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

November 13 – 14, 2012

AGENDA – DAY 1

COMMITTEE MEETINGS

A. **Human Resource Committee (Executive Session)** — **8:00 AM**
Public Comment – *Public Comment on issues with Committee Jurisdiction*

B. **Audit Committee** — **9:30 AM**
1. State Street Bank Performance Corrections Affecting Certain Investment Pools – Discussion
2. Performance Audit and FY12 Financial-Compliance Audit Update
3. Pfizer Litigation – Decision

Public Comment – Public Comment on issues with Committee Jurisdiction

C. **Loan Committee**
1. INTERCAP Loan Requests — **10:00 AM**
   a. Town of West Yellowstone – Decision
   b. Montana State University - Bozeman – Decision
2. INTERCAP Series 2013
   a. Bond Anticipation Notes and Bonds - Resolution 230 – Decision
   b. Finance Team – Decision
   c. Enhancement Fee Schedule - Decision

Public Comment – *Public Comment on issues with Committee Jurisdiction*

BREAK — **11:00 AM**

Tab 1 CALL TO ORDER – Gary Buchanan, Chair — **11:15 AM**
A. Roll Call
B. Approval of the October 2012 Meeting Minutes
C. Public Comment – *Public Comment on issues with Board Jurisdiction*
D. Administrative Business
   1. Audit Committee Report
   2. Loan Committee Report
   3. Human Resource Committee Report (**Executive Session**) — **11:45 AM**

LUNCH SERVED — **12:15 PM**

Tab 2 EXECUTIVE DIRECTOR REPORTS – David Ewer — **12:45 PM**
A. Investment Consultant Update and Role
B. Board Member Training
C. Quarterly Cost Report
D. Resolution 217 – Authorization of Investment Vendors - Update
E. Resolution 218 – Delegation of Authority - Deputy Director - Update
F. FY12 Annual Report and Financial Statements Status
G. Governor's Letter – Public Participation
H. Legislative Session (Comments from Board's Legislative Liaisons)
I. 2013 Board Meeting Prospective Dates

Tab 3 MONTANA LOAN PROGRAM – Herb Kulow, CMB — **1:20 PM**
A. Commercial and Residential Portfolios Report

The Board of Investments makes reasonable accommodations for any known disability that may interfere with a person's ability to participate in public meetings. Persons needing an accommodation must notify the Board (call 444-0001 or write to P.O. Box 200126, Helena, Montana 59620) no later than three days prior to the meeting to allow adequate time to make needed arrangements.

REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
November 13 – 14, 2012

Tab 4 BOND PROGRAM, ADDITIONAL BONDS, CREDIT ENHANCEMENT – David Ewer, Louise Welsh and Geri Burton **1:35 PM**

A. INTERCAP Program
   1. Quarterly Reports
   2. Background
B. Resolution 219 – Credit Enhancement
C. Bond Anticipation Notes and Additional Bonds – Resolution 230 - Decision
D. Finance Team – Decision
E. Enhancement Fee Schedule – Decision

BREAK **3:05 PM**

RETIREMENT SYSTEMS' ANNUAL PRESENTATIONS <u>(tentative)</u> **3:20 PM**

A. Public Employee Retirement System – Roxanne Minnehan
B. Teachers' Retirement System – David Senn

CONSULTANT REPORT – R. V. Kuhns and Associates **4:20 PM**

A. Quarterly Performance Report

ADJOURNMENT **4:50 PM**

<u>AGENDA – DAY 2</u>

RECONVENE AND CALL TO ORDER, Gary Buchanan, Chair **8:00 AM**

A. Roll Call
B. Public Comment – *Public Comment on issues with Board Jurisdiction*

Tab 5 FIXED INCOME MANAGEMENT REVIEW – Cliff Sheets, CFA, Nathan Sax, CFA, and Rich Cooley, CFA **8:15 AM**

Tab 6 SHORT TERM INVESTMENT POOL INVESTMENT POLICY – Decision **10:10 AM**

BREAK **10:15 AM**

Tab 7 INVESTMENT ACTIVITIES/REPORTS – Cliff Sheets, CFA and Staff **10:30 AM**

A. Retirement System Asset Allocation Report
B. Fixed Income Reports
   1. Bond Pools (RFBP and TFIP) – **Nathan Sax, CFA**
   2. Short Term (STIP) and Other Fixed Income Portfolios – **Richard Cooley, CFA**
C. Public Equity Pool Reports – **Rande Muffick, CFA**
   1. Domestic Equity (MDEP)
   2. International Equity (MTIP)
D. Private Asset Pool Reports – **Ethan Hurley**
   1. Private Equity Pool (MPEP)
   2. Real Estate Pool (MTRP)

Tab 8 East Helena Compensatory Natural Resource Damage – Investment Policy Statement – Decision **12:00 PM**

RECAP OF STAFF TO DO LIST AND ADJOURNMENT – Gary Buchanan, Chair **12:05 PM**

Tab 9

A. Acronym Index
B. Annual Board Meeting Schedule
C. Work Plan Outline and Status

The Board of Investments makes reasonable accommodations for any known disability that may interfere with a person's ability to participate in public meetings. Persons needing an accommodation must notify the Board (call 444-0001 or write to P.O. Box 200126, Helena, Montana 59620) no later than three days prior to the meeting to allow adequate time to make needed arrangements.

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

MINUTES OF THE MEETING
October 4, 2012

BOARD MEMBERS PRESENT:
Gary Buchanan, Chairman
David Aageson
Bob Bugni
Karl Englund
Mark Noennig
Quinton Nyman
Jack Prothero
Jon Satre
Jim Turcotte

LEGISLATIVE LIAISONS PRESENT:
Senator Ed Buttrey
Representative Franke Wilmer – arrived 2:25 PM

STAFF PRESENT:

Jason Brent, CFA, Alternative Investments Analyst
Polly Boutin, Accountant
Geri Burton, Deputy Director
Richard Cooley, CFA, Portfolio Manager, Fixed Income/STIP
Dana Chapman, Board Secretary
Frank Cornwell, CPA, Deputy Financial Manager
Roberta Diaz, Accountant
David Ewer, Executive Director
Tim House, Investment Operations Chief
Ethan Hurley, Portfolio Manager, Alternative Investments
Ed Kelly, Alternative Investments Analyst
Herb Kulow, CMB, Portfolio Manager, In-State Loan Program
Tammy Lindgren, Accountant
April Madden, Accountant
Gayle Moon, CPA, Financial Manager
Rande Muffick, CFA, Portfolio Manager, Public Equities
Chris Phillips DeFranco, CFA, Investment Staff
Jon Putnam, CFA, FRM, Fixed Income Investment Analyst
Nancy Rivera, Credit Analyst
John Romasko, CFA, CPA, Fixed Income Investment Analyst
Nathan Sax, CFA, Portfolio Manager, Fixed Income
Clifford A. Sheets, CFA, Chief Investment Officer
Steve Strong, Equity Investment Analyst
Louise Welsh, Bond Program Officer
Dan Zarling, CFA, Director of Research

GUESTS:
Jim Voytko, RV Kuhns and Associates
Mark Higgins, RV Kuhns and Associates
Kristin Finney-Cooke, CAIA, Senior Consultant, NEPC, LLC
Kevin M. Leonard, Partner, NEPC, LLC
Kris Wilkinson, Legislative Fiscal Division
Angus Maciver, Legislative Audit Division
Pat Murdo, Legislative Services
Brad Sanders, Department of Administration, Procurement Bureau
Paul Christofferson, CPA, Division Administrator, State Accounting Division

CALL TO ORDER

Board Chairman Gary Buchanan called the regular meeting of the Board of Investments (Board) to order at 8:33 AM in the Board Room on the third floor at 2401 Colonial Drive, Helena, Montana. As noted above, a quorum of Board Members was present. Representative Franke Wilmer arrived at 2:25 PM. Chairman Buchanan welcomed Senator Ed Buttrey, the Board's newly appointed legislative liaison. Senator Buttrey is a weapons system designer by trade and has started and owned two electronics firms and other businesses over the years.

Chairman Buchanan called for any changes or revisions to the August Board Meeting Minutes.

> Board Member Bob Bugni made a Motion to approve the Minutes of the August 22 and 23, 2012 Board Meeting; Member Jack Prothero seconded the Motion. The Motion was carried 9-0.

Public Comment

Chairman Buchanan called for public comment on Board issues. There was no public comment.

Investment Consultant Finalist Interviews

The final step, Step Two, of consensus scoring, Presentation/Oral Interview, for Investment Consultant Request for Proposal (RFP) #12-2189V was completed by the full Board. Presentations by the two finalists, RV Kuhns and Associates and NEPC, LLC, consisted of introductory remarks, responses to predetermined questions which both finalists received prior to the presentations, and a question and answer period. Each finalist was allotted 70 minutes for their presentation/interview. Jim Voytko, President, Chief Operating Officer, Director of Research, Senior Consultant, Principal and Mark Higgins, CFA, Associate Consultant, represented RV Kuhns and Associates. Kristin Finney-Cooke, CAIA, Senior Consultant and Kevin M. Leonard, Partner, represented NEPC, LLC.

The Presentation/Oral Interviews accounted for the remaining 25% of points available, determined by consensus of the voting members of the Board. The Department of Administration Procurement Bureau previously completed scoring for fees charged, accounting for 20% of the total points available, and MBOI staff previously completed consensus scoring for RFP sections 4.2.1 through 4.2.5, accounting for 55% of the total points available for each applicant.

At the conclusion of the two presentation/oral interviews, the Board discussed each presentation according to each of the three criteria included in the scoring:

- Thoroughness of the Presentation – 100 points
- Ability to Articulate the Offeror's Capabililties – 75 points
- Ability to Address Evaluation Committee Questions – 75 points

A roll call vote of individual scores awarded for each of the three sections by each of the nine voting Board members was conducted. Consensus scores for Step Two were 219 for RV Kuhns and Associates and 203 for NEPC, LLC.

Adding points for Step One and Step Two, the finalists' scores were 943 points for RV Kuhns and Associates and 854 points for NEPC, LLC.

> Board Member Mark Noennig made a motion to authorize staff to proceed with contract negotiations with RV Kuhns and Associates. Member Jim Turcotte seconded the motion. The motion passed unanimously.

A complete record of the Investment Consulting Services' Request For Proposal process is on file at the State's Procurement Bureau.

Contract negotiations will be conducted by Executive Director David Ewer, Deputy Director Geri Burton, Chief Investment Officer Cliff Sheets and Brad Sanders of the Procurement Bureau. After a brief discussion regarding future expectations from RV Kuhns and Associates under the terms of the new contract, Member Satre suggested the need for communication with RV Kuhns and Associates expressing any areas where improvements could be implemented, such as an increase in educational presentations. Chairman Buchanan appointed Member Satre to the negotiation team and directed him to work with staff and Board members to compile a list of questions and concerns to discuss with RV Kuhns and Associates during the negotiations.

Public Comment
Chairman Buchanan called for public comment on Board issues. There was no public comment.

Private Asset Pool Reviews

Private Equity (MPEP) and (MTRP)
Mr. Cliff Sheets, Mr. Dan Zarling and Mr. Ethan Hurley reported on the private equity and real estate pools. Mr. Sheets stated private equity and real estate have some advantages over stocks and bonds; however, there are additional risks with the asset classes. Private equity objectives include high returns, diversification, and the availability of unique strategies not otherwise available in traditional asset classes. The Board has been investing in private equity for over 20 years and the results have met the objectives. Our actual experience indicates we have enjoyed high returns with lower volatility vs. public equities. Mr. Hurley explained managers add value by revamping company fundamentals. These changes may entail reducing headcount, upgrading corporate governance, sales and marketing, and improving manufacturing efficiencies as well as changes in financing and management strategies, resulting in improvements in company performance. Some of the risks include financial leveraging, successful execution of management plans and the uncertainty of value realization until an actual transaction occurs that provides an exit from the investment. Compared with traditional investments, management fees are generally higher, although management fees on MBOI's direct fund commitments average 1.29% vs. peers at 1.65%. The majority of manager agreements for buyout funds require a minimum return hurdle of 8% and must return MBOI fees, expenses and capital before managers participate in profits. The Montana Private Equity Pool (MPEP) currently consists of venture capital (22.6%), buyouts (66.1%), distressed debt (9.7%) and mezzanine (1.6%). Of the 46 managers, 32 are key relationships which have performed consistent with expectations and would be considered for future commitments.

Mr. Hurley reviewed real estate. Real estate has many of the same risks as private equity, as business cycles are unpredictable, value is not realized until the transaction takes place and a high price is paid if liquidity is required. When MBOI entered the market in 2006, real estate values were at a cyclical high. Mr. Sheets added while new fund offerings were limited during the financial crisis, some fund commitments were made each year. In 2010 there was an aggressive, explicit timing decision to add to our core fund holdings. Mr. Hurley noted management costs for non-core closed end funds are comparable to private equity. The Montana Real Estate Pool (MTRP) currently includes core open-end funds (42.3%), timberland (5.8%), non-core value add (30.7%) and opportunistic funds (21.2%). Mr. Sheets noted real estate is a relatively new program for MBOI and provides significant diversification versus stocks, one of its primary objectives. Since inception returns have not fulfilled expectations, although market timing and the J curve effect on early closed-end fund commitments impacted the early days, causing an initial performance drag. Nevertheless, the long term outlook for this asset class is promising.

Mr. Hurley advised the MPEP strategy going forward will include a bias towards smaller market cap buyout and growth strategies since less efficiency here creates opportunity, and reaffirmed the reliance on fund-of-funds will be decreased. Mr. Sheets added exit strategies are always considered. Mega cap funds are not as flexible in how they realize investments, while small and mid caps offer more flexibility on exit strategies. The "natural liquidity" of the private equity pool, or the distributions of income, profits and return of capital, has been strong and a positive year to date, therefore the pool has provided liquidity on a net basis. The opposite is true with real estate, as low distributions continue while the market is still in recovery.

Member Bugni inquired about the monitoring of private equity and if RV Kuhns could offer assistance with the attributes database for performing due diligence on new funds.

Mr. Zarling noted that due diligence checklists are utilized for both private equity and real estate, then went on to describe some of the many areas that are reviewed pursuant to a manager/fund decision. In 2011, staff had 51 meetings with general managers who came in for presentations and 2012 is on track for at least that amount. Potential new managers go through a rigorous screening process. After a side-by-side comparison of potential managers the analysts send out a spreadsheet requesting data to facilitate a common analytical approach to historical return information. The process can stop depending on the data received; otherwise a conference call is scheduled for team introductions and to gather information on the manager's organization structure and firm history. The next step is an onsite visit to MBOI for an interview. The GP is sent questions in advance which are addressed in the interview. The process can last eight weeks, and a second interview may be scheduled. The due diligence process also entails reference checks for both listed and off-list contacts.

Mr. Hurley advised all managers are monitored on an ongoing basis. When general partners come back with subsequent funds, a full scale review of each checklist item is performed as well as regular quarterly reviews. Staff sometimes attend annual meetings and managers often visit in our offices to provide updates.

Mr. Sheets noted the most important resource is internal staff, including three analysts: Mr. Ed Kelly, Ms. Teri Kolnik and Mr. Jason Brent. In addition to the analysts, Ethan as alternatives portfolio manager, and Dan as research director participate as the "alternatives team." In his role as CIO, Mr. Sheets attends most GP meetings, and ultimately decides on commitments and commitment amounts after considering staffs' recommendations. Private Edge is used as the administrator; they calculate performance of each individual fund. BOI uses outside counsel to conduct a legal review. BOI does not employ a specialist consultant for alternatives at this time, which would come at a considerable cost; however, RV Kuhns may assist staff in certain aspects of the overall programs such as with pacing studies. Mr. Sheets added while we have some risk by being internally dependent, for the most part we are not lacking by not having a specialty consultant.

CASH MANAGMENT

Executive Director David Ewer, Gayle Moon, CPA, Financial Manager, Richard Cooley, CFA, STIP Portfolio Manager, and Paul Christofferson, CPA, Administrator, State Accounting Division reported on cash management. Mr. Christofferson noted that daily communication with Mr. Cooley relays cash flow needs. Policies with the agencies require them to liquidate STIP prior to incurring a negative cash status. Treasury manages 63 active bank accounts with a possibility more will be needed in the future. Member Prothero inquired if BOI could do anything to improve the procedures. Mr. Christofferson reported the team works well and BOI does a great job.

Mr. Cooley reviewed the daily STIP procedures. STIP's main client is the Treasurer's Fund. Each day US Bank Single Point is used to run a custom report which shows the beginning balance, or starting point, for investments for the day. Then the State Street Bank (SSB) forecast from the night before is input. Three million is left in the sweep account each night and liquidity minimums of $150 million daily and $250 million weekly are adhered to. With the minimums accounted for, excess cash is invested and the SSB wire is firmed up and authorized for accounting. At the end of the day and throughout the day as needed, Single Point is checked to be sure expected large wires have come in, inform the Treasurer's Office, and by 10:00 a.m. the $3 million minimum is left in the account. The Treasurer's Office and BOI are the only entities who can wire funds out.

Member Prothero asked what liability the Board would have if there was a problem with a transaction. Mr. Cooley stated he didn't believe the Board would face any liability. Mr. Christofferson added US Bank provides backup overdraft protection of $25 million.

Ms. Gayle Moon reviewed the detailed cash movement procedures for STIP, Commercial Loans, Alternative Equities, Equity trades and the Sweep account. The daily SABHRS transactions are verified by Ms. Moon and Mr. Frank Cornwell.

Executive Director Ewer added the state's servers are housed in the new data center located in Helena and are backed up at the second new data center, located in Miles City. This setup allows the state system to operate on a duel system providing a secure backup.

SECURITIES LITIGATION

Executive Director David Ewer, Tim House, Equity Analyst/Investment Operations Chief and Greg Gould, Luxan and Murfitt, PLLP, reported on securities litigation. Director Ewer advised that as a manager of $13 billion in assets, there will be lawsuits. BOI is usually a participant on the recovery side in class action suits, however there are cases where the Board will take a lead role and recovery varies widely. Specific governance policies and guidelines related to securities litigation are followed. Custodial bank State Street Bank of Boston is contracted to handle securities litigation and has done a good job handling BOI participation in class action suits. BOI utilizes the services of primary general counsel Luxan and Murfitt, PLLP and two monitoring firms Barrack Rodos & Bacine and Bernstein, Litowitz, Berger & Grossman, LLP. In the recent case of Pfizer, the Board is exploring whether involvement at a higher level is warranted before going forward and entering into a class action.

Mr. House added class action dockets are available on My State Street which allows viewing of all lawsuit documents. Additionally, monthly reports from the two monitoring firms are provided.

Member Bugni commented the BOI has a long history with Luxan and Murfitt. He inquired if the Attorney General, who would usually defend cases for state agencies, but has no specific expertise in these types of cases, has any input in the way cases are handled.

Executive Director Ewer stated he has had no specific conversations with the Attorney General's office regarding securities litigation cases. Mr. Ewer added the Governor's Office Legal Review Committee has to approve any state agency seeking outside legal counsel. Requests requiring specialized legal expertise are normally approved.

Mr. Gould reviewed the type of legal work Luxan and Murfitt performs for BOI. Work includes legal contract work, leases, bond issues and specialized bond counsel as well as private equity partnership contracts. Securities litigation is extremely specialized and large cases are resource intensive, so class action suits are thoroughly reviewed to determine if a larger role is needed.

Member Bugni asked if our consultant RV Kuhns has a role in securities litigation.

Mr. Ewer advised in these cases they could offer another set of eyes.

Mr. Voytko added that while RV Kuhns are not attorneys, they would take a look at the investment theory of the losses with respect to foreign exchange issues that have been in the news lately and may be able to offer some insight.

Mr. Gould stated the Chicago Tribune case is a different kind of case as BOI is a defendant. The 150 page complaint states the Tribune bought back shares of stock then ended up in bankruptcy so creditors are suing all parties involved in the stock buyback on a fraudulent conveyance claim. The case is being watched closely and the option of joining in the class as defendants will be considered if it is determined to be advantageous.

Public Comment
Chairman Buchanan called for public comment on Board issues. There was no public comment.

Human Resource Committee Report
The Human Resource Committee met prior to the Board meeting. Committee Chair Karl Englund reported on revisions to the Exempt Staff Pay Plan Policy. The Committee approved the policy unanimously.

> Committee Chairman Englund made a motion to approve the revised Exempt Staff Pay Plan Policy, Member Satre seconded the motion.

Chairman Buchanan called for discussion.

Senator Buttrey inquired if the changes have any impact on funding and commented that the 2012 McLagan Salary Survey and 2011 Bank Salary Survey (Montana/Wyoming) would suggest the need to increase the pay scales. Chairman Englund advised the policy does not commit the money and the surveys establish ranges only, the salaries can be determined within those ranges.

Executive Director Ewer added there is an absolute dollar amount for the Board's budget for fiscal year 2013 of $4.8 million which must be adhered to and is part of the consideration when determining salaries.

Member Noennig added the policy states "may" which leaves room for discretionary choices.

> Chairman Englund revised his motion to approve the Exempt Staff Pay Plan Policy, revising one word on page 1 under "Establishment of Pay Ranges" revising the word ***should*** to read "A salary survey of organizations similar to the board ***will*** be conducted periodically to assist the Board in establishing "market" pay rates for comparable positions." The motion passed unanimously.

> Chairman Englund moved to approve the updated salary survey table in the Exempt Staff Pay Plan Policy based on the 2012 McLagan Salary Survey and 2011 Bank Salary Survey (Montana/Wyoming). Member Aageson seconded the motion. The motion passed unanimously.

EXECUTIVE DIRECTOR'S REPORT

Budget Follow Up
Executive Director Ewer reviewed the FY14 and FY15 budget submission. The amounts submitted by the Department of Commerce are $5,109,144 for the BOI Internal Service Fund. The ISF is the Investment side, and $1,658,269 for the BOI Enterprise Fund which is the Bond Program side. The new Governor has until January 7 to make any changes before the appropriations process begins with the Legislative Appropriations Committee.

Private Equity Fund of Funds Management Fee – Follow Up

Executive Director Ewer reported, at the direction of the Board at its August meeting, staff obtained Fund of Funds management fees paid for calendar year 2011. The fees totaled $3.947 million, substantially less than the CEM Survey estimate.

Chairman Buchanan inquired if the Fund of Funds fees needed to be reported. Mr. Ewer advised, as an indirect cost, they are not required to be booked under state or Board financial guidelines. Ms. Moon added the costs would not be recorded on the state accounting system.

Chairman Buchanan noted it would be beneficial to lower the fees each year if possible.

Mr. Sheets added that CEM should be given the fee information as obtained. He also stated the fees are a best estimate, and are not derived from audited financial statements.

Member Satre inquired of Mr. Hurley how difficult obtaining the fee information had been. Mr. Hurley stated some information was readily available and all requested information was provided within three weeks of the request to the managers.

To Do List

Chairman Buchanan called for items to add to the to do list. Member Prothero suggested information on upcoming training continue to be provided when available. Executive Director Ewer noted he would continue to pass along relevant information to the Board as he receives it.

Chairman Buchanan suggested that an out of town meeting be added to the 2013 Board Meeting Schedule and proposed holding the May meeting in Billings at the newly renovated Northern Hotel. Local banking representatives and other community members may want to attend. Other communities could also be considered for future meetings if desired.

Deputy Director Geri Burton advised the draft 2013 Board Meeting Schedule will be on agenda for the November Board meeting and will be presented at that time.

ADJOURNMENT

There being no further business, Chairman Buchanan adjourned the meeting at 4:49 PM.

Next Meeting

The next regular meeting of the Board will be Tuesday and Wednesday, November 13 and 14, 2012 in Helena, Montana.

Complete copies of all reports presented to the Board are on file with the Board of Investments.

BOARD OF INVESTMENTS

APPROVE: ______________________________
Gary Buchanan, Chairman

ATTEST: ________________________________
David Ewer, Executive Director

DATE: __________________________________

MBOI:drc
10/24/12

Return to Meeting Agenda

Executive Director Reports

MEMORANDUM

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

To: Members of the Board

From: David Ewer, Executive Director

Date: November 13, 2012

Subject: Executive Director Reports

Under Tab 2, Executive Director Reports, are 9 items (A though I); each is discussed below:

A. Investment Consultant Update
At the October meeting, Board member Jon Satre was asked, after conferring with staff, to clarify the relationship and expectations with the Board's investment consultant. After meeting with staff, the following points and expectations where suggested that he convey to the consultant:

1) The consultant provides independent and timely advice and information to the Board (as a collective body) regardless of any potential staff disagreement.

2) The consultant is expected, if necessary, to be pro-active in counseling the full Board on any matter the consultant believes is important enough to merit its attention, again, irrespective of any potential staff position to the contrary.

3) On a semi-annual basis, the consultant will provide a presentation on any matter desired, e.g. best practices, governance, what other state pension systems are doing, following up on a Board suggested topic, trend investments, or risk management, etc.

4) The consultant is expected to be a resource for providing material, seminars or other training opportunities for Board member education.

B. Board Member Training
R. V. Kuhns has updated the recommended lists for education conferences and resources. They are enclosed for Board review.

C. Quarterly Cost Report
Pursuant to the Chairman's request, staff has enclosed a quarterly cost report of the three major cost categories: Board operations, custodial banking and external investment management. In drawing meaningful comparisons, from quarter to quarter, changes may be due to at least four phenomena, market changes, the unevenness of fee charges, and finally operational and custodial banking costs which both tend to be linear (although no operational costs were charged for July 2012 to reduce excess working capital).

D. Resolution 217

Under the Board's Governance Policy, Resolution 217, staff is to update the Board annually with a list of approved investment managers and brokers accounts and any changes made since the last review. That report is enclosed.

E. Resolution 218

Under the Board's Governance Policy, Resolution 218 directs that in the event of the Executive Director's incapacity or other absence, the Deputy Director shall serve as the Acting Executive Director. This resolution does not need Board action, but is enclosed for reference. This item is submitted as part of the 2012 Work Plan review.

F. Fiscal Year 2012 Annual Report and Financial Statements

The Board's financial statements for FY 2012 have been prepared and submitted to the Legislative Auditor Division for review. The Board's annual report, by statute, must be submitted to the "Governor, legislature and the public" by December 31.

G. Governor's Letter on Public Participation

A copy of the Governor's letter is enclosed. The Board's agenda explicitly calls for public participation and substantive 'decision' actions by the Board are noted in all agendas.

H. Comments from the Board's Two Legislative Liaisons

Staff has alerted Senator Buttrey and Representative Wilmer as to offering any assessment or guidance with the upcoming legislative session.

I. Prospective Board Meeting Dates in 2013

A proposed calendar of meeting dates is enclosed. The dates follow the same pattern used in 2012; six (6) Board meetings are proposed, four (4) quarterly meetings with sufficient time for staff to gather quarterly performance data, and two (2) additional meetings.

POTENTIAL EDUCATION CONFERENCES FOR MEMBERS OF THE MONTANA BOARD OF INVESTMENTS

November 2012

Council of Institutional Investors (CII)

Website: www.cii.org
Conference Listing: www.cii.org/events/listings

About the Organization

The Council of Institutional Investors (CII) is a nonprofit association of employee benefit funds, foundations and endowments with combined assets that exceed $3 trillion. The CII serves as a leading voice for good corporate governance and strong shareowner rights. Council member funds range from large to small, from Connecticut to California, mostly. The membership also includes a small but growing number of non-U.S. pension funds. The Council's mission is to educate its members, policymakers and the public about corporate governance, shareowner rights and related investment issues, and to advocate on members' behalf.

Council members have a significant, long-term stake in the U.S. financial markets. On average, they invest about 55 percent of their portfolios in stocks and bonds of U.S. public companies. They represent the "patient capital" of the markets because of their long investment horizons and heavy use of indexing strategies. They can't do the "Wall Street walk"—sell their shares when they are dissatisfied with a portfolio company. That is what drives member funds' deep commitment to good corporate governance.

About the Conferences

The conferences offered by the CII predominantly address how investors can work to improve corporate governance in the companies in which they invest. Occasionally, there are conferences that may benefit Montana Board of Investment Board Members, as best practices in corporate governance can also be adapted to improve governance practices at the Montana Board of Investments.

RVK Recommendation

RVK recommends monitoring this organization as new conferences are announced. The next scheduled conference is the 2013 Spring Conference in Washington, DC from April 17-19, 2013. The agenda for the conference is not yet available. Depending upon the topics covered, this conference may be of interest to board members.

Institutional Investor Forums

Website: http://www.iiconferences.com
Conference Listing: http://www.iiconferences.com/category/full-calendar/

About the Organization

Institutional Investor magazine, established in 1967, is an international financial publication with a readership of more than 147,000 leading financial executives in 160 countries. Institutional Investor, Inc. also publishes a variety of financial newsletters covering topics such as Money Management, Real Estate and Compliance, as well as well-known journals that include The Journal of Portfolio Management, The Journal of Fixed Income, and The Journal of Investing.

About the Forums

Institutional Investor Forums is a leading provider of investment strategy conferences for senior money managers and financial executives seeking new insights into important strategic issues. Institutional Investor has managed conferences for over 40 years. The company currently conducts dozens of domestic and international meetings each year for chief executive officers, financial executives and investment professionals in the securities and money management industries. The forums provide participants and speakers an opportunity to develop new contacts, exchange views and compare experiences in informal, focused discussion and debate as well as during social activities.

RVK Recommendation

The relative value of these conferences depends on the specific topics addressed. Conferences are typically announced with a 6-12 month lead time. In the past, conferences that focused on managing large pension funds and different types of alternative investments would have provided value to the MTBOI Board. RVK recommends monitoring this organization as new conferences are announced. In addition, the conference listed below may be of interest to Board members.

Conference Title:	**Risk & Liquidity**
Dates:	January 15-16, 2013
Location:	Palo Alto, CA
Link:	http://www.iiforums.com/risk&liquidity/
Cost:	Free for Pension Fund Board Members
Description:	The purpose of the conference is to address some of the key challenges that large pension plans face related to risk management, liquidity management, and asset allocation. The conference provides an educational opportunity for board members that may be helpful in shaping current discussion and strategy, as well as affords board members an opportunity to network with peers facing similar challenges. One note of caution is that the conference generates its revenue from sponsorships, and will likely include presentations from vendors.

International Foundation of Employee Benefit Plans

Website: http://www.ifebp.org/
Program Listing: http://www.ifebp.org/Education/Schedule/

About the Organization

The International Foundation of Employee Benefit Plans has 35,000 members, and is the largest association serving the employee benefits and compensation industry. The Foundation provides a variety of certificate programs and conferences designed for the following individuals:

- Trustees and administrators from multiemployer/Taft-Hartley trust funds
- Benefits, compensation and HR directors from the private sector
- Public employee plan managers, administrators, and trustees
- Service providers, including attorneys, actuaries, accountants and other consultants who work with benefit and compensation plans

About the Conferences

The Foundation offers a wide array of conferences and certificate programs that are designed for a variety of constituencies and cover a broad spectrum of topical areas.

RVK Recommendation

RVK recommends periodically monitoring upcoming events to identify new opportunities. In addition, listed below are several recurring programs that should be considered for attendance.

Conferences/ Educational Programs	Date	Cost	Description
Portfolio Concepts & Management (Philadelphia, PA)	May 21-24 2013	$4,195 per attendee	This is a 3½-day course sponsored by the Wharton School of Business at the University of Pennsylvania. The course consists of lecture/discussion sessions, problem-solving exercises, and small group breakout sessions. The course lays the groundwork for basic principles of portfolio theory and investment performance measurement, offering the practical tools and experiences needed to make better investment management decisions. It is intended for those who have little experience with investment-related course work so it may be more appropriate for new Board members.
Certificate of Achievement in Public Plan Policy – Pensions (Chicago, IL)	June 25-26, 2013	$1,095 per attendee	The conference provides a basic overview of key fund management concepts and would be particularly helpful for new Board members. Topics include plan design, asset allocation, performance monitoring, and staff and plan management.
Benefits Conference for Public Employees (Sacramento, CA)	Apr 16-17, 2013	$1,025 per attendee	The conference provides a broad agenda related to public employee benefits programs. While topics (such as pension accounting and return assumptions) may prove valuable, the networking opportunities may constitute the stronger value proposition. The 2013 conference will be held onsite at CalSTRS, which is one of the largest public plans in the U.S.

National Conference on Public Employees Retirement Systems (NCPERS)

Website: http://www.ncpers.org
Conference Listing: http://www.ncpers.org/Conferences/

About the Organization

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 550 funds throughout the United States and Canada. It is a unique non-profit network of trustees, administrators, public officials and investment professionals who collectively manage nearly $3 trillion in pension assets held in trust for approximately 21 million public employees and retirees — including firefighters, law enforcement officers, teachers, and other public servants. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on Advocacy, Research and Education for the benefit of public sector pension stakeholders.

About the Conferences

NCPERS offers a variety of programs and conferences marketed toward different audiences. The annual conference (typically held in May), as well as the Trustee Educational Seminar, which is offered as a two-day program prior to the conference, appear to be the most appropriate for members of the Montana Board of Investments.

RVK Recommendation

RVK recommends that Board members consider attending the annual conference and the two-day pre-conference Trustee Educational Seminar. In addition to the costs of the conference, an annual membership fee of $900 in NCPERS is required.

Conferences/ Educational Programs	Date	Cost	Description
NCPERS Annual Conference (Honolulu, Hawaii)	May 19-23, 2013	$650	The annual conference provides educational seminars, as well as networking opportunities with more than 1,000 trustees, administrators and investment professionals attending. Topics covered include economic outlooks, regulatory matters, governance practices, and asset class overviews.
Trustee Educational Seminar (TEDS) (Honolulu, Hawaii)	May 18-19, 2013	$350	The seminar is a pre-conference program held in conjunction with the Annual Conference and Exhibition. TEDS is intended for new trustees who are seeking a better understanding of their role and responsibilities as trustees of their pension fund. It also serves as a refresher for experienced trustees interested in staying up-to-date. Program content is designed to address critical elements of trust fund management including, important topics such as investing, legal requirements and trustee ethics.

State Association of County Retirement Systems (SACRS)

Website: www.sacrs.org
Conference Listing: Link to 2012-2016 Conference Schedule

About the Organization

SACRS is an association of 20 California county retirement systems that sets forth the policies and regulations governing the actions of these systems. The constitution of SACRS states that the purpose of the Association is to provide forums for disseminating knowledge of, and developing expertise in, the 1937 Act retirement systems; and further, that the Association foster and take an active role in the legislative process as it affects SACRS retirement systems.

About the Conferences

While the mission of SACRS is to provide information for the California county membership, the conferences provide content that is relevant to a much broader audience. As such, public plans outside the state of California frequently attend.

RVK Opinion

RVK recommends that Board members consider attending both conferences listed below, although the Investment Management Program has historically offered a much more robust agenda.

Recommended Conferences/Educational Programs

Conferences/ Educational Programs	Date	Cost	Description
SACRS Public Pension Investment Management Program (Berkeley, CA)	July 29-31, 2013	$2,500 per person	The 3-day Public Pension Retirement Management Program is carefully designed to give participants access to the tools, the knowledge and the networks they need to master their particular challenges. The agenda for the 2013 program is not yet announced; however we encourage the Board to monitor this program. For the 2012 program, sessions were led by well-regarded industry experts and members of the UC Berkeley faculty. We anticipate a similar format in 2013.
SACRS Semi-Annual Conferences	May 14-17, 2013 (Napa, CA) Nov 12-15, 2013 (Location: TBD)	~$2,670 per person	The Spring and Fall conference series provides a variety of information seminars that are relevant to Board Members. Past topics include reviews of various asset classes, reviews of current economic trends, regulatory updates, and ethics.

RECOMMENDED EDUCATIONAL RESOURCES FOR MEMBERS OF THE MONTANA BOARD OF INVESTMENTS

November 2012

Periodicals			
Periodical	**Cost**	**Link**	**Description**
Pensions & Investments	$299/Year	www.pionline.com	Pensions and Investments is a bi-weekly publication that covers current events impacting defined benefit plans. The PI Online web site also provides a variety of research reports and databases to support the decision-making of defined benefit plan staff and board members.
The Economist	$127/Year	www.economist.com	The Economist is perhaps the most respected source of reporting and analysis on current events shaping the global economy. The Economist will help ensure that staff and board members are familiar with the key factors and events that impact the performance of the portfolio.
Institutional Investor	$575/Year	https://www.institutionalinvestor.com	Institutional Investor provides a monthly magazine that serves as both a source of news and proprietary research. A subscription also provides varying degrees of access to proprietary data and research online. Subscriptions range from $575/year to $1,680/year depending on the desired level of access to online resources. We believe that the online research capabilities are most relevant to staff, and therefore would only recommend the $575 "silver" package for Board Members.

Books			
Book	**Cost**	**Link**	**Description**
Pioneering Portfolio Management	$23	http://tinyurl.com/3sa4c4u	This book was written by David Swensen, the Chief Investment Officer of the Yale Endowment. The book provides a blue print for Mr. Swensen's investing strategy, which has resulted in superior long term returns for decades. While the book is especially applicable to university endowments, many of the insights are relevant to public pension funds.
The Little Book of Behavioral Investing	$15	http://tinyurl.com/3dya98f	This book was written by a senior investment professional at GMO, a global asset management firm led by renowned investor Jeremy Grantham. The book provides a comprehensive overview of common behavioral biases that can negatively impact the investment decision-making process. The lessons are easily comprehensible to both expert and novice investors.

This Time is Different: Eight Centuries of Financial Folly	$14	**http://tinyurl.com/3nfft6x**	This book represents the most comprehensive overview of financial crises ever written. Time and again, insights from this book are cited by asset managers, economists, and politicians. Understanding some of the key insights helps put the ongoing credit and sovereign debt crises into perspective.
End Game: The End of the Debt Supercycle and How it Changes Everything	$16	**http://tinyurl.com/3mepfcw**	This book builds on the lessons of "This Time is Different" and in fact cites many passages and tables throughout the book. In addition to putting the current credit crisis into perspective, it offers interesting forecasts of potential future outcomes and solutions.

Electronic Newsletters

Newsletter	Cost	Link	Description
CFA Financial Briefs	Free	**https://www.smartbrief.com/cfa/index.jsp**	Each day, this newsletter compiles the most notable headlines relating to economics, investment management, and major geopolitical events. Each headline has a link to the underlying article. This email serves as the daily newspaper for many in the investing community.
Thoughts from the Frontline	Free	**https://www.mauldineconomics.com/subscribe**	John Mauldin releases a daily newsletter that includes, as an attachment, his own analysis on major economic events and/or the analysis of other investment experts. The newsletter typically has a bearish bias, but provides invaluable perspective on macroeconomic events and emerging research in the investment profession.
JP Morgan Eye on the Market	Free	**Send Email Request to Thomas.j.fisher@jpmorgan.com**	Eye on the Market is released 2-3 times per week and provides in depth analysis on events shaping the global economy. The content is typically more balanced than John Mauldin's letter, but should be viewed with some skepticism given the role of JP Morgan as an asset manager.

July - September 2012 Management Fees

Pool	Board	Custodial Bank	External Managers	Total
Retirement Funds Bond Pool (RFBP)	111,690	56,703	$ 375,350	$ 543,743
Trust Funds Investment Pool (TFIP)	73,472	39,519	391,247	504,238
Montana Domestic Equity Pool (MDEP)	97,880	133,731	1,462,249	1,693,860
Montana International Equity Pool (MTIP)	87,758	31,317	771,879	890,954
Montana Private Equity Pool (MPEP)	133,022	31,116	3,160,997	3,325,135
Montana Real Estate Pool (MTRP)	81,580	19,304	931,273	1,032,157
Short Term Investment Pool (STIP)	92,286	52,776	-	145,062
All Other Funds (AOF) Investments Managed	135,612	37,984	6,188	179,784
Total	**$ 813,300**	**402,450**	**$ 7,099,183**	**$ 8,314,933**

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

MEMORANDUM

To: Board Members

From: David Ewer, Executive Director

Date: November 13, 2012

Subject: Resolution 217 Update

At the November 2007 Board meeting, the Board unanimously approved Resolution No. 217.

Resolution No. 217 *"designates its Executive Director as agent of the Board to deal with investment firms in connection with Board accounts with such firms; and that the investment firms are hereby authorized to deal with the Executive Director or the Executive Director's designated staff as agents of the Board; to accept all orders for purchases and sales and all instructions given by any of them on behalf of the Board as and for the action of the Board without further inquiry as to their authority; to receive any funds, securities or property for the account of the Board; to sell, assign, transfer or deliver either in bearer form, in street certificates or in such names as said persons or any of them shall direct, any funds, securities or other property held for the account of the Board, to said persons or any of them or as they or any of them shall in writing, or verbally with subsequent confirmation in writing, order; and to send or communicate all confirmation, notices, demands and other communications to them or any of them and to the Attention of the Board of Investments, P.O. Box 200126, Helena, MT 59620-0126."*

When Resolution 217 was passed, Appendix "A" was created to show all vendors authorized to conduct financial transactions with the Board and all staff authorized to conduct financial transactions with the vendors.

The Board authorized its Executive Director to close any of the accounts listed in the original Appendix "A", to open new accounts, to designate additional staff members to act on behalf of the Board for the purpose of dealing with investment firms regarding any account, and to remove the authority of any of the named staff members or other staff members designated by him/her to act on behalf of the Board for purposes of dealing with investment firms regarding any account.

The Executive Director shall annually, on or around the regularly scheduled October Board Meeting, provide a report to the Board showing the staff members and the accounts added to or deleted from Appendix A, which information shall include the date on which the addition or deletion occurred.

One staff member, Executive Director David Ewer, was added during the time period of November 2011 to November 2012. Past staff member, Executive Director Carroll South, was removed during this same time period.

For the time period of November 2011 to November 2012 the following changes were made to Resolution No. 217, Appendix A:

Broker/Dealer (Fixed Income/STIP) – Brokers added:

- None

Broker/Dealer (Fixed Income/STIP) – Brokers no longer used by staff and removed from Appendix A:

- None

Public Equity Brokers – Brokers added:

- Morgan Stanley Capital Markets

Public Equity Brokers – Brokers no longer used by staff and removed from Appendix A:

- Citigroup Capital Market, Inc.

Public Equity Managers – Managers added:

- None

Public Equity Managers – Managers no longer used by staff and removed from Appendix A:

- Artio Global Management, LLC
- Batterymarch Financial Management, Inc.
- Quantitative Management Associates, LLC
- Western Asset Management Company (terminated, but keep until all trades completed)
- Barrow, Hanley, Mewhinney & Strauss, Inc.
- Columbus Circle Investor
- Rainier Investment Management, Inc.

Private Equity Managers – Managers added:

- Tenaya Capital, LLC
- Audax Management Company, LLC
- Tenex Capital Management
- The Catalyst Capital Group, Inc.
- Cartesian Capital Group, LLC
- Gridiron Capital
- Sterling Capital Partners

Private Equity Managers – Managers no longer used by staff and removed from Appendix A:

- None

Private Real Estate Managers – Investment Managers added:

- Stockbridge Capital Group, LLC
- Olympic Resource Management, LLC
- CBRE Global Investors

Private Real Estate Managers – Managers no longer used by staff and removed from Appendix A:

- None

RESOLUTION 217 - APPENDIX A - UPDATED 6/22/12

PAGE 1 **Brokers**

Designated/Authorized MBOI Staff - Fixed Income

	Name & Title		***Email***	***Phone***
MBOI	David Ewer, Executive Director	Dec-11	dewer@mt.gov	406/444-1285
MBOI	Clifford A. Sheets, Chief Investment Officer	Nov-07	csheets@mt.gov	406/444-0058
MBOI	Nathan Sax, Portfolio Manager	May-08	nsax@mt.gov	406/444-0049
MBOI	Richard Cooley, Portfolio Manager	Nov-07	rcooley@mt.gov	406/444-1213
MBOI	John Romasko, Investment Analyst	Nov-07	jromasko@mt.gov	406/444-0258
MBOI	Jon Putnam, Investment Analyst	Nov-07	jputnam@mt.gov	406/444-0568
MBOI	Geri Burton, Deputy Director	Nov-07	gburton@mt.gov	406/444-1365

Approved Fixed Income Brokers

B/D	Barclays Capital, Inc.	Apr-09		
B/D	Bank of America Merrill Lynch	Aug-09		
B/D	CRT Capital Group, LLC	Dec-10		
B/D	Cantor Fitgerald	Apr-09		
B/D	Citigroup Global Markets	May-08		
B/D	Credit Suisse (CSFB)	Apr-09		
B/D	D.A. Davidson & Co.	Jun-08		
B/D	FTN Financial	Jun-08		
B/D	Goldman Sachs & Co.	May-08		
B/D	Jefferies & Co., Inc.	Jun-08		
B/D	J.P. Morgan Securities, Inc.	May-08		
B/D	KeyBanc Capital Markets	May-08		
B/D	Morgan Keegan	Aug-08		
B/D	Morgan Stanley	May-08		
B/D	RBC Dain Rauscher Inc.	Jun-08		
B/D	Raymond James Financial, Inc.	Dec-08		
B/D	State Street Capital	Jun-08		

Designated/Authorized MBOI Staff - Public Equity

	Name & Title		***Email***	***Phone***
MBOI	David Ewer, Executive Director	Dec-11	dewer@mt.gov	406/444-1285
MBOI	Clifford A. Sheets, Chief Investment Officer	Jul-10	csheets@mt.gov	406/444-0058
MBOI	Rande Muffick, Portfolio Manager	Jul-10	ramuffick@mt.gov	406/444-0586
MBOI	Daniel Zarling, Research Director	Jul-10	dzarling@mt.gov	406/444-0086
MBOI	Richard Cooley, Portfolio Manager	Nov-07	rcooley@mt.gov	406/444-1213
MBOI	Geri Burton, Deputy Director	Jul-10	gburton@mt.gov	406/444-1365

Approved Public Equity Brokers

B/D	State Street Global Markets	Jul-10		
B/D	Morgan Stanley Capital Markets	Jun-12		
~~B/D~~	~~Citigroup Capital Market, Inc.~~	~~Jul-10~~		

RESOLUTION 217 - APPENDIX A - UPDATED 10/18/12

PAGE 2 Public Asset Managers

Designated/Authorized MBOI Staff

	Name & Title	***Email***	***Phone***
MBOI	David Ewer, Executive Director	dewer@mt.gov	406/444-1285
MBOI	Clifford A. Sheets, Chief Investment Officer	csheets@mt.gov	406/444-0058
MBOI	Rande R. Muffick, Portfolio Manager	ramuffick@mt.gov	406/444-0586
MBOI	Daniel Zarling, Research Director	dzarling@mt.gov	406/444-0086
MBOI	Nathan Sax, Portfolio Manager	nsax@mt.gov	406/444-0049
MBOI	Richard Cooley, Portfolio Manager	rcooley@mt.gov	406/444-1213
MBOI	Geri Burton, Deputy Director	gburton@mt.gov	406/444-1365

Approved Public Equity Managers

Equity	Acadian Asset Management, Inc.	Sep-06
Equity	AllianceBernstein LP	Sep-06
Equity	Analytic Investors, Inc.	Feb-08
~~Equity~~	~~Artio Global Management LLC~~	~~Oct-08~~
Equity	Artisan Partners Limited Partnership	Jan-07
Equity	Blackrock	Jan-07
~~Equity~~	~~Barrow, Hanley, Mewhinney & Strauss, Inc.~~	~~Jun-07~~
~~Equity~~	~~Batterymarch Financial Management, Inc.~~	~~Sep-06~~
~~Equity~~	~~Columbus Circle Investor~~	~~Jun-07~~
Equity	Dimensional Fund Advisors	Dec-05
Equity	Hansberger Global Investors, Inc.	Aug-08
Equity	INTECH	Aug-09
Equity	J.P. Morgan Investment Management, Inc.	Feb-08
Equity	Martin Currie Inc.	Sep-06
~~Equity~~	~~Quantitative Management Associates, LLC~~	~~Jun-07~~
~~Equity~~	~~Rainier Investment Management, Inc.~~	~~Jun-07~~
Equity	State Street Global Advisors	Jun-07
Equity	TimeSquare Capital Management, LLC	Jan-07
Equity	T. Rowe Price Associates, Inc.	May-06
Equity	Vaughan Nelson Investment Management, LP	Jan-07
~~Equity~~	~~Western Asset Management Company~~**	~~May-06~~

Approved Fixed Income Managers

FI	Artio Global Management, LLC.	Aug-08
FI	Blackrock	Jan-09
FI	Fidelity Investments	Jun-08
FI	Neuberger Berman	Jan-09
FI	Post Advisory Group, LLC.	Aug-08
FI	Reams Asset Management Company, LLC.	Aug-08
FI	State Street Global Advisors	Jun-08

** Terminated but remains on list until trades completed

RESOLUTION 217 - APPENDIX A - UPDATED 9/28/12

PAGE 3 Private Equity Managers

Designated/Authorized MBOI Staff

	Name & Title		Email	Phone
MBOI	David Ewer, Executive Director	Dec-11	dewer@mt.gov	406/444-1285
MBOI	Clifford A. Sheets, Chief Investment Officer	Nov-07	csheets@mt.gov	406/444-0058
MBOI	Daniel Zarling, Research Director	Apr-09	dzarling@mt.gov	406/444-0086
MBOI	Ethan Hurley, Portfolio Manager-Alternative Inv	Oct-11	ehurley@mt.gov	406/444-0250
MBOI	Geri Burton, Deputy Director	Nov-07	gburton@mt.gov	406/444-1365

Private Equity Managers

PE	Adams Street Partners	Oct-02
PE	Affinity Equity Partners/Affinity Asia	Jan-07
PE	American Securities LLC	May-11
PE	Arclight Capital Partners	Sep-04
PE	Audax Management Company, LLC	Sep-12
PE	Avenue Capital Group	Aug-09
PE	Axiom Asia Private Capital	Nov-09
PE	Black Diamond Capital Management L.L.C.	Apr-10
PE	Cartesian Capital Group, LLC	Apr-12
PE	Centerbridge Capital Partners	Jun-09
PE	CCMP Capital Advisors	Aug-06
PE	CIVC Partners	Sep-10
PE	Carlyle Group (The)	Jan-05
PE	EIF Management, L.L.C.	Apr-10
PE	First Reserve Corporation	Aug-09
PE	Gridiron Capital	Dec-11
PE	GTCR Partners	Dec-10
PE	HarbourVest Partners	Apr-07
PE	HCI Equity Partners (formerly Thayer Hidden Creek Management)	Sep-10
PE	Hellman & Friedman	Apr-09
PE	Highway 12 Ventures	Mar-07
PE	Industry Ventures	Oct-09
PE	JC Flowers	Jul-06
PE	JLL Partners	Nov-05
PE	KKR	Oct-02
PE	Lexington Capital Partners	Mar-09
PE	Madison Dearborn Partners	Oct-02
PE	Matlin Patterson	Apr-07
PE	MHR Institutional Partners	Apr-07
PE	Montlake Capital (formerly Buerk Dale Victor)	Mar-07
PE	NB Alternatives Advisors LLC (formerly Lehman Brothers)	May-09
PE	Northgate Capital, LLC	Mar-11
PE	Oak Hill Capital Partners	Feb-08
PE	Oaktree Capital Management	Jul-09
PE	Odyssey Investment Partners	Dec-04
PE	Opus Capital Group, L.L.C.	Mar-10
PE	Performance Equity Management	May-08
PE	Portfolio Advisors	May-06
PE	Quintana Energy	Mar-07
PE	Siguler Guff Advisers LLC	Aug-07
PE	Sterling Capital Partners	Sep-12
PE	Summit Partners	Jul-11
PE	TA Associates	May-09
PE	Tenaya Capital, LLC	Mar-12
PE	Tenex Capital Management	Jun-12
PE	Terra Firma Capital Partners	Jan-07
PE	The Catalyst Capital Group, Inc.	Jun-12
PE	Trilantic Capital Partners (formerly Lehman Brothers)	May-09
PE	Veritas Capital Management, LLC	May-10
PE	Welsh Carson Anderson Stowe	Oct-02

RESOLUTION 217 - APPENDIX A - UPDATED 10/15/2012

PAGE 4 **Private Real Estate Managers**

Designated/Authorized MBOI Staff

	Name & Title		***Email***	***Phone***
MBOI	David Ewer, Executive Director	Dec-11	dewer@mt.gov	406/444-1285
MBOI	Clifford A. Sheets, Chief Investment Officer	Nov-07	csheets@mt.gov	406/444-0058
MBOI	Daniel Zarling, Research Director	Apr-09	dzarling@mt.gov	406/444-0086
MBOI	Ethan Hurley, Portfolio Manager-Alternative Inv	Oct-11	ehurley@mt.gov	406/444-0250
MBOI	Geri Burton, Deputy Director	Nov-07	gburton@mt.gov	406/444-1365

Private Real Estate Managers

RE	Alex Brown Realty Chesapeake Investors	Sep-06
RE	American Realty Advisors	Nov-09
RE	Angelo Gordon Company	Aug-06
RE	AREA Property Partners (formerly Apollo Real Estate)	Dec-06
RE	Beacon Capital Partners	Mar-07
RE	The Carlyle Group	Jul-07
RE	CBRE Global Investors	Oct-12
RE	CIM Group	Mar-07
RE	Clarion Partners (formerly ING Clarion)	Oct-06
RE	DRA Advisors, LLC	Aug-07
RE	GEM Realty Capital, Inc.	Jun-10
RE	Hudson Realty Capital	Feb-08
RE	INVESCO Core Real Estate - USA, LLC	Sep-06
RE	JER Partners	Nov-06
RE	J.P. Morgan Asset Management, Strategic Property Fund	Oct-06
RE	Landmark Partners	Mar-11
RE	Liquid Realty Partners	Mar-07
RE	Macquarie Global Property Advisors, Ltd.	Aug-07
RE	Molpus Woodlands Group	Feb-11
RE	Morgan Stanley - Real Estate Fund International	Nov-06
RE	O'Connor Capital Partners	May-08
RE	Olympic Resource Management, LLC	Jun-12
RE	Resource Management Service LLC	Mar-11
RE	Rothschild Realty Managers	Mar-07
RE	Stockbridge Capital Group, LLC	Jun-12
RE	Strategic Capital Partners	Nov-06
RE	TIAA CREF Asset Management - Core Property Fund	Oct-09
RE	TA Associates Realty	Sep-06
RE	UBS Realty Investors LLC - Trumbull Property Fund	Nov-09

RESOLUTION 218

WHEREAS, the Montana Board of Investments (Board) has delegated certain critical authority and duties to its Executive Director that must be exercised and performed in the absence of the Executive Director; and

WHEREAS, the Executive Director may be incapacitated or temporarily absent from the office under circumstances that render the Executive Director unavailable to exercise such authority and perform such duties,

NOW, THEREFORE:

RESOLVED, that the Executive Director or the Deputy Director shall notify the Board Chairperson immediately at any time the Executive Director, due to incapacity or a temporary absence from the office, is unable to perform his/her duties; and

FURTHER RESOLVED, that “incapacity” means the occurrence of a mental or physical disability rendering the Executive Director incapable of exercising his/her authority and carrying out his/her duties; and

FURTHER RESOLVED, that during an incapacity of the Executive Director, the Deputy Director is hereby designated Acting Executive Director; and

FURTHER RESOLVED, that the Executive Director may, after notifying the Board Chairperson, delegate his/her executive authority to the Deputy Director to serve as Acting Executive Director during periods of official travel or authorized leave away from the Board’s office, if in the judgment of the Executive Director, such delegation would be in the best interest of the Board; and

FURTHER RESOLVED, that during any period that the Deputy Director is not available to assume the role of Acting Executive Director pursuant to the provisions of this Resolution, the Chief Investment Officer shall serve as Acting Executive Director; and

FURTHER RESOLVED, that the Acting Executive Director shall operate only within the authority and parameters established in the Board’s Governance Policy.

Dated and approved this 6th day of November 2007.

ATTEST

By: ______________________

Chairman

OFFICE OF THE GOVERNOR
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR

JOHN BOHLINGER
LT. GOVERNOR

TO: Executive Branch Officers
Department Directors
Chairs and other Presiding Officers of All Executive Branch Boards, Bureaus, Commissions, Departments, Authorities, and Agencies

FROM: Governor Brian Schweitzer

DATE: October 16, 2012

RE: Public participation in agency decisions pursuant to § 2-3-103, MCA

Montana's public participation laws require me, as Governor, "to ensure that each board, bureau, commission, department, authority, agency, or officer of the executive branch of the state" adopts rules, setting forth policies and procedures to facilitate public participation in agency programs and decisions. Sec. 2-3-103(2), MCA. I have written you in past years to remind you of these important statutory obligations, and I take this opportunity to remind you of them again.

Montanans have a constitutional right to participate in the activities of their government. The "Right of Participation" is found at Article II, section 8 of the Montana Constitution, which provides:

> The public has the right to expect governmental agencies to afford such reasonable opportunity for citizen participation in the operation of the agencies prior to the final decision as may be provided by law.

This constitutional right is implemented by Montana statutes (Title 2, chapter 3, part 1, MCA) requiring every agency to develop procedures to permit and encourage public participation in agency decisions "that are of significant interest to the public." The statutes require agencies to provide adequate notice to the public and assist public participation. Meeting agendas must include an item allowing public comment on any public matter not on the agenda but within the agency's jurisdiction. Additionally, the agency may not act on any matter that was not included on the agenda and for which public comment on the matter was not allowed. Public comments must be incorporated into the official minutes of the meeting. The district courts may set aside agency decisions not in conformity with the public participation laws where a person's rights have been prejudiced. Model rules to implement these laws are found at ARM §§ 1.3.101 and 1.3.102.

As you know, this Administration takes very seriously the public's right to participate in the decisions of government, and I applaud your efforts to ensure this public right. If you or your agency needs assistance in crafting appropriate guidelines and rules to conform to Montana's public participation laws, feel free to contact my legal counsel, Ann Brodsky, for assistance (444-3558).

2013 CALENDAR

01 New Year's Day
21 M.L. King Day

JANUARY						
S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

JULY						
S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

04 Independence Day

18 Presidents Day

FEBRUARY						
S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28		

AUGUST						
S	M	T	W	Th	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

29 Good Friday
31 Easter Sunday

MARCH						
S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

SEPTEMBER						
S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

02 Labor Day

APRIL						
S	M	T	W	Th	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

OCTOBER						
S	M	T	W	Th	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

14 Columbus Day
31 Halloween

12 Mother's Day
27 Memorial Day

Billings Meeting

MAY						
S	M	T	W	Th	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

NOVEMBER						
S	M	T	W	Th	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

11 Veterans Day
28 Thanksgiving Day

16 Father's Day

JUNE						
S	M	T	W	Th	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

DECEMBER						
S	M	T	W	Th	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

25 Christmas Day

Return to Meeting Agenda

Montana Loan Program

MEMORANDUM

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

To: Board of Directors

From: Herb Kulow, CMB

Date: November 13, 2012

Subject: Commercial Portfolio, Residential Portfolio and VA Residential Portfolio

The following is a summary of the commercial loan portfolio as of September 30, 2012.

Loans	Balance	Comments
141	130,777,677	Portfolio balance - 5.23% yield
6	11,496,858	Reservations
5	6,019,825	Commitments
1	103,088	SBA loan past due 61 days - 0.08%

According to the Mortgage Bankers Association, 3.11% of all real estate secured commercial loans were past due as of the end of the second quarter of 2012.

The following is a summary of the residential loan portfolio as of September 30, 2012.

Loans	Balance	Comments
431	19,206,409	Portfolio balance - approximate yield of 6.30%
0	0	Reservations
10	602,990	Total past due - 3.14%
6	318,397	Past due over 90 days - 1.66%
4	259,288	Gtd past due over 90 days - 1.35%
2	59,108	Non-gtd past due over 90 days - 0.3%

There has been no activity other than monthly payments and payoffs of residential loans. According to the Mortgage Bankers Association, 7.58% of the one-to-four family residential loans were past due as of the end of the second quarter of 2012.

The following is a summary of the Veterans Administration (VA) loans as of September 30, 2012.

Loans	Balance	Comments
30	5,354,552	Portfolio balance - approximate yield of 1.68%
15	2,767,240	Reservations

A total of $15,000,000 of coal tax trust money has been allocated to this program. According to the Mortgage Bankers Association, 6.57% of all VA loans were past due as of the end of the fourth quarter of 2011.

Return to Meeting Agenda

Bond Program

INTERCAP Loan Program

Activity Summary

As of September 30, 2012

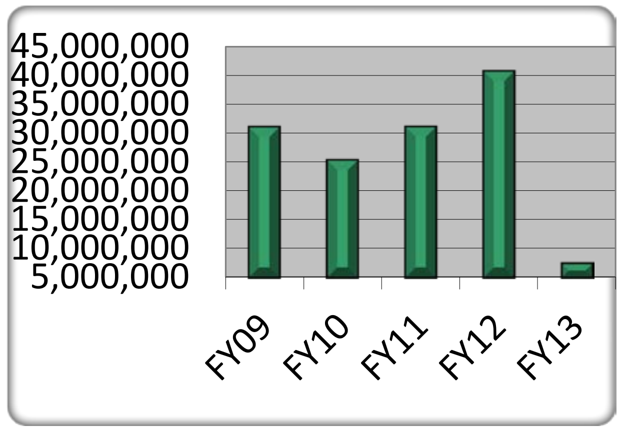
Since Inception 1987 - September 2012

Total Bonds Issued	**136,000,000**
Total Loan Commitments	**419,664,775**
Total Loans Funded	**375,298,384**
Total Bonds Outstanding	**95,030,000**
Total Loans Outstanding	**76,869,376**
Loan Commitments Pending	**44,366,391**

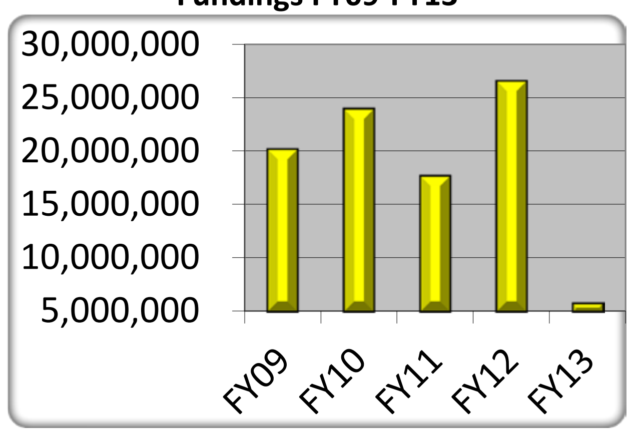
FY2013 To Date

Month	Commitments	Fundings
July-12	$ 6,016,000	$ 2,043,033
August	1,140,965	2,046,837
September	380,000	1,712,729
October		
November		
December		
January		
February		
March		
April		
May		
June-13		
To Date	$ 7,536,965	$ 5,802,598

Commitments FY09-FY13



Fundings FY09-FY13



Note: Commitments include withdrawn and expired loans.

Variable Loan Rate History February 16, 2004 - February 15, 2013

February 16, 2005 - February 15, 2006	3.80%	February 16, 2009 - February 15, 2010	3.25%
February 16, 2006 - February 15, 2007	4.75%	February 16, 2010 - February 15, 2011	1.95%
February 16, 2007 - February 15, 2008	4.85%	February 16, 2011 - February 15, 2012	1.95%
February 16, 2008 - February 15, 2009	4.25%	February 16, 2012 - February 15, 2013	1.25%

L:\INTERCAP\BOARD\ACTIVITY SUMMARY1.xlsx

MEMORANDUM

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

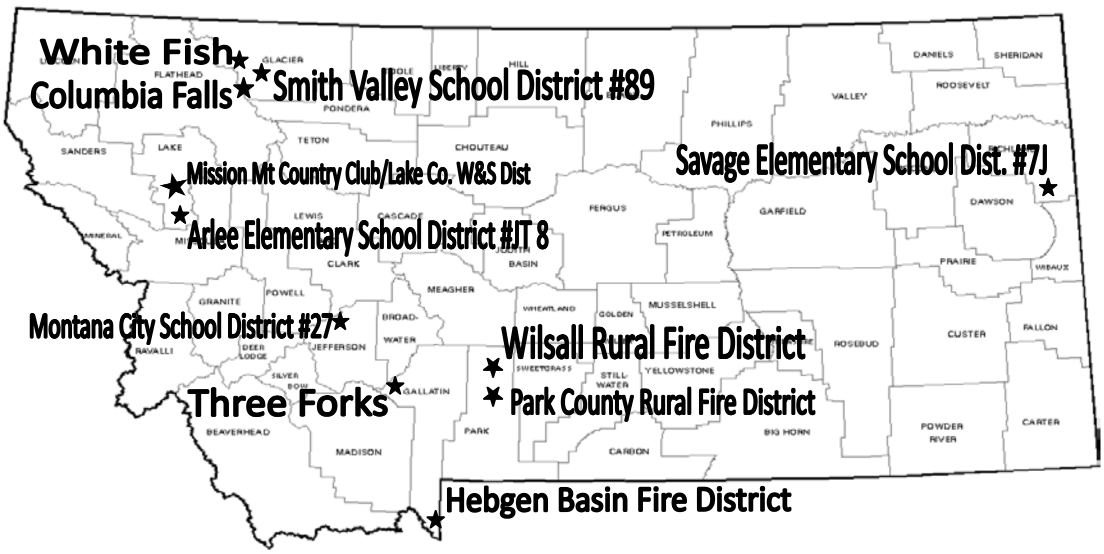
To: Members of the Board

From: Louise Welsh, Bond Program Officer

Date: November 13, 2012

Subject: INTERCAP Staff Approved Loans Committed

Staff approved the following loans – July 1, 2012 through September 30, 2012.



Borrower:	Smith Valley School District #89 (Kalispell)
Purpose:	Replace flooring, exterior doors, cabinetry, etc.
Staff Approval Date:	July 16, 2012
Board Loan Amount:	S30,000.00
Other Funding Sources:	N/A
Total Project Cost:	$30,000.00
Term:	15 years

Borrower:	City of Whitefish
Purpose:	Skating rink improvements
Staff Approval Date:	July 23, 2012
Board Loan Amount:	$140,000.00
Other Funding Sources:	N/A
Total Project Cost:	$140,000.00
Term:	5 years

Borrower:	City of Columbia Falls
Purpose:	2012 Pumper Truck
Staff Approval Date:	August 9, 2012
Board Loan Amount:	$115,365.00
Other Funding Sources:	$205,763.00
Total Project Cost:	$321,128.00
Term:	10 years

Borrower:	City of Three Forks
Purpose:	Used John Deere Grader
Staff Approval Date:	August 10, 2012
Board Loan Amount:	$25,000.00
Other Funding Sources:	N/A
Total Project Cost:	$25,000.00
Term:	3 years

Borrower:	Hebgen Basin Fire District (West Yellowstone)
Purpose:	Purchase Station 3 & construct Station 4
Staff Approval Date:	August 21, 2012
Board Loan Amount:	$345,000.00
Other Funding Sources:	N/A
Total Project Cost:	$345,000.00
Term:	10 years

Borrower:	Savage Elementary School District #7J
Purpose:	Heating/cooling system upgrade and asbestos abatement
Staff Approval Date:	August 23, 2012
Board Loan Amount:	$ 600,000.00
Other Funding Sources:	$ 864,383.00
Total Project Cost:	$1,464,383.00
Term:	10 years

Borrower:	Montana City School District #27
Purpose:	Septic system repair and replacement
Staff Approval Date:	August 23, 2012
Board Loan Amount:	$ 55,600.00
Other Funding Sources:	$ 73,935.00
Total Project Cost:	$129,535.00
Term:	15 years

Borrower:	Arlee Elementary School District #JT 8
Purpose:	Legal claim settlement
Staff Approval Date:	September 6, 2012
Board Loan Amount:	$ 90,000.00
Other Funding Sources:	$ 50,000.00
Total Project Cost:	$140,000.00
Term:	5 years

Borrower:	Mission Mountain Country Club/Lake Co. Water & Sewer District (Ronan)
Purpose:	Purchase/installation of water meters/pits and replacing the pump house/main pump
Staff Approval Date:	September 12, 2012
Board Loan Amount:	$60,000.00
Other Funding Sources:	$10,000.00
Total Project Cost:	$70,000.00
Term:	15 years

Borrower:	Park County Rural Fire District (Livingston)
Purpose:	Station improvements
Staff Approval Date:	September 26, 2012
Board Loan Amount:	$200,000.00
Other Funding Sources:	$200,000.00
Total Project Cost:	$400,000.00
Term:	15 years

Borrower:	Wilsall Rural Fire District
Purpose:	New fire truck
Staff Approval Date:	September 27, 2012
Board Loan Amount:	$30,000.00
Other Funding Sources:	$10,000.00
Total Project Cost:	$40,000.00
Term:	3 years

Montana Board of Investments
INTERCAP Loan Summary and Approval

Borrower: Town of West Yellowstone

Date: October 15, 2012
LC Approved:____________

The Town requests to borrow $1,600,000 to finance costs associated with constructing a Town Hall. The loan will be in the form of a resort tax revenue bond over a period of 13 years. Standard conditions for revenue bonds will apply including a 10% reserve and 1.25 debt coverage. The Board will require Bond Counsel at the expense of the Town to prepare the documents and provide the opinion. INTERCAP is the sole funding source for this project.

Authorization

7-6-1506 Montana Code Annotated (MCA) (2) A resort community may issue bonds to provide, install, or construct any of the public facilities, improvements, or undertakings authorized under 7-7-4101, 7-7-4404, and 7-12-4102. ...The bonds may be sold at a discount at a public or private sale.

(3) A resort community may pledge for repayment of bonds issued under this section the revenues derived from a resort tax, special assessments levied for and revenues collected from the facilities, improvements, or undertakings for which the bonds are issued, and any other source of revenue authorized by the legislature to be imposed or collected by the resort community. Such bonds do not constitute debt for purposes of any statutory debt limitation, provided that in the resolution authorizing the issuance of the bonds the municipality determines that the resort tax revenues, special assessments levied for and revenues from such facilities, improvements or undertakings, or other sources of revenue, if any, pledged to the payment of the bonds will be sufficient in each year to pay the principal thereof and interest thereon when due. Bonds may not be issued pledging proceeds of the resort tax for repayment unless the municipality in the resolution authorizing issuance of the bonds determines that in any fiscal year the annual revenues expected to be derived from the resort tax, less the amount required to reduce property taxes pursuant to 7-6-1507 [5%], equals at least 125% of the average amount of the principal and interest payable from the resort tax revenues on the bonds and any other outstanding bonds payable from the resort tax except any bonds to be refunded upon the issuance of the proposed bonds.

7-7-4101 MCA - The city council has power to contract an indebtedness on behalf of a city, upon the credit of the city or town, by borrowing money,...issuing bonds,...for the following purposes: (1) acquiring land for and designing and erecting public buildings;...

INTERCAP Debt

The Town has been an INTERCAP borrower since 1988 financing over $1.5 million for various purposes. The Town's INTERCAP loans are fully funded and current. They have two (2) general promise to pay loans with ~$280,000 total principal outstanding; final maturity August 2019.

Repayment

There will be ~$164,000 annual debt service. The Town is pledging its resort tax revenue to repay the debt. The voter approved resort tax expires December 31, 2025. The proposed loan will mature prior to that date. The following Financial Report shows the Town's ability to maintain ~$205,000 annually to comply with the 1.25 debt coverage requirement.

Financial Report

General Fund	FY12	(audited) FY11
Beginning Fund Balance	$1,204,291	$ 983,020
Revenues	909,676	1,275,625
Resort Tax Revenue	2,541,856	2,506,047
Expenditures	3,818,261	3,560,401
Ending Fund Balance	$ 837,562	$1,204,291
Net Change in Fund Balance	$ (366,729)	$ 221,271
Fund Balance Cash	$ 247,127	$ 201,293
Fund Balance *Unassigned*	$ 837,562	$ 1,203,854

COMMENTS

The Resort Tax Fund is pulled into the General Fund in accordance with the Governmental Accounting Standards Board (GASB) 54 requirement for unassigned special revenue funds. The Financial Report above shows the combined report breaking out the portion of revenue that is resort tax.

FY11: In April 1973, the Town formed a non-profit corporation, Fire Department Relief Association (FDRA), to provide for the welfare of any fire service personnel that were injured, disabled, or killed while in the line of duty. The Town contracted with the Hebgen Basin Fire District to provide fire and emergency services thereby dissolving its fire department, the FDRA, and the FDRA fund a.k.a. Fire Department Pension Trust Fund (FDPT). Per the FDRA's Articles of Incorporation, *in case of dissolution or final liquidation of this corporation all assets shall be distributable to the Town of West Yellowstone.* The FDPT Fund was not a retirement fund, received no contributions from salary, and had no claims against it therefore the Town transferred the balance to the General Fund. Without the ($183,720) various onetime expenses, ($311,400) transfer to the Capital Projects Fund for future project costs, $53,280 grant revenue and the $374,129 transfer in from the dissolved FDPT Fund, the net change in fund balance would have been $288,982.

FY12: Without the ($509,908) various onetime expenses, ($142,000) transfer to the Capital Projects Fund for future project costs and $46,720 grant revenue, the net change in fund balance would have been $238,459.

Recommendation

The Town can adequately service the debt. Approval recommended with the following condition:

1. No additional bonds are authorized. The Town agrees that if additional bonds are necessary and if they are to be issued and secured by the revenues of the System, that the Town will obtain written permission from the Board of Investments authorizing the Town to issue additional bonds.

Staff Loan Committee

David Ewer, Executive Director ____ Approval Date: 10/30/12
Geri Burton, Deputy Director ____ Approval Date: 10.15.12
Louise Welsh, Bond Program Officer ____ Recommended: 10/15/12

Board Loan Committee Approval

Jack Prothero, Chairperson – Loan Committee ☐ Yes ☐ No ☐ Abstain
Dave Aageson, Member ☐ Yes ☐ No ☐ Abstain
James Turcotte, Member ☐ Yes ☐ No ☐ Abstain

Final Approval Date: ____

Montana Board of Investments
INTERCAP Loan Summary and Approval

MONTANA STATE UNIVERSITY

Borrower: Board of Regents of Higher Education of the State of Montana (BOR) on behalf of Montana State University - Bozeman (University)

Date: October 18, 2012
Approval Date:__________

The Borrower is requesting $4,350,000 to finance costs associated with an energy retrofit project using energy performance contracting over a period of 15 years. The loan will be in the form of a general promise to pay of the Borrower based on allowable non-state revenues as specified in the Revenue Pledge section of this loan summary. The University contributed $4,750,000 from its Pledged Funds towards the Project's total cost of $9,100,000.

Project

The University selected McKinstry from the State of Montana's pre-qualified energy service company (ESCO) list to be the energy performance contractor for this project. Established in 1960, McKinstry is the same firm that the Great Falls Public Schools are using for their energy retrofit project funded by the $8.5 million Qualified School Construction Bonds the Board approved in February 2011. For the University campus, McKinstry proposed multiple Facility Improvement Measurers (FIMs) retrofitting 19 auxiliary buildings' windows, heating, ventilation, and cooling systems with energy efficient equipment.

Authorization

20-25-302 Montana Code Annotated (MCA) The regents of the Montana university system may: (6) do all things necessary to plan for and propose financing, including all necessary loan applications, for: (b) residence halls, dormitories, houses, apartments, and other housing facilities; (c) dining rooms and halls, restaurants, cafeterias, and other food service facilities;

20-25-402 MCA (1) In carrying out the powers provided in ... 20-25-302, the regents may: (a) borrow money for any purpose or purposes stated in parts 3 and 4 of this chapter... (c) issue bonds, notes, ... (d) pledge for the payment of ... the principal and interest on bonds, notes, or other securities authorized in this chapter or otherwise obligate: (i) the net income received from rents, board, or both in housing, food service, and other facilities;... (e) make payments on loans or purchases from any other available income not obligated for those purposes, including receipts from sale of materials, equipment, and fixtures of the facilities or from sales of the facilities themselves, other than land;

90-4-1107 MCA (1) The term of an EPC must be a minimum of three years and may be up to the useful life of the conservation measures or 20 years, whichever is less. (2) An EPC must require the qualified provider to: (a) guarantee the conservation-related cost savings to the extent necessary to pay for the conservation measures, including financing charges incurred over the life of the contract; (b) monitor the reductions in energy consumption and the cost savings attributable to the conservation measures installed pursuant to the EPC; and (c) annually prepare and provide a report to the local government unit or the state agency, documenting the performance of the conservation measures. [Board staff has DEQ's letter on file that they reviewed the investment grade audit report and estimated savings prepared by McKinstry. DEQ is recommending the financing as presented by McKinstry]

January 19, 2012 - BOR Item 154-2005-R0112 authorizing the Project, financing through the INTERCAP Program, and the revenue pledged to repay the loan passed 6-0.

March 30, 2012 - BOR Item 154-2001-C0312 authorization amendment to Item 154-2005-R0112 clarifying the revenue pledge in accordance with the INTERCAP Program Agreement passed 6-0.

July 26, 2012 - Office of the Commissioner of Higher Education (OCHE) approved the INTERCAP application and repayment source in accordance with the INTERCAP Program Agreement between the Board and BOR dated January 2, 2007 (the "Agreement"), Article II, Section 2.01(a).

- Note: OCHE approval certifies that it performed sufficient due diligence as to the appropriateness of the Project in the context of the overall plans and policies of BOR and the University, and that the proposed loan complies with existing contracts, statutes, the BOR Indenture, and all legislative directives, mandates, and limitations.

INTERCAP Debt

BOR has been using INTERCAP since 1992 financing over $37.4 million on behalf of the Montana State University and University of Montana campuses for various projects. Total outstanding to date for all the campuses is ~$14.4 million with the longest term maturing February 2027. At this time, the universities have ~$5.6 million remaining INTERCAP commitments that if drawn upon would make a potential total outstanding of ~$20 million.

MSU-Bozeman campus (the "University") started using INTERCAP in 1997 financing over $17.7 million of the overall total. The University has ~$7.5 million total principal outstanding with the longest term maturing August 2026. Including the proposed loan, the University has ~$1.2 million of the total remaining commitments that if drawn upon would potentially make its total outstanding ~$14 million.

Repayment

There will be approximately $406,000 annual debt service on the loan. Though a bonus, the loan repayment is not dependent on the cost savings realized by using the more efficient system. Repayment will come from University's surplus net revenue pledge of its Residence Hall/University Food Service and Family Student Housing Funds (Pledged Funds).

To the extent the Revenue Pledge is insufficient, the Borrower will, as authorized by and according to applicable provisions and limitations of law, budget and appropriate any allowable non-state revenues sufficient to pay the principal of and interest on the loan when due including student fees. The following Financial Report reflects the University's overall financial position and more specifically the Pledged Funds.

Financial Report

MSU-Bozeman overall	FY12	FY11
Net Assets, beginning of year	$213,951,234	$207,143,485
Revenues	365,767,485	341,683,923
Expenditures	346,425,017	334,876,174
Net Assets, end of year	$233,293,702	$213,951,234

Net Change in Fund Balance	$ 19,342,468	$ 6,807,749
Fund Balance *Unrestricted*	$ 50,952,701	$ 50,368,825
Fund Balance Cash		
STIP	$ 81,608,295	$ 71,428,245
State Treasury	$ 24,086,226	$ 28,920,086
Other cash equivalents	$ 15,112,304*	$ 2,244,776
Total Cash	$ 120,806,825	$ 102,593,107

*includes unexpended bond proceeds

Residence Hall/Family Housing & University Food Service Funds (Pledged Funds)

	FY12	FY11
Beginning Fund Balance	$4,631,562	$4,363,304
Revenues	10,228,912	10,165,401
Expenditures	11,884,305	9,897,143
Ending Fund Balance	$2,976,169	$4,631,562
Net Change in Fund Balance *	$(1,655,393)	$ 268,258
Fund Balance Unrestricted	$ 2,976,170	$4,631,563

COMMENTS:

The increase in students is seen by the growth in the University's overall and more specifically the Pledged Funds' revenues and expenditures. The onetime expenses in the Pledged Funds mentioned below are above the amounts expended that year for recurring work on the buildings i.e. painting, re-carpeting, replacing furniture, appliances, etc.

FY11: Without ($3,612,296) in onetime expenses, the net change in fund balance would have been $3,880,554.

FY12: The University expended its $4,750,000 portion of the Project in FY12. Without ($6,587,078) in onetime expenses, the net change in fund balance would have been $4,931,685.

In addition, the Department of Environmental Quality review of McKinstry's Investment Grade Audit (IGA) concurs that the proposed FIMs will save the University ~$360,226 in utilities annually. The utility savings start at ~$360,226 in the first year and end up as ~$571,940 in year 15 of the term due to a 3.1% escalation rate on utilities. The energy savings figures used in the IGA are conservative @ 90-95% of the actual projected savings.

Recommendation

Approval recommended.

Staff Loan Committee

David Ewer, Executive Director — David Ewer — Approval Date: 10/24/12

Geri Burton, Deputy Director — Geri Burton — Approval Date: 10-18-12

Louise Welsh, Bond Program Officer — Louise Welsh — Recommended: 10/18/12

Board Loan Committee

Jack Prothero, Chairperson – Loan Committee ☐ Yes ☐ No ☐ Abstain
Dave Aageson, Member ☐ Yes ☐ No ☐ Abstain
James Turcotte, Member ☐ Yes ☐ No ☐ Abstain

Approval Date: _______

MEMORANDUM

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

To: Members of the Board

From: David Ewer, Executive Director
Louise Welsh, Senior Bond Program Officer

Date: November 13, 2012

Subject: INTERCAP Program, Additional Bonds, Related Issues, and Staff Recommendations

Overview

Pursuant to the 2012 Work Plan, staff is supplementing the standard Bond Program quarterly business with this presentation to provide a review of the Board's popular local government financing program, the INTERCAP Revolving Loan Program (INTERCAP).

The Board of Investments (the "Board") administers its investment pools and other funds under the Unified Investment Program and INTERCAP under the Municipal Finance Consolidation Act (MFCA). The link between the two programs needs to be clearly understood: certain investment funds are directly guarantying almost $220 million in bonds issued by the Board and the Montana Facility Finance Authority (MFFA) for years to come.

Background

INTERCAP's inception stems from the combination of the Board with the Montana Economic Development Board in 1987. The Board was charged with both board's missions including implementing programs under the MFCA as well as various coal tax loan programs. In that same year, INTERCAP was created to assist local governments finance their capital projects using low-interest loans. The Board issues tax-exempt bonds to fund INTERCAP and also provides the guaranty for those tax-exempt bonds. INTERCAP is funded not only by these bond proceeds, but borrower's principal loan repayments flow back into INTERCAP, allowing additional loans to be made.

This memorandum reviews INTERCAP with respect to:

A. Legal Authorization - policy and governance
B. INTERCAP Program use and request for additional bonds
C. The Board's role as guarantor of the INTERCAP bonds and bonds issued by the MFFA*
D. The Board as a rated credit and its bond ratings from national bond rating agencies
E. The finance team that underwrites and helps administer the INTERCAP Program

*The Board's guaranty relationship with the MFFA will be discussed in part in this memorandum. Staff will provide a more in-depth presentation including recommendations on this subject at a future time.

This memorandum will also make staff recommendations or seek guidance on:

1. Interim financing of INTERCAP via a bond anticipation note ($10 million)
2. Issuance of additional INTERCAP bonds ($12 million)
3. The Board's current guaranty and liquidity fee schedule for INTERCAP and MFFA bonds
4. The INTERCAP Program finance team selection and proposed budget

A. <u>Legal, Policy and Governance</u>

INTERCAP is governed by the MFCA laws located in Montana Code Annotated, Title 17, Chapter 5, Part 16. For the benefit of the reader, staff is providing only the relevant excerpts of that law as it pertains to this narrative. By the specific law provided below, the Board is to assist local governments with access to capital and reduce borrowing costs. The Board may guaranty MFCA bonds by lending money to a reserve fund that can be pledged to the bonds. The Board may also provide an annual liquidity guaranty on INTERCAP bonds which have not been successfully remarketed. Currently, $95 million in INTERCAP bonds are outstanding.

> 17-5-1602 MCA (1) It is the policy of the State of Montana to: (a) foster and promote, by all reasonable means, the provision of efficient capital markets and facilities for borrowing money by eligible government units to pay for capital improvements and other needs as otherwise authorized by law; and (b) reduce, to the extent possible, costs of public indebtedness to taxpayers and residents by affording public bodies an appropriate degree of flexibility and choice in the marketing of their debt securities so as to minimize marketing costs and interest rates.
>
> (2) It is the purpose of this part to promote the policies stated in subsection (1) by: (a) creating a means for eligible government units to pool, in effect, the debt instruments they are otherwise authorized to offer for sale to the investment community in order to obtain economies of scale and reduce marketing and interest costs; and (b) providing additional security for the payment of bonds and notes held by investors and thereby further reducing interest costs.
>
> 17-5-1630 MCA (2) All money held in the reserve fund shall be used solely for the purpose of making payment when due of principal, interest, redemption premiums, and debt service fund payments for the payment of which other money pledged is not available. (5) Notwithstanding any provision of Title 17, chapter 6, the board may lend money for deposit to the reserve fund in an amount equal to any deficiency in the required debt service reserve. The loans shall be made on such reasonable terms and conditions as the board considers proper, including without limitation terms and conditions providing that the loans need not be repaid until the obligations of the board secured and to be secured by the reserve fund are no longer outstanding.

This guaranty feature allows the Board's credit strength and therefore the Board's lower borrowing costs to be passed onto local governments.

The Board has extensive powers under MFCA including:

- Guaranty up to $190 million in outstanding bonds or notes under MFCA
    - *17-5-1608 MCA. The board may not issue any bonds or notes that cause the total outstanding indebtedness of the board under this part, except for bonds or notes issued to fund or refund other outstanding bonds or notes or to purchase registered warrants or tax or revenue anticipation notes of a local government as defined in 7-6-1101, to exceed $190 million.*
- Sell its bonds or notes at public or private sale
    - *17-5-1606 MCA (5)(b) The notes and bonds of the board may be sold at public or private sale at prices, which may be above or below par, that are determined by the board.*
- Independently hire underwriters, attorneys, trustees and related parties
    - *17-5-1611 MCA (11) to appoint, employ, or contract for the services of officers, employees, agents, financial or professional advisers, and attorneys and to pay compensation for their services as the board determines;*

- Charge fees for its services for programs under MFCA
    - *17-5-1611 MCA (6) to charge for its costs and services in reviewing or acting upon a proposed loan to an eligible government unit or a proposed purchase by the board of bonds, bond anticipation notes, registered warrants, tax or revenue anticipation notes, or other notes of the eligible government unit, whether or not the loan is made or the bonds, bond anticipation notes, registered warrants, tax or revenue anticipation notes, or other notes are purchased;*

Under separate law stated below, the Board may also guaranty bonds issued by MFFA, again passing lower borrowing costs to MFFA users, mostly hospitals.

- *90-7-320 MCA. Subject to the provisions of Title 17, chapter 6, the board of investments may, upon terms and conditions as the board considers reasonable: (1) loan money to the authority for deposit in the capital reserve account; and (2) purchase bonds and notes issued by the authority.*

Many elements govern and administer INTERCAP.

- Board Governance Manual, Section III delegating to staff in item 12, "Credit Enhancement Implementation" as per its Resolution 219
    - *Credit Enhancement Implementation – The Executive Director is authorized to take all necessary action to implement credit enhancement activity authorized by the Board as per Resolution 219.*
- Tab A - Resolution 219, Credit Enhancement of Bonds
    - *Section 1.02. In conjunction with issuing its Municipal Finance Consolidation Act Bonds in 1985, the MEDB adopted Resolution No. 68 on July 24, 1985, establishing a Municipal Finance Consolidation Act Reserve Fund (the "Reserve Fund") to secure bonds or obligations issued under the Municipal Finance Consolidation Act ("MFCA Bonds"). Pursuant to a Resolution, the MEDB and the Board entered into a Security Agreement whereby the Board agreed to make an interest bearing loan to the MEDB to restore any deficiency in the Reserve Fund and also agreed, for a fee, to purchase MFCA Bonds tendered for purchase and not remarketed.*
- Investment policy statements that allow investments in bonds enhanced by the Board per Resolution 219 as permitted investments to be held by the following (although not necessarily exclusive) funds:
    - Tab B - Permanent Coal Trust Fund
        - *Implied Contracts to allow Montana INTERCAP bond holders to put bonds on the Permanent Fund: No stated range. An amount equal to outstanding INTERCAP Bonds should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI Resolution 219.*
    - Tab C - Treasurer's Fund
        - *Any obligation purchased pursuant to the bond credit enhancement program of the MBOI as authorized pursuant to Resolution 219 of the Board.*
    - Tab D - Short Term Investment Pool (STIP)
        - *Investments required to implement the bond credit enhancement authorized by Resolution 219.*

B. <u>INTERCAP Program Use and Request for Additional Bonds</u>

<u>INTERCAP Loans</u>

INTERCAP is the flagship program under MFCA. Since its inception in 1987, it has loaned more than $375 million to over 470 local governments. INTERCAP has never suffered a loss, due in part to reasonable underwriting standards and basic Montana local government credit soundness. The following table shows the diversity of the largest borrower types that have taken advantage of INTERCAP financing since inception of the program.

Since Inception in 1987		
Borrower Type	Borrowers/Statewide	% that have used INTERCAP
School Districts	184/419	44%
Cities/Towns	97/129	75%
Counties	43/56	77%

INTERCAP – Additional Bonds

The current structure of bonds that fund the INTERCAP loans has worked well. Such bonds have only one principal date due, a twenty five year term. The bonds' interest rate is set annually; as is the INTERCAP loan rate. Federal law allows a charge of no more than 1.5% above the bond rate to INTERCAP borrowers. Staff anticipates using the same variable interest rate bond and loan structure, as INTERCAP is well received.

Demand governs the bond amount and issuance date. INTERCAP has ~$77 million in outstanding loans, ~$45 million in pending loan commitments and ~$10 million available in cash. Based on the Program's historical fundings and repayments, as well as large draw projections for November, the funds available to loan will be depleted beginning December 2012 *or earlier*. Staff is requesting preauthorization to issue an additional $12 million in bonds.

The Board will remain well within MCFA's $190 million statutory limit with the new bond issue as shown below:

$113,178,700 Bonds Outstanding*
12,000,000 New Series 2013 Bond Issue
$125,178,750 Total outstanding under 17-5-1608 MCA

*Total includes $95,030,000 INTERCAP Bonds, $10,105,750 Qualified Zone Academy Bonds (QZAB), $7,972,950 Qualified School Construction Bonds (QSCB), and $70,000 Irrigation Bonds. **Only the INTERCAP and Irrigation Bonds are credit enhanced by the Board under MCFA.**

A favorable time to issue the Series 2013 bonds would be to market the new issue in conjunction with the remarketing of the outstanding bonds on March 1. The Board's final resolution authorizing the approval of the Series 2013 bonds will take place during the regular Board meeting scheduled in February 2013 or thereafter if the Board chooses to select a new finance team through a request for proposal (discussed later in this memo).

The INTERCAP Program may borrow from the Board in the form of a bond anticipation note (BAN) to make loans in anticipation of bond issuance. Net of the reserve fund and costs of issuance, INTERCAP will receive ~$10.8 million for new loans; therefore staff recommends the Board issue a BAN up to $10 million in anticipation of the issuance of the Series 2013 bonds. Should INTERCAP borrow from the Board, repayment will occur upon issuance of the Series 2013 bonds.

Tab E - Preliminary Resolution No. 230

The purpose of the Preliminary Resolution No. 230 is:

- ✓ to give preliminary approval to the issuance of bonds under the Municipal Finance Consolidation Act in an amount up to $12 million.

- ✓ to allow staff to work with the current INTERCAP Program finance team to prepare the necessary documents to accomplish the sale OR to begin the Request for Proposal process to select new finance team members.

- ✓ to authorize the issuance of bond anticipation notes should it be necessary to borrow from the Board to meet the needs of the Program prior to the issuance of bonds. The bond anticipation notes will be held within STIP and shall bear interest at the daily STIP rate as may be adjusted from time to time, or the current INTERCAP bond rate, whichever is higher.

C. Board's Guaranty of INTERCAP and Certain Montana Facility Finance Authority Bonds

Currently the Board is guarantying almost $220 million in bonds. See Tab F for a detailed breakdown. While a sizeable sum, the Board has clearly been authorized and directed by the legislature to provide bond and loan guarantees. The Board has a long history of balancing its missions. In over 25 years, there has never been a loan loss in INTERCAP or other municipal loan programs under MFCA and the Board has never been called upon to purchase tendered bonds. The same is true for MFFA bonds: the Board has never had to perform on its guaranty commitments.

The Board's guaranty is a valuable resource that benefits borrowers. It makes a huge interest cost difference to the borrowers. Arguably the bond market takes minimal note of the underlying borrower, but pays full attention to the Board's guaranty.

The Board's bond guaranty activities for both MFCA and MFFA bonds are disclosed in the Board's footnotes to its financial statements and also in the State's Comprehensive Annual Financial Report.

Board's Charges for Guaranty

The Board currently charges a one-time fee for the guaranty it provides (see Tab G for the fee schedule). State law directs the Board to set reasonable terms and conditions on its guaranty. There is nothing in statute that requires the guaranty to be priced at a market rate. Also the law does not identify what fiduciary assets the Board may pledge. To date, all guaranty fees have been applied to the Permanent Coal Trust Fund, even though the Board has identified two other possible funding sources, STIP and the Treasurer's Fund.

The Board has the dual role of reducing borrowing costs by guarantying bonds as permitted by statute, and considering and assessing an appropriate charge for the risk/benefits taken by the funds that ultimately would be called upon to invest in the bonds or loans. While the Board has always charged a guaranty fee, it does not charge an annual liquidity fee. The Board's current guaranty fees are not only below market, there currently is no market (see Piper Jaffrey letter in Tab G), so there is a substantial subsidization by the standby purchase funds. However, the guaranty fees paid are not negligible. Since inception, INTERCAP has paid $1.3 million in guaranty fees and the MFFA has paid over $2.3 million in such fees. A summary of the guaranty fees paid by both programs may also be found in Tab G.

Setting the pricing for the Board's guaranty for INTERCAP (and other MFCA and MFFA bonds) is at the discretion of the Board. For INTERCAP, staff has weighed the factors that argue for raising the fee closer to market versus those for keeping the current fee structure intact. Given the long history of the Program, the impracticality of getting a near-market price, and the pristine repayment history, staff recommends keeping the fee structure in place. (Again, the matter of pricing MFFA guarantees will be taken up at a later date.)

D. Board as a Rated Credit

The Board has obtained credit ratings from both Moody's Investors Service and Fitch Ratings. Its long-term bond rating from Moody's is Aa3, Fitch AA-; its short term liquidity enhancement rating from Moody's is VMIG1 (the highest possible) and from Fitch, F1+, also the highest possible.

The rating is based on the rating agency's assessment of the fiscal capacity of the Board, its total leverage, and the relative size of outstanding and proposed debt to available payment funds. A summary narrative of Moody's and Fitch's rating is in Tab H.

The Board pays both an annual and a one-time bond issuance fee to Moody's; only a one-time rating charge to Fitch. The current costs of ratings are: Moody's annual fee is $15,000. For the proposed bond issue Moody's fee will be ~$15,500 and Fitch's ~$10,000.

E. Finance Team

As stated earlier, the Board has the authority to hire the members of the finance team for its bonds issues; such decisions do not fall under the state's procurement rules. The current and long standing INTERCAP finance team members are:

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

See Tab I for the finance team's annual and per new bond issue fees including the budget for the proposed bond issue.

Staff recommends and seeks guidance on the following:

1. Authorize staff to take steps as deemed necessary to issue up to $12 million in INTERCAP bonds for a term of 25 years.

2. Accept the staff recommendations to the Loan Committee authorizing the Board to acquire up to $10 million in bond anticipation notes held within STIP, the outstanding of which shall bear interest at the daily STIP rate as may be adjusted from time to time, or the current INTERCAP bond rate, whichever is higher.

3. Adopt INTERCAP Preliminary Resolution No. 230. (Tab E)

4. a. Authorize the current INTERCAP Program finance team to provide the expertise to issue/underwrite the bonds and accept the proposed budget for the new bond issue OR

   b. Direct staff to begin the Request for Proposal process to select new finance team members.

5. Accept staff's recommendation to maintain the current credit enhancement "guaranty" fee schedule for the INTERCAP program. (Tab G)

Be It Resolved by the Montana Board of Investments (the "Board") as follows:

Section 1. Recitals.

Section 1.01. History, Authorization of Unified Investment Program and the Board. Article VIII, Section 13 of the Montana Constitution (the "Constitution") directs the legislature to provide for a unified investment program for public funds and public retirement system and state compensation insurance fund assets. The Legislature, pursuant to Title 17, Chapter 6, Part 21, Montana Code Annotated (the "Unified Investment Program Act"), has created and directed the Board to administer the unified investment program mandated by the Constitution. The Board has the primary authority to invest state funds, and to determine the types of investments to be made, subject to the restrictions of the Constitution and the Unified Investment Program Act.

Section 1.02. History, Authorization of Montana Economic Development Board and Municipal Finance Consolidation Act Bonds. The 1983 Legislature created the Montana Economic Development Authority Board ("MEDB"), to among other things issue notes and bonds to finance loans to and the purchase of bonds and notes of Montana governmental units, to establish or replenish reserves securing the payments of its bonds and notes, and to finance all expenditures incident to and necessary or convenient to carry out the provisions of Title 17, Chapter 5, Part 16, Montana Code Annotated (the "Municipal Finance Consolidation Act" or "MFCA Act"). As set forth in Section 17-5-1602(2)(b) of the Municipal Finance Consolidation Act, the State's goal was to foster the provisions of efficient capital markets, to reduce costs of borrowing and, among other things, to provide additional security for the payment of bonds and notes held by investors. In conjunction with issuing its Municipal Finance Consolidation Act Bonds in 1985, the MEDB adopted Resolution No. 68 on July 24, 1985, establishing a Municipal Finance Consolidation Act Reserve Fund (the "Reserve Fund") to secure bonds or obligations issued under the Municipal Finance Consolidation Act ("MFCA Bonds"). Pursuant to a Resolution, the MEDB and the Board entered into a Security Agreement whereby the Board agreed to make an interest bearing loan to the MEDB to restore any deficiency in the Reserve Fund and also agreed, for a fee, to purchase MFCA Bonds tendered for purchase and not remarketed. Each series of MFCA Bonds credit enhanced by the Board is approved by resolution by the Board. The Board has never been called upon to make any loans or purchase any of these Bonds.

Section 1.03. Authorization for the Board to Issue Municipal Finance Consolidation Act Bonds. Pursuant to Chapter 581, Montana Session Laws of 1987, the Board assumed the role of the MEDB with respect to the issuance of the Montana Finance Consolidation Act Bonds and other bond programs authorized by the State. The Board issued its first series of Intermediate Term Capital Program (INTERCAP) Municipal Finance Consolidation Act Bonds in 1987 (the "Series 1987 INTERCAP Bonds"). The Series 1987 INTERCAP Bonds and all series of INTERCAP Bonds subsequently issued by the Board have also been secured by the Reserve Fund. In the Resolution authorizing and approving the issuance of the Series 1987 INTERCAP Bonds, the Board approved the Indenture of Trust pursuant to which the Series 1987 INTERCAP Bonds were to be issued and secured (the "1987 Trust Indenture"); agreed to make an interest bearing loan to the Reserve Fund and agreed, for a fee, to purchase any Series 1987 INTERCAP Bonds tendered for repurchase that were not remarketed (the "Authorizing Resolution"). In 1991, the INTERCAP program was expanded, requiring a new Trust Indenture (the "1991 Trust Indenture"), securing the INTERCAP Bonds, that was approved by the Board. Each subsequent series of INTERCAP Bonds issued by the Board have been approved by an Authorizing Resolution and a Supplemental Indenture. The Authorizing Resolutions, the 1991 Trust Indenture and Supplemental Indenture are collectively referred to as the "Bond Documents." The Board has never been called on to make a loan to the Reserve Fund or purchase tendered MFCA Bonds under the Bond Documents.

Section 1.04. History, Authorizations, Montana Facility Finance Authority Bonds. Pursuant to Chapter 703, Montana Session Laws of 1987, now codified in Montana Code Annotated, Title 90, Chapter 7, Parts 1, 2 and 3, as amended (the "MFFA Act"), the Montana Health Facility Finance Authority, now the Montana Facility Finance Authority (the "MFFA") is authorized to issue revenue bonds to finance nonprofit hospitals, prelease centers and other nonprofit health-care providers or entities. The MFFA has created a capital reserve account to provide additional security ("Capital Reserve Account") for the Bonds it issues under the MFFA Act ("MFFA Bonds"). Pursuant to the MFFA Act, the Board is authorized to loan money to the MFFA for deposit in its capital reserve account and to purchase its bonds and notes. Pursuant to resolutions of the Board relating to each series of MFFA Bonds for which credit enhancement is provided, the Board is authorized to enter into an agreement with the MFFA whereby the Board agrees to make an interest bearing loan to the Capital Reserve Account to restore any deficiency (the "MFFA Capital Reserve Account Agreement"). For each series of MFFA Bonds credit enhanced by the Board, the Board has by Resolution approved entering into additional Capital Reserve Account Agreements. The Board has never been called upon to make a loan to the MFFA Capital Reserve Account. To date, the Board has not entered into any agreements to purchase tendered MFFA Bonds.

Section 1.05. Previous Credit Enhancement Policies. The Board adopted a "Credit Enhancement Policy" on February 17, 2006.

Section 2. Findings and Determinations of the Board.

Section 2.01. The Board desires to continue to enhance the marketability of bonds and notes issued under both the MFCA Act and the MFFA Act and to assist the Board and the MFFA in obtaining the lowest possible interest rates on loans to eligible governmental units and non-profit corporations providing needed and essential services and facilities to the public.

Section 2.02. The Board adopts this resolution to codify and clarify the circumstances under which the Board has and will continue to provide credit enhancement; to authorize its Executive Director to honor and fulfill the Board's obligations under the Bond Documents (and Capital Reserve Account Agreement); and to make this resolution a part of the Board Governance Policy.

Section 2.03. Resolution No. 68 adopted by the Montana Economic Development Board on July 24, 1985, establishing the Reserve Fund to secure bonds or obligations issued by the Board [is attached hereto as Schedule 1 and incorporated by reference.]

Section. 3. Decision to Provide Credit Enhancement; source of Credit Enhancement.

Section 3.01. The decision to provide credit enhancement as authorized by the MFFA Act and the MFCA Act shall be made by the Board pursuant to a duly authorized resolution of the Board related to each series of Bonds to be issued.

Section 3.02. The Board's policy shall be to provide credit enhancement when it is prudent to do so and in the Board's judgment would result in a lower interest rate to the borrowers under the MFCA Act and MFFA Act than could be otherwise obtained.

Section 3.03. The funds in the Unified Investment Program from which the Board's Credit Enhancement obligations could be satisfied include, but are not limited to: the Permanent Fund sub-fund of the Coal Tax Trust, the Short Term Investment Pool, and the Treasurer's Fund.

Section 4. Duties of the Executive Director.

Section 4.01. Loans. When required under the terms of the Bond Documents, the Executive Director of the Board is authorized to loan funds to the Board Reserve Fund and the MFFA Capital Reserve Account pursuant to the requirements of the Bond Documents.

Section 4.02. Purchase of Bonds. When required to do so under the Bond Documents, the Executive Director is authorized to purchase Bonds pursuant to the requirements of the Bond Documents.

Section 4.03. Use of Funds. The Executive Director is authorized to determine which legally available funds to use for the above purposes.

Section 4.04. Notification of Board. If the Executive Director makes a loan to the Reserve Funds, Capital Reserve Account or purchases bonds pursuant to the Bond Documents, he/she shall notify Board members via e-mail within three (3) business days of such action and provide a full report to the Board at its next regularly schedule meeting specifying the reasons for such action, the dollar amount, the terms, and the funding source for the loan or bond purchase.

Section 5. Effective Date; No Repeals Policy.

Section 5.01. This resolution shall become effective upon passage by the Board and execution and certification by the Chairman of the Board. This Resolution shall supersede in every respect and replace in its entirety the "Credit Enhancement Policy" adopted by the Board on February 17, 2006.

Section 5.02. This resolution is not intended and shall not be construed to modify any commitment, obligations or agreements, the Board has made pursuant to any duly authorized resolution or agreement relating to Bonds issued under the MFCA Act or the MFFA Act.

Section 5.03. The policies and procedures established by resolution become an integral part of the Board's Governance Policy.

Dated and approved this 14th day of May 2008.

ATTEST

By: ______________________________
Chairman

CERTIFICATE OF MINUTES RELATING TO
RESOLUTION NO. 068

Issuer: Montana Economic Development Board

Kind, date, time and place of meeting: A board meeting held on July 24, 1985, at 8:00 o'clock a.m. at Jorgenson's Holiday Motel in Helena, Montana.

Members present: Pat McKittrick, Jack Schutte, Yvonne Snider, Karen Locke, John Orth, and Jerry Sullivan.

Members absent: Steve Brown.

Documents attached:
Minutes of said meeting (pages):

RESOLUTION NO. 068

RESOLUTION OF THE MONTANA ECONOMIC DEVELOPMENT BOARD ESTABLISHING A MUNICIPAL FINANCE CONSOLIDATION ACT RESERVE FUND

I, the undersigned, being the fully qualified and acting recording officer of the public body issuing the obligations referred to in the title of this certificate, certify that the documents attached hereto, as described above, have been carefully compared with the original records of the public body in my legal custody, from which they have been transcribed; that the documents are a correct and complete transcript of the minutes of a meeting of the governing body at the meeting, insofar as they relate to the obligations; and that the meeting was duly held by the governing body at the time and place and was attended throughout by the members indicated above, pursuant to call and notice of such meeting given as required by law.

WITNESS my hand officially as such recording officer this 24 day of July, 1985.

John Orth

John Orth
Secretary

RESOLUTION 068

Member Jack Schutte introduced the following resolution and moved its adoption:

RESOLUTION OF THE MONTANA ECONOMIC DEVELOPMENT BOARD ESTABLISHING A MUNICIPAL FINANCE CONSOLIDATION ACT RESERVE FUND

BE IT RESOLVED by The Montana Economic Development Board (the Board) as follows:

1. Recitals. The Board is authorized and directed by Title 17, Chapter 5, Part 15, Montana Code Annotated, as amended (the Act) to create funds and accounts necessary to implement the Act, including a municipal consolidation finance act reserve fund and other funds and accounts; to issue and sell bonds and notes for the purpose of financing programs thereunder; and to secure the bonds and notes pursuant to an indenture of trust and resolution. Pursuant to the Act, the Board has undertaken a Cash Anticipation Financing Program to acquire Notes issued by local government units (the Borrowers) to finance their cash flow requirements. To provide funds to acquire the Notes, the Board has authorized the execution of an Indenture of Trust (the Indenture) between the Board and First Trust Company of Montana (the Trustee) pursuant to which the Board is authorized to issue and sell its Bonds. In order to provide for the segregation of and accounting for certain of its revenues and funds and in furtherance of the Act, the Board hereby determines it necessary and appropriate to adopt this resolution (the Resolution).

2. Definitions. Capitalized terms used but not defined herein shall have the meanings assigned them in the Indenture.

3. Municipal Finance Consolidation Act Reserve Fund. The Board hereby creates and establishes the Municipal Finance Consolidation Act Reserve Fund and authorizes the creation of accounts therein for the purpose of securing one or more series of bonds or obligations issued by the Board. Accounts may be created pursuant to indentures or resolutions with respect to series of bonds or obligations secured thereby and may be held by a trust and invested pursuant to the provisions of such indentures or resolutions. A reserve fund requirement may be established with respect to each account. So long as the reserve fund requirement of each

account is maintained, all investment income therefrom may be transferred to other accounts and funds of the Board as provided in the indenture and resolution securing the bonds.

4. Other Funds and Accounts. Nothing contained in this Resolution shall be deemed to limit the authority of the Board to create other funds and accounts pursuant to the Act in addition to the Municipal Finance Consolidation Act Reserve Fund.

Chairman

PERMANENT COAL TRUST FUNDS
INVESTMENT POLICY STATEMENT

INTRODUCTION

The purpose of this investment policy statement is to outline the account objectives, permissible investments, and constraints that will guide the management of the overall permanent fund portfolio. The policy is designed to meet the various objectives of the permanent trust funds within the context of prudent investment principles while complying with state law. This policy is intended to apply to the original and all of the various sub-funds comprising the permanent coal trust.

BACKGROUND INFORMATION

Article IX, Section 5 of the state Constitution requires that 50 percent of all coal severance tax revenues be deposited in a permanent trust fund (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest 25 percent of the Trust in Montana businesses.

The legislature has partitioned the Trust into several sub-funds. The Permanent Fund was initially established when the Trust was created, while the Severance Tax Bond Fund, created later, provides debt service guarantees and is invested solely in STIP. The Treasure State Endowment Fund was created July 1, 1993, with a $10.0 million transfer from the Permanent Fund. From July 1, 1993 through June 30, 1999 one-half of the coal severance tax earmarked for the Trust was deposited in the Permanent Fund and the remaining 50 percent was deposited in the Treasure State Endowment Fund.

Effective July 1, 1999, a new Treasure State Endowment Regional Water Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account.

Effective July 1, 2005, a new Big Sky Economic Development Fund sub-fund was created and 25 percent of Trust revenues were dedicated to that account. There is currently no new revenue dedicated to the Permanent Fund.

Income from the Permanent Fund and the Bond Fund is deposited in the Permanent Fund Income Fund where it is swept periodically to the state general fund. All sub-funds, except the income fund, are protected by the Constitution and may be appropriated only by a three-fourths vote of each house of the legislature. Income from the Treasure State Endowment Fund is appropriated by the legislature for local government infrastructure projects. Treasure State Endowment Regional Water Fund income is appropriated by the legislature for local government water projects. Big Sky Economic Development Fund income is appropriated by the legislature for economic development projects.

OBJECTIVES

The primary investment objective of the fund is to generate income and to fund Montana loans for various economic development purposes. Income from the fund offsets a portion of the State’s general expenditures. To meet this income objective requires a return in excess of the assumed risk free rate which entails some risk of loss of principal. This fund is being managed as a long-term permanent fund, and as such there is little risk that the corpus will need to be liquidated under normal circumstances. Therefore, the fund has an above average ability to assume risk. Accordingly, a large allocation to the Trust Fund Investment Pool (TFIP) will be made to obtain exposure to a diversified fixed income portfolio return while reducing idiosyncratic risk. A large allocation to Montana loans and investments will be made to comply with legislative expectations.

PERMANENT COAL TRUST FUNDS
INVESTMENT POLICY STATEMENT

PERMITTED INVESTMENTS AND LIMITATIONS

- Trust Fund Investment Pool: a broad allocation range is appropriate to allow for increased return, diversification and as an offset for other asset types.
- Short Term Investment Pool (STIP): a small allocation is appropriate to provide for liquidity, facilitate transactions, and allow for temporary timing differences in other allocations.
- Montana Commercial Loans: A broad allocation range is appropriate in contemplation of economic conditions and to comply with MCA 17-6-305. The code partially states "(1) Subject to the provisions of 17-6-201(1), the board shall endeavor to invest 25% of the permanent coal tax trust fund established in 17-6-203(6) in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises. Investments made pursuant to this section do not include investments made pursuant to 17-6-309(2). For purposes of calculating the 25% of the permanent coal tax trust fund, the board shall include all funds listed in 17-5-703(1). This subsection does not prohibit the board from investing more than 25% of the permanent coal tax trust fund in the Montana economy if it is prudent to do so and the investments will benefit the Montana economy. (2) In determining the probable income to be derived from investment of this revenue, the long-term benefit to the Montana economy must be considered."
- Montana Value Added Loans: A moderate allocation range is appropriate to comply with MCA 17-6-317 with a maximum of $70 million.
- Montana Infrastructure Loans: A moderate allocation range is appropriate to comply with MCA 17-6-316 with a maximum of $80 million.
- Intermediary Relending Loans: A very small allocation is appropriate to comply with MCA 17-6-345 with a maximum of $5 million.
- Montana Facility Finance Loans: A small allocation is appropriate in contemplation of economic conditions and to comply with MCA 17-6-308(4) with a maximum of $15 million.
- Montana Science and Technology Loans: A small allocation is appropriate to comply with MCA 17-6-308(3) and the run off of the canceled program.
- Montana Veterans' Home Loan Mortgages: A small allocation range is appropriate to comply with MCA 90-6-603 with a maximum of $15 million.
- Principal and Interest guarantees for Montana Health Facility Finance Authority: No stated range. An amount equal to one year's principal and interest should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI resolution 219.
- Implied Contracts to allow Montana Intercap bond holders to put bonds on the Permanent Fund: No stated range. An amount equal to outstanding Intercap Bonds should be added to the upper end of the Montana Commercial Loans range to allow for the contingent liability. This investment is to comply with MBOI resolution 219.

The investment and legal considerations of the fund suggest the permitted investments and expected allocation ranges shown on the following page. These ranges are intended to apply to the consolidated funds making up the permanent coal trust.

PERMANENT COAL TRUST FUNDS
INVESTMENT POLICY STATEMENT

ASSET ALLOCATION
(At Market)

	12/31/2011	**Ranges**		
Trust Funds Investment Pool	80.2%	38%	-	92%
Commercial Loans	12.7%	8%	-	36%
Value Added Loans	0.3%	0%	-	6%
Infrastructure Loans	2.5%	0%	-	8%
Intermediary Relending Loans	0.3%	0%	-	1%
Facility Finance Loans	0.8%	0%	-	2%
Science and Technology Loans	1.3%	0%	-	2%
Veterans' Mortgage Loans	0.0%	0%	-	2%
Short Term Investment Pool	1.7%	0%	-	5%
	100.0%			

MONTANA BOARD OF INVESTMENTS
TREASURER'S FUND (MU10) (FUND 10100)
INVESTMENT POLICY STATEMENT

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;

MONTANA BOARD OF INVESTMENTS
TREASURER'S FUND (MU10) (FUND 10100)
INVESTMENT POLICY STATEMENT

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.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

PURPOSE

The purpose of this document is to establish policies that will govern the investment activities of the Montana Board of Investments (MBOI) with regard to the management of the Short-term Investment Pool (STIP). These policies are adopted by, and can be changed only by a majority of Board members at a publicly-noticed meeting.

These policies are designed to ensure the prudent management of public funds, conformance to Montana Constitution and law, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

All participants in the investment process shall act responsibly as custodians of the public trust and shall recognize that the STIP portfolio is subject to public review and evaluation. The pool shall be designed and managed in accordance with the standards of a "prudent expert" and managed as a "2a-7–like" portfolio.

SCOPE

This Investment Policy applies to the investment of short-term operating funds of the State of Montana, participating local government entity funds, and the liquidity requirements of the various pension and trust funds managed by the MBOI.

1. **Pooling of Funds.** Each participant choosing to invest in the STIP must provide a legal opinion that it is authorized by law to participate. The STIP will consolidate cash balances from all participating funds to maximize investment earnings. Investment income is accrued daily and allocated monthly to participants based on their pro rata participation and in accordance with generally accepted accounting principles.
2. **Amortized Cost.** STIP holdings are carried at amortized cost.

DELEGATION OF AUTHORITY

1. **Board.** The Board, as a quasi-judicial body under state law is legally responsible for the prudent investment of the STIP. The Board is responsible for approving and amending this policy and delegates the responsibility for administering the STIP as outlined below:

2. **Staff**. Responsibility for the daily operation of the STIP is delegated to Board Staff, who shall act in accordance with this policy. Staff's duties include, but are not limited to, the following:
   a. **The Executive Director** (ED) is responsible for the creation of the STIP investment program and the establishment of investment and financial reporting procedures consistent with this policy. The ED is also responsible for the following:
      i. collection and reporting of all income;
      ii. reconciling all transactions with the records of brokers and custodians; and,
      iii. monitoring compliance with statute and this policy.
   b. **The Chief Investment Officer** (CIO) shall establish a system to review and regulate the activities of subordinate investment officers and shall exercise authority over the entire investment staff and investment process.
   c. **The Portfolio Manager** (PM) assigned to the STIP portfolio is responsible for, but not limited to, the following:
      i. developing and recommending amendments to the STIP policy to the CIO;
      ii. implementing and adhering to the STIP policy;
      iii. structuring the portfolio to meet investment objectives;
      iv. all trades undertaken in the portfolio; and,
      v. reporting to the Board at least quarterly on the results and investment strategy for the pool.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

d. **The Board Internal Auditor** (BIA), if the Board chooses to employ one, will periodically review the STIP internal controls. The audit will be designed to measure Board Staff compliance with this policy.

3. **General Investment Consultant**. The General Investment Consultant shall provide assistance to the Board's Staff as requested in conjunction with the management of the STIP.

OBJECTIVES

1. **Investment Objective.** The STIP shall be managed to accomplish the following hierarchy of objectives:
   a. **Preservation of Principal**. The STIP portfolio investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate the inherent risks associated with short-term money market investments, primarily credit risk and interest rate risk
      i. **Credit Risk**. The STIP portfolio will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by means of the following:
         1. limiting investments to those securities with high credit ratings;
         2. pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with whom the STIP will conduct business; and
         3. diversifying the investment portfolio so that potential losses on individual securities will be minimized.
      ii. **Interest Rate Risk**. The STIP portfolio will minimize the risk that the market value of the securities will deviate significantly from cost due to changes in the general level of interest rate by means of the following:
         1. structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
         2. investing funds primarily in short-term maturities of money market securities; and
         3. maintaining a dollar-weighted average portfolio maturity of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).
   b. **Maintenance of Liquidity**. The STIP portfolio will maintain sufficient liquidity to meet all state agency and local government operating requirements and STIP participant investment cash flow needs that can be reasonably anticipated; and
   c. **Return.** The STIP investment portfolio shall be managed with the objective of attaining a money market rate of return throughout market and economic cycles, taking into account the investment risk constraints and liquidity needs of the participants.

AUTHORIZED & SUITABLE INVESTMENTS

1. **Permissible Securities.** The following securities and investment vehicles are approved for purchase for the STIP:
   a. U.S. Treasury and U.S. Governmental Agencies, or corporations wholly owned by the U.S. Government;
   b. Publicly traded domestic corporate bonds, notes and medium term notes (MTNs);
   c. Asset-backed securities (ABS) collateralized by: credit cards, automobile loans, leases and other receivables acceptable to staff in their analysis of this type of structure;
   d. Publicly and privately traded U.S. dollar denominated money market securities, including, but not limited to:

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

i. Bankers' Acceptances (BA),
ii. Commercial Paper (CP), and
iii. Certificates of Deposits (CD), including Eurodollar and Yankee obligations which include CDs issued in U.S. dollars by foreign banks and foreign branches of U.S. banks.

e. Floating rate securities tied to LIBOR, Fed Funds, Treasury Bills or commercial paper indices;
f. Repurchase Agreements and Reverse Repurchase Agreements;
g. U.S. Dollar bonds and money market securities issued in the United States by foreign borrowers (Yankees);
h. U.S. Dollar bonds and money market securities issued outside the United States by domestic or foreign borrowers; and
i. Institutional money market funds.
j. Investments required to implement the bond credit enhancement authorized by **Resolution 219**.
k. Short term investment fund of the custodial bank.

2. **Approved List.** Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved. The approved list shall be maintained by Staff with issuers added or removed from time to time depending on an analysis of their risk characteristics and suitability for use in the portfolio. At least two investment staff must approve names on the list. Issuers on the list shall be reviewed at least semi-annually for continued inclusion on the approved list.

DIVERSIFICATION AND LIMITATIONS

These limitations shall apply at the time of purchase of a permissible security. Should the portfolio fall out of compliance due to downgrades or shrinkage of the total portfolio size, a reasonable cure period will be allowed so that compliance can be obtained through normal maturities or sales at fair market value. Sales will be considered as a means of curing any out-of-compliance condition only if deemed prudent by Staff in light of prevailing market conditions.

1. **U.S. Government Securities**
   a. 100% of portfolio may be invested in U.S. Treasury Securities;
   b. 65% maximum of portfolio may be invested in U.S. Government Agency Securities;
   c. 25% maximum of portfolio per single U.S. Agency issuer.
2. **Commercial paper, corporate bonds, notes and medium-term notes (MTNs)**
   a. 40% maximum of portfolio in corporate indebtedness;
      i. Up to 100% of this corporate debt limit may consist of commercial paper; and
      ii. Up to 50% of this corporate debt limit may consist of bonds, notes or MTNs.
      iii. 2% maximum of portfolio per issuer in commercial paper and corporate bonds, notes, and MTN's except that up to 3% per issuer may be invested in CP maturing in seven days or less at times of restricted supply such as during calendar year-end. Repurchase agreement obligations of a financial institution shall not be considered in this limit;
   b. CP, corporate notes, and MTNs must have a minimum of two separate credit ratings (either short or long term) by Standard & Poor's, Moody's or Fitch;
      i. CP must be rated a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase; and
      ii. Corporate notes & medium-term notes must be rated, by at least one rating agency, a minimum of AA- (S&P), Aa3 (Moody) or AA3 (Fitch) at the time of purchase.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

3. **Asset-backed Securities (ABS)**
    a. 40% maximum of portfolio in Asset Backed Commercial Paper (ABCP);
    b. 2% maximum of portfolio per issuer in ABCP;
    c. ABCP must carry at least two separate credit ratings and be rated a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase;
    d. ABCP purchases shall be limited to maturities of 30 days, except that up to 10% of the portfolio may be invested in maturities of up to 60 days;
    e. 20% maximum of the portfolio may be invested in senior notes issued by Structured Investment Vehicles (SIV), however purchases as of the effective date of this policy may only be made if the issuer carries the explicit support of an approved financial institution that otherwise meets the criteria established for bank obligations listed below;
    f. SIV's must be rated AAA or Aaa by at least two rating services (S&P, Moody's or Fitch) at the time of purchase; and
    g. No more than 10% of the portfolio may be invested in any one financial sponsor of ABS of any type. In measuring exposure to a financial sponsor for this purpose, both holdings in the ABS sponsored by the firm as well as its direct obligations shall be considered. Repurchase agreement obligations of a financial institution shall not be considered in this limit.

4. **Bankers Acceptances and Certificates of Deposit**
    a. 30% maximum of portfolio may be invested in the combination of BA's and CD's;
    b. 2% maximum of portfolio invested in any one issuer, except that up to 3% per issuer may be invested in CD's maturing in seven days or less at times of restricted supply such as during calendar year-end. Repurchase agreement obligations of a financial institution shall not be considered in this limit;
    c. BA's and CD's must carry at least two separate credit ratings and be rated a minimum of A1, P1 or F1 at the time of purchase; and
    d. If rated by only one rating agency, the issuer's parent must also carry a minimum long-term unsecured senior debt rating of AA- or Aa3 or higher by a different rating agency.

5. **Repurchase and Reverse Repurchase Agreements**
    a. Transactions will be conducted only with approved primary dealers or the master custodial bank, and under the terms of a written master repurchase agreement;
    b. 30% maximum of the portfolio may be invested in repurchase agreements;
    c. 5% maximum of the portfolio with any single primary dealer or financial institution;
    d. The maximum term of any repurchase agreement will be 90 days;
    e. Acceptable forms of collateral under repurchase agreements will consist of U.S. Treasury and/or U.S. Agency securities which will be required to be maintained at a market value of 102% of the value of the repurchase agreement;
    f. The maximum term of any reverse repurchase agreement will be 90 days and must be matched to anticipated cash flows adequate to liquidate the transaction; and
    g. A maximum of fifteen percent (15%) of the portfolio may be pledged to secure reverse repurchase agreements. Transactions will be used only to secure borrowings for temporary or emergency purposes.

6. **Institutional Money Market Funds (MMF's)**
    a. Registered 2a-7 investment companies only;
    b. 15% maximum of portfolio may be invested in institutional MMF's; and
    c. 5% maximum of portfolio invested in any one MMF

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

7. **Industry and Collateral Concentration Limitation**
    a. No more than 15% of the portfolio will be invested in companies whose principal business activities are in the same industry except that holdings in financial service companies are not limited; and
    b. No more than 10% of the portfolio will be invested in any one type of receivable or collateral type via asset backed securities with the exception of financial institution obligations. These underlying types of collateral include such assets as trade receivables, student loans, residential mortgages, commercial mortgages, auto loans and leases, plant and equipment loans and leases, repurchase agreements, collateralized debt obligations of all types, credit card receivables, and other forms of collateral acceptable as part of the approval process for a specific issuer.

8. **Maximum Maturities.** To the extent possible, investment in the STIP portfolio shall attempt to match the anticipated cash flow requirements. For the purposes of the STIP portfolio, selection of investment maturities must be consistent with SEC Rule 2a-7 which requires a maximum final maturity of any security not to exceed 397 days, with the following exceptions:
    a. Securities used as collateral in repurchase agreements;
    b. A variable rate security which on any reset date can reasonably be expected to have a market value that approximates its amortized cost; and
    c. Securities received as settlement in exchange for an originally purchased security.

9. **Liquidity**
    a. Minimum one-day maturities equal to 5% or greater and minimum maturities within one week equal to 10% or greater of the total fund value including MMF holdings and balances in the U.S. Bank sweep account which is held by the Treasurer's Fund;
    b. The fund may not acquire any security if, or as a result, more than 10% of the fund's net assets would be invested in securities that are illiquid; and
    c. Illiquid securities shall include repurchase agreements maturing in more than seven days, and restricted, privately placed securities that are not registered under the Securities Act of 1933, with the exception that certain restricted securities eligible for resale to qualified institutional investors, including Rule 144a securities, are not subject to this limitation on illiquid securities.

BENCHMARK

The STIP portfolio performance results will be compared to the return of a one month LIBOR index as a market benchmark, and the iMoneyNet First Tier Institutional only (gross) return as a peer group measure.

DEFINITIONS

1. **2a-7-like** – A reference to a rule promulgated under the Investment Company Act of 1940 which defines the requirements of SEC-registered money market mutual funds.

2. **Asset-Backed Security** - Bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit; not mortgages.

3. **Banker's Acceptance** - A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. Often used in importing and exporting, and as a discount money market fund investment.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

4. **Certificate of Deposit –** A short-or medium-term, interest-bearing, deposit obligation offered by banks and savings and loans.

5. **Commercial Paper** - An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days. Commercial paper is available in a wide range of denominations, can be either discounted or interest-bearing, and usually have a limited or nonexistent secondary market. Commercial paper is usually issued by companies with high credit ratings, meaning that the investment is almost always relatively low risk.

6. **Corporate Note -** A type of unsecured debt issued by a corporation that may be longer-term than Commercial Paper, but shorter-term than a typical Corporate Bond.

7. **Repurchase Agreement** - A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. May also be called "Repo" or "Buyback." Typically used a short term form of collateralized borrowing by a bank or securities dealer.

8. **Reverse Repurchase Agreement** - A purchase of securities with an agreement to resell them at a higher price at a specific future date. The investor essentially borrows money and allows its securities to be held as collateral. Reverse Repurchase Agreements occur most often in government securities or other securities that are highly valued and thus considered a good form of collateral.

9. **Structured Investment Vehicle** - Bankruptcy-remote entities sponsored by large banks or investment managers for the purpose of generating leveraged returns. The sponsor earns the spread (differences in yields) between the longer-dated assets purchased and the short-term liabilities issued. The balance sheet of a structured investment vehicle typically contains assets such as residential mortgage-backed securities (RMBS), asset-backed securities (ABS) and other high-grade securities.

CERTIFICATE AS TO RESOLUTION AND ADOPTING VOTE

I, the undersigned, being the duly qualified and acting recording officer of the Board of Investments of the State of Montana (the "Board"), hereby certify that the attached resolution is a true copy of Resolution No. 230 entitled: "RESOLUTION OF THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA RELATING TO ITS ANNUAL ADJUSTABLE RATE TENDER OPTION MUNICIPAL FINANCE CONSOLIDATION ACT BONDS (INTERCAP REVOLVING PROGRAM), SERIES 2013, AUTHORIZING ISSUANCE AND SALE OF THE SERIES 2013 BONDS AND THE SALE OF NOTES IN ANTICIPATION OF THE PROCEEDS THEREOF (BOND ANTICIPATION NOTES), APPROVING FORM OF DOCUMENTATION AND MAKING CERTAIN FINDINGS AND DETERMINATIONS REGARDING THE SERIES 2013 BONDS AND BOND ANTICIPATION NOTES" (the "Resolution"), on file in the original records of the Board in my legal custody; that the Resolution was duly adopted by the Board at a regular meeting on November 13, 2012 and that the meeting was duly held by the Board and was attended throughout by a quorum, pursuant to call and notice of such meeting given as required by law; and that the Resolution has not as of the date here of been amended or repealed.

I further certify that, upon vote being taken on the Resolution at said meeting, the following members voted in favor thereof:

____

____; voted against the same: ________________;

abstained from voting thereon: ______________________; or were absent: ________________.

WITNESS my hand and seal officially this ___ day of November, 2012

(SEAL)

____
Executive Director

RESOLUTION NO. 230

RESOLUTION OF THE BOARD OF INVESTMENTS OF THE STATE OF MONTANA RELATING TO ITS ANNUAL ADJUSTABLE RATE TENDER OPTION MUNICIPAL FINANCE CONSOLIDATION ACT BONDS (INTERCAP REVOLVING PROGRAM), SERIES 2013, AUTHORIZING ISSUANCE AND SALE OF THE SERIES 2013 BONDS AND THE SALE OF NOTES IN ANTICIPATION OF THE PROCEEDS THEREOF (BOND ANTICIPATION NOTES), APPROVING FORM OF DOCUMENTATION AND MAKING CERTAIN FINDINGS AND DETERMINATIONS REGARDING THE SERIES 2013 BONDS AND BOND ANTICIPATION NOTES

BE IT RESOLVED by the Board of Investments of the State of Montana (the "Board"), as follows:

Section 1. Recitals.

1.01. General Authority. The Board is authorized by Title 17, Chapter 5, Part 16, Montana Code Annotated (the "Act"), to issue notes and bonds to finance loans or refinance its loans to Montana governmental units and its purchases of their bonds and notes, to establish or replenish revenue securing the payments of its bonds and notes, and to finance all other expenditures of the Board incident to and necessary or convenient to carry out the provisions of the Act. Bonds so issued may be secured by a trust indenture and by a municipal finance consolidation act reserve fund to which the Board may agree to advance monies to restore reserve fund deficiencies. The Board is further authorized to issue temporary notes in anticipation of the sale of its securities. Any bonds so issued shall not constitute a liability or obligation of or a pledge of the faith and credit of the State of Montana (the "State") but are payable solely from the revenues or funds of the Board generated or received by purposes of the Act. Montana governmental units are authorized by various provisions of the Montana Code Annotated to issue bonds, notes or other obligations for the purpose of financing or refinancing the acquisition and installation of equipment, personal and real property improvements or provide temporary financing of projects or for other authorized corporate purposes. The Board is also authorized by Section 17-6-201, M.C.A., to invest funds in its control in bonds or notes issued by the Board. Terms used with initial capital letters herein but not defined have the meanings given to them in the Indenture (as hereinafter defined).

1.02. Outstanding Obligations. Pursuant to the Act, the Board has issued the following series of Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) (collectively, the "Outstanding Bonds"), which are currently outstanding:

- $10,000,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 1997.

- $12,500,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 1998.

- $15,000,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2000.

- $15,000,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2003.

- $18,500,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2004.

- $15,000,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) Series 2007.

- $12,000,000 Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program), Series 2010.

Under the Program, the Board uses the original proceeds of the Bonds to make loans and the repayments of such loans to make more loans. The Bond Program Officer of the Board has informed the Board that additional funds are needed to make loans under the Program. Based on historical data and additional requests for funding during the next 24 months, the Bond Program Officer recommends and requests that the Board issue up to $12,000,000 in aggregate principal amount of Annual Adjustable Rate Tender Option Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program), Series 2013 (the "Series 2013 Bonds").

The Board would issue its Series 2013 Bonds in a principal amount of up to $12,000,000 pursuant to the Indenture of Trust, dated as of March 1, 1991, as amended and supplemented (the "Indenture"), and a Series Supplemental Indenture to be dated as of March 1, 2013 (the "2013 Supplemental Indenture"), both between the Board and U.S. Bank National Association (successor by merger to First Trust Company of Montana National Association), as Trustee (the "Trustee"), and on a parity with the Outstanding Bonds. Proceeds realized from the sale of the Series 2013 Bonds would be applied by the Board to pay and redeem certain notes, including Board of Investments of the State of Montana Bond Anticipation Notes (INTERCAP Revolving Program), Taxable Series 2012, in the principal amount of up to $10,000,000 (the "Series 2012 Bond Anticipation Notes") issued under a Series Supplemental Indenture (the "BAN Supplemental Indenture"), to make loans to eligible borrowers (the "Loans"), to pay certain costs of issuance, to provide funds to pay interest on the Series 2013 Bonds, and to establish reserves therefor and to reimburse the Board for amounts advanced to make loans to eligible borrowers. The proceeds realized from the sale of the Series 2012 Bond Anticipation Notes would be applied by the Board to make Loans to eligible borrowers, to pay certain costs of issuance, and, if necessary, to make a deposit to the Bond Anticipation Note Fund.

1.03. Documents. Proposed forms of the following documents have been submitted to the Board and shall be placed in the Board files:

(a) the Indenture; and

(b) the BAN Supplemental Indenture.

The Board hereby approves the BAN Supplemental Indenture in substantially the form submitted herewith, with such changes as shall be approved as evidenced by the signature thereof, and approves the findings and determinations set forth in the BAN Supplemental Indenture.

Section 2. Authorization. The Board authorizes the Series 2013 Bonds and the 2012 Bond Anticipation Notes as provided in the BAN Supplemental Indenture. The Chair of the Board and the Executive Director are authorized and directed to execute and deliver the Series 2012 Bond Anticipation Notes. The Board further authorizes and directs the Executive Director, Deputy Director and Bond Program Officer (i) to proceed with the sale of the Series 2013 Bonds, to work with Piper Jaffray & Co. and D.A. Davidson & Co. (the "Underwriters"), Dorsey & Whitney LLP, as Bond Counsel, and such others as the Board may deem appropriate or as may be required to prepare and present to the Board at its next meeting and subsequent meetings the necessary documents to effectuate the sale, including but not limited to the 2013 Supplemental Indenture relating to the Series 2013 Bonds, the Bond Purchase Agreement, the Remarketing Agreement, the Reserve Fund Resolution, a Preliminary Official Statement and the Agreement Concerning Continuing Disclosure between the Board and the Trustee, or (ii) if the Board so directs, to commence a request for proposal process to assemble a team of professionals comprised of successful proposers to undertake the activities described in the foregoing clause (i) and provide associated expertise.

Section 3. Reimbursement. Proceeds of the Series 2013 Bonds will reimburse the Board for advances made under the Series 2012 Bond Anticipation Notes up to the principal amount so advanced to fund temporarily the Loans and to pay interest on the Series 2012 Bond Anticipation Notes and associated costs.

PASSED AND APPROVED by the Board of Investments of the State of Montana this 13th day of November, 2012.

Chairman

Attest:

Executive Director

MONTANA BOARD OF INVESTMENTS
Total Guaranty by the Permanent Coal Trust Fund
as of 09-30-12

Bond Issue	Issue Date	Maturity Date	Reserve Fund	Amount Issued	Amount Outstanding		Principal[1]	Interest[2]	Total Exposure
MONTANA BOARD OF INVESTMENTS (MBOI)									
Irrigation Dist. Pooled Prgm.	08/16/88	08/01/13	76,165	4,976,214	70,000		70,000	5,390	75,390
INTERCAP 1997	03/01/97	03/01/17	750,118	10,000,000	9,210,000 *		9,210,000	20,262	9,230,262
INTERCAP 1998	03/01/98	03/01/18	937,659	12,500,000	11,875,000 *		11,875,000	26,125	11,901,125
INTERCAP 2000	09/13/00	03/01/25	1,124,927	15,000,000	14,470,000 *		14,470,000	31,834	14,501,834
INTERCAP 2003	05/01/03	03/01/28	1,124,927	15,000,000	14,525,000 *		14,525,000	31,955	14,556,955
INTERCAP 2004	04/01/04	03/01/29	1,387,411	18,500,000	18,200,000 *		18,200,000	40,040	18,240,040
INTERCAP 2007	03/01/07	03/01/32	1,124,819	15,000,000	14,775,000 *		14,775,000	32,505	14,807,505
INTERCAP 2010	03/01/10	03/01/35	899,853	12,000,000	11,975,000 *		11,975,000	26,345	12,001,345
MBOI Sub-total			$ 7,425,879	$ 102,976,214	$ 95,100,000	**MBOI Subtotal**	**95,100,000**	**214,456**	**95,314,456**
MONTANA FACILITY FINANCE AUTHORITY (MFFA)									
Bond Issues									
MLP 98A-Big Horn County	02/01/98	02/01/18	115,650	1,425,000	575,000		575,000	29,150	604,150
MLP 98D-Lewis& Clark Co.(c	02/01/98	02/01/18	69,875	860,000	345,000		345,000	17,490	362,490
MLP 00A-Marcus Daly Hospit	03/01/00	08/01/20	292,100	3,440,000	1,800,000		1,800,000	108,000	1,908,000
Montana Developmental Cente	09/01/03	06/01/19	2,035,844	11,510,000	5,960,000		5,960,000	269,218	6,229,218
MLP 05A-Marias Medical Cer	04/01/05	01/01/28	351,843	4,030,000	2,480,000		2,480,000	120,785	2,600,785
MLP 05B-Montana Children's	04/01/05	01/01/24	836,739	9,720,000	6,800,000		6,800,000	318,503	7,118,503
MLP 06A-Northern MT Hospi	03/01/06	10/01/15	667,000	6,670,000	2,975,000		2,975,000	147,475	3,122,475
MLP 07A-Marcus Daly Hospit	01/31/07	08/01/27	538,114	7,135,000	5,835,000		5,835,000	240,294	6,075,294
MLP 07B-Northeast Montana	05/10/07	05/01/32	863,383	12,515,000	11,370,000		11,370,000	505,513	11,875,513
MLP 07C-St. Luke Communit	06/27/07	01/01/32	1,673,991	23,500,000	20,870,000		20,870,000	988,450	21,858,450
MLP 08A-Glendive Medical C	07/01/08	07/01/18	2,098,388	30,000,000	27,825,000		27,825,000	1,310,539	29,135,539
MLP 10A-Powell County Men	08/11/10	07/01/36	285,519	15,000,000	15,000,000		15,000,000	682,770	15,682,770
MLP 10D-Community Medica	12/29/10	06/01/35	1,902,570	19,015,000	19,015,000		19,015,000	1,011,714	20,026,714
MFFA Bonds Sub-total			$11,731,016	$ 144,820,000	$ 120,850,000	**MFFA Bond Issues**	**120,850,000**	**5,749,899**	**126,599,899**
Surety Bonds									
Alternatives, Inc. (97)	11/01/97	10/01/17	888,064	2,925,000	1,190,000 **		1,190,000	66,640	245,720
Alternatives, Inc. (06)	07/13/06	10/01/26		7,920,000	6,450,000 **		6,450,000	314,419	642,344
Missoula Correctional Service	10/15/98	10/01/18	450,685	5,580,000	2,605,000 **		2,605,000	124,713	455,733
Great Falls Prerelease (05)	12/22/05	04/01/21	432,295	4,500,000	3,091,774 **		3,091,774	81,868	432,295
Boyd Andrew Community Ser	07/01/00	10/01/20		2,245,000	1,325,000 **		1,325,000	153,567	199,338
Boyd Andrew Community Ser	05/01/04	04/01/14	346,035	250,000	59,073 **		59,073	2,347	31,224
Boyd Andrew Community Ser	08/04/05	10/01/20		1,200,000	792,021 **		792,021	38,574	115,473
Community, Counseling, & Co	08/08/06	10/01/27	710,576	9,250,000	7,655,000 **		7,655,000	335,156	710,600
Boyd Andrew Community Ser	08/08/06	10/01/27	391,937	5,085,000	4,210,000 **		4,210,000	184,306	391,950
MFFA Surety Bonds Sub-total			$3,219,592	$ 38,955,000	$ 27,377,867	**MFFA Surety Bonds**	**27,377,867**	**1,301,590**	**3,224,677**
MFFA Sub-total				**$ 183,775,000**	**$ 124,074,677**	**MFFA Subtotal**	**148,227,867**	**7,051,489**	**129,824,576**
Grand Total				**$ 286,751,214**	**$ 219,174,677**				
						TOTAL GUARANTY BY PERMANENT COAL TRUST FUND	**243,327,867**	**7,265,945**	**225,139,032**

* Parity INTERCAP Bonds
** Surety Reserve, maximum BOI exposure

BOI GUARANTY FEE SCHEDULE

Term			
First 10 years		2 basis points/year (20 max)	______
11-15 years		3 basis points/year (15 max)	______
16-20 years		5 basis points/year (25 max)	______
> 20 years		10 basis points/year	______
Bond Type			
Government obligation		0 basis points	______
Revenue:	Government	10 basis points	______
	Private	20 basis points (A)	______
		30 basis points (BAA)	______
		50 basis points (non-rated)	______
Reserve Fund			
Pooled:	= Annual Debt Service	10 basis points	______
	< Annual Debt Service	25 basis points	______
Non-pooled:	= Annual Debt Service	25 basis points	______
	< Annual Debt Service	50 basis points	______

TOTAL BOI FEE (BASIS POINTS)
TOTAL FEE BASED ON PAR ______

PiperJaffray.

Diane L. Paauwe
Managing Director

Public Finance
800 Nicollet Mall, J12NPF
Minneapolis, MN 55402-7020
612-303-6686
612-303-6966 Fax

MEMORANDUM

TO: Louise Welsh

FROM: Diane Paauwe

DATE: October 9, 2012

RE: Cost of Credit Enhancement for INTERCAP Program and MFFA Master Loan Program Bonds

This memorandum is being sent in response to your email requesting market pricing for credit enhancement. The purpose for requesting this pricing information is to compare what BOI charges for credit enhancement for its INTERCAP Program and MFFA Master Loan Program Bonds to what other market participants would charge.

Montana Facility Financing Authority – Master Loan Program Bonds

I will start with enhancement for MFFA Bonds. There are currently only two bond insurers that are active in the municipal market. The benefit of bond insurance is that the borrower is able to fix the interest rate through final maturity of the bonds.

Assured Guaranty ("Assured"), with ratings of Aa3 (RUR)/AA- (Stable) from Moody's and S&P, is one bond insurer. On the Healthcare page of Assured's website is the following with respect to issuers/borrowers that qualify:

> *Issuers [Borrowers] that qualify for our guaranty are of investment-grade credit quality. They provide healthcare services that are essential to the areas they serve, and they demonstrate market leadership. We pay particular attention to relative market position and the direction of volume trends in the local market.*

I also called Paul Rizzo, a Managing Director in Assured's Healthcare group, to get more clarification. Paul confirmed that at a minimum a borrower needs an investment grade rating, either a public or private rating will do. They will look at acute care hospitals, as well as human service organizations and senior living facilities. The issue size needs to be at least $15 million. Minimum bed size for a hospital would be 50 beds and growing, with no competition for the services provided.

I took a look at one of Master Loan Program bond issue to see of the borrower would have met Assured's requirements. I picked the $15 million Series 2010A bonds for Powell County Memorial Hospital, because it was right at the minimum issue size for Assured. I have my doubts as to whether this borrower would meet the investment grade rating requirement, but I still looked at the hospital size. The hospital has 19 beds, so Assured would not have looked at this issue.

The second insurer is Build America Mutual Assurance Company ("BAM"), with a rating of AA (Stable) by S&P. BAM is very new to the municipal market, having insured its first transaction in

September of this year. BAM requires issuers to have at least one public, underlying investment grade credit rating. Healthcare is not in its list of permitted sectors.

As to bank credit enhancement, we will assume for now that a borrower with Master Loan Program Bonds would be able to get a letter of credit. But, a letter of credit ("LOC") would not provide a borrower with the ability to fix the interest rate through the final maturity of the bonds. A typical LOC term would be in the 3- to 7-year range. At the end of the LOC term, the borrower would be required to negotiate a new LOC term and annual fee, either with the existing LOC provider or a replacement LOC provider. In addition, there would be a mandatory tender on the Bonds prior to the LOC expiration date. The Bonds would then be resold based on the new LOC term and rating at then current market rates.

As I see it, there are really no alternative credit enhancement options that compare to what BOI is providing to its health care borrowers under the Master Loan Program.

INTERCAP Program Bonds

For the INTERCAP Program Bonds, BOI provides a guaranty of principal and interest payments through an irrevocable pledge to lend money equal to any deficiencies in the Reserve Account H. BOI has also irrevocably committed to purchase tendered bonds that have not been redeemed or remarketed. Because the INTERCAP Bonds are structured as adjustable rate tender option bonds, a LOC would be a comparable enhancement alternative to that of BOI.

I did contact a governmental banker at one of the top U.S. banks to get an indication of what the fee would be for providing a LOC in lieu of BOI's credit enhancement to the program. As we talked through the program structure, it became clear that it would be very difficult for a bank to get its arms around the credit risk of a closed loan pool with over 160 borrowers – many of which are not rated – and the revolving nature of the loan pool makes it even more difficult.

This past year, the annual rate on the INTERCAP Bonds was set at 22 basis points, and the rate to the borrowers was set at 1.25%. The spread of 1.03% is both for credit enhancement and program administration. The banker that I talked with indicated that the annual LOC fee for a pool with non-rated borrowers would not be anywhere close to 1.00% in the current market. In addition, he indicated that the bank would need to charge an origination fee each year to cover the credit review.

I suppose that it might be possible for a bond insurer to cover the payment risk, although I did not specifically discuss this with the insurers for the following reason. A bank liquidity facility would still be needed to cover the tender risk. In the current market, the difference between the annual fee for a liquidity facility and the annual fee for a full LOC is only about 5 basis points. The resulting combined cost of insurance and a liquidity facility would be more than the cost of a full LOC – which is already more than what BOI is charging the borrowers in the INTERCAP Program.

With its credit enhancement, BOI is providing the borrowers in both the Master Loan Program and the INTERCAP Program with the ability to borrower at very attractive rates, and comparable credit enhancement would not be available to them from other market participants.

-end-

INTERCAP Bond	Original Amount	Date Issued	Maturity Date	Term	BOI Guaranty Fee
1987	6,500,000	03/01/87	03/01/95	8	$26,000.00
1988	5,000,000	06/01/88	03/01/96	8	$20,000.00
1991	5,000,000	03/01/91	03/01/01	10	$20,000.00
1992	6,500,000	03/01/92	03/01/05	13	$35,750.00
1994	7,500,000	06/01/94	03/01/09	15	$41,250.00
1995	7,500,000	10/01/95	03/01/10	15	$41,250.00
1997	10,000,000	03/01/97	03/01/17	20	$80,000.00
1998	12,500,000	03/01/98	03/01/18	20	$100,000.00
2000	15,000,000	09/01/00	03/01/25	25	$195,000.00
2003	15,000,000	05/03/03	03/01/28	25	$195,000.00
2004	18,500,000	04/01/04	03/01/29	25	$240,500.00
2007	15,000,000	03/01/07	03/01/32	25	$195,000.00
2010	12,000,000	03/01/10	03/01/35	25	$156,000.00
			INTERCAP Total		**$1,345,750.00**

MFFA - Master Loan Program (MLP) Issues	Original Amount	Date Issued	Maturity Date	Term	BOI Guaranty Fee
MLP 1994A	570,000	10/01/94	10/01/99	5	$2,850.00
MLP 1994B	2,000,000	10/01/94	10/01/14	20	15,664.50
MLP 1994C	695,000	10/01/94	10/01/99	5	$3,614.00
MLP 1994D	1,310,000	10/01/94	10/01/04	10	$8,253.00
MLP 1996A	1,635,000	08/01/96	08/01/11	15	$13,897.50
MLP 1996B	1,860,000	08/01/96	08/01/11	15	$15,810.00
MLP 1996C	1,590,000	08/01/96	08/01/11	15	$13,515.00
MLP 1998A	1,425,000	02/01/98	02/01/18	20	$14,962.50
MLP 1998B	1,730,000	02/01/98	02/01/18	20	$16,435.00
MLP 1998C	1,890,000	02/01/98	02/01/18	20	$12,285.00
MLP 1998D	860,000	02/01/98	02/01/18	20	$8,170.00
MLP 2000A	3,440,000	03/01/00	08/01/20	20	$36,120.00
MLP 2001 A&B	5,460,000	12/01/01	06/29/10	10	$57,330.00
MLP 2005A	4,030,000	04/01/05	01/01/28	23	$44,605.00
MLP 2005B	9,720,000	04/01/05	01/01/24	19	$117,300
MLP 2006A	6,670,000	03/01/06	10/01/15	9	$50,025.00
MLP 2007A	7,135,000	01/31/07	08/01/27	20	$96,332.50
MLP 2007B	12,515,000	05/10/07	05/01/32	25	$231,527.50
MLP 2007C	23,500,000	06/27/07	01/01/32	25	$434,750.00
MLP 2008A	30,000,000	07/01/08	07/01/18	10	$555,000.00
MLP 2010A	15,000,000	08/11/10	07/01/36	26	277,500.00
MLP 2010D	19,015,000	10/29/10	06/01/35	25	$313,747.50
	BOI Guaranty Paid by MFFA - MLP Borrowers				**$ 2,339,694.00**

MFFA - Corrections Issues	Original Amount	Date Issued	Maturity Date	Term	BOI Guaranty Fee
1997	2,925,000	11/01/97	10/01/17	20	2,334.34
1998A	5,580,000	10/15/98	10/01/18	20	4,329.46
1998B	1,300,000	10/15/98	04/01/10	12	877.42
2000	2,245,000	07/01/00	10/01/20	20	1,893.71
2004	250,000	05/01/04	04/01/14	10	171.73
2005	1,200,000	08/04/05	10/01/20	15	$808.31
2005	4,500,000	12/22/05	04/01/21	15	4,106.81
2006	7,920,000	07/13/06	10/01/26	20	6,102.27
2006A	9,250,000	08/08/06	10/01/26	20	$6,750.70
2006B	5,085,000	08/08/06	01/01/26	20	3,723.53
	BOI Guaranty Paid by MFFA Corrections Borrowers				**$ 31,098.26**

MOODY'S INVESTORS SERVICE

Announcement: Moody's affirms Aa3/VMIG 1 rating on Montana Board of Investment's Municipal Finance Consolidation Act Bonds

Global Credit Research - 15 Aug 2012

$220 million of parity debt affected

New York, August 15, 2012 -- Moody's has affirmed the Aa3/VMIG 1 ratings and stable outlook on the Montana Board of Investment's Municipal Finance Consolidation Act Bonds, consisting primarily of the INTERCAP Revolving Program. Approximately $95 million is outstanding.

RATING RATIONALE

The Aa3 rating is based on the Montana Board of Investments' (the Board) irrevocable pledge to pay principal and interest on the bonds if amounts in the bond fund and reserve account should be insufficient, as well as the Board's pledge to purchase any tendered bonds if necessary. The Board maintains more than adequate resources to meet both of these commitments. Additionally, loan repayments from participating governmental units are pledged to the repayment of the bonds.

STRENGTHS

- Board of Investment's irrevocable pledge to lend funds, if needed, to the reserve account and/or purchase tender bonds

- History of sizable resources available to the Board to cover payments on outstanding bonds

- Conservative investment of available resources and liquidity

- Board of Investments' moderate debt exposure

- Underlying programs are well managed, with no loans ever requested of the Board of Investments

-- No history of bonds being tendered

CHALLENGES

- Available balances can be negatively affected by economic slowing, state fiscal stress, and investment policy decisions

- Potential for additional debt issuance backed by the Board of Investments

Outlook

The outlook for the Board's Municipal Finance Consolidation Act bonds is stable, based on the Board's conservative policies and sound management of the funds under its responsibility, including the Treasurer's Fund substantial liquid balances deposited in the short-term investment pool.

WHAT COULD MAKE THE RATING GO UP

- Stricter limitations on potential board debt exposure

WHAT COULD MAKE THE RATING GO DOWN

- Major erosion of funds available to the board to lend to the authority

- Significant increase in board's debt exposure

- Shift away from the board's conservative management of available funds

The principal methodology used in this rating was based on evaluating factors we believe are relevant to the credit profile of the issuer, such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) the issuer's management and governance structure related to the payment. These attributes were compared against other issuers both within and outside of the Montana Board of Investments core peer group. The Montana Board of Investment ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, confidential and proprietary Moody's Investors Service's information, and confidential and proprietary Moody's Analytics' information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources.

However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Lisa Heller
Vice President - Senior Analyst
Public Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street

New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Emily Raimes
VP - Senior Credit Officer
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

Fitch Ratings

FITCH AFFIRMS MONTANA BOARD OF INVESTMENTS GUARANTEED BONDS AT 'AA'

Fitch Ratings-New York-27 July 2012: Fitch Ratings takes the following rating actions on Montana Board of Investments (MBOI) and Montana Facility Finance Authority (MFFA) bonds:

--$95 million MBOI INTERCAP revolving program bonds affirmed at 'AA/F1+';
--$122.1 million MFFA master loan program and Montana Development Center bonds affirmed at 'AA'.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by loan repayments from their respective borrowers and are additionally secured by a debt service reserve fund equaling maximum annual debt service and the irrevocable and absolute pledge of the MBOI to replenish debt service reserve fund shortfalls. The MBOI's pledge is met from all legally available resources, which are vast and sufficiently liquid.

KEY RATING DRIVERS

BOARD'S RESOURCES AMPLE: The board's resources available for board-enhanced programs are well in excess of total bond principal, supporting the long-term 'AA' rating on the bonds of both programs. Board resources additionally provide ample liquidity to purchase tendered Intercap program bonds, supporting the short-term 'F1+' rating on the Intercap program.

STRONG REPLENISHMENT MECHANISM: Both programs benefit from the board's unconditional pledge to cure deficiencies from legally available funds in advance of the debt service payment date. Available funds have continued to grow, although are vulnerable to fluctuations outside the board's control.

LIMITS ON DEBT: There are statutory and board policy limits on the amount of long- and intermediate-term debt that can be secured by the board's pledge.

STRONG REPAYMENT HISTORY: Programs secured by the pledge have a strong repayment history, with no borrower defaults on board-backed debt to date and no draws on the debt service replenishment provision.

RESOURCE-DEPENDENT ECONOMY: Loans of the authority and the board are concentrated in a state whose economy is resource-dependent and has shown significant volatility.

CREDIT PROFILE

The rating reflects the continued low leveraging of the MBOI's debt service reserve replenishment guarantee. As of June 30, 2012, the MBOI's guarantee backs $122.1 million in outstanding authority health care bonds issued under its master loan program and for the Montana Development Center, as well as $95.2 million in INTERCAP program and irrigation bonds issued by the MBOI itself.

All INTERCAP program bonds of MBOI and master loan program bonds of the MFFA are secured by loan repayments from individual borrowers, with bondholder security enhanced by the MBOI's irrevocable and unconditional pledge to make up any deficiency in the debt service reserve fund. Fitch's long-term 'AA' rating for both programs is based on the MBOI's obligation and its substantial resources available, totaling nearly $1.7 billion at June 30, 2012. In addition, INTERCAP program bonds benefit from the MBOI's pledge to purchase tendered bonds if necessary, supporting the 'F1+' short-term rating.

MBOI's INTERCAP program is primarily for Montana local governments, university and state entities, while MFFA's master loan program is primarily for health facilities. State statue limits bonds issued under the Municipal Finance Consolidation Act by MBOI to $190 million and the MFFA follows the same limit of $190 million for the master loan program. Both programs continue to benefit from a sound record of loan repayments from participating entities.

Funds identified as available for borrowing in the event of reserve fund deficiency consist of the Treasurer's Fund (the state's operating fund) and a portion of the Coal Severance Trust Fund (CST). As of June 30, 2012, the book value of the Treasurer's Fund and CST together totaled $1.97 billion.

The portion of the CST that is available for debt service replenishment is substantial, totaling $582 million out of $868.6 million in CST funds as of June 30, 2012 (unaudited). The board's available funds vary in amount throughout the year and have varied over time, ranging from a low of $760.9 million in fiscal 2003 to the $1.684 billion high as of fiscal year-end 2012. Despite fluctuations, the available funds remain well in excess of the amount of debt enhanced by the two programs.

The corpus of the CST fund cannot be invaded without approval by three-quarters of the state legislature, although Montana's legislature periodically has allocated portions of the CST assets for investment in economic development, water projects, and other targeted programs. The legislature in the past has changed the distribution of interest income from the CST, with all earnings now appropriated or dedicated by law outside the CST. Fitch rates the State of Montana's general obligation bonds 'AA+' (see Fitch's press release dated June 22, 2011, available at 'www.fitchratings.com').

Contact:

Primary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Marcy Block
Senior Director
+1-212-908-0239

Committee Chairperson
Amy Laskey
Managing Director
+1-212-908-0568

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 15, 2011);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 15 2011);
--'Criteria for Assigning Short-Term Ratings Based on Internal Liquidity' (June 15, 2012);
--'Rating Guidelines for State Credit Enhancement Programs' (June 19, 2012).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648897
Criteria for Assigning Short-Term Ratings Based on Internal Liquidity
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681822
Rating Guidelines for State Credit Enhancement Programs
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681239

INTERCAP Finance Team Charges & Proposed New Issue Budget

Finance Team	Annual Fee	Series 2010 New Issue Fee	Proposed New Issue Budget
Underwriter/Remarketing Agent New .38% of bond. Remarket .15% total bonds outstanding	142,545	45,600	45,600
Board Counsel	1,000	6,000	6,000
Bond Counsel – annual fee not to exceed $25,000	25,000	28,000	28,000
Underwriter's Counsel	3,000	12,000	12,000
Trustee Bank Annual .0625% of total bonds outstanding + $250/series for continuing disclosure dissemination	61,145	4,300*	4,300*
Moody's Rating Agency	15,000	16,000	15,500
Fitch Rating Agency		7,500	10,000

*series 2010 Trustee fee included ~$1,300 fee for the 2009 BAN + $3,000 new issue acceptance fee. The Trustee estimates the same for Series 2013.

TRS

Teachers' Retirement System

Results of the 2012 Valuation And 2013 Legislative Proposals

TYPE OF PLAN

Montana Teachers' Retirement System (TRS) is a '**Defined Benefit (DB) Plan**.'

Benefits to be paid are based on your years of service and average final compensation, **NOT** on your account balance.

The State of Montana assumes the burden and any risks of investment decisions.

A '**Defined Contribution (DC) Plan**' is a savings plan that pays benefits based on your account balance. Plan participants assume the burden of any risk of investment decisions.

2

Funding Results July 1, 2012

	July 1, 2012 Valuation	July 1, 2011 Valuation
Total Normal Cost Rate	9.65%	9.64%
Less Member Rate	7.15%	7.15%
Employer Normal Cost Rate	2.50%	2.49%
Rate to Amortize UAL	7.46%	7.47%
Total Employer Statutory Rate	9.96%	9.96%
Actuarial Accrued Liability	$4,814.7 million	$4,658.6 million
Actuarial Value of Assets	$2,852.0 million	$2,866.5 million
Unfunded Accrued Liability	$1,962.7 million	$1,792.1 million
Minimum Required Statutory Contribution Rate Increase in order to Fund System within Parameters Defined by Funding Policy	4.89%	3.53%

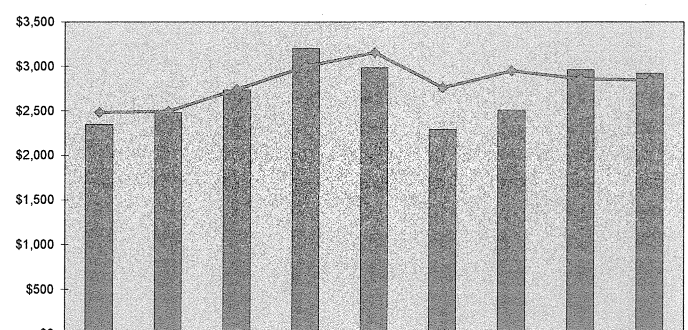
Comments on Valuation

- Required contribution rate increase
  - 4.89% (17.11% to 22.00%)
- Asset returns
  - Actuarial asset return 3.21% vs. 7.75% expected (4.54% less than expected).
- Funded Ratio
  - Funding declined from 61.53% to 59.24%
- System is not being funded within the parameters defined by the Board's funding policy
- Absent contribution rate increases, reduction in benefits, and/or extraordinary investment gains, System is in danger of becoming insolvent

TRS

4

Market v. Actuarial Value

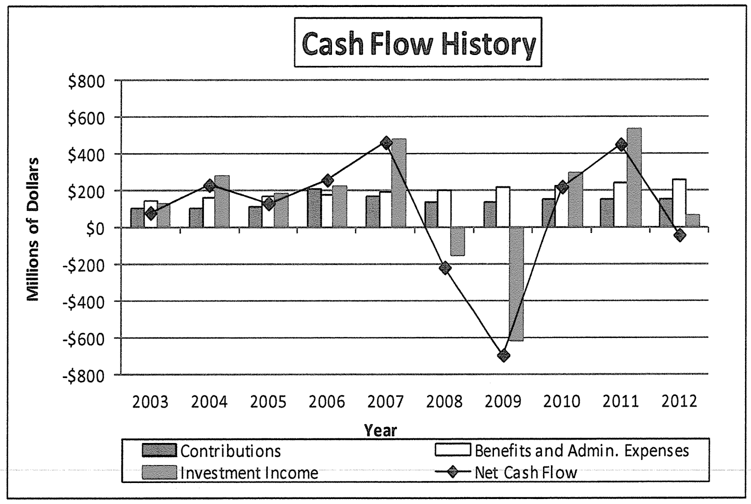


	2004	2005	2006	2007	2008	2009	2010	2011	2012
Market Value	$2,355	$2,487	$2,746	$3,209	$2,993	$2,302	$2,521	$2,972	$2,932
Actuarial Value	$2,486	$2,498	$2,746	$3,006	$3,159	$2,762	$2,957	$2,867	$2,852

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Market Return	13.3%	8.0%	8.9%	17.6%	(4.9)%	(20.8)%	12.9%	21.7%	2.2%
Actuarial Return	2.1%	2.7%	8.5%	10.2%	7.2%	(10.3)%	9.8%	(0.1)%	3.2%

TRS

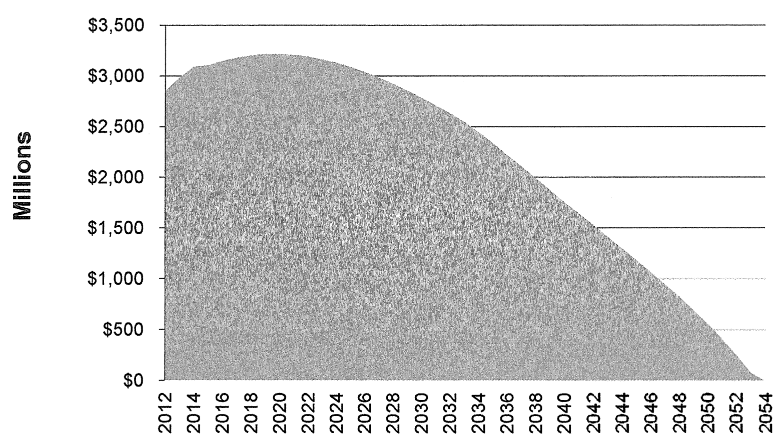
5



6

Projected Asset Depletion

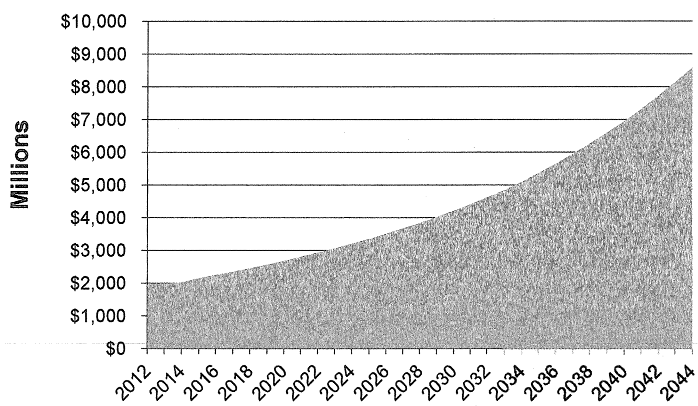
(If funding continues at current levels)



7

Projected TRS unfunded liability

(If funding continues at current levels)



TRS

8

Funding Proposal

- Public pensions in Montana have lost investment income due to poor stock market performance
- TRS is proposing changes to funding so that pensions are available for current ***and*** future employees
- TRS is working with state legislators in the State Administration and Veteran's Affairs Committee and the Legislative Finance Committees to ensure the continued health of the Teachers' Retirement System
- Members of TRS have said, "*We can live with some changes if we all share in lifting the load*"

TRS

9

Proposed Funding Changes

- **Current Members** effective July 1, 2013,will contribute an additional 1% of salary until the system is actuarially sound.
  - The 1% supplemental contribution rate will be decrease when the system is healthy, or reinstated if the health of the system declines in the future.
- **Employers** will contribute a *one-time* payment of $14.7 million to TRS from retirement fund reserves.
- **State of Montana** will make an *annual* $25 million payment to TRS from State land trust revenues

10

TRS

Proposed Funding Changes

- **New Members** (after 7/1/13) will see the most changes:
  - *Contribution rate* will begin at 8.15% with triggers to increase or decrease by 1% based on health of fund
  - *Average final compensation* will increase to 5 years
  - *Retirement with full benefits* will increase to:
    - Age 60 with five full years of service or
    - Age 55 with 30 or more years of service
  - *Early retirement eligibility* will increase to age 55 with at least five full years of service
  - *Multiplier* will increase from 1.667% to 2.0% for members age 60 and older with at least 30 full years of service

11

TRS

Proposed Funding Changes
(New Hires Continues)

- **Disability Benefits**: will not be available to members who are eligible for unreduced retirement benefits
- **Survivor Benefits**: full benefits will be limited to beneficiaries of members who die while active or within one year of leaving active service

TRS

12

Summary

- As of July 1, 2012, TRS has a $1.96 billion unfunded liability.
- The funded ratio declined from 61.53% to 59.24%
- Current statutory contribution rates already fund 55% of that liability, leaving a shortfall of about $870 million.
- Based on the 2012 actuarial valuation, this represents a 4.89% gap between current contribution rates and being actuarially funded over 30-years. In short, TRS needs additional funding of approximately $36 million a year.
- If the legislature does nothing in 2013, TRS will need to have 9.00% rates of return, year over year, in order for the system to be actuarially sound as required by the MT Constitution. This is not acceptable!

TRS

13

Housekeeping Proposal

- Clarify the terms "position reportable to the retirement system" and "termination of employment"
- Clarify when a member is in retired member status and eligible for post-retirement employment
- Amend the definition of normal retirement age and provide for non-forfeitability of benefits upon attainment of normal retirement age in conformity with IRS qualification standards
- Provide for jurisdiction and venue for judicial review in the first judicial district court.

TRS

14

Post-Retirement Employment Legislative Proposal

- TRS members who terminate employment on or after January 1, 2014 would be required to have a 180 day break in service before they are eligible to return
  - This only includes employment in a position eligible to participate in TRS
  - This will not affect members who are currently retired or who retire based on a termination date before January 1, 2014
  - Proposal recommended by Tax Counsel as necessary to comply with IRS regulations on return to work

TRS

15

History of Funding Shortfalls (as a % of Payroll)				
FY	PERS	SRS	GWPORS	HPORS
2004	1.19	2.15	0.23	
2005	1.58	2.69	0.26	
2006	1.01	1.84	0.04	
2007				
2008				
2009	2.35	2.53		
2010*	5.01	4.03	3.47	
2011	6.32	5.22	3.80	5.33
2012	6.527	5.85	3.64	5.78

*FY 2010 – Actuarial Assumed ROR was decreased from 8% to 7¾%

❖ Plan Valuations can be found on MPERA's website under the *About MPERA* tab, URL: http://mpera.mt.gov/actuarialvaluations.shtml

Valuation Results
June 30, 2011
($ in millions)

	PERS	SRS	GWPORS	HPORS	MPORS	FURS	JRS	VFCA
AAL	$5,410.1	$266.5	$119.8	$155.7	$401.4	$355.2	$43.4	$35.2
AVA	3,800.5	203.7	90.4	95.3	221.7	219.9	61.3	26.2
UAL	$1,609.6	$62.8	$29.4	$60.4	$179.7	$135.3	($17.9)	$9.0
Funded Ratio	70.2%	76.4%	75.4%	61.2%	55.2%	61.9%	141.1%	74.4%
Statutory Contribution Rate	14.07%	19.36%	19.56%	45.38%	52.78%	57.66%	32.81%	n/a
NC Rate	12.59%	18.88%	19.33%	24.14%	26.26%	26.54%	24.13%	n/a
Available for Amortization	1.48%	0.48%	0.23%	21.24%	26.52%	31.12%	8.68%	n/a
Years to Amortize	Does not Amortize	Does not Amortize	Does not Amortize	48.2	25.0	16.0	0.0	8.8
Shortfall	6.32%	5.22%	3.80%	5.33%	n/a	n/a	n/a	n/a

AAL = Actuarial Accrued Liability – The cost of the future benefit payments for current members and retirees.
AVA = Actuarial Value of Assets – Market value of assets smoothed over four years.
UAL = Unfunded Actuarial Liability – The excess, if any, of the Actuarial Liability over the Actuarial Value of Assets.
Funded Ratio – The ratio of the Actuarial Liabilities to the Actuarial Value of Assets.
NC = Normal Cost – The average cost of membership.

Valuation Results
June 30, 2012
($ in millions)

	PERS	SRS	GWPORS	HPORS	MPORS	FURS	JRS	VFCA
AAL	$5,661.2	$284.5	$128.9	$167.8	$427.2	$377.2	$46.2	$36.1
AVA	3,816.9	211.5	97.7	96.6	234.0	233.1	63.2	26.5
UAL	$1,844.3	$73.0	$31.2	$71.2	$193.2	$144.1	($17.0)	$9.6
Funded Ratio	67.6%	74.3%	75.8%	57.6%	54.8%	61.8%	136.8%	74.7%
Statutory Contribution Rate	14.13%	19.36%	19.56%	45.38%	52.78%	57.66%	32.81%	n/a
NC Rate	11.80%	18.73%	18.98%	23.60%	26.26%	26.50%	23.80%	n/a
Available for Amortization	2.34%	0.63%	0.58%	21.78%	26.52%	31.16%	9.01%	n/a
Years to Amortize	Does not Amortize	Does not Amortize	Does not Amortize	49.7	25.7	16.4	0.0	9.3
Shortfall	6.527%	5.850%	3.640%	5.780%	n/a	n/a	n/a	n/a

Normal Cost (NC) – The average cost of membership.
Actuarial Accrued Liability (AAL) – The cost of the future benefit payments for current members and retirees.
Actuarial Value of Assets (AVA) – Market value of assets smoothed over four years. This helps to flatten out short-term market volatility.
Unfunded Actuarial Liability (UAL) – The excess, if any, of the Actuarial Liability over Actuarial Value of Assets.
Funded Ratio – The ratio of the Actuarial Liabilities to the Actuarial Value of Assets.
VFCA 5% of Insurance premium tax fund (approximately $1.6M)

Return to Meeting Agenda

Investment Activity

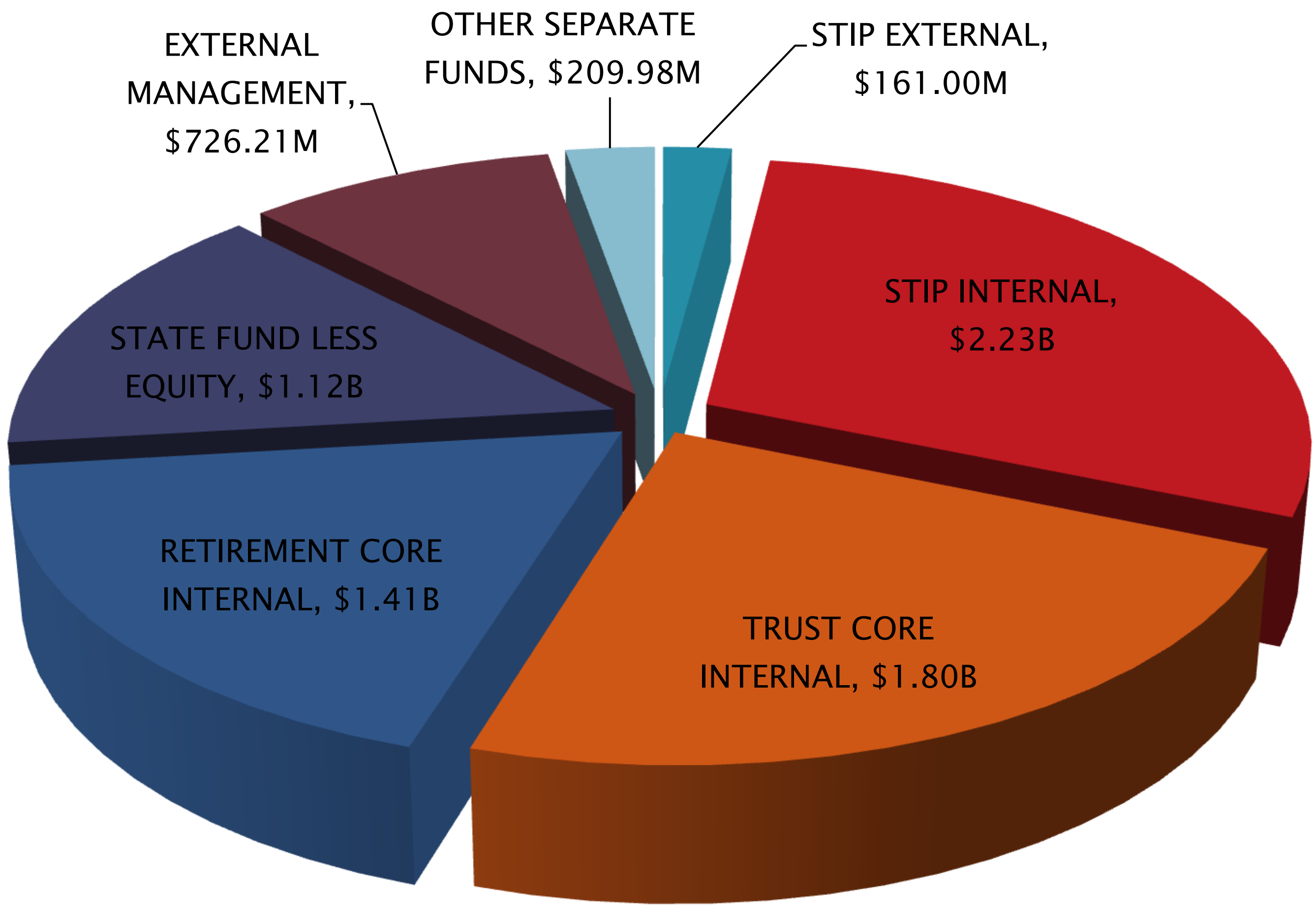
Fixed Income Management Review
November 2012

Clifford Sheets, CIO, CFA
Nathan Sax, PM, CFA
Richard Cooley, PM, CFA
Jon Putnam, CFA, FRM
John Romasko, CFA, CPA

Fixed Income Management Missions

- Types of Accounts
  - Pension
  - Separate
    - State Fund
    - Treasurer’s Fund
    - Trust/Operating/Insurance
- Fixed Income Investment Pools
  - Retirement Funds Bond Pool (RFBP)
  - Trust Funds Investment Pool (TFIP)
  - Short-Term Investment Pool (STIP)

Fixed Income Management Missions
Assets as of 6/30/12



Fixed Income Management Missions

- Fixed Income Asset Management is a **Core Competency** of MBOI

- Total Fixed Income Assets = $7.66 Billion
  - Internally-managed 88.4 %
    - Core investment grade bonds
    - Money market instruments
  - Externally-managed 11.6%
    - Specialty sub-sectors such as high yield and international bonds
    - Institutional MMF's for liquidity management in STIP

Objectives of Fixed Income
(Pension context)

- Total Return
  - Equal to change in price plus income
  - Driven by movements in interest rates and risk premiums (for non-Treasury sectors and securities)
  - Underlying returns a function of
    - Term premium (typically longer maturities yield more)
    - Quality premium (lower quality = higher yields)
    - Structure premium (less certain cash flows = higher yields)
- Diversification
  - Versus the more growth-oriented assets that make up the bulk of the pension assets (stocks, private equity, real estate)
- Liquidity
  - Ability to raise cash in times of extreme market stress

Objectives of Fixed Income

- Diversification (cont'd)
  - Volatility of returns – lower than other assets
  - Correlation of returns vs. stocks – low but positive

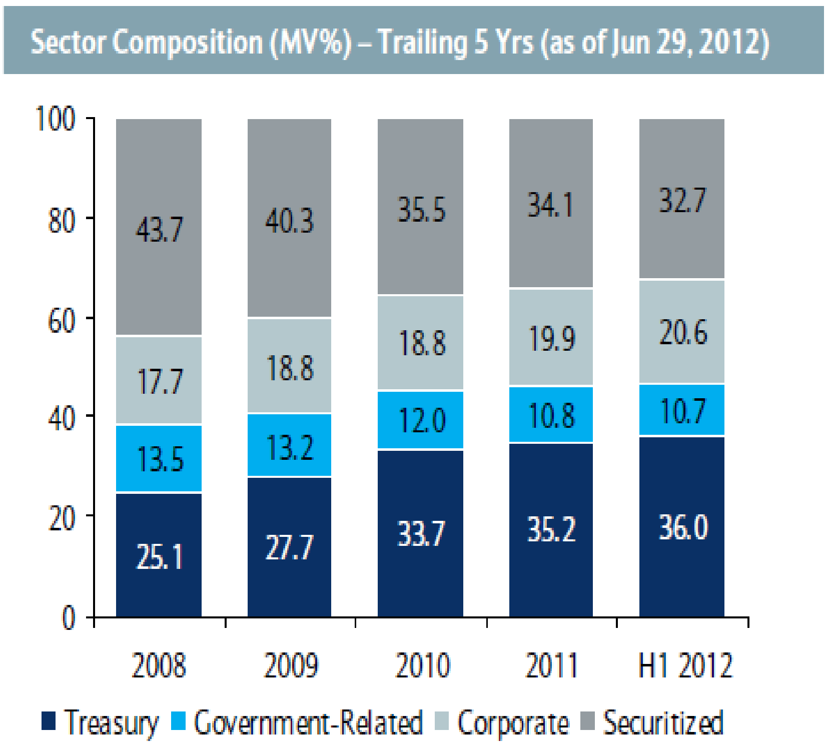
CORRELATION AND ANNUAL VOLATILITY			
	CIBP	RFBP	S&P 1500
Correlation to S&P 1500			
10/31/1995 to 9/30/2012	0.06	-	-
9/30/2008 to 9/30/2012	0.24	0.45	-
Volatility			
10/31/1995 to 9/30/2012	4.10%	-	16.13%
9/30/2008 to 9/30/2012	3.82%	3.99%	20.54%

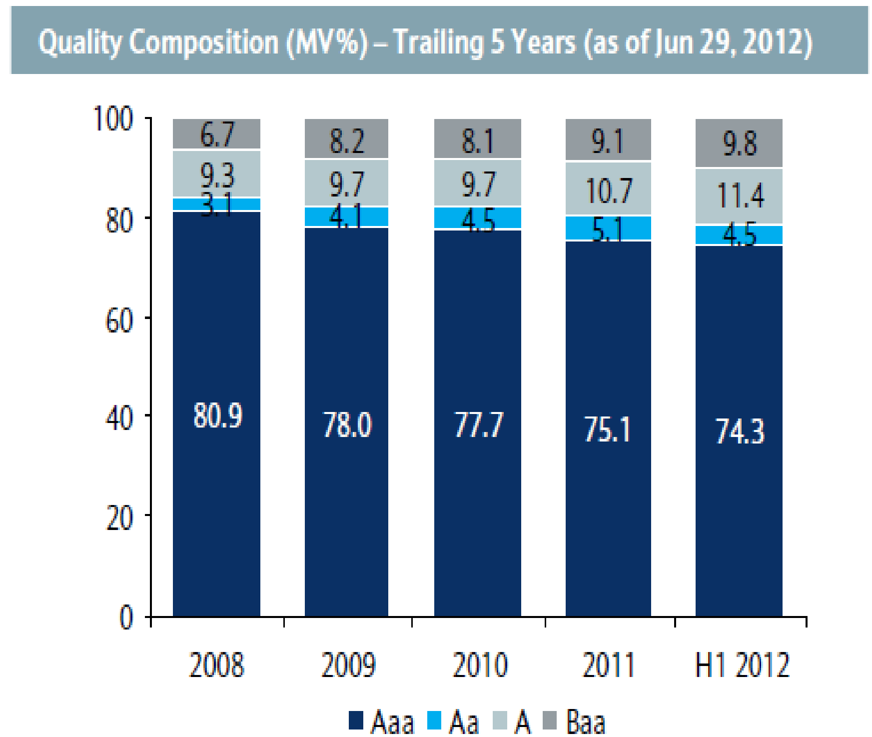
Fixed Income Benchmark

- Barclays U.S. Aggregate Index
  - Created in 1986
  - Reflects the investible bond market: USD-denominated, investment grade, fixed rate, taxable bond market.
    - Index is cap weighted (based on $'s outstanding)
    - Reflects trends in relative issuance by sector
  - 7,998 issues currently in the index.
    - 222 Treasuries
    - 1,481 Gov't-related
    - 4,313 Corporate
    - 964 CMBS
    - 180 ABS
    - 838 Agency MBS

Fixed Income Benchmark
Barclays Aggregate Index Changes

- The composition of the index changes as bonds mature, ratings shift and new bonds are issued





Fixed Income Benchmark

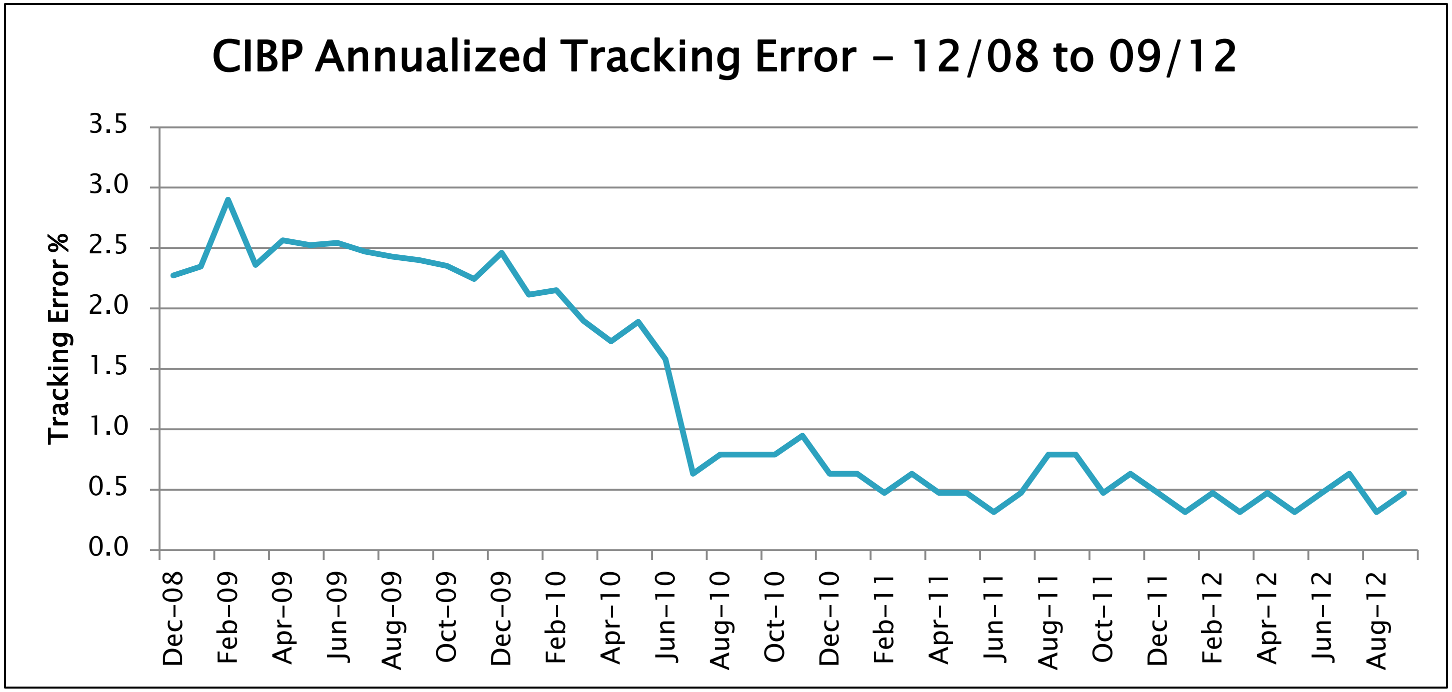
- Index as a Market Measure
  - Level and Shape of Treasury yield curve
  - Inter-relationship of market sectors
- Conveys expectations for the economy
- Enables measurement of allocation effect to core and non-core strategies

Non-Core Strategies

- Definition: Below IG and/or non-US
- Supplement returns
- Higher correlations to equity assets
  - HY Fixed Income correlation to Broad U.S. Equity: .62
  - IG Fixed Income correlation to Broad U.S. Equity: .20
- Strategic, but not permanent, sub-sector allocations
  - Limited policy range
    - HY & Plus Sectors – Max 20% in RFBP, Max 10% in TFIP

Internally-Managed Portfolio
Investment Philosophy

- Risk Constrained Process
  - Deviations from index controlled by policy and tighter self-imposed staff-driven constraints
  - Wilshire Analytics measures portfolio characteristics to facilitate policy and strategy compliance



Tracking error is the standard deviation of the difference between the annual returns of the portfolio and the benchmark.

Internally-Managed Portfolio
Investment Philosophy

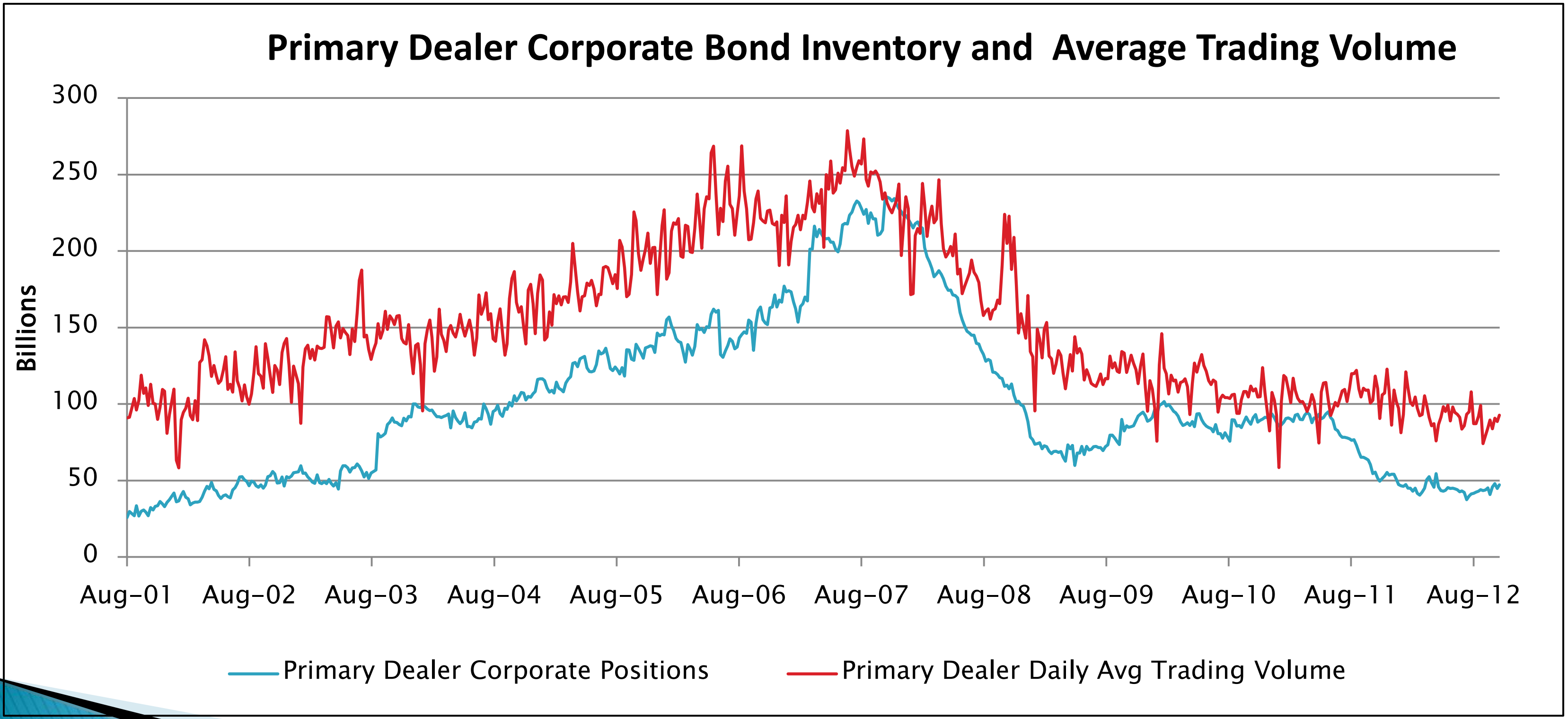
	RFBP	CIBP	TFBP	CIBP/TFBP Policy Range	Barclays Aggregate
Treasuries	16.52	16.84	16.83	10-35	36.08
Agencies & Govt Related	5.33	6.69	5.29	5-25	10.55
Total Government	**21.85**	**23.53**	**22.12**	**15-60**	**46.63**
Mortgage Backed	24.32	28.68	30.08	20-50	30.05
Asset Backed	4.96	4.90	4.71	0-5	0.32
CMBS	7.69	8.55	9.40	0-10	1.88
Total Securitized	**36.97**	**42.13**	**44.19**	**20-65**	**32.25**
Financial	13.54	12.12	12.70		6.82
Industrial	20.73	15.33	13.96		11.94
Utility	3.75	4.83	4.78		2.36
Total Corporate	**38.02**	**32.28**	**31.44**	**10-35**	**21.12**
Other	0.61	0.00	0.00		0.00
Cash	2.55	2.06	2.25	0-10	0.00
Total	**100**	**100**	**100**	**100**	**100**

Internally-Managed Portfolio
Investment Philosophy

- Liquidity is important, particularly in CIBP
  - Enables more flexibility in pension rebalancing, or making strategy shifts within CIBP itself
  - Critical resource in meeting benefit needs in times of market stress
  - Dealers are unable or unwilling to carry bond inventory (not market makers any longer)

Internally-Managed Portfolio
Investment Philosophy

- Liquidity (cont'd)
  - In times of extreme market stress, Treasuries and some agencies provide liquidity
  - Broker/dealers don't always provide liquidity



Source: Federal Reserve & Bloomberg

Internally-Managed Portfolio
Management Process

- Weekly meetings
  - Monthly strategy discussion (FI team, Dan, Cliff)
  - Consensus approach

- Expanded role for analysts in portfolio management
  - Trade within assigned sectors upon PM's approval
  - Portfolio structure knowledge
  - Market color, advice

Internally-Managed Portfolio
Fixed Income Resources

- Fixed Income Team (Nathan, Rich, Jon, John)
- Portfolio Analytics System (Wilshire Axiom)
- External Managers – a sounding board
- External Credit Research
  - Creditsights
  - Gimme Credit
  - Bloomberg
  - S&P, Moodys, Egan Jones
  - Brokerage contacts
- Accounting (middle office role) – clear trades

Internally-Managed Portfolio
Management Costs

- Costs are low relative to other asset classes
  - Costs in 2011 for the pension funds according to CEM Benchmarking were:
    - CIBP: 2.4 bps, average AUM of $1.39B
    - External Core-plus: 22.0 bps, average AUM of$338.3M
    - External High Yield: 53.2 bps, average AUM of $164.9M
  - Low costs are possible in part because of economies of scale

Internally-Managed Portfolio
Analyst Roles – John Romasko

- Sector Research
  - Credit: Industrials & Utilities
    - 90 names owned in portfolio
  - Structure: Non-Agency MBS
  - STIP Approved List
- Separate Accounts
- External Managers
  - Reams Asset Management (Core+)
  - Neuberger Berman (High Yield)

Internally-Managed Portfolio
Analyst Roles – Jon Putnam

- Wilshire Analytics System
  - Daily monitoring of portfolios
    - Duration / Contribution to Duration
    - Sector Exposure
    - Effective Spread
  - Performance Attribution
    - Factor based model vs. index
  - What If Analysis
    - Scenario Testing
    - Trade implications

Internally-Managed Portfolio
Analyst Roles – Jon Putnam

- Sector Research
  - Credit: Financials
    - 55 names owned in portfolio
  - Structure: Asset Backed Securities
    - 17 names owned in portfolio
  - STIP Approved List

- External Managers
  - Artio Global (Core+)
  - Post Advisory (High Yield)

Investment Policy Statements

- Pool policies to be reviewed for recommended changes (nothing major expected)
- Any recommendations to be presented to Board in 2013 (likely February)

Short Term Investment Pool (STIP) Management Review

November, 2012

STIP Objectives

- STIP has three clearly defined objectives in order of importance:

1. Preservation of Principal

2. Liquidity

3. Return

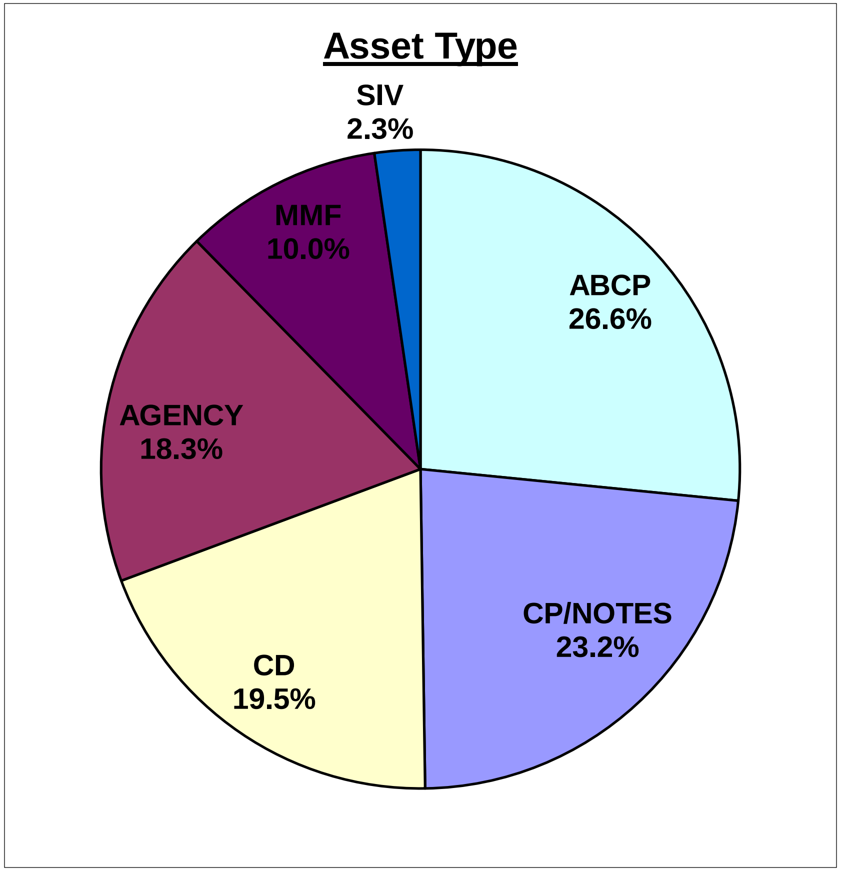
STIP Objectives
Policy Constraints

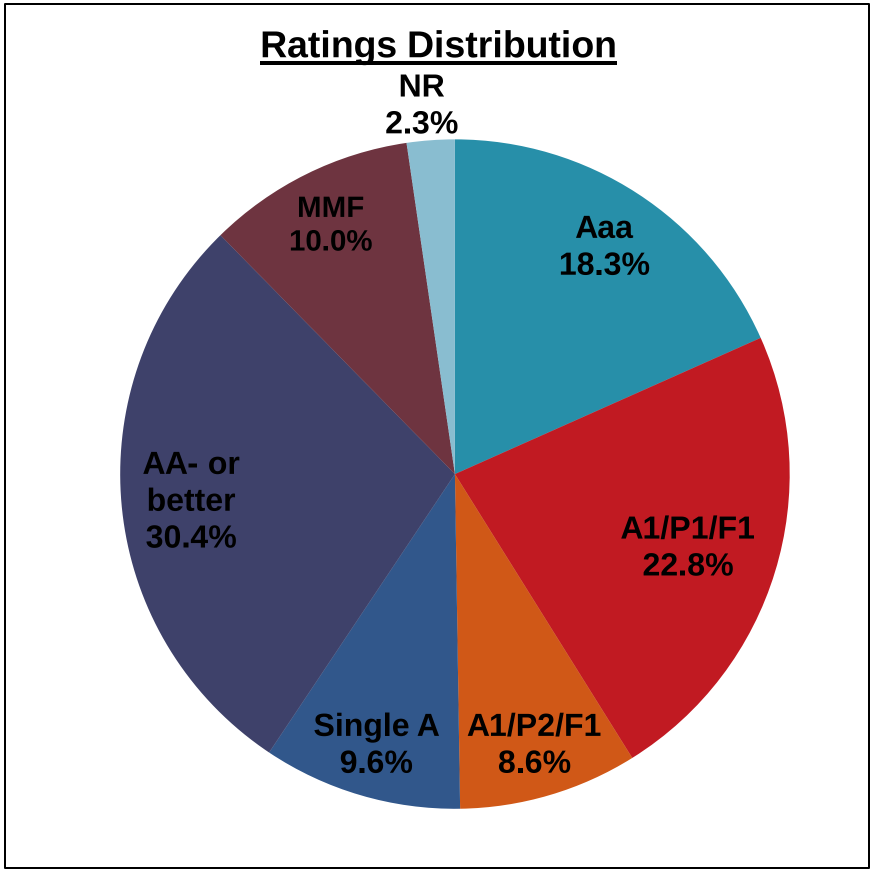
- Policy & process were revamped in late 2007
  - Liquidity requirements
    - $150M/day, $250M/week
  - Approved credits list
    - Analysts research and recommend additions/deletions
    - CIO/PM/Research Director approve names
  - Risk constraints implemented
    - Concentration limits by asset type, company exposure, maturity and ratings

STIP Reserve

- Objective
  - Cushion in event of realized losses
  - Permanent account within STIP
- History
  - Initiated Q4'07
  - Increased by $1.72 million in 3Q'12
  - Increased by $1.78 million in 2Q'12
  - Increased by $5.33 million in FY'12
  - Current balance = $12.6 million
- Additions from
  - Current income = $17,000/day
  - Realized gains on any sales of securities
  - Income from former SIV-related assets

STIP Objectives
Portfolio Quality (Holdings as of 10/24/12)





STIP Objectives
Portfolio Liquidity (as of 10/10/12)

- Weighted Average Maturity (WAM) currently 41.5 days vs. policy maximum of 60 days

- Current Liquidity (vs. policy):
  - 1 Day – $240M ($150M)
  - 1 Week – $315M ($250M)
  - 1 Month – $565M

STIP Performance

- STIP has consistently returned a competitive yield compared to institutional money market funds

STIP Performance (9/30/12)

	1 Year	3 Year	5 Year	10 Year
STIP Net of Fees/Reserve	0.31%	0.30%	1.10%	2.11%
iMoneynet First Tier Instit. (Gross)	0.29%	0.31%	1.16%	2.14%
LIBOR 1 Month Index	0.25%	0.25%	0.97%	2.06%

STIP Portfolio Management Process

- Asset-backed CP & Corporate CP purchases initiated on Bloomberg

- Trades are approved for reasonableness by someone other than person initiating the trade

- Trades are sent via Bloomberg POMS to the broker, BOI accounting and State Street for settlement

- Analysts perform credit research and serve as back-ups for the daily investment of STIP funds.
  - 75 names on the approved list, 7 additions in the past year

Money Market Conditions

- Since the financial crisis, the supply of traditional money market investments has been shrinking
  - Banks have restructured balance sheets and reduced ABCP supply
  - Corporations have used low rates to lock in long term funding
  - Fannie Mae, Freddie Mac and other agencies have reduced debt levels
  - Bank ratings have dropped in both the U.S. and Europe

Money Market Conditions
Bank Credit Rating Changes

	Senior Unsecured				Short Term			
	12/1/2008		Current		12/1/2008		Current	
Holding Company	Moodys	S&P	Moodys	S&P	Moodys	S&P	Moodys	S&P
Wells Fargo	Aa1	AA+	A2	A+	P1	A1+	P1	A1
JP Morgan	Aa2	AA-	A2	A	P1	A1+	P1	A1
Bank of America	Aa2	AA-	Baa2	A-	P1	A1+	P2	A2
Citigroup	Aa3	AA-	Baa2	A-	P1	A1+	P2	A2
US Bancorp	Aa2	AA	Aa3	A+	P1	A1+	P1	A1
State Street	Aa3	AA-	A1	A+	P1	A1+	P1	A1
Bank of New York	Aa2	AA-	Aa3	A+	P1	A1+	P1	A1
Lloyds	Aa1	AA-	A3	A-	N/A	A1+	N/A	A2
Barclays	Aa2	AA-	A3	A	P1	A1+	P2	A1
Credit Agricole	Aa1	AA-	A2	A	P1	A1+	P1	A1
BNP Paribas	Aa1	AA+	A2	AA-	P1	A1+	P1	A1+
Societe Generale	Aa2	AA-	A2	A	P1	A1+	P1	A1
Santander	Aa1	AA	Baa2	A-	P1	A1+	P2	A2

STIP Investment Strategy Shift

- Increased amount in longer term securities
- Use MMF's for additional liquidity
- As the European crisis intensified, restricted European bank holdings
- Added Canadian and Australian bank exposure
- Barbell strategy:
  - Longer term securities add incremental yield
  - MMF's and short ABCP provide liquidity

STIP Investment Policy

- Policy statement changes needed in recognition of market changes
- Recommended changes follow

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: Clifford A. Sheets, CFA, Chief Investment Officer
Rich Cooley, CFA, Portfolio Manager

Date: November 14, 2012

Subject: STIP Policy Statement Changes

The following summarizes the key proposed changes to the STIP Policy Statement:

- Acknowledge the reserve which is maintained to offset any potential realized losses in the portfolio.
- Reduce the minimum rating requirement for certain credit related obligations which is a reflection of recent ratings downgrades to the banking sector.
- Remove the reference to SIV's as the product no longer exists and BOI holdings of former SIV's have either been restructured or the underlying securities have been distributed to us.
- Clarify the maximum maturity on floating rate securities is two years rather than implying it in the context of the "2a 7 like" reference.

Staff recommends the Board approve the revised STIP Investment Policy Statement, dated November 2012. The policy statement marked for these changes follows this memo.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

PURPOSE

The purpose of this document is to establish policies that will govern the investment activities of the Montana Board of Investments (MBOI) with regard to the management of the Short-term Investment Pool (STIP). These policies are adopted by, and can be changed only by a majority of Board members at a publicly-noticed meeting.

These policies are designed to ensure the prudent management of public funds, conformance to Montana Constitution and law, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

All participants in the investment process shall act responsibly as custodians of the public trust and shall recognize that the STIP portfolio is subject to public review and evaluation. The pool shall be designed and managed in accordance with the standards of a "prudent expert" and managed as a "2a-7–like" portfolio.

SCOPE

This Investment Policy applies to the investment of short-term operating funds of the State of Montana, participating local government entity funds, and the liquidity requirements of the various pension and trust funds managed by the MBOI.

1. **Pooling of Funds.** Each participant choosing to invest in the STIP must provide a legal opinion that it is authorized by law to participate. The STIP will consolidate cash balances from all participating funds to maximize investment earnings. Investment income is accrued daily and allocated monthly to participants based on their pro rata participation and in accordance with generally accepted accounting principles.
2. **Amortized Cost.** STIP holdings are carried at amortized cost. Amortized cost represents the original cost, adjusted for premium and discount amortization.

DELEGATION OF AUTHORITY

1. **Board.** The Board, as a quasi-judicial body under state law is legally responsible for the prudent investment of the STIP. The Board is responsible for approving and amending this policy and delegates the responsibility for administering the STIP as outlined below:

2. **Staff**. Responsibility for the daily operation of the STIP is delegated to Board Staff, who shall act in accordance with this policy. Staff's duties include, but are not limited to, the following:
   a. **The Executive Director** (ED) is responsible for the creation of the STIP investment program and the establishment of investment and financial reporting procedures consistent with this policy. The ED is also responsible for the following:
      i. collection and reporting of all income;
      ii. reconciling all transactions with the records of brokers and custodians; and,
      iii. monitoring compliance with statute and this policy.
   b. **The Chief Investment Officer** (CIO) shall establish a system to review and regulate the activities of subordinate investment officers and shall exercise authority over the entire investment staff and investment process.
   c. **The Portfolio Manager** (PM) assigned to the STIP portfolio is responsible for, but not limited to, the following:
      i. developing and recommending amendments to the STIP policy to the CIO;
      ii. implementing and adhering to the STIP policy;
      iii. structuring the portfolio to meet investment objectives;
      iv. all trades undertaken in the portfolio; and,
      v. reporting to the Board at least quarterly on the results and investment strategy for the pool.

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

d. **The Board Internal Auditor** (BIA), if the Board chooses to employ one, will periodically review the STIP internal controls. The audit will be designed to measure Board Staff compliance with this policy.

3. **General Investment Consultant**. The General Investment Consultant shall provide assistance to the Board's Staff as requested in conjunction with the management of the STIP.

OBJECTIVES

1. **Investment Objective.** The STIP shall be managed to accomplish the following hierarchy of objectives:
   a. **Preservation of Principal**. The STIP portfolio investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate the inherent risks associated with short-term money market investments, primarily credit risk and interest rate risk
      i. **Credit Risk**. The STIP portfolio will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by means of the following:
         1. limiting investments to ~~those~~ Permissible ~~s~~Securities on the Approved List~~with high credit ratings~~;
         2. pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with whom the STIP will conduct business; and
         3. diversifying the investment portfolio so that potential losses on individual securities will be minimized.
      ii. **Interest Rate Risk**. The STIP portfolio will minimize the risk that the market value of the securities will deviate significantly from cost due to changes in the general level of interest rate by means of the following:
         1. structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
         2. investing funds primarily in short-term maturities of money market securities; and
         3. maintaining a dollar-weighted average portfolio maturity of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).
   b. **Maintenance of Liquidity**. The STIP portfolio will maintain sufficient liquidity to meet all state agency and local government operating requirements and STIP participant investment cash flow needs that can be reasonably anticipated; and
   c. **Return.** The STIP investment portfolio shall be managed with the objective of attaining a money market rate of return throughout market and economic cycles, taking into account the investment risk constraints and liquidity needs of the participants.
   ~~c.~~d. **Reserve.** The STIP portfolio will m~~M~~aintain a reserve account to be used to offset any realized losses in the portfolio should these occur. ~~.~~

AUTHORIZED & SUITABLE INVESTMENTS

1. **Permissible Securities.** The following securities and investment vehicles are approved for purchase for the STIP:
   a. U.S. Treasury and U.S. Governmental Agencies, or corporations wholly owned by the U.S. Government;
   b. Publicly traded domestic corporate bonds, notes and medium term notes (MTNs);

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

c. Asset-backed securities (ABS) collateralized by: credit cards, automobile loans, leases and other receivables acceptable to staff in their analysis of this type of structure;
d. Publicly and privately traded U.S. dollar denominated money market securities, including, but not limited to:
    i. Bankers' Acceptances (BA),
    ii. Commercial Paper (CP), and
    iii. Certificates of Deposits (CD), including Eurodollar and Yankee obligations which include CDs issued in U.S. dollars by foreign banks and foreign branches of U.S. banks.
e. Floating rate securities tied to LIBOR, Fed Funds, Treasury Bills or commercial paper indices;
f. Repurchase Agreements and Reverse Repurchase Agreements;
g. U.S. Dollar bonds and money market securities issued in the United States by foreign borrowers (Yankees);
h. U.S. Dollar bonds and money market securities issued outside the United States by domestic or foreign borrowers; and
i. Institutional money market funds.
j. Investments required to implement the bond credit enhancement authorized by **Resolution 219**.
k. Short term investment fund of the custodial bank.

2. **Approved List.** Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved. The approved list shall be maintained by Staff with issuers added or removed from time to time depending on an analysis of their risk characteristics and suitability for use in the portfolio. At least two investment staff must approve names on the list. Issuers on the list shall be reviewed at least semi-annually for continued inclusion on the approved list.

DIVERSIFICATION AND LIMITATIONS

These limitations shall apply at the time of purchase of a permissible security. Should the portfolio fall out of compliance due to downgrades or shrinkage of the total portfolio size, a reasonable cure period will be allowed so that compliance can be obtained through normal maturities or sales at fair market value. Sales will be considered as a means of curing any out-of-compliance condition only if deemed prudent by Staff in light of prevailing market conditions.

1. **U.S. Government Securities**
    a. 100% of portfolio may be invested in U.S. Treasury Securities;
    b. 65% maximum of portfolio may be invested in U.S. Government Agency Securities;
    c. 25% maximum of portfolio per single U.S. Agency issuer.
2. **Corporate c~~C~~ommercial paper, ~~corporate~~ bonds, notes and medium-term notes (MTNs)**
    a. 40% maximum of portfolio may be invested in ~~corporate indebtedness~~these types of corporate securities;
        i. Up to 100% of this corporate debt limit may consist of commercial paper; and
        ii. Up to ~~50% of this corporate debt limit~~ 25% of the total portfolio may consist of bonds, notes or MTNs.
        ~~iii. 2% maximum of portfolio per issuer in commercial paper and corporate bonds, notes, and MTN's except that up to 3% per issuer may be invested in CP maturing in seven days or less at times of restricted supply such as during calendar year-end. Repurchase agreement obligations of a financial institution shall not be considered in this limit;~~

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

b. CP, corporate notes, and MTNs must have a minimum of two separate credit ratings (either short or long term) by Standard & Poor's, Moody's or Fitch;
   i. CP must be rated a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase; and
   ii. Corporate notes ~~&~~ and medium-term notes must be rated~~,~~ by at least ~~one~~ two rating agenc~~y~~ies~~,~~, and carry a minimum mid-single A quality rating at the time of purchase (i.e., ~~of AA-~~ A(S&P), ~~Aa3~~ A2(Moody) or ~~AA3~~ A(Fitch)) ~~at the time of purchase~~.

3. **Asset-backed Securities (ABS)**
   a. 40% maximum of portfolio in ~~Asset Backed Commercial Paper (ABCP)~~Asset-backed Securities;
   ~~b.~~ Asset Backed Commercial Paper (~~2% maximum of portfolio per issuer in ABCP;~~
   ~~c.~~b. ABCP) must carry at least two separate credit ratings ~~and~~ one of which must be ~~rated~~ a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase, as long as no more than ~~and up to~~ 10% of the portfolio ~~may be~~is invested in ABCP which carries one lower rating ~~rated~~ of A2, P2 or F2 (i.e., split--rated);
   ~~d.~~c. ABCP purchases shall be limited to maturities of ~~30~~ 90 days, except that ~~up to~~no more than ~~10%~~20% of the portfolio may be invested in maturities ~~of up to~~greater than ~~60~~ 30 days and no more than 10% of the portfolio may be invested in maturities ~~up to 90~~greater than 60 days~~.~~; and
   ~~e. 20% maximum of the portfolio may be invested in senior notes issued by Structured Investment Vehicles (SIV), however purchases as of the effective date of this policy may only be made if the issuer carries the explicit support of an approved financial institution that otherwise meets the criteria established for bank obligations listed below;~~
   ~~f. SIV's must be rated AAA or Aaa by at least two rating services (S&P, Moody's or Fitch) at the time of purchase; and~~
   ~~g.~~d. No more than 10% of the portfolio may be invested in any one financial sponsor of ABS of any type. In measuring exposure to a financial sponsor for this purpose, both holdings in the ABS sponsored by the firm as well as its direct obligations shall be considered. Repurchase agreement obligations of a financial institution shall not be considered in this limit.

4. **Bankers Acceptances and Certificates of Deposit**
   a. 30% maximum of portfolio may be invested in the combination of BA's and CD's;
   ~~b. 2% maximum of portfolio invested in any one issuer, except that up to 3% per issuer may be invested in CD's maturing in seven days or less at times of restricted supply such as during calendar year-end. Repurchase agreement obligations of a financial institution shall not be considered in this limit;~~
   ~~c.~~b. BA's and CD's must carry at least two separate credit ratings and be rated a minimum of A1, P1 or F1 at the time of purchase; and
   ~~d.~~c. If not rated ~~by only one rating agency~~, the issuer's parent must ~~also~~ carry a ~~minimum~~ long-term unsecured senior debt rating of AA- or Aa3 from at least one rating agency at the time of purchase ~~or higher by a different rating agency~~.

5. **Repurchase and Reverse Repurchase Agreements**
   a. Transactions will be conducted only with approved primary dealers or the master custodial bank, and under the terms of a written master repurchase agreement;
   b. 30% maximum of the portfolio may be invested in repurchase agreements;
   c. 5% maximum of the portfolio with any single primary dealer or financial institution;
   d. The maximum term of any repurchase agreement will be 90 days;

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

e. Acceptable forms of collateral under repurchase agreements will consist of U.S. Treasury and/or U.S. Agency securities which will be required to be maintained at a market value of 102% of the value of the repurchase agreement;
f. The maximum term of any reverse repurchase agreement will be 90 days and must be matched to anticipated cash flows adequate to liquidate the transaction; and
g. A maximum of fifteen percent (15%) of the portfolio may be pledged to secure reverse repurchase agreements. Transactions will be used only to secure borrowings for temporary or emergency purposes.

6. **Institutional Money Market Funds (MMF's)**
   a. Registered 2a-7 investment companies only;
   b. 15% maximum of portfolio may be invested in institutional MMF's; and
   c. 5% maximum of portfolio invested in any one MMF

7. **Issuer, Industry and Collateral Concentration Limitation**
   a. No more than 2% ~~maximum~~ of the portfolio will be invested in any one non-government issuer, except that up to 3% ~~per issuer~~ may be invested per issuer as long as no more than 2% is invested in securities maturing in more than seven days. ~~or less at times of restricted supply such as during calendar year-end.~~ Repurchase agreement obligations of a financial institution shall not be considered in this limit;
   b. No more than 15% of the portfolio will be invested in companies whose principal business activities are in the same industry except that holdings in financial service companies are not limited; and
   c. No more than 10% of the portfolio will be invested in any one type of receivable or collateral type via asset backed securities with the exception of financial institution obligations. These underlying types of collateral include such assets as trade receivables, student loans, residential mortgages, commercial mortgages, auto loans and leases, plant and equipment loans and leases, repurchase agreements, collateralized debt obligations of all types, credit card receivables, and other forms of collateral acceptable as part of the approval process for a specific issuer.

8. **Maximum Maturities.** To the extent possible, investment maturities in the STIP portfolio shall attempt to match the anticipated cash flow requirements. ~~For the purposes of the STIP portfolio~~In addition, ~~selection of investment maturities must be consistent with SEC Rule 2a-7 which requires a~~ the maximum final maturity of any security ~~is~~ shall not ~~to~~ exceed 397 days, with the following exceptions:
   a. Securities used as collateral in repurchase agreements;
   b. A variable rate security which on any reset date can reasonably be expected to have a market value that approximates its amortized cost, and has ~~with~~ a maximum maturity of 2 years. Further, ~~and~~ all variable rate non-government securities (corporate bonds, notes or MTNs and bank CDs) maturing past ~~1~~one year shall not exceed 25% of the total portfolio; and
   c. Securities received as settlement in exchange for an originally purchased security.

9. **Liquidity**
   a. Minimum one-day maturities equal to 5% or greater and minimum maturities within one week equal to 10% or greater of the total fund value including MMF holdings and balances in the U.S. Bank sweep account which is held by the Treasurer's Fund;
   b. The fund may not acquire any security if, or as a result, more than 10% of the fund's net assets would be invested in securities that are illiquid; and

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

c. Illiquid securities shall include repurchase agreements maturing in more than seven days, and restricted, privately placed securities that are not registered under the Securities Act of 1933, with the exception that certain restricted securities eligible for resale to qualified institutional investors, including Rule 144a securities, are not subject to this limitation on illiquid securities.

BENCHMARK

The STIP portfolio performance results will be compared to the return of a one month LIBOR index as a market benchmark, and the iMoneyNet First Tier Institutional only (gross) return as a peer group measure.

ADMINISTRATIVE

Securities Lending

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

DEFINITIONS

1. **2a-7-like** – A reference to a rule promulgated under the Investment Company Act of 1940 which defines the requirements of SEC-registered money market mutual funds.

2. **Asset-Backed Security** - Bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit; not mortgages.

3. **Banker's Acceptance** - A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. Often used in importing and exporting, and as a discount money market fund investment.

4. **Certificate of Deposit** (CD) – A short-or medium-term, interest-bearing~~,~~ deposit obligation offered by banks and savings and loans. These may include “Yankee CDs” which are CDs issued by foreign banks or their U.S. affiliates in the U.S. which are denominated in U.S. dollars.

5. **Commercial Paper** - An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days. Commercial paper is available in a wide range of denominations, can be

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

either discounted or interest-bearing, and usually have a limited or nonexistent secondary market. Commercial paper is usually issued by companies with high credit ratings, meaning that the investment is almost always relatively low risk.

6. **Corporate Note -** A type of unsecured debt issued by a corporation that may be longer-term than Commercial Paper, but shorter-term than a typical Corporate Bond.

7. **Repurchase Agreement** - A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. May also be called "Repo" or "Buyback." Typically used a short term form of collateralized borrowing by a bank or securities dealer.

8. **Reverse Repurchase Agreement** - A purchase of securities with an agreement to resell them at a higher price at a specific future date. The investor essentially borrows money and allows its securities to be held as collateral. Reverse Repurchase Agreements occur most often in government securities or other securities that are highly valued and thus considered a good form of collateral.

~~9. **Structured Investment Vehicle** – Bankruptcy-remote entities sponsored by large banks or investment managers for the purpose of generating leveraged returns. The sponsor earns the spread (differences in yields) between the longer-dated assets purchased and the short-term liabilities issued. The balance sheet of a structured investment vehicle typically contains assets such as residential mortgage-backed securities (RMBS), asset-backed securities (ABS) and other high-grade securities.~~

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

PURPOSE

The purpose of this document is to establish policies that will govern the investment activities of the Montana Board of Investments (MBOI) with regard to the management of the Short-term Investment Pool (STIP). These policies are adopted by, and can be changed only by a majority of Board members at a publicly-noticed meeting.

These policies are designed to ensure the prudent management of public funds, conformance to Montana Constitution and law, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

All participants in the investment process shall act responsibly as custodians of the public trust and shall recognize that the STIP portfolio is subject to public review and evaluation. The pool shall be designed and managed in accordance with the standards of a "prudent expert" and managed as a "2a-7-like" portfolio.

SCOPE

This Investment Policy applies to the investment of short-term operating funds of the State of Montana, participating local government entity funds, and the liquidity requirements of the various pension and trust funds managed by the MBOI.

1. **Pooling of Funds.** Each participant choosing to invest in the STIP must provide a legal opinion that it is authorized by law to participate. The STIP will consolidate cash balances from all participating funds to maximize investment earnings. Investment income is accrued daily and allocated monthly to participants based on their pro rata participation and in accordance with generally accepted accounting principles.

2. **Amortized Cost.** STIP holdings are carried at amortized cost. Amortized cost represents the original cost, adjusted for premium and discount amortization**.**

DELEGATION OF AUTHORITY

1. **Board.** The Board, as a quasi-judicial body under state law is legally responsible for the prudent investment of the STIP. The Board is responsible for approving and amending this policy and delegates the responsibility for administering the STIP as outlined below:

2. **Staff**. Responsibility for the daily operation of the STIP is delegated to Board Staff, who shall act in accordance with this policy. Staff's duties include, but are not limited to, the following:
    a. **The Executive Director** (ED) is responsible for the creation of the STIP investment program and the establishment of investment and financial reporting procedures consistent with this policy. The ED is also responsible for the following:
        i. collection and reporting of all income;
        ii. reconciling all transactions with the records of brokers and custodians; and,
        iii. monitoring compliance with statute and this policy.
    b. **The Chief Investment Officer** (CIO) shall establish a system to review and regulate the activities of subordinate investment officers and shall exercise authority over the entire investment staff and investment process.
    c. **The Portfolio Manager** (PM) assigned to the STIP portfolio is responsible for, but not limited to, the following:
        i. developing and recommending amendments to the STIP policy to the CIO;
        ii. implementing and adhering to the STIP policy;
        iii. structuring the portfolio to meet investment objectives;
        iv. all trades undertaken in the portfolio; and,

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

v. reporting to the Board at least quarterly on the results and investment strategy for the pool.

d. **The Board Internal Auditor** (BIA), if the Board chooses to employ one, will periodically review the STIP internal controls. The audit will be designed to measure Board Staff compliance with this policy.

3. **General Investment Consultant**. The General Investment Consultant shall provide assistance to the Board's Staff as requested in conjunction with the management of the STIP.

OBJECTIVES

1. **Investment Objective.** The STIP shall be managed to accomplish the following hierarchy of objectives:
   a. **Preservation of Principal**. The STIP portfolio investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate the inherent risks associated with short-term money market investments, primarily credit risk and interest rate risk
      i. **Credit Risk**. The STIP portfolio will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by means of the following:
         1. limiting investments to Permissible Securities on the Approved List;
         2. pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with whom the STIP will conduct business; and
         3. diversifying the investment portfolio so that potential losses on individual securities will be minimized.
      ii. **Interest Rate Risk**. The STIP portfolio will minimize the risk that the market value of the securities will deviate significantly from cost due to changes in the general level of interest rate by means of the following:
         1. structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
         2. investing funds primarily in short-term maturities of money market securities; and
         3. maintaining a dollar-weighted average portfolio maturity of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).
   b. **Maintenance of Liquidity**. The STIP portfolio will maintain sufficient liquidity to meet all state agency and local government operating requirements and STIP participant investment cash flow needs that can be reasonably anticipated; and
   c. **Return.** The STIP investment portfolio shall be managed with the objective of attaining a money market rate of return throughout market and economic cycles, taking into account the investment risk constraints and liquidity needs of the participants.
   d. **Reserve.** The STIP portfolio will maintain a reserve account to be used to offset any realized losses in the portfolio should these occur.

AUTHORIZED & SUITABLE INVESTMENTS

1. **Permissible Securities.** The following securities and investment vehicles are approved for purchase for the STIP:
   a. U.S. Treasury and U.S. Governmental Agencies, or corporations wholly owned by the U.S. Government;
   b. Publicly traded domestic corporate bonds, notes and medium term notes (MTNs);

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

c. Asset-backed securities (ABS) collateralized by: credit cards, automobile loans, leases and other receivables acceptable to staff in their analysis of this type of structure;
d. Publicly and privately traded U.S. dollar denominated money market securities, including, but not limited to:
    i. Bankers' Acceptances (BA),
    ii. Commercial Paper (CP), and
    iii. Certificates of Deposits (CD), including Eurodollar and Yankee obligations which include CDs issued in U.S. dollars by foreign banks and foreign branches of U.S. banks.
e. Floating rate securities tied to LIBOR, Fed Funds, Treasury Bills or commercial paper indices;
f. Repurchase Agreements and Reverse Repurchase Agreements;
g. U.S. Dollar bonds and money market securities issued in the United States by foreign borrowers (Yankees);
h. U.S. Dollar bonds and money market securities issued outside the United States by domestic or foreign borrowers;
i. Institutional money market funds;
j. Investments required to implement the bond credit enhancement authorized by **Resolution 219**; and
k. Short term investment fund of the custodial bank.

2. **Approved List.** Purchases of securities other than U.S. government or U.S. Agency obligations are restricted to those which are pre-approved. The approved list shall be maintained by Staff with issuers added or removed from time to time depending on an analysis of their risk characteristics and suitability for use in the portfolio. At least two investment staff must approve names on the list. Issuers on the list shall be reviewed at least semi-annually for continued inclusion on the approved list.

DIVERSIFICATION AND LIMITATIONS

These limitations shall apply at the time of purchase of a permissible security. Should the portfolio fall out of compliance due to downgrades or shrinkage of the total portfolio size, a reasonable cure period will be allowed so that compliance can be obtained through normal maturities or sales at fair market value. Sales will be considered as a means of curing any out-of-compliance condition only if deemed prudent by Staff in light of prevailing market conditions.

1. **U.S. Government Securities**
    a. 100% of portfolio may be invested in U.S. Treasury Securities;
    b. 65% maximum of portfolio may be invested in U.S. Government Agency Securities; and
    c. 25% maximum of portfolio per single U.S. Agency issuer.

2. **Corporate commercial paper, bonds, notes and medium-term notes (MTNs)**
    a. 40% maximum of portfolio may be invested in these types of corporate securities;
        i. Up to 100% of this corporate debt limit may consist of commercial paper; and
        ii. Up to 25% of the total portfolio may consist of bonds, notes or MTNs.
    b. CP, corporate notes, and MTNs must have a minimum of two separate credit ratings (either short or long term) by Standard & Poor's, Moody's or Fitch;
        i. CP must be rated a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase; and

ii. Corporate notes and medium-term notes must be rated by at least two rating agencies and carry a minimum mid-single A quality rating at the time of purchase (i.e., A(S&P), A2(Moody) or A(Fitch)).

3. **Asset-backed Securities (ABS)**
   a. 40% maximum of portfolio in Asset-backed Securities;
   b. Asset Backed Commercial Paper (ABCP) must carry at least two separate credit ratings one of which must be a minimum of A1 (S&P), P1 (Moody's) or F1 (Fitch) at the time of purchase, as long as no more than 10% of the portfolio is invested in ABCP which carries one lower rating of A2, P2 or F2 (i.e., split-rated);
   c. ABCP purchases shall be limited to maturities of 90 days, except that no more than 20% of the portfolio may be invested in maturities greater than 30 days and no more than 10% of the portfolio may be invested in maturities greater than 60 days; and
   d. No more than 10% of the portfolio may be invested in any one financial sponsor of ABS of any type. In measuring exposure to a financial sponsor for this purpose, both holdings in the ABS sponsored by the firm as well as its direct obligations shall be considered. Repurchase agreement obligations of a financial institution shall not be considered in this limit.

4. **Bankers Acceptances and Certificates of Deposit**
   a. 30% maximum of portfolio may be invested in the combination of BA's and CD's;
   b. BA's and CD's must carry at least two separate credit ratings and be rated a minimum of A1, P1 or F1 at the time of purchase; and
   c. If not rated, the issuer's parent must carry a long-term unsecured senior debt rating of AA- or Aa3 from at least one rating agency at the time of purchase.

5. **Repurchase and Reverse Repurchase Agreements**
   a. Transactions will be conducted only with approved primary dealers or the master custodial bank, and under the terms of a written master repurchase agreement;
   b. 30% maximum of the portfolio may be invested in repurchase agreements;
   c. 5% maximum of the portfolio with any single primary dealer or financial institution;
   d. The maximum term of any repurchase agreement will be 90 days;
   e. Acceptable forms of collateral under repurchase agreements will consist of U.S. Treasury and/or U.S. Agency securities which will be required to be maintained at a market value of 102% of the value of the repurchase agreement;
   f. The maximum term of any reverse repurchase agreement will be 90 days and must be matched to anticipated cash flows adequate to liquidate the transaction; and
   g. A maximum of fifteen percent (15%) of the portfolio may be pledged to secure reverse repurchase agreements. Transactions will be used only to secure borrowings for temporary or emergency purposes.

6. **Institutional Money Market Funds (MMF's)**
   a. Registered 2a-7 investment companies only;
   b. 15% maximum of portfolio may be invested in institutional MMF's; and
   c. 5% maximum of portfolio invested in any one MMF.

7. **Issuer, Industry and Collateral Concentration Limitation**
   a. No more than 2% of the portfolio will be invested in any one non-government issuer, except that up to 3% may be invested per issuer as long as no more than 2% is invested in securities

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

maturing in more than seven days. Repurchase agreement obligations of a financial institution shall not be considered in this limit;

b. No more than 15% of the portfolio will be invested in companies whose principal business activities are in the same industry except that holdings in financial service companies are not limited; and
c. No more than 10% of the portfolio will be invested in any one type of receivable or collateral type via asset backed securities with the exception of financial institution obligations. These underlying types of collateral include such assets as trade receivables, student loans, residential mortgages, commercial mortgages, auto loans and leases, plant and equipment loans and leases, repurchase agreements, collateralized debt obligations of all types, credit card receivables, and other forms of collateral acceptable as part of the approval process for a specific issuer.

8. Maximum Maturities. To the extent possible, investment maturities in the STIP portfolio shall attempt to match the anticipated cash flow requirements. In addition, the maximum final maturity of any security shall not exceed 397 days, with the following exceptions:

a. Securities used as collateral in repurchase agreements;
b. A variable rate security which on any reset date can reasonably be expected to have a market value that approximates its amortized cost, and has a maximum maturity of 2 years. Further, all variable rate non-government securities (corporate bonds, notes or MTNs and bank CDs) maturing past one year shall not exceed 25% of the total portfolio; and
c. Securities received as settlement in exchange for an originally purchased security.

9. Liquidity

a. Minimum one-day maturities equal to 5% or greater and minimum maturities within one week equal to 10% or greater of the total fund value including MMF holdings and balances in the U.S. Bank sweep account which is held by the Treasurer's Fund;
b. The fund may not acquire any security if, or as a result, more than 10% of the fund's net assets would be invested in securities that are illiquid; and
c. Illiquid securities shall include repurchase agreements maturing in more than seven days, and restricted, privately placed securities that are not registered under the Securities Act of 1933, with the exception that certain restricted securities eligible for resale to qualified institutional investors, including Rule 144a securities, are not subject to this limitation on illiquid securities.

BENCHMARK

The STIP portfolio performance results will be compared to the return of a one month LIBOR index as a market benchmark, and the iMoneyNet First Tier Institutional only (gross) return as a peer group measure.

ADMINISTRATIVE

Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities held in the investment pools, through an agent, to other market participants in return for compensation. Currently, through an explicit contract, State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program. The Board seeks to assess the risks, such as counterparty and reinvestment risk, associated with each aspect of its securities lending program. The Board requires borrowers to maintain collateral at 102 percent for domestic

SHORT-TERM INVESTMENT POOL (STIP)
INVESTMENT POLICY

securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor. From time to time, Staff or the investment manager may restrict a security from the loan program upon notification to State Street Bank. Staff will monitor the securities lending program, and the CIO will periodically report to the Board on the status of the program.

DEFINITIONS

1. **2a-7-like –** A reference to a rule promulgated under the Investment Company Act of 1940 which defines the requirements of SEC-registered money market mutual funds.

2. **Asset-Backed Security –** Bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit; not mortgages.

3. **Banker's Acceptance –** A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. Often used in importing and exporting, and as a discount money market fund investment.

4. **Certificate of Deposit** (CD) – A short-or medium-term, interest-bearing deposit obligation offered by banks and savings and loans. These may include “Yankee CDs” which are CDs issued by foreign banks or their U.S. affiliates in the U.S. which are denominated in U.S. dollars.

5. **Commercial Paper –** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days. Commercial paper is available in a wide range of denominations, can be either discounted or interest-bearing, and usually have a limited or nonexistent secondary market. Commercial paper is usually issued by companies with high credit ratings, meaning that the investment is almost always relatively low risk.

6. **Corporate Note –** A type of unsecured debt issued by a corporation that may be longer-term than Commercial Paper, but shorter-term than a typical Corporate Bond.

7. **Repurchase Agreement –** A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. May also be called “Repo” or “Buyback.” Typically used a short term form of collateralized borrowing by a bank or securities dealer.

8. **Reverse Repurchase Agreement –** A purchase of securities with an agreement to resell them at a higher price at a specific future date. The investor essentially borrows money and allows its securities to be held as collateral. Reverse Repurchase Agreements occur most often in government securities or other securities that are highly valued and thus considered a good form of collateral.

ALLOCATION REPORT

Retirement Systems Asset Allocations as of 6/30/12

Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	37.2%	15.9%	13.1%	66.2%	24.9%	8.1%	0.9%	$ 3,912,330,268
TEACHERS	37.2%	15.9%	13.1%	66.1%	24.9%	8.0%	1.0%	$ 2,902,903,488
POLICE	37.2%	15.9%	13.1%	66.3%	25.0%	8.1%	0.7%	$ 225,865,253
SHERIFFS	37.0%	15.8%	13.0%	65.9%	24.8%	8.0%	1.3%	$ 216,137,461
FIREFIGHTERS	37.2%	15.9%	13.1%	66.3%	24.9%	8.1%	0.7%	$ 225,395,683
HIGHWAY PATROL	37.2%	15.9%	13.1%	66.2%	24.9%	8.0%	0.9%	$ 98,991,746
GAME WARDENS	36.9%	15.8%	13.0%	65.8%	24.7%	8.1%	1.5%	$ 99,345,298
JUDGES	37.0%	15.8%	13.0%	65.9%	24.8%	8.0%	1.3%	$ 64,631,082
VOL FIREFIGHTERS	35.2%	15.0%	12.4%	62.6%	23.5%	7.6%	6.3%	$ 27,063,167
TOTAL	**37.2%**	**15.9%**	**13.1%**	**66.1%**	**24.9%**	**8.0%**	**0.9%**	**$ 7,772,663,446**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

Retirement Systems Asset Allocations as of 9/30/12

Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	37.9%	16.3%	12.7%	66.9%	24.0%	8.2%	0.9%	$ 4,054,774,541
TEACHERS	38.1%	16.4%	12.8%	67.3%	24.1%	8.2%	0.5%	$ 2,997,912,477
POLICE	36.1%	15.6%	12.1%	63.8%	22.9%	7.8%	5.5%	$ 245,439,758
SHERIFFS	37.7%	16.3%	12.7%	66.7%	23.9%	8.1%	1.3%	$ 225,390,238
FIREFIGHTERS	36.1%	15.6%	12.1%	63.8%	22.9%	7.8%	5.6%	$ 245,026,630
HIGHWAY PATROL	37.8%	16.3%	12.7%	66.9%	23.9%	8.1%	1.0%	$ 102,891,593
GAME WARDENS	37.6%	16.2%	12.7%	66.5%	23.8%	8.1%	1.7%	$ 104,496,866
JUDGES	37.6%	16.3%	12.7%	66.6%	23.9%	8.1%	1.5%	$ 67,419,050
VOL FIREFIGHTERS	38.1%	16.4%	12.8%	67.3%	24.2%	8.3%	0.2%	$ 27,607,246
TOTAL	**37.8%**	**16.3%**	**12.7%**	**66.9%**	**23.9%**	**8.2%**	**1.0%**	**$ 8,070,958,400**
Approved Range	30 - 50%	15 - 30%	9 - 15%	60 - 70%	22 - 32%	4-10%	1 - 5%	

Change From Last Quarter

Pension Fund	MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP	STIP	Total Assets
PUBLIC EMPLOYEES	0.7%	0.5%	-0.4%	0.7%	-0.9%	0.1%	0.0%	142,444,273
TEACHERS	0.9%	0.6%	-0.3%	1.2%	-0.8%	0.1%	-0.5%	95,008,990
POLICE	-1.2%	-0.3%	-1.0%	-2.5%	-2.1%	-0.3%	4.9%	19,574,505
SHERIFFS	0.7%	0.5%	-0.3%	0.8%	-1.0%	0.1%	0.0%	9,252,777
FIREFIGHTERS	-1.2%	-0.3%	-1.0%	-2.5%	-2.1%	-0.3%	4.8%	19,630,947
HIGHWAY PATROL	0.6%	0.4%	-0.4%	0.7%	-1.0%	0.1%	0.2%	3,899,847
GAME WARDENS	0.6%	0.4%	-0.4%	0.7%	-0.9%	0.0%	0.2%	5,151,568
JUDGES	0.6%	0.5%	-0.4%	0.7%	-0.9%	0.1%	0.1%	2,787,968
VOL FIREFIGHTERS	2.9%	1.4%	0.4%	4.7%	0.7%	0.7%	-6.1%	544,079
TOTAL	**0.6%**	**0.4%**	**-0.4%**	**0.7%**	**-0.9%**	**0.1%**	**0.1%**	**298,294,954**

Allocations During Quarter

MDEP	MTIP	MPEP	Total Equity	RFBP	MTRP
($14,800,000)	($4,000,000)	$7,100,000	($11,700,000)	($35,000,000)	$18,100,000

Net New Investments for Quarter → **($28,600,000)**

FIXED INCOME OVERVIEW & STRATEGY

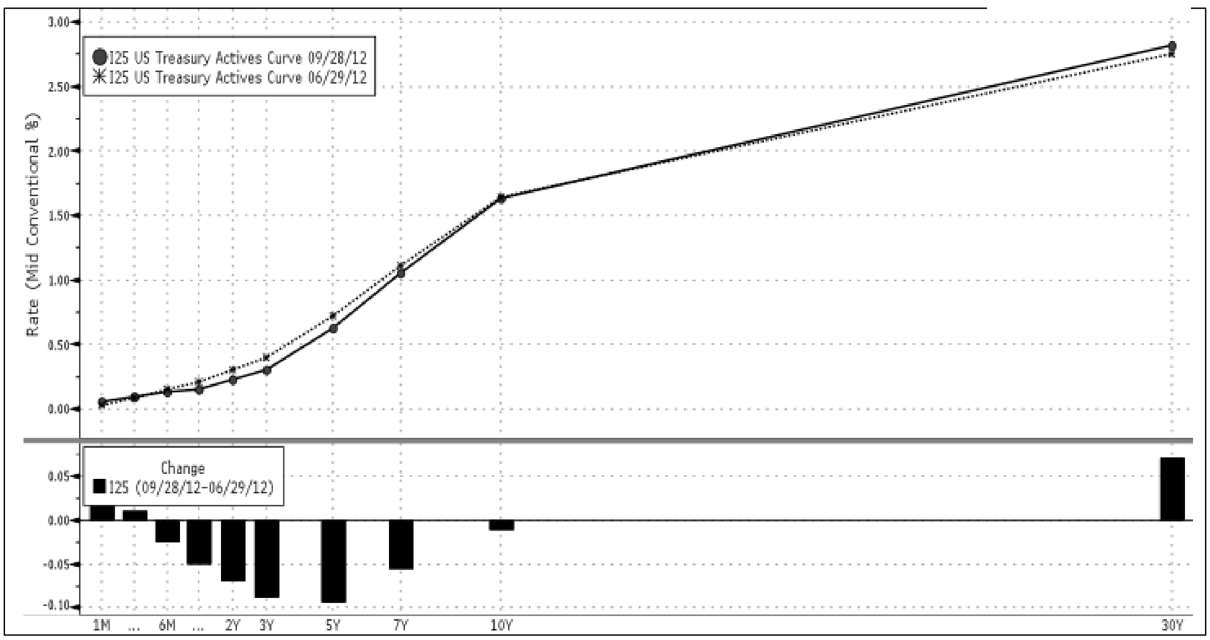
Nathan Sax, CFA, Portfolio Manager

November 14, 2012

RETIREMENT & TRUST FUND BOND POOLS

Interest rates gyrated in the third quarter with the yield on the Treasury 10-year benchmark note dropping 1 basis point to end the quarter yielding 1.63%. The graph below shows a bull flattener for the quarter concentrated in the belly of the Treasury curve while long rates rose slightly. The riskier spread sectors handily beat Treasuries as the bond market was in ‘risk on’ mode. For the quarter, Treasuries posted a total return of +0.57% while corporate bonds were +3.83% and securitized assets were +1.28%. The Barclays Aggregate Index was +1.58% and the Intermediate Aggregate returned +1.36%.

Historical Yield Curve 06/30/12 – 09/30/12



The Federal Reserve Board announced QE3+, its third major quantitative easing program, on September 13th, surprising the markets by allowing the program to remain open-ended. The Fed will be purchasing $40 billion of lower coupon Mortgage Backed Securities per month as a vehicle for pumping liquidity into the banking system. According to economist Gary Shilling, “the accumulation of excess reserves -- the difference between total and required bank reserves at the Fed -- now amounts to about $1.5 trillion.”

The following table shows the sector weightings of our external bond managers and the internally managed funds. It also shows holdings relative to policy constraints:

RFBP/TFBP vs. Barclays Aggregate – 09/30/12

	RFBP Combined	Retirement Fund Bond Pool							
		External Management				Internal Management			
		Reams	Artio	Post	Neuberg Berman	CIBP	TFBP	CIBP/TIF Policy Range	Barclays Aggregate
Treasuries	16.52	23.18	22.39	0.00	0.00	16.84	16.83	10-35	36.08
Agencies & Govt Related	5.33	0.00	8.63	0.00	0.00	6.69	5.29	5-25	10.55
Total Government	**21.85**	**23.18**	**31.02**	**0.00**	**0.00**	**23.53**	**22.12**	**15-60**	**46.63**
Mortgage Backed	24.32	18.27	21.91	0.00	0.00	28.68	30.08	20-50	30.05
Asset Backed	4.96	8.59	5.10	0.00	0.00	4.90	4.71	0-5	0.32
CMBS	7.69	8.03	8.09	0.00	0.00	8.55	9.40	0-10	1.88
Total Securitized	**36.97**	**34.89**	**35.10**	**0.00**	**0.00**	**42.13**	**44.19**	**20-65**	**32.25**
Financial	13.54	25.14	10.71	8.98	10.25	12.12	12.70		6.82
Industrial	20.73	13.74	15.24	78.54	77.72	15.33	13.96		11.94
Utility	3.75	0.03	0.93	0.00	3.99	4.83	4.78		2.36
Total Corporate	**38.02**	**38.91**	**26.88**	**87.52**	**91.96**	**32.28**	**31.44**	**10-35**	**21.12**
Other	0.61	0.61	2.08	5.19	4.19	0.00	0.00		0.00
Cash	2.55	2.41	4.92	7.29	3.85	2.06	2.25	0-10	0.00
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

RFBP Fixed Income Sector	Policy Range	RFBP on 09/30/12
U.S. High Yield	0-15%	12.67%
Non-US (incl. EM)	0-10%	3.58%
Total "Plus" sectors	0-20%	16.25%
Core (U.S. Investment Grade)	80-100%	83.75%

TFIP Fixed Income Sector	Policy Range	TFIP on 09/30/12
High Yield	0-10%	6.85%
Core Real Estate	0-8%	5.22%
Core (U.S. Investment Grade)	0-100%	87.93%

High Yield spreads tightened by 64 basis points in the third quarter (see graph shown below). As of September 28th, the average spread on below investment grade bonds stood at 551 basis points as compared to 615 on June 29th. Investment grade corporate bonds showed a similar pattern, tightening by 43 basis points. Investment grade corporates showed an average spread of 156 basis points at quarter-end over comparable maturity Treasuries versus 199 basis points on June 29, 2012.

High Yield manager Post Advisors (+4.40%) trailed the Barclays High Yield Index (+4.53%) slightly for the quarter by 13 basis points. Neuberger Berman (+4.62%) beat the index by 9 basis points. Core-plus manager Artio (+2.87%) beat their benchmark (+1.71%) by 116 basis points in the third quarter, more than offsetting underperformance of 45 basis points in the prior quarter. Reams Asset

Management (+2.56%) finished 56 basis points ahead of the Barclays Universal index (+2.00%) over the past three months. The CIBP (+2.54%) return for the third quarter was 96 basis points ahead of the Barclays Aggregate Bond Index (+1.58%).

Barclays U.S. High Yield 2% Issuer Cap, Average OAS – 06/30/11 to 10/26/12

The bond portfolios as compared to the benchmark are shown below. The Merrill index shown here is used as a proxy for the actual benchmark, the Barclays Capital Aggregate Bond Index.

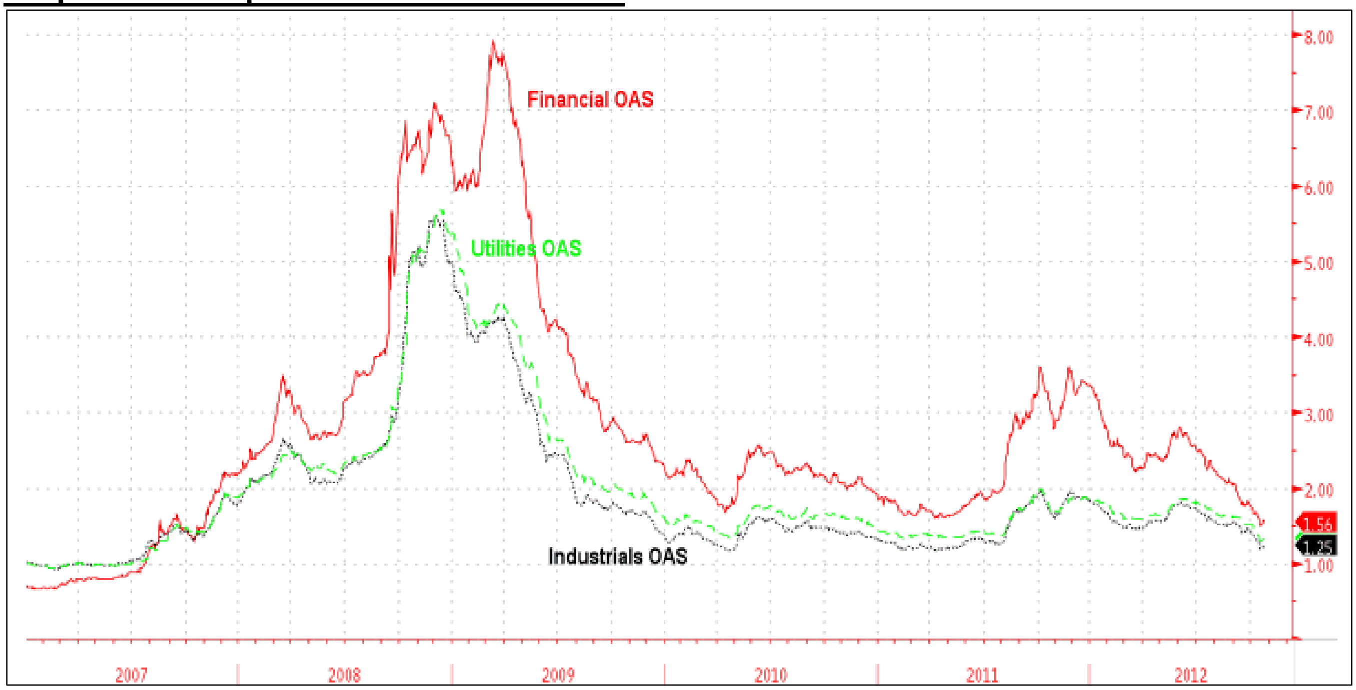
Benchmark Comparison Analysis CIBP vs. Merrill US Broad Market Index on 09/30/12						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	108.30	3.95	3.71	2.28	5.20	1.13
Benchmark	112.07	3.77	3.41	1.58	4.96	0.54
Difference	-3.77	0.18	0.30	0.70	0.24	0.59

Benchmark Comparison Analysis RFBP vs. Merrill US Broad Market Index on 09/30/12						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	107.33	4.05	3.81	2.54	5.07	1.43
Benchmark	112.07	3.77	3.41	1.58	4.96	0.54
Difference	-4.74	0.28	0.40	0.96	0.11	0.88

Benchmark Comparison Analysis TFBP vs. Merrill US Broad Market Index on 09/30/12						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	109.30	4.17	3.91	2.22	5.24	1.13
Benchmark	112.07	3.77	3.41	1.58	4.96	0.54
Difference	-2.77	0.40	0.50	0.64	0.28	0.58

The graph shown below illustrates the decline in risk premiums for investment grade corporate bonds in 2012 and since the onset of the Great Recession:

<u>Corporate OAS Spread 01/01/2007 – 10/25/12</u>



<u>Concluding Comments</u>

The fixed income asset class surprised last fiscal year with an index total return of 7.47% despite the low absolute level of nominal yields. The first quarter of FY 2013 was also strong, up 2.72% for the RFBP. Our allocation to High Yield bonds contributed to the outperformance, easily outpacing the investment grade portion of the portfolio. Relative returns were strong across our stable of fixed income managers.

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: Nathan Sax, CFA
Portfolio Manager – Fixed Income

Date: November 14, 2012

Subject: Fixed Income External Managers Watch List

Post Advisors, a High Yield manager that advises funds within both the Retirement Funds Bond Pool and the Trust Funds Investment Pool was originally put on the Fixed Income Watch List as reported to the Board during the February meeting.

Relative performance rebounded strongly in the first quarter. Post lagged the index in the second quarter and has performed about in-line with the benchmark in the latest quarter. At this time we are keeping Post Advisors on Watch until sufficient time passes that we can recommend their removal from the list.

MANAGER WATCH LIST
August 2012

Manager	Strategy	Reason	Amount Invested ($ millions)	Inclusion Date
Post Advisors	**Public High Yield**	**Performance**	**$ 58 RFBP** **$104 TFIP**	**Feb 2012**

Short Term Investment Pool (STIP)

Richard Cooley, CFA, Portfolio Manager
November 14, 2012

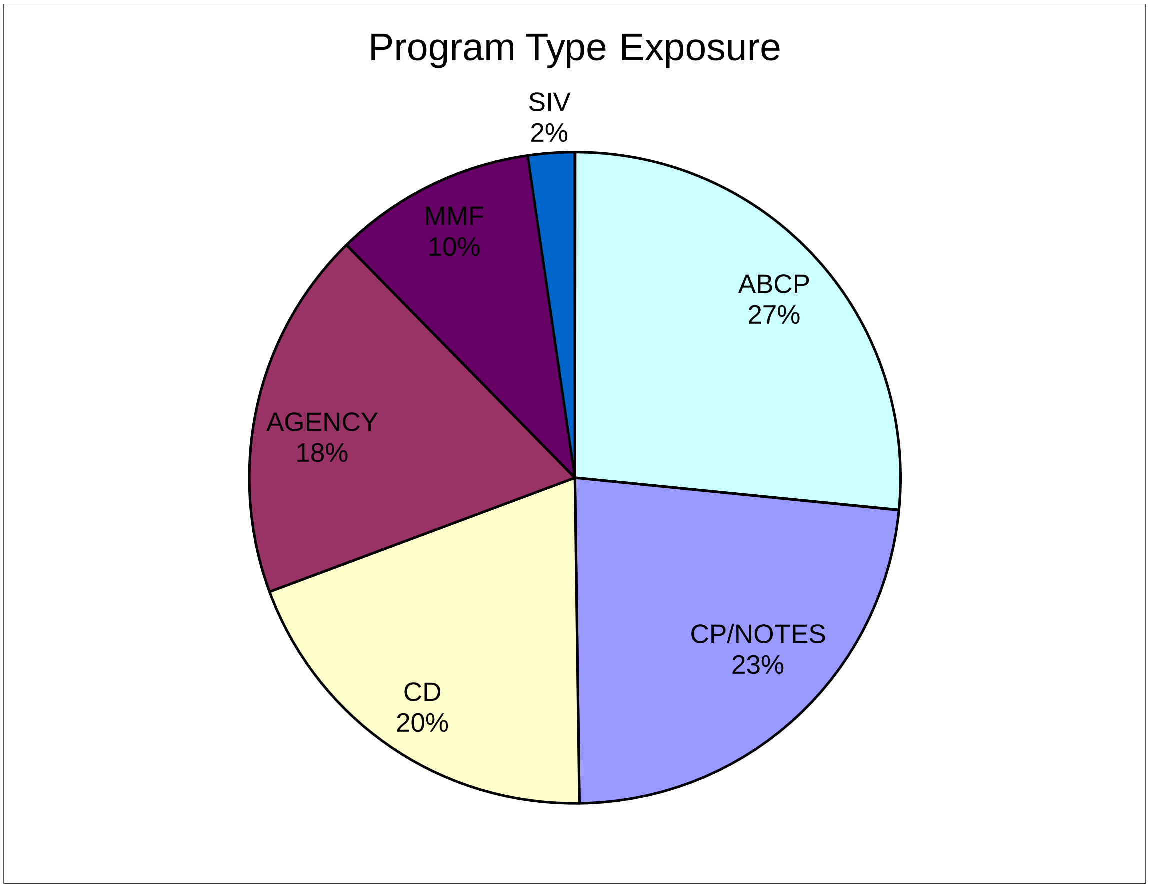
During the third quarter money market yields were lower as the Federal Reserve continued it's nearly four year-old policy of low fed funds rates. Three month Libor rates decreased by 10 basis points and one month Libor rates decreased by 3 basis points during the quarter. The improvement in Libor rates reflects better market tone and funding conditions for the large international banks. Credit spreads were tighter during the quarter, as depicted by the spread between three month Treasury bills and three month Libor rates (TED spread). This spread ended the third quarter at about 26 basis points, 11 basis points tighter for the quarter.

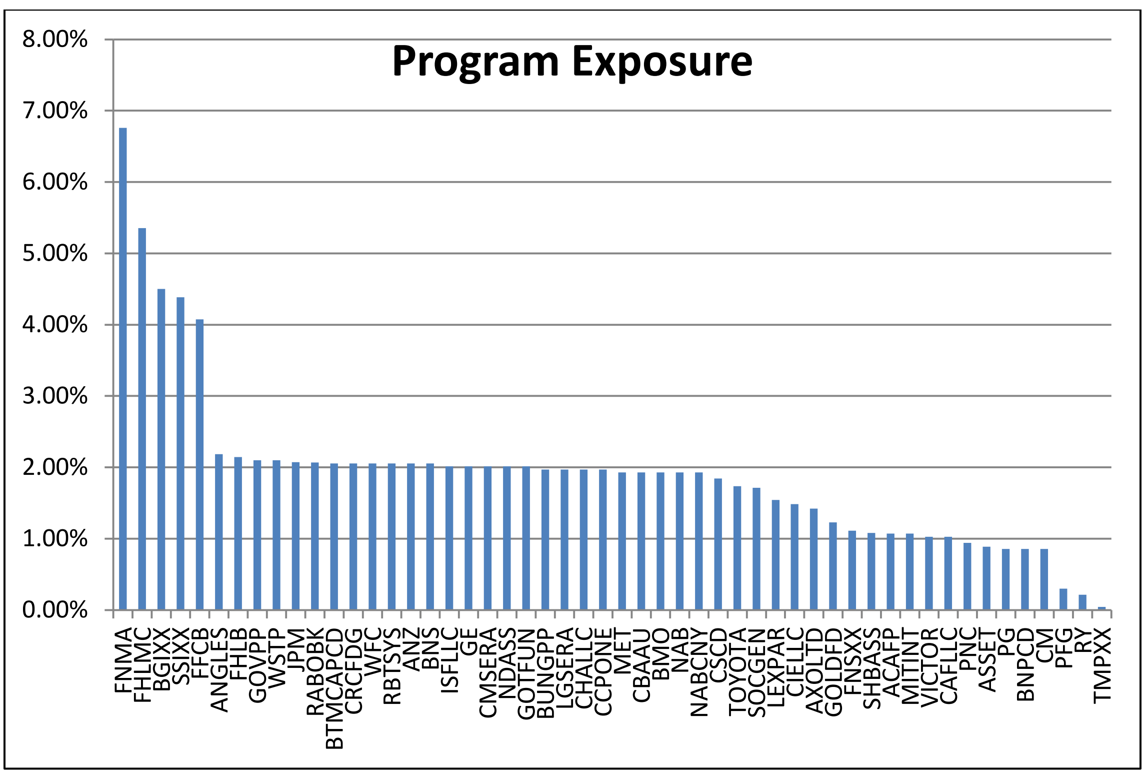
TED Spread (09/30/11 – 09/30/12)

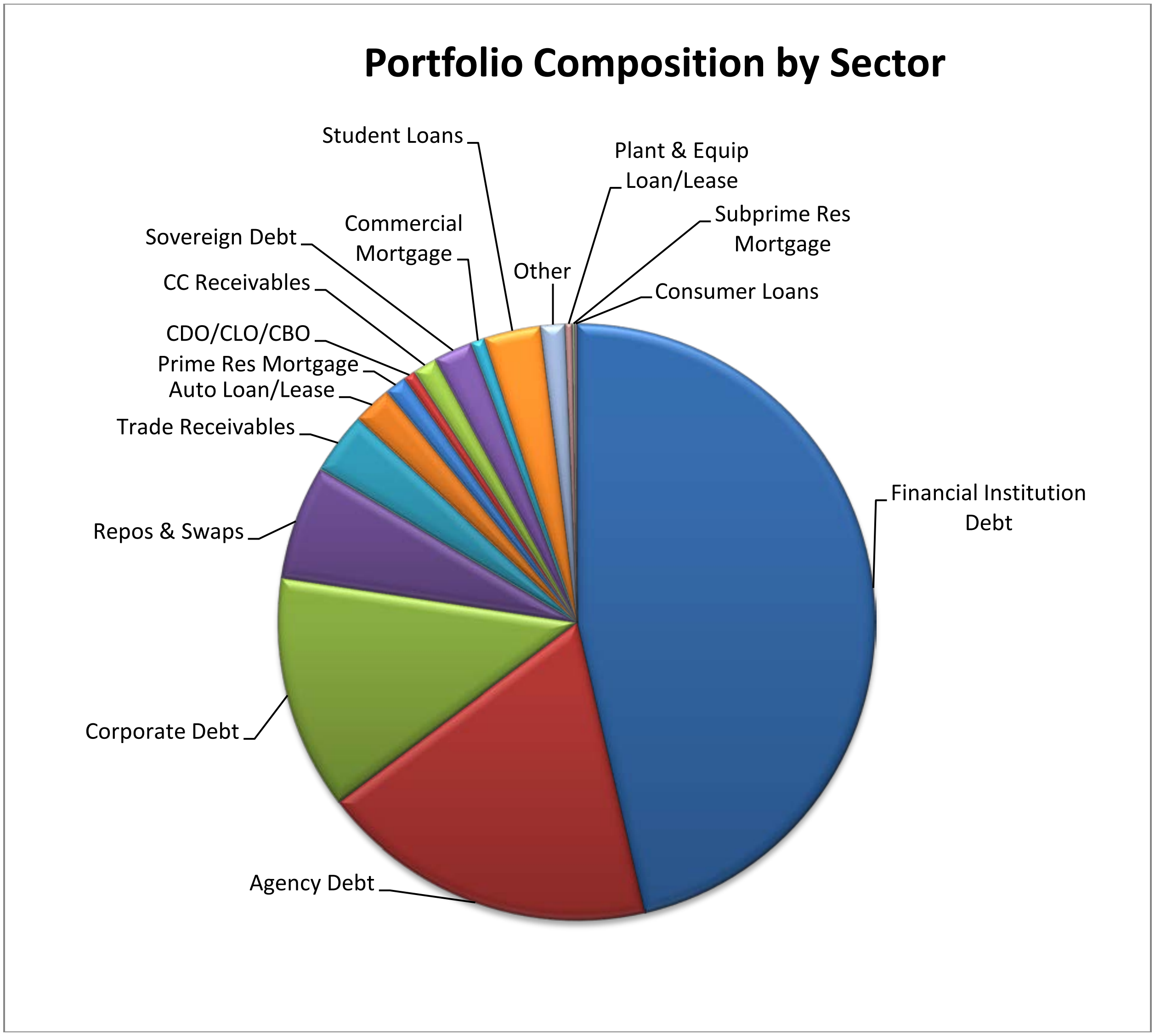
The STIP portfolio is currently well diversified and is operating within all the guidelines adopted by the Board at the February 2008 meeting. Daily liquidity is at a minimum of $150 million and weekly liquidity is at a minimum of $250 million. The average days to maturity are 42 days as compared to a policy maximum of 60 days. Asset-backed commercial paper is 27% of holdings (40% max) and corporate exposure is 23% (40% max). We currently have approximately 18% in agency paper, 20% in Yankee CD's (30% max) and 10% in four institutional money funds.

During the third quarter we purchased $23 million of floating rate corporate notes. We also purchased $70 million of Yankee CD's. Agency holdings fell from 25% to 18% as securities matured and were not replaced because of relatively low yields. Lower three month Libor rates detracted from the portfolio yield during the quarter.

The net daily yield on STIP is currently 0.27% as compared with the current one-month LIBOR rate of 0.21% and current fed funds target rate of 0.0%-0.25%. The portfolio asset size is currently $2.3 billion, down from three months ago. All charts below are as of October 23, 2012.






Portfolio Composition by Sector
Student Loans
Plant & Equip Loan/Lease
Subprime Res Mortgage
Consumer Loans
Sovereign Debt
Commercial Mortgage
Other
CC Receivables
CDO/CLO/CBO
Prime Res Mortgage
Auto Loan/Lease
Trade Receivables
Financial Institution Debt
Repos & Swaps
Corporate Debt
Agency Debt

Treasurer's Fund

Richard Cooley, CFA, Portfolio Manager

November 14, 2012

The fund totaled $924 million as of September 30, 2012, consisting of approximately one half general fund monies and the balance in various other state operating accounts. There were no securities transactions in the third quarter. Current securities holdings total $34 million. The investment policy for the fund limits security holdings to 50% of the projected General Fund FYE balance of the current period. The September projected General Fund FYE balance was $457 million.

State Fund Insurance

Richard Cooley, CFA, Portfolio Manager
November 14, 2012

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, the Barclays Capital Government/Credit Intermediate Index.

Benchmark Comparison Analysis State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 09/30/2012						
Summary Characteristics						
	Price	Coupon	Current Yield	Yield to Maturity	Effective Duration	Effective Spread
Portfolio	109.53	3.98	3.66	1.52	4.02	0.87
Benchmark	109.21	3.07	2.84	1.14	4.05	0.47
Difference	0.32	0.91	0.82	0.38	-0.03	0.40

The portfolio has an overweight in agencies, asset backed securities (ABS), 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 increasing ABS holdings in the portfolio during the past quarter. The portfolio has a slightly shorter duration than the benchmark but has been increased from 3.67 at December 31st. The longer duration is a result of purchasing more ten year bonds to maintain the portfolio yield, and to a lesser extent the general decline in interest rates.

Spread product ended the third quarter tighter as compared to the end of the previous quarter. MBS spreads tightened by 52 basis points to 24 basis points, agencies tightened by 5 basis points to 16 basis points and corporate spreads tightened by 43 basis points to 156 basis points. During the quarter, the ten year Treasury yield dropped by 1 basis point from 1.65% to 1.64%.

The total fixed income (including STIP) portion of the account outperformed the benchmark by 69 basis points during the September quarter and outperformed by 210 basis points over the past year. Longer term performance is +143 basis points for the past three years, +74 basis points for the past five years and +40 basis points for the past ten years (ended September 30).

As a reminder, the primary investment objective is to maximize investment income consistent with safety of principal.

During the September quarter, there were purchases of $5 million of corporate bonds in the 5 year part of the curve. We also purchased $20 million of 10 year Treasuries at an average yield of 1.832% and $33 million of ABS. There were no transactions in S&P 500 equity index units during the quarter.

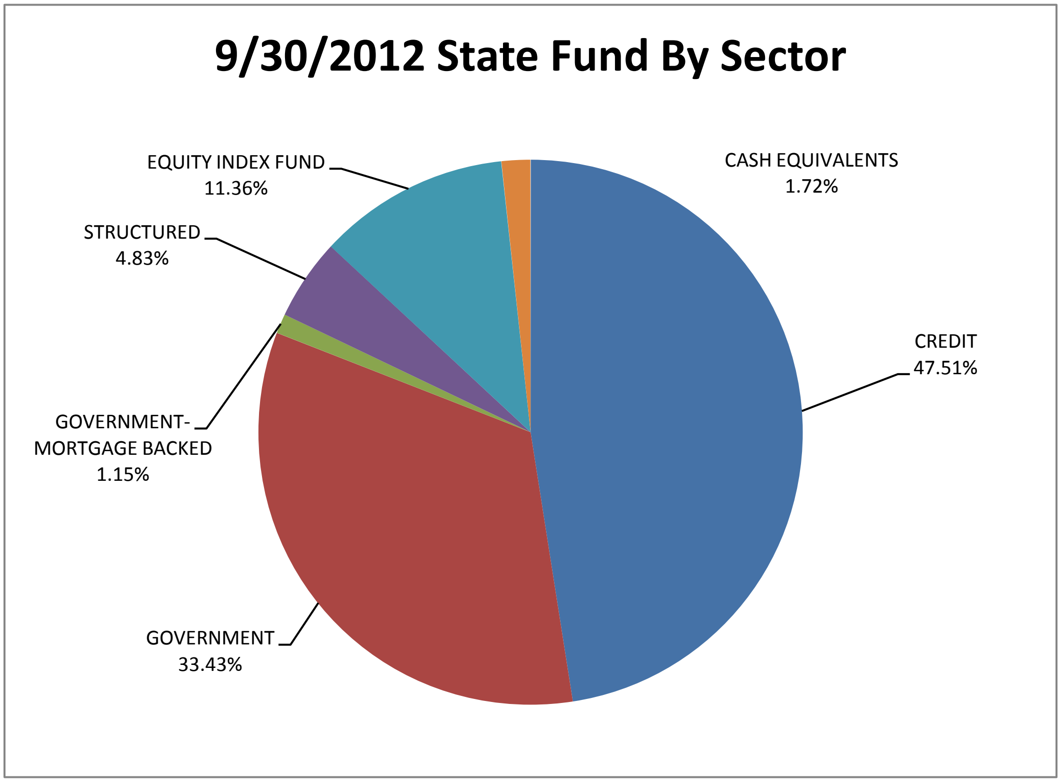
The portfolio has a 38 basis point yield advantage over the benchmark. Client preferences include keeping the STIP balance in a 1-5 percent range (currently 1.72%) and limiting holdings rated lower than A3 or A- to 25 percent of fixed income, at the time of purchase, (currently 26.2%).

State Fund vs. Merrill US Corp and Govt, 1-10 Yrs on 09/30/2012			
	SFBP Portfolio (%)	Benchmark (%)	Difference
Treasuries	15.94	57.40	-41.46
Agencies & Govt Related	21.63	14.09	7.54
Total Government	**37.57**	**71.49**	**-33.92**
Mortgage Backed	1.29	0.00	1.29
Asset Backed	3.95	0.00	3.95
CMBS	0.62	0.00	0.62
Securitized	**5.86**	**0.00**	**5.86**
Financial	26.44	10.26	16.18
Industrial	21.54	16.63	4.90
Utility	5.81	1.62	4.19
Total Corporates	**53.79**	**28.51**	**25.27**
Other	0.85	0.00	0.85
Cash	1.93	0.00	1.93
Total	**100.00**	**100.00**	

The following sector breakout is a look at the entire State Fund account including the S&P 500 and ACWI ex-U.S. 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.

The last page is the monthly performance 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 over the benchmark due to an overweight in spread product versus the benchmark.

9/30/2012 State Fund By Sector			
-	Sector	Market Value	%
	BANKS	114,289,819	8.60%
	COMMUNICATIONS	22,351,184	1.68%
	ENERGY	39,427,494	2.97%
	GAS/PIPELINES	6,425,854	0.48%
	INSURANCE	67,106,091	5.05%
	OTHER FINANCE	139,663,370	10.50%
	RETAIL	18,846,443	1.42%
	TRANSPORTATION	51,092,118	3.84%
	UTILITIES	72,425,693	5.45%
	INDUSTRIAL	100,040,390	7.52%
CREDIT		631,668,456	47.51%
	TITLE XI	4,134,263	0.31%
	TREASURY NOTES/BONDS	188,295,200	14.16%
	AGENCY	252,044,421	18.96%
GOVERNMENT		444,473,884	33.43%
	FHLMC	8,314,098	0.63%
	FNMA	7,022,592	0.53%
GOVERNMENT-MORTGAGE BACKED		15,336,691	1.15%
	OTHER STRUCTURED	46,892,045	3.53%
	CDO MINOR	10,000,000	0.75%
	CMBS MINOR	7,286,756	0.55%
STRUCTURED		64,178,800	4.83%
TOTAL FIXED INCOME		1,155,657,832	86.92%
EQUITY INDEX FUND		150,986,700	11.36%
CASH EQUIVALENTS		22,889,245	1.72%
GRAND TOTAL		1,329,533,776	100.00%


9/30/2012 State Fund By Sector
EQUITY INDEX FUND
11.36%
CASH EQUIVALENTS
1.72%
STRUCTURED
4.83%
CREDIT
47.51%
GOVERNMENT-
MORTGAGE BACKED
1.15%
GOVERNMENT
33.43%

MONTANA DOMESTIC EQUITY POOL

Rande Muffick, CFA, Portfolio Manager

November 14, 2012

9/30/2012 Domestic Stock Pool By Manager			
			Approved
Manager Name	**Market Value**	**%**	**Range**
BLACKROCK EQUITY INDEX FUND	1,826,030,215	59.81%	
STATE STREET SPIF ALT INV	6,468,898	0.21%	
LARGE CAP PASSIVE Total	**1,832,499,113**	**60.02%**	**45-70%**
ENHANCED INVEST TECHNOLOGIES	88,490,944	2.90%	
T ROWE PRICE ASSOCIATES INC	263,137,160	8.62%	
WESTERN ASSET US INDX PLUS LLC	1,597,122	0.05%	
LARGE CAP ENHANCED Total	**353,225,226**	**11.57%**	**8-12%**
ANALYTIC INVESTORS MU3B	87,250,201	2.86%	
JP MORGAN ASSET MGMT MU3E	265,026,583	8.68%	
130-30 Total	**352,276,784**	**11.54%**	**8-12%**
COMBINED LARGE CAP Total	**2,538,001,122**	**83.13%**	**72-91%**
ARTISAN MID CAP VALUE	111,862,287	3.66%	
BLACKROCK MIDCAP EQUITY IND FD	97,835,331	3.20%	
TIMESSQUARE CAPITAL MGMT	114,629,552	3.75%	
MID CAP Total	**324,327,170**	**10.62%**	**6-17%**
DIMENSIONAL FUND ADVISORS INC	75,137,040	2.46%	
ISHARES S+P SMALLCAP 600 INDEX	17,132,661	0.56%	
ALLIANCE BERNSTEIN SMALL CAP3R	24,911,037	0.82%	
VAUGHAN NELSON INV	73,468,388	2.41%	
SMALL CAP Total	**190,649,126**	**6.24%**	**3-11%**
MDEP Total	**3,052,977,418**	**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. The ranges reflect the restructure of the pool as approved by the Board in May.

The U.S. equity market had a great quarter as the Fed continued its quantitative easing policy and the European debt crisis took a breather. The rally occurred despite overwhelming data showing a slowing domestic economy as well as a sluggish global economy. Corporate earnings growth expectations were also ratcheted downward and yet the old "don't fight the Fed" adage spurred investor purchases of equities and drove markets higher.

1) Settings | 2) Actions | Page 1/6 Comparative Return

Range 06/29/2012 - 09/28/2012 | Period Daily | No. of Period 91 Day(s)

	Security	Currency	Price Appreciation	Total Return	Difference	Annual Eq
1.	SPX Index	USD	5.76%	6.35%	.91%	28.02%
2.	MID Index	USD	5.03%	5.44%		23.68%
3.	SML Index	USD	5.06%	5.40%	-.05%	23.46%

Large cap stocks led the rally, posting a 6.4% total return for the quarter. Mid caps and small caps posted strong gains as well with each returning 5.4%. MDEP was overweight mid caps and small caps in the quarter, so the market cap allocation detracted slightly from overall performance of the pools.

3Q 2012					2012 YTD			
	Value	Blend	Growth			Value	Blend	Growth
Large	6.5%	6.4%	6.1%		Large	15.7%	16.4%	16.8%
Mid	5.8%	5.6%	5.3%		Mid	14.0%	14.0%	13.9%
Small	5.7%	5.3%	4.8%		Small	14.4%	14.2%	14.1%

Value stocks bested growth stocks within all market cap categories with the most pronounced difference being within the small caps. Large value returned 6.5% to 6.1% for large cap growth. Mid cap value returned 5.8% to 5.3% for mid cap growth. And small cap value posted a 5.7% gain to 4.8% for growth. MDEP is slightly tilted toward value stocks with most of the tilt within the small caps.

The volatility index settled into new yearly lows in the quarter as investor sentiment rose with the market. As a contrary indicator, the lower the VIX, the better investors feel. Most other sentiment indicators reflected a degree of investor complacency as well, although the market did not finish the quarter looking over bought or investors behaving in a euphoric manner.

Active management for the quarter was encouraging as the active managers in combination generated added performance to the pool. Within large caps, the enhanced and partial long/short style buckets outperformed the benchmarks. JP Morgan 130/30 led the way with 92 basis points of outperformance. Within mid caps, active management lagged as the value portfolio underperformed in the up market and the outperformance of growth portfolio only partially offset the value portfolio's effect. Within small caps, active management outperformed as core and growth performance more than offset the lagging value portfolio.

MDEP performance for the quarter provided three basis points of outperformance, reflecting less tracking error following the initial stage of the restructure and improved active manager performance. Going forward further diversification of the actively managed portfolios within the mid cap and small cap allocations is likely over the next year. The overweight in mid caps and small caps will continue and could be increased should the markets provide an opportunity.

DOMESTIC EXPOSURE-MARKET CAP %

September 30, 2012

MANAGERS	MEGA $200B+	GIANT $100-$200B	LARGE $50-$100B	$20-$50B	$10-$20B	MID $2.5-$10B	SMALL $500MM-$2.5B	MICRO < $500MM	WTD AVG MARKET CAP ($B)
Alliance Bernstein	--	--	--	--	0.9	37.4	57.6	4.1	2,448.8
Analytic Investors, Inc	17.9	15.0	18.9	10.0	21.1	22.7	-7.9	0.0	111,342.0
Artisan Partners	--	--	--	--	38.6	55.5	5.9	0.0	8,156.0
Dimensional Fund Advisors	--	--	--	--	--	4.9	74.2	20.7	1,204.6
INTECH Investment Management	17.4	12.1	11.1	19.6	22.4	16.9	0.5	0.0	101,729.0
J.P. Morgan	8.8	24.7	14.4	33.6	13.0	2.5	0.6	0.0	113,823.1
T. Rowe Associates	17.7	18.8	16.5	19.7	17.2	9.8	0.2	0.0	119,935.4
TimesSquare Cap Mgmt	--	--	--	3.4	19.2	72.0	5.4	0.0	8,208.7
Vaughan Nelson Mgmt	--	--	--	--	--	40.6	59.4	0.0	2,388.5
BlackRock S&P 500 Index Fund	17.9	18.7	17.9	20.6	15.3	9.2	0.2	0.0	121,374.5
BlackRock Midcap Equity Index Fund	--	--	--	--	2.0	73.0	24.8	0.0	4,084.8
ALL DOMESTIC EQUITY PORTFOLIOS	**14.1**	**15.8**	**14.4**	**18.0**	**15.2**	**16.1**	**5.3**	**0.6**	**100.4**
Benchmark: S&P Composite 1500	**15.8**	**16.5**	**15.9**	**18.4**	**13.7**	**14.2**	**5.0**	**0.4**	**108.1**
Over/underweight(-)	**-1.8**	**-0.7**	**-1.6**	**-0.4**	**1.5**	**1.9**	**0.3**	**0.2**	

DOMESTIC EXPOSURE-SECTOR %

September 30, 2012

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom Services	Utilities
Alliance Bernstein	22.6	1.2	6.1	4.7	18.4	23.0	22.9	1.2	--	--
Analytic Investors, Inc	14.0	11.9	9.8	16.5	12.6	4.3	16.4	4.5	4.0	3.7
Artisan Partners	8.6	3.8	12.1	21.7	4.7	19.1	28.2	--	--	1.9
Dimensional Fund Advisors	17.2	5.1	4.4	16.2	10.2	18.6	18.5	5.4	0.7	3.6
INTECH Investment Management	18.3	8.4	10.6	12.3	7.6	9.5	20.1	4.9	3.3	5.0
J.P. Morgan	17.6	5.5	11.9	14.5	14.2	7.8	20.1	2.7	2.4	1.0
T. Rowe Associates	12.1	10.1	11.5	14.9	12.0	10.0	19.5	4.0	3.1	2.8
TimesSquare Cap Mgmt	19.1	3.7	6.8	11.6	10.7	17.4	24.0	2.9	3.7	--
Vaughan Nelson Mgmt	9.6	2.6	5.2	26.2	6.6	20.4	16.0	6.9	--	1.7
BlackRock S&P 500 Index Fund	11.0	11.0	11.3	14.5	11.9	10.0	20.0	3.4	3.2	3.5
BlackRock Midcap Equity Index Fund	14.1	3.3	5.9	21.9	10.4	16.1	15.6	7.0	0.5	5.1
All Domestic Equity Portfolios	**12.5**	**9.1**	**10.6**	**15.2**	**11.5**	**11.0**	**20.0**	**3.5**	**2.8**	**3.0**
Benchmark: S&P Composite 1500	**11.4**	**10.0**	**10.6**	**15.4**	**11.8**	**10.5**	**19.7**	**3.9**	**3.0**	**3.7**
Over/underweight(-)	**1.1**	**-0.9**	**0.0**	**-0.2**	**-0.3**	**0.5**	**0.3**	**-0.3**	**-0.1**	**-0.6**

DOMESTIC PORTFOLIO CHARACTERISTICS

September 30, 2012

MANAGERS	Market Value	Number of Securities	3Yr Historical EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
Alliance Bernstein	24,824,085	101	33.7	18.8	3.1	0.2
Analytic Investors, Inc	89,342,728	165	18.2	10.5	2.0	2.2
Artisan Partners	112,079,156	59	6.4	12.4	1.6	1.7
Dimensional Fund Advisors	74,989,381	2,368	18.6	15.7	1.6	1.3
INTECH Investment Management	88,556,486	333	14.9	16.5	2.6	2.0
J.P. Morgan	272,448,983	249	15.1	16.1	1.9	1.8
T. Rowe Associates	263,244,291	268	15.2	15.8	2.2	1.9
TimesSquare Cap Mgmt	114,569,138	78	24.6	12.3	2.8	0.6
BlackRock S&P 500 Index Fund	1,822,750,129	501	14.4	15.3	2.2	2.1
BlackRock Midcap Equity Index Fund	97,655,282	401	14.1	17.9	2.0	1.5
All Domestic Equity Portfolios	**3,059,195,715**	**3,278**	**14.9**	**15.1**	**2.1**	**1.9**
BENCHMARKS						
S&P Composite 1500		**1,500**	**14.5**	**15.5**	**2.2**	**2.0**
S&P/Citigroup 1500 Pure Growth		380	32.1	20.1	3.1	0.8
S&P/Citigroup 1500 Pure Value		357	3.7	12.8	1.0	1.4
S&P 500		500	14.4	15.2	2.2	2.1
Russell 1000		986	14.8	15.5	2.2	2.0
Russell 1000 Growth		567	23.0	18.7	4.2	1.6
Russell 1000 Value		690	6.8	13.2	1.5	2.4
Russell Midcap		795	14.8	17.0	2.0	1.7
Russell Midcap Growth		454	20.3	20.5	4.2	1.1
Russell Midcap Value		560	9.8	14.7	1.4	2.2
Russell 2000		1,975	17.7	14.4	1.8	1.6
Russell 2000 Growth		1,112	22.9	15.7	3.2	0.8
Russell 2000 Value		1,406	12.6	13.3	1.2	2.3

MEMORANDUM

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

To: Members of the Board

From: Rande R. Muffick, Portfolio Manager – Public Equities

Date: November 13, 2012

Subject: Repositioning of the Montana International Equity Pool (MTIP)

The repositioning objective was to reduce active management within the large cap portion of the international equity pool as the first stage of the overall restructuring process.

The size of the transition amounted to $216 million and included the following managers/funds:

Manager	Action	Amount
BlackRock ACWI ex US Superfund A	Increased	$216 million
Batterymarch Int'l Large Cap Core	Terminated	$110 million
BlackRock Int'l Alpha Tilts	Terminated	$106 million

The transition was performed by BlackRock during the third week of October. The overall cost of the transition amounted to 25 basis points of the market value of the transition or approximately $524,838. The cost of commissions was $83,742 and market impact costs were $319,053. Taxes accounted for the remainder of costs.

Both legacy portfolios had well diversified holdings and carried low tracking error to the target portfolio so there was good overlap among the holdings. All but five legacy stock holdings were traded on the first day of trading, with the remaining five traded early in the second day of trading due to liquidity constraints on these stocks. All in all the total transition cost was about 3 basis points more than previously estimated.

The portfolio displayed in this quarter's MTIP strategy does not reflect the changes resulting from this transition since it occurred in October. Attached is an updated portfolio which reflects these changes. Please note that this transition represents the initial stage of the restructuring process with active portfolios to be added in emerging markets and small cap, as well as the implementation of the ACWI ex US IMI benchmark.

10/30/2012 International Stock Pool By Manager			
			Approved
Manager Name	**Market Value**	**%**	Range
MONEY MARKET FD FOR EBT	204	0.00%	
ARTIO GLOBAL MU1G	8,994	0.00%	
BATTERYMARCH INTL EQUITY	1,271,020	0.10%	
BLACKROCK ACWI EX US SUPERFUND	815,179,250	61.77%	
BLACKROCK MSCI EM MKT FR FD B	26,183,294	1.98%	
EAFE STOCK PERFORMANCE INDEX	14,813,893	1.12%	0-10%
CORE Total	**857,456,656**	**64.97%**	**50-70%**
ACADIAN ACWI EX US VALUE	87,101,832	6.60%	
BERNSTEIN ACWI EX	93,752,473	7.10%	
VALUE Total	**180,854,305**	**13.70%**	**10-20%**
HANSBERGER INTL EQUITY GROWTH	96,814,531	7.34%	
MARTIN CURRIE ACWI X	100,198,058	7.59%	
GROWTH Total	**197,012,589**	**14.93%**	**10-20%**
BLACKROCK ACWI EX US SMALL CAP	21,933,411	1.66%	
DFA INTL SMALL CO PORTFOLIO	62,423,359	4.73%	
SMALL CAP Total	**84,356,770**	**6.39%**	**5-15%**
MTIP Total	**1,319,680,319**	**100.00%**	

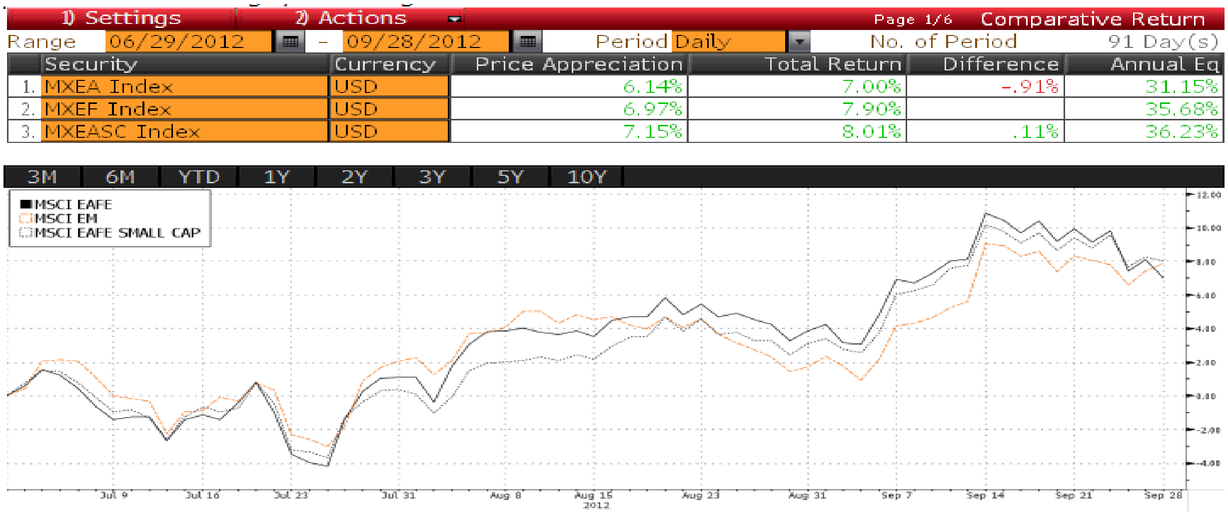
MONTANA INTERNATIONAL EQUITY POOL
Rande Muffick, CFA, Portfolio Manager
November 14, 2012

9/30/2012 International Stock Pool By Manager			
			Approved
Manager Name	**Market Value**	**%**	Range
MONEY MARKET FD FOR EBT	204	0.00%	
ARTIO GLOBAL MU1G	8,963	0.00%	
BATTERYMARCH INTL EQUITY	110,139,473	8.36%	
BLACKROCK GL EX US ALPHA TILT	105,860,503	8.03%	
BLACKROCK ACWI EX US SUPERFUND	599,794,089	45.50%	
BLACKROCK MSCI EM MKT FR FD B	26,467,710	2.01%	
EAFE STOCK PERFORMANCE INDEX	13,778,957	1.05%	0-10%
CORE Total	**856,049,898**	**64.95%**	**50-70%**
ACADIAN ACWI EX US VALUE	87,826,181	6.66%	
BERNSTEIN ACWI EX	93,125,297	7.07%	
VALUE Total	**180,951,478**	**13.73%**	**10-20%**
HANSBERGER INTL EQUITY GROWTH	97,256,317	7.38%	
MARTIN CURRIE ACWI X	99,822,018	7.57%	
GROWTH Total	**197,078,334**	**14.95%**	**10-20%**
BLACKROCK ACWI EX US SMALL CAP	21,936,465	1.66%	
DFA INTL SMALL CO PORTFOLIO	62,096,106	4.71%	
SMALL CAP Total	**84,032,571**	**6.38%**	**5-15%**
MTIP Total	**1,318,112,282**	**100.00%**	

The table above displays the Montana International Equity Pool (MTIP) allocation at quarter end across market cap segments and manager styles. At this time, all weightings are within the approved ranges.

International equity market performance for the quarter was particularly strong and resulted in gains that were higher than U.S. markets across all categories. Central bank easing soothed investor sovereign debt worries even though corporate profits were disappointing. All in all it was a great quarter for equities across the globe.

Country market performance was led by Greece with a 19.5% return as financing concerns eased for now. India returned 14.6% and Germany 13.4%. The biggest laggard country market was Japan at -1.6% as a slow economic growth picture continued to hamper performance.



Security	Currency	Price Appreciation	Total Return	Difference	Annual Eq
1. MXEA Index	USD	6.14%	7.00%	-.91%	31.15%
2. MXEF Index	USD	6.97%	7.90%		35.68%
3. MXEASC Index	USD	7.15%	8.01%	.11%	36.23%

Small cap developed market stocks posted the best gains with a 8.0% return while emerging markets stocks were close behind with a 7.9% return. Large cap developed market stocks, although posting somewhat lower comparative returns still generated a 7.0% gain. MTIP is overweight emerging market stocks and thus benefited from the overweight in the quarter. Likewise, MTIP is overweight small cap stocks compared to the current custom benchmark which added to overall pool performance.

Similar to domestic stocks, international value stocks did somewhat better than international growth stocks. Value returned 7.6% compared to 7.2% for growth stocks. MTIP is overweight growth compared to value which detracted from performance.

The value of the U.S. dollar fell about 2% compared to a basket of major currencies which added to international equity returns for U.S. investors. Better news out of Europe and China and the quantitative easing mandate of the U.S. Fed pushed the greenback lower.

Active management performance was mixed. Large cap core outperformed while large cap value, large cap growth, and small cap underperformed. Overall, MTIP performance for the quarter lagged the benchmark by 18 basis points as manager selection was a drag on performance.

Going forward the passive weight within the large cap allocation has been increased in the initial phase of the pool restructure. This change is reflected in the updated pool allocation table attached to the repositioning/transition memo in the Board packet. Further diversification of the active portion of the small cap allocation and the addition of dedicated active management within the emerging markets allocation is expected.

INTERNATIONAL EXPOSURE-MARKET CAP %

September 30, 2012

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	2.3	9.4	19.9	19.7	13.8	17.3	9.5	8.2	26.7
Batterymarch Financial Mgmt	1.8	13.3	17.9	14.5	16.9	31.6	3.6	0.5	37.9
Bernstein Inv Mgt & Research with look throughs	0.8	12.4	12.2	15.1	13.9	19.0	4.5	0.1	36.5
BlackRock Global Ex US Alpha Tilt Fd	2.6	10.3	22.9	17.3	12.0	26.8	7.8	0.2	36.9
DFA International Small Cap	--	--	--	--	--	19.7	59.9	20.3	1.3
Hansberger Global Investors	--	9.8	13.4	35.5	15.5	16.2	9.5	--	27.8
BlackRock ACWI Ex US Superfund A	1.8	11.2	18.4	25.4	17.9	22.0	2.5	--	38.1
BlackRock Intl Small Cap Index look through	--	--	--	--	--	15.7	66.3	16.7	1.1
BlackRock Emerging Market Fund look through	1.8	7.0	12.5	19.7	23.2	29.0	6.3	--	20.5
ALL INTERNATIONAL EQUITY PORTFOLIOS	**1.7**	**10.4**	**16.4**	**21.6**	**15.9**	**21.9**	**8.0**	**1.8**	**33.8**
International Custom Benchmark	**1.8**	**11.1**	**18.3**	**25.5**	**17.8**	**22.1**	**3.2**	**0.2**	**37.6**
Over/underweight(-)	**-0.1**	**-0.8**	**-1.9**	**-3.8**	**-1.9**	**-0.2**	**4.8**	**1.6**	

INTERNATIONAL EXPOSURE-SECTOR %

September 30, 2012

MANAGERS	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Technology	Materials	Telecom. Services	Utilities
Acadian Asset Management	9.6	1.0	17.7	31.4	4.5	8.8	7.0	7.4	10.1	2.5
Batterymarch Financial Mgmt	10.0	10.4	9.0	26.4	9.7	9.8	6.6	8.9	6.3	2.9
Bernstein Inv Mgt & Research with look throughs	14.2	6.7	13.8	22.7	7.4	7.0	6.9	10.1	6.5	3.9
BlackRock Global Ex US Alpha Tilt Fd	11.2	9.3	10.7	22.8	9.6	10.4	8.3	9.9	4.7	2.9
DFA International Small Cap	18.5	6.5	6.4	14.0	5.6	24.3	9.0	12.1	1.3	2.3
Hansberger Global Investors	14.4	12.5	6.7	15.0	7.1	11.0	12.7	12.2	6.6	1.8
Martin Currie with look throughs	15.1	16.4	9.6	14.2	7.1	8.8	8.2	13.0	4.4	3.0
BlackRock ACWI Ex US Superfund A	9.0	10.4	10.9	24.4	7.4	10.4	6.3	10.9	5.9	3.7
BlackRock Intl Small Cap Index look through	17.3	6.6	6.7	19.0	5.2	18.5	9.2	12.8	1.1	2.4
BlackRock Emerging Market Fund look through	8.0	8.4	13.0	24.7	1.2	6.6	13.9	12.0	8.1	3.6
All International Equity Portfolios	**11.1**	**9.7**	**10.7**	**22.7**	**7.3**	**10.7**	**7.5**	**10.7**	**5.8**	**3.2**
International Custom Benchmark	**9.2**	**10.4**	**10.9**	**24.6**	**7.4**	**10.5**	**6.4**	**11.1**	**5.8**	**3.7**
Over/underweight(-)	**1.9**	**-0.6**	**-0.2**	**-1.9**	**-0.1**	**0.1**	**1.1**	**-0.4**	**0.0**	**-0.5**

INTERNATIONAL PORTFOLIO CHARACTERISTICS

September 30, 2012

	Market Value	Number of Securities	3Yr Hist EPS Growth	Price/ Earnings	Price/ Book	Dividend Yield
International Accounts with look throughs	**1,319,212,285**	**8,742**	**17.0**	**11.9**	**1.4**	**3.26**
International Equity Managers						
Acadian Asset Management	88,323,588.2	392	17.9	9.0	1.0	3.52
Batterymarch Financial Mgmt	110,363,931	253	19.8	11.3	1.5	3.39
Bernstein Inv Mgt & Research with look throughs	93,360,646	209	19.1	9.4	1.1	3.84
BlackRock Global Ex US Alpha Tilt Fd	105,857,524	750	18.3	11.1	1.4	3.31
DFA International Small Cap	62,155,943	4,666	11.2	12.1	1.1	3.05
Hansberger Global Investors	97,398,706	62	22.8	15.1	2.0	2.17
Martin Currie with look throughs	99,820,868	63	18.1	14.7	2.0	2.53
BlackRock ACWI Ex US Superfund A	599,768,996	1,862	15.0	12.4	1.4	3.43
BlackRock Intl Small Cap Index look through	21,920,037	4,332	17.6	12.1	1.1	2.97
BlackRock Emerging Market Fund look through	26,463,052	828	25.4	11.6	1.6	2.87
Benchmarks						
MSCI All Country World Ex-United States		1,837	15.1	12.4	1.4	3.42
MSCI All Country World Ex-United States Growth		1,039	19.9	14.9	2.2	2.51
MSCI All Country World Ex-United States Value		1,019	10.4	10.6	1.1	4.34
MSCI EAFE Small Cap		2,249	15.0	12.6	1.1	3.10
MSCI World Ex-United States Small Cap		2,494	14.9	12.7	1.1	3.08
MSCI All Country Pacific		932	18.9	12.5	1.3	3.02

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 – Public Equities

Date: November 13, 2012

Subject: Public Equity External Managers Watch List - Quarterly Update

There were no changes to the Watch List during the third quarter. The current Watch List is shown below.

PUBLIC EQUITIES
MANAGER WATCH LIST
November 2012

Manager	Style Bucket	Reason	$ Invested (mil)	Inclusion Date
Martin Currie	**International – LC Growth**	**Performance, Risk Controls**	**$100**	**February 2009**
Alliance Bernstein	**International – LC Value**	**Performance**	**$93**	**August 2012**

Return to Agenda

Private Equity & Real Estate

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: Ethan Hurley, Portfolio Manager – Alternative Investments

Date: November 13, 2012

Subject: Montana Private Equity Pool (MPEP)

Following this memo are the items listed below:

(i) **Montana Private Equity Pool Review:**
Comprehensive overview of the private equity portfolio for the quarter ended June 30th.

(ii) **New Commitments:**
The table below summarizes the investment decisions made by Staff since the last Board Meeting. A commitment of $20M was made to Sterling Partners IV, LP, a $25M commitment was made to Audax Private Equity Fund IV, LP, a $20M commitment was made to NB Strategic Co-Investment Partners II, LP and an additional $10M commitment was made to Dover Street VIII, LP. The investment briefs summarizing each fund and the general partners follow.

Fund Name	Vintage	Subclass	Sector	Amount	Date
Sterling Partners IV, LP	2012	Buyout	Diverse	$20M	8/16/12
Audax Private Equity Fund IV, LP	2012	Buyout	Diverse	$25M	9/13/12
NB Strategic Co-Investment Partners II, LP	2012	Buyout	Diverse	$20M	9/13/12
Dover Street VIII, LP	2012	Secondaries	Diverse	Add'l $10M	10/11/12

(iii) **Portfolio Index Comparison:**
Table comparing the performance of the private equity portfolio to the State Street Private Equity Index™.

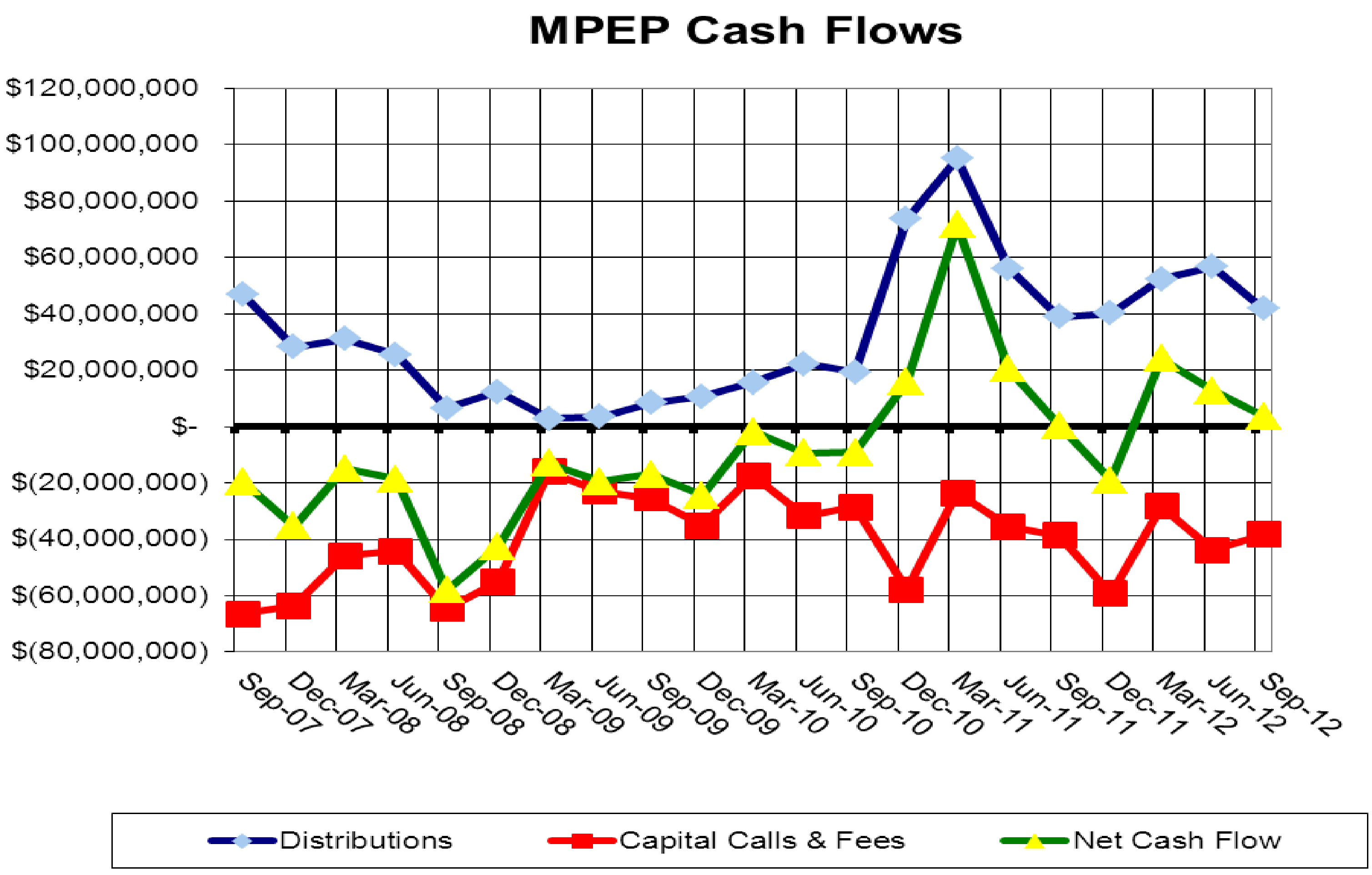
Montana Board of Investments

Private Equity Board Report

Q2 2012

Contents

MPEP Quarterly Cash Flows
September 30, 2007 through September 30, 2012



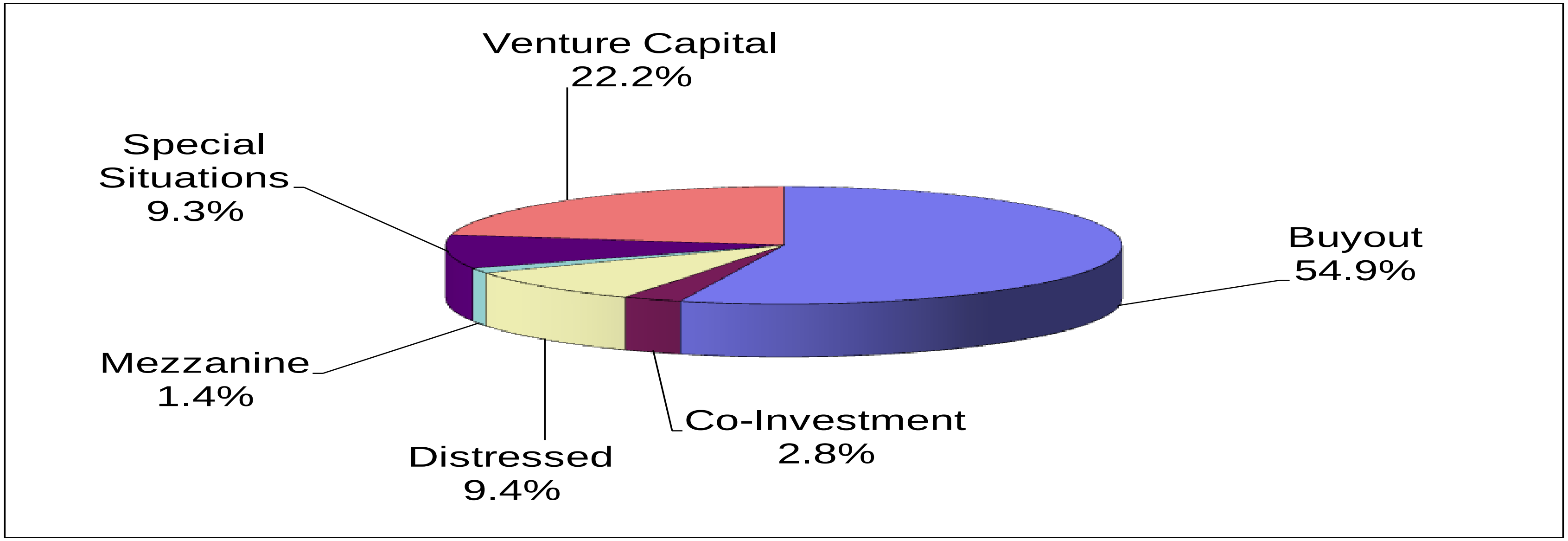
While distributions to the pool have moderated relative to recent quarters, for the quarter ending 9/30/12, distributions received continued to outpace capital calls resulting in positive net cash flow to the pool. Broadly speaking, global M&A was up relative to 2Q12. Private equity-backed deals were up on both an absolute number of deals and dollar volume basis, while corporate sponsored deals were down in numbers, but increased relative to 2Q12 on an absolute dollar basis. The 3Q12 global IPO markets saw the total number and value of deals decline relative to 2Q12 and the prior year period 3Q11.

Q2 2012 Strategy – Total Exposure

Montana Private Equity Pool

Strategy Total Exposure by Market Value & Remaining Commitments (Fund of Funds broken out)

(since inception through June 30, 2012)



Strategy	Remaining Commitments [1]	Percentage	Market Value	Percentage	Total Exposure	Percentage
Buyout	$330,977,841	57.5%	$537,972,641	53.5%	$868,950,482	54.9%
Co-Investment	$5,535,110	1.0%	$38,652,792	3.8%	$44,187,902	2.8%
Distressed	$50,395,872	8.8%	$98,453,506	9.8%	$148,849,378	9.4%
Mezzanine	$4,294,515	0.7%	$17,666,347	1.8%	$21,960,862	1.4%
Special Situations	$57,280,418	10.0%	$89,160,741	8.9%	$146,441,159	9.3%
Venture Capital	$126,813,581	22.0%	$224,173,725	22.3%	$350,987,306	22.2%
Total	$575,297,337	100.0%	$1,006,079,752	100.0%	$1,581,377,089	100.0%

[1] Due to lack of GP data for Q2 2012 remaining commitments, Q1 2012 data has been rolled forward for Lexington Funds' underlying holdings

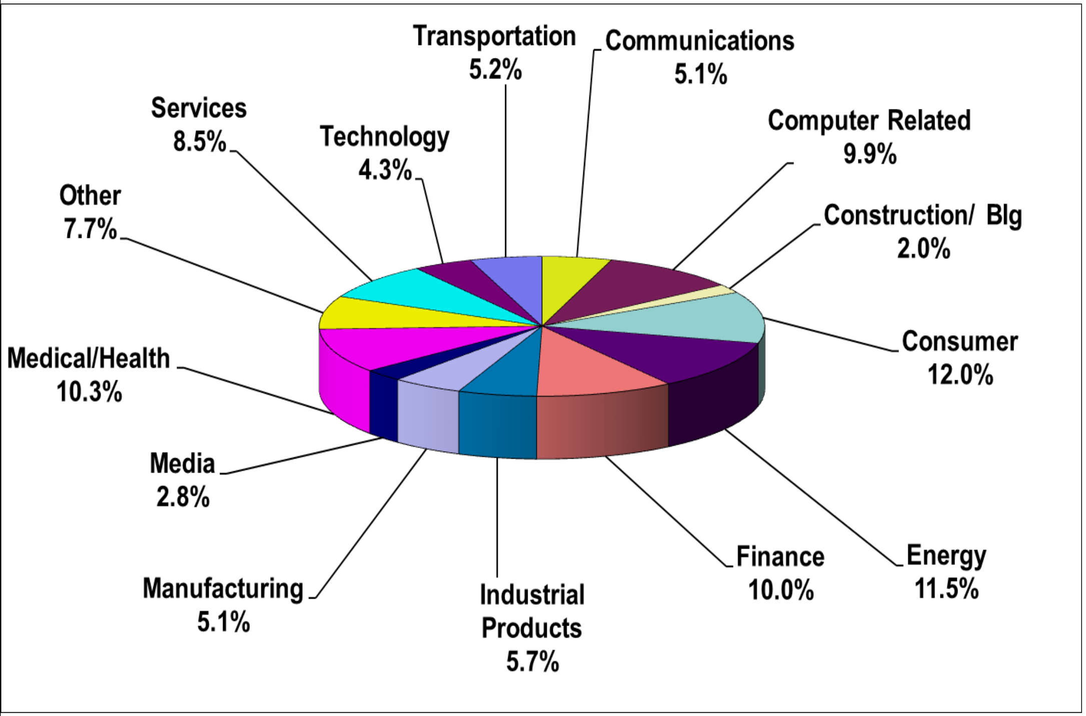
The portfolio is well diversified by strategy, with the most significant strategy weight consisting of Buyout at 54.9% of total exposure. When combined with Co-Investment and Special Situations, the overall exposure to Buyout strategies is 67%. Strategic allocations are expected to remain relatively stable going forward. That said, the Distressed allocation, though up slightly relative to last quarter, should continue to decline in the near-term given the ongoing liquidation of mature funds in this category.

Q2 2012 Industry – Market Value Exposure

Montana Private Equity Pool

Underlying Investment Industry Exposure, by Market Value

(since inception through June 30, 2012)



Industry	Investments, At Market Value	Percentage
Communications	$48,724,319	5.1%
Computer Related	$95,449,245	9.9%
Construction/Bldg	$19,557,489	2.0%
Consumer	$115,191,627	12.0%
Energy	$110,450,467	11.5%
Finance	$96,101,143	10.0%
Industrial Products	$54,862,958	5.7%
Manufacturing	$49,294,538	5.1%
Media	$27,153,890	2.8%
Medical/Health	$99,127,984	10.3%
Other	$74,032,743	7.7%
Services	$81,880,333	8.5%
Technology	$41,409,798	4.3%
Transportation	$50,432,910	5.2%
Total	**$963,669,445**	**100%**

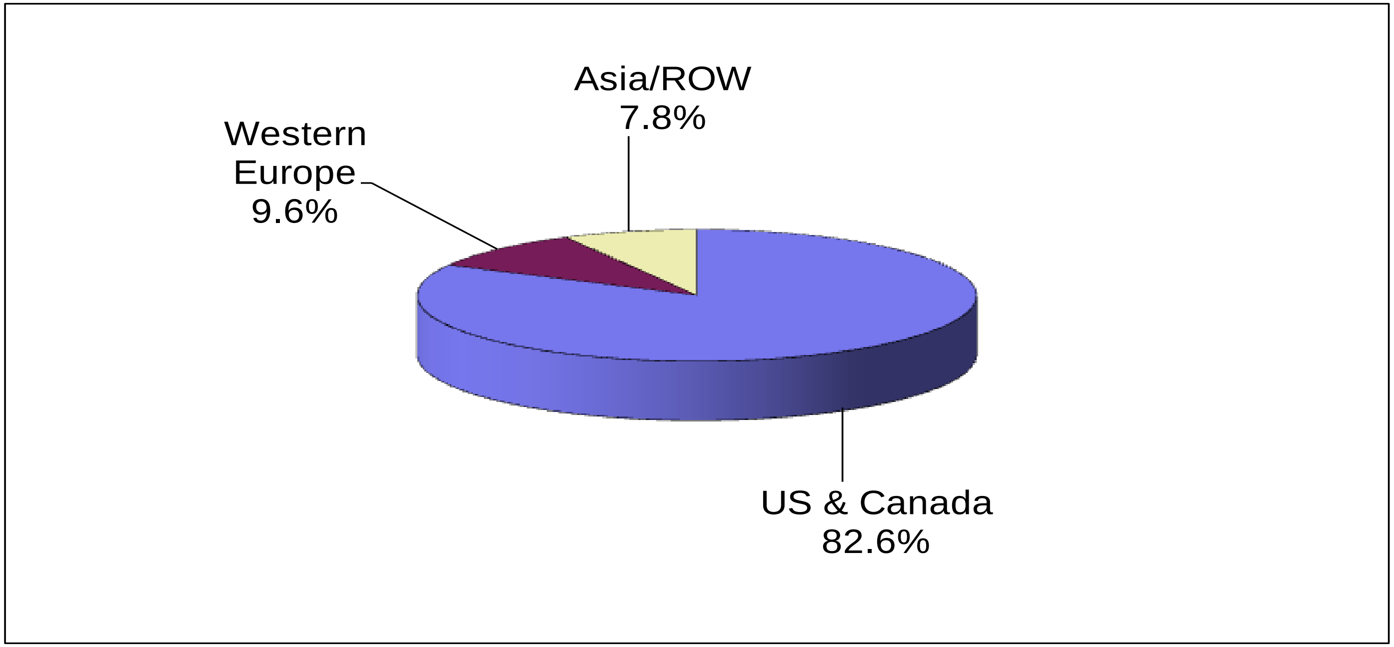
The portfolio is broadly diversified by industry with the consumer, energy, finance and medical/health sectors being the highest industry concentrations representing 43.8% of total assets. With the exception of energy and the technology-related industries, the portfolio's underlying managers tend to be multi-sector investors. Therefore, composition of the portfolio by industry is and will continue to primarily be a function of a manager's industry expertise and success in sourcing deals rather than a function of staff's desire to over or underweight a specific industry.

Q2 2012 Geography – Total Exposure

Montana Private Equity Pool

Investment Geography Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2012)



The portfolio's predominate geographic exposure is to developed North America, representing 82.6% of the market value and uncalled capital domiciled in or targeted for the US and Canada. No significant divergence from this is expected in the near-term. Targeted international investments will continue to be made largely through fund-of-funds given existing constraints on internal resources.

Geography	Remaining Commitments (1)	Percentage	Market Value (2)	Percentage	Total Exposure	Percentage
US & Canada	$ 506,131,844	88.0%	$ 765,265,727	79.4%	$ 1,271,397,571	82.6%
Western Europe	$ 24,315,782	4.2%	$ 123,855,863	12.9%	$ 148,171,645	9.6%
Asia/ROW	$ 44,849,711	7.8%	$ 74,547,855	7.7%	$ 119,397,566	7.8%
Total	$ 575,297,338	100.0%	$ 963,669,445	100.0%	$ 1,538,966,782	100.0%

(1) Remaining commitments are based upon the investment location of the partnerships.

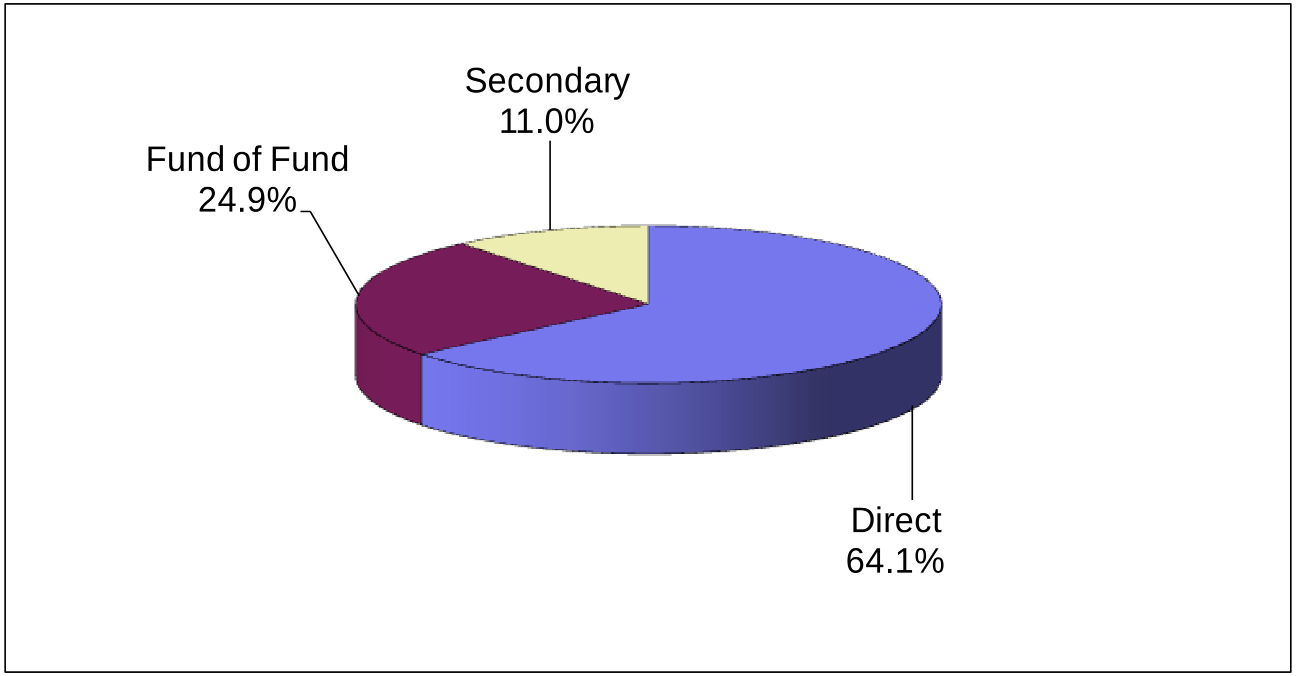
(2) Market Value represents the agrregate market values of the underlying investment companies of the partnerships and excludes cash.

Q2 2012 Investment Vehicle – Total Exposure

Montana Private Equity Pool

Investment Vehicle Exposure by Market Value & Remaining Commitments

(since inception through June 30, 2012)



The portfolio is invested primarily through direct private equity commitments. To the extent the quality of managers invested with directly is comparable to the quality of managers available through a fund-of-funds, a direct strategy should outperform fund-of-funds due to a reduced fee burden. In the medium-term, the portfolio is likely to continue to depend upon fund-of-funds managers for targeted international investments as well as for maintaining its core allocation to domestic venture capital. Longer term it is the intention of staff to leverage the fund-of-funds relationships to slowly, but not entirely move away from this model in order to access more of these specialized managers directly and to reduce overall costs. Non-venture domestic exposure will be accessed directly.

Investment Vehicle	Remaining Commitments	Percentage	Market Value	Percentage	Total Exposure	Percentage
Direct	$ 370,733,313	64.4%	$ 642,437,052	63.9%	$ 1,013,170,364	64.1%
Fund of Fund	$ 158,182,186	27.5%	$ 235,480,935	23.4%	$ 393,663,120	24.9%
Secondary	$ 46,381,839	8.1%	$ 128,161,765	12.7%	$ 174,543,604	11.0%
Total	$ 575,297,337	100.0%	$ 1,006,079,752	100.0%	$ 1,581,377,089	100.0%

Q2 2012 1 – 3 – 5 Year Periodic Return Comparison

Montana Board of Investments
Periodic Return Comparison

For the Period Ended June 30, 2012

Description	Current					1 Year Return	3 Year Return	5 Year Return
	Count	Ending Market Value	Inv Multiple	IRR[1]	Contribution to IRR	IRR	IRR	IRR
Total	**135**	**1,006,079,752**	**1.42**	**12.35**	**12.35**	**6.45**	**15.45**	**4.95**
Adams Street Funds	34	160,453,965	1.50	12.26	2.85	4.14	14.09	3.35
ASP - Direct VC Funds	4	25,012,083	1.61	15.87	0.70	19.71	21.86	5.72
ASP - Secondary Funds	7	13,887,764	1.66	42.46	0.40	3.02	11.79	5.29
ASP - U.S. Partnership Funds	14	107,072,918	1.44	9.69	1.53	2.09	12.84	2.77
ASP Non-US Partnership Fur	9	14,481,200	1.50	10.56	0.22	(6.34)	10.58	0.36
Buyout	34	346,883,688	1.54	12.05	5.31	8.32	17.52	5.49
Co-Investment	2	38,652,792	1.21	6.68	0.19	0.69	18.97	5.26
Distressed	10	99,751,222	1.42	24.77	1.62	8.74	19.44	10.40
Mezzanine	3	16,164,195	1.28	7.11	0.12	3.29	0.53	2.86
Non-US Private Equity	8	57,190,651	1.09	3.71	0.18	(0.01)	12.92	(6.59)
Secondary	7	114,274,001	1.37	13.57	1.04	12.12	16.73	7.53
Special Situations	7	74,544,018	1.22	6.73	0.43	(3.08)	10.35	6.28
Venture Capital	30	98,165,219	1.32	16.53	0.60	10.65	13.24	7.09

1.) Due to, among other things, the lack of a valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a fund's life, the internal rate of return information does not accurately reflect current or expected future returns, and the internal rates of return and all other disclosures with respect to the Partnerships have not been prepared, reviewed or approved by the Partnerships, the General Partners, or any other affiliates.

As of 6/30/12, the portfolio's since inception net investment multiple and net IRR results were down slightly relative to last quarter to 1.42x and 12.35%, respectively, from 1.43x and 12.60%. As of quarter end, all strategy categories performed in-line relative to last quarter's performance.

Q2 2012 LPs by Family of Funds

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2012

		Since Inception									
Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	IRR[1]	Investment Multiple	Total Exposure
Total		**2,197,363,174**	**1,533,716,608**	**113,535,045**	**575,297,337**	**74.96**	**1,335,231,136**	**1,006,079,752**	**12.35**	**1.42**	**1,581,377,089**
Active		**2,183,470,174**	**1,520,453,158**	**111,906,456**	**575,297,337**	**74.76**	**1,295,730,750**	**1,006,079,752**	**11.72**	**1.41**	**1,581,377,089**
Adams Street Partners		327,129,264	289,002,528	30,198,662	19,912,432	97.58	318,984,379	160,386,994	12.26	1.50	180,299,426
Adams Street Partners Fund - U.S.		94,000,000	79,172,903	6,286,742	8,540,355	90.91	47,393,302	66,883,452	7.10	1.34	75,423,807
Adams Street - 2002 U.S. Fund, L.P.	2002	34,000,000	29,699,777	2,492,368	1,807,855	94.68	23,420,054	23,071,537	8.48	1.44	24,879,392
Adams Street - 2003 U.S. Fund, L.P.	2003	20,000,000	16,960,000	1,320,000	1,720,000	91.40	10,274,264	14,553,917	7.38	1.36	16,273,917
Adams Street - 2004 U.S. Fund, L.P.	2004	15,000,000	12,527,814	972,186	1,500,000	90.00	6,697,721	10,737,797	6.25	1.29	12,237,797
Adams Street - 2005 U.S. Fund, L.P.	2005	25,000,000	19,985,312	1,502,188	3,512,500	85.95	7,001,263	18,520,201	4.56	1.19	22,032,701
Adams Street Partners Fund - Non-U.S.		16,000,000	13,584,028	1,049,972	1,366,000	91.46	9,606,316	10,807,765	8.85	1.39	12,173,765
Adams Street - 2002 Non-U.S. Fund, L.P.	2002	6,000,000	5,340,414	425,586	234,000	96.10	6,125,021	3,305,497	12.82	1.64	3,539,497
Adams Street - 2004 Non-U.S. Fund, L.P.	2004	5,000,000	4,163,114	327,386	509,500	89.81	2,251,140	3,545,313	6.54	1.29	4,054,813
Adams Street - 2005 Non-U.S. Fund, L.P.	2005	5,000,000	4,080,500	297,000	622,500	87.55	1,230,155	3,956,955	4.39	1.18	4,579,455
Brinson Partnership Trust - Non-U.S		9,809,483	9,598,173	1,114,927	286,300	109.21	14,376,377	3,764,269	13.07	1.69	4,050,569
Brinson Non-U.S. Trust-1999 Primary Fund	1999	1,524,853	1,503,681	173,312	96,162	109.98	2,449,707	321,061	10.94	1.65	417,223
Brinson Non-U.S. Trust-2000 Primary Fund	2000	1,815,207	1,815,207	206,313	0	111.37	2,998,720	519,222	12.39	1.74	519,222
Brinson Non-U.S. Trust-2001 Primary Fund	2001	1,341,612	1,341,612	152,486	0	111.37	2,031,734	321,029	11.38	1.57	321,029
Brinson Non-U.S. Trust-2002 Primary Fund	2002	1,696,452	1,696,452	192,815	0	111.37	1,771,401	1,163,303	9.39	1.55	1,163,303
Brinson Non-U.S. Trust-2002 Secondary	2002	637,308	601,542	72,435	35,766	105.75	1,424,583	90,834	26.29	2.25	126,600
Brinson Non-U.S. Trust-2003 Primary Fund	2003	1,896,438	1,783,977	215,545	112,461	105.44	2,998,478	787,102	20.59	1.89	899,563
Brinson Non-U.S. Trust-2004 Primary Fund	2004	897,613	855,702	102,021	41,911	106.70	701,754	561,718	7.40	1.32	603,629
Brinson Partnership Trust - U.S.		103,319,781	99,165,749	10,755,980	4,154,032	106.39	124,696,910	41,727,627	10.15	1.51	45,881,659
Brinson Partners - 1996 Fund	1996	3,950,740	3,829,528	460,991	121,212	108.60	6,945,449	210,602	14.81	1.67	331,814
Brinson Partners - 1997 Primary Fund	1997	3,554,935	3,554,935	417,170	0	111.73	14,267,325	254,780	71.46	3.66	254,780
Brinson Partners - 1998 Primary Fund	1998	7,161,019	7,122,251	840,141	38,768	111.19	10,241,853	741,651	6.47	1.38	780,419
Brinson Partners - 1998 Secondary Fund	1998	266,625	266,625	31,316	0	111.75	181,932	11,170	(7.37)	0.65	11,170
Brinson Partners - 1999 Primary Fund	1999	8,346,761	7,998,817	975,940	347,944	107.52	8,989,591	1,298,389	2.43	1.15	1,646,333
Brinson Partners - 2000 Primary Fund	2000	20,064,960	19,079,570	2,236,945	985,390	106.24	24,003,329	5,398,697	5.96	1.38	6,384,087
Brinson Partners - 2001 Primary Fund	2001	15,496,322	14,830,208	1,536,777	666,114	105.62	13,939,231	8,339,459	5.67	1.36	9,005,573
Brinson Partners - 2002 Primary Fund	2002	16,297,079	15,783,921	1,608,066	513,158	106.72	19,196,940	8,976,476	11.91	1.62	9,489,634
Brinson Partners - 2002 Secondary Fund	2002	2,608,820	2,498,592	251,831	110,228	105.43	3,621,150	1,031,391	12.88	1.69	1,141,619
Brinson Partners - 2003 Primary Fund	2003	15,589,100	14,784,432	1,508,267	804,668	104.51	15,069,456	7,844,831	8.91	1.41	8,649,499
Brinson Partners - 2003 Secondary Fund	2003	1,151,151	1,077,749	102,454	73,402	102.52	2,171,607	501,938	23.62	2.27	575,340
Brinson Partners - 2004 Primary Fund	2004	8,832,269	8,339,121	786,081	493,148	103.32	6,069,047	7,118,243	8.34	1.45	7,611,391

Q2 2012 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2012

		Since Inception									
Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	IRR[1]	Investment Multiple	Total Exposure
Remaining ASP Funds		104,000,000	87,481,675	10,991,040	5,565,745	94.69	122,911,474	37,270,852	21.21	1.63	42,836,597
Adams Street Global Oppty Secondary Fund	2004	25,000,000	19,275,395	1,199,605	4,525,000	81.90	17,692,177	12,185,460	11.82	1.46	16,710,460
Adams Street V, L.P.	2003	40,000,000	34,866,956	5,133,044	0	100.00	25,727,395	22,356,766	3.50	1.20	22,356,766
Adams Street VPAF Fund II	1990	4,000,000	3,621,830	378,170	0	100.00	7,879,041	6,338	25.25	1.97	6,338
Brinson Venture Capital Fund III, L.P.	1993	5,000,000	4,045,656	954,344	0	100.00	15,634,528	0	40.47	3.13	0
Brinson VPF III	1993	5,000,000	4,488,559	530,671	0	100.38	15,024,708	66,563	29.47	3.00	66,563
Brinson VPF III - Secondary Interest	1999	5,000,000	4,820,288	198,942	0	100.38	8,307,583	66,971	41.46	1.66	66,971
BVCF III - Secondary Interest	1999	5,000,000	3,602,735	356,520	1,040,745	79.19	9,646,385	0	97.02	2.44	1,040,745
BVCF IV, L.P.	1999	15,000,000	12,760,256	2,239,744	0	100.00	22,999,657	2,588,754	7.05	1.71	2,588,754
Affinity Asia Capital		15,000,000	9,024,945	1,678,442	4,298,280	71.36	3,598,841	11,693,233	13.98	1.43	15,991,513
Affinity Asia Pacific Fund III, L.P.	2006	15,000,000	9,024,945	1,678,442	4,298,280	71.36	3,598,841	11,693,233	13.98	1.43	15,991,513
American Securities LLC		35,000,000	5,700,341	277,068	29,022,591	17.08	3,126	5,670,914	(5.34)	0.95	34,693,505
American Securities Partners VI, L.P.	2011	35,000,000	5,700,341	277,068	29,022,591	17.08	3,126	5,670,914	(5.34)	0.95	34,693,505
Arclight Energy Partners		70,000,000	41,642,967	3,326,651	25,030,383	64.24	46,551,043	17,758,673	11.09	1.43	42,789,056
ArcLight Energy Partners Fund II, L.P.	2004	25,000,000	20,478,781	1,215,781	3,305,438	86.78	32,329,333	4,044,862	18.17	1.68	7,350,300
ArcLight Energy Partners Fund III, L.P.	2006	25,000,000	20,015,634	1,645,643	3,338,724	86.65	14,110,347	12,520,079	4.88	1.23	15,858,803
ArcLight Energy Partners Fund V, L.P.	2011	20,000,000	1,148,552	465,227	18,386,221	8.07	111,363	1,193,732	(19.30)	0.81	19,579,953
Avenue Investments		35,000,000	33,123,011	2,086,886	0	100.60	43,632,629	2,281,034	10.79	1.30	2,281,034
Avenue Special Situations Fund V, LP	2007	35,000,000	33,123,011	2,086,886	0	100.60	43,632,629	2,281,034	10.79	1.30	2,281,034
Axiom Asia Private Capital		50,000,000	8,626,437	860,616	40,551,431	18.97	496,847	9,336,038	2.74	1.04	49,887,469
Axiom Asia Private Capital II, LP	2009	25,000,000	8,626,437	860,616	15,551,431	37.95	496,847	9,336,038	2.74	1.04	24,887,469
Axiom Asia Private Capital III, LP	2012	25,000,000	0	0	25,000,000	0.00	0	0	N/A	0.00	25,000,000
Black Diamond Capital Management		25,000,000	8,615,868	424,017	15,960,115	36.16	218,921	9,165,510	7.56	1.04	25,125,625
BDCM Opportunity Fund III, L.P.	2011	25,000,000	8,615,868	424,017	15,960,115	36.16	218,921	9,165,510	7.56	1.04	25,125,625
Carlyle Partners		60,000,000	49,710,253	4,419,223	5,969,526	90.22	35,277,360	49,633,322	10.72	1.57	55,602,848
Carlyle Partners IV, L.P.	2005	35,000,000	31,663,532	1,529,334	1,906,136	94.84	27,499,717	30,131,980	12.05	1.74	32,038,116
Carlyle U.S. Growth Fund III, L.P.	2006	25,000,000	18,046,721	2,889,889	4,063,390	83.75	7,777,643	19,501,342	7.34	1.30	23,564,732
Cartesian Capital Group, LLC		20,000,000	1,089,409	117,260	18,793,331	6.03	0	1,005,774	(16.65)	0.83	19,799,105
Pangaea Two, L.P.	2012	20,000,000	1,089,409	117,260	18,793,331	6.03	0	1,005,774	(16.65)	0.83	19,799,105
CCMP Associates		30,000,000	20,853,190	2,229,286	6,917,524	76.94	7,044,094	24,813,435	11.34	1.38	31,730,959
CCMP Capital Investors II, L.P.	2006	30,000,000	20,853,190	2,229,286	6,917,524	76.94	7,044,094	24,813,435	11.34	1.38	31,730,959
Centerbridge		57,500,000	23,451,563	835,944	33,212,493	42.24	466,375	28,731,096	13.44	1.20	61,943,589
Centerbridge Capital Partners II, L.P.	2011	25,000,000	9,890,508	521,999	14,587,493	41.65	2,176	10,515,542	2.01	1.01	25,103,035
Centerbridge Special Credit Partners	2009	12,500,000	11,594,120	280,880	625,000	95.00	464,199	16,326,717	15.73	1.41	16,951,717
Centerbridge Special Credit Partners II	2012	20,000,000	1,966,935	33,065	18,000,000	10.00	0	1,888,837	(5.56)	0.94	19,888,837
CIVC Partners		25,000,000	6,683,780	1,206,640	17,204,251	31.56	246,875	8,648,223	13.79	1.13	25,852,474
CIVC Partners Fund IV, L.P.	2010	25,000,000	6,683,780	1,206,640	17,204,251	31.56	246,875	8,648,223	13.79	1.13	25,852,474
Energy Investors Funds		25,000,000	4,454,411	798,609	19,746,980	21.01	318,500	4,436,148	(9.82)	0.91	24,183,128
EIF US Power Fund IV, L.P.	2011	25,000,000	4,454,411	798,609	19,746,980	21.01	318,500	4,436,148	(9.82)	0.91	24,183,128
First Reserve		55,485,789	44,971,569	1,861,491	8,921,884	84.41	9,372,511	40,577,781	2.27	1.07	49,499,665
First Reserve Fund XI, L.P.	2006	30,000,000	26,965,935	952,315	2,350,905	93.06	7,795,867	22,939,510	2.93	1.10	25,290,415
First Reserve Fund XII, L.P.	2008	25,485,789	18,005,634	909,176	6,570,980	74.22	1,576,644	17,638,271	0.72	1.02	24,209,251

Q2 2012 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2012

		Since Inception									
Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	IRR[1]	Investment Multiple	Total Exposure
Gridiron Capital		15,000,000	5,462,260	300,000	9,297,362	38.42	23,141	5,344,195	(7.09)	0.93	14,641,557
Gridiron Capital Fund II, LP	2011	15,000,000	5,462,260	300,000	9,297,362	38.42	23,141	5,344,195	(7.09)	0.93	14,641,557
GTCR LLC		25,000,000	8,968,173	268,978	15,762,849	36.95	0	8,579,322	(10.22)	0.93	24,342,171
GTCR X, L.P.	2011	25,000,000	8,968,173	268,978	15,762,849	36.95	0	8,579,322	(10.22)	0.93	24,342,171
HarbourVest		61,823,772	38,488,374	1,264,969	22,083,954	64.30	8,970,149	38,272,177	9.20	1.19	60,356,131
Dover Street VII L.P.	2008	20,000,000	16,368,492	595,033	3,050,000	84.82	3,249,931	18,931,912	15.55	1.31	21,981,912
HarbourVest Direct 2007 Fund	2007	20,000,000	17,894,427	405,573	1,700,000	91.50	4,005,449	16,478,600	5.12	1.12	18,178,600
HarbourVest Intl Private Equity Fund VI	2008	21,823,772	4,225,455	264,363	17,333,954	20.57	1,714,769	2,861,665	1.91	1.02	20,195,619
Hellman & Friedman		40,000,000	25,382,193	1,547,811	13,069,996	67.33	8,350,834	22,924,625	5.14	1.16	35,994,621
Hellman & Friedman Capital Partners VI	2006	25,000,000	22,341,441	1,321,277	1,337,282	94.65	8,350,834	20,012,344	5.67	1.20	21,349,626
Hellman & Friedman Capital Partners VII	2011	15,000,000	3,040,752	226,534	11,732,714	21.78	0	2,912,281	(13.72)	0.89	14,644,995
Highway 12 Ventures		10,000,000	7,774,232	1,401,715	824,052	91.76	73,476	10,314,689	4.55	1.13	11,138,741
Highway 12 Venture Fund II, L.P.	2006	10,000,000	7,774,232	1,401,715	824,052	91.76	73,476	10,314,689	4.55	1.13	11,138,741
Industry Ventures		10,000,000	9,084,481	724,298	595,358	98.09	5,553,386	6,929,803	6.76	1.27	7,525,161
Industry Ventures Fund IV, L.P.	2005	10,000,000	9,084,481	724,298	595,358	98.09	5,553,386	6,929,803	6.76	1.27	7,525,161
JCF		25,000,000	23,810,129	923,413	311,567	98.93	1,581,357	5,566,202	(25.45)	0.29	5,877,769
J.C. Flowers II, L.P.	2006	25,000,000	23,810,129	923,413	311,567	98.93	1,581,357	5,566,202	(25.45)	0.29	5,877,769
Joseph Littlejohn & Levy		25,000,000	21,518,676	1,274,244	2,207,080	91.17	11,744,312	19,248,525	8.86	1.36	21,455,605
JLL Partners Fund V, L.P.	2005	25,000,000	21,518,676	1,274,244	2,207,080	91.17	11,744,312	19,248,525	8.86	1.36	21,455,605
KKR		175,000,000	175,000,000	9,444,645	0	105.40	352,902,567	4,230,818	12.37	1.94	4,230,818
KKR 1987 Fund	1987	25,000,000	25,000,000	2,101,164	0	108.40	56,620,964	0	8.92	2.09	0
KKR 1993 Fund	1993	25,000,000	25,000,000	1,002,236	0	104.01	48,971,319	0	17.79	1.88	0
KKR 1996 Fund	1997	100,000,000	100,000,000	4,582,023	0	104.58	188,549,072	1,153,089	13.51	1.81	1,153,089
KKR European Fund, L. P.	1999	25,000,000	25,000,000	1,759,222	0	107.04	58,761,212	3,077,729	19.87	2.31	3,077,729
Lexington Capital Partners		155,000,000	116,094,105	6,226,005	32,754,436	78.92	93,294,685	76,032,901	13.79	1.38	108,787,337
Lexington Capital Partners V, L.P.	2001	50,000,000	47,151,941	2,604,677	243,382	99.51	68,509,568	13,361,016	18.88	1.65	13,604,398
Lexington Capital Partners VI-B, L.P.	2005	50,000,000	45,251,946	2,300,842	2,447,212	95.11	20,511,376	35,420,824	5.11	1.18	37,868,036
Lexington Capital Partners VII, L.P.	2009	45,000,000	18,756,612	1,087,857	25,230,077	44.10	3,162,079	22,039,569	23.07	1.27	47,269,646
Lexington Middle Market Investors II, LP	2008	10,000,000	4,933,605	232,629	4,833,766	51.66	1,111,662	5,211,492	15.11	1.22	10,045,258
Madison Dearborn Capital Partners		75,000,000	53,959,874	2,747,502	18,330,837	75.61	43,042,270	38,233,659	9.84	1.43	56,564,496
Madison Dearborn Capital Partners IV, LP	2001	25,000,000	23,693,166	594,527	750,520	97.15	31,002,393	11,616,222	13.79	1.75	12,366,742
Madison Dearborn Capital Partners V, LP.	2006	25,000,000	22,044,531	970,405	1,985,064	92.06	6,445,260	20,405,571	3.58	1.17	22,390,635
Madison Dearborn Capital Partners VI, LP	2008	25,000,000	8,222,177	1,182,570	15,595,253	37.62	5,594,617	6,211,866	11.02	1.26	21,807,119
Matlin Patterson		30,000,000	23,420,253	2,132,406	4,447,341	85.18	11,571,993	17,523,017	4.16	1.14	21,970,358
MatlinPatterson Global Opps. Ptnrs. III	2007	30,000,000	23,420,253	2,132,406	4,447,341	85.18	11,571,993	17,523,017	4.16	1.14	21,970,358
MHR Institutional Partners		25,000,000	15,352,896	2,093,619	7,553,485	69.79	1,486,454	19,868,262	4.91	1.22	27,421,747
MHR Institutional Partners III, L.P.	2006	25,000,000	15,352,896	2,093,619	7,553,485	69.79	1,486,454	19,868,262	4.91	1.22	27,421,747
Montlake Capital		15,000,000	10,346,389	1,953,611	2,700,000	82.00	3,927,432	9,518,442	3.23	1.09	12,218,442
Montlake Capital II, L.P.	2007	15,000,000	10,346,389	1,953,611	2,700,000	82.00	3,927,432	9,518,442	3.23	1.09	12,218,442
Neuberger Berman Group, LLC		35,000,000	29,878,938	1,680,443	3,835,110	90.17	17,663,251	22,174,192	7.23	1.26	26,009,302
NB Co-Investment Partners, L.P.	2006	35,000,000	29,878,938	1,680,443	3,835,110	90.17	17,663,251	22,174,192	7.23	1.26	26,009,302
Northgate Capital Partners		45,000,000	8,040,000	60,000	36,900,000	18.00	0	7,823,196	(3.76)	0.97	44,723,196
Northgate V, L.P.	2010	30,000,000	8,040,000	60,000	21,900,000	27.00	0	7,823,196	(3.76)	0.97	29,723,196
Northgate Venture Partners VI, L.P.	2012	15,000,000	0	0	15,000,000	0.00	0	0	N/A	0.00	15,000,000
Oak Hill Capital Partners		45,000,000	35,897,325	3,494,097	5,689,932	87.54	17,944,838	37,049,640	8.84	1.40	42,739,572
Oak Hill Capital Partners II, L.P.	2005	25,000,000	22,460,874	1,993,897	545,229	97.82	17,900,722	20,971,738	10.42	1.59	21,516,967
Oak Hill Capital Partners III, L.P.	2008	20,000,000	13,436,451	1,500,200	5,144,703	74.68	44,115	16,077,902	2.91	1.08	21,222,605

Q2 2012 LPs by Family of Funds - Continued

Montana Board of Investments
LP's by Family of Funds
All Investments
As of June 30, 2012

					Since Inception						
Description	Vintage Year	Commitment	Capital Contributed for Investment	Management Fees	Remaining Commitment	% Capital Contributed/ Committed	Capital Distributed	Ending Market Value	IRR[1]	Investment Multiple	Total Exposure
Oaktree Capital Partners		120,000,000	112,146,435	4,359,220	3,500,000	97.09	151,253,746	32,697,845	42.07	1.58	36,197,845
Oaktree Opportunities Fund VIII, L.P.	2009	10,000,000	9,622,168	377,832	0	100.00	89,318	11,223,606	8.14	1.13	11,223,606
OCM Opportunities Fund IVb, L.P.	2002	75,000,000	73,086,225	1,913,775	0	100.00	121,554,428	7,009	44.89	1.62	7,009
OCM Opportunities Fund VIIb, L.P.	2008	35,000,000	29,438,042	2,067,613	3,500,000	90.02	29,610,000	21,467,230	17.58	1.62	24,967,230
Odyssey Partners Fund III		45,000,000	29,621,293	2,913,407	12,465,320	72.30	33,706,154	28,090,253	26.04	1.90	40,555,573
Odyssey Investment Partners III, L.P.	2004	25,000,000	21,827,459	1,680,532	1,492,009	94.03	33,680,728	15,938,053	27.15	2.11	17,430,062
Odyssey Investment Partners IV, L.P.	2008	20,000,000	7,793,834	1,232,875	10,973,311	45.13	25,426	12,152,200	16.18	1.35	23,125,511
Opus Capital Venture Partners		10,000,000	1,736,222	312,500	7,951,278	20.49	0	1,667,718	(37.91)	0.81	9,618,997
Opus Capital Venture Partners VI, LP	2011	10,000,000	1,736,222	312,500	7,951,278	20.49	0	1,667,718	(37.91)	0.81	9,618,997
Performance Venture Capital		25,000,000	10,532,253	1,063,596	13,404,151	46.38	187,147	12,175,289	4.36	1.07	25,579,440
Performance Venture Capital II	2008	25,000,000	10,532,253	1,063,596	13,404,151	46.38	187,147	12,175,289	4.36	1.07	25,579,440
Portfolio Advisors		70,000,000	50,180,255	2,498,415	17,568,181	75.26	4,547,089	61,211,780	7.55	1.25	78,779,961
Port. Advisors Fund IV (B), L.P.	2006	30,000,000	21,941,395	1,182,813	6,875,792	77.08	1,754,911	29,330,787	7.73	1.34	36,206,579
Port. Advisors Fund IV (E), L.P.	2006	15,000,000	11,060,639	732,950	3,206,411	78.62	4,731	11,667,852	(0.34)	0.99	14,874,263
Port. Advisors Fund V (B), L.P.	2008	10,000,000	6,499,548	328,125	3,289,074	68.28	607,454	7,833,756	9.54	1.24	11,122,830
Portfolio Advisors Secondary Fund, L.P.	2008	15,000,000	10,678,673	254,527	4,196,904	72.89	2,179,993	12,379,385	23.35	1.33	16,576,289
Quintana Energy Partners		15,000,000	11,966,451	1,532,878	1,521,042	90.00	4,207,832	11,771,416	4.15	1.18	13,292,458
Quintana Energy Partners Fund I, L.P.	2006	15,000,000	11,966,451	1,532,878	1,521,042	90.00	4,207,832	11,771,416	4.15	1.18	13,292,458
Siguler Guff & Company		50,000,000	26,528,634	1,109,572	22,494,081	55.28	2,775,005	32,898,234	11.29	1.29	55,392,315
Siguler Guff Small Buyout Opportunities	2007	25,000,000	19,354,831	1,033,375	4,744,081	81.55	2,775,005	24,862,430	10.86	1.36	29,606,511
Siguler Guff Small Buyout Opps Fund II	2011	25,000,000	7,173,803	76,197	17,750,000	29.00	0	8,035,804	14.93	1.11	25,785,804
Summit Ventures		20,000,000	900,000	0	19,100,000	4.50	0	881,458	(2.06)	0.98	19,981,458
Summit Partners Growth Equity Fund VIII	2011	20,000,000	900,000	0	19,100,000	4.50	0	881,458	(2.06)	0.98	19,981,458
TA Associates, Inc.		10,000,000	3,798,626	226,374	5,975,000	40.25	250,000	3,934,833	3.79	1.04	9,909,833
TA XI, L.P.	2010	10,000,000	3,798,626	226,374	5,975,000	40.25	250,000	3,934,833	3.79	1.04	9,909,833
Tenaya Capital		20,000,000	0	0	20,000,000	0.00	0	0	N/A	0.00	20,000,000
Tenaya Capital VI, L.P.	2012	20,000,000	0	0	20,000,000	0.00	0	0	N/A	0.00	20,000,000
Terra Firma Capital Partners		25,432,997	20,970,118	2,668,381	1,811,550	92.94	-1,345,585	12,987,933	(21.40)	0.49	14,799,482
Terra Firma Capital Partners III, L.P.	2007	25,432,997	20,970,118	2,668,381	1,811,550	92.94	-1,345,585	12,987,933	(21.40)	0.49	14,799,482
Thayer Hidden Creek Management, L.P.		20,000,000	8,010,834	1,312,171	11,003,693	46.62	394,713	14,694,827	38.86	1.62	25,698,520
HCI Equity Partners III, LP	2008	20,000,000	8,010,834	1,312,171	11,003,693	46.62	394,713	14,694,827	38.86	1.62	25,698,520
Trilantic Capital Partners		11,098,351	9,051,081	981,966	1,067,931	90.40	3,505,849	10,470,359	16.39	1.39	11,538,290
Trilantic Capital Partners IV L.P.	2007	11,098,351	9,051,081	981,966	1,067,931	90.40	3,505,849	10,470,359	16.39	1.39	11,538,290
Veritas Capital		25,000,000	13,291,876	177,595	11,530,529	53.88	0	13,577,880	0.81	1.01	25,108,409
The Veritas Capital Fund IV, L.P.	2010	25,000,000	13,291,876	177,595	11,530,529	53.88	0	13,577,880	0.81	1.01	25,108,409
Welsh, Carson, Anderson & Stowe		75,000,000	66,290,510	4,891,829	4,000,000	94.91	51,907,153	45,181,116	7.87	1.36	49,181,116
Welsh, Carson, Anderson & Stowe IV, LP	2004	25,000,000	21,091,743	1,408,257	2,500,000	90.00	11,459,540	16,164,195	5.19	1.23	18,664,195
Welsh, Carson, Anderson & Stowe IX, L.P.	2000	25,000,000	22,454,505	2,045,495	500,000	98.00	33,311,002	7,755,190	12.28	1.68	8,255,190
Welsh, Carson, Anderson & Stowe X, L.P.	2005	25,000,000	22,744,262	1,438,077	1,000,000	96.73	7,136,611	21,261,731	3.59	1.17	22,261,731

1.) Due to, among other things, the lack of valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a funds life, the internal rate of return information does not accurately reflect current or expected future returns, and the internal rates of return and all other disclosures with respect to the Partnerships have not been prepared, reviewed or approved by the Partnerships, the General Partners, or any other affiliates.

First Reserve Funds XI and XII continue their rebound. Matlin Patterson Global Opps III also continues its upward performance trajectory from earlier fears of capital impairment. Odyssey Investment Partners IV experienced a nice uptick reporting an IRR of 16.2% and an MOIC of 1.35x relative to last quarter's IRR of 9.7% and MOIC of 1.17x. While still early and experiencing the full effects of the j-curve, Pangaea Two and Summit Partners Growth Equity Fund VIII are now on the board with their first full quarter's performance numbers.

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: Ethan Hurley, Portfolio Manager – Alternative Investments

Date: November 13, 2012

Subject: Montana Real Estate Pool (MTRP)

Following this memo are the following reports:

(i) **Montana Real Estate Pool Review:**
Comprehensive overview of the real estate portfolio for the quarter ended June 30th.

(ii) **New Commitments:**
The table below summarizes the investment decisions made by Staff since the last Board Meeting. A commitment of $20M was made to The Realty Associates Fund X, LP and a $20M commitment was made to CBRE Strategic Partners US Value 6, LP. The investment briefs summarizing each fund and the general partners follow.

Fund Name	Vintage	Subclass	Property Type	Amount	Date
The Realty Associates Fund X, LP	2012	Value – Add	Diverse	$20M	8/15/12
CBRE Strategic Partners US Value 6, LP	2011	Value – Add	Diverse	$20M	10/31/12

Montana Board of Investments

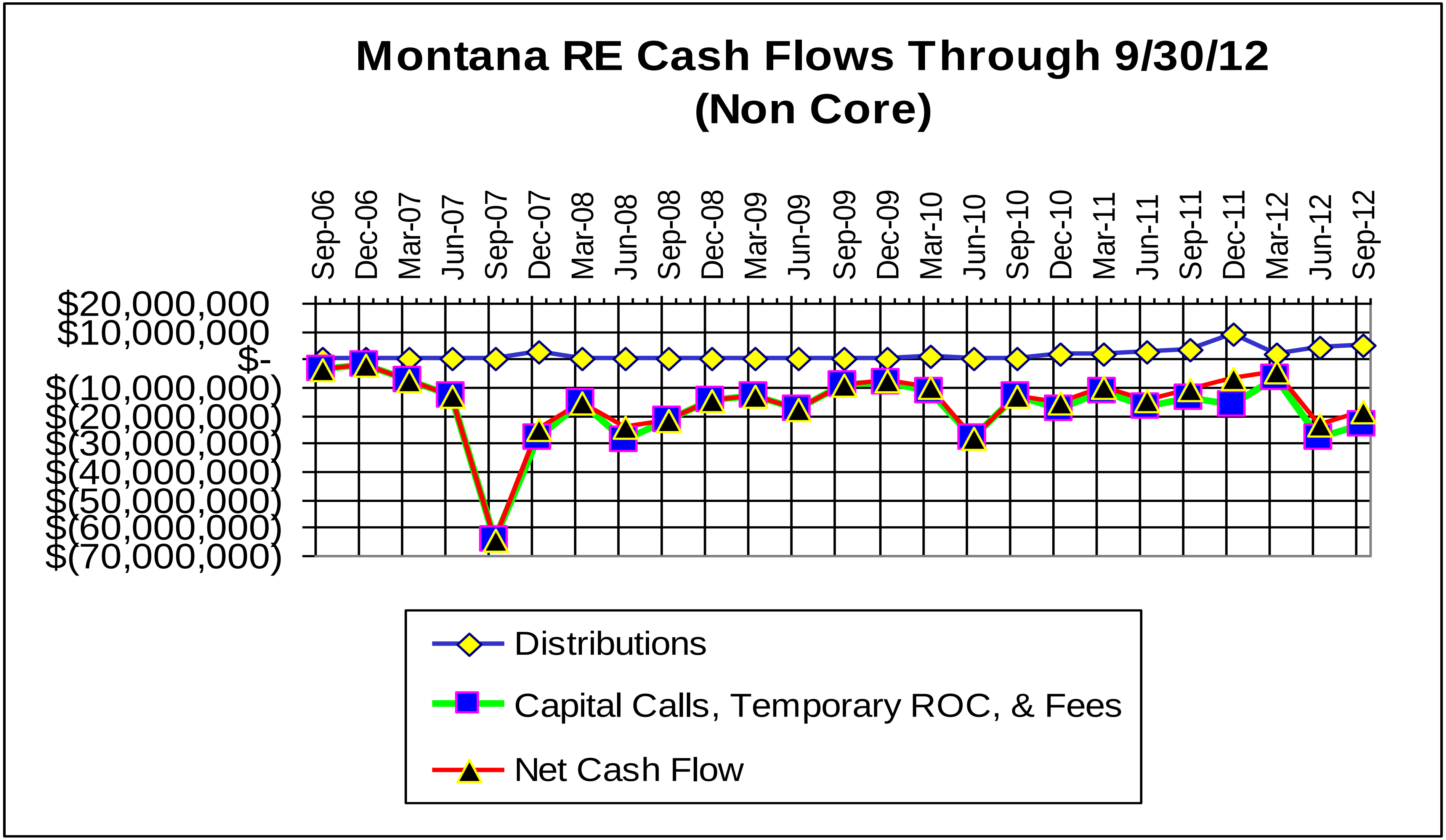
Real Estate Board Report

Q2 2012

Due to, among other things, the lack of a valuation standard in the private equity industry, differences in the pace of investment across funds and the understatement of returns in the early years of a fund's life, the internal rate of return information may not accurately reflect current or expected future returns, and the internal rates of return and all other disclosures with respect to the Partnerships have not been prepared, reviewed or approved by the Partnerships, the General Partners, or any other affiliates.

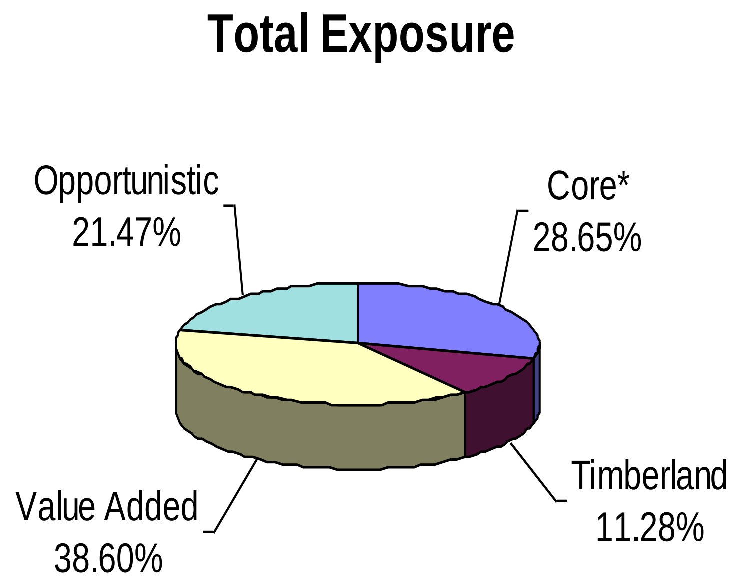
Contents

Quarterly Cash Flows through September 30, 2012



Capital calls decelerated slightly relative to the 2nd quarter. The pace of distributions flattened out relative to the 2nd quarter and continues to be minimal given market conditions.

Q2 2012 Strategy – Total Exposure

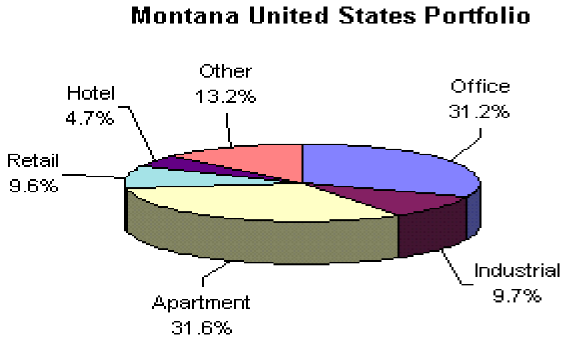


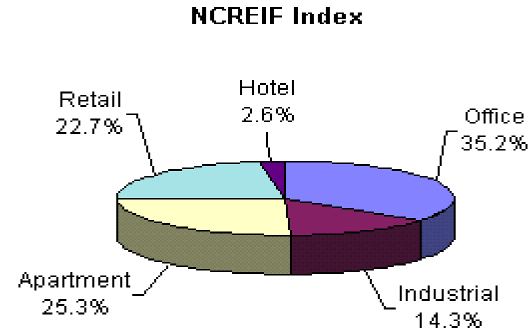
Strategy	Remaining Commitments	Percentage	Net Asset Value	Percentage	Total Exposure	Percentage
Core*	$0	0.00%	$257,554,514	40.99%	$257,554,514	28.65%
Timberland	$54,028,089	19.97%	$47,354,121	7.54%	$101,382,210	11.28%
Value Added	$154,593,829	57.14%	$192,337,904	30.61%	$346,931,733	38.60%
Opportunistic	$61,947,367	22.90%	$131,081,369	20.86%	$193,028,736	21.47%
Total	$270,569,285	100.00%	$628,327,908	100.00%	$898,897,193	100.00%

* Includes MT Office Portfolio

Timberland is the most recent addition to the real estate portfolio and represents approximately 7.5% of to the total portfolio's NAV and approximately 11% of the aggregate exposure which includes unfunded commitments. Core real estate dominates assets in ground at 41% and now includes the directly owned Montana office buildings. Value Added and Opportunistic account for approximately 31% and 21% respectively.

Q2 2012 Property Type – Market Value Exposure



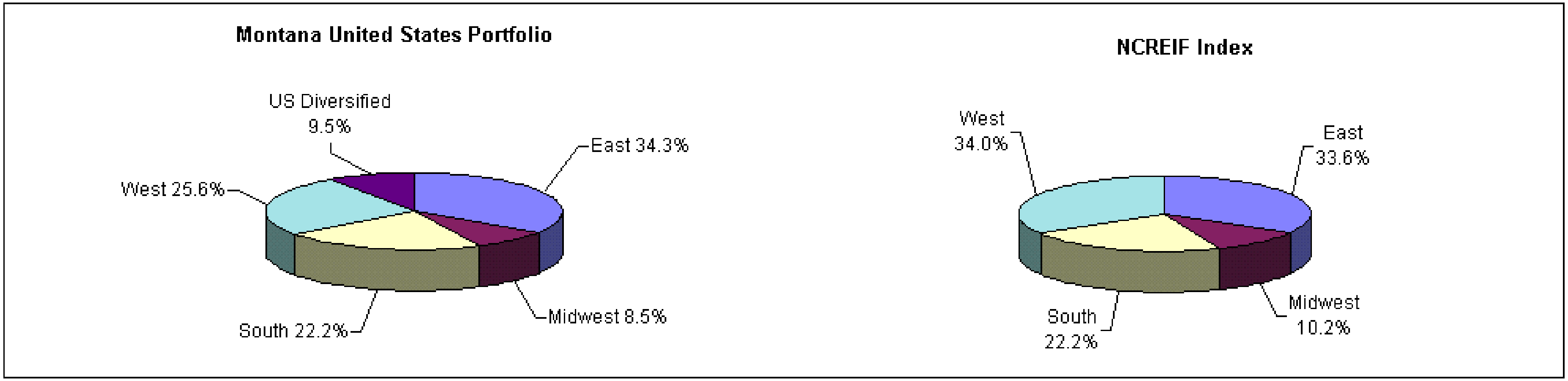


	Office	Industrial	Apartment	Retail	Hotel	Other[2]	Total
Montana US Value[3]	$292.0	$91.0	$295.8	$89.8	$43.8	$123.5	$935.9
Montana US Total	31.2%	9.7%	31.6%	9.6%	4.7%	13.2%	100.0%
NCREIF Value[3,4]	109,216	44,347	78,595	70,460	8,122		$310,739
NCREIF[1]	35.2%	14.3%	25.3%	22.7%	2.6%		100.0%
Difference	-3.9%	-4.5%	6.3%	-13.1%	2.1%	13.2%	
Montana Non-US Value[3]	$38.9	$0.0	$7.9	$14.1	$13.6	$92.7	$167.1
Montana Non-US Total	23.3%	0.0%	4.7%	8.4%	8.1%	55.4%	100.0%
Montana Total Value[3]	$330.9	$91.0	$303.7	$103.9	$57.3	$216.1	$1,103.0
Montana Total[1]	30.0%	8.3%	27.5%	9.4%	5.2%	19.6%	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) Total Other includes $19,724,225 in mixed-use assets, $4,954,080 in healthcare/senior living, $9,026,162 in land, $562,119 in storage, $2,520,386 in debt assets, $176,452 in parking, $429,797 in manufactured assets, $46,545,146 in timber and $39,554,263 in Other Assets.
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.

The real estate portfolio is well diversified across the major property types and is underweight relative to NCREIF in Office, Retail and Industrial and overweight in Apartments and Hotels. At 13.2%, Other represents the portfolio's exposure to Timberland, Mixed-Use properties, Land, Manufactured Housing, Storage, Parking, Senior Living and Healthcare related properties. As has been noted in the past, composition of the portfolio by property type is and will continue to be primarily a function of a managers' expertise and success in sourcing deals rather than a function of staff's desire to over or underweight a specific property type.

Q2 2012 Geography – Total Exposure



	East	Midwest	South	West	US Diverse	Non-US	Total
Montana US Value[2]	$320.7	$79.3	$207.6	$239.1	$89.2		$935.9
Montana US Total[1]	34.3%	8.5%	22.2%	25.6%	9.5%		100.0%
NCREIF Value[2,3]	104,451	31,803	68,922	105,562			310,739
NCREIF[1]	33.6%	10.2%	22.2%	34.0%			100.0%
Difference	0.7%	-1.8%	0.0%	-8.4%	9.5%		
Montana Total Value[2]	$320.7	$79.3	$207.6	$239.1	$89.2	$167.1	$1,103.0
Montana Total[1]	29.1%	7.2%	18.8%	21.7%	8.1%	15.2%	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) 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.

The geographical mix of the real estate portfolio is fairly aligned with NCREIF, although exposure in the West at 25.6% is 8.4% less than the index. 9.5% of the portfolio is broadly diversified across the remainder of the US and the portfolio's international exposure represents 15.2% of the mix.

Q2 2012 Time Weighted & Internal Rates of Return

Time Weighted Returns

	Current Quarter			Year to Date		1 - Year		3 - Year		Inception	
	NAV	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross
Clarion Lion Properties Fund	34,627,384	2.58%	2.83%	5.53%	6.03%	12.83%	13.90%	7.06%	8.17%	-1.79%	-0.75%
INVESCO Core Real Estate-USA	36,799,288	1.46%	1.69%	3.02%	3.48%	7.98%	8.95%	7.05%	8.01%	-2.34%	-1.44%
JP Morgan Strategic Properties Fund	106,536,679	1.98%	2.23%	4.75%	5.28%	11.15%	12.27%	7.04%	8.12%	-0.39%	0.62%
UBS-Trumbull Property Fund	61,213,821	2.03%	2.30%	4.82%	5.37%	9.98%	11.13%	-	-	13.87%	14.90%
Core Total	**239,177,173**	**2.00%**	**2.25%**	**4.61%**	**5.13%**	**10.57%**	**11.66%**	**6.53%**	**7.57%**	**-0.06%**	**0.94%**
Montana Office Portfolio	**18,377,341**	**4.90%**	**4.90%**	**4.90%**	**4.90%**	**6.96%**	**6.96%**	-	-	**6.96%**	**6.96%**
Timberland Total	**47,354,121**	**-1.99%**	**-1.75%**	**-1.36%**	**-0.90%**	**1.51%**	**2.42%**	-	-	**3.20%**	**3.93%**
Value Added Total	**192,337,904**	**2.88%**	**3.46%**	**4.33%**	**5.49%**	**11.63%**	**13.80%**	**1.80%**	**4.02%**	**0.60%**	**3.90%**
Opportunistic Total	**131,081,369**	**0.25%**	**0.85%**	**6.37%**	**7.38%**	**5.59%**	**7.56%**	**11.38%**	**15.16%**	**-17.49%**	**-13.79%**
Total Portfolio	**628,327,908**	**1.76%**	**2.18%**	**4.55%**	**5.35%**	**9.18%**	**10.74%**	**5.49%**	**7.44%**	**-1.69%**	**0.60%**
Benchmark (gross)											
NCREIF	**310,738,861,774**		**2.68%**		**5.34%**		**12.04%**		**8.82%**		**9.08%**
NFI-ODCE	**83,830,300,000**		**2.58%**		**5.41%**		**12.42%**		**8.39%**		**8.29%**
Internal Rates of Return (Net of Fees)											
Montana Office Portfolio	**18,377,341**	**4.89%**		**4.89%**		**6.93%**		-		**6.12%**	
Molpus Woodlands Fund III, LP	40,901,794	-0.43%		-0.80%		-2.72%		-		-2.73%	
RMS Forest Growth III LP	6,452,327	-5.65%		-1.99%		3.72%		-		4.89%	
Timberland	**47,354,121**	**-1.99%**		**-1.27%**		**0.40%**		-		**1.49%**	
ABR Chesapeake Fund III	18,089,397	0.80%		1.34%		11.02%		1.47%		1.72%	
ABR Chesapeake Fund IV	5,556,450	3.69%		5.02%		25.26%		-		15.17%	
AG Core Plus Realty Fund II	12,687,882	1.68%		3.27%		14.75%		12.11%		6.35%	
AG Core Plus Realty Fund III	8,802,728	1.99%		2.18%		3.44%		-		0.87%	
Apollo Real Estate Finance Corp.	7,213,860	10.11%		9.11%		2.41%		-3.45%		-3.34%	
AREFIN Co-Invest	5,291,257	28.45%		28.10%		27.40%		5.26%		6.48%	
DRA Growth & Income Fund VI	21,132,526	0.64%		1.92%		26.67%		11.97%		6.04%	
DRA Growth & Income Fund VII	8,816,950	5.63%		9.52%		-		-		11.26%	
Five Arrows Securities V, L.P.	22,801,074	1.86%		3.54%		13.11%		9.34%		7.87%	
Hudson RE Fund IV Co-Invest	9,772,915	0.34%		0.78%		1.83%		-0.43%		0.50%	
Hudson Realty Capital Fund IV	10,470,123	-0.18%		-0.16%		-0.32%		-2.08%		-6.99%	
Landmark Real Estate Partners VI	10,124,895	1.41%		8.18%		16.76%		-		51.92%	
Realty Associates Fund IX	20,820,331	2.54%		4.66%		10.38%		-		10.77%	
Realty Associates Fund VIII	13,498,844	-0.42%		-1.56%		0.77%		-6.72%		-7.34%	
Strategic Partners Value Enhancement Fund	17,258,671	6.93%		10.14%		11.73%		-4.17%		-1.62%	
Value Added	**192,337,904**	**2.88%**		**4.35%**		**11.58%**		**3.57%**		**1.48%**	
AG Realty Fund VII L.P.	14,013,368	3.32%		4.23%		10.40%		11.42%		8.56%	
AG Realty Fund VIII L.P.	4,834,746	2.84%		1.36%		2.96%		-		-1.15%	
Beacon Capital Strategic Partners V	10,512,436	3.10%		5.85%		1.63%		4.43%		-15.03%	
Carlyle Europe Real Estate Partners III	19,869,656	-4.10%		-0.92%		-1.19%		5.26%		-4.49%	
CIM Fund III, L.P.	25,279,531	-0.37%		19.25%		18.46%		17.67%		8.00%	
GEM Realty Fund IV	6,839,330	2.59%		13.34%		14.22%		-		12.57%	
JER Real Estate Partners - Fund IV	3,573,687	1.95%		5.02%		3.74%		25.33%		-6.36%	
Liquid Realty IV	12,156,430	0.77%		9.26%		6.79%		9.30%		-3.94%	
MGP Asia Fund III, LP	19,063,710	0.13%		-0.17%		-2.39%		37.87%		0.77%	
MSREF VI International	6,484,633	1.01%		4.41%		4.10%		13.33%		-31.99%	
O'Connor North American Property Partners II	8,453,842	-0.89%		4.23%		4.58%		-0.97%		-17.26%	
Opportunistic	**131,081,369**	**0.25%**		**6.28%**		**5.70%**		**13.17%**		**-7.38%**	
Total	**389,150,735**	**1.60%**		**4.51%**		**8.18%**		**6.72%**		**-2.23%**	

The total real estate portfolio turned in another positive quarter as general real estate market conditions continue to stabilize and show some signs of improvement. Core performance moderated slightly relative to the prior quarter, though it continues its positive momentum. Value Added outperformed relative to Q1 and continues its upward trajectory outperforming relative to the prior period’s YTD, 3yr and ITD periods. Opportunistic moderated significantly relative to Q1, but continues its upward trajectory outperforming the prior period’s YTD, 3yr and ITD periods.

Q2 2012 Commitment Summary

Real Estate Portfolio Status Report

All Investments

(as of June 30, 2012)

	Since Inception										
	Vintage Year	Commitment	Capital Contributed [1]	Contributed %	Remaining Commitment	Capital Distributed	Net Asset Value	NAV %	Total Exposure	Total Exposure%	Investment Multiple
Core		**238,236,254**	**238,236,254**	**100%**	-	**20,506,525**	**239,177,173**	**38.07%**	**239,177,173**	**26.61%**	**1.06**
Clarion Lion Properties Fund	2006	48,236,254	48,236,254	100%	-	9,059,525	34,627,384	5.51%	34,627,384	3.85%	0.88
INVESCO Core Real Estate-USA	2007	45,000,000	45,000,000	100%	-	5,256,698	36,799,288	5.86%	36,799,288	4.09%	0.91
JP Morgan Strategic Property Fund	2007	95,000,000	95,000,000	100%	-	1,759,599	106,536,679	16.96%	106,536,679	11.85%	1.11
UBS-Trumbull Property Fund	2010	50,000,000	50,000,000	100%	-	4,430,703	61,213,821	9.74%	61,213,821	6.81%	1.28
Montana Office Portfolio	**2011**	**17,674,045**	**17,674,045**	**100%**	-	**621,854**	**18,377,341**	**2.92%**	**18,377,341**	**2.04%**	**1.07**
Timberland		**105,000,000**	**50,971,911**	**49%**	**54,028,089**	**4,160,292**	**47,354,121**	**7.54%**	**101,382,210**	**11.28%**	**1.01**
Molpus Woodlands Fund III, LP	2011	50,000,000	41,350,000	83%	8,650,000	-	40,901,794	6.51%	49,551,794	5.51%	0.99
ORM Timber Fund III, LLC [2]	2012	30,000,000	-	-	30,000,000	-	-	-	30,000,000	3.34%	-
RMS Forest Growth III LP	2011	25,000,000	9,621,911	38%	15,378,089	4,160,292	6,452,327	1.03%	21,830,416	2.43%	1.10
Value Added		**369,200,000**	**214,606,171**	**58%**	**154,593,829**	**34,211,285**	**192,337,904**	**30.61%**	**346,931,733**	**38.60%**	**1.04**
ABR Chesapeake Fund III	2006	20,000,000	20,000,000	100%	-	3,394,524	18,089,397	2.88%	18,089,397	2.01%	1.07
ABR Chesapeake Fund IV	2010	30,000,000	5,100,000	17%	24,900,000	181,050	5,556,450	0.88%	30,456,450	3.39%	1.13
AG Core Plus Realty Fund II	2007	20,000,000	16,742,334	84%	3,257,666	7,270,011	12,687,882	2.02%	15,945,548	1.77%	1.19
AG Core Plus Realty Fund III	2011	35,000,000	8,750,000	25%	26,250,000	-	8,802,728	1.40%	35,052,728	3.90%	1.01
Apollo Real Estate Finance Corp.	2007	10,000,000	10,000,000	100%	-	1,759,996	7,213,860	1.15%	7,213,860	0.80%	0.90
AREFIN Co-Invest	2008	10,000,000	10,000,000	100%	-	6,002,641	5,291,257	0.84%	5,291,257	0.59%	1.13
DRA Growth & Income Fund VI	2007	35,000,000	20,860,000	60%	14,140,000	5,997,587	21,132,526	3.36%	35,272,526	3.92%	1.19
DRA Growth & Income Fund VII	2011	30,000,000	8,631,000	29%	21,369,000	248,792	8,816,950	1.40%	30,185,950	3.36%	1.03
Five Arrows Securities V, L.P.	2007	30,000,000	22,915,651	76%	7,084,349	3,921,958	22,801,074	3.63%	29,885,423	3.32%	1.15
Hudson RE Fund IV Co-Invest	2008	10,000,000	10,000,000	100%	-	430,314	9,772,915	1.56%	9,772,915	1.09%	1.02
Hudson Realty Capital Fund IV	2007	15,000,000	15,000,000	100%	-	244,542	10,470,123	1.67%	10,470,123	1.16%	0.71
Landmark Real Estate Partners VI	2011	20,000,000	8,207,186	41%	11,792,814	1,454,423	10,124,895	1.61%	21,917,709	2.44%	1.40
Realty Associates Fund IX	2008	20,000,000	19,200,000	96%	800,000	1,849,159	20,820,331	3.31%	21,620,331	2.41%	1.18
Realty Associates Fund VIII	2007	20,000,000	20,000,000	100%	-	841,888	13,498,844	2.15%	13,498,844	1.50%	0.72
Realty Associates Fund X [2]	2012	20,000,000	-	-	20,000,000	-	-	-	20,000,000	2.22%	-
Stockbridge Value Fund, LP [3]	2011	25,000,000	-	-	25,000,000	-	-	-	25,000,000	2.78%	-
Strategic Partners Value Enhancement Fund	2007	19,200,000	19,200,000	100%	-	614,400	17,258,671	2.75%	17,258,671	1.92%	0.93
Opportunistic		**248,008,422**	**188,561,055**	**76%**	**61,947,367**	**24,573,763**	**131,081,369**	**20.86%**	**193,028,736**	**21.47%**	**0.80**
AG Realty Fund VII L.P.	2007	20,000,000	15,454,000	77%	4,546,000	4,759,231	14,013,368	2.23%	18,559,368	2.06%	1.21
AG Realty Fund VIII L.P.	2011	20,000,000	7,400,000	37%	12,600,000	2,500,000	4,834,746	0.77%	17,434,746	1.94%	0.99
Beacon Capital Strategic Partners V	2007	25,000,000	20,500,000	82%	4,500,000	464,109	10,512,436	1.67%	15,012,436	1.67%	0.54
Carlyle Europe Real Estate Partners III [4]	2007	30,994,690	22,320,389	72%	8,674,301	159,565	19,869,656	3.16%	28,543,956	3.18%	0.89
CIM Fund III, L.P.	2007	25,000,000	20,212,386	81%	4,787,614	279,080	25,279,531	4.02%	30,067,145	3.34%	1.15
GEM Realty Fund IV	2009	15,000,000	6,300,000	42%	8,700,000	330,245	6,839,330	1.09%	15,539,330	1.73%	1.12
JER Real Estate Partners - Fund IV	2007	20,000,000	16,853,466	84%	3,146,534	9,516,603	3,573,687	0.57%	6,720,221	0.75%	0.78
Liquid Realty IV	2007	22,013,732	18,818,202	85%	3,195,530	5,829,013	12,156,430	1.93%	15,351,960	1.71%	0.88
MGP Asia Fund III, LP	2007	30,000,000	18,647,200	62%	11,352,800	35,146	19,063,710	3.03%	30,416,510	3.38%	1.02
MSREF VI International [5]	2007	25,000,000	27,500,000	110%	-	17,313	6,484,633	1.03%	6,484,633	0.72%	0.23
O'Connor North American Property Partners II	2008	15,000,000	14,555,411	97%	444,589	683,457	8,453,842	1.35%	8,898,431	0.99%	0.61
Montana Real Estate		**978,118,721**	**710,049,436**	**73%**	**270,569,285**	**84,073,720**	**628,327,908**		**898,897,193**		**0.98**

1) Capital contributed does not include contributions for expenses outside of the commitment amounts.
2) As of Q2 2012, these investments have not had their first cash flow and are not subject to performance. They are presented in this schedule because of their effect on the total portfolio commitment amount.
3) Stockbridge Value Fund LP, was committed to in June 2012, but did not have its first cash flow until July 2012. IRR will commence in Q2 2012 and the funds TWR will commence in Q3 2012, it's first full operating quarter.
4) Carlyle Europe III's Commitment amount is converted to USD by using the EUR exchange rate from 10/9/2007, the date Montana commited to the fund. The current unfunded capital is based on this figure less the cumulative USD activity.
5) Morgan Stanley has the ability to call a 10% reserve from the investors. The full reserve, $2.5 million, was called on 5/21/2009.

Additions to the Commitment Summary include a $30M commitment to ORM Timber Fund III and a $20M commitment to Realty Associates Fund X.

MONTANA BOARD OF INVESTMENTS
EAST HELENA COMPENSATION FUND
(FUND 08231)
INVESTMENT POLICY STATEMENT

INTRODUCTION

The purpose of this investment policy statement is to outline the account objectives, permissible investments, and constraints that will guide the management of the portfolio. The policy is designed to give the investment manager flexibility to achieve in a prudent manner the investment objectives of the client, Department of Justice – Natural Resource Damage Program (NRD) to implement the restoration and oversight of environmental cleanup on and around the former site of the ASARCO smelter in East Helena.

BACKGROUND INFORMATION

In 2006, the State made substantial natural resource damages claims against ASARCO, in the ASARCO bankruptcy proceeding, based upon injuries to natural resources resulting from releases of hazardous substances at ASARCO's East Helena Smelter. The State sought both natural resource restoration damages and compensatory damages for lost use of such resources. In 2008, a tentative settlement was worked out with ASARCO to resolve these NRD claims, along with EPA's claims for the site. That settlement provided for the State to receive $5.0 million as partial consideration for its East Helena compensatory NRD claim. The State's other East Helena claim was resolved as part of the Montana Custodial Trust Settlement with ASARCO and the United States. In 2009, those tentative settlements were challenged in the bankruptcy proceeding by Grupo Mexico and other creditors, but the settlements were upheld by the Court.

In December 2009 the final bankruptcy plan was approved by the Court and there was a closing in which the $5.0 million was transferred to NRD Program Account No. 08231, plus about $880,000 interest earnings as provided for in the bankruptcy plan. The State is now holding this money in this account for purposes of natural resource restoration in East Helena, and for purposes of the State overseeing the Montana Custodial Trust's clean-up of the site. The State is waiting to see how the Trust's clean-up plan will be implemented before developing its restoration plan.

OBJECTIVES

<u>Risk and Return:</u>
Earnings alone will not be sufficient to fund expected expenditures nor will the principal provided by the settlement be sufficient. A combination of current income, total return, and use of principal will be necessary to fund the expected expenditures. It will require a return in excess of the assumed risk free rate to fund current projected expenditures, possible future cost overruns, and leave residual funds for future expenses such as operation and maintenance. This account has an average ability to assume interest rate risk. Some risk of loss of principal must be taken to provide a return sufficient to fund objectives. An allocation to the Trust Funds Investment Pool (TFIP) will be made to obtain exposure to a diversified fixed income portfolio return while reducing idiosyncratic risk. An allocation to U.S. Treasuries, U.S. Agencies and Corporate securities may be made to provide a greater certainty of cash flows from maturities. Risk tolerance will decline if long-term investments have to be liquidated earlier than estimated to meet the cash draw down schedule.

MONTANA BOARD OF INVESTMENTS
EAST HELENA COMPENSATION FUND
(FUND 08231)
INVESTMENT POLICY STATEMENT

The risk and return factors along with other considerations result in the expected asset allocation shown below.

ASSET ALLOCATION

FIXED INCOME	Range
U.S. Treasury Bonds	0-40%
U.S. Agency Bonds	0-40%
Corporate Bonds	0-20%
Trust Funds Investment Pool	40-60%
Short-term Investment Pool	10-60%
Total Fixed Income	100%

OTHER CONSIDERATIONS

Liquidity Needs:
Material annual expenditures are projected in each year through 2017 in the initial cash draw down schedule provided by NRD. The timing of expenditures within the calendar year will be somewhat uncertain, thus necessitating a significant cash balance be available to meet these needs without forcing an inordinate amount of TFIP sales in any one year. There will be significant seasonality in the pattern of expenditures. Liquidity needs will be met with a combination of cash on hand, earnings, maturities and sales of investments. The minimum Short Term Investment Pool (STIP) balance will be the expected next one year of expenditures less expected maturities of individual securities prior to any adjustment to reflect funding needs.

Maturity Horizon:
The maturity horizon of the investments utilized is designed to meet the liabilities of the client with income, maturities and a reasonable amount of sales of securities and TFIP units. The liabilities are the cash needs for remediation expenditures as provided by the NRD at the outset of the account and as modifications are made in ensuing years. At this time expenditures are expected to occur commencing immediately and each year through 2017.

Investment Limits:
1. To reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 2% of the market value of the fund at the date of purchase or 4% of the lowest projected fund balance before the securities mature, whichever is lower.
2. Corporate bond sector (Industrial, Finance, and Utility) exposure shall be constrained to no more than a 8% exposure at the time of purchase, or 12% at any time over the future projected fund balance.
3. The quality rating of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase. (e.g., A1/A+ or higher), and have at least two ratings.
4. Exposure to the securities of any one U.S. Agency are limited to 10%, and in no event will an agency security be purchased if it carries a rating that is lower than the U.S. Treasury at the time of purchase.

Legal Considerations:
This fund is governed by state regulations, specifically, the "prudent expert principle" which requires the Board of Investments to: (a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; (b) diversify the holdings of each fund

MONTANA BOARD OF INVESTMENTS
EAST HELENA COMPENSATION FUND
(FUND 08231)
INVESTMENT POLICY STATEMENT

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 not to do so; and (c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

The Montana Constitution does not allow equity type investments in non-retirement funds.

ADMINISTRATIVE

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

MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX

ACH.. Automated Clearing House

ADR.. American Depository Receipts

AOF.. All Other Funds

BOI.. Board of Investments

CFA.. Chartered Financial Analyst

EM.. Emerging Market

FOIA.. Freedom of Information Act

FWP.. Fish Wildlife and Parks

IPS.. Investment Policy Statement

MBOH.. Montana Board of Housing

MBOI.. Montana Board of Investments

MDEP.. Montana Domestic Equity Pool

MFFA.. Montana Facility Finance Authority

MPEP.. Montana Private Equity Pool

MPT.. Modern Portfolio Theory

MSTA.. Montana Science and Technology Alliance

MTIP.. Montana International Pool

MTRP.. Montana Real Estate Pool

MTSBA.. Montana School Boards Association

MVO.. Mean-Variance Optimization

NAV.. Net Asset Value

PERS.. Public Employees' Retirement System

PFL.. Partnership Focus List

MONTANA BOARD OF INVESTMENTS
ACRONYM INDEX

QZAB .... Qualified Zone Academy Bonds

QSCB .... Qualified School Construction Bonds

RFBP .... Retirement Funds Bond Pool

RFP .... Request for Proposal

SABHRS .... Statewide Accounting Budgeting and Human Resource System

SSBCI .... State Small Business Credit Initiative

STIP .... Short Term Investment Pool

TFBP .... Trust Funds Bond Pool

TFIP .... Trust Funds Investment Pool

TIF .... Tax Increment Financing

TIFD .... Tax Increment Financing District

TRS .... Teachers' Retirement System

VIX .... Volatility Index

Montana Board of Investments
2012 Meeting Schedule

2012	M	T	W	T	F	S	S
	26	27	28	29	30	31	1
	2	3	4	5	6	7	8
	9	10	11	12	13	14	15
Jan 2012	16	17	18	19	20	21	22
	23	24	25	26	27	28	29
	30	31	1	2	3	4	5
	6	7	8	9	10	11	12
Feb 2012	13	14	15	16	17	18	19
	20	21	22	23	24	25	26
	27	28	29	1	2	3	4
	5	6	7	8	9	10	11
Mar 2012	12	13	14	15	16	17	18
	19	20	21	22	23	24	25
	26	27	28	29	30	31	1
	2	3	4	5	6	7	8
	9	10	11	12	13	14	15
Apr 2012	16	17	18	19	20	21	22
	23	24	25	26	27	28	29
	30	1	2	3	4	5	6
	7	8	9	10	11	12	13
May 2012	14	15	16	17	18	19	20
	21	22	23	24	25	26	27
	28	29	30	31	1	2	3
	4	5	6	7	8	9	10
Jun 2012	11	12	13	14	15	16	17
	18	19	20	21	22	23	24
	25	26	27	28	29	30	1
	2	3	4	5	6	7	8
	9	10	11	12	13	14	15
Jul 2012	16	17	18	19	20	21	22
	23	24	25	26	27	28	29
	30	31	1	2	3	4	5
	6	7	8	9	10	11	12
Aug 2012	13	14	15	16	17	18	19
	20	21	22	23	24	25	26
	27	28	29	30	31	1	2
	3	4	5	6	7	8	9
Sep 2012	10	11	12	13	14	15	16
	17	18	19	20	21	22	23
	24	25	26	27	28	29	30
	1	2	3	4	5	6	7
	8	9	10	11	12	13	14
Oct 2012	15	16	17	18	19	20	21
	22	23	24	25	26	27	28
	29	30	31	1	2	3	4
	5	6	7	8	9	10	11
Nov 2012	12	13	14	15	16	17	18
	19	20	21	22	23	24	25
	26	27	28	29	30	1	2
	3	4	5	6	7	8	9
	10	11	12	13	14	15	16
Dec 2012	17	18	19	20	21	22	23
	24	25	26	27	28	29	30
	31	1	2	3	4	5	

February 21-22
(February 20th: State Holiday - Lincoln's & Washington's Birthday)

April 3

May 22-23 (possibly an out of town meeting)
(May 28th: State Holiday - Memorial Day)

August 21-22

October 4
(October 8th: State Holiday - Columbus Day)

November 13-14
(November 6th: State Holiday - General Election Day)
(November 12th: State Holiday – Veteran's Day)

Montana Board of Investments Meetings

All meetings

- Are public and duly noticed in advance
- Public comments invited at every meeting
- Minutes taken and previous ones approved

Quarterly meetings - February, May, August, and November

- Standard business
  - Performance
  - Activity
  - Investment consultant
- Committees
  - Loans: Commercial, INTERCAP, MSTA
  - Audit
  - Human Resource
  - Other Committees, as appointed by the Chairman
- Systematic review of Topics, as scheduled for 24-month rotation

Semi-Annual meetings - April and October

- In depth coverage on certain (to be determined) topics
- April - Asset Allocation at a strategic level
- October - updated Actuarial Status & Asset Allocation implications
- Additional systematic review of topics to complete 24-month rotation
- Subcommittees meet only as needed

Additional Board Topics for 24-month Systematic Review, either (A) annually or at least (B) biennially

- Investment Policy Statements (A)
- Accounting and internal data systems (A)
- Annual report and financial statements (A)
- Staffing levels and compensation (A)
- Accounting, GAAP, audits and internal control standards, compliance and execution (A)
- PERS and TRS relationship (A)
- Ethics policy – affirmations (typically May) (A)
- Resolution 217 update (typically November) (A)
- General operations (e.g. day to day, landlord, disaster recovery, vendor review) (A/B)
- BOI website (B)
- Custodial bank relationship, performance, continuity (B)
- Board member training and staying current efforts (B)
- Customer relationships especially large customers such as State Fund (B)
- Legislative session and interim matters (B)
- Outreach, especially commercial and municipal missions (B)
- The Board as a rated investment credit, and as a bond issuer and a credit enhancer (B)
- Securities Lending (A)
- Securities Litigation (A)

Proposed Work Plan 2012

(Meetings shown below do NOT reflect all likely agenda items. Quarterly meetings will always include standard quarterly business. All meetings will include a combination of topics that will be reviewed within a 24-month systematic basis)

February	**Quarterly Meeting** Securities Lending Commercial Loan Programs
April	**Semi-annual meeting** BOI's Hierarchy of Responsibilities Asset Allocation - Strategic Work plan for remaining calendar 2012 Staff report on new public and private equity managers Proposed checklist for public manager due diligence Announcements, next meeting, logistics
May	**Quarterly Meeting** Public equity - MDEP Proposed restructuring of domestic public equities Training, staff/ board ideas and recommendations, discussion, and logistics TRS and PERS board-to-board relationship
August	**Quarterly Meeting** Costs (including reviewing CEM Benchmarking Inc. results) MBOI Budget Fiscal Year performance through June 30th Public Equity - MTIP
October	**Semi-annual Meeting** Private Real Estate Private Equity Operations (broadly)/Unified Investment Mission (focus on cash management and daily process issues) Investment Consultant Selection Securities Litigation
November	**Quarterly Meeting** Fixed Income Actuarial Status & Asset Allocation Implications Legislative Session Coal Severance/Enhancement/ INTERCAP et al Exempt Staff Annual Performance