

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

May 16 & 17, 2002

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

Thursday, May 16, 2002

AGENDA

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

- A. Roll Call
- B. Approval of the April 4, 2002 Regular Meeting Minutes

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

- A. Budget Status Report
- B. Deputy Director Appointment
- C. Commercial Loan Policy
- D. Senate Bill 495 Update (Verbal Update)
- E. Out of-State Travel Requests

III. BOND PROGRAM - Geri Burton 1:45 p.m.

- A. INTERCAP
 - 1. Activity Report
 - 2. Staff Approved Loans Report
 - 3. Loan Requests
 - 4. Private Activity Recommendation

IV. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 2:15 p.m.

- A. Economic Overview - Newsletter
- B. Asset Allocation - Retirement Funds
- C. Asset Allocation - 3 Year Plan Draft
- D. Quarterly Investment Performance Review

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

- A. Consider Commercial/Multi-Family Loans
 - 1. Gabota, LLC.
 - 2. H-L Missoula, LLC.
- B. Consider Value Added Loans
 - 1. Summit Design & Manufacturing
- C. Thompson Falls Co-Gen, LLC. (Construction Loan) - Request to Increase Loan Amount
- D. Coal Tax Loan Activity Report - March
- E. Mortgage Program Activity Report - March

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

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
 - 1. Transactions - March
 - 2. Holdings Report
 - 3. Strategy
 - 4. Portfolio Additions
 - a. Schlumberger

B. International Equities (MTIP) - David Ewer

1. Europe and Americas
- a. Internal Transactions - March
- b. Internal International Holdings Report
- c. Strategy

C. Fixed Income - Bob Bugni, CFA

1. Transactions - March
2. Strategy
3. Investment Policy Statements
- a. Treasure State Endowment Regional Water System Funds
- b. Treasure State Endowment Funds
- c. Permanent Coal Trust Funds

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

1. STIP Transactions - March
2. STIP Holdings Report
3. Treasurer's Fund Transactions - March
4. Treasurer's Fund Holdings Report
5. Strategy
6. Fixed Income Segment Returns

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

Friday, May 17, 2002

AGENDA

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

- A. Security Lending - Ed Kelly
1. Income Report - March
- B. International Equity Active - Ed Kelly
1. Quarterly Holdings -
- C. Private Equity - Ed Kelly
1. Transactions - March

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**

May 16, 2002

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Dick Anderson, Chairman
Karen Fagg

STAFF PRESENT:

Robert T. Bugni, CFA, Senior Investment Officer
Geri Burton, Bond Program Officer
Dana Chapman, Admin Support, Investment Staff
Sandra Conrady, 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:

Gordon Hoven, US Bancorp/Piper Jaffray
Dave Senn, Public Employees Retirement System

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 seven members of the Board present. Chairman Anderson and Member Fagg were absent.

Member Bardwell motioned for approval of the April 4, 2002 minutes; Member Klawon seconded the motion and the motion was passed 7-0.

EXECUTIVE DIRECTOR REPORTS

Deputy Director Position

Executive Director Carroll South announced that Peter Blouke has retired from the Deputy Director position effective April 30, 2002. Effective May 6, 2002, Geri Burton has been appointed Deputy Director in a two-year training assignment. Geri began her career with the Board of Investments in May 1990 as a front office receptionist and has been promoted several times since. Most recently she has held the position of Senior Bond Program Officer.

Board of Investments Commercial Loan Policy

Executive Director Carroll South presented the revised Commercial Loan Policy for Board approval. At the regular meeting of the Board on April 4, 2002, an interim policy that shortened the reservation period for reservations made by lenders without an identified borrower was adopted by the Board. This policy will continue to allow lenders to reserve funds without an identifiable borrower for a period of 180 days instead of the 365 days as was previously stated in the policy.

In addition to making this change, staff also reorganized and restructured the policy to make it more understandable to the public. Under Board rules the Board must approve the written policy at a public meeting before it can be posted on our web page. Member Beams motioned for approval and adoption of the new policy; 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 March 31, 2002.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for Paul Runnalls and Rande Muffick to attend the AIMR Forest Products Industry Conference in Seattle, June 15 - 18, 2002; and Bob Bugni to attend the Northwest Taxable Bond Conference in Sun Valley, ID., June 7 - 10, 2002. Member Bardwell moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 7-0.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending May 3, 2002.

Staff Approved Loans Report

Ms. Geri Burton reported that:

Borrower: Birdseye Volunteer Fire District (Lewis & Clark County)

Purpose: To finance the purchase of a fire truck.

Staff Approval Date April 5, 2002

Board Loan Amount: \$26,000

Term: 10 Years

Borrower: Town of Hot Springs

Purpose: To finance a portion of the costs associated with constructing a police department office and modifying restrooms to make them handicap assessable.

Staff Approval Date April 9, 2002

Board Loan Amount: \$10,000

Term: 4 Years

Borrower: City of Glendive

Purpose: For interim financing in anticipation of a TSEP grant.

Staff Approval Date April 10, 2002

Board Loan Amount: \$150,000

Term: In anticipation of TSEP and BNSF Funds.

Borrower: Cascade County

Purpose: To finance the cost of purchasing condominium space .

Staff Approval Date April 15, 2002

Board Loan Amount: \$67,500

Term: 10 Years

Borrower: Cottonwood Elementary School - Havre

Purpose: To finance costs associated with moving and setting up two modular classrooms.

Staff Approval Date April 24, 2002

Board Loan Amount: \$60,000

Term: 5 Years

Borrower: City of Baker

Purpose: To finance the cost of purchasing a vacuum street sweeper.

Staff Approval Date April 26, 2002

Board Loan Amount: \$134,725

Term: 7 Years

Borrower: Cascade County

Purpose: To finance the cost of purchasing condominium space in order to expand the County Attorney's office.

Staff Approval Date April 26, 2002

Board Loan Amount: \$130,000

Term: 10 Years

Borrower: Town of Manhattan

Purpose: To finance the purchase of a rescue truck for the Fire Department.

Staff Approval Date April 30, 2002

Board Loan Amount: \$80,000

Term: 10 Years

Borrower: Lone Rock Elementary District #13 - Stevensville

Purpose: To finance the purchase and installation of new playground equipment and surface area.

Staff Approval Date May 1, 2002

Board Loan Amount: \$20,000

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:

Cascade County (2 loan requests)

\$99,000 \$127,500

10 years 10 years

To finance the cost of purchasing condominium space for county offices. To finance the cost of purchasing condominium space for county offices.

DNRC (2 loan requests)

\$2,000,000 \$2,000,000

10 years 10 years

An interim loan in anticipation of issuing state general obligation bonds. These funds will be used as a match for federal funds from EPA to fund DNRC's Drinking Water State Revolving Fund Loan Program. An interim loan in anticipation of issuing state general obligation bonds. These funds will be used as a match for federal funds from EPA to fund DNRC's Wastewater State Revolving Fund Loan Program.

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

Private Activity Loan Recommendation

The Board of Investments issues tax-exempt bonds to finance the INTERCAP Program. Interest on the bonds is not includable in gross income for federal income tax purposes or State of Montana individual income tax purposes, therefore, allowing for a much lower rate of interest to the borrowers of the Program. To maintain tax-exempt status of the bonds, Internal Revenue Service regulations regarding "private activity" must be adhered to.

The essential difference between governmental bonds and private activity bonds is that governmental bonds are used to fund an "essential government function" while private activity bonds are used for the benefit of private (non-government) persons. The bonds issued to finance the INTERCAP Program would be considered private activity bonds if the amount of the proceeds used to make or finance loans to persons other than governmental units exceeds the lesser of: a) five (5) percent of such proceeds; or b) \$5,000,000.

Staff recommends that Board authorize the following:

1. Authorize the continuation of funding private activity loans with INTERCAP monies. Pursuant to bond counsel's opinion, no more than the lesser of four (4) percent of the outstanding INTERCAP bond proceeds available to loan or \$5,000,000 can be used to fund these loans.
2. Authorize staff to work with bond counsel to provide parameters for the use of INTERCAP funds for private activity purposes.

Member Fleming moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 7-0.

CHIEF INVESTMENT OFFICER REPORTS

Asset Allocation Report

Mr. Jim Penner, Chief Investment Officer, presented the Asset Allocation report for May 15, May 31, and June 15, 2002 Transactions

Asset Allocation - 3 Year Plan Draft

Chief Investment Officer Jim Penner presented for Board review the first draft of the 3 Year Asset Allocation Plan for retirement funds with an ending date of June 30, 2005. The purpose of the asset allocation plan is to provide the investment staff direction in carrying out the investment program. Though the targets are proposed for a 3-year period, the Board has full authority to review and change targets at any time.

Mr. Penner presented this draft plan to the Board and a final plan will be presented at the June meeting for Board consideration.

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 March 31, 2002.

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: Gabota, LLC.

Lender: First National Bank of Montana, Missoula

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

Amount of Loan: \$1,259,264

Board Loan Amount: \$1,007,411

Board Participation: 80%

Term of Loan: 20 Years

Interest Rate: 7.30% + .40% LSF

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

Loan Committee Recommendation: Approve

Borrower: H-I Missoula, LLC.

Lender: Mountain West Bank, Great Falls

Purpose of Loan: To provide long term financing of the construction of a 98 room Hampton Inn with a meeting/convention room in Great Falls.

Amount of Loan: \$3,600,000

Board Loan Amount: \$1,800,000

Board Participation: 50%

Term of Loan: 20 Years

Interest Rate: 7.70% + .75% 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 loan:

Borrower: Summit Design & Manufacturing, LLC.

Lender: Mountain West Bank, Helena

Purpose of Loan: To purchase equipment for the manufacturing of engine-bay doors for Boeing's F-22 fighter aircraft.

Total Amount of Loan: \$893,792

Board Loan Amount: \$670,344

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

Loan Committee Recommendation: Approve

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

Thompson Falls Co-Gen, LLC. (Construction Loan) Increase Request

Mr. Herb Kulow presented a request from First Interstate Bank, Kalispell, for Board approval to increase the Thompson Falls Co-Gen, LLC loan to \$5,008,687. The original loan request did not include \$735,240 of contingency costs.

Member Bardwell moved for approval of this request; Member Beams seconded the motion and the motion passed 6-0. Member Ryan abstained from the vote due to personal reasons.

Coal Tax Loan Activity

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

Mortgage Program Activity Review

The Board reviewed this report for March.

INVESTMENT ACTIVITY

Montcomp

Mr. Rande Muffick presented March transactions, the holdings report as of March 31, 2002 and the current investment strategy. Member Wilson moved for approval of the Montcomp strategy as presented; Member Klawon seconded the motion and the motion was passed 7-0.

In addition, Mr. Muffick presented Schlumberger as a Portfolio Addition.

International Investment

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

Fixed Income

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

In addition, Mr. Bugni presented the Investment Policy Statements for Treasure State Endowment Regional Water System Funds, Treasure State Endowment Funds and the Permanent Coal Trust Funds. Member Fleming moved for approval of the Investment Policy Statements as presented; Member Beams seconded the motion and the motion was passed 7-0.

Treasurer's and STIP Funds

Mr. Rich Cooley presented March STIP transactions the STIP holdings report as of April 30, 2002, the March Treasurer's Fund transactions, the Treasurer's Fund holdings report as of April 30, 2002 and the current investment strategy for both of these funds. Member Beams moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Fleming seconded the motion and the motion was passed 7-0.

Security Lending

Mr. Ed Kelly presented this report for March.

International Equity Active

Mr. Ed Kelly presented the externally managed International Stock Holdings report dated March 31, 2002.

Private Equity Update

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

Next Meeting

The next regularly scheduled meeting of the Board will be June 20 & 21, 2002.

ADJOURNMENT

There being no further business, the meeting was adjourned at 4:00 p.m.

BOARD OF INVESTMENTS

APPROVE:

Tim Ryan, Vice Chairman

ATTEST:

Carroll South, Executive Director

DATE: