

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

Thursday, August 7, 2003

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

AGENDA

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

- A. Roll Call
- B. Approval of the June 25, 2003 Regular Meeting Minutes

II. PUBLIC COMMENT 1:05 p.m.

- A. Public Comment on Board-Related Items

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

- A. Budget Status Report (Handout)

IV. BOND PROGRAM - Louise Welsh 1:30 p.m.

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

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

- A. Economic Overview - Newsletter
- B. Montana Developmental Center Project
- C. Asset Allocation
- D. Investment Performance - Fiscal Year End 2003
- E. Professional Development Policy Revision
- F. Soft Dollar Report

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

- A. Consider Commercial/Multi-Family Loans
 - 1. Helena Golden Group, LLC.
 - 2. International Malting Company, LLC. - Construction Loan
 - 3. International Malting Company, LLC. - Participation Loan
 - 4. International Malting Company, LLC. - Value Added Construction Loan
 - 5. International Malting Company, LLC. - Value Added Loan
 - 6. Great Falls Development Authority, Inc. - Infrastructure Loan
- B. Coal Tax Loan Program Activity Report - June
- C. Coal Tax Loan Program Delinquency Report - Ending June 30, 2003
- D. Pension Mortgage Program Activity Report - June
- E. Pension Mortgage Program Delinquency Report - Ending June 30, 2003
- F. Value Added/Infrastructure Update

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

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
 - 1. Transactions - June
 - 2. Holdings Report

3. Strategy
4. Portfolio Additions
 - a. Boston Scientific
 - b. Goldman Sachs
 - c. Knight Ridder
 - d. Nasdaq 100
- B. International Equities (MTIP) - Paul Runnalls
 1. Internal Pool
 - a. Internal Transactions - June
 - b. Internal International Holdings Report
 - c. Strategy
- C. Fixed Income - Bob Bugni, CFA
 1. Transactions - June
 2. Strategy
 3. Holdings Report - RFBP & TFBP
 4. Non-Investment Grade Holdings
 5. Investment Policy Statements
 - a. Public Employees' Retirement System
 - b. Municipal Police Officers' Retirement System
 - c. Sheriffs' Retirement System
 - d. Firefighters' Unified Retirement System
 - e. Highway Patrol Officers' Retirement System
 - f. Judges' Retirement System
 - g. Game Wardens' Retirement System
 - h. Volunteer Firefighters' Compensation Act
- D. STIP and Treasurer's Funds - Rich Cooley, CFA
 1. STIP Transactions - June
 2. STIP Holdings Report
 3. Holdings Report - State Fund
 4. Treasurer's Fund Transactions - June
 5. Treasurer's Fund Holdings Report
 6. Strategy

INVESTMENT ACTIVITY - External Management - Ed Kelly

- A. Security Lending Active
 1. Earnings Report - June
- B. Montana Private Equity Pool (MPEP)
 1. Transactions - June
 2. Holdings Report

VII. 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
Thursday, August 7, 2003**

MINUTES

BOARD MEMBERS PRESENT:

Dick Anderson, Chairman
Dennis Beams
Karen Fagg
Maureen Fleming
Jay Klawon
Tim Ryan
Calvin Wilson

BOARD MEMBERS ABSENT:

Joel Long
Terry Moore

STAFF PRESENT:

Robert T. Bugni, CFA, Senior Investment Officer
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
Jeff O'Connor, CFO & Treasurer, Lesaffre International Corp., Milwaukee, WI.
Michael J. Reymann, Vice President, US Bank N.A., Minneapolis, MN.
Lisa Jacobs, Attorney, Pepper Hamilton, LLP., Philadelphia, PA.
Michelle Barstad, Executive Director, Montana Facility Finance Authority

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 seven members of the Board present. Member Long and Member Moore were absent.

Member Ryan motioned for approval of the June 25, 2003 minutes; Member Beams seconded the motion and the motion was passed 7-0.

PUBLIC COMMENT - Public Comment on Board-Related Items

Chairman Anderson called for Public Comment of Board-Related Items. No Public Comment was made.

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: Helena Golden Group, LLC.

Lender: Mountain West Bank, Great Falls

Purpose of Loan: To provide permanent financing for the interim construction loan of the Golden Corral in Helena.

Amount of Loan: \$1,465,125

Board Loan Amount: \$732,562.50

Board Participation: 50%

Term of Loan: 20 Years

Interest Rate: 7.25% + .50% LSF = 7.75% Fixed

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

Loan Committee Recommendation: Approve (Member Anderson was absent during loan committee discussion of the Helena Golden Group.)

Member Beams moved for ratification of loan committee recommendation; Member Fleming seconded the motion and the motion was passed 6-0. Member Anderson abstained.

Borrower: International Malting Company, LLC. - Participation/Construction Loan #724-7729

Lender: US Bank National Association, Minneapolis

Purpose of Loan: Provide financing for the construction of and equipment for the malting plant in Great Falls.

Amount of Loan: \$36,866,666

Board Loan Amount: \$18,433,333

Board Participation: 50%

Term of Loan: 2 Years

Interest Rate: Board's Share: 6.50% + 0.00% Lender Service Fee, less any applicable job creation interest rate reduction.

Lender's Share: Prime or LIBOR. Prime adjusting when or as prime changes. LIBOR adjusted at end of applicable interest rate period

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

Loan Committee Recommendation: Approve

Borrower: International Malting Company, LLC. -

Participation/Term Loan #724-7730

Lender: US Bank National Association, Minneapolis

Purpose of Loan: Long term financing of the malting plant in Great Falls.

Amount of Loan: \$36,866,666

Board Loan Amount: \$18,433,333

Board Participation: 50%

Term of Loan: 13 Years

Interest Rate: Board's Share: 7.00% + 0.00% Lender Service Fee, less any applicable job creation interest rate reduction.

Lender's Share: Prime or LIBOR. Prime adjusting when or as prime changes. LIBOR adjusted at end of applicable interest rate period

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

Loan Committee Recommendation: Approve

Borrower: International Malting Company, LLC. -

Value-Added Construction Loan #724-7731

Lender: US Bank National Association, Minneapolis

Purpose of Loan: Provide construction funding to construct a malting plant in Great Falls.

Amount of Loan: \$8,933,334

Board Loan Amount: \$6,700,000

Board Participation: 75%

Term of Loan: 2 Years

Interest Rate: Board's Share: 6.50% Board Rate + 0.00% Lender Service Fee until the borrower has submitted evidence, subject to approval by the Board, that 10 jobs have been created. At that time, the Board rate will be reduced to 4% for 5 years, 6% for the 2nd 5 years and at the Board's posted rate for the 3rd 5 years, not to exceed 10%.

If evidence that 15 jobs have been created, the Board Rate will be reduced to 2% for 5 years, 6% for the 2nd 5 years and at the Board's posted rate for the 3rd 5 years, not to exceed 10%. Lender's Service Fee shall not exceed .50%.

Lender's Share: Prime or LIBOR. Prime adjusting when or as prime changes. LIBOR adjusted at end of applicable interest rate period

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

Loan Committee Recommendation: Approve

Borrower: International Malting Company, LLC. -

Value-Added Term Loan #724-7732

Lender: US Bank National Association, Minneapolis

Purpose of Loan: Long term financing of the malting plant in Great Falls.

Amount of Loan: \$8,933,334

Board Loan Amount: \$6,700,000

Board Participation: 75%

Term of Loan: 13 Years

Interest Rate: Board's Share: 7.00% Board Rate + 0.00% Lender Service Fee until the borrower has submitted evidence, subject to approval by the Board, that 10 jobs have been created. At that time, the Board rate will be reduced to 4% for 5 years, 6% for the 2nd 5 years and at the Board's posted rate for the 3rd 5 years, not to exceed 10%.

If evidence that 15 jobs have been created, the Board Rate will be reduced to 2% for 5 years, 6% for the 2nd 5 years and at the Board's posted rate for the 3rd 5 years, not to exceed 10%. Lender's Service Fee shall not exceed .50%.

Lender's Share: Prime or LIBOR. Prime adjusting when or as prime changes. LIBOR adjusted at end of applicable interest rate period

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

Loan Committee Recommendation: Approve

Borrower: Great Falls Development Authority -

Infrastructure Loan #724-7733

Lender: Montana Board of Investments

Purpose of Loan: Long term financing of the malting plant in Great Falls.

Amount of Loan: \$500,000

Board Loan Amount: \$500,000

Board Participation: 100%

Term of Loan: 15 Years

Interest Rate: Board's Share: 7.00% posted rate

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

Loan Committee Recommendation: Approve

The following two options are financing alternatives, recommended and approved by the Loan Committee, available to US Bank National Association, to loan #724-7730. Staff will update the Board at the September 18, 2003 Regular meeting of the Board as to which option US Bank selected.

Borrower: International Malting Company, LLC, financing option for Participation/Term Loan #724-7730

Lender: US Bank National Association, Minneapolis

Purpose of Loan: Long term financing of the malting plant in Great Falls

Amount of Loan: \$36,566,666

Board Loan Amount: \$23,466,666

Board Participation: 64.17%

Term of Loan: 15 Years

Interest Rate: Board's Share: 6.75% + 0.00% Lender Service Fee, less any applicable job creation interest rate reduction.

Lender's Share: Prime or LIBOR. Prime adjusting when or as prime changes. LIBOR adjusted at end of applicable interest rate period

Recommendation: Approval, is subject to selection of this option by US Bank National Association, Minneapolis and subject to the terms and conditions in Schedule A.

Loan Committee Recommendation: Approved subject to selection by US Bank National Association, Minneapolis

Borrower: International Malting Company, LLC., financing option in addition to Participation/Term Loan #724-7730

Lender: US Bank National Association, Minneapolis

Purpose of Loan: Long term financing of the malting plant in Great Falls.

Amount of Loan: \$10,000,000

Board Loan Amount: \$8,000,000

Board Participation: 80%

Term of Loan: 10 Years

Interest Rate: Board's Share: 6.75% + 0.00% Lender Service Fee, less any applicable job creation interest rate reduction.

Lender's Share: Prime or LIBOR. Prime adjusting when or as prime changes. LIBOR adjusted at end of applicable interest rate period

Recommendation: Approval, is subject to selection of this option by US Bank National Association, Minneapolis and subject to the terms and conditions in Schedule A.

Loan Committee Recommendation: Approved subject to selection by US Bank National Association, Minneapolis

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

Two phases of the International Malting Company, LLC financing were approved by the Board, a construction loan phase and a term loan phase. BOI will participate in the construction phase of the IMC project over a two year period. The approved commercial participation construction loan is #724-7729 in the amount of \$18,433,333 and the value added construction loan is #724-7731 in the amount of \$6,700,000. After the construction phase of the project is complete, the construction loans will be paid off by the BOI term loans. The approved term loans are #724-7730 in the amount of \$18,433,333 and #724-7732 in the amount of \$6,700,000. The term loans will have a 13-year term. Both the commercial participation construction and the term loan are subject to the aforementioned financing alternatives.

Coal Tax Loan Program Activity Report

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

Coal Tax Loan Program Delinquency Report

Ms. Delrene Rasmussen presented and the Board reviewed this report for the period ending June 30, 2003.

Pension Mortgage Program Activity Report

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

Pension Mortgage Program Delinquency Report

Ms. Delrene Rasmussen presented and the Board reviewed this report for the period ending June 30, 2003.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending July 28, 2003.

Staff Approved Loans Report

Ms. Louise Welsh reported that:

Borrower: Ravalli County

Purpose: To finance the purchase of a booking camera and a prisoner detention electronic control hard panel.

Staff Approval Date June 17, 2003

Board Loan Amount: \$200,000

Term: 10 Years

Borrower: Choteau County District Hospital (dba Missouri River Medical Center), Fort Benton

Purpose: To finance costs associated with new office equipment, new boiler system and re-roofing the clinic.

Staff Approval Date June 17, 2003

Board Loan Amount: \$84,799.50

Term: 5 Years

Borrower: Fair-Mont-Egan School District #3, Kalispell

Purpose: To finance the purchase of new computers.

Staff Approval Date June 19, 2003

Board Loan Amount: \$30,000

Term: 5 Years

Borrower: Big Fork High School District #38

Purpose: To finance costs associated with repairs to the high schools heating system.

Staff Approval Date June 21, 2003

Board Loan Amount: \$103,690

Term: 2 Years

Borrower: Big Fork High School District #38

Purpose: To finance costs associated with replacing the football field bleachers.

Staff Approval Date June 21, 2003

Board Loan Amount: \$84,000

Term: 2 Years

Borrower: West Glacier School District #8

Purpose: To finance costs associated with maintenance, improvements and repairs to the West Glacier School and property.

Staff Approval Date June 27, 2003

Board Loan Amount: \$25,000

Term: 5 Years

Borrower: Terry Public School District #5

Purpose: To finance costs associated with the electrical retrofit for Bolin School.

Staff Approval Date June 27, 2003

Board Loan Amount: \$47,155

Term: 1 Year

Borrower: City of Fort Benton

Purpose: To finance costs associated with tennis court improvements

Staff Approval Date July 3, 2003

Board Loan Amount: \$40,000

Term: 5 Years

Borrower: Missoula County Public Schools District #1

Purpose: To purchase a new photocopier.

Staff Approval Date July 9, 2003

Board Loan Amount: \$26,595

Term: 4 Years

Borrower: Lone Rock Elementary District #13

Purpose: To purchase a new school bus.

Staff Approval Date July 15, 2003

Board Loan Amount: \$28,000

Term: 10 Years

Borrower: Anaconda-Deer Lodge County

Purpose: To finance the purchase of a new motor grader.

Staff Approval Date July 16, 2003

Board Loan Amount: \$189,150

Term: 5 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: Liberty County

Board Loan Amount: \$230,000

Term: 5 Years

Purpose: To refinance two motor graders.

Borrower: Department of Transportation

Board Loan Amount: \$512,140

Term: 4 - 6 Years

Purpose: To finance vehicle purchases for the State's Motor Pool.

Borrower: Town of Sheridan

Board Loan Amount: \$216,500

Term: 10 Years

Purpose: To finance the costs associated with replacing a wooden water transmission line.

Member Fleming moved for approval of these recommendations; Member Wilson seconded the motion and the motion was passed 7-0.

Borrower: Department of Revenue (2 Loans)

This loan request will be used to finance a replacement system for the Process Oriented Integrated Computer System (POINTS).

Loan 1: Loan 2:

Board Loan Amount: \$16.6 million Board Loan Amount: \$400,000

Term: 7 Years Term: 4 Years

Purpose: For financing project administration and implementation; including software, software licensing,

extraordinary personal services, and contracted services. Purpose: To finance the required hardware. Staff recommends that the Board authorize the two loans, not to exceed \$17 million, to the Department of Revenue with the following conditions:

1. The loans will be evidenced and secured by a loan agreement, a legal opinion, and any other documents staff requires.
2. The loans will be additionally secured by a pledge of revenues arising from the administrative fee not to exceed 0.45 percent levied on individual income and corporation income taxes which must be deposited in the SB271 Administrative Fee Account in the state special revenue fund.
3. Pursuant to Section 5 of SB271, the Board will require written verification that the rules are in progress prior to releasing funds and will need to concur with any changes during the rule-making process.
4. The Department of Revenue agrees to request appropriation from the Legislature every biennium in an amount equal to the projected principal and interest payments due to the Board throughout the life of the loan.

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

EXECUTIVE SESSION

Chairman Anderson, as presiding officer, determined that the demands of individual privacy clearly exceed the merits of public disclosure, as such; the regular meeting was adjourned and went into a Closed Executive session at 2:30 p.m.

RECONVENED

The meeting was reconvened at 3:30 p.m. The meeting reconvened with seven members of the Board present.

EXECUTIVE DIRECTOR REPORTS

Budget Status Report

Executive Director Carroll South presented this report for the period ending June 30, 2003.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for:

" Dan Stevens to attend the Lehman Brothers Financial Services Conference, September 7 - 14, 2003. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$2,600.

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

CHIEF INVESTMENT OFFICER REPORTS

Montana Developmental Center Project

Mr. Jim Penner presented and recommended a request on behalf of the Montana Facility Finance Authority (MFFA) and the Montana Developmental Center (MDC) to issue Health Care Revenue Refunding Bonds, Series 2003 which would refund the Series 1994 Bonds. The Series 2003 Bonds would be issued at a lower interest rate and would reduce the debt service payments being made by MDC.

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

Asset Allocation Report

Mr. Jim Penner, Chief Investment Officer, presented the Asset Allocation report for August 15 and August 31, 2003 transactions.

Quarterly Investment Performance Report

Mr. Penner presented the Montana Board of Investments Quarterly Board Performance Report for the period ending June 30, 2003.

Professional Development Policy - Investment Staff

Mr. Jim Penner presented and recommended a revised Professional Development Policy to the Board for approval. All investment staff members are expected to participate each year in training or continuing education activities. This Policy states the criteria staff follows in order to receive training and/or continuing education.

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

INVESTMENT ACTIVITY

Montcomp

Mr. Rande Muffick presented June transactions, the holdings report as of June 30, 2003 and the current investment strategy. Member Ryan moved for approval of the Montcomp strategy as presented; Member Wilson seconded the motion and the motion was passed 7-0.

In addition, Mr. Muffick presented Boston Scientific, Goldman Sachs Group, Knight-Ridder and NASDAQ 100 as Portfolio Additions.

International Investment

Mr. Paul Runnalls presented June internal transactions, the internal international holdings report as of June 30, 2003 and the current investment strategy. Member Wilson moved for approval of the International Investment strategy as presented; Member Fagg seconded the motion and the motion was passed 7-0.

Fixed Income

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

In addition, Mr. Bugni presented the Investment Policy Statements for Public Employees' Retirement System, Municipal Police Officers' Retirement System, Sheriffs' Retirement System, Firefighters' Unified Retirement System, Highway Patrol Officers' Retirement System, Judges' Retirement System, Game Wardens' Retirement System, and Volunteer Firefighters' Compensation Act. Member Fleming moved for approval of the Investment Policy Statements as presented; Member Klawon seconded the motion and the motion was passed 7-0.

Treasurer's and STIP Funds

Mr. Cooley also presented June STIP transactions the STIP holdings report as of June 30, 2003, the June Treasure's Fund transactions, the Treasurer's Fund holdings report as of June 30, 2003 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 June 2003.

Montana Private Equity Pool (MPEP)

Mr. Ed Kelly presented June transactions and the holdings report as of June 30, 2003.

NEXT MEETING

There will be a Conference call Board Meeting on August 15, 2003 at 10:00 a.m. to discuss and vote on the Infrastructure Loan request from Butte-Silver Bow.

The next regularly scheduled meeting of the Board will be Thursday, September 18, 2003.

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: