

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

**November 1 & 2, 2001  
2401 Colonial Drive, 3rd Floor  
Helena, Montana**

**Thursday, November 1, 2001**

**AGENDA**

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

- A. Roll Call
- B. Approval of the September 20, 2001 Regular Meeting Minutes

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

- A. Value-added Definition - Source Giant Springs, Inc.
- B. Budget Status Report
- C. Out-of-State Travel Requests

**III. BOND PROGRAM - Geri Burton 2:00 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. Permanent Coal Tax Trust Guaranty
- D. Quarterly Investment Performance

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

- A. Value-Added Loan Request
  - 1. Emerald USA Limited and Ruby Corporation
- B. Consider Commercial/Multi-Family Loans
  - 1. K & E Equipment
  - 2. TRM, FLP.
  - 3. OZ @ Millennium Building
  - 4. Flathead Hospital Development Co., LLC.
  - 5. Harold Poulson
  - 6. Gateway Limited Partnership - Request to Increase Participation Amount
- C. Coal Tax Loan Activity Report - August and September
- D. Mortgage Program Activity Report - August and September
- E. Approved Lender - Continental National Bank, Harlowton

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

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
  - 1. Transactions - August and September
  - 2. Holdings Report
  - 3. Strategy
  - 4. Portfolio Additions
    - a. Minnesota Mining and Manufacturing
    - b. Perkin Elmer

- B. International Equities (MTIP) - David Ewer
  - 1. Europe and Americas
  - a. Internal Transactions - August and September

- b. Internal International Holdings Report
- c. Strategy
- 2. Investment Policy Statement
- a. International Equity

**REGULAR MEETING OF THE  
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**Friday, November 2, 2001**

**AGENDA**

**IV. INVESTMENT ACTIVITY - continued 8:30 a.m.**

**C. Private Equities - Ed Kelly**

- 1. Transactions - August and September
- 2. Private Equity Update

**D. Fixed Income - Bob Bugni, CFA**

- 1. Transactions - August and September
- 2. Strategy
- 3. Investment Policy Statements
  - a. State Fund Insurance - New Fund
  - b. State Fund Insurance - Old Fund

**E. Security Lending - Rich Cooley, CFA**

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

- 1. STIP Transactions - August and September
- 2. STIP Holdings Report
- 3. Treasurer's Fund Transactions - August and September
- 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.

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**MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor  
Helena, Montana  
November 1, 2001**

**MINUTES**

**BOARD MEMBERS PRESENT:**

Douglas Bardwell  
Maureen Fleming  
Jay Klawon

Joel Long  
F. Lee Robinson  
Tim Ryan  
Calvin Wilson

**BOARD MEMBERS ABSENT:**

Dick Anderson, Chairman  
Dennis Beams

**STAFF PRESENT:**

Peter S. Blouke, Deputy Director  
Robert T. Bugni, CFA, Senior Investment Officer  
Geri Burton, Bond Program Officer  
Dana Chapman, Investment Staff Assistant  
Sandi Conrady, ARU, CMB, Mortgage Analyst  
Richard Cooley, CFA, Assistant Investment Officer  
Kimberly Dallas, Program Assistant  
Bobbie Ecklund, Investment Analyst  
David Ewer, Senior Portfolio Manager  
Edward Kelly, Assistant Investment Officer  
Herbert Kulow, Senior Portfolio Manager  
Rande Muffick, CFA, Assistant Investment Officer  
Adam Nelson, Investment Analyst  
James R. Penner, CFA, Chief Investment Officer  
Delrene Rasmussen, Assistant Investment Officer  
John Romasko, Investment Analyst  
Paul Runnalls, Investment Analyst  
Carroll V. South, Executive Director  
Dan Stevens, Investment Analyst  
Steve Strong, Investment Analyst  
Louise Welsh, Bond Program Assistant  
Lon Whitaker, Investment Analyst

**GUESTS:**

Ms. Michelle Barstad, Assistant Director, MFFA  
Mr. David Brown, President, Giant Springs Water, Inc.  
Mr. Randy Gray, Stockholder, Giant Springs Water, Inc.  
Mr. Webb Carlson, Montana Chamber of Commerce  
Mr. Tim Burton, City Manager, City of Helena  
Ms. Liz Hirst, Budget Analyst, City of Helena

**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 7 members of the Board present. Member Anderson and Member Beams were absent.

Member Fleming motioned for approval of the September 20 & 21, 2001 minutes; Member Klawon seconded the

motion and the motion was passed 7-0.

## **EXECUTIVE DIRECTOR REPORTS**

### **Source Giant Springs, Inc.**

Mr. Carroll South, Executive Director, introduced Mr. David Brown and Mr. Randy Gray of Source Giant Springs Water, Inc.

Mr. Brown presented information to the Board to demonstrate that Source Giant Springs Water, Inc. does meet the criteria/definition of a value-added business. Mr. Brown explained that because the water is being processed as well as handled, this would qualify it as a value-added product. Staff does not consider the product to be processed sufficiently to qualify as a value-added product.

After a filmed demonstration of the amount of processing involved in treating the natural spring water (filtering and ozonization) to meet state and federal standards for drinking safety, Member Fleming moved that the processing did sufficiently change the raw product so that it met the conversion component of the Board's definition of value-added. The motion addressed the definition only and did not address any future loan request that Source Giants Springs Water, Inc., may present. Member Long seconded the motion and the motion was passed 7-0.

### **Budget Status Report**

Executive Director Carroll South presented this report for the period ending September 30, 2001.

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

Executive Director Carroll South, presented travel recommendations for Herb Kulow to attend the "Intro to the Real Estate Finance Industry" Conference in Charleston, SC, November 3 - 10, 2001; and David Ewer and Doug Bardwell to travel to Tokyo, Singapore and Hong Kong to meet with external Asian Pacific managers (SG Pacific Asset Management & Schrodgers), November 7 - 16, 2001. Member Fleming moved for approval of this recommendation; Member Long seconded the motion and the motion was passed 6-0. Member Bardwell abstained.

## **BOND PROGRAM**

### **Activity Report**

The Board reviewed this report for the period ending October 19, 2001.

### **Staff Approved Loans Report**

Ms. Geri Burton reported that:

Borrower: Lewis & Clark County

Purpose: To finance the design, fabrication and erection of permanent bleachers at the Lewis & Clark County Fairgrounds.

Staff Approval Date September 18, 2001

Board Loan Amount: \$199,900

Term: 10 Years

Borrower: Eureka Rural Volunteer Fire Department

Purpose: To finance the purchase of a pumper fire truck.

Staff Approval Date September 21, 2001

Board Loan Amount: \$30,695

Term: 3 Years

Borrower: Pryor Public School

Purpose: For cash flow purposes.  
Staff Approval Date October 12, 2001  
Board Loan Amount: \$200,000  
Term: Short term loan

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 loan using the Board's standard Bond Program Office procedures:

City of Helena  
\$1,100,000  
To finance a tower truck and to remodel a fire station.  
10 Years

Mr. Tim Burton and Ms. Liz Hirst were present during this loan presentation. Even though Mr. Burton is employed by the City of Helena and Ms. Burton is employed by the Board, the Board noted that there are no conflicts of interest in this loan request because Mr. Carroll South, Executive Director, reviews all loan requests prior to presentation to the Board and is making the recommendation on this loan.

Member Fleming 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:

December Proposed Transactions:  
\$2.5 million Schroders Asset Management  
\$0 - 5 million Internal International Pool  
\$25 million S & P 500 Index Fund  
\$0 - 25 million Montana Stock Pool

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

### **Permanent Coal Tax Trust Guaranty**

Mr. Jim Penner presented a request from the Montana Facility Finance Authority requesting that the Montana Board of Investments approve use of the Permanent Coal Tax Trust Fund to guarantee bonds issued by the Montana Facility Finance Authority on behalf of Community Medical Center of Missoula in the amount of \$5.5 million. Staff recommendation is to approve Permanent Coal Tax Trust Fund bond guaranty in the amount of \$5.5 million of twenty-year bonds issued by the Montana Facility Finance Authority on behalf of Community Medical Center of Missoula.

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

### **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 September 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: TRM, FLP

Lender: First National Bank of Montana, Bozeman

Purpose of Loan: To refinance an existing loan.

Amount of Loan: \$1,260,000

Board Loan Amount: \$743,400

Board Participation: 59%

Term of Loan: 15 Years

Interest Rate: 7.45% + .55 LSF

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

Loan Committee Recommendation: Approve

Borrower: Harold L. Poulsen

Lender: Mountain West Bank, Great Falls

Purpose of Loan: To provide permanent financing for the new medical office facility and 20-bed in-patient center that will be constructed.

Amount of Loan: \$9,250,000

Board Loan Amount: \$7,400,000

Board Participation: 80%

Term of Loan: 20 Years

Interest Rate: 7.45% + .60% LSF

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

Loan Committee Recommendation: Approve

Borrower: Flathead Hospital Development Co., LLC.

Lender: Glacier Bank, Kalispell

Purpose of Loan: To partially fund the construction of an \$18,500,000 hospital in Kalispell.

Amount of Loan: \$8,500,000

Board Loan Amount: \$6,000,000

Board Participation: 71%

Term of Loan: 25 Years

Interest Rate: 7.65% + .375% LSF

Note: Lender has requested an 80% participation, which will increase BOI's participation amount from \$6 million to \$6.8 million. The loan application was approved with an increase to 80% participation.

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

Loan Committee Recommendation: Approve

Borrower: K & E Equipment Partnership

Lender: First Interstate Bank, Billings

Purpose of Loan: To provide permanent financing for the purchase of land in Missoula, construction costs and refinancing an existing debt.

Amount of Loan: \$720,000

Board Loan Amount: \$576,000

Board Participation: 80%

Term of Loan: 20 Years

Interest Rate: 7.55% + .50% LSF

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

Borrower: OZ @ Millennium Building Partnership

Lender: First Security Bank, Missoula

Purpose of Loan: To provide long term financing for the purchase and finishing of the 2nd floor of the Millennium Building in Missoula.

Amount of Loan: \$700,000

Board Loan Amount: \$560,000

Board Participation: 80%

Term of Loan: 15 Years

Interest Rate: 7.50% + .55% 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**

Mr. Herb Kulow presented a loan request to participate in the following loan:

Borrower: Emerald USA Limited Ruby Corporation Limited

Lender: First Interstate Bank, Bozeman

Purpose of Loan: To provide long term fixed rate financing for the construction of a building to manufacture furniture.

Total Amount of Loan: \$1,638,150

Board Loan Amount: \$1,228,613

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

Loan Committee Recommendation: Approval, subject to staff verification of employment information. Staff will recommend guaranty's to the lender, but will not make it a requirement for loan approval.

Additionally, staff presented a request from First Interstate Bank, Missoula, requesting an increase in the participation amount for Gateway Limited Partnership. At the July 2001 meeting, the Board approved a 70% participation of \$3,228,400. The increase in participation to 80% would result in the Board taking \$3,689,600, an increase of \$461,200. Staff recommendation is to approve this request; Loan Committee Recommendation is also to approve.

Member Bardwell moved for ratification of loan committee recommendation; Member Fleming 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 August and September.

### **Staff Approved Loans Committed**

The Board reviewed this report for August and September.

### **Mortgage Program Activity Review**

The Board reviewed this report for August and September.

### **Approved Lender**

Continental National Bank of Harlowton was accepted as an Approved Lender on September 19, 2001.

### **INVESTMENT ACTIVITY**

## **Montcomp**

Mr. Rande Muffick presented August and September transactions, the holdings report as of September 30, 2001 and the current investment strategy. Member Klawon moved for approval of the Montcomp strategy as presented; Member Fleming seconded the motion and the motion was passed 7-0.

In addition, Mr. Muffick presented Minnesota Mining and Perkin Elmer as a Portfolio Additions.

## **International Investment**

Mr. David Ewer presented August and September transactions, the holdings report as of September 30, 2001 and the current investment strategy. Member Klawon moved for approval of the International Investment strategy as presented; Member Fleming seconded the motion and the motion was passed 7-0.

In addition, Mr. Ewer presented the Investment Policy Statement for International Equity. Member Fleming moved for approval of the Investment Policy Statement as presented; Member Wilson seconded the motion and the motion was passed 7-0.

## **Private Equities**

Mr. Ed Kelly presented August and September transactions. In addition, Mr. Kelly presented the Private Equity Transactions and the Leveraged Buyout Update.

## **Fixed Income**

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

In addition, Mr. Bugni presented the Investment Policy Statements for State Fund Insurance, New Fund and State Fund Insurance, Old Fund. Member Wilson moved for approval of the Investment Policy Statements as presented; Member Klawon seconded the motion and the motion was passed 7-0.

## **Security Lending**

Mr. Richard Cooley presented this report for August and September.

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

Mr. Cooley also presented August and September STIP transactions the STIP holdings report as of September 30, 2001, the August and September Treasurer's Fund transactions, the Treasurer's Fund holdings report as of September 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 Robinson seconded the motion and the motion was passed 7-0.

## **NEXT MEETING**

The next regularly scheduled meeting of the Board will be December 13 & 14, 2001.

## **ADJOURNMENT**

There being no further business, the meeting was adjourned at 4:30 p.m.

## **BOARD OF INVESTMENTS**

APPROVE:

Tim Ryan, Vice Chairman

ATTEST:

Carroll South, Executive Director

DATE: