

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

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

**Thursday, December 11, 2003**

**AGENDA**

**I. CALL TO ORDER 9:00 a.m.**

- A. Roll Call
- B. Approval of the October 30, 2003 Regular Meeting Minutes

**II. PUBLIC COMMENT 9:05 a.m.**

- A. Public Comment on Board-Related Items

**III. EXECUTIVE DIRECTOR REPORTS - Carroll South 9:10 a.m.**

- A. In-State Loan Program Prevailing Wage Discussion/Decision
- B. Budget Status Report (Handout)

**IV. BOND PROGRAM - Louise Welsh 9:30 a.m.**

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

**V. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 9:45 a.m.**

- A. Economic Overview - Newsletter
- B. Asset Allocation
- C. Educational Opportunities/Conferences/Seminars
- D. Peer Comparisons

**VI. MONTANA LOAN PROGRAM - Delrene Rasmussen 10:15 a.m.**

- A. Consider Commercial/Multi-Family Loans
  - 1. Pierce Buildings, LLP.
  - 2. LRS, LLC.
- B. Coal Tax Loan Program Activity Report - October
- C. Pension Mortgage Program Activity Report - October

**VII. INVESTMENT ACTIVITY - Internal Management 10:30 a.m.**

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
  - 1. Transactions - October
  - 2. Holdings Report
  - 3. Strategy
  - 4. Portfolio Additions
    - a. Colgate-Palmolive
- B. International Equities (MTIP) - Paul Runnalls
  - 1. Internal Pool
    - a. Internal Transactions - October
    - b. Internal International Holdings Report

c. Strategy

C. Fixed Income - Bob Bugni, CFA

1. Transactions - October
2. Strategy
3. Investment Policy Statements
  - a. Retirement Funds Bond Pool
  - b. Trust Funds Bond Pool
  - c. Streamside Settlement Fund

D. STIP/ Treasurer's Fund / State Fund - Rich Cooley, CFA

1. STIP Transactions - October
2. STIP Holdings Report
3. Treasurer's Fund Transactions - October
4. Treasurer's Fund Holdings Report
5. Strategy
6. Investment Policy Statements
  - a. University of Montana Endowments

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

- A. Security Lending Active
  1. Earnings Report - October
- B. International Equity Active
  1. Pyrford Contract Extension
- C. Montana Private Equity Pool (MPEP)
  1. Transactions - October
  2. Holdings Report

**VIII. ADJOURNMENT 12:00 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  
Thursday, December 11, 2003**

**MINUTES**

**BOARD MEMBERS PRESENT:**

Dick Anderson, Chairman  
Dennis Beams  
Jay Klawon  
Terry Moore  
Tim Ryan  
Calvin Wilson

**BOARD MEMBERS ABSENT:**

Karen Fagg  
Maureen Fleming  
Joel Long

**STAFF PRESENT:**

Robert T. Bugni, CFA, Senior Investment Officer  
Dick Bridegroom, ARU, Mortgage Analyst  
Geri Burton, Deputy Director  
Sandra L. Conrady, CMB, ARU, Portfolio Manager  
Richard Cooley, CFA, Assistant Investment Officer  
Kimberly Dallas, Program Assistant  
Julie Endner, Network Administrator  
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  
Paul Runnalls, Investment Analyst, International Equities  
Carroll V. South, Executive Director  
Louise Welsh, Bond Program Officer

**GUESTS:**

Gordon Hoven, US Bancorp/Piper Jaffray  
Darrell Beaton, Montana State Fund

**CALL TO ORDER**

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 9:00 a.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, Long and Fagg were not present.

Member Ryan motioned for approval of the October 30, 2003 minutes; Member Moore seconded the motion and the motion was passed 6-0.

**PUBLIC COMMENT - Public Comment on Board-Related Items**

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

Member Karen Fagg arrived at this time.

**EXECUTIVE DIRECTOR REPORTS**

**Staff Recognition**

Mr. Carroll South presented Julie Endner with her State of Montana Years of Service award and pin. Ms. Endner has

been with the Montana Board of Investments for 10 years. Ms. Endner was hired originally to fulfill the position of Office Manager/Board Secretary and currently fills the position of Network Administrator.

Mr. Jim Penner presented Delrene Rasmussen with her State of Montana Years of Service award and pin. Ms. Rasmussen has been with the State of Montana for 15 years and with the Board of Investments for 6 years. Ms. Rasmussen is the Assistant Investment Officer for the Coal Tax Loan Program.

### **Budget Status Report**

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

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

Executive Director Carroll South, presented travel recommendations for:

" Bobbi Ecklund to attend the CFA Preparatory Seminar, May 7 - 15, 2004 in Windsor, Ontario. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$2,529.00.

" Lon Whitaker to attend the CFA Preparatory Seminar, May 7 15, 2004 in Windsor, Ontario. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$2,529.00.

" Paul Runnalls to travel to Zurich and London to attend the Pictet Large Cap Seminar and to meet with various brokers and international companies, January 12 - 24, 2004. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$4,500.00.

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

In addition, travel request was made by Dennis Beams to attend the Opal Financial Group Public Funds Summit January 14 - 16, 2004 in Scottsdale, AZ. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$1000.00.

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

### **Prevailing Wage Discussion and Decision**

Mr. Carroll South, Executive Director, presented and discussed with the Board the issue of prevailing wages. The Board has historically been a "take out" lender and not involved in construction financing. At the request of the lender, the Board agreed to participate in the construction financing of the Great Falls malting barley plant. At the time of the commitment, Board staff and the Loan Committee believed that the construction contracts would be subject to the prevailing wage law because public funds would be used during the construction phase.

However, prior to the drafting of the commitment letter spelling out the conditions of the loan, Board staff obtained legal opinions that a borrower is not subject to the prevailing wage law simply because the borrower obtains a construction loan from the Board. Consequently, the prevailing wage condition was not included as a condition in the commitment letter for the malting barley plant.

Despite the fact that the prevailing wage provision is not required by state law when the Board participates in construction financing, the Board may, at its discretion, include the provision in its loan policies. There are at least two ways such a policy could be formulated. One would be to establish a loan amount threshold beyond which the prevailing wage provision would be a mandatory condition. The second would be include the provision in the policy as a discretionary condition so the Board could require it when it believed it was in its interest to do so.

Mr. South stated that staff is not making any recommendation at this time but is bringing the issue to the Board for discussion purposes. Unless the Board's loan policies contain a provision for requiring the prevailing wage, the requirement cannot be imposed on borrowers under any circumstances. Because this requirement would be a public policy issue that could impact lenders (the Board's customers) if the Board decides to amend its loan policies to include the provision, staff suggests that the proposed revision be sent to the lenders for their comment.

Chairman Anderson stated that he believes this is tax-payers money that is being lent out and it is not good for the Board to have projects that are paying people below a prevailing wage.

After thorough discussion, the Board directed staff to draft a policy which would include the threshold concept. The prevailing wage provision would be a mandatory requirement any time the Board provides \$1.5 million of its share of construction financing. If the Board's share of construction financing is less than \$1.5 million, the prevailing wage provision would not be required. The draft of this policy will be distributed and input requested from approved lenders, the Governor's office, and to Representative Jim Keane, who discussed this issue with Board staff.

## **BOND PROGRAM**

### **Activity Report**

The Board reviewed this report for the period ending December 2, 2003

### **Staff Approved Loans Report**

Ms. Louise Welsh reported that:

Borrower: City of Great Falls

Purpose: To finance the purchase of land for the public library.

Staff Approval Date October 21, 2003

Board Loan Amount: \$32,000

Term: 3 Years

Borrower: Cheadle Fire District - Lewistown

Purpose: To purchase a water tender.

Staff Approval Date October 28, 2003

Board Loan Amount: \$6,000

Term: 3 Years

Borrower: Pine Creek Elementary School #19 - Livingston

Purpose: To finance the costs associated with library/computer lab electrical, furniture and equipment.

Staff Approval Date November 5, 2003

Board Loan Amount: \$4,500

Term: 4 Years

Borrower: Montana City School District #27

Purpose: Interim loan in anticipation of a FWP grant for costs associated with the North Jefferson County Sports Complex.

Staff Approval Date November 24, 2003

Board Loan Amount: \$75,000

Term: Interim Loan

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: City of Kalispell (3 Loan Requests)

Board Loan Amount: Totaling \$890,000

Term: 10 Years

Purpose:

- Request #1 - \$152,000 to finance heating, air conditioning and fire safety improvements to its City Hall.
- Request #2 - \$248,000 to finance the costs associated with a storm sewer cross connection project.
- Request #3 - \$490,000 to finance Phase II of the Residential Water Meter/Hydrant/Water Main Extension project.

Borrower: Department of Administration  
Board Loan Amount: \$195,000  
Term: 10 Years  
Purpose: To further finance the "VEBA" program during its start-up period.

Borrower: Department of Transportation  
Board Loan Amount: \$3,189,133.25  
Term: \$2,608,896/5 Years; \$479,394/6 Years; and \$100,842/7 Years  
Purpose: To finance vehicle purchases for the Motor Pool.

Borrower: Lake County Solid Waste Management District  
Board Loan Amount: \$880,000  
Term: 10 Years  
Purpose: To finance costs associated with a solid waste transfer station.

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

Borrower: Arlee/Lake County Water and Sewer District  
Board Loan Amount: \$742,100  
Term: Interim Loan  
Purpose: In anticipation of Rural Development long term financing for wastewater system improvements.

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

## **CHIEF INVESTMENT OFFICER REPORTS**

### **Asset Allocation Report**

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

In addition to presenting the Asset Allocation report, Mr. Penner also presented to the board a general overview of the Asset Allocation Committee operations. The committee is comprised of the investment staff members holding the Chartered Financial Analyst designation. Senior staff members only have voting privileges and the CIO retains veto power over all committee decisions. The committee is responsible for keeping asset allocation within the ranges approved by the Board as specified in the Investment Pool Statements for each fund managed.

## **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: Pierce Buildings, LLP.  
Lender: Wells Fargo Bank, Billings  
Purpose of Loan: To provide long-term financing for the construction of a new facility located west of Billings.  
Amount of Loan: \$4,556,975  
Board Loan Amount: \$3,189,883  
Board Participation: 70%  
Term of Loan: 20 Years

Interest Rate: 7.25% + .15% LSF = 7.40%

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

Loan Committee Recommendation: Approved as presented.

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

Borrower: LRS. LLC.

Lender: Yellowstone Bank, Billings

Purpose of Loan: To provide long-term financing for the construction of a two-story office building in Billings.

Amount of Loan: \$1,829,105

Board Loan Amount: \$1,280,373

Board Participation: 70%

Term of Loan: 20 Years

Interest Rate: 7.25% + .25% LSF = 7.50%

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

Loan Committee Recommendation: Recommendation was approved with the addition of Engineering, Inc. as a co-borrower rather than guarantor.

Member Beams moved for ratification of loan committee recommendation; Member Wilson 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 October.

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

The Board reviewed this report for October.

## **INVESTMENT ACTIVITY**

### **Montcomp**

Mr. Rande Muffick presented October transactions, the holdings report as of October 31, 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 Colgate-Palmolive as a Portfolio Addition.

### **International Investment**

Mr. Paul Runnalls presented October internal transactions, the internal international holdings report as of October 31, 2003 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 7-0.

### **Fixed Income**

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

In addition, Mr. Bugni presented the Investment Policy Statements for Retirement Funds Bond Pool, Trust Funds Bond Pool and Streamside Settlement Fund. Member Moore 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 October STIP transactions, the STIP holdings report as of October 31, 2003, the October Treasurer's Fund transactions, the Treasurer's Fund holdings report as of October 31, 2003 and the current investment strategy for both of these funds. Member Ryan 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.

In addition, Mr. Cooley presented the Investment Policy Statement for University of Montana Endowments. Member Fagg 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 the Earnings Report for October.

### **International Equity Active**

Mr. Ed Kelly presented staff recommendation to retain Pyrford International for active European equity management and extend the investment management contract for two years, December 31, 2005.

Member Beams moved for approval of staff recommendation as presented; Member Wilson seconded the motion and the motion was passed 6-0. Member Anderson was not present for the vote.

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

Mr. Ed Kelly presented October transactions and the holdings report as of October 31, 2003.

### **NEXT MEETING**

The next regularly scheduled meeting of the Board will be January 29, 2004.

### **ADJOURNMENT**

There being no further business, the meeting was adjourned at 11:30 a.m.

### **BOARD OF INVESTMENTS**

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: