

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

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

Wednesday, June 25, 2003

AGENDA

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

- A. Roll Call
- B. Approval of the May 23, 2003 Regular Meeting Minutes
- C. Administrative Business
 - 1. Personnel Committee Report

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

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. Asset Allocation
- C. State Fund - Rebalancing

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

- A. Coal Tax Loan Program Activity Report - May
- B. Pension Mortgage Program Activity Report - May

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

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
 - 1. Transactions - May
 - 2. Holdings Report
 - 3. Strategy
 - 4. Portfolio Additions
 - a. Clorox
 - b. Altria Group
 - c. Kohl's
- B. International Equities (MTIP) - Paul Runnalls
 - 1. Internal Pool
 - a. Internal Transactions - May
 - b. Internal International Holdings Report
 - c. Strategy

C. Fixed Income - Bob Bugni, CFA

1. Transactions - May
2. Strategy

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

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

IV. INVESTMENT ACTIVITY - External Management - Ed Kelly

A. Security Lending Active

1. Earnings Report - May

B. Montana Private Equity Pool (MPEP)

1. Transactions - May
2. Holdings Report
3. Private Market Report - December 2002

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
Wednesday, June 25, 2003**

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Maureen Fleming

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
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
Dale Taliaferro, President, Assoc. of Montana Retired Public Employees

CALL TO ORDER

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 11:30 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 Fleming was absent.

Member Ryan motioned for approval of the May 23, 2003 minutes; Member Long seconded the motion and the motion was passed 8-0.

ADMINISTRATIVE BUSINESS - Personnel Committee Recommendation:

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 11:40 a.m.

The regular meeting of the Board reconvened at 12:00 p.m. Member Klawon motioned for approval of the Personnel Committee recommendation; Member Moore seconded the motion and the motion was passed 8-0.

EXECUTIVE DIRECTOR REPORTS

Budget Status Report

Executive Director Carroll South presented this report for the period ending May 31, 2003.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending June 16, 2003.

Staff Approved Loans Report

Ms. Louise Welsh reported that:

Borrower: Anaconda - Deer Lodge County

Purpose: To finance the purchase and installation of an elevator in to the Hearst Public Library.

Staff Approval Date May 15, 2003

Board Loan Amount: \$175,000

Term: 10 Years

Borrower: Park County

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

Staff Approval Date May 20, 2003

Board Loan Amount: \$151,709

Term: 5 Years

Borrower: City of Poplar

Purpose: To finance the purchase of land for a new airport.

Staff Approval Date May 29, 2003

Board Loan Amount: \$150,000

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: Dept. of Natural Resources and Conservation (DNRC)

Board Loan Amount: \$2,000,000

Term: In anticipation of issuing state general obligation bonds.

Purpose: The funds will be used as a match for federal funds from the Environmental Protection Agency to fund the DNRC's Water Pollution Control State Revolving Fund Loan Program.

Borrower: Town of West Yellowstone

Board Loan Amount: \$850,000

Term: 3 Years

Purpose: To refund outstanding resort tax refunding revenue bonds.

Member Ryan moved for approval of this recommendation; Member Long seconded the motion and the motion was passed 8-0.

CHIEF INVESTMENT OFFICER REPORTS

Asset Allocation Report

Mr. Jim Penner, Chief Investment Officer, presented the Asset Allocation report for June 16, 2003 transactions.

State Fund Investment Policy Statement

Mr. Jim Penner presented an addendum to the State Fund Investment Policy Statement. Currently the Investment Policy Statement includes a provision that targeted the allocation to equities for a range of 8 - 12% at market value. As of May 31, 2003, the portfolio included 12.07% in equities. The policy is to rebalance ½ way back to the target of 10%, but no timeframe was stated in the Investment Policy Statement for the rebalancing.

Mr. Penner recommended that the rebalancing decision be considered at the end of each calendar quarter and any rebalancing be spread over the subsequent quarter at the discretion of the Investment staff.

Member Ryan moved for approval of this recommendation; Member Wilson seconded the motion and the motion was passed 8-0.

LOAN PROGRAMS

Thompson River Co-Generation, LLC

Ms. Delrene Rasmussen presented a request from First Interstate Bank, Kalispell, requesting a change in guarantor from the unlimited guarantee of Roger Claridge to be replaced by a limited guarantee (35%) from Savage Companies of Salt Lake City, UT. The change in guarantee will apply to the construction loan, 724-6954, and to the value added term loan #724-6931. The Loan Committee passed this request unanimously, with Member Ryan abstaining.

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

Coal Tax Loan Program Activity Report

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

Pension Mortgage Program Activity Report

The Board reviewed this report for May.

PUBLIC COMMENT - Public Comment on Board-Related Items

Chairman Anderson called for Public Comment of Board-Related Items at 1:05 p.m. No Public Comment was made.

INVESTMENT ACTIVITY

Montcomp

Mr. Rande Muffick presented May transactions, the holdings report as of May 31, 2003 and the current investment strategy. Member Wilson moved for approval of the Montcomp strategy as presented; Member Klawon seconded the motion and the motion was passed 8-0.

In addition, Mr. Muffick presented Altria Group, Clorox and Kohl's as Portfolio Additions.

International Investment

Mr. Paul Runnalls presented May internal transactions, the internal international holdings report as of May 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 8-0.

Fixed Income

Mr. Robert Bugni presented May transactions, and the current investment strategy. Member Long moved for approval of the Fixed Income strategy as presented; Member Wilson seconded the motion and the motion was passed 8-0.

Treasurer's and STIP Funds

Mr. Cooley presented May STIP transactions the STIP holdings report as of May 31, 2003, the May Treasure's Fund transactions, the Treasurer's Fund holdings report as of May 31, 2003 and the current investment strategy for both of these funds. Member Moore moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member

Beams seconded the motion and the motion was passed 8-0.

Security Lending

Mr. Ed Kelly presented this report for May.

Montana Private Equity Pool (MPEP)

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

NEXT MEETING

The next regularly scheduled meeting of the Board will be August 7, 2003.

ADJOURNMENT

There being no further business, the meeting was adjourned at 2:30 p.m.

BOARD OF INVESTMENTS

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: