

MONTANA BOARD OF INVESTMENTS
SPECIAL BOARD MEETING CONFERENCE CALL
2401 Colonial Drive, 3rd Floor
Helena, Montana
Minutes of the Special Board Meeting Video Call – Via Zoom
June 5, 2020

BOARD MEMBERS PRESENT:

- Karl Englund, Board Chairman
- Mark Noennig, Board Vice Chairman
- Terry Cohea, Board Member
- Maggie Peterson, Board Member
- Diane Fladmo, Board Member
- Jeff Greenfield, Board Member
- Bruce Nelson, Board Member
- Senator Fred Thomas, Legislative Liaison
- Representative Jim Hamilton, Legislative Liaison

BOARD MEMBERS ABSENT:

- Jack Prothero, Board Member
- Jim Edwards, Board Member

STAFF PRESENT:

- Dan Villa, Executive Director
- Peggy MacEwen, Deputy Director
- Jon Putnam, CFA, FRM, CAIA, Chief Investment Officer
- Rande Muffick, CFA, Deputy CIO/Director of Public Market Investments
- Julie Feldman, CPA, Financial Manager
- Doug Hill, Director of In-State Loans
- Ethan Hurley, CAIA, Director of Real Estate/Natural Resources
- Michael Nguyen, Director of Private Investments
- Jason Brent, CFA, CAIA, Investment Officer, Public Markets
- Frank Cornwell, CPA, Associate Financial Manager
- Linda Sharkey, Network Administrator
- Savannah Morgan, Bond Program Officer
- Steve Strong, Investment Analyst
- Teri Kolnik, CFA, Investment Analyst
- Tim House, Investment Analyst
- Eron Krpan, CFA, CAIA, Investment Analyst
- Emily Kovarik, CPA, Investment Analyst
- Kirsten Haswell, Investment Analyst
- Thomas Winkler, CAIA, Investment Analyst
- Roberta Diaz, Investment Accountant
- Kelsey Gauthier, CPA, Investment Accountant
- Dana Chapman, Board Secretary
- Lindsay Ford, Administrative Assistant
- Rob Samson, Investment Intern
- Sam Holman, Accounting Intern

CALL TO ORDER – Karl Englund, Board Chairman

Board Chairman Karl Englund called the meeting to order at 1:35 p.m. As noted above a quorum of Board Members was present. Chairman Englund advised video/audio recording of the meeting was underway. The secretary called the roll and Chairman Englund called for public comment on issues with Board jurisdiction. There was none.

Private Investments – New Commitments

Mr. Thomas Winkler presented the commitment for McCarthy Capital Fund VII, L.P. BOI has a long-standing relationship with McCarthy. The firm is employee owned with 100 employees. They focus on the small/middle market buyout space favoring the Midwest, an underserved region, where they have carved out a niche. BOI committed \$50 million on May 20th and includes a seat on the Limited Partnership Advisory Committee (LPAC), as we also have for Fund VI.

Board Chairman Karl Englund asked what designates a region as underserved?

Mr. Winkler explained in the broader U.S., private equity firms are clustered in the northeast corridor, and the east and west coasts. The Midwest does not have much representation. McCarthy is the local firm known to the locals.

Mr. Winkler presented the commitment for Tenex Capital Partners Fund III, L.P. which is also a BOI reup. Staff committed \$50 million on April 24th. Tenex is a U.S. focused small buyout manager. Their strategy comes from an operator background which drives performance through operational improvements to add value. BOI has a seat on the LPAC with Fund III, as we do for Funds I and II.

Ms. Emily Kovarik presented the brief for Angelo Gordon Commercial Real Estate Debt Opportunities Fund III, LP. MBOI invested \$100 million on April 23rd and have invested in seven Angelo Gordon real estate funds since 2007. MBOI has approximately \$57 million currently invested across the seven funds. Over that time as of 12/31/19 the aggregate return is strong at approximately 13% Net IRR with a 1.5X multiple. Angelo Gordon is a highly institutional manager registered with the SEC. The commitment expands the portfolio's investment in private real estate debt with a manager that has differentiated exposure across the commercial real estate debt market. Angelo Gordon's investment focus is in commercial MBS (mortgage backed securities) and whole loans. They have a solid underwriting process both structurally and with in-depth analysis of the collateral. Angelo Gordon has purchased over \$18 billion in debt since 2006. The fund is a closed end fund, with exposure to office, retail, lodging, multifamily and industrial properties, mostly located in the U.S.

Member Terry Cohea asked for more information on the B pieces of the fund and asked if it refers to corporate rated B's, and whether they are considered junk bonds?

Ms. Kovarik stated the ratings are BBB to BB, but they are not junk bonds.

Mr. Jon Putnam noted there is a bit of a difference. It is a lower rated bond which can be rated BB, or BBB. Although BB is considered junk status, it is not the same as in the corporate world. You are

buying lower in the capital structure. BBB securities are lower in the capital structure with a return expectation consistent with high yield.

Member Bruce Nelson asked for clarification on how this investment is different than prior investments made with Angelo Gordon.

Ms. Kovarik explained this is our first investment in the private debt side with Angelo Gordon. MBOI has a long history investing with them in private real estate equity funds.

Responding to a question from Chairman Englund, Ms. Kovarik stated Angelo Gordon has a Net IRR of 11% on its most recent debt fund.

Executive Director Villa provided an update on activity regarding the CARES Act. He and Mr. Hill spoke with partners at the banks and hope to have an update soon. We were hoping to have an announcement from the governor, but it has not come in yet. Hopefully by early next week we will know more.

Director Villa reported he had received Mike Pettit’s two-week notice; he is headed to Penn State. Director Villa and Mr. Putnam will be working with Mr. Pettit early next week to start a transition plan and develop a recruitment plan to fill the director of operations position.

With no further business before the Board, the meeting adjourned at 1:56 p.m.

MONTANA BOARD OF INVESTMENTS

APPROVE: *Karl J Englund*
Karl J. Englund, Chairman

ATTEST: *Dan Villa*
Dan Villa, Executive Director

DATE: December 4, 2020