

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

December 13 & 14, 2001

**2401 Colonial Drive, 3rd Floor
Helena, Montana**

Thursday, December 13, 2001

AGENDA

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

- A. Roll Call
- B. Approval of the November 1, 2001 Regular Meeting Minutes
- C. Administrative Business

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

- A. Science & Technology Portfolio Letters
- B. Budget Status Report
- C. Out-of-State Travel Requests

III. BOND PROGRAM - Geri Burton 1:30 p.m.

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

IV. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 2:00 p.m.

- A. Economic Overview - Newsletter
- B. Asset Allocation
- C. Soft Dollar Report
- D. Calendar 2002 Board Meeting Schedule

V. MONTANA LOAN PROGRAM - Delrene Rasmussen 2:15 p.m.

- A. Consider Commercial/Multi-Family Loans
 - 1. James Kack
 - 2. Cannon/Helena Springs Partnership
- B. Coal Tax Loan Activity Report - October
- C. Mortgage Program Activity Report - October
- D. Jumbo Loan Policy Change Request

VI. INVESTMENT ACTIVITY 2:30 p.m.

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
 - 1. Transactions - October
 - 2. Holdings Report
 - 3. Strategy
- B. International Equities (MTIP) - David Ewer
 - 1. Europe and Americas
 - a. Internal Transactions - October
 - b. Internal International Holdings Report
 - c. Strategy

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Friday, December 14, 2001

AGENDA

VI. INVESTMENT ACTIVITY - continued 8:30 a.m.

C. Private Equities - Ed Kelly

1. Transactions - October
2. Total Private Equity - June 2001
3. Total Leverage Buyouts - September 2001
4. Private Equity Update

D. Fixed Income - Bob Bugni, CFA

1. Transactions - October
2. Strategy
3. Investment Policy Statements
 - a. Retirement Funds Bond Pool (RFBP)
 - b. Trust Funds Bond Pool (TFBP)
 - c. Upper Clark Fork River Basin Fund (UCFBF)
 - d. Upper Clark Fork River Basin Reserve Fund
 - e. Streamside Tailings Operable Settlement Fund

E. Security Lending - Rich Cooley, CFA

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

1. STIP Transactions - October
2. STIP Holdings Report
3. Treasurer's Fund Transactions - October
4. Treasurer's Fund Holdings Report
5. Strategy
6. Investment Policy Statements
 - a. University of Montana Endowments

VII. 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.

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor
Helena, Montana
December 13, 2001**

MINUTES

BOARD MEMBERS PRESENT:

Douglas Bardwell
Dennis Beams
Maureen Fleming
Joel Long
F. Lee Robinson
Tim Ryan
Calvin Wilson

BOARD MEMBERS ABSENT:

Dick Anderson, Chairman
Jay Klawon

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/Board Secretary
David Ewer, Senior Portfolio Manager
Edward Kelly, Assistant Investment Officer
Herbert Kulow, Senior Portfolio Manager
James R. Penner, CFA, Chief Investment Officer
Delrene Rasmussen, Assistant Investment Officer
Carroll V. South, Executive Director
Louise Welsh, Bond Program Assistant

GUESTS:

CALL TO ORDER

Vice Chairman Ryan 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 seven members of the Board present. Chairman Anderson and Member Klawon were absent.

Member Robinson motioned for approval of the November 1, 2001 minutes; Member Bardwell seconded the motion and the motion was passed 7-0.

EXECUTIVE DIRECTOR REPORTS

Science and Technology Portfolio Letters

Executive Director, Carroll South, presented to the Board a memo from the Legislative Fiscal Division with questions for the staff of the Board of Investments regarding portfolios transferred from the Montana Board of Science and Technology Development. The questions were prepared based on legislative concerns regarding historical and projected data for these portfolios. Mr. South responded to these questions, as was requested. A copy of the Legislative Fiscal Division memo and a copy of the Mr. South's response is kept with the December 13, 2001 Board Meeting book.

S & K Development, Inc. Rate Reduction Request

Executive Director, Carroll South, presented a request from S & K Development, Inc., requesting an interest rate reduction buy down. In Mr. South's reply to this request, he states that the Montana Board of Investments is a state agency responsible for investing all state funds, including the Permanent Coal Tax Trust from which this loan was originally made. Given that the KwaTaqNuk Resort does not presently collect and remit the State of Montana accommodations tax and the state is currently contesting that issue, staff does not believe it would be appropriate to provide a state funded interest rate subsidy to the resort until the issue is resolved.

Member Wilson motioned to support Mr. South's position on this issue on behalf of the Board; Member Beams seconded the motion and the motion was passed 7-0.

Budget Status Report

Executive Director Carroll South presented this report for the period ending October 31, 2001.

Out-of-State Travel

Executive Director, Carroll South, presented travel recommendations for Bob Bugni to attend the NASIP 2002 Conference in Orlando, FL., January 5 - 10, 2002. Member Bardwell moved for approval of this recommendation; Member Wilson seconded the motion and the motion was passed 7-0.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending November 30, 2001.

Staff Approved Loans Report

Ms. Geri Burton reported that:

Borrower: Shelby Addition County Water District (Lolo)

Purpose: To finance the cost of purchasing and installing water meters.

Staff Approval Date October 26, 2001

Board Loan Amount: \$26,000

Term: 10 Years

Borrower: City of Thompson Falls

Purpose: To finance the costs of equipment/vehicles.

Staff Approval Date October 26, 2001

Board Loan Amount: \$90,000

Term: 5 Years

Borrower: Treasure County

Purpose: To finance the purchase of an ambulance.

Staff Approval Date October 30, 2001

Board Loan Amount: \$9,980

Term: 3 Years

Borrower: Meadowlark County Water & Sewer District (Havre)

Purpose: To finance costs associated with a preliminary engineering study.

Staff Approval Date October 31, 2001

Board Loan Amount: \$15,415

Term: 3 Years

Borrower: Lolo School District #7

Purpose: To finance the purchase of a dishwashing machine and a booster heater.

Staff Approval Date November 6, 2001

Board Loan Amount: \$17,000

Term: 7 Years

Borrower: City of Missoula

Purpose: To finance a bond anticipation note (BAN) for a special improvement district (SID) project.

Staff Approval Date November 16, 2001

Board Loan Amount: \$35,000

Term: 3 Years

has been approved by staff.

INTERCAP

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:

Hellgate Elementary School (Missoula) City of Missoula

\$1,004,489 \$392,750

5 Years 1 Year

To finance the purchase of land. To finance vehicle and equipment purchases.

Department of Transportation

\$508,402

5 Years

To finance vehicle purchases for the State's motor pool.

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

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:

January Proposed Transactions:

\$7.5 million Schroders Asset Management

\$2.5 million SG Pacific Asset Management

\$5.0 million Pyrford

\$15 million S & P 500 Index Fund

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

Soft Dollar Report

Mr. Jim Penner presented the Soft Dollar Report for Fiscal Year Ending 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 requests:

Borrower: James W. and Joanne B. Kack

Lender: Mountain West Bank, Bozeman

Purpose of Loan: To provide a commercial term loan for the permanent financing of an office/warehouse building.

Amount of Loan: \$600,000

Board Loan Amount: \$480,000

Board Participation: 80%

Term of Loan: 15 Years

Interest Rate: 7.50% + .75% LSF

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

Loan Committee Recommendation: Approve

Borrower: Cannon Springs Partnership and Helena Springs Partnership

Lender: Mountain West Bank, Helena

Purpose of Loan: To refinance an existing debt.

Amount of Loan: \$800,000

Board Loan Amount: \$640,000

Board Participation: 80%

Term of Loan: 10 Years

Interest Rate: 7.10% + .30% LSF

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

Loan Committee Recommendation: Approve

Member Bardwell moved for ratification of loan committee recommendation; Member Long seconded the motion and the motion was passed 7-0.

Coal Tax Loan Activity

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

Staff Approved Loans Committed

The Board reviewed this report for October.

Mortgage Program Activity Review

The Board reviewed this report for October.

Jumbo Loan Policy Change Request

Ms. Delrene Rasmussen, presented staff recommendation to change the policy for Freddie Mac maximum loan limit for conforming loans from \$275,000 to \$300,700 - \$400,000 with a loan to value of 65%; and the loan to value of 50% on a loan amount of \$400,001 to \$500,000. This change would be effective January 1, 2002.

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

INVESTMENT ACTIVITY

Fixed Income

Mr. Robert Bugni presented October transactions, and the current investment strategy. Member Fleming 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 Investment Policy Statements for the Retirement Funds Bond Pool, Trust Funds Bond Pool, Upper Clark Fork River Basin Fund, Upper Clark Fork River Basin Reserve Fund and the Streamside Tailings Operable Settlement Fund. Member Fleming moved for approval of the Investment Policy Statements as presented; Member Wilson seconded the motion and the motion was passed 7-0.

Security Lending

Mr. Richard Cooley presented this report for October.

Treasurer's and STIP Funds

Mr. Cooley also presented October STIP transactions the STIP holdings report as of October 31, 2001, the October Treasurer's Fund transactions, the Treasurer's Fund holdings report as of October 31, 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 Wilson seconded the motion and the motion was passed 7-0.

In addition, Mr. Cooley presented the Investment Policy Statement for the University of Montana Endowments. Member Wilson moved for approval of the Investment Policy Statement as presented; Member Beams seconded the motion and the motion was passed 7-0.

Montcomp

Mr. Jim Penner presented October transactions, the holdings report as of October 31, 2001 and the current investment strategy. Member Wilson moved for approval of the Montcomp strategy as presented; Member Fleming seconded the motion and the motion was passed 7-0.

International Investment

Mr. David Ewer presented October transactions, the holdings report as of October 31, 2001 and the current investment strategy.

SGPAM and Schroders Annual Review

Mr. David Ewer presented the annual review of SGPAM and Schroders Asset Management, the Board's external Asian Pacific Managers. Staff recommendation is to retain these two managers.

Member Fleming moved for approval of the International Investment strategy as presented and the staff recommendation to retain the two external Asian Pacific Managers; Member Wilson seconded the motion and the motion was passed 7-0.

Private Equities

Mr. Ed Kelly presented October transactions, the Total Private Equity Report as of June 2001, and the Total Leverage Buyouts Report as of September 2001. In addition, Mr. Kelly presented the Private Equity Update.

Next Meeting

The next regularly scheduled meeting of the Board will be January 17 & 18, 2002.

ADJOURNMENT

There being no further business, the meeting was adjourned at 4:00 p.m.

BOARD OF INVESTMENTS

APPROVE:

Tim Ryan, Vice Chairman

ATTEST:

Carroll South, Executive Director

DATE: