

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

August 21 – 22, 2012

AGENDA – DAY 1

COMMITTEE MEETINGS

A. Audit Committee 8:30 AM

1. FY12 Internal Control Review Report & Response – Decision
2. Internal Controls Policy Revisions – Decision
3. Performance Audit – Status
4. Audit Committee Charter Revision – Decision
5. Public Comment – *Public Comment on issues with Committee Jurisdiction*

B. Human Resource Committee 9:30 AM

1. Executive Director General Comments-Decision
2. Public Comment – *Public Comment on issues with Committee Jurisdiction*

BREAK 10:45 AM

Tab 1 CALL TO ORDER – Gary Buchanan, Chairman 11:00 AM

- A. Roll Call
- B. Approval of the May 2012 Meeting Minutes
- C. Administrative Business
 1. Audit Committee Report
 - a. Audit Committee Charter Revision - Decision
 2. Human Resource Committee Report
 3. Loan Committee Report
 4. Investment Consultant Committee Report
- D. Public Comment – *Public Comment on issues with Board Jurisdiction*

Tab 2 EXECUTIVE DIRECTOR REPORTS – David Ewer 11:10 AM

- A. Comments
- B. Board Functional Organization Chart - Decision

Tab 3 MONTANA LOAN PROGRAM – Herb Kulow 11:20 AM

- A. Commercial and Residential Portfolios Report
- B. Montana Veterans' Home Loan Mortgage Policy – Decision

Tab 4 BOND PROGRAM – Louise Welsh 11:35 AM

- A. INTERCAP
 1. Activity Report
 2. Staff Approved Loans Report
 3. Loan Committee Approved Loans Report
 4. Annual INTERCAP Loan Detail Report

BOARD EDUCATION –

- Highlights June Carlsbad Fiduciary Conference 11:50 AM

LUNCH SERVED	12:00 PM
BENCHMARKING ANALYSIS – David Ewer CEM Presentation – Mike Heale	12:45 PM
Tab 5 BUDGET – David Ewer Staff Recommendations for FY 2013, FY 2014 and FY 2015 budget – Decision	2:00 PM
BREAK	3:00 PM
Tab 6 INTERNATIONAL EQUITIES – Cliff Sheets, CFA, and Rande Muffick, CFA A. Montana International Equity Pool Staff Recommendations – Decision	3:15 PM
ADJOURNMENT	5:00 PM

AGENDA – DAY 2

RECONVENE AND CALL TO ORDER A. Roll Call B. Public Comment – <i>Public Comment on issues with Board Jurisdiction</i>	8:30 AM
PERS/TRS/BOARD Updates – David Ewer, Jim Turcotte, Bob Bugni	8:40 AM
CONSULTANT REPORT – R.V. Kuhns and Associates A. Fiscal Year End Performance Report	8:50 AM
Tab 7 INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA A. Retirement System Asset Allocation Report B. Fixed Income Reports 1. Bond Pools (RFBP and TFIP) – Nathan Sax, CFA 2. Below Investment Grade Holdings 3. Short-term (STIP) and Other Fixed Income Portfolios – Richard Cooley, CFA C. Private Asset Pool Reports – Ethan Hurley 1. Private Equity Pool (MPEP) 2. Real Estate Pool (MTRP) D. Public Equity Pool Reports – Rande Muffick, CFA 1. Domestic Equity (MDEP) 2. International Equity (MTIP)	9:30 AM
Tab 8 INVESTMENT CONSULTANT RFP – David Ewer A. Discussion-Brad Sanders, Bureau Chief, State Procurement office	11:00 AM
RECAP OF STAFF TO DO LIST AND ADJOURNMENT – Gary Buchanan	12:00 PM
Tab 9 A. Acronym Index B. Annual Board Meeting Schedule C. Public Market Manager Evaluation Policy	

[Return to Meeting Agenda](#)

Call to Order

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

**MINUTES OF THE MEETING
May 22-23, 2012**

BOARD MEMBERS PRESENT:

Gary Buchanan, Chairman
David Ageson
Bob Bugni
Karl Englund
Mark Noennig
Quinton Nyman
Jack Prothero
Jon Satre
Jim Turcotte

LEGISLATIVE LIAISONS PRESENT:

Senator Joe Balyeat
Representative Franke Wilmer arrived at 2:15 p.m.

STAFF PRESENT:

Jason Brent, CFA,
Alternative Investments Analyst
Geri Burton, Deputy Director
Richard Cooley, CFA, Portfolio Manager,
Fixed Income/STIP
Dana Chapman, Board Secretary
David Ewer, Executive Director
Tim House, Investment Operations Chief
Ethan Hurley, Portfolio Manager,
Alternative Investments
Ed Kelly, Alternative Investments Analyst
Herb Kulow, MCMB, Portfolio Manager,
In-State Loan Program

Rande Muffick, CFA, Portfolio Manager,
Public Equities
Chris Phillips DeFranco, CFA, Investment Staff
Jon Putnam, CFA, FRM, Fixed Income
Investment Analyst
Nancy Rivera, Credit Analyst
John Romasko, CFA, CPA, Fixed Income
Investment Analyst
Nathan Sax, CFA, Portfolio Manager,
Fixed Income
Clifford A. Sheets, CFA,
Chief Investment Officer
Steve Strong, Equity Investment Analyst
Louise Welsh, Bond Program Officer
Dan Zarling, CFA, Director of Research

GUESTS:

Jim Voytko, RV Kuhns and Associates
Mark Higgins, RV Kuhns and Associates
Gordon Hoven, Piper Jaffray
David Senn, Montana Teachers' Retirement System
Roxanne Minnehan, Public Employees' Retirement System
Kris Wilkinson, Legislative Fiscal Division

CALL TO ORDER

Board Chairman Gary Buchanan called the regular meeting of the Board of Investments (Board) to order at 12:30 PM in the Board Room on the third floor at 2401 Colonial Drive, Helena, Montana. As noted above, a quorum of Board Members was present. Senator Joe Balyeat was present; Representative Franke Wilmer arrived at 2:15 PM.

Board Member Jack Prothero made a Motion to approve the Minutes of the April 3, 2012 Board Meeting; Member David Ageson seconded the Motion. The Motion was carried 9-0.

ADMINISTRATIVE BUSINESS

Audit Committee Report

Audit Committee Chair Jim Turcotte reported that the Board's Audit Committee met February 22 to discuss the FY12 Internal Control review and Risk Assessment Model; no changes were required. The Committee also met with Galusha, Higgins & Galusha regarding the Procedure Audit performed upon Carroll South's retirement, as is required after any major staff member departs. The Legislative Audit Division will be conducting the Performance Audit in the near future.

Human Resource Committee Report

Committee Chairman Karl Englund reported that the Committee will continue its meeting tomorrow morning prior to the reconvening of the Board meeting.

Loan Committee Report

Loan Committee Chair Jack Prothero reported that the Committee discussed Montana Science and Technology loan write offs which will be presented during Herb Kulow's Loan Report. The Committee postponed any discussion of the Veteran's Home Loan Mortgage Policy due to recent revisions submitted by the Board of Housing. The Committee approved INTERCAP loans which Louise Welsh will present during the Bond Program Report.

Public Comment

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

EXECUTIVE DIRECTOR'S REPORT

Overall Comments

Director David Ewer reviewed his general comments memo to the Board and called for any questions on the memo. Member Bob Bugni noted he did not have any recommendations at this time regarding his suggestion of a comprehensive review of BOI.

Director Ewer advised the budget will be presented at the August Board meeting; however, Board members will be sent a budget "primer" prior to the meeting. The legislature limits BOI to a total budget of \$4.8 million for each fiscal year 2012 and 2013 but not all expenses are in the legislative budget. The Bond Program is paid through the Enterprise Fund, the custodial bank is paid by a statutory appropriation and the cost of external managers is paid under the Unified Investment Act.

Director Ewer reported staff is in the process of hiring another certified public accountant, a deputy financial manager, due to the Board's scope and complexities of duties.

Director Ewer advised staff recommends continuing with the CEM Benchmark study to produce the cost and return analysis report for 2011. Further discussion and decision will occur later in this afternoon's agenda item.

Director Ewer presented the Budget Status Report with year to year comparisons of April 30, 2012 and April 30, 2011.

Mr. Jim Voytko and Mr. Mark Higgins from RV Kuhns discussed the Monte Carlo Analysis follow-up requested by Member Bugni at the April 3, 2012 meeting which looked at the probability of attaining a 7.75% return. Mr. Voytko explained that regardless of the specific return assumption, there is nothing to say you cannot attain it; it's just a question of the probability of doing so. He also noted in response to a question that in general, long term return assumptions are down for 2012. Markets remain volatile and increased risk always exposes the plans to the possibility of lower returns. There was a question asked by Member Turcotte regarding the inflation assumption imbedded in the return assumptions used by RV Kuhns, and it was noted that a 2.5% general inflation rate was assumed which compares to a 3.5% rate used by the TRS actuary, the difference having some potential effect on nominal returns.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

Mr. Herb Kulow reported that the commercial and residential loan portfolios continue to hold a lot of cash. While refinances are plentiful, they do not fulfill the goal of creating economic development. The past dues remain constant.

As of April 30, 2012 the commercial loan portfolio totaled \$136,679,661; this included five outstanding reservations in the amount of \$6,135,000 and three loan commitments in the amount of \$8,986,025. Our two past due loans are SBA guaranteed, totaling \$205,452 or 0.15% of the total portfolio.

As of April 30, 2012 the residential loan portfolio totaled \$21,236,570 with no outstanding reservations. Eight loans were past due totaling \$549,645 or 2.59% of the portfolio, down from 3.08% at January 31, 2012. Of those past due loans, five were past due over 90 days totaling \$387,011, four of those loans were guaranteed totaling \$301,828 and one was a conventional loan totaling \$85,183.

As of April 30, 2012 the Veterans Home Loan Mortgage Program has funded 13 loans totaling \$2,180,786 which is the outstanding balance of this portfolio; there are currently 11 outstanding reservations totaling \$1,945,140.

The Montana Veterans' Home Loan Mortgage Policy is pulled from consideration due to pending revisions and will be presented at the August Board meeting.

Mr. Kulow explained the history of the Montana Board of Science and Technology Alliance (MSTA). Originally created by the 1985 Legislature to encourage science and technology in Montana, the MSTTA made high-risk investments as venture capital loans or loans to start-up companies. Abolished by the 1997 Legislature, MSTTA became the responsibility of the Department of Commerce. The 1999 Legislature then transferred MSTTA's portfolio to the Montana Board of Investments which then became the successor and responsible for the management and collection of MSTTA's portfolio. There are eight entities currently in the MSTTA portfolio reflecting a \$12,153,215 balance. After very little activity since 1999, Mr. Kulow was directed to develop a plan of action regarding the MSTTA portfolio.

Mr. Kulow's recommendations, as approved by the Loan Committee, propose the following write off of \$1,496,265.86 of the MSTA Portfolio:

MSTA Entities			
as of May 3, 2012			
		Recommended	Remaining
Entity	Balance	Write Off	Balance
Montana University System	8,380,992.43	0.00	8,380,992.43
Schmitt Industries, Inc. (TMA Tech)	1,170,607.15	(1,170,607.15)	0.00
Glacier Venture Fund Manager LP	1,000,000.00	0.00	1,000,000.00
Gateway Software Corp.	174,999.99	(174,998.99)	1.00
Northern Rockies Venture Fund LP	150,659.72	(150,659.72)	0.00
Deaconess Research Institute	161,603.40	0.00	161,603.40
Emerald Bio (Mycotech, Inc.)	739,509.83	0.00	739,509.83
McLaughlin Research Institute	<u>271,958.76</u>	<u>0.00</u>	<u>271,958.76</u>
	12,050,331.28	(1,496,266.86)	10,554,064.42

Mr. Kulow noted previously recorded income from Northern Rockies Venture Fund, LP of approximately \$1.4 million, will offset the bulk of the write off. Loan Committee Chair Jack Prothero moved to accept the Committee's recommendations. The motion passed 7-0. Board Chair Gary Buchanan and Member Jon Satre abstained from the vote due to conflicts of interest. Any future payments received from the loans approved to be written off will be treated as income.

Bond Program Reports

Activity Report

Ms. Louise Welsh announced the 25th Anniversary of INTERCAP. From a small start, the program has grown over the years. A total of \$42 million in commitments may be realized by the end of this fiscal year. The new logo and remarketing plan of INTERCAP are in place and plans to attend various promotional opportunities throughout the state are underway. The new INTERCAP rate has been set. The rate to borrowers dropped from 1.95 to 1.25 as of March 1, 2012.

Board Member Jack Prothero commended Ms. Welsh on the continued success of the program.

Ms. Welsh presented the INTERCAP report for the period ending March 31, 2012.

Staff Approved Loans Report

The Board reviewed this report for the period of January 1, 2012 through March 31, 2012.

Borrower:	Town of Pinesdale
Purpose:	Pilot study/report for surface water treatment system
Staff Approval Date:	January 3, 2012
Board Loan Amount:	\$38,000
Other Funding Sources:	\$60,000
Total Project Cost:	\$98,000
Term:	3 years

Borrower:	City of Conrad
Purpose:	Expand and remodel City Hall
Staff Approval Date:	January 3, 2012
Board Loan Amount:	\$320,000
Other Funding Sources:	\$0
Total Project Cost:	\$320,000
Term:	10 years

Borrower:	Northern Express Transportation Authority (Shelby)
Purpose:	Railroad Spur/Port of Northern Montana Hub Center
Staff Approval Date:	January 10, 2012
Board Loan Amount:	\$320,000
Other Funding Sources:	\$320,000
Total Project Cost:	\$640,000
Term:	10 years

Borrower:	Augusta Rural Fire District
Purpose:	Purchase a new fire pumper truck
Staff Approval Date:	January 30, 2012
Board Loan Amount:	\$115,000
Other Funding Sources:	\$115,000
Total Project Cost:	\$230,000
Term:	10 years

Borrower:	West Helena Valley Fire District
Purpose:	Purchase a new fire pumper truck
Staff Approval Date:	February 1, 2012
Board Loan Amount:	\$140,000
Other Funding Sources:	\$100,000
Total Project Cost:	\$240,000
Term:	10 years

Borrower:	City of Havre
Purpose:	Purchase a New Street Sweeper
Staff Approval Date:	February 21, 2012
Board Loan Amount:	\$142,000
Other Funding Sources:	\$0
Total Project Cost:	\$142,000
Term:	7 years

Borrower:	City of Havre
Purpose:	Purchase a New Refuse Truck
Staff Approval Date:	March 8, 2012
Board Loan Amount:	\$235,885
Other Funding Sources:	\$0
Total Project Cost:	\$235,885
Term:	7 years

Borrower:	City of Livingston
Purpose:	Street Repair Project
Staff Approval Date:	March 5, 2012
Board Loan Amount:	\$500,000
Other Funding Sources:	\$0
Total Project Cost:	\$500,000
Term:	10 years

The Loan Committee is authorized to approve BOI loans from \$1-5 million. They authorized staff to proceed with processing and closing the following loans using the Board's standard Bond Program office procedures.

Borrower:	Department of Natural Resources and Conservation (DNRC)
Purpose:	Interim financing – Bond Anticipation Note BAN to finance a RRGL loan to Lockwood Water & Sewer District – Billings
Staff Approval Date:	May 2, 2012
Board Loan Amount:	\$1,000,000
Other Funding Sources:	None
Total Project Cost:	\$1,000,000
Term:	3 years – historically DNRC issues bonds well before maturity

Borrower:	Department of Natural Resources and Conservation (DNRC)
Purpose:	Interim financing – Bond Anticipation Note BAN to finance various RRGL loans to Montana irrigation districts projects and debt refinancing authorized HB 8 approved by the 2011 Legislature
Staff Approval Date:	May 2, 2012
Board Loan Amount:	\$2,000,000
Other Funding Sources:	
Total Project Cost:	\$2,000,000
Term:	3 years

Borrower:	Board of Regents of Higher Education of the state of Montana on behalf of Montana State University - Billings
Purpose:	Repairing/Replacing Union Building/Rimrock Hall HVAC
Staff Approval Date:	May 2, 2012
Board Loan Amount:	\$1,500,000
Other Funding Sources:	\$500,000
Total Project Cost:	\$2,000,000
Term:	15 years

Borrower:	Sun Prairie Village County Water & Sewer District (Great Falls)
Purpose:	Bond Anticipation Note BAN in anticipation of USDA long term financing – water system improvement project
Staff Approval Date:	May 2, 2012
Board Loan Amount:	\$1,399,000
Other Funding Sources:	\$2,177,000
Total Project Cost:	\$3,576,000
Term:	3 years

CONSULTANT REPORT

RV Kuhns & Associates

Mr. Mark Higgins and Mr. Jim Voytko presented an overview of the Investment Performance Analysis Report, Quarter Ended March 31, 2012. Mr. Voytko began by reviewing historical capital market returns and commented that the available returns to meet the actuarial needs of the pension plans were limited over the past ten years, with only small cap international, emerging market, and U.S. REIT stocks broaching a 7.75% annualized return. There was also discussion of valuation metrics, with reference to the Shiller P/E ratio and that stocks are not cheap by this measure, but perhaps justified given the very low level of Treasury yields.

Pension returns were reviewed, with Mr. Voytko noting that returns vs. benchmark provided limited information since these are “floating” benchmarks as opposed to a “policy” benchmark with fixed allocations by asset class. When asked, he explained the meaning of a policy benchmark as having point specific targets by asset class that allows an allocation effect to be explicitly measured. The peer comparisons looked favorable over recent years, with a noticeable trend of improving relative ranking over the past 10, 5, 3, and 1 year periods. Mr. Voytko also discussed peer comparisons in the context of risk/return scatter grams over two different timeframes, seven and three years. The return for Montana has moved up during the past three year period while remaining slightly lower risk. He cautioned, however, not to put too much emphasis on peer comparisons given the unique situations many plans are facing.

Mr. Higgins then discussed the performance of the various asset pools beginning with the domestic equity pool. He noted that the pool has underperformed modestly vs. the benchmark index, however compared favorably vs. other public fund peers during the past five years. This has bearing on the active vs. passive management debate, but does suggest that relative to peers Montana was selecting good managers. With respect to the international equity pool, relative performance vs. the benchmark index was poor over the past five years, though improving during more recent time periods. Unlike domestic equities, however, performance vs. public fund peers was poor, even for shorter periods. Also, the median public plan had outperformed the international benchmark markedly over the past one year which begs the question as to comparability of benchmarks used by the various plans represented in the survey. Further investigation of the peers and their international equity exposure was contemplated by RV Kuhns to shed more light on these comparisons. The fixed income pool (RFBP) was discussed as having strong relative performance vs. benchmark over multiple time periods. Member Bugni posed the question of whether a “custom” benchmark as opposed to the Barclays Aggregate index should be considered both for the RFBP and TFIP given the use of high yield within the pool in the past couple years. Mr. Voytko said they could work with staff to help create such a custom benchmark if deemed appropriate. Mr. Higgins then discussed the real estate pool, noting the benchmark (ODCE Index, net, one quarter lagged) was not a good match, and the timing of the initial investments made in the pool was unfavorable. Mr. Voytko noted that absolute performance had improved recently and that the diversification benefit of real estate was apparent as shown in the portfolio beta chart relative to the S&P 500 stock

index. The private equity pool was discussed in terms of its strong return relative to its public equity benchmark over the past five years and its low correlation with public stocks. *(A complete copy of this report is kept on file with the documents of this meeting.)*

INVESTMENT ACTIVITIES/REPORTS

Montana Domestic Equity Pool Restructuring

Mr. Cliff Sheets and Mr. Rande Muffick presented an overview of the history of the Domestic Equity Pool (MDEP) and a proposed restructuring plan. Mr. Sheets began by noting that although relative returns have improved during the past five years compared to earlier history, the pool return expectations have not been met. With the different approach to be proposed, it is believed that the pool's performance will track closer to the benchmark and have a better chance of outperforming the benchmark over time while also being more cost efficient. Mr. Muffick then discussed the history of the pool's composition over time, as it transitioned from an internally-managed primarily mega cap biased active core portfolio combined with a minimal external small cap active component, to a fully externally-managed pool with several different actively managed components during the 2006 to 2008 timeframe. During both eras the returns did not meet expectations, due to a variety of reasons. The primary reasons included the failure of active management to provide incremental net returns, particularly in the large cap component of the pool, combined with some poor individual manager performance among the limited number of managers representing the mid and small cap components of the pool. Lessons learned were that large cap stocks are very efficient, making active management more challenging, and that although active management is more likely to succeed in non-large cap stocks, our manager selection was too concentrated. We also needed passive vehicles available in all market cap buckets to more easily facilitate allocation adjustments.

He then went on to explain the reasons why large cap active management is so difficult, noting the deleterious impact of fees on returns. He reviewed several graphs provided in the active-passive study done by RV Kuhns which showed data describing the relative performance of active managers in the large, mid and small cap universes for trailing three-year periods over the past 11 years. Small and mid cap active managers have had more success beating the benchmark than large cap active managers over time, though there can be times when the median active manager is unsuccessful even in these categories as well. Further, he discussed the benefits of the size premium in stocks over time, that is, the tendency of smaller cap stocks to outperform large cap stocks, and the persistency of the value premium over time.

Mr. Muffick explained the objectives of any restructuring of the pool, which include the goal of providing reliable beta exposure to U.S. stocks, while reducing tracking error to the benchmark and providing excess return. To attain these objectives a restructuring proposal was made that involves significantly reduced active large cap management, an expansion of the allocation ranges for mid and small cap exposure, and more manager diversification within the mid and small cap segments of the pool. In addition, this is expected to be more cost efficient in that active management fees will be paid in areas where it is likely to be more rewarding and the overall net fees paid will decline noticeably for the pool.

Member Jon Satre inquired about Western Asset Management. Mr. Muffick explained that their strategy involves a "portable alpha" concept which did not work out because of the negative impact from the financial crisis on the fixed income markets they were invested in. During mid-April they were terminated after being on the watch list for some time.

Members Noennig and Satre both inquired about the timing now of making the switch from active to passive management and the original motivation for moving into more active

management in 2006. Mr. Sheets noted that in 2006 there was a combination of reasons for the switch. In May 2007 Executive Director Carroll South presented a memo to the board recalling the history with internal management of the pool and the initial use of the S&P 500 Index fund as a way to mitigate the sole dependence on the internally-managed active portfolio after a period of underperformance. It was decided that BOI needed more manager diversification and expertise with outside managers given the perceived advantages they bring given deeper resources; however, if only outside passive managers were used, there was no chance to outperform the benchmark. There was improvement with the changes and diversification away from utilizing only Montcomp and DFA, the sole small cap manager at the time.

Member Turcotte inquired if the justification for cycling back to passive is prompted by the recent market turmoil? Mr. Muffick stated there is more to the proposal than just transitioning from active to passive, and yes, market activity and the impact on active management is always tough to predict. Still, we are remaining at approximately 20% active in large cap under the new proposal.

Member Bugni added his view that if active management is not working out is it better to cut managers loose rather than wait them out. Over the long haul returns will likely improve as it's tough to realize net gains after fees.

Staff recommendations include transitioning to a mostly passive large cap approach, with an approximate target of 20% large cap to remain actively managed within the enhanced index and partial long/short (130/30) strategies, at a 8-12% allocation range for each.

Member Prothero made a Motion to accept staff recommendations, Member Bugni seconded. Mr. Sheets noted the motion should reflect approval of the updated Investment Policy Statement for MDEP. Member Prothero amended his Motion. Member Bugni seconded. The motion passed 8-1. Member Turcotte voted no, citing concerns that such a drastic revision may be premature and that allowing only five years for the prior active strategy to work was an insufficient time period.

The table below reflects the policy changes within the pool in the context of the overall pension allocation policy.

Exhibit A

60 -70% Equities Range

<u>Domestic Equity Pool</u>				<u>Real Estate Pool</u>	
<u>Investment Type</u>	<u>Range</u>			<u>Investment Type</u>	<u>Range</u>
Large Cap Core (passive)	45%-70% 10%-30%	30% - 50%	4% - 10%	Core/Timberland *	35% - 65%
Large Cap Enhanced	8%-12% 20%-30%			Value Added	20% - 45%
Large Cap Style-Based (long-only)	20% - 30%			Opportunistic	10% - 30%
Partial Long/Short (130/30)	8%-12% 10%-20%			* Timberland may not exceed 2% of total pension assets	
Total Large Cap	72%-91% 82% - 92%				
Mid Cap	6%-17% 5% - 11%				
Small Cap	3%-11% 3% - 8%				
<u>International Equity Pool</u>				<u>Private Equity Pool</u>	
<u>Investment Type</u>	<u>Range</u>			<u>Investment Type</u>	<u>Range</u>
Large Cap Core (active & passive)	50% - 70%	15% - 30%	9% - 15%	Leveraged Buyouts	40% - 75%
Large Cap Growth	10% - 20%			Venture Capital	10% - 50%
Large Cap Value	10% - 20%			Mezzanine Financing	0% - 10%
Small Cap Core	5% - 15%			Distressed Securities	0% - 40%
				Special Situations	0% - 10%
<u>Retirement Funds Bond Pool</u>				<u>Short Term Investment Pool</u>	
<u>Investment Type</u>	<u>Range</u>				
Domestic High Yield	0% - 15%	22% - 32%	1% - 5%	Short-term liquid investments	
International	0% - 10%			High-quality Investments	
Total High Yield/International	0% - 20%			24 Hour Liquidity for Participants	
Domestic Core(investment grade)	80% - 100%				

CEM Benchmark Study

Executive Director David Ewer presented his recommendation to continue with the CEM Benchmark analysis. The cost and performance data are invaluable as this may be the only accurate peer comparison available. Mr. Sheets concurred, stating that the analysis offers more in depth analysis and compares Montana returns to public, similar sized funds which allows staff to observe returns and analyze costs on an “apples to apples” basis. While staff resources are needed to provide accurate data, the value of the analysis is worth spending the staff time. Mr. Jim Voytko of RV Kuhns added CEM does a good job and they charge the \$25,000 because they do a very detailed job and currently have no competition. He added BOI may not need the analysis every year but a second year will give BOI a baseline. Mr. Sheets noted that having the report done over the next two years as well, 2012 and 2013, will be helpful given staff is implementing significant changes to the domestic equity pool as just discussed. The chairman asked how long we had done these and stated he did not like the prior study done by CEM and thought their presentation was “weak.”

Member Englund moved that the Board approve staff’s recommendation to go ahead with the CEM Analysis. Member Satre seconded. Motion passed 9-0.

Board Training and Education

Director Ewer and Chairman Buchanan reviewed the Board’s Education Policy. Director Ewer, and Members Turcotte and Satre will be attending the IFE Market Makers 2012 conference in

Carlsbad, California in June. Board members requested as much advance notice on appropriate conferences as possible to allow for scheduling. Chairman Buchanan advised that will be a goal in the future.

ADJOURNED

Chairman Buchanan adjourned the Meeting for the day at 4:14 PM.

CALL TO ORDER – Day 2
May 23, 2012

Board Chairman Gary Buchanan reconvened the meeting Wednesday, May 23, 2012 at 8:36 AM with nine members of the Board present. Legislative Liaison Senator Joe Balyeat was present; Legislative Liaison Representative Franke Wilmer was absent.

Public Comment

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

Human Resource Committee Report

Committee Chair Karl Englund reported that the Committee is doing a periodic review of the exempt employee positions. The Committee recommends transferring a vacant BOI position to the Department of Commerce. Committee Chair Englund made the Motion to accept the Committee's recommendation, Member Quinton Nyman seconded. The Motion passed 9-0.

INVESTMENT ACTIVITIES/REPORTS, continued

Retirement System Asset Allocation Report

Mr. Sheets presented the Retirement System Asset Allocation Report for the quarter ended December 31, 2011. Mr. Sheets noted a strong quarter resulted in total equity increases of 1.8%, which was mostly market driven, overwhelming sales of the equity pools during the quarter. Since quarter end there has been a 6½% decline in US stock markets, so a give back of about half the first quarter return. European markets continue to remain unstable and are expected to remain volatile for the foreseeable future.

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.

With respect to asset allocation compared to peers, Mr. Sheets pointed out that we are overweight in real estate and private equity, but not as much as the allocation chart indicates. Other state-wide only comparisons indicate we are more likely in the middle of the second quartile. Returns have improved over time, with the one year comparative ranking looking especially strong, and in general returns are median or better from five years forward. Member Prothero inquired about any asset allocation implications of the new policy changes. Mr. Sheets cited that his goal has been to maintain total equity exposure in the top half of the range since the economic recovery began and he expects we will continue to sell on strength and buy on weakness. The market will be likely be choppy for awhile and we are limited by liquidity, however cash reserves have been built up slightly over the last four months. The private equity pool is also providing some liquidity as well given distribution activity.

Member Turcotte asked if any policy changes for fixed income were on the horizon. Mr. Sheets

responded the international equity pool is slated to undergo the next policy review, and while there are no major changes expected in fixed income, this asset class will be discussed in detail at the November Board meeting.

Member Englund asked about the recent news regarding JP Morgan Chase. Mr. Sheets advised we do own some JP Morgan stock, which has suffered, but while the news may prompt more focus on regulatory questions, and while the market will always offer surprises; this latest news itself was not a major hit to the market.

Fixed Income

Mr. Nathan Sax presented the Fixed Income overview and strategy for the Retirement and Trust Fund Bond Pools. Mr. Sax described the first quarter as a “risk on” environment which supported the relative performance of credit, whereas so far this quarter we’ve seen a “risk off” sentiment which has dampened returns for lower grade securities. He also reviewed the external managers and their recent performance by referencing the RV Kuhns performance report. Lastly, he referenced a list of internally-managed below investment grade holdings and noted there have been no changes.

Fixed Income External Manager Watch List

Mr. Sax presented the manager watch list. Post Advisors remain on the list, but have improved; second quarter returns beat the benchmark by 108 basis points. Despite this improvement, for now they will remain on the watch list.

Manager	Strategy	Reason	Amount Invested (\$ millions)	Inclusion Date
Post Advisors	Public High Yield	Performance	\$57 RFBP \$101 TFIP	February, 2012

Short Term Investment Pool, State Fund Insurance and Treasurer’s Fund Report

Mr. Richard Cooley reported on the Short Term Investment Pool, State Fund Insurance and Treasurer’s Fund portfolios. Mr. Cooley noted overall money markets improved over the first quarter. European banks ability to get credit contributed to the favorable conditions, although Greece remains a concern. Board consensus was reached to improve efforts to promote STIP. Member Bugni commended Mr. Cooley for his management of State Fund which has beaten the index consistently over the long term, 78 basis points over ten years.

The Board discussed STIP holdings in AFF Financing, formerly Axon Financial Funding, and Orion Finance USA, two securities which defaulted in November 2007 and January 2008, respectively, less than a year after being rated AAA. The original par totaled \$140 million, of which about \$62.4 million in book value remains. The underlying assets of the original Orion security were received during a workout process and are now retained in a segregated custodial account that receives the income and principal payments on those securities. We receive AFF payments monthly and Orion-related payments periodically as they occur. A reserve account, currently about \$10.3 million, was set up to buffer STIP participants. In 2009, the Board applied \$21 million from the reserve to the AFF and Orion outstanding principal balances. Mr. Cooley advised we should be made mostly whole over the next three to four years, however we still may realize a loss on some of the underlying securities which will be offset with the reserve. All agreed the reserve account was a good strategy. While giving up some yield, the reserve account includes portfolio sale gains or losses, a daily income allocation and all AFF and Orion interest receipts. These transactions are recorded and invested in the custodial bank’s Short Term Investment Fund.

Private Asset Pool Reviews

Private Equity (MPEP)

Mr. Ethan Hurley presented a comprehensive overview of the private equity portfolio for the quarter ended December 31, 2011. Exposure remains broadly diversified by strategy, industry, geographic and investment vehicle. He also discussed returns for the overall portfolio and by fund. The report also showed quarterly cash flow for the portfolio through December 31, 2011.

Chairman Buchanan asked specifically about the Highway 12 and Montlake funds and whether they had made any investments in the state. Mr. Hurley reviewed their respective returns and mentioned one Montana-based company which is held in the Highway 12 portfolio.

One new commitment was made since the last Board meeting:

Fund Name	Vintage	Subclass	Sector	Amount	Date
Northgate Venture Partners VI, LP	2012	Venture	Diverse	\$15M	3/29/12

Mr. Hurley compared the performance of the private equity portfolio to the State Street Private Equity Index.

Real Estate (MTRP)

Mr. Ethan Hurley presented a comprehensive overview of the following real estate reports for the first quarter: total exposure by strategy; market value exposure by property type; total exposure by geography; and time weighted return of the portfolio and internal rates of return by fund. The report showed a negative quarterly cash flow for the portfolio through March 31, 2012 with capital calls outpacing distributions received, as expected and consistent with prior quarters.

Mr. Sheets remarked that our primary original objective with the real estate allocation was diversification which is now quite visible. Real estate lagged when the market was going down, and now is lagging as it comes back up. Mr. Hurley added in the context of the summary exposure reports and comparisons to the NCREIF index that our goal is not to match an index when hiring a manager, but rather to keep our exposure well balanced as to property type and other characteristics.

There were no new commitments since the February 2012 Board meeting.

Partnership Focus List

There were no changes to the MPEP and MTRP Partnership Focus lists since the February 2012 Board Meeting. In response to a question by Member Prothero, Mr. Hurley reported Beacon Capital, a real estate fund, is on track to permanent impairment and is likely to be added next quarter.

Public Asset Pool Reviews

Domestic Equity (MDEP)

Mr. Rande Muffick reported on the Montana Domestic Equity Pool as of March 31, 2012, including a summary of recent market trends. Mr. Muffick reported that while the first quarter performance was good, the market is down about 8% since quarter end. Markets could remain volatile for awhile considering European concerns and the upcoming November U.S. election.

In response to a previous question, Mr. Muffick discussed the transition related to the planned

restructuring of the pool. Implementing the new pool strategy transition from active to passive large cap holdings will incur some costs, including trade impact and commission fees, with the total cost to performance expected to be about 10 basis points, so minimal transition costs are expected. Mr. Muffick advised the transition will occur in stages and expects the first move of large cap from active to passive by mid June. This will help accommodate the amount of internal accounting required as it relates to year end. Over time the addition of active small and mid cap managers will occur after researching managers and seeing which ones will fit with our current managers.

International Equity (MTIP)

Mr. Muffick presented the Montana International Equity Pool Report for the period ending March 31, 2012 and reviewed market trends during the quarter. Germany led with good returns, Spain is still a concern. Some active managers have been aggressively adding to emerging markets and at this point we are now overweight about 1% versus the benchmark exposure. We expect this weighting to emerging markets to remain about the same and overtime an overweight may be desirable given return expectations from EM. We give managers a range to work with for their EM exposure and currently all weightings are within approved ranges.

Montana International Equity Pool (MTIP) Structure Review

Mr. Muffick advised the current work plan calls for an in-depth discussion of MTIP at the November meeting with staff reviewing the pool for any recommended changes to enhance the structure of the pool. The pool was last restructured in 2006 to include emerging markets. Mr. Sheets noted the pool was previously more regionally structured and had passive segments within each region. Chairman Buchanan inquired if the pool is currently at 48% passive, how easy will it be to fix the strategy to change 10 years of underperformance? Mr. Muffick stated with MTIP fees for external managers at 34 basis points, the passive holdings have already helped performance. He also noted that staff has asked RV Kuhns to help us better understand the portfolio structures used by peers.

After brief discussion, the Board agreed by consensus to move the MTIP review to the August Board meeting.

Public Equity External Manager Watch List

Mr. Muffick presented the Manager Watch List during the quarter. One manager, Western Asset was terminated as staff sought to eliminate the embedded fixed income beta risk that this portfolio carried as part of the domestic equity pool. Martin Currie's performance has improved however they will remain on the list for now given a recent regulatory issue. Columbus Circle will be coming off the list as they will be terminated. TimesSquare is improving after a couple of years with some stumbles.

MANAGER WATCH LIST
May 2012

Manager	Style Bucket	Reason	\$ Invested (mil)	Inclusion Date
Martin Currie	International – LC Growth	Performance, Risk Controls	\$100	February 2009
Columbus Circle	Domestic – LC Growth	Performance, Process	\$160	May 2011
TimesSquare	Domestic – MC Growth	Performance	\$114	August 2011

PERS/TRS Relationship – Director David Ewer, Board Members Jim Turcotte and Bob Bugni

As the Board composition requires one member each from TRS and PERS, good communication channels exist between staffs and the Boards. Member Turcotte noted TRS has had Board meetings here at BOI including presentations by the Chief Investment Officer and Executive Director. With the current involvement, Board members agreed there is no need for joint meetings at this time. Member Bugni distributed the PERS Defined Contribution Plan Study memo from the Principal Consulting Actuary. The conclusion of the memo to keep the Defined Benefit Plan, and Member Bugni agreed, is advantageous to the plan. Changing over to a Defined Contribution plan would eliminate the payroll funding to the Defined Benefit Plan incurring a huge funding cost, resulting in less benefit for more cost.

To Do List

Chairman Buchanan called for items to add to the to do list. The Human Resource Committee will be reviewing the exempt positions. Chairman Buchanan highly recommended all Board members make an effort to read Pensions & Investments as it covers all the tough, relevant subjects. If Board members have other suggestions for literature, talk to Deputy Director Geri Burton. Member Bugni inquired if the State Fund and Fixed Income Pool benchmarks needed to be reviewed by RV Kuhns. Mr. Jim Voytko suggested benchmarks be reviewed at the time of the Fixed Income review scheduled for the November Board meeting.

ADJOURNMENT

There being no further business, Chairman Buchanan adjourned the meeting at 11:42 AM.

Next Meeting

The next regular meeting of the Board will be Tuesday and Wednesday, August 21 - 22, 2012 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: _____
David Ewer, Executive Director

DATE: _____

MBOI:drc
6/11/12

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: David Ewer, Executive Director
Date: August 21, 2012
Subject: Audit Committee Charter Revision

The following is found on page two of the Audit Committee Charter:

Report annually to the Board's constituent groups, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule.

Audit Committee reports are regularly reflected in the Board meeting minutes on the Board's website. In addition, the Audit Committee membership and its Charter are posted on the Board's website.

Recommendation

Since Audit Committee reports and information are published more often than "annually" staff recommends revising the above paragraph in the Audit Committee Charter as follows:

Report regularly to the Board's constituent groups, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule

A copy of the Charter reflecting the proposed change is attached for your review.

Montana State Board of Investments

Audit Committee Charter

(~~Approved April 15, 2005~~ Pending Approval: August 21, 2012)

Purpose of the Audit Committee

To assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Board's process for monitoring compliance with laws and regulations and its code of ethical conduct.

Authority

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Retain outside counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- Seek any information it requires from employees — all of whom are directed to cooperate with the committee's requests — or external parties.
- Meet with Board officers, external auditors, or outside counsel, as necessary.

Composition

The Audit Committee will consist of at least three members of the Board. The Chairman of the Board shall serve as an ex-officio member of the Audit Committee. The Board Chairman will appoint committee members and the committee chair. Each committee member will be both independent and financially literate, as defined by the Board. At least one member shall have expertise in financial reporting or auditing.

Meetings

The Audit Committee will meet at least twice a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via teleconference. The committee will invite members of management, auditors, or others to attend meetings and provide pertinent information as necessary. It will hold private meetings with auditors (see below) and executive sessions. Meeting agendas will be prepared and provided in advance to committee members, along with appropriate briefing materials. Minutes will be prepared.

Responsibilities

The committee will carry out the following responsibilities:

Financial Statements

- Review with management and the external auditors:
 - the results of the audit, including any difficulties encountered.
 - significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas,
 - recent professional and regulatory pronouncements, and understand their impact on the financial statements,
 - review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles,
 - review other sections of the annual report before release and consider the accuracy and completeness of the information, and
 - review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards.

- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim financial reports with management and the external auditors, before filing with state agencies and constituent groups, and consider whether they are complete and consistent with the information known to committee members.

Internal Control

- Consider the effectiveness of the Board's internal control systems, including financial reporting and information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

- Review with management and the Internal Auditor the charter, plans, activities, staffing and organizational structure of the internal audit activity.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement or dismissal of the Internal Auditor.
- Review the effectiveness of the internal audit activity, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- On a regular basis, meet separately with the Internal Auditor to discuss any matters that the committee or internal audit believes should be discussed privately.

External Audits

- Review any external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors.
- Review and confirm the independence of the external auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of ethics to Board personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and Board legal counsel regarding compliance matters.

Reporting Responsibilities

- Regularly report to the Board about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the Board.
- Report ~~annually~~ regularly to the Board's constituent groups, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule.
- Review any other reports the Board issues that relate to committee responsibilities.

Other Responsibilities

- Perform other activities related to this charter as requested by the Board.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the committee's and individual members' performance on a regular basis.

[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: Members of the Board
From: David Ewer
Date: August 21, 2012
Subject: Executive Director Comment Section

August Committee and Board Meetings Earlier Start at 8:30 AM

Please note that the meetings all start earlier with the Audit Committee beginning at 8:30 AM on Tuesday, August 21 and the regular Board meeting starting before lunch at 11 AM.

24-Month Work Plan and Additions

At the Board's February meeting, staff proposed a plan to expose members to all substantive Board-related matters during a 24-month cycle. The work plan is at the end of this memo. Two additional subject areas have been added: securities lending and securities litigation. Staff intends that securities lending be scheduled for February, 2013, and securities litigation scheduled for the October 2012 meeting.

Staff

We are pleased to now have a deputy financial manager. Frank Cornwell, CPA, recently joined us; he was an auditor with the Legislative Auditor's Office for several years. Ali Sturm, one of our accounting staff, has taken a position with the Montana Public Employees' Retirement System. We are currently seeking to fill this accounting vacancy, as well as a bond program specialist and a front office staff person.

Large Conference Room (and BOI office in general) Wireless Internet Connectivity

The Board's office, including its large conference room, now has wireless internet. Board material for the August meeting will now be available via the internet. Dana Chapman and staff will have account information needed for members to access the wireless internet.

Montana Board of Investments Meetings

All meetings

- Are public and duly noticed in advance
- Public comments invited at every meeting
- Minutes taken and previous ones approved

Quarterly meetings - February, May, August, and November

- Standard business
 - Performance
 - Activity
 - Investment consultant
- Committees
 - Loans: Commercial, INTERCAP, MSTA
 - Audit
 - Human Resource
 - Other Committees, as appointed by the Chairman
- Systematic review of Topics, as scheduled for 24-month rotation

Semi-Annual meetings - April and October

- In depth coverage on certain (to be determined) topics
- April - Asset Allocation at a strategic level
- October - updated Actuarial Status & Asset Allocation implications
- Additional systematic review of topics to complete 24-month rotation
- Subcommittees meet only as needed

Additional Board Topics for 24-month Systematic Review, either (A) annually or at least (B) biennially

- Investment Policy Statements (A)
- Accounting and internal data systems (A)
- Annual report and financial statements (A)
- Staffing levels and compensation (A)
- Accounting, GAAP, audits and internal control standards, compliance and execution (A)
- PERS and TRS relationship (A)
- Ethics policy – affirmations (typically May) (A)
- Resolution 217 update (typically November) (A)
- General operations (e.g. day to day, landlord, disaster recovery, vendor review) (A/B)
- BOI website (B)
- Custodial bank relationship, performance, continuity (B)
- Board member training and staying current efforts (B)
- Customer relationships especially large customers such as State Fund (B)
- Legislative session and interim matters (B)
- Outreach, especially commercial and municipal missions (B)
- The Board as a rated investment credit, and as a bond issuer and a credit enhancer (B)
- Securities Lending (A)
- Securities Litigation (A)

Proposed Work Plan 2012

(Meetings shown below do NOT reflect all likely agenda items. Quarterly meetings will always include standard quarterly business. All meetings will include a combination of topics that will be reviewed within a 24-month systematic basis)

February	Quarterly Meeting Securities Lending
April	Semi-annual meeting BOI's Hierarchy of Responsibilities Asset Allocation - Strategic Work plan for remaining calendar 2012 Staff report on new public and private equity managers Proposed checklist for public manager due diligence Announcements, next meeting, logistics
May	Quarterly Meeting Public equity - MDEP Proposed restructuring of domestic public equities Training, staff/ board ideas and recommendations, discussion, and logistics TRS and PERS board-to-board relationship
August	Quarterly Meeting Costs (including reviewing CEM Benchmarking Inc. results) MBOI Budget Fiscal Year performance through June 30 th Public Equity - MTIP
October	Semi-annual Meeting Private Real Estate Private Equity Operations (broadly)/Unified Investment Mission (focus on cash management and daily process issues) Investment Consultant Selection Securities Litigation
November	Quarterly Meeting Fixed Income Actuarial Status & Asset Allocation Implications Legislative Session Investment Consultant Selection (depending if done in Oct.) Coal Severance/Enhancement/Commercial Loan/INTERCAP et al Exempt Staff Annual Performance

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: David Ewer, Executive Director

Date: August 21, 2012

Subject: Board Functional Organization Revision

In June 2012, one of the Board's accounting positions was reclassified from an Accounting Technician to the Deputy Financial Manager. In addition, in July 2012, the Bond Program Assistant position was reclassified to a Bond Program Specialist. The attached organizational chart reflects these changes.

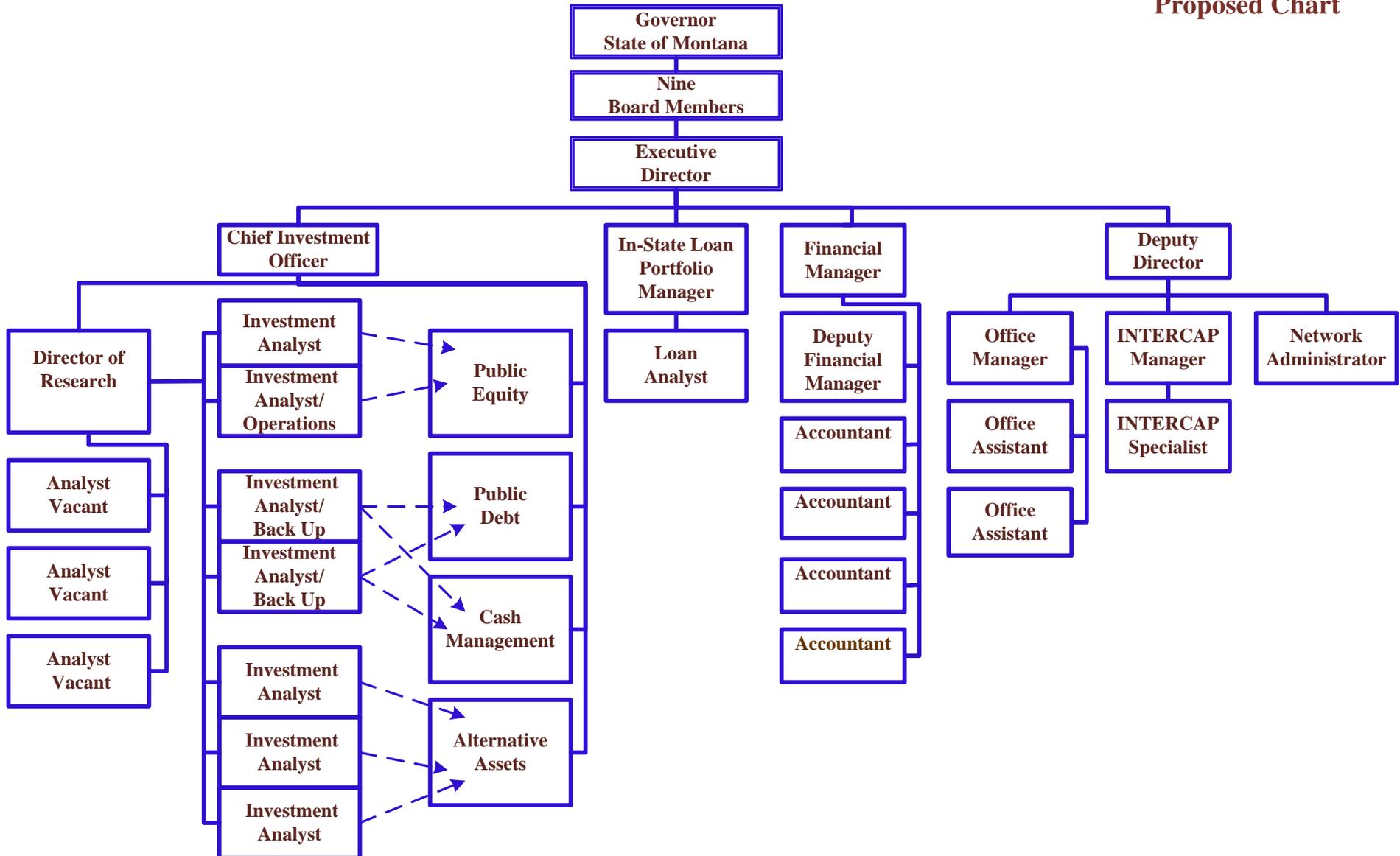
Recommendation

Staff recommends approval of the attached Functional Organization Chart (Proposed Chart).

The current Organization Chart (Current Chart) and proposed Organization Chart (Proposed Chart) are attached for your review.

Montana Board of Investment Functional Organization Chart

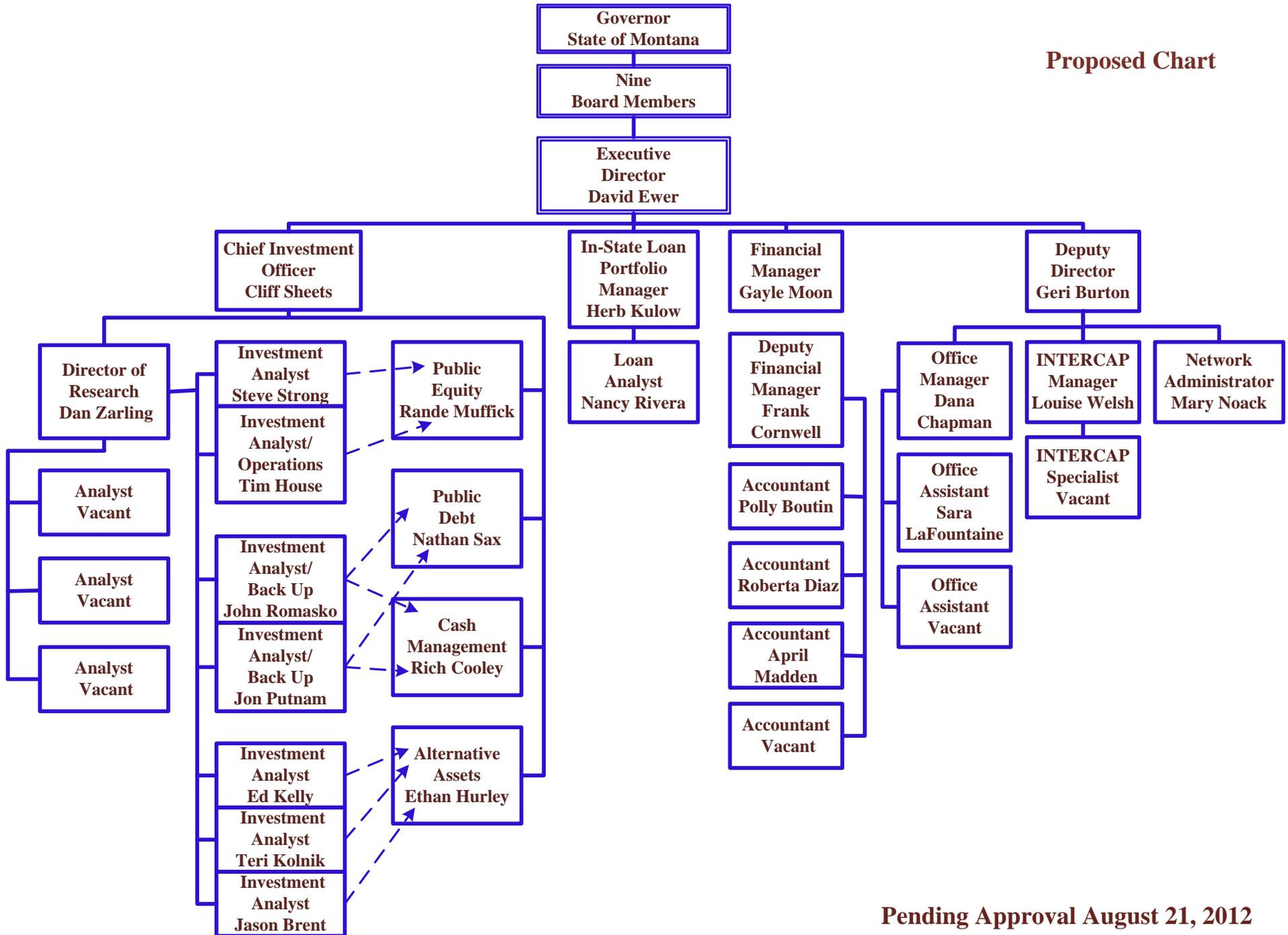
Proposed Chart



Pending Approval August 21, 2012

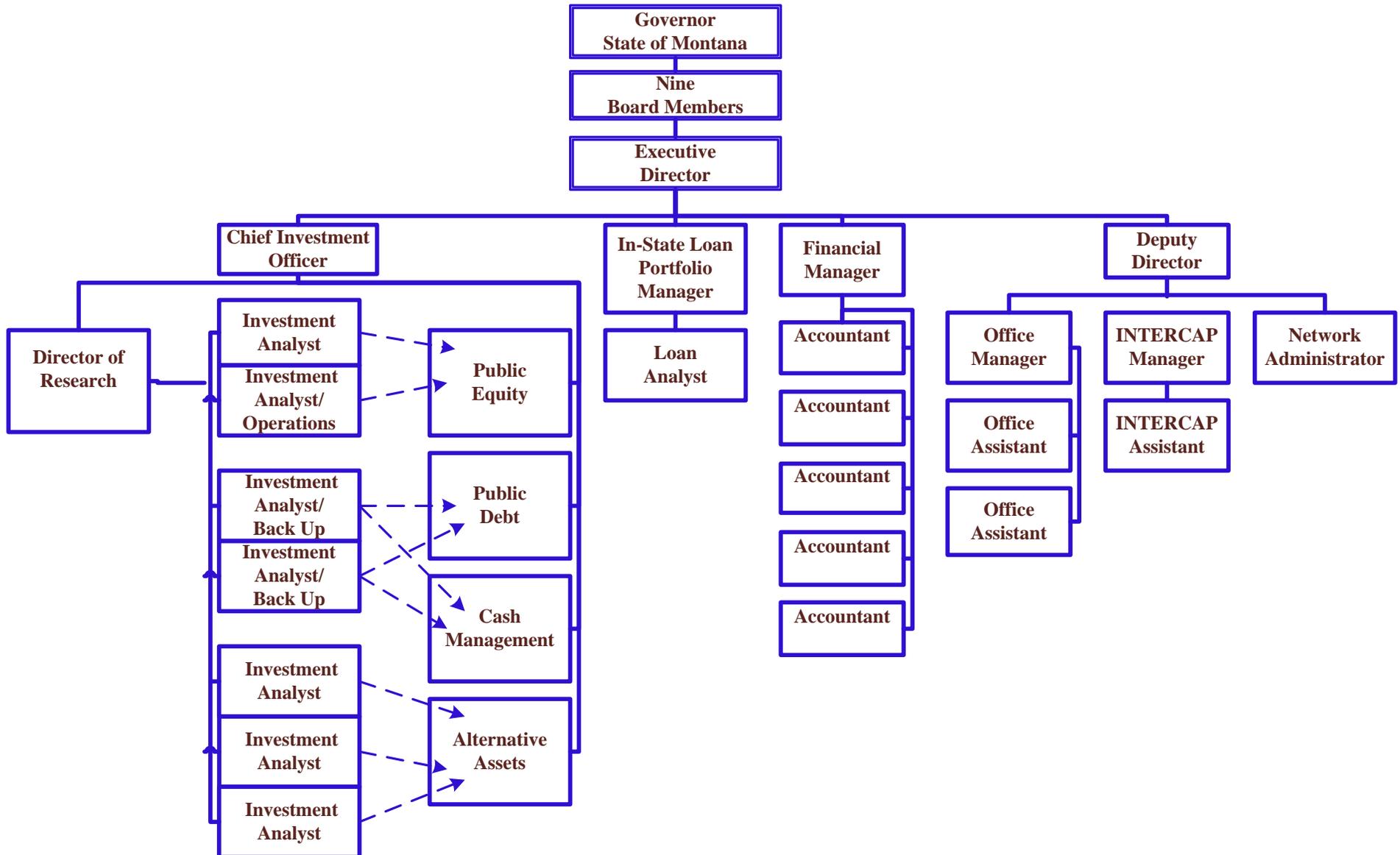
Montana Board of Investments Functional Organization Chart

Proposed Chart



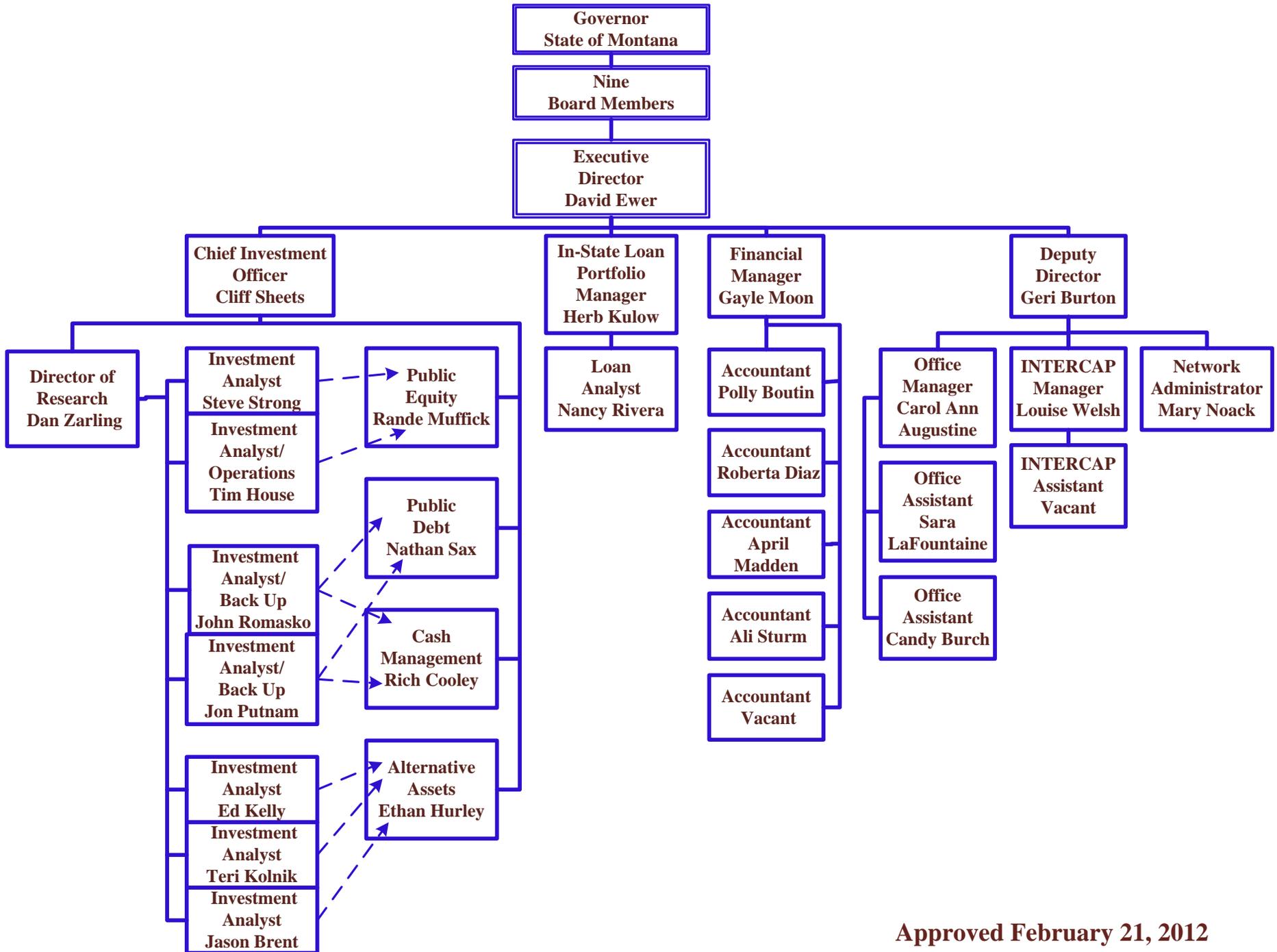
Pending Approval August 21, 2012

Montana Board of Investment Functional Organization Chart



Approved February 21, 2012

Montana Board of Investments Functional Organization Chart



Approved February 21, 2012

[Return to Meeting Agenda](#)

Montana Loan Program

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, CMB
Senior Portfolio Manager

Date: August 21, 2012

Subject: Commercial and Residential Portfolios

The commercial loan portfolio had a total outstanding balance of \$132,457,583 consisting of 161 loans as of June 30, 2012. As of the same date, there were six reservations totaling \$6,775,000 and five commitments totaling \$9,211,025. There were two loans past due totaling \$201,519 reflecting a past due percentage of 0.152%. Both loans were guaranteed by the SBA and neither of them were over 90 days past due. The current portfolio yield is 5.16%

In comparison, the commercial loan portfolio had a total outstanding balance of \$157,546,000 consisting of 183 loans as of June 30, 2011. At that time, there were a total of five loans past due totaling \$697,540 reflecting a past due percentage of 0.44%, of which two loans were past due over 90 days totaling \$90,223 or 0.14% of the total portfolio. The portfolio yield on June 30, 2011 was 5.53%.

The residential loan portfolio totaled \$20,118,301 as of June 30, 2012. There were eight past due loans totaling \$394,709 reflecting a past due percentage of 1.96% of which one loan was past due over 90 days totaling \$37,334 or 0.19% of the total residential loan portfolio.

In comparison, the residential loan portfolio had a total outstanding balance of \$26,891,645 as of June 30, 2011. At that time, there were 12 past due loans totaling \$703,654 reflecting a past due percentage of 2.62%, of which three loans were past due over 90 days totaling \$175,744 or 0.65% of the residential loan portfolio.

The Veterans Home Loan Mortgage portfolio had a total outstanding balance of \$2,646,870 consisting of 16 loans as of June 30, 2012. As of the same date, there were 17 reservations totaling \$2,978,033.

Since the last Board meeting, the internal loan committee approved a commercial loan participation of \$420,000 (80%) of a total loan request of \$525,000 from First Interstate Bank Missoula for KJR, LLP. The purpose of the loan is to purchase and remodel an industrial condominium.

Staff has also attached the new Montana Veterans Home Loan Mortgage Policy for the Board's consideration and approval.

MEMORANDUM

Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3rd Floor
Helena, MT 59601 (406) 444-0001

To: Board of Directors
Board Loan Committee Members

From: Herb Kulow, CMB

Date: August 21, 2012

Subject: Montana Veterans' Home Loan Mortgage Policy

The 2011 Montana Legislative Session established the Montana Veterans' Home Loan Mortgage Program, 90-6-6, MCA. The program is to be funded by \$15,000,000 of the permanent coal tax trust fund and be administered by the Montana Board of Housing (BOH). The BOH will also service the loans. The Montana Board of Investments (MBOI) will purchase loans made to Montana veterans by Montana lenders secured by a first collateral position on their primary residence located in Montana. The loans must be guaranteed by either the VA, FHA or HUD 184 and be for a term not to exceed 30 years. The interest rate is to be 1.00% below current market interest rates and will be established by BOH bi-weekly. The current interest rate is 1.866%. The BOH deducts 0.375% for servicing and an additional 0.375% for MBOI administrative fee. Using the current posted interest rate of 1.866%, the effective interest rate to MBOI is 1.116%.

Staff is recommending approval of the Montana Veterans' Home Loan Mortgage Policy. The policy complies with 90-6-6, MCA and has been reviewed by BOH.

Montana Veterans' Home Loan Mortgage Policy

Veterans' Home Loan Mortgage Program is authorized under 90-6-6 M.C.A. The following Veterans' Home Loan Mortgage Policy applies to this statute. Loans under this program are purchased from eligible participating lenders by the Montana Board of Investments (MBOI) and serviced by the Montana Board of Housing (MBOH).

1. ELIGIBLE VETERAN

- a) Veteran is or has been a member of the Montana national guard;
- b) Veteran is or has been a member of the federal reserve forces of the armed forces of the United States, serving pursuant to Title 10 of the United States Code;
- c) Veteran is serving or has served on federal active duty pursuant to Title 10 of the United States Code;
- d) Veteran is an un-remarried spouse of an individual who was otherwise an eligible veteran who was killed in the line of duty;
- e) An eligible veteran as defined pursuant to 90-6-602(3) M.C.A.;
- f) If previously a member of the armed forces, Veteran was discharged under honorable conditions;
- g) Veteran is a resident of the state of Montana maintaining a permanent place of abode within Montana and who has not established a residence elsewhere even though the individual may be temporarily absent from the state;
 - i. Proof of residency qualification can be a copy of a filed Montana tax return showing a full year of residency in Montana;
 - ii. Current Montana driver's license and/or a copy of a current Montana vehicle registration and/or other Montana identification acceptable to MBOH and MBOI.
- h) Veteran is a first-time homebuyer – income tax showing no interest in real estate for the previous three calendar years preceding the time of purchase or other MBOH required documentation;
- i) Veteran must complete a MBOH approved homebuyer education class;
- j) Veteran must provide a minimum of \$2,500, resulting in a loan to value of less than 100%. The maximum loan amount under this program is based upon the lesser of the appraised value of the property, the purchase price of the property or the hard construction costs of the property, including eligible land, reduced by the Veteran's cash investment.

2. PROPERTY ELIGIBILITY

- a) Contract purchase price is limited to 95% of the MBOH's statewide range;
 - i. The statewide range is determined annually by the MBOH;
 - ii. In no case will the MBOI loan amount exceed the maximum guarantor's or insurer's allowed loan amount.
- b) Property must be located in Montana;
- c) Property must be secured by a first lien Trust Indenture on the property pursuant to the Small Tract Financing Act of Montana, 71-1-301 M.C.A.;

- d) Property, where the borrower is utilizing the VA guarantee program, must be in full repair prior to purchase by MBOI;
- e) If a new construction, the property and improvements must be fully completed prior to closing
- f) Manufactured homes must be de-titled and on a permanent foundation;
 - i. Foundation must be certified as meeting FHA requirements;
 - ii. NO single-wide manufactured homes
 - iii. Manufactured home must be 1976 or newer.
- g) Single family residence;
- h) In the case of new construction, the appraised value of land cannot exceed 35% of the mortgage loan;
- i) Condominiums are INELIGIBLE.

3. NO LONGER PRIMARY RESIDENCE

- a) Veterans who cease to use the home as their primary residence must repay the loan in full;
 - i. As servicer, MBOH will request verification of continued primary residency from time to time;
 - ii. If borrower fails to provide documentation of primary residency, MBOI may declare the loan immediately due and payable and foreclose on the loan;
 - iii. Veterans have up to 12 months after the time they cease to use the home as their primary residence to repay the loan;
 - a. If the Veteran fails to repay the loan within 12 months, the note may become immediately due and payable and the property may be foreclosed;
 - b. The Veteran may request from MBOI an additional 12-month repayment period based upon the Veteran's inability to sell the property despite good faith efforts;
 - c. The MBOI, in its sole discretion, may extend or decline to extend the repayment period based upon consideration of the following factors:
 - 1. prompt and continuing listing of the property for sale;
 - 2. reasonableness of the listing price and other offering terms;
 - 3. any offers the Veteran has received or refused;
 - 4. market conditions;
 - 5. preservation of the loan collateral; and
 - 6. any other factors deemed relevant by the MBOI.

4. GENERAL LOAN INFORMATION

- a) There is no limit on the maximum amount of income that may be earned by an eligible veteran for the purposes of a loan program;
- b) Loan must be insured by VA, FHA or HUD 184;
- c) Veteran must have all of their original VA eligibility available to apply under this program;

- d) All loans must receive “approve/eligible” or other similarly high response from automated underwriting;
- e) No manual underwriting or underwriting exceptions are allowed;
- f) All participating lenders will be an approved lender with MBOI and have completed an Approved Lender Residential Service Agreement and an EFT Agreement;
- g) Veterans who are stationed elsewhere, but who do not establish a primary residence elsewhere, may obtain a rental waiver from the MBOI.
- h) Maximum loan term of 30 years;
- i) Interest rate to be determined by MBOH. Rates can be found at: <http://housing.mt.gov/About/homeownership/veteranratesandfunds.mcpx>
- j) Complete replacement insurance coverage with a maximum \$1,000 deductible for hazard insurance;
- k) Maximum \$1,000 deductible for flood insurance, if needed;
- l) No cash back at closing;
- m) Veteran will be required to make monthly payments for taxes and insurance to MBOH, who is the servicer of the Montana Veterans’ Home Loan Mortgage Program;
- n) Loan will be reserved, processed and serviced by MBOH;
- o) All loans will be endorsed to the Montana Board of Investments, without recourse;
- p) Trust Indenture will be assigned to the Montana Board of Investments. MBOI is not a “MERS” participating member;
- q) Trust Indenture must have a “due-on-sale” clause;
- r) Sweat equity will not be considered;
- s) The Veteran’s loan may not be assumed by a non veteran;
- t) Appraisals must be Uniform Appraisal Dataset (UAD) compliant;
- u) Repurchase of delinquent loans: MBOI retains the right to require repurchase of a program loan that is 30 days delinquent within the first 90 days or 60 days delinquent within the first 180 days of scheduled payments;
- v) Repurchase of loans: Lenders receiving a request to repurchase a loan have five (5) days from notification to repurchase the loan. For the first 30 days thereafter, the loan will accumulate interest at the note rate plus 250 basis points until payment is received. After 30 days, the loan will accumulate interest at the note rate plus 500 basis points until payment is received;
- w) All first Trust Indenture loan Notes and Trust Indentures must be on either Fannie Mae or Freddie Mac accepted loan documents;
- x) Coal tax trust fund money will be used to fund the Montana Veterans’ Home Loan Mortgage program as provided by 90-6-603 M.C.A.;
 - i. Maximum coal tax trust fund allocation is determined by 90-6-603(2) M.C.A.;
 - ii. This is a revolving loan fund program.

For additional forms and assistance call or E-mail:

(406) 444-1218

hkulow@mt.gov

[Return to Meeting Agenda](#)

Bond Program

INTERCAP Loan Program

Activity Summary

As of June 30, 2012

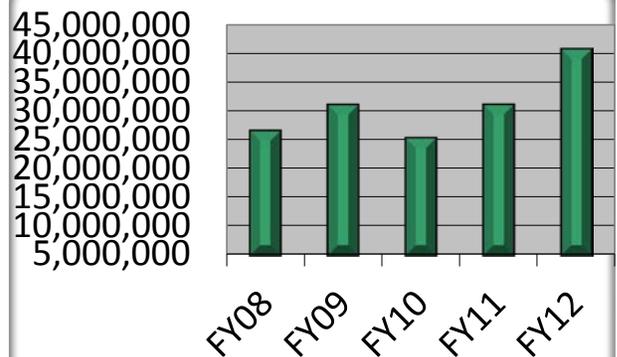
Since Inception 1987 - June 2012

Total Bonds Issued	136,000,000
Total Loan Commitments	414,194,785
Total Loans Funded	369,435,785
Total Bonds Outstanding	95,030,000
Total Loans Outstanding	79,858,293
Loan Commitments Pending	44,759,000

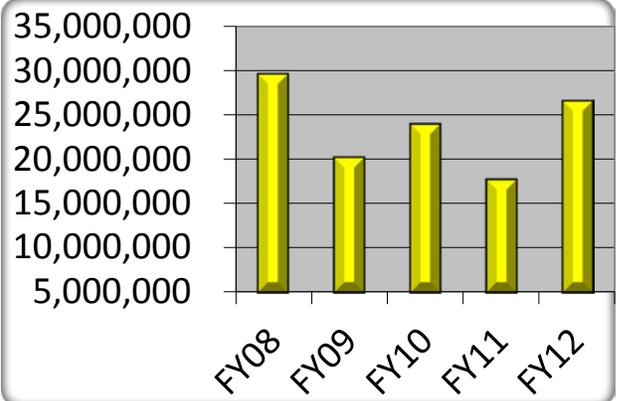
FY2012 To Date

Month	Commitments	Fundings
July-11	\$ 2,349,050	\$ 2,869,239
August	6,916,343	2,722,666
September	245,000	1,549,568
October	1,255,000	2,323,389
November	6,509,000	3,023,379
December	2,200,000	2,483,898
January	793,000	1,286,180
February	281,903	565,284
March	735,885	4,390,488
April	11,426,990	1,752,743
May	7,723,625	524,865
June-12	389,000	3,084,265
To Date	\$ 40,824,796	\$ 26,575,964

Commitments FY08-FY12



Fundings FY08-FY12



Note: Commitments include withdrawn and expired loans.

Variable Loan Rate History February 16, 2004 - February 15, 2013

February 16, 2005 - February 15, 2006	<u>3.80%</u>	February 16, 2009 - February 15, 2010	<u>3.25%</u>
February 16, 2006 - February 15, 2007	<u>4.75%</u>	February 16, 2010 - February 15, 2011	<u>1.95%</u>
February 16, 2007 - February 15, 2008	<u>4.85%</u>	February 16, 2011 - February 15, 2012	<u>1.95%</u>
February 16, 2008 - February 15, 2009	<u>4.25%</u>	February 16, 2012 - February 15, 2013	<u>1.25%</u>

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: August 21, 2012
Subject: INTERCAP Loans – Annual Loan Detail Report

Attached is the annual INTERCAP Loan Detail Report as of fiscal year end June 30, 2012 (FY12). The report has three categories: Local Governments (sorted by the county in which the borrower is located), State Agency, and University loans.

In addition to the attached report, staff provides for the Board's information the concentration of INTERCAP loans outstanding as of FY12 compared to FY11 as follows:

Borrower Type	FY12		FY11	
	Number of Borrowers	% of Total INTERCAP Loans Outstanding	Number of Borrowers	% of Total INTERCAP Loans Outstanding
State Agency	4	23.49%	4	27.49%
County	25	21.08%	25	25.22%
University	6	19.96%	6	15.41%
City	44	18.28%	42	13.38%
School District	40	7.46%	36	4.85%
Other	11	4.03%	9	4.42%
Fire District	21	4.70%	18	3.87%
Solid Waste District	n/a	n/a	5	3.52%
Water/Sewer District	7	0.90%	8	0.95%
Fire Service Area	6	0.10%	7	0.89%
Total	164	100.00%	160	100.00%

The entities with outstanding balances representing 5% or more of all INTERCAP loans outstanding in FY12 compared to FY11, as follows:

Borrower	FY12		FY11	
	Principal Outstanding	% of Total INTERCAP Loans Outstanding	Principal Outstanding	% of Total INTERCAP Loans Outstanding
State Agency-Dept. of Justice	\$12,388,676	15.51%	\$14,106,714	18.67%
Gallatin County	n/a	n/a	\$ 4,780,564	6.33%
MSU-Bozeman	\$ 7,886,735	9.88%	\$ 7,132,850	9.44%

Local Government INTERCAP loans* - by County

As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

County	Borrower Name	Project	Term	Commitment	Fund Date	Drawn	Remaining	Outstanding	Maturity
BEAVERHEA	BEAVERHEAD COUNTY	Purchase of Building	10	200,000.00	08/30/02	200,000.00	-	11,230.42	08/15/12
BEAVERHEA	BEAVERHEAD COUNTY	Fairgrounds Restroom facility	10	108,000.00	06/02/06	108,000.00	-	54,914.40	08/15/16
BEAVERHEA	BEAVERHEAD COUNTY	land road easements	10	118,632.00	11/16/07	118,632.00	-	77,855.87	02/15/18
BEAVERHEAD Total				426,632.00		426,632.00	-	144,000.69	
BLAINE	HARLEM	Preliminary Engineering Report-wastew	3	40,000.00	06/04/10	40,000.00	-	40,000.00	02/15/16
BLAINE Total				40,000.00		40,000.00	-	40,000.00	
CARBON	RED LODGE	Fire Truck	10	250,000.00	08/08/03	250,000.00	-	42,177.95	08/15/13
CARBON Total				250,000.00		250,000.00	-	42,177.95	
CASCADE	CASCADE COUNTY	Whitetail Lane RID #11346	10	48,990.00	10/28/05	48,990.00	-	21,827.50	02/15/16
CASCADE	GREAT FALLS	Design & install. of city street lights-Me	15	19,371.00	12/02/05	19,371.00	-	7,251.54	02/15/21
CASCADE	CASCADE COUNTY	Flood/Gannon RID No. 11347	10	269,342.00	10/28/05	269,342.00	-	120,005.36	02/15/16
CASCADE	GREAT FALLS	Eagles Crossing Phase I street lights	15	56,000.00	01/20/06	56,000.00	-	25,463.22	02/15/21
CASCADE	GREAT FALLS	Meadowlark 4 street lights	10	23,000.00	03/16/07	23,000.00	-	10,140.69	02/15/22
CASCADE	GREAT FALLS	Eagles Crossing II & III design&install s	15	46,149.73	03/28/08	46,149.73	-	27,671.78	02/15/23
CASCADE	GREAT FALLS	design&instll Meadowlark Add#5 str lig	15	29,324.84	05/30/08	29,324.84	-	20,686.41	08/15/23
CASCADE	CASCADE COUNTY	RID Bob Marshall Place	15	100,931.00	11/28/08	100,931.00	-	85,490.86	02/15/24
CASCADE	CASCADE COUNTY	Comp. Pub. Works Facility remodel. camj	10	1,250,000.00	01/30/09	1,250,000.00	-	935,587.26	02/15/19
CASCADE	CASCADE COUNTY	Purch. motor graders/loader	7	750,000.00	11/21/08	750,000.00	-	452,166.88	02/15/16
CASCADE	GREAT FALLS	Bootlegger Phase I Street Lights	15	33,371.50	04/17/09	33,371.50	-	19,044.63	02/15/24
CASCADE	GREAT FALLS	Water Tower Addtn Lights	15	20,302.67	11/27/09	20,302.67	-	14,628.04	02/15/25
CASCADE	GREAT FALLS	Public Works Bldg Addtm/Remodel	10	366,650.39	12/10/10	366,650.39	-	331,810.38	08/15/20
CASCADE	SUN PRAIRIE VILLAGE COUNTY WATER SEWER DISTRICT		2	1,399,000.00	no draw	0.00	1,399,000.00	0.00	
CASCADE Total				4,412,433.13		3,013,433.13	1,399,000.00	2,071,774.55	
CHOUTEAU	MISSOURI RIVER MEDICAL CEI	Purchase Land/Bldg	10	50,000.00	04/18/03	50,000.00	-	8,435.59	08/15/13
CHOUTEAU	MISSOURI RIVER MEDICAL CEI	purchase property and improvement	10	38,000.00	06/15/07	38,000.00	-	23,379.73	08/15/17
CHOUTEAU	FORT BENTON	road material&patching machine	8	49,700.00	07/13/07	49,700.00	-	23,844.88	08/15/15
CHOUTEAU	BIG SANDY ELEMENTARY DIS	boiler&water heaters	5	103,233.59	09/07/07	103,233.59	-	10,653.74	08/15/12
CHOUTEAU	BIG SANDY HIGH SCHOOL DIS	boiler&water heaters	5	132,091.03	09/07/07	132,091.03	-	12,899.42	08/15/12
CHOUTEAU	FORT BENTON	Digital Radio Equip. for Police Dept.	5	45,349.81	01/09/09	45,349.81	-	15,860.04	08/15/13
CHOUTEAU	FORT BENTON	Purchase Pumper Truck	15	180,000.00	07/10/09	180,000.00	-	150,000.00	08/15/24
CHOUTEAU	CARTER CHOUTEAU COUNTY	preliminary engineering report, phase III	3	7,500.00	07/30/10	7,500.00	-	7,500.00	08/15/13
CHOUTEAU	BIG SANDY	Anticip. of RD long-term financing - wa	2	2,314,000.00	no draw	0.00	2,314,000.00	0.00	
CHOUTEAU	GERALDINE	Used Fire Truck	7	30,000.00	11/25/11	27,900.00	2,100.00	27,900.00	02/15/19
CHOUTEAU Total				2,949,874.43		633,774.43	2,316,100.00	280,473.40	
CUSTER	MILES COMMUNITY COLLEGE	New Student Housing	10	300,000.00	05/23/03	300,000.00	-	50,530.67	08/15/13
CUSTER	MILES CITY	To purchase three police vehicles	3	53,500.00	05/06/11	53,500.00	-	44,802.50	08/15/14
CUSTER	MILES CITY	purchase 3 ambulances	5	127,851.00	07/22/11	127,851.00	-	115,463.19	08/15/16
CUSTER Total				481,351.00		481,351.00	-	210,796.36	
DANIELS	FLAXVILLE	Water System Improvements	10	39,313.43	09/03/04	39,313.43	-	10,160.93	08/15/14
DANIELS Total				39,313.43		39,313.43	-	10,160.93	
DAWSON	DAWSON COMMUNITY COLLEGE	Phys Ed, Arts Ctr, Library Expansion	10	500,000.00	06/09/06	500,000.00	-	254,233.23	08/15/16
DAWSON	RICHEY ELEMENTARY SCHOOL	Rehabilitate School Building	10	850,000.00	no draw	0.00	850,000.00	0.00	
DAWSON Total				1,350,000.00		500,000.00	850,000.00	254,233.23	
DEER LODGE	ANACONDA-DEER LODGE COUNTY	Elevator-Hearst Library	10	175,000.00	08/22/03	175,000.00	-	29,898.85	08/15/13
DEER LODGE	ANACONDA-DEER LODGE COUNTY	courthouse preservation	15	800,000.00	07/15/11	800,000.00	-	775,653.78	08/15/26
DEER LODGE Total				975,000.00		975,000.00	-	805,552.63	
FALLON	BAKER	purchase John Deere Grader Patrol	7	118,000.00	12/29/06	118,000.00	-	36,835.72	02/15/14
FALLON	BAKER	purchase a new garbage truck and packe	7	92,157.00	02/16/07	92,157.00	-	26,337.00	02/15/14
FALLON Total				210,157.00		210,157.00	-	63,172.72	

Local Government INTERCAP loans* - by County

As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

County	Borrower Name	Project	Term	Commitment	Fund Date	Drawn	Remaining	Outstanding	Maturity
FERGUS	LEWIS & CLARK COUNTY	Bleachers- LandC Co. Fairgrounds	10	199,900.00	06/07/02	199,900.00	-	11,567.64	08/15/12
FERGUS	LEWIS & CLARK COUNTY	Gable Estates RID	10	317,476.01	02/10/06	317,476.01	-	87,699.88	02/15/16
FERGUS	LEWIS & CLARK COUNTY	Golden Estates RID 2001-1	10	28,754.00	11/18/05	28,754.00	-	12,811.35	02/15/16
FERGUS	LEWIS & CLARK COUNTY	Oro Fino RID 1994-5	10	30,469.67	03/03/06	30,469.67	-	13,641.93	02/15/16
FERGUS	LEWIS & CLARK COUNTY	Maynard Road RID 2005-1	10	8,679.68	03/03/06	8,679.68	-	3,849.44	02/16/16
FERGUS	LEWIS & CLARK COUNTY	Applegate RID	7	43,005.71	03/03/06	43,005.71	-	19,073.07	02/15/16
FERGUS	LEWIS & CLARK COUNTY	Lincoln Rd RID 2004-6	10	348,771.53	02/24/06	348,771.53	-	75,033.22	02/15/16
FERGUS	LEWIS & CLARK COUNTY	Lambkin Road RID No 1989-1	10	29,351.85	03/03/06	29,351.85	-	13,017.58	02/15/16
FERGUS	LEWIS & CLARK COUNTY	Integrated Public Safety Radio System	7	750,000.00	02/17/06	750,000.00	-	119,360.92	02/15/13
FERGUS	LEWIS & CLARK COUNTY	Ten Mile Creek Estates RID 97-2 maint	7	23,683.92	01/26/07	23,683.92	-	7,499.98	02/15/14
FERGUS	LEWIS & CLARK COUNTY	Treasure State Acres RID 90-5 mainten	7	194,066.46	01/26/07	194,066.46	-	61,454.87	02/15/14
FERGUS	LEWIS & CLARK COUNTY	Middlemas Road RID #1987-4 and 4C r	10	10,475.14	04/13/07	10,475.14	-	5,762.93	02/15/17
FERGUS	LEWIS & CLARK COUNTY	Town View Estates RID #1990-9 road i	10	40,858.49	03/20/08	40,858.49	-	18,278.73	02/15/18
FERGUS	LEWIS & CLARK COUNTY	Green Acres RID #2001-8 Road Improv	10	26,467.12	03/20/08	26,467.12	-	13,485.64	02/15/18
FERGUS	LEWIS & CLARK COUNTY	Bel Air Addition RID No. 2006-5	10	213,266.12	06/20/08	213,266.12	-	85,315.77	08/15/18
FERGUS	LEWIS & CLARK COUNTY	Bel Air Curb RID No. 2006-6	10	13,685.21	03/20/08	13,685.21	-	7,387.44	02/15/18
FERGUS	LEWIS & CLARK COUNTY	elevator, air cnd, upgds, roof rpr& remo	10	999,483.48	03/14/08	999,483.48	-	675,971.01	02/15/18
FERGUS	MOORE ELEMENTARY SCHOOL	New roof on school	10	90,000.00	08/07/09	90,000.00	-	72,000.00	08/15/19
FERGUS	MOORE HIGH SCHOOL DIST #4	Repair/replace roof & site Improvem	10	90,000.00	08/07/09	90,000.00	-	72,000.00	08/15/19
FERGUS	LEWIS & CLARK COUNTY	County Landfill Scraper	15	649,900.00	01/23/09	649,900.00	-	223,244.30	02/15/24
FERGUS	LEWIS & CLARK COUNTY	Sky View RID #2008-9	10	52,995.71	03/19/10	52,995.71	-	30,361.10	02/15/20
FERGUS	LEWIS & CLARK COUNTY	Fox Crossing RID #2008-6 road imp	15	29,191.05	03/19/10	29,191.05	-	13,696.07	02/15/25
FERGUS	LEWIS & CLARK COUNTY	Autumn Wind Court RID road improv	15	40,123.92	08/20/10	40,123.92	-	34,652.21	08/15/25
FERGUS	LEWIS & CLARK COUNTY	Purchase 2005 Cat. 420D Backhoe	6	31,975.00	11/13/09	31,975.00	-	21,995.23	02/15/16
FERGUS	LEWIS & CLARK COUNTY	Remodel City/County Admin. Bldg-2nd	10	505,000.00	06/25/10	505,000.00	-	433,989.67	08/15/20
FERGUS	FERGUS COUNTY	Emergency road & bridge repairs	15	999,000.00	09/02/11	615,453.56	383,546.44	612,339.06	08/15/26
FERGUS	LEWIS & CLARK COUNTY	Fantasy Road (East of Ferry Drive) RID	15	9,278.95	06/22/12	9,278.95	-	9,278.95	08/15/27
FERGUS	LEWISTOWN	Extending Water & Sewer Services at th	10	89,901.71	12/16/11	89,901.71	-	89,901.71	08/15/21
FERGUS Total				5,865,760.73		5,482,214.29	383,546.44	2,844,669.70	
FLATHEAD	SOMERS SCHOOL DISTRICT #25	Heat System Replacement	10	147,000.00	11/08/02	147,000.00	-	8,861.67	08/15/12
FLATHEAD	SOMERS SCHOOL DISTRICT #25	Renovate School	10	113,500.00	09/20/02	113,500.00	-	6,321.35	08/15/12
FLATHEAD	SMITH LAKE VISTA CO W&S DI	Water System Improvements	10	15,400.00	09/05/03	15,400.00	-	1,800.00	08/15/13
FLATHEAD	KALISPELL	Heating/Air Cond/ Fire Safety	10	151,835.70	07/16/04	151,835.70	-	41,458.52	08/15/14
FLATHEAD	SOMERS SCHOOL DISTRICT #25	School Renovations	10	200,000.00	07/30/04	200,000.00	-	57,843.43	08/15/14
FLATHEAD	KALISPELL	2003 American La France Eagle Pompe	10	279,900.00	04/22/05	279,900.00	-	110,181.04	02/15/15
FLATHEAD	FLATHEAD VALLEY COMMUNI	Campus expansion	10	3,258,778.74	07/20/07	3,258,778.74	-	1,926,216.03	02/15/17
FLATHEAD	FLATHEAD COUNTY	Rural Impr Dist No.142 sew coll syst im	10	186,665.73	07/20/07	186,665.73	-	113,921.73	08/15/17
FLATHEAD	WAPITI ACRES COUNTY WATE	PER for water system upgrades	6	11,000.00	06/06/08	11,000.00	-	4,920.22	08/15/14
FLATHEAD	WEST VALLEY FIRE DISTRICT,	Construct new fire hall	15	650,000.00	10/16/09	650,000.00	-	568,155.82	08/15/24
FLATHEAD	WEST VALLEY FIRE DISTRICT,	Purchase a new aerial ladder truck	10	600,000.00	12/11/09	600,000.00	-	494,945.98	02/15/20
FLATHEAD	KALISPELL	Purchase aerial buck truck and other par	5	99,520.24	12/30/10	99,520.24	-	80,243.18	02/15/16
FLATHEAD	SHEAVERS CREEK LAKE COUN	to finance the final cost of water storage	10	25,000.00	02/18/11	25,000.00	-	22,262.26	02/01/21
FLATHEAD	BIGFORK FIRE DISTRICT	Refinance ladder truck, district financed	10	602,144.99	01/27/12	602,144.99	-	554,387.83	02/15/22
FLATHEAD	KALISPELL	Dump Truck & Compactor	5	172,000.00	12/30/11	170,793.00	1,207.00	170,793.00	02/15/17
FLATHEAD Total				6,512,745.40		6,511,538.40	1,207.00	4,162,312.06	
GALLATIN	MANHATTAN	Rescue Truck	10	80,000.00	07/03/03	80,000.00	-	13,496.95	08/15/13
GALLATIN	AMSTERDAM RURAL FIRE DIS	Purchase Fire Truck	10	80,000.00	08/29/03	80,000.00	-	10,623.78	08/15/13
GALLATIN	GALLATIN COUNTY	Purchase Building	10	999,000.00	02/27/04	999,000.00	-	221,307.70	02/15/14
GALLATIN	GALLATIN COUNTY	RE-ENTRY FACILITY	10	800,000.00	03/31/06	800,000.00	-	359,575.39	02/15/16
GALLATIN	GALLATIN COUNTY	Fairgrounds improvements	10	500,000.00	04/13/07	500,000.00	-	226,023.14	08/15/15
GALLATIN	GALLATIN COUNTY	Multiple city libraries improvements	10	999,000.00	06/17/05	999,000.00	-	393,427.01	08/15/15
GALLATIN	FORT ELLIS FIRE SERVICE ARE	new fire rescue vehicle	10	190,000.00	05/25/07	190,000.00	-	59,852.34	08/15/17
GALLATIN	GALLATIN COUNTY	Courthouse Annex Building purch &mo	10	999,000.00	07/27/07	999,000.00	-	605,080.59	08/15/17

Local Government INTERCAP loans* - by County

As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

County	Borrower Name	Project	Term	Commitment	Fund Date	Drawn	Remaining	Outstanding	Maturity
GALLATIN	THREE FORKS ELEMENTARY S	utilities and roadway to school land	4	80,000.00	08/15/08	80,000.00	-	10,755.75	08/15/12
GALLATIN	THREE FORKS HIGH SCHOOL D	utilities and roadway to school land	4	36,329.78	08/15/08	36,329.78	-	4,884.43	08/15/12
GALLATIN	GALLATIN COUNTY	Road/Bridge Shop Complex	10	1,300,000.00	06/06/08	1,300,000.00	-	905,806.75	08/15/18
GALLATIN	WEST YELLOWSTONE	Purchase Caterpillar Wheel Loader	10	128,624.00	02/06/09	128,624.00	-	95,386.81	02/15/19
GALLATIN	BOZEMAN	Contract & Furnish Fire Station	10	890,000.00	08/28/09	890,000.00	-	306,727.45	08/15/19
GALLATIN	GALLATIN COUNTY	Construct and Equip 9-1-1 Center	10	1,000,000.00	03/27/09	1,000,000.00	-	729,178.23	02/15/19
GALLATIN	WEST YELLOWSTONE	911 Dispatch Center Remodel	10	422,499.95	05/29/09	422,499.95	-	190,530.90	08/15/19
GALLATIN	LAMOTTE SCHOOL DISTRICT #	Purchase & Install Modular	5	135,000.00	09/25/09	135,000.00	-	71,133.73	08/15/14
GALLATIN	GALLATIN COUNTY/GALLATIN	Land Purchase - Logan	10	1,250,000.00	06/25/10	1,250,000.00	-	1,062,500.00	08/15/20
GALLATIN	THREE FORKS	construction a 30x40 office/storage buil	10	48,000.00	06/17/11	48,000.00	-	42,123.15	08/15/21
GALLATIN	BRIDGER CANYON RURAL FIRI	Refinance its fire station loan	15	116,470.46	10/21/11	116,470.46	-	116,470.46	08/15/26
GALLATIN	GALLATIN GATEWAY COUNTY	Anticipation Rural Development Servic	2	1,650,000.00	no draw	0.00	1,650,000.00	0.00	
GALLATIN	BOZEMAN	Reconstruction of 8th Avenue street	10	1,700,000.00	07/06/12	-	1,700,000.00	-	08/15/22
GALLATIN	BELGRADE	roof replacement/exterior wall repairs	15	75,000.00	no draw	0.00	75,000.00	0.00	
GALLATIN	Total			13,478,924.19		10,053,924.19	3,425,000.00	5,424,884.56	
HILL	HILL COUNTY	Wanke Bridge	10	136,389.81	12/23/04	136,389.81	-	44,168.27	02/15/15
HILL	HAVRE	Chiller & cooling Towner for Ice Dome	10	60,000.00	04/01/05	60,000.00	-	20,061.65	02/15/15
HILL	HAVRE	Change city hall (two bldgs) from flat to	15	280,000.00	08/03/07	280,000.00	-	215,333.56	08/15/22
HILL	HAVRE	Change city hall roof (two bldgs) from f	10	175,800.00	07/13/07	175,800.00	-	106,270.74	08/15/17
HILL	HAVRE	Asphalt Reclaiming Machine	10	86,950.00	02/24/10	86,950.00	-	71,652.78	02/15/20
HILL	UNIFIED DISPOSAL DISTRICT	Develop facility at new landfill	15	900,000.00	12/10/10	900,000.00	-	856,099.00	02/15/26
HILL	HAVRE	Rufuse Truck - 2012 Freightliner M210t	7	49,500.00	03/04/11	49,500.00	-	42,787.81	02/15/18
HILL	HAVRE	New Street Sweeper	7	141,902.78	03/16/12	141,902.78	-	141,902.78	02/15/19
HILL	HAVRE	Refuse Truck	7	235,885.00	04/13/12	235,885.00	-	235,885.00	02/15/19
HILL	Total			2,066,427.59		2,066,427.59	-	1,734,161.59	
JEFFERSON	BULL MOUNTAIN RURAL FIRE	Refinance Water Tender	10	35,000.00	10/04/02	35,000.00	-	1,825.27	08/15/12
JEFFERSON	CLANCY FIRE SERVICE AREA	Fire Station Addition	10	40,000.00	12/24/03	40,000.00	-	8,838.53	02/15/14
JEFFERSON	JEFFERSON CITY FIRE DISTRIC	New Fire Hall	10	75,000.00	06/11/04	75,000.00	-	20,912.68	08/15/14
JEFFERSON	MONTANA CITY SCHOOL DIST	Payoff GAN file #1027	8	44,893.49	08/15/05	44,893.49	-	11,895.66	02/15/14
JEFFERSON	BOULDER	Preliminary Engineering Report - water	6	25,000.00	12/22/06	25,000.00	-	4,771.98	02/15/13
JEFFERSON	WHITEHALL ELEMENTARY SCI	new natural gas boiler	10	84,484.00	05/18/07	84,484.00	-	38,388.43	08/15/17
JEFFERSON	MONTANA CITY RURAL FIRE D	new pumper truck	10	345,343.00	05/16/08	345,343.00	-	208,522.68	08/15/18
JEFFERSON	JEFFERSON COUNTY	RID #2506 road improvements	15	75,376.23	09/19/08	75,376.23	-	62,195.13	08/15/23
JEFFERSON	BULL MOUNTAIN RURAL FIRE	Construct fire truck garage	10	49,837.00	12/12/08	49,837.00	-	38,015.78	02/15/19
JEFFERSON	WHITEHALL	2008 Fire Engine	10	150,000.00	07/02/09	150,000.00	-	116,296.92	08/15/19
JEFFERSON	JEFFERSON COUNTY	County Offices Remodel	10	285,259.54	05/15/09	285,259.54	-	234,855.10	08/15/19
JEFFERSON	JEFFERSON COUNTY	Martinez Gulch RID #2517 Rd. Improv.	15	262,878.81	11/20/09	262,878.81	-	232,583.08	08/15/24
JEFFERSON	JEFFERSON CITY FIRE DISTRIC	Purchase fire pumper engine	7	11,500.00	10/09/09	11,500.00	-	7,628.62	08/15/16
JEFFERSON	JEFFERSON COUNTY	Moonlight Ridge RID #2511 road imprc	15	241,096.48	12/24/09	241,096.48	-	209,553.22	02/15/25
JEFFERSON	BOULDER	Unexpected costs related to water proj.	10	50,000.00	04/30/10	50,000.00	-	43,108.17	08/15/20
JEFFERSON	WHITEHALL	assume municipal pool debt	10	99,894.00	07/23/10	99,894.00	-	85,999.81	08/15/20
JEFFERSON	CLANCY FIRE SERVICE AREA	FIRE TRUCK	10	77,058.00	09/24/10	77,058.00	-	68,219.23	08/15/20
JEFFERSON	WHITEHALL	Anticip of RD long term financing -wast	1	3,300,000.00	04/27/12	1,238,639.23	2,061,360.77	1,238,639.23	04/27/14
JEFFERSON	MONTANA CITY SCHOOL DIST	Energy retrofit project using energy perf	15	134,343.00	10/07/11	109,845.65	24,497.35	107,153.19	08/15/26
JEFFERSON	WHITEHALL	Emergency backup generator	10	35,000.00	12/23/11	31,570.00	3,430.00	31,570.00	12/15/22
JEFFERSON	Total			5,421,963.55		3,332,675.43	2,089,288.12	2,770,972.71	
JUDITH BASI	HOBSON	chip sealing the streets	10	85,000.00	08/03/07	85,000.00	-	51,579.11	08/15/17
JUDITH BASIN	Total			85,000.00		85,000.00	-	51,579.11	
LAKE	LAKE COUNTY/LAKE COUNTY	Solid Waste Transfer Station	10	880,000.00	02/06/04	880,000.00	-	214,260.00	08/15/13
LAKE	RONAN	Anticip. RD Long Term Financing-Wate	2	2,528,000.00	12/16/11	1,171,292.85	1,356,707.15	1,171,292.85	11/01/12
LAKE	POLSON	To purchase a 2008 Case wheel loader	3	47,200.00	05/13/11	47,200.00	-	39,526.70	08/15/14
LAKE	POLSON ELEMENTARY SCHOO	Reroofing High School	3	164,000.00	no draw	0.00	164,000.00	0.00	
LAKE	RONAN	Various Used Equipment	7	150,000.00	no draw	0.00	150,000.00	0.00	

Local Government INTERCAP loans* - by County
As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

County	Borrower Name	Project	Term	Commitment	Fund Date	Drawn	Remaining	Outstanding	Maturity
LAKE Total				3,769,200.00		2,098,492.85	1,670,707.15	1,425,079.55	

Local Government INTERCAP loans* - by County

As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

County	Borrower Name	Project	Term	Commitment	Fund Date	Drawn	Remaining	Outstanding	Maturity
LEWIS AND (HELENA)		Tower Truck/Station Remodel	10	1,081,115.85	11/08/02	1,081,115.85	-	124,883.62	02/15/13
LEWIS AND (HELENA)		Mowers & Turf Sweeper	10	56,551.00	10/24/03	56,551.00	-	12,622.15	02/15/14
LEWIS AND (HELENA)		Chambers Remodel	10	175,974.43	10/01/04	175,974.43	-	47,783.29	08/15/14
LEWIS AND (HELENA)		GOLF POND IMPROVEMENTS	10	62,901.00	12/03/04	62,901.00	-	20,668.10	02/15/15
LEWIS AND (BAXENDALE FIRE DIST)		Tanker Fire Truck	10	80,000.00	04/15/05	80,000.00	-	30,407.97	02/15/15
LEWIS AND (BAXENDALE FIRE DIST)		constructing a fire hall addition	10	50,000.00	07/20/07	50,000.00	-	30,288.94	08/15/17
LEWIS AND (YORK FIRE SERVICE AREA)		constructing a fire station	10	70,000.00	11/09/07	70,000.00	-	47,610.49	02/15/18
LEWIS AND (EAST HELENA)		Construction of new shop building	10	177,208.00	06/22/07	177,208.00	-	107,645.85	08/15/17
LEWIS AND (HELENA)		imprvm to City's golf course	10	207,000.00	09/25/09	207,000.00	-	160,548.72	08/15/19
LEWIS AND (WOLF CREEK WATER&SEWER)		grant writing&adm start up costs	6	20,000.00	02/15/08	20,000.00	-	7,313.31	02/15/14
LEWIS AND (EAST HELENA)		Reconstruction of muni. swim. pool	10	692,958.00	09/19/08	692,958.00	-	482,125.60	08/15/18
LEWIS AND (HELENA)		Sidewalk, curb, Gut., & driveway/alley	10	326,548.96	02/06/09	326,548.96	-	247,721.95	02/15/19
LEWIS AND (WOLF CREEK/CRAIG FIRE SVC)		Build a 50' x 80' truck barn	15	139,798.20	10/02/09	139,798.20	-	122,713.57	08/15/24
LEWIS AND (BIRDSEYE RURAL FIRE DISTRI)		Purchase intl 4x4 structure engine	9	176,000.00	12/11/09	176,000.00	-	141,175.28	02/15/19
LEWIS AND (TRI-LAKES VOLUNTEER FIRE D)		Purchase a Sutphen CAFS rescue pump	10	175,000.00	12/24/09	175,000.00	-	143,492.35	02/15/20
LEWIS AND (TRI-LAKES VOLUNTEER FIRE D)		Three Used Apparatuses	10	131,939.44	07/15/11	131,939.44	-	128,571.65	08/15/21
LEWIS AND (AUGUSTA RURAL FIRE DISTRI)		New Fire Pumper Truck	10	115,000.00	no draw	0.00	115,000.00	0.00	
LEWIS AND (WEST HELENA VALLEY FIRE D)		New Fire Pumper Truck	10	140,000.00	no draw	0.00	140,000.00	0.00	02/15/22
LEWIS AND (EAST HELENA)		Financing for its wastewater treatment P	2	4,078,000.00	no draw	0.00	4,078,000.00	0.00	
LEWIS AND CLARK Total				7,955,994.88		3,622,994.88	4,333,000.00	1,855,572.84	
LINCOLN	TROY PUBLIC SCHOOLS DISTR	Energy Cost Savings replace old boiler	10	59,000.00	11/24/06	59,000.00	-	30,421.35	02/15/17
LINCOLN	EUREKA ELEMENTARY SCHOC	central wood-fired heating plant&dist lir	10	283,240.00	09/14/07	283,240.00	-	161,222.62	08/15/17
LINCOLN	LINCOLN HIGH SCHOOL	cent wood-fired heating plant&dist lines	10	283,240.00	09/14/07	283,240.00	-	161,222.62	08/15/17
LINCOLN	FISHER RIVER VALLEY FIRE SE	Refi Fire Station Construction Loan	15	136,245.00	06/24/11	136,245.00	-	131,945.83	08/15/26
LINCOLN Total				761,725.00		761,725.00	-	484,812.42	
MADISON	SHERIDAN	Purchase land for Main St. parking	10	43,000.00	09/09/05	43,000.00	-	16,786.42	08/15/15
MADISON	TWIN BRIDGES	Engineering services - water/wastewater	6	130,000.00	04/23/10	130,000.00	-	98,914.65	08/15/16
MADISON	MADISON VALLEY RURAL FIRI	Refi Fire Station Loan	10	240,708.06	09/24/10	240,708.06	-	207,005.24	08/15/20
MADISON	SHERIDAN	Wastewater improvements	6	100,000.00	02/24/12	100,000.00	-	100,000.00	02/15/18
MADISON Total				513,708.06		513,708.06	-	422,706.31	
MCCONE	MCCONE COUNTY	McCone Co Courthouse Updates	10	190,000.00	02/13/04	190,000.00	-	43,976.98	02/15/14
MCCONE	MCCONE COUNTY	Purchase 2010 Ford F250 4x4 P.U.	5	26,148.32	10/23/09	26,148.32	-	16,191.03	02/15/15
MCCONE	MCCONE COUNTY	COMMUNITY FACILITY AT FAIRGF	10	125,000.00	08/13/10	125,000.00	-	110,005.67	08/15/20
MCCONE	MCCONE COUNTY	Refinance a 2006 Ford Expedition	3	22,877.00	06/03/11	22,877.00	-	19,157.89	08/15/14
MCCONE Total				364,025.32		364,025.32	-	189,331.57	
MINERAL	ALBERTON	Skid-steer Loader with attachments	7	49,673.00	01/13/06	49,673.00	-	7,918.06	02/15/13
MINERAL	MINERAL COUNTY HOSPITAL I	Design Feasibility Study for New Hospit	6	450,000.00	10/07/11	355,860.08	94,139.92	342,255.39	08/15/17
MINERAL	SUPERIOR	Anticip of RD CFP long term - New Fir	1	498,000.00	05/18/12	45,150.00	452,850.00	45,150.00	05/01/14
MINERAL	ALBERTON	To Purchase a used sanding truck	5	20,000.00	no draw	0.00	20,000.00	0.00	
MINERAL Total				1,017,673.00		450,683.08	566,989.92	395,323.45	
MISSOULA	MISSOULA COUNTY	Western Montana Fair Equipment	10	158,623.00	04/30/04	158,623.00	-	43,742.44	08/15/14
MISSOULA	MISSOULA	Art Museum Remodel	10	300,000.00	07/09/04	300,000.00	-	91,014.69	08/15/14
MISSOULA	MISSOULA	CHRISTIAN DR. SID #530	10	6,706.45	01/13/06	6,706.45	-	2,686.45	02/15/16
MISSOULA	MISSOULA COUNTY	Missoula Aging Services (MAS) renova	10	250,000.00	02/24/06	250,000.00	-	112,623.48	02/15/16
MISSOULA	MISSOULA COUNTY	Grader/Motor Pool/Office Equip	4	995,280.80	05/08/09	995,280.80	-	387,957.27	08/15/13
MISSOULA	MISSOULA COUNTY	Purchase Historical Building	10	432,499.89	05/15/09	432,499.89	-	373,203.45	08/15/24
MISSOULA	SEELEY LAKE RURAL FIRE DIS	Purchase land/building to house trucks a	15	325,000.00	08/28/09	325,000.00	-	280,776.18	08/15/24
MISSOULA	MISSOULA COUNTY	Williams Addtn RID -sewer system imp	15	73,000.00	05/07/10	73,000.00	-	65,710.00	08/15/25
MISSOULA	MISSOULA RURAL FIRE DISTRI	FINANCE A NEW FIRE ENGINE, WA	10	475,000.00	10/21/11	475,000.00	-	475,000.00	02/15/22
MISSOULA	CLINTON RURAL FIRE DISTRIC	Finance a Used Fire Engine	10	140,000.00	04/27/12	125,000.00	15,000.00	125,000.00	08/15/22

Local Government INTERCAP loans* - by County

As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

County	Borrower Name	Project	Term	Commitment	Fund Date	Drawn	Remaining	Outstanding	Maturity
MISSOULA	MISSOULA COUNTY	New Water/Septic Facilities	5	35,000.00	no draw	0.00	35,000.00	0.00	08/15/17
MISSOULA	TARGET RANGE SCHOOL DIST	Building Improvements	5	850,000.00	no draw	0.00	850,000.00	0.00	
MISSOULA Total				4,041,110.14		3,141,110.14	900,000.00	1,957,713.96	
MUSSELSHELL	MUSSELSHELL COUNTY	Ambulance Barn Construction	10	200,000.00	10/07/05	200,000.00	-	77,350.90	08/15/15
MUSSELSHELL	MUSSELSHELL COUNTY	Purchase John Deere 872G grader	8	227,000.00	11/12/10	227,000.00	-	200,513.18	02/15/19
MUSSELSHELL Total				427,000.00		427,000.00	-	277,864.08	
PARK	PARADISE VALLEY FIRE SERV	Purchase (2) Fire Trucks	10	75,000.00	08/16/02	75,000.00	-	4,331.46	08/15/12
PARK	PARK COUNTY RURAL FIRE DI	Purchase Metal Building	10	90,000.00	10/04/02	90,000.00	-	4,693.54	08/15/12
PARK	LIVINGSTON	Automate Solid Waste System	10	250,000.00	05/30/03	250,000.00	-	37,481.60	08/15/13
PARK	PARK COUNTY	Gardiner Airport Easement	10	68,350.00	04/27/04	68,350.00	-	18,848.44	08/15/14
PARK	GARDINER RURAL FIRE DISTR	replacement fire engine	5	44,000.00	03/14/08	44,000.00	-	3,519.34	08/15/12
PARK	LIVINGSTON	Replace Sewer Mains	10	141,743.00	10/23/09	141,743.00	-	113,395.00	02/15/20
PARK	LIVINGSTON	Replace Water Mains	10	152,941.00	10/23/09	152,941.00	-	122,353.00	02/15/20
PARK	LIVINGSTON	Street Repair Project	10	500,000.00	no draw	0.00	500,000.00	0.00	
PARK Total				1,322,034.00		822,034.00	500,000.00	304,622.38	
PHILLIPS	PHILIPSBURG SCHOOL DISTRIC	Biomass Heating System replacement	10	355,000.00	01/14/05	355,000.00	-	108,141.99	08/15/14
PHILLIPS	PHILIPSBURG	Anticip of RD long term financ	2	3,652,000.00	no draw	0.00	3,652,000.00	0.00	
PHILLIPS Total				4,007,000.00		355,000.00	3,652,000.00	108,141.99	
PONDERA	PONDERA COUNTY	Upgrade 911 Equipment	10	333,095.79	03/07/03	333,095.79	-	38,774.53	02/15/13
PONDERA	PONDERA COUNTY	Co. Hosp. Heat-Vent-AC Sys Replacem	10	435,000.00	05/28/04	435,000.00	-	120,808.80	08/15/14
PONDERA	VALIER ELEMENTARY SCHOOL	Boiler/Heating System	10	100,000.00	07/29/05	100,000.00	-	38,931.32	08/15/15
PONDERA	PONDERA COUNTY	Purchase Building for Senior Center	10	89,550.00	07/03/08	89,550.00	-	61,888.89	08/15/18
PONDERA	PONDERA COUNTY RURAL FIR	2009 Freightliner Pumper Truck	10	100,000.00	07/31/09	100,000.00	-	46,209.75	08/15/19
PONDERA	VALIER ELEMENTARY SCHOOL	Swimming Pool Rehab	10	147,739.34	05/20/11	147,739.34	-	140,357.34	08/15/21
PONDERA	VALIER HIGH SCHOOL DISTRIC	Swimming Pool Rehab	10	147,739.34	05/20/11	147,739.34	-	140,357.34	08/15/21
PONDERA	PONDERA COUNTY	Senior Center Remodel Project	15	113,841.43	08/12/11	113,841.43	-	113,187.99	08/15/26
PONDERA	CONRAD	Expand and remodel City Hall	10	320,000.00	no draw	0.00	320,000.00	0.00	02/15/22
PONDERA Total				1,786,965.90		1,466,965.90	320,000.00	700,515.96	
POWDER RIVER	POWDER RIVER COUNTY/POW	Expand landfill	10	220,000.00	11/18/05	220,000.00	-	88,000.00	02/15/16
POWDER RIVER Total				220,000.00		220,000.00	-	88,000.00	
POWELL	GARRISON FIRE DISTRICT	Construct Fire Hall	10	107,000.00	08/19/05	107,000.00	-	42,112.94	08/15/15
POWELL	ELLISTON RURAL FIRE DISTRIC	Construct new fire hall	10	96,470.20	08/19/05	96,470.20	-	38,431.35	08/15/15
POWELL	POWELL COUNTY	bridge maintenance/replacement	7	250,000.00	11/09/07	250,000.00	-	106,122.75	08/15/14
POWELL	DEER LODGE ELEMENTARY SI	Purch & Install Wood-Fired Heat Plant	10	335,000.00	01/16/09	335,000.00	-	232,159.05	02/15/19
POWELL Total				788,470.20		788,470.20	-	418,826.09	
PRAIRIE	PRAIRIE COUNTY HOSPITAL DI	Replace hospital & clinic roof	15	168,619.15	12/23/10	168,619.15	-	157,959.58	08/15/25
PRAIRIE Total				168,619.15		168,619.15	-	157,959.58	
RAVALLI	RAVALLI COUNTY	Renovate Existing Courthouse	10	500,000.00	04/18/03	500,000.00	-	90,267.20	08/15/13
RAVALLI	PAINTED ROCKS FIRE DISTRIC	Construct Fire Station	10	100,000.00	10/10/03	100,000.00	-	18,817.98	08/15/13
RAVALLI	RAVALLI COUNTY	Camera/Jail Ctrl Panel	10	64,257.19	07/16/04	64,257.19	-	17,545.33	08/15/14
RAVALLI	HAMILTON SCHOOL DISTRICT	BOILER REPLACEMENT	10	418,988.82	11/12/04	418,988.82	-	122,147.77	08/15/14
RAVALLI	VICTOR SCHOOL DISTRICT #7	Retrofit Heating System	10	103,918.18	09/24/04	103,918.18	-	29,291.84	08/15/14
RAVALLI	RAVALLI COUNTY	Aggregate Crushing Plant & Excavator	10	535,000.00	03/04/05	535,000.00	-	174,990.03	02/15/15
RAVALLI	RAVALLI COUNTY	Public Safety Vehicles	5	164,902.59	01/22/10	164,902.59	-	101,737.72	02/15/15
RAVALLI	RAVALLI COUNTY	Roofing courthouse & related improv	10	196,364.00	11/28/08	196,364.00	-	145,580.41	02/15/19
RAVALLI	VICTOR SCHOOL DISTRICT #7	Insulation proj. remodel/renovate cafe.	10	75,000.00	12/04/09	75,000.00	-	61,868.25	02/15/20
RAVALLI	RAVALLI COUNTY	Purchase Building for Search & Rescue	10	425,000.00	07/16/10	425,000.00	-	365,724.99	08/15/20
RAVALLI	NORTH VALLEY PUBLIC LIBRA	library renovation phase 1	10	75,000.00	10/01/10	39,826.37	35,173.63	35,740.76	08/15/20
RAVALLI	RAVALLI COUNTY	Purchase replacement sherriff vehicles	5	300,000.00	02/24/12	300,000.00	-	300,000.00	02/15/17
RAVALLI	STEVENSVILLE	Anticipation RD financing for its water	2	2,173,000.00	04/08/11	693,654.73	1,479,345.27	693,654.73	02/15/13
RAVALLI	RAVALLI COUNTY	To refinance tis fair trade center they coi	15	560,000.00	09/23/11	560,000.00	-	542,718.31	08/15/26
RAVALLI	FLORENCE RURAL FIRE DISTR	Purchase of a new type 3 fire truck	10	245,000.00	no draw	0.00	245,000.00	0.00	

Local Government INTERCAP loans* - by County

As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

County	Borrower Name	Project	Term	Commitment	Fund Date	Drawn	Remaining	Outstanding	Maturity
RAVALLI	RAVALLI COUNTY ECONOMIC	Parking Lot Expansion	10	70,000.00	01/13/12	66,567.05	3,432.95	66,567.05	02/15/22
RAVALLI	LONE ROCK ELEMENTARY SCH	Installing a new septic system	10	40,000.00	01/13/12	40,000.00	-	40,000.00	06/15/21
RAVALLI	PINESDALE	finance costs associated with a pilot stud	3	38,000.00	04/13/12	38,000.00	-	38,000.00	02/15/15
RAVALLI Total				6,084,430.78		4,321,478.93	1,762,951.85	2,844,922.37	
RICHLAND	SIDNEY	Replace Wtr Treatment Plant Filters	10	884,307.32	12/17/10	884,307.32	-	723,877.32	08/15/20
RICHLAND Total				884,307.32		884,307.32	-	723,877.32	
ROOSEVELT	POPLAR	Purchase Land	10	108,374.06	06/20/03	108,374.06	-	18,283.98	08/15/13
ROOSEVELT	WOLF POINT SCHOOL DISTRICT	Boiler Replacement	10	357,045.10	06/18/04	357,045.10	-	96,600.85	08/15/14
ROOSEVELT	CULBERTSON	New Refuse Truck	7	75,758.00	09/09/05	75,758.00	-	5,402.00	08/15/12
ROOSEVELT	CULBERTSON ELEMENTARY SCHOOL	Remodel/Repave & Replace Kitchen Eq	10	800,000.00	08/06/10	800,000.00	-	700,834.69	02/15/20
ROOSEVELT	CULBERTSON	Street, Curb and Gutter Improvements	15	137,200.00	07/22/11	120,951.69	16,248.31	120,239.69	08/15/26
ROOSEVELT	CULBERTSON ELEMENTARY SCHOOL	Reroofing of school wings	10	124,000.00	11/04/11	124,000.00	-	124,000.00	06/15/21
ROOSEVELT	CULBERTSON HIGH SCHOOL	Reroofing of high school wings	10	125,000.00	11/04/11	122,041.00	2,959.00	122,041.00	06/15/21
ROOSEVELT Total				1,727,377.16		1,708,169.85	19,207.31	1,187,402.21	
ROSEBUD	COLSTRIP	Jet Vacuum Truck	10	100,000.00	04/04/03	100,000.00	-	10,837.56	02/15/13
ROSEBUD	LAME DEER ELEMENTARY SCHOOL	remodeling projects	10	231,000.00	09/16/05	231,000.00	-	94,704.79	08/15/15
ROSEBUD	LAME DEER HIGH SCHOOL	DIS remodeling projects	10	269,000.00	09/16/05	269,000.00	-	113,084.88	08/15/15
ROSEBUD Total				600,000.00		600,000.00	-	218,627.23	
SANDERS	DIXON ELEMENTARY DISTRICT	Remodel Exist. Shop Building	10	40,000.00	09/27/02	40,000.00	-	2,305.47	08/15/12
SANDERS	THOMPSON FALLS	front end loader	10	82,997.00	03/20/08	82,997.00	-	53,530.36	02/15/18
SANDERS	THOMPSON FALLS	two police vehicle	5	37,998.00	12/21/07	37,998.00	-	8,007.02	02/15/13
SANDERS	SANDERS COUNTY	Arena/Holding Pens Upgrade	10	140,941.93	07/11/08	140,941.93	-	97,608.50	08/15/18
SANDERS	THOMPSON FALLS	COMPUTER SERVER AND GENERA	5	78,563.00	06/25/10	78,563.00	-	55,576.68	08/15/15
SANDERS	SANDERS COUNTY	CONCESSION STAND AND FAIRGR	10	140,555.61	07/30/10	140,555.61	-	121,062.78	08/15/20
SANDERS	THOMPSON FALLS	Asphalt Grinder	10	65,000.00	no draw	0.00	65,000.00	0.00	
SANDERS Total				586,055.54		521,055.54	65,000.00	338,090.81	
SILVER BOW	BUTTE-SILVER BOW	Caterpillar PM-201 Cold Planer	10	736,843.00	04/13/07	736,843.00	-	405,376.24	02/15/17
SILVER BOW	BUTTE-SILVER BOW	Two Pumper trucks	7	729,213.00	04/13/07	729,213.00	-	228,732.65	02/15/14
SILVER BOW	BUTTE-SILVER BOW	New 100' Super HD Aerial Ladder Truc	10	978,554.00	09/28/07	978,554.00	-	551,202.00	08/15/17
SILVER BOW Total				2,444,610.00		2,444,610.00	-	1,185,310.89	
STILLWATER	PARK CITY RURAL FIRE DISTRICT	Fire Truck	10	164,685.00	01/31/03	164,685.00	-	18,867.51	02/15/13
STILLWATER	STILLWATER COUNTY/STILLWATER	BUILDING CONSTRUCTION	10	400,000.00	08/13/04	400,000.00	-	99,194.94	08/15/14
STILLWATER	STILLWATER COUNTY	Building for co office space	10	125,000.00	03/24/06	125,000.00	-	50,364.76	02/15/16
STILLWATER	COLUMBUS	Storm Drain Sewer+street/curb reconstr	10	1,147,220.34	11/16/07	1,147,220.34	-	766,488.01	02/15/18
STILLWATER	STILLWATER COUNTY	constructing a new dispatch center	10	130,500.00	04/27/07	130,500.00	-	74,075.41	08/15/17
STILLWATER	STILLWATER COUNTY	dispatch center equipment	6	83,500.00	10/19/07	83,500.00	-	23,033.95	08/15/13
STILLWATER	PARK CITY RURAL FIRE DISTRICT	Bldg Demolition, Bldg Expansion	10	130,000.00	10/09/09	130,000.00	-	104,684.86	08/15/19
STILLWATER	STILLWATER COUNTY	FOR THE PURCHASE OF TWO NEW	7	299,055.00	01/14/11	299,055.00	-	258,261.20	02/15/18
STILLWATER	STILLWATER COUNTY/STILLWATER	Purchase a new roll truck for it solid wa	10	100,472.00	08/05/11	100,472.00	-	95,448.00	08/15/21
STILLWATER	COLUMBUS	CONSTRUCTING OF A PUBLIC WOI	10	300,000.00	01/06/12	300,000.00	-	300,000.00	02/15/22
STILLWATER	COLUMBIA FALLS	Street Improvements	10	364,449.00	08/26/11	364,449.00	-	347,672.15	08/15/21
STILLWATER	ROUNDUP	UV Disinfection-Sewer Lagoon	10	286,000.00	no draw	0.00	286,000.00	0.00	08/15/22
STILLWATER	STILLWATER COUNTY	Purchase a new asphalt grinder	5	152,990.00	no draw	0.00	152,990.00	0.00	
STILLWATER	COLUMBIA FALLS	Sewer Cleaner Truck	5	124,625.00	07/06/12	-	124,625.00	-	08/15/17
STILLWATER Total				3,808,496.34		3,244,881.34	563,615.00	2,138,090.79	
SWEET GRASS	SWEET GRASS COUNTY	Purchase road equipment	5	200,000.00	03/19/10	200,000.00	-	121,965.24	02/15/15
SWEET GRASS	SWEET GRASS COUNTY	Finance costs associate with emergency	15	995,000.00	no draw	0.00	995,000.00	0.00	02/15/27
SWEET GRASS Total				1,195,000.00		200,000.00	995,000.00	121,965.24	
TETON	TETON COUNTY	Law Enforcement Center	10	500,000.00	08/15/03	500,000.00	-	75,038.49	08/15/13
TETON	TETON COUNTY HOSPITAL DISTRICT	Purchase/installation of fire alarm/nurse	10	213,232.72	01/26/07	213,232.72	-	118,333.96	02/15/17
TETON	POWER ELEMENTARY SCHOOL	Remodel/add on to existing gym locker r	10	127,500.00	06/19/09	127,500.00	-	77,709.59	02/15/19
TETON	POWER HIGH SCHOOL DISTRICT	Remodel/add on to existing locker room	10	122,500.00	02/20/09	122,500.00	-	74,268.65	02/15/19
TETON	TETON COUNTY	Purchase building	10	75,000.00	12/16/11	75,000.00	-	75,000.00	02/15/22

Local Government INTERCAP loans* - by County

As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

County	Borrower Name	Project	Term	Commitment	Fund Date	Drawn	Remaining	Outstanding	Maturity
TETON Total				1,038,232.72		1,038,232.72	-	420,350.69	
TOOLE	SHELBY	Equipment/Park Improvements	10	200,000.00	09/20/02	200,000.00	-	11,353.06	08/15/12
TOOLE	SHELBY	Vehicle/Equipment	10	550,878.00	01/21/05	550,878.00	-	186,407.86	02/15/15
TOOLE	TOOLE COUNTY	5 Different county projects..see notes	10	486,768.83	07/15/05	486,768.83	-	205,553.00	08/15/15
TOOLE	SHELBY	Land Purchase-landfill	10	148,000.00	07/21/06	148,000.00	-	66,600.00	08/15/16
TOOLE	TOOLE COUNTY	New search and rescue boat	10	60,000.00	12/28/07	60,000.00	-	37,547.35	08/15/17
TOOLE	NORTHERN EXPRESS TRANS. A	purchase land	10	100,000.00	12/21/07	100,000.00	-	60,000.00	08/15/17
TOOLE	KEVIN	Purchase refuse truck & household cont	7	45,735.00	04/24/09	45,735.00	-	29,405.00	08/15/16
TOOLE	TRI-CITY INTERLOCAL EQUIP F	Purchase sewer jet truck	7	244,000.00	03/12/10	244,000.00	-	177,295.40	02/15/17
TOOLE	SHELBY HIGH SCHOOL DISTRI	RENOVATE FOOTBALL FIELD AND	10	100,000.00	08/20/10	79,461.00	20,539.00	68,486.74	08/15/20
TOOLE	TOOLE COUNTY	Energy Retrofit County Buildings	10	425,000.00	07/23/10	425,000.00	-	365,887.03	08/15/20
TOOLE	SUNBURST	Sunburst SID #4 Street, Curb, & Gutter	4	499,999.00	11/12/10	499,999.00	-	470,589.00	08/15/19
TOOLE	SUNBURST	Street, Curb & Gutter Improvements	5	145,000.00	11/12/10	145,000.00	-	137,350.91	08/15/19
TOOLE	TOOLE COUNTY	Purchase hospital equipment for MMC	5	308,390.00	04/21/11	308,390.00	-	278,904.71	08/15/16
TOOLE	TOOLE COUNTY	Purchase 2010 Cat 140M Motor Grader	5	139,466.00	02/11/11	139,466.00	-	111,042.09	02/15/16
TOOLE	TOOLE COUNTY	Purchase 2010 John Deere 872G Motor	7	226,058.00	12/30/10	226,058.00	-	195,038.71	02/15/18
TOOLE	SUNBURST	Purchase a 1999 Mack MR688P garbag	5	28,050.00	02/18/11	28,050.00	-	22,650.82	02/15/16
TOOLE	SHELBY	Anticip of RD Comm Fac long term - fit	1	350,000.00	no draw	0.00	350,000.00	0.00	
TOOLE	NORTHERN EXPRESS TRANS. A	Railroad Track Extension	10	320,000.00	no draw	0.00	320,000.00	0.00	
TOOLE Total				4,377,344.83		3,686,805.83	690,539.00	2,424,111.68	
VALLEY	VALLEY COUNTY	Purchase D7 Dozer	10	155,000.00	10/18/02	155,000.00	-	17,757.95	02/15/13
VALLEY	GOLDEN VALLEY COUNTY	2008 Ford F250 Ambulance	10	44,000.00	06/12/09	44,000.00	-	34,297.62	08/15/19
VALLEY	NASHUA	Phase I of its water system improvemen	10	55,556.50	11/05/10	55,556.50	-	50,966.99	02/15/21
VALLEY	GLASGOW	Anticip. RD long term financing - waste	2	2,597,000.00	03/04/11	2,597,000.00	-	2,597,000.00	02/15/13
VALLEY	VALLEY COUNTY	Emergency road & bridge repairs	10	1,000,000.00	no draw	0.00	1,000,000.00	0.00	02/15/22
VALLEY Total				3,851,556.50		2,851,556.50	1,000,000.00	2,700,022.56	
YELLOWSTC	HUNTLEY PROJECT SCHOOL D	Construct Multipurpose Bldg.	10	300,000.00	02/21/03	300,000.00	-	35,545.10	02/15/13
YELLOWSTC	BILLINGS ELEMENTARY SCHO	Upgrade computer network infra & repl	7	516,278.00	06/23/06	516,278.00	-	81,023.44	08/15/13
YELLOWSTC	BILLINGS HIGH SCHOOL DISTR	Upgrade computer network infrastru	7	254,286.00	06/23/06	254,286.00	-	39,907.00	08/15/13
YELLOWSTC	CUSTER COUNTY	Rock crusher for road repair	10	50,000.00	10/19/07	50,000.00	-	32,814.03	02/15/18
YELLOWSTC	LAUREL	new amb veh&used fire tnd-new vac tar	7	160,000.00	02/29/08	160,000.00	-	74,819.03	02/15/15
YELLOWSTC	LAUREL	Purchase 2008 FL-106 Interface 1250CI	10	200,000.00	02/27/09	200,000.00	-	146,376.19	02/15/19
YELLOWSTC	CUSTER COUNTY	2009 Volvo G940 Motor Grader	5	110,000.00	05/01/09	110,000.00	-	57,227.63	08/15/14
YELLOWSTC	BILLINGS	Zimmerman SID sewer improvement	15	80,500.00	12/24/09	80,500.00	-	69,768.00	02/15/25
YELLOWSTC	LAUREL HIGH SCHOOL DISTRI	Purchase & install stadium scoreboard	3	130,000.00	10/16/09	130,000.00	-	22,300.04	08/15/12
YELLOWSTC	CANYON CREEK SCHOOL	Parking Lot Project	10	70,000.00	09/17/10	70,000.00	-	60,225.61	08/15/20
YELLOWSTC	CUSTER COUNTY	BRIDGE PROJECT	10	180,000.00	07/09/10	180,000.00	-	154,826.66	08/15/20
YELLOWSTC	CUSTER COUNTY	Motor Grader	7	120,000.00	08/20/10	120,000.00	-	95,616.24	08/15/17
YELLOWSTC	LOCKWOOD RURAL FIRE DISTI	Fire Engine & Water Tender	5	178,587.00	04/21/11	178,587.00	-	161,512.23	08/15/16
YELLOWSTC	CUSTER SCHOOL DISTRICT #15	roofing project	10	47,304.00	11/19/10	47,304.00	-	42,975.68	02/15/21
YELLOWSTC	LAUREL	SIDEWALK, CURB ANDGUTTER IM	10	8,808.00	09/30/11	8,808.00	-	8,386.07	06/15/21
YELLOWSTC	CRYSTAL SPRINGS YELLOWST	Preliminary Engineering Report - Water	6	37,733.13	05/20/11	37,733.13	-	34,756.80	08/15/17
YELLOWSTC	BILLINGS	Anticip. of SID bond	1	700,000.00	no draw	0.00	700,000.00	0.00	
YELLOWSTC	CUSTER SCHOOL DISTRICT #15	Roofing project	5	41,556.00	07/29/11	41,556.00	-	37,559.51	08/15/16
YELLOWSTONE Total				3,185,052.13		2,485,052.13	700,000.00	1,155,639.26	
Grand Total				101,491,571.42		73,288,419.63	28,203,151.79	45,155,803.42	

State Agency INTERCAP loans*
As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

Borrower Name	Project Description	Term	Commitment	Fund Date	Draws	Remaining	Outstanding	Maturity
DNRC	Anticip. of CST Bond (RRGL)-Taxable	3	800,000.00	06/17/11	800,000.00	-	485,000.00	05/01/14
DNRC	GO Short Term - DWSRF	3	1,100,000.00	10/21/11	550,000.00	550,000.00	550,000.00	10/21/14
DNRC	Anticip of CST bond (RRGL) Tax Exempt	3	1,200,000.00	06/17/11	1,200,000.00	-	1,200,000.00	05/01/14
DNRC	WATER POLLUTION CONTROL STATE RE'	3	3,000,000.00	no draw	0.00	3,000,000.00	0.00	
DNRC	DRINKING WATER STATE REVOLVING FU	3	950,000.00	no draw	0.00	950,000.00	0.00	
DNRC	Anticip. of CST Bond-RRGL (taxable)	3	1,000,000.00	no draw	0.00	1,000,000.00	0.00	
DNRC	Anticip. of CST Bond-RRGL	3	2,000,000.00	no draw	0.00	2,000,000.00	0.00	
DNRC Total			10,050,000.00		2,550,000.00	7,500,000.00	2,235,000.00	
JUSTICE	IT System/First Phase Titling System (MERLIN)	15	4,500,000.00	09/14/01	4,500,000.00	-	1,311,224.08	06/15/16
JUSTICE	InfTechSys-2nd Phase Per HB 261	14	24,000,000.00	06/18/04	18,958,401.00	5,041,599.00	11,077,451.48	06/15/18
JUSTICE Total			28,500,000.00		23,458,401.00	5,041,599.00	12,388,675.56	
PETROLEUM TANK	Undergrd Storage Tank Cleanup	10	1,000,000.00	12/21/07	1,000,000.00	-	647,479.43	02/15/18
PETROLEUM TANK RELEASE COMP. Total			1,000,000.00		1,000,000.00	-	647,479.43	
TRANSPORTATION	Motor Pool-Sedan	6	197,991.00	08/08/08	197,991.00	-	65,997.00	06/15/14
TRANSPORTATION	Pickups and Vans	7	308,378.00	02/29/08	308,378.00	-	88,108.00	06/15/14
TRANSPORTATION	Purchase new vehicles for State Motor Pool	7	2,100,000.00	03/30/12	740,721.00	1,359,279.00	634,903.71	06/15/18
TRANSPORTATION	Motor Pool - all types	7	2,814,268.34	04/17/09	2,814,268.34	-	1,340,329.34	06/15/15
TRANSPORTATION	Motor Pool - various vehicles	7	2,383,057.48	01/22/10	2,383,057.48	-	1,361,746.48	06/15/16
TRANSPORTATION Total			7,803,694.82		6,444,415.82	1,359,279.00	3,491,084.53	
Grand Total			47,353,694.82		33,452,816.82	13,900,878.00	18,762,239.52	

University INTERCAP loans*

As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

Borrower	Project Description	Term	CMT Date	Commitment	Fund Date	Draws	Remaining	Outstanding	Maturity
MSU-BILL	Replace indoor tennis bubble	6	03/30/10	148,740.00	04/30/10	148,740.00	-	113,173.59	08/15/16
MSU-BILL	Bookstore Remodel	10	10/31/11	580,000.00	06/22/12	157,321.00	422,679.00	157,321.00	06/22/12
MSU-BILL	Residence Hall Roof Replacement	10	10/27/11	336,512.00	04/13/12	336,512.00	-	336,512.00	02/15/22
MSU-BILL	Student Union/Rimrock Hall HVAC	15	05/22/12	1,500,000.00	06/22/12	490,737.00	1,009,263.00	490,737.00	08/15/27
MSU-BILL	Relocate College of Tech soccer field	10	06/18/08	725,000.00	06/20/08	725,000.00	-	499,813.04	08/15/18
MSU-BILLINGS Total				3,290,252.00		1,858,310.00	1,431,942.00	1,597,556.63	
MSU-BOZ	IT Infra Replace-Engineering Study-Elec & AC sy	6	08/11/06	20,000.00	08/25/06	20,000.00	-	1,860.23	08/15/12
MSU-BOZ	IT Infra Rep Plan Banner Sys.	4	05/06/08	62,544.00	05/23/08	62,544.00	-	8,408.86	08/15/12
MSU-BOZ	IT Infra Replace Program-Network-Fiber Optic O	7	01/24/07	33,772.00	02/16/07	33,772.00	-	10,797.72	02/15/14
MSU-BOZ	IT Infra Replacement Program-Marsh Lab Netwo	10	03/09/06	36,285.00	03/24/06	36,285.00	-	16,351.78	02/15/16
MSU-BOZ	Leon Johnson Bldg Networking	10	12/23/03	85,000.00	12/31/03	85,000.00	-	18,594.44	02/15/14
MSU-BOZ	Design & construct animal containment building	10	01/04/06	39,523.00	02/24/06	39,523.00	-	18,671.91	02/15/16
MSU-BOZ	Roberts Hall Networking	4	05/24/04	78,085.00	06/04/04	78,085.00	-	21,529.51	08/15/14
MSU-BOZ	COBLEIGH HALL WIRING PROJECT	10	02/25/04	117,536.00	03/12/04	117,536.00	-	25,854.84	02/15/14
MSU-BOZ	IT Infra Replace-Network Equip-Replace/Supplen	7	08/11/06	122,487.00	08/25/06	122,487.00	-	29,554.58	08/15/13
MSU-BOZ	IT Infra Replace - Elec Code Corr & Cable Remo	10	07/12/05	77,965.00	07/22/05	77,965.00	-	30,446.30	08/15/15
MSU-BOZ	Gaines Hall Networking	10	04/01/05	117,020.00	04/15/05	117,020.00	-	38,909.01	02/15/15
MSU-BOZ	IT Infra Replace-Networking/Remove copper/add	10	08/11/06	83,085.00	08/25/06	83,085.00	-	42,109.22	08/15/16
MSU-BOZ	Reid Hall Networking	10	11/15/04	154,223.00	11/26/04	154,223.00	-	50,674.79	02/15/15
MSU-BOZ	Football Video Server/Software Upgrade	4	04/26/10	80,783.00	06/25/10	80,783.00	-	51,003.08	08/15/14
MSU-BOZ	Telecom. Infra Replace - PBX Core, PBX Duel T	10	01/23/07	93,847.00	02/16/07	93,847.00	-	52,384.32	02/15/17
MSU-BOZ	recreational sports&fitness equip	7	12/18/07	125,000.00	02/15/08	125,000.00	-	58,849.20	02/15/15
MSU-BOZ	Cooley Lab Renovation	5	05/05/10	1,300,000.00	12/23/10	76,971.51	1,223,028.49	61,943.92	02/15/16
MSU-BOZ	IT Infra Rep. Plan-Banner Sys	4	05/05/08	597,357.00	05/23/08	597,357.00	-	80,312.89	08/15/12
MSU-BOZ	IT Infra. Rep. Plan-IDF Upgrade	10	06/06/08	150,000.00	06/20/08	150,000.00	-	103,409.59	08/15/18
MSU-BOZ	IT Infra, Repl, Plan Network Build. Wiring	10	06/09/08	163,000.00	06/20/08	163,000.00	-	112,371.75	08/15/18
MSU-BOZ	Purchase motion based drive simul	10	09/18/08	280,000.00	10/10/08	280,000.00	-	201,072.81	08/15/18
MSU-BOZ	EPS Bldg - Atrium Renovation	10	05/23/06	552,519.41	05/25/07	552,519.41	-	336,360.75	08/15/17
MSU-BOZ	IT Infra. replacement plan IDF Camp Net work In	7	05/05/08	663,372.00	05/23/08	663,372.00	-	356,109.82	08/15/15
MSU-BOZ	IT Infra Repl Plan - Northern Tier Network	7	06/01/09	567,801.00	06/11/10	567,801.00	-	452,579.65	08/15/17
MSU-BOZ	ADA Accessibility Projects	6	03/08/11	773,000.00	05/06/11	773,000.00	-	712,027.02	08/15/17
MSU-BOZ	VMB Lab/Animal Containment Bldg	10	05/23/06	1,600,477.00	04/18/08	1,600,477.00	-	1,115,171.45	08/15/18
MSU-BOZ	Bobcat Stadium End Zone Project	15	01/12/11	4,000,000.00	04/29/11	4,000,000.00	-	3,879,375.52	08/15/26
MSU-BOZEMAN Total				11,974,681.41		10,751,652.92	1,223,028.49	7,886,734.96	
MSU-NOR	Various Equip Purchase & Install including ATC	10	06/21/06	400,000.00	06/27/06	400,000.00	-	203,386.56	08/15/16
MSU-NOR	Campus Improvements-pedestrian campus core re	10	06/28/06	440,000.00	11/10/06	440,000.00	-	285,515.26	02/15/19
MSU-NORTHERN Total				840,000.00		840,000.00	-	488,901.82	

University INTERCAP loans*

As of June 30, 2012

*only loans that have remaining commitment and/or outstanding

Borrower	Project Description	Term	CMT Date	Commitment	Fund Date	Draws	Remaining	Outstanding	Maturity
UOFM-MI	KUFM Fundraising soft/hardware	5	02/28/11	38,061.25	03/25/11	38,061.25	-	30,663.19	02/15/16
UOFM-MI	Park-n-Ride Parking Facility	8	01/10/05	406,370.00	02/04/05	406,370.00	-	55,274.69	02/15/13
UOFM-MI	Replacement Passenger Vans	5	09/08/10	88,542.00	10/29/10	88,542.00	-	71,513.38	02/15/16
UOFM-MI	Remodeling the O'Connor Center	10	05/12/11	75,000.00	11/04/11	75,000.00	-	75,000.00	02/15/22
UOFM-MI	Buses	5	10/26/07	387,006.50	02/01/08	387,006.50	-	89,568.83	02/15/13
UOFM-MI	Replace Astro Turf @ Wash Grzz Stad	5	08/08/08	250,000.00	11/21/08	250,000.00	-	106,331.46	02/15/14
UOFM-MI	Purchase bus	5	02/09/09	276,603.00	02/20/09	276,603.00	-	115,871.54	02/15/14
UOFM-MI	East Broadway Parking	10	06/16/05	288,722.91	04/21/06	288,722.91	-	146,805.92	08/15/16
UOFM-MI	Addition to Bldg 24 for bus storage	10	01/05/10	250,000.00	04/16/10	250,000.00	-	202,976.57	02/15/20
UOFM-MI	Construct Research Lab Facility	10	02/10/04	1,000,000.00	06/11/04	1,000,000.00	-	275,013.82	08/15/14
UOFM-MI	Purchase Real Property @ 820 Arthur	15	10/05/09	640,000.00	10/16/09	640,000.00	-	434,184.96	08/15/24
UOFM-MI	Northern Tier Project	7	10/05/09	1,000,000.00	10/23/09	1,000,000.00	-	736,900.92	02/15/17
UOFM-MI	New Stadium Lights	10	04/04/12	926,804.00	06/22/12	926,804.00	-	926,804.00	08/15/22
UOFM-MISSOULA Total				5,627,109.66		5,627,109.66	-	3,266,909.28	
UOFM-MC	Design, Renovate, expand HPER building	15	01/13/10	2,340,000.00	12/23/11	2,340,000.00	-	2,340,000.00	02/15/27
UOFM-MONTANA TECH Total				2,340,000.00		2,340,000.00	-	2,340,000.00	
UOFM-WI	Suburbans to replace motor vans	5	04/21/11	99,078.00	05/20/11	99,078.00	-	89,605.11	08/15/16
UOFM-WI	Life Safety Improv. to the PE Complex	15	06/19/08	299,999.61	10/30/09	299,999.61	-	270,542.02	02/15/25
UOFM-WESTERN MT COLLEGE Total				399,077.61		399,077.61	-	360,147.13	
Grand Total				24,471,120.68		21,816,150.19	2,654,970.49	15,940,249.82	

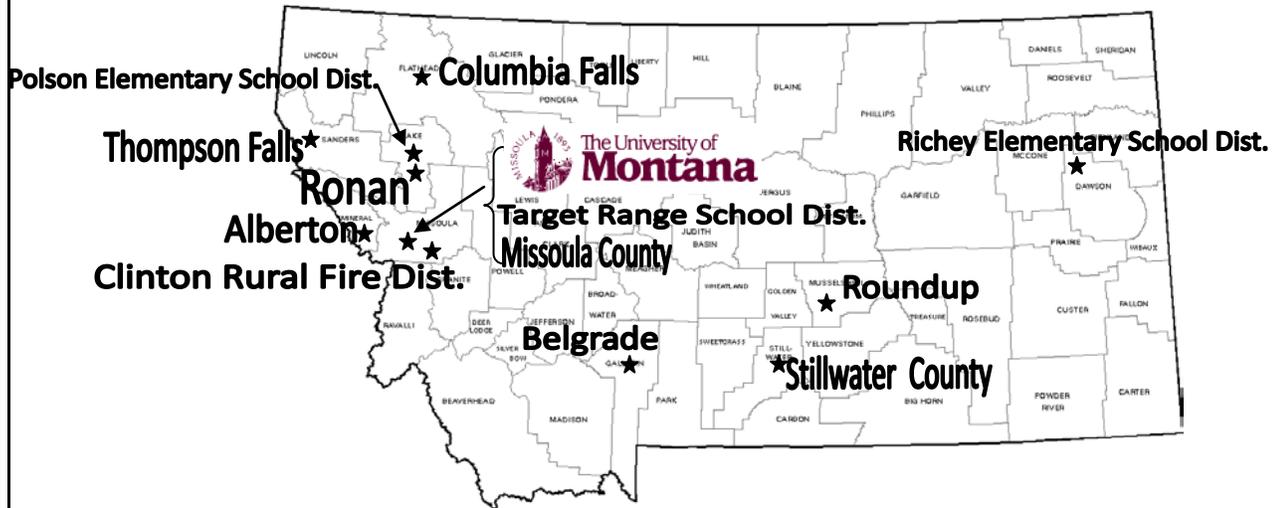
MEMORANDUM

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: August 21, 2012
Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – April 1, 2012 through June 30, 2012.



Borrower:	Clinton Rural Fire District
Purpose:	Used Fire Engine
Staff Approval Date:	April 4, 2012
Board Loan Amount:	\$140,000
Other Funding Sources:	\$ 50,000
Total Project Cost:	\$190,000
Term:	10 years

Borrower:	Missoula County
Purpose:	Seeley Lake Refuse District Office Water/Septic Facilities
Staff Approval Date:	April 6, 2012
Board Loan Amount:	\$35,000
Other Funding Sources:	N/A
Total Project Cost:	\$35,000
Term:	5 years

Borrower:	City of Thompson Falls
Purpose:	Asphalt Grinder
Staff Approval Date:	April 11, 2012
Board Loan Amount:	\$65,000
Other Funding Sources:	N/A
Total Project Cost:	\$65,000
Term:	10 years

Borrower:	Town of Alberton
Purpose:	Used Sanding Truck
Staff Approval Date:	April 13, 2012
Board Loan Amount:	\$20,000
Other Funding Sources:	N/A
Total Project Cost:	\$20,000
Term:	5 years

Borrower:	City of Roundup
Purpose:	Sewer Lagoon UV Disinfection System
Staff Approval Date:	April 27, 2012
Board Loan Amount:	\$286,000
Other Funding Sources:	\$221,000
Total Project Cost:	\$507,000
Term:	10 years

Borrower:	Stillwater County
Purpose:	New Asphalt Grinder
Staff Approval Date:	April 28, 2012
Board Loan Amount:	\$152,990
Other Funding Sources:	N/A
Total Project Cost:	\$152,990
Term:	5 years

Borrower:	Target Range School District #23 (Missoula)
Purpose:	Various Building Improvements (i.e. heating, cooling, plumbing, flooring, security, etc.)
Staff Approval Date:	May 2, 2012
Board Loan Amount:	\$850,000
Other Funding Sources:	N/A
Total Project Cost:	\$850,000
Term:	5 years

Borrower:	City of Columbia Falls
Purpose:	New Sewer Cleaner Truck
Staff Approval Date:	May 4, 2012
Board Loan Amount:	\$124,625
Other Funding Sources:	N/A
Total Project Cost:	\$124,625
Term:	5 years

Borrower:	Richey Elementary School District #78J
Purpose:	School Building Structural Rehabilitation
Staff Approval Date:	May 29, 2012
Board Loan Amount:	\$ 850,000
Other Funding Sources:	\$ 200,000
Total Project Cost:	\$1,050,000
Term:	10 years

Borrower:	City of Belgrade
Purpose:	City Library Roof Replacement/Exterior Wall Repairs
Staff Approval Date:	June 19, 2012
Board Loan Amount:	\$75,000
Other Funding Sources:	N/A
Total Project Cost:	\$75,000
Term:	15 years

Borrower:	Polson Elementary School District #23
Purpose:	Reroofing High School (Multi-District Agreement 20-3-363 MCA)
Staff Approval Date:	June 22, 2012
Board Loan Amount:	\$164,000
Other Funding Sources:	N/A
Total Project Cost:	\$164,000
Term:	3 years

Borrower:	City of Ronan
Purpose:	Various Used Equipment
Staff Approval Date:	June 26, 2012
Board Loan Amount:	\$150,000
Other Funding Sources:	\$ 30,000
Total Project Cost:	\$180,000
Term:	7 years



MONTANA UNIVERSITY SYSTEM

Borrower:	UM-Missoula
Purpose:	Washington Grizzly Stadium Lights
Staff Approval Date:	April 4, 2012
Board Loan Amount:	\$1,000,000
Other Funding Sources:	N/A
Total Project Cost:	\$1,000,000
Term:	10 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: August 21, 2012
Subject: INTERCAP Loan Committee Teleconference Approved Loans Committed



The Board Loan Committee approved the following loans via teleconference:

Borrower:	University of Montana – Missoula
Purpose:	Curry Health Center renovations
LC Approval Date:	July 24, 2012
Board Loan Amount:	\$3,000,000
Other Funding Sources:	\$1,000,000
Total Project Cost :	\$4,000,000
Term:	15 years

Borrower:	Town of Sheridan
Purpose:	Interim financing in anticipation of a \$2,846,000 USDA Rural Development Services long-term loan for wastewater improvements.
LC Approval Date:	July 24, 2012
Board <i>Interim</i> Loan Amount:	\$2,846,000
Other Funding Sources:	\$6,000,000
Total Project Cost :	\$6,000,000
Term:	1 year

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: David Ewer, Executive Director
Date: August 21, 2012
Subject: Budget for Current Fiscal Year and for FY 2014 and FY 2015

Operational Budget for FY 2013

The attached Table I shows, by various categories, the Board's "Investments" actual expenses for FY 2011 and FY 2012 and the proposed budgeted amount for 2013. Table II shows the same for the "Bond Program". The increases are due mostly to a combination of salary adjustments already made for current staff, some anticipated salary adjustments, anticipated new hires, and some increases in vendor costs. Table I-A, attached, reflects a breakdown of investment research services currently being used and projected costs.

Recommendation #1

Staff recommends the proposed budgeted amounts as contained in Tables I and II for FY 2013.

Budget for FY 2014 and 2015

The Board's budget structure is different from most state agencies. For its 'Investment' program, there is an internal service fund that charges the investment pools. For the 'Bond Program' there is an enterprise fund that charges fees, mostly coming from INTERCAP.

The legislature sets a maximum charge within the internal service fund to the Board's investment pools, currently \$4,831,041 a year for both FY 2012 and FY 2013 to cover operational expenses and a sixty-day working capital allowance. Costs for the custodial bank and external investment management are covered separately. The Bond Program is funded by the Board's enterprise fund through lending rates.

The legislature receives a narrative from the Department of Commerce (Commerce) as part of the executive planning process on both the internal service and enterprise fund (See Exhibit A for Commerce's previous submission on behalf of the Board). Contained within is the proposed maximum rate for legislative action. No approval is needed for the Bond Program's enterprise fund (federal law limits INTERCAP maximum loan rates) however Table IV shows budget estimates for FY 2013 through FY 2015.

Table III shows actual financial data for FY 2010 through FY 2012 and presents expense estimates for FY 2013, FY 2014 and FY 2015, including sufficient preservation of working capital to derive an estimated maximum rate to be recommended for the Executive budget for the next legislature for FY 2014 and FY 2015. Working capital at the end of FY 2012 was above the sixty day guideline; therefore, the July 2012 charge of \$406,000 was not made against the investment pools. Table III also shows the pro-forma maximum rates for FY 2014 and FY 2015 to cover operational expenses and keeping estimated working capital amounts to within permissible levels. Personal service amounts were increased by 5% for FY 2014 and 6% for FY 2015. Other operating expenses were increased by 3% for each year.

Several cost factors are set by the Governor's Budget Office and affect all agencies. These global items will be released on August 13th. Staff should be able to factor them into the Board's budget and present updated recommended maximum rates. However, the budget process is fluid and Commerce will not finalize its total budget submission, including the Board's, until late August.

After receiving additional updates and guidance from Commerce's budget staff, Board staff will present to the Board its best estimate of a maximum rate to charge the investment pools for FY 2014 and FY 2015.

Recommendation #2

Staff recommends that the Board approve the preliminary maximum rates presented at the Board's August meeting; that it accepts Commerce's final maximum rates; and that it directs staff to promptly notify the Board of any significant changes in these rates and an explanation for such changes.

Staffing levels

The Board is allowed a total of 8 exempt and 24 classified staff positions (after the recent transfer of one full time equivalent (FTE) to Commerce) for a total of 32. Most of these positions are either currently filled or in the hiring process. While not every vacant position may be eventually filled, the flexibility to adapt to changing needs is a resource that should be preserved. Not included in the Board's authorized FTEs is one FTE assigned to the Department of Administration (Administrations) (Administration receives a statutory appropriation for the FTE and funding comes out of the Board's internal service fund).

Recommendation #3

Staff recommends that the current total staffing level as authorized by the legislature and by statute be reaffirmed by the Board, i.e., 8 exempt and 24 classified FTEs.

Table I
Board of Investments
06527 - Investments

<u>Category</u>	<u>FY11 Actual</u>	<u>FY12 Actual</u>	<u>FY13 Budget</u>	FY12 Over/Under FY11	FY13 Over/Under FY12
Personal Services	2,316,964	2,441,532	2,667,188	124,567 (a)	225,657 (k)
Board Per Diem	6,120	7,680	7,290	1,560 (b)	(390)
Board of Housing Mortgage Services	39,614	39,614	40,000	-	386
Research Services	738,986	705,338	807,000	(33,648) (c)	101,662 (l)
Consulting Services	280,000	275,000	300,000	(5,000) (d)	25,000 (m)
Other Contracted Services (1)	181,641	196,365	218,892	14,724 (e)	22,527 (n)
Supplies/Materials (2)	27,512	56,205	34,178	28,693 (f)	(22,027)
Communications (3)	33,421	48,365	51,267	14,944 (g)	2,902
In-State Travel	5,206	2,314	10,000	(2,892)	7,686
Out-of-State Travel	22,405	32,386	40,000	9,980	12,614
Board Travel & Education	4,269	9,003	20,000	4,734	5,997
Building Rent	154,299	157,388	160,510	3,089 (h)	3,122 (h)
Other Rent (4)	5,461	3,218	8,545	(2,243)	5,327
Repairs & Maintenance (5)	2,409	1,590	5,000	(819)	3,410
Commerce Department Services (6)	302,486	321,786	346,345	19,300 (i)	24,559 (i)
Miscellaneous (7)	36,634	76,331	34,178	39,698 (j)	(42,153)
Total	4,157,429	4,374,116	4,750,393	216,687	376,277
Personal Services	2,323,084	2,449,212	2,674,478		
Operating Expenses	1,834,345	1,924,905	2,075,915		
	4,157,429	4,374,116	4,750,393		
Authorized Fee	4,768,607	4,831,041	4,831,041		
Over/Under	611,178	456,925	80,648		
60 days working capital reserve	692,905	729,019	791,732		

(1) Includes Employee Serv/Legal Serv/Contract Printing/State Computer Network Charges

(2) Computers Hardware & Software/Office Furniture/Office Supplies

(3) Phones/Parcel Delivery/Postage

(4) Copiers/Records Management

(5) Printer/FAX Repair & Maintenance

(6) Percentage of Personnel Services

(7) Training/Education/Subscriptions/Dues/Moving Expenses/Misc State Charges

(a) 1/1/12 and 6/2/12 pay increases; Finance Mgr & Deputy Dir Reclassification; ED Retirement

(b) # of Board meetings increased

(c) Bloomberg POMS expense wasn't paid until FY13

(d) Budgeted additional \$30,000 for Asset/Liability study, but didn't require a study this fiscal year.

Additional \$25,000 expense for CEM study.

(e) Combination of increases in legal, audit and ITSD services

(f) Computers

(g) ED Recruitment

(h) Annual 2% increase

(i) Directly related to salary increases

(j) PM-Alt Equities Relocation; Registration Fees; Board Lunches

(k) Pay increase for both classified and exempt staff; Proposed pay increases for exempt staff

(l) Timing of BCA, Credit Sights & Factset expense; Bloomberg POMS FY12 expense (see c above); Annual Increase in Bloomberg, Factset & Wilshire expense; Increase in Egan Jones (this service will be cancelled in FY13)

(m) Projected increase in investment consultant expense

(n) Projected increase in legal fees; CEM study

Table I-A

INVESTMENT RESEARCH SERVICES						
Service Provider	Description of Service	FY2011 Actual	FY2012 Actual	FY2013 Budget	FY2014 Budget	FY2015 Budget
BCA Research Investment Strategy	Independent investment research	25,000	18,750	25,000	25,000	25,000
Bloomberg + Portfolio Order Management System	Comprehensive market news and portfolio trade management	279,043	262,577	325,615	338,640	352,186
Credit Sights Online Research	Fixed income news and analysis	30,000	15,000	30,000	30,000	30,000
Egan-Jones Rating Service	Fixed income ratings and analysis	-	13,875	27,750	-	-
Factset	Public equity portfolio information & performance analysis	164,357	183,187	176,944	182,252	187,720
Gimme Credit	Investment grade credit research	16,250	15,000	15,000	15,000	15,000
Magazine Subscriptions - various	Market news	4,505	3,944	6,150	6,150	6,150
Moody's Credit Research Service	Fixed income ratings and analysis	84,128	51,014	51,014	16,446	17,153
MSCI, NYSE, Russell, S&P	Equity index data	3,023	3,339	5,178	5,178	5,178
Standard & Poors - Ratings Direct	Fixed income ratings and analysis	33,300	35,000	34,150	35,004	35,879
Wilshire Axiom	Fixed income analytics	99,700	103,854	109,934	115,431	121,203
TOTAL		739,306	705,540	806,735	769,101	795,469
	Fixed Income	263,378	233,743	267,848	211,881	219,235
	Equity	167,380	186,525	182,122	187,430	192,898
	General	308,548	285,271	356,765	369,790	383,336
	Total	739,306	705,539	806,735	769,101	795,469

Table II
Board of Investments
06014 - Bond Program

Category	FY11 Actual	FY12 Actual	FY13 Budget	FY12 Over/Under FY 11	FY13 Over/Under FY 12
Personal Services	166,100	273,406	303,922	107,306 (a)	30,516 (d)
Board Per Diem	1,530	1,920	1,710	390	(210)
Other Contracted Services (1)	29,997	31,420	38,000	1,424	6,580 (e)
Supplies/Materials (2)	4,723	8,955	5,822	4,232 (b)	(3,133)
Communications (3)	8,872	8,948	8,733	76	(215)
In-State Travel	195	519	1,000	324	481
Out-of-State Travel	-	826	1,000	826	174
Board Travel & Education	1,043	2,488	3,000	1,445	512
Building Rent	42,926	43,786	44,654	859	868
Other Rent (4)	1,105	682	1,455	(423)	773
Repairs & Maintenance (5)	291	266	1,000	(25)	734
Commerce Department Services (6)	21,848	22,813	39,579	965	16,767 (f)
Miscellaneous (7)	1,740	4,855	5,822	3,115 (c)	967
Total	280,370	400,884	455,697	120,514	54,813
Personal Services	167,630	275,326	305,632		
Operating Expenses	112,740	125,558	150,066		
	280,370	400,884	455,697		

(1) Includes Employee Serv/Legal Serv/Contract Printing/State Computer Network Charges

(2) Computers Hardware & Software/Office Furniture/Office Supplies

(3) Phones/Parcel Delivery/Postage

(4) Copiers/Records Management

(5) Printer/FAX Repair & Maintenance

(6) Percentage of Personnel Services

(7) Training/Education/Subscriptions/Dues/Miscellaneous State Charges

(a) 1/1/12 and 6/2/12 pay increases; staff not charging bond program for actual time spent on program(s).

(b) Computers

(c) Meeting/Conference/PR costs

(d) Pay increases

(e) Projected increase in legal fees

(f) Weren't billed full amount owed for FY12.

Table III
2015 Biennium Report on Internal Service and Enterprise Funds 2015

Fund 06527	Fund Name Investment Division	Agency # 65010	Agency Name Dept. of Commerce	Program Name Board of Investments
---------------	----------------------------------	-------------------	----------------------------------	--------------------------------------

	Actual FYE 10	Actual FYE 11	Actual FYE 12	Budgeted FY 13	Budgeted FY 14	Budgeted FY 15
Operating Revenues:						
Fee revenue						
Administrative Fees	4,869,468	4,416,709	4,619,784	4,430,000	5,003,807	5,239,890
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	167	-	-	-	-
Total Operating Revenue	4,869,468	4,416,876	4,619,784	4,430,000	5,003,807	5,239,890
Operating Expenses:						
Personal Services	2,369,344	2,372,134	2,498,975	2,729,157	2,865,615	3,037,552
Other Operating Expenses	1,967,820	1,917,749	2,001,642	2,075,915	2,138,192	2,202,338
Total Operating Expenses	4,337,163	4,289,883	4,500,617	4,805,072	5,003,807	5,239,890
Operating Income (Loss)	532,305	126,993	119,167	(375,072)	0	0
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	532,305	126,993	119,167	(375,072)	-	-
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(472,340)	-	-	-	-	-
Change in net assets	59,965	126,993	119,167	(375,072)	-	-
Total Net Assets- July 1	213,850	273,815	400,808	519,975	144,903	144,903
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	213,850	273,815	400,808	519,975	144,903	144,903
Net Assets- June 30 (Fund Balance)	273,815	400,808	519,975	144,903	144,903	144,903
Net Current Assets- June 30 (Working Capital)	651,587	934,921	1,105,769	730,697	730,697	730,697
Working capital to 60 day guideline	90%	131%	147%	91%	88%	84%
60 days of expenses (Total Operating Expenses divided by 6)	722,861	714,981	750,103	800,845	833,968	873,315

Requested Rates for Internal Service Funds						
Fee/Rate Information						
	Actual HB 2 FYE 10	Actual HB 2 FYE 11	Actual HB 2 FYE 12	Actual HB 2 FY 13	Requested FY 14	Requested FY 15
BOI Administrative Fee Maximum Allowable Rate	4,819,844	4,768,607	4,831,041	4,831,041	5,003,807	5,239,890
DOA HB 2 FTE	49,624	52,181	52,633	52,633	52,633	52,633
Total:	4,869,468	4,820,788	4,883,674	4,883,674	5,056,440	5,292,523

Authority
See below

Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.

Table IV
2015 Biennium Report on Internal Service and Enterprise Funds 2015

Fund	Fund Name	Agency #	Agency Name	Program Name			
06014	Industrial Revenue Bond I-95	65010	Dept. of Commerce	Board of Investments			
					Actual	Actual	Actual
					FYE 10	FYE 11	FYE 12
					Budgeted	Budgeted	Budgeted
					FY 13	FY 14	FY 15
Operating Revenues:							
Fee revenue							
	Fee Revenues				-	-	-
					500	1,000	1,500
	Investment Earnings				261,771	90,953	67,797
	Securities Lending Income				165	233	184
	Premiums				-	-	-
	Other Operating Revenues				2,270,083	1,549,944	1,345,856
	Total Operating Revenue				2,532,018	1,641,130	1,413,837
Operating Expenses:							
	Personal Services				205,745	167,630	275,326
	Other Operating Expenses				134,030	121,932	133,865
	Debt Service Expenses (Statutory)				1,828,551	835,910	740,441
	Total Operating Expenses				2,168,325	1,125,472	1,149,632
	Operating Income (Loss)				363,693	515,658	264,205
					(164,360)	(163,875)	(174,925)
Nonoperating Revenues (Expenses):							
	Gain (Loss) Sale of Fixed Assets				-	-	-
	Federal Indirect Cost Recoveries				-	-	-
	Other Nonoperating Revenues (Expenses)				-	-	-
	Net Nonoperating Revenues (Expenses)				-	-	-
	Income (Loss) Before Operating Transfers				363,693	515,658	264,205
					(164,360)	(163,875)	(174,925)
	Contributed Capital				-	-	-
	Operating Transfers In (Note 13)				494,639	17,955	17,419
	Operating Transfers Out (Note 13)				-	-	-
	Change in net assets				858,331	533,613	281,624
					(146,360)	(145,875)	(156,925)
	Total Net Assets- July 1				5,406,924	6,265,256	6,798,869
	Prior Period Adjustments				-	-	-
	Cumulative effect of account change				-	-	-
	Total Net Assets - July 1 - As Restated				5,406,924	6,265,256	6,798,869
	Net Assets- June 30 (Fund Balance)				6,265,256	6,798,869	7,080,493
					6,934,133	6,788,258	6,631,333
60 days of expenses							
	(Total Operating Expenses divided by 6)				361,388	187,579	191,605
					259,665	303,691	349,362

Requested Rates for Enterprise Funds							Authority
Fee/Rate Information							
	Actual	Actual	Actual	Budgeted	Budgeted	Budgeted	
	FYE 10	FYE 11	FYE 12	FY 13	FY 14	FY 15	
Budgeted Revenues							MCA 17-5-1504(6)
Fees & Investment Revenues	\$3,026,657	\$ 1,659,085	\$1,431,256	\$ 1,411,628	\$1,676,269	\$1,939,249	MCA 17-5-1611(5)(6)
							MCA 17-5-1621(6)
							MCA 17-5-1643(1)

**DEPARTMENT OF COMMERCE-6501
BOARD OF INVESTMENTS-75**

EXHIBIT A

Please note that this program also contains HB 2 funding.

**75 Board of Investments
Carroll South 444-1285**

Proprietary Rates

Program Proposed Budget	Base Budget	PL Base	New	Total	PL Base	New	Total
Budget Item	Fiscal 2010	Adjustment	Proposals	Exec. Budget	Adjustment	Proposals	Exec. Budget
	Fiscal 2010	Fiscal 2012	Fiscal 2012	Fiscal 2012	Fiscal 2013	Fiscal 2013	Fiscal 2013
FTE	33.00	0.00	0.00	33.00	0.00	0.00	33.00
Personal Services	2,504,195	271,530	0	2,775,725	265,773	0	2,769,968
Operating Expenses	2,028,291	93,829	0	2,122,120	91,643	0	2,119,934
Equipment & Intangible Assets	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0
Total Costs	\$4,532,486	\$365,359	\$0	\$4,897,845	\$357,416	\$0	\$4,889,902
Proprietary	4,532,486	365,359	0	4,897,845	357,416	0	4,889,902
Total Funds	\$4,532,486	\$365,359	\$0	\$4,897,845	\$357,416	\$0	\$4,889,902

Unified Investment Program - The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Section 2-15-1808 created the Board of Investments and Section 17-6-201 gave the board sole authority to invest state funds. The board also invests local government funds at their discretion. The board currently manages an investment portfolio with a market value of approximately \$12.0 billion. The board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the board manages several investment pools in which funds of similar types are invested. The Legislative Auditor audits the board annually. The board consists of nine members appointed by the Governor. The board also has two non-voting legislative liaisons, from different political parties; one appointed by the President of the Senate and one appointed by the Speaker of the House.

In-State Investments - Section 17-6-305, MCA authorizes the board to invest 25 percent of the Permanent Coal Tax Trust Fund to assist Montana's economic development. This "In-State Investment Program" makes business loans from the Trust Fund in participation with financial institutions. The board lends Trust Fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The board also lends low-interest monies funded from the Trust Fund to value-added type businesses creating jobs. Throughout Fiscal 2010, the board purchased Montana residential mortgages with pension funds as part of the In-State Investment Program.

INTERCAP Program - The board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to 15 years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in fiscal year 1984 as part of the "Build Montana" program.

The Board of Investments is funded by two proprietary fund types. Fund 06014, an enterprise fund, funds the Intercap or Bond Programs. Fund 06527, an internal service fund, funds the Investment Programs.

Board of Investments' responsibilities are mandated primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

Board of Investments' customers include: state agencies, the university system, local governments, financial institutions, and local economic development organizations.

DEPARTMENT OF COMMERCE-6501 BOARD OF INVESTMENTS-75

There has been no significant change in the services provided by the board of Investments from those provided in the last biennium, although the investment portfolio continues to grow in size and complexity.

Proprietary Revenues and Expenses -

Revenue Description - Nearly all Bond Program revenues (fund 06014, an enterprise fund) are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the board's contract with the Montana Facility Finance Authority.

Nearly all Investment Program revenues (fund 06527, an internal service fund) are generated from charges to each account that the board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60 day working capital reserve.

The Board of Investments does not receive any direct appropriations.

FY 2010 base year funding, by fund type for the Investment Program, fund 06527 is as follows:

	FY 2010	%
General Fund	\$ 177,292.97	3.641%
State Special	\$ 94,905.99	1.949%
Federal Special	\$ 6,106.27	0.125%
Proprietary	\$ 280,265.07	5.756%
Expendable Trust	\$ 167,517.20	3.440%
Non Expendable Trust	\$ 3,982,341.50	81.782%
Local Government	\$ 87,226.96	1.791%
University	\$ 55,621.88	1.142%
Debt Service	\$ 18,190.18	0.374%
Total:	\$ 4,869,468.00	100.000%

Customer expenditure codes are not available because many customers are outside of state government and therefore do not record their financial activity on SABHRS.

Bond Program revenues (fund 06014) are primarily recorded in the following SABHRS revenue codes:

	FY 2010	%
527054	\$ 15.00	0.000%
530008	\$ 100,460.15	3.319%
530010	\$ 69,571.67	2.299%
530014	(\$ 43,865.86)	(1.449%)
530025	\$ 1,075.13	0.036%
530029	\$ 6,765.59	0.224%
530030	(\$ 1,205.54)	(0.040%)
531626	(\$ 55.60)	(0.002%)
531644	\$ 164.50	0.005%
538006	\$ 128,969.67	4.261%
538043	\$ 2,270,123.21	75.004%
582886	\$ 472,340.00	15.606%
582920	\$ 22,298.93	0.737%
Total:	\$ 3,026,656.85	100.00%

**DEPARTMENT OF COMMERCE-6501
BOARD OF INVESTMENTS-75**

Investment Program revenues (fund 06527) are primarily recorded in the following SABHRS revenue code:

	FY 2010	%
521055	\$ 4,869,468.00	100.000%

Expense Description:

The major cost drivers within the Board of Investments are personal services, operating expenses and expenditures related to the periodic replacement of computer equipment. Additionally, over \$1.835 million was disbursed from fund 06014 in FY 2010 via a statutory appropriation for debt service requirements related to the state's bonding activity.

FY 2010 base year expenditures, for fund 06014 are as follows:

	FY 2010	%
FTE	4.00	
Personal Services	\$ 205,745.14	9.488%
Operating Expenses	\$ 123,065.86	5.676%
Debt Service	\$ 1,839,514.00	84.836%
Total:	\$ 2,168,325.00	100.000%

FY 2010 base year expenditures, for fund 06527 are as follows:

	FY 2010	%
FTE	29.00	
Personal Services	\$ 2,369,343.50	61.305%
Operating Expenses	\$ 1,967,819.68	50.916%
Transfers Out - NB	(\$ 472,340.00)	(12.221%)
Total:	\$ 3,864,823.18	100.00%

Please note that fund 06527 also pays for 1.00 FTE in the Treasurers' Office in the Department of Administration through a direct appropriation in HB 2.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Division's workload and customer levels will remain constant, although investment portfolios will continue to grow in size.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Investments is authorized 33.00 FTE (approximately 29.00 funded from fund 06527, and 4.00 funded from fund 06014) and personal services expenditures include board member per diem.

Working Capital Discussion - Revenues for fund 06014 are typically received on an annual basis, so a 270 day fund balance is required to provide adequate funding for the Bond Program between draws.

Revenues for fund 06527 are assessed on a monthly basis; since collections lag by at least one month the board must maintain a nominal 60 day working capital reserve to meet ongoing operational expenses.

Fund Equity and Reserved Fund Balance - At the proposed rates, the Department projects a fiscal year end 2013 ending

DEPARTMENT OF COMMERCE-6501 BOARD OF INVESTMENTS-75

working capital reserve of approximately 60 days for fund 06527. All interest earnings on the working capital reserve are distributed to the state general fund.

Rate Explanation - The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level. This process has worked very well since the passage of HB 576 and this methodology is continued in the 2013 biennium because it provides an easy comparison with historical financial activity.

2013 Biennium Report on Internal Service and Enterprise Funds 2013									
Fund	Fund Name	Agency #	Agency Name	Program Name					
06014	Industrial Revenue Bond I-95	65010	Dept. of Commerce	Board of Investments					
			Actual FYE 08	Actual FYE 09	Actual FYE 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13	
Operating Revenues:									
Fee revenue									
	Fee Revenues		33,321	26,427	-	500	1,000	1,500	
	Investment Earnings		1,043,973	403,540	261,771	236,738	223,015	253,158	
	Securities Lending Income		321	371	165	350	400	450	
	Premiums		-	-	-	-	-	-	
	Other Operating Revenues		3,425,901	3,131,533	2,270,082	1,854,943	2,101,511	2,316,282	
	Total Operating Revenue		4,503,516	3,561,871	2,532,018	2,092,531	2,325,926	2,571,390	
Operating Expenses:									
	Personal Services		297,247	195,598	205,745	330,872	198,590	199,786	
	Operating Expenses		149,548	118,507	123,067	168,307	187,877	174,626	
	Debt Service Expenses		4,105,985	3,207,411	1,839,514	1,084,071	1,317,378	1,555,878	
	Total Operating Expenses		4,552,780	3,521,516	2,168,325	1,583,250	1,703,845	1,930,290	
	Operating Income (Loss)		(49,264)	40,356	363,693	509,281	622,081	641,100	
Nonoperating Revenues (Expenses):									
	Gain (Loss) Sale of Fixed Assets		-	-	-	-	-	-	
	Federal Indirect Cost Recoveries		-	-	-	-	-	-	
	Other Nonoperating Revenues (Expenses)		-	-	-	-	-	-	
	Net Nonoperating Revenues (Expenses)		-	-	-	-	-	-	
	Income (Loss) Before Operating Transfers		(49,264)	40,356	363,693	509,281	622,081	641,100	
	Contributed Capital		-	-	-	-	-	-	
	Operating Transfers In (Note 13)		-	725,000	494,639	-	-	-	
	Operating Transfers Out (Note 13)		-	-	-	-	-	-	
	Change in net assets		(49,264)	765,356	858,332	509,281	622,081	641,100	
	Total Net Assets- July 1		4,690,833	4,641,568	5,406,924	6,265,255	6,774,537	7,396,618	
	Prior Period Adjustments		(1)	-	-	-	-	-	
	Cumulative effect of account change		-	-	-	-	-	-	
	Total Net Assets - July 1 - As Restated		4,690,832	4,641,568	5,406,924	6,265,255	6,774,537	7,396,618	
	Net Assets- June 30 (Fund Balance)		4,641,568	5,406,924	6,265,255	6,774,537	7,396,618	8,037,718	
60 days of expenses									
	(Total Operating Expenses divided by 6)		758,797	586,919	361,388	263,875	283,974	321,715	
Requested Rates for Enterprise Funds									
Fee/Rate Information									
			Actual FYE 08	Actual FYE 09	Actual FYE 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13	Authority
	Budgeted Revenues								
	Fees & Investment Revenues		\$4,503,516	\$ 4,286,871	\$3,026,657	\$ 2,092,531	\$2,325,926	\$2,571,390	MCA 17-5-1504(6) MCA 17-5-1611(5)(6) MCA 17-5-1621(6) MCA 17-5-1643(1)

**DEPARTMENT OF COMMERCE-6501
BOARD OF INVESTMENTS-75**

2013 Biennium Report on Internal Service and Enterprise Funds 2013

Fund	Fund Name	Agency #	Agency Name	Program Name
06527	Investment Division	65010	Dept. of Commerce	Board of Investments

	Actual FYE 08	Actual FYE 09	Actual FYE 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13
Operating Revenues:						
Fee revenue						
Administrative Fees	4,585,816	4,713,745	4,869,468	4,417,089	4,831,041	4,831,041
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	37	-	-	-	-
Total Operating Revenue	4,585,816	4,713,782	4,869,468	4,417,089	4,831,041	4,831,041
Operating Expenses:						
Personal Services	2,359,279	2,431,442	2,369,344	2,557,064	2,627,135	2,620,183
Other Operating Expenses	2,042,537	1,858,002	1,967,820	2,286,341	1,937,743	1,949,718
Total Operating Expenses	4,401,816	4,289,444	4,337,163	4,843,405	4,564,878	4,569,901
Operating Income (Loss)	184,000	424,338	532,305	(426,316)	266,163	261,140
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	184,000	424,338	532,305	(426,316)	266,163	261,140
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	(725,000)	(472,340)	-	-	-
Change in net assets	184,000	(300,662)	59,965	(426,316)	266,163	261,140
Total Net Assets- July 1	330,512	514,512	213,850	273,815	(152,501)	113,662
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	330,512	514,512	213,850	273,815	(152,501)	113,662
Net Assets- June 30 (Fund Balance)	514,512	213,850	273,815	(152,501)	113,662	374,802
60 days of expenses (Total Operating Expenses divided by 6)	733,636	714,907	722,861	807,234	760,813	761,650

**Requested Rates for Internal Service Funds
Fee/Rate Information for Legislative Action**

	Actual FYE 08	Actual FYE 09	Actual FYE 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13
BOI Administrative Fee Rate	\$4,585,816	4,713,745	4,869,468	4,417,089	4,831,041	4,831,041

Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.

**DEPARTMENT OF COMMERCE-6501
BOARD OF INVESTMENTS-75**

-----Present Law Adjustments-----

	<u>Total Agency Impact</u>	<u>General Fund Total</u>
FY 2012	\$14,283	\$0
FY 2013	\$95,387	\$0

PL- 7508 - BOI ADMINISTRATIVE COSTS ADJUSTMENTS - Board of Investment administrative cost adjustments include adjustments for overtime, per diem, data network services, minor computer hardware, rent adjustments, indirect cost adjustments, and the removal of non-debt services interest.

Montana Board of Investments



Montana International Equity Pool (MTIP) Proposed Restructuring

Cliff Sheets, CFA
Chief Investment Officer

Rande Muffick, CFA
Portfolio Manager - Public Equities

August 2012

BACKGROUND OF THE POOL STRUCTURE

□ Different eras of structure for the Montana International Equity Pool (MTIP)

- Prior to 2005: Regional approach
 - Three external managers and one internal portfolio
 - One portfolio manager for internal portfolio with small research staff
 - Returns did not meet expectations
- Conclusions Drawn
 - Needed more diversification among capitalization sizes
 - Needed more diversification among portfolios
 - Lacked internal resources for an active internal portfolio with medium to large tracking error

- 2006 to Present: 100% externally-managed with large weight on active management
 - Better diversification – by manager styles and methodologies
 - Better diversification within cap sizes
 - Better use of internal resources
 - Returns did not meet expectations

□ Conclusions Drawn

- International developed market large caps are still less efficient than domestic large caps
- International developed market large caps are more efficient than several years ago
- Too much diversification among developed market large cap portfolios
- Too much exposure to quantitative managers thru 2010
- Need more manager diversification within developed market small caps
- Need passive vehicles within each sub-category to facilitate allocation adjustments

❑ Major changes have been made to MTIP's structure during the past few years

- Termination of three managers and overall performance challenges of the pool led to a substantial increase in passive allocation
 - One manager was terminated immediately for corporate governance reasons
- Emerging market exposure ranges for individual managers were constrained (+/- 5% vs. benchmark exposure)
- Emerging market allocation flexibility was added so that staff can control the allocation within the pool
 - Emerging market index fund was added

□ Major changes have been made to MTIP's structure during the past few years (cont.)

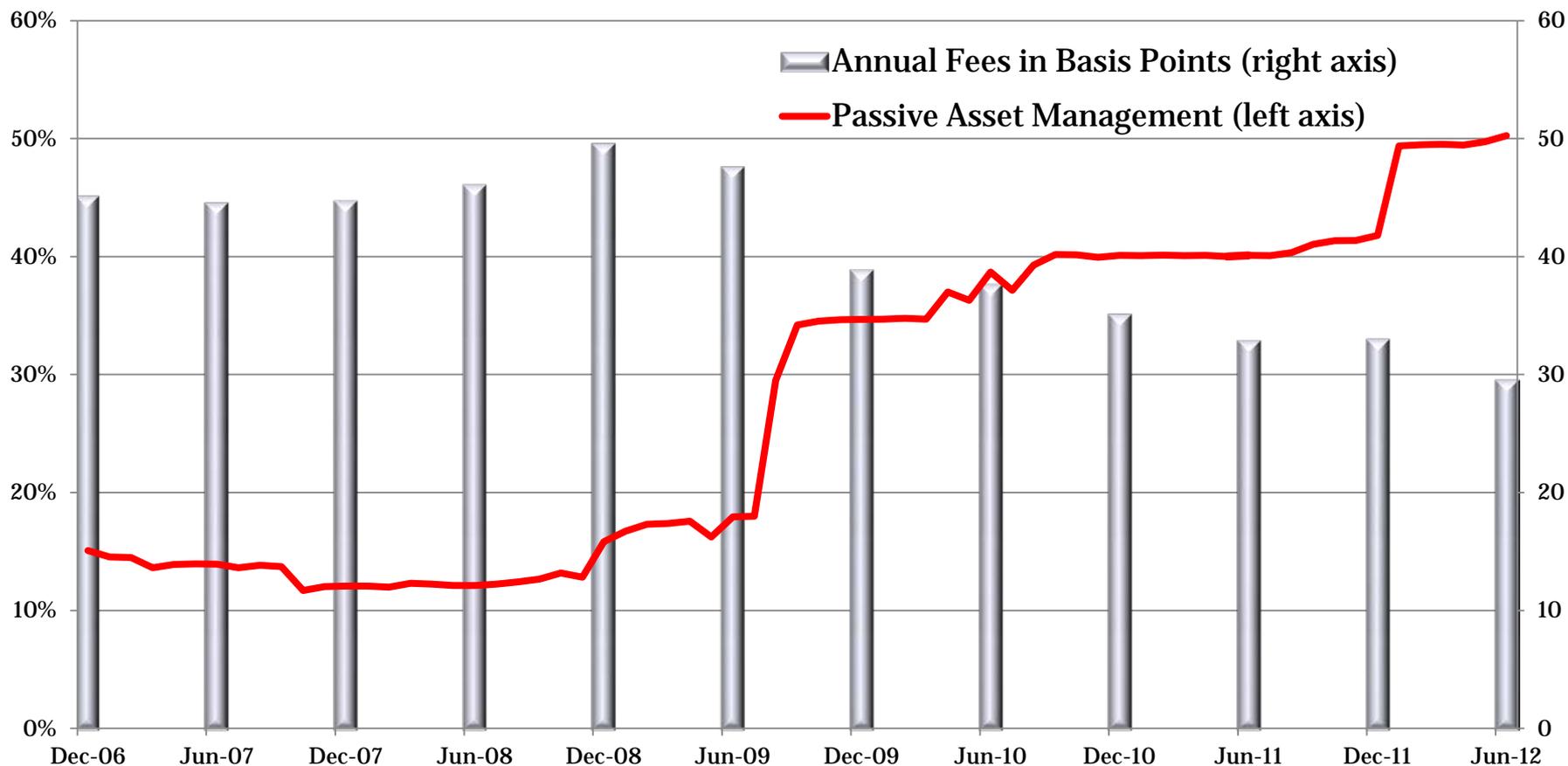
- Developed market small cap allocation flexibility was added so that staff could control this part of the allocation as well
 - Developed market small cap index fund was added
- Reduced exposure to quantitative methodologies within pool
- Changed benchmark to the current custom index to allow a more representative small cap allocation

THE PASSIVE VERSUS ACTIVE EXPERIENCE

□ BOI's history of the active/passive relationship

- Passive weight has increased significantly since 2006 and is currently 50% of the pool
- Several active managers were terminated and proceeds were used to increase the passive weight during the past few years

International Equity – Passive Component & Annual Fees



September 2009 – Transition from active management, primarily Nomura & Principal Global, to more passive management

January 2011 – Renegotiated management fees

January 2012 – Transition from active management, Artio Global, to passive management

THE MARKET'S EFFICIENCY

- ❑ Active manager outperformance is more likely in international developed market large cap stocks compared to domestic large cap stocks
- ❑ Active manager outperformance is more likely in international small cap stocks and emerging market stocks compared to international developed market large cap stocks

International Equity

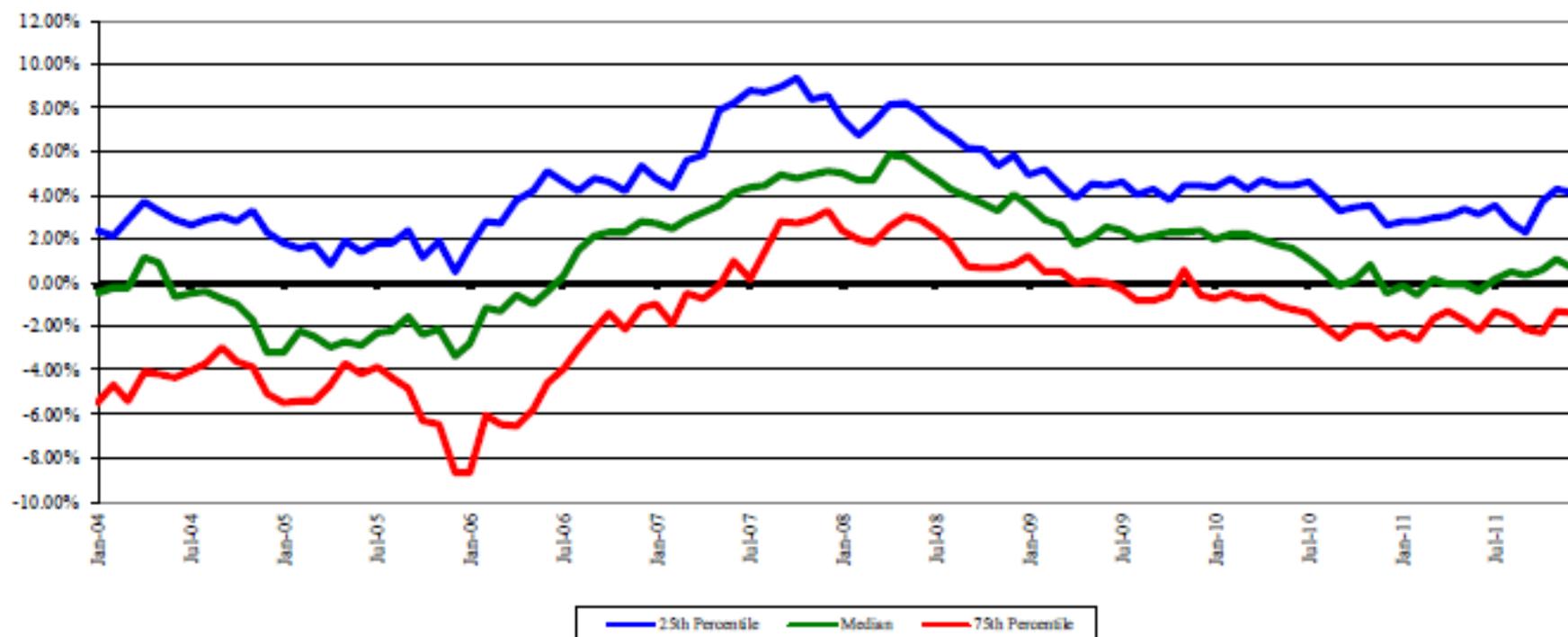
Non-US Small Cap Equity

NON-US SMALL CAP MANAGER EXCESS RETURNS - ROLLING THREE YEAR PERIODS (JAN 2001 - DEC 2011)

Excess Returns are performed relative to the MSCI EAFE Small Cap Index

Assumed Annual Management Fee: 86.0(bp)

Peak population: 50



eVestment Alliance Manager Database Comparison

* First date listed for each individual sub-asset class data time period represents the start of the first 3-year period.

International Equity

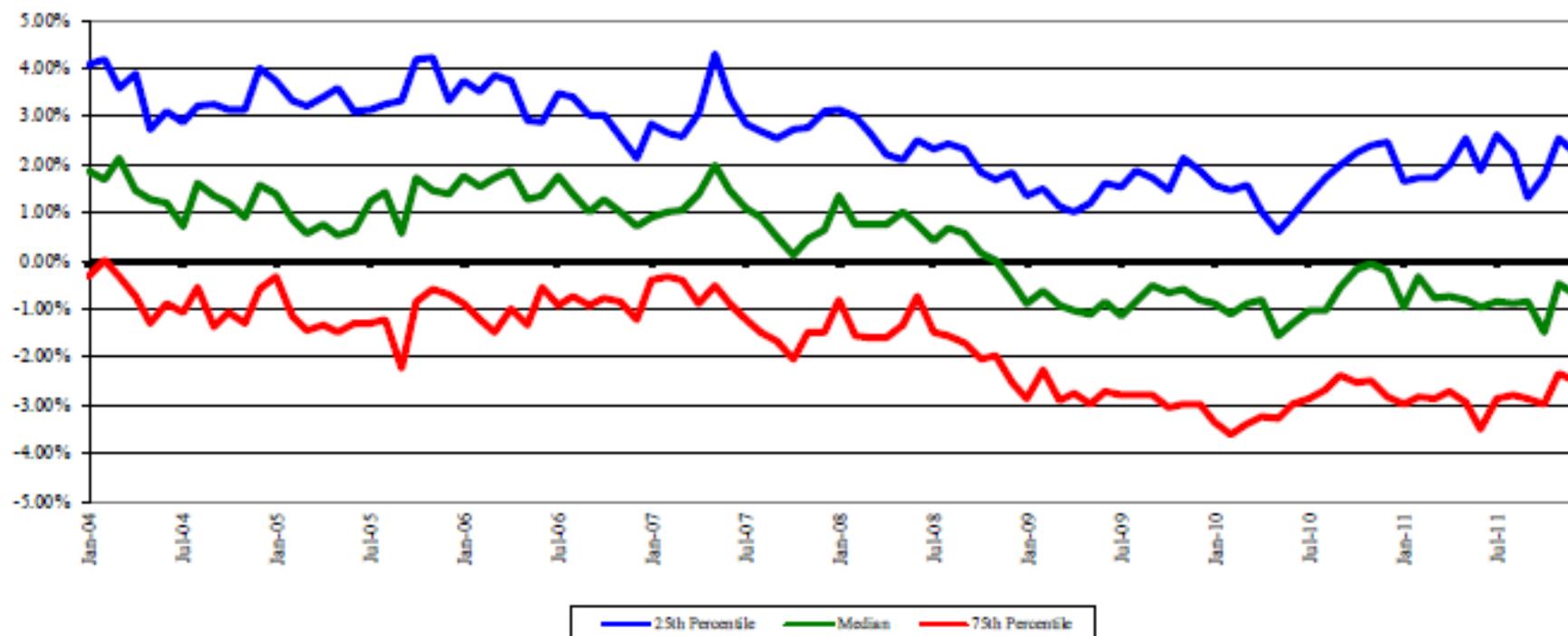
Emerging Markets Equity

EMERGING MARKETS MANAGER EXCESS RETURNS - ROLLING THREE YEAR PERIODS (JAN 2001 - DEC 2011)

Excess Returns are performed relative to the MSCI Emerging Markets Index

Assumed Annual Management Fee: 90.0(bp)

Peak population: 121



eVestment Alliance Manager Database Comparison

* First date listed for each individual sub-asset class data time period represents the start of the first 3-year period.

THE MARKET'S EFFICIENCY (continued)

- Recent academic study supports active management of non-US equities
 - Does Active Management Pay? New International Evidence by Dyck, Lins & Pomorski; October, 2011.
 - Comparison of active management vs. benchmarks shows net of cost outperformance for active non-US management = 76 bp/yr
 - EAFE: +67 bp/yr
 - EM: +195 bp/yr
- CEM Benchmarking research shows positive net value-add over past 21-year period for foreign stock and emerging market stock

THE MARKET'S EFFICIENCY (continued)

- Why are international stocks a less efficient part of the global market?
 - Liquidity needs of institutional investors
 - Wall Street Coverage is less developed
 - Political environment factors
 - Information available on individual companies is less available

OBJECTIVES OF THE POOL GOING FORWARD

- ❑ Provide reliable beta exposure to international stocks
- ❑ Add excess return vs. broad market benchmark
- ❑ Improve opportunity for excess return with minimal increased cost
- ❑ Provide flexibility from infrastructure standpoint to facilitate adjustments
 - Within the pool
 - Across pools (to accommodate pension allocation changes)
- ❑ Recognize market efficiencies are higher in developed market large cap stocks versus developed market small cap stocks and emerging market stocks

OBJECTIVES OF THE POOL GOING FORWARD (continued)

- ❑ Recognize the opportunities that inefficiencies in the market offer over time
 - Size premium continues to be pervasive
 - Value premium continues to be pervasive in all cap sizes
 - Emerging market premium continues to be pervasive
- ❑ Pay fees for active management in areas where it is most likely to be rewarded (get more for our fee \$)

Size and Value Premiums Are Pervasive

US Large Capitalization Stocks

1927-2011



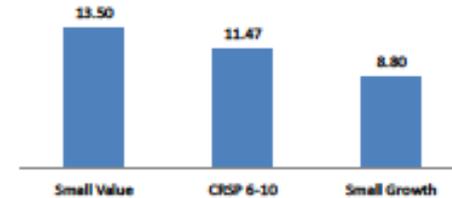
Large Value S&P 500 Large Growth

Annualized Compound Return (%)
Average Return (%)
Standard Deviation (%)

Large Value	S&P 500	Large Growth
10.03	9.75	9.02
13.63	11.77	11.29
27.10	20.41	21.81

US Small Capitalization Stocks

1927-2011

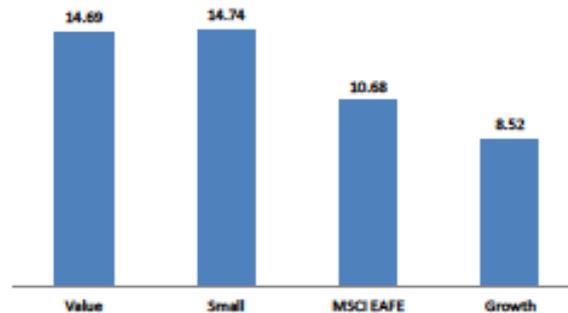


Small Value CRSP 6-10 Small Growth

Small Value	CRSP 6-10	Small Growth
13.50	11.47	8.80
18.82	15.72	13.74
35.07	30.84	33.90

Non-US Developed Market Stocks

1975-2011



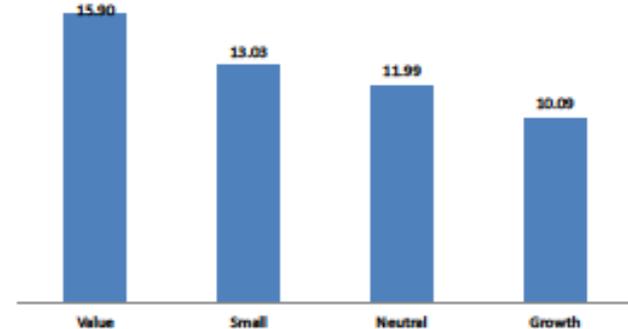
Value Small MSCI EAFE Growth

Annualized Compound Return (%)
Average Return (%)
Standard Deviation (%)

Value	Small	MSCI EAFE	Growth
14.69	14.74	10.68	8.52
17.44	18.23	12.98	10.74
24.81	28.32	22.37	22.07

Emerging Market Stocks

1989-2011



Value Small Neutral Growth

Value	Small	Neutral	Growth
15.90	13.03	11.99	10.09
22.86	20.00	17.77	15.63
42.31	40.86	36.47	34.77

RECOMMENDATIONS

- ❑ Decrease the pool's reliance on developed market active large cap portfolios
 - Eliminate the large cap core allocation
 - But, retain some potential for excess returns in largest segment of portfolio by employing style-based mandates (Growth & Value)
 - Over time expect to tilt style-based towards Value
 - Active large cap weight will be decreased from 49% to 36% of large caps

RECOMMENDATIONS (continued)

- Increase allocation range of non-large cap exposure allowing for tactical adjustments to this exposure vis-à-vis broad market benchmark
 - Adopt new benchmark: MSCI ACWI ex-US IMI benchmark

	Current custom benchmark	ACWI ex-US IMI index
Large cap (standard)	92.5%	88.1%
Small Cap	7.5%	11.9%
Emerging Markets (based on look-through)	23.8%	23.7%

- Time the benchmark change to coincide with the new structure implementation (expected by year-end)

RECOMMENDATIONS (continued)

- Seek excess returns through active management within the developed market small cap and emerging market allocations
 - Increase active manager diversification
 - 3 or 4 active mgrs in developed market small cap allocation (with value tilt on average)
 - 1 or 2 active managers in emerging market allocation
 - Increase flexibility and take advantage of tactical opportunities when presented by the market
 - Passive component in each category
 - Less costly way to obtain exposures in emerging market and small cap allocations
 - Provide more maneuverability to shift weight into or out of category

CONCLUSION

□ New proposed pool structure will provide

- Less developed market active large cap management
- More diversification in active portfolios within developed market small caps and emerging markets
- More flexible pool infrastructure (with passive components in each category)
- More potential for a size premium effect
- More potential for a value premium effect within all cap sizes
- Increased probability of alpha generation within a similar fee structure

CONCLUSION (continued)

□ Cost estimate of the proposed structure

- Reduction in developed market active large caps will provide fee savings of ~\$890,000 vs. current structure
- Increase in developed market active small cap exposure and active emerging markets will add to fees somewhat
 - Depends on increase in weight
 - Depends on composition of active/passive
 - Developed market small cap management fees average 100 bp
 - Emerging market active management fees average 100 bp
 - Maximum weight in developed market small caps and emerging markets would cause an increase of ~\$970,000 vs. current structure, net of LC savings

IMPLEMENTATION CONSIDERATIONS

- ❑ Transition costs – there are always inherent costs when buying and selling stocks in order to move to a different portfolio

- ❑ Timing

- Developed market active large cap active transition, developed market small cap and emerging markets allocation additions will occur initially

- Additional active managers will need to be researched and selected; in the meantime can add passive SC and EM
- Access to the best managers may be constrained if closed

PROPOSED STRUCTURE

	Current (6/30/12)		Proposed New Structure		ACWI ex-US IMI Index
<u>Strategy</u>	<u>% weight</u>	<u>\$ mil</u>	<u>% target weight</u>	<u>% range</u>	<u>% weight</u>
Large Cap - Core Passive	46.6%	576.0	50.0%		
Large Cap - Core Active	16.3%	201.0	0.0%		
Total Style-based LC	28.8%	355.8	28.0%		
Total Small Cap	6.3%	78.1	14.0%		
Total Dedicated Emerging Markets	2.0%	24.6	8.0%		
Total Portfolio	100.0%	1,235.6	100.0%		
Total Large Cap	91.7%	1132.8	78.0%	74-88%	88.09%
Total LC Passive	46.6%		50.0%	42-66%	
Total LC Style-based	28.8%	355.8	28.0%	22-32%	
Total Small Cap	6.3%	78.1	14.0%	10-16%	11.91%
Total Dedicated Emerging Markets	2.0%	24.6	8.0%	2-10%	
Passive - Large Cap	46.6%	576.0	50.0%		
Passive - Small Cap & EM	3.6%	44.8	7.0%		
Total Passive	50.2%	620.8	57.0%		
Passive as % of LC	51%		64%		
Estimated Total EM					
Within LC (est @ 24%)	22.0%		18.7%		
Dedicated EM	2.0%		8.0%		
Total EM	24.0%		26.7%		23.72%

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

This policy is effective upon adoption and supersedes all previous Montana International Equity Pool (MTIP) policies.

INTRODUCTION

The purpose of this policy statement is to provide a broad strategic framework for international equity investments, which are consolidated into the Montana International Equity Pool (MTIP). This statement provides a basis on which to invest in the publicly traded equity securities of foreign (non-U.S.) companies through the employment of external managers and enables staff to monitor the progress of the international equity managers on behalf of the retirement funds. The international equity investment program consists of several externally managed portfolios. The managers of the portfolios are governed by their respective investment management contracts and investment guidelines.

OBJECTIVES

Strategic: Attaining investment returns from international equity markets while diversifying investment risk and manager risk.

- The primary objective of the international equity investment program is to provide diversified exposure to the international equity markets for the benefit of the pension fund in a prudent and cost effective manner.
- The objective of active management is to add value by achieving a rate of return that exceeds the relevant benchmark(s) after fees.
- The objective of passive management is to diversify risk within the program as well as to act as a mechanism for liquidity within the program's strategy and manager allocations. It is also the primary liquidity source to absorb changes to the overall allocation to international equities.

Performance: The international equity investment program provides for both active and passive investment management strategies in order to achieve the stated investment objectives.

- The return objective for the Montana International Equity Pool is the achievement of an annualized, time-weighted rate of return exceeding that of the ~~custom pool benchmark~~ MSCI All Country World Index ex-US Investable Market Index (ACWI ex-US IMI)* over any three-year rolling period after fees.
- The return objective for all active international equity managers is the achievement of an annualized, time-weighted total rate of return exceeding that of the relevant benchmark(s) over any three-year rolling period after fees.
- The return objective for all passive international equities is the achievement of an annualized, time-weighted total rate of return equaling that of the relevant benchmark(s) on an annual basis before fees.

~~*The custom benchmark is a linkage of the following MSCI indices: EAFE (prior to November, 2006), ACWI ex-US (Nov., 2006—June, 2007), and IMI (after June, 2007, using a 92.5%/7.5% mix of the Standard and Small Cap components).~~

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

RISK MANAGEMENT

The international equity investment program utilizes both active and passive investment management strategies with various risk tolerance parameters.

- Active international equity managers are able to assume greater than market risk subject to the following:
 - Investments will be well diversified among market sectors and individual securities, though deviations from benchmark characteristics may be taken in an effort to add value above benchmark returns.
 - Normally, at least 95% of assets will be invested in common or preferred stocks or securities convertible into common or preferred stocks.
 - Up to 5% of assets may be held in short-term investments.
- Passive international equity managers are able to assume only the market risk of their respective benchmark(s) index(s). Underlying investments are designed to replicate the relevant benchmark(s) index characteristics in an effort to produce market like risk and returns.

Staff monitors the overall pool portfolio and individual external managers using various analytical systems designed to show the risk characteristics at the pool and manager level, and the sources of value-added for each manager.

LIQUIDITY

The liquidity needs for the international equity program are low, as participant capital allocated to this program is not expected to change dramatically on short notice. Nevertheless, the underlying assets held are publicly traded securities which can be liquidated in a relatively short period to accommodate broad asset allocation changes between international equities and other asset categories held by the participants. Up to 5% of total MTIP assets may be held in short-term investments, securitized cash investment vehicles or a combination of both.

ELIGIBLE INVESTMENTS

Securities: Either directly held in separate accounts, or via commingled funds, securities eligible for investment include the equity securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Security types may include ordinary common shares, preferred shares, American Depositary Receipts (ADRs), Global Depositary Receipts (GDRs) and other security types deemed by the Chief Investment Officer as equivalent to the above listed types.

Derivatives: External investment managers are authorized to invest in derivatives such as equity call and put options contracts, index futures contracts and forward currency contracts in accordance with their respective management contract and investment guidelines.

Currency: At the pool level, MTIP will be managed on an un-hedged basis. However, the active managers are allowed to hedge in a defensive manner. The managers are not allowed to

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

ALLOCATION

Allocation ranges are approved by the Board. The current allocation ranges by strategy category are shown below. It is the responsibility of staff to manage individual manager and strategy allocations within these ranges in order to attain the objective of the pool.

<u>Strategy</u>	<u>Approved Range</u>
Large Cap Core <u>Passive</u>	50-70% <u>42% - 66%</u>
Large Cap Growth <u>Active</u>	10-20% <u>22% - 32%</u>
Small Cap Core	5-15% <u>10% - 16%</u>
Large Cap Value <u>Dedicated Emerging Markets</u>	10-20% <u>2% - 10%</u>

ROLES AND RESPONSIBILITIES

Board of Investments - The Board is responsible for approving the Investment Policy Statement for the Montana International Equity Pool. The Board reviews this document periodically and as needed and approves any changes to the policy and allocation ranges.

Chief Investment Officer – The Chief Investment Officer (CIO), with support of other staff is responsible for recommending policy changes, including any changes in allocation ranges for Board approval.

Staff – Staff is responsible for monitoring allocations and external managers, recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO (see Public Equities – External Manager Evaluation Policy).

Investment Consultant – The investment consultant assists the CIO and staff with policy recommendations and provides advice to the Board. The investment consultant also assists staff in monitoring all external managers and reports to the Board independently.

External Managers – Managers are responsible for all aspects of portfolio management as set forth in the contract specific to each manager. Managers must communicate with staff as needed, regarding investment strategies and results. Managers must also cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the investment consultant and the master custodian.

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

LEGAL

According to the unified investment program directed by Article VIII, section 13, of the 1972 Montana Constitution (MCA 17-6-201: Unified investment program-General Provisions):

- (1) Public funds must be administered by the Board of Investments in accordance with the prudent expert rule, which requires any investment manager to:
 - (a) discharge 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;
 - (b) 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
 - (c) discharge duties solely in the interest of and for the benefit of the funds forming the unified investment program.
- (2) Retirement funds may be invested in common stocks of any corporation.

ADMINISTRATIVE

Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, through an explicit contract, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor. From time to time, Staff or the investment manager may restrict a security from the loan program upon notification to State Street Bank. Staff will monitor the securities lending program, and the CIO will periodically report to the Board on the status of the program.

Shareholder Rights

The Board recognizes that publicly traded securities and other assets of the Retirement Plans include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation.

Proxy Voting

Active voting of proxies is an important part of the Board's investment program. Under the contractual arrangements between the Board and its investment managers, the responsibility for voting proxies on the investments is delegated to the managers. They are contractually required

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

to establish a proxy voting program in coordination with Board Staff and are required to vote proxies, excluding shares on loan under the Board's securities lending program, in the interest of the Plans' beneficiaries. Records of proxy votes shall be maintained by the Managers, and/or its third party designee, and submitted to Staff and/or an external service provider annually.

Staff will monitor the proxy voting practices of the Board's external investment managers. External service providers may be retained by either the board or the managers to assist in monitoring efforts. This monitoring will be coordinated with each manager to reasonably assure the Staff that managers are fulfilling their fiduciary responsibilities with respect to proxy voting.

Class Action Litigation

Claims under state and federal securities laws arising out of losses on securities under the Board's management are assets subject to the Board's fiduciary duty of prudent management. The Board shall take reasonable, cost effective steps to identify, pursue and collect upon claims under securities laws for losses suffered by the Board on its investment. The Board will participate in all class action securities litigation to which it is entitled and may, pursuant to its securities litigation policy, serve as lead or co-lead plaintiff for the benefit of the Plans. Accordingly, the Board maintains a detailed litigation policy, including process steps, outlined in the Montana Board of Investments Governance Manual, Appendix F.

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

This policy is effective upon adoption and supersedes all previous Montana International Equity Pool (MTIP) policies.

INTRODUCTION

The purpose of this policy statement is to provide a broad strategic framework for international equity investments, which are consolidated into the Montana International Equity Pool (MTIP). This statement provides a basis on which to invest in the publicly traded equity securities of foreign (non-U.S.) companies through the employment of external managers and enables staff to monitor the progress of the international equity managers on behalf of the retirement funds. The international equity investment program consists of several externally managed portfolios. The managers of the portfolios are governed by their respective investment management contracts and investment guidelines.

OBJECTIVES

Strategic: Attaining investment returns from international equity markets while diversifying investment risk and manager risk.

- The primary objective of the international equity investment program is to provide diversified exposure to the international equity markets for the benefit of the pension fund in a prudent and cost effective manner.
- The objective of active management is to add value by achieving a rate of return that exceeds the relevant benchmark(s) after fees.
- The objective of passive management is to diversify risk within the program as well as to act as a mechanism for liquidity within the program's strategy and manager allocations. It is also the primary liquidity source to absorb changes to the overall allocation to international equities.

Performance: The international equity investment program provides for both active and passive investment management strategies in order to achieve the stated investment objectives.

- The return objective for the Montana International Equity Pool is the achievement of an annualized, time-weighted rate of return exceeding that of the MSCI All Country World Index ex-US Investable Market Index (ACWI ex-US IMI) over any three-year rolling period after fees.
- The return objective for all active international equity managers is the achievement of an annualized, time-weighted total rate of return exceeding that of the relevant benchmark(s) over any three-year rolling period after fees.
- The return objective for all passive international equities is the achievement of an annualized, time-weighted total rate of return equaling that of the relevant benchmark(s) on an annual basis before fees.

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

RISK MANAGEMENT

The international equity investment program utilizes both active and passive investment management strategies with various risk tolerance parameters.

- Active international equity managers are able to assume greater than market risk subject to the following:
 - Investments will be well diversified among market sectors and individual securities, though deviations from benchmark characteristics may be taken in an effort to add value above benchmark returns.
 - Normally, at least 95% of assets will be invested in common or preferred stocks or securities convertible into common or preferred stocks.
 - Up to 5% of assets may be held in short-term investments.
- Passive international equity managers are able to assume only the market risk of their respective benchmark(s) index(s). Underlying investments are designed to replicate the relevant benchmark(s) index characteristics in an effort to produce market like risk and returns.

Staff monitors the overall pool portfolio and individual external managers using various analytical systems designed to show the risk characteristics at the pool and manager level, and the sources of value-added for each manager.

LIQUIDITY

The liquidity needs for the international equity program are low, as participant capital allocated to this program is not expected to change dramatically on short notice. Nevertheless, the underlying assets held are publicly traded securities which can be liquidated in a relatively short period to accommodate broad asset allocation changes between international equities and other asset categories held by the participants. Up to 5% of total MTIP assets may be held in short-term investments, securitized cash investment vehicles or a combination of both.

ELIGIBLE INVESTMENTS

Securities: Either directly held in separate accounts, or via commingled funds, securities eligible for investment include the equity securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Security types may include ordinary common shares, preferred shares, American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and other security types deemed by the Chief Investment Officer as equivalent to the above listed types.

Derivatives: External investment managers are authorized to invest in derivatives such as equity call and put options contracts, index futures contracts and forward currency contracts in accordance with their respective management contract and investment guidelines.

Currency: At the pool level, MTIP will be managed on an un-hedged basis. However, the active managers are allowed to hedge in a defensive manner. The managers are not allowed to

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

ALLOCATION

Allocation ranges are approved by the Board. The current allocation ranges by strategy category are shown below. It is the responsibility of staff to manage individual manager and strategy allocations within these ranges in order to attain the objective of the pool.

<u>Strategy</u>	<u>Approved Range</u>
Large Cap Passive	42% - 66%
Large Cap Active	22% - 32%
Small Cap	10% - 16%
Dedicated Emerging Markets	2% - 10%

ROLES AND RESPONSIBILITIES

Board of Investments - The Board is responsible for approving the Investment Policy Statement for the Montana International Equity Pool. The Board reviews this document periodically and as needed and approves any changes to the policy and allocation ranges.

Chief Investment Officer – The Chief Investment Officer (CIO), with support of other staff is responsible for recommending policy changes, including any changes in allocation ranges for Board approval.

Staff – Staff is responsible for monitoring allocations and external managers, recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO (see Public Equities – External Manager Evaluation Policy).

Investment Consultant – The investment consultant assists the CIO and staff with policy recommendations and provides advice to the Board. The investment consultant also assists staff in monitoring all external managers and reports to the Board independently.

External Managers – Managers are responsible for all aspects of portfolio management as set forth in the contract specific to each manager. Managers must communicate with staff as needed, regarding investment strategies and results. Managers must also cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the investment consultant and the master custodian.

MONTANA INTERNATIONAL EQUITY POOL (MTIP) INVESTMENT POLICY STATEMENT

LEGAL

According to the unified investment program directed by Article VIII, section 13, of the 1972 Montana Constitution (MCA 17-6-201: Unified investment program-General Provisions):

- (1) Public funds must be administered by the Board of Investments in accordance with the prudent expert rule, which requires any investment manager to:
 - (a) discharge 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;
 - (b) 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
 - (c) discharge duties solely in the interest of and for the benefit of the funds forming the unified investment program.
- (2) Retirement funds may be invested in common stocks of any corporation.

ADMINISTRATIVE

Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, through an explicit contract, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor. From time to time, Staff or the investment manager may restrict a security from the loan program upon notification to State Street Bank. Staff will monitor the securities lending program, and the CIO will periodically report to the Board on the status of the program.

Shareholder Rights

The Board recognizes that publicly traded securities and other assets of the Retirement Plans include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation.

Proxy Voting

Active voting of proxies is an important part of the Board's investment program. Under the contractual arrangements between the Board and its investment managers, the responsibility for voting proxies on the investments is delegated to the managers. They are contractually required

**MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT**

to establish a proxy voting program in coordination with Board Staff and are required to vote proxies, excluding shares on loan under the Board's securities lending program, in the interest of the Plans' beneficiaries. Records of proxy votes shall be maintained by the Managers, and/or its third party designee, and submitted to Staff and/or an external service provider annually.

Staff will monitor the proxy voting practices of the Board's external investment managers. External service providers may be retained by either the board or the managers to assist in monitoring efforts. This monitoring will be coordinated with each manager to reasonably assure the Staff that managers are fulfilling their fiduciary responsibilities with respect to proxy voting.

Class Action Litigation

Claims under state and federal securities laws arising out of losses on securities under the Board's management are assets subject to the Board's fiduciary duty of prudent management. The Board shall take reasonable, cost effective steps to identify, pursue and collect upon claims under securities laws for losses suffered by the Board on its investment. The Board will participate in all class action securities litigation to which it is entitled and may, pursuant to its securities litigation policy, serve as lead or co-lead plaintiff for the benefit of the Plans. Accordingly, the Board maintains a detailed litigation policy, including process steps, outlined in the Montana Board of Investments Governance Manual, Appendix F.

**Exhibit A
60 -70% Equities Range**

<u>Domestic Equity Pool</u>				<u>Real Estate Pool</u>	
<u>Investment Type</u>	<u>Range</u>			<u>Investment Type</u>	<u>Range</u>
Large Cap Core (passive)	45% - 70%			Core/Timberland *	35% - 65%
Large Cap Enhanced	8% - 12%	30% - 50%	4% - 10%	Value Added	20% - 45%
Partial Long/Short (130/30)	8% - 12%			Opportunistic	10% - 30%
Total Large Cap	72% - 91%			* Timberland may not exceed 2% of total pension assets	
Mid Cap	6% - 17%				
Small Cap	3% - 11%				
<u>International Equity Pool</u>				<u>Private Equity Pool</u>	
<u>Investment Type</u>	<u>Range</u>			<u>Investment Type</u>	<u>Range</u>
Large Cap Core (active & Passive)	50 42% - 70 66%	15% - 30%	9% - 15%	Leveraged Buyouts	40% - 75%
Large Cap Growth Active	10 22% - 20 32%			Venture Capital	10% - 50%
Large Cap Value	10 % - 20 %			Mezzanine Financing	0% - 10%
Small Cap Core	5 10% - 15 16%			Distressed Securities	0% - 40%
Dedicated Emerging Markets	2 % - 10%			Special Situations	0% - 10%
<u>Retirement Funds Bond Pool</u>				<u>Short Term Investment Pool</u>	
<u>Investment Type</u>	<u>Range</u>			Short-term liquid investments	
Domestic High Yield	0% - 15%	22% - 32%	1% - 5%	High-quality Investments	
International	0% - 10%			24 Hour Liquidity for Participants	
Total High Yield/International	<u>0% - 20%</u>				
Domestic Core(investment grade)	80% - 100%				

All nine Public Retirement Plans* currently share the same asset allocation ranges but this may change in the future as conditions and liquidity requirements for each of the individual plans change.

*The two largest Plans have legacy holdings of Montana Residential Mortgages/Real Property that are not included in the above table.

Nine Public Retirement Plans

Public Employees Retirement System*
 Teachers Retirement System*
 Police Officers Retirement
 Firefighters Retirement
 Sheriffs Retirement

Highway Patrol Retirement
 Game Wardens Retirement
 Judges Retirement
 Volunteer Firefighters Retirement

[Return to Meeting Agenda](#)

Investment Activity

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 6/30/11								
Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	36.5%	18.5%	12.3%	67.3%	24.7%	6.5%	1.5%	3,930,390,589
TEACHERS	36.5%	18.5%	12.3%	67.4%	24.7%	6.5%	1.4%	2,940,482,398
POLICE	36.6%	18.6%	12.4%	67.6%	24.8%	6.4%	1.2%	217,067,875
SHERIFFS	36.3%	18.4%	12.2%	67.0%	24.3%	6.4%	2.3%	210,815,214
FIREFIGHTERS	36.6%	18.6%	12.3%	67.5%	24.8%	6.4%	1.3%	215,775,342
HIGHWAY PATROL	36.5%	18.5%	12.3%	67.4%	24.7%	6.4%	1.6%	98,521,582
GAME WARDENS	36.2%	18.4%	12.3%	66.9%	24.3%	6.4%	2.4%	93,925,828
JUDGES	36.4%	18.5%	12.3%	67.1%	24.4%	6.4%	2.1%	63,496,968
VOL FIREFIGHTERS	34.7%	17.6%	11.6%	64.0%	23.8%	6.1%	6.2%	27,010,041
TOTAL	36.5%	18.5%	12.3%	67.3%	24.7%	6.5%	1.5%	7,797,485,837
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4 - 10%	1 - 5%	

Retirement Systems Asset Allocations as of 6/30/12								
Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	37.2%	15.9%	13.1%	66.2%	24.9%	8.1%	0.9%	\$ 3,912,330,268
TEACHERS	37.2%	15.9%	13.1%	66.1%	24.9%	8.0%	1.0%	\$ 2,902,903,488
POLICE	37.2%	15.9%	13.1%	66.3%	25.0%	8.1%	0.7%	\$ 225,865,253
SHERIFFS	37.0%	15.8%	13.0%	65.9%	24.8%	8.0%	1.3%	\$ 216,137,461
FIREFIGHTERS	37.2%	15.9%	13.1%	66.3%	24.9%	8.1%	0.7%	\$ 225,395,683
HIGHWAY PATROL	37.2%	15.9%	13.1%	66.2%	24.9%	8.0%	0.9%	\$ 98,991,746
GAME WARDENS	36.9%	15.8%	13.0%	65.8%	24.7%	8.1%	1.5%	\$ 99,345,298
JUDGES	37.0%	15.8%	13.0%	65.9%	24.8%	8.0%	1.3%	\$ 64,631,082
VOL FIREFIGHTERS	35.2%	15.0%	12.4%	62.6%	23.5%	7.6%	6.3%	\$ 27,063,167
TOTAL	37.2%	15.9%	13.1%	66.1%	24.9%	8.0%	0.9%	\$ 7,772,663,446
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

Change From Last Year								
Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	0.7%	-2.6%	0.8%	-1.2%	0.2%	1.5%	-0.6%	(18,060,321)
TEACHERS	0.6%	-2.7%	0.8%	-1.3%	0.2%	1.5%	-0.4%	(37,578,910)
POLICE	0.6%	-2.7%	0.8%	-1.3%	0.2%	1.6%	-0.6%	8,797,378
SHERIFFS	0.7%	-2.6%	0.8%	-1.1%	0.5%	1.6%	-1.0%	5,322,247
FIREFIGHTERS	0.7%	-2.6%	0.8%	-1.2%	0.2%	1.6%	-0.6%	9,620,341
HIGHWAY PATROL	0.7%	-2.6%	0.8%	-1.2%	0.2%	1.6%	-0.7%	470,164
GAME WARDENS	0.7%	-2.6%	0.8%	-1.1%	0.4%	1.7%	-1.0%	5,419,471
JUDGES	0.7%	-2.7%	0.8%	-1.2%	0.4%	1.6%	-0.8%	1,134,114
VOL FIREFIGHTERS	0.5%	-2.6%	0.7%	-1.4%	-0.2%	1.5%	0.1%	53,125
TOTAL	0.7%	-2.6%	0.8%	-1.2%	0.2%	1.5%	-0.6%	(24,822,390)

Allocations During Year					
MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP
(\$22,010,000)	\$25,500,000	(\$44,340,000)	(\$40,850,000)	(\$59,825,000)	\$51,160,000
Net New Investments for Quarter					(\$49,515,000)

FIXED INCOME OVERVIEW & STRATEGY

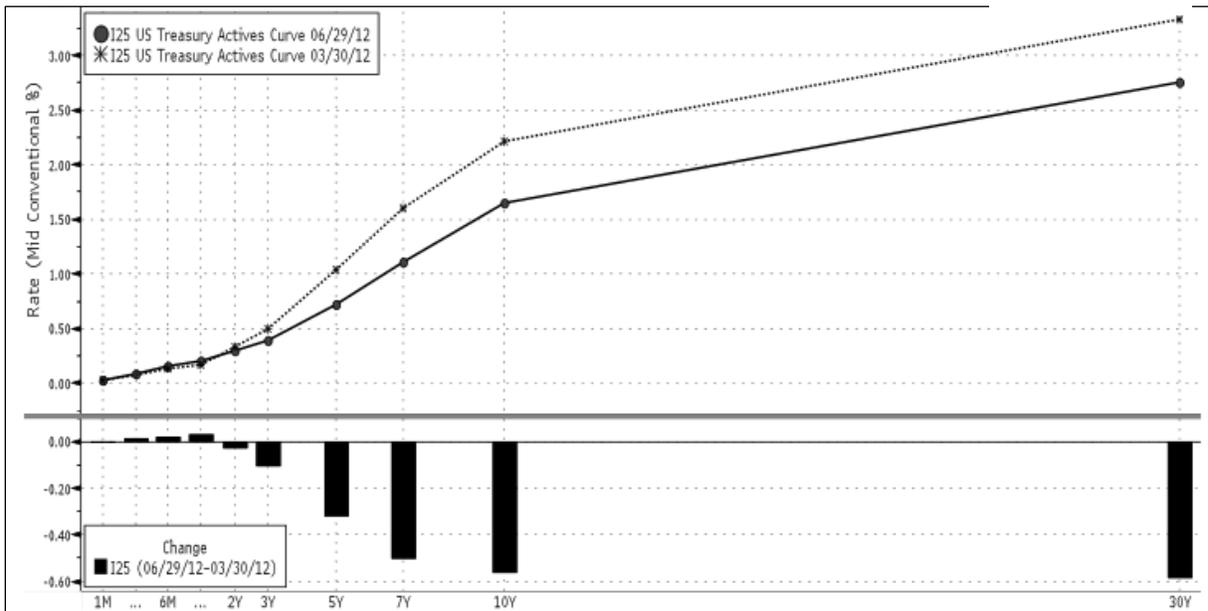
Nathan Sax, CFA, Portfolio Manager

August 22, 2012

RETIREMENT & TRUST FUND BOND POOLS

Interest rates fell in the second quarter with the yield on the Treasury 10-year benchmark note dropping 57 basis points to end the quarter yielding 1.65%. The graph below shows a pronounced bull flattening in the Treasury sector between March 30 and June 29, 2012. Concerns regarding financial troubles in the Eurozone caused a flight to quality. Treasuries outperformed the risk sectors despite very low yields. For the quarter, Treasuries posted a total return of +2.83% while corporate bonds were +2.52% and securitized assets were +1.07%. The Barclays Aggregate Index was +2.06% while the Intermediate Aggregate returned +1.32%.

Historical Yield Curve 03/31/12 – 06/30/12



Wall Street economists are forecasting a median 2.0% rate of inflation as measured by the Consumer Price Index for calendar year 2012. The core PCE (Personal Consumption Expenditures) is forecast at a slightly lower rate for the year of 1.8%. The median forecast for economic growth has been lowered to a 2.1% annual rate on real GDP. The rate of unemployment is forecast to remain at its present 8.2% through year-end 2012.

The following tables show the sector weightings of our external bond managers and the internally managed funds. It also shows holdings relative to policy constraints:

RFBP/TFBP vs. Barclays Aggregate – 06/30/12

	RFBP Combined	Retirement Fund Bond Pool							
		External Management				Internal Management			
		Reams	Artio	Post	Neubgr Berman	CIBP	TFBP	CIBP/TFBP Policy Range	Barclays Aggregate
Treasuries	16.57	21.02	20.15	0.00	0.00	17.47	13.96	10-35	35.97
Agencies & Govt Related	4.00	0.29	9.28	0.00	0.00	4.71	7.60	5-25	10.66
Total Government	20.57	21.31	29.43	0.00	0.00	22.18	21.56	15-60	46.63
Mortgage Backed	25.60	20.90	21.91	0.00	0.00	29.90	31.86	20-50	30.65
Asset Backed	4.84	9.61	4.93	0.00	0.00	4.54	3.04	0-5	0.25
CMBS	8.84	6.82	9.27	0.00	0.00	10.26	9.94	0-10	1.88
Total Securitized	39.28	37.33	36.11	0.00	0.00	44.70	44.84	20-65	32.78
Financial	14.72	24.53	11.83	9.88	11.71	13.59	12.84		6.70
Industrial	19.48	14.02	16.00	80.15	78.68	13.47	14.82		11.58
Utility	3.28	0.04	0.86	0.00	4.15	4.17	4.08		2.31
Total Corporate	37.48	38.59	28.69	90.03	94.54	31.23	31.74	10-35	20.59
Other	0.26	0.00	0.09	4.11	2.83	0.00	0.00		0.00
Cash	2.41	2.77	5.68	5.86	2.63	1.89	1.86	0-10	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

RFBP Fixed Income Sector	Policy Range	RFBP on 06/30/12
U.S. High Yield	0-15%	12.86%
Non-US (incl. EM)	0-10%	2.80%
Total "Plus" sectors	0-20%	15.66%
Core (U.S. Investment Grade)	80-100%	84.34%

TFIP Fixed Income Sector	Policy Range	TFIP on 06/30/12
High Yield	0-10%	7.40%
Core Real Estate	0-8%	5.30%
Core (U.S. Investment Grade)	0-100%	87.30%

High Yield spreads widened modestly in the second quarter. As of June 29th, the average spread on below investment grade bonds stood at 615 basis points as compared to 576 on March 30th. Investment grade corporate bonds showed a similar pattern. Investment grade corporates showed an average spread of 199 basis points over comparable maturity Treasuries versus 176 basis points on March 30, 2012.

High Yield manager Post Advisors (+1.43%) trailed the Barclays High Yield Index (+1.79%) for the quarter by 36 basis points. They were +5.63% for the fiscal year, trailing their benchmark by 158 basis points. Neuberger Berman (+1.88%), our other High Yield manager, beat the index by 9 basis points. Neuberger posted a return for the fiscal year of 6.59%, or 62 basis points behind their index. Core-plus manager Artio (+1.73%) trailed their benchmark (+2.18%) by 45 basis points in the second quarter. They did beat their benchmark for the year, however, returning 8.82%, which was 85 basis points over the Barclays Aggregate Index plus 50 basis points. Reams Asset Management (+2.12%) finished 12 basis points ahead of the Barclays Universal index (+2.00%) over the past three months. Their fiscal

year return was outstanding; 238 basis points over that of the Barclays Universal Index. Finally, the CIBP (+2.34%) return for the second quarter was 28 basis points ahead of the Barclays Aggregate Bond Index (+2.06%). The internally managed portfolio (+7.99%) beat the Aggregate Bond Index (+7.47%) by 52 basis points over the 12-month period ending June 29, 2012.

Barclays U.S. High Yield 2% Issuer Cap, Average OAS – 06/30/11 to 07/24/12



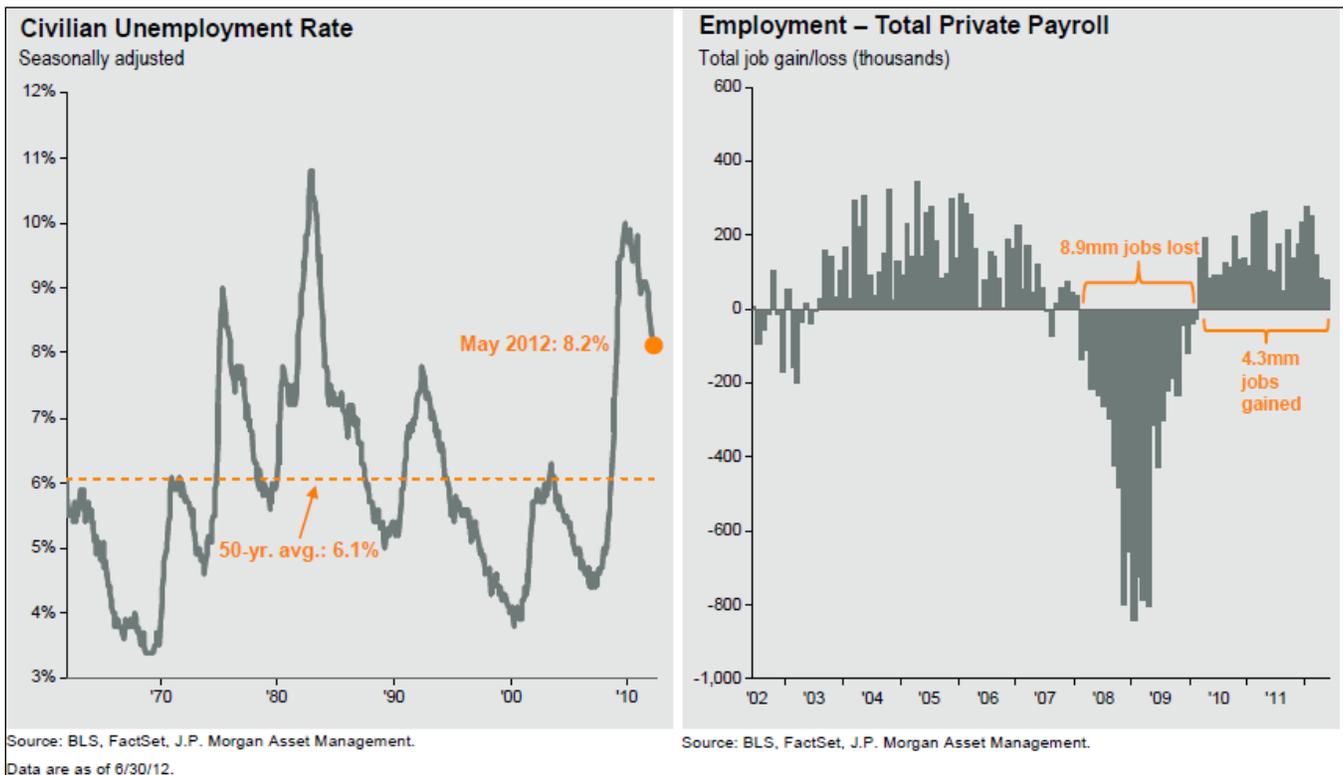
The bond portfolios as compared to the benchmark are shown below. The Merrill index shown here is used as a proxy for the actual benchmark, the Barclays Capital Aggregate Bond Index.

Benchmark Comparison Analysis CIBP vs. Merrill US Broad Market Index on 06/30/12						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	106.73	4.08	3.89	2.78	5.05	1.52
Benchmark	111.19	3.87	3.53	1.87	4.91	0.72
Difference	-4.46	0.21	0.36	0.92	0.14	0.80

Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 06/30/12						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	105.77	4.25	4.05	3.11	4.99	1.87
Benchmark	111.19	3.87	3.53	1.87	4.91	0.72
Difference	-5.42	0.38	0.52	1.24	0.07	1.15

Benchmark Comparison Analysis						
TFBP vs. Merrill US Broad Market Index on 06/30/12						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	105.89	3.83	4.00	2.78	5.01	1.47
Benchmark	111.19	3.87	3.53	1.87	4.91	0.72
Difference	-5.30	-0.04	0.47	0.92	0.09	0.75

The graphs shown below offer a perspective on the employment situation in the United States since the financial turmoil that followed the housing crisis:



Concluding Comments

The Core Internal Bond Portfolio has been the beneficiary of the bond market's focus on quality and liquidity. The CIBP has been positioned for this type of market action and the European situation has only increased institutional investors' appetite for stability and liquidity. Investors have been more willing to accept low returns in exchange for the preservation of principal, even to the extent of realizing negative real returns on U.S. Treasury bonds.

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS

June 30, 2012

(in millions)

Par	Book	Market	Price	Name	Coupon %	Maturity	Rating M/S&P	Comments
\$8.000	\$7.970	\$8.270	\$103.38	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. Expect to repay all TARP money by the end of 2012.
\$50.000	\$50.000	\$56.414	\$112.83	DOT Headquarters II Lease	6.001	12/07/21	NR/BB	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.
\$10.000	\$1.399	\$2.250	\$22.50	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
\$68.000	\$59.369	\$66.934						
A = Additions since 3/31/12								
None								
D = Deletions since 3/31/12								
None								
In default								
\$10.000	\$1.399	\$2.250	\$22.50	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
\$10.000	\$1.399	\$2.250						

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: Nathan Sax, CFA
Portfolio Manager – Fixed Income
Date: August 22, 2012
Subject: Fixed Income External Managers Watch List

Post Advisors, a High Yield manager that advises funds within both the Retirement Funds Bond Pool and the Trust Funds Investment Pool was originally put on the Fixed Income Watch List as reported to the Board during the February meeting.

Post had been lagging their benchmark, the Barclays High Yield (2% issuer cap) index in fiscal year 2012. The fourth quarter was especially difficult as market liquidity came at a premium and fundamental value was pushed into the background because of the European banking crisis.

Performance rebounded strongly in the first quarter. Post lagged the index in the second quarter but was still respectable. At this time I recommend that the Board keep Post Advisors on Watch until sufficient time passes that we can recommend their removal from the list.

MANAGER WATCH LIST
August 2012

<u>Manager</u>	<u>Strategy</u>	<u>Reason</u>	<u>Amount Invested</u> <u>(\$ millions)</u>	<u>Inclusion Date</u>
Post Advisors	Public High Yield	Performance	\$ 57 RFBP \$102 TFIP	Feb 2012

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager
August 21, 2012

During the second quarter money market yields were flat as the Federal Reserve continued its three year-old policy of low fed funds rates. The European bank funding crisis remained stable primarily because of the ECB's Long Term Refinancing Operation six months ago which allows banks unlimited funding for three years. Three month Libor rates decreased by 1.6 basis points and one month Libor rates increased by 0.5 basis points during the quarter. Credit spreads were tighter during the quarter, as depicted by the spread between three month Treasury bills and three month Libor rates (TED spread). This spread ended the second quarter at about 37 basis points, 3 basis points tighter for the quarter.

TED Spread (06/30/11 – 06/30/12)

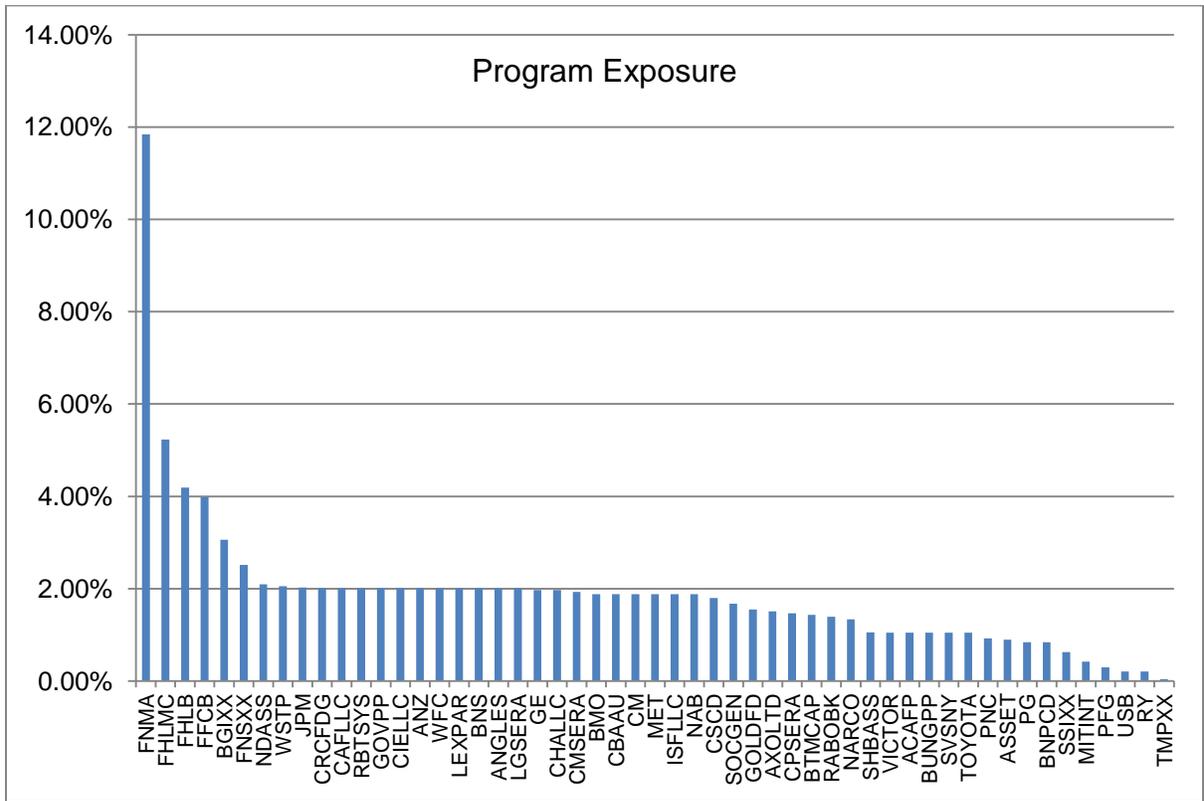
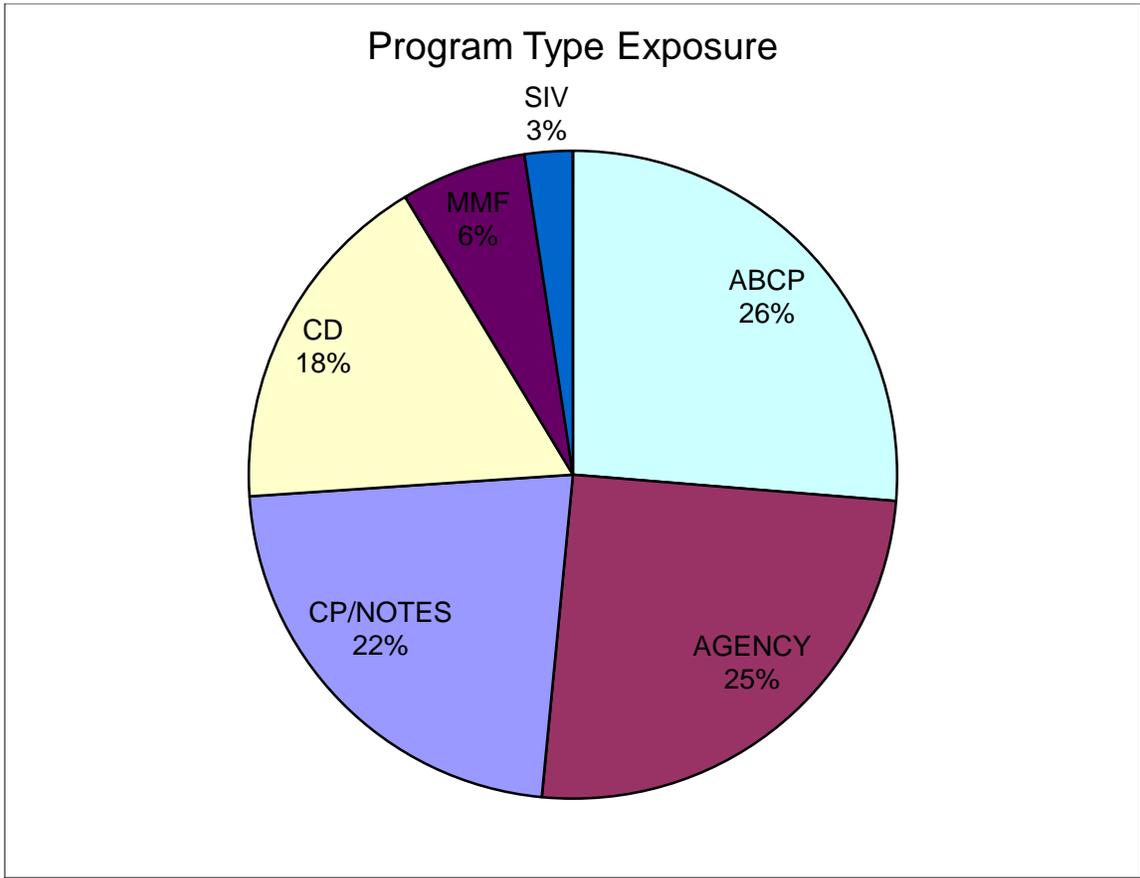


The STIP portfolio is currently well diversified and is operating within all the guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of \$150 million and weekly liquidity is at a minimum of \$250 million. The average days to maturity are 51 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is 26% of holdings (40% max) and corporate exposure is 22% (40% max). We currently have approximately 25% in agency paper, 18% in Yankee CD's (30% max) and 6% in four institutional money funds.

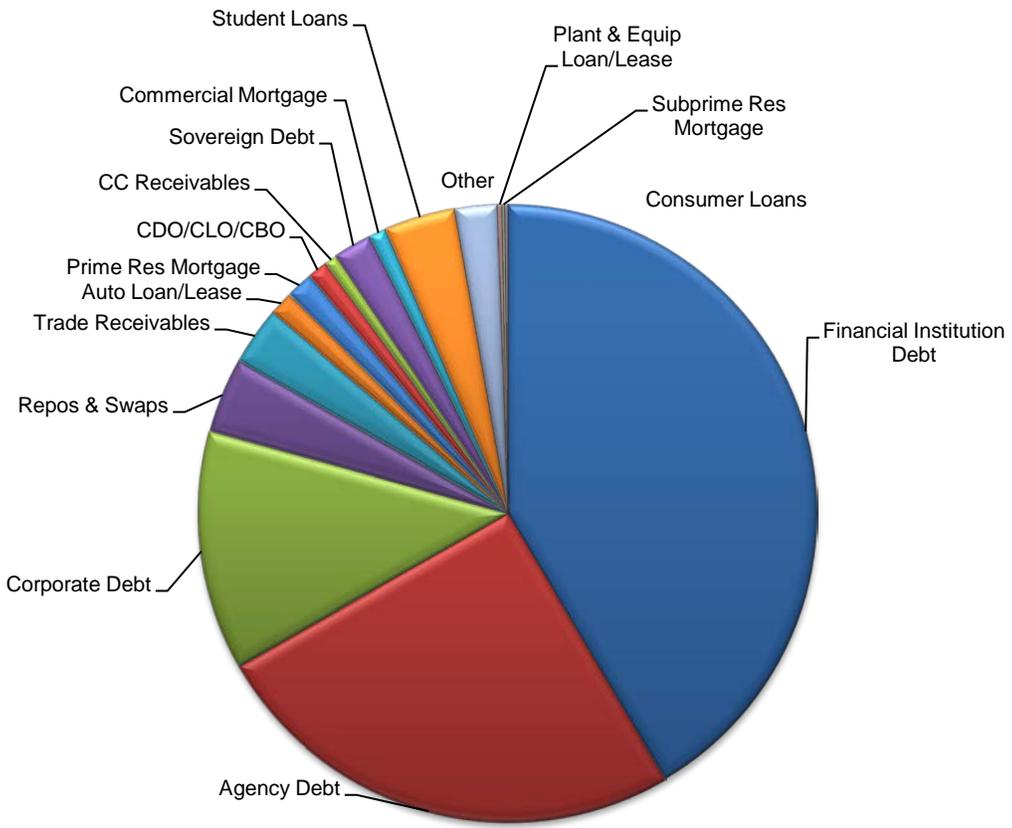
During the second quarter we purchased \$75 million of floating rate corporate notes. We also purchased \$100 million of fixed rate Agency one year notes of which \$75 million are callable. Lower three month Libor rates detracted from the portfolio yield during the quarter.

The net daily yield on STIP is currently 0.32% as compared with the current one-month LIBOR rate of 0.24% and current fed funds target rate of 0.0%-0.25%. The portfolio asset size is currently \$2.4 billion, down slightly from three months ago.

All charts below are as of July 25, 2012.



Portfolio Composition by Sector



Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

August 21, 2012

The fund totaled \$1.101 billion as of June 30, 2012, consisting of approximately one half general fund monies and the balance in various other state operating accounts. There was an additional purchase and subsequent call of \$20 million in securities in the second quarter. Current securities holdings total \$34 million. The investment policy for the fund limits security holdings to 50% of the projected General Fund FYE balance of the current period. The June General Fund balance was \$445 million.

State Fund Insurance

Richard Cooley, CFA, Portfolio Manager

August 21, 2012

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						
State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 06/30/2012						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	108.51	4.14	3.85	2.04	3.93	1.30
Benchmark	108.49	3.16	2.94	1.38	4.03	0.64
Difference	0.02	0.98	0.91	0.65	-0.10	0.66

The portfolio has an overweight in agencies, asset backed securities (ABS), 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 increasing ABS holdings in the portfolio during the past quarter. The portfolio has a slightly shorter duration than the benchmark but has been increased from 3.67 at December 31st. The longer duration is a result of purchasing more ten year bonds to maintain the portfolio yield, and to a lesser extent the general decline in interest rates.

Spread product ended the second quarter wider as compared to the end of the first quarter. MBS spreads widened by 24 basis points to 76 basis points, agencies widened by 1 basis point to 21 basis points and corporate spreads widened by 23 basis points to 199 basis points. During the quarter, the ten year Treasury yield dropped by 56 basis points from 2.21% to 1.65%.

The total fixed income (including STIP) portion of the account outperformed the benchmark by 41 basis points during the June quarter and outperformed by 90 basis points over the past year. Longer term performance is +167 basis points for the past three years, +56 basis points for the past five years and +34 basis points for the past ten years (ended June 30).

As a reminder, the primary investment objective is to maximize investment income consistent with safety of principal.

During the June quarter, there were purchases of \$23 million of corporate bonds in the 5-10 year part of the curve. We also purchased \$5 million of 5 year Agencies and \$13 million of ABS. There was a sale of \$3 million of S&P 500 equity index units during the quarter.

The portfolio has a 65 basis point yield advantage over the benchmark. Client preferences include keeping the STIP balance in a 1-5 percent range (currently 1.73%) and limiting holdings rated lower than A3 or A- to 25 percent of fixed income, at the time of purchase, (currently 26.4%).

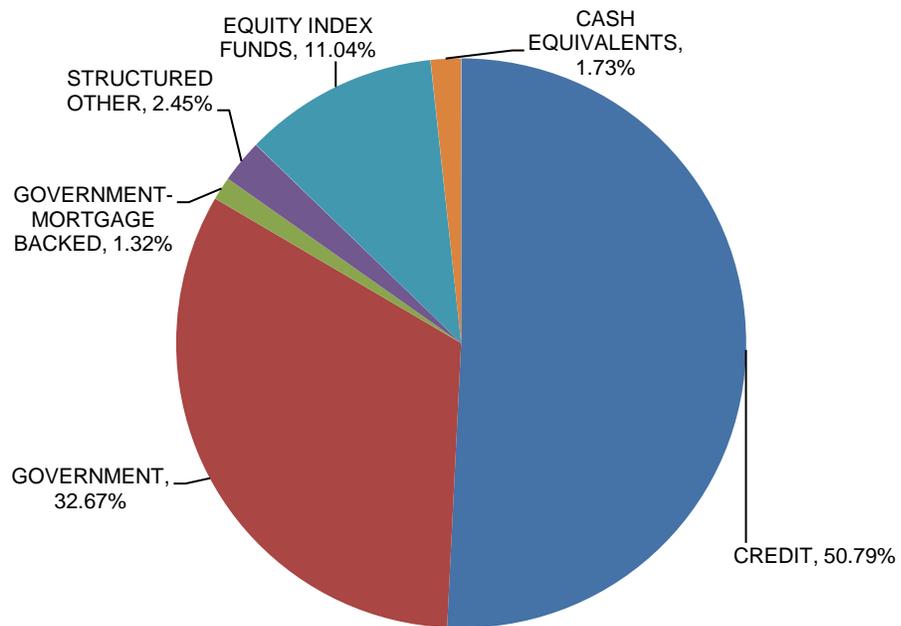
State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 06/30/2012			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	14.67	57.50	-42.83
Agencies & Govt Related	21.92	14.50	7.42
Total Government	36.59	72.00	-35.41
Mortgage Backed	1.47	0.00	1.47
Asset Backed	1.17	0.00	1.17
CMBS	0.75	0.00	0.75
Securitized	3.39	0.00	3.39
Financial	28.49	10.16	18.33
Industrial	21.95	16.23	5.72
Utility	6.85	1.61	5.24
Total Corporates	57.29	28.00	29.29
Other	0.83	0.00	0.83
Cash	1.90	0.00	1.90
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.

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 due to an overweight in spread product versus the benchmark.

6/30/2012 State Fund By Sector			
	Sector	Market Value	%
	<i>BANKS</i>	116,855,588	9.09%
	<i>COMMUNICATIONS</i>	22,077,893	1.72%
	<i>ENERGY</i>	38,768,841	3.02%
	<i>GAS/PIPELINES</i>	6,390,011	0.50%
	<i>INSURANCE</i>	72,174,287	5.62%
	<i>OTHER FINANCE</i>	140,887,834	10.97%
	<i>RETAIL</i>	18,581,207	1.45%
	<i>TRANSPORTATION</i>	51,148,085	3.98%
	<i>UTILITIES</i>	82,258,914	6.40%
	<i>INDUSTRIAL</i>	103,391,226	8.05%
CREDIT		652,533,887	50.79%
	<i>TITLE XI</i>	4,224,683	0.33%
	<i>TREASURY NOTES/BONDS</i>	168,076,348	13.08%
	<i>AGENCY</i>	247,532,102	19.26%
GOVERNMENT		419,833,133	32.67%
	<i>FHLMC</i>	9,205,693	0.72%
	<i>FNMA</i>	7,763,267	0.60%
GOVERNMENT-MORTGAGE BACKED		16,968,959	1.32%
	<i>ABS</i>	13,468,795	1.05%
	<i>CDO</i>	9,500,000	0.74%
	<i>CMBS</i>	8,566,335	0.67%
STRUCTURED		31,535,129	2.45%
TOTAL FIXED INCOME		1,120,871,108	87.24%
EQUITY INDEX FUNDS		141,839,697	11.04%
CASH EQUIVALENTS		22,170,659	1.73%
GRAND TOTAL		1,284,881,465	100.00%

6/30/2012 State Fund By Sector



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: Ethan Hurley, Portfolio Manager – Alternative Investments
Date: August 22, 2012
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 for the quarter ended March 31st.

(ii) **New Commitments:**
The table below summarizes the investment decisions made by Staff since the last Board meeting. A commitment of \$20M was made to Tenex Capital Partners SG, LP, a \$15M commitment was made to The Catalyst Limited Partnership Fund IV, LP and a \$10M commitment was made to Dover Street VIII, LP. The investment briefs summarizing each fund and the general partners follow.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Tenex Capital Partners SG, LP – Secondary Interest	2011	Buyout – Operational Turnaround	Diverse	\$20M	6/30/12
The Catalyst Fund Limited Partnership IV, LP	2012	Distressed Debt for Control	Diverse	\$15M	6/30/12
Dover Street VIII, LP	2012	Secondaries	Diverse	\$10M	6/12/12

(iii) **Portfolio Index Comparison:**
Table comparing the performance of the private equity portfolio to the State Street Private Equity IndexTM.

Montana Board of Investments

Private Equity Board Report

Q1 2012

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 may 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.

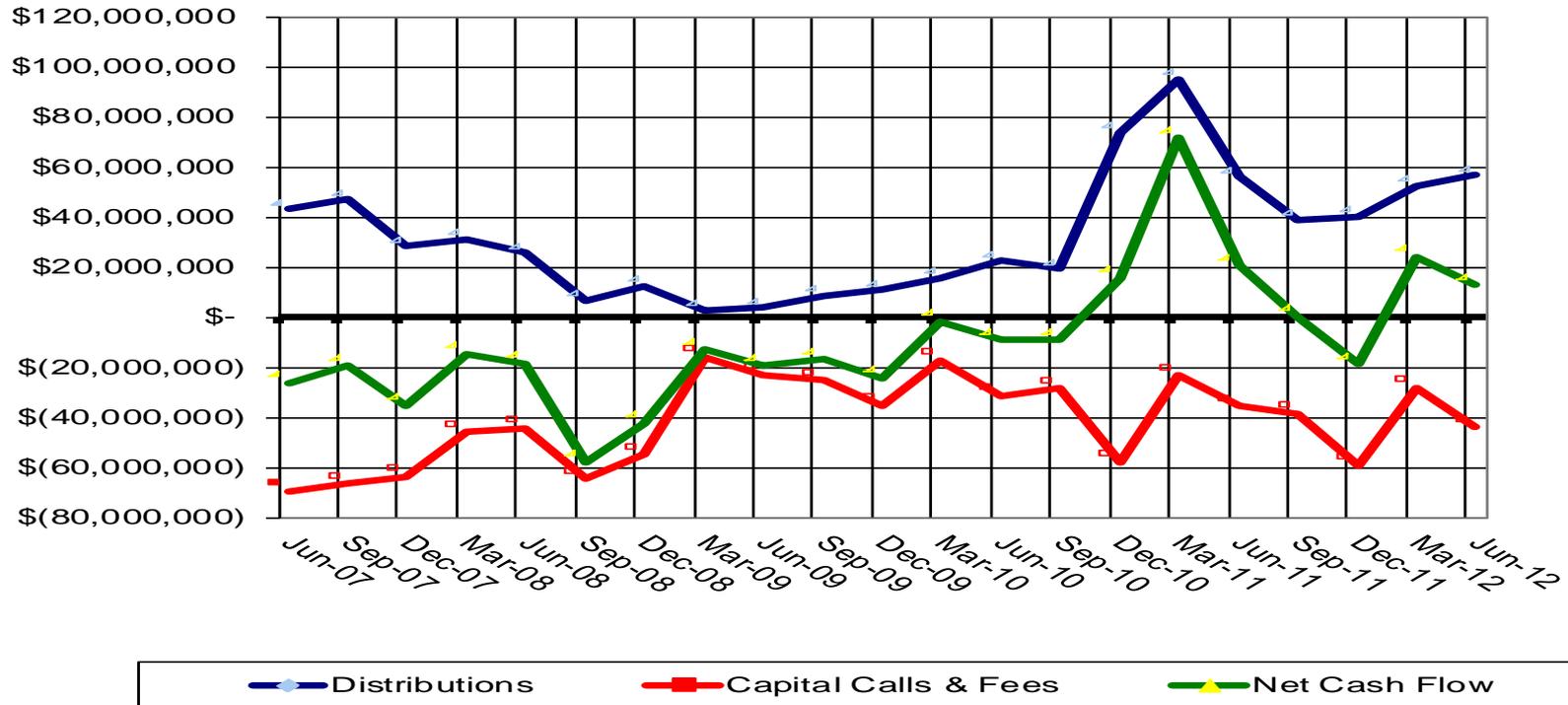
Contents

- **Quarterly Cash Flow Chart**
- **Strategy – Total Exposure Chart**
- **Industry – Market Value Exposure Chart**
- **Geography – Total Exposure Chart**
- **Investment Vehicle – Total Exposure Chart**
- **Periodic Return Comparison**
- **LPs by Family of Funds Table**

MPEP Quarterly Cash Flows June 30, 2007 through June 30, 2012

Montana Private Equity Pool MPEP Quarterly Cash Flow *June 30, 2007 through June 30, 2012*

MPEP Cash Flows



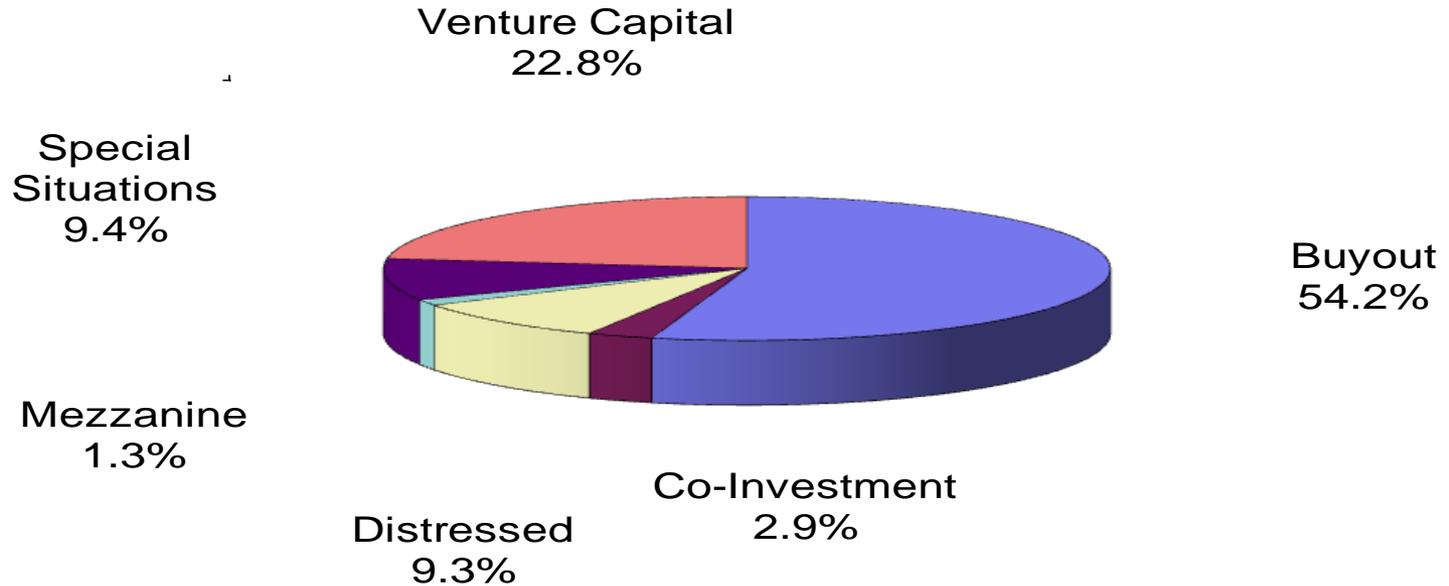
For the quarter ending 6/30/12, distributions received continued to outpace capital calls resulting in positive net cash flow to the pool for the quarter. Broadly speaking, global M&A was up relative to 1Q12. While the IPO market saw the total number of deals in 2Q12 decrease, total value increased relative to 1Q12.

Q1 2012 Strategy – Total Exposure

Montana Private Equity Pool

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

(since inception through March 31, 2012)

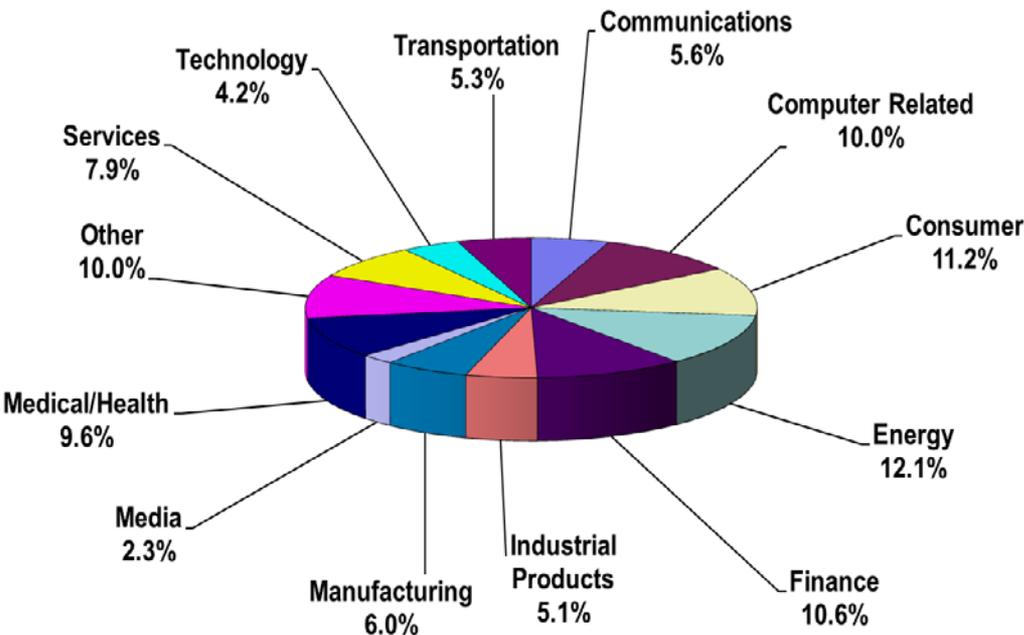


Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Buyout	\$347,626,482	56.7%	\$537,553,291	52.7%	\$885,179,773	54.2%
Co-Investment	\$7,035,110	1.1%	\$40,358,912	4.0%	\$47,394,022	2.9%
Distressed	\$53,334,640	8.7%	\$99,027,097	9.7%	\$152,361,737	9.3%
Mezzanine	\$5,556,566	0.9%	\$16,309,542	1.6%	\$21,866,108	1.3%
Special Situations	\$57,760,359	9.4%	\$95,766,241	9.4%	\$153,526,600	9.4%
Venture Capital	\$141,928,923	23.1%	\$230,687,482	22.6%	\$372,616,405	22.8%
Total	\$613,242,080	100.0%	\$1,019,702,564	100.0%	\$1,632,944,645	100.0%

The portfolio is well diversified by strategy, with the most significant strategy weight consisting of Buyout at 54.2% of total exposure. When combined with Co-Investment and Special Situations, the overall exposure to Buyout strategies is approximately 66%. Strategic allocations are expected to remain relatively stable going forward. That said, the Distressed allocation, though up slightly relative to last quarter, should continue to decline in the near-term given the ongoing liquidation of mature funds in this category.

Q1 2012 Industry – Market Value Exposure

Montana Private Equity Pool Underlying Investment Industry Exposure, by Market Value *(since inception through March 31, 2012)*



Industry	Investments, At Market Value	Percentage
Communications	\$55,007,181	5.6%
Computer Related	\$98,761,806	10.0%
Consumer	\$109,757,877	11.2%
Energy	\$119,038,289	12.1%
Finance	\$104,603,584	10.6%
Industrial Products	\$50,122,191	5.1%
Manufacturing	\$59,424,639	6.0%
Media	\$23,052,528	2.3%
Medical/Health	\$93,882,748	9.6%
Other	\$98,468,795	10.0%
Services	\$78,060,691	7.9%
Technology	\$40,812,687	4.2%
Transportation	\$51,956,742	5.3%
Total	\$982,949,757	100%

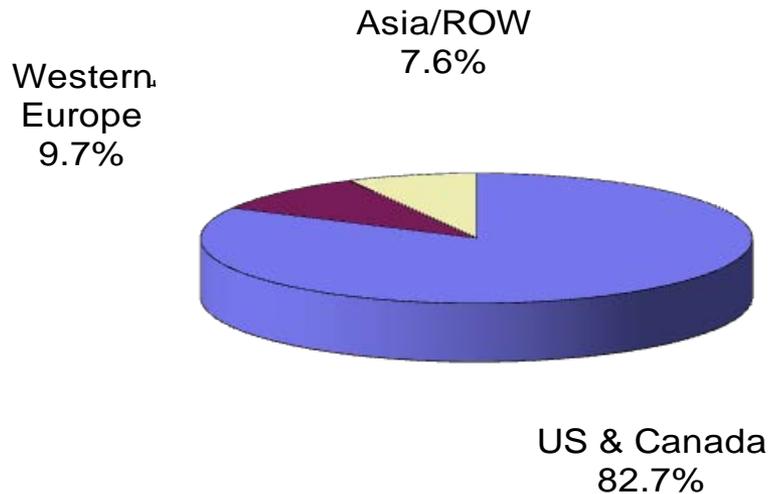
The portfolio is broadly diversified by industry with the energy, finance, consumer and computer related sectors being the highest industry concentrations representing 43.9% of total assets. With the exception of energy and the technology-related industries, the portfolio's underlying managers tend to be multi-sector investors. Therefore, composition of the portfolio by industry is and will continue to primarily be a function of a manager's industry expertise and success in sourcing deals rather than a function of staff's desire to over or underweight a specific industry.

Q1 2012 Geography – Total Exposure

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through March 31, 2012)



The portfolio's predominate geographic exposure is to developed North America, representing 82.7% of the market value and uncalled capital domiciled in or targeted for the US and Canada. No significant divergence from this is expected in the near-term. Targeted international investments will continue to be made largely through fund-of-funds given existing constraints on internal resources.

Geography	Remaining Commitments ⁽¹⁾	Percentage	Market Value ⁽²⁾	Percentage	Total Exposure	Percentage
US & Canada	\$ 538,679,574	87.8%	\$ 781,230,909	79.5%	\$ 1,319,910,483	82.7%
Western Europe	\$ 28,971,156	4.7%	\$ 125,641,356	12.8%	\$ 154,612,512	9.7%
Asia/ROW	\$ 45,591,350	7.4%	\$ 76,077,492	7.7%	\$ 121,668,842	7.6%
Total	\$ 613,242,080	100.0%	\$ 982,949,757	100.0%	\$ 1,596,191,837	100.0%

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

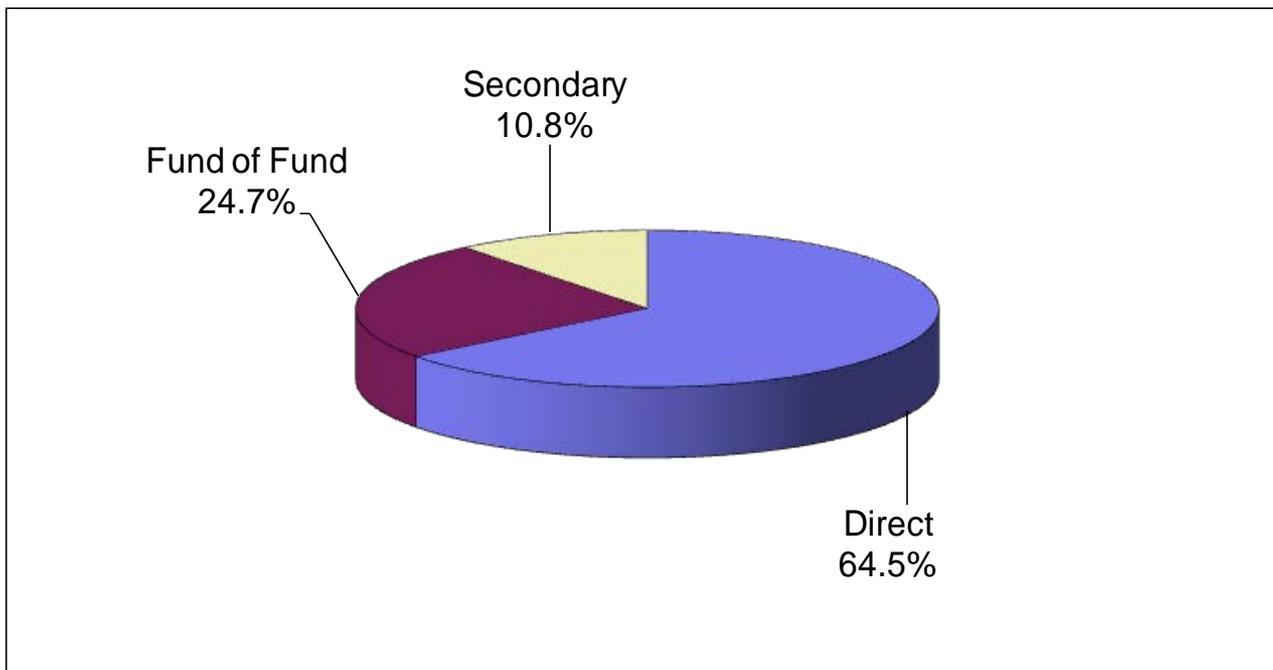
⁽²⁾ Market Value represents the aggregate market values of the underlying investment companies of the partnerships and excludes cash.

Q1 2012 Investment Vehicle – Total Exposure

Montana Private Equity Pool

Investment Vehicle Exposure by Market Value & Remaining Commitments

(since inception through March 31, 2012)



The portfolio is invested primarily through direct private equity commitments. To the extent the quality of managers invested with 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 the medium-term, the portfolio is likely to continue to depend upon fund-of-funds managers for targeted international investments as well as for maintaining its core allocation to domestic venture capital. Longer term it is the intention of staff to leverage the fund-of-funds relationships to slowly, but not entirely move away from this model in order to access more of these specialized managers directly and to reduce overall costs. Non-venture domestic exposure will be accessed directly.

Investment Vehicle	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Direct	\$ 398,332,975	65.0%	\$ 655,365,580	64.3%	\$ 1,053,698,555	64.5%
Fund of Fund	\$ 167,327,703	27.3%	\$ 235,714,643	23.1%	\$ 403,042,346	24.7%
Secondary	\$ 47,581,402	7.8%	\$ 128,622,341	12.6%	\$ 176,203,743	10.8%
Total	\$ 613,242,080	100.0%	\$ 1,019,702,564	100.0%	\$ 1,632,944,645	100.0%

Q1 2012 1 – 3 – 5 Year Periodic Return Comparison

Montana Board of Investments Periodic Return Comparison

For the Period Ended March 31, 2012

Description	Current					1 Year Return	3 Year Return	5 Year Return
	Count	Ending Market Value	Inv Multiple	IRR ¹	Contribution to IRR	IRR	IRR	IRR
Total	135	1,019,702,564	1.43	12.60	12.60	11.06	17.03	6.54
Adams Street Funds	34	174,728,953	1.50	12.47	2.90	7.54	14.86	5.00
ASP - Direct VC Funds	4	30,170,580	1.57	15.70	0.68	15.28	18.37	5.74
ASP - Secondary Funds	7	14,972,799	1.66	42.67	0.41	(1.12)	12.08	8.16
ASP - U.S. Partnership Funds	14	114,093,318	1.45	10.00	1.59	7.84	14.38	4.55
ASP Non-US Partnership Funds	9	15,492,256	1.52	11.01	0.23	1.28	14.45	3.33
Buyout	34	346,123,954	1.57	12.20	5.41	15.03	18.36	8.12
Co-Investment	2	40,358,912	1.24	7.60	0.21	6.49	22.10	7.43
Distressed	10	100,926,704	1.42	25.14	1.65	8.87	26.88	11.14
Mezzanine	3	14,725,057	1.29	7.32	0.12	7.45	0.36	3.53
Non-US Private Equity	8	51,416,476	1.09	3.67	0.18	3.62	16.93	(6.00)
Secondary	7	113,649,542	1.35	13.80	1.02	11.91	16.39	8.20
Special Situations	7	80,314,485	1.26	8.14	0.53	7.89	12.74	7.74
Venture Capital	30	97,458,482	1.31	16.84	0.59	16.70	12.59	7.23

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.

2.) The market value for Centerbridge Special Credit II, Northgate V and PVC II represent cash-adjusted market values from the previously reported valuation from the General Partner

As of 3/31/12, the portfolio's trailing 1-year net IRR was 11%. The since inception net investment multiple and net IRR results were up slightly relative to last quarter to 1.43x and 12.60%, respectively, from 1.41x and 12.44%. As of quarter end, all strategy categories, except for Non-US Private Equity, were up or performed in-line relative to last quarter's performance. Non-US Private Equity is down as the result of not having previously included JC Flowers II, LP, one of the pools significant underperformers which is also included on the Partnership Focus List.

Q1 2012 LPs by Family of Funds

Montana Board of Investments
LP's by Family of Funds
All Investments
As of March 31, 2012

		Since Inception									
Description	Vintage Year	Capital Contributed for		Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	IRR ¹	Investment Multiple	Total Exposure
		Commitment	Investment								
Total		2,197,363,174	1,498,908,663	110,278,419	613,242,080	73.23	1,284,866,281	1,019,702,564	12.60	1.43	1,632,944,645
Active		2,183,470,174	1,485,645,213	108,649,830	613,242,080	73.02	1,245,365,894	1,019,702,564	11.98	1.42	1,632,944,645
Adams Street Partners											
Adams Street Partners Fund - U.S.		327,129,264	287,353,932	29,847,058	21,830,379	96.97	302,535,512	174,728,953	12.47	1.50	196,559,332
Adams Street - 2002 U.S. Fund, L.P.		94,000,000	78,040,932	6,151,213	9,807,855	89.57	42,788,729	71,037,340	7.52	1.35	80,845,195
Adams Street - 2002 U.S. Fund, L.P.		34,000,000	29,398,744	2,453,401	2,147,855	93.68	21,822,415	24,722,417	8.88	1.46	26,870,272
Adams Street - 2003 U.S. Fund, L.P.		20,000,000	16,786,250	1,293,750	1,920,000	90.40	9,254,351	15,563,757	7.82	1.37	17,483,757
Adams Street - 2004 U.S. Fund, L.P.		15,000,000	12,386,720	948,280	1,665,000	88.90	5,854,610	11,504,693	6.62	1.30	13,169,693
Adams Street - 2005 U.S. Fund, L.P.		25,000,000	19,469,218	1,455,782	4,075,000	83.70	5,857,353	19,246,473	4.95	1.20	23,321,473
Adams Street Partners Fund - Non-U.S.		16,000,000	13,508,155	1,025,845	1,466,000	90.84	9,033,532	11,574,800	9.50	1.42	13,040,800
Adams Street - 2002 Non-U.S. Fund, L.P.		6,000,000	5,347,291	418,709	234,000	96.10	5,867,616	3,687,456	13.34	1.66	3,921,456
Adams Street - 2004 Non-U.S. Fund, L.P.		5,000,000	4,171,083	319,417	509,500	89.81	2,103,317	3,775,648	7.16	1.31	4,285,148
Adams Street - 2005 Non-U.S. Fund, L.P.		5,000,000	3,989,781	287,719	722,500	85.55	1,062,599	4,111,696	5.06	1.21	4,834,196
Brinson Partnership Trust - Non-U.S											
Brinson Non-U.S. Trust-1999 Primary Fund		9,809,483	9,598,173	1,107,570	286,300	109.14	14,205,711	4,046,453	13.28	1.70	4,332,753
Brinson Non-U.S. Trust-2000 Primary Fund		1,524,853	1,503,681	172,168	96,162	109.90	2,449,707	325,922	11.01	1.66	422,084
Brinson Non-U.S. Trust-2000 Primary Fund		1,815,207	1,815,207	204,952	0	111.29	2,998,720	541,608	12.55	1.75	541,608
Brinson Non-U.S. Trust-2001 Primary Fund		1,341,612	1,341,612	151,479	0	111.29	1,985,613	392,919	11.63	1.59	392,919
Brinson Non-U.S. Trust-2002 Primary Fund		1,696,452	1,696,452	191,543	0	111.29	1,771,401	1,217,377	9.92	1.58	1,217,377
Brinson Non-U.S. Trust-2002 Secondary		637,308	601,542	71,957	35,766	105.68	1,387,203	128,997	26.34	2.25	164,763
Brinson Non-U.S. Trust-2003 Primary Fund		1,896,438	1,783,977	214,123	112,461	105.36	2,911,313	855,147	20.71	1.89	967,608
Brinson Non-U.S. Trust-2004 Primary Fund		897,613	855,702	101,347	41,911	106.62	701,754	584,483	8.06	1.34	626,394
Brinson Partnership Trust - U.S.											
Brinson Partners - 1996 Fund		103,319,781	98,990,302	10,681,084	4,329,479	106.15	122,253,924	44,690,230	10.34	1.52	49,019,709
Brinson Partners - 1996 Fund		3,950,740	3,829,528	460,991	121,212	108.60	6,945,449	210,976	14.82	1.67	332,188
Brinson Partners - 1997 Primary Fund		3,554,935	3,554,935	417,170	0	111.73	14,267,325	254,983	71.46	3.66	254,983
Brinson Partners - 1998 Primary Fund		7,161,019	7,122,251	840,141	38,768	111.19	10,241,853	746,309	6.49	1.38	785,077
Brinson Partners - 1998 Secondary Fund		266,625	266,625	31,316	0	111.75	181,932	11,256	(7.38)	0.65	11,256
Brinson Partners - 1999 Primary Fund		8,346,761	7,998,817	973,505	347,944	107.49	8,989,591	1,300,616	2.45	1.15	1,648,560
Brinson Partners - 2000 Primary Fund		20,064,960	19,079,570	2,223,841	985,390	106.17	24,003,329	5,381,817	6.00	1.38	6,367,207
Brinson Partners - 2001 Primary Fund		15,496,322	14,830,208	1,522,070	666,114	105.52	13,156,502	9,309,545	5.91	1.37	9,975,659
Brinson Partners - 2002 Primary Fund		16,297,079	15,783,921	1,592,159	513,158	106.62	18,428,242	10,042,846	12.30	1.64	10,556,004
Brinson Partners - 2002 Secondary Fund		2,608,820	2,498,592	249,208	110,228	105.33	3,621,150	1,006,787	12.91	1.68	1,117,015
Brinson Partners - 2003 Primary Fund		15,589,100	14,784,432	1,492,722	804,668	104.41	15,069,456	8,038,270	9.28	1.42	8,842,938
Brinson Partners - 2003 Secondary Fund		1,151,151	1,077,749	101,234	73,402	102.42	2,049,868	622,547	23.77	2.27	695,949
Brinson Partners - 2004 Primary Fund		8,832,269	8,163,674	776,726	668,595	101.22	5,299,227	7,764,278	8.71	1.46	8,432,873

Q1 2012 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of March 31, 2012

Description	Vintage Year	Since Inception									
		Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	IRR ¹	Investment Multiple	Total Exposure
Remaining ASP Funds		104,000,000	87,216,370	10,881,345	5,940,745	94.32	114,253,616	43,380,130	21.20	1.61	49,320,875
Adams Street Global Oppty Secondary Fund	2004	25,000,000	18,950,090	1,149,910	4,900,000	80.40	16,291,086	13,136,445	12.09	1.46	18,036,445
Adams Street V, L.P.	2003	40,000,000	34,926,956	5,073,044	0	100.00	18,494,788	27,851,979	2.89	1.16	27,851,979
Adams Street VPAF Fund II	1990	4,000,000	3,621,830	378,170	0	100.00	7,879,041	6,338	25.25	1.97	6,338
Brinson Venture Capital Fund III, L.P.	1993	5,000,000	4,045,656	954,344	0	100.00	15,622,448	0	40.47	3.12	0
Brinson VPF III	1993	5,000,000	4,488,559	530,671	0	100.38	15,024,708	66,767	29.47	3.01	66,767
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	198,942	0	100.38	8,307,583	66,767	41.46	1.67	66,767
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,634,305	0	97.02	2.43	1,040,745
BVCF IV, L.P.	1999	15,000,000	12,760,256	2,239,744	0	100.00	22,999,657	2,251,834	6.92	1.68	2,251,834
Affinity Asia Capital		15,000,000	8,908,306	1,678,442	4,414,919	70.58	3,567,468	10,249,932	11.14	1.31	14,664,851
Affinity Asia Pacific Fund III, L.P.	2006	15,000,000	8,908,306	1,678,442	4,414,919	70.58	3,567,468	10,249,932	11.14	1.31	14,664,851
American Securities LLC		35,000,000	5,700,341	277,068	29,022,591	17.08	3,126	5,761,715	(3.87)	0.96	34,784,306
American Securities Partners VI, L.P.	2011	35,000,000	5,700,341	277,068	29,022,591	17.08	3,126	5,761,715	(3.87)	0.96	34,784,306
ArcLight Energy Partners		70,000,000	41,784,068	3,185,550	25,030,383	64.24	46,551,043	19,462,516	12.01	1.47	44,492,899
ArcLight Energy Partners Fund II, L.P.	2004	25,000,000	20,496,646	1,197,916	3,305,438	86.78	32,329,333	4,649,972	18.69	1.70	7,955,410
ArcLight Energy Partners Fund III, L.P.	2006	25,000,000	20,073,759	1,587,518	3,338,724	86.65	14,110,347	13,561,423	5.95	1.28	16,900,147
ArcLight Energy Partners Fund V, L.P.	2011	20,000,000	1,213,663	400,116	18,386,221	8.07	111,363	1,251,121	(14.96)	0.84	19,637,342
Avenue Investments		35,000,000	33,123,011	2,086,886	0	100.60	43,024,153	3,066,075	10.99	1.31	3,066,075
Avenue Special Situations Fund V, LP	2007	35,000,000	33,123,011	2,086,886	0	100.60	43,024,153	3,066,075	10.99	1.31	3,066,075
Axiom Asia Private Capital		50,000,000	8,001,437	860,616	41,176,431	17.72	496,847	9,097,288	6.89	1.08	50,273,719
Axiom Asia Private Capital II, LP	2009	25,000,000	8,001,437	860,616	16,176,431	35.45	496,847	9,097,288	6.89	1.08	25,273,719
Axiom Asia Private Capital III, LP	2012	25,000,000	0	0	25,000,000	0.00	0	0	N/A	0.00	25,000,000
Black Diamond Capital Management		25,000,000	6,900,433	424,017	17,675,550	29.30	218,921	7,324,320	7.54	1.03	24,999,870
BDCM Opportunity Fund III, L.P.	2011	25,000,000	6,900,433	424,017	17,675,550	29.30	218,921	7,324,320	7.54	1.03	24,999,870
Carlyle Partners		60,000,000	52,971,048	4,371,919	2,756,035	95.57	33,384,451	57,717,920	11.94	1.59	60,473,955
Carlyle Partners IV, L.P.	2005	35,000,000	31,662,839	1,482,030	1,954,133	94.70	23,969,238	36,668,115	13.54	1.83	38,622,248
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000	21,308,209	2,889,889	801,902	96.79	9,415,213	21,049,805	7.64	1.26	21,851,707
Cartesian Capital Group, LLC		20,000,000	0	0	20,000,000	0.00	0	0	N/A	0.00	20,000,000
Pangaea Two, L.P.	2012	20,000,000	0	0	20,000,000	0.00	0	0	N/A	0.00	20,000,000
CCMP Associates		30,000,000	19,184,472	2,229,286	8,586,242	71.38	5,352,356	27,096,728	14.62	1.52	35,682,970
CCMP Capital Investors II, L.P.	2006	30,000,000	19,184,472	2,229,286	8,586,242	71.38	5,352,356	27,096,728	14.62	1.52	35,682,970
Centerbridge		57,500,000	19,748,083	710,828	37,041,089	35.58	466,375	24,806,066	15.52	1.24	61,847,155
Centerbridge Capital Partners II, L.P.	2011	25,000,000	6,153,963	429,948	18,416,089	26.34	2,176	6,231,069	(9.07)	0.95	24,647,158
Centerbridge Special Credit Partners	2009	12,500,000	11,594,120	280,880	625,000	95.00	464,199	16,574,997	18.44	1.43	17,199,997
Centerbridge Special Credit Partners II ²	2012	20,000,000	2,000,000	0	18,000,000	10.00	0	2,000,000	0.00	1.00	20,000,000
CIVC Partners		25,000,000	4,045,897	1,061,945	19,986,829	20.43	246,875	5,863,282	18.32	1.20	25,850,111
CIVC Partners Fund IV, L.P.	2010	25,000,000	4,045,897	1,061,945	19,986,829	20.43	246,875	5,863,282	18.32	1.20	25,850,111
Energy Investors Funds		25,000,000	4,563,786	689,234	19,746,980	21.01	229,616	4,576,532	(8.73)	0.91	24,323,512
EIF US Power Fund IV, L.P.	2011	25,000,000	4,563,786	689,234	19,746,980	21.01	229,616	4,576,532	(8.73)	0.91	24,323,512
First Reserve		55,485,789	44,463,178	1,786,170	9,502,649	83.35	8,958,753	43,451,714	4.68	1.13	52,954,363
First Reserve Fund XI, L.P.	2006	30,000,000	26,962,987	952,315	2,350,905	93.05	7,714,076	24,771,088	4.88	1.16	27,121,993
First Reserve Fund XII, L.P.	2008	25,485,789	17,500,190	833,854	7,151,745	71.94	1,244,677	18,680,626	4.16	1.09	25,832,371

Q1 2012 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of March 31, 2012

		Since Inception									
Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	IRR ¹	Investment Multiple	Total Exposure
Gridiron Capital											
Gridiron Capital Fund II, LP	2011	15,000,000	5,942,178	300,000	8,817,444	41.61	9,272	5,830,001	(8.16)	0.94	14,647,445
GTCR LLC											
GTCR X, L.P.	2011	25,000,000	6,750,112	174,538	18,075,350	27.70	0	6,416,136	(9.03)	0.93	24,491,486
HarbourVest											
Dover Street VII L.P.	2008	61,823,772	35,112,926	1,130,868	25,593,503	58.62	5,810,303	39,385,243	12.01	1.25	64,978,746
HarbourVest Direct 2007 Fund	2007	20,000,000	16,436,566	363,434	3,200,000	84.00	2,970,027	16,953,034	7.80	1.19	20,153,034
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	2,245,710	234,559	19,343,503	11.36	0	2,532,408	1.35	1.02	21,875,911
Hellman & Friedman											
Hellman & Friedman Capital Partners VI	2006	40,000,000	25,382,193	1,386,200	13,231,607	66.92	8,336,340	22,328,368	4.95	1.15	35,559,975
Hellman & Friedman Capital Partners VII	2011	25,000,000	22,341,441	1,269,221	1,389,338	94.44	8,336,340	19,413,704	5.33	1.18	20,803,042
Highway 12 Ventures											
Highway 12 Venture Fund II, L.P.	2006	10,000,000	7,483,160	1,339,215	1,177,624	88.22	73,476	10,024,066	5.23	1.14	11,201,690
Industry Ventures											
Industry Ventures Fund IV, L.P.	2005	10,000,000	9,104,705	704,074	595,358	98.09	4,530,759	7,625,686	6.28	1.24	8,221,044
JCF											
J.C. Flowers II, L.P.	2006	25,000,000	23,798,137	923,413	311,690	98.89	1,240,540	6,205,620	(25.78)	0.30	6,517,310
Joseph Littlejohn & Levy											
JLL Partners Fund V, L.P.	2005	25,000,000	21,518,676	1,274,244	2,207,080	91.17	11,744,312	18,872,935	8.89	1.34	21,080,015
KKR											
KKR 1987 Fund	1987	175,000,000	175,000,000	9,437,988	0	105.39	352,902,567	4,561,222	12.38	1.94	4,561,222
KKR 1993 Fund	1993	25,000,000	25,000,000	2,101,164	0	108.40	56,620,964	0	8.92	2.09	0
KKR 1996 Fund	1997	25,000,000	25,000,000	1,002,236	0	104.01	48,971,319	0	17.79	1.88	0
KKR European Fund, L.P.	1999	100,000,000	100,000,000	4,582,023	0	104.58	188,549,072	1,153,089	13.51	1.81	1,153,089
Lexington Capital Partners											
Lexington Capital Partners V, L.P.	2001	25,000,000	25,000,000	1,752,565	0	107.01	58,761,212	3,408,133	19.96	2.32	3,408,133
Lexington Capital Partners VI-B, L.P.	2005	155,000,000	115,481,345	6,014,201	33,579,000	78.38	92,231,642	74,312,943	13.89	1.37	107,891,943
Lexington Capital Partners VII, L.P.	2009	50,000,000	47,185,454	2,571,164	243,382	99.51	67,747,621	13,790,375	18.95	1.64	14,033,757
Lexington Middle Market Investors II, LP	2008	50,000,000	47,319,527	2,220,540	459,933	99.08	21,370,934	35,930,047	5.03	1.16	36,389,980
Madison Dearborn Capital Partners											
Madison Dearborn Capital Partners IV, LP	2001	45,000,000	16,754,942	1,006,744	27,312,860	39.47	2,278,350	20,028,167	24.26	1.26	47,341,024
Madison Dearborn Capital Partners V, LP.	2006	10,000,000	4,221,421	215,753	5,562,826	44.37	834,737	4,564,354	14.78	1.22	10,127,180
Madison Dearborn Capital Partners VI, LP	2008	75,000,000	51,189,695	2,623,877	21,208,561	71.75	35,329,190	44,219,836	10.49	1.48	65,428,397
Matlin Patterson											
MatlinPatterson Global Opps. Ptnrs. III	2007	25,000,000	23,692,865	594,828	734,440	97.15	30,957,532	11,921,378	14.07	1.77	12,655,818
MHR Institutional Partners											
MHR Institutional Partners III, L.P.	2006	25,000,000	21,467,577	938,499	2,593,924	89.62	3,133,587	24,175,619	4.72	1.22	26,769,543
Montlake Capital											
Montlake Capital II, L.P.	2007	25,000,000	6,029,253	1,090,550	17,880,197	28.48	1,238,071	8,122,839	11.10	1.31	26,003,036
Neuberger Berman Group, LLC											
NB Co-Investment Partners, L.P.	2006	30,000,000	22,172,945	2,053,714	5,773,341	80.76	10,742,775	14,848,596	1.75	1.06	20,621,937
Northgate Capital Partners											
Northgate V, L.P. ²	2010	30,000,000	7,200,000	0	37,800,000	16.00	0	7,465,190	4.75	1.04	45,265,190
Northgate Venture Partners VI, L.P.	2012	30,000,000	7,200,000	0	22,800,000	24.00	0	7,465,190	4.75	1.04	30,265,190
		15,000,000	0	0	15,000,000	0.00	0	0	N/A	0.00	15,000,000

Q1 2012 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of March 31, 2012

Description	Vintage Year	Since Inception									
		Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	IRR ¹	Investment Multiple	Total Exposure
Oak Hill Capital Partners		45,000,000	35,735,373	3,304,365	6,041,616	86.75	12,557,332	42,173,956	9.29	1.40	48,215,572
Oak Hill Capital Partners II, L.P.	2005	25,000,000	22,460,874	1,916,223	622,903	97.51	12,513,217	26,793,609	11.07	1.61	27,416,512
Oak Hill Capital Partners III, L.P.	2008	20,000,000	13,274,499	1,388,142	5,418,712	73.31	44,115	15,380,347	2.09	1.05	20,799,059
Oaktree Capital Partners		120,000,000	112,268,867	4,236,767	3,500,000	97.09	148,418,746	35,212,237	42.22	1.58	38,712,237
Oaktree Opportunities Fund VIII, L.P.	2009	10,000,000	9,657,826	342,174	0	100.00	89,318	11,023,798	8.26	1.11	11,023,798
OCM Opportunities Fund IVb, L.P.	2002	75,000,000	73,086,225	1,913,775	0	100.00	121,554,428	7,760	44.89	1.62	7,760
OCM Opportunities Fund VIIb, L.P.	2008	35,000,000	29,524,816	1,980,818	3,500,000	90.02	26,775,000	24,180,679	18.17	1.62	27,680,679
Odyssey Partners Fund III		45,000,000	29,621,293	2,913,407	12,465,320	72.30	33,706,154	26,243,458	25.90	1.84	38,708,778
Odyssey Investment Partners III, L.P.	2004	25,000,000	21,827,459	1,680,532	1,492,009	94.03	33,680,728	15,681,645	27.49	2.10	17,173,654
Odyssey Investment Partners IV, L.P.	2008	20,000,000	7,793,834	1,232,875	10,973,311	45.13	25,426	10,561,813	9.69	1.17	21,535,124
Opus Capital Venture Partners		10,000,000	787,526	250,000	8,962,474	10.38	0	713,730	(49.80)	0.69	9,676,204
Opus Capital Venture Partners VI, LP	2011	10,000,000	787,526	250,000	8,962,474	10.38	0	713,730	(49.80)	0.69	9,676,204
Performance Venture Capital		25,000,000	9,654,385	1,002,947	14,342,667	42.63	187,147	11,293,721	5.55	1.08	25,636,388
Performance Venture Capital II ²	2008	25,000,000	9,654,385	1,002,947	14,342,667	42.63	187,147	11,293,721	5.55	1.08	25,636,388
Portfolio Advisors		70,000,000	48,914,530	2,384,635	18,947,686	73.28	4,185,204	57,379,213	6.55	1.20	76,326,899
Port. Advisors Fund IV (B), L.P.	2006	30,000,000	21,537,416	1,145,313	7,317,271	75.61	1,567,589	27,888,951	7.12	1.30	35,206,222
Port. Advisors Fund IV (E), L.P.	2006	15,000,000	10,395,065	714,200	3,890,735	74.06	4,731	10,195,547	(2.86)	0.92	14,086,282
Port. Advisors Fund V (B), L.P.	2008	10,000,000	6,267,721	306,250	3,542,776	65.74	432,891	7,483,603	8.96	1.20	11,026,379
Portfolio Advisors Secondary Fund, L.P.	2008	15,000,000	10,714,328	218,872	4,196,904	72.89	2,179,993	11,811,112	23.79	1.28	16,008,016
Quintana Energy Partners		15,000,000	11,854,149	1,495,637	1,670,585	89.00	2,753,645	12,823,723	3.94	1.17	14,494,308
Quintana Energy Partners Fund I, L.P.	2006	15,000,000	11,854,149	1,495,637	1,670,585	89.00	2,753,645	12,823,723	3.94	1.17	14,494,308
Siguler Guff & Company		50,000,000	24,835,509	1,052,697	24,244,081	51.78	2,180,275	30,172,361	10.26	1.25	54,416,442
Siguler Guff Small Buyout Opportunities	2007	25,000,000	18,911,706	976,500	5,244,081	79.55	2,180,275	23,124,091	9.09	1.27	28,368,172
Siguler Guff Small Buyout Opps Fund II	2011	25,000,000	5,923,803	76,197	19,000,000	24.00	0	7,048,270	21.94	1.17	26,048,270
Summit Ventures		20,000,000	0	0	20,000,000	0.00	0	0	N/A	0.00	20,000,000
Summit Partners Growth Equity Fund VIII	2011	20,000,000	0	0	20,000,000	0.00	0	0	N/A	0.00	20,000,000
TA Associates, Inc.		10,000,000	3,636,543	188,457	6,175,000	38.25	250,000	3,766,895	5.82	1.05	9,941,895
TA XI, L.P.	2010	10,000,000	3,636,543	188,457	6,175,000	38.25	250,000	3,766,895	5.82	1.05	9,941,895
Tenaya Capital		20,000,000	0	0	20,000,000	0.00	0	0	N/A	0.00	20,000,000
Tenaya Capital VI, L.P.	2012	20,000,000	0	0	20,000,000	0.00	0	0	N/A	0.00	20,000,000
Terra Firma Capital Partners		25,432,997	19,222,784	2,554,338	3,672,928	85.63	587,167	9,727,548	(21.77)	0.47	13,400,475
Terra Firma Capital Partners III, L.P.	2007	25,432,997	19,222,784	2,554,338	3,672,928	85.63	587,167	9,727,548	(21.77)	0.47	13,400,475
Thayer Hidden Creek Management, L.P.		20,000,000	8,530,891	1,312,171	10,483,636	49.22	322,580	14,878,099	44.80	1.54	25,361,735
HCI Equity Partners III, LP	2008	20,000,000	8,530,891	1,312,171	10,483,636	49.22	322,580	14,878,099	44.80	1.54	25,361,735
Trilantic Capital Partners		11,098,351	8,752,432	930,888	1,417,658	87.25	3,505,849	9,073,988	13.76	1.30	10,491,646
Trilantic Capital Partners IV L.P.	2007	11,098,351	8,752,432	930,888	1,417,658	87.25	3,505,849	9,073,988	13.76	1.30	10,491,646
Veritas Capital		25,000,000	8,291,876	66,791	16,641,333	33.43	0	8,997,199	5.86	1.08	25,638,532
The Veritas Capital Fund IV, L.P.	2010	25,000,000	8,291,876	66,791	16,641,333	33.43	0	8,997,199	5.86	1.08	25,638,532
Welsh, Carson, Anderson & Stowe		75,000,000	64,854,685	4,827,654	5,500,000	92.91	49,028,581	45,101,781	7.72	1.35	50,601,781
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	19,637,294	1,362,706	4,000,000	84.00	11,366,436	14,725,057	5.33	1.24	18,725,057
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000	22,464,507	2,035,493	500,000	98.00	33,170,581	7,271,331	12.13	1.65	7,771,331.00
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	22,752,884	1,429,455	1,000,000	96.73	4,491,564	23,105,393	3.08	1.14	24,105,393.00

1.) Due to, among other things, the lack of 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 funds 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.

2.) Represents a cash-adjusted market value from the previously reported valuation from the General Partner

The commitments to Pangaea Two, Tenaya Capital VI and Northgate VI now appear. BDCM Opportunity Fund III, which had improved quite dramatically from Q3 to Q4, has since moderated back to a more normalized return profile. Carlyle Partners IV popped from an IRR of 12% and MOIC of 1.68x to an IRR of 13.54% and MOIC of 1.83x. Two other managers, Matlin Patterson Global Opps III and MHR Institutional Partners III, both managers who were previously thought to be at risk of permanent impairment, continue to improve from a -11.6% IRR and a 0.74x MOIC two quarters ago to a 1.75% IRR and a 1.06x MOIC and a 0.14% IRR and a 1.0x MOIC two quarters ago to a 7.38% IRR and a 1.33x MOIC, respectively.

IRR Benchmark Comparison (Since 1980)
As of March 31, 2012

By Investment Focus

Description	PIC	Montana	DPI	Montana	RVPI	Montana	TVPI	Montana	IRR	Montana
Buyout	0.78	0.72	0.74	0.79	0.69	0.65	1.44	1.44	12.84	11.56
Venture Capital	0.81	0.64	0.74	0.66	0.59	0.75	1.33	1.41	10.37	16.39
Other	0.80	0.81	0.70	0.92	0.68	0.49	1.38	1.41	11.49	22.23
Pooled IRR	0.79	0.73	0.74	0.80	0.68	0.63	1.41	1.43	12.29	12.60

By Origin

Description	PIC	Montana	DPI	Montana	RVPI	Montana	TVPI	Montana	IRR	Montana
US	0.80	0.74	0.77	0.81	0.67	0.64	1.44	1.45	12.49	12.94
Non-US	0.77	0.65	0.65	0.67	0.69	0.51	1.34	1.18	11.37	6.12
Pooled IRR	0.79	0.73	0.74	0.80	0.68	0.63	1.41	1.43	12.29	12.60

By Vintage Year

Description	PIC	Montana	DPI	Montana	RVPI	Montana	TVPI	Montana	IRR	Montana
1990	1.01	1.04	2.46	2.41	0.00	0.00	2.46	2.41	18.54	27.63
1991	1.03	1.07	2.83	2.29	0.00	0.00	2.83	2.29	27.07	24.24
1992	0.99	N/A	2.28	N/A	0.00	N/A	2.28	N/A	23.49	N/A
1993	0.99	1.03	2.29	2.22	0.02	0.00	2.30	2.23	25.09	23.25
1994	0.96	N/A	2.50	N/A	0.00	N/A	2.50	N/A	26.10	N/A
1995	0.92	N/A	1.96	N/A	0.01	N/A	1.98	N/A	21.65	N/A
1996	0.98	1.09	1.68	1.62	0.03	0.05	1.71	1.67	13.04	14.82
1997	0.99	1.05	1.57	1.87	0.04	0.01	1.60	1.88	10.80	15.19
1998	0.98	1.11	1.34	1.26	0.05	0.09	1.39	1.35	6.94	6.05
1999	0.97	1.03	1.15	1.81	0.15	0.12	1.29	1.93	5.59	14.83
2000	0.96	1.02	1.43	1.26	0.19	0.28	1.62	1.53	11.21	9.12
2001	0.98	1.00	1.40	1.24	0.34	0.39	1.74	1.62	16.11	14.00
2002	0.98	0.99	1.41	1.29	0.33	0.30	1.73	1.59	20.07	26.15
2003	0.96	0.99	1.29	0.62	0.59	0.68	1.88	1.30	20.28	5.91
2004	0.97	0.88	0.97	0.94	0.66	0.63	1.63	1.57	14.56	13.79
2005	0.95	0.95	0.62	0.45	0.85	0.91	1.47	1.36	10.47	8.33
2006	0.89	0.85	0.28	0.27	0.88	0.90	1.16	1.16	4.15	4.46
2007	0.81	0.87	0.26	0.46	0.95	0.63	1.21	1.10	6.95	3.46
2008	0.62	0.58	0.20	0.25	1.01	1.05	1.21	1.30	9.30	13.61
2009	0.59	0.52	0.16	0.07	1.04	1.17	1.21	1.24	13.76	16.30
2010	0.45	0.27	0.08	0.02	1.00	1.07	1.07	1.09	7.01	8.34
2011	0.22	0.21	0.02	0.01	0.98	0.96	1.01	0.97	1.22	-7.37
1Q 12	0.13	0.02	0.01	0.00	0.96	1.00	0.97	1.00	-4.52	0.00
Pooled IRR	0.79	0.73	0.74	0.80	0.68	0.63	1.41	1.43	12.29	12.60

Based on data compiled from 2,079 Private Equity funds, including fully liquidated partnerships, formed between 1980 to 2012.

IRR: Pooled Average IRR is net of fees, expenses and carried interest.

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: Ethan Hurley, Portfolio Manager – Alternative Investments

Date: August 22, 2012

Subject: Montana Real Estate Pool (MTRP)

Following this memo are the following reports:

- (i) **Montana Real Estate Pool Review:**
Comprehensive overview of the real estate portfolio for the quarter ended March 31st.
- (ii) **New Commitments:**
The table below summarizes the investment decisions made by Staff since the last Board meeting. A commitment of \$25M was made to Stockbridge Value Fund, LP, an additional commitment of \$13M was made to ABR Chesapeake Fund IV, LP and a \$30M commitment was made to ORM Timber Fund III, LLC. The investment briefs summarizing each fund and the general partners follow.

Fund Name	Vintage	Subclass	Property Type	Amount	Date
Stockbridge Value Fund, LP	2011	Value – Add	Diverse	\$25M	6/15/12
ABR Chesapeake Fund IV, LP	2011	Value – Add	Diverse	\$13M	6/30/12
ORM Timber Fund III, LLC	2012	Timberland	Pacific Northwest	\$30M	7/31/12

Montana Board of Investments

Real Estate Board Report

Q1 2012

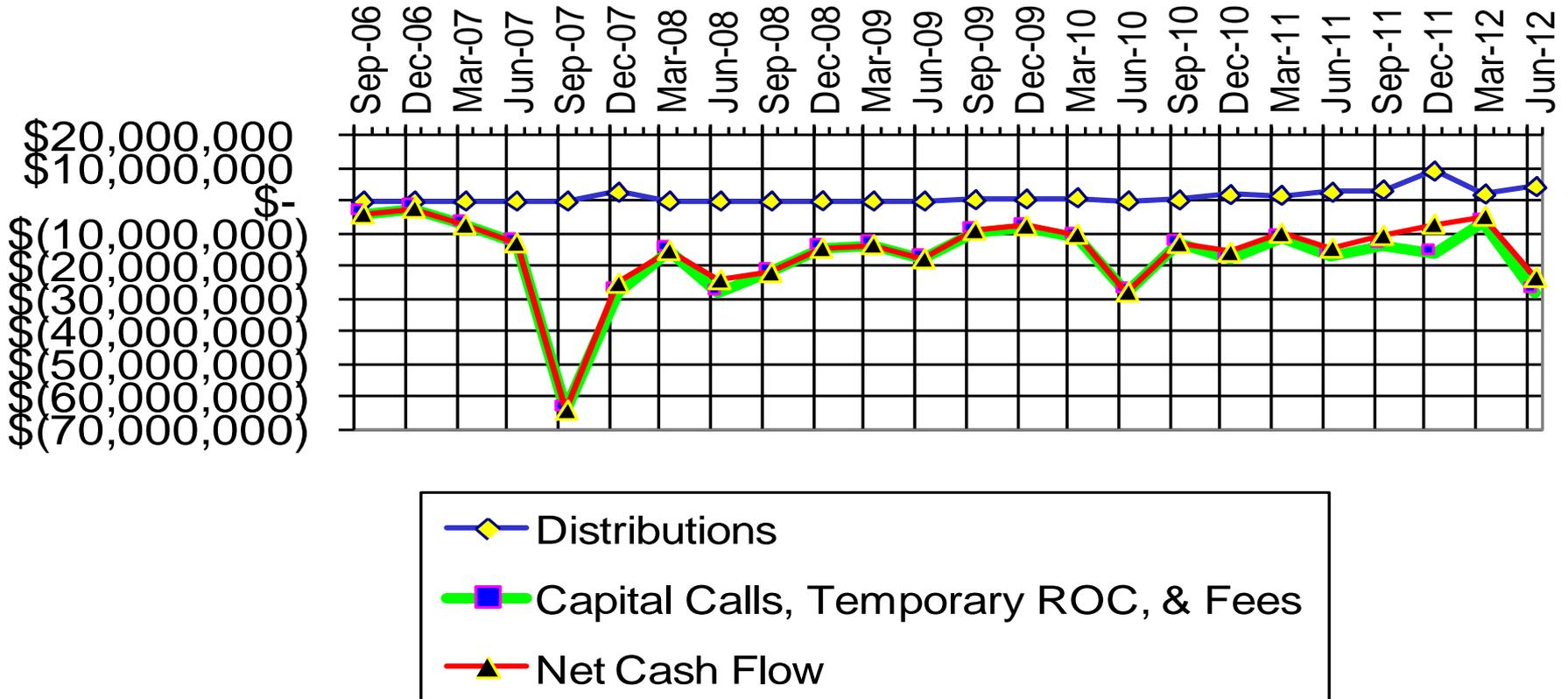
Due to, among other things, the lack of a valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a fund's life, the internal rate of return information may not accurately reflect current or expected 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.

Contents

- **Quarterly Cash Flow Chart**
- **Strategy – Total Exposure Chart**
- **Property Type – Market Value Exposure Chart**
- **Geography – Total Exposure Chart**
- **Time Weighted Returns & Internal Rates of Return**
- **Portfolio Status Report**

Quarterly Cash Flows through June 30, 2012

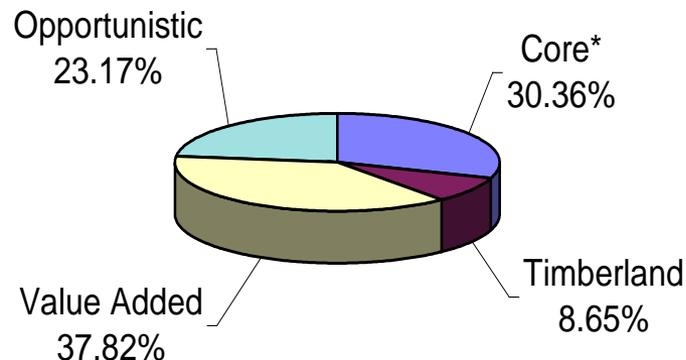
Montana RE Cash Flows Through 6/30/12 (Non Core)



Both distributions and capital calls picked up dramatically relative to the 1st quarter. The volume of capital calls continues to outpace distributions received, largely due to market conditions.

Q1 2012 Strategy – Total Exposure

Total Exposure



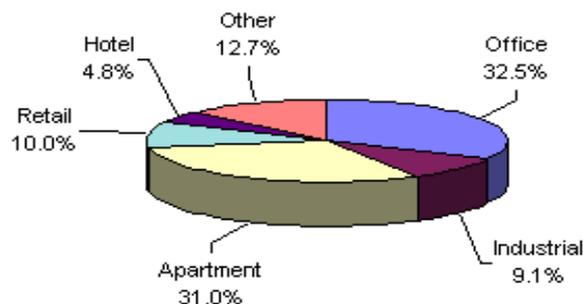
Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core*	\$0	0.00%	\$252,940,132	42.33%	\$252,940,132	30.36%
Timberland	\$37,377,447	15.87%	\$34,651,297	5.80%	\$72,028,744	8.65%
Value Added	\$131,524,516	55.85%	\$183,541,726	30.72%	\$315,066,242	37.82%
Opportunistic	\$66,597,218	28.28%	\$126,408,127	21.15%	\$193,005,345	23.17%
Total	\$235,499,182	100.00%	\$597,541,283	100.00%	\$833,040,464	100.00%

* Includes MT Office Portfolio

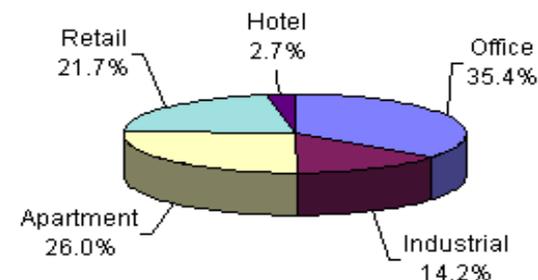
Timberland is the most recent addition to the real estate portfolio and represents approximately 6.0% of the total portfolio's NAV and approximately 9% of the aggregate exposure which includes unfunded commitments. Core real estate dominates assets in ground at just over 42% and now includes the directly owned Montana office buildings. Value Added and Opportunistic account for 30.7% and 21.1% respectively.

Q1 2012 Property Type – Market Value Exposure

Montana United States Portfolio



NCREIF Index



	Office	Industrial	Apartment	Retail	Hotel	Other ²	Total
Montana US Value ³	\$293.3	\$82.1	\$279.3	\$90.3	\$42.9	\$114.4	\$902.3
Montana US Total	32.5%	9.1%	31.0%	10.0%	4.8%	12.7%	100.0%
NCREIF Value ^{3,4}	105,699	42,387	77,714	64,814	7,985		\$298,598
NCREIF ¹	35.4%	14.2%	26.0%	21.7%	2.7%		100.0%
Difference	-2.9%	-5.1%	5.0%	-11.7%	2.1%	12.7%	
Montana Non-US Value ³	\$46.1	\$0.0	\$11.4	\$14.4	\$13.8	\$76.8	\$162.4
Montana Non-US Total	28.4%	0.0%	7.0%	8.8%	8.5%	47.3%	100.0%
Montana Total Value ³	\$339.4	\$82.1	\$290.7	\$104.7	\$56.7	\$191.2	\$1,064.7
Montana Total ¹	31.9%	7.7%	27.3%	9.8%	5.3%	18.0%	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 includes \$47,333,301 in mixed-use assets, \$8,324,013 in healthcare/senior living, \$10,045,537 in land, \$574,775 in storage, \$2,474,834 in debt assets, \$190,121 in parking, \$669,984 in manufactured assets, \$33,922,387 in timber and \$87,672,124 in Other Assets.

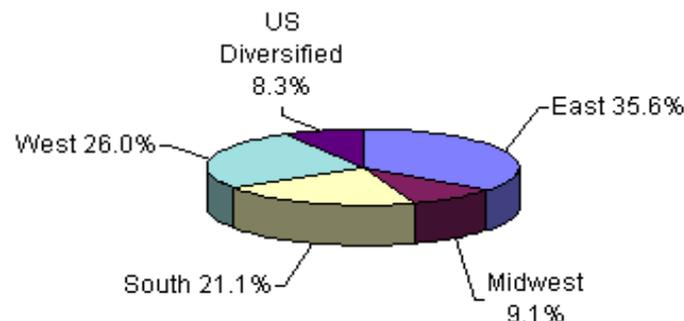
3) Values shown are in Millions.

4) The NCREIF gross market values represent the total gross asset values of the participating funds exclusive of any underlying debt. This amount differs from the index total due to rounding in the NCREIF report.

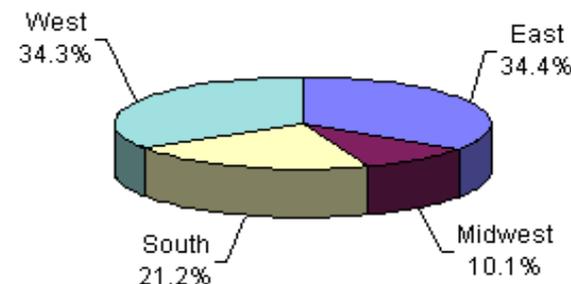
The real estate portfolio is well diversified across the major property types and is underweight relative to NCREIF in Office, Retail and Industrial and overweight in Apartments and Hotels. At 12.7%, Other represents the portfolio's exposure to Timberland, Mixed-Use properties, Land, Manufactured Housing, Storage, Parking, Senior Living and Healthcare related properties. As has been noted in the past, composition of the portfolio by property type is and will continue to be primarily a function of a manager's expertise and success in sourcing deals rather than a function of staff's desire to over or underweight a specific property type.

Q1 2012 Geography – Total Exposure

Montana United States Portfolio



NCREIF Index



	East	Midwest	South	West	US Diverse	Non-US	Total
Montana US Value ²	\$320.8	\$82.3	\$190.0	\$234.7	\$74.5		\$902.3
Montana US Total ¹	35.6%	9.1%	21.1%	26.0%	8.3%		100.0%
NCREIF Value ^{2,3}	102,597	30,253	63,414	102,335			298,598
NCREIF ¹	34.4%	10.1%	21.2%	34.3%			100.0%
Difference	1.2%	-1.0%	-0.1%	-8.3%	8.3%		
Montana Total Value ²	\$320.8	\$82.3	\$190.0	\$234.7	\$74.5	\$162.4	\$1,064.7
Montana Total ¹	30.1%	7.7%	17.8%	22.0%	7.0%	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) 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 geographical mix of the real estate portfolio is fairly aligned with NCREIF, although exposure in the West at 26.0% is 8.3% less than the index. 8.3% of the portfolio is broadly diversified across the remainder of the US and the portfolio's international exposure represents 15.3% of the mix.

Q1 2012 Time Weighted & Internal Rates of Return

Time Weighted Returns

	Current Quarter			Year to Date		1 - Year		3 - Year		Inception	
	NAV	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross
Clarion Lion Properties Fund	34,034,219	2.87%	3.12%	2.87%	3.12%	14.31%	15.39%	1.84%	2.93%	-2.35%	-1.31%
INVESCO Core Real Estate-USA	36,541,071	1.54%	1.77%	1.54%	1.77%	13.53%	14.54%	0.54%	1.45%	-2.78%	-1.88%
JP Morgan Strategic Properties Fund	103,958,041	2.72%	2.98%	2.72%	2.98%	14.52%	15.66%	4.14%	5.20%	-0.82%	0.19%
UBS-Trumbull Property Fund	60,445,894	2.73%	3.00%	2.73%	3.00%	11.54%	12.69%	-	-	14.58%	15.59%
Core Total	234,979,224	2.56%	2.81%	2.56%	2.81%	13.54%	14.65%	1.99%	3.00%	-0.44%	0.56%
Montana Office Portfolio	17,960,908	0.00%	0.00%	0.00%	0.00%	-	-	-	-	1.97%	1.97%
Timberland Total	34,651,297	0.65%	0.87%	0.65%	0.87%	6.13%	6.81%	-	-	6.13%	6.81%
Value Added Total	183,541,726	1.41%	1.96%	1.41%	1.96%	12.20%	14.19%	-0.40%	1.80%	0.11%	3.44%
Opportunistic Total	126,408,127	6.10%	6.48%	6.10%	6.48%	11.87%	13.79%	4.11%	8.16%	-18.43%	-14.68%
Total Portfolio	597,541,283	2.74%	3.10%	2.74%	3.10%	12.18%	13.68%	1.51%	3.48%	-2.08%	0.23%
Benchmark (gross)											
NCREIF	298,598,336,910		2.59%		2.59%		13.41%		5.96%		9.06%
NFI-ODCE	80,551,700,000		2.82%		2.82%		14.70%		4.10%		8.30%

Internal Rates of Return (Net of Fees)

Montana Office Portfolio	17,960,908	0.00%		0.00%	-					2.21%
Molpus Woodlands Fund III, LP	17,898,057	-0.37%		-0.37%	-					-2.68%
RMS Forest Growth III LP	16,753,240	1.74%		1.74%	9.05%					8.54%
Timberland	34,651,297	0.65%		0.65%	4.45%					4.17%
ABR Chesapeake Fund III	19,208,691	0.54%		0.54%	10.54%		1.36%			1.64%
ABR Chesapeake Fund IV	5,358,662	0.00%		0.00%	24.66%		-			14.99%
AG Core Plus Realty Fund II	12,874,955	1.57%		1.57%	17.01%		11.44%			6.32%
AG Core Plus Realty Fund III	7,254,213	-0.05%		-0.05%	-		-			-1.80%
Apollo Real Estate Finance Corp.	6,551,444	-0.91%		-0.91%	-7.75%		-8.72%			-6.06%
AREFIN Co-Invest	6,939,837	3.23%		3.23%	6.75%		-2.01%			-0.61%
DRA Growth & Income Fund VI	21,226,172	1.26%		1.26%	28.42%		9.47%			6.28%
DRA Growth & Income Fund VII	2,258,346	2.28%		2.28%	-		-			2.44%
Five Arrows Securities V, L.P.	21,379,716	1.64%		1.64%	14.20%		9.52%			7.89%
Hudson RE Fund IV Co-Invest	9,739,790	0.44%		0.44%	5.51%		-0.16%			0.44%
Hudson Realty Capital Fund IV	10,489,214	0.03%		0.03%	6.83%		-4.12%			-7.33%
Landmark Real Estate Partners VI	9,987,582	6.86%		6.86%	-		-			66.18%
Realty Associates Fund IX	20,570,443	2.06%		2.06%	13.16%		-			10.79%
Realty Associates Fund VIII	13,561,894	-1.14%		-1.14%	2.35%		-9.00%			-7.66%
Strategic Partners Value Enhancement Fund	16,140,767	3.00%		3.00%	14.33%		-6.57%			-3.25%
Value Added	183,541,726	1.41%		1.41%	13.36%		1.59%			0.71%
AG Realty Fund VII L.P.	13,562,672	0.88%		0.88%	15.43%		12.60%			8.12%
AG Realty Fund VIII L.P.	3,329,815	-1.12%		-1.12%	-		-			-3.53%
Beacon Capital Strategic Partners V	10,196,545	2.67%		2.67%	6.02%		-1.95%			-16.70%
Carlyle Europe Real Estate Partners III	18,650,101	3.61%		3.61%	6.91%		7.45%			-3.51%
CIM Fund III, L.P.	24,318,418	20.17%		20.17%	20.93%		20.97%			9.50%
GEM Realty Fund IV	6,666,824	11.56%		11.56%	10.94%		-			13.11%
JER Real Estate Partners - Fund IV	3,505,347	3.01%		3.01%	5.28%		14.63%			-6.61%
Liquid Realty IV	12,308,697	8.35%		8.35%	8.82%		5.52%			-4.32%
MGP Asia Fund III, LP	19,038,265	-0.30%		-0.30%	17.02%		31.02%			0.79%
MSREF VI International	6,389,940	3.38%		3.38%	8.12%		-8.87%			-34.05%
O'Connor North American Property Partners II	8,441,503	5.17%		5.17%	5.51%		-0.80%			-18.60%
Opportunistic	126,408,127	6.09%		6.09%	11.38%		9.26%			-8.06%
Total	362,562,058	2.86%		2.86%	11.27%		4.37%			-2.98%

The total real estate portfolio turned in another positive quarter as general real estate market conditions continue to stabilize and show some signs of improvement. Core performance moderated slightly relative to the prior quarter, though it continues its positive momentum. Value Added significantly underperformed relative to Q4, but continues its upward trajectory and outperformed relative to the prior period's 1yr, 3yr and ITD periods. Opportunistic significantly outperformed relative to Q4 and similarly continues its upward trajectory outperforming the prior period's 3yr and ITD periods.

Q1 2012 Commitment Summary

Real Estate Portfolio Status Report

All Investments

(as of March 31, 2012)

	Vintage Year	Since Inception									Investment Multiple
		Capital Committed	Capital Contributed ¹	Contributed %	Remaining Commitment	Capital Distributed	Net Asset Value	NAV %	Total Exposure	Total Exposure%	
Core		238,236,254	238,236,254	100%	-	19,177,722	234,979,224	39.32%	234,979,224	28.21%	1.04
Clarion Lion Properties Fund	2006	48,236,254	48,236,254	100%	-	8,697,400	34,034,219	5.70%	34,034,219	4.09%	0.86
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	100%	-	4,901,942	36,541,071	6.12%	36,541,071	4.39%	0.89
JP Morgan Strategic Property Fund	2007	95,000,000	95,000,000	100%	-	1,759,599	103,958,041	17.40%	103,958,041	12.48%	1.09
UBS-Trumbull Property Fund	2010	50,000,000	50,000,000	100%	-	3,818,780	60,445,894	10.12%	60,445,894	7.26%	1.26
Montana Office Portfolio	2011	17,674,045	17,674,045	100%	-	103,160	17,960,908	3.01%	17,960,908	2.16%	1.02
Timberland		75,000,000	37,622,553	50%	37,377,447	4,160,292	34,651,297	5.80%	72,028,744	8.65%	1.03
Molpus Woodlands Fund III, LP	2011	50,000,000	18,250,000	37%	31,750,000	-	17,898,057	3.00%	49,648,057	5.96%	0.98
RMS Forest Growth III LP	2011	25,000,000	19,372,553	77%	5,627,447	4,160,292	16,753,240	2.80%	22,380,687	2.69%	1.08
Value Added		336,200,000	204,675,484	61%	131,524,516	27,664,881	183,541,726	30.72%	315,066,242	37.82%	1.02
ABR Chesapeake Fund III	2006	20,000,000	20,000,000	100%	-	2,125,362	19,208,691	3.21%	19,208,691	2.31%	1.07
ABR Chesapeake Fund IV	2010	17,000,000	5,100,000	30%	11,900,000	181,050	5,358,662	0.90%	17,258,662	2.07%	1.09
AG Core Plus Realty Fund II	2007	20,000,000	16,742,334	84%	3,257,666	6,870,011	12,874,955	2.15%	16,132,621	1.94%	1.18
AG Core Plus Realty Fund III	2011	35,000,000	7,350,000	21%	27,650,000	-	7,254,213	1.21%	34,904,213	4.19%	0.99
Apollo Real Estate Finance Corp.	2007	10,000,000	10,000,000	100%	-	1,759,996	6,551,444	1.10%	6,551,444	0.79%	0.83
AREFIN Co-Invest	2008	10,000,000	10,000,000	100%	-	2,952,721	6,939,837	1.16%	6,939,837	0.83%	0.99
DRA Growth & Income Fund VI	2007	35,000,000	20,860,000	60%	14,140,000	5,657,370	21,226,172	3.55%	35,366,172	4.25%	1.18
DRA Growth & Income Fund VII	2011	30,000,000	2,250,000	8%	27,750,000	2,267,236	2,258,346	0.38%	30,008,346	3.60%	1.01
Five Arrows Securities V, L.P.	2007	30,000,000	21,601,995	72%	8,398,005	3,592,758	21,379,716	3.58%	29,777,721	3.57%	1.14
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	100%	-	430,314	9,739,790	1.63%	9,739,790	1.17%	1.02
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	100%	-	244,542	10,489,214	1.76%	10,489,214	1.26%	0.72
Landmark Real Estate Partners VI	2011	20,000,000	7,371,155	37%	12,628,845	611,519	9,987,582	1.67%	22,616,427	2.71%	1.43
Realty Associates Fund IX	2008	20,000,000	19,200,000	96%	800,000	1,581,163	20,570,443	3.44%	21,370,443	2.57%	1.15
Realty Associates Fund VIII	2007	20,000,000	20,000,000	100%	-	836,438	13,561,894	2.27%	13,561,894	1.63%	0.72
Stockbridge Value Fund, LP	2011	25,000,000	-	-	25,000,000	-	-	-	25,000,000	-	-
Strategic Partners Value Enhancement Fund	2007	19,200,000	19,200,000	100%	-	614,400	16,140,767	2.70%	16,140,767	1.94%	0.87
Opportunistic		248,008,422	183,911,204	74%	66,597,218	24,099,519	126,408,127	21.15%	193,005,345	23.17%	0.80
AG Realty Fund VII L.P.	2007	20,000,000	15,454,000	77%	4,546,000	4,759,231	13,562,672	2.27%	18,108,672	2.17%	1.19
AG Realty Fund VIII L.P.	2011	20,000,000	6,000,000	30%	14,000,000	2,500,000	3,329,815	0.56%	17,329,815	2.08%	0.97
Beacon Capital Strategic Partners V	2007	25,000,000	20,500,000	82%	4,500,000	464,109	10,196,545	1.71%	14,696,545	1.76%	0.52
Carlyle Europe Real Estate Partners III ³	2007	30,994,690	20,212,113	65%	10,782,577	83,434	18,650,101	3.12%	29,432,678	3.53%	0.91
CIM Fund III, L.P.	2007	25,000,000	19,158,560	77%	5,841,440	202,748	24,318,418	4.07%	30,159,858	3.62%	1.16
GEM Realty Fund IV	2009	15,000,000	6,300,000	42%	8,700,000	330,245	6,666,824	1.12%	15,366,824	1.84%	1.10
JER Real Estate Partners - Fund IV	2007	20,000,000	16,853,466	84%	3,146,534	9,516,603	3,505,347	0.59%	6,651,881	0.80%	0.77
Liquid Realty IV	2007	22,013,732	18,818,202	85%	3,195,530	5,507,232	12,308,697	2.06%	15,504,226	1.86%	0.87
MGP Asia Fund III, LP	2007	30,000,000	18,647,200	62%	11,352,800	35,146	19,038,265	3.19%	30,391,065	3.65%	1.02
MSREF VI International ⁴	2007	25,000,000	27,500,000	110%	-	17,313	6,389,940	1.07%	6,389,940	0.77%	0.23
O'Connor North American Property Partners II	2008	15,000,000	14,467,662	96%	532,338	683,457	8,441,503	1.41%	8,973,841	1.08%	0.61
Montana Real Estate		915,118,721	682,119,540	75%	235,499,182	75,205,573	597,541,283		833,040,464		0.97

AG Core Realty Fund III now reflects the additional \$10m committed to them late in 4Q11. Also noteworthy is the \$25m commitment staff made to Stockbridge Value Fund, LP at the end of 2Q12.

MONTANA DOMESTIC EQUITY POOL
Rande Muffick, CFA, Portfolio Manager
August 22, 2012

6/30/2012 Domestic Stock Pool By Manager			
<u>Manager Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved</u> <u>Range</u>
BLACKROCK EQUITY INDEX FUND	1,726,636,906	59.74%	
STATE STREET SPIF ALT INV	10,808,745	0.37%	
LARGE CAP PASSIVE Total	1,737,445,651	60.11%	45-70%
ENHANCED INVEST TECHNOLOGIES	83,485,151	2.89%	
T ROWE PRICE ASSOCIATES INC	248,190,989	8.59%	
WESTERN ASSET US INDX PLUS LLC	1,575,280	0.05%	
LARGE CAP ENHANCED Total	333,251,420	11.53%	8-12%
ANALYTIC INVESTORS MU3B	82,936,222	2.87%	
JP MORGAN ASSET MGMT MU3E	246,615,331	8.53%	
130-30 Total	329,551,553	11.40%	8-12%
COMBINED LARGE CAP Total	2,400,248,624	83.04%	72-91%
ARTISAN MID CAP VALUE	107,720,304	3.73%	
BLACKROCK MIDCAP EQUITY IND FD	92,760,284	3.21%	
TIMESQUARE CAPITAL MGMT	108,214,463	3.74%	
MID CAP Total	308,695,051	10.68%	6-17%
DIMENSIONAL FUND ADVISORS INC	70,779,549	2.45%	
ISHARES S+P SMALLCAP 600 INDEX	16,287,921	0.56%	
ALLIANCE BERNSTEIN SMALL CAP GROWTH	23,686,067	0.82%	
VAUGHAN NELSON INV	70,292,366	2.43%	
SMALL CAP Total	181,045,903	6.26%	3-11%
MDEP Total	2,889,989,578	100.0%	

The table above displays the Montana Domestic Equity Pool (MDEP) allocation at quarter end across market cap segments and manager styles. At this time, all weightings are within the approved ranges. Please note that the approved ranges for the pool reflect the implementation of the restructuring decisions made during the previous Board meeting.

The U.S. equity market came back to reality in the second quarter. Slowing corporate profitability growth and a largely unresolved sovereign debt crisis combined with uncertainty about America's political and fiscal future to sink domestic stocks. Mid caps suffered the most posting a loss of -4.9%. Small caps lost -3.6% and large caps fell -2.8%. The three month tally could have been worse though, as stocks did rally in June. Some perceived progress on the Eurozone crisis led to a quarter end rally and mitigated an otherwise dismal performance by stocks. MDEP was overweight mid caps and small caps in the quarter, so the market cap allocation detracted from overall pool performance.

2Q 2012			2012 YTD				
	Value	Blend	Growth		Value	Blend	Growth
Large	-2.2%	-2.8%	-4.0%	Large	8.7%	9.5%	10.1%
Mid	-3.3%	-4.4%	-5.6%	Mid	7.8%	8.0%	8.1%
Small	-3.0%	-3.5%	-3.9%	Small	8.2%	8.5%	8.8%

Performance comparisons between value stocks and growth stocks within market caps favored value. Within large caps, growth stocks declined -4.0% compared to -2.2% for value. Within in mid caps, growth stocks trailed as well, falling -5.6% compared to -3.3% for value. And within small caps, growth again lagged value albeit by a narrower margin, declining -3.9% compared to -3.0%. MDEP was tilted slightly toward value stocks for most of the quarter so style allocation had little effect on the overall quarterly performance of the pool.



Interestingly, the volatility index spiked in the quarter, yet it did not come close to the previous levels encountered during market turmoil that we have seen in the past few years. The tension measure leaped to a high of 26.6 on June 1, only to recede into the teens by quarter end.

Active management for the quarter was disappointing. Within large caps, the enhanced style bucket equaled the benchmark while the style based (i.e. growth and value) and the partial long/short buckets

underperformed. Within non-large caps, the mid cap value, small cap value, and small cap growth buckets underperformed while the mid cap growth and small cap core buckets outperformed.

Manager performance for the year was equally discouraging. Within large caps, all manager groups underperformed. This included the enhanced, style based and partial/long short buckets. Mid cap value, mid cap growth, and small cap core outperformed, while small cap value and small cap growth underperformed.

MDEP performance lagged the S&P 1500 for the quarter and the fiscal year. The pool lost -3.6% for the quarter compared to -3.0% for the benchmark. For the fiscal year, MDEP posted a 3.0% gain while the benchmark returned 4.6%. As indicated in the previous paragraph, the disappointing performance in both time periods was largely due to manager selection rather than allocation.

Going forward the structure within the large cap allocation has been addressed and the transition completed. Further diversification of the actively managed portfolios within the mid cap and small cap allocations is likely over the next year. The overweight in mid caps and small caps will continue and could be increased should the markets provide an opportunity.

DOMESTIC EXPOSURE-MARKET CAP %

June 30, 2012

MANAGERS	MEGA	GIANT	LARGE			MID	SMALL	MICRO	WTD AVG
	\$200B+	\$100-\$200B	\$50-\$100B	\$20-\$50B	\$10-\$20B	\$2.5-\$10B	\$500MM-\$2.5B	< \$500MM	MARKET CAP (\$B)
Analytic Investors, Inc	20.1	13.1	11.5	17.4	17.5	21.7	-4.4	-1.2	113.3
Artisan Partners	0.0	--	--	--	37.9	58.1	4.0	--	7.8
Dimensional Fund Advisors	--	--	--	--	--	3.9	74.3	21.8	1.1
INTECH Investment Management	17.1	10.3	11.1	18.5	24.2	18.5	0.5	--	90.8
J.P. Morgan	10.2	20.7	18.3	29.5	16.0	3.6	-0.4	--	106.2
T. Rowe Associates	17.6	16.6	16.0	20.7	17.2	11.8	0.1	--	108.1
TimesSquare Cap Mgmt	--	--	--	4.5	17.4	71.4	6.7	--	7.8
Vaughan Nelson Mgmt	--	--	--	--	--	37.2	62.8	0.0	2.2
Western Asset US Index Plus	17.5	17.1	17.7	21.2	16.4	9.8	0.2	--	109.8
BlackRock S&P 500 Index Fund	17.5	17.1	17.6	21.2	16.2	9.7	0.2	--	109.9
BlackRock Midcap Equity Index Fund	--	--	--	--	2.8	70.2	26.9	--	3.9
ALL DOMESTIC EQUITY PORTFOLIOS	12.4	12.9	12.7	17.0	15.8	19.9	7.9	0.9	82.7
Benchmark: S&P Composite 1500	15.5	15.2	15.6	18.8	14.6	14.6	5.2	0.4	97.5
Over/underweight(-)	-3.1	-2.3	-3.0	-1.8	1.2	5.3	2.7	0.5	

*re-link next quarter (0's were made --)

DOMESTIC PORTFOLIO CHARACTERISTICS

June 30, 2012

MANAGERS

	Market Value (mm)	Number of Securities	3Yr Historical EPS Growth	Price/Earnings	Price/Book	Dividend Yield
Analytic Investors, Inc	85.5	160	22.9	10.9	2.2	1.9
Artisan Partners	107.8	59	4.6	12.4	1.6	1.9
Dimensional Fund Advisors	70.6	2,440	18.1	15.4	1.6	1.3
INTECH Investment Management	83.7	361	13.3	15.5	2.4	2.1
J.P. Morgan	249.5	249	13.1	14.5	1.8	1.8
T. Rowe Associates	248.4	271	14.7	15.0	2.2	1.9
TimesSquare Cap Mgmt	108.4	76	24.8	17.8	2.8	0.7
Vaughan Nelson Mgmt	70.0	67	14.3	15.8	1.6	1.5
Western Asset US Index Plus	1.6	500	14.2	14.6	2.2	2.1
Blackrock Equity Index Fund	812.2	502	14.1	14.6	2.2	2.1
Blackrock Midcap Equity Index Fund	92.6	401	13.7	17.5	2.0	1.5

All Domestic Equity Portfolios

1,981.3	3,345	14.7	14.7	2.0	1.8
----------------	--------------	-------------	-------------	------------	------------

BENCHMARKS

S&P Composite 1500	1,500	14.2	14.9	2.1	2.0
S&P/Citigroup 1500 Pure Growth	382	30.7	18.8	3.1	0.8
S&P/Citigroup 1500 Pure Value	359	3.1	12.0	0.9	1.4
S&P 500	500	14.2	14.6	2.2	2.1
Russell 1000	991	14.5	14.8	2.1	2.0
Russell 1000 Growth	572	22.0	18.1	4.2	1.6
Russell 1000 Value	690	6.9	12.5	1.4	2.5
Russell Midcap	800	14.3	16.6	2.0	1.7
Russell Midcap Growth	459	19.2	20.5	4.0	1.1
Russell Midcap Value	560	9.8	14.1	1.4	2.2
Russell 2000	2,002	17.2	15.1	1.7	1.5
Russell 2000 Growth	1,135	22.4	17.9	3.2	0.8
Russell 2000 Value	1,419	11.9	13.0	1.2	2.2

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 Muffick, Portfolio Manager – Public Equities

Date: August 22, 2012

Subject: Repositioning of the Montana Domestic Equity Pool (MDEP)

The repositioning objective was to reduce active management within the large cap portion of the domestic equity pool in favor of increasing the overall passive allocation, per the recommendation supported by the Board at its May meeting.

The size of the domestic transition amounted to \$865 million and included the following managers/funds:

<u>Manager</u>	<u>Action</u>	<u>Amount</u>
BlackRock Equity Index 500	Increased	\$865 million
Analytic Investors 130/30	Reduced	\$38 million
JP Morgan 130/30	Reduced	\$61 million
INTECH	Reduced	\$104 million
T Rowe Price	Reduced	\$57 million
Barrow Hanley	Terminated	\$192 million
QMA	Terminated	\$121 million
Columbus Circle	Terminated	\$147 million
Rainier	Terminated	\$145 million

The transition was performed by BlackRock during the second week of June. The overall cost of the transition amounted to 19.6 basis points of the market value of the transition or approximately \$1,716,700. The cost was largely due to the underperformance of the legacy active portfolios in aggregate. On the trading day, increased market volatility was encountered immediately upon the market open and throughout the day with the underperformance of the active portfolios fluctuating between 20 and 40 basis points for most of the day and spiking around market close. BlackRock succeeded in mitigating some of this underperformance through its trading efforts.

No crossing of stock was achieved, yet BlackRock had committed to capping the commission costs of the transition to the estimate provided in the pre-trade analysis which included internal crossing assumptions. Therefore commissions were capped to be the equivalent of no more than 1 cent per share or a total of \$147,719.

The portfolio displayed in this quarter's MDEP strategy reflects the changes resulting from this transition.

MONTANA INTERNATIONAL EQUITY POOL

Rande Muffick, CFA, Portfolio Manager

August 22, 2012

6/30/2012 International Stock Pool By Manager			
Manager Name	Market Value	%	Approved Range
MONEY MARKET FD FOR EBT	204	0.00%	
ARTIO GLOBAL MU1G	53,155	0.00%	
BATTERYMARCH INTL EQUITY	103,009,145	8.34%	
BLACKROCK GL EX US ALPHA TILT	97,908,656	7.92%	
BLACKROCK ACWI EX US SUPERFUND	558,368,947	45.19%	
BLACKROCK MSCI EM MKT FR FD B	24,573,311	1.99%	
EAFE STOCK PERFORMANCE INDEX	17,656,091	1.43%	0-10%
CORE Total	801,569,509	64.88%	50-70%
ACADIAN ACWI EX US VALUE	81,646,962	6.61%	
BERNSTEIN ACWI EX	88,962,366	7.20%	
VALUE Total	170,609,329	13.81%	10-20%
HANSBERGER INTL EQUITY GROWTH	92,137,725	7.46%	
MARTIN CURRIE ACWI X	93,097,722	7.53%	
GROWTH Total	185,235,446	14.99%	10-20%
BLACKROCK ACWI EX US SMALL CAP	20,221,306	1.64%	
DFA INTL SMALL CO PORTFOLIO	57,923,641	4.69%	
SMALL CAP Total	78,144,947	6.32%	5-15%
MTIP Total	1,235,559,231	100.00%	

The table above displays the Montana International Equity Pool (MTIP) allocation at quarter end across market cap segments and manager styles. At this time, all weightings are within the approved ranges.

Much of the early year gains in international equity markets were eroded in the second quarter with the MSCI ACWI ex US Index falling -7.6%. As has been the case for some time, a turn for the worse in macroeconomic and political factors stemming from the euro zone sovereign debt crisis sent investors scurrying to lock in first quarter profits. There were also concerns that the U.S. economic recovery was beginning to backtrack and growth in China continued to lose momentum.

Near quarter end there were some developments that bolstered investor confidence as the global indices had a positive June, led by European equities. The formation of a Greek government and the apparent softening of Germany's opposition to bank bailouts helped mitigate the damage done to equity portfolios during the quarter.

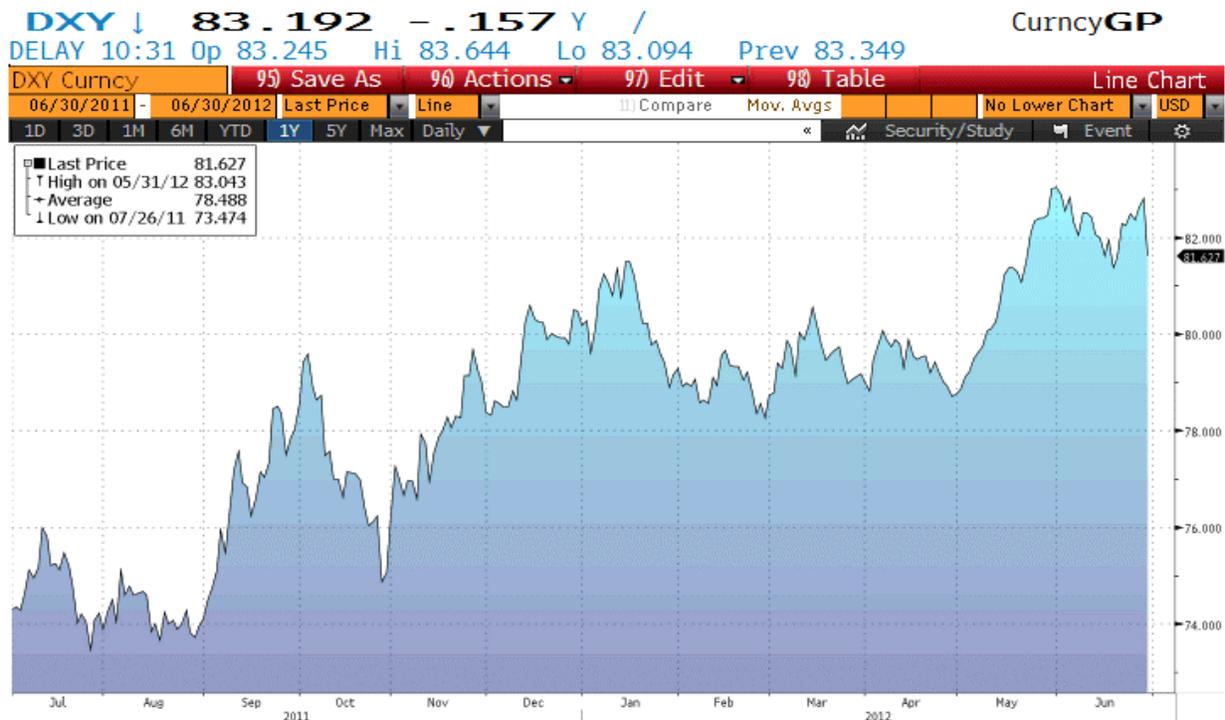
Country market performance reflected the nervousness of international investors as all markets registered declines. Greece and Portugal were among the worst markets, each down over -20%, as the weakest of the sovereigns saw investors avoid equities traded on their exchanges.

1) Settings		2) Actions		Page 1/6 Comparative Return			
Range	03/30/2012	-	06/29/2012	Period	Daily	No. of Period	91 Day(s)
Security	Currency	Price Appreciation	Total Return	Difference	Annual Eq		
1. MXEA Index	USD	-8.37%	-6.93%	1.86%	-25.03%		
2. MXEF Index	USD	-10.00%	-8.79%		-30.87%		
3. MXEASC Index	USD	-9.59%	-8.45%	.34%	-29.83%		



Emerging market stocks and small cap stocks performed most poorly in the quarter. Emerging market stocks lost -8.8% while small caps lost -8.5%. Large caps didn't fare much better, losing -6.9%. MTIP is underweight small caps when compared to the custom benchmark while being overweight emerging market stocks. The overweight in EM diminished slightly from last quarter to 0.48% more than the benchmark.

Style advantage was basically nonexistent in the quarter as the selloff affected stocks equally across the board. Growth stocks and value stocks experienced similarly disappointing performance with growth stocks having lost -7.5% in the quarter while value stocks declined -7.8%. MTIP has a slight growth tilt at the present time.



The U.S. dollar rose significantly versus most other major currencies as investors sought safe haven status in the greenback. Overall, the dollar's appreciation of over 3% detracted from the returns experienced by investors in assets denominated in other currencies.

Active management was mixed in the quarter with large cap growth and large cap core providing above benchmark returns while large cap value and small cap underperformed. For the fiscal year, active management had a more difficult time as all large cap buckets lagged their benchmarks. Only small cap provided above benchmark returns.

Overall, MTIP performance was in line for the quarter as the pool returned -7.77% compared to -7.71% for the custom benchmark. The fiscal year performance was another story, however, as the pool underperformed by 76 basis points. As with the domestic pool, manager selection was the major detractor.

Going forward the passive weight within the large cap allocation is expected to increase per the new pool structure and further diversification of the active portion of the small cap allocation is likely. Small caps will be increased at some point should the markets provide an opportunity.

INTERNATIONAL EXPOSURE-MARKET CAP %

June 30, 2012

Managers	MEGA	GIANT	LARGE			MID	SMALL	MICRO	WTD AVG
	\$200B+	\$100-\$200B	\$50-\$100B	\$20-\$50B	\$10-\$20B	\$2.5-\$10B	\$500MM-\$2.5B	< \$500MM	MARKET CAP (\$B)
Acadian Asset Management	2.1	9.6	16.9	22.2	12.6	17.4	10.0	9.3	26.2
Batterymarch Financial Mgmt	0.5	13.0	16.6	17.0	17.8	30.6	4.1	--	34.4
Bernstein Inv Mgt & Research with look throughs	--	14.9	18.7	18.2	24.4	17.3	5.8	0.1	33.4
BlackRock Global Ex US Alpha Tilt Fd	1.0	11.6	20.3	19.2	12.3	26.0	9.5	0.2	33.5
DFA International Small Cap	--	--	--	--	--	14.9	62.3	22.8	1.2
Hansberger Global Investors	0.0	10.1	12.4	32.0	18.3	17.9	9.3	--	26.2
Martin Currie with look throughs	--	13.6	13.9	28.1	25.2	15.4	3.9	--	36.7
BlackRock ACWI Ex US Superfund A	0.5	12.5	16.4	25.5	17.4	23.3	2.9	1.5	35.8
BlackRock Intl Small Cap Index look through	--	--	--	--	0.3	12.9	66.4	20.3	1.1
BlackRock Emerging Market Fund look through	2.0	6.6	10.0	19.9	24.1	29.1	7.6	0.8	18.6
ALL INTERNATIONAL EQUITY PORTFOLIOS	1.5	10.3	17.2	22.3	16.8	21.8	7.9	1.8	36.1
International Custom Benchmark	0.5	12.6	16.4	25.5	17.5	23.8	3.6	0.2	36.9
Over/underweight(-)	1.0	-2.3	0.8	-3.2	-0.6	-2.1	4.3	1.6	

INTERNATIONAL EXPOSURE-SECTOR %

June 30, 2012

MANAGERS

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	10.5	1.0	17.5	30.8	4.3	9.1	6.7	8.1	9.4	2.5
Batterymarch Financial Mgmt	9.8	9.6	9.7	25.3	8.0	10.1	6.1	10.6	7.4	3.4
Bernstein Inv Mgt & Research with look throughs	14.9	5.5	14.6	23.4	6.4	6.4	6.7	9.6	8.5	3.1
Blackrock Global Ex US Alpha Tilt Fd	11.0	10.4	10.1	21.9	8.3	12.0	7.7	9.9	5.9	2.8
DFA International Small Cap	18.4	6.7	5.9	13.4	5.4	25.0	9.3	12.0	1.3	2.4
Hansberger Global Investors	14.5	13.1	6.3	15.2	6.5	11.3	14.7	11.6	4.8	1.9
Martin Currie with look throughs	15.4	14.7	9.9	15.1	6.9	9.1	8.5	13.4	3.1	3.8
Blackrock ACWI ex-US Superfund	9.3	10.3	10.7	23.5	7.2	10.4	6.4	10.9	6.1	3.9
BlackRock Intl Small Cap Index look through	16.8	6.8	6.0	18.5	5.5	19.4	9.7	12.5	1.1	2.5
BlackRock Emerging Market Fund look through	8.0	8.5	12.6	24.0	1.1	6.6	13.9	12.4	8.4	3.7
All International Equity Portfolios	11.4	9.6	10.6	22.2	6.8	10.9	7.6	10.8	6.0	3.4
International Custom Benchmark	9.5	10.3	10.8	24.0	7.3	10.7	6.5	11.0	6.0	3.9
Over/underweight(-)	1.9	-0.8	-0.2	-1.8	-0.4	0.2	1.1	-0.2	0.0	-0.5

INTERNATIONAL PORTFOLIO CHARACTERISTICS

June 30, 2012

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/Earnings	Price/Book	Dividend Yield
International Accounts with look throughs	1,234.8	8,864	16.7	10.9	1.3	3.44

International Equity Managers

Acadian Asset Management	81.7	405	20.1	8.1	0.9	3.63
Batterymarch Financial Mgmt	102.4	256	17.6	10.2	1.4	3.62
Bernstein Inv Mgt & Research with look throughs	89.4	213	16.1	8.4	1.0	4.01
BlackRock Global Ex US Alpha Tilt Fd	97.9	832	20.0	10.2	1.3	3.53
DFA International Small Cap	57.7	4,710	11.7	11.8	1.0	3.13
Hansberger Global Investors	92.0	62	21.4	14.0	2.0	2.21
Martin Currie with look throughs	93.0	65	18.2	14.0	1.8	2.86
BlackRock ACWI Ex US Superfund A	558.3	1,867	14.7	11.3	1.4	3.60
BlackRock Intl Small Cap Index look through	20.2	4,376	17.6	11.8	1.1	3.07
BlackRock Emerging Market Fund look through	24.6	829	25.2	10.6	1.5	3.07

Benchmarks

MSCI All Country World Ex-United States		1,840	14.9	11.4	1.4	3.59
MSCI All Country World Ex-United States Growth		1,036	19.4	14.1	2.1	2.61
MSCI All Country World Ex-United States Value		1,025	10.5	9.5	1.0	4.56
MSCI EAFE Small Cap		2,275	14.6	12.2	1.0	3.18
MSCI World Ex-United States Small Cap		2,520	14.6	12.2	1.1	3.19
MSCI All Country Pacific		933	18.5	12.0	1.2	3.14
MSCI Europe		445	11.7	10.9	1.4	4.13

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: August 22, 2012

Subject: Public Equity External Managers Watch List – Quarterly Update

During the quarter there was one manager termination from the Watch List. Columbus Circle Domestic Large Cap Growth was terminated as part of the restructuring within the Montana Domestic Equity Pool which occurred in June.

Alliance Bernstein International Large Cap Value was added to the Watch List this quarter. The portfolio continues to underperform its benchmark for three-year and five-year periods and has had a particularly disappointing twelve month period.

TimesSquare Domestic Mid Cap Growth was removed from the Watch List. Relative performance has turned the corner as the portfolio has outperformed its benchmark for four consecutive quarters. With that recent performance, the portfolio has outperformed over one year, five years, and since inception.

**PUBLIC EQUITIES
MANAGER WATCH LIST
August 2012**

<u>Manager</u>	<u>Style Bucket</u>	<u>Reason</u>	<u>\$ Invested (mil)</u>	<u>Inclusion Date</u>
Martin Currie	International – LC Growth	Performance, Risk Controls	\$95	February 2009
Alliance Bernstein	International – LC Value	Performance	\$88	August 2012

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: David Ewer, Executive Director

Date: August 22, 2012

Subject: Investment Consultant Responses

The request for proposal (RFP) for investment consulting services was issued on Monday, June 25, 2012 and closed on Monday, July 23, 2012. The following six (6) firms responded to the RFP:

- NEPC, LLC, Cambridge, MA
- Pension Consulting Alliance, Inc., Portland, OR
- R.V. Kuhns & Associates, Inc., Portland, OR
- Strategic Investment Solutions, Inc., San Francisco, CA
- Summit Strategies Group, St. Louis, MO
- Wilshire Associates, Inc.

An Investment Consultant Committee meeting has been scheduled for Thursday, September 6, 2012 to determine the finalists.

**MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX**

ADR.....	American Depository Receipts
AOF.....	All Other Funds
BOI.....	Board of Investments
CFA.....	Chartered Financial Analyst
EM.....	Emerging Market
FOIA.....	Freedom of Information Act
FWP.....	Fish Wildlife and Parks
IPS.....	Investment Policy Statement
MBOH.....	Montana Board of Housing
MBOI.....	Montana Board of Investments
MDEP.....	Montana Domestic Equity Pool
MFFA.....	Montana Facility Finance Authority
MPEP.....	Montana Private Equity Pool
MPT.....	Modern Portfolio Theory
MSTA.....	Montana Science and Technology Alliance
MTIP.....	Montana International Pool
MTRP.....	Montana Real Estate Pool
MTSBA.....	Montana School Boards Association
MVO.....	Mean-Variance Optimization
NAV.....	Net Asset Value
PERS.....	Public Employees' Retirement System
PFL.....	Partnership Focus List
QZAB.....	Qualified Zone Academy Bonds
QSCB.....	Qualified School Construction Bonds

**MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX**

RFBP..... Retirement Funds Bond Pool
RFP.....Request for Proposal
SSBCI State Small Business Credit Initiative
STIPShort Term Investment Pool
TFBPTrust Funds Bond Pool
TFIPTrust Funds Investment Pool
TIF..... Tax Increment Financing
TIFD Tax Increment Financing District
TRS..... Teachers' Retirement System
VIX Volatility Index

Montana Board of Investments 2012 Meeting Schedule

2012	M	T	W	T	F	S	S
	26	27	28	29	30	31	1
Jan 2012	2	3	4	5	6	7	8
	9	10	11	12	13	14	15
	16	17	18	19	20	21	22
	23	24	25	26	27	28	29
	30	31	1	2	3	4	5
Feb 2012	6	7	8	9	10	11	12
	13	14	15	16	17	18	19
	20	21	22	23	24	25	26
	27	28	29	1	2	3	4
Mar 2012	5	6	7	8	9	10	11
	12	13	14	15	16	17	18
	19	20	21	22	23	24	25
	26	27	28	29	30	31	1
Apr 2012	2	3	4	5	6	7	8
	9	10	11	12	13	14	15
	16	17	18	19	20	21	22
	23	24	25	26	27	28	29
	30	1	2	3	4	5	6
May 2012	7	8	9	10	11	12	13
	14	15	16	17	18	19	20
	21	22	23	24	25	26	27
Jun 2012	28	29	30	31	1	2	3
	4	5	6	7	8	9	10
	11	12	13	14	15	16	17
Jul 2012	18	19	20	21	22	23	24
	25	26	27	28	29	30	1
	2	3	4	5	6	7	8
Aug 2012	9	10	11	12	13	14	15
	16	17	18	19	20	21	22
	23	24	25	26	27	28	29
Sep 2012	30	31	1	2	3	4	5
	6	7	8	9	10	11	12
	13	14	15	16	17	18	19
Oct 2012	20	21	22	23	24	25	26
	27	28	29	30	31	1	2
	3	4	5	6	7	8	9
Nov 2012	10	11	12	13	14	15	16
	17	18	19	20	21	22	23
	24	25	26	27	28	29	30
	1	2	3	4	5	6	7
Dec 2012	8	9	10	11	12	13	14
	15	16	17	18	19	20	21
	22	23	24	25	26	27	28
	29	30	31	1	2	3	4
Jan 2013	5	6	7	8	9	10	11
	12	13	14	15	16	17	18
	19	20	21	22	23	24	25
	26	27	28	29	30	1	2
Feb 2013	3	4	5	6	7	8	9
	10	11	12	13	14	15	16
	17	18	19	20	21	22	23
	24	25	26	27	28	29	30
Mar 2013	31	1	2	3	4	5	6
	7	8	9	10	11	12	13
	14	15	16	17	18	19	20
	21	22	23	24	25	26	27

February 21-22
(February 20th: State Holiday - Lincoln's & Washington's Birthday)

April 3

May 22-23 (possibly an out of town meeting)
(May 28th: State Holiday - Memorial Day)

August 21-22

October 4
(October 8th: State Holiday - Columbus Day)

November 13-14
(November 6th: State Holiday - General Election Day)
(November 12th: State Holiday - Veteran's Day)

MONTANA BOARD OF INVESTMENTS PUBLIC MARKETS MANAGER EVALUATION POLICY

INTRODUCTION

The purpose of this policy is to broadly define the monitoring and evaluation of external public markets managers. This policy also provides a basis for the retention and/or termination of managers employed within the Montana Domestic Equity Pool (MDEP), the Montana International Equity Pool (MTIP), the Retirement Funds Bond Pool (RFBP), and the Trust Funds Investment Pool (TFIP).

The costs involved in transitioning assets between managed portfolios can be significant and have the potential to detract from 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 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 the 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.

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.