

**REGULAR MEETING OF THE  
MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**April 12 & 13, 2001**

**2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, Montana**

**Thursday, April 12, 2001**

**AGENDA**

- |             |   |                  |
|-------------|---|------------------|
| <b>I.</b>   | <b>CALL TO ORDER</b>  | <b>1:00 p.m.</b> |
|             | A. Roll Call  |                  |
|             | B. Approval of the March 1 & 2, 2001 Regular Meeting Minutes              |                  |
|             | C. Administrative Business  |                  |
| <b>II.</b>  | <b>PRESENTATION</b>   | <b>1:15 p.m.</b> |
|             | <b>Mr. George Roberts, Founding Partner, Kolberg Kravis &amp; Roberts</b> |                  |
| <b>III.</b> | <b>EXECUTIVE DIRECTOR REPORTS</b> Carroll South/Peter Blouke              | <b>2:15 p.m.</b> |
|             | A. Board Functional Organization  |                  |
|             | B. Board Budgeting Process  |                  |
|             | C. Budget Status Report   |                  |
|             | D. Legislative Update   |                  |
|             | E. Out of State Travel  |                  |
|             | F. Industrial Revenue Bonds   |                  |
| <b>IV.</b>  | <b>BOND PROGRAM</b> Geri Burton   | <b>3:30 p.m.</b> |
|             | A. INTERCAP   |                  |
|             | 1. Activity Report  |                  |
|             | 2. Staff Approved Loans Report  |                  |
|             | 3. Loan Requests  |                  |
| <b>V.</b>   | <b>CHIEF INVESTMENT OFFICER REPORTS</b> Jim Penner, CFA                   | <b>3:45 p.m.</b> |
|             | A. Economic Overview Newsletter   |                  |
|             | B. Asset Allocation Report  |                  |
| <b>VI.</b>  | <b>MONTANA LOAN PROGRAM</b> Delrene Rasmussen                             | <b>4:00 p.m.</b> |
|             | A. Consider Commercial/Multi-Family Loans                                 |                  |
|             | 1. Karl Ohs dba AAA Storage   |                  |
|             | B. Coal Tax Loan Activity Report February                                 |                  |
|             | C. Mortgage Program Activity Report February                              |                  |
|             | D. MAI Designation Requirement  |                  |
| <b>VII.</b> | <b>INVESTMENT ACTIVITY</b>  | <b>4:30 p.m.</b> |
|             | A. Domestic Equities (Montcomp) Rande Muffick, CFA                        |                  |
|             | 1. Transactions - February  |                  |
|             | 2. Holdings Report  |                  |
|             | 3. Strategy   |                  |
|             | 4. Portfolio Additions  |                  |
|             | a. Avon Products  |                  |

- b. El Paso
- c. EMC Corporation
- d. RadioShack
- B. International Equities (MTIP) David Ewer
  - 1. Europe and Americas
    - a. Internal Transactions February
    - b. Internal International Holdings Report
    - c. Strategy
  - 2. Asian Manager Review Rich Cooley, CFA

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**VIII. INVESTMENT ACTIVITY - continued**

**8:30 a.m.**

- C. Private Equities Ed Kelly
  - 1. Transactions - February
  - 2. Venture Capital Update
- D. Fixed Income Bob Bugni, CFA
  - 1. Transactions - February
  - 2. Strategy
  - 3. Investment Policy Statements
    - a. Coal Tax Park Trust Fund
    - b. Cultural Trust Fund
    - c. Treasure State Water Fund
    - d. Treasure State Endowment Fund
    - e. Permanent Coal Trust Fund
    - f. Group Benefits
    - g. Subsequent Injury
- E. Security Lending Rich Cooley, CFA
- F. STIP and Treasurer's Funds Rich Cooley, CFA
  - 1. MHESAC Security Offering
  - 2. STIP Transactions - February
  - 3. STIP Holdings Report
  - 4. Treasurer's Fund Transactions - February
  - 5. Treasurer's Fund Holdings Report
  - 6. Strategy

**IX. ADJOURNMENT**

**11:30 a.m.**

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

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**MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, Montana  
April 12 & 13, 2001**

MINUTES

**BOARD MEMBERS PRESENT:**

Dick Anderson, Chairman  
Douglas Bardwell  
Dennis Beams  
Maureen Fleming  
Jay Klawon  
Joel Long  
F. Lee Robinson  
Tim Ryan

**BOARD MEMBERS ABSENT:**

Calvin Wilson

**STAFF PRESENT:**

Peter S. Blouke, Deputy Director  
Robert T. Bugni, CFA, Assistant Investment Officer  
Geri Burton, Bond Program Officer  
Richard Cooley, CFA, Assistant Investment Officer  
Kimberly Dallas, Program Assistant  
David Ewer, Senior Portfolio Manager  
Mona Freshour, Bond Program Assistant  
Edward Kelly, Assistant Investment Officer  
Herbert Kulow, Senior Portfolio Manager  
Rande Muffick, CFA, Assistant Investment Officer  
James R. Penner, CFA, Chief Investment Officer  
Bobbie Pomroy, Senior Portfolio Manager, Science &  
Tech  
Delrene Rasmussen, Assistant Investment Officer  
Carroll V. South, Executive Director

**GUESTS:**

Mr. George Roberts, Kolberg, Kravis & Roberts  
Ms. Mary Sexton, Commissioner, Teton County  
Mr. Gordon Hoven, Bond Counsel

**CALL TO ORDER**

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 1:00 p.m. in the conference room at 2401 Colonial Drive, 3<sup>rd</sup> Floor, Helena, Montana. As noted above, the meeting convened with eight members of the Board present. Member Wilson was absent.

Member Ryan motioned for approval of the March 1 & 2, 2001 minutes; Member Bardwell seconded the motion and the motion was passed 8-0.

## **ADMINISTRATIVE BUSINESS**

-  
Chairman Anderson presented the following Administrative Business:

1. The Regular Meeting of the Board of Investments would go into Executive Session at 4:00 p.m.

## **PRESENTATION**

Mr. George Roberts gave a brief introduction and overview to the Board of the investments that are held with KKR.

## **EXECUTIVE DIRECTOR REPORTS**

### **Board Functional Organization**

Mr. Carroll South reviewed for the Board, the Montana Board of Investments Functional Organization as of April 12, 2001.

### **Board Budgeting Process and Methodology**

Mr. Carroll South reviewed for the Board the Board of Investments Budget Process and Methodology. This review included the history and well as the current budgeting process. Mr. South also reviewed Fiscal Year 2000 Board of Investments FTE and Fee Allocations and the Investment Management Fees, Costs and Fund Balance.

### **Budget Status Report**

The Board reviewed this report as of February 28, 2001. The Board also requested that Mr. South present this report on a quarterly basis.

### **Legislative Update**

Executive Director Carroll South presented a verbal update on the current legislative session. Mr. South reported that the Board's legislation, House Bill 47 has passed the Senate as amended with the cap being increased to 10.0 percent of the Coal Tax Trust. Any loan larger than 6.0 percent of the Trust would require 30.0 percent bank participation. The bill had been sent to Governor Martz for signature, although the Governor sent it back to the Legislature with an amendatory veto to change the effective date from July 1 to effective upon passage and approval. Mr. South expects the Governor to sign the bill next week with this change made.

Senate Bill 279, has been passed and will be sent to Governor Martz for signature. The bill amends the Value-Added Loan Program by: 1) Reducing the job requirement eligibility threshold to 10 with a 4.0 percent interest rate; 2) Quantifying the calculation of what constitutes a "job"; 3) Permitting job retention as an eligibility threshold; 4) Removing restrictions on the use of personal guarantees; 5) Increasing maximum equity banks can require from 25.0 percent to 50.0 percent of the loan amount; and 6) Using the Board's posted interest rate during the last five years of the loan term, rather than prime.

Senate Bill 493, a constitutional amendment removing the constitutional prohibition against investing public funds in stock, will be placed on the November 2002 general election ballot for voter ratification.

**Senate Bill 495 authorizes the Board to lend up to \$75.0 million to the School Trust from the Permanent Coal Tax Trust for a period of 30 years. The loan proceeds would be used to purchase School Trust mineral production rights and the School Trust must pay to the state general fund the amount of interest lost by the Coal Tax Trust as a result of the loan. This mechanism allows the School Trust mineral royalty income to be expended, rather than deposited in the**

## corpus of the School Trust.

**The purpose of the bill is to increase funding to schools to compensate for the reduction of current income that will result from reducing fixed-income investments to invest in common stock. However, the loan is not dependent upon the ratification of the constitutional amendment. If the amendment is not ratified and the School Trust cannot be invested in common stock to capture capital appreciation, distribution to schools will increase for the first half of the 30-year term but will be reduced during the final 15 years of the term.**

### Loan Committee

Member Ryan motioned to empower Chairman Anderson to create a loan committee comprised of 3 Board Members. This committee would review all Commercial/Multi-Family loan requests requiring Board approval prior to the regular meeting of the Board. Member Fleming seconded the motion and the motion was passed 8-0. Members Tim Ryan, Joel Long and Dennis Beams were appointed to this committee.

### Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for Rande Muffick to attend the Credit Suisse First Boston Communications Conference, May 14 17, 2001 in Phoenix, AZ.; David Ewer to attend and participate in the Opal Financial Group Investor's Conference, June 21 28, 2001, in Newport, RI.; Lee Robinson to attend the Adam's Street Partners Conference, June 13 & 14, 2001, in Chicago; Ed Kelly to attend the KKR Investors Conference, April 29 & 30, 2001 in Palm Springs, CA., and Dennis Beams to attend the Institutional Investors Institute Conference/Workshop, April 18 20, 2001, in Santa Barbara, CA. Member Fleming moved for approval of this recommendation; Member Long seconded the motion and the motion was passed 8-0.

### Industrial Development Bonds

Mr. Peter Blouke presented to the Board some general background information regarding tax-exempt bonds as a preface to a discussion of policies the Board may wish to adopt as guidelines for future issuance of tax-exempt bonds. The memo addressed Qualified Exempt Small Issue Bonds that are currently being used by several states for economic development. Qualified Exempt Small Issue Bonds include Industrial Development Bonds (IDB's) for qualified manufacturing projects and first-time farmers.

The Board when reviewing policy options must make four considerations:

1. Marketing Is the Board interested in using Tax-Exempt Small Issue Bonds as an integral part of the Board's overall economic development strategy? To effectively use these bonds will require some investment by the Board in marketing and education.
2. Competitive Impact on Existing Business Does the Board wish to adopt as a formal criterion in evaluating a potential application for Small Issue Bonds the impact such an issue would have on an existing business? The Board could adopt a policy that would include a specific review of the impact the bond issue would have on similar businesses in the immediate area.
3. Conversion Factor Does the Board wish to adopt a specific conversion factor in determining if a business meets the definition of manufacturing? Using a conversion factor may provide an initial screen for eligible businesses.

4. Preference for Direct Purchase Does the Board wish to express a preference for direct purchase of small issue bonds? Using standardized forms and procedures would both simplify the process and reduce the costs of issuing bonds. Such a preference would not exclude traditional bank enhanced financing when more appropriate.

Member Fleming suggested and the Board concurred that decisions about this loan program be tabled until after the Board has had the opportunity to discuss the legislative changes that will be taking place within the Value Added Loan Program.

## **BOND PROGRAM/ INTERCAP LOAN PROGRAM**

### **Activity Report**

The Board reviewed this report for the period ending March 31, 2001.

### **Staff Approved Loans Report**

Borrower: Pine Creek Elementary School District (Livingston)  
Purpose: To finance computer hardware equipment.  
Staff Approval Date: February 21, 2001  
Board Loan Amount: \$10,000  
Term: 3 Years

Borrower: Missoula County  
Purpose: To finance the purchase of seven sheriff vehicles.  
Staff Approval Date: February 26, 2001  
Board Loan Amount: \$160,000  
Term: 3 Years

Borrower: Seeley Lake Rural Fire District  
Purpose: To purchase an ambulance.  
Staff Approval Date: February 26, 2001  
Board Loan Amount: \$50,000  
Term: 1 Year

Borrower: Lewis and Clark County  
Purpose: To finance the purchase of index and imaging system hardware and software for the Clerk & Recorder's Office.  
Staff Approval Date: March 5, 2001  
Board Loan Amount: \$142,000  
Term: 7 Years

Borrower: Town of Lima  
Purpose: To finance the cost of a preliminary engineering study for the Town's water system.  
Staff Approval Date: March 8, 2001  
Board Loan Amount: \$10,000  
Term: 6 Years

Borrower: City of Shelby

Purpose: To finance the construction of a maintenance building at the municipal golf course.  
Staff Approval Date March 9, 2001  
Board Loan Amount: \$140,000  
Term: 10 Years

Borrower: Town of West Yellowstone  
Purpose: To finance the purchase of a fire/rescue mini pumper.  
Staff Approval Date March 13, 2001  
Board Loan Amount: \$72,898  
Term: 5 Years

Borrower: City of Great Falls  
Purpose: To finance improvement costs at the Four Seasons Arena.  
Staff Approval Date March 23, 2001  
Board Loan Amount: \$182,000  
Term: 7 Years

### **INTERCAP Loan Requests**

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

#### Teton County

\$250,000  
10 Years

To finance court ordered improvement costs in order to comply with applicable provisions of the Americans with Disabilities Act (ADA) and the Montana Human Rights Act in that its programs, services, and activities are not accessible to and usable by individuals with disabilities.

In the event the County does not obtain the zero-interest loan from Rural Development, they would like to borrow the full amount, \$700,000, for 10 years

Staff recommends approval of the \$250,000 loan request. In addition, should the County not obtain the zero-interest loan from Rural Development, staff recommends approval of the \$700,000 loan request, based on the following conditions:

1. The loan will be in the form of a non-voted general obligation judgment bond as authorized in 7-7-2202 MCA. The County will covenant to make the judgment levy to repay the INTERCAP Loan.
2. The bond will be for a term of ten years.
3. The County must obtain the services of INTERCAP's bond counsel to prepare the necessary funding documents, which will include a bond resolution, general obligation judgment bond, and attorney's opinion.

Member Fleming moved for approval of this recommendation; Member Beams seconded the motion and the motion

was passed 7-0. Member Ryan was not present for the vote.

## **ADJOURNED**

Chairman Anderson, as presiding officer, determined that the demands of individual privacy clearly exceed the merits of public disclosure, as such; the regular meeting was adjourned and went into a Closed Executive session at 4:15 p.m.

## **CALL TO ORDER**

The meeting was reconvened Friday, April 13, 2001 at 8:30 a.m. Seven members of the Board were present. Member Beams arrived immediately after the start of the Chief Investment Officers Reports.

## **CHIEF INVESTMENT OFFICER REPORTS**

- Chief Investment Officer, James Penner, recapped the preceding reports and presentations.

### **Asset Allocation Report**

Mr. Jim Penner, Chief Investment Officer, gave a brief overview of the Pension Funds Asset Allocation with a target date of June 30, 2002. Mr. Penner also reported that the Asset Allocation that was approved at the March meeting was performed, with the additional selling of \$25 million RFBP units that were invested in Montcomp. Additionally, Mr. Penner reported that the REIT Pool liquidation is going very well and could be completed by the end of April.

## **LOAN PROGRAMS**

### **Consideration of Commercial Loan Participation Permanent Coal Trust Fund**

The Lender withdrew the Commercial/Multi-Family Loan request for Mr. Karl Ohs dba AAA Storage stated on the agenda prior to the meeting.

### Coal Tax Loan Activity

Ms. Delrene Rasmussen presented and the Board reviewed this report for February.

### **Staff Approved Loans Committed**

The Board reviewed this report for February.

### **Mortgage Program Activity Review**

- The Board reviewed this report for February.

### **MAI Designation Memo**

Ms. Delrene Rasmussen presented to the Board a change in BOI Policy pertaining to MAI designation. Staff had received a request from an appraiser to review the policy requiring an MAI designation for participations greater than \$1 million. Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and Title 12 of the Federal Banking Regulations prohibit lending institutions from excluding appraisers for consideration of an assignment solely by virtue of membership or lack of membership of an appraisal organization such as the MAI. The Board's attorney reviewed the laws and advised staff to remove the MAI requirement.

This change in policy has been communicated to approved lenders. The policy now reads, "all participants over \$500,000 will require a USPAP rule 2-2 (a) complete self-contained appraisal by a lender-approved appraiser". The Board acknowledged this memo.

## **INVESTMENT ACTIVITY**

### **Montcomp**

- Mr. Rande Muffick presented February transactions, the holdings report as of February 28, 2001 and the current investment strategy. Member Long moved for approval of the Montcomp strategy as presented; Member Beams seconded the motion and the motion was passed 8-0.

In addition, Mr. Muffick presented Avon Products, El Paso, EMC Corporation and RadioShack as Portfolio Additions.

### **International Investment**

- Mr. David Ewer presented February transactions, the holdings report as of February 28, 2001 and the current investment strategy. Member Bardwell moved for approval of the International Investment strategy as presented; Member Long seconded the motion and the motion was passed 8-0.

In addition, Mr. Rich Cooley presented the Investment Manager Review for SG Asset Management and Schroder Capital Management for review period ending December 31, 2000.

SG Asset Management has done a good job managing Pacific Basin assets, has added over 356 basis points of out-performance since inception of management in January 1997, has produced an annualized return of -3.75% versus -7.31% for the index, has fulfilled their contractual commitment with the Board in respect to reporting procedures and other requirements. Staff recommendation is to retain manager.

Schroder Capital Management has done an excellent job managing Pacific Basin assets, has added over 820 basis point of out-performance since inception of management in January 1997, has produced an annualized return of 0.89% versus 7.31% for the index, has fulfilled their contractual commitment with the Board in respect to reporting procedures and other requirements. Staff recommendation is to retain manager.

### **Private Equities**

- Mr. Ed Kelly presented February transactions. In addition, Mr. Kelly presented the Venture Capital Update and the Leveraged Buyout Update.

### **Fixed Income**

- Mr. Robert Bugni presented February transactions, and the current investment strategy. Member Fleming moved for approval of the Fixed Income strategy as presented; Member Bardwell seconded the motion and the motion was passed 8-0.

In addition, Mr. Bugni presented the Investment Policy Statements for Coal Tax Park Trust Fund, Cultural Trust Fund, Treasure State Water Fund, Treasure State Endowment Fund, and Permanent Coal Trust Fund. Member Ryan moved for approval of the Investment Policy Statements as presented; Member Bardwell seconded the motion and the motion was passed 8-0.

Mr. Rich Cooley presented the Investment Policy Statements for Group Benefits and Subsequent Injury. Member Bardwell moved for approval of the Investment Policy Statements as presented; Member Long seconded the motion and the motion was passed 8-0.

### **Security Lending**

Mr. Richard Cooley presented this report for February.

### **Treasurer's and STIP Funds**

Mr. Rich Cooley presented staff recommendation to invest in Montana Higher Education Assistance Corp., (MHESAC), non-rated floating rate notes as a STIP investment. Staff seeks Board approval to invest STIP funds in this security. Maximum investment would be \$30 million with a maximum maturity of 365 days. The initial yield would be 1-month LIBO + 50 basis point. Member Ryan moved for approval of this recommendation; Member Klawon seconded the motion and the motion was passed 8-0.

Mr. Cooley also presented February STIP transactions the STIP holdings report as of February 28, 2001, the February Treasure's Fund transactions, the Treasurer's Fund holdings report as of February 28, 2001 and the current investment strategy for both of these funds. Member Bardwell moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Long seconded the motion and the motion was passed 8-0.

### **Next Meeting**

The next regularly scheduled meeting of the Board will be May 17 & 18, 2001.

### **ADJOURNMENT**

There being no further business, Chairman Anderson, as presiding officer, determined that the demands of individual privacy clearly exceed the merits of public disclosure, as such; the regular meeting was adjourned and went into a Closed Executive session at 10:55 a.m.

### **BOARD OF INVESTMENTS**

APPROVE: \_\_\_\_\_  
Dick Anderson, Chairman

ATTEST: \_\_\_\_\_  
Carroll South, Executive Director

DATE: