

**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	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	Jon Shoen, CFA, CAIA, Portfolio Manager
Teri Kolnik, Alternative Investment Analyst	Carroll South, Executive Director
Herb Kulow, Portfolio Manager	Steve Strong, Equity Investment Analyst
Rande Muffick, CFA, Portfolio Manager	Louise Welsh, Bond Program Officer
Chris Phillips, CFA, Investment Staff	Dan Zarlring, CFA, Director of Research
Jon Putnam, CFA, FRM, Fixed Income Investment Analyst	

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

Loan Committee E-Mail Approved Loans

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: _____