



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

## ***Board of Investments***

***For the Two Fiscal Years Ended  
June 30, 2010***

DECEMBER 2010

LEGISLATIVE AUDIT  
DIVISION

10-04A

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

December 2010

The Legislative Audit Committee  
of the Montana State Legislature:

This report, along with our financial audit (08-04B), constitutes our financial-compliance audit report of the Montana Board of Investments (Board) for the two fiscal years ended June 30, 2010. We performed this audit of the Board as required by Article VIII, Section 13 of the Montana Constitution, and §17-6-321, MCA.

This report contains one recommendation to the Board regarding the investment of state funds in equity securities.

We thank the members of the Board of Investments and their staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
<b>Montana Board of Investments</b>	Terry Moore, Chairman	Billings	1/2011
	Elouise Cobell	Browning	1/2013
	Teresa Cohea	Helena	1/2013
	Karl Englund	Missoula	1/2011
	Maureen Fleming	Missoula	1/2011
	Patrick McKittrick	Great Falls	1/2013
	Jack Prothero	Great Falls	1/2013
	John Satre	Helena	1/2011
	Jim Turcotte	Helena	1/2013
	Greg Barkus	Senate Liaison	
	Brady Wiseman	House of Representatives Liaison	

### **Administrative Officials**

Carroll South, Executive Director

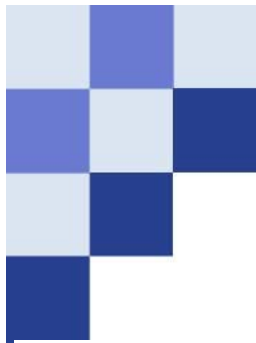
Geri Burton, Deputy Director

Cliff Sheets, Chief Investment Officer

Gayle L. Moon, Accounting Fiscal Manager

For additional information concerning the Montana Board of Investments, contact:

Carroll South, Executive Director  
P.O. Box 200126  
Helena, MT 59620-0126  
(406) 444-0001  
e-mail: csouth@mt.gov



## FINANCIAL-COMPLIANCE AUDIT

## Montana Board of Investments

For the Two Fiscal Years Ended June 30, 2010

DECEMBER 2010

10-04A

REPORT SUMMARY

For the consolidated unified investment program, the value of assets managed by the Board of Investments (Board) increased over \$490 million from June 30, 2009. During fiscal year 2010, the Board received \$28 million in repayments on previously defaulted securities, bringing the total outstanding investments in default status to \$85.6 million at fiscal year-end. Since June 30, 2010, the Board has received an additional \$5.1 million in principal and interest on these defaulted securities.

**Context**

The Board manages the Unified Investment Program (program), which had net assets of \$12.9 billion at June 30, 2010. To manage the program, the Board created seven investment pools that operate similar to mutual funds. Those pools are: Retirement Funds Bond Pool, Trust Funds Investment Pool, Montana Domestic Equity Pool, Montana Private Equity Pool, Montana Real Estate Pool, Short Term Investment Pool, and All Other Fund Investments Managed. The Board invests for the state and local governments. Local government entities may only invest in the Short Term Investment Pool portion of the program.

The Board's Enterprise Fund accounts for the state's Economic Development Bond Act and Municipal Finance Consolidation Act programs. Under the Municipal Finance Consolidation Act, the Board is authorized to issue up to \$190 million in INTERCAP bonds. During fiscal year 2010, the program issued \$12 million in bonds, bringing total outstanding INTERCAP bonds to just over \$96 million.

The Board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the Board, implement its decisions, and perform daily investment, economic development, and record keeping functions.

**Results**

This report contains one recommendation regarding the investment of state funds in equity securities.

The prior financial-compliance audit report included two recommendations regarding the Board's involvement in the construction of the Montana State Fund building and implementing procedures to properly account for investments in default status in accordance with generally accepted accounting principles. Over the past two years, the Board has implemented both recommendations.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	





# Chapter I – Introduction

## Introduction

We performed a financial-compliance audit of the Board of Investments (Board) for the two fiscal years ended June 30, 2010. The objectives of the audit were to:

1. Determine whether the board complied with selected state laws and regulations.
2. Obtain an understanding of the Board's control systems to the extent necessary to support an audit of the Board's financial statements, and, if appropriate, make recommendations for improvement in management and the internal controls of the Board.
3. Determine whether the Board's financial statements present fairly the results of operations for the two fiscal years ended June 30, 2010, and 2009.
4. Determine the status of prior audit recommendations.

The financial audit of the Board for the fiscal year ended June 30, 2009, was issued in a separate report (08-04B).

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements or non-compliance issues on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements or material non-compliance issues will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1 <b><u>Summary of Deficiencies in Internal Control</u></b>			
Subject	Significant Deficiency	Material Weakness	Page
Montana Domestic Equity Pool Investments	Yes	No	3

## **Background**

The Board, created in 1971, is attached to the Department of Commerce for administrative purposes. The Board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the Board, implement its decisions, and perform daily investment, economic development, and record keeping functions.

## **Prior Audit Recommendations**

The prior financial audit report for the fiscal year ended June 30, 2009, contained no recommendations, but did mention a continuing recommendation related to the Board's participation in the construction of Montana State Fund's building (originally reported in the 08-04A audit report). As of June 30, 2010, the Board implemented this recommendation.

## Chapter II – Findings and Recommendations

### Montana Domestic Equity Pool Investments

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**Contrary to the Montana Constitution, Montana Historical Society funds were invested in the Montana Domestic Equity Pool (MDEP).**

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The Board's investment policy for MDEP indicates the pool is open to the retirement funds or other participants. The MDEP investment policy does not specify which other entities are allowed to participate in the pool. During the audit, we identified the Montana Historical Society (MHS) as a participant in MDEP. However, Article VIII, Section 13 of the Montana Constitution (constitution) specifies that no public funds shall be invested in private corporate capital stock, with exceptions for public retirement system assets and the state compensation insurance fund assets. Board staff indicated the decisions to place MHS assets in the MDEP were made many years ago. The Board discontinued MHS's participation in the MDEP in October 2010 after we brought the MHS investments to their attention. However, there is risk that other participants, for which such investments are not allowed, have been or will participate in the pool.

To ensure compliance with the constitution, the Board should conduct a thorough review of the entities invested in each of its pools that contain equity securities to determine whether the investments are allowable under the constitution and that the Board has authority to invest those funds. In addition, clearly identifying the entities allowed by the constitution to participate in the pool will enable the Board to prevent similar noncompliance in the future.

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#### **RECOMMENDATION #1**

*We recommend the Board:*

- A. *Conduct and document a review to ensure only those public funds allowed by the Montana Constitution are invested in private corporate capital stock.*
  - B. *Strengthen its MDEP investment policy to provide clear guidance to investment managers regarding participants allowed by the Montana Constitution.*
-



# **Independent Auditor's Report and Board Financial Statements**



## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value/Investments Managed of the Montana Board of Investments' Consolidated Unified Investment Program as of June 30, 2010, and 2009, and the related Statement of Changes in Net Asset Value/Investments Managed, and Statement of Investment Income and Distribution for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value/investments managed of the Montana Board of Investments' Consolidated Unified Investment Program as of June 30, 2010, and 2009, and its changes in net asset value/investments managed and investment income and distribution for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

November 12, 2010





STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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STATEMENT OF NET ASSET VALUE/INVESTMENTS MANAGED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash	\$ 9,947,662	\$ 9,230,879
Security lending cash collateral (Note 5)	814,053,102	1,200,731,501
Broker receivable for securities sold but not settled (Note 2A)	15,565,328	69,143,177
Dividend and interest receivable (Note 2E)	50,131,214	54,603,280
Foreign currency forwards (Note 6, 14)	357,976	(209,010)
STIP investment portfolio at amortized cost (Note 2B)	2,248,951,467	2,301,281,468
Investment portfolios at fair value (Note 2B)	<u>9,809,521,220</u>	<u>8,823,470,364</u>
<b>Total assets (Note 2B)</b>	<u>\$ 12,948,527,969</u>	<u>\$ 12,458,251,659</u>
<b>Liabilities</b>		
Income due participants (Note 2E)	\$ 18,521,125	\$ 23,811,192
Broker payable for securities purchased but not settled (Note 2A)	53,303,096	43,878,167
Security lending obligations (Note 5)	814,053,102	1,200,731,501
Security lending expense payable	159,646	404,942
Unrealized foreign exchange gain/loss	21,496	(75,911)
Other payables	111,986	2,799,578
Administrative fee payable	3,928,022	2,716,909
STIP reserve (Note 7)	<u>1,695,138</u>	<u>1,427,621</u>
<b>Total liabilities (Note 2B)</b>	<u>891,793,611</u>	<u>1,275,693,999</u>
<b>Net asset value/investments managed (Note 2B, 2C)</b>	<u>\$ 12,056,734,358</u>	<u>\$ 11,182,557,660</u>
Pool Units Outstanding (Note 2B, 2C)	2,322,042,301	2,374,560,621

STATEMENT OF CHANGES IN NET ASSET VALUE/INVESTMENTS MANAGED  
FOR FISCAL YEARS ENDING JUNE 30, 2010 AND 2009

Net asset value/investments, beginning of year	\$ 11,182,557,660	\$ 12,773,990,236
Value of pool units/investments purchased (Note 2D)	21,123,538,880	13,196,815,945
Value of pool units/investments sold/matured (Note 2D)	(20,975,252,755)	(13,034,950,059)
Increase (decrease) in AOF interest receivable	(106,200)	(2,066,822)
Increase (decrease) in AOF broker receivable	(111,070)	70,376
(Increase) decrease in AOF accounts payable	5,520	(6,097)
(Increase) decrease in AOF security lending expense payable	30,010	317,686
Changes in current value of investments managed (Note 2D, 6)	<u>726,072,313</u>	<u>(1,751,613,605)</u>
<b>Net asset value/investments managed, end of year</b>	<u>\$ 12,056,734,358</u>	<u>\$ 11,182,557,660</u>

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION  
FOR FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

Net realized gain (loss) (Note 2E)	\$ 124,369,764	\$ (16,324,497)
Dividend/interest income (Note 2E)	307,626,546	332,619,985
Amortization/accretion (Note 2E)	9,074,312	30,860,796
Security lending income (Note 5)	6,865,512	23,851,652
Security lending expense (Note 5)	(2,274,635)	(9,949,320)
Administrative expenses (Note 2F)	(42,659,015)	(37,373,150)
Other expenses	(175,620)	(204,871)
STIP reserve expense (Note 7)	(5,056,000)	(9,242,500)
Income due participants, beginning of year	<u>23,811,192</u>	<u>31,121,618</u>
Income available for distribution (Note 2E)	421,582,056	345,359,713
Distribution (Note 2E)	<u>403,060,931</u>	<u>321,548,521</u>
<b>Income due participants, end of year (Note 2E)</b>	<u>\$ 18,521,125</u>	<u>\$ 23,811,192</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**1. HISTORY AND ORGANIZATION**

The Board was created by the Legislature to manage the Unified Investment Program established by the state Constitution. The Investment Program is comprised of all state funds, including pensions, trusts, insurance, and cash. Local government entities may only invest in the Short Term Investment Pool portion of the Program. The Board manages the Investment Program pursuant to the “Prudent Expert Principle” mandated by state law, which requires an investment manager to:

- (a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
- (b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
- (c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

Currently, only the nine retirement funds and the Montana State Fund (Workers’ Compensation) may invest in stock. All other state funds must be invested in fixed-income type investments. Neither state law nor the state Constitution place restrictions on retirement fund investments. The funds are invested solely at the discretion of the Board pursuant to the “Prudent Expert Principle.”

To facilitate management of the Investment Program, the Board created seven investment pools (Pools) that operate similar to mutual funds. All state agencies and many local government entities participate in one or more Pools. By investing in large Pools with other participants the smaller participants are provided broad diversification not otherwise possible. Some Pools are dedicated solely to the state’s nine retirement funds, while others are open to other state and local government funds. State agencies, ineligible to participate in a long term investment pool, have direct fixed income, equity, real estate, loan and mortgage investments. These investments are combined and reported as All Other Funds (AOF) Investments Managed. The Pools, AOF Investments Managed, Pool creation date and eligible participants are shown below.

<u>Pool/Investments Managed Name</u>	<u>Creation Date</u>	<u>Eligible Participants</u>
Retirement Funds Bond Pool (RFBP)	04/01/95	Nine Retirement Funds Only
Trust Funds Investment Pool (TFIP)	10/01/95	Various State Trust Funds
Montana Domestic Equity Pool (MDEP)	07/01/80	Nine Retirement Funds/Small Trusts
Montana International Equity Pool (MTIP)	06/01/96	Nine Retirement Funds Only
Montana Private Equity Pool (MPEP)	05/01/02	Nine Retirement Funds Only
Montana Real Estate Pool (MTRP)	06/01/06	Nine Retirement Funds Only
Short Term Investment Pool (STIP)	07/01/74	All State Funds and Local Governments

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Valuation and Timing** – The value of stocks and bonds are recorded at both “book” and “fair” value. The book or carrying value of a stock is the average cost of the shares held. If the same stock has been purchased several times, the average of the purchase prices is the book value. The book value of bonds is the “amortized” cost, which represents the original cost, adjusted for premium and discount amortization where applicable. If bonds are purchased at more than the par value, the difference is called a premium. If they are purchased for less than par value, the difference is called discount. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers’ valuation reports. The book or carrying value of these private investments is the capital invested less capital returned. Except for STIP, all investment portfolios presented in the Statement of Net Asset Value are at “fair” value.

Accounting for stock and bond securities is based on the “trade date”, which means the sale or purchase of a security is recorded on the trade date, rather than the “settlement” date. This generally accepted practice results in a purchased security included in the investment portfolio on the trade date even though payment will not occur until the settlement

date. Conversely, a sold security will be eliminated from the investment portfolio on the trade date even though the sale proceeds will not be received until the settlement date. This delayed timing requires that “receivables” and “payables” for securities sold/purchased but not yet settled must be reported in the financial statement and calculated in the Net Asset Value. Private equity and real estate investments are included in the portfolio when funds are wired.

Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investments made. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

**B. Pool Net Asset Value/Investments Managed** – The Pool Net Asset Value (NAV) must be calculated accurately to ensure participants are paying or receiving a “fair” price when units are purchased and sold. The NAV must include not only the fair value of the investment portfolio (except for STIP at book value) but any liabilities payable by the Pool and receivables due the Pool on the NAV calculation date. Investment accounting uses the “accrual” basis, which means bond interest due is recorded when earned, rather than when cash is received. Interest “due” is recorded as a receivable (asset) and included in the NAV on the date of the calculation. Dividends are recorded as of “ex-dividend date.” Income due to Pool participants is recorded on the date due to the participants, rather than on actual distribution date. Income Due Participants is a payable (liability) and included in the NAV on the calculation date. The effect of assets and liabilities on the Pool NAV is depicted in the table below. The difference between Pool investment portfolios at fair value and the NAV is the net of other assets and liabilities. The STIP portfolio is shown in the Statement of Net Asset Value at amortized cost or “book” value. The All Other Funds (AOF) Investments Managed (IM) represent direct investments by approximately 20 state agencies in fixed income securities, an equity index fund, real estate buildings, commercial loans and residential mortgages. These state agencies do not buy or sell participant units based on a NAV calculation for their AOF Investments Managed. The book value, fair value, Pool NAV and AOF Investments Managed (IM) are shown in the table on the next page.

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STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

**June 30, 2010 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM)**

<b><u>Pool</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value *</u></b>	<b><u>NAV/IM</u></b>
Retirement Funds Bond Pool (RFBP)	\$ 1,833,632,256	\$ 1,880,871,631	\$ 1,867,210,463
Trust Funds Investment Pool (TFIP)	1,748,964,386	1,816,253,411	1,811,583,144
Montana Domestic Equity Pool (MDEP)	2,347,507,949	2,205,949,840	2,208,759,362
Montana International Equity Pool (MTIP)	1,138,495,676	1,092,435,819	1,093,722,412
Montana Private Equity Pool (MPEP)	845,012,499	854,832,113	854,797,991
Montana Real Estate Pool (MTRP)	508,217,228	354,190,547	354,154,014
Short Term Investment Pool (STIP)*	2,248,951,467	2,248,951,467	2,248,177,588
All Other Funds (AOF) Investments Managed	<u>1,525,847,990</u>	<u>1,604,987,859</u>	<u>1,618,329,384</u>
<b>Total</b>	<b><u>\$ 12,196,629,451</u></b>	<b><u>\$ 12,058,472,687</u></b>	<b><u>\$ 12,056,734,358</u></b>

**June 30, 2009 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM)**

<b><u>Pool</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value *</u></b>	<b><u>NAV/IM</u></b>
Retirement Funds Bond Pool (RFBP)	\$ 1,758,946,863	\$ 1,707,369,797	\$ 1,736,529,044
Trust Funds Investment Pool (TFIP)	1,646,130,686	1,633,759,215	1,640,908,965
Montana Domestic Equity Pool (MDEP)	2,529,966,617	2,117,338,971	2,120,395,971
Montana International Equity Pool (MTIP)	1,059,445,808	973,481,473	978,855,571
Montana Private Equity Pool (MPEP)	774,019,696	671,456,150	670,867,274
Montana Real Estate Pool (MTRP)	389,576,100	287,943,521	287,866,728
Short Term Investment Pool (STIP)*	2,301,281,468	2,301,281,468	2,301,489,605
All Other Funds (AOF) Investments Managed	<u>1,431,182,507</u>	<u>1,432,121,237</u>	<u>1,445,644,502</u>
<b>Total</b>	<b><u>\$ 11,890,549,745</u></b>	<b><u>\$ 11,124,751,832</u></b>	<b><u>\$ 11,182,557,660</u></b>

*\* The STIP portfolio is recorded at amortized cost in the Fair Value column.*

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STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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The table below shows the individual Pool and AOF assets, liabilities, and NAV/Investments Managed. Included in the Pool and Investments Managed assets are the value of the investment portfolios, cash, receivables for securities sold but not yet settled, and dividend/interest receivables. Included in the liabilities are payables for securities purchased but not yet settled, income due participants, and other miscellaneous payables. The “securities lending” asset/liability shown in the Statement of Net Asset Value/ Investments Managed nets to zero and has no “net” effect on the Pool NAV and AOF Investments Managed.

**2010 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)**

<u>Pool</u>	<u>Assets</u>	<u>Liabilities</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,108,103,943	\$ 240,893,480	\$ 1,867,210,463
Trust Funds Investment Pool (TFIP)	1,931,904,758	120,321,614	1,811,583,144
Montana Domestic Equity Pool (MDEP)	2,417,709,713	208,950,351	2,208,759,362
Montana International Equity Pool (MTIP)	1,120,786,581	27,064,169	1,093,722,412
Montana Private Equity Pool (MPEP)	854,837,703	39,712	854,797,991
Montana Real Estate Pool (MTRP)	354,200,211	46,197	354,154,014
Short Term Investment Pool (STIP)	2,337,215,367	89,037,779	2,248,177,588
All Other Funds (AOF) Investments Managed	<u>1,823,769,693</u>	<u>205,440,309</u>	<u>1,618,329,384</u>
<b>Total</b>	<b><u>\$ 12,948,527,969</u></b>	<b><u>\$ 891,793,611</u></b>	<b><u>\$ 12,056,734,358</u></b>

**2009 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)**

<u>Pool</u>	<u>Assets</u>	<u>Liabilities</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,085,682,263	\$ 349,153,219	\$ 1,736,529,044
Trust Funds Investment Pool (TFIP)	1,948,176,454	307,267,489	1,640,908,965
Montana Domestic Equity Pool (MDEP)	2,301,364,588	180,968,617	2,120,395,971
Montana International Equity Pool (MTIP)	1,052,799,003	73,943,432	978,855,571
Montana Private Equity Pool (MPEP)	671,456,150	588,876	670,867,274
Montana Real Estate Pool (MTRP)	287,947,713	80,985	287,866,728
Short Term Investment Pool (STIP)	2,455,844,596	154,354,991	2,301,489,605
All Other Funds (AOF) Investments Managed	<u>1,654,980,892</u>	<u>209,336,390</u>	<u>1,445,644,502</u>
<b>Total</b>	<b><u>\$ 12,458,251,659</u></b>	<b><u>\$ 1,275,693,999</u></b>	<b><u>\$ 11,182,557,660</u></b>

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**C. Pool Participant Units** – Pool units are purchased and sold similar to individuals investing in mutual funds. The STIP participants purchase and sell units, at \$1 per unit, at their discretion. All non-STIP Pool units and AOF direct investments are purchased and sold at the discretion of Board investment staff based on asset allocations approved by the Board. For non-STIP Pool participants to purchase and sell units, the units must be “priced.” Once the Pool NAV is calculated, the unit value is priced by dividing the NAV by the number of outstanding units. The unit value is then used when units are purchased or sold. Like securities, Pool units also have a “book” value, which is the price of the unit when it was purchased. The book value does not change unless the participant purchased additional units at different prices. Because the AOF Investments Managed (IM) is not an investment pool, there are no Units Outstanding or a Pool Unit Value. The calculations for Pool unit values are shown below.

**2010 NAV/IM - Units Outstanding - Unit Value**

<u>Pool Name</u>	<u>NAV/IM</u>	<u>Units Outstanding</u>	<u>Unit Value</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,867,210,463	\$ 17,455,219	\$ 106.97
Trust Funds Investment Pool (TFIP)	1,811,583,144	17,651,160	102.63
Montana Domestic Equity Pool (MDEP)	2,208,759,362	18,861,660	117.10
Montana International Equity Pool (MTIP)	1,093,722,412	8,987,092	121.70
Montana Private Equity Pool (MPEP)	854,797,991	5,263,377	162.40
Montana Real Estate Pool (MTRP)	354,154,014	5,646,205	62.72
Short Term Investment Pool (STIP)	2,248,177,588	2,248,177,588	1.00
All Other Funds (AOF) Investments Managed	1,618,329,384	NA	NA
<b>Total</b>	<b><u>\$ 12,056,734,358</u></b>	<b><u>\$ 2,322,042,301</u></b>	<b><u>NA</u></b>

**2009 NAV/IM - Units Outstanding - Unit Value**

<u>Pool Name</u>	<u>NAV/IM</u>	<u>Units Outstanding</u>	<u>Unit Value</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,736,529,044	\$ 17,652,501	\$ 98.37
Trust Funds Investment Pool (TFIP)	1,640,908,965	17,101,938	95.95
Montana Domestic Equity Pool (MDEP)	2,120,395,971	20,811,325	101.89
Montana International Equity Pool (MTIP)	978,855,571	8,766,849	111.65
Montana Private Equity Pool (MPEP)	670,867,274	4,882,666	137.40
Montana Real Estate Pool (MTRP)	287,866,728	3,855,737	74.66
Short Term Investment Pool (STIP)	2,301,489,605	2,301,489,605	1.00
All Other Funds (AOF) Investments Managed	1,445,644,502	NA	NA
<b>Total</b>	<b><u>\$ 11,182,557,660</u></b>	<b><u>\$ 2,374,560,621</u></b>	<b><u>NA</u></b>

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**D. Changes in Net Asset Value/Investments Managed** – This table depicts the change in NAV/IM from the previous year to the current year. There are three components contributing to the changes: 1) the value of Pool participant units and AOF investments purchased; 2) the value of Pool participant units and AOF investments sold; and 3) the change in the value of investments managed. The change in NAV for each Pool and AOF Investments Managed is shown in the table below.

**2010 Pool Unit/AOF Investment Activity and Change in Value of Investments**

<u>Pool</u>	<u>Value of Units/ Investments Purchased</u>	<u>Value of Units/ Investments Sold</u>	<u>Change in Value of Investments</u>
Retirement Funds Bond Pool (RFBP)	\$ 5,970,000	\$ (25,971,397)	\$ 150,682,816
Trust Funds Investment Pool (TFIP)	55,195,000	-	115,479,179
Montana Domestic Equity Pool (MDEP)	6,210,000	(136,122,765)	218,276,156
Montana International Equity Pool (MTIP)	30,440,000	(2,254,799)	86,681,640
Montana Private Equity Pool (MPEP)	55,080,000	-	128,850,717
Montana Real Estate Pool (MTRP)	118,620,000	-	(52,332,714)
Short Term Investment Pool (STIP)	7,514,846,268	(7,568,158,285)	-
All Other Funds (AOF) Investments Managed	<u>13,337,177,612</u>	<u>(13,242,745,509)</u>	<u>78,434,519</u>
<b>Total</b>	<b><u>\$ 21,123,538,880</u></b>	<b><u>\$ (20,975,252,755)</u></b>	<b><u>\$ 726,072,313</u></b>

**2009 Pool Unit/AOF Investment Activity and Change in Value of Investments**

<u>Pool</u>	<u>Value of Units/ Investments Purchased</u>	<u>Value of Units/ Investments Sold</u>	<u>Change in Value of Investments</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,400,000	\$ (195,866,968)	\$ (35,213,524)
Trust Funds Investment Pool (TFIP)	157,204,824	(27,240,483)	(14,251,342)
Montana Domestic Equity Pool (MDEP)	8,690,000	(16,163,780)	(844,816,865)
Montana International Equity Pool (MTIP)	56,905,000	(2,447,065)	(521,903,560)
Montana Private Equity Pool (MPEP)	138,530,000	-	(211,723,964)
Montana Real Estate Pool (MTRP)	72,930,000	-	(111,604,157)
Short Term Investment Pool (STIP)	8,030,240,358	(8,047,385,640)	-
All Other Funds (AOF) Investments Managed	<u>4,730,915,763</u>	<u>(4,745,846,123)</u>	<u>(12,100,193)</u>
<b>Total</b>	<b><u>\$ 13,196,815,945</u></b>	<b><u>\$ (13,034,950,059)</u></b>	<b><u>\$ (1,751,613,605)</u></b>

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**E. Distributable Income** – Bond Pool and AOF distributable income reported in the Statement of Investment Income and Distribution includes accrued interest, miscellaneous income, amortization/accretion of discount/premium, and realized gains (losses) on sales. STIP income is comprised of accrued interest and amortization of discount. Public equity, private equity, and private real estate Pools distributable income consists primarily of dividends. Net realized capital gains in the MPEP and MTRP are retained in the pool rather than distributed to the pool participants. This policy allows for realized gains to be used, if needed, to pay pool expenses. Realized Bond Pool gains/losses are also retained in the pool, while AOF portfolio gains/losses are received on settlement date. Income Due Participants, as recorded in each Pool, is distributed monthly on the first calendar day of each month.

In fiscal year 2010, the sale of pool units from the Montana Domestic Equity Pool (MDEP), Montana International Equity Pool (MTIP), and Retirement Fund Bond Pool (RFBP) generated a net gain to participants of \$113,106,088. In fiscal year 2009, the sale of pool units from the Retirement Funds Bond Pool, Montana Domestic Equity Pool (MDEP), Trust Funds Investment Pool (TFIP), and the Montana International Equity Pool (MTIP) generated a net loss to participants of \$4,303,432. These gains and losses were recorded as AOF activity. The major distributable income for each Pool and the AOF is shown below.

**2010 Major Sources of Distributable Income**

<u>Pool</u>	<u>Gain (Loss)</u>	<u>Dividend\</u> <u>Interest</u>	<u>Amortization\</u> <u>Accretion</u>
Retirement Funds Bond Pool (RFBP)	\$ -	\$ 91,357,884	\$ -
Trust Funds Investment Pool (TFIP)	-	80,831,441	5,438,144
Montana Domestic Equity Pool (MDEP)	-	30,053,978	-
Montana International Equity Pool (MTIP)	-	14,968,347	-
Montana Private Equity Pool (MPEP)	7,500,000	6,631,594	-
Montana Real Estate Pool (MTRP)	1,620,000	9,254,279	-
Short Term Investment Pool (STIP)	-	8,690,784	3,411,010
All Other Funds (AOF) Investments Managed	<u>115,249,764</u>	<u>65,838,239</u>	<u>225,158</u>
<b>Total</b>	<b><u>\$ 124,369,764</u></b>	<b><u>\$ 307,626,546</u></b>	<b><u>\$ 9,074,312</u></b>

**2009 Major Sources of Distributable Income**

<u>Pool</u>	<u>Gain (Loss)</u>	<u>Dividend\</u> <u>Interest</u>	<u>Amortization\</u> <u>Accretion</u>
Retirement Funds Bond Pool (RFBP)	\$ (63,964)	\$ 88,473,972	\$ 661,798
Trust Funds Investment Pool (TFIP)	(6,919,879)	81,666,966	3,566,638
Montana Domestic Equity Pool (MDEP)	-	32,536,045	-
Montana International Equity Pool (MTIP)	-	22,145,326	-
Montana Private Equity Pool (MPEP)	8,899,848	6,203,082	-
Montana Real Estate Pool (MTRP)	311,758	12,188,033	-
Short Term Investment Pool (STIP)	-	21,007,551	24,987,498
All Other Funds (AOF) Investments Managed	<u>(18,552,260)</u>	<u>68,399,011</u>	<u>1,644,862</u>
<b>Total</b>	<b><u>\$ (16,324,497)</u></b>	<b><u>\$ 332,619,986</u></b>	<b><u>\$ 30,860,796</u></b>

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**Distributable income for the fiscal year may not be distributed by June 30. Any undistributed amount is recorded as a payable against the NAV of the Pool at year-end. The distributable and undistributed income is shown below.**

**2010 Distributable and Undistributed Income**

<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)	\$ 99,910,877	\$ 92,395,806	\$ 7,515,071
Trust Funds Investment Pool (TFIP)	95,303,462	88,059,460	7,244,002
Montana Domestic Equity Pool (MDEP)	21,439,252	19,565,542	1,873,710
Montana International Equity Pool (MTIP)	11,351,128	10,240,036	1,111,092
Montana Private Equity Pool (MPEP)	547,419	507,707	39,712
Montana Real Estate Pool (MTRP)	3,342,373	3,296,176	46,197
Short Term Investment Pool (STIP)	8,760,320	8,068,979	691,341
All Other Funds (AOF) Investments Managed	<u>180,927,225</u>	<u>180,927,225</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 421,582,056</u></b>	<b><u>\$ 403,060,931</u></b>	<b><u>\$ 18,521,125</u></b>

**2009 Distributable and Undistributed Income**

<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)	\$ 101,262,029	\$ 92,360,540	\$ 8,901,489
Trust Funds Investment Pool (TFIP)	88,216,641	79,135,296	9,081,345
Montana Domestic Equity Pool (MDEP)	28,621,988	26,812,182	1,809,806
Montana International Equity Pool (MTIP)	20,871,513	19,307,633	1,563,880
Montana Private Equity Pool (MPEP)	2,570,541	1,981,665	588,876
Montana Real Estate Pool (MTRP)	7,485,470	7,404,485	80,985
Short Term Investment Pool (STIP)	43,544,455	41,759,644	1,784,811
All Other Funds (AOF) Investments Managed	<u>52,787,076</u>	<u>52,787,076</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 345,359,713</u></b>	<b><u>\$ 321,548,521</u></b>	<b><u>\$ 23,811,192</u></b>

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**F. Investment Management Fees** – The Legislature sets the maximum management fee the Board may charge the accounts it manages. The maximum fee is set at the aggregate level and at the beginning of each fiscal year. The Board allocates the aggregate fees across the Pools and AOF investments managed outside the Pools. Custodial bank fees are paid by a statutory appropriation from the state general fund. The Board allocates custodial bank fees across the Pools and accounts invested outside the Pools and deposits the proceeds in the general fund. The State Treasurer then pays the monthly custodial bank fees from the general fund. External manager fees are paid directly from the accounts they manage. Investment management fees charged each Pool and the AOF investments are shown below.

**Fiscal 2010 Management Fees**

<u>Pool</u>	<u>Board</u>	<u>Custodial Bank</u>	<u>External Managers</u>	<u>Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 527,473	\$ 141,563	\$ 1,078,457	\$ 1,747,493
Trust Funds Investment Pool (TFIP)	493,636	118,316	345,658	957,610
Montana Domestic Equity Pool (MDEP)	735,444	567,552	9,605,491	10,908,487
Montana International Equity Pool (MTIP)	729,648	216,660	4,682,131	5,628,439
Montana Private Equity Pool (MPEP)	563,892	73,044	13,360,496	13,997,432
Montana Real Estate Pool (MTRP)	476,317	39,845	7,096,729	7,612,891
Short Term Investment Pool (STIP)	522,780	215,160	-	737,940
All Other Funds (AOF) Investments Managed	<u>820,282</u>	<u>181,814</u>	<u>66,627</u>	<u>1,068,723</u>
<b>Total</b>	<b><u>\$ 4,869,472</u></b>	<b><u>\$ 1,553,954</u></b>	<b><u>\$ 36,235,589</u></b>	<b><u>\$ 42,659,015</u></b>

**Fiscal 2009 Management Fees**

<u>Pool</u>	<u>Board</u>	<u>Custodial Bank</u>	<u>External Managers</u>	<u>Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 541,428	\$ 146,928	\$ 270,357	\$ 958,713
Trust Funds Investment Pool (TFIP)	473,556	119,412	-	592,968
Montana Domestic Equity Pool (MDEP)	666,312	521,316	7,647,925	8,835,553
Montana International Equity Pool (MTIP)	652,584	218,497	4,220,452	5,091,533
Montana Private Equity Pool (MPEP)	528,360	74,982	11,763,522	12,366,864
Montana Real Estate Pool (MTRP)	505,608	30,570	7,137,608	7,673,786
Short Term Investment Pool (STIP)	472,740	288,860	-	761,600
All Other Funds (AOF) Investments Managed	<u>873,157</u>	<u>155,520</u>	<u>63,456</u>	<u>1,092,133</u>
<b>Total</b>	<b><u>\$ 4,713,745</u></b>	<b><u>\$ 1,556,085</u></b>	<b><u>\$ 31,103,320</u></b>	<b><u>\$ 37,373,150</u></b>

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**3. INVESTMENT COMMITMENTS**

Investments in private equity and private real estate are usually made via Limited Partnership Agreements that involve many limited partners and a General Partner who is responsible for all investment decisions. The Limited Partners make an original commitment, after which capital is called as needed by the General Partner to make investments. These Agreements will usually last for a minimum of 10 years. The table below shows the remaining Board commitments to private equity funds.

**MPEP Commitments as of June 30, 2010**

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Adams Street	\$ 284,954,433	\$ 34,897,678	\$ 182,334,290	\$ 175,671,370
Affinity Equity Partners	15,000,000	7,964,067	5,850,091	5,004,051
ArcLight	50,000,000	6,871,644	31,747,433	31,894,370
Axiom Asia Private Capital	25,000,000	22,276,431	2,363,809	2,363,809
Black Diamond Capital Management	25,000,000	25,000,000	0	0
Carlyle Partners	60,000,000	9,469,131	44,450,339	47,791,698
CCMP Capital Advisors	30,000,000	12,047,677	16,555,047	15,932,577
Centerbridge Capital	12,500,000	3,750,000	8,722,553	11,370,895
EIF	25,000,000	25,000,000	0	0
First Reserve Corporation	55,485,789	21,330,063	31,854,132	31,577,533
HarbourVest Partners	61,823,772	46,587,114	14,753,518	15,120,310
Hellman & Friedman	40,000,000	21,555,455	17,049,894	19,172,913
Highway 12 Investors	10,000,000	4,504,419	4,656,366	4,269,133
Industry Ventures	10,000,000	595,358	7,342,599	6,719,837
J.C. Flowers & Co	25,000,000	488,309	22,741,578	7,492,582
JLL Partners	25,000,000	2,726,008	19,479,038	21,408,047
Lexington Capital Partners	140,000,000	46,900,781	40,344,080	51,267,886
Madison Dearborn	75,000,000	22,937,227	42,699,977	42,340,850
MatlinPatterson Global Advisers	30,000,000	7,166,144	19,514,207	18,926,907
MHR Institutional Investors	25,000,000	9,110,787	14,719,539	11,965,719
Montlake	15,000,000	7,350,000	7,650,000	6,139,087
NB Co-investment Partners	35,000,000	8,479,860	19,031,014	18,762,887
Oak Hill Capital Partners	45,000,000	9,949,715	33,859,691	35,560,057
Oaktree	45,000,000	10,750,000	33,140,104	47,045,144
Odyssey	45,000,000	15,622,724	22,079,994	22,942,539
Opus Capital	10,000,000	10,000,000	0	0
Performance Equity Management	25,000,000	21,967,866	2,520,319	2,397,232
Portfolio Advisors	70,000,000	33,790,256	33,823,441	32,390,607
Quintana Energy Partners	15,000,000	2,598,705	11,708,147	10,965,054
Siguler Guff	25,000,000	11,476,103	13,326,750	12,215,939
TA Associates	10,000,000	10,000,000	0	0
Terra Firma Capital Partners	25,432,997	8,117,134	15,328,240	4,483,918
Trilantic Capital Partners	11,098,351	6,007,572	4,408,920	4,887,037
Veritas Capital	25,000,000	25,000,000	0	0
Welsh Carson	<u>75,000,000</u>	<u>12,000,000</u>	<u>44,292,783</u>	<u>52,950,886</u>
<b>Total MPEP Commitments</b>	<b><u>\$ 1,501,295,342</u></b>	<b><u>\$ 524,288,228</u></b>	<b><u>\$ 768,347,893</u></b>	<b><u>\$ 771,030,874</u></b>

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The table below shows the remaining Board commitments to private real estate funds.

**MTRP Commitments as of June 30, 2010**

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Angelo Gordon	\$ 40,000,000	\$ 15,410,000	\$ 25,156,323	\$ 20,879,832
Beacon Capital Partners	25,000,000	6,500,000	18,500,000	6,284,043
Carlyle	29,920,000	18,511,477	10,883,981	5,819,362
CIM Fund	25,000,000	19,757,216	5,242,784	3,653,769
DRA Advisors	35,000,000	17,028,146	17,971,854	13,825,388
Gem Realty LP	15,000,000	13,200,000	1,462,500	1,462,500
Jer Real Estate Partners	20,000,000	4,365,109	15,311,878	7,442,798
Liquid Realty	22,013,732	3,041,928	15,897,097	11,078,878
Macquarie Global Property	30,000,000	13,931,566	15,358,586	6,222,976
Oconnor North American	15,000,000	5,309,660	8,954,659	2,889,275
TA Associates Realty IX	20,000,000	12,000,000	8,000,000	7,672,176
Rothschild Realty	30,000,000	23,271,212	6,277,175	6,579,748
<b>Total MTRP Commitments</b>	<b><u>\$ 306,933,732</u></b>	<b><u>\$ 152,326,314</u></b>	<b><u>\$ 149,016,837</u></b>	<b><u>\$ 93,810,745</u></b>

#### 4. TYPES OF INVESTMENTS

**Bond Pools and AOF Investments** – The RFBP, TFIP and AOF fixed income portfolios include corporate and foreign government bonds; U.S. government direct obligations and U.S. government agency securities; and cash equivalents. U.S. government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. government. U.S. government agency securities include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. In May 2009, the Board approved a staff recommendation to diversify income sources within the TFIP providing investment in a high yield bond fund and core real estate funds.

**Public Equity Pools** -The public equity Pools may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR), equity derivatives, and commingled funds. Common stock represents ownership units (shares) of a public corporation. Common stock owners may vote on director selection and other important matters and receive dividends if the company pays dividends. Equity index investments are comprised of shares in institutional commingled funds with equity portfolios that match a broad based index or specific industry composite. Preferred stocks pay dividends at a specified rate and have preference in the payment of dividends and liquidation of assets. Preferred stock holders do not usually have voting rights.

Convertible securities permit the holder to exchange, or “convert” the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer’s common stock. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives, such as futures and options, “derive” their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together, to reduce management and administration costs. The investor buys shares in the fund.

The MDEP portfolio is limited to domestic stock or ADR investments, while the MTIP portfolio may include holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. The MTIP portfolio invests in both developed and emerging markets.

**Alternative Investment Pools** - The Montana Private Equity Pool (MPEP) may include venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. These investments are made via Limited Partnership Agreements in which the Board and other institutional investors invest as Limited Partners in funds managed by a General Partner. These investments are riskier with higher potential return than public equity investments and are less liquid because the funds are usually committed for at least 10 years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only. The MPEP invests its cash in the State Street SPIFF (Stock Performance Index Futures Fund).

The Montana Real Estate Pool (MTRP) includes investments in private core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk and return and are less liquid than core investments. These investments are usually made through Limited Partnership Agreements. The MTRP invests its cash in STIP.

**STIP** –This Pool is managed to preserve principal, while obtaining money market type returns and 24-hour liquidity. Funds may be invested for one or more days. Although it is not registered with the Securities and Exchange Commission (SEC) as an investment company, STIP is managed consistent with the SEC rule 2a7 of the Investment Company Act of 1940. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The portfolio may include asset-backed securities, commercial paper, corporate, U.S. government direct obligations, U.S. government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they have rate reset dates. The portfolio is carried at amortized cost or book value with a constant unit value of \$1.00.

Asset-backed securities are debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities reset to LIBOR (London Interbank Offered Rate).

**AOF** - In addition to fixed income investments, the AOF portfolio includes an equity index fund, real estate buildings, commercial loans and residential mortgages. Equity index investments are investments in institutional commingled funds whose equity portfolios match a broad based index or composite.

The AOF Montana mortgages and loans receivable represent residential mortgages and commercial loans funded by the Public Employees' and Teachers' pension funds and the Coal Severance Tax Trust fund. The Coal Severance Tax Trust loan portfolio includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTa Board was abolished on July 1, 1999 and the MSTa portfolio was assigned to the Board. (See Note 10) for the Montana mortgages and loans portfolio. There are no uncollectible account balances for Montana mortgages and loans receivable as of June 30, 2010 and 2009.

## 5. SECURITIES LENDING

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust "the Bank", to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board and the bank split the earnings on security lending activities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2010 and 2009, the custodial bank lent Board public securities and received as collateral: U.S. dollar cash; U.S. government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2010 and 2009. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower (other than the default by Lehman Brothers Inc. which occurred in September 2008 and the Board was made whole in the process). There were no losses resulting from a borrower default.

During fiscal years 2010 and 2009, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool. The Securities Lending Quality Trust has a weighted average maturity of 20 and 31 days, respectively, as of June 30, 2010 and 2009. The Quality D Trust had an average duration of 30 days and 43 days, respectively, as of June 30, 2010 and 2009. The relationship between the average

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maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end 2010 and 2009, the Board had no credit risk exposure to borrowers because the collateral pledged by the borrowers exceeded the value of the securities borrowed. The private equity and real estate Pools do not participate in securities lending. The Pool and AOF securities on loan, at fair value, and the collateral pledged are shown below.

<u>Pool/AOF</u>	June 30, 2010			
	<u>Fair Value On Loan</u>	<u>Collateral Cash</u>	<u>Collateral Securities</u>	<u>Collateral Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 526,605,995	\$ 205,756,303	\$ 331,690,711	\$ 537,447,014
Trust Funds Investment Pool (TFIP)	510,925,163	100,913,178	420,274,726	521,187,904
Montana Domestic Equity Pool (MDEP)	192,225,421	196,121,663	3,529,113	199,650,776
Montana International Equity Pool (MTIP)	35,652,367	19,232,333	18,526,416	37,758,749
Short Term Investment Pool (STIP)	209,844,785	86,635,985	127,531,250	214,167,235
AOF Investments Managed	423,151,915	205,393,640	226,197,964	431,591,604
<b>Total</b>	<b><u>\$ 1,898,405,646</u></b>	<b><u>\$ 814,053,102</u></b>	<b><u>\$ 1,127,750,180</u></b>	<b><u>\$ 1,941,803,282</u></b>

<u>Pool/AOF</u>	June 30, 2009			
	<u>Fair Value On Loan</u>	<u>Collateral Cash</u>	<u>Collateral Securities</u>	<u>Collateral Total</u>
Retirement Funds Bond Pool (RFBP)	\$ 599,522,116	\$ 313,453,011	\$ 299,510,661	\$ 612,963,672
Trust Funds Investment Pool (TFIP)	571,971,070	296,273,391	288,554,755	584,828,146
Montana Domestic Equity Pool (MDEP)	166,222,056	167,431,181	3,863,114	171,294,295
Montana International Equity Pool (MTIP)	65,213,389	63,303,243	5,881,313	69,184,556
Short Term Investment Pool (STIP)	694,243,673	151,016,485	557,737,295	708,753,780
AOF Investments Managed	383,273,644	209,254,190	181,932,110	391,186,300
<b>Total</b>	<b><u>\$ 2,480,445,948</u></b>	<b><u>\$ 1,200,731,501</u></b>	<b><u>\$ 1,337,479,248</u></b>	<b><u>\$ 2,538,210,749</u></b>

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Securities lending income and expenses are shown below.

<u>Pool/AOF</u>	<u>Fiscal Year 2010</u>		
	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,282,489	\$ 883,491	\$ 1,398,998
Trust Funds Investment Pool (TFIP)	1,507,658	597,516	910,142
Montana Domestic Equity Pool (MDEP)	586,612	102,657	483,955
Montana International Equity Pool (MTIP)	359,535	(87,805)	447,340
Short Term Investment Pool (STIP)	1,008,539	340,884	667,655
AOF Investments Managed	1,120,679	437,892	682,787
<b>Total</b>	<b>\$ 6,865,512</b>	<b>\$ 2,274,635</b>	<b>\$ 4,590,877</b>

<u>Pool/AOF</u>	<u>Fiscal Year 2009</u>		
	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$ 4,978,874	\$ 2,108,769	\$ 2,870,105
Trust Funds Investment Pool (TFIP)	4,173,161	1,723,979	2,449,182
Montana Domestic Equity Pool (MDEP)	4,136,857	2,166,856	1,970,001
Montana International Equity Pool (MTIP)	1,723,900	523,151	1,200,749
Short Term Investment Pool (STIP)	4,555,947	1,531,248	3,024,699
AOF Investments Managed	4,282,913	1,895,317	2,387,596
<b>Total</b>	<b>\$ 23,851,652</b>	<b>\$ 9,949,320</b>	<b>\$ 13,902,332</b>

## 6. INVESTMENT RISK DISCLOSURES AND DERIVATIVES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

**Credit Risk** - Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the RFBP, TFIP and AOF fixed income instruments have credit risk as measured by major credit rating services. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal. The Board of Investments' policy requires RFBP, TFIP and AOF fixed income investments, at the time of purchase, to be rated investment grade as defined by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the tables below are provided by the S&P rating service. If an S&P rating is not available, a Moody's rating has been used.

**Custodial Credit Risk** - Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2010 and 2009, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The Equity Index, US Bank repurchase agreement, Real Estate, Mortgage and Loan investments were purchased and recorded in the Board's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

The RFBP had concentration of credit risk exposure to the Federal National Mortgage Association (Fannie Mae) of 15.46% as of June 30, 2010 and 16.06% as of June 30, 2009. The TFIP had concentration of credit risk exposure to the same issuer of 17.98% as of June 30, 2010 and 22.63% as of June 30, 2009. The RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp. (FHLMC-Freddie Mac) of 10.24% as of June 30, 2010 and 13.44%



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as of June 30, 2009. The TFIP had concentration of credit risk exposure to FHLMC of 8.76% as of June 30, 2010 and 13.60% as of June 30, 2009.

With the exception of one fund, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent per private issuer name and 6 percent per triple-A rated issues of government entities. The policy, revised in May 2010, states, "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name." Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

**MDEP** - As of June 30, 2010 and 2009, there were no single issuer investments that exceeded 5% of the MDEP portfolio.

**STIP** - The STIP had concentration of credit risk exposure to the Federal Home Loan Bank of 5.56%, Federal National Mortgage Association (Fannie Mae) of 6.67 % and the Federal Home Loan Mortgage Corp. (Freddie Mac) of 10.00% as of June 30, 2010. The STIP had concentration of credit risk exposure to the Federal Home Loan Bank of 10.04%, Federal National Mortgage Association (Fannie Mae) of 8.67% and the Federal Home Loan Mortgage Corp. (Freddie Mac) of 8.69% as of June 30, 2009.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of the June 30, 2010 exchange date, the MPEP, MTRP, MTIP and RFBP U.S. dollar equivalent cash and equity positions, by currency, are reported, at fair value, in the tables below.

**MPEP and MTRP Investment by Foreign Currency**

<u>Currency</u>	<u>Fund Manager Name</u>	<u>2010</u>		<u>2009</u>	
		<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
EURO	Terra Firma Fund III	\$ 15,328,240	\$ 4,483,918	\$ 13,886,770	\$ 4,056,428
EURO	HarbourVest Intl Private Equity Fund VI	928,547	854,429	187,381	142,142
EURO	Carlyle Europe Real Estate Partners III	10,883,981	5,819,362	8,844,179	5,768,448
<b>Total MPEP and MTRP</b>		<b>\$ 27,140,768</b>	<b>\$ 11,157,709</b>	<b>\$ 22,918,330</b>	<b>\$ 9,967,018</b>

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**MTIP and RFBP Cash and Securities by Foreign Currency**

<b>Currency</b>	<b>2010</b>		<b>2009</b>	
	<b>Cash</b>	<b>Securities</b>	<b>Cash</b>	<b>Securities</b>
	\$ 189,494	\$ 22,163,322	\$ 483,283	\$ 32,903,810
Brazilian Real	408,222	6,040,055	38,924	5,251,484
Canadian Dollar	242,516	36,309,854	104,101	32,034,694
Czech Koruna	-	-	-	201,470
Danish Krone	50,576	5,122,098	35,544	4,577,923
Euro-Austria		3,410,195		1,655,778
Euro-Belgium		4,261,302		4,782,666
Euro-Finland		3,352,843	-	2,624,200
Euro-France		32,136,967		45,184,925
Euro-Germany		34,583,446		33,401,278
Euro-Greece		560,726		1,872,287
Euro-Ireland		417,869		1,116,947
Euro-Italy		8,258,994		12,035,287
Euro-Luxembourg		101,145		-
Euro-Netherlands		22,708,247		22,729,981
Euro-Portugal		902,948		1,162,378
Euro-Spain		3,284,085		20,969,426
<b>Euro-Subtotal</b>	<b>838,648</b>	<b>113,978,767</b>	<b>2,007,550</b>	<b>147,535,153</b>
Hong Kong Dollar	62,200	23,081,867	232,037	39,976,913
Indonesian Rupiah	10,067	833,762	-	991,352
Hungarian Forint	1,674	-	176	846,555
Israeli Shekel	-	1,289,263	631	478,830
Japanese Yen	670,001	82,072,924	995,437	111,939,135
South Korean Won	542	11,639,891	12,353	13,388,723
Malaysian Ringgit	24,340	4,326,367	66,269	2,306,644
Mexican Peso	38	679,759	37,820	1,028,059
New Zealand Dollar	10		6,783	-
Norwegian Krone	14,587	2,311,402	91,305	5,253,753
Philippine Peso	7,413	271,859	21,022	306,009
Polish Zloty	3,239	399,540	-	975,614
Singapore Dollar	38,337	6,882,576	74,866	8,205,570
South African Rand	377	2,535,653	17,043	3,561,828
Swedish Krona	14,643	5,517,023	93,486	8,897,260
Swiss Franc	39,638	25,562,505	258,297	34,738,383
New Taiwan Dollar	11,807	4,331,306	1,042,486	9,423,341
Thailand Baht	-	2,871,631	21,524	3,075,413
Turkish Lira	934	1,233,288	829	1,403,368
UK Pound Sterling	96,001	74,526,700	86,284	85,236,377
<b>Total Cash and Securities</b>	<b>\$ 2,725,304</b>	<b>\$ 433,981,412</b>	<b>\$ 5,728,050</b>	<b>\$ 554,537,663</b>

For fiscal year 2010, the Securities total includes \$420,761,152 in MTIP equities and \$13,220,260 in RFBP fixed income investments. For fiscal year 2009, the Securities total represented a 100% investment in MTIP equities.

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**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bond Pools’ duration is to remain within a specified range (e.g., plus or minus 20%) of the Index duration. With the exception of one fund, the AOFs’ investment policies do not formally address interest rate risk. This fund’s policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. In accordance with GASB Statement No. 40, the Board uses effective duration as a measure of interest rate risk for the Bond Pool and AOF portfolios. Our analytic software uses “an option-adjusted measure of a bond’s (or portfolio’s) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond’s price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities).”

Asset-backed securities are based on the cash flows from principal and interest payments emanating from a Trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization and quality of collateral.

The Bond Pools and AOF bonds pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2010 and 2009, these portfolios held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR (London Interbank Offered Rate).

As of June 30, 2010, the Bond Pool and AOF portfolio held two Collateralized Debt Obligations (CDO) with a combined par of \$50 million. As of June 30, 2009, these portfolios held five CDOs totaling \$135 million par. A CDO is a structured debt security backed by a portfolio consisting of secured or unsecured bonds issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

Bond Pool and AOF investments are categorized below to disclose credit and interest rate risk as of June 30, 2010 and June 30, 2009. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

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**RFBP Credit Quality Rating and Effective Duration as of June 30, 2010**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 893,711,950	A-	4.92
International Government	13,220,260	AA	4.86
Municipal Government Bonds	98,534	A+	3.16
U.S. Government Direct Obligations	363,443,452	AAA	6.49
U.S. Government Agency	484,277,005	AAA	2.17
U.S. Government Agency (Unrated)	30,504,300	NR	7.93
State Street Short Term Investment Fund (STIF)	90,970,693	NR	0.08
Short Term Investment Pool (STIP)	<u>4,645,437</u>	<u>NR</u>	<u>0.11</u>
Total Fixed Income Investments	<u>\$ 1,880,871,631</u>	<u>AA-</u>	<u>4.08</u>
Securities Lending Collateral Investment Pool	<u>\$ 205,756,303</u>	NR	<u>0.08</u>

**RFBP Credit Quality Rating and Effective Duration as of June 30, 2009**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 801,929,008	A-	4.29
Corporate Bonds (Unrated)	17,277	NR	1.39
U.S. Government Direct Obligations	252,322,011	AAA	5.99
U.S. Government Agency	569,776,106	AAA	3.05
U.S. Government Agency (Unrated)	35,919,192	NR	7.63
State Street Short Term Investment Fund (STIF)	44,565,804	NR	0.15
State Street Repurchase Agreement*	2,721,652	AA-	0.00
Short Term Investment Pool (STIP)	<u>118,747</u>	<u>NR</u>	<u>0.13</u>
Total Fixed Income Investments	<u>\$ 1,707,369,797</u>	<u>AA-</u>	<u>4.08</u>
Securities Lending Collateral Investment Pool	<u>\$ 313,453,011</u>	NR	<u>0.12</u>

\*At June 30, 2009, the State Street Bank repurchase agreement, per contract, was collateralized at 102% for \$2,778,649 by a U.S. Treasury bill maturing October 1, 2009. This security carries a AAA credit rating.

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TFIP Credit Quality Rating and Effective Duration as of June 30, 2010

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Core Real Estate	\$ 53,595,436	NR	NA
Corporate Bonds (Rated)	716,824,177	A+	4.99
High Yield Bond Fund	92,693,523	B+	4.09
Municipal Government Bonds (Rated)	1,104,719	AA	0.08
Municipal Government Bonds (Unrated)	120,328	NR	4.57
U.S. Government Direct Obligations	375,574,304	AAA	5.97
U.S. Government Agency	518,445,550	AAA	2.44
U.S. Government Agency (Unrated)	20,336,200	NR	7.93
Short Term Investment Pool (STIP)	<u>37,559,174</u>	<u>NR</u>	<u>0.11</u>
Total Investments	<u>\$ 1,816,253,411</u>	<u>AA-</u>	<u>4.33</u>
Securities Lending Collateral Investment Pool	<u>\$ 100,913,178</u>	NR	<u>0.05</u>

TFIP Credit Quality Rating and Effective Duration as of June 30, 2009

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 654,270,846	A	3.93
Municipal Government Bonds (Rated)	1,109,845	AA	1.62
Municipal Government Bonds (Unrated)	880,150	NR	4.31
U.S. Government Direct Obligations	304,797,214	AAA	6.53
U.S. Government Agency	614,932,590	AAA	3.24
U.S. Government Agency (Unrated)	31,301,892	NR	6.47
Short Term Investment Pool (STIP)	<u>26,466,678</u>	<u>NR</u>	<u>0.13</u>
Total Investments	<u>\$ 1,633,759,215</u>	<u>AA</u>	<u>4.14</u>
Securities Lending Collateral Investment Pool	<u>\$ 296,273,391</u>	NR	<u>0.08</u>

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AOF Credit Quality Rating and Effective Duration as of June 30, 2010

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 649,781,752	A	3.25
U.S. Government Direct Obligations	195,383,809	AAA	4.67
U.S. Government Agency	379,072,472	AAA	2.83
US Bank Sweep Repurchase Agreement*	11,659,113	NR	0
Total Fixed Income Investments	<u>\$ 1,235,897,146</u>	<u>AA-</u>	<u>3.31</u>
<u>Direct Investments</u>			
Equity Index Fund-Domestic	\$ 106,976,749		
Equity Index Fund-International	<u>3,813,440</u>		
Total Equity Index Funds	110,790,189		
Real Estate	17,345,765		
MT Mortgages and Loans	<u>240,954,759</u>		
Total Direct Investments	<u>\$ 369,090,713</u>		
TOTAL INVESTMENTS	<u>\$ 1,604,987,859</u>		
Securities Lending Collateral Investment Pool	<u>\$ 205,393,640</u>	NR	0.05

\*At June 30, 2010, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$11,892,378 by one Federal Home Loan Mortgage Corporation Gold security maturing December 1, 2029. This security carries a AAA credit quality rating.

AOF Credit Quality Rating and Effective Duration as of June 30, 2009

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 537,914,438	A	3.64
Corporate Bonds (Unrated)	3,000,000	NR	(2.20)
U.S. Government Direct Obligations	120,977,683	AAA	6.20
U.S. Government Agency	398,775,241	AAA	3.32
US Bank Sweep Repurchase Agreement*	<u>15,845,774</u>	NR	0
Total Fixed Income Investments	<u>\$ 1,076,513,136</u>	<u>AA</u>	<u>3.74</u>
<u>Direct Investments</u>			
Equity Index Fund	\$ 81,742,906		
Real Estate	17,294,299		
MT Mortgages and Loans	<u>256,570,896</u>		
Total Direct Investments	<u>\$ 355,608,101</u>		
TOTAL INVESTMENTS	<u>\$ 1,432,121,237</u>		
Securities Lending Collateral Investment Pool	<u>\$ 209,254,190</u>	NR	0.08

\*At June 30, 2009, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$16,162,802 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2018 and November 1, 2035. These securities carry AAA credit quality ratings.

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STIP investments are categorized below to disclose credit risk as of June 30, 2010 and June 30, 2009. Credit risk reflects the security quality rating by investment type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

STIP interest rate risk is determined using the weighted average maturity (WAM) method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months or years – weighted to reflect the dollar size of the individual investments within an investment type. The WAM, calculated in days, for the STIP portfolio is disclosed below. The WAM is not available for the SIV securities.

STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2010

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 368,299,047	A1	17
Corporate Commercial Paper	196,596,245	A1+	31
Corporate Variable Rate	206,328,268	A2	35
Certificates of Deposit Fixed	105,006,272	A3	71
Certificates of Deposit Variable Rate	235,000,000	A2	42
U.S. Government Agency Fixed	100,306,188	A1+	174
U.S. Government Agency Variable Rate	760,102,766	A1+	40
Money Market Funds (Unrated)	181,695,137	NR	1
Money Market Funds (Rated)	10,000,000	A1+	1
Structured Investment Vehicles (SIV)	<u>85,617,544</u>	<u>D</u>	<u>NA</u>
Total Investments	<u>\$ 2,248,951,467</u>	A1	<u>39</u>
Securities Lending Collateral Investment Pool	<u>\$ 86,635,985</u>	NR	<u>20</u>

STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2009

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 299,326,610	A1	23
Corporate Commercial Paper	164,976,250	A1	16
Corporate Fixed	36,474,136	A3	196
Corporate Variable Rate	364,248,333	A3	67
Certificates of Deposit Fixed	25,000,000	A1+	360
Certificates of Deposit Variable Rate	105,000,000	A1	62
U.S. Government Agency Fixed	140,672,204	A1+	73
U.S. Government Agency Variable Rate	750,530,748	A1+	45
Money Market Funds (Unrated)	121,427,621	NR	1
Money Market Funds (Rated)	180,000,000	A1+	1
Structured Investment Vehicles (SIV)	<u>113,625,566</u>	<u>D</u>	<u>NA</u>
Total Investments	<u>\$ 2,301,281,468</u>	A1	<u>46</u>
Securities Lending Collateral Investment Pool	<u>\$ 151,016,485</u>	NR	<u>31</u>

### Legal and Credit Risk

**STIP** - In January 2007, the Board purchased a \$25 million par issue of Orion Finance USA. In April 2007, the Board purchased two issues of Axon Financial Funding totaling \$90 million par and another \$25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of \$139,991,131 representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poors and Aaa by Moody's. Since June 30, 2008, these issues carry a D rating by Standard & Poors. On November 20, 2007, an insolvency event was declared by Axon Financial Funding. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of \$140 million. The Board has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio. These SIV securities are currently generating cash to be applied to the securities.

As of June 30, 2008, \$2,729,889 was attributable to interest accrued to their respective maturity dates for the above securities. On November 14, 2008 and October 14, 2009, the Board received 100% payment of the accrued interest receivable from Axon Financial Funding of \$1,825,967 and Orion Finance USA of \$903,922, respectively.

For fiscal years 2010 and 2009, the Board received Axon Financial Funding payments on principal of \$21,239,711 and interest compensation of \$2,253,590 in excess of the accrued interest receivable. Axon Financial Funding payments totaled \$25,319,268 for the two fiscal years. On October 14, 2009, the Board received its initial payment from Orion Finance USA. Fiscal year 2010 payments from Orion Finance USA included principal of \$12,142,745 and interest compensation of \$1,759,182 in excess of the \$903,922 accrued interest receivable for a total of \$14,805,849. In June and December 2009, the Board applied \$21 million from the STIP reserve to the outstanding principal for the Axon Financial Funding and Orion Finance USA securities. As of June 30, 2010, the Axon Financial Funding and Orion Finance USA outstanding amortized cost balances are \$55,260,289 and \$30,357,255 million, respectively, for a combined SIV total of \$85,617,544. Refer to Note 13 – Subsequent Events for additional information.

**STIP, Bond Pool and AOF** - The Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corp. (Freddie Mac) were put into conservatorship on September 7, 2008.

**Bond Pool and AOF** - On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and AOF portfolios held a \$15 million position in Lehman Brothers Holdings, Inc., 2.778%, 05/25/2010. The AOF portfolio also includes a \$5 million position in Lehman Brothers Holdings, Inc., 5%, 01/14/2011. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. As of June 30, 2010 and 2009, the book value of these bonds represents 20% of par.

On September 26, 2008, Washington Mutual filed for Chapter 11 bankruptcy. The bonds are now in default following the seizure of the bank by the Office of Thrift Supervision on September 25, 2008. The Bond Pool and AOF portfolios held a \$20 million position in Washington Mutual, Inc. 4.2%, 01/15/2010. On September 26, 2008, the Board sold \$10 million par, at a price of \$38, with an October 1, 2008 settlement date. This sale generated a loss of \$6.2 million. As of September 30, 2008, the book value of the remaining \$10 million bond position was written down to 85% of par. On October 20, 2008, the remaining \$10 million position was sold for a realized loss of \$1,684,700.

On October 30, 2008, the book value of the Galena CDO bonds was written down to 70% of par. The Bond Pool and AOF portfolios held a \$25 million position in this security. Due to collateral deterioration, four additional write downs occurred during fiscal year 2009. As of June 30, 2009, the book value of these bonds represents 10% of par. In May 2010, this security was sold a bond price of \$36.

**Bond Pool** - On January 29, 2009, the book value of the Kellwood Inc., 7.625%, 10/15/2017 was written down to 50% of par due to impairment and industry weakness. The RFBP internal bond pool and the TFIP held \$18.55 million par in this security. Two additional write downs occurred in fiscal year 2009 with a June 30, 2009 book value of the bonds at 10% of par as of June 30, 2009. On July 23, 2009, the Board sold \$10 million par at a price of \$19 and the remaining \$8.55 million at a price of \$19.375 with a July 23, 2009 settlement date. This sale generated a combined gain of \$1.7 million.

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Effective June 30, 2010, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53 - **Accounting and Financial Reporting for Derivative Instruments**. The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2010 and 2009, classified by type, are as follows:

<u>Investment Derivatives</u>	<u>Classification</u>	<u>Fair Value at June 30, 2010</u>		<u>Fair Value at June 30, 2009</u>	
		<u>Amount</u>	<u>Notional</u>	<u>Amount</u>	<u>Notional</u>
Foreign currency forwards	Long term debt/equity	\$ 357,976	\$ -	\$ (209,010)	\$ -
Index futures long	Futures	-	6,800	-	3,590
Rights	Equity	-	-	1,027,754	697,779
TBA transactions long	Long term debt	3,013	580,000	28,344	3,610,000
Warrants	Equity	101,145	45,041	284	3,681
Total derivatives		<u>\$ 462,134</u>		<u>\$ 847,372</u>	

The changes in the fair value of such derivative instruments for the years ended June 30, 2010 and 2009, as reported in the financial statements, is detailed below:

<u>Investment Derivatives</u>	<u>Classification</u>	<u>Changes in Fair Value</u>	
		<u>2010 Amount</u>	<u>2009 Amount</u>
Foreign currency forwards	Investment revenue	\$ 1,986,012	\$ 1,786,496
Index futures long	Investment revenue	922,484	(2,331,445)
Rights	Investment revenue	(181,208)	758,715
TBA transactions long	Investment revenue	1,411,857	189,185
Warrants	Investment revenue	(1,247)	51,366
Total derivatives		<u>\$ 4,137,898</u>	<u>\$ 454,317</u>

A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of yearend and is the difference between the execution exchange rate at and the prevailing exchange rate as of the report date. Index futures long is an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price. TBA transactions long refer to "To Be Announced" future government sponsored pools that are bought and sold for future settlement. Warrants are a security type, usually issued together with a bond or preferred stock, entitling the owner to purchase additional securities from the issuer.

**Credit Risk** - Credit risk is the risk that the counterparty will not fulfill its obligations. The table below depicts the Board's credit risk exposure to its investment derivatives.

<u>Maximum Loss before/after Netting and Collateral</u>	<u>2010 Amount</u>	<u>2009 Amount</u>
Maximum amount of loss the Board would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC (Over-the-Counter)	\$ 1,116,279	\$ 162,552
Effect of collateral reducing maximum exposure.	-	-
Liabilities subject to netting arrangements	-	-
Resulting net exposure	<u>\$ 1,116,279</u>	<u>\$ 162,552</u>

This table reflects the applicable counterparty credit ratings for both fiscal years.

<u>Counterparty Name</u>	<u>2010 Percentage of Net Exposure</u>	<u>2009 Percentage of Net Exposure</u>	<u>2010/2009 S&amp;P Rating</u>	<u>2010/2009 Fitch Rating</u>	<u>2010/2009 Moody's Rating</u>
Deutsche Bank London	38%	8%	A+/A+	AA-/AA-	Aa3/Aa1
State Street Bank	31%	70%	AA-/AA-	A+/A+	Aa2/Aa2
JP Morgan Chase Bank	14%	0%	AA-/NA	AA-/NA	Aa1/NA
Credit Suisse London	13%	6%	A+/A+	AA-/AA-	Aa1/Aa1
UBS AG	0%	16%	NA/A+	NA/A+	NA/Aa2



**7. STIP RESERVE**

The STIP Reserve account was established in November 2007. Income is distributed to STIP participants based on accrued interest and discount amortization. To avoid distributing cash to participants based on accrued interest on certain SIVs that may be uncollectible; the accrued interest amount was deposited in this account. Additional accrued income was deposited in the account to pay for any incidental direct expenses incurred as a part of any SIV restructuring activity not to be paid from SIV assets. Accrued income was also deposited in the account to offset any potential principal loss on these securities in the future.

**8. COAL TAX LOAN AND MORTGAGE COMMITMENTS**

The Board makes firm commitments to fund loans from the Coal Severance Tax Trust fund. These commitments have expiration dates and may be extended according to the Board's policies. As of June 30, 2010, the Board had committed but not yet purchased \$28,712,720 in loans from Montana lenders, compared to \$22,760,363 as of June 30, 2009. In addition to the above commitments, lenders had reserved \$24,002,450 for loans as of June 30, 2010, compared to \$26,207,197 on the same date in 2009.

The Board makes reservations to fund mortgages from the Public Employees' and Teachers' retirement funds. As of June 30, 2010, there were no mortgage reservations. As of June 30, 2009, mortgage reservations totaled \$214,625. Effective December 1, 2005, all Board residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

**9. PENSION FUND REAL ESTATE INVESTMENTS**

**100 North Park Building**

In January 1996, the Board, purchased for the Public Employees' and Teachers' Retirement funds portfolios, the 100 North Park Avenue Building in Helena, Montana as a real estate investment. Acquired for a cost of \$4,864,326, the building carries a fair value of \$6,587,747 as of June 30, 2010. In fiscal year 2010, there were no improvements made to this building. Building improvements for build-outs, heating/cooling, and lease changes totaling \$1,392 were added to the cost of the building in fiscal year 2009. The three-story building provides office space for six tenants.

**2401 Colonial Drive Building**

In August 1997, the Board authorized the construction of an office building as a real estate investment in the Public Employees' and Teachers' Retirement funds portfolios. Construction costs, including interest capitalization, totaled \$6,481,741 as of June 30, 2000. For fiscal year 2010, \$10,412 was capitalized for building improvements and remodeling. In fiscal year 2009, Cupola updates and heating/cooling system improvements of \$14,638 were added to the building cost. The three-story building, providing office space for three tenants, was occupied in November 1999. As of June 30, 2010, the building carries a cost and fair value of \$7,260,992 and \$7,793,732, respectively.

**2273 Boot Hill Court Building**

In August 1999, the Board authorized the purchase of a new office building in Bozeman, Montana. Upon building completion, the Board purchased the building for the Public Employees' and Teachers' Retirement funds portfolios in March 2004, for \$2,051,032. For fiscal year 2010, \$35,713 was capitalized for a steel porch canopy. In fiscal year 2009 there were no improvements made to this building. The building, located on state school trust land, is occupied by four state agencies. As of June 30, 2010, the building carries a fair value of \$2,159,367.

**1712 Ninth Avenue Building**

In November 2000, the Land Board authorized the transfer of the Public Employees' Retirement Administration (PERA) office building, located at 1712 Ninth Avenue, Helena, to the Board. By issuance of a corrective deed, the Board was named owner and building manager for the use and benefit of the PERA. In fiscal years 2010 and 2009, there were no improvements made to this building. As of June 30, 2010, the building, occupied by one tenant, is valued at \$579,626.

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The schedule below details the minimum future rentals for the above buildings with non-cancelable operating leases as of June 30, 2010 and 2009:

**Minimum future rentals for the year ending June 30, 2010:**

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016+</u>	<u>Total</u>
\$599,879	\$563,081	\$440,311	\$54,692	\$36,461	0	\$1,694,424

**Minimum future rentals for the year ending June 30, 2009:**

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015+</u>	<u>Total</u>
\$403,482	\$285,905	\$258,743	\$219,189	0	0	\$1,167,319

**California Street Property**

In December 1998, the Board acquired a parcel of land adjacent to the Colonial Drive building for the Public Employees' and Teachers' Retirement funds portfolios to provide for additional parking. This land was purchased for \$204,835. For fiscal years 2010 and 2009, there were no improvements made to this property. As of June 30, 2010 the property carries a fair value of \$225,294.

**10. MONTANA MORTGAGES AND LOANS**

The Montana mortgages and loans portfolio is shown below.

<u>Montana Mortgages and Loans</u>	<u>2010 Carrying Value</u>	<u>2009 Carrying Value</u>
<b>Residential Mortgages</b>	<b>\$ 35,778,065</b>	<b>\$ 45,270,143</b>
Science and Technology Alliance <sup>(1)</sup>	3,780,330	3,812,268
Montana University System	8,555,803	8,640,027
Department of Justice	373,010	373,010
Montana Facility Finance	8,742,035	6,821,687
Local Government Infrastructure	24,530,673	20,591,953
Value-added Loans	8,002,834	13,538,774
Commercial Loans	<u>151,442,840</u>	<u>158,245,959</u>
<b>Permanent Coal Trust Loans</b>	<b>205,427,525</b>	<b>212,023,678</b>
<b>Total Montana Mortgages and Loans</b>	<b>\$ 241,205,590</b>	<b>\$ 257,293,821</b>

(1) The Montana Science and Technology Alliance (MSTA) loans include funding for research and development, mezzanine and seed capital loans.

**11. LOAN GUARANTEES**

As of June 30, 2010, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total \$197,444,677. Board exposure to bond issues of the Enterprise Fund is \$96,325,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$101,119,677.

As of June 30, 2009, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total \$198,465,022. Board exposure to bond issues of the Enterprise Fund is \$88,920,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$109,545,022.

**12. POOL RESTRUCTURE**

In September 2009, the Board completed a restructure of the Montana International Equity Pool (MTIP) by funding the Barclays Global Investors ACWI ex US Index Superfund A approximately \$295 million in cash and securities by terminating two external managers, closing one fund and downsizing three external managers. In the same month, the Board transitioned approximately \$135 million in cash and securities to the State Street SPIFF (Stock Performance Index Futures Fund), T. Rowe Price, Artisan Partners, TimesSquare Capital Management and Vaughan Nelson

Investment Management by closing a commingled account and reducing the portfolios for two existing managers.

In September 2010, the Board completed a MDEP transition for approximately \$257 million by terminating four active managers and funding three passive managers.

### 13. SUBSEQUENT EVENTS

On July 6, 2010, the Board received an Axon Financial Funding payment of \$1,963,523 representing \$1,927,853 in principal and interest compensation of \$35,670 in excess of the accrued interest receivable. Subsequent to this payment, Axon Financial Funding foreclosed with the issuance of a July 6, 2010 promissory note for \$66,832,436 from AFF Financing LLC. On August 27, 2010, the Board received \$168,824 from Axon Financial Funding reserves. A payment of \$498,605 representing \$480,598 in principal and \$18,007 in interest was received from AFF Financing LLC on September 8, 2010. On October 7, 2010, AFF Financing LLC paid \$525,509 in principal and \$13,714 in interest for a total payment of \$539,223. AFF Financing LLC paid \$628,665, on November 5, 2010, representing \$615,109 and \$13,556 in principal and interest, respectively.

On September 28, 2010, the Board received an Orion Finance USA payment of \$1,336,453 representing \$1,290,897 in principal and \$45,556 in interest compensation.

Refer to Note 6 – Investment Risk Disclosures, page A-25 for additional information.

### 14. RESTATEMENT

The 2009 Unrealized Foreign Exchange Gain/Loss of \$133,099 has been restated as \$(75,911) to report foreign currency forwards of \$(209,010). The change results in the reporting of the 2009 Total Assets from \$12,458,460,669 to \$12,458,251,659 and the 2009 Total Liabilities from \$1,275,903,009 to \$1,275,693,999. Due to reversing the 2009 weighted average maturity, in days, for the Securities Lending Quality Trust and Quality D Securities Lending Collateral Investment Pools, the effective duration for the RFBP has been restated from .08 to .12 while the effective duration for the TFIP and AOF has been restated from .12 to .08. The STIP Securities Lending Collateral Investment Pool effective duration is restated from 43 days to 31 days.

### 15. YEAREND PORTFOLIOS

The June 30, 2010 portfolios of the Pools by Manager and AOF are listed below and on the following pages. The percentage is based on the fair value by manager or AOF security to the total portfolio. Portfolios, detailed by security and investment type, are electronically accessible via links noted on the following annual report pages:

#### RFBP    TFIP    MDEP    MTIP    MPEP    MTRP    STIP    AOF

#### RETIREMENT FUNDS BOND POOL (RFBP) BY MANAGER

<u>Manager</u>	<u>Shares</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
CORE INTERNAL BOND PORTFOLIO - 189 Issues	1,364,502,563	1,365,114,670	1,402,372,667	74.56%
REAMS ASSET MANAGEMENT - 118 Issues	217,555,717	210,141,908	216,255,345	11.50%
ARTIO GLOBAL MANAGEMENT - 161 Issues	99,624,208	100,350,075	102,771,817	5.46%
NEUBERGER BERMAN - 189 Issues	103,896,613	99,904,779	99,854,553	5.31%
POST ADVISORY GROUP - 133 Issues	56,493,200	53,475,387	54,971,812	2.92%
SHORT TERM INVESTMENT POOL - 1 Issue	4,645,437	4,645,437	4,645,437	0.25%
<b>RFBP Total - 791 Issues</b>	<b>1,846,717,738</b>	<b>1,833,632,256</b>	<b>1,880,871,631</b>	<b>100.00%</b>

#### TRUST FUNDS INVESTMENT POOL (TFIP) BY MANAGER

<u>Manager</u>	<u>Shares</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
CORE INTERNAL BOND PORTFOLIO - 241 Issues	1,783,421,500	1,604,964,386	1,669,964,452	91.95%
POST TRADITIONAL HIGH YIELD FUND - 1 Issue	90,000,000	90,000,000	92,693,523	5.10%
AMERICAN CORE REALTY FUND LLC - 1 Issue	422	34,000,000	33,739,573	1.86%
TIAA CREF ASSET MANAGEMENT - 1 Issue	55,022	20,000,000	19,855,863	1.09%
<b>TFIP Total - 244 Issues</b>	<b>1,873,476,944</b>	<b>1,748,964,386</b>	<b>1,816,253,411</b>	<b>100.00%</b>

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**MONTANA DOMESTIC EQUITY POOL (MDEP) BY MANAGER**

<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BLACKROCK EQUITY INDEX FUND	1,088,864	327,461,132	341,625,636	15.49%
BLACKROCK MIDCAP EQUITY IND FD	1,012,682	17,801,133	19,267,498	0.87%
DIMENSIONAL FUND ADVISORS INC	52,279	35,190,238	51,423,091	2.33%
STATE STREET SPIF ALT INV	112,597	17,835,092	16,425,083	0.74%
WESTERN ASSET US INDX PLUS LLC	12,697,962	192,745,764	117,126,006	5.31%
<b>Total Commingled Accounts</b>	<b>14,964,385</b>	<b>591,033,359</b>	<b>545,867,313</b>	<b>24.75%</b>
JP MORGAN INVESTMENTS - 252 Issues	8,795,211	263,228,647	254,051,746	11.52%
T ROWE PRICE - 295 Issues	8,645,272	246,766,853	231,679,731	10.50%
BARROW HANLEY MEWHINNEY - 92 Issues	6,808,612	188,174,537	156,472,254	7.09%
INTECH - 380 Issues	5,409,876	150,018,282	143,477,866	6.50%
COLUMBUS CIRCLE - 49 Issues	8,413,890	104,427,399	113,665,352	5.15%
RAINIER INVESTMENTS - 77 Issues	5,835,332	109,106,282	109,010,216	4.94%
QUANTITATIVE MANAGEMENT - 154 Issues	4,811,921	131,722,247	98,525,717	4.47%
RENAISSANCE INVESTMENTS - 56 Issues	3,070,880	90,949,080	91,296,960	4.14%
ANALYTICS INVESTMENTS - 200 Issues	3,425,937	93,092,163	88,288,870	4.00%
ARTISAN - 56 Issues	6,795,945	87,376,779	83,288,753	3.78%
TIMESSQUARE - 72 Issues	5,408,980	80,009,213	82,478,388	3.74%
MARTINGALE - 133 Issues	3,099,260	61,145,858	61,801,589	2.80%
MARTINGALE INVESTMENTS - 241 Issues	2,083,150	62,687,616	59,197,295	2.68%
VAUGHAN NELSON - 80 Issues	5,150,142	54,164,625	55,219,118	2.50%
NORTHPOINTE - 75 Issues	3,640,554	33,605,008	31,628,671	1.43%
<b>Total Manager Accounts</b>	<b>81,394,962</b>	<b>1,756,474,590</b>	<b>1,660,082,526</b>	<b>75.25%</b>
<b>MDEP Total - 2217 Issues</b>	<b>96,359,347</b>	<b>2,347,507,949</b>	<b>2,205,949,840</b>	<b>100.00%</b>

**MONTANA INTERNATIONAL EQUITY POOL (MTIP) BY MANAGER**

<u>Manager</u>	<u>Shares</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
BLACKROCK ACWI EX US SUPERFUND	23,694,660	381,612,138	380,523,563	34.83%
BLACKROCK GL EX US ALPHA TILT	4,994,700	100,126,273	87,550,613	8.01%
DFA INTL SMALL CO PORTFOLIO	4,007,326	60,564,305	53,056,998	4.86%
EAFE STOCK PERFORMANCE INDEX	2,135,589	45,497,466	42,891,177	3.93%
<b>Total Commingled Accounts</b>	<b>34,832,275</b>	<b>587,800,182</b>	<b>564,022,351</b>	<b>51.63%</b>
ARTIO GLOBAL - 187 Issues	8,748,925	100,864,324	98,511,634	9.02%
BATTERYMARCH - 222 Issues	17,388,301	100,337,819	95,292,508	8.72%
BERNSTEIN - 118 Issues	18,519,118	102,993,651	90,837,116	8.32%
HANSBERGER - 65 Issues	8,152,729	85,125,268	87,998,464	8.06%
MARTIN CURRIE - 56 Issues	15,422,902	84,659,165	82,586,636	7.55%
ACADIAN - 298 Issues	32,192,386	76,710,416	73,182,259	6.70%
PRINCIPAL - 1 Issue	4,851	4,851	4,851	0.00%
<b>Total Manager Accounts</b>	<b>100,429,212</b>	<b>550,695,494</b>	<b>528,413,468</b>	<b>48.37%</b>
<b>MTIP Total - 951 Issues</b>	<b>135,261,487</b>	<b>1,138,495,676</b>	<b>1,092,435,819</b>	<b>100.00%</b>

STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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**MONTANA PRIVATE EQUITY POOL (MPEP) BY MANAGER**

<b><u>Fund Manager/Public Stock Name</u></b>	<b><u>Shares</u></b>	<b><u>Carrying Value</u></b>	<b><u>Fair Value</u></b>	<b><u>%</u></b>
ADAMS STREET	192,106,275	192,309,211	185,515,068	21.70%
WELSH CARSON	44,292,783	44,292,783	52,950,886	6.19%
LEXINGTON	40,344,080	40,344,080	51,267,886	6.00%
CARLYLE	44,450,339	44,450,339	47,791,698	5.59%
OAK TREE	33,140,105	33,140,105	47,045,144	5.50%
MADISON DEARBORN	42,699,977	42,699,977	42,340,850	4.95%
AVENUE CAPITAL	32,598,771	32,598,771	41,055,772	4.80%
OAK HILL	33,859,691	33,859,691	35,560,056	4.16%
PORTFOLIO ADVISORS	33,823,441	33,823,441	32,390,607	3.79%
ARCLIGHT	31,747,433	31,747,433	31,894,370	3.73%
FIRST RESERVE	31,854,132	31,854,132	31,577,533	3.69%
KKR	25,551,709	25,551,709	24,900,598	2.91%
ODYSSEY INVESTMENTS	22,079,994	22,079,994	22,942,539	2.68%
JLL PARTNERS	19,479,038	19,479,038	21,408,047	2.50%
HELLMAN FRIEDMAN	17,049,894	17,049,894	19,172,913	2.24%
MATLIN PATTERSON	19,514,207	19,514,207	18,926,907	2.21%
NB COINVEST	19,031,015	19,031,014	18,762,887	2.19%
CCMP	16,555,047	16,555,047	15,932,577	1.86%
HARBOUR VEST	14,488,349	14,753,518	15,120,310	1.77%
SIGULER GUFF	13,326,750	13,326,750	12,215,939	1.43%
MHR INSTITUTIONAL	14,719,539	14,719,539	11,965,719	1.40%
CENTERBRIDGE	8,722,553	8,722,553	11,370,894	1.33%
QUINTANA ENERGY	11,708,147	11,708,147	10,965,054	1.28%
J.C. FLOWERS	22,741,662	22,741,578	7,492,582	0.88%
INDUSTRY VENTURES	7,342,599	7,342,599	6,719,837	0.79%
MONTLAKE	7,650,000	7,650,000	6,139,087	0.72%
STATE STREET	41,706	6,522,824	6,083,930	0.71%
AFFINITY	5,850,091	5,850,091	5,004,051	0.59%
TRILANTIC CAPITAL PARTNERS	4,408,920	4,408,920	4,887,037	0.57%
TERRA FIRMA	10,892,750	15,328,240	4,483,918	0.52%
HIGHWAY 12 VENTURES	4,656,366	4,656,366	4,269,133	0.50%
PERFORMANCE EQUITY MANAGEMENT	2,520,319	2,520,319	2,397,232	0.28%
AXIOM	2,363,809	2,363,809	2,363,809	0.28%
<b>Fund Manager</b>	<b>831,611,491</b>	<b>842,996,119</b>	<b>852,914,870</b>	<b>99.78%</b>
ANCESTRY.COM INC	100,197	1,823,585	1,765,471	0.21%
AGA MEDICAL HOLDINGS INC	11,960	192,795	151,772	0.02%
<b>Public Stock</b>	<b>112,157</b>	<b>2,016,380</b>	<b>1,917,243</b>	<b>0.22%</b>
<b>MPEP Total</b>	<b>831,723,648</b>	<b>845,012,499</b>	<b>854,832,113</b>	<b>100.00%</b>

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STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

**REAL ESTATE POOL (MTRP) BY MANAGER**

<b><u>Fund Manager Name</u></b>	<b><u>Shares</u></b>	<b><u>Carrying Value</u></b>	<b><u>Fair Value</u></b>	<b><u>%</u></b>
JP MORGAN	60,446	92,733,562	78,021,757	22.03%
INVESCO REAL ESTATE	309	45,000,000	28,195,926	7.96%
SHORT TERM INVESTMENT POOL	26,782,869	26,782,869	26,782,869	7.56%
CLARION LION PROPERTIES	31,957	45,000,000	23,410,940	6.61%
TA ASSOCIATES REALTY	28,000,000	28,000,000	20,895,036	5.90%
ANGELO GORDON	25,156,323	25,156,323	20,879,832	5.90%
UBS REALTY INVESTORS LLC	3,057	20,000,000	20,381,100	5.75%
HUDSON REALTY CAPITAL	25,000,000	25,000,000	19,902,095	5.62%
ABR CHESAPEAKE	19,313,352	19,313,352	18,067,718	5.10%
AREA PROPERTY PARTNERS	20,000	20,000,000	17,667,861	4.99%
DRA ADVISORS	17,971,854	17,971,854	13,825,388	3.90%
LIQUID REALTY	15,897,097	15,897,097	11,078,878	3.13%
STRATEGIC PARTNERS	17,834,306	17,834,306	10,217,827	2.88%
JER REAL ESTATE PARTNERS	15,311,878	15,311,878	7,442,798	2.10%
ROTHSCHILD REALTY	6,277,175	6,277,175	6,579,748	1.86%
BEACON CAPITAL PARTNERS	18,500,000	18,500,000	6,284,043	1.77%
MACQUARIE GLOBAL PROPERTY	15,358,586	15,358,586	6,222,976	1.76%
CARLYLE	7,085,651	10,883,981	5,819,362	1.64%
MORGAN STANLEY REAL ESTATE	27,536,302	27,536,302	4,508,849	1.27%
CIM FUND	5,242,784	5,242,784	3,653,769	1.03%
OCONNOR NORTH AMERICAN	8,954,659	8,954,659	2,889,275	0.82%
GEM REALTY LP	1,462,500	1,462,500	1,462,500	0.41%
<b>MTRP Total</b>	<b>281,801,105</b>	<b>508,217,228</b>	<b>354,190,547</b>	<b>100.00%</b>

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STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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**ALL OTHER FUNDS**

<b><u>Security Name</u></b>	<b><u>Coupon</u></b>	<b><u>Maturity</u></b>	<b><u>Par</u></b>	<b><u>Amortized Cost</u></b>	<b><u>Fair Value</u></b>	<b><u>%</u></b>
US BANK SWEEP REPO	NA	NA	11,659,113	11,659,113	11,659,113	0.73%
<b>Cash Equivalents</b>			<b>11,659,113</b>	<b>11,659,113</b>	<b>11,659,113</b>	<b>0.73%</b>
AA / FT WORTH HQ FIN TR	5.500	10/05/10	569,569	569,569	569,199	0.04%
AT+T INC	5.800	02/15/19	5,000,000	4,986,627	5,629,859	0.35%
ABBOTT LABS	5.125	04/01/19	5,000,000	4,976,953	5,566,319	0.35%
ALCOA INC	6.500	06/01/11	3,000,000	2,970,324	3,075,000	0.19%
ALLSTATE LIFE GBL FDG SECD	5.375	04/30/13	5,000,000	4,997,169	5,470,964	0.34%
ALTRIA GROUP INC	9.700	11/10/18	5,000,000	5,012,092	6,324,695	0.39%
AMERICAN ELEC PWR INC	5.250	06/01/15	5,000,000	5,358,814	5,517,421	0.34%
AMERICAN EXPRESS CO	5.500	09/12/16	5,000,000	4,984,220	5,322,067	0.33%
AMERICAN EXPRESS CO	7.000	03/19/18	3,000,000	2,991,134	3,430,825	0.21%
AMERICAN EXPRESS CR CORP	7.300	08/20/13	5,000,000	5,002,071	5,680,791	0.35%
ANHEUSER BUSCH INBEV WOR	3.625	04/15/15	3,000,000	2,994,221	3,063,361	0.19%
ARIA CDO II JERSEY NO 1 LTD	1.000	10/10/12	10,000,000	10,000,000	7,500,000	0.47%
B J SERVICES	5.750	06/01/11	5,000,000	4,998,794	5,217,800	0.33%
BANC AMER COML MTG INC COML	5.381	01/15/49	5,000,000	5,007,499	5,114,266	0.32%
BANC AMER COML MTG TR 2007 2	5.634	04/10/49	5,000,000	5,008,950	5,122,250	0.32%
BANC AMER COML MTG TR	5.434	02/10/51	10,000,000	10,026,976	10,295,028	0.64%
BANK AMER CORP	5.375	06/15/14	5,000,000	4,981,893	5,222,080	0.33%
BANK AMER CORP MEDIUM TERM	2.100	04/30/12	17,000,000	16,992,470	17,430,239	1.09%
BANK OF AMERICA CORP	4.500	04/01/15	5,000,000	5,009,259	5,053,825	0.31%
BANK OF AMERICA NA FDIC GTD	1.700	12/23/10	750,000	750,208	754,861	0.05%
BANK OF NOVA SCOTIA	3.400	01/22/15	5,000,000	4,994,161	5,150,117	0.32%
BERKSHIRE HATHAWAY FIN	0.423	01/13/12	11,000,000	10,995,910	10,999,049	0.69%
BERKSHIRE HATHAWAY INC	2.125	02/11/13	10,000,000	9,996,947	10,136,739	0.63%
BLACKROCK INC	2.250	12/10/12	5,000,000	5,006,118	5,092,818	0.32%
BOEING CO	1.875	11/20/12	1,000,000	995,229	1,017,652	0.06%
BUNGE NA FINANCE LP	5.900	04/01/17	5,000,000	4,996,163	5,282,965	0.33%
BURLINGTON NORTHN SANTA FE RY	7.160	01/02/20	3,253,705	3,253,705	3,693,113	0.23%
BURLINGTON NORTHN SANTA FE	7.000	02/01/14	3,000,000	2,999,645	3,482,772	0.22%
CSX CORP	5.750	03/15/13	5,000,000	4,993,653	5,479,042	0.34%
CVS CAREMARK CORP	5.750	06/01/17	5,000,000	4,863,789	5,602,987	0.35%
CANTOR FITZGERALD LP	6.375	06/26/15	5,000,000	4,983,156	5,420,720	0.34%
CAPITAL ONE FINL CORP	6.750	09/15/17	5,000,000	4,980,526	5,635,069	0.35%
CATERPILLAR INC	7.000	12/15/13	2,000,000	1,999,670	2,340,437	0.15%
CITIGROUP INC	6.000	02/21/12	5,000,000	4,999,696	5,227,859	0.33%
CITIGROUP INC	5.500	08/27/12	5,000,000	5,004,658	5,203,211	0.32%
CITIGROUP INC	6.375	08/12/14	5,000,000	4,972,138	5,320,160	0.33%
CITIGROUP FUNDING INC	1.875	10/22/12	10,000,000	9,973,166	10,213,534	0.64%
COMCAST CORP NEW	5.450	11/15/10	5,000,000	5,000,797	5,078,389	0.32%
COMM MTG TR	5.540	06/10/46	1,741,572	1,735,154	1,740,706	0.11%
CONOCOPHILLIPS	5.750	02/01/19	5,000,000	4,996,546	5,706,867	0.36%
CONOCOPHILLIPS CDA FDG CO I	5.625	10/15/16	6,000,000	5,999,698	6,806,002	0.42%
CONTINENTAL AIRLS	6.563	08/15/13	5,000,000	5,004,594	4,950,000	0.31%
CREDIT SUISSE NEW YORK	3.450	07/02/12	5,000,000	4,995,663	5,129,425	0.32%
DANSKE BANK A/S	3.750	04/01/15	5,000,000	4,985,777	5,198,491	0.32%
DETROIT EDISON CO	5.200	10/15/12	5,000,000	4,984,124	5,367,403	0.33%
DONNELLEY R R + SONS	4.950	04/01/14	5,000,000	4,921,655	4,975,000	0.31%
DU PONT E I DE NEMOURS + CO	5.875	01/15/14	7,000,000	6,977,160	7,923,413	0.49%
EXELON CORP	4.900	06/15/15	5,000,000	5,268,445	5,363,992	0.33%
FPL GROUP CAPITAL INC	2.550	11/15/13	10,000,000	9,993,627	10,116,941	0.63%
FIFTH THIRD BANCORP	5.450	01/15/17	5,000,000	4,988,631	5,109,116	0.32%

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CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

**ALL OTHER FUNDS**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
FIRSTENERGY SOLUTIONS CO	4.800	02/15/15	5,000,000	5,173,958	5,232,513	0.33%
FORTUNE BRANDS INC	5.375	01/15/16	3,000,000	2,988,910	3,188,469	0.20%
FRANKLIN RESOURCES INC	4.625	05/20/20	5,000,000	4,994,514	5,128,127	0.32%
GATX CORP	8.750	05/15/14	5,000,000	4,999,037	5,834,919	0.36%
GENERAL ELEC CO	5.250	12/06/17	5,000,000	5,009,007	5,447,314	0.34%
GENERAL ELEC CAP CORP	5.000	04/10/12	4,950,000	4,940,645	5,205,505	0.32%
GENERAL ELEC CAP CORP	0.506	08/15/11	1,500,000	1,419,316	1,492,788	0.09%
GENERAL ELEC CAP CORP	0.555	10/21/11	5,000,000	4,973,956	4,977,184	0.31%
GENERAL ELEC CAP CORP	4.375	11/21/11	10,000,000	9,929,602	10,390,340	0.65%
GENERAL ELEC CAP CORP FDIC GTD	3.000	12/09/11	5,000,000	4,993,107	5,171,520	0.32%
GENERAL ELEC CAP CORP	1.800	03/11/11	5,000,000	5,024,745	5,049,825	0.31%
GENWORTH FINL INC	5.650	06/15/12	5,000,000	4,995,702	5,087,759	0.32%
GOLDMAN SACHS GROUP INC	5.350	01/15/16	5,000,000	4,968,218	5,157,911	0.32%
GOLDMAN SACHS GROUP	5.300	02/14/12	4,750,000	4,748,720	4,942,491	0.31%
HSBC FIN CORP	5.900	06/19/12	5,000,000	4,995,120	5,267,695	0.33%
HARLEY DAVIDSON FDG CORP	5.250	12/15/12	5,000,000	5,167,071	5,194,746	0.32%
HARTFORD FINL SVCS GROUP INC	5.375	03/15/17	5,000,000	4,990,998	4,977,769	0.31%
HARTFORD FINL SVCS GROUP INC	6.300	03/15/18	5,000,000	5,004,075	5,199,151	0.32%
HERSHEY FOODS CORP	5.300	09/01/11	1,000,000	999,543	1,049,461	0.07%
INTERNATIONAL LEASE FIN CORP	5.125	11/01/10	5,000,000	4,998,670	4,962,500	0.31%
JPMORGAN CHASE + CO	4.750	05/01/13	5,000,000	4,991,031	5,335,709	0.33%
JPMORGAN CHASE + CO	4.950	03/25/20	5,000,000	5,016,203	5,194,020	0.32%
J P MORGAN CHASE COML MTG SECS	4.200	07/12/35	3,431,511	3,444,684	3,499,357	0.22%
JP MORGAN CHASE	5.279	12/12/43	2,481,731	2,480,649	2,531,840	0.16%
JERSEY CENT PWR + LT CO	5.650	06/01/17	3,000,000	2,992,758	3,239,327	0.20%
JPMORGAN CHASE+CO FDIC GTD TLG	3.125	12/01/11	1,255,000	1,275,830	1,299,948	0.08%
JPMORGAN CHASE+CO FDIC GTD TLG	2.625	12/01/10	750,000	753,230	757,306	0.05%
JPMORGAN CHASE + CO FDIC	1.650	02/23/11	2,000,000	1,999,747	2,017,408	0.13%
JPMORGAN CHASE + CO FDIC	2.200	06/15/12	7,000,000	6,997,431	7,194,216	0.45%
KCT INTERMODAL TRANSN CORP	6.884	08/01/18	2,581,867	2,581,867	2,884,741	0.18%
KEYBANK NATL ASSN CLEVELAND OH	5.500	09/17/12	5,000,000	4,999,691	5,279,219	0.33%
KEYBANK NATL ASSN MTN	5.450	03/03/16	5,000,000	4,999,319	5,158,535	0.32%
KRAFT FOODS INC	5.625	11/01/11	5,000,000	5,117,946	5,262,754	0.33%
LEHMAN BROTHERS HLDGS INC	1.000	12/31/49	5,000,000	1,000,000	1,025,000	0.06%
LEHMAN BROTHERS HLDGS INC	5.000	01/14/49	5,000,000	977,700	962,500	0.06%
LILLY ELI + CO	3.550	03/06/12	1,000,000	999,429	1,043,698	0.07%
LILLY ELI + CO	4.200	03/06/14	2,000,000	1,999,338	2,163,074	0.13%
LINCOLN NATIONAL CORP	4.300	06/15/15	3,000,000	2,996,038	3,047,435	0.19%
LOCKHEED MARTIN CORP	4.121	03/14/13	2,000,000	1,981,722	2,130,727	0.13%
MARATHON OIL CORP	5.900	03/15/18	5,000,000	4,987,353	5,518,444	0.34%
MASSMUTUAL GLOBAL FUNDING	3.625	07/16/12	2,000,000	1,998,952	2,059,666	0.13%
MCKESSON CORP NEW	5.250	03/01/13	3,000,000	2,994,391	3,224,473	0.20%
MERCK + CO INC	5.000	06/30/19	2,000,000	1,988,660	2,221,120	0.14%
MERRILL LYNCH + CO INC	6.400	08/28/17	5,000,000	4,994,774	5,216,903	0.33%
METLIFE INC	5.000	11/24/13	5,000,000	4,983,663	5,364,379	0.33%
MORGAN STANLEY	5.050	01/21/11	4,750,000	4,748,641	4,832,004	0.30%
MORGAN STANLEY	5.625	09/23/19	5,000,000	4,980,847	4,832,570	0.30%
MORGAN STANLEY FDIC GTD TLGP	2.900	12/01/10	500,000	502,794	505,313	0.03%
NATNL CITY BK CLEVELAND OH	5.250	12/15/16	5,000,000	4,997,000	5,264,178	0.33%
NATIONWIDE FINANCIAL SER	6.250	11/15/11	5,000,000	5,056,459	5,242,674	0.33%
NORFOLK SOUTHN CORP	5.750	01/15/16	2,000,000	1,992,984	2,262,880	0.14%
NORTHWESTERN CORP	6.340	04/01/19	5,000,000	4,997,080	5,524,328	0.34%
NOVARTIS SECS INVT LTD	5.125	02/10/19	5,000,000	4,992,333	5,597,850	0.35%



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**ALL OTHER FUNDS**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
OCCIDENTAL PETE CORP	7.000	11/01/13	5,000,000	4,987,299	5,804,200	0.36%
PNC FUNDING CORP	3.000	05/19/14	3,000,000	2,994,788	3,016,885	0.19%
PPL MONT LLC	8.903	07/02/20	2,954,408	2,954,408	3,548,428	0.22%
PPL ENERGY SUPPLY LLC	6.500	05/01/18	3,000,000	2,992,136	3,287,752	0.20%
PACCAR FINL CORP MTN BK ENT	3.794	01/12/11	5,000,000	5,000,000	5,072,429	0.32%
PACCAR INC	6.375	02/15/12	1,000,000	999,415	1,080,798	0.07%
POOLED FDG TR I	2.740	02/15/12	5,000,000	5,090,407	5,143,147	0.32%
PRINCIPAL LIFE GLOBAL FDG MTN	5.125	10/15/13	5,000,000	4,997,582	5,337,980	0.33%
PROCTER + GAMBLE INTL FN	1.350	08/26/11	1,000,000	999,572	1,006,630	0.06%
PROTECTIVE LIFE SECD TRS SECD	5.450	09/28/12	7,000,000	6,992,794	7,491,040	0.47%
PRUDENTIAL FINL INC	5.500	03/15/16	5,000,000	4,941,492	5,262,816	0.33%
REGIONS BANK FDIC GTD TLGP	2.750	12/10/10	750,000	753,696	755,878	0.05%
ROCHE HLDGS INC	4.500	03/01/12	1,000,000	997,066	1,054,008	0.07%
SBC COMMUNICATIONS INC	5.300	11/15/10	5,000,000	4,999,186	5,084,107	0.32%
SLM CORP	4.500	07/26/10	5,000,000	4,999,808	5,000,000	0.31%
ST PAUL TRAVELERS COS INC	6.250	06/20/16	5,000,000	4,989,492	5,794,576	0.36%
SCHERING PLOUGH CORP	6.000	09/15/17	5,000,000	4,982,367	5,857,967	0.36%
SEARIVER MARITIME FINL HLDGS	0.000	09/01/12	1,450,000	1,366,449	1,370,250	0.09%
SOUTHWEST GAS CORP	8.375	02/15/11	4,000,000	3,999,617	4,134,059	0.26%
STATOILHYDRO ASA	2.900	10/15/14	2,000,000	1,997,391	2,044,148	0.13%
TRANSCANADA PIPELINES LTD	7.125	01/15/19	5,000,000	5,048,563	6,058,834	0.38%
UNION BK CALIF	5.950	05/11/16	5,000,000	5,002,505	5,422,179	0.34%
UNION PAC CORP	4.875	01/15/15	7,000,000	6,831,164	7,600,875	0.47%
UNITED PARCEL SVC INC	5.500	01/15/18	5,000,000	4,992,534	5,709,644	0.36%
US BANCORP	3.150	03/04/15	2,000,000	1,996,747	2,044,062	0.13%
VERIZON COMMUNICATIONS INC	5.550	02/15/16	5,000,000	4,977,464	5,587,650	0.35%
VERIZON NEW JERSEY INC	5.875	01/17/12	5,000,000	5,063,464	5,279,578	0.33%
WACHOVIA CORP NEW	5.625	10/15/16	5,000,000	4,987,924	5,331,966	0.33%
WAL MART STORES INC	4.250	04/15/13	1,000,000	1,036,178	1,079,437	0.07%
WELLPOINT INC	5.875	06/15/17	5,000,000	4,945,788	5,563,118	0.35%
WELLS FARGO + CO NEW	4.625	04/15/14	5,000,000	4,918,424	5,243,852	0.33%
WELLS FARGO CO NEW	5.300	08/26/11	10,000,000	9,996,961	10,466,699	0.65%
WILMINGTON TR CORP	8.500	04/02/18	2,000,000	2,000,000	2,027,576	0.13%
WYETH	5.500	02/01/14	5,000,000	4,996,528	5,612,219	0.35%
ZIONS BANCORPORATION	5.650	05/15/14	3,000,000	2,998,492	2,830,542	0.18%
<b>Corporate Bonds (Rated)</b>			<b>624,419,363</b>	<b>616,442,598</b>	<b>649,781,752</b>	<b>40.49%</b>
BLACKROCK EQUITY INDEX FD B	NA	NA	693,336	98,406,677	106,976,749	6.67%
BLACKROCK ACWI EX US SUPERFUND	NA	05/15/14	214,152	4,000,000	3,813,440	0.24%
<b>Equity Index Funds</b>			<b>907,488</b>	<b>102,406,677</b>	<b>110,790,189</b>	<b>6.90%</b>
MONTANA RESIDENTIAL MORTGAGES	NA	NA	35,778,065	35,778,065	35,527,234	2.21%
MONTANA COAL TAX TRUST LOANS	NA	NA	205,427,525	205,427,525	205,427,525	12.80%
<b>Loans/Mortgages</b>			<b>241,205,590</b>	<b>241,205,590</b>	<b>240,954,759</b>	<b>15.01%</b>
2273 BOOT HILL COURT, BOZEMAN MT	NA	NA	2,109,600	2,109,600	2,159,367	0.13%
CALIFORNIA STREET, HELENA MT	NA	NA	205,591	205,591	225,294	0.01%
2401 COLONIAL DRIVE, HELENA MT	NA	NA	7,260,992	7,260,992	7,793,732	0.49%
1712 NINTH AVENUE, HELENA MT	NA	NA	514,749	514,749	579,626	0.04%
100 NORTH PARK AVENUE, HELENA MT	NA	NA	6,935,776	6,935,776	6,587,747	0.41%
<b>Real Estate</b>			<b>17,026,708</b>	<b>17,026,708</b>	<b>17,345,765</b>	<b>1.08%</b>
FED HM LN PC POOL G10814	5.500	05/01/13	382,760	382,677	412,912	0.03%
FED HM LN PC POOL G12310	5.500	08/01/21	3,386,275	3,388,992	3,656,885	0.23%
FED HM LN PC POOL G13081	5.000	04/01/23	5,651,315	5,651,315	6,032,718	0.38%
FED HM LN PC POOL G18244	4.500	02/01/23	5,922,155	5,823,879	6,258,812	0.39%
FED HM LN PC POOL J08160	5.000	12/01/22	5,220,458	5,214,716	5,575,152	0.35%

STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

**ALL OTHER FUNDS**

<b><u>Security Name</u></b>	<b><u>Coupon</u></b>	<b><u>Maturity</u></b>	<b><u>Par</u></b>	<b><u>Amortized Cost</u></b>	<b><u>Fair Value</u></b>	<b><u>%</u></b>
FEDERAL HOME LN MTG CORP	5.050	01/26/15	10,000,000	9,985,454	11,300,972	0.70%
FREDDIE MAC	2.500	04/08/13	5,000,000	5,000,000	5,070,601	0.32%
FED HM LN PC POOL E00540	6.000	03/01/13	242,194	241,985	262,729	0.02%
FED HM LN PC POOL E00659	6.000	04/01/14	336,387	336,297	365,060	0.02%
FEDERAL FARM CR BKS	2.125	06/18/12	2,000,000	2,000,118	2,055,161	0.13%
FEDERAL FARM CR BKS	4.450	09/23/13	7,000,000	6,892,159	7,680,080	0.48%
FEDERAL FARM CR BKS CONS SYSTE	4.000	09/24/10	2,000,000	2,000,893	2,016,987	0.13%
EDERAL FARM CR BKS	5.100	04/12/17	20,000,000	19,808,898	22,878,858	1.43%
FEDERAL FARM CREDIT BANK	3.750	12/06/10	10,000,000	10,132,385	10,146,698	0.63%
FEDERAL FARM CREDIT BANK	3.400	02/07/13	19,000,000	19,000,000	20,139,457	1.25%
FEDERAL HOME LN BKS	4.750	09/11/15	10,000,000	9,839,642	11,202,701	0.70%
FEDERAL HOME LOAN BANK	4.875	11/18/11	1,900,000	1,898,905	2,010,994	0.13%
FEDERAL HOME LN BANKS	4.750	12/16/16	15,000,000	14,903,529	16,901,460	1.05%
FEDERAL HOME LN BKS	5.125	03/10/17	10,000,000	10,064,407	11,399,110	0.71%
FEDERAL HOME LOAN BKS	4.875	06/08/12	4,900,000	4,882,437	5,286,243	0.33%
FEDERAL HOME LOAN BANK	4.875	10/30/17	4,000,000	4,214,541	4,472,973	0.28%
FEDERAL HOME LOAN BANK	3.000	12/10/10	7,000,000	6,994,336	7,083,704	0.44%
FEDERAL HOME LN BKS	3.125	06/10/11	5,000,000	4,958,197	5,125,236	0.32%
FEDERAL HOME LN BKS	3.500	07/16/10	5,000,000	5,001,188	5,007,637	0.31%
FEDERAL HOME LN BKS	3.625	09/16/11	10,000,000	9,993,340	10,366,418	0.65%
FEDERAL HOME LN BKS	2.500	02/19/13	5,000,000	5,000,000	5,192,935	0.32%
FEDERAL HOME LOAN BANK	1.625	07/27/11	10,000,000	10,062,531	10,122,787	0.63%
FEDERAL HOME LOAN BANK	0.880	01/20/11	10,000,000	10,006,090	10,028,317	0.62%
FEDERAL HOME LOAN BANK	3.250	09/12/14	10,000,000	10,134,852	10,567,913	0.66%
FEDERAL HOME LOAN BANK	1.625	09/26/12	1,500,000	1,499,589	1,526,886	0.10%
FEDERAL HOME LOAN BANK	2.375	03/14/14	3,500,000	3,515,794	3,593,699	0.22%
FEDERAL HOME LN MTG CORP	5.625	03/15/11	10,000,000	10,006,549	10,361,846	0.65%
FEDERAL NATL MTG ASSN DEB STRP	0.000	11/15/11	1,000,000	971,490	987,203	0.06%
FEDERAL NATL MTG ASSN DEB STRP	0.000	11/15/12	271,000	254,385	262,985	0.02%
FEDERAL NATL MTG ASSN DEB STRP	0.000	11/15/13	1,000,000	917,204	942,470	0.06%
FEDERAL NATL MTG ASSN	0.000	06/01/17	16,200,000	10,710,586	12,995,898	0.81%
FEDERAL NATL MTG ASSN	6.625	11/15/10	10,000,000	10,226,661	10,235,216	0.64%
FEDERAL NATL MTG ASSN	4.375	07/17/13	20,000,000	19,760,886	21,812,802	1.36%
FEDERAL NATL MTG ASSN	4.125	04/15/14	10,000,000	9,754,977	10,939,056	0.68%
FEDERAL NATL MTG ASSN	4.625	10/15/14	10,000,000	10,064,752	11,179,262	0.70%
FEDERAL NATL MTG ASSN	4.250	08/15/10	5,000,000	5,008,152	5,025,005	0.31%
FEDERAL HOME LN MTG CORP	0.000	01/15/13	1,000,000	947,917	966,120	0.06%
FEDERAL NATL MTG ASSN DEB	0.000	07/15/14	1,000,000	898,273	918,034	0.06%
FNMA POOL 254140	5.500	01/01/17	2,578,640	2,573,374	2,790,395	0.17%
FNMA POOL 254233	5.000	03/01/17	2,172,424	2,137,015	2,331,687	0.15%
FNMA POOL 254631	5.000	02/01/18	1,879,135	1,858,069	2,019,101	0.13%
FNMA POOL 303590	7.000	11/01/10	8,547	8,547	8,590	0.00%
FNMA POOL 313999	6.000	02/01/13	128,396	128,229	139,475	0.01%
FEDERAL HOME LN MTG CORP	5.000	02/16/17	10,000,000	9,922,116	11,398,248	0.71%
FEDERAL HOME LN MTG CORP	3.125	10/25/10	10,000,000	10,081,423	10,090,387	0.63%
FEDERAL HOME LN MTG CORP	2.875	11/23/10	10,000,000	10,092,083	10,100,019	0.63%
FNMA POOL 572220	6.000	03/01/16	110,014	109,877	119,760	0.01%
FNMA POOL 592327	5.500	06/01/16	186,806	184,863	202,147	0.01%
FANNIE MAE	0.875	01/12/12	2,500,000	2,494,453	2,512,987	0.16%
FANNIE MAE	1.750	02/22/13	2,500,000	2,501,123	2,549,657	0.16%
FEDERAL NATL MTG ASSN	3.875	07/12/13	10,000,000	9,905,565	10,809,078	0.67%
FNMA POOL 844915	4.500	11/01/20	3,913,699	3,894,545	4,164,922	0.26%
FNMA POOL 888932	4.500	11/01/22	2,792,292	2,792,292	2,971,531	0.19%

STATE OF MONTANA BOARD OF INVESTMENTS  
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

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**ALL OTHER FUNDS**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
FNMA POOL 962078	4.500	03/01/23	6,148,722	6,117,858	6,496,498	0.40%
<b>U.S. Government Agency</b>			<b>359,331,220</b>	<b>353,152,414</b>	<b>379,072,472</b>	<b>23.62%</b>
CITBANK NA	1.625	03/30/11	10,000,000	10,042,161	10,085,929	0.63%
CITIBANK NA	1.250	11/15/11	5,000,000	4,993,350	5,048,195	0.31%
ENSCO OFFSHORE CO	6.360	12/01/15	5,500,500	5,500,500	6,225,741	0.39%
GLOBAL INDS LTD	7.710	02/15/25	3,000,000	3,000,000	3,252,900	0.20%
ROWAN COS INC	5.880	03/15/12	4,542,000	4,542,000	4,672,492	0.29%
UNITED STATES TREAS NTS	4.000	02/15/15	20,000,000	19,336,285	22,076,801	1.38%
UNITED STATES TREAS NTS	4.250	11/15/17	15,000,000	15,134,683	16,850,401	1.05%
UNITED STATES TREAS NTS	3.875	05/15/18	15,000,000	15,036,156	16,393,799	1.02%
UNITED STATES TREAS NTS	4.000	08/15/18	10,000,000	10,061,825	10,999,300	0.69%
UNITED STATES TREAS NTS	2.750	02/15/19	10,000,000	9,907,436	9,962,400	0.62%
US TREASURY T/B	1.375	05/15/12	3,000,000	2,980,260	3,044,040	0.19%
US TREASURY N/B	2.625	04/30/16	10,000,000	9,850,138	10,276,799	0.64%
UNITED STATE TREAS NTS	2.625	02/29/16	5,000,000	5,007,958	5,145,300	0.32%
US TREASURY N/B	3.250	05/31/16	5,000,000	4,903,849	5,311,200	0.33%
WI TREASURY N/B	2.625	07/31/14	5,000,000	4,982,776	5,225,000	0.33%
US TREASURY N/B	1.000	07/31/11	10,000,000	9,985,346	10,063,000	0.63%
US TREASURY N/B	1.750	08/15/12	10,000,000	10,054,393	10,232,800	0.64%
US TREASURY N/B	3.625	08/15/19	10,000,000	9,941,417	10,573,100	0.66%
US TREASURY N/B	1.000	09/30/11	5,000,000	5,002,013	5,034,000	0.31%
US TREASURY N/B	1.375	11/15/12	10,000,000	10,051,888	10,143,301	0.63%
US TREASURY N/B	3.625	02/15/20	5,000,000	4,896,983	5,282,500	0.33%
UNITED STATES TRES SC STRP INT	0.000	05/15/12	3,000,000	2,916,943	2,976,450	0.19%
UNITED STATES TRES SC STRP INT	0.000	08/15/17	1,590,000	1,316,928	1,323,023	0.08%
UNITED STATES TRES SC STRP INT	0.000	11/15/17	6,300,000	4,509,604	5,185,341	0.32%
<b>U.S. Government Direct Obligations</b>			<b>186,932,500</b>	<b>183,954,890</b>	<b>195,383,809</b>	<b>12.17%</b>
<b>AOF Total</b>			<b>1,441,481,982</b>	<b>1,525,847,990</b>	<b>1,604,987,859</b>	<b>100.00%</b>



Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Montana Board of Investments' Enterprise Fund as of June 30, 2010, and 2009, and the related Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Investments' Enterprise Fund as of June 30, 2010, and 2009, and its changes in net assets and cash flows for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

November 12, 2010



**STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND  
STATEMENT OF NET ASSETS AS OF JUNE 30, 2010 AND 2009**

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Assets	<u>2010</u>	<u>2009</u>
<b>Current assets:</b>		
Cash and cash equivalents (Note 1)	\$ 16,841,128	\$ 9,450,048
Interest receivable	389,348	612,231
Notes/loans receivable (Note 1)	6,790,541	7,305,015
Interfund notes/loans and interest receivable (Note 1)	3,919,712	3,914,397
Component Unit notes/loans and interest receivable (Note 1)	1,644,994	1,902,780
Short-term investments at fair value (Notes 1 and 2)	1,637,902	1,735,074
Security lending cash collateral (Note 3)	<u>8,188</u>	<u>7,985</u>
<b>Total current assets</b>	<b>\$ <u>31,231,813</u></b>	<b>\$ <u>24,927,530</u></b>
<b>Noncurrent assets:</b>		
Restricted investments at fair value (Notes 1 and 2)	1,902,052	3,065,218
Long-term investments at fair value (Notes 1 and 2)	12,813	10,124
Notes/loans receivable (Note 1)	37,988,032	35,021,551
Interfund notes/loans and interest receivable (Note 1)	21,999,400	24,102,946
Component Unit notes/loans receivable (Note 1)	8,351,721	7,548,335
Capitalized cost of issue (Note 1)	1,495,605	1,315,245
Equipment	4,230	6,090
Accumulated depreciation	<u>(3,377)</u>	<u>(3,758)</u>
<b>Total noncurrent assets</b>	<b><u>71,750,476</u></b>	<b><u>71,065,751</u></b>
<b>Total assets</b>	<b>\$ <u>102,982,289</u></b>	<b>\$ <u>95,993,281</u></b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Due to other funds	0	1,926
Accrued expenses	6,255	12,090
Accrued interest payable	179,336	689,258
Security lending obligations (Note 3)	8,188	7,985
Arbitrage rebate tax payable	12,117	19,454
Compensated absences	13,666	12,424
Current bonds/notes payable (Note 4)	<u>96,250,328</u>	<u>88,956,456</u>
<b>Total current liabilities</b>	<b>\$ <u>96,469,890</u></b>	<b>\$ <u>89,699,593</u></b>
<b>Noncurrent liabilities</b>		
Bonds/notes payable (Note 4 )	195,000	843,694
Compensated absences	11,773	14,902
OPEB implicit rate subsidy (Note 10)	<u>40,371</u>	<u>29,408</u>
<b>Total noncurrent liabilities</b>	<b><u>247,144</u></b>	<b><u>888,004</u></b>
<b>Total liabilities</b>	<b>\$ <u>96,717,034</u></b>	<b>\$ <u>90,587,597</u></b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 853	\$ 2,332
Restricted (Note 1)	2,210,262	1,936,397
Unrestricted	<u>4,054,140</u>	<u>3,466,955</u>
<b>Total net assets (Note 7)</b>	<b>\$ <u>6,265,255</u></b>	<b>\$ <u>5,405,684</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>102,982,289</u></b>	<b>\$ <u>95,993,281</u></b>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>Operating revenue</b>		
Reimbursements	\$ 22,299	\$ 25,927
Investment income	261,771	403,540
Security lending income	164	559
Financing income	<u>2,270,138</u>	<u>3,132,033</u>
<b>Total operating revenue</b>	<u>2,554,372</u>	<u>3,562,059</u>
<b>Operating expenses</b>		
Personal services	205,745	195,598
Contracted services	25,893	18,611
Supplies and materials	6,344	3,296
Communications	9,219	12,793
Travel	2,389	3,257
Rent	44,846	43,916
Repair and maintenance	353	315
Indirect and other costs	30,064	36,778
OPEB (Note 10)	10,963	14,498
Depreciation expense	316	781
Loss on equipment sale	2,403	
Arbitrage rebate tax expense (Note 9)	(7,336)	(20,343)
Security lending expense	55	188
Debt service		
Interest expense	1,503,267	2,855,503
Trustee fee expense	62,286	66,055
Bond issuance cost amortization expense	99,526	104,134
Other debt service expense	<u>170,808</u>	<u>187,563</u>
<b>Total operating expenses</b>	<u>2,167,141</u>	<u>3,522,943</u>
<b>Operating income (loss)</b>	<u>387,231</u>	<u>39,116</u>
<b>Nonoperating income:</b>		
Transfers from other funds (Note 8)	<u>472,340</u>	<u>725,000</u>
<b>Change in net assets</b>	859,571	764,116
<b>Beginning net assets</b>	<u>5,405,684</u>	<u>4,641,568</u>
<b>Ending net assets (Note 7)</b>	\$ <u>6,265,255</u>	\$ <u>5,405,684</u>

The accompanying notes are an integral part of these financial statements.



**STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND  
STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Receipts for sales and services	\$ 22,299	\$ 25,927
Payments to suppliers for goods and services	(121,555)	(117,651)
Payments to employees	(214,187)	(222,986)
<b>Net cash (used for) operating activities</b>	<b><u>(313,443)</u></b>	<b><u>(314,710)</u></b>
<b>Cash flows from non-capital financing activities:</b>		
Payment of principal and interest on bonds and notes	(7,732,541)	(13,664,170)
Proceeds from issuance of bonds and notes	12,131,435	0
Payment of bond issue costs	(279,886)	0
Transfers from other funds (Note 8)	<u>472,340</u>	<u>725,000</u>
<b>Net cash provided by (used for) non-capital financing activities</b>	<b><u>4,591,348</u></b>	<b><u>(12,939,170)</u></b>
<b>Cash flows from investing activities:</b>		
Collections for principal and interest on loans	27,934,467	26,933,904
Cash payments for loans	(26,358,893)	(22,949,550)
Purchase of investments	(508,418)	(816,761)
Proceeds from security lending	164	559
Security lending costs	(55)	(188)
Proceeds from sales or maturities of investments	1,727,762	9,835,095
Interest on investments	<u>318,148</u>	<u>470,731</u>
<b>Net cash provided by investing activities</b>	<b><u>3,113,175</u></b>	<b><u>13,473,790</u></b>
<b>Net increase in cash and cash equivalents</b>	<b>7,391,080</b>	<b>219,910</b>
<b>Cash and cash equivalents, July 1</b>	<b><u>9,450,048</u></b>	<b><u>9,230,138</u></b>
<b>Cash and cash equivalents, June 30</b>	<b><u>16,841,128</u></b>	<b><u>9,450,048</u></b>
<b>Reconciliation of net income to net cash (used for) operating activities:</b>		
Net operating income	387,231	39,116
Adjustments to reconcile net income to net cash (used for) operating activities		
Depreciation	316	781
Loss on equipment sale	2,403	
Interest on investments	(261,771)	(403,540)
Financing income	(2,270,138)	(3,132,033)
Interest expense	1,835,887	3,213,257
Security lending income	(164)	(559)
Security lending expense	55	188
Arbitrage rebate tax expense (Note 9)	(7,336)	(20,343)
Change in assets and liabilities:		
(Increase) decrease in other assets	(1,240)	1,959
Increase (decrease) in other payables	(5,836)	(1,783)
Increase (decrease) in due to other funds	(1,926)	(508)
Increase (decrease) in compensated absences payable	(1,887)	(25,743)
Increase (decrease) in OPEB payables (Note 10)	<u>10,963</u>	<u>14,498</u>
<b>Total adjustments</b>	<b><u>(700,674)</u></b>	<b><u>(353,826)</u></b>
<b>Net cash (used for) operating activities</b>	<b>\$ <u>(313,443)</u></b>	<b>\$ <u>(314,710)</u></b>
<b>Schedule of noncash transactions:</b>		
Increase/(decrease) in fair value of investments	\$ <u>43,866</u>	\$ <u>21,613</u>
<b>Total noncash transactions</b>	<b>\$ <u>43,866</u></b>	<b>\$ <u>21,613</u></b>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

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NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The Board uses the accrual basis of accounting for the Enterprise Fund. Under the accrual basis of accounting, expenses are recorded when incurred and revenues are recorded when earned. The financial statements are prepared from the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) and information contained in the bond trustee statements. The statements include the financial activity administered by the Board in the Enterprise Fund.

b. Presentation of Programs

The Board uses the Enterprise Fund to account for its programs created under the Economic Development Bond Act and the Municipal Finance Consolidation Act.

Economic Development Bond Act programs include:

- The Stand Alone Economic Development Bond Program provides access to limited economic development projects through the issuance of conduit debt.
- The Conservation Reserve Enhancement Program (CRP), created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The Conservation Reserve Enhancement Program is currently funded by the Montana Trust Funds Investment Pool.

Municipal Finance Consolidation Act programs include:

- The INTERCAP loan program provides funds to eligible Montana governments to finance capital expenditures for up to fifteen years.
- The Irrigation District Pooled Loan Program provided funds for the Board to purchase the refunding bonds from participating irrigation districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans.
- Qualified Zone Academy Bond (QZAB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The federal government pays the interest on the QZABs in the form of an annual tax credit to a bank (or other eligible financial institution) that holds the QZAB. The Board acts as a legal funding conduit only and is not pecuniary liable for the repayment of the bonds.

c. Fixed Asset Depreciation

The equipment fixed assets recorded in the Enterprise Fund are depreciated on a straight-line basis value, in accordance with state policy.

d. Receivables

The Enterprise Fund notes/loans receivables of \$80,489,523 as of June 30, 2010 and \$79,435,279 as of June 30, 2009, represent loans made to Montana businesses, state and local governments. The Enterprise Fund notes/loans are classified in three categories as follows:

- 1) Notes/loans receivable from local governments and Montana businesses
- 2) Interfund notes/loans receivable from state agency governments
- 3) Component Unit notes/loans receivable from certain state agencies and university units for which the State is financially accountable.

The InterFund notes/loans receivable as of June 30, 2010 and 2009 includes \$204,878 and \$356,710, in interest accruals from state agencies and university units.

e. Capitalized Cost of Issue

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The Enterprise Fund capitalized cost of issue asset of \$1,495,605 and \$1,315,245 as of June 30, 2010 and June 30, 2009, respectively, represents paid bond issuance costs which have been capitalized and are being amortized, using the straight-line method over the life of the bonds.

f. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents, as identified in the Statement of Net Assets, are as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash in treasury	\$ 614,128	\$ 737,826
Cash with fiscal agent	695	414,589
Short Term Investment Pool (STIP)	199,677	111,563
First American Prime Obligation Fund	15,026,652	8,186,070
U.S. Government Direct Obligation	<u>999,976</u>	<u>0</u>
Total Cash and Cash Equivalents	\$ <u>16,841,128</u>	\$ <u>9,450,048</u>

The Enterprise Fund invests its operational cash in the Board's Short Term Investment Pool (STIP), an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

g. Restricted Net Assets

The Statement of Net Assets for the Enterprise Fund reports restricted assets. Net assets are reported as restricted when constraints placed on net asset use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation.

The net assets of all Enterprise Fund programs with the exception of MEDB (Montana Economic Development Bonds) Guarantee Fund Account, MEDB Guarantee CRP Note Reserve, MEDB Contingency Account and CRP are restricted under bond indentures governing the use of these funds.

h. Investments

Investments are presented in the Statement of Net Assets at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the Board's trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line method to the maturity date of the securities.

2. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

The Enterprise Fund deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the Short Term Investment Pool (STIP) administered by the Board.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Enterprise Fund's U.S. government direct-backed securities, consisting of U.S. Treasury notes and bills, are guaranteed directly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the table below are provided by S&P's rating services.

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2010 and 2009, Enterprise Fund securities were recorded in book entry form in the name of U.S. Bank National Association as Trustee for the Montana Board of Investments by specific account.

As of June 30, 2010 and 2009, the Enterprise Fund had \$2,510,525 and \$3,240,541, respectively, in Certificates of Deposits (CDs), of which \$250,000 are covered by FDIC (Federal Deposit Insurance Corporation) insurance. The remaining balances of \$2,260,525 and \$2,990,541, respectively, are not covered by deposit insurance but are collateralized by securities held by U.S. Bank's Trust Department. The securities used as collateral are held by U.S. Bank's Trust Department at 100% of the Certificate of Deposit amount in a pool for multiple depositors.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Enterprise Fund investments include investments directly issued or explicitly guaranteed by the U.S. government, and investments in mutual funds. These investments are excluded from the concentration of credit risk requirement. The Enterprise Fund also invests in US Bank Certificates of Deposit. As of June 30, 2010 and 2009 these CDs represent 12.7% and 24.7% of the investment portfolio, respectively.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Enterprise Funds' bond indentures do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the duration method to disclose interest rate risk.

State of Montana Enterprise Fund investments are categorized below to disclose credit and interest rate risk as of June 30, 2010 and June 30, 2009. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using duration as calculated by Board staff. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

**Credit Quality Rating and Effective Duration as of June 30, 2010**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Prime Obligation Fund	\$ 15,026,652	AAA	NA
Short Term Investment Pool (STIP)	212,489	NR	0.11
U.S. Government Direct Obligations	2,029,405	AAA	0.26
Certificates of Deposit	<u>2,510,525</u>	<u>A+</u>	<u>2.07</u>
Total Investments	\$ <u>19,779,071</u>	<u>AA+</u>	<u>1.21</u>
Securities Lending Collateral Investment Pool	\$ <u>8,188</u>	NR	0.05

**Credit Quality Rating and Effective Duration as of June 30, 2009**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Prime Obligation Fund	\$ 8,186,070	AAA	NA
Short Term Investment Pool (STIP)	121,687	NR	0.13
U.S. Government Direct Obligations	1,559,751	AAA	1.00
Certificates of Deposit	<u>3,240,541</u>	<u>A+</u>	<u>2.32</u>
Total Investments	\$ <u>13,108,049</u>	<u>AA+</u>	<u>1.85</u>
Securities Lending Collateral Investment Pool	\$ <u>7,985</u>	NR	0.08

There were no derivative transactions during the above fiscal years for investments held by the trustee.

### 3. SECURITY LENDING

The Enterprise Fund is a participant in the Board's Short Term Investment Pool (STIP). In fiscal years 2010 and 2009, security lending transactions were recorded for STIP.

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust "the Bank", to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board and the bank split the earnings on security lending activities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2010 and 2009, the custodial bank lent Board public securities and received as collateral: U.S. dollar cash; U.S. government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2010 and 2009. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower (other than the default by Lehman Brothers Inc. which occurred in September 2008 and the Board was made whole in the process). There were no losses resulting from a borrower default.

During fiscal years 2010 and 2009, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool. The Securities Lending Quality Trust has a weighted average maturity of 20 and 31 days, respectively, as of June 30, 2010 and 2009. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end 2010 and 2009, the Board had no credit risk exposure to borrowers because the collateral pledged by the borrowers exceeded the value of the securities borrowed.

### 4. BONDS PAYABLE

#### Long-Term Bonds Payable

#### Economic Development Bonds (EDB) and Municipal Finance Consolidation Act Bonds (MFCAB)

These bonds are issued under the Economic Development Bond Act, and the Municipal Finance Consolidation Act, for the purpose of assisting Montana's small businesses and local governments in obtaining low cost financing. Outstanding obligations are listed as follows (in thousands):

## Bonds Payable as of June 30, 2010

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments FY 2011</u>	<u>@ Maturity</u>	<u>Balance June 30, 2010</u>
Municipal Finance Consolidation Act						
Bonds (Irrigation Program) (1)	1988	\$ 4,976	6.60-7.75	\$ 55	70 (2014)	\$ 250
Conservation Reserve Enhancement						
Program (CRP Bonds) (2)		<u>120</u>	<u>5.00-7.15</u>	<u>120</u>	<u>120(2011)</u>	<u>120</u>
Total Bonds Payable		<u>\$ 5,096</u>		<u>\$ 175</u>		<u>\$ 370</u>
Less Current Portion (FY2010 Principal Payments)						<u>(175)</u>
Total Long-Term Bonds Payable						<u>\$ 195</u>

## Bonds Payable as of June 30, 2009

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments FY 2010</u>	<u>@ Maturity</u>	<u>Balance June 30, 2009</u>
Municipal Finance Consolidation Act						
Bonds (Irrigation Program) (1)	1988	\$ 4,976	6.60-7.75	\$ 50	70 (2014)	\$ 300
Conservation Reserve Enhancement						
Program (CRP Bonds) (2)		<u>880</u>	<u>6.00-7.40</u>	<u>286</u>	<u>108(2013)</u>	<u>880</u>
Total Bonds Payable		<u>\$ 5,856</u>		<u>\$ 336</u>		<u>\$ 1,180</u>
Less Current Portion (FY2009 Principal Payments)						<u>(336)</u>
Total Long-Term Bonds Payable						<u>\$ 844</u>

(1) The Board issued these bonds to provide funds to purchase the Refunding Bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment which is a lien against real property in the Irrigation District. While the Irrigation Bonds are not obligations of the State of Montana, the bonds are limited obligations of the Board due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The Indenture does not permit the issuance of additional bonds.

(2) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Investment Pool.

Future debt service as of June 30, 2010 is listed below (in thousands):

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Principal	\$ 175	\$ 60	\$ 65	\$ 70	\$ -	\$ -	\$ 370
Interest	\$ 25	\$ 13	\$ 8	\$ 3	\$ -	\$ -	\$ 49
Total	<u>\$ 200</u>	<u>\$ 73</u>	<u>\$ 73</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 419</u>

Future debt service as of June 30, 2009 is listed below (in thousands):

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Principal	\$ 336	\$ 296	\$ 305	\$ 173	\$ 70	\$ -	\$ 1,180
Interest	\$ 80	\$ 56	\$ 36	\$ 15	\$ 3	\$ -	\$ 190
Total	<u>\$ 416</u>	<u>\$ 352</u>	<u>\$ 341</u>	<u>\$ 188</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ 1,370</u>

Current Bonds Payable

The Enterprise Fund is authorized to issue INTERCAP bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190 million as amended by the 2007 Legislature. The INTERCAP bonds provide funds for the

Board to make loans to eligible government units. The bonds are not a debt or liability of the State of Montana. The bonds are limited obligations of the Board payable solely from: a) repayments of principal and interest on loans made by the Board to participating eligible Montana governments; b) investment income under the indenture; and c) an irrevocable pledge by the Board. The Board has no taxing power. These bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. The Board did not enter into an arms-length financing agreement to convert the bonds "put", or tender, but not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are recorded as current liabilities of the Enterprise Fund.

The INTERCAP obligations at June 30, 2010 and June 30, 2009, are listed below (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range</u>	<u>Maturity</u>	<u>Balance June 30, 2010</u>	<u>Balance June 30, 2009</u>
1995	7,500	Variable	2010	0	4,295
1997	10,000	Variable	2017	9,355	9,415
1998	12,500	Variable	2018	12,010	12,055
2000	15,000	Variable	2025	14,680	14,750
2003	15,000	Variable	2028	14,710	14,735
2004	18,500	Variable	2029	18,370	18,370
2007	15,000	Variable	2032	14,950	15,000
2010	<u>12,000</u>	Variable	2035	<u>12,000</u>	<u>0</u>
Total INTERCAP Debt	<u>\$ 105,500</u>			<u>96,075</u>	<u>88,620</u>
Current Portion of Long-Term Bonds Payable				<u>175</u>	<u>336</u>
Current Bonds Payable				<u>\$ 96,250</u>	<u>\$ 88,956</u>

## 5. OTHER DEBT

### Conduit Debt

In this program, the Board is authorized to issue stand-alone industrial revenue bonds, under the Economic Development Act, as conduit (no commitment) debt. Assets and revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as conduit (no-commitment) debt are listed below (in thousands):

<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Balance June 30, 2010</u>	<u>Balance June 30, 2009</u>
Colstrip	October 1989	12/30/15	\$ 60,800	\$ 39,100	\$ 42,300
Yellowstone Energy (BGI)	July 1993	12/31/19	118,345	101,045	104,600
Stillwater Mining	July 2000	07/01/20	30,000	30,000	30,000
Gainey Foundation	October 2002	09/01/14	<u>6,000</u>	<u>0</u>	<u>3,290</u>
Total conduit debt			<u>\$ 215,145</u>	<u>\$ 170,145</u>	<u>\$ 180,190</u>

### QZAB Debt

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases the taxing power, of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as QZAB conduit (no-commitment) debt are listed below (in thousands):



<u>Project</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Balance June 30, 2010</u>	<u>Balance June 30, 2009</u>
Huntley Project K-12 Schools	December 2000	07/01/13	\$ 750	\$ 750	\$ 750
Bozeman Public Schools	November 2003	11/25/12	1,586	1,586	1,586
Philipsburg Schools	December 2003	12/10/17	2,000	2,000	2,000
Cut Bank Elementary	August 2005	08/18/21	825	825	825
Cut Bank High School	August 2005	08/18/21	625	625	625
Bozeman Public Schools	December 2006	12/19/15	1,459	1,459	1,459
Billings School	December 2008	06/15/18	773	773	773
Lewistown Elementary School	June 2009	06/15/17	<u>2,087</u>	<u>2,087</u>	<u>2,087</u>
Total QZAB conduit debt			<u>\$ 10,105</u>	<u>\$ 10,105</u>	<u>\$ 10,105</u>

#### 6. INTERCAP PROGRAM LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. As of June 30, 2010 and 2009, respectively, the Board committed to make loans to eligible Montana governments totaling \$21,833,538 and \$29,249,486.

#### 7. NET ASSETS

Net Assets represents the accumulated net profits of the Enterprise Fund programs. The Net Assets for fiscal years ended June 30, 2010 and June 30, 2009 include \$17,390 and \$61,256, respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

#### 8. TRANSFERS FROM OTHER FUNDS

In fiscal years 2010 and 2009, the Board of Investments' Investment account transferred \$472,340 and \$725,000, respectively, to the Enterprise Fund. These transfers were a full repayment of transfers to the Board of Investments' Investment accounts made in fiscal years 2007 and 2003 for \$900,074 and \$297,266. Additionally, in fiscal year 2010 the Board of Investments' Investment account transferred \$128,970 as an interest payment.

#### 9. ARBITRAGE

The fiscal years 2010 and 2009 Arbitrage Rebate Tax Expense represents an over accrual of estimated arbitrage liability as calculated by a contracted vendor.

#### 10. OPEB – OTHER POST EMPLOYMENT BENEFITS

Refer to the State of Montana Comprehensive Annual Financial Report (CAFR) Note 7. The State of Montana CAFR is available at the Department of Administration, Administrative and Financial Service Division's website at <http://afsd.mt.gov/cafr/cafr.asp>.

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BOARD OF INVESTMENTS

BOARD RESPONSE



# MONTANA BOARD OF INVESTMENTS

Department of Commerce

Street Address:  
2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, MT 59601

Mailing Address:  
P.O. Box 200126  
Helena, MT 59620-0126



Phone: 406/444-0001  
Facsimile: 406/449-6579  
Rateline: 406/444-3557  
Website: [www.investmentmt.com](http://www.investmentmt.com)

November 23, 2010

Ms. Tori Hunthausen, Legislative Auditor  
Legislative Audit Division  
Room 135, State Capitol  
Helena MT 59620-1705

RECEIVED

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LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

The Board of Investments appreciates the services your staff provide in reviewing the Board's procedures, internal controls, accounting practices, and the accuracy of the financial statements. The audit contained one recommendation to which we offer the following responses.

## **Recommendation #1**

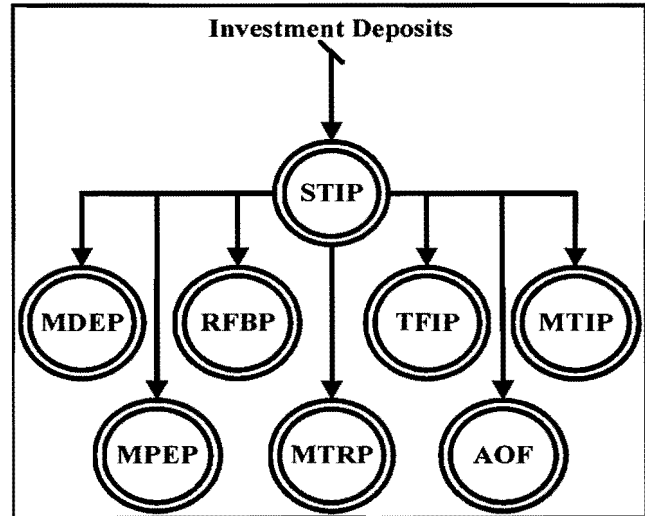
We recommend the Board:

- A. Conduct and document a review to ensure only those public funds allowed by the Montana Constitution are invested in private corporate capital stock; and,
- B. Strengthen its MDEP investment policy to provide clear guidance to investment managers regarding participants allowed by the Montana Constitution.

**Concur:** Our response is listed on the following page.

The Historical Society Trusts were invested in the domestic equity pool (MDEP) prior to establishment of the Board's current investment infrastructure and protocol. Three of the five Trusts have been invested in the MDEP since 1983. At the request of the Society, the Trust's investments in the MDEP have been liquidated.

The flow chart at right depicts the current investment infrastructure utilized by the Board to accommodate state agency and local government investments. While local agencies are limited to STIP investments only, state agency funds may be invested in other pools or All Other Funds (AOF), the vehicle that holds investments outside the pools.



State and local agencies may invest in the Short Term Investment Pool (STIP) at their discretion. However, to ensure that state funds are invested legally and prudently, the decision to invest state funds in anything other than the STIP is at the sole discretion of the Board based on prudent/legal considerations and consultation with the agency.

Prior to the Board accepting investments in the STIP, authorized representatives of state and local agencies must sign and submit a "Participation Agreement." State agencies must cite the section of state law that authorizes them to retain interest earnings on the account and that they are legally entitled to participate in the STIP. If the law does not permit them to retain interest earnings on the account, the funds are invested within the Treasurer's Fund, the interest from which is deposited in the state general fund.

Copies of the local and state Participation Agreements are attached.

Sincerely yours,

Mr. Carroll South, Executive Director  
Montana Board of Investments

## STATE AGENCY PARTICIPATION AGREEMENT

<b>Mail Participation Agreement Forms To:</b> STIP Program Manager Montana Board of Investments P.O. Box 200126                      Helena, Mt. 59620-0126 Phone (406) 444-0003                      Fax (406) 444-4268	<b>For Official Use Only</b>  STIP DATA <input type="checkbox"/> STIP TEMPLATE <input type="checkbox"/> MAP <input type="checkbox"/> PHOENIX <input type="checkbox"/>
<b>Requests must be submitted by authorized state agency representative</b>	
<i>The State agency listed below hereby agrees to participate in the STIP Program as established under Section 17-6-202, MCA., and the terms and conditions of STIP operations as outlined in the Policies and Procedures and warrants as follows:</i>	

### Section 1. State Agency Information Summary

Applicant Name →			
Mailing Address →			
Contact, Name and Title →			
Telephone number →		Fax Number →	e-mail →

### Section 2. Authorization of Interest Retention

On the next line, please cite the relevant sections of state law that authorize the state agency to retain interest earnings in their account and that the agency is legally entitled to participate in the STIP.

### Section 3. SABHRS Investment and Earnings Information

Please complete the following investment accounting information. If the agency chooses to reinvest the STIP earnings, the earnings **must** be reinvested to the SABHRS Business Unit and Fund holding the STIP investment.

Investment Business Unit →	Investment Fund Number →	Investment Fund Name →	
Reinvest Earnings <input type="checkbox"/>		Distribute Earnings <input type="checkbox"/>	
STIP Earnings Business Unit →		STIP Earnings Business Unit →	
STIP Earnings Fund Number →		STIP Earnings Fund Number →	
STIP Earnings Fund Name →		STIP Earnings Fund Name →	
STIP Earnings Org/Project →		STIP Earnings Org/Project →	

### Section 3. Endorsement

The person(s) whose signature(s) appear below is (are) authorized to purchase and sell shares in STIP for the account of the shareholder, and the Board of investments shall be notified promptly of any changes in authorized personnel

Signature →		Printed Name and Title →	
Signature →		Printed Name and Title →	
Signature →		Printed Name and Title →	
Signature of Agency Legal Counsel verifying information →			
I hereby certify as preparer of this application on behalf of the applicant that all of the information contained herein is true, accurate and complete as of the date hereof			
Dated this		Day of	20
By:		Title:	
Please print or type name			

## LOCAL GOVERNMENT PARTICIPATION AGREEMENT

<b>Mail Participation Agreement Forms To:</b> STIP Program Manager Montana Board of Investments P.O. Box 200126                      Helena, Mt. 59620-0126 Phone (406) 444-0003	<i>For Official Use Only</i>  STIP DATA <input type="checkbox"/> STIP TEMPLATE <input type="checkbox"/> MAP <input type="checkbox"/> PHOENIX <input type="checkbox"/>
<b>Requests must be submitted by authorized local government representative</b>	
<i>The local government unit listed below hereby agrees to participate in the STIP Program as established under Section 17-6-204, MCA., and the terms and conditions of STIP operations as outlined in the Policies and Procedures and warrants as follows:</i>	

### Section 1. Local Government Information Summary

Applicant Name →			
Mailing Address →			
Contact, Name and Title →			
Telephone number →		Fax Number →	
		e-mail →	

### Section 2. Investment and Earnings Information

The local government has the option to either reinvest their earnings or distribute earnings. <b>Check one box only.</b>			
Reinvest Earnings <input type="checkbox"/>	Distribute Earnings <input type="checkbox"/>		
Any sale, purchase, or distribution of funds will be made by Electronic Funds Transfer or wire debiting or crediting the appropriate treasury or shareholder bank account. Please specify the local government depository.			
Name of Bank →		ABA No. →	
Account Name →		Account No. →	

### Section 2. Endorsement

The person(s) whose signature(s) appear below is (are) authorized to purchase and sell shares in STIP for the account of the shareholder, and the Board of investments shall be notified promptly of any changes in authorized personnel			
Signature →		Printed Name and Title →	
Signature →		Printed Name and Title →	
Signature →		Printed Name and Title →	
I hereby certify as preparer of this application on behalf of the applicant that all of the information contained herein is true, accurate and complete as of the date hereof			
Dated this		Day of	
			20
By:		Title:	
Please print or type name			

