

**MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

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

**Friday, April 23, 2004**

**MINUTES**

**BOARD MEMBERS PRESENT:** Dick Anderson, Chairman  
Dennis Beams  
Maureen Fleming  
Jay Klawon  
Terry Moore

**BOARD MEMBERS ABSENT:** Karen Fagg  
Joel Long  
Tim Ryan  
Calvin Wilson

**STAFF PRESENT:** Robert T. Bugni, CFA, Senior Investment Officer  
Geri Burton, Deputy Director  
Dana Chapman, Mortgage Analyst/Program Specialist  
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  
Carroll V. South, Executive Director  
Louise Welsh, Bond Program Officer

**GUESTS:** Gordon Hoven, Piper Jaffray  
Senator Mike Cooney, Helena

**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 five members of the Board present. Members Ryan, Fagg, Long and Wilson were absent.

Member Klawon motioned for approval of the March 11, 2004 minutes; Member Fleming seconded the motion and the motion was passed 5-0.

## **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**

### **Budget Status Report**

Executive Director Carroll South presented this report for the period ending March 31, 2004.

### **Great Falls Malting Plant**

Executive Director, Carroll South presented to the Board an update on the loan to the Great Falls Malting Plant. Concerns have been express about the Borrower's compliance with the "Montana Preference" provision in state law that requires the borrower to give preference to Montana residents when constructing projects. The law requires that the preference language be inserted in all contracts for construction projects financed by the In-State Investment Program.

Mr. South has met twice with the Chief Legal Counsel of the two parent companies and has asked that documentation be submitted showing that Montana residents are being hired as required by law. Some documents have been submitted per staff's request and the company has agreed to provide any information staff requires. The initial contracts signed for construction of the plant did not contain the required preference language. The Legal Counsel stated that all contracts going forward will contain such language.

Mr. South stated that no funds will be disbursed until staff is convinced that the Borrower has made a good faith effort to comply with the preference provision and staff recommends disbursement to the Board.

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

Executive Director Carroll South, presented travel recommendations for:

- David Ewer to attend the State Street Analytical Conference in Boston, May 14 - 19, 2004. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$2,317.00.
- Maureen Fleming to attend the Adams Street Partners Client Conference in Chicago, June 8 - 13, 2004. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$2,100.00.

Member Beams moved for approval of this recommendation; Member Moore seconded the motion and the motion was passed 5-0.

## **BOND PROGRAM**

### **Activity Report**

The Board reviewed this report for the period ending March 31, 2004.

### **Staff Approved Loans Report**

Ms. Louise Welsh reported that:

- Borrower: City of Helena (2 Loans)  
Purpose: 1. To finance replacement golf car fleet for the Bill Roberts Golf Course;  
2. To finance the costs associated with the City - County Commission Chambers remodel  
Staff Approval Date March 3, 2004  
Board Loan Amount: \$139,260 - Bill Roberts Golf Course  
\$200,000 - Commission Chambers  
Term: 5 Years - Bill Roberts Golf Course

- 10 Years - Commission Chambers
- Borrower: City of Ronan  
Purpose: To finance self-contained breathing apparatuses and compressor.  
Staff Approval Date March 10, 2004  
Board Loan Amount: \$26,903  
Term: 3 Years
- Borrower: Ranch Flathead Water District (Bigfork)  
Purpose: To finance costs associated with a preliminary engineering report.  
Staff Approval Date March 12, 2004  
Board Loan Amount: \$9,500  
Term: 3-Years interest only; up to 3 additional years interest and principal.
- Borrower: Sweet Grass County (2 Loans)  
Purpose: 1. To finance a motor grader;  
2. To finance the costs associated with constructing a multi-purpose building.  
Staff Approval Date March 25, 2004  
Board Loan Amount: \$100,000 - Motor Grader  
35,000 - Multi-Purpose Building  
Term: 5 Years - Motor Grader  
7 Years - Multi-Purpose Building
- Borrower: Anaconda Public Schools  
Purpose: To finance costs associated with retrofitting boiler systems.  
Staff Approval Date March 25, 2004  
Board Loan Amount: \$60,000  
Term: 10 Years
- Borrower: Colstrip School District #19  
Purpose: To finance costs associated with building a new locker room addition on to the middle school.  
Staff Approval Date March 25, 2004  
Board Loan Amount: \$200,000  
Term: 3 Years
- Borrower: Jefferson City & Community Fire Department  
Purpose: To finance the costs associated with building a new fire hall.  
Staff Approval Date March 25, 2004  
Board Loan Amount: \$75,000  
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: Missoula County  
Board Loan Amount: \$348,677  
Term: 5 Years  
Purpose: To finance the purchase of fleet trucks for its Public Works Department.
- Borrower: Lincoln County  
Board Loan Amount: \$500,000  
Term: 10 Years  
Purpose: To finance the costs associated with jail renovation and constructing new inmate housing.
- Borrower: Department of Natural Resources and Conservation (DNRC)  
Board Loan Amount: Increase October 2003 loan request of \$500,00 to \$1 million dollars.  
Term: 2 Years  
Purpose: In anticipation of issuing coal severance tax bonds.

Member Moore moved for approval of this recommendation; Member Klawon seconded the motion and the motion was passed 5-0.

## **CHIEF INVESTMENT OFFICER REPORTS**

### **Asset Allocation Report**

Mr. Jim Penner, Chief Investment Officer, presented the Asset Allocation report for April 30 and May 31, 2004 transactions.

### **Quarterly Investment Performance Report**

Mr. Penner presented the Montana Board of Investments Quarterly Board Performance Report for the period ending March 31, 2004.

## **LOAN PROGRAMS**

### **Thompson River Co-Gen, LLC Memo**

First Interstate Bank submitted a request for the release of \$1,000,000 in pledged securities as collateral for the construction and permanent loan, but staff was recently informed that the collateral had already been released without Board approval. Additionally, staff received documentation that not all permits were in place prior to funding, which is in violation of the loan commitment requirements specifying that all permits must be in place prior to funding. Because both of these incidents are in violation of the servicer agreement signed by the bank, staff suggests that First Interstate Bank buy-back the construction loan.

Member Klawon moved for approval of this recommendation; Member Fleming seconded the motion and the motion was passed 4-0. Member Moore abstained from the vote. The motion failed because all substantive decisions made by the Board must have at least 5 votes (a majority of the Board).

Mr. South advised the Board that a motion was not necessary because staff has the standing authority to enforce provisions of the servicer agreement, which in this case were violated. Staff believed it was necessary to inform the Board of the pending action so Members would be fully aware of the problem and the request to buy-back the loan due.

Member Klawon withdrew the motion for approval of the recommendation; Member Fleming withdrew her second of the motion. The Board agreed with the action to be taken by staff.

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

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

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

The Board reviewed this report for February and March.

## **INVESTMENT ACTIVITY - Equity**

### **Domestic Equity (Montcomp)**

Mr. Rande Muffick presented February and March transactions, the holdings report as of March 31, 2004 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 5-0.

Extensive discussion took place between Board and staff determining how the Board and staff can add value to the

state's portfolio.

Member Moore motioned that Chairman Anderson would appoint a subcommittee with the idea that the committee would look at the Board operations and the Board functions and how it functions within that operation; and expend the funds to develop an RFP to solicit an outside source/consultant that would work with and advise the Board and its subcommittee. Member Fleming seconded the motion and the motion passed 5-0.

Chairman Anderson appointed Member Moore, Member Fleming and Member Beams to comprise the sub-committee to oversee this process. A Progress Report will be prepared and presented at the June Board Meeting.

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

Mr. Ed Kelly presented February and March transactions and the holdings report as of March 31, 2004.

### **ArcLight Energy Partners Fund II Recommendation**

In addition, Mr. Kelly presented staff recommendation that the Montana Board of Investments commit to investing \$25 million (\$US) in ArcLight Energy Partners Fund II, a special situation private equity fund for the Power & Energy Industry.

Member Beams moved for approval of staff recommendation; Member Klawon seconded the motion and the motion was passed 5-0.

### **Montana International Equity Pool (MTIP)**

Mr. Rich Cooley presented the International Equity Program Review & Recommendations. Mr. Cooley's recommendations for this Pool are as follows:

1. Continue to manage the majority of the program on a regional basis.
2. Place a portion of the current MSCI Europe Index into an enhanced index.
3. Set a minimum exposure of 33% each to passive and active management.
4. Continue to manage the program on an un-hedged basis.
5. Continue to use MSCI as the index provider.
6. Retain the three active managers at their current allocation.
7. Establish initial International Small Cap allocation at 10% of program.
8. Establish initial Emerging Markets allocation at 5% of program.
9. Increase the target for the International Equity Program from 12% to 15%.

Member Fleming moved for approval of the International Equity Program recommendations as presented; Member Beams seconded the motion and the motion was passed 5-0.

## **INVESTMENT ACTIVITY - Fixed Income**

### **Intermediate Funds**

Mr. Cooley presented the February and March Treasurer's Fund transactions, the Treasurer's Fund holdings report as of March 31, 2004, the February and March State Fund Transactions and the current investment strategy for both of these funds. Member Fleming moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Klawon seconded the motion and the motion was passed 5-0.

In addition, Mr. Cooley presented the Investment Policy Statements for State Fund Insurance - New Fund, Noxious Weed Management Trust Fund, and Historical Society Trust Fund. Member Klawon moved for approval of the Investment Policy Statements as presented; Member Moore seconded the motion and the motion was passed 5-0.

### **Long Term Funds**

Mr. Robert Bugni presented February and March transactions, and the current investment strategy. Member Beams moved for approval of the Fixed Income strategy as presented; Member Moore seconded the motion and the motion was passed 5-0.

In addition, Mr. Bugni presented the Investment Policy Statements for State Fund Insurance - Old Fund. Member Fleming moved for approval of the Investment Policy Statements as presented; Member Klawon seconded the motion and the motion was passed 5-0.

### **INVESTMENT ACTIVITY - FYI Items**

The following Investment Activity reports were presented and available for informational purposes. None of these items requires Board action.

#### **1. Montcomp Portfolio Additions:**

Nextel	Anheuser-Busch
AT & T Wireless	Teradyne
Apache	Suntrust Banks

#### **2. STIP Transactions/Holdings Report**

#### **3. Security Lending Report**

#### **4. Market Perspectives**

#### **5. Educational Opportunities / Conferences / Seminars**

### **NEXT MEETING**

The next regularly scheduled meeting of the Board will be June 3, 2004.

### **ADJOURNMENT**

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 12:45 p.m.

### **BOARD OF INVESTMENTS**

#### **APPROVE:**

**Dick Anderson, Chairman**

#### **ATTEST:**

**Carroll South, Executive Director**

#### **DATE:**