

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

January 17 & 18, 2002

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

Thursday, January 17, 2002

AGENDA

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

- A. Roll Call
- B. Approval of the December 13, 2001 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 1:45 p.m.

- A. Economic Overview - Newsletter
- B. Asset Allocation

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

- A. Consider Commercial/Multi-Family Loans
 - 1. Larson Family Properties, LLC.
 - 2. Dennis L. Menholt
 - 3. The Homestead House, Inc.
 - 4. Val-U-Inn, LLC.
 - 5. Paxson Plaza, LLC.
- B. Coal Tax Loan Activity Report - November
- C. Mortgage Program Activity Report - November

IV. INVESTMENT ACTIVITY 2:15 p.m.

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
 - 1. Transactions - November
 - 2. Holdings Report
 - 3. Strategy
 - 4. Portfolio Additions
 - a. Williams Companies
 - 5. Administrative/Policy
 - a. Montcomp Investment Policy Statement
 - b. Proxy Policy
 - c. Commission Policy
- B. International Equities (MTIP) - David Ewer

1. Europe and Americas
 - a. Internal Transactions - November
 - b. Internal International Holdings Report
 - c. Strategy
 - d. Pyspectives Newsletter

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AGENDA

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

C. Private Equities - Ed Kelly

1. Transactions - November
2. Private Equity Update

D. Fixed Income - Bob Bugni, CFA

1. Transactions - November
2. Strategy

E. Security Lending - Rich Cooley, CFA

F. 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
6. Investment Policy Statements
 - a. Montana Pole Superfund
 - b. Abandoned Mine Trust
 - c. U.S. Department of Education

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
January 17, 2002**

MINUTES

BOARD MEMBERS PRESENT:

**Dick Anderson, Chairman
Douglas Bardwell**

**Dennis Beams
Jay Klawon
F. Lee Robinson
Tim Ryan**

BOARD MEMBERS ABSENT:

**Maureen Fleming
Joel Long
Calvin Wilson**

STAFF PRESENT:

**Robert T. Bugni, CFA, Senior Investment Officer
Geri Burton, Bond Program Officer
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
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: None

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 six members of the Board present.

Member Ryan motioned for approval of the December 13, 2001 minutes; Member Robinson seconded the motion and the motion was passed 6-0.

ADMINISTRATIVE BUSINESS

Chairman Anderson presented the following Administrative Business:

1. Ms. Gayle Moon introduced Ms. Roxanne LaRoque as the newest addition to the accounting staff.

EXECUTIVE DIRECTOR REPORTS

Budget Status Report

Executive Director Carroll South presented this report for the period ending November 30, 2001. Chairman Anderson commented that we are currently showing a budget surplus.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for Jim Penner to attend the CII Conference in Washington DC, and to meet with various investment firms in Boston and New York, March 19 - 26, 2002; Dan Stevens to attend the UBS Warburg "Energy and Utilities" Conference in New York City, February 11 - 17, 2002; Adam Nelson and Lon Whitaker to travel to Seattle to attend briefings with Microsoft, January 23 - 25, 2002. Member Ryan moved for approval of this recommendation; Member Klawon seconded the motion and the motion was passed 6-0.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending January 4, 2002.

Staff Approved Loans Report

Ms. Geri Burton reported that:

Borrower: Town of Wibaux

Purpose: To upgrade the lift station at its lagoon.

Staff Approval Date December 10, 2001

Board Loan Amount: \$42,000

Term: 10 Years

Borrower: Stillwater County

Purpose: To finance the purchase of three used motor graders.

Staff Approval Date December 14, 2001

Board Loan Amount: \$196,500

Term: 5 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:

East Missoula Sewer District

\$2,053,200

Interim financing in anticipation of long term financing through Rural Development.

To construct a wastewater collection system in East Missoula.

Member Bardwell moved for approval of this recommendation; Member Beams 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, presented staff Asset Allocation report for January 31, 2002 and February

15, 2002 transactions.

Quarterly Investment Performance Report

Mr. Penner presented the Total Funds under Management, Breakdown of Funds under Management, PERS, MTCP, Total International Equities, Internal Europe and Asia, Private Equity, RFBP, and Returns by Asset Type quarterly report through December 31, 2001.

Staff Reorganization

Mr. Jim Penner reported to the Board the recent staff position changes that had been made. Mr. David Ewer is now the Research Staff Director and Senior Portfolio Manager, Internal International. Mr. Ed Kelly is now Assistant Investment Officer, Private Equity and External Management.

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: Larson Family Properties, LLC.

Lender: Wells Fargo Bank, Billings

Purpose of Loan: To provide permanent financing for a two story office building.

Amount of Loan: \$1,810,000

Board Loan Amount: \$1,267,000

Board Participation: 70%

Term of Loan: 20 Years

Interest Rate: 7.45% + .25% LSF

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

Loan Committee Recommendation: Approve

Borrower: Dennis L. Menholt

Lender: First Interstate Bank, Billings

Purpose of Loan: To provide long-term financing for the construction of a new building for the auto dealership.

Amount of Loan: \$6,084,000

Board Loan Amount: \$4,867,200

Board Participation: 80%

Term of Loan: 20 Years

Interest Rate: 7.45% + .55% LSF

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

Loan Committee Recommendation: Approve loan request and directed staff to require Audited Financial Statements beginning in 2003.

Borrower: The Homestead House, Inc.

Lender: Rocky Mountain Bank, Billings

Purpose of Loan: To provide long-term financing for the refinance of an existing loan.

Amount of Loan: \$2,226,230

Board Loan Amount: \$1,780,984

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

Borrower: Val-U-Inn, LLC.

Lender: First National Bank of Montana, Missoula

Purpose of Loan: To refinance existing debt, remodel a facility and to cover loan costs.

Amount of Loan: \$1,783,180

Board Loan Amount: \$487,780

Board Participation: 27%

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

Borrower: Paxson Plaza, LLC.

Lender: First National Bank of Montana, Missoula

Purpose of Loan: To refinance existing debt and to fund loan fees.

Amount of Loan: \$1,323,000

Board Loan Amount: \$1,058,400

Board Participation: 80%

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 Beam moved for ratification of loan committee recommendation; Member Bardwell seconded the motion and the motion was passed 6-0.

Coal Tax Loan Activity

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

Mortgage Program Activity Review

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

Residential Documentation Requirements

Ms. Delrene Rasmussen presented staff recommendation that the water, sewer and septic system requirements in the residential program be documented by a warranty from the approved lender. It would be the lenders responsibility to maintain the appropriate documentation in their files.

The Board concurred with staff recommendation and directed staff to proceed.

INVESTMENT ACTIVITY

Montcomp

Mr. Rande Muffick presented November transactions, the holdings report as of November 30, 2001 and the current investment strategy. Member Ryan 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 the Investment Policy Statement for Montana Stock Pool. Member Beams moved for approval of the Investment Policy Statement as presented; Member Robinson seconded the motion and the motion was passed 6-0.

Mr. Muffick also presented the Proxy Guidelines and Commission Policy for Montcomp.

In addition, Mr. Muffick presented Williams Companies as a Portfolio Addition.

International Investment

Mr. David Ewer presented November transactions, the holdings report as of November 30, 2001 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 6-0.

In addition, Mr. Ewer, as the Research Staff Manager, reintroduced the Investment Analyst staff, Mr. John Romasko, Mr. Adam Nelson, Mr. Lon Whitaker, Mr. Steve Strong, Mr. Dan Stevens and Ms. Bobbie Ecklund.

Private Equities

Mr. Ed Kelly presented November transactions.

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 Klawon seconded the motion and the motion was passed 6-0.

Security Lending

Mr. Richard Cooley presented this report for November.

Treasurer's and STIP Funds

Mr. Cooley also presented November STIP transactions the STIP holdings report as of November 30, 2001, the November Treasure's Fund transactions, the Treasurer's Fund holdings report as of November 30, 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 Beams seconded the motion and the motion was passed 6-0.

In addition, Mr. Cooley presented the Investment Policy Statements for Montana Pole Superfund Site Settlement Fund, Abandoned Mine Land Reclamation Trust Fund, and U.S. Department of Education Recall Account. Member Ryan moved for approval of the Investment Policy Statements as presented; Member Klawon seconded the motion and the motion was passed 6-0.

Next Meeting

The next regularly scheduled meeting of the Board will be February 21 & 22, 2002.

ADJOURNMENT

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

BOARD OF INVESTMENTS

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE:

