

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

**Executive Board Room, 3rd Floor  
Gallagher Business Building  
University of Montana  
Missoula, MT.**

**Thursday, September 18, 2003**

**AGENDA**

**I. CALL TO ORDER 1:30 p.m.**

- A. Roll Call
- B. Approval of the August 7, 2003 Regular Meeting Minutes
- C. Approval of the August 15, 2003 Special Meeting Minutes

**II. PUBLIC COMMENT 1:35 p.m.**

- A. Public Comment on Board-Related Items

**III. EXECUTIVE DIRECTOR REPORTS - Carroll South 1:40 p.m.**

- A. Budget Status Report - Hand out
- B. Commercial Loan Policy Revisions
- C. Out-of-State Travel Requests

**IV. BOND PROGRAM - Carroll South 2:00 p.m.**

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

**V. CHIEF INVESTMENT OFFICER REPORTS - Jim Penner, CFA 2:15 p.m.**

- A. Economic Overview - Newsletter
- B. Asset Allocation
- C. Fiscal Year End Investment Performance
- D. Staff Recognition

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

- A. Coal Tax Loan Program Activity Report - July
- B. Pension Mortgage Program Activity Report - July
- C. Residential Loan Policy Changes Recommendation
- D. Approved Lenders - Memo

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

- A. Domestic Equities (Montcomp) - Rande Muffick, CFA
  - 1. Transactions - July
  - 2. Holdings Report
  - 3. Strategy
  - 4. Portfolio Additions
    - a. Paychex b. Freddie Mac
    - c. Forest Labs d. McCormick.
    - e. Lexmark International

**B. International Equities (MTIP) - Paul Runnalls**

1. Internal Pool
- a. Internal Transactions - July
- b. Internal International Holdings Report
- c. Strategy

**C. Fixed Income - Rich Cooley, CFA**

1. Transactions - July
2. Strategy
3. Investment Policy Statements
- a. Trust and Legacy Fund
- b. Resource Indemnity Trust Fund

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

1. STIP Transactions - July
2. STIP Holdings Report
3. Treasurer's Fund Transactions - July
4. Treasurer's Fund Holdings Report
5. Strategy
6. Investment Policy Statements
- a. Short Term Investment Pool
- b. Treasurer's Fund
- c. Real Property Trust
- d. Wildlife Habitat Trust

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

**A. Security Lending Active**

1. Earnings Report - July

**B. International Equity Active**

1. MTIP Investment Policy Statement
- C. Montana Private Equity Pool (MPEP)

1. Transactions - July

2. Holdings Report

3. MPEP Investment Policy Statement

**D. Staff Recommendations**

1. Adam Street Global Opportunities Secondary Fund, L.P.
2. Adam Street Partnership Fund - 2004 Subscription

**IX. PRESENTATION - PYRFORD INTERNATIONAL 4:00 p.m.**

Mr. Bruce L. Campbell, Managing Director and

Mr. Tony Cousins, CFA, Director, Portfolio Management

**X. 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.

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**MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**Executive Board Room, 3rd Floor  
Gallagher Business Building**

**University of Montana  
Missoula, MT.**

**Thursday, September 18, 2003**

**MINUTES**

**BOARD MEMBERS PRESENT:**

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

**BOARD MEMBERS ABSENT:**

**Calvin Wilson  
Karen Fagg**

**STAFF PRESENT:**

**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**

**GUESTS:**

**Mr. Bruce L. Campbell, Managing Director, Pyrford International  
Mr. Tony Cousins, CFA, Director, Portfolio Managements, Pyrford International**

**CALL TO ORDER**

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 1:15 p.m. in the Executive Board Room, 3rd Floor, Gallagher Business Building, University of Montana, Missoula, MT. As noted above, the meeting convened with seven members of the Board present. Member Fagg and Member Wilson were absent.

Member Ryan motioned for approval of the August 7, 2003 minutes and the August 15, 2003 Special Meeting minutes; Member Fleming 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.

## **EXECUTIVE DIRECTOR REPORTS**

### **Commercial Loan Policy Revisions**

Executive Director Carroll South presented to the Board proposed revisions to the Commercial Loan Policy. The proposed revision is intended to clarify when and how borrowers may apply for the job credit interest rate reduction.

Current policy requires that a request for the reduction must be made at the time the loan application is submitted or 45 days after the first and second anniversary date of the loan application. The proposed revision specifies the loan "funding" date as the initial date and permits borrowers to apply for the reduction each calendar quarter. The revision ensures that borrowers who create jobs will have to wait no longer than one calendar quarter to receive the interest rate reduction to which they are entitled.

Member Beams motioned for approval of the proposed revision to the Commercial Loan Policy; Member Moore seconded the motion and the motion was passed 7-0.

### **Budget Status Report**

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

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

Executive Director Carroll South, presented travel recommendations for:

" Dick Bridegroom to attend the MBA Oral Exams, September 27 & 28, 2003 in Las Vegas. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$655.00.

" Jim Penner to attend the NASIO 2003 Conference, October 11 - 15, 2003, 2003 in Lexington, KY. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$1850.00.

" Delrene Rasmussen to attend the MBA Annual Convention & Expo, October 17 - 22, 2003 in San Diego, CA. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$2524.00.

" Dick Bridegroom to attend the MBA Annual Convention & Expo, October 17 - 22, 2003 in San Diego, CA. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$2824.00.

" Sandi Conrady to attend the National Developmental Council Certification Program, November 15 - 22, 2003 in Denver. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$2549.00.

Member Long moved for approval of these travel recommendations; Member Klawon seconded the motion and the motion was passed 7-0.

Member Fagg arrived at this time.

## **BOND PROGRAM**

### **Activity Report**

The Board reviewed this report for the period ending September 8, 2003

### **Staff Approved Loans Report**

Mr. Carroll South reported that:

Borrower: City of Helena

Purpose: To finance the purchase of two mowers and a turf sweeper for the golf course.

Staff Approval Date July 29, 2003

Board Loan Amount: \$56,551

Term: 10 Years

Borrower: Teton County Hospital District (Choteau)

Purpose: To finance the purchase of a new chemistry analyzer.

Staff Approval Date July 30, 2003

Board Loan Amount: \$91,500

Term: 5 Years

Borrower: Smith Lake Vista County Water and Sewer District (Kila)

Purpose: To finance costs associated with water system improvements.

Staff Approval Date August 11, 2003

Board Loan Amount: \$14,000

Term: 10 Years

Borrower: Heart Butte School District #1

Purpose: For cash flow purposes.

Staff Approval Date August 14, 2003

Board Loan Amount: \$150,000

Term: 1 Year

Borrower: Clancy Fire Service Area

Purpose: To finance the costs associated with building an addition onto the Hanging Tree Fire Station.

Staff Approval Date August 20, 2003

Board Loan Amount: \$40,000

Term: 10 Years

Borrower: Lewis & Clark County

Purpose: To finance costs associated with Augusta Rural Improvement District No. 2001-7 road improvements.

Staff Approval Date August 26, 2003

Board Loan Amount: \$76,782

Term: 10 Years

Borrower: Sidney-Richland Airport Authority

Purpose: For costs associated a runway construction project.

Staff Approval Date September 2, 2003

Board Loan Amount: \$177,000

Term: 5 Years

Borrower: Missoula County

Purpose: To finance the purchase of motor pool vehicles, copiers, and a floor scrubber.

Staff Approval Date September 2, 2003

Board Loan Amount: \$134,171

Term: 3 Years

has been approved by staff.

## **INTERCAP**

Mr. Carroll South 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: Town of Plains

Board Loan Amount: \$243,800

Term: 6 Years

Purpose: To refund two existing wastewater revenue bonds.

Member Fagg moved for approval of this recommendation; Member Moore 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 September 30 transactions.

### **Fiscal Year End Investment Performance Report**

Mr. Penner presented the Montana Board of Investments Public Funds Performance Analysis for the period ending June 30, 2003.

### **Staff Recognition**

Mr. Penner recognized Investment staff for their recent completion of the Chartered Financial Analyst (CFA) program. Mr. Daniel Stevens and Mr. John Romasko received their CFA designation by completing Level 3 of the Program.

## **LOAN PROGRAMS**

### **Coal Tax Loan Program Activity Report**

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

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

The Board reviewed this report for July.

### **Residential Loan Policy Revisions**

Ms. Delrene Rasmussen presented staff recommended changes to the residential loan policy. The recommended changes are as follows (underlined):

#### **II. FEES AND YIELD REQUIREMENTS**

(i) Upon payment of an additional reservation fee, the first reservation period may be extended up to 240 days upon written request and Board approval.

Recommended change:

(i) Upon payment of an additional reservation fee, the first reservation period may be extended up to 360 days upon written request and Board approval.

(n) Reservation/extension fees required to lock interest rates or submit an application apply only to conventional, FHA and VA loans are shown below:

Each 30 day increment - not to exceed 240 days 0.25%

Recommended change:

Each 30 day increment - not to exceed 360 days 0.25%

1 to 60 calendar days 0.50%  
1 to 120 calendar days 0.75%  
1 to 240 calendar days 1.00%

Recommended change:

1 to 180 calendar days 0.875%

#### IV. CONVENTIONAL LOANS - APPRAISALS

(d) The following specific appraisal formats and requirements will be required for different classes of real property:  
i FHLMC/FNMA uniform residential appraisal report for single-family residential properties.

Recommended change:

i. FHLMC/FNMA Quantative Analysis Appraisal Report Form 2055 on a previously occupied single-family owner-occupied residence. A uniform residential appraisal report is mandatory if required by the Desktop Underwriter finding report or Loan Prospector's feedback report. All appraisals must include internal/external inspections.

Member Ryan motioned for approval of the proposed revisions to the Residential Loan Policy; Member Fagg seconded the motion and the motion was passed 8-0.

#### INVESTMENT ACTIVITY

##### Montcomp

Mr. Rande Muffick presented July transactions, the holdings report as of July 31, 2003 and the current investment strategy. Member Fleming 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 Forest Laboratories, Freddie Mac, Lexmark International, McCormick & Company, and Paychex as Portfolio Additions.

##### International Investment

Mr. Paul Runnalls presented July internal transactions, the internal international holdings report as of July 31, 2003 and the current investment strategy. Member Klawon moved for approval of the International Investment strategy as presented; Member Long seconded the motion and the motion was passed 8-0.

##### Fixed Income

Mr. Rich Cooley presented July transactions, and the current investment strategy. Member Long moved for approval of the Fixed Income strategy as presented; Member Moore seconded the motion and the motion was passed 8-0.

In addition, Mr. Cooley presented the Investment Policy Statements for Trust and Legacy Fund and Resource Indemnity Trust Fund. Member Klawon moved for approval of the Investment Policy Statements as presented; Member Moore seconded the motion and the motion was passed 8-0.

##### Treasurer's and STIP Funds

Mr. Cooley also presented July STIP transactions the STIP holdings report as of July 31, 2003, the July Treasure's Fund transactions, the Treasurer's Fund holdings report as of July 31, 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 Fagg seconded the motion and the motion was passed 8-0.

In addition, Mr. Cooley presented the Investment Policy Statements for Short-Term Investment Pool, Treasurer's Fund, Real Property Trust Fund and Wildlife Habitat Trust Fund. Member Moore moved for approval of the Investment Policy Statements as presented; Member Beams seconded the motion and the motion was passed 7-0. Member Ryan was not present for the vote.

### **Security Lending**

Mr. Ed Kelly presented this report for July 2003.

### **International Equity Active**

In addition, Mr. Kelly presented the Investment Policy Statement for Montana International Equity Pool. Member Long moved for approval of the Investment Policy Statement as presented; Member Fagg seconded the motion and the motion was passed 7-0. Member Ryan was not present for the vote.

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

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

In addition, Mr. Kelly presented the Investment Policy Statement for Montana Private Equity Pool. Member Klawon moved for approval of the Investment Policy Statement as presented; Member Beams seconded the motion and the motion was passed 8-0.

### **Adam Street Global Opportunities Secondary Fund, L.P.**

Mr. Ed Kelly presented staff recommendation to commit \$25 million, but not more than 25% of the total 2004 Adams Street Global Opportunities Secondary Fund.

### **Adam Street Partnership Fund - 2004 Subscription**

Mr. Ed Kelly presented staff recommendation not to commit to the Adams Street Partnership Fund - 2004 Subscription.

Member Fleming moved for approval of the staff recommendations as presented; Member Long seconded the motion and motion was passed 8-0.

### **PRESENTATION - Pyrford International**

Mr. Bruce Campbell and Mr. Tony Cousins, Pyrford International, presented the annual European Equity Fund Performance Review to the Board and staff.

### **NEXT MEETING**

The next regularly scheduled meeting of the Board will be October 30, 2003.

### **ADJOURNMENT**

There being no further business, the meeting was adjourned at 5:20 p.m.

### **BOARD OF INVESTMENTS**

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: