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- A. @Ub'7ca a JHYY' -.\$5A'
1. INTERCAP Loan Program Requests – Decision
 2. Veterans' Home Loan Program Policy – Decision
 3. Montana Science and Technology Loans – Decision
 4. Public Comment – *Public Comment on issues with Committee Jurisdiction*
- B. <i a Ub'FYgci fW'7ca a JHYY' %.' \$5A'
1. Executive Director General Comments
 2. Public Comment – *Public Comment on issues with Committee Jurisdiction*

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- A. Roll Call
- B. Approval of the April 3, 2012 Meeting Minutes
- C. Administrative Business
 1. Audit Committee Report
 2. Human Resource Committee Report
 3. Loan Committee Report
- D. Public Comment – *Public Comment on issues with Board Jurisdiction*

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- A. Board Packets and Mailing
- B. Minutes and Agenda
- C. Member Requests from Prior Meeting
 1. Hierarchy
 2. Integrity Report
 3. Additional Study on BOI Operations
 4. Budget
- D. Additional Staff Accountant
- E. RVK Updating Analysis at 7.75%
- F. Expenditure Update

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- A. Commercial and Residential Portfolios' Report
- B. Veterans' Home Loan Program Policy – Decision
- C. Montana Science and Technology Loans – Decision

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- A. INTERCAP
 1. Activity Report
 2. Staff Approved Loans Report
 3. Loan Committee Loan Requests

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- A. Quarterly Performance 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.

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- A. Montanan Domestic Equity Pool -
Proposed Restructuring – Decision
- HUV* ' 79A '6 YbW a Uf_]b['Gh Xmi! '8 YWjg]cb' (.%'DA'
- HUV+ ' 6C5F8 'HF5-B-B; '5B8 '98I 75H-CB!'8 Uj jX'9k Yf'UbX'; Ufmi6 i W UbUb' ('.' \$'DA'
- A. General discussion
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- A. Roll Call
B. Public Comment – *Public Comment on issues with Board Jurisdiction*
- HUV, ' BJ9GHA9BH'57 HJ #H9G#F9DCFHG'E'7`JZGA YYrgž7: 5' ,.(\$'5A'
- A. Retirement System Asset Allocation Report
B. Fixed Income Reports – BUH Ub'GU ž7: 5
1. Bond Pools (RFBP and TFIP)
2. Below Investment Grade Holdings
3. Short-term (STIP) and Other Fixed Income Portfolios - FjW UfX'7cc`Ymž7: 5
C. Private Asset Pool Reports - 9H Ub'<i f'Ym
1. Private Equity Pool (MPEP)
2. Real Estate Pool (MTRP)
D. Public Equity Pool Reports - FUbXY'Ai ZjW_ž7: 5
1. Domestic Equity (MDEP)
2. International Equity (MTIP)
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- A. Discussion
B. Public comment
- F975D'C: 'GH5: : 'HC'8C'@GH'5B8'58>CI FBA9BH!' ,%' '\$5A'
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- A. #j Ygra Ybh7 cbgi `hUbh7 ca a jHY
1. Draft Request for Proposal
2. Timeline
3. Public Comment – *Public Comment on issues with Committee Jurisdiction*

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.

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

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Senator Joe Balyeat
Representative Franke Wilmer

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

Rande Muffick, CFA, Portfolio Manager,
Public Equities
Mary Noack, Network Administrator
Chris Phillips DeFranco, CFA, Investment Staff
Jon Putnam, CFA, FRM, Fixed Income
Investment Analyst
John Romasko, CFA, CPA, Fixed Income
Investment Analyst
Nathan Sax, CFA, Portfolio Manager,
Fixed Income
Clifford A. Sheets, CFA,
Chief Investment Officer
Steve Strong, Equity Investment Analyst
Dan Zarling, CFA, Director of Research

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Norma Buchanan
Becky Gratsinger, RV Kuhns and Associates
Dave Senn, Teachers' Retirement System
Jim Voytko, RV Kuhns and Associates
Kris Wilkinson, Legislative Fiscal Division

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Board Chairman Gary Buchanan called the regular meeting of the Board of Investments (Board) to order at 9:00 AM in the Board Room on the third floor at 2401 Colonial Drive, Helena, Montana. As noted above, a quorum of Board Members was present.

Chairman Buchanan asked that the February 21-22, 2012 Board Meeting Minutes be revised to reflect the following in the "April Meeting" section:

"..... Several other Board Members offered ideas and suggestions to be covered at the April or other Board Meetings, including the current structure of investment pools and potential changes; a view of where the markets are and where they are going; the role of the Board regarding the actuarial return assumption on pension funds, contributions, and maximizing returns; review of the IFS study; and taking another look at hedge funds.

Board Member Jack Prothero made a Motion to approve the Minutes of the February 21-22, 2012 Board Meeting as revised; Member Jon Satre seconded the Motion. The Motion was carried 9-0.

Investment Consultant Sub-Committee

Board Chairman Gary Buchanan reported that Board Member Karl Englund will Chair the newly formed Investment Consultant Sub-Committee. Chairman Buchanan will serve on the Committee as well as Board Members Jack Prothero, Jon Satre, Bob Bugni, and Jim Turcotte.

Member Jack Prothero mentioned that he read the Integrity in State Government study and saw that Montana's pension fund management was rated F. He asked staff to report back at the next meeting the reason for this.

Public Comment

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

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Mr. David Ewer told the Board that he and Chairman Buchanan have added two meetings to the Board's yearly calendar. Today's meeting and the one in October will not be like the typical quarterly meetings, but will involve in depth coverage of certain topics. Normally, Board decisions won't be made at these two meetings; however, there may be times when they are required. Mr. Ewer stated this will be addressed in the systematic Work Plan that he will present later in the agenda.

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Mr. Jim Voytko introduced this topic by explaining that the Hierarchy of Responsibilities is prepared by RV Kuhns & Associates, Inc. to assist Board chairs in governance and compliance related issues. It includes comprehensive duties and addresses the many missions of the Board of Investments. Annual work plans are suggested for programs, allowing Board and staff to focus on potential issues before they arise. Broad responsibilities are separated into three general categories:

- Level I Duties directly performed by the Board and not delegated
- Level II Items for Board review
- Level III Duties performed by staff, background activities

Board Chairman Gary Buchanan asked if the Board approves the BOI budget. Mr. David Ewer stated this has not been a past practice. Many years ago, a short budget summary was presented to the Board for their review by the previous Executive Director and Mr. Ewer expects to follow that procedure. The Department of Commerce presents the BOI budget on our behalf. Chairman Buchanan stated the Board will follow the Governance Manual on budget procedures and hierarchy.

Mr. Ewer proposed changing the wording in the fourth box of the pyramid to say, "Analysis of Asset Allocation and Monte Carlo" rather than the current wording to clarify that the joint Board/staff responsibility on asset allocation is analysis and the Board reserves to itself the decision to change asset ranges. Chairman Buchanan asked staff to review the Hierarchy of Responsibilities to make sure it is in line with the Governance Policy.

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Evolution of Current Allocation Mix

In explaining how we got to where we are now, Mr. Cliff Sheets reported that the pension plans' current asset allocation mix is the result of past Board decisions. These decisions were made at the strategic level and are incorporated in the policies that govern the pension plans and the various investment pools.

In 2005 the Board contracted with RV Kuhns and Associates, and they conducted the first Asset Allocation Study in early 2006. Significant changes were made as a result of that study. The Board commenced a broad diversification effort, both at the plan level in terms of various asset class choices, as well as within the individual asset classes. Some of the major changes included the decision to add real estate as a new asset class beginning in 2006; a reduction in the fixed income allocation and broadening of fixed income exposures to include the high yield sector; changes in the ranges for domestic and international stocks; a change in the framework for international stocks from a regional orientation to a broad market focus, including emerging markets; and, an increase in the allocation to private equity assets. Other asset class considerations included the decision not to invest in hedge fund-of-funds or commodities, and to make an allocation to timberland which is included as part of the real estate pool.

In conclusion, Mr. Sheets showed the current pension policy asset allocation map which refers to asset pool ranges as well as policy exposures to underlying types of investments within the pools.

Risk and Return Considerations

Mr. Jim Voytko discussed the concept of "risk" and its various interpretations, summarizing that investing boils down to taking risks and getting compensatory returns for it. He then went on to discuss the importance of diversification as a way to manage risk and optimize return within a portfolio consisting of many asset class exposures. The use of Mean Variance Optimization was discussed as a framework for thinking about diversification and the goal of attaining the highest possible returns for a given level of risk. In this context risk is measured as the expected volatility of returns for an asset class or portfolio, and high levels of risk will erode the long-term returns of a portfolio given a compounding effect. The correlation of asset returns was noted as a critical element in the structuring of efficient portfolios in this sense. Mr. Voytko concluded this section of the discussion by explaining that asset allocation is the primary driver of portfolio returns and the effect of individual manager selection is unlikely to override the impact of the allocation mix.

Strategic Allocation vs. Tactical

Mr. Cliff Sheets presented tactical allocation as decisions having a shorter timeframe than strategic allocation decisions, and might involve deviation outside of established strategic allocation ranges. He then went on to discuss the challenges to success in making such allocation changes, suggesting these only be considered in the event of extreme market misvaluations.

The Board Meeting was adjourned for lunch from 12:00-12:32 PM.

Mr. Sheets returned to the presentation and discussed the kinds of allocation shifts that are routinely implemented by staff, some of which are forced to meet liquidity needs or react to market changes. He explained that these changes are relatively minor and are made within the confines of the strategic allocation ranges established by the Board. He reviewed three past examples of tactical allocations that staff has made. These included allocation decisions made within an asset pool, such as the initiation of our high yield exposure; the addition to the real estate allocation in 2010 via core funds; and the increases and decreases periodically made in public equity exposure.

Mr. Cliff Sheets stated that the biggest investment challenge is the ability to make decisions on a forward-looking basis. Mr. Jim Voytko added that the Board has given the CIO the authority to do what is best for our portfolio. Board Member Karl Englund asked if the CIO and staff have enough flexibility to make changes within the allocations set by the Board. Mr. Sheets answered affirmatively and stated allocation decisions are conducted within the bounds set by the Board.

Allocation Alternatives – Pros and Cons

Ms. Becky Gratsinger reviewed the use of Mean Variance Optimization (MVO) Analysis as a framework for considering various asset mix alternatives and their implications for expected returns and risks. The current allocation mix was shown in juxtaposition with the unconstrained portfolios that were very conservative, more aggressive, and less liquid. Monte Carlo simulation was used as a way to show the probabilities of achieving various returns over long time periods while highlighting the short term downside risks of each allocation alternative. She then went on to introduce a constrained version of alternative efficient portfolios generated via MVO while noting the key considerations when setting a target allocation. Later, Mr. Sheets summarized the key takeaways from the MVO analysis.

There was a lengthy discussion at this point regarding the implications for future expected returns. Mr. Voytko noted that the assumed return is directly linked to the calculation of the actuarial required contribution, however in Montana, because contributions are set by the Legislature, this link has been severed. Board Member Turcotte noted the Legislature's past reluctance to fund required contributions.

Chairman Buchanan said we are encouraged that the Legislature may agree to increase the contribution to the Public Employees' Retirement System (PERS). Board Member Karl Englund thanked the investment staff for the time and effort that went into preparing this most comprehensive report, and the other Board Members were in agreement.

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Mr. David Ewer presented the 2012 Work Plan which includes proposed topics to be covered at the Board Meetings throughout the year. Mr. Ewer stated that the Work Plan was prepared based on Board Member comments received at the February 2012 meeting. The Work Plan provides for the Board to meet six times during the year. The two additional meetings will be

dedicated to specific subjects not covered at the quarterly meetings, and the quarterly meetings will continue to provide performance reports to the Board. Mr. Ewer reported that according to the Work Plan the budget will be presented at the August Board Meeting.

Chairman Gary Buchanan asked to move discussion of the pension funds' actuarial status and asset allocation to the May Board Meeting. Mr. Dave Senn of the Teachers' Retirement System said it could possibly be done in October but the information would not be available in May. Chairman Buchanan added that he would like to hear more from the Board's internal portfolio managers, as well as hearing from other staff on new topics and more asset classes. The Board had no changes to the Work Plan.

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Mr. David Ewer presented the history of asset management costs for the pension plans and asked how the Board wants to go forward regarding fees, noting that the current mix of assets is different from five years ago and more expensive as a result of the changes in asset exposures and implementation methods (i.e., less internally-managed). For fiscal 2011, 32 of the 57 basis points total cost can be attributed to private equity and real estate. He then commented that private equity in particular has made a significantly higher return contribution vs. public equities during the Board's experience with this asset class.

Board Member Bob Bugni cited his recent memo to the Board regarding five year performance numbers in public equity. Mr. Bugni questioned whether it makes sense to continue to pay for active management. Mr. David Ewer stated that staff recommendations on restructuring of domestic public equities will be included on the May Meeting agenda. Mr. Jim Voytko added that portfolio objectives and the desired structure considerations should come first, with fees being second. He also noted how net-of-fee returns, risk and execution costs are all linked, but how they are addressed matters. He then went on to discuss a paradigm that first addresses portfolio returns and risk objectives and strives to achieve those at competitive costs versus a paradigm that first sets a cost budget and then determines asset class investment exposures and their associated returns and risk levels within that constraint.

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Staff Report on New Public and Private Equity Managers

Mr. Rande Muffick reported on the results of the manager search for a domestic small cap growth equity manager. Alliance Bernstein has been selected and offers an experienced management team and an excellent long-term performance record. The portfolio will be managed based upon a fundamental rather than quantitative philosophy. Board staff invested \$25 million with the new manager and negotiated a 10% reduction in fees.

Mr. Muffick stated that the addition of Alliance Bernstein complements our current value manager, Vaughn Nelson.

Staff used an in house database to identify top performing managers with a strong performance record over one, three and five year periods. Holdings-based and returns-based analysis was completed on the top four managers, telephone interviews were conducted and the selected manager was invited to meet with BOI staff in person. Mr. David Ewer pointed out that this manager search represents the new due diligence process rather than the historical request for proposal (RFP) process that existed prior to the February change in the Board's Governance Manual.

Mr. Ethan Hurley reported on the addition of four private equity managers and a commitment of \$85 million since the February 21-22, 2012 Board Meeting.

Investment	Year	Category	Industry	Amount	Start Date
Centerbridge Special Credit Partners II, LP	2012	Non-control Distressed Debt	Diverse	\$20M	2/15/2012
Axiom Asia Private Capital Fund III, LP	2012	Buyout, Growth Capital and Venture Capital	Diverse	\$25M	2/16/2012
Tenaya Capital VI, LP	2012	Venture Capital	Technology	\$20M	3/1/2012
Pangaea Two, LP	2012	Growth Equity	Diverse	\$20M	3/15/2012

Public Manager Due Diligence Checklist

Mr. Cliff Sheets presented the due diligence process for hiring public asset managers, both equity and fixed income. The process for staff includes accessing manager databases, looking at historic performance, reviewing quantitative measures to assess the manager’s performance, conducting personal interviews and seeking input from RV Kuhns. Mr. Sheets told the Board that Mr. Muffick’s memo presented earlier in the agenda provided documentation of the steps taken that led to the decision to hire Alliance Bernstein. Mr. Dan Zaring added that working papers are kept by staff throughout the due diligence process.

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Chairman Gary Buchanan announced that the next Board Meeting will be May 22-23, 2012 in Helena. The Human Resource and Loan Committees will meet in May, but not the Audit Committee. The RFP Committee will also meet in May to look at the first draft preparation.

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There being no further business, Chairman Buchanan adjourned the meeting at 3:47 PM.

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

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APPROVE: _____
 Gary Buchanan, Chairman

ATTEST: _____
 David Ewer, Executive Director

DATE: _____

MBOI:caa
 4/17/12

[Return to Meeting Agenda](#)

Executive Director Reports

MEMORANDUM

Montana Board of Investments

Department of Commerce

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

To: Members of the Board
From: David Ewer, Executive Director
Date: May 22, 2012
Subject: May 2012 Board Meeting, Executive Director's 'General Comments' Section

Overview

Providing sufficient time for Board member input during its meetings is very important. With the expanded scope of a 24-month systematic review, staff needs to be as efficient as possible with Board meetings and depend even more on the adequacy of the packet in advance. This memorandum covers many topics of a general nature for the executive director's general comments section for the Board's May 2012 meeting.

Board Packets and Mailing

Board members rightfully expect having a full week to digest their packets. Helena no longer has a central postal annex so there is no next-day delivery. Consequently, staff needs to mail Board packets the Friday before the previous Tuesday mail date, or about 11 days before the meeting. This makes quarterly assessments somewhat tight but whether standard mail or federal express, staff intends to have packets delivered a full week in advance. Handouts have been and will continue to be minimized with the goal of having no handouts necessary at a Board meeting.

Minutes and Agenda

Minutes serve many purposes including addressing old business and staff follow up to Board inquiries. The minutes will include member inquiries and subsequent staff responses so that closure to the Board's satisfaction is achieved and noted in the minutes. Please notice that the May agenda now has under the 'adjournment tab' a final 'items to be followed up' as a single point in time for the staff to do list.

Request from Chairman Buchanan re the Hierarchy alignment with BOI governance

On April 13, 2012, I sent an email to all Board members addressing Chairman Buchanan's inquiry stating that the hierarchy is a compliment, not a substitute, to the Governance Policy.

Request from Member Prothero re the Integrity Report which made the newspapers

On April 5, 2012, I sent an email to all Board members addressing the Integrity Report and its results and suggested that, while the report's effort was laudable, its findings defied common sense (New Jersey was the integrity leader?)

Members of the Board
May 22, 2012
Page Two

Member Bugni asked about an additional comprehensive review of BOI but also suggested that it was probably too early for the new executive director

I concur, not because of being new, but because in my review of the IFS study, almost all the recommendations were addressed and for the few that were specifically declined I concur that the Board made the right decision, (for example, the IFS study recommended pursuing a different approach to Board member selection; this is way beyond the Board's ordinary scope).

Chairman Buchanan asked for budget and expenditure information in April and for a follow up in May and an explanation for year-over-year increases

In the May Board packet there is an expenditure report through April 30, 2012, which will be reviewed. Several increases are of a onetime nature. Some costs have gone up significantly. The Board's 2014-2015 budget will be presented at its August meeting. Staff will send to Board members a budget 'primer' before the August meeting.

Additional Accountant

The Board's scope and complexities of its duties require another certified public accountant; staff is in the process of hiring a deputy financial manger (i.e. another accountant).

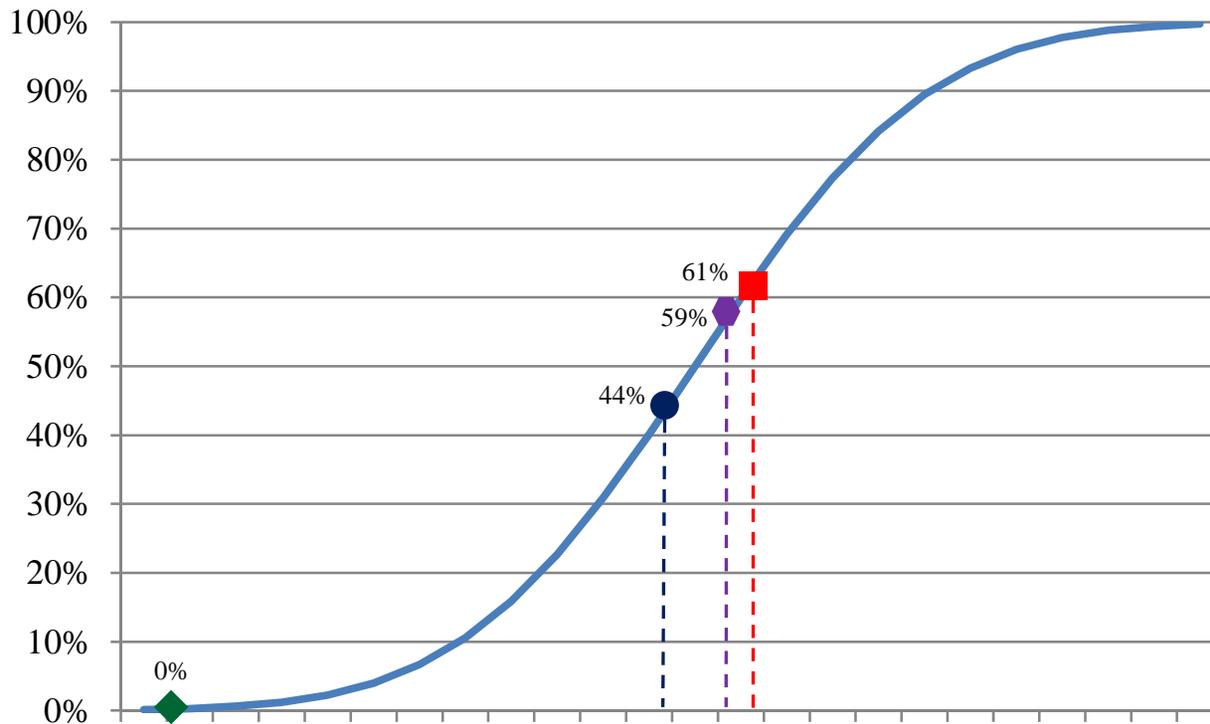
CEM Benchmarking

Please refer to the specific memorandum on this matter with a staff recommendation included in your packet.



MVO Analysis – Monte Carlo Simulation (Revised for 7.75% Assumption)

Cumulative Probability Distribution for Achieving 7.75% Return over 10 Years



- ◆ Conservative Allocation
- Current Allocation (12/31/2011)
- ◆ Aggressive Allocation
- Illiquid Allocation

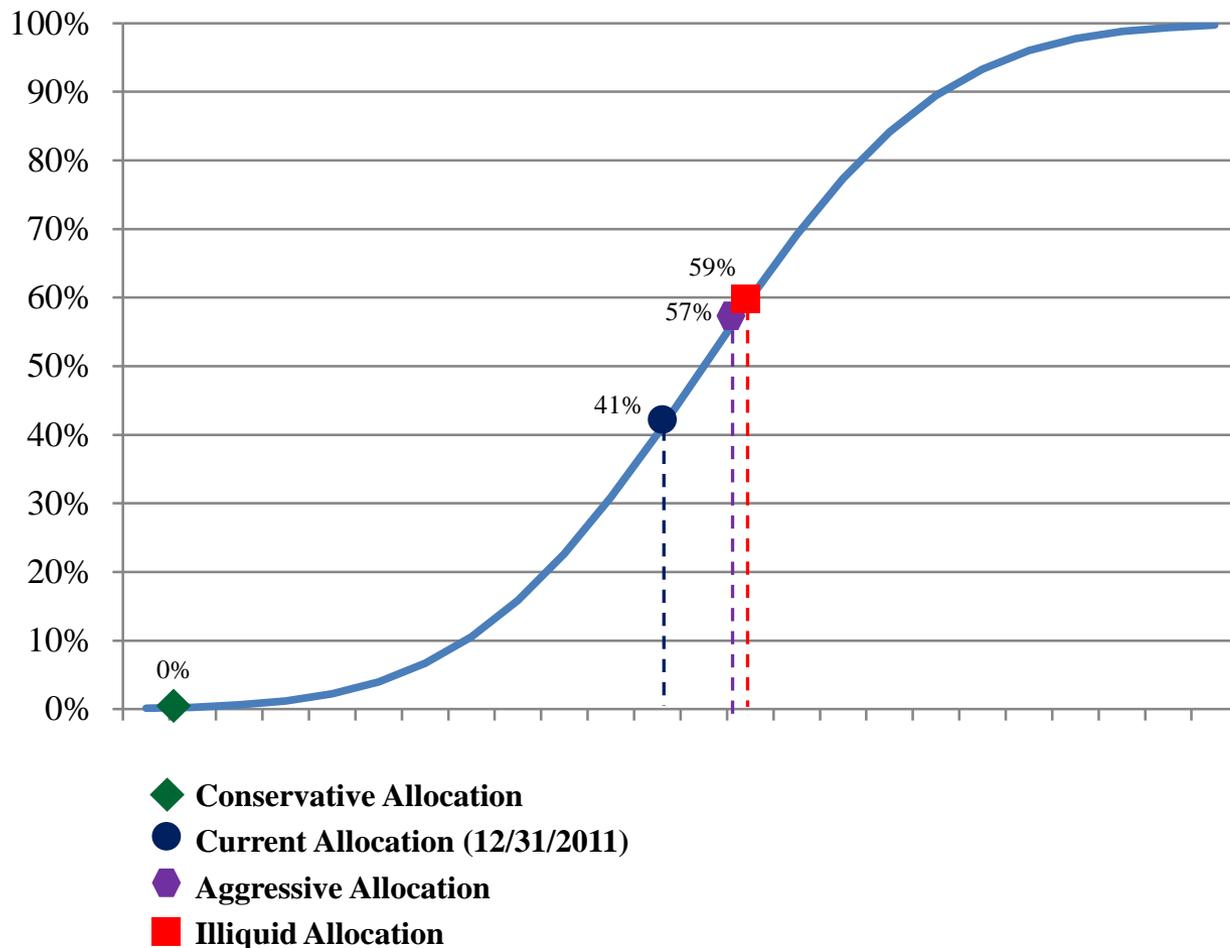
One Year Downside Risk (5% Chance of Loss)	
Conservative Allocation	-2.04%
Current Allocation	-13.39%
Aggressive Allocation	-17.62%
Illiquid Allocation	-11.56%

RVK Assessment of Liquidity (100=Highest; 0=Lowest)	
Conservative Allocation	76
Current Allocation	73
Aggressive Allocation	40
Illiquid Allocation	15



MVO Analysis – Monte Carlo Simulation

Figure 16: Cumulative Probability Distribution for Achieving 8% Return over 10 Years



One Year Downside Risk (5% Chance of Loss)	
Conservative Allocation	-2.04%
Current Allocation	-13.39%
Aggressive Allocation	-17.62%
Illiquid Allocation	-11.56%

RVK Assessment of Liquidity (100=Highest; 0=Lowest)	
Conservative Allocation	76
Current Allocation	73
Aggressive Allocation	40
Illiquid Allocation	15

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
Geri Burton, Deputy Director

Date: May 22, 2012

Subject: Budget Status Report

Attached is a budget status report for the investment-side of the Board's operations. It does not include the Board's enterprise fund (primarily the INTERCAP Program). Also, the custodial bank expenses are not included as they are statutorily appropriated. The Board's budget is only a part of the Board's overall expenditures. External manager expenses are not appropriated. They are paid under the state's Unified Investment Program, 17-6-201 (7) M.C.A, "The cost of administering and accounting for each investment fund must be deducted from the income from each fund, other than the fund derived from land granted to the state pursuant to the Morrill Act of 1862, 7 U.S.C. 301 through 308, and the Morrill Act of 1890, 7 U.S.C. 321 through 329. An appropriation to pay the costs of administering and accounting for the Morrill Act fund is provided for in [77-1-108](#)."

The report reflects the budgeted expenses and the amount expended through April 30, 2012. For comparison purposes, the report reflects the budget status as of April 30, 2011. It also estimates the fiscal year end projection for the investment-side.

Noted increases/decreases are attributed to the following:

Personal Services –

- The Board's previous Executive Director retired on December 31, 2011 after 19 years of services. Accumulated vacation and sick pay was paid out upon the Executive Director's retirement.
- A new Executive Director was hired December 1, 2011; the position was double-filled for the month of December.
- The position of Portfolio Manager for Alternative Investments was filled at a higher salary than originally targeted.
- Effective January 1, 2012, staff received a 1-2% salary increase.

Research Services – a difference due to timing of invoices.

Miscellaneous – relocation expense.

Attachment

Board of Investments Budget Status
Investments (06527)

Category	As of 4/30/12				Projected Year-End Difference	As of 4/30/11				Diff YTD FY11 to FY12
	Budget	Year To Date	Year-End Projection	Year-End Difference		Budget	Year To Date	Year-End Projection	Year-End Difference	
Personal Services	2,492,800	1,918,554	2,304,321	188,479	2,494,240	1,799,986	2,267,670	226,570	118,568	
Board Per Diem	7,200	6,360	7,200	-	5,760	4,640	5,760	-	1,720	
Housing Mortgage Serv (1)	40,000	19,807	40,000	-	38,000	29,711	38,000	-	(9,904)	
Bloomberg Financial System	307,500	221,077	307,500	-	279,000	205,427	279,000	-	15,650	
FactSet Analytics	167,000	154,555	167,000	-	165,000	136,559	165,000	-	17,996	
Fixed Income Analytics - Wilshire	105,000	77,683	105,000	-	100,000	74,775	100,000	-	2,908	
Consulting Services	250,000	212,500	250,000	-	300,000	217,500	300,000	-	(5,000)	
Research Services	200,000	147,653	200,000	-	192,000	210,007	192,000	-	(62,354)	
Other Contracted Services (2)	150,000	135,643	188,425	(38,425)	130,000	120,861	145,616	(15,616)	14,782	
Supplies/Materials (3)	42,500	30,348	57,564	(15,064)	42,500	21,114	25,438	17,062	9,234	
Communications (4)	47,000	37,918	45,684	1,316	47,000	25,762	31,039	15,961	12,156	
In-State Travel	11,000	9,523	11,474	(474)	11,000	7,290	8,784	2,216	2,233	
Out-of-State Travel	35,000	25,253	30,425	4,575	35,000	19,685	23,717	11,283	5,568	
Building Rent	157,388	144,186	157,388	-	154,302	141,357	154,302	-	2,829	
Other Rent (5)	5,500	2,412	2,906	2,594	5,500	4,643	5,594	(94)	(2,231)	
Repairs & Maintenance (6)	1,500	1,197	1,443	57	1,500	2,152	2,593	(1,093)	(955)	
Commerce Dept Serv (7)	323,750	249,276	299,342	24,408	323,750	233,699	294,409	29,341	15,577	
Miscellaneous (8)	35,000	63,143	76,076	(41,076)	35,000	32,129	38,710	(3,710)	31,014	
Equipment (9)	-	-	-	-	-	-	-	-	-	
Total	4,378,138	3,457,088	4,251,747	126,391	4,359,552	3,287,297	4,077,630	281,921	169,791	

(1) Service Agreement for Pension Mortgages

(2) Employment Services/Legal Services/Student Interns/Contract Printing/State Computer Network Charges

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

(4) Phones/Parcel Delivery/Postage

(5) Copiers

(6) Printer/FAX Repair & Maintenance

(7) Percentage of Personnel Services

(8) Training/Education/Moving Expenses/Miscellaneous State Charges

(9) Equipment & Furniture Costing In Excess Of \$5,000 Per Item

[Return to Meeting Agenda](#)

Montana Loan Program

MEMORANDUM

Montana Board of Investments

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

To: Board of Directors
From: Herb Kulow, CMB *Kulow*
Date: May 9, 2012
Subject: Commercial and Residential Portfolios

As of April 30, 2012, the commercial loan portfolio totaled \$136,679,661. There were five outstanding reservations totaling \$6,135,000 and three loan commitments totaling \$8,986,025. There were two past due loans, both of which were SBA guaranteed, totaling \$205,452 or 0.15% of the total portfolio.

The portfolio consisted of the following types of loans, as of April 30, 2012. The Montana Veterans Home Loan Program (residential) is referenced as 1 unit below, however, 13 loans have been funded out of the Coal Tax Trust as reported at the end of this report.

<u>Loan Type</u>	<u>Number of Loans</u>	<u>Amount</u>	<u>Percent of Portfolio</u>
Participation	68	71,260,632	52.14%
Guaranteed	52	34,010,371	24.88%
Infrastructure	8	22,713,506	16.62%
IRP	17	2,983,523	2.18%
Value-Added	6	2,750,058	2.01%
Veterans Home	1	2,180,786	1.60%
Seasoned	1	560,189	0.41%
Link Deposit	2	220,595	0.16%
	155	\$ 136,679,661	100.00%

The In-State Loan program statutory cap is 25% of the coal tax trust. As of 4-30-12, the In-State Loan program was at 14.04%, which provides \$96,400,000 of liquidity for the commercial loan program to fund loan participations with approved lenders as the Montana economy continues to improve.

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

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

MEMORANDUM

Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3rd Floor

Helena, MT 59601 (406) 444-0001

To: Board of Directors
Board Loan Committee Members

From: Herb Kulow, CMB *Kulow*

Date: May 22, 2012

Subject: Montana Veterans' Home Loan Mortgage Policy

The 2011 Montana Legislative Session established the Montana Veterans' Home Loan Mortgage Program, 90-6-6, MCA. The program is to be funded by \$15,000,000 of the permanent coal tax trust fund and be administered by the Montana Board of Housing (BOH). The BOH will also service the loans. The Montana Board of Investments (MBOI) will purchase loans made to Montana veterans by Montana lenders secured by a first collateral position on their primary residence located in Montana. The loans must be guaranteed by either the VA, FHA or HUD 184 and be for a term not to exceed 30 years. The interest rate is to be 1.00% below current market interest rates and will be established by BOH bi-weekly. The current interest rate is 2.452%. The BOH deducts 0.375% for servicing and an additional 0.375% for MBOI administrative fee. Using the current posted interest rate of 2.452%, the effective interest rate to MBOI is 1.702%.

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

Montana Veterans' Home Loan Mortgage Policy

Veterans' Home Loan Mortgage Program is authorized under 90-6-6 MCA. The following Veterans' Home Loan Mortgage Policy applies to this statute.

1. ELIGIBLE VETERAN

- a) Veteran is or has been a member of the Montana national guard;
- b) Veteran is or has been a member of the federal reserve forces of the armed forces of the United States, serving pursuant to Title 10 of the United States Code;
- c) Veteran is serving or has served on federal active duty pursuant to Title 10 of the United States Code;
- d) Veteran is an un-remarried spouse of an individual who was otherwise an eligible veteran who was killed in the line of duty;
- e) Veteran is an eligible veteran as defined by the Montana Board of Housing (BOH) pursuant to 90-6-605(2) MCA;
- f) If previously a member of the armed forces, Veteran was discharged under honorable conditions;
- g) Veteran is a resident of the state of Montana maintaining a permanent place of abode within Montana and who has not established a residence elsewhere even though the individual may be temporarily absent from the state;
 - i. Proof of residency qualification can be a copy of a filed Montana tax return showing a full year of residency in Montana;
 - ii. Current Montana driver's license and a copy of a current Montana vehicle registration
- h) Veteran is a first-time homebuyer – income tax showing no interest in real estate for the previous three calendar years preceding the time of purchase or other BOH required documentation;
- i) Veteran must complete a BOH approved homebuyer education class;
- j) Veteran must provide a minimum of \$2,500, resulting in a loan to value of less than 100%. The value of the property is the lesser of appraised value or purchase price.

2. PROPERTY ELIGIBILITY

- a) Contract purchase price is limited to 95% of the BOH's statewide range;
 - i. The statewide range is determined annually by the BOH;
 - ii. In no case will the BOH statewide range exceed the maximum Department of Veterans Affairs (VA) loan amount.
- b) Property must be located in Montana;
- c) Property must be secured by a first lien trust indenture or mortgage on the property;
- d) Property must be in full repair prior to purchase;

- e) If a new construction, the property and improvements must be fully completed prior to funding;
- f) Manufactured homes must be de-titled and on a permanent foundation;
 - i. Foundation must be certified as meeting FHA requirements;
 - ii. NO single-wide manufactured homes.
- g) Single family residence;
- h) Land cannot exceed 35% of the total appraised value of the property;
- i) Condominiums and townhouses are INELIGIBLE.

3. NO LONGER PRIMARY RESIDENCE

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

4. GENERAL LOAN INFORMATION

- a) There is no limit on the maximum amount of income that may be earned by an eligible veteran for the purposes of a loan program;
- b) Loan must be insured by VA, FHA or HUD 184;
- c) Veteran must have all of their original VA eligibility available to apply under this program;
- d) All loans must receive "approve/eligible" or other similarly high response from automated underwriting;
- e) No manual underwriting or underwriting exceptions are allowed;

- f) All participating lenders MUST be an approved lender with the Montana Board of Investments and have completed an Approved Lender Residential Service Agreement and an EFT Agreement;
- g) Veterans who are stationed elsewhere, but who do not establish a primary residence elsewhere, may obtain a rental waiver from the BOH.
- h) Maximum loan term of 30 years;
- i) Interest rate to be determined by BOH and updated every two weeks. Rates can be found at:
<http://housing.mt.gov/About/homeownership/veteranratesandfunds.mcp>
- j) Complete replacement insurance coverage with a maximum \$1,000 deductible for hazard insurance;
- k) Maximum \$1,000 deductible for flood insurance, if needed;
- l) No cash back at closing;
- m) Veteran will be required to make monthly payments for taxes and insurance to BOH, who is the servicer of the Montana Veterans' Home Loan Mortgage Program;
- n) Loan will be reserved, processed and serviced by BOH;
- o) All loans will be endorsed to the Montana Board of Investments, without recourse;
- p) Trust indenture will be assigned to the Montana Board of Investments;
- q) Trust indenture or mortgage must have a "due-on-sale" clause;
- r) Sweat equity will not be considered;
- s) The Veteran's loan may not be assumed by a non veteran;
- t) If the Veteran's loan becomes delinquent, the servicer will follow all Veteran Administration reporting requirements as well that those reporting requirements found in the Approved Lender Residential Service Agreement;
- u) Appraisals must be Uniform Appraisal Dataset (UAD) compliant;
- v) Coal tax trust fund money will be used to fund the Montana Veterans' Home Loan Mortgage program as provided by 90-6-603 MCA;
 - i. Maximum coal tax trust fund allocation is determined by 90-6-603(2) MCA;
 - ii. This is a revolving loan fund program.

For additional forms and assistance call or E-mail:

(406) 444-1218

hkulow@mt.gov

MEMORANDUM

Montana Board of Investments

Department of Commerce

2401 Colonial Drive, 3rd Floor

Helena, MT 59601 (406) 444-0001

To: Board of Directors
Board Loan Committed Members

From: Herb Kulow, CMB *Kulow*

Date: May 22, 2012

Subject: Montana Science and Technology Alliance Recommendation

Staff presented a summary of the Montana Science and Technology Alliance (MSTA) portfolio to the Board Loan Committee members on February 16, 2012, a copy of which is attached to this recommendation. At that time staff was instructed to bring to the Board Loan Committee a recommendation relative to the likelihood of MBOI recovering the full amount of each investment included in the MSTTA portfolio. As a result of the review of the MSTTA investments, the agreements made between MSTTA, (now MBOI), and the current portfolio borrowers, the collateral remaining to support the existing debt and an analysis of the probability of recovering the remaining outstanding balances, staff recommends the following action.

Montana University System (\$8,380,992.43)

Staff recommends retaining the existing agreement dated February 17, 2005. The terms of this agreement establish a repayment schedule of \$300,000 annually with interest calculated at 2.4974% per annum on the unpaid principal balance with a final maturity of June 30, 2061. Payments are processed by the Montana Board of Investments (MBOI) through inter-unit journal entries initiated by Montana State University, Bozeman; University of Montana, Missoula; and Montana Tech of the University of Montana, Butte. The current outstanding balance as of May 3, 2012 was \$8,380,992.43.

Schmitt Industries, Inc., formerly TMA Technology (\$1,170,607.15)

Staff recommends writing off the outstanding investment balance held by MBOI. This recommendation is made due to the lack of identifiable collateral, unpredictable repayment, uncertainty of the continued future use of TMA technology and products made by Schmitt and the history of minimal royalty payments. If any royalty payments are received in the future, the payments can be treated as a recovery.

Based on the average royalty payment received by MBOI over the past two years of \$6,290.72, it would take 186 years to be paid in full.

Glacier Venture Fund Manager Limited Partnership (\$1,000,000)

Staff recommends conversion of the two \$500,000 debentures into limited partnership interests. Each debenture allows for its conversion into 50 limited partnership interests in Glacier Venture Fund Limited Partnership, valued at \$10,000 each. Total limited partnership interest would be \$1,000,000. Although MBOI would be either forgiving or waiving approximately \$1,658,217 of accrued and unpaid interest as of February 9, 2012, there is no financial strength or indication of Glacier Venture Fund Limited Partnership ability to repay this interest. Conversion into limited partnership interest would give MBOI ownership interest of approximately 39.2157% of the total fund. If staff's recommendation is approved, any payment to MBOI would represent its pro-rata share of the liquidation of the fund or distribution resulting from the sale of any of the current assets held by Glacier Venture Fund Limited Partnership.

If the conversion of the debentures into limited partnership interest in Glacier Venture Fund Limited Partnership is completed, staff may return for approval from the Board to reflect MBOI's estimated fair market value of its 39.22% ownership in the fund.

Gateway Software Corporation (\$174,999.99)

Staff recommends writing off the outstanding investment balance held by MBOI. The company has a negative net worth, a very large negative retained earnings, on which any repayment is based, minimum sales and net profit. Company originally filed for Chapter 11 in November 2004 and could file again. Preferred stock has no market value. If the company continues to make a net profit of \$29,500 annually, as they did in 2010, it would take 45 years to bring the current retained earnings balance to zero, at which time the company "could" consider payment to the preferred stockholders. If any payments are received in the future, the payments can be treated as a recovery.

Northern Rockies Venture Fund (\$150,659.72)

Staff recommends writing off the outstanding investment balance held by MBOI. Through June 30, 2011, MBOI has received distributions from Northern Rockies Venture Fund in the total amount of \$2,400,486, not \$2,400,505 as reported in the February 16, 2012 report. Accounting has sent balance confirmations to the fund which have always been returned indicating the fund owes nothing to MBOI. According to MBOI records, \$849,341 was applied to the two debentures and \$1,400,486 was recorded as income. Prior MBOI management determined the application of funds, resulting in the current outstanding balance of \$150,659.72. MBOI has received far in excess of its original investment of \$1,000,000.

Deaconess Research Institute (\$161,603.40)

Staff recommends retaining the existing agreement with Deaconess Research Institute. Quarterly payments have been made as agreed, although there is no specific repayment schedule. It will only take

11.66 years to repay the remaining \$366,369 based upon the average payments made over the past four years. As indicated there is no specific required repayment schedule, but is determined by the income resulting from commercialization activities resulting from their research. Deaconess Research Institute is a viable regional research center in Montana employing nearly 100 primary and specialty care physicians.

Emerald Bio Agriculture, formerly Mycotech, Inc. (739,509.83)

Staff recommends retaining the existing agreement with Emerald Bio Agriculture. Although this appears to be an unsecured loan, they are on a repayment schedule and are performing as agreed, according to the agreement entered into between Emerald Bio Agriculture and MBOI in August 2004. The current interest rate is 7.50%. There are approximately 17.25 years remaining, with a final maturity of August 1, 2029.

McLaughlin Research Institute (\$271,958.76)

Staff recommends retaining the existing agreement with McLaughlin Research Institute. Payments have been made as agreed. Interest is calculated at 2.00% with a final maturity of June 30, 2023. The loan appears to be unsecured. McLaughlin's year-end 2010 annual report reflected net assets of \$12,259,867 and total liabilities of \$2,542,964. Of those net assets, \$9,706,594 is unrestricted. Staff did not find any income information in the report.

If the proposed recommendations are approved, MBOI would write off \$1,496,266.86 of the MSTA investment portfolio.

**MSTA Entities
as of May 3, 2012**

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

MEMORANDUM

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

To: Board Loan Committee Members
From: Herb Kulow, CMB *Kulow*
Date: February 16, 2012
Subject: Montana Science and Technology Alliance

The 1985 Legislature created the Montana Board of Science and Technology Development. The Board governs the Montana Science and Technology Alliance (MSTA). MSTA administers two science and technology development investment programs: seed capital investments and research and development investments. MSTA was originally designed to establish public-private sector partnerships to encourage scientific and technological development in Montana. MSTA made high-risk investments as venture capital or loans to start-up companies.

The 1997 Legislature abolished MSTA and the Department of Commerce became successor in interest and also became responsible for the management and collection of MSTA's portfolio.

The 1999 Legislature transferred MSTA's portfolio to the Montana Board of Investments (MBOI), which then became the successor in interest and also became responsible for the management and collection of MSTA's portfolio.

Currently there are eight entities included in the MSTA portfolio reflecting a balance of \$12,153,215.

MSTA Entities as of January 3, 2012	
Entity	Balance
Montana University System	8,469,476
TMA Technology (Schmitt)	1,178,193
Glacier Venture Fund Manager LP	1,000,000
Gateway Software Corp.	175,000
Northern Rockies Venture Fund LP	150,659
Deaconess Research Institute	161,603
Emerald Bio (Mycotech, Inc.)	746,325
McLaughlin Research Institute	271,959
	<u>12,153,215</u>

Historically there has been little or no MBOI activity involving the MSTA portfolio, other than balance confirmations sent by the MBOI accounting department to the MSTA entities over the past three years. MBOI intends to take a more active role in the management of the MSTA portfolio in the future.

The following is a short summary of the MSTA investments, some of which are supported by debentures and loans and others supported by various agreements and not supported by negotiable documents.

Montana University System (\$8,469,476)

MSTA entered into a Master Research and Development Financing Agreement in 1992 with the Commissioner of Higher Education (Commissioner) (as previously amended in 1993 and 1995) to provide loans to different units of the Montana University System from approximately 1992 until 1999 for research and development. The dollar amount outstanding at the end of 1999 could not be determined by staff.

Repayments of the loans started back in 1994 through an amendment to the Master Research and Development Financing Agreement.

On February 17, 2005, the MBOI and the Commissioner of Higher Education entered into amendment number 3 to the Master Research and Development Financing Agreement which provided a specific and agreeable repayment plan of the amount owed to MBOI through loans made to the Montana universities by MST A as follows:

In consideration of the commitments of MST A, the Commissioner agrees to repay MBOI loans as outlined in Exhibit C. The principal amount of the loan is \$10,027,506 with an interest rate of 2.4974 percent. The term of the loan is 68 years with the initial payment beginning June 30, 1994 and the final payment June 30, 2061.

Payments are made by the Commissioner through inter-unit journal entries made by MBOI accounting. The annual \$300,000 payments are transferred from Montana State University, Bozeman; University of Montana, Missoula and Montana Tech of the University of Montana, Butte. Payments have been made through June 30, 2011, reflecting the current balance outstanding of \$8,469,476.

Schmitt Industries, Inc. (formally TMA) (\$1,178,193)

Beginning in November 1991 through March 1995, MST A issued five convertible debentures, totaling \$1,250,000 and four promissory notes totaling \$205,956.39. The total principal owed by TMA Technology, Inc. (TMA) to MST A was \$1,455,956.39 as of March 31, 1995. Accumulated principal and interest on the outstanding convertible debentures and promissory notes was \$1,752,503.30 as of March 31, 1995.

On April 21, 1995 TMA agreed to sell the company to Schmitt Industries, Inc. of Portland, Oregon. (Schmitt) As part of the sale price, Schmitt agreed to convert the existing principal and interest, totaling \$1,752,503.39, owed by TMA to MST A as of March 31, 1995, into a royalty pool in accordance with a Certificate of Vesting in Royalty Pool.

On May 1, 1995 MST A and Schmitt entered into an Agreement for "Purchase and Sale of Debt Instruments Held By Montana Board of Science and Technology Development and Issued By TMA Technologies, Inc." A portion of this agreement states in part: (staff has inserted acronyms)

2. Transfer of Securities to Schmitt. MST A hereby assigns and transfers to Schmitt all of its right, title and interest in and to the Securities in exchange for the following:

A. A payment to MST A of \$3,639.89 in cash, by cashier's check, or by wire transferred funds; and

B. A Certificate of Vesting in the Royalty Pool (the MST A Vesting Percentage) created by Schmitt to be paid from net sales of TMA products, technologies, services and further derivations and products developed by Schmitt using TMA patents and technologies.

MSTA vesting percentage was estimated to be 28.27% (\$1,752,503.39 / \$6,200,000) The \$6,200,000 is the estimated value of MST A convertible debentures and promissory notes and unpaid interest + the original cash paid by TMA shareholders for purchases of TMA common stock + all other unpaid principal and interest of all other outstanding loans owed by TMA. The actual denominator was determined to be \$6,038,000 which would provide MST A an estimated vesting percentage of 29.02%.

The Certificate of Vesting in Royalty Pool was signed by MST A, TMA and Schmitt on May 17, 1995.

The agreements call for semi-annual royalty payments. Through August 5, 2011 MBOI has received a total of \$308,340.98 in royalty payments since May 31, 1995. Of that amount \$30,577.47 was applied to interest and \$277,763.51 was applied to principal. Since repayment has been a result of conversion of the previously held MST A convertible debentures and promissory notes to TMA into a royalty pool, staff would suggest that all royalty payments should be applied to principal. Staff has found that MBOI no longer has identifiable assets or any collateral to support what Schmitt owes MBOI. The continued value of the Pool is uncertain as well as the continued distributions.

Schmitt is listed on the NASDAQ with a symbol SMIT. The following is taken from Schmitt's 10-K filing with the SEC, which briefly describes the business.

Schmitt Industries, Inc. (the Company), an Oregon corporation incorporated in 1995, designs, manufactures and markets computer-controlled vibration detection and balancing equipment (the Balancer Segment) primarily to the machine tool industry. The predecessor to the Company was originally organized in 1984 under the laws of the Province of British Columbia. Through a statutory procedure in 1995, the Company ceased to be domiciled in British Columbia and became an Oregon corporation. Through its wholly owned subsidiary, Schmitt Measurement Systems, Inc. (SMS), an Oregon corporation, the Company designs, manufactures and markets precision laser-based surface measurement products for a wide variety of commercial applications in addition to the disk drive, silicon wafer and optics industries; laser-based distance measurement products for a wide variety of industrial applications; and ultrasonic measurement products that accurately measure the fill levels of liquefied propane tanks and transmit that data via satellite to a secure web site (the Measurement Segment). The Company also sells and markets its products in Europe through its wholly owned subsidiary, Schmitt Europe Ltd. (SEL), located in the United Kingdom. The Company's executive offices are located at 2765 N.W. Nicolai Street, Portland, Oregon 97210, and its telephone number is (503) 227-7908.

A comment relative to the royalty pool was found in Note 5 in the 10-K.

**NOTE 5
COMMITMENTS AND CONTINGENCIES**

In a transaction related to the acquisition of Schmitt Measurement Systems, Inc., formerly TMA Technologies, Inc. ("TMA"), the Company established a royalty pool and vested in each shareholder and debt holder of the acquired company an interest in the royalty pool equal to the amount invested or loaned including interest payable through March 1995. The royalty pool is funded at 5% of net sales (defined as gross sales less returns, allowances and sales commissions) of the Company's surface measurement products and future derivative products developed by Schmitt Industries, Inc., which utilize these technologies. As part of the royalty pool agreement, each former shareholder and debt holder released TMA from any claims with regard to the acquisition except their rights to future royalties.

Royalty expense applicable to the years ended May 31, 2011 and 2010 amounted to \$22,128 and \$16,358, respectively.

In 2010 MBOI received total royalty payments of \$5,140.44 which represents 31.42% of total royalties paid, and in 2011 royalty payments received were \$7,441, or 33.62% of total royalties paid. Effective March 18, 2011, the Executive Director of MBOI directed all future payments be applied to principal.

Glacier Venture Fund Manager Limited Partnership (\$1,000,000)

According to the Montana Secretary of State, Glacier Venture Fund Manager Limited Partnership (Glacier Manager) was created on June 30, 1995 and has a renewal date of June 30, 2015. The general partner can extend the term for a maximum of two years. Glacier Fund Manager Limited Partnership is currently in good standing with the State.

On the same date, June 30, 1995, Glacier Venture Fund Limited Partnership (Glacier Fund) was formed and also has a renewal date of June 30, 2015 and is also in good standing with the State. The general partner can extend the term for a maximum of two years. Glacier Manager is the general partner of Glacier Fund.

Both of these organizations were formed to take advantage of the existing MSTA venture capital program. Twenty original limited partners contributed a totaled \$1,550,000. Both Jon Marchi and Alan Nicholson were the largest contributors at \$250,000 each. Jon Marchi was a MSTA Director in 1991.

MSTA issued two \$500,000 debentures to Glacier Manager, who in turn purchased limited partnership interests (100 units at \$10,000 each) in Glacier Fund for \$1,000,000. The limited partnership interests in Glacier Fund are held by Glacier Manager as collateral securing the two debentures.

The first debenture was issued on June 24, 1996 in the amount of \$500,000 at an interest rate of 10.50%, maturing in 10 years, April 24, 2006. Default interest is calculated at 15.50%. Principal and interest was due at maturity. On January 9, 2006 an interest payment was made in the amount of \$43,769. The debenture's maturity was extended to June 30, 2007. The debenture is currently in default. Net unpaid interest from April 24, 1996 to June 30, 2007 is \$534,019. Default interest, at 15.50%, from June 30, 2007 to February 9, 2012 is \$357,774. Total unpaid interest is \$891,793. Total principal and interest due on the 1996 debenture, as of February 9, 2012, is \$1,391,793.

The second debenture was issued on December 31, 1998 in the amount of \$500,000 at an interest rate of 10.50%, maturing in 10 years, December 31, 2008. Default interest is calculated at 15.50%. Principal and interest was due at maturity. No payments have been made on this debenture and it is currently in default. Interest due from December 31, 1998 to December 31, 2008 is \$525,432. Default interest, at 15.50%, from December 31, 2008 to February 9, 2012 is \$240,992. Total unpaid interest is \$766,425. Total principal and interest due on the 1998 debenture, as of February 9 2012, is \$1,266,425.

The total principal and interest due from Glacier Manager to MBOI, as of February 9, 2012, is \$2,658,217.

The debentures have matured and are in default. As far as staff can tell, no notice of default has been given to Glacier Manager.

The current investments held in the Glacier Fund portfolio and their fair market value, as determined by the General Partner, are shown below. This information was taken from the December 31, 2010 audit conducted by Anderson Zurmuehlen & Co., P.C.

Glacier Fund Portfolio			
December 31, 2010			Fair Value
		Number	Determined by
Investment Name	Security Type	of shares	General Partner
LigoCyte Pharmaceuticals, Inc.	Common and Preferred	871,464	619,523
Clean Waste, Inc.	Common and Preferred	4,134	868,776
PrintingForLess.com, Inc.	Preferred	96,000	358,224
Kids Up	Loan	n/a	57,564
		Total	1,904,087

Since the two debentures held by MBOI from Glacier Manager are in default, MBOI could (would) foreclose on the collateral and obtain the 100 units of limited partnership interest in Glacier Fund, which would result in Glacier Fund total limited partnership interest of \$2,550,000 (existing limited partnership ownership of \$1,550,000 + MBOI limited partnership interest of \$1,000,000). Upon receiving the limited partnership interest, MBOI would hold 39.2157% of Glacier Fund's total limited partnership interest. (\$1,000,000/\$2,550,000). Correspondingly, if Glacier Fund was liquidated and the value shown above, \$1,904,087, was received, MBOI would be paid approximately \$746,701.05.

If MBOI proceeds with a notice of default and foreclosure and acquires its limited partnership interest in Glacier Fund, the two debentures and accrued interest would be eliminated and MBOI would only hold 100 units of Glacier Fund at an undeterminable value.

Gateway Software Corporation (\$175,000)

Gateway Software Corporation (Gateway) was formed as a Sub-S Minnesota corporation in 1989 and converted to a C-Corporation in 1990. Gateway's primary business was and still is computerized management systems for education K-12.

On May 9, 1990 a \$45,750 convertible debenture was funded by MSTA for Gateway. Again on December 11, 1990 another \$125,000 convertible debenture was funded by MSTA for Gateway. On June 12, 1998 a new convertible debenture for \$175,000 was issued to replace the May 9, 1990 and December 11, 1990 convertible debentures.

On November 3, 2004 Gateway filed for protection under Chapter 11 of the Federal Bankruptcy Code. MBOI's creditor claim was listed as a Class Four Claim, which is impaired. Impaired creditors are those whose legal rights against the company are being changed by the reorganization plan. Usually, this means the plan calls for paying them less, and usually far less, than what they're owed.

On May 14, 2005, MBOI stipulated to the following:

The Allowed Unsecured Claim of the Class Four Creditor shall be paid and satisfied in full by the Debtor's issuance of 175,000 shares of preferred stock at a par value of \$1.00 per share of the Debtor to the holder of the Class Four claim, the Montana Science & Technology Alliance (MSTA), or its statutory successor in interest. The preferred shares shall accrue a cumulative dividend of four percent (4%) per annum. That dividend shall be a cumulative dividend payable only out of the retained surplus of the Debtor, if any, or at redemption of the preferred shares. The preferred shares

shall be redeemable solely at the option of the Debtor, at par value plus accumulated dividends. The claim of the MSTA is unsecured, and MSTA agrees to release of all unperfected liens and security interests that it may assert or claim in or against the Debtor's property. The issuance of said preferred stock shall satisfy the Debtor's obligations and liabilities under the prepetition convertible debentures in the original principal amount of \$175,000 issued by the Debtor in favor of the MSTA, and shall work a cancellation and satisfaction of said debenture, including all covenants, terms and provisions of that debenture.

Gateway appears to be performing and is still active. Company-prepared June 30, 2010 year end financials reflected total sales of \$184,022 and net profit of \$29,520. The balance sheet reflected current assets of \$198,706 and current liabilities of \$383,519, a majority of which was prepaid income of \$380,869. It would appear Gateway is recording income prior to providing the services, which is acceptable, accounting wise, but overstates their revenue received. Assets total \$205,621 and net worth is (\$177,897). Through 9 months of operation ending March 2011, total sales were \$278,380 and net profit was \$55,967. Current assets were \$266,493 and current liabilities were \$421,858 with prepaid income of \$422,660. Assets total \$273,407 and net worth is still negative at (\$148,450). The stipulation states that a dividend shall be payable out of "retained surplus". Even though the net worth of the company is improving with continued profits, retained earnings, as of March 2011, was (\$1,343,668). There was a capital injection of \$1,059,901, which has strengthened Gateway, however MBOI staff believes that the terms used in the stipulation relates to retained earnings, because there is NO capital surplus in the net worth section of the balance sheet.

With a negative company net worth, the value of the preferred stock, although confirmed as of February 9, 2012, is suspect.

Northern Rockies Venture Fund (\$150,659)

A Northern Rockies Venture Fund (Northern) representative is located in Longmont, CO. However, Northern did have offices in Helena and Butte. (Northern invested \$25,000 in Glacier Fund)

On January 26, 1995, MSTA issued a \$500,000 debenture to Northern at 10.5% maturing on January 26, 2005. The debenture could be converted into 50 units of limited partnership interests in Northern. On December 12, 1996, MSTA issued another \$500,000 debenture to Northern at 10.5% maturing December 12, 2006. This debenture could also be converted into 50 units of limited partnership interest in Northern. Northern was required to maintain partnership or corporate offices in Montana as long as any portion of the debentures were outstanding. In addition, Northern was required to invest a minimum of \$1,000,000 in Montana companies.

In a letter from Northern to MBOI dated March 8, 2005, Northern indicated they had experienced significant success with one of its investments, which provided cash to the fund in the amount of \$5,735,981. The letter also indicated MBOI would be receiving \$2,303,182. As of March 16, 2005, accumulated and unpaid interest on the two debentures totaled \$1,522,839. After paying the interest, there remained \$780,343 for application to the debentures. The 1995 debenture was paid down to \$49,476.07 and the 1996 debenture was paid down to \$170,181. On February 21, 2007 MBOI received another payment from Northern in the amount of \$97,303.60. Interest was paid current and the 1995 debenture was paid in full and the 1996 debenture was paid down to its current balance as it appears on the MSTA report of \$150,659.

In February 2012 MBOI accounting contacted Northern to confirm their balance. The Northern representative stated the fund does not owe MBOI any money and is in the process of liquidating.

MBOI has received total payments of \$2,400,505 on the two \$500,000 debentures. MBOI ledger balance is \$150,659. Northern is liquidating the fund. Staff feels to pursue collection of the \$150,659 after receiving \$1,400,505 of earnings on the \$1,000,000 investments, would not be money well spent.

Deaconess Research Institute (\$161,603)

The Deaconess Research Institute aka Billings Clinic, (Deaconess) located in Billings, MT, has become one of the most advanced clinical research centers in the region studying new medications and devices under development for the treatment of serious illnesses and diseases. Today, research conducted through the Research Institute of Deaconess Clinic helps keep its nearly 100 primary and specialty care physicians on the leading edge of medical science and provides patients with earlier access to promising new medicines and technology.

In November 1992, MSTA entered into an agreement with Deaconess whereby MSTA would lend Deaconess \$500,000 for research and development. Repayment would come from income resulting from commercialization activities until MSTA (now MBOI) receives two-and-one half times the original loan amount (\$1,250,000). At the time, statute required a payback of at least two times the loaned amount, rather than a fixed interest rate, making the return on investment totally dependent upon the repayment period, i.e., the shorter the repayment period the greater the return.

Quarterly payments have been made as agreed. Through January 31, 2012, Deaconess has paid \$883,631. The amount remaining to be paid is \$366,369 for MBOI to receive in total \$1,250,000. Deaconess has confirmed the \$366,369 as the remaining balance to be paid to MBOI. MBOI reflects an outstanding balance of \$161,603 rather than \$366,369 and will apply all future payments to interest (earnings) until Deaconess' balance reaches \$161,603 and at that time all payments will be applied to principal. After the remaining \$161,603 is paid, the total paid to MBOI by Deaconess will be \$1,250,000. Payments made by Deaconess to MBOI for 2009, 2010, 2011 and 2012 were \$32,193, \$17,111, \$44,950 and \$17,802, respectively. The average amount paid by Deaconess over the past three full calendar years is \$31,418. If they continue with that average payment, it will take 11.66 years to pay off the remaining \$366,369 balance.

Emerald Bio Agriculture (\$746,325)

Mycotech Corporation, (Emerald Bio) is a company located in Butte and was organized May 16, 1990.

Montana Science and Technology Development provided financing to Emerald Bio through the following four convertible debentures.

Debenture 1	April 1991	\$350,000
Debenture 2	July 1992	\$300,000
Debenture 3	October 1993	\$500,000
Debenture 4	March 1996	\$ 61,013

Debenture 1 was sold to a private investor in March 1997 for \$1,187,635. Total principal outstanding on the three remaining convertible debentures was \$861,013.

In 2001, Mycotech merged with Emerald Bio Agriculture Corporation and assumed the Emerald Bio Agriculture name. Emerald Bio began operations in 1994 as Auxein Corporation and is headquartered in Lansing, Michigan. The Mycotech facility in Butte is still operating. Emerald Bio designs and manufactures various biological and biochemical agents to improve crop yields, enhance crop quality, combat disease and fight pests. The company manufactures the following three bio-insecticides:

AuxiGro® - yield enhancement and disease control product

NuTRx – nutrient uptake enhancement product

Mycotrol®/BontaniGard® - insect and mite control product

From February 2002 through December 2003, Emerald Bio requested extensions on the maturity dates of its outstanding convertible debentures and MBOI granted those requests.

In August 2004 MBOI granted Emerald Bio's request to restructure their existing obligations, converting the three remaining convertible debentures into an amortizing loan in the original amount of \$861,013 to be payable in monthly installments of \$6,365.37 over 25 years at 7.50%. The final maturity is August 1, 2029. There is a provision in the restructure agreement which provides for additional principal payments of "...10.00% of any and all capital/equity raised by any means at any time after the effective date of this Agreement. The first One Hundred Thousand Dollars (\$100,000) of capital raised shall be exempt from this provision".

Staff has not seen any additional principal payments made on this loan as a result of the above provision. Staff recommends investigating to see if any such capital/equity has been raised by Emerald Bio. However, the rate of return of 7.50% is currently attractive.

This loan appears to be unsecured and has been paying as agreed with an outstanding principal balance of \$741,154.14 as of February 1, 2012. MBOI automatically charges the borrowers account for the monthly payment on the first of every month.

McLaughlin Research Institute (\$271,959)

McLaughlin Research Institute, (McLaughlin) Great Falls, MT, is a non-profit organization specializing in biomedical research and the study of genetic susceptibility to disease. Associated with McLaughlin is Lewis & Clark Biologicals, which is a for-profit organization established to commercialize opportunities and products developed by McLaughlin.

On November 17, 1993, McLaughlin entered into a agreement with MSTA and received a \$500,000 loan. The original terms of the agreement required a total repayment of two-and-one half times the original loan amount (\$1,250,000). At the time, statute required a payback of at least two times the loaned amount, rather than a fixed interest rate, making the return on investment totally dependent upon the repayment period, that is, the shorter the repayment period, the greater the return. McLaughlin was obligated to repay 5% of the gross revenue from all royalties received during the first three years of the loan term and subsequent repayment according to a payment schedule agreed to by McLaughlin and MSTA. If commercialization funds were insufficient, other McLaughlin funds would be used to repay the loan.

In July 1999, MBOI and McLaughlin agreed to amend the existing loan repayment schedule requiring 24 annual payments, on or about their fiscal year end, June 30 in a fixed amount of \$25,727. Interest would be calculated at 2 percent. The final maturity is June 30, 2023. The change was instituted at the request of McLaughlin due to their inability to generate sufficient commercialization funds to repay the loan.

It should be noted that rather than repaying two and one half times the loan amount, which would equate to \$1,250,000, the new amortization schedule would repay MBOI a total of \$691,738 by June 30, 2023.

The loan agreement and schedule were reviewed in September 2010 resulting in a principal balance adjustment of \$16,580 reconcile the balances between McLaughlin and MBOI.

In this case there appears to be an obligation to pay, although staff could not find a copy of the original November 17, 1993 agreement. A MBOI memo dated November 30, 1999 indicated, "Most of the

important files relating to this loan in the earlier years have been archived at the state records management."

Payments have been made as agreed reflecting a confirmed current outstanding principal balance of \$271,959.

McLaughlin's annual report, dated June 30, 2010, indicates total assets of \$14,802,831, total liabilities of \$2,542,964 and net assets of \$12,259,867. Of those net assets (net worth), \$9,706,594 were unrestricted. No income statement was presented in any of the three annual reports reviewed by staff.

[Return to Meeting Agenda](#)

Bond Program

INTERCAP Loan Program

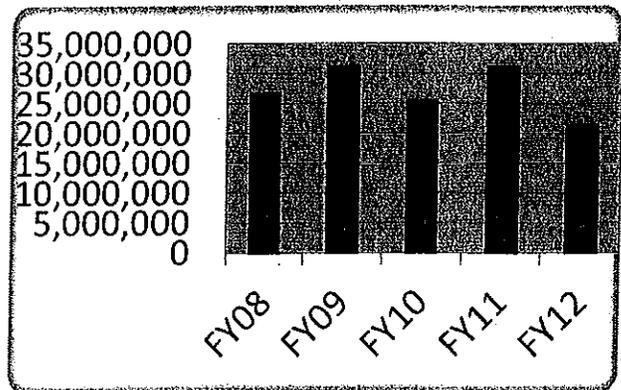
Activity Summary

As of March 31, 2012

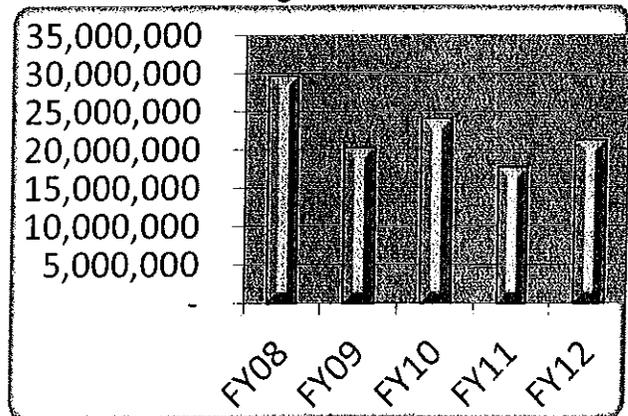
Since Inception 1987 - March 2012

Total Bonds Issued	136,000,000
Total Loan Commitments	395,479,764
Total Loans Funded	364,073,912
Total Bonds Outstanding	95,030,000
Total Loans Outstanding	79,261,676
Loan Commitments Pending	31,405,852

Commitments FY08-FY12



Fundings FY08-FY12



FY2012 To Date		
Month	Commitments	Fundings
July-11	\$ 2,349,050	\$ 2,869,239
August	6,916,343	2,722,666
September	245,000	1,549,568
October	1,255,000	2,323,389
November	6,509,000	3,023,379
December	2,200,000	2,483,898
January	793,000	1,286,180
February	281,903	565,284
March	735,885	4,390,488
April		
May		
June-12		
To Date	\$ 21,285,181	\$ 21,214,091

Note: Commitments include withdrawn and expired loans.

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

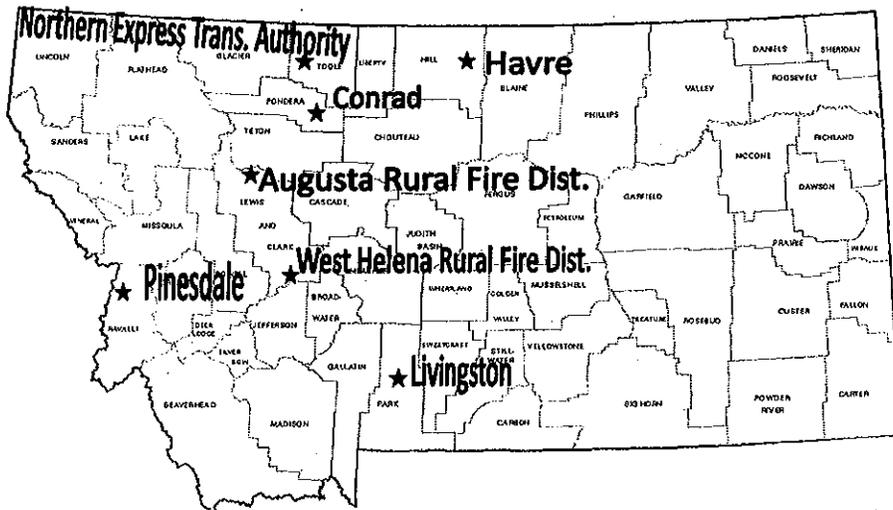
February 16, 2005 - February 15, 2006	3.80%	February 16, 2009 - February 15, 2010	3.25%
February 16, 2006 - February 15, 2007	4.75%	February 16, 2010 - February 15, 2011	1.95%
February 16, 2007 - February 15, 2008	4.85%	February 16, 2011 - February 15, 2012	1.95%
February 16, 2008 - February 15, 2009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

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 *[Signature]*
Date: May 22, 2012
Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – January 1, 2012 through March 31, 2012.



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

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

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

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

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

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

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

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

Montana Board of Investments
LOAN COMMITTEE
INTERCAP Loan Summary and Approval



Borrower: Department of Natural Resources and Conservation (DNRC)

Date: May 22, 2012

The DNRC requests \$1 million for interim financing in anticipation of issuing taxable State of Montana Coal Severance Tax Bonds for its Renewable Resource Grant & Loan (RRGL) Program. The loan will be in the form of a bond anticipation note (BAN). The loan will be potentially financed over a three (3) year term but historically DNRC issues the bonds that take out the BAN well before maturity.

The BAN proceeds will finance a RRGL loan to Lockwood Water & Sewer District-Billings (the "District") to pay for a million dollar initial hookup fee to the City of Billings sewer system. DNRC's initial plan was for the District to receive the full amount so they could make monthly payments to the City when due. As a condition to the loan, Board staff will require the project costs be paid within five (5) business days after the draw date as to not run the risk of INTERCAP funds being used for arbitrage purposes.

Taxable

This request is taxable but not considered private activity as was the case with other DNRC taxable requests received in the past. The Board's bond counsel, Dorsey & Whitney, LLP (Dorsey), comments that the Board of Examiners authorized the long-term bond to be taxable since at the time of passage there were some uncertainties regarding the draw of loan funds vs. project costs payment and questions about whether the project financed should be considered capital expenditure or working capital expenditure.

Dorsey analyzed the request and assures the Board the following:

- INTERCAP's tax exempt status is not at stake. The end benefactor is a local government and the DNRC will ensure that the BAN draws are concurrent with each monthly payment the District makes to the City.
- This is a capital expenditure in that the funds are essentially paying for a sewer treatment plant that is in lieu of a plant being built by the District. Dorsey adds that even if this weren't a capital expenditure, which again, they reassert that there are perfectly good arguments for, this cost could be financed short-term on a tax-exempt basis as a working capital expenditure to the extent the costs exceed available amounts.
- Dorsey will add specific language to the documents and their opinion reaffirming the above representations.

Authorization

Montana Code Annotated (MCA) Sections 17-5-701 through 17-5-719 and 17-5-731 authorizes the issuance and sale of the Coal Severance Tax (CST) Bonds and the BAN in anticipation of the CST Bonds. Statute of particular interest for authorization is as follows:

CST Bonds authorization

17-5-706 MCA: The board of examiners, upon approval of the legislature as hereinafter provided, shall issue and sell coal severance tax bonds to finance approved renewable resource projects when authorized to do so by any law that sets out the amount and purpose of the issue. Each project must be separately approved as to amount by a two-thirds vote (67%) of each house of the legislature.

Article IX, section 5, of the Montana Constitution: ¾ vote (75%) required of each house to pledge the monies necessary for the payment of principal and interest on the coal severance tax bonds.

- ✓ 2009 Legislative Session: House Bill 8 (HB8) passed by 88% in the Senate and 76% in the House of Representatives authorizing the issuance of \$13,724,457 in coal severance tax bonds.

17-5-719 MCA: No more than \$250 million worth of coal severance tax bonds may be issued for renewable resource development projects and activities.

- ✓ Current total CST Bonds outstanding: \$30,101,333

BAN authorization

17-5-731 MCA (1) When the board of examiners has been authorized by the legislature to issue and sell bonds under this part, it may, pending the issuance of the bonds, issue temporary notes in anticipation of the receipt of proceeds to be derived from the sale of the bonds. (2) Bond anticipation notes ...maturing not more than 3 years after the date of issue may be issued from time to time as needed.

INTERCAP Debt

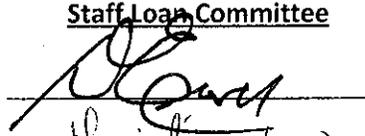
Since 1996, the DNRC has used the INTERCAP program to interim finance more than \$22.61 million for its various programs. DNRC currently has \$2.08 million in a combination of bond anticipation notes (BANs) and revenue anticipation notes (RANs) outstanding; final maturity October 2014. Assuming a full draw down of the DNRC's \$4.97 million remaining commitment and the total combined proposed requests of \$3 million, the DNRC has the potential total INTERCAP outstanding of \$10.05 million.

Recommendation

The DNRC can adequately service the debt. Approval recommended.

Staff Loan Committee

David Ewer, Executive Director



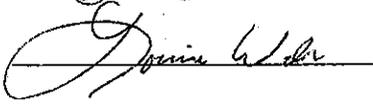
Approval Date: 5/2/12

Geri Burton, Deputy Director



Approval Date: 5.2.12

Louise Welsh, Bond Program Officer



Approval Date: 5/1/12

Board Loan Committee – May 22, 2012

Jack Prothero, Chairperson – Loan Committee
David Aageson, Member
James Turcotte, Member

Approval

- Yes No Abstain
- Yes No Abstain
- Yes No Abstain

**Montana Board of Investments
LOAN COMMITTEE
INTERCAP Loan Summary and Approval**



Borrower: Department of Natural Resources and Conservation (DNRC)

Date: May 22, 2012

The DNRC requests a \$2 million interim financing in anticipation of issuing tax-exempt State of Montana Coal Severance Tax Bonds for its Renewable Resource Grant & Loan (RRGL) Program. The loan will be in the form of a bond anticipation note. The loan will be potentially financed over a three (3) year term but historically the borrower issues the bonds taking out the BAN well before maturity.

The BAN is to finance various RRGL loans to Montana irrigation district projects and existing local government debt refinancing that the 2011 Legislature approved in House Bill 8. The RRGL borrower will have taken all the steps necessary for obtaining bond financing before the DNRC requests interim funding from INTERCAP.

Authorization

Montana Code Annotated (MCA) Sections 17-5-701 through 17-5-719 and 17-5-731 authorizes the issuance and sale of the Coal Severance Tax (CST) Bonds and the BAN in anticipation of the CST Bonds. Statute of particular interest for authorization is as follows:

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- ✓ Current total CST Bonds outstanding: \$30,101,333

BAN authorization

17-5-731 MCA (1) When the board of examiners has been authorized by the legislature to issue and sell bonds under this part, it may, pending the issuance of the bonds, issue temporary notes in anticipation of the receipt of proceeds to be derived from the sale of the bonds. (2) Bond anticipation notes ...maturing not more than 3 years after the date of issue may be issued from time to time as needed.

INTERCAP Debt

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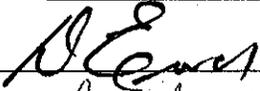
revenue anticipation notes (RANs) outstanding; final maturity October 2014. Assuming a full draw down of the DNRC's \$4.97 million remaining commitment and the total combined proposed requests of \$3 million, the DNRC has the potential total INTERCAP outstanding of \$10.05 million.

Recommendation

The DNRC can adequately service the debt. Approval recommended.

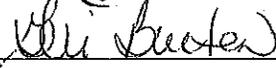
Staff Loan Committee

David Ewer, Executive Director



Approval Date: 5/2/12

Geri Burton, Deputy Director



Approval Date: 5-2-12

Louise Welsh, Bond Program Officer



Approval Date: 5/1/12

Board Loan Committee – May 22, 2012

Jack Prothero, Chairperson – Loan Committee

David Aageson, Member

James Turcotte, Member

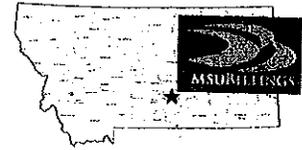
Approval

Yes No Abstain

Yes No Abstain

Yes No Abstain

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



Borrower: Board of Regents of Higher Education of the State of Montana
on behalf of Montana State University - Billings (MSUB)

Date: May 22, 2012

The Borrower requests a \$1.5 million loan to finance costs associated with repairing/replacing MSUB Student Union Building/Rimrock Hall HVAC mechanical and electrical systems over a 15-year term. The loan will be in the form of a general promise to pay of the Borrower based on allowable non-state revenues (see "Revenue Pledge"). MSUB will contribute \$500,000 from its Building Fee Fund towards the \$2 million total project cost.

Authorization

18-2-102 Montana Code Annotated. (MCA) (2)(b) The regents of the Montana university system may authorize the construction of revenue-producing facilities referred to in 20-25-302 if they are to be financed wholly from the revenue from the facility. [Note: Projects financed under this code do not need the Governor's consent.]

20-25-302 MCA The regents of the Montana university system may: (1) purchase, construct, equip, or improve, at any unit of the Montana university system, any of the following types of revenue-producing facilities: (b) residence halls, (d) student union buildings and facilities; (6) do all things necessary to plan for and propose financing, including all necessary loan applications, for: (b) office, recordkeeping, ..., and other administrative and operational facilities; (d) other assembly,, and entertainment facilities;

20-25-402 MCA (1) In carrying out the powers provided in ... 20-25-302, the regents may: (a) borrow money for any purpose or purposes stated in parts 3 and 4 of this chapter... (c) issue bonds, notes, ... (d) pledge for the payment of ... the principal and interest on bonds, notes, or other securities authorized in this chapter or otherwise obligate: (i) the net income received from rents, board, or both in housing, food service, and other facilities; (ii) receipts from student building, activity, union, and... (e) make payments on loans or purchases from any other available income not obligated for those purposes, including receipts from sale of materials, equipment, and fixtures of the facilities or from sales of the facilities themselves, other than land;

November 17, 2011 - BOR Item 153-2701-R1111 authorizing the Project, financing through the INTERCAP Program, and the revenue pledged to repay the loan passed 7-0.

April 24, 2012 - Office of the Commissioner of Higher Education (OCHE) approved the INTERCAP application and repayment source in accordance with the INTERCAP Program Agreement between the Board and BOR dated January 2, 2007 (the "Agreement"), Article II, Section 2.01(a).

- Note: OCHE approval certifies that it performed sufficient due diligence as to the appropriateness of the Project in the context of the overall plans and policies of BOR and the University, and that the proposed loan complies with existing contracts, statutes, the BOR Indenture, and all legislative directives, mandates, and limitations.

INTERCAP Debt

The Board of Regents have been using INTERCAP since 1992 financing over \$35.9 million on behalf of the Montana State University and University of Montana campuses for various projects. Total university outstanding to date is approximately \$14.4 million with the longest term maturing August 2026. This total may potentially increase to \$19.6 million assuming the full drawdown of \$3.2 million in remaining commitments and the proposed \$1.5 million. All of the university INTERCAP loans are current.

The MSUB campus started using INTERCAP in 1998 financing over \$2.6 million of the university total. The MSUB has approximately \$950,000 total principal outstanding with the longest term maturing August 2018. MSUB's total outstanding may potentially increase to \$3.2 million assuming a full drawdown of \$580,000 remaining commitment and the proposed \$1.5 million.

Revenue Pledge (non-state)

There will be approximately \$140,000 annual debt service on the loan. Repayment will come from MSUB's surplus net revenue pledge of its Building Fee Fund revenues shown in the Financial Report below. On an average, MSUB transfers \$148,000 out of the Building Fee Fund annually for repair & replacement. The new debt service will replace that annual transfer until the debt is satisfied. A fee increase also went into effect in FY12 that will generate an approximate \$46,000 in additional revenue annually.

To the extent the Revenue Pledge is insufficient, the Borrower will, as authorized by and according to applicable provisions and limitations of law, budget and appropriate any allowable non-state revenues sufficient to pay the principal of and interest on the loan when due.

Financial Report

<u>MSU-Billings overall</u>	<u>FY11</u>	<u>FY10</u>	<u>FY09</u>
Net Assets, beginning of year	\$61,244,649	\$56,792,872	\$51,783,871
Revenues	69,111,752	67,870,258	67,563,275
Expenditures	<u>66,605,505</u>	<u>63,418,451</u>	<u>62,554,304</u>
Net Assets, end of year	\$63,750,896	\$61,244,649	\$56,792,842
Net Change in Fund Balance	\$ 2,506,247	\$ 4,451,807	\$ 5,008,971
Fund Balance <i>Unrestricted</i>	\$ 21,777,027	\$ 19,540,488	\$ 16,739,073
Fund Balance Cash	\$ 34,499,270	\$ 29,849,896	\$ 25,677,538
Non-State Revenue	76%	76%	69%

<u>Building Fee Fund (Pledged Fund)</u>	<u>FY11</u>	<u>FY10</u>	<u>FY09</u>
Beginning Fund Balance	\$ 1,235,754	\$ 1,276,234	\$ 1,145,326
Revenues (see chart)	1,099,563	1,098,849	1,228,260
Expenditures	<u>1,145,206</u>	<u>1,139,329</u>	<u>1,097,352</u>
Ending Fund Balance	\$ 1,190,111	\$ 1,235,754	\$ 1,276,234

Net Change in Fund Balance *	\$ (45,643)	\$ (40,480)	\$ 130,908
Fund Balance Unrestricted	\$ 1,190,111	\$ 1,235,754	\$ 1,276,234
Fund Balance Cash	\$ 1,208,892	\$ 1,210,460	\$ 1,202,231

*MSUB used the FY09 \$130,908 excess revenue from timber sales towards expenditures in the subsequent years. As mentioned earlier, the new \$140,000 approximate debt service is replacing the \$148,000 annual repair/replacement transfer. A fee increase went into effect in FY12 that will generate approximately \$46,000 new annual revenue.

Recommendation

The Borrower has the resources to service the debt. Approval recommended.

Staff Loan Committee

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

Approval Date: 5/2/12
 Approval Date: 05/02/12
 Approval Date: 05/02/12

Board Loan Committee – May 22, 2012

Jack Prothero, Chairperson – Loan Committee
 David Aageson, Member
 James Turcotte, Member

Approval
 Yes No Abstain
 Yes No Abstain
 Yes No Abstain

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



Borrower: Sun Prairie Village County Water & Sewer District (Great Falls)

Date: May 22, 2012

The District requests a \$1,399,000 interim loan in anticipation of the United States Department of Agriculture (USDA) Rural Development Services (RD)¹ long-term financing for its water system improvement project. The loan will be for potentially two (2) years and in the form of a bond anticipation note (BAN). The projected drawdown schedule for the loan begins April 2013 through November 2013 at which point the District anticipates closing on the RD loan. The funding package for the \$3,576,000 total project cost is as follows:

INTERCAP Interim loan	\$1,399,000
United States Department of Agriculture	
-Rural Development Services (RD) Loan	\$ 1,399,000
-Rural Development (RD) Services Grant	979,000
Borrower Portion	23,000
Department of Commerce	
-Community Development Block Grant (CDBG)	450,000
-Treasure State Endowment Program (TSEP) Grant	625,000
Department of Natural Resources and Conservation	
-Renewable Resource Grant & Loan Program (RRGL) Grant	<u>100,000</u>
Total	\$ 3,576,000

¹<http://www.rurdev.usda.gov/>

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 District is a new borrower to INTERCAP.

Repayment:

The bond proceeds from the District'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 (**MBOI has on file**)
- USDA Office of General Council (OGC) Loan Closing Instructions

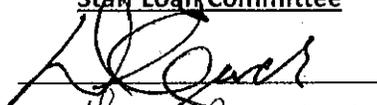
2. The Board will require approval from RD for each specific draw on the loan.
3. The Board requires the District to hire Bond Counsel to prepare the necessary BAN documents and provide the opinion at closing. The Bond Counsel needs to be nationally recognized and rendering a bond counsel opinion in the last ten years.

Recommendation:

Approval recommended.

Staff Loan Committee

David Ewer, Executive Director



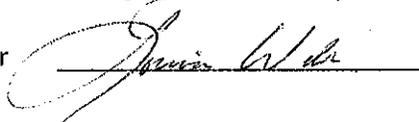
Approval Date: 4/27/12

Geri Burton, Deputy Director



Approval Date: 4-27-12

Louise Welsh, Bond Program Officer



Approval Date: 4/27/12

Board Loan Committee – May 22, 2012

Jack Prothero, Chairperson – Loan Committee

David Aageson, Member

James Turcotte, Member

Approval

Yes No Abstain

Yes No Abstain

Yes No Abstain

Montana Board of Investments



Montana Domestic Equity Pool (MDEP) Proposed Restructuring

Cliff Sheets, CFA
Chief Investment Officer

Rande Muffick, CFA
Portfolio Manager–Public Equities

May 22, 2012

BACKGROUND OF THE POOL STRUCTURE

- ❑ Different eras of structure for the Montana Domestic Equity Pool (MDEP)
 - Prior to 2005: Largely internally–managed with mega–cap bias
 - Montcomp and DFA Small Cap were the only active funds
 - One internal portfolio manager for Montcomp with small research staff
 - Returns did not meet expectations
 - Conclusions Drawn
 - Needed more diversification among capitalization sizes
 - Needed more diversification among portfolios
 - Lacked internal resources for an active internal portfolio with medium to large tracking error

➤ 2007 to Present: 100% externally–managed with large weight on active management

- Better diversification – by manager styles and methodologies
- Better diversification within cap sizes
- Better use of internal resources
- Returns did not meet expectations

➤ Conclusions Drawn

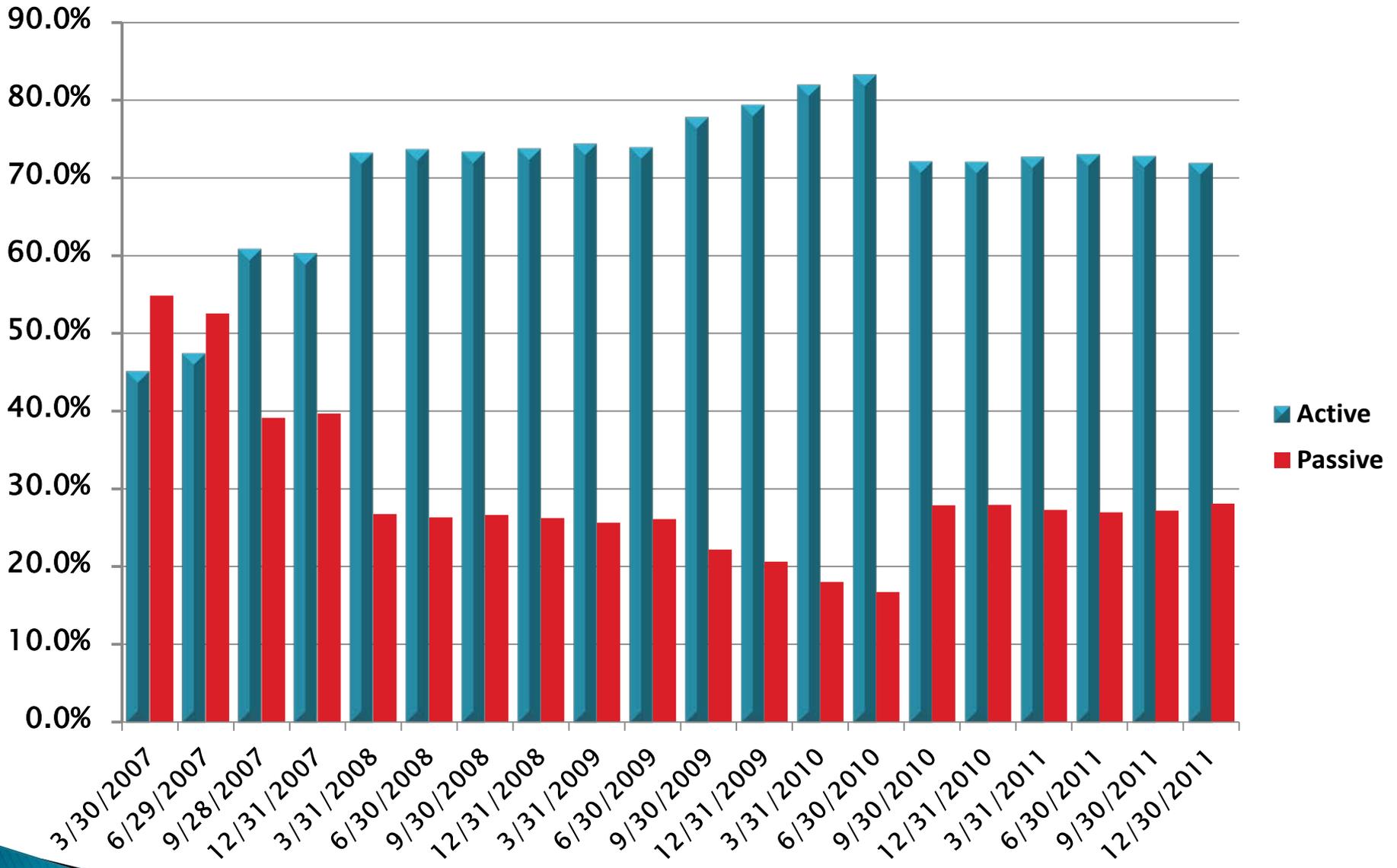
- Large caps are more efficient than we had expected
- Too much diversification among large cap portfolios
- Portable alpha strategy did not provide alpha generation
- Need more manager diversification within non–large cap segments
- Need passive vehicles within each sub–category to facilitate allocation adjustments

PASSIVE VS. ACTIVE EXPERIENCE

❑ BOI'S History of the active/passive relationship

- Passive weight was higher early in 2007 at 53%
 - Combination of Montcomp and BlackRock Equity Index Fund
- Passive weight declined later in 2007 and early 2008 with funding of additional active large cap managers
 - Style-based managers were funded in August 2007
 - 130/30 partial long/short managers were funded in March 2008

Montana Domestic Equity Pool





Domestic Equity

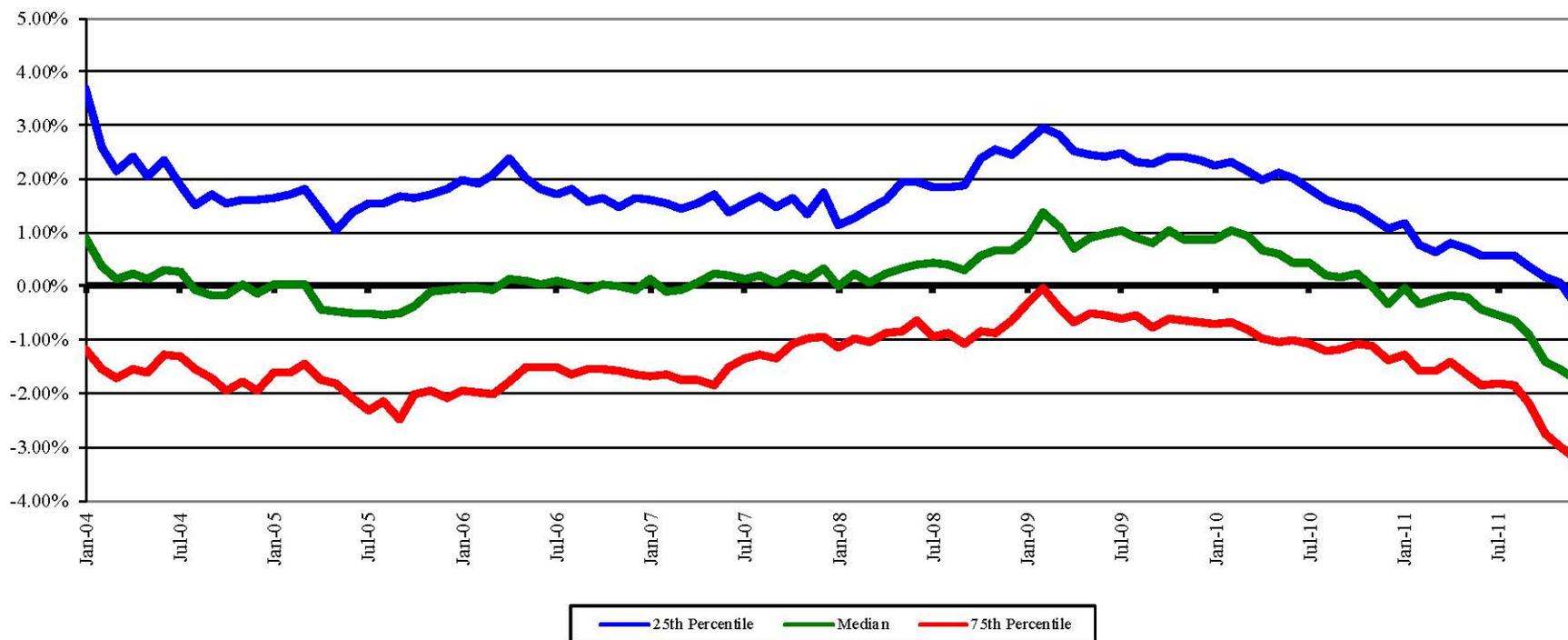
Large Cap Core Equity

LARGE CAP CORE MANAGER EXCESS RETURNS - ROLLING THREE YEAR PERIODS (Jan 2001 - DEC 2011)

Excess Returns are performed relative to the Russell 1000 Index

Assumed Annual Management Fee: 41.5(bp)

Peak population: 246



eVestment Alliance Manager Database Comparison

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



Domestic Equity

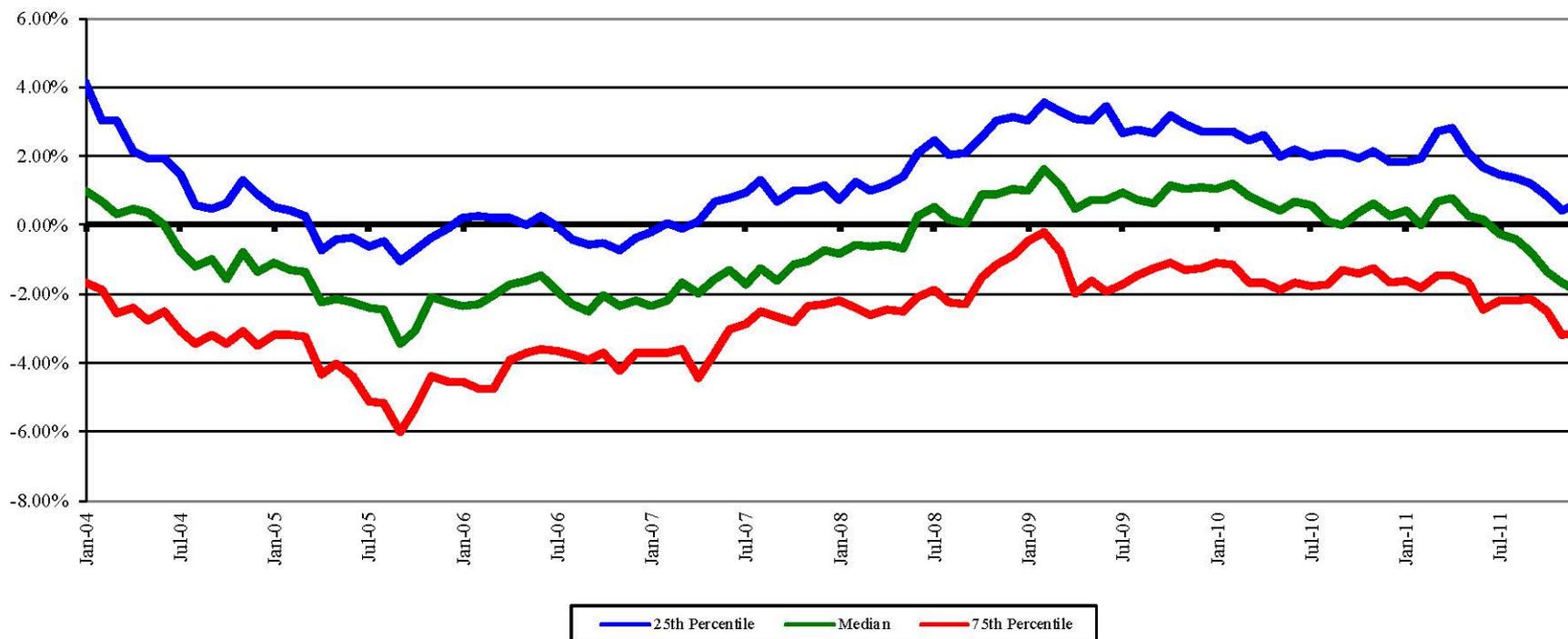
Mid Cap Core Equity

MID CAP CORE MANAGER EXCESS RETURNS - ROLLING THREE YEAR PERIODS (JAN 2001 - DEC 2011)

Excess Returns are performed relative to the Russell Mid Cap Index

Assumed Annual Management Fee: 61.5(bp)

Peak population: 75



eVestment Alliance Manager Database Comparison

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



Domestic Equity

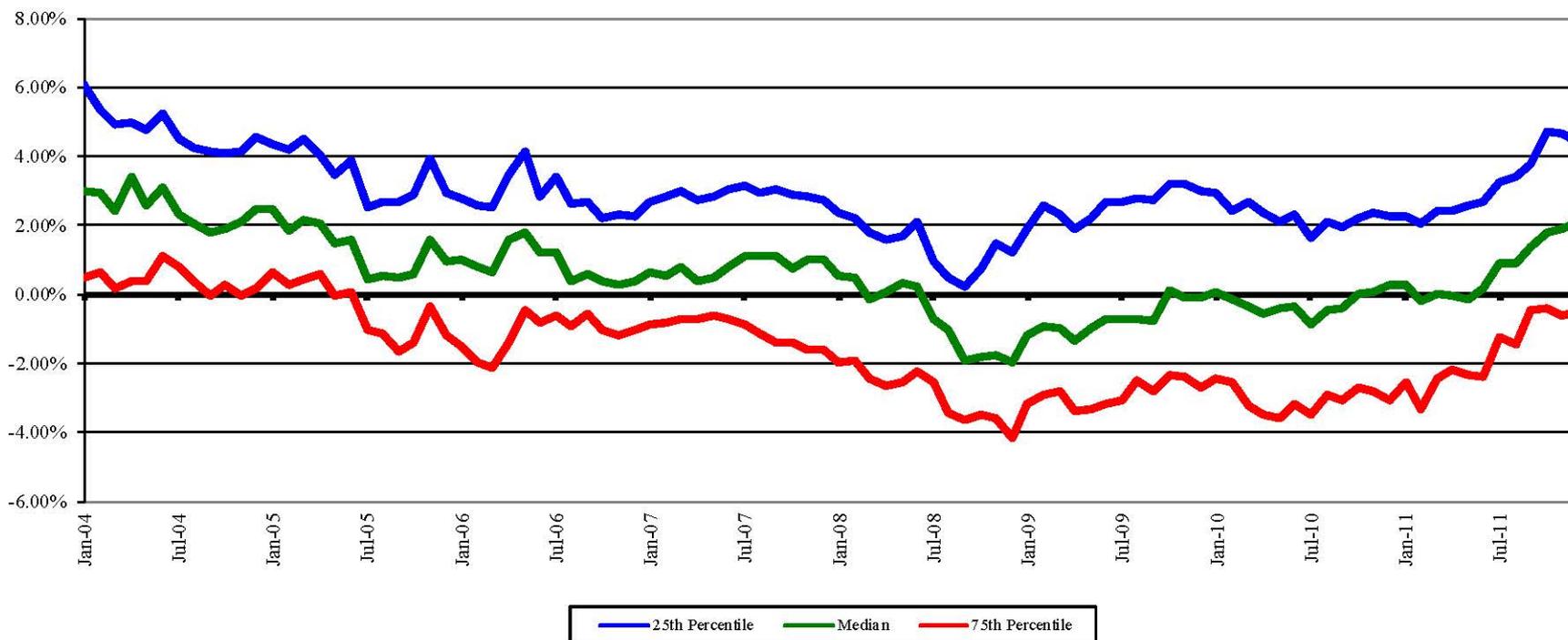
Small Cap Core Equity

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

Excess Returns are performed relative to the Russell 2000 Index

Assumed Annual Management Fee: 76.0(bp)

Peak population: 131



eVestment Alliance Manager Database Comparison

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

THE MARKET'S EFFICIENCY

- ❑ Active manager outperformance is more likely in mid caps and small caps

- ❑ Why are large cap domestic stocks in the most efficient part of the market?
 - Liquidity needs of institutional investors
 - Wall Street Coverage is most intense
 - Information in the Media Technology Age
 - Big money needs to be in big money stocks

OBJECTIVES OF THE POOL GOING FORWARD

- ❑ Provide reliable beta exposure to domestic stocks
- ❑ Add excess return vs. broad market benchmark (currently the S&P 1500 Index)
- ❑ Reduce tracking error of returns versus the benchmark
- ❑ Provide flexibility from infrastructure standpoint to facilitate adjustments
 - Within the pool
 - Across pools (to accommodate pension allocation changes)

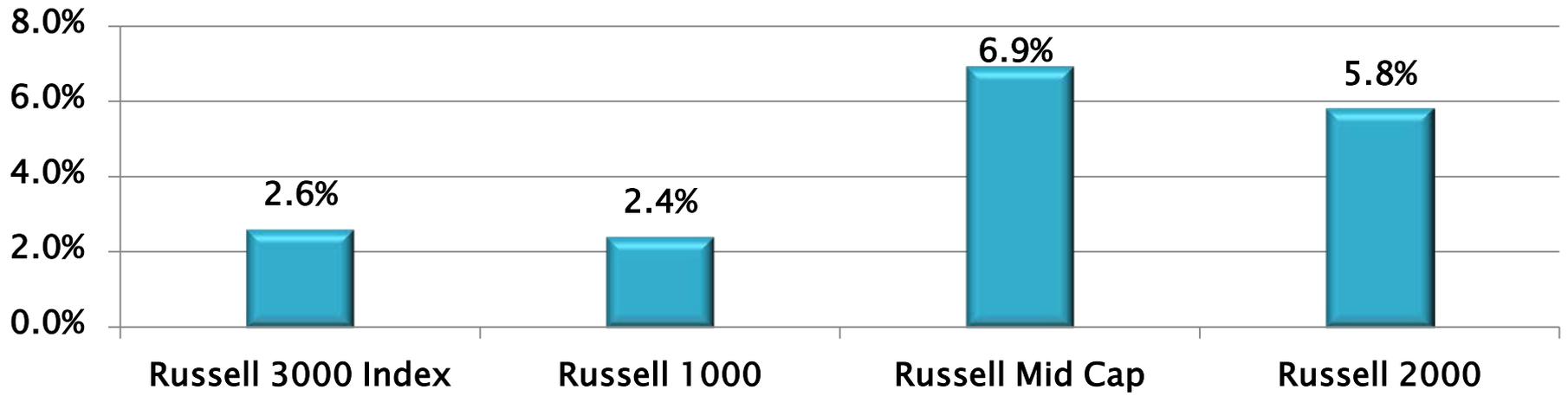
OBJECTIVES (continued)

- ❑ Recognize market efficiencies are higher in the large cap domestic stocks versus the mid cap and small cap domestic stocks

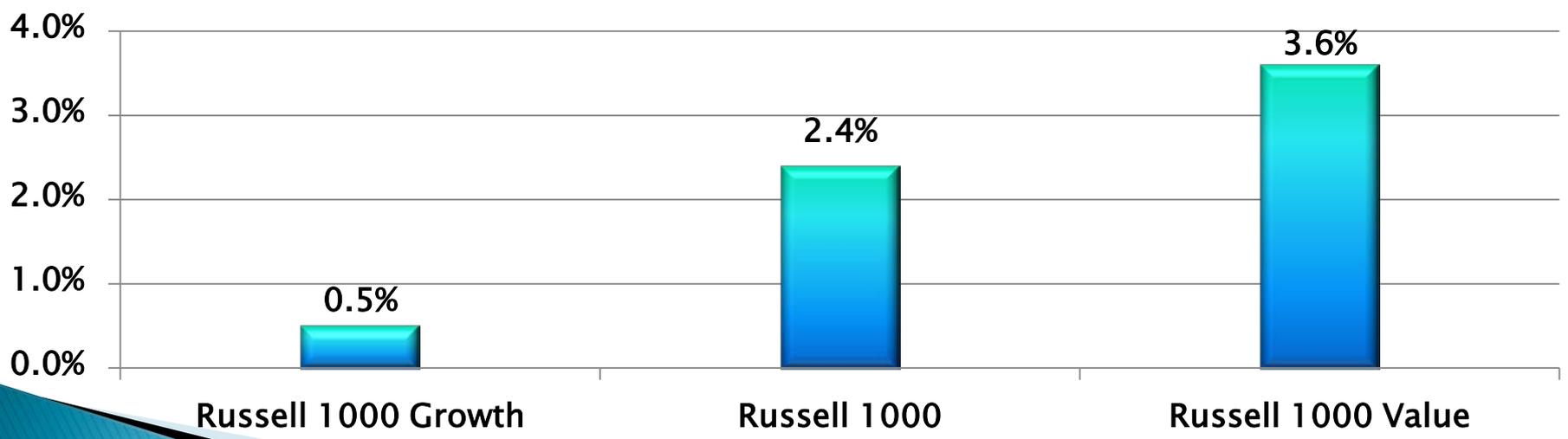
- ❑ Recognize the opportunities that inefficiencies in the market offer over time
 - Size premium continues to be pervasive

 - Value premium continues to be pervasive in non-large caps

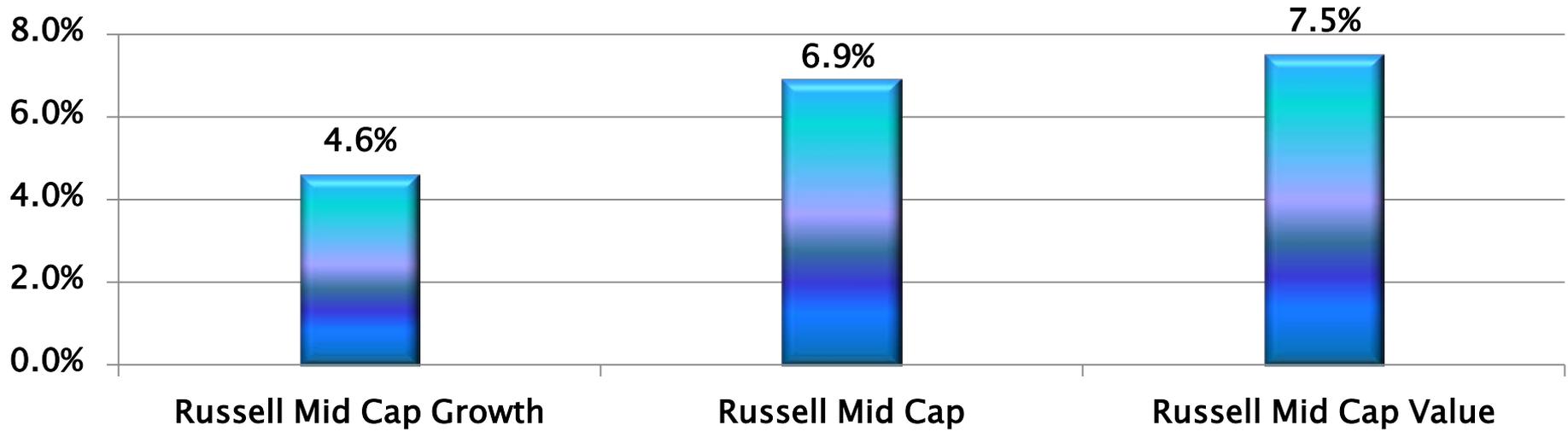
US Equity Indices Annualized Index Returns 1/1/1999 – 12/31/2011



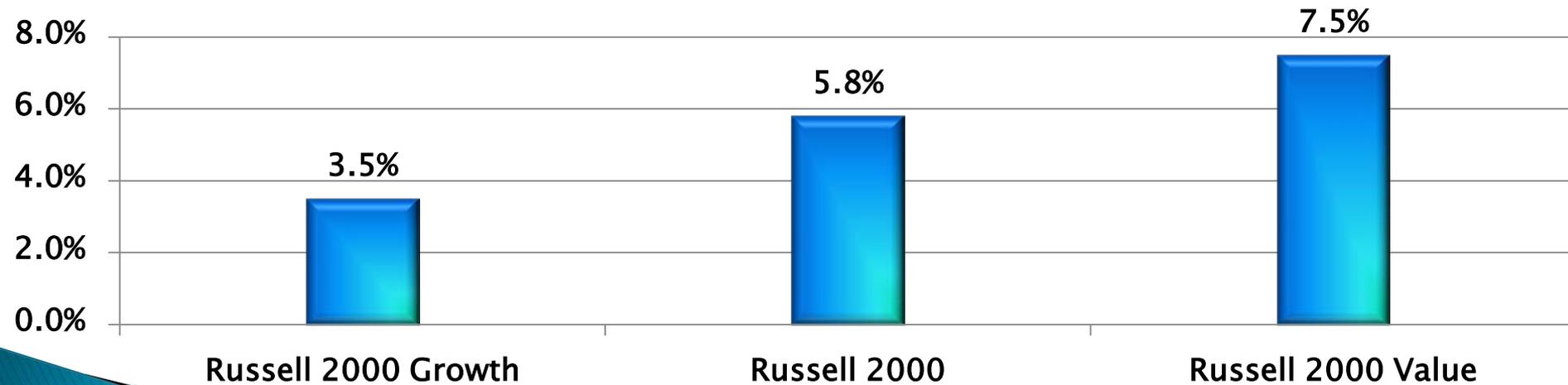
US Large Cap Equity Indices Annualized Index Returns 1/1/1999 – 12/31/2011



US Mid Cap Equity Indices
Annualized Index Returns 1/1/1999 – 12/31/2011



US Small Cap Equity Indices
Annualized Index Returns 1/1/1999 – 12/31/2011



Wealth Indices of Investments in the U.S. Capital Markets

Index (Year-end 1925 = \$1.00)

From December 1925 to December 2011





Domestic Equity

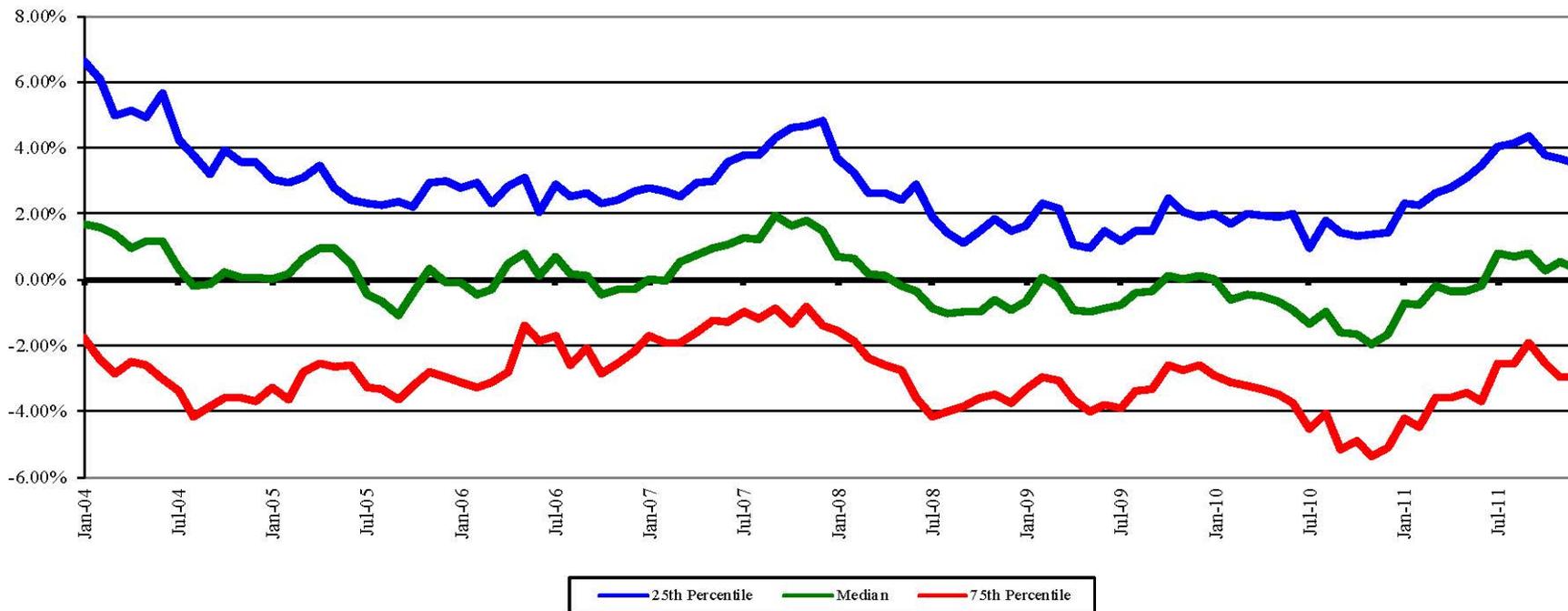
Small Cap Growth Equity

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

Excess Returns are performed relative to the Russell 2000 Growth Index

Assumed Annual Management Fee: 88.0(bp)

Peak population: 192



eVestment Alliance Manager Database Comparison

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



Domestic Equity

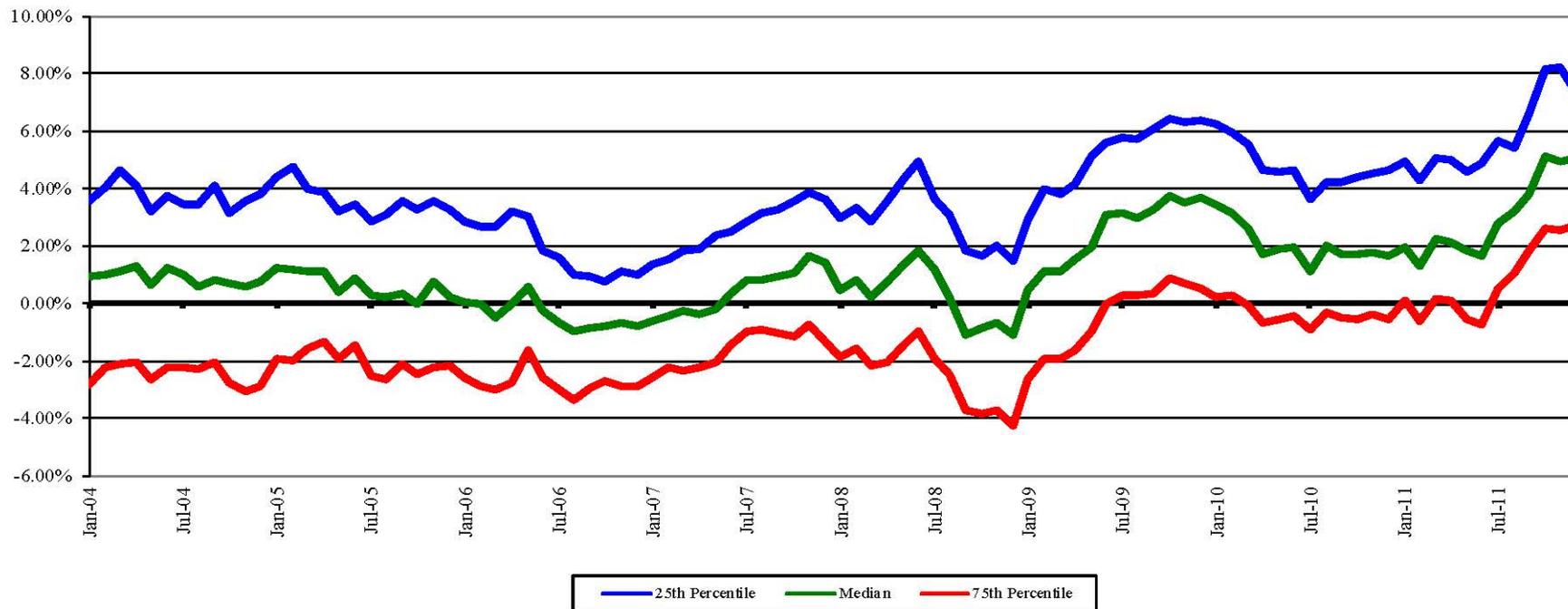
Small Cap Value Equity

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

Excess Returns are performed relative to the Russell 2000 Value Index

Assumed Annual Management Fee: 90.5(bp)

Peak population: 220



eVestment Alliance Manager Database Comparison

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

OBJECTIVES (continued)

- ❑ Reduce costs within a still active pool structure
- ❑ Pay fees for active management in areas where it is most likely to be rewarding (get more for our fee \$)

RECOMMENDATIONS

- ❑ Decrease the pool's reliance on large cap active management
- ❑ Eliminate style-based allocation (21.8%)
- ❑ Reduce Enhanced (22.9%) and 130/30 (15.8%) strategies
 - Maintain 10% exposure to each strategy
 - Excess return potential with reliable managers
 - Retain some potential for excess returns in largest segment of portfolio

RECOMMENDATIONS (continued)

- ❑ Active large cap weight will be decreased from 60.55% to ~20% (or 72% → 24% of the large cap allocation, or 2/3's reduction)
- ❑ Increase allocation ranges of non-large cap exposure allowing for tactical adjustments to this exposure vis-à-vis broad market benchmark

Proposed Structure

Domestic Stock Pool By Market Cap & Strategy – 3/31/12					
				(As of 4/27/12)	
			Approved	S&P 1500	Proposed
<u>Pool Segment</u>	<u>Market Value</u>	<u>%</u>	<u>Range</u>	<u>% Mkt Cap</u>	<u>Range</u>
LARGE CAP CORE (Passive) Total	699,662,994	23.19%	10-30%		45-70%
LARGE CAP ENHANCED Total	690,454,155	22.89%	20-30%		8-12%
LARGE CAP VALUE Total	340,386,651	11.28%			0
LARGE CAP GROWTH Total	317,905,008	10.54%			0
LARGE CAP STYLE BASED	658,291,659	21.82%	20-30%		0
130-30 Total	477,827,125	15.84%	10-20%		8-12%
COMBINED LARGE CAP Total	2,526,235,933	83.74%	82-92%	88.2%	72-91%
MID CAP Total	326,124,732	10.81%	5-11%	8.3%	6-17%
SMALL CAP Total	164,361,898	5.45%	3-8%	3.5%	3-11%
MDEP Total	3,016,722,563	100.00%		100.0%	

RECOMMENDATIONS (continued)

- ❑ Increase active manager diversification within the mid cap and small cap segments
 - 4–5 active managers in each (with value tilt on average)
 - Increase flexibility and take advantage of tactical opportunities when presented by the market
 - Passive component in each cap size
 - Less costly way to obtain size premium effect
 - Provide more maneuverability to shift weight into or out of category
 - Reasons to add or decrease size premium exposure

CONCLUSION

➤ Proposed pool structure will provide

- Less active large cap management
- More diversification in active portfolios within mid caps and small caps
- More flexible pool infrastructure (with passive components in each market cap segment)
- More potential for a size premium effect
- More potential for a value premium effect within mid caps and small caps
- Lower fee structure

➤ Cost benefits of the proposed structure

- Reduction in large caps will provide significant fee savings of ~\$4.6 million per year
- Increase in mid cap and small cap exposure will add to fees somewhat
 - Depends on increase in weight
 - Depends on composition of active/passive
 - Mid cap active management fees: average ~70 basis points
 - Small cap active management fees: average ~85 basis points
 - Maximum weight in mid caps and small caps would add \$1.5 – \$2.0 million
- Net effect of pool restructure will be a significant annual cost savings between \$4.6 million and \$2.6 million

➤ Implementation Considerations

- Transition costs – there are always inherent costs when buying and selling stocks in order to move to a different portfolio
- Timing
 - Large cap active transition to large cap passive will occur initially
 - Mid cap and small cap active additions will occur later
 - Additional active managers will need to be researched and selected
 - Access to the best managers may be constrained if closed
 - Fiscal year end transitions may be difficult for internal accounting

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: Cliff Sheets, CFA, CIO
Rande Muffick, CFA, Portfolio Manager

Date: May 22, 2012

Subject: Policy Statement Changes Pursuant to MDEP Restructure

The following table summarizes the proposed allocation structure within the Montana Domestic Equity Pool (MDEP) which requires changes to the policy statement. Following this memo is a marked copy of the policy statement which incorporates the recommended changes.

This allocation structure provides a framework wherein there will be more passive management within large caps, more diversification among actively managed portfolios within mid caps and small caps, more flexibility for decisions at the asset allocation level, and more flexibility for tactical strategies within the pool.

Domestic Stock Pool By Market Cap & Strategy – 3/31/12					
				(As of 4/27/12)	
			Approved	S&P 1500	Proposed
Pool Segment	Market Value	%	Range	% Mkt Cap	Range
LARGE CAP CORE (Passive) Total	699,662,994	23.19%	10-30%		45-70%
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SMALL CAP Total	164,361,898	5.45%	3-8%	3.5%	3-11%
MDEP Total	3,016,722,563	100.00%		100.0%	

Staff recommends Board approval of the revised policy statement dated May 2012.

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

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

INTRODUCTION

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

The array of managers utilized are classified in the following strategy categories:

1. Passive
2. Enhanced index
- ~~3. Style-based (Value and Growth)~~
- 4.3. Partial Long/Short (also called 130/30)

OBJECTIVES

Strategic: Attaining investment returns from publicly traded domestic equity markets while diversifying investment risk and manager risk.

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

Performance: The domestic equity investment program provides passive, enhanced index and active investment management strategies in order to achieve the stated investment objectives.

- The return objective for the Montana Domestic Equity Pool is the achievement of an annualized, time-weighted total rate of return exceeding that of the S&P 1500 Index over any three-year rolling period after fees.
- The return objective for all enhanced index and other active domestic equity managers is the achievement of an annualized, time-weighted total rate of return exceeding that of the relevant benchmark over any three-year rolling period after fees- (see Public Equity-Markets Manager Evaluation Policy).
- The return objective for all passive domestic equity index funds is the achievement of an annualized, time-weighted total rate of return equaling that of the relevant benchmark on an annual basis before fees

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

(see Public ~~Equity Markets~~ Manager Evaluation Policy).

RISK MANAGEMENT

The domestic equity investment program utilizes active, enhanced index, and passive investment management strategies with various risk tolerance parameters.

- ~~Style-based and partial~~ Partial long/short strategies entail active management. These active domestic equity managers are able to assume greater than market risk subject to the following:
 - Investments will be well diversified among market sectors and individual securities, though deviations from benchmark characteristics may be taken in an effort to add value above benchmark returns.
 - Normally, at least 95% of assets will be invested in common or preferred stocks or securities convertible into common or preferred stocks.
 - Up to 5% of assets may be held in short-term investments.
- Enhanced index domestic equity managers also entail active management, though typically less than the above category. These managers are able to assume above-market risk subject to the following:
 - Investments will be well diversified among market sectors and individual securities.
 - Up to 3% of assets may be held in short-term investments or securitized cash equivalents.
- Passive domestic equity managers are able to assume only the market risk of their respective benchmark. Underlying investments are designed to replicate the relevant benchmark(s) index characteristics in an effort to produce market-like risk and returns.

The description of risk characteristics by type of manager can also be quantified by tracking error, a statistical measure that is defined as the standard deviation of a portfolio's performance relative to the performance of an appropriate benchmark. These are summarized in the table below.

Style Category	Tracking Error Range (in basis points)
Passive	0-20
Enhanced-index	50-250
Style-based (Value & Growth)	400-700
Partial Long/Short	250-500

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

LIQUIDITY

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

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

of both.

ELIGIBLE INVESTMENTS

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

Derivatives: Investment managers are authorized to invest in derivatives such as index futures contracts in accordance with the Investment Manager Guidelines.

ALLOCATION

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

Strategy	Approved Range
Large Cap Core (passive)	10 — 30 45 - 70%
Large Cap Enhanced	20 — 30 8 - 12%
Large Cap Style Based (long only)	20 — 30 %
Partial Long/Short (130/30)	10 — 20 8 - 12%
Total Large Cap	82 — 92 72 - 91%
Mid Cap	5 — 11 6 - 17%
Small Cap	3 - 8 11%

ROLES AND RESPONSIBILITIES

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

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

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

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

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

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

LEGAL

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

- (1) Public funds must be administered by the Board of Investments in accordance with the prudent expert rule, which requires any investment manager to:
 - (a) discharge duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
 - (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
 - (c) discharge duties solely in the interest of and for the benefit of the funds forming the unified investment program.
- (2) Retirement funds may be invested in common stocks of any corporation.

ADMINISTRATIVE

Securities Lending

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

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

Shareholder Rights

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

Proxy Voting

Active voting of proxies is an important part of the Board's investment program. Under the contractual arrangements between the Board and its investment managers, the responsibility for voting proxies on the investments is delegated to the managers. They are contractually required to establish a proxy voting program in coordination with Board Staff and are required to vote proxies, excluding shares on loan under the Board's securities lending program, in the interest of the Plans' beneficiaries. Records of proxy votes shall be maintained by the Managers, and/or its third party designee, and submitted to Staff and/or an external service provider annually.

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

Class Action Litigation

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

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

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

INTRODUCTION

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

The array of managers utilized are classified in the following strategy categories:

1. Passive
2. Enhanced index
3. Partial Long/Short (also called 130/30)

OBJECTIVES

Strategic: Attaining investment returns from publicly traded domestic equity markets while diversifying investment risk and manager risk.

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

Performance: The domestic equity investment program provides passive, enhanced index and active investment management strategies in order to achieve the stated investment objectives.

- The return objective for the Montana Domestic Equity Pool is the achievement of an annualized, time-weighted total rate of return exceeding that of the S&P 1500 Index over any three-year rolling period after fees.
- The return objective for all enhanced index and other active domestic equity managers is the achievement of an annualized, time-weighted total rate of return exceeding that of the relevant benchmark over any three-year rolling period after fees. (see Public Markets Manager Evaluation Policy).
- The return objective for all passive domestic equity index funds is the achievement of an annualized, time-weighted total rate of return equaling that of the relevant benchmark on an annual basis before fees (see Public Markets Manager Evaluation Policy).

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

RISK MANAGEMENT

The domestic equity investment program utilizes active, enhanced index, and passive investment management strategies with various risk tolerance parameters.

- Partial long/short strategies entail active management. These active domestic equity managers are able to assume greater than market risk subject to the following:
 - Investments will be well diversified among market sectors and individual securities, though deviations from benchmark characteristics may be taken in an effort to add value above benchmark returns.
 - Normally, at least 95% of assets will be invested in common or preferred stocks or securities convertible into common or preferred stocks.
 - Up to 5% of assets may be held in short-term investments.
- Enhanced index domestic equity managers also entail active management, though typically less than the above category. These managers are able to assume above-market risk subject to the following:
 - Investments will be well diversified among market sectors and individual securities.
 - Up to 3% of assets may be held in short-term investments or securitized cash equivalents.
- Passive domestic equity managers are able to assume only the market risk of their respective benchmark. Underlying investments are designed to replicate the relevant benchmark(s) index characteristics in an effort to produce market-like risk and returns.

The description of risk characteristics by type of manager can also be quantified by tracking error, a statistical measure that is defined as the standard deviation of a portfolio's performance relative to the performance of an appropriate benchmark. These are summarized in the table below.

Style Category	Tracking Error Range (in basis points)
Passive	0-20
Enhanced-index	50-250
Partial Long/Short	250-500

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

LIQUIDITY

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

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

ELIGIBLE INVESTMENTS

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

Derivatives: Investment managers are authorized to invest in derivatives such as index futures contracts in accordance with the Investment Manager Guidelines.

ALLOCATION

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

Strategy	Approved Range
Large Cap Core (passive)	45 - 70%
Large Cap Enhanced	8 - 12%
Partial Long/Short (130/30)	8 - 12%
Total Large Cap	72 - 91%
Mid Cap	6 - 17%
Small Cap	3 - 11%

ROLES AND RESPONSIBILITIES

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

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

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

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

MONTANA DOMESTIC EQUITY POOL (MDEP) INVESTMENT POLICY STATEMENT

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

LEGAL

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

- (1) Public funds must be administered by the Board of Investments in accordance with the prudent expert rule, which requires any investment manager to:
 - (a) discharge duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
 - (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
 - (c) discharge duties solely in the interest of and for the benefit of the funds forming the unified investment program.
- (2) Retirement funds may be invested in common stocks of any corporation.

ADMINISTRATIVE

Securities Lending

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

Shareholder Rights

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

**MONTANA DOMESTIC EQUITY POOL (MDEP)
INVESTMENT POLICY STATEMENT**

Proxy Voting

Active voting of proxies is an important part of the Board's investment program. Under the contractual arrangements between the Board and its investment managers, the responsibility for voting proxies on the investments is delegated to the managers. They are contractually required to establish a proxy voting program in coordination with Board Staff and are required to vote proxies, excluding shares on loan under the Board's securities lending program, in the interest of the Plans' beneficiaries. Records of proxy votes shall be maintained by the Managers, and/or its third party designee, and submitted to Staff and/or an external service provider annually.

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

Class Action Litigation

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

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: May 22, 2012
Subject: CEM Benchmarking Analysis

Overview

For calendar 2010, the Board's return and cost data were analyzed by CEM Benchmarking (CEM), a specialty service company to pension funds whose unique niche is its large proprietary data base and analytical abilities. In addition to providing cost comparisons, the CEM analysis also examines return performance by looking at the influence of policy and implementation effects on returns. CEM compared the Board's cost structure with its peers in terms of relative size and similar asset mix. Controlling for such variables enables Board members and staff to assess whether or not the Board's cost structure is reasonable versus comparable funds. This information is also valuable when other agencies or the legislature ask how the Board compares to other public pensions.

While a single year snapshot has value, having time series data is more meaningful. CEM charges \$25,000 for their analysis each year. They produce both an executive summary and a detailed report, and a representative provides an on-site presentation of the results to the Board.

The quality of the CEM analysis is only as good as the accuracy of the data they receive. Staff effort in collecting the information and providing it in the needed format is sizeable, but this effort should become more routine in successive years.

Validating cost assessments involves examining multiple years of data in order to see any trends. Any one year can also be impacted by a significant change in market values. The CEM approach to cost analysis is a complicated and highly investment-categorized measuring effort. It takes into consideration the unique investment policy and asset allocation decisions reflected in our plans and provides the most relevant perspective in viewing the associated costs. The return analysis provided in their report also provides valuable insight into our allocation and implementation decisions relative to peers.

Recommendation

Staff recommends authorization to contract with CEM to produce its cost and return analysis report for 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: David Ewer, Executive Director
Date: May 22, 2012
Subject: Implementing the Board's Education Policy

Overview

In July 2011, the Board adopted a formal Board Education Policy (the "Policy" is attached) establishing guidelines and procedures for Board members to fulfill their fiduciary responsibilities. The policy encourages Board members to develop knowledge in areas including:

1. Governance and fiduciary duty
2. Actuarial policies and pension funding
3. Best practices in total fund, asset class composite and investment manager monitoring, funding and decision-making
4. Key institutional investment management concepts, including, but not limited to:
 - a. Portfolio management theory and strategies
 - b. Asset class attributes and investment strategies
 - c. Performance evaluation concepts

Members are also encouraged to take advantage of such opportunities including:

1. External conferences, seminars, workshops, roundtables, courses or similar vehicles
2. In-house presentations by the Board's service providers, staff, or other investment experts
3. Relevant periodicals, trade journals, textbooks, electronic media, etc.

Members are specifically encouraged to attend one external conference annually, preferably "one that is (1) highly relevant to current investment issues before the Board and/or, (2) specifically dealing with public fund issues, and (3) additive to external education events attended by fellow MTBOI Board members." Members are encouraged to present their assessment of the value and experience of attending educational events.

Educational Opportunities More Specific to Board Members

The following seven items are specifically listed in the Policy; 8 and 9 are additional possible sources.

1. Council of Institutional Investors (CII)
2. Institutional Investor Conference on Alternative Investments
3. Institutional Investor Conference on Fund Management

4. International Foundation of Employee Benefit Plans
5. Portfolio Concepts and Management by the Wharton School, University of Pennsylvania
6. Public Pension Investment Management Program (SACRS)
7. Semi-annual conference by the State Association of County Retirement Systems (SACRS)
8. National Conference on Public Employee Retirement Systems
9. Institute for Fiduciary Education (see sample agenda)

An additional education source is the Board's investment consultant, RV Kuhns, who has offered to coordinate educational sessions. The Board's draft investment consultant RFP includes Board education within the expected scope of work.

Participate in Events that Staff Currently Attend

Board members may also consider in an educational context joining with staff in BOI-mission related events such as the following:

1. BOI staff currently attends some annual meetings of the Board's private equity managers
2. BOI staff routinely attend Montana Association of Counties, Montana League of Cities and Towns, and Montana School Board Officials conferences for INTERCAP and STIP outreach
3. Staff on occasion attend Montana Bankers Association conferences
4. Fixed Income Industry Conference
5. JP Morgan Client Conference
6. Institutional Limited Partners Association Private Equity Workshop
7. Timberland Industry Conference
8. (See attachment for investment staff out of state travel in recent years and purpose)

The Policy specifically states: "Due diligence activities such as meetings with existing or prospective service providers shall not substitute for other educational programs."

The Policy Specifically Gives the Chair Certain Oversight

"The Board Chair shall review and evaluate available educational conferences and bring to the attention of the Board those they believe are appropriate. Board members may also bring forward appropriate educational conferences for consideration."

"Board members wishing to attend other conferences or seminars will submit their request to the Board Chair for approval."

Budget and Cost Reimbursement

The Policy specifically states ... "The Board shall establish an annual budget to cover the cost of providing continuing fiduciary education for its Board members. The Board shall reimburse Board members for all reasonable and necessary expenses incurred in attending educational programs encouraged hereunder as provided in this Policy." The Board's current budget has 'out-of-state travel' as a separate budget line, but currently a specific 'board fiduciary education' budget line has not been established. Such an item will be submitted for the Board's consideration at its August meeting.

Montana Board of Investments

Board Education Policy

Approved: July 14, 2011

I. PURPOSE

The purpose of this Board Education Policy is to establish guidelines and procedures for members of the Montana Board of Investments that recognize and affirm the importance of education to the success of fulfilling their fiduciary responsibilities.

II. POLICY OBJECTIVES

1. All Board Members will be able to leverage continuing education opportunities to maintain the knowledge they need to carry out their fiduciary responsibilities and engage in effective group discussion, debate and decision making with regard to the Fund as a whole.
2. Newly appointed or elected Board Members will be provided with the general introductory knowledge they need to enable them to effectively participate in Board and Committee deliberations in a timely manner.
3. Board Members will have the opportunity to learn through networking with the Trustees of other public retirement systems and learn of alternate approaches to common issues and problems.

III. ASSUMPTIONS AND PRINCIPLES

1. Board Members are responsible for making policy decisions affecting all major aspects of plan administration. They, therefore, must acquire an appropriate level of knowledge of all significant facets of the investment management process rather than specializing in particular areas.
2. A variety of educational methods are necessary and appropriate since no single, educational method is optimal.
3. The Board Education Policy is not intended to dictate that Board Members attend only specific conferences or programs. Although a list is included in this Policy as a reference, the Policy is a framework for the types of opportunities that the Board Members should use in their fiduciary education.

IV. POLICY GUIDELINES

1. GENERAL PROVISIONS

- A. All Board Members are encouraged to develop and maintain their knowledge and understanding of the issues involved in the policy direction and management of the Montana Board of Investments throughout their terms as Board Members.
- B. Board Members are encouraged to develop an appropriate level of knowledge across a broad spectrum of issues, including:
 - i. Governance and fiduciary duty
 - ii. Actuarial policies and pension funding
 - iii. Best practices in total fund, asset class composite and investment manager monitoring, funding and decision-making
 - iv. Key institutional investment management concepts, including, but not limited to:
 - a. Portfolio management theory and strategies
 - b. Asset class attributes and investment strategies
 - c. Performance evaluation concepts
- C. Board Members are encouraged to help seek out, evaluate and take advantage of appropriate educational tools, which may include, but are not limited to:
 - i. External conferences, seminars, workshops, roundtables, courses or similar vehicles
 - ii. In-house presentations by the Board's service providers, staff, or non-affiliated investment experts
 - iii. Relevant periodicals, trade journals, textbooks, electronic media, etc.
- D. The Board Chair shall review and evaluate available educational conferences and bring to the attention of the Board those they believe are appropriate. Board Members may also bring forward appropriate educational conferences for consideration.
- E. Standards for determining the appropriateness of a potential educational opportunity shall include, without limitation:
 - i. The extent to which the opportunity is expected to provide Board Members with the knowledge they need to carry out their roles and responsibilities, and

- ii. The expected return on investment of the program, taking into account the expected educational benefits weighed against the expected costs, such as travel, lodging and related expenses.
- F. Board Members are encouraged to assist in identifying the educational vehicles that best meet their needs, and to attempt to meet the following minimum goals:
- i. Secure an appropriate level of knowledge in each of the areas listed in Section B of this Policy; and
 - ii. Attend one external conference annually, preferably one that is (1) highly relevant to current investment issues before the board and/or, (2) specifically dealing with public fund issues, and (3) additive to external education events attended by fellow MTBOI Board Members.

Due diligence activities such as meetings with existing or prospective service providers shall not substitute for other educational programs.

- G. The Board shall establish an annual budget to cover the cost of providing continuing fiduciary education for its Board Members. The Board shall reimburse Board members for all reasonable and necessary expenses incurred in attending educational programs encouraged hereunder as provided in this Policy.
- H. Each Board Member is encouraged to report to the Board on the most important knowledge or information gained from the conference/seminar/workshop attended and recommend whether to attend in the future.

2. BOARD MEMBER ORIENTATION PROGRAM

- A. An orientation program will be formalized and maintained for the benefit of new Board Members.
- B. All new Board Members shall be required to participate in the orientation program within a reasonable time.
- C. The aim of the orientation program shall be to ensure that new Board Members are in a position to contribute fully to Board and Committee deliberations and effectively carry out their fiduciary duties as soon as possible after joining the Board.
- D. The orientation program shall include:

- i. In-person introduction to MTBOI management and staff
- ii. A tour of the staff office
- iii. An orientation handbook, which is presented to Board Members via an orientation seminar. The handbook and accompanying seminar should cover the following:
 - a. Most recent Governance Policy and Investment Policy Statements
 - b. Roles and responsibilities of Board Members, Committees and staff
 - c. An overview of relevant State laws relevant to fund management
 - d. Material from legal counsel on fiduciary responsibility
 - e. Copies of Board and general operating policies and procedures
 - f. Most recent Comprehensive Annual Financial Report
 - g. Most recent Actuarial Valuation Report and Asset Liability Study
 - h. Most recent Investment performance report
 - i. Most recent MTBOI budget
 - j. Up-to-date organization chart
 - k. Names and telephone numbers of other MTBOI Board Members and Staff
- iv. A briefing by MTBOI legal counsel on the role of the Board and fiduciary responsibility
- v. A briefing by MTBOI management on the history of the Montana Board of Investments

3. ATTENDANCE AT CONFERENCES AND SEMINARS

- A. Illustrative examples of conferences that Board Members may consider attending would include:
 - i. Council of Institutional Investors (CII)
 - ii. Institutional Investor Conference on Alternative Investments
 - iii. Institutional Investor Conference on Fund Management
 - iv. International Foundation of Employee Benefit Plans
 - v. Portfolio Concepts and Management sponsored by the Wharton School, University of Pennsylvania (Wharton)
 - vi. Public Pension Investment Management Program (SACRS)
 - vii. Semi-annual conference sponsored by the State Association of County Retirement Systems (SACRS)

- B. Board Members wishing to attend other conferences or seminars will submit their request to the Board Chair for approval.
- C. In attending external conferences, preference will be given to those sponsored by educational institutions or pension industry associations as opposed to conferences with agendas that are largely determined and executed by current or potential vendors to the MTBOI.
- D. In no event will the expense of attending a Professional Conference by a Board Member who attends the Professional Conference in his or her own professional capacity be reimbursed by the Board. Only with the written permission of the Board may a Board Member attend a Professional Conference in his or her capacity as a Board Member.

V. AMENDMENT HISTORY



Market Makers—2012

Park Hyatt Aviara
7100 Aviara Resort Drive
Carlsbad, CA
92011

TEL: (760) 448-1234
FAX: (760) 603-6801

parkhyattaviara.com

Check in at 4:00 PM
Check out at 12:00 PM



Preliminary AGENDA
June 27-29
Carlsbad, California



Suggested attire for the seminar is casual.

Wednesday, June 27

1:30-3:30 PM

Trustee Networking Lunch (*Kingfisher*)

In a collegial atmosphere, board members will discuss issues of mutual interest, sharing candid thoughts and concerns, while networking among peers.

6:15 PM

Speaker's Meeting (*Avalon*)

Speakers and moderators meet to review program format, discuss topic presentations and preview slides.

7:00 PM

Reception & Dinner (*Avalon Terrace*)

Thursday, June 28

7:15 AM

Breakfast (*Vivace*)

8:15 AM

Announcements (*Avalon*)

At the beginning of each session, we will use an electronic polling device to ask questions, gather responses, and instantaneously display the results. Through the use of personal handsets, each participant is able to register an opinion on discussion topics to be addressed.

8:25 AM **Global Economic Outlook: The Good, The Bad & The Ugly**

**DIRK HOFSCHIRE, CFA, SENIOR VICE PRESIDENT, ASSET ALLOCATION RESEARCH
Pyramis Global Advisors**

Since the financial crisis of 2008, the global economy has entered an inflection-point period where many of the world's largest economies face transitional phases. During this time, political and policy risks are high everywhere, as decisions today have the ability to impact not just current conditions but also the trajectory of a country's growth model for years to come. As a result, it is critically important to analyze the global economic outlook through distinct duration lenses; in particular, distinguishing secular (long-term) trends from cyclical (shorter-term) changes. In terms of secular analysis, policymaking developments must be parsed and evaluated according to the right balance of addressing current imbalances (fiscal, monetary, capital misallocation) and sowing the seeds of future productivity gains. With regard to cyclical analysis, developments must be analyzed through verifiable, directional indicators that traditionally have signaled changes in the different phases of business cycles, which may occur in concert with or counter to underlying secular trends. Keeping these duration views distinct within an integrated framework is critical to making asset allocation decisions that can generate active returns, as we will demonstrate by analyzing the U.S., China and Europe from a secular and business cycle standpoint.

Group Forum

9:15 AM **Can the European Union and the Euro Survive Intact? How Do We Protect the Downside?**

**VIRGINIE MAISONNEUVE, CFA, HEAD OF GLOBAL AND INTERNATIONAL EQUITIES
Schroder Investment Management**

The on-going "fragmentation in the global village" has continued to impact global equities markets during the past 12 months. Investors have been particularly nervous about structural issues in Europe and have also questioned the survivability of the Euro, and are generally finding macro issues to be an area of heightened focus. Looking into the future, how can Europe deal with its fragmentations and differences? Can it preserve its currency union in current form? More generally, as global stock pickers, how should we incorporate macro risk and currency risk?

Group Forum

10:05 AM **Break**

10:20 AM **Panel Discussion: Correlations and Risk Adjusted Returns—A Current Analysis**

Are the High Correlations Across all Asset Classes Here to Stay? When will Financial Markets Decouple and Asset Correlations Return to Historic Levels?

**MACHEL ALLEN, CFA, SENIOR QUANTITATIVE RESEARCH ANALYST
Brandes Investment Partners L.P.**

Correlations between (and within) asset classes rose sharply post-crisis. This raised questions about active management when everything seemed to move in lock-step. We analyze the factors that drove this correlation phenomenon, as well as the current effects on the markets. This research can help institutional investors decide which are long-term structural trends and which are merely cyclical.

Assumed Rates of Return, Risk & Funding: What are the Trends?

	<p>ALLAN R. EMKIN, FOUNDER & MANAGING DIRECTOR Pension Consulting Alliance Inc.</p> <p>Group Forum</p>
11:40 AM	Break
11:55 AM	<p>Are Plan Sponsors Reducing Equity Exposure? Why or Why Not?</p> <p>RON BARON, CHIEF EXECUTIVE/CHIEF INVESTMENT OFFICER Baron Capital</p> <p>Group Forum</p>
12:45 PM	Lunch (<i>Avalon Terrace</i>)
1:45 PM	<p>Structuring a Portfolio in the "New Normal" Investment Environment to Meet Required Actuarial Return Targets</p> <p>WAI LEE, PH.D., MANAGING DIRECTOR QUANTITATIVE INVESTMENTS Neuberger Berman LLC</p> <p>The presentation will start with a quick discussion of what may characterize an investment environment as "New Normal" based on recent years of experience, followed by a brief review of portfolio theory as guidance in considering the tradeoff between returns and risks. Discussions will then focus on some new advances in risk-based investing and risk management, and how these findings may alter the way a portfolio is structured.</p> <p>Group Forum</p>
2:40 PM	<p>Inflation, Deflation, Stagflation Implications for Real Estate Investing</p> <p>DANIEL HEFLIN, FOUNDER & CHIEF EXECUTIVE OFFICER Torchlight Investors LLC</p> <p>The developed world's central bankers clearly fear deflation, as evidenced by their concerted effort to lift asset prices—and risk inflation—by pumping over \$5 trillion of liquidity into global markets since 2008. Record fiscal deficits have fanned the inflation fears while global deleveraging and excess capacity portend continued deflationary pressure. Although inflation and deflation garner the most attention, stagflation should also be feared. For commercial real estate investors, each of these three scenarios represents a different threat. Two key questions need to be answered when developing a portfolio strategy amidst this uncertainty. First, which commercial real estate strategies are exposed to the potential outcomes and which might benefit? Second, how might commercial real estate investors best prepare and use the current environment to produce opportunistic returns?</p> <p>Group Forum</p>
3:30 PM	Free Time
7:00 PM	Reception and Dinner (<i>Kingfisher</i>)
<i>Friday, June 29</i>	
7:15 AM	Breakfast (<i>Vivace</i>)

8:15 AM	<p>Announcements (<i>Avalon</i>)</p> <p>Managing Volatility - Implications for Risk Control</p> <p>RYAN TALIAFERRO, PH.D., SENIOR VICE PRESIDENT, PORTFOLIO MANAGER AND RESEARCHER Acadian Asset Management LLC</p> <p>The recent surge in equity market volatility, along with the adoption of International Financial Reporting Standards (IFRS) globally and the Pension Protection Act (PPA) in the United States, has reduced plan sponsors' appetite for asset volatility. Consequently, many liability-driven investors, such as mature defined benefit plans, are seeking to reduce total portfolio risk. One way to reduce portfolio risk may be to invest in low-risk stocks: historically, low-risk stocks have earned about the same returns as risky stocks, but with materially less volatility. This presentation will review this surprising result using stock return data from around the world, survey important findings from psychology that explain salient patterns in the data, and discuss practical investment strategies that employ low-risk stocks.</p>
	<p>Group Forum</p>
9:10 AM	<p>What Investment Strategies "Should" Plan Sponsors Consider Over the Short and Long Term</p> <p>THEODORE SAMUELS, PRESIDENT/SENIOR PORTFOLIO MANAGER Capital Guardian Trust Company</p> <p>As the global economy undergoes a profound shift—what we call the great global rebalancing—sources of return among financial assets are also seeing a shift. After a couple of decades of neglect, investors are once again focusing on dividends as an important source of return against the backdrop of slowing growth in the developed markets and an aging baby boom generation looking for diversified sources of income. After the run-up of dividend-paying stocks in 2011, many institutional investors are wondering about valuations. But we believe that dividend-paying equities, and particularly dividend-growth stocks, will enjoy a long and secular cycle of investor demand. In addition to meeting investor needs for income and lower volatility with a growing dividend income stream, companies that can consistently increase their dividend payout over time also tend to be disciplined in their allocation of capital and in running their business. As such, in our view, dividend-growth stocks have the potential to offer an attractive risk-return profile within a broad asset allocation framework and should be among the strategies plan sponsors consider.</p>
	<p>Group Forum</p>
10:00 AM	<p>Break</p> <p>Will Risk Adjusted Private Equity Outperform Public Equity in the Next Decade? Where are the Opportunities?</p> <p>ANAND PHILIP, MANAGING DIRECTOR Castle Harlan Inc.</p> <p>Group Forum</p>
11:05AM	<p>Break</p>
11:15 AM	<p>Panel Discussion: Hedge Funds</p>

If You Don't/Can't/Won't Invest in Hedge Funds, Is All Lost? Has it Been Worth it?

**ROBERT M. MAYNARD, CHIEF INVESTMENT OFFICER
Public Employee Retirement System of Idaho**

Hedge Fund Transparency and Risk Management

**LUKE ELLIS, HEAD & CHIEF INVESTMENT OFFICER, MULTI MANAGER BUSINESS
Man Group**

A principal result of the recent financial crisis has been an increased amount of regulatory scrutiny into hedge funds and growing investor interest in, and concerns about, transparency and risk management. Investors, justifiably, are now placing far more importance on knowing exactly what they are investing in, what the liquidity is and, crucially, that their assets are safe. Providing transparent and highly risk managed product solutions is key to meeting these evolving investor requirements. As such, the purpose of this presentation is to provide an overview of how investment managers can utilize position level transparency to make more informed, better investment/risk management decisions and how, through significant investment in technology and infrastructure, managers are providing their investors with the necessary transparency they require.

Group Forum

12:35 AM **Lunch** (*Avalon Terrace*)

1:35 PM **Board Governance and Pension Fund Performance: What is Good Governance?**

**STEPHEN CUMMINGS, CFA, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Hewitt EnnisKnupp Inc.**

In many ways, public retirement systems are an ideal place to look for guidance as to appropriate fiduciary behavior, prudent standards, and governance models. They are among the largest institutional investors by assets and participants/beneficiaries, they are under extreme and continuous scrutiny by friend and foe alike, they are an integral part of the retirement security of large portions of our populace, and they operate (for the most part) under rules and regulations very similar to ERISA - widely regarded as the highest legal standard of care in the land.

Why then, do we see such a wide variety of decision-making models?

For example, some public fund trustees and boards are directly involved in all investment decisions—hiring/firing managers, approving rebalancing and other re-allocations, etc. Others completely delegate all of these decisions to staff or outside parties. We will examine these differences, their potential cause(s), and discuss potential ramifications for the marketplace in our presentation.

Group Forum

2:45 PM **Session Ends**

2:45 PM-4:15 PM **Executive Networking Session**(*Kingfisher*)

Join other staff executives of public pension funds to converse about the issues that characterize your work. Share candid thoughts and observations with other attending plan sponsors.

Advisory Committee

Liza Crisafi, CFA
Chief Investment Officer
San Diego City Employees' Retirement System

Lawrence Johansen
Director of Investments
New Hampshire Retirement System

Thomas K. Lee
Executive Director
New York State Teachers' Retirement System

Robert M. Maynard
Chief Investment Officer
Public Employee Retirement System of Idaho

Ruth T. Ryerson
Executive Director & Chief Investment Officer
Employees' Retirement Fund of the City of Fort
Worth

Ronald D. Schmitz
Director of Investments
Virginia Retirement System

Jeffrey W. States
Chief Investment Officer
State of Nebraska Investment Council

Lorrie Tingle, CFA
Deputy Director of Investments
Public Employees' Retirement System of
Mississippi

David Villa, CFA
Chief Investment Officer
State of Wisconsin Investment Board

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CFA Fixed Income Conference
Artio Global Meeting
JP Morgan Investment Lab
Carlyle Group Annual Meeting
Madison Dearborn Capital Partners Annual Meeting
Black Diamond Annual Meeting
Highway 12 Annual Investor Meeting
Arclight Capital Annual Meeting
CCMP Annual Meeting
Vertas Capital Annual Meeting
Hellman & Friedman Annual Meeting
Oak Hill Capital Partners' Annual Meeting
First Reserve Annual Meeting
Angello Gordon & Co. Annual Meeting
Oak Hill Capital Partners Annual Meeting
Hellman & Friedman Annual Meeting
Oaktree Investor Conference
ILPA Institute Level I program
Institutional Limited Partners Association Conference
Institutional Limited Partners Association Conference
HarbourVest Annual Meeting
Adams Street Partners Annual Meeting
Oaktree Group Due Diligence Meeting

Lexington Capital Partners Annual Meeting
Rainier Meeting
DRA Annual Meeting
TA Associates Realty Annual Meeting
Pension Real Estate Association Conference
World Forestland Conference
Molpus Woodlands Annual Meeting
Brookfield Timber and Olympic Resource Management

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Fixed Income Industry Conference
Fixed Income Manager office visit
JP Morgan Client Conference
Private Equity & Real Estate Annual Meeting
Private Equity Association Educa. Seminar
Private Equity Association Workshop
Private Equity Association Workshop
Private Equity Fund of Funds Annual Meeting
Private Equity Fund of Funds Annual Meeting
Private Equity Meeting
Private Equity Secondary Fund Annual Meeting
Public Equity Manager office visit
Real Estate Annual Meeting
Real Estate Annual Meeting
Real Estate Association Meeting
Timberland Industry Conference
Timberland Manager Annual Meeting

Timberland Managers Field Tour

@WUjcb'

Toronto, Canada
New York, NY
Chicago, IL
Washington, DC
Chicago, IL
New York, NY
Boise, ID
Boston, MA
New York, NY
New York, NY
San Francisco, CA
San Francisco, CA
New York, NY
New York, NY
Naples, FL
San Francisco, CA
Los Angeles, CA
Chicago, IL
Vancouver, BC
Atlanta, GA
Boston, MA
Chicago, IL
Chicago, IL

New York, NY
Seattle, WA
New York, NY
Boston, MA
San Francisco, CA
Portland, OR
Savannah, GA

WA & OR

[Return to Meeting Agenda](#)

Investment Activity

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 12/31/11								
<u>Pension Fund</u>	<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Total Equity</u>	<u>RFBP</u>	<u>MTRP</u>	<u>STIP</u>	<u>Total Assets</u>
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%	

Retirement Systems Asset Allocations as of 3/31/11								
<u>Pension Fund</u>	<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Total Equity</u>	<u>RFBP</u>	<u>MTRP</u>	<u>STIP</u>	<u>Total Assets</u>
PUBLIC EMPLOYEES	37.9%	16.8%	12.6%	67.4%	24.2%	7.4%	1.0%	\$ 3,997,837,761
TEACHERS	38.1%	16.9%	12.6%	67.5%	24.2%	7.4%	0.8%	\$ 2,965,116,643
POLICE	38.0%	16.9%	12.6%	67.5%	24.2%	7.4%	0.8%	\$ 231,249,381
SHERIFFS	37.8%	16.7%	12.6%	67.1%	24.1%	7.4%	1.4%	\$ 219,414,767
FIREFIGHTERS	38.1%	16.8%	12.6%	67.5%	24.2%	7.4%	0.9%	\$ 230,566,290
HIGHWAY PATROL	38.1%	16.9%	12.7%	67.6%	24.3%	7.4%	0.8%	\$ 100,765,855
GAME WARDENS	37.7%	16.7%	12.5%	66.9%	24.0%	7.3%	1.8%	\$ 100,041,475
JUDGES	37.8%	16.7%	12.5%	67.1%	24.1%	7.3%	1.5%	\$ 65,667,702
VOL FIREFIGHTERS	38.2%	16.9%	12.7%	67.7%	24.3%	7.4%	0.6%	\$ 26,336,574
TOTAL	38.0%	16.8%	12.6%	67.4%	24.2%	7.4%	1.0%	\$ 7,936,996,448
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

Change From Last Quarter								
<u>Pension Fund</u>	<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Total Equity</u>	<u>RFBP</u>	<u>MTRP</u>	<u>STIP</u>	<u>Total Assets</u>
PUBLIC EMPLOYEES	1.5%	0.6%	-0.4%	1.8%	-1.9%	-0.2%	0.4%	268,094,970
TEACHERS	1.6%	0.7%	-0.4%	1.8%	-1.9%	-0.2%	0.4%	192,364,269
POLICE	1.5%	0.7%	-0.4%	1.8%	-1.9%	-0.2%	0.4%	15,058,387
SHERIFFS	1.6%	0.6%	-0.4%	1.8%	-1.9%	-0.2%	0.3%	16,122,466
FIREFIGHTERS	1.6%	0.6%	-0.4%	1.9%	-1.9%	-0.2%	0.3%	14,988,187
HIGHWAY PATROL	1.7%	0.7%	-0.4%	2.0%	-1.9%	-0.2%	0.1%	6,941,488
GAME WARDENS	1.5%	0.6%	-0.5%	1.6%	-2.1%	-0.3%	0.8%	8,233,962
JUDGES	1.5%	0.6%	-0.5%	1.7%	-2.0%	-0.2%	0.5%	4,767,946
VOL FIREFIGHTERS	1.6%	0.6%	-0.3%	1.9%	-2.0%	-0.2%	0.3%	1,432,180
TOTAL	1.5%	0.6%	-0.4%	1.8%	-1.9%	-0.2%	0.4%	528,003,854

Allocations During Quarter					
<u>MDEP</u>	<u>MTIP</u>	<u>MPEP</u>	<u>Total Equity</u>	<u>RFBP</u>	<u>MTRP</u>
(\$36,950,000)	(\$2,200,000)	(\$7,660,000)	(\$46,810,000)	(\$21,300,000)	\$7,030,000
Net New Investments for Quarter					(\$61,080,000)

Montana Board of Investments

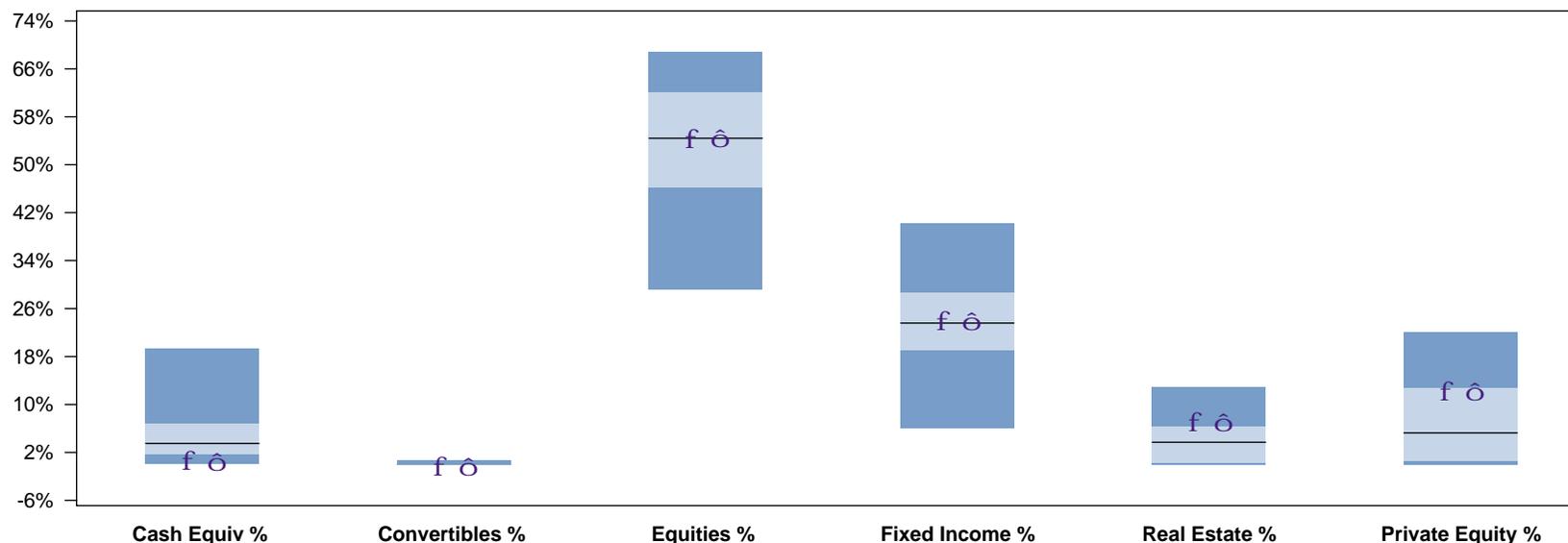
Public Funds (DB) > \$1 Billion(SSE)

PERIOD ENDING March 31, 2012



STATE STREET

ALLOCATION



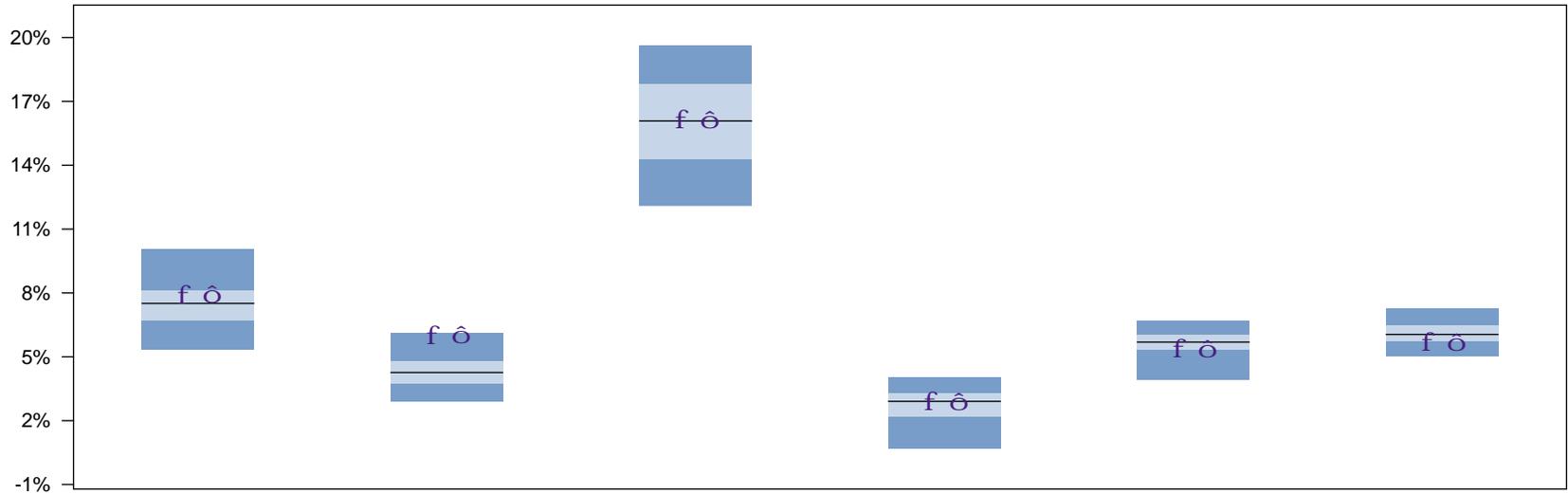
	Cash Equiv %	Convertibles %	Equities %	Fixed Income %	Real Estate %	Private Equity %
5th Percentile	19.32	0.65	68.79	40.27	12.89	22.00
25th Percentile	6.80	0.01	62.09	28.79	6.33	12.70
50th Percentile	3.50	0.00	54.42	23.58	3.70	5.26
75th Percentile	1.55	0.00	46.12	19.06	0.29	0.58
95th Percentile	0.04	0.00	29.23	6.13	0.00	0.00
No. of Obs	68	68	68	68	68	68
f PUBLIC EMPLOYEES RET	1.05 86	0.00 31	54.74 49	24.23 46	7.39 24	12.59 28
o TEACHERS RETIREMENT	0.81 89	0.00 31	54.90 48	24.29 45	7.39 24	12.61 27

Montana Board of Investments

Public Funds (DB) > \$1 Billion (SSE) - MBOI PERS - TRS UNIVERSE
 PERIOD ENDING March 31, 2012



STATE STREET



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	5th Percentile	25th Percentile	50th Percentile	75th Percentile	95th Percentile							
f	67	10.03	8.12	7.51	6.69	5.36							
o	65	6.13	4.82	4.26	3.74	2.91							
	66	19.63	17.82	16.08	14.26	12.10							
	64	4.04	3.32	2.91	2.15	0.68							
	65	6.70	6.05	5.69	5.30	3.92							
	65	7.26	6.48	6.05	5.70	5.02							
f	PUBLIC EMPLOYEES RET	8.04	28	6.13	6	16.26	43	3.00	45	5.51	59	5.80	68
o	TEACHERS RETIREMENT	8.05	27	6.14	5	16.28	42	3.00	45	5.51	59	5.79	70

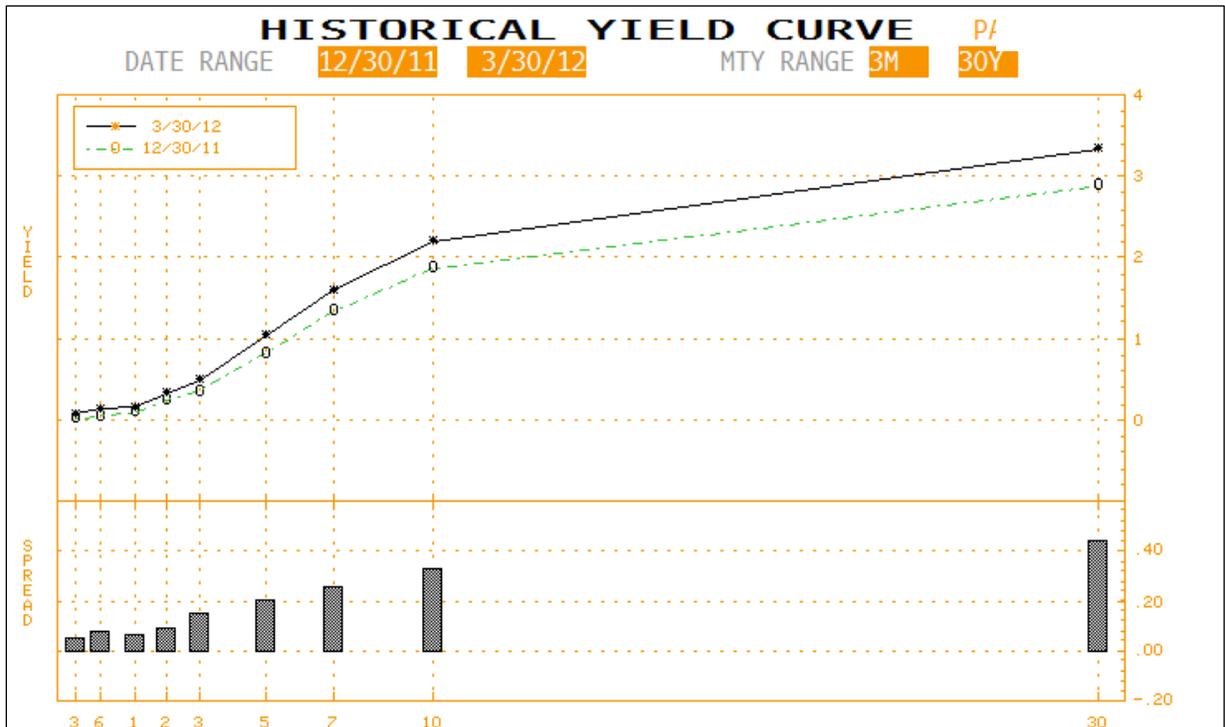
FIXED INCOME OVERVIEW & STRATEGY

Nathan Sax, CFA, Portfolio Manager

May 22, 2012

RETIREMENT & TRUST FUND BOND POOLS

Interest rates traded within a longstanding range until March, when rates rose on rumors that the Fed would end their near-zero target for the Federal Funds rate before late 2014. The graph below shows a pronounced bear steepening in the Treasury sector between year-end 2011 and March 31, 2012. Optimism about economic growth in the U.S. and a better outlook for the euro zone helped risk assets outperform Treasuries. In the first quarter, Treasuries posted a total return of -1.29% while corporate bonds were +2.08% and securitized assets were +0.74%. The Barclays Aggregate Index was +0.30% while the Intermediate Aggregate returned +0.66%.



The median economic forecast, according to *Blue Chip Economic Indicators*, calls for inflation to ease in 2012, although the expected rate of inflation was bumped up to 2.4%, year-over-year. The general price level is expected to remain under control despite a highly stimulative monetary policy over the past three and a half years. A number of economists have backed off forecasts for higher gas prices because of high inventories. The consensus forecast for real GDP in 2012 remains at 2.3%.

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 – 03/31/12

	RFBP Combined	Retirement Fund Bond Pool						Barclays Aggregate	
		External Management				Internal Management			
		Reams	Artio	Post	Neubgr Berman	CIBP	TFBP		CIBP/TFBP Policy Range
Treasuries	17.52	27.95	25.80	0.00	0.00	17.17	13.68	10-35	35.12
Agencies & Govt Related	6.07	0.35	8.36	0.00	0.00	7.61	7.98	5-25	10.97
Total Government	23.59	28.30	34.16	0.00	0.00	24.78	21.66	15-60	46.09
Mortgage Backed	23.79	13.98	18.07	0.00	0.00	28.90	34.35	20-50	31.31
Asset Backed	3.97	8.41	5.05	0.00	0.00	3.60	3.02	0-5	0.25
CMBS	7.89	3.10	8.32	0.00	0.00	9.65	7.72	0-10	1.99
Total Securitized	35.65	25.49	31.44	0.00	0.00	42.15	45.09	20-65	33.55
Financial	13.28	25.50	11.79	8.19	10.02	11.78	13.30		6.92
Industrial	20.10	12.89	14.57	78.16	80.52	14.48	13.11		11.19
Utility	3.31	0.04	0.99	0.00	4.64	4.11	3.70		2.25
Total Corporate	36.69	38.43	27.35	86.35	95.18	30.37	30.11	10-35	20.36
Other	0.39	0.00	1.05	8.25	1.28	0.00	0.00		0.00
Cash	3.68	7.78	6.00	5.40	3.54	2.70	3.14	0-10	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

RFBP Fixed Income Sector	Policy Range	RFBP on 03/31/12
U.S. High Yield	0-15%	12.38%
Non-US (incl. EM)	0-10%	3.10%
Total "Plus" sectors	0-20%	15.48%
Core (U.S. Investment Grade)	80-100%	84.52%

TFIP Fixed Income Sector	Policy Range	TFIP on 03/31/12
High Yield	0-10%	7.62%
Core Real Estate	0-8%	5.27%
Core (U.S. Investment Grade)	0-100%	87.11%

High Yield spreads continued to tighten in the first quarter. As of March 30th, the average spread on below investment grade bonds stood at 576 basis points as compared to 701 at year-end. Investment grade corporate bonds showed a similar pattern with financial institutions leading the way. Investment grade corporates showed an average spread of 176 basis points over comparable maturity Treasuries versus 234 basis points on December 31, 2011.

High Yield manager Post Advisors (+6.94%) beat the Barclays High Yield Index (+5.35%) for the quarter by 159 basis points. Neuberger Berman (+5.71%), our other High Yield manager, beat the index by 36 basis points. The below-investment-grade market continued to do well following a strong fourth quarter (see graph below). Core-plus manager Artio (+2.12%) beat their benchmark (+0.43%) by 169 basis points. Reams Asset Management (+2.88%) finished 203 basis points ahead of the Barclays

Universal index (+0.85%) over the past three months. Finally, the CIBP (+0.49%) return for the first quarter was 19 basis points ahead of the Barclays Aggregate Bond Index (+0.30%).

Barclays U.S. High Yield 2% Issuer Cap, Average OAS – 03/31/11 to 04/25/12



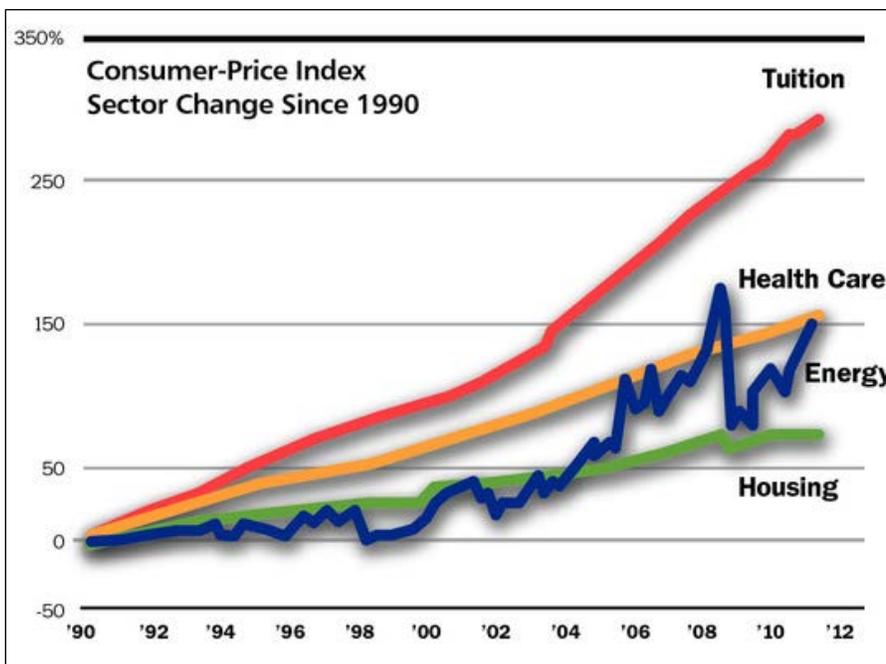
The bond portfolios as compared to the benchmark are shown below. The Merrill index shown here is used as a proxy for the actual benchmark, the Barclays Capital Aggregate Bond Index.

Benchmark Comparison Analysis CIBP vs. Merrill US Broad Market Index on 03/31/12						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	105.46	4.03	3.87	2.83	4.94	1.18
Benchmark	109.53	3.96	3.66	2.02	4.73	0.57
Difference	-4.07	0.06	0.21	0.81	0.21	0.61

Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 03/31/12						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	106.93	4.17	4.01	2.91	4.82	1.32
Benchmark	109.53	3.96	3.66	2.02	4.73	0.57
Difference	-2.60	0.21	0.36	0.89	0.09	0.74

Benchmark Comparison Analysis						
TFBP vs. Merrill US Broad Market Index on 03/31/12						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	104.81	3.83	4.04	2.85	4.90	1.18
Benchmark	109.53	3.96	3.66	2.02	4.73	0.57
Difference	-4.72	-0.14	0.38	0.82	0.16	0.60

Despite an increase in the rate of inflation in 2011, the CPI is expected to moderate this year. On a secular level, since 1990 we have seen some pronounced price increases as shown in the following graphic:



Concluding Comments

We are still using the core internal bond portfolio as a source of stability and liquidity not only for fixed income but for the pension plans as a whole. The CIBP will maintain its lowered risk profile going forward, which will necessarily limit alpha in exchange for safety and predictability. The risk within the Retirement Funds Bond Pool will be more geared to the non-core exposure via the High Yield and Core Plus fixed income managers.

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS

March 31, 2012

(in millions)

Par	Book	Market	Price	Name	Coupon %	Maturity	Rating M/S&P	Comments	
\$8.000	\$7.970	\$8.230	\$102.88	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	\$55.806	\$111.61	DOT Headquarters II Lease	6.001	12/07/21	NR/BB	The bond was insured by XL Capital which has defaulted. However, lease payments are guaranteed by the US govt and the bond is collateralized by the building.	
\$10.000	\$2.000	\$2.900	\$29.00	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation	
<u>\$68.000</u>	<u>\$59.970</u>	<u>\$66.936</u>							
A = Additions since 12/31/11									
None									
D = Deletions since 12/31/11									
D	\$15.000	\$14.737	\$14.756	\$98.37	R R Donnelley & Sons	4.950	04/01/14	Ba1/BB+	Tendered at \$105 on 3/15/2012
D	\$5.000	\$5.002	\$5.013	\$100.26	Continental Airlines	6.563	02/15/12	Ba1/BB-	Matured at Par 2/15/2012
	\$3.000	\$2.970	\$2.865	\$95.50	Regions Financial Corp	5.750	06/15/15	Ba3/BB-	S&P upgraded to BBB- on 3/15/2012
<u>In default</u>									
	\$10.000	\$2.000	\$2.900	\$29.00	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	<u>\$10.000</u>	<u>\$2.000</u>	<u>\$2.900</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: May 23 2012

Subject: Fixed Income External Manager Watch List

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

Post had been lagging their benchmark, the Barclays High Yield (2% issuer cap) index, this 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.

Performance picked up markedly in the first quarter, however, this manager should remain on Watch until sufficient time passes that we can confidently recommend taking them off the list.

MANAGER WATCH LIST

May 2012

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

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager
May 22, 2012

During the first quarter money market yields were flat as the Federal Reserve continued its three year-old policy of low fed funds rates. The European bank funding crisis improved primarily because of the ECB's Long Term Refinancing Operation which allows banks unlimited funding for three years. Three month Libor rates decreased by 11.3 basis points and one month Libor rates decreased by 5.4 basis points during the quarter. Credit spreads were tighter during the quarter, as depicted by the spread between three month Treasury bills and three month Libor rates (TED spread). This spread ended the first quarter at about 40 basis points, 17 basis points tighter for the quarter.

TED Spread (03/31/11 – 03/31/12)



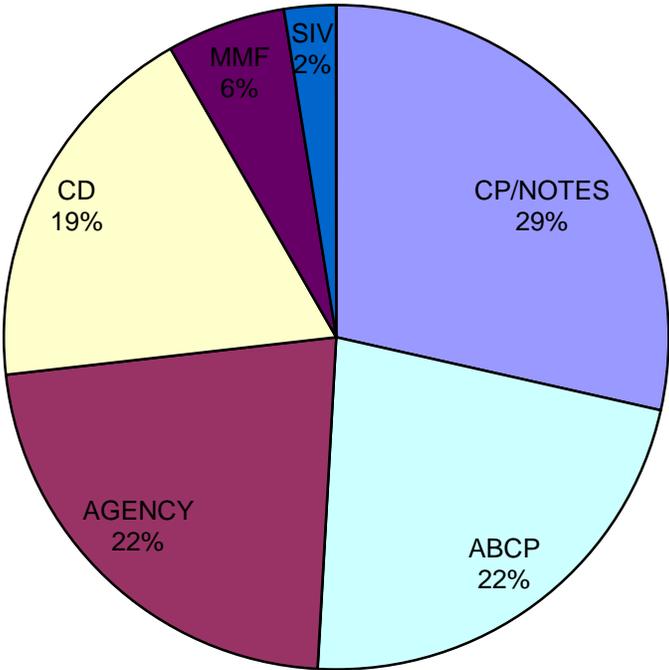
The STIP portfolio is currently well diversified and is operating within all the guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of \$150 million and weekly liquidity is at a minimum of \$250 million. The average days to maturity are 42 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is 22% of holdings (40% max) and corporate exposure is 29% (40% max). We currently have approximately 22% in agency paper, 19% in Yankee CD's (30% max) and 6% in four institutional money funds.

During the first quarter we purchased \$211 million of floating rate Yankee CDs and \$174 million of floating rate corporate notes. Spreads on these purchases were quite attractive and tightened substantially during the quarter. Lower one month and three month Libor rates detracted from the portfolio yield during the quarter.

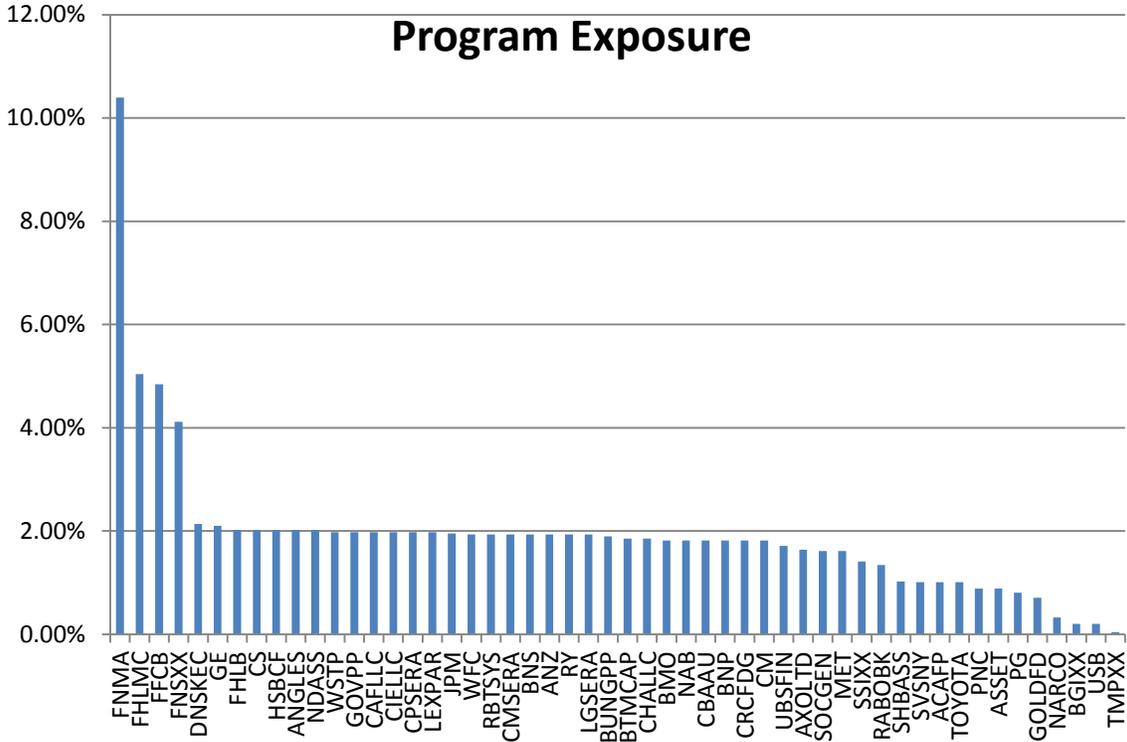
The net daily yield on STIP is currently 0.30% as compared with the current one-month LIBOR rate of 0.24% and current fed funds target rate of 0.0%-0.25%. The portfolio asset size is currently \$2.45 billion, down from three months ago.

All charts below are as of April 26, 2012.

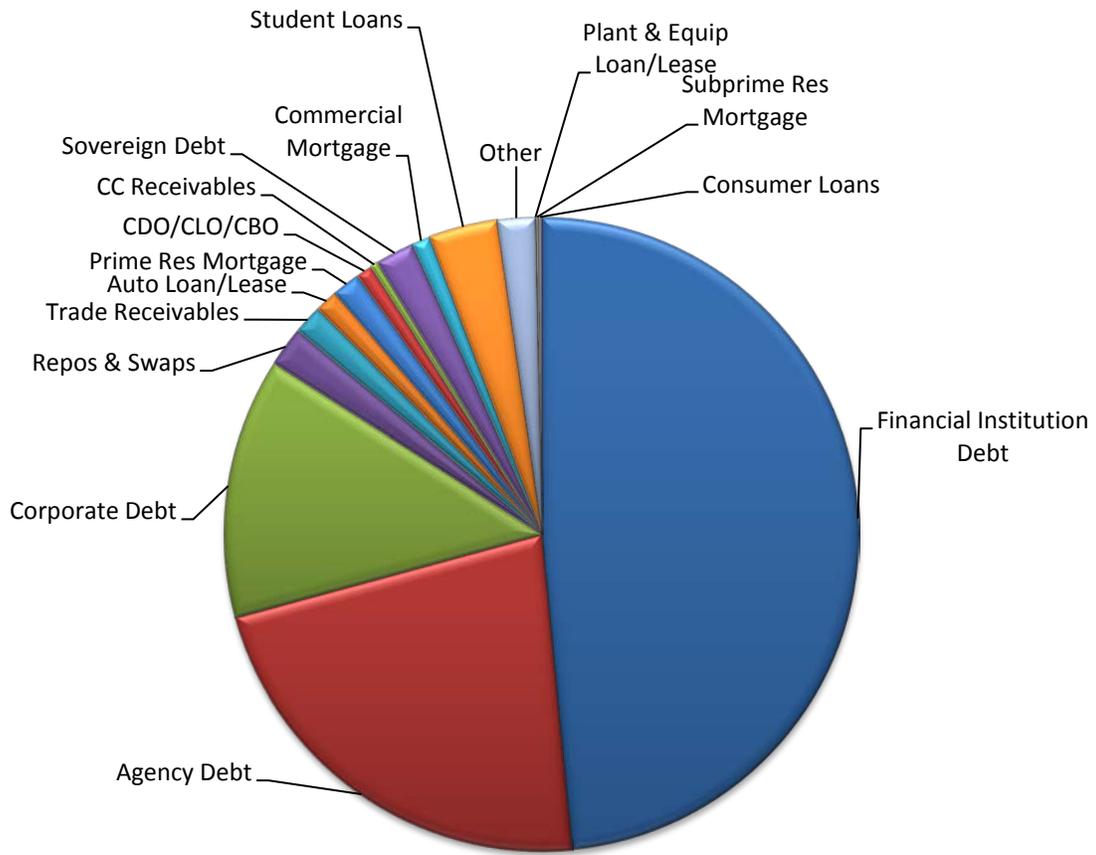
Program Type Exposure



Program Exposure



Portfolio Composition by Sector



Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

May 22, 2012

The fund totaled \$798 million as of March 31, 2012, consisting of approximately one half general fund monies and the balance in various other state operating accounts. There was an additional purchase of \$4 million in securities in the first quarter. Current securities holdings total \$34 million. The investment policy for the fund limits security holdings to 50% of the projected General Fund FYE balance of the current period. The March balance estimate was \$451 million.

State Fund Insurance

Richard Cooley, CFA, Portfolio Manager
May 22, 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 03/31/2012						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	107.42	4.10	3.85	2.43	3.92	1.44
Benchmark	107.72	3.25	3.04	1.56	4.00	0.59
Difference	-0.30	0.86	0.81	0.87	-0.08	0.86

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 slightly shorter duration than the benchmark but has been increased from 3.67 at December 31st. The longer duration is a result of purchasing more ten year bonds to maintain the portfolio yield.

Spread product ended the first quarter tighter as compared to the end of the fourth quarter. MBS spreads tightened by 23 basis points to 52 basis points, agencies tightened by 13 basis points to 20 basis points and corporate spreads tightened by 58 basis points to 176 basis points. During the quarter, the ten year Treasury yield increased by 33 basis points from 1.88% to 2.21%.

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 74 basis points during the March quarter and outperformed by 49 basis points over the past year. Longer term performance is +253 basis points for the past three years, +48 basis points for the past five years and +40 basis points for the past ten years (ended March 31).

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

During the March quarter, there were purchases of \$36 million of corporate bonds in the 10 year part of the curve and \$23 million of purchases in the 3-8 year part of the curve. We also purchased \$20 million of 10 year Agencies and \$10 million of 5 year Agencies. There was a sale of \$3 million of S&P 500 equity index units during the quarter.

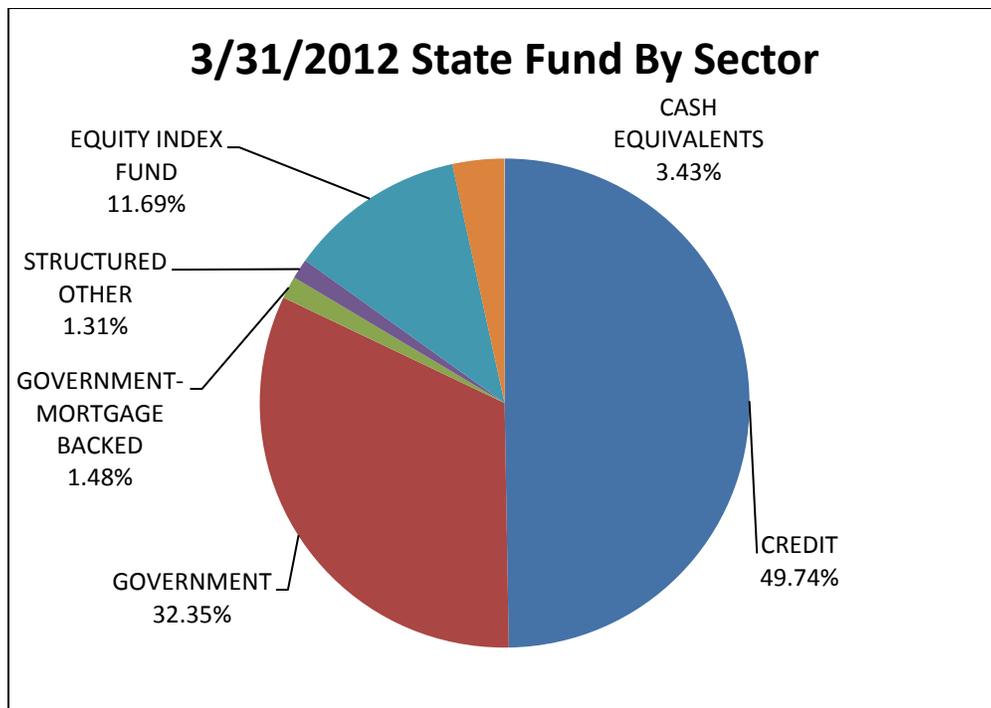
The portfolio has an 87 basis point yield advantage over the benchmark with only a one notch lower quality rating. Client preferences include keeping the STIP balance in a 1-5 percent range (currently 3.43%) and limiting holdings rated lower than A3 or A- to 25 percent of fixed income, at the time of purchase, (currently 24.3%).

State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 03/31/2012			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	14.52	56.93	-42.40
Agencies & Govt Related	21.94	14.92	7.02
Total Government	36.46	71.85	-35.38
Mortgage Backed	1.66	0.00	1.66
Asset Backed	0.00	0.00	0.00
CMBS	0.78	0.00	0.78
Securitized	2.44	0.00	2.44
Financial	29.03	10.68	18.35
Industrial	21.38	15.84	5.54
Utility	6.12	1.63	4.49
Total Corporates	56.53	28.15	28.38
Other	0.71	0.00	0.71
Cash	3.86	0.00	3.85
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.

3/31/2012 State Fund By Sector			
	Sector	Market Value	%
	<i>BANKS</i>	116,251,247	9.08%
	<i>COMMUNICATIONS</i>	21,960,657	1.72%
	<i>ENERGY</i>	38,428,363	3.00%
	<i>GAS/PIPELINES</i>	6,311,106	0.49%
	<i>INSURANCE</i>	70,798,335	5.53%
	<i>OTHER FINANCE</i>	155,802,958	12.17%
	<i>RETAIL</i>	18,391,845	1.44%
	<i>TRANSPORTATION</i>	50,921,882	3.98%
	<i>UTILITIES</i>	73,006,439	5.70%
	<i>INDUSTRIAL</i>	84,668,174	6.62%
CREDIT		636,541,007	49.74%
	<i>TITLE XI</i>	4,400,489	0.34%
	<i>TREASURY NOTES/BONDS</i>	164,417,552	12.85%
	<i>AGENCY</i>	245,218,584	19.16%
GOVERNMENT		414,036,624	32.35%
	<i>FHLMC</i>	10,277,650	0.80%
	<i>FNMA</i>	8,608,713	0.67%
GOVERNMENT-MORTGAGE BACKED		18,886,363	1.48%
	<i>CDO</i>	8,000,000	0.63%
	<i>CMBS</i>	8,801,883	0.69%
STRUCTURED OTHER		16,801,883	1.31%
TOTAL FIXED INCOME		1,086,265,877	84.88%
EQUITY INDEX FUND		149,595,559	11.69%
CASH EQUIVALENTS		43,908,202	3.43%
GRAND TOTAL		1,279,769,638	100.00%



MONTANA BOARD OF INVESTMENTS

SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending March 31, 2012



STATE STREET

	MKT VAL \$(000)	ALLOC	MONTH	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
STATE FUND INSURANCE											
TOTAL	1,286,524	100.0	0.17	2.55	4.67	6.67	9.71	5.92	5.82	6.18	12/01/1993
EQUITIES	149,596	11.6	2.80	12.44	6.57	6.74	22.74	2.08	4.17	2.27	01/01/2001
Domestic	133,883	10.4	3.30	12.59	8.51	8.63	23.66	2.54	4.43		
Foreign	15,712	1.2	-1.37	11.23	-7.52	-7.07					
TOTAL FIXED INCOME	1,140,236	100.0	-0.18	1.35	4.35	6.58	8.41	6.15	5.69	6.13	12/01/1993
CASH EQUIVALENTS	43,919	3.9	0.03	0.08	0.22	0.29	0.35	2.55	2.66	3.92	
FIXED INCOME	1,096,317	96.1	-0.18	1.38	4.44	6.74	8.64	6.25	6.07	6.38	
STATE FUND INSURANCE CUSTOM COMPO			0.01	1.88	4.19	6.11	7.21	5.34	5.10		
S&P 500			3.29	12.59	8.43	8.54	23.42	2.01	4.12		
MSCI AC WORLD ex US (NET)			-1.37	11.23	-7.53	-7.17	19.12	-1.56	7.28		
BC GOV/CREDIT INTERMEDIATE			-0.36	0.61	3.88	6.09	5.88	5.67	5.29		
LIBOR 1 MONTH INDEX			0.02	0.06	0.18	0.23	0.26	1.49	2.14		

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: May 22, 2012
Subject: Montana Private Equity Pool [MPEP]

Following this memo are the items listed below:

- (i) **Montana Private Equity Pool Review:**
Comprehensive overview of the private equity portfolio for the quarter ended December 31st.
- (ii) **New Commitments:**
There was one investment decision made by Staff since the last Board meeting. A commitment of \$15M was made to Northgate Venture Partners VI, LP. The investment brief summarizing this fund and the general partner follows.

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

Montana Board of Investments

Private Equity Board Report

Q4 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**

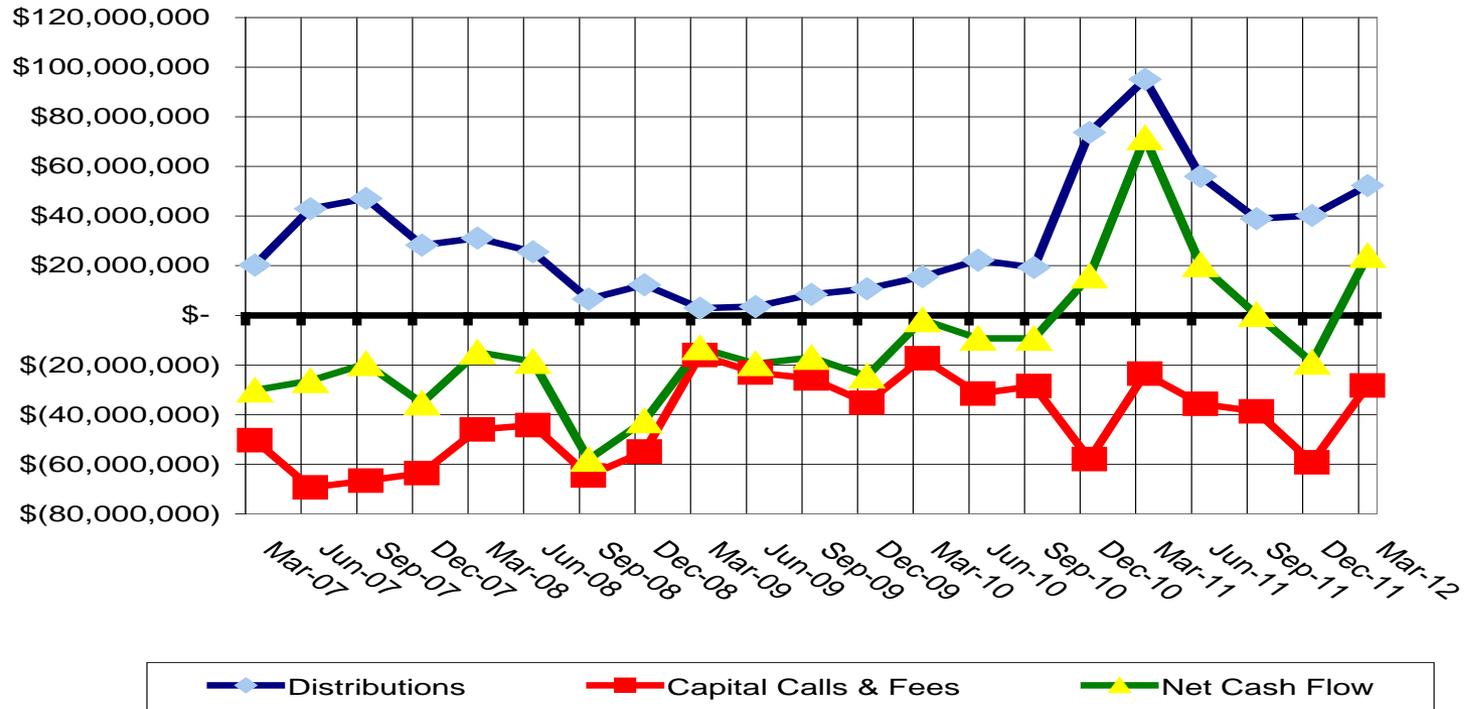
MPEP Quarterly Cash Flows Mar 31, 2007 through Mar 31, 2012

Montana Private Equity Pool

MPEP Quarterly Cash Flow

March 31, 2007 through March 31, 2012

MPEP Cash Flows



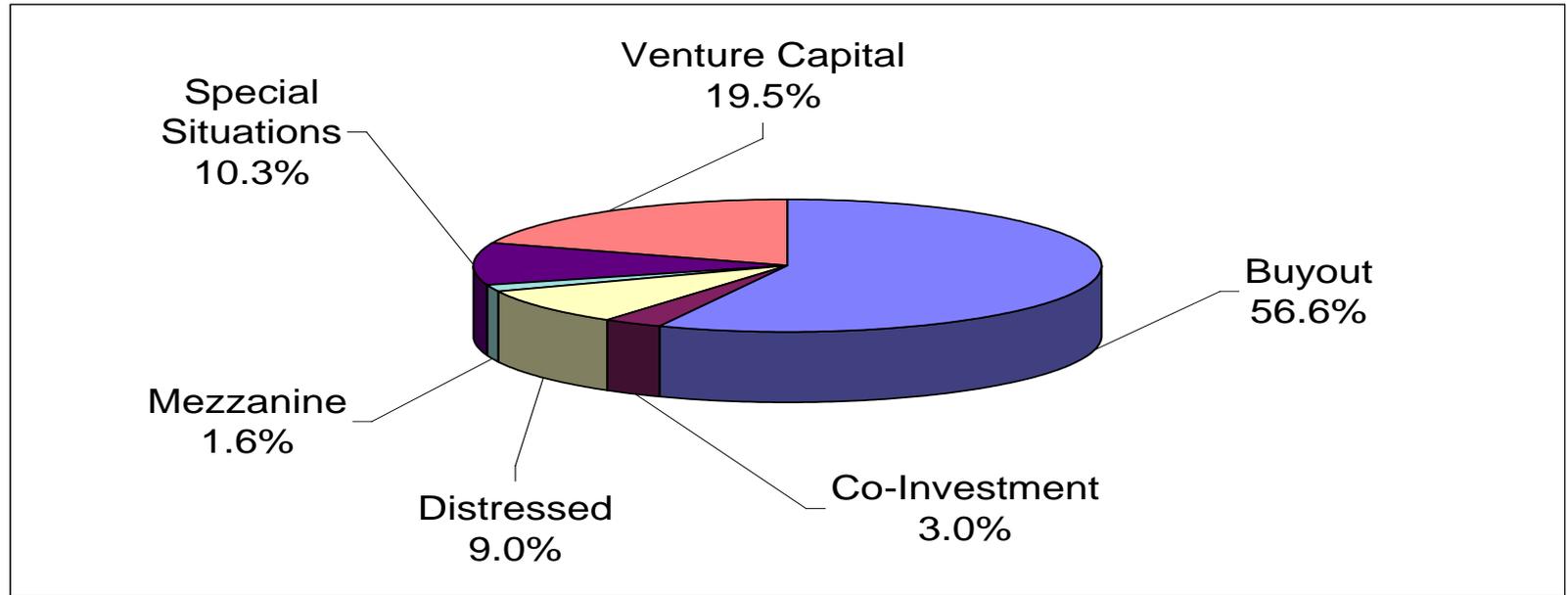
For the quarter ending 3/31/12, distributions received far outpaced capital calls resulting in positive net cash flow to the pool for the quarter. Broadly speaking, global M&A was down sharply over the year earlier period, while the IPO market was a brighter spot seeing 20 venture-capital backed companies go public during the quarter, which is the highest Q1 number of such since the beginning of 2000.

Q4 2011 Strategy – Total Exposure

Montana Private Equity Pool

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

(since inception through December 31, 2011)

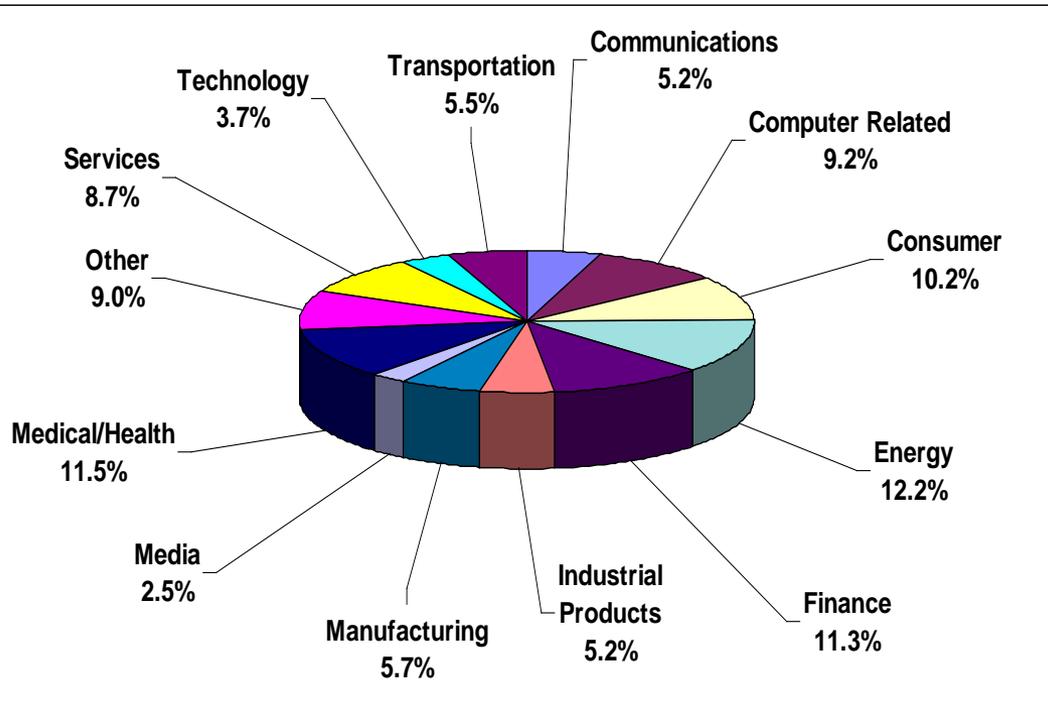


Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Buyout	\$351,696,929	65.0%	\$517,921,465	52.0%	\$869,618,394	56.6%
Co-Investment	\$7,352,295	1.4%	\$39,419,549	4.0%	\$46,771,844	3.0%
Distressed	\$36,193,301	6.7%	\$101,416,694	10.2%	\$137,609,995	9.0%
Mezzanine	\$6,029,539	1.1%	\$18,923,575	1.9%	\$24,953,114	1.6%
Special Situations	\$62,676,141	11.6%	\$95,713,814	9.6%	\$158,389,955	10.3%
Venture Capital	\$77,251,178	14.3%	\$221,928,130	22.3%	\$299,179,308	19.5%
Total	\$541,199,384	100.0%	\$995,323,227	100.0%	\$1,536,522,611	100.0%

The portfolio is well diversified by strategy, with the most significant strategy weight consisting of Buyout at 56.6% 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.

Q4 2011 Industry – Market Value Exposure

Montana Private Equity Pool Underlying Investment Industry Exposure, by Market Value *(since inception through December 31, 2011)*



Industry	Investments, At Market Value	Percentage
Communications	\$50,410,415	5.2%
Computer Related	\$88,194,471	9.2%
Consumer	\$98,689,129	10.2%
Energy	\$117,384,900	12.2%
Finance	\$109,237,933	11.3%
Industrial Products	\$50,486,443	5.2%
Manufacturing	\$54,470,406	5.7%
Media	\$24,230,454	2.5%
Medical/Health	\$110,350,967	11.5%
Other	\$86,345,834	9.0%
Services	\$84,270,561	8.7%
Technology	\$35,924,526	3.7%
Transportation	\$53,102,280	5.5%
Total	\$963,098,318	100%

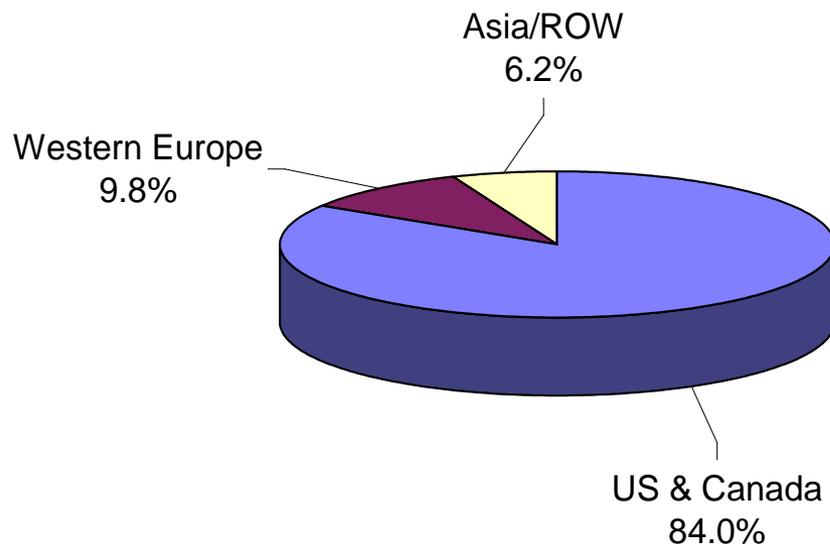
The portfolio is broadly diversified by industry with the energy, finance, consumer and medical/health sectors being the highest industry concentrations representing 45.2% of total assets. With the exception of energy and the technology-related industries, the portfolio's underlying managers tend to 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.

Q4 2011 Geography – Total Exposure

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through December 31, 2011)



The portfolio's predominate geographic exposure is to developed North America, with 84.0% 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	\$ 490,213,881	90.6%	\$ 773,113,915	80.3%	\$ 1,263,327,796	84.0%
Western Europe	\$ 29,556,652	5.5%	\$ 118,349,589	12.3%	\$ 147,906,241	9.8%
Asia/ROW	\$ 21,428,850	4.0%	\$ 71,634,814	7.4%	\$ 93,063,664	6.2%
Total	\$ 541,199,383	100.0%	\$ 963,098,318	100.0%	\$ 1,504,297,701	100.0%

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

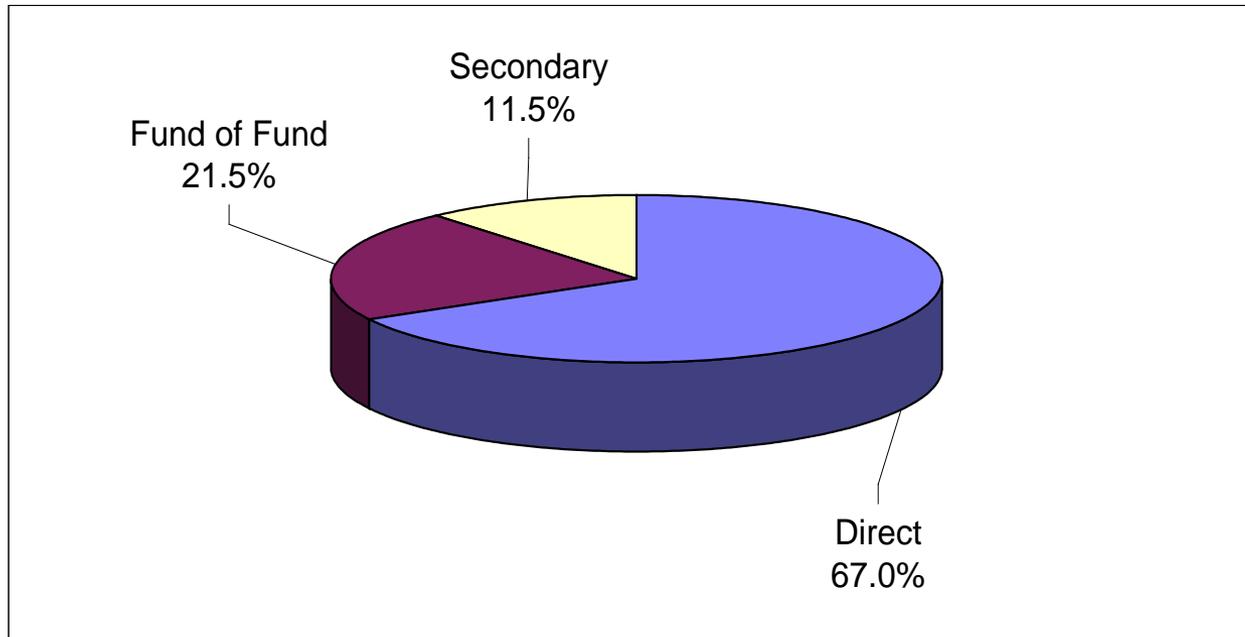
⁽²⁾ Market Value represents the aggregate market values of the underlying investment companies of the partnerships and excludes cash.

Q4 2011 Investment Vehicle – Total Exposure

Montana Private Equity Pool

Investment Vehicle Exposure by Market Value & Remaining Commitments

(since inception through December 31, 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. 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	\$ 382,085,867	70.6%	\$ 647,621,555	65.1%	\$ 1,029,707,422	67.0%
Fund of Fund	\$ 108,008,675	20.0%	\$ 222,003,912	22.3%	\$ 330,012,587	21.5%
Secondary	\$ 51,104,841	9.4%	\$ 125,697,760	12.6%	\$ 176,802,601	11.5%
Total	\$ 541,199,384	100.0%	\$ 995,323,227	100.0%	\$ 1,536,522,611	100.0%

Q4 2011 1 – 3 – 5 Year Periodic Return Comparison

Montana Board of Investments

Periodic Return Comparison

For the Period Ended December 31, 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	130	995,323,227	1.41	12.44	12.44	11.96	13.42	6.53
<i>Adams Street Funds</i>	34	173,781,715	1.48	12.29	2.91	8.43	11.40	5.01
ASP - Direct VC Funds	4	29,487,115	1.54	15.47	0.67	21.02	12.98	5.90
ASP - Secondary Funds	7	14,719,007	1.65	42.87	0.43	1.06	11.48	8.38
ASP - U.S. Partnership Funds	14	113,821,654	1.43	9.79	1.58	7.78	11.12	4.51
ASP Non-US Partnership Funds	9	15,753,939	1.49	10.79	0.23	1.10	10.01	3.16
<i>Buyout</i>	34	331,799,587	1.49	11.56	5.07	16.61	14.76	7.10
<i>Co-Investment</i>	2	39,419,549	1.21	7.18	0.19	11.81	15.53	6.89
<i>Distressed</i>	9	103,309,204	1.39	24.93	1.59	6.44	22.40	10.15
<i>Mezzanine</i>	3	17,071,508	1.28	7.41	0.12	8.87	0.11	3.78
<i>Non-US Private Equity</i>	6	45,002,014	1.32	11.64	0.50	6.85	16.80	(0.17)
<i>Secondary</i>	7	110,978,753	1.34	13.74	1.01	11.31	8.82	8.65
<i>Special Situations</i>	7	79,887,197	1.25	7.98	0.51	9.17	11.87	7.56
<i>Venture Capital</i>	28	94,073,700	1.28	16.80	0.55	17.74	10.25	6.13

1.) Due to, among other things, the lack of a valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a fund's life, the internal rate of return information does not accurately reflect current or expected future returns, and the internal rates of return and all other disclosures with respect to the Partnerships have not been prepared, reviewed or approved by the Partnerships, the General Partners, or any other affiliates.

2.) The market value for CVC IV, OIP III and PVC II rolled up into the Buyout total represents a cash-adjusted market value from the previously reported valuation from the General Partner

As of 12/31/11, the portfolio's trailing 1-year IRR was 12%. The since inception investment multiple and IRR results were up slightly relative to last quarter to 1.41x and 12.44%, respectively, from 1.40x and 12.32%. As of quarter end, all strategic categories were up slightly or performed in-line relative to last quarter's performance.

Q4 2011 LPs by Family of Funds

Montana Board of Investments
LP's by Family of Funds
All Investments
As of December 31, 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		2,097,363,174	1,474,983,639	106,019,882	541,199,383	75.38	1,232,623,211	995,323,227	12.44	1.41	1,536,522,610
Active		2,084,470,174	1,462,600,268	104,608,851	541,199,384	75.19	1,195,119,797	995,323,227	11.80	1.40	1,536,522,611
Adams Street Partners		327,129,264	286,807,289	29,472,655	22,646,373	96.68	293,680,894	173,781,715	12.29	1.48	196,428,088
Adams Street Partners Fund - U.S.		94,000,000	77,651,461	6,015,684	10,332,855	89.01	40,781,702	69,085,602	7.04	1.31	79,418,457
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000	29,437,711	2,414,434	2,147,855	93.68	20,917,775	24,477,778	8.58	1.43	26,625,633
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000	16,812,500	1,267,500	1,920,000	90.40	9,254,351	14,840,939	7.38	1.33	16,760,939
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000	12,260,626	924,374	1,815,000	87.90	5,356,661	11,313,054	6.08	1.26	13,128,054
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000	19,140,624	1,409,376	4,450,000	82.20	5,252,915	18,453,831	4.03	1.15	22,903,831
Adams Street Partners Fund - Non-U.S.		16,000,000	13,407,282	1,001,718	1,591,000	90.06	8,309,772	11,569,045	9.05	1.38	13,160,045
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000	5,354,168	411,832	234,000	96.10	5,625,781	3,772,948	13.24	1.63	4,006,948
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000	4,179,052	311,448	509,500	89.81	1,843,845	3,845,691	6.58	1.27	4,355,191
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000	3,874,062	278,438	847,500	83.05	840,146	3,950,406	3.90	1.15	4,797,906
Brinson Partnership Trust - Non-U.S.		9,809,483	9,598,173	1,097,761	286,300	109.04	13,758,662	4,313,858	13.25	1.69	4,600,158
Brinson Non-U.S. Trust-1999 Primary Fund	1999	1,524,853	1,503,681	170,644	96,162	109.80	2,449,707	313,576	11.00	1.65	409,738
Brinson Non-U.S. Trust-2000 Primary Fund	2000	1,815,207	1,815,207	203,137	0	111.19	2,998,720	530,721	12.58	1.75	530,721
Brinson Non-U.S. Trust-2001 Primary Fund	2001	1,341,612	1,341,612	150,138	0	111.19	1,985,613	359,874	11.48	1.57	359,874
Brinson Non-U.S. Trust-2002 Primary Fund	2002	1,696,452	1,696,452	189,846	0	111.19	1,570,816	1,368,219	9.82	1.56	1,368,219
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308	601,542	71,320	35,766	105.58	1,387,203	128,964	26.39	2.25	164,730
Brinson Non-U.S. Trust-2003 Primary Fund	2003	1,896,438	1,783,977	212,227	112,461	105.26	2,710,833	988,790	20.57	1.85	1,101,251
Brinson Non-U.S. Trust-2004 Primary Fund	2004	897,613	855,702	100,450	41,911	106.52	655,770	623,714	8.18	1.34	665,625
Brinson Partnership Trust - U.S.		103,319,781	98,824,308	10,585,842	4,495,473	105.89	118,243,313	46,321,401	10.23	1.50	50,816,874
Brinson Partners - 1996 Fund	1996	3,950,740	3,829,528	460,991	121,212	108.60	6,945,449	211,254	14.83	1.67	332,466
Brinson Partners - 1997 Primary Fund	1997	3,554,935	3,554,935	417,170	0	111.73	14,267,325	259,825	71.46	3.66	259,825
Brinson Partners - 1998 Primary Fund	1998	7,161,019	7,122,251	840,141	38,768	111.19	10,241,853	736,146	6.49	1.38	774,914
Brinson Partners - 1998 Secondary Fund	1998	266,625	266,625	31,316	0	111.75	181,932	11,342	-7.40	0.65	11,342
Brinson Partners - 1999 Primary Fund	1999	8,346,761	7,832,823	968,983	513,938	105.45	8,579,794	1,498,099	2.40	1.14	2,012,037
Brinson Partners - 2000 Primary Fund	2000	20,064,960	19,079,570	2,205,854	985,390	106.08	23,147,825	6,022,272	5.94	1.37	7,007,662
Brinson Partners - 2001 Primary Fund	2001	15,496,322	14,830,208	1,503,848	666,114	105.41	12,348,793	9,592,316	5.62	1.34	10,258,430
Brinson Partners - 2002 Primary Fund	2002	16,297,079	15,783,921	1,572,565	513,158	106.50	17,567,300	10,084,316	11.94	1.59	10,597,474
Brinson Partners - 2002 Secondary Fund	2002	2,608,820	2,498,592	246,004	110,228	105.20	3,621,150	990,510	12.97	1.68	1,100,738
Brinson Partners - 2003 Primary Fund	2003	15,589,100	14,784,432	1,473,697	804,668	104.29	14,386,659	8,416,955	9.18	1.40	9,221,623
Brinson Partners - 2003 Secondary Fund	2003	1,151,151	1,077,749	99,771	73,402	102.29	2,049,868	593,387	23.80	2.24	666,789
Brinson Partners - 2004 Primary Fund	2004	8,832,269	8,163,674	765,500	668,595	101.10	4,905,365	7,904,979	8.57	1.43	8,573,574

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		Since Inception									
Description	Vintage Year	Capital Contributed for		Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market		Investment Multiple	Total Exposure
		Commitment	Investment					Value	IRR ¹		
Remaining ASP Funds		104,000,000	87,326,065	10,771,650	5,940,745	94.32	112,587,445	42,491,809	21.17	1.58	48,432,554
Adams Street Global Oppty Secondary Fund	2004	25,000,000	18,999,785	1,100,215	4,900,000	80.40	16,291,086	12,918,543	12.25	1.45	17,818,543
Adams Street V, L.P.	2003	40,000,000	34,986,956	5,013,044	0	100.00	17,131,375	27,009,990	2.00	1.10	27,009,990
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	12,520	40.47	3.13	12,520
Brinson VPF III	1993	5,000,000	4,488,559	530,671	0	100.38	15,024,708	63,333	29.47	3.01	63,333
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	198,942	0	100.38	8,307,583	63,741	41.46	1.67	63,741
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,634,305	12,520	97.02	2.44	1,053,265
BVCF IV, L.P.	1999	15,000,000	12,760,256	2,239,744	0	100.00	22,696,899	2,401,272	6.87	1.67	2,401,272
Affinity Asia Capital		15,000,000	8,908,306	1,528,442	4,564,919	69.58	3,532,840	10,274,556	12.46	1.32	14,839,475
Affinity Asia Pacific Fund III, L.P.	2006	15,000,000	8,908,306	1,528,442	4,564,919	69.58	3,532,840	10,274,556	12.46	1.32	14,839,475
American Securities LLC		35,000,000	6,320,299	160,507	28,519,194	18.52	214	6,301,149	-4.31	0.97	34,820,343
American Securities Partners VI, L.P.	2011	35,000,000	6,320,299	160,507	28,519,194	18.52	214	6,301,149	-4.31	0.97	34,820,343
Arclight Energy Partners		70,000,000	41,951,311	3,101,420	24,947,269	64.36	43,509,196	23,248,888	12.57	1.48	48,196,157
ArcLight Energy Partners Fund II, L.P.	2004	25,000,000	20,514,544	1,180,018	3,305,438	86.78	32,329,333	4,612,522	18.79	1.70	7,917,960
ArcLight Energy Partners Fund III, L.P.	2006	25,000,000	20,081,472	1,579,805	3,338,724	86.65	11,179,863	17,153,467	6.76	1.31	20,492,191
ArcLight Energy Partners Fund V, L.P.	2011	20,000,000	1,355,296	341,597	18,303,107	8.48	0	1,482,899	-12.61	0.87	19,786,006
Austin Ventures		500,000	424,416	129,154	1	110.71	1,216,717	9,226	20.53	2.21	9,227
Austin Ventures III, L.P.	1991	500,000	424,416	129,154	1	110.71	1,216,717	9,226	20.53	2.21	9,227
Avenue Investments		35,000,000	33,123,011	2,086,886	0	100.60	42,840,547	3,026,335	10.87	1.30	3,026,335
Avenue Special Situations Fund V, LP	2007	35,000,000	33,123,011	2,086,886	0	100.60	42,840,547	3,026,335	10.87	1.30	3,026,335
Axiom Asia Private Capital		25,000,000	7,439,793	734,760	16,863,931	32.70	496,847	7,974,168	3.49	1.04	24,838,099
Axiom Asia Private Capital II, LP	2009	25,000,000	7,439,793	734,760	16,863,931	32.70	496,847	7,974,168	3.49	1.04	24,838,099
Black Diamond Capital Management		25,000,000	5,005,234	424,017	19,570,749	21.72	218,921	6,150,925	57.16	1.17	25,721,674
BDCM Opportunity Fund III, L.P.	2011	25,000,000	5,005,234	424,017	19,570,749	21.72	218,921	6,150,925	57.16	1.17	25,721,674
Carlyle Partners		60,000,000	52,872,113	4,371,919	2,952,169	95.41	27,013,783	58,414,728	10.76	1.49	61,366,897
Carlyle Partners IV, L.P.	2005	35,000,000	31,662,839	1,482,030	1,954,133	94.70	21,796,010	33,779,557	12.00	1.68	35,733,690
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000	21,209,274	2,889,889	998,036	96.40	5,217,773	24,635,171	7.50	1.24	25,633,207
CCMP Associates		30,000,000	18,157,496	2,005,738	9,836,766	67.21	3,353,867	26,352,284	13.93	1.47	36,189,050
CCMP Capital Investors II, L.P.	2006	30,000,000	18,157,496	2,005,738	9,836,766	67.21	3,353,867	26,352,284	13.93	1.47	36,189,050
Centerbridge		37,500,000	17,333,520	582,454	19,584,026	47.78	367,307	21,198,784	14.28	1.20	40,782,810
Centerbridge Capital Partners II, L.P.	2011	25,000,000	5,739,400	301,574	18,959,026	24.16	2,208	5,634,071	-13.86	0.93	24,593,097
Centerbridge Special Credit Partners	2009	12,500,000	11,594,120	280,880	625,000	95.00	365,099	15,564,713	16.84	1.34	16,189,713
CIVC Partners		25,000,000	4,039,717	1,000,724	20,054,231	20.16	246,875	5,648,949	20.58	1.17	25,703,180
CIVC Partners Fund IV, L.P. ²	2010	25,000,000	4,039,717	1,000,724	20,054,231	20.16	246,875	5,648,949	20.58	1.17	25,703,180
Energy Investors Funds		25,000,000	5,253,020	0	19,746,980	21.01	155,546	4,696,214	-7.71	0.92	24,443,194
EIF US Power Fund IV, L.P.	2011	25,000,000	5,253,020	0	19,746,980	21.01	155,546	4,696,214	-7.71	0.92	24,443,194
First Reserve		55,485,789	40,073,252	1,707,029	13,727,445	75.30	7,620,071	37,617,000	2.92	1.08	51,344,445
First Reserve Fund XI, L.P.	2006	30,000,000	22,969,533	873,174	6,179,228	79.48	6,375,395	20,457,000	3.48	1.13	26,636,228
First Reserve Fund XII, L.P.	2008	25,485,789	17,103,718	833,854	7,548,217	70.38	1,244,677	17,160,000	1.42	1.03	24,708,217

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		Since Inception									
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		Commitment	Investment	Management Fees							
Gridiron Capital		15,000,000	3,560,360	150,000	11,349,262	24.74	0	3,450,997	-6.99	0.93	14,800,259
Gridiron Capital Fund II	2011	15,000,000	3,560,360	150,000	11,349,262	24.74	0	3,450,997	-6.99	0.93	14,800,259
GTCR LLC		25,000,000	4,976,767	135,384	19,887,849	20.45	0	4,774,740	-7.26	0.93	24,662,589
GTCR X, L.P.	2011	25,000,000	4,976,767	135,384	19,887,849	20.45	0	4,774,740	-7.26	0.93	24,662,589
HarbourVest		61,823,772	34,597,608	996,186	26,243,504	57.57	4,499,406	37,891,933	10.55	1.19	64,135,437
Dover Street VII L.P.	2008	20,000,000	16,092,808	470,717	3,450,000	82.82	1,529,379	19,488,517	17.69	1.27	22,938,517
HarbourVest Direct 2007 Fund	2007	20,000,000	16,228,159	321,841	3,450,000	82.75	2,970,027	15,969,573	6.72	1.14	19,419,573
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	2,276,641	203,628	19,343,504	11.36	0	2,433,843	-1.45	0.98	21,777,347
Hellman & Friedman		40,000,000	23,571,809	1,357,241	15,070,950	62.32	7,517,082	21,012,358	4.92	1.14	36,083,308
Hellman & Friedman Capital Partners VI	2006	25,000,000	20,531,057	1,269,221	3,199,722	87.20	7,517,082	18,126,635	5.28	1.18	21,326,357
Hellman & Friedman Capital Partners VII	2011	15,000,000	3,040,752	88,020	11,871,228	20.86	0	2,885,723	-13.61	0.92	14,756,951
Highway 12 Ventures		10,000,000	6,773,272	1,276,715	1,950,012	80.50	73,476	9,316,200	6.03	1.17	11,266,213
Highway 12 Venture Fund II, L.P.	2006	10,000,000	6,773,272	1,276,715	1,950,012	80.50	73,476	9,316,200	6.03	1.17	11,266,213
Industry Ventures		10,000,000	9,125,120	683,659	595,358	98.09	4,530,759	6,877,544	4.64	1.16	7,472,902
Industry Ventures Fund IV, L.P.	2005	10,000,000	9,125,120	683,659	595,358	98.09	4,530,759	6,877,544	4.64	1.16	7,472,902
JCF		25,000,000	23,798,137	923,413	311,690	98.89	1,240,540	5,699,002	-28.52	0.28	6,010,692
J.C. Flowers II, L.P.	2006	25,000,000	23,798,137	923,413	311,690	98.89	1,240,540	5,699,002	-28.52	0.28	6,010,692
Joseph Littlejohn & Levy		25,000,000	21,518,676	1,274,244	2,207,080	91.17	11,744,312	17,576,556	7.96	1.29	19,783,636
JLL Partners Fund V, L.P.	2005	25,000,000	21,518,676	1,274,244	2,207,080	91.17	11,744,312	17,576,556	7.96	1.29	19,783,636
KKR		175,000,000	175,000,000	9,445,581	0	105.40	350,564,535	6,026,067	12.37	1.93	6,026,067
KKR 1987 Fund	1987	25,000,000	25,000,000	2,101,164	0	108.40	56,620,964	0	8.92	2.09	0
KKR 1993 Fund	1993	25,000,000	25,000,000	1,002,236	0	104.01	48,971,319	0	17.79	1.88	0
KKR 1996 Fund	1997	100,000,000	100,000,000	4,579,640	0	104.58	188,549,072	1,153,089	13.51	1.81	1,153,089
KKR European Fund, L. P.	1999	25,000,000	25,000,000	1,762,541	0	107.05	56,423,180	4,872,978	19.84	2.29	4,872,978
Lexington Capital Partners		155,000,000	113,013,201	5,824,561	36,236,784	76.67	89,364,585	73,179,000	14.12	1.37	109,415,784
Lexington Capital Partners V, L.P.	2001	50,000,000	47,220,708	2,535,910	243,382	99.51	66,658,379	15,041,000	19.16	1.64	15,284,382
Lexington Capital Partners VI-B, L.P.	2005	50,000,000	46,832,461	2,142,245	1,025,294	97.95	20,015,986	36,239,000	5.00	1.15	37,264,294
Lexington Capital Partners VII, L.P.	2009	45,000,000	14,955,728	946,280	29,172,538	35.34	1,947,790	17,762,000	26.37	1.24	46,934,538
Lexington Middle Market Investors II, LP	2008	10,000,000	4,004,303	200,126	5,795,571	42.04	742,430	4,137,000	12.48	1.16	9,932,571
Madison Dearborn Capital Partners		75,000,000	51,167,541	2,498,805	21,379,693	71.56	35,299,583	40,373,183	9.62	1.41	61,752,876
Madison Dearborn Capital Partners IV, LP	2001	25,000,000	23,692,136	595,557	758,346	97.15	30,957,532	10,878,063	13.77	1.72	11,636,409
Madison Dearborn Capital Partners V, LP.	2006	25,000,000	21,466,773	905,293	2,627,934	89.49	3,103,980	21,812,823	2.69	1.11	24,440,757
Madison Dearborn Capital Partners VI, LP	2008	25,000,000	6,008,632	997,955	17,993,413	28.03	1,238,071	7,682,297	10.52	1.27	25,675,710
Matlin Patterson		30,000,000	24,142,656	1,957,317	3,900,027	87.00	2,477,529	22,789,417	-1.18	0.97	26,689,444
MatlinPatterson Global Opps. Ptrns. III	2007	30,000,000	24,142,656	1,957,317	3,900,027	87.00	2,477,529	22,789,417	-1.18	0.97	26,689,444
MHR Institutional Partners		25,000,000	14,858,435	1,890,213	8,251,352	66.99	1,350,926	18,228,651	4.09	1.17	26,480,003
MHR Institutional Partners III, L.P.	2006	25,000,000	14,858,435	1,890,213	8,251,352	66.99	1,350,926	18,228,651	4.09	1.17	26,480,003
Montlake Capital		15,000,000	9,726,087	1,823,913	3,450,000	77.00	1,932,202	10,493,001	2.91	1.08	13,943,001
Montlake Capital II, L.P.	2007	15,000,000	9,726,087	1,823,913	3,450,000	77.00	1,932,202	10,493,001	2.91	1.08	13,943,001
Neuberger Berman Group, LLC		35,000,000	29,919,160	1,573,036	3,902,295	89.98	15,632,730	23,449,976	7.33	1.24	27,352,271
NB Co-Investment Partners, L.P.	2006	35,000,000	29,919,160	1,573,036	3,902,295	89.98	15,632,730	23,449,976	7.33	1.24	27,352,271
Northgate Capital Partners		30,000,000	6,600,000	0	23,400,000	22.00	0	6,244,865	-6.77	0.95	29,644,865
Northgate V, L.P.	2010	30,000,000	6,600,000	0	23,400,000	22.00	0	6,244,865	-6.77	0.95	29,644,865
Oak Hill Capital Partners		45,000,000	34,546,072	3,111,268	7,424,013	83.68	11,117,124	40,745,133	8.98	1.38	48,169,146
Oak Hill Capital Partners II, L.P.	2005	25,000,000	22,460,874	1,834,751	704,376	97.18	11,073,009	27,041,514	10.81	1.57	27,745,890
Oak Hill Capital Partners III, L.P.	2008	20,000,000	12,085,199	1,276,518	6,719,637	66.81	44,115	13,703,619	1.18	1.03	20,423,256

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		Commitment	Investment								
Oaktree Capital Partners											
Oaktree Opportunities Fund VIII, L.P.	2009	120,000,000	112,394,958	4,105,042	3,500,000	97.08	143,221,246	37,549,163	42.25	1.55	41,049,163
OCM Opportunities Fund IVb, L.P.	2002	10,000,000	9,693,531	306,469	0	100.00	89,318	10,368,202	4.25	1.05	10,368,202
OCM Opportunities Fund VIIIb, L.P.	2008	75,000,000	73,086,225	1,913,775	0	100.00	121,554,428	8,511	44.89	1.62	8,511
OCM Opportunities Fund VIIIb, L.P.	2008	35,000,000	29,615,202	1,884,798	3,500,000	90.00	21,577,500	27,172,450	17.28	1.55	30,672,450
Odyssey Partners Fund III											
Odyssey Investment Partners III, L.P. ²	2004	45,000,000	29,572,296	2,687,324	12,740,401	71.69	33,700,748	25,852,436	26.61	1.85	38,592,837
Odyssey Investment Partners IV, L.P.	2008	25,000,000	21,853,872	1,608,389	1,537,740	93.85	33,675,322	15,449,461	27.88	2.09	16,987,201
Opus Capital Venture Partners		20,000,000	7,718,424	1,078,935	11,202,661	43.99	25,426	10,402,975	11.84	1.19	21,605,636
Opus Capital Venture Partners VI, LP	2011	10,000,000	546,668	187,500	9,265,832	7.34	0	473,991	-44.95	0.65	9,739,824
Opus Capital Venture Partners VI, LP	2011	10,000,000	546,668	187,500	9,265,832	7.34	0	473,991	-44.95	0.65	9,739,824
Performance Venture Capital											
Performance Venture Capital II ²	2008	25,000,000	8,389,776	942,299	15,667,925	37.33	138,006	10,150,690	7.73	1.10	25,818,615
Performance Venture Capital II ²	2008	25,000,000	8,389,776	942,299	15,667,925	37.33	138,006	10,150,690	7.73	1.10	25,818,615
Portfolio Advisors											
Port. Advisors Fund IV (B), L.P.	2006	70,000,000	48,411,536	2,269,754	19,565,561	72.40	3,126,082	54,430,647	4.92	1.14	73,996,208
Port. Advisors Fund IV (E), L.P.	2006	30,000,000	21,574,916	1,107,813	7,317,271	75.61	1,146,115	25,794,572	4.98	1.19	33,111,843
Port. Advisors Fund V (B), L.P.	2006	15,000,000	10,413,815	695,450	3,890,735	74.06	4,731	10,246,401	-2.94	0.92	14,137,136
Port. Advisors Fund V (B), L.P.	2008	10,000,000	6,137,375	284,375	3,694,997	64.22	432,891	6,955,982	7.41	1.15	10,650,979
Portfolio Advisors Secondary Fund, L.P.	2008	15,000,000	10,285,430	182,116	4,662,558	69.78	1,542,345	11,433,692	24.43	1.24	16,096,250
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	14,325,095	3.78	1.15	15,933,502
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	14,325,095	3.78	1.15	15,933,502
Siguler Guff & Company											
Siguler Guff Small Buyout Opportunities	2007	50,000,000	24,392,384	995,822	24,744,081	50.78	1,580,975	28,872,663	9.16	1.20	53,616,744
Siguler Guff Small Buyout Opps Fund II	2011	25,000,000	18,468,581	919,625	5,744,081	77.55	1,580,975	21,997,986	7.84	1.22	27,742,067
Siguler Guff Small Buyout Opps Fund II	2011	25,000,000	5,923,803	76,197	19,000,000	24.00	0	6,874,677	23.94	1.15	25,874,677
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	3,674,544	150,456	6,175,000	38.25	0	4,000,271	7.52	1.05	10,175,271
TA XI, L.P.	2010	10,000,000	3,674,544	150,456	6,175,000	38.25	0	4,000,271	7.52	1.05	10,175,271
Terra Firma Capital Partners											
Terra Firma Capital Partners III, L.P.	2007	25,432,997	18,762,288	2,554,338	4,133,423	83.81	587,167	9,200,068	-23.71	0.46	13,333,491
Terra Firma Capital Partners III, L.P.	2007	25,432,997	18,762,288	2,554,338	4,133,423	83.81	587,167	9,200,068	-23.71	0.46	13,333,491
Thayer Hidden Creek Management, L.P.											
HCI Equity Partners III, LP	2008	20,000,000	8,530,040	1,182,421	10,614,237	48.56	322,580	13,920,178	49.97	1.47	24,534,415
HCI Equity Partners III, LP	2008	20,000,000	8,530,040	1,182,421	10,614,237	48.56	322,580	13,920,178	49.97	1.47	24,534,415
Trilantic Capital Partners											
Trilantic Capital Partners IV L.P.	2007	11,098,351	7,807,138	930,888	2,362,952	78.73	3,382,788	7,997,168	13.79	1.30	10,360,120
Trilantic Capital Partners IV L.P.	2007	11,098,351	7,807,138	930,888	2,362,952	78.73	3,382,788	7,997,168	13.79	1.30	10,360,120
Veritas Capital											
The Veritas Capital Fund IV, L.P.	2010	25,000,000	8,202,324	50,032	16,747,644	33.01	0	8,255,540	0.04	1.00	25,003,184
The Veritas Capital Fund IV, L.P.	2010	25,000,000	8,202,324	50,032	16,747,644	33.01	0	8,255,540	0.04	1.00	25,003,184
Welsh, Carson, Anderson & Stowe											
Welsh, Carson, Anderson & Stowe II	1990	75,500,000	65,393,549	4,832,857	5,500,000	93.02	46,372,371	47,471,771	7.68	1.34	52,971,771
Welsh, Carson, Anderson & Stowe II	1990	500,000	455,663	88,404	0	108.81	780,255	0	8.33	1.43	0
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	19,688,044	1,311,956	4,000,000	84.00	8,830,733	17,071,508	5.35	1.23	21,071,508
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000	22,474,577	2,025,423	500,000	98.00	32,939,188	7,806,382	12.33	1.66	8,306,382
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	22,775,265	1,407,724	1,000,000	96.73	3,822,195	22,593,881	2.17	1.09	23,593,881

1.) Due to, among other things, the lack of valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a funds life, the internal rate of return information does not accurately reflect current or expected future returns, and the internal rates of return and all other disclosures with respect to the Partnerships have not been prepared, reviewed or approved by the Partnerships, the General Partners, or any other affiliates.

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

Though the pool only slightly outperformed relative to last quarter, there were some noteworthy improvements. BDCM Opportunity Fund III, improved from a 8.04% IRR and a 1.1x MOIC to a 57.2% IRR and a 1.2x MOIC. Two other managers, Matlin Patterson Global Opps III and MHR Institutional Partners III, both managers who were previously thought to be at risk of permanent impairment, improved from a -11.6% IRR and a 0.74x MOIC to a -1.1% IRR and a 0.97x MOIC and a 0.14% IRR and a 1.0x MOIC to a 4.1% IRR and a 1.17x MOIC, respectively.

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: May 22, 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 December 31st.
- (ii) **New Commitments:**
There were no new commitments since the last Board meeting.

Montana Board of Investments

Real Estate Board Report

Q4 2011

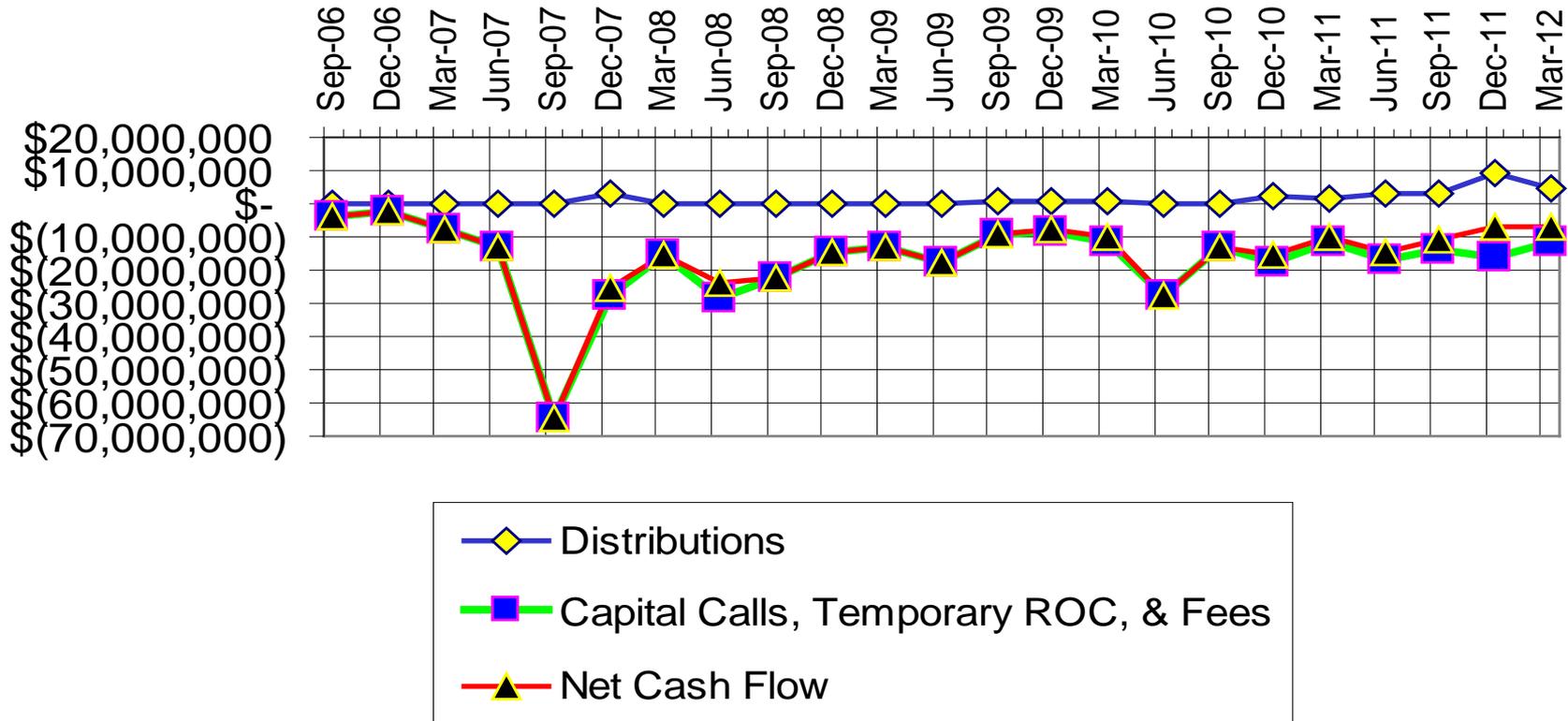
Due to, among other things, the lack of a valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a fund's life, the internal rate of return information may not accurately reflect current or expected 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 March 31, 2012

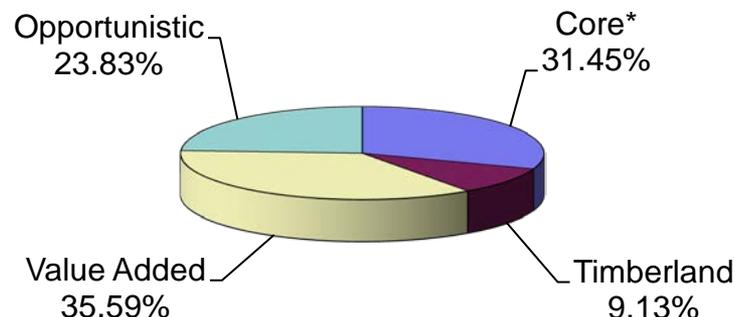
Montana RE Cash Flows Through 3/31/12 (Non Core)



Both capital calls and distributions dropped off relative to the 4th quarter. The volume of capital calls continues to outpace distributions received, largely due to market conditions.

Q4 2011 Strategy – Total Exposure

Total Exposure



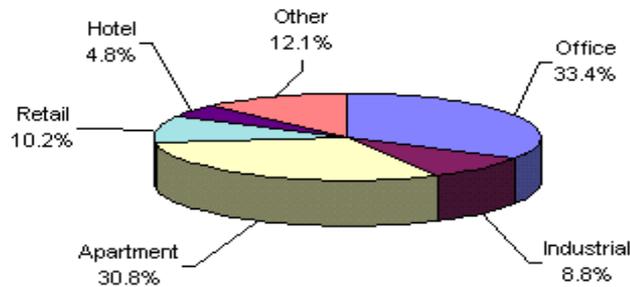
Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core*	\$0	0.00%	\$247,986,574	43.01%	\$247,986,574	31.45%
Timberland	\$37,377,447	17.62%	\$34,643,532	6.01%	\$72,020,979	9.13%
Value Added	\$105,850,658	49.90%	\$174,836,601	30.33%	\$280,687,260	35.59%
Opportunistic	\$68,889,304	32.48%	\$119,049,904	20.65%	\$187,939,207	23.83%
Total	\$212,117,409	100.00%	\$576,516,611	100.00%	\$788,634,020	100.00%

* Includes MT Office Portfolio

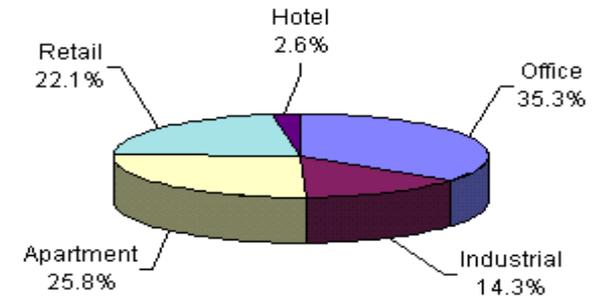
Timberland is a recent addition to the real estate portfolio and represents approximately 6.0% of to the total portfolio's NAV and 9% of the aggregate exposure which includes unfunded commitments. Core real estate dominates assets in ground at 43% and now includes the directly owned Montana office buildings. Value Added and Opportunistic account for 30.3% and 20.7% respectively.

Q4 2011 Property Type – Market Value Exposure

Montana United States Portfolio¹



NCREIF Index



	Office	Industrial	Apartment	Retail	Hotel	Other ²	Total
Montana US Value ³	\$297.0	\$78.3	\$273.7	\$90.8	\$42.6	\$107.6	\$889.9
Montana US Total	33.4%	8.8%	30.8%	10.2%	4.8%	12.1%	100.0%
NCREIF Value ^{3,4}	100,058	40,554	73,167	62,568	7,416		\$283,762
NCREIF	35.3%	14.3%	25.8%	22.1%	2.6%		100.0%
Difference	-1.9%	-5.5%	5.0%	-11.9%	2.2%	12.1%	
Montana Non-US Value ³	\$45.2	\$0.0	\$10.5	\$10.6	\$14.2	\$68.9	\$149.4
Montana Non-US Total	30.2%	0.0%	7.0%	7.1%	9.5%	46.1%	100.0%
Montana Total Value ³	\$342.1	\$78.3	\$284.2	\$101.5	\$56.8	\$176.5	\$1,039.3
Montana Total ¹	32.9%	7.5%	27.3%	9.8%	5.5%	17.0%	100.0%

1) Diversification percentages are based on the Gross Market Value, which represents the MBOI share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property.

2) Total Other includes \$119,571,325 in mixed-use assets, \$9,508,987 in healthcare/senior living, \$11,970,176 in land, \$717,806 in storage, \$2,600,001 in debt assets, \$196,900 in parking, \$695,122 in manufactured assets, and \$31,245,737 in timber.

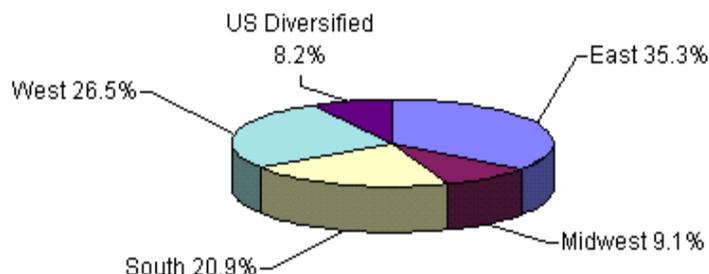
3) Values shown are in Millions.

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.

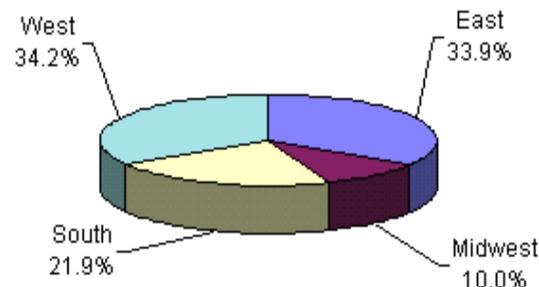
The real estate portfolio is well diversified across the major property types and is underweight relative to NCREIF in Office, Retail and Industrial and overweight in Apartments and Hotels. At 12.1%, Other represents the portfolio's exposure to Timberland, Mixed-Use properties, Land, Manufactured Housing, 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 be primarily 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.

Q4 2011 Geography – Total Exposure

Montana United States Portfolio¹



NCREIF Index



	East	Midwest	South	West	US Diverse	Non-US	Total
Montana US Value ²	\$314.3	\$80.9	\$186.0	\$236.1	\$72.6		\$889.9
Montana US Total ¹	35.3%	9.1%	20.9%	26.5%	8.2%		100.0%
NCREIF Value ^{2,3}	96,930	28,474	62,183	96,175			283,762
NCREIF	34.2%	10.0%	21.9%	33.9%			100.0%
Difference	1.2%	-0.9%	-1.0%	-7.4%	8.2%		
Montana Total Value ²	\$314.3	\$80.9	\$186.0	\$236.1	\$72.6	\$149.4	\$1,039.3
Montana Total ¹	30.2%	7.8%	17.9%	22.7%	7.0%	14.4%	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 at 26.5% is 7.7% less than the benchmark. 8.2% of the portfolio is broadly diversified across the remainder of the US and the portfolio's international exposure represents 14.4% of the mix.

Q4 2011 Time Weighted & Internal Rates of Return

	Time Weighted Returns											
	Current Quarter			Year to Date		1 - Year		3 - Year		Inception		
	NAV	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	
Clarion Lion Properties Fund	33,348,914	2.84%	3.07%	17.79%	18.88%	17.79%	18.88%	-5.56%	-4.51%	-3.01%	-1.98%	
INVESCO Core Real Estate-USA	36,204,708	2.87%	3.10%	15.84%	16.87%	15.84%	16.87%	-3.44%	-2.55%	-3.29%	-2.40%	
JP Morgan Strategic Properties Fund	101,204,028	3.05%	3.30%	15.12%	16.26%	15.12%	16.26%	-1.73%	-0.72%	-1.46%	-0.45%	
UBS-Trumbull Property Fund	59,268,016	2.03%	2.29%	12.01%	13.16%	12.01%	13.16%	-	-	15.04%	16.03%	
Core Total	230,025,666	2.72%	2.98%	14.75%	15.87%	14.75%	15.87%	-3.75%	-2.78%	-0.96%	0.03%	
Montana Office Portfolio	17,960,908	0.00%	0.00%	1.97%	1.97%	-	-	-	-	1.97%	1.97%	
Timberland Total	34,643,532	0.18%	0.40%	5.45%	5.89%	-	-	-	-	5.45%	5.89%	
Value Added Total	174,836,601	3.19%	3.59%	11.57%	13.45%	11.57%	13.45%	-0.54%	1.69%	-0.04%	3.33%	
Opportunistic Total	119,049,904	1.16%	1.62%	16.10%	18.41%	16.10%	18.41%	-11.72%	-7.93%	-20.50%	-16.69%	
Total Portfolio	576,516,611	2.30%	2.63%	13.73%	15.30%	13.73%	15.30%	-4.07%	-2.12%	-2.64%	-0.30%	
Benchmark (gross)												
NCREIF	283,762,441,747		2.96%		14.26%		14.26%		2.43%		9.05%	
NFI-ODCE	77,508,800,000		2.97%		16.00%		16.00%		-1.80%		8.20%	
			Internal Rates of Return (Net of Fees)									
Montana Office Portfolio	17,960,908	0.00%		2.21%		-	-			2.21%		
Molpus Woodlands Fund III, LP	17,964,392	-1.44%		-2.63%		-	-			-2.63%		
RMS Forest Growth III LP	16,679,140	1.68%		6.73%		-	-			6.73%		
Timberland	34,643,532	0.18%		3.65%		-	-			3.65%		
ABR Chesapeake Fund III	19,184,832	7.99%		8.92%		8.92%	1.79%			1.89%		
ABR Chesapeake Fund IV	1,958,662	26.72%		26.07%		26.07%	-			18.59%		
AG Core Plus Realty Fund II	14,360,967	8.53%		16.65%		16.65%	11.69%			6.72%		
AG Core Plus Realty Fund III	5,157,067	0.53%		-1.87%		-	-			-1.87%		
Apollo Real Estate Finance Corp.	6,611,413	-5.04%		-6.64%		-6.64%	-7.12%			-5.73%		
AREFIN Co-Invest	6,722,501	0.06%		5.53%		5.53%	-2.83%			-1.74%		
DRA Growth & Income Fund VI	21,214,298	1.01%		30.88%		30.88%	9.37%			6.00%		
DRA Growth & Income Fund VII ¹	715,599	-0.61%		-0.61%		-	-			-0.61%		
Five Arrows Securities V, L.P.	20,536,483	6.43%		15.85%		15.85%	9.73%			8.04%		
Hudson RE Fund IV Co-Invest	9,840,611	0.93%		5.95%		5.95%	0.38%			0.64%		
Hudson Realty Capital Fund IV	10,486,379	2.54%		7.15%		7.15%	-4.05%			-7.36%		
Landmark Real Estate Partners VI	9,018,454	4.95%		58.87%		-	-			58.87%		
Realty Associates Fund IX	19,635,349	2.95%		13.35%		13.35%	0.00%			12.10%		
Realty Associates Fund VIII	13,723,868	1.43%		5.14%		5.14%	-7.58%			-7.28%		
Strategic Partners Value Enhancement Fund	15,670,119	-1.75%		10.62%		10.62%	-7.63%			-3.38%		
Value Added	174,836,601	3.18%		13.30%		13.30%	1.53%			0.64%		
AG Realty Fund VII L.P.	13,444,417	6.24%		13.41%		13.41%	14.22%			9.21%		
AG Realty Fund VIII L.P.	4,479,330	2.29%		-2.45%		-	-			-2.45%		
Beacon Capital Strategic Partners V	9,931,023	-2.03%		17.04%		17.04%	-6.96%			-17.86%		
Carlyle Europe Real Estate Partners III	17,149,942	0.28%		11.11%		11.11%	4.70%			-5.25%		
CIM Fund III, L.P.	20,165,311	-0.43%		20.86%		20.86%	2.20%			-2.24%		
GEM Realty Fund IV	4,616,817	0.16%		-2.33%		-2.33%	-			5.48%		
JER Real Estate Partners - Fund IV	3,402,912	0.36%		50.64%		50.64%	3.38%			-6.49%		
Liquid Realty IV	12,587,216	0.00%		14.83%		14.83%	-6.10%			-6.68%		
MGP Asia Fund III, LP	19,096,241	1.60%		21.79%		21.79%	5.55%			0.99%		
MSREF VI International	6,149,972	1.97%		5.57%		5.57%	-25.55%			-36.83%		
O'Connor North American Property Partners II	8,026,723	1.73%		0.90%		0.90%	-4.61%			-22.56%		
Opportunistic	119,049,904	1.07%		15.32%		15.32%	-1.49%			-10.45%		
Total	346,490,945	1.98%		13.00%		12.99%	0.48%			-4.04%		

1) This investment was committed to in Q2 2011, but its first cash flow did not occur until Q4 2011. As a result, the IRR commences this quarter and the TWR will commence in Q1 2012.

The total real estate portfolio turned in another positive quarter as general real estate market conditions continue to stabilize and show some signs of improvement. Core performance moderated slightly relative to the prior quarter, though it continues its positive momentum. Value Added slightly underperformed relative to Q3, but continues its upward trajectory toward an overall positive net return. Opportunistic experienced a significant bounce through the period ending 12/31/11.

Q4 2011 Commitment Summary

	Since Inception									
	Vintage Year	Commitment	Capital Contributed ¹	Remaining Commitment	Capital Distributed	Net Asset Value	NAV %	Total Exposure	Total Exposure%	Investment Multiple
Core		238,236,254	238,236,254	-	17,695,960	230,025,666	39.90%	230,025,666	29.17%	1.02
Clarion Lion Properties Fund	2006	48,236,254	48,236,254	-	8,351,124	33,348,914	5.78%	33,348,914	4.23%	0.84
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	-	4,356,261	36,204,708	6.28%	36,204,708	4.59%	0.88
JP Morgan Strategic Property Fund	2007	95,000,000	95,000,000	-	1,759,599	101,204,028	17.55%	101,204,028	12.83%	1.06
UBS-Trumbull Property Fund	2010	50,000,000	50,000,000	-	3,228,976	59,268,016	10.28%	59,268,016	7.52%	1.23
Montana Office Portfolio	2011	17,674,045	17,674,045	-	103,160	17,960,908	3.12%	17,960,908	2.28%	1.02
Timberland		75,000,000	37,622,553	37,377,447	3,944,373	34,643,532	6.01%	72,020,979	9.13%	1.03
Molpus Woodlands Fund III, LP	2011	50,000,000	18,250,000	31,750,000	-	17,964,392	3.12%	49,714,392	6.30%	0.98
RMS Forest Growth III LP	2011	25,000,000	19,372,553	5,627,447	3,944,373	16,679,140	2.89%	22,306,587	2.83%	1.06
Value Added		301,200,000	195,349,342	105,850,658	25,982,070	174,836,601	30.33%	280,687,260	35.59%	1.02
ABR Chesapeake Fund III	2006	20,000,000	20,000,000	-	2,263,438	19,184,832	3.33%	19,184,832	2.43%	1.07
ABR Chesapeake Fund IV	2010	17,000,000	1,700,000	15,300,000	181,050	1,958,662	0.34%	17,258,662	2.19%	1.26
AG Core Plus Realty Fund II	2007	20,000,000	16,742,334	3,257,666	5,349,260	14,360,967	2.49%	17,618,633	2.23%	1.18
AG Core Plus Realty Fund III	2011	25,000,000	5,250,000	19,750,000	-	5,157,067	0.89%	24,907,067	3.16%	0.98
Apollo Real Estate Finance Corp.	2007	10,000,000	10,000,000	-	1,891,996	6,611,413	1.15%	6,611,413	0.84%	0.85
AREFIN Co-Invest	2008	10,000,000	10,000,000	-	3,005,891	6,722,501	1.17%	6,722,501	0.85%	0.97
DRA Growth & Income Fund VI	2007	35,000,000	20,860,000	14,140,000	5,073,067	21,214,298	3.68%	35,354,298	4.48%	1.16
DRA Growth & Income Fund VII	2011	30,000,000	720,000	29,280,000	-	715,599	0.12%	29,995,599	3.80%	0.99
Five Arrows Securities V, L.P.	2007	30,000,000	20,886,148	9,113,852	3,320,457	20,536,483	3.56%	29,650,335	3.76%	1.13
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	-	390,001	9,840,611	1.71%	9,840,611	1.25%	1.02
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	-	447,674	10,486,379	1.82%	10,486,379	1.33%	0.73
Landmark Real Estate Partners VI	2011	20,000,000	6,590,860	13,409,140	188,414	9,018,454	1.56%	22,427,594	2.84%	1.39
Realty Associates Fund IX	2008	20,000,000	18,400,000	1,600,000	1,491,072	19,635,349	3.41%	21,235,349	2.69%	1.15
Realty Associates Fund VIII	2007	20,000,000	20,000,000	-	1,209,346	13,723,868	2.38%	13,723,868	1.74%	0.75
Strategic Partners Value Enhancement Fund	2007	19,200,000	19,200,000	-	1,170,405	15,670,119	2.72%	15,670,119	1.99%	0.88
Opportunistic		248,008,422	181,619,119	68,889,304	22,504,285	119,049,904	20.65%	187,939,207	23.83%	0.76
AG Realty Fund VII L.P.	2007	20,000,000	15,454,000	4,546,000	4,973,418	13,444,417	2.33%	17,990,417	2.28%	1.19
AG Realty Fund VIII L.P.	2011	20,000,000	6,000,000	14,000,000	1,400,000	4,479,330	0.78%	18,479,330	2.34%	0.98
Beacon Capital Strategic Partners V	2007	25,000,000	20,500,000	4,500,000	782,861	9,931,023	1.72%	14,431,023	1.83%	0.52
Carlyle Europe Real Estate Partners III ²	2007	30,994,690	19,266,426	11,728,264	21,556	17,149,942	2.97%	28,878,205	3.66%	0.88
CIM Fund III, L.P.	2007	25,000,000	19,158,560	5,841,440	202,748	20,165,311	3.50%	26,006,751	3.30%	0.97
GEM Realty Fund IV	2009	15,000,000	4,800,000	10,200,000	443,992	4,616,817	0.80%	14,816,817	1.88%	1.04
JER Real Estate Partners - Fund IV	2007	20,000,000	16,853,466	3,146,534	9,757,652	3,402,912	0.59%	6,549,446	0.83%	0.78
Liquid Realty IV	2007	22,013,732	18,971,804	3,041,928	4,186,142	12,587,216	2.18%	15,629,144	1.98%	0.82
MGP Asia Fund III, LP	2007	30,000,000	18,647,200	11,352,800	35,146	19,096,241	3.31%	30,449,041	3.86%	1.03
MSREF VI International ³	2007	25,000,000	27,500,000	-	17,313	6,149,972	1.07%	6,149,972	0.78%	0.22
O'Connor North American Property Partners II	2008	15,000,000	14,467,662	532,338	683,457	8,026,723	1.39%	8,559,061	1.09%	0.58
Montana Real Estate		880,118,721	670,501,312	212,117,409	70,229,848	576,516,611		788,634,020		0.95

1) Capital contributed does not include contributions for expenses outside of the commitment amounts.

2) Carlyle Europe III's Commitment amount is converted to USD by using the EUR exchange rate from 10/9/2007, the date Montana committed to the fund. The current unfunded capital is based on this figure less the cumulative USD activity.

3) Morgan Stanley has the ability to call a 10% reserve from the investors. The full reserve, \$2.5 million, was called on 5/21/2009.

No new managers were added in the quarter.

MONTANA DOMESTIC EQUITY POOL

Rande Muffick, CFA, Portfolio Manager

May 22, 2012

3/31/2012 Domestic Stock Pool By Manager			
<u>Manager Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved</u> <u>Range</u>
BLACKROCK EQUITY INDEX FUND	688,890,457	22.84%	
STATE STREET SPIF ALT INV	10,772,538	0.36%	
LARGE CAP CORE Total	699,662,994	23.19%	10-30%
ENHANCED INVEST TECHNOLOGIES	196,495,291	6.51%	
T ROWE PRICE ASSOCIATES INC	319,069,827	10.58%	
WESTERN ASSET US INDX PLUS LLC	174,889,037	5.80%	
LARGE CAP ENHANCED Total	690,454,155	22.89%	20-30%
BARROW HANLEY MEWHINNEY + STRS	208,769,612	6.92%	
QUANTITATIVE MANAGEMENT ASSOC	131,617,039	4.36%	
LARGE CAP VALUE Total	340,386,651	11.28%	
COLUMBUS CIRCLE INVESTORS	160,449,270	5.32%	
RAINIER INVESTMENT MGMNT INC	157,455,738	5.22%	
LARGE CAP GROWTH Total	317,905,008	10.54%	
LARGE CAP STYLE BASED	658,291,659	21.82%	20-30%
ANALYTIC INVESTORS MU3B	125,894,792	4.17%	
JP MORGAN ASSET MGMT MU3E	351,932,333	11.67%	
130-30 Total	477,827,125	15.84%	10-20%
COMBINED LARGE CAP Total	2,526,235,933	83.74%	82-92%
ARTISAN MID CAP VALUE	114,628,868	3.80%	
BLACKROCK MIDCAP EQUITY IND FD	97,538,846	3.23%	
TIMESQUARE CAPITAL MGMT	113,957,019	3.78%	
MID CAP Total	326,124,732	10.81%	5-11%
DIMENSIONAL FUND ADVISORS INC	73,491,806	2.44%	
ISHARES S+P SMALLCAP 600 INDEX	16,963,713	0.56%	
VAUGHAN NELSON INV	73,906,379	2.45%	
SMALL CAP Total	164,361,898	5.45%	3-8%
MDEP Total	3,016,722,563	100.00%	

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

U.S. equity markets continued the solid and steady rally which began in the fourth quarter, producing broad double digit returns to start 2012. Economically sensitive stocks led the way as financials, technology, consumer discretionary, industrials, and materials were the top performing sectors. A reduction in macro risks and stronger U.S. economic data were the catalysts.

COMPARATIVE RETURNS

Range 12/30/11 - 3/30/12 Period Daily 91 Day Period

Securities	Crcny	Prc Appr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	12.00 %	12.59 %	-.91 %	60.89 %
2 MID Index	USD	13.10 %	13.50 %		66.16 %
3 SML Index	USD	11.66 %	11.99 %	-1.51 %	57.48 %

(* = No dividends or coupons)



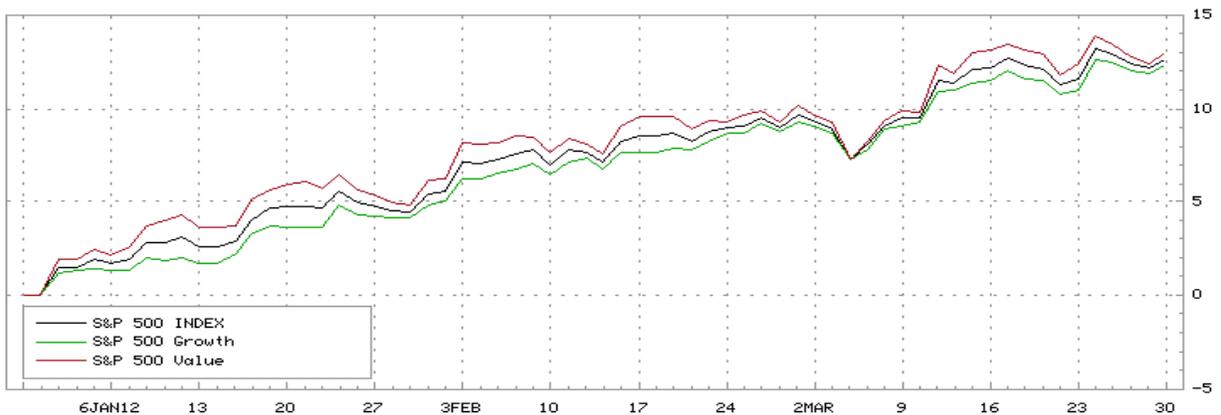
Performance among market capitalizations showed the broad nature of the advance. Mid caps led the way with a return of 13.5%, followed closely by large caps at 12.6% and small caps at 12.0%. MDEP continued to be most overweight in mid caps with a moderate overweight in small caps relative to the overall pool benchmark, the S&P 1500. This positioning provided a boost to the relative performance of the pool in the quarter.

COMPARATIVE RETURNS

Range 12/30/11 - 3/30/12 Period Daily 91 Day Period

Securities	Crcny	Prc Appr	Total Ret	Difference	Annual Eq
1 SPX Index	USD	12.00 %	12.59 %	.32 %	60.89 %
2 SGX Index	USD	11.75 %	12.27 %		59.05 %
3 SVX Index	USD	12.28 %	12.97 %	.70 %	63.08 %

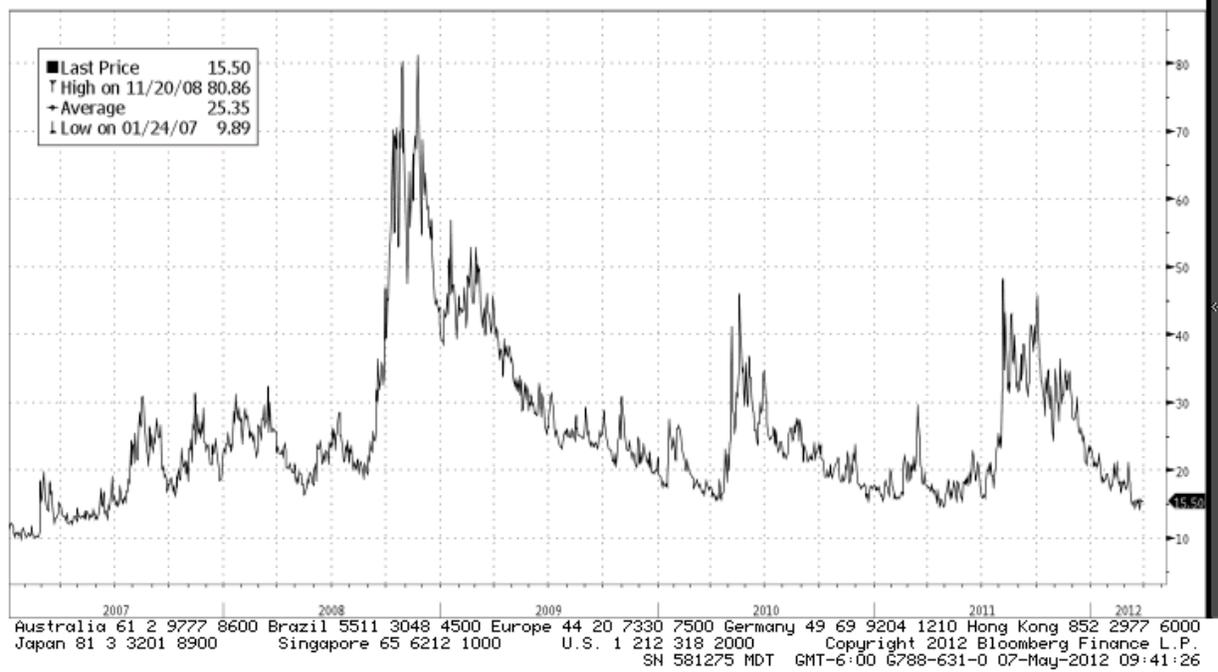
(* = No dividends or coupons)



Value and growth performed similarly within the S&P 500 Index with returns of 12.9% and 12.3% respectively. MDEP carries slightly more value than growth within the pool so this positioning added slightly to relative performance for the quarter.

VIX ↓ 19.26 +.10 m Index GP
 DELAY 9:26 Op 19.80 Hi 19.87 Lo 19.15 Prev 19.16
 VIX INDEX Save Chart Hide GP - Line Chart Page 1/32

Range 01/03/07 - 03/30/12 Upper Line Chart Mov. Avgs Currency USD
 Period Daily Lower None Mov. Avg Events



The volatility index reached a low of 14 near the end of the quarter, a level not seen since 2007. Complacency definitely is evident in this reading, and the returns of the first quarter, while encouraging, may be the best the market has to offer for the calendar year. The market is still attractive on valuation, but slowing profitability growth and the presidential election may cause the market to pull back some and then mark time until near the end of the calendar year.

Active management within the pool did well in the quarter. Large cap enhanced, large cap partial long/short, large cap growth, large cap value and small cap style buckets outperformed while the mid cap allocation underperformed. This was the first quarter in three where active management provided superior returns. Overall MDEP outperformed its benchmark by 70 basis points in the quarter. For the fiscal year to date the pool still lags its benchmark by 94 basis points.

Going forward the passive weight within the large cap allocation is expected to increase and further diversification of the actively managed portfolios within the mid cap and small cap allocations is likely. The overweight in mid caps and small caps will continue and could be increased should the markets provide an opportunity.

DOMESTIC EXPOSURE-MARKET CAP %

March 31, 2012

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	18.4	14.5	8.9	25.1	21.7	19.6	-9.8	-0.4	107.1
Artisan Partners	--	--	--	--	36.4	61.7	1.9	--	7.8
Barrow Hanley	5.2	15.2	10.5	23.2	20.4	23.9	1.4	--	54.9
Columbus Circle Investors	7.7	10.9	17.3	37.1	17.4	9.5	--	--	86.4
Dimensional Fund Advisors	--	--	--	--	--	4.2	74.4	21.4	1.2
INTECH Investment Management	14.4	13.3	8.4	22.2	23.6	17.9	0.3	--	89.5
J.P. Morgan	11.9	23.7	15.6	30.3	13.5	3.9	-0.6	--	112.4
Quantitative Management	9.5	23.2	12.2	21.3	15.7	15.7	2.4	--	78.3
Rainier Investment Mgt	7.1	13.1	10.4	30.0	24.3	15.1	--	--	81.1
T. Rowe Associates	15.5	20.2	15.9	21.4	17.2	9.5	0.1	--	109.7
TimesSquare Cap Mgmt	--	--	--	5.2	20.8	68.7	5.3	--	7.9
Vaughan Nelson Mgmt	--	--	--	--	--	33.8	64.5	1.8	2.2
Western Asset US Index Plus	15.6	20.3	16.0	23.4	15.4	9.2	0.1	--	109.3
BlackRock S&P 500 Index Fund	15.6	20.2	15.9	23.3	15.3	9.2	0.1	--	109.5
BlackRock Midcap Equity Index Fund	--	--	--	--	1.6	74.4	24.4	--	4.0
ALL DOMESTIC EQUITY PORTFOLIOS	10.9	15.6	11.8	21.4	16.8	17.9	4.6	0.6	83.9
Benchmark: S&P Composite 1500	13.7	17.9	14.1	20.7	13.7	14.5	5.0	0.4	96.8
Over/underweight(-)	-2.9	-2.3	-2.3	0.7	3.1	3.4	-0.4	0.3	

DOMESTIC EXPOSURE-SECTOR %

March 31, 2012

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	16.1	10.4	11.0	13.6	13.0	3.6	20.4	4.2	1.9	4.3
Artisan Partners	8.0	5.1	9.8	22.0	3.2	20.0	28.9	--	--	3.0
Barrow Hanley	7.5	8.6	9.7	25.8	15.9	15.7	10.1	1.0	2.4	3.4
Columbus Circle Investors	23.6	5.0	6.7	6.8	9.0	10.6	34.7	3.5	--	--
Dimensional Fund Advisors	16.6	5.3	4.4	14.8	10.4	19.3	19.2	5.3	0.8	3.7
INTECH Investment Management	14.8	13.7	12.5	8.6	11.2	7.7	16.1	4.5	3.2	7.6
J.P. Morgan	15.6	6.9	12.2	15.2	12.6	9.0	19.4	3.7	2.3	1.4
Quantitative Management	8.3	8.1	12.4	23.2	17.2	7.7	10.6	2.0	4.3	6.2
Rainier Investment Mgt	15.4	10.5	7.2	7.2	11.9	9.4	33.9	4.6	--	--
T. Rowe Associates	12.5	9.6	11.8	14.7	11.5	11.1	19.9	3.3	2.7	2.8
TimesSquare Cap Mgmt	16.1	4.4	8.3	10.3	11.3	17.1	26.1	3.2	3.2	--
Vaughan Nelson Mgmt	12.1	2.0	4.2	25.6	6.4	22.4	16.9	8.7	--	1.7
Western Asset US Index Plus	10.9	10.8	11.2	14.9	11.4	10.6	20.5	3.5	2.8	3.4
BlackRock S&P 500 Index Fund	11.0	10.8	11.3	14.8	11.5	10.5	20.5	3.5	2.7	3.3
BlackRock Midcap Equity Index Fund	13.5	4.1	6.0	20.6	10.4	17.0	16.6	6.5	0.5	5.1
All Domestic Equity Portfolios	13.0	8.8	10.3	15.3	11.6	11.4	20.5	3.5	2.1	3.0
Benchmark: S&P Composite 1500	11.3	10.0	10.6	15.6	11.3	11.3	20.2	3.8	2.5	3.5
Over/underweight(-)	1.7	-1.2	-0.3	-0.3	0.3	0.2	0.4	-0.2	-0.4	-0.5

DOMESTIC PORTFOLIO CHARACTERISTICS

March 31, 2012

MANAGERS

	Market Value (mm)	Number of Securities	3Yr Historical EPS Growth	Price/Earnings	Price/Book	Dividend Yield
Analytic Investors, Inc	127.6	189	16.6	10.7	2.0	1.6
Artisan Partners	114.7	56	3.9	13.9	1.7	1.8
Barrow Hanley	209.3	84	10.0	12.9	1.7	2.5
Columbus Circle Investors	161.5	59	29.0	16.0	3.8	1.0
Dimensional Fund Advisors	73.3	2,431	18.0	16.4	1.8	1.1
INTECH Investment Management	196.6	388	13.0	15.9	2.6	2.1
J.P. Morgan	355.6	257	11.5	15.5	2.0	1.8
Quantitative Management	131.8	154	5.4	12.6	1.6	2.5
Rainier Investment Mgt	157.7	76	24.7	21.9	4.1	0.7
T. Rowe Associates	319.4	276	15.6	15.5	2.3	1.8
TimesSquare Cap Mgmt	113.9	79	26.1	19.5	3.0	0.7
Vaughan Nelson Mgmt	74.0	78	12.5	15.7	1.7	1.3
Western Asset US Index Plus	174.9	500	14.3	15.2	2.3	2.0
Blackrock Equity Index Fund	692.1	502	14.3	15.2	2.3	2.0
Blackrock Midcap Equity Index Fund	106.6	402	14.0	18.7	2.1	1.4

All Domestic Equity Portfolios

3,036.8	3,338	14.8	15.2	2.2	1.8
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BENCHMARKS

S&P Composite 1500	1,500	14.3	15.5	2.2	1.9
S&P/Citigroup 1500 Pure Growth	378	29.7	19.6	3.3	0.7
S&P/Citigroup 1500 Pure Value	361	2.8	13.0	1.0	1.4
S&P 500	500	14.3	15.2	2.3	2.0
Russell 1000	977	14.5	15.3	2.2	1.9
Russell 1000 Growth	585	21.6	16.9	4.0	1.4
Russell 1000 Value	654	7.1	14.0	1.5	2.4
Russell Midcap	779	14.1	17.7	2.1	1.6
Russell Midcap Growth	463	19.8	20.2	3.7	1.0
Russell Midcap Value	525	8.3	15.6	1.5	2.2
Russell 2000	1,941	16.8	17.2	1.8	1.4
Russell 2000 Growth	1,145	22.3	20.0	3.1	0.7
Russell 2000 Value	1,339	11.3	15.0	1.3	2.2

MONTANA INTERNATIONAL EQUITY POOL

Rande Muffick, CFA, Portfolio Manager

May 22, 2012

3/31/2012 International Stock Pool By Manager			
<u>Manager Name</u>	<u>Market Value</u>	<u>%</u>	<u>Approved</u> <u>Range</u>
ARTIO GLOBAL	29,854	0.00%	
BATTERYMARCH INTL EQUITY	112,253,732	8.40%	
BLACKROCK GL EX US ALPHA TILT	105,698,664	7.91%	
BLACKROCK ACWI EX US SUPERFUND	603,237,134	45.16%	
BLACKROCK MSCI EM MKT FR FD B	26,970,704	2.02%	
EAFE STOCK PERFORMANCE INDEX	9,068,440	0.68%	0-10%
CORE Total	857,258,528	64.17%	50-70%
ACADIAN ACWI EX US VALUE	89,010,591	6.66%	
BERNSTEIN ACWI EX	100,611,252	7.53%	
VALUE Total	189,621,843	14.20%	10-20%
HANSBERGER INTL EQUITY GROWTH	101,488,216	7.60%	
MARTIN CURRIE ACWI X	100,531,073	7.53%	
GROWTH Total	202,019,289	15.12%	10-20%
BLACKROCK ACWI EX US SMALL CAP	22,175,535	1.66%	
DFA INTL SMALL CO PORTFOLIO	64,755,031	4.85%	
SMALL CAP Total	86,930,565	6.51%	5-15%
MTIP Total	1,335,830,225	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.

International stock markets began the year very much in a positive fashion as equities rose strongly in the first quarter. After encouraging signs in the final quarter of 2011, investors continued their gradual move to riskier assets including equities during the period. Equity markets were buoyed by the improving outlook for the U.S. economy, specifically evidenced in manufacturing and employment data. In addition, further efforts by central banks throughout the world to support economic growth along with the avoidance of a European debt collapse boosted investor confidence in equity markets that offered attractive valuations.

Germany led the broad advance of international stocks with a 20.3% return for the quarter along with India at 21.2%, the Philippines at 20.1% and Thailand at 20.5%. The Spanish market was the only one that failed to provide positive returns for the quarter as macro concerns within Spain weighed on the IBEX 35 Index.

COMPARATIVE RETURNS

Range **12/30/11** - **3/30/12** Period **D** Daily 91 Day Period

Securities	Crcncy	Prc Appr	Total Ret	Difference	Annual Eq
1 MXEA Index	USD	9.98 %	11.00 %	-2.99 %	51.98 %
2 MXEF Index	USD	13.65 %	13.99 %		69.09 %
3 MXEASC Index	USD	14.16 %	15.00 %	1.00 %	75.15 %

(* = No dividends or coupons)



Small cap stocks and emerging market stocks provided the most robust gains in the quarter as investors were willing to take more risk and favored the areas that offer higher growth prospects. Developed market small caps returned 15.0% for the quarter followed by emerging market stocks at 14.0% and developed market large caps at 11.0%. MTIP is underweight small caps when compared to the custom benchmark while being overweight emerging market stocks. The overweight in EM is noteworthy, as our actively managed portfolios saw an increase in purchases of these stocks in the quarter. As a result the pool is overweight EM by the largest amount since inception of the current benchmark.

Growth stocks outperformed value stocks in the quarter, returning 11.8% compared to 10.7% for value. Still it was a rather broad advance as shown by double digit performance in both styles. MTIP has a slight growth tilt at the present time.

DX ↑ **78.786** +.077 Y / Currency**GP**
 DELAY 8:19 Op 78.757 Hi 78.918 Lo 78.638 Prev 78.709

DX CURRENCY Save Chart Hide GP - Line Chart Page 1/7

Range 03/31/11 - 03/30/12 Upper Market Pric Mov. Avgs Currency USD
 Period Daily Lower None Mov. Avg Events



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2012 Bloomberg Finance L.P.
 SN 581275 MDT GMT-6:00 6788-631-2 30-Apr-2012 08:29:15

For the most part, a slightly weaker dollar in the quarter bucked the trend seen during the last twelve months and added modestly to returns of investments in foreign currencies.

Active management within the pool did well in the quarter. Large cap growth, large cap value, and small cap outperformed while large cap core underperformed. Overall MTIP outperformed its benchmark by 37 basis points in the quarter. For the fiscal year to date the pool still lags its benchmark by 76 basis points.

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

INTERNATIONAL EXPOSURE-MARKET CAP %

March 31, 2012

Managers	MEGA	GIANT	LARGE			MID	SMALL	MICRO	WTD AVG
	\$200B+	\$100-\$200B	\$50-\$100B	\$20-\$50B	\$10-\$20B	\$2.5-\$10B	\$500MM-\$2.5B	< \$500MM	MARKET CAP (\$B)
Acadian Asset Management	1.9	12.0	18.5	16.4	14.7	17.0	12.3	7.3	33.8
Batterymarch Financial Mgmt	1.1	10.7	15.5	17.2	18.3	33.3	4.0	--	33.3
Bernstein Inv Mgt & Research with look throughs	0.9	19.1	16.3	17.3	20.7	21.5	4.0	--	47.9
BlackRock Global Ex US Alpha Tilt Fd	1.3	9.7	20.9	18.0	14.0	26.7	8.4	1.0	32.6
DFA International Small Cap	--	--	--	--	--	18.2	61.3	20.4	1.2
Hansberger Global Investors	--	10.4	17.7	32.6	14.5	18.5	6.3	--	33.5
Martin Currie with look throughs	3.0	7.1	17.0	32.5	24.9	14.6	1.0	--	41.0
BlackRock ACWI Ex US Superfund A	1.8	10.8	19.3	25.4	18.1	21.8	2.2	0.7	37.4
BlackRock Intl Small Cap Index look through	--	--	--	--	--	15.2	66.9	17.8	1.1
BlackRock Emerging Market Fund look through	1.8	6.7	12.8	20.6	22.8	28.9	6.1	0.3	20.3
ALL INTERNATIONAL EQUITY PORTFOLIOS	1.5	10.3	17.2	22.3	16.8	21.8	7.9	1.8	36.1
International Custom Benchmark	1.8	10.7	19.1	25.3	18.0	21.9	3.0	0.2	36.9
Over/underweight(-)	-0.3	-0.4	-1.9	-3.0	-1.1	-0.2	4.9	1.6	

INTERNATIONAL EXPOSURE-SECTOR %

March 31, 2012

MANAGERS

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	11.3	1.3	18.5	29.9	3.9	8.9	6.5	8.3	8.7	2.6
Batterymarch Financial Mgmt	9.7	7.2	10.0	26.4	7.0	10.7	6.7	12.3	6.4	3.5
Bernstein Inv Mgt & Research with look throughs	10.7	6.7	11.0	24.8	5.6	7.2	10.7	9.2	7.5	6.4
Blackrock Global Ex US Alpha Tilt Fd	10.4	9.1	10.4	21.5	6.8	12.2	7.1	11.8	6.6	3.2
DFA International Small Cap	18.6	6.5	6.4	13.2	5.0	25.0	9.2	12.5	1.2	2.2
Hansberger Global Investors	14.5	11.2	6.7	14.2	5.9	11.9	14.8	13.3	5.4	2.2
Martin Currie with look throughs	14.1	11.6	12.9	13.1	6.4	9.5	8.9	14.9	4.8	3.8
Blackrock ACWI ex-US Superfund	9.5	9.7	11.2	23.7	6.6	10.6	6.7	11.5	5.9	3.9
BlackRock Intl Small Cap Index look through	16.9	6.3	6.7	17.9	4.9	19.8	9.6	13.3	1.0	2.4
BlackRock Emerging Market Fund look through	7.9	8.0	13.9	23.8	1.0	6.6	13.9	12.9	8.0	3.7
All International Equity Portfolios	10.9	8.8	11.0	22.2	6.2	11.2	8.1	11.7	5.9	3.7
International Custom Benchmark	9.6	9.8	11.2	23.8	6.7	10.8	6.8	11.6	5.8	3.9
Over/underweight(-)	1.3	-1.0	-0.2	-1.6	-0.5	0.4	1.3	0.1	0.0	-0.3

INTERNATIONAL PORTFOLIO CHARACTERISTICS

March 31, 2012

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/Earnings	Price/Book	Dividend Yield
International Accounts with look throughs	1,335.9	8,991	--	11.7	1.4	3.00

International Equity Managers

Acadian Asset Management	88.8	399	20.0	9.3	1.0	3.52
Batterymarch Financial Mgmt	112.2	257	17.5	10.6	1.5	3.41
Bernstein Inv Mgt & Research with look throughs	100.7	206	--	10.6	1.1	2.31
BlackRock Global Ex US Alpha Tilt Fd	105.7	867	19.6	10.8	1.4	3.40
DFA International Small Cap	64.7	4,731	7.5	13.0	1.0	2.77
Hansberger Global Investors	101.4	60	19.6	15.1	2.2	2.07
Martin Currie with look throughs	101.0	66	17.7	14.2	1.9	2.46
BlackRock ACWI Ex US Superfund A	603.2	1,876	11.9	12.2	1.5	3.35
BlackRock Intl Small Cap Index look through	22.2	4,511	13.7	13.1	1.2	2.80
BlackRock Emerging Market Fund look through	27.0	831	23.9	11.2	1.7	2.70

Benchmarks

MSCI All Country World Ex-United States		1,844	12.0	12.2	1.5	3.35
MSCI All Country World Ex-United States Growth		1,048	16.7	15.0	2.1	2.37
MSCI All Country World Ex-United States Value		1,021	7.4	10.3	1.1	4.35
MSCI EAFE Small Cap		2,343	10.3	13.5	1.2	2.84
MSCI World Ex-United States Small Cap		2,583	10.7	13.5	1.2	2.83
MSCI All Country Pacific		932	12.3	13.4	1.4	2.89
MSCI Europe		449	10.7	11.5	1.5	3.99

INTERNATIONAL EQUITY
Region and Market Exposure
March 31, 2012

Developed Countries	Aggregate	International		3 Month	FYTD	Calendar	1 yr
	Int'l Portfolio	Custom Benchmark					
	Weight (%)	Weight	difference	Return	Return	YTD Return	Return
Asia/Pacific	24.2%	23.7%	0.46%				
Australia	5.41%	5.74%		8.3%	-9.6%	8.3%	-15.5%
Hong Kong	1.82%	1.94%		13.1%	-6.6%	13.1%	-10.7%
Japan	15.57%	14.74%		9.7%	-1.6%	9.7%	1.8%
New Zealand	0.10%	0.09%		12.0%	-0.7%	12.0%	1.8%
Singapore	1.31%	1.23%		19.1%	-6.7%	19.1%	-10.1%
European Union	21.2%	22.1%	-0.86%				
Austria	0.27%	0.18%		15.7%	-26.7%	15.7%	-30.6%
Belgium	0.74%	0.70%		18.1%	-5.0%	18.1%	-11.5%
Denmark	0.88%	0.76%		17.5%	-5.6%	17.5%	-12.0%
Finland	0.52%	0.60%		16.7%	-17.1%	16.7%	-27.5%
France	5.74%	6.25%		12.6%	-19.8%	12.6%	-22.0%
Germany	5.95%	5.83%		20.3%	-14.0%	20.3%	-16.7%
Greece	0.08%	0.06%		10.0%	-54.4%	10.0%	-58.9%
Ireland	0.20%	0.20%		14.8%	1.9%	14.8%	0.2%
Italy	1.67%	1.58%		9.6%	-25.5%	9.6%	-32.8%
Netherlands	1.60%	1.67%		9.7%	-11.2%	9.7%	-17.6%
Portugal	0.15%	0.14%		2.4%	-29.5%	2.4%	-33.2%
Spain	1.58%	1.95%		-3.7%	-29.3%	-3.7%	-33.0%
Sweden	1.85%	2.17%		13.4%	-8.7%	13.4%	-15.2%
Non-EU Europe	5.8%	6.4%	-0.66%				
Norway	0.92%	0.67%		16.2%	-4.4%	16.2%	-12.7%
Switzerland	4.87%	5.78%		9.5%	-7.2%	9.5%	-7.7%
North America	6.9%	8.1%	-1.16%				
Canada	6.91%	8.07%		5.8%	-10.7%	5.8%	-15.6%
USA	0.00%	0.0%		12.4%	5.7%	12.4%	2.9%
United Kingdom	15.8%	15.2%	0.57%				
United Kingdom	15.80%	15.24%		7.9%	-3.4%	7.9%	-7.8%
Other							
Other	0.56%	0.43%					
DEVELOPED TOTAL	74.49%	76.02%	-1.53%				
Emerging & Frontier Market Countries							
Asia/Pacific	15.9%	14.1%	1.83%				
China	4.85%	4.12%		10.0%	-13.2%	10.0%	-19.0%
India	1.28%	1.56%		21.2%	-18.8%	21.2%	-22.4%
Indonesia	0.52%	0.66%		5.8%	-1.7%	5.8%	-0.4%
South Korea	5.04%	3.62%		12.9%	-7.7%	12.9%	-11.9%
Malaysia	0.87%	0.81%		7.8%	-2.1%	7.8%	-0.9%
Philippines	0.12%	0.19%		20.1%	17.5%	20.1%	13.7%
Taiwan	2.44%	2.66%		16.1%	-10.4%	16.1%	-14.6%
Thailand	0.82%	0.50%		20.5%	14.2%	20.5%	4.1%
European Union	0.5%	0.5%	0.06%				
Czech Republic	0.16%	0.08%		8.7%	-18.9%	8.7%	-24.0%
Hungary	0.07%	0.07%		21.4%	-34.1%	21.4%	-40.0%
Poland	0.32%	0.34%		18.6%	-28.1%	18.6%	-32.5%
Non-EU Europe	1.4%	1.6%	-0.16%				
Russia	1.41%	1.57%		18.6%	-13.7%	18.6%	-19.3%
Latin America/Caribbean	5.2%	5.5%	-0.32%				
Brazil	3.66%	3.54%		13.7%	-11.7%	13.7%	-16.0%
Chile	0.26%	0.44%		17.8%	-7.7%	17.8%	-9.4%
Colombia	0.16%	0.26%		17.9%	3.8%	17.9%	6.3%
Mexico	1.04%	1.13%		15.6%	-0.1%	15.6%	-2.0%
Peru	0.09%	0.16%		13.5%	19.5%	13.5%	14.5%
Mid East/Africa	1.8%	2.3%	-0.44%				
Egypt	0.06%	0.09%		38.8%	-7.2%	38.8%	-1.5%
Morocco	0.02%	0.03%		4.3%	-11.8%	4.3%	-18.6%
South Africa	1.47%	1.82%		10.4%	-3.7%	10.4%	-8.1%
Turkey	0.29%	0.34%		28.2%	-10.7%	28.2%	-21.5%
Frontier	0.02%	0.00%	0.02%				
Frontier	0.02%	0.00%					
EMERGING & FRONTIER TOTAL	25.0%	24.0%	0.99%				

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: May 22, 2012

Subject: Public Equity External Managers Watch List - Quarterly Update

During the quarter there was one termination. Western Asset, a domestic large cap enhanced equity manager was terminated as staff sought to eliminate the embedded fixed income beta risk that this portfolio carried as part of the domestic equity pool.

MANAGER WATCH LIST

May 2012

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

MEMORANDUM

Montana Board of Investments

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

To: Board Members

From: Cliff Sheets, CFA, Chief Investment Officer
Rande Muffick, CFA, Portfolio Manager – Public Equities

Date: May 22, 2012

Subject: Montana International Equity Pool (MTIP) – Structure Review

The 2012 Work Plan currently calls for a more in-depth discussion of MTIP at the November meeting as part of staff's effort to spend more time on a particular asset class at each meeting in addition to the regular quarterly reporting. Prior to that meeting staff will be reviewing the pool for any possible changes that may be recommended to enhance the structure of the pool.

Similar considerations will be addressed as with the domestic equity pool, including the aspects of active-passive mix, market cap structure, growth and value style exposures, and infrastructure design to allow flexibility within the pool to make periodic adjustments and to accommodate pension liquidity needs.

It should be noted that the international equity pool currently is structured much differently than the domestic equity pool, largely because the markets are so different. The market cap distinctions are fewer, with only large cap and small cap segments. The emerging market exposure is imbedded primarily within the large cap portfolios, both the passive ACWI ex-US commingled fund and the actively managed accounts, though it also exists as a standalone passive exposure to a small extent. Overall, passive exposure is currently quite significant and represents approximately 48% of total pool assets.

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: May 22, 2012

Subject: Relationship with Teachers' Retirement System and Public Employees' Retirement System Boards

Overview

The Board has, as part of its statutory composition, one member who also serves on the Teachers' Retirement System Board and a member who serves on the Public Employees' Retirement System (PERS) Board. On an irregular basis all boards have met in a joint meeting. Staffs from the three boards regularly attend each other's meetings and Board staff, especially the chief investment officer, make at least annual presentations to the retirement boards. Board staff also currently serve on the PERS defined contribution advisory board. In the past, the Governor's Office held joint issue sessions with select members from each of the three boards, however these meetings have not been held in recent years and it is unclear if such meetings will be expected by a new administration.

It is challenging to arrange for a day when members from all three boards are available to meet jointly and all have different regular meeting dates.

Discussion

It would be helpful for staff to hear if members want a more systematic approach to the retirement board relationships. At a minimum, it is suggested that for the quarterly meetings, space be reserved for the two members also serving on the retirement boards to have an opportunity to update the Board and offer suggestions.

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: May 22, 2012
Subject: Draft Investment Consultant Request for Proposal (RFP)

Overview

At its February 2012 meeting, the Board accepted staff's recommendation to continue the services of an investment consultant. Such services are covered under the state's procurement statute and a contract may not extend beyond seven years. The Board's existing contract with its investment consultant, RV Kuhns, must expire in late November, 2012 as it will be the end of the seven year limit.

Draft RFP

Staff members, consisting of the Chief Investment Officer, the Deputy Director, and me have met nearly every week since the February Board meeting to develop the draft RFP. While staff began with the RFP used seven years ago to select the consultant, the current draft reflects staff's best assessment as to an RFP that meets the Board's actual and likely needs. The changes are substantial from the original RFP in nearly every area that the Board has discretion (the RFP contains considerable procurement required language).

Schedule

In order to avoid a break in investment consultant services, the Board needs a fair amount of lead time. Here are recommended task completion items and their respective due date which are currently in the draft RFP.

RFP Issue Date	July 9, 2012
Deadline for Receipt of Written Questions	July 23, 2012
Deadline for Posting Written Responses to the State's Website	July 30 2012
RFP Response Due Date	August 6, 2012
Proposed Investment Consultant Committee Meeting	Week of September 3, 2012
Notification of Offeror Presentation/Interviews	September 10, 2012
Offeror Presentations/Interviews before Full Board	October 5, 2012
Intended Date for Contract Award	October/November 2012

Scope of Work

The draft RFP has the following scope of work topics:

- a. Physical Presence at Board Meetings
- b. Annual Review of Existing Asset Allocation
- c. Provide Quarterly Investment Performance Reports
- d. Advise on Board's Investment Management Structure
- e. Assist in Searches for External Investment Managers
- f. Review Benchmarks for all External Managers, Internally Managed Portfolios and Investment Pools
- g. Expert Testimony
- h. Provide Pricing Studies
- i. Review Investment Guidelines and Policies
- j. Assist in Searches for Custody and Securities Lending Services
- k. Cost Analysis
- l. Proxy Votes
- m. Board and Staff Education
- n. Asset Liability Study or Studies



STATE OF MONTANA REQUEST FOR PROPOSAL (RFP)

RFP Number: 12-2189V	RFP Title: Investment Consulting Services		
RFP Response Due Date and Time: Monday, August 6, 2012 2:00 p.m., Mountain Time	Number of Pages: (insert)	Issue Date: Monday, July 9, 2012	

ISSUING AGENCY INFORMATION	
Procurement Officer: Rick Dorvall	State Procurement Bureau General Services Division Department of Administration Phone: (406) 444-2575 Fax: (406) 444-2529 TTY Users, Dial 711
Website: http://vendor.mt.gov/	

INSTRUCTIONS TO OFFERORS		
Return Sealed Proposal to:		
PHYSICAL ADDRESS: State Procurement Bureau General Services Division Department of Administration Room 165, Mitchell Building 125 North Roberts Street Helena, MT 59601-4588	MAILING ADDRESS: State Procurement Bureau General Services Division Department of Administration P.O. Box 200135 Helena, MT 59620-0135	Mark Face of Envelope/Package with: RFP Number: 12-2189V RFP Response Due Date: August 6, 2012
Special Instructions:		

OFFERORS MUST COMPLETE THE FOLLOWING	
Offeror Name/Address:	<hr/> <p style="text-align: center;">(Name/Title)</p> <hr/> <p style="text-align: center;">(Signature)</p> <p style="font-size: small;">Print name and title and sign in ink. By submitting a response to this RFP, offeror acknowledges it understands and will comply with the RFP specifications and requirements.</p>
Type of Entity (e.g., corporation, LLC, etc.)	Offeror Phone Number:
Offeror E-mail Address:	Offeror FAX Number:

OFFERORS MUST RETURN THIS COVER SHEET WITH RFP RESPONSE

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INSTRUCTIONS TO OFFERORS

It is the responsibility of each offeror to:

Follow the format required in the RFP when preparing your response. Provide responses in a clear and concise manner.

Provide complete answers/descriptions. Read and answer **all** questions and requirements. Proposals are evaluated based **solely** on the information and materials provided in your written response.

Use any forms provided, e.g., cover page, budget form, certification forms, etc.

Submit your response on time. Note all the dates and times listed in the Schedule of Events and within the document. Late proposals are **never** accepted.

**The following items MUST be included in the response.
Failure to include ANY of these items may result in a nonresponsive determination.**

- Signed Cover Sheet**
- Signed Addenda (if appropriate) in accordance with Section 1.4.3**
- Correctly executed State of Montana "Affidavit for Trade Secret Confidentiality" form, if claiming information to be confidential or proprietary in accordance with Section 2.3.1.**
- In addition to a detailed response to all requirements within Sections 3, 4, and 5, offeror must acknowledge that it has read, understands, and will comply with each section/subsection listed below by initialing the line to the left of each. If offeror cannot meet a particular requirement, provide a detailed explanation next to that requirement.**

- _____ Section 1, Introduction and Instructions
- _____ Section 2, RFP Standard Information
- _____ Section 3.1, Overview/Background
- _____ Section 3.2, Minimum Experience/Eligibility Requirements
- _____ Section 3.3, Contractor Service Requirements
- _____ Section 4.1, State's Right to Investigate and Reject
- _____ Section 4.2, Offeror Qualifications
- _____ Section 5.1, Fee for Services
- _____ Section 5.2, Fee Information
- _____ Section 6, Evaluation Process
- _____ Appendix A, Standard Terms and Conditions
- _____ Appendix B, Contract
- _____ Appendix C, Board of Investments' Operations
- _____ Appendix D, Current Investment Managers

SCHEDULE OF EVENTS

<u>EVENT</u>	<u>DATE</u>
RFP Issue Date.....	July 9, 2012
Deadline for Receipt of Written Questions	July 23, 2012
Deadline for Posting Written Responses to the State's Website	July 30 2012
RFP Response Due Date	August 6, 2012
Proposed Investment Consultant Committee Meeting .	Week of September 3, 2012*
Notification of Offeror Presentation/Interviews	September 10, 2012*
Offeror Presentations/Interviews before Full Board.....	October 5, 2012*
Intended Date for Contract Award	October/November 2012*

*The dates above identified by an asterisk are included for planning purposes. These dates are subject to change.

SECTION 1: INTRODUCTION AND INSTRUCTIONS

1.1 INTRODUCTION

The STATE OF MONTANA, Board of Investments ("State) is seeking a contractor to provide investment consulting services. A more complete description of the services to be provided is found in Section 3.

1.2 CONTRACT PERIOD

The contract period is five (5) years, beginning on or around **November 1, 2012**, and ending on or around October 31, 2016. The parties may mutually agree to a renewal of this contract in one-year intervals, or any interval that is advantageous to the State. This contract, including any renewals, may not exceed a total of seven (7) years, at the State's option.

1.3 SINGLE POINT OF CONTACT

From the date this Request for Proposal (RFP) is issued until an offeror is selected and announced by the procurement officer, **offerors shall not communicate with any state staff regarding this procurement, except at the direction of Rick Dorvall**, the procurement officer in charge of the solicitation. Any unauthorized contact may disqualify the offeror from further consideration. Contact information for the single point of contact is:

Procurement Officer: Rick Dorvall
Telephone Number: 406-444-3366
Fax Number: 406-444-2529
E-mail Address: rickdorvall@mt.gov

1.4 REQUIRED REVIEW

1.4.1 Review RFP. Offerors shall carefully review the entire RFP. Offerors shall promptly notify the procurement officer identified above via e-mail or in writing of any ambiguity, inconsistency, unduly restrictive specifications, or error which they discover. In this notice, the offeror shall include any terms or requirements within the RFP that preclude the offeror from responding or add unnecessary cost. Offerors shall provide an explanation with suggested modifications. The notice must be received by the deadline for receipt of inquiries set forth below. The State will determine any changes to the RFP.

1.4.2 Form of Questions. Offerors having questions or requiring clarification or interpretation of any section within this RFP must address these issues via e-mail or in writing to the procurement officer listed above on or before **July 23, 2012**. Offerors are to submit questions using the Vendor RFP Question and Answer Form available on the OneStop Vendor Information website at: <http://svc.mt.gov/gsd/OneStop/GSDDocuments.aspx> or by calling (406) 444-2575. Clear reference to the section, page, and item in question must be included in the form. Questions received after the deadline may not be considered.

1.4.3 State's Response. The State will provide a written response by **July 30, 2012** to all questions received by **July 23, 2012**. The State's response will be by written addendum and will be posted on the State's website with the RFP at <http://svc.mt.gov/gsd/OneStop/SolicitationDefault.aspx> by the close of business on the date listed. Any other form of interpretation, correction, or change to this RFP will not be binding upon the State. **Offerors shall sign and return with their RFP response an Acknowledgment of Addendum for any addendum issued.**

1.5 GENERAL REQUIREMENTS

1.5.1 Acceptance of Standard Terms and Conditions/Contract. *By submitting a response to this RFP, offeror accepts the standard terms and conditions and contract set out in Appendices A and B, respectively.* Much of the language included in the standard terms and conditions and contract reflects requirements of Montana law.

Offerors requesting additions or exceptions to the standard terms and conditions, contract terms, shall submit them to the procurement officer listed above by the date in Section 1.4.2. A request must be accompanied by an explanation why the exception is being sought and what specific effect it will have on the offeror's ability to respond to the RFP or perform the contract. The State reserves the right to address nonmaterial requests for exceptions to the standard terms and conditions and contract language with the highest scoring offeror during contract negotiation.

The State shall identify any revisions to the standard terms and conditions and contract language in a written addendum issued for this RFP. The addendum will apply to all offerors submitting a response to this RFP. The State will determine any changes to the standard terms and conditions and/or contract.

1.5.2 Resulting Contract. This RFP and any addenda, the offeror's RFP response, including any amendments, a best and final offer (if any), and any clarification question responses shall be incorporated by reference in any resulting contract.

1.5.3 Understanding of Specifications and Requirements. By submitting a response to this RFP, offeror acknowledges it understands and will comply with the RFP specifications and requirements.

1.5.4 Offeror's Signature. Offeror's proposal must be signed in ink by an individual authorized to legally bind the offeror. The offeror's signature guarantees that the offer has been established without collusion. Offeror shall provide proof of authority of the person signing the RFP upon State's request.

1.5.5 Offer in Effect for 120 Calendar Days. Offeror agrees that it may not modify, withdraw, or cancel its proposal for a 120-day period following the RFP due date, or receipt of best and final offer, if required.

1.6 SUBMITTING A PROPOSAL

1.6.1 Organization of Proposal. Offerors must organize their proposal into sections that follow the format of this RFP. Proposals should be bound, and must include tabbed dividers separating each section. Proposal pages must be consecutively numbered.

All subsections not listed in the "Instructions to Offerors" on page 3 require a response. Restate the section/subsection number and the text immediately prior to your written response.

Unless specifically requested in the RFP, an offeror making the statement "Refer to our literature..." or "Please see www.....com" may be deemed nonresponsive or receive point deductions. If making reference to materials located in another section of the proposal, specific page numbers and sections must be noted. **The Evaluator/Evaluation Committee is not required to search through the proposal or literature to find a response.**

1.6.2 Failure to Comply with Instructions. Offerors failing to comply with these instructions may be subject to point deductions. Further, the State may deem a proposal nonresponsive or disqualify it from further consideration if it does not follow the response format, is difficult to read or understand, or is missing requested information.

1.6.3 Multiple Proposals. Offerors may, at their option, submit multiple proposals. Each proposal shall be evaluated separately.

1.6.4 Copies Required and Deadline for Receipt of Proposals. Offerors must submit **one original proposal and nine (9) copies** to the State Procurement Bureau. In addition, offerors must submit two electronic copies on compact disc (CD) or universal serial bus (USB) flash drive in Microsoft Word or portable document format (PDF). If any confidential materials are included in accordance with the requirements of Section 2.3.2, they must be submitted on a separate CD or USB flash drive.

EACH PROPOSAL MUST BE SEALED AND LABELED ON THE OUTSIDE OF THE PACKAGE clearly indicating it is in response to RFP **12-2189V**. ***Proposals must be received at the reception desk of the State Procurement Bureau prior to 2:00 p.m., Mountain Time, Monday, August 6, 2012. Offeror is solely responsible for assuring delivery to the reception desk by the designated time.***

1.6.5 Facsimile Responses. A facsimile response to an RFP will ONLY be accepted on an exception basis with prior approval of the procurement officer and only if it is received in its entirety by the specified deadline. Responses to RFPs received after the deadline will not be considered.

1.6.6 Late Proposals. ***Regardless of cause, the State shall not accept late proposals. Such proposals will automatically be disqualified from consideration.*** Offeror may request the State return the proposal at offeror's expense or the State will dispose of the proposal if requested by the offeror. (See Administrative Rules of Montana (ARM) 2.5.509.)

1.7 COSTS/OWNERSHIP OF MATERIALS

1.7.1 State Not Responsible for Preparation Costs. Offeror is solely responsible for all costs it incurs prior to contract execution.

1.7.2 Ownership of Timely Submitted Materials. The State shall own all materials submitted in response to this RFP.

SECTION 2: RFP STANDARD INFORMATION

2.1 AUTHORITY

The RFP is issued under 18-4-304, Montana Code Annotated (MCA) and ARM 2.5.602. The RFP process is a procurement option allowing the award to be based on stated evaluation criteria. The RFP states the relative importance of all evaluation criteria. The State shall use only the evaluation criteria outlined in this RFP.

2.2 OFFEROR COMPETITION

The State encourages free and open competition to obtain quality, cost-effective services and supplies. The State designs specifications, proposal requests, and conditions to accomplish this objective.

2.3 RECEIPT OF PROPOSALS AND PUBLIC INSPECTION

2.3.1 Public Information. Subject to exceptions provided by Montana law, all information received in response to this RFP, including copyrighted material, is public information. Proposals will be made available for public viewing and copying shortly after the proposal due date and time. The exceptions to this requirement are: (1) bona fide trade secrets meeting the requirements of the Uniform Trade Secrets Act, Title 30, chapter 14, part 4, MCA, that have been properly marked, separated, and documented; (2) matters involving individual safety as determined by the State; and (3) other constitutional protections. See 18-4-304, MCA. The State provides a copier for interested parties' use at \$0.10 per page. The interested party is responsible for the cost of copies and to provide personnel to do the copying.

2.3.2 Procurement Officer Review of Proposals. Upon opening the proposals in response to this RFP the procurement officer reviews the proposals for information that meets the exceptions in Section 2.3.1, providing the following conditions have been met:

- Confidential information (including any provided in electronic media) is clearly marked and separated from the rest of the proposal.
- The proposal does not contain confidential material in the cost or price section.
- An affidavit from the offeror's legal counsel attesting to and explaining the validity of the trade secret claim as set out in Title 30, chapter 14, part 4, MCA, is attached to each proposal containing trade secrets. Counsel must use the State of Montana "Affidavit for Trade Secret Confidentiality" form in requesting the trade secret claim. This affidavit form is available on the OneStop Vendor Information website at: <http://svc.mt.gov/gsd/OneStop/GSDDocuments.aspx> or by calling (406) 444-2575.

Information separated out under this process will be available for review only by the procurement officer, the evaluator/evaluation committee members, and limited other designees. Offerors shall pay all of its legal costs and related fees and expenses associated with defending a claim for confidentiality should another party submit a "right to know" (open records) request.

2.4 CLASSIFICATION AND EVALUATION OF PROPOSALS

2.4.1 Initial Classification of Proposals as Responsive or Nonresponsive. The State shall initially classify all proposals as either "responsive" or "nonresponsive" (ARM 2.5.602). The State may deem a proposal nonresponsive if: (1) any of the required information is not provided; (2) the submitted price is found to be excessive or inadequate as measured by the RFP criteria; or (3) the proposal does not meet RFP requirements and specifications. The State may find any proposal to be nonresponsive at any time during the procurement process. If the State deems a proposal nonresponsive, it will not be considered further.

2.4.2 Determination of Responsibility. The procurement officer will determine whether an offeror has met the standards of responsibility consistent with ARM 2.5.407. An offeror may be determined nonresponsible at any time during the procurement process if information surfaces that supports a nonresponsible determination. If an offeror is found nonresponsible, the procurement officer will notify the offeror by mail. The determination will be made a part of the procurement file.

2.4.3 Evaluation of Proposals. An evaluator/evaluation committee will evaluate all responsive proposals based on stated criteria and recommend award to the highest scoring offeror. The evaluator/evaluation committee may initiate discussion, negotiation, or a best and final offer. In scoring against stated criteria, the evaluator/evaluation committee may consider such factors as accepted industry standards and a comparative evaluation of other proposals in terms of differing price and quality. These scores will be used to determine the most advantageous offering to the State. If an evaluation committee meets to deliberate and evaluate the proposals, the public may attend and observe the evaluation committee deliberations.

2.4.4 Completeness of Proposals. Selection and award will be based on the offeror's proposal and other items outlined in this RFP. Proposals may not include references to information such as Internet websites, unless specifically requested. Information or materials presented by offerors outside the formal response or subsequent discussion, negotiation, or best and final offer, if requested, will not be considered, will have no bearing on any award, and may result in the offeror being disqualified from further consideration.

2.4.5 Achieve Passing Score. Any proposal that fails to achieve **60% of the total available points for Sections 4.2.1, 4.2.2, 4.2.3, and 4.2.4 (or a total of 390 points)** will be eliminated from further consideration. A "fail" for any individual evaluation criteria may result in proposal disqualification at the discretion of the procurement officer.

2.4.6 Opportunity for Discussion/Negotiation and/or Oral Presentation/Product Demonstration. After receipt of proposals and prior to the recommendation of award, the procurement officer may initiate discussions with one or more offerors should clarification or negotiation be necessary. Offerors may also be required to make an oral presentation and/or product demonstration to clarify their RFP response or to further define their offer. In either case, offerors should be prepared to send qualified personnel to Helena, Montana, to discuss technical and contractual aspects of their proposal. Oral presentations and product demonstrations, if requested, shall be at the offeror's expense.

2.4.7 Best and Final Offer. Under Montana law, the procurement officer may request a best and final offer if additional information is required to make a final decision. The State reserves the right to request a best and final offer based on price/cost alone. Please note that the State rarely requests a best and final offer on cost alone.

2.4.8 Evaluator/Evaluation Committee Recommendation for Contract Award. The evaluator/evaluation committee will provide a written recommendation for contract award to the procurement officer that contains the scores, justification, and rationale for the decision. The procurement officer will review the recommendation to ensure its compliance with the RFP process and criteria before concurring with the evaluator's/evaluation committee's recommendation.

2.4.9 Request for Documents Notice. Upon concurrence with the evaluator's/evaluation committee's recommendation, the procurement officer will request from the highest scoring offeror the required documents and information, such as insurance documents, contract performance security, an electronic copy of any requested material (e.g., proposal, response to clarification questions, and/or best and final offer), and any other necessary documents. Receipt of this request does not constitute a contract and **no work may begin until a contract signed by all parties is in place.** The procurement officer will notify all other offerors of the State's selection.

2.4.10 Contract Execution. Upon receipt of all required materials, a contract (Appendix B) incorporating the Standard Terms and Conditions (Appendix A), as well as the highest scoring offeror's proposal, will be provided to the highest scoring offeror for signature. The highest scoring offeror will be expected to accept and agree to all material requirements contained in Appendices A and B of this RFP. If the highest scoring offeror does not accept all material requirements, the State may move to the next highest scoring offeror, or cancel the RFP. Work under the contract may begin when the contract is signed by all parties.

2.5 STATE'S RIGHTS RESERVED

While the State has every intention to award a contract resulting from this RFP, issuance of the RFP in no way constitutes a commitment by the State to award and execute a contract. Upon a determination such actions would be in its best interest, the State, in its sole discretion, reserves the right to:

- Cancel or terminate this RFP (18-4-307, MCA);
- Reject any or all proposals received in response to this RFP (ARM 2.5.602);
- Waive any undesirable, inconsequential, or inconsistent provisions of this RFP that would not have significant impact on any proposal (ARM 2.5.505);
- Not award a contract, if it is in the State's best interest not to proceed with contract execution (ARM 2.5.602); or
- If awarded, terminate any contract if the State determines adequate state funds are not available (18-4-313, MCA).

SECTION 3: SCOPE OF SERVICES

To enable the State to determine the capabilities of an offeror to perform the services specified in the RFP, the offeror shall respond to the following regarding its ability to meet the State's requirements.

All subsections of Section 3 not listed in the "Instructions to Offerors" on page 3 require a response. Restate the subsection number and the text immediately prior to your written response.

NOTE: Each item must be thoroughly addressed. Offerors taking exception to any requirements listed in this section may be found nonresponsive or be subject to point deductions.

3.1 OVERVIEW/BACKGROUND

The State is seeking a contractor to provide: (1) investment consulting services; and, as needed, (2) an Asset/Liability Study or Studies for each of the public pension funds.

The Montana Board of Investments ("Board") is the state agency with the sole investment management responsibility for \$12.8 billion in Montana pension, trust and other public funds. The Board is comprised of nine members appointed by the Governor to four-year terms. The Board manages its \$12.8 billion investment portfolio by both internal and external management. Approximately, 88 percent of the total investment portfolio is managed in seven investment pools that operate similar to mutual funds. The investment portfolio is created by the State Constitution as the "Unified Investment Program." The Board also manages an In-State Loan Program and a Bond Loan Program established by law, but is not seeking consultant services for these programs.

The Board has contracted with State Street Bank and Trust since December 1993 to provide custodial services, securities accounting, mutual fund accounting, securities lending, performance and analytical services, and private equity and private real estate administrative services. The Board has contracted with an investment consultant since December 2005. The Board currently operates with three Member standing subcommittees: (1) a Loan Committee, which reviews and approves In-State and Bond Program Loans; (2) a Human Resource Committee; and (3) an Audit Committee.

Appendix C lists the following information on the Board's operations:

- Constitutional/legal authority of the Board
- Governance Policy
- The Board's functional organizational chart
- Composite Investment Portfolio of the Nine Pension Funds
- Pension Funds Investment Policy
- Retirement Funds Bond Pool (RFBP) Investment Portfolio
- Trust Funds Investment Pool (TFIP) Investment Portfolio
- Montana Domestic Equity Pool (MDEP) Investment Portfolio
- Montana International Equity Pool (MTIP) Investment Portfolio
- Montana Private Equity Pool (MPEP) Investment Portfolio
- Montana Real Estate Pool (MTRP) Investment Portfolio
- Short Term Investment Pool (STIP) Investment Portfolio
- RFBP Investment Policy Statement
- TFIP Investment Policy Statement
- MDEP Investment Policy Statement
- MTIP Investment Policy Statement
- MPEP Investment Policy Statement

- MTRP Investment Policy Statement
- STIP Investment Policy Statement

The Board's Fiscal 2011 Annual Report is available at its website at:

<http://investmentmt.com/AnnualReport/default.mcpX>

3.2 MINIMUM EXPERIENCE/ELIGIBILITY REQUIREMENTS

As of December 31, 2011, an offeror must meet the following minimum experience requirements:

3.2.1 Years of Experience. An offeror must have five (5) years of experience in providing investment-consulting services to public institutional investors with assets of at least \$5 billion; five (5) years of experience completing Asset/Liability Studies; and have completed at least three (3) studies within the past three (3) years.

3.2.2 Project Manager Experience. The project manager assigned by the offeror to provide services to the Board must have had at least five (5) years of experience as the primary consultant for a public institutional investor with assets of at least \$5 billion.

3.2.3 Other Clients. An offeror must be providing investment consulting services to at least five (5) public institutional investors with assets of at least \$5 billion.

3.2.4 Other Requirements. An offeror must:

- a. Be a registered investment advisor under the Investment Advisers Act of 1940;
- b. Agree to be a fiduciary to the Board and Pension Funds as that term is defined by the laws and rules governing the Board;
- c. Not have any direct or indirect ownership of investment managers, investment brokers or investment banking services or directly or indirectly manage money;
- d. Disclose annually to the Board any revenues or income received by the consultant or any affiliates from investment managers, brokerage firms, investment banks, or other financial services businesses and
- e. Offeror must submit its current Form ADV Parts I and II.

3.3 CONTRACTOR SERVICE REQUIREMENTS

3.3.1 Focus. The Board intends to engage the Contractor primarily for investment consulting services. The Board also requires a separate fee proposal for an Asset/Liability Study or Studies for the State's pension funds. While the Board manages many individual funds, the services to be provided by the contractor will be primarily focused on the nine (9) Pension Funds and the seven (7) Investment Pools. A composite investment portfolio for the nine (9) Pension Funds and an investment policy statement for the Public Employees Retirement System are included in Appendix C. The investment portfolios and investment policy statements for the seven (7) Investment Pools are also included in Appendix C. The Board's Fiscal 2011 Annual Report is available at www.investmentmt.com.

3.3.2 Investment Consulting Services. The following list outlines minimum services that are required:

- a. **Physical Presence at Board Meetings.** Consultant's representatives must attend all regularly scheduled Board meetings (currently quarterly and two other for a total of six meetings per year). The Board's meeting schedule can be found on its website at <http://www.investmentmt.com/Meetings/default.mcpX>.

- b. **Annual Review of Existing Asset Allocation.** Review annually or more often if deemed necessary, the existing asset allocation of the Board and its component funds and make recommendations on what changes, if any, should be made.
- c. **Provide Quarterly Investment Performance Reports.** Provide quarterly investment performance reports that include measurement of total plan performance and investment returns of individual internally and externally managed portfolios, high level performance attribution, comparisons to appropriate market benchmarks, comparisons to appropriate public fund and manager peer groups, and other performance metrics as agreed between the Board and the consultant.
- d. **Advise on Board's Investment Management Structure.** Advise on the Board's investment management structure (including relationship of internally and externally managed accounts, number and types of investment managers, active vs. passive strategies, and investment style and capitalization mandates).
- e. **Assist in Searches for External Investment Managers.** Assist in searches for external public securities investment managers as necessary and requested, including comparison of managers to peers, due diligence and analysis of manager performance. Estimated number of searches are expected to be less than five (5) per year.
- f. **Review Benchmarks for all External Managers, Internally Managed Portfolios and Investment Pools.** Periodically review benchmarks for all external managers, internally managed portfolios and investment pools.
- g. **Expert Testimony.** The Consultant must be willing and able to provide testimony, if requested, to legislative committees on matters within its competency regarding pension funding related issues.
- h. **Provide Pacing Studies.** Provide pacing studies for both private equity and real estate in coordination with internal staff that analyze and project expected allocation to these asset classes in the pension plans with the goal of assisting the Board to maintain or manage increases or decreases within its asset allocation ranges for these asset classes.
- i. **Review Investment Guidelines and Policies.** Upon request, review existing investment guidelines and investment policies; make recommendations for the development of new guidelines and policies and/or the amendment of existing ones. This includes assistance to the Board in establishing sound investment policies, periodically reviewing the Board's investment policies, and assisting with necessary revisions of existing policies.
- j. **Assist in Searches for Custody and Securities Lending Services.** Assist in searches for custody and securities lending services as necessary and requested by the Board, including comparison of custodians to peers, due diligence and analysis of fees.
- k. **Cost Analysis.** Advise and review on any 3rd party cost analysis.
- l. **Proxy Votes.** Advise on proxy voting policies and results, as requested, related to equities securities, .

- m. **Board and Staff Education.** Provide training to Board members and staff on requested investment topics, as needed.

3.3.3 Asset Liability Study or Studies. Complete a study, as requested, for the State's pension funds. These consist of nine (9) different plans, and any such request will specify the specific plan for analysis. It is expected that any such requests will be infrequent and focus on the two (2) larger plans.

- a. Work directly with plan actuaries so that any study incorporates consistent plan data and actuarial assumptions (plan designs, funding levels, asset exposures, demographic and salary expectations).
- b. Provide an analysis of current and alternative asset exposures and their ability to meet the needs of the plans (i.e., provide returns within acceptable levels of risk to meet long term liabilities as well as sufficient liquidity to meet current benefit payments).
- c. Utilize industry-standard best practices of asset modeling, using both deterministic and stochastic approaches. Provide long-term capital market asset assumptions needed for such analysis and incorporate sensitivity analysis of alternative assumptions if requested.

SECTION 4: OFFEROR QUALIFICATIONS

All subsections of Section 4 not listed in the "Instructions to Offerors" on page 3 require a response. Restate the subsection number and the text immediately prior to your written response.

4.1 STATE'S RIGHT TO INVESTIGATE AND REJECT

The State may make such investigations as deemed necessary to determine the offeror's ability to perform the services specified. The State reserves the right to reject a proposal if the information submitted by, or investigation of, the offeror fails to satisfy the State that the offeror is properly qualified to perform the obligations of the contract. *This includes the State's ability to reject the proposal based on negative references.*

4.2 OFFEROR QUALIFICATIONS

To enable the State to determine the capabilities of an offeror to perform the services specified in the RFP, the offeror shall respond to the following regarding its ability to meet the State's requirements. **THE RESPONSE, "(OFFEROR'S NAME) UNDERSTANDS AND WILL COMPLY," IS NOT APPROPRIATE FOR THIS SECTION.**

NOTE: Each item must be thoroughly addressed. Offerors taking exception to any requirements listed in this section may be found nonresponsive or be subject to point deductions.

4.2.1 References. Offeror shall provide a minimum of five (5) references of public institutional investors where the offeror, preferably within the last five (5) years, has provided similar investment consulting services and Asset/Liability Studies. At a minimum, the offeror shall provide the public institutional investor's name, the location where the services were provided, contact person(s), customer's telephone number, e-mail address, and a complete description of the service type, and dates the services were provided. These references may be contacted to verify offeror's ability to perform the contract. The State reserves the right to use any information or additional off list references deemed necessary to establish the ability of the offeror to perform the conditions of the contract. Negative references may be grounds for proposal disqualification. In addition, please provide answers to the following:

- a. **Length of Time Served.** How long have you served each of the plans you cite as references?
- b. **Fiduciary Responsibility.** Have you agreed to accept fiduciary responsibility as an investment consultant for any of these clients? If so, please identify the clients.

4.2.2 Resumes/Company Profile and Experience.

- a. **Legal Entity.** Offeror shall identify the legal entity submitting the proposal by providing the name and address of its principal office or headquarters, including specifying the office(s) from which this project will be managed.
- b. **Resume/Summary of Qualifications.** A resume or summary of qualifications, work experience, education, skills, etc., which emphasizes previous experience in this area should be provided for all key personnel who will be involved with any aspects of the contract. Information provided must address the following questions below to ensure compliance with the minimum experience requirements set forth in Section 3.2 above.

1. Background of the Firm (5 page maximum).

- (a) Briefly describe your firm’s background, history, and ownership structure, including any parent, affiliated or subsidiary company, and any business partners or joint ventures.
- (b) Provide a complete listing of all public fund clients with asset size greater than \$1 Billion, including the size of the client fund, and the type of fund (e.g., defined-benefit, defined contribution), and the number of years the services were provided.
- (c) Current Clients. Please list the current number of institutional **full-service retainer clients** in each of the categories provided below, as of the most recent available period (NOTE: performance evaluation services or project-based work alone do not constitute full-service retainer investment consulting relationships):

For the period ended:	Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion to \$15 Billion	\$15 Billion to \$50 Billion	Over \$50 Billion	Total:
Public Employees DB Retirement							
Corporate DB							
Union/Taft-Hartley							
Endowment/Foundation							
Defined Contribution (all types)							
Hospital							
Other							
Total:							

- (d) Previous Clients. List public sector clients who have terminated your consulting relationship during the past three (3) years and their reasons for doing so. Include contact names, titles and telephone numbers.
- (e) Describe the services your firm provides and give the percentage of revenue derived from investment consulting. If your firm is part of a larger affiliated group, what percentage of total revenues for that group is derived from investment consulting?
- (f) What year did your firm enter the investment consulting business?
- (g) If your firm is part of a larger affiliated group, provide an organization chart of your firm and describe the relationship between each component and your consulting group.

- (h) Within the past three (3) years, have there been any significant developments in your organization such as changes in ownership, restructuring, or personnel reorganizations? Do you anticipate future significant changes in your organization?
- (i) List the address of your main corporate office and indicate which office(s) will service the Board and the number of professionals working in each office.
- (j) Describe any services of your organization that may not be offered by other consultants. (Include special expertise or capabilities and what the firm believes to be its key strengths and differentiating features.)
- (k) Describe the total staff of the firm and designate support staff, analysts and professionals.
- (l) List the owners of the firm (from largest to smallest with respect to ownership) and their ownership percentages. Please include individuals and all other entities.
- (m) For the most recent available period, please list all services provided by the firm, the nature thereof, and the dollar revenue or percentages of total income that each service represents. In your response please include the percentage of revenues both the firm and the ultimate parent company (if applicable) received from the following sources (total should add to 100%):

Period Ended Date.

- (i) Revenue from investment management organizations;
- (ii) Revenue from brokerage activity;
- (iii) Revenue from public fund corporate benefit plans or Taft Hartley plans and other institutional investors; and
- (iv) Revenue from other sources (please specify).

2. Consultants (2 page maximum).

- (a) How many investment consultants does your firm have?
- (b) Discuss the ways you manage growth, including any limits to the client/consultant ratio.
- (c) What is the average number of accounts handled per investment consultant?
- (d) Have any of your staff been disciplined, suspended or disbarred from performing investment advisory or other professional services, or committed any criminal offenses related to fraud, dishonesty or breach of trust? If so, please explain.

3. Consulting Team (3 page maximum).

- (a) Please provide contact information for each consultant that will be assigned to the Board in a grid similar to this.

Name	Address	Business Phone	Business Fax	E-mail Address

- (b)** For the team expected to be assigned to the Board’s account:

 - (i)** Please describe the primary role of each consultant .
 - (ii)** Please describe this team’s experience with similar work performed for other public retirement systems, corporate pension funds or similar institutional investors.
 - (iii)** State whether the individuals assigned to the work have any responsibilities other than providing consulting services, and if so, specify such responsibilities.
- (c)** Describe your firm’s backup procedures in the event that key personnel in this assignment should leave the firm.
- (d)** As of December 31, 2011, how many professionals were assigned to investment manager research, selection and monitoring? For each professional, list the asset class covered and the percentage of time spent on manager research.
- (e)** As of December 31, 2011, please list the professionals (if any) dedicated full time to Asset Allocation modeling.
- (f)** As of December 31, 2011, please list the professionals (if any) dedicated full time to Asset/Liability modeling.
- (g)** Do you have professional actuarial staff in your firm? If not, please describe how such services are provided.
- (h)** Please list the number of senior investment professionals that left the firm in the past three (3) years (please include the reason for the departure).
- c.** **Subcontractors.** Identify proposed subcontractors, if any, and clearly outline the work to be performed by such subcontractor(s). Information provided must address the following questions:

 - 1.** If your firm uses the services of subcontractors for the performance of services hereunder, identify such services and all such subcontractors and describe the skills and qualifications of each subcontractor.
- d.** **Proposal/Contract/Project Contacts.** Identify the person authorized to answer questions concerning the proposal and to negotiate the terms of a contract. This person must be available and accessible to Board Members and staff throughout the period of any contract negotiations. Identify the person authorized to execute the contract on behalf of the. Also name the person who will have responsibility for managing the relationship. The relationship manager must be available and accessible to Board Members and staff throughout the period of any resulting contract.

e. Standards of Conduct (2 page maximum).

1. Does your firm have a written code of conduct or a set of standards for professional behavior? How are they monitored and enforced? Please attach a copy of your Code of Conduct (if any).
2. Has your firm adopted the CFA Institute's Code of Ethics and Standards? If so, how does your firm monitor compliance by your employees?
3. How are consultants' recommendations to clients reviewed and monitored by your organization? Does your firm track consistency in consultant recommendations to your clients?
4. Please describe your firm's conflict of interest policies. Please include an explanation of how these policies, and any other measures taken by your firm, limit the likelihood that a client could receive investment advice that is not solely aligned with their best interests.

f. Conflicts of Interest (no maximum page limit).

1. Does your firm hold or sponsor any conferences or events for which investment managers pay to attend?
2. Does your firm accept payments, in-kind products or services, or any other type of payment from money managers to attend conferences or events your firm holds or sponsors, to be listed in your manager database, to receive consulting services, or for any other reason?
3. Are there any circumstances under which your firm, or any individual in your firm, receives compensation, finder's fees or any other benefit from investment managers or third parties? If yes, describe in detail.
4. Do you or a related company receive any payments from money managers you recommend, consider for recommendation, or otherwise mention to the plan for our consideration? If so, what is the extent of these payments in relation to your other income (revenue)?
5. What is your firm's policy on acceptance of soft dollar payments? Do your investment consulting clients have soft dollar arrangements with your firm? If so, indicate what percentage of your clients have them and describe the nature of the soft dollar arrangement.
6. Do you consider yourself a fiduciary with respect to the recommendations you would provide the Board?
7. If you are selected, will you acknowledge in writing that you have a fiduciary obligation as an investment adviser to the Board and Pension Funds while providing the consulting services we are seeking?
8. Are there any potential conflict of interest issues your firm would have in servicing the Plan? If so, describe them.

9. List and describe any professional relationship you have had with the State currently or at any time during the past three (3) years.
10. Does your firm or its parent, subsidiaries or affiliates provide trust or custodial services? If so, please describe these services, any financial arrangements your firm has with the entities your firm provides these services to, and the percentage of revenues attributable to these services.
11. Does your firm market or sell any services or products to mutual fund companies, investment managers, broker dealers or any other entity engaged in the investment business? If the answer is yes, explain.

g. Board and Staff Education (2 page maximum).

1. Does your firm offer training of plan fiduciaries and staff as it relates to their investment responsibilities? If so, describe the type of training available and the qualifications of the individuals assigned to conduct the training.

4.2.3 Client/Litigation Disclosure. If the offeror has been involved in any litigation involving a sum of \$100,000 or more, or subject to any professional disciplinary action over the last three (3) years, provide a description of the litigation of disciplinary action. An offeror will be eliminated from consideration if this information is not provided. In addition, offeror must provide answers to the following questions:

- a. **Loss or Claim.** Has your firm sustained a loss or claim within the past five (5) years on either your errors and omissions policy or your fidelity bond? If so, please give particulars. Are you aware of any claims that have been made or are being made under any of your liability bonds or insurance? If so, please identify the nature of each claim, its date of origin, and the anticipated outcome of each claim.
- b. **Litigation.** Please describe any litigation to which your firm or its employees is currently a party or which was settled or adjudicated by your firm or its employees within the past five (5) years. Please describe any governmental investigations pending or resolved regarding your firm or its employees within the past five (5) years, in each case, if related to the delivery of services of the type requested of the Investment Consultant.

4.2.4 Method of Providing Services. Offeror should provide a description of the work plan and the methods to be used that will convincingly demonstrate to the State what the offeror intends to do to complete the service requirements of the contract as set forth in Section 3.3 above. If the offeror proposes to provide services that do not meet the specific requirements of Section 3.3, but in the opinion of the offeror are equivalent or superior to those specifically requested in Section 3.3, any such differences must be expressly noted. A proposal that does not respond to the specific services requested in Section 3.3 may be deemed unresponsive. In addition, offeror must provide answers to the following questions:

a. Asset Allocation (4 page maximum).

1. What are your firm's capabilities regarding asset/liability modeling studies? What methodologies and tools are used by your firm?
2. Discuss the theory and methodology of the asset allocation models your firm employs.
3. What does your firm believe are the primary considerations in deciding on an asset allocation and why?

4. How do you develop asset class assumptions regarding investment return, risk and correlations between asset classes? Describe the sub-asset classes addressed. How often do you update them?
5. Describe your policy for recommending changes to a pension system's asset allocation in response to changes in the market environment.
6. Given the current asset allocation and funding information we are providing with this RFP for the Montana retirement systems, what recommendations might you anticipate making and why?

b. Investment Philosophy (4 page maximum).

1. Explain your firm's position/approach regarding internal investment management versus external investment management.
2. Explain your firm's position/approach on the use of active management versus passive management in the major asset classes.
3. List the factors you would consider in recommending real estate and alternative investment options. Describe the elements of a due diligence process for assessing the risk control and performance characteristics of such investments.
4. Describe your firm's capabilities and experience in illiquid investments such as real estate and alternative investments.
5. List the factors you would consider in recommending derivative strategies. Describe elements of a due diligence process for assessing the risk control and performance characteristics of such investments. Describe your firm's capabilities and experience in the area of derivatives.
6. Describe your firm's philosophy and methodology for identifying and evaluating new investment opportunities.
7. Describe the general elements you include recommending in developing investment policy statements both at the account level and asset specific level.
8. Describe your process for maintaining a continuous review of investment policies.

c. Investment Manager Database (4 page maximum).

1. Do you have staff that is dedicated to investment manager research? If so, please identify those staff members and describe their experience.
2. Please describe your database of investment managers. Is this a proprietary database or do you subscribe to a 3rd party database?
 - (a) If proprietary, are investment managers charged direct or indirect fees to be included in your database? If so, describe the fees.
 - (b) Is your database also sold to third parties? How do you receive compensation for selling it?
 - (c) Describe any advantages that you perceive your database has over competitors.

3. How many managers are contained in the database(s) that you use?
4. How many investment strategies or products are contained in the database(s) that you use?
5. Describe your methodology and criteria for classification of managers by investment style, size, etc.
6. How often are managers in your database reviewed? Under what circumstances are managers added to your database? Deleted?
7. Describe how your firm or your database vendor gathers, verifies, updates, and maintains the data collected on managers for the database. Do you use surveys or meetings with managers?
8. How often do you meet with managers that are included in your database? What is the nature of those visits?
9. How many manager site visits did your staff conduct in 2011?
10. Please provide a sample manager search report.

d. Investment Manager Search and Monitoring (3 page maximum).

1. Describe your firm's process for evaluation and selection of investment managers.
2. Describe your experience in selecting investment managers.
3. Describe how your firm's process for evaluation and selection of investment managers adds value beyond the mere provision of raw data.
4. Is your firm compensated for soft dollars? If so, please explain.
5. How do you evaluate a manager's trading capabilities and strategies in light of best execution requirements?

e. Custodian Banks Searches (2 page maximum).

1. Describe the key dimensions on which custodial services should be evaluated and describe your experience in conducting evaluations of custodians.

f. Performance Evaluation and Reporting (5 page maximum).

1. Does your firm calculate performance in-house or through a third-party?
2. Do you have the capability of using rates of return calculated by the Plan custodian bank in your performance evaluation reports?
3. Please describe your firm's universe data for evaluating/ranking performance of investment managers and investment options. What other database does your firm use in its performance evaluation analysis and in its monitoring of investment managers and investment options? Are the returns in your universe rankings actual client returns or composite returns as reported by managers?

4. Please describe the public pension plan universe used for performance comparisons.
5. Do you have the ability to customize performance reports for your clients?
6. Discuss the portfolio analysis your firm is capable of providing.
7. Describe your capabilities in the production/interpretation of securities lending information.
8. How are performance benchmarks for the total fund, different asset classes and investment manager styles chosen and constructed?
9. Do you reconcile your calculated performance with investment managers' and custodians' reports? If yes, please describe.
10. Describe your firm's performance attribution process and reports.
11. Provide a quarterly performance report provided to other public institutional investors for consultant activities similar to the activities requested in this RFP.

g. Research (2 page maximum).

1. Describe the type, subject matter and frequency of research provided to clients.
2. Describe the internal structure and organization of your research department. If no separate department exists, describe how this function is performed.
3. Describe the manner in which external resources and sources of information are used in the research process. How does your firm integrate internal and external research?
4. Describe your ability to provide customized computer-based analytical tools to your clients. Please describe features.
5. Describe your firm's process for monitoring industry and market trends affecting investment funds.
6. Please provide an example of an internal research paper.

h. Transition Period.

1. If your firm is selected, please describe the details of any required transition process, including the transition period and information needed to complete a smooth transition, including timeframes.

i. Asset/Liability Study or Studies.

1. Describe the methodology you use in performing an asset/liability study.
2. Describe your firm's experience with public fund actuarial accounting and methodologies.

3. Does your firm use the same asset assumptions as in asset allocation? If not, what asset assumptions do you use?
4. Describe how your firm develops the assumptions for plan liabilities used by your firm in its asset/liability work.
5. Describe the data or inputs you require from the client's actuary in order to perform an asset/liability study.
6. Do you license an existing asset/liability model from another firm or vendor? If so, please describe.
7. How many asset/liability studies has your firm conducted within the last three (3) years?
8. Provide a written sample of a recent asset/liability study performed by your firm for a public employee pension fund client.
9. Provide a typical project schedule including all meetings and deliverables.

j. Pacing Study

1. Provide a sample private equity and a real estate pacing study.

k. Reporting (3 page maximum).

1. What period of time is required to prepare reports after the end of each quarter? How quickly following the close of each reporting period can you deliver reports to the Board?
2. Is your firm's performance reporting software developed in-house or purchased from an external source? If external, please describe.
3. How do you present rate of returns, both on a gross and a net of fees basis?

4.2.5 Offeror Financial Stability. Offerors shall demonstrate their financial stability to supply, install and support the services specified by providing a copy of their current audited Annual Financial Report.

4.2.6 Oral Presentation/Interview. Offerors must be prepared to have the key personnel assigned to this project complete an oral presentation/interview in Helena, Montana.

SECTION 5: COST PROPOSAL

All subsections of Section 5 not listed in the "Instructions to Offerors" on page 3 require a response. Restate the subsection number and the text immediately prior to your written response.

5.1 FEE FOR SERVICES

Offeror must indicate its fee for services as follows:

5.1.1 Total all-inclusive annual fee for providing all services required in Section 3.3.2, Investment Consulting Services, except for Asset/Liability Study or Studies, as covered below in Section 5.1.2.

\$ _____

5.1.2 Asset/Liability Study or Studies.

- a. Individual fee for performing an Asset/Liability Study for one of the two largest pension plans.

\$ _____

- b. Individual fee for performing an Asset/Liability Study for one of the seven smaller pension plans.

\$ _____

These fee proposals must include all personnel costs, travel, and any other costs incurred by the contractor.

5.2 FEE INFORMATION

5.2.1 Time Period. Identify the cost per year for the initial five (5) year contract period.

SECTION 6: EVALUATION PROCESS

6.1 TWO-STEP EVALUATION PROCESS

The evaluation committee will evaluate the proposals in a **two-step process** based on a **maximum possible value of 1,000 points**. **Step One** will consist of a **scored process based on the submitted proposals** as described in Section 6.2. **Step Two** will consist of an **in-person presentation/oral interview** by the finalists from Step One as described in Section 6.3. **An offeror must achieve at least 638 points (85%) at the conclusion of Step One to be considered a finalist.**

6.1.1 Ability to Waive Step Two. The evaluation committee reserves the right to waive Step Two of the evaluation process if one offeror has a score that is 50 points higher than the next scoring offeror. In that instance the State may proceed immediately to final contract negotiations.

6.1.2 Scoring Procedure. For each finalist, total points for written responses, as scored by the evaluation committee, and total points for the presentation/oral interview will be combined into one total to determine the highest scoring offeror.

6.2 STEP ONE EVALUATION CRITERIA

The **References, Resumes/Company Profile and Experience, Client/Litigation Disclosure/Conflict of Interest, Method of Providing Services, and Sample Reports** portions of the offer will be evaluated based on the following Scoring Guide. The **Financial Stability** portion of the offer will be evaluated on a pass/fail basis, with any firm receiving a "fail" eliminated from further consideration. The **Fee for Services** will be evaluated in part based on the formula set forth below and in part based on the following Scoring Guide.

Any response that fails to achieve a passing score per the requirements of Section 2.4.5 will be eliminated from further consideration. A "fail" for any individual evaluation criteria may result in proposal disqualification at the discretion of the procurement officer.

SCORING GUIDE

In awarding points to the evaluation criteria, the evaluator/evaluation committee will consider the following guidelines:

Superior Response (95-100%): A superior response is an exceptional reply that completely and comprehensively meets all of the requirements of the RFP. In addition, the response may cover areas not originally addressed within the RFP and/or include additional information and recommendations that would prove both valuable and beneficial to the agency.

Good Response (75-94%): A good response clearly meets all the requirements of the RFP and demonstrates in an unambiguous and concise manner a thorough knowledge and understanding of the project, with no deficiencies noted.

Fair Response (60-74%): A fair response minimally meets most requirements set forth in the RFP. The offeror demonstrates some ability to comply with guidelines and requirements of the project, but knowledge of the subject matter is limited.

Failed Response (59% or less): A failed response does not meet the requirements set forth in the RFP. The offeror has not demonstrated sufficient knowledge of the subject matter.

References		6.0% of points for a possible 60 points	
Category	Section of RFP	Point Value	
A. References (Complete Contact Information Provided)	4.2.1	50	
B. Length of Time Served	4.2.1 a.	5	
C. Fiduciary Responsibility	4.2.1 b.	5	

Resumes/Company Profile and Experience		12.5% of points for a possible 125 points	
Category	Section of RFP	Point Value	
A. Legal Entity	4.2.2 a.	10	
B. Resume/Summary of Qualifications			
1. Background of the Firm	4.2.2 b.1.	10	
2. Consultants	4.2.2 b.2.	10	
3. Consulting Team	4.2.2 b.3.	30	
C. Subcontractors	4.2.2 c.	5	
D. Proposal/Contract/Project Contacts	4.2.2 d.	5	
E. Standards of Conduct	4.2.2 e.	20	
F. Conflicts of Interest	4.2.2 f.	30	
G. Board and Staff Education	4.2.2 g.	5	

Client/Litigation Disclosure		1.5% of points for a possible 15 points	
Category	Section of RFP	Point Value	
A. Client/Litigation Disclosure	4.2.3	5	
B. Loss or Claim	4.2.3 a.	5	
C. Litigation	4.2.3 b.	5	

Method of Providing Services		35.0% of points for a possible 350 points	
Category	Section of RFP	Point Value	
A. Asset Allocation	4.2.4 a.	70	
B. Investment Philosophy	4.2.4 b.	40	
C. Investment Manager Database	4.2.4 c.	30	
D. Investment Manager Search and Monitoring	4.2.4 d.	30	
E. Custodian Banks Searches	4.2.4 e.	10	
F. Performance Evaluation and Reporting	4.2.4 f.	50	
G. Research	4.2.4 g.	10	
H. Transition Period	4.2.4 h.	5	
I. Asset/Liability Study or Studies	4.2.4 i.	70	
J. Pacing Study	4.2.4 j.	15	
K. Reporting	4.2.4 k.	20	

Financial Stability		Pass/Fail	
Category	Section of RFP	Point Value	
A. Financial Stability	4.2.5	Pass/Fail	

Fee for Services		20.0% of points for a possible 200 points	
Category	Section of RFP	Point Value	
A.	Fee for Services		
1.	Investment Consultant Services	5.1.1	170
2.	Asset Liability Study or Studies	5.1.2	20
B.	Fee Information		
1.	Time Period	5.2.1	10

Part A, Fee for Services, will be evaluated on a line-by-line basis using the following formula:

Lowest overall cost receives the maximum allotted points. All other proposals receive a percentage of the points available based on their cost relationship to the lowest. Example: Total possible points for cost is 30. Offeror A's cost is \$20,000. Offeror B's cost is \$30,000. Offeror A would receive 30 points, Offeror B would receive 20 points ($\$20,000/\$30,000 = 67\% \times 30 \text{ points} = 20$).

Lowest Responsive Offer Total Cost _____ x Number of available points = Award Points

This Offeror's Total Cost

Part B, Fee Information, will be evaluated based on the Scoring Guide set forth on Page 26 based on a comparative analysis of all offeror's responses to Section 5.2.

6.3 STEP TWO EVALUATION CRITERIA

Based on a **maximum possible value of 250 points** for **Part Two**, the finalists will be required to participate in an in-person presentation/oral interview before either the evaluation committee or the full Board at a public meeting. The presentation will be an opportunity for the finalists to further define their offer based on the topics of Section 4.2.2, Resumes/Company Profile and Experience and Section 4.2.4, Method of Providing Services. Audio-visual presentation aids will be allowed. The oral interview will be an opportunity for the evaluation committee and/or Board Members to ask questions of the finalists to allow further elucidation on these topics. The presentation/oral interview will be evaluated based on the criteria set forth below. One of the individuals participating in the Step Two presentation/oral interview must be the person designated in the proposal as the project manager.

Presentation/Oral Interview		25.0% of points for a possible 250
Category	Point Value	
A.	Thoroughness of the presentation	100
B.	Ability to articulate the offeror's capabilities	75
C.	Ability to address evaluation committee questions	75

APPENDIX A: STANDARD TERMS AND CONDITIONS

Standard Terms and Conditions

By submitting a response to this invitation for bid, request for proposal, limited solicitation, or acceptance of a contract, the vendor agrees to acceptance of the following Standard Terms and Conditions and any other provisions that are specific to this solicitation or contract.

ACCEPTANCE/REJECTION OF BIDS, PROPOSALS, OR LIMITED SOLICITATION RESPONSES: The State reserves the right to accept or reject any or all bids, proposals, or limited solicitation responses, wholly or in part, and to make awards in any manner deemed in the best interest of the State. Bids, proposals, and limited solicitation responses will be firm for 30 days, unless stated otherwise in the text of the invitation for bid, request for proposal, or limited solicitation.

ACCESS AND RETENTION OF RECORDS: The contractor agrees to provide the department, Legislative Auditor, or their authorized agents, access to any records necessary to determine contract compliance. (Section 18-1-118, MCA). The contractor agrees to create and retain records supporting the services rendered or supplies delivered for a period of three years after either the completion date of the contract or the conclusion of any claim, litigation, or exception relating to the contract taken by the State of Montana or third party.

ALTERATION OF SOLICITATION DOCUMENT: In the event of inconsistencies or contradictions between language contained in the State's solicitation document and a vendor's response, the language contained in the State's original solicitation document will prevail. Intentional manipulation and/or alteration of solicitation document language will result in the vendor's disqualification and possible debarment.

ASSIGNMENT, TRANSFER AND SUBCONTRACTING: The contractor shall not assign, transfer or subcontract any portion of the contract without the express written consent of the department. (Section 18-4-141, MCA.)

AUTHORITY: The attached bid, request for proposal, limited solicitation, or contract is issued under authority of Title 18, Montana Code Annotated, and the Administrative Rules of Montana, Title 2, chapter 5.

COMPLIANCE WITH LAWS: The contractor must, in performance of work under the contract, fully comply with all applicable federal, state, or local laws, rules and regulations, including the Montana Human Rights Act, the Civil Rights Act of 1964, the Age Discrimination Act of 1975, the Americans with Disabilities Act of 1990, and Section 504 of the Rehabilitation Act of 1973. Any subletting or subcontracting by the contractor subjects subcontractors to the same provision. In accordance with section 49-3-207, MCA, the contractor agrees that the hiring of persons to perform the contract will be made on the basis of merit and qualifications and there will be no discrimination based upon race, color, religion, creed, political ideas, sex, age, marital status, physical or mental disability, or national origin by the persons performing the contract.

CONFORMANCE WITH CONTRACT: No alteration of the terms, conditions, delivery, price, quality, quantities, or specifications of the contract shall be granted without prior written consent of the State Procurement Bureau. Supplies delivered which do not conform to the contract terms, conditions, and specifications may be rejected and returned at the contractor's expense.

DEBARMENT: The contractor certifies, by submitting this bid or proposal, that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction (contract) by any governmental department or agency. If the contractor cannot certify this statement, attach a written explanation for review by the State.

DISABILITY ACCOMMODATIONS: The State of Montana does not discriminate on the basis of disability in admission to, access to, or operations of its programs, services, or activities. Individuals who need aids, alternative document formats, or services for effective communications or other disability related accommodations in the programs and services offered are invited to make their needs and preferences known to this office. Interested parties should provide as much advance notice as possible.

FACSIMILE RESPONSES: Facsimile responses will be accepted for invitations for bids, small purchases, or limited solicitations ONLY if they are completely received by the State Procurement Bureau prior to the time set for receipt. Bids or portions thereof, received after the due time will not be considered. Facsimile responses to requests for proposals are ONLY accepted on an exception basis with prior approval of the procurement officer.

FAILURE TO HONOR BID/PROPOSAL: If a bidder/offeror to whom a contract is awarded refuses to accept the award (PO/contract) or fails to deliver in accordance with the contract terms and conditions, the department may, in its discretion, suspend the bidder/offeror for a period of time from entering into any contracts with the State of Montana.

FORCE MAJEURE: Neither party shall be responsible for failure to fulfill its obligations due to causes beyond its reasonable control, including without limitation, acts or omissions of government or military authority, acts of God, materials shortages, transportation delays, fires, floods, labor disturbances, riots, wars, terrorist acts, or any other causes, directly or indirectly beyond the reasonable control of the nonperforming party, so long as such party is using its best efforts to remedy such failure or delays.

HOLD HARMLESS/INDEMNIFICATION: The contractor agrees to protect, defend, and save the State, its elected and appointed officials, agents, and employees, while acting within the scope of their duties as such, harmless from and against all claims, demands, causes of action of any kind or character, including the cost of defense thereof, arising in favor of the contractor's employees or third parties on account of bodily or personal injuries, death, or damage to property arising out of services performed or omissions of services or in any way resulting from the acts or omissions of the contractor and/or its agents, employees, representatives, assigns, subcontractors, except the sole negligence of the State, under this agreement.

LATE BIDS AND PROPOSALS: Regardless of cause, late bids and proposals will not be accepted and will automatically be disqualified from further consideration. It shall be solely the vendor's risk to ensure delivery at the designated office by the designated time. Late bids and proposals will not be opened and may be returned to the vendor at the expense of the vendor or destroyed if requested.

PAYMENT TERM: All payment terms will be computed from the date of delivery of supplies or services OR receipt of a properly executed invoice, whichever is later. Unless otherwise noted in the solicitation document, the State is allowed 30 days to pay such invoices. All contractors will be required to provide banking information at the time of contract execution in order to facilitate State electronic funds transfer payments.

RECIPROCAL PREFERENCE: The State of Montana applies a reciprocal preference against a vendor submitting a bid from a state or country that grants a residency preference to its resident businesses. A reciprocal preference is only applied to an invitation for bid for supplies or an invitation for bid for nonconstruction services for public works as defined in section 18-2-401(9), MCA, and then only if federal funds are not involved. For a list of states that grant resident preference, see <http://gsd.mt.gov/ProcurementServices/preferences.mcp.x>.

REDUCTION OF FUNDING: The State must terminate this contract if funds are not appropriated or otherwise made available to support the State's continuation of performance in a subsequent fiscal period. (See section 18-4-313(4), MCA.)

REFERENCE TO CONTRACT: The contract or purchase order number MUST appear on all invoices, packing lists, packages, and correspondence pertaining to the contract.

REGISTRATION WITH THE SECRETARY OF STATE: Any business intending to transact business in Montana must register with the Secretary of State. Businesses that are incorporated in another state or country, but which are conducting activity in Montana, must determine whether they are transacting business in Montana in accordance with sections 35-1-1026 and 35-8-1001, MCA. Such businesses may want to obtain the guidance of their attorney or accountant to determine whether their activity is considered transacting business.

If businesses determine that they are transacting business in Montana, they must register with the Secretary of State and obtain a certificate of authority to demonstrate that they are in good standing in Montana. To obtain registration materials, call the Office of the Secretary of State at (406) 444-3665, or visit their website at <http://sos.mt.gov>.

SEPARABILITY CLAUSE: A declaration by any court, or any other binding legal source, that any provision of the contract is illegal and void shall not affect the legality and enforceability of any other provision of the contract, unless the provisions are mutually dependent.

SHIPPING: Supplies shall be shipped prepaid, F.O.B. Destination, unless the contract specifies otherwise.

SOLICITATION DOCUMENT EXAMINATION: Vendors shall promptly notify the State of any ambiguity, inconsistency, or error which they may discover upon examination of a solicitation document.

TAX EXEMPTION: The State of Montana is exempt from Federal Excise Taxes (#81-0302402).

TECHNOLOGY ACCESS FOR BLIND OR VISUALLY IMPAIRED: Contractor acknowledges that no state funds may be expended for the purchase of information technology equipment and software for use by employees, program participants, or members of the public unless it provides blind or visually impaired individuals with access, including interactive use of the equipment and services, that is equivalent to that provided to individuals who are not blind or visually impaired. (Section 18-5-603, MCA.) Contact the State Procurement Bureau at (406) 444-2575 for more information concerning nonvisual access standards.

TERMINATION OF CONTRACT: Unless otherwise stated, the State may, by written notice to the contractor, terminate the contract in whole or in part at any time the contractor fails to perform the contract.

U.S. FUNDS: All prices and payments must be in U.S. dollars.

VENUE: This solicitation is governed by the laws of Montana. The parties agree that any litigation concerning this bid, request for proposal, limited solicitation, or subsequent contract, must be brought in the First Judicial District in and for the County of Lewis and Clark, State of Montana, and each party shall pay its own costs and attorney fees. (Section 18-1-401, MCA.)

WARRANTIES: The contractor warrants that items offered will conform to the specifications requested, to be fit and sufficient for the purpose manufactured, of good material and workmanship, and free from defect. Items offered must be new and unused and of the latest model or manufacture, unless otherwise specified by the State. They shall be equal in quality and performance to those indicated herein. Descriptions used herein are specified solely for the purpose of indicating standards of quality, performance, and/or use desired. Exceptions will be rejected.

Revised 2/10

APPENDIX B: CONTRACT

INVESTMENT CONSULTING SERVICES (INSERT CONTRACT NUMBER)

1. PARTIES

THIS CONTRACT is entered into by and between the State of Montana, Department of Commerce, Board of Investments, (hereinafter referred to as “the State”), whose address and phone number are 2401 Colonial Drive, 3rd Floor, Helena, Montana 59602, 406-444-0001 and (insert name of contractor), (hereinafter referred to as the “Contractor”), whose address and phone number are (insert address) and (insert phone number).

THE PARTIES AGREE AS FOLLOWS:

2. EFFECTIVE DATE, DURATION, AND RENEWAL

2.1 Contract Term. This contract shall take effect on (insert date), 20(), (or upon contract execution) and terminate on (insert date), 20(), unless terminated earlier in accordance with the terms of this contract. (Section 18-4-313, MCA)

2.2 Contract Renewal. This contract may, upon mutual agreement between the parties and according to the terms of the existing contract, be renewed in one (1) year intervals, or any interval that is advantageous to the State. This contract, including any renewals, may not exceed a total of seven (7) years.

3. COST/PRICE ADJUSTMENTS

Cost Increase by Mutual Agreement. After the initial term of the contract, each renewal term may be subject to a cost increase by mutual agreement.

4. KEY PERSONS

The Contractor’s key staff assigned to this contract are:

(insert key staff names, titles, e-mail addresses and direct phone numbers)

5. SERVICES

Contractor agrees to provide to the State the following investment consultant services:

5.1 Investment Consulting Services. The following list outlines minimum services that are required:

- a. **Physical Presence at Board Meetings.** Consultant’s representatives must attend all regularly scheduled Board meetings (currently quarterly and two other for a total of six meetings per year). The Board’s meeting schedule can be found on its website at <http://www.investmentmt.com/Meetings/default.mcpX>.
- b. **Annual Review of Existing Asset Allocation.** Review annually or more often if deemed necessary, the existing asset allocation of the Board and its component funds and make recommendations on what changes, if any, should be made.

- c. **Provide Quarterly Investment Performance Reports.** Provide quarterly investment performance reports that include measurement of total plan performance and investment returns of individual internally and externally managed portfolios, high level performance attribution, comparisons to appropriate market benchmarks, comparisons to appropriate public fund and manager peer groups, and other performance metrics as agreed between the Board and the consultant.
- d. **Advise on Board's Investment Management Structure.** Advise on the Board's investment management structure (including relationship of internally and externally managed accounts, number and types of investment managers, active vs. passive strategies, and investment style and capitalization mandates).
- e. **Assist in Searches for External Investment Managers.** Assist in searches for external public securities investment managers as necessary and requested, including comparison of managers to peers, due diligence and analysis of manager performance. Estimated number of searches are expected to be less than five (5) per year.
- f. **Review Benchmarks for all External Managers, Internally Managed Portfolios and Investment Pools.** Periodically review benchmarks for all external managers, internally managed portfolios and investment pools.
- g. **Expert Testimony.** The Consultant must be willing and able to provide testimony, if requested, to legislative committees on matters within its competency regarding pension funding related issues.
- h. **Provide Pacing Studies.** Provide pacing studies for both private equity and real estate in coordination with internal staff that analyze and project expected allocation to these asset classes in the pension plans with the goal of assisting the Board to maintain or manage increases or decreases within its asset allocation ranges for these asset classes.
- i. **Review Investment Guidelines and Policies.** Upon request, review existing investment guidelines and investment policies; make recommendations for the development of new guidelines and policies and/or the amendment of existing ones. This includes assistance to the Board in establishing sound investment policies, periodically reviewing the Board's investment policies, and assisting with necessary revisions of existing policies.
- j. **Assist in Searches for Custody and Securities Lending Services.** Assist in searches for custody and securities lending services as necessary and requested by the Board, including comparison of custodians to peers, due diligence and analysis of fees.
- k. **Cost Analysis.** Advise and review on any 3rd party cost analysis.
- l. **Proxy Votes.** Advise on proxy voting policies and results, as requested, related to equities securities.
- m. **Board and Staff Education.** Provide training to Board members and staff on requested investment topics, as needed.

5.2 Asset Liability Study or Studies. Complete a study, as requested, for the State's pension funds. These consist of nine (9) different plans, and any such request will specify the specific plan for analysis. It is expected that any such requests will be infrequent and focus on the two (2) larger plans.

- a. Work directly with plan actuaries so that any study incorporates consistent plan data and actuarial assumptions (plan designs, funding levels, asset exposures, demographic and salary expectations).
- b. Provide an analysis of current and alternative asset exposures and their ability to meet the needs of the plans (i.e., provide returns within acceptable levels of risk to meet long term liabilities as well as sufficient liquidity to meet current benefit payments).
- c. Utilize industry-standard best practices of asset modeling, using both deterministic and stochastic approaches. Provide long-term capital market asset assumptions needed for such analysis and incorporate sensitivity analysis of alternative assumptions if requested.

6. CONSIDERATION/PAYMENT

6.1 Payment Schedule. In consideration for the investment consultant services to be provided, the State shall pay Contractor an annual fee of \$_____, paid quarterly, in arrears, for all services required under this contract, except for the Asset/Liability Studies.

6.2 Asset Liability Studies Fees. Throughout the term of this contract, the fee charged for each Asset/Liability Study of the Public Employees' and Teachers' Retirement System shall be \$_____ for each system. The fee for conducting Asset/Liability Studies on the seven (7) smaller retirement systems shall be negotiated by the Board and Contractor based on the size and complexity of each system, but not to exceed \$_____ per system.

6.2 Withholding of Payment. The State may withhold payments to the Contractor if the Contractor has not performed in accordance with this contract. Such withholding cannot be greater than the additional costs to the State caused by the lack of performance.

7. ACCESS AND RETENTION OF RECORDS

7.1 Access to Records. The Contractor agrees to provide the State, Legislative Auditor or their authorized agents access to any records necessary to determine contract compliance. (Section 18-1-118, MCA)

7.2 Retention Period. The Contractor agrees to create and retain records supporting the investment consultant services for a period of three years after either the completion date of this contract or the conclusion of any claim, litigation, or exception relating to this contract taken by the State of Montana or a third party.

8. ASSIGNMENT, TRANSFER, AND SUBCONTRACTING

The Contractor shall not assign, transfer, or subcontract any portion of this contract without the express written consent of the State. (Section 18-4-141, MCA) The Contractor shall be responsible to the State for the acts and omissions of all subcontractors or agents and of persons directly or indirectly employed by such subcontractors, and for the acts and omissions of persons employed directly by the Contractor. No contractual relationships exist between any subcontractor and the State.

9. HOLD HARMLESS/INDEMNIFICATION

The Contractor agrees to protect, defend, and save the State, its elected and appointed officials, agents, and employees, while acting within the scope of their duties as such, harmless from and against all claims, demands, causes of action of any kind or character, including the cost of defense thereof, arising in favor of the Contractor's employees or third parties on account of bodily or personal injuries, death, or damage to property arising out of services performed or omissions of services or in any way resulting from the acts or omissions of the Contractor and/or its agents, employees, representatives, assigns, subcontractors, except the sole negligence of the State, under this agreement.

10. REQUIRED INSURANCE

10.1 General Requirements. The Contractor shall maintain for the duration of the contract, at its cost and expense, insurance against claims for injuries to persons or damages to property, including contractual liability, which may arise from or in connection with the performance of the work by the Contractor, agents, employees, representatives, assigns, or subcontractors. This insurance shall cover such claims as may be caused by any negligent act or omission.

10.2 Primary Insurance. The Contractor's insurance coverage shall be primary insurance with respect to the State, its officers, officials, employees, and volunteers and shall apply separately to each project or location. Any insurance or self-insurance maintained by the State, its officers, officials, employees or volunteers shall be excess of the Contractor's insurance and shall not contribute with it.

10.3 Specific Requirements for Professional Liability. The Contractor shall purchase and maintain occurrence coverage with combined single limits for each wrongful act of \$1,000,000 per occurrence and \$2,000,000 aggregate per year to cover such claims as may be caused by any act, omission, negligence of the Contractor or its officers, agents, representatives, assigns, or subcontractors. Note: if "occurrence" coverage is unavailable or cost prohibitive, the Contractor may provide "claims made" coverage provided the following conditions are met: (1) the commencement date of the contract must not fall outside the effective date of insurance coverage and it will be the retroactive date for insurance coverage in future years; and (2) the claims made policy must have a three-year tail for claims that are made (filed) after the cancellation or expiration date of the policy.

10.4 Deductibles and Self-Insured Retentions. Any deductible or self-insured retention must be declared to and approved by the state agency. At the request of the agency either: (1) the insurer shall reduce or eliminate such deductibles or self-insured retentions as respects the State, its officers, officials, employees, or volunteers; or (2) at the expense of the Contractor, the Contractor shall procure a bond guaranteeing payment of losses and related investigations, claims administration, and defense expenses.

10.5 Certificate of Insurance/Endorsements. A certificate of insurance from an insurer with a Best's rating of no less than A- indicating compliance with the required coverages, has been received by the State Procurement Bureau, P.O. Box 200135, Helena, MT 59620-0135. The Contractor must notify the State immediately, of any material change in insurance coverage, such as changes in limits, coverages, change in status of policy, etc. The State reserves the right to require complete copies of insurance policies at all times.

11. COMPLIANCE WITH WORKERS' COMPENSATION ACT

Contractors are required to comply with the provisions of the Montana Workers' Compensation Act while performing work for the State of Montana in accordance with sections 39-71-401, 39-71-405, and 39-71-417, MCA. Proof of compliance must be in the form of workers' compensation insurance, an independent contractor's exemption, or documentation of corporate officer status. Neither the contractor nor its employees are employees of the State. This insurance/exemption must be valid for the entire term of the contract. A renewal document must be sent to the State Procurement Bureau, P.O. Box 200135, Helena, MT 59620-0135, upon expiration.

12. COMPLIANCE WITH LAWS

The Contractor must, in performance of work under this contract, fully comply with all applicable federal, state, or local laws, rules, and regulations, including the Montana Human Rights Act, the Civil Rights Act of 1964, the Age Discrimination Act of 1975, the Americans with Disabilities Act of 1990, and Section 504 of the Rehabilitation Act of 1973. Any subletting or subcontracting by the Contractor subjects subcontractors to the same provision. In accordance with section 49-3-207, MCA, the Contractor agrees that the hiring of persons to perform the contract will be made on the basis of merit and qualifications and there will be no discrimination

based upon race, color, religion, creed, political ideas, sex, age, marital status, physical or mental disability, or national origin by the persons performing the contract.

13. INTELLECTUAL PROPERTY

All patent and other legal rights in or to inventions created in whole or in part under this contract must be available to the State for royalty-free and nonexclusive licensing. Both parties shall have a royalty-free, nonexclusive, and irrevocable right to reproduce, publish, or otherwise use and authorize others to use, copyrightable property created under this contract.

14. PATENT AND COPYRIGHT PROTECTION

14.1 Third-Party Claim. In the event of any claim by any third party against the State that the products furnished under this contract infringe upon or violate any patent or copyright, the State shall promptly notify Contractor. Contractor shall defend such claim, in the State's name or its own name, as appropriate, but at Contractor's expense. Contractor will indemnify the State against all costs, damages, and attorney's fees that accrue as a result of such claim. If the State reasonably concludes that its interests are not being properly protected, or if principles of governmental or public law are involved, it may enter any action.

14.2 Product Subject of Claim. If any product furnished is likely to or does become the subject of a claim of infringement of a patent or copyright, then Contractor may, at its option, procure for the State the right to continue using the alleged infringing product, or modify the product so that it becomes noninfringing. If none of the above options can be accomplished, or if the use of such product by the State shall be prevented by injunction, the State will determine if the Contract has been breached.

15. CONTRACT TERMINATION

15.1 Termination for Cause. The State may terminate this Contract in whole or in part at any time with 60 days written notice to the Contractor.

15.2 Reduction of Funding. The State must terminate this contract if funds are not appropriated or otherwise made available to support the State's continuation of performance of this Contract in a subsequent fiscal period. (See section 18-4-313(4), MCA.)

15.3 Conflict of Interest. If Contractor undergoes changes that would have made it ineligible to submit a response to RFP # 12-2189V, the Board may terminate this Contract.

16. LIAISON AND SERVICE OF NOTICES

All project management and coordination on behalf of the State shall be through a single point of contact designated as the State's liaison. Contractor shall designate a liaison that will provide the single point of contact for management and coordination of Contractor's work. All work performed pursuant to this contract shall be coordinated between the State's liaison and the Contractor's liaison.

David Ewer, Executive Director will be the liaison for the State.

Montana Board of Investments

Address: 2401 Colonial Drive, 3rd Floor

City: Helena, MT 59601

Telephone: 406-444-0001

Fax: 406-449-6579

E-mail: dewer@mt.gov

_____ will be the liaison for the Contractor.

(Address):

(City, State, ZIP):
Telephone:
Cell Phone:
Fax:
E-mail:

The State's liaison and Contractor's liaison may be changed by written notice to the other party. Written notices, requests, or complaints will first be directed to the liaison.

17. MEETINGS

The Contractor is required to meet with the State's personnel, or designated representatives, to resolve technical or contractual problems that may occur during the term of the contract or to discuss the progress made by Contractor and the State in the performance of their respective obligations, at no additional cost to the State. Meetings will occur as problems arise and will be coordinated by the State. The Contractor will be given a minimum of three full working days notice of meeting date, time, and location. Face-to-face meetings are desired. However, at the Contractor's option and expense, a conference call meeting may be substituted. Consistent failure to participate in problem resolution meetings, two consecutive missed or rescheduled meetings, or to make a good faith effort to resolve problems, may result in termination of the contract.

18. CONTRACTOR PERFORMANCE ASSESSMENTS

The State may do assessments of the Contractor's performance. This contract may be terminated for one or more poor performance assessments. Contractors will have the opportunity to respond to poor performance assessments. The State will make any final decision to terminate this contract based on the assessment and any related information, the Contractor's response and the severity of any negative performance assessment. The Contractor will be notified with a justification of contract termination. Performance assessments may be considered in future solicitations.

19. TRANSITION ASSISTANCE

If this contract is not renewed at the end of this term, or is terminated prior to the completion of a project, or if the work on a project is terminated, for any reason, the Contractor must provide for a reasonable period of time after the expiration or termination of this project or contract, all reasonable transition assistance requested by the State, to allow for the expired or terminated portion of the services to continue without interruption or adverse effect, and to facilitate the orderly transfer of such services to the State or its designees. Such transition assistance will be deemed by the parties to be governed by the terms and conditions of this contract, except for those terms or conditions that do not reasonably apply to such transition assistance. The State shall pay the Contractor for any resources utilized in performing such transition assistance at the most current rates provided by the contract. If there are no established contract rates, then the rate shall be mutually agreed upon. If the State terminates a project or this contract for cause, then the State will be entitled to offset the cost of paying the Contractor for the additional resources the Contractor utilized in providing transition assistance with any damages the State may have otherwise accrued as a result of said termination.

20. CHOICE OF LAW AND VENUE

This contract is governed by the laws of Montana. The parties agree that any litigation concerning this bid, proposal or subsequent contract must be brought in the First Judicial District in and for the County of Lewis and Clark, State of Montana and each party shall pay its own costs and attorney fees. (See section 18-1-401, MCA.)

21. SCOPE, AMENDMENT, AND INTERPRETATION

21.1 Contract. This contract consists of **(insert number)** numbered pages, any Attachments as required, RFP # **(insert RFP number)**, as amended and the Contractor's RFP response as amended. In the case of dispute or ambiguity about the minimum levels of performance by the Contractor the order of precedence of document interpretation is in the same order.

21.2 Entire Agreement. These documents contain the entire agreement of the parties. Any enlargement, alteration or modification requires a written amendment signed by both parties.

22. EXECUTION

The parties through their authorized agents have executed this contract on the dates set out below.

**DEPARTMENT OF COMMERCE
BOARD OF INVESTMENTS**
2401 Colonial Drive, 3rd Floor
Helena, MT 59601

(INSERT CONTRACTOR'S NAME)
(Insert Address)
(Insert City, State, Zip)
FEDERAL ID #

BY: _____
David Ewer, Executive Director

BY: _____
(Name/Title)

(Signature)

(Signature)

DATE: _____

DATE: _____

Approved as to Legal Content:

Legal Counsel (Date)

Approved as to Form:

Procurement Officer (Date)
State Procurement Bureau

APPENDIX C: BOARD OF INVESTMENTS' OPERATIONS

The following information can be found at the Montana Board of Investments website at:

<http://www.investmentmt.com/default.mcpX>

Click on the link below for the specific item.

[Constitution/Governing Law](#)

[Governance Policy](#)

[Functional Organization Chart](#)

[Pension Funds Investment Portfolio](#)

[Pension Funds Investment Policy Statement](#)

[Retirement Funds Bond Pool \(RFBP\) Investment Portfolio](#)

[Trust Funds Investment Pool \(TFIP\) Investment Portfolio](#)

[Montana Domestic Equity Pool \(MDEP\) Investment Portfolio](#)

[Montana International Equity Pool \(MTIP\) Investment Portfolio](#)

[Montana Private Equity Pool \(MPEP\) Investment Portfolio](#)

[Montana Real Estate Pool \(MTRP\) Investment Portfolio](#)

[Short Term Investment Pool \(STIP\) Investment Portfolio](#)

[RFBP Investment Policy Statement](#)

[TFIP Investment Policy Statement](#)

[MDEP Investment Policy Statement](#)

[MTIP Investment Policy Statement](#)

[MPEP Investment Policy Statement](#)

[STIP Investment Policy Statement](#)

APPENDIX D: CURRENT INVESTMENT MANAGERS

Domestic Equity Managers

International Equity Managers

Private Equity Managers

Private Real Estate Managers

Approved Fixed Income Managers

Artio Global Management, LLC.

Blackrock

Fidelity Investments

Neuberger Berman (formerly Lehman Brothers)

Post Advisory Group, LLC.

Reams Asset Management Company, LLC.

State Street Global Advisors

**MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX**

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

**MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX**

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

MONTANA BOARD OF INVESTMENTS PUBLIC MARKETS MANAGER EVALUATION POLICY

INTRODUCTION

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

The costs involved in transitioning assets between managed portfolios can be significant and have the potential to detract from returns. Therefore it is important that the decision process be based on a thorough assessment of relevant evaluation criteria prior to implementing any manager changes. Staff will consider such costs when deciding to add or subtract to manager weights within the pools as well as in deciding to retain or terminate managers.

MONITORING PROCESS

Periodic Reviews: Staff will conduct periodic reviews of the external managers and will document such periodic reviews and subsequent conclusions. Periodic reviews may include quarterly conference calls on portfolio performance and organizational issues as well as reviews conducted in the offices of the Montana Board of Investments (MBOI) and on-site at the offices of the external managers. Reviews will cover the broad manager evaluation criteria indicated in this policy as well as further, more-detailed analysis related to the criteria as needed.

Continual Assessment: Staff will make a continual assessment of the external managers by establishing and maintaining manager profiles, monitoring company actions, and analyzing the performance of the portfolios managed with the use of in-house data bases and sophisticated analytical systems, including systems accessed through the Master Custodian and the Investment Consultant. This process culminates in a judgment which takes into account all aspects of the manager's working relationship with MBOI, including portfolio performance.

Staff will actively work with the Investment Consultant in the assessment of managers which will include use of database research, conference calls and discussions specific to each manager, and in any consideration of actions to be taken with respect to managers.

It is also important to note that our manager contracts are limited to a seven year term. While we may choose to issue a RFP at any time as deemed appropriate, this contractual provision will eventually force us to issue a RFP to which the manager may respond and be subject to re-evaluation against his/her peers.

MANAGER EVALUATIONS

The evaluation of managers includes the assessment of the managers with respect to the following qualitative and quantitative criteria.

Qualitative Criteria:

- Firm ownership and/or structure
- Stability of personnel
- Client base and/or assets under management
- Adherence to investment philosophy and style (style drift)
- Unique macroeconomic and capital market events that affect manager performance
- Client service, reporting, and reconciliation issues
- Ethics and regulatory issues
- Compliance with respect to contract and investment guidelines
- Asset allocation strategy changes that affect manager funding levels

Quantitative Criteria:

- Performance versus benchmark – Performance of managers is evaluated on a three-year rolling period after fees.
- Performance versus peer group – Performance of managers is evaluated on a three-year rolling period before fees.
- Performance attribution versus benchmark – Performance of managers is evaluated on a quarterly and annual basis.
- Other measures of performance, including the following statistical measures:
 - Tracking error
 - Information ratio
 - Sharpe ratio
 - Alpha and Beta

PERFORMANCE MEASUREMENT

Performance calculations and relative performance measurement compared to the relevant benchmark(s) and peer groups are based on a daily time-weighted rate of return. The official book of record for performance measurement is the Master Custodian.

The performance periods relevant to the manager review process will depend in part on market conditions and whether any unique circumstances are apparent that may impact a manager's performance strength or weakness. Generally, however, a measurement period should be sufficiently long to enable observation across a variety of different market conditions. This would suggest a normal evaluation period of three to five years.

ACTIONS

Watch List Status: Staff will maintain a "Watch List" of external managers that have been noted to have deficiencies in one or more evaluation criteria. An external manager may be put on the "Watch List" for deficiencies in any of the above mentioned criteria or for any other reason deemed necessary by the Chief Investment Officer (CIO). A manager may be removed from the "Watch List" if the CIO is satisfied that the concerns which led to such status have been remedied and/or no longer apply.

Termination: The CIO may terminate a manager at any time for any reason deemed to be prudent and necessary and consistent with the terms of the appropriate contract.

ROLES AND RESPONSIBILITIES

CIO: The CIO is responsible for the final decision regarding retention of managers, placement on and removal of “Watch List” status, and termination of managers.

Staff: Staff is responsible for monitoring external managers, portfolio allocations and recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO.

Investment Consultant: The consultant is responsible for assisting staff in monitoring and evaluating managers and for reporting independently to the Board on a quarterly basis.

External Managers: The external managers are responsible for all aspects of portfolio management as set forth in their respective contracts and investment guidelines. Managers also must communicate with staff as needed regarding investment strategies and results in a consistent manner. Managers must cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the Investment Consultant and the Custodian.