

These minutes are Approved and Final. Full Board review and decision took place at the November 15 & 16, 2011 Regular Meeting of the Board.

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

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

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Senator Joe Balyeat

STAFF PRESENT:

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

GUESTS:

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

CALL TO ORDER

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

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

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

ADMINISTRATIVE BUSINESS

Human Resource Committee (HR)

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

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

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

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

Loan Committee

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

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

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

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

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

Board Education Policy

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

Public Comment

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

EXECUTIVE DIRECTOR'S REPORT

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

Pension Fund Investment Returns

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

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

Open Meeting Law

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

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

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

QUARTERLY PERFORMANCE REPORTS

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

Pension Funds and Investment Pools

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

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

INVESTMENT ACTIVITIES/REPORTS

Retirement System Asset Allocation Report

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

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

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

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

Comparison to State Street Public Fund Universe

Mr. Sheets reviewed a comparison of the two large pension plans to the State Street public fund universe in terms of relative performance and asset allocation as a supplement to the RV Kuhns public fund universe return comparison. During this review he also noted the asset allocation weight for private equity from the RV Kuhns survey of public plans as an additional comparison.

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Private Asset Pool Reviews

Private Equity (MPEP)

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

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

Real Estate (MTRP)

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

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

Partnership Focus Lists

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

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

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Public Asset Pool Reviews

Domestic Equity (MDEP)

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

International Equity (MTIP)

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

Public Equity External Managers Watch List

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

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

ADJOURNED

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

CALL TO ORDER – Day 2 August 17, 2011

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

ADMINISTRATIVE BUSINESS

Public Comment

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

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INVESTMENT ACTIVITIES/REPORTS, continued

Public Asset Pool Reviews

Fixed Income

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

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

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

Investment Policy Statement – Montana State University

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

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

Actuarial Assumptions

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

BOND PROGRAM

Activity Report

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

Staff Approved Loans Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



MONTANA UNIVERSITY SYSTEM

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

Annual INTERCAP Loan Detail Report

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

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

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

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

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ADJOURNMENT

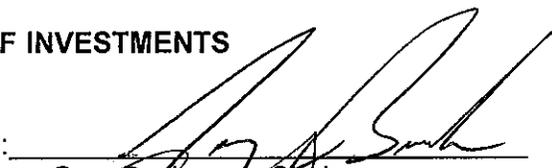
There being no further business, Chairman Buchanan adjourned the meeting at 10:48 a.m.

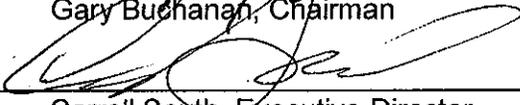
Next Meeting

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

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

BOARD OF INVESTMENTS

APPROVE: 
Gary Buchanan, Chairman

ATTEST: 
Carroll South, Executive Director

DATE: 11/16/11

MBOI:caa
9/19/11