

**MONTANA BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3rd Floor
Helena, Montana
January 29, 2004**

MINUTES

BOARD MEMBERS PRESENT: Dick Anderson, Chairman
Dennis Beams
Jay Klawon
Terry Moore
Tim Ryan

BOARD MEMBERS ABSENT: Karen Fagg
Maureen Fleming
Joel Long
Calvin Wilson

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
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: Larry Fasbender, Deputy Director, Dept. of Justice, Motor
Vehicle Division
Phyllis Holm, Administrative Officer, Dept. of Justice,
Motor Veh. Division
Diane Paauwe, Piper Jaffray, Minneapolis
Debbie Kuydendall, U.S. Bank Trust, Seattle

CALL TO ORDER

Chairman Anderson called the regular meeting of the Board of Investments (Board) to order at 11:40 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. Member Fleming, Member Wilson, Member Long and Member Fagg were not present

at roll call.

Member Ryan motioned for approval of the December 11, 2003 minutes; Member Beams seconded the motion and the motion was passed 5-0.

ADMINISTRATIVE BUSINESS

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 11:45 a.m.

CALL TO ORDER

The regular meeting of the Board reconvened at 1:00 p.m. Six members of the Board were present. Member Fleming, Member Wilson, and Member Long were not present.

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 December 31, 2003.

In addition, Mr. South explained now is the time that all state agencies are asked to present their budget modifications to the Governor's Budget Office. At this time, BOI does not plan to request any additional funding, with the exception of the Bloomberg Services. Currently the Bloomberg Services are paid for by Soft Dollars. Mr. South would like to propose that this expense be a budget modification and added to the current level budget. Staff is concerned that at some point in the future, we may no longer be able to pay for this system with Soft Dollars. The Board agreed with Mr. South and directed him to proceed with this budget modification request.

In-State Loan Policy Revisions

Mr. Carroll South presented to the Board the draft loan policy revisions as directed at the December Board meeting. The revisions are:

1. Borrowers that use the In-State Investment Program for construction financing must require that the contractors pay the prevailing wage if the Board's share of the loan is \$1.5 million or more.
2. Additionally, the statutory language required for the "Montana Preference" has been included in the Commercial and Value-Added loan policies. This language has historically been included in the loan application and commitment letters, but will also be included in the policy now to raise the provision's visibility.

Member Beams moved for approval of the In-State Loan Policy revisions; Member Klawon seconded the motion and the motion was passed 6-0.

Out-of-State Travel

Executive Director Carroll South, presented travel recommendations for:

" Steve Strong to attend the Lehman Brothers Industrial Select Conference in Miami, February 3 - 6, 2004. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$1,670.00.

" Bobbie Ecklund to attend the Lehman Brothers 7th Annual Global Healthcare Conference in Miami, March 2 - 7, 2004. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$2,086.00.

" Rich Cooley to attend the NASIP Conference in Austin, TX, April 3 - 7, 2004. Estimated cost of trip, including airfare, lodging, registration fee (if any), meals and misc. expense is: \$1,660.00.

Member Klawon moved for approval of the travel recommendations; Member Fagg seconded the motion and the motion was passed 6-0.

BOND PROGRAM

Activity Report

The Board reviewed this report for the period ending January 20, 2004.

Staff Approved Loans Report

Ms. Louise Welsh reported that:

- Borrower: Pioneer School District #1
Purpose: To finance costs associated with upgrading the boiler/heating system.
Staff Approval Date December 3, 2003
Board Loan Amount: \$14,839
Term: 2 Years
- Borrower: Park County
Purpose: To finance the purchase of perpetual right-of-way easement for the Gardiner Airport.
Staff Approval Date December 9, 2003
Board Loan Amount: \$89,700
Term: 10 Years
- Borrower: Pondera County
Purpose: To finance the purchase of cardiac monitors for the hospital.
Staff Approval Date December 10, 2003
Board Loan Amount: \$64,315
Term: 5 Years
- Borrower: Geyser Judith Basin County Water and Sewer District
Purpose: In anticipation of DNRC grant for water system improvements.
Staff Approval Date December 16, 2003
Board Loan Amount: \$70,000
Term: Interim Loan
- Borrower: City of Havre
Purpose: To finance the purchase of a 2004 Elgin Pelican Street Sweeper.
Staff Approval Date December 17, 2003
Board Loan Amount: \$89,000
Term: 7 Years
- Borrower: McCone County
Purpose: To finance improvements in the McCone County Courthouse.
Staff Approval Date December 22, 2003
Board Loan Amount: \$190,000
Term: 10 Years
- Borrower: Augusta Fire Service Area
Purpose: To pay off the Augusta Rural Fire District INTERCAP Loan.
Staff Approval Date January 15, 2004
Board Loan Amount: \$70,000
Term: 10 Years

- Borrower: City of Missoula
Purpose: To finance Special Improvement District No. 527.
Staff Approval Date January 15, 2004
Board Loan Amount: \$22,400
Term: 7 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: Gallatin County
Board Loan Amount: \$1,998,000
Term: 10 Years
Purpose:
Loan request #1 - \$999,000 to finance the purchase of an office building to be used as additional office space for the County.
Loan request #2 - \$999,000 to finance the remodeling costs at the existing detention center.
- Borrower: Pondera County
Board Loan Amount: \$435,000
Term: 10 Years
Purpose: To finance the replacement of the heating, ventilation and air conditioning system at the County owned hospital, Pondera Medical Center.

Member Ryan moved for approval of these two recommendations; Member Beams seconded the motion and the motion was passed 6-0.

- Borrower: Hungry Horse County Water and Sewer District
Board Loan Amount: \$611,000
Term: Interim Loan
Purpose: In anticipation of Rural Development long term financing for water system improvements.

Member Moore moved for approval of this recommendation; Member Fagg seconded the motion and the motion was passed 5-0. Member Ryan abstained from the vote.

- Borrower: Department of Justice
Board Loan Amount: \$18 million
Term: 10 Years
Purpose: To finance the costs associated with Phase II of the motor vehicle information technology system.

Member Ryan moved for approval of this recommendation; Member Beams seconded the motion and the motion was passed 6-0.

Preliminary Bond Resolution #205

Ms. Louise Welsh presented Preliminary Bond Resolution No. 205 requesting preliminary approval to the issuance of bonds under the Municipal Finance Consolidation Act in an amount up to \$30 million. This new issue will coincide with the remarketing of the outstanding bonds on March 1, which will require a special Board meeting to take place in order for the Board to authorize the approval of the Series 2004 bonds.

Staff recommends that the Board:

1. Authorize staff to take steps as deemed necessary to issue up to \$30 million in INTERCAP bonds for a term of 25

years;

2. Authorize the issuance of bond anticipation notes:

3. Adopt the INTERCAP preliminary Resolution No. 205;

4. Authorize the current INTERCAP Program finance team to provide the expertise to issue/underwrite the bonds; and

5. Authorize to set up a special Board meeting February 19, 2004 via teleconference for approval of the final resolution authorizing the Series 2004 bonds.

The Special Conference Call Board Meeting will take place on February 19, 2004 at 9:00 a.m. in the small conference room.

Member Moore moved for approval of Preliminary Bond Resolution No. 205; Member Fagg seconded the motion and the motion was passed 6-0.

CHIEF INVESTMENT OFFICER REPORTS

Asset Allocation Report

Mr. Jim Penner, Chief Investment Officer, presented the Asset Allocation report for January 31, 2004 and February 27, 2004 transactions.

Corporate Governance - Proxy Policy

Mr. Jim Penner presented the Proxy Guidelines - Equity for their review and approval.

Member Beams moved for approval of the Proxy Guidelines - Equity as presented; Member Fagg seconded the motion and the motion was passed 6-0.

LOAN PROGRAMS

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 - EQUITY

Domestic Equity (Montcomp)

Mr. Rande Muffick presented November and December transactions, the holdings report as of December 31, 2003 and the current investment strategy. Member Ryan moved for approval of the Montcomp strategy as presented; Member Klawon seconded the motion and the motion was passed 6-0.

In addition, Mr. Muffick presented Bed Bath & Beyond, Halliburton and Merrill Lynch as a Portfolio Additions.

Equity Commission Policy Statement

Mr. Muffick presented the annual review of the Commission Policy for the Montana Common Stock Pool. There were no changes made to this Policy, therefore, no action taken by the Board.

Investment Policy Statement

Mr. Rande Muffick presented the Investment Policy Statement for the Montana Domestic Equity Pool (MDEP). The purpose of this policy statement is to provide investment objectives and constraints for domestic equity investments, which are consolidated into the Montana Domestic Equity Pool. Member Moore moved for approval of the Investment Policy Statements as presented; Member Beams seconded the motion and the motion was passed 6-0.

International Equities (MTIP)

Mr. Paul Runnalls presented November and December internal transactions, the internal international holdings report as of December 31, 2003.

European Overview

Mr. Paul Runnalls presented a Market Commentary on the European markets. This Commentary included updating the Board that the European markets had performed strongly over the last three months of calendar year 2003, up approximately 20%. The appreciation of the European currencies has had an enormously, positive impact on the portfolio, contributing 8.5% of the 20% total return.

Mr. Runnalls expressed that Europe as a continent remains an attractive investment, for several reason, including (1) currency rates stabilizing; (2) continued improvement in business activities (3) unemployment is beginning to stabilize in the developed market regions, and (4) monetary policy in Europe is favorable. In summation, the formula for success in European equities is there.

Mr. Runnalls concluded by Thanking the Board for the opportunities given to him. Paul's last day with the Board will be February 6, 2004.

Montana Private Equity Pool (MPEP)

Mr. Jim Penner presented November and December transactions, the holdings report as of December 31, 2003.

INVESTMENT ACTIVITY - FIXED INCOME

Short Term Investment Pool (STIP)

Mr. Rich Cooley presented November and December STIP transactions and the STIP holdings report as of December 31, 2004.

Security Lending

Mr. Rich Cooley presented the Securities Lending Earnings Report for the period ending December 31, 2003.

Intermediate Funds

Mr. Rich Cooley also presented the November and December Treasurer's Fund transactions and the Treasurer's Fund holdings report as of December 31, 2003.

In addition, Mr. Cooley presented the current investment strategy for STIP, State Fund and the Treasurer's Fund. Member Beams moved for approval of the STIP Fund and Treasurer's Fund strategy as presented; Member Ryan seconded the motion and the motion was passed 6-0.

Long Term Funds

Mr. Robert Bugni presented November and December Fixed Income transactions, and the current investment strategy. Member Fagg moved for approval of the Fixed Income strategy as presented; Member Moore seconded the motion and the motion was passed 6-0.

Mr. Bugni also presented the Non-Investment Grade Fixed Income Holdings report and the Holdings Report for Retirement Funds Bond Pool and Trust Funds Bond Pool as of December 31, 2003.

In addition, Mr. Bugni presented the Investment Policy Statements for Upper Clark Fork River Basin Restoration Fund and the Upper Clark Fork River Basin Reserve 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. Member Ryan was not present for the vote.

NEXT MEETING

There will be a Special Conference Call Board Meeting on February 19, 2004 at 9:00 a.m. in the small conference room. The next regularly scheduled meeting of the Board will be March 11, 2004.

ADJOURNMENT

There being no further business, the meeting was adjourned at 4:00 p.m.

BOARD OF INVESTMENTS

APPROVE:

Dick Anderson, Chairman

ATTEST:

Carroll South, Executive Director

DATE: