

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

February 21 & 22, 2002

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

Thursday, February 21, 2001

AGENDA

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

- A. Roll Call
- B. Approval of the January 17, 2002 Regular Meeting Minutes

II. EXECUTIVE DIRECTOR REPORTS - Carroll South 1:10 p.m.

- A. Budget Status Report
- B. Annual Report Questions/Answers
- C. Constitution/Laws Questions/Answers
- D. Budget/Legislation Process Discussion
- E. Out-of-State Travel Requests

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

- A. INTERCAP
 - 1. Activity Report
 - 2. Staff Approved Loans Report

IV. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 1:35 p.m.

- A. Economic Overview - Newsletter
- B. Asset Allocation
- C. Montana Investments Report

V. MONTANA LOAN PROGRAM - Delrene Rasmussen 2:00 p.m.

- A. Consider Commercial/Multi-Family Loans
 - 1. Carbon Street LLC.
 - 2. DRS Partnership
 - 3. Eagle Watch Investments
 - 4. Gemini Investments LLC.
 - 5. R.L. Dunker & Sons, Inc.
 - 6. Bruce Churchill
 - 7. Pyramid Mountain Lumber, Inc.
- B. Coal Tax Loan Activity Report - December
- C. Mortgage Program Activity Report - December and January
- D. Mortgage Program Delinquency Report

VI. INVESTMENT ACTIVITY - Internal Management 3:00 p.m.

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
 - 1. Transactions - December and January
 - 2. Holdings Report
 - 3. Strategy
 - 4. Portfolio Additions

- a. Amdocs b. Anadarko Petroleum
- c. Caterpillar d. Genzyme General
- e. Ingersoll-Rand f. Morgan Stanley Dean Witter
- g. Verisign
- B. International Equities (MTIP) - David Ewer
 - 1. Europe and Americas
- a. Internal Transactions - December and January
- b. Internal International Holdings Report
- c. Strategy
- C. Fixed Income - Bob Bugni, CFA
 - 1. Transactions - December and January
 - 2. TFBP Holdings Report
 - 3. Strategy
 - 4. Investment Policy Statements
- a. Coal Tax Park Trust Fund
- b. Cultural Trust Fund
- 5. Deferred Comp History
- 6. Non-Investment Grade Holdings Report
- D. STIP and Treasurer's Funds - Rich Cooley, CFA
 - 1. STIP Transactions - December and January
 - 2. STIP Holdings Report
 - 3. Treasurer's Fund Transactions - December and January
 - 4. Treasurer's Fund Holdings Report
 - 5. Strategy

PRESENTATION - Domestic Equity Index Management, 4:00 p.m.

Lee Wanie, Barclays Global Investors

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

Friday, February 22, 2002

AGENDA

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

- A. Security Lending - Ed Kelly
 - 1. Income Report - December
- B. Domestic Equity Passive - Ed Kelly
- C. International Equity Active - Ed Kelly
 - 1. Quarterly Holdings - December
- D. Private Equity - Ed Kelly
 - 1. Transactions - December and January
 - 2. Total Private Equity - December and January
 - 3. Total Leverage Buyouts - December and January
 - 4. 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
February 21, 2002**

MINUTES

BOARD MEMBERS PRESENT:

**Dick Anderson, Chairman
Douglas Bardwell
Dennis Beams
Maureen Fleming
Jay Klawon
Tim Ryan
Calvin Wilson**

BOARD MEMBERS ABSENT:

**Joel Long
F. Lee Robinson**

STAFF PRESENT:

**Robert T. Bugni, CFA, Senior Investment Officer
Sandra L. Conrady, CMB., ARU, Senior Portfolio Manager
Richard Cooley, CFA, Assistant Investment Officer
Kimberly Dallas, Program Assistant
David Ewer, Senior Portfolio Manager
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
Carroll V. South, Executive Director**

GUESTS:

**Mr. Trey Heiskell, CFA., Client Relationship Officer, Barclay's Global Investors.
Mr. Lee Wanie, Client Relationship Associate, Barclay's Global Investors.**

CALL TO ORDER

Chairman Anderson 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.

Member Bardwell motioned for approval of the January 17, 2002 minutes; Member Ryan seconded the motion and the

motion was passed 7-0.

EXECUTIVE DIRECTOR REPORTS

Budget Status Report

Executive Director Carroll South presented this report for the period ending January 31, 2002.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for Doug Bardwell and Dennis Beams to attend the Institutional Investor's Workshop and Public Funds Roundtable, April 23 - 27, 2002 in Palm Springs, CA., and Jim Penner to attend the IMN Asset Allocation Summit, April 14 - 18, 2002 in Williamsburg, VA. Member Ryan 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 February 8, 2002.

Staff Approved Loans Report

Mr. Carroll South reported that:

Borrower: Park City Rural Fire District

Purpose: To finance the purchase of a fire truck.

Staff Approval Date January 11, 2002

Board Loan Amount: \$165,000

Term: 10 Years

Borrower: Lewis & Clark County Loan Increase Request

Purpose: Increase the May 14, 2001 request of \$102,078 to \$108,206

Staff Approval Date January 16, 2002

has been approved by staff.

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 the Asset Allocation report for February 15, February 28, March 15 and March 31, 2002 transactions.

Montana Investments Report

Mr. Jim Penner, Chief Investment Officer, presented a report on the Montana Investment Program.

This report included information on the Commercial and Residential Loan Reservation History, 1st quarter of 2000 to the 2nd quarter of 2002; Commercial loans purchased and committed in 1998 through 2002 estimated; Residential loans purchased 1998 to 2002 estimated; and the Commercial Loan Portfolio Value and Residential Loan Portfolio Value for fiscal years 1998, 1999, 2000 and 2001 and at December 31, 2001.

Mr. Penner stated that in fiscal year 2001, staff funded \$45 million dollars in commercial loans. It is projected that staff will fund \$45 - \$50 million this year, \$18 million has been funded to date.

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: Carbon Street, LLC.

Lender: First Interstate Bank, Billings

Purpose of Loan: To provide long term financing for the construction of a building to be leased to MT Sports.

Amount of Loan: \$870,375

Board Loan Amount: \$696,300

Board Participation: 80%

Term of Loan: 20 Year Amortization, 10 Year Balloon

Interest Rate: 7.35% + .65% LSF

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

Loan Committee Recommendation: Approve.

Borrower: DRS Partnership

Lender: First Interstate Bank, Billings

Purpose of Loan: To provide long term financing for the Fuddruckers store in Billings.

Amount of Loan: \$1,236,700

Board Loan Amount: \$576,560

Board Participation: 42%

Term of Loan: 20 Years

Interest Rate: 7.35% + .75% LSF

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

Loan Committee Recommendation: Approve.

Borrower: Eagle Watch Investments, Inc.

Lender: First Interstate Bank, Billings

Purpose of Loan: To provide long term financing for the purchase of a commercial building that is being leased to Federal Express.

Amount of Loan: \$520,000

Board Loan Amount: \$416,000

Board Participation: 80%

Term of Loan: 20 Years

Interest Rate: 7.45% + .45% LSF

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

Loan Committee Recommendation: Approve.

Borrower: Gemini Investments, LLC.

Lender: First Security Bank, Missoula

Purpose of Loan: To refinance existing debt and to provide long-term financing on existing debt.

Amount of Loan: \$2,750,000

Board Loan Amount: \$1,925,000

Board Participation: 70%

Term of Loan: 20 Years

Interest Rate: 7.45% + .80% LSF

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

Loan Committee Recommendation: Approve. Member Beams abstained.

Borrower: R.L. Dunker & Sons, Inc.

Lender: First Citizens Bank, Billings

Purpose of Loan: To provide long term financing and refinance existing debt.

Amount of Loan: \$1,350,000
Board Loan Amount: \$675,000
Board Participation: 50%
Term of Loan: 20 Years
Interest Rate: 7.45% + .50% LSF
Recommendation: Approval, subject to the terms and conditions in Schedule A.
Loan Committee Recommendation: Approve.

Borrower: Bruce Churchill
Lender: Mountain West Bank, Missoula
Purpose of Loan: To pay off existing debt.
Amount of Loan: \$202,500
Board Loan Amount: \$101,250
Board Participation: 50%
Term of Loan: 15 Years
Interest Rate: 6.75% + 1.00% LSF
Recommendation: Internal Staff Loan Committee recommends denial of loan request.
Loan Committee Recommendation: Committee approved recommendation of staff.

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

Pyramid Mountain Lumber, Inc.

Ms. Delrene Rasmussen presented to the Board a staff report regarding Pyramid Mountain Lumber, Inc. On May 17, 2001, a Value-Added application was approved and committed by the Board. Board policy states that the Lender requires an environmental risk assessment. A Phase I and Phase II site investigation has been conducted which found ground water and soil contamination.

Bitterroot Valley Bank dba Two Rivers Bank stated that they would continue with the financing package set out for Pyramid Mountain Lumber, Inc.; Rural Development will provide 80% guarantee. Staff recommends that a decision to fund this loan be made with concurrence from the Board.

Member Klawon moved for approval of this recommendation subject to the company signing an agreement to make a "good faith effort to adhere to Montana Department of Environmental Quality's approved remediation plan of the site". Member Fleming seconded the motion and the motion was passed 6-0. Member Ryan abstained.

Coal Tax Loan Activity

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

Mortgage Program Activity Review

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

Mortgage Program Delinquency Report

Ms. Delrene Rasmussen presented and the Board reviewed this report for the period ending December 20, 2001.

INVESTMENT ACTIVITY - Internal Management

Montcomp

Mr. Rande Muffick presented December and January transactions, the holdings report as of January 31, 2002 and the current investment strategy. Member Bardwell 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 Amdocs, Anadarko Petroleum, Caterpillar, Genzyme General, Ingersoll-Rand, Morgan Stanley Dean Witter and Verisign as a Portfolio Additions.

International Investment

Mr. David Ewer presented December and January Internal Transactions, the Internal International Holdings Report as of January 31, 2002 and the current investment strategy. Member Ryan moved for approval of the International Investment strategy as presented; Member Klawon seconded the motion and the motion was passed 7-0.

Fixed Income

Mr. Robert Bugni presented December and January transactions, the Trust Fund Bond Pool Holdings Report and the current investment strategy. Member Ryan 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 Coal Tax Park Trust Fund and the Cultural Trust 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.

Mr. Bugni also presented the Deferred Comp History and the Non Investment Grade Holdings Report.

Treasurer's and STIP Funds

Mr. Cooley also presented December and January STIP transactions the STIP holdings report as of January 31, 2002, the December and January Treasure's Fund transactions, the Treasurer's Fund holdings report as of January 31, 2002 and the current investment strategy for both of these funds. Member Klawon moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Bardwell seconded the motion and the motion was passed Bardwell 7-0.

PRESENTATION

Mr. Lee Wanie, and Mr. Trey Heiskell of Barclays Global Investors presented to the Board and staff an overview of Barclay's Global Investors and an account review of the funds that are invested with Barclays.

INVESTMENT ACTIVITY - External Management

Security Lending

Mr. Ed Kelly presented this report for December.

Domestic Equity Passive

Mr. Ed Kelly presented the externally managed International Stock Holdings report dated December 31, 2001.

Private Equities

Mr. Ed Kelly presented December and January transactions, September Total Private Equity report, December and January Total Leverage Buyouts report and the Private Equity Update.

Next Meeting

The next regularly scheduled meeting of the Board will be April 4 & 5, 2002.

ADJOURNMENT

There being no further business, the meeting was adjourned at 5:00 p.m.

BOARD OF INVESTMENTS

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: