

These minutes are Approved and Final. Full Board review and decision took place at the July 14, 2011
Special Board Meeting.

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

**MINUTES OF THE MEETING
May 18-19, 2011**

BOARD MEMBERS PRESENT:

Gary Buchanan, Chairman
Terry Cohea
Karl Englund
Patrick McKittrick
Quinton Nyman
Jack Prothero
Jon Satre
Senator Joe Balyeat

BOARD MEMBERS ABSENT:

Elouise Cobell
Jim Turcotte

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
Ed Kelly, Alternative Investment Analyst	Steve Strong, Equity Investment Analyst
Teri Kolnik, Alternative Investment Analyst	Louise Welsh, Bond Program Officer
Herb Kulow, Portfolio Manager	Dan Zarling, CFA, Director of Research
Rande Muffick, CFA, Portfolio Manager	
Jon Putnam, CFA, FRM, Fixed Income Investment Analyst	

GUESTS:

Trevor Graham, Hansberger Global Investors
Mark Higgins, RV Kuhns & Associates
Gordon Hoven, Piper Jaffray
Roxanne Minnehan, Public Employee Retirement Administration
John O'Donnell, Montlake Capital
Evelyn Orley, Hansberger Global Investors
Dave Senn, Teachers' Retirement System
Tom Tibbles, Hansberger Global Investors
Jim Voytko, RV Kuhns & Associates

CALL TO ORDER

Chairman Gary Buchanan 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.

Newly appointed Board Members Gary Buchanan and Quinton Nyman introduced themselves to the Board. Chairman Buchanan told the Board that he has many business dealings and went on the record as separating his business from the Board's business.

Member Karl Englund made a Motion to approve the Minutes of the February 2011 Board Meeting; Member Terry Cohea seconded the Motion. The Motion was carried 7-0.

Member Karl Englund made a Motion to approve the Minutes of the May 13, 2010 Joint Board of Investments/Public Employees Retirement Administration/Teachers' Retirement System Meeting Minutes; Member Terry Cohea seconded the Motion. The Motion was carried 7-0.

ADMINISTRATIVE BUSINESS

Board Committees

Chairman Gary Buchanan made the following Board Committee appointments:

<u>Loan Committee</u>	<u>Audit Committee</u>	<u>Human Resource Committee</u>
Jack Prothero, Chair	Jim Turcotte, Chair	Karl Englund, Chair
Terry Cohea	Patrick McKittrick	Quinton Nyman
Patrick McKittrick	Jon Satre	Jack Prothero
Jim Turcotte		Jon Satre

Chairman Buchanan reported that the Human Resource Committee will meet at 4:30 p.m. today, May 18, 2011; the Audit Committee meeting has been postponed; and the Loan Committee report will be given tomorrow, May 19, 2011.

Future Board Meeting Dates

Chairman Buchanan confirmed the August 16-17, 2011 meeting dates.

Chairman Buchanan announced that Member Elouise Cobell will be resigning from the Board due to health issues. Member Karl Englund asked that the Minutes reflect Member Cobell's years of service to the Board and to the State of Montana, including her work on the long-running Indian trust class action lawsuit and remarkable success with the landmark \$3.4 billion settlement.

Public Comment

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

EXECUTIVE DIRECTOR'S REPORT

Legislative Update

Mr. Carroll South reported on the final disposition of legislation he has been tracking through the 2011 Legislative Session. State employees have had no salary increases for the past two years

Member Karl Englund made a Motion to authorize Board staff to fill the Alternative Investments Manager position and approve salary within the approved salary range for that position; Member Terry Cohea seconded the Motion. The Motion was carried 7-0.

Member Englund then turned the floor over to Mr. Carroll South, who announced his retirement at the end of the year. The HR Committee will launch an extensive search to hire a new Executive Director before Mr. South leaves, so that the two may work together for an effective transition.

Member Karl Englund suggested drafting a letter on behalf of the Board to thank past Board Member Maureen Fleming for her service to the Board. Chairman Buchanan added that we might invite her to come to a Board meeting to offer recognition.

The Board will also send a letter to Member Elouise Cobell when she has officially resigned from the Board.

Dates for the next Board Meeting were confirmed to be August 16 and 17, 2011. Chairman Buchanan chose to defer scheduling any other meetings, and stated that he will schedule a Special Board Meeting in June to discuss retirement funds and strategies.

INVESTMENT ACTIVITIES/REPORTS, continued

Public Asset Pool Reviews

Fixed Income

Mr. Cliff Sheets gave a brief review of the history of management of the fixed income asset class at the Board after yesterday's discussion about Retirement Funds Bond Pool performance. Mr. Sheets reviewed the performance history of the Pool, the allocation decision made to add externally-managed non-core portfolios in 2008, and performance compared to peer asset class returns.

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.

Private Asset Pool Reviews

Private Equity (MPEP)

Mr. Cliff Sheets 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 February 2011 Board Meeting.

These minutes are Approved and Final. Full Board review and decision took place at the July 14, 2011 Special Board Meeting.

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

Real Estate (MTRP)

Due to time constraints, the following private edge 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; total exposure by geography; time weighted and internal rates of return; and the portfolio status report. The following funding and commitment decisions were presented in the packet but not discussed.

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 US Forest Growth Fund III	MTRP	Timber	Domestic	\$25 M	03/15/11
Landmark Partners RE Partners VI, LP	MTRP	Secondary	Diverse	\$20 M	03/16/11

Partnership Focus Lists

Due to time constraints, changes to the MPEP and MTRP Focus Lists were not presented.

EXTERNAL MANAGER PRESENTATION

Hansberger Global Investors

Mr. Rande Muffick introduced Mr. Tom Tibbles, Chief Investment Officer; Mr. Trevor Graham, Senior Vice President of Research, and Ms. Evelyn Orley, Senior Vice President of Marketing, who reviewed their firm and management style. Hansberger Global is an international equity manager.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

Mr. Herb Kulow reported that the Montana Board of Investments has been awarded approved lender status with the USDA Rural Development's Business and Industry Guarantee Program. This will allow a lower interest rate to the borrower and provide diversification within our infrastructure loans.

Mr. Kulow told the Board that as of April 30, 2011 commercial loans totaled \$161,106,236 and yielded 5.54%. Delinquent loans will be current by the end of the month.

The residential loan portfolio declined slightly, with a balance of \$28,199,479. There are no outstanding reservations.

Loan Committee Report

Loan Committee Chairman Jack Prothero reported that the Loan Committee reviewed and approved one Montana Loan Program loan request. The Loan Committee authorized staff to

proceed with processing and closing this loan using the Board's standard Loan Program procedures.

Borrower:	King Development & Land Co., LLC
Type of Loan	Participation Loan
Lender:	First Interstate Bank, Billings
Purpose:	Construction of 24,066 sq. ft. free standing retail building
Board Loan Amount:	\$1,170,040
Term:	20 Years

The Loan Committee also reviewed and recommended full Board approval of the following loan:

Borrower:	J & D Limited Family Partnership and J.C. Billion, Inc., Bozeman
Type of Loan	Participation Loan
Lender:	Bank of Montana, Missoula
Purpose:	Construction of three auto dealerships and a car wash.
LC Approval Date:	May 18, 2011
Board Loan Amount:	\$7,680,000
Term:	20 Years

Loan Committee Chairman Jack Prothero made a Motion to approve the loan to J & D Limited Family Partnership and J.C. Billion, Inc., Bozeman; Member Jon Satre seconded the Motion. The Motion was carried 6-0; Member Karl Englund abstained.

BOND PROGRAM

Activity Report

Ms. Louise Welsh presented the INTERCAP report for the period January 1 through March 31, 2011. Year to date commitments total \$27,071,702 with \$9,900,721 funded. Total loans outstanding are \$71,280,609; bonds outstanding are \$95,530,000.

Ms. Welsh informed the Board that the Board's credit enhancement report is available on the Electronic Municipal Market Access website. Chairman Buchanan requested a copy of this report.

Staff Approved Loans Report

The Board reviewed this report for the period January 1 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

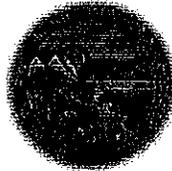
Borrower:	Ravalli County
Purpose:	Purchase sheriff vehicles
Staff Approval Date:	February 14, 2011
Board Loan Amount:	\$300,000
Other Funding Sources:	\$0
Total Project Cost:	\$300,000
Term:	5 years

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

These minutes are Approved and Final. Full Board review and decision took place at the July 14, 2011 Special Board Meeting.

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

Loan Committee E-Mail Approved Loans

The Loan Committee approved the following loans by email February 9 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

These minutes are Approved and Final. Full Board review and decision took place at the July 14, 2011 Special Board Meeting.

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

ADJOURNMENT

There being no further business, Chairman Buchanan adjourned the meeting at 12:17 p.m.

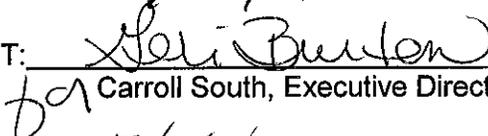
Next Meeting

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:  3-29-12
for Carol South, Executive Director

DATE: 7/14/11

MBOI:caa
6/8/11