

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

February 21-22, 2012

AGENDA – DAY 1

COMMITTEE MEETINGS

- A. Loan Committee** **9:00 AM**
1. Tax Increment Financing - Decision
 2. Anaconda School District INTERCAP Loan Request – Decision
 3. Commercial Loans
 4. Montana Science & Technology - Handout
 5. Public Comment – *Public Comment on issues with Committee Jurisdiction*
- B. Human Resource Committee** **10:30 AM**
1. Executive Director General Comments
 2. Exempt Staff 1% Compensation Adjustment - Decision
 3. Staff Reorganization – Decision
 4. Public Comment – *Public Comment on issues with Committee Jurisdiction*

PHOTO WITH GOVERNOR SCHWEITZER AT GOVERNOR’S OFFICE **12:00 PM**

LUNCH SERVED **12:40 PM**

- Tab 1 CALL TO ORDER** **1:10 PM**
- A. Roll Call and New Board Member Introduction
 - B. Approval of the November 15-16, 2011 Meeting Minutes
 - C. Introduction of Department of Commerce Director, Dore Schwinden
 - D. Administrative Business
 1. Audit Committee Report
 2. Human Resource Committee Report
 3. Loan Committee Report
 - E. 2012 Meeting Schedule
 - F. Public Comment – *Public Comment on issues with Board Jurisdiction*

- Tab 2 EXECUTIVE DIRECTOR REPORTS – David Ewer** **1:40 PM**
- A. Overall Comments
 - B. Agendas Going Forward
 - C. Changes to Governance Policy – Board Action
 - D. Investment Consultant RFP – Board Action
 - E. Permanent Coal Trust Fund Investment Policy Statement – Board Action
 - F. Tax Increment Financing – Board Action
 - G. Anaconda School District INTERCAP Loan Request
 - H. Exempt Staff 1% Compensation Adjustment – Board Action
 - I. Staff Reorganization – Board Action
 - J. Performance Audit
 - K. April Meeting

- Tab 3 MONTANA LOAN PROGRAM – Herb Kulow** **3:10 PM**
- A. Commercial and Residential Portfolios Report

The Board of Investments makes reasonable accommodations for any known disability that may interfere with a person’s ability to participate in public meetings. Persons needing an accommodation must notify the Board (call 444-0001 or write to P.O. Box 200126, Helena, Montana 59620) no later than three days prior to the meeting to allow adequate time to make needed arrangements.

**REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS**

February 21-22, 2012

AGENDA – DAY 1, cont'd

Tab 4 BOND PROGRAM – Louise Welsh	3:20 PM
A. INTERCAP	
1. Activity Report	
2. Staff Approved Loans Report	
3. Loan Committee Approved Loans Report	
BREAK	3:30 PM
CONSULTANT REPORT – R.V. Kuhns and Associates	3:45 PM
A. Quarterly Performance Report	
Tab 5 INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO	4:15 PM
A. Retirement System Asset Allocation Report	
B. Private Asset Pool Reviews	
1. Private Equity Pool (MPEP)	
2. Real Estate Pool (MTRP)	
3. Partnership Focus List	
ADJOURN	5:00 PM

AGENDA – DAY 2

RECONVENE AND CALL TO ORDER	8:30 AM
A. Roll Call	
B. Public Comment – <i>Public Comment on issues with Board Jurisdiction</i>	
Tab 5 INVESTMENT ACTIVITIES/REPORTS, cont'd – Cliff Sheets, CFA, CIO	8:40 AM
C. Public Asset Pool Reviews	
1. Domestic Equity (MDEP)	
2. International Equity (MTIP)	
3. Manager Evaluation Policy – Board Action	
4. Fixed Income Reports	
i. Bond Pools (RFBP and TFIP)	
ii. Below Investment Grade Holdings	
iii. Short-term (STIP) and Other Fixed Income Portfolios	
ADJOURNMENT	10:40 AM
COMMITTEE MEETING	
A. Audit Committee	10:50 AM
1. Internal Controls Annual Review & Risk Assessment - Decision	
2. Exit Procedures for Key Employees - Update	
3. Performance Audit	
4. Legislative Audit Committee FY11 Financial Audit	
5. Public Comment – <i>Public Comment on issues with Committee Jurisdiction</i>	

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

**MINUTES OF THE MEETING
November 15-16, 2011**

BOARD MEMBERS PRESENT:

Gary Buchanan, Chairman
David Ageson
Karl Englund
Patrick McKittrick
Mark Noennig
Quinton Nyman
Jack Prothero
Jon Satre
Jim Turcotte
Senator Joe Balyeat
Representative Franke Wilmer

STAFF PRESENT:

Polly Boutin, Accountant	Chris Phillips-DeFranco, CFA, Investment Staff
Jason Brent, Alternatives Investment Analyst	Jon Putnam, CFA, FRM, Fixed Income Investment Analyst
Candy Burch, Administrative Assistant	Nancy Rivera, Credit Analyst
Geri Burton, Deputy Director	John Romasko, CFA, CPA, Fixed Income Investment Analyst
Richard Cooley, CFA, Portfolio Manager, Fixed Income/STIP	Nathan Sax, CFA, Portfolio Manager, Fixed Income
Tim House, Investment Operations Chief	Clifford A. Sheets, CFA, Chief Investment Officer
Ethan Hurley, Portfolio Manager, Alternative Investments	Carroll South, Executive Director
Ed Kelly, Alternative Investment Analyst	Steve Strong, Equity Investment Analyst
April Madden, Accountant	Ali Sturm, Accountant
Gayle Moon, Fiscal Accounting Manager	Louise Welsh, Bond Program Officer
Rande Muffick, CFA, Portfolio Manager, Public Equities	Dan Zarling, CFA, Director of Research

GUESTS:

David Ewer, State Budget Director
Mike Heale, CEM Benchmarking
Gordon Hoven, Piper Jaffray
Jim Voytko, RV Kuhns and Associates
Kris Wilkinson, Legislative Fiscal Division

CALL TO ORDER

Chairman Gary Buchanan called the regular meeting of the Board of Investments (Board) to order at 12:30 p.m. in the Board Room on the third floor at 2401 Colonial Drive, Helena, Montana. As noted above, a quorum of Board Members was present. Senator Joe Balyeat arrived at 12:45 p.m. and Representative Franke Wilmer arrived at 2:45 p.m.

Chairman Buchanan asked Ms. Gayle Moon, Accounting Fiscal Manager, to introduce Ms. Ali Sturm, the newest staff member to the Board of Investments' accounting team. Chairman Buchanan welcomed Ms. Sturm and then asked for introductions from Board Members, staff and guests.

Board Member Jack Prothero made a Motion to approve the Minutes of the August 16 -17, 2011 Board Meeting; Member Karl Englund seconded the Motion. The Motion was carried 9-0.

ADMINISTRATIVE BUSINESS

Audit Committee Report

Audit Committee Chair Jim Turcotte reported that the Audit Committee met Wednesday, August 17, upon adjournment of the full Board Meeting. The Board's internal controls auditor, Galusha, Higgins & Galusha, presented a draft of the fiscal year 2011 internal controls report and staff's response.

There were seven recommendations in the draft report. The majority of the recommendations dealt with reflecting verification of reconciliations (i.e. dating and initialing the reconciliations that staff had prepared).

Audit Committee Chair Turcotte reported that the Committee accepted the draft fiscal year 2011 report and staff's response and directed the internal control auditor to finalize the report and directed staff to update the Internal Control Policy based on the recommendations.

A copy of the final Fiscal Year 2011 Internal Controls Report was handed out to the full Board.

Audit Committee Chair Jim Turcotte made a Motion to approve the Fiscal Year 2011 Internal Controls Report; Board Member Jon Satre seconded the motion. The Motion was carried 9-0.

Human Resource Committee (HR) Report

HR Committee Chair Karl Englund reported that the HR Committee reviewed and discussed the annual performance appraisals for exempt staff prepared by Executive Director Carroll South and Chief Investment Officer Cliff Sheets. Additionally, it was reported that the HR Committee decided not to consider pay raises in 2012.

Loan Committee Report

Loan Committee Chair Jack Prothero reported that the Committee reviewed and approved two INTERCAP loan requests; the Loan Committee authorized staff to proceed with processing and closing these loans using the Board's standard Bond Program office procedures.

Borrower:	Town of Philipsburg
Purpose:	Interim loan in anticipation of USDA Rural Development long term financing for a wastewater improvement project
LC Approval Date:	November 15, 2011
Board Loan Amount:	\$3,652,000
Other Funding Sources:	\$2,348,000
Total Project Cost:	\$6,000,000
Term:	2 years

Borrower:	Gallatin Gateway County Water & Sewer District
Purpose:	Interim loan in anticipation of USDA Rural Development long term financing for a wastewater improvement project
LC Approval Date:	November 15, 2011
Board Loan Amount:	\$1,650,000
Other Funding Sources:	\$2,665,000
Total Project Cost:	\$4,315,000
Term:	2 years

Loan Committee Chair Prothero also reported that the Committee approved a loan request from the Department of Commerce in the amount of \$2,625,000 to fund Treasure State Endowment Program grants for the 2011 biennium projects authorized by the Legislature. The loan will be funded from the Permanent Fund sub-fund of the Coal Tax Trust.

Public Comment

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

EXECUTIVE DIRECTOR’S REPORT

Montana Veterans’ Home Mortgage Loan Program

Executive Director Mr. Carroll South reported on the Montana Veterans’ Home Loan Mortgage Program. The 2011 Legislature allocated \$15 million from the Coal Tax Trust into a revolving loan fund for home loans to veterans. Mr. South stated that on November 1, 2011 the Montana Board of Housing (BOH) kicked off the new Program. The first mortgage loans will be administered and serviced by the BOH and purchased by the Montana Board of Investments.

Pension Cash Flow Status

Mr. Carroll South reviewed selective pages from a recent report on the pensions provided to the SAVA Committee which highlight the difference between return and income. It then examined the history of the difference between investment cash income and cash flow (contributions vs. benefits) for the two largest plans. Because cash flow turned negative several years ago for both PERS and TRS, cash income has been used to make up the difference. In the case of TRS, the negative cash flow has grown to a level above investment cash income, necessitating a small liquidation of assets to meet benefit needs. This problem is expected to grow in the future absent any action to increase contributions to the actuarial required level. In turn, this liquidity need will eventually have implications for the asset mix. To the extent assets are increasingly used to fund cash flow shortfalls, the ability to use less liquid assets with higher expected returns will be compromised which will make it more difficult to achieve the expected return.

Pension Investment Management Fees

Mr. Carroll South distributed a report on Pension Fund Investment Costs. Mr. South reviewed pension investment fee history and its composition by asset type. Investment fees include external investment management fees, Board of Investment fees, custodial bank fees and fees charged by the two pension boards. For fiscal year 2011 total investment fees were 57 basis points. He also discussed the impact of investment costs on return and then explained why the gross vs. net return is imprecise in measuring the actual cost impact due to the compounding effect.

Resolution No. 217 Update

Mr. Carroll South presented the annual Resolution No. 217 update to the Board, including broker/dealers and managers that have been added as well as those terminated. The update also reflected changes in Board staff authorized to conduct financial transactions with the broker/dealers and managers. Resolution No. 217 designates its Executive Director as agent of the Board to deal with investment firms in connection with Board accounts with such firms; and reflects that the investment firms are authorized to deal with the Executive Director or the Executive Director's designated staff as agents of the Board. No Board action was required.

CONSULTANT REPORTS

CEM Benchmarking Report

Mr. Mike Heale presented an overview of CEM's investment cost analysis report for the Montana pension plans for the 2010 calendar year. The analysis examined Montana returns and costs vs. peers. It examined the concept of policy return and its composition in terms of mix and benchmarks. It looked at "value-added" which represents the difference between actual return and policy return. Mr. Heale reported that our 2010 total return of 13.5% was slightly below the U.S. median of 13.8%. He stated that our 2010 policy return of 13.7% was above the U.S. median of 12.5% and above the peer median of 12.4%. He noted the differences in policy returns are caused by differences in benchmarks and policy mix. Mr. Heale explained that our asset management costs in 2010 were \$47.7 million, or 68.7 basis points, which was slightly lower than our benchmark cost of 69.8 bp. Thus, our cost savings was 1.0 bp. In summary, the Board's costs were normal because we had a slightly lower cost implementation style and paid similar amounts to peers, but were placed in the negative net value added area of the cost effectiveness chart.

RV Kuhns & Associates

Mr. Jim Voytko presented an overview of the Investment Performance Analysis Report, Quarter Ended September 30, 2011. *(A complete copy of this report is kept on file with the documents of this meeting.)*

PENSION BOARD REPORTS

Teachers' Retirement System Annual Report

Teachers' Retirement System (TRS) Director Dave Senn presented an overview of the TRS including information on TRS pension plan and long-term funding as of July 1, 2011 and beyond. Mr. Senn reported on the 2011 valuation and funding results and the projection of the System's unfunded accrued liability. He discussed the "Impact of Alternatives" and changes for current and new TRS members. In closing, Mr. Senn noted that changes to address the unfunded liability can be incremental and phased in over time; however, the sooner changes are made, the better the outcome will be for everyone – teachers, retirees, employers, and taxpayers.

Public Employees Retirement System Annual Report

Public Employees Retirement System (PERS) Executive Director Roxanne Minnehan reviewed performance of the retirement plans. Ms. Minnehan stated that four of the eight defined benefit plans are not actuarially sound. She stated that the normal cost rate for PERS members is 12.59% and 10.12% for new hires.

Ms. Minnehan stated that during the 2011 Legislative Session, the Public Employees Retirement Board proposed plan design changes to the PERS, Sheriffs' Retirement System and

the Game Wardens and Peace Officers' Retirement System, along with additional funding. The funding mechanisms were eliminated. The plan design changes were for new hires only. Ms. Minnehan stated that although this addresses long-term plan sustainability; the impact of changes for new hires will not significantly impact the plans for 15-20 years. The plans have not been receiving the actuarial required contribution for the past three years, compounding the funding issue.

Chairman Buchanan adjourned the meeting at 5:00 to break for dinner prior to the Executive Director Candidate interview.

INTERVIEW OF EXECUTIVE DIRECTOR CANDIDATE

Executive Director Candidate Finalist Interview

Human Resource Committee Chair Karl Englund reviewed the process that was followed in the search for an Executive Director, including the following information regarding the search:

- the position was advertised statewide and nationwide;
- 67 resumes were received; 18 were from Montana applicants;
- 8 applicants were interviewed via telephone; and
- 4 applicants were interviewed in-person at the Board of Investments' office.

Mr. Englund concluded by introducing Mr. David Ewer, the finalist for the Executive Director position and recommended for interview by the HR Committee.

Mr. Ewer introduced himself to the Board and gave a brief overview of his background. Mr. Ewer then responded to questions asked by Board members.

At the conclusion of the interview, Chairman Buchanan announced that for reasons of privacy dealing with personal issues, the regular meeting of the Board would be closed to the public. This would allow the Board to meet in a closed session to discuss and to consider the interview of Mr. Ewer for the position of Executive Director.

The regular meeting of the Board was reconvened at 7:00 p.m.

Approval of Executive Director Hiring – David Ewer

HR Committee Chair Karl Englund Made a Motion to accept the following recommendation of the HR Committee:

- hire David Ewer as the Executive Director;
- hiring date would be effective December 1, 2011;
- annual base salary of \$160,000; and
- transfer approximately 400 hours of Mr. Ewer's exempt employee compensatory time to his new position as Executive Director.

Mr. Mark Noennig seconded the Motion. The Motion was carried 8-0. Member Quinton Nyman was not present as he had to leave the meeting early.

Board Member Mr. Jon Satre thanked Mr. Englund and the HR Committee for all of the hard work and many, many hours they spent in order to find the best possible person for the Executive Director position.

The meeting was adjourned for the evening at 7:15 p.m.

CALL TO ORDER – Day 2
November 16, 2011

Chairman Gary Buchanan reconvened the meeting Wednesday, November 16, 2011 at 8:30 a.m. with eight members of the Board present. Mr. Quinton Nyman joined the Board Meeting at 8:45 a.m.

ADMINISTRATIVE BUSINESS

2012 Board Meeting Dates – Tentative.

Chairman Buchanan reviewed a draft schedule of the dates for next year's Board Meetings. The next Board Meeting is tentatively scheduled for February 21-22, 2012.

Public Comment

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

INVESTMENT ACTIVITIES/REPORTS

Mr. Clifford Sheets introduced Mr. Ethan Hurley to the Board. Mr. Hurley was hired as the new Portfolio Manager for Alternative Investments in October 2011.

Retirement System Asset Allocation Report

Mr. Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending September 30, 2011. Mr. Sheets noted that total equity was down 3.8% from the previous quarter to 63.6%. The allocation to fixed income increased 2.8% to 27.4% and the allocation to real estate increased 1.3% to 7.8%. These changes in weighting were largely due to the significant decline in public equity returns for the quarter, with the domestic and international equity pools falling by approximately 15 percent and 21 percent respectively. Net new investments for the quarter were approximately \$17.4 million.

When asked about the near term investment outlook Mr. Sheets stated there are still serious concerns about Europe. The U.S. economy has done well in the third quarter and the prospect of falling into a double-dip recession has diminished recently. He noted that inflation is slowly coming down and there is a more positive outlook for risk assets now than a couple months ago.

Comparison to State Street Public Fund Universe

Mr. Sheets reviewed a comparison of the two large pension plans to the State Street public fund universe in terms of relative performance and asset allocation as a supplement to the RV Kuhns public fund universe return comparison.

Private Asset Pool Reviews

Private Equity (MPEP)

Mr. Ethan Hurley presented a comprehensive overview of the second quarter private equity portfolio: total exposure by strategy; market value exposure by industry; geography and investment vehicle exposure; and periodic return comparison. The report also included quarterly cash flow through September 30, 2011.

One new commitment was made since the August 2011 Board meeting:

Fund Name	Vintage	Subclass	Sector	Amount	Date
Siguler Guff Small Buyout Opportunities Fund II	2011	Buyout – Fund of Fund	Diverse	\$25M	08/31/11

Real Estate (MTRP)

Mr. Hurley presented a comprehensive overview of the following private edge reports for the second quarter: total exposure by strategy; market value exposure by property type; total exposure by geography; time weighted and internal rates of return; and the portfolio holdings by fund. The report also showed a graph of the quarterly cash flow for the portfolio through September 30, 2011.

No new commitments were made since the August 2011 Board Meeting.

Partnership Focus List

There were no changes to the MPEP and MTRP Partnership Focus List (PFL) since the August 2011 Board meeting.

Public Asset Pool Reviews

Domestic Equity (MDEP)

Mr. Rande Muffick reported on the Montana Domestic Equity Pool as of September 30, 2011, including a summary of recent market trends.

International Equity (MTIP)

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

Public Equity External Managers Watch List

Mr. Muffick reported that Analytic Investors was removed from the Watch List during the quarter. No managers were added to the list and there were no manager terminations. The current Watch List is shown below:

Manager	Style Bucket	Reason	\$ Invested (mil)	Inclusion Date
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	\$136	March 2008
Martin Currie	International – LC Growth	Performance, Risk Controls	\$85	February 2009
Artio Global	International – LC Core	Performance, Philosophy	\$93	November 2010
Columbus Circle	Domestic – LC Growth	Performance, Process	\$126	May 2011
TimesSquare	Domestic – MC Growth	Performance	\$87	August 2011

Fixed Income

Mr. Nathan Sax presented the Fixed Income overview and strategy for the Retirement and Trust Fund Bond Pools. Mr. Sax noted that interest rates fell significantly in the third quarter. Slow growth in the United States and continued fears of a sovereign debt crisis in the Euro zone drove Treasury prices higher.

Mr. Sax presented the Non-Investment Grade Holdings Report.

Mr. Richard Cooley reported on the Short Term Investment Pool, State Fund Insurance and Treasurer’s Fund portfolios.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report

Ms. Nancy Rivera reported that as of October 31, 2011 the commercial loan portfolio totaled \$149,422,370; reservations totaled \$5,510,492 and commitments totaled \$11,298,259. Past due loans totaled \$7,101,121 or 4.75% of the total portfolio. A payment was received on one of the past due loans which accounted for \$4,432,588 of the past due total. If that payment would have been received prior to the last day of the month, the past due percentage would have been a more respectful 1.79%.

Ms. Rivera also reported that the residential loan portfolio had an outstanding balance of \$25,411,018 as of September 30, 2011. Four loans were past due greater than 90 days; one of the loans was paid in October.

BOND PROGRAM

Activity Report

Ms. Louise Welsh presented the INTERCAP report for the period July 1, 2011 through September 30, 2011. Year to date commitments totaled \$9,510,393 with \$7,141,474 funded. Total loans outstanding are \$75,794,992; bonds outstanding are \$95,530,000.

Staff Approved Loans Report

The Board reviewed this report for the period of July 1, 2011 through September 30, 2011.

Borrower:	Custer School District #15
Purpose:	Roof repairs
Staff Approval Date:	July 5, 2011
Board Loan Amount:	\$41,556
Other Funding Sources:	\$0
Total Project Cost:	\$41,556
Term:	5 years

Borrower:	Valley County
Purpose:	Emergency road & bridge repairs
Staff Approval Date:	July 8, 2011
Board Loan Amount:	\$1,000,000
Other Funding Sources:	\$0
Total Project Cost:	\$1,000,000
Term:	10 years

Borrower:	Pondera County
Purpose:	Senior Center remodel
Staff Approval Date:	July 13, 2011
Board Loan Amount:	\$ 150,000
Other Funding Sources:	\$1,043,598
Total Project Cost:	\$1,193,598
Term:	15 years

Borrower:	City of Lewistown
Purpose:	Extend water & sewer services at the city/county airport
Staff Approval Date:	July 14, 2011
Board Loan Amount:	\$90,000
Other Funding Sources:	\$0
Total Project Cost:	\$90,000
Term:	10 years

Borrower:	Bigfork Rural Fire District
Purpose:	Refinance Ladder Truck
Staff Approval Date:	July 26, 2011
Board Loan Amount:	\$673,045
Other Funding Sources:	\$0
Total Project Cost:	\$673,045
Term:	10 years

Borrower:	Roy Rural Fire District
Purpose:	Construct an Emergency Services Building
Staff Approval Date:	July 27, 2011
Board Loan Amount:	\$ 30,000
Other Funding Sources:	\$270,000
Total Project Cost:	\$300,000
Term:	15 years

Borrower:	City of Columbia Falls
Purpose:	Finish street improvement project
Staff Approval Date:	July 28, 2011
Board Loan Amount:	\$ 364,449
Other Funding Sources:	\$ 740,766
Total Project Cost:	\$1,105,215
Term:	10 years

Borrower:	Town of Superior
Purpose:	Interim loan in anticipation of USDA Rural Development Community Facilities Program long term loan - new fire hall
Staff Approval Date:	August 3, 2011

Board Loan Amount:	\$498,000
Other Funding Sources:	\$458,500
Total Project Cost:	\$956,500
Term:	1 year

Borrower:	Bridger Canyon Rural Fire District
Purpose:	Refinance its fire station loan
Staff Approval Date:	August 22, 2011
Board Loan Amount:	\$125,000
Other Funding Sources:	\$0
Total Project Cost:	\$125,000
Term:	15 years

Borrower:	Culbertson Elementary School
Purpose:	Reroofing the school wings
Staff Approval Date:	August 23, 2011
Board Loan Amount:	\$125,000
Other Funding Sources:	\$0
Total Project Cost:	\$125,000
Term:	10 years

Borrower:	Culbertson High School
Purpose:	Reroofing the school wings
Staff Approval Date:	August 23, 2011
Board Loan Amount:	\$125,000
Other Funding Sources:	\$0
Total Project Cost:	\$125,000
Term:	10 years

Borrower:	Montana City School District
Purpose:	Energy retrofit project using energy performance contracting
Staff Approval Date:	August 25, 2011
Board Loan Amount:	\$134,343
Other Funding Sources:	\$163,600
Total Project Cost:	\$297,943
Term:	15 years

Borrower:	Ravalli County
Purpose:	Refinance Fair Trade Center
Staff Approval Date:	August 30, 2011
Board Loan Amount:	\$560,000
Other Funding Sources:	\$0
Total Project Cost:	\$560,000
Term:	15 years

Borrower:	Town of Whitehall
Purpose:	Emergency backup generator for Division Street well
Staff Approval Date:	August 31, 2011
Board Loan Amount:	\$35,000
Other Funding Sources:	\$0
Total Project Cost:	\$35,000
Term:	10 years

Borrower:	Florence Rural Fire District
Purpose:	Purchase a new Type III Fire Truck
Staff Approval Date:	September 29, 2011
Board Loan Amount:	\$245,000
Other Funding Sources:	\$ 30,000
Total Project Cost:	\$275,000
Term:	10 years

ADJOURNMENT

There being no further business, Chairman Buchanan adjourned the meeting at 11:20 a.m.

Next Meeting

The next regular meeting of the Board is tentatively set for February 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: _____
 Geri Burton, Deputy Director

DATE: _____

MBOI:cb
 11/18/11

**Montana Board of Investments
Board Meeting Schedule
2012**

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
	18	19	20	21	22	23	24
Jul 2012	25	26	27	28	29	30	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	28	29
Aug 2012	30	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
Sep 2012	27	28	29	30	31	1	2
	3	4	5	6	7	8	9
	10	11	12	13	14	15	16
	17	18	19	20	21	22	23
Oct 2012	24	25	26	27	28	29	30
	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	28
Nov 2012	29	30	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
Dec 2012	26	27	28	29	30	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	28	29	30
	31	1	2	3	4	5	

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 2
(October 8th – State Holiday - Columbus Day)

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

[Return to 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, Executive Director
Date: February 14, 2012
Subject: Governance Policy Revision

Rationale for Revision

It is recommended that BOI's current Governance Policy be updated to reflect both the Board's powers and responsibilities under the Unified Investment Program and its obligation to comply with the Montana Procurement Act.

Background

Section III, Delegation of Authority to Staff, Parts 6 and 7 within BOI's Governance Policy, addresses contracts in general, and contracts involving external managers, both public and alternative, specifically. Currently BOI's policy makes a distinction: when selecting an alternative investment manager, such selection will be done by the Board through its staff; but for all other contracts, including those involving public securities investments managers, the Board will enter into contracts through the State's procurement process (18-4-121, M.C.A., the "Montana Procurement Act"). This distinction does not fully recognize the Board's investment authority under the State's Unified Investment Program (17-6-201, M.C.A.) and staff makes specific recommendations for complying with both statutes.

As a reference, here are selected parts of the Unified Investment Program that specifically govern the Board:

17-6-201. Unified investment program -- general provisions. (1) The unified investment program directed by Article VIII, section 13, of the Montana constitution to be provided for public funds must be administered by the board of investments in accordance with the prudent expert principle, which requires an investment manager to:

(a) discharge the duties with the care, skill, prudence, and diligence...

(4) The board has the primary authority to invest state funds. Another agency may not invest state funds unless otherwise provided by law. The board shall direct the investment of state funds in accordance with the laws and constitution of this state. The board has the power to veto investments made under its general supervision.

(5)The board shall:

(c) determine the type of investment to be made;

Montana law directs that the Board shall determine the *type* of investment to be made. It is staff's recommendation that the Governance Policy accurately reflect that in choosing the type of investment, such as using a public or private equity manager and/or using passive or active styles and their

corresponding external money managers, that this power rests **solely** with the Board. It is not governed under Montana law by the Montana Procurement Act.

The Montana Procurement Act is very encompassing. Its ultimate administration is through the Department of Administration. Under the law the director of the department has the ultimate authority to remove or suspend any vendor in state government (18-4-24, M.C.A) including most but not all vendors used by the Board. However, the Unified Investment law is specific: where the Board's contracts are axiomatic to the Board's statutory mission in determining the type of investment to be made, the Board has the sole say. Its contracts under this narrow statutory provision cannot be vetoed by another state agency under the law.

A Simple Bright-Light Test: Who has the ultimate authority depends on which law governs

There is a simple test: any contract that is fundamental for the Board to literally determine the type of investment to be made falls under the Board's Unified Investment Program powers. Every other contract falls under the Procurement Act, with ultimate veto power by the Director of Administration. Some examples of each:

The Board's power under the investment statute: external money managers are integral to determining types of investments. The Board has the power to choose them. For example when the Board hires a 'small-cap' public equity manager, the Board is picking a type of investment; the actual selection of the equities rests with the outside manager.

The Board's obligation to comply with Procurement Act: the Board uses a custodial bank to hold its investments. While vital to the Board's mission, it would be hard to argue that selecting the custodial bank was fundamental in choosing the type of investments. The process of selecting the custodial bank falls under the State's procurement law.

In general, staff recommends that the Board take a narrow view in exerting its statutorily delegated right to choose vendors. The procurement statute is broad and has plenty of common-sense elasticity for sole-source contracting, delegation by the Department of Administration and other permutations. And in general every contract must comply with this statute unless otherwise provided for elsewhere in statute.

Recommendation

Staff recommends the following changes to the Board's Governance Policy. These changes will make it clear to staff and the public which statute is germane.

1. Delete all of Part 6 of Section III of the Board's Governance Policy, currently labeled, 'Investment Manager Selection Delegation;

2. Replace Part 6 with a new Part 6. Investment Manager Contracts. The Board in discharging its duties under the Montana constitution and the Unified Investment Program (the "Program") enters into various contracts. For those contracts that are fundamental in enabling the Board to invest public funds and satisfy its legal duty under the Program, including its responsibility to "determine the type of investment to be made" (17-6-201 (5)(c), M.C.A.), the Board reserves to itself the sole discretion of entering into such contracts in compliance with its constitutional and statutory mandate. The Board delegates and directs the following:
 - The Executive Director and the Chief Investment Officer are authorized jointly to contract for investment manager services and if deemed appropriate, terminate them.
 - However, the Chief Investment Officer is authorized to have the final decision on external investment managers.
 - Provided that, the Executive Director may be a part of any negotiation and at a minimum sign all contracts for investment manager services.
 - And further provided that the Board's Legal Counsel review and sign all investment management contracts and review all other investment-related service contracts as the Executive Director or Chief Investment Officer deem necessary or advisable.
 - All new investment manager contracts, commitments, and terminations along with sufficient other related information, and in particular, alternative investment managers and their key terms of the fund, shall be reported to the Board at its next scheduled meeting.

3. Part 7. Delete "Contract Administration Delegation" and replace with All Other Contracts. Change the first sentence to: "For all contracts not specifically investment manager contracts, such contracts both competitive and sole source, shall be processed according to the State's procurement and contracting laws." Continue with existing Policy language.

III. DELEGATION OF AUTHORITY TO STAFF – Governance Policy

~~6. **Investment Manager Selection Delegation** The Board has delegated to the Chief Investment Officer the authorization to select all external investment managers. Such delegation requires that there be a policy in place to ensure that managers are selected through the appropriate process and that there are no undue influences on those who participate in the selection process. The Board has approved the following process for the selection of external investment managers:~~

~~**Investment Manager Contracts** - The Board in discharging its duties under the Montana constitution and the Unified Investment Program (the “Program”) enters into various contracts. For those contracts that are fundamental in enabling the Board to invest public funds and satisfy its legal duty under the Program, including its responsibility to “determine the type of investment to be made” (17-6-201 (5)(c), M.C.A.), the Board reserves to itself the sole discretion of entering into such contracts in compliance with its constitutional and statutory mandate. The Board delegates and directs the following:~~

- ~~• The Executive Director and the Chief Investment Officer are authorized jointly to contract for investment manager services and if deemed appropriate, terminate them.~~
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- ~~• And further provided that the Board’s Legal Counsel review and sign all investment management contracts and review all other investment-related service contracts as the Executive Director or Chief Investment Officer deem necessary or advisable.~~
- ~~• All new investment manager contracts, commitments, and terminations along with sufficient other related information, and in particular, alternative investment managers and their key terms of the fund, shall be reported to the Board at its next scheduled meeting.~~

~~A) **Public Securities Investment Managers** – All external public security investment managers shall be selected via the state’s formal procurement process. The Executive Director is responsible to ensure that the selection process conforms to state procurement policies. The Chief Investment Officer, the Board’s consultant, and other Board staff as designated by the Chief Investment Officer shall interview and score the respondents. The Chief Investment Officer is responsible for making the final selections and negotiating fees:~~

~~The Executive Director shall negotiate and sign all public security investment manager contracts and the Board’s Legal Counsel shall review and sign all contracts. The Executive Director is authorized to act on behalf of the Board to terminate contracts, pursuant to~~

~~contract provisions, with public securities investment managers and shall report all contract awards and terminations at the next scheduled Board meeting~~

~~**B) Alternative Investment Managers** – Alternative investment managers are not selected via the state’s formal procurement process. These managers can only be selected when they are in the “fund raising” stage and if that window of opportunity is missed, investors must wait until the managers open their next fund to participate. The formal procurement process, with its strict timelines and other formalities, does not lend itself to the selection of managers in this asset class.~~

~~The Chief Investment Officer, the Board’s consultant, and other Board staff designated by the Chief Investment Officer shall conduct due diligence and interview the alternative equity managers. The Chief Investment Officer is responsible for making the final selection. Both the Executive Director and the Chief Investment Officer shall sign all documents committing Board funds to alternative investment managers. The Board’s Legal Counsel shall review and sign all Limited Partner Agreements and accompanying side letters. The Chief Investment Officer shall report all commitments to alternative investment managers, including the terms of the fund, at the next scheduled Board meeting.~~

7. ~~**Contract Administration Delegation All Other Contracts**~~ - All contracts, both competitive and sole source, must be processed according to applicable state laws and regulations. For all contracts not specifically investment manager contracts, such contracts both competitive and sole source, shall be processed according to the State’s procurement and contracting laws. The Executive Director is authorized to negotiate and enter into all contracts necessary to carry out the Board’s mission without advance approval of the Board, except for contracts with the Board’s Custodial Bank and Retainer Consultant. The Board shall approve the selection of the Custodial Bank and the Retainer Consultant after which the Executive Director shall negotiate contracts with the firms. The Executive Director may approve contract extensions for which the Custodial Bank and Retainer Consultant are eligible under the original contract terms. In compliance with state requirements and Board policies review by the Board’s Legal Counsel is required for all contracts.

A) Legal Services - The Board delegates to the Executive Director the authority to provide appropriate legal representation for all Board activities. The Executive Director shall contract for legal services and ensure that there is no lapse in service. Legal services may be provided by a combination of private legal services contract, the Department of Commerce Legal Counsel, and the Attorney General’s offices as appropriate. The Executive Director shall also ensure that the Board has legal representation for any class action litigation to which it is entitled to participate.

B) Building Management Services – The Executive Director is authorized to make all day to day decisions required in managing the Board’s direct real estate program. These decisions include but are not limited to negotiating and signing leases, authorizing payment of invoices, authorizing repair and renovation, authorizing improvement and construction, and contracting with a Building Manager. The Board must approve the purchase and sale of all direct real estate.

C) Personal Services Contracts – The Executive Director is empowered to negotiate personal services contracts as necessary to ensure proper staffing levels and/or to obtain specialized services not otherwise available.

D) Interagency Agreements – The Executive Director is empowered to sign Interagency Agreements and contracts with other state agencies as necessary to fulfill the Board’s mission and/or to implement recently enacted legislation.

III. DELEGATION OF AUTHORITY TO STAFF – Governance Policy

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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: February 14, 2012
Subject: General Investment Consultant

Overview and Background

In February 2005, the Board received investment recommendations from Independent Fiduciary Services (IFS), Inc. Several of them indicated the need for a general investment consultant (IFS characterized this as a 'high' priority). Examples of the benefits to hiring a general investment consultant:

- Independent review of investment results and comparison to peers and benchmarks, at the pension plan level and by asset class and manager
- Assist in searches for custodial and securities lending services
- Access to third party capital market assumptions
- Access to third party Mean Variance Optimization and other accepted quantitative asset allocation analysis
- Provide Board with education on various asset classes and strategies
- Additional expertise on many technical aspects of investment practice and execution

In mid-2005, the Board issued a Request-for-Proposal (RFP) for a general investment consultant to provide outside expertise in alignment with many of the IFS original recommendations. R.V. Kuhns was hired in December, 2005. While not exhaustive, here are several of the duties in R.V. Kuhns' contract:

- Investment Policies and Guidelines
- Review Asset Allocation
- Asset Liability Studies
- Review Investment Management Agreements
- Provide Quarterly Investment Performance Reports
- Provide Investment Benchmarks
- Advise on Investment Operations

R.V. Kuhns' annual fee as per the contract is \$250,000 plus \$30,000 for any asset liability study for either the Public Employees' Retirement System or the Teachers' Retirement System, and up to \$25,000 for the seven small retirement systems. The Board also later authorized \$100,000 for non-core real estate selection expertise, and \$25,000 for STIP-related consulting services.

Relationship to the Board and Work Performed by R.V. Kuhns

The consultant has provided its investment views, shared its experience with other pension funds, and given its recommendations on best practices. Staff has also relied on the consultant in technical areas such as an additional resource for asset allocation modeling and private equity pacing. Some of the specific projects performed by R.V. Kuhns:

- Alternative Investments and Private Equity (2011)
- Asset/Liability Study (2010)
- Asset Allocation Study (2010)
- Assumed Rates of Return (2011)
- Board Education Policy (2011)
- Mean Variance Optimization (2009)
- Performance Reporting (Quarterly)
- Public Fund Survey (Annual)

R. V. Kuhns' Current Contract Expires November, 2012

Going Forward with a General Investment Consultant

Staff believes the Board has a continued need for the services provided by a competent investment consultant. Obtaining independent opinions and data is an accepted practice for investment boards to meet their fiduciary responsibilities. There are also on-going needs by both the Board and its staff that the consultant fills: the availability of additional expertise in investment asset modeling, pacing studies, asset liability studies, to name a few. Continuing the services of a general investment consultant shows that the Board uses both its staff and independent experts to validate how and where the Board invests.

Recommendations

Staff believes the investment consultant has provided important and substantial value to the Board and believes the need of such independent expertise will continue. The five recommendations follow:

1. Authorize and direct staff to implement the process of seeking a general investment consultant through the State's Request-for-Proposal (RFP) process;
2. Staff is to report on this RFP progress and make a recommendation to the committee as appointed by the Board Chairman;
3. Before the RFP is released, staff is to provide the Board with an opportunity to consider the final RFP to allow any final changes on any matter such as selection criteria, scope of work, fees and any other matters deemed necessary;
4. The Board reserves the right to reject any or all responses to the RFP; and
5. The ultimate hiring and final selection decision remains with the full Board.

MEMORANDUM

Montana Board of Investments

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

To: Board Members

From: David Ewer, Executive Director

Date: February 21, 2012

Subject: Revision of Investment Policy Statement for Permanent Coal Tax Trust Funds

Attached for your review is a new investment policy statement that is designed to cover the Permanent Coal Tax Trust funds in aggregate and replace four existing investment policy statements. These funds include the original and largest account, the Permanent Fund, as well as three of the various sub-funds that have been created over time by the Legislature. These are listed below with their respective custodial account number:

- Permanent Coal Trust (MU49)
- Treasure State Endowment Regional Water System Fund (MU64)
- Treasure State Endowment Fund (MU65)
- Big Sky Economic Development Fund (MU66)

The mix of assets held in each of the various funds depends on the statutory intent of each of the funds, and also depends in part on the generation and repayment of economic development loans that are funded by the trust.

Board approval of the new policy is recommended.

PERMANENT COAL TRUST FUNDS INVESTMENT POLICY STATEMENT

INTRODUCTION

The purpose of this investment policy statement is to outline the account objectives, permissible investments, and constraints that will guide the management of the overall permanent fund portfolio. The policy is designed to meet the various objectives of the permanent trust funds within the context of prudent investment principles while complying with state law. This policy is intended to apply to the original and all of the various sub-funds comprising the permanent coal trust.

BACKGROUND INFORMATION

Article IX, Section 5 of the state Constitution requires that 50 percent of all coal severance tax revenues be deposited in a permanent trust fund (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest 25 percent of the Trust in Montana businesses.

The legislature has partitioned the Trust into several sub-funds. The Permanent Fund was initially established when the Trust was created, while the Severance Tax Bond Fund, created later, provides debt service guarantees and is invested solely in STIP. The Treasure State Endowment Fund was created July 1, 1993, with a \$10.0 million transfer from the Permanent Fund. From July 1, 1993 through June 30, 1999 one-half of the coal severance tax earmarked for the Trust was deposited in the Permanent Fund and the remaining 50 percent was deposited in the Treasure State Endowment Fund.

Effective July 1, 1999, a new Treasure State Endowment Regional Water Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account.

Effective July 1, 2005, a new Big Sky Economic Development Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account. There is currently no new revenue dedicated to the Permanent Fund.

Income from the Permanent Fund and the Bond Fund is deposited in the Permanent Fund Income Fund where it is swept periodically to the state general fund. All sub-funds, except the income fund, are protected by the Constitution and may be appropriated only by a three-fourths vote of each house of the legislature. Income from the Treasure State Endowment Fund is appropriated by the legislature for local government infrastructure projects. Treasure State Endowment Regional Water Fund income is appropriated by the legislature for local government water projects. Big Sky Economic Development Fund income is appropriated by the legislature for economic development projects.

OBJECTIVES

The primary investment objective of the fund is to generate income and to fund Montana loans for various economic development purposes. Income from the fund offsets a portion of the State's general expenditures. To meet this income objective requires a return in excess of the assumed risk free rate which entails some risk of loss of principal. This fund is being managed as a long-term permanent fund, and as such there is little risk that the corpus will need to be liquidated under normal circumstances. Therefore, the fund has an above average ability to assume risk. Accordingly, a large allocation to the Trust Fund Investment Pool (TFIP) will be made to obtain exposure to a diversified fixed income portfolio return while reducing idiosyncratic risk. A large allocation to Montana loans and investments will be made to comply with legislative expectations.

PERMANENT COAL TRUST FUNDS INVESTMENT POLICY STATEMENT

PERMITTED INVESTMENTS AND LIMITATIONS

- Trust Fund Investment Pool: a broad allocation range is appropriate to allow for increased return, diversification and as an offset for other asset types.
- Short Term Investment Pool (STIP): a small allocation is appropriate to provide for liquidity, facilitate transactions, and allow for temporary timing differences in other allocations.
- Montana Commercial Loans: A broad allocation range is appropriate in contemplation of economic conditions and to comply with MCA 17-6-305. The code partially states “(1) Subject to the provisions of [17-6-201](#)(1), the board shall endeavor to invest 25% of the permanent coal tax trust fund established in [17-6-203](#)(6) in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises. Investments made pursuant to this section do not include investments made pursuant to [17-6-309](#)(2). For purposes of calculating the 25% of the permanent coal tax trust fund, the board shall include all funds listed in [17-5-703](#)(1). This subsection does not prohibit the board from investing more than 25% of the permanent coal tax trust fund in the Montana economy if it is prudent to do so and the investments will benefit the Montana economy. (2) In determining the probable income to be derived from investment of this revenue, the long-term benefit to the Montana economy must be considered.”
- Montana Value Added Loans: A moderate allocation range is appropriate to comply with MCA 17-6-317 with a maximum of \$70 million.
- Montana Infrastructure Loans: A moderate allocation range is appropriate to comply with MCA 17-6-316 with a maximum of \$80 million.
- Intermediary Relending Loans: A very small allocation is appropriate to comply with MCA 17-6-345 with a maximum of \$5 million.
- Montana Facility Finance Loans: A small allocation is appropriate in contemplation of economic conditions and to comply with MCA 17-6-308(4) with a maximum of \$15 million.
- Montana Science and Technology Loans: A small allocation is appropriate to comply with MCA 17-6-308(3) and the run off of the canceled program.
- Montana Veterans’ Home Loan Mortgages: A small allocation range is appropriate to comply with MCA 90-6-603 with a maximum of \$15 million.
- Principal and Interest guarantees for Montana Health Facility Finance Authority: No stated range. An amount equal to one year’s principal and interest should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI resolution 219.
- Implied Contracts to allow Montana Intercap bond holders to put bonds on the Permanent Fund: No stated range. An amount equal to outstanding Intercap Bonds should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI resolution 219.

The investment and legal considerations of the fund suggest the permitted investments and expected allocation ranges shown on the following page. These ranges are intended to apply to the consolidated funds making up the permanent coal trust.

**PERMANENT COAL TRUST FUNDS
INVESTMENT POLICY STATEMENT**

ASSET ALLOCATION (At Market)		
	<u>12/31/2011</u>	<u>Ranges</u>
Trust Funds Investment Pool	80.2%	38% - 92%
Commercial Loans	12.7%	8% - 36%
Value Added Loans	0.3%	0% - 6%
Infrastructure Loans	2.5%	0% - 8%
Intermediary Relending Loans	0.3%	0% - 1%
Facility Finance Loans	0.8%	0% - 2%
Science and Technology Loans	1.3%	0% - 2%
Veterans' Mortgage Loans	0.0%	0% - 2%
Short Term Investment Pool	1.7%	0% - 5%
	100.0%	

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
Louise Welsh, Bond Program Officer

Date: February 21, 2012

Subject: INTERCAP Loan Program – Tax Increment Financing

During the December 9, 2011 Board Loan Committee (LC) teleconference, there was discussion regarding the Board's 1992 decision, attached as Exhibit A, not to allow the INTERCAP Loan Program (INTERCAP) to be used to finance Tax Increment Financing District (TIFD) loans. Because the policy on this matter has not been revisited in 20 years, the LC requested Board staff to prepare a narrative by the February 2012 meeting reviewing the Board's current policy. After considering this matter further and also discussing it with bond counsel, staff presents its analysis and recommendation below.

Tax Increment Financing

Tax increment financing (TIF) does not represent a new tax, but a reallocation of existing taxes. Overlapping taxing entities get the same tax revenues as they did at the time of the TIFD creation from what is called the 'base' taxable value. New incremental assessed valuation above the base is taxed at the same overlapping tax rate as the 'base taxable value,' but taxes on new improvements in the TIFD are directed to further development within the TIFD. This may pit the overlapping taxing jurisdictions (OTJ) against the TIFD for the loss of future tax revenue. That issue can often be settled amicably with an agreement authorized in [7-15-4291](#) Montana Code Annotated (MCA) to 'pass-through' any portion of the 'excess' tax increment revenues to the OTJ that is not required for the TIFD's debt service or payment of project costs.

The idea behind TIF is to capture the future tax benefits of real estate improvements to pay the present cost of those improvements. It is a financing strategy designed to make improvements to a targeted project area or district without drawing on general fund revenue or creating a new tax. TIF can be used for a variety of purposes, from streetscape upgrades to water/sewer infrastructure, parking lots/facilities, rail lines, etc. One way to cover the upfront costs of these improvements is to issue tax increment revenue bonds, with the debt service paid by taxes generated by the development within the TIFD.

The amount of tax increment available to pledge as repayment for a TIF bond is dependent on (i) the incremental taxable value of the taxable property within the TIFD, (ii) the aggregate rate of property tax levies by the OTJ empowered to levy taxes within the TIFD, and (iii) the timely payment of property taxes by landowners in the District. A reduction or disappearance of any of the aforesaid could materially and adversely affect the amount of tax increment pledged to the bonds including any 'pass-through excess increment'. The issuer has little influence over these factors.

Authorization

7-15-4282 MCA. (1) Any urban renewal plan..., industrial district ordinance..., technology district ordinance..., or aerospace transportation and technology district ordinance...may contain a provision or be amended to contain a provision for the segregation and application of tax increments as provided in [7-15-4282](#) through [7-15-4299](#). (2) The tax increment financing provision must take into account the effect on the county and school districts that include municipal territory.

7-15-4289 MCA. The tax increment may be pledged to the payment of the principal of premiums, if any, and interest on bonds which the municipality may issue for the purpose of providing funds to pay such costs.

TIF Risks versus Other Types of Loans Funded Through INTERCAP

TIF Bonds Have Limited Payment Sources. The TIF revenue bonds, (the “Bonds”), are not general or moral obligations of the municipality, county, or state and are not payable from their general funds or other assets. They are solely payable from and secured by the tax increment generated by the new property improvements within the TIFD (the “Project”). If those improvements are insufficient to pay the Bond’s debt service, the issuer is not required to use its other revenues or funds to pay the debt service.

Other INTERCAP loan sources have limited payment sources, but there is a difference. For example, a revenue pledge from a water district has, as part of the loan or bond agreement, a covenant that the district will raise rates, if necessary, to meet debt service and operations. TIFDs are materially different here in that there is no such discrete ‘rate increase’ available to them. The lack of TIFDs ability to generate more revenue for operations or bond payments per se means the risk to INTERCAP would be much higher. This is covered in more detail below under ‘uncontrollable factors’.

Uncontrollable Factors. Several factors could materially and adversely affect the amount of the tax increment from the Project, including changes in Montana law governing real property taxation, or a reduction in the current taxable amount, which is a function of market value. The market value is determined by the Montana Department of Revenue property reappraisal every one-to-six years depending on property classification after applying the applicable “class rate” ratios for the various parcels of property governed by ever changing legislation. There are other uncontrollable factors that may occur within the Project or TIFD itself such as a reduction in the tax capacity rate of the OTJ or the non-payment of taxes due with respect to property within the Project or the TIFD. For example, a building may be demolished or significant taxable property removed from the TIFD or a business may fail or a tax-exempt entity may acquire property in the TIFD for public use or in the form of a tax deed sale as a result of delinquent taxes. The issuer has no control over any of these factors.

Loans dependent on TIF revenues are very different from the current type of loans financed within INTERCAP. This type of new risk is material because there is no discretion by the borrower. TIF cash flows can be materially, even disastrously affected, to the lender, by outside forces. While not quantifiable, this very different kind of risk has never been financed via INTERCAP.

Construction Risks. If an issuer is using projected tax increment for future construction of the remaining portions of the Project, there are the risks of cost overruns and delays due to a variety of

factors. Any delay or failure to complete the Project could materially adversely affect the timely receipt of additional tax increment.

Other INTERCAP loans are used for construction purposes, but in no other type of financing is the underlying cash flow so dependent on the success of the construction both in terms of actual completion and getting the new construction correctly valued so that the tax increment can be captured and used to pay TIF debt service. INTERCAP does finance construction through short term construction loans, called bond anticipation notes (BANs), but the risk here is a take-out risk, i.e., that the BANs are outstanding until bonds are sold, and the bonds are sold only when all the construction and legal process has occurred. INTERCAP has never been left 'holding the bag' on a BAN that should have been taken out by a bond. It could happen. Before an INTERCAP loan to purchase such a BAN is made, representations from bond council and other experts verifying all the steps are in place so the BAN can be repaid with a bond are required. INTERCAP also has the option to act on its right to exchange the BAN for a long term bond that would have the bond covenant advantages discussed earlier requiring the issuer to raise rates or reduce expenditures, if necessary, to meet debt service and operations.

Absence of Rating. Many INTERCAP borrowers do not have bond ratings. But comparing a small unrated town to say a TIFD of similar size and composition, the town is a far safer credit even without a rating. The town has many more options available than does the TIFD.

Rationale for Recommending INTERCAP Not to Finance TIF Bonds or Loans

Loans to Montana local governments when reasonable care is exercised are very safe. In its twenty-five years of operations, INTERCAP has never suffered a loss. Over the years, many original precautions set out in the beginning of INTERCAP have been eliminated: there are no more binding commitment agreements or fees or early prepayment penalties. INTERCAP has been able to operate on thin margins and modest reserves giving it the ability to often keep the loan spread to the borrower less than the 1.5% maximum allowed by its Indenture. In doing so, INTERCAP has rewarded the users' good credit by having an extremely easy to use, very low cost, relatively easily accessed program. Financing loans dependent on TIF would create a new risk dimension. Each TIFD is unique in a way that is very different from a local government's general promise loan or a bond anticipation note, or even a special improvement district.

Staff would like to recommend that 1) INTERCAP continue to preclude TIF bonds or loans in the program and 2) approve the loan policy revision attached as Exhibit B.

Staff Loan Committee

David Ewer, Executive Director	_____	Date: _____
Geri Burton, Deputy Director	_____	Date: _____
Louise Welsh, Bond Program Officer	_____	Date: _____

BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE



STAN STEPHENS, GOVERNOR

CAPITOL STATION

STATE OF MONTANA

(406) 442-1970

TELEFAX (406) 449-6579

HELENA, MONTANA 59620

MEMORANDUM

TO: *g. ewer* Members of the Board
 FROM: David Ewer, Bond Program Officer
 DATE: June 26, 1992
 RE: Financing Tax Increment District Loans

Overview

At the Board's March meeting, staff discussed the possibility of allowing INTERCAP to be used to finance tax increment district (TID) loans while also presenting the unique security and risk factors involved with TID's. The Board accepted the staff's recommendations to prepare parameters and guidelines for financing TID loans. Since that time the staff has done more extensive research and believes that it is simply unfeasible to offer INTERCAP for TID financing.

TID's have the unique risk of having no control of the mill levy set or collected for the district. Reduction in taxpayers, protests on the district's boundaries, loss of tax base due to reassessments or legislative changes pose risks that there would be insufficient tax increment to pay for debt service. Consequently underwriting a TID loan requires doing extensive review of the proceedings to establish the district and extensive research on the tax base. Such efforts, for the size of loans INTERCAP funds, makes it unfeasible to use this program.

Recommendation

Staff recommends that INTERCAP not be used to finance TID loans.

Board Members Present: Warren Vaughan, Chairman
 David E. Aageson
 James Cowan
 Maureen Fleming
 Earl W. Johnson
 William S. Macfadden
 Eleanor D. Pratt
 F. Lee Robinson

Mr. Cowan moved for approval of staff's recommendation to not allow tax increment financing. Mr. Macfadden seconded the motion which passed 8 to 0.

1. SPECIFIC REQUIREMENTS FOR ALL INTERCAP LOANS

- (a) Applications may be completed electronically but a hard copy of the signature page is required.
- (b) Upon loan approval, a Term Sheet will be forwarded to the borrower for review.
- (c) Borrower has one year from date of the Term Sheet to access funds or may be required to reapply for the loan.
- (d) Three weeks prior to needing funds, borrower must notify the Board of the desire to draw down funds.
- (e) Prior to receiving funds the borrower must complete two sets of loan documents that include:
 - a. A resolution from the local governing body approving the loan;
 - b. A form signed by local counsel stating the loan is legal and binding on the local government.
- (f) The local government is required to annually appropriate funds for the repayment of the loan.
- (g) Invoices or certificates of completed work must be submitted before INTERCAP funds are dispersed.
- (h) The Interest Adjustment Date is February 16th of each year.
- (i) Borrower will receive notice of the new interest rate around March 15th via an adjusted amortization schedule.
- (j) Any state or federal permits required must be obtained prior to closing the loan.
- (k) If the project is dependent on other funding sources, those funding sources must be committed prior to funding for the INTERCAP loan.
- (l) Eligible governments must adhere to State law when financing capital projects and cannot finance projects for a longer term than allowed. Board staff will consider the maximum loan term authorized in statute, as well as the repayment ability of the eligible borrower, when reviewing loan requests. In addition, loan terms cannot exceed the useful life of the project being financed.
- (m) INTERCAP may not be used to finance Tax Increment Financing (TIF) bonds or loans.

2. SHORT TERM LOANS SPECIFIC CRITERIA (Sec. 6 of the Application)

- (a) Short term INTERCAP loans may be made to cover two types of needs:
 - a. Money to provide financing on an interim basis for projects funded from other sources;
 - b. Operating money to cover a temporary cash flow deficit.
- (b) Examples of eligible temporary project funding include interim financing in anticipation of federal grants; interim funding for Treasure State Endowment projects, and interim bridge financing.
- (c) Counties, cities, towns and school districts are statutorily authorized to borrow for cash flow deficits, other types of local governments may be able to borrow through their respective county.
- (d) All INTERCAP loans made to cover temporary cash flow problems must be repaid by June 30 of the fiscal year the loan is awarded.
- (e) Normal local government debt limitations do not apply to Short Term INTERCAP loans per 7-6-1115, MCA.

3. GENERAL FUND DEBT LOANS SPECIFIC CRITERIA (Sec. 9A of the Application)

- (a) Under certain circumstances, many local governments have statutory authority to incur debt without a vote of the electors.
- (b) Because these obligations are generally payable from the general fund, loan obligations are subject to any statutory mill levy limitations, including Title 15, Chapter 10, Part 4, Montana Code Annotated, as amended (the Property Tax Limitation Act).
- (c) Loan terms are limited to 15 years, useful life of the project, or borrower term limit per State statute, whichever is less.
- (d) Statutory authority for general fund loans are:
 - a. Counties; 7-5-2306 and 7-7-2402; MCA;
 - b. Cities and Towns; 7-7-4101, 7-7-4201 & 7-5-4306 or 7-7-4101 & 7-7-4104;
 - c. School Districts; 20-9-471; MCA.

4. ENTERPRISE DEBT LOANS SPECIFIC CRITERIA (Sec. 9B of the Application)

- (a) Local governments may finance improvements to utility systems through the INTERCAP loan program using the revenues of the system to repay the loan.
- (b) The Board will require a pledge of the revenues and require that adequate fees or charges are maintained.

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
Louise Welsh, Bond Program Officer

Date: February 21, 2012

Subject: INTERCAP Loan Request - Anaconda School District #10

Background

The Anaconda School District #10, (the "District"), has applied for a \$4,983,011 INTERCAP loan to finance the renovation of their football stadium over a 10-year term. The District is requesting the loan be a 'general promise to pay' loan. 20-9-471 Montana Code Annotated (MCA) authorizes school districts to finance their facility renovation projects that do not include new construction specifically through the Board of Investments without a vote. The loans under this statute are general promise to pay notes. Otherwise the District would need to issue general obligation bonds or a building reserve obligation that require a vote.

A 'general promise to pay' loan means the loan payments would come from any legal source of the District. However, the primary repayment source in this instance is through Anaconda-Deer Lodge County's (the "County") tax increment finance district, (the "TIFD" or "TIF").

Staff Recommendation

Staff recommends that this request be denied for the following reasons:

1. The District does not currently have the financial capacity to maintain current operational levels and finance the stadium upgrade without the TIF monies. Assuming the Loan Committee concurs with the long-standing preclusion of INTERCAP financing TIF bonds, then the loan's dependency on TIF money is outside the risk parameter of INTERCAP. This matter of risk tolerance is presented in staff's memorandum regarding financing TIF bonds or loans via INTERCAP dated February 21, 2012.
2. Staff analysis of Title 7, Chapter 15, Part 42 of Montana law, the City/County Ordinance #212-B dated June 16, 2009, the County letter dated October 19, 2011, and the Tax Remittance Agreement dated December 20, 2011 confirmed that the priority of the TIFD tax revenue is to first pay costs of an approved infrastructure project in accordance with [7-15-4288](#) MCA and the payment of debt service for any bonds used to fund those projects as referred to in [7-15-4289](#) MCA. Any pass-through excess/residual tax increment would be subordinate to those two factors.

3. The County has only agreed to provide the on-going residual monies remaining after debt service. The County letter states that the Mill Creek Bonds have not been issued. Even though the tax increment, net of the TIFD unknown project costs and unknown debt service, trickles down into the District's general budget for them to use their share at their discretion, authorized in [7-15-4291](#) MCA and agreed to in the Tax Remittance Agreement, the amount the District actually receives each year if any is a moving target. This further complicates the difficulty of TIF dependency.
4. It is unclear what the nature of a binding obligation from the TIF/County is. Would it be subject to annual appropriation? Currently an interlocal agreement does not exist between the County identifying the annual amounts that will be paid to the District. In addition, there is no language providing conditions that would protect the District such as limiting the TIF bonds amounts, administration costs, or other annual expenditures. The TIF district in Anaconda may well have the implicit financial capacity to both issue bonds and have sufficient residual monies assignable to the District to pay INTERCAP, but there is no specific agreement in place.
5. A \$5 million loan request from a relatively small borrower would represent over 5% of INTERCAP's entire outstanding bonds. While INTERCAP does have borrowers with this and higher levels of concentration, these borrowers are the State Department of Justice, the University System, and Gallatin County, and are among the largest of all governmental units.
6. Ordinance #212-B further tightens what tax increment the school receives to only the Limited Tax Increment derived solely from the single entity Northwestern Energy Mill Creek Generating Station located in the TIFD. The lack of diversity in ownership within the Limited Tax Increment boundaries exacerbates the risks posed in staff's memorandum dated February 21, 2012. Only after the TIFD terminates in 2024 are all the taxes levied distributed amongst the various taxing bodies in proportion to their share. The Districts share after the TIFD terminates is also an unknown.

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: February 14, 2012

Subject: Department of Commerce Market Adjustments
Exempt Employees - Decision

Background

The Department of Commerce implemented a pay raise for all classified employees, effective December 31, 2011. The pay raise is within the Department's authority under the State's broadband pay plan. Classified employees in pay bands 3, 4, and 5 received a 2% annual pay adjustment and pay bands 6, 7, 8 and 9 received a 1% pay adjustment.

Recommendation

I recommend that the Board's exempt staff (excluding the Executive Director) receive a 1% annual pay adjustment.

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: February 14, 2012
Subject: Organizational Change Recommendation

Overview

Currently the Executive Director directly supervises six staff members: the Chief Investment Officer, Deputy Director, Chief Accountant, In-State Loan Manager, as well as the INTERCAP Manager and Network Administrator.

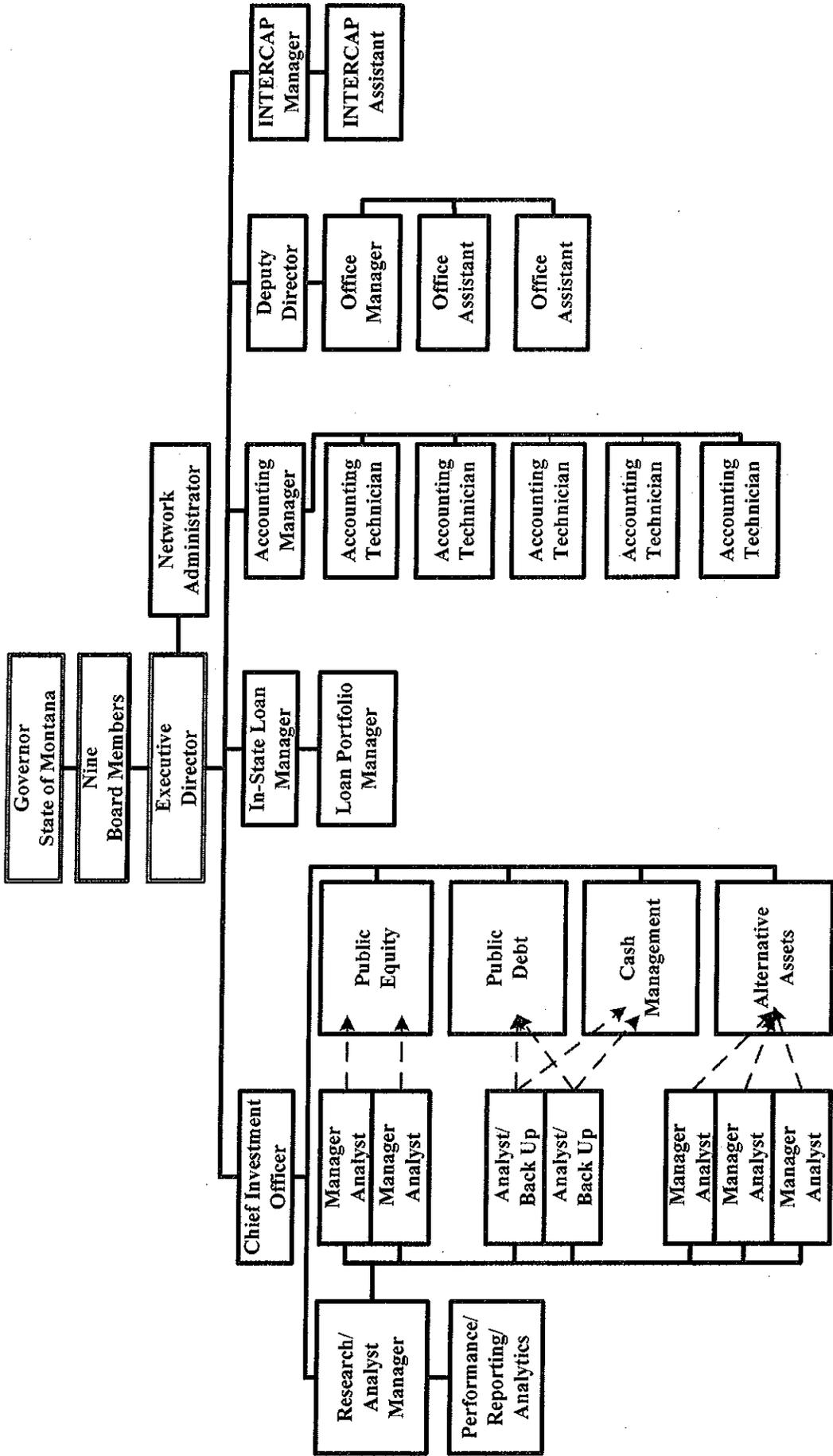
Recommendation

I recommend:

1. Transitioning supervision of the INTERCAP Manager and the Network Administrator from the Executive Director to the Deputy Director; and
2. Approval of the attached Functional Organization Chart (Proposed Chart).

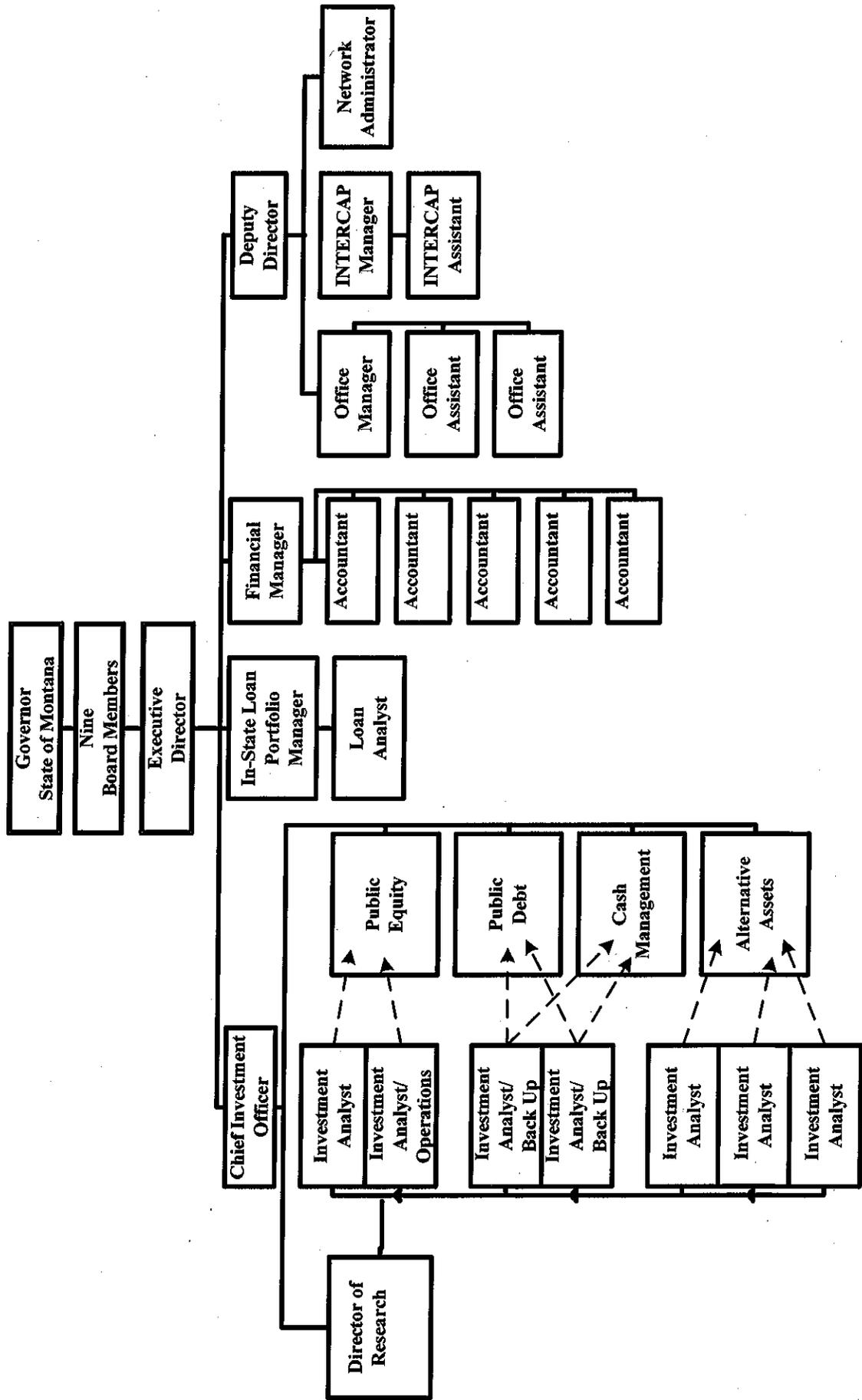
The current Organization Chart (Current Chart) and proposed Organization Chart (Proposed Chart) are attached for your review.

Montana Board of Investment Functional Organization Chart



Approved February 10, 2010

Montana Board of Investment Functional Organization Chart



Pending Approval February 21, 2012

[Return to Agenda](#)

Montana Loan Program Reports

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
Date: February 7, 2012
Subject: Commercial and Residential Portfolios

As of February 6, 2012, the commercial loan portfolio totaled \$145,747,241. There were five outstanding reservations totaling \$5,979,800 and four loan commitments totaling \$9,858,259. There were two past due loans, both of which were SBA guaranteed, totaling \$212,099 or 0.15% of the total portfolio.

The portfolio consisted of the following types of loans, as of February 6, 2012.

<u>Loan Type</u>	<u>Number of Loans</u>	<u>Amount</u>	<u>Percent of Portfolio</u>
Participation	75	74,883,274	51.38%
Guaranteed	54	41,243,845	28.30%
Infrastructure	8	22,971,637	15.76%
IRP	17	3,005,507	2.06%
Value-Added	6	2,848,246	1.95%
Seasoned	1	574,137	0.39%
Link Deposit	<u>2</u>	<u>220,595</u>	<u>0.15%</u>
	163	145,747,241	100.00%

The Instate-Loan program statutory cap is 25% of the coal tax trust. As of 12-31-11, the Instate Loan program was at 15.03%, which provides \$89,400,000 of liquidity for the commercial loan program to fund loan participations with approved lenders as the Montana economy continues to improve.

As of January 31, 2012, the residential loan portfolio totaled \$23,179,920 with no outstanding reservations. Eleven loans were past due totaling \$712,830 or 3.08% of the portfolio. Of those past due loans, nine were past due over 90 days totaling \$652,144, six of those loans were guaranteed totaling \$374,607 and three were conventional loans totaling \$277,537.

As of January 31, 2012, the Veterans Home Loan Mortgage program funded one loan totaling \$172,830, which is the outstanding balance of this portfolio. There are currently 12 outstanding reservations totaling \$1,932,259.

[Return to Agenda](#)

Bond Program Reports

INTERCAP Loan Program

Activity Summary

As of December 31, 2011

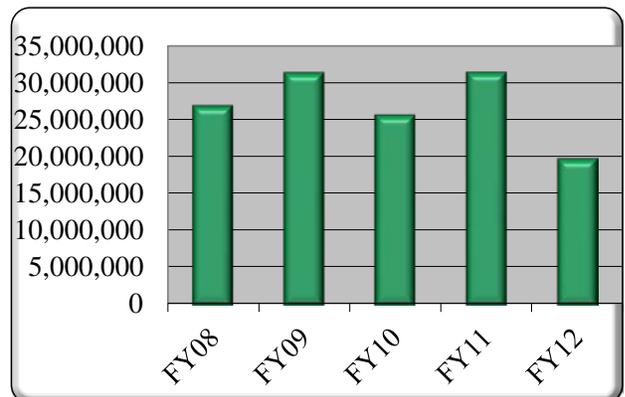
Since Inception 1987 - December 2011

Total Bonds Issued	136,000,000
Total Loan Commitments	393,529,175
Total Loans Funded	357,831,961
Total Bonds Outstanding	95,530,000
Total Loans Outstanding	80,897,577
Loan Commitments Pending	35,697,214

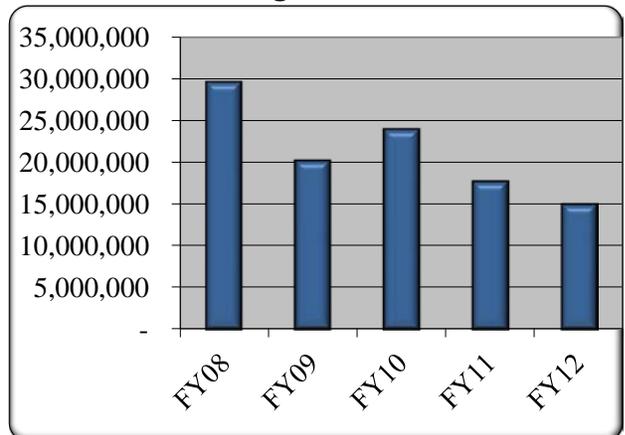
FY2012 To Date

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		
February		
March		
April		
May		
June-12		
To Date	\$ 19,474,393	\$ 14,972,139

Commitments FY08-FY12



Fundings FY08-FY12



Note: Commitments include withdrawn and expired loans.

Variable Loan Rate History February 16, 2004 - February 15, 2012

February 16, 2004 - February 15, 2005	<u>2.70%</u>	February 16, 2008 - February 15, 2009	<u>4.25%</u>
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>

MEMORANDUM

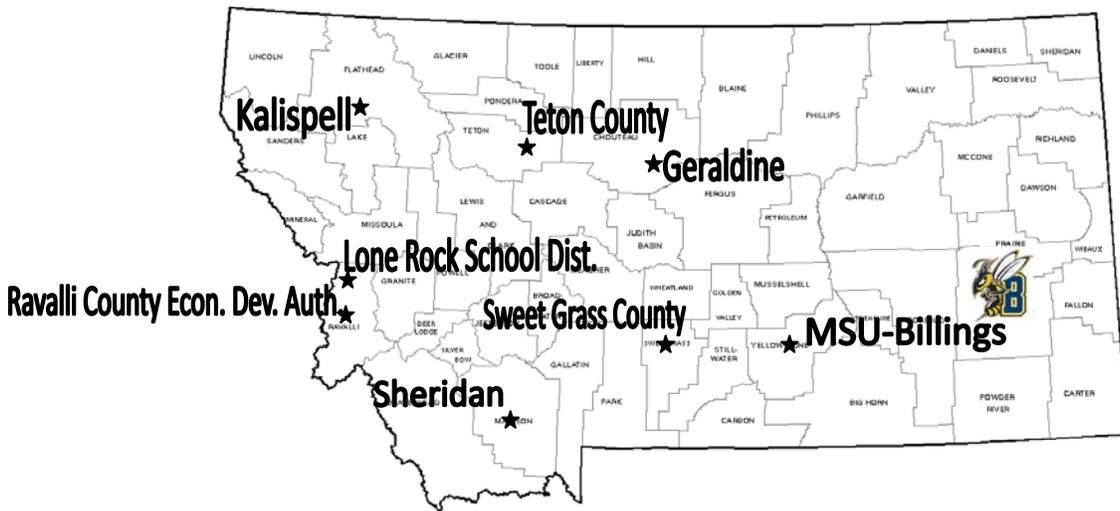
Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3rd Floor

(406) 444-0001

To: Members of the Board
From: Louise Welsh, Bond Program Officer
Date: February 21, 2012
Subject: 2nd Quarter INTERCAP Staff Approved Loans Committed



Borrower:	Ravalli County Economic Development Authority (Hamilton)
Purpose:	Ravalli Entrepreneurship Center parking lot expansion
Staff Approval Date:	October 13, 2011
Board Loan Amount:	\$70,000
Other Funding Sources:	
Total Project Cost:	\$70,000
Term:	10 years

Borrower:	Teton County
Purpose:	Building purchase for an ambulance station
Staff Approval Date:	October 27, 2011
Board Loan Amount:	\$ 75,000
Other Funding Sources:	\$ 90,000
Total Project Cost:	\$165,000
Term:	10 years

Borrower:	Town of Geraldine
Purpose:	Purchase 1991 Sutphen TS 4-door pumper fire truck
Staff Approval Date:	October 31, 2011
Board Loan Amount:	\$30,000
Other Funding Sources:	
Total Project Cost:	\$30,000
Term:	7 years

Borrower:	Sweet Grass County
Purpose:	Emergency road and bridge repairs from flooding in anticipation of federal aid
Staff Approval Date:	November 7, 2011
Board Loan Amount:	\$995,000
Other Funding Sources:	
Total Project Cost:	\$995,000
Term:	15 years

Borrower:	City of Kalispell
Purpose:	Purchase a dump truck and compactor
Staff Approval Date:	November 16, 2011
Board Loan Amount:	\$172,000
Other Funding Sources:	
Total Project Cost:	\$172,000
Term:	5 years

Borrower:	Lone Rock Elementary School District #13 (Stevensville)
Purpose:	Install a new septic system
Staff Approval Date:	November 18, 2011
Board Loan Amount:	\$40,000
Other Funding Sources:	
Total Project Cost:	\$40,000
Term:	10 years

Borrower:	Town of Sheridan
Purpose:	Engineering services for wastewater improvements. Borrower reimbursed by USDA RD once the RD loan closes.
Staff Approval Date:	December 15, 2011
Board Loan Amount:	\$100,000.00
Other Funding Sources:	\$3,550,057–USDA RD Loan; \$3,190,249-USDA RD Grant; \$100,000-DNRC RR Grant; \$25,000-Borrower portion
Total Project Cost:	\$6,865,306.00
Term:	6 years



MONTANA UNIVERSITY SYSTEM

Borrower:	Montana State University – Billings
Purpose:	Remove/Replace Rimrock Hall (residence hall) roof
Staff Approval Date:	October 27, 2011
Board Loan Amount:	\$500,000
Other Funding Sources:	
Total Project Cost:	\$500,000
Term:	10 years

Borrower:	Montana State University - Billings
Purpose:	Remodel Union Bookstore
Staff Approval Date:	October 31, 2011
Board Loan Amount:	\$580,000
Other Funding Sources:	\$120,000
Total Project Cost:	\$700,000
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: February 21, 2011
Subject: INTERCAP Loan Committee Approved Loans Committed



Loan Committee (LC) approved the following loan via teleconference December 19, 2011.

Borrower:	State of Montana Department of Transportation
Purpose:	Purchase replacement vehicles for the state motor pool.
LC Approval Date:	December 19, 2011
Board Loan Amount:	\$2,100,000
Other Funding Sources:	
Total Project Cost :	\$2,100,000
Term:	7 years

**Montana Board of Investments
Loan Committee
INTERCAP Loan Summary and Approval**



Borrower: Town of Whitehall - Increase

Date: February 21, 2012

On December 23, 2010, the Board approved the Town's request for a \$3,000,000 interim loan in anticipation of United States Department of Agriculture (USDA) Rural Development Services (RD)' long-term financing for its wastewater project. The cost of electrical service and amount of land needed to complete the project is more than estimated. Now the Town requests to increase the loan amount by \$300,000 for a total \$3,300,000 to cover those additional costs. The loan will be for one (1) year and in the form of a bond anticipation note (BAN). The project has been delayed from the original start date of September 2011 to now begin April 2012. The funding package for the increased \$5,300,000 total project cost is as follows:

Treasure State Endowment Program (TSEP) Grant	\$	750,000
Department of Natural Resources and Conservation		
-Renewable Resource Grant		100,000
Borrower Portion		170,000
United States Army Corps of Engineers		
-Water Resources Development Act (WRDA) Grant		230,000
Rural Development (RD) Grant		750,000
INTERCAP Interim loan		3,300,000
Rural Development (RD) Loan		<u>3,300,000</u>
Total	\$	5,300,000

<http://www.rurdev.usda.gov/>

Project:

This project is part of the American Recovery and Reinvestment Act (ARRA) stimulus funding. The total project is to replace the existing discharging system with a facultative lagoon, storage lagoon, and slow rate land application system (irrigation system) that will eliminate the existing discharge into Big Pipestone Creek.

Authorization:

7-7-109 Montana Code Annotated. (MCA) (2) (a) When all conditions exist precedent to the offering for sale of bonds of a political subdivision in any amount and for any purpose authorized by law or the political subdivision has applied for and received a commitment for a grant or loan of state or federal funds, its governing body may by resolution issue and sell, in anticipation of the receipt of the grant, loan, or bonds in an amount not exceeding the total amount of bonds authorized or the total amount of the loan or grant that is committed, notes maturing within not more than three years from the date on which the notes are issued.

INTERCAP Debt:

The Town has been a borrower since 1991 financing over \$755,000 for various projects. Two general promise to pay notes remain with \$236,380 total principal outstanding the longest term of which matures August 2020. Both loans are current.

Repayment:

The bond proceeds from the Town's issuance and sale of a revenue bond to RD will repay the BAN. Special conditions to the Board's commitment to ensure the revenue bond takes out the BAN are as follows:

1. Prior to disbursing funds, the Board requires evidence of RD's commitment to pay off the BAN with a long-term loan. Copies of the following will provide sufficient evidence:
 - RD Letter of Intent to Fund ("I" Letter)
 - RD Letter of Conditions [on file]
 - USDA Office of General Council (OGC) Loan Closing Instructions
2. The Board will require approval from RD for each specific draw on the loan.
3. The Board requires the Town to hire Bond Counsel to prepare the necessary BAN documents and provide the opinion at closing. The Bond Counsel needs to be nationally recognized and rendering a bond counsel opinion in the last ten years.

Recommendation

Approval recommended.

Staff Loan Committee

David Ewer, Executive Director



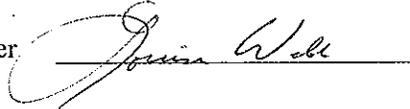
Approval Date: 2/17/12

Geri Burton, Deputy Director



Approval Date: 2-16-12

Louise Welsh, Bond Program Officer



Approval Date: 2-16-12

Board Loan Committee – Approval*

Jack Prothero, Board Member - Chairman

Approval Date: _____

David Aageson, Board Member

Approval Date: _____

James Turcotte, Board Member

Approval Date: _____

[Return to Agenda](#)

Investment Reports

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 9/30/11								
Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	33.8%	16.1%	13.6%	63.4%	27.4%	7.8%	1.4%	\$ 3,583,617,269
TEACHERS	34.0%	16.2%	13.6%	63.8%	27.5%	7.8%	0.8%	\$ 2,672,564,949
POLICE	33.9%	16.1%	13.6%	63.6%	27.5%	7.8%	1.2%	\$ 208,018,483
SHERIFFS	33.7%	16.0%	13.5%	63.1%	27.3%	7.8%	1.9%	\$ 193,787,893
FIREFIGHTERS	33.8%	16.0%	13.6%	63.4%	27.4%	7.8%	1.4%	\$ 207,239,340
HIGHWAY PATROL	33.8%	16.1%	13.5%	63.4%	27.4%	7.8%	1.4%	\$ 89,948,258
GAME WARDENS	33.5%	15.9%	13.5%	62.9%	27.1%	7.7%	2.3%	\$ 87,091,070
JUDGES	33.7%	16.0%	13.5%	63.1%	27.3%	7.8%	1.8%	\$ 58,226,282
VOL FIREFIGHTERS	34.0%	16.1%	13.6%	63.7%	27.6%	7.9%	0.8%	\$ 24,270,136
TOTAL	33.9%	16.1%	13.6%	63.6%	27.4%	7.8%	1.2%	\$ 7,124,763,680
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

Retirement Systems Asset Allocations as of 12/31/11								
Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	36.4%	16.2%	13.0%	65.6%	26.1%	7.6%	0.7%	\$ 3,729,742,791
TEACHERS	36.5%	16.2%	13.0%	65.8%	26.2%	7.6%	0.5%	\$ 2,772,752,374
POLICE	36.5%	16.2%	13.0%	65.7%	26.2%	7.6%	0.5%	\$ 216,190,994
SHERIFFS	36.2%	16.1%	13.0%	65.3%	26.0%	7.6%	1.1%	\$ 203,292,301
FIREFIGHTERS	36.4%	16.2%	13.0%	65.6%	26.1%	7.6%	0.6%	\$ 215,578,103
HIGHWAY PATROL	36.4%	16.2%	13.0%	65.6%	26.1%	7.6%	0.7%	\$ 93,824,367
GAME WARDENS	36.2%	16.1%	13.0%	65.3%	26.1%	7.6%	1.0%	\$ 91,807,513
JUDGES	36.3%	16.1%	13.0%	65.4%	26.0%	7.6%	1.0%	\$ 60,899,757
VOL FIREFIGHTERS	36.6%	16.2%	13.0%	65.9%	26.3%	7.6%	0.3%	\$ 24,904,394
TOTAL	36.4%	16.2%	13.0%	65.7%	26.1%	7.6%	0.6%	\$ 7,408,992,594
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

Change From Last Quarter								
Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	2.6%	0.1%	-0.5%	2.2%	-1.3%	-0.2%	-0.7%	146,125,522
TEACHERS	2.5%	0.0%	-0.6%	1.9%	-1.4%	-0.2%	-0.4%	100,187,425
POLICE	2.6%	0.1%	-0.6%	2.1%	-1.3%	-0.1%	-0.7%	8,172,511
SHERIFFS	2.6%	0.1%	-0.5%	2.2%	-1.3%	-0.2%	-0.8%	9,504,409
FIREFIGHTERS	2.6%	0.1%	-0.5%	2.2%	-1.3%	-0.1%	-0.8%	8,338,762
HIGHWAY PATROL	2.6%	0.1%	-0.5%	2.2%	-1.3%	-0.2%	-0.7%	3,876,109
GAME WARDENS	2.7%	0.2%	-0.6%	2.3%	-1.0%	-0.1%	-1.3%	4,716,443
JUDGES	2.6%	0.1%	-0.5%	2.3%	-1.3%	-0.2%	-0.8%	2,673,475
VOL FIREFIGHTERS	2.6%	0.1%	-0.6%	2.1%	-1.3%	-0.2%	-0.6%	634,258
TOTAL	2.6%	0.1%	-0.6%	2.1%	-1.3%	-0.2%	-0.6%	284,228,914

Allocations During Quarter				
MDEP	MTIP	MPEP	Total Equity	MTRP
\$13,850,000	\$12,170,000	\$17,320,000	\$43,340,000	(\$32,770,000)
Net New Investments for Quarter				\$10,570,000

Montana Board of Investments

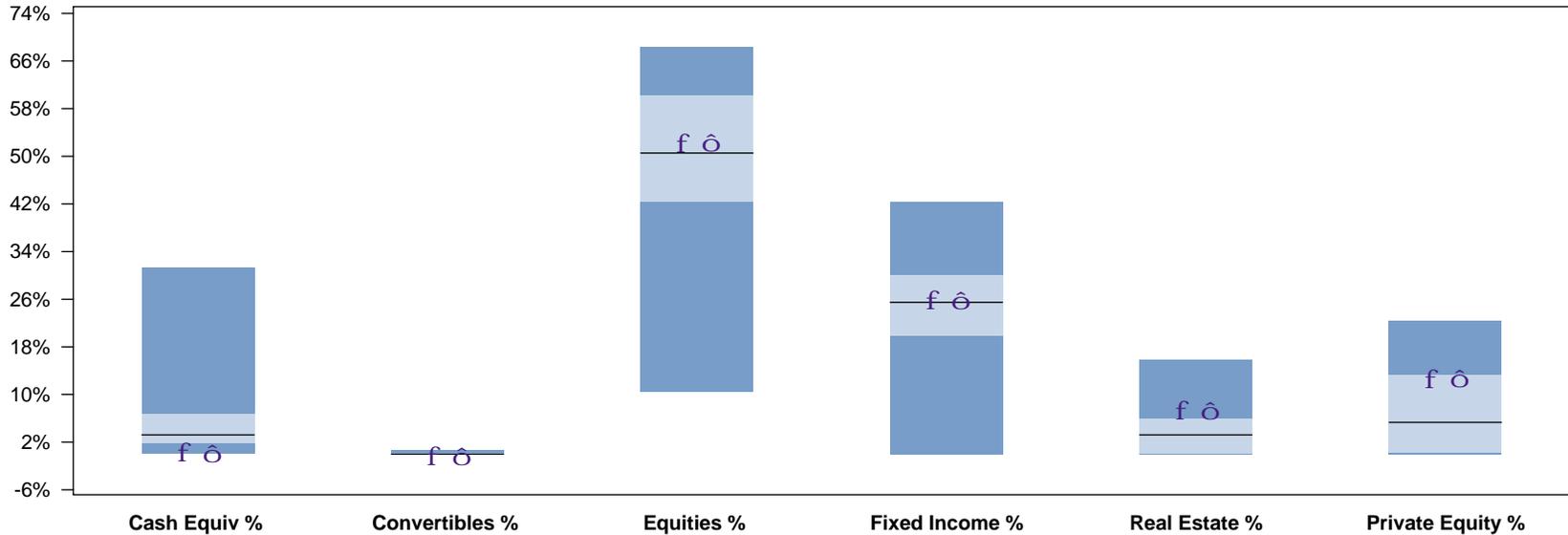
Public Funds (DB) > \$1 Billion(SSE)

PERIOD ENDING December 31, 2011



STATE STREET

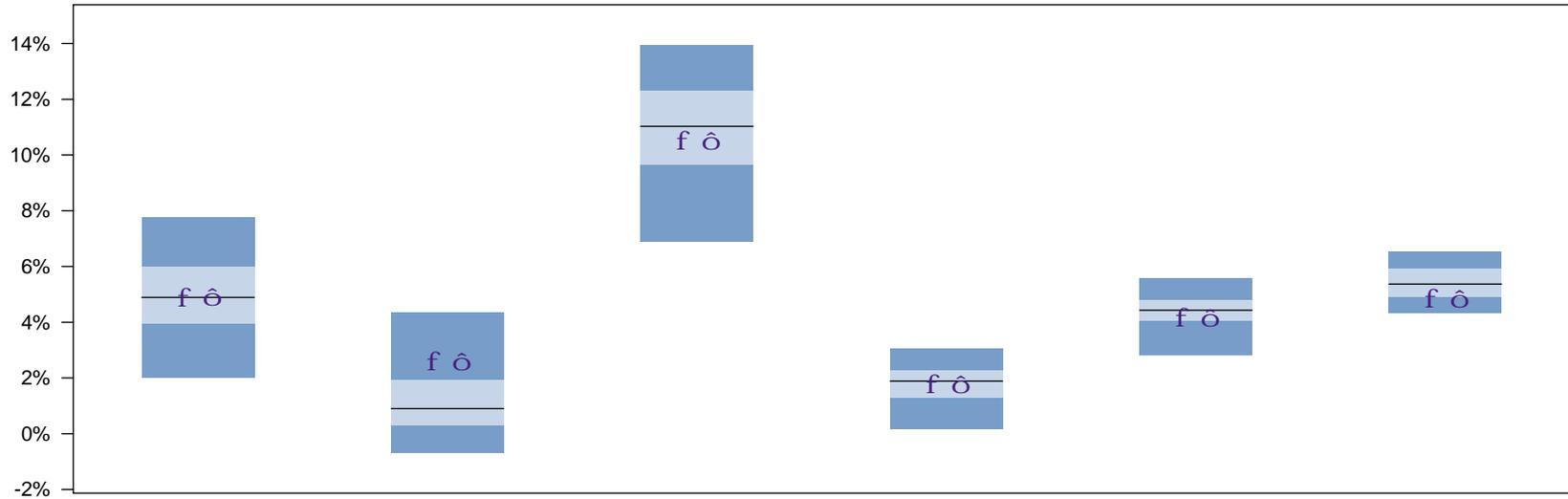
ALLOCATION



	Cash Equiv %	Convertibles %	Equities %	Fixed Income %	Real Estate %	Private Equity %
5th Percentile	31.24	0.63	68.29	42.37	15.91	22.39
25th Percentile	6.76	0.02	60.17	30.19	6.02	13.34
50th Percentile	3.21	0.00	50.56	25.49	3.21	5.32
75th Percentile	1.74	0.00	42.25	19.86	0.04	0.23
95th Percentile	0.01	0.00	10.47	0.00	0.00	0.00
No. of Obs	67	67	68	68	68	68
f PUBLIC EMPLOYEES RET	0.66 86	0.00 50	52.56 46	26.16 48	7.62 16	13.00 28
o TEACHERS RETIREMENT	0.46 88	0.00 50	52.67 45	26.22 47	7.61 17	13.03 27

Montana Board of Investments

Public Funds (DB) > \$1 Billion (SSE) - MBOI PERS - TRS UNIVERSE
 PERIOD ENDING December 31, 2011



	Total Fund Return 1 Qtr	Total Fund Return 1 Yr	Total Fund Return 3 Yrs	Total Fund Return 5 Yrs	Total Fund Return 7 Yrs	Total Fund Return 10 Yrs
No. of Obs	67	64	65	62	63	63
5th Percentile	7.76	4.36	13.93	3.04	5.59	6.52
25th Percentile	6.01	1.96	12.31	2.28	4.82	5.94
50th Percentile	4.89	0.90	11.03	1.89	4.43	5.37
75th Percentile	3.95	0.30	9.63	1.28	4.03	4.91
95th Percentile	2.03	-0.67	6.87	0.18	2.82	4.33
f PUBLIC EMPLOYEES RET	4.98 47	2.68 11	10.58 63	1.87 51	4.23 63	4.94 74
o TEACHERS RETIREMENT	4.99 45	2.69 11	10.59 60	1.87 51	4.23 63	4.93 74

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: February 21, 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 September 30.
- (ii) **New Commitments:**
The table below summarizes the investment decisions made by Staff since the last Board meeting. A commitment of \$15M was made to Gridiron Capital Fund II, LP. The investment brief summarizing this fund and the general partner follows.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Gridiron Capital Fund II, LP	2011	Small Buyout	Diverse	\$15M	12/1/11

- (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

Q3 2011

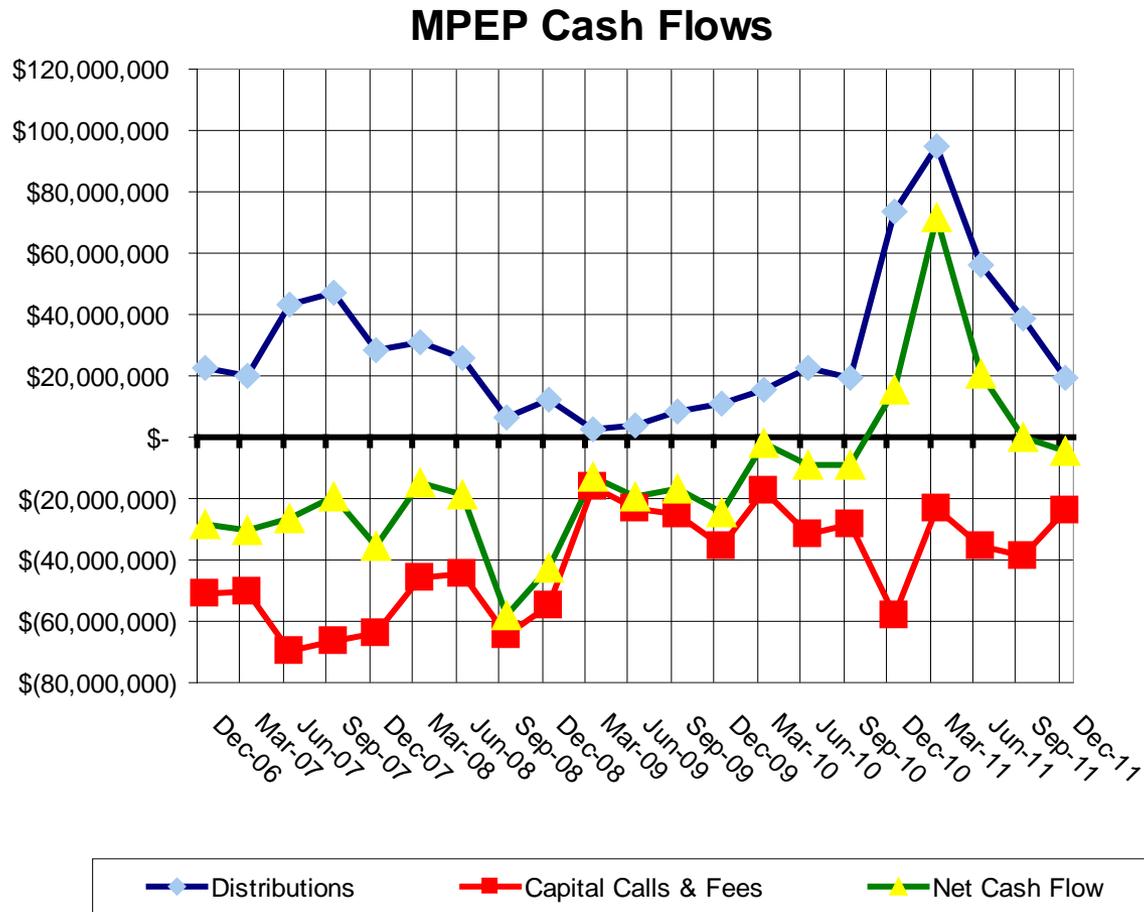
Due to, among other things, the lack of a valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a fund's life, the internal rate of return information may not accurately reflect current or expected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

Dec 31, 2006 through Dec 31, 2011



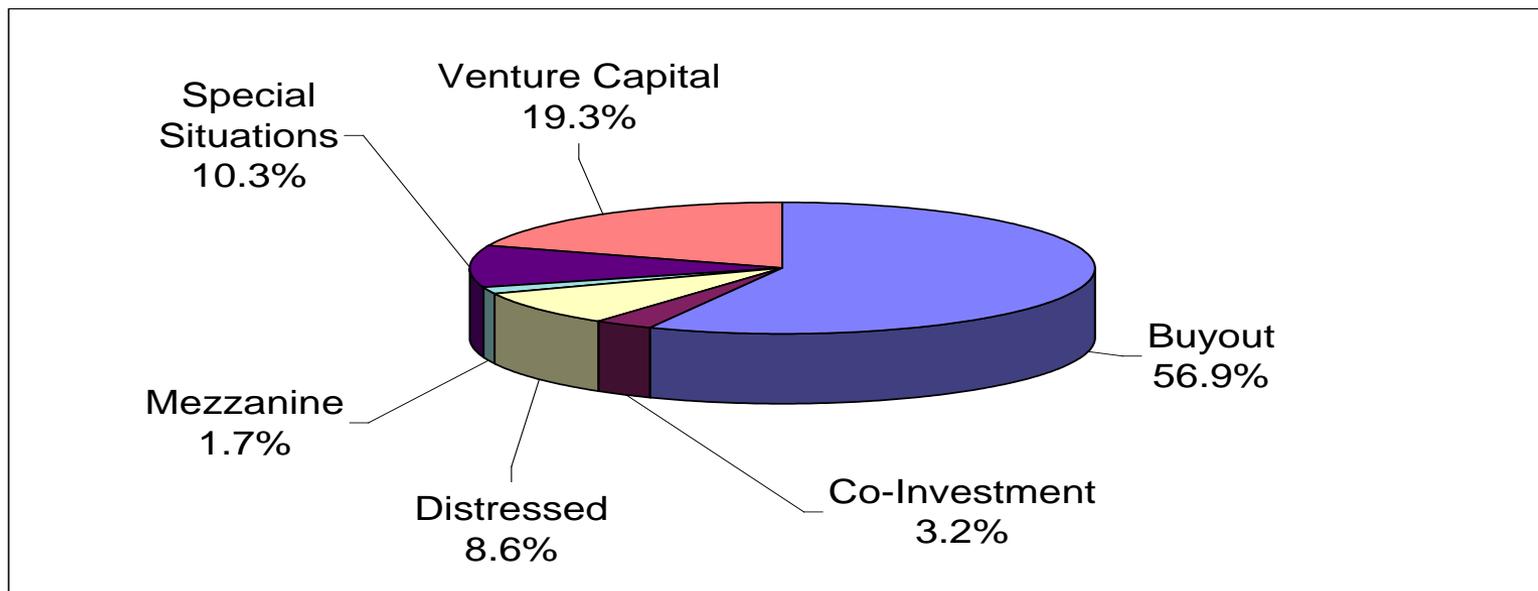
For the quarter ending 12/31/11, capital calls slightly outpaced distributions. This was due in large part to quarterly management fees being paid. Broadly speaking, given the recent uptick in purchase price multiples and the volatility in the public equity markets, 4th quarter public-to-private and M&A activity was consistent with that seen in the 3rd quarter and remained relatively subdued. The IPO market has also slowed substantially.

Q3 2011 Strategy – Total Exposure

Montana Private Equity Pool

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

(since inception through September 30, 2011)

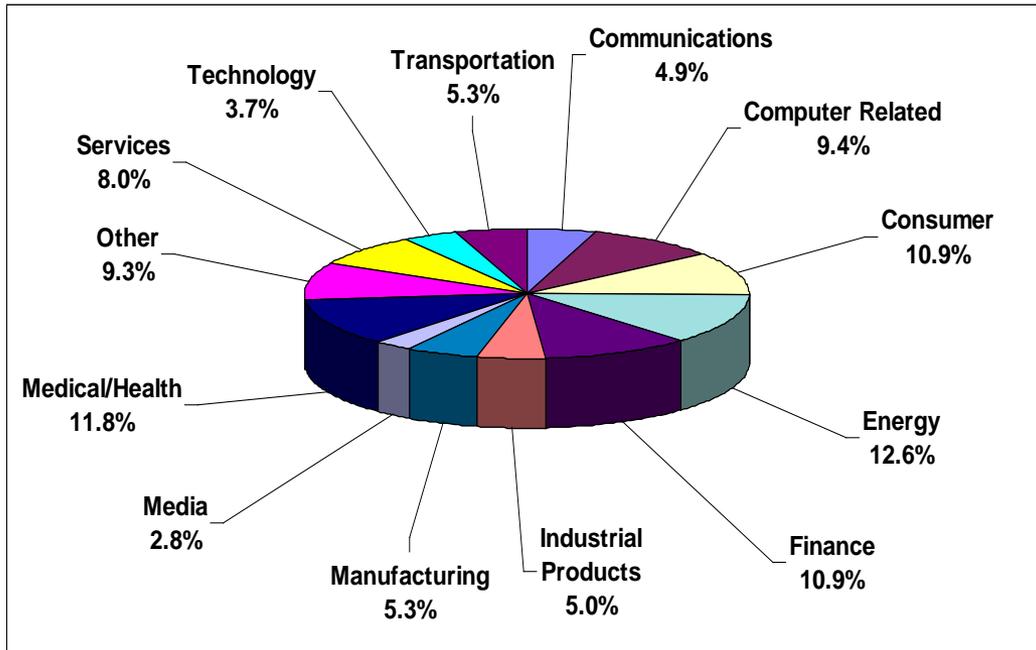


Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Buyout	\$375,916,300	64.2%	\$489,038,728	52.3%	\$864,955,028	56.9%
Co-Investment	\$7,802,295	1.3%	\$40,125,511	4.3%	\$47,927,806	3.2%
Distressed	\$40,865,074	7.0%	\$89,609,471	9.6%	\$130,474,545	8.6%
Mezzanine	\$6,163,909	1.1%	\$18,956,808	2.0%	\$25,120,716	1.7%
Special Situations	\$73,749,338	12.6%	\$83,498,133	8.9%	\$157,247,472	10.3%
Venture Capital	\$80,691,167	13.8%	\$213,095,772	22.8%	\$293,786,939	19.3%
Total	\$585,188,083	100.0%	\$934,324,423	100.0%	\$1,519,512,506	100.0%

The portfolio is well diversified by strategy, with the most significant strategy weight consisting of Buyout at 56.9% of total exposure. When combined with Co-Investment and Special Situations, the overall exposure to Buyout strategies is approximately 70%. Strategic allocations are expected to remain relatively stable going forward. That said, the Distressed allocation may continue to decline in the near term given the ongoing liquidation of mature funds in this category.

Q3 2011 Industry – Market Value Exposure

Montana Private Equity Pool Underlying Investment Industry Exposure, by Market Value *(since inception through September 30, 2011)*



Industry	Investments, At Market Value	Percentage
Communications	\$44,896,095	4.9%
Computer Related	\$86,505,306	9.4%
Consumer	\$99,473,969	10.9%
Energy	\$115,384,997	12.6%
Finance	\$100,247,508	10.9%
Industrial Products	\$45,588,011	5.0%
Manufacturing	\$48,371,165	5.3%
Media	\$25,310,092	2.8%
Medical/Health	\$108,129,098	11.8%
Other	\$85,409,181	9.3%
Services	\$73,704,239	8.0%
Technology	\$34,181,551	3.7%
Transportation	\$49,004,312	5.3%
Total	\$916,205,524	100%

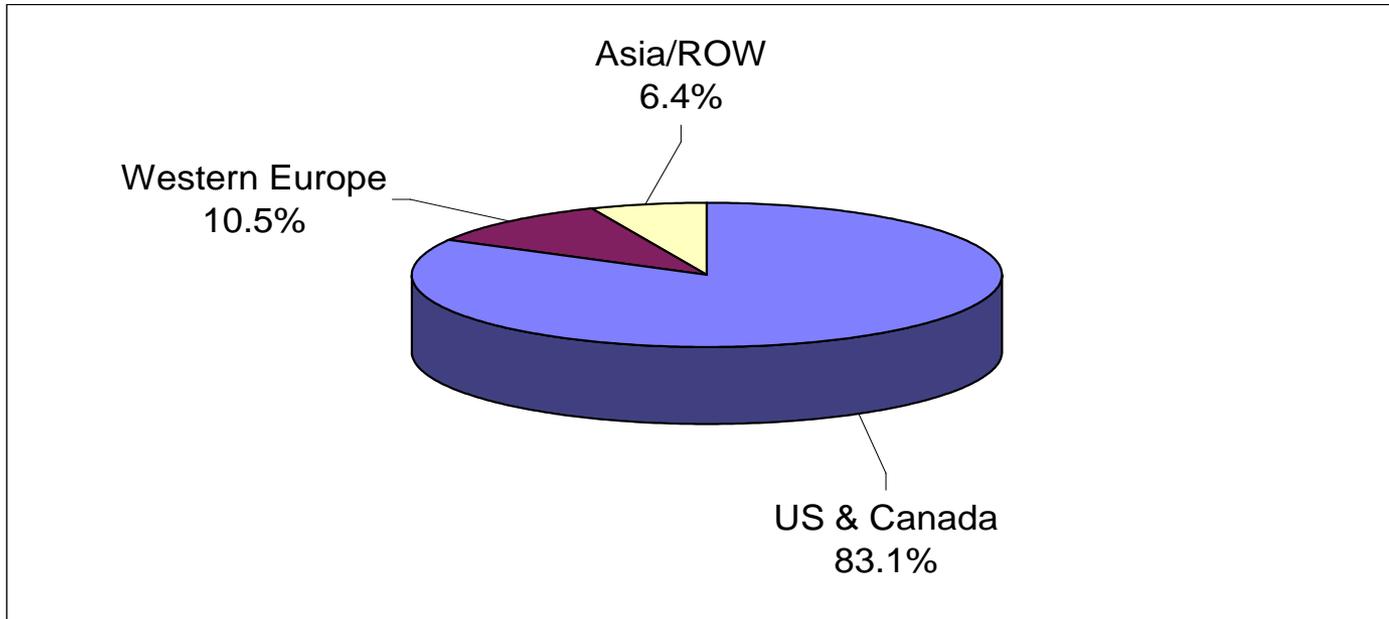
The portfolio is broadly diversified by industry with the energy, finance, consumer and medical/health sectors being the highest industry concentrations representing 46.2% of total assets. With the exception of energy and the technology-related industries, the portfolio's underlying managers tend to 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 Board staff's desire to over or underweight a specific industry.

Q3 2011 Geography – Total Exposure

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through September 30, 2011)



The portfolio's predominate geographic exposure is to developed North America, with 83.1% 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	\$ 529,375,276	90.5%	\$ 717,595,430	78.3%	\$ 1,246,970,706	83.1%
Western Europe	\$ 31,537,784	5.4%	\$ 126,628,249	13.8%	\$ 158,166,033	10.5%
Asia/ROW	\$ 24,275,022	4.1%	\$ 71,981,843	7.9%	\$ 96,256,865	6.4%
Total	\$ 585,188,083	100.0%	\$ 916,205,524	100.0%	\$ 1,501,393,605	100.0%

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

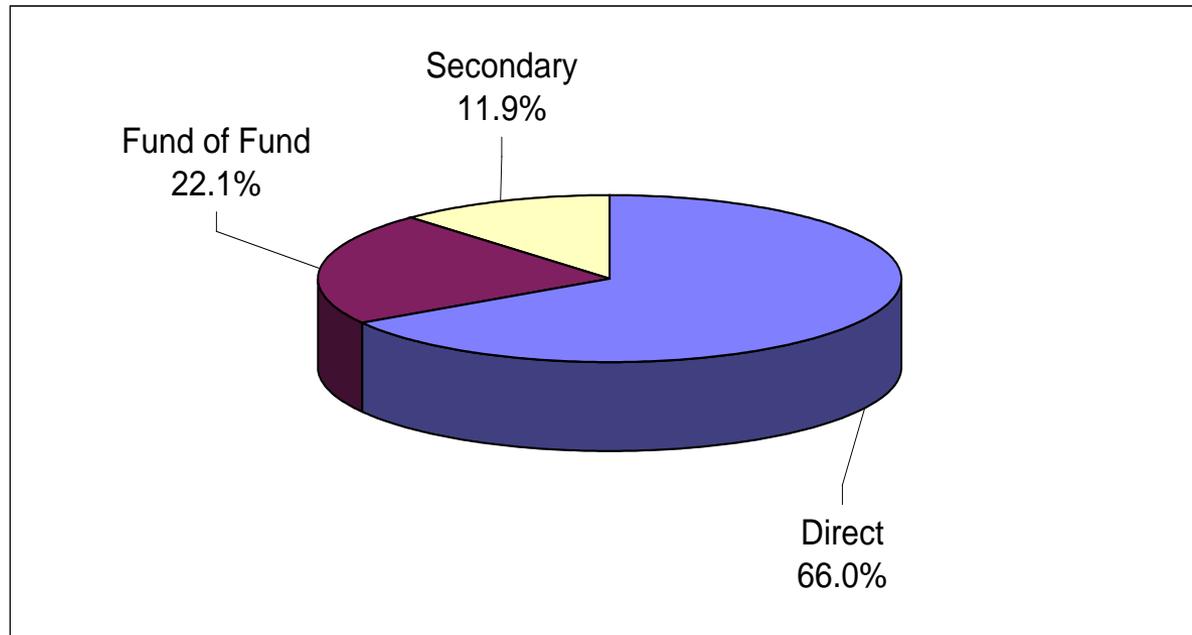
⁽²⁾ Market Value represents the aggregate market values of the underlying investment companies of the partnerships and excludes cash.

Q3 2011 Investment Vehicle – Total Exposure

Montana Private Equity Pool

Investment Vehicle Exposure by Market Value & Remaining Commitments

(since inception through September 30, 2011)



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. While 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 niche 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	\$ 410,115,053	70.1%	\$ 593,132,333	63.5%	\$ 1,003,247,386	66.0%
Fund of Fund	\$ 119,125,623	20.4%	\$ 216,543,362	23.2%	\$ 335,668,985	22.1%
Secondary	\$ 55,947,408	9.6%	\$ 124,648,727	13.3%	\$ 180,596,135	11.9%
Total	\$ 585,188,083	100.0%	\$ 934,324,423	100.0%	\$ 1,519,512,506	100.0%

Q3 2011 1 – 3 – 5 Year Periodic Return Comparison

Montana Board of Investments Periodic Return Comparison

For the Period Ended September 30, 2011

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	129	934,324,423	1.40	12.32	12.32	16.55	6.86	6.82
<i>Adams Street Funds</i>	34	174,951,347	1.46	12.26	2.96	14.92	4.37	6.82
<i>ASP - Direct VC Funds</i>	4	27,781,565	1.51	15.34	0.68	26.60	4.01	6.95
<i>ASP - Secondary Funds</i>	7	15,746,338	1.66	43.10	0.45	23.37	8.73	9.79
<i>ASP - U.S. Partnership Funds</i>	14	113,977,853	1.41	9.70	1.59	11.95	4.21	6.28
<i>ASP Non-US Partnership Funds</i>	9	17,445,591	1.49	11.03	0.24	8.96	1.60	7.35
<i>Buyout</i>	33	300,842,571	1.49	11.50	5.11	20.81	7.80	7.24
<i>Co-Investment</i>	2	40,125,511	1.18	6.54	0.17	13.73	7.05	6.68
<i>Distressed</i>	9	92,228,974	1.34	24.42	1.45	4.45	11.36	7.42
<i>Mezzanine</i>	3	16,854,825	1.27	7.34	0.12	5.71	(0.42)	3.99
<i>Non-US Private Equity</i>	6	44,000,301	1.33	11.74	0.51	24.34	5.75	1.89
<i>Secondary</i>	7	108,902,389	1.34	14.20	1.04	21.21	8.20	9.21
<i>Special Situations</i>	7	67,176,040	1.22	6.91	0.44	13.15	4.85	6.77
<i>Venture Capital</i>	28	89,242,465	1.26	16.86	0.52	20.89	7.53	4.94

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.

As of 9/30/11, the portfolio's trailing 1-year IRR was 16.6%. The since inception investment multiple and IRR results were down slightly relative to last quarter to 1.40x and 12.32%, respectively, from 1.42x and 12.82%. Secondaries outperformed relative to last quarter. All other strategy categories were down slightly relative to last quarter's performance.

Q3 2011 LPs by Family of Funds

Montana Board of Investments
LP's by Family of Funds
All Investments
As of September 30, 2011

		Since Inception									
Description	Vintage Year	Capital Contributed for			Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	IRR ¹	Investment Multiple	Total Exposure
		Commitment	Investment	Management Fees							
Total		2,082,363,174	1,419,464,018	102,314,044	585,188,083	73.08	1,192,369,199	934,324,423	12.32	1.40	1,519,512,505
Active		2,069,470,174	1,407,080,647	100,903,014	585,188,083	72.87	1,154,865,785	934,324,423	11.66	1.39	1,519,512,506
Adams Street Partners		327,129,264	283,909,918	29,054,232	25,851,530	95.67	283,430,674	174,951,347	12.26	1.46	200,802,877
Adams Street Partners Fund - U.S.		94,000,000	76,105,376	5,867,624	12,027,000	87.21	38,335,987	66,906,368	6.62	1.28	78,933,368
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000	29,483,172	2,374,828	2,142,000	93.70	20,917,775	23,720,779	8.44	1.40	25,862,779
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000	16,442,500	1,237,500	2,320,000	88.40	8,646,133	14,432,996	7.00	1.31	16,752,996
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000	11,987,519	897,481	2,115,000	85.90	4,585,341	11,239,394	5.47	1.23	13,354,394
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000	18,192,185	1,357,815	5,450,000	78.20	4,186,738	17,513,199	2.97	1.11	22,963,199
Adams Street Partners Fund - Non-U.S.		16,000,000	13,334,580	974,420	1,691,000	89.43	7,149,254	12,504,628	9.24	1.37	14,195,628
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000	5,362,190	403,810	234,000	96.10	4,869,460	4,536,843	13.57	1.63	4,770,843
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000	4,188,017	302,483	509,500	89.81	1,637,555	4,004,195	6.65	1.26	4,513,695
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000	3,784,373	268,127	947,500	81.05	642,239	3,963,590	3.62	1.14	4,911,090
Brinson Partnership Trust - Non-U.S		9,809,483	9,517,154	1,087,951	367,319	108.11	12,996,936	5,084,399	13.48	1.70	5,451,718
Brinson Non-U.S. Trust-1999 Primary Fund	1999	1,524,853	1,480,772	169,119	119,071	108.20	2,332,558	406,735	11.05	1.66	525,806
Brinson Non-U.S. Trust-2000 Primary Fund	2000	1,815,207	1,815,207	201,322	0	111.09	2,904,233	659,744	12.81	1.77	659,744
Brinson Non-U.S. Trust-2001 Primary Fund	2001	1,341,612	1,341,612	148,796	0	111.09	1,985,613	385,548	11.76	1.59	385,548
Brinson Non-U.S. Trust-2002 Primary Fund	2002	1,696,452	1,696,452	188,150	0	111.09	1,185,275	1,743,410	10.01	1.55	1,743,410
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308	601,542	70,683	35,766	105.48	1,387,203	143,436	26.56	2.28	179,202
Brinson Non-U.S. Trust-2003 Primary Fund	2003	1,896,438	1,725,867	210,330	170,571	102.10	2,574,274	1,074,723	20.92	1.88	1,245,294
Brinson Non-U.S. Trust-2004 Primary Fund	2004	897,613	855,702	99,552	41,911	106.42	627,780	670,803	8.86	1.36	712,714
Brinson Partnership Trust - U.S.		103,319,781	98,244,315	10,485,014	5,075,466	105.24	114,426,438	48,659,615	10.27	1.50	53,735,081
Brinson Partners - 1996 Fund	1996	3,950,740	3,829,528	460,003	121,212	108.58	6,945,449	210,273	14.84	1.67	331,485
Brinson Partners - 1997 Primary Fund	1997	3,554,935	3,554,935	415,667	0	111.69	14,267,325	253,767	71.46	3.66	253,767
Brinson Partners - 1998 Primary Fund	1998	7,161,019	7,122,251	837,167	38,768	111.15	10,241,853	732,281	6.51	1.38	771,049
Brinson Partners - 1998 Secondary Fund	1998	266,625	266,625	31,196	0	111.70	181,932	11,429	(7.40)	0.65	11,429
Brinson Partners - 1999 Primary Fund	1999	8,346,761	7,832,823	964,461	513,938	105.40	8,424,175	1,616,526	2.36	1.14	2,130,464
Brinson Partners - 2000 Primary Fund	2000	20,064,960	19,079,570	2,187,868	985,390	105.99	22,489,272	6,769,971	6.05	1.38	7,755,361
Brinson Partners - 2001 Primary Fund	2001	15,496,322	14,830,208	1,485,627	666,114	105.29	11,507,776	10,250,399	5.59	1.33	10,916,513
Brinson Partners - 2002 Primary Fund	2002	16,297,079	15,783,921	1,552,971	513,158	106.38	16,726,857	10,322,437	11.72	1.56	10,835,595
Brinson Partners - 2002 Secondary Fund	2002	2,608,820	2,498,592	242,801	110,228	105.08	3,621,150	1,000,839	13.14	1.69	1,111,067
Brinson Partners - 2003 Primary Fund	2003	15,589,100	14,472,981	1,454,672	1,116,119	102.17	13,727,819	8,823,816	9.47	1.42	9,939,935
Brinson Partners - 2003 Secondary Fund	2003	1,151,151	1,077,749	98,308	73,402	102.16	2,049,868	585,752	23.95	2.24	659,154
Brinson Partners - 2004 Primary Fund	2004	8,832,269	7,895,132	754,274	937,137	97.93	4,242,962	8,082,125	8.49	1.42	9,019,262

Q3 2011 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of September 30, 2011

Description	Vintage Year	Since Inception									
		Capital Contributed for Commitment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	IRR ¹	Investment Multiple	Total Exposure	
Remaining ASP Funds		104,000,000	86,708,493	10,639,222	6,690,745	93.60	110,522,059	41,796,337	21.17	1.56	48,487,082
Adams Street Global Oppty Secondary Fund	2004	25,000,000	18,305,691	1,044,309	5,650,000	77.40	14,225,700	13,852,768	12.27	1.45	19,502,768
Adams Street V, L.P.	2003	40,000,000	35,063,478	4,936,522	0	100.00	17,131,375	25,427,904	1.31	1.06	25,427,904
Adams Street VPAF Fund II	1990	4,000,000	3,621,830	378,170	0	100.00	7,879,041	9,890	25.25	1.97	9,890
Brinson Venture Capital Fund III, L.P.	1993	5,000,000	4,045,656	954,344	0	100.00	15,622,448	25,040	40.47	3.13	25,040
Brinson VPF III	1993	5,000,000	4,488,559	530,671	0	100.38	15,024,708	127,074	29.47	3.02	127,074
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	198,942	0	100.38	8,307,583	127,074	41.49	1.68	127,074
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,634,305	25,040	97.02	2.44	1,065,785
BVCF IV, L.P.	1999	15,000,000	12,760,256	2,239,744	0	100.00	22,696,899	2,201,547	6.80	1.66	2,201,547
Affinity Asia Capital		15,000,000	7,474,634	1,528,442	5,998,591	60.02	1,418,879	10,276,800	11.11	1.30	16,275,391
Affinity Asia Pacific Fund III, L.P.	2006	15,000,000	7,474,634	1,528,442	5,998,591	60.02	1,418,879	10,276,800	11.11	1.30	16,275,391
American Securities LLC		35,000,000	0	0	35,000,000	0.00	0	0	N/A	0.00	35,000,000
American Securities Partners VI, L.P.	2011	35,000,000	0	0	35,000,000	0.00	0	0	N/A	0.00	35,000,000
ArcLight Energy Partners		70,000,000	40,633,887	2,721,951	26,644,162	61.94	41,150,678	24,374,553	13.06	1.51	51,018,715
ArcLight Energy Partners Fund II, L.P.	2004	25,000,000	20,494,266	1,200,296	3,305,438	86.78	29,970,815	7,313,149	19.18	1.72	10,618,587
ArcLight Energy Partners Fund III, L.P.	2006	25,000,000	20,139,622	1,521,655	3,338,724	86.65	11,179,863	17,061,404	6.94	1.30	20,400,128
ArcLight Energy Partners Fund V, L.P.	2011	20,000,000	0	0	20,000,000	0.00	0	0	N/A	0.00	20,000,000
Austin Ventures		500,000	424,416	129,154	1	110.71	1,216,717	9,234	20.54	2.21	9,235
Austin Ventures III, L.P.	1991	500,000	424,416	129,154	1	110.71	1,216,717	9,234	20.54	2.21	9,235
Avenue Investments		35,000,000	33,123,011	2,086,886	0	100.60	42,757,924	3,743,623	11.50	1.32	3,743,623
Avenue Special Situations Fund V, LP	2007	35,000,000	33,123,011	2,086,886	0	100.60	42,757,924	3,743,623	11.50	1.32	3,743,623
Axiom Asia Private Capital		25,000,000	6,089,793	672,260	18,276,431	27.05	0	7,249,310	7.27	1.07	25,525,741
Axiom Asia Private Capital II, LP	2009	25,000,000	6,089,793	672,260	18,276,431	27.05	0	7,249,310	7.27	1.07	25,525,741
Black Diamond Capital Management		25,000,000	927,437	315,240	23,757,323	4.97	218,921	1,146,776	8.04	1.10	24,904,099
BDCM Opportunity Fund III, L.P.	2011	25,000,000	927,437	315,240	23,757,323	4.97	218,921	1,146,776	8.04	1.10	24,904,099
Carlyle Partners		60,000,000	53,189,042	4,212,043	2,697,917	95.67	25,466,004	55,618,589	9.75	1.41	58,316,506
Carlyle Partners IV, L.P.	2005	35,000,000	31,662,839	1,419,353	2,016,810	94.52	20,551,955	31,427,307	10.85	1.57	33,444,117
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000	21,526,203	2,792,690	681,107	97.28	4,914,049	24,191,282	6.84	1.20	24,872,389
CCMP Associates		30,000,000	18,157,496	2,005,738	9,836,766	67.21	3,353,867	25,352,708	13.73	1.42	35,189,474
CCMP Capital Investors II, L.P.	2006	30,000,000	18,157,496	2,005,738	9,836,766	67.21	3,353,867	25,352,708	13.73	1.42	35,189,474
Centerbridge		37,500,000	14,714,121	506,401	22,279,478	40.59	367,307	18,242,013	15.93	1.22	40,521,491
Centerbridge Capital Partners II, L.P.	2011	25,000,000	3,120,001	225,521	21,654,478	13.38	2,208	3,031,044	(14.11)	0.91	24,685,522
Centerbridge Special Credit Partners	2009	12,500,000	11,594,120	280,880	625,000	95.00	365,099	15,210,969	17.96	1.31	15,835,969
CIVC Partners		25,000,000	3,183,381	990,440	20,920,850	16.70	112,483	4,916,722	27.08	1.20	25,837,572
CIVC Partners Fund IV, L.P.	2010	25,000,000	3,183,381	990,440	20,920,850	16.70	112,483	4,916,722	27.08	1.20	25,837,572
Energy Investors Funds		25,000,000	0	0	25,000,000	0.00	0	(616,167)	N/A	0.00	24,383,833
EIF US Power Fund IV, L.P.	2011	25,000,000	0	0	25,000,000	0.00	0	(616,167)	N/A	0.00	24,383,833
First Reserve		55,485,789	37,154,159	1,648,390	16,705,177	69.93	7,620,071	30,683,000	(0.48)	0.99	47,388,177
First Reserve Fund XI, L.P.	2006	30,000,000	22,302,258	873,174	6,846,503	77.25	6,375,395	16,686,000	(0.15)	1.00	23,532,503
First Reserve Fund XII, L.P.	2008	25,485,789	14,851,900	775,216	9,858,674	61.32	1,244,677	13,997,000	(1.36)	0.98	23,855,674

Q3 2011 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of September 30, 2011

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
GTCR LLC		25,000,000	2,910,915	76,236	22,012,849	11.95	0	2,830,138	(5.26)	0.95	24,842,987
GTCR X, L.P.	2011	25,000,000	2,910,915	76,236	22,012,849	11.95	0	2,830,138	(5.26)	0.95	24,842,987
HarbourVest		61,823,772	33,445,677	861,657	27,529,964	55.49	1,603,983	39,183,927	11.58	1.19	66,713,891
Dover Street VII L.P.	2008	20,000,000	15,755,822	407,703	3,850,000	80.82	1,386,000	19,102,251	20.40	1.27	22,952,251
HarbourVest Direct 2007 Fund	2007	20,000,000	15,818,851	281,149	3,900,000	80.50	217,983	18,042,520	6.82	1.13	21,942,520
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	1,871,004	172,805	19,779,964	9.37	0	2,039,156	(0.18)	1.00	21,819,120
Hellman & Friedman		40,000,000	21,809,985	1,423,205	16,766,810	58.08	3,780,179	22,820,041	4.98	1.14	39,586,851
Hellman & Friedman Capital Partners VI	2006	25,000,000	20,527,609	1,335,185	3,137,206	87.45	3,780,179	21,624,270	5.24	1.16	24,761,476
Hellman & Friedman Capital Partners VII	2011	15,000,000	1,282,376	88,020	13,629,604	9.14	0	1,195,771	(18.30)	0.87	14,825,375
Highway 12 Ventures		10,000,000	6,835,772	1,214,215	1,950,012	80.50	73,476	8,395,866	2.19	1.05	10,345,878
Highway 12 Venture Fund II, L.P.	2006	10,000,000	6,835,772	1,214,215	1,950,012	80.50	73,476	8,395,866	2.19	1.05	10,345,878
Industry Ventures		10,000,000	9,145,103	663,676	595,358	98.09	4,530,759	6,813,084	4.68	1.16	7,408,442
Industry Ventures Fund IV, L.P.	2005	10,000,000	9,145,103	663,676	595,358	98.09	4,530,759	6,813,084	4.68	1.16	7,408,442
JCF		25,000,000	23,767,225	766,534	477,037	98.14	796,934	6,251,975	(29.19)	0.29	6,729,012
J.C. Flowers II, L.P.	2006	25,000,000	23,767,225	766,534	477,037	98.14	796,934	6,251,975	(29.19)	0.29	6,729,012
Joseph Littlejohn & Levy		25,000,000	21,518,676	1,183,749	2,297,575	90.81	11,744,312	16,652,612	7.40	1.25	18,950,187
JLL Partners Fund V, L.P.	2005	25,000,000	21,518,676	1,183,749	2,297,575	90.81	11,744,312	16,652,612	7.40	1.25	18,950,187
KKR		175,000,000	175,000,000	9,498,724	0	105.43	344,841,576	11,335,213	12.37	1.93	11,335,213
KKR 1987 Fund	1987	25,000,000	25,000,000	2,101,164	0	108.40	55,915,867	498,730	8.91	2.08	498,730
KKR 1993 Fund	1993	25,000,000	25,000,000	1,002,236	0	104.01	48,789,535	193,866	17.79	1.88	193,866
KKR 1996 Fund	1997	100,000,000	100,000,000	4,623,747	0	104.62	185,494,459	4,168,803	13.51	1.81	4,168,803
KKR European Fund, L.P.	1999	25,000,000	25,000,000	1,771,577	0	107.09	54,641,715	6,473,814	19.85	2.28	6,473,814
Lexington Capital Partners		155,000,000	110,959,746	5,602,657	38,512,143	75.20	86,659,801	72,854,545	14.49	1.37	111,366,688
Lexington Capital Partners V, L.P.	2001	50,000,000	47,260,786	2,495,832	243,382	99.51	66,026,272	16,272,921	19.51	1.65	16,516,303
Lexington Capital Partners VI-B, L.P.	2005	50,000,000	46,276,570	2,058,691	1,664,739	96.67	18,719,979	36,030,044	4.72	1.13	37,694,783
Lexington Capital Partners VII, L.P.	2009	45,000,000	13,794,046	861,137	30,419,363	32.57	1,386,504	16,668,212	31.74	1.23	47,087,575
Lexington Middle Market Investors II, LP	2008	10,000,000	3,628,343	186,997	6,184,660	38.15	527,046	3,883,368	13.31	1.16	10,068,028
Madison Dearborn Capital Partners		75,000,000	51,123,366	2,372,646	21,550,028	71.33	33,977,908	38,547,645	8.89	1.36	60,097,673
Madison Dearborn Capital Partners IV, LP	2001	25,000,000	23,692,136	595,557	758,346	97.15	29,720,542	11,482,007	13.64	1.70	12,240,353
Madison Dearborn Capital Partners V, LP.	2006	25,000,000	21,438,448	872,305	2,689,247	89.24	3,030,877	20,208,828	1.07	1.04	22,897,875
Madison Dearborn Capital Partners VI, LP	2008	25,000,000	5,992,782	904,783	18,102,435	27.59	1,226,489	6,857,010	7.45	1.17	24,959,445
Matlin Patterson		30,000,000	24,234,111	1,865,862	3,900,027	87.00	2,477,529	16,941,033	(11.59)	0.74	20,841,060
Matlin Patterson Global Opps. Ptnrs. III	2007	30,000,000	24,234,111	1,865,862	3,900,027	87.00	2,477,529	16,941,033	(11.59)	0.74	20,841,060
MHR Institutional Partners		25,000,000	15,461,076	1,781,064	7,757,860	68.97	585,670	16,570,721	(0.14)	1.00	24,328,581
MHR Institutional Partners III, L.P.	2006	25,000,000	15,461,076	1,781,064	7,757,860	68.97	585,670	16,570,721	(0.14)	1.00	24,328,581
Montlake Capital		15,000,000	9,793,814	1,756,186	3,450,000	77.00	1,932,202	9,405,159	(0.81)	0.98	12,855,159
Montlake Capital II, L.P.	2007	15,000,000	9,793,814	1,756,186	3,450,000	77.00	1,932,202	9,405,159	(0.81)	0.98	12,855,159
Neuberger Berman Group, LLC		35,000,000	29,919,160	1,573,036	3,902,295	89.98	15,632,730	22,082,991	6.46	1.20	25,985,286
NB Co-Investment Partners, L.P.	2006	35,000,000	29,919,160	1,573,036	3,902,295	89.98	15,632,730	22,082,991	6.46	1.20	25,985,286
Northgate Capital Partners		30,000,000	6,000,000	0	24,000,000	20.00	0	5,345,142	(13.85)	0.89	29,345,142
Northgate V, L.P.	2010	30,000,000	6,000,000	0	24,000,000	20.00	0	5,345,142	(13.85)	0.89	29,345,142
Oak Hill Capital Partners		45,000,000	33,822,081	2,969,908	8,289,364	81.76	10,961,179	39,037,418	8.91	1.36	47,326,782
Oak Hill Capital Partners II, L.P.	2005	25,000,000	22,359,297	1,778,153	862,550	96.55	10,917,063	25,951,494	10.55	1.53	26,814,044
Oak Hill Capital Partners III, L.P.	2008	20,000,000	11,462,784	1,191,755	7,426,814	63.27	44,115	13,085,924	1.62	1.04	20,512,738

Q3 2011 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of September 30, 2011

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
Oaktree Capital Partners											
Oaktree Opportunities Fund VIII, L.P.	2009	120,000,000	111,526,357	3,973,643	4,500,000	96.25	138,968,746	38,615,852	42.34	1.54	43,115,852
OCM Opportunities Fund IVb, L.P.	2002	10,000,000	8,721,448	278,552	1,000,000	90.00	89,318	9,035,068	1.51	1.01	10,035,068
OCM Opportunities Fund VIIb, L.P.	2008	75,000,000	73,086,225	1,913,775	0	100.00	121,554,428	(13,204)	44.89	1.62	-13,204
OCM Opportunities Fund VIII, L.P.	2008	35,000,000	29,718,684	1,781,316	3,500,000	90.00	17,325,000	29,593,988	16.71	1.49	33,093,988
Odyssey Partners Fund III											
Odyssey Investment Partners III, L.P.	2004	45,000,000	27,180,245	2,687,324	15,132,451	66.37	33,450,355	23,341,553	27.21	1.90	38,474,004
Odyssey Investment Partners IV, L.P.	2008	25,000,000	21,853,872	1,608,389	1,537,740	93.85	33,424,929	15,699,854	28.41	2.09	17,237,594
Odyssey Investment Partners V, L.P.	2008	20,000,000	5,326,373	1,078,935	13,594,712	32.03	25,426	7,641,699	10.97	1.20	21,236,411
Opus Capital Venture Partners											
Opus Capital Venture Partners VI, LP	2011	10,000,000	508,048	125,000	9,366,952	6.33	0	437,048	(36.88)	0.69	9,804,000
Opus Capital Venture Partners VII, LP	2011	10,000,000	508,048	125,000	9,366,952	6.33	0	437,048	(36.88)	0.69	9,804,000
Performance Venture Capital											
Performance Venture Capital II	2008	25,000,000	7,161,863	821,003	17,017,134	31.93	383	8,939,104	9.42	1.12	25,956,238
Performance Venture Capital III	2008	25,000,000	7,161,863	821,003	17,017,134	31.93	383	8,939,104	9.42	1.12	25,956,238
Portfolio Advisors											
Port. Advisors Fund IV (B), L.P.	2006	70,000,000	46,147,692	2,152,769	21,946,390	69.00	2,653,642	53,053,153	5.78	1.15	74,999,543
Port. Advisors Fund IV (E), L.P.	2006	30,000,000	21,612,416	1,070,313	7,317,271	75.61	1,146,115	25,936,980	5.51	1.19	33,254,251
Port. Advisors Fund V (B), L.P.	2008	15,000,000	9,976,349	676,700	4,346,951	71.02	4,731	10,401,014	(0.91)	0.98	14,747,965
Portfolio Advisors Secondary Fund, L.P.	2008	10,000,000	5,651,845	262,500	4,202,402	59.14	310,587	6,582,650	8.51	1.17	10,785,052
Portfolio Advisors Secondary Fund, L.P.	2008	15,000,000	8,907,082	143,256	6,079,766	60.34	1,192,209	10,132,509	28.18	1.25	16,212,275
Quintana Energy Partners											
Quintana Energy Partners Fund I, L.P.	2006	15,000,000	11,919,088	1,492,876	1,608,407	89.41	1,089,421	12,734,654	0.87	1.03	14,343,061
Quintana Energy Partners Fund II, L.P.	2006	15,000,000	11,919,088	1,492,876	1,608,407	89.41	1,089,421	12,734,654	0.87	1.03	14,343,061
Siguler Guff & Company											
Siguler Guff Small Buyout Opportunities	2007	50,000,000	20,006,134	882,072	29,244,081	41.78	1,575,350	23,971,704	9.47	1.22	53,215,785
Siguler Guff Small Buyout Opps Fund II	2011	25,000,000	17,525,456	862,750	6,744,081	73.55	1,575,350	20,313,045	7.30	1.19	27,057,126
Siguler Guff Small Buyout Opps Fund II	2011	25,000,000	2,480,678	19,322	22,500,000	10.00	0	3,658,659	46.35	1.46	26,158,659
Summit Ventures											
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
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.											
TA XI, L.P.	2010	10,000,000	2,987,545	112,455	6,900,000	31.00	0	3,201,996	6.80	1.03	10,101,996
TA XI, L.P.	2010	10,000,000	2,987,545	112,455	6,900,000	31.00	0	3,201,996	6.80	1.03	10,101,996
Terra Firma Capital Partners											
Terra Firma Capital Partners III, L.P.	2007	25,432,997	18,178,171	2,396,364	4,875,514	80.90	587,167	7,560,207	(28.98)	0.40	12,435,720
Terra Firma Capital Partners III, L.P.	2007	25,432,997	18,178,171	2,396,364	4,875,514	80.90	587,167	7,560,207	(28.98)	0.40	12,435,720
Thayer Hidden Creek Management, L.P.											
HCI Equity Partners III, LP	2008	20,000,000	6,491,416	1,182,421	12,652,861	38.37	254,986	11,369,915	55.77	1.51	24,022,776
HCI Equity Partners III, LP	2008	20,000,000	6,491,416	1,182,421	12,652,861	38.37	254,986	11,369,915	55.77	1.51	24,022,776
Trilantic Capital Partners											
Trilantic Capital Partners IV L.P.	2007	11,098,351	6,627,981	848,334	3,624,662	67.36	3,364,059	6,329,421	12.88	1.30	9,954,083
Trilantic Capital Partners IV L.P.	2007	11,098,351	6,627,981	848,334	3,624,662	67.36	3,364,059	6,329,421	12.88	1.30	9,954,083
Veritas Capital											
The Veritas Capital Fund IV, L.P.	2010	25,000,000	8,132,333	7,584	16,860,083	32.56	0	7,473,141	(8.94)	0.92	24,333,224
The Veritas Capital Fund IV, L.P.	2010	25,000,000	8,132,333	7,584	16,860,083	32.56	0	7,473,141	(8.94)	0.92	24,333,224
Welsh, Carson, Anderson & Stowe											
Welsh, Carson, Anderson & Stowe II	1990	75,500,000	65,485,770	4,740,636	5,500,000	93.02	46,209,914	46,280,657	7.56	1.32	51,780,657
Welsh, Carson, Anderson & Stowe II	1990	500,000	455,663	88,404	0	108.81	694,053	109,511	8.61	1.48	109,511
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	19,739,072	1,260,928	4,000,000	84.00	8,754,478	16,745,314	5.17	1.21	20,745,314
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000	22,484,611	2,015,389	500,000	98.00	32,939,188	6,883,244	12.04	1.63	7,383,244
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	22,806,424	1,375,915	1,000,000	96.73	3,822,195	22,542,588	2.24	1.09	23,542,588

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.

Though the pool underperformed slightly relative to last quarter, there were some noteworthy improvements. CIVC Partners Fund IV, a lower-middle market buyout manager, improved from 2.74% IRR and a 1.02x MOIC to 27.1% IRR and 1.2x MOIC, Lexington Capital Partners VII, a secondary fund manager improved from -6.9% IRR and 1.0x MOIC to 31.74% IRR and 1.2x MOIC and Siguler Guff Small Buyout Opps Fund II, a small buyout fund of funds manager, turned in its initial quarter's worth of performance with a 46.35% IRR and a 1.46x MOIC.

IRR Benchmark Comparison (Since 1980)
As of September 30, 2011

By Investment Focus

Description	PIC	Montana	DPI	Montana	RVPI	Montana	TVPI	Montana	IRR	Montana
Buyout	0.76	0.71	0.73	0.78	0.66	0.63	1.39	1.41	12.42	11.35
Venture Capital	0.82	0.71	0.72	0.64	0.58	0.72	1.30	1.36	10.16	16.25
Other	0.79	0.84	0.64	0.86	0.68	0.47	1.32	1.33	10.77	21.44
Pooled IRR	0.77	0.73	0.72	0.78	0.65	0.61	1.37	1.40	11.86	12.32

By Origin

Description	PIC	Montana	DPI	Montana	RVPI	Montana	TVPI	Montana	IRR	Montana
US	0.78	0.73	0.75	0.80	0.64	0.62	1.39	1.42	12.02	12.66
Non-US	0.76	0.70	0.62	0.62	0.69	0.54	1.31	1.16	11.20	5.84
Pooled IRR	0.77	0.73	0.72	0.78	0.65	0.61	1.37	1.40	11.86	12.32

By Vintage Year

Description	PIC	Montana	DPI	Montana	RVPI	Montana	TVPI	Montana	IRR	Montana
1990	1.01	1.04	2.45	2.40	0.02	0.02	2.46	2.41	18.54	27.63
1991	1.03	1.07	2.83	2.29	0.00	0.01	2.83	2.30	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	0.01	0.01	2.30	2.23	25.08	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	0.02	N/A	1.98	N/A	21.65	N/A
1996	0.98	1.09	1.67	1.62	0.02	0.05	1.70	1.67	13.00	14.84
1997	0.99	1.05	1.56	1.84	0.05	0.04	1.61	1.88	10.84	15.19
1998	0.98	1.11	1.33	1.26	0.05	0.09	1.38	1.35	6.91	6.07
1999	0.96	1.02	1.14	1.73	0.16	0.18	1.29	1.91	5.88	14.75
2000	0.96	1.02	1.37	1.22	0.23	0.30	1.60	1.52	11.05	9.10
2001	0.98	1.00	1.36	1.19	0.35	0.42	1.71	1.61	16.02	14.12
2002	0.98	0.99	1.33	1.26	0.39	0.31	1.72	1.57	20.31	26.27
2003	0.99	0.98	1.20	0.58	0.60	0.66	1.80	1.23	20.20	4.99
2004	0.97	0.87	0.91	0.87	0.63	0.69	1.55	1.56	13.81	14.10
2005	0.94	0.93	0.54	0.40	0.85	0.87	1.39	1.27	9.58	6.93
2006	0.87	0.82	0.23	0.20	0.82	0.88	1.05	1.08	1.51	2.34
2007	0.75	0.84	0.20	0.39	0.96	0.61	1.16	1.00	5.70	-0.05
2008	0.55	0.51	0.16	0.19	0.99	1.06	1.15	1.25	7.24	12.66
2009	0.53	0.46	0.12	0.04	1.04	1.14	1.16	1.15	13.74	16.59
2010	0.35	0.24	0.05	0.01	0.91	0.98	0.96	0.98	-5.33	-2.72
2011 Q3	0.11	0.05	0.01	0.02	0.90	0.97	0.91	0.99	-30.67	-3.99
Pooled IRR	0.77	0.73	0.72	0.78	0.65	0.61	1.37	1.40	11.86	12.32

Based on data compiled from 1,961 Private Equity funds, including fully liquidated partnerships, formed between 1980 to 2011.

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: February 21, 2012
Subject: Montana Real Estate Pool [MTRP]

Attached to this memo are the following reports:

- (i) **Montana Real Estate Pool Review:**
Comprehensive overview of the real estate portfolio for the quarter ended September 30.
- (ii) **New Commitments:**
The table below summarizes the investment decisions made by Staff since the last Board meeting. There was one new commitment made to a closed-end fund in MTRP. An additional \$10M commitment was added to the pool’s existing \$25M commitment to AG Core Plus Realty Fund III, LP.

Fund Name	Pool	Subclass	Sector	Amount	Date Funded (Core) or Date of Decision
Angelo Gordon Core Plus Realty Fund III, LP	MTRP	Value-add	Diverse	\$10 M	12/20/11

Montana Board of Investments

Real Estate Board Report

Q3 2011

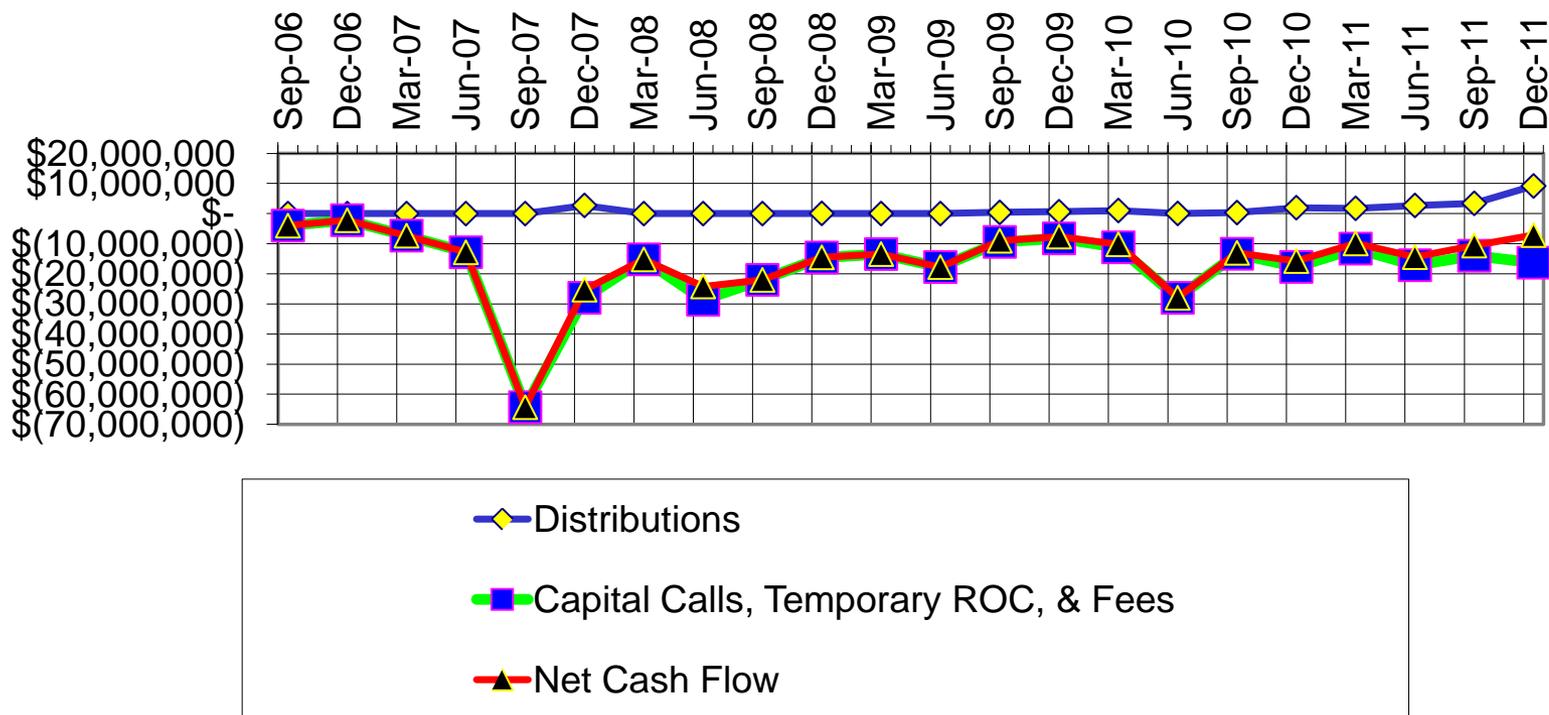
Due to, among other things, the lack of a valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a fund's life, the internal rate of return information may not accurately reflect current or expected 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 December 31, 2011

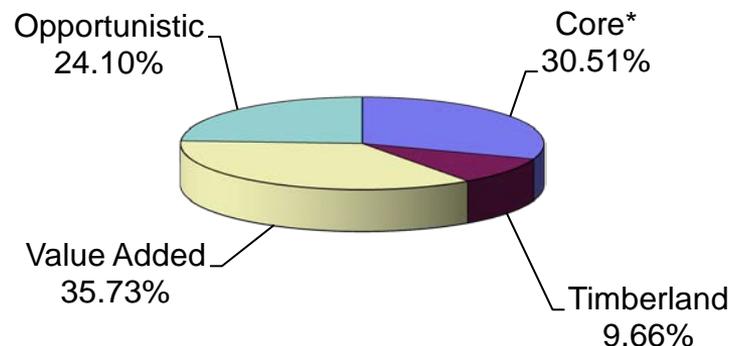
Montana RE Cash Flows Through 12/31/11 (Non Core)



Capital calls picked up slightly relative to the 3rd quarter. The pace of distributions remains on an upward trajectory and accelerated slightly during the 4th quarter, but continues to be minimal given market conditions.

Q3 2011 Strategy – Total Exposure

Total Exposure

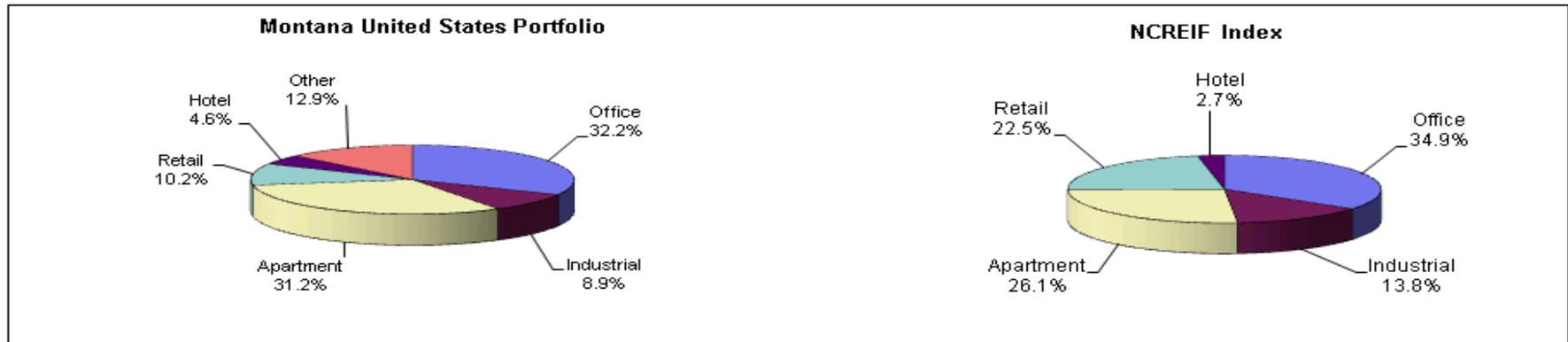


Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core*	\$0	0.00%	\$239,722,114	42.76%	\$239,722,114	30.51%
Timberland	\$40,227,447	17.87%	\$35,676,455	6.36%	\$75,903,902	9.66%
Value Added	\$111,518,430	49.54%	\$169,207,822	30.18%	\$280,726,252	35.73%
Opportunistic	\$73,363,549	32.59%	\$115,972,599	20.69%	\$189,336,148	24.10%
Total	\$225,109,426	100.00%	\$560,578,990	100.00%	\$785,688,417	100.00%

* Includes MT Office Portfolio

Timberland is a recent addition to the real estate portfolio and represents approximately 6.4% of to the total portfolio's NAV and 10% of the aggregate exposure which includes unfunded commitments. Core real estate dominates assets in ground at 43% and now includes the directly owned Montana office buildings. Value Added and Opportunistic account for 30.2% and 20.7% respectively.

Q3 2011 Property Type – Market Value Exposure



	Office	Industrial	Apartment	Retail	Hotel	Other ²	Total
Montana US Value ³	\$273.4	\$75.5	\$264.4	\$86.3	\$38.8	\$109.4	\$847.7
Montana US Total	32.2%	8.9%	31.2%	10.2%	4.6%	12.9%	100.0%
NCREIF Value ^{3,4}	95,131	37,592	71,161	61,438	7,418		\$272,742
NCREIF ¹	34.9%	13.8%	26.1%	22.5%	2.7%		100.0%
Difference	-2.6%	-4.9%	5.1%	-12.4%	1.9%	12.9%	
Montana Non-US Value ³	\$45.0	\$0.0	\$9.0	\$7.6	\$19.2	\$64.1	\$144.9
Montana Non-US Total	31.1%	0.0%	6.2%	5.2%	13.3%	44.2%	100.0%
Montana Total Value ³	\$318.4	\$75.5	\$273.4	\$93.9	\$58.0	\$173.5	\$992.6
Montana Total ¹	32.1%	7.6%	27.5%	9.5%	5.8%	17.5%	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.

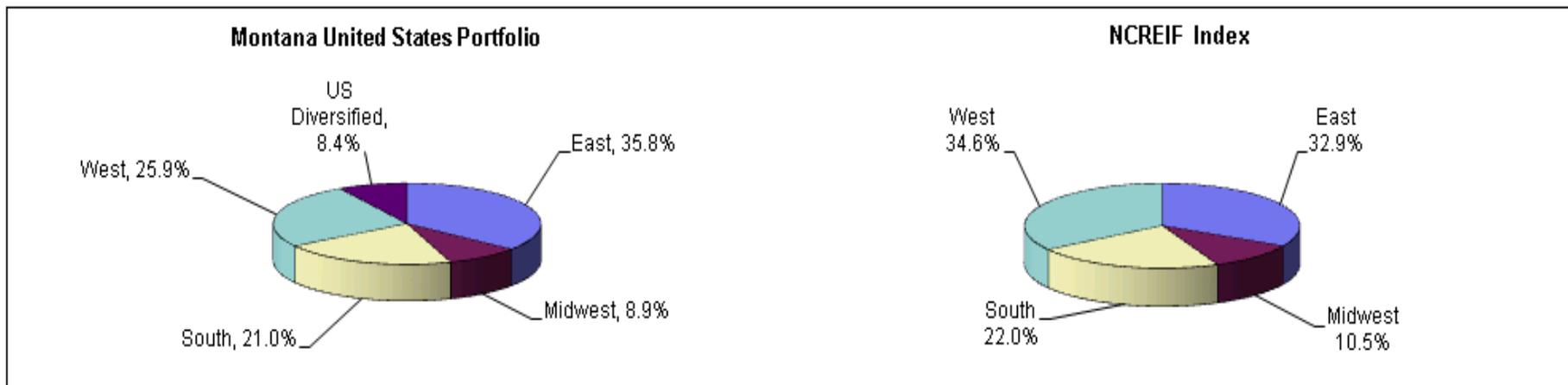
2) Total Other includes \$71,161,608 in mixed-use assets, \$9,488,056 in healthcare/senior living, \$12,201,541 in land, \$1,038,037 in storage, \$7,000,448 in debt assets, \$174,891 in parking, \$718,149 in manufactured assets, and \$34,957,936 in timber.

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. Other is representative of the portfolio's exposure to Timberland, Mixed-Use properties, Land, Manufactured Housing, 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 primarily be a function of a manager's expertise and success in sourcing deals rather than a function of Board staff's desire to over or underweight a specific property type.

Q3 2011 Geography – Total Exposure



	East	Midwest	South	West	US Diverse	Non-US	Total
Montana US Value ²	\$303.6	\$75.5	\$177.8	\$219.7	\$71.1		\$847.7
Montana US Total ¹	35.8%	8.9%	21.0%	25.9%	8.4%		100.0%
NCREIF Value ^{2,3}	89,842	28,656	59,984	94,258			272,742
NCREIF ¹	32.9%	10.5%	22.0%	34.6%			100.0%
Difference	2.9%	-1.6%	-1.0%	-8.7%	8.4%		
Montana Total Value ²	\$303.6	\$75.5	\$177.8	\$219.7	\$71.1	\$144.9	\$992.6
Montana Total ¹	30.6%	7.6%	17.9%	22.1%	7.2%	14.6%	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 is 8.7% less than the benchmark. 8.4% of the portfolio is broadly diversified across the remainder of the US and the portfolio's international exposure represents 14.6% of the mix.

Q3 2011 Commitment Summary

	Vintage Year	Commitment	Since Inception							Investment Multiple
			Capital Contributed	Remaining Commitment	Capital Distributed	Net Asset Value	NAV %	Total Exposure	Total Exposure%	
Core		235,000,000	235,000,000	-	30,598,086	221,761,206	39.56%	221,761,206	28.23%	0.99
Clarion Lion Properties Fund	2006	45,000,000	45,000,000	-	16,618,628	29,586,056	5.28%	29,586,056	3.77%	0.81
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	-	7,943,337	35,439,778	6.32%	35,439,778	4.51%	0.86
JP Morgan Strategic Property Fund	2007	95,000,000	95,000,000	-	4,276,521	98,212,031	17.52%	98,212,031	12.50%	1.03
UBS-Trumbull Property Fund	2010	50,000,000	50,000,000	-	1,759,599	58,523,341	10.44%	58,523,341	7.45%	1.21
Montana Office Portfolio	2011	-	17,674,045	-	103,160	17,960,908	3.20%	17,960,908	2.29%	1.02
Timberland		75,000,000	34,772,553	40,227,447	-	35,676,455	6.36%	75,903,902	9.66%	1.03
Molpus Woodlands Fund III, LP	2011	50,000,000	15,400,000	34,600,000	-	15,345,127	2.74%	49,945,127	6.36%	1.00
RMS Forest Growth III LP	2011	25,000,000	19,372,553	5,627,447	-	20,331,328	3.63%	25,958,775	3.30%	1.05
Value Added		301,200,000	189,681,570	111,518,430	20,382,097	169,207,822	30.18%	280,726,252	35.73%	0.99
ABR Chesapeake Fund III	2006	20,000,000	20,000,000	-	2,122,936	17,899,681	3.19%	17,899,681	2.28%	1.00
ABR Chesapeake Fund IV	2010	17,000,000	1,700,000	15,300,000	-	1,700,000	0.30%	17,000,000	2.16%	1.00
AG Core Plus Realty Fund II	2007	20,000,000	16,742,334	3,257,666	3,199,260	15,249,205	2.72%	18,506,871	2.36%	1.10
AG Core Plus Realty Fund III	2011	25,000,000	4,250,000	20,750,000	-	4,134,175	0.74%	24,884,175	3.17%	0.97
Apollo Real Estate Finance Corp.	2007	10,000,000	10,000,000	-	1,580,659	7,288,122	1.30%	7,288,122	0.93%	0.89
AREFIN Co-Invest	2008	10,000,000	10,000,000	-	2,301,574	7,422,573	1.32%	7,422,573	0.94%	0.97
DRA Growth & Income Fund VI	2007	35,000,000	20,496,000	14,504,000	4,723,616	20,877,043	3.72%	35,381,043	4.50%	1.15
DRA Growth & Income Fund VII	2011	30,000,000	-	30,000,000	-	-	-	-	-	-
Five Arrows Securities V, L.P.	2007	30,000,000	19,325,571	10,674,429	3,074,483	18,006,026	3.21%	28,680,456	3.65%	1.08
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	-	267,054	9,872,374	1.76%	9,872,374	1.26%	1.01
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	-	447,674	10,226,639	1.82%	10,226,639	1.30%	0.71
Landmark Real Estate Partners VI	2011	20,000,000	4,567,665	15,432,335	188,414	6,605,583	1.18%	22,037,918	2.80%	1.49
Realty Associates Fund IX	2008	20,000,000	18,400,000	1,600,000	486,085	20,051,193	3.58%	21,651,193	2.76%	1.12
Realty Associates Fund VIII	2007	20,000,000	20,000,000	-	1,203,936	13,536,104	2.41%	13,536,104	1.72%	0.74
Strategic Partners Value Enhancement Fund	2007	19,200,000	19,200,000	-	786,405	16,339,105	2.91%	16,339,105	2.08%	0.89
Opportunistic		248,008,422	177,144,873	73,363,549	19,546,668	115,972,599	20.69%	189,336,148	24.10%	0.75
AG Realty Fund VII L.P.	2007	20,000,000	15,054,000	4,946,000	3,923,418	13,293,912	2.37%	18,239,912	2.32%	1.14
AG Realty Fund VIII L.P.	2011	20,000,000	6,000,000	14,000,000	-	5,778,312	1.03%	19,778,312	2.52%	0.96
Beacon Capital Strategic Partners V	2007	25,000,000	20,500,000	4,500,000	318,752	10,608,412	1.89%	15,108,412	1.92%	0.53
Carlyle Europe Real Estate Partners III	2007	30,994,690	19,403,093	11,591,597	21,556	17,010,622	3.03%	28,602,219	3.64%	0.87
CIM Fund III, L.P.	2007	25,000,000	16,523,995	8,476,005	159,240	17,585,099	3.14%	26,061,104	3.32%	0.97
GEM Realty Fund IV	2009	15,000,000	3,300,000	11,700,000	443,992	3,110,723	0.55%	14,810,723	1.89%	1.05
JER Real Estate Partners - Fund IV	2007	20,000,000	16,853,466	3,146,534	9,757,652	3,390,690	0.60%	6,537,224	0.83%	0.78
Liquid Realty IV	2007	22,013,732	18,971,804	3,041,928	4,186,142	12,587,216	2.25%	15,629,144	1.99%	0.82
MGP Asia Fund III, LP	2007	30,000,000	18,647,200	11,352,800	35,146	18,794,852	3.35%	30,147,652	3.84%	1.01
MSREF VI International	2007	25,000,000	27,500,000	-	17,313	5,997,407	1.07%	5,997,407	0.76%	0.21
O'Connor North American Property Partners II	2008	15,000,000	14,391,315	608,685	683,457	7,815,354	1.39%	8,424,039	1.07%	0.57
Montana Real Estate		859,208,422	654,273,041	225,109,426	70,630,011	560,578,990		785,688,417		0.93

No new managers were added in the quarter.

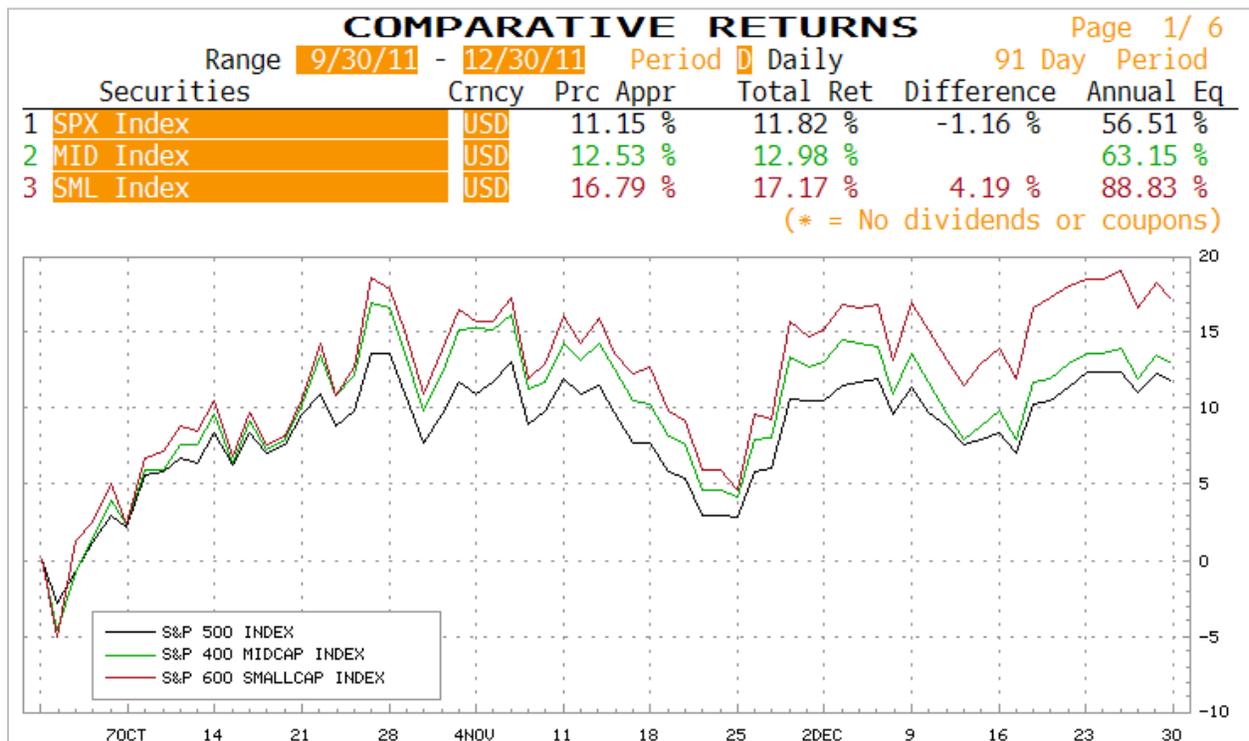
MONTANA DOMESTIC EQUITY POOL

Rande Muffick, CFA, Portfolio Manager
February 21, 2012

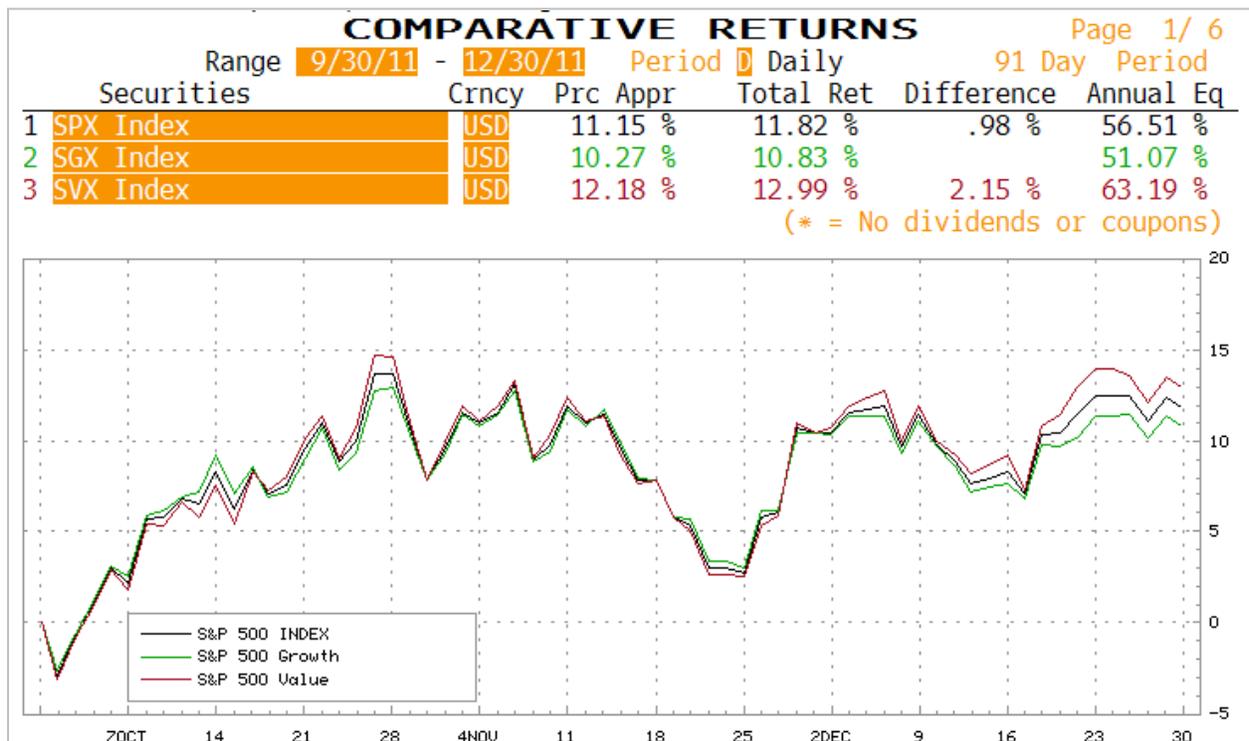
12/31/2011 Domestic Stock Pool By Manager			
<u>Manager Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved</u> <u>Range</u>
BLACKROCK EQUITY INDEX FUND	635,469,446	23.52%	
STATE STREET SPIF ALT INV	11,618,469	0.43%	
LARGE CAP CORE Total	647,087,915	23.95%	10-30%
ENHANCED INVEST TECHNOLOGIES	177,917,931	6.58%	
T ROWE PRICE ASSOCIATES INC	281,969,468	10.44%	
WESTERN ASSET US INDX PLUS LLC	151,054,962	5.59%	
LARGE CAP ENHANCED Total	610,942,360	22.61%	20-30%
BARROW HANLEY MEWHINNEY + STRS	188,185,021	6.96%	
QUANTITATIVE MANAGEMENT ASSOC	119,723,645	4.43%	
LARGE CAP VALUE Total	307,908,666	11.40%	
COLUMBUS CIRCLE INVESTORS	136,869,937	5.07%	
RAINIER INVESTMENT MGMT INC	135,312,387	5.01%	
LARGE CAP GROWTH Total	272,182,324	10.07%	
LARGE CAP STYLE BASED	580,090,990	21.47%	20-30%
ANALYTIC INVESTORS MU3B	110,503,563	4.09%	
JP MORGAN ASSET MGMT MU3E	307,918,300	11.40%	
130-30 Total	418,421,862	15.49%	10-20%
COMBINED LARGE CAP Total	2,256,543,128	83.51%	82-92%
ARTISAN MID CAP VALUE	104,824,494	3.88%	
BLACKROCK MIDCAP EQUITY IND FD	94,831,485	3.51%	
TIMESQUARE CAPITAL MGMT	99,041,882	3.67%	
MID CAP Total	298,697,860	11.05%	5-11%
DIMENSIONAL FUND ADVISORS INC	65,369,674	2.42%	
ISHARES S+P SMALLCAP 600 INDEX	15,178,644	0.56%	
VAUGHAN NELSON INV	66,227,359	2.45%	
SMALL CAP Total	146,775,677	5.43%	3-8%
MDEP Total	2,702,016,665	100.00%	

The table above displays the Montana Domestic Equity Pool (MDEP) allocation as of the end of December 2011. At this time, all weightings are within the approved ranges with the exception of mid cap which is borderline. There were no significant changes to manager allocations during the quarter.

U.S. equity markets rallied strongly in the fourth quarter as sovereign debt concerns took a back seat to improving U.S. economic data. The Fed proclaimed a continued easy money stance for at least another two years and investors looked to a cheaply valued stock market for higher future returns. Cyclical stocks led the way as energy, industrials, materials, and consumer discretionary stocks outperformed the overall market.



Performance among market capitalizations showed a return to risk taking by investors as small cap stocks outperformed their larger brethren by a wide margin. Small caps as represented by the S&P 600 Index returned 17.2% in the quarter compared to 13.0% for mid caps and 11.8% for large caps. MDEP continued to be most overweight in mid caps with a moderate overweight in small caps relative to the overall pool benchmark, the S&P 1500. This positioning added to the relative performance of the pool in the quarter.



Value stocks outdistanced growth stocks in all capitalization categories. Large cap value stocks returned 13.1% compared to large cap growth at 10.6%. Within mid caps, value stocks returned 13.4% compared to 10.8% for growth. And in small caps, value stocks outperformed growth stocks 16.0% to 15.0%. MDEP carries slightly more value than growth within the pool so this positioning added slightly to relative performance for the quarter.



The VIX receded to the low 20's indicating investors were more comfortable in the market and more willing to take on additional risk. The index neared the lows of the past four years as the quarter came to a close.

Active management within the pool struggled in the fourth quarter. Large cap enhanced, large cap partial long/short, large cap growth, and small cap style buckets underperformed while large cap value and mid cap allocations outperformed. After a strong beginning to 2011 for active management the last two quarters have shown a return to subpar performance, especially within the growth style bucket. Overall MDEP underperformed its benchmark by 57 basis points in the fourth quarter and underperformed by 131 basis points for the calendar year.

Going forward the strategy at the pool level is to continue to overweight mid caps and small caps. Secondly, passive/active weights within the pool are expected to remain about the same. And finally, further diversification of actively managed portfolios within the mid cap and small cap allocations is likely.

DOMESTIC EXPOSURE-MARKET CAP %

December 31, 2011

MANAGERS	MEGA	GIANT	LARGE			MID	SMALL	MICRO	WTD AVG MARKET CAP (\$B)
	\$200B+	\$100-\$200B	\$50-\$100B	\$20-\$50B	\$10-\$20B	\$2.5-\$10B	\$500MM-\$2.5B	< \$500MM	
Analytic Investors, Inc	14.9	17.3	11.8	22.4	16.1	18.8	-3.5	--	83.7
Artisan Partners	--	--	--	--	31.9	59.3	8.7	--	7.2
Barrow Hanley	3.9	13.9	12.8	17.5	26.4	21.9	3.7	--	48.8
Columbus Circle Investors	6.1	11.3	17.9	34.8	21.6	8.3	--	--	67.3
Dimensional Fund Advisors	--	--	--	--	--	2.1	73.9	23.9	1.1
INTECH Investment Management	12.5	14.9	6.9	20.5	22.8	22.0	0.5	--	77.8
J.P. Morgan	10.9	21.4	20.1	32.2	12.0	2.6	-0.5	--	95.9
Quantitative Management	7.0	22.8	14.0	18.4	17.0	18.8	2.0	--	71.7
Rainier Investment Mgt	6.2	8.8	12.1	27.4	23.3	22.2	--	--	59.5
T. Rowe Associates	13.4	19.4	16.8	21.0	16.2	13.0	0.1	--	93.4
TimesSquare Cap Mgmt	--	--	--	2.7	21.4	69.1	6.8	--	7.3
Vaughan Nelson Mgmt	--	--	--	--	--	29.9	68.9	1.2	2.1
Western Asset US Index Plus	13.3	20.1	16.8	22.7	15.5	11.4	0.3	--	92.9
BlackRock S&P 500 Index Fund	13.2	20.1	16.8	22.7	15.5	11.1	0.3	--	93.0
BlackRock Midcap Equity Index Fund	--	--	--	--	--	71.7	28.1	--	3.5
ALL DOMESTIC EQUITY PORTFOLIOS	9.2	15.1	13.0	20.1	16.6	19.1	5.8	0.7	70.6
Benchmark: S&P Composite 1500	11.7	17.7	14.8	20.0	13.7	16.0	5.6	0.4	82.4
Over/underweight(-)	-2.5	-2.6	-1.8	0.1	2.9	3.1	0.2	0.3	

DOMESTIC EXPOSURE-SECTOR %

December 31, 2011

MANAGERS

Analytic Investors, Inc
 Artisan Partners
 Barrow Hanley
 Columbus Circle Investors
 Dimensional Fund Advisors
 INTECH Investment Management
 J.P. Morgan
 Quantitative Management
 Rainier Investment Mgt
 T. Rowe Associates
 TimesSquare Cap Mgmt
 Vaughan Nelson Mgmt
 Western Asset US Index Plus
 BlackRock S&P 500 Index Fund
 BlackRock Midcap Equity Index Fund

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Analytic Investors, Inc	14.3	10.9	11.7	12.7	13.2	5.2	18.0	3.5	3.5	4.8
Artisan Partners	8.0	5.6	8.9	20.8	3.1	20.5	27.6	--	--	5.6
Barrow Hanley	7.3	8.9	10.4	24.0	15.7	16.4	9.6	1.1	2.7	3.9
Columbus Circle Investors	24.9	7.8	8.6	5.1	10.3	8.1	32.3	2.9	--	--
Dimensional Fund Advisors	15.8	5.6	4.3	14.7	10.7	19.5	19.0	5.3	0.9	4.1
INTECH Investment Management	11.4	14.1	14.1	8.3	15.2	9.9	14.4	3.2	3.8	5.8
J.P. Morgan	16.1	7.8	13.0	12.7	13.7	7.9	17.9	3.6	2.9	3.0
Quantitative Management	9.2	8.9	12.8	19.8	17.5	8.3	9.8	1.8	4.8	7.0
Rainier Investment Mgt	12.7	8.2	9.7	6.8	12.6	10.6	32.5	6.3	--	0.7
T. Rowe Associates	12.1	10.3	13.0	13.6	11.8	11.2	18.6	3.4	2.8	3.2
TimesSquare Cap Mgmt	14.8	4.6	8.8	11.0	10.9	17.5	25.4	3.7	3.2	--
Vaughan Nelson Mgmt	9.8	0.8	4.9	23.9	4.6	22.2	12.8	9.5	--	7.7
Western Asset US Index Plus	10.7	11.5	12.3	13.6	11.9	10.7	19.0	3.5	3.0	3.9
BlackRock S&P 500 Index Fund	10.6	11.5	12.3	13.6	11.8	10.7	19.0	3.4	2.9	3.8
BlackRock Midcap Equity Index Fund	14.4	4.3	6.6	20.0	10.2	16.3	14.8	6.7	0.5	6.1
All Domestic Equity Portfolios	12.4	9.3	11.3	14.1	12.2	11.6	19.0	3.5	2.5	3.7
Benchmark: S&P Composite 1500	11.0	10.7	11.5	14.4	11.7	11.4	18.7	3.8	2.7	4.1
Over/underweight(-)	1.4	-1.4	-0.3	-0.3	0.5	0.3	0.3	-0.3	-0.2	-0.3

DOMESTIC PORTFOLIO CHARACTERISTICS

December 31, 2011

MANAGERS

	Market Value (mm)	Number of Securities	3Yr Historical EPS Growth	Price/Earnings	Price/Book	Dividend Yield
Analytic Investors, Inc	112.8	196	13.0	9.8	1.8	1.7
Artisan Partners	105.1	58	7.8	12.5	1.6	1.9
Barrow Hanley	188.4	83	3.5	11.6	1.5	2.6
Columbus Circle Investors	137.1	57	20.0	14.5	3.4	1.0
Dimensional Fund Advisors	65.2	2,504	9.5	14.9	1.6	1.1
INTECH Investment Management	178.1	378	8.1	14.1	2.3	2.2
J.P. Morgan	310.4	258	7.1	13.8	1.8	2.0
Quantitative Management	119.9	159	0.4	11.7	1.4	2.6
Rainier Investment Mgt	135.5	73	18.3	19.5	3.4	0.8
T. Rowe Associates	282.5	275	9.4	13.8	2.0	1.9
TimesSquare Cap Mgmt	99.1	77	16.5	17.6	2.8	0.8
Vaughan Nelson Mgmt	66.2	77	2.6	14.2	1.6	1.9
Western Asset US Index Plus	151.1	500	8.5	13.7	2.0	2.1
Blackrock Equity Index Fund	630.8	502	8.5	13.7	2.0	2.1
Blackrock Midcap Equity Index Fund	96.2	402	5.3	17.0	1.9	1.5

All Domestic Equity Portfolios

2,705.2	3,421	9.0	13.6	2.0	1.9
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BENCHMARKS

S&P Composite 1500	1,500	8.2	14.0	2.0	2.0
S&P/Citigroup 1500 Pure Growth	377	25.2	17.9	3.0	0.7
S&P/Citigroup 1500 Pure Value	364	1.5	10.6	0.8	1.6
S&P 500	500	8.5	13.7	2.0	2.1
Russell 1000	980	8.5	13.8	2.0	2.0
Russell 1000 Growth	588	15.8	15.1	3.6	1.6
Russell 1000 Value	656	0.9	12.8	1.4	2.5
Russell Midcap	783	6.0	15.4	1.9	1.7
Russell Midcap Growth	466	12.0	17.9	3.3	1.1
Russell Midcap Value	528	0.2	13.4	1.3	2.3
Russell 2000	1,966	8.3	14.4	1.7	1.5
Russell 2000 Growth	1,162	11.6	16.9	2.9	0.8
Russell 2000 Value	1,354	5.3	12.4	1.2	2.3

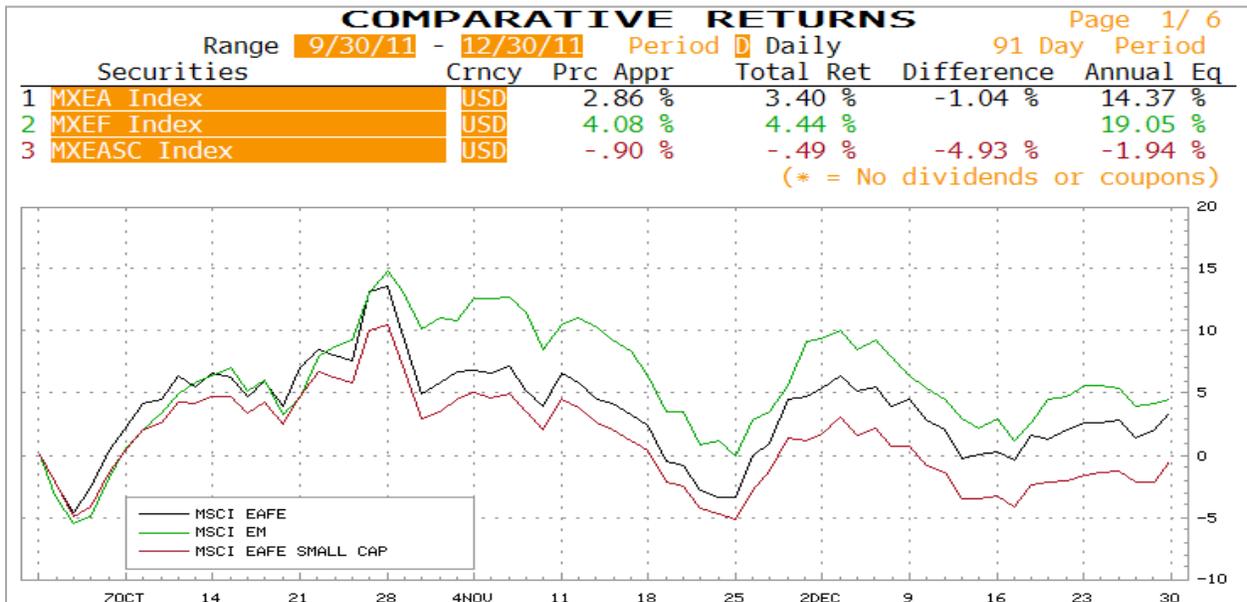
MONTANA INTERNATIONAL EQUITY POOL

Rande Muffick, CFA, Portfolio Manager
February 21, 2012

12/31/2011 International Stock Pool By Manager			
<u>Manager Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved Range</u>
MONEY MARKET FD FOR EBT	292	0.00%	
ARTIO GLOBAL MU1G	95,313,873	7.94%	
BATTERYMARCH INTL EQUITY	103,247,070	8.61%	
BLACKROCK GL EX US ALPHA TILT	94,734,640	7.90%	
BLACKROCK ACWI EX US SUPERFUND	490,217,517	40.86%	
EAFE STOCK PERFORMANCE INDEX	11,137,077	0.93%	0-10%
CORE Total	794,650,468	66.23%	50-70%
ACADIAN ACWI EX US VALUE	80,173,246	6.68%	
BERNSTEIN ACWI EX	89,743,104	7.48%	
VALUE Total	169,916,349	14.16%	10-20%
HANSBERGER INTL EQUITY GROWTH	89,215,152	7.44%	
MARTIN CURRIE ACWI X	89,378,812	7.45%	
GROWTH Total	178,593,964	14.89%	10-20%
DFA INTL SMALL CO PORTFOLIO	56,614,632	4.72%	
SMALL CAP Total	56,614,632	4.72%	5-15%
MTIP Total	1,199,775,413	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 with the exception of small cap which is slightly below the range. Recall that a rather abrupt termination of a small cap manager has led to a temporary decrease in small cap and an increase in large cap core. Finding a replacement in the small cap space proved to offer no attractive choices in active management and thus a passive investment fund with BlackRock was selected although not funded as of the end of the quarter.

International equity markets found their footing in the fourth quarter following the major selloff that took place last August and September. A general sense that European officials may have finally taken some appropriate action on the sovereign debt crisis calmed international markets to some extent. In addition, improving economic data out of the U.S. and better than expected data out of China gave international investors hope that the global economy may provide a better environment for equities in 2012. Ireland was the top performing stock market, up 13.3%, but the real leaders due to their larger weightings in the benchmark were the United Kingdom (+7.6%), China (+ 7.3%), Australia (+ 6.4%) and Korea (+6.1%).



Performance among market categories for the quarter was encouraging. Emerging market stocks led the way with a return of 4.4% while large cap developed stocks returned 3.4%. Small cap developed stocks lagged with a decline of 0.5%. MTIP was slightly underweight EM exposure for the quarter which detracted slightly from performance, yet the pool was also underweight small caps which more than offset the effect of the modest EM underweight.

When assessing style performance, international growth stocks fared better than value stocks, although returns were fairly similar. Growth stocks returned 4.1% compared to 3.3% for value stocks. MTIP is equal weight; i.e. positioned as style neutral between growth and value, so there was no style effect in the returns for the pool.



After a rollercoaster ride, the U.S. dollar ended just slightly above where it had started the quarter and had minimal effect on international equity returns for U.S. investors. Much of the ride was caused by the ebb and flow of news out of Europe, yet much of the dollar strength near the end of the quarter resulted from stronger U.S. economic data that lured fund flows from other parts of the world.

Active management within MTIP fared better in the fourth quarter yet most of the style buckets underperformed their respective benchmarks. Large cap growth was the only style bucket to outperform and thus basically carried the quarter. Large cap value, large cap core, and small cap underperformed. Overall MTIP outperformed its benchmark by 12 basis points for the quarter but underperformed by 57 basis points for the calendar year.

Going forward the strategy at the pool level is to continue with a heavy passive weight and to remain style neutral. The small cap allocation and the dedicated emerging market allocation that had been anticipated were funded following the end of the fourth quarter. Please see the transition memo included in this Board packet.

INTERNATIONAL EXPOSURE-MARKET CAP %

December 31, 2011

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	--	16.7	15.4	17.9	9.6	21.0	11.7	7.8	33.8
Artio Global - Intl Equity II with look throughs	--	16.6	18.8	30.4	18.0	12.8	3.3	0.0	45.6
Batterymarch Financial Mgmt	--	14.8	15.3	15.6	18.1	30.8	5.3	0.0	35.4
Bernstein Inv Mgt & Research with look throughs	--	14.3	11.6	20.7	16.1	27.5	7.5	0.1	35.3
BlackRock Global Ex US Alpha Tilt Fd	--	12.3	15.6	23.2	14.4	23.4	9.4	--	33.0
DFA International Small Cap	--	--	--	--	--	13.9	62.2	23.5	1.1
Hansberger Global Investors	--	9.6	15.0	34.1	17.0	17.5	6.7	--	32.8
Martin Currie with look throughs	--	13.4	8.1	27.9	22.6	24.0	3.1	--	35.2
BlackRock ACWI Ex US Superfund A	--	12.8	16.7	25.0	18.2	23.3	3.1	--	35.6
ALL INTERNATIONAL EQUITY PORTFOLIOS	0.0	12.8	14.7	23.3	16.6	22.6	7.8	1.7	34.2
International Custom Benchmark	0.0	12.7	16.6	24.9	18.2	23.6	3.7	0.2	35.0
Over/underweight(-)	0.0	0.1	-1.9	-1.6	-1.6	-1.0	4.1	1.4	

INTERNATIONAL EXPOSURE-SECTOR %

December 31, 2011

MANAGERS

Acadian Asset Management
 Artio Global - Intl Equity II with look throughs
 Batterymarch Financial Mgmt
 Bernstein Inv Mgt & Research with look throughs
 Blackrock Global Ex US Alpha Tilt Fd
 DFA International Small Cap
 Hansberger Global Investors
 Martin Currie with look throughs
 Blackrock ACWI ex-US Superfund

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	10.2	2.0	19.7	28.0	4.1	7.8	5.8	6.8	12.6	2.8
Artio Global - Intl Equity II with look throughs	17.7	11.2	12.9	10.7	12.3	12.8	4.7	10.9	4.7	2.1
Batterymarch Financial Mgmt	9.7	10.5	12.1	19.7	8.6	8.2	5.5	12.0	9.0	4.8
Bernstein Inv Mgt & Research with look throughs	12.9	5.0	14.3	23.8	6.8	6.7	6.6	11.8	6.7	3.7
Blackrock Global Ex US Alpha Tilt Fd	11.4	8.8	10.1	20.8	6.9	11.7	6.6	11.6	6.5	4.0
DFA International Small Cap	18.0	7.0	7.0	13.0	5.2	24.5	8.7	12.8	1.2	2.3
Hansberger Global Investors	14.7	10.7	9.7	12.7	5.5	11.8	13.5	12.1	5.8	3.4
Martin Currie with look throughs	14.4	11.9	11.4	11.9	7.8	11.7	6.7	14.7	6.5	3.0
Blackrock ACWI ex-US Superfund	8.9	10.0	11.7	22.6	7.1	10.4	6.4	11.7	6.4	4.0
All International Equity Portfolios	11.5	9.2	12.1	19.9	7.2	10.9	6.8	11.6	6.7	3.7
International Custom Benchmark	9.1	10.0	11.8	22.8	7.1	10.6	6.4	11.7	6.4	4.1
Over/underweight(-)	2.4	-0.8	0.3	-3.0	0.1	0.3	0.4	-0.1	0.3	-0.4

INTERNATIONAL PORTFOLIO CHARACTERISTICS

December 31, 2011

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/Earnings	Price/Book	Dividend Yield
International Accounts with look throughs	1,220.0	6,788	6.2	10.6	1.3	3.47

International Equity Managers

Acadian Asset Management	80.0	393	7.1	8.1	0.9	4.04
Artio Global - Intl Equity II with look throughs	115.0	171	8.1	12.1	1.7	2.98
Batterymarch Financial Mgmt	103.1	244	9.1	9.8	1.4	3.77
Bernstein Inv Mgt & Research with look throughs	90.7	204	1.8	8.0	0.9	3.96
Blackrock Global Ex US Alpha Tilt Fd	94.7	982	6.9	10.0	1.3	3.73
DFA International Small Cap	56.8	4,726	2.2	11.1	0.9	3.08
Hansberger Global Investors	89.2	60	9.5	13.2	1.9	2.30
Martin Currie with look throughs	89.2	71	11.0	12.1	1.7	2.77
Blackrock ACWI ex-US Superfund	490.2	1,873	4.9	11.1	1.4	3.60

Benchmarks

MSCI All Country World Ex-United States		1,847	5.0	11.1	1.4	3.59
MSCI All Country World Ex-United States Growth		1,050	9.9	13.5	2.0	2.47
MSCI All Country World Ex-United States Value		1,022	0.1	9.4	1.0	4.72
MSCI EAFE Small Cap		2,363	4.4	11.3	1.0	3.25
MSCI World Ex-United States Small Cap		2,609	4.6	11.4	1.1	3.17
MSCI All Country Pacific		933	6.0	11.6	1.2	3.21
MSCI Europe		450	2.8	10.7	1.4	4.20
International Custom Benchmark		6,361	5.0	11.1	1.4	3.59

INTERNATIONAL EQUITY
Region and Market Exposure
December 31, 2011

Developed Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
Asia/Pacific	24.3%	23.8%	0.44%				
Australia	5.57%	5.89%		6.4%	-16.5%	-15.5%	-15.5%
Hong Kong	1.89%	1.91%		5.7%	-17.4%	-19.9%	-19.9%
Japan	15.60%	14.81%		-4.2%	-10.3%	-14.8%	-14.8%
New Zealand	0.08%	0.08%		-1.6%	-11.4%	-3.4%	-3.4%
Singapore	1.14%	1.14%		-1.7%	-21.6%	-22.1%	-22.1%
European Union	22.0%	21.6%	0.38%				
Austria	0.25%	0.17%		-5.0%	-36.6%	-34.9%	-34.9%
Belgium	0.66%	0.65%		1.0%	-19.6%	-14.3%	-14.3%
Denmark	0.86%	0.72%		7.0%	-19.7%	-18.2%	-18.2%
Finland	0.48%	0.58%		-1.0%	-29.0%	-34.4%	-34.4%
France	6.30%	6.16%		1.9%	-28.8%	-19.4%	-19.4%
Germany	5.94%	5.34%		3.6%	-28.5%	-20.3%	-20.3%
Greece	0.08%	0.06%		-22.7%	-58.5%	-61.7%	-61.7%
Ireland	0.30%	0.20%		13.3%	-11.3%	-0.8%	-0.8%
Italy	1.68%	1.54%		-1.9%	-32.0%	-26.6%	-26.6%
Netherlands	1.84%	1.70%		5.2%	-19.0%	-16.4%	-16.4%
Portugal	0.15%	0.15%		-9.5%	-31.2%	-28.0%	-28.0%
Spain	1.64%	2.21%		-3.8%	-26.6%	-17.4%	-17.4%
Sweden	1.82%	2.11%		9.3%	-19.6%	-17.4%	-17.4%
Non-EU Europe	6.6%	6.5%	0.06%				
Norway	0.88%	0.64%		8.9%	-17.7%	-17.6%	-17.6%
Switzerland	5.68%	5.86%		3.7%	-15.2%	-10.4%	-10.4%
North America	6.9%	8.4%	-1.51%				
Canada	6.90%	8.41%		5.1%	-15.6%	-14.7%	-14.7%
USA	0.00%	0.0%		11.5%	-5.9%	-0.8%	-0.8%
United Kingdom	17.1%	15.9%	1.18%				
United Kingdom	17.06%	15.89%		7.6%	-10.4%	-7.1%	-7.1%
Other							
Other	0.56%	0.00%					
DEVELOPED TOTAL	77.35%	76.25%	1.11%				
Emerging & Frontier Market Countries							
Asia/Pacific	14.0%	13.8%	0.22%				
China	5.24%	4.15%		7.3%	-21.1%	-22.7%	-22.7%
India	1.23%	1.44%		-16.1%	-33.0%	-39.7%	-39.7%
Indonesia	0.48%	0.70%		5.6%	-7.1%	2.5%	2.5%
South Korea	3.56%	3.50%		6.1%	-18.2%	-11.9%	-11.9%
Malaysia	0.73%	0.83%		11.6%	-9.2%	-3.4%	-3.4%
Philippines	0.10%	0.17%		6.6%	-2.1%	-4.9%	-4.9%
Taiwan	2.06%	2.57%		-1.6%	-22.8%	-25.7%	-25.7%
Thailand	0.63%	0.46%		11.2%	-5.2%	-6.4%	-6.4%
European Union	0.4%	0.5%	-0.02%				
Czech Republic	0.14%	0.08%		-2.4%	-25.4%	-13.9%	-13.9%
Hungary	0.03%	0.07%		-2.8%	-45.7%	-34.9%	-34.9%
Poland	0.27%	0.32%		-5.7%	-39.4%	-33.5%	-33.5%
Non-EU Europe	1.3%	1.5%	-0.12%				
Russia	1.34%	1.46%		5.7%	-27.2%	-21.5%	-21.5%
Latin America/Caribbean	4.5%	5.3%	-0.82%				
Brazil	3.38%	3.46%		7.4%	-22.3%	-25.0%	-25.0%
Chile	0.23%	0.42%		7.5%	-21.7%	-25.5%	-25.5%
Colombia	0.11%	0.22%		1.5%	-11.9%	-7.4%	-7.4%
Mexico	0.73%	1.09%		9.1%	-13.6%	-14.5%	-14.5%
Peru	0.07%	0.15%		11.1%	5.3%	-24.1%	-24.1%
Mid East/Africa	1.8%	2.2%	-0.40%				
Egypt	0.04%	0.07%		-13.8%	-33.2%	-49.6%	-49.6%
Morocco	0.02%	0.04%		-9.1%	-15.5%	-15.0%	-15.0%
South Africa	1.40%	1.83%		6.2%	-12.8%	-17.4%	-17.4%
Turkey	0.38%	0.29%		-15.3%	-30.3%	-37.2%	-37.2%
Frontier	0.05%	0.00%	0.05%				
Frontier							
EMERGING & FRONTIER TOTAL	22.2%	23.3%	-1.09%				

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: February 21, 2012

Subject: Public Equity External Managers Watch List - Quarterly Update

During the quarter there were no additions or removals from the Watch List. There was, however, one manager termination. Artio Global, a large cap core international manager was terminated for performance reasons.

MANAGER WATCH LIST

February 2012

<u>Manager</u>	<u>Style Bucket</u>	<u>Reason</u>	<u>\$ Invested (mil)</u>	<u>Inclusion Date</u>
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	\$151	March 2008
Martin Currie	International – LC Growth	Performance, Risk Controls	\$89	February 2009
Columbus Circle	Domestic – LC Growth	Performance, Process	\$137	May 2011
TimesSquare	Domestic – MC Growth	Performance	\$99	August 2011

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: February 21, 2012
Subject: Montana International Equity Pool (MTIP) Transition

As a result of the termination of Artio Global, staff performed a transition of assets within the international equity pool in January. Assets from the Artio Global account were shifted into three BlackRock index funds which are listed below. Recall that the MTIP strategy has been to add a dedicated emerging market exposure and to increase small cap exposure.

<u>Manager</u>	<u>Action</u>	<u>Amount(approx.)</u>
BlackRock ACWI ex US Index Fund	Added	\$54 million
BlackRock Emerging Market Index Fund	New	\$25 million
BlackRock Small Cap Int'l Index Fund	New	\$20 million
Artio Global Large Cap Core	Terminated	\$99 million

The transition was performed by BlackRock Execution Services during the final week of January. The overall cost amounted to \$145,931 or approximately 14 basis points of the market value of the transition. Of this amount, 11 basis points of cost occurred due to the market impact on the trading of the securities involved. Staff was quite satisfied with the resulting overall cost of the transition as it amounted to about one third of what was initially estimated. This was mainly due to the ability of BlackRock to implement a large amount of crossing trades within its own funds which saved on market impact costs.

Due to the timing of the transition, the portfolio displayed in this quarter's MTIP strategy does not reflect the changes resulting from the transition. Below is an updated allocation for the international pool as of February 6.

2/6/2012 International Stock Pool By Manager			
<u>Manager Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved Range</u>
ARTIO GLOBAL MUIG	696,839	0.05%	
BATTERYMARCH INTL EQUITY	112,376,184	8.55%	
BLACKROCK GL EX US ALPHA TILT	104,464,854	7.95%	
BLACKROCK ACWI EX US SUPERFUND	592,919,308	45.09%	
BLACKROCK MSCI EM MKT FR FD B	26,243,953	2.00%	
EAFE STOCK PERFORMANCE INDEX	8,967,202	0.68%	0-10%
CORE Total	845,668,340	64.32%	50-70%
ACADIAN ACWI EX US VALUE	88,091,082	6.70%	
BERNSTEIN ACWI EX	99,741,858	7.59%	
VALUE Total	187,832,940	14.29%	10-20%
HANSBERGER INTL EQUITY GROWTH	99,210,601	7.55%	
MARTIN CURRIE ACWI X	97,649,839	7.43%	
GROWTH Total	196,860,440	14.97%	10-20%
BLACKROCK ACWI EX US SMALL CAP	21,064,049	1.60%	
DFA INTL SMALL CO PORTFOLIO	63,405,115	4.82%	
SMALL CAP Total	84,469,164	6.42%	5-15%
MTIP Total	1,314,830,883	100.00%	

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: Clifford A. Sheets, CFA, CIO

Date: February 21, 2012

Subject: Prime Brokerage Transition

Prior to this past December, the assets of the JP Morgan and Analytic Investors, 130/30 long/short portfolios were held in custody at Citigroup which acted as prime broker for these two accounts since March 2008. As a reminder, the role of a prime broker is to facilitate the borrowing of stock necessary to execute the short sales that are integral to this particular strategy. Following a lengthy due diligence process over the past two years the decision was made to transfer these assets to State Street's Enhanced Custody Model, which was introduced to us in March 2010.

There were several advantages that supported the decision to transition these assets to State Street's Enhanced Custody Model. First, the counterparty risk posed by Citigroup as prime broker has been removed. Second, the cost of managing these portfolios has been reduced by an estimated \$200,000 per year. The cost savings are primarily attributed to the ability to now self-borrow stock from the Board of Investment's other assets given State Street's role as custodian of all other equity securities. State Street charges a minimal fee for this service while the costs associated with any third-party borrowing activity remains competitive. We also participate in securities lending revenue for the long positions held in the 130/30 portfolios, revenue not available when these assets were held by Citigroup. We are also receiving, at no additional cost, a portfolio analytics package that is provided by State Street in order for Board staff to monitor the portfolios. And finally, the accounting for these assets has been streamlined as there is no longer a need for State Street, as our master custodian, to replicate the accounting records of Citigroup in order to report on the total invested assets. All holdings are now held by State Street Bank.

The transition of the assets from Citigroup to State Street took place on December 22, 2011. There was no required trading or repositioning of the portfolios in order to complete the transfer and the managers were able to continue managing the portfolios without any interruption. Therefore, there were no costs involved in the transition as the assets were simply moved from Citigroup to State Street.

MEMORANDUM

Montana Board of Investments

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

To: Board Members

From: Clifford A. Sheets, CFA, Chief Investment Officer

Date: February 21, 2012

Subject: Revision of Public Markets Manager Evaluation Policy

This policy was created in May, 2008, with the intent of providing a basic description of the ongoing monitoring process conducted by staff with respect to our external public asset managers. It discusses the evaluation duties of staff and the concept of a “watch list” which is to be used to highlight managers where concerns exist. It also discusses the possibility of a manager termination when deemed appropriate by staff.

At the inception of this policy it was focused on our public equity managers, since at that time we had no externally managed public fixed income relationships. External fixed income managers were hired beginning in late 2008 and up until now we have not considered it appropriate to highlight any of these managers for particular concern and thus inclusion on a watch list per se. As discussed in the fixed income section of the investment reports this quarter, we have now decided to formally express such concern with a fixed income manager and so we have created a watch list for fixed income managers that is separate from the list we have been maintaining for various public equity managers over time.

The purpose of the revision to this policy is very simple – it broadens the scope of the policy to cover public fixed income as well as public equity managers. The monitoring process outlined in the policy applies to both types of managers, and thus there is a change to reference public markets broadly speaking. There are no substantive changes to the policy otherwise. Attached is the policy marked to show the proposed changes. Board approval is recommended.

MONTANA BOARD OF INVESTMENTS
PUBLIC EQUITY MARKETS MANAGER EVALUATION POLICY
(May 14, 2008)

INTRODUCTION

The purpose of this policy is to broadly define the monitoring and evaluation of external public equity markets managers. This policy also provides a basis for the retention and/or termination of managers employed within the Montana Domestic Equity Pool (MDEP), ~~and~~ 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 ~~MDEP and MTIP~~ 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.

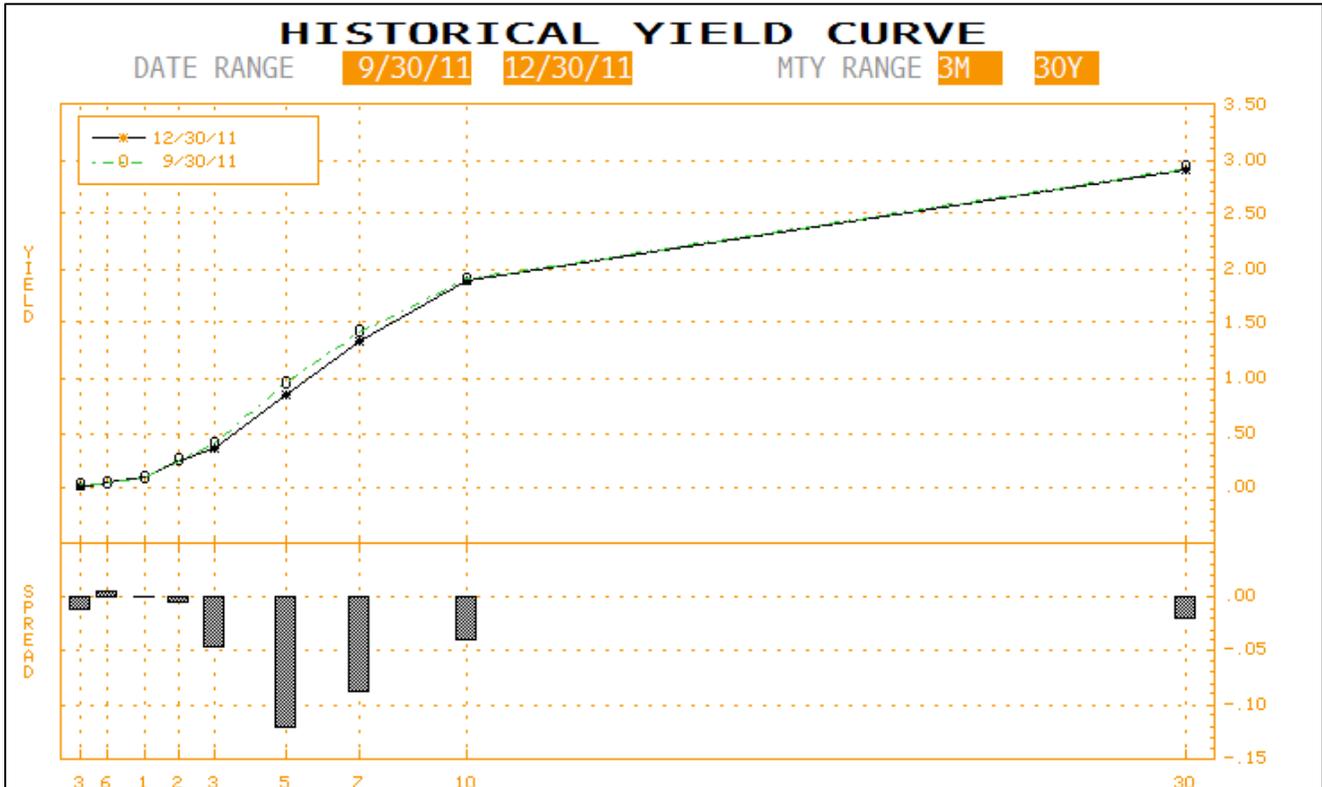
FIXED INCOME OVERVIEW & STRATEGY

Nathan Sax, CFA, Portfolio Manager

February 22, 2012

RETIREMENT & TRUST FUND BOND POOLS

Interest rates traded in a well defined range through the fourth quarter. The graph below shows some flattening in the intermediate part of the yield curve. Optimism surrounding growth in the United States and a possible solution to the sovereign debt crisis in the Euro zone drove credit spreads tighter to Treasuries. For the fourth quarter, Treasuries posted a total return of +0.89% while corporate bonds were +1.93% and mortgage backed securities were +0.88%. CMBS was the best performing sector with a return of +3.11%. The Barclays Aggregate Index was up 1.12%.



The price of oil jumped 24.1% from \$79.80 a barrel on September 30, 2011 to \$99.00 at year-end. The CRB commodities index, however, was up only 2.4%. The median economic forecast, according to *Blue Chip Economic Indicators*, calls for inflation to ease to 2.1%, year-over-year, in 2012. The general price level is expected to remain under control despite a highly stimulative monetary policy over the past three and a half years.

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

RFBP/TFBP vs. Barclays Aggregate – 12/31/11

	Retirement Fund Bond Pool						Trust Fund Bond Pool	Barclays Aggregate	CIBP/TFBP Policy Range
	CIBP	Reams	Artio	Post	Neubgr Berman	Total RFBP			
Treasuries	17.65	11.40	15.32	0.00	0.00	15.13	16.33	35.15	10-35
Agencies & Govt Related	11.49	6.76	13.32	0.00	0.00	9.94	8.27	10.84	5-25
Total Government	29.14	18.16	28.64	0.00	0.00	25.07	24.60	45.99	15-60
Mortgage Backed	32.07	32.96	19.91	0.00	0.00	28.89	34.42	31.80	20-50
Asset Backed	3.17	4.99	5.02	0.00	0.00	3.30	2.91	0.23	0-10
CMBS	4.74	3.62	11.57	0.00	0.00	4.59	6.05	2.04	0-10
Total Securitized	39.98	41.57	36.50	0.00	0.00	36.78	43.38	34.07	20-75
Financial	12.05	19.90	13.63	9.26	11.39	13.24	12.74	6.54	
Industrial	12.79	8.43	15.08	81.90	81.49	17.82	12.64	11.13	
Utility	3.07	0.38	1.58	0.00	6.05	2.65	3.85	2.27	
Total Corporate	27.91	28.71	30.29	91.16	98.93	33.71	29.23	19.94	10-35
Other	0.00	0.00	0.73	5.50	0.47	0.22	0.00	0.00	
Cash	2.97	11.56	3.84	3.34	0.60	4.22	2.79	0.00	0-10
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 12/31/11
U.S. High Yield	0-15%	12.32%
Non-US (incl. EM)	0-10%	2.30%
Total "Plus" sectors	0-20%	14.62%
Core (U.S. Investment Grade)	80-100%	85.38%

TFIP Fixed Income Sector	Policy Range	TFIP on 12/31/11
High Yield	0-10%	8.66%
Core Real Estate	0-8%	5.22%
Core (U.S. Investment Grade)	0-100%	86.12%

Yield spreads on Investment Grade and High Yield bonds tightened in October, widened in November and drifted sideways in December. Credit spreads have continued to narrow, with financial spreads tightening by 79 basis points between year-end and February 7th. The internally managed portfolio (CIBP) still has an over-weight to credit, but we have sold financials into strength to lighten the commitment there because of the European banking crisis. High yield spreads ended the year at 7.02% as shown on the graph below. They were at 6.20% as of February 7, 2012.

High Yield manager Post Advisors (+4.12%) trailed the Barclays High Yield Index (+6.48%) for the quarter by 236 basis points. Neuberger Berman (+7.12%), our other High Yield manager, beat the index by 64 basis points. The below-investment-grade market rebounded following a poor third quarter (see the graph shown below). Core-plus manager Artio (+1.41%) edged their benchmark (+1.25%) by 16 basis points. Reams Asset Management (+1.97%) finished 52 basis points ahead of the Barclays Universal index (+1.45%) over the past three months. Finally, the CIBP (+1.26%) return for the fourth quarter was 14 basis points ahead of the Barclays Aggregate Bond Index (+1.12%).

Barclays U.S. High Yield 2% Issuer Cap, Average OAS – 03/31/11 to 02/07/12



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 12/31/2011						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	105.59	4.08	3.93	2.95	4.88	1.49
Benchmark	110.53	4.06	3.72	1.99	4.68	0.84
Difference	-4.94	0.02	0.21	0.96	0.20	0.65

Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 12/31/11						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	104.37	4.29	4.18	3.41	4.68	2.04
Benchmark	110.53	4.06	3.72	1.99	4.68	0.84
Difference	-6.16	0.23	0.46	1.42	0.00	1.20

Benchmark Comparison Analysis TFBP vs. Merrill US Broad Market Index on 12/31/11						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	105.65	3.96	4.12	2.87	4.89	1.49
Benchmark	110.53	4.06	3.72	1.99	4.68	0.84
Difference	-4.88	-0.10	0.40	0.88	0.21	0.65

Thus far in 2012, corporate bonds have performed well relative to Treasuries. Expectations for improvement in the economy, generally, have been fueling the interest in corporates at the expense of Treasuries. The risk, as we saw in November 2011, is that this optimism fades in the face of disappointments in U.S. economic prospects or in European efforts to stabilize troubled countries. Should a recovery in the U.S. not progress as hoped for, spreads could widen again as they did in November.

Yield spreads of investment grade corporate bonds are illustrated in the following table:

Barclays US Aggregate Corporate, Average OAS 03/31/11 – 02/07/12



Concluding Comments

As stated last quarter, we are still focusing on the liquidity and credit quality of the core internal bond portfolio, tightening tracking error relative to the index and containing volatility. Fiscal problems in certain European countries may make periodic flights to quality more likely, at which time risk assets may suffer due to their lower credit quality and weaker demand during periods of stress. The same could happen in the event of a setback in the recently improved tone of the economic indicators in the U.S.

The Federal Reserve stated that the overnight Federal Funds rate would be maintained essentially at zero through most of 2014. This expectation is somewhat in contrast to recent market expectations for a quicker recovery. Deleveraging around the world will be a slow and lengthy process.

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS

December 31, 2011

(in millions)

	Par	Book	Market	Price	Name	Coupon %	Maturity	Rating M/S&P	Comments
A	\$15.000	\$14.737	\$14.756	\$98.37	R R Donnelley & Sons	4.950	04/01/14	Ba1/BB+	Downgraded 5/16/11 around the time when RRD announced \$1 billion share buyback. The printing industry is under long-term stress. Liquidity remains strong.
	\$5.000	\$5.002	\$5.013	\$100.26	Continental Airlines	6.563	02/15/12	Ba1/BB-	Insured by AMBAC. Financial stress at AMBAC resulted in the downgrade of the bond.
	\$8.000	\$7.970	\$7.980	\$99.75	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.
	\$50.000	\$50.000	\$54.318	\$108.64	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.
	\$3.000	\$2.970	\$2.865	\$95.50	Regions Financial Corp	5.750	06/15/15	Ba3/BB-	Large number of distressed assets and departures of upper management resulted in downgrade.
	\$10.000	\$2.000	\$2.600	\$26.00	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	<u>\$91.000</u>	<u>\$82.679</u>	<u>\$87.532</u>						
A = Additions since 9/30/11									
D = Deletions since 9/30/11									
D	\$5.000	\$0.978	\$1.150	\$23.00	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation; position sold in Dec. at 26.
<u>In default</u>									
	\$10.000	\$2.000	\$2.600	\$26.00	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	<u>\$10.000</u>	<u>\$2.000</u>	<u>\$2.600</u>						

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: February 21, 2012
Subject: Fixed Income External Managers Watch List

Since the hiring of external managers in Fixed Income beginning in 2008, there has not been occasion to put a manager on Watch. However, we now are doing so given concerns with Post Advisors, a High Yield manager which advises funds within both the Retirement Funds Bond Pool and the Trust Funds Investment Pool.

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

Although our primary concern regards relative performance of the strategy, there was a change in the senior investment staff in early 2011 with the departure of the former Chief Investment Officer. His duties are now being filled by the president and founder of the firm, Larry Post, and other portfolio management staff which has remained in place.

MANAGER WATCH LIST February 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	\$55 RFBP \$98 TFIP	February, 2012

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager
February 21, 2012

During the fourth quarter money market yields were flat as the Federal Reserve continued its three year-old policy of low fed funds rates. The money market credit curve steepened as the European debt crisis continued to worsen and investors shortened maturities and declined to roll investments in most of the European banks. The ECB finally instituted its Long Term Refinancing Operation in December which allows banks unlimited funding for three years. Three month Libor rates increased by 20.7 basis points and one month Libor rates increased by 5.6 basis points during the quarter. Credit spreads were wider during the quarter, as depicted by the spread between three month Treasury bills and three month Libor rates (TED spread). This spread ended the fourth quarter at about 57 basis points, 22 basis points wider for the quarter.

TED Spread (12/31/10 – 12/31/11)

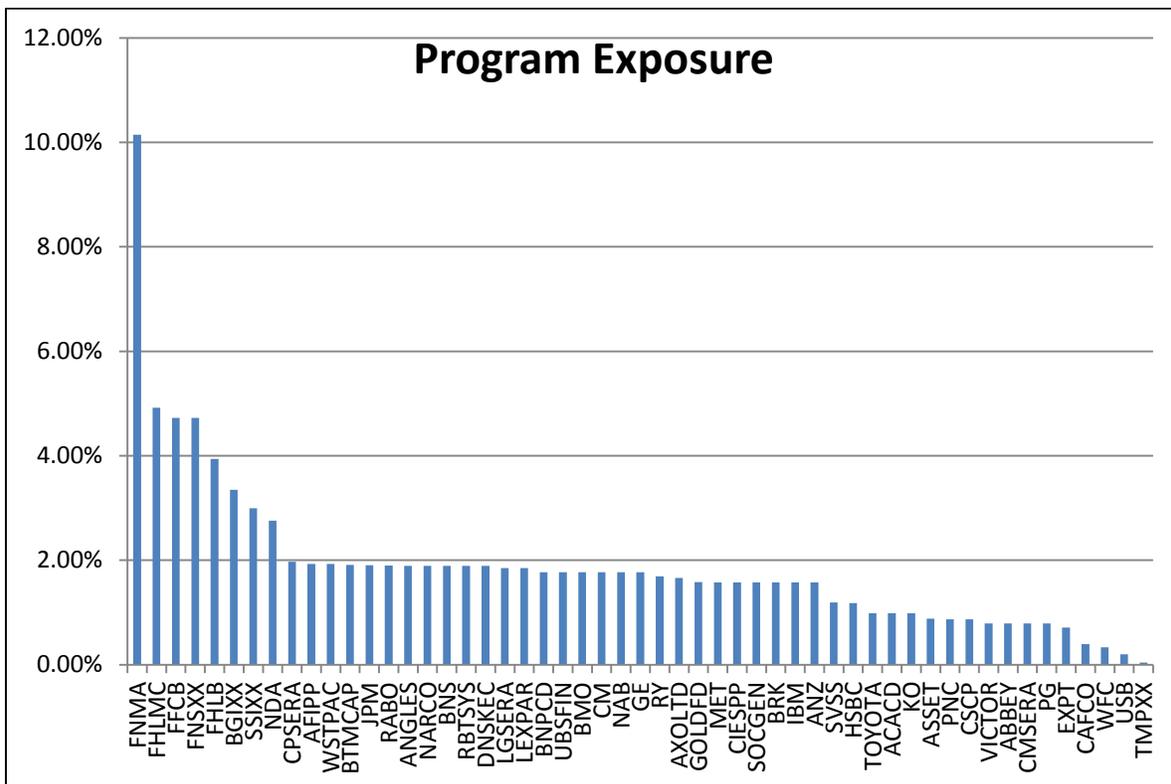
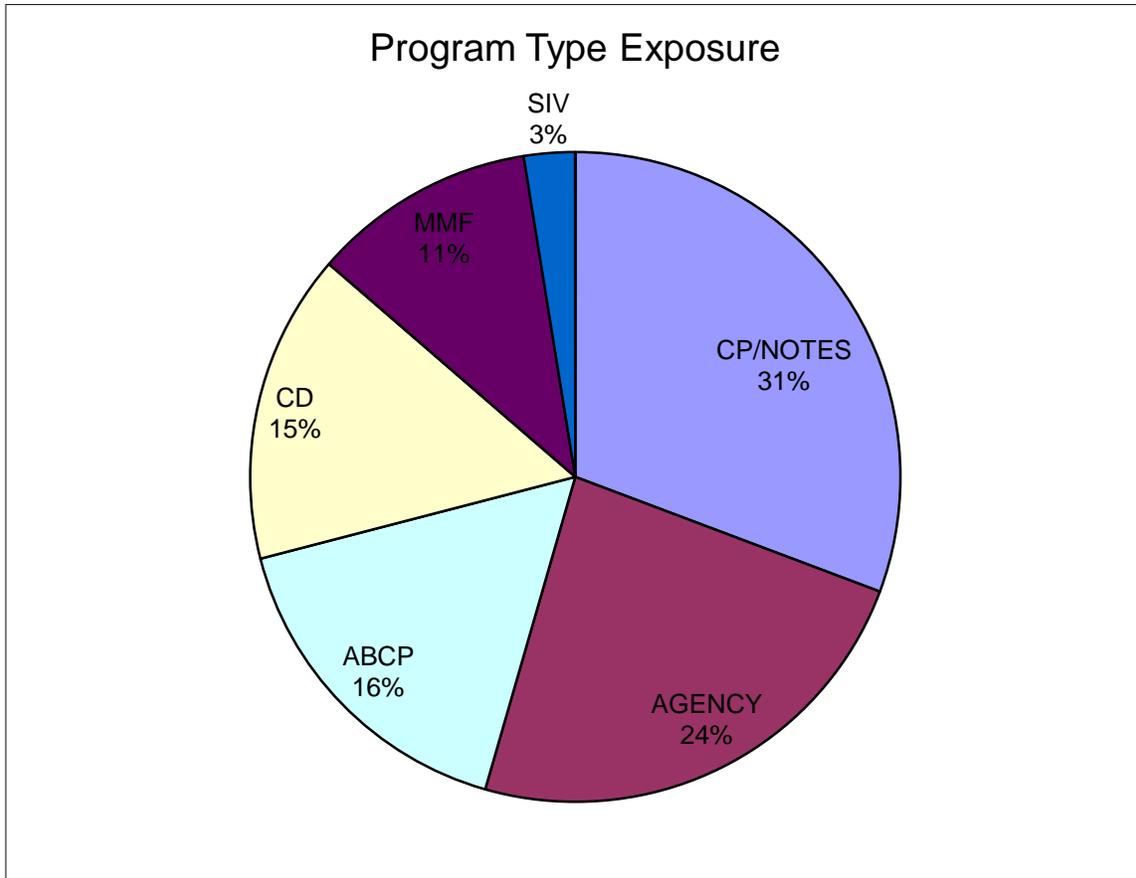


The STIP portfolio is currently well diversified and is operating within all the guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of \$150 million and weekly liquidity is at a minimum of \$250 million. The average days to maturity are 42 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is 16% of holdings (40% max) and corporate exposure is 31% (40% max). We currently have approximately 24% in agency paper, 15% in Yankee CD's (30% max) and 11% in four institutional money funds. Several of the asset-backed commercial paper programs we have had on the approved list have withdrawn from the market and are not expected to return.

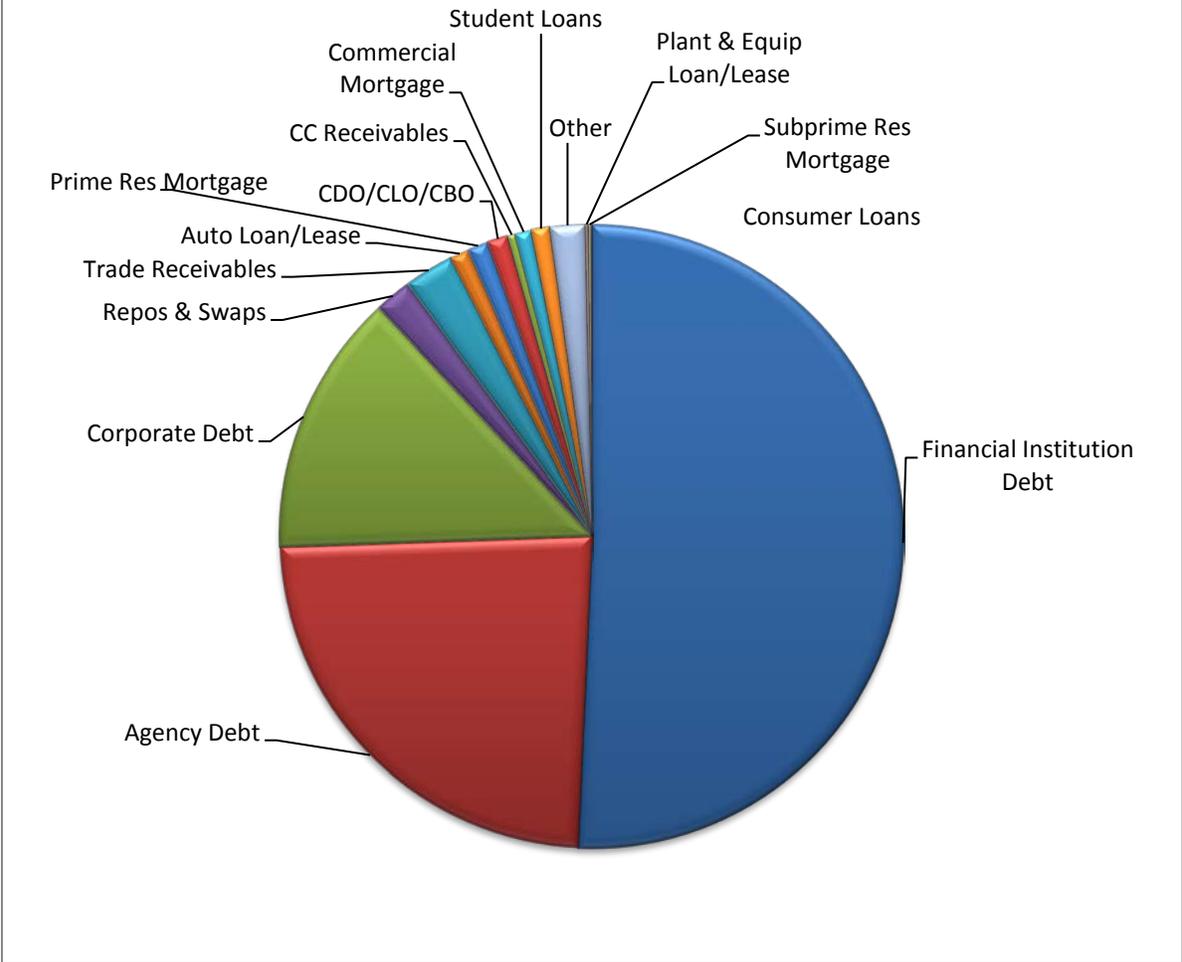
During the fourth quarter we purchased \$25 million of floating rate Agencies pegged to one month Libor, as well as \$22 million of 16 month floating rate bank notes. We also purchased \$30 million of floating rate Yankee CDs. Higher one month and three month Libor rates added to the portfolio yield during the quarter.

The net daily yield on STIP is currently 0.34% as compared with the current one-month LIBOR rate of 0.26% and current fed funds target rate of 0.0%-0.25%. The portfolio asset size is currently \$2.5 billion, up from three months ago.

All charts below are as of February 6, 2012.



Portfolio Composition by Sector



State Fund Insurance

Richard Cooley, CFA, Portfolio Manager
February 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 12/31/2011						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	107.38	4.21	3.96	2.54	3.67	1.79
Benchmark	108.19	3.34	3.12	1.60	3.98	0.82
Difference	-0.81	0.87	0.84	0.94	-0.32	0.97

The portfolio has an overweight in agencies, 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 slowly increasing the Treasury portion of the government holdings. The portfolio has a shorter duration than the benchmark and is thus less sensitive to interest rate changes. This provides some defense against higher bond yields which may be important over the intermediate timeframe, while only having a minimal impact on the portfolio’s yield.

Spread product ended the fourth quarter nearly unchanged as compared to the end of the third quarter. MBS spreads tightened by 5 basis points to 75 basis points, agencies widened by 2 basis points to 33 basis points and corporate spreads tightened by 4 basis points to 234 basis points. During the quarter, the ten year Treasury yield dropped by 4 basis points from 1.91% to 1.87%.

The overweight in spread product (all non-Treasuries) helped performance during the quarter as corporate spreads tightened. The total fixed income (including STIP) portion of the account outperformed the benchmark by 19 basis points during the December quarter and outperformed by 3 basis points over the past year. Longer term performance is +217 basis points for the past three years, +19 basis points for the past five years and +39 basis points for the past ten years (ended December 31).

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

During the December quarter, there were purchases of \$10 million of corporate bonds in the 10 year part of the curve and \$5 million of a one year corporate at wide spreads. We also purchased \$15 million of 10 year Agencies and \$10 million of 10 year Treasuries. There were no equity index transactions during the quarter.

The portfolio has a 94 basis point yield advantage over the benchmark with only a one notch lower quality rating. Client preferences include keeping the STIP balance in a 1-5 percent range (currently 2.00%) and limiting holdings rated lower than A3 or A- to 25 percent of fixed income, at the time of purchase, (currently 24.7%).

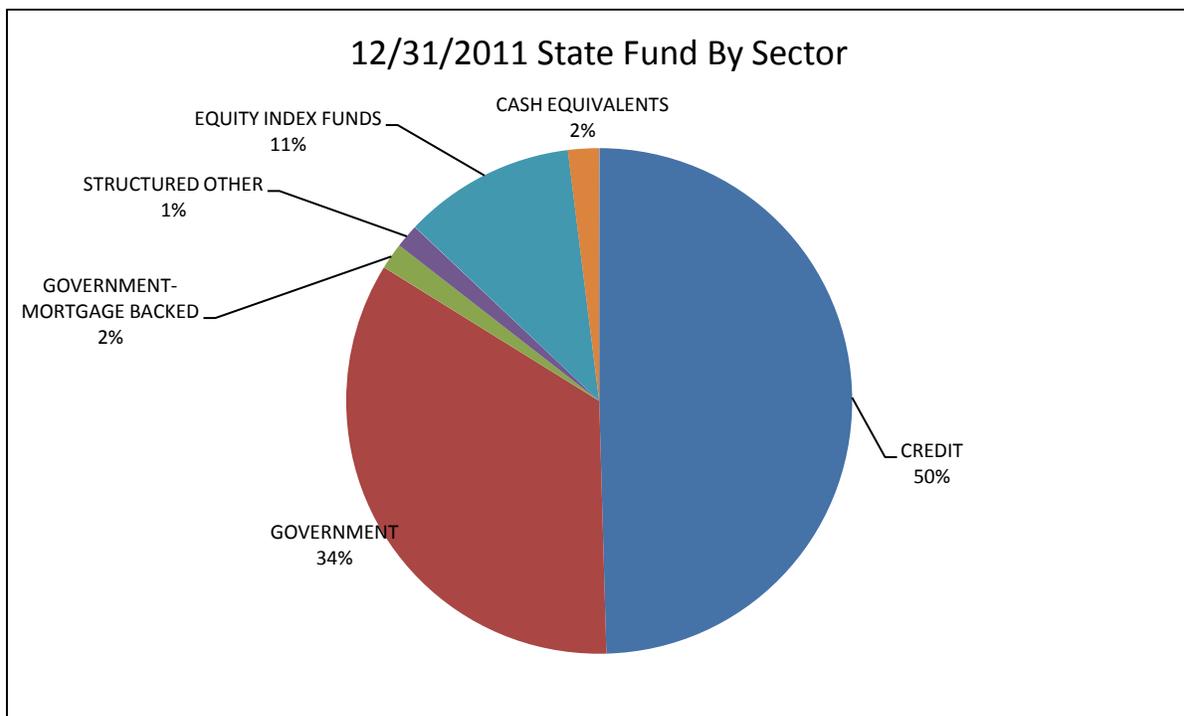
State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 12/31/2011			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	15.13	57.66	-42.53
Agencies & Govt Related	23.11	14.84	8.27
Total Government	38.24	72.50	-34.26
Mortgage Backed	1.87	0.00	1.87
Asset Backed	0.00	0.00	0.00
CMBS	1.02	0.00	1.02
Securitized	2.89	0.00	2.89
Financial	27.88	10.22	17.66
Industrial	21.78	15.59	6.19
Utility	6.31	1.69	4.63
Total Corporates	55.97	27.50	28.48
Other	0.68	0.00	0.68
Cash	2.22	0.00	2.22
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 during recent periods due to an overweight in spread product versus the benchmark.

12/31/2011 State Fund By Sector

	<u>Sector</u>	<u>Market Value</u>	<u>%</u>
	BANKS	107,836,673	8.71%
	COMMUNICATIONS	24,907,791	2.01%
	ENERGY	33,052,248	2.67%
	GAS/PIPELINES	6,364,116	0.51%
	INSURANCE	66,564,082	5.38%
	OTHER FINANCE	147,682,413	11.93%
	RETAIL	9,729,161	0.79%
	TRANSPORTATION	46,672,778	3.77%
	UTILITIES	73,529,185	5.94%
	INDUSTRIAL	96,925,031	7.83%
CREDIT		613,263,479	49.55%
	TITLE XI	5,632,620	0.46%
	TREASURY NOTES/BONDS	167,176,898	13.51%
	AGENCY	251,756,783	20.34%
GOVERNMENT		424,566,302	34.30%
	FHLMC	11,422,017	0.92%
	FNMA	9,341,902	0.75%
GOVERNMENT-MORTGAGE BACKED		20,763,919	1.68%
	CDO	7,500,000	0.61%
	CMBS	11,282,073	0.91%
STRUCTURED OTHER		18,782,073	1.52%
TOTAL FIXED INCOME		1,077,375,772	87.05%
EQUITY INDEX FUND		135,737,143	10.97%
CASH EQUIVALENTS		24,586,435	1.99%
GRAND TOTAL		1,237,699,350	100.00%



MONTANA BOARD OF INVESTMENTS

SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending December 31, 2011



STATE STREET

	MKT VAL \$(000)	ALLOC	MONTH	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
STATE FUND INSURANCE											
TOTAL	1,248,901	100.0	0.92	2.01	2.07	5.26	8.39	5.70	5.59	6.12	12/01/1993
EQUITIES	135,737	10.9	0.81	10.92	-5.22	0.32	13.63	-0.16	2.98	1.22	01/01/2001
Domestic	121,611	9.7	1.04	11.83	-3.62	2.27	14.43	0.26	3.20		
Foreign	14,126	1.1	-1.12	3.72	-16.86	-13.59					
TOTAL FIXED INCOME	1,113,164	100.0	0.94	1.03	2.96	5.83	7.82	6.07	5.59	6.13	12/01/1993
CASH EQUIVALENTS	24,594	2.2	0.03	0.07	0.13	0.28	0.41	2.80	2.71	3.97	
FIXED INCOME	1,088,570	97.8	0.96	1.05	3.02	5.99	8.02	6.31	5.97	6.39	
STATE FUND INSURANCE CUSTOM COMPO			0.77	1.82	2.27	5.13	6.24	5.26	4.90		
S&P 500			1.02	11.82	-3.69	2.11	14.11	-0.25	2.92		
MSCI AC WORLD ex US (NET)			-1.12	3.72	-16.87	-13.71	10.70	-2.92	6.31		
BC GOV/CREDIT INTERMEDIATE			0.78	0.84	3.25	5.80	5.65	5.88	5.20		
LIBOR 1 MONTH INDEX			0.03	0.07	0.12	0.24	0.28	1.73	2.18		

Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

February 21, 2012

The fund totaled \$829 million as of December 31, 2011, consisting of approximately one half general fund monies and the balance in various other state operating accounts. There was an additional purchase of \$10 million in securities in the fourth quarter. Current securities holdings total \$44 million. The investment policy for the fund limits security holdings to 50% of the projected General Fund FYE balance of the current period. The January balance estimate was \$419 million.