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

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

**May 18 and 19, 2011**

## AGENDA – DAY 1

| | | |
|---|---|---|
| **Tab 1** | **CALL TO ORDER** | **12:30 p.m.** |
| | A. Roll Call | |
| | B. Approval of the February 8 and 9, 2011 Board Meeting Minutes | |
| | C. Approval of the May 13, 2010 Joint BOI/PERS/TRS Meeting Minutes | |
| | D. Administrative Business | |
| | 1. Audit Committee Report | |
| | 2. Human Resource Committee Report | |
| | 3. Loan Committee Report | |
| | 4. Future Meetings | |
| | 5. Committee Membership – Discussion and Appointments | |
| | E. Public Comment - *Public Comment on issues within Board Jurisdiction* | |
| **Tab 2** | **EXECUTIVE DIRECTOR REPORTS – Carroll South** | **1:30 p.m.** |
| | A. Legislative Update – Informational | |
| | B. Board Orientation Document – Discussion/Questions | |
| | C. Alternative Investments Manager Vacancy/Hire - Action | |
| **Handout** | **QUARTERLY PERFORMANCE REPORTS** | **2:15 p.m.** |
| | A. Pension Funds and Investment Pools – R.V. Kuhns & Associates | |
| | **BREAK – 15 min.** | **3:15 p.m.** |
| **Tab 3** | **INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO** | **3:30 p.m.** |
| | A. Retirement System Asset Allocation Report | |
| | B. Comparison to Other Public Funds | |
| | C. Public Asset Pool Reviews | |
| | 1. Domestic Equity (MDEP) | |
| | 2. International Equity (MTIP) | |
| | 3. Manager Watch List | |
| | **ADJOURNMENT** | **4:30 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**

**May 18 and 19, 2011**

## AGENDA – DAY 2

| | | |
|---|---|---|
| | **RECONVENE AND CALL TO ORDER** | **8:30 a.m.** |
| | A. Roll Call | |
| | B. Public Comment – *Public Comment on issues within Board Jurisdiction* | |
| **Tab 3** | **INVESTMENT ACTIVITIES/REPORTS, cont'd – Cliff Sheets, CFA, CIO** | **8:45 a.m.** |
| | C. Public Asset Pool Reviews | |
| | 4. Fixed Income | |
| | a. Bond Pools (RFBP and TFIP) | |
| | b. Below Investment Grade Holdings Report | |
| | c. Short Term (STIP) and Other Fixed Income Portfolios | |
| | D. Private Asset Pool Reviews | |
| | 1. Private Equity (MPEP) | |
| | 2. Real Estate (MTRP) | |
| | 3. Partnership Focus Lists | |
| | **BREAK – 15 min.** | **10:15 a.m.** |
| **Handout** | **EXTERNAL MANAGER PRESENTATION** | **10:30 a.m.** |
| | A. Hansberger Global Investors, International Equity Manager | |
| | • Tom Tibbles, Chief Investment Officer | |
| | • Trevor Graham, Senior Vice President of Research | |
| | • Evelyn Orley, Senior Vice President of Marketing | |
| **Tab 4** | **MONTANA LOAN PROGRAM – Herb Kulow** | **11:30 a.m.** |
| | A. Commercial and Residential Portfolios Report | |
| | B. J & D Limited Family Partnership – Board Action | |
| **Tab 5** | **BOND PROGRAM** | **11:45 a.m.** |
| | A. INTERCAP – Louise Welsh | |
| | 1. Activity Report | |
| | 2. Staff Approved Loans Report | |
| | 3. Loan Committee E-mail Approved Loans Report | |
| | **ADJOURNMENT** | **12:00 p.m.** |

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

**MINUTES OF THE MEETING**
**February 8 & 9, 2011**

**BOARD MEMBERS PRESENT:**

Terry Cohea, Vice Chair
Karl Englund
Patrick McKittrick
Jack Prothero
Jon Satre
Jim Turcotte

**BOARD MEMBERS ABSENT:**

Terry Moore, Chairman
Elouise Cobell
Maureen Fleming

**STAFF PRESENT:**

Carol Ann Augustine, Board Secretary
Geri Burton, Deputy Director
Richard Cooley, CFA, Portfolio Manager
Tim House, Investment Operations Chief
Teri Kolnik, Alternative Investment Analyst
Herb Kulow, Portfolio Manager
Rande Muffick, CFA, Portfolio Manager
Chris Phillips, CFA, Investment Staff
Jon Putnam, CFA, FRM, Fixed Income Investment Analyst
John Romasko, CFA, CPA, Fixed Income Investment Analyst
Nathan Sax, CFA, Portfolio Manager
Clifford A. Sheets, CFA, Chief Investment Officer
Jon Shoen, CFA, CAIA, Portfolio Manager
Carroll South, Executive Director
Steve Strong, Equity Investment Analyst
Louise Welsh, Bond Program Officer
Dan Zarling, CFA, Director of Research

**GUESTS:**

Becky Gratsinger, RV Kuhns and Associates
Mark Higgins, RV Kuhns and Associates
Ann Holcomb, T. Rowe Price
Gordon Hoven, Piper Jaffray
John Plowright, T. Rowe Price

## CALL TO ORDER

Vice Chair Terry Cohea 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, 2401 Colonial Drive, Helena, Montana. As noted above, a quorum of Board Members was present.

Member Jack Prothero made a Motion to approve the November 30 and December 1, 2010 Minutes; Member Jim Turcotte seconded the Motion. The Motion was carried 6-0.

## ADMINISTRATIVE BUSINESS

Human Resource Committee
Terry Cohea, Human Resource Committee Chair reported that the Human Resource Committee did not meet during the report period.

Audit Committee Report
Jim Turcotte, Audit Committee Chair told the Board that the Audit Committee received an email from Ms. Geri Burton regarding the status of the request for proposal (RFP) for internal control review services. No meeting was necessary but Committee Members did review the information.

Loan Committee Report
Jack Prothero, Loan Committee Chair reported that the Loan Committee approved by email INTERCAP loans to Glasgow, Whitehall and Fort Smith. The Committee also approved an INTERCAP loan for Montana State University to build a new stadium.

The Loan Committee met today regarding the Qualified School Construction Bonds (QSCB) Program and recommended the approval of the full Board. This will be presented to the Board during the Bond Program portion of the agenda.

Public Comment
Vice Chair Cohea called for public comment on Board issues. There was no public comment.

## EXECUTIVE DIRECTOR'S REPORT

Legislative/Legislation Update - Informational
Mr. Carroll South distributed a report on legislation he is currently tracking. Some bills have been introduced, some have not and some are expected to end up in committee. Mr. South will continue to monitor progress of the bills and notify the Board if any action is recommended.

Revised Language for Investment Pool IPS – Board Action
Mr. Carroll South presented proposed language revisions to two of the Board's Investment Policy Statements (IPS). Revised language was approved for the Pension Fund IPS at the November 2010 Board Meeting. 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.

> A Motion was made by Member Jim Turcotte and seconded by Member Pat McKittrick to adopt the revised language for the various Investment Policy Statements. The Motion was carried 6-0.

## QUARTERLY PERFORMANCE REPORTS

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

Pension Funds and Investment Pools
Ms. Becky Gratsinger told the Board that our bond pool numbers are terrific, real estate is in recovery mode, and we have made good progress in the last year toward our long term goals.

Mr. Mark Higgins provided an overview of the current market environment and portfolio performance for the quarter ended December 31, 2010. Mr. Higgins reported very strong performance across all asset classes due to people taking on more risk, especially in public equity. Private real estate has not performed as well and emerging markets are a huge growth driver. Mr. Higgins stated that fixed income didn't perform well over the last quarter, and our addition of high yield was timely.

Mr. Higgins told the Board that our portfolio value is up $400 million across all asset classes and performance was above the median relative to our peers during the quarter.

Ms. Becky Gratsinger spoke about T. Rowe Price, the external manager scheduled to present to the Board. According to Ms. Gratsinger, T. Rowe Price is a successful enhanced index manager, though they were slightly below the S&P 500 last year. Over the past year their performance ranked in the third quartile against comparable managers.

Board Member Education Policy

Mr. Mark Higgins reported that the purpose of the Board Member Education Policy is to provide an outline for education for Board Members, including the approval process and guidelines for outside training and orientation programs. The goal is to make the Board more effective and streamline the decision making process.

Mr. Higgins will incorporate Board and staff comments into the policy and present it for approval at the May Board Meeting.

## **INVESTMENT ACTIVITIES/REPORTS**

Pension Funds and Investment Pools

Mr. Clifford Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending December 31, 2010. Overall pension assets were up $398 million for the quarter, a 5.7% increase, reflecting the continued strong rally in public equity markets.

Investment grade bonds declined slightly during the quarter, reflecting the rise in treasury yields. High yield bonds had a good quarter, up 3.2%.

Domestic and international equity allocations increased by 1.7% and 0.3% respectively. The private equity allocation increased 0.2% during the quarter, reflecting purchases of $8.2 million, and a positive return of 6% for the quarter. Total equities rose to 68.4%, up from 66.2% last quarter. Mr. Sheets noted that we have reduced total equities by about $97 million for calendar year-to-date as the weighting approaches the high end of the permissible range.

The fixed income allocation for the quarter was down by 1.9%, the result of a negative return for the investment grade index and the dilution effect of rising equity prices as total portfolio size grew. Real estate was up slightly by 0.1%, reflecting in part approximately $20 million of new money into the pool; and cash was down by 0.7%.

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.

### Private Asset Pool Reviews

Private Equity (MPEP)

Mr. Jon Shoen presented a comprehensive overview of the private equity portfolio, including 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 November 2010 Board Meeting.

| Fund Name | Vintage | Subclass | Sector | Amount | Date |
|---|---|---|---|---|---|
| GTCR Fund X, LP | 2011 | Buyout | Diverse | $25M | 12/13/10 |
| Northgate V, LP | 2010 | Venture Capital | Diverse | $30M | 12/22/10 |

Real Estate (MTRP)
Mr. Jon Shoen presented a comprehensive overview of 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 was one addition to an existing open end fund made since the November 2010 Board Meeting.

| 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 |

Partnership Focus Lists
There were no changes to the MPEP and MTRP Partnership Focus Lists since the November 2010 Board Meeting.

## Public Asset Pool Reviews

Fixed Income
Mr. Nathan Sax presented the Fixed Income overview and strategy for the Retirement and Trust Fund Bond Pools.

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

Mr. Richard Cooley reported on the Short Term Investment Pool, State Fund Insurance and Treasurer’s Fund portfolios.

Domestic Equity (MDEP)
Mr. Rande Muffick reported on the Montana Domestic Equity Pool as of December 31, 2010, including a summary of recent market trends. Our pools showed good performance for the year and even better for the quarter.

Mr. Muffick has been talking to our active managers about reducing the fees we pay. Of the 17 managers he has been dealing with, five have agreed to reduce fees for a total savings of $360,000 annually. Other managers have discussed the option of performance based fees, which is not favored by BOI staff.

International Equity (MTIP)
Mr. Muffick presented the Montana International Equity Pool Report for the period ending December 31, 2010 and reviewed market trends during the quarter.

Public Equity External Managers Watch List
Mr. Rande Muffick reported that there were no changes to the Watch List during the quarter.

| **Manager** | **Style Bucket** | **Reason** | **$ Invested (mil)** | **Inclusion Date** |
|---|---|---|---|---|
| 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 |

## MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report
Mr. Herb Kulow reported that the commercial loan portfolio has decreased significantly, though commitments remain strong. As of December 31, 2010 the portfolio totals $161,679,848, the lowest it has been since 2006.

Delinquent loans currently represent 6.12% of the portfolio at $9,898,057. Two of the delinquent loans are guaranteed by the USDA and total $7,506,906. Mr. Kulow's discussions with the lender indicate the loans will soon be brought current.

The residential loan portfolio also continues to decline, with a current outstanding balance of $30,677,962.

## BOND PROGRAM

Activity Report
Ms. Louise Welsh presented the INTERCAP report for the period October 1 through December 31, 2010. Year to date commitments totaled $13,386,652 with $6,743,214 funded. Total loans outstanding are $75,375,082; bonds outstanding are $96,075,000. Ms. Welsh stated there has never been a delinquent or default INTERCAP loan.

Staff Approved Loans Report
The Board reviewed this report for the period of 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 |

<u>Loan Committee E-Mail Approved Loans</u>

The Loan Committee approved the following loans by email from 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 |

Qualified School Construction Bonds

Ms. Geri Burton presented a proposal to the Board to create a Qualified School Construction Bond (QSCB) Program and to approve Resolution Nos. 228 and 229 for Great Falls Public Schools. The American Recovery and Reinvestment Act of 2009 authorized Qualified School Construction Bonds to be used by school districts to finance projects at little or no interest. The Board's QSCB Program would be administered under the Municipal Finance Consolidation Act. Resolution No. 228 authorizes the Board to sell taxable bonds and use the proceeds to purchase the Elementary District's QSCB in an amount up to $6.6 Million. Resolution No. 229 authorizes the Board to sell taxable bonds and use the proceeds to purchase the High School District's QSCB in an amount up to $1.9 million. Great Falls Public Schools will use the proceeds of the QSCBs to finance various energy conservation measures at its public school facilities.

Member Jack Prothero, Loan Committee Chair reported that the Loan Committee reviewed the proposal and passed a Motion to recommend approval to the full Board.

Member Jon Satre made a disclosure statement to the Board. Mr. Satre is part owner of an engineering firm that might possibly bid on services provided to the Great Falls School District.

Recommendation

Ms. Burton made the following recommendations:

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.

A Motion was made by Member Jack Prothero and seconded by Member Jim Turcotte for approval of the recommendations as presented by staff. The Motion was carried 6-0.

Future Board Meetings
Vice Chair Terry Cohea gave Board Members the tentative meeting schedule for 2011: May 17-18; August 16-17; and November 15-16. The dates will be sent by email to the absent Board Members for confirmation before finalizing the schedule.

ADJOURNED
The meeting was adjourned for the day at 4:35 p.m.

## CALL TO ORDER – Day 2
## February 9, 2011

Vice Chair Terry Cohea reconvened the meeting Wednesday, February 9, 2011 at 8:35 a.m. with six members of the Board present.

Public Comment
Vice Chair Cohea called for public comment on Board issues. There was no public comment.

## EXTERNAL MANAGER PRESENTATION

T. Rowe Price
Mr. Rande Muffick introduced Mr. John Plowright, Vice President and Client Service Executive and Ms. Ann Holcomb, Vice President and Portfolio Manager, who reviewed their firm and management style. T. Rowe Price is a domestic large cap enhanced asset manager with approximately $282 million under management for the Board as of yearend.

## EXECUTIVE DIRECTOR'S REPORT, continued

Mr. Carroll South distributed the Presentation on Pensions and Investments that he was asked to prepare and present to the House State Administration Committee. Mr. South gave a brief overview of the presentation.

## ADJOURNMENT

There being no further business, Vice Chair Terry Cohea adjourned the meeting at 10:14 a.m.

Next Meeting
The next regular meeting of the Board will be May 18-19, 2011 in Helena, Montana.

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

**BOARD OF INVESTMENTS**

APPROVE:________________________________
Terry Cohea, Vice Chair

ATTEST:________________________________
Carroll South, Executive Director

DATE: ________________________________

MBOI:caa
4/20/11

**JOINT MEETING OF THE**
**MONTANA BOARD OF INVESTMENTS**
**PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION**
**AND TEACHERS' RETIREMENT SYSTEM**

**2401 Colonial Drive, 3rd Floor**
**Helena, Montana**
**May 13, 2010**

**MINUTES**

**MONTANA BOARD OF INVESTMENTS**
**MEMBERS PRESENT:**
Terry Cohea
Karl Englund
Pat McKittrick
Jack Prothero
Jon Satre
Jim Turcotte
Representative Brady Wiseman (via telephone)

**MONTANA BOARD OF INVESTMENTS**
**MEMBERS ABSENT:**
Terry Moore, Chairman
Elouise Cobell
Maureen Fleming
Senator Greg Barkus

**MONTANA BOARD OF INVESTMENTS**
**STAFF PRESENT:**
Geri Burton
Tim House
Chris Phillips
Clifford Sheets
Carroll South
Dan Zarling

**PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION**
**MEMBERS PRESENT:**
John Nielsen, President
Terry Smith, Vice President
Darcy Halpin
Pat McKittrick
Scott Moore
Timm Twardoski

**PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION**
**MEMBERS ABSENT:**
Dianna Porter

**PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION**
**STAFF PRESENT:**
Patricia Davis
Roxanne Minnehan
Barbara Quinn
Melanie Symons

**TEACHERS' RETIREMENT SYSTEM**
**MEMBERS PRESENT:**
Kari Peiffer, Chair
Scott Dubbs
Jeff Greenfield
Darrell Laymen
Bob Pancich
Jim Turcotte

**TEACHERS' RETIREMENT SYSTEM**
**STAFF PRESENT:**
Dan Gaughan
Bill Hallinan
Denise Pizzini
Tammy Rau
Dave Senn

**GUESTS:**
Gerry Bantizz, Retired Teacher
Tom Bilodeau, MEA-MFT
Mark Bruno, Office of Budget and Program Planning
Natalie Gibson, Legislative Audit Division
Todd Green, Cavanaugh Macdonald Consulting
Bill Hallmark, Cheiron
Christine Hultin-Brus, Office of Budget and Program Planning
Tori Hunthausen, Legislative Audit Division
Chuck Johnson, Lee Newspapers
Steve McElhaney, Cheiron
Tom Schneider, Montana Public Employees Association
Jim Voytko, RV Kuhns & Associates
Rachel Weiss, Legislative Services

## CALL TO ORDER

Board of Investments' Vice Chair Terry Cohea called the joint meeting of the Board of Investments (Board), Public Employee Retirement Administration (PERA) and Teachers' Retirement System (TRS) to order at 8:35 a.m. in the conference room at 2401 Colonial Drive, third floor, Helena, Montana.

## TEACHERS' RETIREMENT SYSTEM

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

Mr. Todd Green, Principal and Senior Actuary for Cavanaugh Macdonald, LLC, reviewed the role of actuaries and the services they provide to state and local governments' retirement systems. Mr.

Green began with an explanation of the need for actuarial valuations, the basic retirement funding equation and the importance of prefunding retirement benefits. He reviewed the decremental and economic assumptions used in an actuarial valuation, how the assumptions are established, and that periodically an experience study is completed to compare actual plan experience with the actuarial assumptions used in the valuation. Whenever actual plan experience is found to have changed, the assumptions are adjusted to more closely match expected experience.

Following a review of the July 1, 2009, Actuarial Valuation, Mr. Green presented projections for July 1, 2010, based on the market returns through March 31, 2010. Results were presented on both the actuarial value of assets and on the market value of assets. Mr. Green pointed out the important role asset smoothing plays in reducing contribution rate volatility and why the market price on any one day is not a reliable measure of long term value.

Based on the March 31, 2010, market value projected to July 1, 2010, Mr. Green estimated that returns of 15.43% would be necessary over the next 5 years to make the TRS actuarially sound, or returns of 11% over the next 10 years, 9.86% over the next 15 years, or a one-time cash infusion of $801.6 million on July 1, 2011; any one of which would make the System actuarially sound. In lieu of market returns in excess of the actuarial assumption of 7.75%, the System could also be made actuarially sound with an employer contribution rate increase in each of the next 10 years of 0.5%, or an employer contribution rate increase in each of the next 5 years of 1.0%.

Mr. Green briefly reviewed the just completed TRS Experience Study for the period July 1, 2004 to July 1, 2009. Based on the study, the actuaries for TRS recommended no change to the economic assumptions, i.e., investment return, wage inflation or price inflation. There were recommendations to increase the rate of withdrawal, decrease the rates of disability retirements, and to adjust the rates of service retirement at all ages. In addition, there were two recommended methodology changes. The recommended changes would reduce the amortization period from infinite to 54 years, and reduce the required contribution rate increase from 4.11% to 2.54%, effective July 1, 2011.

## PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION

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

Roxanne Minnehan, Executive Director of the Montana Public Employee Retirement Administration provided an overview of the Public Employees' Retirement Board's (PERB) structure and responsibilities. She noted that 3 of the 8 defined benefit plans administered by the PERB did not meet the definition of actuary soundness. Ms. Minnehan stated that the PERB recently retained Cheiron for actuary services; she then introduced PERB's actuary, Stephen McElhaney.

Mr. McElhaney presented the results of the 2009 Actuarial Valuation for all systems administered by the PERB. His discussion topics included the covered systems, historical trends, and the 2009 Actuarial Valuation Results and Projections.

## BOARD OF INVESTMENTS

### A. Consultant Presentation

Mr. Carroll South introduced Mr. Jim Voytko of RV Kuhns & Associates, Inc., the Board's investment consultant. Mr. Voytko discussed a variety of issues relevant to the State's pension plans:

- The financial engines of a pension plan - the savings policy and program, and the investment policy and program

- The risks implied by a savings policy that shifts the burden toward investments (a residual of the actuarial assumed rate of return)
- The fiduciary challenge presented to investment trustees in this circumstance
- The lessons we are drawing from the rising number of asset/liability studies RVK has completed for public plans recently
- The inverse relationship between funding levels and the range of opportunities available for investment policy and program
- The inverse relationship between plan maturity and the range of opportunities available for investment policy and program
- The ubiquitous nature of these challenges presently among all public pension plans and various responses either in place or under consideration in the U.S
- How public defined benefit plans and corporate defined benefit plans are diverging in response to the same investment environment in the last decade and projected

**B. <u>Pension Fund Investment Process</u>**

Mr. Carroll South presented an overview of the Board of Investments, its composition and authority. The quasi-judicial board members are appointed by, but do not serve at the pleasure of the Governor. As required by law, the Board is guided by the prudent expert principle when investing public funds.

The Board operates six investment pools in which all nine pension funds participate. The Board approves an investment policy for each pool that includes the benchmark against which pool investment performance will be measured.

Mr. South gave an overview of the investment process. He outlined the Board's responsibility for delegating to its staff in the asset allocation process, including selecting and monitoring all investment managers. Once asset allocation ranges are set, the Board must determine how the assets are managed. The goal is to achieve a long term return that meets the actuarial return assumption of the plans while diversifying risks.

Domestic stocks represent the largest investment for most plans; in the last ten years the return has hovered around zero. Emerging markets are the only investment that would have beat the actuarial rate.

Contribution rates and investment returns are being discussed by retirement plans nationwide. Some of the options being discussed include:

- Adopting longer smoothing periods for asset returns
- Lowering the assumed rate of return
- Changing benefit structures
- Arbitrarily lowering employer contributions below the actuarial required rate (of contributions)
- Considering new plan structures including hybrid DB/DC plans

They are not talking about:

- Pension obligation bonds
- Lump sum contributions
- Raising the assumed rate of return

Most plans are not looking at achieving a higher rate of return because it would require taking greater risk.

Plans also face a liquidity challenge in managing their investment mix since there is typically a tradeoff between the ability to invest in higher-earning illiquid assets and the need to have more liquid assets to raise cash as needed to pay benefits. The implication of this tradeoff is that as the funded ratio declines it compounds the challenge of earning a sufficiently high rate of return.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 11:50 a.m.

**BOARD OF INVESTMENTS**

APPROVE:______________________________
Terry Cohea, Vice Chair

ATTEST:________________________________
Carroll South, Executive Director

DATE: _________________________________

**PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION**

APPROVE:______________________________
John Nielsen, President

ATTEST:________________________________
Roxanne Minnehan, Executive Director

DATE: _________________________________

**TEACHERS' RETIREMENT SYSTEM**

APPROVE:______________________________
Kari Peiffer, Chair

ATTEST:________________________________
David Senn, Director

DATE: _________________________________

Return to Meeting Agenda

# Executive Director Reports

# *MEMORANDUM*

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

**To:** Board Members

**From:** Carroll South, Executive Director

**Date:** May 18, 2011

**Subject:** Legislative Update

During the 2011 Legislative Session, there were 2,246 bill draft requests and 1,179 bills actually introduced. During the session, staff tracked and monitored a total of 120 bills.

## State Employee Compensation Bills

***House Bill 13***, the State Employee Pay Plan, introduced at the request of the Executive based union negotiations, would have increased the base salary of state classified employees by 1.0 percent in January 2012, and 3.0 percent in January 2013. The bill **failed 39/58** in the **House**.

***House Bill 569*** would have reduced the salary of state employees to the levels of October 1, 2005. The Bill was **tabled** in the **House Taxation Committee**.

***Senate Bill 129***, as amended, would have capped the annual base salary of new state employees at $100,000. The bill **passed** the **Senate 28/22** but was **tabled** in the **House Appropriations Committee**.

- **Summary**: State classified employees have had no salary increases for the past two years and will receive no increases during the next two years, making a total of four years without an increase. If the employee share of health insurance premiums rises during the next two years, employees will actually experience a reduction in take home pay.

## Retirement System Bills

***House Bill 122,*** as amended, increases the normal and early retirement ages for new hires in the **Public Employees Retirement System**. The bill increases from three years to five years the period used for calculating highest average salary and adds a tiered approach to the benefit calculation. It also increases the contribution for new **employees** from 6.9 percent of payroll to 7.9 percent of payroll. The bill received final approval **82/18** in the **House** and **50/0** in the **Senate**.

***House Bill 134***, as amended, increases from three years to five years the period used for calculating highest average salary in the **Game Wardens Retirement System** and does not increase employee/employer contributions. The bill received final approval **95/4** in the **House** and **49/1** in the **Senate**.

***House Bill 135***, as amended, increases from three years to five years the period used for calculating highest average salary in the **Sheriffs Retirement System** and does not increase employee/employer contributions. The bill received final approval **95/1** in the **House** and **50/1** in the **Senate.**

***Senate Bill 54***, as amended, would have created a new "hybrid" retirement system for all new employees in the **Teachers Retirement System**. Rather than a system in which benefits are based on years of service and highest average salaries, the new system would have directly tied retiree benefits to the amount of employee/employer contributions made on behalf of the employee during his/her working career. The TRS Board would have credited an interest rate each year to the contributions; and at retirement an annuity would have been calculated for the employee based on accumulated contributions and credited interest. The bill received final approval **64/35** in the **House** and **27/22** in the **Senate** but was **vetoed** by the **Governor**.

***House Bill 197*** would have placed on the ballet a constitutional amended permitting the Legislature to make changes to benefits for **existing** employees/retirees as shown below (the proposed language is underlined). The bill was **tabled** in the **House State Administration Committee**.

> **"Section 31. Ex post facto, obligation of contracts, and irrevocable privileges -- <u>public retirement plan contract modification allowed</u>**. No ex post facto law nor any law impairing the obligation of contracts, or making any irrevocable grant of special privileges, franchises, or immunities, shall be passed by the legislature. <u>However, in order to maintain the actuarial soundness of a public retirement plan, the legislature may modify a public retirement plan and the public retirement plan contracts as they apply to individuals who are already members of the plan."</u>

***House Bill 608*** would have closed eight of the state's nine defined benefit plans to new employees and replaced them with an "annuity" to be paid by private firms to which employee/employer contributions would be made during the employees working career. The bill was **tabled** in the **House State Administration Committee**.

***Senate Bill 328*** would have closed the Public Employees Retirement System defined benefit plan to all new employees and required them to participate in a Defined Contribution plan. The bill **passed** the **Senate 26/24** but was **tabled** in the **House State Administration Committee**.

- **Summary**: Because all changes in the enacted bills apply to new hires only, the current unfunded liability of the systems do not change. (This liability is calculated only on the active/retired members in the systems as of June 30, 2010.) By making small changes to the benefit structure for new hires, the normal cost for those employees will be slightly reduced, thereby increasing by a small amount the portion of the statutory contributions dedicated to amortizing the current unfunded liability.

## Other Legislation of Interest

***House Bill 513***, as introduced, would have required that all cigarette/tobacco taxes be "paid in electronic gold currency units at the free market rate of exchange, as of the time of payment, between the electronic gold currency units and the amounts of legal tender of the United States." The bill also would have permitted the state to conduct other business in electronic gold currency units and required the Board to invest 10.0 percent of Teachers Retirement System assets in gold and silver coins. The TRS requirement was amended out in committee and the amended bill **failed** in the **House 48/52**.

***House Bill 643*** would have created a state bank, patterned after the Bank of North Dakota, called the "Last Chance State Bank." The bill was complex, consisting of 121 pages, and introduced late in the session. The Bank would have assumed most of the Board's current responsibilities in managing the Coal Tax Trust Loan Programs. The bill was opposed by the state's two banking associations and was **tabled** in the **House Business and Labor Committee**.

***House Joint Resolution 25*** would have established an interim Legislative Committee to study the creation of a state bank. The bill **passed** the **House 56/44** but was **died** in the **Senate 31/19** on a motion to "**Indefinitely Postpone."**

***Senate Bill 326*** creates a "Veterans Home Loan Program" funded from the Coal Tax Trust and administered by the Montana Board of Housing as follows:

> **"The board (board of investments) shall allow the board of housing to administer $15 million of the permanent coal tax trust fund for the purposes of the Montana veterans' home loan mortgage program."**

This language is identical to the language in current law permitting the Montana Finance Facility Authority to lend up to $15.0 million of the Trust. The amended bill **passed** the **Senate 38/12** and **passed** the **House 62/37**.

***House Bill 590*** would have created a state-wide health benefit plan for school districts. The bill authorized the Board to lend $2.0 million to the plan for start-up costs and provide a $30.0 million line of credit. The loans would have been made under the INTERCAP Program. The bill was **tabled** in the **House Appropriation Committee**.

Montana

# Board Of Investments

**Board Orientation - April 2011**

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## BOARD HISTORY

**1964** - Prior to the creation of the Board, a 1964 Legislative Council report concluded that there were major deficiencies in the state investment process. Investment administration was decentralized and there was a lack of professional, qualified staff. At the time of the report, state agencies utilized their internal staff to invest their funds.

**1971 -** The 1971 Legislature created the Board of Investments (Board) to manage the investment of state funds as a part of state reorganization efforts. At the Board's first meeting in August 1971 the Board established four major goals:

- Centralize the state's investments;
- Invest the state's idle cash;
- Increase earnings on the state's investments; and
- Establish a sound system of control over the investment process, including provisions for systematic financial reporting, measurement of investment results, and a regular independent audit.

The Board, initially consisting of five members appointed by the Governor, hired five staff to manage 40 separate accounts. As of June 30, 1972 the Board managed a portfolio with a book value of $326.2 million invested mostly in corporate and government bonds as depicted in the table. The portfolio generated $16.1 million of investment income during the first fiscal year.

| | | | |
|---|---|---|---|
| **Retirement Funds** | **$ 160.6** | | |
| **Trust Funds** | **66.8** | **Corporate Bonds** | **37.00%** |
| **Treasurer's Fund** | **59.2** | **Government Bonds** | **37.00%** |
| **Insurance Funds** | **23.6** | **Mortgages** | **15.00%** |
| **Other** | **16.0** | **CD's/Corporate Paper** | **11.00%** |
| **Total** | **$ 326.2** | | **100.00%** |

**1972** - Montana voters ratified a new constitution that created a Unified Investment Program, encompassing all state funds and authorized 20 percent of retirement fund assets to be invested in stock. (Stock investments were not permitted under the old constitution.)

**1973** - The Short Term Investment Pool (STIP) was created by the Legislature on July 1, 1973 as an investment vehicle to manage state and local government cash. Since its creation, the STIP has provided a safe, convenient way for state and local government agencies to invest and withdraw cash with 24-hours notice. Local governments have other investment options as permitted by law and use the STIP at their discretion.

The law creating the STIP and permitting local governments to participate was one of 10 sections contained in legislation to enact the Unified Investment Program created by the new Constitution. While there was no "statement of intent" to determine original legislative intent the language seems to suggest an implicit guarantee of local government funds invested in the STIP:

> **"17-6-204(3) The principal and accrued income, and any part thereof, of each and every account maintained for a [local government] participant in the pooled investment fund shall be subject to payment at any time from the fund upon request. Accumulated income shall be remitted to each participant at least annually."**

The STIP maintains a $1.00 share value for both local governments and state agencies.

**1983** - The 1983 Legislature implemented Initiative 95 (Build Montana Program), approved by Montana voters in November 1982, and created a seven-member Montana Economic Development Board (MEDB) to manage the Program. The legislation created an "In-state Investment" component within the Coal Tax Trust, to which 25.0 percent of coal tax revenues was dedicated. The legislation also created a bonding program by which tax-exempt bonds were issued and the proceeds utilized to make low interest loans to eligible entities. The MEDB was authorized to:

- Invest the in-state investment portion of the Coal Tax Trust;
- Issue INTERCAP bonds and lend the proceeds; and
- Issue Industrial Revenue Bonds for specific projects.

**1985 -** The 1985 Legislature increased Board of Investment membership from five to seven by requiring that a member from each of the two pension Boards be appointed.

**1987** - The 1987 Legislature abolished the MEDB and the existing seven-member Board of Investments and created a new Board of Investments (Board) with nine members. All MEDB staff and duties were transferred to the new Board.

**1991** - The 1991 Legislature liquidated the "In-State Investment Fund" component of the Coal Tax Trust and encouraged the Board to invest up to 25.0 percent of the entire trust in Montana businesses.

**1993** – The 1993 Legislature, for the first time, authorized the Board to contract directly with an out-of-state bank to provide custodial banking services. In December, the Board contracted with State Street Bank and Trust to provide custodial banking services.

**1995** - The 1995 Legislature allocated $50.0 million of the Coal Tax Trust to an "Infrastructure Loan Program" designed to provide long-term financing to local governments to fund the infrastructure required to accommodate businesses wishing to locate within their jurisdiction.

The Legislature also changed the procedure for funding certain state entities (including the Board). Prior to this change, the Legislature appropriated funds for state entities to purchase products/services from other state entities and then appropriated the funds again to the entity providing the services/products. This process resulted in the same dollar being appropriated several times, which had the effect of inflating actual state expenditures. The new procedure authorized state entities providing the services/products to other state entities to charge a fee for the services and eliminated an appropriation to the entity.

**1997/1999** - The 1997 Legislature abolished the Science & Technology Board and transferred its existing investment portfolio to the Department of Commerce. The 1999 Legislature then transferred the investment portfolio from the Department of Commerce to the Board.

**2000** - The 2000 Legislative Special Session allocated $50.0 million of the Coal Tax Trust to a "Value-added Loan Program" designed to provide subsidized loans to Montana businesses conducting value-added business.

**2007** - The 2007 Legislature increased the allocation for Infrastructure loans to $80.0 million and the allocation for Value-added loans to $70.0 million, and clearly defined the intent of the 25.0 percent language for the In-state Loan Program. The Legislature added two non-voting legislative liaisons to the Board.

## BOARD COMPOSITION & VOTING REQUIREMENTS

State law authorizes the Board to employ an Executive Director and a Chief Investment Officer who have general responsibility for selection and management of the Board's staff and for direct investment and economic development activities. The Board prescribes the duties and salaries of the Executive Director and Chief Investment Officer and six other staff positions and the eight staff "serve at the pleasure of the Board."

**Exempt Staff** - In personnel terms the eight positions that serve at the pleasure of the Board are called "exempt" positions, meaning that they are exempt from the state classification and pay plan system to which most state employees are subject. The Board sets exempt employee salaries and is not subject to the state's rather rigorous recruitment and selection process when it recruits and hires these employees. The trade-off for the exempt employees is that they serve at the pleasure of the Board, which means they do not have the full range of protocols available to classified staff in terms of discipline and termination.

**Classified Staff** – Except for the exempt staff, all other Board employees are "classified", which means that the selection/hiring process; the discipline/termination process; and the salary-setting process are all spelled out clearly in state law and regulation.

**Board Member Appointment Process** – As a quasi-judicial Board, the number and qualifications of its members are prescribed by law and at least one member must be an attorney licensed to practice law in Montana. The Governor appoints all voting members and must appoint five members (a quorum) to four-year terms concurrent with the Governor's term. The remaining four members are appointed to four-year terms mid-way through the Governor's term. This process permits a new Governor to impact the governance of the Board by appointing the majority of members at the beginning of his/her term. The members serve until a successor is appointed and may be removed by the Governor only for "cause." The Governor appoints the Chairperson and all members must be confirmed by the state Senate.

**Board Membership Criteria** – The law specifies member criteria as follows:

- One member from the Public Employees' Retirement Board;
- One member from the Teachers' Retirement Board;

Seven members to provide a balance of professional expertise and public interest and represent

- The financial community;
- Small business;
- Agriculture;
- Labor; and
- Two ex officio, nonvoting legislative liaisons to the Board. One must be a Senator appointed by the President of the Senate and one must be a Representative appointed by the Speaker of the House. The liaisons may not be from the same political party.

**Voting Requirements** – As a quasi-judicial Board, there must be a quorum (5) present to conduct business and all substantive action taken by the Board must be approved by a majority (5) of the entire Board, regardless of the number of members present at the time the action is taken. In other words, if there are only five members present at the meeting they all must approve a substantive action.

## BOARD ALLOCATION & AUTHORITY

All state Boards must be allocated to a State Agency for certain purposes. The Board is a "quasi-judicial" Board allocated to the Department of Commerce for administrative purposes and operates under the following legal parameters.

The Board:

- Exercises its quasi-judicial and policymaking functions independently of the Department and without approval or control of the Department;
- Submits its budgetary requests through the Department; and
- Submits reports required of it by law or by the Governor through the Department.

The Department of Commerce:

- Directs and supervises the budgeting, recordkeeping, reporting, and related administrative and clerical functions of the Board;
- Includes the Board's budgetary requests in the departmental budget;
- Collects all revenues for the Board and deposits them in the proper fund or account;
- Provides staff for the Board, unless otherwise directed by law; and
- Prints and disseminates for the Board any required notices, rules, or orders adopted, amended, or repealed by the Board.

The Director of the Department of Commerce:

- Represents the Board in communications with the Governor; and
- Allocates office space to the Board as necessary, subject to the approval of the Department of Administration.

In practical, day-to-day terms this means that the Board acts totally independent in its role as investment manager – determining when and how public funds will be invested. It also acts independently as it manages the Coal Tax Trust and INTERCAP loan programs. The Board's activity in these roles is governed only by the state constitution and state law. To assist the Board in its investment responsibilities, it retains an investment consultant that provides guidance, educational activities, performance analytics, and assistance in hiring and monitoring external investment managers.

The Department of Commerce handles most of the Board's purely administrative functions, such as personnel, invoice payment, budgeting, and budget documentation. The Board exercises sole discretion when hiring and setting salaries of its eight non-classified (exempt) staff. The Board also hires its classified staff, but the process is subject to Department approval and the salaries are governed by state law as interpreted by the Department.

Although the Department occasionally provides legal services to the Board, most of the Board's investment-related legal services are provided by outside legal counsel by contract. Although the law states that the Department Director will represent the Board in communications with the Governor, in practice, the Board's Executive Director communicates directly with the Governor, the Legislature, and the media. The Board issues its Annual Report independent of the Department and Board staff deals directly with the Legislative Auditor during and after the annual audit of the Board's operations. Board staff reports directly to the Legislative Audit Committee when the audit is presented to the committee.

## BOARD MEETINGS & COMMITTEE STRUCTURE

The full Board meets quarterly at regularly scheduled meetings and may meet for specific purposes at the call of the Chair. Board packets, containing the meeting agenda and staff reports, are mailed to members approximately one week prior to the meetings and are posted on the Board's web site. All meetings are open to the public and the entire meeting is tape recorded to facilitate the preparation of minutes. Most meetings are held in Helena but occasionally meetings are held in other locations in the state.

Members receive $50.00 per diem for each meeting day and $50.00 for reviewing the Board packet. All Board member travel expenses are reimbursed per state policy.

The Board has created three committees for specific purposes.

**Human Resources Committee** – The Committee is comprised of four Board members appointed by the Chair. The Committee's primary responsibilities are:

- Establishing, maintaining, and updating the pay plan for the Board's eight exempt staff by utilizing compensation data from other public pension plans and/or investment boards.
- Reviewing the performance of the exempt staff and submitting exempt salary recommendations to the full Board for final approval.
- Recommending to the Board a process for filling vacant exempt positions.
- Hearing written appeals and grievances from exempt staff if the Executive Director is unable to resolve differences.

**Loan Committee** – The Committee is comprised of four Board members appointed by the Chair. The Committee's primary responsibilities are:

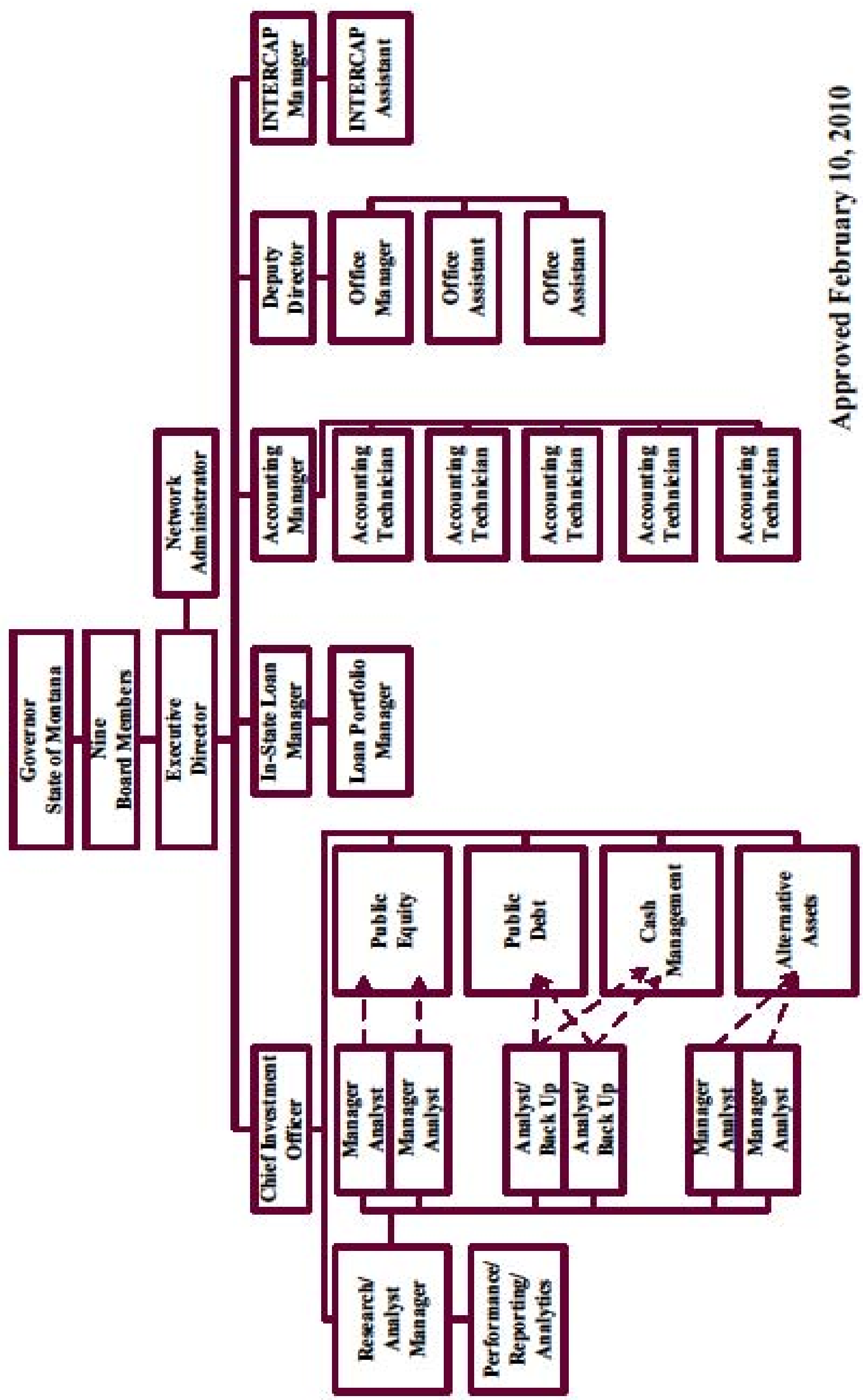
- Reviewing and approving/disproving staff recommendations for non federally-guaranteed Coal Tax Trust loans, INTERCAP loans, and the enhancement of INTERCAP bonds and Montana Facility Finance Authority bonds in excess of $1.0 million and up to $5.0 million.
- Reviewing staff recommendations for non federally-guaranteed Coal Tax Trust loans and INTERCAP loans in excess of $5.0 million and the enhancement of INTERCAP bonds and Montana Facility Finance Authority bonds in excess of $5.0 million and making a recommendation to the full Board for approval/disapproval.
- Reviewing staff recommendations to issue additional INTERCAP bonds and making a recommendation to the full Board for approval/disapproval.
- The Board has delegated to staff the authority to approve loans up to $1.0 million.

**Audit Committee** – The Committee is comprised of four Board members appointed by the Chair. The Committee's primary responsibilities are:

- Monitoring the Board's internal control policy and supervising the Board's Internal Auditor contractor.
- Meeting with the Legislative Auditor and reviewing its Audit Report.
- Authorizing Board staff to file for lead or co-lead plaintiff status in securities class action litigation.
- Authorizing Board staff to opt out of class action securities litigation in which it is a member.

The entire Board acts as an Investment Committee and must approve all asset allocation recommendations made by staff.

# BOARD STAFF ORGANIZATION



## BOARD FUNDING

The Board is considered a "proprietary" entity in state government, which means that its funding is derived from fees charged for services it provides, similar to private sector entities. Within the proprietary category there are two types of entities: 1) an **internal services** entity that provides most or all of its services/products to state entities; and 2) an **enterprise** entity that provides most or all of its services/products to non-state entities.

Board funding is provided by both **internal services** and **enterprise** accounts. Because the Board's investment function primarily serves state entities, the investment function is funded by an **internal services account**. The Board's INTERCAP Program primarily serves non-state entities and is funded by an **enterprise account**.

**Internal Services Account** – To prevent one state entity from overcharging another, the Legislature sets the maximum fee the entity may charge as a part of the biennial budgeting process. In most instances, the fee is based on a "per" service cost, such as state Motor Pool charges for daily and per-mile use of its vehicles. The fee-for-use process makes Motor Pool revenues totally dependent upon other state entities using its vehicles.

The Board's fee authorized by the Legislature is rather unique in that it is set as a total lump-sum fee based on the Board's anticipated expenditures during the next biennium. Consequently, the Board's investment revenue is not impacted by the size of the investment portfolio or the number of accounts it invests. To ensure that the fees closely match expenditures, the Legislature requires that the Board's account balance not exceed a "60-day" working balance. In other words, the Board is permitted to retain sufficient funds in its account to pay for 60 days worth of its operations. If the balance exceeds that limit, the Board must reduce its fees.

If expenditures exceed the fees charged during the year, the 60-day working balance will shrink. Conversely, if expenditures are less than the fees charged during the year, the balance will increase up to the 60-day maximum at which time fees must be reduced.

**Enterprise Account** – The Legislature does not set fees for these accounts because an enterprise entity provides few if any services/products to state entities. The Board's INTERCAP program derives its revenues from the "spread" between the interest rates on the bonds it issues and the interest rates charged on loans made from the bond proceeds. Although budgeting information is included in the Governor's budget and reviewed by the Legislature no action is taken on this information. The Board replenishes the account annually when INTERCAP bonds are remarketed with funds sufficient to meet one year's expenditures from the account.

**Custodial Bank Fees** – In addition to the Board's investment management fee, it charges a fee for custodial bank services. The fees are not approved by the Legislature because the Board deposits the fees in the state general fund from which a statutory appropriation is made. (Fee authority is not required when the funds are appropriated.) A statutory appropriation is made by law and is not subject to legislative approval.

**External Investment Manager Fees** – External manager fees are paid from investment income and are not included in the Board's budget or approved by the Legislature. These fees, based on externally-managed asset values, are too volatile to be subject to an inflexible biennial budget.

## BOARD FEES & FEE ALLOCATIONS

Board staff utilizes a cost allocation system to equitably allocate the Legislatively-approved Board fees and the Custodial Bank fees to the various accounts in the investment portfolio as depicted in the adjacent table. The cost allocation centers consist of the seven investment pools, fixed income/equity investments not held in the pools, and loans/mortgages.

| Cost Allocation Centers | Board Fee | Bank Fee |
|---|---|---|
| Retirement Funds Bond Pool | 11.49% | 12.06% |
| Trust Funds Bond Pool | 10.86% | 7.95% |
| Domestic Equity Pool | 13.08% | 38.01% |
| International Equity Pool | 12.91% | 12.68% |
| Private Equity Pool | 12.05% | 3.46% |
| Real Estate Pool | 10.13% | 1.38% |
| Short Term Investment Pool | 11.45% | 13.23% |
| All Other Funds | 6.84% | 10.43% |
| Loans/Mortgages | 11.19% | 0.80% |
| Total | 100.00% | 100.00% |

**Board Fees** - Board fees are allocated 78.0 percent based on the number of staff working in each cost center with the remainder allocated directly to cost centers based on where the services are provided. For example, fixed income analytical services are allocated to fixed income centers and equity analytical services are allocated to public equity centers.

**Custodial Bank Fees** - Custodial Bank fees are allocated 60.0 percent based on the number of yearly transactions in each center with the remainder allocated based on the asset values within the center. There were more than 87,000 transactions recorded in the custodial bank's accounting system during a 12 month period. The total fees charged are based on a fixed amount in the Custodial Bank contract.

**External Manager Fees** – External investment manager fees are charged directly to the cost centers in which the services are provided. For example, domestic equity manager fees are charged to the Domestic Equity Pool and international equity manager fees are charged to the International Equity Pool.

The table below shows the total fees charged to each center in Fiscal 2010.

| Pool | Board | Custodial Bank | External Managers | Total |
|---|---|---|---|---|
| Retirement Funds Bond Pool | $ 527,473 | $ 141,563 | $ 1,078,457 | $ 1,747,493 |
| Trust Funds Investment Pool | 493,636 | 118,316 | 345,658 | 957,610 |
| Domestic Equity Pool | 735,444 | 567,552 | 9,605,491 | 10,908,487 |
| International Equity Pool | 729,648 | 216,660 | 4,682,131 | 5,628,439 |
| Private Equity Pool | 563,892 | 73,044 | 13,360,496 | 13,997,432 |
| Real Estate Pool | 476,317 | 39,845 | 7,096,729 | 7,612,891 |
| Short Term Investment Pool | 522,780 | 215,160 | - | 737,940 |
| All Other Funds/Loans Mortgages | 820,282 | 181,814 | 66,627 | 1,068,723 |
| **Total** | **$ 4,869,472** | **$ 1,553,954** | **$ 36,235,589** | **$ 42,659,015** |

Fees charged to the investment pools are deducted from investment income prior to the distribution of income to the pool participants. The Legislative Auditor reviews the cost allocation procedure annually.

## THE BOARD'S THREE MISSIONS

**Manage the Unified Investment Program** - The Board's original and primary mission is to prudently manage the constitutionally-created Unified Investment Program, which includes all state funds and those local government funds invested in the Program. The Board manages the Program pursuant to constitutional and legal provisions, which restrict equity investments to the nine retirement funds and the State Workers' Compensation Fund. The Program is managed under the "prudent expert principle", which requires the Board to:

- **Discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;**
- **Diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and**
- **Discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.**

The Program is managed with a mix of Board investment staff and external investment managers.

**Manage the Coal Tax Trust Loan Program** – The Board manages four distinct loan programs authorized by law and funded from the Coal Tax Trust. The Board has loaned $635.7 million since inception of the first loan program.

State law declares that the purpose of the Coal Tax Trust is to:

- **Compensate future generations for the loss of a valuable and depletable resource and to meet any economic, social, and environmental impacts caused by coal development not otherwise provided for by other coal tax sources; and**
- **Develop a stable, strong, and diversified economy which meets the needs of Montana residents both now and in the future while maintaining and improving a clean and healthful environment as required by Article IX, section 1, of the Montana constitution.**

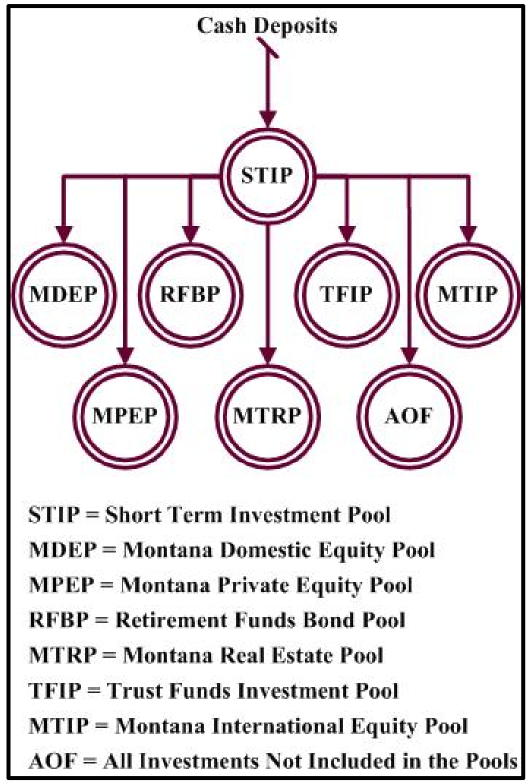
All loan programs are limited to Montana businesses and the Program is managed exclusively by Board staff.

**Manage the Bond Programs** – Under this Program, the Board issues tax-exempt bonds and lends the proceeds to eligible governmental entities for a broad variety of projects (INTERCAP). The Program has been used extensively by local governments due to a user-friendly process and low interest rates. The Board has loaned $325.1 million since the Program's inception. The Board also manages other smaller bond programs authorized by law.

All bond programs are limited to Montana entities and the Program is managed exclusively by Board staff.

## THE INVESTMENT STRUCTURE

All funds deposited with the Board are initially invested in the Short Term Investment Pool (STIP). State and local agencies buy and sell STIP units at their discretion with 24-hours notice. The STIP is the only investment option available for local governments and is the primary investment vehicle for most state accounts. The Board has developed other special purpose investment pools that operate similar to mutual funds as depicted in the adjacent chart.




While Board staff exercise no control over local and state agency purchases/sales of STIP units, staff exercises total control over investments in the other pools and the "All Other Funds" portfolio. The transfer of investments from the STIP to other investment pools is conducted monthly by staff based on pre-determined criteria for the account. Most state agency accounts will remain in the STIP due to liquidity or other requirements, but STIP balances are kept to a minimum in retirement and non-expendable trust funds.

The investment pool process simplifies investing and accounting and provides diversification and safety for smaller accounts that would otherwise have to invest in individual securities. The All Other Funds (AOF) is not an investment pool but rather a "bucket" created to hold all investments not held in the investment pools. The largest account in the AOF fund is the State Fund that primarily holds intermediate-term bonds that are better fit for its maturity requirements than the long-term bond investment pools. The Coal Tax Trust loans and retirement fund mortgages are also held in the AOF.

The investment pool creation date and the type of funds eligible to participate are shown below:

| Pool/Investments Managed Name | Creation Date | Eligible Participants |
|---|---|---|
| Retirement Funds Bond Pool (RFBP) | 04/01/95 | Nine Retirement Funds Only |
| Trust Funds Investment Pool (TFIP) | 10/01/95 | Various State Trust Funds |
| Montana Domestic Equity Pool (MDEP) | 07/01/80 | Nine Retirement Funds/Small Trusts |
| Montana International Equity Pool (MTIP) | 06/01/96 | Nine Retirement Funds Only |
| Montana Private Equity Pool (MPEP) | 05/01/02 | Nine Retirement Funds Only |
| Montana Real Estate Pool (MTRP) | 06/01/06 | Nine Retirement Funds Only |
| Short Term Investment Pool (STIP) | 07/01/74 | All State Funds and Local Governments |
| All Other Funds (AOF) Investments Managed | NA | Non-Pool State Agency Investments |

**<u>Investment Pool Procedures</u>** – Net investment income (after fees) is distributed monthly to investment pool participants, while capital gains/losses are retained in the pools and reinvested. Reinvesting net capital gains in the pools is a much more efficient process than distributing the capital gains to participants and then repurchasing units in the pools. Except for the STIP that operates with a $1.00 share value, pool shares must be priced when participants buy or sell pool shares.

## THE INVESTMENT PROCESS

The Board has delegated to staff the responsibility to hire, monitor, and terminate all external investment managers. There are two distinct types of external investment managers hired by Board staff - managers who invest in publicly-traded securities and managers who invest in alternative type investments.

**Public Security Investment Managers** - Investment managers who actively manage the Board's publicly-traded stocks/bonds are selected utilizing the state's "Request for Proposal" (RFP) process that is open to all qualified investment managers. The state Department of Administration supervises and monitors the entire RFP process. The Board's consultant, R.V. Kuhns, provides extensive data-gathering activities and guidance during the selection process, but the ultimate manager selection is made by Board staff. The managers are hired under a standard state contract limited by law to seven years and can be terminated with five days notice with or without cause.

**Alternative Investment Managers** - The RFP process is not utilized in the selection of alternative investment managers, such as private equity/real estate managers. These funds are structured as Limited Partnerships managed by a General Partner who has the responsibility to raise funds and invest those funds over a specified period of time. Board staff can only invest in these funds when they are in the "fund raising" stage – a process that does not lend itself to the RFP process.

The funds are typically closed-end and structured as Limited Partnership Agreements to which limited partners subscribe and make a "commitment" of funds that are drawn down over a three to five year investment period. The General Partners invest the funds in various types of underlying private investments during the investment period and are expected to return the committed funds and profits over the life of the funds. Because a fund's anticipated life may be as long as 10 to 12 years and there are limited opportunities for Limited Partners to exit the fund during its legal life, these investments are considered illiquid. Because the draw down schedule of these funds cannot be predicted with any accuracy, Board staff must ensure that adequate cash is available at all times to fund commitments on short notice.

The table below shows the percentage of the Unified Investment Program invested by Board staff and external managers as of March 31, 2011.

| Pool/Investments Managed Name | Board Staff | External Managers | Portfolio Value |
|---|---|---|---|
| Retirement Funds Bond Pool (RFBP) | 71.11% | 28.89% | 1,883,820,477 |
| Trust Funds Investment Pool (TFIP) | 89.72% | 10.28% | 1,852,183,665 |
| Montana Domestic Equity Pool (MDEP) | | 100.00% | 2,854,652,540 |
| Montana International Equity Pool (MTIP) | | 100.00% | 1,451,802,446 |
| Montana Private Equity Pool (MPEP) | | 100.00% | 911,139,435 |
| Montana Real Estate Pool (MTRP) | 2.38% | 97.62% | 435,603,225 |
| Short Term Investment Pool (STIP) | 100.00% | | 2,195,597,902 |
| All Other Funds (AOF) Investments Managed | 91.74% | 8.26% | 1,663,269,076 |
| **Weighted Percentages** | **50.82%** | **49.18%** | **13,248,068,768** |

Most of the portfolio is actively managed, but there are passive components in the MDEP and MTIP to provide stability and reduce tracking error to the respective benchmarks. The passive components closely track the major domestic and international equity indexes. As of March 31, 2011, 90.0 percent of the total assets were actively managed, while 10.0 percent was passively managed.

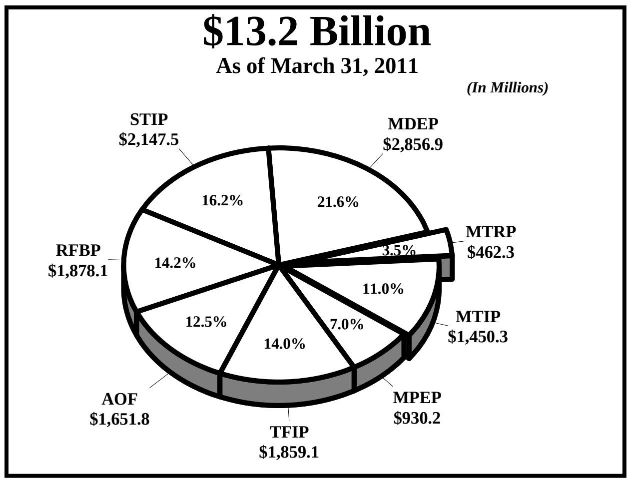
## THE UNIFIED INVESTMENT PROGRAM

The table below shows the Unified Investment Program portfolio as of June 30, 2010 by major fund type and asset type. This table has historically been published in the Board's annual report and provides a good snapshot of the Board's total investment portfolio. The trust investment under the Mortgage/Loans asset category represents the in-state loans funded from the Coal Tax Trust. The pension investment under that asset category reflects Montana mortgages held by the Teachers' Retirement System and the Public Employees' Retirement System.

| Fund Type | Cash Equivalents | Public Stock | Fixed Income | Mortgage/ Loans | Other (1) | Total |
|---|---|---|---|---|---|---|
| Pensions | 118,143,962 | 3,300,778,543 | 1,867,210,462 | 35,527,234 | 1,226,297,764 | 6,547,957,966 |
| Trusts | 205,670,905 | 761,159 | 1,864,093,127 | 205,427,525 | | 2,275,952,716 |
| Insurance | 136,383,310 | 110,790,189 | 1,026,600,894 | | | 1,273,774,393 |
| Treasurer's | 828,267,153 | | 82,427,004 | | | 910,694,157 |
| Local Gov. | 358,539,815 | | | | | 358,539,815 |
| Agency Cash | 374,971,130 | | 17,815,868 | | | 392,786,998 |
| Universities | 105,592,053 | 942,076 | 56,543,391 | | | 163,077,519 |
| Debt Service | 51,621,780 | | | | | 51,621,780 |
| Total | 2,179,190,108 | 3,413,271,967 | 4,914,690,745 | 240,954,759 | 1,226,297,764 | 11,974,405,342 |

(1)Private Equity, and Real Estate

The adjacent chart depicts the Unified Investment Program portfolio by structure as of March 31, 2011. The growth in the portfolio from June 30, 2010 to March 31, 2011 is primarily due to the positive impact of stock market performance on retirement system assets. The Mortgage/Loans investments and the insurance investment under Public Stocks in the top table are included in the AOF in the adjacent table.




**Investment Pool Operations** – The table below shows the December 31, 2010 status of the investment pools and AOF, including the number of value of securities, the number of securities, the number of transactions in a 12-month period, and the number of participants.

| Pool | Security Values | Securities | Transactions * | Participants |
|---|---|---|---|---|
| Retirement Funds Bond Pool (RFBP) | 1,832,973,603 | 838 | 8,902 | 9 |
| Trust Funds Investment Pool (TFIP) | 1,828,522,007 | 245 | 3,107 | 34 |
| Montana Domestic Equity Pool (MDEP) | 2,730,503,431 | 1,774 | 44,299 | 12 |
| Montana International Equity Pool (MTIP) | 1,405,904,879 | 973 | 13,279 | 9 |
| Montana Private Equity Pool (MPEP) ** | 935,418,920 | 94 | 948 | 9 |
| Montana Real Estate Pool (MTRP) ** | 417,132,114 | 27 | 361 | 9 |
| Short Term Investment Pool (STIP) | 2,130,865,884 | 84 | 8,672 | 489 |
| All Other Funds (AOF) | 1,705,520,665 | 233 | 8,143 | 24 |
| Total | 12,986,841,505 | 4,268 | 87,711 | 595 |

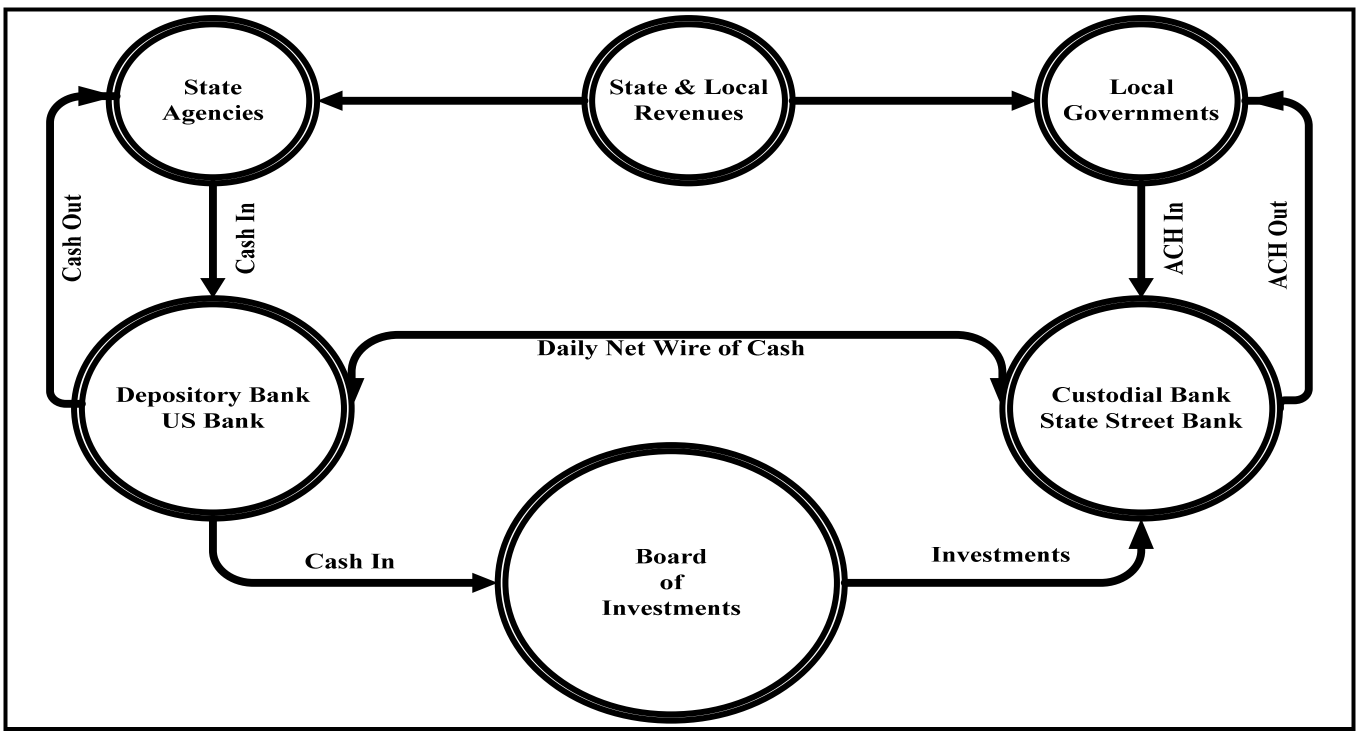
* Number of Securities Transaction During 12-month Period - Does Not Include Income Transactions
** Individual Fund Partnerships

## DOMESTIC/CUSTODIAL BANKS

The Custodial Bank provides the following services for the Board:

- Custody for all publicly-traded securities;
- Complete securities accounting system, including foreign stocks/bonds;
- Participant (mutual fund) accounting system for the investment pools;
- Accounting system for private equity & real estate investments;
- A direct interface from the Board's computer network to the Bank's systems;
- Daily pricing of all publicly-traded securities and foreign currency exchange;
- Automated Clearing House (ACH) function for local government STIP investments;
- Notifies the Board of all corporate actions;
- Receives all proxy notices and distributes to appropriate parties;
- Files on behalf of the Board as a member in all class action securities litigation;
- Calculates total return performance investment pools and major funds;
- Calculates internal rates of return for closed-end private equity & real estate investments;
- Lends Board securities to increase investment income; and
- Sends or receives daily wires to/from Depository Bank to "net" out cash.

The chart below provides a simplified illustration of the daily flow of cash as it is received by the Board; invested by the Board; and then liquidated and sent back to state/local entities.

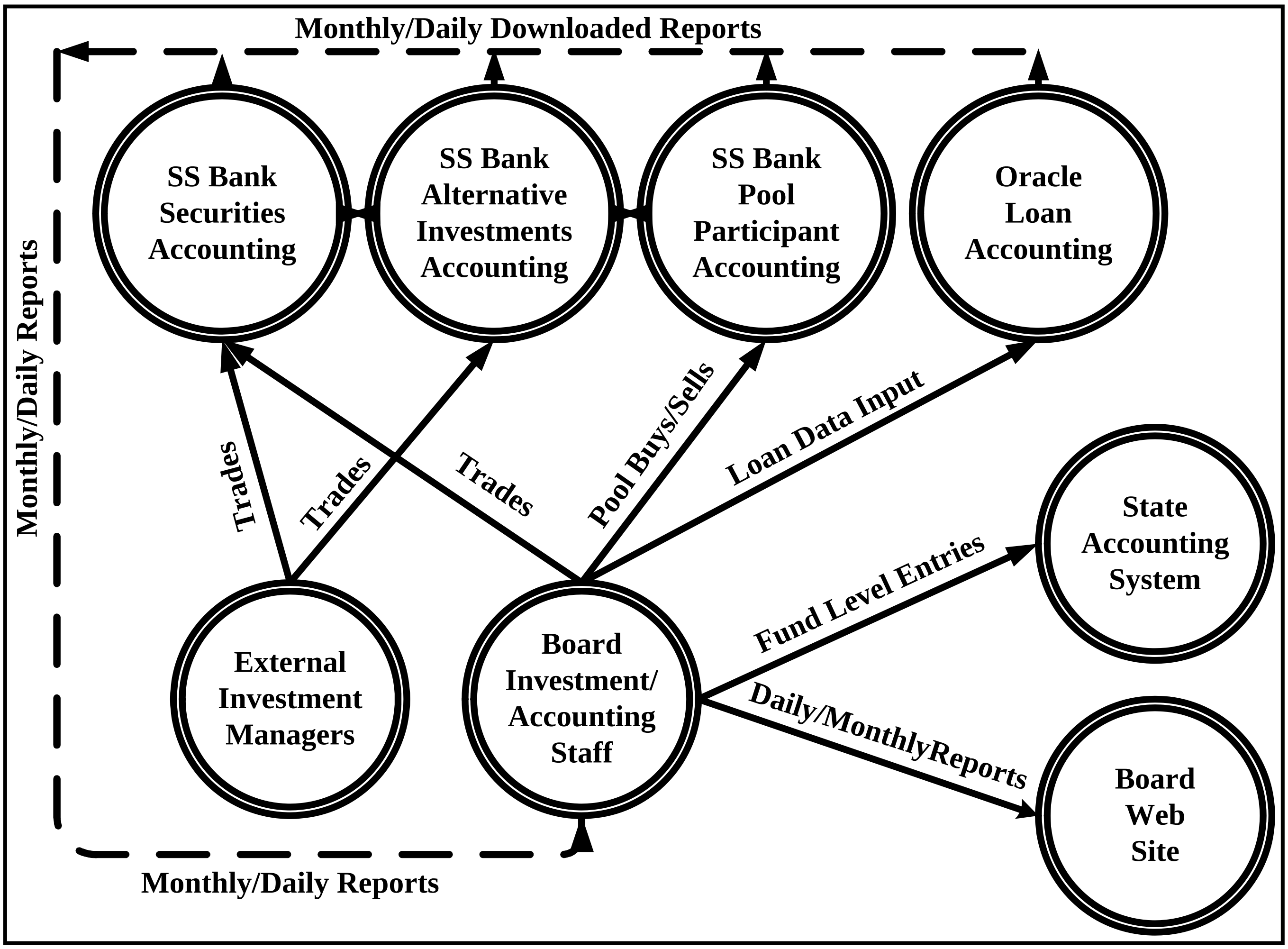



The Depository Bank is the official bank of the state and handles its cash transactions. State/local entities are able to invest and withdraw their cash with 24 hours notice from the Short Term Investment Pool. Depending upon the daily cash flow and daily investment activity there is a "net" daily wire of cash between the banks.

## INVESTMENT ACCOUNTING

Board staff interface with five unique accounting systems, three of which are provided by the custodial bank, State Street Bank. The in-state loan and INTERCAP accounting system was custom designed and is housed at the state's computer center. The state accounting system is the "official" book of record for auditing purposes but is not capable of tracking daily security transactions; daily investment pool transactions; or daily loan activity. It is a "fund" level accounting system, which means that Board staff enters end-of-day data into the system reflecting the day's activity at the fund level. A fund is established by the state accounting division to track a specific program or activity, such as a retirement or trust fund.

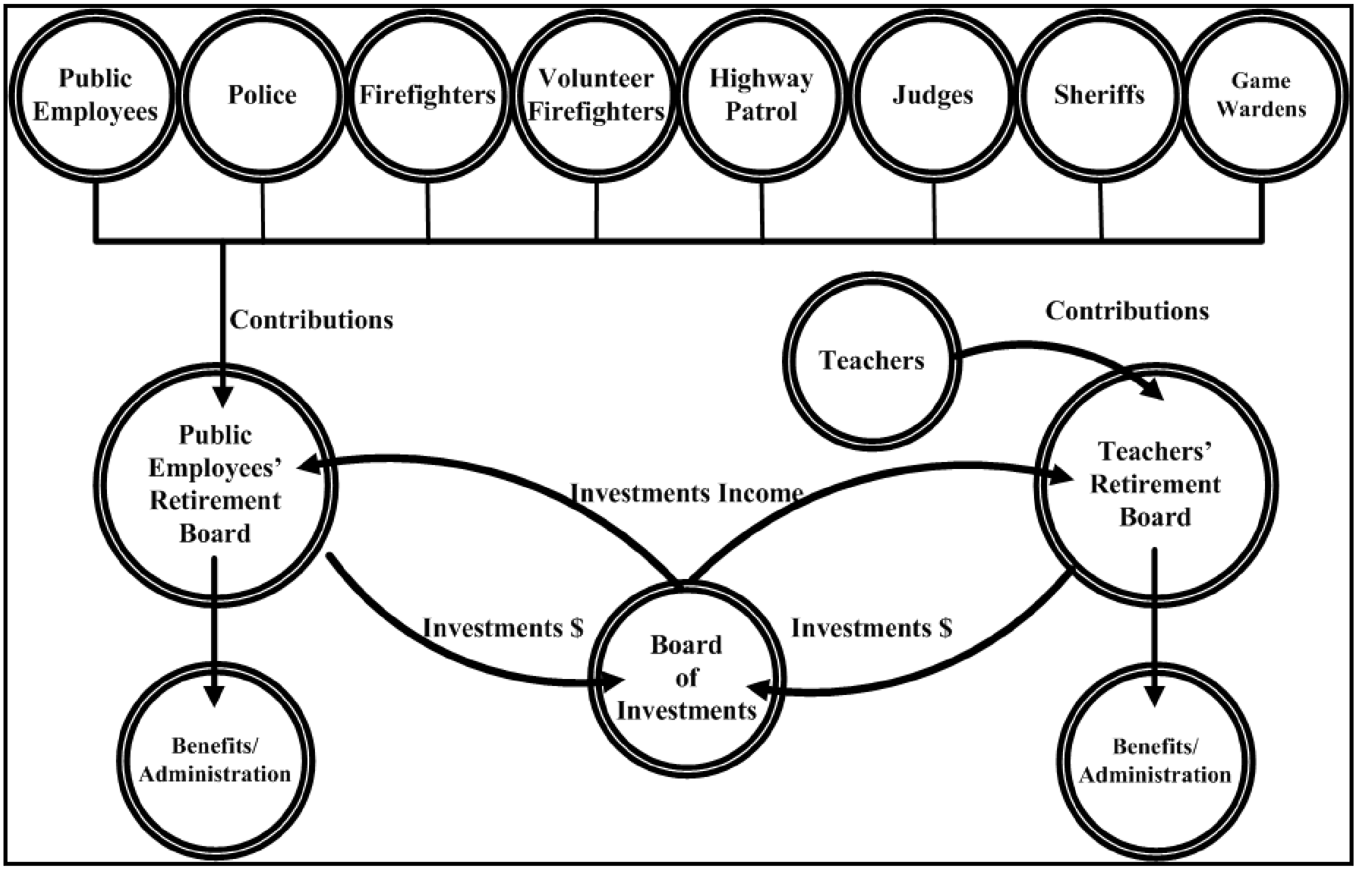
The Board currently records end-of-day data for 493 funds, comprised of 326 state funds and 167 local government funds. Each state fund requires an individual entry in the state's accounting system if there has been investment activity in the fund. Local government funds are rolled up into one state accounting fund. The following chart illustrates a simplified flow chart of the daily investment and accounting activity.




In addition to accounting/portfolio reports downloaded from the custodial bank, the bank also provides investment performance reports for individual funds, the investment pools, and investment managers. Reports are posted to the Board's website daily and monthly.

## DEFINED BENEFIT RETIREMENT SYSTEMS

The state's defined benefit retirement plans include all state agencies and most local government entities and school districts. The Board is solely responsible for investing retirement system assets, while two boards appointed by the Governor manage the benefits and liabilities. The chart below depicts the relationship of the two retirement boards and the Board in managing the state's nine pension fund assets and liabilities.




The market values of the nine retirement systems as of March 31, 2011 are shown in the adjacent table. The assets are priced daily by the Custodial Bank and are very sensitive to stock market movements given the large allocation to equities. Depending upon the volatility of the stock markets, the retirement systems comprise between 55.0 percent and 65.0 percent of the Unified Investment Program. Because the Board may invest retirement funds in any type of investment it considers prudent, retirement fund investments are much more complex than are investments of other fund types that have limited investment options. Further, retirement funds have both assets and liabilities, which other state funds do not have. Ideally, retirement system assets should match the liabilities if the systems are to be fully funded.

| System | Market Value | % |
|---|---|---|
| Public Employees | $ 3,889,873,873 | 50.43% |
| Police | 215,703,425 | 2.80% |
| Game Wardens | 91,460,008 | 1.19% |
| Sheriffs | 207,105,325 | 2.69% |
| Judges | 62,559,549 | 0.81% |
| Highway Patrol | 97,370,304 | 1.26% |
| Teachers | 2,909,731,141 | 37.72% |
| Volunteer Firefighters | 25,500,009 | 0.33% |
| Firefighters | 214,071,469 | 2.78% |
| **Total** | **$ 7,713,375,103** | **100.00%** |

**Defined Benefit Retirement System Liabilities** – Liabilities exist in the state's defined benefit retirement systems because a pre-determined "retirement benefit" is promised to employees when they are hired by employers participating in the systems. The benefit formulas are codified in state law as are the contributions required of employees and employers. These systems are distinct from defined contribution retirement systems, which impose no future obligation on the employer. While the employer may make contributions to an employee's defined contribution account during his/her career, when the employee retires the employer's obligation ceases.

Calculating liabilities accurately is difficult because the formulaic benefit is based on years of service and highest average salaries. No one really knows how long an employee will work, what his/her highest average salary will be at retirement, and how long he/she will draw benefits after retirement. An under-calculation of liabilities early in a system's life will have detrimental impacts on the system as it matures.

**Defined Benefit Retirement System Assets** – Defined benefit retirement system assets are generated by "positive" cash flow – the excess of contributions received over benefits/expenses paid – plus investment income not used to pay benefits. When a defined benefit retirement system is created, the employer and/or employees begin contributing to the system and since there are no retirees drawing benefits in the early years, the contributions accumulate and are invested. Even after the original employees begin to retire there will be positive cash flow because there will be more contributing employees than retirees collecting benefits. The positive cash flow will continue to build the assets into a "nest egg" used to pay benefits when employees retire. As long as contributions exceed benefits paid, the income on the assets are reinvested and add to the growth of the assets.

**Normal Cost Concept** – The concept behind a defined benefit system is that the cost to fund the benefits should be related to when the benefits are earned, rather than when they are paid. In other words, each generation of employees should fund their retirement benefits during their working careers, rather than depending upon the next generations to fund them. This concept requires that employee/employer contributions are sufficient when invested to pay the employee's benefits upon retirement. The contribution rate calculated to achieve this goal is called the "Normal Cost." The simplest way to explain Normal Cost is to envision an employer creating a new defined benefit system that is limited to only the employees working for the firm at the time the plan is created (a closed system). After the benefit levels are set, the contributions required to fund the benefits are calculated as a percentage of employee salaries that must be set aside each payday and invested to fund future benefits. If the Normal Cost calculation is correct at the outset, after the last benefit payment to the last survivor in the closed system, the invested assets would be completely liquidated.

**Normal Cost Calculations** - The Normal Cost calculation is complicated by several factors. First, the employer must assume the level of annual investment income the contributions will generate until they are used to pay benefits. Second, an assumption must be made as to how long employees will work before they retire and how long they will draw benefits after retirement. Third, an assumption must be made for salary increases employees will receive during their working career. Salary increases not only impact contributions made during the employee's career but also impact benefit levels since they are based on the highest salary levels prior to retirement.

The Normal Cost theory falls short of funding benefits when benefit increases are granted midway through an employee's career. The additional Normal Cost required to fund the increased benefit can only be collected during the remainder of the employee's career, when in theory it should have been collected from the date of hire to fully fund the increased benefit. If benefits are increased for employees already retired, the increased benefit costs cannot be funded by the Normal Cost. The Normal Cost contributions made during the retiree's working career will not have paid for the increased benefit costs.

**Negative Cash Flow** - As defined benefit retirement systems mature, the ratio of retirees to contributing active members increases and the positive cash flow eventually turns "negative" – benefit payments exceed contributions. When this occurs, a portion of investment income must be used to pay benefits and is not available for reinvestment in the pool of assets. Once negative cash flow begins, the only revenue available to "grow" the assets is income generated by the assets. If the negative cash flow continues to grow at a faster rate than investment income, at some point in the future all investment income will be used to pay benefits. Once negative cash flow exceeds investment income, assets will have to be sold to pay benefits and the pool of assets will begin to shrink as will the income generated by the assets.

**What is an Unfunded Liability** - An unfunded liability exists when a defined benefit retirement system's actuary calculates that the present value of system liabilities exceeds the system's assets available to fund the liabilities. An unfunded liability in and of itself does not make a retirement system actuarially unsound. Under state law, if the unfunded liability can be amortized in 30 years or less by the current contribution stream, the system is actuarially sound. The contribution available to amortize any unfunded liability is that portion of the legislatively-set contribution in excess of the Normal Cost as calculated by the system's actuary. Because the total contribution rate is set by law and does not change, if the Normal Cost rate calculated by the actuary increases, it reduces the level of contributions available to amortize the unfunded liability. Conversely, if the Normal Cost rate decreases, the level of existing contributions available to amortize the unfunded liability increases. As of June 30, 2010, four of the state's nine defined benefit retirement systems were actuarially unsound because their unfunded liabilities could not be amortized in 30 years.

**The Investment Return Assumption** – The most difficult and important of all assumptions utilized by a system's actuary to value the system is the investment return assumption. Predicting financial market performance year-to-year is difficult if not impossible so assumptions have to be based on very long term investment performance. The assumption is extremely important to the perceived actuarial soundness of the systems because just a small difference in the assumption will increase/decrease system liabilities significantly. In order to derive the "present value" of liabilities so they can be compared to the present value of assets, future liabilities are discounted to the present using the assumed rate of investment return. A higher investment return assumption lowers the present value of liabilities, while a lower investment return assumption increases the present value of liabilities.

Any year, in which the actual performance of the invested assets falls short of the actuarial assumption, an "actuarial" investment loss occurs, even though the assets increased in value. For example, if the annual actuarial investment return assumption is 7.75 percent and the assets earn only 7.0 percent, the system's assets may have earned millions but the system incurred an "actuarial" investment loss.

All nine retirement systems currently utilize a 7.75 percent annual investment return assumption and the Board's current asset allocation of the systems' assets has been structured to meet the assumptions. The table below shows the current asset allocation ranges approved by the Board for all nine retirement systems. The table also shows the asset allocation within each of the investment pools in which the systems participate. The Board has set a range of 60.0 percent to 70.0 percent for total equity investments, which includes domestic/international stock, and private equity. The Board has not authorized investments in Hedge Funds or Commodities.

### Pension Fund Asset Allocations 60 -70% Equities Range

**Domestic Equity Pool** — 30% - 50%

| Investment Type | Range |
|---|---|
| Large Cap Core (passive) | 10% - 30% |
| Large Cap Enhanced | 20% - 30% |
| Large Cap Style-Based (long-only) | 20% - 30% |
| Partial Long/Short (130/30) | 10% - 20% |
| Total Large Cap | 82% - 92% |
| Mid Cap | 5% - 11% |
| Small Cap | 3% - 8% |

**Real Estate Pool** — 4% - 10%

| Investment Type | Range |
|---|---|
| Core/Timberland * | 35% - 65% |
| Value Added | 20% - 45% |
| Opportunistic | 10% - 30% |

* Timberland may not exceed 2% of total pension assets

**International Equity Pool** — 15% - 30%

| Investment Type | Range |
|---|---|
| Large Cap Core (active & passive) | 50% - 70% |
| Large Cap Growth | 10% - 20% |
| Large Cap Value | 10% - 20% |
| Small Cap Core | 5% - 15% |

**Private Equity Pool** — 9% - 15%

| Investment Type | Range |
|---|---|
| Leveraged Buyouts | 40% - 75% |
| Venture Capital | 10% - 50% |
| Mezzanine Financing | 0% - 10% |
| Distressed Securities | 0% - 40% |
| Special Situtations | 0% - 10% |

**Retirement Funds Bond Pool** — 22% - 32%

| Investment Type | Range |
|---|---|
| Domestic High Yield | 0% - 15% |
| International | 0% - 10% |
| Total High Yield/International | 0% - 20% |
| Domestic Core(investment grade) | 80% - 100% |

**Short Term Investment Pool** — 1% - 5%

Short-term liquid investments
High-quality Investments
24 Hour Liquidity for Participants

The Board sets the asset allocation ranges and delegates to staff the responsibility of maintaining the assets within the approved ranges. At the end of each month, staff may move assets from one investment pool to another to rebalance the assets and/or to ensure that cash is available to pay benefits and fund draw downs of commitments in the Private Equity and Real Estate Pools.

## THE COAL TAX TRUST

**Coal Severance Tax Revenues** – Fifty percent of coal severance tax revenues are constitutionally dedicated to the Coal Tax Trust. The remaining 50.0 percent is allocated by state law for specific purposes as shown in the adjacent table. The allocations to entities other than the Coal Tax Trust (Trust) are authorized by law and may be changed by the Legislature. The 50.0 percent dedicated to the Trust is required by the state constitution and can only be changed by constitutional amendment approved by the voters.

| | |
|---|---|
| Coal Tax Trust | 50.00% |
| Long-range Building | 12.00% |
| Combined Account | 5.46% |
| Coal Natural Resource | 5.80% |
| State Parks Trust | 1.27% |
| Renewable Resources Debt Service | 0.95% |
| Cultural Trust | 0.63% |
| Coal & Uranium | $250,000 |
| General Fund | The Remainder |

Article IX, Section 5. of the state constitution states:

> **"Severance tax on coal--trust fund. The legislature shall dedicate not less than one-fourth (1/4) of the coal severance tax to a trust fund, the interest and income from which may be appropriated. The principal of the trust shall forever remain inviolate unless appropriated by vote of three-fourths (3/4) of the members of each house of the legislature. After December 31, 1979, at least fifty percent (50%) of the severance tax shall be dedicated to the trust fund."**

While there is a common perception that the Trust is one large account, it has been subdivided over the years for specific purposes. While each of the sub-funds is a part of the Trust and cannot be spent (appropriated) without a ¾ vote of the members of each house, the income from each sub-fund is used for different purposes. Since the Trust was created, it has been referred to as either a "rainy day" fund or an endowment. In practice, it has become more of an endowment because the ¾ vote requirement has prevented it from being used to fill budget shortfalls.

The adjacent table shows the sub-funds; the percentage of dedicated coal tax revenues currently allocated to each sub-fund; and the book value of each sub-fund as of March 31, 2011. Coal severance taxes flowing to the Trust back outstanding severance tax bonds and must first flow through the Severance Tax Bond Fund. The Fund must hold sufficient funds to pay one year's worth of principal and interest on outstanding coal severance tax bonds. After that condition is met, the excess tax revenues are allocated as shown in the table.

| | | |
|---|---|---|
| Severance Tax Bond Fund | 100% | $ 2,289,047 |
| Treasure State Endowment | 50% | 193,385,693 |
| Treasure State Regional Water | 25% | 55,860,599 |
| Economic Development Fund | 25% | 52,068,681 |
| Permanent Fund | 0% | 531,310,771 |
| Total Coal Tax Trust | 100% | $ 834,914,790 |

All investment income from the Severance Tax Bond Fund and the Permanent Fund are deposited in the state general fund. Investment income from the other three sub-funds is appropriated by the legislature for grant programs. The Severance Tax Bond Fund is invested exclusively in the STIP to ensure liquidity. The Treasure State Endowment, Treasure State Regional Water, and the Economic Development funds are fully invested in the TFIP, except for a small liquid portion in the STIP. All in-state loans are funded from the Permanent Fund. Except for maintaining a STIP balance sufficient to fund loans, the Permanent Fund is invested in the TFIP.

## COAL TAX TRUST IN-STATE LOAN PROGRAMS

There are four distinct loan programs authorized by law and funded from the Trust.

**Commercial Loans** – Any Montana business is eligible to apply for these loans through a Board-approved lender. The loans provide fixed-rate Board financing for terms up to 25 years. The lender services the loans and must participate in at least 20.0 percent of the total loan, unless it is federally-guaranteed. The Board sets the interest rates for these loans.

- Maximum Board participation for individual loans is 10% of the Trust
- Lenders must participate at least 20% if Board share is less than 6% of the Trust
- Lenders must participate at least 30% if Board share is more than 6% percent of the Trust
- Job creation credits may reduce interest rate up to 2.5 percent
- Total outstanding loans limited to 25 percent of the total Trust, including all sub-funds

**Value-Added Business Loans** – A Montana business that conducts a value-added business as defined by the Board and creates/retains at least 10 jobs is eligible to apply for these loans through a Board-approved lender. The lender services the loans and must participate in 25 percent of the total loan. Interest rates are set by law.

- 15 jobs created/retained qualifies for a loan rate of 2% for the first 5 years
- 10-14 jobs created/retained qualifies for a loan rate of 4% for 5 years
- Interest rate for second five years on all loans is set at 6%
- Interest rate at the Board's posted rate for the final five years of a15-year term
- Minimum Board participation $250,000 – maximum Board participation 1 percent of the Trust
- Total outstanding loans limited to $70.0 million

**Infrastructure Loans** – A local government entity may apply directly to the Board for a loan to fund infrastructure in their jurisdiction to support a business in the basic sector of the economy. The business must create at least 15 jobs and pay a "user fee" to the local government for the use of the infrastructure. The user fee may be credited against the firm's state income tax. The user fee is pledged to the Board for loan repayment. The definition of "infrastructure" is defined in state law. The Board sets the interest rates for these loans.

- Minimum loan size $250, 000
- Loan size is based on of number of jobs created over a four year period times $16,666
- There is no lender participation and the Board services the loans
- Job creation credits may reduce interest rate up to 2.5percent
- Total outstanding loans limited to $80.0 million

**Intermediary Relending Loans** – Loans are made directly to Board-approved local economic development organizations. Interest rates are set by law.

- Interest rate at 2% for 30 year term
- Interest only payments for the first 3 years of term
- Maximum individual loan size $500,000
- Borrower must use the loan as matching funds toward other government revolving loan funds
- Total outstanding loans limited to $5.0 million

In certain circumstances a business may be eligible for loans under more than one loan program.

## BOND PROGRAMS

The Board administers several bond programs under the Montana Economic Development Bond and the Municipal Finance Consolidation Acts, created as part of the "Build Montana" program in 1984.

**INTERCAP** – The INTERCAP Program is the most active of the Board's bond programs and is used extensively by local government entities, the University System, and certain eligible state agencies. The Board issues tax-exempt bonds and lends the proceeds to eligible governmental entities for a variety of purposes. Although the bonds are issued as long-term, they are remarketed annually (investors are only required to hold the bonds for a one-year period). Since the Program's inception, the Board has issued $136.0 million in INTERCAP bonds with $96.1 million outstanding at June 30, 2010.

The bonds are backed by the Board in two different ways:

- If for any reason investors do not purchase the bonds when they are remarketed annually, the Board is legally obligated to purchase them.
- The Board guarantees payment of principal and interest to the bond holders.

The Board charges a fee for backing the bonds and since the Program's inception has never been required to purchase the bonds or make principal and interest payments. The Program has never had a borrower default. When the bonds are remarketed annually, the bond interest rates are reset and the Board sets the borrower interest rates based on the reset bond interest rate plus 1.0 percent to 1.5 percent to cover administrative costs. The table below shows the borrower interest rate history.

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 87 | 5.625 | 92 | 4.950 | 97 | 4.750 | 02 | 3.150 | 07 | 4.850 |
| 88 | 6.625 | 93 | 4.350 | 98 | 4.850 | 03 | 2.850 | 08 | 4.250 |
| 89 | 7.950 | 94 | 4.500 | 99 | 4.300 | 04 | 2.700 | 09 | 3.250 |
| 90 | 7.500 | 95 | 6.400 | 00 | 5.600 | 05 | 3.800 | 10 | 1.950 |
| 91 | 6.350 | 96 | 4.850 | 01 | 4.750 | 06 | 4.750 | | |

**Qualified Zone Academy Bond Program** – This program allows qualifying school districts to borrow low-cost funds by issuing certain federally-authorized special purpose bonds. Bond proceeds may be used to rehabilitate or repair certain eligible public schools, but may not be used to acquire or construct new public schools. The district must obtain a commitment from a private business to contribute certain equipment, property, services or cash with a value equal to at least 10.0 percent of the principal amount of the bonds. To be eligible, the schools must be located in an empowerment zone; an enterprise community; or have reasonable expectation that at least 35.0 percent of the students attending such school will be eligible for free or reduced cost lunches. Federal law limits the amount of bonds that may be issued each calendar year by state. The Board serves as a facilitator in this process and as of June 30, there was $10.1 million in bonds outstanding.

**Qualified School Construction Bonds** - This program also allows qualifying school districts to borrow low-cost funds by issuing certain federally-authorized special purpose bonds. Bond proceeds may also be used to rehabilitate or repair certain eligible public schools; but unlike Qualified Zone Academy Bonds, the proceeds may also be used to construct new public schools and acquire the land required for construction. There are no requirements that the district receive private contributions or that the schools be located in an empowerment zone; an enterprise community; or have reasonable expectation that at least 35.0 percent of the students attending the schools will be eligible for free or reduced cost lunches.

## BOND PROGRAMS (CONTINUED)

Federal law limits the amount of bonds that may be issued each calendar year by state. The Board serves as a facilitator in this process and has just authorized the first issuance of these bonds.

**Economic Development Bond Program** - This program that provides qualifying businesses access to tax-exempt funds is no longer very active due to federal law revisions. The Board has issued bonds to finance several projects under this program and acts as a legal funding conduit only and is not pecuniarily liable for the repayment of the bonds. As of June 30, there was $170.1 million in bonds outstanding

**Montana Conservation Reserve Payment (CRP) Enhancement Program** - This program provides loans to Montana farmers to refinance outstanding loans and/or to purchase additional land and farm equipment. The borrowers assign their remaining federal CRP contract payments to the Board to repay the loans. Although bonds were initially issued to provide funding, the loans are currently funded from the Trust Funds Investment Pool and loan interest rates are typically set 0.50 percent higher than the interest charged by TFIP. A total of 259 loans, totaling $33.5 million have been funded under this program.

**Bond Enhancement Program** – As described earlier, the Board backs (enhances) the INTERCAP bonds in two different ways – a guarantee to purchase the bonds if other investors do not; and a guarantee of principal and interest payments to the bond holders.

The Board also enhances certain bonds issued by the Montana Finance Facility Authority. The Authority issues tax-exempt bonds and lends the proceeds to non-profit health care facilities and non-profit community correction/treatment facilities. For a fee, the Board guarantees the principal and interest payments to the bond holders. Because these bonds are long-term and not remarketed annually, there is no need for the Board to be a purchaser of last resort.

# BOARD MEMBER/STAFF FIDUCIARY RESPONSIBILITIES

Board members and staff are fiduciaries for the funds they manage and invest. Once state and local funds are deposited with the Board, the sole authority for investment of those funds lies with the Board, subject to any legal restrictions imposed by state law or state constitution. In other words, the state/local entities who entrust their funds to the Board lose all control over how the funds are invested.

The website, Investor Word, describes a fiduciary as someone who holds assets for another party with the legal authority and duty to make financial decisions on behalf of the other party. Perhaps the best practical definition of a fiduciary's responsibilities is published by the Federal Department of Labor in its role of administering the Employee Retirement Income Security Act (ERISA) that was enacted to protect the assets of private retirement plans. While public retirement systems are not governed by ERISA, the fiduciary standards would be the same as that for private plans. The following definition is found on the Department's website:

> **"The Employee Retirement Income Security Act (ERISA) protects your plan's assets by requiring that those persons or entities who exercise discretionary control or authority over plan management or plan assets, have discretionary authority or responsibility for the administration of a plan, or provide investment advice to a plan for compensation or have any authority or responsibility to do so are subject to fiduciary responsibilities. Plan fiduciaries include, for example, plan trustees, plan administrators, and members of a plan's investment committee.**
>
> **The primary responsibility of fiduciaries is to run the plan solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and paying plan expenses. Fiduciaries must act prudently and must diversify the plan's investments in order to minimize the risk of large losses. In addition, they must follow the terms of plan documents to the extent that the plan terms are consistent with ERISA. They also must avoid conflicts of interest. In other words, they may not engage in transactions on behalf of the plan that benefit parties related to the plan, such as other fiduciaries, services providers, or the plan sponsor.**
>
> **Fiduciaries who do not follow these principles of conduct may be personally liable to restore any losses to the plan, or to restore any profits made through improper use of plan assets. Courts may take whatever action is appropriate against fiduciaries who breach their duties under ERISA including their removal."**

It is clear from this definition that fiduciaries are expected to act prudently and diversify assets as appropriate and "always" act in the best interest of the parties whose assets are totally under the fiduciary's control. State law specifically requires the Board to:

- **Discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;**
- **Diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and**
- **Discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program**.

It logically follows that a fiduciary's personal opinion and personal investment preference should not bias his/her decision on the prudent investment of funds over which he/she has total control.

# *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:** May 18, 2011

**Subject:** Alternative Investment Manager Vacancy/Hire

The Board's Alternative Investment Manager, Jon Shoen, has resigned effective May 13. This position is critical to the Board's mission as the Board has authorized the investment of up to 25.0 percent of retirement system assets in alternative investments, which include private equity and private real estate.

The position is one of eight "exempt" positions for which the Board is authorized by law to prescribe the duties and set the salaries as follows:

> ***"The board shall prescribe the duties and annual salaries of the chief investment officer, executive director, and six professional staff positions. The chief investment officer, executive director, and six professional staff serve at the pleasure of the board."***

Staff recommends that the Board:
- Authorize staff to commence a national search to fill the position; and
- Authorize the Human Resource Committee to approve the annual salary within the range of $90,625 - $159,375 authorized in the Exempt Employee Pay Plan.

Return to Meeting Agenda

# Investment Reports

# ALLOCATION REPORT

## Retirement Systems Asset Allocations as of 12/31/10

| Pension Fund | MDEP | MTIP | MPEP | Total Equity | RFBP | STIP | Mtgs | Real Estate Direct | Real Estate Pool | Total Assets |
|---|---|---|---|---|---|---|---|---|---|---|
| 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% | 4-10% | |

## Retirement Systems Asset Allocations as of 3/31/10

| Pension Fund | MDEP | MTIP | MPEP | Total Equity | RFBP | STIP | Mtgs | Real Estate Direct | Real Estate Pool | Total Assets |
|---|---|---|---|---|---|---|---|---|---|---|
| PUBLIC EMPLOYEES | 37.0% | 18.8% | 12.0% | 67.8% | 24.3% | 1.2% | 0.4% | 0.2% | 6.0% | $ 3,889,873,873 |
| TEACHERS | 37.1% | 18.8% | 12.1% | 68.0% | 24.3% | 1.0% | 0.4% | 0.3% | 6.0% | $ 2,909,731,141 |
| POLICE | 37.1% | 18.8% | 12.1% | 68.0% | 24.8% | 1.2% | | | 6.0% | $ 215,703,425 |
| SHERIFFS | 36.9% | 18.7% | 12.0% | 67.6% | 24.6% | 1.9% | | | 6.0% | $ 207,105,325 |
| FIREFIGHTERS | 37.0% | 18.8% | 12.1% | 67.9% | 24.8% | 1.3% | | | 6.0% | $ 214,071,469 |
| HIGHWAY PATROL | 37.1% | 18.8% | 12.1% | 68.0% | 24.8% | 1.3% | | | 6.0% | $ 97,370,304 |
| GAME WARDENS | 36.7% | 18.6% | 12.0% | 67.3% | 24.4% | 2.3% | | | 6.0% | $ 91,460,008 |
| JUDGES | 36.9% | 18.7% | 12.0% | 67.5% | 24.5% | 2.0% | | | 6.0% | $ 62,559,549 |
| VOL FIREFIGHTERS | 37.3% | 18.9% | 12.1% | 68.3% | 24.9% | 0.8% | | | 6.0% | $ 25,500,009 |
| **TOTAL** | **37.0%** | **18.8%** | **12.1%** | **67.9%** | **24.3%** | **1.2%** | **0.4%** | **0.2%** | **6.0%** | **$ 7,713,375,103** |
| Approved Range | 30 - 50% | 15 - 30% | 9 - 15% | 60 - 70% | 22 - 32% | 1 - 5% | 0 - 4% | 0 - 1% | 4-10% | |

## Change From Last Quarter

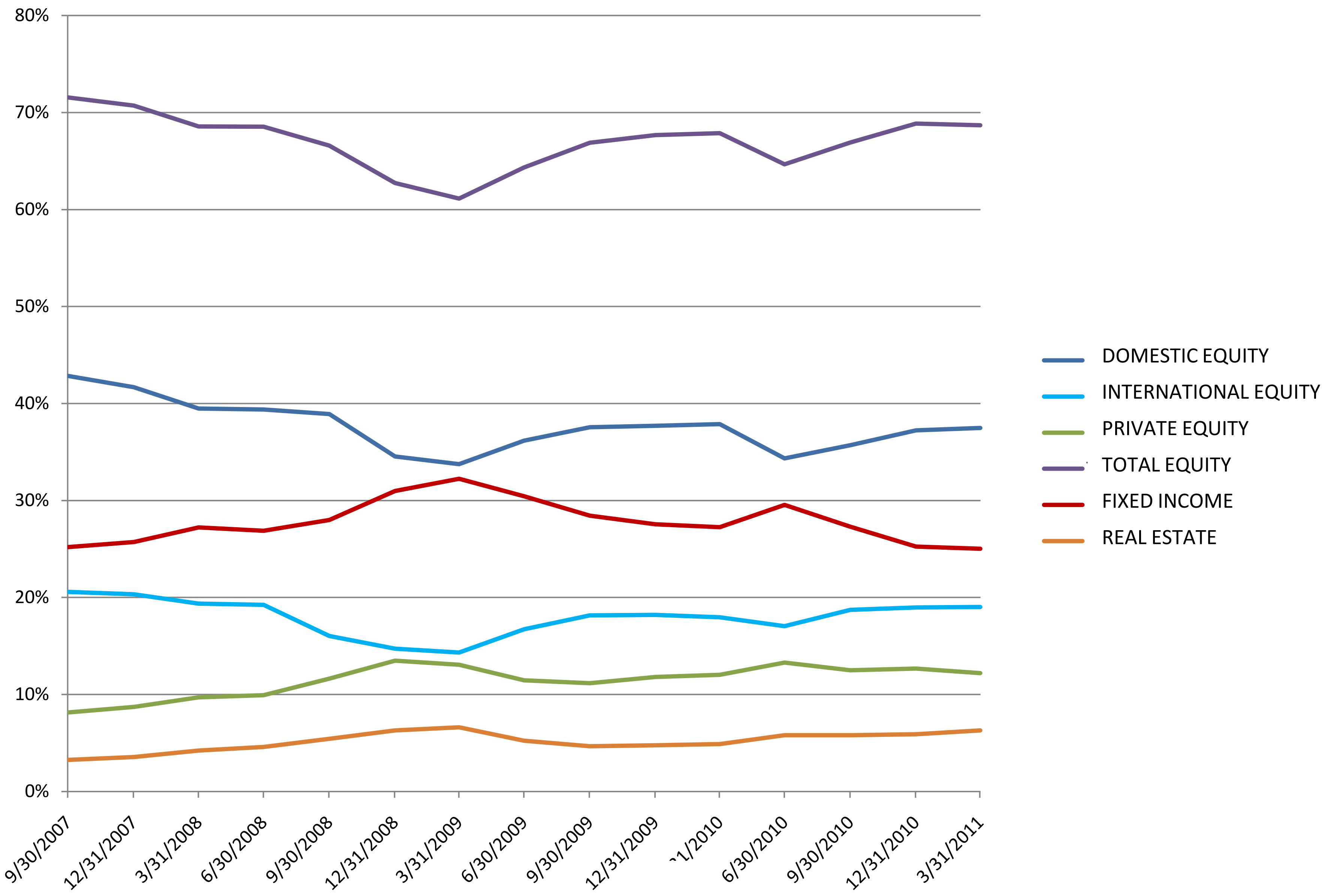
| Pension Fund | MDEP | MTIP | MPEP | Total Equity | RFBP | STIP | Mtgs | Real Estate Direct | Real Estate Pool | Total Assets |
|---|---|---|---|---|---|---|---|---|---|---|
| PUBLIC EMPLOYEES | 0.1% | 0.0% | -0.5% | -0.5% | -0.3% | 0.4% | 0.0% | 0.0% | 0.4% | 140,090,579 |
| TEACHERS | 0.0% | -0.1% | -0.5% | -0.6% | -0.3% | 0.6% | 0.0% | 0.0% | 0.4% | 99,827,735 |
| POLICE | -0.1% | 0.0% | -0.5% | -0.6% | -0.5% | 0.8% | | | 0.4% | 7,180,146 |
| SHERIFFS | 0.2% | 0.1% | -0.4% | -0.1% | -0.3% | 0.0% | | | 0.4% | 8,767,813 |
| FIREFIGHTERS | -0.1% | 0.0% | -0.5% | -0.6% | -0.5% | 0.7% | | | 0.4% | 7,351,668 |
| HIGHWAY PATROL | 0.2% | 0.0% | -0.5% | -0.4% | -0.3% | 0.3% | | | 0.4% | 3,462,602 |
| GAME WARDENS | 0.3% | -0.2% | -0.3% | -0.2% | -0.1% | 0.0% | | | 0.3% | 4,517,727 |
| JUDGES | 0.0% | 0.0% | -0.4% | -0.5% | -0.4% | 0.5% | | | 0.4% | 2,564,469 |
| VOL FIREFIGHTERS | -0.1% | 0.1% | -0.4% | -0.5% | -0.4% | 0.5% | | | 0.4% | 586,440 |
| **TOTAL** | **0.1%** | **0.0%** | **-0.5%** | **-0.5%** | **-0.3%** | **0.5%** | **0.0%** | **0.0%** | **0.4%** | **274,349,178** |

## Allocations During Quarter

| MDEP | MTIP | MPEP | Total Equity | RFBP | Real Estate |
|---|---|---|---|---|---|
| ($62,490,000) | $0 | ($66,700,000) | ($129,190,000) | $41,700,000 | $28,000,000 |

**Net New Investments for Quarter** → **($59,490,000)**

# Asset Allocation Trend – PERS 9/30/07-3/31/11



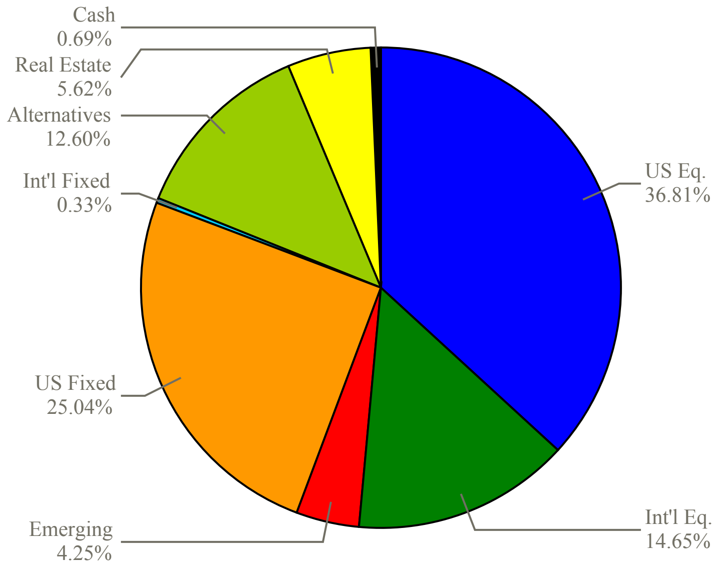
# Asset Allocation

## Montana PERS vs. Weighted Average of All Funds

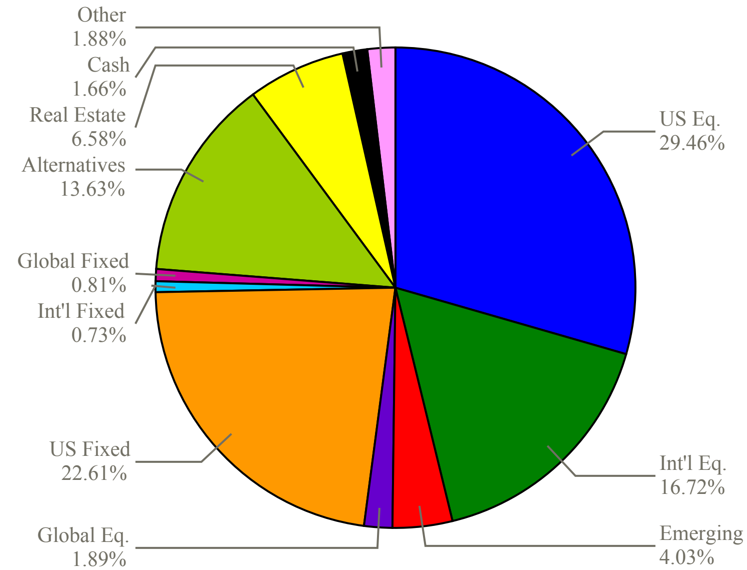
## As of December 31, 2010

**Fund Number: 20**

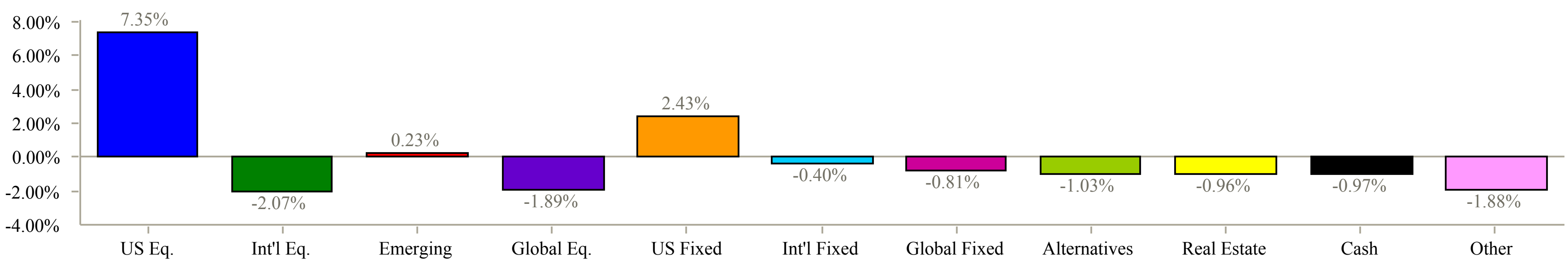
**Montana PERS**




**All Funds**




**Variance**




*Allocations shown may not sum up to 100% exactly due to rounding.*

RVKuhns & ASSOCIATES, INC.

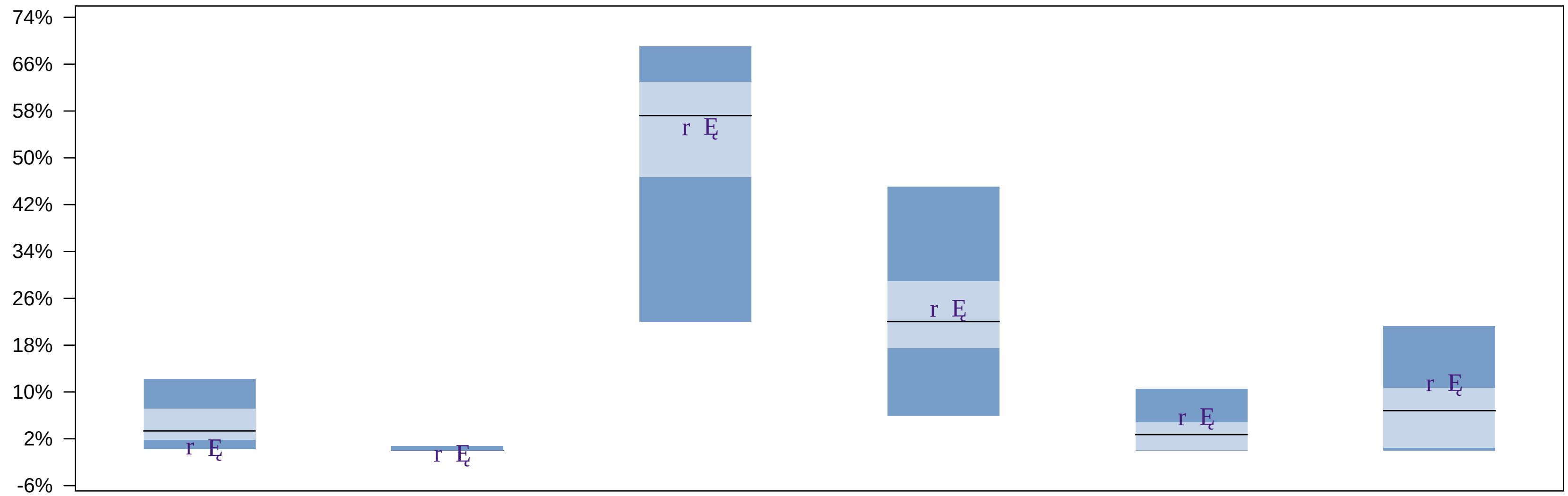
**Montana Board of Investments**

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

PERIOD ENDING March 31, 2011

STATE STREET.

## ALLOCATION



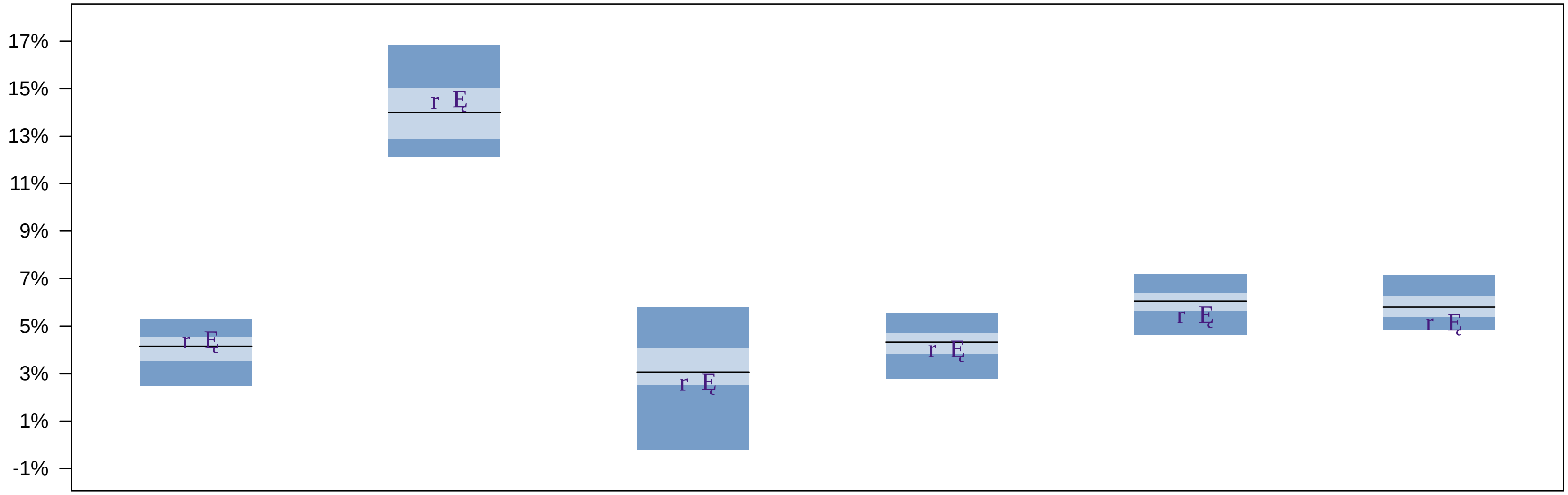

| | Cash Equiv % | | Convertibles % | | Equities % | | Fixed Income % | | Real Estate % | | Private Equity % | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 5th Percentile | 12.25 | | 0.77 | | 69.04 | | 45.05 | | 10.54 | | 21.26 | |
| 25th Percentile | 7.22 | | 0.02 | | 62.98 | | 28.97 | | 4.86 | | 10.71 | |
| 50th Percentile | 3.34 | | 0.00 | | 57.21 | | 22.02 | | 2.71 | | 6.80 | |
| 75th Percentile | 1.82 | | 0.00 | | 46.67 | | 17.51 | | 0.05 | | 0.42 | |
| 95th Percentile | 0.25 | | 0.00 | | 21.98 | | 5.99 | | 0.00 | | 0.00 | |
| No. of Obs | 61 | | 62 | | 62 | | 62 | | 62 | | 62 | |
| r PUBLIC EMPLOYEES RET | 1.23 | 88 | 0.00 | 32 | 55.76 | 54 | 24.76 | 41 | 6.22 | 15 | 12.03 | 21 |
| Ę TEACHERS RETIREMENT | 0.98 | 92 | 0.00 | 32 | 55.85 | 51 | 24.80 | 40 | 6.29 | 15 | 12.08 | 20 |

**Montana Board of Investments**

Public Funds (DB) > $1 Billion (SSE) - MBOI PERS - TRS UNIVERSE

PERIOD ENDING March 31, 2011

STATE STREET.




| | 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 | 62 | | 60 | | 61 | | 61 | | 60 | | 60 | |
| 5th Percentile | 5.29 | | 16.85 | | 5.82 | | 5.55 | | 7.20 | | 7.12 | |
| 25th Percentile | 4.55 | | 15.04 | | 4.11 | | 4.70 | | 6.38 | | 6.25 | |
| 50th Percentile | 4.15 | | 13.99 | | 3.06 | | 4.32 | | 6.06 | | 5.80 | |
| 75th Percentile | 3.54 | | 12.88 | | 2.49 | | 3.81 | | 5.66 | | 5.39 | |
| 95th Percentile | 2.47 | | 12.14 | | -0.23 | | 2.78 | | 4.64 | | 4.84 | |
| r PUBLIC EMPLOYEES RET | 4.53 | 27 | 14.62 | 33 | 2.76 | 69 | 4.17 | 56 | 5.59 | 79 | 5.29 | 84 |
| Ę TEACHERS RETIREMENT | 4.54 | 26 | 14.68 | 30 | 2.78 | 63 | 4.16 | 57 | 5.60 | 79 | 5.28 | 85 |

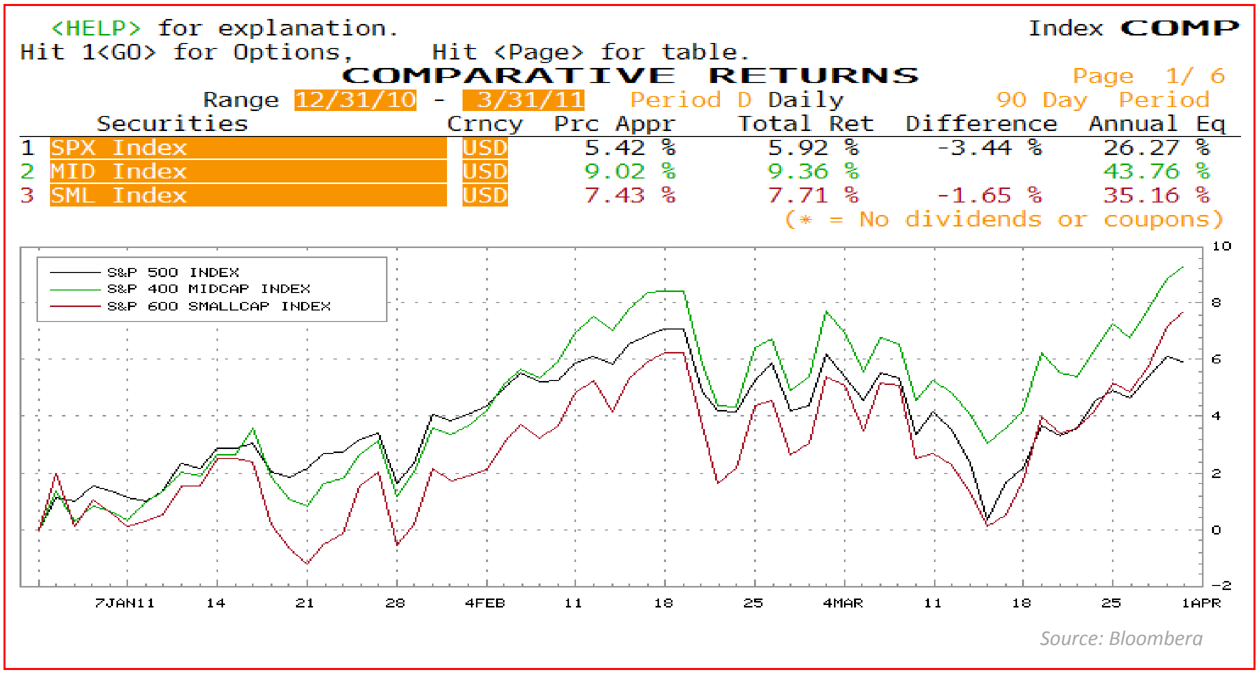
## MONTANA DOMESTIC EQUITY POOL

Rande Muffick, CFA, Portfolio Manager
May 18, 2011

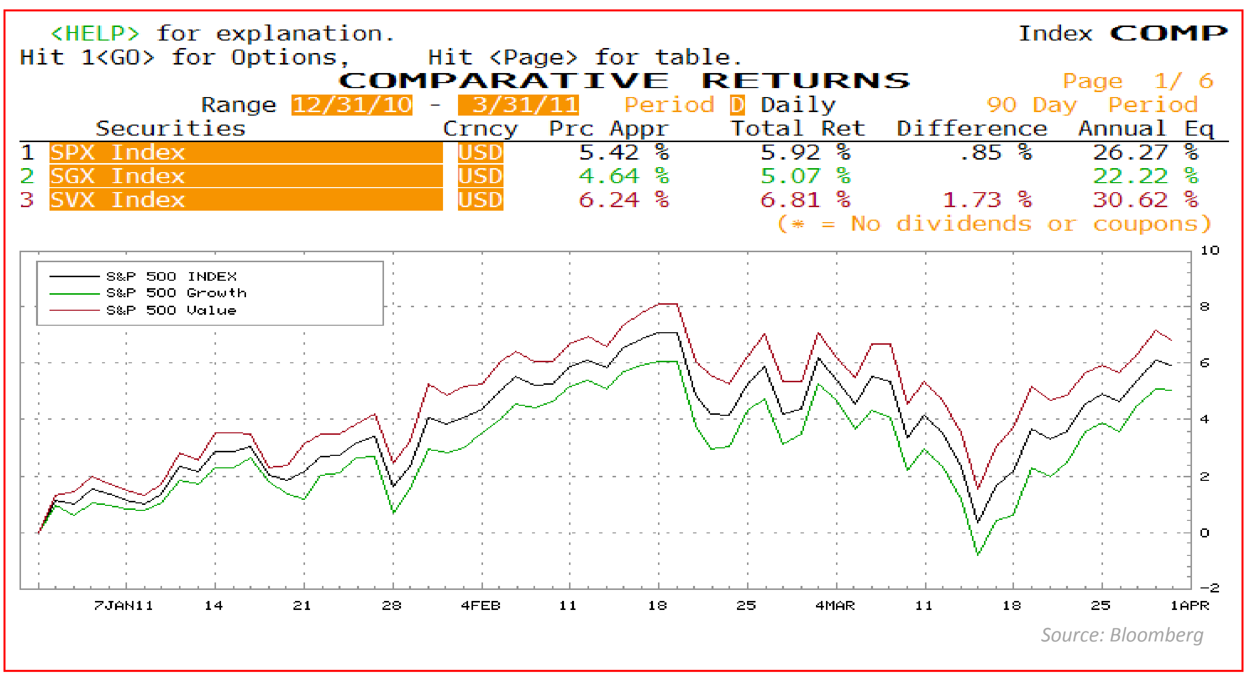
| 3/31/2011 Domestic Stock Pool By Manager | | | |
|---|---|---|---|
| | | | Approved |
| **Manager Name** | **Market Value** | **%** | **Range** |
| BLACKROCK EQUITY INDEX FUND | 640,152,419 | 22.41% | |
| STATE STREET SPIF ALT INV | 11,516,472 | 0.40% | |
| **LARGE CAP CORE Total** | **651,668,891** | **22.81%** | **10-30%** |
| ENHANCED INVEST TECHNOLOGIES | 184,424,596 | 6.46% | |
| T ROWE PRICE ASSOCIATES INC | 297,060,782 | 10.40% | |
| WESTERN ASSET US INDX PLUS LLC | 162,038,699 | 5.67% | |
| **LARGE CAP ENHANCED Total** | **643,524,077** | **22.53%** | **20-30%** |
| BARROW HANLEY MEWHINNEY + STRS | 203,431,724 | 7.12% | |
| QUANTITATIVE MANAGEMENT ASSOC | 128,096,133 | 4.48% | |
| **LARGE CAP VALUE Total** | **331,527,857** | **11.60%** | |
| COLUMBUS CIRCLE INVESTORS | 148,081,655 | 5.18% | |
| RAINIER INVESTMENT MGMNT INC | 146,599,791 | 5.13% | |
| **LARGE CAP GROWTH Total** | **294,681,447** | **10.31%** | |
| **LARGE CAP STYLE BASED Total** | **626,209,304** | **21.92%** | **20-30%** |
| ANALYTIC INVESTORS | 116,464,932 | 4.08% | |
| JP MORGAN ASSET MGMT | 332,490,299 | 11.64% | |
| **130-30 Total** | **448,955,231** | **15.71%** | **10-20%** |
| **COMBINED LARGE CAP Total** | **2,370,357,503** | **82.97%** | **82-92%** |
| ARTISAN MID CAP VALUE | 109,317,640 | 3.83% | |
| BLACKROCK MIDCAP EQUITY IND FD | 105,473,852 | 3.69% | |
| TIMESSQUARE CAPITAL MGMT | 107,614,184 | 3.77% | |
| **MID CAP Total** | **322,405,676** | **11.29%** | **5-11%** |
| DIMENSIONAL FUND ADVISORS INC | 72,038,438 | 2.52% | |
| ISHARES S+P SMALLCAP 600 INDEX | 16,354,611 | 0.57% | |
| VAUGHAN NELSON INV | 75,746,308 | 2.65% | |
| **SMALL CAP Total** | **164,139,357** | **5.75%** | **3-8%** |
| | | | |
| **MDEP Total** | **2,856,902,535** | **100.0%** | |

The table above displays the Montana Domestic Equity Pool (MDEP) allocation as of the end of March 2011. At this time, all weightings are within the approved ranges with the exception of the mid cap stock allocation which benefited from the exceptional performance of mid caps in the quarter. There were no significant changes to manager allocations during the quarter.

The U.S. equity market posted another terrific performance in the first quarter. Economic data continued to point to a strengthening U.S. and company profit reports backed that up. Cyclical stocks continued to lead the way with energy being the strongest sector by posting an overall 16% return for the quarter. Stock market action reflected surprising resilience by corporate America and investor sentiment given the experiences of Middle East unrest, higher oil prices, the resurgence of sovereign debt issues, and a devastating earthquake and tsunami followed by a nuclear disaster affecting one of our major trading partners. Despite all of these shocks, investors used any slight weakness in the equity averages to put new money to work as they continued to focus on improving fundamentals within the U.S. economy.




Performance across market capitalizations was strong, particularly in the non-large caps. Mid cap stocks led with a 9.4% return followed by small cap stocks with a 7.7% return. Large caps lagged but still returned a healthy 5.9% for the quarter. MDEP continued to be most overweight in mid caps with a moderate overweight in small caps. This positioning added to the investment performance of the pool.




The performance of value stocks topped growth stocks within the large capitalizations as the value index returned 6.8% while the growth index returned 5.1%. However, the style performances were reversed within the non-large cap areas. Mid cap growth stocks returned 7.9% versus 7.4% for value stocks in the quarter. Within small caps, growth stocks bested value stocks by a greater amount, with growth returning 9.2% and value 6.6%. Still all of these style returns were outstanding given the world events mentioned above.


The Volatility Index (VIX) continued to trend at low levels and despite a spike to 30 during the events of the quarter, settled rather quickly back to December levels. At these levels the index is still near its lowest reading since before the failure of Lehman Brothers in 2008. Looking ahead, given the Fed's ending of QE2 in June, slowing economic growth over the next couple quarters, and more difficult profit comparisons for corporations, a move to higher levels on the VIX seems likely. Domestic stocks may have already produced the biggest proportion of their returns for the calendar year.

Manager style performances continued to improve this quarter as active management largely appears to have turned the corner. Enhanced, large cap value, mid cap, and small cap style buckets outperformed their indices with only partial/long short and large cap growth buckets lagging. Overall the MDEP outperformed the S&P 1500 by 6 basis points net of fees for the quarter.

Going forward the strategy at the pool level is to continue the overweights in mid caps and small caps and to continue the 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 %

March 31, 2011

| MANAGERS | MEGA $200B+ | GIANT $100-$200B | LARGE $50-$100B | LARGE $20-$50B | LARGE $10-$20B | MID $2.5-$10B | SMALL $500MM-$2.5B | MICRO < $500MM | WTD AVG MARKET CAP ($B) |
|---|---|---|---|---|---|---|---|---|---|
| Analytic Investors, Inc | 12.5 | 21.7 | 5.8 | 28.4 | 18.5 | 16.6 | -6.3 | 0.1 | 84.8 |
| Artisan Partners | -- | -- | -- | 2.0 | 28.1 | 68.8 | 1.1 | -- | 7.9 |
| Barrow Hanley | 2.9 | 17.3 | 6.2 | 26.4 | 22.7 | 23.3 | 1.1 | -- | 49.3 |
| Columbus Circle Investors | 5.0 | 15.7 | 21.2 | 33.2 | 19.3 | 5.6 | -- | -- | 67.2 |
| Dimensional Fund Advisors | -- | -- | -- | -- | -- | 5.0 | 73.1 | 21.5 | 1.2 |
| INTECH Investment Management | 10.0 | 17.1 | 9.8 | 16.8 | 23.5 | 22.6 | 0.1 | -- | 73.8 |
| J.P. Morgan | 13.3 | 21.9 | 21.9 | 28.7 | 10.2 | 3.3 | -0.8 | -- | 102.0 |
| Quantitative Management | 8.8 | 21.1 | 8.4 | 24.8 | 16.3 | 19.0 | 1.6 | -- | 71.0 |
| Rainier Investment Mgt | 5.7 | 9.8 | 16.9 | 29.3 | 27.3 | 10.9 | -- | -- | 59.0 |
| T. Rowe Associates | 12.4 | 21.9 | 15.6 | 24.4 | 17.1 | 8.4 | -- | -- | 92.9 |
| TimesSquare Cap Mgmt | -- | -- | -- | 6.3 | 23.9 | 66.5 | 3.2 | -- | 8.8 |
| Vaughan Nelson Mgmt | -- | -- | -- | -- | -- | 45.6 | 53.4 | 1.0 | 2.4 |
| Western Asset US Index Plus | 11.2 | 23.2 | 15.2 | 24.1 | 15.6 | 10.5 | 0.2 | -- | 90.9 |
| BlackRock S&P 500 Index Fund | 11.2 | 23.1 | 15.2 | 24.0 | 15.5 | 10.5 | 0.2 | -- | 90.9 |
| BlackRock Midcap Equity Index Fund | -- | -- | -- | -- | -- | 77.1 | 21.6 | -- | 4.0 |
| **ALL DOMESTIC EQUITY PORTFOLIOS** | **8.6** | **17.4** | **12.5** | **22.1** | **16.8** | **19.4** | **2.7** | **0.1** | **71.7** |
| **Benchmark: S&P Composite 1500** | **9.8** | **20.3** | **13.3** | **21.1** | **13.6** | **16.3** | **5.3** | **0.3** | **79.9** |
| **Over/underweight(-)** | **-1.2** | **-2.9** | **-0.8** | **1.0** | **3.2** | **3.1** | **-2.5** | **-0.3** | |

## DOMESTIC EXPOSURE-SECTOR %

March 31, 2011

| MANAGERS | Consumer Discretionary | Consumer Staples | Energy | Financials | Health Care | Industrials | Technology | Materials | Telecom Services | Utilities |
|---|---|---|---|---|---|---|---|---|---|---|
| Analytic Investors, Inc | 8.6 | 10.0 | 13.6 | 15.3 | 11.2 | 8.4 | 20.5 | 2.8 | 4.0 | 3.0 |
| Artisan Partners | 7.0 | 6.3 | 9.2 | 18.1 | 3.0 | 20.5 | 26.2 | -- | -- | 9.6 |
| Barrow Hanley | 10.3 | 7.3 | 11.4 | 23.7 | 13.2 | 13.5 | 12.8 | 2.2 | 1.8 | 3.8 |
| Columbus Circle Investors | 19.3 | 8.3 | 6.9 | 7.3 | 13.3 | 9.1 | 32.2 | 3.5 | -- | -- |
| Dimensional Fund Advisors | 15.0 | 4.4 | 5.7 | 13.3 | 11.0 | 19.8 | 21.2 | 5.5 | 1.0 | 3.1 |
| INTECH Investment Management | 14.0 | 11.0 | 11.2 | 9.8 | 6.8 | 12.5 | 17.6 | 6.7 | 4.5 | 5.9 |
| J.P. Morgan | 13.8 | 7.1 | 14.3 | 14.4 | 10.0 | 7.9 | 19.2 | 5.5 | 3.3 | 2.9 |
| Quantitative Management | 9.6 | 6.5 | 15.1 | 19.7 | 16.0 | 10.7 | 6.1 | 2.8 | 5.7 | 7.8 |
| Rainier Investment Mgt | 15.9 | 5.8 | 10.2 | 5.6 | 10.1 | 16.0 | 29.2 | 5.7 | 1.5 | -- |
| T. Rowe Associates | 11.9 | 9.1 | 13.6 | 15.5 | 11.1 | 11.4 | 18.1 | 3.3 | 3.0 | 2.8 |
| TimesSquare Cap Mgmt | 14.9 | 4.8 | 7.9 | 11.2 | 13.2 | 14.1 | 26.0 | 3.9 | 4.1 | -- |
| Vaughan Nelson Mgmt | 9.9 | -- | 9.3 | 28.4 | 3.1 | 26.2 | 7.5 | 11.6 | -- | 4.2 |
| Western Asset US Index Plus | 10.4 | 10.2 | 13.3 | 15.8 | 11.0 | 11.3 | 18.1 | 3.7 | 3.0 | 3.2 |
| BlackRock S&P 500 Index Fund | 10.4 | 10.2 | 13.2 | 15.7 | 10.9 | 11.2 | 18.0 | 3.7 | 3.0 | 3.2 |
| BlackRock Midcap Equity Index Fund | 13.7 | 3.8 | 6.6 | 19.2 | 11.2 | 15.2 | 16.0 | 6.8 | 0.5 | 5.8 |
| **All Domestic Equity Portfolios** | **12.1** | **8.0** | **11.8** | **15.3** | **10.7** | **12.3** | **19.0** | **4.2** | **2.7** | **3.4** |
| **Benchmark: S&P Composite 1500** | **10.9** | **9.4** | **12.4** | **16.2** | **11.1** | **11.8** | **18.0** | **4.0** | **2.7** | **3.4** |
| **Over/underweight(-)** | **1.2** | **-1.4** | **-0.6** | **-0.9** | **-0.4** | **0.5** | **1.0** | **0.2** | **0.0** | **0.0** |

## DOMESTIC PORTFOLIO CHARACTERISTICS

March 31, 2011

| MANAGERS | Market Value (mm) | Number of Securities | 3Yr Historical EPS Growth | Price/ Earnings | Price/ Book | Dividend Yield |
|---|---|---|---|---|---|---|
| Analytic Investors, Inc | 119.6 | 202 | 15.7 | 12.2 | 2.1 | 1.9 |
| Artisan Partners | 109.1 | 57 | 3.0 | 13.8 | 1.9 | 1.7 |
| Barrow Hanley | 203.1 | 90 | -1.1 | 13.6 | 1.8 | 1.9 |
| Columbus Circle Investors | 148.0 | 49 | 12.3 | 21.3 | 3.6 | 0.7 |
| Dimensional Fund Advisors | 72.0 | 2,638 | 7.2 | 17.1 | 1.8 | 0.9 |
| INTECH Investment Management | 184.5 | 375 | 5.9 | 16.5 | 2.7 | 1.9 |
| J.P. Morgan | 334.7 | 243 | 1.6 | 16.1 | 2.1 | 1.6 |
| Quantitative Management | 128.2 | 162 | -2.2 | 13.6 | 1.7 | 2.3 |
| Rainier Investment Mgt | 146.3 | 78 | 15.3 | 21.8 | 4.1 | 0.7 |
| T. Rowe Associates | 297.3 | 289 | 5.1 | 15.9 | 2.3 | 1.7 |
| TimesSquare Cap Mgmt | 107.4 | 76 | 11.3 | 19.4 | 3.2 | 0.6 |
| Vaughan Nelson Mgmt | 76.0 | 71 | 0.3 | 17.9 | 1.8 | 1.6 |
| Western Asset US Index Plus | 162.0 | 500 | 4.3 | 15.8 | 2.3 | 1.8 |
| Blackrock Equity Index Fund | 640.2 | 503 | 4.3 | 15.8 | 2.3 | 1.8 |
| Blackrock Midcap Equity Index Fund | 105.5 | 403 | 4.3 | 20.4 | 2.3 | 1.2 |
| **All Domestic Equity Portfolios** | **2,861.8** | **3,570** | **5.2** | **16.1** | **2.3** | **1.6** |
| **BENCHMARKS** | | | | | | |
| **S&P Composite 1500** | | **1,500** | **4.3** | **16.3** | **2.3** | **1.7** |
| S&P/Citigroup 1500 Pure Growth | | 384 | 22.1 | 20.7 | 3.4 | 0.4 |
| S&P/Citigroup 1500 Pure Value | | 367 | 0.7 | 15.1 | 1.1 | 1.3 |
| S&P 500 | | 500 | 4.3 | 15.8 | 2.3 | 1.8 |
| Russell 1000 | | 973 | 4.4 | 16.1 | 2.3 | 1.7 |
| Russell 1000 Growth | | 624 | 9.2 | 17.6 | 3.7 | 1.4 |
| Russell 1000 Value | | 665 | -0.5 | 14.7 | 1.6 | 2.1 |
| Russell Midcap | | 778 | 4.0 | 18.5 | 2.2 | 1.4 |
| Russell Midcap Growth | | 490 | 9.3 | 21.5 | 3.8 | 0.9 |
| Russell Midcap Value | | 536 | -1.0 | 16.3 | 1.6 | 1.9 |
| Russell 2000 | | 1,948 | 7.5 | 16.2 | 1.8 | 1.1 |
| Russell 2000 Growth | | 1,252 | 15.7 | 21.6 | 2.6 | 0.5 |
| Russell 2000 Value | | 1,279 | -0.6 | 12.7 | 1.4 | 1.8 |

**MONTANA INTERNATIONAL STOCK POOL**

Rande Muffick, CFA, Portfolio Manager
May 18, 2011

| **3/31/2011 International Stock Pool By Manager** | | | |
|---|---|---|---|
| | | | **Approved** |
| **Manager Name** | **Market Value** | **%** | **Range** |
| | | | |
| ARTIO GLOBAL MU1G | 123,157,377 | 8.49% | |
| BATTERYMARCH INTL EQUITY | 125,659,647 | 8.66% | |
| BLACKROCK GL EX US ALPHA TILT | 113,326,954 | 7.81% | |
| BLACKROCK ACWI EX US SUPERFUND | 570,504,117 | 39.33% | |
| EAFE STOCK PERFORMANCE INDEX | 10,746,600 | 0.74% | 0-10% |
| **CORE Total** | **943,394,696** | **65.04%** | **50-70%** |
| ACADIAN ACWI EX US VALUE | 97,244,319 | 6.70% | |
| BERNSTEIN ACWI EX | 115,655,046 | 7.97% | |
| **VALUE Total** | **212,899,366** | **14.68%** | **10-20%** |
| HANSBERGER INTL EQUITY GROWTH | 115,689,448 | 7.98% | |
| MARTIN CURRIE ACWI X | 106,848,106 | 7.37% | |
| PRINCIPAL GLOBAL | 1,117 | 0.00% | |
| **GROWTH Total** | **222,538,671** | **15.34%** | **10-20%** |
| DFA INTL SMALL CO PORTFOLIO | 71,650,991 | 4.94% | |
| **SMALL CAP Total** | **71,650,991** | **4.94%** | **5-15%** |
| | | | |
| **MTIP Total** | **1,450,483,724** | **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. We continue to monitor market conditions for a good opportunity to implement an allocation increase to small cap.

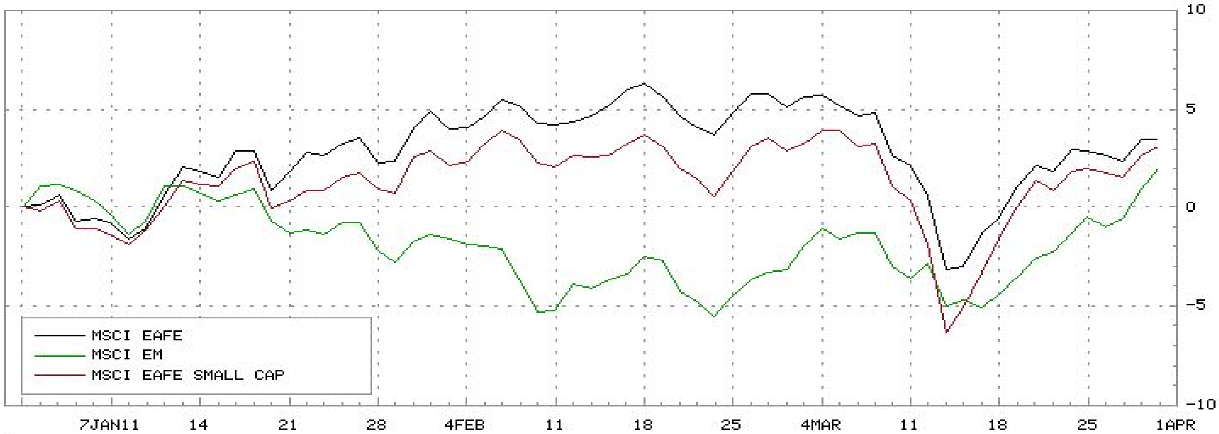
It was an extraordinary quarter for international equity markets. Investors encountered a year’s worth of market shaking events in just a couple of months. From Japan’s earthquake and its subsequent nuclear crisis, to clashes between Arab governments and protesters, to the return of Europe’s sovereign debt problems, volatility in international markets was tremendous. Trading in Egypt’s stock market was halted for almost three weeks and the Japanese market gyrated wildly. Most managers within MTIP took advantage of the volatility to purchase shares at attractive prices in a number of areas, particularly Japan.

COMPARATIVE RETURNS Page 1/ 6

Range 12/31/10 - 3/31/11 Period D Daily 90 Day Period

| | Securities | Crncy | Prc Appr | Total Ret | Difference | Annual Eq |
|---|---|---|---|---|---|---|
| 1 | MXEA Index | USD | 2.67 % | 3.50 % | 1.55 % | 14.99 % |
| 2 | MXEF Index | USD | 1.69 % | 1.95 % | | 8.15 % |
| 3 | MXEASC Index | USD | 2.43 % | 3.05 % | 1.10 % | 12.96 % |

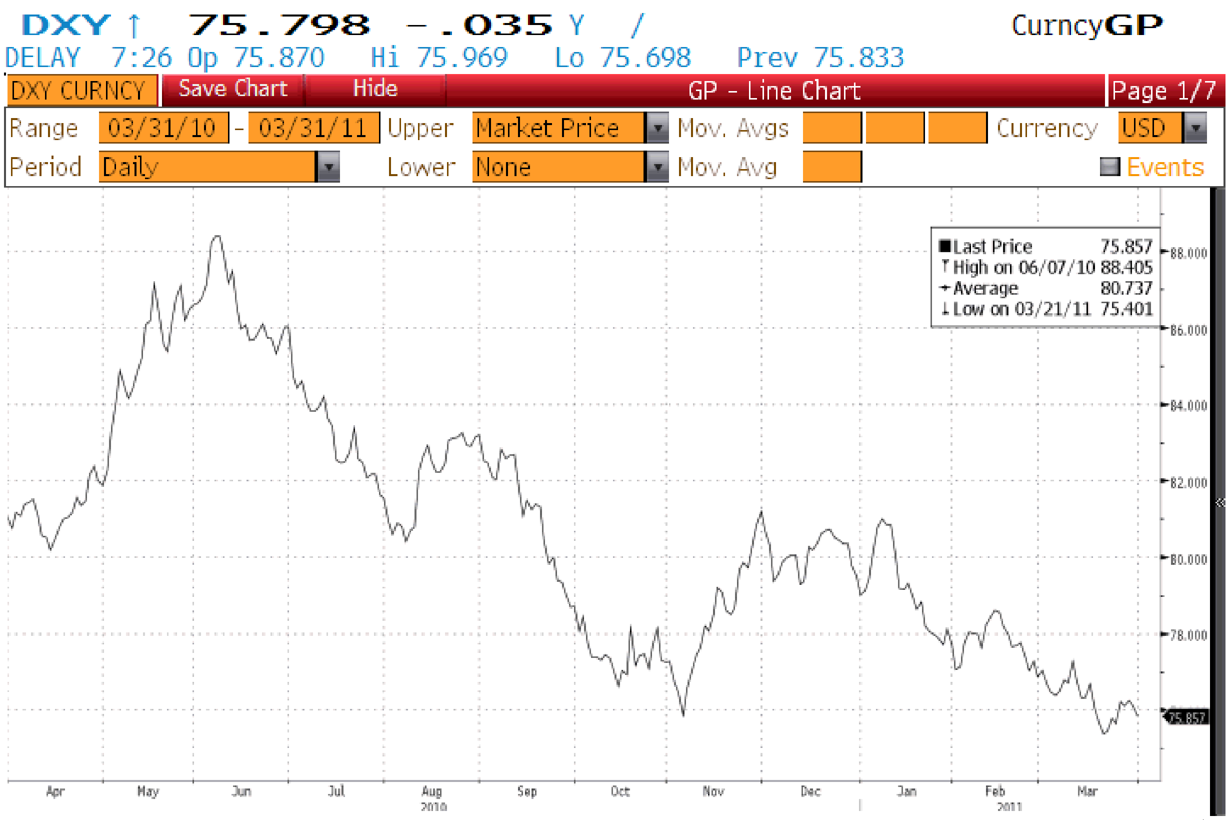
(* = No dividends or coupons)




*Source: Bloomberg*

Performance among all market categories was positive with developed market large cap stocks providing the better returns compared to developed market small caps and emerging market stocks. This action was noteworthy as inflation concerns in the emerging market countries kept pressure on those stocks for much of the first quarter. Small cap developed market stocks exhibited investor concerns about economic growth in Europe and Japan. For the quarter large cap developed stocks returned 3.5%, small cap developed stocks 3.05% and EM stocks 1.95%. MTIP is underweight small caps at this point and therefore the underweight added to pool performance. MTIP is slightly underweight EM exposure and therefore added a small amount of value with this allocation as well.

When assessing style performances, international value stocks outperformed growth stocks in the quarter. Value stocks returned 4.6% while growth stocks returned 2.3%. MTIP is equal weight; i.e. positioned as style neutral between growth and value.




*Source: Bloomberg*

The U.S. dollar weakened in the quarter compared to a basket of the six major currencies (DXY). This was largely a result of the Fed's continued easy money policy combined with concerns over America's debt burden and the lack of movement by the Administration and Congress to agree on a solution to address it. This was quite noteworthy that, given the stresses in the world in the first quarter, the dollar did not benefit from a flight to quality. As a result dollar weakness provided a boost to equity investments denominated in most other currencies.

Similar to the domestic pool, manager style performances experienced another encouraging quarter for active management. The growth and small cap buckets outperformed while the value and core buckets underperformed. Overall, MTIP outperformed the custom pool benchmark by eleven basis points net of fees 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 %

March 31, 2011

| Managers | MEGA $200B+ | GIANT $100-$200B | LARGE $50-$100B | LARGE $20-$50B | LARGE $10-$20B | MID $2.5-$10B | SMALL $500MM-$2.5B | MICRO < $500MM | WTD AVG MARKET CAP ($B) |
|---|---|---|---|---|---|---|---|---|---|
| Acadian Asset Management | -- | 13.5 | 16.3 | 16.8 | 20.2 | 16.1 | 11.2 | 5.7 | 40.3 |
| Artio Global - Intl Equity II with look throughs | -- | 6.6 | 16.7 | 19.8 | 17.6 | 15.6 | 1.3 | -- | 41.0 |
| Batterymarch Financial Mgmt | 0.2 | 13.8 | 19.6 | 17.8 | 15.2 | 31.4 | 2.0 | -- | 44.1 |
| Bernstein Inv Mgt & Research with look throughs | 0.2 | 10.4 | 14.7 | 15.7 | 19.7 | 14.8 | 4.1 | 0.1 | 42.5 |
| BlackRock Global Ex US Alpha Tilt Fd | 0.3 | 10.3 | 21.6 | 22.4 | 16.5 | 23.3 | 4.7 | 0.1 | 43.0 |
| DFA International Small Cap | -- | -- | -- | -- | 0.1 | 24.2 | 56.8 | 18.4 | 1.7 |
| Hansberger Global Investors | -- | 14.6 | 20.5 | 27.5 | 17.7 | 19.7 | -- | -- | 48.6 |
| Martin Currie with look throughs | -- | 13.0 | 17.3 | 22.5 | 22.3 | 22.5 | 2.5 | -- | 46.3 |
| BlackRock ACWI Ex US Superfund A | 0.3 | 12.5 | 22.6 | 24.6 | 16.5 | 20.7 | 2.1 | -- | 47.4 |
| **ALL INTERNATIONAL EQUITY PORTFOLIOS** | **0.2** | **11.6** | **19.4** | **21.8** | **17.4** | **21.8** | **5.8** | **1.3** | **43.1** |
| **International Custom Benchmark** | **0.3** | **12.4** | **22.5** | **24.6** | **16.5** | **20.8** | **2.8** | **0.2** | **46.9** |
| **Over/underweight(-)** | **-0.1** | **-0.8** | **-3.1** | **-2.8** | **0.9** | **1.0** | **3.0** | **1.1** | |

## INTERNATIONAL EXPOSURE-SECTOR %

March 31, 2011

| MANAGERS | Consumer Discretionary | Consumer Staples | Energy | Financials | Health Care | Industrials | Technology | Materials | Telecom. Services | Utilities |
|---|---|---|---|---|---|---|---|---|---|---|
| Acadian Asset Management | 11.7 | 1.4 | 15.7 | 23.4 | 6.0 | 8.3 | 11.0 | 10.0 | 8.0 | 4.6 |
| Artio Global - Intl Equity II with look throughs | 11.8 | 8.1 | 9.0 | 12.7 | 6.6 | 10.5 | 4.9 | 11.6 | 1.8 | 0.8 |
| Batterymarch Financial Mgmt | 9.3 | 5.5 | 12.7 | 22.1 | 5.1 | 12.3 | 6.6 | 15.5 | 7.9 | 3.1 |
| Bernstein Inv Mgt & Research with look throughs | 14.4 | 4.6 | 11.7 | 26.1 | 5.2 | 8.1 | 6.0 | 12.3 | 6.7 | 3.7 |
| Blackrock Global Ex US Alpha Tilt Fd | 11.1 | 7.4 | 10.5 | 23.3 | 5.3 | 12.3 | 5.5 | 13.6 | 6.5 | 3.9 |
| DFA International Small Cap | 17.5 | 5.8 | 7.5 | 13.1 | 5.0 | 24.4 | 9.3 | 14.0 | 1.0 | 2.1 |
| Hansberger Global Investors | 11.7 | 7.7 | 8.8 | 17.7 | 3.2 | 14.5 | 11.9 | 17.7 | 2.5 | 4.4 |
| Martin Currie with look throughs | 19.2 | 11.7 | 13.1 | 18.5 | 4.2 | 8.9 | 5.8 | 12.8 | 4.3 | 1.4 |
| Blackrock ACWI ex-US Superfund | 8.7 | 8.2 | 11.8 | 24.7 | 5.7 | 10.9 | 6.4 | 12.9 | 5.7 | 4.2 |
| **All International Equity Portfolios** | 11.6 | 7.6 | 11.7 | 22.2 | 5.4 | 11.5 | 7.5 | 13.3 | 5.1 | 3.4 |
| **International Custom Benchmark** | **8.9** | **8.3** | **11.8** | **24.8** | **5.7** | **11.1** | **6.5** | **13.0** | **5.7** | **4.2** |
| **Over/underweight(-)** | **2.7** | **-0.7** | **-0.1** | **-2.6** | **-0.3** | **0.4** | **1.0** | **0.2** | **-0.6** | **-0.7** |

## INTERNATIONAL PORTFOLIO CHARACTERISTICS

March 31, 2011

| | Market Value | Number of Securities | 3Yr Hist EPS Growth | Price/ Earnings | Price/ Book | Dividend Yield |
|---|---|---|---|---|---|---|
| **International Accounts with look throughs** | **1,486.7** | **6,832** | **2.8** | **13.4** | **1.6** | **2.57** |
| **International Equity Managers** | | | | | | |
| Acadian Asset Management | 96.8 | 343 | 7.7 | 10.3 | 1.2 | 2.64 |
| Artio Global - Intl Equity II with look throughs | 157.2 | 171 | 9.6 | 17.1 | 2.1 | 1.66 |
| Batterymarch Financial Mgmt | 124.7 | 233 | 9.1 | 12.2 | 1.6 | 2.78 |
| Bernstein Inv Mgt & Research with look throughs | 117.1 | 217 | -4.3 | 10.4 | 1.2 | 2.99 |
| Blackrock Global Ex US Alpha Tilt Fd | 113.3 | 1,402 | 2.0 | 11.9 | 1.5 | 2.98 |
| DFA International Small Cap | 71.7 | 4,725 | -1.5 | 14.0 | 1.3 | 2.16 |
| Hansberger Global Investors | 115.7 | 60 | 7.7 | 18.1 | 2.4 | 1.51 |
| Martin Currie with look throughs | 106.7 | 70 | 8.0 | 15.6 | 1.7 | 2.17 |
| Blackrock ACWI ex-US Superfund | 570.5 | 1,916 | -0.4 | 13.9 | 1.6 | 2.79 |
| **Benchmarks** | | | | | | |
| MSCI All Country World Ex-United States | | 1,876 | -0.4 | 13.9 | 1.7 | 2.79 |
| MSCI All Country World Ex-United States Growth | | 1,089 | 5.7 | 16.8 | 2.3 | 1.98 |
| MSCI All Country World Ex-United States Value | | 1,042 | -6.3 | 11.8 | 1.3 | 3.60 |
| MSCI EAFE Small Cap | | 2,353 | -1.1 | 13.9 | 1.3 | 2.26 |
| MSCI World Ex-United States Small Cap | | 2,584 | -0.1 | 14.5 | 1.4 | 2.25 |
| MSCI All Country Pacific | | 955 | -1.9 | 14.6 | 1.5 | 2.49 |
| MSCI Europe | | 466 | -2.2 | 12.8 | 1.6 | 3.30 |
| **International Custom Benchmark** | | 6,409 | -0.3 | 13.9 | 1.6 | 2.78 |

# INTERNATIONAL EQUITY
## Region and Market Exposure
**March 31, 2011**

| 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** | | **22.9%** | **22.9%** | 0.04% | | | | |
| | Australia | 5.55% | 5.97% | | 3.0% | 39.1% | 3.0% | 11.9% |
| | Hong Kong | 2.03% | 1.89% | | -1.0% | 25.6% | -1.0% | 16.8% |
| | Japan | 14.01% | 13.78% | | -5.4% | 10.7% | -5.4% | 0.3% |
| | New Zealand | 0.08% | 0.07% | | 0.0% | 23.5% | 0.0% | 9.0% |
| | Singapore | 1.22% | 1.14% | | -1.2% | 20.7% | -1.2% | 18.8% |
| **European Union** | | **25.2%** | **24.0%** | 1.23% | | | | |
| | Austria | 0.56% | 0.24% | | 5.2% | 49.7% | 5.2% | 16.6% |
| | Belgium | 0.76% | 0.64% | | 6.2% | 26.0% | 6.2% | 7.6% |
| | Denmark | 0.93% | 0.76% | | 7.9% | 37.5% | 7.9% | 27.0% |
| | Finland | 0.99% | 0.74% | | 1.8% | 37.5% | 1.8% | 1.5% |
| | France | 6.89% | 6.86% | | 10.5% | 36.1% | 10.5% | 8.4% |
| | Germany | 6.67% | 5.82% | | 7.3% | 38.3% | 7.3% | 18.2% |
| | Greece | 0.27% | 0.19% | | 11.5% | 18.7% | 11.5% | -28.2% |
| | Ireland | 0.26% | 0.17% | | 6.1% | 12.3% | 6.1% | -10.4% |
| | Italy | 1.94% | 1.97% | | 13.5% | 31.8% | 13.5% | 1.1% |
| | Netherlands | 2.54% | 1.82% | | 9.8% | 31.5% | 9.8% | 12.1% |
| | Portugal | 0.15% | 0.19% | | 8.4% | 27.5% | 8.4% | 1.0% |
| | Spain | 1.49% | 2.42% | | 13.2% | 29.4% | 13.2% | 0.5% |
| | Sweden | 1.77% | 2.20% | | 5.0% | 43.0% | 5.0% | 28.2% |
| **Non-EU Europe** | | **5.4%** | **5.9%** | -0.52% | | | | |
| | Norway | 0.71% | 0.64% | | 6.6% | 57.9% | 6.6% | 22.5% |
| | Switzerland | 4.71% | 5.29% | | 0.9% | 24.1% | 0.9% | 8.6% |
| **North America** | | **7.3%** | **8.4%** | -1.10% | | | | |
| | Canada | 7.34% | 8.44% | | 6.9% | 36.9% | 6.9% | 22.1% |
| | USA | 0.0% | 0.0% | | 5.9% | 30.8% | 5.9% | 15.4% |
| **United Kingdom** | | **14.4%** | **14.4%** | 0.05% | | | | |
| | United Kingdom | 14.44% | 14.40% | | 2.6% | 29.3% | 2.6% | 11.2% |
| **Other** | | | | | | | | |
| | Other | 0.50% | 0.00% | | | | | |
| **DEVELOPED TOTAL** | | **75.8%** | **75.6%** | 0.21% | | | | |

| Emerging & Frontier Market Countries | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Asia/Pacific** | | **13.3%** | **13.8%** | -0.54% | | | | |
| | China | 4.68% | 4.16% | | 2.1% | 15.2% | 2.1% | 6.9% |
| | India | 1.43% | 1.78% | | -6.4% | 9.1% | -6.4% | 6.6% |
| | Indonesia | 0.35% | 0.57% | | 4.4% | 23.6% | 4.4% | 26.3% |
| | South Korea | 3.53% | 3.43% | | 6.3% | 38.5% | 6.3% | 28.5% |
| | Malaysia | 0.61% | 0.69% | | 4.1% | 28.4% | 4.1% | 27.4% |
| | Philippines | 0.11% | 0.13% | | -5.3% | 21.8% | -5.3% | 25.2% |
| | Taiwan | 2.03% | 2.62% | | -4.5% | 28.4% | -4.5% | 16.3% |
| | Thailand | 0.51% | 0.41% | | 2.0% | 41.7% | 2.0% | 39.4% |
| **European Union** | | **0.6%** | **0.6%** | -0.02% | | | | |
| | Czech Republic | 0.13% | 0.09% | | 14.2% | 28.2% | 14.2% | 8.4% |
| | Hungary | 0.10% | 0.10% | | 19.9% | 38.0% | 19.9% | -4.8% |
| | Poland | 0.33% | 0.39% | | 7.4% | 49.2% | 7.4% | 14.9% |
| **Non-EU Europe** | | **2.4%** | **1.7%** | 0.65% | | | | |
| | Russia | 2.37% | 1.72% | | 16.1% | 53.4% | 16.1% | 27.6% |
| **Latin America/Caribbean** | | **5.2%** | **5.5%** | -0.35% | | | | |
| | Brazil | 3.84% | 3.80% | | 1.7% | 27.7% | 1.7% | 8.2% |
| | Chile | 0.34% | 0.36% | | -8.9% | 28.7% | -8.9% | 30.8% |
| | Colombia | 0.08% | 0.18% | | -0.1% | 24.0% | -0.1% | 27.3% |
| | Mexico | 0.86% | 1.05% | | 0.3% | 29.4% | 0.3% | 17.0% |
| | Peru | 0.06% | 0.14% | | -13.8% | 25.1% | -13.8% | 27.9% |
| **Mid East/Africa** | | **1.8%** | **2.2%** | -0.41% | | | | |
| | Egypt | 0.06% | 0.08% | | -23.2% | -11.4% | -23.2% | -24.4% |
| | Morocco | 0.02% | 0.04% | | 5.2% | 18.7% | 5.2% | 11.3% |
| | South Africa | 1.41% | 1.78% | | -3.4% | 35.3% | -3.4% | 22.1% |
| | Turkey | 0.34% | 0.34% | | -3.6% | 20.0% | -3.6% | 11.7% |
| **Frontier** | **Frontier** | 0.04% | 0.00% | 0.04% | | | | |
| **EMERGING & FRONTIER TOTAL** | | **23.2%** | **23.9%** | -0.63% | | | | |

# *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:** May 18, 2011

**Subject:** Public Equity External Managers Watch List - Quarterly Update

During the quarter two managers were removed from the Watch List. Batterymarch International LC Core and Acadian International LC Value were removed based upon improved relative performance and evidence of increased factor payoffs within their quantitative models.

Columbus Circle Domestic LC Growth was added to the Watch List due to performance concerns.

There were no terminations during the quarter.

**MANAGER WATCH LIST**
February 2011

| Manager | Style Bucket | Reason | $ Invested (mil) | Inclusion Date |
|---|---|---|---|---|
| **Western Asset** | **Domestic - LC Enhanced** | **Performance, Tracking Error** | **$154** | **March 2008** |
| **Martin Currie** | **International – LC Growth** | **Performance, Risk Controls** | **$105** | **February 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** |
| **Columbus Circle** | **Domestic – LC Growth** | **Performance, Process** | **$148** | **May 2011** |

Attached for reference is the Public Equity Manager Evaluation Policy.

# MONTANA BOARD OF INVESTMENTS PUBLIC EQUITY MANAGER EVALUATION POLICY
**(May 14, 2008)**

## INTRODUCTION

The purpose of this policy is to broadly define the monitoring and evaluation of external public equity managers. This policy also provides a basis for the retention and/or termination of managers employed within the Montana Domestic Equity Pool (MDEP) and the Montana International Equity Pool (MTIP).

The costs involved in transitioning assets between managed portfolios can be significant and have the potential to detract from MDEP and MTIP returns. Therefore it is important that the decision process be based on a thorough assessment of relevant evaluation criteria prior to implementing any manager changes. Staff will consider such transition costs when deciding to add or subtract to manager weights within the pools as well as in deciding to retain or terminate managers.

## MONITORING PROCESS

**Periodic Reviews:** Staff will conduct periodic reviews of external managers and will document such periodic reviews and subsequent conclusions. Periodic reviews may include quarterly conference calls on portfolio performance and organizational issues as well as reviews conducted in the offices of the Montana Board of Investments (MBOI) and on-site at the offices of the external managers. Reviews will cover the broad manager evaluation criteria indicated in this policy as well as further, more-detailed analysis related to the criteria as needed.

**Continual Assessment:** Staff will make a continual assessment of the external managers by establishing and maintaining manager profiles, monitoring company actions, and analyzing the performance of the portfolios managed with the use of in-house data bases and sophisticated analytical systems, including systems accessed through the Master Custodian and the Investment Consultant. This process culminates in a judgment which takes into account all aspects of the manager’s working relationship with MBOI, including portfolio performance.

Staff will actively work with the Investment Consultant in the assessment of managers which will include use of database research, conference calls and discussions specific to each manager, and in any consideration of actions to be taken with respect to managers.

It is also important to note that our manager contracts are limited to a seven year term. While we may choose to issue a RFP at any time as deemed appropriate, this contractual provision will eventually force us to issue a RFP to which the manager may respond and be subject to re-evaluation against his/her peers.

## MANAGER EVALUATIONS

The evaluation of managers includes the assessment of the managers with respect to the following qualitative and quantitative criteria.

**Qualitative Criteria:**
- Firm ownership and/or structure
- Stability of personnel
- Client base and/or assets under management
- Adherence to investment philosophy and style (style drift)
- Unique macroeconomic and capital market events that affect manager performance
- Client service, reporting, and reconciliation issues
- Ethics and regulatory issues
- Compliance with respect to contract and investment guidelines
- Asset allocation strategy changes that affect manager funding levels

**Quantitative Criteria:**
- Performance versus benchmark – Performance of managers is evaluated on a three-year rolling period after fees.
- Performance versus peer group – Performance of managers is evaluated on a three-year rolling period before fees.
- Performance attribution versus benchmark – Performance of managers is evaluated on a quarterly and annual basis.
- Other measures of performance, including the following statistical measures:
    - Tracking error
    - Information ratio
    - Sharpe ratio
    - Alpha and Beta

## PERFORMANCE MEASUREMENT

Performance calculations and relative performance measurement compared to the relevant benchmark(s) and peer groups are based on a daily time-weighted rate of return. The official book of record for performance measurement is the Master Custodian.

The performance periods relevant to the manager review process will depend in part on market conditions and whether any unique circumstances are apparent that may impact a manager's performance strength or weakness. Generally, however, a measurement period should be sufficiently long to enable observation across a variety of different market conditions. This would suggest a normal evaluation period of three to five years.

## ACTIONS

**Watch List Status:** Staff will maintain a "Watch List" of external managers that have been noted to have deficiencies in one or more evaluation criteria. An external manager may be put on the "Watch List" for deficiencies in any of the above mentioned criteria or for any other reason deemed necessary by the Chief Investment Officer (CIO). A manager may be removed from the "Watch List" if the CIO is satisfied that the concerns which led to such status have been remedied and/or no longer apply.

**Termination:** The CIO may terminate a manager at any time for any reason deemed to be prudent and necessary and consistent with the terms of the appropriate contract. A termination can effectively be made on very short notice if not immediately.

## ROLES AND RESPONSIBILITIES

**CIO:** The CIO is responsible for the final decision regarding retention of managers, placement on and removal of "Watch List" status, and termination of managers.

**Staff:** Staff is responsible for monitoring external managers, portfolio allocations and recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO.

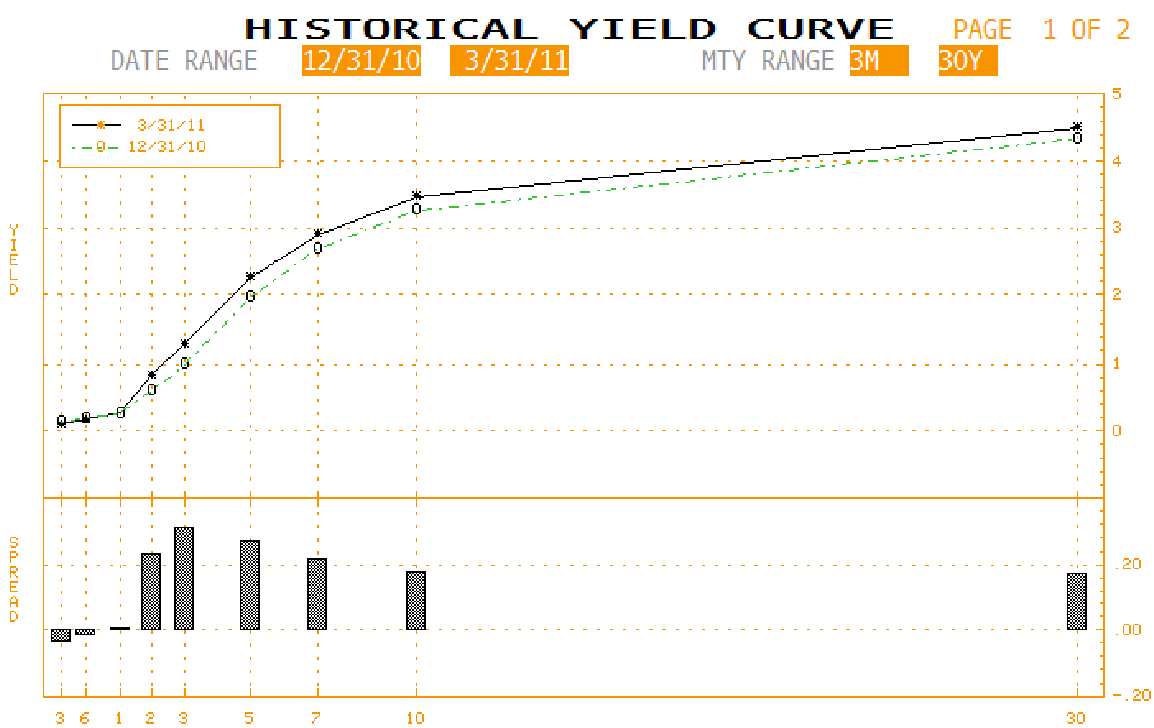
**Investment Consultant:** The consultant is responsible for assisting staff in monitoring and evaluating managers and for reporting independently to the Board on a quarterly basis.

**External Managers:** The external managers are responsible for all aspects of portfolio management as set forth in their respective contracts and investment guidelines. Managers also must communicate with staff as needed regarding investment strategies and results in a consistent manner. Managers must cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the Investment Consultant and the Custodian.

**FIXED INCOME OVERVIEW & STRATEGY**
Nathan Sax, CFA, Portfolio Manager
May 18, 2011

**RETIREMENT & TRUST FUND BOND POOLS**

The yield curve shifted upward as interest rates rose and the middle of the curve steepened in the first quarter of 2011. The earthquake and tsunami that rocked Japan initially sent investors scurrying out of risk assets into the safest and most liquid securities, primarily Treasuries. By the end of the quarter, however, corporate bonds and CMBS were still the best performing sectors. Year-to-date through April, Treasuries posted a total return of 1.70% while corporate bonds returned 2.59% and CMBS were up 4.46%. On December 31, 2010 the Treasury two-year was yielding 0.60% versus a yield of 3.29% on the 10-year note. On May 2, those numbers were identical. So, despite some gyrations, the yield curve has not moved much thus far in 2011.




The price of oil increased 21.5% to $113.93 per barrel at the end of April. That was up from $93.78 at the start of the year. Despite market worries about inflation because of higher food and energy prices, money growth, employment, real estate, loan growth and government spending are combining to slow economic growth.

RFBP/TFBP vs. Barclays Aggregate – 03/31/11

| | Retirement Fund Bond Pool | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | CIBP | Reams | Artio | Post | Neubgr Berman | Total RFBP | Trust Fund Bond Pool | Barclays Aggregate | CIBP/TFBP Policy Range |
| Treasuries | 17.48 | 43.93 | 14.37 | 0.00 | 0.00 | 19.00 | 17.58 | 32.91 | 10-35 |
| Agencies & Govt Related | 10.79 | 0.00 | 15.22 | 0.00 | 0.00 | 8.71 | 9.59 | 12.02 | 5-25 |
| **Total Government** | **28.27** | **43.93** | **29.59** | **0.00** | **0.00** | **27.71** | **27.17** | **44.93** | **15-60** |
| Mortgage Backed | 28.18 | 19.08 | 21.15 | 0.00 | 0.00 | 24.06 | 29.11 | 32.99 | 20-50 |
| Asset Backed | 1.87 | 5.56 | 4.10 | 0.00 | 0.00 | 2.29 | 2.11 | 0.28 | 0-10 |
| CMBS | 9.96 | 2.16 | 13.62 | 0.00 | 0.00 | 8.29 | 9.61 | 2.41 | 0-10 |
| **Total Securitized** | **40.01** | **26.80** | **38.87** | **0.00** | **0.00** | **34.64** | **40.83** | **35.68** | **20-75** |
| Financial | 13.71 | 21.25 | 9.24 | 6.21 | 7.74 | 13.80 | 14.67 | 7.10 | |
| Industrial | 11.90 | 5.86 | 12.91 | 87.00 | 83.02 | 17.82 | 11.27 | 10.16 | |
| Utility | 3.96 | 1.17 | 1.05 | 0.31 | 6.74 | 3.49 | 3.96 | 2.14 | |
| **Total Corporate** | **29.57** | **28.28** | **23.20** | **93.52** | **97.50** | **35.11** | **29.90** | **19.40** | **10-35** |
| Other | 0.00 | 0.00 | 7.02 | 2.60 | 0.60 | 0.52 | 0.00 | 0.00 | |
| Cash | 2.15 | 0.99 | 1.32 | 3.88 | 1.90 | 2.02 | 2.10 | 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 03/31/11** |
|---|---|---|
| U.S. High Yield | 0-15% | 12.76% |
| Non-US (incl. EM) | 0-10% | 1.71% |
| Total "Plus" sectors | 0-20% | 14.47% |
| Core (U.S. Investment Grade) | 80-100% | 85.53% |

| **Fixed Income Sector** | **Policy Range** | **TFIP on 03/31/11** |
|---|---|---|
| High Yield | 0-10% | 7.72% |
| Core Real Estate | 0-8% | 5.03% |
| Core (U.S. Investment Grade) | 0-100% | 87.53% |

After narrowing for eight months, investment grade yield spreads began moving sideways in mid-February. The yield advantage versus same duration Treasuries was 198 basis points on June 10, 2010. That spread got to 137 basis points by February 16, 2011 and then stabilized around that level for the next eleven weeks. The internally managed portfolio (CIBP) is maintaining an over-weight to credit but at reduced levels because of recent trends. We hope to purchase corporates anew at more attractive levels if spreads widen again.

High Yield spreads followed a similar pattern, narrowing from 713 basis points on May 25, 2010 to 436 basis points on February 8, 2011. By the end of April, High Yield spreads were 462 basis points wider than Treasuries. Our allocation to below investment grade bonds has benefitted fixed income performance in both large pools. Despite generous returns, the default rate is quite low at less than 2%, reducing credit risk. Our external High Yield managers, Post Advisors and Neuberger Berman, have both enjoyed good relative performance through April 2011. Core plus manager Artio beat their benchmarks by a wide margin in the first quarter. Reams Asset Management has been more defensive and they are roughly even with the Barclays Universal Index. Artio specializes in non-dollar bonds and Reams is a sector rotator, with a focus on relative value. The CIBP return for the quarter also exceeded its benchmark (the Barclays Aggregate).

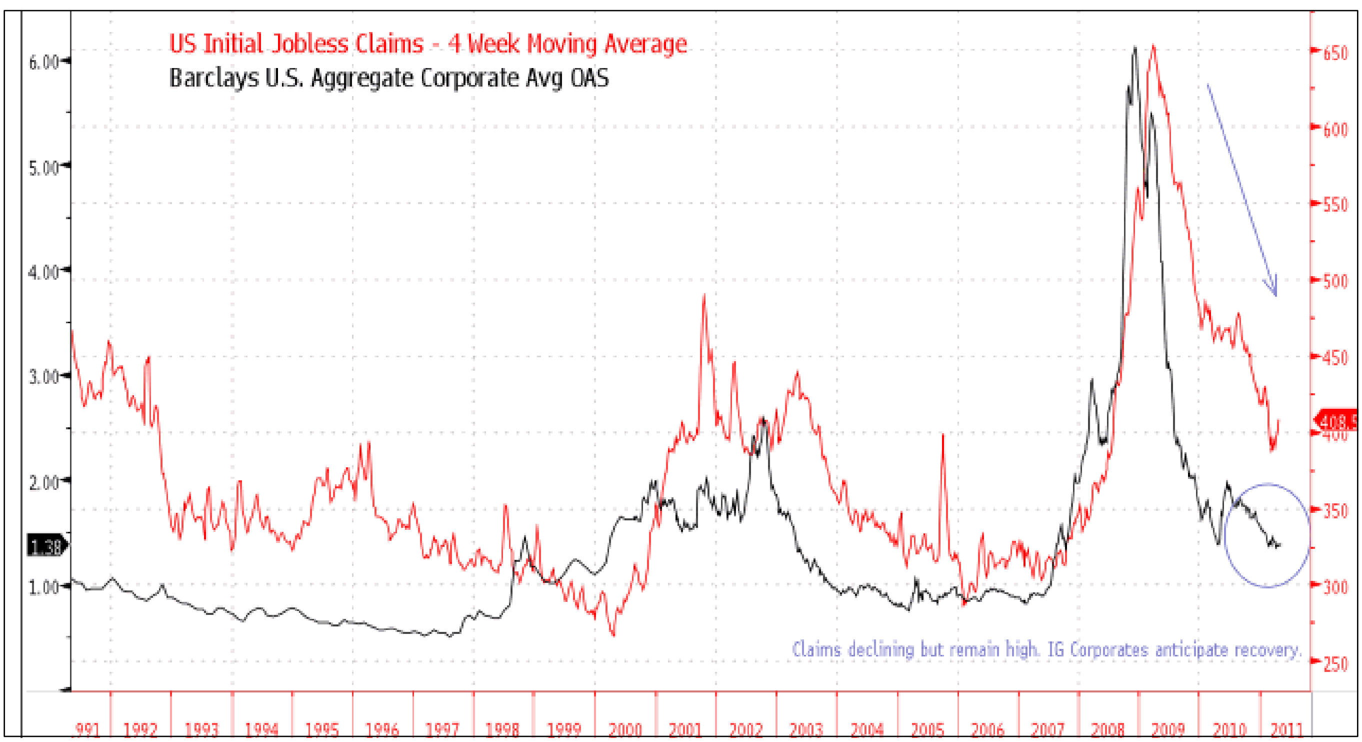
| Benchmark Comparison Analysis<br>CIBP vs. Merrill US Broad Market Index on 03/31/2011 | | | | | | |
|---|---|---|---|---|---|---|
| Summary Characteristics | | | | | | |
| | Price | Coupon | Current Yield | Yield to Maturity | Effective Duration | Effective Spread |
| Portfolio | 101.99 | 4.32 | 4.18 | 3.66 | 4.80 | 1.00 |
| Benchmark | 104.82 | 4.24 | 3.97 | 2.97 | 4.66 | 0.51 |
| Difference | -2.83 | 0.09 | 0.20 | 0.69 | 0.14 | 0.49 |

| Benchmark Comparison Analysis<br>RFBP vs. Merrill US Broad Market Index on 03/31/11 | | | | | | |
|---|---|---|---|---|---|---|
| Summary Characteristics | | | | | | |
| | Price | Coupon | Current Yield | Yield to Maturity | Effective Duration | Effective Spread |
| Portfolio | 101.65 | 4.56 | 4.44 | 3.99 | 4.86 | 1.35 |
| Benchmark | 104.82 | 4.24 | 3.97 | 2.97 | 4.66 | 0.51 |
| Difference | -3.17 | 0.32 | 0.46 | 1.01 | 0.20 | 0.85 |

| Benchmark Comparison Analysis<br>TFBP vs. Merrill US Broad Market Index on 03/31/2011 | | | | | | |
|---|---|---|---|---|---|---|
| Summary Characteristics | | | | | | |
| | Price | Coupon | Current Yield | Yield to Maturity | Effective Duration | Effective Spread |
| Portfolio | 93.31 | 3.96 | 3.78 | 3.55 | 4.75 | 0.95 |
| Benchmark | 104.82 | 4.24 | 3.97 | 2.97 | 4.66 | 0.51 |
| Difference | -11.51 | -0.27 | -0.20 | 0.58 | 0.09 | 0.44 |

**Barclays U.S. High Yield 2% Issuer Cap, Average OAS – 07/09 to 04/11**


The Federal Reserve has reiterated its intention to complete the second phase of its Quantitative Easing program in June. Market participants do not expect a third phase, though rumors persist. Despite Fed purchases of Treasury bonds to keep monetary policy accommodative in this country, the European Central Bank raised short term rates 25 basis points to 1.25% to combat inflation. Economic growth in Germany has been strong. Germany, the dominant player in the euro, has historically been a hawk on inflation. China as well, has been worried about higher prices.



Concluding Comments

Yields rose through March and the Treasury yield curve steepened.  Real GDP for the first quarter grew at a disappointing 1.8% annual rate.  The consensus of Wall Street economists sees that number as an aberration and expect a return to 3% type growth for the remainder of the year.  Fed Chairman Ben Bernanke held the Fed's first press conference and intimated that inflation should be of little concern. He also confirmed that the central bank would complete its quantitative easing program as originally planned.

We have been focusing on improving liquidity and credit quality.  Although the large bond pools still have a commitment to risk assets, the significant tightening in credit spreads has us in a more defensive posture until more attractive values present themselves.  Default rates are low as corporate balance sheets have improved substantially over the past two years because of debt reduction and attendant cost cutting.

**BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS**

**March 31, 2011**

**(in millions)**

| | Par | Book | Market | Price | Name | Coupon % | Maturity | Rating M/S&P | Comments |
|---|---|---|---|---|---|---|---|---|---|
| | $2.000 | $2.000 | $2.295 | $114.75 | Wilmington Trust Corp | 8.500 | 04/02/18 | Ba1/CCC | On watch for upgrade; expect investment grade ratings when merger with M&T Bank is complete in mid 2011 |
| | $5.000 | $5.002 | $5.119 | $102.38 | Continental Airlines | 6.563 | 02/15/12 | Ba1/BB- | Insured by AMBAC. Financial stress at AMBAC resulted in the downgrade of the bond. |
| | $8.000 | $7.970 | $8.134 | $101.67 | 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 | $51.786 | $103.57 | 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. |
| | $3.000 | $2.970 | $3.053 | $101.75 | 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 | $2.556 | $25.56 | Lehman Brothers | 5.500 | 05/25/10 | NR/NR | Currently in default and liquidation |
| | $5.000 | $0.978 | $1.269 | $25.38 | Lehman Brothers | 5.000 | 01/14/11 | NR/NR | Currently in default and liquidation |
| | $83.000 | $70.920 | $74.211 | | | | | | |
| A | = Additions since 12/31/2010 | | | | | | | | |
| D | = Deletions since 12/31/11 | | | | | | | | |
| | **In default** | | | | | | | | |
| | $10.000 | $2.000 | $2.556 | $25.56 | Lehman Brothers | 5.500 | 05/25/10 | NR/NR | Currently in default and liquidation |
| | $5.000 | $0.978 | $1.269 | $25.38 | Lehman Brothers | 5.000 | 01/14/11 | NR/NR | Currently in default and liquidation |
| | $15.000 | $2.978 | $3.825 | | | | | | |

**State Fund Insurance**

Richard Cooley, CFA, Portfolio Manager
May 18, 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<br>State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 03/31/2011 | | | | | | |
|---|---|---|---|---|---|---|
| Summary Characteristics | | | | | | |
| | Price | Coupon | Current Yield | Yield to Maturity | Effective Duration | Effective Spread |
| Portfolio | 104.24 | 4.24 | 3.98 | 2.75 | 3.58 | 1.14 |
| Benchmark | 104.42 | 3.50 | 3.27 | 2.27 | 3.86 | 0.46 |
| Difference | -0.18 | 0.74 | 0.72 | 0.48 | -0.28 | 0.68 |

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 first quarter tighter as compared to the end of the fourth quarter. MBS spreads tightened by 8 basis points to 34 basis points, agencies tightened by 4 basis points to 16 basis points and corporate spreads tightened by 14 basis points to 142 basis points. During the quarter, the ten year Treasury yield increased by 18 basis points from 3.29% to 3.47%.

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 32 basis points during the March quarter and by 119 basis points over the past year. Longer term performance is +55 basis points for the past five years and +72 basis points for the past ten years (ended March 31).

During the March quarter, there were purchases of $59 million including: $43 million of corporate bonds and $16 million of Treasury/Agency notes. The Treasury purchases were in the ten year Treasury as yields backed up during the quarter. There were $6 million of sales of S&P 500 index units during the quarter.

The portfolio has a 48 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 3.03%) and limiting holdings rated lower than A3 or A- to 25 percent of fixed income (currently 20.8%).

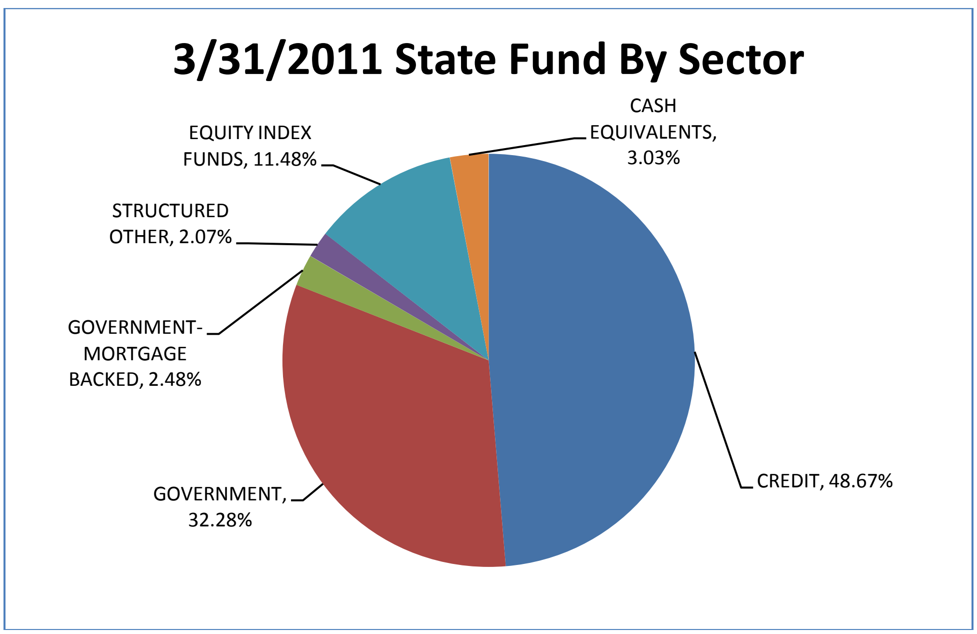
| State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 03/31/2011 | | | |
|---|---|---|---|
| | SFBP Portfolio (%) | Benchmark (%) | Difference |
| Treasuries | 15.46 | 54.20 | -38.74 |
| Agencies & Govt Related | 20.66 | 17.80 | 2.87 |
| **Total Government** | **36.12** | **72.00** | **-35.88** |
| | | | |
| Mortgage Backed | 2.78 | 0.00 | 2.78 |
| Asset Backed | 0.00 | 0.00 | 0.00 |
| CMBS | 1.62 | 0.00 | 1.62 |
| **Securitized** | **4.40** | **0.00** | **4.40** |
| | | | |
| Financial | 29.46 | 11.41 | 18.05 |
| Industrial | 20.02 | 14.83 | 5.20 |
| Utility | 5.89 | 1.76 | 4.13 |
| **Total Corporates** | **55.37** | **28.00** | **27.38** |
| | | | |
| Other | 0.72 | 0.00 | 0.72 |
| Cash | 3.39 | 0.00 | 3.39 |
| **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.

## 3/31/2011 State Fund By Sector

| Sector | Market Value | % |
|---|---|---|
| *BANKS* | 114,693,435 | 9.59% |
| *COMMUNICATIONS* | 24,164,750 | 2.02% |
| *ENERGY* | 36,391,254 | 3.04% |
| *GAS/PIPELINES* | 6,035,141 | 0.50% |
| *INSURANCE* | 61,748,583 | 5.16% |
| *OTHER FINANCE* | 140,168,180 | 11.72% |
| *RETAIL* | 5,509,293 | 0.46% |
| *TRANSPORTATION* | 41,289,278 | 3.45% |
| *UTILITIES* | 67,003,603 | 5.60% |
| *INDUSTRIAL* | 85,144,294 | 7.12% |
| **CREDIT** | 582,147,810 | 48.67% |
| *TITLE XI* | 6,302,634 | 0.53% |
| *TREASURY NOTES/BONDS* | 164,003,200 | 13.71% |
| *AGENCY* | 215,807,533 | 18.04% |
| **GOVERNMENT** | 386,113,367 | 32.28% |
| *FHLMC* | 15,003,560 | 1.25% |
| *FNMA* | 14,637,291 | 1.22% |
| **GOVERNMENT-MORTGAGE BACKED** | 29,640,851 | 2.48% |
| *CDO* | 7,500,000 | 0.63% |
| *CMBS* | 17,218,425 | 1.44% |
| **STRUCTURED OTHER** | 24,718,425 | 2.07% |
| **TOTAL FIXED INCOME** | 1,022,620,452 | 85.49% |
| **EQUITY INDEX FUNDS** | 137,313,121 | 11.48% |
| **CASH EQUIVALENTS** | 36,198,957 | 3.03% |
| **GRAND TOTAL** | 1,196,132,530 | 100.0% |



# MONTANA BOARD OF INVESTMENTS

SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending March 31, 2011

STATE STREET.

| | MKT VAL $(000) | ALLOC | MONTH | QTR | FYTD | 1 Year | 3 Years | 5 Years | 10 Years | ITD | INCEPT. DATE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| STATE FUND INSURANCE | | | | | | | | | | | |
| TOTAL | 1,206,024 | 100.0 | -0.00 | 1.19 | 5.20 | 6.91 | 5.75 | 6.01 | 5.62 | 6.15 | 12/01/1993 |
| CASH EQUIVALENTS | 36,209 | 3.0 | 0.03 | 0.07 | 0.23 | 0.30 | 1.75 | 3.56 | 3.01 | 4.13 | |
| EQUITIES | 137,313 | 11.4 | 0.01 | 5.68 | 30.40 | 15.57 | 3.01 | 3.04 | 3.52 | 1.83 | 01/01/2001 |
| Domestic | 120,406 | 10.0 | 0.04 | 6.00 | 30.91 | 16.13 | 3.18 | 3.14 | 3.59 | | |
| Foreign | 16,907 | 1.4 | -0.23 | 3.43 | 22.39 | | | | | | |
| FIXED INCOME | 1,032,503 | 85.6 | -0.00 | 0.66 | 2.55 | 5.82 | 5.89 | 6.23 | 5.91 | 6.36 | |
| STATE FUND INSURANCE CUSTOM COMPO | | | 0.02 | 0.94 | 4.32 | 5.81 | 4.43 | 5.46 | 4.97 | | |
| S&P 500 | | | 0.04 | 5.92 | 30.56 | 15.65 | 2.35 | 2.62 | 3.29 | | |
| MSCI AC WORLD ex US (NET) | | | -0.23 | 3.41 | 29.23 | 13.15 | -0.85 | 3.59 | 7.41 | | |
| BC GOV/CREDIT INTERMEDIATE | | | -0.02 | 0.34 | 1.62 | 4.63 | 4.49 | 5.68 | 5.19 | | |
| LIBOR 1 MONTH INDEX | | | 0.02 | 0.06 | 0.20 | 0.28 | 0.82 | 2.49 | 2.41 | | |

**Treasurer's Fund**

Richard Cooley, CFA, Portfolio Manager

May 18, 2011

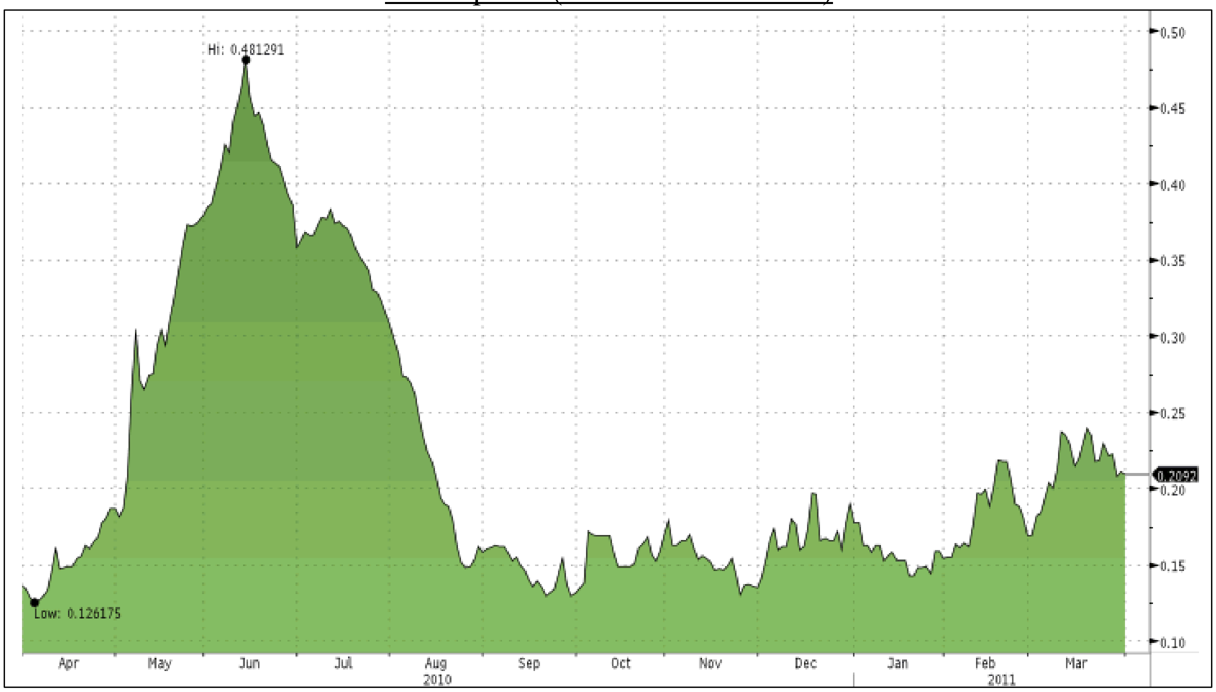
The fund totaled $698 million as of March 31, 2011, consisting of approximately half general fund monies and the balance in various other state operating accounts. There was an additional purchase of $10 million in securities in the first quarter. Current securities holdings total $30 million. The investment 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 $226 million.

# Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager
May 18, 2011

During the first quarter money market yields were stable as the Federal Reserve continued its two-year-old policy of low fed funds rates for an extended period of time. The money market credit curve flattened as investors placed money at the longer end of the curve to pick up additional yield. Three month LIBOR rates were unchanged during the first quarter, while one month LIBOR rates fell by 1.7 basis points. 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 first quarter at about 21 basis points, up 4 basis points for the quarter.

TED Spread (03/31/10 – 03/31/11)

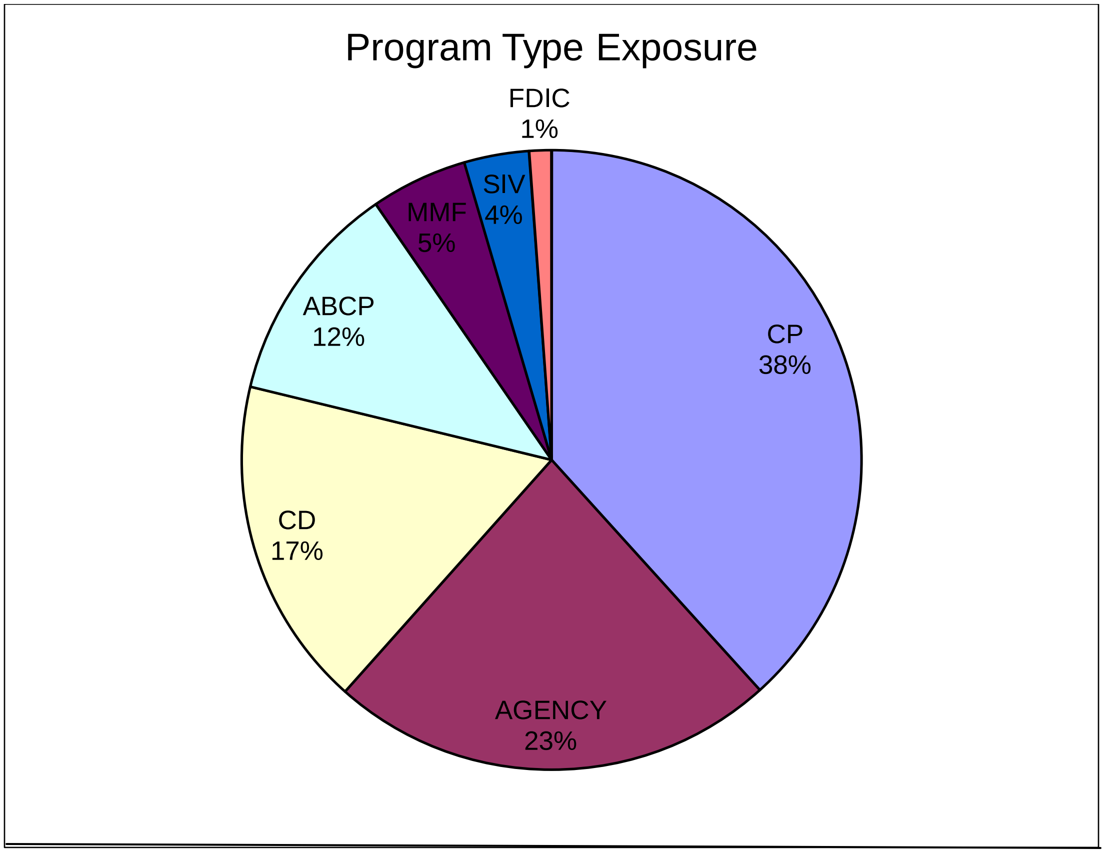


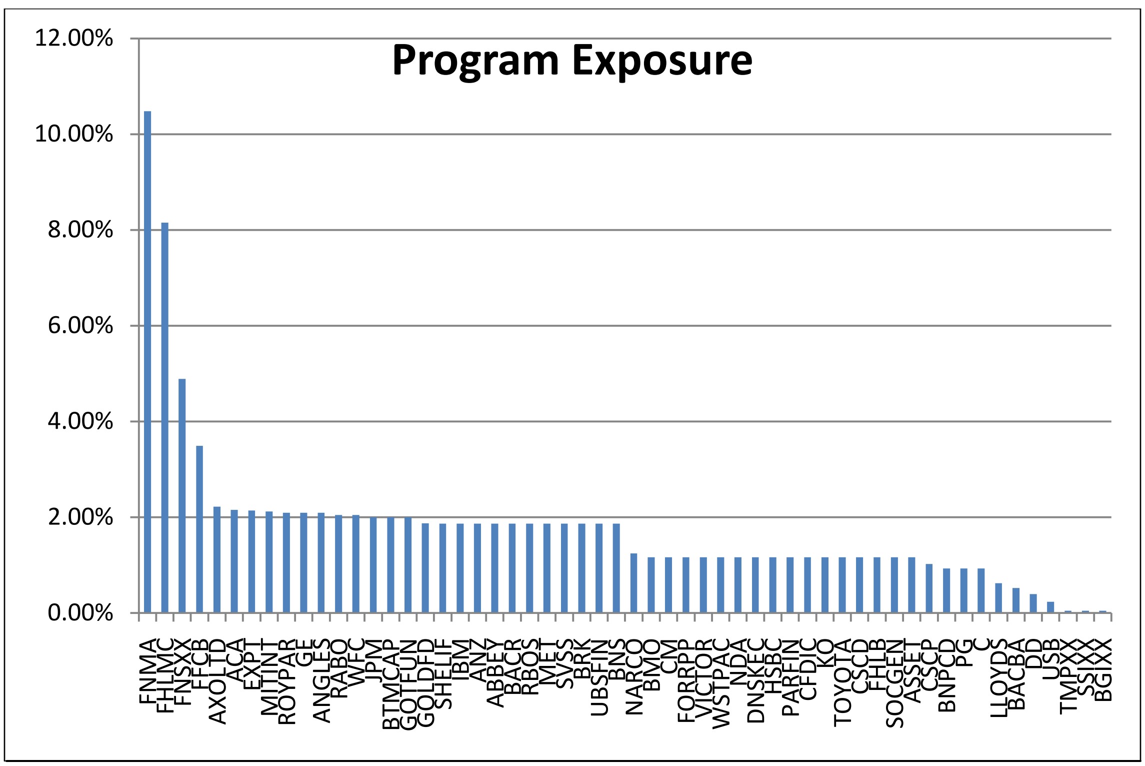

The STIP portfolio is currently well diversified and is operating within all the guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of $150 million and weekly liquidity is at a minimum of $250 million. The average days to maturity are about 36 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is about 12% of holdings (40% max) and corporate exposure is around 38% (40% max). We currently have approximately 24% in agency/FDIC paper, 17% in Yankee CD's (30% max) and 5% in four institutional money funds. Since the last report ABCP exposure has decreased from 20% to 12%. Several of the ABCP programs we have on the approved list have withdrawn from the market and the timing of their return is uncertain.

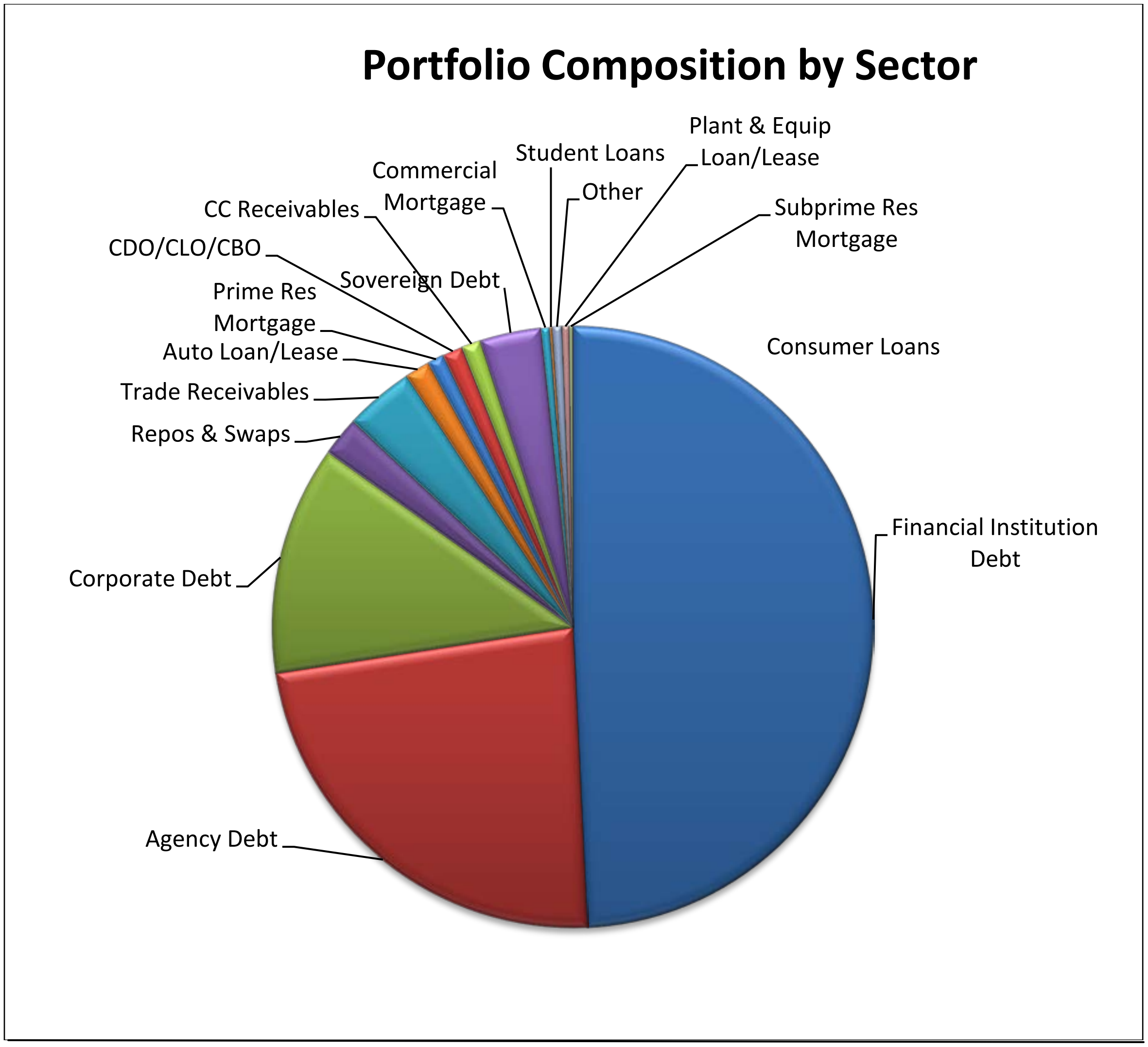
During the first quarter we purchased $125 million of floating rate Agencies, pegged to one month Libor, as well as $25 million of a step up rate, callable Agency. We also purchased $161 million of corporate floating rate securities, $60 million of floating rate Yankee CDs and $7 million of a fixed rate corporate note. Lower one month Libor rates detracted from the portfolio yield during the quarter.

The net daily yield on STIP is currently 0.26% as compared with the current one-month LIBOR rate of 0.21% and current fed funds target rate of 0.0%-0.25%. The portfolio asset size is currently $2.15 billion, down from three months ago.

All charts below are as of April 21, 2011.




Portfolio Composition by Sector
Plant & Equip Loan/Lease
Student Loans
Commercial Mortgage
Other
CC Receivables
Subprime Res Mortgage
CDO/CLO/CBO
Prime Res Mortgage
Sovereign Debt
Consumer Loans
Auto Loan/Lease
Trade Receivables
Repos & Swaps
Financial Institution Debt
Corporate Debt
Agency Debt

# *MEMORANDUM*

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

**To:** Members of the Board

**From:** Clifford A. Sheets, Chief Investment Officer

**Date:** May 19, 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 |
|---|---|---|---|---|---|
| Centerbridge Capital Partners II, L.P. | 2011 | Buyout | Diverse | $25M | 01/31/11 |
| American Securities Partners VI, L.P. | 2011 | Buyout | Diverse | $35M | 04/22/11 |

(iii) **Montana Investments:**
MBOI private equity managers Highway 12 Ventures and Montlake Capital have agreed to seek appropriate investments within Montana and to work to promote private investment within the state. Letters from each of these General Partners describing their activities in this regard are attached.

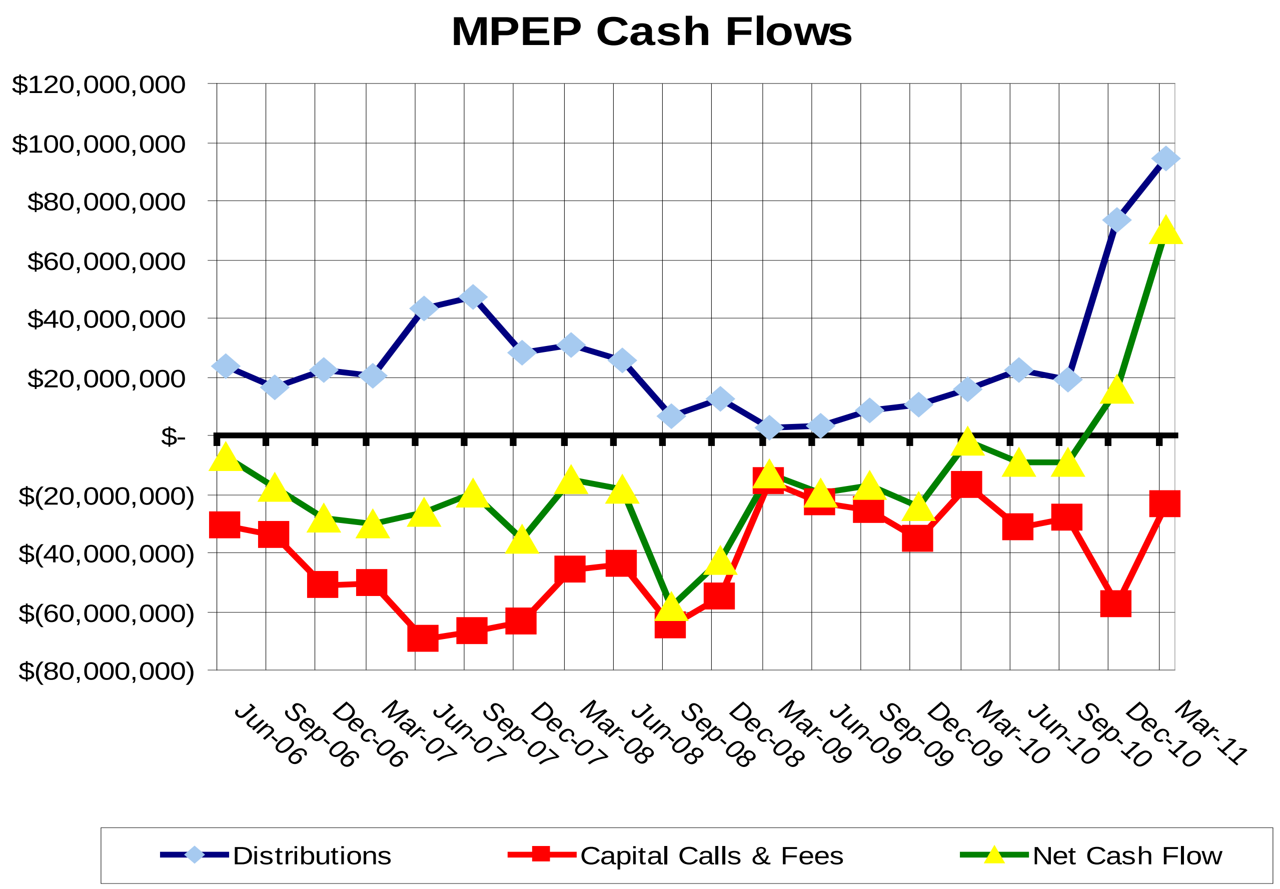
# Montana Board of Investments

## Private Equity Board Report

## Q4 2010

# Contents

# MPEP Quarterly Cash Flows
# June 30, 2006 through March 31, 2011



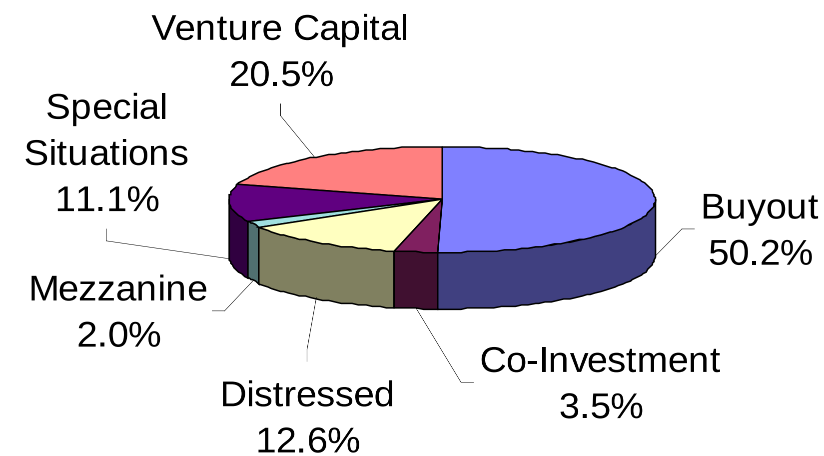

Distribution activity remained high during the quarter, while capital calls decreased to a relatively low level. The net result was a large cash inflow of about $70M during the quarter. Asset prices have rebounded significantly since the 2008/2009 financial crisis, and several of the portfolio's distressed debt and buyout managers are taking advantage of the strong market conditions to liquidate their holdings.

# Q4 2010 Strategy – Total Exposure

## Montana Private Equity Pool

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

***(since inception through December 31, 2010)***




| Strategy | Remaining Commitments | Percentage | Market Value | Percentage | Total Exposure | Percentage |
|---|---|---|---|---|---|---|
| Buyout | $283,077,501 | 55.7% | $453,123,463 | 47.3% | $736,200,964 | 50.2% |
| Co-Investment | $16,798,231 | 3.3% | $34,786,603 | 3.6% | $51,584,834 | 3.5% |
| Distressed | $44,669,598 | 8.8% | $140,373,333 | 14.7% | $185,042,931 | 12.6% |
| Mezzanine | $6,918,306 | 1.4% | $22,116,860 | 2.3% | $29,035,166 | 2.0% |
| Special Situations | $60,128,847 | 11.8% | $103,147,538 | 10.8% | $163,276,385 | 11.1% |
| Venture Capital | $96,716,157 | 19.0% | $204,381,469 | 21.3% | $301,097,626 | 20.5% |
| Total | $508,308,640 | 100.0% | $957,929,266 | 100.0% | $1,466,237,906 | 100.0% |

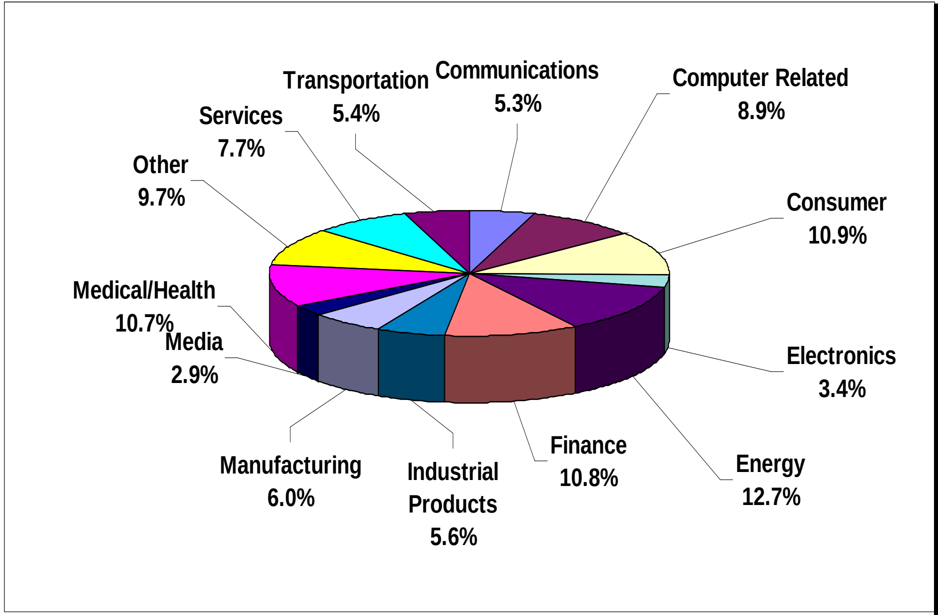
The portfolio is well diversified by strategy, with the most significant weight consisting of Buyout at 50.2% of total exposure followed by Venture Capital at 20.5%. The Pool's strategic allocations are expected to be relatively stable going forward, with Buyout and Venture remaining the dominant allocations. Distressed may continue to decrease in the near term as debt markets are unsupportive of new investment, and current distressed investments are being liquidated by fund managers.

# Q4 2010 Industry – Market Value Exposure

## Montana Private Equity Pool

### Underlying Investment Industry Exposure, by Market Value

*(since inception through December 31, 2010)*




| Industry | Investments, At Market Value | Percentage |
|---|---|---|
| Communications | $48,032,384 | 5.3% |
| Computer Related | $81,487,293 | 8.9% |
| Consumer | $99,588,523 | 10.9% |
| Electronics | $31,140,676 | 3.4% |
| Energy | $115,238,859 | 12.7% |
| Finance | $98,103,468 | 10.8% |
| Industrial Products | $50,862,411 | 5.6% |
| Manufacturing | $54,265,978 | 6.0% |
| Media | $26,849,006 | 2.9% |
| Medical/Health | $97,449,388 | 10.7% |
| Other | $88,348,648 | 9.7% |
| Services | $70,127,312 | 7.7% |
| Transportation | $49,218,313 | 5.4% |
| Total | $910,712,257 | 100% |

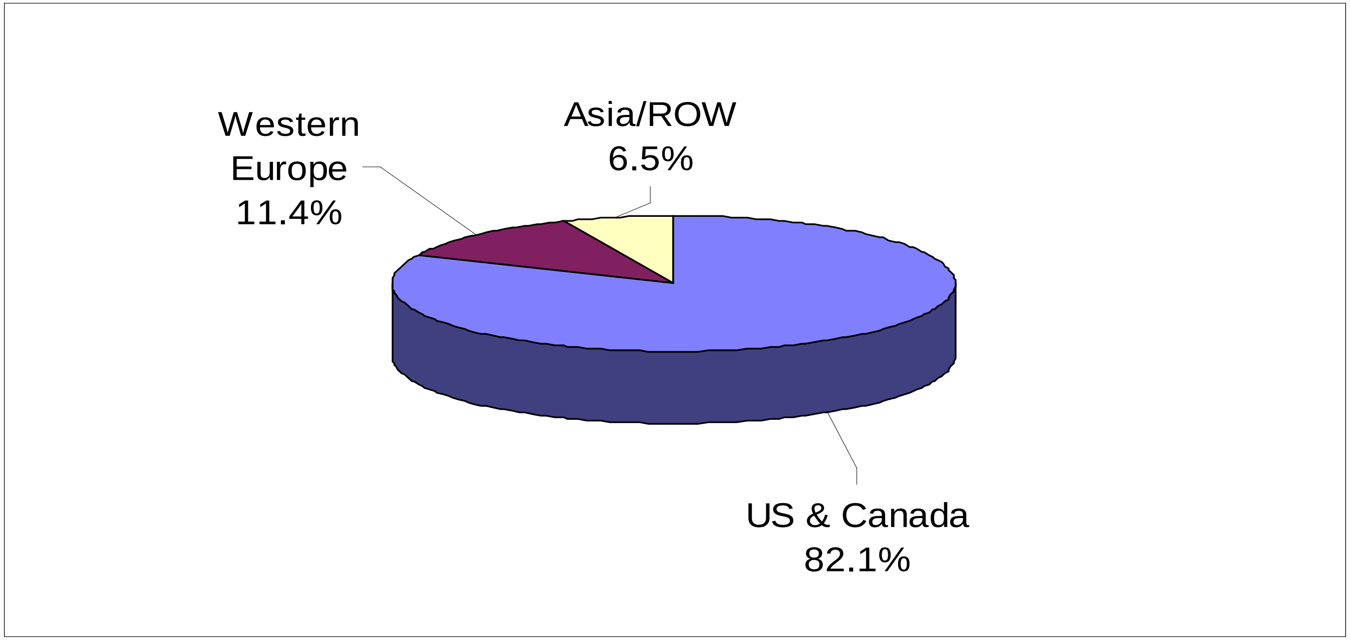
The portfolio is broadly diversified by industry, with Energy representing the highest concentration at 12.7% of assets. With the exception of Energy and the technology-related industries, the portfolio's underlying managers tend to be multi-sector investors. Therefore, composition of the portfolio by 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 specific industries.

# Q4 2010 Geography – Total Exposure

## Montana Private Equity Pool

### Investment Geography Exposure by Market Value & Remaining Commitments

***(since inception through December 31, 2010)***




The portfolio's predominate geographic exposure is to developed North America, with 82.1% 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** | **$ 444,142,701** | **87.4%** | **$ 720,577,792** | **79.1%** | **$ 1,164,720,492** | **82.1%** |
| **Western Europe** | **$ 34,950,441** | **6.9%** | **$ 126,992,602** | **13.9%** | **$ 161,943,044** | **11.4%** |
| **Asia/ROW** | **$ 29,215,498** | **5.7%** | **$ 63,141,864** | **6.9%** | **$ 92,357,361** | **6.5%** |
| **Total** | **$ 508,308,640** | **100.0%** | **$ 910,712,257** | **100.0%** | **$ 1,419,020,897** | **100.0%** |

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

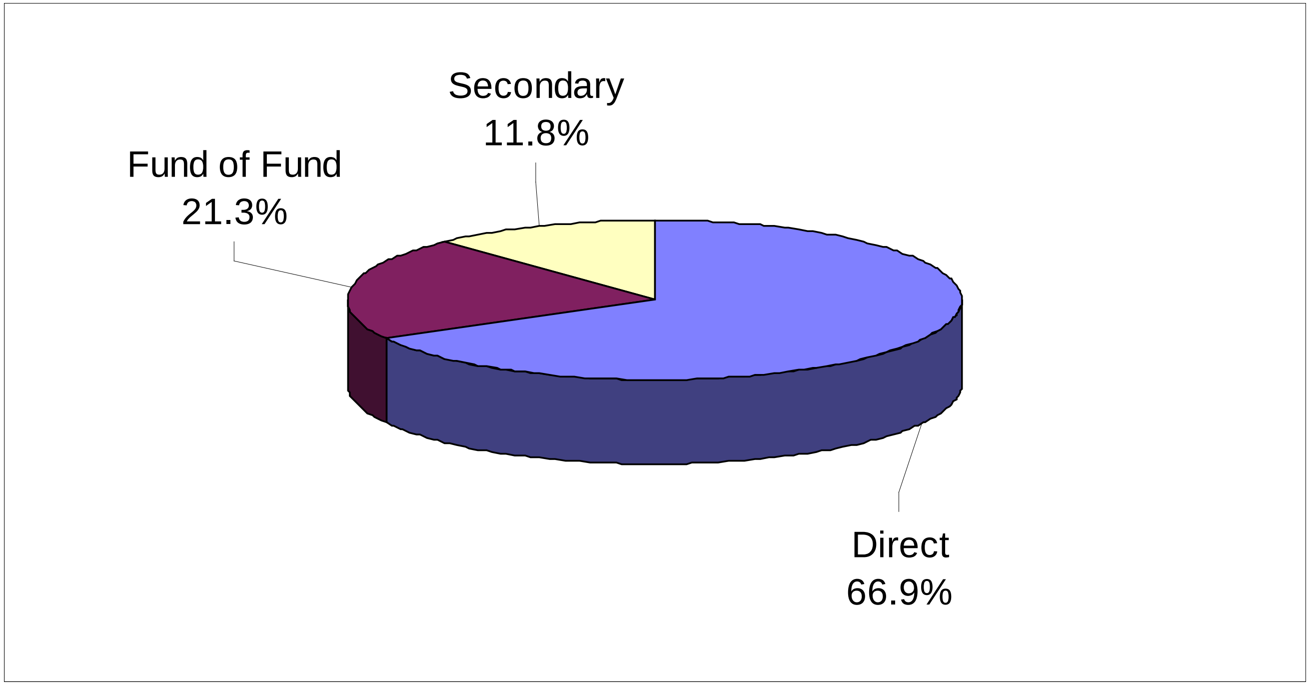
(2) Market Value represents the agrregate market values of the underlying investment companies of the partnerships.

# Q4 2010 Investment Vehicle – Total Exposure

## Montana Private Equity Pool

### Investment Vehicle Exposure by Market Value & Remaining Commitments

***(since inception through December 31, 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. Non-venture domestic exposure is expected to be accessed directly.

| Investment Vehicle | Remaining Commitments | Percentage | Market Value | Percentage | Total Exposure | Percentage |
|---|---|---|---|---|---|---|
| **Direct** | $ 336,616,387 | 66.2% | $ 643,687,718 | 67.2% | $ 980,304,105 | 66.9% |
| **Fund of Fund** | $ 109,035,409 | 21.4% | $ 203,650,283 | 21.3% | $ 312,685,692 | 21.3% |
| **Secondary** | $ 62,656,844 | 12.3% | $ 110,591,265 | 11.5% | $ 173,248,109 | 11.8% |
| **Total** | $ 508,308,640 | 100.0% | $ 957,929,266 | 100.0% | $ 1,466,237,907 | 100.0% |

# Q4 2010 1 – 3 – 5 Year Periodic Return Comparison

**Montana Board of Investments**
**Periodic Return Comparison**
**For the Period Ended December 31, 2010**

| | Current | | | | | 1 Year Return | 3 Year Return | 5 Year Return |
|---|---|---|---|---|---|---|---|---|
| Description | Count | Ending Market Value | Inv Multiple | IRR | Contribution to IRR | IRR | IRR | IRR |
| **Total** | 123 | 957,929,266 | 1.38 | 12.43 | 12.43 | 17.81 | 1.30 | 7.08 |
| *Adams Street Funds* | 34 | 194,780,882 | 1.44 | 12.64 | 3.16 | 17.36 | (0.15) | 7.78 |
| ASP - Direct VC Funds | 4 | 29,353,329 | 1.46 | 15.18 | 0.68 | 23.25 | (3.05) | 7.19 |
| ASP - Secondary Funds | 7 | 22,490,040 | 1.67 | 44.23 | 0.51 | 22.83 | 7.52 | 12.59 |
| ASP - U.S. Partnership Funds | 14 | 124,513,860 | 1.39 | 9.98 | 1.70 | 15.69 | 0.20 | 6.79 |
| ASP Non-US Partnership Funds | 9 | 18,423,653 | 1.49 | 11.89 | 0.27 | 12.17 | (3.96) | 11.83 |
| *Buyout* | 29 | 291,575,847 | 1.45 | 11.31 | 5.05 | 19.67 | (0.31) | 6.92 |
| *Co-Investment* | 2 | 34,786,603 | 1.15 | 5.81 | 0.14 | 27.36 | 0.58 | N/A |
| *Distressed* | 9 | 138,900,643 | 1.37 | 26.37 | 1.76 | 16.97 | 10.46 | 10.71 |
| *Mezzanine* | 3 | 18,928,856 | 1.22 | 7.12 | 0.11 | (9.45) | (1.09) | 3.97 |
| *Non-US Private Equity* | 6 | 43,438,055 | 1.34 | 12.26 | 0.53 | 30.82 | (4.71) | 5.78 |
| *Secondary* | 7 | 88,101,225 | 1.29 | 13.10 | 0.86 | 17.06 | 1.19 | 7.05 |
| *Special Situations* | 6 | 83,013,345 | 1.22 | 7.72 | 0.47 | 15.58 | 4.91 | 7.51 |
| *Venture Capital* | 27 | 64,403,810 | 1.19 | 16.64 | 0.35 | 13.80 | 1.19 | (0.01) |

The portfolio's trailing one-year IRR is 17.81%. From inception investment multiple and IRR results increased to 1.38 and 12.43%, respectively, from 1.34 and 11.93% at the end of the prior quarter. The increase in performance was driven by investment realizations from some of the Pool's Buyout, Distressed, and Special Situations managers. Unrealized valuation increases related to public market strength and US$ weakness boosting non-US investments have also contributed to the positive results.

# Q4 2010 LPs by Family of Funds

**Montana Board of Investments**
**LP's by Family of Funds**
**All Investments**
**As of December 31, 2010**

| | Since Inception | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Description** | **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** |
| **Total** | | **1,912,388,174** | **1,337,479,614** | **90,436,689** | **508,308,640** | **74.67** | **1,006,057,458** | **957,929,266** | **100.00** | **12.43** | **1.38** | **1,466,237,907** | **100.00** |
| **Active** | | **1,899,970,174** | **1,325,485,171** | **89,135,222** | **508,308,640** | **74.45** | **969,811,929** | **957,929,266** | **100.00** | **11.77** | **1.36** | **1,466,237,907** | **100.00** |
| ***Adams Street Partners*** | | **327,129,264** | **281,710,341** | **27,712,882** | **29,012,814** | **94.59** | **251,083,566** | **194,780,882** | **20.33** | **12.64** | **1.44** | **223,793,696** | **15.26** |
| **Adams Street Partners Fund - U.S.** | | **94,000,000** | **74,477,136** | **5,405,864** | **14,117,000** | **84.98** | **27,489,447** | **72,417,682** | **7.56** | **6.64** | **1.25** | **86,534,682** | **5.90** |
| Adams Street - 2002 U.S. Fund, L.P. | 2002 | 34,000,000 | 28,429,558 | 2,238,442 | 3,332,000 | 90.20 | 15,367,036 | 27,095,172 | 2.83 | 8.76 | 1.38 | 30,427,172 | 2.08 |
| Adams Street - 2003 U.S. Fund, L.P. | 2003 | 20,000,000 | 16,232,500 | 1,147,500 | 2,620,000 | 86.90 | 6,270,169 | 15,698,170 | 1.64 | 6.94 | 1.26 | 18,318,170 | 1.25 |
| Adams Street - 2004 U.S. Fund, L.P. | 2004 | 15,000,000 | 11,843,204 | 816,796 | 2,340,000 | 84.40 | 3,413,540 | 11,566,824 | 1.21 | 5.13 | 1.18 | 13,906,824 | 0.95 |
| Adams Street - 2005 U.S. Fund, L.P. | 2005 | 25,000,000 | 17,971,874 | 1,203,126 | 5,825,000 | 76.70 | 2,438,702 | 18,057,516 | 1.89 | 2.25 | 1.07 | 23,882,516 | 1.63 |
| **Adams Street Partners Fund - Non-U.S.** | | **16,000,000** | **13,316,483** | **892,517** | **1,791,000** | **88.81** | **6,671,768** | **12,881,801** | **1.34** | **10.57** | **1.38** | **14,672,801** | **1.00** |
| Adams Street - 2002 Non-U.S. Fund, L.P. | 2002 | 6,000,000 | 5,386,259 | 379,741 | 234,000 | 96.10 | 4,541,017 | 4,802,640 | 0.50 | 14.61 | 1.62 | 5,036,640 | 0.34 |
| Adams Street - 2004 Non-U.S. Fund, L.P. | 2004 | 5,000,000 | 4,214,912 | 275,588 | 509,500 | 89.81 | 1,637,555 | 4,037,925 | 0.42 | 7.99 | 1.26 | 4,547,425 | 0.31 |
| Adams Street - 2005 Non-U.S. Fund, L.P. | 2005 | 5,000,000 | 3,715,312 | 237,188 | 1,047,500 | 79.05 | 493,196 | 4,041,236 | 0.42 | 4.63 | 1.15 | 5,088,736 | 0.35 |
| **Brinson Partnership Trust - Non-U.S** | | **9,809,483** | **9,318,556** | **1,056,070** | **560,102** | **105.76** | **12,015,053** | **5,669,091** | **0.59** | **13.84** | **1.70** | **6,229,193** | **0.42** |
| Brinson Non-U.S. Trust-1999 Primary Fund | 1999 | 1,524,853 | 1,474,957 | 164,163 | 119,071 | 107.49 | 2,249,252 | 416,835 | 0.04 | 10.89 | 1.63 | 535,906 | 0.04 |
| Brinson Non-U.S. Trust-2000 Primary Fund | 2000 | 1,815,207 | 1,815,207 | 195,422 | 0 | 110.77 | 2,658,069 | 833,852 | 0.09 | 12.82 | 1.74 | 833,852 | 0.06 |
| Brinson Non-U.S. Trust-2001 Primary Fund | 2001 | 1,341,612 | 1,341,612 | 144,436 | 0 | 110.77 | 1,835,115 | 590,113 | 0.06 | 12.54 | 1.63 | 590,113 | 0.04 |
| Brinson Non-U.S. Trust-2002 Primary Fund | 2002 | 1,696,452 | 1,696,452 | 182,636 | 0 | 110.77 | 1,185,275 | 1,600,646 | 0.17 | 9.87 | 1.48 | 1,600,646 | 0.11 |
| Brinson Non-U.S. Trust-2002 Secondary | 2002 | 637,308 | 601,542 | 68,611 | 35,766 | 105.15 | 1,387,203 | 127,239 | 0.01 | 26.64 | 2.26 | 163,005 | 0.01 |
| Brinson Non-U.S. Trust-2003 Primary Fund | 2003 | 1,896,438 | 1,659,040 | 204,167 | 237,398 | 98.25 | 2,266,291 | 1,393,261 | 0.15 | 22.71 | 1.96 | 1,630,659 | 0.11 |
| Brinson Non-U.S. Trust-2004 Primary Fund | 2004 | 897,613 | 729,746 | 96,635 | 167,867 | 92.06 | 433,848 | 707,145 | 0.07 | 9.23 | 1.38 | 875,012 | 0.06 |
| **Brinson Partnership Trust - U.S.** | | **103,319,781** | **98,065,814** | **10,158,452** | **5,253,967** | **104.75** | **106,677,943** | **54,267,650** | **5.67** | **10.53** | **1.49** | **59,521,617** | **4.06** |
| Brinson Partners - 1996 Fund | 1996 | 3,950,740 | 3,708,316 | 456,053 | 242,424 | 105.41 | 6,824,237 | 274,201 | 0.03 | 14.95 | 1.70 | 516,625 | 0.04 |
| Brinson Partners - 1997 Primary Fund | 1997 | 3,554,935 | 3,554,935 | 410,271 | 0 | 111.54 | 14,267,325 | 278,858 | 0.03 | 71.47 | 3.67 | 278,858 | 0.02 |
| Brinson Partners - 1998 Primary Fund | 1998 | 7,161,019 | 7,122,251 | 826,452 | 38,768 | 111.00 | 10,241,853 | 842,895 | 0.09 | 6.72 | 1.39 | 881,663 | 0.06 |
| Brinson Partners - 1998 Secondary Fund | 1998 | 266,625 | 266,625 | 30,770 | 0 | 111.54 | 181,932 | 11,508 | 0.00 | -7.43 | 0.65 | 11,508 | 0.00 |
| Brinson Partners - 1999 Primary Fund | 1999 | 8,346,761 | 7,832,823 | 948,809 | 513,938 | 105.21 | 8,164,810 | 1,847,341 | 0.19 | 2.39 | 1.14 | 2,361,279 | 0.16 |
| Brinson Partners - 2000 Primary Fund | 2000 | 20,064,960 | 19,079,570 | 2,129,024 | 985,390 | 105.70 | 20,852,122 | 7,693,402 | 0.80 | 5.85 | 1.35 | 8,678,792 | 0.59 |
| Brinson Partners - 2001 Primary Fund | 2001 | 15,496,322 | 14,830,208 | 1,427,446 | 666,114 | 104.91 | 10,225,434 | 11,134,997 | 1.16 | 5.68 | 1.31 | 11,801,111 | 0.80 |
| Brinson Partners - 2002 Primary Fund | 2002 | 16,297,079 | 15,783,921 | 1,490,504 | 513,158 | 106.00 | 15,353,451 | 11,258,035 | 1.18 | 12.15 | 1.54 | 11,771,193 | 0.80 |
| Brinson Partners - 2002 Secondary Fund | 2002 | 2,608,820 | 2,498,592 | 232,608 | 110,228 | 104.69 | 3,259,035 | 1,454,405 | 0.15 | 14.03 | 1.73 | 1,564,633 | 0.11 |
| Brinson Partners - 2003 Primary Fund | 2003 | 15,589,100 | 14,472,981 | 1,394,116 | 1,116,119 | 101.78 | 11,919,005 | 10,669,489 | 1.11 | 10.35 | 1.42 | 11,785,608 | 0.80 |
| Brinson Partners - 2003 Secondary Fund | 2003 | 1,151,151 | 1,020,460 | 93,675 | 130,691 | 96.78 | 1,969,306 | 715,449 | 0.07 | 25.35 | 2.41 | 846,140 | 0.06 |
| Brinson Partners - 2004 Primary Fund | 2004 | 8,832,269 | 7,895,132 | 718,725 | 937,137 | 97.53 | 3,419,433 | 8,087,070 | 0.84 | 7.84 | 1.34 | 9,024,207 | 0.62 |

# Q4 2010 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of December 31, 2010

| Description | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Since Inception | | | | | | | | | | | |
| **Remaining ASP Funds** | | **104,000,000** | **86,532,352** | **10,199,979** | **7,290,745** | **93.01** | **98,229,355** | **49,544,658** | **5.17** | **21.41** | **1.53** | **56,835,403** | **3.88** |
| Adams Street Global Oppty Secondary Fund | 2004 | 25,000,000 | 18,473,409 | 876,591 | 5,650,000 | 77.40 | 8,064,314 | 19,980,388 | 2.09 | 13.98 | 1.45 | 25,630,388 | 1.75 |
| Adams Street V, L.P. | 2003 | 40,000,000 | 34,703,478 | 4,696,522 | 600,000 | 98.50 | 14,209,772 | 24,741,209 | 2.58 | -0.27 | 0.99 | 25,341,209 | 1.73 |
| Adams Street VPAF Fund II | 1990 | 4,000,000 | 3,621,830 | 378,170 | 0 | 100.00 | 7,879,041 | 9,890 | 0.00 | 25.25 | 1.97 | 9,890 | 0.00 |
| Brinson Venture Capital Fund III, L.P. | 1993 | 5,000,000 | 4,045,656 | 954,344 | 0 | 100.00 | 15,622,448 | 12,520 | 0.00 | 40.47 | 3.13 | 12,520 | 0.00 |
| Brinson VPF III | 1993 | 5,000,000 | 4,488,559 | 522,979 | 0 | 100.23 | 14,899,918 | 188,123 | 0.02 | 29.47 | 3.01 | 188,123 | 0.01 |
| Brinson VPF III - Secondary Interest | 1999 | 5,000,000 | 4,820,288 | 191,250 | 0 | 100.23 | 8,182,793 | 188,531 | 0.02 | 41.48 | 1.67 | 188,531 | 0.01 |
| BVCF III - Secondary Interest | 1999 | 5,000,000 | 3,602,735 | 356,520 | 1,040,745 | 79.19 | 9,634,305 | 12,520 | 0.00 | 97.02 | 2.44 | 1,053,265 | 0.07 |
| BVCF IV, L.P. | 1999 | 15,000,000 | 12,776,397 | 2,223,603 | 0 | 100.00 | 19,736,764 | 4,411,477 | 0.46 | 6.51 | 1.61 | 4,411,477 | 0.30 |
| ***Affinity Asia Capital*** | | **15,000,000** | **5,959,159** | **1,228,442** | **7,814,067** | **47.92** | **170,208** | **8,596,375** | **0.90** | **9.06** | **1.22** | **16,410,442** | **1.12** |
| Affinity Asia Pacific Fund III, LP | 2006 | 15,000,000 | 5,959,159 | 1,228,442 | 7,814,067 | 47.92 | 170,208 | 8,596,375 | 0.90 | 9.06 | 1.22 | 16,410,442 | 1.12 |
| ***Arclight Energy Partners*** | | **50,000,000** | **41,876,389** | **1,479,449** | **6,644,162** | **86.71** | **26,281,754** | **36,943,803** | **3.86** | **13.19** | **1.46** | **43,587,965** | **2.97** |
| Arclight Energy Partners Fund II | 2004 | 25,000,000 | 20,871,810 | 822,752 | 3,305,438 | 86.78 | 24,315,283 | 11,892,113 | 1.24 | 19.14 | 1.67 | 15,197,551 | 1.04 |
| ArcLight Energy Partners Fund III, LP | 2006 | 25,000,000 | 21,004,580 | 656,697 | 3,338,724 | 86.65 | 1,966,471 | 25,051,690 | 2.62 | 6.69 | 1.25 | 28,390,414 | 1.94 |
| ***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** | **33,296,975** | **1,912,922** | **0** | **100.60** | **11,519,460** | **34,689,571** | **3.62** | **12.00** | **1.31** | **34,689,571** | **2.37** |
| Avenue Special Situations Fund V, LP | 2007 | 35,000,000 | 33,296,975 | 1,912,922 | 0 | 100.60 | 11,519,460 | 34,689,571 | 3.62 | 12.00 | 1.31 | 34,689,571 | 2.37 |
| ***Axiom Asia Private Capital*** | | **25,000,000** | **3,152,293** | **484,760** | **21,401,431** | **14.55** | **0** | **3,639,013** | **0.38** | **0.07** | **1.00** | **25,040,444** | **1.71** |
| Axiom Asia Private Capital II, LP | 2009 | 25,000,000 | 3,152,293 | 484,760 | 21,401,431 | 14.55 | 0 | 3,639,013 | 0.38 | 0.07 | 1.00 | 25,040,444 | 1.71 |
| ***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** | **1.71** |
| BDCM Opportunity Fund III, L.P. | 2011 | 25,000,000 | 0 | 0 | 25,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 25,000,000 | 1.71 |
| ***Carlyle Partners*** | | **60,000,000** | **48,294,196** | **3,675,173** | **8,129,633** | **86.62** | **13,905,367** | **53,374,100** | **5.57** | **7.77** | **1.29** | **61,503,733** | **4.19** |
| Carlyle Partners IV, L.P. | 2005 | 35,000,000 | 31,662,839 | 1,382,483 | 2,053,680 | 94.42 | 13,736,364 | 32,919,652 | 3.44 | 9.26 | 1.41 | 34,973,332 | 2.39 |
| 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 | 20,454,448 | 2.14 | 3.32 | 1.09 | 26,530,401 | 1.81 |
| ***CCMP Associates*** | | **30,000,000** | **16,384,286** | **1,586,347** | **12,029,367** | **59.90** | **799,379** | **18,765,807** | **1.96** | **3.96** | **1.09** | **30,795,174** | **2.10** |
| CCMP Capital Investors II, L.P. | 2006 | 30,000,000 | 16,384,286 | 1,586,347 | 12,029,367 | 59.90 | 799,379 | 18,765,807 | 1.96 | 3.96 | 1.09 | 30,795,174 | 2.10 |
| ***Centerbridge*** | | **12,500,000** | **10,173,646** | **138,854** | **2,187,500** | **82.50** | **0** | **14,427,772** | **1.51** | **36.23** | **1.40** | **16,615,272** | **1.13** |
| Centerbridge Special Credit Partners | 2009 | 12,500,000 | 10,173,646 | 138,854 | 2,187,500 | 82.50 | 0 | 14,427,772 | 1.51 | 36.23 | 1.40 | 16,615,272 | 1.13 |
| ***CIVC Partners*** | | **25,000,000** | **2,932,035** | **656,988** | **21,505,647** | **14.36** | **0** | **3,366,556** | **0.35** | **-28.57** | **0.94** | **24,872,203** | **1.70** |
| CIVC Partners Fund IV, L.P. | 2010 | 25,000,000 | 2,932,035 | 656,988 | 21,505,647 | 14.36 | 0 | 3,366,556 | 0.35 | -28.57 | 0.94 | 24,872,203 | 1.70 |
| ***Energy Investors Funds*** | | **25,000,000** | **0** | **0** | **25,000,000** | **0.00** | **0** | **0** | **0.00** | **N/A** | **0.00** | **25,000,000** | **1.71** |
| EIF US Power Fund IV, L.P. | 2011 | 25,000,000 | 0 | 0 | 25,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 25,000,000 | 1.71 |
| ***First Reserve*** | | **55,485,789** | **34,694,223** | **1,339,587** | **19,470,547** | **64.94** | **3,009,087** | **32,562,000** | **3.40** | **-0.56** | **0.99** | **52,032,547** | **3.55** |
| First Reserve Fund XI, L.P. | 2006 | 30,000,000 | 22,718,146 | 789,554 | 6,510,868 | 78.36 | 1,787,233 | 23,200,000 | 2.42 | 2.27 | 1.06 | 29,710,868 | 2.03 |
| First Reserve Fund XII, L.P. | 2008 | 25,485,789 | 11,976,077 | 550,033 | 12,959,680 | 49.15 | 1,221,854 | 9,362,000 | 0.98 | -10.80 | 0.84 | 22,321,680 | 1.52 |

# Q4 2010 LPs by Family of Funds - Continued

**Montana Board of Investments**
**LP's by Family of Funds**
**All Investments**
**As of December 31, 2010**

| Description | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Since Inception | | | | | | | | | | | |
| ***GTCR LLC*** | | **25,000,000** | **0** | **0** | **25,000,000** | **0.00** | **0** | **0** | **0.00** | **N/A** | **0.00** | **25,000,000** | **1.71** |
| GTCR X/A, L.P. | 2011 | 25,000,000 | 0 | 0 | 25,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 25,000,000 | 1.71 |
| ***HarbourVest*** | | **61,823,772** | **20,633,162** | **543,719** | **40,660,417** | **34.25** | **600,328** | **24,129,122** | **2.52** | **10.42** | **1.17** | **64,789,539** | **4.42** |
| Dover Street VII L.P. | 2008 | 20,000,000 | 9,260,272 | 253,253 | 10,500,000 | 47.57 | 382,345 | 10,925,877 | 1.14 | 15.92 | 1.19 | 21,425,877 | 1.46 |
| HarbourVest Direct 2007 Fund | 2007 | 20,000,000 | 9,866,426 | 183,574 | 9,950,000 | 50.25 | 217,983 | 11,547,366 | 1.21 | 8.04 | 1.17 | 21,497,366 | 1.47 |
| HarbourVest Intl Private Equity Fund VI | 2008 | 21,823,772 | 1,506,464 | 106,892 | 20,210,417 | 7.39 | 0 | 1,655,879 | 0.17 | 3.01 | 1.03 | 21,866,296 | 1.49 |
| ***Hellman & Friedman*** | | **40,000,000** | **20,527,609** | **1,068,514** | **18,403,877** | **53.99** | **3,235,598** | **22,013,662** | **2.30** | **6.89** | **1.17** | **40,417,539** | **2.76** |
| Hellman & Friedman Capital Partners VI | 2006 | 25,000,000 | 20,527,609 | 1,068,514 | 3,403,877 | 86.38 | 3,235,598 | 22,013,662 | 2.30 | 6.89 | 1.17 | 25,417,539 | 1.73 |
| Hellman & Friedman Capital Partners VII | 2011 | 15,000,000 | 0 | 0 | 15,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 15,000,000 | 1.02 |
| ***Highway 12 Ventures*** | | **10,000,000** | **5,391,179** | **1,026,715** | **3,582,106** | **64.18** | **73,476** | **6,629,401** | **0.69** | **2.11** | **1.04** | **10,211,507** | **0.70** |
| Highway 12 Venture Fund II, L.P. | 2006 | 10,000,000 | 5,391,179 | 1,026,715 | 3,582,106 | 64.18 | 73,476 | 6,629,401 | 0.69 | 2.11 | 1.04 | 10,211,507 | 0.70 |
| ***Industry Ventures*** | | **10,000,000** | **9,208,723** | **600,056** | **595,358** | **98.09** | **3,312,903** | **7,411,162** | **0.77** | **3.36** | **1.09** | **8,006,520** | **0.55** |
| Industry Ventures Fund IV, L.P. | 2005 | 10,000,000 | 9,208,723 | 600,056 | 595,358 | 98.09 | 3,312,903 | 7,411,162 | 0.77 | 3.36 | 1.09 | 8,006,520 | 0.55 |
| ***JCF*** | | **25,000,000** | **23,767,225** | **766,534** | **477,037** | **98.14** | **796,934** | **6,975,409** | **0.73** | **-32.55** | **0.32** | **7,452,446** | **0.51** |
| J.C. Flowers II, L.P. | 2006 | 25,000,000 | 23,767,225 | 766,534 | 477,037 | 98.14 | 796,934 | 6,975,409 | 0.73 | -32.55 | 0.32 | 7,452,446 | 0.51 |
| ***Joseph Littlejohn & Levy*** | | **25,000,000** | **21,244,981** | **1,026,541** | **2,728,478** | **89.09** | **11,401,161** | **16,917,131** | **1.77** | **9.05** | **1.27** | **19,645,609** | **1.34** |
| JLL Partners Fund V, L.P. | 2005 | 25,000,000 | 21,244,981 | 1,026,541 | 2,728,478 | 89.09 | 11,401,161 | 16,917,131 | 1.77 | 9.05 | 1.27 | 19,645,609 | 1.34 |
| ***KKR*** | | **175,000,000** | **175,000,000** | **9,632,425** | **0** | **105.50** | **327,151,155** | **28,932,330** | **3.02** | **12.39** | **1.93** | **28,932,330** | **1.97** |
| KKR 1987 Fund | 1987 | 25,000,000 | 25,000,000 | 2,101,164 | 0 | 108.40 | 55,915,867 | 309,107 | 0.03 | 8.89 | 2.07 | 309,107 | 0.02 |
| KKR 1993 Fund | 1993 | 25,000,000 | 25,000,000 | 1,002,236 | 0 | 104.01 | 48,789,535 | 112,464 | 0.01 | 17.78 | 1.88 | 112,464 | 0.01 |
| KKR 1996 Fund | 1997 | 100,000,000 | 100,000,000 | 4,705,809 | 0 | 104.71 | 175,933,505 | 13,234,880 | 1.38 | 13.52 | 1.81 | 13,234,880 | 0.90 |
| KKR European Fund, L. P. | 1999 | 25,000,000 | 25,000,000 | 1,823,216 | 0 | 107.29 | 46,512,248 | 15,275,879 | 1.59 | 20.28 | 2.30 | 15,275,879 | 1.04 |
| ***Lexington Capital Partners*** | | **140,000,000** | **100,911,767** | **4,754,034** | **34,334,199** | **75.48** | **74,748,918** | **64,167,539** | **6.70** | **13.73** | **1.31** | **98,501,738** | **6.72** |
| Lexington Capital Partners V, L.P. | 2001 | 50,000,000 | 47,485,007 | 2,359,813 | 155,180 | 99.69 | 61,141,425 | 17,417,349 | 1.82 | 18.95 | 1.58 | 17,572,529 | 1.20 |
| Lexington Capital Partners VI-B, L.P. | 2005 | 50,000,000 | 44,773,335 | 1,806,909 | 3,419,756 | 93.16 | 13,469,499 | 36,600,471 | 3.82 | 3.27 | 1.07 | 40,020,227 | 2.73 |
| Lexington Capital Partners VII, L.P. | 2009 | 30,000,000 | 6,685,491 | 445,948 | 22,868,561 | 23.77 | 3,257 | 7,925,592 | 0.83 | 35.80 | 1.11 | 30,794,153 | 2.10 |
| Lexington Middle Market Investors II, LP | 2008 | 10,000,000 | 1,967,934 | 141,364 | 7,890,702 | 21.09 | 134,737 | 2,224,127 | 0.23 | 10.09 | 1.12 | 10,114,829 | 0.69 |
| ***Madison Dearborn Capital Partners*** | | **75,000,000** | **50,487,301** | **2,019,884** | **22,493,626** | **70.01** | **25,633,566** | **43,534,694** | **4.54** | **9.02** | **1.32** | **66,028,320** | **4.50** |
| Madison Dearborn Capital Partners IV, LP | 2001 | 25,000,000 | 23,572,056 | 586,031 | 842,724 | 96.63 | 23,830,629 | 19,514,068 | 2.04 | 15.63 | 1.79 | 20,356,792 | 1.39 |
| Madison Dearborn Capital Partners V, LP | 2006 | 25,000,000 | 20,948,116 | 782,565 | 3,269,319 | 86.92 | 1,802,937 | 17,842,696 | 1.86 | -3.06 | 0.90 | 21,112,015 | 1.44 |
| Madison Dearborn Capital Partners VI, LP | 2008 | 25,000,000 | 5,967,129 | 651,288 | 18,381,583 | 26.47 | 0 | 6,177,930 | 0.64 | -4.38 | 0.93 | 24,559,513 | 1.68 |
| ***Matlin Patterson*** | | **30,000,000** | **26,977,633** | **1,540,353** | **1,482,014** | **95.06** | **6,395,544** | **17,522,625** | **1.83** | **-10.21** | **0.84** | **19,004,639** | **1.30** |
| Matlin Patterson Global Opps. Ptnrs. III | 2007 | 30,000,000 | 26,977,633 | 1,540,353 | 1,482,014 | 95.06 | 6,395,544 | 17,522,625 | 1.83 | -10.21 | 0.84 | 19,004,639 | 1.30 |
| ***MHR Institutional Partners*** | | **25,000,000** | **16,411,121** | **1,478,092** | **7,110,787** | **71.56** | **244,507** | **18,611,199** | **1.94** | **1.97** | **1.05** | **25,721,986** | **1.75** |
| MHR Institutional Partners III, L.P. | 2006 | 25,000,000 | 16,411,121 | 1,478,092 | 7,110,787 | 71.56 | 244,507 | 18,611,199 | 1.94 | 1.97 | 1.05 | 25,721,986 | 1.75 |
| ***Montlake Capital*** | | **15,000,000** | **7,657,437** | **1,492,563** | **5,850,000** | **61.00** | **146,341** | **7,591,171** | **0.79** | **-7.72** | **0.85** | **13,441,171** | **0.92** |
| Montlake Capital II, L.P. | 2007 | 15,000,000 | 7,657,437 | 1,492,563 | 5,850,000 | 61.00 | 146,341 | 7,591,171 | 0.79 | -7.72 | 0.85 | 13,441,171 | 0.92 |
| ***Neuberger Berman Group, LLC*** | | **35,000,000** | **26,709,294** | **1,442,476** | **6,848,231** | **80.43** | **9,043,433** | **23,239,237** | **2.43** | **5.22** | **1.15** | **30,087,468** | **2.05** |
| NB Co-investment Partners, L.P. | 2006 | 35,000,000 | 26,709,294 | 1,442,476 | 6,848,231 | 80.43 | 9,043,433 | 23,239,237 | 2.43 | 5.22 | 1.15 | 30,087,468 | 2.05 |

# Q4 2010 LPs by Family of Funds - Continued

**Montana Board of Investments**
**LP's by Family of Funds**
**All Investments**
**As of December 31, 2010**

| Description | Vintage Year | Since Inception: 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Oak Hill Capital Partners*** | | **45,000,000** | **32,994,398** | **2,519,596** | **9,567,360** | **78.92** | **3,788,003** | **39,818,709** | **4.16** | **7.04** | **1.23** | **49,386,069** | **3.37** |
| Oak Hill Capital Partners II, L.P. | 2005 | 25,000,000 | 22,076,712 | 1,574,976 | 1,348,312 | 94.61 | 3,743,888 | 29,011,172 | 3.03 | 9.34 | 1.38 | 30,359,484 | 2.07 |
| Oak Hill Capital Partners III, L.P. | 2008 | 20,000,000 | 10,917,686 | 944,620 | 8,219,048 | 59.31 | 44,115 | 10,807,537 | 1.13 | -5.22 | 0.91 | 19,026,585 | 1.30 |
| ***Oaktree Capital Partners*** | | **120,000,000** | **107,992,953** | **3,507,047** | **8,500,000** | **92.92** | **121,643,746** | **53,649,476** | **5.60** | **43.32** | **1.57** | **62,149,476** | **4.24** |
| Oaktree Opportunities Fund VIII, L.P. | 2009 | 10,000,000 | 4,826,099 | 173,901 | 5,000,000 | 50.00 | 89,318 | 5,404,055 | 0.56 | 15.33 | 1.10 | 10,404,055 | 0.71 |
| OCM Opportunities Fund IVb, L.P. | 2002 | 75,000,000 | 73,086,225 | 1,913,775 | 0 | 100.00 | 121,554,428 | 9,517 | 0.00 | 44.89 | 1.62 | 9,517 | 0.00 |
| OCM Opportunities Fund VIIb, L.P. | 2008 | 35,000,000 | 30,080,629 | 1,419,371 | 3,500,000 | 90.00 | 0 | 48,235,904 | 5.04 | 23.23 | 1.53 | 51,735,904 | 3.53 |
| ***Odyssey Partners Fund III*** | | **45,000,000** | **26,966,708** | **2,428,844** | **15,604,468** | **65.32** | **25,716,491** | **24,710,682** | **2.58** | **26.35** | **1.72** | **40,315,150** | **2.75** |
| Odyssey Investment Partners IV, L.P. | 2008 | 20,000,000 | 5,137,259 | 712,858 | 14,149,903 | 29.25 | 25,426 | 6,523,993 | 0.68 | 10.90 | 1.12 | 20,673,896 | 1.41 |
| Odyssey Partners Fund III, L.P. | 2004 | 25,000,000 | 21,829,449 | 1,715,986 | 1,454,565 | 94.18 | 25,691,066 | 18,186,689 | 1.90 | 27.14 | 1.86 | 19,641,254 | 1.34 |
| ***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** | **0.68** |
| Opus Capital Venture Partners VI, LP | 2011 | 10,000,000 | 0 | 0 | 10,000,000 | 0.00 | 0 | 0 | 0.00 | N/A | 0.00 | 10,000,000 | 0.68 |
| ***Performance Venture Capital*** | | **25,000,000** | **4,027,761** | **699,315** | **20,272,924** | **18.91** | **383** | **4,008,589** | **0.42** | **-15.22** | **0.85** | **24,281,513** | **1.66** |
| Performance Venture Capital II[2] | 2008 | 25,000,000 | 4,027,761 | 699,315 | 20,272,924 | 18.91 | 383 | 4,008,589 | 0.42 | -15.22 | 0.85 | 24,281,513 | 1.66 |
| ***Portfolio Advisors*** | | **70,000,000** | **39,924,598** | **1,851,224** | **28,471,029** | **59.68** | **1,661,699** | **39,524,709** | **4.13** | **-0.68** | **0.99** | **67,995,738** | **4.64** |
| Port. Advisors Fund IV (B), L.P. | 2006 | 30,000,000 | 21,395,824 | 957,813 | 7,646,363 | 74.51 | 1,096,907 | 21,609,139 | 2.26 | 0.61 | 1.02 | 29,255,502 | 2.00 |
| Port. Advisors Fund IV (E), L.P. | 2006 | 15,000,000 | 9,348,275 | 620,450 | 5,031,275 | 66.46 | 4,731 | 8,223,554 | 0.86 | -9.48 | 0.83 | 13,254,829 | 0.90 |
| Port. Advisors Fund V (B), L.P. | 2008 | 10,000,000 | 4,386,338 | 196,875 | 5,533,534 | 45.83 | 234,739 | 4,095,369 | 0.43 | -3.71 | 0.94 | 9,628,903 | 0.66 |
| Portfolio Advisors Secondary Fund, L.P. | 2008 | 15,000,000 | 4,794,161 | 76,086 | 10,259,857 | 32.47 | 325,322 | 5,596,647 | 0.58 | 30.77 | 1.22 | 15,856,504 | 1.08 |
| ***Quintana Energy Partners*** | | **15,000,000** | **11,683,191** | **1,306,249** | **2,030,931** | **86.60** | **477,473** | **13,507,542** | **1.41** | **2.58** | **1.08** | **15,538,473** | **1.06** |
| Quintana Energy Partners Fund I, L.P. | 2006 | 15,000,000 | 11,683,191 | 1,306,249 | 2,030,931 | 86.60 | 477,473 | 13,507,542 | 1.41 | 2.58 | 1.08 | 15,538,473 | 1.06 |
| ***Siguler Guff & Company*** | | **25,000,000** | **16,946,081** | **692,125** | **7,494,081** | **70.55** | **1,558,475** | **17,481,227** | **1.82** | **4.24** | **1.08** | **24,975,308** | **1.70** |
| Siguler Guff Small Buyout Opportunities | 2007 | 25,000,000 | 16,946,081 | 692,125 | 7,494,081 | 70.55 | 1,558,475 | 17,481,227 | 1.82 | 4.24 | 1.08 | 24,975,308 | 1.70 |
| ***Summit Ventures*** | | **500,000** | **388,928** | **109,563** | **25,000** | **99.70** | **1,257,885** | **0** | **0.00** | **28.32** | **2.52** | **25,000** | **0.00** |
| Summit Ventures II, L.P. | 1988 | 500,000 | 388,928 | 109,563 | 25,000 | 99.70 | 1,257,885 | 0 | 0.00 | 28.32 | 2.52 | 25,000 | 0.00 |
| ***TA Associates, Inc.*** | | **10,000,000** | **1,050,000** | **0** | **8,950,000** | **10.50** | **0** | **1,055,659** | **0.11** | **1.07** | **1.01** | **10,005,659** | **0.68** |
| TA XI, L.P. | 2010 | 10,000,000 | 1,050,000 | 0 | 8,950,000 | 10.50 | 0 | 1,055,659 | 0.11 | 1.07 | 1.01 | 10,005,659 | 0.68 |
| ***Terra Firma Capital Partners*** | | **25,432,997** | **16,387,889** | **2,181,549** | **6,880,611** | **73.01** | **587,167** | **6,047,355** | **0.63** | **-35.61** | **0.36** | **12,927,966** | **0.88** |
| Terra Firma Capital Partners III, L.P. | 2007 | 25,432,997 | 16,387,889 | 2,181,549 | 6,880,611 | 73.01 | 587,167 | 6,047,355 | 0.63 | -35.61 | 0.36 | 12,927,966 | 0.88 |
| ***Thayer Hidden Creek Management, L.P.*** | | **20,000,000** | **6,456,015** | **894,167** | **12,976,516** | **36.75** | **191,977** | **10,475,450** | **1.09** | **52.52** | **1.45** | **23,451,966** | **1.60** |
| Thayer Hidden Creek Partners II, L.P. | 2008 | 20,000,000 | 6,456,015 | 894,167 | 12,976,516 | 36.75 | 191,977 | 10,475,450 | 1.09 | 52.52 | 1.45 | 23,451,966 | 1.60 |
| ***Trilantic Capital Partners*** | | **11,098,351** | **5,916,660** | **764,413** | **4,417,278** | **60.20** | **269,975** | **7,405,397** | **0.77** | **8.50** | **1.15** | **11,822,675** | **0.81** |
| Trilantic Capital Partners IV L.P. | 2007 | 11,098,351 | 5,916,660 | 764,413 | 4,417,278 | 60.20 | 269,975 | 7,405,397 | 0.77 | 8.50 | 1.15 | 11,822,675 | 0.81 |
| ***Veritas Capital*** | | **25,000,000** | **6,142,857** | **0** | **18,857,143** | **24.57** | **0** | **5,702,493** | **0.60** | **-7.84** | **0.93** | **24,559,636** | **1.68** |
| The Veritas Capital Fund IV, L.P. | 2010 | 25,000,000 | 6,142,857 | 0 | 18,857,143 | 24.57 | 0 | 5,702,493 | 0.60 | -7.84 | 0.93 | 24,559,636 | 1.68 |
| ***Welsh, Carson, Anderson & Stowe*** | | **75,500,000** | **64,781,741** | **4,444,665** | **6,500,000** | **91.69** | **41,889,253** | **45,705,724** | **4.77** | **7.14** | **1.27** | **52,205,724** | **3.56** |
| Welsh, Carson, Anderson & Stowe II | 1990 | 500,000 | 455,663 | 88,404 | 0 | 108.81 | 694,053 | 108,098 | 0.01 | 8.68 | 1.47 | 108,098 | 0.01 |
| Welsh, Carson, Anderson & Stowe IV, LP | 2004 | 25,000,000 | 19,915,426 | 1,084,574 | 4,000,000 | 84.00 | 5,547,757 | 18,820,758 | 1.96 | 4.62 | 1.16 | 22,820,758 | 1.56 |
| Welsh, Carson, Anderson & Stowe IX, L.P. | 2000 | 25,000,000 | 22,017,279 | 1,982,721 | 1,000,000 | 96.00 | 31,825,248 | 6,918,323 | 0.72 | 12.03 | 1.61 | 7,918,323 | 0.54 |
| Welsh, Carson, Anderson & Stowe X, L.P. | 2005 | 25,000,000 | 22,393,373 | 1,288,966 | 1,500,000 | 94.73 | 3,822,195 | 19,858,545 | 2.07 | 0.00 | 1.00 | 21,358,545 | 1.46 |

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 performed well during the quarter. Funds showing noteworthy improvement in performance include OCM Opportunities Fund IVb and VIIb, Affinity Asia Pacific Fund III, First Reserve Fund XII, and Highway 12 Venture Fund II. 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.

# *MEMORANDUM*

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

**To:** Members of the Board

**From:** Clifford A. Sheets, Chief Investment Officer

**Date:** May 19, 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. Two additions to a core fund were made in TFIP. There were three new commitments to closed-end funds in MTRP. In addition, a previously disclosed $30M commitment to AG Core Plus Realty Fund III was reduced to $25M following the death of one of the fund's investment professionals.

| Fund Name | Pool | Subclass | Sector | Amount | Date Funded (Core) or Date of Decision |
|---|---|---|---|---|---|
| TIAA-CREF Asset Management Core Property Fund, LP | TFIP | Core | Diverse | $1 M | 4/1/11 |
| TIAA-CREF Asset Management Core Property Fund, LP | TFIP | Core | Diverse | $1 M | 5/1/11 |
| Molpus Woodlands Fund III | MTRP | Timber | Domestic | $50 M | 02/01/11 |
| RMS U.S. Forest Growth Fund III | MTRP | Timber | Domestic | $25 M | 03/15/11 |
| Landmark Partners RE Partners VI, L.P. | MTRP | Secondary | Diverse | $20 M | 03/16/11 |

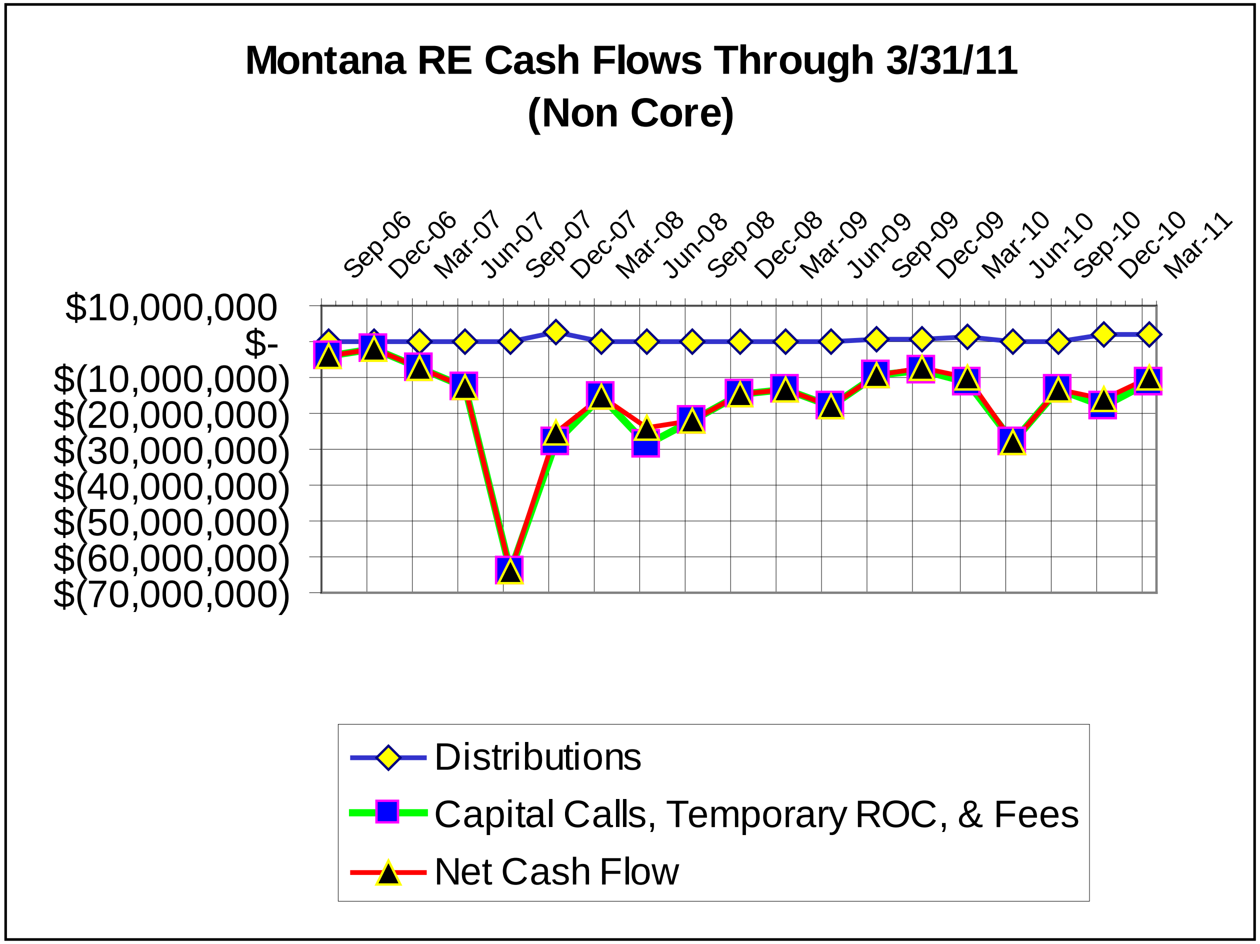
# Montana Board of Investments

## Real Estate Board Report

## Q4 2010

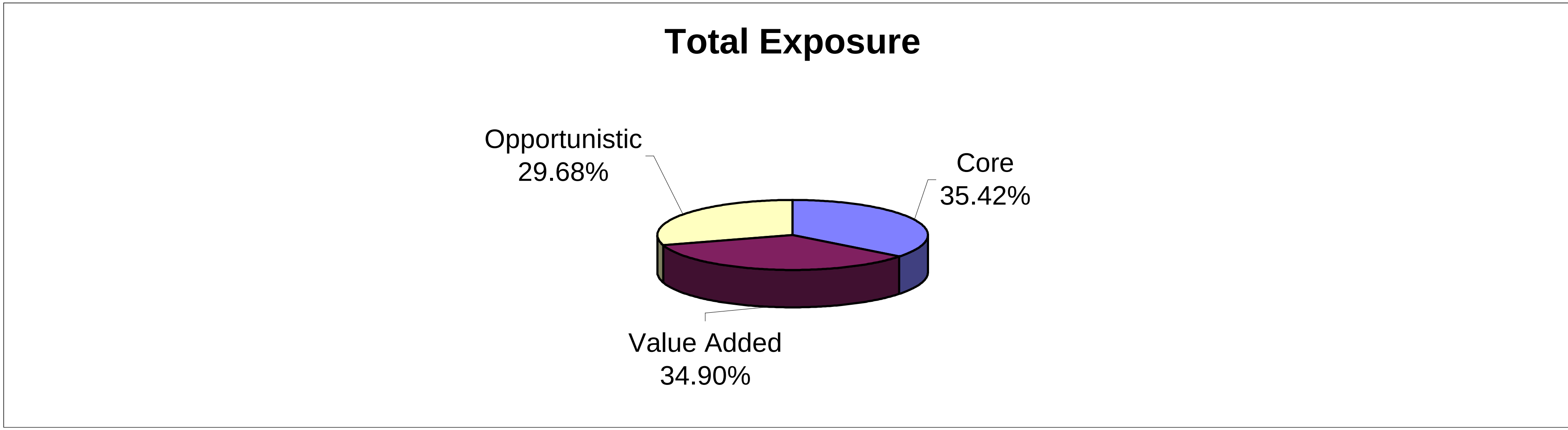
# Contents

# Quarterly Cash Flows through December 31, 2010




Call activity was moderate in Q1. Credit is generally available for good quality real estate properties, and lenders are beginning to force resolutions on their troubled borrowers so call activity should be steady going forward. While some closed-end funds have begun to distribute regular quarterly income, significant exit-driven distributions are likely to remain subdued until vacancy has decreased.

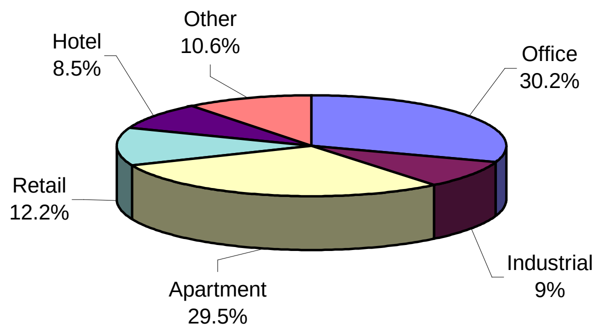
# Q4 2010 Strategy – Total Exposure

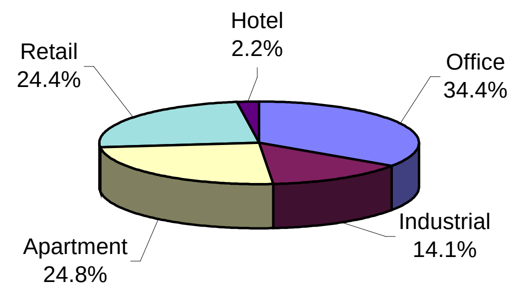



| Strategy | Remaining Commitments | Percentage | Net Asset Value | Percentage | Total Exposure | Percentage |
|---|---|---|---|---|---|---|
| Core | $0 | 0.00% | $200,692,021 | 47.00% | $200,692,021 | 35.42% |
| Value Added | $63,265,726 | 45.33% | $134,485,926 | 31.49% | $197,751,652 | 34.90% |
| Opportunistic | $76,293,998 | 54.67% | $91,863,060 | 21.51% | $168,157,058 | 29.68% |
| Total | $139,559,725 | 100.00% | $427,041,006 | 100.00% | $566,600,731 | 100.00% |

The real estate portfolio is well diversified by strategy.  At the end of Q3, Core investments accounted for 47% of the Pool's NAV followed by Value Added at 31% and Opportunistic at 22%. Timberland commitments made in the first half of calendar 2011 will begin to contribute to the portfolio's diversification over the next several quarters.

# Q4 2010 Property Type – Market Value Exposure




| | Office | Industrial | Apartment | Retail | Hotel | Other[2] | Total |
|---|---|---|---|---|---|---|---|
| Montana US Value[2] | $224.5 | $66.9 | $219.0 | $91.0 | $62.9 | $79.0 | $743.3 |
| Montana US Total | 30.2% | 9.0% | 29.5% | 12.2% | 8.5% | 10.6% | 100.0% |
| NCREIF Value[2,4] | 85,028 | 34,959 | 61,259 | 60,403 | 5,424 | | 247,074 |
| NCREIF[1] | 34.4% | 14.1% | 24.8% | 24.4% | 2.2% | | 100.0% |
| Difference | -4.2% | -5.2% | 4.7% | -12.2% | 6.3% | 10.6% | |
| | | | | | | | |
| Montana Non-US Value[2] | $41.6 | $0.0 | $7.5 | $5.3 | $14.6 | $53.2 | $122.2 |
| Montana Non-US Total | 34.0% | 0.0% | 6.2% | 4.3% | 11.9% | 43.6% | 100.0% |
| | | | | | | | |
| Montana Total Value[2] | $266.1 | $66.9 | $226.5 | $96.3 | $77.5 | $132.2 | $865.5 |
| Montana Total[1] | 30.7% | 7.7% | 26.2% | 11.1% | 9.0% | 15.3% | 100.0% |

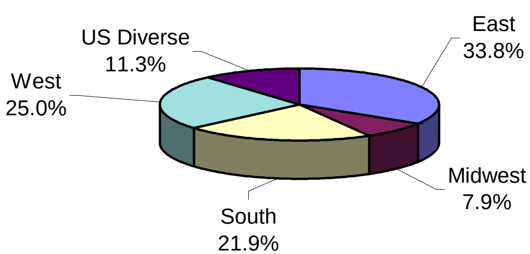
*1) Diversification percentages are based on the Gross Market Value, which represents the MBOI share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property.*

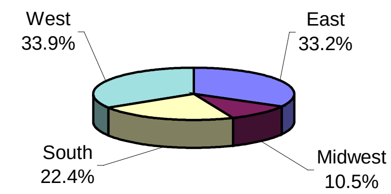
*2) Total Other consists of $73,593,275 in mixed-use assets, $40,442,088 in healthcare/senior living, $10,981,023 in land, $393,323 in storage, $5,374,440 in debt assets, $180,722 in parking, and $1,201,289 in manufactured assets.*

*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.

# Q4 2010 Geography – Total Exposure




| | East | Midwest | South | West | US Diverse | Non-US | Total |
|---|---|---|---|---|---|---|---|
| Montana US Value[2] | $251.4 | $58.8 | $162.8 | $186.1 | $84.2 | | $743.3 |
| Montana US Total[1] | 33.8% | 7.9% | 21.9% | 25.0% | 11.3% | | 100.0% |
| NCREIF Value[2, 3] | 81,945 | 26,021 | 55,422 | 83,686 | | | 247,074 |
| NCREIF[1] | 33.2% | 10.5% | 22.4% | 33.9% | | | 100.0% |
| Difference | 0.7% | -2.6% | -0.5% | -8.8% | 11.3% | | |
| Montana Total Value[2] | $251.4 | $58.8 | $162.8 | $186.1 | $84.2 | $122.2 | $865.5 |
| Montana Total[1] | 29.1% | 6.8% | 18.8% | 21.5% | 9.7% | 14.1% | 100.0% |

*1) Diversification percentages are based on the Gross Market Value, which represents the MBOI share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property.*
*2) 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 14.1% of the portfolio. In the domestic holdings, the portfolio is about 9% underweight in the West versus the NCREIF. None of the remaining geographic allocations vary by more than 3% when compared to the Index.

# Q4 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 | 26,636,769 | 6.51% | 6.76% | 17.84% | 19.06% | 17.84% | 19.06% | -15.43% | -14.42% | -14.60% | -13.62% | -7.61% | -6.60% |
| INVESCO Core Real Estate-USA | 32,221,396 | 4.37% | 4.60% | 15.63% | 16.64% | 15.63% | 16.64% | -11.84% | -11.01% | -9.71% | -8.87% | -8.51% | -7.66% |
| JP Morgan Strategic Properties Fund | 87,277,030 | 4.67% | 4.92% | 13.42% | 14.55% | 13.42% | 14.55% | -9.20% | -8.25% | -8.91% | -7.97% | -5.74% | -4.77% |
| UBS-Trumbull Property Fund | 54,556,827 | 3.29% | 3.46% | 14.09% | 14.63% | - | - | - | - | - | - | 14.09% | 14.63% |
| ***Core Total*** | **200,692,021** | **4.48%** | **4.70%** | **14.49%** | **15.54%** | **14.49%** | **15.54%** | **-11.85%** | **-10.95%** | **-10.84%** | **-9.94%** | **-4.54%** | **-3.58%** |
| ***Value Added Total*** | **134,485,926** | **1.79%** | **2.31%** | **11.08%** | **13.71%** | **11.08%** | **13.71%** | **-6.09%** | **-3.72%** | **-4.78%** | **-2.37%** | **-2.59%** | **1.08%** |
| ***Opportunistic Total*** | **91,863,060** | **8.64%** | **9.49%** | **19.42%** | **24.03%** | **19.42%** | **24.03%** | **-23.02%** | **-18.81%** | **-30.96%** | **-27.32%** | **-29.24%** | **-25.23%** |
| ***Total Portfolio*** | **427,041,006** | **4.43%** | **4.87%** | **14.34%** | **16.61%** | **14.34%** | **16.61%** | **-11.90%** | **-9.82%** | **-13.03%** | **-11.05%** | **-6.14%** | **-3.66%** |
| **Benchmark (gross)** | | | | | | | | | | | | | |
| NCREIF | **247,074,030,084** | | **4.62%** | | **13.11%** | | **13.11%** | | **-3.03%** | | **-4.18%** | | **8.90%** |
| NFI-ODCE | **59,169,900,000** | | **4.99%** | | **16.40%** | | **16.40%** | | **-9.69%** | | **-9.70%** | | **8.00%** |
| | **Internal Rates of Return (Net of Fees)** | | | | | | | | | | | | |
| ABR Chesapeake Fund III | 18,056,403 | 1.48% | | 3.75% | | 3.75% | | -2.06% | | -1.87% | | -0.52% | |
| ABR Chesapeake Fund IV [1] | 1,700,000 | 0.00% | | 0.00% | | - | | - | | - | | 0.00% | |
| AG Core Plus Realty Fund II | 16,197,807 | 4.75% | | 23.46% | | 23.46% | | 8.00% | | 1.75% | | 1.71% | |
| Apollo Real Estate Finance Corp. | 7,821,537 | -1.83% | | -1.19% | | -1.19% | | -7.87% | | -6.06% | | -5.70% | |
| AREFIN Co-Invest | 7,606,535 | 1.00% | | -0.64% | | -0.64% | | -10.98% | | - | | -8.63% | |
| DRA Growth & Income Fund VI | 14,463,483 | -0.01% | | 9.49% | | 9.49% | | -2.14% | | -3.75% | | -3.37% | |
| Five Arrows Securities V, L.P. | 9,999,410 | -3.99% | | 1.91% | | 1.91% | | 2.05% | | 2.55% | | 2.88% | |
| Hudson RE Fund IV Co-Invest | 9,507,230 | -1.34% | | 0.31% | | 0.31% | | -2.59% | | - | | -1.55% | |
| Hudson Realty Capital Fund IV | 9,832,090 | -1.93% | | -5.41% | | -5.41% | | -9.59% | | -13.60% | | -11.68% | |
| Realty Associates Fund IX | 11,331,292 | 6.16% | | 4.74% | | - | | - | | - | | 4.74% | |
| Realty Associates Fund VIII | 13,166,627 | -0.55% | | 1.34% | | 1.34% | | -13.86% | | -13.10% | | -11.31% | |
| Strategic Partners Value Enhancement Fund | 14,803,512 | 10.07% | | 39.21% | | 39.21% | | -16.17% | | -6.34% | | -7.97% | |
| ***Value Added*** | **134,485,926** | **1.62%** | | **8.02%** | | **8.02%** | | **-6.16%** | | **-5.57%** | | **-5.00%** | |
| AG Realty Fund VII L.P. | 14,426,087 | 5.62% | | 12.17% | | 12.17% | | 14.13% | | 8.33% | | 6.14% | |
| Beacon Capital Strategic Partners V | 7,815,093 | -3.58% | | 13.36% | | 13.36% | | -20.61% | | -31.00% | | -30.05% | |
| Carlyle Europe Real Estate Partners III | 13,154,205 | 6.10% | | 14.87% | | 14.87% | | -0.61% | | -13.35% | | -14.57% | |
| CIM Fund III, L.P. | 10,145,157 | -6.14% | | -18.51% | | -18.51% | | -31.22% | | -32.75% | | -34.18% | |
| GEM Realty Fund IV | 1,811,953 | 16.34% | | 10.08% | | - | | - | | - | | 10.08% | |
| JER Real Estate Partners - Fund IV | 9,929,739 | 10.98% | | 35.20% | | 35.20% | | -6.68% | | -16.15% | | -13.07% | |
| Liquid Realty IV [1] | 11,109,466 | 4.22% | | 2.98% | | 2.98% | | -15.02% | | -10.94% | | -13.51% | |
| MGP Asia Fund III, LP | 14,078,462 | 37.15% | | 130.39% | | 130.39% | | -4.86% | | -9.29% | | -9.77% | |
| MSREF VI International | 5,679,480 | 8.92% | | 29.48% | | 29.48% | | -38.87% | | -50.02% | | -50.15% | |
| O'Connor North American Property Partners II | 3,713,418 | 4.56% | | 0.19% | | 0.19% | | -9.43% | | - | | -35.44% | |
| ***Opportunistic*** | **91,863,060** | **8.65%** | | **22.11%** | | **22.11%** | | **-12.42%** | | **-21.70%** | | **-21.84%** | |
| ***Total*** | **$226,348,986** | **4.28%** | | **13.00%** | | **13.00%** | | **-8.68%** | | **-12.79%** | | **-12.52%** | |

The real estate portfolio returned 4.43% 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 UBS-Trumbull Property Fund, whose low leverage relative to peers can depress returns in a rapidly appreciating market.

# Q4 2010 Commitment Summary

| | Since Inception | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Vintage Year | Commitment | Capital Contributed | Remaining Commitment | Capital Distributed | Net Asset Value | NAV % | Total Exposure | Total Exposure% | Investment Multiple |
| ***Core*** | | **235,000,000** | **235,000,000** | **-** | **12,807,893** | **200,692,021** | **47.00%** | **200,692,021** | **35.42%** | **0.90** |
| Clarion Lion Properties Fund | 2006 | 45,000,000 | 45,000,000 | - | 6,884,419 | 26,636,769 | 6.24% | 26,636,769 | 4.70% | 0.73 |
| INVESCO Core Real Estate-USA | 2007 | 45,000,000 | 45,000,000 | - | 3,257,255 | 32,221,396 | 7.55% | 32,221,396 | 5.69% | 0.77 |
| JP Morgan Strategic Property Fund | 2007 | 95,000,000 | 95,000,000 | - | 1,759,599 | 87,277,030 | 20.44% | 87,277,030 | 15.40% | 0.92 |
| UBS-Trumbull Property Fund | 2010 | 50,000,000 | 50,000,000 | - | 906,620 | 54,556,827 | 12.78% | 54,556,827 | 9.63% | 1.11 |
| ***Value Added*** | | **226,200,000** | **162,934,274** | **63,265,726** | **12,799,235** | **134,485,926** | **31.49%** | **197,751,652** | **34.90%** | **0.90** |
| ABR Chesapeake Fund III | 2006 | 20,000,000 | 20,000,000 | - | 1,652,065 | 18,056,403 | 4.23% | 18,056,403 | 3.19% | 0.99 |
| ABR Chesapeake Fund IV | 2010 | 17,000,000 | 1,700,000 | 15,300,000 | 0 | 1,700,000 | 0.40% | 17,000,000 | 3.00% | 1.00 |
| AG Core Plus Realty Fund II | 2007 | 20,000,000 | 17,497,417 | 2,502,583 | 1,767,129 | 16,197,807 | 3.79% | 18,700,390 | 3.30% | 1.03 |
| Apollo Real Estate Finance Corp. | 2007 | 10,000,000 | 10,000,000 | - | 1,115,882 | 7,821,537 | 1.83% | 7,821,537 | 1.38% | 0.89 |
| AREFIN Co-Invest | 2008 | 10,000,000 | 10,000,000 | - | 1,704,203 | 7,606,535 | 1.78% | 7,606,535 | 1.34% | 0.93 |
| DRA Growth & Income Fund VI | 2007 | 35,000,000 | 17,971,854 | 17,028,146 | 3,653,777 | 14,463,483 | 3.39% | 31,491,629 | 5.56% | 0.93 |
| Five Arrows Securities V, L.P. | 2007 | 30,000,000 | 10,565,002 | 19,434,998 | 1,185,210 | 9,999,410 | 2.34% | 29,434,408 | 5.19% | 1.05 |
| Hudson RE Fund IV Co-Invest | 2008 | 10,000,000 | 10,000,000 | - | 95,849 | 9,507,230 | 2.23% | 9,507,230 | 1.68% | 0.96 |
| Hudson Realty Capital Fund IV | 2007 | 15,000,000 | 15,000,000 | - | 297,733 | 9,832,090 | 2.30% | 9,832,090 | 1.74% | 0.68 |
| Realty Associates Fund IX | 2008 | 20,000,000 | 11,000,000 | 9,000,000 | 62,367 | 11,331,292 | 2.65% | 20,331,292 | 3.59% | 1.04 |
| Realty Associates Fund VIII | 2007 | 20,000,000 | 20,000,000 | - | 906,340 | 13,166,627 | 3.08% | 13,166,627 | 2.32% | 0.70 |
| Strategic Partners Value Enhancement Fund | 2007 | 19,200,000 | 19,200,000 | - | 358,680 | 14,803,512 | 3.47% | 14,803,512 | 2.61% | 0.79 |
| ***Opportunistic*** | | **228,008,422** | **154,214,424** | **76,293,998** | **5,876,693** | **91,863,060** | **21.51%** | **168,157,058** | **29.68%** | **0.62** |
| AG Realty Fund VII L.P. | 2007 | 20,000,000 | 14,654,000 | 5,346,000 | 1,366,156 | 14,426,087 | 3.38% | 19,772,087 | 3.49% | 1.08 |
| Beacon Capital Strategic Partners V | 2007 | 25,000,000 | 19,250,000 | 5,750,000 | 79,688 | 7,815,093 | 1.83% | 13,565,093 | 2.39% | 0.41 |
| Carlyle Europe Real Estate Partners III | 2007 | 30,994,690 | 17,224,145 | 13,770,545 | 21,556 | 13,154,205 | 3.08% | 26,924,750 | 4.75% | 0.76 |
| CIM Fund III, L.P. | 2007 | 25,000,000 | 12,150,616 | 12,849,384 | 159,240 | 10,145,157 | 2.38% | 22,994,541 | 4.06% | 0.75 |
| GEM Realty Fund IV | 2009 | 15,000,000 | 1,800,000 | 13,200,000 | 244,745 | 1,811,953 | 0.42% | 15,011,953 | 2.65% | 1.10 |
| JER Real Estate Partners - Fund IV | 2007 | 20,000,000 | 16,054,580 | 3,945,420 | 83,889 | 9,929,739 | 2.33% | 13,875,159 | 2.45% | 0.62 |
| Liquid Realty IV | 2007 | 22,013,732 | 18,971,804 | 3,041,928 | 3,796,588 | 11,109,466 | 2.60% | 14,151,394 | 2.50% | 0.73 |
| MGP Asia Fund III, LP | 2007 | 30,000,000 | 16,918,939 | 13,081,061 | 35,146 | 14,078,462 | 3.30% | 27,159,523 | 4.79% | 0.83 |
| MSREF VI International | 2007 | 25,000,000 | 27,500,000 | - | 17,313 | 5,679,480 | 1.33% | 5,679,480 | 1.00% | 0.20 |
| O'Connor North American Property Partners II | 2008 | 15,000,000 | 9,690,340 | 5,309,660 | 72,371 | 3,713,418 | 0.87% | 9,023,078 | 1.59% | 0.38 |
| **Montana Real Estate** | | **$689,208,422** | **$552,148,697** | **$139,559,725** | **$31,483,821** | **$427,041,006** | | **566,600,731** | | **0.82** |

The MTRP maintains adequate diversification by fund and by manager. The JP Morgan Strategic Property Fund is the portfolio's highest concentration at 20.44% of NAV; this weight should continue to decline in future periods as additional capital is drawn by the Pool's Value Added, Opportunistic, and Timberland funds. Among the closed-end fund managers, Angelo Gordon and TA Realty Associates each account for ~5-7% of NAV.

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# Montana Loan Program Reports

# *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
Senior Portfolio Manager

**Date:** May 5, 2011

**Subject:** Commercial and residential loan portfolios

Before I summarize the commercial and residential loan portfolios, I wanted to inform you that the Montana Board of Investments (MBOI) has become an eligible lender under the United States Department of Agriculture (USDA) Rural Development's Business & Industry Guarantee Program. The approval letter was dated February 10, 2011. Our original application was submitted on August 20, 2011. I was told by John Guthmiller, Director of the Business Cooperative Programs, that MBOI is the only state agency to have been awarded approved lender status in the nation. Becoming an eligible lender will allow MBOI to request a guarantee from the USDA on qualifying Infrastructure loans originated by MBOI. Receiving a guarantee from the USDA will allow a lower interest rate to the borrower and provide diversification within our Infrastructure loans and some insulation from loss in the event one of the guaranteed loans goes into liquidation. This is another tool that we can use in our effort to create economic activity in Montana.

Commercial loans, as of April 30, 2011, totaled $161,106,236 and yielded 5.54%. There are $18,547,239 in outstanding reservations and $7,587,559 of outstanding commitments. There were no new reservations or commitments during the month of April. Our past due percentage is unacceptable at 6.01%, due in large part to one credit representing 5.47% of the total past due percentage. Staff will be attending a meeting on May 10th with the lender, borrower and a representative from the USDA, which guarantees a majority of this loan, to discuss how the borrower plans to eliminate the current condition of their loans.

Residential loans continue to decline and as of April 30, 2011 the portfolio had a balance of $28,199,479. There were no outstanding reservations. Past due totaled $755,097, of which $358,930 were over 90 days past due. Of the total past due loans only $20,810 was not guaranteed by the FHA or VA and it was over 90 days past due.

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# Bond Program Reports

# INTERCAP Loan Program

## Activity Summary

**As of March 31, 2011**

## Since Inception 1987 - March 2011

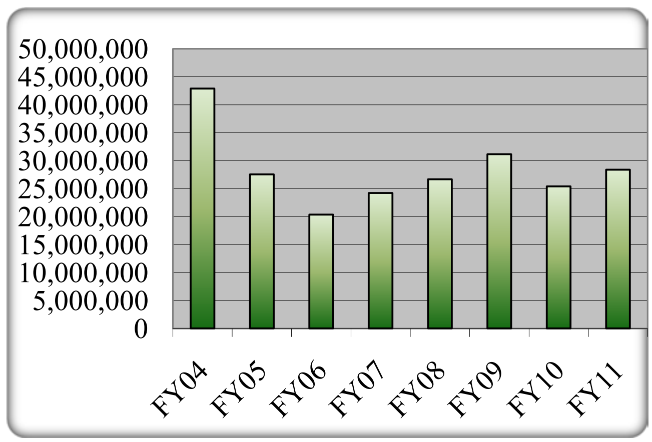
| | |
|---|---|
| **Total Bonds Issued** | **136,000,000** |
| **Total Loan Commitments** | **373,720,822** |
| **Total Loans Funded** | **335,040,816** |
| **Total Bonds Outstanding** | **95,530,000** |
| **Total Loans Outstanding** | **71,280,609** |
| **Loan Commitments Pending** | **38,680,006** |

### FY2011 To Date

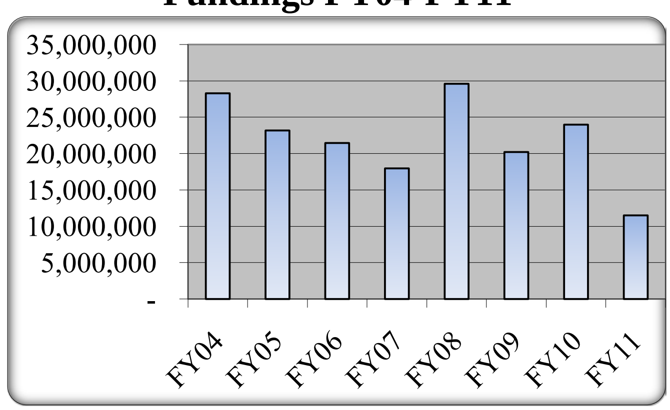
| Month | Commitments | Fundings |
|---|---|---|
| July-10 | $ 1,697,145 | $ 1,475,213 |
| August | 875,000 | 817,598 |
| September | 566,039 | 500,288 |
| October | 1,506,999 | 845,556 |
| November | 902,000 | 1,278,855 |
| December | 7,839,469 | 1,825,704 |
| January | 4,076,050 | 913,532 |
| February | 6,742,500 | 538,891 |
| March | 2,866,500 | 1,705,084 |
| April | | |
| May | | |
| June-11 | | |
| **To Date** | $ 27,071,702 | $ 9,900,721 |

**Note: Commitments include withdrawn and expired loans.**

### Commitments FY04-FY11




### Fundings FY04-FY11




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

| | | | |
|---|---|---|---|
| February 16, 2004 - February 15, 2005 | **2.70%** | February 16, 2008 - February 15, 2009 | **4.25%** |
| February 16, 2005 - February 15, 2006 | **3.80%** | February 16, 2009 - February 15, 2010 | **3.25%** |
| February 16, 2006 - February 15, 2007 | **4.75%** | February 16, 2010 - February 15, 2011 | **1.95%** |
| February 16, 2007 - February 15, 2008 | **4.85%** | February 16, 2011 - February 15, 2012 | **1.95%** |

L:\INTERCAP\BOARD\ACTIVITY SUMMARY1.xlsx

# *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:** May 19, 2011


**Subject:** INTERCAP Loan Committee E-mail Approved Loans Committed

Loan Committee (LC) approved the following loans – February 9, 2011 through May 19, 2011.

| | |
|---|---|
| Borrower: | City of Ronan |
| Purpose: | Interim loan in anticipation of Rural Development (RD) long term financing for water system improvements |
| LC Approval Date: | February 15, 2011 |
| Board Loan Amount: | $2,528,000 |
| Other Funding Sources: | $2,285,000 |
| Total Project Cost : | $4,813,000 |
| Term: | 2 years |

| | |
|---|---|
| Borrower: | Town of Stevensville |
| Purpose: | Interim loan in anticipation of Rural Development (RD) long term financing for water system improvements |
| LC Approval Date: | February 15, 2011 |
| Board Loan Amount: | $3,000,000 |
| Other Funding Sources: | $2,000,000 |
| Total Project Cost : | $5,000,000 |
| Term: | 1 year |

| | |
|---|---|
| Borrower: | Department of Natural Resources and Conservation (DNRC) |
| Purpose: | Interim loan in anticipation of issuing State of Montana Coal Severance Tax (CST) Bonds for its Renewable Resource Grant & Loan (RRGL) Program |
| LC Approval Date: | March 24, 2011 |
| Board Loan Amount: | $2,000,000 |
| Other Funding Sources: | $0 |
| Total Project Cost : | $2,000,000 |
| Term: | 3 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:** May 19, 2011

**Subject:** INTERCAP Staff Approved Loans Committed


Staff approved the following loans – December 31, 2010 through March 31, 2011.

| | |
|---|---|
| Borrower: | Town of Sunburst |
| Purpose: | Purchase garbage truck |
| Staff Approval Date | January 14, 2011 |
| Board Loan Amount: | $28,050 |
| Other Funding Sources: | $0 |
| Total Project Cost: | $28,050 |
| Term: | 5 years |

| | |
|---|---|
| Borrower: | City of Three Forks |
| Purpose: | Construct a 30X40 office/storage building at city fairgrounds |
| Staff Approval Date | January 14, 2011 |
| Board Loan Amount: | $48,000 |
| Other Funding Sources: | $0 |
| Total Project Cost: | $48,000 |
| Term: | 10 years |

| | |
|---|---|
| Borrower: | Sheavers Creek Lake Co. Water & Sewer District (Bigfork) |
| Purpose: | Final costs to complete the water storage tank and waterline improvements project |
| Staff Approval Date | February 1, 2011 |
| Board Loan Amount: | $ 25,000 |
| Other Funding Sources: | $1,961,400 |
| Total Project Cost: | $1,986,400 |
| Term: | 10 years |

| | |
|---|---|
| Borrower: | Dept. of Natural Resources and Conservation (DNRC) |
| Purpose: | Interim financing in anticipation of receiving Drinking Water State Revolving Fund (DWSRF) Loan Program loan repayments |
| Staff Approval Date: | February 4, 2011 |
| Board Loan Amount: | $1,000,000 |
| Other Funding Sources: | $0 |
| Total Project Cost: | $1,000,000 |
| Term: | 3 years |

| | |
|---|---|
| Borrower: | Ravalli County |
| Purpose: | Purchase sheriff vehicles |
| Staff Approval Date: | February 14, 2011 |
| Board Loan Amount: | $300,000 |
| Other Funding Sources: | $0 |
| Total Project Cost: | $300,000 |
| Term: | 5 years |

| | |
|---|---|
| Borrower: | City of Libby |
| Purpose: | Interim loan in anticipation of Rural Development (RD) long term financing for wastewater system improvements |
| Staff Approval Date: | February 25, 2011 |
| Board Loan Amount: | $ 678,000 |
| Other Funding Sources: | $ 542,000 |
| Total Project Cost: | $1,220,000 |
| Term: | 2 years |

| | |
|---|---|
| Borrower: | Crystal Springs Yellowstone Co. W&S District (Billings) |
| Purpose: | Preliminary engineering report |
| Staff Approval Date: | March 7, 2011 |
| Board Loan Amount: | $40,000 |
| Other Funding Sources: | $ 6,000 |
| Total Project Cost: | $46,000 |
| Term: | 6 years |

| | |
|---|---|
| Borrower: | City of Miles City |
| Purpose: | Purchase police vehicles |
| Staff Approval Date: | March 17, 2011 |
| Board Loan Amount: | $53,500 |
| Other Funding Sources: | $0 |
| Total Project Cost: | $53,500 |
| Term: | 3 years |

MONTANA UNIVERSITY SYSTEM

| | |
|---|---|
| Borrower: | University of Montana-Missoula |
| Purpose: | UM's Broadcast Media Center (Montana Public Radio) KUFM fundraising soft/hardware |
| Staff Approval Date | February 28, 2011 |
| Board Loan Amount: | $38,500 |
| Other Funding Sources: | $25,000 |
| Total Project Cost: | $63,500 |
| Term: | 5 years |

| | |
|---|---|
| Borrower: | MSU-Bozeman |
| Purpose: | American Disabilities Act (ADA) accessibility projects |
| Staff Approval Date | March 8, 2011 |
| Board Loan Amount: | $ 773,000 |
| Other Funding Sources: | $ 263,000 |
| Total Project Cost: | $1,036,000 |
| Term: | 6 years |