These minutes are Approved and Final. Full Board review and decision took place at the August 18, 2015 Regular Meeting of the Board.

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

SPECIAL CONFERENCE CALL BOARD MEETING
JUNE 22, 2015 at 11:00 AM
MINUTES OF THE MEETING

BOARD MEMBERS PRESENT via Conference Call:
Mark Noennig, Chairman
Kathy Bessette
Karl Englund
Jack Prothero
Quinton Nyman
Marilyn Ryan
Jon Satre
Sheena Wilson

BOARD MEMBER PRESENT AT MBOI Office:
Terry Cohea

LEGISLATIVE LIAISONS ABSENT:
Senator Bob Keenan
Representative Kelly McCarthy

STAFF PRESENT:

Geri Burton, Deputy Director
Dana Chapman, Board Secretary
David Ewer, Executive Director
Herb Kulow, CMB, Portfolio Manager, In-State Loan Program
Clifford A. Sheets, CFA, Chief Investment Officer

GUESTS Present at MBOI:
Tia Snyder, Contracts Officer, State Procurement Bureau

GUESTS Present via Conference Call:
Jim Voytko, RVK, Inc.

CALL TO ORDER

Board Chairman Mark Noennig called the special conference call meeting of the Board of Investments (Board) to order at 11:00 AM. As noted above, a quorum of Board Members was in attendance. Legislative Liaisons Kelly McCarthy and Bob Keenan were absent. Chairman Noennig called for public comment. There was no public comment.

Executive Director's Memo

Executive Director David Ewer presented his memo explaining the structure of the meeting and outlined the two parts of the agenda. The first is the Request for Proposal (RFP) for a professional search team to fill the CIO position, which will require specific decisions. He stated it would be helpful to have the Chairman accept motions, to enable staff to follow specific instructions.

The second item is the launch of a CIO candidate search effort by Board and staff. The Human Resource Committee determined at its last meeting there will be a dual process to search for CIO candidates. Staff will be looking for guidance from the Board where there are decision points. Staff has received notice that a number of people are aware of the posting, due to the press release. A number of calls have come in already. Mr. Cliff Sheets has also initiated a number of calls to relevant contacts.

EXECUTIVE SEARCH FIRM RFP #15-3119T

Executive Director Ewer reviewed the Executive Search Firm RFP. Staff is satisfied that the RFP draft is ready. The timeframe, scoring and process are set, and Ms. Tia Snyder from the Procurement Bureau is present to answer questions. Executive Director Ewer asked that the Board:

A. Accept the draft RFP; and

B. Decide if the Board is comfortable delegating to staff the initial scoring of the RFP responses, Stage One, and is then comfortable at the August Board Meeting to accept staff's recommendation and conduct telephone interview(s) with the finalist(s). The Board would score Stage Two, the telephone interview(s). This is how the process worked when the Board hired the investment consultant. If this is acceptable, the Board's Stage Two points would be added to staff's Stage One points.

Executive Director Ewer asked Deputy Director Geri Burton to outline the timetables and scheduling.

Deputy Director Burton stated when referencing the timetables, Tables 1 and 2 are for the internal process and Table 3 ties into the schedule of events on page 4 of the RFP; this schedule may need to be adjusted. Depending on the internal process timetable, BOI may choose to interview search firms after the CIO candidate interviews.

Ms. Burton reviewed Page 16 of the RFP, the Cost Proposal. The RFP asks for a breakdown of two different types of fees; one if the search firm brings the candidates to BOI and one if BOI turns over identified candidates to them; ideally, this should reflect a reduced fee. Normally, the fee is based on the base salary of the CIO, a percentage, from 30-35%. The respondents' fee estimates should contemplate two client meetings with BOI in Helena, and five candidate interviews. The respondents must also submit a fee for additional meetings, of either type, should they be required.

Ms. Burton reviewed Page 17 of the RFP, the Evaluation Process. The total possible score is 2,000 points. Similar to the custodian bank RFP, 20% (400 points) of the score is based on the fee, 940 points for the proposals, and 660 points for the offeror interview.

Chairman Noennig asked why conduct the interviews of search firms after interviewing the CIO candidates.

Ms. Burton stated if we go through the internal process and have a good pool of candidates, it would give us time to work through the process before hiring a search firm. If we are successful in hiring a CIO, we do not want to string the search firms along, interview them and then have them wait a month or a month and a half while staff goes through the internal search process.

Chairman Noennig asked if we find a candidate, are we allowed to pass on hiring a search firm.

Ms. Burton confirmed yes, that is correct.

Chairman Noennig asked if we find candidates and then interview them, why would there be a fee paid to the search firm for those candidates.

Ms. Burton stated if a firm is hired and takes over the process, there will be fees associated with any internally sourced candidates.

Summarizing the timetables for both the search firm and CIO candidates, Ms. Burton stated it is assumed CIO applicants would be in Helena for in person interviews and come before the Board at the August Board Meeting. This also assumes that search firm telephone interviews will occur during the August Meeting as well. Referring to the later timetable, which allows more time, the search firm telephone interviews would be conducted the week of September 14, and CIO interviews would be conducted the prior week. Staff should have a good assessment of the CIO applicants at that time.

Chairman Noennig asked for staff's recommendation.

Executive Director Ewer stated at this time it is not clear how the process will proceed. Both timetables aim for having sufficient information to see how both the CIO search and the executive firm search are shaping up by the August meeting. The fallback is in September if the process extends out that long.

Mr. Jim Voytko elaborated on the question of whether or not the Board sources candidates, any executive firm would expect to be paid for those. However, you want the firms to distinguish between the two, the sourced and the unsourced candidates. There is value in sourcing candidates, and they would argue that they conduct due diligence, and will bid accordingly.

Member Englund asked if the process is turned over to a search firm, and supplied the names of those individuals who have applied directly to BOI, does the search firm vet those individuals again.

Mr. Voytko replied, yes, most likely the firm would vet them again.

Member Englund asked if the RFP specifies and makes that point clear.

Deputy Director Burton stated, yes, it is included in the scope of services that the firm will interview individuals; even when BOI turns the names over, they go through the same process.

Mr. Voytko noted if you were undecided about any candidates, it would be wise to have the firm vet them along with the candidates that the firm sourced.

Member Terry Cohea commented it makes sense to conduct the internal process before deciding on awarding of the RFP.

Ms. Burton noted staff has tried with the schedule to allow going through the process internally and if we decide the applicant pool is lacking, then ask for assistance. It makes sense to look at search firms after the candidates, in case a search firm is not necessary. The RFP allows for the option to not hire a firm, if it is determined one is not necessary.

Mr. Voytko added the process makes it clear there may not be a hire, it is what is expected. Staff can look and see if there are candidates to get excited about, if there is no conviction in the applicant pool, the RFP is executed.

Ms. Tia Snyder from the Procurement Bureau noted there is a statute that allows for the cancellation of an RFP, MCA 18-4-307, which is detailed in Section 2.5 of the RFP on page 10, so that option is available.

Member Englund inquired if structuring the RFP in such a way prevents some top tier executive recruiters from responding, due to the hybrid process.

Mr. Voytko replied, yes, you may miss out on some, but it is uncertain; high end firms may not bother.

Chairman Noennig called for a motion to approve the timetables as presented by staff.
Executive Director David Ewer commented that one firm that has been timely in contacting BOI is Korn Ferry. Michael Kennedy, a senior person with the company, was on the phone within five minutes of the press release, and he alerted us he has helped public funds find CIO's. Mr. Kennedy was advised an RFP is in the works and a parallel process will be used. Perhaps Mr. Sheets could ask his colleagues what they think about the process BOI is planning to use.

Mr. Sheets stated, as a background, since June 5 he has reached out and networked to public fund CIOs, especially in the west, and talked to 14 CIOs or deputy CIOs, and two from the nonprofit sector.

He asked each about potential candidates and asked for input on recruiting firms. The average response on executive recruiters was that they are helpful on the margin, but they do not necessarily help the puzzle. They can potentially source unknown candidates, but that is generally viewed in a marginal degree. An internal, thorough process has a good chance of finding candidates. It is up to staff and the Board to conduct the independent search with vigor. There is a working list of 10-12 search firms. BOI is not so unique as to screen out particular firms; there are plenty out there who could do the job if we want them to.

Member Cohea asked Mr. Sheets how he found the search firm for the BOI CIO position.

Mr. Sheets stated he heard about the position through a peer on a non-profit board he served on, a CIO alerted him to the position, and he cold called the recruiter. You never know whom you may get as candidates, it can be a random process, but he acknowledged recruiters can find people, such as individuals in the private and endowment sectors. With the current BOI internal recruiting effort, if people are in the market, they will find BOI and we may source a lot who are qualified and currently looking for a job.

Mr. Voytko agreed it is wise not to abandon a dual track just because you think firms may not respond to the RFP. The dual track and internal search for a good candidate should not be abandoned until the responses prove unsatisfactory.

Chairman Noennig stated motions are needed on the Timetables and the RFP.

Member Englund asked if it is too aggressive to go with Timetable 1.

Deputy Director Burton acknowledged Timetable 1 is aggressive.

Chairman Noennig suggested using Timetable 1 as a goal, but be prepared to fall back to Timetable 3 if necessary.

Deputy Director Burton agreed to keep it as a goal, as long as we realize it may have to be extended.

After a brief discussion on scheduling, Executive Director Ewer stated the goal is to use the August Board Meeting to full advantage, whether it is for interviewing candidates or a search firm.

> Member Karl Englund made a motion to issue the RFP as presented and to follow the timetables as put forth in Timetable 1 and Timetable 3, allowing for flexibility. Member Sheena Wilson seconded the motion

Executive Director Ewer stated scoring is implicit in the RFP, which calls for two scoring steps. The staff completes the initial scoring of Stage One and presents the finalist or finalists to the Board. This eliminates a second round of initial scoring by the Board. If the Board chooses to score using this option, the process is handed off by the staff to the Board for scoring of the final 660 points in Stage Two (the interviews). However, if utilized, the Board's scores are added to those already in place from staff's completion of Stage One.

> The motion carried.

Chairman Noennig asked if the RFP dictates who completes the scoring.

Deputy Director Burton stated it is not spelled out in the RFP. The evaluation process in Section 6, pages 17 and 18 of the RFP explains the proposal point structure. For scoring the proposals, there is a formula. Staff can complete Stage One scoring, worth 1340 points, and bring the finalist or finalists to the full Board. The Board then scores Stage Two, worth 660 points; those scores are added to the staff's scores from Stage One.

Member Cohea asked for clarification. Will staff review the CIO candidates and make recommendations to the Human Resource (HR) Committee, and will staff also review the RFP candidates, then hand off to the Board to score and add to staff's scores.

Member Englund stated staff will review the CIO applications and provide advice to the HR Committee, but the HR Committee will make the final call.

Executive Director Ewer stated yes, and confirmed that when staff does the Stage One RFP scoring, those scores would be included in the total, along with the Board's Stage Two scores.

Director Ewer stated there are several options for the RFP. The Board could decide that the full Board will decide and appoint an ad hoc committee, or they could use a combination of Board members and staff; the Board can define who will score. The total possible score is 2,000 points.

Deputy Director Burton stated the RFP allows 300 points for method of providing services, 640 points for proposals, 400 points for cost, and 660 for interviews.

Mr. Voytko noted the two stage process has two themes. The risk, by having an informal first stage, is that the Board is delegating a certain amount of authority to staff for determining a finalist. Those points are additive. The risk is you want to ensure the Board has sufficient points to work with, meaning applicants do not require a perfect score for the Board to award to other than the top scorer from the first round. The Board decides the second round; if all points cannot make up the gap, it is a flawed scoring process.

After a brief discussion, the Board decided by consensus that staff would complete the RFP Stage One scoring and provide the Board with a recommendation for finalist(s). The Board will examine staff's recommendation and will complete Stage Two scoring. The Board will make the final decision.

Deputy Director Burton noted that after Stage One evaluations, if offerors are within 33% of the highest scoring offeror, interviews must be held.

Ms. Tia Snyder added if two or more respondents are within the 660 points available in the final step, you must interview. If one vendor is far behind in points, but still qualifies, they can withdraw their proposal. If there are two or more, you must hold interviews.

> Member Karl Englund made a motion directing staff to complete the RFP Stage One evaluation and scoring of respondents. Member Terry Cohea seconded. The motion passed.

Member Englund clarified the Board is reserving to complete Stage Two of the RFP scoring, as the Board has not delegated this to staff. No motion is required as the Board has authority.

SEARCH PLAN BY BOARD WITH STAFF/CONSULTANT EFFORTS

Executive Director Ewer presented the draft CIO job announcement and asked that the Board formalize the dual track approach. Approval by the Board of the draft CIO posting requires a motion and asked for comments from RVK and Mr. Sheets, to be sure the Board is comfortable that staff is empowered to decide qualified and unqualified applicants, although the HR Committee will get all applicant materials.

Chairman Mark Noennig asked Board Members for comments or questions on the CIO job posting.

Member Terry Cohea made a motion to approve the CIO Job Advertisement. Member Sheena Wilson seconded. The motion carried.

Mr. Sheets clarified it is a job advertisement, not a job description.

Executive Director Ewer asked Mr. Sheets to share his thoughts and ideas, and added staff is hopeful but has no way of knowing what applicants may contact BOI about the CIO position.

Mr. Sheets stated he has reached out to CIO's, mostly of other public funds; it is a fairly close-knit community. He added he became aware of what similar searches other states are conducting and received constructive comments; most concurred with the process BOI is following. Mr. Sheets noted he received names of a couple of candidates, some he expects will respond to the ad, and he spoke to each briefly and provided them with an update of the process. We will know more once the ad is out and we start to receive responses. Wyoming has hired a recruiter.

Mr. Voytko offered that RVK is assisting Wyoming with finding executive recruiters, not candidates.

Mr. Sheets stated it is important to determine RVK's role in the process, as of now there is some ambiguity. Mr. Sheets stated it would be helpful if the Board clarified what role, if any, RVK will play.

Mr. Voytko stated a dual track is recommended. However, at the point you expect the executive recruiter to start, you must decide how to pull the two tracks together. The job should post as quickly as possible, as there are competing searches out there. RVK is available to serve whatever capacity the Board decides, whether it is reviewing resumes, or maybe at the end of the process. RVK is in the process of preparing a list of questions to offer to Executive Director Ewer and Mr. Sheets to use in the process, if desired.

Member Karl Englund asked how RVK's involvement could create a conflict of interest.

Mr. Sheets advised it may not necessarily introduce a conflict; however, if RVK has contacts through another client relationship or if there have been differences with another client, it could be a grey area. For instance, another CIO client of RVK's may not want them to know they are job seeking.

Chairman Noennig stated if Wyoming and BOI are both seeking CIO's and RVK is a client for both, it could raise an issue, promoting the same individual.

Mr. Voytko explained that RVK has not been asked to offer an opinion. One way to make sure Board and senior staff remain in control is to have RVK provide questions to consider, or have RVK perform an initial review of the candidates on paper, but to offer no input on the decision making for the finalist(s). For the BOI executive director search, a fund client was a former and current client of RVK's and so RVK did not take part in the process.

Member Cohea stated the more points of view and the more eyes looking at applications, the better. She agreed that interview questions from RVK is a good idea, but in the end, staff would recommend the finalists to Board.

Chairman Noennig asked if there were any questions regarding the scope of staff's involvement.

Member Englund stated staff will be involved as resumes come in, and staff will prepare in advance of the first cut, an analysis of whether they think candidates are qualified or less qualified; the interviewers will make the final call on interview questions.

Chairman Noennig asked if the HR Committee will determine the finalists.

Member Englund stated yes, once the Board delegates it to the HR Committee.

Member Englund reaffirmed, if staff decides an "unqualified" applicant is qualified, the HR Committee can decide to take them off table.

Executive Director Ewer stated yes, no motion is needed. If the full Board accepts it, the role of staff will be to parse and collect as much information as they can, conferring with him or Mr. Sheets, and possibly looking to RVK for input. Unless there is an objection, the decision needed is to confirm that the Board is designating the HR Committee to drive the process, with staff's support. The HR Committee has the final say over which candidates are considered.

Chairman Noennig called for motion to empower the HR Committee to recommend a finalist or finalists to the full Board.

Member Terry Cohea so moved. Member Kathy Bessette seconded. The motion carried.

By consensus, Board and staff agreed the initial scoring will be conducted by staff and the HR Committee then has the discretion to bring a finalist or finalists, before the Board.

Executive Director Ewer encouraged the Committee to bring a single finalist before the Board; however, if two candidates are very close, both finalists should be brought before the Board to be vetted.

Member Englund noted the process has to be public revealing who the finalists are. Once down to the finalists, those names are released, per a Department of Administration rule. The applications are not released, but the names are released.

By consensus, the Board decided:

- The decision of how many applicants are brought before the Board is left to the HR Committee. If one candidate is significantly ahead in the scoring, there will likely be one. If two or more are very close in score, there will be more.
- Staff will notify all Board Members when the HR Committee meets. Attendance is optional for the full Board.

Executive Director Ewer advised staff will post the RFP as soon as possible.

Responding to a question regarding advertising for the CIO position, Executive Director Ewer stated the job information was picked up by Pensions & Investments (P&I) when the press release was issued. Advertising will require a substantial investment. There is no decision yet which other publications the ad may run in; however the national CFA Institute site, and perhaps regional chapters of the CFA as well. The job will be posted immediately on the BOI and state websites as well.

Mr. Sheets added the electronic Pension & Investments and the national CFA sites should be included; probably not the Wall Street Journal or Economist, and no non-U.S. publications. It is wise to keep it simple, no print ad for P&I; electronic version only. Once it is published, career type publications will copy and spread the word. Word of an opening will come to the public's attention.

Executive Director Ewer added any internal BOI applicants would follow the same procedure as external applicants, by submitting a cover letter and resume.

Being no further business before the Board, the meeting adjourned at 12:41 p.m.

Next Meeting
The next regular meeting of the Board will be August 18-19, 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: August 18, 2015

MBOI:drc
8/3/15