REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE
May 29, 2013
Billings, Northern Hotel
19 North Broadway (28th Street)
Babcock Room, 2nd Floor

COMMITTEE MEETINGS

A. Human Resource Committee **9:30 AM**

Public Comment – *Public Comment on issues with Committee Jurisdiction*

1. Comments from Executive Director
2. Exempt Staff Compensation – ***Recommendation***
3. Governance Manual – ***Recommendation***

B. Audit Committee **10:30 AM**

Public Comment – *Public Comment on issues with Committee Jurisdiction*

1. Securities and Exchange Commission Inquiry Update
2. Fiscal Year 2013 Internal Controls Review Update

C. Loan Committee **11:00 AM**

Public Comment – *Public Comment on issues with Committee Jurisdiction*

1. INTERCAP Finance Team Follow-up
2. INTERCAP Loan Requests – ***Decision***
3. Rule Repeal, information only, Montana Capital Company Act
4. Policy Review and ***Recommendations***
   a. Loan Program Policy Changes
   b. Treasurer's Fund Investment Policy Statement Change to Accommodate Montana Comprehensive Health Association (MCHA) Loan
5. Investment/Loan to MCHA – ***Recommendation***

BREAK **11:30 AM**

Tab 1 CALL TO ORDER – Mark Noennig, Chairman **11:40 AM**

A. Roll Call
B. Introduction of Newly Appointed Legislative Liaisons
C. Approval of the April 2013 Meeting Minutes
D. Public Comment – *Public Comment on issues with Board Jurisdiction*
E. Administrative Business
   1. Human Resource Committee Report – ***Decision***
   2. Audit Committee Report
   3. Loan Committee Report
      a. Policy Changes
         i. Loan Programs – ***Decision***
         ii. Treasurer's Fund Investment Policy Statement Change to Accommodate Montana Comprehensive Health Association Loan – Decision
      b. Investment/Loan to MCHA - ***Decision***

LUNCH SERVED **12:00 PM**

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.

Tab 2 EXECUTIVE DIRECTOR REPORTS – David Ewer **12:30 PM**

A. Board Member Requests from Prior Meeting
   1. Board Education Dates
   2. Asset Allocation Process for November Meeting
   3. Due-diligence Follow-up
   4. Letters of Appreciation to Former Board Members
B. Quarterly Cost Report
C. October Meeting, Recommendation to Cancel
D. Montana Capital Company Rule Repeal
E. Staffing and Budget
F. Legislative Session (Including comments from Board's Legislative Liaisons)
G. Board Member Training

Tab 3 MONTANA LOAN PROGRAM – Herb Kulow, CMB **1:00 PM**

A. Commercial and Residential Portfolios Report

Tab 4 BOND PROGRAM – Louise Welsh **1:20 PM**

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

Tab 5 BOARD'S REAL ESTATE HOLDINGS IN MONTANA - Geri Burton **1:40 PM**

CONSULTANT REPORT – R. V. Kuhns and Associates **2:00 PM**

A. Quarterly Performance Report

BREAK **2:30 PM**

Tab 6 INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA and Staff **2:45 PM**

A. Retirement System Asset Allocation Report
B. Fixed Income Reports
   1. Bond Pools (RFBP and TFIP) – **Nathan Sax, CFA**
   2. Below Investment Grade Holdings
   3. Short Term (STIP) and Other Fixed Income Portfolios – **Richard Cooley, CFA**
   4. Trust Funds Investment Pool Policy Statement **– *Decision***
C. Public Equity Pool Reports – **Rande Muffick, CFA**
   1. Domestic Equity (MDEP)
   2. International Equity (MTIP)
D. Private Asset Pool Reports – **Ethan Hurley, CAIA**
   1. Private Equity Pool (MPEP)
   2. Real Estate Pool (MTRP)

PERS/TRS Update – Sheena Wilson, PERS Representative and Marilyn Ryan, TRS Representative

RECAP OF STAFF TO DO LIST AND ADJOURNMENT – Mark Noennig, Chairman **4:20 PM**

Tab 7

A. Acronym Index
B. Work Plan – 2013
C. Annual Board Meeting Schedule

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

MINUTES OF THE MEETING
April 2, 2013

BOARD MEMBERS PRESENT:
Mark Noennig, Chairman (via conference call)
Kathy Bessette
Gary Buchanan
Sheena Wilson
Karl Englund
Quinton Nyman
Jack Prothero
Marilyn Ryan
Jon Satre

LEGISLATIVE LIAISONS:
Senator Ed Buttrey – Absent
Representative Franke Wilmer – Absent

STAFF PRESENT:
Polly Boutin, Accountant
Jason Brent, CFA, Alternative Investments Analyst
Geri Burton, Deputy Director
Dana Chapman, Board Secretary
Richard Cooley, CFA, Portfolio Manager, Fixed Income/STIP
Frank Cornwell, CPA, Deputy Financial Manager
Roberta Diaz, Accountant
David Ewer, Executive Director
Julie Flynn, Bond Program Officer
Tim House, Investment Operations Chief
Ed Kelly, Alternative Investments Analyst
Herb Kulow, MCMB, Portfolio Manager, In-State Loan Program
April Madden, Accountant
Gayle Moon, CPA, Financial Manager
Rande Muffick, CFA, Portfolio Manager, Public Equities
Chris Phillips, CFA, Investment Staff
Jon Putnam, CFA, FRM, Fixed Income Investment Analyst
Nancy Rivera, Credit Analyst
John Romasko, CFA, CPA, Fixed Income Investment Analyst
Nathan Sax, CFA, Portfolio Manager, Fixed Income
Clifford A. Sheets, CFA, Chief Investment Officer
Steve Strong, Equity Investment Analyst
Louise Welsh, Senior Bond Program Officer
Dan Zarling, CFA, Director of Research

GUESTS:
Jim Voytko, R.V. Kuhns and Associates
Mark Higgins, R.V. Kuhns and Associates
John Harrington, Legislative Audit Division
Michelle Barstad, Executive Director, Montana Finance Facility Authority
John Marchi, Board Chairman, Montana Finance Facility Authority
Larry Putnam, Board Member, Montana Finance Facility Authority

CALL TO ORDER
Board Chairman Mark Noennig called the regular meeting of the Board of Investments (Board) to order at 10:00 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. Senator Ed Buttrey and Representative Franke Wilmer were absent.

Return to Agenda

Call to Order

Chairman Noennig introduced newly appointed Board member Sheena Wilson. Sheena is the Public Employees' Retirement System (PERS) representative to the Board. The Chairman then asked Board and staff members to introduce themselves.

Chairman Noennig called for any corrections or revisions to the Board minutes from the February 26-27, 2013 meeting. Member Gary Buchanan asked that the paragraph on page 17 of the minutes referencing the positive return of 11 basis points for the annualized ten year period be struck from the minutes.

> *"Executive Director Ewer noted performance for annualized ten year returns shows a positive relative return of 11 basis points. The Board has implemented important asset allocation changes focusing on the long term which is vital."*

> After a brief discussion Member Buchanan made a motion to delete the noted paragraph from the February 26-27, 2013 Board minutes. Member Karl Englund seconded. The Motion was carried 9-0.

> Board Member Buchanan made a Motion to approve the Minutes of the Board meeting on February 26-27, 2013, as amended. Member Englund seconded the Motion. The Motion was carried 9-0.

Chairman Noennig asked for public comment. There was no public comment.

EXECUTIVE DIRECTOR'S REPORT

Overall Comments

Executive Director Ewer presented his executive director's memo. There were no questions or comments on member requests from prior meetings, emergency preparedness or CEM Benchmarking. He noted the BOI budget is our biggest legislative issue and remains intact; it is currently in the Senate Finance and Claims Committee with House Bill 2. The two bills which would have directly affected the Board with respect to creation of a state bank have been tabled. The pension issue is still percolating, no new news at this time.

Member Jack Prothero asked for input from one of the Board's pension representatives, Teachers' Retirement System (TRS) or PERS, to comment on how they see the pension legislation proceeding.

Member Marilyn Ryan, the TRS representative, commented the legislation that has moved on is positive. It doesn't include everything the TRS Board had hoped for but it does a good job. There are still competing bills moving along, including the Governor's bill. She noted that at this point, they are waiting for both houses to cooperate, but there is nothing dire right now.

Member Sheena Wilson advised as the newly appointed representative she will miss her first PERS meeting as it is scheduled for this afternoon, but will attend the meeting next week.

Member Quinton Nyman added that the Montana Public Employees Association has changed course and is now in support of HB 454. There is a referendum sponsored by Representative Dee Brown which would require new hires to become members of a defined contribution plan, but there are lots of unresolved issues with it.

Executive Director Ewer continued with his report. Regarding Board education, he reminded the Board that the Institute for Financial Education (IFE) will again be holding the Market Makers conference. Last year, Member Jon Satre and past Member Jim Turcotte, as well as Executive Director Ewer, attended and it proved beneficial. The Board can send up to three attendees to the conference this year.

Member Buchanan requested that staff alert members as soon as possible regarding available upcoming conferences and dates and conference topics along with links to the conference information. The information could prove helpful, especially when there is short notice for an upcoming conference. Executive Director Ewer said this would be done.

Executive Director Ewer stated he requested that Board members take a look at the BOI website and provide staff with any feedback on improvements or changes. The site is a continual work in progress and will be updated and expanded with relevant information as necessary. Some recent changes include posting the Board's Administrative Rules and adding more of the Board's policies.

ASSET ALLOCATION

Chief Investment Officer Mr. Cliff Sheets and R.V. Kuhns associates, Mr. Jim Voytko and Mr. Mark Higgins presented a discussion on asset allocation.

Mr. Voytko started off and offered that it is a discussion, an opportunity to step back and do a deep dive into what it is for and what are the multiple hurdles that you have to consider when structuring a fund that has multiple billions of dollars in it. When exploring the nature of asset allocation, it's important to differentiate between an asset allocation study and an asset liability study. They are not the same thing, even though an asset allocation study is one that focuses on the investments in the context of balancing the risks and returns. The sole focus is on the investments; it is aware of the liabilities, the objectives, but does not formally integrate them into the analysis. It is where pragmatism gets reflected. While it works in theory to have asset allocation, it does not consider fees, for example, or managers or products that could be integrated but are not available.

An asset allocation liability study embeds within it multiple asset allocation studies but in a different context. It is very useful as it steps back and widens the context of the view; what's going on with the investments. Asset liability considers the three parts which must be considered in a pension fund, investments, contributions and liabilities (distributions). Different objectives and a world view in scope are looked at. Financial folks love models, and while models have been central to financial analysis, they have to be handled with care as a bad model can take you to a bad place. Models can be very helpful when they structure the evaluation to give you a context to make tradeoffs, but they don't make the decision for you.

Risk is the first factor to address, although investors all love to jump to return, risk is equally important. It's important to understand there are many different kinds of risk. We will address volatility risk, but also liquidity risk. Many risks have to be balanced, volatility is most commonly used, determining how much the value of a total fund will fluctuate up and down, and how damaging will it be to long term returns. Equity beta is a derivative of volatility, and equities are the most volatile major asset class contributing 75 to 85 percent of volatility. Liquidity risk is also very important as evidenced in the 2008-2009 financial crisis when values were so low that it was very painful to sell assets. Long term investments as long term vehicles were lacking liquidity.

Valuation risk is another factor, whether things are over or under valued, but this can be difficult to determine. Goal risk must be considered; what kind of risks are you taking that increase the risk you may not reach your ultimate goal, called actuarial risk. A lot of boards faced with a low return outlook have had to look at other risks such as volatility or liquidity when considering actuarial goals. Concentration risk occurs with a lack of diversification in your portfolio, diversification over time provides the safest portfolios.

And finally, headline risk, such as an article in the papers that makes everyone look bad, which can lead to restrictions to your portfolio. Extreme cases can threaten the structure of pension plans.

Mean Variance Optimization (MVO) is an important tool we use to determine asset allocation. The analytic tool dates back to the 1950's and its originator won a Nobel Prize. It is important because it is a mathematical technique; it can only measure things that can be measured and measured well. It reveals an incomplete picture, but a very structured picture, and serves institutional investors as a starting point to begin structuring very large institutional portfolios.

Member Satre noted that after the financial crisis of 2008-2009, MVO received a lot of bad press and he asked if there were discussions of alternatives to MVO at that time.

Mr. Voytko advised that during 2008-2009 one of most unusual things about the downturn was not how big the downturn was but how but how broad it was through all asset classes, with the single exception of U.S. Treasuries. That contrasted with the 2001-2002 downturn where bonds did better than stocks, and so diversification played an important role. Diversification played much less of a role in 2008-2009. That led investors to question whether diversification had failed. This resulted in a push to improve the way we do MVO, and incorporating liquidity metrics is one aspect. For all the talk about finding a better replacement, no one has come up with one as structured and disciplined as MVO. We have come up with something that is useful and descriptive which is thematic diversification. This looks at not just how diversified you are, but which investments do you have whose primary purpose is return, which investments act in a stabilizing role in the value of the portfolio by providing low volatility and which investments produce alpha, or excess return. Starting with the basic MVO and then looking at the thematic view, diversification as to what assets provide which primary purpose is a significant change. But it is an additive, not replacement for MVO.

Volatility matters for many reasons, primarily because it actually reduces long term return. Looking at up and down annual returns, your ending value will decrease as volatile assets grow slower over multiple periods of time. For example you have $100 dollars and then lose 50% of your value, you now need to gain back 100% of the value just to get back to where you started. Volatility is the enemy of long term returns. When looking at the relationship between annual standard deviation, volatility and expected compound return, as volatility increases, compound return falls off, even when expected return remains the same.

Another disturbing factor about volatility is that it also increases your downside risk because it's symmetrical, volatile up and down, so you have to be mindful about downside leg. The highest median expected value has the biggest downside leg. We don't automatically look at a high risk portfolio and expect the median, there is some probability you will end up in the downside leg over the long term. While not likely, it exists as a distinct possibility. As a home run hitter swings for home runs but will strike out more, when swinging hard you miss more often. This is where fiduciary oversight is important.

Member Englund observed that with increased volatility it appears that the chance of winding up at the extreme downside of returns outweighs the chance of landing on the extreme upside of returns with excess volatility. Mr. Voytko confirmed yes, over time the downside leg is actually more likely than the upside leg. The return odds are not truly symmetrical and the left hand tails are in fact fatter than the upside, meaning downside risk is more likely than extreme upside return.

When structuring your fund for asset allocation, the ultimate question becomes how do you get the most amount of return with the least amount of risk. With diversification, the question is do your investments fluctuate in synch with one another, or not. If they fluctuate the same then when one goes up or down, so do the others, causing the total fund to move up or down at the same time. If investments do not fluctuate at the same times in the same way, when one goes up, one goes down, which charts a middle course for lower volatility, lower risk and the same return. Less volatility therefore, over time improves performance. Correlation and diversification function as the antidote for volatility, and while not perfect, it is the best we have.

MVO does have blind spots. Number one, risk is not all about volatility; while the model assumes all investments have the same liquidity, this is not true in the real world, i.e. private equity and private real estate have severe penalties when pulling out liquidity. There is also no headline risk consideration, and the assumption is that all classes have same environment. Second, real investors don't value upside as much as they fear downsides, but MVO treats fluctuation equally, in the model view fluctuation is fluctuation. Third, nonsymmetrical fluctuation must have adjustments to MVO. Fourth, correlations are always in the future, but when planning stability for the future it is based on past events, and in the short term conditions can contract and expand. MVO does not tell you the true short term downside as it doesn't account for correlations moving together over the short term. And finally, most models are driven by assumptions and rules you put in the mix. If a model says an action is beneficial, it may suggest doing more to achieve greater benefit, but it does not reflect real life situations. We know it is not wise because of our assumptions. We like the model structure to give us input, but it cannot predict the future to that level of accuracy. Bounds are placed around the model; we know for example 70% equity carries a lot of risk, so we may cap them at 65%. The model also doesn't account for the rebalancing effect, so is not perfect. It's always helpful to know what the model shortcomings are and to use common sense.

Member Satre stated that during the 2008-2009 crisis, with the highly improbable market conditions, R.V. Kuhns developed some bolt-ons to aid through the rough market conditions and asked what those were.

Mr. Voytko stated an MVO will be used with non-normal situations and liquidity measured, but other helpful additional bolt-ons tools will be considered. More data was incorporated on the liability study which looked at how fast the portfolio would have to grow in order to make up for the shortfall in contribution policy. It was a pretty high number. We look at possible fixes, for instance we have to always look at the yield curve which the central banks have forced us to work with. That's not going to be permanent, but is an adaption to the current situation.

Responding to a question from Member Buchanan, Mr. Voytko stated Fed policy is always a factor, particularly at the short end of the curve. The current Fed policy has influence over the entire yield curve and the magnitude is 10 to 15 times that of past Fed policies.

We look at asset allocation versus the other decisions that boards are asked to make, such as how influential risk and return are in one class versus another. Since the late 1980's, the asset allocation decisions, how you structure your portfolio, is by far the most important decision a board makes regarding risk and return. Exposure to asset classes, which ones and how much of each is your first consideration, followed by manager selection at a distant second. A number of clients ask us to regularly perform a disaggregation of returns of portfolios, to tear apart the portfolio and determine where the real source of return was, exactly where it came from.

The magnitude of all other decisions pales in comparison to the fundamental decision of which asset classes you're invested in and how much. Whether passive or active, this sets the stage for 90% of your return, the rest of the decisions are an effort to enhance those returns. It helps to keep in mind when constituents come asking, that in cases where all capital markets are down and negative, it is unreasonable to ask why no money was made. In those cases there is no money to be made. Much of return is driven by what capital markets present to you.

In summary, risk is fluctuation, but in particular it is difficult if not impossible to recover from. Asset allocation is the most important decision that sets the stage. MVO has limitations but can help structure, valuation risk when you have to raise money to pay benefits, contributions, liquidity risk which is why we do pacing studies, you don't want to lock up too much money relative to your needs; and manager risk, which affects all areas where you have them, not just monitoring but the initial hiring. When thinking about a portfolio of multiple assets, you must look at multiple factors, there is no one single metric that drives everything, there are several factors and they have to be in balance. What asset classes will you use, do you need to adjust your exposure by eliminating some you have or by adding those you don't have. The asset classes are the building blocks to a portfolio, you want to weigh the pros and cons and see if there are recommended changes. The model may push you to a corner solution recommending an overweight on a slightly more advantageous asset, which judgment dictates is not favorable. Another option is to review whether you want to utilize asset class ranges or change to a target allocation, a point estimate with a range around it. We have discussed target allocations at past Board meeting and can revisit if desired.

Member Englund inquired how to separate out your target allocation from your manager selection since your target allocation is invested with managers.

Mr. Higgins stated your target allocation is if you essentially take all of your indexes that you are benchmarked against and instead you just invest passively in those indexes, that is the return you would've gotten, if not invested with managers. Mr. Voytko added the manager's performance determines whether they do better than the assigned benchmark or not, so you do not give credit to the manager because the market itself went up 10%, that return belongs to the Board, because they made that determination to invest in that particular asset class. What you pin down is what effect did having a manager managing those assets have.

Mr. Sheets added it is important to understand that target allocation is driven by a fixed weight so it goes to the decision of setting a fixed weight as your target. To calculate the target you have to know what percent you have in domestic stocks, etc. It also gets into what is the correct benchmark to represent each asset class. Liquidity is not a constant either, and can vary; it's a static measure and yet we know it can change dramatically as in 2008 and 2009, when U.S. Treasuries were the only assets trading freely, whereas in the current market liquidity in high risk assets is good.

Mr. Voytko commented a number of unusual things occurred in 2008-2009 which he had never seen before, such as traditional standard fixed income being as illiquid as it was.

Mr. Mark Higgins referred to the asset allocation study prepared by R.V. Kuhns. It's important to note asset allocation analysis is only as good as the data input into it. All asset classes are looked at on an annual and historical basis, valuation attributes and other extenuating circumstances such as Federal Reserve policy are taken into account, then long term forecast expectations are determined for the different asset classes. We have seen some declines in long term return expectations, especially equities, given the strains for an extended period of time, although 2012 and 2013 have been stable. The big message in 2012 to 2013 is that fixed income has substantially declined; the basic math of the low interest rates, even over the long term, makes it impossible to get a good return. Expectations have also been lowered on intermediate term; however, high yield still has relatively attractive returns, although 100 basis points lower than 2012. Clients are very concerned and our expectations may actually be higher than the average; a lot of folks are less optimistic. Cash is basically zero now, but if you look forward 15 or 20 years, rates are going to go up over the long term.

Mr. Voytko added cash equivalents are expected to be much higher in the future. The assumption, although debatable, is that the Fed will not sit on cash returns forever. If the Fed sits on cash long enough, real returns structurally are hard to predict. The forward looking assumption takes a reasonable approach to predicting the forecast for all asset classes. Responding to a question from Member Prothero, the forecast for domestic equity is 7.75%, the same as for 2012, although volatility has ticked up.

Mr. Higgins noted that when calculating the standard deviation, S&P historical returns for each asset class are analyzed, putting more weight on the last 10 years rather than the 100 year history. He added the benefit of diversification by asset classes which do not move in synchronized correlation has weakened over time. Core real estate for example provides more diversification; small and midcap U.S. equities move together, therefore do not provide as much diversification benefit.

Mr. Voytko stated large and midcaps make up the single largest allocation for institutional investors and as all equities are similar in correlation, fixed income improves the compound return even as returns have remained low, by diversifying correlation. Responding to a question from Member Satre, Mr. Higgins noted that while hedge funds would offer different kinds of variables, it would all depend on which funds you select and your specific strategy. Mr. Higgins reviewed an MVO analysis which was run on 12 varying scenarios using the current allocation ranges and using wider ranges. The return compound within the current ranges using the top versus the bottom of the ranges did not vary substantially due to the narrow ranges in effect.

Mr. Sheets explained that staff looked at the MVO display using the current ranges to determine what changes could be made quickly if needed. If staff chose to lean more conservative while staying within the 60% equity floor, core real estate could be increased and small cap, emerging markets and fixed income high yield could be decreased. For a more aggressive approach small cap and fixed income high yield would be ramped up. Following either approach, the changes could be made over the course of a quarter.

Mr. Higgins noted the portfolio is currently fairly aggressive. Mr. Voytko added that when looking at capital appreciation strategies of asset allocation, a conservative approach shows less capital appreciation but raises your chance of capital preservation.

Mr. Higgins stated when looking at expanding the current ranges to get a view without the narrow constraints, the overall return goes up broadly; however, the sacrifice of going more aggressive is reduction in liquidity which will be more of an issue five or ten years in the future. The increase in return may not be an acceptable risk, considering the decrease in liquidity.

Member Buchanan asked if policy changes are being considered. Mr. Higgins indicated expanding to other asset classes not currently held, or adjusting the current ranges for each class, or switching to a target allocation, are all options which can be considered.

Executive Director Ewer noted asset allocation discussions are scheduled twice on the 2013 work plan, April and November, and that the Board's investment policy requires that the Board annually either reaffirm or change the asset allocation ranges for asset classes. Staff will have recommendations for the Board at the November meeting. Demands on liquidity, options for more or less risk or adjusting strategy to get closer to the actuarial assumed return will be considered. Mr. Sheets added that approximately $46 million in cash gross average per month is going out, with an estimate of $5 to $8 million net of contributions and income. Perhaps a liability study would be beneficial. Any aggressive change would mean a commitment of many years ('a generation'). The outcome of the Montana legislature could be a key factor as well.

Mr. Voytko added the assumed actuarial rate sets the contribution level determined by the legislature, and actuarial risk can affect the contribution level. Certain types of risk such as liquidity risk become vital. Contributions are the best source to pay benefits with.

<u>Meg O'Leary, Director, Department of Commerce</u>
Member Karl Englund introduced the new director for the Department of Commerce, Ms. Meg O'Leary. Ms. O'Leary noted this was week 13 on the job as the new director, although she met with MBOI staff shortly after coming on board. Ms. O'Leary expressed her interest in getting to know the functions of the Board and remarked that Executive Director Ewer, Deputy Director Geri Burton, Chief Investment Officer Sheets, Financial Manager Gayle Moon and Portfolio Manager Herb Kulow have all been very helpful.

ASSET ALLOCATION, continued

Mr. Jim Voytko reviewed the Monte Carlo Simulation results chart. Using the current established asset class ranges there is a 40% chance of meeting the actuarial expected return of 7.75% over a ten year period. By increasing both contributions and risk you could near a 50% probability of meeting the 7.75% goal, but it would likely cost liquidity. All costs and risks must be considered. If the actuarial rate is higher than 7.75% the costs to the current members would be a burden to contributors. By taking on more risk the downside risk also increases. Reducing the expected return to 7.50% or 7.25% would make a difference, but contributions would have to be increased, which has not happened in Montana.

Mr. Sheets noted that return expectations must be tied to contributions, otherwise confidence in the system is hard to maintain. By failing to fund the current system, the main focus is on return only. Without a hardwired connection between returns and contributions and by failing to look at all the ingredients, the plan is less stable.

Mr. Voytko explained the volatility risk can be lowered but liquidity risk and goal risk, the ability to reach your desired return, would be the tradeoffs. Mr. Higgins added broad ranges would add more options and increase your probability of reaching your 7.75%. Mr. Voytko stated if you chose a conservative approach, although you would have increased stability, there is very little chance of achieving the 7.75%. If liquidity risk increases over the long term, such as if your contributor group decreases, you would have to reduce risk to stabilize the portfolio.

Mr. Higgins reviewed asset allocation options available. Asset class coverage is already very well diversified; only two classes, commodities and hedge funds are not included, although fixed income does contain "other real assets." Asset class ranges are somewhat narrow and could be expanded, or conversion to a fixed weight benchmark could be implemented, which would enable measurement of effective deviation from the target. Some of the drawbacks of using a target allocation include consideration of factors beyond your control, such as having to rebalance as the market moves, and it can take five to ten years to realize the positive effects. Additionally, you have transition costs when rebalancing to the target.

Mr. Voytko added that concerns are shared with staff which has looked in depth at the target allocation option. Responding to the Board's request to find areas of improvement to analyze the breakdown determining where returns specifically are realized, a target allocation would allow that analysis.

Member Satre asked what liability driven investing consists of, and do we do it?

Mr. Voytko explained with liability driven investing you literally manage to finance liabilities by managing the funding ratio of a defined benefit plan. You are restricted to a very conservative approach dictated by input and offset.

After a brief discussion, Board members agreed to add as an agenda item for the May Board meeting, a review of the timing and appropriateness of conducting an asset liability study. Results of legislative action and any determination by the actuary will help clarify if a study would be beneficial.

INVESTMENT MANAGER ADDITIONS

Real Estate Manager Additions – Mr. Cliff Sheets, CFA, Mr. Ethan Hurley, Portfolio Manager

Mr. Ethan Hurley presented the addition of one fund commitment since the last Board meeting. A commitment of $20 million was made to GEM Realty Fund V, following a Fund IV commitment made in June of 2010 of $15 million. Fund V will invest in all major property types, mostly in North America, in the form of distressed debt and equity investments. They have performed well with the existing relationship. The partners have invested a substantial amount of their own money and they utilize a multitude of strategies. They have been flexible and consistent performers through various market cycles. The fee structure is favorable at 1.5% of 90% of the commitment, as they rarely commit the full 100% amount. Mr. Hurley added they have a 9% hurdle which requires the original invested amount, along with 9% compounded interest, management fees and organization expenses to be returned before the general partner receive any profits.

Executive Director Ewer noted that because of the unique characteristics of private equity, they return our costs plus a 9% return, to compensate for the associated risks and high costs of private equity, or in this case private real estate.

Mr. Sheets added for both real estate and private equity the structures are set up to align the general partners with the limited partners.

Fund Name	Vintage	Subclass	Property Type	Amount	Date
GEM Realty Fund V, LP	2013	Opportunistic	Diverse	$20M	2/28/13

Domestic Equity Manager Additions – Rande R. Muffick, CFA

Mr. Rande Muffick reported that the first step in the domestic small cap manager search is complete and two managers have been hired. Both have long term performance and stable management teams and pick stocks differently from our current managers which will serve to diversify and make for a lower correlation.

Metropolitan West Capital Management, LLC is a small cap value company and tends to have returns with stronger upside capture in an up market, the opposite of current manager Vaughn Nelson. ING Investment Management Co. LLC is a small cap growth manager and tend to do better in down markets so should offset current manager Alliance Bernstein. The contacts have been signed and each new manager will start with an initial funding of $20 to $25 million in April. The new contracts represent a lot of time and effort by staff. Steve Strong performed the initial analysis after starting with the Factset Data Base and R.V. Kuhns and Associates offered input and provided a list of other potential managers and actually recommended Metropolitan West. Fees for the two managers are on the high side but are in line with current manager fees.

The search for domestic midcap managers is about three quarters completed and we are close to hiring one manager.

POLICY REVIEW

Board Policy and Rule Review – Mr. David Ewer, Executive Director

Executive Director David Ewer outlined staff recommendations for policy changes which have been reviewed in accordance with the 24 month work plan. The four general policy groups for the Board are Governance, Investments, Operational and Lending Programs. Board rules, which have not changed since 2000, are currently being reviewed by staff. Many rules still in effect apply to programs that are no longer in existence. Staff may present proposed rule changes at a future date before the Board. Staff is recommending changes to the Governance Policy and the Education Policy, as well as revisions to investment policies which will be presented later in the meeting by Mr. Cliff Sheets.

Mr. Ewer reviewed the proposed changes to the Governance Policy. The recommended changes include several housekeeping items and the addition of the new Appendix K which lists all of the Administrative Rules relative to the Board and a list of all the policy statements which are available on the BOI webpage.

Responding to a question from Member Buchanan, Mr. Ewer clarified that while the executive branch budget process is completed on a biennial basis, staff will present a BOI budget update to the Board at the August meeting.

> Board Member Karl Englund made a Motion to approve the staff recommended revisions to the Governance Policy. Member Jon Satre seconded the Motion. The Motion was carried 9-0.

<u>Investment Policy Statements – Mr. Cliff Sheets, CFA, Chief Investment Officer</u>
Mr. Sheets presented staff recommendations for changes to investment policies. Minor housekeeping changes were made to several policies which did not materially change the policies and those are not being presented for Board approval.

Three pollution mitigation fund policies were revised increasing the STIP range to allow for increased liquidity needs:

1. Streamside Tailings Operable Settlement Fund (MU19);
2. Upper Clark Fork River Basin (UCFRB) Restoration Fund (MU21); and
3. Butte Area One Restoration Fund (MU3F).

> Board Member Gary Buchanan made a Motion to approve the three revised pollution mitigation policies as presented. Member Kathy Bessette seconded the Motion. The Motion was carried 9-0.

Mr. Sheets presented two new investment policy statements:

1. Montana State University Operating Fund (MU81); and
2. Montana Tech Operating Fund (MU80).

Both new operating funds will utilize only STIP and TFIP as eligible investments.

> Board Member Englund made a Motion to approve the Montana State University Operating Fund and Montana Tech Operating Fund policies as presented. Member Sheena Wilson seconded the Motion. The Motion was carried 9-0.

Mr. Sheets presented the proposed revised changes to the two bond pool policy statements:

1. Core Internal Bond Pool (CIBP)(MU40)
2. Trust Funds Investment Pool (TFIP)(MU41)

The changes to the policy statements for the two funds clarify that purchases shall be rated at investment grade at time of purchase. Additionally, if a holding is downgraded, automatic sale will not be required but may, at the manager's discretion, be held. Any security which may have been downgraded to below investment grade will be assigned an internal rating by staff. Policy ranges have been changed to reflect changes in the benchmark and cash has been removed since the amount of cash held is a by-product of duration.

Responding to a question from Member Buchanan, Mr. Sheets detailed the changes to the index, which has changed substantially over the last four years. Corporate credit has increased as corporations have issued bonds seeking to increase liquidity and mortgage backed securities decreased from 36% to 29%. The sector ranges have been adjusted to accommodate index drift and portfolio manager preferences.

> Board Member Jack Prothero made a Motion to approve the Core Internal Bond Pool and Trust Funds Investment Pool investment policies as presented. Member Kathy Bessette seconded the Motion. The Motion was carried 9-0.

Mr. Sheets presented the proposed revisions to the Montana Private Equity Pool (MPEP)(MU47). Several language clarifications and simplifications were made. Policy ranges were tightened for debt related and venture capital. The individual limit on fund-of-funds managers has been removed as it is no longer relevant given current portfolio composition and the relative weight in funds managed by Adams Street Partners. The language referencing due diligence was removed as staff uses a comprehensive process, including a checklist, which is part of the normal underwriting process conducted prior to each commitment decision.

> Board Member Jack Prothero made a Motion to approve the Montana Private Equity Pool investment policy as presented. Member Kathy Bessette seconded the Motion. The Motion was carried 9-0.

Member Englund asked if the Board had ever seen the checklist for managers used by staff and Mr. Sheets stated that the checklist was presented to the Board about two years ago. Mr. Rande Muffick added that public equity managers also have a review process that includes a checklist now that a Request for Proposal (RFP) is no longer required to hire external managers.

After a brief discussion regarding due diligence procedures followed by staff, it was agreed by consensus to add an agenda item for presentation to the Board of the due diligence process at the May Board meeting.

Mr. Sheets presented the proposed revisions to the Montana Real Estate Pool (MTRP)(MUIA). The allocation section was removed as the allocation is controlled by the Public Retirement Plans policy; minor language/grammar changes were made; policy constraint language was modified to reflect the current practices regarding disclosure to the Board; portfolio exposures with respect to property type, geography and leverage will be presented quarterly to the Board; a restriction in reference to diversification within the Timberland portfolio was removed; and a change in the language clarifying the benchmark NCREIF Open End Diversified Equity Index (NFI-ODCE) better reflects the risk differences between the funds held in the pool and the index.

> Board Member Karl Englund made a Motion to approve the Montana Real Estate Pool investment policy as presented. Member Jack Prothero seconded the Motion. The Motion was carried 9-0.

Mr. Sheets presented the proposed revisions to the Public Markets Manager Evaluation Policy. Policy language was removed referencing manager contract terms and the required issuance of RFP's, as the requirement of the procurement process was removed by the Board in February of 2012. Executive Director Ewer added it was determined BOI had the right to choose managers without going through the RFP process. It is the responsibility of the staff to choose and evaluate managers.

> Board Member Jack Prothero made a Motion to approve the Public Markets Evaluation Policy as presented. Member Kathy Bessette seconded the Motion. The Motion was carried 9-0.

<u>Board Education Policy – Mr. David Ewer, Executive Director</u>

Executive Director David Ewer presented staff proposed revisions to the Board Education Policy. The proposed policy revises rigid language mandating Board members to attend training and education opportunities. All Board members are encouraged to seek out and take advantage of appropriate educational tools, such as conferences, seminars, workshops, relevant reading materials and in-house presentations.

> Board Member Jack Prothero made a Motion to approve the Board Education Policy as presented. Member Karl Englund seconded the Motion. The Motion was carried 9-0.

CREDIT ENHANCEMENT – MONTANA FACILITY FINANCE AUTHORITY

Montana Facility Finance Authority – Mr. David Ewer, BOI Executive Director, Ms. Michelle Barstad, MFFA Executive Director, Mr. John Marchi, MFFA Board Chairman, Mr. Larry Putnam, MFFA Board Member

Executive Director David Ewer presented a brief history of the Board's relationship with the Montana Facility Finance Authority (MFFA or Authority). The Board's role under law provides for loaning money to the Authority for deposit in the capital reserve account; and purchase bonds and notes issued by the Authority. The Board credit enhances some of the MFFA's bonds and the Board's AA rating with Moody's and Fitch allows substantial savings to Montana hospitals which would otherwise not have access to the bond market without the Board's credit enhancement. The Board uses its expertise to balance credit risk with legislative direction when providing credit enhancement, which is not automatic. Staff reviews the credit which is brought to the Board's Loan Committee for approval. The full Board has final approval. The Board has provided over $100 million in credit enhancement and has collected several million in fees. There have been no defaults.

Ms. Michelle Barstad, MFFA Executive Director, introduced Mr. Jon Marchi, MFFA Board Chairman and MFFA Board Member Mr. Larry Putnam. Ms. Barstad provided an overview of the MFFA which was formed in 1983 to issue tax exempt bonds primarily to hospitals and primarily for construction. The last BOI credit enhancement provided to MFFA was in 2010. Since inception, the MFFA has structured $2.3 billion in financings. The current outstanding balance is $1.1 billion.

In 1990 the Authority co-located with the BOI and contracted for services, such as sharing of the front office staff. The MFFA bonds enhanced by the BOI currently has 15 borrowers in 14 different cities providing better rates to midsize Montana hospitals than would otherwise be available to the facilities. The program enhancement was suspended in 2010 due to the oversaturation of the medical sector in the BOI portfolio, even though hospitals are among the top five employers in all Montana counties. Before the program was suspended, the outstanding loan balance had increased to about $133 million. At that time senior management met and decided to suspend the program for approximately three years due to the heavy concentration of health care related loans in the portfolio. Mr. Herb Kulow added that he had $30 to $50 million in outstanding commitments at that time so there was a potential ceiling of close to $180 million, a high overall exposure to health care. Suspending the program allowed for a gradual reduction in the heavy concentration of health care related loans.

Ms. Barstad stated the outstanding loan balance is now at about $101 million and the hope is to open the program up again at this time.

Member Buchanan agreed that given the growing health care industry, which is insurance driven, the timing may be right to consider new loans, as long as the Board performs the required due diligence.

Executive Director Ewer noted that with any new loans brought before the Board, the issue of concentration will need to be addressed.

MFFA Board Chair Jon Marchi noted there is one loan currently in the pipeline. Board Chairman Mark Noennig advised to bring the proposal to the Board; members agreed by consensus to consider any new proposals by MFFA brought before the Board.

MONTANA LOAN PROGRAMS

In-State Loan Program
Mr. Herb Kulow presented a history of the In-State Loan Program. The Loan Program is made up of nine loan programs funded by the Coal Tax Trust and the Residential Mortgage Program which is funded with pension funds. Legislatively set in 1983 as part of the Build Montana program, to help diversify, strengthen and stabilize the Montana economy, the In-State Loan Program was limited to using up to 25% of the Coal Tax Trust. Operating under the prudent expert principle, all loans up to a MBOI participated amount of $1 million are approved by an internal loan staff committee. Loans with a MBOI participated amount of $1 million up to $5 million are reviewed by the Board Loan Committee, which makes a decision and reports that decision to the full Board. All loans with a MBOI participated amount of $5 million or more are reviewed by the Board Loan Committee for a decision and the Committee then presents that decision to the full Board for their approval.

The 2007 legislature lifted the 25% cap when the percentage of the In-State Loan program reached 24.60% of the Coal Tax Trust. As of December 31, 2012, the percentage of loans to the Coal Tax Trust was 12.43%. Any one loan cannot exceed 10% of the Coal Tax Trust, currently $86 million. The average loan size is $970,000 for the 129 loans in the portfolio. In 2000 the average loan size was $280,000.

The residential mortgage program which is funded by pension funds has a balance of $17 million as of 12/31/12. Interest rates remain at historically low rates. MBOI is currently not investing in residential loans as the pension funds have an actuarial rate of return expectation of 7.75%. The program has not been discontinued, so at such time as residential mortgage rates increase to investable levels, the program will again become active.

Since the melt-down of 2008 and the tightening of credit standards by regulators and lenders, loan demand for participation in the In-State Loan program has decreased as lender liquidity has increased. Montana lenders have no desire in the present economy to participate in MBOI loan programs; however, over time as lender liquidity levels diminish, lenders will again turn to MBOI for participation in commercial loans.

ADJOURNMENT

There being no further business, the meeting was adjourned at 4:05 PM.

Next Meeting
The next regular meeting of the Board is a one day meeting and will be Wednesday May 29, 2013 in Billings Montana at the Northern Hotel.

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

BOARD OF INVESTMENTS

APPROVE: ______________________________
Mark Noennig, Chairman

ATTEST: ______________________________
David Ewer, Executive Director

DATE: ______________________________

MBOI:drc 5/6/13

Return to Agenda

Executive Director Reports

MEMORANDUM

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

To: Members of the Board

From: David Ewer, Executive Director

Date: May 29, 2013

Subject: Executive Reports under Tab 2 of Agenda

<u>Member Requests from Prior Meeting</u>

Member Buchanan requested that staff alert members as soon as possible the dates of educational conferences to maximize planning. Staff will do so.

Member Buchanan requested that staff report at the May meeting how it intends to prepare members for the asset-allocation reaffirmation or other-decision matter currently scheduled in the work plan for the Board's November, 2013 meeting. Please refer to the memorandum on this subject in this tab.

Member Englund asked, as part of its fiduciary oversight, how the Board covers 'due-diligence' in policy, given that the Board was accepting staff's recommendation to delete specific due-diligence language in the private equity policy statement. Please refer to the memorandum on this subject in this tab.

Member Buchanan asked if the Board would consider writing letters of appreciation to recent former members. The Board concurred with this idea and the letters were sent recently by the Chairman.

<u>Quarterly Cost Report Attached within Tab 2</u>

<u>Board October Meeting</u>

We are ahead of schedule as to our systematic work plan. Staff suggests that the Board consider cancelling the one-day October meeting

<u>Montana Capital Company Act's Applicable Rule Repeal</u>

The Department of Commerce took the lead to repeal the applicable Board rules pertaining to the now-repealed Montana Capital Company Act. No Board action is necessary. Staff has advised the loan committee.

<u>Staffing and Budget</u>

We are in the process of becoming fully staffed. Accounting and the front office are now finally at full staff. We are at the early stages of hiring additional staff in the investment areas, one for alternative equities analysis and the other for total portfolio analysis including performance (what our contract worker, Chris Phillips, is doing).

The Board's budget as submitted by the Executive was accepted by the 2013 Legislature intact. The Board operates under a maximum amount than can be charged to the various investment pools, $5,109,144 for FY 2014 and $5,234,796 for FY 2015 and is given general authority (under existing, i.e., permanent law) with respect to its enterprise fund to administer its Intercap program. Staff will present additional budget and expenditure material at the August meeting.

2013 Legislative Session

Two major pension funding bills passed, H.B. 454 and H. B. 377. Both bills will substantially increase cash flow into the two large retirement systems; benefits will be significantly reduced for TRS members hired after July 1, 2013, and the 'guaranteed annual benefit adjustment' known as the GABA is reduced 50% for PERS (3.0% to 1.5%) and 67% TRS (1.5% to 0.5%). Employers and employees will contribute an additional 1% although this increase varies with the funding status of the plans. For PERS, a very significant new funding source is a redirection of up to $21 million annually from coal severance interest income that formerly went to the general fund and to the Treasure State Endowment program with other programs bearing other reductions as well. For TRS there will be a statutory appropriation of $25 million annually, plus the ability of the TRS Board to make future adjustments in contribution rates for current as well as new hires, if necessary.

Given the importance of these two bills, the actual description of fiscal impact taken directly from the fiscal note is included below:

"H.B 454 provides additional funding to amortize the unfunded liabilities of the Public Employee Retirement System (PERS) through increased contributions and revenue and interest earnings derived from natural resource development until such time that the plan amortizes within 25 years with the elimination of the additional contributions. H.B 454 permanently revises and reduces the GABA for active and retired members to 1.5%. If the systems funding ratio is less than 90% it would further reduce the GABA by 0.1% for every 2% below the 90% funded level; if the amortization period is 40 years or greater the GABA would be reduced to 0.0%. The Unfunded Actuarial Accrued Liability (UAAL) of PERS is reduced from "Does Not Amortize" (DNA) to 15.2 years as a result of H.B 454. Beginning in FY 2017, the bill allocates three-eighths of coal severance tax revenue to the coal tax permanent fund and eliminates the allocations to the Treasure State Endowment Fund and the Treasure State Endowment Regional Water System Fund. Over time, this will increase the amount of interest earnings that are transferred to the state general fund."

"H.B 377, as amended, provides for additional funding of $25 million annually from the state general fund, $14.7 million one-time-only from school district retirement reserves, a 1.0% supplemental contribution from active members, and a 1.0% employer supplemental contribution in FY 2014 plus 0.1% each year thereafter for 10 years. In addition, H.B 377 creates a second tier of benefits for members hired after July 1, 2013, which reduces the employer's normal cost rate, requires members to work longer before they are eligible for benefits, and reduces benefits for most new hires. Over time, the employer's savings from the new tier will help to actuarially fund TRS."

Board Education

Chairman Noennig authorized Members Bessette, Ryan and Wilson to attend the IFE conference in California in late June, 2013.

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 29, 2013

Subject: Board Review of Asset Allocation Ranges

At the Board's recent April meeting, RV Kuhns along with Board staff presented a report on asset allocation as part of the Board's continual monitoring efforts. The Board's policy calls for the members to reaffirm its asset allocation ranges at least annually and this matter is currently scheduled for November, 2013. During the April meeting, members inquired as to what the process and other inputs would be, including the possibility of having the consultant conduct an asset-liability study.

In trying to assist the Board in its decision process, staff notes the following:

The trade-off between return, risk and liquidity will be better known after assessing what transpired in the 2013 legislature. With the passage of HB 454 and HB 377, the PERS and TRS pension funds will receive substantially increased cash flow as well as bear significant benefit reductions (which may be challenged in court). By late fall, or perhaps later, the two actuaries for the two systems should have conducted actuarial assessments and other studies as to soundness and cash flows. The actuaries will also be reviewing investment return assumptions for the various asset categories used by the Board. It is possible that one or both of the actuaries may reduce the recommended rate of long term return to something lower than 7.75%.

Board staff is meeting with staff and members of the retirement systems to solicit assistance in cash flow. While an asset liability study is unlikely to be worthwhile, the actuarial valuation and other cash flow studies by the actuaries will be important considerations. The actuarial assessments will likely occur before studies on cash flow. We have been advised that the cash flow studies may not be available before the Board's scheduled November meeting.

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 29, 2013

Subject: Follow Up on "Due Diligence"

<u>Overview</u>

At the April meeting, Board member Karl Englund asked, as part of its fiduciary oversight, how the Board covers 'due-diligence' in policy, given that the Board accepted staff's recommendation to delete specific due-diligence language in the private equity policy statement. "Due diligence" generally *refers to the care a reasonable person should take before entering into an agreement or a transaction with another party* (from *Investopedia*). At the Board, and other fiduciary bodies, it also connotes including the prudent level of oversight a reasonable person should take involving on-going relationships with other parties.

The Board delegates authority through its Governance Manual and other policies primarily through its Executive Director and the Chief Investment Officer (reserving to itself asset allocation, selection of principal staff, and policy statements). Its investment policies generally prescribe the investment objectives for the fund or beneficiary, risk management, diversification, eligible investments, liquidity needs, and sometimes specific limitation such as maximum concentrations or minimum credit ratings. The investment policies do not detail the specific steps involving due diligence but they do generally contain in the "roles and responsibilities" section, staff responsibility for monitoring allocations and external managers.

Due diligence is an important staff responsibility involving many aspects such as verification, assessing performance potential, meeting goals, judging character, and many more attributes. Each major asset class has its own particular needs and standards for due diligence: making an Intercap loan is very different than selecting an equity manager, but the Board has processes in place for all asset classes, including its commercial and municipal lending programs. The Board's work plan calls for continued systematic review of all aspects of its missions, policies, work areas and processes especially *investment* processes, which includes due diligence standards.

Due diligence is a vital part of the everyday process at the Board. While staff does not recommend that this process should be more articulated in investment policy statements, it is my recommendation that the Chief Investment Officer's job description in the Board's Governance Manual be rewritten to better reflect what the CIO's responsibilities are including overseeing and maintaining appropriate fiduciary practices in general, and due diligence standards in particular.

Recommendation

Staff recommends that the Board's Governance Manual be revised for the Chief Investment Officer's position. A more minor revision is recommended for Section 1. Executive Director and in Section 4 Operations Delegation to incorporate delegation powers already provided in the Manual, but currently disjointedly addressed in Section 16. Further Delegation by Executive Director.

1. Executive Director - The Executive Director is empowered by the Board to administratively supervise all Board staff and to delegate responsibilities and work assignments as necessary, to authorize expenditures, and to sign any and all documents required to conduct Board business, unless there are specific written policies or instructions from the Board to the contrary. These documents include, but are not limited to vendor contracts, commitments to investment managers, invoices, official letters detailing the position of the Board on any matter, resolutions approved by the Board, leases for Board owned buildings, authorizations to renovate and repair Board owned buildings, staff time sheets, and staff job descriptions. In exercising the delegated authority, the Executive Director shall provide the Board with the information and reports necessary for the Board to fulfill its fiduciary duty in monitoring and reviewing the actions of the Board staff and operations.

3. ~~Chief Investment Officer - The Chief Investment Officer is empowered by the Board to create and review Investment Policy Statements for Board approval, review and recommend changes in the asset allocation of all separate accounts, recommend new investment types permitted by law, and rebalance separate accounts as necessary to keep assets within the ranges authorized by the Board. The Chief Investment Officer is empowered by the Board to conduct searches for all external investment managers and make the final selection.~~

3. Chief Investment Officer - The Chief Investment Officer is empowered by the Board to serve as the principal staff person responsible for overseeing the investment activities under the Board's jurisdiction in compliance with the Board's policies. Specific duties include managing asset exposures to stay within approved asset allocation ranges, recommending new asset types, and overseeing all aspects of the investment process including but not limited to rebalancing assets, hiring and terminating external investment managers, setting appropriate due diligence standards, overseeing the review and any revisions of investment policies, and providing staff investment reports to the Board. In addition, the Chief Investment Officer will periodically report to the pension boards on issues including a review of asset allocation, investment performance, a comparison to public fund peers, and investment strategy and objectives. The Chief Investment Officer supervises staff as assigned by the Executive Director and delegates duties to them as necessary to achieve the various investment objectives of the funds under management of the Board of Investment, consistent with fiduciary best practices and state laws.

4. Operations Delegation - The Executive Director is responsible for all day-to-day operations of the Board and may delegate as necessary but remaining in specific compliance with this governance manual. As an agency head, the Executive Director has all powers and authority normally vested in similar positions in other state agencies to include, but not be limited to, the hiring and firing of non-exempt staff, and the commitment of funds necessary for the efficient conduct of Board business. Exempt staff may only be terminated upon Board Approval. In carrying out these duties, the Executive Director shall ensure compliance with Board policies and directives, as well as applicable state and federal laws and regulations.

~~16. Further Delegation by the Executive Director – The Executive Director, while retaining responsibility for all delegated authority from the Board may further delegate the authority in writing (including signature authority) necessary to appropriate Board staff to conduct day-to-day Board activities.~~

1. **Executive Director** - The Executive Director is empowered by the Board to administratively supervise all Board staff and to delegate responsibilities and work assignments as necessary, to authorize expenditures, and to sign any and all documents required to conduct Board business, unless there are specific written policies or instructions from the Board to the contrary. These documents include, but are not limited to vendor contracts, commitments to investment managers, invoices, official letters detailing the position of the Board on any matter, resolutions approved by the Board, leases for Board owned buildings, authorizations to renovate and repair Board owned buildings, staff time sheets, and staff job descriptions. In exercising the delegated authority, the Executive Director shall provide the Board with the information and reports necessary for the Board to fulfill its fiduciary duty in monitoring and reviewing the actions of the Board staff and operations.

2. **Deputy Director** - To ensure continuity the Deputy Director is empowered by the Board to carry out the duties of the Executive Director in his/her absence unless there are specific written policies or instructions from the Board to the contrary. The Executive Director shall establish a written protocol to ensure continuity in his/her absence and such protocol was approved in **Resolution 218** and attached hereto as **Appendix I**.

3. **Chief Investment Officer** - The Chief Investment Officer is empowered by the Board to serve as the principal staff person responsible for overseeing the investment activities under the Board's jurisdiction in compliance with the Board's policies. Specific duties include managing asset exposures to stay within approved asset allocation ranges, recommending new asset types, and overseeing all aspects of the investment process including but not limited to rebalancing assets, hiring and terminating external investment managers, setting appropriate due diligence standards to be followed in the selection of any new external managers, overseeing the review and any revisions of investment policies, and providing staff investment reports to the Board. In addition, the Chief Investment Officer will periodically report to the pension boards on issues including a review of asset allocation, investment performance, a comparison to public fund peers, and investment strategy and objectives. The Chief Investment Officer supervises staff as assigned by the Executive Director and delegates duties to them as necessary to achieve the various investment objectives of the funds under management of the Board of Investment, consistent with fiduciary best practices and state laws.

4. **Operations Delegation** - The Executive Director is responsible for all day-to-day operations of the Board and may delegate as necessary but remaining in specific compliance with this Governance Policy. As an agency head, the Executive Director has all powers and authority normally vested in similar positions in other state agencies to include, but not be limited to, the hiring and firing of non-exempt staff, and the commitment of funds necessary for the efficient conduct of Board business. Exempt staff may only be terminated upon Board Approval. In carrying out these duties, the Executive Director shall ensure compliance with Board policies and directives, as well as applicable state and federal laws and regulations.

Total Fiscal Year 2013 Management Fees (Unaudited)

Board Fees

Pool	Q1 9/30/2012	Q2 12/31/2012	Q3 3/31/2013	Change[1]	FY 2013 to Date
Retirement Funds Bond Pool (RFBP)	$ 111,690	$ 167,535	$ 111,690	$ (55,845)	$ 390,915
Trust Funds Investment Pool (TFIP)	73,472	110,208	73,472	(36,736)	257,152
Montana Domestic Equity Pool (MDEP)	97,880	146,820	97,880	(48,940)	342,580
Montana International Equity Pool (MTIP)	87,758	131,637	87,758	(43,879)	307,153
Montana Private Equity Pool (MPEP)	133,022	199,533	133,022	(66,511)	465,577
Montana Real Estate Pool (MTRP)	81,580	122,370	81,580	(40,790)	285,530
Short Term Investment Pool (STIP)	92,286	138,429	92,286	(46,143)	323,001
All Other Funds (AOF) Investments Managed	135,612	203,418	135,612	(67,806)	474,642
Total	**$ 813,300**	**$ 1,219,950**	**$ 813,300**	**$ (406,650)**	**$ 2,846,550**

[1] Board Fees: To maintain working capital at appropriate levels, no Board fees were charged in July or March. This action resulted in the Q3 fee decrease.

Custodial Bank Fees

Pool	Q1 9/30/2012	Q2 12/31/2012	Q3 3/31/2013	Change[2]	FY 2013 to Date
Retirement Funds Bond Pool (RFBP)	$ 56,703	$ 56,703	$ 56,703	$ 0	$ 170,109
Trust Funds Investment Pool (TFIP)	39,519	39,519	39,519	0	118,557
Montana Domestic Equity Pool (MDEP)	133,731	133,731	133,731	0	401,193
Montana International Equity Pool (MTIP)	31,317	31,487	31,402	(85)	94,206
Montana Private Equity Pool (MPEP)	31,116	32,016	32,016	(0)	95,148
Montana Real Estate Pool (MTRP)	19,305	19,755	19,755	-	58,815
Short Term Investment Pool (STIP)	52,776	52,776	52,776	0	158,328
All Other Funds (AOF) Investments Managed	37,983	37,983	37,983	(0)	113,949
Total	**$ 402,450**	**$ 403,970**	**$ 403,885**	**$ (85)**	**$ 1,210,305**

[2] Custodial Fees: No significant changes.

External Managers Fees

Pool		Q1 9/30/2012		Q2 12/31/2012		Q3 3/31/2013		Change[3]		FY 2013 to Date
Retirement Funds Bond Pool (RFBP)	$	375,350	$	381,932	$	391,441	$	9,509	$	1,148,723
Trust Funds Investment Pool (TFIP)		391,247		265,445		550,301		284,856		1,206,993
Montana Domestic Equity Pool (MDEP)		1,462,249		1,667,522		1,592,410		(75,112)		4,722,181
Montana International Equity Pool (MTIP)		771,879		580,222		877,577		297,355		2,229,678
Montana Private Equity Pool (MPEP)		3,160,997		4,105,611		4,081,103		(24,508)		11,347,711
Montana Real Estate Pool (MTRP)		931,273		1,117,195		3,828,198		2,711,003		5,876,666
Short Term Investment Pool (STIP)		-		-		-		-		-
All Other Funds (AOF) Investments Managed		6,188		6,160		6,380		219		18,728
Total	**$**	**7,099,183**	**$**	**8,124,087**	**$**	**11,327,410**	**$**	**3,203,323**	**$**	**26,550,680**

[3] RFBP: No significant changes.

TFIP: The fee increase is attributed to the recognition of September 30 and December 31, 2012 quarterly fees for the American Realty core fund in Q3.

MDEP: The small fee decline reflects a flat domestic stock market return in Q2 which kept fee accruals stable, combined with sales of pool units by the plans.

MTIP: Q3 increase resulted from the omission of a manager fee of $99,947 for Q2, higher fee accruals, and a positive adjustment to second half 2012 fee accruals posted in fiscal Q3. Fee accruals were higher due to the positive pool return of approximately 6% in Q2.

MPEP: No significant changes. Experience indicates fees are higher in Q4 as semi-annual or yearly fees are reported and recorded after calendar year end. Because reported fees are subject to a lag, quarterly fee comparisons are less meaningful.

MTRP: Q3 fees increased due to the delayed reporting of the management fees for the quarters ending June 30 and September 30, 2012 on many of the closed-end non-core funds. Experience indicates fees are higher in Q3 and Q4 as semi-annual or yearly fees are reported and recorded after calendar year end. Because reported fees are subject to a lag, quarterly fee comparisons are less meaningful. Fees also increased due to a higher asset base on core funds due to positive returns.

Total Fees

Pool		Q1 9/30/2012		Q2 12/31/2012		Q3 3/31/2013		Change		FY 2013 to Date
Retirement Funds Bond Pool (RFBP)	$	543,743	$	606,170	$	559,834	$	(46,336)	$	1,709,747
Trust Funds Investment Pool (TFIP)		504,238		415,172		663,292		248,120		1,582,702
Montana Domestic Equity Pool (MDEP)		1,693,860		1,948,073		1,824,021		(124,052)		5,465,954
Montana International Equity Pool (MTIP)		890,954		743,346		996,737		253,391		2,631,037
Montana Private Equity Pool (MPEP)		3,325,135		4,337,160		4,246,141		(91,019)		11,908,436
Montana Real Estate Pool (MTRP)		1,032,158		1,259,320		3,929,533		2,670,213		6,221,011
Short Term Investment Pool (STIP)		145,062		191,205		145,062		(46,143)		481,329
All Other Funds (AOF) Investments Managed		179,783		247,561		179,975		(67,586)		607,319
Total	**$**	**8,314,933**	**$**	**9,748,007**	**$**	**12,544,595**	**$**	**2,796,588**	**$**	**30,607,535**

Return to Agenda

Montana Loan Program

MEMORANDUM

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

To: Board of Directors

From: Herb Kulow, CMB
Senior Portfolio Manager

Date: May 29, 2013

Subject: Commercial and Residential Portfolios

As of April 30, 2013, the commercial loan portfolio had 129 individual loans totaling $121,633,939 a decrease of $15,045,721 from April 30, 2012. The portfolio is currently yielding 4.96%, compared to 5.22% one year ago. There were eight reservations totaling $19,067,800 and three committed loans totaling $2,414,217.

There were five past due loans totaling $920,375 or 0.75% of the total portfolio. There was one loan past due over 90 days in the amount of $100,381 or 0.08% of the total portfolio and it is guaranteed by the SBA.

There is one loan which is currently 56 days past due and we are no longer receiving payments and is considered a problem loan.

Residential mortgages were comprised of 369 loans totaling $16,034,337, as of April 30, 2013, a decrease of $5,202,233 from April 30, 2012. There were no outstanding reservations.

There were eight loans past due totaling $498,389 or 3.11% of the total portfolio. Seven loans were over 90 days past due totaling 2.70% of the portfolio, of which five loans were guaranteed, $340,345 – 2.12% and two loans were conventional financing, $93,400 – 0.58%.

The Veterans Home Loan Mortgage (VHLM) program continues to grow with 57 loans funded since January 2012 totaling $9,924,094, as of April 30, 2013. There were 18 loans reserved totaling $3,424,007. The current portfolio yield is approximately 1.45%. The current interest rate for new reservations of VHLM loans is 1.75%. After deducting the Montana Board of Housing (MBOH) service fee of 0.375% and their administration fee of 0.375%, the net yield to MBOI will be 1.00%. By statute, the VHLM program's interest rate is 1.00% below the lower of the MBOH bond interest rate or the residential mortgage market interest rate. The MBOH bond interest rate is currently 2.75% and was established when MBOH went to the market and sold $25,000,000 of bonds at an interest rate of 2.75%. That rate was effective as of May 3, 2013, at which time the residential mortgage market interest rate for a 30-year mortgage was 3.28125%. The interest rate will only change if the MBOH goes back to the market and sells additional bonds, at which time a new MBOH bond interest rate will be established. That "new" bond interest rate will then be compared to the residential mortgage market interest rate to determine a new VHLM interest rate.

PROBLEM LOAN REVIEW

On June 27, 2006, MBOI participated (70%) in a real estate secured loan issued by First Interstate Bank Missoula to GMP, LLC, a real estate holding company owned by officers of Vann's, Inc. The warehouse was originally occupied by Vann's, Inc. as a distribution center for their internet sales. The face amount of the note was $1,140,000, dated February 24, 2006 maturing March 3, 2026, requiring monthly payments. At the time of MBOI's participation, the outstanding loan balance was $1,136,398.04. MBOI's 70% participation was $795,478.63 and the lender's 30% was $340,919.41. Payments were made as agreed until the February 2013 payment. As of April 30, 2013 MBOI's participated amount was $634,111.45 and the lender's 30% was $271,762.05 for a total outstanding of $905,873.50.

The current occupant, the company that purchased Vann's, Inc. out of bankruptcy was on a month-to-month lease and has decided to vacate the property. Staff is working with the lender to resolve the problems surrounding this loan.

MONTANA BOARD OF INVESTMENTS COMMERCIAL LOAN PACKAGE

This file was created in Microsoft Word and contains the following items:

General Parameters for Commercial and Multi-Tenant Housing Loans:

- The Board does not lend directly to businesses.
- Only Approved Lenders may submit Loan applications and Fee Forms.
- Approved Lenders must originate all loans.
- The term "Applicant" means a Lender approved by the Board.
- The term "Borrower" means the borrower applying for a loan from the Lender.
- Appropriate representatives of the Lender and the Borrower must sign the application.
- Borrowers must provide preference to Montana labor when constructing projects.
- Project construction contractors may be subject to prevailing wages as per policy.
- "Small Business Loan Incentives" are available for Commercial Coal Tax Trust loans only.
- "Job Credit Interest Rate Reductions" are available for Commercial Coal Tax Trust loans only.
- "Link Deposit Loans" are available for Commercial Coal Tax Trust loans only.
- Commercial Coal Tax Trust loans maximum size is limited to 10.0% of the Trust.
- Commercial Coal Tax Trust loans exceeding 6.0% of the Trust require 30.0% Lender Participation.
- The submission of a fee with the Loan Reservation Fee Form locks an interest rate and reserves funding.
- The last fee paid is ~~Fees are~~ refundable as per policy if the loan is funded or the application is rejected.

Loan Application Use:
The loan applications may be used for all Commercial Participation loans and multi-tenant housing loans. The Coal Tax Trust Loan Policy specifically covers Commercial loans made from the Coal Tax Trust.

Utilizing The Electronic Application:
Application is Microsoft Word document with field codes where data and checkmarks are entered.
If the field codes are visible on screen strike Alt F9 **- codes should not be visible**.
If field codes print, select "Tool","Options","Print" and uncheck "Field Codes"
The F11 key will locate the first entry field in the application form.
The F11 key will locate the next data or check field in the electronic application form.
Shift F11 will locate the preceding data or check field in the electronic forms.
With the cursor on Page E1, the F11 key will locate the first entry field in the fee form.

For additional forms and assistance call or E-mail:

(406) 444-1218 hkulow@mt.gov
(406) 444-1217 nrivera@mt.gov

Board of Investments Commercial Loan Policy

~~Approved: 8/12/2009~~**Pending Approval May 29, 2013**

1. INTEREST RATES

(a) Interest rates, effective for a one-week period, will be posted each Thursday on the Board's website.
(b) The posted rates reflect net yield to the Board and are exclusive of any Lender fees.
(c) A reservation to reserve funds includes rates and terms for federal guarantee, participation and link loans for the one-week period in which the reservation is received.

2. LOAN RESERVATIONS WITHOUT AN IDENTIFIED BORROWER

(a) Lenders not identifying the borrower(s) at the time of reservation may reserve funds for 180 days with a fee of ¼% of the reserved amount.
(b) Lenders shall fax a request to (406) 444-4268 with an authorized signature permitting the Board to collect the fee via Automated Clearing House (ACH).
(c) If posted interest rates decline after a Lender has locked interest rates, a new 180-day reservation at the lower rate may be obtained via payment of another ¼% fee.
(d) If borrower(s) is not identified during the 180-day period, the unallocated portion of the reservation will expire. The unallocated portion of the reservation may be renewed with another fee of ¼% at the then prevailing interest rate for an additional 180-day period.
(e) If borrower(s) are identified during the 180-day period, that portion of the reservation allocated to the borrower(s) will automatically be extended for an additional period equal to 365 days from the original reservation date.
(f) Once borrower(s) are identified, lenders must offer, underwrite, accept and close the loan during the 365-day reservation period.
(g) All applicable checklist items must be received within 90 days after expiration of the 365-day period.
(h) The reservation allocated to the borrower(s) may be extended as per Section 4.
(i) Blended interest rates may be applied for increases in the reserved amount of an existing reservation.

3. LOAN RESERVATIONS WITH AN IDENTIFIED BORROWER

(a) Lenders with an identifiable borrower(s) at the time of the reservation may reserve funds for 365 days with a fee of ¼% of the reserved amount.
(b) Lenders shall fax a request to (406) 444-4268 with an authorized signature permitting the Board to collect the fee via Automated Clearing House (ACH).
(c) Lenders may lock interest rates at any time during the 365-day period at the rate last set.
(d) If the loan has not been committed and posted interest rates decline after a Lender has locked interest rates during the 365-day period, a reservation at the lower rate for an additional 365 days may be obtained via payment of another ¼% fee.
(e) If the loan has been committed and posted interest rates decline after a Lender has locked interest rates during the 365-day period, the lower rate may be obtained via payment of another ¼% fee but the original commitment letter expiration date remains the same.
(f) Lenders must offer, underwrite, accept, and close the loan during the 365-day period.
(g) All applicable checklist items must be received within 90 days after expiration of the 365-day period.
(h) The reservation may be extended as per Section 4.
(i) Blended interest rates may be applied for increases in the reserved amount of an existing reservation.

4. RESERVATION EXTENSIONS

(a) If the project for which the loan proceeds will be utilized is not completed within the initial 365 day reservation period up to two additional 365-day increments may be granted upon written request and payment of an additional ¼% fee for each extension.
(b) Additional 365-day extensions will not be granted if the project has been completed within the existing reservation/commitment period.
(c) Extension fees must be received via ACH within 15 working days after the expiration date of the current 365-day period to keep the reservation in force.

5. FUNDINGS

(a) The loan in which the Board is to participate must be closed prior to the commitment letter expiration date.
(b) Funding documents required in the commitment letter must be received within ninety (90) days after the first principal and interest payment date of the project term note or the commitment date expiration, whichever comes first.

(c) Fundings ~~will~~ should occur on or around the 10th day of the month.
(d) At least thirty (30)-days notice must be provided to be eligible for fundings.

6. FINANCIAL INSTITUTION INCENTIVE FOR SMALL BUSINESS LOANS

(a) Posted interest rates may be reduced by ½% for loans of less than .05% of the Montana Permanent Coal Tax Trust balance at the most recent fiscal year-end. The amount is posted weekly with the interest rates.
(b) Pursuant to 17-6-319, MCA, this reduction is available for loans made to small business, which the Board defines as businesses with gross annual payroll of less than $10.0 million.

7. PRICING ADJUSTMENT FOR PARTICIPATION LOANS BASED ON LOAN-TO-VALUE

The following risk adjustments for loan-to-value on collateral will be made to the posted interest rate:

Loan-To-Collateral Value	Board Participation	Net Yield To Board
1-75% LTV	80%	Posted Rate
76% - 80% LTV	70%	Posted Rate
81% - 85% LTV	60%	Posted Rate
86% - 90% LTV	50%	Posted Rate
OR:		
76% - 80% LTV	75%	Posted Rate + .25%
81% - 85% LTV	70%	Posted Rate + .50%
86% - 90% LTV	65%	Posted Rate + .75%

8. INELIGIBLE LOANS

(a) Loans classified as substandard, doubtful, loss or similar category in Lender's most recent examination report.
(b) Loans to businesses with classified loans at the Lender, other than the loan offered to the Board.
(c) Loans to trusts.
(d) Loans for land development or speculative ventures.
(e) Revolving lines of credit, working capital or operating money.
(f) Loans to pay delinquent taxes.

9. COLLATERAL REQUIREMENTS:

(a) First mortgage/lien position shared proportionately with Lender.
(b) Collateral must have sufficient economic life to support the term of the loan.
(c) Loan-To-Value is based on lessor of reasonable project costs (including architecture, engineering and capitalized interest) or market value appraisal.
(d) Personal guaranty's as required by Lender or the Board.
(e) If Lender requires, an attorney opinion on authority of borrower to borrow and all collateral documents.
(f) Other collateral as required by Lender or the Board.

10. APPRAISALS

(a) Licensed Montana appraisers are preferred unless a specialized property collateral requires an out of state appraiser.
(b) The following appraisal requirements apply to all appraisals irrespective of the lender's appraisal or loan policy appraisal requirements.
(c) Real Property a~~A~~ppraisal requirements are shown below:

Appraisal requirements are based on the total loan amount: ~~Real Property Primary Collateral:~~

Up To $250,000	As required by Lender to provide basis for value
$250,001 to $500,000	USPAP*– rule 2-2(b) Summary appraisal by lender-approved appraiser
Over $500,000	USPAP*– rule 2-2(a) Complete self-contained appraisal by lender-approved appraiser

*Uniform Standards of Professional Appraisal Practice

11. OTHER COMMERCIAL LOAN POLICY CONSIDERATIONS

(a) A loan that includes refinance of existing debt, other than construction financing, will be considered if, at a minimum, the refinanced amount is retained by the lender. The Board participation will not exceed 80% of the total loan.
   i. If the borrower already has a loan participated with the Board and the borrower wants to acquire additional debt, which would consolidate the existing participated loan and a new construction/equipment loan, using the same or a different lender, the Board will NOT consider its portion of the existing participated loan as a refinance. The expansion should create new jobs and/or create economic development.

(b) Investor properties must independently cash flow with coverage at 1.25X on a 20-year amortization or equivalent, or other financial consideration**.** The Board may establish a higher coverage ratio depending on economic conditions and/or industry.

(c) Balloon payment loans are eligible provided Loan-To-Value at maturity is acceptable to the Board.

(d) The Board will proportionately participate in any prepayment penalty required by the Lender.

(e) Loans for projects on leased land will be considered if the lease does not expire prior to loan maturity.

(f) Collateral documents must contain due-on-sale clauses, requiring lender's consent prior to loan transfer.

(g) Loan assumptions permitted upon Board approval with a loan assumption fee of $500.00.

(h) Environmental risk assessment as required by Lender.

(i) Escrow impounds may be required for taxes & hazard insurance when Loan-To-Value exceeds 50%.

(j) Maximum loan amount to any borrower is limited to 10% of the book value of the Coal Tax Trust as of the month-end prior to a loan commitment.

(k) If a borrower has received or will receive a value-added loan from the Board, or is a business for which a local government has provided infrastructure funded by an infrastructure loan made by the Board, the outstanding principal of the value-added and/or infrastructure loan will be applied against the 10% maximum loan size. A borrower or business may not incur a debt to the Coal Tax Trust exceeding 10% of the Trust's book value.

(l) Any loan exceeding 6% of the Trust requires 30% lender participation.

(m) The Board may apply different criteria to loan requests from non-profit borrowers.

(n) Maximum loan terms are:

i.	Federally Guaranteed	30 years
ii.	Linked Deposit	20 years
iii.	Participation	25 years

(o) All loans submitted for participation to the Montana Board of Investments from Board members or Board staff shall first be approved by the Board before the loan is committed and funded.

(p) Any time an approved lender downgrades a commercial loan participated with the Board, the approved lender must notify the Board of the downgrade and submit to the Board the most recent lender credit review and an explanation why the credit was downgraded, within 30 days of the downgrade.

(q) All approved lenders will submit to the Board a copy of their annual credit review for all commercial loans participated with the Board, other than guaranteed loans. If the approved lender does not do an annual review due to the size of the credit, the approved lender will annually submit to the Board, in writing, a certification that there has been no material change in the value of the collateral or the financial condition of the borrower or any of the guarantors.

(r) If the approved lender applies a default interest rate to a participated loan, the Board interest rate will also be increased to that default interest rate and remain effective for the same period of time as the approved lender.

(s) Thirty percent (30%) cash equity is required for hotel/motel facilities. The LTV will consider the lower of hard costs or appraised value.

(t) The Board's participation in hotel/motel facilities is limited to a maximum 50% of the lender's loan, unless MBOI participates in a lender loan which also has SBA 504 financing, in which case MBOI would participate in up to 80% of the lender portion of the SBA 504 loan.

12. INTEREST RATE BUY DOWN ON EXISTING COMMERCIAL LOANS

(a) The Board portion of an outstanding loan interest rate may be reduced to the Board's current posted rate at the time the Commercial Loan Reservation Fee Form and fee is received.

(b) The interest rate will be calculated by rounding the remaining term up to the nearest year and interpolating the buy down interest rate for that specific year.

(c) The fee is calculated as shown below:

i.	60 months or less	1% of outstanding Board loan balance
ii.	61 to 120 months	1 ½% of outstanding Board loan balance
iii.	121 months or more	2% of outstanding Board loan balance

(d) Interest rate reductions are effective on the next payment due date after the fee is received and the reduction is approved by the Board.

(e) Job creation interest rate reduction can be applied to the buy down interest rate for all new jobs created after the date of the rate buy down. If a rate reduction resulting from the creation of jobs was applied to the loan prior to the interest rate buy down, the previously applied rate reduction and any new job related rate reduction after the interest rate buy down cannot exceed a total of 2.50%. The previously used job credit rate reduction cannot be applied to the buy down interest rate.

13. JOB CREATION INTEREST RATE REDUCTION

(a) With the exception of Linked Deposit loans, borrowers who create jobs as a result of a Coal Tax Trust commercial loan are entitled to an interest rate reduction of .05% for each qualifying job created up to a maximum of 2.50%.

(b) One job is equal to the Private Annual Wage shown on the weekly Posted Rate Summary Sheet.

(c) For jobs paying more than the Private Annual Wage, job credits will be increased proportionately for each 25% increment above the Private Annual Wage to a maximum of two jobs.

(d) For jobs paying less than the Private Annual wage, job credits will be reduced proportionately for each 25% increment below the Private Annual Wage.

(e) Job credits are not available unless one whole job is created.

(f) Job credit interest rate reductions are not available for jobs paying less than the minimum wage provided for in 39-3-409, MCA.

(g) Nonprofit corporations may qualify for the job credit interest rate reductions if the interest rate reduction passes through to a for-profit business creating the jobs.

(h) The Board may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates 10 or more qualifying jobs. Lenders must notify the Board if the borrower eliminates qualifying jobs.

(i) The beginning date for counting jobs created is the date of the formal written interim or permanent loan application submitted to the Lender.

(j) Applications for interest rate reductions may be delivered with the loan funding documents or at least 10 working days before the end of each calendar quarter.

(k) The business seeking an interest rate reduction must provide payroll records as evidence of the creation of jobs.

(l) The Board shall notify the Lender within fifteen (15) working days what action has been taken on an interest rate reduction request.

(m) Investors owning–business properties may receive an interest rate reduction if the lease passes the reduction to the lessee for the full term of the loan.

(n) Interest rate reductions provided in this part will be effective on the next scheduled payment date.

(o) The posted Private Annual Wage and State of Montana minimum wage will be used in calculating a job creation interest rate reduction request.

14. PROJECT SPECIFIC REQUIREMENTS:

(a) Any contract to construct a project financed by loan proceeds must require all contractors to give preference to the employment of bona fide Montana residents, as defined in 18-2-401, in the performance of the work on the projects if their qualifications are substantially equal to those of nonresidents. "Substantially equal qualifications" means the qualifications of two or more persons among whom the employer cannot make a reasonable determination that the qualifications held by one person are significantly better suited for the position than the qualifications held by the other persons.

(b) If the Board participates in construction financing and its share of the loan equals or exceeds $1.5 million, the general contractor and all subcontractors shall be subject to Montana's prevailing wage law specified in Title 18, Chapter Two, Part 4, MCA.

MONTANA BOARD OF INVESTMENTS INFRASTRUCTURE LOAN PACKAGE

This file was created in Microsoft Word and contains the following items:

The following provisions apply to the Infrastructure Loan Program:

- Program funded by a $80.0 million allocation from the Permanent Coal Tax Trust.
- Applications submitted by eligible local governments.
- Loan funds infrastructure projects that provide facilities/services to basic sector businesses.
- Business pays user fee to local government that is pledged to the Board for loan repayment.
- Businesses may reduce their Montana state income tax liability by the amount of the fee, 15-31-301, MCA.
- The business must create at least 15 full time basic sector jobs to be eligible for the program.
- Maximum loan size $16,666 times the number of full time jobs created.
- Minimum loan size $250,000.
- Maximum loan term 25 years.
- Interest rates posted weekly.
- Up to 2.5% interest rate reduction for job creation.

For assistance call or e-mail Herb Kulow or Nancy Rivera:

(406) 444-1218 hkulow@mt.gov
(406) 444-1217 nrivera@mt.gov

Loan Application Use:
This loan application is used exclusively for the Public Infrastructure Loan Program. Applications are submitted by Eligible Local Governments to fund infrastructure projects within their jurisdictions.

Utilizing The Electronic Forms:
Forms are Microsoft Word documents with field codes where data and checkmarks are entered.
If the field codes are visible on screen strike Alt F9 **- codes should not be visible**.
If field codes print, select "Tools","Options","Print" and uncheck "Field Codes"
The F11 key will locate the entry fields in the application form.
Shift F11 will locate the preceding data or check field in the electronic forms.

INFRASTRUCTURE LOAN POLICY

1. APPLICATION PROCEDURES

Local governments must submit the attached application to the Board. The application must include:

a. Evidence that the user of the infrastructure meets the following "Basic Sector" definition:
   i. business activity conducted in the state that produces goods and services for which 50% or more of the gross revenues are derived from out-of-state sources; or
   ii. business activity conducted in-state that produces goods and services, 50% or more of which will be purchased by in-state residents in lieu of like or similar goods and services which would otherwise be purchased from out-of-state sources.

b. A complete description of the purposes for which the loan proceeds are to be used.

c. A description of the proposed loan including principal amount, proposed maturity, proposed repayment schedule, and proposed security.

d. Information addressing the following:
   i. Estimated number of permanent full-time jobs and their estimated wages, to be created by the project within a four-year period;
   ii. The impact of the jobs on the state and the community where the project is located;
   iii. Long-term effect of corporate and personal income taxes estimated to be paid by the business and its employees;
   iv. The current and projected ability of the community to provide necessary infrastructure for economic and community development purposes;
   v. The environmental impact of the project and whether any environmental review or permits are required;
   vi. Other matters that the Board considers necessary;
   vii. Information about the business creating the jobs shown on the application form.

e. The loan application shall be properly signed and certified by the local government applicant and by the business creating the jobs on its section of the application.

f. If the loan is approved, the Board and the local government will enter into a commitment agreement.

g. The local government must pass a resolution authorizing the acceptance of the commitment agreement and execute and return the commitment agreement within 60 days of the commitment date or the commitment will expire.

h. A development agreement between the local government and the basic sector business must accompany the application.

2. INELIGIBLE LOANS

a. Loans to any local government in default on any obligation.

b. Loans to local governments for infrastructure to businesses in default on any obligation.

c. Loans providing infrastructure to business creating fewer than 15 jobs in a 4-year period.

3. INTEREST RATES

a. Interest rates, effective for a one-week period, will be posted each Thursday to the MBOI website. ~~are listed on Posted Rate Summary Sheet.~~

b. Job credit interest rate reductions are available as per Section 8 of the Infrastructure Loan Policy.

c. Initial interest rate determined by the interest rate posted on the Commercial Loan Rate Sheet on the date the Infrastructure Loan application is received.

4. LOAN SIZING

a. Minimum loan size $250,000.

b. Maximum loan size $16,666 per full time job created.

c. All outstanding infrastructure loans limited to $80.0 million.

5. COLLATERAL REQUIREMENTS

a. A note or other evidence of indebtedness;

b. A loan agreement;

c. First mortgage/lien position when appropriate;

d. The local government's pledge of infrastructure fees for repayment of the loan;
e. The loan resolution adopted by the local government;
f. All necessary state, federal and local government permits must be obtained before loan closing;
g. Collateral must have sufficient economic life to support the term of the loan;
h. Personal or corporate guaranty as determined by the Board;
i. Attorney opinion on authority of local government to borrow and the validity of all collateral documents;
j. Attorney opinion to the local government on the legal and binding nature of obligations on the local government and the business for which the infrastructure is provide.
k. Other collateral <u>or loan documents</u> as required by Board.

6. APPRAISALS

a. Licensed Montana appraisers are preferred unless there is a specialized property collateral requiring an out of state appraiser; and
b. Appraisal requirements for land and buildings are shown below:

<u>Real Property Primary Collateral:</u>

Up To $250,000	As required by Lender to provide basis for value
$250,001 to $500,000	USPAP*– rule 2-2(b) Summary appraisal by lender-approved appraiser
Over $500,000	USPAP*– rule 2-2(a) Complete self-contained appraisal by lender-approved appraiser

*Uniform Standards of Professional Appraisal Practice

7. OTHER LOAN POLICY CONSIDERATIONS

a. Loans for infrastructure on leased land will be considered if the lease does not expire prior to loan maturity.
b. Maximum loan terms are 25 years.
c. Consultant fees may be financed as part of the larger project but may not be financed on a stand-alone basis.
d. Commercial Loan Policy underwriting criteria will be considered.
e. <u>If there are not a sufficient number of jobs created within the first four years of the infrastructure loan, the basic sector business:</u>
    i. <u>Will have 90 additional days to create those jobs, or</u>
    ii. <u>Will have to pay down the infrastructure loan to a level which the current number of jobs supports the outstanding loan balance as specified Section 4.</u>

8. JOB CREATION INTEREST RATE REDUCTION

a. Business creating jobs as a result of an infrastructure loan are entitled to an interest rate reduction of .05% for each job created up to a maximum of 2.50%. The reduction will be reflected in the user fee rate charged the business.
b. One job is equal to the Private Annual Wage shown on the weekly Posted Interest Rate Summary Sheet.
c. For jobs paying more than the Private Annual Wage, job credits will be increased proportionately for each 25% increment above the Private Annual Wage to a maximum of two jobs.
d. For jobs paying less than the Private Annual wage, job credits will be reduced proportionately for each 25% increment below the Private Annual Wage.
e. Job credits are not available unless one whole job is created.
f. Job credit interest rate reductions are not available for jobs paying less than the State of Montana minimum wage provided for in 39-3-409, MCA.
g. The business must provide evidence of the creation of jobs prior to the reduction and annually thereafter.
h. Interest rate reductions provided in this part will be effective on the next scheduled payment date.
i. <u>The business seeking an interest rate reduction must provide payroll records as evidence of the creation of jobs.</u>
j. <u>The Board may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates 10 or more qualifying jobs. The basic sector business must notify the Board if they eliminate qualifying jobs.</u>

9. PROJECT SPECIFIC REQUIREMENTS:

(a) Any contract to construct a project financed by loan proceeds must require all contractors to give preference to the employment of bona fide Montana residents, as defined in 18-2-401, in the performance of the work on the projects if their qualifications are substantially equal to those of nonresidents. "Substantially equal qualifications" means the qualifications of two or more persons among whom the employer cannot make a reasonable determination that the qualifications held by one person are significantly better suited for the position than the qualifications held by the other persons.

(b) If the Board participates in construction financing, the general contractor and all subcontractors shall be subject to Montana's prevailing wage law specified in Title 18, Chapter Two, Part 4, MCA.

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MONTANA BOARD OF INVESTMENTS VALUE-ADDED LOAN PACKAGE

This file was created in Microsoft Word and contains the following items:

General parameters for the Value-Added Loan Program:

- The Board participates only with approved lenders in making loans to Montana businesses.
- Approved Lenders originate all loans and submit loan applications.
- Appropriate representatives of the Lender and the Borrower must sign the application.
- The Montana business must be a "value-added' business as defined in the attached policy.
- The Montana business must create or retain at least 10 jobs.
- The term "jobs" as it relates to program eligibility is defined in the attached policy.
- The term "Applicant" means a Lender approved by the Board.
- The term "Borrower" means the business applying for a loan through the Approved Lender.
- The Board may participate in construction financing at the request of the Lender.
- Borrowers must provide preference to Montana labor when constructing projects.
- Project construction contractors may be subject to prevailing wages as per policy.
- Board loan participation is 75.0 percent - Lender participation is 25.0 percent.
- Lender service fee limited to one-half percent on the participated portion.
- Board interest rates and maximum loan term are set by law.
- Reservation fees or interest rate "lock" fees are not required.
- Loan prepayments penalties are not permitted.
- Minimum loan size is $250,000, of which the Board would purchase 75%.
- Maximum loan size (The 75% Board's Share) limited to 1.0 percent of the Coal Tax Trust.
- Maximum outstanding loan amount for all loans limited to $70.0 million.
- Interest rate reductions for job credit and small business loans are not available.
- Board shares proportionately in all security or guarantees obtained by the Lender.
- No bonuses or dividends can be paid to investors as long as the loan is outstanding, except as provided by 17-6-317(5)(b)MCA.

Loan Application Use:
The Value-Added Loan Applications may be used only for the Value-Added Coal Tax Trust loan program. Additionally, policies attached to this application refer specifically to the Value-Added loan program. Commercial Coal Tax Trust loans, Infrastructure loans, and all Multi-Tenant Housing loans use a separate loan application and set of policies.

Utilizing The Electronic Application:
Application is Microsoft Word document with field codes where data and checkmarks are entered.
If the field codes are visible on screen press Alt F9 **- codes should not be visible**.
If field codes print, select "Tool","Options","Print" and uncheck "Field Codes"
The F11 key will locate the first entry field in the application form.
The F11 key will locate the next data or check field in the electronic application form.
Shift F11 will locate the preceding data or check field in the electronic forms.
With the cursor on Page H1, the F11 key will locate the first entry field in the fee form.

For additional forms and assistance call or E-mail:

(406) 444-1218 hkulow@mt.gov
(406) 444-1217 nrivera@mt.gov

1. GENERAL LOAN PROVISIONS

(a) Fees to reserve funds or lock interest rates are not required. Reservation considered effective upon receipt of application.
(b) Borrower must operate a value-added business, examples of which are listed in Section 4.
(c) The Board may develop questionnaires/check list to assist in the determination of value-added eligibility.
(d) Loan term limited to 15 years from date of note, including any construction financing, if BOI participates in the construction loan.
(e) Board's share of the total loan is 75% - Lender's share is 25.0%.
(f) Minimum loan size is $250,000, of which the Board purchases 75.0%.
(g) Maximum loan size (Board's 75.0% Share) is 1.0% of the Permanent Coal Tax Trust.
(h) Borrower must provide equity of at least 25.0% of the total loan amount.
(i) Borrower's creating or retaining 10 to 14 full-time jobs are entitled to a 4.0% initial interest rate on participated loan amount.
(j) Borrower's creating or retaining 15 full-time jobs are entitled to a 2.0% initial interest rate on participated loan amount.
(k) If at any time during the term of the loan, the business and all the required jobs are moved out of state, the Board may request the lender to repurchase the participated loan amount.
(l) Except as provided in section (m), a business receiving a value-added loan may not pay bonuses or dividends to investors until the loan has been repaid. Incentives may be paid to employees for achieving performance standard or goals.
(m) A business enterprise for the production of alcohol to be used as provided in Montana Code Annotated Title 15, chapter 70, part 5, may pay dividends to investors and bonuses to employees if the business enterprise is current on its loan payments and has available funds equal to at least 15% of the outstanding principal balance of the loan. For purposes of this policy, available funds are considered to be cash and cash equivalents plus trade receivables minus total current liabilities, and such funds shall be calculated using Generally Accepted Accounting Principles. The borrower shall furnish annual audited financial statements satisfactory to the Approved Lender and the Board within 120 days after the end of the period covered.

2. JOB CREATION/RETENTION REQUIREMENTS

(a) A "Job" equates to a dollar value equal to the state's Private Annual Wage (base).
(b) The state's Private Annual Wage is posted on the Board's web page on the Commercial Loan Rate Sheet.
(c) If jobs pay less than the base, more jobs must be created or retained to meet the jobs eligibility threshold.
(d) If jobs pay more than the base, fewer jobs may be created or retained to meet the jobs eligibility threshold.
(e) A job paying less than the State of Montana minimum wage does not count towards the jobs eligibility threshold.
(f) The table below illustrates jobs eligibility calculations using the fiscal year 2010 "Private Annual Wage" as a base.
This table is for illustration purposes only as the base salary is revised annually on July 1.

Jobs Created/Retained	Average SalaryPaid *	Aggregate SalariesPaid		Interest Rate First 5 Years
15	34,932	523,980	Aggregate Salaries Required For=>	2.00%
13	40,306	523,980	Aggregate Salaries Required For=>	2.00%
10	52,398	523,980	Aggregate Salaries Required For=>	2.00%
8	65,498	523,980	Aggregate Salaries Required For=>	2.00%
10	34,932	349,320	Aggregate Salaries Required For=>	4.00%
8	43,665	349,320	Aggregate Salaries Required For=>	4.00%
7	49,903	349,320	Aggregate Salaries Required For=>	4.00%
6	58,220	349,320	Aggregate Salaries Required For=>	4.00%

* $34,932 is the private annual wage effective July 1, 2012 – Excludes benefits.

(g) During the terms of reduced interest rates, the borrower must annually submit appropriate payroll documents to the Board to certify the number of jobs maintained or retained.

(h) Borrowers applying for a loan under the "retention" provision must submit all financial statements and business plans required by the Board to assist the Board in determining if a Value-added loan will prevent the elimination of jobs.

3. INTEREST RATE SETTING PROCEDURES

(a) During construction financing or permanent loan funding, prior to the borrower's meeting the minimum job requirements, the interest rate will be set at the Commercial Loan Program's posted rate (The Commercial Loan Rate Sheet ~~P~~posted on the Board's Web Page).

(b) Once the 10 or 15 jobs eligibility requirement is met and certified to the Board, the interest rate will be reduced to the level appropriate to the number of jobs created/retained.

(c) The table below illustrates how the interest rates would be set for the 15-year term of a loan when the jobs are created/retained at some point in time after the loan is funded. **This table is for illustration purposes only. The posted rate changes weekly. The timing of the job creation is estimated to be 12 months.**

(d)

Key Dates	Start Date	End Date	10-14 Jobs	15 Jobs	Terms
Loan Funded *	07/01/01	06/30/02	7.25%	7.25%	12 Months
Jobs Created	07/01/02	06/30/07	4.00%	2.00%	60 Months
2nd Graduation	07/01/07	06/30/11	6.00%	6.00%	60 Months
Final Graduation	07/01/12	06/30/16	7.25%	7.25%	48 Months
Maximum Term					**180 Months**
*The Board's posted rate when a complete value-added loan application is received by BOI staff for consideration.					

(e) During the 60-month period the interest rate is set at 2.0 % or 4.0 %, the Board may:
  i. Increase the interest rate ~~to 6.0 %~~ if 5 of the required 10/15 jobs are eliminated.
  ii. Increase the interest rate to the Board's posted commercial loan interest rate if more than 5 of the required jobs are eliminated.

(f) All rate changes are effective on the payment date following approval.

4. VALUE-ADDED BUSINESS EXAMPLES

Although businesses may be reviewed on a case-by-cases basis, the following are examples of specific businesses that would or would not qualify for the Value-Added Loan Program.

Wood Products:		**Loan Eligibility**
Logging		NO
Timber Tracts		NO
Christmas Tree Farm		NO

Tree Nurseries		NO
Log Home Crafters	YES	
Modular Home Manufacturers	YES	
Saw Mills	YES	
Wood Components (Trusses, Beams, Wall Panels)	YES	
Chip Mill	YES	
Pulp Mills	YES	
Manufacturing:	**Loan Eligibility**	
Businesses engaged in the mechanical, physical or chemical transformation of materials, substances or components into new products that meets the North American Industry Classification System (NAICS) classification of manufacturing	YES	
Agriculture:	**Loan Eligibility**	
Farming		NO
Ranching		NO
Orchards		NO
Crop Harvesting		NO
Landscaping		NO
Retail Plant Nurseries		NO
Wholesale Plant Nurseries	YES	
Retail Bakeries		NO
Wholesale Bakeries	YES	
Sugar Refinery	YES	
Cattle Feed Lots	YES	
Dairies	YES	
Winery	YES	
Meat Processing Plants	YES	
Grain Milling And Processing	YES	
Information Technology:	**Loan Eligibility**	
Printing/Publishing		NO
Internet Service Provider (ISP)		NO
Call Centers		NO
Data Transmission Lines		NO
Computer Consultant Services		NO
Software Production & Licensing	YES	
Computer Hardware Manufacturing	YES	
Construction:	**Loan Eligibility**	
Businesses meeting the NAICS definition of a heavy medium or light construction enterprise.		NO

5. COLLATERAL AND OTHER UNDERWRITING REQUIREMENTS:

(a) First mortgage/lien position shared proportionately with Lender.
(b) Collateral must have sufficient economic life to support the term of the loan.
(c) Loan-To-Value is based on lessor of reasonable project costs (including architecture, engineering and capitalized interest) or market value appraisal.
(d) Personal guaranty's as required by Lender to be shared proportionally with the Board.
(e) Loans for projects on leased land will be considered if the lease does not expire prior to loan maturity.
(f) Collateral documents must contain due-on-sale clauses, requiring lender's consent prior to loan transfer.
(g) Environmental risk assessment as required by Lender.
(h) If Lender requires, an attorney opinion on authority of borrower to borrow and all collateral documents.
(i) Other collateral as required by Lender or Board.
(j) Escrow impounds may be required for taxes & hazard insurance when Loan-To-Value exceeds 50%.
(k) Commercial Loan Policy underwriting criteria will also be considered.

6. LENDER REQUIREMENTS:

(a) A participating private financial institution may charge interest in an amount equal to the national prime interest rate, adjusted on January 1 of each year, but the interest rate may not be less than 6% or greater than 12%.

(b) At the borrower's discretion, the borrower may request the lead lender to change this prime rate to an adjustable or fixed rate on terms acceptable to the borrower and lender. However, the interest rate may not be less than 6% and no greater than 12%.

(c) Lenders may require Borrower to provide guarantees.

(d) Any federal guarantees provided are shared 75.0% to the Board and 25.0% to the Lender.

(e) A participating private financial institution, or lead private financial institution if more than one is participating, may charge a 0.5% annual service fee on the participated loan amount.

(f) The loan agreement must contain provisions providing for pro rata lien priority and pro rata liquidation provisions based upon the loan percentage of the board and each participating private lender.

(g) If a portion of a loan made pursuant to this section is for construction, disbursement of that portion of the loan must be made based upon the percentage of completion to ensure that the construction portion of the loan is advanced prior to completion of the project.

(h) A private financial institution shall participate in a loan made pursuant to this section to the extent of 85% of its lending limit or 25% of the loan, whichever is less. However, the board's participation in the loan must be 75% of the loan amount.

(i) Lender will have an initial 365 days from the date the application is received by BOI to close, fund and participate the value-added loan with BOI.

(j) If the project for which the loan proceeds will be utilized is not completed within the initial 365-day period, up to two additional 365-day increments may be granted upon written request from the lender for each requested extension.

(k) The loan must be closed prior to the expiration of the commitment letter.

(l) Funding documents required in the commitment letter must be received within ninety (90) days after the first principal and interest payment date of the project term note or the commitment date expiration, whichever comes first.

7. APPRAISALS

(a) Licensed Montana appraisers are preferred unless a specialized property collateral requires an out of state appraiser; ~~and~~

(b) The following appraisal requirements apply to all appraisals irrespective of the lender's appraisal or loan policy appraisal requirements.

(c) Real Property a~~A~~ppraisal requirements are shown below:

Appraisal requirements are based on the total loan amount: ~~**Real Property Primary Collateral:**~~

Up To $250,000	As required by Lender to provide basis for value
$250, 001 to $500,000	USPAP*– rule 2-2(b) Summary appraisal
Over $500,000	USPAP*– rule 2-2(a) Complete self-contained appraisal by lender-approved appraiser

*Uniform Standards of Professional Appraisal Practice

8. PROJECT SPECIFIC REQUIREMENTS:

(a) Any contract to construct a project financed by loan proceeds must require all contractors to give preference to the employment of bona fide Montana residents, as defined in 18-2-401, in the performance of the work on the projects if their qualifications are substantially equal to those of nonresidents. "Substantially equal qualifications" means the qualifications of two or more persons among whom the employer cannot make a reasonable determination that the qualifications held by one person are significantly better suited for the position than the qualifications held by the other persons.

(b) If the Board participates in construction financing and its share of the loan equals or exceeds $1.5 million, the general contractor and all subcontractors shall be subject to Montana's prevailing wage law specified in Title 18, Chapter Two, Part 4, MCA.

Montana Veterans' Home Loan Mortgage Policy

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

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

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

e) If a new construction, the property and improvements must be fully completed prior to closing;
f) Manufactured homes must be de-titled and on a permanent foundation;
   i. Foundation must be certified as meeting FHA requirements;
   ii. NO single-wide manufactured homes;
   iii. Manufactured home must be 1976 or newer;
g) Single family residence;
h) In the case of new construction, the appraised value of land cannot exceed 35% of the mortgage loan;
i) Condominiums are INELIGIBLE;
j) If the appraisal of the property indicates a median comparable sales days on market for any category of inventory, of 365 days or longer, the property is not eligible.

3. NO LONGER PRIMARY RESIDENCE

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

4. GENERAL LOAN INFORMATION

a) There is no limit on the maximum amount of income that may be earned by an eligible veteran for the purposes of a loan program;
b) Loan must be insured by VA, FHA or HUD 184;
c) Veteran must have all of their original VA eligibility available to apply under this program;
d) All loans must receive "approve/eligible" or other similarly high response from automated underwriting;
e) No manual underwriting or underwriting exceptions are allowed;
f) All participating lenders will be an approved lender with MBOI and have completed an Approved Lender Residential Service Agreement and an EFT Agreement;

g) Veterans who are stationed elsewhere, but who do not establish a primary residence elsewhere, may obtain a rental waiver from the MBOI;
h) Maximum loan term of 30 years;
i) Interest rate to be determined by MBOH. Rates can be found at: http://housing.mt.gov/About/homeownership/veteranratesandfunds.mcpx
j) Complete replacement insurance coverage with a maximum deductible of $1,000 or one-percent (1.00%) of the face amount of the hazard insurance policy, whichever is greater; ~~deductible for hazard insurance~~;
k) Maximum $1,000 deductible for flood insurance, if needed;
l) No cash back at closing;
m) Veteran will be required to make monthly payments for taxes and insurance to MBOH, who is the servicer of the Montana Veterans' Home Loan Mortgage Program;
n) Loan will be reserved, processed and serviced by MBOH;
o) All loans will be endorsed to the Montana Board of Investments, without recourse;
p) Trust Indenture will be assigned to the Montana Board of Investments. MBOI is not a "MERS" participating member;
q) Trust Indenture must have a "due-on-sale" clause;
r) Sweat equity will not be considered;
s) The Veteran's loan may not be assumed by a non-veteran;
t) Appraisals must be Uniform Appraisal Dataset (UAD) compliant;
u) Repurchase of delinquent loans: MBOI retains the right to require repurchase of a program loan that is 30 days delinquent within the first 90 days or 60 days delinquent within the first 180 days of scheduled payments;
v) Repurchase of loans: Lenders receiving a request to repurchase a loan have five (5) days from notification to repurchase the loan. For the first 30 days thereafter, the loan will accumulate interest at the note rate plus 250 basis points until payment is received. After 30 days, the loan will accumulate interest at the note rate plus 500 basis points until payment is received;
w) All first Trust Indenture loan Notes and Trust Indentures must be on either Fannie Mae or Freddie Mac accepted loan documents;
x) MBOI will rely on the MBOH to insure the Veteran's loan to be funded/purchased by MBOI, meets or exceeds all of the requirements under this program as well as the required documentation submitted by the lender, however MBOI reserves the final funding decision;
y) Coal tax trust fund money will be used to fund the Montana Veterans' Home Loan Mortgage program as provided by 90-6-603 M.C.A;
   i. Maximum coal tax trust fund allocation is determined by 90-6-603(2) M.C.A;
   ii. This is a revolving loan fund program.

For additional forms and assistance call or E-mail:
(406) 444-1218 hkulow@mt.gov

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 29, 2013

Subject: Statute Authorizing Loan to Montana Comprehensive Health Association
Treasurer's Fund Investment Policy Statement Change

Overview

The Montana Legislature created the Montana Comprehensive Health Association (MCHA), 33-22-1501 through 33-22-1524 MCA, to establish a program through which health insurance could be made available to Montana residents who are otherwise considered uninsurable due to medical conditions. The legislation was signed into law in April 1985, and the first policies were issued in 1987.

Every insurance company selling health insurance in the State of Montana MUST be a member of the association. Insurance companies can be assessed by MCHA up to 1% of their total annual premium to subsidize the program. The annual total premium runs between $800 and $850 million, so the potential maximum assessment for this program is between $8-8.5 million annually. The program has not, until recently, had to assess the full 1% assessment allowed by statute.

In 1999, legislation authorized, among other things, that if this annual assessment is insufficient to meet incurred or estimated claims, MCHA may borrow under 33-22-1524, MCA., from the Board of Investments for up to two years "any funds necessary for the continued operation of the association plan…"

33-22-1524. Association authority for borrowing. (1) If the amount of the annual assessment collected under 33-22-1513(6) and other available funds is insufficient to meet incurred or estimated claims expenses of the association plan and the association portability plan and the operating and administrative expenses of the association, the association may borrow from the board of investments for a period not to exceed 2 years any funds necessary for the continued operation of the association plan and the association portability plan. The loaned funds may be used only to pay incurred or estimated claims expenses of the association plan and the association portability plan and the operating and administrative expenses of the association.

The statute continues with a strong measure of financial protection to the Board:

(2) Whenever the association accepts a loan from the board of investments pursuant to this section, it shall repay the loan and any interest required under the terms of the loan through assessments and premium income. In accordance with the constitutions of the United States and the state of Montana, the state pledges that it may not in any way impair the obligations of any loan agreement between the

association and the board of investments by repealing the assessment imposed by 33-22-1513(6) or by reducing it below the amount necessary to make annual loan payments.

The State Auditor, in her capacity as the State's Insurance Commissioner, has broad jurisdiction over MCHA, including the appointment of four of the nine directors of MCHA's board.

Investment Policy to Include Possible Loan

None of the Board's current policies contemplates a loan to MCHA. In advising the Board on a specific funding source, staff believes that the State of Montana Treasurer's Fund (Treasurer's Fund) is appropriate, because the law limits the term of the loan to two years, which implies bridge financing long enough for a legislative remedy, if necessary. The Treasurer's Fund higher profile also gives the loan potentially more visibility. The law does not, on its face, require that the Board make a loan; however, the intent is clearly that the Board must be reasonably accommodating.

Recommendation for Treasure's Fund Investment Policy

Staff recommends the Board add the following language to specifically authorize a Treasurer's Fund investment in a BOI-MCHA loan:

- Loans to the Montana Comprehensive Health Association as specifically authorized in 33-22-1524, MCA, provided the following conditions are met:
  - The Board, after receiving staff recommendations, shall have the sole discretion in deciding upon the acceptance of any such loan and its terms;
  - The Board recognizes that the liquidity needs of the Treasurer's Fund are not to be impaired;
  - A loan rate is to be set forth in a manner that fairly compensates the Treasurer's Fund after considering the term, which by statute may not exceed two years, and the credit quality of the loan;
  - The State Auditor's Office, the Governor's Office, and the State Treasurer will have at least ten (10) days' notice before any final loan terms are agreed to by the Board.

Board Loan for FY 2013

MCHA staff has advised that a Board loan will be needed probably in June for up to $2 million. Staff, working with MCHA staff, has prepared for the Board Loan Committee's review and its decision, a credit analysis. MCHA has provided the Board with a resolution authorizing MCHA to enter into a loan agreement with the Board and an opinion from its counsel. Loan documentation has been reviewed by the Board's general counsel, Luxan and Murfitt. As assessments are charged in July, this loan is expected to have a very short term, perhaps even less than a month.

Loan Recommendation

Staff will make a recommendation to the Loan committee for a loan of up to $2 million secured by MCHA's participating member's annual assessment

Board Loan for FY 2014

The long term objective for MCHA is for the program to shut down and transition its users to policies available on the federal health insurance exchange that begins free enrollment October 2013. There are many uncertainties as to the size and speed of this transition, but additional bridge financing from the Board will be likely. MCHA will have more clarity in time for the Board's August meeting. It is possible that a loan term may need to cover two assessment periods to enable sufficient repayment sources.

Notice to Stakeholders

A copy of this memorandum and draft policy changes has been sent to the State Auditor's Office, Governor's Office, and the State Treasurer. Staff has also met with the Budget Office.

MONTANA BOARD OF INVESTMENTS
TREASURER'S FUND (MU10) (FUND 10100)
INVESTMENT POLICY STATEMENT

INTRODUCTION

The purpose of this investment policy statement is to provide the strategic framework for the investments made within the Treasurer's Fund. The Treasurer's Fund consists of both assets of the general fund and all other surplus funds of the state not otherwise expressly segregated and invested separately.

OBJECTIVES

The primary investment objective is to provide safety of principal and a high degree of liquidity, and to a lesser degree the maximization of book income return. Investments shall be made solely in fixed income instruments subject to the limitations and constraints outlined below.

When required, the fund may be used to make investments to implement the bond credit enhancement authorized by **Resolution 219** of the Board of Investments. Additionally, the fund may be used to purchase state warrants as provided for under MCA 17-6-212.

PERMITTED INVESTMENTS

- Short-term Investment Pool (STIP).
- Deposits held at the state's depository bank, U.S. Bank.
- U.S. Treasury obligations.
- Direct obligations of the U.S. mortgage agencies Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation). These obligations shall consist of only the discount notes, notes and debentures of these two agencies and does not include mortgage pass-through obligations. Coupons may be fixed or LIBOR-based floating rate.
- Direct obligations of the Federal Farm Credit Bank and the Federal Home Loan Bank. These obligations shall consist of discount notes, notes and debentures with either fixed or LIBOR-based floating rate coupons.
- Short-term tri-party repurchase obligations (repo) with an approved primary dealer, the custodial bank, or the depository bank (U.S. Bank) that are collateralized at 102% of value with U.S. Treasury and U.S. Agency securities. Approved primary dealers will be the same as those dealers approved for repo investments made in STIP.
- Fixed income obligations of other U.S. agencies or corporate entities that are directly guaranteed as to both principal and interest by the full faith and credit of the U.S. Treasury. The most prominent example of this type of obligation currently is FDIC-insured notes issued by banks under the TLGP (Temporary Liquidity Guarantee Program) of the U.S. Treasury.
- Any obligation purchased pursuant to the bond credit enhancement program of the MBOI as authorized pursuant to Resolution 219 of the Board.
- A loan to the Montana Comprehensive Health Association as specifically authorized in 33-22-1524, MCA, provided that the following conditions are met:
  - The Board after receiving staff recommendations shall have the sole discretion in deciding upon the acceptance of any such loan and its terms;
  - The Board recognizes that the liquidity needs of the Treasurer's Fund are not to be impaired;
  - The loan rate is to be set forth in a manner that fairly compensates the Treasurer's Fund considering the term, which by statute may not exceed two years, and the credit quality of the loan; and
  - That the Governor's Office, the State Treasurer and the State Auditor's Office will have at least 10 days' notice before any final loan terms are agreed to by the Board.

MONTANA BOARD OF INVESTMENTS
TREASURER'S FUND (MU10) (FUND 10100)
INVESTMENT POLICY STATEMENT

CONSTRAINTS

A. Securities purchases are permitted only up to an amount that is equal to one-half the projected fiscal year end balance of the general fund.

   This component of the Treasurer's Fund is subject to the uncertainty of state receipts and expenditures and may fluctuate significantly depending on economic conditions. Thus, in order to avoid a potential liquidity event, the purchase of securities is to be constrained based on the most current forecast of general fund balances by the budget office within the Department of Administration. In the event the amount of securities held were to exceed this threshold, sales are not required however additional purchases are prohibited until the test can again be met.

B. Realized losses from the sale of securities prior to maturity are to be avoided.

   Securities purchased for investment are intended to enhance book income and shall normally be held until maturity unless a severe liquidity need were to arise in which case a realized loss may be incurred if necessary in the sale of securities to meet immediate liquidity needs. Realized gains may be incurred if the sale of a security prior to maturity is necessary to meet liquidity needs or otherwise is advisable in order to enhance book income by reinvesting the proceeds of such sale.

C. Maturities
   - Securities are limited to three years to final maturity.
   - Repurchase agreements are limited to seven days to maturity.

D. Concentration
   - Holdings of any one U.S. agency that is not directly or indirectly guaranteed by the U.S. Treasury shall be limited to a maximum $100 million at book value.
   - Repurchase obligations shall be limited to $20 million face amount with any one primary dealer. Repos held at the depository bank or the custodial bank are not constrained by this limit given the potential for extenuating market conditions that may require unusually high cash balances to be retained at either bank.

LEGAL

This fund is governed by state regulations, specifically, the "prudent expert principle" which requires the Board of Investments to:

(a) discharge its 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 manners, 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 solely prudent no to do so; and
(c) discharge his duties solely in the interest of and for the benefit of the funds forming the unified investment program.

The Montana Constitution does not allow equity type investments. Following are various statutory references to the Treasurer's Fund.

MONTANA BOARD OF INVESTMENTS
TREASURER'S FUND (MU10) (FUND 10100)
INVESTMENT POLICY STATEMENT

17-1-111. General fiscal duties of state treasurer.
(1) The state treasurer is the custodian of all money and securities of the state unless otherwise expressly provided by law.
(2) It is the duty of the state treasurer to:
(a) receive and account for all money belonging to the state, not expressly required by law to be received and kept by some other person; determines to be essential for the support of the accounting records maintained in the department.

17-1-113. Securities lending program. The state treasurer may, subject to the approval of the state board of investments, establish a securities lending program for all securities held in custody under 17-1-111. All loaned securities must be secured by equivalent securities of the same class in an amount equal to at least 100% of the market value of the loaned securities as determined by the board. All fees and proceeds earned by the securities lending program must be deposited pro-rata in the funds that loaned the securities.

17-1-122. Discretionary authority of state treasurer. The state treasurer may:
(1) inspect the books of any persons charged with the receipt, safekeeping, or disbursement of public money.
(2) Require all persons who have received money or who have had the disposition or management of any property of the state of which an account is kept in the department to render statements to the treasurer. A statement must be rendered at times and in the form prescribed by the department.

17-6-101. Deposit of funds in hands of state treasurer.
(1) Under the direction of the board of investments, the state treasurer shall deposit public money in the treasurer's possession and under the treasurer's control in solvent banks, building and loan associations, savings and loan associations, and credit unions located in the state, except as otherwise provided by law, subject to national supervision or state examination.
(2) If needed financial services are not available through solvent banks, building and loan associations, savings and loan associations, and credit unions located in the state, the state treasurer may deposit public money in out-of-state financial institutions subject to national supervision.
(3) The state treasurer shall deposit funds in banks, building and loan associations, savings and loan associations, and credit unions in amounts that may be designated by the board of investments and shall withdraw deposits when instructed to by the board of investments.
(4) When money has been deposited under the board of investments and in accordance with the law, the state treasurer is not liable for loss on account of any deposit occurring from any cause other than the treasurer's own neglect or fraud.
(5) The state treasurer shall withdraw all deposits or any part of the deposits from time to time to pay and discharge the legal obligations of the state presented to the treasurer in accordance with the law.

17-6-101. Deposit of funds in hands of state treasurer
(6) The state treasurer may contract with a financial institution to provide general depository banking services. The cost of contracting for banking services is statutorily appropriated, as provided in 17-7-502, from the general fund.

17-6-212. State purchase of general fund warrants.
(1) The state reserves a preference right, prior to the right of any person, company, or corporation, to purchase state general fund warrants issued with funds under the control of the board of investments and subject to investment.

MONTANA BOARD OF INVESTMENTS
TREASURER'S FUND (MU10) (FUND 10100)
INVESTMENT POLICY STATEMENT

(2) When the board of investments has under its control any funds subject to investment that in its judgment it would be advantageous to invest in state general fund warrants and there are not sufficient funds in the state general fund to pay warrants issued against the fund at the time that they are issued and presented for payment, it shall authorize and direct the state treasurer to purchase state general fund warrants, designating the fund or funds to be invested and fixing the amount or amounts to be invested. State general fund warrants registered by the state treasurer pursuant to 17-8-304(1) and purchased by the board of investments must bear interest at a rate determined by the board. When determining the interest rate, the board shall consider:

(a) the duration of the investment by estimating the time at which the warrants will be redeemed pursuant to 17-8-304(1); and

(b) the interest rate of the investments liquidated to provide the funds to purchase the warrants.

(3) The state treasurer shall attach to or stamp, write, or print upon each general fund warrant issued after the receipt of notice, until warrants totaling the amounts designated have been issued, a notice that the state will exercise its preference right to purchase the warrant.

(4) The state treasurer shall, when the marked warrant is presented, pay it out of the proper fund as designated by the board, and the warrant purchased must be registered as other state warrants and must bear interest as provided by law.

(5) When the designated amounts have been invested, the state treasurer shall notify the board of investments, which shall issue orders upon the proper funds addressed to the state auditor for warrants to be issued in favor of the treasurer.

 Approved May 29, 2013

MONTANA BOARD OF INVESTMENTS
TREASURER'S FUND (MU10) (FUND 10100)
INVESTMENT POLICY STATEMENT

INTRODUCTION

The purpose of this investment policy statement is to provide the strategic framework for the investments made within the Treasurer's Fund. The Treasurer's Fund consists of both assets of the general fund and all other surplus funds of the state not otherwise expressly segregated and invested separately.

OBJECTIVES

The primary investment objective is to provide safety of principal and a high degree of liquidity, and to a lesser degree the maximization of book income return. Investments shall be made solely in fixed income instruments subject to the limitations and constraints outlined below.

When required, the fund may be used to make investments to implement the bond credit enhancement authorized by **Resolution 219** of the Board of Investments. Additionally, the fund may be used to purchase state warrants as provided for under MCA 17-6-212.

PERMITTED INVESTMENTS

- Short-term Investment Pool (STIP).
- Deposits held at the state's depository bank, U.S. Bank.
- U.S. Treasury obligations.
- Direct obligations of the U.S. mortgage agencies Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation). These obligations shall consist of only the discount notes, notes and debentures of these two agencies and does not include mortgage pass-through obligations. Coupons may be fixed or LIBOR-based floating rate.
- Direct obligations of the Federal Farm Credit Bank and the Federal Home Loan Bank. These obligations shall consist of discount notes, notes and debentures with either fixed or LIBOR-based floating rate coupons.
- Short-term tri-party repurchase obligations (repo) with an approved primary dealer, the custodial bank, or the depository bank (U.S. Bank) that are collateralized at 102% of value with U.S. Treasury and U.S. Agency securities. Approved primary dealers will be the same as those dealers approved for repo investments made in STIP.
- Fixed income obligations of other U.S. agencies or corporate entities that are directly guaranteed as to both principal and interest by the full faith and credit of the U.S. Treasury. The most prominent example of this type of obligation currently is FDIC-insured notes issued by banks under the TLGP (Temporary Liquidity Guarantee Program) of the U.S. Treasury.
- Any obligation purchased pursuant to the bond credit enhancement program of the MBOI as authorized pursuant to Resolution 219 of the Board.
- A loan to the Montana Comprehensive Health Association as specifically authorized in 33-22-1524, MCA, provided that the following conditions are met:
  - The Board after receiving staff recommendations shall have the sole discretion in deciding upon the acceptance of any such loan and its terms;
  - The Board recognizes that the liquidity needs of the Treasurer's Fund are not to be impaired;
  - The loan rate is to be set forth in a manner that fairly compensates the Treasurer's Fund considering the term, which by statute may not exceed two years, and the credit quality of the loan; and
  - That the Governor's Office, the State Treasurer and the State Auditor's Office will have at least 10 days' notice before any final loan terms are agreed to by the Board.

MONTANA BOARD OF INVESTMENTS
TREASURER'S FUND (MU10) (FUND 10100)
INVESTMENT POLICY STATEMENT

CONSTRAINTS

A. Securities purchases are permitted only up to an amount that is equal to one-half the projected fiscal year end balance of the general fund.

This component of the Treasurer's Fund is subject to the uncertainty of state receipts and expenditures and may fluctuate significantly depending on economic conditions. Thus, in order to avoid a potential liquidity event, the purchase of securities is to be constrained based on the most current forecast of general fund balances by the budget office within the Department of Administration. In the event the amount of securities held were to exceed this threshold, sales are not required however additional purchases are prohibited until the test can again be met.

B. Realized losses from the sale of securities prior to maturity are to be avoided.

Securities purchased for investment are intended to enhance book income and shall normally be held until maturity unless a severe liquidity need were to arise in which case a realized loss may be incurred if necessary in the sale of securities to meet immediate liquidity needs. Realized gains may be incurred if the sale of a security prior to maturity is necessary to meet liquidity needs or otherwise is advisable in order to enhance book income by reinvesting the proceeds of such sale.

C. Maturities
- Securities are limited to three years to final maturity.
- Repurchase agreements are limited to seven days to maturity.

D. Concentration
- Holdings of any one U.S. agency that is not directly or indirectly guaranteed by the U.S. Treasury shall be limited to a maximum $100 million at book value.
- Repurchase obligations shall be limited to $20 million face amount with any one primary dealer. Repos held at the depository bank or the custodial bank are not constrained by this limit given the potential for extenuating market conditions that may require unusually high cash balances to be retained at either bank.

LEGAL

This fund is governed by state regulations, specifically, the "prudent expert principle" which requires the Board of Investments to:

(a) discharge its 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 manners, 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 solely prudent no to do so; and
(c) discharge his duties solely in the interest of and for the benefit of the funds forming the unified investment program.

The Montana Constitution does not allow equity type investments. Following are various statutory references to the Treasurer's Fund.

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(1) inspect the books of any persons charged with the receipt, safekeeping, or disbursement of public money.
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(2) If needed financial services are not available through solvent banks, building and loan associations, savings and loan associations, and credit unions located in the state, the state treasurer may deposit public money in out-of-state financial institutions subject to national supervision.
(3) The state treasurer shall deposit funds in banks, building and loan associations, savings and loan associations, and credit unions in amounts that may be designated by the board of investments and shall withdraw deposits when instructed to by the board of investments.
(4) When money has been deposited under the board of investments and in accordance with the law, the state treasurer is not liable for loss on account of any deposit occurring from any cause other than the treasurer's own neglect or fraud.
(5) The state treasurer shall withdraw all deposits or any part of the deposits from time to time to pay and discharge the legal obligations of the state presented to the treasurer in accordance with the law.

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(a) the duration of the investment by estimating the time at which the warrants will be redeemed pursuant to 17-8-304(1); and

(b) the interest rate of the investments liquidated to provide the funds to purchase the warrants.

(3) The state treasurer shall attach to or stamp, write, or print upon each general fund warrant issued after the receipt of notice, until warrants totaling the amounts designated have been issued, a notice that the state will exercise its preference right to purchase the warrant.

(4) The state treasurer shall, when the marked warrant is presented, pay it out of the proper fund as designated by the board, and the warrant purchased must be registered as other state warrants and must bear interest as provided by law.

(5) When the designated amounts have been invested, the state treasurer shall notify the board of investments, which shall issue orders upon the proper funds addressed to the state auditor for warrants to be issued in favor of the treasurer.

Return to Agenda

Bond Program

INTERCAP Loan Program

Activity Summary

As of March 31, 2013

Since Inception 1987 - March 2013

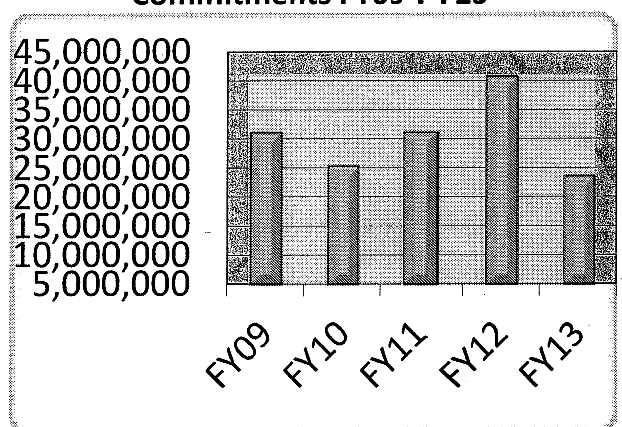
Total Bonds Issued	**148,000,000**
Total Loan Commitments	**427,887,525**
Total Loans Funded	**392,147,281**
Total Bonds Outstanding	**106,615,000**
Total Loans Outstanding	**75,041,468**
Loan Commitments Pending	**35,740,244**

FY2013 To Date

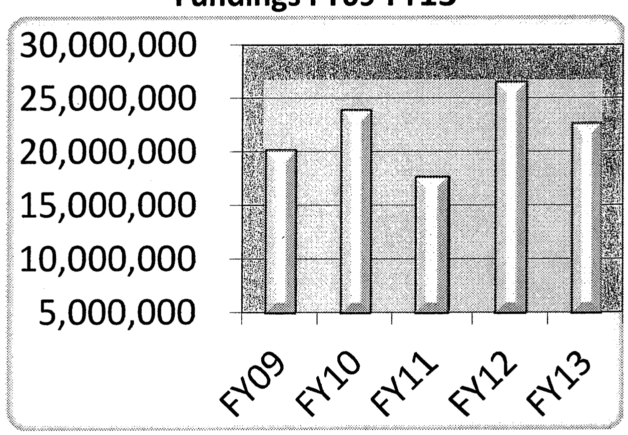
Month	Commitments	Fundings
July-12	$ 6,016,000	$ 2,043,033
August	1,140,965	2,046,837
September	380,000	1,772,729
October	837,800	1,651,253
November	7,627,811	8,721,165
December	2,191,416	1,551,232
January	1,181,247	1,877,580
February	3,420,980	2,315,989
March	900,500	731,679
April		
May		
June-13		
To Date	$ 23,696,719	$ 22,711,497

Note: Commitments include withdrawn and expired loans.

Commitments FY09-FY13



Fundings FY09-FY13



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

February 16, 2006 - February 15, 2007	**4.75%**
February 16, 2007 - February 15, 2008	**4.85%**
February 16, 2008 - February 15, 2009	**4.25%**
February 16, 2009 - February 15, 2010	**3.25%**
February 16, 2010 - February 15, 2011	**1.95%**
February 16, 2011 - February 15, 2012	**1.95%**
February 16, 2012 - February 15, 2013	**1.25%**
February 16, 2013 - February 15, 2014	**1.00%**

L:\INTERCAP\BOARD\ACTIVITY SUMMARY2.xlsx

MEMORANDUM

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

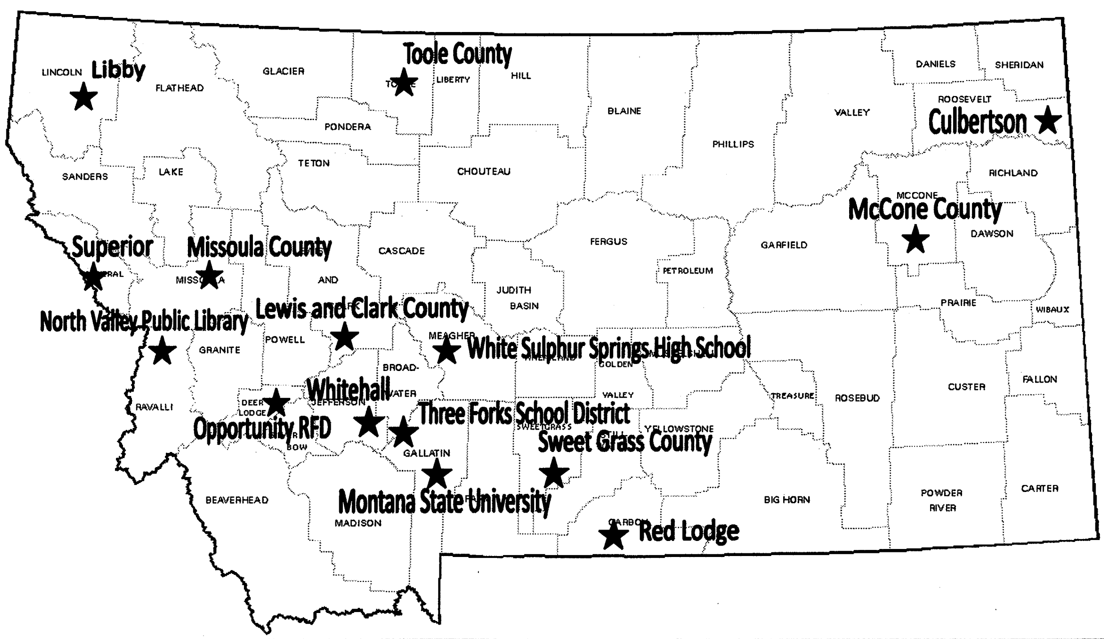
To: Members of the Board

From: Louise Welsh, Senior Bond Program Officer

Date: May 29, 2013

Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans between January 1 and March 31, 2013.



Borrower:	Sweet Grass County
Purpose:	Purchase two new patrol cars
Staff Approval Date	January 11, 2013
Board Loan Amount:	$68,000
Other Funding Sources:	$22,456
Total Project Cost:	$90,456
Term:	5 years

Borrower:	Toole County
Purpose:	Purchase hospital equipment/software for Marias Medical Center
Staff Approval Date	January 11, 2013
Board Loan Amount:	$ 579,394
Other Funding Sources:	$ 476,616
Total Project Cost:	$1,056,010
Term:	5 years

Borrower:	City of Libby
Purpose:	Finance preliminary engineering services
Staff Approval Date	January 17, 2013
Board Loan Amount:	$ 462,623
Other Funding Sources:	$1,148,377
Total Project Cost:	$1,611,000
Term:	6 years

Borrower:	McCone County
Purpose:	Purchase a pickup for the Road Department
Staff Approval Date	January 18, 2013
Board Loan Amount:	$29,230
Other Funding Sources:	$ 0
Total Project Cost:	$29,230
Term:	5 years

Borrower:	Town of Culbertson
Purpose:	Purchase a refuse vehicle
Staff Approval Date	January 28, 2013
Board Loan Amount:	$42,000
Other Funding Sources:	$ 0
Total Project Cost:	$42,000
Term:	7 years

Borrower:	City of Red Lodge
Purpose:	Replace 16 blocks of water mains, fire hydrants and valves
Staff Approval Date	February 7, 2013
Board Loan Amount:	$ 616,243
Other Funding Sources:	$2,057,715
Total Project Cost:	$2,673,958
Term:	15 years

Borrower:	Opportunity Rural Fire District
Purpose:	Purchase a new Fire Tender (Truck)
Staff Approval Date	February 13, 2013
Board Loan Amount:	$180,000
Other Funding Sources:	$100,000
Total Project Cost:	$280,000
Term:	10 years

Borrower:	Lewis and Clark County
Purpose:	Improve Big Sky Subdivision Rural Improvement District (RID) roads
Staff Approval Date	February 28, 2013
Board Loan Amount:	$194,737
Other Funding Sources:	$ 0
Total Project Cost:	$194,737
Term:	15 years

Borrower:	Town of Superior
Purpose:	Construct Town offices
Staff Approval Date	March 5, 2013
Board Loan Amount:	$105,000
Other Funding Sources:	$ 93,000
Total Project Cost:	$198,000
Term:	10 years

Borrower:	White Sulphur Springs High School District
Purpose:	Replace boiler system
Staff Approval Date	March 11, 2013
Board Loan Amount:	$450,000
Other Funding Sources:	$365,000
Total Project Cost:	$815,000
Term:	2 years

Borrower:	Town of Whitehall
Purpose:	Update a preliminary engineering report
Staff Approval Date	March 12, 2013
Board Loan Amount:	$15,000
Other Funding Sources:	$ 0
Total Project Cost:	$15,000
Term:	3 years

Borrower:	Missoula County
Purpose:	Purchase telemetry system for Lolo Water & Sewer District (RSID)
Staff Approval Date	March 15, 2013
Board Loan Amount:	$130,000
Other Funding Sources:	$ 20,000
Total Project Cost:	$150,000
Term:	5 years

Borrower:	Three Forks School District
Purpose:	Replace boiler system
Staff Approval Date	March 25, 2013
Board Loan Amount:	$132,500
Other Funding Sources:	$ 50,505
Total Project Cost:	$183,005
Term:	3-4 years

Borrower:	North Valley Public Library District (Stevensville)
Purpose:	Refinance building mortgage
Staff Approval Date	March 28, 2013
Board Loan Amount:	$ 68,000
Other Funding Sources:	$ 0
Total Project Cost:	$ 68,000
Term:	15 years

MONTANA UNIVERSITY SYSTEM

Borrower:	Montana State University-Bozeman
Purpose:	Purchase truck for KUSM, public television station
Staff Approval Date	February 15, 2013
Board Loan Amount:	$30,000
Other Funding Sources:	$ 0
Total Project Cost:	$30,000
Term:	5 years

Montana Board of Investments
LOAN COMMITTEE
INTERCAP Loan Summary and Approval

Borrower: Department of Natural Resources and Conservation (DNRC) **Date:** May 9, 2013
Approval Date:_________

The DNRC requests a $1.75 million interim loan in anticipation of issuing general obligation bonds for its Drinking Water State Revolving Fund (DWSRF) Loan Program. The loan will be financed over a two (2) year term in the form of a general obligation bond anticipation note (BAN). The DNRC intends to begin drawing funds late this summer.

The DWSRF was established pursuant to Title XIV of the Safe Drinking Water Act. This federal act established the DWSRF program for states to make loans to community water systems. The DNRC funds each DWSRF loan using 80% U. S. Environmental Protection Agency (EPA) capitalization grant and 20% state match.

Authorization:

17-5-802 Montana Code Annotated (MCA) (1) When authorized by and within the limits of a bond act and as provided in this part, the board may issue and sell bonds of the state in the manner that it considers necessary and proper to provide funds for the purpose set forth in the bond act. (2) The full faith and credit and taxing powers of the state must be pledged for the payment of all bonds and notes issued pursuant to this part,...

BAN authorization

17-5-805 MCA (1) When the board has been authorized to issue and sell bonds under this part, it may, pending the issuance of the bonds, issue in the name of the state temporary notes in anticipation of: (a) the money to be derived from the sale of the bonds; ... (c) other money to be received as revenue for the specified program.

(3) Bond, grant, or revenue anticipation notes maturing not more than three (3) years after the date of issue may be issued from time to time as the proceeds are needed.

75-6-227 MCA The legislature, ..., authorizes the creation of state debt in an amount not to exceed $30 million in principal amount of general obligation bonds outstanding from time to time for the purpose of: (1) providing the state's share of the program; and (2) funding portions of loans on an interim basis pending receipt of: (b) other revenue for the program. [Staff Note: DNRC has $22.3 million available debt authority under this statute.]

Repayment:

The bond proceeds from the issuance and sale of a general obligation bond backed by the full faith and credit of the state will repay the BAN. However, the DNRC will use excess DWSRF borrower loan repayments net of any existing obligations to pay down the proposed debt prior to finalizing the bond amount to be issued.

INTERCAP Debt

Since 1996, INTERCAP has been a valuable resource for the DNRC interim financing over $25.3 million for its various programs. DNRC currently has ~$2.7 million in a combination of bond anticipation notes (BANs) and revenue anticipation notes (RANs) outstanding; final maturity December 2015. Assuming a full draw down of the DNRC's $5.2 million remaining commitment and the total combined proposed requests of $4.85 million, the DNRC has the potential total INTERCAP outstanding of $12.75 million. DNRC intends to pay down ~$550,000 of that amount in June.

Recommendation

The DNRC can adequately service the debt. Approval recommended with the following conditions:

1. The loan will be in the form of a bond anticipation note (BAN) and passed by the Board of Examiners.
2. The BAN does not cause the DNRC to exceed the $30 million debt limit for DWSRF according to 75-6-227 MCA.
3. The DNRC will not use INTERCAP loan proceeds to fund loans in the non-point source private loan portion of the DWSRF program.
4. The loan term limit will not exceed the limit as set for by law for a BAN.
5. The Board requires a copy of the following prior to releasing funds:
   a. 2011 Capitalization Grant **(on file)**
   b. Resolution of the Board of Examiners authorizing the BAN.

Staff Loan Committee - Recommendation

David Ewer, Executive Director D Ewer Date: 5/10/13

Geri Burton, Deputy Director Geri Burton Date: 5-9-13

Louise Welsh, Sr. Bond Program Officer Louise Welsh Date: 5/9/13

Board Loan Committee

	Approval
Jack Prothero, Chairperson – Loan Committee	☐ Yes ☐ No ☐ Abstain
Kathy Bassette, Member	☐ Yes ☐ No ☐ Abstain
Gary Buchanan, Member	☐ Yes ☐ No ☐ Abstain

Approval Date: ____________

Montana Board of Investments
LOAN COMMITTEE
INTERCAP Loan Summary and Approval

Borrower: Department of Natural Resources and Conservation (DNRC)

Date: May 9, 2013
Approval Date:__________

The DNRC requests a $3.1 million interim loan in anticipation of issuing general obligation bonds for its Water Pollution Control State Revolving Fund (WPCSRF) Loan Program. The loan will be financed over a two (2) year term in the form of a general obligation bond anticipation note (BAN). The DNRC intends to begin drawing funds this fall.

The WPCSRF was established pursuant to Title VI of the Federal Water Quality Act of 1987. The WPCSRF program replaced the construction grants program. Instead of making grants to partially fund wastewater projects, the WPCSRF provides low interest rate loans to finance the entire cost of qualified community water pollution control system projects by combining a U.S. Environmental Protection Agency (EPA) capitalization grant with the required state match. The DNRC funds each WPCSRF loan using 83.33% EPA capitalization grant and 16.67% state match.

Authorization:

17-5-802 Montana Code Annotated (MCA) (1) When authorized by and within the limits of a bond act and as provided in this part, the board may issue and sell bonds of the state in the manner that it considers necessary and proper to provide funds for the purpose set forth in the bond act. (2) The full faith and credit and taxing powers of the state must be pledged for the payment of all bonds and notes issued pursuant to this part,...

BAN authorization

17-5-805 MCA (1) When the board has been authorized to issue and sell bonds under this part, it may, pending the issuance of the bonds, issue in the name of the state temporary notes in anticipation of: (a) the money to be derived from the sale of the bonds; ... (c) other money to be received as revenue for the specified program.

(3) Bond, grant, or revenue anticipation notes maturing not more than three (3) years after the date of issue may be issued from time to time as the proceeds are needed.

75-5-1122 MCA The legislature, ..., authorizes the creation of state debt in an amount not to exceed $40 million in principal amount of general obligation bonds outstanding from time to time for the purpose of: (1) providing the state's share of the program; and (2) funding portions of loans on an interim basis pending receipt of: (b) other revenue for the program. [Staff Note: DNRC has over $30.4 million available debt authority.]

Repayment:

The bond proceeds from the issuance and sale of a general obligation bond backed by the full faith and credit of the state will repay the BAN. However, the DNRC will use excess WPCSRF borrower loan repayments net of any existing obligations to pay down the proposed debt prior to finalizing the bond amount to be issued.

INTERCAP Debt

Since 1996, INTERCAP has been a valuable resource for the DNRC interim financing over $25.3 million for its various programs. DNRC currently has ~$2.7 million in a combination of bond anticipation notes (BANs) and revenue anticipation notes (RANs) outstanding; final maturity December 2015. Assuming a full draw down of the DNRC's \$5.2 million remaining commitment and the total combined proposed requests of \$4.85 million, the DNRC has the potential total INTERCAP outstanding of \$12.75 million. DNRC intends to pay down ~\$550,000 of that amount in June.

Recommendation

The DNRC can adequately service the debt. Approval recommended with the following conditions:

1. The loan will be in the form of a bond anticipation note (BAN) and passed by the Board of Examiners.
2. The BAN does not cause the DNRC to exceed the \$40 million debt limit for WPCSRF according to 75-5-1122 MCA.
3. The DNRC will not use INTERCAP loan proceeds to fund loans in the non-point source private loan portion of the WPCSRF program.
4. The loan term limit will not exceed the limit as set for by law for a BAN.
5. The Board requires a copy of the following prior to releasing funds:
   a. 2012 Capitalization Grant **(on file)**
   b. Resolution of the Board of Examiners authorizing the BAN.

Staff Loan Committee - Recommendation

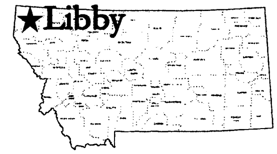
David Ewer, Executive Director D Ewer Date: 5/10/13
Geri Burton, Deputy Director Geri Burton Date: 5.9.13
Louise Welsh, Sr. Bond Program Officer Louise Welsh Date: 5/9/13

Board Loan Committee

	Approval
Jack Prothero, Chairperson – Loan Committee	☐ Yes ☐ No ☐ Abstain
Kathy Bassette, Member	☐ Yes ☐ No ☐ Abstain
Gary Buchanan, Member	☐ Yes ☐ No ☐ Abstain

Approval Date: ____________

Montana Board of Investments
Loan Committee
INTERCAP Loan Summary and Approval



Borrower: City of Libby

Date: May 9, 2013
Approved:__________

The City requests a $1,768,000 interim loan in anticipation of the United States Department of Agriculture (USDA) Rural Development Services (RD)[1] long-term financing for its water distribution mains improvement project. The loan will be for potentially two (2) years and in the form of a bond anticipation note (BAN). However, the City anticipates fully drawing the funds by this fall and closing on the RD loan shortly thereafter. The funding package for the $4,021,000 total project cost is as follows:

Borrower Portion		$ 3,000
Rural Development (RD) Grant		1,750,000
Dept. of Natural Resources and Conservation		
Drinking Water State Revolving Fund (SRF) Program interim loan	500,000	
INTERCAP Interim loan	**1,768,000**	
Rural Development (RD) Loan		2,268,000
	Total	$ 4,021,000

[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 City used INTERCAP on three other occasions in 1997, 2009, and 2011 for interim loans in anticipation of RD long-term financing totaling over $4.6 million. All three were repaid as expected. Currently, the City has yet to close on a $462,623 INTERCAP commitment for engineering services on the Flower Creek Dam project.

Repayment

The bond proceeds from the City'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 City to hire bond counsel at the City's expense to prepare the necessary BAN documents and provide the opinion at closing. The bond counsel must be a registered professional licensed to practice in his or her area(s) of municipal bonding competence and expertise in the State of Montana.

Recommendation

Approval recommended.

Staff Loan Committee - Recommendation

David Ewer, Executive Director	D Ewer	Date: 5/10/13
Geri Burton, Deputy Director	Geri Burton	Date: 5-9-13
Louise Welsh, Sr. Bond Program Officer	Louise Welsh	Date: 5/9/13

Board Loan Committee

	Approval
Jack Prothero, Chairperson – Loan Committee	☐ Yes ☐ No ☐ Abstain
Kathy Bassette, Member	☐ Yes ☐ No ☐ Abstain
Gary Buchanan, Member	☐ Yes ☐ No ☐ Abstain

Approval Date: ____________

MEMORANDUM

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

To: Members of the Board

From: David Ewer, Executive Director
Louise Welsh, Sr. Bond Program Officer

Date: May 29, 2013

Subject: Revised INTERCAP Loan Program Policies – General & University System

The purpose of this memo is to: 1) summarize the previously approved and technical changes not reflected in the INTERCAP Loan Program (the "Program") Policy and recommend approval of the Policy; and 2) recommend for approval the specific change to the University System INTERCAP Loan Policy.

General Program Parameters

In the past, there have been general Program parameter changes approved by the Board and a few technical in nature that have not been formalized as a change to the Program's Policy. The following is a summary of those changes.

Previously approved policy changes:

1. Loans previously approved by the Board may be increased by staff approval in an amount up to 10% of the original approved amount. (Approved 12/07/00)
2. Private Activity Loans – specific criteria. (Approved 05/16/02)
3. Preliminary Engineering Report (PER) Loans – specific criteria (Approved 12/07/95 and amended 01/30/03)
4. Grant Writing Loans – specific criteria. (Approved 10/01/98)

Technical policy changes:

1. Cash flow loans must be repaid within the statutory time limit.
2. Bond counsel that is licensed in Montana to practice their area of competence and expertise is required at the Borrower's expense for parity revenue or general obligation bonds.

University System Loan Policy (Approved 05/18/06)

Background - The 1991 Legislature amended the Municipal Finance Consolidation Act to include the Board of Regents of the Montana University System as an eligible borrower. At its March 1992 meeting, the Board authorized the universities to participate in the Program with a loan limit of $1 million per project. At its May 2006 meeting, the Board increased the loan limit to $5 million per project in an effort to accommodate projects that were not large enough for the universities to cost effectively issue a separate bond to finance.

Staff is submitting for approval a change to the University System INTERCAP Loan Policy. In summary, the recommended change will be that the aggregate outstanding principal amount of all the Program loans to either the University of Montana (UM) or Montana State University (MSU), when added to their total commitment remaining, may not exceed 19% of the principal amount of the Program Bonds' total outstanding. The purpose of this change is for the following reasons:

> Loan Concentration Increase - The Program has been a successful low cost means of financing for the universities. From fiscal year 1992 – 2006 the university commitments averaged ~3% of the Program's total borrower loans outstanding. From fiscal year 2006-2012 that average increased to ~6%. For fiscal year 2013, the percentage is now up to ~10% of the Program's total borrower loans outstanding.
>
> Potential Reporting Party - The Program's bond counsel considers the UM and MSU as separate borrowers. MSU is inching closer to the 20% threshold of the Program Bonds' total outstanding that would make them a Reporting Party according to the Program Bonds' Continuing Disclosure Agreement. Pursuant to the Securities Exchange Act, the Board would be required to collect from the Reporting Party, and disseminate to the public, extensive financial information and operating data placing a weighty burden on the Board and university staff.

Over the past few years the university Program loans outstanding have been steadily climbing creating a heavier concentration of university loans in the Program portfolio. The diversified loan portfolio of the Program enhances the marketability of the Program's Bonds; therefore, staff recommends the Board place a limit on the concentration of university loans within the Program's loan portfolio.

Recommendations

Staff recommends the following:

1. Approve the INTERCAP Loan Program Policy, as per Attachment A; the proposed new wording is underlined and the proposed deleted wording is ~~stricken out~~; and

2. Approve the University System INTERCAP Loan Policy contained in Attachment B; the proposed new wording is underlined.

Board of Investments INTERCAP Loan Policy

 As of ~~3/18/13~~ Pending Approval May 29, 2013

1. SPECIFIC REQUIREMENTS FOR ALL INTERCAP LOANS

(a) Applications may be completed electronically but a hard copy of the signature page is required.
(b) Upon loan approval, a Term Sheet will be forwarded to the borrower for review.
(c) Borrower has one year from date of the Term Sheet to access funds or may be required to reapply for the loan.
(d) Three weeks prior to needing funds, borrower must notify the Board of the desire to draw down funds.
(e) Prior to receiving funds the borrower must complete two sets of loan documents that include:
  a. A resolution from the local governing body approving the loan;
  b. A form signed by local counsel stating the loan is legal and binding on the local government.
(f) The local government is required to annually appropriate funds for the repayment of the loan.
(g) Invoices or certificates of completed work must be submitted before INTERCAP funds are ~~dispersed~~ disbursed.
(h) The Interest Adjustment Date is February 16th of each year.
(i) Borrower will receive notice of the new interest rate around March 15th via an adjusted amortization schedule.
(j) Any state or federal permits required must be obtained prior to closing the loan.
(k) If the project is dependent on other funding sources, those funding sources must be committed prior to funding for the INTERCAP loan.
(l) Eligible governments must adhere to State law when financing capital projects and cannot finance projects for a longer term than allowed. Board staff will consider the maximum loan term authorized in statute, as well as the repayment ability of the eligible borrower, when reviewing loan requests. In addition, loan terms cannot exceed the useful life of the project being financed.
(m) INTERCAP may not be used to finance Tax Increment Financing (TIF) bonds or loans.
(n) Loans previously approved by the Board may be increased by staff approval in an amount up to 10% of the original loan approved amount.
(o) Private Activity Loans – Federal tax law deem loans to governmental entities as private activity when there is private business use of the governmental facility financed or the structure and/or security for the loan and limits the usage of INTERCAP Bonds for this purpose to five percent (5%). The aggregate amount of private activity loans, by this policy, is limited to four percent (4%) of the INTERCAP Bond series allocated to fund the loans.

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

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

3. GENERAL FUND DEBT LOANS SPECIFIC CRITERIA (Sec. ~~9A~~ 7A of the Application)

(a) Under certain circumstances, many local governments have statutory authority to incur debt without a vote of the electors.
(b) Because these obligations are generally payable from the general fund, loan obligations are subject to any statutory mill levy limitations, including Title 15, Chapter 10, Part 4, ~~Montana Code Annotated~~ MCA, as amended (the Property Tax Limitation Act).
(c) Loan terms are limited to 15 years, useful life of the project, or borrower term limit per State statute, whichever is less.

(d) Statutory authority for general fund loans are;
  a. Counties; 7-5-2306 and 7-7-2402; MCA;
  b. Cities and Towns; 7-7-4101, 7-7-4201 & 7-5-4306 or 7-7-4101 & 7-7-4104; MCA;
  c. School Districts; 20-9-471; MCA.

4. ENTERPRISE DEBT LOANS SPECIFIC CRITERIA (Sec. ~~9B~~ 7B of the Application)

(a) Local governments may finance improvements to utility systems through the INTERCAP loan program using the revenues of the system to repay the loan.
(b) The Board will require a pledge of the revenues and require that adequate fees or charges are maintained.
(c) In most cases the obligation is not secured by the full faith and credit of the issuer and the obligation does not require voter approval. However an election may be required for county water and sewer districts.
(d) The Board must receive documentation of rates currently in effect and any proposed adjustments.
(e) Rates and charges must be set to generate net revenues to cover debt service by a factor of 1.25.
(f) If revenue pledge for repayment is on parity with other outstanding debt, the Board will require bond counsel that is a registered professional licensed to practice in his or her area(s) of competence and expertise in the State of Montana to prepare the parity revenue bond documents and provide the opinion at the Borrower's expense.
(g) ~~(f)~~ The Board will require a reserve account (one year debt service or 10% of the loan, whichever is less).
(h) ~~(g)~~ Enterprise debt loans have a maximum term of 15 years or useful life of the project, whichever is less.
(i) Preliminary Engineering Report (PER) Loans-specific criteria.
  a. The engineer must be a registered professional licensed to practice in his or her area(s) of competence and expertise in the State of Montana and be obtained prior to the Board's commitment.
  b. The maximum term is six (6) years. Board staff will determine at the time of review if the loan will be repayable interest-only for up to three (3) years with an optional three (3) year amortization of principal and interest thereafter. If necessary, rates and fees will be increased to provide adequate repayment of debt.
  c. A written approval from a state or federal engineer stating the PER scope of work generally conforms to the requirements outlined in the Uniform Preliminary Engineering Report for Montana Public Facility Projects.
  d. PER loans are not available to Special or Rural Improvement Districts.

(j) ~~(i)~~ Grant Writing Loans – specific criteria. The maximum term is six (6) years. Board staff will determine at the time of review if the loan will be repayable interest-only for up to three (3) years with an optional three (3) year amortization of principal and interest thereafter. If necessary, rates and fees will be increased to provide adequate repayment of debt.

5. SPECIFIC CRITERIA FOR GENERAL OBLIGATION LOANS (Sec. ~~9C~~7C of Application)

(a) Because general obligation debt requires backing by the full faith and credit of the issuer and obligates the issuer to levy a tax sufficient to repay the obligation, general obligation debt loans require an election.
(b) If voted, the levy to repay the debt is outside the limitations of the Property Tax Limitation Act.
(c) ~~The Attorney General must~~ Bond counsel that is a registered professional licensed to practice in his or her area(s) of competence and expertise in the State of Montana is required to certify that all legal requirements for the loan have been met at the Borrower's expense.
(d) Eligible local governments are:
  a. Counties; 7-7-2201;MCA
  b. Cities; 7-7-4201; MCA
  c. School Districts; 20-9-4; MCA
  d. School District building reserve; 20-9-502; MCA (Section 7D of Application)
  e. Rural Fire Districts; 7-33-2109; MCA
  f. County Water and Sewer Districts; 7-13-2331; MCA

*Statute allows a maximum 5-year term loan when pledging building reserve levy as repayment

(e) The maximum amount of the loan is limited to the local government's legal debt limit, if any.
(f) Loan terms are limited to 15 years, or useful life of the project, whichever is less.

6. RURAL FIRE DISTRICT AND FIRE SERVICE AREA LOANS (Sec. ~~9D~~ 7E of Application)

(a) Rural Fire Districts and Fire Service Areas have statutory authority to incur indebtedness without an election.
(b) Rural Fire District loan obligations are payable from the district's general fund and are subject to any statutory mill levy limitations, including the Property Tax Limitation Act.
(c) Fire Service Area loan obligations are payable from assessments on structures within the area.
(d) Statutory references are:
   a. Rural Fire District; 7-33-2109; MCA
   b. Fire Service Area; 7-33-2404; MCA
(e) Maximum loan limit is subject to indebtedness capacity.
(f) Loan terms are limited to 15 years, useful life of the project, or borrower term limit per State statute, whichever is less.

7. SPECIAL OR RURAL IMPROVEMENT DISTRICT LOANS (Sec. ~~9E~~ 7F of Application)

(a) Special Improvement District (SID) and Rural Improvement District (RID) loans are payable from special assessments levied against the real property in the district.
(b) SIDs and RIDs are not full faith and credit obligations of the city or county.
(c) All statutory requirements for establishing the ~~Special or Rural Districts~~ SID/RID must be met prior to the loan.
(d) City or county funds must secure the SID/RID with a pledge to levy for and maintain their revolving fund to the maximum amount permitted by law.
(e) All local government SID/RIDs and the balance in the revolving fund are subject to review as part of the loan process.
(f) Maximum loan limit is $500,000.
(g) Subject to 7-12-2171(b), loans in excess of $250,000 require underwriter opinions that the bonds are not marketable through competitive bond sale. (Two opinions are sufficient)
(h) Maximum loan term is 15 years or useful life of the project, whichever is less.
(i) Preliminary engineering loans will not be made to SIDs or RIDs.

MONTANA BOARD OF INVESTMENTS
UNIVERSITY SYSTEM INTERCAP LOAN POLICY

 ~~Approved 05/18/06~~ Pending Approval May 29, 2013

INTRODUCTION

INTERCAP

The Board of Investments (the "Board") administers the INTERCAP loan program (INTERCAP) under the Municipal Finance Consolidation Act (the "Act") as a means of providing low interest loans to eligible Montana government entities to finance capital improvements and other needs. The 1991 Legislature amended the Act to include the Board of Regents as an eligible borrower.

The legal authority for the Board of Regents to borrow through INTERCAP is:

Eligible Government Unit

17-5-1604(3) Montana Code Annotated, *Definitions.* ***"****Eligible government unit" means: (a) any municipal corporation or political subdivision of the state, including without limitation any city, town, county, school district, authority as defined in 75-6-304, or other special taxing district or assessment or service district authorized by law to borrow money; or (b) the state, any board, agency, or department of the state, or the board of regents of the Montana university system when authorized by law to borrow money.*

Borrowing Authority

20-25-402. *Borrowing by regents.* *In carrying out the powers provided in 20-25-107, 20-25-301, and 20-25-302, the regents may: (1) borrow money for any purpose or purposes stated in parts 3 and 4 of this chapter…*

PURPOSE

The public purpose of this policy is to provide a means for the University System to obtain low-cost financing for capital projects.

PROCEDURES

Delegated Authority:

Board staff may, without the concurrence of the Loan Committee, authorize University System loan requests, in an amount up to $1.0 million.

Board staff may, with the concurrence of the Loan Committee, authorize University System loan requests, in an amount greater than $1.0 million and up to $5.0 million.

Loan Concentration Cap:

University of Montana campuses (UM). The aggregate outstanding principal amount of all INTERCAP loans (Loan) made by the Board to UM, when added to the maximum principal amount of such proposed Loan, may not exceed 19% of the principal amount of INTERCAP Bonds outstanding.

Montana State University campuses (MSU). The aggregate outstanding principal amount of all Loans made by the Board to MSU, when added to the maximum principal amount of such proposed Loan, may not exceed 19% of the principal amount INTERCAP Bonds outstanding.

For the purpose of making the foregoing calculations, a Loan to the UM or MSU is deemed to be outstanding in the maximum principal amount of the committed amount of the Loan, even if only a portion or none of such committed amount is advanced as of the date of calculation. The unadvanced commitment of a Loan will be disregarded for the purpose of determining the outstanding principal amount of Loans to the Borrower only if at the time of making the calculation (i) the Board has received written notice from the Borrower that no further advances on the Loan are contemplated and the Board is directed by the Borrower to release the unadvanced principal from the loan commitment, or (ii) the loan commitment has expired by its terms.

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 29, 2013

Subject: Real Estate Holdings in Montana

The Montana Board of Investments (MBOI) owns four buildings, three in Helena and one in Bozeman and a 1.92 acre parcel of raw (bare) land in the city limits of Helena. MBOI administers them as investments in the Montana Real Estate Pool (MTRP) for the pension funds. The properties were initially held equally in the Public Employees' Retirement System (PERS) Fund and the Teachers' Retirement System (TRS) Fund (the 9th Ave property, reflected on page 2 of this report, was held in the PERS Fund only); they were transferred to the MTRP in fiscal year 2011 allowing all nine pension funds to participate in these building investments.

Address: **100 North Park Avenue, Helena**
Year Built: 1984
Purchase Date: January 1996
Purchase Price: $4,864,326
Current Value: $7,000,402
Square Feet: 49,276
Tenants: •3 State Agencies
•3 Corporate Tenants

Address: **2401 Colonial Drive, Helena**
Year Built: 1999
Purchase Date: August 1997*
Purchase Price: $6,481,741
Current Value: $8,354,697
Square Feet: 63,677
Tenants: •2 State Agencies
•1 Corporate Tenant

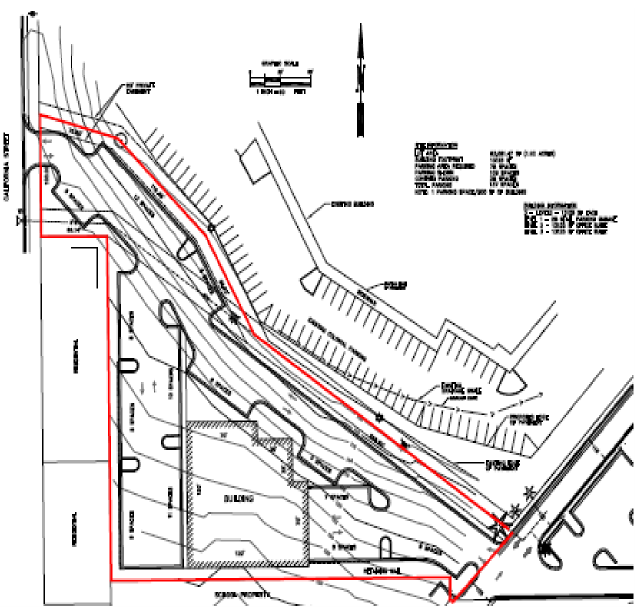
*In August 1997, the Board authorized the purchase of land to construct an office building as a real estate investment owned equally by the PERS and TRS Funds. The three story building was occupied in November 1999.

Address: **2273 Boot Hill Court, Bozeman**
Year Built: 2004
Purchase Date: August 1999*
Purchase Price: $2,051,032
Current Value: $2,205,036
Square Feet: 15,213
Tenants: •4 State Agencies

*In August 1999, the Board authorized the construction and purchase of an office building as a real estate investment owned equally by the PERS and TRS Funds. The one story building was occupied in April 2004.

Address: **1712 9th Avenue, Helena**
Year Built: 1968
Purchase Date: November 2000
Purchase Price: *
Current Value: $594,514
Square Feet: 7,200
Tenants: •2 State Agencies

*PERS purchased the property as an investment in 1969. Title to the property was vested in the State of Montana for the use of PERS. A corrective deed was issued in 2000 naming the Board of Investments as owner.



Address: **California Street, Helena**
Purchase Date: December 1998
Purchase Price: $204,835
Current Value: $222,692
Lot Area: 1.92 acres – raw (bare) land
Tenants: N/A

Tenant Leases and Occupancy

MBOI staff negotiates the lease rates for each of the four buildings. The occupants are a mix of four corporate tenants and 11 state agencies. All buildings have been fully occupied for several years.

Corporate Leases – In MBOI multi-tenant buildings, MBOI pays all operational costs and is reimbursed by corporate tenants. Corporate leases set a "base" rate and include provisions that the tenant will pay their pro-rata estimated cost of operations and taxes during the year with a one-time adjustment at the end of the year to reconcile estimated versus actual operational expenditures.

State Agency Leases - In contrast, MBOI state agency leases are "gross" leases, which means MBOI assumes all financial responsibilities for operational expenditures and builds those operational costs into the lease rate. In this instance, MBOI must carefully estimate the future cost of operations when leases are signed. State agencies prefer these "predictable" leases because their budgets are set by the legislature for two-year periods. All state leases have an annual escalator.

State Agency Tenants		
Tenant	**Lease Rate**	**Location**
Agency A	16.32	Helena
Agency B	16.86	Helena
Agency C	17.91	Helena
Agency D	15.37	Helena
Agency E	16.24	Helena
Agency F	12.43	Helena
Agency G	12.43	Helena
Agency H	16.67	Bozeman
Agency I	16.67	Bozeman
Agency J	16.67	Bozeman
Agency K	16.38	Bozeman
Corporate Tenants*		
Tenant	**Lease Rate**	**Location**
Corporation A	20.04	Helena
Corporation B	21.20	Helena
Corporation C	21.05	Helena
Corporation D	19.99	Helena

*Includes Tenant's pro rata share of operating costs and taxes.

Building Management

Day-to-day management of the buildings is overseen by Executive Property Services (EPS), in consultation with MBOI staff. EPS is a commercial property management company in Billings, specializing in general office building and medical office building management. All lease payments are received by and building expenses are paid by EPS. EPS coordinates services such as cleaning, maintenance, snow removal, lawn care, security, etc. Two EPS employees work on-site at the four Helena properties and one EPS employee is on-site at the Bozeman property in order to maintain the premises and take care of issues that arise.

The table below reflects fiscal year 2012 income generated from the buildings.

FY2012	**Total**
Revenues	2,201,303
Expenditures	890,005
Net Income	1,311,299

Capital Improvements

MBOI manages the four buildings and the raw land as assets in the MTRP for the nine pension fund's investment portfolios and contracts and pays for all capital improvements and major maintenance projects that protect the integrity of the buildings as investments. MBOI staff work with EPS to determine capital improvement projects to be completed.

The table below reflects capital improvements to the buildings in fiscal year 2012.

FY2012	
Capital Improvements	~$650,000

Conclusion

MBOI Staff will be available at the May Board meeting should you have any questions or comments regarding the buildings and raw land.

Return to Agenda

Investment Activity

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 12/31/12

Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	36.8%	17.1%	12.9%	66.8%	23.7%	8.5%	0.9%	$ 4,098,931,110
TEACHERS	36.9%	17.1%	13.0%	67.0%	23.7%	8.5%	0.8%	$ 3,022,697,689
POLICE	36.9%	17.1%	13.0%	67.0%	23.8%	8.5%	0.7%	$ 247,482,023
SHERIFFS	36.7%	17.0%	12.9%	66.6%	23.6%	8.4%	1.4%	$ 229,648,558
FIREFIGHTERS	36.8%	17.1%	13.0%	66.9%	23.7%	8.5%	0.9%	$ 247,596,191
HIGHWAY PATROL	36.9%	17.1%	13.0%	66.9%	23.7%	8.5%	0.8%	$ 104,060,320
GAME WARDENS	36.7%	17.0%	12.9%	66.6%	23.6%	8.5%	1.3%	$ 107,150,868
JUDGES	36.7%	17.0%	12.9%	66.6%	23.7%	8.5%	1.3%	$ 68,572,517
VOL FIREFIGHTERS	36.9%	17.0%	13.0%	67.0%	23.8%	8.5%	0.8%	$ 27,420,124
TOTAL	**36.9%**	**17.1%**	**12.9%**	**66.9%**	**23.7%**	**8.5%**	**0.9%**	**$ 8,153,559,401**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

Retirement Systems Asset Allocations as of 3/31/13

Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	38.1%	16.9%	12.4%	67.4%	22.6%	8.4%	1.6%	$ 4,283,046,807
TEACHERS	38.2%	17.0%	12.5%	67.6%	22.7%	8.4%	1.3%	$ 3,148,417,594
POLICE	38.1%	16.9%	12.4%	67.5%	22.6%	8.4%	1.4%	$ 257,824,558
SHERIFFS	38.0%	16.9%	12.4%	67.2%	22.5%	8.3%	1.9%	$ 241,382,282
FIREFIGHTERS	38.1%	16.9%	12.4%	67.5%	22.6%	8.4%	1.5%	$ 258,571,084
HIGHWAY PATROL	38.1%	16.9%	12.4%	67.4%	22.6%	8.4%	1.6%	$ 108,952,907
GAME WARDENS	37.8%	16.8%	12.4%	67.0%	22.4%	8.3%	2.3%	$ 113,899,023
JUDGES	37.9%	16.8%	12.4%	67.1%	22.5%	8.3%	2.0%	$ 72,195,368
VOL FIREFIGHTERS	38.4%	17.0%	12.5%	67.8%	22.8%	8.3%	1.1%	$ 27,695,850
TOTAL	**38.1%**	**16.9%**	**12.4%**	**67.5%**	**22.6%**	**8.4%**	**1.5%**	**$ 8,511,985,472**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

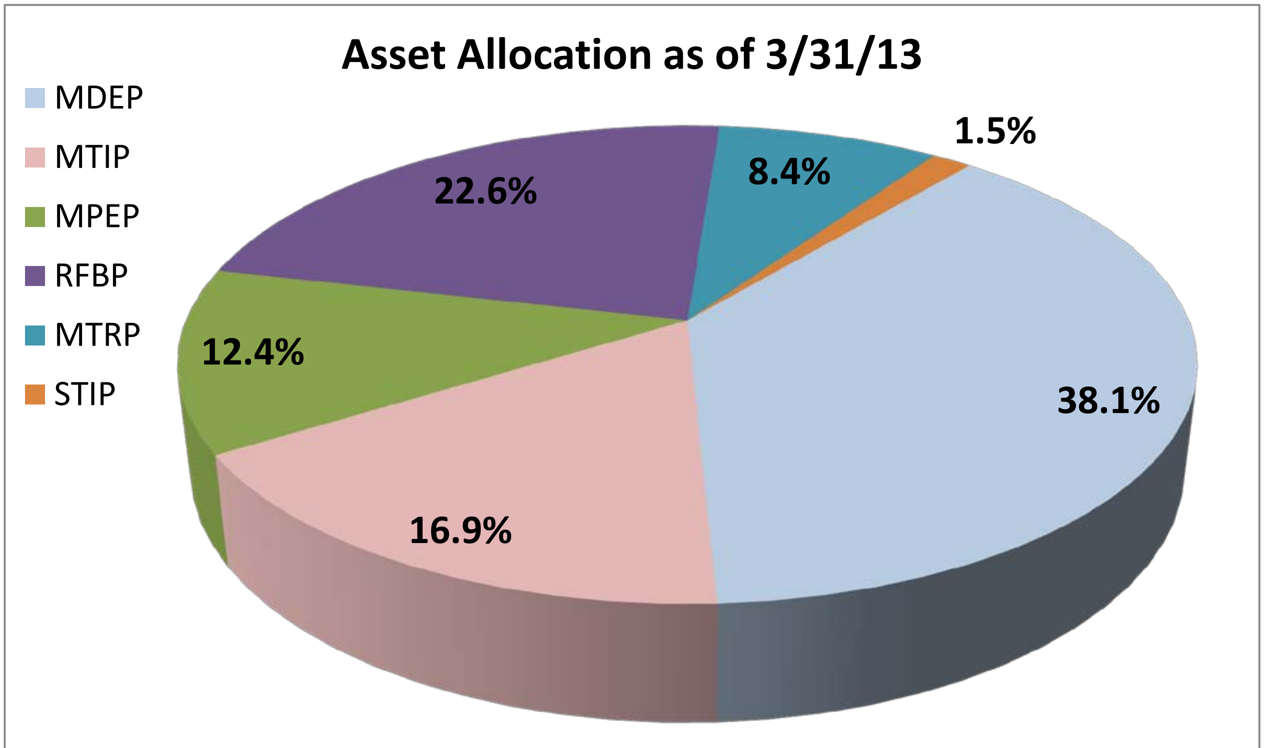
Change From Last Quarter

Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	1.2%	-0.2%	-0.5%	0.6%	-1.1%	-0.1%	0.6%	184,115,697
TEACHERS	1.3%	-0.2%	-0.5%	0.6%	-1.1%	-0.1%	0.5%	125,719,905
POLICE	1.2%	-0.2%	-0.5%	0.5%	-1.1%	-0.1%	0.7%	10,342,535
SHERIFFS	1.3%	-0.1%	-0.5%	0.7%	-1.1%	-0.1%	0.5%	11,733,724
FIREFIGHTERS	1.3%	-0.2%	-0.5%	0.6%	-1.1%	-0.1%	0.6%	10,974,892
HIGHWAY PATROL	1.2%	-0.2%	-0.6%	0.5%	-1.1%	-0.1%	0.7%	4,892,587
GAME WARDENS	1.1%	-0.2%	-0.5%	0.4%	-1.2%	-0.2%	1.0%	6,748,155
JUDGES	1.2%	-0.1%	-0.6%	0.5%	-1.1%	-0.1%	0.7%	3,622,851
VOL FIREFIGHTERS	1.4%	-0.1%	-0.5%	0.9%	-1.0%	-0.1%	0.2%	275,726
TOTAL	**1.3%**	**-0.2%**	**-0.5%**	**0.6%**	**-1.1%**	**-0.1%**	**0.6%**	**358,426,071**

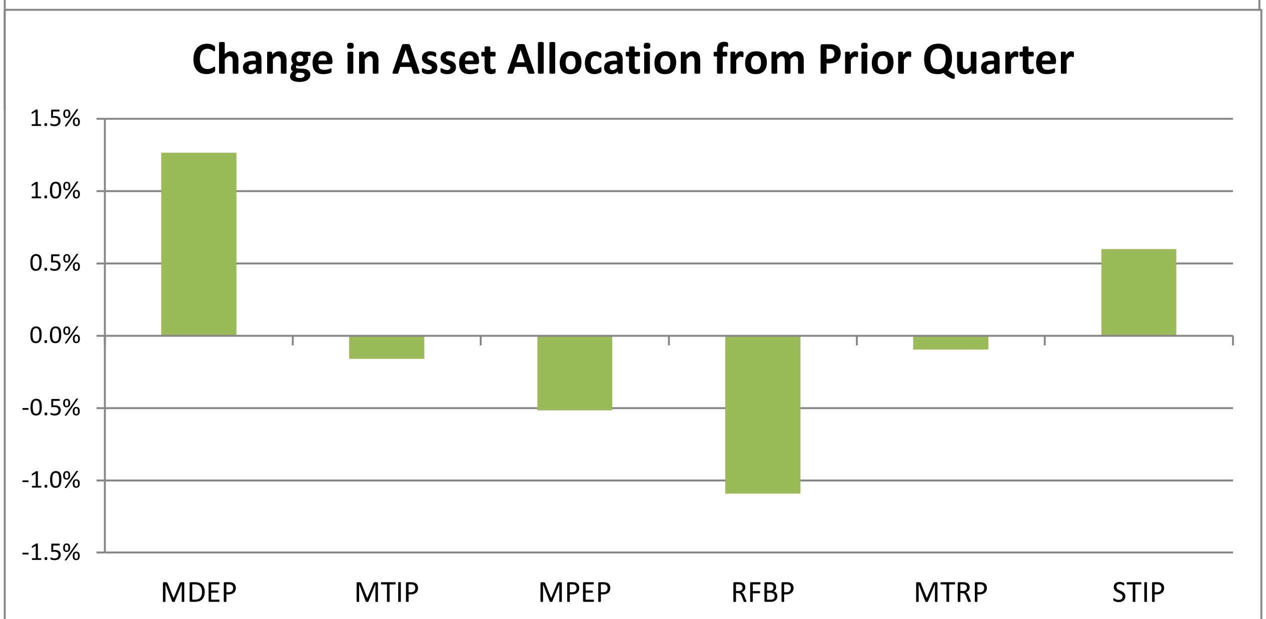
Allocations During Quarter

MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP
($89,000,000)	($500,000)	($18,900,000)	($108,400,000)	$0	$14,000,000

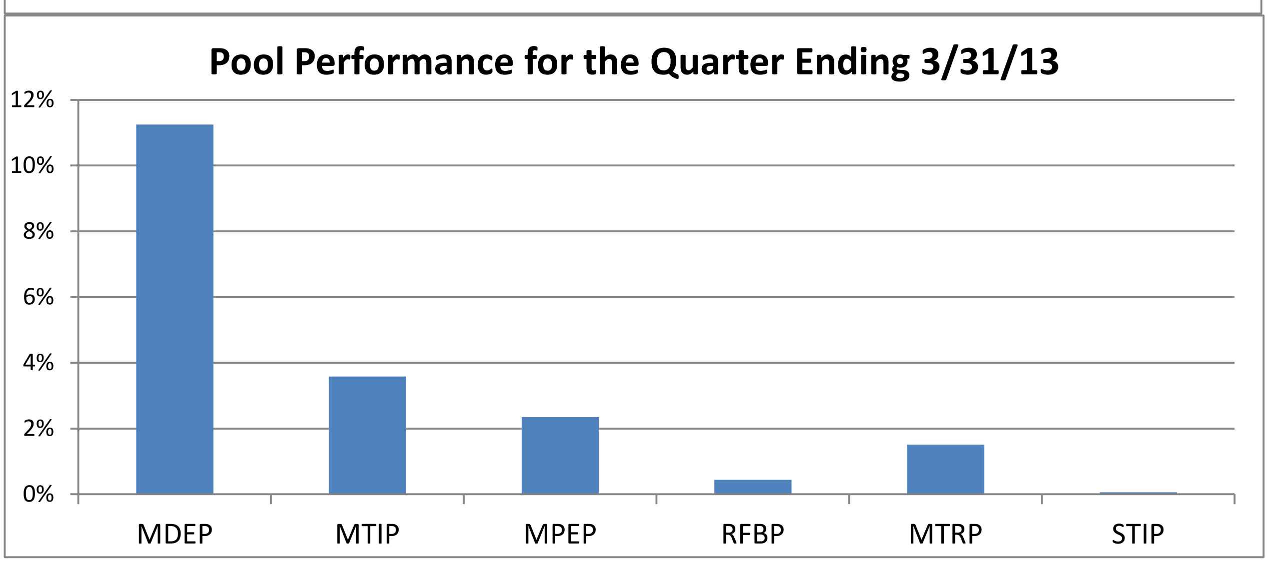
Net New Investments for Quarter → **($94,400,000)**



Asset Allocation as of 3/31/13
MDEP
MTIP
MPEP
RFBP
MTRP
STIP
38.1%
16.9%
12.4%
22.6%
8.4%
1.5%



Change in Asset Allocation from Prior Quarter
1.5%
1.0%
0.5%
0.0%
-0.5%
-1.0%
-1.5%
MDEP
MTIP
MPEP
RFBP
MTRP
STIP



Pool Performance for the Quarter Ending 3/31/13
12%
10%
8%
6%
4%
2%
0%
MDEP
MTIP
MPEP
RFBP
MTRP
STIP

Montana Board of Investments
Public Funds (DB) $3B to $20B & >30% Equity - Plan Allocation
PERIOD ENDING March 31, 2013

	Equities %	Fixed Income %	Cash Equiv %	Real Estate %	Private Equity %
High %	79.7	39.8	17.3	12.7	26.5
Median%	55.2	23.4	3.5	4.7	7.8
Low %	34.8	6.1	0.4	0.1	0.8
# of observatioons	46	46	41	37	39
Pers%	55.0	22.7	1.6	8.4	12.4
TRS %	55.1	22.7	1.3	8.4	12.5

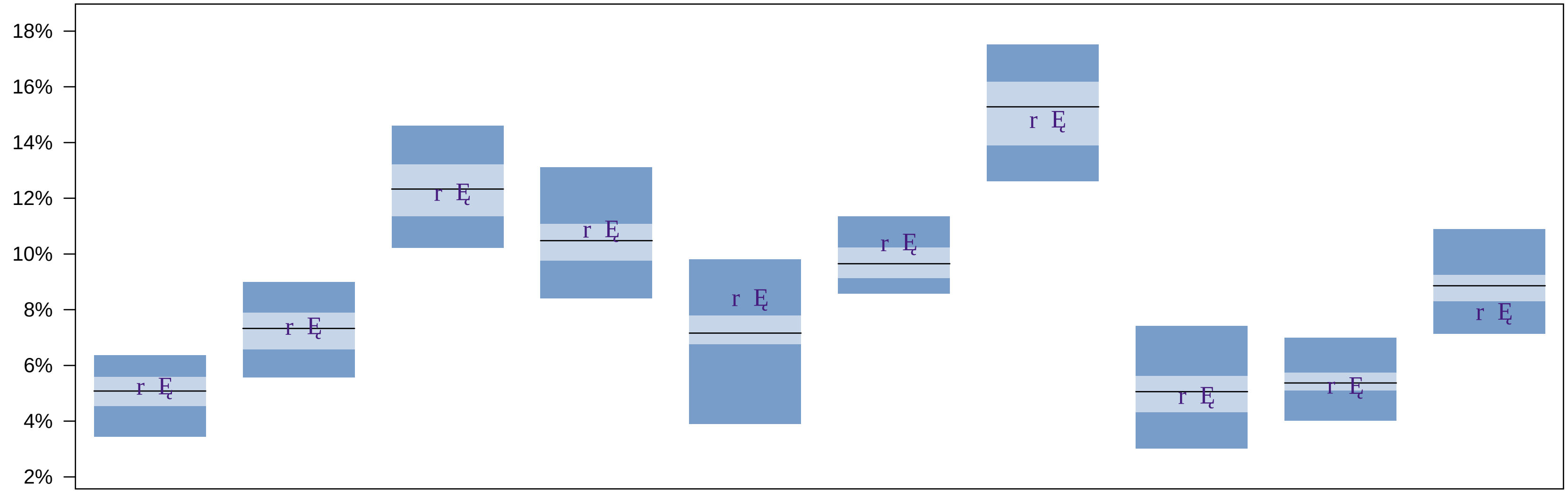
State Street Universe - TUCS: Computed by State Street based on TUCS® data.

Montana Board of Investments

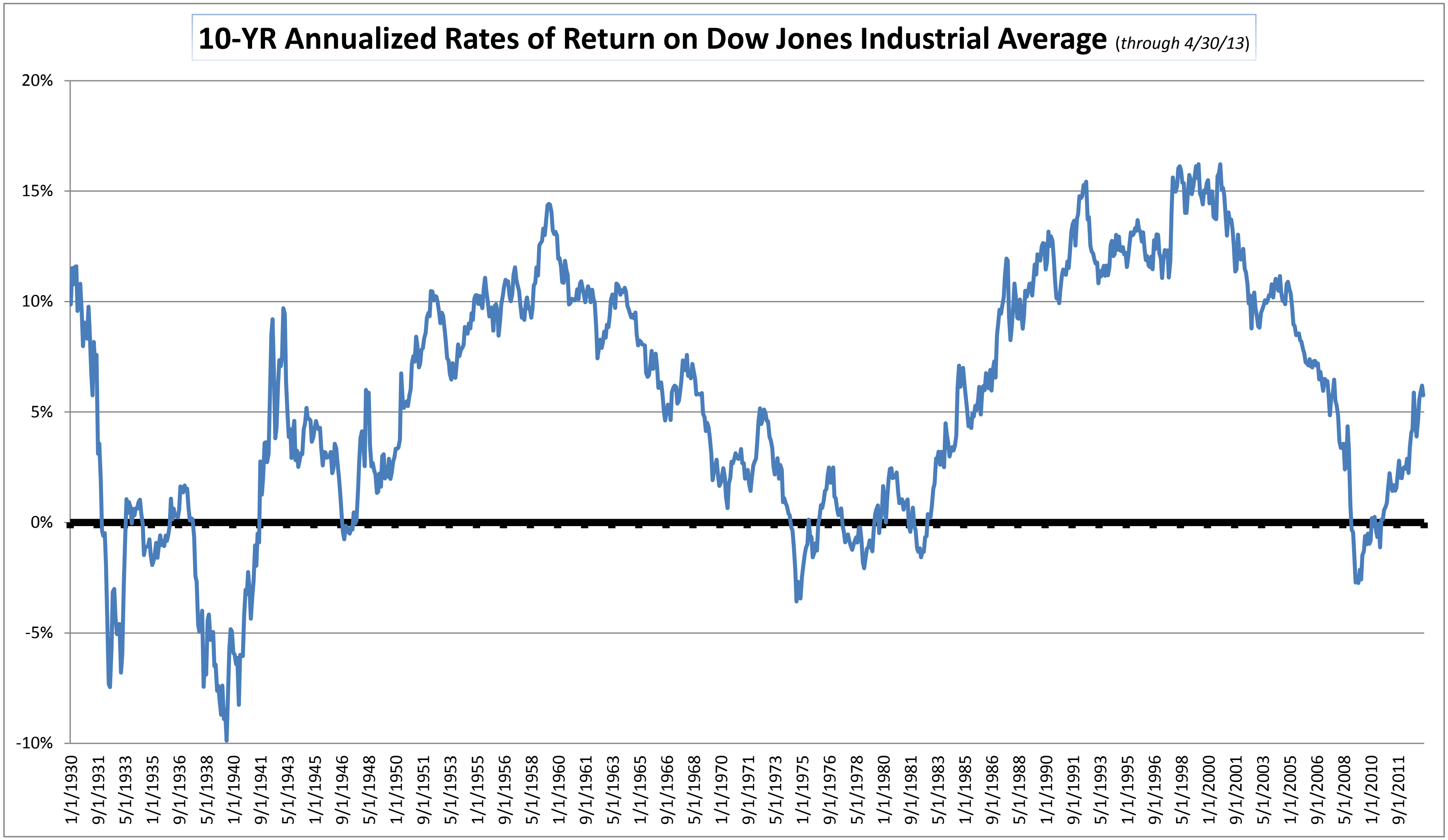
Public Funds (DB) $3B to $20B & >30% Equity (SSE)

PERIOD ENDING March 31, 2013

STATE STREET.



	1 Qtr		2 Qtrs		3 Qtrs		1 Yr		2 Yrs		3 Yrs		4 Yrs		5 Yrs		7 Yrs		10 Yrs	
5th Percentile	6.37		9.00		14.60		13.11		9.80		11.34		17.52		7.41		6.99		10.89	
25th Percentile	5.60		7.90		13.21		11.09		7.80		10.24		16.18		5.63		5.74		9.25	
50th Percentile	5.08		7.33		12.33		10.48		7.16		9.65		15.28		5.06		5.37		8.86	
75th Percentile	4.54		6.57		11.35		9.75		6.76		9.13		13.90		4.32		5.09		8.30	
95th Percentile	3.44		5.57		10.23		8.40		3.90		8.58		12.62		3.02		4.01		7.14	
No. of Obs	45		45		45		46		45		43		44		44		43		40	
r PUBLIC EMPLOYEES RE	5.35	38	7.50	45	12.31	54	10.99	32	8.53	9	10.50	17	14.92	58	5.02	53	5.39	48	8.03	81
Ę TEACHERS RETIREMEN	5.36	36	7.52	44	12.33	50	11.00	30	8.54	9	10.53	16	14.94	58	5.03	52	5.38	48	8.04	81


10-YR Annualized Rates of Return on Dow Jones Industrial Average (through 4/30/13)
20%
15%
10%
5%
0%
-5%
-10%
1/1/1930
9/1/1931
5/1/1933
1/1/1935
9/1/1936
5/1/1938
1/1/1940
9/1/1941
5/1/1943
1/1/1945
9/1/1946
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1/1/1995
9/1/1996
5/1/1998
1/1/2000
9/1/2001
5/1/2003
1/1/2005
9/1/2006
5/1/2008
1/1/2010
9/1/2011

MARKET INSIGHTS

S&P 500 Index at Inflection Points

Equities

S&P 500 Index

Characteristic	Mar-2000		Oct-2007		Mar-2013
Index level	1,527	→	1,565	→	1,569
P/E ratio (fwd.)	25.6x	→	15.2x	→	13.8x
Dividend yield	1.1%	→	1.8%	→	2.0%
10-yr. Treasury	6.2%	→	4.7%	→	1.9%

Source: Standard & Poor's, First Call, Compustat, FactSet, J.P. Morgan Asset Management.

Dividend yield is calculated as the annualized dividend rate divided by price, as provided by Compustat. Forward Price to Earnings Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.

Data are as of 3/31/13.

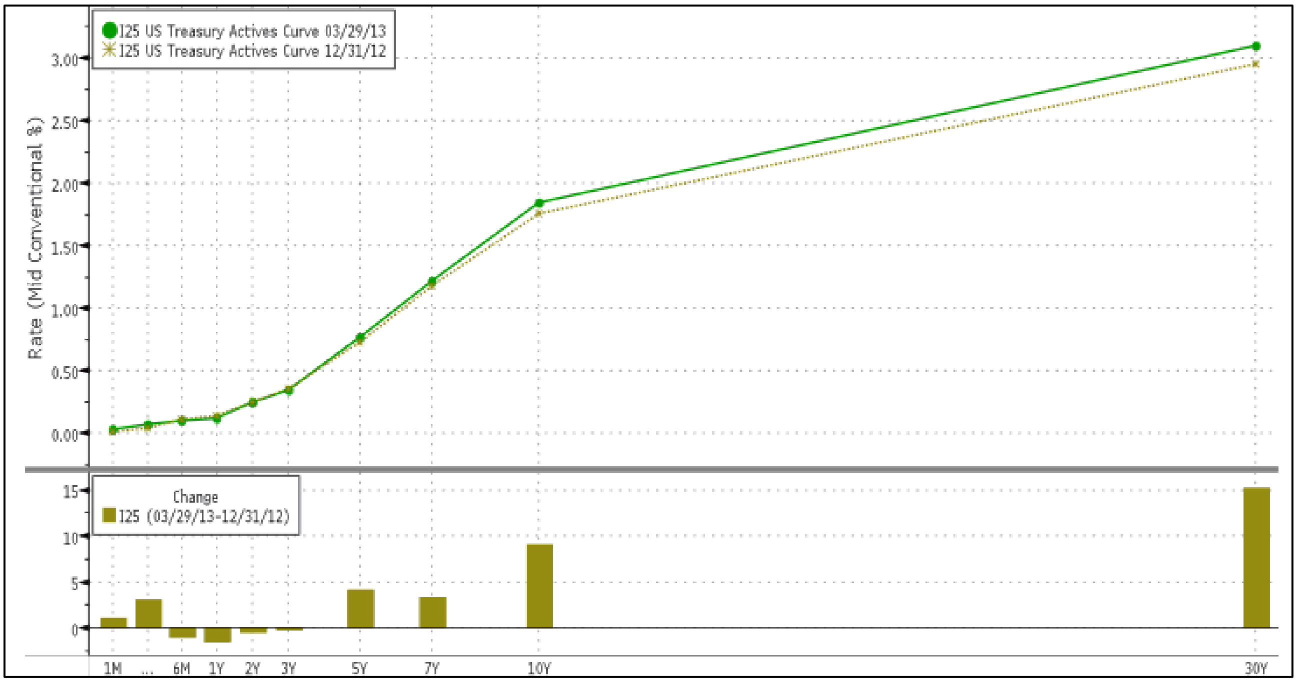
J.P.Morgan Asset Management

FIXED INCOME OVERVIEW & STRATEGY
Nathan Sax, CFA, Portfolio Manager
May 29, 2013

RETIREMENT & TRUST FUND BOND POOLS

Interest rates rose modestly in the first quarter. The yield on the Treasury 10-year benchmark note ended the fourth quarter yielding 1.76% and ended the first quarter on March 28th at 1.85%. The graph shown below displays the upward drift in rates. The intermediate and longer portions of the Treasury yield curve steepened slightly. Treasuries posted a total return of -0.19% in the first quarter, corporate bonds were -0.11% and mortgage backed securities were -0.05%. The Barclays Aggregate Index was -0.12%.

Historical Yield Curve 12/31/12 – 03/31/13



Real GDP in the first quarter was reported to have grown at an annualized rate of +2.5%, bouncing back from a +0.4% rate in the fourth quarter of 2012. Many economists have warned that economic growth is likely to slow in the second and third quarters because of the sequester-mandated cuts in federal spending. Inflation forecasts are lower although interest rates are resisting lower levels. The Treasury 10-year note peaked at 2.06% on March 11th. As of May 14th, that same issue had a yield to maturity of 1.95%. Economists are forecasting real GDP growth for all of 2013 at a rate of approximately 2.0% with the CPI at 1.9%.

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

RFBP/TFBP vs. Barclays Aggregate – 3/31/13

	RFBP Combined	Retirement Fund Bond Pool — External Management: Reams	Artio	Post	Neuberg Berman	Internal Management: CIBP	TFBP	CIBP/TFIP Policy Range	Barclays Aggregate
Treasuries	15.81	19.67	18.71	0.00	0.00	16.61	16.16	15-45	36.42
Agencies & Govt Related	5.22	1.03	15.87	0.00	0.00	5.64	6.13	5-15	10.26
Total Government	**21.03**	**20.70**	**34.58**	**0.00**	**0.00**	**22.25**	**22.29**	**20-60**	**46.68**
Mortgage Backed	24.72	13.56	23.11	0.00	0.00	29.44	29.10	20-40	29.63
Asset Backed	4.58	5.78	5.09	0.00	0.00	4.83	4.87	0-7	0.35
CMBS	8.71	8.50	9.10	0.00	0.00	9.65	9.86	0-12	1.83
Total Securitized	**38.01**	**27.84**	**37.30**	**0.00**	**0.00**	**43.92**	**43.83**	**20-59**	**31.81**
Financial	13.19	28.69	11.64	10.54	6.62	11.23	12.43		6.99
Industrial	21.35	19.19	17.63	76.62	87.01	15.28	14.50		12.16
Utility	3.76	0.02	1.23	0.00	2.80	4.80	4.75		2.36
Total Corporate	**38.30**	**47.90**	**30.50**	**87.16**	**96.43**	**31.31**	**31.68**	**10-40**	**21.51**
Other	0.18	0.00	0.00	7.24	0.44	0.00	0.00		0.00
Cash	2.48	3.56	-2.38	5.60	3.13	2.52	2.20		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 03/31/13
U.S. High Yield	0-15%	11.88%
Non-US (incl. EM)	0-10%	4.13%
Total "Plus" sectors	0-20%	16.01%
Core (U.S. Investment Grade)	80-100%	83.99%

TFIP Fixed Income Sector	Policy Range	TFIP on 03/31/13
High Yield	0-10%	7.43%
Core Real Estate	0-8%	5.89%
Core (U.S. Investment Grade)	0-100%	86.68%

High Yield spreads tightened by 54 basis points in the first quarter (see graph shown below). As of March 28th, the average spread on below investment grade bonds stood at 457 basis points as compared to 511 on December 31, 2012. By mid-May that level had dropped to 415 basis points. Investment grade corporate bonds narrowed only slightly, tightening by 2 basis points. Investment grade corporates showed an average spread of 139 basis points at quarter-end over comparable maturity Treasuries versus 141 basis points at the close of the fourth quarter. Spreads dropped to 131 basis points by May 14^{th}.

The following table is a summary of relative total return performance for the fourth quarter and for the year:

Fixed Income Gross Returns 1Q13 & Fiscal YTD

	1Q13	Fiscal YTD	1Q13 Benchmark	Fiscal YTD Benchmark	1Q13 Difference	Fiscal YTD Difference	Barclays Benchmark
External Portfolios							
Reams Asset Mgmt	0.26%	3.77%	0.08%	2.67%	0.18%	1.10%	Universal
Artio Global	0.23%	4.22%	0.00%	2.06%	0.23%	2.16%	Aggregate +50
Post Advisory	4.37%	12.78%	2.89%	11.09%	1.48%	1.69%	US High Yield
Neuberger Berman	2.78%	11.24%	2.89%	11.09%	-0.11%	0.15%	US High Yield
Internal Portfolios							
Core Internal Bond Pool	0.15%	3.29%	-0.12%	1.68%	0.27%	1.61%	Aggregate
Trust Fund Bond Pool	0.10%	3.15%	-0.12%	1.68%	0.22%	1.47%	Aggregate
Combined Portfolios							
Retirement Fund Bond Pool	0.47%	4.15%	-0.12%	1.68%	0.59%	2.47%	Aggregate
Trust Fund Investment Pool	0.38%	3.81%	-0.12%	1.68%	0.50%	2.13%	Aggregate

Barclays U.S. High Yield 2% Issuer Cap, Average OAS – 01/03/12 to 05/08/13

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 03/31/13						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	107.29	3.71	3.48	2.34	5.25	1.00
Benchmark	109.97	3.58	3.30	1.78	5.17	0.58
Difference	-2.68	0.13	0.18	0.56	0.08	0.42

Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 03/31/13						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	106.38	3.88	3.73	2.68	5.22	1.36
Benchmark	109.97	3.58	3.30	1.78	5.17	0.58
Difference	-3.59	0.30	0.43	0.90	0.05	0.78

Benchmark Comparison Analysis TFBP vs. Merrill US Broad Market Index on 03/31/13						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	107.63	4.00	3.80	2.31	5.37	1.07
Benchmark	109.97	3.58	3.30	1.78	5.17	0.58
Difference	-2.34	0.42	0.50	0.53	0.20	0.49

The graph shown below illustrates the decline in risk premiums for investment grade corporate bonds in 2012 and since the onset of the Great Recession:

Corporate OAS Spread 01/01/2007 – 05/07/13

Concluding Comments

Fixed income returns were up a combined 10 basis points for the last two quarters. The outlook for continued accommodation by the Federal Reserve has improved so that rates are likely to remain low into 2014. This has been made possible, in part, by subdued inflation. Real GDP growth is expected to be approximately 2 per cent for the year 2013. Tight fiscal policy will counter loose monetary policy, further restraining growth.

	BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS (INTERNALLY MANAGED)								
	March 31, 2013								
	(in millions)								
	Par	**Book**	**Market**	**Price**	**Name**	**Coupon %**	**Maturity**	**Rating M/S&P**	**Comments**
	$4.630	$4.630	$4.995	$107.88	America West Air1999 - 1	7.930	01/02/20	B1/BB+	Well secured pass through certificate. Approximately 50% paid down with an average remaining life of about 3 years.
	$8.000	$7.987	$8.210	$102.63	Zions Bancorporation	5.650	05/15/14	BA2/BB+	Zions credit quality has been severely stressed but they were able to issue debt and equity in 2009 and remain relatively well capitalized. Repaid TARP in 2012.
	$50.000	$50.000	$57.660	$115.32	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.
	$5.000	$4.855	$4.700	$94.00	American Presidents Co	8.000	01/15/04	NR/NR	Downgraded to below investment grade in December of 1997 due to high leverage and overall stress in the industry. The rating was dropped in August of 1999 when the company was acquired by NOL. NOL is wholly owned by AAA rated TEMASEK which will likely continue support.
	$10.000	$1.057	$2.650	$26.50	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	$77.630	$68.529	$78.215						
A	= Additions since 12/31/12								
D	= Deletions since 12/31/12								
	None								
	In default								
	$10.000	$1.057	$2.650	$26.50	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager
May 29, 2013

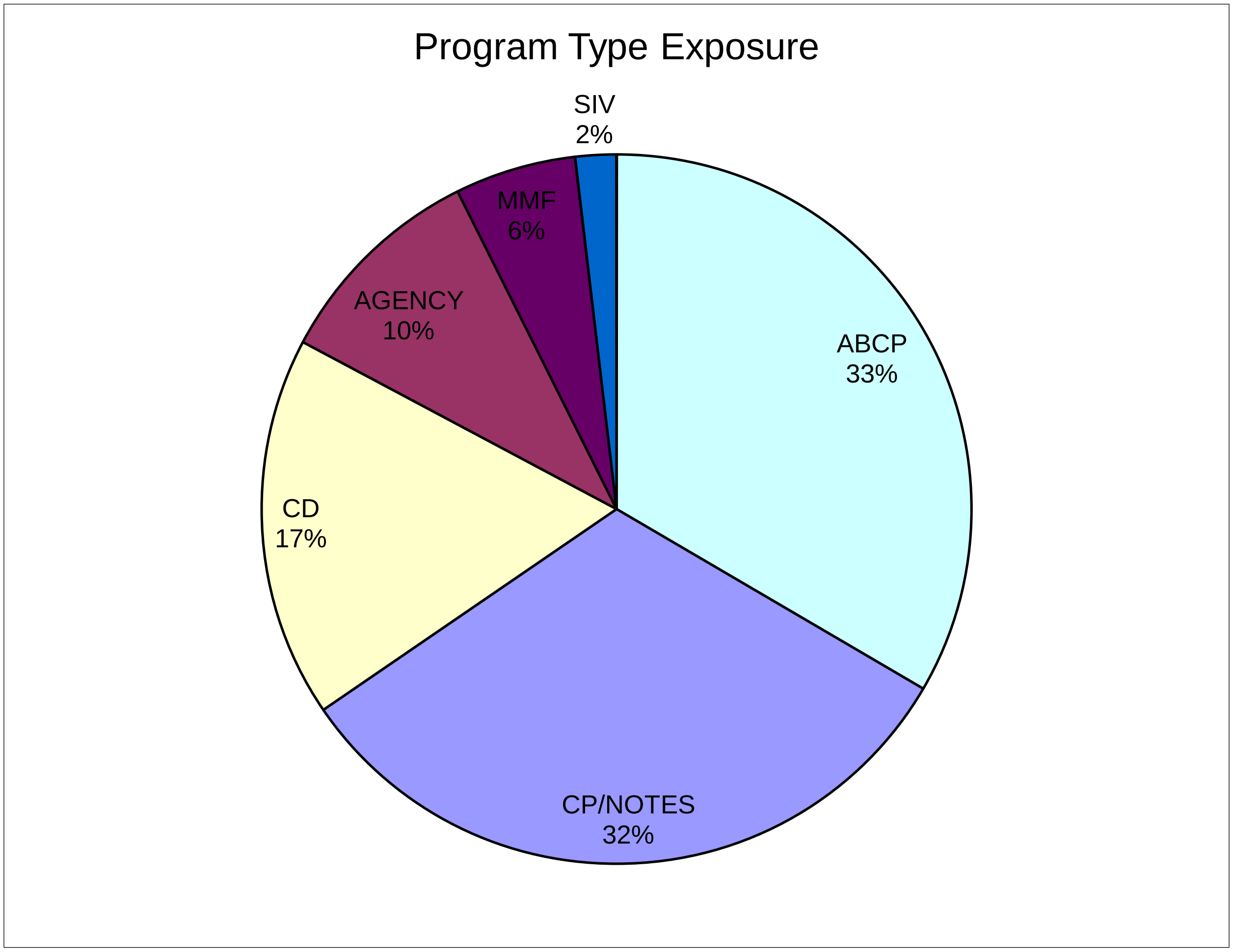
During the first quarter money market yields were lower as the Federal Reserve continued its four year-old policy of low fed funds rates. Three month Libor rates decreased by 2 basis points and one month Libor rates decreased by 0.5 basis point during the quarter. The improvement in Libor rates reflects the continuation of better market tone and funding conditions for the large international banks. Credit spreads finished 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 fourth quarter at about 21 basis points, 5 basis points tighter for the quarter.

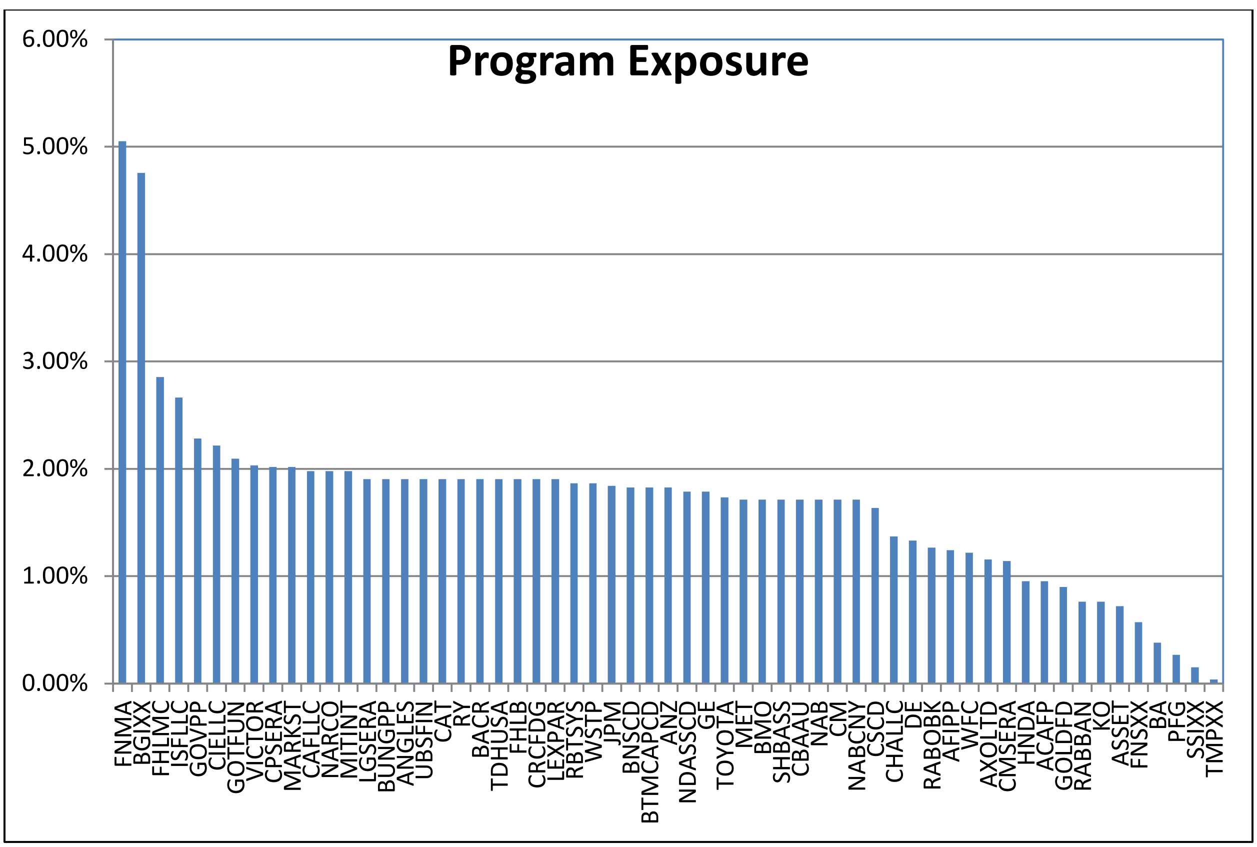
TED Spread (03/31/12 – 03/31/13)

The STIP portfolio is currently well diversified and is operating within all the guidelines adopted by the Board at the November 2012 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 47 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is 33% of holdings (40% max) and corporate exposure is 32% (40% max). We currently have approximately 10% in agency paper, 17% in Yankee CD's (30% max) and 6% in four institutional money funds.

During the first quarter we purchased $130 million of floating rate corporate notes. We also purchased $25 million of floating rate Yankee CD's and $25 million of floating rate agencies. Lower three month Libor rates detracted from the portfolio yield during the quarter.

The net daily yield on STIP is currently 0.20% as compared with the current one-month LIBOR rate of 0.20% and current fed funds target rate of 0.0%-0.25%. The portfolio asset size is currently $2.65 billion, approximately the same as three months ago. All charts below are as of May 6, 2013.


Program Type Exposure
SIV 2%
MMF 6%
AGENCY 10%
ABCP 33%
CD 17%
CP/NOTES 32%


Program Exposure
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
FNMA
BGIXX
FHLMC
ISFLLC
GOVPP
CIELLC
GOTFUN
VICTOR
CPSFRA
MARKST
CAFLLC
NARCO
MITINT
LGSFRA
BUNGPP
ANGLES
UBSFIN
CAT
RY
BACR
TDHUSA
FHLB
CRCFDG
LEXPAR
RBTSYS
WSTP
JPM
BNSCD
BTMCAPCD
ANZ
NDASSCD
GE
TOYOTA
MET
BMO
SHBASS
CBAAU
NAB
CM
NABCNY
CSCD
CHALLC
DE
RABOBK
AFIPP
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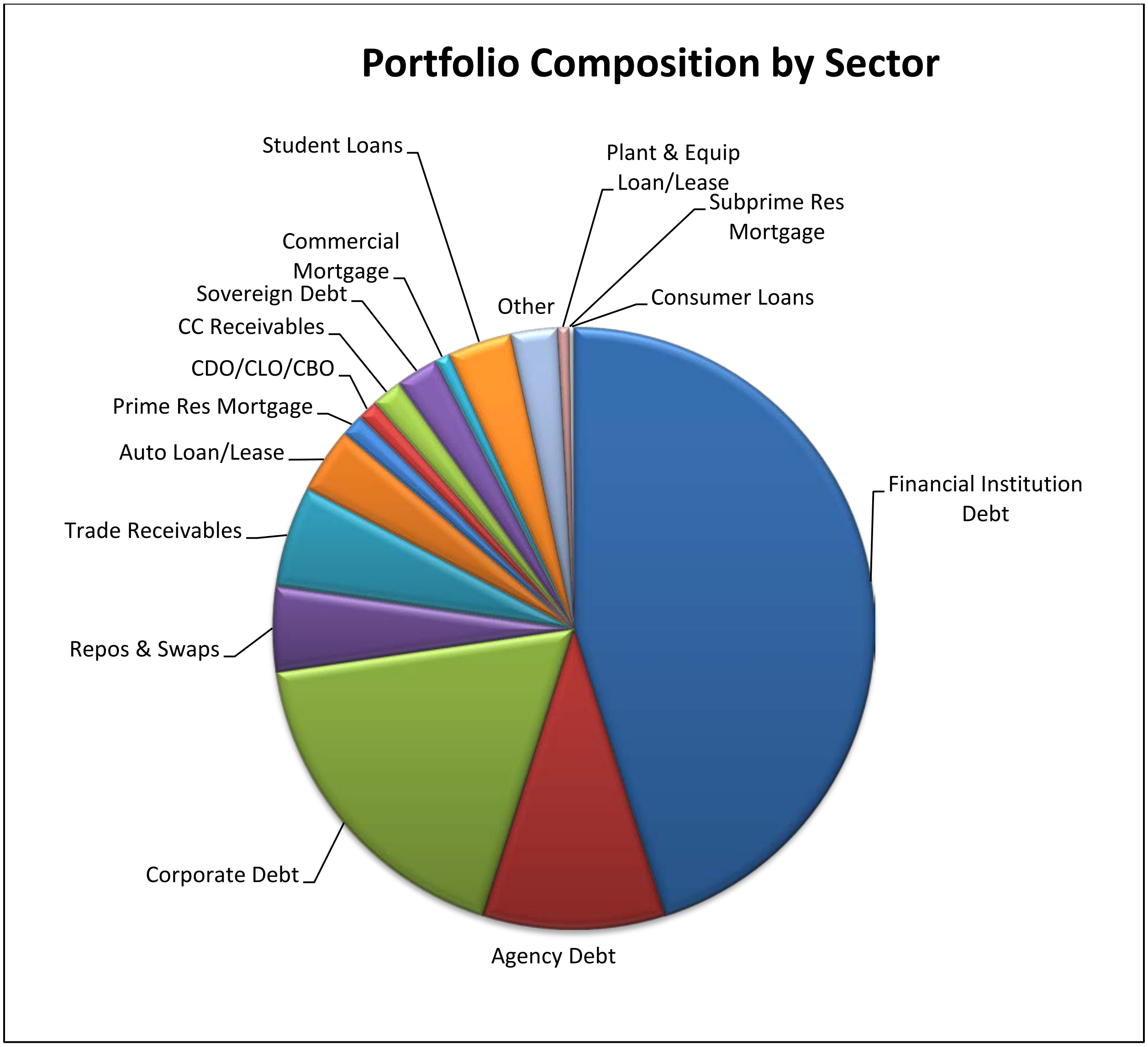
SSIXX
TMPXX


Portfolio Composition by Sector
Student Loans
Plant & Equip Loan/Lease
Subprime Res Mortgage
Commercial Mortgage
Sovereign Debt
Other
Consumer Loans
CC Receivables
CDO/CLO/CBO
Prime Res Mortgage
Auto Loan/Lease
Financial Institution Debt
Trade Receivables
Repos & Swaps
Corporate Debt
Agency Debt

Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

May 29, 2013

The fund totaled $907 million as of March 31, 2013, consisting of approximately one half general fund monies and the balance in various other state operating accounts. There were no securities transactions in the first quarter. Current securities holdings total $20 million. The investment policy for the fund limits security holdings to 50% of the projected General Fund FYE balance of the current period. The April projected General Fund FYE balance was $531 million.

State Fund Insurance

Richard Cooley, CFA, Portfolio Manager
May 29, 2013

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, the Barclays Capital Government/Credit Intermediate Index.

Benchmark Comparison Analysis State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 03/31/2013						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	108.53	3.73	3.46	1.33	3.74	0.63
Benchmark	107.96	2.93	2.74	1.18	4.04	0.44
Difference	0.57	0.80	0.72	0.15	-0.30	0.19

The portfolio has an overweight in agencies, asset backed securities (ABS), mortgage backed securities (MBS), corporate bonds and commercial mortgage backed securities (CMBS) and is underweighted in Treasuries. The sector table on the following page provides more detail on the differences between the portfolio and the benchmark. The portfolio has a slightly shorter duration than the benchmark.

Spread product ended the first quarter mixed as compared to the end of the previous quarter. MBS spreads widened by 8 basis points to 58 basis points, agencies were unchanged at 13 basis points and corporate spreads tightened by 2 basis points to 139 basis points. During the quarter, the ten year Treasury yield increased by 9 basis points from 1.76% to 1.85%.

The total fixed income (including STIP) portion of the account outperformed the benchmark by 9 basis points during the March quarter and outperformed by 158 basis points over the past year. Longer term performance is +104 basis points for the past three years, +119 basis points for the past five years and +48 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 $5 million of corporate bonds in the 5 year part of the curve. We also purchased $5 million of agencies and $16 million of Canadian Province debt. We sold $6 million of equity fund units during the quarter. We also initiated $35.75 million of purchases into two core real estate funds after approval of this asset class in February (these purchases settled 4/1/13).

The portfolio has a 15 basis point yield advantage over the benchmark. Client preferences include keeping the STIP balance in a 1-5 percent range (5.27% on 3/31, in anticipation of 4/1 real estate purchases) and limiting holdings rated lower than A3 or A- to 25 percent of fixed income, at the time of purchase, (currently 24.3%).

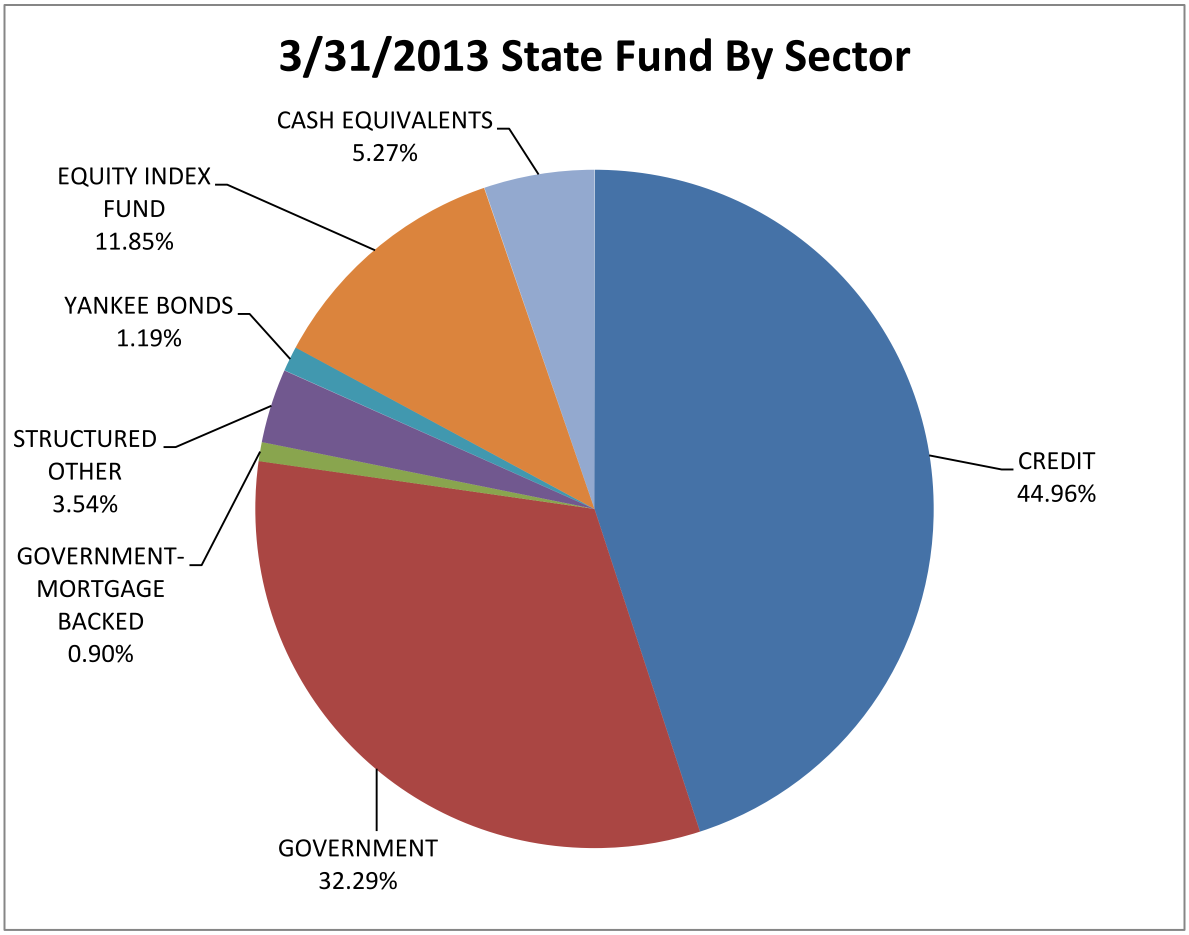
State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 03/31/2013

	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	15.67	57.39	-41.72
Agencies & Govt Related	22.35	13.69	8.67
Total Government	**38.02**	**71.08**	**-33.05**
Mortgage Backed	1.02	0.00	1.02
Asset Backed	3.95	0.00	3.95
CMBS	0.06	0.00	0.06
Securitized	**5.03**	**0.00**	**5.03**
Financial	24.51	10.51	14.00
Industrial	21.61	16.80	4.81
Utility	5.30	1.61	3.69
Total Corporates	**51.42**	**28.92**	**22.50**
Other	0.00	0.00	0.00
Cash	5.53	0.00	5.53
Total	**100.00**	**100.00**	

The following sector breakout is a look at the entire State Fund account including the S&P 500 and ACWI ex-U.S. equity holdings. The policy range for equities is currently 8%-12%. This is a client preference as the maximum allowed by statute is 25% of book value.

The last page is the monthly performance report from State Street. The custom composite index is an asset-weighted index that holds the same weights as the portfolio in each of the underlying benchmarks. The fixed income returns have been over the benchmark due to an overweight in spread product versus the benchmark.

3/31/2013 State Fund By Sector			
	Sector	Market Value	%
	BANKS	110,688,043	8.21%
	COMMUNICATIONS	21,889,996	1.62%
	ENERGY	33,538,215	2.49%
	GAS/PIPELINES	6,330,225	0.47%
	INSURANCE	73,524,107	5.45%
	OTHER FINANCE	121,236,738	8.99%
	RETAIL	18,542,972	1.37%
	TRANSPORTATION	45,083,718	3.34%
	UTILITIES	66,733,277	4.95%
	ENERGY	5,493,037	0.41%
	INDUSTRIAL	103,466,111	7.67%
CREDIT		**606,526,438**	**44.96%**
	TITLE XI	1,061,178	0.08%
	TREASURY NOTES/BONDS	185,813,748	13.77%
	AGENCY	248,728,615	18.44%
GOVERNMENT		**435,603,540**	**32.29%**
	FHLMC	6,666,919	0.49%
	FNMA	5,497,543	0.41%
GOVERNMENT-MORTGAGE BACKED		**12,164,463**	**0.90%**
	OTHER STRUCTURED	47,038,342	3.49%
	CMBS	676,050	0.05%
STRUCTURED OTHER		**47,714,392**	**3.54%**
YANKEE BONDS		**16,023,367**	**1.19%**
TOTAL FIXED INCOME		**1,118,032,200**	**82.88%**
EQUITY INDEX FUND		**159,923,995**	**11.85%**
CASH EQUIVALENTS		**71,070,062**	**5.27%**
GRAND TOTAL		**1,349,026,257**	**100.00%**


3/31/2013 State Fund By Sector
CASH EQUIVALENTS
5.27%
EQUITY INDEX FUND
11.85%
YANKEE BONDS
1.19%
STRUCTURED OTHER
3.54%
GOVERNMENT-MORTGAGE BACKED
0.90%
GOVERNMENT
32.29%
CREDIT
44.96%

MONTANA BOARD OF INVESTMENTS

SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending March 31, 2013

STATE STREET.

	MKT VAL $(000)	ALLOC	MONTH	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
STATE FUND INSURANCE											
TOTAL	1,353,751	100.0	0.57	1.51	4.79	6.16	6.58	6.01	5.69	6.18	12/01/1993
EQUITIES	161,262	11.9	4.21	10.69	18.15	14.32	12.14	5.93	8.61	3.21	01/01/2001
Domestic	144,222	10.7	4.71	11.65	18.28	15.06	13.22	6.54	8.94		
Foreign	17,040	1.3	0.17	3.15	17.26	8.45					
TOTAL FIXED INCOME	1,197,484	100.0	0.10	0.35	3.16	5.11	5.79	5.80	4.97	6.07	12/01/1993
CASH EQUIVALENTS	71,084	5.9	0.02	0.06	0.20	0.28	0.29	1.16	2.51	3.73	
FIXED INCOME	1,126,400	94.1	0.10	0.38	3.25	5.26	5.94	5.93	5.28	6.32	
STATE FUND INSURANCE CUSTOM COMPO			0.50	1.31	3.59	4.53	5.48	4.78	4.96		
S&P 500			3.75	10.61	17.19	13.96	12.67	5.81	8.53		
MSCI AC WORLD ex US (NET)			0.20	3.17	17.29	8.36	4.41	-0.39	10.93		
Barclays Gov/Credit Intermediate			0.14	0.26	2.02	3.53	4.75	4.61	4.49		
LIBOR 1 MONTH INDEX			0.02	0.05	0.16	0.22	0.24	0.58	2.00		

MONTANA BOARD OF INVESTMENTS
TRUST FUNDS INVESTMENT POOL (MU41) (FUND 07112)
INVESTMENT POLICY STATEMENT

INTRODUCTION

The purpose of this policy statement is to provide a broad strategic framework for investments within the Trust Funds Investment Pool (TFIP). The pool's participants consist primarily of the state's trust funds. The pool is designed to provide the participants exposure to a portfolio of diversified income-producing assets. The pool's assets include an investment grade fixed income portfolio managed internally by MBOI staff, one or more core real estate funds, and one or more high yield fixed income funds. Allocation across these asset classes is limited to the following ranges. The use of high yield fixed income and core real estate investments are justified in order to diversify the sources of income provided by the pool, however are constrained to prudent levels of maximum exposure given their unique and somewhat more volatile return patterns.

Asset Class	Minimum	Maximum
Investment grade fixed income	0%	100%
High yield fixed income	0%	10%
Core real estate	0%	8%

The primary component of the pool consists of the investment grade fixed income portfolio. The investment guidelines governing the management of that portfolio are contained herein. The other asset categories represented in the pool are advised by external managers. Specific portfolio guidelines that prohibit or constrain certain types of securities or real estate investments will be addressed in the managers' specific investment guidelines. A brief description of these other asset classes follows.

High Yield Fixed Income: This sector consists of predominantly U.S. corporate credits, whether in the form of bonds or loans that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that risk.

Core Real Estate: Equity investment in operating and substantially-leased institutional quality real estate in the traditional property types (apartment, office, retail, industrial and hotel). Net long-term returns historically have been in the 4.0 percent to 6.0 percent range (inflation-adjusted and net of fees) and are typically comprised of greater levels of income (i.e., two-thirds of long-term total returns) with appreciation matching or exceeding inflation.

OBJECTIVES: Investment Grade Fixed Income Portfolio

Strategic: Attaining a competitive stream of income in the fixed income markets while diversifying investment risk. The primary objective of the Trust Fund Bond Pool portfolio is to provide diversified exposure to the various sectors of the investment grade bond market for the benefit of fund participants in a prudent and cost effective manner. In this sense the portfolio investment strategy is core-like and is to be benchmarked against the Barclays Capital Aggregate Bond Index. The portfolio will also provide primary liquidity to fund participants and to facilitate allocation between the other asset classes held in the pool.

Performance: The objective of the TFBP is to achieve a moderate yield to advantage to the Barclays Capital Aggregate bond index. Ideally, the annualized time weighted total return will exceed that of the Barclays Capital Aggregate Bond Index over a three year rolling period.

MONTANA BOARD OF INVESTMENTS
TRUST FUNDS INVESTMENT POOL (MU41) (FUND 07112)
INVESTMENT POLICY STATEMENT

PERMITTED INVESTMENTS: Investment Grade Fixed Income Portfolio

- Debt obligations of the U.S. Government, including its agencies and instrumentalities. These include Treasuries, Treasury Inflation Protected Securities (TIPS) and fixed and floating rate agency obligations.
- Dollar denominated debt obligations of developed country foreign governments.
- Dollar denominated debt obligations of index-eligible supranational agencies.
- Dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) up to 2% of portfolio assets per issuer. These may include Trust Preferred securities and be fixed or floating rate coupon structures.
- Securitized assets, including U.S. Agency mortgage pass-through securities (MBS), non-agency MBS (limited to 3% of portfolio market value in total), collateralized mortgage obligations (CMO's), commercial mortgage backed securities (CMBS), hybrid ARMS and asset backed securities (ABS).
- When issued securities.
- Rule 144a securities.
- Medium term notes.
- Short term investment pool (STIP).
- Loans for the Montana CRP Program.

PROHIBITED INVESTMENTS: Investment Grade Fixed Income Portfolio

- Over the counter derivatives, including interest rate swaps and credit default swaps.
- Short sales and securities margin loans.
- Bank loans.
- Interest only (IO) and principal only (PO) mortgage strips.
- Companion/residual/equity tranches of CMO's or other structured securities.
- Capital securities (convertible from fixed to floating).
- Inverse floaters.
- Convertible bonds.

CONSTRAINTS: Investment Grade Fixed Income Portfolio

Credit quality: Securities must be rated investment grade, or no lower than triple-B minus, by two nationally recognized securities rating organizations (NRSRO) at time of purchase. Securities downgraded below investment grade may be held at the portfolio manager's discretion. Non-rated securities will be assigned an internal "equivalent" rating.

Duration: The weighted average effective duration of the portfolio, including cash, must be within 20% of the duration of the Barclays Capital Aggregate Bond index.

Sector: The portfolio sector exposure will be maintained within the ranges highlighted in the table below. Recent exposures by sector for the portfolio and benchmark index are shown for reference.

MONTANA BOARD OF INVESTMENTS
TRUST FUNDS INVESTMENT POOL (MU41) (FUND 07112)
INVESTMENT POLICY STATEMENT

ASSET ALLOCATION SECTORS & RANGES

(At market)

Sectors	Policy Ranges
U.S. Treasury	~~10-45~~15-45
Government Related	~~5-20~~5-15
Total Government	~~15-65~~20-60
MBS	~~15-40~~20-40
Asset Backed Securities	~~0-10~~0-7
CMBS	~~0-15~~0-12
Total Structured	~~15-75~~20-59
Corporate Credit	~~15-45~~10-40
~~Cash (STIP)~~	~~0-10~~
Total	**100.00%**

LIQUIDITY: Investment Grade Fixed Income Portfolio

Liquidity needs for the fixed income program are low, as participant capital allocated to the pool is not expected to change dramatically on short notice. Nevertheless, the underlying assets held are predominantly publicly traded securities which can normally be liquidated in a relatively short period to accommodate asset allocation changes between the internally managed fixed income portfolio and other asset categories held by the Trust Funds pool. Assets considered to be generally illiquid will be limited to 10% of the portfolio's market value.

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.

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MONTANA DOMESTIC EQUITY POOL

Rande R. Muffick, CFA, Portfolio Manager

May 29, 2013

3/31/2013 Domestic Stock Pool By Manager			
			Approved
Manager Name	**Market Value**	**%**	**Range**
BLACKROCK EQUITY INDEX FUND	1,859,121,963	57.27%	
STATE STREET SPIF ALT INV	19,327,117	0.60%	
LARGE CAP PASSIVE Total	**1,878,449,079**	**57.86%**	**45-70%**
ENHANCED INVEST TECHNOLOGIES	96,078,406	2.96%	
T ROWE PRICE ASSOCIATES INC	286,553,477	8.83%	
WESTERN ASSET US INDX PLUS LLC	1,600,867	0.05%	
LARGE CAP ENHANCED Total	**384,232,750**	**11.84%**	**8-12%**
ANALYTIC INVESTORS MU3B	96,142,472	2.96%	
JP MORGAN ASSET MGMT MU3E	284,969,787	8.78%	
130-30 Total	**381,112,260**	**11.74%**	**8-12%**
COMBINED LARGE CAP Total	**2,643,794,089**	**81.44%**	**72-91%**
ARTISAN MID CAP VALUE	134,612,489	4.15%	
BLACKROCK MIDCAP EQUITY IND FD	115,035,610	3.54%	
TIMESSQUARE CAPITAL MGMT	134,183,096	4.13%	
MID CAP Total	**383,831,195**	**11.82%**	**6-17%**
ALLIANCE BERNSTEIN SMALL CAP3R	27,191,233	0.84%	
DIMENSIONAL FUND ADVISORS INC	87,143,010	2.68%	
ISHARES CORE S+P SMALL CAP ETF	19,353,438	0.60%	
VAUGHAN NELSON INV	84,999,015	2.62%	
SMALL CAP Total	**218,686,696**	**6.74%**	**3-11%**
MDEP Total	**3,246,311,980**	**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. The ranges reflect the restructure of the pool as approved by the Board last May.

Talk of less Federal Reserve easing and concerns over U.S. sequestration couldn't halt a first quarter rally in domestic equities. Investors chose to see the glass as half full and focused on an improving housing market, a consumer that is still determined to spend, and moderate growth in corporate profits.

Stocks were up strongly across the capitalization spectrum. Mid caps led the way with a return of 13.45%, followed by small caps as represented by the S&P 600 Index at 11.8% and the large cap S&P 500 Index at 10.6%. MDEP was overweight mid caps and small caps in the quarter, so the market cap allocation added to the overall performance of the pool.

1) Settings | 2) Actions | Page 1/6 Comparative Return

Range 12/31/2012 - 03/28/2013 | Period Daily | No. of Period 87 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	SPX Index	USD	10.03%	10.61%	-2.85%	52.64%
2.	MID Index	USD	13.06%	13.45%		69.81%
3.	SML Index	USD	11.50%	11.81%	-1.64%	59.74%

Style performances were mixed, with value stocks outperforming growth stocks in mid caps, but growth stocks providing higher returns than value stocks within the small caps. MDEP is slightly tilted toward value stocks with most of the tilt within the small caps, so this tilt slightly detracted from overall pool performance.

1Q 2013					2012			
	Value	Blend	Growth			Value	Blend	Growth
Large	12.3%	10.6%	9.5%		Large	17.5%	16.0%	15.3%
Mid	14.2%	13.0%	11.5%		Mid	18.5%	17.3%	15.8%
Small	11.6%	12.4%	13.2%		Small	18.1%	16.3%	14.6%

The volatility index continued to show investor confidence. Although there was one spike in the stress measure in late February, it was short lived and failed to reach a reading of 20. Any VIX reading below 20 generally indicates a low level of investor anxiety.

Active management within MDEP added value for the quarter. All three capitalization allocations (ie. large cap, mid cap, and small cap) returned more than the respective benchmarks. The partial long/short bucket led the way in large caps with both Analytic and JPM providing outperformance. Within mid caps, TimesSquare and Artisan each produced benchmark beating returns. And within small caps, DFA and Vaughan Nelson did well and together more than offset another difficult quarter from Alliance Bernstein.

MDEP outperformed its benchmark by 37 basis points in the quarter, helped by active manager outperformance for the third consecutive quarter and by the overweight allocation in mid caps and small caps. The pool has outperformed by 76 basis points through the first three quarters of this fiscal year.

The manager searches for additional mid cap and small cap active managers have been completed. Four new active managers were added to MDEP at the end of April. These new managers are expected to provide added returns to the pool and to provide further diversification within the non-large cap active allocations. Please note the transition memo in this Board packet which addresses in more detail the funding of the new managers. With the selection and funding of these managers, the restructure of MDEP has been completed.

DOMESTIC EXPOSURE-MARKET CAP %

March 31, 2013

MANAGERS	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	LARGE $20-$50B	LARGE $10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Alliance Bernstein	0.0	0.0	0.0	0.0	0.0	45.2	53.1	1.7	2,650
Analytic Investors, Inc	18.4	13.7	19.7	16.2	22.1	10.5	-3.1	0.1	93,041
Artisan Partners	0.0	0.0	0.0	5.6	33.8	58.8	1.9	0.0	9,940
Dimensional Fund Advisors	0.0	0.0	0.0	0.0	0.0	10.8	71.8	17.4	1,409
INTECH Investment Management	18.2	12.5	10.7	23.5	20.2	14.9	0.1	0.0	94,063
J.P. Morgan	16.6	19.9	19.9	26.8	12.7	3.7	0.1	0.0	102,323
T. Rowe Associates	20.4	17.3	14.7	24.4	14.2	9.0	0.0	0.0	106,924
TimesSquare Cap Mgmt	0.0	0.0	0.0	3.9	25.9	67.4	2.9	0.0	8,686
Vaughan Nelson Mgmt	0.0	0.0	0.0	0.0	0.0	58.8	41.1	0.1	2,801
BlackRock S&P 500 Index Fund	19.4	17.7	16.5	23.6	14.6	7.9	0.0	0.0	106,331
BlackRock Midcap Equity Index Fund	0.0	0.0	0.0	0.0	5.1	75.6	19.1	0.0	4,706
ALL DOMESTIC EQUITY PORTFOLIOS	**15.6**	**14.3**	**13.6**	**19.8**	**14.7**	**16.4**	**4.7**	**0.5**	**86.9**
Benchmark: S&P Composite 1500	**17.1**	**15.6**	**14.6**	**20.8**	**13.3**	**13.7**	**4.6**	**0.3**	**93.8**
Over/underweight(-)	**-1.4**	**-1.3**	**-1.0**	**-1.0**	**1.4**	**2.7**	**0.1**	**0.3**	

DOMESTIC EXPOSURE-SECTOR %

March 31, 2013

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Alliance Bernstein	17.1	1.6	6.4	5.0	20.2	25.0	23.0	1.7	--	--
Analytic Investors, Inc	11.2	13.2	10.6	15.7	11.7	8.0	18.3	1.5	3.4	4.0
Artisan Partners	11.7	3.9	12.4	22.6	4.1	16.2	26.6	1.4	--	1.0
Dimensional Fund Advisors	16.9	5.0	4.7	17.4	9.5	19.1	17.3	5.9	0.5	3.6
INTECH Investment Management	16.7	9.8	11.6	15.3	10.6	8.3	13.2	4.4	5.2	4.8
J.P. Morgan	16.0	6.8	11.4	15.1	16.0	9.5	19.5	3.4	1.0	0.9
T. Rowe Associates	12.0	10.7	11.0	15.6	12.6	10.4	17.4	4.2	2.8	3.1
TimesSquare Cap Mgmt	17.1	2.4	6.2	13.3	10.4	20.5	22.9	3.6	3.6	--
Vaughan Nelson Mgmt	11.6	1.4	5.6	28.3	6.0	19.9	17.5	7.5	--	2.3
BlackRock S&P 500 Index Fund	11.6	10.9	10.9	15.8	12.5	10.1	18.0	3.4	3.0	3.5
BlackRock Midcap Equity Index Fund	12.5	3.7	6.0	22.9	9.7	17.5	15.2	6.8	0.4	5.1
All Domestic Equity Portfolios	**12.6**	**9.2**	**10.3**	**16.4**	**12.0**	**11.5**	**18.4**	**3.7**	**2.5**	**3.0**
Benchmark: S&P Composite 1500	**11.8**	**10.1**	**10.3**	**16.7**	**12.2**	**10.9**	**17.8**	**3.8**	**2.7**	**3.7**
Over/underweight(-)	**0.8**	**-0.9**	**0.0**	**-0.3**	**-0.2**	**0.6**	**0.6**	**-0.1**	**-0.2**	**-0.6**

DOMESTIC PORTFOLIO CHARACTERISTICS

March 31, 2013

MANAGERS	Market Value	Number of Securities	3Yr Historical EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
Alliance Bernstein	27,036,975	100	35.8	28.6	3.3	0.2
Analytic Investors, Inc	98,399,614	181	21.3	13.4	2.3	2.7
Artisan Partners	134,779,380	58	16.8	14.5	1.8	1.6
Dimensional Fund Advisors	86,859,130	2,297	21.4	16.7	1.8	1.3
INTECH Investment Management	96,128,260	329	15.6	16.3	2.4	2.1
J.P. Morgan	287,588,917	266	15.4	18.4	2.1	1.7
T. Rowe Associates	286,571,898	260	18.7	16.6	2.4	1.9
TimesSquare Cap Mgmt	134,667,440	76	24.9	19.2	2.9	0.7
Vaughan Nelson Mgmt	85,168,512	74	27.6	19.2	1.8	1.9
BlackRock S&P 500 Index Fund	1,865,402,931	502	16.7	16.5	2.3	2.1
BlackRock Midcap Equity Index Fund	114,500,946	401	21.5	19.7	2.2	1.4
All Domestic Equity Portfolios	**3,257,436,002**	**3,209**	**17.9**	**16.8**	**2.2**	**1.9**
BENCHMARKS						
S&P Composite 1500		1,500	17	16.9	2.3	2.0
S&P/Citigroup 1500 Pure Growth		341	46.1	18.7	2.7	0.7
S&P/Citigroup 1500 Pure Value		364	4.3	13.8	1.1	1.4
S&P 500		500	16.7	16.5	2.3	2.1
Russell 1000		990	17.3	16.4	2.3	2.0
Russell 1000 Growth		574	21.6	18.7	4.2	1.7
Russell 1000 Value		695	13.1	14.7	1.6	2.3
Russell Midcap		796	20.9	17.3	2.3	1.6
Russell Midcap Growth		459	25.1	20.2	4.3	1.1
Russell Midcap Value		562	17.0	15.3	1.6	2.0
Russell 2000		1,952	19.3	18.3	1.9	1.5
Russell 2000 Growth		1,104	23.1	21.7	3.4	0.9

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, Portfolio Manager – Public Equities

Date: May 29, 2013

Subject: Montana Domestic Equity Pool - Mid Cap and Small Cap Transition

The objective of this transition was to complete the final phase of the restructuring plan for the Montana Domestic Equity Pool (MDEP) as approved by the Board last May.

Recall that in the initial phase, a large amount of actively managed large cap investments were moved into the large cap passive portfolio. The goal of the second and final phase was to further diversify active management within the mid cap and small cap allocations. This was accomplished through the research and selection of additional managers of actively managed portfolios. Funding of these new portfolios was sourced from other portfolios within the mid cap and small cap allocations as part of this transition.

The size of the transition amounted to $125 million and included the following managers/funds:

Manager	Action	Amount(approx.)
Iridian Mid Cap Value	New	$40 million
Nicholas Mid Cap Growth	New	$40 million
Metropolitan West Small Cap Value	New	$20 million
ING Small Cap Growth	New	$25 million
BlackRock 400 Index Fund	Reduced	$40 million
Artisan Mid Cap Value	Reduced	$20 million
TimesSquare Mid Cap Growth	Reduced	$20 million
BlackRock ishares Small Cap Index	Reduced	$10 million
Vaughan Nelson Small Cap Value	Reduced	$20 million
DFA Small Cap Core	Reduced	$15 million

State Street Global Markets was selected as transition manager based upon a low cost estimate, and the importance of close communication between the transition manager and the master custodian, State Street Bank & Trust (SSBT), given that several accounts were involved in the transition.

The overall cost of the transition amounted to 21.3 basis points of the market value of the transition or approximately $270,700. More than half of this amount resulted from market impact (12.5 basis points) as 67% of the transition involved open market trades, an indication of how little overlap there was between the incumbent portfolios and the new portfolios.

The transition was completed at the end of April and performance measurement of the new portfolios began on May 1. The table below displays the Montana Domestic Equity Pool upon completion of the transition.

5/7/2013 Domestic Stock Pool By Manager			
Manager Name	**Market Value**	**%**	**Approved Range**
-	-	-	-
BLACKROCK EQUITY INDEX FUND	1,913,601,611	57.53%	
STATE STREET SPIF ALT INV	6,364,352	0.19%	
LARGE CAP PASSIVE Total	**1,919,965,963**	**57.72%**	**45-70%**
ENHANCED INVEST TECHNOLOGIES	99,725,585	3.00%	
T ROWE PRICE ASSOCIATES INC	297,383,498	8.94%	
WESTERN ASSET US INDX PLUS LLC	1,600,867	0.05%	
LARGE CAP ENHANCED Total	**398,709,950**	**11.99%**	**8-12%**
ANALYTIC INVESTORS	99,778,879	3.00%	
JP MORGAN ASSET MGMT	296,548,598	8.92%	
130-30 Total	**396,327,477**	**11.91%**	**8-12%**
COMBINED LARGE CAP Total	**2,715,004,590**	**81.62%**	**72-91%**
ARTISAN MID CAP VALUE	115,237,554	3.46%	
BLACKROCK MIDCAP EQUITY IND FD	75,114,601	2.26%	
IRIDIAN ASSET MANAGEMENT	41,870,999	1.26%	
NICHOLAS INVESTMENT PARTNERS	42,060,010	1.26%	
TIMESSQUARE CAPITAL MGMT	115,548,056	3.47%	
MID CAP Total	**389,831,220**	**11.72%**	**6-17%**
ALLIANCE BERNSTEIN SMALL CAP	27,184,645	0.82%	
DIMENSIONAL FUND ADVISORS INC	72,271,395	2.17%	
ING INVESTMENT MGT	26,217,291	0.79%	
ISHARES CORE S+P SMALL CAP ETF	9,562,950	0.29%	
MET WEST CAPITAL MGT	21,235,834	0.64%	
VAUGHAN NELSON INV	65,084,604	1.96%	
SMALL CAP Total	**221,556,720**	**6.66%**	**3-11%**
MDEP Total	**3,326,391,330**	**100.00%**	

MONTANA INTERNATIONAL EQUITY POOL
Rande R. Muffick, CFA, Portfolio Manager
May 29, 2013

3/31/2013 International Stock Pool By Manager			
			Approved
Manager Name	**Market Value**	**%**	Range
BATTERYMARCH INTL EQUITY	78,927	0.01%	
BLACKROCK ACWI EX US SUPERFUND	889,170,838	61.72%	
BLACKROCK MSCI EM MKT FR FD B	27,423,766	1.90%	
EAFE STOCK PERFORMANCE INDEX	15,451,195	1.07%	0-10%
CORE Total	**932,124,726**	**64.70%**	**50-70%**
ACADIAN ACWI EX US VALUE	96,747,622	6.72%	
BERNSTEIN ACWI EX	101,135,116	7.02%	
VALUE Total	**197,882,738**	**13.74%**	**10-20%**
HANSBERGER INTL EQUITY GROWTH	105,555,918	7.33%	
MARTIN CURRIE ACWI X	110,868,196	7.70%	
GROWTH Total	**216,424,114**	**15.02%**	**10-20%**
BLACKROCK ACWI EX US SMALL CAP	24,539,938	1.70%	
DFA INTERNATIONAL SMALL COMPAN	69,629,930	4.83%	
SMALL CAP Total	**94,169,869**	**6.54%**	**5-15%**
MTIP Total	**1,440,601,447**	**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. The ranges reflect the restructure of the pool as approved by the Board last August.

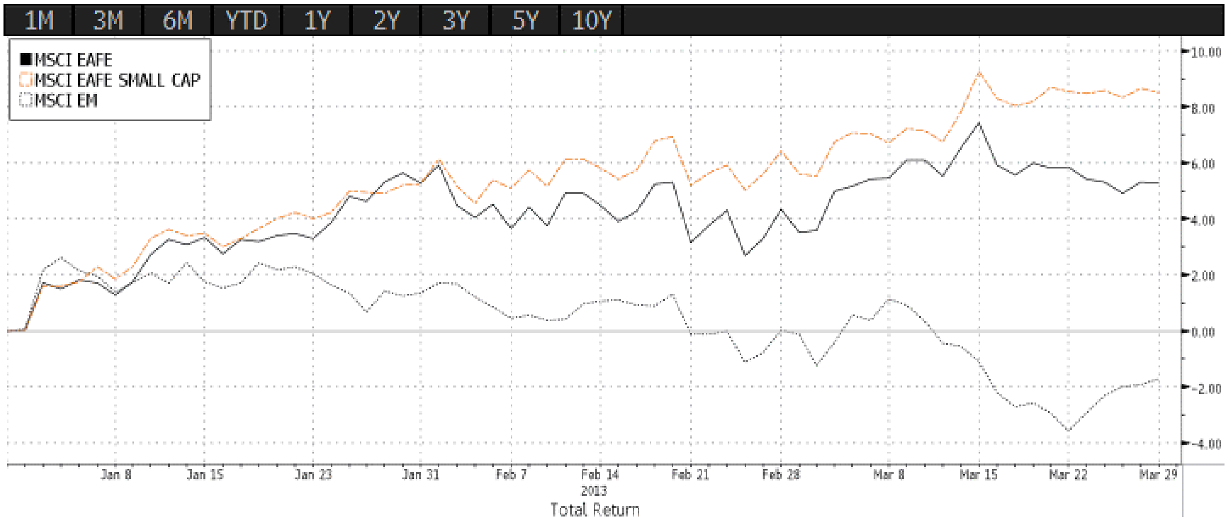
International equity market performance for the quarter was good overall but rather mixed by region. The ACWI ex US Index returned 3.2% but developed markets were the reason. The EAFE Index of developed markets returned 5.1%, largely due to the Japanese market which returned 11.3% thanks to a more pro-growth Bank of Japan and the easing strategy of the new BOJ governor.

Concerns about the uncertainty in Europe spreading abroad caused emerging market equities to lag significantly in the quarter. China which has the largest weight in the EM index lost -3.4% with most of the EM constituents posting negative returns as well.

1) Settings 2) Actions Page 1/6 Comparative Return

Range 12/31/2012 - 03/29/2013 Period Daily No. of Period 88 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	MXEA Index	USD	4.38%	5.28%	-3.23%	23.79%
2.	MXEASC Index	USD	7.82%	8.51%		40.34%
3.	MXEF Index	USD	-1.92%	-1.70%	-10.21%	-6.87%



Small cap stocks provided the best returns in the quarter followed by large cap developed stocks with emerging market stocks the laggards. MTIP is overweight small cap stocks compared to the current custom benchmark which added to overall pool performance. The ACWI ex US Small Cap index returned 6.5% for the quarter while large cap developed stocks returned 5.1% and emerging market stocks lost -1.62%. MTIP is slightly overweight emerging market stocks which detracted moderately from overall pool performance for the quarter.

Style performance favored growth stocks over value stocks. The ACWI ex US Growth index returned 4.5% compared to the ACWI ex US Value index which returned only 1.8%. MTIP is overweight growth compared to value which added to overall performance.

The value of the U.S. dollar was a major headwind to international returns for U.S. investors as the greenback strengthened significantly in the quarter. U.S. growth is proving to be the strongest of the economies of the developed world. That combined with the still safe haven status enjoyed by the greenback has led to global investors preferring American investments. As major foreign central banks continue to ease their monetary policies while the U.S. Federal Reserve looks to be closer to slowing down on its own quantitative easing, the dollar trend could continue. The stronger dollar trimmed international equity returns by about 4% on average.

Active management performance within MTIP was mixed in the quarter. Martin Currie, Bernstein and Acadian added alpha while Hansberger and DFA detracted from pool performance. Overall, MTIP outperformed the pool benchmark by 16 basis points for the quarter and has outperformed the benchmark by 2 basis points during the first three quarters of the fiscal year.

Further diversification of the active portion of the small cap allocation and the addition of dedicated active management within the emerging markets allocation is expected. Public equity staff is in the midst of manager searches in both areas.

INTERNATIONAL EXPOSURE-MARKET CAP %

March 31, 2013

Managers	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	$20-$50B	$10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Acadian Asset Management	1.6	11.8	12.6	26.1	17.1	11.5	12.5	6.9	26.4
Bernstein Inv Mgt & Research with look throughs	1.9	10.5	13.6	19.2	12.9	17.3	4.0	--	40.6
DFA International Small Cap	--	--	--	--	--	22.7	59.2	18.1	1.4
Hansberger Global Investors	1.8	9.1	17.6	29.9	13.7	21.1	6.9	--	33.8
Martin Currie	3.9	14.5	12.1	32.7	15.0	18.3	3.4	--	44.6
BlackRock ACWI Ex US Superfund A	2.7	11.6	19.4	26.2	16.8	20.5	1.9	--	42.0
BlackRock Intl Small Cap Index look through	--	--	--	--	--	22.3	63.6	13.8	1.3
BlackRock ACWI Ex US Superfund A	5.6	3.1	12.3	22.7	21.8	28.1	5.9	0.0	21.6
BlackRock Emerging Market Fund look through	2.5	10.7	16.4	24.6	15.2	19.8	7.0	1.5	37.7
ALL INTERNATIONAL EQUITY PORTFOLIOS	**2.5**	**10.7**	**16.4**	**24.6**	**15.2**	**19.8**	**7.0**	**1.5**	**37.7**
International Custom Benchmark	**2.7**	**11.5**	**19.4**	**26.1**	**16.8**	**20.7**	**2.6**	**0.2**	**-**
Over/underweight(-)	**-0.2**	**-0.8**	**-3.0**	**-1.5**	**-1.6**	**-0.9**	**4.5**	**1.4**	

INTERNATIONAL EXPOSURE-SECTOR %

March 31, 2013

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	8.9	1.9	16.6	35.1	6.0	9.7	8.5	7.3	4.1	1.8
Bernstein Inv Mgt & Research with look throughs	14.1	7.1	12.0	26.5	7.5	8.6	7.3	8.6	4.8	3.1
DFA International Small Cap	19.8	6.2	5.7	14.6	5.5	24.7	8.6	11.3	1.5	2.1
Hansberger Global Investors	18.7	13.2	3.9	12.7	8.3	12.1	10.8	12.2	6.3	1.9
Martin Currie with look throughs	18.8	17.3	6.9	17.6	8.7	8.8	4.9	12.8	2.7	1.6
BlackRock ACWI Ex US Superfund A	9.7	10.8	9.6	25.9	7.6	10.7	6.4	9.8	5.4	3.4
BlackRock Intl Small Cap Index look through	17.8	6.2	6.2	20.2	5.4	19.0	9.4	11.9	1.2	2.3
BlackRock Emerging Market Fund look through	7.8	9.0	12.0	27.4	1.3	6.5	14.1	10.7	7.4	3.5
All International Equity Portfolios	**11.5**	**10.3**	**9.4**	**24.4**	**7.4**	**11.2**	**7.4**	**10.0**	**4.9**	**3.0**
International Custom Benchmark	**9.8**	**10.8**	**9.6**	**26.2**	**7.6**	**10.8**	**6.4**	**9.8**	**5.3**	**3.4**
Over/underweight(-)	**1.6**	**-0.5**	**-0.2**	**-1.8**	**-0.3**	**0.3**	**1.0**	**0.2**	**-0.5**	**-0.5**

INTERNATIONAL PORTFOLIO CHARACTERISTICS

March 31, 2013

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
International Accounts with look throughs	**1,529,893,342**	**8,458**	**16.7**	**13.6**	**1.5**	**2.96**
International Equity Managers						
Acadian Asset Management	96,977,382	372	22.1	9.4	1.1	3.28
Bernstein Inv Mgt & Research with look throughs	190,373,124	226	16.0	11.6	1.2	3.31
DFA International Small Cap	69,390,632	4,418	17.7	14.0	1.2	2.66
Hansberger Global Investors	105,638,248	62	19.3	17.9	2.4	1.90
Martin Currie with look throughs	110,538,443	63	17.9	17.0	2.3	2.26
BlackRock ACWI Ex US Superfund A	889,118,543	1,844	15.5	13.7	1.6	3.12
BlackRock Intl Small Cap Index look through	24,528,176	4,220	20.2	13.9	1.3	2.62
BlackRock Emerging Market Fund look through	27,483,058	828	18.0	11.8	1.6	2.75
Benchmarks						
MSCI All Country World Ex-United States		1,827	15.6	13.7	1.6	3.12
MSCI All Country World Ex-United States Growth		1,025	18.9	17.3	2.4	2.22
MSCI All Country World Ex-United States Value		1,014	12.1	11.3	1.2	4.05
MSCI EAFE Small Cap		2,164	19.6	14.7	1.3	2.65
MSCI World Ex-United States Small Cap		2,401	20.1	14.7	1.3	2.70
MSCI All Country Pacific		930	19.2	14.4	1.5	2.58

INTERNATIONAL EQUITY
Region and Market Exposure
March 31, 2013

Developed Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
Asia/Pacific	**24.9%**	**24.8%**	0.10%				
Australia	5.93%	6.38%		7.4%	23.1%	7.4%	14.3%
Hong Kong	2.12%	2.18%		3.8%	22.2%	3.8%	13.6%
Japan	15.31%	14.82%		11.3%	15.1%	11.3%	6.8%
New Zealand	0.11%	0.09%		7.5%	27.1%	7.5%	18.6%
Singapore	1.38%	1.28%		3.4%	17.5%	3.4%	11.5%
European Union	**21.5%**	**22.1%**	-0.57%				
Austria	0.28%	0.19%		-3.7%	19.5%	-3.7%	4.5%
Belgium	0.92%	0.84%		7.5%	25.5%	7.5%	21.2%
Denmark	0.83%	0.80%		5.2%	21.2%	5.2%	16.0%
Finland	0.49%	0.54%		1.9%	25.2%	1.9%	-3.4%
France	6.11%	6.37%		0.6%	19.0%	0.6%	5.6%
Germany	5.61%	5.81%		0.4%	23.7%	0.4%	6.1%
Greece	0.07%	0.05%		-9.7%	27.2%	-9.7%	-0.7%
Ireland	0.41%	0.20%		13.8%	28.3%	13.8%	18.6%
Italy	1.45%	1.36%		-7.5%	8.2%	-7.5%	-7.6%
Netherlands	1.42%	1.67%		1.8%	20.3%	1.8%	8.5%
Portugal	0.24%	0.12%		2.0%	29.6%	2.0%	3.2%
Spain	1.42%	1.90%		-6.0%	11.9%	-6.0%	-5.2%
Sweden	2.30%	2.28%		9.1%	26.5%	9.1%	13.9%
Non-EU Europe	**7.0%**	**6.9%**	0.03%				
Norway	0.90%	0.62%		0.8%	15.9%	0.8%	1.8%
Switzerland	6.07%	6.32%		10.0%	27.7%	10.0%	17.7%
North America	**6.5%**	**7.5%**	-1.09%				
Canada	6.33%	7.55%		0.1%	10.0%	0.1%	0.1%
USA	0.13%	0.00%		10.4%	16.2%	10.4%	11.9%
United Kingdom	**15.2%**	**15.2%**	0.04%				
United Kingdom	15.21%	15.17%		1.9%	12.8%	1.9%	6.7%
Other							
Other	0.57%	0.38%					
DEVELOPED TOTAL	**75.61%**	**76.91%**	-1.30%				

Emerging & Frontier Market Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
Asia/Pacific	**15.2%**	**14.0%**	1.13%				
China	4.90%	4.18%		-3.4%	13.7%	-3.4%	4.6%
India	1.28%	1.52%		-4.3%	10.5%	-4.3%	-1.1%
Indonesia	0.70%	0.71%		14.8%	22.0%	14.8%	10.8%
South Korea	3.89%	3.42%		-3.2%	11.0%	-3.2%	1.4%
Malaysia	0.85%	0.81%		-0.7%	6.4%	-0.7%	1.8%
Philippines	0.18%	0.25%		18.6%	36.8%	18.6%	42.4%
Taiwan	2.48%	2.50%		0.5%	9.2%	0.5%	-1.0%
Thailand	0.86%	0.64%		13.2%	34.6%	13.2%	26.2%
European Union	**0.5%**	**0.4%**	0.01%				
Czech Republic	0.05%	0.06%		-13.6%	-9.1%	-13.6%	-22.7%
Hungary	0.05%	0.05%		-6.6%	1.2%	-6.6%	-9.4%
Poland	0.35%	0.34%		-11.7%	7.1%	-11.7%	-1.5%
Non-EU Europe	**1.4%**	**1.3%**	0.11%				
Russia	1.45%	1.34%		-3.2%	7.7%	-3.2%	-10.7%
Latin America/Caribbean	**4.6%**	**5.1%**	-0.47%				
Brazil	2.66%	2.91%		-1.2%	6.2%	-1.2%	-14.8%
Chile	0.33%	0.46%		4.1%	5.4%	4.1%	-5.2%
Colombia	0.20%	0.28%		-7.1%	6.0%	-7.1%	3.2%
Mexico	1.30%	1.28%		6.4%	19.8%	6.4%	17.5%
Peru	0.10%	0.14%		-2.5%	5.3%	-2.5%	-0.6%
Mid East/Africa	**2.1%**	**2.2%**	-0.16%				
Egypt	0.05%	0.06%		-11.1%	-0.8%	-11.1%	-5.9%
Morocco	0.01%	0.02%		-2.6%	-5.1%	-2.6%	-21.0%
South Africa	1.41%	1.64%		-8.9%	1.1%	-8.9%	-4.9%
Turkey	0.59%	0.50%		0.8%	37.1%	8.3%	35.0%
Frontier	0.04%	0.00%	0.04%				
EMERGING & FRONTIER TOTAL	23.7%	23.1%	0.65%				

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 29, 2013

Subject: Public Equity External Managers Watch List - Quarterly Update

There was one change to the Watch List this quarter. Hansberger International Large Cap Growth was added to the Watch List based upon lagging performance versus the benchmark.

PUBLIC EQUITIES
MANAGER WATCH LIST
May 2013

Manager	Style Bucket	Reason	$ Invested (mil)	Inclusion Date
Alliance Bernstein	**International – LC Value**	**Performance**	**$101.1**	**August 2012**
Hansberger	**International – LC Growth**	**Performance**	**$105.5**	**May 2013**

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 29, 2013

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:**
The table below summarizes the investment decisions made by staff since the last Board Meeting. Commitments of $20M, $5M and $25M were made to Affinity Asia Pacific Fund IV, LP, Dover Street VIII, LP and CCMP Capital Investors III, LP, respectively. Investment briefs summarizing the funds and the general partner follow.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Affinity Asia Pacific Fund IV, LP	2013	Buyout	Diversified	$20M	4/12/13
Dover Street VIII, LP	2012	Secondaries	Diversified	Add’l $5M	4/24/13
CCMP Capital Investors III, LP	2013	Buyout	Diversified	$25M	4/26/13

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

Montana Board of Investments

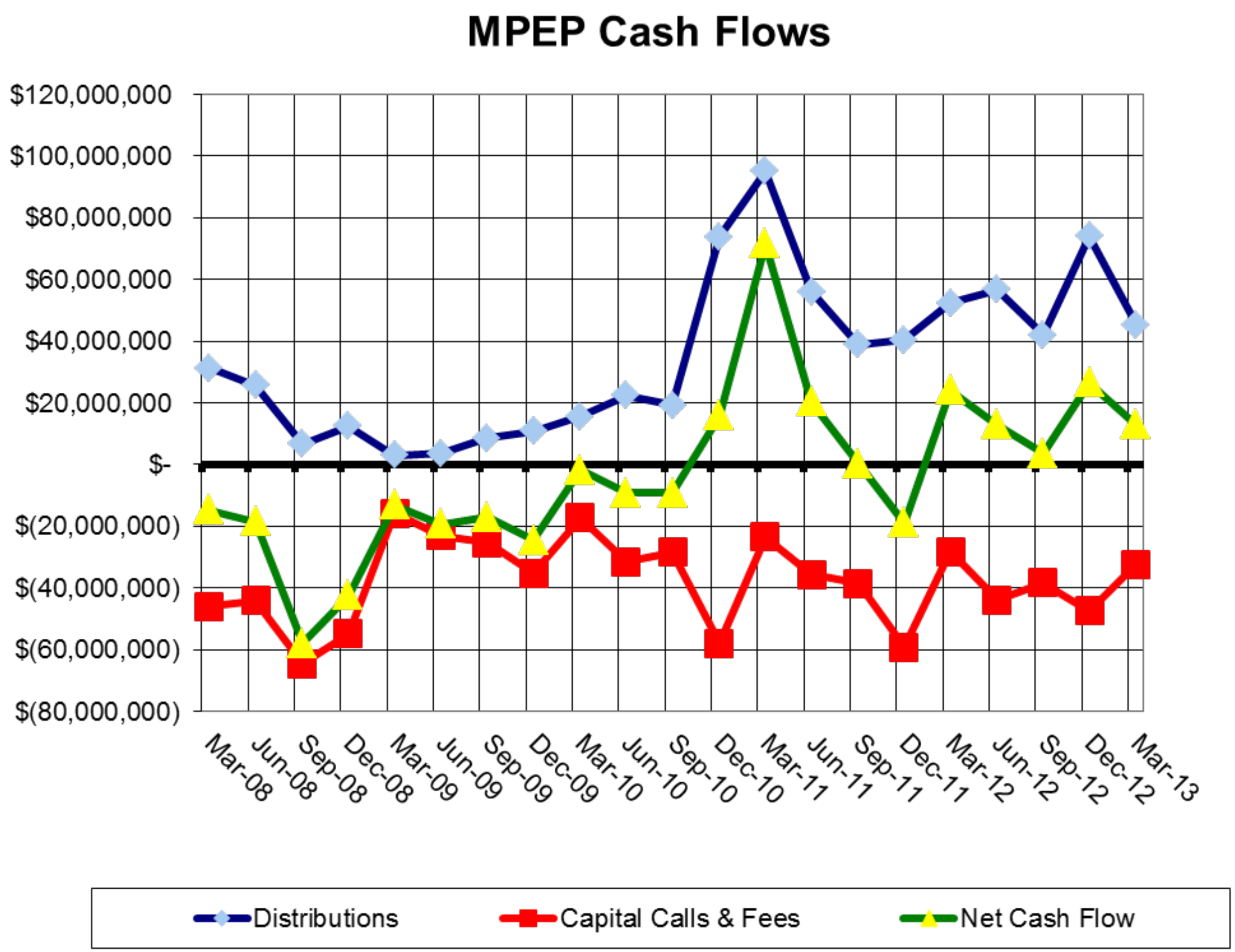
Private Equity Board Report

Q4 2012

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

Contents

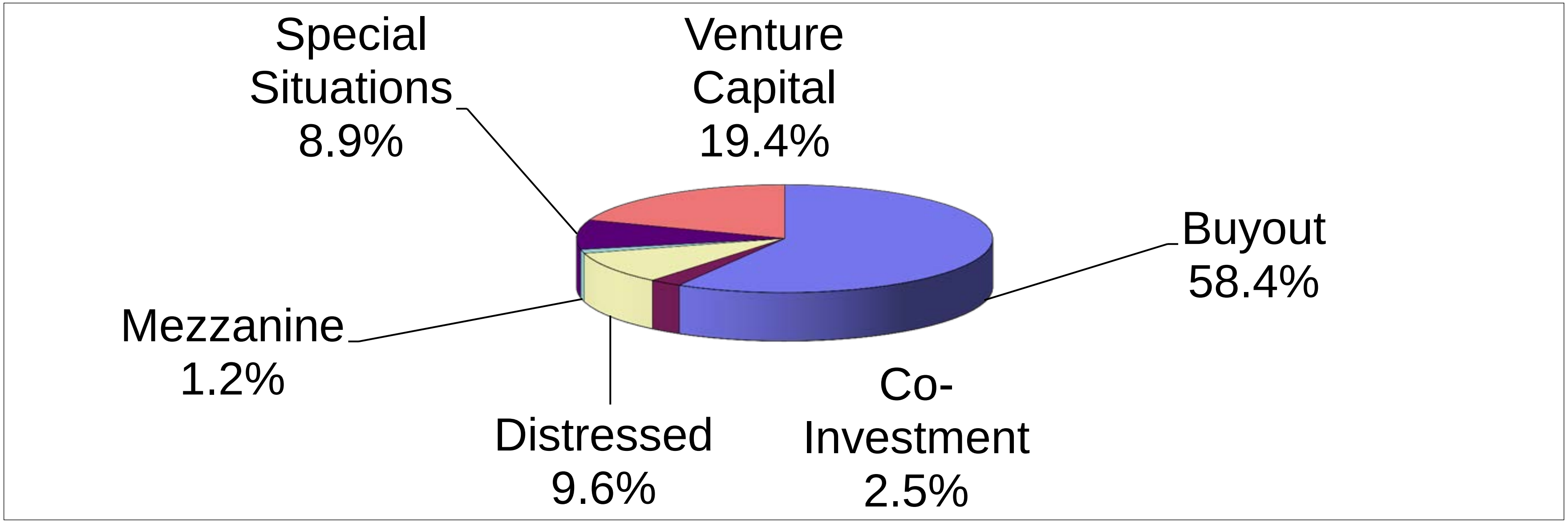
MPEP Quarterly Cash Flows
March 31, 2008 through March 31, 2013



While distributions dropped off during 1Q13 relative to 4Q12, they still outpaced capital calls resulting in positive net cash flow from the pool for the period ending 1Q13. Broadly speaking relative to 4Q12, US leveraged buyout activity for the period ending 1Q13 was up nearly 73% on a dollar volume basis, but down 23% based on number of transactions. In terms of the US IPO market, total proceeds raised during 1Q13 were $7.8 billion, slightly down compared to the $8.2 billion in 4Q2012, but up 34 percent from the $5.8 billion raised in 1Q2012. The number of US IPOs in 1Q2013 declined to 34 from 38 in 4Q2012 and 45 in 1Q2012.

Q4 2012 Strategy – Total Exposure

(Since inception through December 31, 2012)

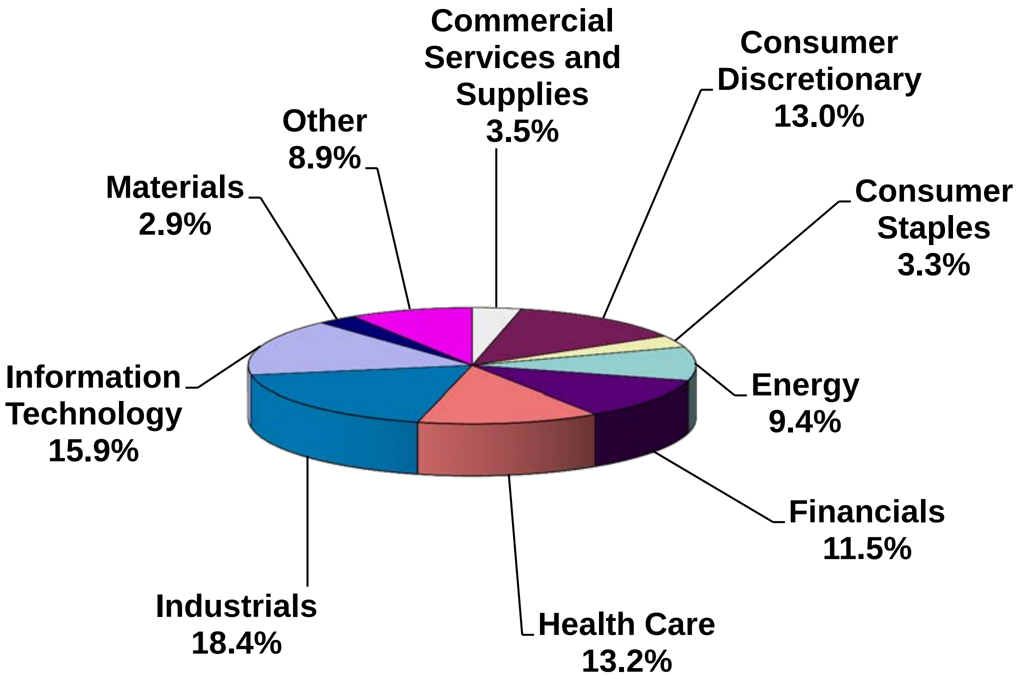


Strategy	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percent age
Buyout	$376,306,852	61.6%	$593,619,544	56.6%	$969,926,396	58.4%
Co-Investment	$4,688,356	0.8%	$36,626,682	3.5%	$41,315,038	2.5%
Distressed	$67,743,783	11.1%	$92,090,156	8.8%	$159,833,939	9.6%
Mezzanine	$2,929,324	0.5%	$16,436,324	1.6%	$19,365,648	1.2%
Special Situations	$48,778,481	8.0%	$98,350,966	9.4%	$147,129,447	8.9%
Venture Capital	$109,986,793	18.0%	$212,373,283	20.2%	$322,360,076	19.4%
Total	$610,433,590	100.0%	$1,049,496,954	100.0%	$1,659,930,544	100.0%

The portfolio is well diversified by strategy, with the most significant strategy weight consisting of Buyout at 58.4% 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 should continue to decline marginally in the near-term given the ongoing liquidation of mature funds in this category.

Q4 2012 Industry – Market Value Exposure

(Since inception through December 31, 2012)

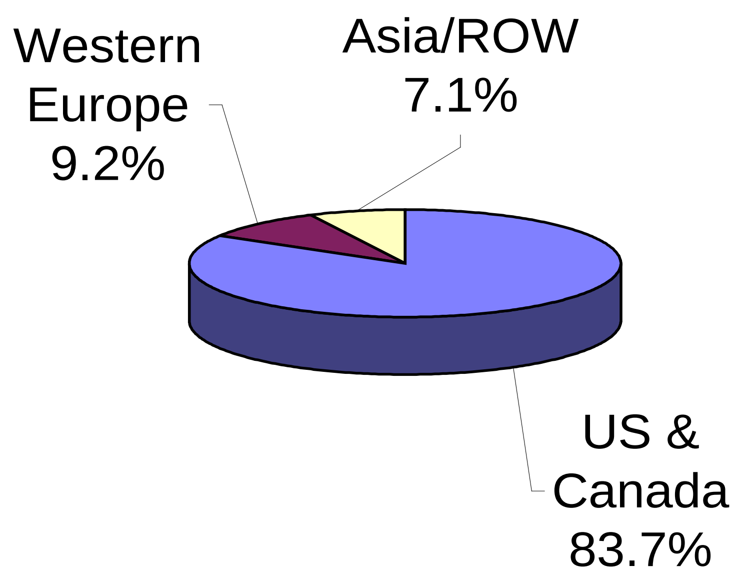


Industry	Investments, At Market Value	Percentage
Commercial Services and Supplies	$36,254,978	3.5%
Consumer Discretionary	$134,153,364	13.0%
Consumer Staples	$34,016,747	3.3%
Energy	$96,498,127	9.4%
Financials	$118,509,473	11.5%
Health Care	$135,416,500	13.2%
Industrials	$189,536,851	18.4%
Information Technology	$163,415,326	15.9%
Materials	$29,682,311	2.9%
Other	$91,831,999	8.9%
Total	$1,029,315,676	100%

The portfolio is broadly diversified by industry with the consumer discretionary, healthcare, industrials and information technology sectors being the highest industry concentrations representing approximately 61% of total assets. With the exception of energy and the information technology-related industries, the portfolio's underlying managers tend to be multi-sector investors. Therefore, composition of the portfolio by industry is and will continue to primarily be a function of a manager's industry expertise and success in sourcing deals rather than a function of staff's desire to over or underweight a specific industry.

Q4 2012 Geography – Total Exposure

(Since inception through December 31, 2012)



The portfolio's predominate geographic exposure is to developed North America, representing 83.6% 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.

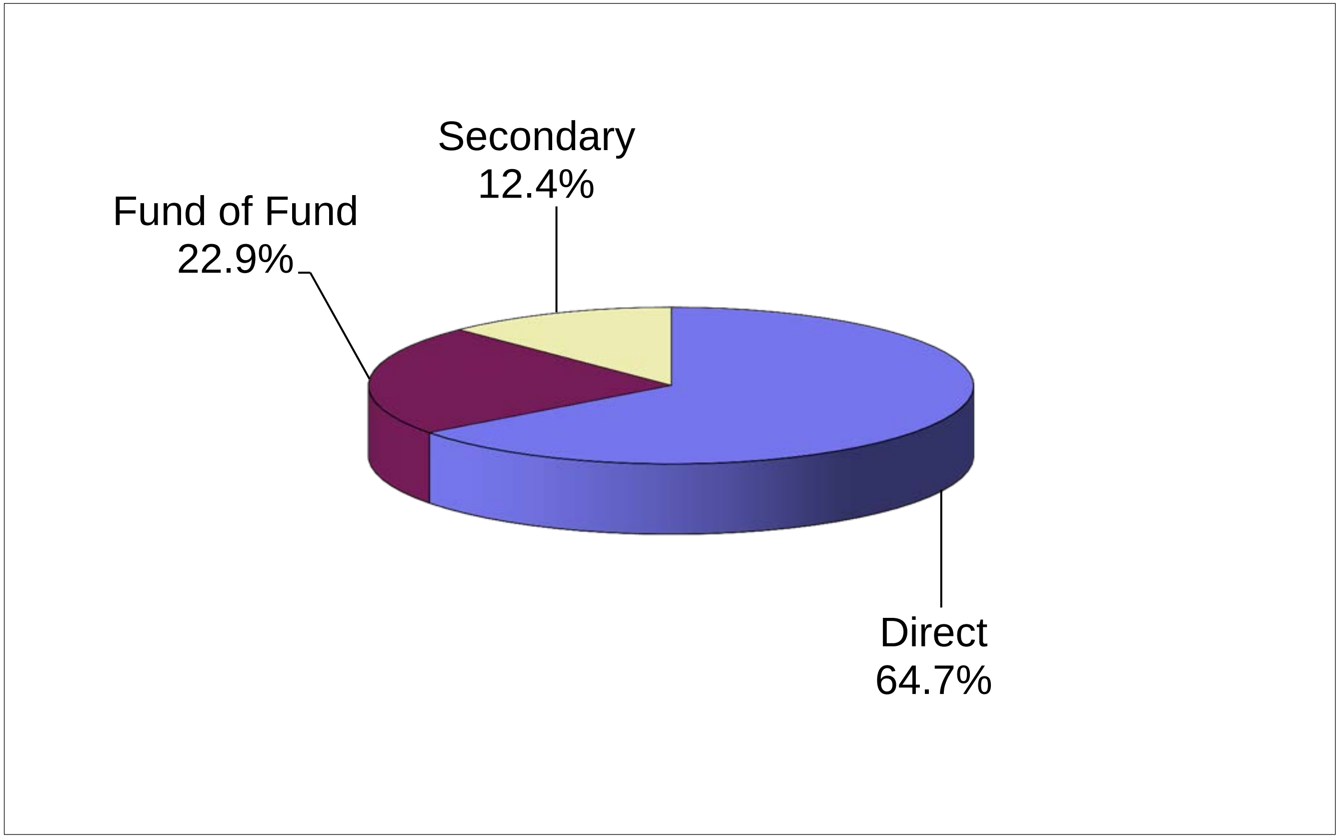
Geography	Remaining Commitments (1)	Percentage	Market Value (2)	Percentage	Total Exposure	Percentage
US & Canada	$ 549,242,161	90.0%	$ 822,897,775	79.9%	$ 1,372,139,936	83.7%
Western Europe	$ 22,690,535	3.7%	$ 127,779,476	12.4%	$ 150,470,011	9.2%
Asia/ROW	$ 38,500,894	6.3%	$ 78,638,425	7.6%	$ 117,139,319	7.1%
Total	$ 610,433,591	100.0%	$ 1,029,315,676	100.0%	$ 1,639,749,267	100.0%

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

(2) Market Value represents the agrregate market values of the underlying investment companies of the partnerships.

Q4 2012 Investment Vehicle – Total Exposure

(Since inception through December 31, 2012)



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

Investment Vehicle	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Direct	$ 396,426,840	64.9%	$ 677,418,146	64.5%	$ 1,073,844,986	64.7%
Fund of Fund	$ 142,455,643	23.3%	$ 238,442,533	22.7%	$ 380,898,176	22.9%
Secondary	$ 71,551,107	11.7%	$ 133,636,275	12.7%	$ 205,187,382	12.4%
Total	$ 610,433,590	100.0%	$ 1,049,496,954	100.0%	$ 1,659,930,544	100.0%

Q4 2012 1 – 3 – 5 Year Periodic Return Comparison

(Since inception through December 31, 2012)

Description	Current					1 Year Return	3 Year Return	5 Year Return
	Count	Ending Market Value	Inv Multiple	Inception to Date IRR[1]	Contribution to IRR	IRR[1]	IRR[1]	IRR[1]
Total	**140**	**1,049,496,954.34**	**1.44**	**12.44**	**12.44**	**12.33**	**14.36**	**5.61**
Adams Street Funds	34	149,527,528.00	1.52	12.12	2.69	9.58	12.25	2.76
ASP - Direct VC Funds	4	25,582,879.00	1.63	15.83	0.66	25.12	22.98	3.78
ASP - Secondary Funds	7	12,500,404.00	1.65	42.09	0.37	2.52	10.53	5.73
ASP - U.S. Partnership Funds	14	96,899,035.00	1.45	9.58	1.44	6.79	10.51	2.59
ASP Non-US Partnership Funds	9	14,545,210.00	1.54	10.74	0.22	10.08	7.64	(0.85)
Buyout	37	389,584,675.00	1.56	12.26	5.43	15.92	18.05	7.45
Co-Investment	2	36,626,682.00	1.26	7.32	0.21	7.95	15.28	4.46
Distressed	11	93,293,789.00	1.48	24.85	1.69	24.77	15.19	11.73
Mezzanine	3	15,262,948.00	1.28	6.79	0.11	2.34	0.13	1.55
Non-US Private Equity	8	66,015,725.09	1.12	4.61	0.24	12.54	13.20	(3.71)
Secondary	8	117,115,163.00	1.38	13.48	1.06	11.40	14.96	6.91
Special Situations	7	81,154,116.00	1.22	6.89	0.45	(0.13)	8.40	4.67
Venture Capital	30	100,916,328.25	1.31	15.98	0.58	7.11	13.06	7.15

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

As of 12/31/12, the portfolio's since inception net investment multiple and net IRR results were up slightly relative to last quarter to 1.44x and 12.44%, respectively, from 1.43x and 12.39%. As of quarter end, all strategy categories performed approximately in-line relative to last quarter's performance.

Q4 2012 LPs by Family of Funds

Description	Vintage Year	Commitment	Since Inception Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	IRR[1]	Investment Multiple	Total Exposure
Total		**2,317,363,173.73**	**1,611,768,409**	**122,097,773**	**610,433,590**	**74.82**	**1,452,059,984.23**	**1,049,496,954**	**12.44**	**1.44**	**1,659,930,544.00**
Active											
Total		**2,299,915,238.73**	**1,594,950,024**	**120,052,014**	**610,433,590**	**74.57**	**1,398,037,613.98**	**1,049,496,954**	**11.59**	**1.43**	**1,659,930,544.00**
Adams Street Partners		323,574,329.00	285,920,557	30,522,875	18,912,432	97.80	322,411,461.97	149,527,528	10.82	1.49	168,439,959.80
Adams Street Partners Fund - U.S.		94,000,000.00	79,476,842	6,557,803	7,965,355	91.53	53,868,473.00	63,064,803	7.07	1.36	71,030,157.80
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000.00	29,621,842	2,570,303	1,807,855	94.68	26,694,655.00	20,359,331	8.33	1.46	22,167,185.80
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000.00	17,107,500	1,372,500	1,520,000	92.40	11,977,429.00	13,467,065	7.31	1.38	14,987,065.00
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000.00	12,480,001	1,019,999	1,500,000	90.00	7,346,010.00	10,489,445	6.34	1.32	11,989,445.00
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000.00	20,267,499	1,595,001	3,137,500	87.45	7,850,379.00	18,748,962	4.82	1.22	21,886,462.00
Adams Street Partners Fund - Non-U.S.		16,000,000.00	13,710,776	1,098,224	1,191,000	92.56	10,317,411.00	11,089,785	9.23	1.45	12,280,785.00
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000.00	5,326,662	439,338	234,000	96.10	6,304,540.00	3,353,215	12.88	1.67	3,587,215.00
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000.00	4,197,177	343,323	459,500	90.81	2,503,578.00	3,602,725	7.10	1.34	4,062,225.00
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000.00	4,186,937	315,563	497,500	90.05	1,509,293.00	4,133,845	5.45	1.25	4,631,345.00
Brinson Partnership Trust - Non-U.S		9,809,483.00	9,598,173	1,129,641	286,300	109.36	14,861,788.00	3,564,280	13.11	1.72	3,850,580.00
Brinson Non-U.S. Trust-1999 Primary Fund	1999	1,524,853.00	1,503,681	175,599	96,162	110.13	2,590,285.00	208,291	11.00	1.67	304,453.00
Brinson Non-U.S. Trust-2000 Primary Fund	2000	1,815,207.00	1,815,207	209,036	0	111.52	3,064,747.00	449,127	12.25	1.74	449,127.00
Brinson Non-U.S. Trust-2001 Primary Fund	2001	1,341,612.00	1,341,612	154,498	0	111.52	2,077,126.00	297,059	11.39	1.59	297,059.00
Brinson Non-U.S. Trust-2002 Primary Fund	2002	1,696,452.00	1,696,452	195,360	0	111.52	1,889,798.00	1,102,309	9.42	1.58	1,102,309.00
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308.00	601,542	73,391	35,766	105.90	1,424,583.00	108,855	26.32	2.27	144,621.00
Brinson Non-U.S. Trust-2003 Primary Fund	2003	1,896,438.00	1,783,977	218,390	112,461	105.59	3,077,508.00	847,516	20.89	1.96	959,977.00
Brinson Non-U.S. Trust-2004 Primary Fund	2004	897,613.00	855,702	103,367	41,911	106.85	737,741.00	551,123	7.47	1.34	593,034.00
Brinson Partnership Trust - U.S.		99,764,846.00	95,613,932	10,535,325	4,154,032	106.40	117,890,050.32	35,128,014	7.56	1.44	39,282,046.00
Brinson Partners - 1996 Fund	1996	3,950,740.00	3,832,646	460,991	121,212	108.68	7,159,235.89	0	14.80	1.67	121,212.00
Brinson Partners - 1998 Primary Fund	1998	7,161,019.00	7,122,251	840,141	38,768	111.19	10,819,769.00	171,647	6.47	1.38	210,415.00
Brinson Partners - 1998 Secondary Fund	1998	266,625.00	266,625	31,316	0	111.75	192,993.43	0	(7.35)	0.65	-
Brinson Partners - 1999 Primary Fund	1999	8,346,761.00	7,998,817	980,811	347,944	107.58	9,277,486.00	1,037,725	2.45	1.15	1,385,669.00
Brinson Partners - 2000 Primary Fund	2000	20,064,960.00	19,079,570	2,263,154	985,390	106.37	25,282,891.00	4,155,969	5.90	1.38	5,141,359.00
Brinson Partners - 2001 Primary Fund	2001	15,496,322.00	14,830,208	1,566,191	666,114	105.81	15,331,489.00	7,350,629	5.78	1.38	8,016,743.00
Brinson Partners - 2002 Primary Fund	2002	16,297,079.00	15,783,921	1,639,881	513,158	106.91	20,908,573.00	7,397,957	11.66	1.62	7,911,115.00
Brinson Partners - 2002 Secondary Fund	2002	2,608,820.00	2,498,592	303,799	110,228	107.42	3,790,137.00	893,664	12.62	1.67	1,003,892.00
Brinson Partners - 2003 Primary Fund	2003	15,589,100.00	14,784,432	1,539,358	804,668	104.71	16,278,127.00	6,910,183	8.83	1.42	7,714,851.00
Brinson Partners - 2003 Secondary Fund	2003	1,151,151.00	1,077,749	104,892	73,402	102.74	2,171,607.00	400,118	22.84	2.17	473,520.00
Brinson Partners - 2004 Primary Fund	2004	8,832,269.00	8,339,121	804,791	493,148	103.53	6,677,742.00	6,810,122	8.34	1.48	7,303,270.00
Remaining ASP Funds		104,000,000.00	87,520,834	11,201,881	5,315,745	94.93	125,473,739.65	36,680,646	21.09	1.64	41,996,391.00
Adams Street Global Oppty Secondary Fund	2004	25,000,000.00	19,431,076	1,293,924	4,275,000	82.90	19,188,241.00	11,097,767	11.39	1.46	15,372,767.00
Adams Street V, L.P.	2003	40,000,000.00	34,750,434	5,249,566	0	100.00	26,556,729.00	22,890,321	3.86	1.24	22,890,321.00
Adams Street VPAF Fund II	1990	4,000,000.00	3,621,830	378,170	0	100.00	7,885,121.65	0	25.25	1.97	-
Brinson Venture Capital Fund III, L.P.	1993	5,000,000.00	4,045,656	954,344	0	100.00	15,634,528.00	0	40.47	3.13	-
Brinson VPF III	1993	5,000,000.00	4,488,559	530,671	0	100.38	15,024,708.00	0	29.46	2.99	-
Brinson VPF III - Secondary Interest	1999	5,000,000.00	4,820,288	198,942	0	100.38	8,307,583.00	0	41.44	1.66	-
BVCF III - Secondary Interest	1999	5,000,000.00	3,602,735	356,520	1,040,745	79.19	9,646,385.00	0	97.02	2.44	1,040,745.00
BVCF IV, L.P.	1999	15,000,000.00	12,760,256	2,239,744	0	100.00	23,230,444.00	2,692,558	7.15	1.73	2,692,558.00

Q4 2012 LPs by Family of Funds - Continued

			Since Inception								
Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/Committed	Capital Distributed	Ending Market Value	IRR[1]	Investment Multiple	Total Exposure
Affinity Asia Capital		15,000,000.00	10,699,477	1,809,692	2,492,498	83.39	3,664,452.29	15,596,458	16.52	1.54	18,088,956.43
Affinity Asia Pacific Fund III, L.P.	2006	15,000,000.00	10,699,477	1,809,692	2,492,498	83.39	3,664,452.29	15,596,458	16.52	1.54	18,088,956.43
American Securities LLC		35,000,000.00	10,323,319	627,574	24,049,107	31.29	19,733.03	10,365,167	(7.93)	0.95	34,414,274.04
American Securities Partners VI, L.P.	2011	35,000,000.00	10,323,319	627,574	24,049,107	31.29	19,733.03	10,365,167	(7.93)	0.95	34,414,274.04
Arclight Energy Partners		70,000,000.00	45,137,839	3,453,542	21,408,620	69.42	49,482,581.13	19,449,460	11.08	1.42	40,858,079.79
ArcLight Energy Partners Fund II, L.P.	2004	25,000,000.00	20,470,554	1,224,008	3,305,438	86.78	33,705,857.79	2,407,027	17.87	1.66	5,712,465.14
ArcLight Energy Partners Fund III, L.P.	2006	25,000,000.00	19,930,291	1,730,986	3,338,724	86.65	15,576,925.04	12,244,154	5.60	1.28	15,582,877.95
ArcLight Energy Partners Fund V, L.P.	2011	20,000,000.00	4,736,994	498,548	14,764,458	26.18	199,798.30	4,798,279	(8.05)	0.95	19,562,736.70
Audax		25,000,000.00	0	0	25,000,000	0.00	-	(60,457)	N/A	0.00	24,939,543.00
Audax Private Equity Fund IV, L.P.	2012	25,000,000.00	0	0	25,000,000	0.00	-	(60,457)	N/A	0.00	24,939,543.00
Avenue Investments		35,000,000.00	33,123,011	2,086,886	0	100.60	44,266,071.00	1,914,604	10.92	1.31	1,914,604.00
Avenue Special Situations Fund V, LP	2007	35,000,000.00	33,123,011	2,086,886	0	100.60	44,266,071.00	1,914,604	10.92	1.31	1,914,604.00
Axiom Asia Private Capital		50,000,000.00	12,859,363	1,170,725	36,008,396	28.06	559,187.00	13,402,040	(0.39)	1.00	49,410,436.00
Axiom Asia Private Capital II, LP	2009	25,000,000.00	12,226,437	1,048,116	11,763,931	53.10	559,187.00	12,764,978	0.28	1.00	24,528,909.00
Axiom Asia Private Capital III, LP	2012	25,000,000.00	632,926	122,609	24,244,465	3.02	-	637,062	(25.00)	0.84	24,881,527.00
Black Diamond Capital Management		25,000,000.00	6,545,837	860,617	17,593,546	29.63	728,409.68	7,459,619	8.58	1.11	25,053,164.76
BDCM Opportunity Fund III, L.P.	2011	25,000,000.00	6,545,837	860,617	17,593,546	29.63	728,409.68	7,459,619	8.58	1.11	25,053,164.76
Carlyle Partners		60,000,000.00	50,834,622	4,650,327	4,614,053	92.47	49,351,803.14	39,227,262	10.73	1.60	43,841,315.00
Carlyle Partners IV, L.P.	2005	35,000,000.00	31,664,089	1,587,161	1,847,752	95.00	34,617,950.14	25,488,120	12.32	1.81	27,335,872.00
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000.00	19,170,533	3,063,166	2,766,301	88.93	14,733,853.00	13,739,142	6.71	1.28	16,505,443.00
Cartesian Capital Group, LLC		20,000,000.00	2,923,429	265,909	16,810,662	15.95	-	3,090,250	(3.66)	0.97	19,900,912.00
Pangaea Two, L.P.	2012	20,000,000.00	2,923,429	265,909	16,810,662	15.95	-	3,090,250	(3.66)	0.97	19,900,912.00
CCMP Associates		30,000,000.00	25,020,414	2,307,316	2,672,270	91.09	9,626,791.00	29,261,813	12.53	1.42	31,934,083.00
CCMP Capital Investors II, L.P.	2006	30,000,000.00	25,020,414	2,307,316	2,672,270	91.09	9,626,791.00	29,261,813	12.53	1.42	31,934,083.00
Centerbridge		57,500,000.00	22,819,749	1,179,217	33,501,034	41.74	2,974,062.00	28,605,253	14.94	1.32	62,106,287.00
Centerbridge Capital Partners II, L.P.	2011	25,000,000.00	9,212,098	675,533	15,112,369	39.55	2,176.00	10,952,200	10.55	1.11	26,064,569.00
Centerbridge Special Credit Partners	2009	12,500,000.00	7,830,455	280,880	4,388,665	64.89	2,971,886.00	11,426,877	16.30	1.78	15,815,542.00
Centerbridge Special Credit Partners II	2012	20,000,000.00	5,777,196	222,804	14,000,000	30.00	-	6,226,176	7.38	1.04	20,226,176.00
CIVC Partners		25,000,000.00	8,767,293	1,463,527	14,955,528	40.92	566,572.19	15,002,019	39.80	1.52	29,957,547.28
CIVC Partners Fund IV, L.P.	2010	25,000,000.00	8,767,293	1,463,527	14,955,528	40.92	566,572.19	15,002,019	39.80	1.52	29,957,547.28
Energy Investors Funds		25,000,000.00	4,176,405	1,017,359	19,806,236	20.78	459,232.25	3,832,656	(16.65)	0.83	23,638,891.75
EIF US Power Fund IV, L.P.	2011	25,000,000.00	4,176,405	1,017,359	19,806,236	20.78	459,232.25	3,832,656	(16.65)	0.83	23,638,891.75
First Reserve		55,485,789.47	49,852,706	2,213,017	5,110,631	93.84	10,430,766.55	46,182,727	2.84	1.09	51,293,357.63
First Reserve Fund XI, L.P.	2006	30,000,000.00	30,112,312	1,047,014	136,289	103.86	8,854,122.71	25,380,446	2.84	1.10	25,516,735.00
First Reserve Fund XII, L.P.	2008	25,485,789.47	19,740,395	1,166,002	4,974,342	82.03	1,576,643.84	20,802,281	2.84	1.07	25,776,622.63
Gridiron Capital		15,000,000.00	5,003,522	397,051	9,659,049	36.00	141,564.00	4,993,276	(5.30)	0.95	14,652,325.11
Gridiron Capital Fund II, LP	2011	15,000,000.00	5,003,522	397,051	9,659,049	36.00	141,564.00	4,993,276	(5.30)	0.95	14,652,325.11
GTCR LLC		25,000,000.00	14,942,576	419,575	9,637,849	61.45	-	16,194,977	7.70	1.05	25,832,826.00
GTCR X, L.P.	2011	25,000,000.00	14,942,576	419,575	9,637,849	61.45	-	16,194,977	7.70	1.05	25,832,826.00
HarbourVest		81,823,772.34	42,881,390	1,559,744	37,396,163	54.31	9,766,355.84	45,038,726	10.16	1.23	82,434,889.34
Dover Street VII L.P.	2008	20,000,000.00	17,342,808	720,717	1,950,000	90.32	4,046,138.00	20,117,356	14.42	1.34	22,067,356.00
Dover Street VIII LP	2012	20,000,000.00	1,690,784	48,157	18,261,059	8.69	-	3,178,005	84.22	1.83	21,439,063.67
HarbourVest Direct 2007 Fund	2007	20,000,000.00	18,251,849	498,151	1,250,000	93.75	4,005,449.00	17,399,509	5.21	1.14	18,649,509.00
HarbourVest Intl Private Equity Fund VI	2008	21,823,772.34	5,595,949	292,719	15,935,105	26.98	1,714,768.84	4,343,856	2.72	1.03	20,278,960.67

Q4 2012 LPs by Family of Funds - Continued

			Since Inception								
Description	**Vintage Year**	**Commitment**	**Capital Contributed for Investment**	**Management Fees**	**Remaining Commitment**	**% Capital Contributed/Committed**	**Capital Distributed**	**Ending Market Value**	**IRR[1]**	**Investment Multiple**	**Total Exposure**
Hellman & Friedman		40,000,000.00	26,460,018	1,632,212	11,907,770	70.23	15,852,859.00	18,481,723	6.41	1.22	30,389,493.00
Hellman & Friedman Capital Partners VI	2006	25,000,000.00	22,346,249	1,350,732	1,303,019	94.79	15,436,232.00	14,864,753	7.01	1.28	16,167,772.00
Hellman & Friedman Capital Partners VII	2011	15,000,000.00	4,113,769	281,480	10,604,751	29.30	416,627.00	3,616,970	(8.38)	0.92	14,221,721.00
Highway 12 Ventures		10,000,000.00	8,078,220	1,518,944	402,835	95.97	972,721.76	10,453,390	5.68	1.19	10,856,225.21
Highway 12 Venture Fund II, L.P.	2006	10,000,000.00	8,078,220	1,518,944	402,835	95.97	972,721.76	10,453,390	5.68	1.19	10,856,225.21
Industry Ventures		10,000,000.00	9,149,961	758,818	495,358	99.09	7,347,632.65	4,658,248	5.12	1.21	5,153,605.55
Industry Ventures Fund IV, L.P.	2005	10,000,000.00	9,149,961	758,818	495,358	99.09	7,347,632.65	4,658,248	5.12	1.21	5,153,605.55
JCF		25,000,000.00	23,706,877	1,035,672	311,204	98.97	1,772,183.00	6,720,835	(20.32)	0.34	7,032,039.00
J.C. Flowers II, L.P.	2006	25,000,000.00	23,706,877	1,035,672	311,204	98.97	1,772,183.00	6,720,835	(20.32)	0.34	7,032,039.00
Joseph Littlejohn & Levy		25,000,000.00	21,853,246	1,359,278	1,787,476	92.85	11,725,868.00	23,413,482	11.04	1.51	25,200,958.00
JLL Partners Fund V, L.P.	2005	25,000,000.00	21,853,246	1,359,278	1,787,476	92.85	11,725,868.00	23,413,482	11.04	1.51	25,200,958.00
KKR		175,000,000.00	175,000,000	9,190,927	1,672	105.25	356,679,993.78	335,857	12.37	1.94	337,529.00
KKR 1987 Fund	1987	25,000,000.00	25,000,000	2,101,164	0	108.40	56,620,963.78	0	8.92	2.09	-
KKR 1993 Fund	1993	25,000,000.00	25,000,000	1,002,236	0	104.01	48,971,319.00	0	17.79	1.88	-
KKR 1996 Fund	1997	100,000,000.00	100,000,000	4,341,808	0	104.34	189,650,332.00	0	13.52	1.82	-
KKR European Fund, L. P.	1999	25,000,000.00	25,000,000	1,745,719	1,672	106.98	61,437,379.00	335,857	19.82	2.31	337,529.00
Lexington Capital Partners		155,000,000.00	121,839,433	6,685,063	26,550,050	82.92	103,505,070.34	76,421,000	13.68	1.40	102,971,050.38
Lexington Capital Partners V, L.P.	2001	50,000,000.00	47,088,646	2,667,972	243,382	99.51	70,200,701.97	11,894,000	18.67	1.65	12,137,382.00
Lexington Capital Partners VI-B, L.P.	2005	50,000,000.00	45,562,372	2,482,903	1,954,725	96.09	25,723,384.21	32,235,000	5.45	1.21	34,189,724.54
Lexington Capital Partners VII, L.P.	2009	45,000,000.00	22,965,073	1,272,809	20,836,664	53.86	5,746,242.16	26,035,000	22.15	1.31	46,871,663.84
Lexington Middle Market Investors II, LP	2008	10,000,000.00	6,223,341	261,379	3,515,280	64.85	1,834,742.00	6,257,000	15.47	1.25	9,772,280.00
Madison Dearborn Capital Partners		75,000,000.00	57,565,508	2,956,091	14,553,520	80.70	52,273,878.38	37,602,148	10.66	1.49	52,155,667.86
Madison Dearborn Capital Partners IV, LP	2001	25,000,000.00	23,699,360	594,527	781,232	97.18	36,375,255.38	8,541,369	14.44	1.85	9,322,600.86
Madison Dearborn Capital Partners V, LP.	2006	25,000,000.00	22,203,130	1,031,780	1,765,090	92.94	7,185,228.00	22,246,873	5.11	1.27	24,011,963.00
Madison Dearborn Capital Partners VI, LP	2008	25,000,000.00	11,663,019	1,329,783	12,007,198	51.97	8,713,395.00	6,813,906	10.41	1.20	18,821,104.00
Matlin Patterson		30,000,000.00	22,562,495	2,264,104	5,173,401	82.76	11,706,885.22	20,844,945	7.71	1.31	26,018,346.06
MatlinPatterson Global Opps. Ptnrs. III	2007	30,000,000.00	22,562,495	2,264,104	5,173,401	82.76	11,706,885.22	20,844,945	7.71	1.31	26,018,346.06
MHR Institutional Partners		25,000,000.00	13,271,432	2,304,621	9,423,947	62.30	3,435,179.00	19,029,843	7.39	1.44	28,453,790.00
MHR Institutional Partners III, L.P.	2006	25,000,000.00	13,271,432	2,304,621	9,423,947	62.30	3,435,179.00	19,029,843	7.39	1.44	28,453,790.00
Montlake Capital		15,000,000.00	11,342,172	2,082,828	1,575,000	89.50	4,411,393.90	11,851,279	6.57	1.21	13,426,278.60
Montlake Capital II, L.P.	2007	15,000,000.00	11,342,172	2,082,828	1,575,000	89.50	4,411,393.90	11,851,279	6.57	1.21	13,426,278.60
Neuberger Berman Group, LLC		55,000,000.00	33,969,735	2,104,671	19,439,614	65.59	23,077,406.53	23,247,881	8.03	1.28	42,687,494.61
NB Co-Investment Partners, L.P.	2006	35,000,000.00	30,080,239	1,880,562	3,438,356	91.32	23,077,406.53	19,227,173	8.10	1.32	22,665,529.49
NB Strategic Co-Investment Partners II	2012	20,000,000.00	3,889,496	224,110	16,001,257	20.57	-	4,020,708	(2.26)	0.98	20,021,965.12
Northgate Capital Partners		45,000,000.00	11,190,000	60,000	33,750,000	25.00	-	10,617,092	(5.25)	0.94	44,367,092.00
Northgate V, L.P.	2010	30,000,000.00	10,740,000	60,000	19,200,000	36.00	-	10,299,820	(4.19)	0.95	29,499,820.00
Northgate Venture Partners VI, L.P.	2012	15,000,000.00	450,000	0	14,550,000	3.00	-	317,272	(29.50)	0.71	14,867,272.00
Oak Hill Capital Partners		45,000,000.00	35,922,817	3,668,097	5,490,440	87.98	24,045,760.72	31,651,797	8.40	1.41	37,142,236.86
Oak Hill Capital Partners II, L.P.	2005	25,000,000.00	22,460,874	2,052,667	486,459	98.05	24,001,645.35	14,289,654	9.58	1.56	14,776,113.31
Oak Hill Capital Partners III, L.P.	2008	20,000,000.00	13,461,943	1,615,430	5,003,981	75.39	44,115.37	17,362,143	4.65	1.15	22,366,123.55
Oaktree Capital Partners		120,000,000.00	111,975,390	4,580,167	3,500,000	97.13	162,100,226.00	25,061,946	41.95	1.61	28,561,946.00
Oaktree Opportunities Fund VIII, L.P.	2009	10,000,000.00	9,551,434	448,566	0	100.00	1,089,318.00	11,034,643	9.70	1.21	11,034,643.00
OCM Opportunities Fund IVb, L.P.	2002	75,000,000.00	73,086,225	1,913,775	0	100.00	121,554,428.00	135,793	44.89	1.62	135,793.00
OCM Opportunities Fund VIIb, L.P.	2008	35,000,000.00	29,337,731	2,217,826	3,500,000	90.16	39,456,480.00	13,891,510	17.95	1.69	17,391,510.00
Odyssey Partners Fund III		45,000,000.00	34,358,835	3,123,342	7,517,843	83.29	33,706,153.75	35,076,223	25.28	1.84	42,594,066.47
Odyssey Investment Partners III, L.P.	2004	25,000,000.00	21,946,432	1,747,318	1,306,250	94.77	33,680,728.09	15,778,367	26.12	2.09	17,084,617.43
Odyssey Investment Partners IV, L.P.	2008	20,000,000.00	12,412,403	1,376,024	6,211,593	68.94	25,425.66	19,297,856	19.71	1.40	25,509,449.04
Opus Capital Venture Partners		10,000,000.00	1,782,064	375,000	7,842,936	21.57	-	1,674,549	(24.11)	0.78	9,517,484.39
Opus Capital Venture Partners VI, LP	2011	10,000,000.00	1,782,064	375,000	7,842,936	21.57	-	1,674,549	(24.11)	0.78	9,517,484.39

Q4 2012 LPs by Family of Funds - Continued

			Since Inception								
Description	**Vintage Year**	**Commitment**	**Capital Contributed for Investment**	**Management Fees**	**Remaining Commitment**	**% Capital Contributed/Committed**	**Capital Distributed**	**Ending Market Value**	**IRR[1]**	**Investment Multiple**	**Total Exposure**
Performance Venture Capital		25,000,000.00	12,299,813	1,184,893	11,515,294	53.94	638,003.66	14,672,665	7.41	1.14	26,187,959.56
Performance Venture Capital II	2008	25,000,000.00	12,299,813	1,184,893	11,515,294	53.94	638,003.66	14,672,665	7.41	1.14	26,187,959.56
Portfolio Advisors		70,000,000.00	51,884,862	2,728,271	15,633,718	78.02	8,067,468.48	60,253,655	6.81	1.25	75,887,373.00
Port. Advisors Fund IV (B), L.P.	2006	30,000,000.00	21,866,395	1,257,813	6,875,792	77.08	2,632,983.48	28,116,675	6.64	1.33	34,992,467.00
Port. Advisors Fund IV (E), L.P.	2006	15,000,000.00	11,023,139	770,450	3,206,411	78.62	388,285.00	11,440,090	0.08	1.00	14,646,501.00
Port. Advisors Fund V (B), L.P.	2008	10,000,000.00	6,951,599	371,875	2,793,273	73.23	1,107,369.00	7,956,336	8.48	1.24	10,749,609.00
Portfolio Advisors Secondary Fund, L.P.	2008	15,000,000.00	12,043,729	328,133	2,758,242	82.48	3,938,831.00	12,740,554	20.25	1.35	15,498,796.00
Quintana Energy Partners		15,000,000.00	11,947,915	1,562,599	1,509,857	90.07	4,478,519.58	11,689,273	4.06	1.20	13,199,130.11
Quintana Energy Partners Fund I, L.P.	2006	15,000,000.00	11,947,915	1,562,599	1,509,857	90.07	4,478,519.58	11,689,273	4.06	1.20	13,199,130.11
Siguler Guff & Company		50,000,000.00	29,927,104	1,211,102	18,994,081	62.28	5,159,162.35	36,449,534	11.93	1.34	55,443,615.37
Siguler Guff Small Buyout Opportunities	2007	25,000,000.00	19,503,301	1,134,905	4,494,081	82.55	5,159,162.35	24,571,235	11.47	1.44	29,065,316.37
Siguler Guff Small Buyout Opps Fund II	2011	25,000,000.00	10,423,803	76,197	14,500,000	42.00	-	11,878,299	17.78	1.13	26,378,299.00
Sterling Capital Partners		20,000,000.00	1,285,658	503,971	18,264,544	8.95	-	2,397,768	33.98	1.34	20,662,312.00
Sterling Capital Partners IV	2012	20,000,000.00	1,285,658	503,971	18,264,544	8.95	-	2,397,768	33.98	1.34	20,662,312.00
Summit Ventures		20,000,000.00	1,400,000	0	18,600,000	7.00	-	1,317,286	(8.08)	0.94	19,917,286.00
Summit Partners Growth Equity Fund VIII	2011	20,000,000.00	1,400,000	0	18,600,000	7.00	-	1,317,286	(8.08)	0.94	19,917,286.00
TA Associates, Inc.		10,000,000.00	4,420,169	304,831	5,275,000	47.25	250,000.00	5,145,159	10.39	1.14	10,420,159.00
TA XI, L.P.	2010	10,000,000.00	4,420,169	304,831	5,275,000	47.25	250,000.00	5,145,159	10.39	1.14	10,420,159.00
Tenaya Capital		20,000,000.00	1,944,194	105,333	17,950,474	10.25	-	1,835,201	(15.82)	0.90	19,785,674.76
Tenaya Capital VI, L.P.	2012	20,000,000.00	1,944,194	105,333	17,950,474	10.25	-	1,835,201	(15.82)	0.90	19,785,674.76
Tenex Capital Management		20,000,000.00	7,031,673	235,443	12,741,401	36.34	9,159.80	7,388,031	2.91	1.02	20,129,431.63
Tenex Capital Partners LP - Secondary	2012	20,000,000.00	7,031,673	235,443	12,741,401	36.34	9,159.80	7,388,031	2.91	1.02	20,129,431.63
Terra Firma Capital Partners		25,432,996.77	20,908,262	2,782,944	1,758,844	93.15	(1,345,584.58)	14,176,589	(15.64)	0.54	15,935,432.78
Terra Firma Capital Partners III, L.P.	2007	25,432,996.77	20,908,262	2,782,944	1,758,844	93.15	(1,345,584.58)	14,176,589	(15.64)	0.54	15,935,432.78
Thayer Hidden Creek Management, L.P.		20,000,000.00	10,213,609	1,487,073	8,626,016	58.50	480,966.00	17,368,142	29.09	1.53	25,994,158.00
HCI Equity Partners III, LP	2008	20,000,000.00	10,213,609	1,487,073	8,626,016	58.50	480,966.00	17,368,142	29.09	1.53	25,994,158.00
The Catalyst Capital Group		15,000,000.00	1,500,000	0	13,500,000	10.00	43,053.12	1,329,779	(10.88)	0.92	14,829,779.00
Catalyst Fund LP IV	2012	15,000,000.00	1,500,000	0	13,500,000	10.00	43,053.12	1,329,779	(10.88)	0.92	14,829,779.00
Trilantic Capital Partners		11,098,351.15	8,328,014	1,019,668	1,751,021	84.23	6,982,290.47	7,708,732	17.95	1.57	9,459,753.27
Trilantic Capital Partners IV L.P.	2007	11,098,351.15	8,328,014	1,019,668	1,751,021	84.23	6,982,290.47	7,708,732	17.95	1.57	9,459,753.27
Veritas Capital		25,000,000.00	13,360,205	177,595	11,462,200	54.15	-	17,589,046	18.63	1.30	29,051,246.00
The Veritas Capital Fund IV, L.P.	2010	25,000,000.00	13,360,205	177,595	11,462,200	54.15	-	17,589,046	18.63	1.30	29,051,246.00
Welsh, Carson, Anderson & Stowe		75,000,000.00	66,638,835	5,043,504	3,500,000	95.58	56,212,320.00	43,950,479	8.04	1.40	47,450,479.00
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000.00	20,992,203	1,507,797	2,500,000	90.00	12,500,191.00	15,262,948	4.98	1.23	17,762,948.00
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000.00	22,704,505	2,045,495	250,000	99.00	34,488,971.00	6,715,356	12.09	1.66	6,965,356.00
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000.00	22,942,127	1,490,212	750,000	97.73	9,223,158.00	21,972,175	5.09	1.28	22,722,175.00
Inactive											
Total		**17,447,935.00**	**16,818,385**	**2,045,759**	**0**	**108.12**	**54,022,370.25**	**0**	**23.11**	**2.86**	**-**

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.

Matlin Patterson and MHR continue their upward performance trajectory from earlier fears of capital impairment. CIVC IV continues its upward momentum from a 26.4% IRR and 1.27x MOIC to a 39.8% IRR and 1.52x MOIC. Dover VIII, while still early with only one quarter's worth of performance is out of the gates strong with an 84.2% IRR and 1.83x MOIC. Also out of the gates strong is Sterling Capital Partners IV reporting a 33.9% IRR and 1.34x MOIC for its initial quarter. Expect both Dover VIII and Sterling Capital Partners IV to moderate with time. Lastly worth noting is Veritas IV, with improved performance from a 5.4% IRR and 1.07x MOIC to an IRR of 18.6% and an MOIC of 1.3x.

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

By Investment Focus

Description	PIC	Client	DPI	Client	RVPI	Client	TVPI	Client	IRR	Client
Buyout	0.80	0.75	0.80	0.82	0.65	0.62	1.45	1.44	12.66	11.43
Venture Capital	0.82	0.68	0.76	0.73	0.56	0.70	1.32	1.42	9.84	15.91
Mezz & Distressed	0.79	0.77	0.77	1.01	0.63	0.45	1.40	1.46	11.31	21.89
Pooled IRR	**0.80**	**0.75**	**0.79**	**0.84**	**0.63**	**0.61**	**1.42**	**1.44**	**12.06**	**12.44**

By Origin

Description	PIC	Client	DPI	Client	RVPI	Client	TVPI	Client	IRR	Client
US	0.81	0.77	0.83	0.86	0.62	0.61	1.44	1.47	12.21	12.76
Non-US	0.78	0.71	0.67	0.64	0.69	0.56	1.35	1.20	11.40	6.55
Pooled IRR	**0.80**	**0.75**	**0.79**	**0.84**	**0.63**	**0.61**	**1.42**	**1.44**	**12.06**	**12.44**

By Vintage Year

Description	PIC	Client	DPI	Client	RVPI	Client	TVPI	Client	IRR	Client
1990	1.01	1.04	2.46	2.41	0.00	0.00	2.46	2.41	18.53	27.63
1991	1.03	1.07	2.83	2.29	0.00	0.00	2.83	2.29	27.07	24.24
1992	0.99	N/A	2.28	N/A	0.00	N/A	2.28	N/A	23.49	N/A
1993	0.98	1.03	2.31	2.22	0.00	0.00	2.32	2.22	25.27	23.25
1994	0.96	N./A	2.50	N/A	0.00	N/A	2.50	N/A	26.10	N/A
1995	0.92	N/A	1.96	N/A	0.01	N/A	1.97	N/A	21.47	N/A
1996	0.98	1.09	1.70	1.67	0.02	0.00	1.72	1.67	13.19	14.80
1997	0.99	1.05	1.58	1.89	0.02	0.00	1.60	1.89	10.72	15.19
1998	0.97	1.11	1.36	1.33	0.03	0.02	1.39	1.35	7.01	6.03
1999	0.97	1.03	1.20	1.87	0.10	0.07	1.30	1.93	5.60	14.79
2000	0.97	1.03	1.34	1.31	0.24	0.24	1.58	1.54	10.57	9.05
2001	0.97	1.00	1.54	1.35	0.24	0.31	1.78	1.65	16.79	13.94
2002	0.98	1.00	1.45	1.34	0.25	0.25	1.71	1.59	19.47	25.64
2003	0.97	0.99	1.36	0.77	0.57	0.57	1.93	1.34	20.59	6.17
2004	0.97	0.90	1.13	1.00	0.51	0.57	1.64	1.56	13.75	12.91
2005	0.96	0.95	0.79	0.64	0.69	0.76	1.48	1.41	9.83	8.21
2006	0.92	0.89	0.42	0.38	0.79	0.82	1.21	1.20	4.82	4.86
2007	0.87	0.90	0.38	0.52	0.87	0.67	1.25	1.19	7.03	5.83
2008	0.69	0.70	0.33	0.37	0.94	0.95	1.27	1.33	9.93	13.12
2009	0.60	0.63	0.22	0.19	1.02	1.10	1.24	1.29	12.19	14.25
2010	0.44	0.48	0.12	0.02	1.02	1.22	1.14	1.24	9.41	17.88
2011	0.32	0.35	0.08	0.03	0.99	0.99	1.06	1.01	7.91	1.77
2012	0.13	0.18	0.06	0.00	0.94	1.05	1.01	1.05	2.59	15.69
Pooled IRR	**0.75**	**0.75**	**0.79**	**0.84**	**0.63**	**0.61**	**1.42**	**1.44**	**12.06**	**12.44**

Based on data compiled from 2,175 Private Equity funds, including fully liquidated partnerships, formed between 1980 to 2012.
IRR: Pooled Average IRR is net of fees, expenses and carried interest.

MEMORANDUM

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

To: Members of the Board

From: Ethan Hurley, Portfolio Manager – Alternative Investments

Date: May 29, 2013

Subject: Montana Real Estate Pool [MTRP]

Following this memo is the **Montana Real Estate Pool Review,** a comprehensive overview of the real estate portfolio for the quarter ended December 31st.

There have been no new real estate commitments since the last Board meeting.

Montana Board of Investments

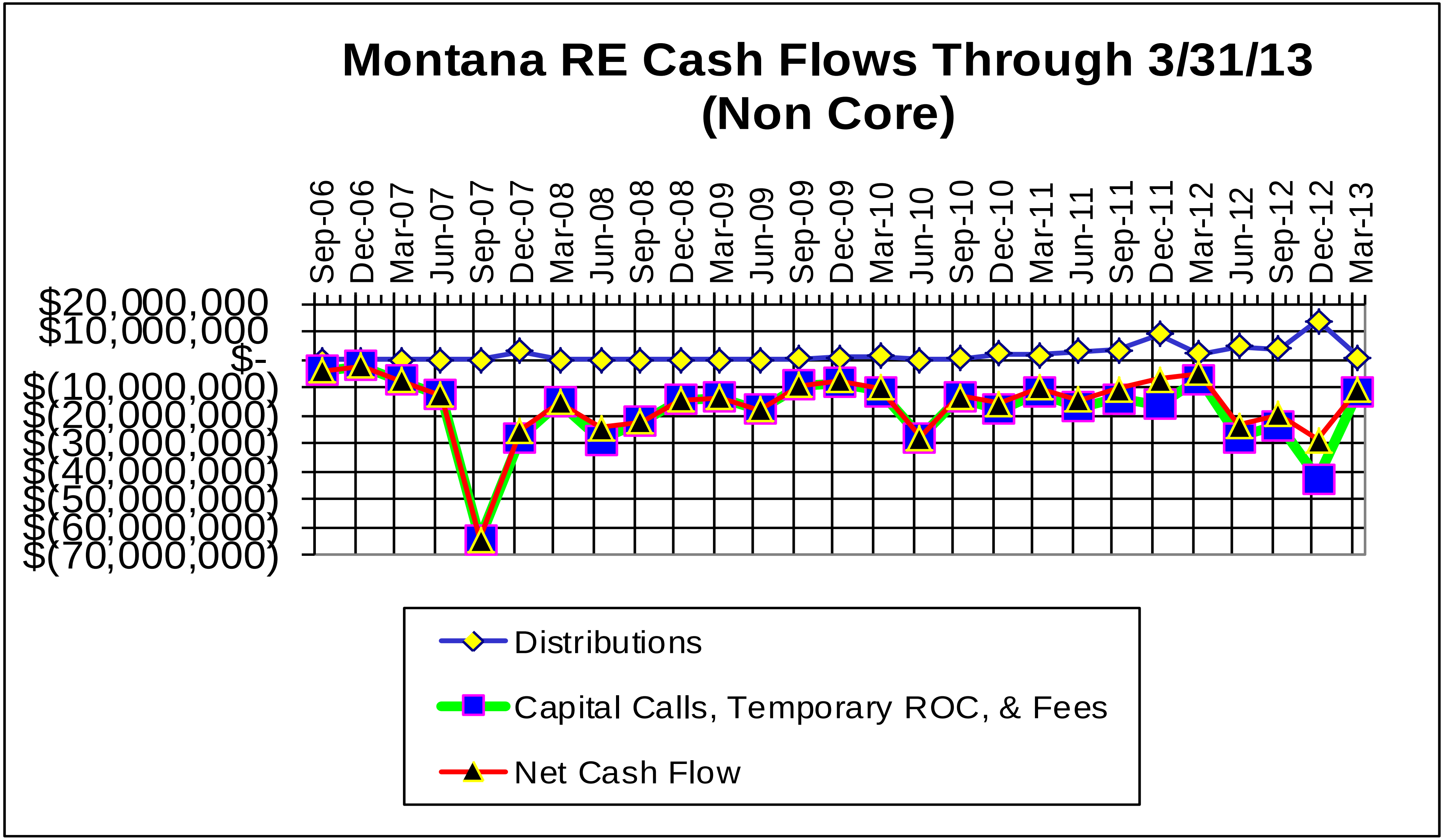
Real Estate Board Report

Q4 2012

Due to, among other things, the lack of a valuation standard in the real estate 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.

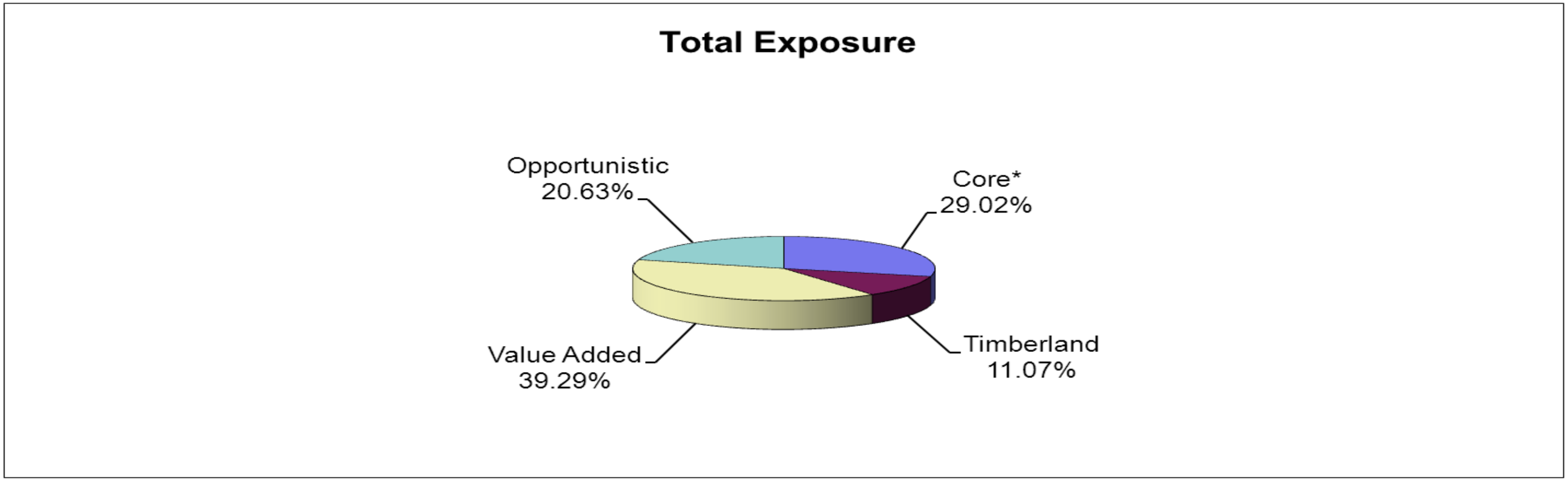
Contents

Quarterly Cash Flows through March 31, 2013



Both capital calls and distributions decelerated in the 1st quarter relative to the 4th quarter. Though market conditions seem to be improving slightly, net cash flow remains negative.

Q4 2012 Strategy – Total Exposure



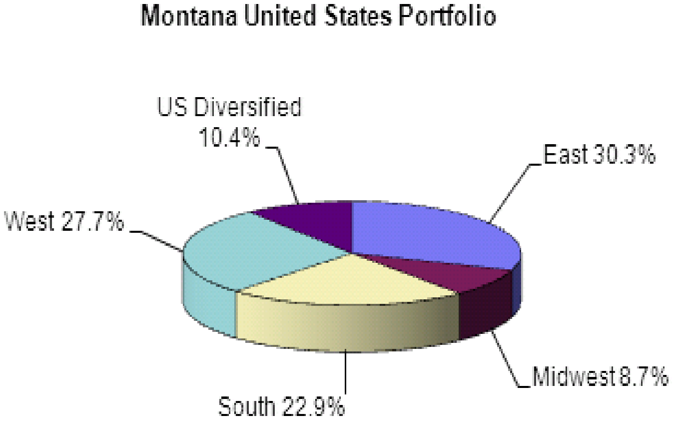
Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core*	$0	0.00%	$268,041,738	38.36%	$268,041,738	29.02%
Timberland	$38,526,036	17.13%	$63,702,070	9.12%	$102,228,106	11.07%
Value Added	$136,173,077	60.54%	$226,704,535	32.44%	$362,877,612	39.29%
Opportunistic	$50,233,077	22.33%	$140,302,293	20.08%	$190,535,370	20.63%
Total	$224,932,191	100.00%	$698,750,635	100.00%	$923,682,826	100.00%

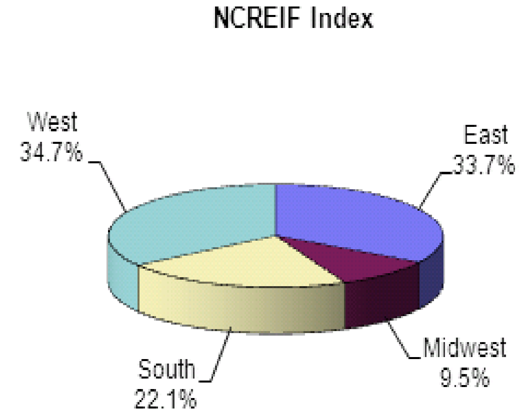
* Includes MT Office Portfolio

Note: Total values on this schedule are inclusive of values based on Q4 Estimated Reporting for Landmark Real Estate VI. Additionally the values on this schedule include Q3 2012 values for Liquid Realty IV which have been rolled forward because Q4 reporting was not received.

Core real estate dominates assets in ground at approximately 38% and includes the directly owned Montana office buildings. Timberland, being the most recent addition to the real estate portfolio, represents approximately 9% of to the total portfolio's NAV and approximately 11% of the aggregate exposure which includes unfunded commitments. Value Added and Opportunistic account for approximately 32% and 20% of NAV respectively.

Q4 2012 Geography – Total Exposure





	East	Midwest	South	West	US Diverse	Non-US	Total
Montana US Value[2]	$316.9	$90.9	$239.8	$288.9	$108.3		$1,044.9
Montana US Total[1]	30.3%	8.7%	22.9%	27.7%	10.4%		100.0%
NCREIF Value[2, 3]	107,782	30,453	70,622	111,094			$319,951
NCREIF[1]	33.7%	9.5%	22.1%	34.7%			100.0%
Difference	-3.4%	-0.8%	0.9%	-7.1%	10.4%		
Montana Total Value[2]	$316.9	$90.9	$239.8	$288.9	$108.3	$138.7	$1,183.6
Montana Total[1]	26.8%	7.7%	20.3%	24.4%	9.2%	11.7%	100.0%

Note: Due to limited Q4 GP reporting for Liquid Realty and Landmark Real Estate VI, holdings values have been rolled forward from the prior reporting cycle.

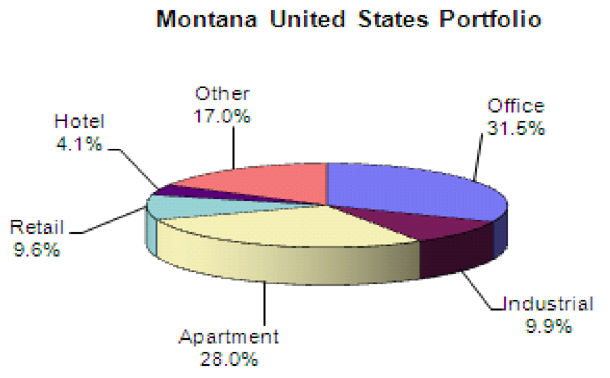
1) Diversification percentages are based on the Gross Market Value, which represents the MBOI share of the partnerships' interests in properties exclusive of any underlying debt used to acquire each property.

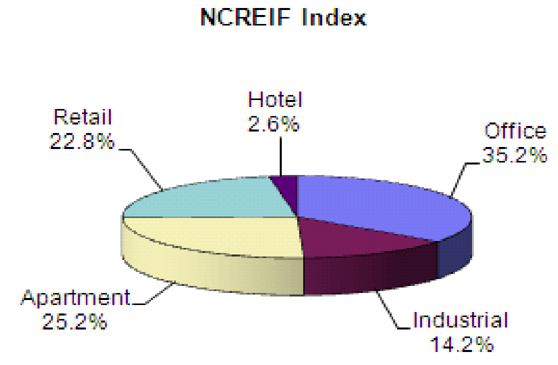
2) Values shown are in Millions.

3) The NCREIF gross market values represent the total gross asset values of the participating funds exclusive of any underlying debt.

The geographical mix of the real estate portfolio is fairly aligned with NCREIF, although exposure in the West at 27.7% is 7.0% less than the index. 10.4% of the portfolio is broadly diversified across the remainder of the US and the portfolio's international exposure represents 11.7% of the mix.

Q4 2012 Property Type – Market Value Exposure





	Office	Industrial	Apartment	Retail	Hotel	Other[2]	Total
Montana US Value[3]	$328.9	$103.3	$292.6	$100.0	$42.9	$177.2	$1,044.9
Montana US Total	31.5%	9.9%	28.0%	9.6%	4.1%	17.0%	100.0%
NCREIF Value[3,4]	112,724	45,322	80,571	73,060	8,274		$319,951
NCREIF[1]	35.2%	14.2%	25.2%	22.8%	2.6%		100.0%
Difference	-3.7%	-4.3%	2.8%	-13.3%	1.5%	17.0%	
Montana Non-US Value[3]	$26.9	$0.0	$1.9	$8.7	$11.4	$89.8	$138.7
Montana Non-US Total	19.4%	0.0%	1.4%	6.3%	8.2%	64.7%	100.0%
Montana Total Value[3]	$355.8	$103.3	$294.5	$108.8	$54.3	$267.0	$1,183.6
Montana Total[1]	30.1%	8.7%	24.9%	9.2%	4.6%	22.6%	100.0%

Note: Due to limited GP reporting for Liquid Realty and Landmark Real Estate VI holdings values have been rolled forward from the prior reporting cycle.

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 U.S. Other includes $31,456,821 in mixed-use assets, $1,157,025 in healthcare/senior living, $16,453,422 in land, $216,530 in storage, $32,242,929 in debt assets, $198,395 in parking, $1,548,680 in manufactured assets, $55,450,591 in timber, $31,544,160 in other assets and $6,923,538 in Private Equity Real Estate.

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 17%, Other represents the portfolio's exposure to Timberland, Mixed-Use properties, Land, Manufactured Housing, Storage, Parking, Senior Living and Healthcare related properties. As has been noted in the past, composition of the portfolio by property type is and will continue to be primarily a function of a manager's expertise and success in sourcing deals rather than a function of staff's desire to over or underweight a specific property type.

Q4 2012 Time Weighted & Internal Rates of Return

Time Weighted Returns

		Current Quarter		Year to Date		1 - Year		3 - Year		5 - Year		Inception	
	NAV	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross
Clarion Lion Properties Fund	35,622,967	2.45%	2.71%	10.38%	11.45%	10.38%	11.45%	15.28%	16.41%	2.50%	2.75%	-0.90%	0.14%
INVESCO Core Real Estate-USA	37,855,844	1.89%	2.11%	7.66%	8.63%	7.66%	8.63%	12.98%	13.98%	1.17%	1.40%	-1.29%	-0.39%
JP Morgan Strategic Properties Fund	113,466,470	2.54%	2.79%	11.30%	12.41%	11.30%	12.41%	13.27%	14.40%	0.99%	1.24%	0.75%	1.77%
UBS-Trumbull Property Fund	62,719,116	1.67%	1.94%	8.97%	10.12%	8.97%	10.12%	-	-	-	-	12.80%	13.84%
Core Total	**249,664,397**	**2.21%**	**2.46%**	**10.01%**	**11.10%**	**10.01%**	**11.10%**	**13.06%**	**14.15%**	**1.49%**	**1.73%**	**0.79%**	**1.80%**
Montana Office Portfolio [1]	**18,377,341**	**0.00%**	**0.00%**	**4.90%**	**4.90%**	**4.90%**	**4.90%**	-	-	-	-	**4.59%**	**4.59%**
Timberland Total	**63,702,070**	**0.32%**	**0.69%**	**0.63%**	**1.72%**	**0.63%**	**1.72%**	-	-	-	-	**3.45%**	**4.34%**
Value Added Total	**226,704,535**	**3.08%**	**4.15%**	**8.82%**	**11.93%**	**8.82%**	**11.93%**	**10.28%**	**12.82%**	**4.20%**	**4.86%**	**1.24%**	**4.57%**
Opportunistic Total	**140,302,293**	**3.17%**	**4.11%**	**11.99%**	**14.63%**	**11.99%**	**14.63%**	**15.80%**	**18.96%**	**1.43%**	**2.46%**	**-15.14%**	**-11.47%**
Total Portfolio	**698,750,635**	**2.47%**	**3.12%**	**9.29%**	**11.29%**	**9.29%**	**11.29%**	**12.36%**	**14.31%**	**2.14%**	**2.61%**	**-0.85%**	**1.44%**
Benchmark													
NCREIF	**319,951,397,055**		**2.54%**		**10.54%**		**10.54%**		**12.63%**		**2.13%**		**9.09%**
NFI-ODCE (NET)	**90,385,400,000**		**2.08%**		**9.79%**		**9.79%**		**13.31%**		**-1.99%**		**7.25%**

Internal Rates of Return (Net of Fees)

	NAV	Current Quarter	Year to Date	1 - Year	3 - Year	5 - Year	Inception
Montana Office Portfolio	**18,377,341**	**0.00%**	**4.93%**	**4.93%**	-	-	**4.27%**
Molpus Woodlands Fund III, LP	38,778,737	-0.15%	1.47%	1.47%	-	-	0.43%
ORM Timber Fund III, LLC	7,553,448	-0.33%	-3.58%	-	-	-	-3.58%
RMS Forest Growth III LP	17,369,885	1.67%	0.89%	0.89%	-	-	5.35%
Timberland	**63,702,070**	**0.30%**	**1.15%**	**1.15%**	-	-	**2.34%**
ABR Chesapeake Fund III	17,538,560	5.54%	5.40%	5.40%	5.84%	1.74%	2.30%
ABR Chesapeake Fund IV	8,709,360	6.68%	10.94%	10.94%	-	-	13.24%
AG Core Plus Realty Fund II	12,007,740	7.85%	14.53%	14.53%	18.02%	8.11%	7.93%
AG Core Plus Realty Fund III	15,387,862	3.08%	8.21%	8.21%	-	-	5.30%
Apollo Real Estate Finance Corp.	4,920,065	-0.75%	10.64%	10.64%	-0.06%	-3.00%	-2.89%
AREFIN Co-Invest	3,506,782	1.57%	44.57%	44.57%	11.61%	-	6.70%
CBRE Strategic Partners US Value Fund 6	7,186,513	0.76%	-	-	-	-	0.76%
DRA Growth & Income Fund VI	21,498,596	-0.13%	2.10%	2.10%	14.14%	5.39%	5.36%
DRA Growth & Income Fund VII	14,708,239	2.60%	13.52%	13.52%	-	-	13.17%
Five Arrows Securities V, L.P.	27,185,289	5.09%	10.79%	10.79%	11.02%	9.53%	8.99%
Hudson RE Fund IV Co-Invest	11,269,930	16.54%	17.51%	17.51%	7.44%	-	3.76%
Hudson Realty Capital Fund IV	9,024,824	-13.38%	-13.90%	-13.90%	-4.76%	-9.94%	-8.96%
Landmark Real Estate Partners VI	10,163,733	3.91%	17.60%	17.60%	-	-	39.73%
Realty Associates Fund IX	19,964,424	2.60%	9.39%	9.39%	-	-	10.43%
Realty Associates Fund VIII	13,651,339	1.46%	-0.20%	-0.20%	1.58%	-7.25%	-6.39%
Realty Associates Fund X [2]	-39,709	-	-	-	-	-	-
Stockbridge Value Fund, LP	13,159,289	9.24%	-	-	-	-	13.12%
Strategic Partners Value Enhancement Fund	16,861,698	-1.52%	11.08%	11.08%	19.37%	0.13%	-1.30%
Value Added	**226,704,535**	**3.07%**	**8.99%**	**8.99%**	**10.02%**	**2.53%**	**2.47%**
AG Realty Fund VII L.P.	12,548,515	7.90%	14.65%	14.65%	13.09%	11.13%	10.07%
AG Realty Fund VIII L.P.	7,559,743	12.08%	20.44%	20.44%	-	-	9.86%
Beacon Capital Strategic Partners V	8,434,947	-2.36%	2.94%	2.94%	10.00%	-14.13%	-14.05%
Carlyle Europe Real Estate Partners III	23,489,223	1.72%	4.99%	4.99%	9.58%	-1.31%	-1.97%
CIM Fund III, L.P.	26,573,458	1.72%	21.37%	21.37%	15.28%	8.97%	7.19%
GEM Realty Fund IV	11,571,389	1.63%	18.88%	18.88%	-	-	12.57%
JER Real Estate Partners - Fund IV	2,478,484	2.93%	7.35%	7.35%	34.61%	-7.62%	-6.06%
Liquid Realty IV	12,194,332	0.00%	8.95%	8.95%	8.76%	-1.52%	-3.64%
MGP Asia Fund III, LP	21,295,131	5.80%	8.28%	8.28%	37.94%	3.28%	2.96%
MSREF VI International	6,827,327	2.03%	8.97%	8.97%	13.95%	-27.57%	-28.04%
O'Connor North American Property Partners II	7,329,744	4.54%	16.11%	16.11%	7.28%	-	-11.92%
Opportunistic	**140,302,293**	**3.17%**	**11.87%**	**11.87%**	**15.56%**	**-4.55%**	**-5.11%**
Total	**449,086,239**	**2.60%**	**8.86%**	**8.86%**	**11.14%**	**-0.39%**	**-0.68%**

Note: Total values on this schedule are inclusive of values based on Q4 Estimated Reporting for Landmark Real Estate VI. Additionally the values on this schedule include Q3 2012 values for Liquid Realty IV which have been rolled forward because Q4 reporting was not received.

1) The value for the Montana Office Portfolio is provided by the MBOI and is taken "as-is" per their request.

2) This partnership has yet to have its first cash flow, therefore an IRR has not yet begun. This investment is included in this schedule because of its effect on the total NAV.

The portfolio turned in another positive quarter as general real estate market conditions continue to stabilize and show some signs of improvement. Overall the portfolio outperformed relative to Q3 by 46bps. Core underperformed Q3 by 68bps, but continues its positive momentum. Value-Added outperformed Q3 by 118bps and continues its upward trajectory versus prior periods. Opportunistic outperformed Q3 by 112bps and also continues its improvement.

Q4 2012 Commitment Summary

	Since Inception										
	Vintage Year	Commitment	Capital Contributed	Contributed %	Remaining Commitment	Capital Distributed	Net Asset Value	NAV %	Total Exposure	Total Exposure%	Investment Multiple
Core		**238,236,254**	**238,236,254**	**100%**	**-**	**23,228,714**	**249,664,397**	**35.73%**	**249,664,397**	**27.03%**	**1.11**
Clarion Lion Properties Fund	2006	48,236,254	48,236,254	100%	-	9,806,872	35,622,967	5.10%	35,622,967	3.86%	0.91
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	100%	-	6,007,695	37,855,844	5.42%	37,855,844	4.10%	0.94
JP Morgan Strategic Property Fund	2007	95,000,000	95,000,000	100%	-	1,759,599	113,466,470	16.24%	113,466,470	12.28%	1.18
UBS-Trumbull Property Fund	2010	50,000,000	50,000,000	100%	-	5,654,548	62,719,116	8.98%	62,719,116	6.79%	1.33
Montana Office Portfolio	**2011**	**17,674,045**	**17,674,045**	**100%**	**-**	**621,854**	**18,377,341**	**2.63%**	**18,377,341**	**1.99%**	**1.07**
Timberland		**105,000,000**	**66,473,964**	**63%**	**38,526,036**	**4,400,146**	**63,702,070**	**9.12%**	**102,228,106**	**11.07%**	**1.02**
Molpus Woodlands Fund III, LP	2011	50,000,000	38,619,686	77%	11,380,314	170,330	38,778,737	5.55%	50,159,051	5.43%	1.00
ORM Timber Fund III, LLC	2012	30,000,000	7,611,000	25%	22,389,000	-	7,553,448	1.08%	29,942,448	3.24%	0.99
RMS Forest Growth III LP	2011	25,000,000	20,243,278	81%	4,756,722	4,229,816	17,369,885	2.49%	22,126,607	2.40%	1.07
Value Added		**389,200,000**	**253,026,923**	**65%**	**136,173,077**	**50,233,313**	**226,704,535**	**32.44%**	**362,877,612**	**39.29%**	**1.07**
ABR Chesapeake Fund III	2006	20,000,000	20,000,000	100%	-	4,812,950	17,538,560	2.51%	17,538,560	1.90%	1.11
ABR Chesapeake Fund IV	2010	30,000,000	9,000,000	30%	21,000,000	2,163,330	8,709,360	1.25%	29,709,360	3.22%	1.12
AG Core Plus Realty Fund II	2007	20,000,000	16,742,334	84%	3,257,666	9,446,741	12,007,740	1.72%	15,265,406	1.65%	1.28
AG Core Plus Realty Fund III	2011	35,000,000	14,847,471	42%	20,152,529	214,193	15,387,862	2.20%	35,540,391	3.85%	1.04
Apollo Real Estate Finance Corp.	2007	10,000,000	10,000,000	100%	-	4,151,182	4,920,065	0.70%	4,920,065	0.53%	0.90
AREFIN Co-Invest	2008	10,000,000	10,000,000	100%	-	7,970,915	3,506,782	0.50%	3,506,782	0.38%	1.15
CBRE Strategic Partners US Value Fund 6	2012	20,000,000	6,966,948	35%	13,033,052	-	7,186,513	1.03%	20,219,565	2.19%	1.01
DRA Growth & Income Fund VI	2007	35,000,000	21,756,000	62%	13,244,000	6,791,259	21,498,596	3.08%	34,742,596	3.76%	1.18
DRA Growth & Income Fund VII	2011	30,000,000	14,223,000	47%	15,777,000	621,484	14,708,239	2.10%	30,485,239	3.30%	1.06
Five Arrows Securities V, L.P.	2007	30,000,000	26,255,586	88%	3,744,414	4,649,575	27,185,289	3.89%	30,929,703	3.35%	1.19
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	100%	-	622,011	11,269,930	1.61%	11,269,930	1.22%	1.18
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	100%	-	320,461	9,024,824	1.29%	9,024,824	0.98%	0.62
Landmark Real Estate Partners VI	2011	20,000,000	8,207,186	41%	11,792,814	2,314,274	10,163,733	1.45%	21,956,547	2.38%	1.50
Realty Associates Fund IX	2008	20,000,000	19,200,000	96%	800,000	3,797,441	19,964,424	2.86%	20,764,424	2.25%	1.23
Realty Associates Fund VIII	2007	20,000,000	20,000,000	100%	-	1,031,427	13,651,339	1.95%	13,651,339	1.48%	0.73
Realty Associates Fund X	2012	20,000,000	-	-	20,000,000	-	(39,709)	-0.01%	19,960,291	2.16%	0.00
Stockbridge Value Fund, LP	2011	25,000,000	11,628,398	47%	13,371,602	46,748	13,159,289	1.88%	26,530,891	2.87%	1.10
Strategic Partners Value Enhancement Fund	2007	19,200,000	19,200,000	100%	-	1,279,322	16,861,698	2.41%	16,861,698	1.83%	0.94
Opportunistic		**248,008,422**	**200,275,345**	**81%**	**50,233,077**	**34,653,541**	**140,302,293**	**20.08%**	**190,535,370**	**20.63%**	**0.85**
AG Realty Fund VII L.P.	2007	20,000,000	16,754,000	84%	3,246,000	8,935,039	12,548,515	1.80%	15,794,515	1.71%	1.28
AG Realty Fund VIII L.P.	2011	20,000,000	9,400,000	47%	10,600,000	2,773,185	7,559,743	1.08%	18,159,743	1.97%	1.09
Beacon Capital Strategic Partners V	2007	25,000,000	20,500,000	82%	4,500,000	2,246,287	8,434,947	1.21%	12,934,947	1.40%	0.52
Carlyle Europe Real Estate Partners III	2007	30,994,690	24,829,748	80%	6,164,942	167,861	23,489,223	3.36%	29,654,165	3.21%	0.94
CIM Fund III, L.P.	2007	25,000,000	21,002,755	84%	3,997,245	376,752	26,573,458	3.80%	30,570,703	3.31%	1.17
GEM Realty Fund IV	2009	15,000,000	10,500,000	70%	4,500,000	442,745	11,571,389	1.66%	16,071,389	1.74%	1.12
JER Real Estate Partners - Fund IV	2007	20,000,000	17,000,994	85%	2,999,006	10,815,673	2,478,484	0.35%	5,477,490	0.59%	0.78
Liquid Realty IV	2007	22,013,732	18,818,202	85%	3,195,530	5,829,013	12,194,332	1.75%	15,389,862	1.67%	0.87
MGP Asia Fund III, LP	2007	30,000,000	19,142,228	64%	10,857,772	35,146	21,295,131	3.05%	32,152,903	3.48%	1.11
MSREF VI International	2007	25,000,000	27,500,000	110%	-	17,313	6,827,327	0.98%	6,827,327	0.74%	0.24
O'Connor North American Property Partners II	2008	15,000,000	14,827,417	99%	172,583	3,014,526	7,329,744	1.05%	7,502,327	0.81%	0.68
Montana Real Estate		**998,118,721**	**775,686,531**	**78%**	**224,932,191**	**113,137,569**	**698,750,635**		**923,682,826**		**1.02**

Note: Total values on this schedule are inclusive of values based on Q4 Estimated Reporting for Landmark Real Estate VI. Additionally the values on this schedule include Q3 2012 values for Liquid Realty IV which have been rolled forward because Q4 reporting was not received.

No new commitments were added during Q4 2012.

Q4 2012 Leverage

	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Core	23.87%	22.78%	22.19%	22.34%
Timber	0.00%	0.00%	0.00%	0.00%
Non-Core (Total)	57.96%	57.51%	55.00%	54.86%
Total	**45.93%**	**45.13%**	**43.45%**	**43.06%**
Non-Core Breakout:				
Opportunistic	59.16%	57.50%	51.24%	46.79%
Value Add	57.17%	57.52%	57.11%	59.13%

The portfolio remains moderately leveraged and well within all policy constraints.

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 29, 2013

Subject: Private Equity and Private Real Estate Partnership Focus Lists – Quarterly update

The Partnership Focus Lists (PFL) for private equity (MPEP) and private real estate (MTRP) are shown below. There have been no changes since the last Board Meeting.

MPEP Partnership Focus List
May 2013

Partnership	Strategy	Reason	Inclusion Date
J.C. Flowers II, L.P.	Buyout	Performance	August 2010
Terra Firma Capital Partners III, L.P.	Buyout	Performance, Risk Management	August 2010

MTRP Partnership Focus List
May 2013

Partnership	Strategy	Reason	Inclusion Date
JER Real Estate Partners IV, L.P.	Opportunistic	Risk Management, Staff Turnover, Performance	August 2010
Liquid Realty Partners IV, L.P.	Opportunistic	Staff Turnover	August 2010
Morgan Stanley Real Estate Fund VI International-TE, L.P.	Opportunistic	Performance, Risk Management, Staff Turnover	August 2010
Strategic Partners Value Enhancement Fund, L.P.	Value-Added	Performance, Platform Stability	November 2010
Hudson Realty Capital Fund IV, L.P.	Value-Added	Performance	May 2011
O'Connor North American Property Partners II, L.P.	Opportunistic	Performance, Platform Stability	May 2011
Beacon Capital Strategic Partners V, LP	Opportunistic	Performance, Platform Stability	August 2012

Partnership Focus List Background

The purpose of the Partnership Focus Lists (PFL's) is to detail those MPEP and MTRP partnerships for which Staff has concerns regarding their ability to realize appropriate relative private investment returns over the life of the partnership. Factors which may trigger such concerns include, but are not limited to, the following:

- Changes in key personnel
- General Partner misconduct
- Adverse regulatory, macroeconomic, or capital market developments
- Financial distress at the partnership's sponsor or in the Limited Partner base
- A material departure from partnership strategy
- Risk management deficiencies (inappropriate use of leverage, investment pace, portfolio diversification, etc.)
- An ineffective sourcing effort
- Performance relative to benchmarks
- Performance relative to peers

Staff also considers partnership maturity when deciding which funds to include on the PFL. Unseasoned partnerships are not being included on the list simply because they are in the J-curve, and mature partnerships that are substantially realized are excluded from PFL consideration.

It is important to understand that unlike public equity managers, our contractual commitments to private equity and closed-end private real estate partnerships cannot be terminated or transitioned to a different manager except under unique circumstances specified in the contract and then usually only with agreement among a super-majority of all LP's. Therefore, readers of the PFLs should not expect that partnerships listed will see their managers replaced, outstanding commitments rescinded, or other action that as a legal or practical matter may be difficult to implement.

The PFLs are administered by the MBOI's Alternative Investments Staff (AIS), who meet at least quarterly to review and recommend changes to the lists. While all AIS are responsible for providing input into the composition of the PFLs, final decision making authority over which partnerships to include rests with the MBOI's Chief Investment Officer.

MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX

ACH... Automated Clearing House

ADR.. American Depository Receipts

AOF.. All Other Funds

ARC.. Actuarially Required Contribution

BOI.. Board of Investments

CFA.. Chartered Financial Analyst

EM.. Emerging Market

FOIA.. Freedom of Information Act

FWP.. Fish Wildlife and Parks

FX.. Foreign Exchange

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

MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX

PERS ....Public Employees' Retirement System

PFL...Partnership Focus List

QZAB ....Qualified Zone Academy Bonds

QSCB ....Qualified School Construction Bonds

RFBP.. Retirement Funds Bond Pool

RFP ....Request for Proposal

SABHRS .... Statewide Accounting Budgeting and Human Resource System

SLQT ....Securities Lending Quality Trust

SSBCI ....State Small Business Credit Initiative

STIP ....Short Term Investment Pool

TFBP ....Trust Funds Bond Pool

TFIP ....Trust Funds Investment Pool

TIF ....Tax Increment Financing

TIFD ....Tax Increment Financing District

TRS .... Teachers' Retirement System

TUCS ....Trust Universe Comparison Service

VIX .... Volatility Index

Montana Board of Investments Meetings

All meetings

- Are public and duly noticed in advance
- Require that substantive decision items be scheduled, identified and publicized
- Will invite the public for comments at every meeting
- Have minutes taken and previous ones approved

Quarterly meetings - February, May, August, and November

- Standard business
  - Performance of prior period or year end
  - Activity of prior period
  - Investment consultant
  - Quarterly cost sheet
  - Board member education and training opportunities
- Actuarial Status & Asset Allocation implications
- Loan, Audit and Human Resource and any ad-hoc committees meet
- Rotation of topics to provide 24 month systematic review

Semi-Annual meetings - April and October

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

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

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

Proposed Work Plan 2013

Feb. 26-27	(Pre-Board meeting new member orientation) **Quarterly Meeting's standard business and subcommittee meetings** Securities Lending Benchmark presentation (from RVK) State Fund-Investment Policy change and State Fund presentation - Decision Annual Report and Financial Statements Ethics Customer outreach INTERCAP Additional Bonds - Decision Legislative Update
April 2	**Semi-Annual (non-quarterly) Meeting** Asset allocation All policy review Economic development and other BOI loan programs Montana Facility Finance Authority Emergency/Disaster preparedness Web site Legislative update
May 29-30	**Quarterly Meeting (Billings) standard business and subcommittee meetings** Legislative update INTERCAP finance team follow-up
August 20-21	**Quarterly Meeting standard business and subcommittee meetings** Costs (including reviewing CEM Benchmarking Inc. results) MBOI Budget Accounting and internal control systems Fiscal Year performance through June 30th Non-pension investment funds and agency user presence/presentations Custodial bank RFP and selection timetable for Oct. 2014
October 8	**Semi-Annual (non-quarterly) Meeting** RVK – topic to be determined Board's real estate holdings in Montana
Nov. 19-20	**Quarterly Meeting standard business and subcommittee meetings** Actuarial Status & Asset Allocation Implications Affirm or Revise Asset Allocation Resolution 217 PERS/TRS annual update Securities litigation status Exempt Staff Annual Performance

2013 CALENDAR

01 New Year's Day
21 M.L. King Day

JANUARY						
S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

JULY						
S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

04 Independence Day

18 Presidents Day

FEBRUARY						
S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28		

AUGUST						
S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

29 Good Friday
31 Easter Sunday

MARCH						
S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

SEPTEMBER						
S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

02 Labor Day

APRIL						
S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

OCTOBER						
S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

14 Columbus Day
31 Halloween

12 Mother's Day
27 Memorial Day

Billings Meeting

MAY						
S	M	T	W	Th	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

NOVEMBER						
S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

11 Veterans Day
28 Thanksgiving Day

16 Father's Day

JUNE						
S	M	T	W	Th	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

DECEMBER						
S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

25 Christmas Day