

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

January 18 & 19, 2001

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

Thursday, January 18, 2001

AGENDA

- I. CALL TO ORDER** **1:00 p.m.**
- A. Roll Call
 - B. Approval of the December 7 & 8, 2000 Regular Meeting Minutes
 - C. Administrative Business
- II. EXECUTIVE DIRECTOR REPORTS Carroll South** **1:15 p.m.**
- A. Legislative Update - Verbal
 - B. CRP Program
 - 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** **2:00 p.m.**
- A. Economic Overview Newsletter
 - B. Asset Allocation
 - C. In-State Venture Capital **Recommendation**
- V. MONTANA LOAN PROGRAM Delrene Rasmussen** **2:45 p.m.**
- A. Consider Commercial/Multi-Family Loans
 - 1. Gateway Limited Partnership
 - 2. Scott Cooney
 - 3. Great Falls Athletic Club LLC
 - B. Staff Approved Value Added Loans
 - 1. Ernest & Leanne Dutton
 - C. Missoula Credit Union Memo
 - D. Coal Tax Loan Activity Report - November
 - E. Mortgage Program Activity Report November
 - F. Loan Committee Lending Limit Memo - **Recommendation**
- VI. INVESTMENT ACTIVITY** **3:30 p.m.**
- A. Domestic Equities (Montcomp) Rande Muffick, CFA
 - 1. Transactions - November
 - 2. Holdings Report
 - 3. Strategy
 - 4. Portfolio Additions
 - a. Coca Cola
 - b. Mellon Financial

- B. International Equities (MTIP) David Ewer
 - 1. Europe and Americas
 - a. Internal Transactions - November
 - b. Internal International Holdings Report
 - c. Strategy

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Friday, January 19, 2001

AGENDA

- VI. INVESTMENT ACTIVITY - continued** **8:30 a.m.**
 - C. **Presentation** Madison Dearborn Capital Partners Fund IV
Mr. John A. Canning, Jr., Principal

 - D. Private Equities Ed Kelly **9:00 a.m.**
 - 1. Madison Dearborn Capital Partners Fund IV - **Recommendation**
 - 2. Schedule of Terms and Conditions
 - 3. Summary of Investment Returns
 - 4. Transactions - November

 - E. Montana Real Estate Portfolio (MTRP) Ed Kelly
 - 1. Transactions - November
 - 2. Holdings Report
 - 3. Strategy

 - F. Fixed Income Bob Bugni, CFA
 - 1. Transactions - November
 - 2. Strategy
 - 3. Investment Policy Statements
 - a. Tobacco Settlement Trust Fund (new)

 - G. Security Lending Rich Cooley, CFA

 - H. STIP and Treasurer's Funds Rich Cooley, CFA
 - 1. STIP Transactions - November
 - 2. STIP Holdings Report
 - 3. Treasurer's Fund Transactions - November
 - 4. Treasurer's Fund Holdings Report
 - 5. Strategy

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.

DEPARTMENT OF COMMERCE

March 1 & 2, 2001 approved these minutes.

**2401 Colonial Drive, 3rd Floor
Helena, Montana
January 18 & 19, 2001**

MINUTES

BOARD MEMBERS PRESENT:

Troy McGee, Chairman
Douglas Bardwell
Maureen Fleming
F. Lee Robinson
Tim Ryan

BOARD MEMBERS ABSENT:

Dick Anderson
Joy Ott
Bill Price
Calvin Wilson

STAFF PRESENT:

Peter S. Blouke, Deputy Director
Robert T. Bugni, CFA, Assistant Investment Officer
Richard Cooley, CFA, Assistant Investment Officer
Kimberly Dallas, Program Assistant
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:

Ms. Debra Hayden, Community Venture Capital Firm
Mr. John Mathia, CFA, Backfin Capital, LLC
Mr. John Canning, Jr., President, Madison Dearborn Partners

CALL TO ORDER

Chairman McGee 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 five

members of the Board present. Members Ott, Anderson, Price and Wilson were absent.

Member Robinson motioned for approval of the December 7 & 8, 2000 minutes; Member Ryan seconded the motion and the motion was passed 5-0.

ADMINISTRATIVE BUSINESS

Chairman McGee presented the following Administrative Business:

1. Ms. Gayle Moon introduced Ms. Dawn Doyle as a new staff person in Accounting.

EXECUTIVE DIRECTOR REPORTS

Legislative Update

Mr. Carroll South, Executive Director presented a verbal update on the current legislative session. Mr. South states that there is a large focus on economic development with this session. Recently, he and Mr. Peter Blouke met with various key leaders in order to give them an insight on what the Board of Investments is able to do.

Additional discussion included the Value Added Loan Program, Infrastructure Loan Program, and that 2 new loan programs will be proposed which involve local economic development groups.

Member Anderson arrived prior to the start of Mr. South's presentation.

CRP Program

Mr. South presented to the Board, staff recommendation for the Conservation Reserve Enhancement Program (CRP). Staff recommends the following:

1. Rebate one-half of the 1.0 percent origination fee to the farmers whose loans have been funded from the TFBP.
2. Permanently reduce the origination fee costs to farmers from 1.0 percent to 0.5 percent on new loans.
3. Continue paying a 1.0 percent origination fee to the loan originator and absorb the remaining 0.5 percent with the loan spread.
4. Reimburse U.S. Bank Trust, the Program's trustee and Doane Western, the loan originator for costs of preparing checks and statements.

Member Fleming moved for approval of this recommendation as presented; Member Robinson seconded the motion and the motion was passed 6-0.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending January 5, 2001.

Staff Approved Loans Report

Mr. Carroll South reported that:

Borrower: City of Lewistown

Purpose: To finance a special improvement district that will include preparation and installation of curb, gutter, sidewalks, and street paving.
Staff Approval Date December 11, 2000
Board Loan Amount: \$45,000
Term: 10 Years

Borrower: Opheim School District
Purpose: To finance costs associated with retrofitting the School's electrical heating system to hot water.
Staff Approval Date December 11, 2000
Board Loan Amount: \$165,000
Term: 5 Years

has been approved by staff.

INTERCAP

- Mr. Carroll South 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:

Madison Valley Rural Fire District

\$350,000

10 Years

To finance the costs of constructing a new fire house

Department of Transportation

\$184,498

Increase February 2000 approved loan request from \$523,279 to \$707,777.

Member Anderson moved for approval of this recommendation; Member Robinson seconded the motion and the motion was passed 6-0.

CHIEF INVESTMENT OFFICER REPORTS

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

Asset Allocation Report

Mr. Jim Penner, Chief Investment Officer, stated that on February 1, 2001, an additional \$15 million will be funded to the Domestic Equity Pool, and \$4 million will be funded to Domestic Equities for the State Fund Indexing Pool.

Personnel Issues

Staff received 30 applications for the two vacant Investment Analyst positions. Staff interviewed 8 candidates and has extended an offer of employment to the top two candidates. A third vacancy will be funded in July and it will be offered to the third applicant.

In-State Venture Capital Recommendation

Mr. Jim Penner presented staff development of the minimum criteria for considering in-state venture capital

proposals.

Staff recommends that the Board continue to invest in venture capital for the retirement funds exclusively using the industry recognized expertise that Adam's Street Partner's (formerly Brinson Partners) has provided Montana. However, if the Board desires to invest directly in Montana venture capital partnerships, staff recommends the Board adopt an investment policy with the following minimum criteria:

1. Partnership organization is comprised of three or more principals actively involved in investment management of the partnership with a minimum of 5 years each of successful venture capital investing (defined as delivering above industry average returns based on vintage year of fund).
2. Board investment participation does not exceed 20% of total partnership.
3. Principals invest own money equal to a minimum of 2% of the partnership.
4. Investments are restricted to Montana only companies.

Member Fleming moved that staff request a legal opinion to invest Coal Tax monies in Venture Capital as outlined by staff; Member Anderson seconded this motion and the motion was passed 6-0.

Member Anderson asked that staff be directed to meet with Adam Street Partners and to discuss meeting with Venture Capital firms in Montana and to look into forming a partnership or being a conduit between the state and Montana venture capital firms. Chairman McGee directed Mr. Penner to do this.

No action was taken on the staff recommendation made regarding the venture capital criteria.

LOAN PROGRAMS

Consideration of Commercial Loan Participation Permanent Coal Trust Fund

Mr. Herb Kulow presented staff's recommendation to participate in the following loan requests:

Borrower:	Gateway Limited Partnership
Lender:	Mountain West Bank, Missoula
Purpose of Loan:	To provide term financing of the construction of a 9,495 sq. ft. building with improvements including site development and parking
Amount of Loan:	\$600,000
Board Loan Amount:	\$480,000
Board Participation:	80%
Term of Loan:	10 Years
Interest Rate:	7.80% + .60% LSF

Member Bardwell moved for approval of this recommendation; Member Ryan seconded the motion and the motion was passed 6-0.

Borrower:	Scott Cooney
Lender:	First Security Bank, Missoula
Purpose of Loan:	To construct a 2,000+ sq. ft. office building, remodel and expand an existing building and refinance existing debt.
Amount of Loan:	\$1,700,000
Board Loan Amount:	\$1,360,000
Board Participation:	80%
Term of Loan:	20 Years
Interest Rate:	7.85% + .95% LSF

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

was passed 6-0.

Borrower:	Great Falls Athletic Club, LLC.
Lender:	Mountain West Bank, Great Falls
Purpose of Loan:	To provide long term financing for the construction of an athletic club.
Amount of Loan:	\$3,165,000
Board Loan Amount:	\$2,532,000
Board Participation:	80%
Term of Loan:	25 Years
Interest Rate:	To be determined

Member Robinson moved for approval of this recommendation; Member Fleming seconded the motion and the motion was passed 5-0. Member Anderson abstained from the vote.

Staff Approved Value Added Loan

Borrower:	Ernest W. & Leanne O. Dutton
Lender:	Western Security Bank, Billings
Staff Approval Date:	November 30, 2000
Board Loan Amount:	\$351,652
Purpose of Loan:	To provide long term financing for land and building for tenant, Plum Building Systems, Inc.

Coal Tax Loan Activity

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

Staff Approved Loans Committed

The Board reviewed this report for November.

Mortgage Program Activity Review

- The Board reviewed this report for November.

Loan Committee Lending Limit

Ms. Delrene Rasmussen presented staff recommendation that the approval limit on the loan committee be increased to \$1,000,000. Any loan of \$1,000,000 or more would be brought to the board for review and approval.

Member Fleming asked that this request be tabled and that it be revisited in May or June. Due to the number of loans that staff has received, the Board directed staff to use the more abbreviated internal form when presenting loans to the board for more than \$500,000 and less than \$1,000,000, if excessive work load makes it necessary, and to use the standard format for loans in excess of \$1,000,000.

INVESTMENT ACTIVITY

Montcomp

- Mr. Rande Muffick presented November transactions, the holdings report as of November 30, 2000 and the current

investment strategy. Member Fleming moved for approval of the Montcomp strategy as presented; Member Bardwell seconded the motion and the motion was passed 6-0.

In addition, Mr. Muffick presented Coca-Cola and Mellon Financial as a Portfolio Additions.

International Investment

- Mr. David Ewer presented November transactions, the holdings report as of December 31, 2000 and the current investment strategy. Member Fleming moved for approval of the International Investment strategy as presented; Member Ryan seconded the motion and the motion was passed 6-0.

ADJOURNED

The meeting adjourned for the day at 5:00 pm.

CALL TO ORDER

The meeting was reconvened Friday, January 18, 2001 at 8:30 a.m. Six members of the Board were present. Members Ott, Price and Wilson were absent.

INVESTMENT ACTIVITY continued

PRESENTATION

Madison Dearborn Partners

Mr. John Canning, Jr., made a presentation to the Board on the Madison Dearborn Partners Fund IV.

Private Equities

Mr. Ed Kelly presented staff recommendation to commit to investing \$25 million in the leverage buy-out fund, Madison Dearborn Partners IV. Member Fleming motioned for approval of staff recommendation as presented; Member Anderson seconded the motion and the motion was passed 6-0.

In addition, Mr. Ed Kelly presented November transactions.

Montana Real Estate Portfolio (MTRP)

- Mr. Ed Kelly presented November transactions, the holdings report as of November 30, 2000 and the current investment strategy. Member Anderson moved for approval of the MTRP strategy as presented; Member Fleming seconded the motion and the motion was passed 6-0.

Fixed Income

- Mr. Robert Bugni presented November transactions, and the current investment strategy. Member Ryan moved for approval of the Fixed Income strategy as presented; Member Fleming seconded the motion and the motion was passed 6-0.

In addition, Mr. Bugni presented the Investment Policy Statement for the Tobacco Settlement Trust Fund. Member Fleming moved for approval of the Investment Policy Statement as presented; Member Anderson seconded the motion and the motion

was passed 6-0.

Security Lending

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Mr. Richard Cooley presented this report for November.

Treasurer's and STIP Funds

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Mr. Cooley also presented November STIP transactions the STIP holdings report as of November 30, 2000, the November Treasure's Fund transactions, the Treasurer's Fund holdings report as of November 30, 2000 and the current investment strategy for both of these funds. Member Fleming moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Ryan seconded the motion and the motion was passed 6-0.

Next Meeting

The next regularly scheduled meeting of the Board will be March 1 & 2, 2001.

ADJOURNMENT

There being no further business, the meeting was adjourned at 10:30 a.m.

BOARD OF INVESTMENTS

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE:
