

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

**Big Sky Resort
The Talus Room
The Summit Lodge
Big Sky, Montana**

Tuesday, July 10, 2001

AGENDA

- I. CALL TO ORDER** **1:00 p.m.**
- A. Roll Call
 - B. Approval of the May 17 & 18, 2001 Regular Meeting Minutes
 - C. Administrative Business
- II. PRESENTATION - Update of WCAS IX Investment** **1:15 p.m.**
Mr. Jonathan M. Rather, General Partner & Chief Financial Officer, Welsh, Carson, Anderson & Stowe
- III. EXECUTIVE DIRECTOR REPORTS Carroll South** **1:45 p.m.**
- A. School Trust Loan Agreement
 - B. Out-of-State Travel Requests
- IV. BOND PROGRAM Carroll South** **2:00 p.m.**
- A. INTERCAP
 - 1. Activity Report
 - 2. Staff Approved Loans Report
 - 3. Loan Requests
- V. CHIEF INVESTMENT OFFICER REPORTS Jim Penner, CFA** **2:15 p.m.**
- A. Economic Overview Newsletter
 - B. Asset Allocation
- VI. MONTANA LOAN PROGRAM Delrene Rasmussen** **2:30 p.m.**
- A. Consider Commercial/Multi-Family Loans
 - 1. Gateway Limited Partnership
 - 2. The S.P.E.L. Company
 - 3. Woodahl Land & Livestock Co.
 - 4. Bruce Bugbee & Allen Fetscher
 - 5. DEH, LLC.
 - 6. North Dakota Partners, LLC
 - 7. Level, Edds, & Level, LLP.
 - B. Consider Value Added Loans
 - 1. Sonju Industrial, Inc.
 - 2. Emerald USA Limited and Ruby Corporation Limited
 - C. Approved Lender AgStar Financial Services
 - D. Coal Tax Loan Activity Report April and May
 - E. Mortgage Program Activity Report April and May
- VII. INVESTMENT ACTIVITY** **3:00 p.m.**
- A. Domestic Equities (Montcomp) Jim Penner, CFA
 - 1. Transactions - May
 - 2. Holdings Report
 - 3. Strategy

4. Portfolio Additions
 - a. United Parcel Service
 - b. Alcoa
- B. International Equities (MTIP) David Ewer
 1. Europe and Americas
 - a. Internal Transactions - May
 - b. Internal International Holdings Report
 - c. Strategy
- C. Private Equities Ed Kelly
 1. Transactions - May
 2. Venture Capital Update
- D. Fixed Income Bob Bugni, CFA
 1. Transactions - May
 2. Strategy
- E. Security Lending Bob Bugni, CFA
- F. STIP and Treasurer's Funds Bob Bugni, CFA
 1. STIP Transactions - May
 2. STIP Holdings Report
 3. Treasurer's Fund Transactions - May
 4. Treasurer's Fund Holdings Report
 5. Strategy

VIII. ADJOURNMENT

5:00 p.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

Big Sky Resort
The Talus Room
The Summit Lodge
Big Sky, Montana

Tuesday, July 10, 2001

MINUTES

BOARD MEMBERS PRESENT:

Dick Anderson, Chairman
Douglas Bardwell
Dennis Beams
Jay Klawon
F. Lee Robinson

Tim Ryan
Calvin Wilson

BOARD MEMBERS ABSENT:

Maureen Fleming
Joel Long

STAFF PRESENT:

Robert T. Bugni, CFA, Assistant Investment Officer
Kimberly Dallas, Program Assistant
David Ewer, Senior Portfolio Manager
Edward Kelly, Assistant Investment Officer
James R. Penner, CFA, Chief Investment Officer
Delrene Rasmussen, Assistant Investment Officer
Carroll V. South, Executive Director

GUESTS: Mr. Jonathan M. Rather, GP & CFO, Welsh, Carson, Anderson & Stowe

CALL TO ORDER

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 1:00 p.m. in The Talus Room at The Summit Lodge, Big Sky, Montana. As noted above, the meeting convened with seven members of the Board present.

Member Bardwell motioned for approval of the May 17 & 18, 2001 minutes; Member Robinson seconded the motion and the motion was passed 7-0.

PRESENTATION

Mr. Jonathan M. Rather presented to the Board a brief overview of Welsh, Carson, Anderson, and Stowe and reported on the Boards investments in WCAS Fund IX.

EXECUTIVE DIRECTOR REPORTS

School Trust Loan Agreement

Mr. Carroll South, Executive Director, presented to the Board the loan agreement between the Montana Board of Investments ("Board") and the Montana Department of Natural Resources ("Department"). This agreement, under Senate Bill 495, authorizes a loan of up to \$75.0 million from the Coal Severance Tax Permanent Fund to the School Trust, the proceeds of which will be used to purchase future mineral royalty revenue from mineral royalties on state school land; authorizes the Board to enter into a contract with the Department to make this loan; and sets the rate of interest to be charged by the Board on the loan and establishes a mechanism and schedule for principal pay back.

The School Trust Loan Agreement was accepted by the Board and signed by Chairman Anderson.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending June 29, 2001.

INTERCAP

Staff Approved Loans Report

Mr. Carroll South reported that:

Borrower: Missoula County

Purpose: To finance the purchase of software and hardware for various County departments.

Staff Approval Date May 10, 2001

Board Loan Amount: \$176,655

Term: 3 Years

Borrower: Lewis & Clark County

Purpose: Financing for three rural improvement districts.

Staff Approval Date May 16, 2001

Board Loan Amount: \$211,881

Term: 10 Years

Borrower: Fort Benton Elementary School District #1

Purpose: To finance various projects within the Elementary School building.

Staff Approval Date May 17, 2001

Board Loan Amount: \$63,000

Term: 1 Year

Borrower: City of Choteau

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

Staff Approval Date June 4, 2001

Board Loan Amount: \$27,000

Term: 10 Years

Borrower: City of Laurel

Purpose: To finance the purchase of a new garbage truck.

Staff Approval Date June 4, 2001

Board Loan Amount: \$162,324

Term: 5 Years

Borrower: McCone County

Purpose: To finance the purchase of an ambulance.

Staff Approval Date June 4, 2001

Board Loan Amount: \$13,000

Term: 5 Years

Borrower: Lake County

Purpose: To finance the purchase of eight new sheriff vehicles for the County.

Staff Approval Date June 8, 2001

Board Loan Amount: \$200,000

Term: 3 Years

Borrower: Nashua Schools

Purpose: To finance a school building roof repair project.

Staff Approval Date June 8, 2001

Board Loan Amount: \$115,000

Term: 5 Years

has been approved by staff.

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:

Department of Transportation

\$1,539,536

5 Years

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

Member Ryan moved for approval of this recommendation; Member Beams 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, reported that on July 1, 2001, the following fundings were made:

§ \$2.5 million to each of the two external Asian Pacific managers, SG PAM and Schroders.

§ \$5 million to the external European manager, Pymford International

§ \$25 million to Barclays Indexing Fund and \$4 million to State Fund.

In addition, Mr. Penner presented staff recommendation that beginning on August 1, 2001, allocation of \$2.5 million would be invested with Schroders on a monthly basis. SG PAM would continue to receive their \$2.5 million allocation on a quarterly basis. Member Klawon moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 7-0.

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: Gateway Limited Partnership

Lender: First Interstate Bank, Missoula

Purpose of Loan: To provide permanent financing on a strip shopping center.

Amount of Loan: \$4,612,000

Board Loan Amount: \$3,228,400

Board Participation: 70%

Term of Loan: 15 Years

Interest Rate: 7.20% + .25% LSF

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

Loan Committee Recommendation: Approve

Borrower: The S.P.E.L. Company dba The Woman's Club

Lender: First Security Bank, Missoula

Purpose of Loan: Funding will provide long-term financing for the construction and improvements that were made during the summer of 2000.

Amount of Loan: \$993,873

Board Loan Amount: \$795,098

Board Participation: 80%

Term of Loan: 20 Years

Interest Rate: 7.55% + .95% LSF

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

Loan Committee Recommendation: Approve

Borrower: Woodahl Land & Livestock Company, LLC.

Lender: First Security Bank, Missoula

Purpose of Loan: To provide long-term financing for the renovation and expansion of the Harley-Davidson business.

Amount of Loan: \$1,210,427

Board Loan Amount: \$643,200

Board Participation: 53.1%

Term of Loan: 18 Years, 8 months

Interest Rate: 7.55%

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

Loan Committee Recommendation: Approve

Borrower: Bruce A. Bugbee and Allen J. Fetscher

Lender: First Interstate Bank, Missoula

Purpose of Loan: To provide permanent long-term financing for the purchase of the 6th floor of the Millennium Building.

Amount of Loan: \$720,000

Board Loan Amount: \$576,000

Board Participation: 80%

Term of Loan: 25 Years

Interest Rate: 7.40% + 1.00% LSF

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

Loan Committee Recommendation: Approve

Borrower: DEH, LLC.

Lender: First Security Bank, Missoula

Purpose of Loan: To provide long term financing, to refinance existing debt and to make real estate improvements.

Amount of Loan: \$2,600,000

Board Loan Amount: \$1,300,000

Board Participation: 50%

Term of Loan: 20 Years

Interest Rate: 7.55% + .95% LSF

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

Loan Committee Recommendation: Approve

Borrower: North Dakota Partners, LLC.

Lender: American Bank of Montana, Bozeman

Purpose of Loan: To purchase an existing building and to make improvements.

Amount of Loan: \$400,000

Board Loan Amount: \$320,000

Board Participation: 80%

Term of Loan: 20 Years

Interest Rate: 7.55% + .30% LSF

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

Loan Committee Recommendation: Approve

Borrower: Level, Edds & Level, LLP.
Lender: First National Bank of Montana, Missoula
Purpose of Loan: To refinance existing debt.
Amount of Loan: \$700,000
Board Loan Amount: \$560,000
Board Participation: 80%
Term of Loan: 15 Years
Interest Rate: 7.25% + .50% LSF
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Approve

Consideration of Value Added Loan Program - Coal Tax Trust Fund

Ms. Delrene Rasmussen presented a loan request to participate in the following loans:

Borrower: Sonju Industrial, Inc.
Lender: First Interstate Bank, Kalispell
Purpose of Loan: To provide permanent financing for the expansion of the manufacturing facility, previous purchase of equipment and to fund the purchase of new equipment.
Total Amount of Loan: \$1,000,000
Board Loan Amount: \$750,000
Board Participation: 75%
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Directed Staff to request additional information from Lender and to represent this Value Added Loan Program request at the August meeting.

Borrower: Emerald USA Limited and Ruby Corporation Limited
Lender: First Interstate Bank, Bozeman
Purpose of Loan: To provide long term fixed rate financing for the construction of a manufacturing building with office space.
Total Amount of Loan: \$1,835,250
Board Loan Amount: \$1,376,437
Board Participation: 75%
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Directed Staff to request additional information from Lender and to represent this Value Added Loan Program request at the August meeting.

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

Approved Lender

AgStar Financial Services of Mankato, Minnesota was approved on June 14, 2001 for the Coal Tax Loan Program.

Coal Tax Loan Activity

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

Staff Approved Loans Committed

The Board reviewed this report for April and May.

Mortgage Program Activity Review

The Board reviewed this report for April and May.

INVESTMENT ACTIVITY

Montcomp

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

In addition, Mr. Penner presented United Parcel Service and Alcoa as Portfolio Additions.

International Investment

Mr. David Ewer presented May transactions, the holdings report as of May 31, 2001 and the current investment strategy. Member Wilson moved for approval of the International Investment strategy as presented; Member Bardwell seconded the motion and the motion was passed 7-0.

Private Equities

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

Fixed Income

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

Security Lending

Mr. Robert Bugni presented this report for May.

Treasurer's and STIP Funds

Mr. Robert Bugni also presented May STIP transactions the STIP holdings report as of May 31, 2001, the May Treasure's Fund transactions, the Treasurer's Fund holdings report as of May 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.

NEXT MEETING

The next regularly scheduled meeting of the Board will be August 16 & 17, 2001.

ADJOURNMENT

There being no further business, the meeting was adjourned at 3:45 p.m.

BOARD OF INVESTMENTS

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: