

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

Thursday, October 31, 2002

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

AGENDA

I. CALL TO ORDER 11:00 a.m.

- A. Roll Call
- B. Approval of the September 19, 2002 Regular Meeting Minutes

II. EXECUTIVE DIRECTOR REPORTS - Carroll South 11:10 a.m.

- A. Out-of-State Travel Requests
- B. Board Travel Discussion (Verbal)

III. BOND PROGRAM - Louise Welsh 11:30 a.m.

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

IV. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 12:00 p.m.

- A. Economic Overview - Newsletter
- B. Asset Allocation
- C. Quarterly Investment Performance Review
- D. Internal International Equity Pool Management

V. MONTANA LOAN PROGRAM - Delrene Rasmussen 12:30 p.m.

- A. Approved Lender - Livingston Federal Credit Union
- B. Thompson River Co-Gen, LLC.
- C. Coal Tax Loan Program Activity Report - August and September
- D. Pension Mortgage Program Activity Report - August and September

VI. INVESTMENT ACTIVITY - Internal Management 1:00 p.m.

A. Domestic Equities (Montcomp) - Rande Muffick, CFA

- 1. Transactions - August and September
- 2. Holdings Report
- 3. Strategy
- 4. Portfolio Additions
 - a. Tyco International

B. International Equities (MTIP) - David Ewer

- 1. Internal Pool
 - a. Internal Transactions - August and September
 - b. Internal International Holdings Report
 - c. Strategy

C. Fixed Income - Bob Bugni, CFA

- 1. Transactions - August and September

2. Strategy
3. Non-Investment Grade Fixed Income Holdings
4. Investment Policy Statements
 - a. Retirement Funds Bond Pool
 - b. Trust Funds Bond Pool

D. 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
6. Investment Policy Statements
 - a. International Fixed Income Investment Policy Statement

VII. Investment Activity - External Management - Ed Kelly

A. Security Lending Active

1. Earnings Report - September

B. Domestic Equity Passive

1. RFP/Domestic Non-Large Cap Equity Enhanced Index Manager

C. Private Equity Active

1. MPEP Transactions (MU47) - August and September
2. MPEP Holdings Report (MU 47) - August and September
3. Private Equity Update

VIII. PRESENTATION - Adam Street Partners 4:00 p.m.

Mr. Terry Gould

Mr. Sergey Sheshuryak

Ms. Molly M. Veneziano, CFA

IV. ADJOURNMENT 5:00 p.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
October 31, 2002**

MINUTES

BOARD MEMBERS PRESENT:

**Dick Anderson, Chairman
Douglas Bardwell
Dennis Beams
Karen Fagg
Maureen Fleming
Jay Klawon**

**Joel Long
Tim Ryan
Calvin Wilson**

BOARD MEMBERS ABSENT:

None

STAFF PRESENT:

**Robert T. Bugni, CFA, Senior Investment Officer
Geri Burton, Deputy Director
Dana Chapman, Investment Staff Administrative Support
Richard Cooley, CFA, Assistant Investment Officer
Kimberly Dallas, Program Assistant
Bobbi 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 Officer
Lon Whitaker, Investment Analyst**

GUESTS:

**Gordon Hoven, US Bancorp/Piper Jaffray
Ms. Molly M. Veneziano, CFA, Adam Street Partners
Mr. Terry Gould, Adam Street Partners
Mr. Sergey Sheshuryak, Adam Street Partners
Ms. Emy Neuman-Javornik, Legislative Audit Division**

CALL TO ORDER

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 11:40 a.m. in the conference room at 2401 Colonial Drive, 3rd Floor, Helena, Montana. As noted above, the meeting convened with nine members of the Board present.

Member Bardwell motioned for approval of the September 19 & 20, 2002 minutes; Member Wilson seconded the motion and the motion was passed 9-0.

EXECUTIVE DIRECTOR REPORTS

Resolution 199

Executive Director Carroll South presented to the Board Resolution #199. This resolution serves multiple duties, which are:

1. This resolution designates staff members, Jim Penner, Robert T. Bugni, Edward Kelly, Richard Cooley, Rande Muffick, Paul Runnalls, Richard B. Bridegroom, Bobbi Ecklund and David Ewer as agents of the Board to deal with investments firms in connection with Board accounts;
2. This resolution states that the establishment and maintenance of all of the accounts described in Appendix "A" and the actions of all of the above named staff members acting as agents of the Board dealing with investment firms related to said accounts since January 21, 1993, are hereby approved and ratified;
3. This resolution authorizes its Executive Director to close any of the accounts listed in Appendix "A", to open new accounts, to designate additional staff members as agents of the Board for the purpose of dealing with investment firms regarding any account, and to remove the authority of any of the above named staff members or other staff members designated by him as agents of the Board for purposes of dealing with investment firms regarding any account;

Appendix A as referred to in this resolution is a complete list of all investment firms in which the Board maintains several accounts for the purchase and sale of stocks, bonds, covered options, purchase options (stock open indicies, interest rate options, foreign currency options), repurchase agreements, reverse repurchase agreements, and other securities and property. Appendix A is kept on file with this resolution.

The Board amended this resolution to include an annual review of the Appendix A, with the first review date to be October 2003. Member Ryan moved for adoption of Resolution #199 as amended; Member Klawon seconded the motion and the motion was passed 9-0.

Board Travel Discussion

Executive Director Carroll South discussed with the Board the recent reduction in travel set by the Special Legislative Session held in August. The Special Session requested that state offices reduce their travel by 25 percent. This reduction would require that the Board of Investments reduce their travel by approximately \$10,000. Fiscal year 2002 travel was \$43,912. Going forward, the cost of the travel will need to be closely considered prior to approval.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for " Jim Penner to attend the 7th Annual Super Bowl of Indexing Conference in Phoenix, Dec. 8 - 11, 2002. Mr. Penner will participate as a session moderator at this conference, airfare and lodging will be paid for by the conference sponsor. Estimated Cost of trip: \$78.00.

Member Bardwell moved for approval of this recommendation; Member Ryan seconded the motion and the motion was passed 9-0.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending October 18, 2002.

Staff Approved Loans Report

Ms. Louise Welsh reported that staff has approved the following loans:

Borrower: Town of Browning
Purpose: To finance the construction of a new city hall.
Staff Approval Date September 11, 2002
Board Loan Amount: \$200,000
Term: 10 Years

Borrower: Elliston School District #27

Purpose: To finance the purchase and installation of a new boiler.

Staff Approval Date September 11, 2002

Board Loan Amount: \$20,000

Term: 5 Years

Borrower: Bull Mountain Rural Fire District (Boulder)

Purpose: To refinance a water tender vehicle.

Staff Approval Date September 16, 2002

Board Loan Amount: \$35,000

Term: 10 Years

Borrower: Wyola School District #29

Purpose: For cash flow purposes while waiting for Impact Aid funds.

Staff Approval Date September 17, 2002

Board Loan Amount: \$100,000

Term: Short term through June 30, 2003.

Borrower: Clarkston Fire Service Area (Three Forks)

Purpose: To finance a portion of the construction of a new fire hall.

Staff Approval Date September 18, 2002

Board Loan Amount: \$13,400

Term: 10 Years

Borrower: Valley County

Purpose: To finance the purchase of a D7 Dozer.

Staff Approval Date September 19, 2002

Board Loan Amount: \$155,000

Term: 10 Years

Borrower: Noxon School District #10

Purpose: To finance the costs associated with parking lot construction.

Staff Approval Date September 24, 2002

Board Loan Amount: \$36,093

Term: 1 Year

Borrower: Jefferson County

Purpose: To finance the purchase of four new sheriff vehicles.

Staff Approval Date September 26, 2002

Board Loan Amount: \$60,388

Term: 3 Years

Borrower: Granite County

Purpose: To finance the purchase and remodel of a building the County is leasing.

Staff Approval Date September 26, 2002

Board Loan Amount: \$125,000

Term: 10 Years

Borrower: Town of Hysham

Purpose: To finance a portion of the costs associated with a preliminary engineering report.

Staff Approval Date October 1, 2002

Board Loan Amount: \$56,039

Term: 3 years interest only; up to 3 additional years, principal and interest.

Borrower: Jefferson County/Jefferson County Solid Waste District

Purpose: To finance the purchase of two waste compactors, a roll off pup-trailer and octagon waste compactor boxes.

Staff Approval Date October 3, 2002

Board Loan Amount: \$114,930

Term: 5 Years

Borrower: City of Plentywood

Purpose: To finance a portion of the costs associated with improvements to the City's wastewater treatment facility.

Staff Approval Date October 8, 2002

Board Loan Amount: \$151,000

Term: 10 Years

Borrower: Anderson School District #41 (Bozeman)

Purpose: To finance the purchase of a school bus.

Staff Approval Date October 10, 2002

Board Loan Amount: \$44,222

Term: 5 Years

INTERCAP

Ms. Louise Welsh 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:

Borrower: Town of Circle

Board Loan Amount: \$260,000

Term: 10 Years

Purpose: To finance the costs associated with drilling a new water well and rehabilitation of an old water well.

Borrower: City of Kalispell

Board Loan Amount: Three loan requests equaling \$1,035,000

1. \$49,000 loan request for a term of 3 years to finance the purchase of a service pickup and a deep tine aerator for the City's Parks Department;
2. \$161,000 loan request for a term of 5 years to finance the costs associated with various projects for the City Street Division;
3. \$825,000 loan request for a term of 10 years to finance the costs associated with replacing existing residential water meters, fire hydrant installation and water main extension.

Borrower: City of Livingston

Board Loan Amount: \$250,000

Term: 10 Years

Purpose: To finance a portion of the costs associated with automation of its solid waste collection system.

Member Fleming moved for approval of this recommendation; Member Wilson seconded the motion and the motion was passed 9-0.

CHIEF INVESTMENT OFFICER REPORTS

Asset Allocation Report

Mr. Jim Penner, Chief Investment Officer, presented the Asset Allocation report for October 31, November 15 and November 30, and December 15 transactions.

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, 2002.

Internal International Equity Pool Management

Mr. Jim Penner presented to the Board a report discussing management of the internally managed investment equity pool.

Mr. Penner's recommendation to the Board was retention of the internally managed international equity pool benchmarked to the MSCI Europe Index. The Chief Investment Officer also recommended reallocating investment analyst resources to assist the portfolio manager, David Ewer.

After extensive discussion, the Board postponed action on staff recommendation until the December meeting at which time additional information requested by the Board can be presented by staff.

LOAN PROGRAMS

Approved Lender

Ms. Delrene Rasmussen reported that Livingston Federal Credit Union has been added to the Board's Approved Lender list and will be participating in the Board's Commercial and Residential Loan Programs.

Thompson River Co-Gen, LLC.

Ms. Delrene Rasmussen presented two requests from First Interstate Bank for Thompson River Co-Gen, LLC.

1. First Interstate Bank requested an increase of \$225,000 to the total loan amount. The additional amount will cover the cost of adding an additional contractor to secure the bonding necessary to cover the project.
2. First Interstate Bank also requests a change in Schedule A, Item 15 in the Board's commitment letter to be modified to "BOI will not participate in subject loan unless borrower has an executed power purchase agreement in place with NorthWestern Energy for a term no shorter than the loan." The requirement to have the Montana Public Service Commission (PSC) approve the power purchase agreement would be removed. NorthWestern Energy and Thompson River Co-Gen have executed a new power purchase agreement for the same price and duration, but is not subject to approval of the Montana PSC.

Staff recommends approval of this request. Member Beams moved for approval of this recommendation; Member Wilson seconded the motion and the motion was passed 7-0. Member Long abstained because of his position on the Board of Directors, First Interstate Bank; Member Ryan also abstained because of personal reasons.

Coal Tax Loan Program Activity Report

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

Pension Mortgage Program Activity Report

The Board reviewed this report for August and September.

INVESTMENT ACTIVITY

Montcomp

Mr. Jim Penner presented August and September transactions, the holdings report as of September 30, 2002 and the current investment strategy. Member Klawon moved for approval of the Montcomp strategy as presented; Member Beams seconded the motion and the motion was passed 9-0.

In addition, Mr. Penner presented Tyco, Inc. as a Portfolio Addition.

International Investment

Mr. David Ewer presented August and September internal transactions, the internal international holdings report as of September 30, 2002 and the current investment strategy. Member Ryan moved for approval of the International Investment strategy as presented; Member Wilson seconded the motion and the motion was passed 9-0.

Fixed Income

Mr. Robert Bugni presented August and September transactions, and the current investment strategy. Member Fleming moved for approval of the Fixed Income strategy as presented; Member Wilson seconded the motion and the motion was passed 9-0.

In addition, Mr. Bugni presented the Investment Policy Statements for Retirement Funds Bond Pool and the Trust Funds Bond Pool. Member Bardwell moved for approval of the Investment Policy Statements as presented; Member Ryan seconded the motion and the motion was passed 9-0.

Treasurer's and STIP Funds

Mr. Cooley also presented August and September STIP transactions the STIP holdings report as of September 30, 2002, the August and September Treasurer's Fund transactions, the Treasurer's Fund holdings report as of September 30, 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 Wilson seconded the motion and the motion was passed 9-0.

In addition, Mr. Cooley presented a report on International Fixed Income. Mr. Cooley's report recommends that staff continue to avoid investing in international governmental bonds. Member Wilson moved for approval of this recommendation; Member Fleming seconded the motion and the motion was passed 9-0.

Security Lending Active

Mr. Ed Kelly presented the Earnings Report for September.

Montana Private Equity Pool (MPEP)

Mr. Ed Kelly presented August and September transactions and the holdings report as of September 30, 2002.

PRESENTATION

Ms. Molly M. Veneziano, Mr. Terry Gould and Mr. Sergey Sheshuryak gave their annual Private Equity Portfolio Update and Review to the Board and staff.

NEXT MEETING

The next regularly scheduled meeting of the Board will be December 12 & 13, 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: