REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

2401 Colonial Drive, 3rd Floor
Helena, Montana

August 11 & 12, 2009

AGENDA

	LUNCH	**12:00 p.m.**
Tab 1	**CALL TO ORDER**	**1:00 p.m.**
	A. Roll Call	
	B. Approval of the May 12 & 13, 2009 Regular Meeting Minutes	
	C. Administrative Business	**1:15 p.m.**
	1. Human Resource Committee Report	
	2. Audit Committee Report	
	D. Public Comment - *Public Comment on issues with Board Jurisdiction*	**1:30 p.m.**
Tab 2	**EXECUTIVE DIRECTOR REPORTS – Carroll South**	**1:35 p.m.**
	A. Review of Internal Controls Final Report - Informational	
	B. Conservation Reserve Program - Decision	
	C. Pensions and Investments - Informational	
Included	**QUARTERLY PERFORMANCE REPORTS**	**2:15 p.m.**
	A. Pension Funds and Investment Pools – R.V. Kuhns and Associates	
Tab 3	**INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA, CIO**	**3:00 p.m.**
	A. Retirement System Asset Allocation Report	
	B. Private Equity (MPEP)	
	1. Portfolio Holdings and Recent Activity	
	2. Private Edge Reports (as of March 31, 2009)	
	C. Real Estate (MTRP)	
	1. Portfolio Holdings and Recent Activity	
	2. Private Edge Reports (as of March 31, 2009)	
Handout	**EXTERNAL MANAGER PRESENTATIONS**	
	Batterymarch	**3:30 p.m.**
	o Ms. Patricia A. Crane, Director, Client Service	
	o Mr. John Vietz, CFA, Portfolio Manager	
	ADJOURNMENT	**4:30 p.m.**

REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

AGENDA – DAY 2

	RECONVENE AND CALL TO ORDER	**8:30 a.m.**
	A. Roll Call	
	B. Administrative Business	**8:35 a.m.**
	1. Loan Committee Report	
Handout	**EXTERNAL MANAGER PRESENTATIONS**	
	Analytic Investors	**9:00 a.m.**
	o Katie Koehler, CFA, Director, Marketing & Client Service	
	o Steve Sapra, PhD, CFA, Portfolio Manager	
Tab 3	**INVESTMENT ACTIVITIES/REPORTS continued – Cliff Sheets, CFA, CIO**	**10:15 a.m.**
	A. Investment Pool Strategies	
	1. Domestic Equity (MDEP)	
	2. International Equity (MTIP)	
	3. Manager Watch List	
	4. Fixed Income Strategy Statements	
	i. Bond Pools (RFBP and TFBP)	
	ii. Below Investment Grade Holdings Report	
	iii. Short-term (STIP) and Other Fixed Income Portfolios	
	iv. Treasurer's Fund Investment Policy Statement - Decision	
Tab 4	**BOND PROGRAM – Louise Welsh**	**11:00 a.m.**
	A. INTERCAP	
	1. Activity Report	
	2. Staff Approved Loans Report	
	3. Loan Requests	
Tab 5	**MONTANA LOAN PROGRAM – Herb Kulow**	**11:30 a.m.**
	A. Commercial and Residential Portfolios Report	
	B. Commercial Loan Portfolio Summary – as of June 30, 2009	
	C. Montana Loan Program Policy Revisions - Decision	
	ADJOURNMENT	**12:00 p.m.**

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.

Call to Order

Approved: November 9, 2009

MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

2401 Colonial Drive, 3rd Floor
Helena, Montana
August 11 & 12, 2009

MINUTES

BOARD MEMBERS PRESENT:

Terry Moore, Chairman
Elouise Cobell
Teresa Cohea
Maureen Fleming
Patrick McKittrick
Jack Prothero
Jon Satre
Jim Turcotte
Representative Brady Wiseman
Senator Greg Barkus

BOARD MEMBERS ABSENT:

Karl Englund

STAFF PRESENT:

Jason Brent, Investment Analyst
Geri Burton, Deputy Director
Richard Cooley, CFA, Portfolio Manager
Kim Dallas, Program Assistant/Board Secretary
Tim House, Chief of Investment Operations
Ed Kelley, Alternative Investment Analyst
Teri Kolnik, Alternative Investment Analyst
Herb Kulow, Portfolio Manager
Rande Muffick, CFA, Portfolio Manager
Jon Putnam, Investment Analyst
Nancy Rivera, Credit Analyst
John Romasko, Fixed Income Investment Analyst
Nathan Sax, CFA, Portfolio Manager
Clifford A. Sheets, CFA, Chief Investment Officer
Jon Shoen, CFA, Portfolio Manager
Carroll South, Executive Director
Steve Strong, Investment Analyst
Louise Welsh, Bond Program Officer
Dan Zarling, CFA, Director of Research

GUESTS:

Jim Voytko, R.V. Kuhns and Associates
Chris Phillips, Montana Board of Investments
Patricia A. Crane, Director, Client Services, Batterymarch
John Vietz, CFA, Portfolio Manager, Batterymarch
Katie Koehler, CFA, Director, Marketing & Client Services, Analytic Investors
Steve Sapra, PhD. CFA, Portfolio Manager, Analytic Investors
Dave Senn, Executive Director, Teachers' Retirement System
Roxanne Minnehan, Executive Director, Public Employees' Retirement System
Carl Douglas, Stinger Welding
Paul Rumelhart, Kootenai Business District
John Konzen, County Commissioner, District 2 Libby

CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order at 1:00 p.m. in the conference room located at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with eight members of the Board present. Member Karl Englund was absent. Legislative Liaisons Representative Brady Wiseman and Senator Greg Barkus were also in attendance.

Member Terry Cohea motioned for approval of the May 12 & 13, 2009 minutes; Member Jim Turcotte seconded the motion and the motion was passed 8-0.

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

Audit Committee Report
Member Jim Turcotte, Audit Committee Chair, reported that the Internal Control Review was recently completed by Galusha Higgins & Galusha and the Committee accepted the report as presented.

The report included seventeen recommendations. Many of the recommendations have already been put in place and staff will continue to work on the remaining recommendations. The Internal Controls Policy will be updated to include the recommendations. The Policy will then be presented to the Audit Committee and to the Board for final approval.

Ms. Geri Burton introduced Mr. Ryan Lindsay and Ms. Rissy Bell, Galusha Higgins & Galusha (Galusha). Mr. Lindsay and Ms. Bell conducted the Internal Control Review on behalf of Galusha.

Representative Brady Wiseman asked Mr. Lindsay and Ms. Bell of the seventeen recommendations in terms of emphasis, which would be the top three.

Mr. Ryan responded that the following three recommendations would be considered as the three with the most concern in relation to the Internal Control Review:

ACH Transactions
Recommendations:
A. We recommend updating the internal control documentation for ACH transactions to reflect the new system being utilized.
B. We recommend reviewing all user rights within the SinglePoint system to ensure all employees have only the rights necessary to perform their duties and to ensure that proper segregation of duties in the SinglePoint system exists.

Staff Response to Recommendations:
A. Concur – The Internal Controls Policy will be updated to reflect the SinglePoint system being used.
B. Concur – User rights have been reviewed and new controls have been put in place to ensure proper segregation of duties exist. The Internal Controls Policy will be updated to reflect the revised controls.

Wire Transfers
Recommendations:
A. We recommend segregating the duties for the person who controls user rights over wire transfers, the people that initiate and approve wire transfers and the individual that authorizes the users with the depository bank.

Staff Response to Recommendations:
A. Concur - User rights have been reviewed and new controls have been put in place to ensure proper segregation of duties exist. The Internal Controls Policy will be updated to reflect the revised controls.

State Street Bank

Recommendations:

A. We feel that the MBOI should obtain an understanding then develop a control and process for switching depository bank accounts, or changing the destination of wire transfers. It appears that SSB requires a signed letter from the Executive Director; we do not feel this is an adequate control.

Staff Response to Recommendations:

A. Concur – SSB and U.S. Bank were notified, via electronic mail, that any changes to wiring instructions must be sent by the Board's Executive Director or Deputy Director. If either party sends instructions to change the wiring instructions, SSB and U.S. Bank must e-mail and call the other party for a confirmation of the change. This policy will be added to the Internal Controls Policy.

At the November Board Meeting, the Audit Committee will review the progress made in completing the report recommendations.

Public Comment

Chairman Moore called for Public Comment of Board-Related Items.

Mr. Herb Kulow introduced Mr. Carl Douglas, Mr. Paul Rumelhart and Mr. John Konzen. These three individuals expressed their gratitude and appreciation to the staff members with the Board of Investments Montana In-State Loan Program. The In-State Loan Program was instrumental in helping bring Stinger Welding to Montana, specifically the community of Libby, MT. Stinger Welding intends to hire and employ more than 200 people; 500 applications have been received with 80% of those applications coming from residents of Montana, primarily Libby. Mr. Douglas looks forward to building his company in Libby and intends to become a Montana resident, keeping the company in Montana.

EXECUTIVE DIRECTOR REPORTS

Conservation Reserve Program - Decision

Mr. Carroll South provided a brief history of the Conservation Reserve Program. The Montana CRP (the "Program") is designed to complement the federal CRP. Through the Program, a person holding a CRP contract can receive a loan ranging from 60 percent to 75 percent of the remaining CRP contract payments. This loan is repaid by the CRP contract owner assigning his or her future CRP payments to the Board.

In January 1990, the Board authorized the purchase and sale of Bond Anticipation Notes (BANs) to fund interim loans to applicants of the Board's Program. The BANs were purchased by the Permanent Coal Trust Fund (the "Permanent Fund"). When the Trust Fund Bond Pool (TFBP) was created on October 1, 1995, the Notes were transferred from the Permanent Fund in exchange for shares of equal value in the TFBP. Program loans continue to be funded by the Trust Fund Investment Pool (TFIP), formerly known as the TFBP, as investments.

As the single agency vested with the authority to invest and manage the Unified Investment Program, the Board has much discretion in investing the funds it manages. Unless certain types of investments are precluded by constitution/law, covenant, or client preference, the Board has legal authority to make any investment it deems prudent. The legal authority to purchase Program loans through the TFIP is:

17-6-201(5) MCA, ***Unified investment program – general provisions.*** *The board shall: (c) determine the type of investment to be made.*

While the Board has the authority to purchase Program loans, staff recommends revising the TFIP Investment Policy Statement to make it clear that Program loans are a permitted investment in the pool.

Recommendation: Staff recommends approval of the Investment Policy Statement for the Trust Fund Investment Pool to include Conservation Reserve Program loans as a permitted investment.

Motion: Member Maureen Fleming motion for approval of the staff recommendation as presented; Member Cobell seconded the motion and the motion was unanimously approved 8-0.

Pension and Investments

Mr. Carroll South provided to the Board an educational report on the defined benefit retirement systems (Systems), specifically focusing on the Public Employees' and Teachers' Retirement Systems.

Mr. South's report discussed the various "moving parts" that can affect the funding status of defined benefit Systems and highlights several issues that have important implications for the long term viability of the Systems.

1. Negative cash flows, defined as annual benefit payments in excess of annual contributions, will impact the PERS/TRS and may eventually impede the ability to accumulate and retain a sufficient pool of assets. A mature retirement system is expected to have a large pool of assets to be used for benefit payments when the plan eventually has negative cash flow. If historical contributions rates have been too low to adequately fund benefit liabilities, the pool of assets built by the contributions may be insufficient to cover ever-increasing negative cash flow.

2. Because normal cost contribution rates cannot be applied and collected retroactively, the rates may be insufficient to address the timing and size of late-career salary increases and benefit increases that can only be paid for "after the fact." Further, when the normal cost rate is increased by the actuaries based on another year of actual experience, less of the total contribution is available to "pay off" any unfunded liability.

3. The recent investment performance of the Systems' assets will have a major impact on the actuarial funded status of the plans. However, the actuarial return assumptions cannot be met without incurring prudent investment risks and the volatility that comes with the risk. If the actuarial return assumptions are not met, the unfunded liabilities will increase.

Investment returns at or near the actuarial return assumptions of the Systems will only be achieved by maintaining a healthy allocation to international equity, private equity, and private real estate investments. The forward-looking estimated returns for these asset classes are in excess of the Systems' actuarial assumptions. It is important to understand that the return assumptions cannot be met without incurring investment risk and volatility. If the assumptions are not met, the unfunded liabilities will increase.

QUARTERLY INVESTMENT PERFORMANCE REPORTS

(A complete copy of this report is kept on file with the documents of this meeting)

The Quarterly Performance Report for the period ending June 30, 2009 was presented.

INVESTMENT ACTIVITY/REPORTS

Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending June 30, 2009 and fiscal year ending June 30, 2009. In addition, the changes between these two quarters were also presented. Notable allocation changes made to the Retirement Systems during the quarter ending June 30, 2009 were: MPEP received an allocation of $14 million; Real Estate received $17 million and MTIP received $4.3 million. These additions were largely funded by sales of the RFBP totaling approximately $31.6 million. Additional comments on the second calendar quarter follows:

1. During the second quarter, the total dollar increase in asset values ($425 million) was almost equal to the total dollar decline (-$465 million) experienced in the first quarter. The driving force behind the improvement was public equity prices.
2. The public equity allocation weight changes were increases of 2.4% for domestic and 2.3% for international. Total equity was up by 3.1% to 63.7%.
3. Private equity and pooled real estate both fell in terms of market value and weight. The amount of decline reflected the lag effect of capturing valuation changes: a) Private Equity was down $40 million; b) Real Estate was down $55 million. Both pools were down despite the additional funds allocated to the pools.

4. There was a lower magnitude of transactions made during the second quarter as compared to the first quarter: a) cash was raised by selling bonds; b) equity additions were made via MTIP & MPEP, with a reduction in MDEP, for a net equity addition of $8.4 million; c) Real estate purchases of $17 million; and d) $6 million in cash was raised to pay benefits and build liquidity in the plans.
5. The Volunteer Firefighters asset allocation is distorted by the once a year contribution infusion received in late June. The STIP balance is temporarily above the range at 8.4% at quarter end. Staff has begun to invest some of the funds in longer term asset classes, though there is a need to maintain a higher than average balance to pay benefits since this fund receives no additional contributions during the year.

Comments regarding allocation changes during the full fiscal year follows:

1. There was been a decline in the total pension value of $1.7 billion despite the $425 million bounce during the second calendar quarter.
2. The public equity weights were down very noticeably, 3% domestic and 2.4% international, despite a net increase in public equity purchases of approximately $38 million.
3. Private equity was up 1.6% partly due to the $135 million of infusion into the pool but significantly caused by the denominator effect, even though the total value was down $73 million.
4. The same can be said for the real estate pool. The value fell $39 million, even though the allocation increased by 6% with $73 million in purchases.
5. There were sales of $181 million of the Retirement Funds Bond Pool to fund equity and real estate purchases.

To summarize, despite constrained liquidity some moderate allocation shifts have been made over the past year in the direction of rebalancing from bonds to alternatives and public equities.

Private Equity (MPEP)

Mr. Jon Shoen reviewed the Private Edge reports showing by strategy the total exposure by market value and outstanding commitments, the Attribution Analysis Report and the Portfolio Holdings Performance Report for the period ending March 31, 2009. Mr. Shoen also reviewed the MPEP Holdings Report as of June 30, 2009 and the four new fund commitments made since the May Board Meeting.

Fund Name	Vintage	Subclass	Amount	Date
Opus Capital Venture Partners VI, L.P.	2009	Venture – Early	$7.5M	6/16/2009
Portfolio Advisors Secondary Fund 1	2008	Secondary	$15.0M	6/18/2009
Centerbridge Special Credit Partners, L.P.	2009	Distressed Debt, Non-control	$12.5M	7/01/2009
Oaktree Opportunities Fund VIII, L.P.	2009	Distressed Debt, Non-control	$10.0M	7/09/2009
Total New Commitments			**$45.0M**	

Real Estate (MTRP)

Mr. Jon Shoen reviewed the Private Edge reports showing the total exposure by market value, the geographic and property type diversification reports, the Detailed Portfolio Performance Report and real estate fund commitments made for the period ending March 31, 2009. Mr. Shoen also reviewed the MTRP Holdings Report as of June 30, 2009 and there was one new fund commitment made since the May Board Meeting.

Fund Name	Vintage	Subclass	Amount	Date
(TA) The Realty Associates Fund IX	2009	Value Added	$15M	05/07/2009
Total New Commitments			**$15M**	

PRESENTATION

Batterymarch Financial Management, Inc.

Mr. Rande Muffick introduced Ms. Patricia A. Crane and Mr. John Vietz. Ms. Crane and Mr. Vietz reviewed their firm and management style. Batterymarch manages an international large cap core portfolio in the International Equity Pool.

ADJOURNED

The meeting adjourned for the day at 5:05 p.m.

CALL TO ORDER
The meeting was reconvened Wednesday, August 12, 2009 at 8:00 a.m. with eight members of the Board present. Member Karl Englund was absent. Legislative Liaisons Representative Brady Wiseman and Senator Greg Barkus were also in attendance.

ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

Loan Committee Report
Member Jack Prothero, Loan Committee Chair, reported that the Loan Committee reviewed and approved one INTERCAP loan requests during its committee meeting, and the Loan Committee authorized staff to proceed with processing and closing this loan using the Board's standard Bond Program Office procedures.

Borrower:	Department of Natural Resources and Conservation (DNRC)
Purpose:	Interim loan in anticipation of issuing Coal Severance Tax Bonds for its Renewable Resource Grant & Loan Program.
LC Approval Date:	August 11, 2009
Board Loan Amount:	$2,035,000
Term:	2 Years

Member Jack Prothero reported that the Loan Committee reviewed and approved one Montana Loan Program loan request by email since the May Board Meeting. The Loan Committee authorized staff to proceed with processing and closing these loans using the Board's standard Bond Program Office procedures.

Borrower:	Kootenai Business Park Industrial District
Type of Loan	Infrastructure Loan
Lender:	Montana Board of Investments
Purpose:	To provide long term fixed rate financing for the construction of a 104,800 sq. ft. Class S manufacturing facility in Libby, MT.
LC Approval Date:	July 16, 2009
Board Loan Amount:	$3,366,500
Term:	25 Years

PRESENTATION

Analytic Investors
Mr. Rande Muffick introduced Ms. Katie Koehler and Mr. Steve Sapra. Ms. Koehler and Mr. Sapra reviewed their firm and management style. Analytic Investors manages a domestic large cap 130/30 portfolio in the Domestic Equity Pool.

INVESTMENT ACTIVITY/REPORTS continued

Domestic Equity (MDEP)
Mr. Rande Muffick presented the Montana Domestic Equity Pool Report as of June 30, 2009 and a summary of the recent market trends.

International Equity (MTIP)
Mr. Rande Muffick presented the Montana International Equity Pool Report for the period ending June 30, 2009 and discussed market trends during the quarter.

Public Equity External Managers Watch List
Mr. Rande Muffick presented the External Managers Watch List – Quarterly Update. The Watch List criteria were established in accordance with the Montana Board of Investments Public Equity Manager Evaluation Policy, adopted by the Board on May 14, 2008.

Manager	**Style Bucket**	**Reason**	**Inclusion Date**
Principal Global	International – LC Growth	Performance	March 2008
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	March 2008
NorthPointe	Domestic- SC Growth	Performance	August 2008
Acadian	International – LC Value	Performance, Process	February 2009
Martin Currie	International – LC Growth	Performance, Risk Controls	February 2009
Goldman Sachs	Domestic - LC Enhanced	Organization/Personnel	May 2009
Batterymarch	International – LC Core	Performance, Process	May 2009

There were no manager terminations during the quarter or additions to the Watch List. Hansberger International Growth has achieved significant improvement in relative performance and the previous benchmark issues that were a concern to staff have been resolved. As a result Hansberger has been removed from the Watch List.

Fixed Income
Mr. Nathan Sax presented the Fixed Income Overview and Strategy.

Mr. Richard Cooley presented the Short-Term Investment Pool, State Fund Insurance and Treasurer's Fund Portfolio Reports.

Mr. Cliff Sheets presented the Non-Investment Grade Holdings Report.

Trust Fund Investment Pool Update
Mr. Cliff Sheets provided an update and status of the Trust Fund Investment Pool after policy changes made in May 2009 allowed for use of High Yield corporate bonds and Core Real Estate funds within the Pool in an effort to diversify income sources.

Investment Policy Statements
Mr. Cliff Sheets presented changes and revisions made to the Treasurer's Fund Investment Policy Statements to the Board for approval. This investment policy statement was last revised and approved in May 2008. Since that time, staff has re-reviewed the investment policy statement, made revisions and cleaned up the policy. The permitted investments are more detailed; the objective of the portfolio has been clarified as a buy and hold portfolio and reference to a total return benchmark has been removed.

Motion: Member Jack Prothero motioned for approval of the staff recommendations as presented; Member Jim Turcotte seconded the motion and the motion was unanimously approved 8-0.

BOND PROGRAM

Activity Report
The Board reviewed this report for the period ending June 30, 2009.

Staff Approved Loans Report
The Board reviewed this report for the period of April 1 – June 30, 2009:

Borrower:	Golden Valley County
Purpose:	Purchase a motor grader

Staff Approval Date	April 7, 2009
Board Loan Amount:	$39,637
Other Funding Sources:	$22,500
Total Project Cost:	$65,137
Term:	2 years

Borrower:	Missoula County
Purpose:	Purchase of motor graders, motor pool vehicles and office equipment
Staff Approval Date	April 7, 2009
Board Loan Amount:	$1,000,000
Other Funding Sources:	$0
Total Project Cost:	$1,000,000
Term:	4 years

Borrower:	Custer County
Purpose:	Purchase 2009 Volvo G940 motor grader
Staff Approval Date	April 9, 2009
Board Loan Amount:	$110,000
Other Funding Sources:	$115,000
Total Project Cost:	$225,000
Term:	5 years

Borrower:	Town of Whitehall
Purpose:	Purchase 2008 fire engine
Staff Approval Date	April 15, 2009
Board Loan Amount:	$150,000
Other Funding Sources:	$ 50,000
Total Project Cost:	$200,000
Term:	10 years

Borrower:	Jefferson County
Purpose:	Purchase building and remodel County offices
Staff Approval Date	April 20, 2009
Board Loan Amount:	$300,000
Other Funding Sources:	$ 0
Total Project Cost:	$300,000
Term:	10 years

Borrower:	Town of West Yellowstone
Purpose:	911 Dispatch Center upgrade
Staff Approval Date	April 22, 2009
Board Loan Amount:	$490,502
Other Funding Sources:	$48,737
Total Project Cost:	$539,239
Term:	10 years

Borrower:	Missoula County

Purpose:	Purchase historical building for Historical Museum
Staff Approval Date	April 24, 2009
Board Loan Amount:	$430,000
Other Funding Sources:	$50,000
Total Project Cost:	$480,000
Term:	10 years

Borrower:	City of Fort Benton
Purpose:	Purchase a new pumper fire truck
Staff Approval Date	May 5, 2009
Board Loan Amount:	$180,000
Other Funding Sources:	$50,000
Total Project Cost:	$230,000
Term:	15 years

Borrower:	Golden Valley County
Purpose:	Purchase 2008 Ford F350 ambulance
Staff Approval Date	May 13, 2009
Board Loan Amount:	$44,000
Other Funding Sources:	$32,000
Total Project Cost:	$76,000
Term:	10 years

Borrower:	Pondera County Rural Fire District
Purpose:	Purchase 2009 Freightliner Class A pumper truck
Staff Approval Date	June 3, 2009
Board Loan Amount:	$100,000
Other Funding Sources:	$140,995
Total Project Cost:	$240,995
Term:	10 years

Borrower:	City of Great Falls
Purpose:	Design/installation of Water Tower Park Addition roadway lighting
Staff Approval Date	June 12, 2009
Board Loan Amount:	$20,516
Other Funding Sources:	$0
Total Project Cost:	$20,516
Term:	15 years

Borrower:	City of Livingston
Purpose:	Replace water mains
Staff Approval Date	June 22, 2009
Board Loan Amount:	$152,941
Other Funding Sources:	$77,088
Total Project Cost:	$230,029
Term:	10 years

Borrower:	City of Livingston
Purpose:	Replace sewer mains
Staff Approval Date	June 23, 2009
Board Loan Amount:	$141,743
Other Funding Sources:	$139,274
Total Project Cost:	$281,017
Term:	10 years

Borrower:	City of Harlem
Purpose:	Preliminary engineering report
Staff Approval Date	June 25, 2009
Board Loan Amount:	$30,000
Other Funding Sources:	$15,000
Total Project Cost:	$45,000
Term:	3 years

Borrower:	LaMotte School District #43 (Bozeman)
Purpose:	Purchase/installation of a modular building
Staff Approval Date	June 26, 2009
Board Loan Amount:	$135,000
Other Funding Sources:	$15,000
Total Project Cost:	$150,000
Term:	5 years

Gainey Foundation Update
Ms. Geri Burton provided an update on the $6 million in bonds issued for the Gainey Foundation in 2002. Ms. Burton reported that the bonds were scheduled to mature in October 2014; however a mandatory redemption was required in July. The outstanding bonds were subject to a mandatory redemption because a required letter of credit was not renewed and a supplemental letter of credit was not obtained. The bond holders have been paid off and the bond issue has been closed.

MONTANA LOAN PROGRAMS

Commercial and Residential Portfolios Report
Mr. Herb Kulow presented and the Board reviewed this report for June 30, 2009.

Montana Loan Program Policy Revisions
Mr. Herb Kulow presented the following changes to the Montana Loan Program Policies:

Recommended changes to the Commercial Loan Policy:

9. COLLATERAL REQUIREMENTS:
   d. Personal guaranty's as required by Lender or the Board.

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. ~~A loan for refinance purposes will be considered if at least 15% of the loan proceeds are used for the purchase of land, plant or equipment and/or improvements to land, plant or equipment.~~

(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.

(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.

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

Recommended changes to the Value - Added Loan Policy:

General parameters for the Value-Added Loan Program:

- Lender service fee limited to one-half percent ~~of the total loan~~ on the participated portion.

1. GENERAL LOAN PROVISIONS

(a) Fees to reserve funds or lock interest rates are not required. Reservation considered effective upon receipt of application.

(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 ~~call the loan~~ repurchase the participated loan amount.

2. JOB CREATION/RETENTION REQUIREMENTS

(e) A job paying less than the State of Montana minimum wage does not count towards the jobs eligibility threshold.

5. COLLATERAL AND OTHER UNDERWRITING REQUIREMENTS:

(k) Commercial Loan Policy underwriting criteria will also be considered.

6. LENDER REQUIREMENTS:

(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.

Recommended changes to the Infrastructure Loan Policy:

The following provisions apply to the Infrastructure Loan Program:

- Businesses may reduce their Montana state income tax liability by the amount of the fee, 15-31-301, MCA.

1. APPLICATION PROCEDURES

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;

3. INTEREST RATES
    a. Job credit interest rate reductions are available as per Section 8 of the Infrastructure Loan Policy.
    b. Initial interest rate determined by the interest rate posted on the Commercial Loan Rate Sheet on the date the Infrastructure Loan application is received.

5. COLLATERAL REQUIREMENTS
    h. Personal or corporate guaranty~~'s if deemed prudent~~ as determined by the Board

7. OTHER LOAN POLICY CONSIDERATIONS
    d. Commercial Loan Policy underwriting criteria will be considered.

8. JOB CREATION INTEREST RATE REDUCTION
    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.

MOTION: On behalf of the Loan Committee, Member Jack Prothero, Loan Committee Chair, motioned for approval of the changes as recommended by staff; Member Terry Cohea seconded the motion and the motion was unanimously approved 8-0.

NEXT MEETING

The next regularly scheduled meeting of the Board will be November 9 & 10, 2009.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:30 a.m.

BOARD OF INVESTMENTS

APPROVE:______________________________________
Terry Moore, Chairman

ATTEST:______________________________________ DATE: ____________________
Carroll South, Executive Director

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: Carroll South, Executive Director

Date: August 11, 2009

Subject: Internal Controls Review and Report

At its November 2007 meeting, staff presented the Internal Controls Policy (the "Policy) to the Board. The Policy was created to ensure that proper controls and monitoring procedures are in place to prevent fraud and reduce risks. The Policy is considered a "work in progress" as staff continually reviews all procedures and updates the Policy as needed. The Policy was thoroughly discussed at the November 2007 meeting and the Board determined the Policy would be the responsibility of the Audit Committee. The Audit Committee was directed to oversee any changes or updates made to the Policy and present an annual update to the Board. In addition, the Board authorized the Audit Committee to hire an appropriate outside consultant to assist in the review of the procedures and to monitor the responsibility.

In January 2009, staff issued a limited solicitation seeking a qualified, independent accounting firm to perform a thorough review of and provide a comprehensive report on the effectiveness of the Board's internal control processes; the efficiency and effectiveness of its financial reconciliation procedures; and to recommend how frequently and by what methods the internal control processes and reconciliation procedures should be monitored by a third party in the future. The limited solicitation was sent to three (3) Helena firms. Galusha, Higgins & Galusha ("Galusha") was the only firm to submit a response. After a thorough review of the proposal and an interview with Galusha, it was determined to hire the firm. Staff entered into a contract with Galusha on March 16th.

Galusha staff was on-site beginning May 6th. They reviewed the Board's Internal Controls Policy, Governance Policy, many written procedures, conducted interviews with staff, performed walk-throughs of processes and controls outlined in the limited solicitation and tested those processes and controls. A report was submitted to staff on June 25th and is attached for your review.

There were seventeen recommendations in the report. Staff submitted responses to the recommendations; they are included in the report. Many of the recommendations have already been put in place. Staff will continue to work on the remaining recommendations and include them in the Board's Internal Controls Policy.

Attachment

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: Carroll South, Executive Director

Date: August 11, 2009

Subject: Conservation Reserve Program

HISTORY

Federal CRP Program - The Conservation Reserve Program (CRP) is a federally funded program designed to remove highly erodible land from production. Participating farmers in the CRP receive a payment per acre each year for up to fifteen years in return for the farmer removing the land from agricultural production and seeding it to permanent cover.

Montana CRP Program - The Montana CRP (the "Program") is designed to complement the federal CRP. Through the Program, a person holding a CRP contract can receive a loan ranging from 60 percent to 75 percent of the remaining CRP contract payments. This loan is repaid by the CRP contract owner assigning his or her future CRP payments to the Board.

Bond Anticipation Notes and Bonds - At its January 1990 meeting, the Board authorized the purchase and sale of Bond Anticipation Notes (BANs) to fund interim loans to applicants of the Board's Program. The BANs were purchased by the Permanent Coal Trust Fund (the "Permanent Fund"). In January 1991, the Board issued $7.38 million in bonds to purchase the Board's outstanding BANs in the approximate amount of $5.4 million and to make loans to participating farmers under its Program. The bonds matured on November 15, 1999.

Once bond proceeds were exhausted, the Bond Program Office began selling notes (the "Notes") to the Permanent Fund to fund the Program loans. When the Trust Fund Bond Pool (TFBP) was created on October 1, 1995, the Notes were transferred from the Permanent Fund in exchange for shares of equal value in the TFBP. Program loans continue to be funded by the Trust Fund Investment Pool (TFIP), formerly known as the TFBP, as investments.

The Program has been successful and continues to benefit Montana farmers participating in the federal CRP by providing cash when the acreage is set aside. The Program's operational costs are funded by a spread between the discounted federal contract purchase price and interest rates on the bonds issued, or in the case of TFIP funds, the interest rate set by the Chief Investment Officer on an annual basis. As of June 30, 2009, a total of 256 loans totaling $33.4 million have been funded under this Program. There was $1.42 million in loan principal outstanding as of June 30, 2009.

Doane Western, Bozeman, acts as the Program's loan originator and contract monitor. The firm accepts and processes loan applications and monitors CRP acreage participating in the Program to verify the borrower complies with the terms of the CRP contract, including the establishment and maintenance of the permanent cover on the acreage.

TRUST FUND INVESTMENT POOL

As the single agency vested with the authority to invest and manage the Unified Investment Program, the Board has much discretion in investing the funds it manages. Unless certain types of investments are precluded by constitution/law, covenant, or client preference, the Board has legal authority to make any investment it deems prudent. The legal authority to purchase Program loans through the TFIP is:

17-6-201(5) MCA, ***Unified investment program – general provisions.*** *The board shall: (c) determine the type of investment to be made.*

While the Board has the authority to purchase Program loans, staff recommends revising the TFIP Investment Policy Statement to make it clear that Program loans are a permitted investment in the pool.

RECOMMENDATION

Staff recommends that:

The Board approve the attached revised Investment Policy Statement for the Trust Fund Investment Pool to include Conservation Reserve Program loans as a permitted investment.

TRUST FUNDS INVESTMENT POOL
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.

TRUST FUNDS INVESTMENT POOL
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: Individually held securities must be rated investment grade, or no lower than triple-B minus, by one nationally recognized securities rating organization (NRSRO) at the time of purchase. Split rated securities may not exceed 3% of portfolio market value.

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

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

TRUST FUNDS INVESTMENT POOL
INVESTMENT POLICY STATEMENT

ASSET ALLOCATION SECTORS & RANGES
3/31/09
(At market)

Sectors	TFBP	Agg Index	**Policy Ranges**
U.S. Treasury	7.82	26.17	**10-35**
Government Related	23.33	13.90	**5-25**
Total Government	**31.15%**	**40.07%**	**20-55**
MBS (Fixed Rate)	24.47	36.04	**20-50**
Hybrid ARMS	0.00	2.67	**0-10**
Asset Backed Securities	1.12	0.55	**0-5**
CMBS	4.79	3.25	**0-10**
Total Structured	**30.38%**	**42.51%**	**20-75**
Corporate Credit	**35.53%**	**17.42%**	**10-35**
Cash (STIP)	**2.94%**	**0.00%**	**0-10**
Total	**100.00%**	**100.00%**	**100.00%**

Current portfolio exceptions to the above policy ranges will be addressed over time depending upon market conditions with the objective of moving within compliance.

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.

MEMORANDUM

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

To: Board Members

From: Carroll South, Executive Director

Date: August 11, 2009

Subject: Pensions and Investments

The state administers nine defined benefit retirement systems (Systems). This report focuses on the Public Employees' and Teachers' Retirement Systems (PERS/TRS) – the two largest and most mature Systems. The report discusses the implications of negative cash flows on the Systems, the theoretical and practical application of normal cost calculations, and the impact of the recent financial market trauma on the Systems. These issues all have important implications for the long term viability of the Systems. All benefit, contribution, and demographic statistics are extracted from the June 30, 2008 actuary valuations of the Systems. The June 30, 2009 actuarial valuations will not be completed until later this year. All references to years in the report refer to the state fiscal year, beginning July 1 and ending June 30.

What is a Defined Benefit Retirement System?

A defined benefit retirement System "defines" or sets the level of retiree lifetime benefits. Defined benefit retirees are not at risk of "outliving" their benefits and their benefit payments are not impacted by financial market volatility. The employer assumes all funding risks for a defined benefit system. By contrast, a defined "contribution" plan sets the contribution levels of employees and employers but does not set or guarantee benefits upon retirement. The level of benefits employees enrolled in a defined contribution plan will receive is entirely dependent upon the level of contributions and the investment earnings on those contributions. New employees in the PERS may choose either a defined benefit or defined contribution plan.

Who Manages the Defined Benefit Retirement Systems?

Four state entities share responsible for managing the defined benefit Systems. The **Public Employees' Retirement Board** administers eight of the nine Systems, while the **Teachers' Retirement Board** administers the TRS. The Retirement Boards are responsible for the day-to-day management of the Systems, collecting contributions, paying benefits, accepting new employers in the Systems, and resolving conflicts/issues that may occur. They also determine the assumptions that are used by the actuaries to calculate the soundness of the Systems and are responsible for recommending revisions to the legislature that may be necessary to maintain the actuarial soundness of the Systems. The assets of the defined benefit Systems are a part of the Unified Investment Program created by the state constitution and are invested solely by the **Board of Investments.** The **Legislature** plays a major role in driving the costs and actuarial soundness of the Systems by setting the benefit formulas and establishing the employee/employer contribution rates necessary to fund the benefits.

How is a Defined Benefit Retirement System Funded

Benefits are funded from employee/employer contributions plus investment income from System assets. Employee/employer contributions are set by law as a percentage of salaries and may only be changed by the legislature. Future contributions to the Systems are estimated by applying the approved percentage of salaries to the projected growth of the payroll in each System. Future cash flow from investment income is estimated as an annual percentage of System assets.

How Are Defined Benefit Retirement System Assets Generated?

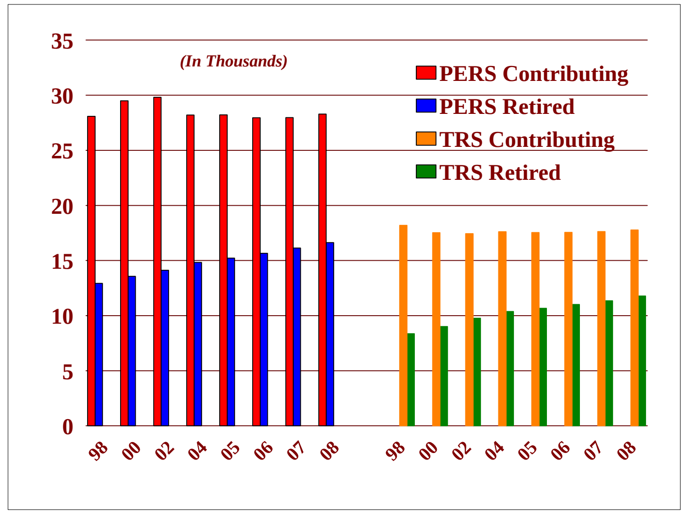
Defined benefit System assets are generated by "positive" cash flow – the excess of contributions received over benefits/expenses paid – plus investment income not used to pay benefits. When a defined benefit retirement system is created, the employer and employees begin contributing to the system and since there are no retirees drawing benefits in the early years, the contributions accumulate and are invested. Even after the original employees begin to retire there will be positive cash flow because there will be more contributing employees than retirees collecting benefits. The positive cash flow will continue to build the assets into a "nest egg" used to pay benefits for employees not yet retired. As long as contributions exceed benefits paid, the income on the assets are reinvested and add to the growth of the assets. However, as defined benefit systems mature, the ratio of retirees to contributing employees increases and the positive cash flow eventually turns "negative" – benefit payments exceed contributions. When this occurs, a portion of investment income must be used to pay benefits and is not available for reinvestment in the pool of assets.

How Does Negative Cash Flow Impact the Systems?

The TRS actuary writes this about negative cash flow in the 2008 actuarial valuation:

> ***"The fundamental equation for funding a retirement system is that benefits and administrative expenses must be provided for by contributions (past and future) and investment income. When a retirement system matures, benefits and administrative expenses often exceed contributions. In this case we say the system has a "negative cash flow." Mature systems are characterized by negative cash flows and large pools of assets. This is natural. Actuarial funding is designed to accumulate large pools of assets which will in turn provide investment income and finance negative cash flows when systems mature. If the fund is looked at as a whole, investment income is usually larger than the difference between contributions and benefit payments. The retirement system's investment strategy should maximize potential returns at a prudent level of risk while providing for needed cash flows."***
>
> ***"In the year ended June 30, 2008, the System's benefits and administrative expenses exceeded contributions by $63 million. At the current contribution rates, benefits and administrative expenses are projected to continue to exceed contributions in future years, and this deficit is projected to increase to $151 million for the year ending June 30, 2018. As long as the System had a positive cash flow, there was no need to plan where the funds would come from to pay benefits since benefits could be paid by incoming contributions. A negative cash flow, as defined above, requires planning what funds will be used to pay the difference between benefits and contributions. We are providing these projections to aid in developing the investment strategy for the System's assets.***

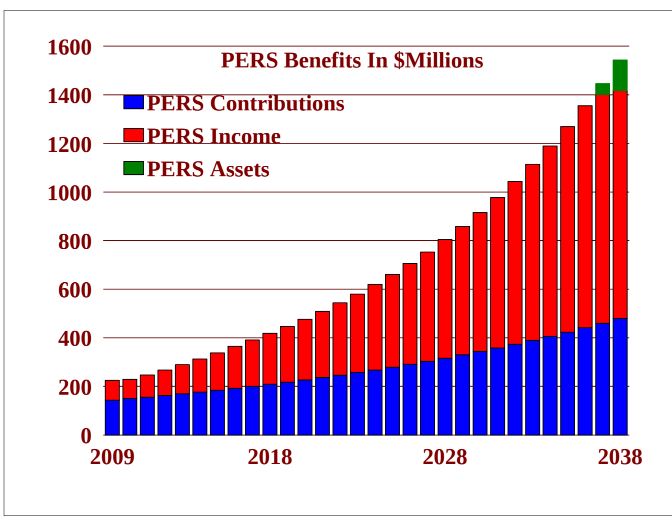
Negative cash flow will continue to grow as the Systems mature and the ratio of retirees to contributing employees increases. During the last 11 years, the number of active employees has remained fairly constant in both Systems, while the number of retirees has increased steadily. The number of PERS retirees increased nearly 29 percent, while TRS retirees drawing benefits increased 41 percent as depicted in the adjacent chart. During the past eight years, PERS benefit payments have increased at an annual rate of 7.62 percent. TRS benefit payments increased 7.31 percent annually.

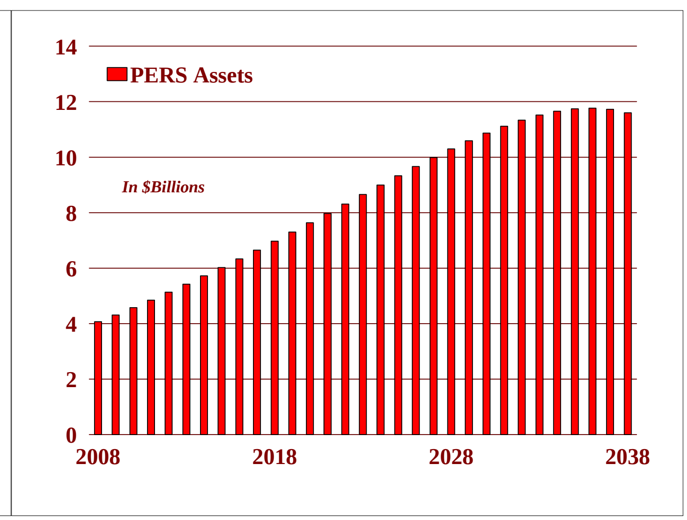


Once systematic negative cash flow begins, the only revenue available to "grow" the assets is income generated by the assets. If the negative cash flow continues to grow at a faster rate than investment income, at some point in the future all investment income will be used to pay benefits. Once negative cash flow exceeds investment income, assets will have to be sold to pay benefits and the pool of assets will begin to shrink as will the income generated by the assets.

The projections in the charts below are based on the following assumptions for the PERS

- Actuarial assets of $4.0653 billion as calculated in the June 30, 2008 actuarial valuation
- Payroll growth of 4.25% annually as adopted in the actuarial valuation
- Contributions as set by the 2007 Legislature at 14.03% of payroll
- Investment earnings of 8.0% annually
- Benefit/administrative cost growth of 6.87% annually





The left chart shows the PERS projected benefit/administration costs and the sources used to fund them. By 2037, all available asset income would be used to pay benefits, at which time it would be necessary to begin liquidating assets. The right chart depicts the projected growth in the PERS assets during the same period. The asset pool growth slows each year as an increasing amount of income is used to pay benefits and is not reinvested. While these charts are based on assumptions that project far into the future, they are intended to show that if negative cash flow continues to grow at a faster rate than income earned on the assets, it is only a matter of time until all asset income is used to pay benefits. Once this occurs, assets must be sold to pay benefits and the will begin to shrink along with the investment income. The premise on which a mature system is based is that the pool of assets should be of sufficient size to generate income adequate to fund that portion of benefits not paid for by contributions. However, if historical contributions rates have been too low to adequately fund future benefits, the pool of assets built by the contributions may be insufficient.

Eventually, the Board's asset allocation process will likely be impacted by long-term negative cash flow. Currently, the asset allocation process is driven by the annual return assumptions adopted by the retirement boards; 8.0 percent for the PERS and 7.75 percent for the TRS. The Board's consultant conducted an asset/liability study of both plans to determine the optimal asset mix to meet the return assumptions. The asset mix was based on projected "total rate of return," which includes income and price appreciation/depreciation. While this calculation measures how well the Board is meeting the assumption targets and permits comparisons to Board peers, retirement benefits cannot be paid with "total return." Benefits are paid from reliable, predictable cash deposited in the System accounts, most of which will be derived from interest and dividends. At some point in the future, the need for cash will require that the Board increasingly consider liquidity and cash income as well as total rate of return.

What is an Unfunded Liability?

An unfunded liability exists when the Systems' actuaries calculates that the present value of liabilities exceeds the assets available to fund the liabilities. State law defines this status in 19-2-303(48), MCA:

> ***"Unfunded actuarial liabilities" or "unfunded liabilities" means the excess of a defined benefit retirement plan's actuarial liabilities at any given point in time over the value of its cash and investments on that same date."***

For the Systems to be considered actuarially sound the unfunded liability must be amortized by a stream of contributions in 30 years or less as defined in 19-2-405(4) (a), MCA:

> ***'The unfunded liability contribution rate, which is entirely funded by a portion of the required employer contributions to the retirement plan, must be calculated as the level percentage of current and future defined benefit plan members' salaries that will amortize the unfunded actuarial liabilities of the retirement plan over a reasonable period of time, not to exceed 30 years, as determined by the board."***

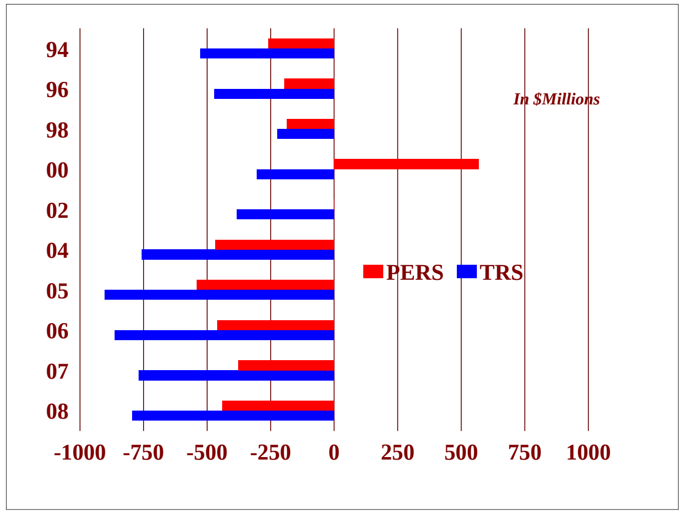
The adjacent table shows the unfunded liabilities for the PERS/TRS in millions as of June 30, 2008 and the contribution rates as of July 1, 2009. Basing the System's actuarial soundness on the estimated time required to amortize any unfunded liability is problematic for two reasons.

Unfunded Liability	**PERS**	**TRS**
Unfunded Liability	439.40	794.60
Years to Amortize	24.80	31.30
Contribution Rates		
Employers *	7.17%	7.47%
Employees	6.90%	7.15%
General Fund *		2.49%
Total	**14.07%**	**17.11%**
Normal Cost	12.13%	10.87%
Unfunded Liability	1.90%	6.24%
Education	0.04%	
Total	**14.07%**	**17.11%**

* General Fund assists local entities in the PERS.

First, the unfunded liability is a moving target that changes annually based on revised liabilities and investment results. Second, the portion of contributions allocated to amortize the unfunded liability may change annually as the Systems' actuaries revise future liabilities. If the actuary increases the normal cost rate, the contribution allocated to amortizing the unfunded liability will be reduced, thereby increasing the time required to amortize the unfunded liability – even if the unfunded liability is unchanged.

It appears that liabilities have been historically understated based on the relationship of unfunded liabilities to the investment return on assets. From June 30, 1994 through June 30, 2008, the return on assets in both Systems was in excess of the actuarial assumptions but yet the unfunded liabilities grew during the period as depicted in the adjacent chart. The growth occurred despite the fact that the legislature appropriated $150 million to TRS and $25 million to PERS to increase the pool of assets. One anomaly in the chart is the PERS actuarial "surplus" in 2000 – a surplus that would soon disappear as a result of benefit enhancements and a stock market meltdown. Between 2000 and 2004 the "surplus" turned to an unfunded "liability," with a change of more than $1 billion, which represented 36 percent of PERS assets in 2000.



What are Normal Cost Calculations?

An employer creating a defined benefit retirement system must first set benefit levels and then calculate the level of contributions required to fund the future benefits. In actuarial terms this contribution level is called the "normal cost." The simplest way to explain normal cost is to envision an employer creating a new defined benefit system that is limited to only the employees working for the firm at the time the plan is created (a closed system). After the benefit levels are set, the contributions required to fund the benefits are calculated as a percentage of employee salaries that must be set aside each payday and invested to fund future benefits. In theory, if the "normal cost" calculation is correct, after the last benefit payment to the last survivor in the closed system, the invested assets would be completely liquidated.

The PERS actuary writes this about normal cost in the 2008 actuarial valuation:

> ***"A fundamental principle in financing the liabilities of a retirement program is that the cost of its benefits should be related to when they are earned, rather than when they are paid. There are a number of methods in use for making a determination. The funding method used in this valuation is the Entry Age Cost Method. Under this method the actuarial present value of projected benefits for each individual member included in the valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost."***

State law defines the normal cost calculation as follows in 19-2-405(3), MCA.

> ***"The normal cost contribution rate, which is funded by required employee contributions and a portion of the required employer contributions to each defined benefit retirement plan, must be calculated as the level percentage of members' salaries that will actuarially fund benefits payable under a retirement plan as those benefits accrue in the future."***

The normal cost calculation is complicated by several factors. First, the employer must assume the level of annual investment income the contributions will generate until they are needed to pay benefits. Second, an assumption must be made as to how long employees will work before they retire and how long they will draw benefits after retirement. Third, an assumption must be made for salary increases employees will receive during their working career. Salary increases not only impact contributions made during the employee's career but will also impact benefit levels since they are usually based on the higher salary levels prior to retirement.

These calculations will never be exact because future experience cannot be accurately predicted. However, each additional year of actual experience permits the actuary to fine tune the calculation. Since 2004, the percentage of payroll required to fund normal cost as calculated by the actuaries has been revised each year as depicted in the adjacent table. Changes in normal cost calculations will also impact the time it takes to amortize any unfunded liability. For the System to be considered actuarially sound the unfunded liability must by amortized by a stream of contributions in 30 years or less. The contribution levels set by law are based on a maximum percentage of salaries and do not distinguish between the portion of the contribution allocated to normal cost and the portion allocated to amortizing the unfunded liability. If the annual actuarial valuation increases the normal cost, it will simultaneously reduce the portion of the contribution available to amortize the unfunded liability, thereby increasing the time required to amortize the liability.

Normal Cost Contributions

Year	PERS	TRS
2004	12.08%	10.34%
2005	12.12%	10.35%
2006	12.17%	10.37%
2007	12.22%	10.40%
2008	12.13%	10.87%

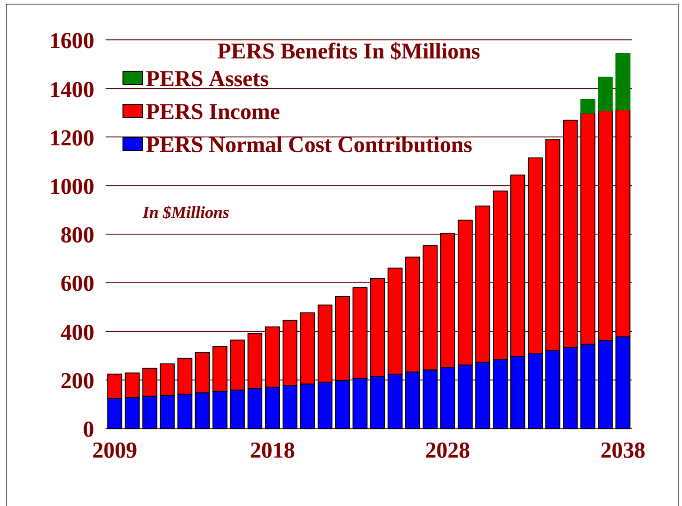
Conceptually, in defined benefit systems, benefit costs should be related to when they are earned, rather than when they are paid. The PERS actuary writes: ***"The purpose of an actuarial valuation is to provide a timely best estimate of the ultimate costs to allocate them to the appropriate generation of members and taxpayers."*** In theory, the normal cost contributions made today on behalf of current employees would be set aside and invested until the employees retire at which time they would begin drawing down the accumulated assets. But in practice, that is not how it works. Contributions and investment income are deposited in the same account and once deposited, each loses its identity. Benefits are paid from cash in the account without regard to the source.

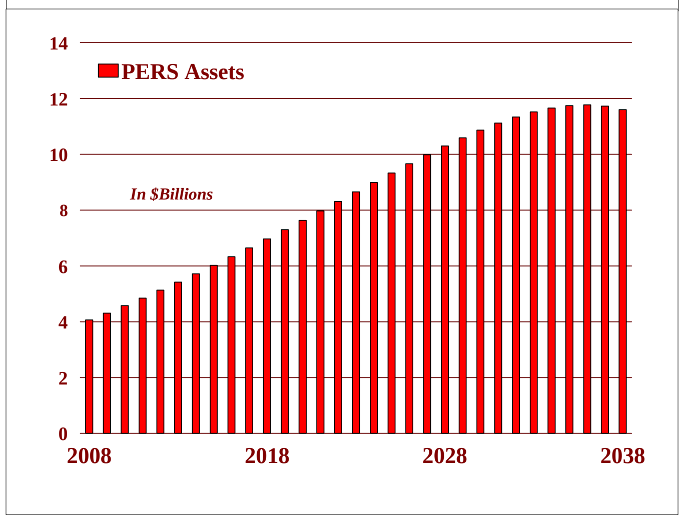
It is possible, however, to ascertain what role the "normal cost" contribution would play in the cash flow of the Systems if it could be isolated from the remainder of the contribution allocated to amortizing the unfunded liability. The preceding graphs depicted the implications of negative cash flow on the PERS using the maximum contribution rate approved by the legislature and projected benefit payments. The same cash flow analysis can be calculated based on the "normal cost" contribution rate if the System were considered to be "fully funded" as of June 30, 2008. This would permit the maximum contribution to be set at the normal cost rate projected by the actuary in the 2008 valuation and would remove from the future cash flow calculation any consideration of an unfunded liability and the contributions required to amortize it.

The projections in the following charts are based on the following assumptions for the PERS

- Actuarial assets at the fully funded level of $4.5047 billion as calculated in the June 30, 2008 actuarial valuation
- Payroll growth of 4.25% annually as adopted in the actuarial valuation
- Normal cost contributions as estimated by the PERS actuary gradually declining from 12.099% of payroll to 11.052% of payroll during the 30-year period
- Investment earnings of 8.0% annually
- Benefit/administrative cost growth of 6.87% annually.

The top chart shows the PERS projected benefit/administration costs and the sources used to fund them based on the normal cost contribution rate projected by the actuary. By 2036, all normal cost contributions and income generated by the assets would be used to fund benefits, at which time it would be necessary to begin liquidating assets. The bottom chart depicts the projected growth in the PERS assets during the same period. The asset growth slows each year as an increasing amount of income is used to pay benefits and is not reinvested.

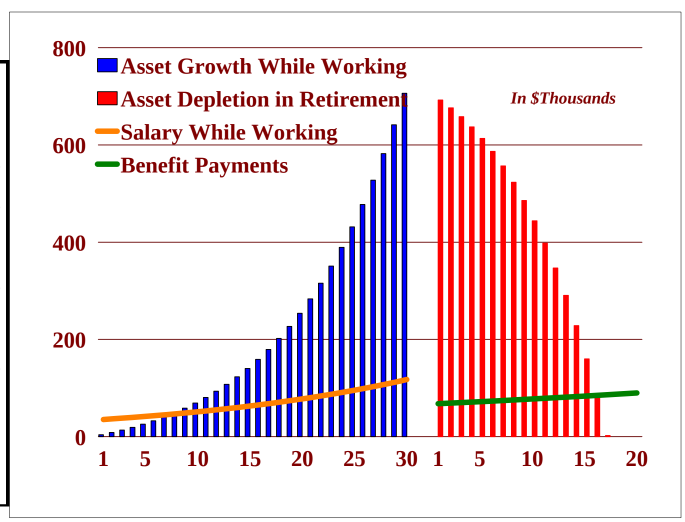




Another way to evaluate the reasonableness and sufficiency of a normal cost rate is to utilize the theoretical concept that the annual normal cost contributions made for average members of the system will be sufficient to fund their retirement benefits. In theory, this means that the next generation will not be paying the benefits for the last generation. The exercise provides an estimate of how many years average members could draw benefits as authorized by the legislature based solely on the normal cost contributions made on their behalf during a working career.

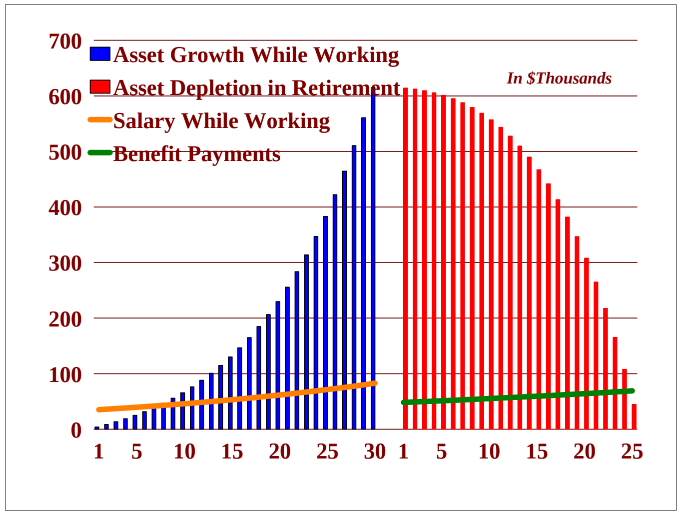
The following charts depict how the normal cost contributions would build a "theoretical" pool of assets during the members' working careers and then be utilized to pay their benefits upon retirement based on the benefit formula authorized by the legislature. The chart below depicts asset growth, asset draw down at retirement, career salary growth, and benefit payments after retirement based on 30 years of service. A normal cost rate of 11.02 percent as estimated by the PERS actuary for members hired after July 1, 2008 would provide sufficient assets at retirement to fund 17 years of benefit payments. Benefit payments are based on the highest 36 consecutive months of salary with a 1.5 percent annual increase as set by law.

Beginning Salary	**$**	**35,143**
Salary at Retirement		**117,502**
Salary Growth		**4.25%**
Normal Cost % of Payroll		**11.02%**
Years of Service		**30.00**
Net Return on Assets		**8.00%**
Assets at Retirement	**$**	**706,402**
Annual GABA		**1.50%**
Highest Average Salary	**$**	**112,777**
Beginning Annual Pension	**$**	**67,666**
Years Funded by Assets		**17**



Salary growth during a career makes a significant difference in the amount of time the accumulate assets would fund member benefits. The graph below depicts the same data with the only change being a 3.0 percent annual growth of salaries during a 30-year career, which would permit the accumulated assets to fund 25 years of benefits.

Beginning Salary	**$**	**35,143**
Salary at Retirement		**82,817**
Salary Growth		**3.00%**
Normal Cost % of Payroll		**11.02%**
Years of Service		**30.00**
Net Return on Assets		**8.00%**
Assets at Retirement	**$**	**615,057**
Annual GABA		**1.50%**
Highest Average Salary	**$**	**80,428**
Beginning Annual Pension	**$**	**48,257**
Years Funded by Assets		**25**



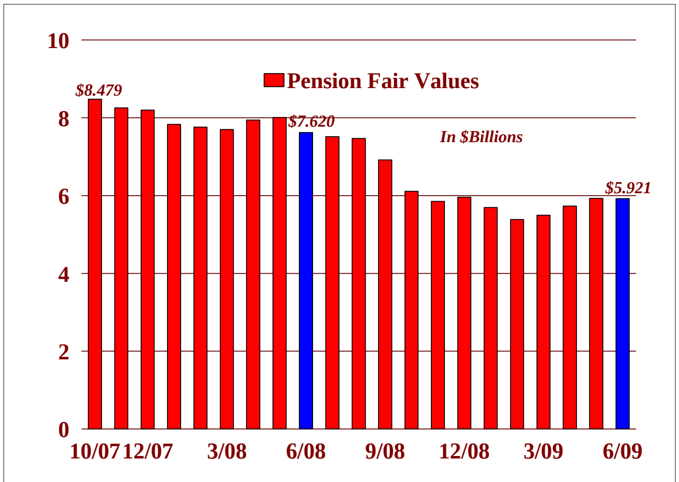
The number of years accumulated assets generated by normal cost contributions would fund members' benefits in retirement is sensitive to salary growth during a career. The preceding graphs depict straight-line salary growth which may be the exception, rather than the rule. The sufficiency of a normal cost rate is extremely sensitive to large salary increases during the last three years of a career on which benefit payments will be based. Using the same 3.0 salary growth as depicted in the preceding chart but increasing member salaries 10.0 percent during each of the last three years would reduce the number of years benefits would be funded by their theoretical assets from 25 to 19. While benefit levels are based on the higher salaries during the last three years, the normal cost contributions required to adequately fund the higher benefit level would not have been collected and invested during the first 27 years of the members' career. The normal cost contribution rate would not have been sufficient given the timing and size of actual salary increases.

Because the normal cost calculation is forward-looking and cannot be applied or collected retroactively, any benefit increases granted active members can only be funded by increasing normal costs for active members prospectively. The additional normal cost required to cover the increased benefit costs can only be collected during the remainder of their careers, when in theory it should have been collected from the date of hire to fully fund the increased benefit. If benefits are increased for retired members, the increased costs cannot be covered by the normal cost theory of funding benefits when they are earned rather than when they are paid. The normal cost contributions made during the working career of the retired members will not have paid for the increased benefit costs. If correct normal cost contributions are not collected from the date of hire, the pool of assets built by the contributions may be insufficient.

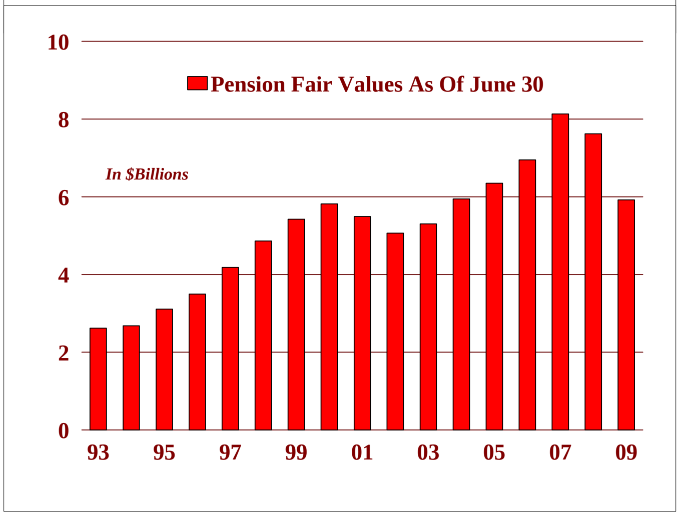
Because these are defined benefit Systems, regardless of the asset depletion shown in the preceding charts retirees will continue to receive benefits as long as they live. Normal cost calculations are based on the average member - some members may draw benefits after their theoretical normal cost assets are exhausted, while others may not. Also, when active members terminate and ask for refunds, only their contributions are returned with accrued interest, while the employer contributions made on their behalf remain in the pool of assets. Consequently, there will be some additional employer contributions available to address Systems shortfalls.

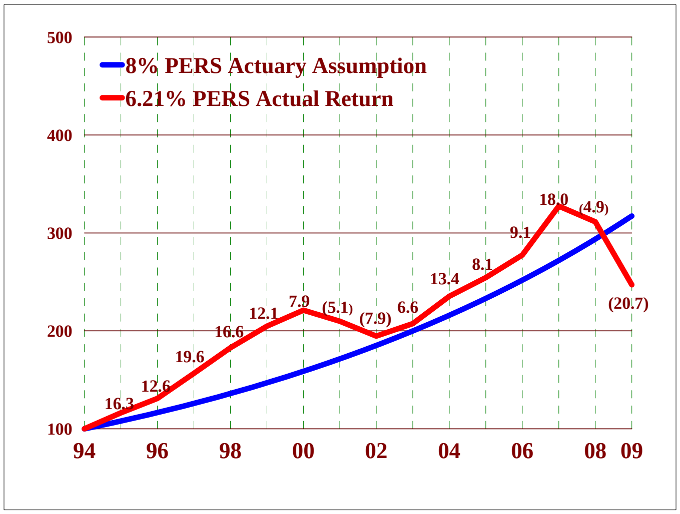
How Has the Financial Market Meltdown Impacted Retirement Assets?

The recent trauma in the financial markets, called the worst since the Great Depression, has taken its toll on the asset values of all public and corporate retirement plans. The fair value of the state's nine retirement funds reached an all time high of $8.5 billion in October 2007, but has dropped significantly since then as depicted in the top charts. The entire drop in value cannot be attributed to the financial markets alone because of the Systems' negative cash flow described earlier. The blue bars represent the "slice in time" values captured in the actuarial valuations.



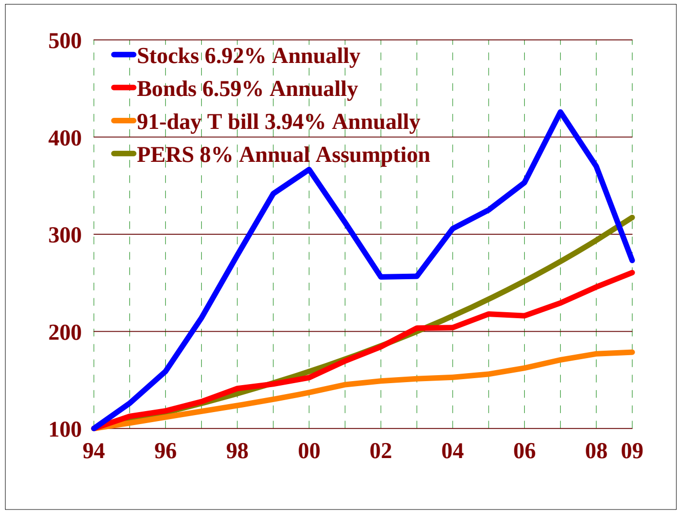
The bottom chart shows longer-term impacts of financial market performance on the nine retirement funds assets. During the 1990's, stock market performance increased assets, but they followed the stock markets down in 2001 and 2002. By 2004 the assets had recovered and began growing again. From the low point of 2002, there were five solid years of gains before the assets declined precipitously during the past two years. Regardless of the Systems' actuarial assumptions, asset values will follow financial market performance and volatility.



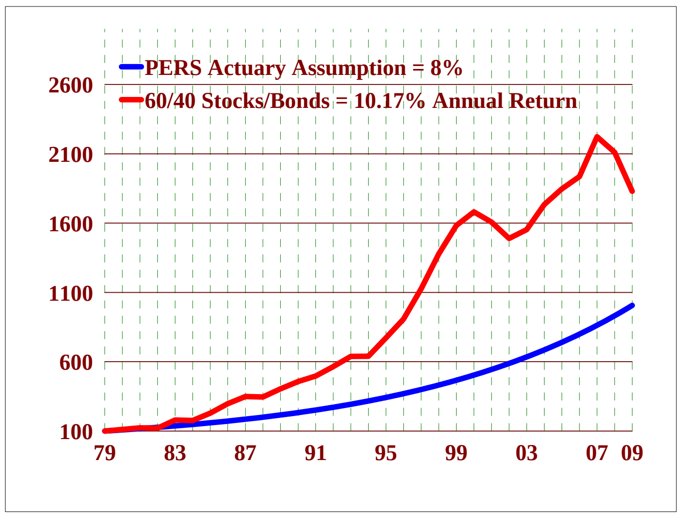


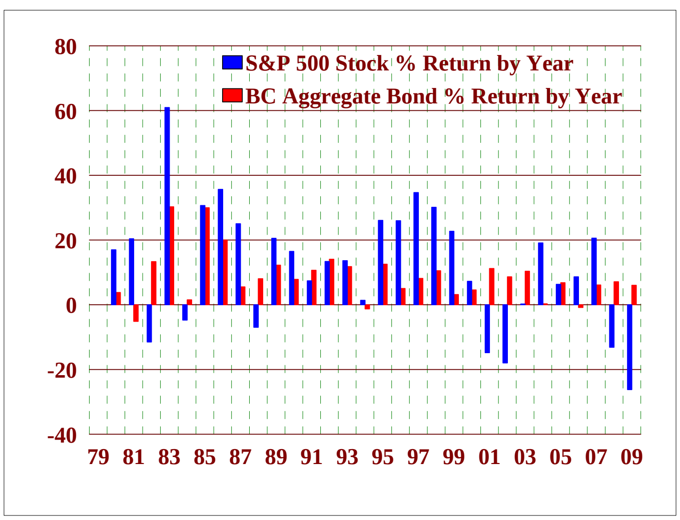
A more meaningful way to evaluate investment performance rather than absolute dollar value is to utilize a total rate of return calculation that ignores non-investment related cash flows. The Board has calculated total rates of returns since 1995. The red line in the adjacent chart depicts the actual total rate of return for the PERS from 1995 through 2009 as calculated by the Board's custodial bank. The blue line depicts the PERS return assumption of 8.0 percent. Despite the volatility of the actual returns, through 2008 the actual returns had exceeded the actuarial assumption. However, the negative 20.7 percent performance in 2009 significantly lowered the annual return during the 15-year period. While the assumptions expected an 8.0 percent annual return, the actual annual return during the period was 6.21 percent.

Was there anything the Board could have done differently during the period to meet the 8.0 percent actuarial assumption? The adjacent chart shows the returns for three major public asset classes during the period compared to the PERS actuarial assumption. Stocks are represented by the Standard & Poor's 500 Index, which tracks approximately 80.0 percent of the US stock market value. Bonds are represented by the Barclays Aggregate Index that tracks approximately 8,820 US Government, securitized, and domestic corporate bonds. The 91-day US Treasury Bill is considered to be the safest, least volatile investment. The actuarial assumption would not have been met investing in any combination of these assets during the period.



Because defined benefit retirement systems are long-term obligations and unfunded liabilities may be amortized over a 30-year period, it seems reasonable to review investment returns over the same time horizon. Although major asset class returns did not meet the actuarial assumptions during the last 15 years, their returns were well in excess of the assumptions during the past 30 years. The adjacent chart depicts the returns of an asset allocation comprised of 60.0 percent invested in the S&P500 Index and 40.0 percent invested in the Barclays Aggregate Index during the 30-year period ending June 30, 2009. This 60/40 asset mix would have returned 10.17 percent annually during the period.

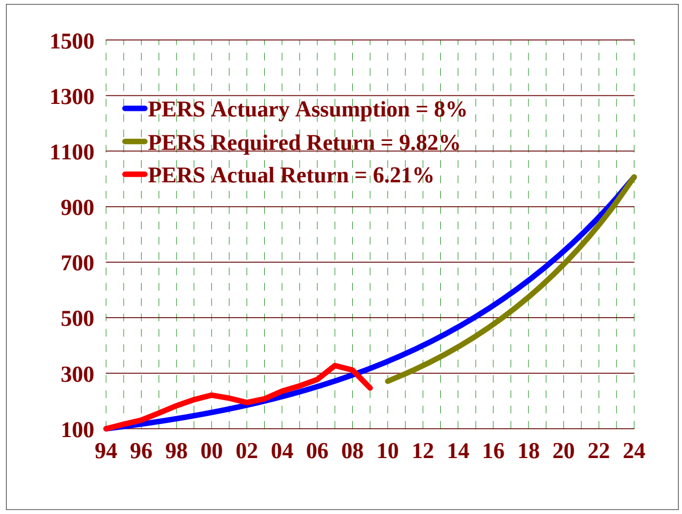




Future retirement fund investment return will be at the mercy of the financial markets. The peak-to-trough price decline in the S&P500 index of 56.8% during the recent bear market was the worst since the stock market decline of the Great Depression. Unless there is a healthy stock market recovery soon, it will be difficult to meet an 8.0 percent actuarial return assumption in any 30-year period that includes the recent market trauma. As the adjacent chart shows, some recovery has usually occurred within a year or two after negative performance but it is too early to predict when and how much the markets will rebound.

However, just gaining back the loss of the last two years, while helpful, will not get the Systems' assets back on track. The unfunded liabilities of the Systems are based on PERS assets earning 8.0 percent annually and TRS assets earning 7.75 percent annually. When they earn less, an "actuarial investment loss" occurs that increases the unfunded liabilities.

Can We Get There From Here?



Starting from the low point of June 30, 2009 it would require a future 9.8 percent annual return on PERS assets to meet the 8.0 percent actuarial assumption during the 30-year period beginning in 1995. A lower 9.4 percent annual return would be required for TRS due to its lower earning assumption. If there is sharp stock market rebound and the assets recover their two-year losses by June 30, 2010, an annual return of 8.4 percent on PERS assets would be required during the remaining period to get back on track.

The compounding that helps build assets when returns are positive does just the opposite when returns are negative. If the stock markets fall 50.0 percent, they must gain 100.0 percent to get back to their initial value. Even though the retirement fund actuaries "smooth" assets over several years to address the volatility of the financial markets, the significant "actuarial" investment losses of the past two years will linger for some time. The June 30, 2009 actuarial valuations will likely show a significant increase in unfunded liabilities, despite the smoothing.

Can we get back on track, and if so, how and when? Major domestic public asset class returns have been tracked by Morningstar from January 1926 through December 2008, a period that includes the Great Depression and most of the recent market meltdown. If history repeats and these long-term annual returns carry forward, a 60/40 stock/bond asset allocation would return just slightly more than 8.0 percent annually but would not compensate for the recent investment losses. Current forward-looking consultant estimates predict lower stock and bond returns than these historical numbers, making even an 8.0 percent return unlikely going forward with investments in only stocks and bonds.

Large Company Domestic Stock	9.6%
Small Company Domestic Stock	11.7%
Long-Term Corporate Bonds	5.9%
Long-Term Government Bonds	5.7%
Intermediate-Term Government Bonds	5.4%
US Treasury Bills	3.7%

The Board diversifies System assets beyond stock and bonds to increase returns while diversifying risk. The current ranges for different assets approved by the Board are:

- International large and small company stock 15-30%
- Domestic large, mid, and small company stock 30-50%
- Government/corporate bonds, high yield bonds, and foreign bonds 22-32%
- Private equity, including distressed debt 9-15%
- Private real estate, including core, value-added, and opportunistic 0-8%

Investment returns at or near the actuarial return assumptions of the Systems will only be achieved by maintaining a healthy allocation to international equity, private equity, and private real estate investments. The forward-looking estimated returns for these asset classes are in excess of the Systems' actuarial assumptions. It is important to understand that the return assumptions cannot be met without incurring investment risk and volatility. If the assumptions are not met, the unfunded liabilities will increase. A "risk free" portfolio of US Treasury Bills has returned only 3.7 percent annually since 1926, well short of the return assumptions of the Systems.

Summary

This report discusses the various "moving parts" that can affect the funding status of defined benefit Systems and highlights several issues that have important implications for the long term viability of the Systems.

1. Negative cash flows, defined as annual benefit payments in excess of annual contributions, will impact the PERS/TRS and may eventually impede the ability to accumulate and retain a sufficient pool of assets. A mature retirement system is expected to have a large pool of assets to be used for benefit payments when the plan eventually has negative cash flow. If historical contributions rates have been too low to adequately fund benefit liabilities, the pool of assets built by the contributions may be insufficient to cover ever-increasing negative cash flow.

2. Because normal cost contribution rates cannot be applied and collected retroactively, the rates may be insufficient to address the timing and size of late-career salary increases and benefit increases that can only be paid for "after the fact." Further, when the normal cost rate is increased by the actuaries based on another year of actual experience, less of the total contribution is available to "pay off" any unfunded liability.

3. The recent investment performance of the Systems' assets will have a major impact on the actuarial funded status of the plans. However, the actuarial return assumptions cannot be met without incurring prudent investment risks and the volatility that comes with the risk. If the actuarial return assumptions are not met, the unfunded liabilities will increase.

Investment Activity

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 03/31/09

				Total				Real Etsate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	33.4%	14.2%	12.9%	60.5%	30.9%	1.0%	1.0%	0.3%	6.2%	2,774,904,064
TEACHERS	33.5%	14.3%	13.0%	60.7%	30.8%	0.7%	1.1%	0.4%	6.2%	2,115,082,620
POLICE	33.6%	14.2%	13.0%	60.9%	32.0%	0.9%			6.3%	141,892,186
SHERIFFS	32.9%	14.1%	12.9%	59.8%	32.2%	1.8%			6.2%	139,165,677
FIREFIGHTERS	33.6%	14.2%	13.0%	60.8%	32.0%	0.9%			6.3%	138,735,617
HIGHWAY PATROL	33.5%	14.2%	13.0%	60.7%	32.1%	1.1%			6.2%	69,036,900
GAME WARDENS	32.4%	13.9%	12.8%	59.1%	31.6%	3.1%			6.2%	56,232,540
JUDGES	33.2%	14.1%	12.9%	60.2%	32.0%	1.5%			6.2%	42,881,893
VOL FIREFIGHTERS	33.7%	14.1%	12.7%	60.4%	32.3%	1.3%			5.9%	17,831,506
TOTAL	**33.4%**	**14.2%**	**13.0%**	**60.6%**	**31.0%**	**0.9%**	**0.9%**	**0.3%**	**6.2%**	**5,495,763,004**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

Retirement Systems Asset Allocations as of 06/30/09

				Total				Real Etsate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	35.8%	16.6%	11.3%	63.7%	29.3%	1.0%	0.8%	0.3%	4.9%	2,988,472,865
TEACHERS	35.8%	16.5%	11.4%	63.7%	29.1%	1.1%	0.9%	0.4%	4.9%	2,277,722,642
POLICE	36.1%	16.6%	11.4%	64.1%	30.3%	0.7%			4.9%	151,577,486
SHERIFFS	35.5%	16.3%	11.3%	63.2%	30.3%	1.7%			4.8%	150,962,037
FIREFIGHTERS	35.9%	16.7%	11.3%	63.9%	30.3%	0.9%			4.9%	149,095,158
HIGHWAY PATROL	35.8%	16.6%	11.3%	63.8%	30.2%	1.1%			4.9%	74,423,099
GAME WARDENS	35.1%	16.2%	11.2%	62.6%	30.0%	2.7%			4.8%	61,822,709
JUDGES	35.5%	16.2%	11.2%	62.9%	30.1%	2.1%			4.8%	46,548,510
VOL FIREFIGHTERS	33.4%	15.4%	10.4%	59.1%	28.1%	8.4%			4.4%	20,447,188
TOTAL	**35.8%**	**16.5%**	**11.3%**	**63.7%**	**29.3%**	**1.1%**	**0.8%**	**0.3%**	**4.9%**	**5,921,071,695**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

Change From Last Quarter

				Total				Real Estate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	2.4%	2.4%	-1.6%	3.2%	-1.6%	0.0%	-0.2%	0.0%	-1.4%	213,568,801
TEACHERS	2.3%	2.3%	-1.6%	2.9%	-1.7%	0.4%	-0.2%	0.0%	-1.4%	162,640,022
POLICE	2.5%	2.4%	-1.6%	3.2%	-1.6%	-0.2%			-1.4%	9,685,300
SHERIFFS	2.7%	2.3%	-1.6%	3.4%	-1.9%	-0.1%			-1.4%	11,796,360
FIREFIGHTERS	2.3%	2.5%	-1.7%	3.1%	-1.8%	0.0%			-1.4%	10,359,542
HIGHWAY PATROL	2.4%	2.4%	-1.7%	3.1%	-1.9%	0.1%			-1.3%	5,386,199
GAME WARDENS	2.7%	2.2%	-1.5%	3.4%	-1.7%	-0.4%			-1.4%	5,590,168
JUDGES	2.3%	2.1%	-1.7%	2.7%	-1.9%	0.6%			-1.4%	3,666,617
VOL FIREFIGHTERS	-0.2%	1.2%	-2.3%	-1.3%	-4.2%	7.0%			-1.5%	2,615,682
TOTAL	**2.4%**	**2.3%**	**-1.6%**	**3.1%**	**-1.7%**	**0.2%**	**-0.2%**	**0.0%**	**-1.4%**	**425,308,691**

Allocations During Quarter

MDEP	**MTIP**	**MPEP**	**Total Equity**	**RFBP**	**Real Estate**
($9,935,000)	$4,370,000	$14,000,000	$8,435,000	($31,670,000)	$17,050,000

Net New Investments for Quarter → **($6,185,000)**

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 06/30/08

				Total				Real Etsate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	38.9%	19.0%	9.8%	67.7%	25.7%	1.2%	0.8%	0.2%	4.3%	3,840,967,298
TEACHERS	39.1%	19.0%	9.7%	67.7%	25.7%	1.1%	0.9%	0.3%	4.3%	2,961,960,654
POLICE	39.5%	19.3%	10.0%	68.7%	26.9%	0.0%			4.3%	190,589,682
SHERIFFS	38.8%	18.6%	9.7%	67.2%	26.6%	1.9%			4.3%	188,161,316
FIREFIGHTERS	39.2%	18.9%	9.8%	68.0%	26.8%	0.9%			4.3%	184,737,400
HIGHWAY PATROL	39.0%	19.1%	9.8%	67.9%	26.7%	1.2%			4.3%	95,999,795
GAME WARDENS	38.7%	18.5%	9.6%	66.8%	26.3%	2.7%			4.3%	73,124,533
JUDGES	38.9%	18.7%	9.8%	67.3%	26.6%	1.8%			4.3%	58,658,494
VOL FIREFIGHTERS	37.1%	18.2%	9.3%	64.6%	25.4%	6.0%			4.0%	25,992,748
TOTAL	**39.0%**	**19.0%**	**9.8%**	**67.7%**	**25.8%**	**1.2%**	**0.8%**	**0.2%**	**4.3%**	**7,620,191,919**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

Retirement Systems Asset Allocations as of 06/30/09

				Total				Real Etsate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	35.8%	16.6%	11.3%	63.7%	29.3%	1.0%	0.8%	0.3%	4.9%	2,988,472,865
TEACHERS	35.8%	16.5%	11.4%	63.7%	29.1%	1.1%	0.9%	0.4%	4.9%	2,277,722,642
POLICE	36.1%	16.6%	11.4%	64.1%	30.3%	0.7%			4.9%	151,577,486
SHERIFFS	35.5%	16.3%	11.3%	63.2%	30.3%	1.7%			4.8%	150,962,037
FIREFIGHTERS	35.9%	16.7%	11.3%	63.9%	30.3%	0.9%			4.9%	149,095,158
HIGHWAY PATROL	35.8%	16.6%	11.3%	63.8%	30.2%	1.1%			4.9%	74,423,099
GAME WARDENS	35.1%	16.2%	11.2%	62.6%	30.0%	2.7%			4.8%	61,822,709
JUDGES	35.5%	16.2%	11.2%	62.9%	30.1%	2.1%			4.8%	46,548,510
VOL FIREFIGHTERS	33.4%	15.4%	10.4%	59.1%	28.1%	8.4%			4.4%	20,447,188
TOTAL	**35.8%**	**16.5%**	**11.3%**	**63.7%**	**29.3%**	**1.1%**	**0.8%**	**0.3%**	**4.9%**	**5,921,071,695**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	1 - 5%	0 - 4%	0 - 1%	0 - 8%	

Change From Last Year

				Total				Real Estate		
Pension Fund	**MDEP**	**MTIP**	**MPEP**	**Equity**	**RFBP**	**STIP**	**Mtgs**	**Direct**	**Pool**	**Total Assets**
PUBLIC EMPLOYEES	-3.1%	-2.5%	1.5%	-4.0%	3.6%	-0.2%	0.0%	0.1%	0.6%	(852,494,432)
TEACHERS	-3.3%	-2.4%	1.7%	-4.1%	3.4%	0.0%	0.0%	0.1%	0.6%	(684,238,011)
POLICE	-3.4%	-2.6%	1.4%	-4.6%	3.5%	0.6%			0.6%	(39,012,196)
SHERIFFS	-3.3%	-2.3%	1.6%	-4.0%	3.7%	-0.2%			0.6%	(37,199,279)
FIREFIGHTERS	-3.3%	-2.3%	1.5%	-4.1%	3.5%	0.0%			0.6%	(35,642,241)
HIGHWAY PATROL	-3.1%	-2.4%	1.5%	-4.0%	3.5%	0.0%			0.6%	(21,576,696)
GAME WARDENS	-3.5%	-2.3%	1.7%	-4.2%	3.6%	0.0%			0.6%	(11,301,824)
JUDGES	-3.4%	-2.5%	1.5%	-4.4%	3.6%	0.3%			0.5%	(12,109,984)
VOL FIREFIGHTERS	-3.7%	-2.8%	1.1%	-5.4%	2.7%	2.4%			0.4%	(5,545,561)
TOTAL	**-3.2%**	**-2.4%**	**1.6%**	**-4.1%**	**3.5%**	**-0.1%**	**0.0%**	**0.1%**	**0.6%**	**(1,699,120,225)**

Allocations During Fiscal Year

MDEP	**MTIP**	**MPEP**	**Total Equity**	**RFBP**	**Real Estate**
($16,135,000)	$54,205,000	$135,530,000	$173,600,000	($181,630,000)	$72,930,000

Net New Investments for Fiscal Year → **$64,900,000**

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: Jon Shoen, Portfolio Manager – Alternative Investments

Date: August 11, 2009

Subject: Montana Private Equity Pool [MPEP]

Attached to this memo are the following reports:

(i) **Private Equity Monthly Cash Flow Trends – Graph:**
Summary of cash distributions, capital calls, and net cash flow changes.

(ii) **Private Edge – Table: Performance Attribution by Strategy.**
Summary of investment gains, investment multiple and net IRR by strategy.

(iii) **Private Edge - Graph: Strategy Total Exposure by Market Value & Remaining Commitments**. Summary of total market value of invested capital plus future capital commitments by investment strategy as of 03/31/09.

(iv) **Private Edge - Graph: Investment Geography Exposure by Market Value & Remaining Commitments**. Summary of total market value of invested capital plus future capital commitments by geography as of 03/31/09.

(v) **Private Edge - Table: LP's by Family of Funds All Investments.**
Listing of individual funds and their reported values and Investment performance from inception to 03/31/09.

(vi) **Private Equity Pool Holdings**.
Portfolio fund holdings by shares, book value and cash flow adjusted market values as of 06/30/09.

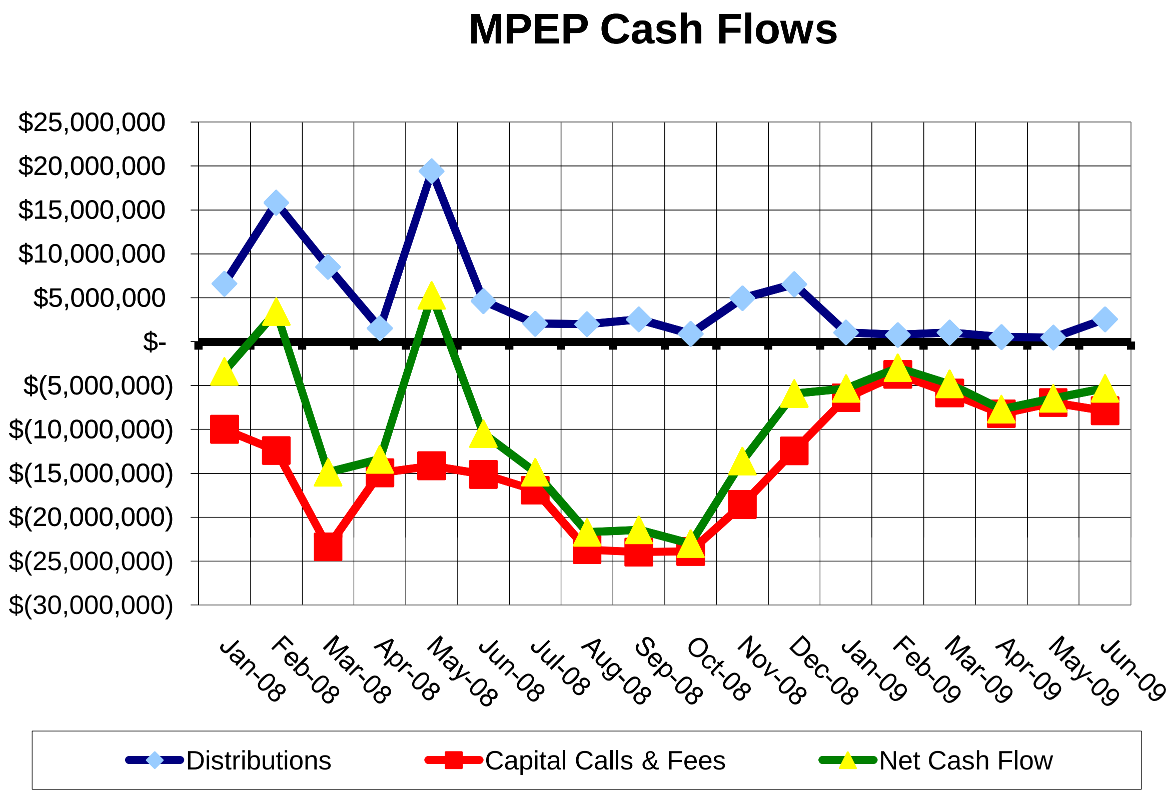
(vii) **New Commitments**. The table below summarizes the investment decisions made by Staff since the last Board meeting of 05/12/09. The investment briefs summarizing these funds and the general partners follow.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Opus Capital Venture Partners VI, L.P.	2009	Venture - Early	Venture	$7.5 M	06/16/09
Portfolio Advisors Secondary Fund I	2008	Secondary	Secondary	$15.0M	6/18/09
Centerbridge Special Credit Partners, L.P.	2009	Distressed Debt, Non-control	Distressed	$12.5 M	07/01/09
Oaktree Opportunities Fund VIII, L.P.	2009	Distressed Debt, Non-control	Distressed	$10.0M	07/09/09
Total New Commitments				$45.0M	

Montana Private Equity Pool

MPEP Monthly Cash Flow

(January, 2008 through June, 2009)



Montana Board of Investments
Performance Atttibution Analysis
March 31, 2009

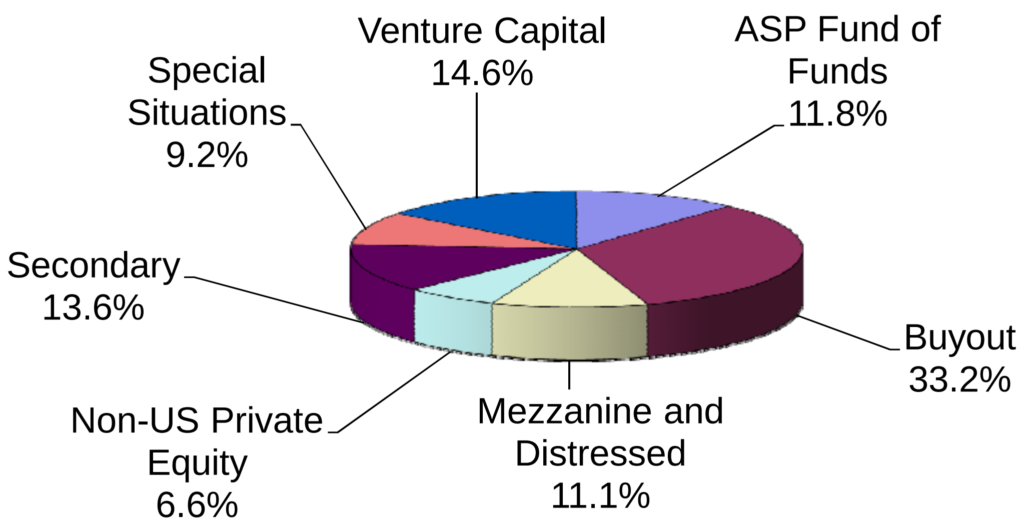
Alternate Investment Sub-Category	Capital Distributed	Ending Market Value	% of Total Market Value	Capital Contributed Net	Since Inception Total Gain*	Investment Multiple	Net IRR
Total	$ 853,192,896	$ 644,549,633	100%	$ 1,211,273,612	$ 286,468,917	1.24	11.13
ASP - Direct VC Funds	$ 51,270,552	$ 33,989,596	5.3%	$ 64,411,538	$ 20,848,610	1.32	15.16
ASP - Secondary Funds	$ 29,440,650	$ 19,126,644	3.0%	$ 32,375,960	$ 16,191,334	1.50	46.71
ASP - U.S. Partnership Funds	$ 114,443,174	$ 104,400,315	16.2%	$ 177,746,238	$ 41,097,251	1.23	8.32
ASP Non-US Partnership Funds	$ 15,547,760	$ 13,782,630	2.1%	$ 22,969,869	$ 6,360,521	1.28	9.65
Buyout	$ 360,608,607	$ 201,771,816	31.3%	$ 418,364,549	$ 144,015,874	1.34	10.58
Co-Investment	$ 5,522,343	$ 18,781,907	2.9%	$ 30,384,225	$ (6,079,975)	0.80	-14.10
Distressed	$ 121,767,230	$ 53,789,883	8.3%	$ 155,134,311	$ 20,422,802	1.13	32.96
Mezzanine	$ 6,414,612	$ 17,815,332	2.8%	$ 17,380,791	$ 6,849,153	1.39	12.69
Non-US Private Equity	$ 39,632,289	$ 20,478,106	3.2%	$ 52,607,673	$ 7,502,722	1.14	7.31
Secondary	$ 61,900,598	$ 56,759,971	8.8%	$ 100,683,389	$ 17,977,180	1.18	11.28
Special Situations	$ 18,865,723	$ 66,624,960	10.3%	$ 83,332,950	$ 2,157,733	1.03	1.76
Venture Capital	$ 27,779,360	$ 37,228,473	5.8%	$ 55,882,118	$ 9,125,715	1.16	17.83

***Total Gain = Capital Distributed + Ending Market Value - Capital Contributed Net**

Montana Private Equity Pool

Strategy Total Exposure by Market Value & Remaining Commitments

(since inception through March 31, 2009)

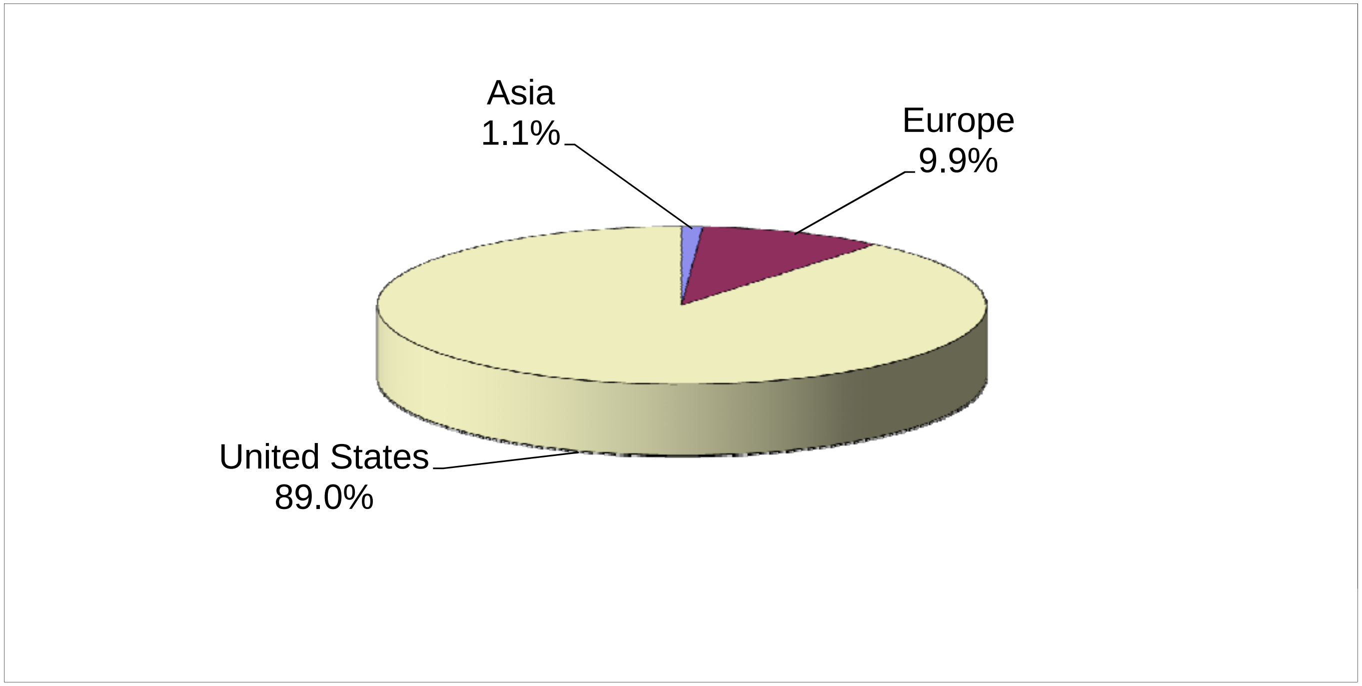


Strategy	Remaining Commitments	Market Value	Total Exposure	Percentage
ASP Fund of Funds	$ 28,420,982	$ 104,400,315	$ 132,821,297	11.8%
Buyout	$ 160,351,980	$ 213,475,482	$ 373,827,462	33.2%
Mezzanine and Distressed	$ 54,115,689	$ 71,605,215	$ 125,720,904	11.1%
Non-US Private Equity	$ 33,421,758	$ 41,338,977	$ 74,760,735	6.6%
Secondary	$ 76,992,227	$ 75,886,615	$ 152,878,842	13.6%
Special Situations	$ 36,894,532	$ 66,624,960	$ 103,519,492	9.2%
Venture Capital	$ 92,851,806	$ 71,218,069	$ 164,069,875	14.6%
Total	$ 483,048,973	$ 644,549,633	$ 1,127,598,607	100.0%

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through March 31, 2009)



Strategy	Remaining Commitments	Market Value	Total Exposure	Percentage
Asia	$ 11,158,726	$ 1,386,599	$ 12,545,325	1.1%
Europe	$ 52,319,863	$ 58,953,109	$ 111,272,972	9.9%
United States	$ 419,570,384	$ 584,209,926	$ 1,003,780,310	89.0%
Total	$ 483,048,973	$ 644,549,633	$ 1,127,598,607	100.0%

Montana Board of Investments
LP's by Family of Funds
All Investments
As of March 31, 2009

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
		Since Inception									
LP's By Family of Funds (Active)											
Total - Active Investments		**1,661,386,033**	**1,132,139,005**	**66,378,367**	**483,048,974**	**72.14**	**818,027,755**	**644,549,633**	**10.21**	**1.22**	**1,127,598,607**
Adams Street Partners		327,129,264	273,555,023	23,948,583	39,796,934	90.94	210,702,136	171,299,185	11.66	1.28	211,096,119
Adams Street Partners Fund - U.S.		94,000,000	68,600,428	4,205,072	21,194,500	77.45	20,074,895	55,285,832	1.52	1.04	76,480,332
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000	27,877,734	1,855,266	4,267,000	87.45	12,206,907	22,155,022	5.56	1.16	26,422,022
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000	15,040,000	900,000	4,060,000	79.70	4,301,402	12,431,604	2.14	1.05	16,491,604
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000	10,837,383	607,617	3,555,000	76.30	2,193,173	8,748,071	(2.13)	0.96	12,303,071
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000	14,845,311	842,189	9,312,500	62.75	1,373,413	11,951,135	(8.58)	0.85	21,263,635
Adams Street Partners Fund - Non-U.S.		16,000,000	12,741,017	682,983	2,576,000	83.90	5,851,419	9,105,394	5.45	1.11	11,681,394
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000	5,453,879	312,121	234,000	96.10	4,309,155	3,637,342	13.16	1.38	3,871,342
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000	3,894,639	205,861	899,500	82.01	1,128,045	2,974,825	0.03	1.00	3,874,325
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000	3,392,499	165,001	1,442,500	71.15	414,219	2,493,227	(11.82)	0.82	3,935,727
Brinson Partnership Trust - Non-U.S		9,809,483	9,203,695	960,428	605,788	103.62	11,025,398	4,766,420	13.25	1.55	5,372,208
Brinson Non-U.S. Trust-1999 Primary Fun	1999	1,524,853	1,405,782	149,296	119,071	101.98	2,126,897	411,072	11.15	1.63	530,143
Brinson Non-U.S. Trust-2000 Primary Fun	2000	1,815,207	1,815,207	177,724	0	109.79	2,469,095	770,806	12.53	1.63	770,806
Brinson Non-U.S. Trust-2001 Primary Fun	2001	1,341,612	1,341,612	131,355	0	109.79	1,764,720	499,920	12.27	1.54	499,920
Brinson Non-U.S. Trust-2002 Primary Fun	2002	1,696,452	1,696,452	166,096	0	109.79	1,185,275	1,182,439	7.85	1.27	1,182,439
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308	555,856	62,398	81,452	97.01	1,329,057	89,184	26.83	2.29	170,636
Brinson Non-U.S. Trust-2003 Primary Fun	2003	1,896,438	1,659,040	185,677	237,398	97.27	1,830,466	1,185,721	21.30	1.64	1,423,119
Brinson Non-U.S. Trust-2004 Primary Fun	2004	897,613	729,746	87,883	167,867	91.09	319,888	627,278	6.13	1.16	795,145
Brinson Partnership Trust - U.S.		103,319,781	95,852,380	9,187,772	7,467,401	101.67	91,527,355	51,300,872	9.69	1.36	58,768,273
Brinson Partners - 1996 Fund	1996	3,950,740	3,708,316	438,275	242,424	104.96	6,824,237	243,916	15.03	1.70	486,340
Brinson Partners - 1997 Primary Fund	1997	3,554,935	3,554,935	389,975	0	110.97	14,133,470	445,306	71.48	3.70	445,306
Brinson Partners - 1998 Primary Fund	1998	7,161,019	7,122,251	785,936	38,768	110.43	10,085,017	926,013	6.82	1.39	964,781
Brinson Partners - 1998 Secondary Fund	1998	266,625	266,625	29,197	0	110.95	181,932	12,171	(7.35)	0.66	12,171
Brinson Partners - 1999 Primary Fund	1999	8,346,761	7,832,823	894,202	513,938	104.56	7,563,083	2,025,665	1.86	1.10	2,539,603
Brinson Partners - 2000 Primary Fund	2000	20,064,960	19,079,570	1,949,402	985,390	104.80	17,497,812	8,922,346	5.06	1.26	9,907,736
Brinson Partners - 2001 Primary Fund	2001	15,496,322	14,830,208	1,261,225	666,114	103.84	7,585,806	11,010,205	3.83	1.16	11,676,319
Brinson Partners - 2002 Primary Fund	2002	16,297,079	15,630,182	1,312,802	666,897	103.96	13,252,344	8,843,619	9.60	1.30	9,510,516
Brinson Partners - 2002 Secondary Fund	2002	2,608,820	2,498,592	203,789	110,228	103.59	3,065,907	1,300,433	14.02	1.62	1,410,661
Brinson Partners - 2003 Primary Fund	2003	15,589,100	13,272,620	1,222,657	2,316,480	92.98	7,989,926	10,314,462	8.59	1.26	12,630,942
Brinson Partners - 2003 Secondary Fund	2003	1,151,151	1,020,460	80,750	130,691	95.66	1,790,278	883,421	27.92	2.43	1,014,112
Brinson Partners - 2004 Primary Fund	2004	8,832,269	7,035,798	619,562	1,796,471	86.67	1,557,543	6,373,315	1.33	1.04	8,169,786
Remaining ASP Funds		104,000,000	87,157,503	8,912,328	7,953,245	92.37	82,223,069	50,840,667	21.91	1.39	58,793,912
Adams Street Global Oppty Secondary Fu	2004	25,000,000	18,245,735	441,765	6,312,500	74.75	5,256,378	16,683,268	10.97	1.17	22,995,768
Adams Street V, L.P.	2003	40,000,000	35,456,521	3,943,479	600,000	98.50	9,881,519	25,702,335	(3.34)	0.90	26,302,335
Adams Street VPAF Fund II	1990	4,000,000	3,621,830	378,170	0	100.00	7,879,041	9,636	25.25	1.97	9,636
Brinson Venture Capital Fund III, L.P.	1993	5,000,000	4,045,656	954,344	0	100.00	15,622,448	13,458	40.47	3.13	13,458
Brinson VPF III	1993	5,000,000	4,488,559	522,979	0	100.23	14,899,918	144,301	29.47	3.00	144,301
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	191,250	0	100.23	8,182,793	144,709	41.52	1.66	144,709
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,634,305	13,458	97.02	2.44	1,054,203
BVCF IV, L.P.	1999	15,000,000	12,876,179	2,123,821	0	100.00	10,866,667	8,129,502	3.67	1.27	8,129,502
Affinity Asia Capital		15,000,000	3,062,832	778,442	11,158,726	25.61	0	1,386,599	(56.75)	0.36	12,545,325
Affinity Asia Pacific Fund III, LP	2006	15,000,000	3,062,832	778,442	11,158,726	25.61	0	1,386,599	(56.75)	0.36	12,545,325

Montana Board of Investments
LP's by Family of Funds
All Investments
As of March 31, 2009

		Since Inception									
Description	**Vintage Year**	**Commitment**	**Capital Contributed for Investment**	**Management Fees**	**Remaining Commitment**	**% Capital Contributed/ Committed**	**Capital Distributed**	**Ending Market Value**	**Net IRR**	**Investment Multiple**	**Total Exposure**
Arclight Energy Partners		50,000,000	42,432,622	1,629,981	6,164,879	88.13	18,775,245	33,760,529	9.99	1.19	39,925,408
Arclight Energy Partners Fund II	2004	25,000,000	20,721,278	973,284	3,405,720	86.78	17,277,576	12,329,115	15.94	1.36	15,734,835
ArcLight Energy Partners Fund III, LP	2006	25,000,000	21,711,344	656,697	2,759,159	89.47	1,497,669	21,431,414	1.47	1.03	24,190,573
Austin Ventures		500,000	424,416	129,154	1	110.71	1,216,717	15,776	20.57	2.23	15,777
Austin Ventures III	1991	500,000	424,416	129,154	1	110.71	1,216,717	15,776	20.57	2.23	15,777
Avenue Investments		35,000,000	22,903,575	1,000,736	11,095,689	68.30	80,585	14,262,830	(38.26)	0.60	25,358,519
Avenue Special Situations Fund V, LP	2007	35,000,000	22,903,575	1,000,736	11,095,689	68.30	80,585	14,262,830	(38.26)	0.60	25,358,519
Buerk Dale Victor		15,000,000	5,763,687	836,313	8,400,000	44.00	0	5,710,813	(12.90)	0.87	14,110,813
Buerk Dale Victor Fund II, L.P.	2007	15,000,000	5,763,687	836,313	8,400,000	44.00	0	5,710,813	(12.90)	0.87	14,110,813
Carlyle Partners		60,000,000	43,084,611	2,671,909	14,243,480	76.26	3,487,514	37,504,502	(5.12)	0.90	51,747,982
Carlyle Partners IV, L.P.	2005	35,000,000	31,329,413	1,040,763	2,629,824	92.49	3,345,190	26,538,804	(3.34)	0.92	29,168,628
Carlyle Venture Partners III, LP	2006	25,000,000	11,755,198	1,631,146	11,613,656	53.55	142,324	10,965,698	(11.96)	0.83	22,579,354
CCMP Associates		30,000,000	7,891,940	1,029,689	21,078,371	29.74	73,524	6,565,540	(15.14)	0.74	27,643,911
CCMP Capital Investors II, L.P.	2006	30,000,000	7,891,940	1,029,689	21,078,371	29.74	73,524	6,565,540	(15.14)	0.74	27,643,911
First Reserve		55,000,000	28,255,007	529,523	26,215,471	52.34	90,478	24,387,000	(15.35)	0.85	50,602,471
First Reserve Fund XI, L.P.	2006	30,000,000	21,116,341	529,523	8,354,137	72.15	70,853	18,777,000	(11.50)	0.87	27,131,137
First Reserve Fund XII, L.P.	2008	25,000,000	7,138,666	0	17,861,334	28.55	19,625	5,610,000	(23.98)	0.79	23,471,334
HarbourVest		61,823,772	9,974,782	141,273	51,707,717	16.36	0	7,799,152	(26.46)	0.77	59,506,869
Dover Street VII L.P.	2008	20,000,000	3,355,416	58,109	16,586,475	17.07	0	3,286,859	(3.91)	0.96	19,873,334
HarbourVest Direct 2007 Fund	2007	20,000,000	6,441,049	58,951	13,500,000	32.50	0	4,377,746	(34.44)	0.67	17,877,746
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	178,317	24,213	21,621,242	0.93	0	134,547	(92.99)	0.66	21,755,789
Hellman & Friedman		25,000,000	15,377,448	95,699	9,526,853	61.89	98,100	13,342,071	(10.32)	0.87	22,868,924
Hellman & Friedman Capital Partners VI	2006	25,000,000	15,377,448	95,699	9,526,853	61.89	98,100	13,342,071	(10.32)	0.87	22,868,924
Highway 12 Ventures		10,000,000	2,668,226	589,291	6,742,483	32.58	0	2,206,992	(26.09)	0.68	8,949,475
Highway 12 Venture Fund II, L.P.	2006	10,000,000	2,668,226	589,291	6,742,483	32.58	0	2,206,992	(26.09)	0.68	8,949,475
Industry Ventures		10,000,000	9,646,154	337,500	16,346	99.84	1,003,006	7,568,484	(11.55)	0.86	7,584,830
Industry Ventures Fund IV, L.P.	2005	10,000,000	9,646,154	337,500	16,346	99.84	1,003,006	7,568,484	(11.55)	0.86	7,584,830
JCF		25,000,000	23,803,829	527,875	672,082	97.33	265,646	7,078,241	(65.20)	0.30	7,750,323
J.C. Flowers II L.P.	2006	25,000,000	23,803,829	527,875	672,082	97.33	265,646	7,078,241	(65.20)	0.30	7,750,323
Joseph Littlejohn & Levy		25,000,000	16,914,644	873,523	7,211,833	71.15	4,246,917	13,399,748	(0.49)	0.99	20,611,581
JLL Partners Fund V, L.P.	2005	25,000,000	16,914,644	873,523	7,211,833	71.15	4,246,917	13,399,748	(0.49)	0.99	20,611,581
KKR		175,000,000	175,000,000	9,616,966	0	105.50	315,631,784	19,682,063	12.02	1.82	19,682,063
KKR 1987 Fund - Montana	1987	25,000,000	25,000,000	2,101,164	0	108.40	55,877,291	194,757	8.88	2.07	194,757
KKR 1993 Fund - Montana	1993	25,000,000	25,000,000	1,002,236	0	104.01	48,782,037	68,014	17.78	1.88	68,014
KKR 1996 Fund - Montana	1997	100,000,000	100,000,000	4,689,549	0	104.69	171,344,898	8,560,835	13.07	1.72	8,560,835
KKR European Fund - Montana	1999	25,000,000	25,000,000	1,824,017	0	107.30	39,627,558	10,858,457	18.13	1.88	10,858,457
Lehman Brothers		50,000,000	26,672,637	1,114,742	22,212,621	55.57	5,522,343	17,681,861	(11.42)	0.84	39,894,482
NB Co-investment Partners, L.P.	2006	35,000,000	23,200,945	683,280	11,115,775	68.24	5,522,343	14,404,161	(10.50)	0.83	25,519,936
Trilantic Capital Partners IV L.P.	2007	15,000,000	3,471,692	431,462	11,096,846	26.02	0	3,277,700	(22.93)	0.84	14,374,546
Lexington Capital Partners		140,000,000	84,001,895	3,284,315	52,713,790	62.35	60,897,592	45,904,628	13.02	1.22	98,618,418
Lexington Capital Partners V, L.P.	2001	50,000,000	47,029,313	2,009,106	961,581	98.08	53,164,908	20,488,658	19.89	1.50	21,450,239
Lexington Capital Partners VI-B, L.P.	2005	50,000,000	36,236,405	1,261,717	12,501,878	75.00	7,732,684	24,630,736	(11.56)	0.86	37,132,614
Lexington Capital Partners VII, L.P.	2009	30,000,000	0	0	30,000,000	0.00	0	0	N/A	0.00	30,000,000
Lexington Middle Market Investors II, LP	2008	10,000,000	736,177	13,492	9,250,331	7.50	0	785,234	7.42	1.05	10,035,565
Madison Dearborn Capital Partners		75,000,000	46,030,721	1,894,708	27,074,571	63.90	18,223,907	36,890,338	6.39	1.15	63,964,909
Madison Dearborn Capital Partners IV, LP	2001	25,000,000	23,804,569	1,195,431	0	100.00	17,732,300	20,704,650	14.76	1.54	20,704,650
Madison Dearborn Capital Partners V, LP	2006	25,000,000	19,470,253	637,807	4,891,940	80.43	491,607	13,790,246	(17.71)	0.71	18,682,186

Montana Board of Investments
LP's by Family of Funds
All Investments
As of March 31, 2009

Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	Net IRR	Investment Multiple	Total Exposure
					Since Inception						
Madison Dearborn Capital Partners VI, LP	2008	25,000,000	2,755,899	61,470	22,182,631	11.27	0	2,395,442	(14.11)	0.85	24,578,073
Matlin Patterson		30,000,000	15,485,321	744,679	13,770,000	54.10	1,489	8,134,448	(54.07)	0.50	21,904,448
MatlinPatterson Global Opps. Ptnrs. III	2007	30,000,000	15,485,321	744,679	13,770,000	54.10	1,489	8,134,448	(54.07)	0.50	21,904,448
MHR Institutional Partners		25,000,000	14,702,777	797,223	9,500,000	62.00	130,728	10,310,874	(27.39)	0.67	19,810,874
MHR Institutional Partners III, L.P.	2006	25,000,000	14,702,777	797,223	9,500,000	62.00	130,728	10,310,874	(27.39)	0.67	19,810,874
Oak Hill Capital Partners		45,000,000	27,442,710	1,608,288	15,949,002	64.56	2,202,864	28,172,214	2.47	1.05	44,121,216
Oak Hill Capital Partners II, L.P.	2005	25,000,000	22,258,852	1,185,353	1,555,795	93.78	2,158,797	23,728,437	4.99	1.10	25,284,232
Oak Hill Capital Partners III, L.P.	2008	20,000,000	5,183,858	422,934	14,393,208	28.03	44,067	4,443,777	(19.84)	0.80	18,836,985
Oaktree Capital Partners		110,000,000	97,094,343	2,405,657	10,500,000	90.45	121,554,428	21,081,731	43.60	1.43	31,581,731
OCM Opportunities Fund IVb, L.P.	2002	75,000,000	73,094,883	1,905,117	0	100.00	121,554,428	255,507	44.93	1.62	255,507
OCM Opportunities Fund VIIb, L.P.	2008	35,000,000	23,999,460	500,540	10,500,000	70.00	0	20,826,224	(24.11)	0.85	31,326,224
Odyssey Partners		45,000,000	22,205,659	1,922,592	20,871,749	53.62	20,674,290	18,127,558	30.71	1.61	38,999,307
Odyssey Investment Partners IV, L.P.	2008	20,000,000	49,992	210,145	19,739,863	1.30	60	(11,781)	N/A	(0.05)	19,728,082
Odyssey Partners Fund III, L.P.	2004	25,000,000	22,155,667	1,712,447	1,131,886	95.47	20,674,230	18,139,339	31.12	1.63	19,271,225
Performance Venture Capital		25,000,000	1,133,000	199,452	23,667,548	5.33	0	1,060,352	(29.44)	0.80	24,727,900
Performance Venture Capital II	2008	25,000,000	1,133,000	199,452	23,667,548	5.33	0	1,060,352	(29.44)	0.80	24,727,900
Portfolio Advisors		55,000,000	25,273,836	1,228,263	28,497,901	48.19	1,252,597	21,541,171	(11.91)	0.86	50,039,072
Port. Advisors Fund IV (B), L.P.	2006	30,000,000	16,543,261	695,313	12,761,426	57.46	1,096,907	14,983,462	(4.74)	0.93	27,744,888
Port. Advisors Fund IV (E), L.P.	2006	15,000,000	6,194,771	489,200	8,316,029	44.56	4,731	4,418,032	(39.06)	0.66	12,734,061
Port. Advisors Fund V (B), L.P.	2008	10,000,000	2,535,804	43,750	7,420,446	25.80	150,959	2,139,677	(11.57)	0.89	9,560,123
Quintana Energy Partners		15,000,000	9,652,607	833,211	4,514,182	69.91	0	8,477,431	(12.40)	0.81	12,991,613
Quintana Energy Partners Fund I, L.P.	2006	15,000,000	9,652,607	833,211	4,514,182	69.91	0	8,477,431	(12.40)	0.81	12,991,613
Siguler Guff & Company		25,000,000	9,913,871	330,000	14,756,129	40.98	283,727	8,982,205	(9.86)	0.90	23,738,334
Siguler Guff Small Buyout Opportunities	2007	25,000,000	9,913,871	330,000	14,756,129	40.98	283,727	8,982,205	(9.86)	0.90	23,738,334
Sprout Capital Partners		500,000	416,999	122,671	0	107.93	1,071,930	8,368	17.71	2.00	8,368
Sprout Capital VI	1990	500,000	416,999	122,671	0	107.93	1,071,930	8,368	17.71	2.00	8,368
Summit Ventures		500,000	388,926	109,565	25,003	99.70	1,255,067	2,789	28.32	2.52	27,792
Summit Ventures II, L.P.	1988	500,000	388,926	109,565	25,003	99.70	1,255,067	2,789	28.32	2.52	27,792
Terra Firma Capital Partners		25,432,997	13,878,006	1,380,406	10,174,585	59.99	0	3,815,018	(72.89)	0.25	13,989,603
Terra Firma Capital Partners III, LP	2007	25,432,997	13,878,006	1,380,406	10,174,585	59.99	0	3,815,018	(72.89)	0.25	13,989,603
Welsh, Carson, Anderson & Stowe		75,500,000	57,086,902	3,666,139	14,791,026	80.47	29,285,141	48,389,123	8.95	1.28	63,180,149
Welsh, Carson, Anderson & Stowe II	1990	500,000	455,663	88,404	0	108.81	689,495	80,979	8.43	1.42	80,979
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	15,106,951	643,049	9,250,000	63.00	2,914,484	17,734,353	10.03	1.31	26,984,353
Welsh, Carson, Anderson & Stowe IX, L.P	2000	25,000,000	21,915,398	1,861,237	1,223,365	95.11	25,681,162	13,284,206	13.43	1.64	14,507,571
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	19,608,890	1,073,449	4,317,661	82.73	0	17,289,585	(8.72)	0.84	21,607,246
LP's by Family of Funds (Inactive)											
Total - Inactive Investments		**11,918,000**	**11,577,444**	**1,178,796**	**0**	**107.03**	**35,165,141**	**0**	**21.42**	**2.76**	**0**
Total - All Investments		**1,673,304,033**	**1,143,716,449**	**67,557,164**	**483,048,974**	**72.39**	**853,192,896**	**644,549,633**	**11.13**	**1.24**	**1,127,598,607**

6/30/2009 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
ADAMS ST PART FUND 2003 US	14,231,349	14,231,349	12,751,602	1.90%
ADAMS ST PART FUND 2004 NON US	3,719,468	3,719,468	2,974,827	0.44%
ADAMS ST PART FUND 2004 US	10,630,422	10,630,422	9,055,568	1.35%
ADAMS ST PARTNERS FUND 2002 US	24,666,518	24,666,518	22,665,027	3.38%
ADAMS STR GLOBAL OPPORTUNITES	16,587,920	16,587,920	16,683,267	2.48%
ADAMS STREET FUND V	31,428,534	31,428,534	25,702,349	3.83%
ADAMS STREET PARTNERSHIP	3,376,621	3,376,621	2,493,226	0.37%
ADAMS STREET PARTNERSHIP FUND	15,516,434	15,516,434	12,563,641	1.87%
ADAMS STREET PTNRSHP FND	3,943,307	3,943,307	3,637,342	0.54%
AUSTIN VENTURES III	214,255	214,255	15,704	0.00%
BRIN NON US TRUST 2001 PRIM	594,076	594,076	499,920	0.07%
BRIN VEN CAP III SECONDARY	1	1	13,458	0.00%
BRIN VEN PART III SECONDARY	1,192,322	1,192,322	144,709	0.02%
BRINSON NON U.S. TRUST 2000	832,015	832,015	770,806	0.11%
BRINSON NON US 1999 PRIMARY FD	279,000	279,000	411,072	0.06%
BRINSON NON US PARTNERSHIP FND	1,090,463	1,090,463	1,182,439	0.18%
BRINSON NON US PARTNERSHIP TR	656,323	656,323	627,278	0.09%
BRINSON NON US TRUST 2002 SEC	204,453	204,453	134,870	0.02%
BRINSON NON US TRUST 2003 PRIM	785,125	785,125	1,185,721	0.18%
BRINSON PART FUND TRUST 1996	1,347,645	1,347,645	243,916	0.04%
BRINSON PARTNERSHIP	11,014,572	11,014,572	8,153,008	1.21%
BRINSON PARTNERSHIP	6,533,913	6,533,913	6,588,151	0.98%
BRINSON PARTNERSHIP FUND	336,495	336,495	799,494	0.12%
BRINSON PARTNERSHIP FUND TR	9,712,510	9,915,446	8,997,358	1.34%
BRINSON PARTNERSHIP FUND TRUST	1,255,301	1,255,301	352,595	0.05%
BRINSON PARTNERSHIP FUND TRUST	2,974,620	2,974,620	926,014	0.14%
BRINSON PARTNERSHIP FUND TRUST	142,679	142,679	12,171	0.00%
BRINSON PARTNERSHIP FUND TRUST	4,580,647	4,580,647	2,025,663	0.30%
BRINSON PARTNERSHIP FUND TRUST	11,772,363	11,772,363	11,010,208	1.64%
BRINSON PARTNERSHIP FUND TRUST	10,449,535	10,449,535	10,314,464	1.54%
BRINSON PARTNERSHIP FUND TRUST	1,431,358	1,431,358	1,300,433	0.19%
BRINSON VEN CAP FUND IV	6,052,410	6,052,410	8,129,500	1.21%
BRINSON VENTURE CAPITAL FD III	1	1	13,458	0.00%
BRINSON VENTURE PARTNR FD III	960,856	960,856	144,301	0.02%
SPROUT CAPITAL VI	244,756	244,756	8,369	0.00%
SUMMIT VENTURE II	128,881	128,881	2,789	0.00%
VENTURE PARTNERSHIP ACQUIST	190,080	190,080	10,591	0.00%
WCAS CAPITAL PARTNERS II	261,141	261,141	76,320	0.01%
ADAMS STREET Total	**199,338,369**	**199,541,306**	**172,621,631**	**25.71%**
AFFINITY ASIA PACIFIC FUND III	3,075,440	3,075,440	1,386,599	0.21%
AFFINITY Total	**3,075,440**	**3,075,440**	**1,386,599**	**0.21%**
ARCLIGHT ENERGY PTNRS FUND III	21,177,148	21,177,148	21,094,811	3.14%
ARCLIGHT ENRGY PARTNERS FD II	12,775,969	12,775,969	12,329,117	1.84%
ARCLIGHT Total	**33,953,117**	**33,953,117**	**33,423,928**	**4.98%**
AVENUE SPECIAL SITUATIONS V	27,943,678	27,943,678	19,512,819	2.91%
AVENUE CAPITAL Total	**27,943,678**	**27,943,678**	**19,512,819**	**2.91%**
BUERK DALE VICOTR II L.P.	6,600,000	6,600,000	5,617,062	0.84%
BUERK DALE. Total	**6,600,000**	**6,600,000**	**5,617,062**	**0.84%**
CARLYLE PARTNERS IV, L.P.	30,361,373	30,361,373	26,872,244	4.00%
CARLYLE VENTURE PARTNERS III	12,202,101	12,202,101	11,292,349	1.68%
CARLYLE Total	**42,563,474**	**42,563,474**	**38,164,593**	**5.68%**
CCMP II	7,944,068	7,944,068	6,565,542	0.98%
CCMP Total	**7,944,068**	**7,944,068**	**6,565,542**	**0.98%**

6/30/2009 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
FIRST RESERVE FUND XII	7,138,666	7,138,666	5,609,999	0.84%
FIRST RESERVE XI	22,472,760	22,472,760	20,042,601	2.98%
FIRST RESERVE Total	**29,611,426**	**29,611,426**	**25,652,600**	**3.82%**
DOVER STREET	3,800,000	3,800,000	3,668,425	0.55%
HARBOURVEST 2007 DIRECT	6,591,049	6,591,049	4,527,747	0.67%
HARBOURVEST INTL PVT EQTY VI	145,257	187,382	142,142	0.02%
HARBOUR VEST Total	**10,536,306**	**10,578,431**	**8,338,314**	**1.24%**
HFCP VI	15,363,776	15,363,776	13,342,072	1.99%
HELLMAN FRIEDMAN Total	**15,363,776**	**15,363,776**	**13,342,072**	**1.99%**
HIGHWAY 12 VENTURE II	3,428,226	3,428,226	2,966,993	0.44%
HIGHWAY 12 VENTURES Total	**3,428,226**	**3,428,226**	**2,966,993**	**0.44%**
INDUSTRY VENTURES FUND IV	7,758,929	7,758,929	7,365,001	1.10%
INDUSTRY VENTURES Total	**7,758,929**	**7,758,929**	**7,365,001**	**1.10%**
JCF II LP	22,876,381	22,876,381	7,121,852	1.06%
J.C. FLOWERS Total	**22,876,381**	**22,876,381**	**7,121,852**	**1.06%**
JLL PARTNERS FUND V LP	18,832,481	18,832,481	17,566,411	2.62%
JLL PARTNERS Total	**18,832,481**	**18,832,481**	**17,566,411**	**2.62%**
KKR 1987	2,021,493	2,021,493	194,757	0.03%
KKR 1993	1,285,300	1,285,300	68,014	0.01%
KKR 1996	18,967,917	18,967,917	8,560,828	1.27%
KKR EUROPEAN FUND	9,053,964	9,053,964	10,858,455	1.62%
KKR Total	**31,328,674**	**31,328,674**	**19,682,054**	**2.93%**
LEXINGTON CAPITAL PARTNERS VIB	33,869,783	33,869,783	25,986,218	3.87%
LEXINGTON CAPITAL PTRS V LP	5,200,982	5,200,982	20,303,125	3.02%
LEXINGTON MID MARKET II LP	770,959	770,959	820,016	0.12%
LEXINGTON Total	**39,841,724**	**39,841,724**	**47,109,359**	**7.02%**
MADISON DEARBORN CAP PART IV	18,712,182	18,712,182	20,704,636	3.08%
MADISON DEARBORN CAP PTNRS VI	2,721,620	2,721,620	2,361,163	0.35%
MDCP V	19,083,104	19,083,104	13,790,253	2.05%
MADISON DEARBORN Total	**40,516,906**	**40,516,906**	**36,856,052**	**5.49%**
MATLIN PATTERSON GLB OPP	17,285,321	17,285,321	9,934,444	1.48%
MATLIN PATTERSON Total	**17,285,321**	**17,285,321**	**9,934,444**	**1.48%**
MHR INSTITUTIONAL III	14,438,692	14,438,692	11,632,330	1.73%
MHR INSTITUTIONAL Total	**14,438,692**	**14,438,692**	**11,632,330**	**1.73%**
NB COINVEST	17,796,240	17,796,240	14,404,170	2.15%
NB COINVEST Total	**17,796,240**	**17,796,240**	**14,404,170**	**2.15%**
OAK HILL CAPITAL PARTNERS II	21,746,480	21,746,480	23,498,529	3.50%
OAK HILL III	5,101,234	5,101,234	4,443,777	0.66%
OAK HILL Total	**26,847,715**	**26,847,715**	**27,942,306**	**4.16%**
OAKTREE CPTL MGMT OPPTY FD VII	25,749,460	25,749,460	22,576,225	3.36%
OCM OPPORTUNITIES FD IVB LP	1	1	255,507	0.04%
OAK TREE Total	**25,749,461**	**25,749,461**	**22,831,732**	**3.40%**
ODYSSEY INVESTMENT PTNRS IV	49,992	49,992	0	0.00%
ODYSSEY INVT PARTN FD III	17,292,180	17,292,180	18,139,341	2.70%
ODYSSEY INVESTMENTS Total	**17,342,172**	**17,342,172**	**18,139,341**	**2.70%**
PERFORMANCE VENTURE CAPITAL II	1,133,000	1,133,000	1,060,352	0.16%
PERFORMANCE EQUITY MANA(	**1,133,000**	**1,133,000**	**1,060,352**	**0.16%**
PORTFOLIO ADVISORS FUND V(B)	2,358,904	2,358,904	2,264,477	0.34%

6/30/2009 Private Equity Pool Holdings

Fund Name	Shares	Book Value	Market Value	%
PORTFOLIO ADVISORS IV (B)	16,339,809	16,339,809	15,545,515	2.32%
PORTFOLIO ADVISORS IV (E)	6,343,851	6,343,851	4,546,663	0.68%
PORTFOLIO ADVISORS Total	**25,042,564**	**25,042,564**	**22,356,655**	**3.33%**
QUINTANA ENERGY PARTNERS TE LP	9,946,620	9,946,620	8,477,435	1.26%
QUINTANA ENERGY Total	**9,946,620**	**9,946,620**	**8,477,435**	**1.26%**
SIGULER GUFF SM BUYOUT	10,550,520	10,550,520	9,482,206	1.41%
SIGULER GUFF Total	**10,550,520**	**10,550,520**	**9,482,206**	**1.41%**
TERRA FIRMA III LIMITED PART	9,864,022	13,886,770	4,056,428	0.60%
TERRA FIRMA Total	**9,864,022**	**13,886,770**	**4,056,428**	**0.60%**
TRILANTIC CAPITAL PARTNERS IV	3,471,692	3,471,692	3,276,999	0.49%
TRILANTIC CAPITAL PARTNERS	**3,471,692**	**3,471,692**	**3,276,999**	**0.49%**
WCAS CAPITAL PARTNERS FUND IV	15,396,215	15,396,215	17,734,346	2.64%
WCAS IX	7,969,555	7,969,555	13,534,208	2.02%
WCAS X LP	19,926,551	19,926,551	17,789,588	2.65%
WELSH CARSON Total	**43,292,321**	**43,292,321**	**49,058,142**	**7.31%**
STATE STREET SPIF ALT INV	43,177	5,478,742	5,510,897	0.82%
STATE STREET Total	**43,177**	**5,478,742**	**5,510,897**	**0.82%**
Grand Total	**764,316,491**	**774,019,864**	**671,456,318**	**100.00%**

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: Jon Shoen, Portfolio Manager – Alternative Investments

Date: August 11, 2009

Subject: Montana Real Estate Pool [MTRP]

Attached to this memo are the following reports:

(i) **Private Edge - Table: Detailed Portfolio Performance.** Fund manager time weighted returns, net and gross, for various time horizons as of 03/31/09.

(ii) **Private Edge - Graph: Strategy Total Exposure by Market Value & Remaining Commitments.** Summary of total market value of invested capital plus future capital commitments by investment strategy as of 03/31/09.

(iii) **Private Edge - Graph: Portfolio Characteristics – Geographic Diversification.** Summary of the gross market value of MTRP's share of the partnerships' interest in properties by geography relative to the NCREIF Property Index as of 03/31/09.

(iv) **Private Edge – Graph: Portfolio Characteristics – Property Type Diversification.** Summary of the gross market value of MTRP's share of the partnerships' interests in properties by property type relative to the NCREIF Property Index as of 03/31/09.

(v) **Private Edge - Table: Real Estate Portfolio Status Report.** Summary of the total market value of invested capital plus the future capital commitments by investment strategy as of 03/31/09.

(vi) **Real Estate Pool Holdings.** Summary of all MTRP portfolio fund holdings by shares, book value and cash flow adjusted market values as of 06/30/09.

(vii) **New Commitments**. The table below summarizes the investment decisions made by Staff since the last Board meeting of 05/12/09. The investment briefs summarizing these funds and the general partners follow.

Fund Name	Vintage	Subclass	Sector	Amount	Date
(TA) The Realty Associates Fund IX	2009	Value Add	Real Estate	$15 M	05/07/09

Detailed Portfolio Performance
Time Weighted Returns (Net of Fees)
(as of March 31, 2009)

		Current Quarter		Year to Date		1 - Year		2 - Year		3 - Year		Inception		
	NAV	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**IRR**
Core	**127,988,409**	**-13.81%**	**-13.55%**	**-13.81%**	**-13.55%**	**-22.54%**	**-21.73%**	**-5.91%**	**-4.96%**	**-**	**-**	**-3.45%**	**-2.48%**	**-7.97%**
Clarion Lion Properties Fund	33,270,425	-17.96%	-17.67%	-17.96%	-17.67%	-30.29%	-29.50%	-10.51%	-9.57%	-	-	-7.66%	-6.70%	-9.87%
INVESCO Core Real Estate-USA	38,375,131	-10.03%	-9.81%	-10.03%	-9.81%	-15.79%	-14.98%	-	-	-	-	-9.08%	-8.23%	-7.66%
JP Morgan Strategic Properties Fund	56,342,853	-13.69%	-13.44%	-13.69%	-13.44%	-21.66%	-20.84%	-	-	-	-	-8.38%	-7.43%	-6.82%
Value Added	**97,785,453**	**0.43%**	**1.08%**	**0.43%**	**1.08%**	**-5.53%**	**-3.10%**	**0.76%**	**3.90%**	**-**	**-**	**1.04%**	**5.63%**	**-1.84%**
ABR Chesapeake Fund III	16,109,958	0.68%	1.13%	0.68%	1.13%	-0.79%	1.19%	3.04%	5.92%	-	-	4.02%	7.86%	2.23%
AG Core Plus Realty Fund II	6,095,632	-0.48%	0.13%	-0.48%	0.13%	-17.12%	-14.69%	-	-	-	-	-8.91%	-5.99%	-14.12%
Apollo Real Estate Finance Corp.	4,707,707	6.29%	7.13%	6.29%	7.13%	7.12%	10.94%	9.43%	11.98%	-	-	6.42%	12.71%	5.71%
AREFIN Co-Invest	1,557,763	4.85%	5.02%	4.85%	5.02%	-	-	-	-	-	-	18.47%	19.06%	19.67%
DRA Growth & Income Fund VI	9,238,090	2.09%	3.41%	2.09%	3.41%	-5.91%	-0.29%	-	-	-	-	-2.19%	2.61%	-3.00%
Five Arrows Securities V, L.P.	3,450,934	0.76%	2.73%	0.76%	2.73%	2.59%	13.51%	-	-	-	-	3.45%	12.23%	3.77%
Hudson RE Fund IV Co-Invest	10,156,829	1.01%	1.36%	1.01%	1.36%	-	-	-	-	-	-	2.69%	3.75%	2.53%
Hudson Realty Capital Fund IV	11,900,123	-1.57%	-1.11%	-1.57%	-1.11%	-20.81%	-19.39%	-	-	-	-	-20.81%	-19.39%	-13.59%
Realty Associates Fund VIII	17,653,615	1.20%	1.87%	1.20%	1.87%	-9.58%	-8.20%	-	-	-	-	-1.60%	-0.10%	-4.58%
Strategic Partners Value Enhancement Fund	16,914,801	-2.04%	-1.61%	-2.04%	-1.61%	0.96%	2.79%	5.23%	8.90%	-	-	-0.88%	5.20%	5.25%
Opportunistic	**45,407,195**	**-35.37%**	**-34.38%**	**-35.37%**	**-34.38%**	**-64.61%**	**-62.69%**	**-**	**-**	**-**	**-**	**-49.92%**	**-46.90%**	**-61.75%**
AG Realty Fund VII L.P.	4,511,559	1.87%	3.46%	1.87%	3.46%	-8.70%	-1.01%	-	-	-	-	-10.06%	-1.94%	-15.19%
Beacon Capital Strategic Partners V	7,250,220	-17.54%	-16.52%	-17.54%	-16.52%	-58.76%	-57.08%	-	-	-	-	-45.38%	-43.19%	-50.00%
Carlyle Europe Real Estate Partners III	5,460,211	-7.16%	-5.30%	-7.16%	-5.30%	-42.93%	-38.06%	-	-	-	-	-42.93%	-38.06%	-49.28%
CIM Fund III, L.P.	271,331	-99.73%	-90.65%	-99.73%	-90.65%	-99.86%	-92.33%	-	-	-	-	-99.00%	-78.71%	-99.83%
JER Real Estate Partners - Fund IV	7,890,520	-23.42%	-22.81%	-23.42%	-22.81%	-46.38%	-44.85%	-	-	-	-	-33.76%	-32.28%	-29.32%
Liquid Realty IV[1]	11,679,357	-24.15%	-24.15%	-24.15%	-24.15%	-31.63%	-29.44%	-	-	-	-	-0.68%	7.29%	-30.34%
Macquarie Global Property Fund (Asia)[2]	1	-142.24%	-140.07%	-142.24%	-140.07%	-125.15%	-126.00%	-	-	-	-	-125.51%	-126.96%	N/A[3]
MSREF VI International	5,195,940	-81.86%	-81.54%	-81.86%	-81.54%	-99.16%	-99.08%	-	-	-	-	-96.37%	-96.11%	-99.09%
O'Connor North American Partners II	3,148,056	-3.18%	-1.45%	-3.18%	-1.45%	-	-	-	-	-	-	-66.14%	-64.54%	-70.46%
Montana Real Estate	**271,181,057**	**-13.46%**	**-12.93%**	**-13.46%**	**-12.93%**	**-28.16%**	**-26.55%**	**-10.61%**	**-8.61%**	**-**	**-**	**-6.10%**	**-3.45%**	**-17.16%**
Benchmark (gross)														
NCREIF	**268,565,400,000**		**-7.33%**		**-7.33%**		**-14.67%**		**-1.55%**		**4.16%**		**9.37%**	
NFI-ODCE	**50,860,800,000**		**-13.86%**		**-13.86%**		**-23.50%**		**-13.48%**		**0.30%**		**8.70%**	

1 Liquid Realty's net asset value was cash adjusted as the GP did not complete their financial reporting for March 31, 2009.

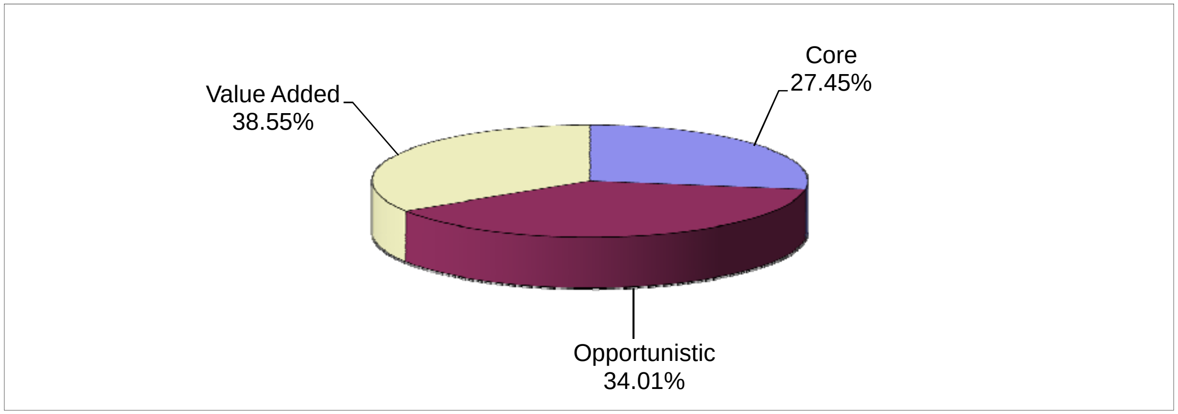
2 Though the reported NAV for this investment is negative, the main reason for this situation is due to a temporary and subjective adjustment of value as compared to the outstanding leverage and contributed equity amounts. As such, we have set the NAV for this investment at $1 as it is still a going concern.

3 This investment has an IRR of greater than 100% which cannot be computed making this return N/A.

Real Estate Portfolio Status

Strategy Exposure by Net Asset Value & Remaining Commitments

(Since inception through March 31, 2009)



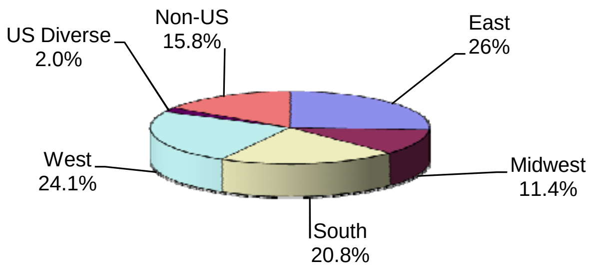
Strategy	Remaining Commitments	Net Asset Value	Total Exposure	Percentage
Core	$0	$127,988,409	$127,988,409	27.45%
Value Added	$81,963,135	$97,785,453	$179,748,588	38.55%
Opportunistic	$113,187,841	$45,407,195	$158,595,036	34.01%
Total	$195,150,976	$271,181,057	$466,332,033	100.00%

Total Portfolio Characteristics

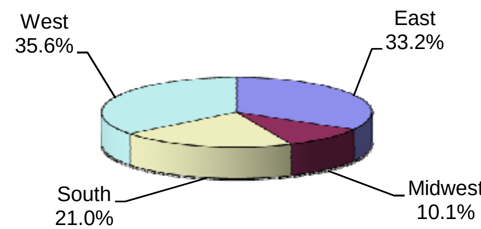
Geographic Diversification[1]

(as of March 31, 2009)

Montana Total Portfolio



NCREIF Index



Geographically, Montana's domestic investments were overweighted in the Midwest and South regions and underweighted in the East and West regions when compared to the NCREIF Property Index as of March 31, 2009.

	East	Midwest	South	West	US Diverse	Non-US	Total
Montana Total Value[2]	$180.7	$78.9	$144.2	$167.7	$13.7	$109.6	$694.8
Montana Total[1]	26.0%	11.4%	20.8%	24.1%	2.0%	15.8%	100.0%
Montana US Value[2]	$180.7	$78.9	$144.2	$167.7	$13.7		$585.2
Montana US Total[1]	30.9%	13.5%	24.6%	28.7%	2.3%		100.0%
NCREIF Value[2, 3]	$89,257	$27,216	$56,491	$95,601			$268,566
NCREIF[1]	33.2%	10.1%	21.0%	35.6%			100.0%
Difference	-2.4%	3.3%	3.6%	-6.9%	2.3%		

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

[2] *Values shown are in Millions.*

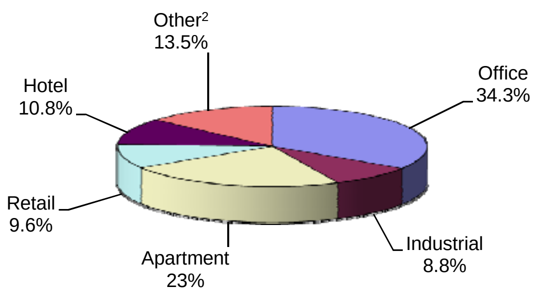
[3] *The NCREIF gross market values represent the total gross asset values of the participating funds exclusive of any underlying debt.*

Total Portfolio Characteristics

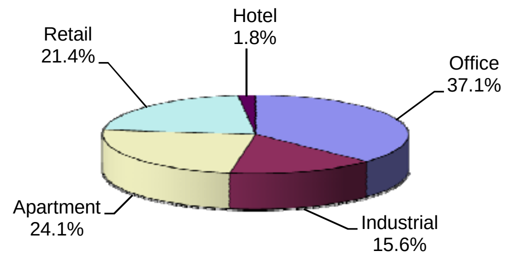
Property Type Diversification[1]

(as of March 31, 2009)

Montana Total Portfolio



NCREIF Index



Relative to the NCREIF Property Index, Montana's domestic investments were overweighted in the apartment and hotel sectors yet underweighted in the office, industrial, and retail sectors as of March 31, 2009.

	Office	Industrial	Apartment	Retail	Hotel	Other[2]	Total
Montana Total Value[2]	$238.3	$60.8	$159.5	$67.0	$75.3	$93.9	$694.8
Montana Total[1]	34.3%	8.8%	23.0%	9.6%	10.8%	13.5%	100.0%
Montana US Value[2]	$185.4	$60.8	$152.8	$60.6	$61.8	$63.8	$585.2
Montana US Total	31.7%	10.4%	26.1%	10.4%	10.6%	10.9%	100.0%
NCREIF Value[2,4]	$99,649	$41,913	$64,648	$57,449	$4,906		$268,565
NCREIF[1]	37.1%	15.6%	24.1%	21.4%	1.8%		100.0%
Difference	-5.4%	-5.2%	2.0%	-11.0%	8.7%	10.9%	
Montana Non-US Value[2]	$52.9	$0.0	$6.7	$6.4	$13.5	$30.1	$109.6
Montana Non-US Total	48.3%	0.0%	6.1%	5.8%	12.3%	27.5%	100.0%

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

[2] *Other consists of $45,753,546 in mixed-use assets, $38,610,740 in healthcare/senior living, $6,820,591 in land, and $1,217,740 in storage.*

[3] *Values shown are in Millions.*

[4] *The NCREIF gross market values represent the total gross asset values of the participating funds exclusive of any underlying debt. This amount differs from the index total due to rounding in the NCREIF report.*

Real Estate Portfolio Status Report
All Investments
(as of March 31, 2009)

	Since Inception						
	Vintage Year	Commitment	Capital Contributed	Remaining Commitment	Capital Distributed	Net Asset Value	Investment Multiple
Core		**155,000,000**	**155,000,000**	**-**	**7,187,327**	**127,988,409**	**0.87**
Clarion Lion Properties Fund	2006	45,000,000	45,000,000	-	4,135,220	33,270,425	0.82
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	-	1,885,421	38,375,131	0.89
JP Morgan Strategic Property Fund	2007	65,000,000	65,000,000	-	1,166,685	56,342,853	0.88
Value Added		**189,200,000**	**107,236,865**	**81,963,135**	**7,306,069**	**97,785,453**	**0.98**
ABR Chesapeake Fund III	2006	20,000,000	16,000,000	4,000,000	448,898	16,109,958	1.03
AG Core Plus Realty Fund II	2007	20,000,000	7,700,000	12,300,000	508,403	6,095,632	0.86
Apollo Real Estate Finance Corp.	2007	10,000,000	4,911,000	5,089,000	550,839	4,707,707	1.07
AREFIN Co-Invest	2008	10,000,000	1,352,000	8,648,000	31,642	1,557,763	1.18
DRA Growth & Income Fund VI	2007	35,000,000	13,519,595	21,480,405	4,311,042	9,238,090	0.97
Five Arrows Securities V, L.P.	2007	30,000,000	3,581,231	26,418,769	467,415	3,450,934	1.09
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	-	61,473	10,156,829	1.02
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	-	241,000	11,900,123	0.81
Realty Associates Fund VIII	2007	20,000,000	19,500,000	500,000	685,356	17,653,615	0.94
Strategic Partners Value Enhancement Fund	2007	19,200,000	15,673,039	3,526,961	-	16,914,801	1.08
Opportunistic		**220,902,305**	**107,714,464**	**113,187,841**	**3,142,328**	**45,407,195**	**0.44**
AG Realty Fund VII L.P.	2007	20,000,000	5,200,000	14,800,000	5,231	4,511,559	0.87
Beacon Capital Strategic Partners V	2007	25,000,000	16,562,500	8,437,500	-	7,250,220	0.44
Carlyle Europe Real Estate Partners III	2007	30,902,305	9,105,410	21,796,894	13,830	5,460,211	0.55
CIM Fund III, L.P.	2007	25,000,000	1,496,432	23,503,568	77,632	271,331	0.14
JER Real Estate Partners - Fund IV	2007	20,000,000	14,961,499	5,038,501	16,132	7,890,520	0.53
Liquid Realty IV[2]	2007	30,000,000	18,609,177	11,390,823	2,926,620	11,679,357	0.76
Macquarie Global Property Fund (Asia)[3]	2007	30,000,000	8,134,948	21,865,052	13,198	1	0.00
MSREF VI International	2007	25,000,000	25,000,000	-	17,313	5,195,940	0.21
O'Connor North American Property Partners II	2008	15,000,000	8,644,497	6,355,503	72,371	3,148,056	0.36
Montana Real Estate		**$ 565,102,305**	**$ 369,951,329**	**$ 195,150,976**	**$ 17,635,724**	**$ 271,181,057**	**0.77**

1 Capital contributed does not include contributions for expenses outside of the commitment amounts.
2 Liquid Realty's net asset value was cash adjusted as the GP did not complete their financial reporting for March 31, 2009.
3 Though the reported NAV for this investment is negative, the main reason for this situation is due to a temporary and subjective adjustment of value as compared to the outstanding leverage and contributed equity amounts. As such, we have set the NAV for this investment at $1 as it is still a going concern.

6/30/2009 Private Real Estate Holdings

Fund Name	Shares	Book Value	Market Value	%
ABR CHESAPEAKE III	17,770,784	17,770,784	18,109,957	6.29%
AG REALTY FUND VII LP	5,194,769	5,194,769	4,511,558	1.57%
AG CORE PLUS REALTY FD II	7,381,597	7,381,597	6,095,634	2.12%
ANGELO GORDON	**12,576,366**	**12,576,366**	**10,607,192**	**3.68%**
APOLLO REAL ESTATE FINANCE COR	9,079	9,079,000	9,081,470	3.15%
BEACON CAPITAL PARTNERS FUND V	16,562,500	16,562,500	7,250,218	2.52%
CIM FUND III	1,496,432	1,496,432	271,332	0.09%
CLARION LION PROPERTIES FUND	31,957	45,000,000	32,738,588	11.37%
DRA ADVISORS VI	13,261,356	13,261,356	11,758,088	4.08%
JP MORGAN CB	37,804	71,383,708	53,054,243	18.43%
HUDSON REALTY CAPITAL FUND IV	25,000,000	25,000,000	22,056,950	7.66%
INVESCO CORE REAL ESTATE USA	309	45,000,000	38,137,553	13.24%
MORGAN STANLEY REAL ESTATE	27,536,302	27,536,302	7,695,928	2.67%
JER REAL EST PARTNERS FUND IV	15,311,878	15,311,878	8,240,899	2.86%
LIQUID REALTY FUN IV	15,535,697	15,535,697	11,603,581	4.03%
MACQUARIE GBL PROP III ASIA	12,529,074	12,529,074	3,619,286	1.26%
OCONNOR NTH AMER PROP PTNRS II	8,245,199	8,245,199	3,148,058	1.09%
STRATEGIC PARTNERS VALUE	16,765,519	16,765,519	18,727,286	6.50%
ROTHSCHILD FIVE ARROWS REALTY	3,208,215	3,208,215	3,450,932	1.20%
TA ASSOCIATES REALTY FUND	20,000,000	20,000,000	18,153,620	6.30%
CARLYLE EUROPE R E P III L P	5,686,485	8,844,179	5,768,448	2.00%
REAL ESTATE Total	**211,564,956**	**385,106,209**	**283,473,630**	**98.45%**
SHORT TERM INVESTMENT POOL	4,469,890	4,469,890	4,469,890	1.55%
CASH EQUIVALENT Total	**4,469,890**	**4,469,890**	**4,469,890**	**1.55%**
Grand Total	**216,034,846**	**389,576,100**	**287,943,521**	**100.00%**

Montana Domestic Equity Pool

Rande Muffick, CFA, Portfolio Manager

August 11, 2009

Domestic Stock Pool By Manager 6/30/2009			
Manager Name	**Market Value**	**%**	**Approved Range**
-	-	-	
BGI EQUITY INDEX FUND	538,484,994	25.39%	
STATE STREET SPIF ALT INV	3,664,672	0.17%	0-5%
LARGE CAP CORE Total	**542,149,666**	**25.57%**	10-30%
ENHANCED INVEST TECHNOLOGIES	131,053,601	6.18%	
GOLDMAN SACHS ENHANCED LARGE	93,207,726	4.40%	
T ROWE PRICE ASSOCIATES INC	147,068,971	6.94%	
WESTERN ASSET US INDX PLUS LLC	93,508,002	4.41%	
LARGE CAP ENHANCED Total	**464,838,301**	**21.92%**	20-30%
BARROW HANLEY MEWHINNEY + STRS	136,562,488	6.44%	
QUANTITATIVE MANAGEMENT ASSOC	86,548,079	4.08%	
LARGE CAP VALUE Total	**223,110,567**	**10.52%**	
COLUMBUS CIRCLE INVESTORS	99,049,663	4.67%	
RAINIER INVESTMENT MGMNT INC	98,973,631	4.67%	
RENAISSANCE GROUP LLC	103,681,158	4.89%	
LARGE CAP GROWTH Total	**301,704,453**	**14.23%**	
LARGE CAP STYLE BASED Total	**524,815,020**	**24.75%**	20-30%
ANALYTIC INVESTORS MU3B	81,557,050	3.85%	
JP MORGAN ASSET MGMT MU3E	154,638,407	7.29%	
MARTINGALE ASSET MGMT MU3D	53,898,013	2.54%	
PARTIAL LONG/SHORT (130-30) Total	**290,093,470**	**13.68%**	10-20%
COMBINED LARGE CAP Total	**1,821,896,457**	**85.92%**	82-92%
ARTISAN MID CAP VALUE	48,405,742	2.28%	
BGI MIDCAP EQUITY INDEX FUND	15,548,390	0.73%	
MARTINGALE ASSET MGMT MID CAP	69,165,523	3.26%	
TIMESSQUARE CAPITAL MGMT	59,673,364	2.81%	
MID CAP Total	**192,793,019**	**9.09%**	5-11%
DIMENSIONAL FUND ADVISORS INC	41,413,149	1.95%	
NORTHPOINTE CAPITAL SMALL CAP	27,746,478	1.31%	
VAUGHAN NELSON INV	36,719,834	1.73%	
SMALL CAP Total	**105,879,461**	**4.99%**	3-8%
TOTAL MDEP	**2,120,568,937**	**100.00%**	

The table above displays the Montana Domestic Equity Pool (MDEP) allocation at quarter end across market cap segments and manager styles. At this time, all weightings are within the approved ranges. There were no significant allocation changes during the quarter.

The market value of MDEP rose dramatically during the quarter to $2.1 billion as the U.S. stock market added to the rally which began in March. Economic data points that verified the slowing rate of decline in the economy and earnings announcements that beat lowered expectations helped the S&P 1500 rise 16.3% in the quarter.

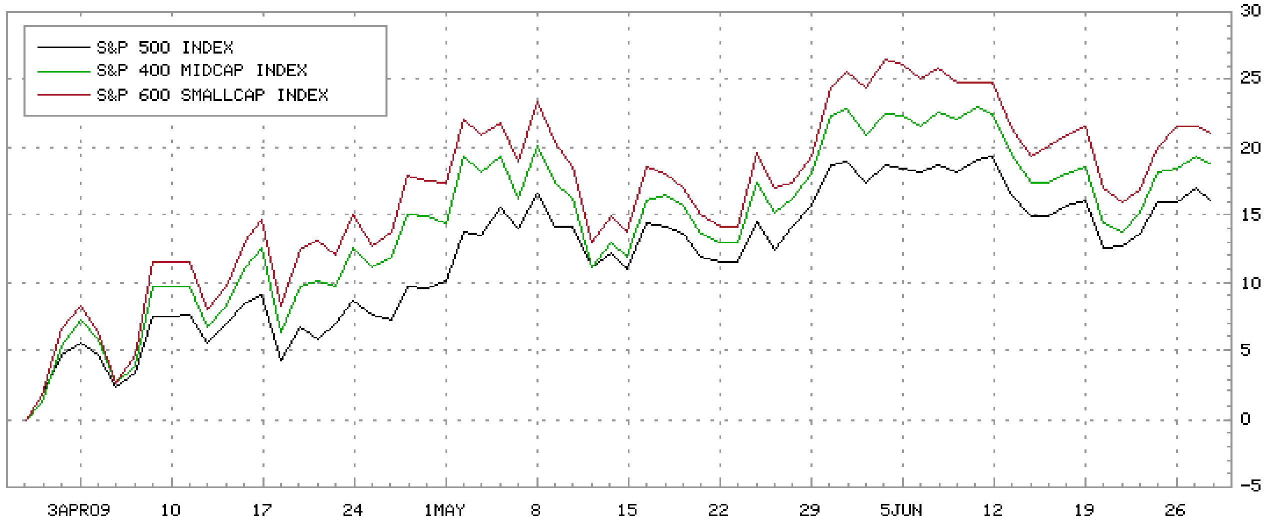
Across market capitalizations, small caps outperformed both mid caps and large caps. Small caps returned 21.1% while mid caps returned 18.8% and large caps 15.9%. This action reflected a return to risk taking by many investors. Another indication of investors' increased appetite for risk was the fact that stocks of companies with weaker balance sheets and poorer earnings prospects outperformed those of the stronger companies. Because of this many have characterized this market rise as a "junk rally". With that said, MDEP remains slightly overweight mid caps and small caps and underweight large caps.

COMPARATIVE RETURNS — Page 1/ 6

Range 3/31/09 - 6/30/09 Period D Daily — 91 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	15.22 %	15.93 %	-2.82 %	80.91 %
2	MID Index	USD	18.23 %	18.75 %		99.21 %
3	SML Index	USD	20.63 %	21.06 %	2.31 %	115.25 %

(* = No dividends or coupons)



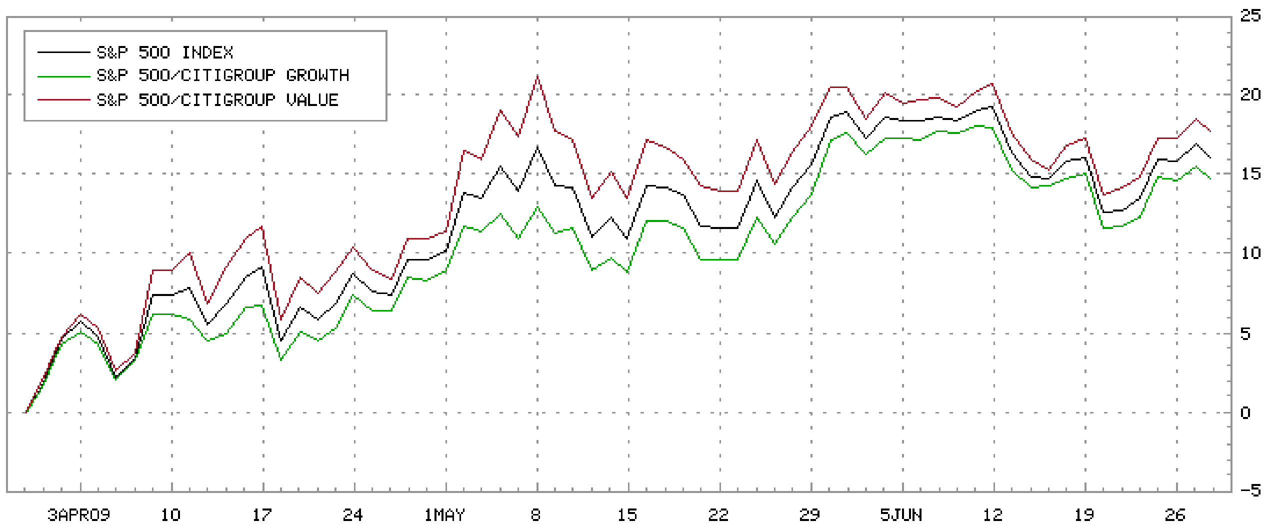
Looking at style categories, value edged growth overall with a return of 17.5% compared to 14.6% for growth. Interestingly, this outperformance was only experienced within the large and mid caps as within the small caps, growth outperformed value by a wide margin (23.4% versus 18.0%).

COMPARATIVE RETURNS — Page 1/ 6

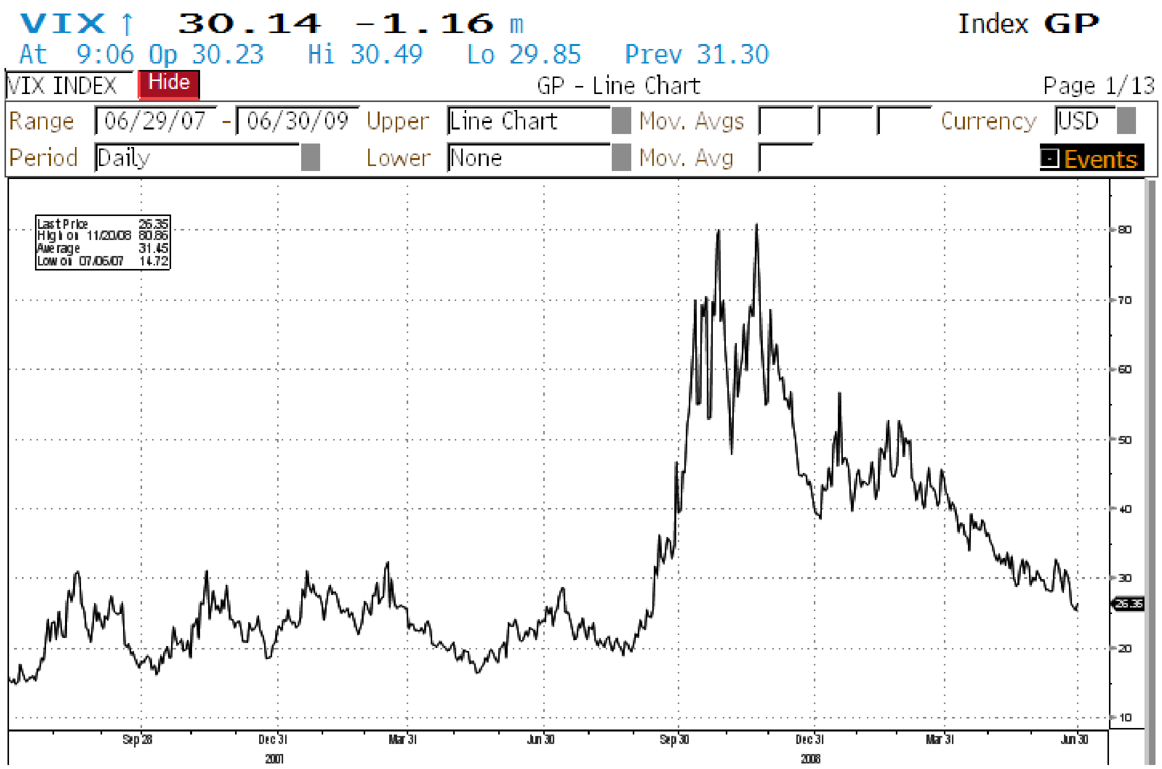
Range 3/31/09 - 6/30/09 Period D Daily — 91 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	SPX Index	USD	15.22 %	15.93 %	1.33 %	80.91 %
2	SGX Index	USD	14.06 %	14.60 %		72.75 %
3	SVX Index	USD	16.61 %	17.51 %	2.91 %	91.00 %

(* = No dividends or coupons)



Volatility declined precipitously during the quarter and returned to levels not seen since before the collapse of Lehman Brothers. The VIX ended June in the 20's which is indicative of a rather tranquil market environment compared to the prior two quarters. With the economic challenges ahead this calm may not last, but given the tumultuous past twelve months equity investors will take it for now. Cash levels are still very high and for now investors are buying the dips as the consensus is that the worst of the recession is over and the risk of being left behind is too great. Short term this is good for the market, but longer term there are major fundamental challenges to be worked through.



The manager performance within MDEP was mixed for the quarter. The large cap enhanced manager group and the partial long/short group solidly outperformed while the large cap value, mid cap and small cap buckets all slightly underperformed. The large cap growth style bucket was the most disappointing again and underperformed by 480 basis points. Overall MDEP underperformed the S&P 1500 benchmark by 8 basis points net of fees.

The moderate tilt toward growth versus value resulted in only a minor detraction in pool performance given the relatively small difference in returns for the quarter between the two styles. The slight tilt toward mids and smalls rather than large caps added value. Going forward the strategy is to remain slightly overweight growth and modestly overweight mid caps and small caps.

DOMESTIC EXPOSURE-MARKET CAP %

June 30, 2009

MANAGERS	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	LARGE $20-$50B	LARGE $10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Analytic Investors, Inc	6.6	13.4	16.5	24.3	23.0	12.5	1.0	0.0	62.6
Artisan Partners	--	--	--	2.5	15.6	60.7	21.2	--	5.8
Barrow Hanley	1.0	11.5	10.0	17.6	18.7	37.8	3.3	--	34.7
Columbus Circle Investors	--	17.8	15.5	21.2	28.4	17.0	0.0	0.1	44.2
Dimensional Fund Advisors	--	--	--	--	--	0.1	57.4	42.5	0.7
Goldman Sachs Enhanced Large Cap	7.0	24.7	12.2	20.9	14.1	14.5	5.5	0.1	72.1
INTECH Investment Management	7.1	22.0	11.4	16.1	17.9	22.2	3.5	--	68.7
J.P. Morgan	7.5	24.1	20.2	24.9	16.9	6.9	-0.5	--	78.0
Martingale Asset Mgmt	--	--	--	--	6.4	56.1	37.5	--	4.3
Martingale Enhanced Alpha	7.8	26.1	13.5	12.9	13.1	17.1	7.8	--	76.4
NorthPointe Cap	--	--	--	--	--	6.5	49.4	44.0	0.9
Quantitative Management	6.6	21.7	11.6	17.6	13.4	23.4	5.6	0.0	67.0
Rainier Investment Mgt	1.4	15.0	13.5	35.2	20.7	12.2	1.9	--	47.5
Renaissance Investment Mgt	2.2	11.4	13.3	29.2	20.3	23.6	0.0	--	42.5
T. Rowe Associates	7.2	22.8	13.6	23.1	16.2	16.4	0.6	0.0	72.3
TimesSquare Cap Mgmt	--	--	--	1.0	18.5	68.6	11.9	--	6.5
Vaughan Nelson Mgmt	--	--	--	--	--	18.7	79.1	2.2	1.8
Western Asset US Index Plus	6.5	23.9	13.4	22.7	17.3	15.0	1.2	--	71.1
BGI Equity Index Fund	6.4	23.6	13.3	22.4	17.1	15.6	1.1	--	70.5
BGI Midcap Equity Index Fund	--	--	--	--	--	41.8	56.0	1.0	2.4
ALL DOMESTIC EQUITY PORTFOLIOS	**4.7**	**17.8**	**11.8**	**19.4**	**16.6**	**20.9**	**7.1**	**1.4**	**55.7**
Benchmark: S&P Composite 1500	**5.8**	**21.1**	**11.9**	**20.1**	**15.3**	**16.7**	**8.1**	**1.0**	**63.1**
Over/underweight(-)	**-1.0**	**-3.3**	**-0.1**	**-0.7**	**1.2**	**4.2**	**-1.0**	**0.4**	

DOMESTIC EXPOSURE-SECTOR %

June 30, 2009

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Analytic Investors, Inc	7.7	11.3	13.2	11.0	13.0	9.3	21.8	2.6	3.9	3.4
Artisan Partners	15.0	5.1	11.0	16.2	8.0	23.3	21.0	--	--	0.4
Barrow Hanley	12.2	5.4	11.1	18.1	16.0	14.6	11.1	1.4	2.7	7.2
Columbus Circle Investors	18.9	4.6	3.6	13.3	13.5	2.8	36.9	5.1	1.3	--
Dimensional Fund Advisors	13.9	4.9	4.1	14.0	15.2	18.1	21.0	4.3	1.1	3.5
Goldman Sachs Enhanced Large Cap	9.2	12.0	12.4	13.8	14.3	8.9	18.6	2.9	3.7	3.0
INTECH Investment Management	10.4	14.8	13.3	11.5	13.5	10.8	15.2	2.2	4.5	3.8
J.P. Morgan	8.0	12.6	13.1	13.5	13.4	4.6	23.4	4.1	3.9	3.3
Martingale Asset Mgmt	15.6	6.5	5.7	12.5	8.8	12.6	19.0	8.6	2.3	8.4
Martingale Enhanced Alpha	10.2	11.3	11.3	9.8	13.4	8.1	21.8	6.0	3.0	3.3
NorthPointe Cap	15.7	3.4	5.4	5.8	24.4	11.8	31.4	1.0	1.1	--
Quantitative Management	12.4	4.8	18.9	16.1	14.6	9.8	3.3	5.8	6.9	7.5
Rainier Investment Mgt	14.1	9.7	7.4	6.5	14.8	9.6	32.3	4.5	1.1	--
Renaissance Investment Mgt	17.9	5.0	7.1	1.8	22.0	13.7	30.8	1.8	--	--
T. Rowe Associates	9.4	11.9	12.7	13.2	14.2	9.6	18.4	3.1	3.5	3.9
TimesSquare Cap Mgmt	12.4	2.7	7.3	10.7	16.6	18.1	22.0	4.4	5.7	--
Vaughan Nelson Mgmt	10.8	--	6.2	27.0	7.0	20.4	16.2	10.1	2.1	--
Western Asset US Index Plus	9.0	12.0	12.4	13.6	14.0	9.9	18.3	3.2	3.5	4.1
BGI Equity Index Fund	8.9	11.8	12.3	14.2	13.8	9.7	18.2	3.2	3.5	4.0
BGI Midcap Equity Index Fund	15.3	4.0	6.1	17.4	12.7	14.6	14.4	7.1	0.6	6.6
All Domestic Equity Portfolios	**11.2**	**9.5**	**11.0**	**13.0**	**14.2**	**10.5**	**20.1**	**3.6**	**3.1**	**3.5**
Benchmark: S&P Composite 1500	**9.7**	**11.1**	**11.7**	**14.1**	**13.9**	**10.6**	**18.1**	**3.6**	**3.2**	**4.3**
Over/underweight(-)	**1.5**	**-1.5**	**-0.7**	**-1.1**	**0.3**	**0.0**	**2.0**	**0.0**	**-0.1**	**-0.8**

Domestic Portfolio Characteristics

June 30, 2009

MANAGERS	Market Value (mm)	Number of Securities	3Yr Historical EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
Analytic Investors, Inc	83.9	392	15.6	12.7	2.0	2.4
Artisan Partners	48.5	56	11.3	13.3	1.5	2.1
Barrow Hanley	136.4	90	6.7	12.8	1.5	3.5
Columbus Circle Investors	99.2	53	15.9	21.4	2.1	1.0
Dimensional Fund Advisors	41.4	2,903	12.5	14.6	1.4	1.4
Goldman Sachs Enhanced Large Cap	93.2	319	11.1	13.8	1.9	2.8
INTECH Investment Management	131.2	429	13.1	13.0	2.0	2.9
J.P. Morgan	153.2	250	16.4	13.6	2.0	2.5
Martingale Asset Mgmt	69.2	154	21.0	11.8	1.6	1.8
Martingale Enhanced Alpha	54.9	280	19.1	11.9	1.9	2.3
NorthPointe Cap	27.5	77	13.7	13.6	1.5	0.4
Quantitative Management	86.6	144	2.8	11.3	1.4	3.9
Rainier Investment Mgt	99.4	76	23.4	18.6	2.8	1.2
Renaissance Investment Mgt	103.8	55	23.6	13.3	2.9	1.3
T. Rowe Associates	147.2	302	12.6	14.4	2.1	2.6
TimesSquare Cap Mgmt	59.7	70	17.3	17.4	2.5	0.9
Vaughan Nelson Mgmt	35.9	69	22.1	13.7	1.7	1.6
Western Asset US Index Plus	93.5	500	11.8	14.0	1.9	2.8
BGI Equity Index Fund	542.4	502	11.7	14.0	1.9	3.0
BGI Midcap Equity Index Fund	15.6	401	14.8	14.9	1.6	2.0
All Domestic Equity Portfolios	**2,126.4**	**3,795**	**13.8**	**13.9**	**1.9**	**2.5**
BENCHMARKS						
S&P Composite 1500		**1,500**	**12.2**	**14.1**	**1.9**	**2.7**
S&P/Citigroup 1500 Pure Growth		421	16.9	14.5	2.0	0.7
S&P/Citigroup 1500 Pure Value		314	2.8	13.4	0.8	4.7
S&P 500		500	11.8	14.0	1.9	2.8
Russell 1000		970	12.7	14.0	1.9	2.7
Russell 1000 Growth		628	18.7	15.8	3.2	1.8
Russell 1000 Value		677	6.4	12.4	1.3	3.7
Russell Midcap		777	14.4	14.1	1.6	2.4
Russell Midcap Growth		494	18.0	16.1	2.7	1.3
Russell Midcap Value		552	10.7	12.2	1.2	3.4
Russell 2000		2,019	14.8	13.9	1.4	2.0
Russell 2000 Growth		1,274	21.3	16.8	2.4	0.7
Russell 2000 Value		1,389	9.2	11.7	0.9	3.5

Montana International Stock Pool

Rande Muffick, CFA, Portfolio Manager

August 11, 2009

International Stock Pool By Manager 6/30/2009			
Security Name	**Market Value**	**%**	**Approved Range**
-	-	-	
ARTIO GLOBAL MU1G	112,968,940	11.53%	
BATTERYMARCH INTL EQUITY	112,231,122	11.46%	
BGI GLOBAL EX US ALPHA TILT FD	79,828,258	8.15%	
BGI ACWI EX US SUPERFUND A	59,582,815	6.08%	
EAFE STOCK PERFORMANCE INDEX	13,927,220	1.42%	0-10%
CORE Total	**378,538,354**	**38.64%**	25-50%
ACADIAN ACWI EX US VALUE	81,043,684	8.27%	
BERNSTEIN ACWI EX	85,055,836	8.68%	
VALUE Total	**166,099,520**	**16.96%**	15-25%
HANSBERGER INTL EQUITY GROWTH	79,732,640	8.14%	
MARTIN CURRIE ACWI X	78,356,795	8.00%	
PRINCIPAL GLOBAL	39,072,609	3.99%	
GROWTH Total	**197,162,044**	**20.13%**	15-25%
BGI MSCI EQUITY INDEX FD EUROP	102,239,710	10.44%	0-12%
NOMURA ASSET MGMT INC	65,644,743	6.70%	0-8%
REGIONAL Total	**167,884,453**	**17.14%**	
AXA ROSENBERG INTL SMALL CAP	30,055,820	3.07%	
DFA INTL SMALL CO PORTFOLIO	39,793,549	4.06%	
SMALL CAP Total	**69,849,369**	**7.13%**	5-15%
TOTAL MTIP	**979,533,741**	**100.00%**	

The table above shows the quarter end allocation within the Montana International Equity Pool (MTIP). At this time all of the weightings are within the approved ranges.

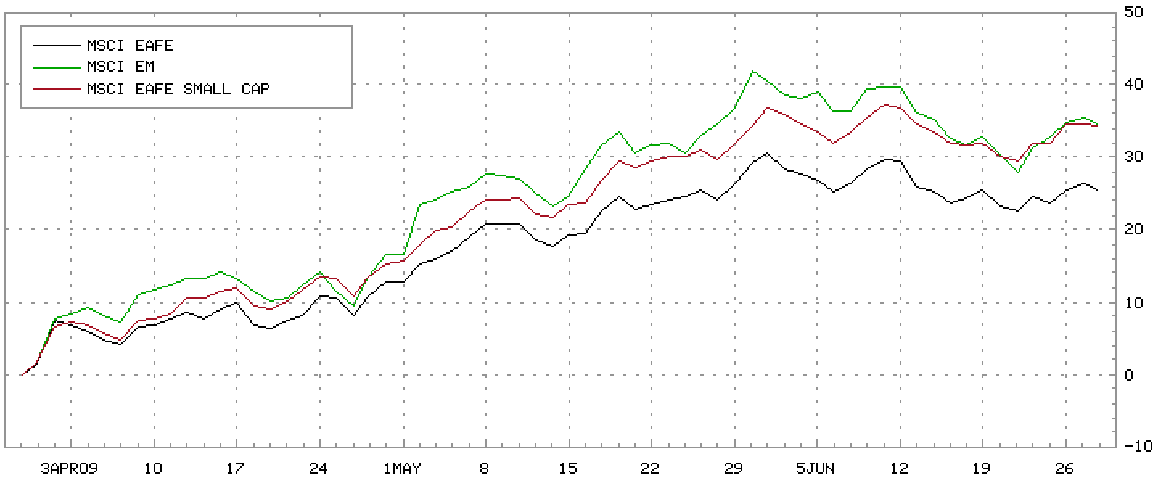
During the quarter a passive component was added to the pool. The Barclays Global Investors ACWI ex US Index Superfund A was funded with an initial investment of $60 million. The EAFE Stock Performance Index (ISPIFF) was used as a source for these funds and its lower balance reflects the transition.

The value of the pool saw a marked increase to $979 million as international equity markets surged in the second quarter. Overall, the MSCI ACWI ex US Index jumped 27.6%. Emerging markets led the way with a return of 34.8% followed by developed market small caps with 34.4%. Developed market large caps lagged with a return for the quarter of 25.6%. With respect to market capitalization, MTIP is slightly underweight small cap stocks in relation to the custom benchmark.

Range 3/31/09 - 6/30/09 Period D Daily 91 Day Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	MXEA Index	USD	23.76 %	25.64 %	-9.15 %	149.79 %
2	MXEF Index	USD	33.57 %	34.79 %		231.16 %
3	MXEASC Index	USD	32.99 %	34.42 %	-.37 %	227.50 %

(* = No dividends or coupons)



MTIP also remains underweight emerging markets (EM) as the weighting of the pool in emerging markets at quarter end stood at 17.2% compared to 20.9% for the benchmark. Recall that MTIP's weighting in EM is determined by the collective decisions of the individual managers within the pool.

Within emerging markets, Latin American posted the best performance followed by developing Asia. In developed markets, Pacific ex-Japan was the top-performing region during the quarter, driven by advances in Singapore and Hong Kong. Within non-Asia, the United Kingdom out-performed broader Europe.

Performance disparity was more pronounced across style categories than in the domestic market as the performance of international value stocks trounced that of growth. Value returned 31.5% compared to 23.9% for growth. Presently, MTIP carries a slight growth bias.

The dollar weakened in the quarter as the flight to quality reversed and investors decided to take on more risk. This added to overall international equity returns for U. S. investors.

Manager performance within MTIP for the quarter was disappointing as only two of the eleven active portfolios outperformed. Overall MTIP lagged its benchmark in the quarter by 248 basis points.

Going forward, the pool is positioned relatively close to the benchmark in relation to cap size and style weights, so manager performance collectively will continue to be the most significant driver of MTIP performance. It is anticipated that investment in the ACWI ex US Index Superfund A will be increased over the near term as a result of various changes that will decrease active manager weights within the pool.

INTERNATIONAL EXPOSURE-MARKET CAP %

June 30, 2009

Managers	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	LARGE $20-$50B	LARGE $10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Acadian Asset Management	--	4.5	19.1	18.9	12.1	26.1	15.7	3.4	32.7
Artio Global - Intl Equity II with look throughs	1.7	11.1	21.8	32.4	13.9	14.9	1.8	0.1	49.1
AXA Rosenberg	--	--	--	--	--	19.5	56.3	23.4	1.7
Batterymarch Financial Mgmt	--	9.4	17.2	16.9	13.7	39.3	3.5	0.0	34.3
Bernstein Inv Mgt & Research with look throughs	--	9.3	20.7	23.6	15.3	25.2	4.6	0.2	37.7
BGI Global Ex US Alpha Tilt Fd	0.6	9.1	15.6	28.0	14.5	23.1	8.8	0.2	37.5
DFA International Small Cap	--	--	--	0.0	0.0	4.9	61.1	33.5	1.0
Hansberger Global Investors	--	8.8	15.9	26.1	18.9	27.6	2.5	0.0	35.1
Martin Currie with look throughs	--	9.9	26.8	27.8	11.0	21.8	1.3	1.0	46.3
Nomura Asset Management	2.0	3.8	10.2	26.5	14.8	28.0	13.3	1.2	28.5
Principal Global Investors	0.5	9.0	15.7	30.3	14.6	21.0	8.6	0.0	35.9
BGI MSCI Europe Index Fund	--	15.4	25.0	27.0	12.7	18.6	1.1	0.0	50.8
BGI ACWI ex-US Superfund	0.5	9.2	16.1	27.6	16.2	25.7	4.7	0.0	37.6
ALL INTERNATIONAL EQUITY PORTFOLIOS	**0.4**	**8.4**	**17.0**	**23.0**	**12.7**	**22.9**	**9.0**	**3.4**	**36.6**
International Custom Benchmark	**0.5**	**9.1**	**16.1**	**27.3**	**16.0**	**25.4**	**5.4**	**0.3**	**37.3**
Over/underweight(-)	**0.0**	**-0.7**	**1.0**	**-4.3**	**-3.2**	**-2.5**	**3.7**	**3.1**	

INTERNATIONAL EXPOSURE-SECTOR %

June 30, 2009

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	5.0	5.1	12.9	34.8	6.1	12.9	8.1	5.8	4.6	4.7
Artio Global - Intl Equity II with look throughs	4.9	5.5	10.3	14.9	5.4	8.0	2.2	10.7	6.1	2.6
AXA Rosenberg	22.5	8.2	1.8	13.4	3.6	24.3	11.9	10.7	1.3	1.5
Batterymarch Financial Mgmt	6.7	8.0	11.7	28.0	7.1	11.7	6.5	8.6	6.9	4.8
Bernstein Inv Mgt & Research with look through	7.4	3.6	14.2	29.5	5.9	7.5	9.3	6.8	10.2	4.6
BGI Global Ex US Alpha Tilt Fd	9.5	8.4	11.6	25.3	7.0	9.2	6.3	11.0	6.6	5.0
DFA International Small Cap	17.5	7.0	5.7	13.9	5.7	25.7	10.1	11.3	0.7	2.0
Hansberger Global Investors	6.1	10.7	8.7	17.8	9.5	11.8	12.8	12.1	8.1	2.3
Martin Currie with look throughs	6.8	12.4	12.7	23.0	10.4	11.4	7.9	9.1	3.0	3.4
Nomura Asset Management	12.3	5.4	5.4	28.2	2.2	13.6	13.8	10.9	6.7	1.6
Principal Global Investors	10.6	15.2	7.9	12.4	10.5	11.4	8.6	13.5	4.4	5.0
BGI MSCI Europe Index Fund	7.5	12.1	12.0	23.1	10.4	9.2	3.1	8.2	7.4	7.0
BGI ACWI ex-US Superfund	8.5	8.5	11.6	25.1	6.5	10.0	6.6	10.8	6.7	5.5
All International Equity Portfolios	**8.2**	**8.2**	**10.6**	**23.1**	**7.1**	**11.4**	**7.4**	**9.7**	**6.2**	**4.0**
International Custom Benchmark	**8.6**	**8.5**	**11.5**	**25.1**	**6.5**	**10.2**	**6.7**	**10.9**	**6.7**	**5.5**
Over/underweight(-)	**-0.4**	**-0.3**	**-1.0**	**-2.0**	**0.5**	**1.2**	**0.7**	**-1.2**	**-0.5**	**-1.5**

International Portfolio Characteristics

June 30, 2009

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
International Accounts with look throughs	**1,009.4**	**6,410**	**13.6**	**10.9**	**1.4**	**3.55**
International Equity Managers						
Acadian Asset Management	81.1	306	10.8	9.4	1.1	3.90
Artio Global - Intl Equity II with look throughs	143.8	406	8.9	10.0	1.5	3.77
AXA Rosenberg	30.2	988	7.4	10.0	0.9	3.19
Batterymarch Financial Mgmt	111.7	204	15.7	10.9	1.5	3.90
Bernstein Inv Mgt & Research with look throughs	85.4	230	4.7	9.5	1.1	4.09
BGI Global Ex US Alpha Tilt Fd	79.8	1,756	11.2	11.0	1.5	3.66
DFA International Small Cap	39.8	4,089	14.8	11.0	1.1	2.81
Hansberger Global Investors	79.5	67	33.2	15.2	2.3	2.29
Martin Currie with look throughs	78.1	54	25.7	10.8	1.7	3.22
Nomura Asset Management	65.6	211	7.7	15.6	1.5	2.56
Principal Global Investors	38.9	206	22.5	11.8	1.9	2.94
BGI MSCI Europe Index Fund	102.2	478	8.7	9.7	1.4	4.42
BGI ACWI ex-US Superfund	59.6	1,860	9.7	11.4	1.5	3.54
Benchmarks						
MSCI All Country World Ex-United States		1,796	9.7	11.4	1.5	3.54
MSCI All Country World Ex-United States Growth		1,026	16.5	13.5	2.1	2.55
MSCI All Country World Ex-United States Value		1,088	2.9	9.8	1.2	4.51
MSCI EAFE Small Cap		2,284	16.4	10.6	1.0	3.25
MSCI World Ex-United States Small Cap		2,497	16.9	10.4	1.1	3.29
MSCI All Country Pacific		908	7.0	15.7	1.5	2.69
MSCI Europe		465	8.7	9.7	1.4	4.41

INTERNATIONAL EQUITY
Region and Market Exposure
June 30, 2009

Developed Countries	Aggregate Int'l Portfolio Weight (%)	International Custom Benchmark Weight	difference	3 Month Return	FYTD Return	Calendar YTD Return	1 yr Return
Asia/Pacific	**23.6%**	**25.5%**	-1.84%				
Australia	4.5%	5.3%		29.9%	-33.2%	27.5%	-33.2%
Hong Kong	2.0%	1.8%		38.1%	-15.9%	37.4%	-15.9%
Japan	16.0%	17.4%		23.4%	-21.5%	3.2%	-21.5%
New Zealand	0.1%	0.1%		21.7%	-24.4%	15.1%	-24.4%
Singapore	1.1%	1.0%		48.8%	-24.6%	35.4%	-24.6%
European Union	**28.0%**	**25.1%**	2.95%				
Austria	0.3%	0.2%		34.6%	-53.0%	28.7%	-53.0%
Belgium	0.9%	0.7%		27.6%	-46.5%	20.9%	-46.5%
Denmark	0.8%	0.7%		34.7%	-38.8%	19.4%	-38.8%
Finland	0.8%	0.9%		32.6%	-39.8%	5.6%	-39.8%
France	7.6%	7.1%		21.7%	-34.4%	2.8%	-34.4%
Germany	5.8%	5.5%		24.5%	-37.2%	0.4%	-37.2%
Greece	0.4%	0.4%		41.5%	-44.0%	24.1%	-44.0%
Ireland	0.5%	0.2%		28.8%	-56.8%	15.4%	-56.8%
Italy	2.4%	2.5%		29.2%	-38.3%	3.2%	-38.3%
Netherlands	3.1%	1.8%		26.1%	-36.4%	6.0%	-36.4%
Portugal	0.2%	0.2%		25.9%	-23.7%	17.2%	-23.7%
Spain	3.5%	3.2%		36.6%	-24.3%	11.7%	-24.3%
Sweden	1.7%	1.7%		35.2%	-29.5%	27.1%	-29.5%
Non-EU Europe	**6.7%**	**5.8%**	0.93%				
Norway	0.8%	0.5%		29.9%	-51.5%	36.0%	-51.5%
Switzerland	5.9%	5.3%		17.1%	-26.5%	-1.1%	-26.5%
North America	**6.0%**	**7.2%**	-1.23%				
Canada	5.4%	7.2%		30.7%	-35.2%	26.2%	-35.2%
USA	0.6%	0.0%		16.6%	-26.8%	4.0%	-26.8%
United Kingdom	**15.3%**	**15.1%**	0.20%				
United Kingdom	15.3%	15.1%		27.5%	-34.0%	15.2%	-34.0%
Other							
Other	1.0%	0.4%					
DEVELOPED TOTAL	**80.6%**	**79.0%**	1.59%				
Emerging Market Countries							
Asia/Pacific	**10.3%**	**12.0%**	-1.78%				
China	4.1%	4.1%		38.0%	-6.5%	40.7%	-6.5%
India	0.7%	1.6%		64.7%	-5.6%	58.9%	-5.6%
Indonesia	0.2%	0.3%		59.3%	-25.3%	60.2%	-25.3%
S. Korea	2.6%	2.6%		25.4%	-30.4%	26.1%	-30.4%
Malaysia	0.3%	0.6%		30.9%	-12.0%	26.2%	-12.0%
Philippines	0.1%	0.1%		26.0%	-2.4%	34.1%	-2.4%
Taiwan	1.7%	2.5%		27.3%	-20.3%	40.3%	-20.3%
Thailand	0.5%	0.3%		54.2%	-18.7%	46.0%	-18.7%
European Union	**0.6%**	**0.4%**	0.17%				
Czech Republic	0.3%	0.1%		32.2%	-42.4%	11.6%	-42.4%
Hungary	0.2%	0.1%		69.1%	-47.4%	20.9%	-47.4%
Poland	0.1%	0.2%		37.1%	-52.1%	-3.2%	-52.1%
Non-EU Europe	**0.9%**	**1.3%**	-0.39%				
Russia	0.9%	1.3%		38.3%	-61.3%	46.3%	-61.3%
Latin America/Caribbean	**3.5%**	**4.5%**	-1.02%				
Brazil	2.6%	3.0%		42.8%	-38.1%	60.2%	-38.1%
Chile	0.2%	0.3%		35.7%	2.5%	54.2%	2.5%
Colombia	0.0%	0.1%		53.0%	5.2%	38.2%	5.2%
Mexico	0.7%	0.9%		36.5%	-34.2%	17.0%	-34.2%
Peru	0.0%	0.1%		11.7%	-34.6%	19.6%	-34.6%
Mid East/Africa	**1.9%**	**2.7%**	-0.73%				
Egypt	0.1%	0.1%		36.4%	-40.0%	23.4%	-40.0%
Israel	0.7%	0.6%		18.2%	-19.2%	25.4%	-19.2%
Morocco	0.0%	0.1%		19.5%	-25.6%	7.8%	-25.6%
South Africa	0.8%	1.6%		32.1%	-10.9%	25.8%	-10.9%
Turkey	0.4%	0.3%		61.1%	-14.3%	42.9%	-14.3%
EMERGING TOTAL	**17.2%**	**20.9%**	-3.76%				

MEMORANDUM

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

To: Members of the Board

From: Rande R. Muffick, CFA
Portfolio Manager

Date: July 31, 2009

Subject: Public Equity External Managers Watch List - Quarterly Update

During the quarter, there were no additions to the Watch List.

There was one removal from the Watch List. Hansberger International Growth has achieved significant improvement in relative performance and the previous benchmark issues that were a concern to staff have been resolved. As a result Hansberger has been removed from the Watch List.

There were no manager terminations during the quarter.

Attached for reference is the Public Equity Manager Evaluation Policy.

MANAGER WATCH LIST
August 2009

Manager	Style Bucket	Reason	Inclusion Date
Principal Global	International – LC Growth	Performance	March 2008
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	March 2008
NorthPointe	Domestic- SC Growth	Performance	August 2008
Acadian	International – LC Value	Performance, Process	February 2009
Martin Currie	International – LC Growth	Performance, Risk Controls	February 2009
Goldman Sachs	Domestic - LC Enhanced	Organization/Personnel	May 2009
Batterymarch	International – LC Core	Performance, Process	May 2009

MONTANA BOARD OF INVESTMENTS PUBLIC EQUITY MANAGER EVALUATION POLICY
(May 14, 2008)

INTRODUCTION

The purpose of this policy is to broadly define the monitoring and evaluation of external public equity managers. This policy also provides a basis for the retention and/or termination of managers employed within the Montana Domestic Equity Pool (MDEP) and the Montana International Equity Pool (MTIP).

The costs involved in transitioning assets between managed portfolios can be significant and have the potential to detract from MDEP and MTIP 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 transition 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 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.

It is also important to note that our manager contracts are limited to a seven year term. While we may choose to issue a RFP at any time as deemed appropriate, this contractual provision will eventually force us to issue a RFP to which the manager may respond and be subject to re-evaluation against his/her peers.

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
- 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. A termination can effectively be made on very short notice if not immediately.

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.

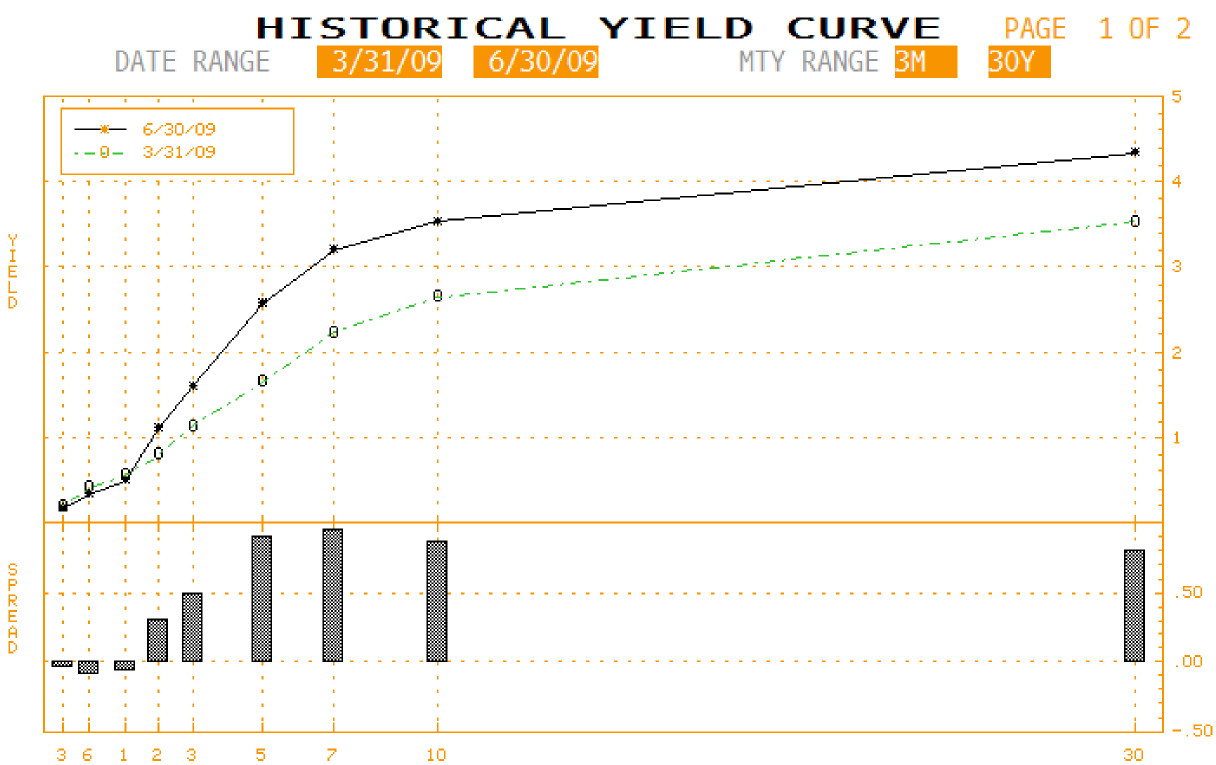
FIXED INCOME OVERVIEW & STRATEGY
Nathan Sax, Portfolio Manager
August 11, 2009

RETIREMENT & TRUST FUNDS BOND POOLS

Economic and Market Backdrop

Interest rates rose and the yield curve continued to steepen in the second quarter. The yield differential between 3-month Treasury Bills and thirty year Treasury bonds increased by 82 basis points. The yield on the 3-month Treasury bill decreased from 21 basis points on March 31st to 19 basis points on June 30th. It declined further to 14 basis points by late July. The 30-year Treasury bond ended the first quarter yielding 3.53% before rising to 4.33% by the end of June. The yield on the long bond was 4.49% on July 29th.

The overall rise and steepening of the Treasury yield curve was partly based on growing fears of inflation. The price of crude oil futures (New York Mercantile Exchange West Texas Intermediate) rose 40.7% in three months, closing at $69.89 per barrel at the end of June as compared to $49.66 on March 31st. Oil peaked at $146.94 on July 14, 2008. The Consumer Price Index (CPI) decreased -1.4% over one year, the lowest since 1950. This would imply a 4.93% real rate on 10-year Treasuries as of quarter end. Real interest rates that high last occurred in 1994.



Earlier in the year, Federal Funds futures had indicated expectations of a 0.50% Fed Funds rate by December 2009 and as high as 2.00% later in 2010. The Fed has sought to calm premature inflation fears by publicly stating the various tools at its disposal, while cautioning that the economy remains weak. Fed Chairman Ben Bernanke told the House Financial Services Committee in July that the federal funds rate would remain low for an extended period, prompting interest rate futures traders to cut back on bets that interest rates would rise in December and early 2010. According to BCA Research, “The Fed normally does not begin to tighten until the unemployment rate decisively rolls over, but investors fear that policymakers will have to begin the process earlier in this cycle because of the unprecedented explosion of the Fed's balance sheet and massive fiscal stimulus. To relieve the impasse, the Fed will have to convince investors that there is no rush to begin the exit from quantitative easing." That may be an apt description of what happened.

Due to the rise in rates, Treasury bonds trailed on a total return basis, posting -3.02% for the quarter. Mortgage pass through securities were +0.70% for the same time period. Corporate bonds were +10.45%. The asset backed securities sector was +7.64% and CMBS returned +12.46%. Agency securities were -0.04%. All of these non-Treasury sectors benefited from a contraction in risk premiums, or tighter spreads. One of the most dramatic rebounds has been seen in the MBS market, as shown below.

U.S. MBS Fixed Rate Average Option Adjusted Spread, July 2006 – June 2009

Fixed income investors continued to avoid Treasury and Agency bonds in favor of higher yielding risk assets. Yield spreads have compressed significantly since December but have not yet deterred the flow of new money into bonds. Utilities returned 9.01% in the second quarter while industrial bonds were up 8.13%. Financial issuers were up 14.67%.

The dollar has appreciated by 12.2% against the Euro in the past twelve months. This follows more than six years of decline against the European currency beginning in 2002. The greenback represents a safe haven in distressed economic environments. If investors were to return to risk avoidance, the dollar would likely appreciate. Yet as risk appetites picked up in the second quarter the dollar declined moderately, though it does not appear that massive Treasury borrowing has scared away foreign dollar investors.

Monetary policy could remain accommodative well into 2010. Quantitative easing has been put into play through large scale purchases of mortgage, Agency and Treasury bonds. Easier fiscal policy has been delayed as infusions of government spending are back weighted to mid-2010, just prior to mid-term elections.

Bond Pools: Portfolio Characteristics

The table below shows the market sector weighting of the two bond pools and the underlying portfolios that comprise the Retirement Funds Bond Pool (RFBP). In addition to the Reams portfolio, a core-plus mandate, we funded a new high yield mandate during the quarter. An initial $50 million funding of a high yield portfolio managed by Post Advisory Group was made in early May.

RFBP/TFBP vs. Barclays Aggregate – 06/30/09

	Retirement Fund Bond Pool						
	CIBP	Reams	Post	Total RFBP	Trust Fund Bond Pool	Barclays Aggregate	CIBP/TFBP Policy Range
Treasuries	10.98	21.94	0.00	11.89	11.90	25.65	10-35
Agencies & Govt Related	9.32	0.00	0.00	7.98	10.70	13.75	5-25
Total Government	**20.30**	**21.94**	**0.00**	**19.87**	**22.60**	**39.40**	**15-60**
Mortgage Backed	35.18	3.52	0.00	30.51	35.24	35.77	20-50
Asset Backed	3.52	1.73	0.00	3.21	1.85	0.47	0-10
Hybrid ARMS	0.00	0.00	0.00	0.00	0.00	2.31	0-5
CMBS	7.52	7.70	0.00	7.31	6.39	3.34	0-10
Securitized	**46.22**	**12.95**	**0.00**	**41.03**	**43.48**	**41.89**	**20-75**
Financial	10.74	36.59	9.78	13.64	12.08	6.53	
Industrial	16.14	17.89	76.98	18.22	15.71	9.99	
Utility	4.69	1.91	7.81	4.47	4.38	2.18	
Total Corporates	**31.57**	**56.39**	**94.57**	**36.33**	**32.17**	**18.71**	**10-35**
Other	0.00	0.29	0.47	0.02	0.00	0.00	
Cash	1.91	8.43	4.96	2.75	1.75	0.00	0-10
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

The RFBP remains more heavily weighted to credit than the market overall as represented by the Barclays Aggregate index. This partly reflects the fund's historical bias to corporate bonds in the internally managed portfolio. It also reflects recent transitions to core-plus and high yield mandates via external managers. The overall pool remains within its investment policy constraint of 15% in below investment grade exposure. At the end of the quarter high yield exposure was estimated at 5-6%.

The following table looks at the characteristics for the new Post Advisors high yield portfolio as compared to a Merrill Lynch high yield index. This index is being used to monitor the portfolio in lieu of the Barclays Capital 2% issuer constrained high yield index, the portfolio's specific benchmark. The manager is positioning the portfolio in a more conservative manner versus the market benchmark as evidenced by the lower weighting in the highest risk rating class of triple-C or lower and by relative over weights in bonds rated triple-B and higher.

Post vs. Merrill High Yield 2% Constrained – 06/30/09

	Post Portfolio (%)	MER HY 2% Const. (%)
Government & Agencies	0.00	0.00
Securitized	0.00	0.00
Financial	9.78	11.27
Industrial	76.98	81.11
Utility	7.81	6.92
Total Corporates	**94.57**	**99.30**
Other	0.47	0.00
Cash	4.96	0.70
Total	**100.00**	**100.00**

Post vs. Merrill High Yield 2% Constrained - 06/30/09

	Post Portfolio (%)	MER HY 2% Const (%)
Moody Aaa	4.96	0.70
Moody Aa	0.00	0.00
Moody A	12.92	0.00
Moody Baa	11.03	0.15
Moody Ba	30.30	45.21
Moody B	29.22	30.74
Moody Caa	9.58	21.78
Moody C	0.00	1.37
Moody NR	1.99	0.05
Total	**100.00**	**100.00**

The asset allocation table shows the internally-managed bond portfolios as being within the policy range for Treasury and Government related debt. Treasuries are in the low end of the range while corporate bonds, which did have a much higher weighting, are now within the policy range. Trading activity within these portfolios continues to be in the direction of attaining a more core-like portfolio structure. Improving liquidity has enhanced the portfolio's flexibility. Better relative performance from less liquid "spread product" has enhanced overall portfolio returns this calendar year. The table below shows the duration of the bond pools in comparison to that of the Merrill Broad Market Index (a proxy for the Barclays Aggregate index). The duration of the portfolios is still neutral.

Benchmark Comparison Analysis TFBP vs. Merrill US Broad Market Index on 06/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	87.48	4.56	5.53	5.24	4.15	2.72
Benchmark	101.922	4.94	4.96	4.03	4.16	1.06
Difference	-14.442	-0.38	0.57	1.21	-0.01	1.66

Benchmark Comparison Analysis CIBP vs. Merrill US Broad Market Index on 06/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	93.723	5.13	6.8	5.66	4.08	3.68
Benchmark	101.922	4.94	4.96	4.03	4.16	1.06
Difference	-8.198	0.19	1.84	1.63	-0.08	2.62

The following tables show the characteristics of the two externally managed portfolios as of quarter end as compared to their respective benchmarks. During the quarter Reams moved to a lower risk profile versus their benchmark by significantly reducing the portfolio's exposure to the CMBS and Corporate bond sectors. In the case of Post, the quarter should be considered as a transition period, though the portfolio remains somewhat more conservative in credit quality than the overall high yield market.

Benchmark Comparison Analysis Reams vs. Merrill US Broad Market Index on 06/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	87.953	4.68	6.08	7.20	4.12	5.20
Benchmark	101.922	4.94	4.96	4.03	4.16	1.06
Difference	-13.969	-0.27	1.13	3.17	-0.04	4.14

Benchmark Comparison Analysis Post vs. Merrill US High Yield Master II Constrained on 06/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	94.441	7.43	8.10	8.77	3.58	6.46
Benchmark	79.646	8.08	12.36	11.79	4.08	10.47
Difference	14.795	-0.65	-4.26	-3.02	-0.5	-4.01

The yield advantages offered in the corporate and agency sectors have narrowed substantially. This is reflected in the performance data which shows the spread sectors beating Treasury and Agency securities by a wide margin. Treasury bonds had been the best performing sector in 2007-2008 when investors were seeking a safe haven. The more recent appetite for risk assets may be related to expectations that the worst is over in terms of weak economic growth and the banking crisis.

<u>Summary</u>

Fears of higher inflation have affected long term interest rates. The Treasury yield curve continued to steepen in the second quarter. Despite expectations for higher prices, the Consumer Price Index was down 1.4% over one year, translating to high real rates of interest. The national savings rate is up to 6.9% of disposable income (see chart below) and consumers paid down net debt in back to back quarters; a rarity. Though the worst may be over for the economy, ongoing caution by consumers is likely to dampen any economic rebound.

Many institutional investors are expecting interest rates to climb over the next few years. However, few economists are predicting Fed tightening any time soon. Weak economic growth could continue for longer than had been anticipated which could also keep rates down. Fiscal policy has been accommodative through significant federal spending. Despite this, unemployment, weak residential and commercial real estate markets, high and growing savings rates and deleveraging are all deflationary forces that could overwhelm the formidable inflationary forces at work in the system.

US Personal Saving as a % of Disposable Income, July 1989 – May 2009

BELOW INVESTMENT GRADE FIXED INCOME HOLDINGS

June 30, 2009

(in millions)

	Par	Book	Market	Price	Name	Coupon %	Maturity	Rating M/S&P	Comments
	$25.000	$10.000	$2.500	$10.00	Galena CDO	4.313	01/11/13	Ca/CCC	
	$50.000	$50.000	$39.078	$78.16	DOT Headquarters II Lease	6.001	12/07/21	NR/BB	The bond is Insured by XL Capital. Financial stress at XL resulted in a downgrade of the bond.
	$10.000	$2.000	$1.475	$14.75	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	$5.000	$0.978	$0.738	$14.75	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	$15.000	$15.003	$14.700	$98.00	Ford Motor Credit Corp	7.375	10/28/09	Caa1/CCC+	Negative outlook due to deteriorating industry fundementals
	18.550	1.855	2.783	15.00	Kellwood Co	7.625	10/15/17	NR	Sold 7/24/09 at $19.0
	$123.550	$79.836	$61.274						
A	= Additions since 3/31/2009 (none)								
D	= Deletions since 3/31/09 (none)								
	In default								
	$10.000	$2.000	$1.475	$14.75	Lehman Brothers	5.500	05/25/10	NR/NR	Currently in default and liquidation
	$5.000	$0.978	$0.738	$14.75	Lehman Brothers	5.000	01/14/11	NR/NR	Currently in default and liquidation
	$15.000	$2.978	$2.213						

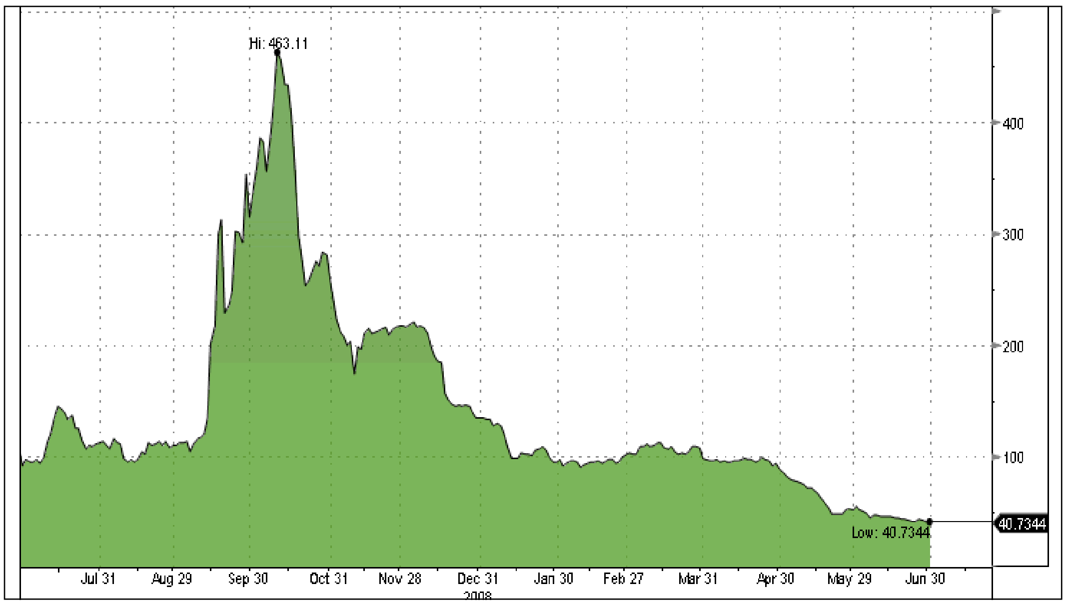
Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager

August 11, 2009

During the second quarter, money market investors looked to increase duration and take on slightly more risk in order to remain competitive. Commercial paper (CP) outstanding has dropped by 22% year to date as companies try to term out their liabilities and rely less on the uncertainty of the CP market. The Fed held the fed funds rate at 0-.25% during the quarter and is slowly withdrawing various support programs put in place over the past nine months. The Fed is studying options to withdraw liquidity and unwind the easy money policy, when the time is appropriate. Credit spreads continued to tighten during the quarter, as evidenced by the spread between three month Treasury bills and three month LIBOR rates (TED spread). This spread ended the second quarter at about 41 basis points after peaking in mid October at 463 basis points.

TED Spread (06/30/08 – 06/30/09)

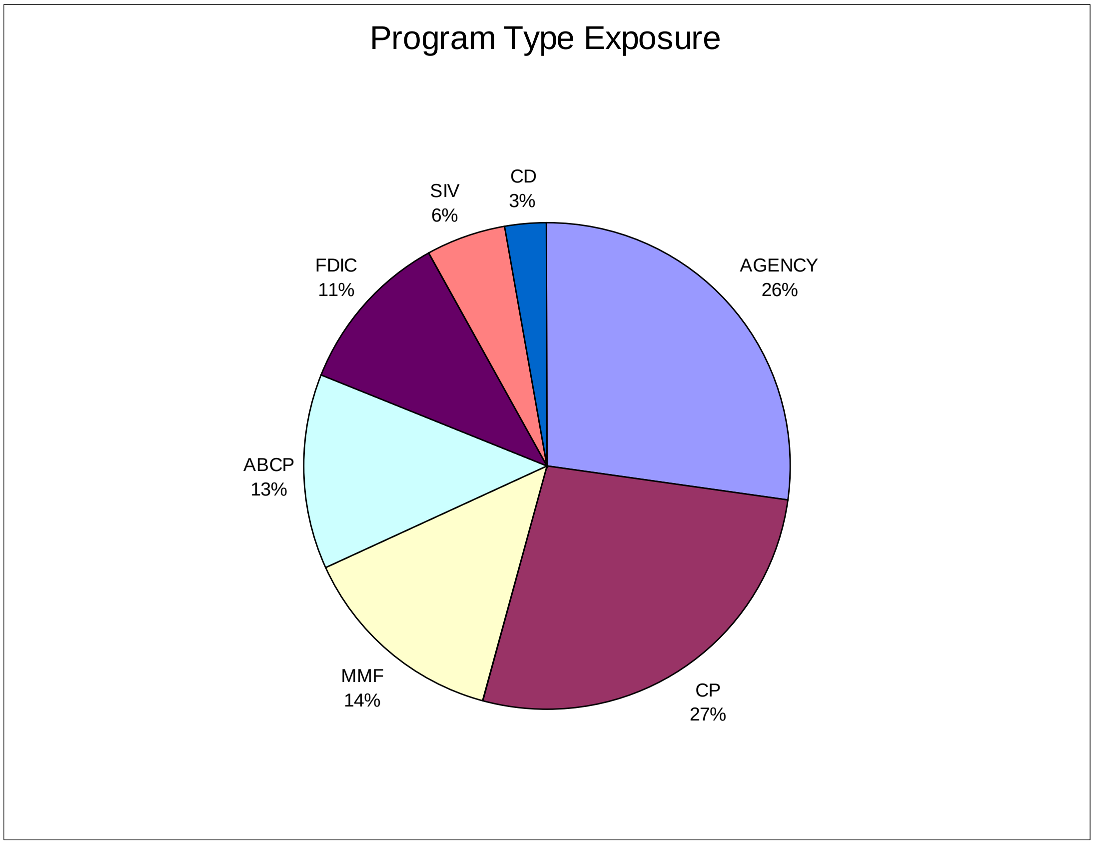


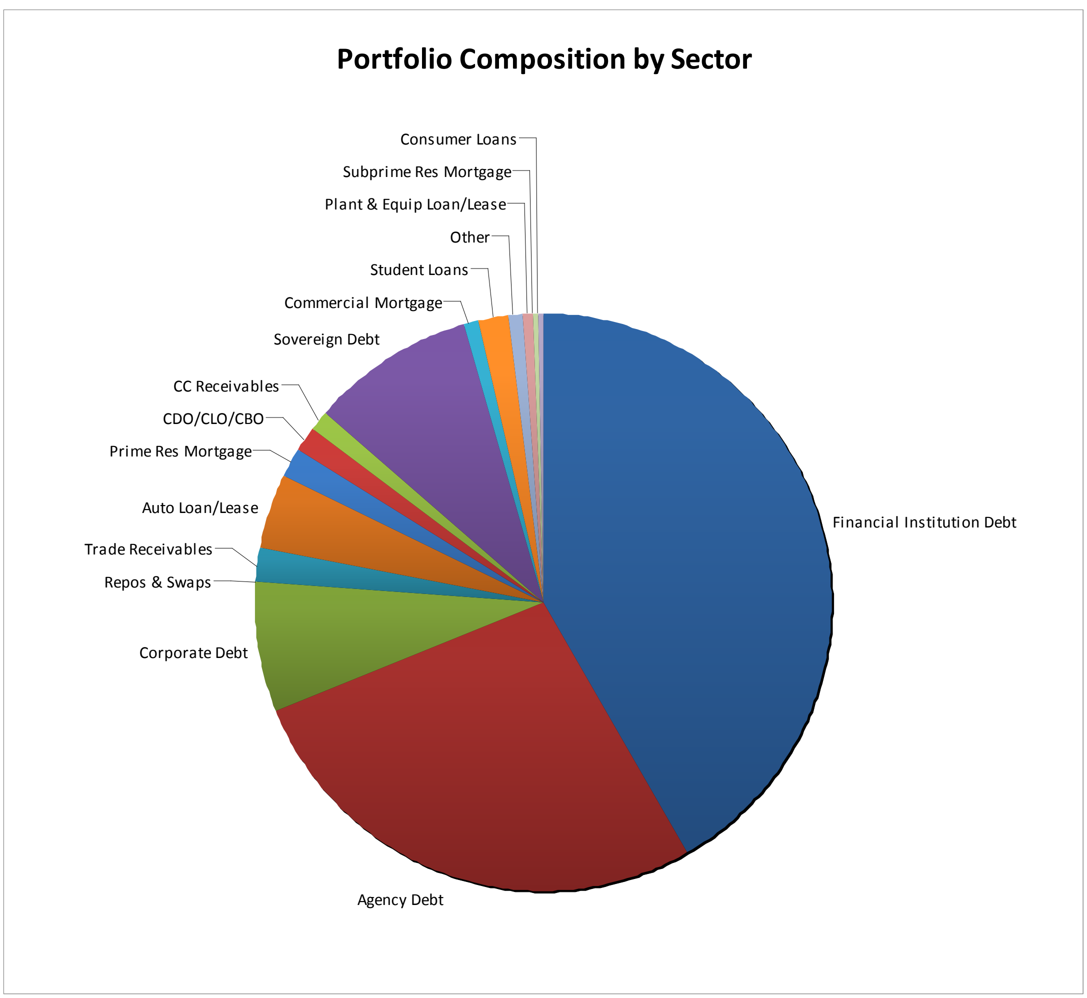
The STIP portfolio is currently well diversified and is operating within all the new guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of $200 million and weekly liquidity is at a minimum of $350 million. The average days to maturity are about 43 days as compared to a policy maximum of 60 days. All securities purchased are from the approved list and are below the 2% maximum per name. Asset-backed commercial paper is about 14% of holdings (40% max) and corporate exposure is around 24% (40% max). We currently have approximately 38% in agency/FDIC paper and 14% in four institutional money funds.

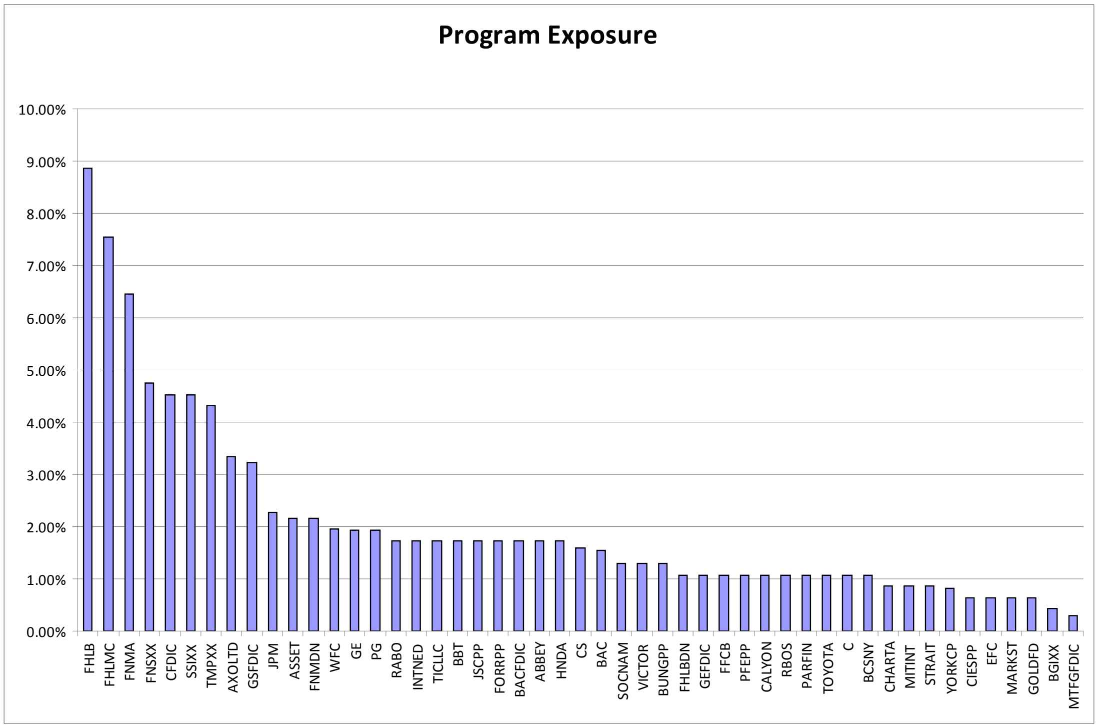
During the second quarter there were purchases of $385 million of 1-2 year floating rate securities to take advantage of a still elevated three month LIBOR rate. We bought $200 million of Agency floating rate securities and $45 million of corporate FDIC-insured floating rate securities that are pegged to three month LIBOR. We also purchased $115 million of corporate floating rate securities and $25 million of fixed rate corporate notes. The portfolio yield has drifted towards the fed funds target rate as securities purchased last summer have matured and been replaced at lower yields, sometimes as much as 250-300 basis points lower. Three month LIBOR hit an all time low of .50% in late July; this is the lowest rate since LIBOR was created in 1986.

The net daily yield on STIP is currently 0.45% as compared with the current one month LIBOR rate of 0.28% and current fed funds rate of 0.25%. The portfolio is currently $2.33 billion in assets.

All charts below are as of July 29, 2009.






Program Exposure
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
FHLB
FHLMC
FNMA
FNSXX
CFDIC
SSIXX
TMPXX
AXOLTD
GSFDIC
JPM
ASSET
FNMDN
WFC
GE
PG
RABO
INTNED
TICLLC
BBT
JSCPP
FORRPP
BACFDIC
ABBEY
HNDA
CS
BAC
SOCNAM
VICTOR
BUNGPP
FHLBDN
GEFDIC
FFCB
PFEPP
CALYON
RBOS
PARFIN
TOYOTA
C
BCSNY
CHARTA
MITINT
STRAIT
YORKCP
CIESPP
EFC
MARKST
GOLDFD
BGIXX
MTFGFDIC

State Fund Insurance

Richard Cooley, CFA, Portfolio Manager

August 11, 2009

The table below lays out the basic characteristics of the State Fund fixed income portfolio in comparison to a Merrill Lynch index. The Merrill Lynch index serves as a proxy for the account's actual benchmark, which is the Barclays Capital Government/Credit Intermediate Index.

Benchmark Comparison Analysis State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 06/30/2009						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	98.49	4.91	5.27	4.79	3.83	3.04
Benchmark	102.71	4.29	4.18	3.30	3.76	1.16
Difference	-4.21	0.62	1.09	1.49	0.07	1.88

The portfolio has an overweight in agencies, mortgage backed securities (MBS), corporate bonds and commercial mortgage backed securities (CMBS) and is underweighted in Treasuries. The sector table on the following page provides more detail on the differences between the portfolio and the benchmark. We have been slowly increasing the Treasury portion of the government holdings, as agency spreads have tightened substantially and do not offer much relative value.

Spread product ended the quarter at tighter levels as compared to the end of the first quarter. MBS spreads tightened by 65 basis points (bp) to 36 bp, agencies by 37 bp to 41 bp and corporate spreads by 237 bp to 306 bp. During the quarter, the ten year Treasury yield increased by 90bp from 2.65% to 3.55%.

The overweight in spread product (all non-Treasuries) was a drag on performance over the first three quarters of the fiscal year, but has added substantial value during the past quarter as spreads tightened. The fixed income portion of the account outperformed the benchmark by 301basis points during the June quarter.

During the June quarter, there were purchases of $29 million including: $14 million of corporate bonds and $15 million of Treasuries. Corporate purchases were in these names: GATX Corp, Merck & Co., Mass Mutual and Credit Suisse. The Treasury purchases were in the seven year part of the curve. We sold $10 million of short agencies and $3 million par of CIT bonds at $84. There were no purchases of S&P 500 index units during the quarter.

The portfolio has a 149 basis point yield advantage over the benchmark with only a one notch lower quality rating. Client preferences include keeping the STIP balance of 1-3 percent (currently 2.9%) and limiting holdings rated lower than A3 or A- to 20 percent of fixed income (currently 20.9%).

State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 06/30/2009			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	9.79	45.75	-35.95
Agencies & Govt Related	29.52	23.80	5.72
Total Government	**39.31**	**69.55**	**-30.24**
Mortgage Backed	6.06	0.00	6.06
Asset Backed	0.66	0.00	0.66
Hybrid ARMS	0.00	0.00	0.00
CMBS	5.89	0.00	5.89
Securitized	**12.62**	**0.00**	**12.62**
Financial	23.14	11.69	11.44
Industrial	19.69	16.46	3.24
Utility	2.45	2.10	0.35
Total Corporates	**45.28**	**30.25**	**15.03**
Cash	2.79	0.20	2.58
Total	**100.00**	**100.00**	

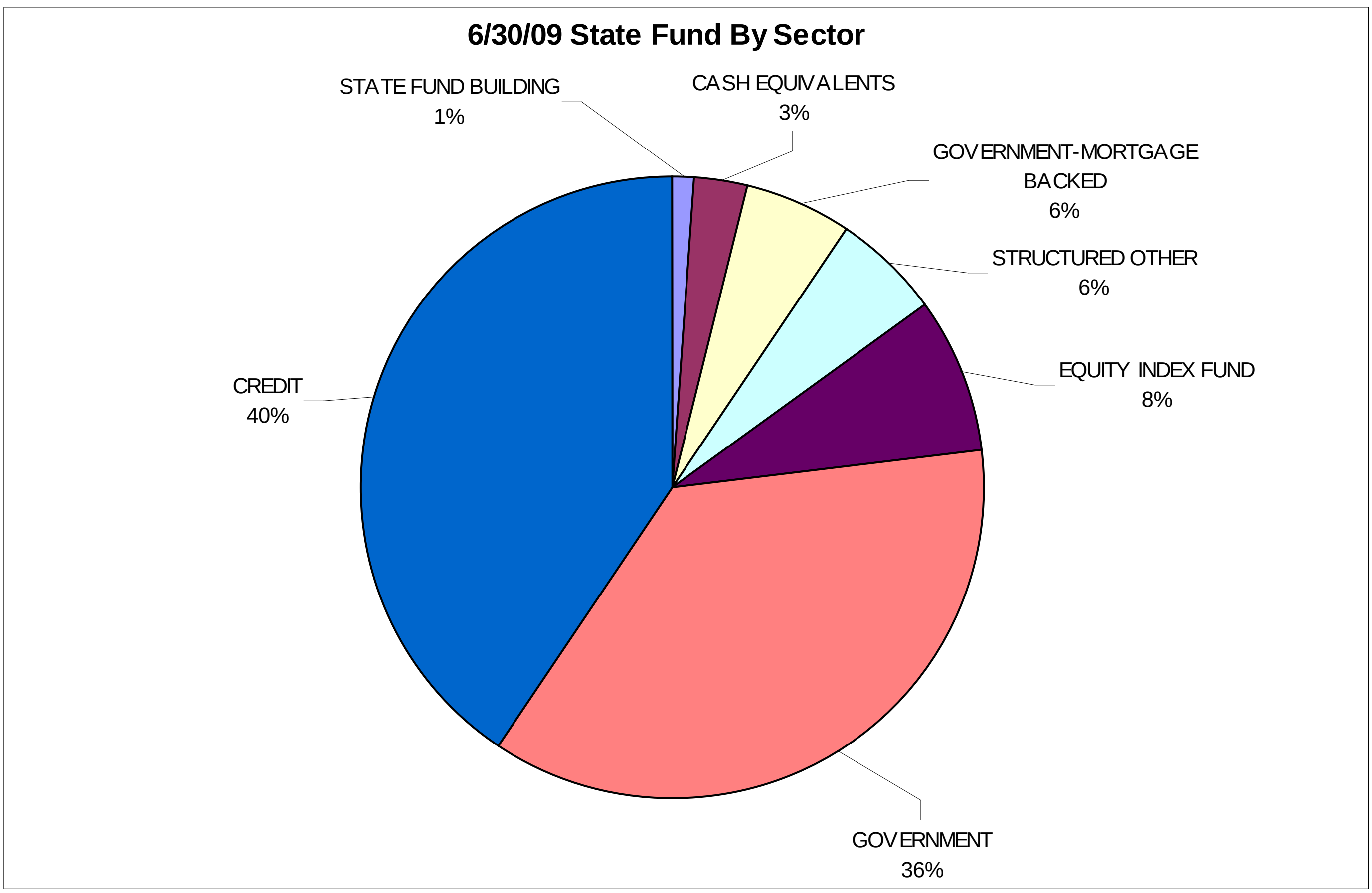
The following sector breakout is a look at the entire State Fund account including the State Fund building and the S&P 500 equity holdings. The policy range for equities is currently 8%-12%. This is a client preference as the maximum allowed by statute is 25% of book value. We have been adding to equity holdings based on market conditions.

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

6/30/2009 State Fund By Sector

	Sector	Market Value	%
	BANKS	*54,517,539*	*5.29%*
	COMMUNICATIONS	*23,804,751*	*2.31%*
	ENERGY	*27,262,821*	*2.65%*
	GAS/PIPELINES	*5,626,731*	*0.55%*
	INSURANCE	*44,239,448*	*4.29%*
	OTHER FINANCE	*113,237,464*	*10.99%*
	RETAIL	*5,039,542*	*0.49%*
	TRANSPORTATION	*43,724,667*	*4.24%*
	UTILITIES	*27,082,520*	*2.63%*
	INDUSTRIAL	*73,715,017*	*7.16%*
CREDIT		**418,250,499**	**40.60%**
	CDO	*3,400,000*	*0.33%*
	CMBS	*55,524,531*	*5.39%*

STRUCTURED OTHER	**58,924,531**	**5.72%**
TITLE XI	*9,863,154*	*0.96%*
TREASURY NOTES/BONDS	*91,911,950*	*8.92%*
AGENCY	*273,140,175*	*26.51%*
GOVERNMENT	**374,915,278**	**36.39%**
FHLMC	*30,391,906*	*2.95%*
FNMA	*26,800,237*	*2.60%*
GOVERNMENT-MORTGAGE BACKED	**57,192,143**	**5.55%**
TOTAL FIXED INCOME	**909,282,451**	**88.27%**
REAL ESTATE	*12,732,565*	*1.24%*
STATE FUND BUILDING	**12,732,565**	**1.24%**
EQUITY INDEX FUND	**81,742,906**	**7.93%**
CASH EQUIVALENTS	**26,404,184**	**2.56%**
GRAND TOTAL	**1,030,162,105**	**100.00%**



MONTANA BOARD OF INVESTMENTS

SUMMARY OF INDIVIDUAL PLAN PERFORMANCE

Rates of Returns

Periods Ending June 30, 2009

STATE STREET.

	MKT VAL $(000)	ALLOC	MONTH	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
STATE FUND INSURANCE											
TOTAL	1,034,229	100.0	1.12	5.38	1.85	1.85	4.39	4.12	5.43	5.77	12/01/1993
CASH EQUIVALENTS	26,420	2.6	0.06	0.20	1.66	1.66	5.39	4.55	4.06	4.57	
EQUITIES	81,743	7.9	0.23	15.95	-24.81	-24.81	-7.61	-1.84		-2.54	01/01/2001
FIXED INCOME	933,058	90.2	1.23	4.68	4.61	4.61	5.50	4.60	6.01	6.16	
STATE FUND INSURANCE CUSTOM COMPOSI			0.43	2.65	-1.21	-1.21	3.64	3.32			
CITIGROUP 3 MONTH T-BILL			0.01	0.05	0.78	0.78	3.04	3.02	3.08		
S&P 500			0.20	15.93	-26.22	-26.22	-8.22	-2.24	-2.22		
BC GOV/CREDIT INTERMEDIATE			0.47	1.67	5.27	5.27	6.13	4.57	5.65		

Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

August 11, 2009

The fund totaled $952 million as of June 30, 2009, consisting of approximately half general fund monies and the balance in various other state operating accounts. During May, a short Agency bond was sold at a yield to maturity of .34% which resulted in a realized gain. This was the last security held in the account, so the balance is now fully invested in STIP. Pending approval of the updated investment policy statement, purchases of short dated government bonds may again be considered for purchase in this account, subject to market conditions.

MONTANA BOARD OF INVESTMENTS
INVESTMENT POLICY STATEMENT
STATE OF MONTANA TREASURER'S FUND (MU10)
Last Revised August 12, 2009

INTRODUCTION

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

OBJECTIVES

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

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

PERMITTED INVESTMENTS

- Short-term Investment Pool (STIP).
- Deposits held at the state's depository bank, U.S. Bank.
- U.S. Treasury obligations.
- Direct obligations of the U.S. mortgage agencies Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation). These obligations shall consist of only the discount notes, notes and debentures of these two agencies and does not include mortgage pass-through obligations. Coupons may be fixed or LIBOR-based floating rate.
- Direct obligations of the Federal Farm Credit Bank and the Federal Home Loan Bank. These obligations shall consist of discount notes, notes and debentures with either fixed or LIBOR-based floating rate coupons.
- Short-term tri-party repurchase obligations (repo) with an approved primary dealer, the custodial bank, or the depository bank (U.S. Bank) that are collateralized at 102% of value with U.S. Treasury and U.S. Agency securities. Approved primary dealers will be the same as those dealers approved for repo investments made in STIP.
- Fixed income obligations of other U.S. agencies or corporate entities that are directly guaranteed as to both principal and interest by the full faith and credit of the U.S. Treasury. The most prominent example of this type of obligation currently is FDIC-insured notes issued by banks under the TLGP (Temporary Liquidity Guarantee Program) of the U.S. Treasury.
- Any obligation purchased pursuant to the bond credit enhancement program of the MBOI as authorized pursuant to Resolution 219 of the Board.

CONSTRAINTS

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

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

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

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

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

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

LEGAL

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

(a) discharge its duties with the care, skill, prudence and diligence under the circumstances, then prevailing that a prudent person acting in a like capacity with the same resources and familiar with like manners, exercises in the conduct of an enterprise of a like character with like aims;
(b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return, unless, under the circumstances, it is solely prudent no to do so; and
(c) discharge his duties solely in the interest of and for the benefit of the funds forming the

unified investment program.

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

17-1-111 General fiscal duties of state treasurer.
(1) The state treasurer is the custodian of all money and securities of the state unless otherwise expressly provided by law.
(2) It is the duty of the state treasurer to:

(a) receive and account for all money belonging to the state, not expressly required by law to be received and kept by some other person; determines to be essential for the support of the accounting records maintained in the department;

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

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

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

17-6-101. Deposit of funds in hands of state treasurer
(6) The state treasurer may contract with a financial institution to provide general depository

banking services. The cost of contracting for banking services is statutorily appropriated, as provided in 17-7-502, from the general fund.

17-6-212. State purchase of general fund warrants.

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

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

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

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

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

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

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

Bond Program

INTERCAP Loan Program

Activity Summary

As of June 30, 2009

Since Inception 1987 - June 2009

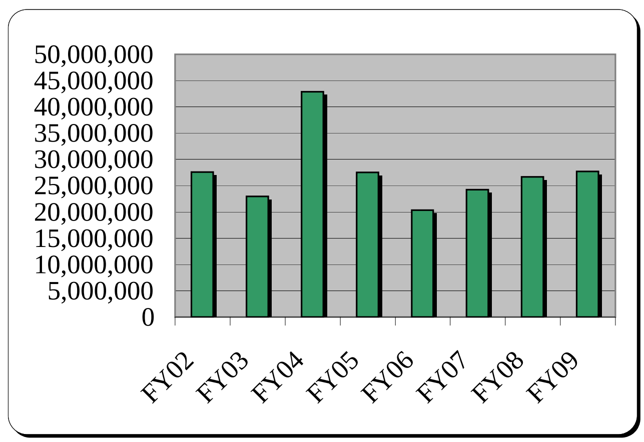
Total Bonds Issued	**124,000,000**
Total Loan Commitments	**326,964,259**
Total Loans Funded	**301,159,773**
Total Bonds Outstanding	**88,620,000**
Total Loans Outstanding	**77,714,731**
Loan Commitments Pending	**25,804,486**

FY2009 To Date

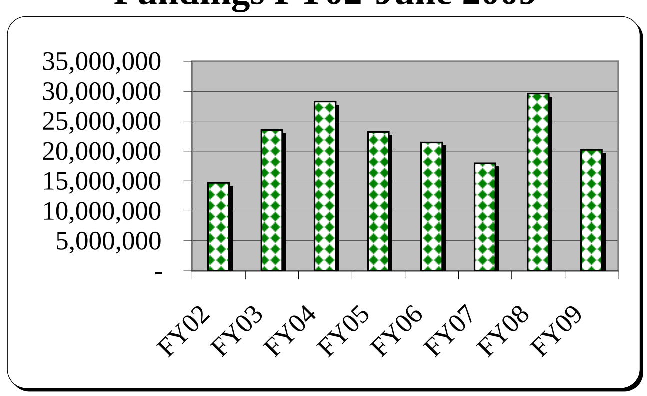
Month	Commitments	Fundings
July-08	$ 247,991	$ 1,066,447
August	1,372,958	662,931
September	6,078,958	959,160
October	151,270	952,115
November	3,111,364	2,492,190
December	650,000	8,000
January	528,624	2,614,802
February	9,377,053	1,477,348
March	57,434	1,167,216
April	5,332,101	3,764,126
May	224,000	2,520,741
June-09	580,200	2,526,953
To Date	$ 27,711,953	$ 20,212,029

Note: Commitments include withdrawn and expired loans.

Commitments FY02-June 2009



Fundings FY02-June 2009



Variable Loan Rate History February 16, 2002 - February 15, 2010

February 16, 2002 - February 15, 2003	**3.15%**	February 16, 2006 - February 15, 2007	**4.75%**
February 16, 2003 - February 15, 2004	**2.85%**	February 16, 2007 - February 15, 2008	**4.85%**
February 16, 2004 - February 15, 2005	**2.70%**	February 16, 2008 - February 15, 2009	**4.25%**
February 16, 2005 - February 15, 2006	**3.80%**	February 16, 2009 - February 15, 2010	**3.25%**

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Montana Board of Investments
LOAN COMMITTEE
August 11, 2009
INTERCAP Loan Summary and Approval

Borrower: Department of Natural Resources and Conservation (DNRC)

The DNRC requests a $2,035,000 interim loan in anticipation of issuing State of Montana Coal Severance Tax Bonds for its Renewable Resource Grant & Loan (RRGL) Program. The loan will be financed over a two (2) year term in the form of a bond anticipation note (BAN).

The projects to be financed are loans to Montana irrigation districts and a small portion to refinance existing local government debt. The loans are projects that have been approved by the 2009 legislature. The RRGL borrower will have taken all the steps necessary for obtaining bond financing before the DNRC requests interim funding from INTERCAP.

Authorization:

Montana Code Annotated (MCA) Sections 17-5-701 through 17-5-719 and 17-5-731 authorizes the issuance and sale of the Coal Severance Tax (CST) Bonds and the BAN in anticipation of the CST Bonds. Statute of particular interest for authorization is as follows:

CST Bonds authorization

17-5-706 MCA: The board of examiners, upon approval of the legislature as hereinafter provided, shall issue and sell coal severance tax bonds to finance approved renewable resource projects when authorized to do so by any law that sets out the amount and purpose of the issue. Each project must be separately approved as to amount by a two-thirds vote (67%) of each house of the legislature.

Article IX, section 5, of the Montana Constitution: ¾ vote (75%) required of each house to pledge the monies necessary for the payment of principal and interest on the coal severance tax bonds.

- ✓ 2009 Legislative Session: House Bill 8 (HB8) passed by 87% in the Senate and 84% in the House of Representatives authorizing the issuance of $20,058,795 in coal severance tax bonds.

17-5-719 MCA: No more than $250 million worth of coal severance tax bonds may be issued for renewable resource development projects and activities.

- ✓ Current total CST Bonds outstanding: $31,467,564

BAN authorization

17-5-731 MCA (1) When the board of examiners has been authorized by the legislature to issue and sell bonds under this part, it may, pending the issuance of the bonds, issue temporary notes in anticipation of the receipt of proceeds to be derived from the sale of the bonds. (2) Bond anticipation notes …maturing not more than 3 years after the date of issue may be issued from time to time as needed.

INTERCAP Debt

Since 1996, the DNRC has used the INTERCAP program to interim finance over $15.6 million for its various programs. DNRC currently has $3.3 million in revenue anticipation notes (RANs) outstanding; final maturity April 2012.

Recommendation

The DNRC can adequately service the debt. Approval recommended.

Staff Loan Committee

Carroll South, Executive Director ______ Approval Date: 7/30/09

Geri Burton, Deputy Director Geri Burton Approval Date: 7-30-09

Louise Welsh, Bond Program Officer ______ Approval Date: 7/30/09

Board Loan Committee

Elouise Cobell, Board Member

Jack Prothero, Board Member

Jon Satre, Board Member

James Turcotte, Board Member

MEMORANDUM

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

To: Members of the Board

From: Louise Welsh, Bond Program Officer

Date: August 12, 2009

Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – April 1, 2009 through June 30, 2009.

Borrower:	Golden Valley County
Purpose:	Purchase a motor grader
Staff Approval Date	April 7, 2009
Board Loan Amount:	$39,637
Other Funding Sources:	$22,500
Total Project Cost:	$65,137
Term:	2 years

Borrower:	Missoula County
Purpose:	Purchase of motor graders, motor pool vehicles and office equipment
Staff Approval Date	April 7, 2009
Board Loan Amount:	$1,000,000
Other Funding Sources:	$0
Total Project Cost:	$1,000,000
Term:	4 years

Borrower:	Custer County
Purpose:	Purchase 2009 Volvo G940 motor grader
Staff Approval Date	April 9, 2009
Board Loan Amount:	$110,000
Other Funding Sources:	$115,000
Total Project Cost:	$225,000
Term:	5 years

Borrower:	Town of Whitehall
Purpose:	Purchase 2008 fire engine
Staff Approval Date	April 15, 2009
Board Loan Amount:	$150,000
Other Funding Sources:	$ 50,000
Total Project Cost:	$200,000
Term:	10 years

Borrower:	Jefferson County
Purpose:	Purchase building and remodel County offices
Staff Approval Date	April 20, 2009
Board Loan Amount:	$300,000
Other Funding Sources:	$ 0
Total Project Cost:	$300,000
Term:	10 years

Borrower:	Town of West Yellowstone
Purpose:	911 Dispatch Center upgrade
Staff Approval Date	April 22, 2009
Board Loan Amount:	$490,502
Other Funding Sources:	$48,737
Total Project Cost:	$539,239
Term:	10 years

Borrower:	Missoula County
Purpose:	Purchase historical building for Historical Museum
Staff Approval Date	April 24, 2009
Board Loan Amount:	$430,000
Other Funding Sources:	$50,000
Total Project Cost:	$480,000
Term:	10 years

Borrower:	City of Fort Benton
Purpose:	Purchase a new pumper fire truck
Staff Approval Date	May 5, 2009
Board Loan Amount:	$180,000
Other Funding Sources:	$50,000
Total Project Cost:	$230,000
Term:	15 years

Borrower:	Golden Valley County
Purpose:	Purchase 2008 Ford F350 ambulance
Staff Approval Date	May 13, 2009
Board Loan Amount:	$44,000
Other Funding Sources:	$32,000
Total Project Cost:	$76,000
Term:	10 years

Borrower:	Pondera County Rural Fire District
Purpose:	Purchase 2009 Freightliner Class A pumper truck
Staff Approval Date	June 3, 2009
Board Loan Amount:	$100,000
Other Funding Sources:	$140,995
Total Project Cost:	$240,995
Term:	10 years

Borrower:	City of Great Falls
Purpose:	Design/installation of Water Tower Park Addition roadway lighting
Staff Approval Date	June 12, 2009
Board Loan Amount:	$20,516
Other Funding Sources:	$0
Total Project Cost:	$20,516
Term:	15 years

Borrower:	City of Livingston
Purpose:	Replace water mains
Staff Approval Date	June 22, 2009
Board Loan Amount:	$152,941
Other Funding Sources:	$77,088
Total Project Cost:	$230,029
Term:	10 years

Borrower:	City of Livingston
Purpose:	Replace sewer mains
Staff Approval Date	June 23, 2009
Board Loan Amount:	$141,743
Other Funding Sources:	$139,274
Total Project Cost:	$281,017
Term:	10 years

Borrower:	City of Harlem
Purpose:	Preliminary engineering report
Staff Approval Date	June 25, 2009
Board Loan Amount:	$30,000
Other Funding Sources:	$15,000
Total Project Cost:	$45,000
Term:	3 years

Borrower:	LaMotte School District #43 (Bozeman)
Purpose:	Purchase/installation of a modular building
Staff Approval Date	June 26, 2009
Board Loan Amount:	$135,000
Other Funding Sources:	$15,000
Total Project Cost:	$150,000
Term:	5 years

Montana Loan Program

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: Herb Kulow, MCMB
Senior Portfolio Manager

Date: August 11, 2009

Subject: Commercial and Residential Loan Portfolio

As of June 30, 2009, the Commercial Loan portfolio reflected a balance of $192,386,795.06 and was distributed in the following loan types:

Loan Type	Number of Loans	Balance	Portfolio Percentage
Participation	97	92,948,293	48.31%
Guaranteed	83	61,135,204	31.78%
Infrastructure	7	20,591,953	10.70%
Value Added	14	13,538,774	7.04%
IRP	11	2,477,215	1.29%
Seasoned	1	855,619	0.44%
Link	4	839,737	0.44%
	217	192,386,795	100.00%

There are six reservations totaling $26,207,197 and 12 committed loans totaling $23,195,363 outstanding at this time. There were no commercial loans past due over 90 days. The portfolio does have three SBA guaranteed loans past due ranging from 41 to 61 days totaling $429,523. There are six loans with monitored modifications. The coal tax percentage is 21.22%.

The following table compares MBOI 90-day + past due and non accrual commercial loans to Montana banks and FDIC insured banks nationally, using the most recent FDIC reports dated 3-31-09.

Commercial Past Due
Comparison to 3-31-09 FDIC statistical information

	Past due 90 days + and non-accrual loans	Total commercial loans	Past due %
BOI	0	192,386,795	0.00%
Montana (000)	64,676	3,625,186	1.78%
National (000)	29,346,793	1,287,505,195	2.28%

Residential loans continue to pay off with very little new reservation activity since the last report. As of 6-30-09, residential loans totaled $45,952,814. There were seven loans 90 days or more past due totaling $337,870. Six of those loans were FHA guaranteed and one has a VA guarantee. The following table compares MBOI 90-day + past due and non accrual commercial loans to Montana banks and FDIC insured banks nationally, using the most recent FDIC reports dated 3-31-09.

Residential Past Due
Comparison to 3-31-09 FDIC statistical information

	Past due 90 days + and non-accrual loans	Total residential loans	Past due %
BOI	337,870	45,952,814	0.74%
Montana (000)	47,452	2,816,734	1.68%
National (000)	135,118,070	2,719,550,238	4.97%

The next table provides a short historical comparison of the MBOI residential past due percentages. Most noticeable is the reduction in total residential loans outstanding as of the end of each fiscal year.

Historical MBOI Residential Past Due

Date	Past due 90 days + and non-accrual loans	Total residential loans	Past due %
6/30/2006	160,323	80,911,759	0.20%
6/30/2007	395,907	69,335,974	0.57%
6/30/2008	81,084	59,809,963	0.14%
6/30/2009	337,870	45,952,814	0.74%

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: Herb Kulow, MCMB

Date: August 3, 2009

Subject: Summary of Commercial Loan Portfolio as of June 30, 2009

The following is a review of the $192,386,795.06 Commercial Loan Portfolio as of 6-30-09. Staff did not include any information concerning specific credits. Currently the portfolio is distributed into the following types:

Loan Types as of 6-30-09

Loan Type	Balance	Percent of Portfolio	Number of Loans	Average Loan Size
Participation	93,803,912	48.76%	97	967,051
Guaranteed	61,135,204	31.78%	84	727,800
Infrastructure	20,591,953	10.70%	7	2,941,708
Value Added	13,538,774	7.04%	14	967,055
IRP	2,477,215	1.29%	11	225,201
Link	839,737	0.44%	4	209,934
Total	192,386,795	100.00%	217	886,575

The following is a breakdown of the various guarantors.

Guarantee Types as of 6-30-09

Guarantee Type	Balance	Percent of Portfolio	Number of Loans	Average Loan Size
Rural Business Services (RBS)	50,257,337	82.21%	25	2,010,293
Small Business Administration (SBA)	7,077,853	11.58%	42	168,520
Farm Services Agency (FSA)	2,676,997	4.38%	14	191,214
Farmers Home Administration (FHA)	1,123,017	1.84%	3	374,339
Total	61,135,204	100.00%	84	727,800

The Farmers Home Administration (FmHA) should not be confused with the Federal Housing Authority (FHA). The acronym MBOI uses in its commercial loans, FHA, refers to the Farmers Home Administration. The RBS loan balance would tend to be higher since SBA is limited to a maximum guarantee of $1,500,000 per borrower.

MBOI is participating with lenders in 26 of the states 56 counties, with the largest concentrations in Missoula, Gallatin, Yellowstone, Lewis and Clark, and Cascade. The five largest counties represent 76.04% or $146,296,529 of the total portfolio. Of that $146,296,529, participations represent $80,726,645 of the total, guaranteed $32,922,470, infrastructure $20,475,411, and all other loans $12,172,002. The map in Exhibit A also shows the distribution by loan type in each of the five counties.

Although Flathead County did not make the top five counties, it was number six, with $17,199,637.

Flathead County	
Participation	6,843,429
Guaranteed	6,808,000
Value Added	3,306,353
IRP	125,313
Infrastructure	116,542
	17,199,637

A listing of all the counties, their balances, percentage of the total portfolio and number of loans can be found as Exhibit B.

An important consideration when looking at risk is the industry in which those loans are made. MBOI has nine specific industries it categorizes loans under. They are, Agriculture/Forestry/Fishing, Mining, Construction, Manufacturing, Wholesale, Retail Trade, Transportation/Utilities/Communications, Finance/Insurance/Real Estate and the Service Industry. Although many of the loans MBOI participates in are real estate holding companies, generally owned by the owners of the company that is going to occupy the building, staff classifies those loans under the NAICS (North American Industry Classification System) code of the tenant.

The current portfolio is distributed by industry classification in the following table.

INDUSTRY	LOAN BALANCE	PERCENT OF PORTFOLIO	NUMBER OF LOANS
AGRICULTURE/FORESTRY/FISHING	5,823,191.08	3.03%	21
MINING	186,365.09	0.10%	1
CONSTRUCTION	1,976,655.36	1.03%	8
MANUFACTURING	24,537,662.28	12.75%	25
WHOLESALE TRADE	1,011,697.67	0.53%	6
RETAIL TRADE	25,607,443.64	13.31%	41
TRANSPORTATION/UTILITIES/COMM.	13,597,185.85	7.07%	7
FINANCE/INSURANCE/REAL ESTATE	13,950,470.49	7.25%	21
SERVICE INDUSTRY	105,696,123.60	54.94%	87
	192,386,795.06	100.00%	217

Staff took the three largest concentrations, Service Industry, Retail Trade and Manufacturing and broke out the detail by NAICS code for each of these categories. This can be seen in Exhibit C.

Staff also broke out the largest sectors within the top three industries and further identified how many of the loans within each sector were guaranteed and how many were not guaranteed. Staff also reflects what percentage of the total portfolio each sector in the industry represents.

The Service Industry is the largest classification with the most individual sectors within it. Within that classification is Hotels and Motels totaling $18,531,808, which represents 9.63% of the total portfolio. Only $3,394,760 of that total is guaranteed. The unguaranteed portion, $15,137,048, is made up primarily of three loans totaling $14,482,290. They are a motel in Missoula, $5,827,932, Billings, $4,883,143 and Whitefish, $3,771,215. With all hotels/motels, MBOI requires 30% equity and MBOI will only participate up to a maximum of 50% of the total loan. Another sector that relates closely to hotels and motels is restaurants. MBOI has $12,915,762 in that sector, representing 6.71% of the total portfolio, with $9,588,553 of that amount guaranteed. In total hotels/motels and restaurants represent 16.35% of our total portfolio or $31,447,570 of which $12,983,313 is guaranteed. The other large sector in the Service Industry is General Medical Services. It represents $23,391,083 or 12.16% of the portfolio of which $9,520,951 of that is guaranteed. Within the unguaranteed portion, there is one seasoned loan from Great Falls which represents nearly 50% of the unguaranteed portion. Overall the Service Industry represents 54.94% of the total portfolio.

Although the Service Industry is the largest classification with a few larger sectors, there is not a concentration of credit to any one borrower, nor is there a concentration in any particular county or lender, which gives each sector and the industry some diversification.

The Retail Trade Industry represents 13.31% of the total portfolio or $25,607,444. Household Stores make up 44% of this sector and 5.89% of the total portfolio. Within this sector there are two lumber yard/home improvement centers, one in Bozeman and one in Great Falls, which total $7,466,853. Both of these loans are participations. Only $1,742,142 of the $11,330,668 in the Household Stores sector is guaranteed.

The last Industry to be summarized is the Manufacturing Industry. This sector represents 12.75% of the total portfolio or $24,537,662. Only one borrower is represented in each of the four largest sectors in this industry. The largest sector in this industry is Other Aircraft Parts, $10,778,853, all of which is not guaranteed and all of which is primarily to one company. Semiconductor is second with $3,846,278, also unguaranteed. All of the loans in the third sector are guaranteed and finally the fourth sector, is 75% guaranteed.

If it would not be for the participation of approved lenders in the MBOI loan programs, the In-State Loan Program would not be successful. In addition, the approved lenders only ask MBOI to participate in quality loans, as evidenced by the continued low past due. The originating lender services their own loans. The approved lenders have been very diligent in monitoring each of their credits and keeping staff informed when a particular loan needs some attention. Staff is not able to gather information from our current reporting system that identifies the location of the project. The reporting system identifies the location of the originating lender rather than the project. Staff has assembled a list of those originators/servicers on Exhibit E. It is interesting to note that the MBOI is ranked #2 in servicing loans. This is because MBOI has originated $20,591,952 of infrastructure loans and $2,477,215 of IRP loans. In both of these cases MBOI is the direct lender. All of the MBOI loans are not guaranteed. However, staff has started the process with the USDA to become an approved lender under their guarantee program, with the intent of securing guarantees on future infrastructure loans.

The leading originator of loans currently outstanding in the portfolio is First Interstate Bank with $44,057,215 outstanding of which $18,378,865 is guaranteed. They are servicing 48 individual loans. As can be seen, most of the approved lenders are from the western part of Montana, which corresponds with the map in Exhibit A. Staff has also included a raking as to total loans being serviced.

Below is a listing of the top six lenders servicing guaranteed loans.

Lenders	**Guaranteed Balances**	**Loans**
AMERICAN FEDERAL SAVINGS BANK - (HELENA)	6,604,867.93	1
FIRST INTERSTATE BANK	18,378,865.47	21
FIRST SECURITY BANK	2,380,054.58	9
MOUNTAIN WEST BANK OF GREAT FALLS	5,661,650.58	6
STOCKMAN BANK OF MONTANA - (MILES CITY)	6,509,640.11	5
WELLS FARGO BANK MONTANA N.A. - (BILLINGS)	3,267,627.98	2

The average yield in the commercial loan portfolio is 5.30%. There are 99 loans outstanding that have had some interest rate reduction as a result of the creation of jobs. That represents 45% of the portfolio. From the information available to staff, the current active loans created 4,143 new jobs for Montana. The benefit to the borrower is a reduction of the interest rate on the MBOI portion of the loan equal to 5 basis points for each qualifying job up to a maximum of 2.50% rate reduction. It may appear that the rate of return on the portfolio is low, however, the benefit to the state is the creation of jobs and the additional purchasing power within the state as a result of those jobs.

The following is a summary of the current interest rates in the portfolio.

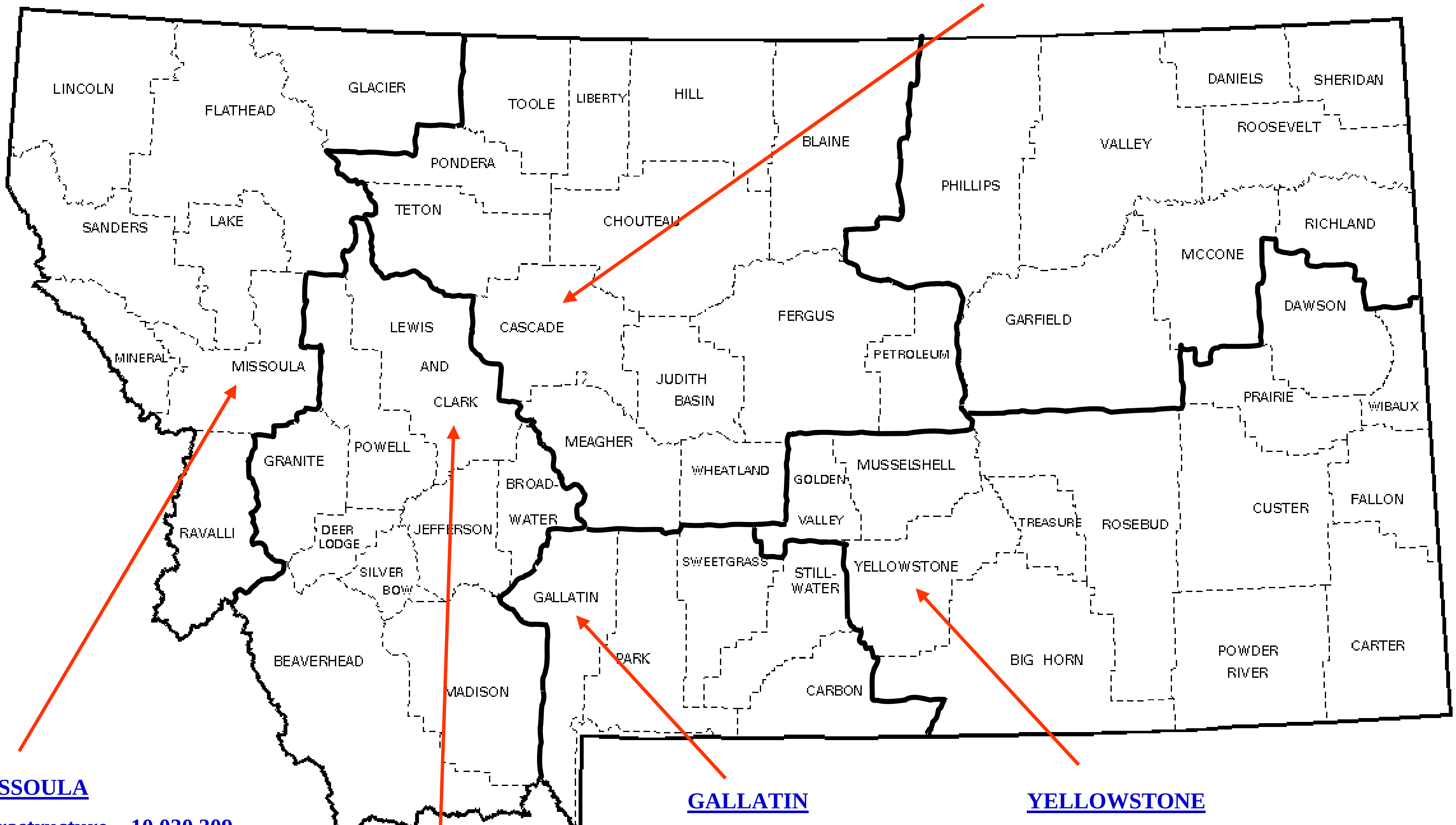
RATE	LOAN BALANCE	LOANS
>11%	689,954.44	1
>10%	16,107.84	1
=>8%	250,940.33	2
=>7%	15,213,164.35	34
=>6%	56,897,625.54	99
=>5%	43,787,492.11	38
=>4%	59,822,391.40	18
=>3%	2,708,626.52	4
=2%	13,000,492.53	20
	192,386,795.06	217

There is $119,319,001 of the commercial loan portfolio that is earning less than 6.00% for the Board. This represents 62% of the portfolio. All of the interest earned from the In-State Loan Program goes into the General Fund of the State of Montana. The In-State Loan Program has NO loan loss reserve. If there would be a loss of principal on a loan, it would be deducted from the interest flowing into the General Fund.

FIVE COUNTIES REPRESENT 76.04% OF TOTAL COMMERCIAL LOAN PORTFOLIO AS OF 6-30-09

CASCADE

Infrastructure	6,755,076
IRP	152,548
Participation	12,359,092
Guaranteed	3,907,985
TOTAL	23,174,701



MISSOULA

Infrastructure	10,030,309
IRP	352,481
Link	524,249
Participation	17,602,463
Guaranteed	5,978,294
Value Added	2,163,006
TOTAL	36,650,802

LEWIS AND CLARK

IRP	982,299
Participation	6,815,078
Guaranteed	12,025,750
Value Added	5,289,528
TOTAL	25,112,655

GALLATIN

Infrastructure	3,302,003
Participation	18,095,450
Guaranteed	8,763,240
Value Added	2,449,147
TOTAL	32,609,840

YELLOWSTONE

Infrastructure	388,023
Participation	25,854,561
Guaranteed	2,247,201
Value Added	258,742
TOTAL	28,748,527

EXHIBIT B

COUNTY	TOTAL LOANS	PERCENT OF PORTFOLIO	NUMBER OF LOANS
BEAVERHEAD	214,534.56	0.11%	1
BLAINE	1,215,392.31	0.63%	7
CARBON	308,856.12	0.16%	2
CASCADE	23,174,701.90	12.05%	14
FERGUS	84,375.00	0.04%	1
FLATHEAD	17,199,636.91	8.94%	16
GALLATIN	32,609,839.90	16.95%	29
HILL	3,577,196.61	1.86%	1
JEFFERSON	200,818.53	0.10%	1
LAKE	252,747.94	0.13%	1
LEWIS AND CLARK	25,112,655.74	13.05%	25
MADISON	400,951.24	0.21%	4
MISSOULA	36,650,804.34	19.05%	39
PARK	6,075,919.16	3.16%	8
PHILLIPS	1,695,429.26	0.88%	1
PONDERA	71,996.25	0.04%	2
RAVALLI	2,485,221.76	1.29%	3
RICHLAND	255,587.67	0.13%	2
ROOSEVELT	350,424.66	0.18%	3
ROSEBUD	717,112.32	0.37%	1
SILVER BOW	8,601,587.07	4.47%	4
STILLWATER	1,580,599.58	0.82%	9
TOOLE	349,573.46	0.18%	1
VALLEY	389,741.13	0.20%	3
WIBAUX	62,563.64	0.03%	1
YELLOWSTONE	28,748,528.00	14.94%	38
	192,386,795.06	100.00%	217

EXHIBIT C

SERVICE INDUSTRY **TYPE OF BUSINESS**	**BALANCE**	**PERCENT OF PORTFOLIO**	**NUMBER OF LOANS**
Offices of Lawyers	101,388.68	0.10%	1
Offices of Certified Public Accountants	1,123,800.07	1.06%	2
Architectural Services	3,507,718.88	3.32%	4
Engineering Services	12,608,062.07	11.93%	7
Computer Systems Design Services	125,371.49	0.12%	1
Veterinary Services	539,433.16	0.51%	2
Private Mail Centers	95,629.87	0.09%	1
Credit Bureaus	8,810,655.34	8.34%	2
Remediation Services	1,155,840.46	1.09%	1
Septic Tank and Related Services	66,513.93	0.06%	1
All Other Miscellaneous Schools and Instruction	486,453.80	0.46%	3
Educational Support Services	637,084.49	0.60%	1
Offices of Physicians (except Mental Health Specialists)	826,048.29	0.78%	4
Offices of Dentists	298,760.64	0.28%	3
Offices of Chiropractors	138,307.47	0.13%	2
Offices of Optometrists	21,082.56	0.02%	1
Offices of Mental Health Practitioners (except Physicians)	53,621.94	0.05%	1
Offices of Podiatrists	93,002.15	0.09%	1
Outpatient Mental Health and Substance Abuse Centers	122,601.87	0.12%	2
All Other Outpatient Care Centers	3,577,196.61	3.38%	1
General Medical and Surgical Hospitals	6,041,530.27	5.72%	1
Residential Mental Retardation Facilities	2,931,179.13	2.77%	1
Continuing Care Retirement Communities	4,702,556.80	4.45%	3
Other Individual and Family Services	4,585,196.33	4.34%	1
Independent Artists, Writers, and Performers	1,407,732.97	1.33%	1
Golf Courses and Country Clubs	2,238,993.13	2.12%	1
Skiing Facilities	908,542.27	0.86%	1
Fitness and Recreational Sports Centers	5,861,588.02	5.55%	2
All Other Amusement and Recreation Industries	765,636.40	0.72%	2
Hotels (except Casino Hotels) and Motels	18,531,808.45	17.53%	9
RV (Recreational Vehicle) Parks and Campgrounds	169,405.23	0.16%	1
Full-Service Restaurants	11,718,186.69	11.09%	5
Limited-Service Restaurants	1,197,576.37	1.13%	6
Drinking Places (Alcoholic Beverages)	119,187.52	0.11%	1
Automotive Exhaust System Repair	695,378.92	0.66%	1
Other Automotive Mechanical and Electrical Repair and Maintenance	147,645.00	0.14%	1
Automotive Body, Paint, and Interior Repair and Maintenance	746,802.21	0.71%	4
Beauty Salons	112,932.37	0.11%	1
Other Personal Care Services	34,107.29	0.03%	1
Pet Care (except Veterinary) Services	91,267.27	0.09%	1
Police Protection	1,695,429.26	1.60%	1
Correctional Institutions	6,604,867.93	6.25%	1
SERVICE INDUSTRY	105,696,123.60	100.00%	87

EXHIBIT C (continued)

RETAIL TRADE TYPE OF BUSINESS	BALANCE	PERCENT OF PORTFOLIO	NUMBER OF LOANS
New Car Dealers	48,398.69	0.19%	1
Recreational Vehicle Dealers	2,871,397.37	11.21%	3
Motorcycle, ATV, and Personal Watercraft Dealers	1,436,714.19	5.61%	1
Furniture Stores	689,954.44	2.69%	1
Floor Covering Stores	559,478.53	2.18%	2
Household Appliance Stores	1,494,988.03	5.84%	1
Computer and Software Stores	116,541.64	0.46%	1
Home Centers	7,615,892.40	29.74%	3
Paint and Wallpaper Stores	139,364.20	0.54%	1
Hardware Stores	714,448.42	2.79%	3
Nursery, Garden Center, and Farm Supply Stores	207,857.51	0.81%	1
Supermarkets and Other Grocery (except Convenience) Stores	4,607,411.80	17.99%	6
Beer, Wine, and Liquor Stores	189,300.16	0.74%	1
Gasoline Stations with Convenience Stores	1,826,037.23	7.13%	1
Luggage and Leather Goods Stores	41,472.01	0.16%	1
Sporting Goods Stores	425,687.20	1.66%	1
Used Merchandise Stores	106,511.49	0.42%	1
All Other Miscellaneous Store Retailers (except Tobacco Stores)	2,477,215.12	9.67%	11
Other Direct Selling Establishments	38,773.21	0.15%	1
RETAIL TRADE	25,607,443.64	100.00%	41

MANUFACTURING TYPE OF BUSINESS	BALANCE	PERCENT OF PORTFOLIO	NUMBER OF LOANS
Sugarcane Mills	68,046.68	0.28%	1
All Other Miscellaneous Textile Product Mills	56,040.46	0.23%	1
Other Apparel Accessories and Other Apparel Manufacturing	184,386.16	0.75%	1
Sawmills	2,163,006.38	8.82%	2
Other Commercial Printing	3,511,082.37	14.31%	2
Prefabricated Metal Building and Component Manufacturing	1,130,739.20	4.61%	1
Metal Coating, Engraving (except Jewelry and Silverware), and Allied Se	398,825.79	1.63%	1
Farm Machinery and Equipment Manufacturing	258,742.33	1.05%	1
Semiconductor and Related Device Manufacturing	3,846,277.67	15.67%	2
Household Cooking Appliance Manufacturing	8,317.06	0.03%	1
Heavy Duty Truck Manufacturing	54,516.68	0.22%	1
Motor Vehicle Body Manufacturing	17,479.57	0.07%	1
Truck Trailer Manufacturing	388,083.07	1.58%	1
Other Aircraft Parts and Auxiliary Equipment Manufacturing	10,778,853.07	43.93%	6
Wood Kitchen Cabinet and Countertop Manufacturing	105,765.54	0.43%	1
Upholstered Household Furniture Manufacturing	1,102,864.50	4.49%	1
Dental Equipment and Supplies Manufacturing	464,635.75	1.89%	1
MANUFACTURING	24,537,662.28	100.00%	25

EXHIBIT D

Top 6 Sectors in the Service Industry
as of 6-30-09

Total Portfolio	192,386,296
Total Service Industry	105,696,123
Percent of total portfolio	54.94%

Sector:				Sector Total	Percent of Total Portfolio
Hotel				18,531,808	9.63%
	Guaranteed	3,394,760			
	Non-Guaranteed	15,137,048			
Restaurants				12,915,762	6.71%
	Guaranteed	9,588,553			
	Non-Guaranteed	3,327,209			
Total Hotel & Restaurants				31,447,570	16.35%
	Total Guaranteed	12,983,313			
	Total Non-Guaranteed	18,464,257			
General Medical Services				23,391,083	12.16%
Doctor Office Buildings			1,430,823		
Surgery Center			6,041,530		
All Other Medical			15,918,730		
	Guaranteed	9,520,951			
	Non-Guaranteed	13,870,132			
Engineering				12,608,061	6.55%
	Guaranteed	2,987,209			
	Non-Guaranteed	9,620,852			
Credit Bureaus				8,810,655	4.58%
	Guaranteed	-			
	Non-Guaranteed	8,810,655			
Public Protection				8,300,296	4.31%
Correctional Facility	Guaranteed	6,604,867			
Boarder Patrol Office	Non-Guaranteed	1,695,429			
Fitness Centers				5,861,587	3.05%
	Guaranteed	2,617,943			
	Non-Guaranteed	3,243,644			

EXHIBIT D (continued)

Top 4 Sectors in the Retail Trade Industry as of 6-30-09

Total Portfolio	192,386,296
Total Retail Trade	25,607,444
Percent of total portfolio	13.31%

Sector:					**Percent of Total Portfolio**
Household Stores				11,330,668	5.89%
Home Centers			7,615,892		
Household Appliances			1,494,988		
Hardware Stores			714,448		
Furniture Stores			689,954		
Floor Covering			559,479		
Paint and Wallpaper			139,364		
Computer and Software			116,542		
	Guaranteed	1,742,142			
	Non-Guaranteed	9,588,526			
Super Markets, Grocery and Convenience Stores				6,433,449	3.34%
	Guaranteed	3,347,956			
	Non-Guaranteed	3,085,493			
Recreational Vehicles					
	Guaranteed	0		4,308,111	2.24%
	Non-Guaranteed	4,308,111			
All Other Retail (IRP)				2,477,215	1.29%
	Guaranteed	0			
	Non-Guaranteed	2,477,215			

EXHIBIT D (continued)

Top 4 Sectors in the Manufacturing Industry
as of 6-30-09

Total Portfolio	192,386,296
Total Manufacturing Industry	24,537,662
Percent of total portfolio	12.75%

Sector:				**Percent of Total Portfolio**
Other Aircraft Parts			10,778,853	5.60%
	Guaranteed	-		
	Non-Guaranteed	10,778,853		
Semiconductor			3,846,278	2.00%
	Guaranteed	-		
	Non-Guaranteed	3,846,278		
Commercial Printing			3,511,082	1.83%
	Guaranteed	3,511,082		
	Non-Guaranteed	-		
Sawmills			2,163,006	1.12%
	Guaranteed	1,730,411		
	Non-Guaranteed	432,595		

EXHIBIT E

SERVICER/ORIGINATOR OF ACTIVE LOANS as of 6-30-09

Servicer/Originator	Number of Loans	Guaranteed	Non-Guaranteed	Total Participation	Top Ten
1ST BANK	2	255,588	0	255,588	
AMERICAN BANK OF MONTANA - (BOZEMAN)	4	0	1,620,685	1,620,685	
AMERICAN FEDERAL SAVINGS BANK - (HELENA)	2	6,604,868	5,840,535	12,445,403	3
BANK OF MONTANA MISSOULA	1	0	155,745	155,745	
BIG SKY WESTERN BANK - (BIG SKY)	4	0	1,573,451	1,573,451	
BITTERROOT VALLEY BANK - (LOLO)	2	0	2,163,006	2,163,006	
CITIZENS STATE BANK	1	106,652	0	106,652	
COMMUNITY BANK - RONAN	2	252,748	268,159	520,907	
FARM CREDIT SERVICES	2	0	2,449,147	2,449,147	
FIRST CITIZENS BANK OF BUTTE	1	1,707,670	0	1,707,670	
FIRST COMMUNITY BANK - (GLASGOW)	4	110,154	315,487	425,641	
FIRST INTERSTATE BANK - (BILLINGS)	48	18,378,865	25,678,350	44,057,215	1
FIRST NATIONAL BANK OF MONTANA (LIBBY)	6	0	11,588,026	11,588,026	5
FIRST SECURITY BANK OF MISSOULA	21	2,380,055	8,037,868	10,417,922	7
FLATHEAD BANK OF BIGFORK	2	827,808	398,826	1,226,633	
GLACIER BANK - (KALISPELL)	5	4,585,196	2,094,189	6,679,386	8
HERITAGE BANK F.S.B.	1	0	196,968	196,968	
INDEPENDENCE BANK	3	3,677,997	1,695,429	5,373,426	10
MONTANA BOARD OF INVESTMENTS	18	0	23,808,245	23,808,245	2
MOUNTAIN WEST BANK, NA - (HELENA)	23	5,661,651	14,204,750	19,866,401	
NATURAL RESOURCE DAMAGE PROGRAM	1	0	116,542	116,542	
NORWEST BANK MONTANA N.A.	2	0	1,078,038	1,078,038	
ROCKY MOUNTAIN BANK - (BILLINGS)	3	352,729	1,152,612	1,505,342	
RUBY VALLEY NATIONAL BANK - (TWIN BRIDGES)	1	39,656	0	39,656	
SEAFIRST BANK WEST - SPOKANE (semitool)	1	0	938,750	938,750	
STOCKMAN BANK OF MONTANA - (MILES CITY)	16	6,509,640	5,581,247	12,090,887	4
U S BANK NATIONAL ASSOCIATION	2	2,184,377	0	2,184,377	
UNITED BANK, N.A. - (ABSAROKEE)	9	1,069,021	489,596	1,558,617	
VALLEY BANK OF HELENA	9	1,009,110	5,489,325	6,498,434	9
WELLS FARGO BANK OF MONTANA -BILLINGS	9	3,267,628	8,143,600	11,411,228	6
WEST ONE BANK - KALISPELL	1	0	164,646	164,646	
WESTERN BANK OF CHINOOK	8	2,064,104	0	2,064,104	
WESTERN SECURITY BANK - (BILLINGS)	1	0	4,883,143	4,883,143	
YELLOWSTONE BANK - (LAUREL)	2	89,689	1,125,225	1,214,914	
TOTALS	**217**	**$61,135,204**	**$131,251,591**	**$192,386,795**	