

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

**August 16 & 17, 2001  
2401 Colonial Drive, 3rd Floor  
Helena, Montana**

**AGENDA - Thursday, August 16, 2001**

**I. CALL TO ORDER 1:00 p.m.**

- A. Roll Call
- B. Approval of the July 10, 2001 Regular Meeting Minutes
- C. Administrative Business

**II. EXECUTIVE DIRECTOR REPORTS - Carroll South 1:15 p.m.**

- A. Value-Added Loan Policy Revisions
- B. Electrical Generation Loan Process Discussion
- C. Out-of-State Travel Requests

**III. BOND PROGRAM - Geri Burton 1:45 p.m.**

- A. INTERCAP
  - 1. Activity Report
  - 2. Staff Approved Loans Report
  - 3. Loan Requests

**IV. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 2:15 p.m.**

- A. Economic Overview - Newsletter
- B. Asset Allocation
- C. Quarterly Performance Investment Report

**V. MONTANA LOAN PROGRAM - Delrene Rasmussen 2:45 p.m.**

- A. Consider Commercial/Multi-Family Loans
  - 1. Lamplighter Square LLC.
  - 2. Gene Graf & Yvonne Jarrett
  - 3. Michael & Gail Zimmerman
  - 4. Continental Development, Inc.
- B. Staff Approved Value Added Loans
  - 1. Big Sky Brewing Company
- C. Small Project Pool Program - Recommendation
- D. Coal Tax Loan Activity Report - June
- E. Mortgage Program Activity Report - June

**VI. INVESTMENT ACTIVITY 3:15 p.m.**

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
  - 1. Transactions - June
  - 2. Holdings Report
  - 3. Strategy
  - 4. Portfolio Additions
    - a. Kraft Foods
    - b. John Hancock Financial Services
- B. International Equities (MTIP) - David Ewer
  - 1. Europe and Americas
    - a. Internal Transactions - June
    - b. Internal International Holdings Report
    - c. Strategy

**VII. PRESENTATION - SG Pacific Asset Management 4:00 p.m.**

Mr. George Dole, Executive Vice President & Director of Marketing, Mr. Winson Fong, Director, and Mr. Takashi

Isahaya, General Manager

**REGULAR MEETING OF THE  
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**Friday, August 17, 2001**

**AGENDA**

**VIII. PRESENTATION - Adams Street Partners 8:30 a.m.**

Ms. Molly Meng, CFA, Mr. T. Bondurant French, CFA, and Mr. Terry P. Gould

**IX. INVESTMENT ACTIVITY - continued 9:15 a.m.**

C. Private Equities - Ed Kelly

1. Recommendations -

a. Brinson Partnership Trust Fund - 2002 Subscription

b. Adams Street Partners Fund V

c. KKR Millennium Fund

2. Investment Policy Statement

a. Private Equity

3. Transactions - June

D. Fixed Income - Bob Bugni, CFA

1. Transactions - June

2. Strategy

3. Periodic Reports

a. Non-Investment Grade Holdings - June

b. RFBP Holdings - June

c. TFBP Holdings - June

d. State Fund Holdings - June

E. STIP and Treasurer's Funds - Rich Cooley, CFA

1. STIP Transactions - June

2. STIP Holdings Report

3. Treasurer's Fund Transactions - June

4. Treasurer's Fund Holdings Report

5. Strategy

6. Investment Policy Statements

a. Short Term Investment Pool Policy

b. Treasurer's Fund Investment Policy

F. Security Lending - Rich Cooley, CFA

**X. PRESENTATION - State Street Security Lending 10:00 a.m.**

Mr. Henry Disano, Assistant Vice President and Mr. Jay L. Carty, Senior Vice President

**XI. 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, 3rd Floor  
Helena, Montana  
August 16 & 17, 2001**

**MINUTES**

**BOARD MEMBERS PRESENT:**

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

**BOARD MEMBERS ABSENT:**

**STAFF PRESENT:**

Dick Bridegroom, Mortgage Analyst  
Robert T. Bugni, CFA, Assistant Investment Officer  
Geri Burton, Bond Program Officer  
Sheryl Clark, Accountant  
Sandra Conrady, ARU, Mortgage Analyst  
Richard Cooley, CFA, Assistant Investment Officer  
Kimberly Dallas, Program Assistant  
Roberta Ecklund, Investment Analyst  
Edward Kelly, Assistant Investment Officer  
Teri Kolnick, Investment Staff Intern  
Herbert Kulow, Senior Portfolio Manager  
Gayle Moon, Accounting Fiscal Manager  
Rande Muffick, CFA, Assistant Investment Officer  
Adam Nelson, Investment Analyst  
James R. Penner, CFA, Chief Investment Officer  
Bobbie Pomroy, Senior Portfolio Manager, Science & Tech  
Delrene Rasmussen, Assistant Investment Officer  
John Romasko, Investment Analyst  
Paul Runnalls, Investment Analyst, Fixed Income  
Carroll V. South, Executive Director  
Dan Stevens, Investment Analyst  
Steve Strong, Investment Analyst  
Louise Welsh, Bond Program Assistant  
Lon Whitaker, Investment Analyst

**GUESTS:**

Mr. George Dole, Dir. of Marketing, SG Pacific Asset Management

Mr. Winson Fong, Director, SG Pacific Asset Management  
Mr. Takashi Isahaya, Gen. Manager, SG Pacific Asset Management  
Ms. Molly Meng, CFA, Adams Street Partners  
Mr. T. Bondurant French, CFA, Adams Street Partners  
Mr. Terry P. Gould, Adams Street Partners  
Mr. Henry Disano, Assist. Vice President, State Street Security Lending  
Mr. Larry Fasbender, Dept. of Justice

## **CALL TO ORDER**

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

Member Bardwell motioned for approval of the July 10, 2001 minutes; Member Beams seconded the motion and the motion was passed 9-0.

## **ADMINISTRATIVE BUSINESS**

Chairman Anderson presented the following Administrative Business:

1. Mr. Ed Kelly introduced the following people that were recently added to the investment staff:

Ms. Teri Kolnick, Investment Staff Intern  
Ms. Roberta (Bobbi) Ecklund, Investment Analyst  
Mr. Adam Nelson, Investment Analyst  
Mr. John Romasko, Investment Analyst

2. Ms. Gayle Moon introduced Ms. Sheryl Clark as the newest addition to the accounting staff.

## **EXECUTIVE DIRECTOR REPORTS**

### **Value-Added Loan Policy Revisions**

Mr. Carroll South, Executive Director, presented staff recommendation of two revisions to the Value-Added Loan policy. These two recommendations are:

Wholesale Plant Nurseries - It is the staff's conclusion and recommendation that wholesale nurseries be eligible for participation in the Program for the following reasons:

§ A final product is created from several specific components in a very controlled environment.  
§ Unique pieces of equipment are used to bring the plants from germination to the finished product.  
§ The wholesale operation must have a well-developed and coordinated marketing and distribution system to successfully sell and distribute perishable products over considerable distances.

Callable Loan Language - The current policy does not address action the Board may take if borrowers simply move the business and all of the required jobs out of state. To cover this circumstance, staff recommends the policy be amended as follows:

§ "If at any time during the term of the loan, the business and all the required jobs are moved out of state, the Board may request the lender to call the loan".

Member Fleming moved for approval of this recommendation; Member Ryan seconded the motion and the motion was passed 9-0.

### **Electrical Generation Loan Process**

Mr. Carroll South, Executive Director, presented staff recommendation that if the Public Service Commission must also approve/ratify the contracts, such approval/ratification will be a requirement for anyone wishing to submit a loan application to the Board.

Member Beams moved for approval of this recommendation; Member Bardwell seconded the motion and the motion was passed 8-0. Chairman Anderson was not present for this discussion or vote. Vice Chairman Ryan called for the vote.

### **Out-of-State Travel**

Executive Director Carroll South, presented travel recommendations for Sandra Conrady to attend the CMB Exam, July 27 - 29, 2001 in Denver, CO., Sandra Conrady to travel to Washington DC., to take the Mortgage Bankers Association CMB Oral Exam on August 29 & 30, 2001 and David Ewer to fly to New York City on August 16, 2001 to meet with various investment representatives. Member Long moved for approval of this recommendation; Member Wilson seconded the motion and the motion was passed 8-0.

### **BOND PROGRAM**

#### **INTERCAP**

#### **Department of Justice**

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:

Department of Justice

\$4.5 million

10 Years

House Bill No. 577 passed in the 2001 Legislative session authorizing the Department to obtain a loan from the Board of Investments to finance the costs of an information technology system for the production and maintenance of motor vehicle title and registration records and driver's license records.

Member Bardwell moved for approval of this recommendation; Member Klawon seconded the motion and the motion was passed 8-0.

#### **Activity Report**

The Board reviewed this report for the period ending August 3, 2001.

#### **Staff Approved Loans Report**

Ms. Geri Burton reported that:

Borrower: Golden Valley County

Purpose: To finance the purchase of a new truck for the Sheriff's Department.

Staff Approval Date July 13, 2001

Board Loan Amount: \$18,496.20

Term: 3 Years

Borrower: Teton County

Purpose: To finance a portion of the costs of airport improvements at the Choteau Airport.

Staff Approval Date July 30, 2001

Board Loan Amount: \$27,000

Term: 10 Years

has been approved by staff.

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

Colstrip Public School

\$400,000

2 Years

To finance costs associated with school facility upgrades.

City of Forsyth

\$267,895

10 Years

To refinance outstanding water revenue bonds.

Member Fleming moved for approval of this recommendation; Member Wilson seconded the motion and the motion was passed 8-0.

## **CHIEF INVESTMENT OFFICER REPORTS**

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

### **Asset Allocation Report**

Mr. Jim Penner, Chief Investment Officer, presented staff recommendation for the following Asset Allocation purchases for September 1, 2001:

- \$25 million to Barclays Indexing Fund and \$4 million to State Fund
- \$10 - 15 million Montana Stock Pool
- \$2.5 million to Schrodgers, external Asian Pacific manager.

The Board concurred with staff recommendation.

### **Quarterly Investment Performance Report**

Mr. Penner presented the MTCP, International-Asia, International-Europe, Total International Equities, RFBP, TFBP, STIP, PERS, State Fund Performance and Returns by Asset Type quarterly report through the June 30, 2001.

## **LOAN PROGRAMS**

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

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

Borrower: Lamplighter Square, LLC.

Lender: First Interstate Bank, Billings

Purpose of Loan: To refinance existing debt and pay approximately \$500,000 of remodeling costs attributable to subject property.

Amount of Loan: \$2,500,000

Board Loan Amount: \$2,000,000

Board Participation: 80%

Term of Loan: 20 Years

Interest Rate: 7.35% + .40% LSF

Recommendation: Approval, subject to the terms and conditions in Schedule A.

Loan Committee Recommendation: Approve

Borrower: Gene Graf and Yvonne Jarrett (LLC name to be determined)

Lender: Wells Fargo Bank, Bozeman

Purpose of Loan: To provide permanent financing for the construction of the restaurant facility.

Amount of Loan: \$1,122,000

Board Loan Amount: \$561,000

Board Participation: 50%

Term of Loan: 20 Years

Interest Rate: 7.70% + .30% LSF

Recommendation: Approval, subject to the terms and conditions in Schedule A.

Loan Committee Recommendation: Approve

Borrower: Michael J. & Gail Zimmerman

Lender: Valley Bank of Helena

Purpose of Loan: To provide permanent first deed of trust financing for a new 100-room motel.

Amount of Loan: \$1,600,000

Board Loan Amount: \$800,000

Board Participation: 50%

Term of Loan: 20 Years

Interest Rate: 7.70% + 1.00% LSF

Recommendation: Approval, subject to the terms and conditions in Schedule A.

Loan Committee Recommendation: Deny

Borrower: Continental Development, Inc.

Lender: First Interstate Bank, Missoula

Purpose of Loan: To purchase the Cottonwoods Apartments, convert to condos and to provide long term, fixed rate financing.

Amount of Loan: \$4,100,000

Board Loan Amount: \$3,280,000

Board Participation: 80%

Term of Loan: 25 Years

Interest Rate: 7.90% + .625% LSF

Recommendation: Approval, subject to the terms and conditions in Schedule A.

Loan Committee Recommendation: Approve

Member Fleming moved for ratification of loan committee recommendations; Member Klawon seconded the motion and the motion was passed 8-0.

### **Staff Approved Value Added Loan**

Borrower: Big Sky Brewing Company, Missoula

Lender: First National Bank of Montana, Missoula

Staff Approval Date July 20, 2001

Board Loan Amount: \$1,476,125

### **Small Project Pool Recommendation**

Ms. Delrene Rasmussen, Assistant Investment Officer, presented staff recommendation to develop the Small Projects Pool Loan participation program.

This program is an effort to become more efficient in the processing of small loans internally and an effort to provide a usable, efficient product for the lenders to expedite their participation of loans with the Board of Investments. Board of Investments benefits:

§ Only one reservation is processed reducing costs.

- § Only one loan request is processed reducing costs.
- § Only one payment is received per month to be processed by accounting staff, thereby reducing costs.
- § Greater equity and debt coverage ratio within the pool than if the loans were presented individually.
- § Only one loan write-up will be presented to the internal loan committee.
- § Each individual loan will be \$250,000 or less within the pool allowing internal loan committee review.

Lender benefits:

- § Only one reservation is prepared, reducing costs.
- § Only one application is prepared reducing costs.
- § Quicker turn around time for funding pool rather than processing funding for each loan individually.
- § Less documentation submitted to BOI saving paper and mailing costs.
- § Only one payment reconciliation prepared for the pool rather than individual reconciliations, thereby reducing costs.
- § The Small Business Loan interest rate reduction of 50 basis points for loans under \$325,000 applies to the total pool.
- § Increased efficiency in processing multiple smaller commercial loans for participation.

Member Beams moved for approval of this recommendation; Member Bardwell seconded the motion and the motion was passed 8-0.

### **Coal Tax Loan Activity**

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

### **Staff Approved Loans Committed and Purchased**

The Board reviewed this report for June.

### **Mortgage Program Activity Review**

The Board reviewed this report for June.

## **INVESTMENT ACTIVITY**

### **Montcomp**

Mr. Rande Muffick presented June transactions, the holdings report as of June 30, 2001 and the current investment strategy. Member Ryan moved for approval of the Montcomp strategy as presented; Member Klawon seconded the motion and the motion was passed 9-0. Chairman Anderson returned at the start of this presentation.

In addition, Mr. Muffick presented Kraft Foods and John Hancock Financial Services as Portfolio Additions.

### **Presentation**

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

## **ADJOURNED**

The meeting adjourned for the day at 5:30 p.m.

## **CALL TO ORDER**

The meeting was reconvened Friday, August 17, 2001 at 8:30 a.m. Nine members of the Board were present.

## **INVESTMENT ACTIVITY continued**

### **Presentation**

Ms. Molly Meng, Mr. T. Bondurant French, and Mr. Terry P. Gould, Adams Street Partners presented to the Board and staff the annual Private Equity Portfolio update.

Chairman Anderson left the meeting at this time.

### **Presentation**

Mr. Henry Disano and Mr. Jay L. Carty, State Street Security Lending, presented to the Board and staff a presentation on Global Securities Lending and the Securities Lending Performance Comparison for fiscal year 2000 vs. 2001.

Member Klawon left the meeting at this time.

### **Private Equities**

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

In addition, Mr. Kelly presented the Investment Policy Statements for Private Equity. Member Long moved for approval of the Investment Policy Statements as presented; Member Fleming seconded the motion and the motion was passed 7-0.

### **Brinson Partnership Trust Fund Recommendation**

Mr. Ed Kelly presented staff recommendation to commit to investing \$40 million in the Brinson Partnership Fund Trust - 2002 Fund. This fund invests in a diversified portfolio of both US and non-US private equity partnerships, both primary and secondary, across various sub-classes that include: Venture capital, buyouts, mezzanine and special situation funds. This diversification should generate long term returns that outperform private equity industry returns for the limited partner investors.

Member Fleming moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 7-0.

### **Adams Street Partners Fund V Recommendation**

Mr. Ed Kelly presented staff recommendation to commit to investing \$40 million in the Adams Street V direct investment fund.

Member Long moved for approval of this recommendation; Member Wilson seconded the motion and the motion was passed 7-0.

### **KKR Millennium Fund Recommendation**

Mr. Ed Kelly presented staff recommendation that the Montana Board of Investments not commit to investing in the KKR Millennium Fund.

Member Fleming moved for approval of this recommendation; Member Robinson seconded the motion and the motion was passed 7-0.

### **Fixed Income**

Mr. Robert Bugni presented June transactions, and the current investment strategy. Member Bardwell moved for approval of the Fixed Income strategy as presented; Member Wilson seconded the motion and the motion was passed 7-0.

In addition, Mr. Bugni presented the Non-Investment Grade Holdings Report; the RFBP Holdings report as of June

30, 2001; the TFBP Holdings report as of June 30, 2001 and the State Fund Holdings report as of June 30, 2001.

### **Security Lending**

Mr. Richard Cooley presented this report for June.

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

Mr. Cooley also presented June STIP transactions the STIP holdings report as of June 30, 2001, the June Treasure's Fund transactions, the Treasurer's Fund holdings report as of June 30, 2001 and the current investment strategy for both of these funds. Member Long moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Wilson seconded the motion and the motion was passed 7-0.

In addition, Mr. Cooley presented the Investment Policy Statements for Short Term Investment Pool Policy and Treasurer's Fund Investment Policy. Member Wilson moved for approval of the Investment Policy Statements as presented; Member Fleming seconded the motion and the motion was passed 7-0.

### **International Investment**

Mr. Jim Penner presented June transactions, the holdings report as of June 30, 2001 and the current investment strategy. Member Fleming moved for approval of the International Investment strategy as presented; Member Wilson seconded the motion and the motion was passed 7-0.

### **Next Meeting**

The next regularly scheduled meeting of the Board will be September 20 & 21, 2001.

### **ADJOURNMENT**

There being no further business the meeting was adjourned at 11:45 a.m.

### **BOARD OF INVESTMENTS**

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: