

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

**MINUTES OF THE MEETING
July 14, 2011**

BOARD MEMBERS PRESENT:

Gary Buchanan, Chairman
Karl Englund
Quinton Nyman
Jack Prothero
Jon Satre

BOARD MEMBERS ABSENT:

Pat McKittrick
Jim Turcotte
Senator Joe Balyeat
Representative Franke Wilmer

STAFF PRESENT:

Carol Ann Augustine, Board Secretary	Herb Kulow, Portfolio Manager
Polly Boutin, Accountant	April Madden, Accountant
Jason Brent, Investment Analyst	Gayle Moon, Accounting Fiscal Manager
Geri Burton, Deputy Director	Rande Muffick, CFA, Portfolio Manager
Richard Cooley, CFA, Portfolio Manager	Chris Phillips, CFA, Investment Staff
Roberta Diaz, Accountant	Nathan Sax, CFA, Portfolio Manager
Tim House, Investment Operations Chief	Clifford A. Sheets, CFA, Chief Investment Officer
Ed Kelly, Alternative Investment Analyst	Carroll South, Executive Director
Teri Kolnik, Alternative Investment Analyst	Dan Zarling, CFA, Director of Research

GUESTS:

Champ Edmunds, Bitterroot Financial Group
Bridgitt Erickson, no affiliation
Becky Gratsinger, RV Kuhns & Associates
Mark Higgins, RV Kuhns & Associates
Jeff Lowe, Bitterroot Financial Group
Pat Murdo, Legislative Services
Dave Senn, Teachers' Retirement System
Tom Tibbles, Hansberger Global Investors
Jim Voytko, RV Kuhns & Associates
Kris Wilkinson, Legislative Fiscal Division

CALL TO ORDER

Chairman Gary Buchanan called the Special Meeting of the Board of Investments (Board) to order at 11:12 a.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.

ADMINISTRATIVE BUSINESS

Chairman Buchanan announced that Governor Schweitzer appointed Representative Franke Wilmer as legislative liaison to the Board; she will attend the August Board Meeting. The Chairman stated that Member Elouise Cobell has officially resigned; the Board will send a letter thanking her for her service. There are now two vacancies on the Board; the Governor's Office will make the necessary appointments.

Chairman Buchanan asked for introductions from the audience and then the Board.

Board Member Jack Prothero made a Motion to approve the Minutes of the May 18-19, 2011 Board Meeting; Member Jon Satre seconded the Motion. The Motion was carried 5-0.

Board Member Karl Englund, Human Resource Committee Chair reported that the hiring process is moving forward for the Alternative Investments Portfolio Manager position. Mr. Englund stated that approval is needed from the Board for the HR Committee to start the process to hire an Executive Director; Mr. Carroll South is retiring at the end of the year.

Board Member Karl Englund made a Motion to authorize the Human Resource Committee to conduct a candidate search to fill the Executive Director position.

Discussion followed: Ads will be placed statewide and nationally as soon as possible in order to have a list of potential candidates for the August Board Meeting. The Committee will then narrow down the list for telephone interviews; in-person interviews will follow. The Board would like to have someone in place by December 1 to work with Mr. South before he retires. Full Board decision will be made based on the recommendation of the HR Committee.

Board Member Jon Satre seconded the Motion. The Motion was carried 5-0.

Board Education Policy

Chairman Gary Buchanan recommended final Board approval of the Board Education Policy. The following amendments to the policy were made and unanimously approved by the Board:

- **IV, 1, H** Each Board Member shall report to the Board ~~in writing,~~ on the most important knowledge or information gained from the conference/seminar/workshop attended and recommend whether to attend in the future.
- **IV, 2, B** All new Board Members shall be required to participate in the orientation program within ~~45 days of appointment~~ *a reasonable time. Current Board Members are invited to participate at their option.*

Board Member Karl Englund made a Motion to approve the Board Education Policy as amended; Member Jack Prothero seconded the Motion. The Motion was carried 5-0.

Public Comment

Chairman Gary Buchanan called for public comment on Board issues. There was no public comment.

ALTERNATIVE INVESTMENTS – INFORMATIONAL/QUESTIONS

Alternative Investments - R.V. Kuhns & Associates

Ms. Becky Gratsinger offered a brief introduction of their firm and its relationship with the Board of Investments since 2005.

Ms. Gratsinger followed with an overview of Alternative Investments and Private Equity. She began by providing a broad definition of alternative investments, and noted the aspects of market inefficiency, illiquidity, and low correlations with traditional publicly traded stocks and bonds. These attributes can benefit a portfolio when skilled managers are used to exploit available opportunities in the private markets. In reviewing private equity, she noted the importance of manager selection and the ability to make a long term commitment to the asset class given its inherent illiquidity. A steady commitment pace across vintage years and various strategies and managers is important to an effective program that will enhance long term portfolio returns.

Mr. Mark Higgins presented Private Equity – Fee Terms and Structures. He discussed the fee structures that typically prevail with a private equity fund. These include a management fee paid at a set percentage based on the amount of capital committed to a fund and typically range from 0.50% to 2.5%. In addition, there are incentive fees which are paid based on performance and can range from 5% to 30% of profits depending on the fund structure, strategy, and manager. Though managers are being pressured to base fees on actual invested dollars, and adopt other more investor-friendly terms, they have been slow to modify the traditional fee structure.

Private Equity Investments – Carroll South, Executive Director

Mr. Carroll South gave an overview of pension fund private equity investments. These investments diversify the pension portfolios and generate returns greater than public equity markets, thus helping to meet the 7.75% return assumption of the pension funds. The Board first invested in private equity in fiscal year 1988 and has committed \$1.9 billion as of December 31, 2010; \$1.3 billion has been drawn down and \$1 billion returned. The remaining investments have a market value of \$958 million and there was \$508.3 million in committed capital not yet drawn down. Private equity is expected to generate 3-4% more than domestic equity. Looking back over the ten years ending fiscal 2010, and comparing the actual returns received from private equity investments, as compared to having invested in domestic public stocks, shows these investments provided a return advantage of over \$400 million to the pension plans. A forward-looking analysis, using the assumed returns for private equity versus those for public stocks suggests a potential return advantage of over \$500 million for the pension assets over the ten years ending fiscal 2020.

Real Estate Investments – Clifford Sheets, Chief Investment Officer

Mr. Cliff Sheets reported that real estate investments started in 2006 as a means to improve the diversification of the pension plans. The real estate allocation range is now 4-10% of our portfolio including up to 2% in timberland. Mr. Sheets explained the levels of risk involved: core real estate is the lowest risk, value-added is more risk and opportunistic is the highest risk strategy category. Real estate returns are expected to continue to follow other risk markets with a lag. Near-term expectations are for positive returns in a challenging economic environment.

Mr. Sheets reviewed the current real estate portfolio. Because of time constraints, the portfolio review was not completed. Continued review and discussion on the real estate portfolio and review and discussion of the private equity portfolio will take place at the next regularly scheduled meeting of the Board August 16 and 17, 2011.

ADJOURNMENT

There being no further business, Chairman Buchanan adjourned the meeting at 3:15 p.m.

Next Meeting

The next regular meeting of the Board will be August 16 and 17, 2011 in Helena, Montana.

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

BOARD OF INVESTMENTS

APPROVE: _____
Gary Buchanan, Chairman

ATTEST: _____
Carroll South, Executive Director

DATE: _____

MBOI:caa
7/27/11