

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

**September 19 & 20, 2002**

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

**Thursday, September 19, 2002**

**AGENDA**

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

- A. Roll Call
- B. Approval of the August 1, 2002 Regular Meeting Minutes

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

- A. Budget Status Report
- B. Gainey Foundation Bonds
- C. In-State Investment Report
- D. Out-of-State Travel Requests

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

- A. Bond Program Officer Position
- B. 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. Economic Overview - Newsletter
- B. Asset Allocation
- C. Index Program Expansion Proposal

**V. MONTANA LOAN PROGRAM - Delrene Rasmussen 2:30 p.m.**

- A. Consider Commercial/Multi-Family Loans
  - 1. DEH, LLC.
  - 2. Lumber Yard Supply Company
  - 3. Fredsmom, LLC.
- B. Coal Tax Loan Activity Report - July
- C. Mortgage Program Activity Report - July
- D. Residential Loan Delinquency Report - June 2002
- E. Commercial Loan Delinquency Report - June 2002
- F. Updated Residential Service Agreement

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

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA**
  - 1. Transactions - July and August
  - 2. Holdings Report
  - 3. Strategy
  - 4. Portfolio Additions
    - a. Honeywell

**B. International Equities - David Ewer**

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

**C. Fixed Income - Bob Bugni, CFA**

1. Transactions - July and August
2. Strategy
3. Investment Policy Statements
  - a. Resource Indemnity Trust Fund
  - b. Trust & Legacy Fund
  - c. Zortman/Landusky Long Term Water

**D. STIP and Treasurer's Funds - Bob Bugni, CFA**

1. STIP Transactions - July
2. STIP Holdings Report
3. Treasurer's Fund Transactions - July
4. Treasurer's Fund Holdings Report
5. Strategy
  
6. Investment Policy Statements
  - a. Short Term Investment Pool
  - b. Treasurer's Fund Investment Pool

**VII. PRESENTATION - Schroders Asset Management 4:00 p.m.**

Donald H. M. Farquharson, Director, Pacific Basin Portfolio Manager  
Richard Sennit, Pacific Basin Portfolio Manager  
Teresa Myers, Senior Vice President, Client Servicing and Marketing

**REGULAR MEETING OF THE  
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**Friday, September 20, 2002**

**AGENDA**

**VIII. INVESTMENT ACTIVITY - External Management - Ed Kelly 8:30 a.m.**

- a. Security Lending
  1. Income Report - July
  - b. Domestic Equity Passive
  - c. International Equity Active
    1. Schroders Asset Management Annual Review
  - d. Private Equity
    1. MPEP Transactions - July
    2. MPEP Holdings Report - July

**Presentation - Oaktree Capital Management, LLC, Howard S. Marks, CFA, Chairman**

1. Private Equity Proposal

**IX. ADJOURNMENT 10:00 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.

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**MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor  
Helena, Montana  
September 19 & 20, 2002**

**MINUTES**

**BOARD MEMBERS PRESENT:**

**Dick Anderson, Chairman  
Douglas Bardwell  
Dennis Beams  
Jay Klawon  
Joel Long  
Calvin Wilson**

**BOARD MEMBERS ABSENT:**

**Karen Fagg  
Maureen Fleming  
Tim Ryan**

**STAFF PRESENT:**

**Robert T. Bugni, CFA, Senior Investment Officer  
Geri Burton, Deputy Director  
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  
Louise Welsh, Bond Program Officer**

**GUESTS:**

**Mae Nan Ellingston, Bond Counsel, Dorsey & Whitney (via conference call)  
John Mehan, Robert W. Baird & Company (via conference call)  
Donald H. Farquharson, Director, Schroders Asset Management  
Richard Sennit, Portfolio Manager, Schroders Asset Management  
Teresa Myers, Senior Vice President, Schroders Asset Management  
Howard S. Marks, CFA, Chairman, Oaktree Capital Management LLC.**

## **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. Members Fleming, Ryan and Fagg were not present.

Member Bardwell motioned for approval of the August 1, 2002 minutes; Member Beams seconded the motion and the motion was passed 6-0.

## **EXECUTIVE DIRECTOR REPORTS**

### **Budget Status Report**

Executive Director Carroll South presented this report for fiscal year end 2002.

### **In-State Loan Program**

Mr. Carroll South, Executive Director, presented to the Board, a report on the recently discussed 25% provision in the In-State Investment law and what impact that language may have on the In-State Loan Program when the 25% mark is reached.

Staff recommends:

1. That a floor of \$200.0 million be established for the Permanent Fund's TFBP investment to provide liquidity to cover legislative appropriations and/or legislatively-mandated loans. Given the state's serious budget problems there may be attempts during the 2003 Legislature to appropriate significant amounts of the Permanent Fund. If those attempts are unsuccessful, it may be possible to reduce this amount to \$150.0 million going forward.
2. That \$100.0 million of the Permanent Fund be reserved for the Infrastructure and Value-Added Loan Programs until such time that we can accurately gauge the potential growth of these programs. The unused portion of the reservation would remain invested in the TFBP. If the growth of these programs does not materialize a portion of the reserve could be used for Commercial loans.
3. That \$15.0 million of the Permanent Fund be reserved for the Facility Finance Authority. The unused portion of the reservation would remain invested in the TFBP.
4. That 25.0 percent of the Treasure State Endowment Fund be allocated to the Commercial Loan Program to reduce demands on the Permanent Fund. As of June 30, 2002, 18.0 percent of the Endowment Fund was invested in Commercial Loans.
5. No change in Commercial Loan Program parameters at this time. If the continued rapid growth of the Program jeopardizes the above reservations, staff would recommend procedures to slow the growth using the "Investment Preference" section of the In-State Investment Law.

The above positions are currently maintained by staff or are open for discussion at a time that staff requires, therefore, there was no action taken by the Board on staff's recommendation.

Member Fagg arrived at this time.

### **Gainey Foundation Youth Camp**

Ms. Geri Burton, Deputy Director, presented to the Board Resolution No. 198 "Relating to variable rate demand limited obligation revenue bonds (Gainey Foundation Project), Series 2002; making findings with respect to the project and bonds; authorizing and approving the project and sale and issuance of bonds secured by payments to be received pursuant to a loan agreement and a pledge and assignment of the Board's interest in the loan agreement and payments thereunder to a trustee; and authorizing the execution of documents".

At the August 2002 meeting, the Board approved a resolution giving preliminary approval to the issuance of tax-exempt bonds under the Economic Development Act of 1983 in an amount of up to \$6 million. The proceeds of the

bonds would be loaned to the Gainey Foundation to finance a portion of the costs of acquiring land in Madison and Beaverhead Counties and constructing thereon a camp for economically disadvantaged youth.

Staff conducted public hearings on the Gainey Foundation's proposed use of tax-exempt bonds to finance eligible project costs on August 28, 2002 in Dillon and Twin Bridges. Total attendance at these hearings was 19; 16 proponents, 3 neutral. Seven of the individuals attended both hearings.

The Resolution declares that the Board finds that the project is in the public interest. It authorizes the project to move forward and for staff to execute pertinent documents when in final form. The Resolution allows the Official Statement to be circulated; however, the Resolution explicitly states that the Board bears no responsibility for the accuracy or completeness of the Official Statements other than statements relating to the Board.

Staff recommends:

1. Requiring the Foundation to apply for and maintain accreditation by the American Camping Association (ACA). The ACA accreditation deals with several standards that must be met regarding individuals dealing with youth.
2. That the Resolution be adopted and that staff be authorized to proceed to complete the tax-exempt bond financing for the Gainey Foundation youth camp project.

Member Beams moved for approval of Resolution No. 198; Member Fagg seconded the motion and the motion was passed 7-0.

### **Out-of-State Travel**

Executive Director Carroll South, presented travel recommendations for

" Dick Bridegroom to attend the Residential Underwriting Conference in Washington DC, November 2 - 8, 2002;

" Roberta Ecklund to attend the Bear Stearns 15th Annual Healthcare Conference in New York City, September 16 - 22, 2002;

" Herb Kulow to travel to Washington DC to take oral exam with MBA for the CMB Designation, September 12 - 15, 2002;

" Herb Kulow to attend the MBA Convention to receive his CMB Designation October 18 - 24, 2002.

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

### **BOND PROGRAM**

#### **Bond Program Officer Position**

Ms. Geri Burton, Deputy Director, announced that Ms. Louise Welsh has been appointed Bond Program Officer. Ms. Welsh started her career with the Board of Investments in February 2000 as an Administrative Assistant. She was promoted to Bond Program Assistant in July 2001. Ms. Welsh has done an outstanding job at the Board of Investments and we are very fortunate to have Louise overseeing the Bond Program Office.

#### **Activity Report**

The Board reviewed this report for the period ending September 6, 2002.

#### **Staff Approved Loans Report**

Ms. Geri Burton reported that:

Borrower: Beaverhead County

Purpose: To finance the purchase of a building for additional space for County offices.

Staff Approval Date July 23, 2002

Board Loan Amount: \$200,000

Term: 10 Years

Borrower: Park County Rural Fire District #1 (Livingston)

Purpose: To finance the purchase of a metal building to house the Mill Creek Fire Substation.

Staff Approval Date July 24, 2002

Board Loan Amount: \$90,000

Term: 10 Years

Borrower: Paradise Valley Fire Service Area (Emigrant)

Purpose: To finance the purchase of a 2002 International wild land truck and a 2001 International water tender truck.

Staff Approval Date July 26, 2002

Board Loan Amount: \$75,000

Term: 10 Years

Borrower: Dixon Elementary School

Purpose: To finance a portion of the costs associated with remodeling the existing shop building.

Staff Approval Date July 30, 2002

Board Loan Amount: \$40,000

Term: 10 Years

Borrower: Ramsay County Water & Sewer District

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

Staff Approval Date August 9, 2002

Board Loan Amount: \$15,000

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

Borrower: Sanders County Loan Increase Request

Purpose: To finance project costs at the County fairgrounds.

Staff Approval Date August 9, 2002

Board Loan Amount: \$20,000

Term: 10 Years

Borrower: City of Cut Bank

Purpose: To finance the purchase of a new police vehicle.

Staff Approval Date August 20, 2002

Board Loan Amount: \$19,814

Term: 3 years

Borrower: Town of Sunburst

Purpose: To finance replacement and installation of a transmission gas line between Sunburst and Sweetgrass.

Staff Approval Date August 22, 2002

Board Loan Amount: \$50,000

Term: 10 year

Borrower: Montana City Volunteer Fire Department

Purpose: To finance two fire trucks.

Staff Approval Date August 26, 2002

Board Loan Amount: \$164,000

Term: 10 Years

Borrower: Pryor Public Schools

Purpose: For cash flow purposes.

Staff Approval Date September 5, 2002

Board Loan Amount: \$200,000

Term: Short term loan in anticipation of Impact Aid funds.

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:

Borrower: Huntley Project School District #24  
Board Loan Amount: \$300,000  
Term: 10 Years  
Purpose: To finance construction costs for a multi-purpose building.

Borrower: Madison County  
Board Loan Amount: \$243,000  
Term: 5 Years.  
Purpose: To finance the purchase of two motor graders..

Borrower: Gallatin County  
Board Loan Amount: \$995,000  
Term: 7 Years.  
Purpose: To finance a cell liner expansion at the County's landfill.

Member Long moved for approval of this recommendation; Member Klawon seconded the motion and the motion was passed Klawon7-0.

## **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 the Asset Allocation report for September 30, October 15 and October 31 transactions. Additions to this report included an increase of up to \$55 million in Private Equity purchases on September 30 and the possible suspension of the October 15 Domestic Equity S&P 500 index purchase of \$10 million.

### **Index Program Expansion Proposal**

Mr. Penner presented a recommendation to authorize staff to prepare and disseminate a Request for Proposal (RFP) to hire an enhanced domestic equity non-large capitalization investment manager. Selective prospective vendors recommended by staff would make a presentation to the Board in January before the Board considers staff's final recommendation.

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

## **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: DEH, LLC.  
Lender: First Security Bank, Missoula  
Purpose of Loan: To refinance existing debt of DEH and provide funds for the remodel of the "The Inn on Broadway".

Amount of Loan: \$2,725,000

Board Loan Amount: \$1,362,000

Board Participation: 50%

Term of Loan: 20 Years

Interest Rate: 7.55% + .75%LSF

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

Loan Committee Recommendation:

Approve with additional requirement that a Repair & Replacement Reserve Account be established and maintained by lender. Member Beams abstained from Loan Committee recommendation.

Member Bardwell moved for ratification of loan committee recommendation; Member Wilson seconded the motion and the motion was passed 6-0. Member Beams abstained from the vote.

Borrower: Lumber Yard Supply Company

Lender: First Interstate Bank, Great Falls

Purpose of Loan: To provide fixed rate financing for the purchase, remodel and inventory for the lumber yard in Billings.

Amount of Loan: \$5,000,000

Board Loan Amount: \$3,750,000

Board Participation: 75%

Term of Loan: 20 Years

Interest Rate: 7.55% + .30%LSF

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

Loan Committee Recommendation: Approve. Member Long abstained from Loan Committee Recommendation.

Member Bardwell moved for ratification of loan committee recommendation; Member Beams seconded the motion and the motion was passed 6-0. Member Long abstained from the vote.

Borrower: Fredsmom, LLC.

Lender: First Security Bank, Missoula

Purpose of Loan: To provide permanent financing for the purchase of two lots and the construction of a warehouse with office space.

Amount of Loan: \$1,117,000

Board Loan Amount: \$893,600

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:

No action taken. Lender asked that this request be presented at a later date to allow for additional information to be made available.

### **Coal Tax Loan Program Activity Report**

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

### **Pension Mortgage Program Activity Report**

The Board reviewed this report for July.

### **Residential Mortgage Delinquency Report**

The Board reviewed this report for the period ending June 20, 2002

### **Commercial Loan Delinquency Report**

The Board reviewed this report for the period ending June 30, 2002

### **Residential Service Agreement**

Ms. Delrene Rasmussen presented for board review and approval the updated residential service agreement. The following changes have been made to the agreement:

" The seller/servicer designation has been replaced by the word "Participant".

" The new warranties, which were approved by the Board in February 2002, have been added in Sections 3.27, 3.28, and 3.29.

" Section 8, which addresses remittances, reporting and handling of funds, has been revised by the accounting department. Effective July 1, 2004 any Participant with over 200 loans will be required to submit an "Exception Reporting Form" electronically.

" Insurance. Section 9.3 has been increased from \$1,000 to \$5,000. This means that the Participant will be authorized to settle and adjust insurance claims, including endorsing drafts for damages up to \$5,000.

" Section 8, 8.1 states "The Participant may transmit the Reconciliation Statement to the Board by facsimile..." will be changed to read "... to the Board by facsimile or by electronic means acceptable to the Board..."

The updated residential service agreement will be sent out for signature by Participants upon approval.

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

### **INVESTMENT ACTIVITY**

#### **Montcomp**

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

In addition, Mr. Muffick presented Honeywell International Inc. as a Portfolio Addition.

#### **International Investment**

Mr. David Ewer presented July internal transactions, the internal international holdings report as of July 31, 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 7-0.

#### **Fixed Income**

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

In addition, Mr. Bugni presented the Investment Policy Statements for Resource Indemnity Trust Fund, Trust and Legacy Fund and the Zortman/Landusky Long Term Water. Member Long moved for approval of the Investment Policy Statements as presented; Member Wilson seconded the motion and the motion was passed 7-0.

#### **Treasurer's and STIP Funds**

Mr. Cooley also presented July STIP transactions the STIP holdings report as of August 31, 2002, the July Treasure's Fund transactions, the Treasurer's Fund holdings report as of August 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 Long seconded the motion and the motion was passed 7-0.

In addition, Mr. Cooley presented the Investment Policy Statements for Short-Term Investment Pool and State of Montana Treasurer's Fund. Member Bardwell moved for approval of the Investment Policy Statements as presented; Member Wilson seconded the motion and the motion was passed 7-0.

### **Security Lending**

Mr. Ed Kelly presented this report for July.

### **Montana Private Equity Pool (MPEP)**

Mr. Ed Kelly presented July transactions and the holdings report as of July 31, 2002.

### **Private Equity Proposal**

Mr. Ed Kelly presented staff recommendation that the Board of Investments commit to investing \$75 million in the Oaktree Capital Management Opportunities Fund IVb distressed debt investment fund.

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

### **Presentation - Schroders Asset Management**

Mr. Donald H. Farquharson, Mr. Richard Sennit, and Ms. Teresa Myers, Schroders Asset Management, gave their annual Pacific Basin Equity Fund Performance Review to the Board and staff.

### **ADJOURNED**

The meeting adjourned for the day at 5:15 p.m.

### **CALL TO ORDER**

The meeting was reconvened Friday, September 20, 2002 at 8:30 a.m. Four members of the Board were present

### **Presentation - Oaktree Capital Management, LLC**

Mr. Howard S. Marks presented to the Board a report on "Capturing Inefficiencies in the Distressed Debt Marketplace". On Thursday, September 19, 2002, the Board approved staff recommendation to invest with Oaktree Capital Management.

Mr. Marks report included an overview of Oaktree's Investor Approach, Oaktree's Track Record with Distressed Debt and the elements demonstrated for Oaktree's success in the distressed debt marketplace.

### **NEXT MEETING**

The next regularly scheduled meeting of the Board will be October 31 - November 1, 2002.

### **ADJOURNMENT**

There being no further business, the meeting was adjourned at 10:00 a.m.

### **BOARD OF INVESTMENTS**

#### **APPROVE:**

**Dick Anderson, Chairman**

#### **ATTEST:**

**Carroll South, Executive Director**

**DATE:**