63%
JP Morgan Strategic Properties Fund	83,178,170	3.72%	3.98%	8.36%	9.18%	5.09%	6.16%	-15.30%	-14.41%	-9.41%	-8.47%	-7.47%	-6.52%
UBS-Trumbull Property Fund	43,177,864	5.30%	5.41%	10.46%	10.80%	-	-	-	-	-	-	10.46%	10.80%
Core Total	182,718,146	5.10%	5.32%	9.58%	10.35%	5.49%	6.51%	-18.54%	-17.69%	-11.49%	-10.59%	-5.94%	-4.98%
Value Added Total	126,752,333	2.15%	2.68%	9.13%	11.14%	-9.38%	-7.05%	-10.39%	-8.04%	-4.67%	-2.17%	-3.19%	0.57%
Opportunistic Total	74,746,372	8.19%	9.04%	9.92%	13.28%	7.04%	12.19%	-39.71%	-36.24%	-33.13%	-29.19%	-33.13%	-29.19%
Total Portfolio	384,216,851	4.68%	5.13%	9.49%	11.19%	-0.48%	1.81%	-20.26%	-18.31%	-13.81%	-11.76%	-7.52%	-5.02%
Benchmark (gross)													
NCREIF	238,338,253,540		3.86%		8.11%		5.84%		-9.21%		-4.61%		8.82%
NFI-ODCE	54,713,200,000		5.45%		10.83%		7.00%		-16.81%		-10.60%		7.90%
Internal Rates of Return (Net of Fees)													
ABR Chesapeake Fund III	17,949,647	0.64%		2.25%		-4.61%		-3.68%		-2.30%		-1.09%	
ABR Chesapeake Fund IV ¹	1,700,000	-		-		-		-		-		-	
AG Core Plus Realty Fund II	12,406,277	11.09%		21.27%		15.62%		1.53%		1.40%		0.72%	
AG Core Plus Realty Fund III ²	-	-		-		-		-		-		-	
Apollo Real Estate Finance Corp.	7,967,530	-0.16%		0.74%		-7.80%		-9.53%		-5.42%		-5.51%	
AREFIN Co-Invest	7,531,466	0.85%		-2.27%		-14.27%		-14.46%		-		-12.89%	
DRA Growth & Income Fund VI	14,465,387	3.69%		9.45%		0.62%		-6.88%		-3.74%		-3.74%	
Five Arrows Securities V, L.P.	7,696,849	5.04%		8.77%		9.28%		7.02%		5.61%		5.42%	
Hudson RE Fund IV Co-Invest	9,636,193	0.97%		1.66%		-6.51%		-1.67%		-		-1.16%	
Hudson Realty Capital Fund IV	10,025,603	-3.02%		-3.55%		-9.12%		-18.14%		-12.88%		-12.03%	
Realty Associates Fund IX	10,678,386	0.47%		-		-		-		-		-3.86%	
Realty Associates Fund VIII	13,245,335	0.41%		1.90%		-20.64%		-18.99%		-12.44%		-12.08%	
Strategic Partners Value Enhancement Fund	13,449,660	0.20%		26.48%		-31.56%		-19.27%		-10.82%		-12.00%	
Value Added	126,752,333	1.85%		6.67%		-9.40%		-10.13%		-6.27%		-6.17%	
AG Realty Fund VII L.P.	11,745,668	0.75%		5.16%		5.32%		8.53%		-		3.02%	
AG Realty Fund VIII L.P. ²	-	-		-		-		-		-		-	
Beacon Capital Strategic Partners V	7,334,249	10.55%		18.36%		7.05%		-32.76%		-31.97%		-31.73%	
Carlyle Europe Real Estate Partners III	11,722,852	18.80%		7.07%		-1.15%		-14.04%		-		-20.56%	
CIM Fund III, L.P.	4,064,259	-3.25%		-12.15%		-19.40%		-36.28%		-37.23%		-38.78%	
GEM Realty Fund IV	1,790,504	5.15%		-		-		-		-		-4.50%	
JER Real Estate Partners - Fund IV	8,551,857	3.36%		21.78%		26.46%		-18.02%		-17.61%		-16.79%	
Liquid Realty IV ¹	10,985,068	0.00%		-1.16%		-1.94%		-19.08%		-13.45%		-16.25%	
MGP Asia Fund III, LP	9,946,795	29.47%		62.82%		68.79%		-30.24%		-		-29.21%	
MSREF VI International	5,159,917	15.86%		18.80%		22.25%		-58.05%		-56.52%		-56.62%	
O'Connor North American Property Partners II	3,445,203	-1.50%		-4.29%		-7.46%		-42.46%		-		-40.33%	
Opportunistic	74,746,372	8.20%		11.54%		9.67%		-28.66%		-27.92%		-28.11%	
Total	\$201,498,705	4.11%		8.41%		-3.38%		-18.05%		-15.75%		-15.81%	

The real estate portfolio returned 4.68% during the quarter. On a net basis, Opportunistic reported results that outperformed the NFI-ODCE benchmark. An apples-to-apples comparison of the core funds to the NFI-ODCE shows that MTRP's core portfolio underperformed the gross performance of the Index during the quarter. This was due to relative weakness in the JP Morgan Strategic Properties Fund, whose longer-term record still looks strong vs. the NFI-ODCE.

Q3 2010 Commitment Summary

	Since Inception									Investment Multiple
	Vintage Year	Commitment	Capital Contributed	Remaining Commitment	Capital Distributed	Net Asset Value	NAV %	Total Exposure	Total Exposure%	
Core		225,000,000	225,000,000	-	11,741,521	182,718,146	47.56%	182,718,146	33.77%	0.85
Clarion Lion Properties Fund	2006	45,000,000	45,000,000	-	6,562,774	25,265,808	6.58%	25,265,808	4.67%	0.69
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	-	2,960,607	31,096,305	8.09%	31,096,305	5.75%	0.74
JP Morgan Strategic Property Fund	2007	95,000,000	95,000,000	-	1,759,599	83,178,170	21.65%	83,178,170	15.37%	0.88
UBS-Trumbull Property Fund	2010	40,000,000	40,000,000	-	458,541	43,177,864	11.24%	43,177,864	7.98%	1.09
Value Added		226,200,000	156,282,218	69,917,782	12,027,229	126,752,333	32.99%	196,670,115	36.35%	0.88
ABR Chesapeake Fund III	2006	20,000,000	20,000,000	-	1,493,306	17,949,647	4.67%	17,949,647	3.32%	0.97
ABR Chesapeake Fund IV	2010	17,000,000	1,700,000	15,300,000	-	1,700,000	0.44%	17,000,000	3.14%	1.00
AG Core Plus Realty Fund II	2007	20,000,000	13,734,917	6,265,083	1,498,629	12,406,277	3.23%	18,671,360	3.45%	1.01
Apollo Real Estate Finance Corp.	2007	10,000,000	10,000,000	-	1,115,882	7,967,530	2.07%	7,967,530	1.47%	0.91
AREFIN Co-Invest	2008	10,000,000	10,000,000	-	1,704,203	7,531,466	1.96%	7,531,466	1.39%	0.92
DRA Growth & Income Fund VI	2007	35,000,000	17,971,854	17,028,146	3,500,623	14,465,387	3.76%	31,493,533	5.82%	0.93
Five Arrows Securities V, L.P.	2007	30,000,000	7,675,447	22,324,553	1,003,549	7,696,849	2.00%	30,021,402	5.55%	1.11
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	-	95,849	9,636,193	2.51%	9,636,193	1.78%	0.97
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	-	297,733	10,025,603	2.61%	10,025,603	1.85%	0.69
Realty Associates Fund IX	2008	20,000,000	11,000,000	9,000,000	57,838	10,678,386	2.78%	19,678,386	3.64%	0.98
Realty Associates Fund VIII	2007	20,000,000	20,000,000	-	900,937	13,245,335	3.45%	13,245,335	2.45%	0.71
Strategic Partners Value Enhancement Fund	2007	19,200,000	19,200,000	-	358,680	13,449,660	3.50%	13,449,660	2.49%	0.72
Opportunistic		228,008,422	143,533,263	86,975,159	5,201,569	74,746,372	19.45%	161,721,531	29.89%	0.54
AG Realty Fund VII L.P.	2007	20,000,000	12,660,000	7,340,000	1,366,925	11,745,668	3.06%	19,085,668	3.53%	1.04
Beacon Capital Strategic Partners V	2007	25,000,000	18,500,000	6,500,000	79,688	7,334,249	1.91%	13,834,249	2.56%	0.40
Carlyle Europe Real Estate Partners III	2007	30,994,690	16,528,065	14,466,625	13,995	11,722,852	3.05%	26,189,477	4.84%	0.71
CIM Fund III, L.P.	2007	25,000,000	5,717,006	19,282,994	159,240	4,064,259	1.06%	23,347,253	4.31%	0.58
GEM Realty Fund IV	2009	15,000,000	1,800,000	13,200,000	1,082	1,790,504	-	14,990,504	2.77%	0.95
JER Real Estate Partners - Fund IV	2007	20,000,000	15,634,891	4,365,109	83,889	8,551,857	2.23%	12,916,966	2.39%	0.55
Liquid Realty IV	2007	22,013,732	18,971,804	3,041,928	3,387,174	10,985,068	2.86%	14,026,996	2.59%	0.71
MGP Asia Fund III, LP	2007	30,000,000	16,531,157	13,468,843	19,892	9,946,795	2.59%	23,415,638	4.33%	0.60
MSREF VI International	2007	25,000,000	27,500,000	-	17,313	5,159,917	1.34%	5,159,917	0.95%	0.19
O'Connor North American Property Partners II	2008	15,000,000	9,690,340	5,309,660	72,371	3,445,203	0.90%	8,754,863	1.62%	0.35
Montana Real Estate		\$679,208,422	\$524,815,481	\$156,892,941	\$28,970,319	\$384,216,851		541,109,792		0.78

The MTRP maintains adequate diversification by fund and by manager. The JP Morgan Strategic Property Fund is the portfolio's highest concentration at 21.65% of NAV; this weight should continue to decline in future periods as additional capital was allocated to another core manager subsequent to quarter end. Among the closed-end fund managers, Angelo Gordon, ABR Chesapeake, TA Realty Associates, and Hudson Realty all account for ~5-6% of NAV.

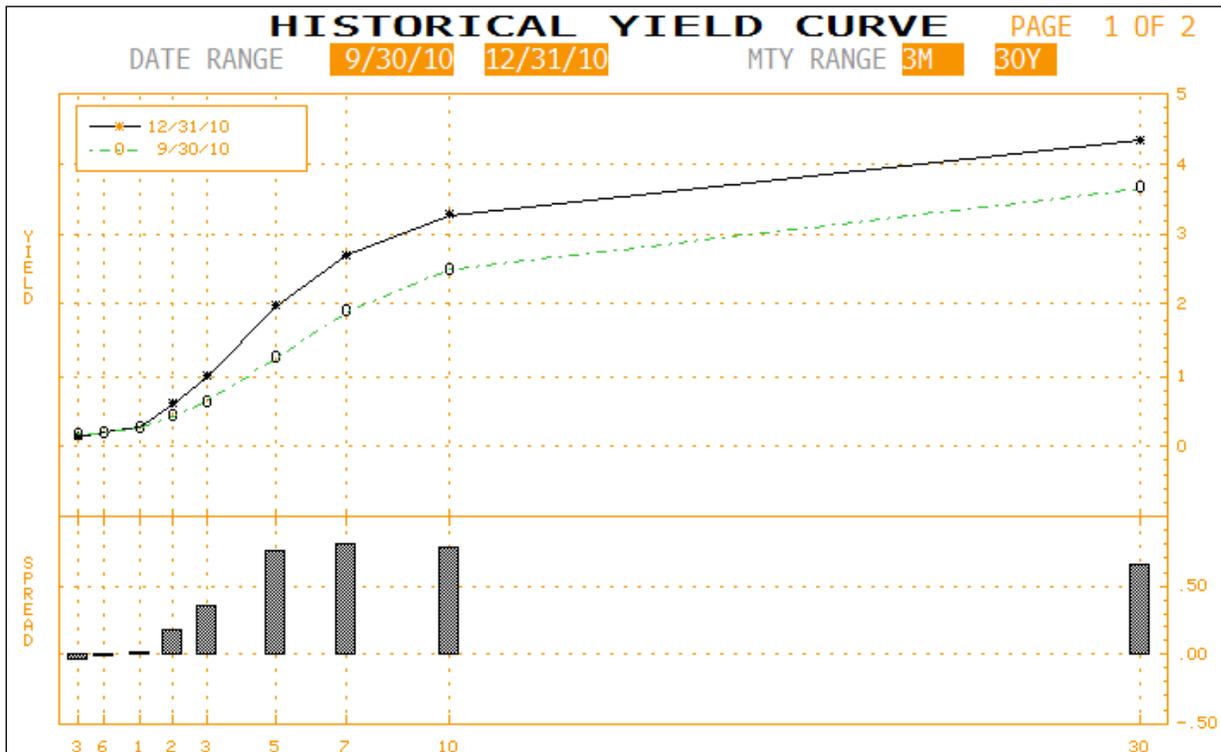
FIXED INCOME OVERVIEW & STRATEGY

Nathan Sax, CFA, Portfolio Manager

February 8, 2011

RETIREMENT & TRUST FUND BOND POOLS

The yield curve steepened in the fourth quarter while interest rates rose on stronger economic data. The yield differential between the U.S. Treasury two-year and ten-year notes was 209 basis points on September 30, 2010. That gap increased to 269 basis points by December 31, 2010. The yield on the two-year note increased from 0.42% to 0.60% over the same three-month period. The yield to maturity on the Treasury ten-year note rose by 78 basis points, from 2.51% to 3.29%. Although the selloff was driven by stronger economic statistics, the Fed's second round of Treasury purchases had the perverse effect of driving interest rates higher because of inflationary concerns.



The Barclays Capital Aggregate Bond Index posted a total return of -1.30% in the fourth quarter following eight consecutive quarters of positive returns. Treasury bonds posted a total return of -2.64%, Government related bonds returned -1.72%, mortgage backed securities +0.24%, corporate bonds -1.61%, asset backed securities were -1.48% and CMBS +0.91% for the quarter. Despite the weak fourth quarter, the BC Aggregate Index was +6.54% for the full calendar year 2010.

Real GDP growth for the year 2010 is expected to be approximately 2.9% once final revisions have been tabulated. Forecasts for GDP in 2011 are averaging 3.1%, with predictions as high as 4.4%. The rate of unemployment is forecast to decline slowly over the next two years, from 9.4% currently to 8.5% by year-end 2012. Inflation, as measured by the Consumer Price Index, is predicted to increase to 1.9% by the end of 2012, up from the current level of 1.6%.

RFBP/TFBP vs. Barclays Aggregate – 12/31/10

	Retirement Fund Bond Pool						Trust Fund Bond Pool	Barclays Aggregate	CIBP/TFBP Policy Range
	CIBP	Reams	Artio	Post	Neubgr Berman	Total RFBP			
Treasuries	17.58	47.72	15.46	0.00	0.00	19.28	17.68	33.75	10-35
Agencies & Govt Related	11.81	2.01	16.58	0.00	0.51	9.93	11.71	11.97	5-25
Total Government	29.39	49.73	32.04	0.00	0.51	29.21	29.39	45.72	15-60
Mortgage Backed	24.43	17.20	19.27	0.00	0.00	21.11	24.13	32.74	20-50
Asset Backed	2.24	6.36	3.19	0.52	0.45	2.60	2.35	0.27	0-10
CMBS	9.69	1.15	10.81	0.00	0.00	7.90	9.77	2.48	0-10
Total Securitized	36.36	24.71	33.27	0.52	0.45	31.61	36.25	35.49	20-75
Financial	15.19	13.34	10.62	8.37	12.08	14.31	15.08	6.73	
Industrial	12.45	3.52	14.04	87.41	79.73	17.90	12.71	9.94	
Utility	3.96	2.85	1.31	1.22	5.25	3.67	3.90	2.12	
Total Corporate	31.60	19.71	25.97	97.00	97.06	35.88	31.69	18.79	10-35
Other	0.00	0.00	1.71	0.00	0.42	0.10	0.00	0.00	
Cash	2.65	5.85	7.01	2.48	1.56	3.20	2.67	0.00	0-10
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Fixed Income Sector	Policy Range	RFBP on 12/31/10
U.S. High Yield	0-15%	12.70%
Non-US (incl. EM)	0-10%	1.35%
Total "Plus" sectors	0-20%	14.05%
Core (U.S. Investment Grade)	80-100%	85.95%

Fixed Income Sector	Policy Range	TFIP on 12/31/10
High Yield	0-10%	7.63%
Core Real Estate	0-8%	4.84%
Core (U.S. Investment Grade)	0-100%	87.53%

The duration of the Core Internal Bond Portfolio (CIBP) has been maintained at a level slightly longer than that of the index. The yield of the thirty-year U.S. Treasury bond narrowed versus the yield on the Treasury ten-year note. The latter widened in relation to other points along the Treasury curve as mortgage holders sold 10-year Treasuries to offset the extension of mortgage durations. Higher interest rates make it less likely that mortgage holders will prepay their loans, thus increasing duration. Investment grade corporate bond yield spreads tightened by approximately 20 basis points for the quarter, in part because of the selloff in Treasury securities.

High Yield spreads narrowed by 95 basis points, from 621 to 526 (see chart for Option Adjusted Spreads). They continued their downward march to under 5% in January. High Yield manager Post Advisors had a good fourth quarter, beating the High Yield Index by 101 basis points. Neuberger Berman trailed the HY index by 22 basis points. Our allocation to High Yield in the RFBP helped, as the below-investment-grade market generated 3.13% for the quarter versus --1.30% in the BC Aggregate. Our core plus managers beat their benchmarks in the down quarter. Artio was 29 basis points better than their benchmark and Reams was up 43 basis points versus the Barclays Universal Bond Index. The Core Internal Bond Portfolio was up 69 basis points versus the Barclays Aggregate for the fourth quarter. The RFBP beat the BC Aggregate

index by 104 basis points in the fourth quarter and is up 233 basis points over the benchmark through the first two quarters of Fiscal Year 2011.

Benchmark Comparison Analysis CIBP vs. Merrill US Broad Market Index on 12/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	102.18	4.33	4.17	3.59	4.66	1.04
Benchmark	105.51	4.29	4.00	2.86	4.49	0.51
Difference	-3.33	0.04	0.17	0.73	0.17	0.53

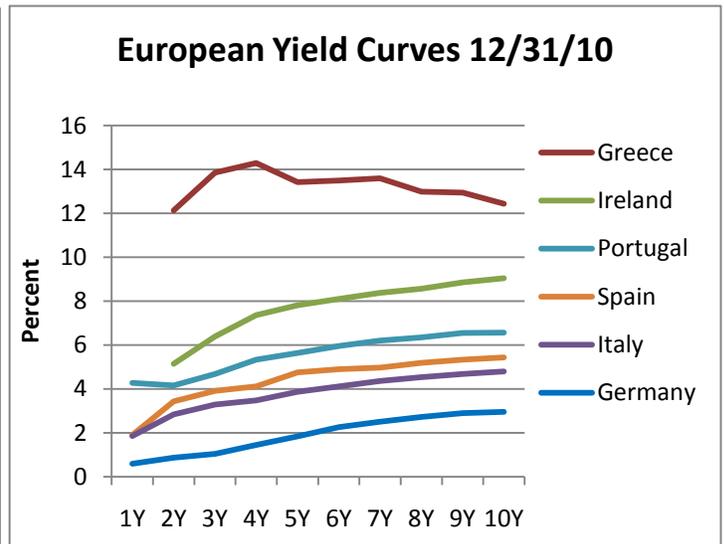
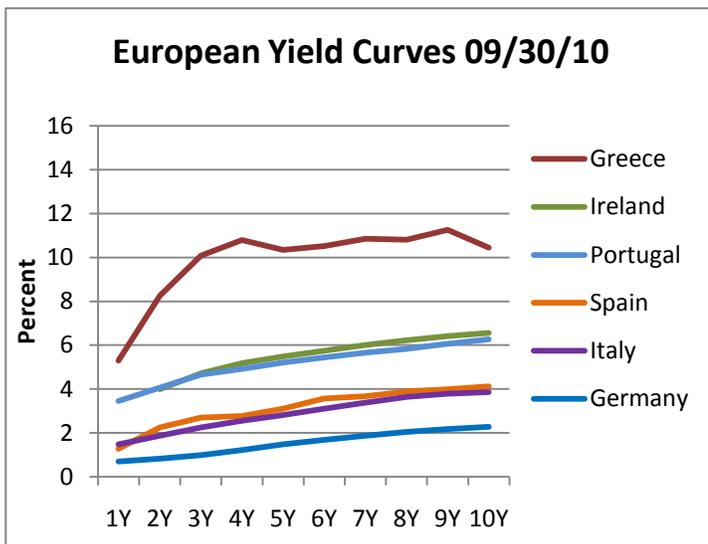
Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 12/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	100.25	4.48	4.37	3.97	4.78	1.45
Benchmark	105.51	4.29	4.00	2.86	4.49	0.51
Difference	-5.26	0.19	0.37	1.11	0.29	0.94

Benchmark Comparison Analysis TFBP vs. Merrill US Broad Market Index on 12/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	93.54	3.93	3.73	3.44	4.68	0.98
Benchmark	105.51	4.29	4.00	2.86	4.49	0.51
Difference	-11.97	-0.36	-0.27	0.58	0.19	0.47

Barclays U.S. High Yield 2% Issuer Cap, Average OAS – 06/09 to 12/10



The last remaining synthetic CDO (Collateralized Debt Obligation) in the CIBP matured on December 30, 2010. Cypresstree was the last of four CDO's in the two large bond pools. As mentioned at the November Board Meeting, we recovered 83.5 cents on the dollar on the \$135mm in face value in these instruments, a better recovery rate than we were expecting given the large proportion of financial issuers in the two investment-grade deals.



Heading into 2011, we will be keeping an eye on the European bond market. As shown in the accompanying charts, Germany has been the stalwart and the other countries shown display increasing degrees of weakness from Italy down to Greece based upon debt loads that are putting a strain on the finances of these countries. Much like the U.S., pension obligations and other public sector spending are weighing on European governments. In times of financial crisis, we expect to see interest in U.S. Treasury securities as well as gold and stronger currencies, including the dollar. Artio Global is likely to have some investment in non-dollar bonds that will give the RFBP limited diversification away from the dollar. The CIBP will maintain a significant commitment to Treasuries in anticipation of a “flight to quality” scenario.

Summary

Yields rose in the fourth quarter and the Treasury yield curve steepened. The bond market has a heightened awareness of stronger economic growth, although real GDP should be contained relative to historical economic rebounds. There have also been some concerns among investors that inflation could pick up because of faster GDP growth and because of accommodative monetary policy. We have maintained a slightly longer than neutral duration and yet hold variable rate bonds that will help protect the portfolio in a rising rate environment.

Our commitment to High Yield bonds and investment grade corporate bonds is still in place. Yield spreads tightened in these and other risk sectors while default rates remain low. We have continued to improve the liquidity profile of the large bond pools. In the event of a liquidity crunch, we will be prepared and able to maintain market flexibility. The CIBP will play the role of the stable core while our external managers will provide the ability to generate alpha for the RFBP as a whole.

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS

December 31, 2010

(in millions)

	Par	Book	Market	Price	Name	Coupon %	Maturity	Rating M/S&P	Comments
	\$2.000	\$2.000	\$2.252	\$112.60	Wilmington Trust Corp	8.500	04/02/18	Ba1/BB-	On watch for upgrade; expect investment grade ratings when merger with M&T Bank is complete in mid 2011
	\$5.000	\$5.003	\$5.144	\$102.88	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	\$7.968	\$7.973	\$99.66	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	\$51.692	\$103.38	DOT Headquarters II Lease	6.001	12/07/21	NR/NR	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.
A	\$3.000	\$2.970	\$2.936	\$97.87	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	\$1.138	\$22.76	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	<u>\$83.000</u>	<u>\$70.919</u>	<u>\$73.435</u>						
A	= Additions since 9/30/2010								
A	\$3.000	\$2.970	\$2.936	\$97.87	Regions Financial Corp	5.750	06/15/15	Ba3/BB-	
D	= Deletions since 9/30/10								
D	\$5.000	\$5.000	\$5.013	\$100.25	International Lease Finance	5.125	11/01/10	B1/BB+	Matured at Par on 11/01/10
D	\$40.000	\$40.000	\$28.000	\$70.00	Cypresstree Synthetic CDO	FLT	12/30/10	NR/BB-	Matured at Par on 12/30/10
	<u>\$10.000</u>	<u>\$2.000</u>	<u>\$2.300</u>	<u>\$23.00</u>	<u>Lehman Brothers</u>	<u>5.500</u>	<u>05/25/10</u>	<u>NR/NR</u>	<u>Currently in default and liquidation</u>
	<u>\$5.000</u>	<u>\$0.978</u>	<u>\$1.138</u>	<u>\$22.76</u>	<u>Lehman Brothers</u>	<u>5.000</u>	<u>01/14/11</u>	<u>NR/NR</u>	<u>Currently in default and liquidation</u>
	<u>\$15.000</u>	<u>\$2.978</u>	<u>\$3.438</u>						

State Fund Insurance

Richard Cooley, CFA, Portfolio Manager

February 8, 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 12/31/2010						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	104.97	4.36	4.07	2.72	3.65	0.94
Benchmark	105.08	3.53	3.28	2.13	3.82	0.52
Difference	-0.11	0.83	0.80	0.59	-0.17	0.42

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, as agency spreads have tightened substantially and do not offer much relative value. 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 fourth quarter tighter as compared to the end of the third quarter. MBS spreads tightened by 43 basis points to 42 basis points, agencies tightened by 5 basis points to 20 basis points and corporate spreads tightened by 19 basis points to 156 basis points. During the quarter, the ten year Treasury yield increased by 78 basis points from 2.51% to 3.29%.

The overweight in spread product (all non-Treasuries) has added substantial value during the past year as spreads tightened. The fixed income portion of the account outperformed the benchmark by 35 basis points during the December quarter and by 195 basis points over the past year. Longer term performance is +56 basis points for the past five years and +72 basis points for the past ten years (ended December 31).

During the December quarter, there were purchases of \$46 million including: \$26 million of corporate bonds and \$20 million of Treasury notes. These Treasury purchases were in the ten year Treasury as yields backed up during the quarter. There were \$3 million of sales of S&P 500 index units during the quarter.

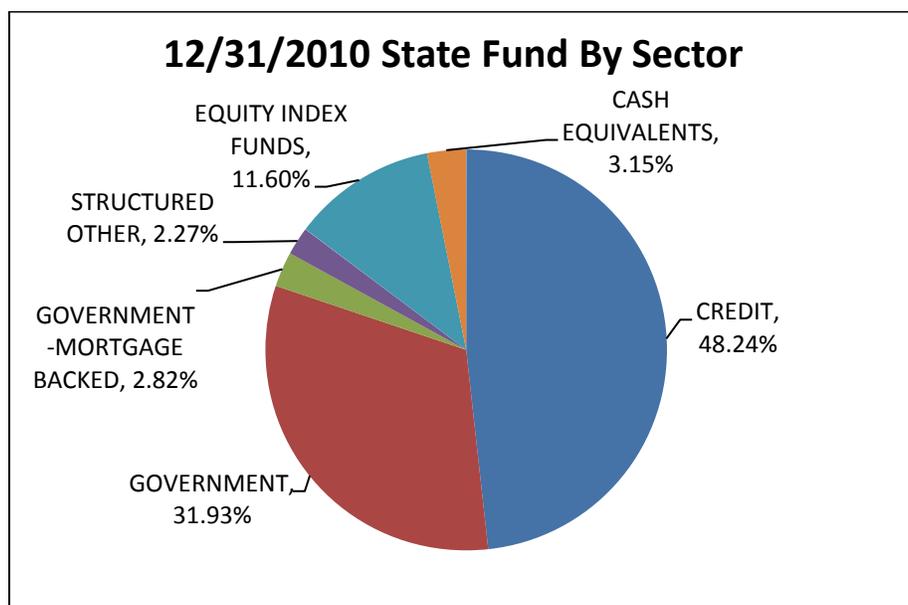
The portfolio has a 59 basis point yield advantage over the benchmark with only a one notch lower quality rating. Client preferences include keeping the STIP balance of 1-5 percent (currently 3.15%) and limiting holdings rated lower than A3 or A- to 25 percent of fixed income (currently 20.6%).

State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 12/31/2010			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	15.49	54.19	-38.70
Agencies & Govt Related	20.24	18.42	1.82
Total Government	35.73	72.61	-36.88
Mortgage Backed	3.17	0.00	3.17
Asset Backed	0.00	0.00	0.00
CMBS	1.83	0.00	1.83
Securitized	5.00	0.00	5.00
Financial	29.68	10.94	18.73
Industrial	19.27	14.66	4.61
Utility	6.06	1.79	4.27
Total Corporates	55.01	27.39	27.61
Other	0.72	0.00	0.72
Cash	3.54	0.00	3.53
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. We have been reducing equity holdings based on market conditions.

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 historical overweight in spread product versus the benchmark.

12/31/2010 State Fund By Sector		
Sector	Market Value	%
<i>BANKS</i>	104,618,355	8.93%
<i>COMMUNICATIONS</i>	19,345,360	1.65%
<i>ENERGY</i>	37,925,010	3.24%
<i>GAS/PIPELINES</i>	6,109,728	0.52%
<i>INSURANCE</i>	61,862,962	5.28%
<i>OTHER FINANCE</i>	141,267,664	12.06%
<i>RETAIL</i>	5,564,284	0.47%
<i>TRANSPORTATION</i>	41,553,556	3.55%
<i>UTILITIES</i>	66,598,317	5.68%
<i>INDUSTRIAL</i>	80,368,568	6.86%
CREDIT	565,213,804	48.24%
<i>TITLE XI</i>	7,143,627	0.61%
<i>TREASURY NOTES/BONDS</i>	160,760,548	13.72%
<i>AGENCY</i>	206,245,146	17.60%
GOVERNMENT	374,149,321	31.93%
<i>FHLMC</i>	16,737,803	1.43%
<i>FNMA</i>	16,330,347	1.39%
GOVERNMENT-MORTGAGE BACKED	33,068,151	2.82%
<i>CDO</i>	7,500,000	0.64%
<i>CMBS</i>	19,057,775	1.63%
STRUCTURED OTHER	26,557,775	2.27%
TOTAL FIXED INCOME	998,989,050	85.26%
EQUITY INDEX FUNDS	135,903,317	11.60%
CASH EQUIVALENTS	36,864,432	3.15%
GRAND TOTAL	1,171,756,799	100.00%



MONTANA BOARD OF INVESTMENTS

SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending December 31, 2010



STATE STREET

	MKT VAL \$(000)	ALLOC	MONTH	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
STATE FUND INSURANCE											
TOTAL	1,182,473	100.0	-0.16	0.15	3.96	8.63	5.55	5.87	5.85	6.17	12/01/1993
CASH EQUIVALENTS	36,873	3.1	0.02	0.07	0.15	0.29	2.45	3.78	3.17	4.19	
EQUITIES	135,903	11.5	6.81	10.31	23.40	15.33	-2.14	2.75		1.32	01/01/2001
Domestic	119,556	10.1	6.67	10.74	23.50	15.53	-2.09	2.79	1.98		
Foreign	16,347	1.4	7.84	7.21	18.34						
FIXED INCOME	1,009,697	85.4	-1.04	-1.09	1.88	7.84	6.27	6.09	6.23	6.42	
STATE FUND INSURANCE CUSTOM COMPO											
S&P 500			6.68	10.76	23.27	15.06	-2.86	2.29	1.41		
MSCI AC WORLD ex US (NET)			7.83	7.20	24.98	11.15	-5.03	4.82	5.54		
BC GOV/CREDIT INTERMEDIATE			-1.25	-1.44	1.27	5.89	5.40	5.53	5.51		
LIBOR 1 MONTH INDEX			0.02	0.06	0.13	0.27	1.05	2.72	2.54		

Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

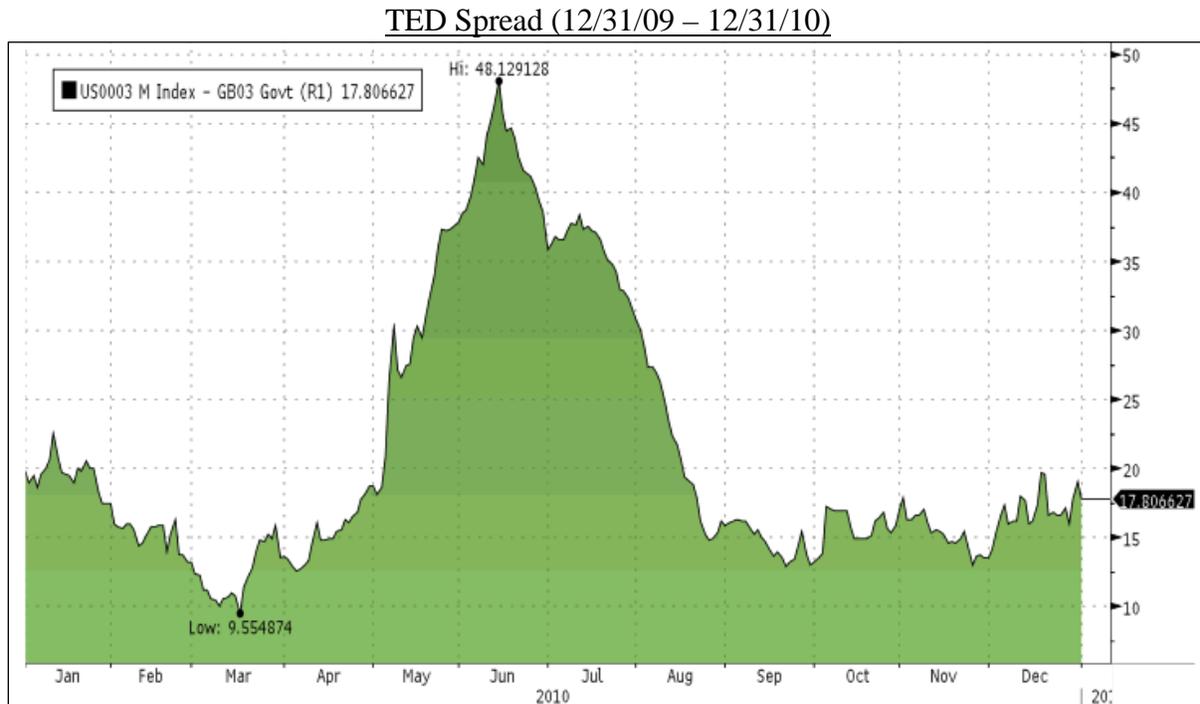
February 8, 2011

The fund totaled \$748 million as of December 31, 2010, consisting of approximately half general fund monies and the balance in various other state operating accounts. There was an additional purchase of \$10 million in securities in the fourth 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 latest estimated balance is \$183 million.

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager
February 8, 2011

During the fourth quarter money market yields were stable as the sovereign debt crisis abated in European markets. The money market yield curve flattened as investors placed money at the longer end of the curve to pick up additional yield. Libor rates were unchanged during the fourth quarter. Credit spreads were mostly unchanged to slightly 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 fourth quarter at about 17 basis points, up 4 basis points for the quarter.

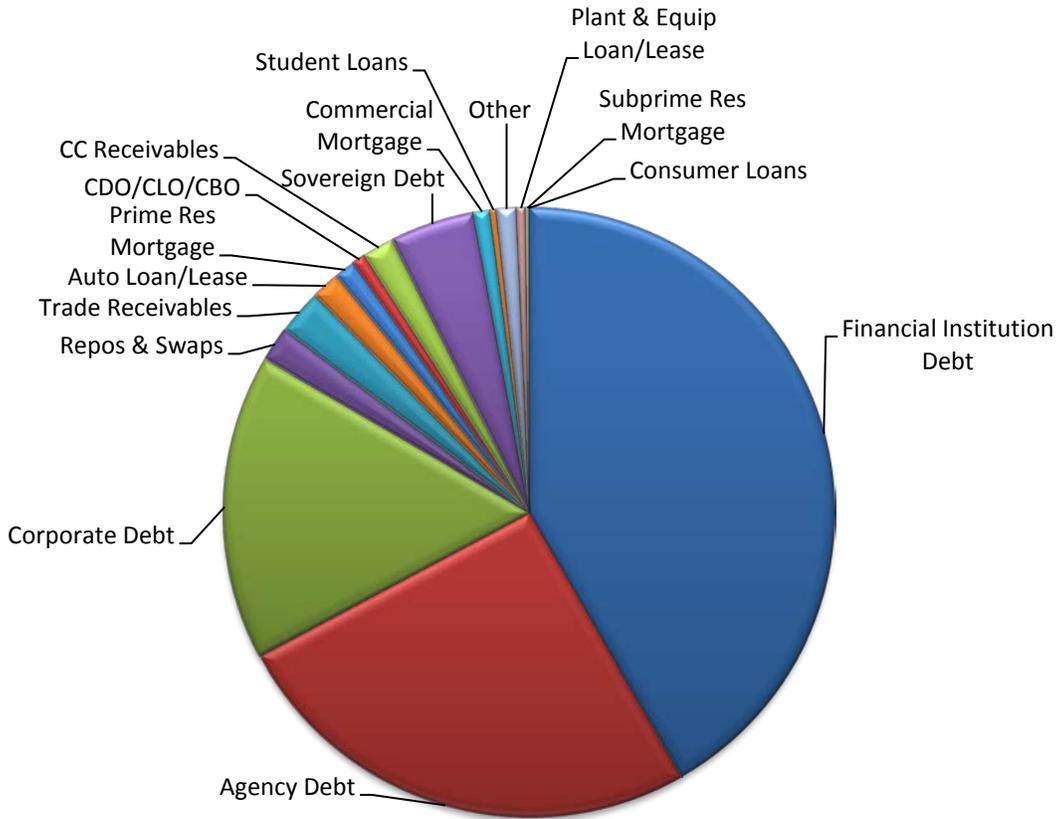


The STIP portfolio is currently well diversified and is operating within all the guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of \$150 million and weekly liquidity is at a minimum of \$250 million. The average days to maturity are about 36 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is about 20% of holdings (40% max) and corporate exposure is around 32% (40% max). We currently have approximately 28% in agency/FDIC paper, 12% in Yankee CD's (30% max) and 5% in four institutional money funds. We recently added five ABCP programs to the approved list and have initiated positions in them, which has resulted in a significant increase in ABCP exposure. Since the last report ABCP exposure has increased from 13% to 20%.

During the fourth quarter we purchased \$75 million of floating rate Agencies, pegged to one month Libor, as well as \$25 million of a fixed rate callable Agency. We also purchased \$130 million of corporate floating rate securities, \$50 million of floating rate Yankee CDs and \$15 million of a fixed rate Yankee CD. Three of the corporate purchases were non-financials (Coke, P&G and IBM), which will help diversify the portfolio. Lower Libor rates detracted from the portfolio yield during the quarter.

The net daily yield on STIP is currently 0.24% as compared with the current one-month LIBOR rate of 0.26% and current fed funds target rate of 0.0%-0.25%. The portfolio asset size is currently \$2.39 billion, down slightly from three months ago.

Portfolio Composition by Sector



MONTANA DOMESTIC EQUITY POOL

Rande Muffick, CFA, Portfolio Manager
February 8, 2011

12/31/2010 Domestic Stock Pool By Manager			
Manager Name	Market Value	%	
BLACKROCK EQUITY INDEX FUND	633,402,939	23.19%	
STATE STREET SPIF ALT INV	24,695,277	0.90%	
LARGE CAP CORE Total	658,098,216	24.09%	10-30%
ENHANCED INVEST TECHNOLOGIES	173,843,015	6.36%	
T ROWE PRICE ASSOCIATES INC	282,013,748	10.32%	
WESTERN ASSET US INDX PLUS LLC	150,915,284	5.52%	
LARGE CAP ENHANCED Total	606,772,047	22.21%	20-30%
BARROW HANLEY MEWHINNEY + STRS	189,701,260	6.94%	
QUANTITATIVE MANAGEMENT ASSOC	119,970,166	4.39%	
LARGE CAP VALUE Total	309,671,426	11.34%	
COLUMBUS CIRCLE INVESTORS	143,492,130	5.25%	
RAINIER INVESTMENT MGMNT INC	140,553,160	5.15%	
LARGE CAP GROWTH Total	284,045,290	10.40%	
LARGE CAP STYLE BASED Total	593,716,716	21.73%	20-30%
ANALYTIC INVESTORS MU3B	107,100,212	3.92%	
JP MORGAN ASSET MGMT MU3E	318,748,281	11.67%	
130-30 Total	425,848,493	15.59%	10-20%
COMBINED LARGE CAP Total	2,284,435,472	83.63%	82-92%
ARTISAN MID CAP VALUE	99,156,684	3.63%	
BLACKROCK MIDCAP EQUITY IND FD	96,423,513	3.53%	
TIMESQUARE CAPITAL MGMT	100,483,455	3.68%	
MID CAP Total	296,063,653	10.84%	5-11%
DIMENSIONAL FUND ADVISORS INC	66,522,435	2.44%	
ISHARES S+P SMALLCAP 600 INDEX	15,220,881	0.56%	
VAUGHAN NELSON INV	69,380,254	2.54%	
SMALL CAP Total	151,123,570	5.53%	3-8%
MDEP Total	2,731,622,694	100%	

The table above displays the Montana Domestic Equity Pool (MDEP) allocation as of the end of December 2010. At this time, all weightings are within the approved ranges. There were no significant changes to manager allocations during the quarter.

The domestic equity market turned in a terrific performance in the fourth quarter. Economic data pointed to a strengthening U.S. economy and company profit forecasts backed that up. Cyclical stocks reflected the growing bullish nature of the market, leading a strong rally. A Republican dominance in the November elections ignited a sense of a more balanced approach in Congress which investors viewed as a positive.

COMPARATIVE RETURNS

Range **9/30/10** - **12/31/10** Period **D** Daily

92 Day Period

Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	10.20 %	10.76 %	-2.75 %	49.98 %
2 MID Index	USD	13.11 %	13.50 %		65.29 %
3 SML Index	USD	15.95 %	16.24 %	2.74 %	81.69 %

(* = No dividends or coupons)



Performance across market capitalizations was strong, particularly in the non-large caps. Small caps led the way with a 16.2% return, followed by the mid caps at 13.5%. Large caps, although lagging in performance, returned a strong 10.8%. MDEP's largest overweight in mid caps and a modest overweight in small caps, added to the investment performance of the pool.

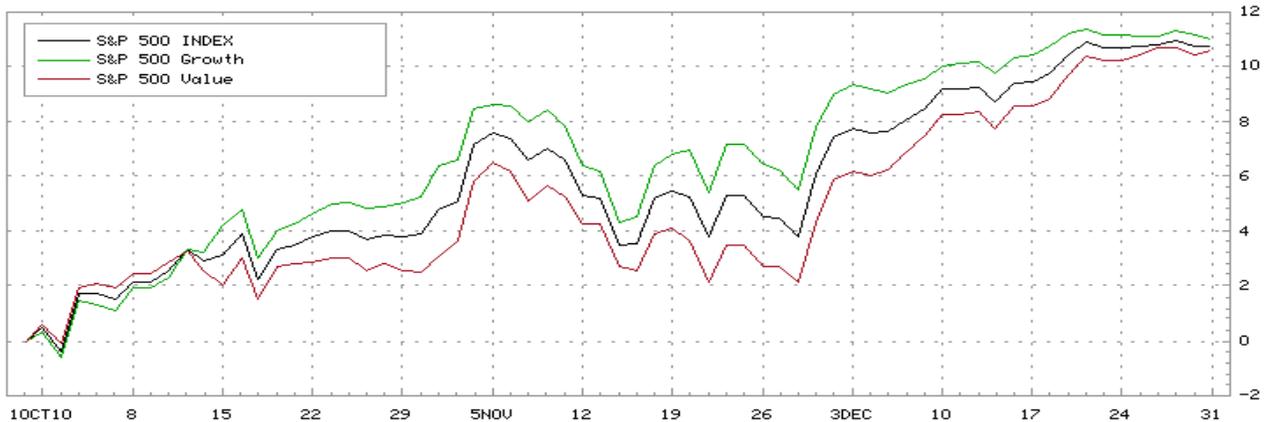
COMPARATIVE RETURNS

Range **9/30/10** - **12/31/10** Period **D** Daily

92 Day Period

Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	10.20 %	10.76 %	-.30 %	49.98 %
2 SGX Index	USD	10.56 %	11.06 %		51.59 %
3 SVX Index	USD	9.86 %	10.54 %	-.51 %	48.83 %

(* = No dividends or coupons)



Performance among styles was led again by the growth stocks with an 11.1% return. Value stocks lagged growth slightly in the quarter with a 10.5% return. MDEP is slightly tilted toward value but the effect on pool performance was negligible due to the closeness of growth and value returns.



The Volatility Index (VIX) reached a yearly low in December as investors showed little fear in adding to positions. This is the lowest reading for this index since before the failure of Lehmann Brothers in 2008. A reading in the teens can indicate complacency in the minds of investors yet the VIX is likely to stay low until another possible jolt from the debt or fiscal problems that are being dealt with.

Manager style performance this quarter was encouraging. Enhanced, large cap growth, large cap value, partial long/short, and small cap strategies all outperformed in the quarter. Only the mid cap style bucket underperformed. Some of the outperformance was a result of the terminations of underperforming portfolios previous to the fourth quarter, but it also reflects a turnaround in active management in the near term. With that said, MDEP was basically in line with the S&P 1500 benchmark at 11.3% return, net of fees during the quarter.

Going forward the strategy at the pool level is to continue the overweights in mid caps and small caps and to maintain the current passive versus active weight within the pool. The slight overweight of value to growth as it stands now, is a function of a termination of one of the growth managers in the third quarter and at some point will be addressed.

DOMESTIC EXPOSURE-MARKET CAP %

December 31, 2010

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	6.3	28.2	9.3	22.9	14.5	21.7	-5.3	---	81.3
Artisan Partners	--	--	--	1.0	27.3	67.4	4.3	---	7.5
Barrow Hanley	1.2	18.6	6.1	22.1	25.2	24.4	2.4	---	46.5
Columbus Circle Investors	4.8	13.8	20.8	30.2	21.9	8.5	---	--	62.7
Dimensional Fund Advisors	--	--	--	---	--	1.7	73.7	24.5	1.0
INTECH Investment Management	7.5	22.5	7.7	15.9	20.5	25.6	0.2	--	74.1
J.P. Morgan	10.6	27.9	19.1	30.3	11.7	0.6	-0.7	--	98.7
Quantitative Management	2.3	27.6	8.0	22.2	17.3	21.4	1.3	--	66.2
Rainier Investment Mgt	5.6	11.3	15.3	30.1	18.6	19.1	---	--	58.0
T. Rowe Associates	8.6	26.3	14.0	23.2	16.7	11.1	---	--	87.5
TimesSquare Cap Mgmt	--	--	--	6.3	20.1	68.9	4.7	--	8.4
Vaughan Nelson Mgmt	--	--	--	--	---	30.7	68.4	0.9	2.2
Western Asset US Index Plus	7.7	28.2	12.8	23.9	15.7	11.6	0.2	--	86.4
BlackRock S&P 500 Index Fund	7.6	28.0	12.7	23.7	15.6	11.5	0.2	--	86.4
BlackRock Midcap Equity Index Fund	--	--	--	--	---	70.7	27.5	---	3.6
ALL DOMESTIC EQUITY PORTFOLIOS	5.9	20.7	11.0	20.8	15.9	19.4	5.3	0.7	67.5
Benchmark: S&P Composite 1500	6.7	24.7	11.3	20.9	13.8	16.4	5.7	0.4	76.2
Over/underweight(-)	-0.9	-4.0	-0.3	-0.1	2.1	3.0	-0.5	0.3	

DOMESTIC EXPOSURE-SECTOR %

December 31, 2010

MANAGERS

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Analytic Investors, Inc	11.6	12.2	10.5	15.2	11.3	6.1	20.6	2.7	3.9	3.6
Artisan Partners	6.7	6.0	10.3	18.2	3.7	21.4	24.7	--	--	9.0
Barrow Hanley	12.8	7.9	11.6	21.5	13.5	13.3	11.6	1.1	1.8	4.9
Columbus Circle Investors	21.4	10.5	1.6	8.6	12.8	7.3	33.2	4.6	--	--
Dimensional Fund Advisors	15.2	4.5	4.8	13.5	11.6	19.6	21.2	5.3	1.1	3.2
INTECH Investment Management	12.5	12.2	9.5	11.2	10.5	12.8	17.5	3.9	3.9	6.0
J.P. Morgan	14.6	8.5	13.5	14.3	9.7	6.3	20.1	6.0	3.4	2.9
Quantitative Management	10.1	5.8	14.4	20.1	14.7	11.0	6.1	3.9	5.9	8.0
Rainier Investment Mgt	17.1	6.0	8.2	6.2	9.0	17.7	29.2	5.0	1.6	--
T. Rowe Associates	12.1	9.6	12.5	15.8	10.8	11.2	18.5	3.5	3.0	2.9
TimesSquare Cap Mgmt	14.1	4.0	7.3	11.6	15.0	14.0	26.0	3.4	4.5	--
Vaughan Nelson Mgmt	9.0	--	10.2	31.2	2.5	20.0	7.8	11.6	--	5.0
Western Asset US Index Plus	10.6	10.6	12.0	16.1	10.9	10.9	18.6	3.7	3.1	3.3
BlackRock S&P 500 Index Fund	10.6	10.6	11.9	15.9	10.9	10.9	18.5	3.7	3.1	3.3
BlackRock Midcap Equity Index Fund	14.0	3.6	5.8	19.4	10.9	15.9	15.4	6.7	0.8	5.8
All Domestic Equity Portfolios	12.6	8.7	10.7	15.5	10.8	11.8	19.2	4.1	2.7	3.6
Benchmark: S&P Composite 1500	11.1	9.8	11.3	16.5	11.0	11.6	18.4	4.0	2.8	3.5
Over/underweight(-)	1.5	-1.1	-0.6	-1.0	-0.2	0.2	0.8	0.0	-0.1	0.0

DOMESTIC PORTFOLIO CHARACTERISTICS

December 31, 2010

MANAGERS

	Market Value (mm)	Number of Securities	3Yr Historical EPS Growth	Price/Earnings	Price/Book	Dividend Yield
Analytic Investors, Inc	109.6	256	9.5	11.2	2.0	2.2
Artisan Partners	99.3	56	-3.0	13.3	1.8	1.7
Barrow Hanley	190.1	94	-2.5	13.8	1.7	2.2
Columbus Circle Investors	143.6	50	23.0	21.9	3.5	0.7
Dimensional Fund Advisors	66.5	2,708	0.4	17.4	1.8	0.9
INTECH Investment Management	174.3	363	8.8	15.7	2.4	2.0
J.P. Morgan	320.3	255	5.1	15.7	2.0	1.6
Quantitative Management	120.2	163	-1.1	13.0	1.6	2.3
Rainier Investment Mgt	140.2	75	14.5	21.6	3.7	0.7
T. Rowe Associates	282.3	299	5.3	15.1	2.2	1.7
TimesSquare Cap Mgmt	100.7	74	11.9	17.7	3.0	0.6
Vaughan Nelson Mgmt	69.4	68	2.3	17.0	1.7	1.4
Western Asset US Index Plus	150.9	500	5.4	15.6	2.2	1.8
Blackrock Equity Index Fund	633.4	504	5.4	15.6	2.2	1.8
Blackrock Midcap Equity Index Fund	96.4	403	3.9	19.7	2.1	1.3

All Domestic Equity Portfolios

2,737.1	3,642	5.9	15.6	2.2	1.6
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BENCHMARKS

S&P Composite 1500	1,500	5.2	16.0	2.2	1.8
S&P/Citigroup 1500 Pure Growth	391	25.1	20.1	3.3	0.4
S&P/Citigroup 1500 Pure Value	371	-2.3	12.7	0.8	2.9
S&P 500	500	5.4	15.6	2.2	1.8
Russell 1000	978	5.1	15.8	2.2	1.8
Russell 1000 Growth	627	10.5	17.8	3.6	1.4
Russell 1000 Value	668	-0.6	14.1	1.6	2.1
Russell Midcap	785	4.0	17.9	2.1	1.5
Russell Midcap Growth	493	12.3	21.2	3.7	0.9
Russell Midcap Value	541	-4.2	15.6	1.5	2.0
Russell 2000	1,974	1.1	17.0	1.9	1.2
Russell 2000 Growth	1,269	6.8	20.4	3.3	0.5
Russell 2000 Value	1,297	-4.4	14.4	1.3	1.9

MONTANA INTERNATIONAL STOCK POOL

Rande Muffick, CFA, Portfolio Manager
February 8, 2011

12/31/2010 International Stock Pool By Manager			
Manager Name	Market Value	%	
ARTIO GLOBAL MU1G	120,618,991	8.60%	
BATTERYMARCH INTL EQUITY	121,489,912	8.66%	
BLACKROCK GL EX US ALPHA TILT	109,530,748	7.81%	
BLACKROCK ACWI EX US SUPERFUND	551,351,384	39.29%	
EAFE STOCK PERFORMANCE INDEX	11,276,495	0.80%	0-10%
CORE Total	914,267,528	65.15%	50-70%
ACADIAN ACWI EX US VALUE	92,611,504	6.60%	
BERNSTEIN ACWI EX	113,432,144	8.08%	
VALUE Total	206,043,649	14.68%	10-20%
HANSBERGER INTL EQUITY GROWTH	110,746,584	7.89%	
MARTIN CURRIE ACWI X	103,353,675	7.37%	
PRINCIPAL GLOBAL	1,760	0.00%	
GROWTH Total	214,102,019	15.26%	10-20%
DFA INTL SMALL CO PORTFOLIO	68,845,863	4.91%	
SMALL CAP Total	68,845,863	4.91%	5-15%
MTIP Total	1,403,259,059	100.00%	

The table above displays the Montana International Equity Pool (MTIP) allocation at quarter end across market cap segments and manager styles. As 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.

International equity markets rallied strongly in the fourth quarter adding to what had been a stellar third quarter as well. Equities were buoyed by encouraging corporate earnings reports and a sense that the sovereign debt crisis was at least somewhat under control. Economic data out of China dispelled earlier concerns of a global slowdown. Overall, economic growth in emerging markets continued to look robust and reinforced the theme supported by many that those economies are the new leaders of the globe.

COMPARATIVE RETURNS

Range **9/30/10** - **12/31/10** Period **D** Daily 92 Day Period

Securities	Crcncy	Prc Appr	Total Ret	Difference	Annual Eq
1 MXEA Index	USD	6.23 %	6.67 %	-0.69 %	29.22 %
2 MXEF Index	USD	7.05 %	7.37 %		32.59 %
3 MXEASC Index	USD	11.48 %	11.88 %	4.51 %	56.12 %

(* = No dividends or coupons)



Performance among all market categories was strong, even though a stronger dollar detracted from returns in local currencies to some extent. Overall international equities lagged U.S. equities as money flowed to what many believe to be an undervalued U.S. market. With that said developed market international equities still returned 6.7% followed by emerging market stocks at 7.4% and developed market small caps at 11.9%. MTIP is underweight small caps at this point and therefore the underweight detracted from pool performance.

Growth continued to outperform value in the quarter, with an 8.1% return compared to a 6.2% return for value. Over the past year growth outperformed value by almost 7%, mainly due to the poor performance of European financials. MTIP is equal weight; i.e. style neutral between growth and value.



The dollar may have put in a low for now in early November as shown by the above comparison of the greenback to a basket of six major currencies. Its rally during the final six weeks of the quarter pared international gains for U.S. investors by about five percent. An improving U.S. economy along with anticipated stronger profits for U.S. companies helped lift the greenback.

Similar to the domestic pool, manager style performances for the quarter were encouraging. The value and core groups outperformed while growth and small cap did not do as well as their respective benchmarks. However, the underperformance of growth and small cap was slight as both buckets had returns quite close to their benchmarks. Overall, MTIP outperformed the custom pool benchmark by ten basis points for the quarter.

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

INTERNATIONAL EXPOSURE-MARKET CAP %

December 31, 2010

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	--	9.7	13.5	21.4	20.3	18.8	11.9	4.4	33.9
Artio Global - Intl Equity II with look throughs	1.9	7.0	20.1	30.2	14.6	22.7	1.1	---	34.8
Batterymarch Financial Mgmt	1.0	13.0	14.9	20.2	16.6	32.8	1.5	---	39.2
Bernstein Inv Mgt & Research with look throughs	0.2	12.2	17.8	18.4	20.5	22.9	4.8	---	38.3
BlackRock Global Ex US Alpha Tilt Fd	0.9	9.1	16.8	22.7	19.7	23.6	2.7	---	38.9
DFA International Small Cap	--	--	--	--	---	21.6	58.3	19.6	1.4
Hansberger Global Investors	2.4	13.1	21.4	25.2	11.4	26.5	---	---	45.2
Martin Currie with look throughs	3.4	4.6	17.0	20.7	22.8	29.8	1.8	---	36.2
BlackRock ACWI Ex US Superfund A	1.5	11.8	19.4	27.1	16.3	21.4	2.1	---	43.1
ALL INTERNATIONAL EQUITY PORTFOLIOS	1.4	10.2	17.4	23.4	16.3	23.6	5.4	1.3	38.6
International Custom Benchmark	1.5	11.7	19.2	26.9	16.1	21.5	2.8	0.2	42.7
Over/underweight(-)	-0.1	-1.6	-1.9	-3.5	0.2	2.1	2.6	1.1	

INTERNATIONAL EXPOSURE-SECTOR %

December 31, 2010

MANAGERS

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	12.0	1.2	12.4	24.6	6.1	11.6	11.0	9.3	7.6	4.1
Artio Global - Intl Equity II with look throughs	15.3	14.3	4.4	18.5	6.5	12.7	4.5	18.8	1.9	0.6
Batterymarch Financial Mgmt	10.6	8.8	10.2	23.8	4.7	11.8	5.9	14.2	6.3	3.7
Bernstein Inv Mgt & Research with look through	13.0	4.7	13.0	23.1	5.1	8.2	5.6	12.1	7.0	5.0
Blackrock Global Ex US Alpha Tilt Fd	11.6	8.3	8.9	21.1	5.3	13.7	4.8	13.4	5.5	2.7
DFA International Small Cap	18.1	6.1	6.4	12.9	5.1	24.2	9.4	14.3	1.0	2.0
Hansberger Global Investors	12.1	8.5	8.2	15.1	4.6	13.4	13.2	20.0	3.1	1.7
Martin Currie with look throughs	21.8	12.3	11.4	19.1	4.8	7.8	4.5	14.1	4.1	---
Blackrock ACWI ex-US Superfund	9.1	8.6	10.8	24.5	5.8	10.8	6.7	13.2	5.6	4.3
All International Equity Portfolios	12.1	8.4	9.9	21.8	5.5	11.8	7.0	14.1	5.1	3.2
International Custom Benchmark	9.2	8.6	10.9	24.6	5.8	10.9	6.8	13.3	5.6	4.3
Over/underweight(-)	2.9	-0.2	-0.9	-2.7	-0.3	0.8	0.2	0.8	-0.6	-1.1

INTERNATIONAL PORTFOLIO CHARACTERISTICS

December 31, 2010

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/Earnings	Price/Book	Dividend Yield
International Accounts with look throughs	1,438.4	6,669	-2.0	14.3	1.6	2.46

International Equity Managers

Acadian Asset Management	92.6	317	-1.9	11.3	1.2	2.56
Artio Global - Intl Equity II with look throughs	151.0	191	-1.4	18.2	2.3	1.68
Batterymarch Financial Mgmt	121.4	229	-0.7	12.9	1.7	2.72
Bernstein Inv Mgt & Research with look throughs	115.9	222	-6.7	11.8	1.3	2.89
Blackrock Global Ex US Alpha Tilt Fd	109.5	1,177	-3.0	13.3	1.5	2.62
DFA International Small Cap	69.0	4,629	-2.8	14.3	1.3	2.07
Hansberger Global Investors	110.7	57	6.7	18.9	2.5	1.50
Martin Currie with look throughs	103.3	63	-4.0	16.8	1.8	1.99
Blackrock ACWI ex-US Superfund	551.2	1,912	-2.6	14.4	1.7	2.68

Benchmarks

MSCI All Country World Ex-United States		1,871	-2.6	14.5	1.7	2.68
MSCI All Country World Ex-United States Growth		1,085	2.3	18.2	2.4	1.81
MSCI All Country World Ex-United States Value		1,039	-7.6	11.9	1.3	3.56
MSCI EAFE Small Cap		2,376	-3.7	14.7	1.3	2.22
MSCI World Ex-United States Small Cap		2,611	-3.4	15.2	1.4	2.20
MSCI All Country Pacific		953	-4.5	15.2	1.5	2.44
MSCI Europe		466	-5.7	13.4	1.7	3.13
International Custom Benchmark		6,465	-2.6	14.5	1.7	2.67

INTERNATIONAL EQUITY
Region and Market Exposure
December 31, 2010

Developed Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
Asia/Pacific	24.1%	24.2%	-0.10%				
Australia	5.3%	6.0%		9.8%	35.7%	14.5%	14.5%
Hong Kong	2.5%	1.9%		4.8%	27.8%	23.2%	23.2%
Japan	14.9%	15.0%		12.1%	18.7%	15.4%	15.4%
New Zealand	0.1%	0.1%		11.4%	26.2%	8.3%	8.3%
Singapore	1.3%	1.2%		6.8%	23.7%	22.1%	22.1%
European Union	23.4%	22.7%	0.71%				
Austria	0.5%	0.2%		11.7%	43.3%	9.9%	9.9%
Belgium	0.7%	0.6%		-3.6%	15.3%	-0.4%	-0.4%
Denmark	0.9%	0.7%		7.1%	26.0%	30.7%	30.7%
Finland	0.7%	0.8%		5.9%	34.0%	10.3%	10.3%
France	6.3%	6.4%		1.7%	22.9%	-4.1%	-4.1%
Germany	6.5%	5.6%		9.5%	27.7%	8.4%	8.4%
Greece	0.2%	0.2%		-10.2%	6.7%	-44.9%	-44.9%
Ireland	0.2%	0.2%		6.4%	2.7%	-18.1%	-18.1%
Italy	1.8%	1.8%		-2.4%	16.9%	-15.0%	-15.0%
Netherlands	2.5%	1.7%		1.9%	18.4%	1.7%	1.7%
Portugal	0.1%	0.2%		-0.7%	19.7%	-11.3%	-11.3%
Spain	1.3%	2.2%		-8.7%	16.3%	-22.0%	-22.0%
Sweden	1.7%	2.2%		7.4%	34.0%	33.8%	33.8%
Non-EU Europe	5.3%	6.0%	-0.69%				
Norway	0.6%	0.6%		11.8%	44.8%	10.9%	10.9%
Switzerland	4.7%	5.4%		7.5%	21.8%	11.8%	11.8%
North America	7.4%	8.0%	-0.62%				
Canada	7.4%	8.0%		12.2%	27.0%	20.5%	20.5%
USA	0.0%	0.0%		11.5%	24.3%	16.5%	16.5%
United Kingdom	15.1%	14.5%	0.60%				
United Kingdom	15.1%	14.5%		10.8%	23.4%	14.8%	14.8%
Other							
Other	0.8%	0.5%					
DEVELOPED TOTAL	76.2%	75.9%	0.22%				
Emerging & Frontier Market Countries							
Asia/Pacific	13.2%	14.0%	-0.73%				
China	4.5%	4.1%		0.7%	11.5%	4.6%	4.6%
India	1.6%	1.9%		2.2%	18.0%	20.9%	20.9%
Indonesia	0.4%	0.6%		-0.7%	16.8%	33.9%	33.9%
S. Korea	3.3%	3.3%		12.8%	32.2%	26.7%	26.7%
Malaysia	0.7%	0.7%		5.5%	25.3%	37.0%	37.0%
Philippines	0.1%	0.1%		-3.6%	24.5%	33.9%	33.9%
Taiwan	2.1%	2.8%		17.4%	39.7%	21.8%	21.8%
Thailand	0.5%	0.4%		5.9%	40.1%	55.7%	55.7%
European Union	0.5%	0.5%	-0.08%				
Czech Republic	0.1%	0.1%		-3.5%	13.0%	-2.5%	-2.5%
Hungary	0.1%	0.1%		-9.4%	15.1%	-9.6%	-9.6%
Poland	0.3%	0.4%		4.4%	41.4%	15.2%	15.2%
Non-EU Europe	1.6%	1.5%	0.10%				
Russia	1.6%	1.5%		16.5%	32.1%	19.1%	19.1%
Latin America/Caribbean	4.9%	5.6%	-0.75%				
Brazil	3.5%	3.8%		3.4%	25.9%	6.5%	6.5%
Chile	0.4%	0.4%		5.8%	40.2%	44.2%	44.2%
Colombia	0.1%	0.2%		-5.2%	25.5%	43.4%	43.4%
Mexico	0.8%	1.1%		16.7%	30.1%	27.6%	27.6%
Peru	0.1%	0.2%		17.1%	46.3%	53.3%	53.3%
Mid East/Africa	2.2%	2.4%	-0.18%				
Egypt	0.1%	0.1%		4.9%	16.0%	12.4%	12.4%
Morocco	0.0%	0.0%		4.0%	12.6%	14.9%	14.9%
South Africa	1.5%	1.9%		13.1%	41.9%	34.2%	34.2%
Turkey	0.6%	0.4%		-7.9%	21.5%	20.8%	20.8%
Frontier	0.1%	0.0%	0.07%				
EMERGING & FRONTIER TOTAL	22.5%	24.1%	-1.56%				

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: February 8, 2011

Subject: Public Equity External Managers Watch List - Quarterly Update

There were no changes to the Watch List this quarter. Recall that four portfolios were terminated last quarter and two portfolios were added. Following that recent activity it was a rather quiet quarter.

MANAGER WATCH LIST

February 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	\$154	March 2008
Acadian	International – LC Value	Performance, Process	\$97	February 2009
Martin Currie	International – LC Growth	Performance, Risk Controls	\$105	February 2009
Batterymarch	International – LC Core	Performance, Process	\$124	May 2009
Analytic Investors	Domestic - 130/30	Performance, Process	\$110	May 2010
Artio Global	International – LC Core	Performance, Philosophy	\$121	November 2010
BlackRock Int AlphaTilts	International – LC Core	Personnel, Model and Process	\$112	November 2010

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.

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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
Senior Portfolio Manager

Date: January 28, 2011

Subject: Commercial and Residential loan portfolios.

The commercial loan portfolio has decreased to \$161,679,848, as of December 31, 2010, and is the lowest it has been since it hit a low of \$157,214,532 on March 31, 2006. During the first six months of fiscal year 2011, approximately \$21,000,000 of MBOI participated loans have been paid off. That decrease resulted, in part, due to a local business being acquired by an out-of-state company that resulted in loan payoffs of approximately \$9,000,000 and the repurchase of participated loans by an approved Montana lender totaling approximately \$6,500,000. As a result, the current loan balance represents only 17.35% of the coal tax trust and provides the In-State Loan Program with approximately \$63,400,000 of liquidity to participate in Montana loans when the Montana economy becomes more active. Reservations and commitments have remained relatively steady at \$18,122,239 and \$20,990,085, respectively.

Delinquent loans took a dramatic jump to \$9,898,057 or 6.12% of the portfolio. Three loans comprised \$8,816,168 of that past due total, all to the same owners within the restaurant sector. Two of the three loans are guaranteed by the USDA and total \$7,506,906. A discussion with the lender indicates that a private investor has signed a letter of intent to purchase part of the company after performing his due diligence. This investment will bring the loans current and provides needed working capital for the company. The company has felt the impact of the economic slowdown, during which time they have implemented cost cutting measures and, according to the lender, is expected to show a small profit for 2010.

Residential loans continue to decline with an outstanding balance, as of December 31, 2010, of \$30,677,962. There were no outstanding reservations. Delinquent loans, more than 90 days, totaled \$509,928, represented by seven loans, six of which were FHA guaranteed. The remaining loan, in the amount of \$160,589, was repurchased by the servicer/lender on January 6, 2011. As of December 31, 2010, total delinquencies stood at \$1,090,323 and represent 3.55% of the portfolio and 1.66% for loans past due 90 days or more. The national past due percentage for loans past due or on nonaccrual for 90 days or more is 7.94%.

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Bond Program

INTERCAP Loan Program

Activity Summary

As of December 31, 2010

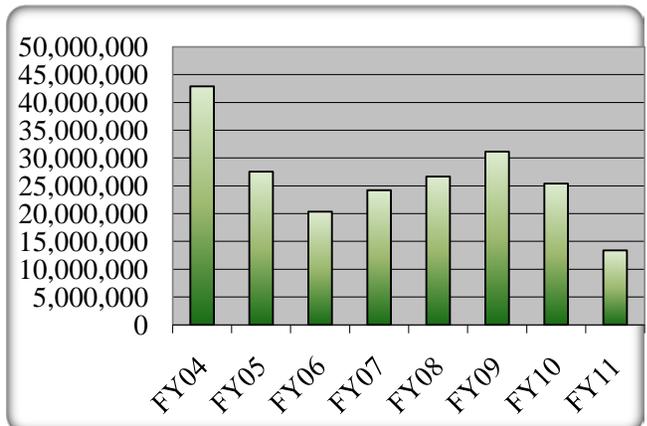
Since Inception 1987 - December 2010

Total Bonds Issued	136,000,000
Total Loan Commitments	359,769,178
Total Loans Funded	331,880,809
Total Bonds Outstanding	96,075,000
Total Loans Outstanding	75,375,082
Loan Commitments Pending	27,888,369

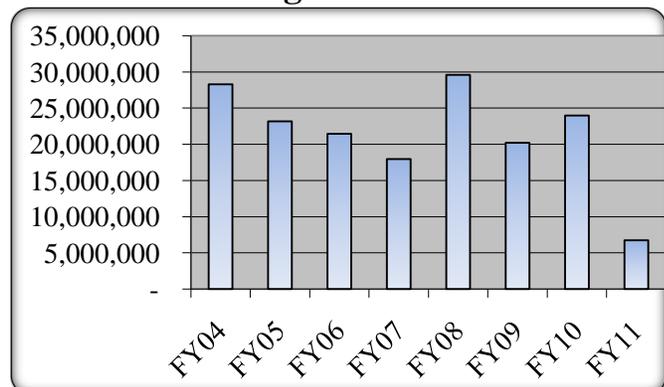
FY2011 To Date

Month	Commitments	Fundings
July-10	\$ 1,697,145	\$ 1,475,213
August	875,000	817,598
September	566,039	500,288
October	1,506,999	845,556
November	902,000	1,278,855
December	7,839,469	1,825,704
January		
February		
March		
April		
May		
June-11		
To Date	\$ 13,386,652	\$ 6,743,214

Commitments FY04-FY11



Fundings FY04-FY11



Note: Commitments include withdrawn and expired loans.

Variable Loan Rate History February 16, 2003 - February 15, 2011

February 16, 2003 - February 15, 2004	<u>2.85%</u>	February 16, 2007 - February 15, 2008	<u>4.85%</u>
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>

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: February 8, 2011
Subject: INTERCAP Staff Approved Loans Committed



Staff approved the following loans – October 1, 2010 through December 31, 2010.

Borrower:	Town of Nashua
Purpose:	To finance cost overrun associated with Phase I of its water system improvements.
Staff Approval Date	October 7, 2010
Board Loan Amount:	\$ 60,000
Other Funding Sources:	\$400,125
Total Project Cost:	\$460,125
Term:	10 years

Borrower:	Musselshell County
Purpose:	Purchase a 2010 John Deere 872G motor grader
Staff Approval Date	October 8, 2010
Board Loan Amount:	\$227,000
Other Funding Sources:	\$ 35,000
Total Project Cost:	\$262,000
Term:	8 years

Borrower:	Sunburst
Purpose:	To finance costs associated with Sunburst SID #4 street, curb, and gutter improvements.
Staff Approval Date	October 20, 2010
Board Loan Amount:	\$319,999
Other Funding Sources:	\$ 74,001
Total Project Cost:	\$394,000
Term:	\$249,999 SID Bond – 4 years & \$70,000 Note – 5 years

Borrower:	Unified Disposal Board – Havre
Purpose:	To finance cost associated with developing a solid waste facility at its new landfill location.
Staff Approval Date:	October 26, 2010
Board Loan Amount:	\$ 900,000
Other Funding Sources:	\$ 400,000
Total Project Cost:	\$1,300,000
Term:	15 years

Borrower:	Town of Valier
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for water system improvements.
Staff Approval Date:	November 1, 2010
Board Loan Amount:	\$ 902,000
Other Funding Sources:	\$1,867,700
Total Project Cost:	\$2,769,700
Term:	1 year

Borrower:	Stillwater County
Purpose:	To purchase two 2010 John Deere 772G motor graders with ripper attachments.
Staff Approval Date:	December 2, 2010
Board Loan Amount:	\$312,000
Other Funding Sources:	\$168,000
Total Project Cost:	\$480,000
Term:	7 years

Borrower:	Toole County
Purpose:	To purchase equipment including x-ray/eye surgery equipment for the county hospital and 2010 Caterpillar 140M and 2010 John Deere 872G motor graders.
Staff Approval Date:	December 6, 2010
Board Loan Amount:	\$673,914
Other Funding Sources:	\$149,270
Total Project Cost:	\$823,184
Term:	\$447,856 Note - 5 years & \$226,058 Note – 7 years

Borrower:	City of Havre
Purpose:	To purchase a new 2012 Freightliner M2106 garbage truck.
Staff Approval Date:	December 15, 2010
Board Loan Amount:	\$ 49,500
Other Funding Sources:	\$ 57,785
Total Project Cost:	\$107,285
Term:	7 years

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: February 8, 2011
Subject: INTERCAP Loan Committee E-mail Approved Loans Committed



Loan Committee (LC) approved the following loans – May 20, 2010 through February 8, 2011.

Borrower:	City of Glasgow
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for wastewater system improvements.
LC Approval Date:	December 23, 2010
Board Loan Amount:	\$2,599,000
Other Funding Sources:	\$2,446,000
Total Project Cost :	\$5,045,000
Term:	2 years

Borrower:	Town of Whitehall
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for wastewater system improvements.
LC Approval Date:	December 23, 2010
Board Loan Amount:	\$3,000,000
Other Funding Sources:	\$2,000,000
Total Project Cost :	\$5,000,000
Term:	1 year

Borrower:	Fort Smith Water & Sewer District
Purpose:	Interim loan in anticipation of Rural Development (RD) long term financing for water system improvements.
LC Approval Date:	December 23, 2010
Board Loan Amount:	\$1,218,000
Other Funding Sources:	\$3,162,000
Total Project Cost :	\$4,380,000
Term:	2 years

Borrower:	MSU-Bozeman
Purpose:	To finance costs associated with the Bobcat Stadium End Zone Project.
LC Approval Date:	January 12, 2011
Board Loan Amount:	\$ 4,000,000
Other Funding Sources:	\$ 6,000,000
Total Project Cost :	\$10,000,000
Term:	15 years

MEMORANDUM

Montana Board of Investments

Department of Commerce
2401 Colonial Drive, 3rd Floor
(406) 444-0001

To: Members of the Board
From: Geri Burton, Deputy Director
Date: January 31, 2011
Subject: Qualified School Construction Bond Program
Great Falls Public Schools

Qualified School Construction Bond Program Background

The American Recovery and Reinvestment Act of 2009 authorized a financial tool for school districts, Qualified School Construction Bonds (QSCBs). QSCBs are Direct Pay Tax Credit Bonds. Direct Pay Tax Credit Bonds provide a Federal borrowing subsidy through a refundable tax credit paid directly to issuers. This allows issuers to finance projects at little or no interest. The amount of the direct payment is based on the QSCB rate set by the U.S. Treasury Department on the day there is a signed, written agreement, between the school district, the Board and the purchaser, to purchase the QSCB.

A national bond limitation allocation in the amount of \$11 billion was authorized for 2009 and 2010. Congress has not reauthorized allocations under the QSCB program. The bond limitation is allocated among the states based on the respective amount of local education grants each state receives under the Elementary and Secondary Education Act. Montana's allocations were \$31,623,000 for calendar year 2009 and \$31,838,000 for calendar year 2010. The Montana Office of Public Instruction must authorize a school district's request for a QSCB allocation.

QSCBs can be used to finance new construction, rehabilitation, or repair of a public school facility, and the acquisition of land. Unlike Qualified Zone Academy Bonds, of which the Board has issued several, QSCBs can be used to finance new construction.

QSCBs may be purchased by any individual or private business.

The Board of Investments' QSCB Program would be administered under the Municipal Finance Consolidation Act. Several QSCBs have been issued in the state of Montana; however, they have been issued directly by school districts and have been authorized by the voters of the school district. The 2009 and 2010 allocations have been committed; therefore, there are no remaining allocations available for school districts in Montana.

Great Falls Public Schools

Great Falls Public Schools is requesting the Board of Investments purchase its QSCBs in an amount up to \$8.5 million to finance various energy conservation measures at its public school facilities; \$6.6 million for its Elementary School District and \$1.9 million for its High School District (the "District").

The District is requesting the Board's involvement because Montana school districts have little flexibility to issue debt without an election. One way it can be done is under the Municipal Finance Consolidation Act, so long as the project being financed is renovating, rehabilitating, and remodeling facilities, and not acquiring real property or constructing a facility. The Board of Investments will not hold the investments, but will act as a conduit (pass through) issuer. In so doing, there would be two bond issues for the Elementary District and High School District, one in which the Districts would issue QSCBs to the Board and one in which the Board would issue taxable bonds to a private purchaser. The Board would use the proceeds of the taxable bonds to purchase each District's QSCBs. The QSCB allocations for the District have been approved by the Montana Office of Public Instruction.

Under the Municipal Finance Consolidation Act, current law authorizes school districts to finance capital projects for a period up to ten fiscal years. House Bill 182 is currently being considered by the 62nd Montana Legislature, which if passed, would revise the Municipal Finance Consolidation Act to authorize school districts to finance their capital projects up to 15 fiscal years. The term of the QSCB and taxable bonds will not exceed the maximum term permitted by law; up to 15 fiscal years if House Bill 182 passes or up to 10 fiscal years if it does not.

The District is working with McKinstry, a Seattle based company, to coordinate the details of the project and financing. McKinstry is working with potential purchasers of the Board's taxable bonds. McKinstry has been working with the District since 2009 and has prepared a comprehensive energy report that reflects the energy conservation measures and projected energy cost savings that will be derived from those projects. Energy cost savings, as well as any legally available funds of the District will repay the QSCBs.

The Montana Department of Environmental Quality (DEQ) has reviewed the energy report prepared by McKinstry. In doing so, DEQ has verified the projected energy cost savings that will be available to repay a portion of the debt.

The taxable bonds will be special, limited obligations of the Board. The State of Montana and the Board are not monetarily liable for repayment of the taxable bonds. The taxable bonds will be payable solely from the payments to be made by the District. Resolution Nos. 228 and 229 create Debt Service Funds into which the District will make semi-annual payments. Funds in the Debt Service Funds will be used to pay the purchaser of the taxable bonds on a semi-annual basis.

Under the Municipal Finance Consolidation Act, the Board may not issue bonds that would cause the total outstanding indebtedness of the Board to exceed \$190 million. Assuming the issuance of the \$6.6 million and \$1.9 million QSCBs, the Board's outstanding \$96.1 million INTERCAP Program bonds, \$.2 million Irrigation District Pooled Loan Program bonds and \$10.1 million QZABs, the Board will have \$114.9 bonds outstanding under the Municipal Finance Consolidation Act.

Resolution No. 228

Resolution No. 228 authorizes the purchase by the Board of the Elementary District's QSCB and the issuance and sale of the Board's taxable bonds to the private purchaser for the District in an amount up to \$6.6 million. The Resolution also authorizes the negotiation and execution of various bond closing documents.

Resolution No. 229

Resolution No. 229 authorizes the purchase by the Board of the High School District's QSCB and the issuance and sale of the Board's taxable bonds to the private purchaser for the District in an amount up to \$1.9 million. The Resolution also authorizes the negotiation and execution of various bond closing documents.

Recommendation

Staff recommends the following:

1. Approval of the creation of a Qualified School Construction Bond Program.
2. Approval of Resolution No. 228 and Resolution No. 229.
3. Authorize staff to proceed to complete the financings.
4. Authorize staff to finalize and execute the bond closing documents.

CERTIFICATE AS TO RESOLUTION

I, the undersigned, being the duly qualified and acting Executive Director of the Board of Investments of the State of Montana (the "Board"), hereby certify that the attached resolution is a true copy of Resolution No. 228, entitled: "RESOLUTION RELATING TO UP TO \$6,600,000 MUNICIPAL FINANCE CONSOLIDATION ACT BONDS, TAXABLE SERIES 2011 (GREAT FALLS ELEMENTARY SCHOOL DISTRICT); AUTHORIZING AND APPROVING THE SALE AND ISSUANCE THEREOF AND PLEDGES AND ASSIGNMENTS OF THE BOARD'S INTEREST IN THE SCHOOL DISTRICT BONDS AND PAYMENTS THEREUNDER, FIXING THE FORM AND DETAILS, PROVIDING FOR THE PAYMENT AND SECURITY AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH" (the "Resolution"), on file in the original records of the Board in my legal custody; that the Resolution was duly adopted by the Board at a meeting on February 9, 2011, and that the meeting was duly held by the Board and was attended throughout by a quorum, pursuant to call and notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.

WITNESS my hand officially as such recording officer this ____ day of February, 2011.

Carroll V. South
Executive Director

RESOLUTION NO. 228

RESOLUTION RELATING TO UP TO \$6,600,000 MUNICIPAL FINANCE CONSOLIDATION ACT BONDS, TAXABLE SERIES 2011 (GREAT FALLS ELEMENTARY SCHOOL DISTRICT); AUTHORIZING AND APPROVING THE SALE AND ISSUANCE THEREOF AND PLEDGES AND ASSIGNMENTS OF THE BOARD'S INTEREST IN THE SCHOOL DISTRICT BONDS AND PAYMENTS THEREUNDER, FIXING THE FORM AND DETAILS, PROVIDING FOR THE PAYMENT AND SECURITY AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH

BE IT RESOLVED by the Board of Investments of the State of Montana (the "Board"), as follows:

Section 1. Recitals, Authorization and Sale.

1.1. Authority. The Board is a board of the Executive Branch of the Government of the State of Montana created pursuant to Montana Code Annotated, Section 2-15-1808, as amended. The Board is authorized under the Municipal Finance Consolidation Act of 1983, Montana Code Annotated, Title 17, Chapter 5, Part 16, as amended (the "Act"), to issue its obligations to provide funds to finance loans to and purchase the bonds and notes of other eligible governmental units, including school districts. Such bonds or notes may be sold at public or private sale, and must be authorized by a resolution of the Board.

1.2. The District; District Bonds and the BOI Bonds. School District No. 1 (Great Falls), Cascade County, Montana (the "District"), has requested that the Board issue its revenue bonds under the Act in the aggregate principal amount of up to \$6,600,000 (the "BOI Bonds"), and use the proceeds thereof to purchase Limited Obligation School Building Bonds, Series 2011 Qualified School Construction Bonds (Federal Taxable – Direct Payment to Issuer), in the aggregate principal amount of up to \$6,600,000 (the "District Bonds") to be issued by the District. The proceeds of the District Bonds are to be used by the District for the purpose of paying the costs of various energy conservation measures at public school facilities of the District, including energy conservation measures at some or all of the following public school facilities: Chief Joseph, East Middle, Lewis and Clark, Lincoln, Longfellow, Lowell, Loy, Meadowlark, Morningside, Mountain View, North Middle, River View, Roosevelt, Sacajawea, Skyline, Sunnyside, Valley View, West Elementary, and Whittier Schools and the Administration Building (collectively, the "Project") and paying associated costs of issuance, as authorized by Section 20-9-471, M.C.A., as amended.

The BOI Bonds will not be secured by the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act or by any funds or assets of the Board other than its interest in the District Bonds and the payments to be made by the District thereunder.

1.3. Taxable Bonds. The BOI Bonds are intended to be issued and sold as “taxable bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), meaning that the interest thereon will be includable in gross income for federal income tax purposes. The issuance of the BOI Bonds by the Board will enhance the marketability of such obligations and of the District Bonds.

1.4. Finding. Giving effect to the issuance of the BOI Bonds, the total outstanding indebtedness of the Board under the Act (exclusive of refunding bonds or indebtedness to purchase registered warrants or tax or revenue anticipation notes of a local government) is currently not greater than \$190,000,000.

1.5. Sale. The sale of the BOI Bonds is being facilitated by McKinstry Capital, LLC, in the capacity of financial advisor to the District and the Board (the “Financial Advisor”). The BOI Bonds may be sold at a private sale, as provided by Section 17-5-1606(5)(b) of the Act. The Financial Advisor, on behalf of the District, solicited proposals for the purchase of the BOI Bonds. Subject to the limitations described in the District’s bond resolution, dated January 24, 2011 (the “District Bond Resolution”), certain authorized officers of the District are authorized to select in coordination with the Financial Advisor, from the proposals and other prospective purchasers, the purchaser that in the determination of the authorized officers of the District in consultation with the Financial Advisor provides the most favorable terms of financing to the District (such purchaser, the “Purchaser”). The Purchaser will agree to purchase the BOI Bonds within the limitations described in this Resolution and the District Bond Resolution, and on the further terms and conditions to be set forth in the agreement between the District, the Board, and the Purchaser, a draft form of which is on file at the offices of the Board of Investments and available to the Board and which will be finalized prior to the issuance of the BOI Bonds (the “Purchase Agreement”). The Purchase Agreement will also evidence the Board’s agreement to purchase the District’s Bonds. The Chair, Executive Director, Deputy Director, and Vice-Chair of the Board (collectively, the “Authorized Officers”), or any one or more of such officers, are hereby authorized to approve:

(i) the forms and terms of the Purchase Agreement and the Registrar Agreement (as hereinafter defined);

(ii) the purchase price of the BOI Bonds, provided that the purchase price equals the principal amount of the BOI Bonds;

(iii) the principal amount of the BOI Bonds, provided that such principal amount is not in excess of \$6,600,000;

(iv) the maturity schedule of the BOI Bonds, provided that the BOI Bonds mature at any time or times or in such amount or amounts not later than 15 fiscal years after the date of issuance of the BOI Bonds; and

(v) the terms of redemption of the BOI Bonds, provided that those terms are consistent with Section 3.7.

1.6. Related Documents. The following documents (collectively, the “Operative Documents”) relating to the BOI Bonds will be prepared, subject to the approval of the Authorized Officers, who are each authorized to review and approve the same, and which, upon approval, shall be placed on file in the office of the Board:

(a) the Purchase Agreement;

(b) a Paying Agent, Registrar, and Fiscal Agency Agreement to be entered into by the Board, the District and U.S. Bank National Association, as registrar, paying agent, filing agent, custodian, and fiscal agent (the “Registrar Agreement”) a draft form of which is on file at the offices of the Board of Investments and available to the Board; and

(c) such other documents as are necessary or appropriate in connection with the issuance of the BOI Bonds.

The staff of the Board has reviewed and is satisfied with the form of resolution adopted by the Board Trustees of the District on January 10, 2011, preliminarily authorizing the issuance of the District Bonds, and the form of resolution adopted by the Board of Trustees of the District on January 24, 2011, authorizing the issuance of the District Bonds.

1.7. Recitals. All acts, conditions and things required by the Constitution and laws of the State of Montana, including the Act, in order to make the BOI Bonds valid and binding special, limited obligations of the Board in accordance with their terms and in accordance with the terms of this resolution have been done, do exist, have happened and have been performed in regular and due form, time and manner as so required or, by the date of issuance of the BOI Bonds, will have been done, will exist, will happen and will have been performed in regular and due form, time and manner as so required.

Section 2. Approval and Authorizations.

2.1. Subject to Section 2.6 below, to purchase the District Bonds, the Board hereby authorizes the issuance of the BOI Bonds as a series of revenue bonds designated, “Board of Investments of the State of Montana, Municipal Finance Consolidation Act Bonds, Taxable Series 2011 (Great Falls Elementary School District),” in the aggregate principal amount of up to \$6,600,000.

2.2. The Authorized Officers, or any one or more of such officers, are hereby authorized to negotiate, approve, execute and deliver the Purchase Agreement, subject to the parameters set forth in Section 1.5. The Purchase Agreement shall be dated no later than June 30, 2011. The approval of the Purchase Agreement shall be conclusively presumed by the execution thereof by two or more Authorized Officers.

2.3. The Authorized Officers, or any one or more of such Authorized Officers are authorized to negotiate, approve, execute, and deliver the Registrar Agreement. The approval of such agreement shall be conclusively presumed by the execution thereof by two or more Authorized Officers. The Board hereby authorizes and directs U.S. Bank National Association to enter into and deliver the Registrar Agreement.

2.4. In anticipation of the payments to be made under the District Bonds, the Board shall proceed to issue the BOI Bonds in the form and upon the terms provided by this resolution. It is acknowledged that not all the terms of the BOI Bonds have been established as of the date of adoption of this resolution. The Authorized Officers, or any one or more of such officers, are authorized to finalize the form of the BOI Bonds attached hereto as Exhibit A, subject to the limitations in Section 1.5. The Chair and the Executive Director are authorized and directed to execute the BOI Bonds as prescribed in this resolution and deliver them to the Registrar (as hereinafter defined), together with a certified copy of this resolution and the other documents required by the Purchase Agreement, Registrar Agreement, and such other documents as are required to be delivered in connection with the BOI Bonds, for authentication of the BOI Bonds by the Registrar and delivery by the Registrar of the BOI Bonds to the Purchaser.

2.5. The Authorized Officers, or any one or more of such officers, are authorized and directed to negotiate, execute, and deliver such documents or agreements that are ancillary to and required or appropriate in connection with the Purchase Agreement, the Registrar Agreement, or the BOI Bonds, and to prepare and furnish to the Purchaser and bond counsel, when the BOI Bonds are issued, certified copies of all proceedings and records of the Board relating to the BOI Bonds, and such other affidavits, certificates and documents as may be required to show the facts relating to the legality and marketability of the BOI Bonds as such facts appear from the books and records in the officers' custody and control or as otherwise known to them, or as may be necessary or desirable to accomplish the issuance and sale of the BOI Bonds, and all such certified copies, certificates, affidavits and documents, including any heretofore furnished, shall constitute representations of the Board as to the truth of all statements of fact contained therein.

2.6. Notwithstanding anything to the contrary herein, if the parties to any agreement relating to the BOI Bonds fail to reach agreement on the terms of any agreement or if the Authorized Officers should determine, in their discretion, that the transactions contemplated by the District Bonds or the BOI Bonds are not in the best interests of the Board, the Authorized Officers, acting on behalf of the Board, may elect not to proceed with the transactions contemplated herein.

Section 3. The BOI Bonds.

3.1. Principal Amount, Interest, Maturity, Denominations, Date. For the purpose of purchasing the District Bonds, the Board shall, upon satisfaction of the conditions described herein, forthwith issue and deliver the BOI Bonds. The BOI Bonds shall be denominated "Municipal Finance Consolidation Act Bonds, Taxable Series 2011 (Great Falls Elementary School District)."

The term of the BOI Bonds shall not exceed the maximum term then permitted for the District Bonds, and in any event no more than 15 fiscal years, and shall be subject to redemption as provided in Section 3.7 below and in the final form of the BOI Bond.

In the event the date for the payment of principal or interest is not a Business Day, the Board shall make the payment on the following Business Day with the same effect as if it had been made on the date scheduled for such payment. As used in this resolution, "Business Day" means any day other than (i) a Saturday or a Sunday, (ii) a day that is a legal holiday in the State

of Montana, (iii) a day on which commercial banks in the city or cities in which are located the Principal Office of the Registrar are authorized or required by law or executive order to close, or (iv) a day on which the New York Stock Exchange is closed.

3.2. Dating of BOI Bonds. The BOI Bonds shall be dated, as originally issued, as of the date of their issuance. Upon the original delivery of the BOI Bonds to the Purchaser and upon each subsequent transfer or exchange of a BOI Bond pursuant to Section 3.5, the Registrar shall date each BOI Bond as of the date of its authentication.

3.3. Payment Dates. Principal of and/or interest on the BOI Bonds shall be payable on each June 15 and December 15, commencing no earlier than December 15, 2011 (each such date, a "Payment Date"), to the Purchaser, or if assigned, the owners of record thereof as such appear on the Bond Register, as provided in the Registrar Agreement, at the close of business on the first day, whether or not such day is a Business Day, of the month containing the Payment Date.

3.4. Payment Schedule. To provide for the payment of the principal amount of the BOI Bonds and interest thereon when due, the Board, from the sources described in Section 4 hereof, shall, on or before June 15 and December 15 in each fiscal year, commencing on the date described above in Section 3.3 and ending on the date described above in Section 3.1, appropriate all payments on the District Bonds for credit to the BOI Debt Service Fund in an amount equal to the amount which equals the amount owing on the BOI Bonds on any Payment Date.

3.5. Registration; Method of Payment. The BOI Bonds shall be issued only in fully registered form. The interest on and the principal of each Bond, shall be payable by check or draft drawn on the Registrar.

(a) System of Registration. The Board shall appoint, and shall maintain, a paying agent, bond registrar, and fiscal agent (the "Registrar"). The Board shall establish a system of registration for the BOI Bonds as defined in the Model Public Obligations Registration Act of Montana, Montana Code Annotated, Title 17, Chapter 5, Part 11, as amended, by entering into the "Registrar Agreement" with the Registrar. The registration, transfer and exchange of the BOI Bonds shall be handled by the Registrar as provided in the Registrar Agreement.

(b) Cancellation. All BOI Bonds surrendered upon any transfer or exchange shall be promptly canceled by the Registrar and thereafter delivered to the Executive Director of the Board. Payments of principal of and interest on the BOI Bonds will be made in accordance with the schedule in or attached to the BOI Bonds. Surrender of the BOI Bonds shall not be necessary in connection with scheduled interim principal payments, but the BOI Bonds must be surrendered as a condition to payment of the final principal maturity thereof or payment or redemption of the BOI Bonds.

3.6. Appointment of Registrar. The Board hereby appoints U.S. Bank National Association, of Seattle, Washington, as the initial Registrar. Any one or more Authorized Officers are authorized to execute and deliver, on behalf of the Board, the Registrar Agreement with the Registrar. Upon merger or consolidation of the Registrar with another corporation, if

the resulting corporation is a bank or trust company organized under the laws of the United States or one of the states of the United States and authorized by law to conduct such business, such corporation shall be authorized to act as successor Registrar. The District will pay the reasonable and customary charges of the Registrar for the services performed. The Board reserves the right to remove the Registrar, effective upon not less than thirty days' written notice and upon the appointment and acceptance of a successor Registrar, in which event the predecessor Registrar shall deliver all cash and BOI Bonds in its possession to the successor Registrar and shall deliver the Bond Register to the successor Registrar. On or before each date that interest or principal is payable on the BOI Bonds, without further order of this Board, the Registrar shall transmit to the Purchaser, from available funds in the BOI Debt Service Fund, money sufficient for the payment of all principal and interest then due.

3.7. Redemption. The BOI Bonds are subject to redemption in the same manner, on the same terms, and at the same times as the District Bonds. The terms of redemption of the BOI Bonds shall be described with particularity in the final Purchase Agreement and final form of the BOI Bonds.

(a) Funds for Redemption. The funds for the redemption of the BOI Bonds are funds applied by the District to the redemption of the District Bonds. In the event the District Bonds are redeemed in whole or in part, the BOI shall instruct the Registrar to redeem a like amount of BOI Bonds, but only from proceeds delivered to the Registrar by the District upon the redemption of the District Bonds.

(b) Notice of Redemption. The Executive Director shall provide or cause to be provided to the Registrar at least 45 days prior to the redemption date a request that the Registrar cause notice of redemption to be given to the registered owners of each BOI Bond to be redeemed in the manner provided in the Registrar Agreement. Official notice of redemption having been given as aforesaid, the BOI Bonds or portions thereof so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date (unless the Board shall default in the payment of the redemption price) such BOI Bonds or portions thereof shall cease to bear interest.

(c) Denominations. BOI Bonds in a denomination larger than \$5,000 may be redeemed in part in any integral multiple of \$5,000. The owner of any BOI Bond redeemed in part shall receive, upon surrender of such BOI Bond to the Registrar, one or more new BOI Bonds in authorized denominations equal in principal amount to the unredeemed portion of the BOI Bond so surrendered.

3.8. Form. The BOI Bonds shall be prepared in substantially the form set forth in Exhibit A hereto, and by this reference made a part hereof, with such changes and completions as are approved by the Authorized Officers, which approval shall be evidenced by the execution and delivery of the BOI Bonds.

3.9. Execution and Delivery. The BOI Bonds shall be forthwith prepared for execution under the direction of the Executive Director, and shall be executed on behalf of the Board by the signature of the Chair and attested by the signature of the Executive Director; provided that

either or both of such signatures may be printed, engraved or lithographed facsimiles of the originals. The seal of the Board need not be affixed to or imprinted on any BOI Bond. In case any officer whose signature or a facsimile of whose signature shall appear on any BOI Bond shall cease to be such officer before the delivery of such BOI Bond, such signature or facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery. Notwithstanding such execution, no BOI Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit under this resolution unless a certificate of authentication on such BOI Bond has been executed by the manual signature of an authorized representative of the Registrar. Certificates of authentication on different BOI Bonds need not be signed by the same representative. The executed certificate of authentication on each BOI Bond shall be conclusive evidence that it has been authenticated and delivered under this Resolution. When the BOI Bonds have been fully executed and authenticated, they shall be delivered by the Registrar to the Purchaser upon payment of the purchase price in accordance with the purchase agreement made and executed. The Purchaser shall not be obligated to see to the application of the purchase price.

3.10. Application of Proceeds of BOI Bonds. All of the proceeds of the BOI Bonds shall be applied to the purchase of the District Bonds.

Section 4. Security Provisions.

4.1. BOI Debt Service Fund. There is hereby created a debt service fund of the Board designated the “2011 Great Falls Elementary School District Debt Service Fund” (the “BOI Debt Service Fund”), to be held and administered by the Registrar separate and apart from all other funds of the Board so long as any of the BOI Bonds are outstanding and any principal thereof and interest thereon, are unpaid. The BOI Debt Service Fund shall be used solely to pay the principal of the BOI Bonds and any interest thereon and the fees and expenses of the Registrar, subject to the conditions herein specified. The Board irrevocably appropriates to the BOI Debt Service Fund: (a) all payments made by the District on or with respect to the District Bonds, and (b) such other money, if any, as shall be received and appropriated to the BOI Debt Service Fund from time to time.

Whenever a payment of the District Bonds is received by the Registrar, such payment shall be deposited to the BOI Debt Service Fund and applied as set forth in the Registrar Agreement. The provision, investment, application, deposit, and disbursement of amounts deposited in the BOI Debt Service Fund and earnings thereon and other rights and obligations regarding the BOI Debt Service Fund are set forth more particularly in the Registrar Agreement.

The Board hereby authorizes and directs U.S. Bank National Association to enter into the Registrar Agreement and perform its obligations thereunder.

4.2. Pledge of District Bonds. The Board hereby irrevocably pledges and assigns to the payment of the BOI Bonds for the benefit of the holders from time to time of the outstanding BOI Bonds all of the right, title and interest of the Board in the District Bonds and all payments made by the District thereunder and any proceeds thereof. The Board hereby acknowledges and agrees that if a default in the payment of the BOI Bonds occurs, the Board will, at the request of

all of the holders of the BOI Bonds, transfer to such holders all of its interest in the District Bonds, without warranty or recourse.

4.3. Special, Limited Obligations. Except as provided in Section 4.2, no funds or assets of the Board (including the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act) have been or are pledged to the payment of the BOI Bonds.

THE STATE OF MONTANA IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BOI BONDS OR FOR THE PERFORMANCE OF ANY OBLIGATION THAT MAY BE UNDERTAKEN BY THE BOARD WITH RESPECT THERETO. THE BOI BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE STATE OF MONTANA AND NEITHER THE FAITH AND CREDIT OR TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE BOI BONDS. THE BOARD DOES NOT HAVE ANY TAXING POWER.

Section 5. Taxable Bonds. The interest on the BOI Bonds is includable in gross income for federal income tax purposes.

Section 6. Authentication of Transcript. The officers of the Board are hereby authorized and directed to furnish to the Purchaser and to bond counsel certified copies of all proceedings relating to the issuance of the BOI Bonds and such other certificates and affidavits as may be required to show the right, power and authority of the Board to issue the BOI Bonds or as may otherwise be required by bond counsel, and all statements contained in and shown by such instruments, including any heretofore furnished, shall constitute representations of the Board as to the truth of the statements purported to be shown thereby.

Section 7. Defeasance. When all of the BOI Bonds have been discharged as provided in this Section 7, all pledges, covenants and other rights granted by this resolution to the owners of the BOI Bonds shall cease. The Board may discharge its obligations with respect to any BOI Bonds which are due on any date by irrevocably depositing with the Registrar on or before that date a sum sufficient for the payment thereof in full; or, if any Bond should not be paid when due, the Board may nevertheless discharge its liability with respect thereto by depositing with the Registrar a sum sufficient for the payment thereof in full with interest accrued to the date of such deposit. The Board may also discharge its obligations with respect to any BOI Bonds called for redemption on any date when they are subject to redemption according to their terms, by depositing with the Registrar on or before such redemption date a sum sufficient for the payment thereof in full with interest accrued to such redemption date; provided that notice of the redemption thereof has been duly given or provided for as provided in Section 3.7. The Board may also at any time discharge its obligations with respect to any BOI Bonds, subject to the provisions of law now or hereafter authorizing and regulating such action, by depositing irrevocably in escrow, with a bank qualified by law as an escrow agent for this purpose, cash or securities which are general obligations of the United States or securities of United States agencies which are authorized by law to be so deposited, bearing interest payable at such times and at such rates and maturing on such dates as shall be required, without reinvestment, to pay all principal and interest to become due on such Bond to their stated maturities or, if notice of redemption as herein required has been irrevocably provided for, to such earlier redemption date; provided, however, that if such deposit is made more than 90 days before the stated maturities or

redemption date of the BOI Bonds to be discharged, the Board shall have received a written report of an accountant or investment banking firm verifying that the deposit is sufficient to pay when due all of the principal and interest on the BOI Bonds to be discharged on and before their maturity date.

Section 8. Effective Date. All resolutions and parts of resolutions heretofore adopted by this Board which are in conflict herewith are hereby amended so as to conform with the provisions of this Resolution, and, as so amended, are hereby ratified and confirmed. This Resolution shall be effective upon passage.

PASSED AND APPROVED by the Board of Investments of the State of Montana on this 9th day of February, 2011.

Chair

Attest:

Executive Director

EXHIBIT A

STATE OF MONTANA

**BOARD OF INVESTMENTS
OF THE STATE OF MONTANA**

MUNICIPAL FINANCE CONSOLIDATION ACT BOND, TAXABLE SERIES 2011
(GREAT FALLS ELEMENTARY SCHOOL DISTRICT)

No. R-1

\$ _____

REGISTERED HOLDER: [_____]

PRINCIPAL AMOUNT:

DOLLARS AND NO/100

FOR VALUE RECEIVED, THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA, a board of the Executive Branch of the Government of the State of Montana (the "Issuer"), hereby promises to pay, but only out of the BOI Debt Service Fund as hereinafter described, to the Registered Holder named above, or registered assigns, the principal amount hereof together with interest thereon at _____% per annum in installments of principal and interest payable, subject to prior redemption as hereinafter provided, on June 15 and December 15, commencing _____, 20__ and concluding _____ (each such date, a "Payment Date"), in the amounts stated on Schedule 1 hereto (which is incorporated herein by this reference).

Principal of and interest on this Bond are payable in lawful money of the United States of America by check or draft drawn on U.S. Bank National Association, 1420 5th Avenue in Seattle, Washington 98101, as paying agent, bond registrar, and fiscal agent, or any successor designated under the Resolution described herein (the "Registrar"); provided, however, in the event all of the principal of this Bond is then to be paid, this Bond shall be presented and surrendered to the Registrar as a condition of payment. Principal of and interest on the Bonds shall be payable to the registered holder named above, or if assigned, the owners of record thereof as such appear on the Bond Register, at the close of business on the first day, whether or not such day is a Business Day, of the month containing the Payment Date.

The Bonds are special limited obligations of the Issuer. The Bonds will not be secured by the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630, M.C.A., or by any funds or assets of the Issuer other than its interest in the District Bonds (as hereinafter defined) and the payments to be made by the District (as hereinafter defined) thereunder.

THE STATE OF MONTANA IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS OR FOR THE PERFORMANCE OF ANY OBLIGATION THAT MAY BE UNDERTAKEN BY THE ISSUER WITH RESPECT THERETO. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE STATE OF MONTANA AND NEITHER THE FAITH AND CREDIT NOR TAXING POWER OF

THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE BONDS. THE ISSUER DOES NOT HAVE ANY TAXING POWER.

This Bond represents all of a series of a duly authorized issue of Bonds of the Issuer designated as Board of Investments of the State of Montana “Municipal Finance Consolidation Act Bonds, Taxable Series 2011 (Great Falls Elementary School District),” in the aggregate principal amount of \$6,600,000 (the “Bonds”), issued pursuant to the provisions of Montana Code Annotated, Title 17, Chapter 5, Part 16, as amended (the “Act”), under a resolution adopted by the Issuer on February 9, 2011, authorizing the issuance of the Bonds (the “Resolution”). Terms with initial capital letters but not defined herein shall have the meanings given them in the Resolution. The Bonds are issuable only as fully registered bonds, in denominations of \$5,000 or any integral multiple thereof.

The Bonds are being issued to provide funds to the Issuer to permit it to purchase \$6,600,000 in aggregate principal amount of Limited Obligation School Building Bonds, Series 2011 Qualified School Construction Bonds (Federally Taxable – Direct Payment to Issuer) (the “District Bonds”), issued by School District No. 1 (Great Falls), Cascade County, Montana (the “District”). This Bond is prepared and delivered in accordance with the Resolution.

The Bonds and the interest thereon are payable solely from the right, title and interest of the Issuer in the District Bonds and all payments made by the District thereunder and any proceeds thereof, but not from any other funds or assets of the Issuer, including the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act. By the Resolution, the Issuer has pledged and assigned all of its right, title and interest in the District Bonds and the payments to be made by the District thereunder to the payment of the Bonds, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein. A debt service fund has been established under the Resolution (as defined therein, the “BOI Debt Service Fund”). This Bond is payable solely from the BOI Debt Service Fund. Reference is hereby made to the Resolution and the Paying Agent, Registrar, and Fiscal Agency Agreement, dated as of the date hereof (the “Registrar Agreement”), between the Issuer, the District and the Registrar (copies of which are on file at the office of the Registrar), and all resolutions and agreements, if any, supplemental thereto and to the Act for a description of the rights thereunder of the registered holders of the Bonds, of the nature and extent of the security, the rights, duties and immunities of the Registrar and of the rights and obligations of the Issuer thereunder, to all the provisions of which Resolution, this Bond, and Registrar Agreement the registered holder of this Bond, by acceptance hereof, assents and agrees.

[Redemption provisions – optional redemption, extraordinary mandatory redemption, extraordinary optional redemption, notice of redemption, partial redemption.]

As provided in the Resolution and the Registrar Agreement and subject to certain limitations set forth therein, this Bond is transferable upon the Bond Register, upon surrender of this Bond for transfer at the operations center of the Registrar, duly endorsed by the registered owner hereof or by the registered owner’s attorney duly authorized in writing, together with a written instrument of transfer satisfactory to the Registrar duly executed by the registered owner or registered owner’s attorney. Bonds in a denomination greater than \$5,000 may also be

surrendered in exchange for Bonds of other authorized denominations. Upon any such transfer or exchange, the Issuer will cause a new Bond or Bonds to be issued in the name of the transferee or registered owner, of the same aggregate principal amount and maturing on the same date, subject to reimbursement for any tax, fee or governmental charge required to be paid with respect to such transfer or exchange.

The Issuer and the Registrar may deem and treat the person in whose name this Bond is registered as the absolute owner hereof, whether this Bond is overdue or not, for the purpose of receiving payment as herein provided and for all other purposes, and neither the Issuer nor the Registrar shall be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law; and that this Bond, together with all other indebtedness of the Issuer, does not exceed any statutory or constitutional limit of indebtedness.

This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Resolution until the Certificate of Authentication hereon shall have been executed by the Registrar by the manual signature of one of its authorized representatives.

IN WITNESS WHEREOF, the BOARD OF INVESTMENTS OF THE STATE OF MONTANA has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Chair and attested by the facsimile signature of its Executive Director.

BOARD OF INVESTMENTS OF THE
STATE OF MONTANA

(Facsimile Signature)
Chair

Attest:

(Facsimile Signature)
Executive Director

Dated: _____

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated by its title and is issued under the provisions of the within-mentioned Resolution.

U.S. BANK NATIONAL ASSOCIATION,
as Registrar

By _____
Authorized Representative

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

- | | | |
|------------|--|--|
| TEN COM -- | as tenants
in common | UTMA.Custodian.
(Cust) (Minor) |
| TEN ENT -- | as tenants
by the entireties | under Uniform Transfers to
Minors Act.
(State) |
| JT TEN -- | as joint tenants with right of
survivorship and not as
tenants in common | |

Other abbreviations may also be used.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

 (Please Print or Typewrite Name and Address of Transferee)
 the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints
 _____, attorney to
 transfer the within Bond on the books kept for registration thereof, with full power of
 substitution in the premises.

Dated: _____

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE:

/ _____/

NOTICE: The signature(s) to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration, enlargement or any change whatsoever.

SIGNATURE GUARANTEE:

 Signature(s) must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Bond Registrar, which requirements include membership or participation in STAMP or such other "signature guaranty program" as may be" determined by the Registrar in addition to or in substitution for STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

SCHEDULE 1

<u>Payment Date</u>		<u>Principal</u>		<u>Interest</u>		<u>Total Payment</u>
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CERTIFICATE AS TO RESOLUTION

I, the undersigned, being the duly qualified and acting Executive Director of the Board of Investments of the State of Montana (the "Board"), hereby certify that the attached resolution is a true copy of Resolution No. 229, entitled: "RESOLUTION RELATING TO UP TO \$1,900,000 MUNICIPAL FINANCE CONSOLIDATION ACT BONDS, TAXABLE SERIES 2011 (GREAT FALLS HIGH SCHOOL DISTRICT); AUTHORIZING AND APPROVING THE SALE AND ISSUANCE THEREOF AND PLEDGES AND ASSIGNMENTS OF THE BOARD'S INTEREST IN THE SCHOOL DISTRICT BONDS AND PAYMENTS THEREUNDER, FIXING THE FORM AND DETAILS, PROVIDING FOR THE PAYMENT AND SECURITY AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH" (the "Resolution"), on file in the original records of the Board in my legal custody; that the Resolution was duly adopted by the Board at a meeting on February 9, 2011, and that the meeting was duly held by the Board and was attended throughout by a quorum, pursuant to call and notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.

WITNESS my hand officially as such recording officer this ____ day of February, 2011.

Carroll V. South
Executive Director

RESOLUTION NO. 229

RESOLUTION RELATING TO UP TO \$1,900,000 MUNICIPAL FINANCE CONSOLIDATION ACT BONDS, TAXABLE SERIES 2011 (GREAT FALLS HIGH SCHOOL DISTRICT); AUTHORIZING AND APPROVING THE SALE AND ISSUANCE THEREOF AND PLEDGES AND ASSIGNMENTS OF THE BOARD'S INTEREST IN THE SCHOOL DISTRICT BONDS AND PAYMENTS THEREUNDER, FIXING THE FORM AND DETAILS, PROVIDING FOR THE PAYMENT AND SECURITY AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH

BE IT RESOLVED by the Board of Investments of the State of Montana (the "Board"), as follows:

Section 1. Recitals, Authorization and Sale.

1.1. Authority. The Board is a board of the Executive Branch of the Government of the State of Montana created pursuant to Montana Code Annotated, Section 2-15-1808, as amended. The Board is authorized under the Municipal Finance Consolidation Act of 1983, Montana Code Annotated, Title 17, Chapter 5, Part 16, as amended (the "Act"), to issue its obligations to provide funds to finance loans to and purchase the bonds and notes of other eligible governmental units, including school districts. Such bonds or notes may be sold at public or private sale, and must be authorized by a resolution of the Board.

1.2. The District; District Bonds and the BOI Bonds. High School District No. A (Great Falls), Cascade County, Montana (the "District"), has requested that the Board issue its revenue bonds under the Act in the aggregate principal amount of up to \$1,900,000 (the "BOI Bonds"), and use the proceeds thereof to purchase Limited Obligation School Building Bonds, Series 2011 Qualified School Construction Bonds (Federal Taxable – Direct Payment to Issuer), in the aggregate principal amount of up to \$1,900,000 (the "District Bonds") to be issued by the District. The proceeds of the District Bonds are to be used by the District for the purpose of paying the costs of various energy conservation measures at public school facilities of the District, including energy conservation measures at some or all of the following public school facilities: C M Russell High School, Great Falls High Bison Field House, Paris Gibson Education Center, Lowell School, and the Administration Building (collectively, the "Project") and paying associated costs of issuance, as authorized by Section 20-9-471, M.C.A., as amended.

The BOI Bonds will not be secured by the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act or by any funds or assets of the Board other than its interest in the District Bonds and the payments to be made by the District thereunder.

1.3. Taxable Bonds. The BOI Bonds are intended to be issued and sold as "taxable bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), meaning that the interest thereon will be includable in gross income for federal income tax purposes. The

issuance of the BOI Bonds by the Board will enhance the marketability of such obligations and of the District Bonds.

1.4. Finding. Giving effect to the issuance of the BOI Bonds, the total outstanding indebtedness of the Board under the Act (exclusive of refunding bonds or indebtedness to purchase registered warrants or tax or revenue anticipation notes of a local government) is currently not greater than \$190,000,000.

1.5. Sale. The sale of the BOI Bonds is being facilitated by McKinstry Capital, LLC, in the capacity of financial advisor to the District and the Board (the “Financial Advisor”). The BOI Bonds may be sold at a private sale, as provided by Section 17-5-1606(5)(b) of the Act. The Financial Advisor, on behalf of the District, solicited proposals for the purchase of the BOI Bonds. Subject to the limitations described in the District’s bond resolution, dated January 24, 2011 (the “District Bond Resolution”), certain authorized officers of the District are authorized to select in coordination with the Financial Advisor, from the proposals and other prospective purchasers, the purchaser that in the determination of the authorized officers of the District in consultation with the Financial Advisor provides the most favorable terms of financing to the District (such purchaser, the “Purchaser”). The Purchaser will agree to purchase the BOI Bonds within the limitations described in this Resolution and the District Bond Resolution, and on the further terms and conditions to be set forth in the agreement between the District, the Board, and the Purchaser, a draft form of which is on file at the offices of the Board of Investments and available to the Board and which will be finalized prior to the issuance of the BOI Bonds (the “Purchase Agreement”). The Purchase Agreement will also evidence the Board’s agreement to purchase the District’s Bonds. The Chair, Executive Director, Deputy Director, and Vice-Chair of the Board (collectively, the “Authorized Officers”), or any one or more of such officers, are hereby authorized to approve:

(i) the forms and terms of the Purchase Agreement and the Registrar Agreement (as hereinafter defined);

(ii) the purchase price of the BOI Bonds, provided that the purchase price equals the principal amount of the BOI Bonds;

(iii) the principal amount of the BOI Bonds, provided that such principal amount is not in excess of \$1,900,000;

(iv) the maturity schedule of the BOI Bonds, provided that the BOI Bonds mature at any time or times or in such amount or amounts not later than 15 fiscal years after the date of issuance of the BOI Bonds; and

(v) the terms of redemption of the BOI Bonds, provided that those terms are consistent with Section 3.7.

1.6. Related Documents. The following documents (collectively, the “Operative Documents”) relating to the BOI Bonds will be prepared, subject to the approval of the Authorized Officers, who are each authorized to review and approve the same, and which, upon approval, shall be placed on file in the office of the Board:

(a) the Purchase Agreement;

(b) a Paying Agent, Registrar, and Fiscal Agency Agreement to be entered into by the Board, the District and U.S. Bank National Association, as registrar, paying agent, filing agent, custodian, and fiscal agent (the "Registrar Agreement") a draft form of which is on file at the offices of the Board of Investments and available to the Board; and

(c) such other documents as are necessary or appropriate in connection with the issuance of the BOI Bonds.

The staff of the Board has reviewed and is satisfied with the form of resolution adopted by the Board Trustees of the District on January 10, 2011, preliminarily authorizing the issuance of the District Bonds, and the form of resolution adopted by the Board of Trustees of the District on January 24, 2011, authorizing the issuance of the District Bonds.

1.7. Recitals. All acts, conditions and things required by the Constitution and laws of the State of Montana, including the Act, in order to make the BOI Bonds valid and binding special, limited obligations of the Board in accordance with their terms and in accordance with the terms of this resolution have been done, do exist, have happened and have been performed in regular and due form, time and manner as so required or, by the date of issuance of the BOI Bonds, will have been done, will exist, will happen and will have been performed in regular and due form, time and manner as so required.

Section 2. Approval and Authorizations.

2.1. Subject to Section 2.6 below, to purchase the District Bonds, the Board hereby authorizes the issuance of the BOI Bonds as a series of revenue bonds designated, "Board of Investments of the State of Montana, Municipal Finance Consolidation Act Bonds, Taxable Series 2011 (Great Falls High School District)," in the aggregate principal amount of up to \$1,900,000.

2.2. The Authorized Officers, or any one or more of such officers, are hereby authorized to negotiate, approve, execute and deliver the Purchase Agreement, subject to the parameters set forth in Section 1.5. The Purchase Agreement shall be dated no later than June 30, 2011. The approval of the Purchase Agreement shall be conclusively presumed by the execution thereof by two or more Authorized Officers.

2.3. The Authorized Officers, or any one or more of such Authorized Officers are authorized to negotiate, approve, execute, and deliver the Registrar Agreement. The approval of such agreement shall be conclusively presumed by the execution thereof by two or more Authorized Officers. The Board hereby authorizes and directs U.S. Bank National Association to enter into and deliver the Registrar Agreement.

2.4. In anticipation of the payments to be made under the District Bonds, the Board shall proceed to issue the BOI Bonds in the form and upon the terms provided by this resolution. It is acknowledged that not all the terms of the BOI Bonds have been established as of the date of adoption of this resolution. The Authorized Officers, or any one or more of such officers, are

authorized to finalize the form of the BOI Bonds attached hereto as Exhibit A, subject to the limitations in Section 1.5. The Chair and the Executive Director are authorized and directed to execute the BOI Bonds as prescribed in this resolution and deliver them to the Registrar (as hereinafter defined), together with a certified copy of this resolution and the other documents required by the Purchase Agreement, Registrar Agreement, and such other documents as are required to be delivered in connection with the BOI Bonds, for authentication of the BOI Bonds by the Registrar and delivery by the Registrar of the BOI Bonds to the Purchaser.

2.5. The Authorized Officers, or any one or more of such officers, are authorized and directed to negotiate, execute, and deliver such documents or agreements that are ancillary to and required or appropriate in connection with the Purchase Agreement, the Registrar Agreement, or the BOI Bonds, and to prepare and furnish to the Purchaser and bond counsel, when the BOI Bonds are issued, certified copies of all proceedings and records of the Board relating to the BOI Bonds, and such other affidavits, certificates and documents as may be required to show the facts relating to the legality and marketability of the BOI Bonds as such facts appear from the books and records in the officers' custody and control or as otherwise known to them, or as may be necessary or desirable to accomplish the issuance and sale of the BOI Bonds, and all such certified copies, certificates, affidavits and documents, including any heretofore furnished, shall constitute representations of the Board as to the truth of all statements of fact contained therein.

2.6. Notwithstanding anything to the contrary herein, if the parties to any agreement relating to the BOI Bonds fail to reach agreement on the terms of any agreement or if the Authorized Officers should determine, in their discretion, that the transactions contemplated by the District Bonds or the BOI Bonds are not in the best interests of the Board, the Authorized Officers, acting on behalf of the Board, may elect not to proceed with the transactions contemplated herein.

Section 3. The BOI Bonds.

3.1. Principal Amount, Interest, Maturity, Denominations, Date. For the purpose of purchasing the District Bonds, the Board shall, upon satisfaction of the conditions described herein, forthwith issue and deliver the BOI Bonds. The BOI Bonds shall be denominated "Municipal Finance Consolidation Act Bonds, Taxable Series 2011 (Great Falls High School District)."

The term of the BOI Bonds shall not exceed the maximum term then permitted for the District Bonds, and in any event no more than 15 fiscal years, and shall be subject to redemption as provided in Section 3.7 below and in the final form of the BOI Bond.

In the event the date for the payment of principal or interest is not a Business Day, the Board shall make the payment on the following Business Day with the same effect as if it had been made on the date scheduled for such payment. As used in this resolution, "Business Day" means any day other than (i) a Saturday or a Sunday, (ii) a day that is a legal holiday in the State of Montana, (iii) a day on which commercial banks in the city or cities in which are located the Principal Office of the Registrar are authorized or required by law or executive order to close, or (iv) a day on which the New York Stock Exchange is closed.

3.2. Dating of BOI Bonds. The BOI Bonds shall be dated, as originally issued, as of the date of their issuance. Upon the original delivery of the BOI Bonds to the Purchaser and upon each subsequent transfer or exchange of a BOI Bond pursuant to Section 3.5, the Registrar shall date each BOI Bond as of the date of its authentication.

3.3. Payment Dates. Principal of and/or interest on the BOI Bonds shall be payable on each June 15 and December 15, commencing no earlier than December 15, 2011 (each such date, a "Payment Date"), to the Purchaser, or if assigned, the owners of record thereof as such appear on the Bond Register, as provided in the Registrar Agreement, at the close of business on the first day, whether or not such day is a Business Day, of the month containing the Payment Date.

3.4. Payment Schedule. To provide for the payment of the principal amount of the BOI Bonds and interest thereon when due, the Board, from the sources described in Section 4 hereof, shall, on or before June 15 and December 15 in each fiscal year, commencing on the date described above in Section 3.3 and ending on the date described above in Section 3.1, appropriate all payments on the District Bonds for credit to the BOI Debt Service Fund in an amount equal to the amount which equals the amount owing on the BOI Bonds on any Payment Date.

3.5. Registration; Method of Payment. The BOI Bonds shall be issued only in fully registered form. The interest on and the principal of each Bond, shall be payable by check or draft drawn on the Registrar.

(a) System of Registration. The Board shall appoint, and shall maintain, a paying agent, bond registrar, and fiscal agent (the "Registrar"). The Board shall establish a system of registration for the BOI Bonds as defined in the Model Public Obligations Registration Act of Montana, Montana Code Annotated, Title 17, Chapter 5, Part 11, as amended, by entering into the "Registrar Agreement" with the Registrar. The registration, transfer and exchange of the BOI Bonds shall be handled by the Registrar as provided in the Registrar Agreement.

(b) Cancellation. All BOI Bonds surrendered upon any transfer or exchange shall be promptly canceled by the Registrar and thereafter delivered to the Executive Director of the Board. Payments of principal of and interest on the BOI Bonds will be made in accordance with the schedule in or attached to the BOI Bonds. Surrender of the BOI Bonds shall not be necessary in connection with scheduled interim principal payments, but the BOI Bonds must be surrendered as a condition to payment of the final principal maturity thereof or payment or redemption of the BOI Bonds.

3.6. Appointment of Registrar. The Board hereby appoints U.S. Bank National Association, of Seattle, Washington, as the initial Registrar. Any one or more Authorized Officers are authorized to execute and deliver, on behalf of the Board, the Registrar Agreement with the Registrar. Upon merger or consolidation of the Registrar with another corporation, if the resulting corporation is a bank or trust company organized under the laws of the United States or one of the states of the United States and authorized by law to conduct such business, such corporation shall be authorized to act as successor Registrar. The District will pay the reasonable and customary charges of the Registrar for the services performed. The Board

reserves the right to remove the Registrar, effective upon not less than thirty days' written notice and upon the appointment and acceptance of a successor Registrar, in which event the predecessor Registrar shall deliver all cash and BOI Bonds in its possession to the successor Registrar and shall deliver the Bond Register to the successor Registrar. On or before each date that interest or principal is payable on the BOI Bonds, without further order of this Board, the Registrar shall transmit to the Purchaser, from available funds in the BOI Debt Service Fund, money sufficient for the payment of all principal and interest then due.

3.7. Redemption. The BOI Bonds are subject to redemption in the same manner, on the same terms, and at the same times as the District Bonds. The terms of redemption of the BOI Bonds shall be described with particularity in the final Purchase Agreement and final form of the BOI Bonds.

(a) Funds for Redemption. The funds for the redemption of the BOI Bonds are funds applied by the District to the redemption of the District Bonds. In the event the District Bonds are redeemed in whole or in part, the BOI shall instruct the Registrar to redeem a like amount of BOI Bonds, but only from proceeds delivered to the Registrar by the District upon the redemption of the District Bonds.

(b) Notice of Redemption. The Executive Director shall provide or cause to be provided to the Registrar at least 45 days prior to the redemption date a request that the Registrar cause notice of redemption to be given to the registered owners of each BOI Bond to be redeemed in the manner provided in the Registrar Agreement. Official notice of redemption having been given as aforesaid, the BOI Bonds or portions thereof so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date (unless the Board shall default in the payment of the redemption price) such BOI Bonds or portions thereof shall cease to bear interest.

(c) Denominations. BOI Bonds in a denomination larger than \$5,000 may be redeemed in part in any integral multiple of \$5,000. The owner of any BOI Bond redeemed in part shall receive, upon surrender of such BOI Bond to the Registrar, one or more new BOI Bonds in authorized denominations equal in principal amount to the unredeemed portion of the BOI Bond so surrendered.

3.8. Form. The BOI Bonds shall be prepared in substantially the form set forth in Exhibit A hereto, and by this reference made a part hereof, with such changes and completions as are approved by the Authorized Officers, which approval shall be evidenced by the execution and delivery of the BOI Bonds.

3.9. Execution and Delivery. The BOI Bonds shall be forthwith prepared for execution under the direction of the Executive Director, and shall be executed on behalf of the Board by the signature of the Chair and attested by the signature of the Executive Director; provided that either or both of such signatures may be printed, engraved or lithographed facsimiles of the originals. The seal of the Board need not be affixed to or imprinted on any BOI Bond. In case any officer whose signature or a facsimile of whose signature shall appear on any BOI Bond shall cease to be such officer before the delivery of such BOI Bond, such signature or facsimile

shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery. Notwithstanding such execution, no BOI Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit under this resolution unless a certificate of authentication on such BOI Bond has been executed by the manual signature of an authorized representative of the Registrar. Certificates of authentication on different BOI Bonds need not be signed by the same representative. The executed certificate of authentication on each BOI Bond shall be conclusive evidence that it has been authenticated and delivered under this Resolution. When the BOI Bonds have been fully executed and authenticated, they shall be delivered by the Registrar to the Purchaser upon payment of the purchase price in accordance with the purchase agreement made and executed. The Purchaser shall not be obligated to see to the application of the purchase price.

3.10. Application of Proceeds of BOI Bonds. All of the proceeds of the BOI Bonds shall be applied to the purchase of the District Bonds.

Section 4. Security Provisions.

4.1. BOI Debt Service Fund. There is hereby created a debt service fund of the Board designated the “2011 Great Falls High School District Debt Service Fund” (the “BOI Debt Service Fund”), to be held and administered by the Registrar separate and apart from all other funds of the Board so long as any of the BOI Bonds are outstanding and any principal thereof and interest thereon, are unpaid. The BOI Debt Service Fund shall be used solely to pay the principal of the BOI Bonds and any interest thereon and the fees and expenses of the Registrar, subject to the conditions herein specified. The Board irrevocably appropriates to the BOI Debt Service Fund: (a) all payments made by the District on or with respect to the District Bonds, and (b) such other money, if any, as shall be received and appropriated to the BOI Debt Service Fund from time to time.

Whenever a payment of the District Bonds is received by the Registrar, such payment shall be deposited to the BOI Debt Service Fund and applied as set forth in the Registrar Agreement. The provision, investment, application, deposit, and disbursement of amounts deposited in the BOI Debt Service Fund and earnings thereon and other rights and obligations regarding the BOI Debt Service Fund are set forth more particularly in the Registrar Agreement.

The Board hereby authorizes and directs U.S. Bank National Association to enter into the Registrar Agreement and perform its obligations thereunder.

4.2. Pledge of District Bonds. The Board hereby irrevocably pledges and assigns to the payment of the BOI Bonds for the benefit of the holders from time to time of the outstanding BOI Bonds all of the right, title and interest of the Board in the District Bonds and all payments made by the District thereunder and any proceeds thereof. The Board hereby acknowledges and agrees that if a default in the payment of the BOI Bonds occurs, the Board will, at the request of all of the holders of the BOI Bonds, transfer to such holders all of its interest in the District Bonds, without warranty or recourse.

4.3. Special, Limited Obligations. Except as provided in Section 4.2, no funds or assets of the Board (including the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act) have been or are pledged to the payment of the BOI Bonds.

THE STATE OF MONTANA IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BOI BONDS OR FOR THE PERFORMANCE OF ANY OBLIGATION THAT MAY BE UNDERTAKEN BY THE BOARD WITH RESPECT THERETO. THE BOI BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE STATE OF MONTANA AND NEITHER THE FAITH AND CREDIT OR TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE BOI BONDS. THE BOARD DOES NOT HAVE ANY TAXING POWER.

Section 5. Taxable Bonds. The interest on the BOI Bonds is includable in gross income for federal income tax purposes.

Section 6. Authentication of Transcript. The officers of the Board are hereby authorized and directed to furnish to the Purchaser and to bond counsel certified copies of all proceedings relating to the issuance of the BOI Bonds and such other certificates and affidavits as may be required to show the right, power and authority of the Board to issue the BOI Bonds or as may otherwise be required by bond counsel, and all statements contained in and shown by such instruments, including any heretofore furnished, shall constitute representations of the Board as to the truth of the statements purported to be shown thereby.

Section 7. Defeasance. When all of the BOI Bonds have been discharged as provided in this Section 7, all pledges, covenants and other rights granted by this resolution to the owners of the BOI Bonds shall cease. The Board may discharge its obligations with respect to any BOI Bonds which are due on any date by irrevocably depositing with the Registrar on or before that date a sum sufficient for the payment thereof in full; or, if any Bond should not be paid when due, the Board may nevertheless discharge its liability with respect thereto by depositing with the Registrar a sum sufficient for the payment thereof in full with interest accrued to the date of such deposit. The Board may also discharge its obligations with respect to any BOI Bonds called for redemption on any date when they are subject to redemption according to their terms, by depositing with the Registrar on or before such redemption date a sum sufficient for the payment thereof in full with interest accrued to such redemption date; provided that notice of the redemption thereof has been duly given or provided for as provided in Section 3.7. The Board may also at any time discharge its obligations with respect to any BOI Bonds, subject to the provisions of law now or hereafter authorizing and regulating such action, by depositing irrevocably in escrow, with a bank qualified by law as an escrow agent for this purpose, cash or securities which are general obligations of the United States or securities of United States agencies which are authorized by law to be so deposited, bearing interest payable at such times and at such rates and maturing on such dates as shall be required, without reinvestment, to pay all principal and interest to become due on such Bond to their stated maturities or, if notice of redemption as herein required has been irrevocably provided for, to such earlier redemption date; provided, however, that if such deposit is made more than 90 days before the stated maturities or redemption date of the BOI Bonds to be discharged, the Board shall have received a written report of an accountant or investment banking firm verifying that the deposit is sufficient to pay

when due all of the principal and interest on the BOI Bonds to be discharged on and before their maturity date.

Section 8. Effective Date. All resolutions and parts of resolutions heretofore adopted by this Board which are in conflict herewith are hereby amended so as to conform with the provisions of this Resolution, and, as so amended, are hereby ratified and confirmed. This Resolution shall be effective upon passage.

PASSED AND APPROVED by the Board of Investments of the State of Montana on this 9th day of February, 2011.

Chair

Attest:

Executive Director

EXHIBIT A

STATE OF MONTANA

**BOARD OF INVESTMENTS
OF THE STATE OF MONTANA**

MUNICIPAL FINANCE CONSOLIDATION ACT BOND, TAXABLE SERIES 2011
(GREAT FALLS HIGH SCHOOL DISTRICT)

No. R-1

\$ _____

REGISTERED HOLDER: [_____]

PRINCIPAL AMOUNT:

DOLLARS AND NO/100

FOR VALUE RECEIVED, THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA, a board of the Executive Branch of the Government of the State of Montana (the "Issuer"), hereby promises to pay, but only out of the BOI Debt Service Fund as hereinafter described, to the Registered Holder named above, or registered assigns, the principal amount hereof together with interest thereon at _____% per annum in installments of principal and interest payable, subject to prior redemption as hereinafter provided, on June 15 and December 15, commencing _____, 20__ and concluding _____ (each such date, a "Payment Date"), in the amounts stated on Schedule 1 hereto (which is incorporated herein by this reference).

Principal of and interest on this Bond are payable in lawful money of the United States of America by check or draft drawn on U.S. Bank National Association, 1420 5th Avenue in Seattle, Washington 98101, as paying agent, bond registrar, and fiscal agent, or any successor designated under the Resolution described herein (the "Registrar"); provided, however, in the event all of the principal of this Bond is then to be paid, this Bond shall be presented and surrendered to the Registrar as a condition of payment. Principal of and interest on the Bonds shall be payable to the registered holder named above, or if assigned, the owners of record thereof as such appear on the Bond Register, at the close of business on the first day, whether or not such day is a Business Day, of the month containing the Payment Date.

The Bonds are special limited obligations of the Issuer. The Bonds will not be secured by the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630, M.C.A., or by any funds or assets of the Issuer other than its interest in the District Bonds (as hereinafter defined) and the payments to be made by the District (as hereinafter defined) thereunder.

THE STATE OF MONTANA IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS OR FOR THE PERFORMANCE OF ANY OBLIGATION THAT MAY BE UNDERTAKEN BY THE ISSUER WITH RESPECT THERETO. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE STATE OF MONTANA AND NEITHER THE FAITH AND CREDIT NOR TAXING POWER OF

THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE BONDS. THE ISSUER DOES NOT HAVE ANY TAXING POWER.

This Bond represents all of a series of a duly authorized issue of Bonds of the Issuer designated as Board of Investments of the State of Montana “Municipal Finance Consolidation Act Bonds, Taxable Series 2011 (Great Falls High School District),” in the aggregate principal amount of \$1,900,000 (the “Bonds”), issued pursuant to the provisions of Montana Code Annotated, Title 17, Chapter 5, Part 16, as amended (the “Act”), under a resolution adopted by the Issuer on February 9, 2011, authorizing the issuance of the Bonds (the “Resolution”). Terms with initial capital letters but not defined herein shall have the meanings given them in the Resolution. The Bonds are issuable only as fully registered bonds, in denominations of \$5,000 or any integral multiple thereof.

The Bonds are being issued to provide funds to the Issuer to permit it to purchase \$1,900,000 in aggregate principal amount of Limited Obligation School Building Bonds, Series 2011 Qualified School Construction Bonds (Federally Taxable – Direct Payment to Issuer) (the “District Bonds”), issued by High School District No. A (Great Falls), Cascade County, Montana (the “District”). This Bond is prepared and delivered in accordance with the Resolution.

The Bonds and the interest thereon are payable solely from the right, title and interest of the Issuer in the District Bonds and all payments made by the District thereunder and any proceeds thereof, but not from any other funds or assets of the Issuer, including the Municipal Finance Consolidation Act Reserve Fund created in Section 17-5-1630 of the Act. By the Resolution, the Issuer has pledged and assigned all of its right, title and interest in the District Bonds and the payments to be made by the District thereunder to the payment of the Bonds, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein. A debt service fund has been established under the Resolution (as defined therein, the “BOI Debt Service Fund”). This Bond is payable solely from the BOI Debt Service Fund. Reference is hereby made to the Resolution and the Paying Agent, Registrar, and Fiscal Agency Agreement, dated as of the date hereof (the “Registrar Agreement”), between the Issuer, the District and the Registrar (copies of which are on file at the office of the Registrar), and all resolutions and agreements, if any, supplemental thereto and to the Act for a description of the rights thereunder of the registered holders of the Bonds, of the nature and extent of the security, the rights, duties and immunities of the Registrar and of the rights and obligations of the Issuer thereunder, to all the provisions of which Resolution, this Bond, and Registrar Agreement the registered holder of this Bond, by acceptance hereof, assents and agrees.

[Redemption provisions – optional redemption, extraordinary mandatory redemption, extraordinary optional redemption, notice of redemption, partial redemption.]

As provided in the Resolution and the Registrar Agreement and subject to certain limitations set forth therein, this Bond is transferable upon the Bond Register, upon surrender of this Bond for transfer at the operations center of the Registrar, duly endorsed by the registered owner hereof or by the registered owner’s attorney duly authorized in writing, together with a written instrument of transfer satisfactory to the Registrar duly executed by the registered owner or registered owner’s attorney. Bonds in a denomination greater than \$5,000 may also be

surrendered in exchange for Bonds of other authorized denominations. Upon any such transfer or exchange, the Issuer will cause a new Bond or Bonds to be issued in the name of the transferee or registered owner, of the same aggregate principal amount and maturing on the same date, subject to reimbursement for any tax, fee or governmental charge required to be paid with respect to such transfer or exchange.

The Issuer and the Registrar may deem and treat the person in whose name this Bond is registered as the absolute owner hereof, whether this Bond is overdue or not, for the purpose of receiving payment as herein provided and for all other purposes, and neither the Issuer nor the Registrar shall be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law; and that this Bond, together with all other indebtedness of the Issuer, does not exceed any statutory or constitutional limit of indebtedness.

This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Resolution until the Certificate of Authentication hereon shall have been executed by the Registrar by the manual signature of one of its authorized representatives.

IN WITNESS WHEREOF, the BOARD OF INVESTMENTS OF THE STATE OF MONTANA has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Chair and attested by the facsimile signature of its Executive Director.

BOARD OF INVESTMENTS OF THE
STATE OF MONTANA

(Facsimile Signature)
Chair

Attest:

(Facsimile Signature)
Executive Director

Dated: _____

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated by its title and is issued under the provisions of the within-mentioned Resolution.

U.S. BANK NATIONAL ASSOCIATION,
as Registrar

By _____
Authorized Representative

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

- | | | |
|------------|--|--|
| TEN COM -- | as tenants
in common | UTMA.Custodian.
(Cust) (Minor) |
| TEN ENT -- | as tenants
by the entireties | under Uniform Transfers to
Minors Act.
(State) |
| JT TEN -- | as joint tenants with right of
survivorship and not as
tenants in common | |

Other abbreviations may also be used.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

 (Please Print or Typewrite Name and Address of Transferee)
 the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints
 _____, attorney to
 transfer the within Bond on the books kept for registration thereof, with full power of
 substitution in the premises.

Dated: _____

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE:

/ _____/

NOTICE: The signature(s) to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration, enlargement or any change whatsoever.

SIGNATURE GUARANTEE:

 Signature(s) must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Bond Registrar, which requirements include membership or participation in STAMP or such other "signature guaranty program" as may be" determined by the Registrar in addition to or in substitution for STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

SCHEDULE 1

<u>Payment Date</u>		<u>Principal</u>		<u>Interest</u>		<u>Total Payment</u>
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