REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

June 20, 2002

2401 Colonial Drive, 3rd Floor
Helena, Montana

Thursday, June 20, 2002

AGENDA

I. CALL TO ORDER 1:00 p.m.
   A. Roll Call
   B. Approval of the May 16, 2002 Regular Meeting Minutes

II. EXECUTIVE DIRECTOR REPORTS - Carroll South 1:10 p.m.
   A. Ethics Policy
   B. Budget Status Report
   C. Out-of-State Travel Requests

III. BOND PROGRAM - Geri Burton 1:20 p.m.
   A. INTERCAP
      1. Activity Report
      2. Staff Approved Loans Report
      3. Loan Requests

IV. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 2:00 p.m.
   A. Economic Overview - Newsletter
   B. Asset Allocation Report
   C. Asset Allocation Plan 2005

V. MONTANA LOAN PROGRAM - Delrene Rasmussen 2:30 p.m.
   A. Consider Commercial/Multi-Family Loans
      1. West End Hospitality, LLC and West End Hospitality II, Inc.
   B. Staff Approved Value Added Loans
      1. American Chemet Corporation
      2. Viking Land, LLC
   C. Coal Tax Loan Activity Report - April and May
   D. Mortgage Program Activity Report - April and May

VI. INVESTMENT ACTIVITY - Internal Management 2:45 p.m.
   A. Domestic Equities (Montcomp) - Rande Muffick, CFA
      1. Transactions - April and May
      2. Holdings Report
      3. Strategy
      4. Portfolio Additions
         a. Weyerhaeuser
         b. Comcast
         c. Best Buy
   B. International Equities (MTIP) - David Ewer
      1. Europe and Americas
      a. Internal Transactions - April and May
June 20, 2002 Agenda

b. Internal International Holdings Report
c. Strategy

C. Fixed Income - Bob Bugni, CFA
1. Transactions - April and May
2. Strategy
3. Investment Policy Statements
a. Teachers' Retirement System
b. Public Employees' Retirement System
c. Municipal Police Officers Retirement System
d. Sheriffs' Retirement System
e. Firefighters' Unified Retirement System
f. Highway Patrol Officers' Retirement System
g. Judges' Retirement System
h. Game Wardens' Retirement System
i. Volunteer Firefighters' Retirement System

D. STIP and Treasurer's Funds - Rich Cooley, CFA
1. STIP Transactions - April and May
2. STIP Holdings Report
3. Treasurer's Fund Transactions - April and May
4. Treasurer's Fund Holdings Report
5. Strategy

VII. INVESTMENT ACTIVITY - External Management - Ed Kelly
A. Security Lending
1. Income Report - April
B. Private Equity
1. Transactions - April
2. Montana Private Equity Pool (MPEP) Transactions - May
4. Private Markets Program Report
5. Investment Policy Statement
a. Montana Private Equity Pool (MPEP)
6. Private Equity Update - Verbal

VIII. PRESENTATION - SG Pacific Asset Management 4:00 p.m.
George Dole, Senior Vice President
Winston Fong, CFA, Director and Senior Portfolio Manager
Takashi Isahaya, CFA, Senior Portfolio Manager

IX. ADJOURNMENT

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 accommodations 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.

MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

2401 Colonial Drive, 3rd Floor
Helena, Montana
Thursday, June 20, 2002

MINUTES
BOARD MEMBERS PRESENT:

Dick Anderson, Chairman
Dennis Beams
Karen Fagg
Jay Klawon
Tim Ryan
Joel Long

BOARD MEMBERS ABSENT:

Maureen Fleming
Calvin Wilson
Douglas Bardwell

STAFF PRESENT:

Robert T. Bugni, CFA, Senior Investment Officer
Geri Burton, Deputy Director/Bond Program Officer
Sandra Conrady, Mortgage Analyst
Richard Cooley, CFA, Assistant Investment Officer
Kimberly Dallas, Program Assistant
Bobbie Ecklund, Investment Analyst
David Ewer, Senior Portfolio Manager
Edward Kelly, Assistant Investment Officer
Herbert Kulow, Senior Portfolio Manager
Rande Muffick, CFA, Assistant Investment Officer
Adam Nelson, Investment Analyst
James R. Penner, CFA, Chief Investment Officer
Delrene Rasmussen, Assistant Investment Officer
John Romasko, Investment Analyst
Paul Runnalls, Investment Analyst
Carroll V. South, Executive Director
Dan Stevens, Investment Analyst
Steve Strong, Investment Analyst
Lon Whitaker, Investment Analyst

GUESTS:

George Dole, Senior Vice President, SG Pacific Asset Management
Winson Fong, CFA, Director & Senior Portfolio Manager, SG Pacific Asset Management
Takashi Isahaya, CFA, Senior Portfolio Manager, SG Pacific Asset Management
Tom Livers, Chief, Tech. & Fin. Assistance Bureau, Dept. of Environmental Quality
Ann Danzer, Administrator, Centralized Services Division, Dept. of Environmental Quality

CALL TO ORDER

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 1:00 p.m. in the conference room at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with five members of the Board present.

Member Klawon motioned for approval of the May 16, 2002 minutes; Member Ryan seconded the motion and the motion was passed 5-0. Member Long arrived at this time.
EXECUTIVE DIRECTOR REPORTS

Ethics Policy

Executive Director Carroll South presented to the Board an updated Ethics/Compliance Policy. The trading/compliance policy is designed to prevent Board members and staff from trading securities in which the Board's equity portfolio manager is active. The policy was adopted to ensure the Board's compliance with policies issued by the Securities and Exchange Commission and the Association for Investment Management and Research.

After reviewing the policy and its practical application in the day-to-day operations of the Board, staff determined that it was no longer necessary for Board members to sign the policy. Board members do not have access to timely information that would put them at risk of violating these securities trading policies.

Also while reviewing the compliance policy, staff reviewed state law relative to the ethic requirements imposed on state employees and determined that staff needed to expand the compliance policy beyond the requirements of the securities regulatory agencies. State ethics law specifically prohibits the use of state time, facilities, and resources for personal business purposes - a subject that was not covered under the previous policy.

Member Klawon moved for approval of the new ethics policy as presented by staff; Member Long seconded the motion and the motion was passed 6-0.

Budget Status Report

Executive Director Carroll South presented this report for the period ending May 31, 2002.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for John Romasko to attend the Bernstein Strategic Decisions Conference in New York, June 3 - 7, 2002; Maureen Fleming to include meetings with Pyrford, Schroder's and KKR while in London, June 25 - July 3, 2002; and Herb Kulow to attend the School of Mortgage Banking, Course III, in Chicago on July 13 - July 19, 2002. Member Klawon moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 6-0.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending June 7, 2002.

Staff Approved Loans Report

Ms. Geri Burton reported that the following INTERCAP Loan Requests had been approved by staff:

Borrower: City of Shelby
Purpose: To finance equipment and improvements for the City's park system.
Staff Approval Date May 7, 2002
Board Loan Amount: $200,000
Term: 10 Years

Borrower: Columbia Falls Rural Fire District
Purpose: To finance the construction of a 3,200 sq. ft. steel frame fire substation.
Staff Approval Date May 16, 2002
Board Loan Amount: $175,000
Term: 8 Years

Borrower: Pleasant View Homesites Water & Sewer District (Flathead County)
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Purpose: To finance a portion of the costs of a preliminary engineering report.
Staff Approval Date May 16, 2002
Board Loan Amount: $20,000
Term: 3 Years

Borrower: Stillwater County
Purpose: To finance a portion of the costs associated with bridge construction.
Staff Approval Date May 16, 2002
Board Loan Amount: $200,000
Term: 4 Years

Borrower: Savage High School District #2
Purpose: To finance costs associated with constructing a locker room/storage addition.
Staff Approval Date May 31, 2002
Board Loan Amount: $48,000
Term: 4 Years

Borrower: Savage Elementary School District #7J
Purpose: To finance costs associated with remodeling restrooms to meet ADA requirements.
Staff Approval Date May 31, 2002
Board Loan Amount: $24,000
Term: 4 Years

INTERCAP

Ms. Geri Burton presented staff's recommendation that the Board authorize staff to proceed with processing and closing the following loans using the Board's standard Bond Program Office procedures:

Borrower: DeSmet Elementary School District #20 (Missoula)
Board Loan Amount: $280,000
Term: 5 Years
Purpose: To finance the purchase of 7.20 acres of land adjacent to the school.

Borrower: Department of Environmental Quality, Petroleum Tank Release Compensation Board
Board Loan Amount: $2.5 million
Term: 10 Years
Purpose: To fund reimbursement claims.

Borrower: Department of Transportation - 2 Loan Requests
Board Loan Amount: $222,206 Board Loan Amount: $50,070
Term: 5 Years Term: 7 Years
Purpose: To finance vehicle purchases for its Motor Pool.

Member Ryan moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 6-0.

CHIEF INVESTMENT OFFICER REPORTS

Asset Allocation Report

Mr. Jim Penner, Chief Investment Officer, presented the Asset Allocation report for June 30, July 15 and July 31 Transactions.

Mr. Penner also requested staff be authorized to invest up to $50 million in the S&P 500 Domestic Index Fund as
market conditions warrant during this period. Member Klawon moved for approval of this request; Member Long seconded the motion and the motion was passed 6-0.

Asset Allocation Plan 2005

Chief Investment Officer Jim Penner presented for Board approval the Asset Allocation Plan 2005. This plan proposes new targets for a 3-year period ending June 30, 2005 and provides an update on progress towards the asset allocation targets per the 2002 plan.

Member Klawon moved for approval of Asset Allocation Plan 2005 as presented; Member Long seconded the motion and the motion was passed 6-0.

LOAN PROGRAMS

Consideration of Commercial Loan Participation - Permanent Coal Trust Fund

Ms. Delrene Rasmussen presented staff’s recommendation to participate in the following loan request:

Borrower: West End Hospitality, LLC. and West End Hospitality II, Inc.
Lender: First National Bank of Montana, Bozeman
Purpose of Loan: Proceeds will be used to purchase the Comfort Inn Motel in West Yellowstone.
Amount of Loan: $1,500,000
Board Loan Amount: $705,000
Board Participation: 47%
Term of Loan: 20 Years
Interest Rate: 7.45% + .50% LSF = 7.95% Fixed
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Approve

Member Beams moved for ratification of loan committee recommendation; Member Klawon seconded the motion and the motion was passed 6-0.

Consideration of Value Added Loan Program - Coal Tax Trust Fund

Mr. Herb Kulow presented a loan request to participate in the following loan:

Borrower: American Chemet Corporation
Lender: Wells Fargo Bank, Helena
Purpose of Loan: To finance the planned expansion of the East Helena facility.
Total Amount of Loan: $3,930,000
Board Loan Amount: $2,947,500
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Approve

Member Klawon moved for ratification of loan committee recommendation; Member Beams seconded the motion and the motion was passed 6-0.

Borrower: Viking Land, LLC.
Lender: First Interstate Bank, Miles City
Purpose of Loan: Is for the acquisition and construction of a new building and manufacturing plant.
Total Amount of Loan: $873,000
Board Loan Amount: $654,750
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Loan committee tabled this loan request until additional information could be requested by staff.
Coal Tax Loan Activity
Ms. Delrene Rasmussen presented and the Board reviewed this report for April and May.

Pension Mortgage Program Activity
The Board reviewed this report for April and May.

INVESTMENT ACTIVITY

Montcomp
Mr. Rande Muffick presented April and May transactions, the holdings report as of May 31, 2002 and the current investment strategy. Member Klawon moved for approval of the Montcomp strategy as presented; Member Fagg seconded the motion and the motion was passed 6-0.

In addition, Mr. Muffick presented Weyerhaeuser, Comcast and Best Buy as a Portfolio Additions.

International Investment
Mr. David Ewer presented April and May transactions, the holdings report as of May 31, 2002 and the current investment strategy. Member Klawon moved for approval of the International Investment strategy as presented; Member Ryan seconded the motion and the motion was passed 6-0.

Fixed Income
Mr. Robert Bugni presented April and May transactions, and the current investment strategy. Member Ryan moved for approval of the Fixed Income strategy as presented; Member Beams seconded the motion and the motion was passed 6-0.

Mr. Bugni also requested Board approval to purchase unrated U.S. Army Hospitality Fund 2002-1 bonds. Member Long moved for approval of this request; Member Ryan seconded the motion and the motion was passed 6-0.

In addition, Mr. Bugni presented the Investment Policy Statements for Teachers' Retirement System, Public Employees' Retirement System, Municipal Police Officers' Retirement System, Sheriffs' Retirement System, Firefighters' Unified Retirement System, Highway Patrol Officers' Retirement System, Judges' Retirement System, Game Wardens' Retirement System and Volunteer Firefighters' Retirement System. Member Ryan moved for approval of the Investment Policy Statements as presented; Member Klawon seconded the motion and the motion was passed 6-0.

Treasurer's and STIP Funds
Mr. Cooley also presented April and May STIP transactions the STIP holdings report as of May 31, 2002, the April and May Treasurer's Fund transactions, the Treasurer's Fund holdings report as of May 31, 2002 and the current investment strategy for both of these funds. Member Ryan moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Klawon seconded the motion and the motion was passed 6-0.

Security Lending
Mr. Ed Kelly presented this report for April.

Private Equities
Mr. Ed Kelly presented April transactions.
Montana Private Equity Pool (MPEP)

Mr. Ed Kelly presented May transactions and the holdings report as of May 31, 2002.

In addition, Mr. Kelly presented the Investment Policy Statements for Montana Private Equity Pool (MPEP). Member Ryan moved for approval of the Investment Policy Statements as presented; Member Beams seconded the motion and the motion was passed 6-0.

PRESENTATION

Mr. George Dole, Mr. Winson Fong, and Mr. Takashi Isahaya, of SG Pacific Asset Management gave the annual Asian Pacific Fund Performance Review to the Board and staff.

Next Meeting

The next regularly scheduled meeting of the Board will be August 1, 2002 in Kalispell.

ADJOURNMENT

There being no further business, the meeting was adjourned at 5:30 P.M.

BOARD OF INVESTMENTS

APPROVE:
Dick Anderson, Chairman

ATTEST:
Carroll South, Executive Director

DATE: