

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

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

Thursday, January 30, 2003

AGENDA

I. CALL TO ORDER 9:15 a.m.

- A. Roll Call
- B. Approval of the December 12, 2002 Regular Meeting Minutes
- C. Approval of the January 10, 2003 Special Meeting Minutes

II. PRESENTATIONS -

Request for Proposal - Domestic Non-Large Cap Enhanced Equity Index

A. Barclays Global Investors 9:30 a.m. - 10:15 a.m.

" Ms. Rhonda Vitanye, Investment Strategist

" Mr. Stephen Rogers, Head of Client Relations

" Mr. Trey Heiskell, Client Relationship Officer

B. Dimensional Fund Advisors 10:30 a.m. - 11:15 a.m.

" Mr. Robert Deere, Portfolio Manager

" Mr. Damon Fisher, Client Relationship Officer

Break for Lunch 11:30 a.m. - 1:00 p.m.

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

- A. Budget Status Report
- B. Commercial Loan Policy Revision
- C. Investment Management Structure
- D. Legislative Update (Verbal)
- E. Out-of-State Travel Requests

III. BOND PROGRAM - Louise Welsh 1:45 p.m.

- A. INTERCAP
 - 1. Activity Report
 - 2. Staff Approved Loans Report
 - 3. Loan Requests
 - 4. Preliminary Engineering Loans Recommendation

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

- A. Economic Overview - Newsletter
- B. Asset Allocation
- C. Proxy Guidelines: Equities
- D. Pool & Fund Performance - Preliminary
- E. Total Domestic Equities

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

- A. Consider Commercial/Multi-Family Loans
 - 1. Fredsmom, LLC. - First Security Bank, Missoula
 - 2. Bridger Orthopedic Properties, LLC. - Wells Fargo Bank, Bozeman

3. Sage Creek Investment, LLC. - Big Sky Western Bank, Bozeman
4. Wilson-Taylor Partnership - Bank Loan Amount Increase Request
- B. Coal Tax Loan Program Activity Report - November and December
- C. Pension Mortgage Program Activity Report - November and December

IV. INVESTMENT ACTIVITY - Internal Management 2:45 p.m.

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

1. Transactions - November and December
2. Holdings Report
3. Strategy
4. Investment Policy Statements
 - a. Montcomp Policy Statement
5. Portfolio Additions
 - a. Autozone b. Bank of America
 - c. BP PLC d. Conagra Foods
 - e. Electronic Arts f. Fifth Third Bancorp
 - g. Harley Davidson h. KLA Tencor
 - i. MBNA j. Sysco
 - k. Wachovia l. Walgreen

B. International Equities (MTIP) - Paul Runnalls

1. Internal Pool
 - a. Internal Transactions - November and December
 - b. Internal International Holdings Report
 - c. Strategy

C. Fixed Income - Bob Bugni, CFA

1. Transactions - November and December
2. Strategy
3. Periodic Reports
 - a. RFBP Holdings Report
 - b. TFBP Holdings Report
 - c. Non-Investment Grade Holdings
4. Investment Policy Statements
 - a. Tobacco Trust Fund

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

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

IV. INVESTMENT ACTIVITY - External Management - Ed Kelly

A. Security Lending Active

1. Earnings Report - November and December

B. Domestic Equity Enhanced - RFP Finalists

1. Executive Summaries

a. Barclays Global Investors

b. Dimensional Fund Advisors

2. Staff Recommendation (Handout)

C. Montana Private Equity Pool (MPEP)

1. Transactions - November and December
2. Holdings Report

3. Private Equity Recommendation - Adams Street Partnership Trust Fund - 2003 Subscription

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
January 30, 2003**

MINUTES

BOARD MEMBERS PRESENT:

**Dick Anderson, Chairman
Dennis Beams
Karen Fagg
Maureen Fleming
Jay Klawon
Joel Long
Terry Moore
Tim Ryan
Calvin Wilson**

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
Gayle Moon, Accounting Fiscal 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, Portfolio Manager, Int'l Equities
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. Rhonda Vitanye, Investment Strategist, Barclays Global Investors
Mr. Stephen Rogers, Head of Client Relations, Barclays Global Investors
Mr. Trey Heiskell, Client Relationship Officer, Barclays Global Investors
Mr. Robert Deere, Portfolio Manager, Dimensional Fund Advisors
Mr. Damon Fisher, Client Relationship Officer, Dimensional Fund Advisors

ADMINISTRATIVE BUSINESS

Chairman Anderson presented the following Administrative Business:

1. Chairman Anderson suggested that Doug Bardwell, Lee Robinson and Troy McGee be contacted and invited to dinner on March 12, 2003. At dinner, these three would be recognized for their involvement and work as a Board Member with the Board of Investments.
2. The May 29, 2003 meeting date was changed to May 23, 2003.

CALL TO ORDER

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 9:15 a.m. in the conference room at 2401 Colonial Drive, 3rd Floor, Helena Montana. As noted above, the meeting convened with eight members of the Board present. Member Fagg arrived immediately after roll call was taken.

Member Ryan motioned for approval of the December 12, 2002 minutes; Member Wilson seconded the motion and the motion was passed 8-0. Member Moore abstained.

Member Klawon motioned for approval of the January 10, 2003 Special Meeting minutes; Member Beams asked that the minutes be amended to include a statement that "the Board held a very in-depth discussion, including the option of indexing vs. active management of the equity funds". Member Beams then seconded the motion and the motion was passed 8-0. Member Moore abstained.

PRESENTATIONS - Request for Proposal - Domestic Non-Large Cap Enhanced Equity Index

Barclays Global Investors (BGI)

Mr. Trey Heiskell presented to the Board and staff an overview of BGI. This information included that BGI manages assets totaling \$691 billion and serves over 2,300 clients in 38 countries. Mr. Stephen Rogers then discussed BGI's developing insights and how they achieve consistent long-term out performance. Ms. Rhonda Vitanye finished the presentation by discussing BGI's Global Investment Philosophy "Total Performance Management."

Dimensional Fund Advisors (DFA)

Mr. Damon Fisher, presented to the Board and staff an overview of DFA. This information included that DFA manages assets totaling \$35 billion, is headquartered in Los Angeles and has investment operations in London and Sydney. Mr. Robert Deere then discussed the investment philosophy and how fund structure determines performance. Mr. Fisher finished the presentation by giving a brief summary as to why the Board of Investments should choose DFA.

Each presenter was given 45 minutes to make their presentation to the Board and to answer questions.

ADJOURNED

The meeting adjourned for lunch at 11:30 a.m.

RECONVEYNE

The meeting was reconvened at 1:00 p.m. Nine members of the Board were present.

INVESTMENT ACTIVITY

Domestic Equity Enhanced Index Program Staff Recommendation

Mr. Ed Kelly presented staff recommendation to hire Dimensional Fund Advisors as the manager for the Domestic Non-Large Cap Equity Enhanced Index Program. Member Klawon moved for approval of staff recommendation; Member Ryan seconded the motion and the motion passed 9-0.

Security Lending

Mr. Ed Kelly presented the Security Lending Earnings Report for November and December.

Montana Private Equity Pool (MPEP)

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

Adams Street Partnership Fund - 2003 Subscription

Mr. Ed Kelly presented staff recommendation to invest \$20 million in the 2003 Subscription for the Adams Street Partnership Fund Program - U.S. Fund. Member Ryan moved for approval of staff recommendation; Member Long seconded the motion and the motion was passed 9-0.

EXECUTIVE DIRECTOR REPORTS

Budget Status Report

Executive Director Carroll South presented this report for the period ending December 31, 2002.

Commercial Loan Policy Revisions

Executive Director Carroll South presented proposed revisions to the Commercial Loan Policy. Laws governing the In-State Investment Program authorize loans to non-profit organizations, the Commercial Loan policy has never addressed how loan applications with non-profit corporations are processed, or if different criteria may be applied to such borrowers.

The two proposed additions/revisions are:

1. Page A3 of the Policy, Other Commercial Loan Policy Considerations, Letter (m) "The Board may apply different criteria to loan requests from non-profit borrowers";
2. Page A3 of the Policy, Job Creation Interest Rate Reduction, Letter (g) "Non-profit corporations may qualify for the job credit interest rate reductions if the interest rate reduction passes through to a for-profit business creating the jobs".

Under Board rules and procedures, the revisions must be approved by the Board at a regularly scheduled meeting before the revisions may become effective. Member Fleming moved for approval of staff recommendation; Member Long seconded the motion and the motion was passed 9-0.

Legislative Update

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

- " SB131 - Lending funds to Economic Development Offices/Regions;
- " Justice Dept - \$18 million INTERCAP Loan for the motor vehicle/title/license information system;
- " Discussion of a possible INTERCAP Loan of approximately \$28 million to assist with start up costs for a Self insurance health program for Montana Schools.

Mr. South also reported that he has written a fiscal note regarding the \$93 million appropriation of the Coal Tax Trust Fund.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for:

" Rande Muffick to attend the NASIP Conference, April 5 - 9, 2003 in Phoenix. Estimated cost of trip, including airfare, lodging, registration fee, meals and misc. expense is: \$1,900.00.

" In addition, Mr. South presented conference material for a Board Member to attend the upcoming State Street Client Conference, March 16 - 19, 2003 in Scottsdale, AZ. Estimated cost of the trip would be airfare and misc. expenses only. Hotel accommodations and conference meals are compliments of State Street. Member Anderson stated he would be interested in attending this conference.

Member Beams moved for approval of staff recommendation; Member Klawon seconded the motion and the motion was passed 8-0. Member Anderson abstained.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending January 17, 2003.

Staff Approved Loans Report

Ms. Louise Welsh reported that:

Borrower: Town of West Yellowstone
Purpose: To finance the purchase of two dump trucks.
Staff Approval Date December 6, 2002
Board Loan Amount: \$18,000
Term: 3 Years

Borrower: Somers School District #29
Purpose: To finance the purchase of 26 new computers
Staff Approval Date December 20, 2002
Board Loan Amount: \$22,776
Term: 3 Years

Borrower: Augusta Rural Fire District
Purpose: To finance the costs associated with constructing a new fire station.
Staff Approval Date January 2, 2003
Board Loan Amount: \$70,000
Term: 10 Years

Borrower: City of East Helena
Purpose: To finance the purchase of a rescue/mini pumper fire truck.
Staff Approval Date January 2, 2003
Board Loan Amount: \$44,582
Term: 5 Years

Borrower: Teton County
Purpose: To finance the purchase of a new ambulance.
Staff Approval Date January 15, 2003

Board Loan Amount: \$100,000
Term: 8 Years

Borrower: West Valley Rural Fire District (Kalispell)
Purpose: To finance the purchase of a new fire & rescue truck.
Staff Approval Date January 16, 2003
Board Loan Amount: \$90,000
Term: 4 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: Pondera County
Board Loan Amount: \$430,413
Term: 10 Years
Purpose: To finance costs associated with upgrading the County's Emergency 911 equipment, jail management system and telephone system.

Borrower: Department of Transportation
Board Loan Amount: \$533,400
Term: \$514,074 - 5 Years and \$19,326 - 6 Years
Purpose: To finance vehicle purchases for its Motor Pool.

Borrower: Red Lodge
Board Loan Amount: \$250,000
Term: 10 Years
Purpose: To finance the purchase of a new fire truck.

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

Preliminary Engineering Loans

Ms. Louise Welsh, presented a report on Preliminary Engineering Loans. In December 1995, the Board approved the use of INTERCAP funds for loans to local governments to finance costs for preliminary engineering studies for infrastructure projects. A condition to be met prior to releasing funds for these loans is that the Department of Environment Quality (DEQ) must approve the scope of work for the preliminary engineering study. DEQ recently informed BOI staff that they will no longer have the staff and resources to review and approve the scope of work for preliminary engineering studies that are financed, unless they are already involved with the project.

Staff recommends and would like to implement the following conditions when a Preliminary Engineering Loan is requested:

" Preliminary engineering studies funded through INTERCAP must be prepared by a registered professional engineer licensed to practice in his or her area(s) of competence and expertise in the State of Montana.

" Preliminary engineering studies funded through INTERCAP must generally conform to the requirements outlined in the Uniform Preliminary Engineering Report for Montana Public Facility Projects.

" If another state or federal agency provides additional grant or loan funds for a preliminary engineering study financed through INTERCAP, written approval from that agency would be required stating the scope of work generally

conforms to the requirements outlined in the Uniform Preliminary Engineering Report for Montana Public Facility Projects.

" In the event INTERCAP is the sole source of financing a preliminary engineering study, BOI staff has visited with the other funding agencies and they have agreed to assist in reviewing the scope of work to determine if it conforms to the requirements outlined in the Uniform Preliminary Engineering Report for Montana Public Facility Projects.

Member Wilson moved for approval of staff recommendation; Member Fleming 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 January 31, February 14 & 28, and March 15, 2003 transactions.

Proxy Guidelines - Equities

Mr. Jim Penner, Chief Investment Officer, presented the Proxy Guideline for Equities. Member Fagg moved for approval of these guidelines; Member Wilson seconded the motion and the motion was passed 9-0.

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: Fredsmom, LLC.

Lender: First Security Bank, Missoula

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

Amount of Loan: \$850,000

Board Loan Amount: \$680,000

Board Participation: 80%

Term of Loan: 20 Years

Interest Rate: 7.25% + .45% LSF

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

Loan Committee Recommendation: Approve.

Member Fleming moved for ratification of loan committee recommendation; Member Wilson seconded the motion and the motion was passed 6-0. Member Beams and Member Moore abstained from the vote. Member Ryan was out of the room at the time of the vote.

Borrower: Bridger Orthopedic Properties, LLC.

Lender: Wells Fargo Bank, Bozeman

Purpose of Loan: To provide long-term financing for the purchase of two tracts of land and the construction of a two-story medical office building.

Amount of Loan: \$3,819,206

Board Loan Amount: \$2,291,523

Board Participation: 60%

Term of Loan: 15 Years

Interest Rate: 7.00% + 15% LSF

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

Loan Committee Recommendation: Approve

Member Klawon moved for ratification of loan committee recommendation; Member Fleming seconded the motion and the motion was passed 7-0. Member Moore abstained from the vote. Member Ryan was out of the room at the time of the vote.

Borrower: Sage Creek Investments, LLC.

Lender: Big Sky Western Bank, Bozeman

Purpose of Loan: To refinance existing debt and to obtain a fixed rate of interest and lower blended rate.

Amount of Loan: \$1,000,000

Board Loan Amount: \$700,000

Board Participation: 70%

Term of Loan: 15 Years

Interest Rate: 7.00% + .25% LSF

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

Loan Committee Recommendation: Approve

Member Wilson moved for ratification of loan committee recommendation; Member Long seconded the motion and the motion was passed 6-0. Member Beams and Member Moore abstained from the vote. Member Ryan was out of the room at the time of the vote.

Borrower: Wilson-Taylor Partnership dba Big Bear Stores, Inc.

Lender: First Interstate Bank, Billings

Purpose: Increase of \$330,000 in Lender's Participation amount.

Loan Committee Recommendation: Approve

Member Wilson moved for ratification of loan committee recommendation; Member Fagg seconded the motion and the motion was passed 6-0. Member Long and Member Moore abstained from the vote. Member Ryan was out of the room at the time of the vote.

Coal Tax Loan Program Activity Report

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

Pension Mortgage Program Activity Report

The Board reviewed this report for November and December.

INVESTMENT ACTIVITY continued

Montcomp

Mr. Rande Muffick presented November and December transactions, the holdings report as of December 31, 2002 and the current investment strategy. Member Moore moved for approval of the Montcomp strategy as presented; Member Wilson seconded the motion and the motion was passed 9-0.

Mr. Muffick presented:

Autozone Bank of America BP PLC Conagra Foods

Electronic Arts Fifth Third Bancorp Harley Davidson KLA Tencor

MBNA Sysco Wachovia Walgreen

as Portfolio Additions.

In addition, Mr. Muffick presented the Investment Policy Statements for Montana Stock Pool. Because there were no changes made to this Investment Policy Statement, no action was taken by the Board.

International Investment

Mr. Paul Runnalls presented November and December internal transactions, the internal international holdings report as of December 31, 2002 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 9-0.

Fixed Income

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

Mr. Bugni presented Periodic Reports for Retirement Funds Bond Pool, Trust Funds Bond Pool and Non-Investment Grade Holdings. Member Long and Member Moore left the meeting at this time.

In addition, Mr. Bugni presented the Investment Policy Statement for the Tobacco Trust Fund. Member Wilson moved for approval of the Investment Policy Statements as presented; Member Ryan seconded the motion and the motion was passed 7-0.

Treasurer's and STIP Funds

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

NEXT MEETING

The next regularly scheduled meeting of the Board will be March 13, 2003.

ADJOURNMENT

There being no further business, the meeting was adjourned at 5:30 p.m.

BOARD OF INVESTMENTS

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: