

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

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

Friday, May 23, 2003

AGENDA

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

- A. Roll Call
- B. Approval of the April 17, 2003 Regular Meeting Minutes
- C. Administrative Business

II. PUBLIC COMMENT

- A. Public Comment on Board-Related Items 9:05 a.m.

III. EXECUTIVE DIRECTOR REPORTS - Carroll South 9:15 a.m.

- A. Budget Status Report
- B. Legislative Update (Verbal)
- C. Out-of-State Travel Requests
- D. Discussion of House Bill 94

IV. BOND PROGRAM - Louise Welsh 9:45 a.m.

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

V. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 10:00 a.m.

- A. Economic Overview - Newsletter
- B. Asset Allocation
- C. Quarterly Investment Performance

VI. MONTANA LOAN PROGRAM - Delrene Rasmussen 10:30 a.m.

- A. Consider Commercial/Multi-Family Loans
 - 1. Gallatin Canyon Adventures, LLC & Gallatin Canyon Ventures, LLC.
 - 2. H I Missoula, LLC. Loan Increase Request
- B. Coal Tax Loan Program Activity Report - March & April
- C. Pension Mortgage Program Activity Report - March & April

VII. INVESTMENT ACTIVITY - Internal Management 10:45 a.m.

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

- 1. Transactions - March & April
- 2. Holdings Report
- 3. Strategy
- 4. Portfolio Additions
 - a. Fannie Mae
 - b. Darden Restaurants

B. International Equities (MTIP) - Paul Runnalls

1. Internal Pool
 - a. Internal Transactions - March & April
 - b. Internal International Holdings Report
 - c. Strategy

C. Fixed Income - Bob Bugni, CFA

1. Transactions - March & April
2. Strategy
3. Investment Policy Statements
 - a. Teachers' Retirement System
 - b. Permanent Coal Trust Funds

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

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

IV. INVESTMENT ACTIVITY - External Management - Ed Kelly

- A. Security Lending Active
 1. Earnings Report - March & April
- B. Montana Private Equity Pool (MPEP)
 1. Transactions - March & April
 2. Holdings Report - April
 3. Private Markets Report - September 2002

VII. ADJOURNMENT 11:30 a.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
May 23, 2003**

MINUTES

BOARD MEMBERS PRESENT:

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

BOARD MEMBERS ABSENT:

Karen Fagg
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:

Darrell Beaton, 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 9:15 a.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. Members Fleming and Fagg were absent.

Member Ryan motioned for approval of the April 17, 2003 minutes; Member Klawon seconded the motion and the motion was passed 7-0.

PUBLIC COMMENT - Public Comment on Board-Related Items

Executive Director Carroll South discussed House Bill 94, "An act revising and clarifying the public participation and notice requirements for open meetings; providing that an agenda for an open meeting must include an item allowing public comment on any public matter within the jurisdiction of the agency conducting the meeting; clarifying that an agency may not take action on any matter discussed unless specific notice of that matter is included on an agenda and public comment has been allowed; clarifying what constitutes a public matter; clarifying that the Governor's duty to ensure that agencies have policies and procedures to facilitate public participation applies to the executive branch of state governments; amending Section 2-3-103, MCA; and providing an immediate effective date."

Procedurally, the Board Meeting agenda will include "Public Comment" as the second item of business immediately following Roll Call and Approval of Regular Meeting Minutes. The Chairman will call for public comment at that time and the minutes will reflect if comments are or are not made. Public comment is acceptable on any general order of

business or board related items.

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

EXECUTIVE DIRECTOR REPORTS

Budget Status Report

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

Legislative Update

Executive Director Carroll South reported that most of the successful legislation relating to the Board revolved around the INTERCAP Program. People are discovering that it is a very good low interest loan program and state agencies, rather than getting the two-thirds vote required in the legislature to incur debt, are finding it much easier to borrow from the INTERCAP Program.

The Legislature authorized several state programs to borrow money from the INTERCAP Program. The two major loans are:

1. Dept. of Revenue will borrow up to \$17 million dollars from the INTERCAP Program to replace the Department POINTS information system that was eliminated by the Legislature;
2. Dept. of Justice will borrow up to \$18 million dollars from the INTERCAP Program for an information system for the motor vehicles and drivers license division.

Other small state programs also received authority to borrow from INTERCAP but it is not clear that the authority will be utilized during this biennium. In addition, some legislation provides that the Board act as a consultant to state agencies prior to making certain decisions.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for:

" Paul Runnalls to attend the 2003 Adams Street Partners Client Conference, Chicago, June 8 - 12, 2003. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$1875.00.

" John Romasko to attend the 2003 Northwest Taxable Bond Club Conference in Gleneden Beach, OR., June 6 - 8, 2003. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$709.00.

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

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending May 12, 2003.

Staff Approved Loans Report

Ms. Louise Welsh reported that:

Borrower: Painted Rocks Fire District (Darby)

Purpose: To finance the costs associated with constructing a fire station.

Staff Approval Date April 10, 2003

Board Loan Amount: \$100,000

Term: 10 Years

Borrower: Amsterdam Rural Fire District (Manhattan)

Purpose: To purchase a new fire truck.
Staff Approval Date April 10, 2003
Board Loan Amount: \$80,000
Term: 10 Years

Borrower: Yellowstone County
Purpose: To finance the purchase of various types of equipment for the Montana Exposition, Trade, and Recreation Arena (METRA).
Staff Approval Date April 15, 2003
Board Loan Amount: \$191,859
Term: 7 Years

Borrower: Lockwood Rural Fire District #8 (Billings)
Purpose: To finance the purchase of land for a future fire station.
Staff Approval Date April 24, 2003
Board Loan Amount: \$195,000
Term: 10 Years

Borrower: Marysville Volunteer Fire District
Purpose: To finance the purchase of a water tender truck.
Staff Approval Date May 6, 2003
Board Loan Amount: \$5,000
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: Teton County
Board Loan Amount: \$500,000
Term: 10 Years
Purpose: To build a new Teton County Law Enforcement Center.

Member Ryan moved for approval of this recommendation; Member Moore 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 revised Asset Allocation report for April 30 and May 30 transactions. The revision is:

May 30 Proposed Transactions
Private Equity:
Sell \$25 million Private Equity Pool

Quarterly Investment Performance Report

Mr. Penner presented the Montana Board of Investments Quarterly Board Performance Report for the period ending March 31, 2003.

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: Gallatin Canyon Adventures, LLC. and Gallatin Canyon Ventures, LLC.

Lender: First National Bank of Montana, Bozeman

Purpose of Loan: To refinance an existing loan at a lower rate of interest.

Amount of Loan: \$1,135,000

Board Loan Amount: \$567,500

Board Participation: 50%

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: Approved

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

H-I Missoula, LLC. Loan Increase Request

Mr. Herb Kulow presented a loan increase request from Mountain West Bank, Missoula for H-I Missoula, LLC. The loan amount increase would be for \$100,000, increasing the BOI participation amount from \$1,800,000 to \$1,900,000. Loan Committee recommended Approval of this request.

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

Coal Tax Loan Program Activity Report

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

Pension Mortgage Program Activity Report

The Board reviewed this report for March and April.

INVESTMENT ACTIVITY

Montcomp

Mr. Rande Muffick presented March and April transactions, the holdings report as of April 31, 2003 and the current investment strategy. Member Ryan moved for approval of the Montcomp strategy as presented; Member Moore seconded the motion and the motion was passed 7-0.

In addition, Mr. Muffick presented Fannie Mae and Darden Restaurants as Portfolio Additions.

International Investment

Mr. Paul Runnalls presented March and April internal transactions, the internal international holdings report as of April 30, 2003 and the current investment strategy. Member Klawon 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 March and April transactions. It was also recommended that the Asset Allocation range of

2 - 8% for TFBP and RFBP be changed to 5 - 20%. Member Ryan moved for approval of the revised Fixed Income strategy; Member Wilson seconded the motion and the motion was passed 7-0.

Mr. Bugni presented the Investment Policy Statement for Teachers' Retirement System. Member Long moved for approval of the Investment Policy Statement as presented; Member Wilson seconded the motion and the motion was passed 7-0.

Mr. Bugni presented the Investment Policy Statement for Permanent Coal Trust Funds. Member Moore moved for approval of the Investment Policy Statement as presented; Member Wilson seconded the motion and the motion was passed 7-0.

Treasurer's and STIP Funds

Mr. Cooley presented March and April STIP transactions the STIP holdings report as of April 30, 2003, the March and April Treasurer's Fund transactions, the Treasurer's Fund holdings report as of April 30, 2003 and the current investment strategy for both of these funds. Member Klawon 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.

Security Lending

Mr. Ed Kelly presented this report for March and April 2003.

Montana Private Equity Pool (MPEP)

Mr. Ed Kelly presented March and April transactions, the holdings report as of April 30, 2003 and the September 2002 Private Market Report.

NEXT MEETING

The next regularly scheduled meeting of the Board will be June 25, 2003.

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:00 p.m.

BOARD OF INVESTMENTS

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: