

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE
2401 Colonial Drive, 3rd Floor
Helena, Montana
MINUTES OF THE MEETING – October 6, 2015**

BOARD MEMBERS PRESENT:

Mark Noennig, Chairman
Kathy Bessette
Terry Cohea
Karl Englund
Jack Prothero
Marilyn Ryan
Jon Satre
Sheena Wilson

BOARD MEMBER ABSENT:

Quinton Nyman

LEGISLATIVE LIAISONS PRESENT:

Representative Kelly McCarthy

LEGISLATIVE LIAISONS ABSENT:

Senator Bob Keenan

STAFF PRESENT:

Polly Boutin, Associate Financial Manager	Herb Kulow, CMB,
Jason Brent, CFA,	Portfolio Manager, In-State Loan Program
Alternative Investments Analyst	Tammy Lindgren, Investment Accountant
Geri Burton, Deputy Director	April Madden, Investment Accountant
Dana Chapman, Board Secretary	Savannah McCormack,
Richard Cooley, CFA, Portfolio Manager,	Administrative Assistant
Fixed Income/STIP	Rande Muffick, CFA, Portfolio Manager,
Frank Cornwell, CPA, Associate	Public Equities
Financial Manager	Mary Noack, Network Administrator
Craig Coulter, Alternative	Kelsey Poore, CPA, Investment Accountant
Investments Analyst	Jon Putnam, CFA, FRM, Fixed Income
Roberta Diaz, Investment Accountant	Investment Analyst
David Ewer, Executive Director	John Romasko, CFA, Fixed Income
Julie Feldman, CPA, Financial Manager	Investment Analyst
Julie Flynn, Bond Program Officer	Nathan Sax, CFA, Portfolio Manager,
Tim House, Equity Analyst/Investment	Fixed Income
Operations Chief	Clifford A. Sheets, CFA,
Ethan Hurley, CAIA, Portfolio Manager,	Chief Investment Officer
Alternative Equities	Louise Welsh, Senior Bond Program Officer
Ed Kelly, Alternative Investments Analyst	Maria Wise, Administrative Assistant
Eron Krpan, CIPM, Investment Data Analyst	Dan Zarling, CFA, Director of Research

GUESTS:

Jim Voytko, RVK, Inc.
Ryan Evans, Office of the Governor
Kristen Reynolds, DOA, State Accounting Bureau
Cody Pearce, DOA, State Accounting Bureau

CALL TO ORDER

Board Chairman Mark Noennig called the regular meeting of the Board of Investments (Board) to order at 10:14 AM. As noted above, a quorum of Board Members was present. Chairman Noennig advised the meeting is being video recorded and he called for public comment. There was no

public comment. The minutes of the August Board Meeting will be distributed for approval at the November 17 meeting.

Human Resource Committee Report

HR Committee Chairman Karl Englund stated the HR Committee met prior to the Board Meeting and will present its report after lunch.

Loan Committee Report

Committee Chairman Jack Prothero reported the Committee met prior to the Board Meeting and acted on two items. The first item was an INTERCAP loan for the City of Deer Lodge. The City is requesting an extension to its loan commitment for \$8,479,000 for its wastewater treatment plant. Based on the conditions set forth in the write-up, staff recommends approval of the extension.

Committee Chairman Prothero made a motion to accept the Loan Committee's recommendation to approve the loan extension request for the City of Deer Lodge. Member Kathy Bessette seconded the motion. The motion carried.

Committee Chairman Prothero stated Ms. Welsh provided an update on the status of loans with the Department of Natural Resources and Conservation; the Committee recommended no changes at this time.

Chairman Prothero noted the Committee also reviewed proposed Infrastructure Loan Policy changes for the In-State Loan program and he asked Mr. Kulow to present the changes to the Board.

Mr. Kulow explained the policy revision requires that the business entity using the infrastructure loan program must reimburse BOI for legal fees for review of the loan documents. It is the only fee required, and the legal fees are the only cost to BOI associated with the program. The policy now dictates that the entities reimburse the state for those legal fees.

Committee Chairman Prothero presented a recommendation from the Loan Committee to approve the proposed changes to Infrastructure Loan Policy and moved for approval. Member Terry Cohea seconded the motion.

Representative Kelly McCarthy asked if the entities will sign the loan agreement before the fee amount has been determined.

Mr. Kulow stated that is correct; however, every credit is different and therefore it is difficult to anticipate the exact fee amounts beforehand. Additionally, the cost varies depending on the attorney. There was no further discussion. The motion carried.

Committee Chairman Prothero reported the last item discussed by the Committee was a write-off of a Montana Science and Technology loan.

Mr. Kulow stated staff is recommending a write-off of Glacier Fund Manager, LP, which has a current outstanding balance of \$922,209. The original loan in 1995 was for \$1 million; in 2012 the debentures were converted into a partnership ownership. Some payments have been received over the years; however, the remaining balance is amortizing over an extended period of time. Staff is requesting a write-off of the remaining balance to enable an adequate reflection on the balance sheet. Any future funds received will be treated as recovery.

Committee Chairman Prothero made a motion to approve the write-off of the Glacier Fund Manager, LP loan in the amount of \$922,209. Member Terry Cohea seconded the motion. The motion carried.

Committee Chairman Prothero noted that Cascade County commissions offered good reviews of Mr. Kulow at a recent meeting.

Mr. Kulow added BOI has done three infrastructure loans in Cascade County: Centene, Loenbro and ADF, which combined, adds 800 jobs for the Cascade County/Great Falls areas, primarily due to infrastructure financing.

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

TRS Representative Marilyn Ryan reported on the TRS Board meeting last week, which included the 2015 Cavanaugh McDonough actuarial results presentation; also the July 1, 2013 factors were updated. Mr. Sheets attended that meeting and was able to provide some clarity to the TRS Board. In the last year, TRS was amortized at 28 years, which has now decreased to 26 years with a funding ratio of 67.46%, an increase of 2.1%. Even though the amortization has decreased and the funded ratio has increased, selling down of resources continues. The Board also reviewed the Guaranteed Annual Benefit Adjustment (GABA) in light of the case decision earlier this year. There are 18,316 active members and 14,839 retirees in the system, or 0.8 retirees for every active member, which has increased over the last 10 years, as it was previously 0.6.

Member Ryan provided an update on the request for information received by the TRS Board. Attorney Amy Leach from Colorado submitted the request. Ms. Leach is asking for all information on retirees, benefits and demographics. TRS has voted not to reply to the request. Installation of the new computer system is progressing and there are no new delays; it is a long process but is slowly moving forward. Member Ryan added Member Satre has a copy of the actuary book and summary.

Mr. Sheets noted Member Ryan is referring to the actuarial presentation, which included a page on cash flow; however, the actuaries for TRS look at the total return and designate it as income. To the extent that total return is positive, the actuaries treat it as a positive. The classification according to the actuaries is "total return investment income."

PERS Representative Sheena Wilson reported the PERS Board meets this Thursday and the actuary will provide a presentation to the Board. PERS has a new Board member, a former actuary, which is helpful. The Board conducted a one-year evaluation of Executive Director Dore Schwinden, which went very well. Mr. Schwinden is receiving rave reviews. The computer system project continues; the main concern is providing enough resources to keep the process on schedule; ITSD has been helpful. The audio of the PERS Board meeting and the actuary report will be posted online.

Legislative Liaisons Comments

Representative Kelly McCarthy reported there has been some good news, and pending the full report from legislative finance, the state is doing well with more state income than the legislature had estimated. The numbers are strong, especially given the changes in the eastern part of state.

Member Karl Englund asked if Representative McCarthy was referencing the Bakken region.

Representative McCarthy stated drilling activity is close to a standstill, although oil is still being pulled out; however, there is not a lot of new exploration. Indications warrant the situation should be more dire than it is, but the uptick in unemployment has only been 0.1%.

Chairman Noennig asked if there is yet another shoe to drop considering the inactivity in drilling and if that suggests a downturn in income at some point.

Representative McCarthy stated no, there was a free ride provided for the first 18 months, so now that the tax holiday is over, the companies are starting to pay. It still takes manpower to fill the jobs; it is only new drilling that is currently on hold. All associated businesses are still going strong.

Senator Bob Keenan was absent from the meeting.

EXECUTIVE DIRECTOR'S REPORT

Overall Comments

Executive Director David Ewer reported the revamping of the Annual Report is underway and progressing well. Staff will provide a draft for the Board at the November meeting and the Audit Committee will have an opportunity to look at the draft prior to the meeting. A lot of work has gone into the revisions with staff meeting weekly on the project.

Executive Director Ewer stated the Legislative Auditors will be on site this coming Friday or Monday for as long as it takes to perform the audit on the financial condition of the Board of Investments. The balance sheets include the Unified Investment Program, which includes almost all state money and exceeds \$16 billion, and the Enterprise Fund, mainly the INTERCAP program, which is a voluntary program for eligible governmental entities. Unified investments come under the internal service fund, and the programs are mandated to pay fees. The legislature puts limits on the fees BOI charges.

Director Ewer reported staff is in the process of finalizing a contract with Cliff Sheets, who retires October 9. The contract will allow Mr. Sheets to serve various duties, including help with continuity and for contingencies, including any advice and counsel to the executive director and the new CIO. Mr. Herb Kulow, who retires November 2, has also agreed to work on contract basis for continuity. Director Ewer thanked both Mr. Sheets and Mr. Kulow who have graciously agreed to serve and added it is important to preserve continuity on both fronts.

Director Ewer stated with respect to PERS and TRS, Dore Schwinden and Shawn Graham have been invited and have accepted to make a presentation at the November Board meeting. They will report on the recently completed actuary reports.

Director Ewer presented an action item to the Board. The Board's corporate governance spells out how to delegate to staff and third parties any securities litigation. Seven years ago, the Board set out and issued an RFP to interview/select outside contingency counsel. BOI has a current relationship with two firms approved by the Board: Barrack, Rodos & Bacine and Bernstein, Litowitz, Berger & Grossmann, LLC; both contracts expired September 30, 2015. Both firms operate on a contingency basis and receive payment only if there is a successful lawsuit with recovery received. Staff is presenting two recommendations to the Board.

BOI has not been a lead plaintiff in any action for a long time and the Board's governance spells out the stages of delegation for any securities litigation action. It is the responsibility of the custodial bank, State Street Bank, to act on behalf of clients if a class action suit is initiated. If warranted, the additional threshold of whether BOI should act in a separate class or take a lead role is determined. In those circumstances, staff presents a recommendation to the Audit Committee. In the Pfizer case, staff brought the case before the Audit Committee. Ultimately, elements of the case shifted and BOI moved back to the regular class on attorney's advice.

Director Ewer explained, under statute and a Governor's Executive Order, a Legal Services Review Committee was formed allowing state agencies to submit requests to hire outside legal counsel. The Committee consists of the Governor's Budget Director, a delegate from the State Attorney General's Office and another individual from the Budget Office. Director Ewer explained in certain circumstances, BOI is not required to issue an RFP for specialty counsel, bond counsel, underwriter's counsel or alternative equities counsel.

Director Ewer recommended submission of the two securities litigation firms for legal review to the Legal Services Review Committee. BOI has had one other firm express interest, but more in a monitoring role and on international issues. Under the U.S. system, there are allowances to act as a plaintiff and not be responsible for other parties' legal fees; however, that is not the case for

foreign entities. Executive Director Ewer asked the Board to authorize staff to go through the Legal Services Review Committee to approve these two firms.

Mr. Tim House, who monitors security litigation, advised the Board of the amounts recovered: in 2011, \$1.1 million; in 2012, \$167,722; in 2013, \$203,159 and in 2014 \$323,513. All recoveries were the result of class action suits.

Mr. Jim Voytko added that when looking at taking a lead plaintiff position, the onus that falls on the Board, counsel and executive director is huge. There is a premium to let those with the biggest stake in a case take the lead. In cases where you are the most aggrieved party, it may make sense, but BOI has not had such a case.

Responding to a question from Chairman Noennig, Director Ewer stated the contracts will be for one year only, which is all that is allowed under the legal service review.

Director Ewer explained that so far, the two firms have had no role. Both want to capture potential upside. The role of the Legal Services Review Committee is to approve or deny the legal contracts with these firms. Once the Committee approves the firms, the actual parameters and usage of the firms falls back to the Board's purview.

Chairman Noennig proposed the Board submit these two firms for approval by the Legal Services Review Committee for one-year contracts.

Member Sheena Wilson so moved, Member Marilyn Ryan seconded the motion. The motion carried.

Member Englund asked if the firms screen cases to decide if we should opt in or out.

Director Ewer stated yes, the firms report activity monthly; however, they do not advise us of items except those they recommend BOI opt in on. Neither has ever advised opting out of a class action. There have been two cases where BOI was asked to be a lead, one was turned down, and the other was the Pfizer case, which due to a legal ruling, BOI was advised and did rejoin the class.

Responding to questions from Board Members, Director Ewer clarified:

- The contracts were originally awarded through the RFP process. Initially Board and staff opted to use an RFP as at that time there was a lot of interest in the litigation by law firms
- The total maximum contract allowed by law is seven years, so the contracts cannot be extended
- Another RFP is not required
- The Legal Services Review Committee did not replace the RFP process, as the Committee has been in existence for many years

Member Englund stated that often when people see he is on the Board they ask what opportunities may be available regarding legal work.

Chairman Noennig asked if there is any question on compliance when it comes to the need for an RFP.

Director Ewer noted if the Board requests additional support from a legal perspective, staff can provide it from the Department of Commerce attorney, and supply it to the Board for the November meeting. The procedure is not out of alignment with state practices/policies; if the Board chooses, the decision to proceed with the two contracts can be deferred until the November meeting.

Member Englund stated his preference is not to defer, but rather to go ahead and approve the recommendation for the one-year contracts and then review more closely in a year, before prolonging the time between RFP's.

With no further discussion, the motion carried.

Executive Director Ewer asked Deputy Director Burton to make a note of unfinished business on this matter, for future consideration.

INVESTMENT POLICY CHANGES

Executive Director Ewer stated staff is proposing policy revisions to two policies; the Historical Society Trust Funds Investment Policy and the Infrastructure Loan Policy, which was approved earlier in the meeting.

Mr. John Romasko explained that the proposed changes to the Historical Society Policy are minor. The Historical Society requested the ability to invest long-term funds into the Trust Funds Bond Pool, which were previously invested in STIP only, and two funds were added, the Women's Mural and the General Trust.

Director Ewer noted the assets are legacy assets, not involved in operating funds.

Member Jack Prothero made a motion to approve the proposed revisions to the Historical Society Trust Funds Investment Policy Statement. Member Terry Cohea seconded the motion. The motion carried.

SHORT TERM INVESTMENT POOL

STIP Accounting Requirements, Policy Revisions and Protocol for Local Government Participation

Executive Director Ewer presented his memo on the Short Term Investment Pool (STIP). Director Ewer stated the STIP pool has historically followed the general accounting rules on an amortized cost basis. After in depth review of the complicated issue, staff will recommend to the Board changing STIP to a net asset value (NAV) basis for financial reporting purposes. Director Ewer explained briefly that BOI is under the GASB legal framework, which in turn is under the SEC. Corporate America has to adhere to governing accounting principles, how investments are booked and accounted for. BOI has used the amortized cost basis for financial reporting purposes, which allowed treating STIP as a money market fund, dollar in/dollar out. The parameters used, via the investment policies were tight enough, and if the net asset value for a day was off by a small amount, it could be accounted by the amortized cost basis. After the Great Financial Crisis (GFC) the parameters were changed on an amortized cost perspective. With the proposed new GASB guidance, the ability to provide returns for STIP participants would be markedly different and liquidity would be changed.

Director Ewer referred to his August 25 memo, contained in the Board packet, which was sent out to interested parties. If the Board accepts the staff recommendation, it will require showing net asset value monthly, and participants will have to report on net asset value basis as opposed to the amortization basis for financial reporting purposes. The amortized cost basis is similar to 2A-7 funds. If the Board approves converting STIP as of today, it will function like all other BOI pools, which are on a net asset value basis, and the Board's balance sheet will reflect STIP on net asset value basis. Staff is calculating a continual shadow pricing on STIP to be sure it is not varying, and that the current valuations are accurate, with no roll up valuation. There will be no material difference; staff can report what NAV is, and staff are working with State Street Bank to ensure it is possible to post the NAV at the end of each month. A June 30 fiscal year is not utilized by all local governments.

Staff recommendations are to adopt a NAV basis for financial reporting purposes and to approve the STIP Participant Resolution authorizing participation in STIP by local governments. Staff will recommend to the Board at the November meeting the proposed procedures to alert local governments of the steps they must take to adhere to the Resolution. The new procedures will benefit both local government clientele and BOI by reporting who the delegated authorized parties for STIP participation are. Staff will send out a letter annually to elected officials; the process will enhance internal controls.

Additionally, staff is recommending changes to the STIP Investment Policy to reflect the change to NAV for financial reporting purposes and removing references to a 2A-7 like fund.

Executive Director Ewer stated staff has acted proactively in alerting local governments of the coming changes, including the Montana League of Cities and Towns and the Montana Association of Counties (MACo) and so far there has been no push back on the proposal.

Mr. Rich Cooley presented the changes to the STIP Investment Policy. All references to a 2a-7 like fund have been stricken and the scope language clarifies investment income to participants is net of fees and reserve accruals. Ms. Julie Feldman added the STIP financial reporting standpoint can be either amortized or NAV. Staff will make changes to the financial footnotes and the NAV will be recorded on the financial statements. Accounting staff will also record adjustments for all state agencies, including the university system. Agency financial statement preparers will have to change the related reporting on their financial statements. Local governments will need to use the amount BOI posts monthly to calculate their financial statements adjustments.

Mr. Cooley stated the money market references were removed from the policy and the parameters expanded for how the reserve fund can be used, including to offset realized gains or losses.

Member Jon Satre asked how the offsetting realized gains functions.

Mr. Cooley stated in managing the portfolio, if there is a loss, the reserve can be used to offset it, and for gains, if there is a gain, it can be added back into the reserve. There have been previous realized gains that were added to the reserve. Mr. Cooley added any use of the reserve fund is reported to the Board.

Mr. Cooley reviewed two housekeeping items in the policy changes. Regarding the purchase of institutional sized CDs, it is preferable to treat CDs the same as corporate notes, therefore policy language was revised making changes to the CD requirements, and as mentioned, all references to the 2a-7 like funds were removed.

Mr. Jim Voytko observed for clients of NAV cash management, there are two types of points where NAV is used, one is at the end of the year, on the balance sheet, and the other concerns whether for transactions in and out of a fund the NAV reflects the presence of a reserve, or is NAV excluding the reserve.

Mr. Cooley noted for STIP, the NAV is calculated without the reserve.

Ms. Feldman stated it is most important, from a participant standpoint, that STIP remains on a dollar in/dollar out basis for transactions, and participants will still control their accounts. Staff is not expecting adjustments will need to be posted on daily or monthly basis.

Member Terry Cohea asked for a refresher on the reserve fund.

Executive Director Ewer offered a couple of other points. With local or state governments using dollar in/dollar out, there is no difference in or out; it is a business obligation not to have the NAV drift for too long so that it becomes a material issue. The reserve is about \$28 million and STIP is

over \$2 billion, so the reserve can cover a full 1%. Before the GFC there was no reserve; it is helpful to let the Board know what the NAV's are.

Mr. Cooley noted NAV's have all been at par.

Mr. John Romasko added 1.0002 is where it is at now, without the reserve.

Director Ewer explained the reserve is free standing. It is important because, A) you have it, and B) currently all interest from the legacy SIV assets are added to the reserve. The SIV's have been written down far enough so they do not upset the NAV – the reserve is a combination of interest earnings from the legacy assets and approximately \$8,000 per day which is taken out of STIP and added to the reserve. At some point, the inflow will be reduced and the reserve will stand on its own. The reserve has several functions; it can be used to write down the SIV's and also provides the capacity for the STIP manager to change an asset and take an actual realized loss if deemed necessary.

Member Jack Prothero made a motion to approve the staff recommended revisions to the STIP Investment Policy. Member Terry Cohea seconded the motion. The motion carried.

Executive Director Ewer stated he was unsure if a motion by the Board is required for the STIP participant resolution. In November, staff will notify local governments that starting January 1, 2016, local governments will be obligated to enter into a resolution (state government agencies have no choice) to participate in STIP. Between January 1 and June 30, all entities will be required to come into compliance by providing a resolution.

Ms. Feldman added staff distributed the one page STIP informational handout to the County Treasurer and MACo convention attendees and she and Ms. April Madden will speak at the League of Cities and Towns in Bozeman, providing information on the new STIP resolution. Additionally, they will travel to Billings to speak to school officials on October 15.

Executive Director Ewer stated staff is recommending the Board make a motion to accept, effective today, changing STIP to an NAV basis and post it monthly on the BOI website.

Member Sheena Wilson so moved, Member Cohea seconded the motion. The motion carried.

Director Ewer stated staff clarified with GASB to continue to operate on a dollar in/dollar out basis and reported on a NAV basis for financial reporting purposes and he thanked staff for all their hard work.

Mr. Jim Voytko commented what staff is doing is fine, by moving to an NAV hybrid with the reserve fund. However, while it is appropriate, if clients expect that you are guaranteeing a dollar in/dollar out, some places have negative interest rates, and if like the GFC there are circumstances where clients feel there will be no losses, that may not always be so. It is an extremely rare situation, but not impossible.

Executive Director Ewer agreed it is an excellent point. The resolution, under Section 3.01 No Guaranteed Return, states there is no guaranteed interest rate return. Program participation is voluntary and there is no warranty funds will be available. Section 3.06 states STIP is not insured against losses, so participants are advised the reserve may not be adequate to guard against losses.

**NEW PRIVATE EQUITY & REAL ESTATE MANAGERS AND
FIXED INCOME MANAGER TERMINATION**

Montana Private Equity Pool (MPEP)

Mr. Ethan Hurley advised the Board there was one commitment of \$25 million to JLL Partners Fund VII since the last meeting.

Fund Name	Vintage	Subclass	Sector	Amount	Date
JLL Partners Fund VII, LP	2015	Buyout	Diversified	\$25M	8/6/15

Montana Real Estate Pool (MTRP)

Mr. Hurley advised there was one new commitment of \$20 million to a new manager, Stoltz Real Estate Fund V, LP since the last meeting.

Fund Name	Vintage	Subclass	Property Type	Amount	Date
Stoltz Real Estate Fund V, LP	2014	Value Add	Diversified	\$20M	7/10/15

Member Prothero asked why Mr. Hurley liked this fund.

Mr. Hurley stated Stoltz is an operating partner with a long history of generating returns over differing market cycles. They are efficient and partnership relationships mean a lot; staff evaluates what that means to a GP. Mr. Hurley added Keith Stoltz views partnership roles similarly to his own views and he has a high comfort level with the deal.

Member Terry Cohea asked for an explanation of a European waterfall.

Mr. Hurley explained the structure is framed to return of all money back plus an 8% return premium prior to the GP receiving any money back. The name European is due to the roots in the private equity market in Europe and added in an ideal world the European framework is preferred for all deals.

Responding to a question from Member Cohea, Mr. Hurley stated 20-30% of BOI's private equity deals have European-style waterfalls, and staff tries for that structure which is more available with smaller cap deals. The dynamic of trends in the market dictates the driver, who has the power, LP's versus GP's and what capital markets are seeking at the time.

Fixed Income Manager Termination

Mr. Nathan Sax presented a summary of the recent transition and termination of Aberdeen Asset Management. Managers are generally evaluated in the context of a market cycle, over a period of 3-5 years, which is a normal evaluation period. Aberdeen had underperformed to such an extent that staff decided to terminate them and bring the money in house to manage in the Core Internal Bond Pool (CIBP). BlackRock was hired as transition manager, which was a less expensive option than State Street Bank, and BlackRock provided a clearer plan of how the process would work. The transition occurred in August and staff's goal was to minimize the transition costs. Treasuries and under 6-month maturities were kept. The remaining securities positions that could not be transferred were liquidated by Aberdeen.

Securities valued at \$104 million were sold and the money put into treasuries with a target duration of 5.4 years, to stay consistent with the existing previous duration. The transition cost was approximately 45 basis points, or \$474,846, on the \$5 million fund broken down as five basis points to BlackRock in commissions, approximately 28 basis points for bid/ask spreads and market impact, and the remaining 12 basis points for opportunity costs. The original estimated cost range

was 12-54 basis points. The remaining fixed income external managers are Reams and two high yield managers, Post and Neuberger Berman.

Human Resource Committee – CIO Recruitment Update

Committee Chairman Karl Englund summarized the status of the CIO recruitment process. Mr. Cliff Sheets announced his retirement in June of this year. The Board is grateful to Mr. Sheets for his 10 years at BOI and appreciates all his work and many accomplishments. By the end of June, the CIO job was posted, including notices in Pensions & Investments, the state job site and the MBOI web site and by the end of July 125 applications had been received. The Board and HR Committee, with the assistance of senior staff, reviewed the applications and selected 17 applicants for interviews. There were 14 outside applicants interviewed via telephone and 3 internal BOI applicants interviewed in person. After the first round of interviews, invitations were extended to six applicants to visit Helena for in person interviews. Two of the six declined, resulting in four applicants traveling to Helena for in person interviews. The interviews were conducted by members of the HR Committee, Executive Director Ewer and Mr. Sheets. Each interview was followed by a brief interview by members of the investment staff. The HR Committee then gathered input from all those involved and invited three finalists to come to Helena with their spouses to ensure that they had an interest in moving to Helena.

The final choice is Joseph M. Cullen, a CFA, CAIA and FRM certified professional. Mr. Cullen has worked for Fidelity Investments as head of institutional portfolio management, spent three years as a senior investment manager at Amherst College, and several years at Lucent Asset Management. The HR Committee is requesting the Board offer Mr. Cullen the CIO position, pursuant to a two-year employment contract at an annual salary of \$230,000 plus a \$55,000 relocation package. Mr. Cullen's starting date will be November 2. Additionally, the Committee is requesting authorization be granted to Board Chairman Mark Noennig to sign the contract on behalf of the Board.

Member Karl Englund so moved. Member Marilyn Ryan seconded the motion. The motion carried.

Chairman Noennig thanked HR Committee Chairman Englund and staff for all their hard work, in particular Mr. Sheets, Executive Director Ewer, the HR Committee and other Board Members who participated in the process.

Executive Director Ewer noted he will contact Mr. Cullen and advise him of the Board's decision.

RECAP OF STAFF TO DO LIST AND ADJOURNMENT

- Member Prothero suggested when the Board reviews benchmarks at the November meeting, he would like an in depth review of the private equity benchmark in particular.
- Director Ewer asked Deputy Director Burton to make a note that at the November meeting staff will report on the legal services relationship and the hiring of attorneys, as a follow up to today's discussion.
- Benchmarks are on the agenda for the next meeting and this is the first occasion where benchmarks will be a staff presentation, providing education for the Board.
- Staff will provide the draft 2016 Work and Education Plan. Director Ewer added he has spoken to Mr. Cullen and advised him that before investment subjects are added to the agenda, Mr. Cullen will be allowed time to get up to speed.

Member Englund emphasized that staff's involvement in the CIO hiring process was critical in the sense there was only a brief time to meet with the many applicants. Finding a candidate who was a good fit was vital. Mr. Cullen has good qualifications but also appears to be an appropriate fit with BOI, which was an important part of the decision making process.

Mr. Jim Voytko stated the topic of European waterfalls vs. American waterfalls may be a topic for RVK to provide a special review of, if it is of interest to the Board, to keep it in mind as a future topic.

Being no further business, the meeting was adjourned at 12:58 PM.

Next Meeting

The next regular meeting of the Board will be November 17 and 18, 2015 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 E. Noennig
Mark E. Noennig, Chairman

ATTEST: David Ewer
David Ewer, Executive Director

DATE: November 18, 2015
MBOI:drc
11/12/15