

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

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

**Thursday, April 17, 2003**

**AGENDA**

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

- A. Roll Call
- B. Approval of the March 13, 2003 Regular Meeting Minutes

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

- A. Budget Status Report
- B. Legislative Update (Verbal)
- C. Out-of-State Travel Requests

**III. BOND PROGRAM - Louise Welsh 1:30 p.m.**

- A. INTERCAP
  - 1. Activity Report
  - 2. Staff Approved Loans Report
  - 3. Loan Requests
  - 4. Issuance of INTERCAP Bonds - Resolution No. 201

**IV. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 2:00 p.m.**

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

**V. MONTANA LOAN PROGRAM - Delrene Rasmussen 2:15 p.m.**

- A. Consider Commercial/Multi-Family Loans
  - 1. Creative Sales Company
- B. Consider Value Added Loans
  - 1. Jore Corporation
- C. Coal Tax Loan Program Activity Report - February
- D. Pension Mortgage Program Activity Report - February

**VI. PRESENTATION - State Street Bank, Security Lending 2:30 p.m.**

Jeffrey Trencher, CFA

**VII. INVESTMENT ACTIVITY - External Management - Ed Kelly**

- A. Security Lending Active
  - 1. Earnings Report - February
- B. International Equity Active
  - 1. Montana International Equity Program Review
- C. Montana Private Equity Pool (MPEP)
  - 1. Transactions - February
  - 2. Holdings Report

**VIII. INVESTMENT ACTIVITY - Internal Management**

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

1. Transactions - February
2. Holdings Report
3. Strategy
4. Portfolio Additions
  - a. Fortune Brands
  - b. Johnson Controls
  - c. Lehman Brothers
  - d. Medtronic
  - e. Xilinx

**B. International Equities (MTIP) - Paul Runnalls**

1. Internal Pool
  - a. Internal Transactions - February
  - b. Internal International Holdings Report
  - c. Strategy

**C. Fixed Income - Rich Cooley, CFA**

1. Transactions - February
2. Strategy
3. Investment Policy Statements
  - a. Treasure State Endowment Regional Water System Funds
  - b. Treasure State Endowment Funds
  - c. State Fund Insurance - Old Fund
  - d. State Fund Insurance - New Fund

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

1. STIP Transactions - February
2. STIP Holdings Report
3. Treasurer's Fund Transactions - February
4. Treasurer's Fund Holdings Report
5. Strategy

**IX. 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.

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**MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor  
Helena, Montana  
April 17, 2003**

**MINUTES**

**BOARD MEMBERS PRESENT:**

Dennis Beams  
Karen Fagg  
Maureen Fleming

Jay Klawon  
Joel Long  
Terry Moore  
Tim Ryan

**BOARD MEMBERS ABSENT:**

Dick Anderson, Chairman  
Calvin Wilson

**STAFF PRESENT:**

Geri Burton, Deputy Director  
Richard Cooley, CFA, Assistant Investment Officer  
Kimberly Dallas, Program Assistant  
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  
Paul Runnalls, Investment Analyst, International Equities  
Carroll V. South, Executive Director  
Louise Welsh, Bond Program Officer

**GUESTS:**

Gordon Hoven, US Bancorp/Piper Jaffray  
Kelly Grove, Jore Corporation  
Frank Tiegs, Jore Corporation  
Brenda Dennis, Jore Corporation  
Billee Lee, Jore Corporation  
Dale Taliaferro, Association of Montana Retired Public Employees  
Mark Berry, State Fund  
Darrell Beaton, State Fund  
Jeffrey Trencher, CFA, State Street Bank Security Lending

**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. Member Anderson and Member Wilson were absent.

Member Beams motioned for approval of the March 13, 2003 minutes; Member Long 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 March 31, 2003.

## **Legislative Update**

Executive Director Carroll South gave a Legislative Update to the Board:

" SB 131, Intermediary Lending Bill - Which permits the Board to lend money to local development organizations at 2.00 percent interest and permits the Board to buy seasoned loans from local development organizations has passed and is effective July 1, 2003. Staff is in the process of formulizing policy.

## **BOND PROGRAM**

### **Activity Report**

The Board reviewed this report for the period ending April 7, 2003

### **Staff Approved Loans Report**

Ms. Louise Welsh reported that:

Borrower: Sweet Grass County

Purpose: To finance costs associated with improving the base and surface of tem miles of Otter Creek Road.

Staff Approval Date March 4, 2003

Board Loan Amount: \$199,900

Term: 5 Years

Borrower: Sheaver's Creek - Lake County Water & Sewer District

Purpose: Anticipation of USDA Rural Development financing.

Staff Approval Date March 5, 2003

Board Loan Amount: \$174,400

Term: 3 Years

Borrower: Woodsbay Homesites - Lake County Water & Sewer District

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

Staff Approval Date March 10, 2003

Board Loan Amount: \$6,700

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

Borrower: Lewis & Clark County

Purpose: To finance costs associated with the purchase and installation of fiber cable and wireless networks.

Staff Approval Date March 11, 2003

Board Loan Amount: \$199,000

Term: 7 Years

Borrower: City of Colstrip

Purpose: To finance the purchase of a 2003 Sterling jet vacuum truck.

Staff Approval Date March 12, 2003

Board Loan Amount: \$100,000

Term: 10 Years

Borrower: Phillips County Green Meadows Water & Sewer District

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

Staff Approval Date March 20, 2003

Board Loan Amount: \$10,000

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

Borrower: Scobey School District #1

Purpose: To finance a portion of the costs associated with replacing the heating system and coal boiler stoker.  
Staff Approval Date March 20, 2003  
Board Loan Amount: \$140,000  
Term: 10 Years

Borrower: City of Three Forks  
Purpose: To finance the costs associated with installing arena lighting and a perimeter irrigation system for the fairgrounds.  
Staff Approval Date March 24, 2003  
Board Loan Amount: \$30,000  
Term: 10 Years

Borrower: Thompson Falls Rural Fire District  
Purpose: To refinance the District's pumper truck and building loans.  
Staff Approval Date March 26, 2003  
Board Loan Amount: \$124,615.54  
Term: 10 Years

Borrower: Choteau County District Hospital (dba Missouri River Medical Center), Fort Benton  
Purpose: To finance a real property purchase.  
Staff Approval Date March 27, 2003  
Board Loan Amount: \$50,000  
Term: 10 Years

Borrower: Headwaters Cooperative Recycling Project (Basin)  
Purpose: To finance the purchase of two Molitor trucks.  
Staff Approval Date March 28, 2003  
Board Loan Amount: \$83,500  
Term: 5 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 April 2, 2003  
Board Loan Amount: \$90,000  
Term: 10 Years

has been approved by staff.

## **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: Ethridge County Water District  
Board Loan Amount: \$700,000  
Term: Interim loan in anticipation of Rural Development long term financing.  
Purpose: Financing for a rural water distribution system.

Borrower: Town of Hot Springs  
Board Loan Amount: \$975,600  
Term: Interim Loan in anticipation of Rural Development long term financing.  
Purpose: To replace water service lines and associated connections, valves and hydrants.

Member Moore moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 6-0. Member Ryan abstained.

## **INTERCAP Series 2003 - Resolution No. 201**

Ms. Geri Burton, Deputy Director presented staff recommendation for approval of Resolution No. 201, authorizing issuance and sale of the Series 2003 Bonds. Staff recommends that the Board:

1. Authorize staff to take steps as deemed necessary to issue \$15 million in INTERCAP bonds for a term of 25 years.
2. Adopt the final bond resolution.

Member Fleming moved for approval of this recommendation; Member Klawon 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 April 15 and April 30 and May transactions.

### **French Divestment**

Mr. Jim Penner reported to the Board that staff completed the divestment of internally-managed French company stock within the 30 days as was directed at the March 13, 2003 Board Meeting. Divestment was completed on April 10, 2003; the cost was \$85,000 in transaction fees.

## **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: Creative Sales Company

Lender: First Citizens Bank, Columbia Falls

Purpose of Loan: To purchase/remodel commercial real estate and purchase equipment.

Amount of Loan: \$800,000

Board Loan Amount: \$600,000

Board Participation: 75%

Term of Loan: 10 Years

Interest Rate: 6.75% + .50% LSF = 7.25%

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

Loan Committee Recommendation: Approve

Borrower: Jore Corporation (Participation Loan #7617)

Lender: Mountain West Bank, Helena

Purpose of Loan: To pay off GE Capital debt and to purchase new equipment.

Amount of Loan: \$4,225,000

Board Loan Amount: \$3,380,000

Board Participation: 80%

Term of Loan: 15 Years

Interest Rate: 7.00% Fixed

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

Loan Committee Recommendation: Approve subject to additional covenants at the direction of the loan committee.

Borrower: Jore Corporation (Value-Added Loan #7618)

Lender: Mountain West Bank, Helena

Purpose of Loan: To pay off GE Capital debt and to purchase new equipment.

Total Amount of Loan: \$8,400,000

Board Loan Amount: \$6,300,000

Board Participation: 75%

Term of Loan: 7 Years

Interest Rate: 2.50% Fixed for 5 Years; then 6.50% Fixed for 2 Years.

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

Loan Committee Recommendation: Approve subject to additional covenants at the direction of the loan committee.

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

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

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

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

The Board reviewed this report for February.

### **PRESENTATION**

Mr. Jeffrey Trencher, CFA, State Street Bank Security Lending presented to the Board a report on Securities Lending. Mr. Trencher's report included Securities Lending Basics, The Lending and Reinvestment Markets, and Performance.

### **INVESTMENT ACTIVITY**

#### **Security Lending Active**

Mr. Ed Kelly presented the Earnings Report for February.

#### **International Equity Active**

Montana International Equity Program Review

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

Mr. Ed Kelly presented February transactions and the holdings report as of February 28, 2003.

#### **International Equity Program Review**

Mr. Ed Kelly presented to the Board a brief review of the Montana International Equity Program from inception to date.

Montana's International Equity Investment Program has experienced a favorable performance history over the last 15 years while expanding as a percentage of the retirement fund asset allocation and in the scope of exposure to an increasingly global investment horizon. The recommendations made as part of this review are intended to sustain the favorable performance history and facilitate continued growth in the international equity asset allocation toward the target of 12%.

Staff outlined the following recommendations:

" Retain regional approach to international equity investing;

" Add a passive component to the international equity program by expanding relationship with Barclays Global Investors to include international indices.

" Issue a Request for Proposal for Pacific Basin active equity investment management on or before August 1, 2003.

" Eliminate MSCI Montana Custom Pacific Basin Index with issuance of the Request for Proposal for Pacific Basin

active equity investment management

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

### **Montcomp**

Mr. Rande Muffick presented February transactions, the holdings report as of February 28, 2003 and the current investment strategy. Member Beams moved for approval of the Montcomp strategy as presented; Member Fagg seconded the motion and the motion was passed 7-0.

In addition, Mr. Muffick presented Fortune Brands, Johnson Controls, Lehman Brothers, Medtronic and Xilinx as a Portfolio Additions.

### **International Investment**

Mr. Paul Runnalls presented February internal international transactions, the internal international holdings report as of February 28, 2003 and the current investment strategy. Member Klawon moved for approval of the International Investment strategy as presented; Member Fleming seconded the motion and the motion was passed 7-0.

### **Fixed Income**

Mr. Rich Cooley presented February transactions, and the current investment strategy. Member Long moved for approval of the Fixed Income strategy as presented; Member Beams seconded the motion and the motion was passed 7-0.

In addition, Mr. Cooley presented the following Investment Policy Statements:

" Treasure State Endowment Regional Water System Funds; Member Beams moved for approval of the Investment Policy Statement as presented; Member Fleming seconded the motion and the motion was passed 7-0.

" Treasure State Endowment Funds; Member Fleming moved for approval of the Investment Policy Statement as presented; Member Long seconded the motion and the motion was passed 7-0.

" State Fund Insurance - Old Fund; Member Fleming moved for approval of the Investment Policy Statement as presented; Member Fagg seconded the motion and the motion was passed 7-0.

Mr. Penner presented the State Fund Insurance - New Fund Investment Policy Statement. Mr. Penner stated one correction that was made to this statement. On page 2, Client Preferences, Bullet #4 should read "Limit fixed income holdings rated lower than A3 or A- to a range of 15 - 20 percent." Member Beams moved for approval of the Investment Policy Statement as corrected; Member Klawon seconded the motion and the motion was passed 7-0.

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

Mr. Cooley also presented February STIP transactions the STIP holdings report as of February 28, 2003, the February Treasure's Fund transactions, the Treasurer's Fund holdings report as of February 28, 2003 and the current investment strategy for both of these funds. Member Long moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Beams seconded the motion and the motion was passed 7-0.

### **NEXT MEETING**

The next regularly scheduled meeting of the Board will be May 23, 2003.

### **ADJOURNMENT**

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

**BOARD OF INVESTMENTS**

**APPROVE:**

**Tim Ryan, Vice Chairman**

**ATTEST:**

**Carroll South, Executive Director**

**DATE:**