

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

April 4 & 5, 2002

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

Thursday, April 4, 2002

AGENDA

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

- A. Roll Call
- B. Approval of the February 21, 2002 Regular Meeting Minutes

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

- A. Budget Status Report
- B. 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. Establishment of Montana Private Equity Pool (MPEP)
- B. Economic Overview - Newsletter
- C. Asset Allocation

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

- A. Consider Commercial/Multi-Family Loans
 - 1. Tri-Top, LLC.
 - 2. River City Investments, Loan #724-6753
 - 3. River City Investments, Loan #724-6752
- B. Consider Value-Added Loans
 - 1. Thompson River Co-Gen, LLC (Construction Loan Request)
 - 2. Thompson River Co-Gen, LLC (Commercial/Multi-Family Loan Request)
- C. Coal Tax Loan Activity Report - February
- D. Mortgage Program Activity Report - February

IV. INVESTMENT ACTIVITY - Internal Management 2:30 p.m.

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
 - 1. Transactions - February
 - 2. Holdings Report
 - 3. Strategy
 - 4. Portfolio Additions
 - a. Avon Products
 - b. Amerada Hess
 - c. Conoco
 - d. Cardinal Health
 - 5. Montana Common Stock Portfolio Approved List

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

- C. Fixed Income - Bob Bugni, CFA
 - 1. Transactions - February
 - 2. Strategy

- D. STIP and Treasurer's Funds - Rich Cooley, CFA
 - 1. STIP Transactions - February
 - 2. STIP Holdings Report
 - 3. Treasurer's Fund Transactions - February
 - 4. Treasurer's Fund Holdings Report
 - 5. Strategy
 - 6. Investment Policy Statements
 - a. FWP License Account
 - b. FWP Mitigation Trust
 - c. FWP Real Property Trust
 - d. FWP Wildlife Habitat Trust
 - e. Weed Control Trust

REGULAR MEETING OF THE
MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE

Friday, April 5, 2002

AGENDA

IV. INVESTMENT ACTIVITY - External Management 8:30 a.m.

- A. Security Lending - Ed Kelly
 - 1. Income Report - February
- B. Domestic Equity Passive - Ed Kelly
- C. Private Equity - Ed Kelly
 - 1. Transactions - February
 - 2. Private Equity Update

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
April 4, 2002**

MINUTES

BOARD MEMBERS PRESENT:

**Douglas Bardwell
Dennis Beams
Maureen Fleming
Jay Klawon
Joel Long
Calvin Wilson**

BOARD MEMBERS ABSENT:

**Dick Anderson, Chairman
F. Lee Robinson
Tim Ryan**

STAFF PRESENT:

**Peter S. Blouke, Deputy Director
Geri Burton, Bond Program Officer
Dick Bridegroom, ARU, Mortgage Analyst
Sandra Conrady, CMB, ARU, Portfolio Manager
Richard Cooley, CFA, Assistant Investment Officer
Edward Kelly, Assistant Investment Officer
Herbert Kulow, Senior Portfolio Manager
Rande Muffick, CFA, Assistant Investment Officer
James R. Penner, CFA, Chief Investment Officer
Delrene Rasmussen, Assistant Investment Officer
Coralie Sciuchetti, Accountant
Carroll V. South, Executive Director**

GUESTS:

**Steve Tostenrud, First Interstate Bank, Billings
Gordon Hoven, US Bancorp/Piper Jaffray
Kim Champney, President and CEO, Big Sky Airlines
Jon Marchi, Chairman of the Board, Big Sky Airlines
Gary Morehouse, Dept. of Commerce, Economic Division**

CALL TO ORDER

Member Fleming called the regular meeting of the Board of Investments (Board) to order at 1:15 p.m. in the large conference room at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with six members of the Board present. Chairman Anderson, Member Ryan and Member Robinson were absent. Member Fleming was appointed Acting Chair.

Member Long motioned for approval of the February 21, 2002 minutes; Member Wilson seconded the motion and the motion was passed 6-0.

EXECUTIVE DIRECTOR REPORTS

Budget Status Report

Executive Director Carroll South presented this report for the period ending February 28, 2002.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for Steve Strong to attend the Industry Conference, March 20-23, 2002 in Las Vegas; Herb Kulow to attend the School of Mortgage Banking class in College Park, MD., on April 27-May 3, 2002; and David Ewer to attend the Boston CFA Exam Review Program in Boston on April 28-May 5, 2002, and Ed Kelly to attend the KKR Conference in LaQuinta, CA., April 25-30, 2002. Member Long moved for approval of this recommendation; Member Wilson seconded the motion and the motion was passed 6-0.

Big Sky Airlines Loan Request

Executive Director, Carroll South, presented a memo to the Board addressing First Interstate Bank, Billings, submission of a commercial loan application of behalf of Big Sky Transportation, Inc. in the amount of \$495,000. The lender is requesting that the Board participate 80% or \$396,000.

There are several aspects of the loan as requested that require Board consideration and direction. Staff is asking for Board direction relative to the following items: 1) The company has a classified loan with the lender; 2) the lender is requesting a "working capital" loan; and 3) the lender is offering the Board a second lien position. The fact that at least two of the above items do not conform to the Board's current loan policy, requires that the Board made a determination as to whether staff should continue to pursue the processing of the loan application.

Staff recommends that the Board authorize staff to continue to work out a loan mechanism with the lender and the company that will satisfy the underwriting concerns of the staff, while assisting the company to continue to provide its services to Montana. Because the requested loan amount is within staff's ability to commit, if a successful mechanism is achieved, staff would commit the loan without returning to the Board for further approval.

Member Wilson moved that staff continue to negotiate and to continue to work out a loan mechanism regarding this loan request; Member Bardwell seconded the motion and the motion was passed 5-0. Member Long abstained.

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: Tri-Top, LLC.

Lender: Mountain West Bank, Helena

Purpose of Loan: To provide monies for the purchase of a building/warehouse.

Amount of Loan: \$350,000

Board Loan Amount: \$245,000

Board Participation: 70%

Term of Loan: 10 Years

Interest Rate: 7.10% + .50% Lenders Service Fee

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

Loan Committee Recommendation: Approve

Borrower: River City Investments - Santa Fe Court Loan #724-6753
Lender: Missoula Federal Credit Union
Purpose of Loan: To provide long term financing for the purchase of this property.
Amount of Loan: \$1,425,000
Board Loan Amount: \$1,140,000
Board Participation: 80%
Term of Loan: 12 Year Maturity/20 Year Amortization
Interest Rate: 7.45%
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Approve

Borrower: River City Investments - Palmer Street Loan #724-6752
Lender: Missoula Federal Credit Union
Purpose of Loan: To provide long term financing for the purchase of this property.
Amount of Loan: \$1,190,000
Board Loan Amount: \$952,000
Board Participation: 80%
Term of Loan: 12 Year Maturity/20 Year Amortization
Interest Rate: 7.45%
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 staff's recommendation to participate in the following loan requests:

Borrower: Thompson River Co-Gen, LLC. Construction Loan #724-6954
Lender: First Interstate Bank, Kalispell
Purpose of Loan: Two Purposes: The first is to provide construction money to build the 12.5 MWh electrical cogeneration plant to supply power to Thompson River Lumber and Montana Power Company as part of the default power supply portfolio. The second is for the long term financing of the cogeneration project.
Total Amount of Loan: \$6,127,000
Board Loan Amount: \$4,595,250
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Approve

Borrower: Thompson River Co-Gen, LLC. Commercial Loan #724-6931
Lender: First Interstate Bank, Kalispell
Purpose of Loan: Two Purposes: The first is to provide construction money to build the 12.5 MWh electrical cogeneration plant to supply power to Thompson River Lumber and Montana Power Company as part of the default power supply portfolio. The second is for the long term financing of the cogeneration project.
Total Amount of Loan: \$7,134,180
Board Loan Amount: \$5,350,635
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Approve

Member Beams moved for ratification of loan committee recommendation; Member Bardwell seconded the motion and the motion was passed 5-0. Member Long abstained from voting on all Permanent Coal Trust Fund and Coal Tax Trust Fund loan recommendations.

Coal Tax Loan Activity

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

Mortgage Program Activity Review

The Board reviewed this report for February.

Staff Recognition

Ms. Delrene Rasmussen announced and recognized Dick Bridegroom for his recent accomplishment of receiving his Accredited Residential Underwriting (ARU) designation through the Mortgage Bankers Association.

CHIEF INVESTMENT OFFICER REPORTS

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

Staff Recognition

Mr. Penner recognized Bob Bugni for the letter of appreciation that he received from the United State Department of the Interior. The letter sites their appreciation for the utilization of Mr. Bugni in recommending candidates to the Secretary of the Interior for her selection of a trust manager for the Montana Fish and Wildlife Conservation Trust.

Montana Private Equity Pool

Mr. Jim Penner reported that the new Montana Private Equity Pool (MPEP) will have a birth date of May 1, 2002. The pool will consist of the retirement funds investing in venture capital and leveraged buy-out investments. Staff recommends formal approval of the creation of this pool with a May 1, 2002 starting date.

Asset Allocation Report

Mr. Jim Penner, Chief Investment Officer, presented the Asset Allocation report for April 15, April 30 and May 15, 2002 Transactions

Mr. Penner recommended that the Board authorize staff to suspend purchases in Index units for the quarter. Member Bardwell moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 6-0.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending March 22, 2002.

Staff Approved Loans Report

Ms. Geri Burton reported that:

Borrower: Sanders County
Purpose: To finance projects at the County fairgrounds.
Staff Approval Date March 21, 2002
Board Loan Amount: \$122,000
Term: 10 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:

Corvallis School District #1

\$500,000

5 Years

To finance several projects including: replace outdated windows, replace outdated lighting systems, modify entrances into gymnasium for handicapped access, remodel restrooms to meet ADA requirements, and to modify the basketball goal raising and lowering system.

Missoula County

\$332,878

3 Years

To finance sheriff vehicles, motor pool vehicles and copiers.

Ravalli County (2 loan requests)

\$240,000 \$500,000

5 Years 10 Years

Building renovation to house county offices. Renovate existing courthouse to house district court.

Ravalli County Park District No. 2

\$300,000

1 Years

In anticipation of general obligation bonds being issued.

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

INVESTMENT ACTIVITY

International Investment

Mr. Jim Penner presented February Internal Transactions, the Internal International Holdings Report as of February 28, 2002 and the current investment strategy. Member Klawon moved for approval of the International Investment strategy as presented; Member Wilson seconded the motion and the motion was passed 6-0.

Montcomp

Mr. Rande Muffick presented February transactions, the holdings report as of February 28, 2002 and the current investment strategy. Member Long moved for approval of the Montcomp strategy as presented; Member Beams seconded the motion and the motion was passed 6-0.

In addition, Mr. Muffick presented Avon Products, Amerada Hess, Conoco and Cardinal Health as Portfolio Additions.

Fixed Income

Mr. Rich Cooley presented February transactions, and the current investment strategy. Member Klawon moved for approval of the Fixed Income strategy as presented; Member Bardwell seconded the motion and the motion was passed 6-0.

Treasurer's and STIP Funds

Mr. Rich Cooley also presented February STIP transactions the STIP holdings report as of February 28, 2002, the February Treasure's Fund transactions, the Treasurer's Fund holdings report as of February 28, 2002 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 Beams seconded the motion and the motion was passed 6-0.

In addition, Mr. Cooley presented the Investment Policy Statements for FWP License Account, FWP Mitigation Trust,

FWP Real Property Trust, FWP Wildlife Habitat Trust and the Noxious Weed Control Trust.. Member Klawon moved for approval of the Investment Policy Statements as presented; Member Long seconded the motion and the motion was passed 6-0.

Security Lending

Mr. Ed Kelly presented this report for February.

Domestic Equity Passive

Mr. Ed Kelly presented the externally managed International Stock Holdings report dated February 28, 2002.

Private Equity Update

Mr. Ed Kelly presented February transactions and the Private Equity Update.

LOAN PROGRAM continued

Staff presented its recommendation to the Board recommending that effective April 11, 2002 amounts reserved by an Approved Lender under the Coal Tax Loan Program as an "Open Reservation" have an expiration date of 180 days from time of reservation, not the 365 day expiration date which is policy now. Member Long motioned for approval of staff recommendation; Member Klawon seconded the motion and the motion was passed 6-0.

NEXT MEETING

The next regularly scheduled meeting of the Board will be May 16 & 17, 2002.

ADJOURNMENT

There being no further business, the meeting was adjourned at 3:15 p.m.

BOARD OF INVESTMENTS

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: