Return to Agenda

Call to Order

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

April 8, 2014

AGENDA

COMMITTEE MEETINGS

A. **Audit Committee** — **8:00 AM**
   1. Public Comment – *Public Comment on issues with Committee Jurisdiction*
   2. Emergency and Disaster Preparedness

B. **Loan Committee** — **8:45 AM**
   1. Public Comment – *Public Comment on issues with Committee Jurisdiction*
   2. INTERCAP Loan Request – ***Decision***
   3. Commercial Loan Policies **– *Decision***

(No HR Committee scheduled)

Tab 1 CALL TO ORDER – Mark Noennig, Chairman — **9:00 AM**

A. Roll Call
B. Public Comment – *Public Comment on issues with Board Jurisdiction*
C. Approval of the February 2014 regular meeting minutes – ***Decision***
D. Administrative Business
   1. Audit Committee Report
   2. Loan Committee Report – ***Decision on INTERCAP***
E. Comments from TRS and PERS Board Members
F. Comments from Board Legislative Liaisons

Tab 2 EXECUTIVE DIRECTOR REPORTS – David Ewer — **9:15 AM**

A. Member Requests or Follow up from Prior Meeting
B. Tribune Lawsuit
C. Board's web site
D. Emergency/Disaster Preparedness
E. Board Education and Possible Conferences

Tab 3 POLICY REVIEW – **Executive Director and Senior Management** — **9:45 AM**

A. Governance Manual **– *Decision***
B. Board Education Policy **– *Decision***
C. Investment Policy Statement Review **– *Decision***
D. Commercial Loan Policies **– *Decision***

Tab 4 CUSTODIAL BANK RFP – **Executive Director and Senior Management** — **10:15 AM**

A. Staff Memorandum with Recommendation
B. Board Q & A with Board staff and RVK staff
C. Board Action – ***Decision***

BREAK — **11:00 AM**

Tab 5 LOOK-BACK on TERMINATED MANAGERS – **RV Kuhns** — **11:15 AM**

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.

LUNCH SERVED	**12:00 PM**
Tab 6 INVESTMENT MANAGER ACTIONS – **Cliff Sheets, CFA, CIO** A. MTIP Small Cap Manager Transition – **Rande Muffick, CFA** B. Private Equity Update – **Ethan Hurley, CAIA**	**12:30 PM**
Tab 7 INTERNATIONAL EQUITIES – **Asset Class Review** **Cliff Sheets, CFA, CIO and Rande Muffick, CFA**	**1:00 PM**
Break	**2:00 PM**
Tab 8 BOND PROGRAM – **Louise Welsh** A. INTERCAP – Loan Request ***– Decision*** B. Mission Overview	**2:15 PM**
RECAP OF STAFF TO DO LIST AND ADJOURNMENT – Mark Noennig, Chairman	**3:15 PM**
ADJOURNMENT	**3:30 PM**

Appendix

A. Annual Board Meeting Schedule
B. Systematic Work and Education Plan
C. Acronym Index
D. Terminology List
E. Public Market Manager Evaluation Policy
F. Educational Resources
G. Chairman Mark Noennig's Presentation to Legislative Economic Affairs Committee

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

MINUTES OF THE MEETING
February 25 & 26, 2014

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

BOARD MEMBER ABSENT:
Quinton Nyman

LEGISLATIVE LIAISONS PRESENT:
Senator Dave Lewis
Representative Kelly McCarthy

STAFF PRESENT:
Polly Boutin, Associate Financial Manager
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, Associate Financial Manager
Roberta Diaz, Investment Accountant
David Ewer, Executive Director
Julie Flynn, Bond Program Officer
Tim House, Equity Analyst/Investment Operations Chief
Ethan Hurley, CAIA, Portfolio Manager, Alternative Equities
Ed Kelly, Alternative Investments Analyst
Teri Kolnik, CFA, Alternative Investments Analyst
Eron Krpan, Investment Data Analyst
Herb Kulow, MCMB, Portfolio Manager, In-State Loan Program
Tammy Lindgren, Investment Accountant
Gayle Moon, CPA, Financial Manager
Rande Muffick, CFA, Portfolio Manager, Public Equities
Jon Putnam, CFA, FRM, Fixed Income Investment Analyst
John Romasko, CFA, 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:
Becky Gratsinger, CFA, R.V. Kuhns & Associates
Mark Higgins, CFA, R.V. Kuhns & Associates
Roxanne Minnehan, Public Employees' Retirement System
John Harrington, Legislative Audit Division
Ross Johnson, Legislative Audit Division
Pat Murdo, Legislative Services - EAIC
Kris Wilkinson, Legislative Fiscal Division
Sheri Scurr, Legislative Services Division

CALL TO ORDER

Board Chairman Mark Noennig called the regular meeting of the Board of Investments (Board) to order at 10:30 AM. As noted above, a quorum of Board Members was present. Board Member Gary Buchanan attended via conference call. Board Member Quinton Nyman was absent.

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

Chairman Noennig called for any corrections or revisions to the Board minutes from the November 19, 2013 Board meeting or the December 9, 2013 special teleconference Board meeting. There were no changes or revisions.

> Board Member Jack Prothero made a Motion to approve the November 19, 2013, Board Meeting Minutes. Member Jon Satre seconded the Motion. The Motion carried 8-0.

> Board Member Jack Prothero made a Motion to approve the December 9, 2013, special teleconference Board Meeting Minutes. Member Jon Satre seconded the Motion. The Motion carried 8-0

ADMINISTRATIVE BUSINESS

Audit Committee Report

Audit Committee Chairman Jon Satre reported on the Audit Committee Meeting held prior to the regular Board Meeting. Chairman Satre advised the FY 2014 Financial Compliance Audit Entrance Conference is not conducted at a public meeting. Legislative Audit staff will arrange a meeting with MBOI staff later in the week. The Committee reviewed revisions to the Internal Controls Risk Assessment Model for the year ending June 30, 2014 and reviewed the Internal Audit Schedule for FY 2014. The changes resulted from a meeting of staff with Ryan Lindsay of Galusha, Higgins and Galusha. Changes in the Governance Manual and Committee Charters were also addressed.

Committee Chairman Satre welcomed John Harrington and Ross Johnson from the Legislative Audit Division and thanked them for all their hard work on the FY13 Legislative Performance Audit (Performance Audit). The Performance Audit was presented to the Committee accompanied by staff responses to the six report recommendations. The Audit Committee voted to agree with staff responses to the six Performance Audit Recommendations. (Recommendation #1 will be discussed with the Board at the end of the Audit Committee report.)

Staff concurred with Recommendation #2 to require ongoing educational activities be provided to the Board. The Governance Manual has been revised accordingly.

> Board Member Jon Satre made a Motion to approve the staff response to Performance Audit Recommendation #2 and approve revisions in the Governance Manual on education, Section 2, Paragraph 10. Member Sheena Wilson seconded the Motion. The Motion carried 8-0.

Staff concurred with Recommendation #3 to recommend to the Board the amendment of the Governance Manual to emphasize the commitment to annual affirmation of asset allocation of the entire portfolio of investments.

> Board Member Jon Satre made a Motion to approve the staff response to Performance Audit Recommendation #3 to provide revisions in the Governance Manual regarding asset allocation. Member Sheena Wilson seconded the Motion. The Motion carried 8-0.

Staff concurred with Recommendation #4 which states regularly required votes, reports and affirmations be more strictly adhered to in accordance with established charters. Committee charter revisions for the three committee charters will reflect policies that are truly enforceable:

- Proposed revisions to the Audit Committee Charter strikes language;
- Proposed revisions to the Loan Committee Charter changes staff descriptions; and
- Proposed revisions to the Human Resource Committee Charter removes/adds language on committee reporting provisions.

  Board Member Jon Satre made a Motion to approve the staff revisions to the Audit Committee Charter. Member Sheena Wilson seconded the Motion. The Motion carried 8-0.

  Board Member Jon Satre made a Motion to approve the staff revisions to the Loan Committee Charter. Member Sheena Wilson seconded the Motion. The Motion carried 8-0.

  Board Member Jon Satre made a Motion to approve the staff revisions to the Human Resource Committee Charter. Member Sheena Wilson seconded the Motion. The Motion carried 8-0.

Staff concurred with Recommendation #5 to adopt a proxy voting policy and periodically present to Board members a review of proxy vote results. Proxy voting is now incorporated into the 24-month Systematic Work and Education Plan and will be reviewed at the May 2014 Board meeting.

> After brief discussion, Board Member Jon Satre made a Motion to approve the staff response to Performance Audit Recommendation #5 to provide for regular timely review of proxy voting of public equities. Member Sheena Wilson seconded the Motion. The Motion carried 8-0.

Staff did not concur with Recommendation #6 to seek revisions to the Montana Procurement Act to provide an exemption to the Board for the procurement of external investment management services. The Board is already fully empowered and is charged under the Unified Investment Program as the sole decider on investment types. Staff reasserts the Board's authority. Board Chairman Mark Noennig added that the legal opinion issued in 2012 by the Department of Administration legal counsel agreed that the Board is exempt from the Procurement Act according to current Montana statute.

> After further discussion, Member Jon Satre made a motion to approve the staff response to Performance Audit Recommendation #6 affirming the Board's authority on selecting external investment management services. Member Sheena Wilson seconded the Motion. The motion carried 7-1. Member Gary Buchanan voted nay.

Recommendation #1 is directed at the Montana Legislature and requests action be taken by the legislature to revise Board composition. By statute, Board composition is directed by the legislature and the governor. Staff did not respond as concur or non-concur with Recommendation #1, but rather commented as an interested and knowledgeable party stating that the current Board composition, constructed as a "citizen board" with a diverse make up, is appropriate in fulfilling the functions and responsibilities of the Board.

> Board Member Jon Satre made a Motion to approve the staff response to Performance Audit Recommendation #1 to neither concur or non-concur. Member Sheena Wilson seconded the Motion.
>
> After a brief discussion, Member Gary Buchanan called for a substitute motion moving that the Board concur with the Legislative Auditors on Recommendation #1. There was no second.

The Board discussed in detail the industry organization comparison information on Board composition included by the Legislative Auditors regarding Recommendation #1.
Member Karl Englund reviewed several sources cited in the Performance Audit including the Stanford Institutional Investors' Forum (the "Stanford")(reports issued in 2007 and 2013) as well as the information included on board compositions of comparable state public fund pensions based on states with unified investment boards, states managing similar assets and states managing assets of similar size.

The Stanford desirable attributes of a Board cited in the Performance Audit were:
- A board composed of a group with a portfolio of skills
- Sufficient number of trustees with financial skills

Member Englund noted the Stanford reports also advise individuals serving as board members should possess or acquire the attributes and core competencies which embody traits such as:
- Loyalty
- Objectivity
- A willingness to serve
- Competent
- An inquisitive nature
- Ability to consider and debate
- Interpersonal skills
- A base of knowledge

Member Englund explained the Stanford report recommended that a wide range of attributes be considered and that a board should not "require" as a precondition to serve that members are financial professionals, as board competency requires a different skill set. All boards benefit from a diversity of members.

Member Englund reviewed the states offered as comparisons in the Performance Audit and found:
- South Carolina reported returns of 10% for fiscal year 2013; MBOI had 13% over the same period.
- In 2013 South Carolina's commission hired a new director. The inspector general produced a 39 page report on improper conduct.
- Nebraska for calendar year 2012 returned 12.9% vs. 13.4% for MBOI; Over the last 3-years, Nebraska had an 8.7% return vs. 9.6% for MBOI.

Member Englund concluded while it may be beneficial to consider the question of Board composition, all things considered, MBOI looks good.

Senator Lewis noted the Performance Audit recommends the legislature look at the issue of Board composition; therefore it is up to the legislature to take up the issue. He added Senator Jeff Essmann is requesting a committee bill on the topic to be presented in the 2015 Legislature. If the committee decides not to consider the bill, he stated that Senator Essmann will likely go forward and introduce a bill.

Member Buchanan asked Mr. John Harrington to comment on the discussion.

Mr. Harrington again thanked the Board and staff. He stated the recommendation is not an indictment of the Board. The Board should bring experience and be educated in context with other states. To adhere to the Montana Constitution mandate of "informed and experienced" the Legislative Auditor's interpretation views the higher threshold as relating to the field of investments.

Chairman Noennig added that when looking at other states, they varied widely in board composition.

Mr. Harrington agreed all states are different, and while they looked for comparable peers among the other states, there were none that matched exactly.

> Chairman Noennig called for a vote on the original motion to approve the staff response to Performance Audit Recommendation #1. The motion carried 7-1. Member Buchanan voted nay.

Human Resource Committee Report

Human Resource Committee Chairman Karl Englund reported on the Committee meeting held prior to the Board meeting. The Committee reviewed Continuity Resolution 234, a new resolution providing for continuity in the absence of the Chief Investment Officer. The Committee amended the resolution as presented striking redundant language.

> Member Englund moved to approve Resolution 234, Continuity Resolution for Chief Investment Officer Position, as amended. Member Jack Prothero seconded. The motion carried 8-0.

> Member Englund moved to approve the necessary changes in the Governance Manual to reflect the approval of Resolution 234: the table of contents, Section III. 3. Regarding the Chief Investment Officer position and the addition of Resolution 234 as Appendix L. Member Prothero seconded the motion. The motion carried 8-0.

The Committee also considered the revised staff organizational chart. Staff recommends the restructure of the accounting staff by flattening the chain of command. The proposed structure allows for two Associate Financial Managers under the supervision of the Financial Manager, instead of a single Deputy Financial Officer. Each Associate Financial Manager will supervise two accountants, renamed Investment Accountants, to more closely reflect the duties of the positions.

> Member England moved to approve the revised staff organization chart as presented. Member Prothero seconded. The motion carried 8-0.

The Committee also considered a proposal by staff to revise the Senior Portfolio Manager position from an exempt position to a classified status. The Committee is not bringing the proposal in front of the full Board for consideration.

Loan Committee Report

The Loan Committee met prior to the Board meeting. Committee Chairman Jack Prothero reported the Committee approved one INTERCAP loan to the Department of Natural Resources and Conservation (DNRC) in the amount of $2.5 million for interim financing for its Drinking Water State Revolving Fund (DWSRF) Loan Program. The three (3) year term loan will be in the form of a general obligation bond anticipation note (BAN). No Board action is required.

Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) Updates

Member Sheena Wilson reported PERS will be issuing a Request for Proposal (RFP) for an investment consultant. PERS Board Member Bob Bugni will be leaving the PERS Board at the end of his current term, April 1, 2014. The PERS legislative committee is quite busy and will be addressing the two pension systems requiring additional attention: Game Wardens' Retirement and Sheriffs' Retirement. The PERS personnel committee will be meeting to review filling the executive director position.

Member Marilyn Ryan reported TRS has been approved by the IRS as a qualified plan. The injunction for the Guaranteed Annual Benefit Adjustment (GABA) came at the end of December. Retirees will receive the old rate of 1.5% pending the final court ruling. There is no schedule yet on when the case will be heard. The sweep from the county retirement systems in the amount of $2.2 million has been collected and deposited. One change in the last legislative session means some university system participants now come under TRS.

Legislative Liaisons Comments

Representative Kelly McCarthy reported he wrote up a synopsis of the MBOI Fiscal Year 2013 Annual Report and distributed it.

EXECUTIVE DIRECTOR'S REPORT

Overall Comments

Executive Director David Ewer presented his executive director's memo. He presented the quarterly cost report and update on staff outreach over the past year. The Request for Proposal (RFP) for custodial bank will be finalized for the upcoming April Board Meeting. By late July or early August staff expects to have a recommendation on a new custodial bank. The longest possible transition time is essential should the winning bid be a new bank. The universe of qualified banks is very limited; staff expects three or four proposals will be submitted.

INVESTMENT ACTIVITIES/REPORTS

Retirement System Asset Allocation Report

Mr. Cliff Sheets presented the asset allocation report for the nine pension funds for the quarter ending December 31, 2013. Approved ranges now reflect the changes made in November. Following a strong third quarter, it was a very strong quarter with a total plan return of 5.6%. The pension funds realized an increase in value of $450 million for the quarter. Domestic and international stocks were the primary driver of market returns. The allocation to total equities increased by 0.9% to 68.3% for the quarter. Domestic equities increased 1% despite $76 million in sales. International equity stock allocation was down -0.1% to 17.6%, posting returns of 4.9% for the quarter. The private equity allocation declined by-0.2% to 11.8%, due to relative returns. The fixed income allocation decreased by -0.2% to 21.5%, a slight underweight vs. the range, due to weak relative returns and the denominator effect despite $89 million in purchases over the quarter. Additional purchases were made on January 2nd to move to the minimum of the range. The real estate allocation decreased -0.2% for the quarter to 9% with returns of 2.7% for the quarter.

Mr. Sheets stated Firefighters' and Police plans both received an infusion of cash due to insurance premiums and taxes in mid-September which required rebalancing in early October.

Member England inquired if lump sum cash infusions cause an effect on returns.

Mr. Sheets stated yes, there can be a cash drag effect depending on the returns for other asset classes in the month when the cash is received. In summary, the pension funds in total had net purchases of nearly $19 million for the quarter. Rebalancing is performed each month. PERS and TRS continue to experience negative cash flows, as expected. Mr. Sheets added he is projecting a monthly cash outflow of $51.7 million to provide the liquidity needed to pay benefits for all nine plans in total.

Custom peer group pension plan allocation comparisons provided by State Street Bank for the period ending December 31, 2013 show MBOI is very similar in total public equities, close to the median, while heavier for domestic and lighter for international, which has helped relative performance over the last five years. Fixed income is near the median; while cash is being kept below median, just high enough to provide for liquidity needs. Peer comparisons of real estate show the median has crept up; however, MBOI is still above the median at 9.0%.

Looking at relative performance, PERS and TRS rank in the top one-third vs. the State Street custom peer universe for the one, three and four year periods, while in the middle of the pack for 5-year and 7-year returns and lagging for the 10-year period. Performance over the 3-year period is especially strong, in the top decile. Longer term performance is respectable and the 10-year numbers are gradually improving.

Montana Domestic Equity Pool (MDEP)
Mr. Rande Muffick reported on the Montana Domestic Equity Pool (MDEP) for the quarter ending December 31, 2013. MDEP and MTIP have both benefited from strong equity returns; MDEP grew to $3.6 billion at quarter end. Both large cap enhanced and 130/30 are at the top of the 8-12% range, therefore any trimming will likely come from those. General domestic stocks are strong, although the market is not as cheap as it was. Earnings growth for 2014 will determine the stock market growth near term. A volatile year is expected. Both domestic and international markets had a 6% correction in late January, but the market came back. The odds favor another positive year with the strong momentum last year and fourth quarter earnings reports were good. If earnings growth reaches 6-8% again this year it will be a positive year, but still not likely as good as 2013. Small cap growth did an exceptional 49.9% for the calendar year. Of the 13 active portfolios, ten outperformed their benchmarks for the quarter and active managers look good so far this quarter. Small and midcaps remain overweight and are currently 4% over the benchmark weighting. Overweight positions have helped returns measurably over the long term.

Montana International Equity Pool (MTIP)
Mr. Muffick reported the Montana International Equity Pool (MTIP) has also performed strongly for the year ending December 31, 2013; however, emerging markets caused some drag, due in part to growth concerns in China which shows in the overall numbers. Looking ahead for the year, international markets will continue to fluctuate and emerging markets will continue to have an effect. There is a large discrepancy between large cap value vs. growth, growth has done very well, value has not. Three out of the five international managers outperformed their benchmarks. Markets are less macro driven with investors looking for more solid fundamentals.

Further diversification of the small cap allocation is planned and contracts for the two new managers are nearly complete. Both are expected to begin on March 3, 2014. When the new managers start, the benchmark will also be changed to the IMI (Investible Market Index) benchmark. The new IMI benchmark has an approximate 12% small cap allocation; we will be slightly underweight vs. the benchmark.

Responding to a question from Member Jack Prothero, Mr. Muffick stated funding for the two new managers will be $40 million for small cap value manager Templeton Investment Counsel, LLC, and $30 million for small cap growth manager, American Century Investment Management. We will maintain a value bias in small caps, as value, over time, is expected perform better than growth.

A search for emerging market managers was conducted. Most of the desirable managers with separate account options required a minimum investment of $100 million, or were full. Co-mingled funds as well as limited partnerships were explored. Staff narrowed the search down to two potential managers; however, after discussions with attorneys, staff decided to not go forward with contracts, due in part to the loss of control and high fees and the emerging market exposure, which is already available through current managers.

Public Equity External Manager Watch List
Mr. Muffick stated the watch list remained the same this quarter aided by the good performance being seen by most of our active managers. Hansberger and Alliance Bernstein remain on the list; however, have both continued to show improvement. Hansberger continues to have a large bet on China, and Alliance Bernstein was expected to perform better; they own a lot of deep value distressed stocks.

PUBLIC EQUITIES MANAGER WATCH LIST
February 2014

Manager	Style Bucket	Reason	$ Invested (mil)	Inclusion Date
Alliance Bernstein	International – LC Value	Performance	$114.2	August 2012
Hansberger	International – LC Growth	Performance	$121.4	May 2013

Mr. Cliff Sheets noted the international asset class review will be presented at the April 8, 2014 Board Meeting.

Fixed Income

Mr. Nathan Sax presented the Fixed Income overview and strategy. Short term interest rates are still near zero continuing the trend of the last five years. Interest rates rose on comments by Federal Reserve Chairman Bernanke that the Fed will discontinue the purchase of treasury and mortgage backed securities. The quantitative easing is expected to be discontinued by year end. The U.S. 10-year Treasury yielded 1.76% at the start of last year and ended at 3.03%. Housing and employment are still showing weakness and real GDP for the calendar year was at 1.9%.

The Barclays Capital Aggregate Bond Index posted a calendar year return of -2.0. Compared to the Index, fixed income assets have outperformed the benchmark over the one, three and five year periods. All bond portfolio assets are within policy and sector ranges, although are underweight in government bonds, neutral on duration and overweight in high yield bonds which has helped return.

Reviewing the comparative performance for fixed income managers, Post Advisory and Neuberger Berman have both done quite well. Responding to a question from Member Englund regarding the poor performance by Artio, Mr. Sax noted they may be added to the watch list if the five year relative returns remain low. Mr. Sheets added that returns for high yield could have skewed total returns in the peer group used for comparison here. Artio's style includes investing in non-hedged emerging markets, but they have stayed true to their style. R.V. Kuhns does include Artio on their watch list; however, if compared to other non-dollar managers, they would not look as bad.

Mr. Sax stated in 26 years, this past year is only the third year bonds have realized negative returns. The Fed Funds rate is expected to remain at zero for another year, but as Fed purchases of mortgages and bonds taper each month, rates should rise. Inflation is still lower than the Fed would like and opinions vary on the current health of the economy.

Short Term Investment Pool, State Fund Insurance & Treasurer's Fund Report

Mr. Rich Cooley gave a brief overview of the Treasurer's Fund stating short term rates rose briefly but have eased back down. There were no security purchases for the fund in the fourth quarter.

Mr. Cooley gave an overview of the Short Term Investment Pool (STIP) for the quarter ending December 31, 2013. The current Fed Funds target rate is 0 – 25 basis points. The STIP portfolio is within all guidelines for liquidity, diversification and average days to maturity, currently 53 days, compared to the policy maximum of 60 days. The STIP daily net yield is at 12 basis points compared to the current one-month LIBOR rate at 16 basis points. Total fund return over 10-years is 2%. The STIP portfolio has increased to $2.7 billion, up $250 million from three months ago.

The monthly addition to the reserve account has been reduced from $17,000 per day to $12,500 per day to help preserve the return as some high yielding paper rolls off, adding 6 basis points of annualized yield.

Responding to a question from Senator Dave Lewis, Mr. Sheets clarified the reserve account is a proactive approach by staff in case the portfolio suffers a realized loss or as an option to sell a problem asset to avoid a projected greater loss later. The reserve account does take current income for future use, but acts as a contingency and allows the freedom to be more flexible. Although there may be a slight variation of exposure to different participants over time, all participants have a stake in STIP and most account holders remain static over time. As the reserve fund grows, the need to place a ceiling on the amount will be revisited.

Mr. Cooley presented an overview of the State Fund Insurance portfolio for the quarter ending December 31, 2013. The Fund totaled $1.3 billion at quarter end and performance continues to be good, aided by investment grade securities and the added allocation in April and July 2013 of $70 million to real estate. Purchases for the quarter included $39 million in corporate bonds and $10 million in agencies. For the quarter, the fixed income portion of the Fund outperformed the benchmark by 18 basis points and by 51 basis points for the year. Long term returns compared to the fixed income benchmark were +92 basis points for three years, +184 basis points over five years, and +48 basis points for the past ten years ending December 30, 2013.

Private Asset Pool Reviews

Montana Private Equity Pool (MPEP)
Mr. Cliff Sheets presented the private equity report for the quarter ending September 30, 2013. (Mr. Ethan Hurley is traveling.) Cash flow remained positive for the pool for the eighth quarter in a row. The last 12 months were high in both number and value of initial public offerings (IPO's). Geographic exposure changed very little and is mostly within North America at about 82%, although we continue to look at Asia and the broader markets, usually using fund of funds which continue to decrease. Direct investment is preferred when available. Pool level returns at September 30, 2013 returned 12.57 IRR since inception, net of all expenses. Looking at the 5-year period of September 30, 2008 to September 30, 2013 returns jumped from 6.96% to 9.63% just by removing one bad quarter. There were three new fund commitments since the last Board meeting. New commitments made in January 2014 were: $20 million to Eureka Growth Capital III, LP, a small cap buyout manager; $20 million to buyout manager HKW Capital Partners IV, LP; and $25 million to buyout manager Odyssey Investment Partners Fund V, LP, an existing manager that has performed very well for us.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Eureka Growth Capital III, LP	2013	Growth Equity	Diversified	$20M	1/23/2014
HKW Capital Partners IV, LP	2013	Buyout	Diversified	$20M	1/23/2014
Odyssey Investment Partners Fund V, LP	2014	Buyout	Diversified	$25M	1/24/2014

As Mr. Hurley noted at the last Board meeting, staff is researching the possibility of a secondary market offering of some of the MBOI fund interests. A number of the funds are being marketed, but currently there are no sales pending. Staff is still considering the sale as the process continues and will report to the Board when any decisions are made.

Montana Real Equity Pool (MTRP)
Mr. Cliff Sheets presented the real estate report for the quarter ending September 30, 2013. There was one new commitment since the last Board meeting for $25 million to an existing value added manager, Stockbridge Value Fund II, LP. The portfolio is well diversified by strategy and geographic exposure and is balanced and diversified by property type. The pool includes 10% timberland exposure which is not always included in the real estate category by our peers, but provides a broader diversification. Net cash flows for real estate remain negative as capital calls still outpace distributions; however, market activities are picking up and we are seeing positive returns. Real estate is a good diversifier and there is a high demand currently in the market for core real estate.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Stockbridge Value Fund II, LP	2014	Value Add	Diverse	$25M	1/6/2014

Member Buchanan asked if the goal of staff is to sell underperforming private equity funds during the potential upcoming sale of select holdings on the secondary market.

Mr. Sheets stated while that would be ideal, it is not practical to include any funds on the watch list as bids would be weak for those funds, at a significant discount to current NAV's. Market conditions are optimal for private equity sales and staff has chosen funds to offer which should bring in more favorable bids, and represent relationships we are willing to part with given they are inconsistent with current pool strategy . The specific funds offered are listed with a broker through an engagement letter. Marketing of the funds is labor intensive, but has gone smoothly. Pricing has been on the rise and market confidence is strong, so in a cyclical sense the timing is good. More details will be provided at the next Board meeting.

Partnership Focus List
There were no changes to the MPEP or MTRP Focus lists since the last Board Meeting.

MONTANA DOMESTIC EQUITY POOL ASSET CLASS REVIEW

Mr. Cliff Sheets, CFA, CIO and Mr. Rande Muffick, CFA, Portfolio Manager - Public Equities
Mr. Sheets and Mr. Muffick presented an asset class review of the Montana Domestic Equity Pool. Domestic equities are expected to provide high returns over the long term and are the main driver of plan returns. MDEP is by far the largest asset class and has a 2:1 ratio vs. international stocks. Domestic equities have a higher risk with a standard deviation of 18% and the asset class is highly liquid. Large caps dominate the S&P 1500, but small and midcaps are represented. The recent restructuring of MDEP broadened the ranges for small and midcaps and the pool is significantly over weight vs. the benchmark as shown below:

	Benchmark	MDEP
Large Caps	88%	80.1%
Midcaps	8.4%	12.5%
Small caps	3.6%	7.4%

Most active manager fees go to cover small and midcap mandates and the pool invests in a variety of types for diversification. Types include commingled and separate accounts, indexed funds which mirror the index benchmark, enhanced index which takes on slightly more risk to enhance return; traditional long only which has a 400-600 basis point tracking error vs. the benchmark and 130/30 which is active with a 300-500 basis point tracking error vs. the benchmark.

Representative Kelly McCarthy asked how proxies are voted for the active portfolios.

Mr. Muffick advised staff does not execute proxies. Each individual manager votes according to best management practices providing the most benefit to the client, the stock owner. Mr. Muffick added that proxies will be covered in depth at the May Board meeting.

Portfolio diversification is always a consideration. A balance of active managers is maintained and managers are chosen who will be complementary and fit well with the current stable of managers. The small and midcap overweight is being maintained with the consideration that over the long term they outperform large caps. The fees paid to active managers are cost effective and total fees for the pool have been reduced by 12 basis points since March 2012, from .36% to .24%.

The pool often provides cash for the monthly retirement plan benefit needs and going forward the overweight position for small and midcaps will be maintained. The current stable of managers is expected to be maintained in the near term and small and midcap weights may be leveled to provide assets to new managers.

Member Karl Englund asked if we are missing anything with the current structure of MDEP.

Ms. Betsy Gratsinger stated MDEP is in good shape and is performing well. The pool is efficient and rebalanced as needed.

ADJOURNMENT

The meeting was adjourned for the day at 5:02 PM.

CALL TO ORDER

Board Chairman Mark Noennig called the regular meeting of the Board of Investments (Board) to order at 9:02 AM. As noted above, a quorum of Board Members was present. Board Member Gary Buchanan attended via conference call. Board Member Quinton Nyman was absent. Chairman Noennig called for public comment. There was no public comment.

MONTANA LOAN PROGRAMS

In-State Loan Program

Mr. Herb Kulow presented an update of the commercial and residential loan program portfolios. Commercial loans totaled $102,914,935 with 117 loans as of February 4, 2014. The current yield of the portfolio is 4.84%. There were two loans committed totaling $4,268,000 and there are nine reservations totaling $36,328,897. There are two past due loans; an SBA guaranteed loan for $95,000 which is 31 days past due and the Vann's bankruptcy loan for $634,111.45 which has not been transferred to "real estate owned" yet. Total MBOI commercial loans past due equals 0.71% of the total portfolio, compared to state of Montana banks at 4.06% as of September 30, 2013.

Residential mortgage balance is $13,193,688 with 302 loans as of January 31, 2014. The current yield of the portfolio is 6.32%. Nine loans are past due over 30 days representing 3.71% of the portfolio.

The Veterans' Home Mortgage Loan Program (VHML) continues to grow. There are eight outstanding reservations totaling $1,364,534.

The internal loan committee approved one Intermediary Relending Program (IRP) loan for $250,000 to Gallatin Development Corporation d/b/a Prospera Business Network as matching funds for a USDA $500,000 IRP revolving fund loan.

ADF Group is building a paint facility in Great Falls which they are self-financing for approximately $6 million. With the addition of the paint facility, ADF will have invested nearly $30 million in Montana. MBOI financing, including the participation in the equipment loan and the infrastructure loan, will be from $8 – $8.5 million. If ADF's plan to expand goes as expected, they will add up to 500 jobs. A trip to visit the plant will be scheduled in the spring at the Board's pleasure.

BOND PROGRAM REPORTS

Activity Report

Ms. Louise Welsh reviewed the quarterly Activity Summary Report and presented the staff approved loans. The Loan Committee approved one loan prior to the Board meeting to the Department of Natural Resources and Conservation (DNRC) in the amount of $2.5 million for interim financing for its Drinking Water State Revolving Fund (DWSRF) Loan Program.

The annual remarketing of INTERCAP bonds will take place on Monday, March 3, 2014. Bond rates last year were at 22 basis points compared to 16 basis points this year; consequently, the loan interest rate to borrowers will remain at 1% this year. Of the ~$106 million in bonds outstanding, only $26 million was tendered (put back), while the remaining bond-holders held their bonds.

Member Englund asked about any outstanding INTERCAP loans to Ravalli County due to the recent news stories about issues at the Ravalli County Treasurers' Office.

Ms. Welsh noted all February payments from outstanding loans to entities within the County have been received and delinquencies are not expected as all revenue has been collected by the County. County reports are expected to be up to date; thus allowing them to process all funds prior to the next loan payment due date.

Staff approved loans are listed below:

Borrower:	Hamilton School District #3
Purpose:	Upgrade technology infrastructure
Staff Approval Date:	November 5, 2013
Board Loan Amount:	$750,000
Other Funding Sources:	$ 0
Total Project Cost:	$750,000
Term:	7 years

Borrower:	Elliston Rural Fire District
Purpose:	Finance a new fire truck
Staff Approval Date:	November 5, 2013
Board Loan Amount:	$60,000
Other Funding Sources:	$30,000
Total Project Cost:	$90,000
Term:	10 years

Borrower:	Montana City Rural Fire District
Purpose:	Purchase land and construct a satellite fire station
Staff Approval Date	November 5, 2013
Board Loan Amount:	$750,000
Other Funding Sources:	$ 0
Total Project Cost:	$750,000
Term:	15 years

Borrower:	McCone County
Purpose:	Refinance five road graders
Staff Approval Date	November 8, 2013
Board Loan Amount:	$350,000
Other Funding Sources:	$ 0
Total Project Cost:	$350,000
Term:	5 years

Borrower:	Custer County
Purpose:	Interim loan in anticipation of issuing a General Obligation Bond to construct a detention center
Staff Approval Date	November 8, 2013
Board Loan Amount:	$400,000
Other Funding Sources:	$ 0
Total Project Cost:	$400,000
Term:	1 year

Borrower:	Lake County
Purpose:	Finance gravel pit reclamation settlement
Staff Approval Date	November 13, 2013
Board Loan Amount:	$365,022
Other Funding Sources:	$ 0
Total Project Cost:	$365,022
Term:	3 years

Borrower:	Hot Springs
Purpose:	Finance water system improvements
Staff Approval Date	November 14, 2013
Board Loan Amount:	$ 156,805
Other Funding Sources:	$1,042,550
Total Project Cost:	$1,199,355
Term:	15 years

Borrower:	City of Kalispell
Purpose:	Purchase garbage truck and two dump trucks
Staff Approval Date	December 5, 2013
Board Loan Amount:	$400,000
Other Funding Sources:	$ 0
Total Project Cost:	$400,000
Term:	5 years

Borrower:	Cascade County
Purpose:	Purchase 42 vehicles for County motor pool
Staff Approval Date	December 9, 2013
Board Loan Amount:	$1,000,000
Other Funding Sources:	$ 179,726
Total Project Cost:	$1,179,726
Term:	4 years

Borrower:	Bridger School District #2
Purpose:	Finance an Energy Retrofit Using Energy Performance Contracting
Staff Approval Date	December 30, 2013
Board Loan Amount:	$116,960
Other Funding Sources:	$184,600
Total Project Cost:	$301,560
Term:	15 years

CONSULTANT REPORT

Ms. Becky Gratsinger, CFA, and Mr. Mark Higgins, CFA, R.V. Kuhns & Associates

Ms. Becky Gratsinger presented an overview of the capital market review. Returns were strong for the quarter ending December 31, 2013. Domestic stocks returned 10.5%, international stocks 5.7% and small caps returned 8.7% for the quarter. Interest rates are up, but not back to 2010 levels. Equities remain a bit expensive and equity market returns going forward should moderate. Fixed income markets were down for quarter; the Barclays US Aggregate Bond Index returned -0.14 for the quarter, and -2.02% for the year. Unemployment rates have decreased; however the Fed is looking for 6.5% unemployment. The stimulus raised concerns about inflation; however we are not seeing indicators of inflation on the horizon at this time.

Historically since 1976, risk and equity markets did best in 2013, while bonds did the worst. Small cap stocks returned 39% percent compared to -9.5% for commodities. The Fed has kept policy steady with quantitative easing compared to 1994 when the Fed raised rates several times. Looking at various potential interest rate scenarios for the Barclay's U.S. Aggregate Bond Index over one, three and five year periods, the shorter the timeframe and the steeper the rate increases, the sharper and more detrimental the results. A 1% increase in rates over one year would result in a –(2.25)% return, while a 2% increase in interest rates over one year would show a negative return of –(7.0)%. When rates are increased by 1% or 2% over 5 years however, returns remain in positive territory.

Market value of the nine retirement plans at December 31, 2013 was nearly $9.4 billion. Asset breakdown for the plans is 56% equities, 21% fixed income, 12% private equity, 9% real estate and 1% cash equivalents. The retirement funds realized negative performance versus the benchmark due to the one quarter lag environment of private equity and the high return expectation reflected in the private equity benchmark. Low relative-to-benchmark returns for real estate also contributed to the negative benchmark comparison.

Responding to a question from Chairman Noennig, Ms. Gratsinger stated the total fund return could be run excluding private equity, and some pension funds do that; however, it would not be very informative.

While private equity and real estate have a slight lag, all traditional asset classes are beating their benchmarks and there are no other issues in the portfolio.

Overall, portfolio ranking versus the peer universe of funds greater than $3 billion is terrific. The overweight in domestic equities versus international equities has been very beneficial. Comparing risk vs. return, the portfolio has a slight outperformance over the benchmark and the peer group median, while taking less risk over the last five years. Allocations to private equity and real estate have helped lower risk, as well as fixed income holdings; peers tend to hold more fixed income with a higher equity like nature.

Member Jack Prothero asked if Ms. Gratsinger sees any negative tendencies in the portfolio.

Ms. Gratsinger noted the sources of risk must always be monitored. Considering the high price of domestic equity stocks, if we get a risk-off market and if international markets start to do well, it would have an impact. The asset mix is good. The biggest risk is if the domestic equity market declines and the rest of the world does well, or another price depreciation in real estate, which will cause non-core real estate to suffer. In general, progress is good.

Member Satre noted returns have been amazing and asked if there were any recommendations if domestic equities were to be sold.

Ms. Gratsinger noted domestic equities have good liquidity and some plans go with a higher international allocation. Exposure to U.S. equities means a dependence on the health of the U.S. economy, and some plans go with global managers, but there are very few global vendors available.

Chairman Noennig asked how much less in international equities the portfolio has compared to peers.

Ms. Gratsinger stated MBOI has roughly a 2:1 domestic to international ratio. Mr. Sheets added MBOI has 38% in domestic equities, compared to peers at 32.41%; and 18% in international equities, compared to peers at 20.44%. At 56%, total equities are at the peer median. Over the last five years, U.S. stocks have fared better given the economic troubles in other parts of the world. The growing U.S. economy helps corporate earnings and feeds into stock prices. At the current time there is no compelling reason to shift, and the global economy favors the U.S. Equity does have risk and the portfolio is equity centric, but we are well diversified and have realized the benefit of private equity, real estate and fixed income allocations.

Executive Director Ewer added the GDP outlook for the U.S. is better than the world outlook and so a bias to domestic equity is a safer bet.

Ms. Gratsinger continued that the overall plan beta of .6 is low due to diversification. Private equity and real estate both help with beta. The beneficial structural changes to the portfolio have shown results. Manager choices over the last three years have been good and the remaining managers as a group have done very well. No glaring problems exist with the current managers, and watch lists have shrunk. Performance net of fees is looked at, as well as the annual CEM report, and performance overall, net of fees is looking good. Additionally, manager fees have been reduced with the recent structural changes for domestic and international equities.

REAL ESTATE INVESTING

Ms. Becky Gratsinger, CFA, and Mr. Mark Higgins, CFA, R.V. Kuhns & Associates
Mr. Mark Higgins provided an overview of real estate investments. Real estate provides portfolio diversification with a low correlation to traditional assets. Real estate provides income generation through rental and lease income and capital appreciation through increased property values or sales of properties. Investors may develop raw land with construction, or invest in existing properties at a discount which are run down or distressed and then sell the improved property at a profit.

Various types of properties serve as investments; traditional, such as office, retail and apartment/residential properties, or non-traditional such as self-storage, and senior or student housing. Ms. Gratsinger added that core real estate, which is considered less risky, generates about 80% of its return from lease/rental income and the remainder from price fluctuations. External appraisals are performed at least annually to determine value, but can be conducted as often as quarterly. The use of rotating appraisers is sometimes employed. Non-core real estate generates returns through a combination of rental income and price appreciation, so you want to be sure the manager is adding value. The total return is lease income and price appreciation, which is reflected in the value of the property. The ultimate impact on returns is when the property is sold. MBOI also invests in timberland, a unique asset class. Many pension funds do not invest in timberland, or if they do, it is not classified as part of real estate holdings.

Mr. Higgins stated the financial crisis caused an aversion to value added and opportunistic strategies and a higher demand for core investments which remains in high demand with limited availability.

Drawbacks of real estate are low liquidity, although this is not a current concern for MBOI, and the commitment to a long term time horizon of five to ten years to fully realize the value of an investment.

Mr. Sheets stated core real estate is still seeing price appreciation; however, as our real estate allocation is near the top of the range, it may be time to take advantage of the strong demand and peel some off; and selling core is the only option for reducing our allocation. Mr. Sheets added at some point, the real estate market will stabilize and investors will be more willing to move to value added and opportunistic properties.

Mr. Higgins explained the J curve effect where funds are initially committed and drawn down with no returns, and then the upswing occurs close to the maturity of the fund, rendering short term returns almost meaningless. Timing positions so that all capital calls are not coming at once is a good strategy. There are also benchmarking challenges for real estate with a lack of an investible index. Even the available indexes are very different than exposures and are reported on infrequently, suffering from high tracking errors and stale performance.

Ms. Gratsinger added an internal rate of return is more helpful, which is measured as part of the total fund. Responding to a question from Member Englund, she responded there is not really a solution to the measurement problem for real estate.

There are global opportunities in real estate such as Asia, but all come with the higher risk of opportunistic investments and in a legal environment that can be challenging. Investments would need local management and there can be currency issues.

Mr. Sheets noted MBOI does have some global legacy exposure with some of the early real estate investments. Morgan Stanley runs one of our international funds which experienced very poor returns given it was overleveraged and they lost control of several properties during the global recession. Mr. Sheets added we're not currently seeking international exposure and U.S. real estate still provides desirable opportunities.

RECAP

Executive Director Ewer stated that INTERCAP underwriter services are scheduled for review at the April 2014 Board meeting.

Member Buchanan spoke to the structure of the current Board meetings regarding education and training opportunities and stated the decision to increase the number of Board meetings per year from four to six was originally intended to reserve the interim one day meetings primarily for education, training and higher order issues. In reviewing the April meeting items, Member Buchanan stated there is very little time dedicated to education or training.

Member Buchanan stated there is a greater need for education and training, as was noted in the FY13 Legislative Performance Audit, and while the issue has been addressed to some degree, in the form of regular presentations by R.V. Kuhns and formally including the Board Education Policy in the Governance Manual, much more remains to be done.

Chairman Noennig asked for Executive Director Ewer to respond.

Executive Director Ewer responded that when Board members attend Board meetings, it is in effect on-the-job training. By following the 24-month Systematic Work and Education Plan, Board members gain exposure to every mission of the Board on issues which members are likely to have to make decisions on. The April Board meeting is in concert with the 24-month Plan and the April meeting agenda covers important Board mission areas in place of the usual quarterly meetings where substantial time slots are dedicated to quarterly reports.

Chairman Noennig asked if there was further discussion on the topic.

Member Buchanan stated his view of the additional one day interim meetings differs from the Executive Director's view and he proposed further discussion between himself and Chairman Noennig on the subject.

Chairman Noennig stated he would be happy to discuss any suggestions Member Buchanan may have; ultimately it is the Board's decision.

There being no further business, the meeting was adjourned at 11:44 AM.

Next Meeting
The next regular meeting of the Board will be April 8, 2014 in Helena, Montana.

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
4/4/14

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: April 8, 2014

Subject: Executive Director Reports

A. Follow up from the Previous Board Meeting
As per Member Buchanan, the matter of competitively bidding INTERCAP bonds will be addressed during the INTERCAP presentation under Tab 7.

B. Tribune Lawsuit
Plaintiffs offered settlement terms to certain classes of defendants, depending on the size of their Tribune stock holdings. After conferring with general counsel and the Chairman, staff concluded it was in the best interests of the Board to accept the settlement offer ($14,348). Defending the law suit so far has cost $7,095. It will cost approximately anther $500-$1,000 to complete it by accepting this settlement. While not immaterial, a total settlement cost of under $25,000 is far less than the probable costs to continue defending it, not including a possible negative judgment.

C. Emergency/Disaster Preparedness
Addressed within this Tab 2 in a separate memorandum

D. Board's Website
The Board's website will be reconfigured to align with the Department of Commerce's new web presentation appearance; project completion is expected by late summer/early fall.

E. Board Education and Possible Conferences
The Board's Governance Manual does not currently incorporate any reference to the Board Education Policy. Staff recommends adopting language in both the Governance Manual and Board Education Policy linking the two, along with a new appendix in the Governance Manual which would contain the Board Education Policy. The redlined suggested changes are included under this Tab 2.

We have ordered copies of Barron's *Dictionary of Finance and Investment Terms* for all Board members. We have also ordered six copies of *The Signal and the Noise, Why So Many Predictions Fail-But Some Don't* by Nate Silver. This book examines several key statistical concepts and common errors often made in economic and investment forecasting. It is also an excellent presentation about *bias* and just how easy it is to be caught up in today's increasing digital noise.

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: April 8, 2014

Subject: Emergency and Disaster Preparedness

Board staff has implemented many policies and procedures to address emergency and disaster preparedness. Reflected below is an outline on the Board's readiness for various types of emergencies or work disruptions. Staff will answer more detailed questions at the Board meeting if desired.

These efforts, plans and contingencies are in addition to the State's emergency and disaster preparedness, although some of these comments overlap with the larger state system.

<u>Computer and Communications Systems</u>

- MBOI transactions backed up daily
- Secure setting and off site
- MBOI has capability to process critical work flow (cash movement) off site with secure access to other work stations and secure access mechanisms
- Call down list to staff
- Back up communications has been tested during the past 12 months - offsite access to SinglePoint (for ACH and wires) and Bloomberg (for trades)
- Coordination with State Treasurer's Office completed recently
- IT security course work completed by all employees

<u>Building and Employee & Visitor Safety</u>

- Fire drills occur annually – next fire drill is scheduled for September 2014
- Sprinkler and fire alarm systems tested annually; fire extinguishers are checked monthly
- Earthquake drill in the past year
- First aid kits, recently upgraded
- Defibrillator (AED), recently installed
- CPR, AED and First Aid training provided with refresher/new training to be completed spring and summer 2014
- Keyless entry system, recently installed
- Nightly and weekend building checks conducted by private security company
- Office Manager scheduled for ADA building compliancy training early April
- Annual building inspections conducted by Board staff and contracted property manager
- Colonial Drive Emergency Action Plan updated annually

TABLE OF CONTENTS

Member	Location	Term Expires
Mark Noennig – Chairperson	**Billings**	**01/01/2017**
Kathy Bessette	**Havre**	**01/01/2017**
Sheena Wilson	**Helena**	**01/01/2017**
Karl Englund	**Missoula**	**01/01/2015**
Gary Buchanan	**Billings**	**01/01/2015**
Quinton Nyman	**Helena**	**01/01/2015**
Jon Satre	**Helena**	**01/01/2015**
Marilyn Ryan	**Missoula**	**01/01/2017**
Jack Prothero	**Great Falls**	**01/01/2017**

3. Board Chairperson - As prescribed in §2-15-124, MCA the Governor shall designate the Chairperson, whose duty is to ensure that the Board operates consistent with state law, state rules, and Board policies. The Chairperson may make and second motions and vote. The Chairperson shall review and sign all meeting minutes and all resolutions approved by the Board. The Chairperson may appoint a Vice Chairperson to preside in his/her absence.

4. Code of Ethics - The Board shall create and adhere to a Code of Ethics for its members and staff. The Code shall be designed to ensure that Board members and Board staff have no conflicting interests that would harm the integrity of the Board, harm the clients for whom the Board invests funds, or interfere with the Boards fiduciary responsibility. The Code approved by the Board is attached as **Appendix B**.

5. Governing Law - The Board shall maintain and update as necessary a written and electronic manual of all its pertinent governing laws and shall post the manual on its website for public access.

6. Quorum and Voting - A majority of the Board membership (five members) constitutes a quorum to do business. A favorable vote of at least a majority of all members (five members) of the Board is required to adopt any resolution, motion, or other substantive decision, as prescribed in §2-15-124 MCA. For example, if only five members are present, all five members must approve a substantive motion.

7. Board Meeting Frequency - The Board meets quarterly and is subject to the call of the Chairperson if additional meetings are required. The frequency of Board meetings is subject to change at the direction of the Board.

8. Notice of Meetings - All meetings of the Board must be open to the public and noticed at least 48 hours prior to the meeting. A meeting may only be closed when the demands of individual privacy clearly exceed the merits of public disclosure and the Chairperson may not close the meeting without first stating the rationale for such closure.

9. Meeting Agendas - Meeting agendas are prepared by the Executive Director in consultation with the Chairperson. The Board may not take action on any substantive matter unless the matter is scheduled on the agenda. The meeting notice and the meeting agenda shall be posted on the Board's web site.

10. Systematic Work and Education Plan - To keep the Board and the public informed on a systematic basis on the Board's programs, missions, and responsibilities, the Executive Director shall submit a Systematic Work and Education Plan formatted as agenda topics for the upcoming Board meetings for each calendar year rotating subject matters so that all are covered within a 24-month period to educate, review and in all respects to help Board Members fulfill their fiduciary role. The Board Education Policy, addressing the importance of the Systematic Work and Education Plan, is attached at Appendix M.

11. Public Participation - Section 2-3-103, MCA provides that the agenda for Board meetings must include an item allowing public comment on any public matter that may or may not be on the agenda and that is within the jurisdiction of the Board. The Board may not take substantive action on any matter discussed unless specific notice of that matter is included on an agenda and the public is provided an opportunity to comment on that matter. A letter from the Governor expressing the importance of compliance with this law is attached as **Appendix A**.

12. Committee Creation - The Board may:

A) Establish committees as necessary to conduct its business and charters shall be adopted for each committee describing the role, scope, and powers of the committee and the responsibilities of committee members.

B) The Board Chairperson may appoint and remove committee members. The Board has created an Audit Committee, a Loan Committee, and a Human Resources Committee and approved a charter for each. The charters are attached as **Appendices C**, **D**, and **E**.

C) All Committee Meetings must be open to the public and noticed on the Board's web site at least 48 hours prior to the meeting.

Current members of the committees are:

Audit	Loan	Human Resource
Jon Satre, Chairperson	Jack Prothero, Chairperson	Karl Englund, Chairperson
Gary Buchanan	Kathy Bessette	Quinton Nyman
Sheena Wilson	Gary Buchanan	Jack Prothero
		Marilyn Ryan
		Jon Satre

13. Adoption of Resolutions - All resolutions committing the Board to issue bonds either directly or as a conduit issuer; or to enhance bonds issued by others as authorized by law must be approved by the Board at a public meeting and signed by the Chairperson and the Executive Director.

14. Selection of Custodial Bank and Investment Consultant - While this Governance Manual delegates general contracting authority to the Executive Director, the Board reserves the right and the authority to make the final selection of the Custodial Bank and the Investment Consultant after which the Executive Director shall negotiate a contract.

15. Asset Allocation - The Board, as the fiduciary of the Unified Investment Program, is responsible for establishing the investment parameters of the Unified Investment Program. The Board has the authority to allocate portfolios to any asset class in the proportions it considers prudent, subject to such limitations as are contained in law and the Constitution. When the law or Constitution precludes certain investments, the Board is responsible for allocating portfolios to asset classes within the investment types permitted by law. Asset allocation decisions may be made by the Board only in a public meeting. ***The authority to establish***

A) The Investment Program is funded by fees charged the Board's clients. Because the Board's clients are state agencies, the Legislature sets the maximum fee the Board may charge which is then allocated by Board staff to all Board clients. The Board's methodology used to allocate charges to its clients is audited by the Legislative Auditor.

B) The Bond Program is funded by the "spread" between the interest paid on the bonds sold and the interest on loans made from the bond proceeds. The spread may be no greater than 1.5 percent. Because the Bond Program's clients are primarily non-state agencies, the Legislature does not set a maximum fee the Board may charge.

23. **Board Staff -** The Board appoints the Executive Director who has general responsibility for selection, management, and the job performance of Board staff. The Board also appoints the Chief Investment Officer. The Board assigns the duties and sets the salaries of eight staff - the Executive Director, Chief Investment Officer, and six investment professional staff. The Board's functional organization chart is attached as **Appendix G**

III. DELEGATION OF AUTHORITY TO STAFF

The Board delegates to its the Executive Director and the Chief Investment Officer the following day to day duties required to carry out the Board's mission.

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. Unless there is a Board motion adopted for providing instructions to the contrary, continuity for the Chief Investment Officer is governed by Resolution 234, and attached hereto as Appendix L.

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.

5. **Communications Delegation** - The Executive Director shall serve as the exclusive spokesperson for the Board when communicating with the Legislature, the Governor, the public, and the media, unless the Board Chairperson determines that, in certain situations, it would be more appropriate for the Chairperson or a selected Board Member to serve as the spokesperson.

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

- The Executive Director and the Chief Investment Officer are authorized jointly to contract for investment manager services and if deemed appropriate, terminate them.
- However, the Chief Investment Officer is authorized to have the final decision on external investment managers.
- Provided that, the Executive Director may be a part of any negotiation and at a minimum sign all contracts for investment manager services.
- And further provided that the Board's Legal Counsel review and sign all investment management contracts and review all other investment-related service contracts as the Executive Director or Chief Investment Officer deem necessary or advisable.
- All new investment manager contracts, commitments, and terminations along with sufficient other related information, and in particular, alternative investment managers and their key terms of the fund, shall be reported to the Board at its next scheduled meeting.

7. **All Other Contracts** - For all contracts not specifically investment manager contracts, such contracts both competitive and sole source, shall be processed according to the State's procurement and contracting laws. The Executive Director is authorized to negotiate and enter into all contracts necessary to carry out the Board's mission without advance approval of the Board, except for contracts with the Board's Custodial Bank and Investment Consultant. The Board shall approve the selection of the Custodial Bank and the Investment Consultant after which the Executive Director shall negotiate contracts with the firms.

I. PURPOSE

One of the purposes of a public investment board Governance Manual (Manual) is to clearly spell out the fiduciary responsibilities of the Montana Board of Investments (Board) as an entity and how those responsibilities, if any, are delegated to staff to carry out the Board's mission on a day to day basis. State law assigns to Board members the fiduciary responsibility of managing the Unified Investment Program and gives the Board the authority to hire staff as it deems necessary. Because the fiduciary responsibility ultimately lies with the Board it is important that the authority and roles of the Board as an entity and Board staff be clearly defined. Board staff has only those powers specifically delegated to them by the Board as specified in this Manual. This Manual shall be published on the Board's web site and may only be revised by the Board at a public meeting. Staff may update Board membership rosters as necessary.

II. BOARD MEMBER AUTHORITIES, DUTIES, AND ROLES

1. General Duties Prescribed by Law

A) The Unified Investment Program - The Montana Constitution requires that the Legislature provide for a Unified Investment Program for public funds. Section 17-6-201, MCA established the Unified Investment Program, created the Montana Board of Investments (the "Board") and gave the Board sole authority to invest state funds in accordance with state law and the state constitution. State law requires that the Board operate under the "prudent expert principle," defined as: 1) discharging its duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; 2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return; and 3) discharging its duties solely in the interest of and for the beneficiaries of the funds managed.

B) Economic Development Programs - In addition to managing the Unified Investment Program, the Legislature assigned to the Board the responsibilities of managing several loan programs.

C) Municipal Lending Programs – The Board manages programs under the Municipal Finance Consolidation Act, primarily through the INTERCAP program.

2. Board Membership - The Board is comprised of nine voting members appointed by the Governor as prescribed in Section 2-15-124, MCA, subject to confirmation by the state Senate and comprised of the following:

- One member from the Public Employees' Retirement Board;
- One member from the Teachers' Retirement Board; and
- Seven members representing the financial community, small business, agriculture, and labor.

The Board also has two non-voting legislative liaisons, from different political parties, comprised of the following:

- One liaison member appointed by the President of the Senate; and
- One liaison member appointed by the Speaker of the House.

MONTANA BOARD OF INVESTMENTS
BOARD EDUCATION POLICY

I. PURPOSE

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

II. POLICY OBJECTIVES

1. All Board Members will have education opportunities to maintain the knowledge they need to carry out their fiduciary responsibilities and engage in effective group discussion, debate and decision making.

2. Newly appointed or elected Board Members will be provided with the general introductory knowledge they need to enable them to effectively participate in Board and Committee deliberations in a timely manner.

3. Board Members will have the opportunity to learn through networking with the Trustees of other public retirement systems and learn of alternate approaches to common issues and problems.

III. ASSUMPTIONS AND PRINCIPLES

1. Board Members are responsible for making policy decisions affecting all major aspects of plan administration. They, therefore, should acquire an appropriate level of knowledge of all significant facets of the investment management process rather than specializing in particular areas.

2. A variety of educational methods are encouraged since no single, educational method is optimal.

3. The Board Education Policy is not intended to dictate that Board Members attend only specific conferences or programs. Although a list is included in this Policy as a reference, the Policy is a framework for the types of opportunities that Board Members may use in their fiduciary education.

IV. POLICY GUIDELINES

1. GENERAL PROVISIONS

A. All Board Members are encouraged to develop and maintain their knowledge and understanding of the issues involved in the policy direction and management of the Montana Board of Investments throughout their terms as Board Members.

MONTANA BOARD OF INVESTMENTS
BOARD EDUCATION POLICY

B. Board Members are encouraged to develop an appropriate level of knowledge across a broad spectrum of issues, including:

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

C. Board Members are encouraged to help seek out, evaluate and take advantage of appropriate educational tools, which may include, but are not limited to:

i. External conferences, seminars, workshops, roundtables, courses or similar vehicles
ii. In-house presentations by the Board's service providers, staff, or non-affiliated investment experts
iii. Relevant periodicals, trade journals, textbooks, electronic media, etc.

D. Standards for determining the appropriateness of a potential educational opportunity shall include, without limitation:

i. The extent to which the opportunity is expected to provide Board Members with the knowledge they need to carry out their roles and responsibilities, and

ii. The expected return on investment of the program, taking into account the expected educational benefits weighed against the expected costs, such as travel, lodging and related expenses.

iii. Board Members are encouraged to assist in identifying the educational vehicles that best meet their needs, and to seek an appropriate level of knowledge in each of the areas listed in Section IV. 1. B. of this Policy.

E. The Board shall establish an annual budget to cover the cost of providing continuing fiduciary education for its Board Members. The Board shall reimburse Board members for all reasonable and necessary expenses incurred in attending educational programs encouraged hereunder as provided in this Policy.

MONTANA BOARD OF INVESTMENTS
BOARD EDUCATION POLICY

F. Each Board Member is encouraged to report to the Board on the most important knowledge or information gained from the conference/seminar/workshop attended and recommend whether to attend in the future.

2. BOARD MEMBER ORIENTATION PROGRAM

A. An orientation program will be formalized and maintained for the benefit of new Board Members.

B. The aim of the orientation program shall be to provide relevant information/education so that new Board Members are in a position to contribute fully to Board and Committee deliberations and effectively carry out their fiduciary duties as soon as possible after joining the Board.

C. The orientation program may include:

i. In-person introduction to MTBOI management and staff

ii. A tour of the staff office

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

3. SYSTEMATIC WORK AND EDUCATION PLAN

A. In order to educate, review and in all respects, assist Board Members in fulfilling their fiduciary role, Board Members will be provided on-going training and education on investment related topics and Board Operations through the Systematic Work and Education Plan (See Section 10 in the Board's Governance Manual).

MONTANA BOARD OF INVESTMENTS
BOARD EDUCATION POLICY

4. ATTENDANCE AT EDUCATIONAL CONFERENCES AND SEMINARS

A. Illustrative examples of conferences that Board Members may consider attending would include:

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

B. All Board Member out of state travel to be reimbursed by the Board will be first approved by the Chair after consultation with the Executive Director.

C. In attending conferences, preference will be given to those sponsored by educational institutions or pension industry associations as opposed to conferences with agendas that are largely determined and executed by current or potential vendors to the MTBOI.

MONTANA BOARD OF INVESTMENTS
BOARD EDUCATION POLICY

I. PURPOSE

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

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1. All Board Members will have education opportunities to maintain the knowledge they need to carry out their fiduciary responsibilities and engage in effective group discussion, debate and decision making.

2. Newly appointed or elected Board Members will be provided with the general introductory knowledge they need to enable them to effectively participate in Board and Committee deliberations in a timely manner.

3. Board Members will have the opportunity to learn through networking with the Trustees of other public retirement systems and learn of alternate approaches to common issues and problems.

III. ASSUMPTIONS AND PRINCIPLES

1. Board Members are responsible for making policy decisions affecting all major aspects of plan administration. They, therefore, should acquire an appropriate level of knowledge of all significant facets of the investment management process rather than specializing in particular areas.

2. A variety of educational methods are encouraged since no single, educational method is optimal.

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IV. POLICY GUIDELINES

1. GENERAL PROVISIONS

A. All Board Members are encouraged to develop and maintain their knowledge and understanding of the issues involved in the policy direction and management of the Montana Board of Investments throughout their terms as Board Members.

B. Board Members are encouraged to develop an appropriate level of knowledge across a broad spectrum of issues, including:

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

C. Board Members are encouraged to help seek out, evaluate and take advantage of appropriate educational tools, which may include, but are not limited to:

   i. External conferences, seminars, workshops, roundtables, courses or similar vehicles
   ii. In-house presentations by the Board's service providers, staff, or non-affiliated investment experts
   iii. Relevant periodicals, trade journals, textbooks, electronic media, etc.

D. Standards for determining the appropriateness of a potential educational opportunity shall include, without limitation:

   i. The extent to which the opportunity is expected to provide Board Members with the knowledge they need to carry out their roles and responsibilities, and

   ii. The expected return on investment of the program, taking into account the expected educational benefits weighed against the expected costs, such as travel, lodging and related expenses.

   iii. Board Members are encouraged to assist in identifying the educational vehicles that best meet their needs, and to seek an appropriate level of knowledge in each of the areas listed in Section IV. 1. B. of this Policy.

E. The Board shall establish an annual budget to cover the cost of providing continuing fiduciary education for its Board Members. The Board shall reimburse Board members for all reasonable and necessary expenses incurred in attending educational programs encouraged hereunder as provided in this Policy.

F. Each Board Member is encouraged to report to the Board on the most important knowledge or information gained from the conference/seminar/workshop attended and recommend whether to attend in the future.

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A. An orientation program will be formalized and maintained for the benefit of new Board Members.

B. The aim of the orientation program shall be to provide relevant information/education so that new Board Members are in a position to contribute fully to Board and Committee deliberations and effectively carry out their fiduciary duties as soon as possible after joining the Board.

C. The orientation program may include:

i. In-person introduction to MTBOI management and staff

ii. A tour of the staff office

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

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A. In order to educate, review and in all respects, assist Board Members in fulfilling their fiduciary role, Board Members will be provided on-going training and education on investment related topics and Board Operations through the Systematic Work and Education Plan (See Section 10 in the Board's Governance Manual).

MONTANA BOARD OF INVESTMENTS
BOARD EDUCATION POLICY

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A. Illustrative examples of conferences that Board Members may consider attending would include:

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

B. All Board Member out of state travel to be reimbursed by the Board will be first approved by the Chair after consultation with the Executive Director.

C. In attending conferences, preference will be given to those sponsored by educational institutions or pension industry associations as opposed to conferences with agendas that are largely determined and executed by current or potential vendors to the MTBOI.

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, with the exception of non-rated securities issued or guaranteed by agencies or instrumentalities of the U.S. Government. 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.

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

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

ASSET ALLOCATION SECTORS & RANGES

(At market)

Sectors	**Policy Ranges**
U.S. Treasury	**15-45**
Government Related	**5-15**
Total Government	**20-60**
MBS	**20-40**
Asset Backed Securities	**0-7**
CMBS	**0-12**
Total Structured	**20-59**
Corporate Credit	**10-40**
Total	**100%**

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.

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
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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, with the exception of non-rated securities issued or guaranteed by agencies or instrumentalities of the U.S. Government. 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.

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

Sector: The portfolio sector exposure will be maintained within the ranges shown in the table below.

ASSET ALLOCATION SECTORS & RANGES

(At market)

Sectors	Policy Ranges
U.S. Treasury	**15-45**
Government Related	**5-15**
Total Government	**20-60**
MBS	**20-40**
Asset Backed Securities	**0-7**
CMBS	**0-12**
Total Structured	**20-59**
Corporate Credit	**10-40**
Total	**100%**

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.

MONTANA BOARD OF INVESTMENTS
CORE INTERNAL BOND PORTFOLIO (CIBP MU40)
INVESTMENT POLICY STATEMENT

INTRODUCTION

The purpose of this policy statement is to provide a broad strategic framework for fixed income investments within the Core Internal Bond Portfolio (CIBP). The CIBP is managed internally by MBOI staff on behalf of the Retirement Funds Bond Pool (RFBP). The portfolio managers are governed by the investment management guidelines contained herein. The broad investment strategy is core-like and is to be benchmarked against the Barclays Capital Aggregate Bond Index.

OBJECTIVES

Strategic: Attain competitive investment returns in the fixed income markets while diversifying investment risk. The primary objective of the Core Internal Bond Portfolio is to provide diversified exposure to the various sectors of the bond market for the benefit of pension fund participants in a prudent and cost effective manner. The internal portfolio will also provide primary liquidity to retirement fund participants. Finally, the CIBP will act as the foundation or core of the fixed income asset class and as a complement to the higher risk mandates run by external bond managers.

Performance: The return objective of the CIBP is to achieve an annualized time weighted total return exceeding that of the Barclays Capital Aggregate Bond Index over a three year rolling period.

PERMITTED INVESTMENTS

- 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 (CMOs), commercial mortgage backed securities (CMBS), hybrid ARMS and asset backed securities.
- When-issued securities.
- Rule 144a securities.
- Medium term notes.

PROHIBITED INVESTMENTS

- 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 CMOs or other structured securitizations.
- Capital securities (convertible from fixed to floating)
- Inverse floaters.
- Convertible bonds.

MONTANA BOARD OF INVESTMENTS
CORE INTERNAL BOND PORTFOLIO (CIBP MU40)
INVESTMENT POLICY STATEMENT

CONSTRAINTS

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, with the exception of non-rated securities issued or guaranteed by agencies or instrumentalities of the U.S. Government. Securities downgraded below investment grade may be held at the manager's discretion. Non-rated securities will be assigned an internal rating.

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

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

ASSET ALLOCATION SECTORS & RANGES
(At market)

Sectors	Policy Ranges
U.S. Treasury	**15-45**
Government-Related	**5-15**
Total Government	**20-60**
MBS	**20-40**
Asset-Backed Securities	**0-7**
CMBS	**0-12**
Total Structured	**20-59**
Corporate Credit	**10-40**
Total	**100%**

LIQUIDITY

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 broad asset allocation changes between fixed income and other asset categories held by retirement plan participants. Assets considered to be generally illiquid will be limited to 10% of the portfolio's market value.

MONTANA BOARD OF INVESTMENTS
CORE INTERNAL BOND PORTFOLIO (CIBP MU40)
INVESTMENT POLICY STATEMENT

ADMINISTRATIVE

Securities Lending:

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

MONTANA BOARD OF INVESTMENTS
CORE INTERNAL BOND PORTFOLIO (CIBP MU40)
INVESTMENT POLICY STATEMENT

INTRODUCTION

The purpose of this policy statement is to provide a broad strategic framework for fixed income investments within the Core Internal Bond Portfolio (CIBP). The CIBP is managed internally by MBOI staff on behalf of the Retirement Funds Bond Pool (RFBP). The portfolio managers are governed by the investment management guidelines contained herein. The broad investment strategy is core-like and is to be benchmarked against the Barclays Capital Aggregate Bond Index.

OBJECTIVES

Strategic: Attain competitive investment returns in the fixed income markets while diversifying investment risk. The primary objective of the Core Internal Bond Portfolio is to provide diversified exposure to the various sectors of the bond market for the benefit of pension fund participants in a prudent and cost effective manner. The internal portfolio will also provide primary liquidity to retirement fund participants. Finally, the CIBP will act as the foundation or core of the fixed income asset class and as a complement to the higher risk mandates run by external bond managers.

Performance: The return objective of the CIBP is to achieve an annualized time weighted total return exceeding that of the Barclays Capital Aggregate Bond Index over a three year rolling period.

PERMITTED INVESTMENTS

- 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 (CMOs), commercial mortgage backed securities (CMBS), hybrid ARMS and asset backed securities.
- When-issued securities.
- Rule 144a securities.
- Medium term notes.

PROHIBITED INVESTMENTS

- 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 CMOs or other structured securitizations.
- Capital securities (convertible from fixed to floating)
- Inverse floaters.
- Convertible bonds.

MONTANA BOARD OF INVESTMENTS
CORE INTERNAL BOND PORTFOLIO (CIBP MU40)
INVESTMENT POLICY STATEMENT

CONSTRAINTS

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, with the exception of non-rated securities issued or guaranteed by agencies or instrumentalities of the U.S. Government. Securities downgraded below investment grade may be held at the manager's discretion. Non-rated securities will be assigned an internal rating.

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

Sector: The portfolio sector exposure will be maintained within the ranges shown in the table below.

ASSET ALLOCATION SECTORS & RANGES
(At market)

Sectors	**Policy Ranges**
U.S. Treasury	**15-45**
Government-Related	**5-15**
Total Government	**20-60**
MBS	**20-40**
Asset-Backed Securities	**0-7**
CMBS	**0-12**
Total Structured	**20-59**
Corporate Credit	**10-40**
Total	**100%**

LIQUIDITY

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 broad asset allocation changes between fixed income and other asset categories held by retirement plan participants. Assets considered to be generally illiquid will be limited to 10% of the portfolio's market value.

MONTANA BOARD OF INVESTMENTS
CORE INTERNAL BOND PORTFOLIO (CIBP MU40)
INVESTMENT POLICY STATEMENT

ADMINISTRATIVE

Securities Lending:

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

MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

This policy is effective immediately upon adoption and supersedes all previous Montana Private Equity Pool (MPEP) policies.

INTRODUCTION

The purpose of this policy statement is to provide investment objectives, strategies, and constraints for private equity investments, which are consolidated into the Montana Private Equity Pool (MPEP). The Board approved the creation of MPEP at the April 2, 2002 Board meeting, and the pool was created on May 1, 2002. This statement provides a basis on which to invest in private equity partnerships. MPEP investments consist of private partnership funds which are selected and managed by internal investment staff. The underlying assets held in these funds are managed by external managers with the expertise and experience to prudently manage these types of investments.

OBJECTIVES

Attaining enhanced investment returns from private equity investments while diversifying investment risk is the strategic objective of MPEP. The objective includes the following components:

- Achieve diversification benefits by investing pension fund portfolios in non-traditional (i.e. equity and fixed income) domestic and international capital markets
- Achieve higher risk-adjusted portfolio returns by investing in private investments that are actively managed to add value using principles and tactics often not available in the public marketplace
- Achieve superior investment returns within the respective investment strategies that make up the pool
- Ancillary strategic objectives associated with private equity investments include, but are not limited to the following:
    a. Develop secondary market capabilities to prudently either divest private equity assets prior to maturity or liquidation or invest in established partnerships in the secondary market
    b. Establish key general partner relationships that may enhance partnership and direct investment opportunities

Return Requirement: There is no generally accepted benchmark index for private equity performance comparisons. Characteristically, private equity partnership investments are impacted by the "J-curve" effect, in which fees and transaction costs create negative returns during the initial investment years before distributions are realized. Private equity investing requires a long time horizon in order to realize the value provided by the creation or restructuring of private companies.

- The performance objective for MPEP is the achievement of long-term net returns (after management fees and general partner's carried interest) above a benchmark reflecting public equity market returns plus an appropriate premium to compensate for the higher degree of risk.

MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

- The benchmark established for MPEP is an annualized rate of return 400 basis points above the Standard & Poor's 1500 Index which is a proxy for the broad domestic stock market.

Risk: Private equity investments incur a higher degree of risk with a higher return potential than traditional equity investments. Portfolio diversification of risk is achieved through multiple partnership relationships and investments diversified by time, stage of financing, industry sector, investment size and geographical region.

RESPONSIBILITES AND DELEGATION

Board: The Board shall approve and revise the MPEP Investment Policy Statement as necessary, oversee MPEP performance, delegate decision making to Staff as appropriate and authorize investment and other decisions not delegated to Staff. The Board delegates to Staff the authority to screen, evaluate and select private equity managers.

Staff: Staff assigned to the MPEP will be responsible for:

- Making recommendations to the Board concerning MPEP Strategy and Investment Policy changes
- Managing day-to-day operations, delegating work to external resources as appropriate, and overseeing all due diligence activity
- Screening, evaluating and selecting private equity managers and informing the Board at its next meeting: 1) which managers were selected; and 2) how the selection of the manager fulfills the strategy and objectives of MPEP.
- Monitoring and reporting to the Board the performance of the MPEP and the individual managers in the MPEP
- Managing on an ongoing basis any external resources and notifying the Board of any material changes in these resources
- Reporting any deviations from this Policy to the Board

INVESTMENT SELECTION PROCESS

Portfolio Management: Staff reviews and selects appropriate funds to fulfill the objectives of the pool. The management of the underlying assets will be executed by the General Partners of Fund-of-Funds and/or Direct Limited Partnerships. Fund-of-Funds managers may be chosen to manage assets where particular expertise is required and cannot be provided by Staff or where the Fund-of-Funds manager can cost-effectively provide relevant information/assistance to Staff in the selection of Direct Limited Partnership investments.

Staff shall oversee the construction and maintenance of a pacing analysis. The pacing analysis will use historical private equity data to estimate the level of new commitments needed to maintain MPEP assets at a level that is consistent with MPEP and Pension strategies. The pacing analysis will be reviewed and updated at least biennially.
Staff shall continually review MPEP investments for compliance and performance relative to the following:

MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

- Pace and timing of investment commitments, funding and return of capital;
- Diversity of sectors (industry, geographical, investment style, and others as appropriate);
- Stated objectives specific to the investment;
- The benchmark established for the MPEP

Eligible Investments: Private equity partnership interests are eligible MPEP investments. These private equity partnerships may be Direct Limited Partnerships or vehicles that primarily invest in Direct Limited Partnerships, including Fund-of-Funds and Secondary Funds. MPEP may co-invest with private equity managers in transactions that are suitable for inclusion into a private equity partnership. Individual public or private securities received as distributions from funds and equitized liquidity funds are also permitted to be held in MPEP. Individual public securities received as distributions will be liquidated over a reasonable time period dependent on market conditions.

Strategies and Limitations: Private equity investments are typically classified as follows:

- **Buyout ~~and Corporate~~**: Investments in leveraged buyouts, management buyouts, debt restructuring, or other acquisition strategies and financial restructuring strategies.
- **Venture Capital**: Investments in relatively small but rapidly growing private companies in various stages of development.
- **Distressed**: Either debt or equity securities in troubled companies are purchased and held with the intention of selling them or negotiating a work out plan prior to or during potential bankruptcy or formal restructuring proceedings.
- **Mezzanine:** Privately negotiated subordinated debt investments, usually with an equity warrant attached at a relatively low cost.
- **Special Situations**: Typically, specific industry strategies and unconventional investment opportunities.
- **Secondary**: Purchase of private equity interests from the limited partners of private equity funds. Secondary funds will be classified based on underlying assets.

The following table provides a guideline range with respect to MPEP's strategy diversification. It is important to note that these ranges reference the sum of the pool's net asset value and uncalled commitments.

Strategy	**Policy Range**[1]
Buyout (Distressed, for control, special situations and co-investments) ~~and Corporate~~	~~40% - 75%~~50% - 80%
Venture Capital	10% - 25%
Debt-related (Distressed, not-for-control, & Mezzanine)	0% - 25%

[1]Based on net asset value + uncalled committed capital.

MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

For the purpose of these strategy ranges, Special Situations and Secondary funds will be classified in the category that is most reflective of the underlying investments in the funds.

No more than 7.5% of the aggregate of MPEP net asset value plus uncalled committed capital should be in a single Direct Limited Partnership. No more than 15% of the aggregate of MPEP net asset value plus uncalled committed capital should be placed with a single fund manager.

Risk Considerations: Private Equity investments typically involve the following risks:

- **Financial Risk**: These investments may employ financial leverage (debt) leading to a higher degree of volatility in investment returns. Buyout strategies are characterized by the use of significant levels of debt in their capital structures.
- **Operating and Business Risk**: These investments typically involve operating and business risk, due to risks associated with the underlying businesses being acquired.
- **Valuation Risk**: Given the lack of public pricing of the underlying private equity investments, unrealized asset valuations are based on appraised values.
- **Structure Risk**: The funds involve extensive legal documentation which set out terms that address investment constraints, fund governance, costs, and the distribution of economic returns to investors.
- **Country Risk**: Investing in international alternative investments include all of the risks associated with this particular asset class along with political, economic, and currency risks associated with investing outside of the U.S.
- **Manager Risk**: Fund managers have significant discretion in investing partnership assets. This may lead to funds which are poorly diversified or which contain investments that had not been anticipated by investors. Private equity funds are often dependent on a few key investment staff, the loss of which may materially impact fund operations.
- **Industry Risk**: Private equity firms are permitted to invest in a wide variety of industries without many restrictions. Diversification across industries is the means by which this risk is controlled in a private equity portfolio.

Evaluation Criteria:

- Managers shall demonstrate relevant experience in or directly applicable to the market in which they propose to invest
- Managers shall demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to invest
- Managers shall demonstrate the requisite skills and experience necessary to execute successfully the proposed strategy, including evidence from similar endeavors of their ability to work successfully with Limited Partners
- Managers shall dedicate sufficient time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment

MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

- The Manager's proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors
- The risk/reward trade-off in the particular market in which the Manager proposes to invest shall be attractive based on reasonable assumptions
- Uniqueness of the investment strategy relative to existing Managers
- Integrity and experience of the key principals, employees and the reputation of the firm
- Quality of the partnership corporate governance, including controls and reporting systems
- Relationships with other Limited Partners, particularly public investment boards
- Past investment performance
- Appropriateness of terms and conditions and alignment of interests of the firm's principals with the Limited Partners

MONITORING AND REPORTING

Monitoring:

- Staff shall monitor both individual Managers within MPEP and overall performance of MPEP
- Staff shall assess the performance of Managers relative to the following criteria:
    1. Objectives established by the Managers or the principals managing the investment relative to their stated performance objectives
    2. Degree of risk undertaken
    3. Performance comparisons to other managers with similar investment styles and/or within the same vintage year
    4. The MPEP performance versus the selected benchmark

Reporting:

- Managers shall submit periodic reports to facilitate Staff's monitoring of the Managers' conformance to MPEP policy and performance objectives
- Staff shall provide quarterly reports to the Board that include the results of such monitoring of Managers

OTHER CONSIDERATIONS

Liquidity: Private equity investments are extremely illiquid and participation in these investments is limited to the nine pension funds.

Time Horizon: Private equity investments are classified as long-term in nature. Private equity investment fund positions generally represent 7 to 12 year commitments usually characterized by capital calls occurring during years 1 through 5 with distributions of income or principal realizations during the latter years of the fund life. The final term of

MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

a partnership may sometimes be increased in one-year increments as needed to liquidate underlying assets.

Tax Considerations: Since the investments are made exclusively for the pension funds, there are no tax implications applicable to the MPEP. However, partnerships in which MPEP invests may be structured to minimize tax implications for private investors.

Legal: Legal constraints on the management of investment funds for the State of Montana are defined in MCA 17-6-201. Unified investment program - general provisions:

The unified investment program directed by Article VIII, section 13, of the Montana constitution to be provided for public funds must be administered by the Board of Investments in accordance with the prudent expert principle, which requires any investment manager to:

(a) discharge his duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of like character with like aims;
(b) diversify holdings of each fund to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so, and;
(c) discharge his duties solely in the interest of and for the benefit of the funds.

Client Preferences: MCA section 17-6-201 (3) (b) states…"The Board is urged under the prudent expert principle to invest up to three percent (3%) of retirement funds in Venture Capital companies. Whenever possible, preferences should be given to investments in those Venture Capital companies which demonstrate an interest in making investments in Montana."

MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

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- The performance objective for MPEP is the achievement of long-term net returns (after management fees and general partner’s carried interest) above a benchmark reflecting public equity market returns plus an appropriate premium to compensate for the higher degree of risk**.**

MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

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MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

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- **Distressed**: Either debt or equity securities in troubled companies are purchased and held with the intention of selling them or negotiating a work out plan prior to or during potential bankruptcy or formal restructuring proceedings.
- **Mezzanine:** Privately negotiated subordinated debt investments, usually with an equity warrant attached at a relatively low cost.
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The following table provides a guideline range with respect to MPEP's strategy diversification. It is important to note that these ranges reference the sum of the pool's net asset value and uncalled commitments.

Strategy	Policy Range[1]
Buyout (Distressed, for control, special situations and co-investments)	50% - 80%
Venture Capital	10% - 25%
Debt-related (Distressed, not-for-control, & Mezzanine)	0% - 25%

[1]Based on net asset value + uncalled committed capital.

For the purpose of these strategy ranges, Special Situations and Secondary funds will be classified in the category that is most reflective of the underlying investments in the funds.

No more than 7.5% of the aggregate of MPEP net asset value plus uncalled committed capital should be in a single Direct Limited Partnership. No more than 15% of the aggregate of MPEP net asset value plus uncalled committed capital should be placed with a single fund manager.

Risk Considerations: Private Equity investments typically involve the following risks:

- **Financial Risk**: These investments may employ financial leverage (debt) leading to a higher degree of volatility in investment returns. Buyout strategies are characterized by the use of significant levels of debt in their capital structures.
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- **Valuation Risk**: Given the lack of public pricing of the underlying private equity investments, unrealized asset valuations are based on appraised values.
- **Structure Risk**: The funds involve extensive legal documentation which set out terms that address investment constraints, fund governance, costs, and the distribution of economic returns to investors.
- **Country Risk**: Investing in international alternative investments include all of the risks associated with this particular asset class along with political, economic, and currency risks associated with investing outside of the U.S.
- **Manager Risk**: Fund managers have significant discretion in investing partnership assets. This may lead to funds which are poorly diversified or which contain investments that had not been anticipated by investors. Private equity funds are often dependent on a few key investment staff, the loss of which may materially impact fund operations.
- **Industry Risk**: Private equity firms are permitted to invest in a wide variety of industries without many restrictions. Diversification across industries is the means by which this risk is controlled in a private equity portfolio.

Evaluation Criteria:

- Managers shall demonstrate relevant experience in or directly applicable to the market in which they propose to invest
- Managers shall demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to invest
- Managers shall demonstrate the requisite skills and experience necessary to execute successfully the proposed strategy, including evidence from similar endeavors of their ability to work successfully with Limited Partners
- Managers shall dedicate sufficient time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment
- The Manager's proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors

- The risk/reward trade-off in the particular market in which the Manager proposes to invest shall be attractive based on reasonable assumptions
- Uniqueness of the investment strategy relative to existing Managers
- Integrity and experience of the key principals, employees and the reputation of the firm
- Quality of the partnership corporate governance, including controls and reporting systems
- Relationships with other Limited Partners, particularly public investment boards
- Past investment performance
- Appropriateness of terms and conditions and alignment of interests of the firm's principals with the Limited Partners

MONITORING AND REPORTING

Monitoring:

- Staff shall monitor both individual Managers within MPEP and overall performance of MPEP
- Staff shall assess the performance of Managers relative to the following criteria:
    1. Objectives established by the Managers or the principals managing the investment relative to their stated performance objectives
    2. Degree of risk undertaken
    3. Performance comparisons to other managers with similar investment styles and/or within the same vintage year
    4. The MPEP performance versus the selected benchmark

Reporting:

- Managers shall submit periodic reports to facilitate Staff's monitoring of the Managers' conformance to MPEP policy and performance objectives
- Staff shall provide quarterly reports to the Board that include the results of such monitoring of Managers

OTHER CONSIDERATIONS

Liquidity: Private equity investments are extremely illiquid and participation in these investments is limited to the nine pension funds.

Time Horizon: Private equity investments are classified as long-term in nature. Private equity investment fund positions generally represent 7 to 12 year commitments usually characterized by capital calls occurring during years 1 through 5 with distributions of income or principal realizations during the latter years of the fund life. The final term of a partnership may sometimes be increased in one-year increments as needed to liquidate underlying assets.

MONTANA PRIVATE EQUITY POOL (MPEP)
INVESTMENT POLICY STATEMENT

Tax Considerations: Since the investments are made exclusively for the pension funds, there are no tax implications applicable to the MPEP. However, partnerships in which MPEP invests may be structured to minimize tax implications for private investors.

Legal: Legal constraints on the management of investment funds for the State of Montana are defined in MCA 17-6-201. Unified investment program - general provisions:

The unified investment program directed by Article VIII, section 13, of the Montana constitution to be provided for public funds must be administered by the Board of Investments in accordance with the prudent expert principle, which requires any investment manager to:

(a) discharge his duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of like character with like aims;
(b) diversify holdings of each fund to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so, and;
(c) discharge his duties solely in the interest of and for the benefit of the funds.

Client Preferences: MCA section 17-6-201 (3) (b) states…"The Board is urged under the prudent expert principle to invest up to three percent (3%) of retirement funds in Venture Capital companies. Whenever possible, preferences should be given to investments in those Venture Capital companies which demonstrate an interest in making investments in Montana."

REAL ESTATE INVESTMENT GUIDELINES AND RANGES

The Montana Real Estate Pool (MTRP) was created to permit the nine Montana Retirement Systems to participate in a diversified real estate portfolio, consisting of commercial real estate and timberland. Real estate investments in the MTRP shall be consistent with the following guidelines:

a. **Permissible Investment Structures/Vehicles and Public/Private Allocations**

Investment Structures/Vehicles. The MTRP will include real estate investments, consisting of both open-end and closed-end pooled funds, the advantages and disadvantages of which are described in the following table.

VEHICLE	ADVANTAGES	DISADVANTAGES	LIQUIDITY
Open-Ended Fund	1. Property type diversification. 2. Geographic diversification. 3. Existing investment portfolio to evaluate. 4. Existing manager and fund performance record. 5. Infinite life. 6. Can redeem units in fund.	1. Passive investor. 2. Cannot replace manager. 3. Cannot influence manager decisions regarding acquisitions, financings, and sales. 4. Fee level and structures lack alignment of interests. 5. Lack of manager co-investment. 6. Historically have not sold assets to harvest gains.	Typically within 90 days unless there is an investor queue.
Closed-Ended Fund	1. Skilled value-added/ opportunistic management. 2. Manager organizations and track records. 3. Manager co-investment. 4. Manager-investor enhanced alignment of interests. 5. Asset liquidations by end of term of fund.	1. Illiquid-specified term. 2. Typically blind pools. 3. Cannot redeem interest. 4. Passive investor. 5. Cannot influence manager decisions regarding acquisitions, financings, and sales.	Typically 7 to 10 year terms.

Open-end Commingled Funds. The MTRP portfolio may have significant exposure to open-end commingled funds. The open-end fund investments shall be made primarily to provide (1) timely access to large existing, well-diversified portfolios, (2) reasonable property type and geographic diversification, (3) exposure to larger properties (i.e., over $50 mil.), and (4) reasonable liquidity (i.e., ability to purchase or redeem within 90 days unless there is an investor queue). Reasonable due diligence shall be completed to evaluate open-end commingled funds consistent with these objectives.

Closed-end Commingled Funds. The MTRP portfolio may have significant exposure to closed-end commingled funds. The closed-end fund investments may be made to obtain exposure to timberland and value-added and opportunistic real estate investments. Reasonable due diligence shall be completed prior to selecting closed-end fund investments.

Liquidity. The table below describes different levels of liquidity of real estate investments.

PORTFOLIO LIQUIDITY RANGES	
Degree of Liquidity	**Investment Type**
LIQUID (i.e., can redeem within 30 days if no queue exists)	Select Open-End Funds
MODERATE LIQUIDITY (i.e., can redeem within 90 to 120 days if no queue exists)	Open-End Funds
ILLIQUID (i.e., liquidity is subject to GP discretion until fund termination.)	Closed-End Funds

b. **Expected Investments.**

The categories utilized to classify MTRP real estate investments are: Timberland, Core, Value-Added, and Opportunistic. With the exception of Timberland, the categories are differentiated primarily by risk/return attributes rather than by property type. A description of each category follows.

Timberland. Equity investment in land that is populated with or is intended to produce commercially harvestable timber. Net inflation-adjusted returns are expected to be 5.0 percent to 7.0 percent. Proceeds from the sale of timber and ancillary revenue opportunities, such as recreational leases, will account for the majority of the real return, while land appreciation is expected to approximate the rate of inflation.

Core. Equity investment in operating and substantially-leased institutional quality real estate in the traditional property types (apartments, office, retail, industrial and hotel). Net 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., 67.0 percent of total returns) with appreciation matching or exceeding inflation.

Value-Added. Equity or debt interests in assets requiring rehabilitation, redevelopment, development, lease-up or repositioning. Net returns historically have been in the 8.0 percent to 10.0 percent range (inflation-adjusted and net of fees). Value-added investments frequently involve the repositioning of distressed assets (i.e., not fully leased and operating). For example, a value-added investment may be an office building that is 40.0 percent vacant and needs significant capital to rehabilitate and reposition the property. Investment may also include non-traditional property types (e.g., manufactured housing) which may contain greater risk. Value-added investments typically are expected to generate returns in excess of core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, decreasing the capitalization rate used in selling the asset due to the reduced asset risk resulting from stabilized occupancy. Value-added returns are typically more dependent than core on appreciation returns with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost).

Opportunistic. Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk. Risk may include real estate, financial restructuring, and non-real estate risk. Net returns have been in the 12.0 percent or higher range (inflation-adjusted and net of fees). Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REITs or REOCs. Investments may also be made in non-traditional property types (e.g., self-storage), which typically contain greater risk. Opportunistic returns typically require even greater appreciation returns than value-added (e.g., 50.0 percent of total returns) and in many cases are originated with minimal income in place.

c. **Policy Constraints.**

Policy range targets for MTRP will be reviewed and adjusted periodically going forward with respect to MTRP exposures. Policy range targets include those dealing with investment category (see below), property type (Section e. 1.), geography (Section e. 2.), and leverage (Section f. 1.). Portfolio exposures to these factors will be presented quarterly. Because MTRP investments have limited liquidity, it will typically be impractical to correct deviations from policy range targets through the purchase or sale of assets. Therefore, if actual portfolio holdings should fall outside of policy guidelines, the MTRP shall refrain from investing in funds that would be expected to increase the deviation from policy ranges.

The following table sets forth the long-term investment category policy ranges for the portfolio.

INVESTMENT AND PORTFOLIO RISK/RETURN RANGES		
Risk/Return	**Nominal Return (Net)***	**Policy Range**
Core plus Timberland	6-8%	35%-65%
Value-Added	10-12%	20%-45%
Opportunistic	13-15%	10%-30%

* Assumes 2.5% inflation overall and 100 basis points core management fee, 200 basis points value-added and timberland management and incentive fees, and 300 basis points opportunistic management and incentive fees.

d. **Income and Appreciation Return Mix.**

Real estate investments, depending on their risk/return level, offer varying proportions of expected income/cash yield and appreciation returns. Investments providing higher income/cash yield returns typically will be preferred among investments of comparable expected total returns since income/cash yield returns provide greater return certainty and therefore lower risk. In addition, investments providing preferred or senior income/cash yield returns typically will be preferred among investments providing comparable returns because such features enhance the certainty of return.

e. **Diversification.**

The MTRP portfolio diversification is important in reducing portfolio risk and accomplishing superior risk-adjusted returns. The impact of investments on portfolio diversification, portfolio risk, and risk-adjusted returns shall be considered when evaluating prospective investments. Additionally, the portfolio may have over-weighted exposure in select property types or regions.

1. **Property Type.** Property type diversification is one of the most important diversification features in terms of impact on returns. The property types have historically performed differently during economic cycles. Residential and industrial investments have historically outperformed the other property types during economic downturns. Office has historically underperformed during

economic downturns, as reduced tenant demand results in lower rents, higher owner operating and build-out costs, and reduced income and cash flow. Hotels historically also have underperformed during economic downturns.

Diversification ranges are based on the universe of available real estate investments and institutional investor portfolio information. The following table provides a guideline range with respect to the MTRP property type diversification.

PROPERTY TYPE DIVERSIFICATION RANGES	
Property Type	**Policy Range**
Timberland	0%-35%
Office	15%-45%
Retail	10%-40%
Industrial	5%-35%
Residential	10%-40%
Hotel/Other	5%-25%

2. **Region/Location.** The importance of location to the long-term value of real estate is based on the economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of U.S. and international regions. The distribution of real estate investments by geographic region shall be monitored for compliance with the broad ranges set forth in the table below.

REGIONAL DIVERSIFICATION RANGES	
Regions	**Policy Range**
West	20%-45%
South	10%-40%
Midwest	5%-25%
East	20%-45%
International	0%-30%

Because domestic commercial timberland is primarily concentrated in the South and the Pacific Northwest, the preceding regional diversification ranges shall apply only to non-timberland real estate holdings.

3. **Other.** In addition to property type and regional diversification, there are other real estate factors that impact the portfolio risk which may be reduced through diversification. These portfolio factors may include, but are not limited to, the following:

   a. **Investment Structure.** Equity, preferred equity, first mortgage debt or mezzanine equity. **Investments in public CMBS and REITs are not preferred**.

   b. **Life Cycle.** Land, development/redevelopment, leasing (i.e., less than 90% leased) and operating (i.e., over 90% leased).

   c. **Investment Size.** $0-$10 mil., $10-$20 mil., $20-$50 mil., $50-$100 mil.,

$100 mil.+.

While no formal diversification ranges are set forth for the above portfolio risk factors, these and other factors may be monitored in assessing overall portfolio risk and expected return.

f. **Other Risk Factors**.

1. **Leverage.** Leverage is a significant risk factor. Its importance is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels. It may be the case that the leverage level increases as market conditions worsen.

   On an individual fund basis, the leverage level can range up to 75.0 percent. Leverage consists of the combined borrowing at the property level and the fund level. On a select basis, the leverage may exceed 75.0 percent for a given investment, if it is determined to be reasonable to do so. Leverage shall be monitored on an individual fund level, and new investments shall be made with the intention that the total MTRP portfolio leverage shall not exceed 60.0 percent.

LEVERAGE RANGES	
Risk	**Range**
Timberland	0%-30%
Core	0%-50%
Non-Core	0%-75%
Total Real Estate Portfolio	0%-60%

2. **Monitoring and Control.** All investments will be made through investment vehicles providing full discretion to investment managers.

3. **Manager Concentrations.** The MTRP exposure to each manager shall be reviewed regularly to determine the reasonableness of each. No manager shall have under management more than 25.0 percent of the MTRP's net asset value, unless specifically approved by the Board.

Benchmark. The MTRP benchmark shall be the NCREIF Open End Diversified Core Equity Index (Net) (NFI-ODCE), as a broad measure of investment in low-leveraged commercial real estate. It should be noted that because of the allocation to non-core real estate funds, the pool will be exposed to higher levels of real estate risk which should provide an expected return advantage versus core real estate over long time periods. Because MTRP's underlying funds typically report their returns 30-90 days after quarter-end, the benchmark will be compared on a one-quarter lagged basis. Benchmarking of the Pool should emphasize the comparison of longer-term performance data, ideally a period of time sufficient to encompass an entire real estate market cycle.

REAL ESTATE INVESTMENT GUIDELINES AND RANGES

The Montana Real Estate Pool (MTRP) was created to permit the nine Montana Retirement Systems to participate in a diversified real estate portfolio, consisting of commercial real estate and timberland. Real estate investments in the MTRP shall be consistent with the following guidelines:

a. **Permissible Investment Structures/Vehicles and Public/Private Allocations**

Investment Structures/Vehicles. The MTRP will include real estate investments, consisting of both open-end and closed-end pooled funds, the advantages and disadvantages of which are described in the following table.

VEHICLE	ADVANTAGES	DISADVANTAGES	LIQUIDITY
Open-Ended Fund	1. Property type diversification. 2. Geographic diversification. 3. Existing investment portfolio to evaluate. 4. Existing manager and fund performance record. 5. Infinite life. 6. Can redeem units in fund.	1. Passive investor. 2. Cannot replace manager. 3. Cannot influence manager decisions regarding acquisitions, financings, and sales. 4. Fee level and structures lack alignment of interests. 5. Lack of manager co-investment. 6. Historically have not sold assets to harvest gains.	Typically within 90 days unless there is an investor queue.
Closed-Ended Fund	1. Skilled value-added/ opportunistic management. 2. Manager organizations and track records. 3. Manager co-investment. 4. Manager-investor enhanced alignment of interests. 5. Asset liquidations by end of term of fund.	1. Illiquid-specified term. 2. Typically blind pools. 3. Cannot redeem interest. 4. Passive investor. 5. Cannot influence manager decisions regarding acquisitions, financings, and sales.	Typically 7 to 10 year terms.

Open-end Commingled Funds. The MTRP portfolio may have significant exposure to open-end commingled funds. The open-end fund investments shall be made primarily to provide (1) timely access to large existing, well-diversified portfolios, (2) reasonable property type and geographic diversification, (3) exposure to larger properties (i.e., over $50 mil.), and (4) reasonable liquidity (i.e., ability to purchase or redeem within 90 days unless there is an investor queue). Reasonable due diligence shall be completed to evaluate open-end commingled funds consistent with these objectives.

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Liquidity. The table below describes different levels of liquidity of real estate investments.

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c. **Policy Constraints.**

Policy range targets for MTRP will be reviewed and adjusted periodically going forward with respect to MTRP exposures. Policy range targets include those dealing with investment category (see below), property type (Section e. 1.), geography (Section e. 2.), and leverage (Section f. 1.). Portfolio exposures to these factors will be presented quarterly. Because MTRP investments have limited liquidity, it will typically be impractical to correct deviations from policy range targets through the purchase or sale of assets. Therefore, if actual portfolio holdings should fall outside of policy guidelines, the MTRP shall refrain from investing in funds that would be expected to increase the deviation from policy ranges.

The following table sets forth the long-term investment category policy ranges for the portfolio.

INVESTMENT AND PORTFOLIO RISK/RETURN RANGES

Risk/Return	Nominal Return (Net)*	Policy Range
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Real estate investments, depending on their risk/return level, offer varying proportions of expected income/cash yield and appreciation returns. Investments providing higher income/cash yield returns typically will be preferred among investments of comparable expected total returns since income/cash yield returns provide greater return certainty and therefore lower risk. In addition, investments providing preferred or senior income/cash yield returns typically will be preferred among investments providing comparable returns because such features enhance the certainty of return.

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during economic downturns. Office has historically underperformed during economic downturns, as reduced tenant demand results in lower rents, higher owner operating and build-out costs, and reduced income and cash flow. Hotels historically also have underperformed during economic downturns.

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Property Type	**Policy Range**
Timberland	0%-35%
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Industrial	5%-35%
Residential	10%-40%
Hotel/Other	5%-25%

2. **Region/Location.** The importance of location to the long-term value of real estate is based on the economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of U.S. and international regions. The distribution of real estate investments by geographic region shall be monitored for compliance with the broad ranges set forth in the table below.

REGIONAL DIVERSIFICATION RANGES	
Regions	**Policy Range**
West	20%-45%
South	10%-40%
Midwest	5%-25%
East	20%-45%
International	0%-30%

Because domestic commercial timberland is primarily concentrated in the South and the Pacific Northwest, the preceding regional diversification ranges shall apply only to non-timberland real estate holdings.

3. **Other.** In addition to property type and regional diversification, there are other real estate factors that impact the portfolio risk which may be reduced through diversification. These portfolio factors may include, but are not limited to, the following:

   a. **Investment Structure.** Equity, preferred equity, first mortgage debt or mezzanine equity. **Investments in public CMBS and REITs are not preferred**.

   b. **Life Cycle.** Land, development/redevelopment, leasing (i.e., less than 90% leased) and operating (i.e., over 90% leased).

c. **Investment Size.** $0-$10 mil., $10-$20 mil., $20-$50 mil., $50-$100 mil., $100 mil.+.

While no formal diversification ranges are set forth for the above portfolio risk factors, these and other factors may be monitored in assessing overall portfolio risk and expected return.

f. **Other Risk Factors**.

1. **Leverage.** Leverage is a significant risk factor. Its importance is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels. It may be the case that the leverage level increases as market conditions worsen.

   On an individual fund basis, the leverage level can range up to 75.0 percent. Leverage consists of the combined borrowing at the property level and the fund level. On a select basis, the leverage may exceed 75.0 percent for a given investment, if it is determined to be reasonable to do so. Leverage shall be monitored on an individual fund level, and new investments shall be made with the intention that the total MTRP portfolio leverage shall not exceed 60.0 percent.

LEVERAGE RANGES	
Risk	**Range**
Timberland	0%-30%
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Total Real Estate Portfolio	0%-60%

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3. **Manager Concentrations.** The MTRP exposure to each manager shall be reviewed regularly to determine the reasonableness of each. No manager shall have under management more than 25.0 percent of the MTRP's net asset value, unless specifically approved by the Board.

Benchmark. The MTRP benchmark shall be the NCREIF Open End Diversified Core Equity Index (Net) (NFI-ODCE), as a broad measure of investment in low-leveraged commercial real estate. It should be noted that because of the allocation to non-core real estate funds, the pool will be exposed to higher levels of real estate risk which should provide an expected return advantage versus core real estate over long time periods. Because MTRP's underlying funds typically report their returns 30-90 days after quarter-end, the benchmark will be compared on a one-quarter lagged basis. Benchmarking of the Pool should emphasize the comparison of longer-term performance data, ideally a period of time sufficient to encompass an entire real estate market cycle.

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

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

INTRODUCTION

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

OBJECTIVES

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

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

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

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

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

RISK MANAGEMENT

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

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

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

Style Category	**Tracking Error Range (in basis points)**
Passive	0-30
Long-only active	300-900

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

LIQUDITY

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

ELIGIBLE INVESTMENTS

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

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

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

Currency: At the pool level, MTIP will be managed on an un-hedged basis. However, the active managers are allowed to hedge in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

ALLOCATION

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

Strategy	Approved Range
Large Cap Passive	42% - 66%
Large Cap Active	22% - 32%
Small Cap	~~10~~8% - 16%
Dedicated Emerging Markets	~~2% - 10%~~0% - 5%

ROLES AND RESPONSIBILITIES

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

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

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

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

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

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

LEGAL

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

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

(2) Retirement funds may be invested in common stocks of any corporation.

ADMINISTRATIVE

Securities Lending

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

Shareholder Rights

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

Proxy Voting

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

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

Class Action Litigation

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

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

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

INTRODUCTION

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

OBJECTIVES

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

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

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

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

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

RISK MANAGEMENT

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

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

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

Style Category	Tracking Error Range (in basis points)
Passive	0-30
Long-only active	300-900

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

LIQUDITY

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

ELIGIBLE INVESTMENTS

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

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

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

Currency: At the pool level, MTIP will be managed on an un-hedged basis. However, the active managers are allowed to hedge in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

ALLOCATION

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

Strategy	Approved Range
Large Cap Passive	42% - 66%
Large Cap Active	22% - 32%
Small Cap	8% - 16%
Dedicated Emerging Markets	0% - 5%

ROLES AND RESPONSIBILITIES

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

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

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

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

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

MONTANA INTERNATIONAL EQUITY POOL (MTIP)
INVESTMENT POLICY STATEMENT

LEGAL

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

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

(2) Retirement funds may be invested in common stocks of any corporation.

ADMINISTRATIVE

Securities Lending

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

Shareholder Rights

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

Proxy Voting

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

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

Class Action Litigation

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

LEGAL AND CONSTITUTIONAL AUTHORITY

The Montana Constitution, Article VIII, Section 13, requires that the Legislature provide for a Unified Investment Program for public funds. Section 17-6-201, MCA established the Unified Investment Program, created the Montana Board of Investments (the "Board") and gave the Board sole authority to invest state funds, including the public retirement plans (Plans) in accordance with state law and the state constitution. The Board finds that it is in the best interest of the state's nine retirement Plans to set out investment policies for the Plans in one comprehensive document utilizing the same asset allocation. In the future, individual Plan requirements may vary and this common approach could change. The Board intends to keep this policy updated as it modifies or amends underlying investment related policies. **Click on the links below to view the Board's Governing Law/Constitution and its Governance Policy.**

Governing Law/Constitution

Governance Policy

INTRODUCTION

The purpose of this policy statement is to provide a broad strategic framework for the Plans' investments under the guidance of the Board. The Board manages the assets under the prudent expert principle (Section 17-6-201 MCA), which provides:

> ***that the Board shall manage a portfolio***
> ***a) with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;***
> ***b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and***
> ***(c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.***

Plan assets are commingled for investment purposes into six investment pools created by the Board. The pools are shared, that is co-mingled funds, which operate similar to mutual funds. The use of pools allows for simplified investing and accounting, broader diversification and thus less risk than would otherwise be available for the smaller Plans and provides additional opportunities for fee savings. Each investment pool has an underlying governing investment policy statement providing additional investment guidelines. Each of the nine Plans forming a part of the investment pools are separately identified for accounting and record keeping purposes. **Click on the links below to view the Investment Policy Statement for each pool.**

Montana Domestic Equity Pool (MDEP)

Montana International Equity Pool (MTIP)

Montana Retirement Funds Bond Pool (RFBP)

Montana Real Estate Pool (MTRP)

Montana Private Equity Pool (MPEP)

Short-Term Investment Pool (STIP)

Investment Objective

The Board's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Because of the long-term nature of the state's various pension liabilities, the Board maintains a long-term perspective in formulating and implementing its investment policies, and in evaluating its investment performance. Investment performance is measured by three integrated long-term return objectives:

- The ***actuarial target rate of return*** is the key actuarial assumption affecting future funding rates and liabilities. Investment performance that exceeds or underperforms the target rate may materially impact future funding rates and liabilities. The Board seeks to generate long term investment performance that will exceed the actuarial annual target rate of return of 7.75%, net of all investment and administrative expenses. There may be years, or a period of years, when the Plans do not achieve this goal followed by years when the goal is exceeded. But over a long period of time, the Board seeks to achieve an average net rate of return of 7.75% at risk levels (measured by expected volatility) broadly consistent with other public fund peers.
- The ***investment policy benchmark*** is calculated by applying the investment performance of the asset class benchmarks to the Plans' actual asset allocation during the measurement period. The investment policy benchmark represents the return that would be achieved if the Plan implemented a passively managed portfolio. Deviations from the policy benchmark measure the contribution of active investment management throughout the fund, rebalancing policy and its execution, and investment implementation generally.
- The Board also compares each Plan's total performance, before all fees, to appropriate ***public plan sponsor universes***. This process permits the Board to compare its total performance to other public pension plans. While the Board seeks to rank consistently in the top half of comparable public pension plans, the Board recognizes that other plans may have investment objectives and risk tolerances that differ substantially from the Board's.

The Board expects to meet or exceed these objectives over a long-term investment horizon. Over shorter periods, the anticipated market volatility and specific actions, including risk mitigation efforts of the Board relative to other pension plans may lead to unfavorable, but expected, deviation from these objectives.

Asset Allocation

The Board, as the investment fiduciary of the Plans, is responsible for establishing the investment parameters for the Plans. The Board has the authority to allocate portfolios to any previously board-approved asset class in the proportions it considers prudent, under the prudent expert rule. There are currently no statutory or constitutional restrictions on the investment of the Plans. Asset allocation decisions made by the Board must be made in a public meeting.

The current asset allocation ranges for the Plans are attached as **exhibit A**. The asset allocation ranges are subject to change as modifications are adopted by the Board, at which time the attached **exhibit A** will be revised to reflect these changes. The Board will formally affirm or revise the asset allocation ranges for the Plans at least annually.

Rebalancing

The actual asset allocation mix may deviate from time to time from the approved asset allocation ranges due to financial market performance, cash flows, and manager performance. Material deviations from the asset allocation ranges can alter the expected return and risk of the Plans. Rebalancing the Plans' assets to remain within the Board-approved allocation ranges is delegated to the Chief Investment Officer (CIO), in consultation with the Executive Director. Any necessary rebalancing will be made in a timely manner and will take into consideration associated costs and current market conditions. In addition to maintaining actual allocations within the ranges, the CIO will also consider contractual investment commitments to private equity and real estate partnerships, the liquidity necessary to meet benefit payments and administrative costs for the Plans, and current market conditions. This may prompt asset rebalancing when asset allocations fall within the established ranges. The CIO shall inform the Board of rebalancing activity at the Board's next regularly scheduled meeting.

Exercise of Shareholder Rights

The Board recognizes that publicly traded securities and other assets of the Plans include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation. The Board will prudently manage these assets of the Plans for the exclusive purpose of enhancing the value of the Plans for its participating systems' members and beneficiaries through such means as adopting and implementing a proxy voting policy and undertaking productive, cost-effective action to exercise its rights as shareholders or claimants in litigation. The Board will participate in all class action securities litigation to which it is entitled and may, pursuant to its securities litigation policy, serve as lead or co-lead plaintiff for the benefit of the Plans. These policies are further described in the underlying investment policy statements appropriate for the respective investment pools and in the governance policy.

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, 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. In addition, the Board requires that the risks assumed and the administrative resources committed to monitor those risks are commensurate with the program's income potential. 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. The Board's participation in securities lending may change over time given Plan activity, market conditions and the agent agreement.

Exhibit A

Pension Fund
Asset Allocations
58 -72% Equities Range

Domestic Equity Pool

28% - 44%

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

Real Estate Pool

6% - 10%

Investment Type	Range
Core/Timberland *	35% - 65%
Value Added	20% - 45%
Opportunistic	10% - 30%

* Timberland may not exceed 2% of total pension assets

International Equity Pool

14% - 22%

Investment Type	Range
Large Cap Passive	42% - 66%
Large Cap Active	22% - 32%
Small Cap	8%~~10%~~ - 16%
Dedicated Emerging Markets	0% - 5% ~~2% - 10%~~

Private Equity Pool

9% - 15%

Investment Type	Range
Buyouts	50% - 80% ~~40% - 75%~~
Venture Capital	10% - 25%
Debt Related	0% - 25%

Retirement Funds Bond Pool

22% - 30%

Investment Type	Range
Domestic High Yield	0% - 15%
International	0% - 10%
Total High Yield/International	0% - 20%
Domestic Core(investment grade)	80% - 100%

Short Term Investment Pool

1% - 5%

Short-term liquid investments
High-quality Investments
24 Hour Liquidity for Participants

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

Nine Public Retirement Plans

- Public Employees Retirement System
- Teachers Retirement System
- Police Officers Retirement
- Firefighters Retirement
- Sheriffs Retirement
- Highway Patrol Retirement
- Game Wardens Retirement
- Judges Retirement
- Volunteer Firefighters Retirement

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The Montana Constitution, Article VIII, Section 13, requires that the Legislature provide for a Unified Investment Program for public funds. Section 17-6-201, MCA established the Unified Investment Program, created the Montana Board of Investments (the "Board") and gave the Board sole authority to invest state funds, including the public retirement plans (Plans) in accordance with state law and the state constitution. The Board finds that it is in the best interest of the state's nine retirement Plans to set out investment policies for the Plans in one comprehensive document utilizing the same asset allocation. In the future, individual Plan requirements may vary and this common approach could change. The Board intends to keep this policy updated as it modifies or amends underlying investment related policies. **Click on the links below to view the Board's Governing Law/Constitution and its Governance Policy.**

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The Board's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Because of the long-term nature of the state's various pension liabilities, the Board maintains a long-term perspective in formulating and implementing its investment policies, and in evaluating its investment performance. Investment performance is measured by three integrated long-term return objectives:

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- The Board also compares each Plan's total performance, before all fees, to appropriate ***public plan sponsor universes***. This process permits the Board to compare its total performance to other public pension plans. While the Board seeks to rank consistently in the top half of comparable public pension plans, the Board recognizes that other plans may have investment objectives and risk tolerances that differ substantially from the Board's.

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The Board, as the investment fiduciary of the Plans, is responsible for establishing the investment parameters for the Plans. The Board has the authority to allocate portfolios to any previously board-approved asset class in the proportions it considers prudent, under the prudent expert rule. There are currently no statutory or constitutional restrictions on the investment of the Plans. Asset allocation decisions made by the Board must be made in a public meeting.

The current asset allocation ranges for the Plans are attached as **exhibit A**. The asset allocation ranges are subject to change as modifications are adopted by the Board, at which time the attached **exhibit A** will be revised to reflect these changes. The Board will formally affirm or revise the asset allocation ranges for the Plans at least annually.

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The Board recognizes that publicly traded securities and other assets of the Plans include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation. The Board will prudently manage these assets of the Plans for the exclusive purpose of enhancing the value of the Plans for its participating systems' members and beneficiaries through such means as adopting and implementing a proxy voting policy and undertaking productive, cost-effective action to exercise its rights as shareholders or claimants in litigation. The Board will participate in all class action securities litigation to which it is entitled and may, pursuant to its securities litigation policy, serve as lead or co-lead plaintiff for the benefit of the Plans. These policies are further described in the underlying investment policy statements appropriate for the respective investment pools and in the governance policy.

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, 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. In addition, the Board requires that the risks assumed and the administrative resources committed to monitor those risks are commensurate with the program's income potential. 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. The Board's participation in securities lending may change over time given Plan activity, market conditions and the agent agreement.

Exhibit A

Pension Fund
Asset Allocations
58 -72% Equities Range

Domestic Equity Pool (28% - 44%)

Investment Type	Range
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Mid Cap	6% - 17%
Small Cap	3% - 11%

International Equity Pool (14% - 22%)

Investment Type	Range
Large Cap Passive	42% - 66%
Large Cap Active	22% - 32%
Small Cap	8% - 16%
Dedicated Emerging Markets	0% - 5%

Retirement Funds Bond Pool (22% - 30%)

Investment Type	Range
Domestic High Yield	0% - 15%
International	0% - 10%
Total High Yield/International	0% - 20%
Domestic Core(investment grade)	80% - 100%

Real Estate Pool (6% - 10%)

Investment Type	Range
Core/Timberland *	35% - 65%
Value Added	20% - 45%
Opportunistic	10% - 30%

* Timberland may not exceed 2% of total pension assets

Private Equity Pool (9% - 15%)

Investment Type	Range
Buyouts	50% - 80%
Venture Capital	10% - 25%
Debt Related	0% - 25%

Short Term Investment Pool (1% - 5%)

Short-term liquid investments
High-quality Investments
24 Hour Liquidity for Participants

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

Nine Public Retirement Plans

Public Employees Retirement System
Teachers Retirement System
Police Officers Retirement
Firefighters Retirement
Sheriffs Retirement
Highway Patrol Retirement
Game Wardens Retirement
Judges Retirement
Volunteer Firefighters Retirement

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 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

Board of Investments Commercial Loan Policy

~~Approved: May 29, 2013~~Pending Approval April 8, 2014

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 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 appraisal requirements are shown below:

Appraisal requirements are based on the total loan amount:

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~~
Over 250,000	Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice. (a Restricted Appraisal Report CANNOT BE USED)

~~*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 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 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

Board of Investments Commercial Loan Policy

Approved April 8, 2014

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 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 appraisal requirements are shown below:

Appraisal requirements are based on the total loan amount:

Up To $250,000	As required by Lender to provide basis for value
Over 250,000	Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice. (a Restricted Appraisal Report CANNOT BE USED)

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 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

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 2013 "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	36,289	544,335	Aggregate Salaries Required For=>	2.00%
13	41,872	544,335	Aggregate Salaries Required For=>	2.00%
10	54,434	544,335	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, 2013 – 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 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 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;
(b) The following appraisal requirements apply to all appraisals irrespective of the lender's appraisal or loan policy appraisal requirements.
(c) Real Property appraisal requirements are shown below:

Appraisal requirements are based on the total loan amount:

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~~	
Over $250,000	Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice. (a Restricted Appraisal Report CANNOT BE USED)

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 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**.
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For additional forms and assistance call or E-mail:

(406) 444-1218 hkulow@mt.gov

Value – Added Loan Policy & Application

Approved April 8, 2014

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 2013 "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	36,289	544,335	Aggregate Salaries Required For=>	2.00%
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10	54,434	544,335	Aggregate Salaries Required For=>	2.00%
8	65,498	523,980	Aggregate Salaries Required For=>	2.00%
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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, 2013 – 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 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 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

Value – Added Loan Policy & Application

Approved April 8, 2014

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;

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

(c) Real Property appraisal requirements are shown below:

<u>Appraisal requirements are based on the total loan amount:</u>

Up To $250,000	As required by Lender to provide basis for value
Over $250,000	Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice. (a Restricted Appraisal Report CANNOT BE USED)

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 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:

(406) 444-1218 hkulow@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"
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INFRASTRUCTURE LOAN POLICY

~~Approved: May 29, 2013~~Pending Approval April 8, 2014

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.
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 or loan documents 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:

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~~	
Over $250,000	Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice. (a Restricted Appraisal Report CANNOT BE USED)

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. If there are not a sufficient number of jobs created within the first four years of the infrastructure loan, the basic sector business:
   i. Will have 90 additional days to create those jobs, or
   ii. 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.

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

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 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:

(406) 444-1218 hkulow@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

Approved April 8, 2014

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;
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MEMORANDUM

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

To: Members of the Board

From: David Ewer, Executive Director

Date: April 8, 2014

Subject: Custodial Bank Request for Proposal

Background

The Board currently uses State Street Bank (the "Bank") as its custodial bank. The Bank's contract expires October 31, 2014 and by law, may not be extended; however, the Bank may rebid for the contract. Board staff, working with the State's Department of Administration Procurement Bureau staff and with R. V. Kuhns' staff, has prepared a Request for Proposal (RFP). The actual RFP, approximately 80 pages, will be emailed to members in pdf format. The RFP is separated into six sections: Introduction and Instructions, RFP Standard Information, Scope of Services, Offeror Qualifications, Cost Proposal, and Evaluation Process. Multiple RFP Questionnaires (related to Scope of Services) and Appendices are provided within the RFP to solicit detailed technical proposal information. Also the RFP provides prospective Offerors with detailed information regarding the BOI's investment process and types of holdings.

Custodial Bank RFP Highlights

- State Contract – This is a contract under state procurement law and is a State, not Board contract.
- Offered Price – Under state law, at least 20% of the score must be based on offered price.
- Eligibility – Given the complexity of the Board's portfolio and requirements, minimum qualifications are significant: Only the largest market participants are deemed capable of providing services and therefore eligible to respond.
- Scope – Eligible offerors are sophisticated and offer comprehensive custodial banking services. The successful offeror will need to show at the outset successful integration with the Board's systems, investment pool logistics, and other service demands.
- The bid – We are requiring a bid for a full scope of custodial banking services with and ***without*** securities lending. A very limited set of incremental additional fees will be permitted.
- Term of Contract – We are offering a seven year contract, the maximum allowed by state law, to obtain the most aggressive bid. We acknowledge this contract must be considered a long-term relationship.
- Timeline – It's tight. Even with the release of the RFP after the April Board meeting, staff realizes it is not feasible to expect a staff recommendation until the Board's scheduled August meeting.

- Staffing – Given personnel and client service are key success factors and turnover is a concern, finalists will be required to provide an effective servicing approach and a stable team to work directly on the Board's relationship.
- Evaluation – The scoring will be by consensus and will be held in a publicly noticed meeting open to the public. Procurement staff will be present.
- Finalists will provide an on-site demonstration of their products.
- August Meeting – Staff will present a review of the evaluation process and the bid, answer questions and recommend the final selection.

R. V. Kuhns' staff has worked extensively with Board staff in creating this RFP. State procurement staff has been present at every drafting meeting as well.

Recommendation

Assuming Board discussion and satisfaction regarding this RFP, staff will recommend specifically to "***allow the staff and state procurement bureau to issue the RFP for custodial banking services posthaste."***

Return to Agenda

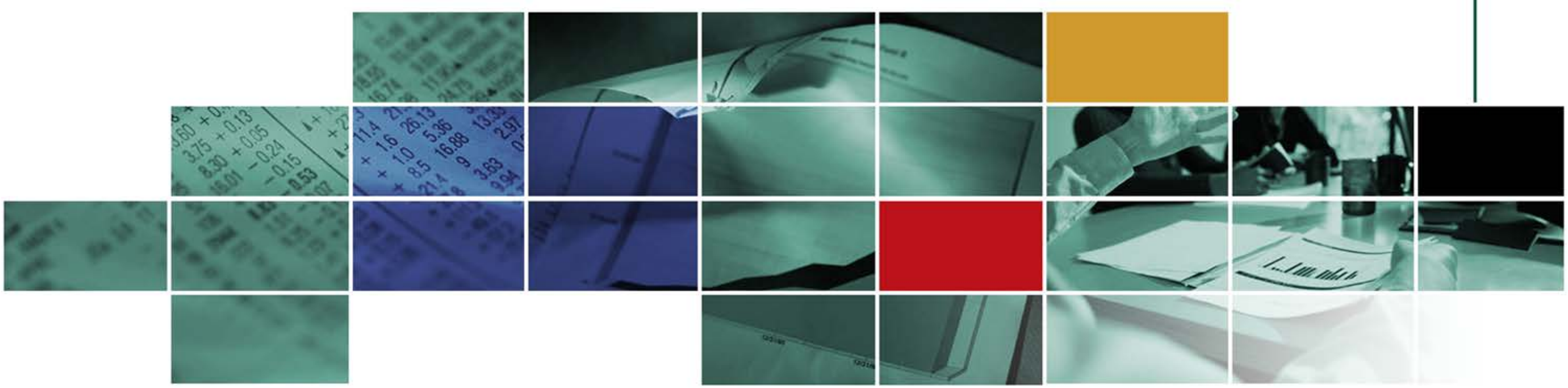
Investment Consultant

RVKuhns & ASSOCIATES, INC.

Terminated Manager Review

Montana State Board of Investment

March 2014



Manager Termination Decision Summary

Key Investment Manager Termination Drivers

Strategic/Structural Changes

These terminations were necessary to make desired strategic and structural changes to the MBOI portfolio. Examples include:

1. Shifting of desired exposures (e.g., global equity)
2. Change in desired level of active management
3. Shift in desired style exposures (e.g., reduction of quantitative-oriented funds)

Examples:

- Martingale 130/30 – U.S. Large Cap
- Western Asset U.S. Index Plus – U.S. Large Cap
- Columbus Circle – U.S. Large Cap
- Rainier Investment – U.S. Large Cap
- Renaissance Investment – U.S. Large Cap
- Barrow Hanley – U.S. Large Cap
- Quantitative Management – U.S. Large Cap
- Martingale Mid Cap – U.S. Mid Cap
- Batterymarch Financial – Int’l Large Cap Equity
- BlackRock Global Ex-U.S. Alpha Tilts – Int’l Large Cap Equity
- Principal Investors – Int’l Large Cap Equity
- Nomura Asset Management – Int’l Equity Pacific Basin

Manager Concerns

These include terminations that were necessary due to manager specific concerns that MBOI staff determined to be detrimental to future performance. Examples of termination drivers include, but are not limited to:

1. Significant change in organizational structure
2. Significant shift in investment style or philosophy
3. Departure of key staff
4. Risk management failure

Examples:

- Goldman Sachs Enhanced U.S. Large Cap
- Artio International Equity – Int’l Equity
- AXA Rosenberg Int’l Small Cap
- NorthPointe Capital – U.S. Small Cap

Importance of Behavioral Bias Awareness

The manager evaluation process is subject to well-known behavioral finance biases, which may lead to sub-optimal decisions. Key biases that should be considered include:

Individual Biases

1. ***Loss Avoidance:*** Losses and gains are viewed differently. The pain felt from the loss of $1 is greater than the reward from the gain of $1.
2. ***Recency:*** The tendency to place greater emphasis on recent events than earlier events.
3. ***Endowment:*** The tendency to place greater value on what you currently have, purely because it is yours. This can hinder positive change.
4. ***Confirmation:*** Placing more weight to evidence which supports your beliefs, while at the same time ignoring contradictory evidence.

Group Biases

1. ***Action Bias:*** Groups tend to prefer action over inaction.
2. ***Polarization:*** Groups tend to gravitate towards more extreme decisions than do individuals.
3. ***Authority Bias:*** Groups tend to support the ideas of authority figures within the group (i.e. the Chair).

Drivers of MBOI Terminations

Manager	Asset Class	Termination	Primary Driver
Goldman Sachs Enhanced US Large Cap Collective Trust (CF)	US Equity LCC	9/30/2009	Performance
Martingale 130/30 (SA)	US Equity LCC	9/30/2010	Strategic – Reduction of exposure to quant strategies
Western Asset U.S. Index Plus (CF)*	US Equity LCC	6/30/2012	Strategic – Reduction of exposure to portable alpha
Columbus Circle Investors (SA)	US Equity LCG	6/30/2012	Strategic – Reduction of active large cap exposure
Rainier Investment (SA)	US Equity LCG	6/30/2012	Strategic – Reduction of active large cap exposure
Renaissance Investment (SA)	US Equity LCG	9/30/2010	Structural – Investment style overlap
Barrow Hanley (SA)	US Equity LCV	6/30/2012	Strategic – Reduction of active large cap exposure
Quantitative Mgmt (SA)	US Equity LCV	6/30/2012	Strategic – Reduction of active large cap exposure
Martingale MidCap Core (SA)	US Equity MCC	9/30/2010	Strategic – Reduction of exposure to quant strategies
NorthPointe Capital LLC (SA)	US Equity SCG	9/30/2010	Performance – Organizational instability
Artio International Equity II (SA)*	Int'l Equity LCC	12/31/2011	Performance – Organizational instability
Batterymarch Financial Mgmt. (SA)	Int'l Equity LCC	10/31/2012	Strategic – Reduction of active large cap exposure
BlackRock Global Ex-US Alpha Tilts A (CF)	Int'l Equity LCC	10/31/2012	Strategic – Reduction of active large cap exposure
Principal Global Investors (SA)	Int'l Equity LCG	9/30/2009	Structural – Incompatible with desired EM exposure
AXA Rosenberg International Small Cap Institutional Fund	Int'l Equity SC	4/30/2010	Performance - Material risk management failure
Nomura Asset Management (SA)	Int'l Equity Pacific Basin	9/30/2009	Strategic – Restructuring of pool to global equity strategy

***Funds no longer exist**

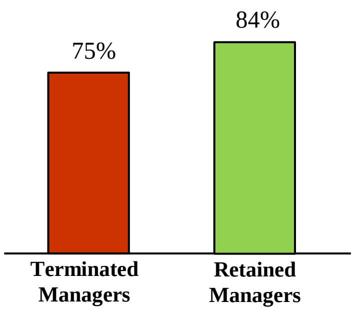
Analysis of MBOI Termination Decisions

Manager Termination Summary

1. Since September 2009, MBOI terminated 16 active managers (10 domestic equity and 6 international equity).
2. 12 managers were terminated for structural/strategic reasons; 4 managers were terminated for performance/organizational reasons.

Relative MBOI Manager Performance Post-Termination

Percent of Active Managers that Outperformed Their Benchmark
(Trailing 3-Years)



Average Percentile Rank of Terminated vs. Retained Managers
(Trailing 1 Year)

RVKuhns & ASSOCIATES, INC.

Appendix

Terminated Manager Analysis

Montana Board of Investments
Goldman Sachs Enhanced Large Cap vs. S&P 500 Index (Cap Wtd)
eA US Equity LCC Universe

Performance Leading Up to Manager Hire (06/30/2006)

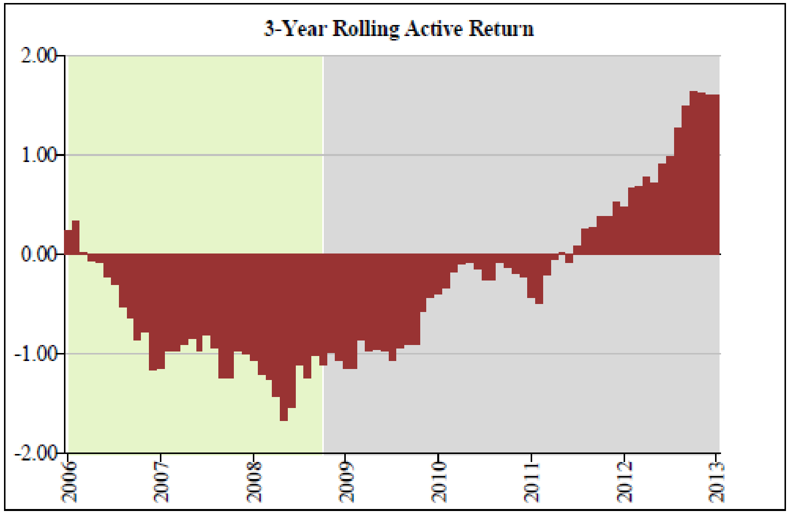
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Goldman Sachs Enhanced Large Cap	**-1.23**	**-2.90**	**9.29**	**NA**	**NA**	**NA**	**NA**	**NA**
S&P 500 Index (Cap Wtd)	0.14	-1.44	8.63	NA	NA	NA	NA	NA
Difference	-1.37	-1.46	0.66	NA	NA	NA	NA	NA
Percentile Rank	97	82	58	NA	NA	NA	NA	NA

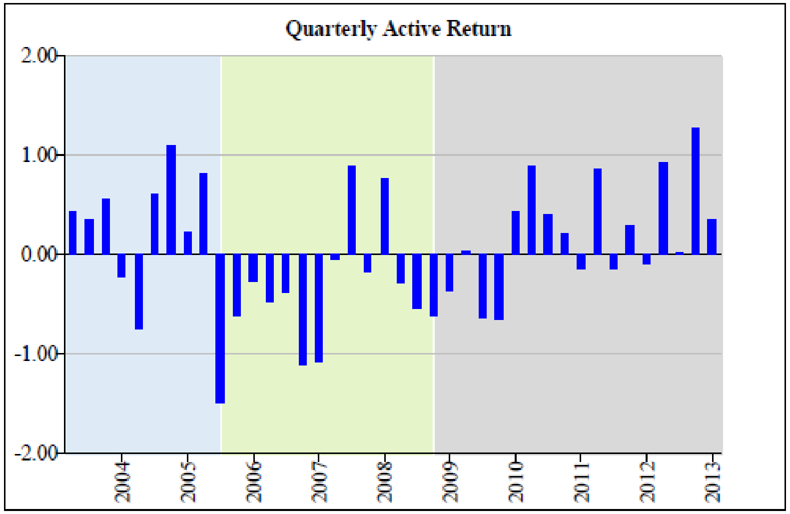
Trailing Performance Ending One Month Prior to Fire (09/30/2009)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Goldman Sachs Enhanced Large Cap	**3.33**	**14.92**	**-7.42**	**-6.42**	**NA**	**NA**	**NA**	**-4.51**
S&P 500 Index (Cap Wtd)	3.73	15.61	-6.91	-5.43	NA	NA	NA	-3.40
Difference	-0.40	-0.69	-0.51	-0.99	NA	NA	NA	-1.11
Percentile Rank	74	48	74	91	NA	NA	NA	89

Post-Termination Performance (09/30/2009)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Goldman Sachs Enhanced Large Cap	**-1.74**	**5.67**	**8.40**	**13.61**	**NA**	**NA**	**NA**	**17.44**
S&P 500 Index (Cap Wtd)	-1.86	6.04	10.16	13.20	NA	NA	NA	16.49
Difference	0.12	-0.37	-1.76	0.41	NA	NA	NA	0.95
Percentile Rank	44	61	66	25	NA	NA	NA	20





Montana Board of Investments
Martingale 130/30 vs. S&P 500 Index (Cap Wtd)
eA US Equity LCC Universe

Performance Leading Up to Manager Hire (03/31/2008)

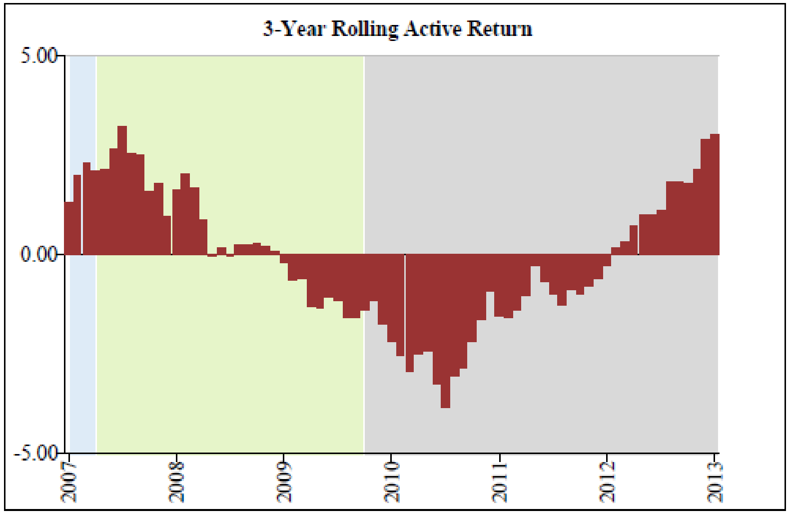
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Martingale 130/30	**-0.17**	**-6.31**	**-2.11**	**8.17**	**NA**	**NA**	**NA**	**NA**
S&P 500 Index (Cap Wtd)	-0.43	-9.44	-5.08	5.85	NA	NA	NA	NA
Difference	0.26	3.13	2.97	2.32	NA	NA	NA	NA
Percentile Rank	35	16	45	27	NA	NA	NA	NA

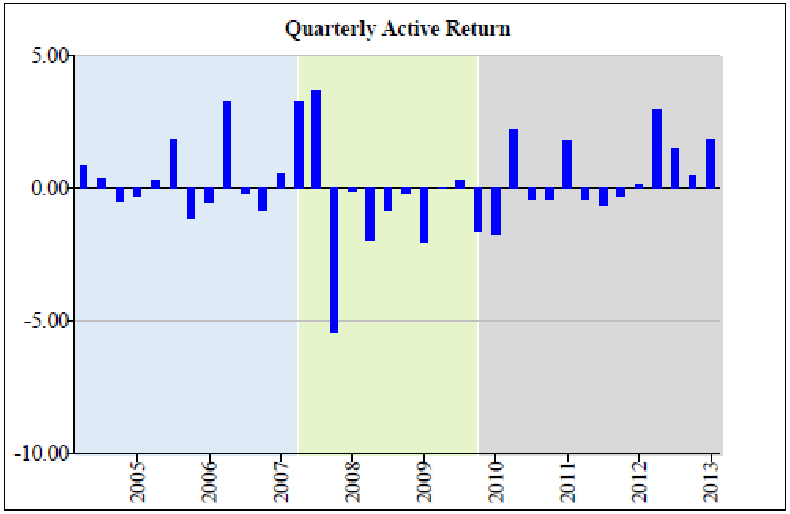
Trailing Performance Ending One Month Prior to Fire (09/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Martingale 130/30	**8.93**	**9.58**	**6.78**	**NA**	**NA**	**NA**	**NA**	**-6.55**
S&P 500 Index (Cap Wtd)	8.92	11.29	10.16	NA	NA	NA	NA	-3.53
Difference	0.01	-1.71	-3.38	NA	NA	NA	NA	-3.02
Percentile Rank	64	82	81	NA	NA	NA	NA	97

Post-Termination Performance (09/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Martingale 130/30	**3.87**	**8.85**	**0.84**	**18.22**	**NA**	**NA**	**NA**	**21.02**
S&P 500 Index (Cap Wtd)	3.80	10.76	1.14	16.27	NA	NA	NA	18.52
Difference	0.07	-1.91	-0.30	1.95	NA	NA	NA	2.50
Percentile Rank	49	85	49	10	NA	NA	NA	5





Montana Board of Investments
Western Asset U.S. Index Plus vs. S&P 500 Index (Cap Wtd)
eA US Equity LCC Universe

Performance Leading Up to Manager Hire (5/31/2006)

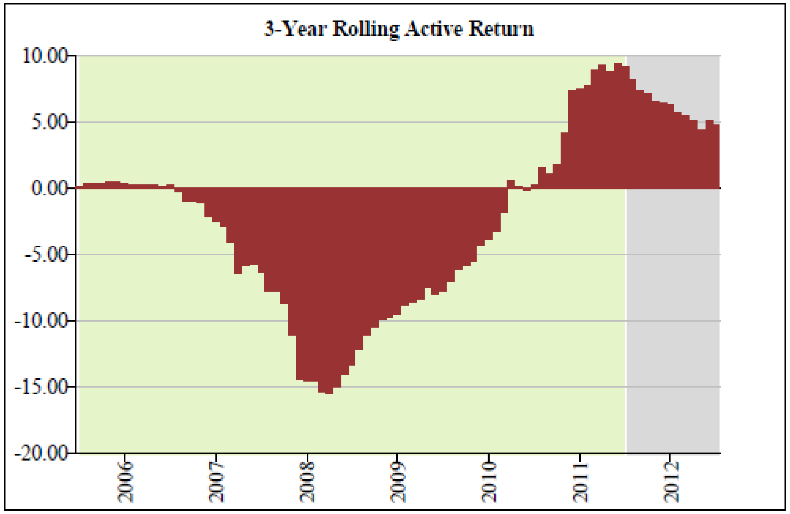
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Western Asset U.S. Index Plus	**-2.89**	**-0.42**	**9.25**	**NA**	**NA**	**NA**	**NA**	**NA**
S&P 500 Index (Cap Wtd)	-2.88	-0.35	8.64	NA	NA	NA	NA	NA
Difference	-0.01	-0.07	0.61	NA	NA	NA	NA	NA
Percentile Rank	46	57	68	NA	NA	NA	NA	NA

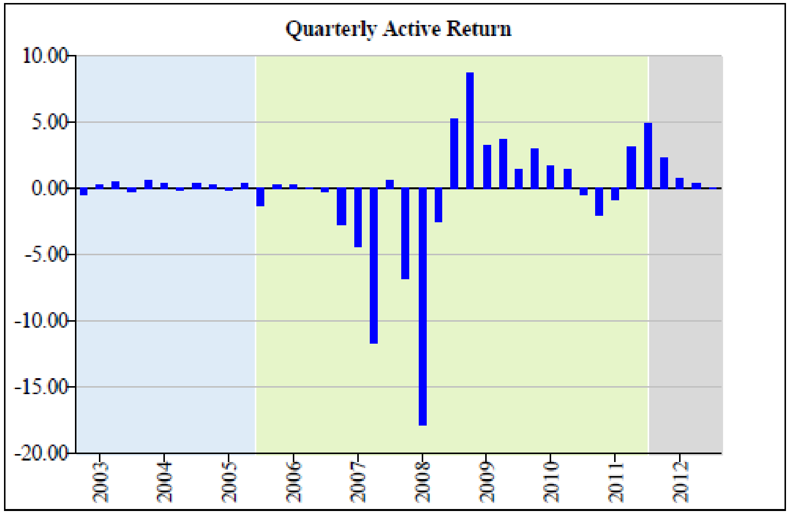
Trailing Performance Ending One Month Prior to Fire (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Western Asset U.S. Index Plus	**4.62**	**2.26**	**10.81**	**27.12**	**-3.54**	**NA**	**NA**	**-0.07**
S&P 500 Index (Cap Wtd)	4.12	-2.75	5.45	16.40	0.22	NA	NA	3.33
Difference	0.50	5.01	5.36	10.72	-3.76	NA	NA	-3.40
Percentile Rank	8	1	3	1	99	NA	NA	100

Post-Termination Performance (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Western Asset U.S. Index Plus	**2.43**	**8.79**	**24.70**	**NA**	**NA**	**NA**	**NA**	**24.70**
S&P 500 Index (Cap Wtd)	1.39	6.35	20.60	NA	NA	NA	NA	20.60
Difference	1.04	2.44	4.10	NA	NA	NA	NA	4.10
Percentile Rank	7	3	11	NA	NA	NA	NA	11





***Product closed effective June 30, 2013**

Montana Board of Investments
Columbus Circle Investors - LCG vs. Russell 1000 Growth Index
eA US Equity LCG Universe

Performance Leading Up to Manager Hire (8/31/2007)

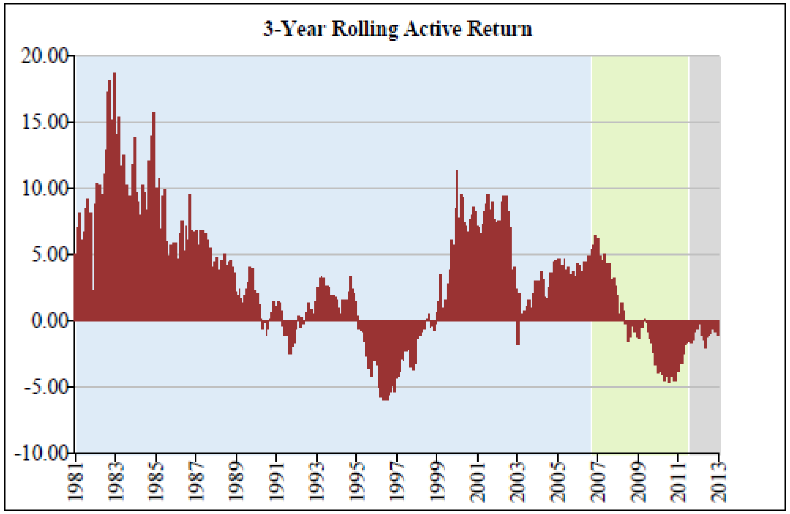
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Columbus Circle Investors - LCG	**1.98**	**1.65**	**22.45**	**17.08**	**13.92**	**0.33**	**9.27**	**12.06**
Russell 1000 Growth Index	1.59	-1.47	17.70	11.02	10.46	-4.97	4.14	8.81
Difference	0.39	3.12	4.75	6.06	3.46	5.30	5.13	3.25
Percentile Rank	40	11	15	13	25	40	21	44

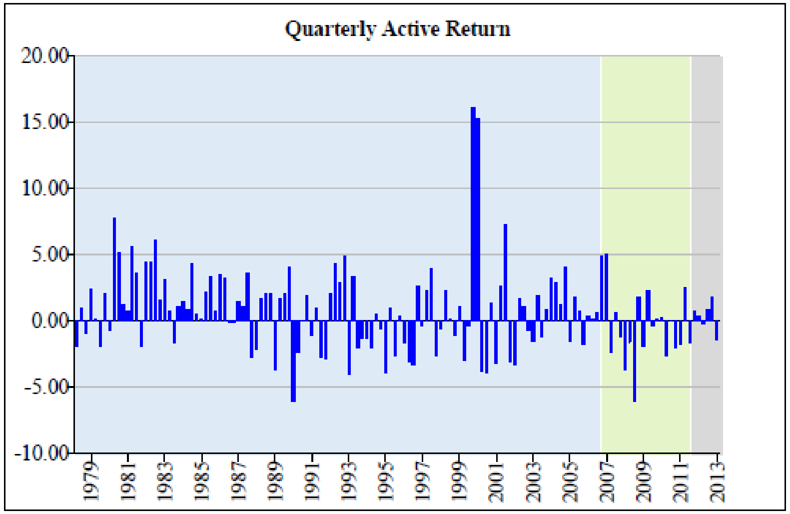
Trailing Performance Ending One Month Prior to Fire (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Columbus Circle Investors - LCG	**1.59**	**-5.64**	**2.47**	**16.05**	**NA**	**NA**	**NA**	**0.83**
Russell 1000 Growth Index	2.72	-4.02	5.76	17.50	NA	NA	NA	2.96
Difference	-1.13	-1.62	-3.29	-1.45	NA	NA	NA	-2.13
Percentile Rank	89	62	54	46	NA	NA	NA	80

Post-Termination Performance (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Columbus Circle Investors - LCG	**0.50**	**6.88**	**19.10**	**NA**	**NA**	**NA**	**NA**	**26.82**
Russell 1000 Growth Index	1.34	6.11	17.07	NA	NA	NA	NA	25.01
Difference	-0.84	0.77	2.03	NA	NA	NA	NA	1.81
Percentile Rank	60	35	28	NA	NA	NA	NA	42





Montana Board of Investments
Rainier Investment - LCG vs. Russell 1000 Growth Index
eA US Equity LCG Universe

Performance Leading Up to Manager Hire (8/31/2007)

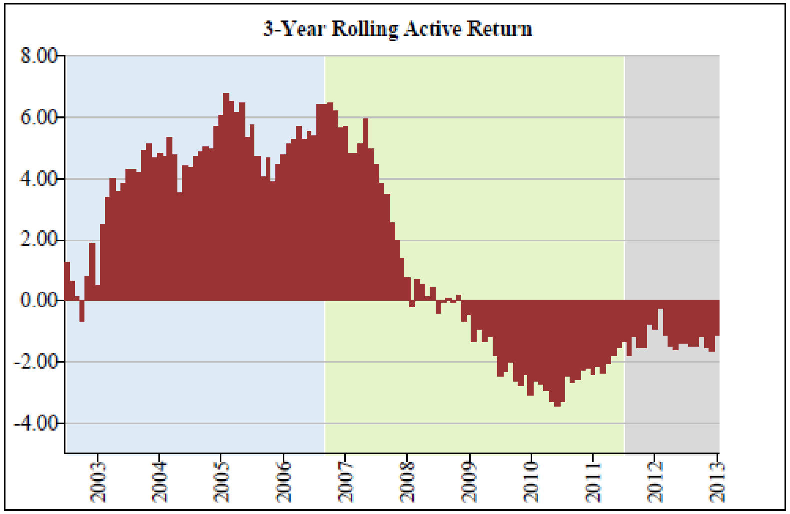
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Rainier Investment - LCG	**1.17**	**0.74**	**26.10**	**18.09**	**15.89**	**-2.68**	**NA**	**NA**
Russell 1000 Growth Index	1.59	-1.47	17.70	11.02	10.46	-4.97	NA	NA
Difference	-0.42	2.21	8.40	7.07	5.43	2.29	NA	NA
Percentile Rank	79	20	5	8	11	71	NA	NA

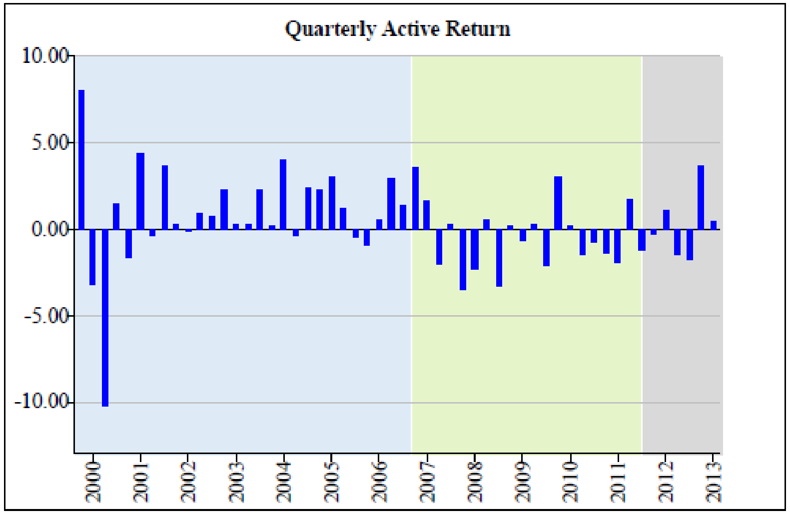
Trailing Performance Ending One Month Prior to Fire (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Rainier Investment - LCG	**2.30**	**-5.26**	**2.53**	**15.66**	**NA**	**NA**	**NA**	**0.65**
Russell 1000 Growth Index	2.72	-4.02	5.76	17.50	NA	NA	NA	2.96
Difference	-0.42	-1.24	-3.23	-1.84	NA	NA	NA	-2.31
Percentile Rank	64	52	53	50	NA	NA	NA	82

Post-Termination Performance (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Rainier Investment - LCG	**0.23**	**5.75**	**14.23**	**NA**	**NA**	**NA**	**NA**	**26.23**
Russell 1000 Growth Index	1.34	6.11	17.07	NA	NA	NA	NA	25.01
Difference	-1.11	-0.36	-2.84	NA	NA	NA	NA	1.22
Percentile Rank	71	68	81	NA	NA	NA	NA	48





Montana Board of Investments
Renaissance Investment - LCG vs. Russell 1000 Growth Index
eA US Equity LCG Universe

Performance Leading Up to Manager Hire (09/30/2007)

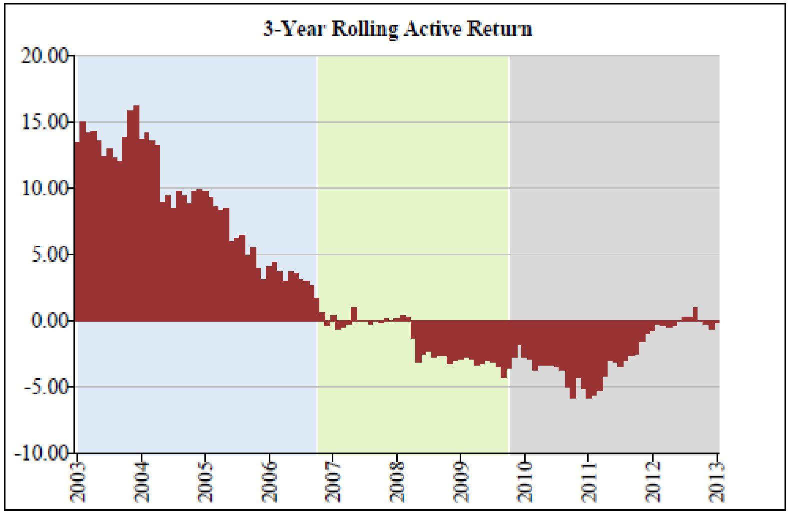
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Renaissance Investment - LCG	**4.60**	**4.63**	**17.15**	**13.88**	**19.45**	**NA**	**NA**	**NA**
Russell 1000 Growth Index	4.19	4.21	19.35	12.20	13.84	NA	NA	NA
Difference	0.41	0.42	-2.20	1.68	5.61	NA	NA	NA
Percentile Rank	71	68	79	49	7	NA	NA	NA

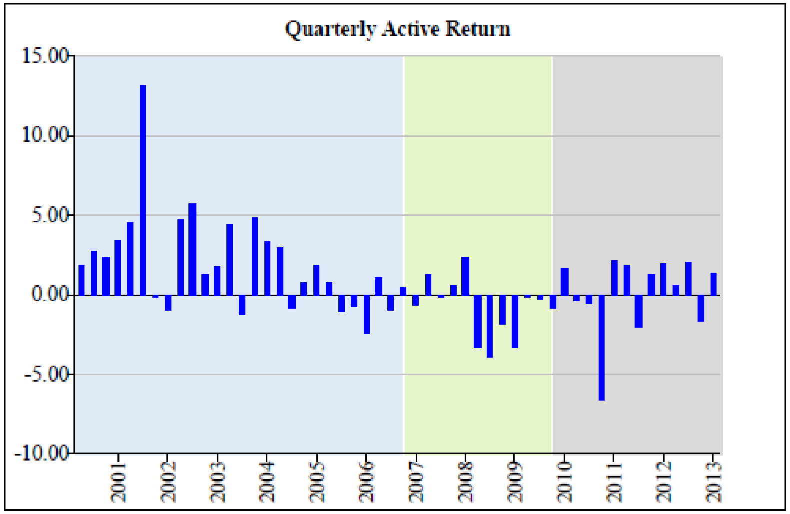
Trailing Performance Ending One Month Prior to Fire (09/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Renaissance Investment - LCG	**13.23**	**11.54**	**7.14**	**-7.48**	**NA**	**NA**	**NA**	**-7.48**
Russell 1000 Growth Index	10.65	13.00	12.65	-4.36	NA	NA	NA	-4.36
Difference	2.58	-1.46	-5.51	-3.12	NA	NA	NA	-3.12
Percentile Rank	5	66	90	87	NA	NA	NA	87

Post-Termination Performance (09/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Renaissance Investment - LCG	**5.10**	**13.63**	**-2.57**	**16.48**	**NA**	**NA**	**NA**	**19.17**
Russell 1000 Growth Index	4.78	11.83	3.78	16.94	NA	NA	NA	19.12
Difference	0.32	1.80	-6.35	-0.46	NA	NA	NA	0.05
Percentile Rank	32	19	86	41	NA	NA	NA	37





Montana Board of Investments
Barrow Hanley - LCV vs. Russell 1000 Value Index
eA US Equity LCV Universe

Performance Leading Up to Manager Hire (8/31/2007)

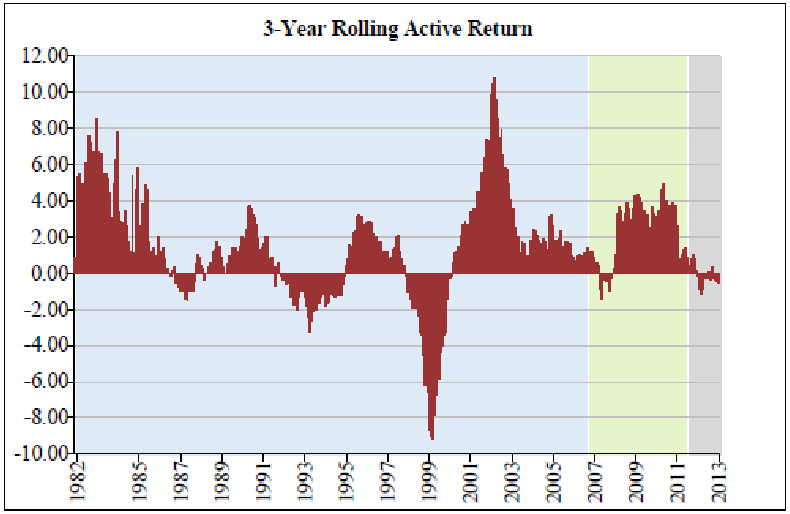
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Barrow Hanley - LCV	**1.86**	**-4.74**	**16.14**	**16.10**	**15.13**	**11.86**	**10.41**	**13.71**
Russell 1000 Value Index	1.12	-5.81	12.85	14.54	14.54	7.82	9.07	12.79
Difference	0.74	1.07	3.29	1.56	0.59	4.04	1.34	0.92
Percentile Rank	10	51	29	28	42	10	28	31

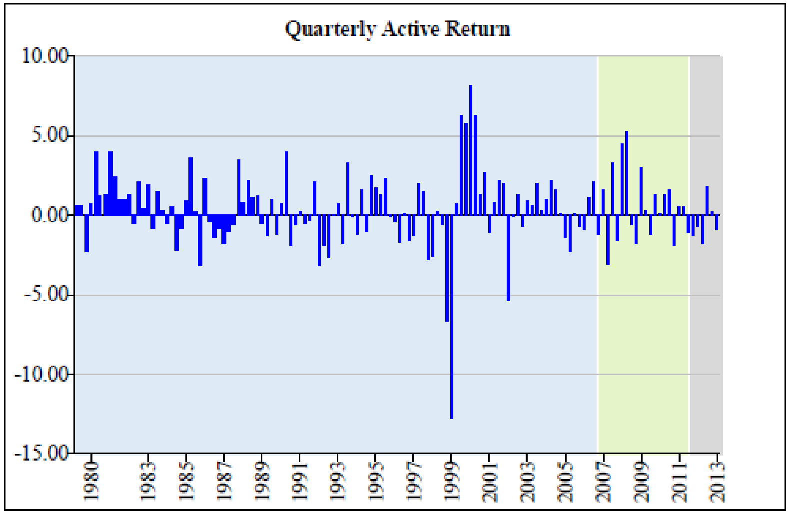
Trailing Performance Ending One Month Prior to Fire (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Barrow Hanley - LCV	**4.61**	**-3.26**	**0.77**	**16.61**	**NA**	**NA**	**NA**	**0.73**
Russell 1000 Value Index	4.96	-2.20	3.01	15.80	NA	NA	NA	-1.53
Difference	-0.35	-1.06	-2.24	0.81	NA	NA	NA	2.26
Percentile Rank	29	43	62	21	NA	NA	NA	32

Post-Termination Performance (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Barrow Hanley - LCV	**1.08**	**5.20**	**22.99**	**NA**	**NA**	**NA**	**NA**	**25.08**
Russell 1000 Value Index	1.03	6.51	25.32	NA	NA	NA	NA	27.10
Difference	0.05	-1.31	-2.33	NA	NA	NA	NA	-2.02
Percentile Rank	47	80	68	NA	NA	NA	NA	77





Montana Board of Investments
Quantitative Mgmt - LCV vs. Russell 1000 Value Index
eA US Equity LCV Universe

Performance Leading Up to Manager Hire (8/31/2007)

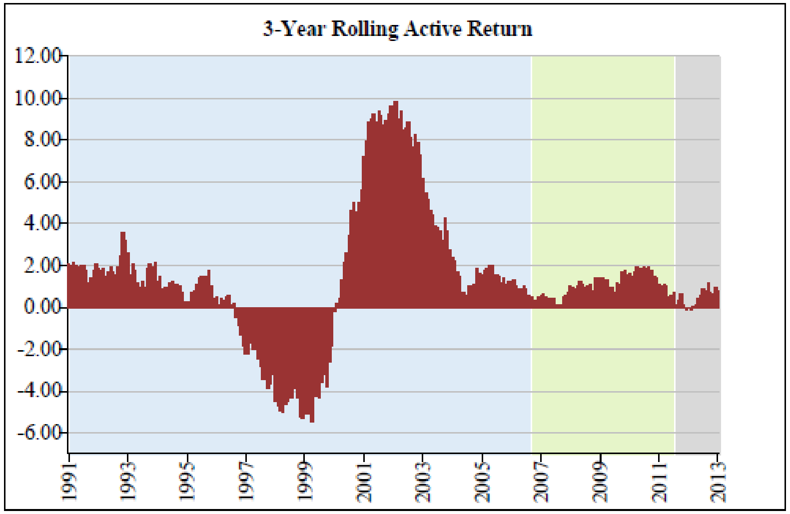
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Quantitative Mgmt - LCV	**0.78**	**-6.54**	**12.78**	**15.07**	**15.22**	**11.80**	**10.81**	**14.18**
Russell 1000 Value Index	1.12	-5.81	12.85	14.54	14.54	7.82	9.07	12.79
Difference	-0.34	-0.73	-0.07	0.53	0.68	3.98	1.74	1.39
Percentile Rank	62	87	80	46	38	10	18	18

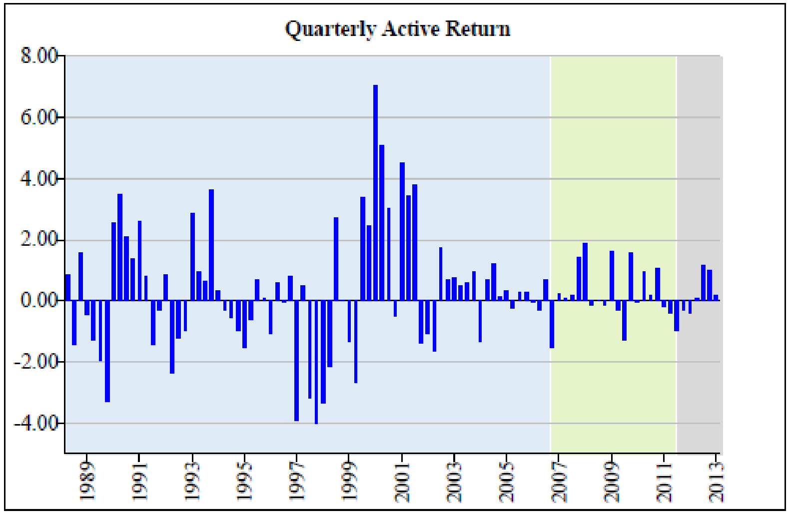
Trailing Performance Ending One Month Prior to Fire (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Quantitative Mgmt - LCV	**4.93**	**-3.16**	**2.63**	**16.60**	**NA**	**NA**	**NA**	**-0.50**
Russell 1000 Value Index	4.96	-2.20	3.01	15.80	NA	NA	NA	-1.53
Difference	-0.03	-0.96	-0.38	0.80	NA	NA	NA	1.03
Percentile Rank	13	42	38	21	NA	NA	NA	55

Post-Termination Performance (6/30/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Quantitative Mgmt - LCV	**0.03**	**6.17**	**25.94**	**NA**	**NA**	**NA**	**NA**	**28.55**
Russell 1000 Value Index	1.03	6.51	25.32	NA	NA	NA	NA	27.10
Difference	-1.00	-0.34	0.62	NA	NA	NA	NA	1.45
Percentile Rank	85	51	38	NA	NA	NA	NA	43





Montana Board of Investments
Martingale MidCap Core vs. Russell Mid-Cap Index
eA US Equity MCC Universe

Performance Leading Up to Manager Hire (03/31/2007)

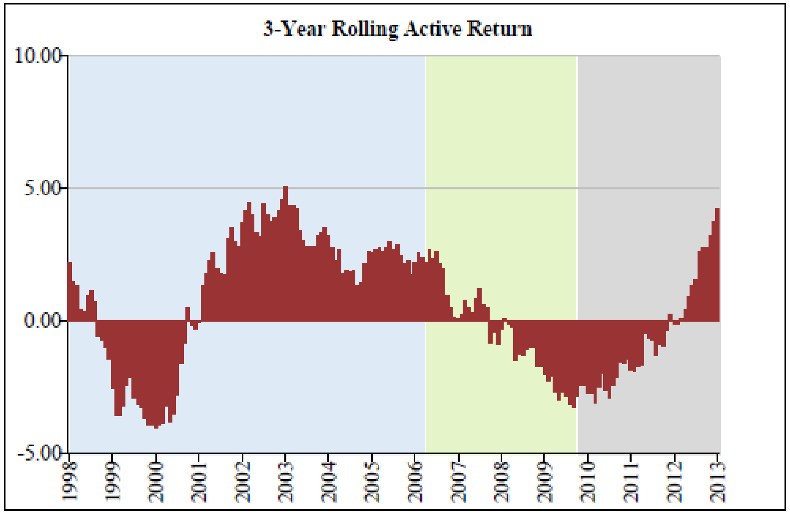
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Martingale MidCap Core	**1.83**	**6.12**	**14.23**	**18.21**	**15.57**	**12.04**	**14.03**	**NA**
Russell Mid-Cap Index	0.80	4.38	11.79	15.72	12.91	8.54	12.71	NA
Difference	1.03	1.74	2.44	2.49	2.66	3.50	1.32	NA
Percentile Rank	38	28	12	12	7	17	57	NA

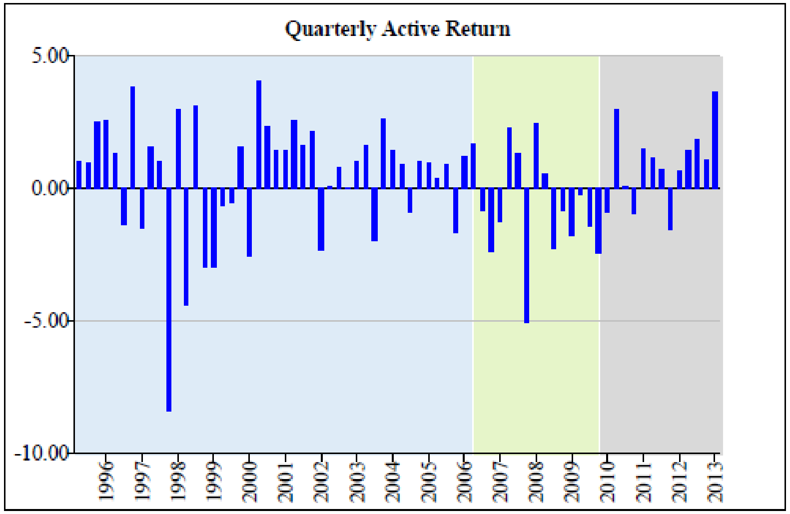
Trailing Performance Ending One Month Prior to Fire (09/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Martingale MidCap Core	**10.44**	**10.63**	**10.93**	**-6.74**	**NA**	**NA**	**NA**	**-5.37**
Russell Mid-Cap Index	10.58	13.31	17.54	-4.16	NA	NA	NA	-2.26
Difference	-0.14	-2.68	-6.61	-2.58	NA	NA	NA	-3.11
Percentile Rank	73	80	88	92	NA	NA	NA	99

Post-Termination Performance (09/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Martingale MidCap Core	**4.25**	**12.14**	**0.29**	**20.56**	**NA**	**NA**	**NA**	**23.15**
Russell Mid-Cap Index	3.87	13.07	-0.88	17.53	NA	NA	NA	18.99
Difference	0.38	-0.93	1.17	3.03	NA	NA	NA	4.16
Percentile Rank	35	71	34	7	NA	NA	NA	3





Montana Board of Investments
NorthPointe Capital LLC - SCG vs. Russell 2000 Growth Index
eA US Equity SCG Universe

Performance Leading Up to Manager Hire (03/31/2007)

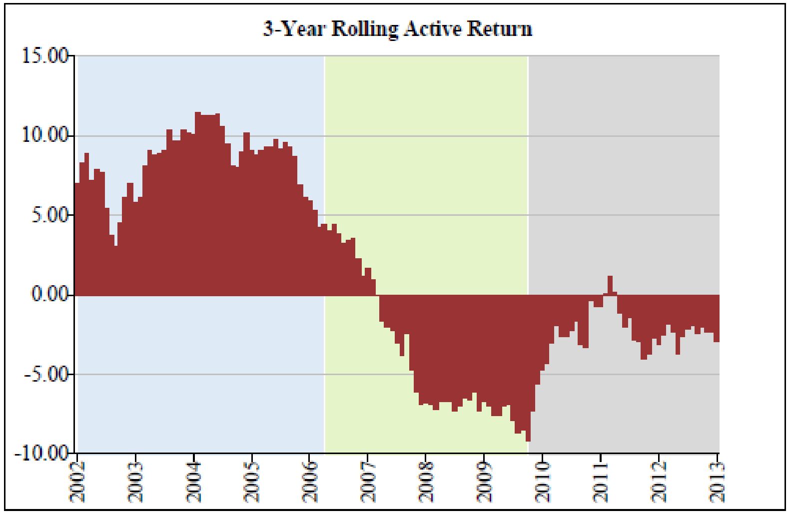
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
NorthPointe Capital LLC - SCG	**1.66**	**3.24**	**4.42**	**14.41**	**17.16**	**6.05**	**NA**	**NA**
Russell 2000 Growth Index	0.92	2.48	1.56	9.41	7.88	-1.14	NA	NA
Difference	0.74	0.76	2.86	5.00	9.28	7.19	NA	NA
Percentile Rank	39	62	35	15	3	27	NA	NA

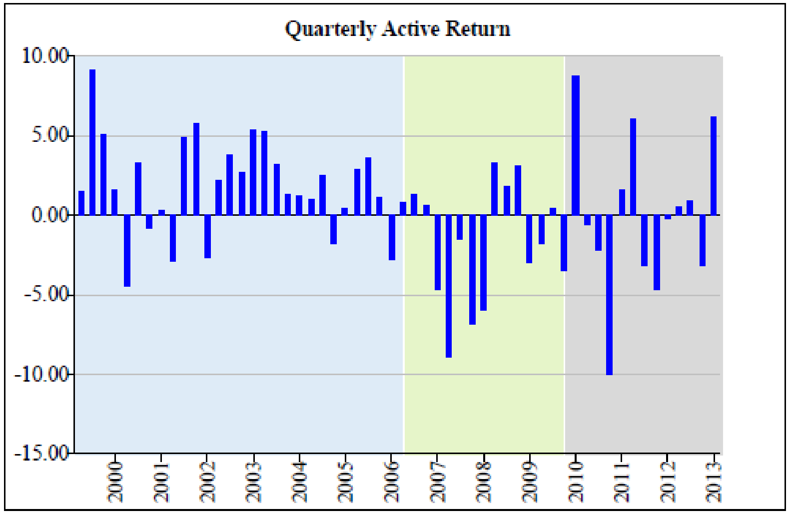
Trailing Performance Ending One Month Prior to Fire (09/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
NorthPointe Capital LLC - SCG	**13.23**	**9.14**	**5.78**	**-13.39**	**NA**	**NA**	**NA**	**-9.45**
Russell 2000 Growth Index	14.15	12.83	14.79	-3.75	NA	NA	NA	-1.41
Difference	-0.92	-3.69	-9.01	-9.64	NA	NA	NA	-8.04
Percentile Rank	54	85	98	98	NA	NA	NA	98

Post-Termination Performance (09/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
NorthPointe Capital LLC - SCG	**6.96**	**27.00**	**-6.86**	**16.06**	**NA**	**NA**	**NA**	**19.71**
Russell 2000 Growth Index	4.30	17.11	-1.12	19.96	NA	NA	NA	21.18
Difference	2.66	9.89	-5.74	-3.90	NA	NA	NA	-1.47
Percentile Rank	5	1	90	94	NA	NA	NA	88





Montana Board of Investments
Artio Int'l Equity II - IE LCC vs. MSCI ACWI Ex US Index (Net)
eA International LCC Universe

Performance Leading Up to Manager Hire (10/31/2006)

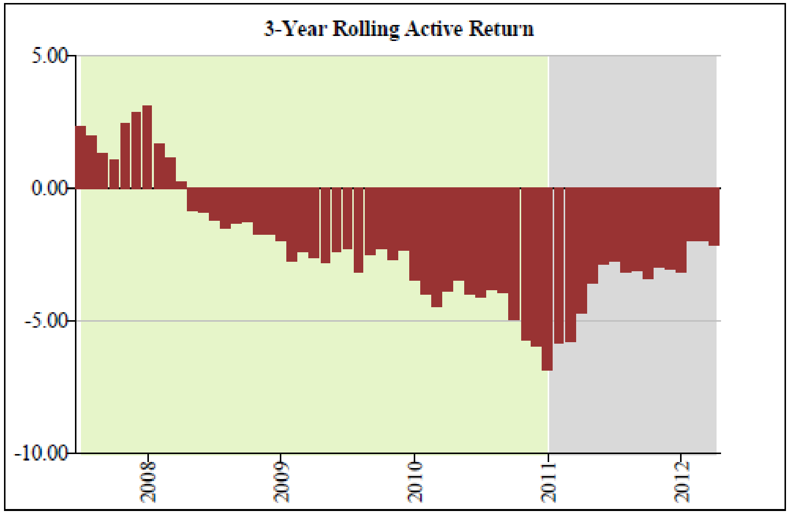
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Artio Int'l Equity II - IE LCC	**4.72**	**6.68**	**30.41**	**NA**	**NA**	**NA**	**NA**	**NA**
MSCI ACWI Ex US Index (Net)	4.06	7.03	28.40	NA	NA	NA	NA	NA
Difference	0.66	-0.35	2.01	NA	NA	NA	NA	NA
Percentile Rank	12	55	30	NA	NA	NA	NA	NA

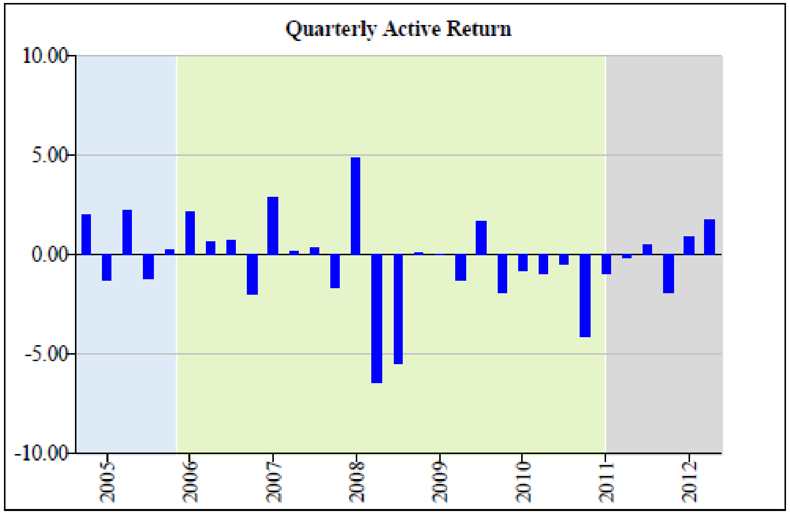
Trailing Performance Ending One Month Prior to Fire (12/31/2011)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Artio Int'l Equity II - IE LCC	**-2.79**	**2.69**	**-19.67**	**3.33**	**-5.63**	**NA**	**NA**	**-3.96**
MSCI ACWI Ex US Index (Net)	-1.12	3.72	-13.71	10.70	-2.92	NA	NA	-1.58
Difference	-1.67	-1.03	-5.96	-7.37	-2.71	NA	NA	-2.38
Percentile Rank	89	81	96	98	87	NA	NA	85

Post-Termination Performance (12/31/2011)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Artio Int'l Equity II - IE LCC	**6.84**	**11.12**	**16.36**	**NA**	**NA**	**NA**	**NA**	**17.23**
MSCI ACWI Ex US Index (Net)	6.78	11.23	16.83	NA	NA	NA	NA	16.11
Difference	0.06	-0.11	-0.47	NA	NA	NA	NA	1.12
Percentile Rank	33	66	80	NA	NA	NA	NA	71





***Product no longer offered**

Montana Board of Investments
Batterymarch Financial Mgmt. - IE vs. MSCI ACWI Ex US Index (Net)
eA International LCC Universe

Performance Leading Up to Manager Hire (10/31/2006)

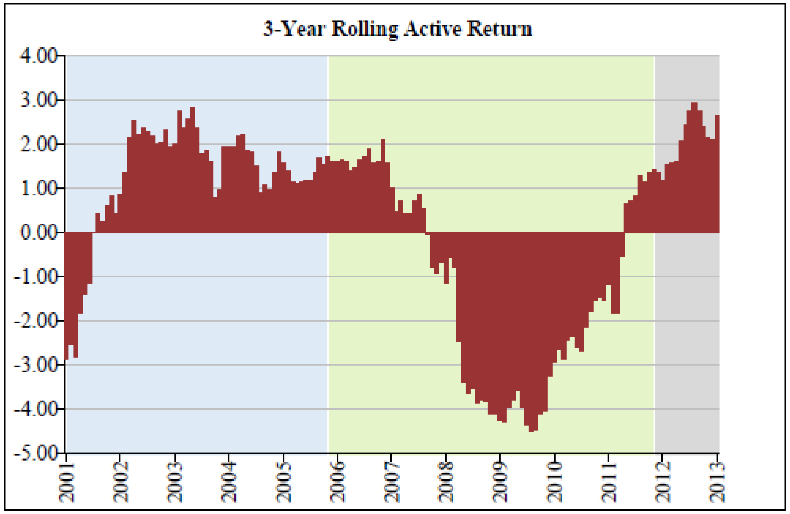
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Batterymarch Financial Mgmt. - IE	**4.66**	**7.29**	**29.70**	**24.58**	**17.99**	**7.79**	**NA**	**NA**
MSCI ACWI Ex US Index (Net)	4.06	7.03	28.40	22.50	16.22	6.45	NA	NA
Difference	0.60	0.26	1.30	2.08	1.77	1.34	NA	NA
Percentile Rank	14	37	36	21	30	54	NA	NA

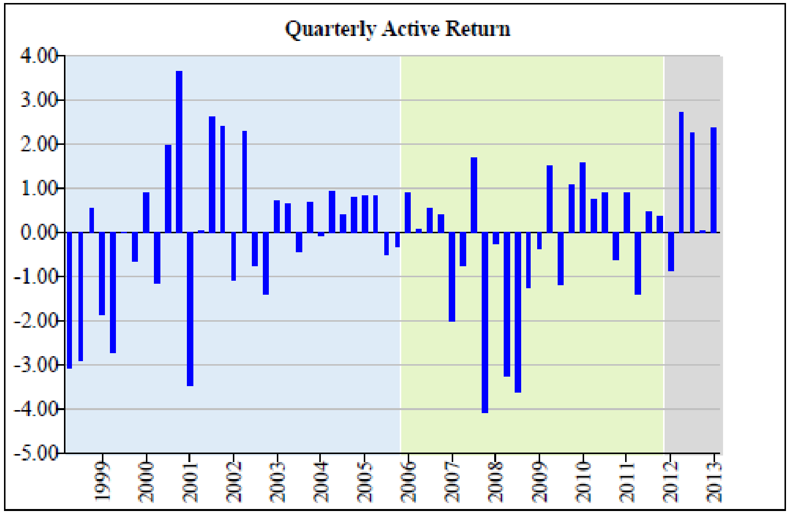
Trailing Performance Ending One Month Prior to Fire (10/31/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Batterymarch Financial Mgmt. - IE	**0.40**	**6.22**	**4.26**	**5.12**	**-7.04**	**NA**	**NA**	**-1.04**
MSCI ACWI Ex US Index (Net)	0.39	6.32	3.98	3.74	-5.08	NA	NA	0.34
Difference	0.01	-0.10	0.28	1.38	-1.96	NA	NA	-1.38
Percentile Rank	72	62	80	55	91	NA	NA	80

Post-Termination Performance (10/31/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Batterymarch Financial Mgmt. - IE	**1.67**	**10.29**	**25.76**	**NA**	**NA**	**NA**	**NA**	**24.85**
MSCI ACWI Ex US Index (Net)	1.91	9.72	20.29	NA	NA	NA	NA	18.21
Difference	-0.24	0.57	5.47	NA	NA	NA	NA	6.64
Percentile Rank	72	52	49	NA	NA	NA	NA	50





Montana Board of Investments
BlackRock Global Ex-US Alpha Tilts A vs. MSCI ACWI Ex US Index (Net)
eA International LCC Universe

Performance Leading Up to Manager Hire (9/30/2006)

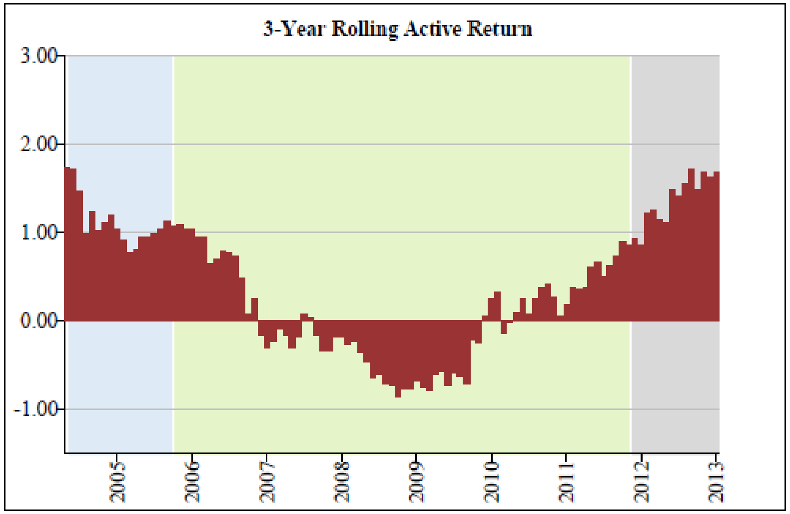
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
BlackRock Global Ex-US Alpha Tilts A	**0.20**	**4.12**	**19.99**	**24.75**	**NA**	**NA**	**NA**	**NA**
MSCI ACWI Ex US Index (Net)	0.05	3.88	18.89	23.44	NA	NA	NA	NA
Difference	0.15	0.24	1.10	1.31	NA	NA	NA	NA
Percentile Rank	57	48	46	31	NA	NA	NA	NA

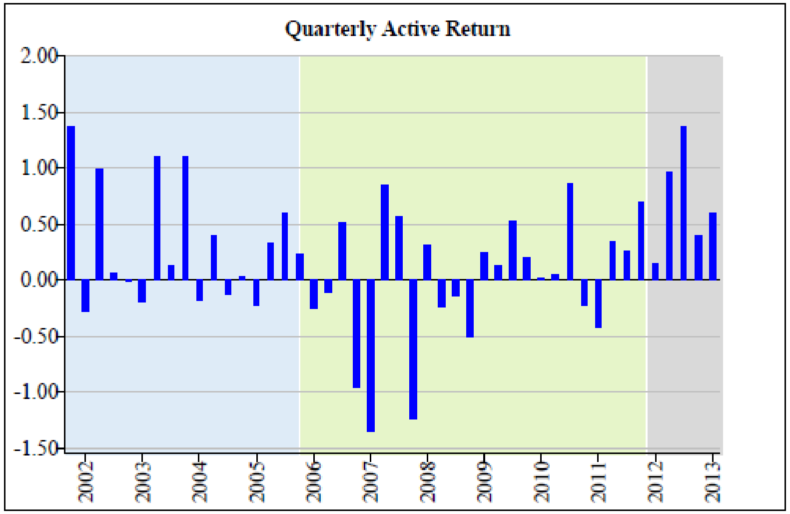
Trailing Performance Ending One Month Prior to Fire (10/31/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
BlackRock Global Ex-US Alpha Tilts A	**0.51**	**6.95**	**5.35**	**4.56**	**-4.94**	**NA**	**NA**	**1.01**
MSCI ACWI Ex US Index (Net)	0.39	6.32	3.98	3.74	-5.08	NA	NA	0.99
Difference	0.12	0.63	1.37	0.82	0.14	NA	NA	0.02
Percentile Rank	66	42	71	64	67	NA	NA	55

Post-Termination Performance (10/31/2012)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
BlackRock Global Ex-US Alpha Tilts A	**1.95**	**10.75**	**24.34**	**NA**	**NA**	**NA**	**NA**	**21.57**
MSCI ACWI Ex US Index (Net)	1.91	9.72	20.29	NA	NA	NA	NA	18.21
Difference	0.04	1.03	4.05	NA	NA	NA	NA	3.36
Percentile Rank	58	41	62	NA	NA	NA	NA	72





Montana Board of Investments
Principal Global Investors - IE LCG vs. MSCI ACW Ex US Growth Index (Net)
eA International LCG Universe

Performance Leading Up to Manager Hire (11/30/2006)

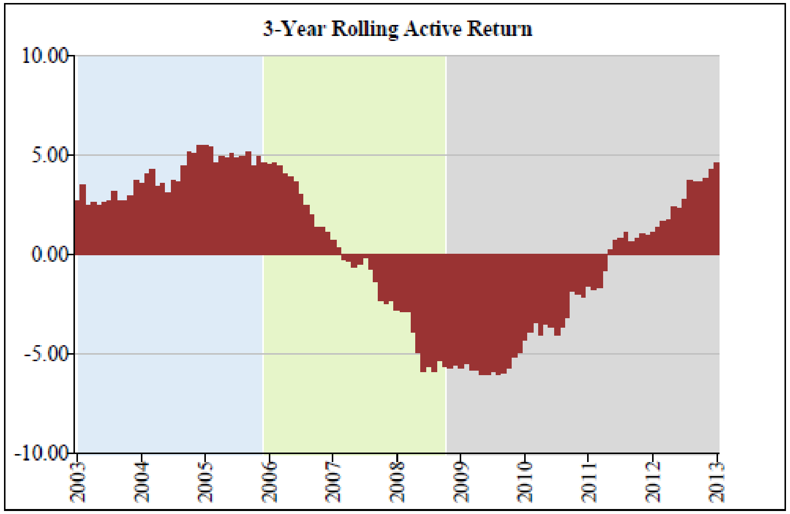
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Principal Global Investors - IE LCG	**3.10**	**6.30**	**28.65**	**26.09**	**17.96**	**NA**	**NA**	**NA**
MSCI ACW Ex US Growth Index (Net)	3.65	6.89	26.79	20.46	13.70	NA	NA	NA
Difference	-0.55	-0.59	1.86	5.63	4.26	NA	NA	NA
Percentile Rank	72	73	37	2	1	NA	NA	NA

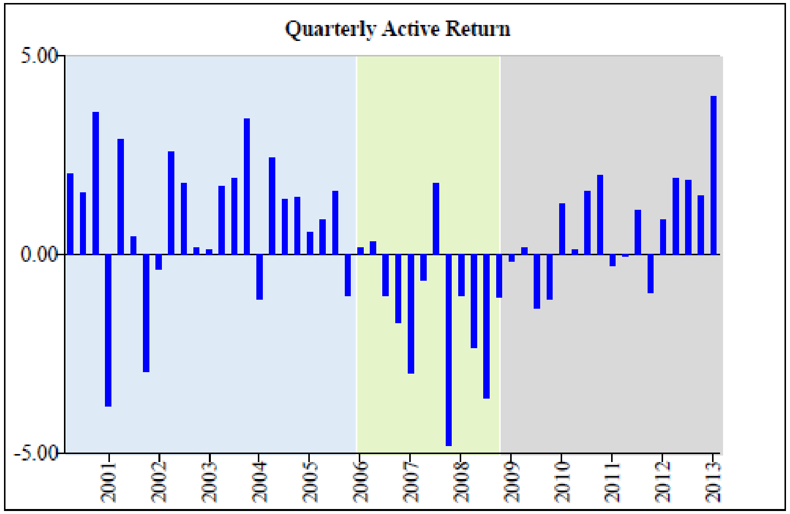
Trailing Performance Ending One Month Prior to Fire (09/30/2009)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Principal Global Investors - IE LCG	**4.07**	**16.20**	**-5.20**	**NA**	**NA**	**NA**	**NA**	**-9.50**
MSCI ACW Ex US Growth Index (Net)	5.44	17.30	2.14	NA	NA	NA	NA	-3.98
Difference	-1.37	-1.10	-7.34	NA	NA	NA	NA	-5.52
Percentile Rank	84	62	84	NA	NA	NA	NA	91

Post-Termination Performance (09/30/2009)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Principal Global Investors - IE LCG	**-0.03**	**5.16**	**8.77**	**5.61**	**NA**	**NA**	**NA**	**11.38**
MSCI ACW Ex US Growth Index (Net)	-0.42	5.29	11.42	4.64	NA	NA	NA	8.11
Difference	0.39	-0.13	-2.65	0.97	NA	NA	NA	3.27
Percentile Rank	23	53	67	57	NA	NA	NA	26





Montana Board of Investments
AXA Rosenberg Int'l Small Cap vs. MSCI EAFE Small Cap Index (Net)
eA International Small Cap Universe

Performance Leading Up to Manager Hire (10/31/2006)

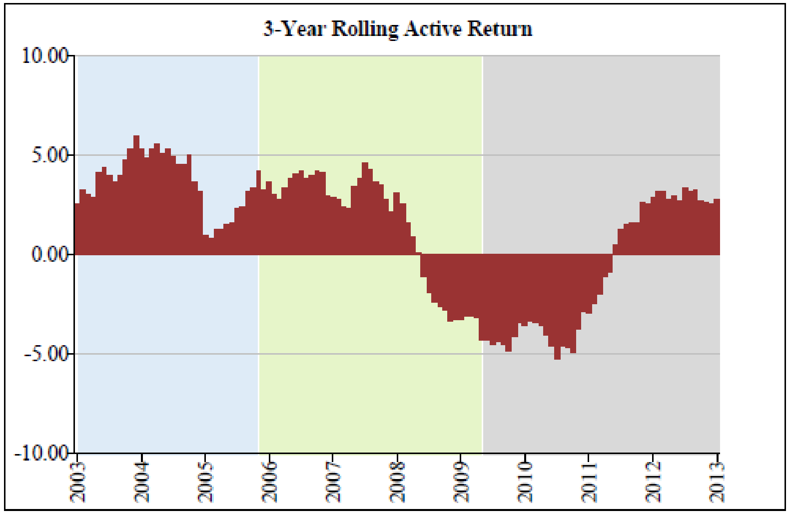
	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
AXA Rosenberg Int'l Small Cap	**4.42**	**8.11**	**29.54**	**29.91**	**28.90**	**NA**	**NA**	**NA**
MSCI EAFE Small Cap Index (Net)	3.66	6.97	23.41	24.51	22.45	NA	NA	NA
Difference	0.76	1.14	6.13	5.40	6.45	NA	NA	NA
Percentile Rank	47	47	65	28	14	NA	NA	NA

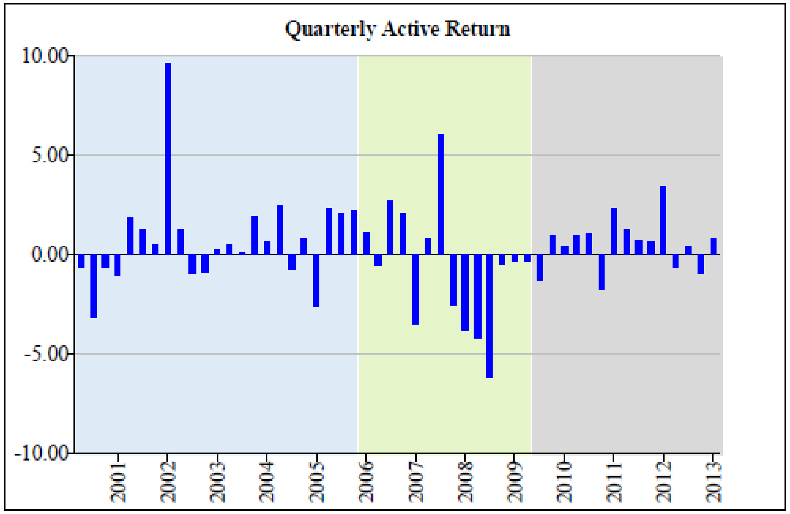
Trailing Performance Ending One Month Prior to Fire (04/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
AXA Rosenberg Int'l Small Cap	**0.39**	**6.69**	**40.16**	**-12.92**	**NA**	**NA**	**NA**	**-6.01**
MSCI EAFE Small Cap Index (Net)	1.70	7.61	49.90	-8.87	NA	NA	NA	-2.78
Difference	-1.31	-0.92	-9.74	-4.05	NA	NA	NA	-3.23
Percentile Rank	97	77	95	96	NA	NA	NA	96

Post-Termination Performance (04/30/2010)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
AXA Rosenberg Int'l Small Cap	**-11.19**	**-4.86**	**28.10**	**12.23**	**NA**	**NA**	**NA**	**14.57**
MSCI EAFE Small Cap Index (Net)	-12.43	-5.28	24.15	9.08	NA	NA	NA	11.57
Difference	1.24	0.42	3.95	3.15	NA	NA	NA	3.00
Percentile Rank	50	68	50	55	NA	NA	NA	45





Montana Board of Investments
Nomura Asset Management - IE Pacific Basin vs. MSCI AC Pacific Index
eA Pacific Basin Equity Universe

Performance Leading Up to Manager Hire (11/30/2003)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Nomura Asset Management - IE Pacific Ba	**-2.21**	**7.82**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
MSCI AC Pacific Index	-2.29	8.07	NA	NA	NA	NA	NA	NA
Difference	0.08	-0.25	NA	NA	NA	NA	NA	NA
Percentile Rank	45	59	NA	NA	NA	NA	NA	NA

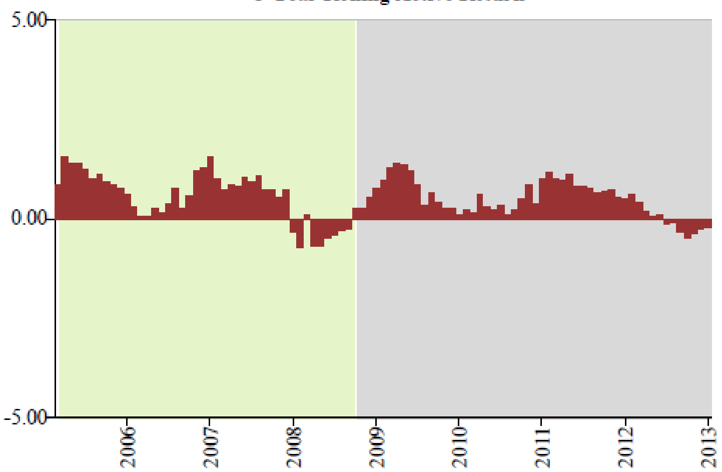
Trailing Performance Ending One Month Prior to Fire (9/30/2009)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Nomura Asset Management - IE Pacific Ba	**4.67**	**16.38**	**12.19**	**-0.97**	**7.48**	**NA**	**NA**	**8.80**
MSCI AC Pacific Index	4.18	15.04	12.20	-1.03	7.49	NA	NA	8.29
Difference	0.49	1.34	-0.01	0.06	-0.01	NA	NA	0.51
Percentile Rank	38	24	56	56	62	NA	NA	62

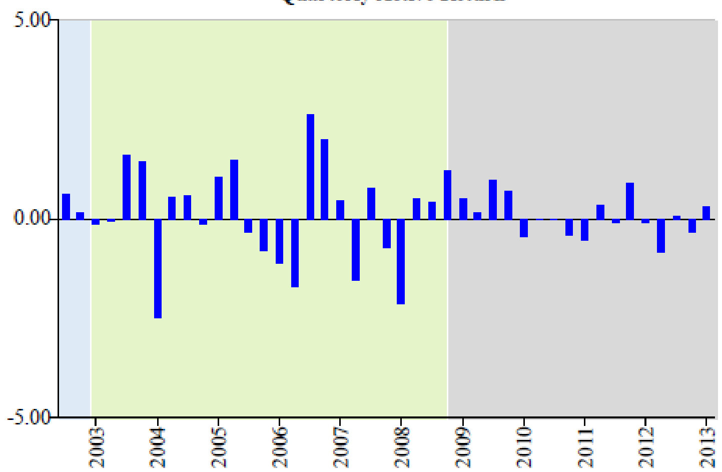
Post-Termination Performance (9/30/2009)

	MTD	1 Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Since Termination
Nomura Asset Management - IE Pacific Ba	**-1.29**	**2.55**	**11.17**	**4.66**	**NA**	**NA**	**NA**	**7.49**
MSCI AC Pacific Index	-1.14	2.05	8.70	4.02	NA	NA	NA	7.25
Difference	-0.15	0.50	2.47	0.64	NA	NA	NA	0.24
Percentile Rank	55	62	54	72	NA	NA	NA	92

3-Year Rolling Active Return



Quarterly Active Return



Return to Agenda

Investment Activity

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: April 8, 2014

Subject: Montana International Equity Pool - Small Cap Transition

The objective of this transition was to complete the final phase of the restructuring plan for the Montana International Equity Pool (MTIP) as approved by the Board in August 2012.

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 small cap allocation. This was accomplished through the research and selection of additional managers of actively managed portfolios. Funding of these new portfolios was sourced from two passive portfolios within the large cap allocation.

The size of the transition amounted to $70 million and included the following managers/funds:

Manager	Action	Amount(approx.)
Franklin Templeton Int'l SC Value	New	$40 million
American Century Int'l SC Growth	New	$30 million
BlackRock ACWI Ex US Index Fund	Reduced	$42 million
State Street Int'l Futures Fund (ISPIFF)	Reduced	$28 million

BlackRock Transition Management was selected as transition manager based upon their familiarity with the international funds involved in the transition.

The overall cost of the transition amounted to 30 basis points of the market value of the transition or approximately $209,000. This amount resulted from open market trading as the transition involved no overlap between the incumbent portfolios and the new portfolios. Cash proceeds were moved from the large cap passive portfolio and the futures fund into the small cap portfolios where individual stocks positions were purchased.

The transition was completed over three trading days near the end of February and performance measurement of the new portfolios began on March 3. Market movements combined with trading by the transition manager acted to reduce the overall cost of the transition by 10 basis points or approximately $70,000 compared to what was initially estimated.

The table below displays the Montana International Equity Pool upon completion of the transition.

3/14/2014 International Stock Pool By Manager			
			Approved
Manager Name	**Market Value**	**%**	**Range**
BLACKROCK ACWI EX US SUPERFUND	937,713,569	58.05%	
BLACKROCK MSCI EM MKT FR FD B	40,048,369	2.48%	
EAFE STOCK PERFORMANCE INDEX	11,802,665	0.73%	0-10%
CORE Total	**989,564,603**	**61.26%**	**50-70%**
ACADIAN ACWI EX US VALUE	105,284,375	6.52%	
BERNSTEIN ACWI EX	110,679,977	6.85%	
VALUE Total	**215,964,351**	**13.37%**	**10-20%**
HANSBERGER INTL EQUITY GROWTH	115,204,845	7.13%	
MARTIN CURRIE ACWI X	113,795,692	7.04%	
GROWTH Total	**229,000,537**	**14.18%**	**10-20%**
AMERICAN CENTURY INV MGMT	30,300,155	1.88%	
BLACKROCK ACWI EX US SMALL CAP	28,047,017	1.74%	
DFA INTERNATIONAL SMALL COMPAN	82,914,082	5.13%	
TEMPLETON INVESTMENT COUNSEL	39,584,600	2.45%	
SMALL CAP Total	**180,845,854**	**11.20%**	**5-15%**
MTIP Total	**1,615,375,345**	**100.00%**	

Montana International Equity Pool
Asset Class Review

Presented by:
Clifford A. Sheets, CFA, Chief Investment Officer
Rande R. Muffick, CFA, Portfolio Manager
April 8, 2014

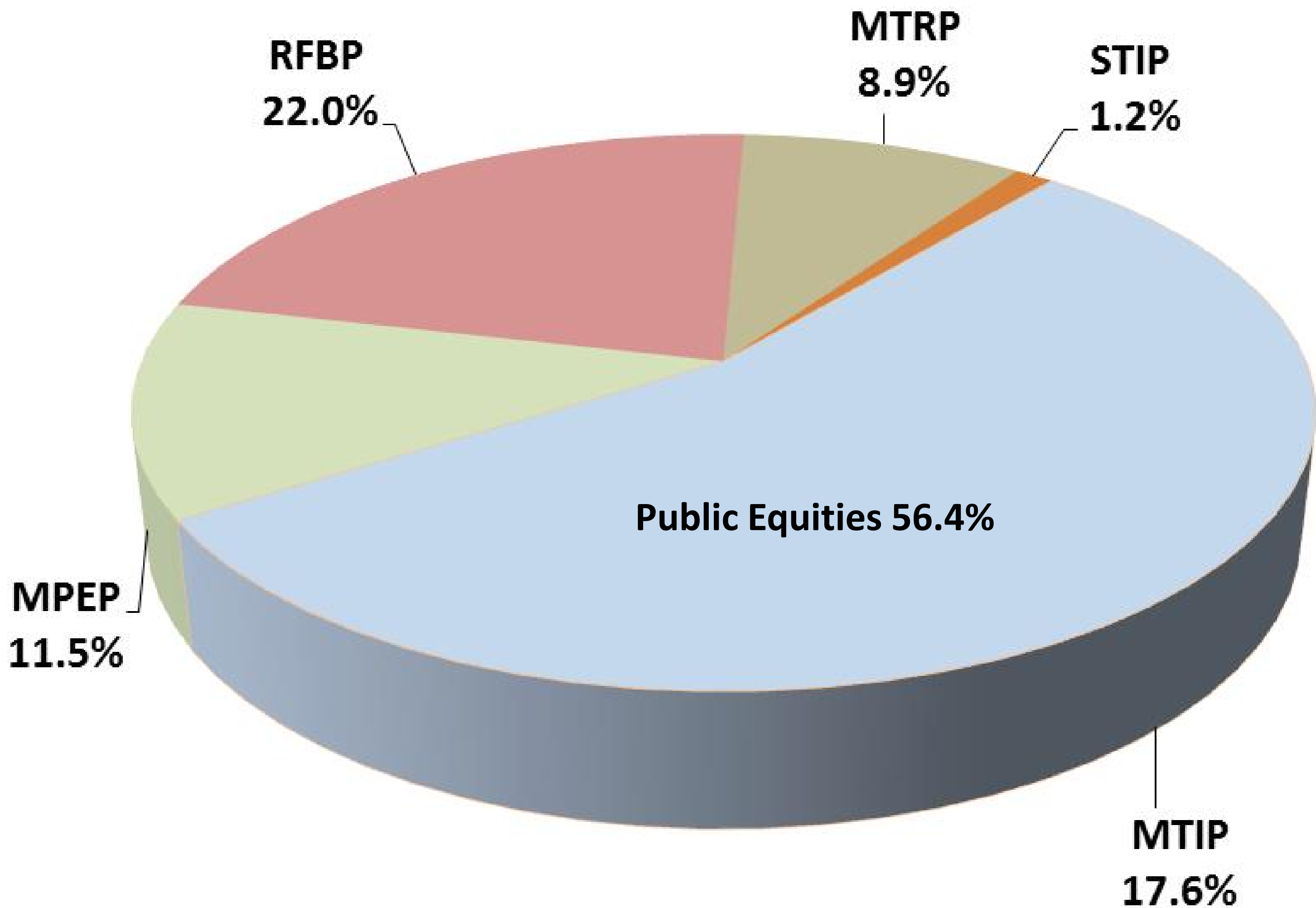
Contents

- Asset Allocation Context
- Current Pool Structure
- Types of Portfolios Within MTIP
- Positioning
- Fees and Costs
- What to Expect Going Forward

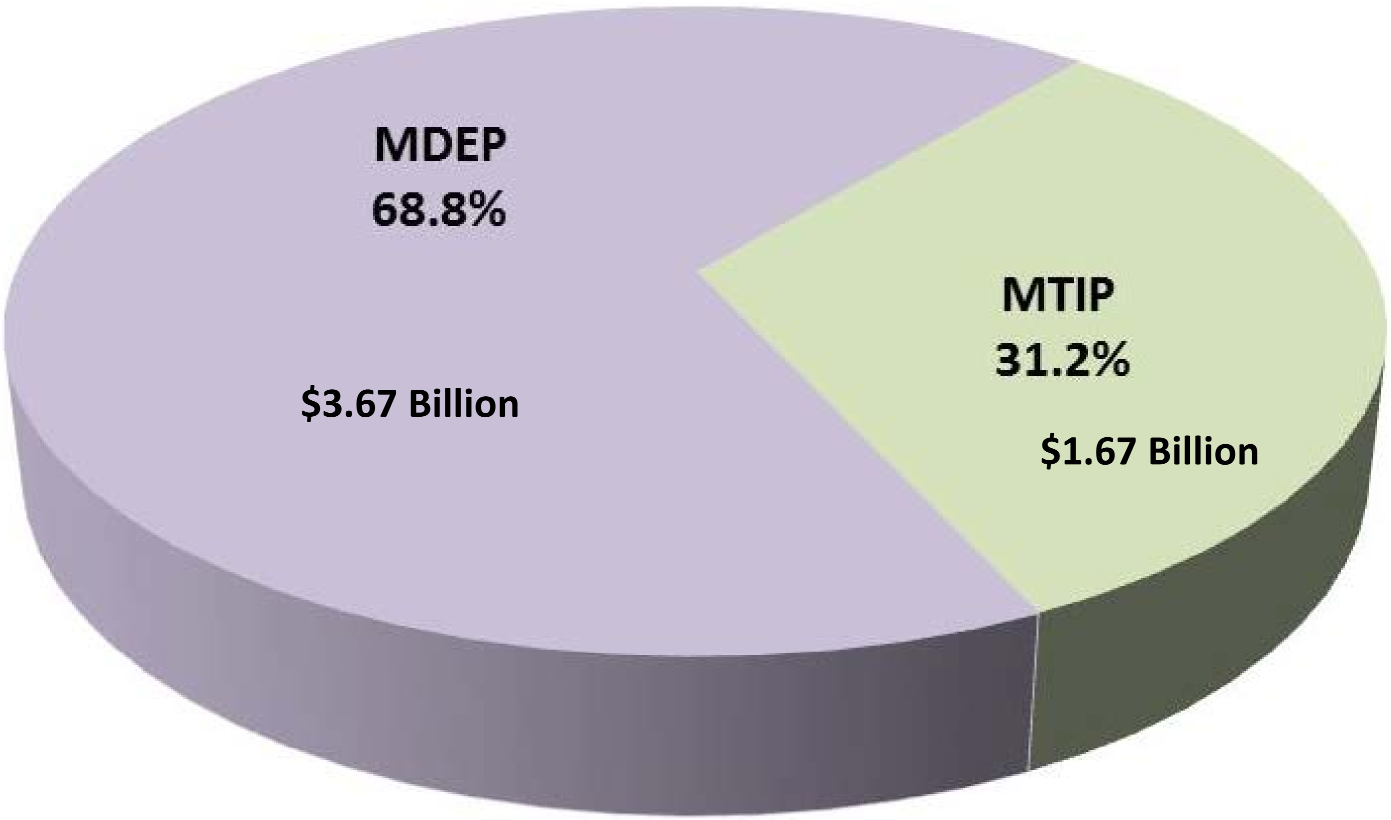
Montana International Equity Pool (MTIP)

- Objective: Provide high long-term returns via ownership of non-U.S. companies
- Third largest Asset Class
  - Allocation range: 14-22%
  - International vs. Domestic ~1:2
- Highly liquid assets
- Highly volatile returns

Pension Allocation as of 2/28/14



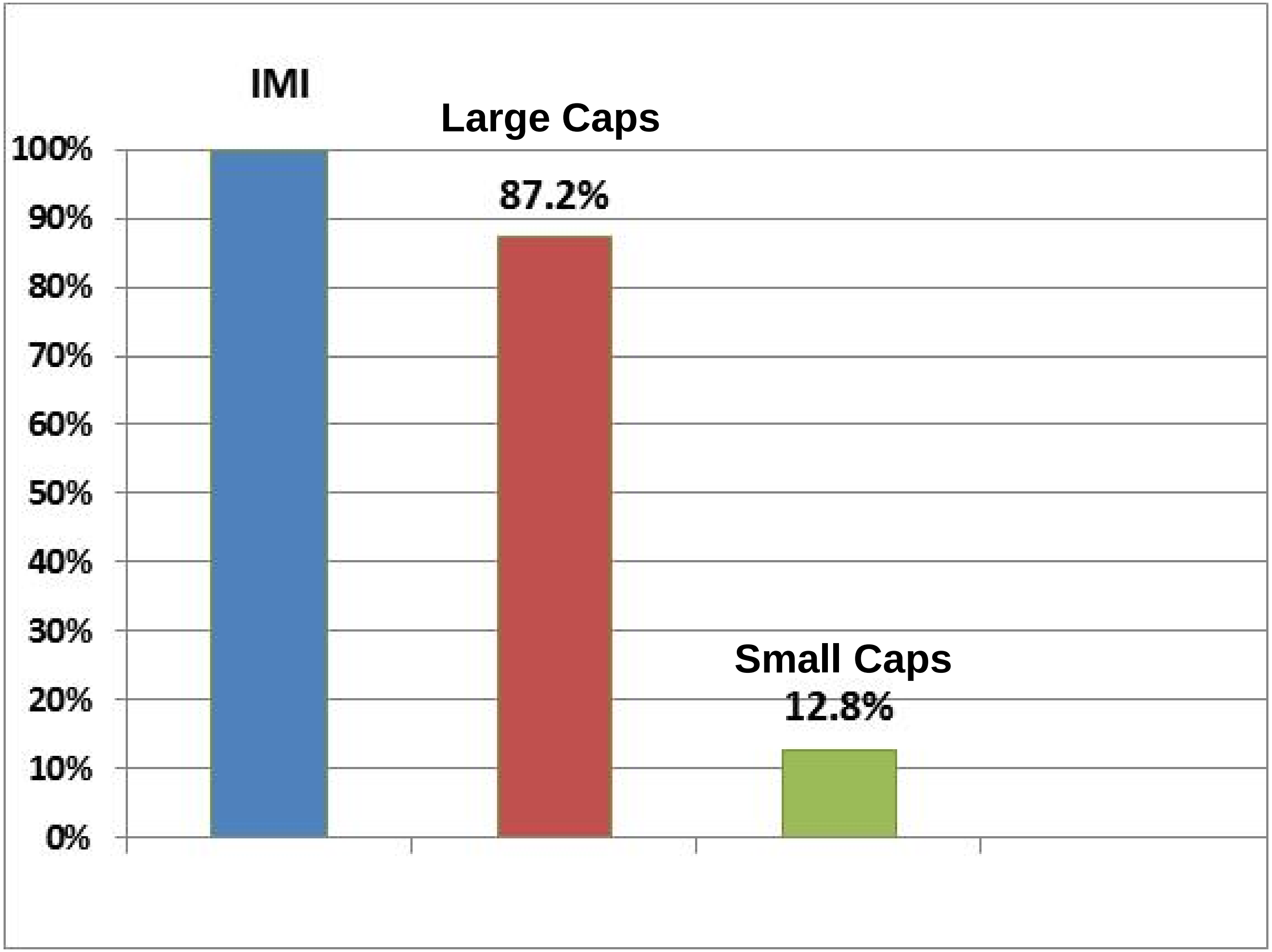
Public Equities as of 2/28/14



Current Pool Structure

- MSCI ACWI ex. U.S. IMI Benchmark
- Small Caps are isolated by design
- Market Capitalization Ranges
- Manager Style Ranges

MSCI ACWI ex. U.S. IMI as of 3/7/14



International Stock Pool by Manager at 3/14/14

3/14/2014 International Stock Pool By Manager				
			Approved	Benchmark Weight
Manager Name	Market Value	%	Range	
BLACKROCK ACWI EX US SUPERFUND	937,713,569	58.05%		
BLACKROCK MSCI EM MKT FR FD B	40,048,369	2.48%		
EAFE STOCK PERFORMANCE INDEX	11,802,665	0.73%	0-10%	
CORE Total	**989,564,603**	**61.26%**	**50-70%**	
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TEMPLETON INVESTMENT COUNSEL	39,584,600	2.45%		
SMALL CAP Total	**180,845,854**	**11.20%**	**5-15%**	12.8%
MTIP Total	**1,615,375,345**	**100.00%**		

Types of Portfolios Within MTIP

- Commingled Funds and Separate Accounts
- Indexed Portfolios
- Traditional Long Only Active Portfolios
  - o Fundamental (94% of actively managed equities)
  - o Quantitative-Mathematical (6% of actively managed equities)

Types of Portfolios Within MTIP

Passive Index Portfolios

BlackRock ACWI ex US Index Super "A"
BlackRock Emerging Markets Index Fund
BlackRock ACWI ex US Small Cap Index Fund

Active Portfolios

Quantitative	*Traditional Long Only*	*Fundamental*
Acadian	Acadian	Alliance Bernstein
	Alliance Bernstein	Hansberger
	Hansberger	Martin Currie
	Martin Currie	American Century
	American Century	Franklin Templeton
	Franklin Templeton	DFA
	DFA	

Types of Portfolios Within MTIP

Value

Acadian
AllianceBernstein
Franklin Templeton

Core

BlackRock Superfund "A"
BlackRock Emerging Markets Index Fund
BlackRock Small Cap Index Fund
DFA

Growth

Hansberger
Martin Currie
American Century

Downside Capture

DFA
Franklin Templeton

Market Capture Neutral

BlackRock Superfund "A"
BlackRock Emerging Markets Index Fund
Acadian
BlackRock Small Cap Index Fund
Martin Currie

Upside Capture

AllianceBernstein
American Century
Hansberger

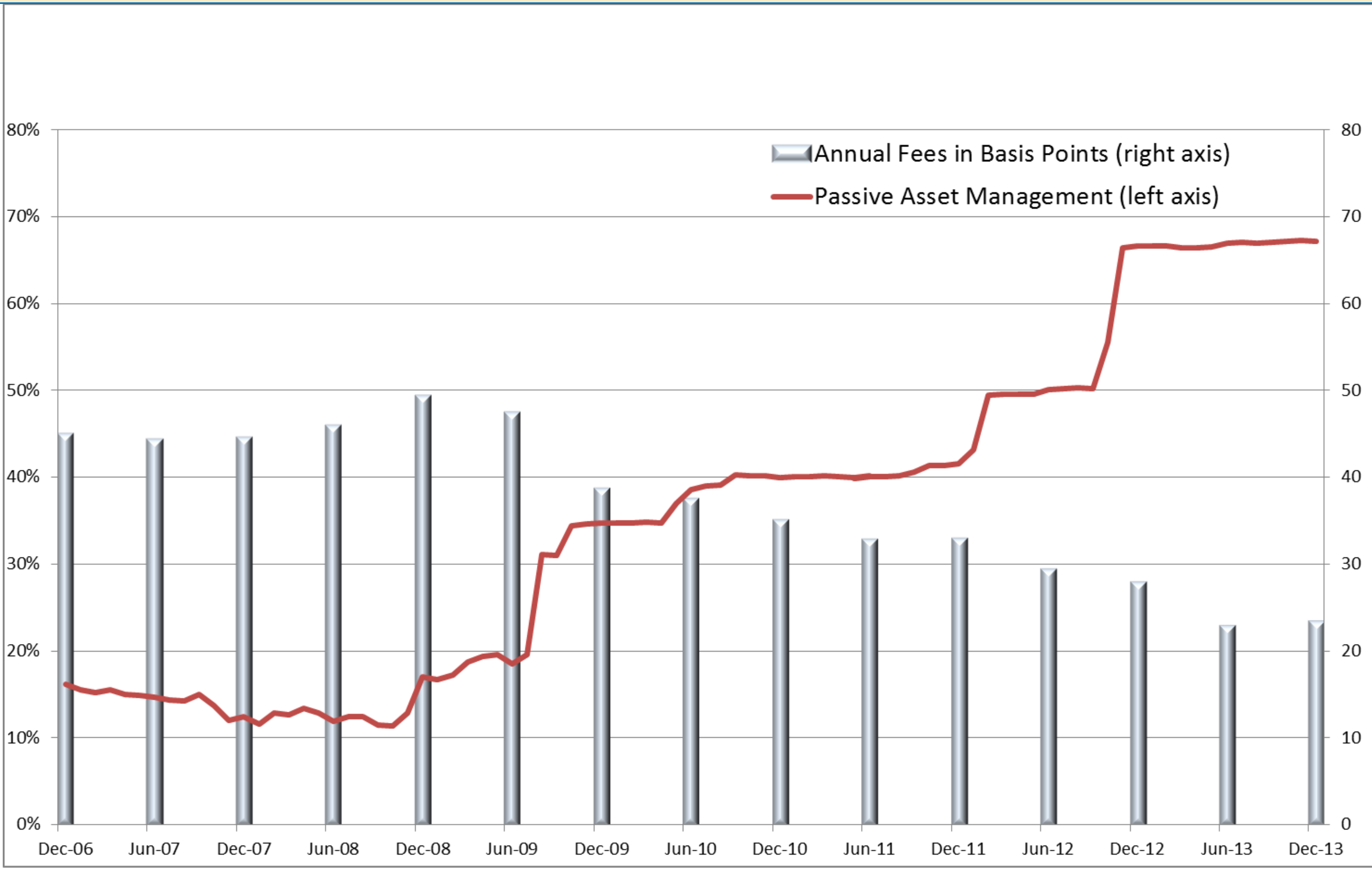
Positioning

- Diversification is Key
- Passive and Active Portfolios
- Complementary Active Portfolios
  - Styles – Growth and Value
  - Methodologies
  - Market Capture Profiles
  - Correlation of Return Histories
- Small Cap Overweight long term bias

Fees and Costs

- Cost effective Approach
- Total fees reduced substantially compared to previous
- Active management fees paid in Large Cap and Small Cap areas but a smaller percentage paid in Large Cap than previous
- CEM Study monitors fees within the pool compared to peers

Passive Management and its Effect on Fees



Fees by Market Cap (Then and Now)

June-12	Avg Mkt ($Mil)	$ Fees	Effective Fee %
Actual			
Passive	$ 582.2	$ 586,869	0.10%
Large	$ 555.9	$ 533,127	0.10%
Emerging	$ 26.3	$ 53,743	0.20%
Active	$ 777.9	$ 3,723,053	0.48%
Large	$ 693.7	$ 3,341,127	0.48%
Small	$ 84.2	$ 381,926	0.45%
Total	$ 1,360.1	$ 4,309,922	0.32%

December-13	Avg Mkt ($Mil)	$ Fees	Effective Fee %
Actual			
Passive	$ 998.9	$ 928,586.3	0.09%
Large	$ 939.5	$ 809,756	0.09%
Small	$ 24.9	$ 42,243	0.17%
Emerging	$ 34.5	$ 76,587	0.22%
Active	$ 495.3	$ 2,570,655	0.52%
Large	$ 423.2	$ 2,174,431	0.51%
Small	$ 72.0	$ 396,224	0.55%
Total	$ 1,494.2	$ 3,499,242	0.23%

December-13	Avg Mkt ($Mil)	$ Fees	Effective Fee %
Pro Forma			
Passive	$ 928.9	$ 869,845	0.09%
Large (Less $70mm, $59k in Fees)	$ 869.5	$ 751,015	0.09%
Small	$ 24.9	$ 42,243	0.17%
Emerging	$ 34.5	$ 76,587	0.22%
Active	$ 495.3	$ 2,570,655	0.52%
Large	$ 423.2	$ 2,174,431	0.51%
Small	$ 72.0	$ 396,224	0.55%
Incoming Active Managers	$ 70.0	$ 619,250	0.88%
Small	$ 70.0	$ 619,250	0.88%
Total	$ 1,494.2	$ 4,059,751	0.27%

***16% Reduction in Fees**

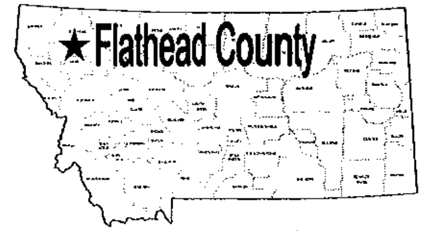
What to Expect Going Forward

- MTIP may receive new funds from the domestic pool at some point as part of an overall asset allocation change
- Small Cap weight (-2% to +4%) Emerging Markets weight (-2% to +2%)
- Dedicated Emerging Markets exposure to be passive
- Emerging Markets active exposure through ACWI ex US active portfolios
- Maintain current stable of managers, but be cognizant of large cap underperformers

Return to Agenda

Bond Program

Montana Board of Investments
INTERCAP Loan Summary and Approval



Borrower Flathead County **Date** March 20, 2014

The County requests to borrow $2,000,000 to refinance a capital lease for Heating Ventilation and Air Conditioning (HVAC) systems in 12 County buildings. The INTERCAP loan will be in the form of a general promise to pay over a 10 year term. The County will contribute $1,091,453 from its General Fund as part of the transaction. As of February 28, 2014, the unassigned cash in the County's General Fund was $3,250,757.

Authorization

7-5-2306 MCA – When the amount to be paid as the purchase price for any ...machinery, apparatus, appliance or equipment, or for any materials or supplies of any kind exceeds $4,000, the county governing body may provide for the payment of the purchase price in installments extending over a period of not more than 10 years.

7-7-2101 MCA – (1) County outstanding debt may not exceed 2.5% of the total assessed value of taxable property. [The County's assessed value: $9,930,585,912; available debt authority: $238,829,088.]

7-7-2402 MCA – If a county's taxable value is greater than $100 million, the county may borrow up to $2,000,000 for any single purpose mentioned in Title 7 without a vote of the electorate. [The County's taxable value is $251,311,899.]

INTERCAP Debt

The County has borrowed once through INTERCAP in 2007 on behalf of a Rural Improvement District (RID). The RID bond of $186,666 was fully drawn, has $75,950 outstanding and will mature August 2017.

Repayment

The County's annual debt service for this proposed INTERCAP loan will be ~$250,100 through August 2024. The County's current lease expires July 2027, requires annual lease payments of $302,911, and has no prepayment penalties. The following Financial Report based on General Fund audited financials shows the County has the resources to adequately service the proposed debt.

Financial Report

	FY13	FY12
Beginning Fund Balance	$ 3,658,661	$ 2,224,170
Revenues	10,055,070	11,058,343
Expenditures	9,569,629	9,623,852
Ending Fund Balance	$ 4,144,102	$ 3,658,661
Net Change in Fund Balance	$ 485,441	$ 1,434,491
Fund Balance Cash	$ 3,134,862	$ 3,366,207
Fund Balance *Unassigned*	$ 4,112,215	$ 3,650,421

COMMENTS

FY12 Without the $594,652 one-time revenue and ($234,186) capital outlay, the net change in fund balance would have been $1,074,025.

FY13 The decrease in revenue from FY12 was due to a decline in business equipment tax and an increase in protested property taxes. The County recently reached an agreement to settle a large part of that tax protest and expects protested taxes to return to normal levels in FY14. Without the ($149,206) capital outlay, the net change in fund balance would have been $634,647.

Recommendation

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

Staff Loan Committee

David Ewer, Executive Director	[signature]	Approval Date: 3/21/14
Geri Burton, Deputy Director	Geri Burton	Approval Date: 3-20-14
Louise Welsh, Sr. Bond Program Officer	Louise Welsh	Recommended: 3/20/14
Julie Flynn, Bond Program Officer	Julie Flynn	Recommended: 3-20-14

Board Loan Committee – May 20, 2014

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

Montana Board of Investments
Loan Committee
INTERCAP Loan Summary and Approval

Borrower City of Deer Lodge — **Date** March 20, 2014

Approval Date___________

The City requests a $5,024,000 interim loan in anticipation of the United States Department of Agriculture (USDA) Rural Development Services (RD)[1] long-term financing for improvements to its wastewater treatment plant. The loan will be for up to one (1) year and in the form of a bond anticipation note (BAN). The improvements to the plant address an Administrative Order issued by the Montana Department of Environmental Quality to address issues with the plant by December 2015. The projected drawdown schedule for the loan covers the ten-month period from October 2014 to July 2015, at which point the City anticipates closing on its RD loan. The funding package for the $11,775,000 total project cost is as follows:

Borrower Portion		$ 644,000
Department of Commerce – Treasure State Endowment Program (TSEP) Grant		500,000
Department of Natural Resources & Conservation (DNRC) – RRGL[2] Grant		100,000
Rural Development (RD) Grant		4,014,000
DNRC State Revolving Fund Interim Loan	$1,493,000	
INTERCAP Interim Loan	**$5,024,000**	
Rural Development (RD) Loan		6,517,000
	Total	$ 11,775,000

[1]http://www.rurdev.usda.gov/
[2]Renewable Resource Grants and Loans Program

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 borrowed $14,009 through INTERCAP in 1989. The loan was fully drawn and matured February 1992.

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 Conditions **(MBOI has on file)**
   - ☒ USDA Office of General Council (OGC) Loan Closing Instruction
   - ☐ RD Letter of Intent to Fund ("I" Letter)
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 to prepare the necessary BAN documents and provide the opinion at closing. The Bond Counsel needs to be nationally recognized and rendering a bond counsel opinion in the last ten years.

Recommendation

Approval recommended.

Staff Loan Committee

David Ewer, Executive Director ____________	Recommended 3/20/14
Geri Burton, Deputy Director ____________	Recommended 3.20.14
Louise Welsh, Sr. Bond Program Officer ____________	Recommended 3/20/14
Julie Flynn, Bond Program Officer ____________	Recommended 3.20.14

Board Loan Committee – May 20, 2014

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

Recommended ____________

Montana Board of Investments – May 20, 2014

Mark Noennig, Chairperson	☐ Yes ☐ No ☐ Abstain
Karl Englund, Vice Chairperson	☐ Yes ☐ No ☐ Abstain
Gary Buchanan, Member	☐ Yes ☐ No ☐ Abstain
Kathy Bassette, Member	☐ Yes ☐ No ☐ Abstain
Quinton Nyman, Member	☐ Yes ☐ No ☐ Abstain
Jack Prothero, Member	☐ Yes ☐ No ☐ Abstain
Marilyn Ryan, Member	☐ Yes ☐ No ☐ Abstain
Jon Satre, Member	☐ Yes ☐ No ☐ Abstain
Sheena Wilson, Member	☐ Yes ☐ No ☐ Abstain

Approval Date ____________

State of Montana Board of Investments

INTERCAP

Loan Program

Louise Welsh
Senior Bond Program Officer
April 8, 2014

Since 1987, INTERCAP has been a valuable low interest loan resource for over 475 Montana governments.

Contents address:
Legal Authorization
Program Statistics
Board's Guaranty
Bonds that fund INTERCAP
Bond Finance Team
INTERCAP Program Use

Legal, Policy and Governance

Montana Code Annotated, Title 17, Chapter 5, Part 16
Municipal Finance Consolidation Act (MFCA)

17-5-1602 (1)(2)	Lend to eligible government units
17-5-1606 (5)(b)	Sell MFCA bonds at a public or private sale to fund INTERCAP loans
17-5-1611 (11)	Independently hire underwriters, attorneys, trustees, and related parties
17-5-1630 (5)	Board guaranty for MFCA bond repayment
17-5-1608	Board guaranty (credit enhancement) capped at $190 million
17-5-1611 (6)	Board may charge a fee for its services

Legal, Policy and Governance

Next Level of Governance

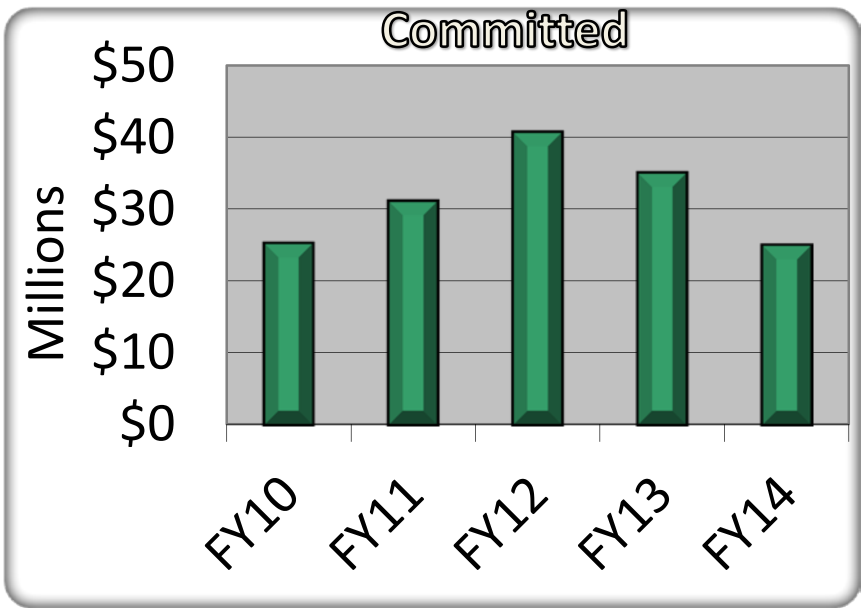
Board Governance Manual, Section III (12) delegates Executive Director to implement credit enhancement.

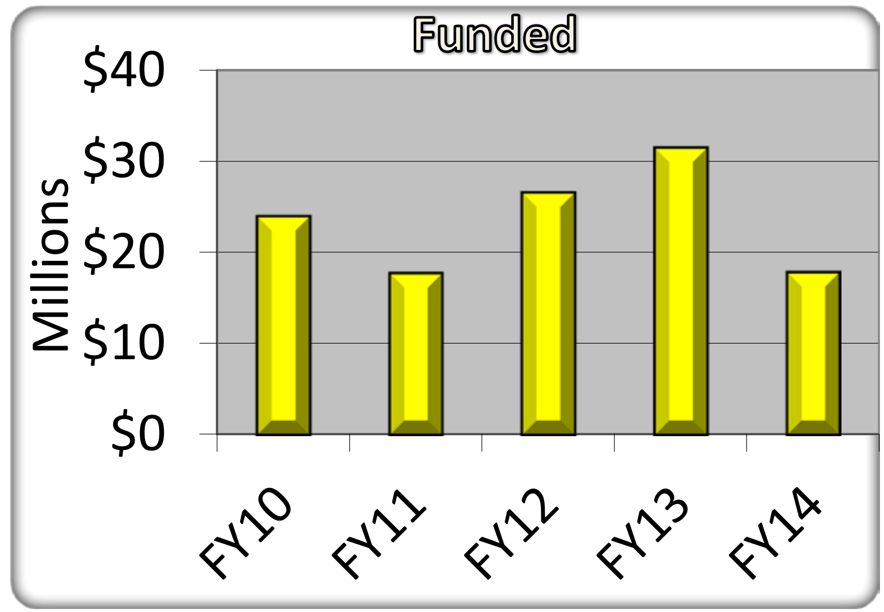
Resolution 219 – Board credit enhancement is to purchase tendered bonds not remarketed and loan to INTERCAP's reserve fund to cover bond debt service.

Designated Credit Enhancement Funds' Policies
- Permanent Coal Trust Fund
- Treasurer's Fund
- Short Term Investment Pool (STIP)

Program Snapshot

	Overall Total	3/1/14 Outstanding	Current Rate
INTERCAP Bonds	$148,000,000	$106,450,000	.16%
1,569 Loans Funded	$415,342,045	$ 71,588,492	1.00%
Loan Commitments	$454,297,543	$ 36,804,747	





State of Montana Board of Investments INTERCAP Loan Program

BOI Guaranty
(Credit Enhancement)

Designated Investment Funds for Enhancement		FY14 – 2nd Qtr. Balances
Treasurer's Fund		$ 960,654,325
Coal Severance Tax:		
Permanent Corpus STIP		5,346,165
Permanent Corpus TFIP		385,828,906
Treasure State Endowment Corpus TFIP		225,933,300
	Total	$1,577,762,696

Program's Enhanced		
INTERCAP Bonds		$ 106,615,000
Montana Facility Finance Authority (MFFA)*		118,734,677
	Total	$ 225,349,677

Designated Funds provided 7 times the coverage

*MFFA enhancement under separate law 90-7-320 MCA and individually capped at $190 million.

Tax Exempt Bond Issuance/Remarketing (Pool of Funds Available to Loan)

Tax Exempt, Annual Adjustable Rate Tender Option, MFCA Bonds issued as needed and remarketed every February

INTERCAP is a revolving program therefore the borrower principal repayments return to pool of funds available to loan

Rating:	Moody's Aa3 VMIG1, Fitch AA- F1+
Last issuance:	March 2013
Outstanding:	$106,450,000 ($165,000 redeemed March 2014)
Reserve:	~$8,250,000 (7.5% of original issue required)
New issue cost:	~2.3% of bond (1.3% is Board onetime Guaranty Fee)
Remarketing cost:	~.18% of bonds outstanding
Term:	20-25 years

Bond Rating Defined

MFCA Bond Rating

Moody's		S&P		Fitch		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa		AAA	A-1+	AAA		Prime
Aa1		AA+		AA+		High Grade
Aa2		AA		AA		
AA3	**VMIG 1**	AA-		**AA-**	**F1+**	
A1		A+	A-1	A+	F1	Upper medium grade
A2		A		A		
A3	VMIG 2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		Lower medium grade
Baa2	VMIG 3	BBB	A-3	BBB	F3	
Baa3		BBB-		BBB-		
Ba1	VMIG 4	BB+	B	BB+	B	Non-investment grade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly Speculative
B2	SG	B		B		
B3		B-		B-		
Caa1		CCC+	C	CCC	C	Substantial risks
Caa2		CCC				Extremely Speculative
Caa3		CCC-				In default with little prospect for recovery
Ca		CC				
		C				
C		D	/	DDD	/	In default
/				DD		
/				D		

State of Montana Board of Investments
INTERCAP
Loan Program

Bond vs. Loan Rate

	2014	2013	2012	2011	2010	2009	2008
Minimum Rate:	.15%	.18%	.22%	.40%	.50%	.50%	1.50%
Bond Rate:	.16%	.22%	.22%	.48%	.50%	2.15%	3.25%
Loan Rate:	1.00%	1.00%	1.25%	1.95%	1.95%	3.25%	4.25%

- Loan Rate changes every February 16

Loan Rate Average* (in years)	5	10	15	20	25	overall
	1.43%	2.81%	3.14%	3.61%	4.00%	4.29%

*Peaked at 7.95% in 1989. Lowest is the current 1.00% two years running.

State of Montana Board of Investments INTERCAP Loan Program

Finance Team

Underwriter/Remarketing Agents	Piper Jaffrey & Co. and D.A. Davidson & Co.
Underwriter's Counsel	Jackson, Murdo & Grant, P.C.
Board Counsel	Luxan & Murfitt, PLLP
Bond Counsel	Dorsey & Whitney, LLP
Trustee	U.S. Bank, N.A.

Finance Team continued

- ✓ Stalwart firms in the industry working for INTERCAP since 1987
- ✓ Team employees have over 140 years collective working knowledge of INTERCAP and each other
- ✓ Strong presence in municipal bond market
- ✓ Extensive experience with short term transactions
- ✓ Continued investor base growth, increasing demand for bonds
- ✓ Aggressive setting of the minimum rate
- ✓ Aggressive marketing to finalize rate close to minimum
- ✓ Close attention to detail and legal/tax compliance
- ✓ Reasonable fees for services rendered

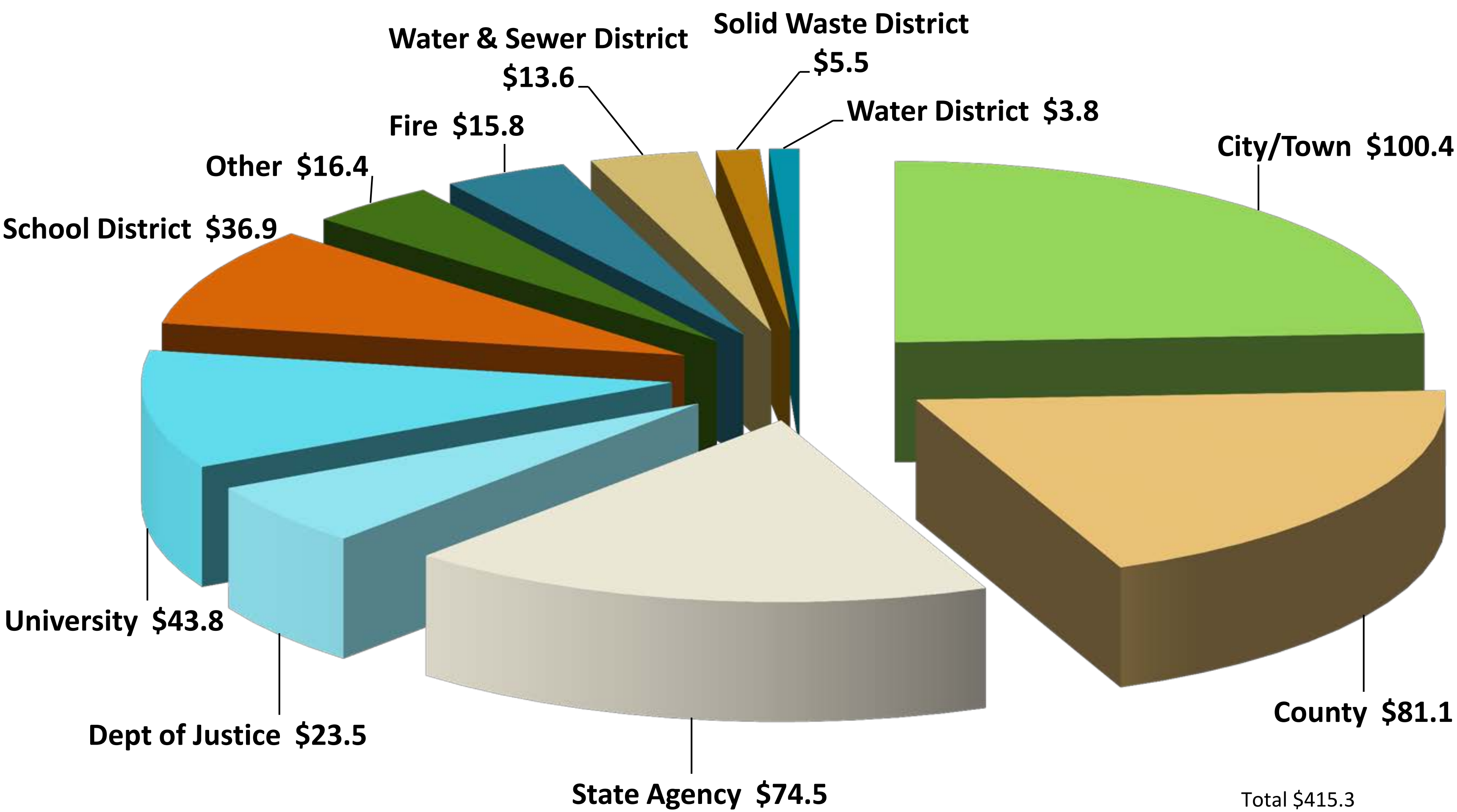
Borrower & Loan Types

Montana Local Governments, State Agencies, and Universities

- Promissory Note – general promise to pay with vehicle/equipment security (if applicable)
- General Obligation Bonds – entity's full faith and credit pledged
- Revenue Bonds – enterprise fund revenue pledged
- Rural and Special Improvement Bonds – assessments pledged

State of Montana Board of Investments INTERCAP Loan Program

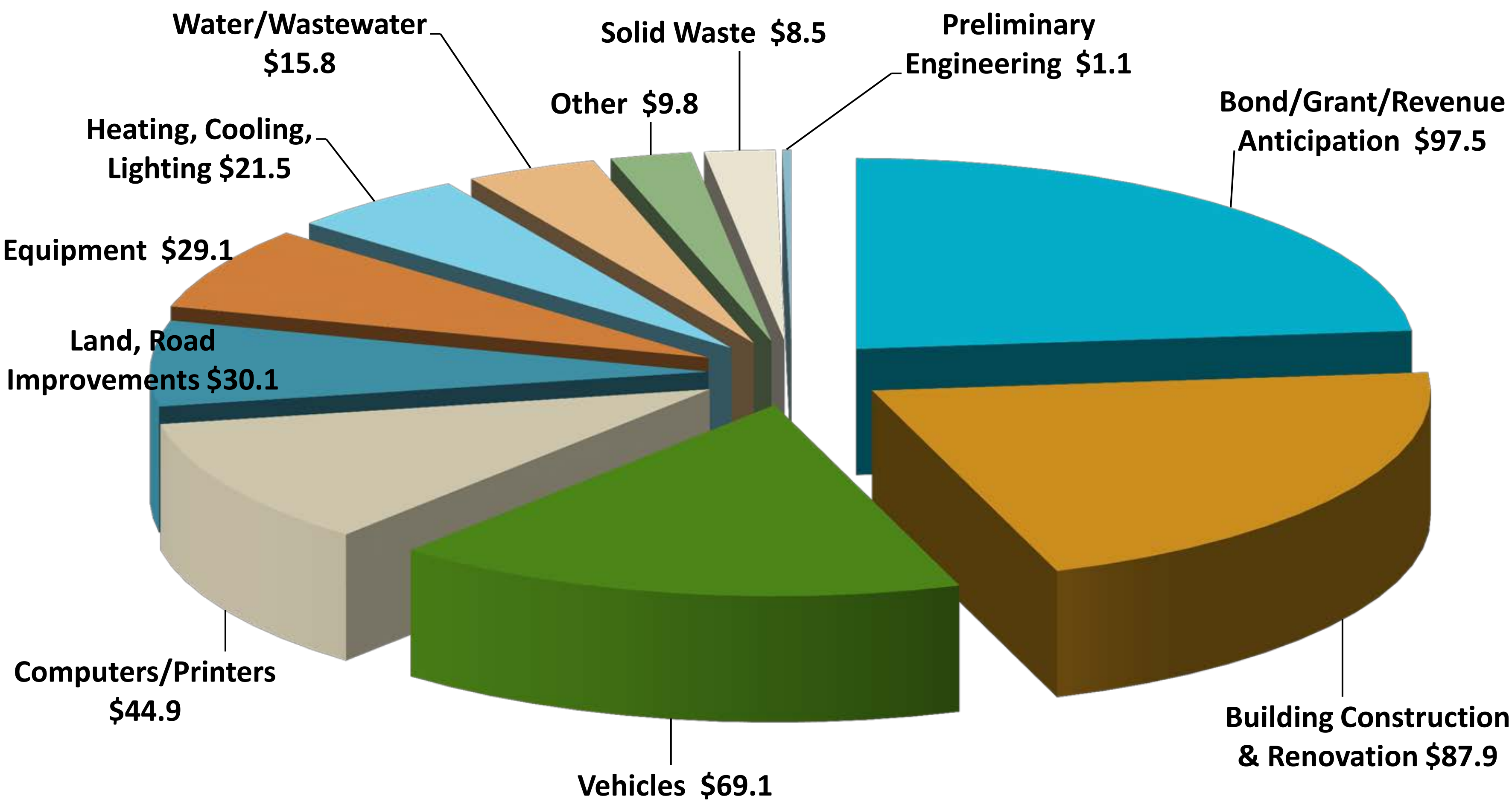
Borrower Type through December 31, 2013



Total $415.3
Dollar Figures in Millions

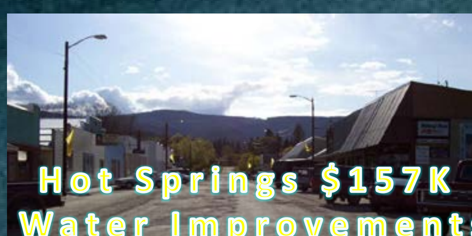
State of Montana Board of Investments INTERCAP Loan Program

Project Type through December 31, 2013



Total $415.3
Dollar Figures in Millions

INTERCAP offers Montana governmental entities easy access to low cost money to finance capital improvements; thus, reducing costs of public indebtedness to taxpayers.



Daly Elementary $350K
Remodel & new boiler

Butte-Silver Bow
$1.7MFire Trucks

Back to Agenda

APPENDIX

2014 CALENDAR

Board Dates | Board Packet Mailing

01 New Year's Day
20 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

17 President's 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						

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				

1 Labor Day

18 Good Friday
20 Easter Sunday

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	

13 Columbus Day
31 Halloween

11 Mother's Day
26 Memorial Day

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						

04 Election Day
11 Veterans Day
27 Thanksgiving Day

15 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

Systematic Work and Education Plan 2014

Feb. 25-26	**Quarterly Meeting**
	Quarterly reports and subcommittee meetings
	Annual Report and Financial Statements
	Financial Audit
	Performance Audit
	Ethics
	Domestic equities
	Real estate - RVK
April 8	**Non-Quarterly Meeting**
	All policy review
	International equities
	Emergency/Disaster preparedness
	Intercap program
	Custodial bank RFP
	Web site
	Look-back on terminated managers (RVK)
	Board education and possible conferences (IFE usually in June)
May 20-21	**Quarterly Meeting**
	Quarterly reports and subcommittee meetings
	Private equity, real estate and timberland
	Proxy voting public equities
	Cash management
	Internal controls
	Staffing level review
August 19-20	**Quarterly Meeting**
	Quarterly reports and subcommittee meetings
	Costs (including reviewing CEM Benchmarking Inc. results)
	MBOI Budget and legislative-related action-decision
	Accounting and internal control systems
	Fiscal Year performance through June 30th
October 7	**Non-Quarterly Meeting**
	TBD
	Custodial bank recommendation (sometime between August and late Sept)
Nov. 18-19	**Quarterly Meeting**
	Quarterly reports and subcommittee meetings
	Affirm or Revise Asset Allocation
	Resolution 217
	PERS/TRS annual update
	Securities litigation status
	Exempt staff annual review

Systematic Work and Education Plan - 2012 through 2014			
2012	**2013**	**2014**	
X	X	X	Annual report and financial statements
X	X	X	Asset Allocation Range Approval (Board must review/approve annually as per policy)
X	X		Capital Market/Asset Allocation
X	X	X	Audit (Financial)
	X		Board as a rated investment credit, a bond issuer and a credit enhancer
X	X	X	Board member education
X	X	X	Board's budget
	X		Board as landlord/tenant holdings
	X		Board's website
X		X	Cash Management of state monies
X	X	X	Cost reporting including CEM, Inc. analysis
		X	Custodial bank relationship, performance, continuity
	X		Customer relationships (State government)
	X	X	Disaster Recovery and other emergency preparedness
X	X	X	Education (RVK minimum 2 presentations/year)
X	X	X	Exempt staff performance and raises (HR policy requires annual consideration)
X	X	X	Ethics policy – (Board policy requires annual affirmations)
X	X		Fixed Income
	X		In-state Loan program
X		X	INTERCAP program
X	X	X	Internal controls
X	X	X	Investment Policy Statements Review (Governance policy requires annual review)
X	X	X	Legislative session and interim matters
	X	X	Outreach efforts for Board - loan and municipal programs
X	X	X	PERS and TRS relationship
X		X	Private Equities
		X	Proxy voting public equities
X		X	Public Domestic Equities
X		X	Public International Equities
X		X	Real Estate and timber
X	X	X	Resolution 217 update of current Investment Firms (Board policy requires annual update)
X	X	X	Resolution 218, role of deputy director to serve as acting executive if necessary
	X		Securities Lending
X	X		Securities Litigation
	X		Staffing levels (required biannually in board policy)
	X		State Fund as major client

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

LDI.. Liability-Driven Investing

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

MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX

NAV ..... Net Asset Value

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

Terminology Commonly Used and Generally Understood at the Montana Board of Investments
(And most typical context used at BOI)

Active management (typically with respect to stocks)
Investment method which involves hiring a manager to research securities and actively make investment decisions to buy and sell securities in an effort to outperform an assigned index, rather than purchasing a portfolio of securities that would simply replicate the index holdings (*'passive'* investing).

Actuarial assumed rate (pension concept)
The investment return rate used by actuaries that enables them to project the investment growth of retirement system assets into the future (typically perpetual).

Actuarial funding status (pension concept)
A measurement made by actuaries to measure a pension system's financial soundness (ratio of actuarial liabilities to the actuarial value of the assets available to pay the liabilities).

Alpha (investment term)
Return on an investment portfolio in excess of the market return or benchmark return; generally used in the context of *'active'* management (as passive management, by definition, does not seek excess returns, or 'alpha').

Alternative Investments
A wide range of investments, other than traditional assets such as publically traded stocks and bonds. The most common nontraditional or alternative investments are private equity, real estate, commodities, and hedge funds.

Arbitrage (bond program)
A structural or systematic difference between investment types which may allow profiting from the 'difference,' i.e., arbitrage. The most common context for the use of 'arbitrage' at the BOI is the federal law that prevents 'arbitrage,' i.e., the profiting of investing tax-exempt securities (e.g. INTERCAP) into taxable yields investments (such as U.S. Treasuries).

Asset Allocation and Asset Allocation Range (general investment principle)
The Board's invested assets are divided or allocated into various asset classes such as stocks and bonds, each with its own characteristics, with the objective of attaining an optimal mix of risk and return. The total expected return of a portfolio is primarily determined by the mix or allocation to its underlying assets classes. Given the importance of 'asset allocation,' the BOI Board sets the asset allocation 'range' for each broad investment type or asset class.

Average life (fixed income, particularly bonds)
The average time period the debt is expected to be outstanding. This is typically the maturity date for a traditional bond structure, however it will be shorter for bonds having a sinking fund or amortizing payment structure.

Barclay's Aggregate Index (fixed income)
A composite of outstanding bond issues, including corporate, structured, and government bonds whose overall investment features such as return and investment type are tracked over many years. This is the most common benchmark used for comparing the performance of a portfolio that invests in U.S. investment grade fixed income securities. Formerly known as the Lehman Aggregate bond index.

Basis points (investment jargon)
A basis point is 1 100^{th} of a percentage. Ten basis points is one tenth of a percent, typically written as 10 bps.

Benchmark (standard investment concept)
The concept of employing a particular independent or market investment return as a measurement to judge an investment portfolio's return; typically chosen investment benchmarks have the following attributes: they are investible, quantifiable, chosen in advance, easily understandable, and have a long history; common examples are the S & P 500 Index and the Barclay's Aggregate Index.

Beta (investment jargon)
A measure of the risk (or volatility) of a security or a portfolio in comparison to the market as a whole. If the stock or portfolio moves identically to that market, its beta value is 1; if its price volatility (or movement) is greater than that market's price volatility, it is said to have beta greater than 1.

Cap, as in large 'cap' (generally for stocks, i.e., public equities)
'Cap' is short for capitalization, as a reference to the market value of a publically-traded company. The current stock price times the total shares outstanding of the company equals its market capitalization or market 'cap'; often used contextually such as 'large-cap,' 'mid-cap,' and 'small-cap' for different sized public companies.

Clawback (private equity)
A clause in the agreement between the general partner and the limited partners of a private equity fund. The clawback gives limited partners the right to reclaim a portion of distributions to a general partner for profitable investments based on significant losses from later investments in a portfolio which ultimately resulted in the general partner receiving more distributions than it was legally entitled to.

Core (context varies for equity, fixed income, real estate)
In equity and fixed income, 'core' refers to investments that are generally always found in the portfolio and normally expect to hold for a very long time e.g. 'core' holdings of the largest U.S. companies, or U.S. treasuries; in real estate, 'core' generally refers to the best quality of real estate holdings such as prime commercial property in major metropolitan cities that have low leverage and low levels of vacancy.

Correlation (common statistical concept)
A measure of how two or more investment values or two asset classes move relative to each other during the same time period. A central concept in portfolio construction is to seek investments whose values do not move *together* at the same time, i.e., are uncorrelated. A correlation of 1 means that two or more investments 'move' precisely together.

Custom benchmark (or sometimes custom index)
A way to measure investment performance using a tailor-made measurement versus a generic industry-standard benchmark. At the BOI, total pension performance is measured against the Board's 'custom index' or 'custom benchmark' which is a weighted blend of all the underlying asset class benchmarks used to measure the asset class returns.

Derivatives (investment jargon)
Investment securities whose performance itself depends (or is 'derived') from another underlying investment return. Examples include stock options, puts/calls, and forward currency contracts whose returns are based on the underlying stock or currency.

Developed markets (equity)
Countries having a long period of stable industrialization; or are the most economically developed.

Discount (fixed income, generally)
Used most often with respect to bonds, the price paid that is less than face (or 'par') value. A $1 million face-value of a bond purchased for less than a million is bought at a 'discount.' Described as the difference between a bond's current market price and its face or redemption value.

Diversification (standard investment concept)
The concept of spreading risk by putting assets in several investment categories, each having different attributes with respect to type, expected return, risk, and correlation, to best protect against the risk of loss.

Duration (bonds)
Almost exclusively used when discussing fixed income bonds, a measurement of how sensitive a bonds' change in price is to a change in general market interest rates, expressed in years (specifically calculated as a weighted average term to maturity of the bond's cash flows). The greater the duration of a bond, the greater the volatility of price for changes in market interest rates.

Efficiency (usually when discussing various stock markets)
Used to describe markets where it is very difficult to achieve return in excess of that of the overall market from individual stock selection. When information is widely available on a company and its securities are traded regularly the market is considered 'efficient.'

Emerging Markets (most often for public equities)
Certain international securities markets that are typically small, new, have low turnover, and are located in countries where below-average income prevails and is developing in response to the spread of capitalism.

Enhanced (pertaining to stocks)
Generally linked with 'index' as in enhanced index, an indexed investment management style that has been modified to include the portfolio manager's idea of how to outperform the index by omitting some stocks in the index and overweighting others in a limited manner designed to enhance returns but at minimal risk.

Enhancement (bond program)
At BOI, the term generally refers to credit support or a bond or loan guarantee. For example the Board's INTERCAP bonds are 'enhanced' by the BOI's performance guarantee bringing down the yearly interest rate.

Excess returns (standard investment concept)
Returns are 'excess' if they are more than the market or more than the benchmark they are measured against.

Exempt staff vs. classified staff (specific to Montana state government)
"Exempt" refers to the Board's seven employees who, under state law, do not fall under the state's standard employment rules (the 'classified' staff).

Fiduciary (from the Latin verb, fidere, to trust)
The concept of trust and watchfulness; a fiduciary is charged with the responsibility of investing the money wisely for the beneficiary's benefit. Board members are the ultimate 'fiduciaries' for the Board's assets and are obligated to be a good agent.

FTE (state government jargon)
An acronym in state government: "full time equivalent" as in full time employee. The concept is a slot or position, not the actual individuals. The BOI is currently authorized for 32 FTE's.

Fund of funds (private equity)
A concept used in alternative investments referring to using an investment manager to invest in ***other*** managers or funds, as opposed to making direct investments in funds.

GAAP/GASB (accounting terminology)
GAAP…Generally Accepted Accounting Principles; Montana state law uses GAAP accounting principles unless specifically allowed otherwise. GASB…Government Accounting Standards Board, the board that sets GAAP

standards for U.S. governments (FASB…Financial Accounting Standards Board, the entity for commercial and business accounting standards).

General obligation (municipal finance term)
Used to describe the promise that a government makes to bond holders, backed by taxing and further borrowing power, it is generally considered the highest level of commitment to bondholders. At the local government level, general obligation bonds typically require a vote of the residents.

General partner vs. limited partner (private equity)
In private equity, the general partner is responsible for the operations of the partnership and makes the actual underlying investment decisions; the limited partner is the investor, and therefore has limited liability for investment decisions; the BOI is the 'limited' partner in its private equity fund investments (and real estate funds as well).

Growth (as to style public equities)
An investment style that more heavily invests in companies whose earnings are expected to grow at an above average rate to the market. A growth stock usually does not pay a dividend, as the company would prefer to reinvest retained earnings in capital projects to grow the company (vs. *'value,'* which considers buying established companies they feel are trading at bargain prices to the fundamental analysis of the company's financial statements and internal competitive factors).

Indenture (bond and loan programs)
The central document describing the contract between investors and the borrower or user of the proceeds. The Board's INTERCAP program is structured around a bond indenture.

Hedge fund (as defined by *Investopedia*)
An aggressively managed portfolio of investments that uses advanced investment strategies such as *leverage*, long, short and *derivative* positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market *benchmark*).

Hurdle Rate (private equity)
a minimum return per annum that must be generated for limited partners of a private equity fund before the general partner can begin receiving a percentage of profits from investments.

Index (investment concept)
Typically a single measure of a broadly-based group of investments that can be used to judge, or be compared to the return performance of an individual investment or manager.

Indexing (investment concept)
Typically refers to investing in a portfolio to match a broad range of investments that are set within a pre-determined grouping, such as the S&P 500, so as to match its performance; such investing is generally labeled 'passive' or indexed investing; or buying shares in an Index Fund.

In-state loan program (Montana-specific)
Programs that are funded by the state's coal severance tax monies.

Internal service vs. enterprise fund (state accounting concept)
Within Montana state government: a program whose funding is dependent on ***mandatory participation*** by another state government program is labeled an 'internal' service fund; a program whose funding is dependent on voluntary participation is labeled an enterprise fund. At BOI, the investment program is an internal service fund because participation is not voluntary; the Board's bond and loan programs, because their use is voluntary, are accounted for as an enterprise.

Investment grade (bonds)
Bond ratings from Moody's, Standard and Poor's, and Fitch high enough to be considered secure enough for most investors (bonds rated AAA – BBB). Below investment-grade bonds (below BBB) are generally considered to have a more speculative outlook and carry more risk of default.

IRR (private equity)
A measure of investment performance, short for 'internal rate of return,' expressed as a percentage (the 'internal rate of return' number, or discount rate) that mathematically will equalize the total future cash flows of an investment to the initial cash outflow of the investment; the concept accounts for the time value of money.

Leverage (investment concept)
As an investment concept, a way to increase a return on an investment through a combination of one's own money and also by borrowing additional money to enhance such an investment; high 'leverage' is also associated with high risk.

Mean Variance Optimization Model ('Modern Portfolio Theory')
A theory that it is possible to construct a portfolio to maximize the return for the least amount of risk or volatility. This theory is based on various asset types and their level of expected return, risk (volatility) and their correlation with each other or how the asset values move with each other. The central idea of the model is to blend investments so that in total, they provide both the best expected return and optimal amount of diversification to minimize deep performance swings (volatility); a central tenant is that long term historical returns are indicative of future returns.

Mezzanine finance (private equity)
Subordinated debt with an equity 'kicker' or ability to share in the equity value of the company. It is typically lower quality because it is generally subordinated to debt provided by senior lenders such as banks, thus is considered higher risk.

Multiple (as in "multiple" of invested capital, private equity)
The ratio of total cash returned over the life of the investment plus the investment's residual value over the total cash expended in making the investment. A multiple of 2 means, regardless of the total investment time period, that total cash returned was twice the cash invested.

130/30 Strategy (public equities)
Also called 'partial long short,' this strategy involves the establishment of a short position in select stocks while taking the proceeds of those shorts and buying additional long positions in stocks. The net effect is an overall market position that is 100% long, but the active decisions on individual stock selections are amplified by this ability to short. If the stock selections are successful, the strategy enables the portfolio to profit more than if a stock had simply not been owned, as with traditional long-only portfolios.

Opportunistic (real estate)
In real estate, a euphemism for the most risky real estate investments, typically distressed, raw land, newly developed buildings or other high risk investments in the real estate sector, (versus, *'core,'* which are the best quality fully leased commercial properties).

Overweight or underweight (investment concept)
Generally the level of holdings of a certain type of investment that is above or below either a benchmark's weight (portion of total investment), or the percentage held of a particular asset class compared to the Board's asset allocation policy weight. Also used to describe an external investment manager's decision to have more (or less) of a particular investment than the percentage or weighting found in the benchmark.

Passive management or passive investment (most often in public equities, but not exclusively)
An investment style where a fund's portfolio mirrors a market index, such as the S&P 500, with limited selection decisions by the manager, resulting in market returns. Passive management is the opposite of active management in which a fund's manager attempts to beat the market with various investment strategies and buy/sell decisions of a portfolio of securities to enhance returns.

P/E ratio (equity)
The price of a publically traded stock divided by its estimated or actual earnings is the price/earnings or P/E ratio. This can also be calculated for a stock index or portfolio of stocks. Over the last 100 years, the S&P 500 has had an overall P/E ratio of about 15, or a total index price of about 15 times the annual earnings of its underlying companies.

Pacing study (private equity)
An analysis of the likely timing and amount of the drawdown of committed but yet uninvested monies and the estimated distributions or returns from the funds held in an alternative investment portfolio, generally used to judge the future size of the portfolio and its potential liquidity needs, i.e., cash funding demands.

Par (fixed income)
The initial principal amount designated by the issuer of the bond, or face value of a bond.

Passive
For investments, generally not materially participating in an investment decision, meaning an investment portfolio whose returns follows that of a broad market index, such as an investable stock index, i.e. the S & P 500.

Passive weight (generally equities)
The percentage of a stock held in a particular index portfolio, or percentage of an overall asset class that is held in passive portfolios.

Policy Portfolio
A fixed-target asset allocation, as opposed to asset allocation ranges, which theoretically allows gauging whether deviations from the target portfolio had a positive or negative impact on overall performance.

Portable alpha (public equities)
An investment strategy which involves the active selection of securities while neutralizing overall beta or market risk. This often involves the use of derivative investments such as futures to replicate the market return, either taking a short or long position, while then selecting securities which are expected to add return in an absolute sense or in addition to the market return. As an example, this strategy can be found with certain hedge funds where a market exposure is shorted while individual securities such as specific stocks are purchased that are expected to outperform the general market. The concept of portable applies when the ability to generate positive alpha can be overlaid or ported onto a portfolio. This is not a strategy employed by any of MBOI's existing managers.

Premium (fixed income)
Most often the amount paid over the stated face amount (often called 'par') of a bond, but also used in other contexts, typically paying more (the premium) than a market price (as in a take-over bid for a company).

Proxy (publically traded companies)
An agent legally authorized to act on behalf of another party. Shareholders not attending a company's annual meeting may choose to vote their shares by proxy by allowing someone else to cast votes on their behalf, but the word 'proxy' is used more frequently colloquially as a 'close approximation.'

Prudent expert, prudent person (a central fiduciary concept)
These legal terms have long histories of court-determined standards of care, deriving originally under English common law. The BOI is empowered to operate under the 'prudent expert rule,' which states that the Board shall manage a portfolio:
a) with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
(c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.
At an 'expert' level; there is more room for accepting risk under the prudent expert rule than the prudent person rule.

Rebalancing (general investment term)
The process of realigning the weightings of the portfolio of assets. Rebalancing involves periodically buying or selling assets in the portfolio to maintain the original desired level of asset allocation and/or to stay within predetermined asset category range; it is part of a disciplined investment approach within modern portfolio theory.

Resolution (government term)
Generally a formal and written action by a governmental (or corporate) body that has long term significance and requiring a vote of the governing body. BOI uses 'resolutions' generally only for its most significant and long term actions and/or policies.

Securities lending (general investment)
Investments that are temporally borrowed by other investors for a fee; the BOI allows most of its publically traded investments to be loaned for additional marginal income.

Standard deviation (common statistical concept)
A specific statistic that measures the dispersion of returns from the mean over a specific time period to determine the "historical volatility" of returns for a stock, or portfolio, or asset class; more specifically a single unit (i.e., one standard deviation) of dispersion that accounts for approximately 66% of all data around a mean using a 'normal' (or 'uniform' or 'bell-shaped' curve; as opposed to a skewed or asymmetrical) distribution. The standard deviation is used as a gauge for the amount of expected future volatility.

SABHRS (accounting jargon)
Montana state government's State Accounting, Budgeting and Human Resource System; the State's central information management system. BOI investment and other financial data must tie and be reported on this system, which is the official book of record and includes the state's financial statements.

Style drift (often in reference to public equity managers, but applicable to other managers, too)
As the name implies, a divergence from an investor's professed investment bias or style or objective.

Tracking error (statistical concept in investments)
A measurement of the standard deviation of a portfolio's return versus the return of the benchmark it was attempting to outperform. The concept is often used when discussing investment managers. For example some styles are expected to have high 'tracking errors,' (e.g., deep 'value' investors who buy companies that may be dogs for years), versus passive managers, whose stock volatility is expected to be very close to their benchmark. Tracking error can either be intentional or unintentional; it can also be regarded as an accepted deviation or contrary to the management agreement. High *unexpected* tracking error is generally a serious concern to be examined and understood.

Underwriter (bond program)
In investments, the agent who buys investments to be resold to the public; at BOI, the investment firms that buy the Board's bonds to be resold to the public.

Unified Investment Program (Montana Constitution)
The Program in the State's constitution requiring a central investment program which the legislature has assigned to the BOI.

Value (as to style when discussing public equities)
An investment style that focuses on buying established companies that investors believe are undervalued and trading at bargain prices to the fundamental analysis of the company's financial statements and internal competitive factors.

Venture capital (private equity)
A higher-risk/high-return type of investing in startup firms and small businesses with perceived long-term growth potential. Sometimes these are already existing business ventures with limited operating history that need additional management expertise and access to capital. (For start-ups, 'seed capital,' or 'angel investor' are terms differentiating this even higher risk type of investment.)

Volatility (investment jargon)
A statistical measure of the dispersion of returns for a given security or market index. Volatility is typically measured by using the standard deviation of returns from the security or market index. Commonly, the higher the volatility, the riskier the security.

Yield (general investment, but most often within fixed income)
The amount returned to the investor above the original investment generally expressed as a percentage. Yield can be thought of as the expected return from the combination of interest and price accrual or amortization to maturity (in the case of a bond trading at a discount or premium to par).

Yield curve (fixed income)
A line that plots the prevailing interest rates at a given time for bonds ranging in maturity from as short as three months out to 30 years. When plotted across these various maturities (typically 2, 5, 7, 10 and 30 years), the resultant line is shaped like a curve with generally low interest rates (the yield) for shorter maturities and gradually higher interest rates for longer maturities, because generally investors demand higher interest rates for longer term investments. The yield curve for U.S. Treasury debt is the most common when referring to the prevailing level of interest rates.

MONTANA BOARD OF INVESTMENTS
PUBLIC MARKETS MANAGER EVALUATION POLICY

INTRODUCTION

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

The costs involved in transitioning assets between managed portfolios can be significant and have the potential to detract from returns. Therefore it is important that the decision process be based on a thorough assessment of relevant evaluation criteria prior to implementing any manager changes. Staff will consider such costs when deciding to add or subtract to manager weights within the pools as well as in deciding to retain or terminate managers.

MONITORING PROCESS

Periodic Reviews: Staff will conduct periodic reviews of the external managers and will document such periodic reviews and subsequent conclusions. Periodic reviews may include quarterly conference calls on portfolio performance and organizational issues as well as reviews conducted in the offices of the Montana Board of Investments (MBOI) and on-site at the offices of the external managers. Reviews will cover the broad manager evaluation criteria indicated in this policy as well as further, more-detailed analysis related to the criteria as needed.

Continual Assessment: Staff will make a continual assessment of the external managers by establishing and maintaining manager profiles, monitoring company actions, and analyzing the performance of the portfolios managed with the use of in-house data bases and sophisticated analytical systems, including systems accessed through the Master Custodian and the Investment Consultant. This process culminates in a judgment which takes into account all aspects of the manager's working relationship with MBOI, including portfolio performance.

Staff will actively work with the Investment Consultant in the assessment of managers which will include use of database research, conference calls and discussions specific to each manager, and in any consideration of actions to be taken with respect to managers.

MANAGER EVALUATIONS

The evaluation of managers includes the assessment of the managers with respect to the following qualitative and quantitative criteria.

Qualitative Criteria:
- Firm ownership and/or structure
- Stability of personnel
- Client base and/or assets under management
- Adherence to investment philosophy and style (style drift)
- Unique macroeconomic and capital market events that affect manager performance

MONTANA BOARD OF INVESTMENTS
PUBLIC MARKETS MANAGER EVALUATION POLICY

- Client service, reporting, and reconciliation issues
- Ethics and regulatory issues
- Compliance with respect to contract and investment guidelines
- Asset allocation strategy changes that affect manager funding levels

Quantitative Criteria:

- Performance versus benchmark – Performance of managers is evaluated on a three-year rolling period after fees.
- Performance versus peer group – Performance of managers is evaluated on a three-year rolling period before fees.
- Performance attribution versus benchmark – Performance of managers is evaluated on a quarterly and annual basis.
- Other measures of performance, including the following statistical measures:
    - Tracking error
    - Information ratio
    - Sharpe ratio
    - Alpha and Beta

PERFORMANCE MEASUREMENT

Performance calculations and relative performance measurement compared to the relevant benchmark(s) and peer groups are based on a daily time-weighted rate of return. The official book of record for performance measurement is the Master Custodian.

The performance periods relevant to the manager review process will depend in part on market conditions and whether any unique circumstances are apparent that may impact a manager's performance strength or weakness. Generally, however, a measurement period should be sufficiently long to enable observation across a variety of different market conditions. This would suggest a normal evaluation period of three to five years.

ACTIONS

Watch List Status: Staff will maintain a "Watch List" of external managers that have been noted to have deficiencies in one or more evaluation criteria. An external manager may be put on the "Watch List" for deficiencies in any of the above mentioned criteria or for any other reason deemed necessary by the Chief Investment Officer (CIO). A manager may be removed from the "Watch List" if the CIO is satisfied that the concerns which led to such status have been remedied and/or no longer apply.

Termination: The CIO may terminate a manager at any time for any reason deemed to be prudent and necessary and consistent with the terms of the appropriate contract.

MONTANA BOARD OF INVESTMENTS
PUBLIC MARKETS MANAGER EVALUATION POLICY

ROLES AND RESPONSIBILITIES

CIO: The CIO is responsible for the final decision regarding retention of managers, placement on and removal of “Watch List” status, and termination of managers.

Staff: Staff is responsible for monitoring external managers, portfolio allocations and recommending allocation changes to the CIO, and recommending retention or termination of external managers to the CIO.

Investment Consultant: The consultant is responsible for assisting staff in monitoring and evaluating managers and for reporting independently to the Board on a quarterly basis.

External Managers: The external managers are responsible for all aspects of portfolio management as set forth in their respective contracts and investment guidelines. Managers also must communicate with staff as needed regarding investment strategies and results in a consistent manner. Managers must cooperate fully with staff regarding administrative, accounting, and reconciliation issues as well as any requests from the Investment Consultant and the Custodian.

RECOMMENDED EDUCATIONAL RESOURCES FOR MEMBERS OF THE MONTANA BOARD OF INVESTMENTS

August 2013

RVKuhns & ASSOCIATES, INC.

Periodicals

Periodical	Cost	Link	Description
Pensions & Investments	$325/Year	**www.pionline.com**	Pensions and Investments is a bi-weekly publication that covers current events impacting defined benefit plans. The PI Online web site also provides a variety of research reports and databases to support the decision-making of defined benefit plan staff and board members.
The Economist	$134/Year	**www.economist.com**	The Economist is perhaps the most respected source of reporting and analysis on current events shaping the global economy. The Economist can help staff and board members stay familiar with the key factors and events that impact the performance of the portfolio.
Institutional Investor	$575/Year	**https://www.institutionalinvestor.com**	Institutional Investor provides a monthly magazine that serves as both a source of news and proprietary research. A subscription also provides varying degrees of access to proprietary data and research online. Subscriptions range from $575/year to $1,680/year depending on the desired level of access to online resources. We believe that the online research capabilities are most relevant to staff, and therefore would only recommend the $575 “silver” package for Board Members.

Books

Book	Cost	Link	Description
Pioneering Portfolio Management	$24	**http://tinyurl.com/3sa4c4u**	This book was written by David Swensen, the Chief Investment Officer of the Yale Endowment. The book provides a blue print for Mr. Swensen’s investing strategy, which has resulted in superior long term returns for decades. While the book is especially applicable to university endowments, many of the insights are relevant to public pension funds.
The Little Book of Behavioral Investing	$16	**http://tinyurl.com/3dya98f**	This book was written by a senior investment professional at GMO, a global asset management firm led by renowned investor Jeremy Grantham. The book provides a comprehensive overview of common behavioral biases that can negatively impact the investment decision-making process. The lessons are easily comprehensible to both expert and novice investors.

This Time is Different: Eight Centuries of Financial Folly	$15	**http://tinyurl.com/3nfft6x**	This book represents the most comprehensive overview of financial crises ever written. Time and again, insights from this book are cited by asset managers, economists, and politicians. Understanding some of the key insights helps put the global credit and sovereign debt crises into perspective.
End Game: The End of the Debt Supercycle and How it Changes Everything	$20	**http://tinyurl.com/3mepfcw**	This book builds on the lessons of "This Time is Different" and in fact cites many passages and tables throughout the book. In addition to putting the global credit crisis into perspective, it offers interesting forecasts of potential future outcomes and solutions.

Electronic Newsletters

Newsletter	Cost	Link	Description
CFA Financial Briefs	Free	**https://www.smartbrief.com/cfa/index.jsp**	Each day, this newsletter compiles the most notable headlines relating to economics, investment management, and major geopolitical events. Each headline has a link to the underlying article. This email serves as the daily newspaper for many in the investing community.
Thoughts from the Frontline	Free	**https://www.mauldineconomics.com/subscribe**	John Mauldin releases a daily newsletter that includes, as an attachment, his own analysis on major economic events and/or the analysis of other investment experts. The newsletter typically has a bearish bias, but provides invaluable perspective on macroeconomic events and emerging research in the investment profession.
JPMorgan Eye on the Market	Free	**Send Email Request to Thomas.j.fisher@jpmorgan.com**	Eye on the Market is released 2-3 times per week and provides in depth analysis on events shaping the global economy. The content is typically more balanced than John Mauldin's letter, but should be viewed with some skepticism given the role of JPMorgan as an asset manager.

Montana Board of Investments

Presentation to Economic Affairs Committee
March 27, 2014

Mark Noennig, Chairman

David Ewer, Executive Director

Board Members

Mark Noennig, Chairman
Attorney, Billings
Representing Business

Karl Englund, Vice Chair
Attorney, Missoula
Representing Law

Jack Prothero
Banking - Retired, Great Falls
Representing Small Business

Gary Buchanan
Buchanan Capital, Billings
Representing Finance

Jon Satre
Gordon - Prill - Drapes, Inc., Helena
Representing Business

Kathy Bessette
Rancher, Havre
Representing Agriculture

Marilyn Ryan
Missoula
TRS Representative

Sheena Wilson
Helena
PERS Representative

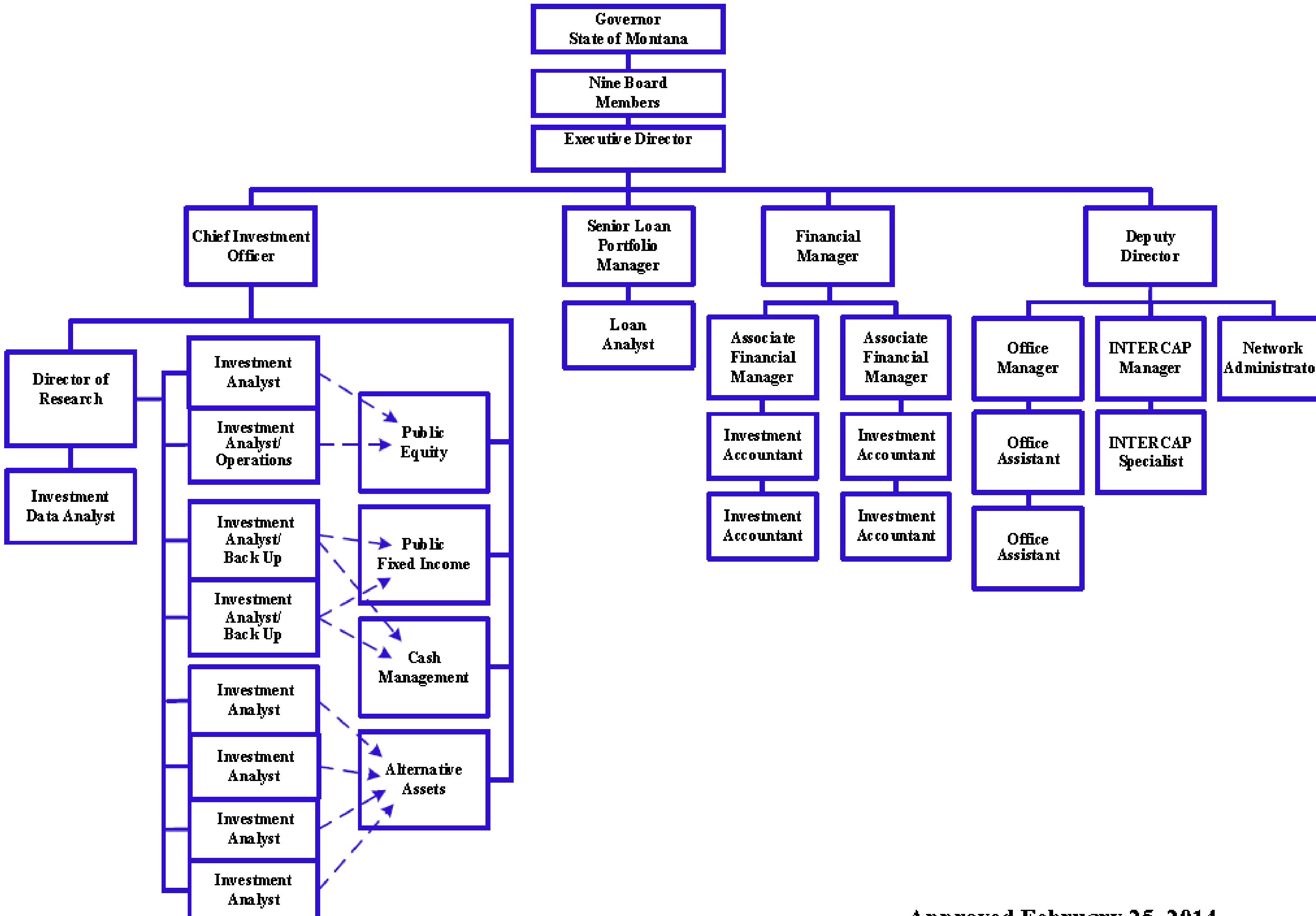
Quinton Nyman
Montana Public Employees Association, Helena
Representing Labor

Legislative Liaisons

Senator Dave Lewis
Helena
Senate Liaison

Rep. Kelly McCarthy
Billings
House of Representatives Liaison

Organizational Chart



Approved February 25, 2014

The Board's Missions

- Investments
- In-State Loan Programs
- Municipal Lending

Board Meetings Work/Education Plan

- Board Meetings – Six Regularly Scheduled
  - Quarterly
  - Two additional
  - And as needed
- Work/Education Plan – a Key Agenda Component
  - Systematic
  - Comprehensive
  - Public access
    - Open meetings
    - Robust website

Board's Clientele and Investment Focus

- Retirement Systems
- State Agencies for Operations
- Trust Accounts

State's Retirement Plans

- Over $9 billion in investments
- Nine retirement plans
- A blend of investments
  - Significant reliance on equities for better returns
  - Additional component in bonds for safety and liquidity

State Agencies for Operations

- Every state agency – cash disbursements for State operations
  - Over $3 billion in investments, hundreds of users
  - STIP – short term investment pool
    - Most common state agency use
    - About 170 Montana governments use STIP
    - Investments in very short, safe, liquid, money market assets
- Examples of aggregate payments that Board provides
  - State payroll
  - Retirement payments
  - School equalization
  - State debt payments
  - Tax refunds
- Close coordination with State's treasury bureau within State Administration

Trust Accounts

- Numerous agencies, but most within DNRC, Commerce and DEQ
  - Over $2.4 billion
  - Mostly invested in short to intermediate term bonds
  - In-State loans are also investments
  - Numerous state trusts, the biggest and best known
    - Permanent coal trust
    - Public school trust
    - Tobacco trust
    - Resource indemnity trust
- State Fund – (Workers' Comp Insurance portfolio, so not exactly a trust fund)
  - $1.3 billion, one of the Board's largest accounts
  - Combination of STIP and long term holdings
  - State Constitution allows equities up to 25%

INVESTMENTS

The Unified Investment Program

- The Montana Constitution provides for a Unified Investment Program
- Section 17-6-201, MCA Unified Investment Program, created the Montana Board of Investments (the "Board") and gave the Board sole authority to invest state funds in accordance with state law and the state constitution.
- "prudent expert principle" 17-6-201 (a, b, c)
  - discharging its duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims
  - diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return
  - discharging its duties solely in the interest of and for the beneficiaries of the funds managed

Managing Investments

- Board Members the sole fiduciary
- Board's delegation to staff
  - Governance Policy
  - Individual Investment Policies of Programs
    - Reviewed annually
    - Specific guidelines to address individual agency needs
- Independent auditors
- Independent consultant
- Openness – Public Access

Investment Pools & Specific Investments

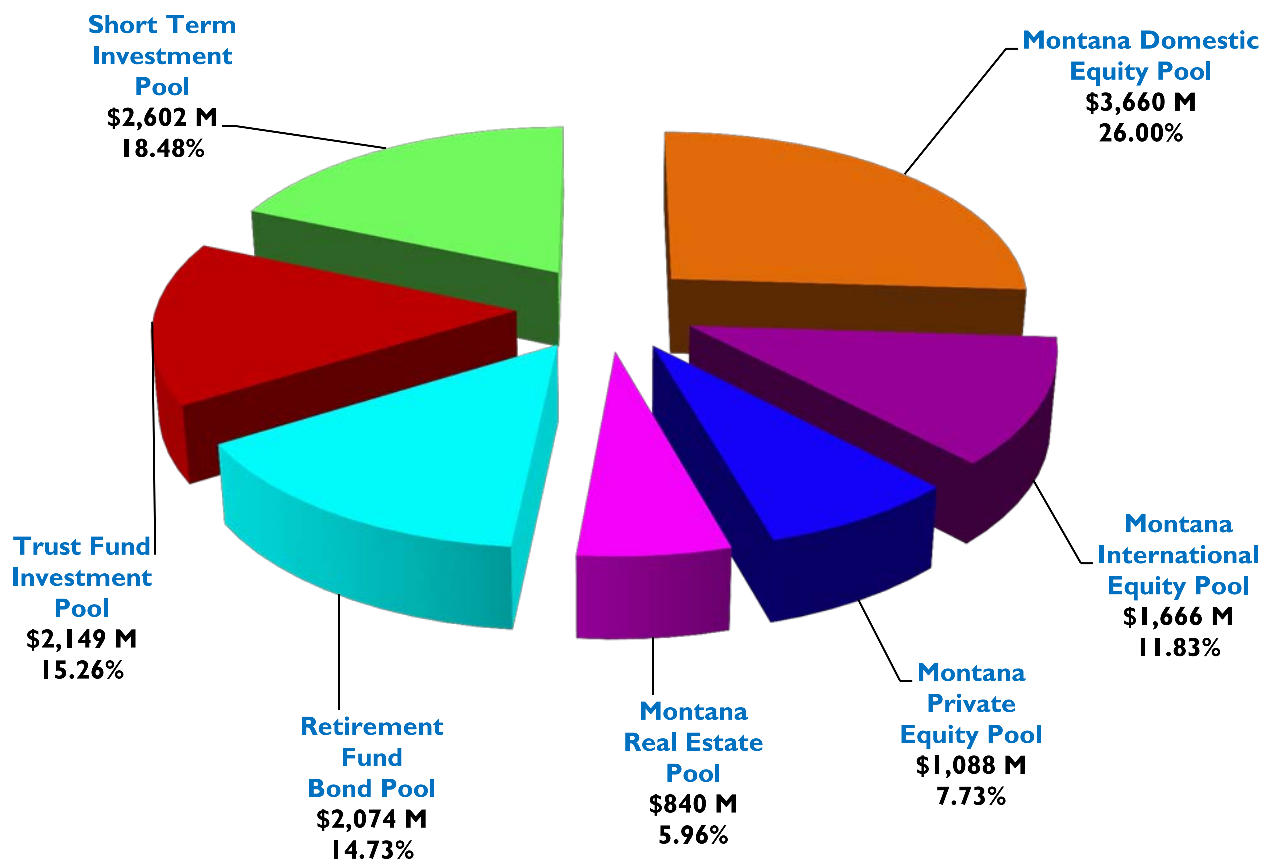
- Most investments held via an investment pool
- Seven investment pools structured similar to mutual funds
- Or customize direct investment holdings when necessary
  - Liquidity needs
  - Risk tolerance

The Seven Investment Pools

- Montana Domestic Equity Pool (MDEP)
- Montana International Equity Pool (MTIP)
- Trust Funds Investment Pool (TFIP)
- Retirement Funds Bond Pool (RFBP)
- Montana Private Equity Pool (MPEP)
- Montana Real Estate Pool (MTRP)
- Short Term Investment Pool (STIP)

Investment Pool Breakdown

$14.1 Billion at 2/28/14*



***Please note, this chart includes the 7 investment pools only. It does not include the $1,743 Million in All Other Funds (AOF)**

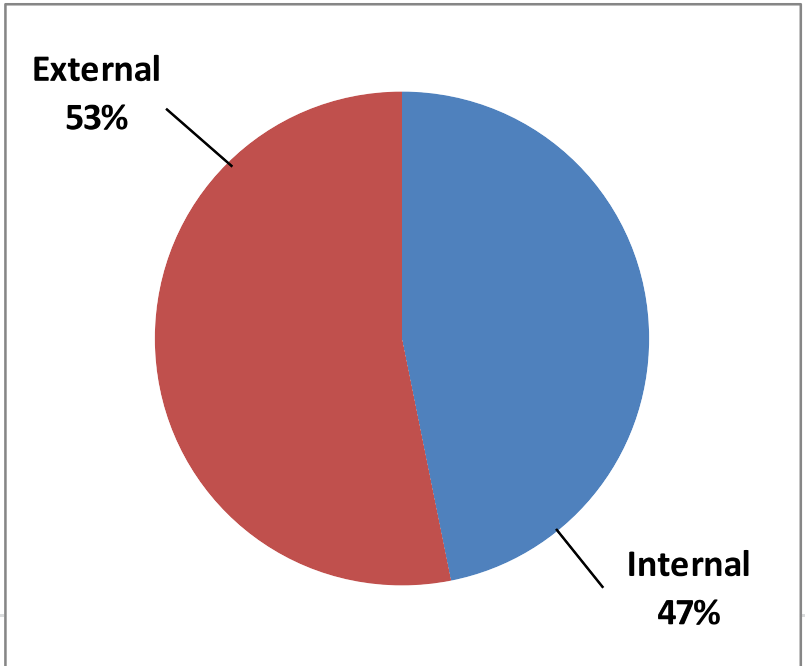
Asset Allocation Considerations

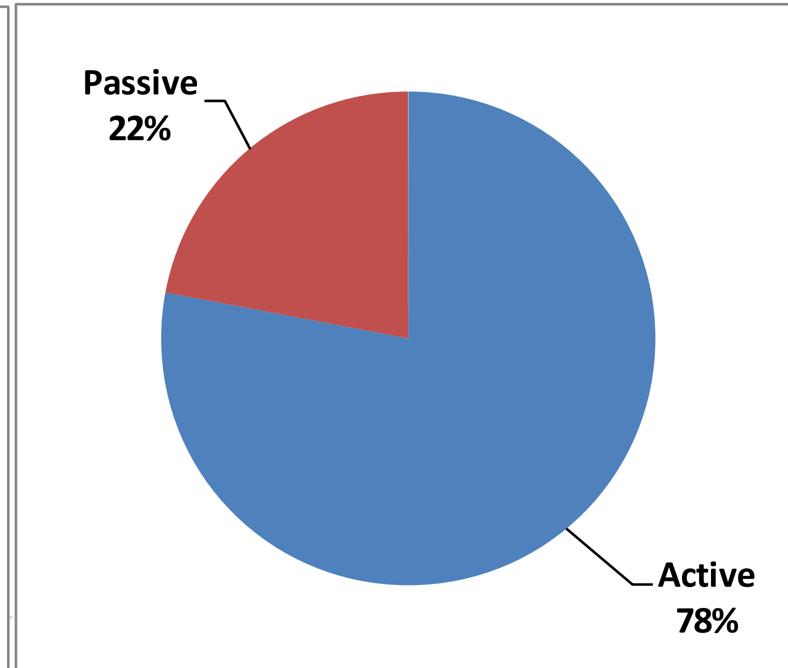
- Diversification is Key
- Internal vs. External
- Active vs. Passive
- Investment Pool Allocation
- Relative Cost vs. Investment Type

Internal vs. External Active vs. Passive

Total MBOI

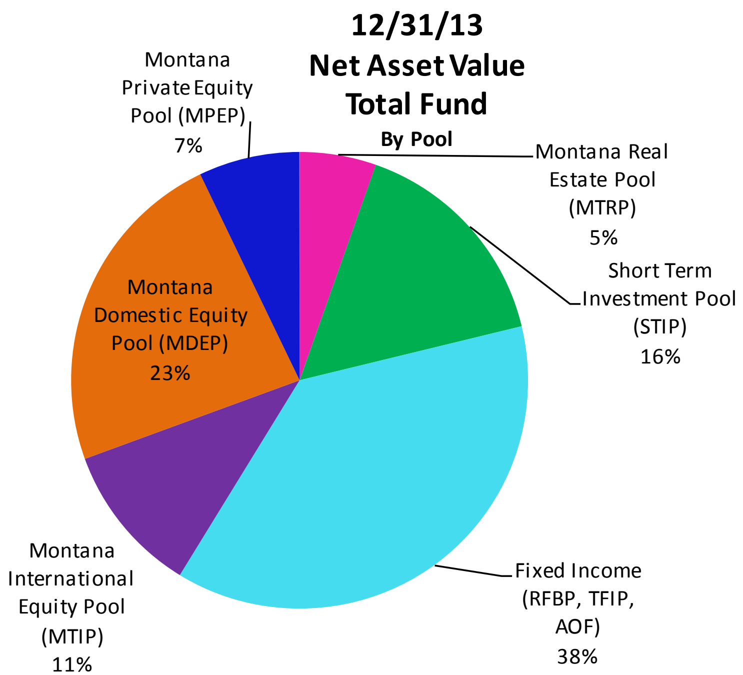
As of 12/31/13

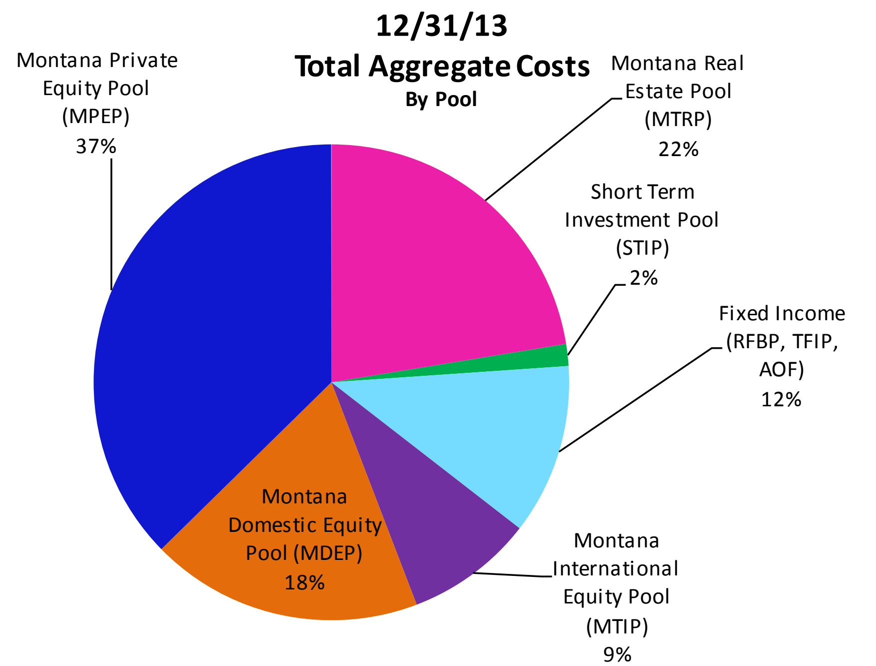




Internal	External	Active	Passive
$ 7,266,119,482	$ 8,255,532,121	$ 12,105,746,818	$ 3,415,904,784
46.8%	53.2%	78.0%	22.0%
Grand Total			**$ 15,521,651,602**

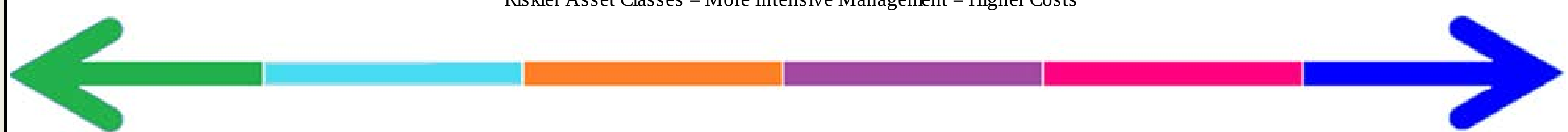
Cost by Investment Type





Risk/Return Cost Spectrum

Riskier Asset Classes = More Intensive Management = Higher Costs



Short Term FI	Fixed Income	Domestic Equity	International Equity	Real Estate	Private Equity
Annual All-In Cost Year-End 2013*					
0.03%	0.09%	0.24%	0.25%	1.27%	1.60%
Annual Return Since Inception					
1.95% **	6.08%	8.69%	6.00% **	-0.08%	12.51%

*All-In Costs include Board, Custodial Bank, and External Manager Fees and therefore include all passive, active and internal management fees.

** When returns since inception were not available, the 10 year return was used.

Pension Investments, Performance Expectations and Measurement

- Absolute rate of return assumption
- Benchmarks
- Peer comparisons

Montana Board of Investments
Retirement Plans
Comparative Performance
As of December 31, 2013

	QTD	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2012	2011	2010	2009	2008
Public Employees' Retirement - Net	**5.56**	**10.48**	**17.38**	**10.73**	**12.06**	**5.15**	**6.55**	**13.24**	**2.13**	**12.77**	**15.42**	**-26.01**
Public Employees' Benchmark	5.77	10.87	18.11	11.55	12.53	5.33	6.76	15.04	2.15	12.54	15.52	-26.42
Difference	*-0.21*	*-0.39*	*-0.73*	*-0.82*	*-0.47*	*-0.18*	*-0.21*	*-1.80*	*-0.02*	*0.23*	*-0.10*	*0.41*
Public Employees' Retirement - Gross	**5.67**	**10.72**	**17.96**	**11.30**	**12.67**	**5.69**	**6.99**	**13.83**	**2.68**	**13.44**	**16.08**	**-25.60**
All Public Plans > $3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Public Employees' Retirement - Gross Rank	**14**	**26**	**9**	**3**	**44**	**46**	**72**	**36**	**26**	**41**	**74**	**31**
Teachers' Retirement - Net	**5.57**	**10.47**	**17.38**	**10.73**	**12.07**	**5.15**	**6.56**	**13.24**	**2.14**	**12.80**	**15.42**	**-26.03**
Teachers' Benchmark	5.79	10.85	18.11	11.55	12.53	5.33	6.76	15.04	2.15	12.56	15.51	-26.42
Difference	*-0.22*	*-0.38*	*-0.73*	*-0.82*	*-0.46*	*-0.18*	*-0.20*	*-1.80*	*-0.01*	*0.24*	*-0.09*	*0.39*
Teachers' Retirement - Gross	**5.69**	**10.70**	**17.96**	**11.30**	**12.68**	**5.69**	**6.99**	**13.84**	**2.68**	**13.47**	**16.08**	**-25.62**
All Public Plans > $3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Teachers' Retirement - Gross Rank	**14**	**26**	**9**	**3**	**44**	**46**	**72**	**35**	**26**	**41**	**74**	**31**
Police Retirement - Net	**5.57**	**10.50**	**17.41**	**10.72**	**12.03**	**5.10**	**6.48**	**13.23**	**2.10**	**12.62**	**15.42**	**-26.09**
Police Benchmark	5.78	10.84	18.09	11.51	12.48	5.28	6.68	14.95	2.14	12.36	15.56	-26.41
Difference	*-0.21*	*-0.34*	*-0.68*	*-0.79*	*-0.45*	*-0.18*	*-0.20*	*-1.72*	*-0.04*	*0.26*	*-0.14*	*0.32*
Police Retirement - Gross	**5.68**	**10.74**	**18.00**	**11.28**	**12.63**	**5.63**	**6.91**	**13.78**	**2.65**	**13.29**	**16.08**	**-25.67**
All Public Plans > $3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Police Retirement - Gross Rank	**14**	**26**	**9**	**3**	**45**	**48**	**75**	**38**	**27**	**43**	**74**	**31**

Net performance shown is net of all manager fees and expenses (Net-All). All Public Plans > $3B Total Fund Median is reported gross of fees.
Benchmark returns reflect unmanaged indices which are not impacted by management fees.

RVKuhns & ASSOCIATES, INC.

Montana Board of Investments
Retirement Plans
Comparative Performance
As of December 31, 2013

	QTD	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2012	2011	2010	2009	2008
Firefighters' Retirement - Net	**5.56**	**10.50**	**17.41**	**10.71**	**12.03**	**5.13**	**6.51**	**13.22**	**2.10**	**12.61**	**15.46**	**-25.93**
Firefighters' Benchmark	5.78	10.84	18.09	11.56	12.51	5.33	6.71	14.95	2.28	12.33	15.60	-26.30
Difference	*-0.22*	*-0.34*	*-0.68*	*-0.85*	*-0.48*	*-0.20*	*-0.20*	*-1.73*	*-0.18*	*0.28*	*-0.14*	*0.37*
Firefighters' Retirement - Gross	**5.68**	**10.74**	**17.99**	**11.29**	**12.64**	**5.67**	**6.94**	**13.81**	**2.64**	**13.27**	**16.12**	**-25.52**
All Public Plans > $3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Firefighters' Retirement - Gross Rank	**14**	**26**	**9**	**3**	**45**	**46**	**73**	**36**	**27**	**43**	**74**	**31**
Sheriffs' Retirement - Net	**5.55**	**10.47**	**17.35**	**10.70**	**12.01**	**5.14**	**6.52**	**13.19**	**2.12**	**12.68**	**15.37**	**-25.87**
Sheriffs' Benchmark	5.76	10.85	18.08	11.52	12.50	5.34	6.74	14.99	2.14	12.42	15.57	-26.19
Difference	*-0.21*	*-0.38*	*-0.73*	*-0.82*	*-0.49*	*-0.20*	*-0.22*	*-1.80*	*-0.02*	*0.26*	*-0.20*	*0.32*
Sheriffs' Retirement - Gross	**5.66**	**10.71**	**17.93**	**11.27**	**12.62**	**5.67**	**6.96**	**13.79**	**2.66**	**13.34**	**16.03**	**-25.46**
All Public Plans > $3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Sheriffs' Retirement - Gross Rank	**14**	**26**	**10**	**3**	**45**	**46**	**73**	**38**	**27**	**42**	**74**	**31**
Highway Patrol Retirement - Net	**5.55**	**10.48**	**17.38**	**10.72**	**12.08**	**5.15**	**6.55**	**13.24**	**2.12**	**12.81**	**15.52**	**-26.12**
Highway Patrol Benchmark	5.78	10.86	18.11	11.54	12.56	5.34	6.76	15.04	2.13	12.54	15.71	-26.48
Difference	*-0.23*	*-0.38*	*-0.73*	*-0.82*	*-0.48*	*-0.19*	*-0.21*	*-1.80*	*-0.01*	*0.27*	*-0.19*	*0.36*
Highway Patrol Retirement - Gross	**5.67**	**10.71**	**17.96**	**11.30**	**12.69**	**5.69**	**6.99**	**13.84**	**2.66**	**13.47**	**16.19**	**-25.70**
All Public Plans > $3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Highway Patrol Retirement - Gross Rank	**14**	**26**	**9**	**3**	**43**	**46**	**72**	**35**	**27**	**41**	**74**	**31**

Net performance shown is net of all manager fees and expenses (Net-All). All Public Plans > $3B Total Fund Median is reported gross of fees. Benchmark returns reflect unmanaged indices which are not impacted by management fees.

RVKuhns & ASSOCIATES, INC.

Montana Board of Investments
Retirement Plans
Comparative Performance
As of December 31, 2013

	QTD	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2012	2011	2010	2009	2008
Game Wardens' Retirement - Net	**5.54**	**10.47**	**17.34**	**10.69**	**11.99**	**5.13**	**6.46**	**13.20**	**2.09**	**12.72**	**15.23**	**-25.82**
Game Wardens' Benchmark	5.76	10.84	18.07	11.51	12.46	5.33	6.67	15.00	2.11	12.43	15.41	-26.15
Difference	*-0.22*	*-0.37*	*-0.73*	*-0.82*	*-0.47*	*-0.20*	*-0.21*	*-1.80*	*-0.02*	*0.29*	*-0.18*	*0.33*
Game Wardens' Retirement - Gross	**5.66**	**10.71**	**17.92**	**11.26**	**12.59**	**5.67**	**6.89**	**13.79**	**2.63**	**13.38**	**15.88**	**-25.41**
All Public Plans > $3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Game Wardens' Retirement - Gross Rank	**14**	**26**	**10**	**3**	**46**	**47**	**77**	**37**	**28**	**42**	**75**	**30**
Judges' Retirement - Net	**5.55**	**10.48**	**17.36**	**10.70**	**12.04**	**5.15**	**6.54**	**13.20**	**2.12**	**12.76**	**15.43**	**-25.91**
Judges' Benchmark	5.77	10.86	18.09	11.52	12.52	5.35	6.75	14.99	2.13	12.49	15.60	-26.25
Difference	*-0.22*	*-0.38*	*-0.73*	*-0.82*	*-0.48*	*-0.20*	*-0.21*	*-1.79*	*-0.01*	*0.27*	*-0.17*	*0.34*
Judges' Retirement - Gross	**5.67**	**10.72**	**17.94**	**11.27**	**12.65**	**5.69**	**6.97**	**13.79**	**2.66**	**13.42**	**16.09**	**-25.50**
All Public Plans > $3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Judges' Retirement - Gross Rank	**14**	**26**	**10**	**3**	**45**	**46**	**73**	**37**	**27**	**41**	**74**	**31**
Volunteer Firefighters' Retirement - Net	**5.58**	**10.51**	**17.42**	**10.71**	**12.03**	**5.14**	**6.51**	**13.18**	**2.09**	**12.99**	**15.11**	**-26.01**
Volunteer Firefighters' Benchmark	5.79	10.86	18.14	11.70	12.58	5.38	6.74	14.95	2.62	12.60	15.24	-26.37
Difference	*-0.21*	*-0.35*	*-0.72*	*-0.99*	*-0.55*	*-0.24*	*-0.23*	*-1.77*	*-0.53*	*0.39*	*-0.13*	*0.36*
Volunteer Firefighters' Retirement - Gross	**5.69**	**10.75**	**18.00**	**11.27**	**12.63**	**5.67**	**6.93**	**13.77**	**2.63**	**13.66**	**15.76**	**-25.60**
All Public Plans > $3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Volunteer Firefighters' Retirement - Gross Rank	**14**	**26**	**9**	**3**	**45**	**46**	**74**	**38**	**28**	**36**	**75**	**31**

Net performance shown is net of all manager fees and expenses (Net-All). All Public Plans > $3B Total Fund Median is reported gross of fees.
Benchmark returns reflect unmanaged indices which are not impacted by management fees.

RVKuhns & ASSOCIATES, INC.

MONTANA BOARD OF INVESTMENTS

SUMMARY OF RETIREMENT PLANS

Rates of Returns

Perods Ending February 28, 2014

STATE STREET.

	MKT VAL $(000)	Month	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
PUBLIC EMPLOYEES RETIREMENT PLAN										
TOTAL - Gross	4,746,672	3.08	2.72	12.26	15.72	10.49	15.22	6.86	8.06	07-01-94
TOTAL - Net All	4,746,672	3.04	2.58	11.91	15.13	9.92	14.60	6.42	7.82	07-01-94
FIREFIGHTERS RETIREMENT PLAN										
TOTAL - Gross	297,417	3.08	2.73	12.29	15.75	10.48	15.20	6.81	7.88	07-01-94
TOTAL - Net All	297,417	3.04	2.59	11.93	15.16	9.91	14.58	6.37	7.64	07-01-94
GAME WARDENS RETIREMENT PLAN										
TOTAL - Gross	131,542	3.06	2.70	12.24	15.68	10.45	15.10	6.76	7.94	07-01-94
TOTAL - Net All	131,542	3.02	2.56	11.88	15.09	9.88	14.48	6.33	7.70	07-01-94
HIGHWAY PATROL RETIREMENT PLAN										
TOTAL - Gross	120,998	3.08	2.72	12.25	15.72	10.49	15.26	6.85	7.92	07-01-94
TOTAL - Net All	120,998	3.04	2.58	11.90	15.13	9.91	14.63	6.41	7.68	07-01-94
JUDGES RETIREMENT PLAN										
TOTAL - Gross	80,688	3.08	2.72	12.26	15.71	10.47	15.19	6.84	7.93	07-01-94
TOTAL - Net All	80,688	3.04	2.58	11.91	15.12	9.90	14.57	6.40	7.69	07-01-94
POLICE RETIREMENT PLAN										
TOTAL - Gross	295,448	3.09	2.73	12.29	15.76	10.48	15.21	6.78	7.89	07-01-94
TOTAL - Net All	295,448	3.04	2.59	11.94	15.17	9.92	14.59	6.35	7.65	07-01-94

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Provided by State Street Investment Analytics

MONTANA BOARD OF INVESTMENTS

SUMMARY OF RETIREMENT PLANS

Rates of Returns

Perods Ending February 28, 2014

STATE STREET.

	MKT VAL $(000)	Month	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
SHERIFFS RETIREMENT PLAN										
TOTAL - Gross	272,116	3.08	2.71	12.25	15.70	10.46	15.15	6.83	7.92	07-01-94
TOTAL - Net All	272,116	3.03	2.58	11.90	15.11	9.89	14.53	6.39	7.69	07-01-94
VOLUNTEER FIREFIGHTERS RETIREMENT PL										
TOTAL - Gross	30,780	3.09	2.74	12.30	15.77	10.47	15.20	6.81	7.67	07-01-94
TOTAL - Net All	30,780	3.05	2.60	11.95	15.19	9.90	14.59	6.37	7.44	07-01-94
TEACHERS RETIREMENT PLAN										
TOTAL - Gross	3,491,415	3.04	2.69	12.20	15.67	10.48	15.23	6.86	8.08	07-01-94
TOTAL - Net All	3,491,415	3.04	2.59	11.90	15.13	9.92	14.61	6.42	7.84	07-01-94
TOTAL RETIREMENT PLANS										
TOTAL - Gross	9,467,076	3.08	2.72	12.26	15.72	10.49	15.22	6.86	8.06	07-01-94
TOTAL - Net All	9,467,076	3.04	2.59	11.90	15.13	9.92	14.60	6.42	7.81	07-01-94

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Provided by State Street Investment Analytics

In-State and Mortgage Loan Programs

- Interest rate incentives set by legislature for job creation
- In-State Programs – Coal Tax Trust
- Over $116 million
- Veterans' Home Loan Program - $ 21 million
- Residential Mortgages - $13 million

INTERCAP Loan Program

- $72 million in outstanding loans
- $106 million bonds outstanding
- Low cost - 2014 interest rate = 1%
- Easily accessible - $72 million in loans
- Bonds guaranteed by pledge of certain state assets:
  - Permanent Coal Trust
  - Treasurer's Fund

INTERCAP Loan Program

- Eligible local government entities:
  - State Agencies and Universities/Community Colleges
  - Cities, Towns and Counties
  - School Districts
  - Water/Sewer and Solid Waste Districts
  - Fire Districts/Fire Service Areas
- Eligible purchases/projects
  - Energy retrofit
  - Real property purchase and improvements
  - New and used vehicles/equipment
  - Water, wastewater and solid waste
  - Preliminary engineering/grant writing
  - Interim construction financing or cash flow loans
  - Rural and Special Improvement Districts

Montana Board of Investments

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