



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Montana Board of Investments*

*For the Fiscal Year Ended  
June 30, 2014*

JANUARY 2015

LEGISLATIVE AUDIT  
DIVISION

14-04A

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§5-13-202(2), MCA

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
Room 277, State Capitol  
P.O. Box 200802  
Helena, MT 59620-0802

Legislative Audit Division  
Room 160, State Capitol  
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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

January 2015

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report of the Montana Board of Investments (board) for the fiscal year ended June 30, 2014. We performed this audit of the board in compliance with Article VIII, Section 13 of the Montana Constitution, §§17-6-321, 17-5-1529, and 17-5-1649, MCA. Our audit work included analyzing the financial statements, examining the underlying transactions, and testing the board's compliance with selected state laws and regulations.

Included in this report are financial statements of the board's Consolidated Unified Investment Program and Enterprise Fund Program. This report does not contain any recommendations.

We thank the members of the board 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>Location</u>	<u>Qualifications</u>	<u>Term Expires January 1</u>
<b>Montana Board of Investments</b>	Mark Noennig, Chairman	Billings	Business	2017
	Kathy Bessette	Havre	Agriculture/ Ranching	2017
	Gary Buchanan	Billings	Financial	2015
	Karl Englund	Missoula	Attorney	2015
	Quinton Nyman	Helena	Organized Labor	2015
	Jack Prothero	Great Falls	Small Business	2017
	Marilyn Ryan	Missoula	Teachers Retirement Board	2017
	Jon Satre	Helena	Business	2015
	Sheena Wilson	Helena	Public Employees Retirement Board	2017
<b>Administrative Officials</b>	David Ewer, Executive Director			
	Geri Burton, Deputy Director			
	Cliff Sheets, Chief Investment Officer			
	Gayle L. Moon, Financial Manager			

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

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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Montana Board of Investments

For the Fiscal Year Ended June 30, 2014

JANUARY 2015

14-04A

REPORT SUMMARY

The Montana Board of Investments invests public funds, public retirement system funds, and state compensation insurance fund assets. In addition, the board manages the investments of state agencies and certain investments of local governments, such as cities, counties, and school districts. The board managed and invested \$16.2 billion at June 30, 2014, and \$14.8 billion at June 30, 2013, of the state's funds.

### Context

To manage the Unified Investment Program, the Montana Board of Investments (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 International Equity Pool, Montana Private Equity Pool, Montana Real Estate Pool, and Short Term Investment Pool. The board also manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately 20 state agencies. Those investments are reported collectively in the board's financial statements as All Other Funds. The board also provides the option for local government entities to invest in the Short Term Investment Pool.

We are required by Article VIII, Section 13 of the Montana Constitution and §17-6-321, MCA, to audit the board each fiscal year. To audit the board's Consolidated Unified Investment Program, we compared the investment transactions recorded by the board to the reports from the custodial bank. We analyzed the financial statements and examined the underlying transactions. The audit also included testing the board's compliance with selected state laws and regulations related to investments.

The board also administers the state's Municipal Finance Consolidation Act and Economic Development Bond Act programs, known as the Enterprise Fund Program. Under the Municipal Finance Consolidation Act, the board is authorized to issue up to \$190 million in Intermediate Term Capital Program (INTERCAP) bonds which are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years. The Board makes firm commitments to fund loans from the INTERCAP loan program. The outstanding commitments to eligible Montana governments as of June 30, 2014, total \$39,745,453. Economic Development Bond Act programs provide access to financing through issuance of conduit debt. The board is authorized to issue stand-alone industrial revenue 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.

We are required to audit the Municipal Finance Consolidation Act by §17-5-1529, MCA, and the Economic Development Bond Act programs

(continued on back)

by §17-5-1649, MCA. To audit this activity, we reviewed loan documents and payments. We compared the underlying transactions related to the loans to bank statements. We also tested the board's compliance with selected state laws and regulations related to the issuance of bonds and notes.

## Results

There were no prior audit recommendations; and there are no current audit recommendations.



# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Board of Investments (board) for the fiscal year ended June 30, 2014. The audit was performed to comply with Article VIII, Section 13 of the Montana Constitution, §§17-6-321, 17-5-1529, and 17-5-1649, MCA. The objectives of the audit were to:

1. 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.
2. Determine whether the board's Consolidated Unified Investment Program financial statements present fairly the net asset value/investments managed, the changes in net asset value/investments managed, and investment income and distribution for the fiscal year ended June 30, 2014, with comparative financial amounts for the fiscal year ended June 30, 2013.
3. Determine whether the board's Enterprise Fund Program financial statements present fairly the net position, changes in net position, and cash flows for the fiscal year ended June 30, 2014, with comparative financial amounts for the fiscal year ended June 30, 2013.
4. Determine the board's compliance with selected applicable laws and regulations.

To audit the board's Consolidated Unified Investment Program, we compared the investment transactions recorded by the board to the reports from the custodial bank. The custodial bank is charged with the safekeeping of investment assets, it settles purchases and sales of securities, collects information regarding the assets and the related income, and provides information and support to the board in its administration. We analyzed the financial statements and examined the underlying transactions. The audit also included testing the board's compliance with selected state laws and regulations related to investments.

To audit the board's activity related to the Economic Development Bond and Municipal Finance Consolidated Program, known as the Enterprise Fund Program, we reviewed loan documents and payments. We compared the underlying transactions related to the loans to bank statements. We also tested the board's compliance with selected state laws and regulations related to the issuance of bonds and notes.

## **Background**

The board is allocated 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 board decisions, and perform daily investment, economic development, and record keeping functions.

To manage the Unified Investment Program, the board created seven investment pools that operate similar to mutual funds. The pools are: Retirement Funds Bond Pool, Trust Funds Investment Pool, Montana Domestic Equity Pool, Montana International Equity Pool, Montana Private Equity Pool, Montana Real Estate Pool, and Short Term Investment Pool. In addition, the board manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately 20 state agencies. Those investments are reported collectively in the board's financial statements as All Other Funds. 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 administers 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 Intermediate Term Capital Program bonds which are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years.

The Montana Veterans' Home Loan Mortgage Program was established during the 2011 Legislative Session to be funded up to \$15 million of principal from the Montana Coal Tax Trust Fund. The 2013 Legislative Session increased the funding for an additional \$15 million. The program assists Montana residents who are National Guard members, reservists, or federally qualified veterans to purchase their first home. First mortgage loans are administered by the Montana Board of Housing and purchased by Montana Board of Investments.

# **Independent Auditor's Report and Consolidated Unified Investment Program Financial Statements**



## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Statement of Net Asset Value/Investments Managed of the Montana Board of Investments (board) Consolidated Unified Investment Program as of June 30, 2014, and 2013, 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, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

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, 2014, and 2013, and the changes in net asset value/investments managed and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

December 2, 2014

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, 2014 AND 2013

<b>Assets</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Investment portfolios at fair value (Note 2B,13) (Carrying value of \$11,329,350,450 in 2014 and \$10,846,697,658 in 2013)	\$ 13,617,057,633	\$ 12,152,207,258
STIP investment portfolio at amortized cost (Note 2B)	2,535,153,167	2,646,260,626
Cash (Foreign cash cost in USD of \$1,172,753 for 2014 and \$1,384,074 for 2013 )	4,023,223	3,051,107
Security lending cash collateral (Note 5)	814,616,375	718,718,600
Security lending income receivable (Note 13)	350,165	369,118
Broker receivable for securities sold but not settled (Note 2A)	43,023,627	94,951,085
Dividend and interest receivable (Note 2E, 13)	41,674,508	50,795,161
Currency forward contracts (Note 6)	<u>-</u>	<u>484,065</u>
<b>Total assets (Note 2B)</b>	<b><u>\$ 17,055,898,698</u></b>	<b><u>\$ 15,666,837,020</u></b>
<b>Liabilities</b>		
Income due participants (Note 2E, 13)	\$ 17,532,425	15,414,465
Broker payable for securities purchased but not settled (Note 2A)	36,004,122	129,150,637
Security lending obligations (Note 5)	814,616,375	718,718,600
Security lending expense payable	54,885	48,498
Other payables	184,951	8,150,963
Administrative fee payable	3,696,841	3,083,330
Currency forward contracts (Note 6)	209,548	-
STIP reserve (Note 7)	<u>24,439,814</u>	<u>18,232,935</u>
<b>Total liabilities (Note 2B, 13)</b>	<b><u>896,738,961</u></b>	<b><u>892,799,428</u></b>
<b>Net asset value/investments managed (Note 2B, 2C,13)</b>	<b><u>\$ 16,159,159,737</u></b>	<b><u>\$ 14,774,037,592</u></b>
Pool Units Outstanding (Note 2B, 2C)	2,589,648,090	2,706,153,761

STATEMENT OF CHANGES IN NET ASSET VALUE/INVESTMENTS MANAGED  
FOR FISCAL YEARS ENDING JUNE 30, 2014 AND 2013

Net asset value/investments, beginning of year (Note 13)	\$ 14,774,037,592	\$ 13,782,809,405
Value of pool units/investments purchased (Note 2D)	10,531,608,722	9,822,451,390
Value of pool units/investments sold/matured (Note 2D)	(10,313,371,750)	(9,470,709,308)
Increase (decrease) in AOF interest receivable (Note 13)	(727,718)	(1,825,957)
Increase (decrease) in AOF security lending income receivable (Note 13)	(33,759)	7,848
(Increase) decrease in AOF security lending expense payable	10,620	11,416
Changes in current value of investments managed (Note 2D,13)	<u>1,167,636,030</u>	<u>641,292,798</u>
<b>Net asset value/investments managed (Note 2B, 2C,13)</b>	<b><u>\$ 16,159,159,737</u></b>	<b><u>\$ 14,774,037,592</u></b>

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION  
FOR FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

Net realized gain (loss) (Note 2E)	\$ 267,261,112	\$ 200,644,066
Dividend/interest income (Note 2E, 13)	301,382,361	307,110,619
Amortization/accretion (Note 2E, 13)	2,691,921	1,932,327
Security lending income (Note 5)	3,676,327	4,546,789
Security lending expense (Note 5)	(495,273)	(1,167,030)
Administrative expenses (Note 2F)	(51,531,147)	(43,918,973)
Other investment expenses (Note 13)	(6,149,804)	(4,239,198)
STIP reserve expense (Note 7)	(5,453,500)	(6,205,000)
Income due participants, beginning of year	<u>15,414,465</u>	<u>18,856,771</u>
Income available for distribution (Note 2E, 13)	526,796,462	477,560,371
Distribution (Note 2E)	<u>509,264,037</u>	<u>462,145,906</u>
<b>Income due participants, end of year (Note 2E, 13)</b>	<b><u>\$ 17,532,425</u></b>	<b><u>\$ 15,414,465</u></b>

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, 2014 AND 2013

## 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 and loan 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
All Other Funds (AOF) Investments Managed	NA	Non-Pool State Agency Investments

## 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 a 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



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

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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, two equity index funds, residential mortgages and commercial loans. These state agencies do not buy or sell participant units based on a NAV calculation for their AOF Investments Managed. The real estate buildings and pension residential mortgages are included in the MTRP and RFBP portfolios. The book value, fair value, Pool NAV and AOF Investments Managed (IM) are shown in the table below.

**June 30, 2014 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM)**

<u>Pool</u>	<u>Book Value</u>	<u>Fair Value *</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)	\$ 2,097,740,968	\$ 2,142,497,092	\$ 2,130,976,350
Trust Funds Investment Pool (TFIP)	2,060,978,083	2,188,658,787	2,195,740,749
Montana Domestic Equity Pool (MDEP)	2,491,555,164	3,835,789,959	3,851,598,718
Montana International Equity Pool (MTIP)	1,335,041,162	1,747,475,366	1,747,646,019
Montana Private Equity Pool (MPEP)	877,756,483	1,031,447,894	1,031,167,872
Montana Real Estate Pool (MTRP)	786,064,306	841,169,323	849,771,065
Short Term Investment Pool (STIP)*	2,535,153,167	2,535,153,167	2,511,511,582
All Other Funds (AOF) Investments Managed	1,680,214,284	1,830,019,212	1,840,747,382
<b>Total</b>	<b>\$ 13,864,503,617</b>	<b>\$ 16,152,210,800</b>	<b>\$ 16,159,159,737</b>

**June 30, 2013 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM)**

<u>Pool</u>	<u>Book Value</u>	<u>Fair Value *</u>	<u>NAV/IM</u>
Retirement Funds Bond Pool (RFBP)**	\$ 1,910,259,702	\$ 1,918,473,906	\$ 1,889,172,830
Trust Funds Investment Pool (TFIP)**	1,985,421,731	2,070,339,812	2,077,575,715
Montana Domestic Equity Pool (MDEP)	2,467,782,775	3,263,586,660	3,267,088,891
Montana International Equity Pool (MTIP)	1,256,898,873	1,415,808,871	1,416,165,562
Montana Private Equity Pool (MPEP)	927,348,728	1,066,828,893	1,066,675,620
Montana Real Estate Pool (MTRP)	787,747,762	782,116,752	781,334,836
Short Term Investment Pool (STIP)*	2,646,260,626	2,646,260,626	2,629,103,323
All Other Funds (AOF) Investments Managed**	1,511,238,087	1,635,052,364	1,646,920,815
<b>Total**</b>	<b>\$ 13,492,958,284</b>	<b>\$ 14,798,467,884</b>	<b>\$ 14,774,037,592</b>

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

\*\* Refer to Note 13-Restatement

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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.

**2014 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)	\$ 2,322,400,841	\$ 191,424,491	\$ 2,130,976,350
Trust Funds Investment Pool (TFIP)	2,313,645,063	117,904,314	2,195,740,749
Montana Domestic Equity Pool (MDEP)	4,089,509,008	237,910,290	3,851,598,718
Montana International Equity Pool (MTIP)	1,779,805,442	32,159,423	1,747,646,019
Montana Private Equity Pool (MPEP)	1,031,564,102	396,230	1,031,167,872
Montana Real Estate Pool (MTRP)	851,652,651	1,881,586	849,771,065
Short Term Investment Pool (STIP)	2,538,058,578	26,546,996	2,511,511,582
All Other Funds (AOF) Investments Managed	<u>2,129,263,013</u>	<u>288,515,631</u>	<u>1,840,747,382</u>
<b>Total</b>	<b><u>\$ 17,055,898,698</u></b>	<b><u>\$ 896,738,961</u></b>	<b><u>\$ 16,159,159,737</u></b>

**2013 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)**	\$ 2,184,276,386	\$ 295,103,556	\$ 1,889,172,830
Trust Funds Investment Pool (TFIP)**	2,210,287,831	132,712,116	2,077,575,715
Montana Domestic Equity Pool (MDEP)	3,470,241,963	203,153,072	3,267,088,891
Montana International Equity Pool (MTIP)	1,448,800,758	32,635,196	1,416,165,562
Montana Private Equity Pool (MPEP)	1,066,828,893	153,273	1,066,675,620
Montana Real Estate Pool (MTRP)	782,548,744	1,213,908	781,334,836
Short Term Investment Pool (STIP)	2,654,932,422	25,829,099	2,629,103,323
All Other Funds (AOF) Investments Managed**	<u>1,848,920,023</u>	<u>201,999,208</u>	<u>1,646,920,815</u>
<b>Total</b>	<b><u>\$ 15,666,837,020</u></b>	<b><u>\$ 892,799,428</u></b>	<b><u>\$ 14,774,037,592</u></b>

**\*\* Refer to Note 13-Restatement**

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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 purchases 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.

**2014 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)	\$ 2,130,976,350	18,822,787	\$ 113.21
Trust Funds Investment Pool (TFIP)	2,195,740,749	20,518,668	107.01
Montana Domestic Equity Pool (MDEP)	3,851,598,718	16,245,747	237.08
Montana International Equity Pool (MTIP)	1,747,646,019	9,652,347	181.06
Montana Private Equity Pool (MPEP)	1,031,167,872	3,687,473	279.64
Montana Real Estate Pool (MTRP)	849,771,065	9,209,486	92.27
Short Term Investment Pool (STIP)	2,511,511,582	2,511,511,582	1.00
All Other Funds (AOF) Investments Managed	1,840,747,382	NA	NA
<b>Total</b>	<b>\$ 16,159,159,737</b>	<b>2,589,648,090</b>	<b>NA</b>

**2013 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)**	\$ 1,889,172,830	16,989,550	\$ 111.20
Trust Funds Investment Pool (TFIP)**	2,077,575,715	19,762,546	105.13
Montana Domestic Equity Pool (MDEP)	3,267,088,891	17,188,381	190.08
Montana International Equity Pool (MTIP)	1,416,165,562	9,454,867	149.78
Montana Private Equity Pool (MPEP)	1,066,675,620	4,411,604	241.79
Montana Real Estate Pool (MTRP)	781,334,836	9,243,490	84.53
Short Term Investment Pool (STIP)	2,629,103,323	2,629,103,323	1.00
All Other Funds (AOF) Investments Managed**	1,646,920,815	NA	NA
<b>Total</b>	<b>\$ 14,774,037,592</b>	<b>2,706,153,761</b>	<b>NA</b>

**\*\* Refer to Note 13-Restatement**

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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.

**2014 Pool Unit/AOF Investment Activity and Change in Value of Investments**

<u>Pool</u>	<u>Value of Pool Units/Investments Purchased</u>	<u>Value of Pool Units/Investments Sold/Matured</u>	<u>Change in Value of Investments</u>
Retirement Funds Bond Pool (RFBP)	\$ 205,070,000	\$ (983,508)	\$ 37,717,028
Trust Funds Investment Pool (TFIP)	98,385,599	(17,359,787)	37,139,222
Montana Domestic Equity Pool (MDEP)	11,460,000	(70,825,913)	643,875,740
Montana International Equity Pool (MTIP)	39,335,000	(4,794,858)	296,940,315
Montana Private Equity Pool (MPEP)	10,300,000	(100,608,285)	54,800,537
Montana Real Estate Pool (MTRP)	26,060,000	(28,187,153)	70,563,382
Short Term Investment Pool (STIP)	6,675,778,555	(6,793,370,296)	-
All Other Funds (AOF) Investments Managed	<u>3,465,219,568</u>	<u>(3,297,241,950)</u>	<u>26,599,806</u>
<b>Total</b>	<b><u>\$ 10,531,608,722</u></b>	<b><u>\$ (10,313,371,750)</u></b>	<b><u>\$ 1,167,636,030</u></b>

**2013 Pool Unit/AOF Investment Activity and Change in Value of Investments**

<u>Pool</u>	<u>Value of Pool Units/Investments Purchased</u>	<u>Value of Pool Units/Investments Sold/Matured</u>	<u>Change in Value of Investments</u>
Retirement Funds Bond Pool (RFBP)**	\$ 33,740,000	\$ (37,809,342)	\$ (41,167,752)
Trust Funds Investment Pool (TFIP)**	90,805,000	(20,230,068)	(50,751,837)
Montana Domestic Equity Pool (MDEP)	14,625,000	(96,261,841)	458,652,489
Montana International Equity Pool (MTIP)	26,640,000	(8,272,418)	163,247,430
Montana Private Equity Pool (MPEP)	16,580,000	(42,218,602)	75,039,384
Montana Real Estate Pool (MTRP)	109,880,000	(81,374)	46,214,279
Short Term Investment Pool (STIP)	6,834,893,673	(6,591,446,473)	-
All Other Funds (AOF) Investments Managed**	<u>2,695,287,717</u>	<u>(2,674,389,190)</u>	<u>(9,941,195)</u>
<b>Total</b>	<b><u>\$ 9,822,451,390</u></b>	<b><u>\$ (9,470,709,308)</u></b>	<b><u>\$ 641,292,798</u></b>

**\*\* Refer to Note 13-Restatement**

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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 pool participant and security 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, MTIP and MTRP are retained in the pool unless pool expenses cause the Income Due Participants balance to be negative. When this occurs, a portion of the pool's accumulated net realized capital gain is transferred to the Income Due Participants account to create a positive balance available for distribution. The MPEP, MTIP, and MTRP realized capital gain transfers are reported in the table below. Realized Bond Pool gains/losses are also retained in the pool, while AOF portfolio gains/losses are received on settlement date. The Income Due Participants balance, as recorded in each Pool, is generally distributed monthly on the first calendar day of each month. The sale of pool units generates a gain or loss to the pool participants and is recorded as AOF activity. The major sources of distributable income for each Pool and the AOF are shown below.

**2014 Major Sources of Distributable Income**

<u>Pool</u>	<u>Gain (Loss)</u>	<u>Dividend\ Interest</u>	<u>Amortization\ Accretion</u>
Retirement Funds Bond Pool (RFBP)	\$ -	\$ 67,789,510	\$ -
Trust Funds Investment Pool (TFIP)	-	86,160,387	(559,131)
Montana Domestic Equity Pool (MDEP)	-	25,603,637	-
Montana International Equity Pool (MTIP)	250,000	14,934,029	-
Montana Private Equity Pool (MPEP)	11,000,000	19,406,980	-
Montana Real Estate Pool (MTRP)	-	29,285,360	-
Short Term Investment Pool (STIP)	-	7,568,968	2,252,473
Pool Participant Sales	241,729,912	-	-
All Other Funds (AOF) Investments Managed	14,281,200	50,633,490	998,579
<b>Total</b>	<b>\$ 267,261,112</b>	<b>\$ 301,382,361</b>	<b>\$ 2,691,921</b>

**2013 Major Sources of Distributable Income**

<u>Pool</u>	<u>Gain (Loss)</u>	<u>Dividend\ Interest</u>	<u>Amortization\ Accretion</u>
Retirement Funds Bond Pool (RFBP)**	\$ -	\$ 69,505,987	\$ -
Trust Funds Investment Pool (TFIP)**	-	85,768,039	(422,594)
Montana Domestic Equity Pool (MDEP)**	-	24,135,021	-
Montana International Equity Pool (MTIP)**	100,000	13,483,050	-
Montana Private Equity Pool (MPEP)	5,000,000	29,933,512	-
Montana Real Estate Pool (MTRP)	-	21,010,910	-
Short Term Investment Pool (STIP)**	-	10,578,875	2,437,547
Pool Participant Sales	184,476,356	-	-
All Other Funds (AOF) Investments Managed**	11,067,710	52,695,225	(82,626)
<b>Total</b>	<b>\$ 200,644,066</b>	<b>\$ 307,110,619</b>	<b>\$ 1,932,327</b>

**\*\* Refer to Note 13-Restatement**

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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.**

**2014 Distributable and Undistributed Income**

<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)	\$ 71,840,661	\$ 66,133,480	\$ 5,707,181
Trust Funds Investment Pool (TFIP)	89,391,520	82,955,214	6,436,306
Montana Domestic Equity Pool (MDEP)	14,505,277	12,911,661	1,593,616
Montana International Equity Pool (MTIP)	12,382,630	11,109,656	1,272,974
Montana Private Equity Pool (MPEP)	7,947,885	7,551,655	396,230
Montana Real Estate Pool (MTRP)	20,072,086	18,191,391	1,880,695
Short Term Investment Pool (STIP)	4,032,971	3,787,548	245,423
All Other Funds (AOF) Investments Managed	<u>306,623,432</u>	<u>306,623,432</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 526,796,462</u></b>	<b><u>\$ 509,264,037</u></b>	<b><u>\$ 17,532,425</u></b>

**2013 Distributable and Undistributed Income**

<u>Pool Name</u>	<u>Distributable</u>	<u>Distributed</u>	<u>Undistributed</u>
Retirement Funds Bond Pool (RFBP)**	\$ 74,572,840	\$ 69,031,581	\$ 5,541,259
Trust Funds Investment Pool (TFIP)**	91,544,446	86,141,061	5,403,385
Montana Domestic Equity Pool (MDEP)	16,347,899	14,900,376	1,447,523
Montana International Equity Pool (MTIP)	11,169,654	9,528,918	1,640,736
Montana Private Equity Pool (MPEP)	17,419,507	17,266,234	153,273
Montana Real Estate Pool (MTRP)	11,718,601	10,514,080	1,204,521
Short Term Investment Pool (STIP)	6,758,604	6,345,412	413,192
All Other Funds (AOF) Investments Managed**	<u>248,028,820</u>	<u>248,418,244</u>	<u>(389,424)</u>
<b>Total</b>	<b><u>\$ 477,560,371</u></b>	<b><u>\$ 462,145,906</u></b>	<b><u>\$ 15,414,465</u></b>

**\*\* Refer to Note 13-Restatement**

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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 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 funds required to pay the fee 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 Year 2014 Management Fees**

<b><u>Pool</u></b>	<b><u>Board</u></b>	<b><u>Custodial Bank</u></b>	<b><u>External Managers</u></b>	<b><u>Total</u></b>
Retirement Funds Bond Pool (RFBP)	\$ 675,192	\$ 197,784	\$ 1,533,503	\$ 2,406,479
Trust Funds Investment Pool (TFIP)	445,152	117,456	1,731,126	2,293,734
Montana Domestic Equity Pool (MDEP)	612,948	609,828	8,591,271	9,814,047
Montana International Equity Pool (MTIP)	548,484	136,944	3,343,934	4,029,362
Montana Private Equity Pool (MPEP)	983,748	121,260	19,323,476	20,428,484
Montana Real Estate Pool (MTRP)	592,320	88,188	9,712,113	10,392,621
Short Term Investment Pool (STIP)	548,412	203,928	-	752,340
All Other Funds (AOF) Investments Managed	<u>757,992</u>	<u>138,912</u>	<u>517,176</u>	<u>1,414,080</u>
<b>Total</b>	<b><u>\$ 5,164,248</u></b>	<b><u>\$ 1,614,300</u></b>	<b><u>\$ 44,752,599</u></b>	<b><u>\$ 51,531,147</u></b>

**Fiscal Year 2013 Management Fees**

<b><u>Pool</u></b>	<b><u>Board</u></b>	<b><u>Custodial Bank</u></b>	<b><u>External Managers</u></b>	<b><u>Total</u></b>
Retirement Funds Bond Pool (RFBP)	\$ 558,450	\$ 226,812	\$ 1,533,111	\$ 2,318,373
Trust Funds Investment Pool (TFIP)	367,360	158,076	1,617,475	2,142,911
Montana Domestic Equity Pool (MDEP)	489,400	534,924	6,622,194	7,646,518
Montana International Equity Pool (MTIP)	438,790	125,523	2,975,855	3,540,168
Montana Private Equity Pool (MPEP)	665,110	128,514	16,152,981	16,946,605
Montana Real Estate Pool (MTRP)	407,900	79,468	9,265,854	9,753,222
Short Term Investment Pool (STIP)	461,430	211,104	-	672,534
All Other Funds (AOF) Investments Managed	<u>678,060</u>	<u>151,934</u>	<u>68,648</u>	<u>898,642</u>
<b>Total</b>	<b><u>\$ 4,066,500</u></b>	<b><u>\$ 1,616,355</u></b>	<b><u>\$ 38,236,118</u></b>	<b><u>\$ 43,918,973</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, 2014

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Adams Street	\$ 234,866,385	\$ 15,032,960	\$ 115,511,509	\$ 94,717,908
Affinity Equity Partners	35,000,000	19,924,657	7,376,948	9,364,542
American Securities Partners	35,000,000	17,977,682	16,263,532	22,150,768
ArcLight	70,000,000	13,468,455	22,954,254	25,489,623
Audax	25,000,000	16,077,755	8,790,151	9,429,538
Axiom Asia Private Capital	50,000,000	26,638,403	19,397,891	23,837,342
Black Diamond Capital Management	25,000,000	8,239,766	16,498,178	19,759,026
Carlyle Partners	60,000,000	5,013,033	18,673,411	25,346,149
Cartesian Capital	20,000,000	12,653,409	6,530,814	6,972,277
Catalyst Capital	30,000,000	24,842,603	4,638,301	5,350,642
CCMP Capital Advisors	55,000,000	21,246,810	23,734,571	28,304,134
Centerbridge Capital	57,500,000	16,332,729	31,308,933	39,908,422
CIVC Partners	25,000,000	9,890,069	11,553,142	11,053,838
EIF	25,000,000	14,788,712	8,647,054	8,546,843
Eureka Partners	20,000,000	17,229,133	1,142,285	2,616,444
GI Partners	20,000,000	19,983,508	-	-
Gridiron Capital	15,000,000	5,852,048	8,529,094	10,560,442
Guardian Capital	15,000,000	13,725,000	1,092,040	1,092,040
HarbourVest Partners	86,823,772	32,403,452	38,032,581	53,755,452
HCI Equity Partners	45,000,000	24,956,717	16,599,763	23,536,709
Highway 12 Investors	10,000,000	91,689	7,370,340	11,769,238
HKW Capital	20,000,000	14,104,000	5,472,913	5,665,456
Industry Ventures	10,000,000	350,001	5,220,716	3,997,794
J.C. Flowers & Co	25,000,000	673,129	11,146,507	7,032,108
JLL Partners	25,000,000	960,154	9,527,702	12,905,806
Kinderhook	20,000,000	20,000,000	-	-
Lexington Capital Partners	155,000,000	15,394,281	63,256,439	73,810,309
MatlinPatterson Global Advisers	30,000,000	3,828,687	23,535,608	22,100,572
MHR Institutional Investors	25,000,000	9,217,993	12,868,296	17,767,925
Montlake	15,000,000	1,575,000	9,260,408	10,415,505
NB Co-investment Partners	55,000,000	15,658,842	20,335,803	26,041,198
Northgate Capital	45,000,000	22,800,000	21,026,985	24,972,648
Oak Hill Capital Partners	45,000,000	4,150,526	24,560,115	21,713,082
Oaktree	35,000,000	3,500,000	1	7,684,751
Odyssey	70,000,000	33,089,749	18,373,595	22,316,181
Opus Capital	10,000,000	6,477,822	2,630,760	3,808,567
Performance Equity Management	25,000,000	7,244,494	16,328,021	21,343,972
Pine Brook Partners	25,000,000	19,857,426	4,390,851	4,408,006
Portfolio Advisors	70,000,000	15,081,414	41,440,176	59,736,303
Quintana Energy Partners	15,000,000	588,556	7,332,027	11,949,181
Siguler Guff	50,000,000	17,750,000	27,180,072	30,910,502
Southern Capital Partners	15,000,000	10,806,999	3,649,973	3,602,173
Sterling Capital Partners	20,000,000	13,854,890	6,392,590	5,943,453
Summit Partners	20,000,000	9,814,000	10,194,015	10,379,872
TA Associates	10,000,000	3,575,000	5,199,014	6,690,710
Tenaya Capital	20,000,000	7,402,308	11,807,915	12,624,680
Tenex Capital Management	20,000,000	7,513,424	10,851,016	12,893,633
Terra Firma Capital Partners	25,432,997	247,043	23,481,253	17,562,846
Trilantic Capital Partners	51,098,351	37,304,244	7,887,224	13,315,351
Veritas Capital	25,000,000	9,861,141	15,711,535	25,124,268
Welsh Carson	75,000,000	1,000,000	25,970,964	31,907,954
White Deer Energy	25,000,000	21,536,613	2,817,313	2,570,846
<b>Total MPEP Commitments</b>	<b><u>\$ 2,035,721,505</u></b>	<b><u>\$ 671,586,326</u></b>	<b><u>\$ 832,494,599</u></b>	<b><u>\$ 964,757,029</u></b>



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

**MTRP Commitments as of June 30, 2014**

<u>Fund Manager Name</u>	<u>Original Commitment</u>	<u>Commitment Remaining</u>	<u>Carrying Value</u>	<u>Fair Value</u>
ABR Chesapeake	\$ 30,000,000	\$ 12,000,000	\$ 15,775,214	\$ 16,574,465
Angelo Gordon	95,000,000	16,303,933	50,247,428	52,037,900
Area Property Partners	10,000,000	1,664,000	1,016,068	24,461
Beacon Capital Partners	25,000,000	3,500,000	16,450,495	7,084,883
BPG Investment Partnership	30,000,000	16,588,324	13,411,676	13,737,727
Carlyle	30,994,690	2,852,813	22,215,363	19,199,197
CBRE Strategic Partners	20,000,000	1,934,751	17,445,541	19,181,198
DRA Advisors	54,696,000	2,617,731	47,272,699	50,062,273
GEM Realty Fund	35,000,000	21,317,500	10,140,868	12,066,120
JER Real Estate Partners	9,913,679	2,436,550	2,424,725	5,187
Landmark Real Estate Partners	20,000,000	5,617,539	6,274,047	13,188,110
MacQuarie Global Properties	30,000,000	10,398,058	11,969,145	18,095,827
Molpus Woodlands	50,000,000	5,480,314	41,903,135	47,382,221
O'Connor North America	15,000,000	283,966	9,555,491	7,176,728
ORM Timber LLC	30,000,000	18,063,000	11,802,000	12,167,956
TA Associates Realty	20,000,000	7,000,000	13,000,000	13,548,288
Resource Management Service	25,000,000	3,192,518	21,029,444	23,738,289
Stockbridge LP	25,000,000	6,200,209	15,617,025	18,318,630
<b>Total MTRP Commitments</b>	<b><u>\$ 555,604,369</u></b>	<b><u>\$ 137,451,206</u></b>	<b><u>\$ 327,550,364</u></b>	<b><u>\$ 343,589,460</u></b>

#### 4. TYPES OF INVESTMENTS

**Bond Pools and AOF Investments** – The RFBP, TFIP, and AOF fixed income portfolios include corporate, sovereign, 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. Corporate bonds include asset backed securities. Sovereign debt refers to U.S. dollar denominated debt obligations of developed country foreign governments. These three portfolios may include variable-rate (floating rate) instruments with the interest rate tied to a specific rate such as LIBOR (London Interbank Offered Rate). Variable rate securities pay a variable rate of interest until maturity. In February 2013, the Board approved a staff recommendation to diversify income sources within one fund of the AOF by providing investment in two 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 investments, while the MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges as depository

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receipts. The MTIP portfolio invests in both developed and emerging markets.

**Alternative Investment Pools** - The Montana Private Equity Pool (MPEP) includes 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 not registered with the Securities and Exchange Commission (SEC) as an investment company, STIP is managed similar to money market funds that are governed by 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 are a variable rate security. 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.

**AOF** - In addition to fixed income investments, the AOF portfolio includes two equity index funds, Veteran's Home Loan residential mortgages, two real estate funds, and commercial loans. On May 1, 2011 the direct real estate buildings and pension residential mortgages, owned by the Public Employees' and Teachers' pension funds, were sold to the MTRP and the RFBP, and are no longer included in the AOF. Equity index investments are investments in institutional commingled funds whose equity portfolios match a broad based index or composite.

The AOF Montana loans receivable represent commercial loans funded from the Coal Severance Tax Trust Fund by the Board and Montana Facility Finance Authority. The Veteran's Home Loan residential mortgages are also funded from the Coal Severance Tax Trust Fund. The Coal Severance Tax Trust loan portfolio also includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTTA Board was abolished on July 1, 1999 and the MSTTA portfolio was assigned to the Board. There are no uncollectible account balances for Montana mortgages and loans receivable as of June 30, 2014 and 2013. In fiscal year 2014, the Board wrote off \$62,280 related to a commercial loan foreclosure and received \$3,481 as recovery proceeds related to a May 2012 MSTTA loan written off. (See Note 9 for the Montana mortgages and loans portfolio.)

## 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 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. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The Board and the Bank split the earnings, 80/20% respectively, on security lending activities. The Board retains all rights and risks of ownership during the loan period.

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During fiscal years 2014 and 2013, the 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 sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2014 and 2013. 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. There were no losses during fiscal years 2014 and 2013 resulting from a borrower default.

During fiscal years 2014 and 2013, the Board and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2014, the Quality D Short Term Investment Fund liquidity pool had an average duration of 37 days and an average weighted final maturity of 104 days for U.S. dollar collateral. The duration pool had an average duration of 42 days and an average weighted final maturity of 1,770 days for U.S. dollar collateral. As of June 30, 2013, the Quality D Short Term Investment Fund liquidity pool had an average duration of 29 days and an average weighted final maturity of 85 days for U.S. dollar collateral. The duration pool had an average duration of 44 days and an average weighted final maturity of 1,972 days for U.S. dollar collateral. As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral. As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for U.S. dollar collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2014 and 2013, the Board's credit risk exposure to borrowers was indemnified by State Street Bank. 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.

June 30, 2014				
<u>Pool/AOF</u>	<u>Fair Value On Loan</u>	<u>Collateral Cash</u>	<u>Collateral Securities</u>	<u>Collateral Total</u>
Retirement Funds Bond Pool (RFBP)	269,192,254	158,456,105	115,992,965	274,449,070
Trust Funds Investment Pool (TFIP)	229,744,693	111,402,861	122,758,443	234,161,304
Montana Domestic Equity Pool (MDEP)	314,502,368	225,091,067	94,288,672	319,379,739
Montana International Equity Pool (MTIP)	39,049,973	29,294,936	11,644,037	40,938,973
Short Term Investment Pool (STIP)	1,822,162	1,861,747	-	1,861,747
AOF Investments Managed	326,568,663	288,509,659	44,364,036	332,873,695
<b>Total</b>	<b><u>1,180,880,113</u></b>	<b><u>814,616,375</u></b>	<b><u>389,048,153</u></b>	<b><u>1,203,664,528</u></b>

June 30, 2013				
<u>Pool/AOF</u>	<u>Fair Value On Loan</u>	<u>Collateral Cash</u>	<u>Collateral Securities</u>	<u>Collateral Total</u>
Retirement Funds Bond Pool (RFBP)	300,840,796	172,255,560	134,156,010	306,411,570
Trust Funds Investment Pool (TFIP)	262,737,510	127,239,321	140,474,150	267,713,471
Montana Domestic Equity Pool (MDEP)	226,249,065	180,175,510	50,978,581	231,154,091
Montana International Equity Pool (MTIP)	39,873,542	29,493,241	12,515,811	42,009,052
Short Term Investment Pool (STIP)	7,031,052	7,182,928	-	7,182,928
AOF Investments Managed	313,607,282	202,372,040	117,687,714	320,059,754
<b>Total</b>	<b><u>1,150,339,247</u></b>	<b><u>718,718,600</u></b>	<b><u>455,812,266</u></b>	<b><u>1,174,530,866</u></b>

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Securities lending income and expenses are shown below.

<u>Pool/AOF</u>	<u>Fiscal Year 2014</u>		
	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,067,335	\$ 145,623	\$ 921,712
Trust Funds Investment Pool (TFIP)	824,248	143,635	680,613
Montana Domestic Equity Pool (MDEP)	732,628	127,403	605,225
Montana International Equity Pool (MTIP)	228,921	43,351	185,570
Short Term Investment Pool (STIP)	4,442	263	4,179
AOF Investments Managed	818,753	34,998	783,755
<b>Total</b>	<b>\$ 3,676,327</b>	<b>\$ 495,273</b>	<b>\$ 3,181,054</b>

<u>Pool/AOF</u>	<u>Fiscal Year 2013</u>		
	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,305,950	\$ 313,818	\$ 992,132
Trust Funds Investment Pool (TFIP)	1,093,600	284,223	809,377
Montana Domestic Equity Pool (MDEP)	747,803	213,503	534,300
Montana International Equity Pool (MTIP)	317,931	61,047	256,884
Short Term Investment Pool (STIP)	23,980	7,711	16,269
AOF Investments Managed	1,057,525	286,728	770,797
<b>Total</b>	<b>\$ 4,546,789</b>	<b>\$ 1,167,030</b>	<b>\$ 3,379,759</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 U.S. Government securities, the pools' 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 TFIP fixed income investments to be invested in investment grade securities (Baa3/BBB- or higher) with the exception up to 10% of the pool may be invested in below investment grade securities. Credit risk for the internal and external managers for the RFBP is detailed as follows:

- 1) **Core Internal Bond Pool (CIBP)** – “Securities must be rated investment grade, or no lower than triple-B-minus, by two NRSROs at the time of purchase with the exception of non-rated securities or guaranteed by agencies or instrumentalities of the U.S. government.”
- 2) **Reams Asset Management Company LLC** – “At time of purchase, securities must be rated at least single-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase.”
- 3) **Aberdeen Asset Management Inc. formerly Artio Global Management LLC.** – “At time of purchase, securities must be rated at least double-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase.”
- 4) **Neuberger Berman Fixed Income LLC** – “At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value.”
- 5) **Post Advisory Group LLC** - “At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value.”

As stated in the STIP Investment Policy, “the STIP portfolio will minimize credit risk by:

- 1) limiting investments to Permissible Securities on the Approved List
- 2) prequalifying the financial institutions, brokers/dealers, intermediaries and advisers with whom the STIP will conduct business; and
- 3) diversifying the portfolio so potential losses on individual securities will be minimized.”

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 following tables are provided by the S&P rating service. If an S&P rating is not available, a Moody's rating has been used.

Neither the MTIP, MDEP or MTRP investment policies address credit risk for the MTIP and MDEP external managers' cash equivalents investment in custodial bank's Short Term Investment Fund (STIF) or the MTRP STIP investment. As of June 30, 2014 and 2013, the MTIP STIF balances were \$5,748,968 and \$2,400,069 respectively, while the MDEP STIF balances were \$34,685,311 and \$27,134,694, respectively. The June 30, 2014 and 2013, MTRP STIP investment totaled \$15,012,213 and \$10,006,106, respectively. The STIF and STIP cash equivalent funds have not been rated by a NRSRO. One MDEP manager has a \$227,075 cash equivalent investment as of June 30, 2014 in the T. Rowe Price Reserve Investment Fund with an average credit rating of AAA.

Of the 18 individual Investment Policy Statements for the funds categorized as the AOF, eight funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. One fund requires "corporate securities be rated A3/A- or higher by Moody's/S&P rating agencies to qualify for purchase." One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by Standard & Poor's (S&P) rating services. This fund's investment policy, revised in February 2013, states "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name." Five funds require, at the time of purchase, "the quality rating of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (e.g. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one U.S. Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase." One fund requires "fixed income securities must be rated at least A- or A3 at the time of purchase."

Asset-backed securities held in the Bond Pools, AOF and STIP portfolios 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.

**Custodial Credit Risk - Deposits** – Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. As of June 30, 2014 and 2013, the Board recorded cash deposits of \$4,023,223 and \$3,051,107, respectively. Of these balances, \$1,175,899 and \$1,365,163, respectively, represented foreign cash deposits, at fair value, held in sub-custodial banks. These deposits are uninsured and the balances are exposed based on no collateralization.

In November 2008, the Federal Deposit Insurance Corporation (FDIC)'s Board of Directors established a program called the 'Temporary Liquidity Guarantee Program' (TLGP). This program was designed to assist in the stabilization of the nation's financial system. Under the Transaction Account Guarantee (TAG) program, a component of the TLGP, the FDIC guarantees all funds held in qualifying noninterest bearing transaction accounts at participating insured depository institutions. Effective June 22, 2010, an amendment to the 12 CFR 370, in part, extended the TAG program until December 31, 2010, with the possibility of an additional extension of up to 12 months upon the determination by the FDIC's Board of Directors. Pursuant to the Dodd-Frank Provision, all funds in noninterest bearing accounts are insured in full by the FDIC from December 31, 2010 through December 31, 2012. As scheduled, the unlimited insurance coverage for noninterest-bearing transaction accounts provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to at least \$250,000. Excluding the foreign cash deposits, the remaining custodial bank cash deposits are insured by the FDIC with coverage of \$250,000 per depositor. The MTRP interest bearing checking account for the direct real estate investments is insured by the FDIC up to \$250,000. The Board does not have a policy addressing deposit custodial risk.

**Investments** - Custodial credit risk for investments 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, 2014 and 2013, 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 funds, 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. The Board does not have a policy addressing custodial risk for investments.

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributable to the magnitude of any



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single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. In October 2008, the U.S. government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, the Board had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in either the Bond Pools or STIP.

**Bond Pools-** Both the RFBP Core Internal Bond Portfolios and TFIP Investment Policy Statements (IPS) provide for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities. The four RFBP external managers are limited to debt obligations of domestic and foreign corporations up to 3% of portfolio assets per issuer.

**STIP** – The STIP Investment Policy specifies concentration of credit risk exposure by limiting portfolio investment types by 2% per non-government issuer except up to 3% may be invested per issuer as long as not more than 2% is invested in securities maturing in more than seven days.

**AOF** - With the exception of eight funds, the 18 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, “the fixed income holdings rated lower than A3 or A- are limited to 25 percent of the fixed income portfolio at the time of purchase.” This same fund is limited to stock investments not to exceed 12 percent of the book value of its total invested assets. In addition, this fund’s and another fund’s IPS provides for a “2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities.” The policy for five funds sets “investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower.” Limits are also set by corporate bond sector for these five funds. Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2014 and 2013.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP, and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the “external managers to hedge currency in a defensive manner. 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. The managers’ Investment Guidelines provide for currency hedging and emerging market limitations. At the Pool level, MTIP will be managed on an un-hedged basis.” The MPEP policy does not address foreign currency risk, but identifies “country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States.” As of the June 30, 2014 and 2013 exchange dates, the Boards’ foreign currency exposure by forward contracts, deposits and investment type are reported, in U. S. dollars, at fair value in the tables below excluding the foreign investments denominated in U. S. dollars for the American Depository Receipts (ADRs), sovereign debt and commingled index funds.

**MTIP and RFBP Currency Forward Contracts by Foreign Currency**

<u>Currency</u>	<u>2014</u>			<u>2013</u>		
	<u>Receivables</u>	<u>Payables</u>	<u>Total</u>	<u>Receivables</u>	<u>Payables</u>	<u>Total</u>
Australian Dollar	\$ 30,768	\$(75,249)	\$(44,481)	\$ -	\$ 185,563	\$ 185,563
Brazilian Real	69,868	(125,191)	(55,323)	(93,177)	330,853	237,676
Canadian Dollar	1,589	(8,247)	(6,658)	(4,436)	76,772	72,336
Chilean Peso	2,798	-	2,798			
Euro	1,441	(17,143)	(15,702)	(1,108)	58,743	57,635
Japanese Yen	-	(89,524)	(89,524)	(223,262)	130,731	(92,531)
Mexican Peso	5,004	5,348	10,352	7,453	-	7,453
New Zealand Dollar	25,892	(20,040)	5,852	-	-	-
Norwegian Krone	(15,204)	12,268	(2,936)	-	-	-
Swiss Franc	8,105	(17,533)	(9,428)	-	-	-
UK Pound Sterling	26,079	(30,577)	(4,498)	-	15,933	15,933
<b>Total</b>	<b>\$ 156,340</b>	<b>\$ (365,888)</b>	<b>\$ (209,548)</b>	<b>\$ (314,530)</b>	<b>\$ 798,595</b>	<b>\$ 484,065</b>

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**Foreign Currency Exposure by Country**

Investment Type in U.S. Dollar Equivalent

June 30, 2014

<b>Foreign Currency Denomination</b>	<b>Currency</b>	<b>Fixed Income</b>	<b>Equities</b>	<b>Rights</b>	<b>Private Equity</b>	<b>Real Estate</b>
Australian Dollar	\$ 36,967	\$ 1,129,974	\$ 13,691,010	\$ -	\$ -	\$ -
Brazilian Real	125,633	2,254,477	5,981,435			
Canadian Dollar	48,650	127,257	30,067,571			
Danish Krone	15,223		6,137,030			
EMU-Euro	160,470	4,095,440	123,284,583	24,518	26,186,819	19,199,197
Hong Kong Dollar	104,272		32,907,118			
Hungarian Forint	701					
Indonesian Rupiah	888		1,914,785			
Israeli Shekel	21,368		923,600			
Japanese Yen	338,846		86,365,482			
Korean Fortnit			14,186,260	13,850		
Malaysian Ringgit	5,132		2,045,502			
Mexican Peso	97,660	2,195,073	4,606,945			
New Zealand Dollar	4,201	1,672,440	82,793			
Norwegian Krone	36,170		8,466,241			
Philippine Peso	550		1,096,871			
Polish Zloty	9,165		789,743			
Singapore Dollar	33,908		3,759,802			
South Africian Rand			3,652,856			
South Korean Won	41,182					
Swedish Krona	20,075		14,465,688			
Swiss Franc	12,966		32,525,348			
New Taiwan Dollar	4,522		9,355,955			
Thailand Baht	7,650		1,287,661			
Turkish Lira			1,193,597			
UK Pound Sterling	49,700	721,556	67,509,035			
<b>Total</b>	<b>\$ 1,175,899</b>	<b>\$ 12,196,217</b>	<b>\$ 466,296,911</b>	<b>\$ 38,368</b>	<b>\$ 26,186,819</b>	<b>\$ 19,199,197</b>

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**Foreign Currency Exposure by Country**

Investment Type in U.S. Dollar Equivalent

June 30, 2013

<b>Foreign Currency Denomination</b>	<b>Currency</b>	<b>Fixed Income</b>	<b>Equities</b>	<b>Rights</b>	<b>Private Equity</b>	<b>Real Estate</b>
Australian Dollar	\$ 208,310	\$ 4,952,288	\$ 18,052,050	\$ -	\$ -	\$ -
Brazilian Real	14,231	5,975,159	2,143,262			
Canadian Dollar	58,367	547,469	10,547,910			
Danish Krone	19,224		3,247,048			
EMU-Euro	138,291	3,835,309	80,035,369		19,219,453	22,194,100
Hong Kong Dollar	121,863		32,222,300			
Hungarian Forint	699					
Indonesian Rupiah	1,061		1,293,552			
Israeli Shekel	11,437		306,733			
Japanese Yen	383,417		70,725,892			
Korean Fortnit			9,000,877			
Malaysian Ringgit			3,903,217			
Mexican Peso	105	4,889,795	3,440,443			
New Zealand Dollar	96		57,224			
Norwegian Krone	42,468		5,765,335			
Philippine Peso	555		32,498			
Polish Zloty	100		466,098			
Singapore Dollar	53,982		7,565,975			
South Africian Rand	7		2,568,736			
South Korean Won	35,093					
Swedish Krona	15,812		7,971,891			
Swiss Franc	15,935		28,973,060			
New Taiwan Dollar	1		1,600,333			
Thailand Baht	-		4,581,931			
Turkish Lira	1,525		1,511,678			
UK Pound Sterling	242,584	601,548	53,255,213			
<b>Total</b>	<b>\$ 1,365,163</b>	<b>\$ 20,801,568</b>	<b>\$ 349,268,625</b>	<b>\$ -</b>	<b>\$ 19,219,453</b>	<b>\$ 22,194,100</b>

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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, Collateralized Mortgage Obligation (CMO), and Adjustable Rate Mortgage (ARM) securities).” Per policy, the TFIP and the CIBP’s duration are to remain within 20% of the established Index duration. Duration for two fixed income external managers must be within 25% of the established Index duration. With the exception of three funds, the AOFs’ investment policies do not formally address interest rate risk. One fund limits securities to three years to maturity and repurchase agreements seven days to maturity. A second 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. A third fund’s policy limits securities to 1-5 year U.S. Treasury/Agency securities tolerating modest interest rate risk. Eight funds are described as having the “ability to assume interest rate risk.” According to the STIP investment policy “the STIP portfolio will minimize interest rate risk by:

- 1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
- 2) investing funds primarily in short-term maturities of money market securities; and
- 3) maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).”

The MDEP and MTIP investment portfolios include the external managers’ cash equivalents invested STIF of \$34,685,311



and \$5,748,968, respectively. The STIF fund has an effective duration of .11 and .11 for fiscal years 2014 and 2013, respectively. One MDEP investment manager invested \$227,075 and \$226,954 as of June 30, 2014 and 2013 in the T. Rowe Price Reserve Investment Fund with durations of .10 and .10, respectively. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

The fixed coupon holdings in the Bond Pools and AOF accounts pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2014 and 2013, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying reference rate, e.g., LIBOR.

Bond Pool and AOF investments are categorized on the subsequent pages to disclose credit and interest rate risk as of June 30, 2014 and June 30, 2013. 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 investment types. NA (not applicable) indicates if duration has not been calculated.

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**RFBP Credit Quality Rating and Effective Duration as of June 30, 2014**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 1,116,730,256	A-	4.89
Corporate Bonds (Unrated)	1,014,927	NR	12.41
International Government Bonds	12,196,217	BBB+	4.57
Municipal Government Bonds	4,130,626	AA-	10.88
Sovereign Bonds	31,502,116	AA-	5.33
U.S. Government Direct Obligations	471,749,385	AA+	6.50
U.S. Government Agency	419,852,474	AA+	4.75
State Street Short Term Investment Fund (STIF)	73,732,662	NR	0.11
Short Term Investment Pool (STIP)	554,844	<u>NR</u>	<u>0.12</u>
Total Fixed Income Investments	<u>\$ 2,131,463,507</u>	<u>A+</u>	<u>5.07</u>
<b>Direct Investments</b>			
Montana Mortgages	10,572,791	NR	NA
Preferred Stock	453,024	BBB-	NA
Common Stock**	7,770		
Total Direct Investments	<u>\$ 11,033,585</u>		
Total Investments	<u>\$ 2,142,497,092</u>		
Securities Lending Collateral Investment Pool	<u>\$ 158,456,105</u>	NR	*

\*As of June 30, 2014, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .10 and an average weighted final maturity of .28 for U.S. dollar collateral. The duration pool had an average duration of .11 and an average weighted final maturity of 4.85 for U.S. dollar collateral.

\*\* Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for its investment in General Maritime Corporation. In addition to the common stock and warrants, the RFBP held 4,400 shares of Southern Cal Ed as a perpetual preferred stock as of June 30, 2014.

**RFBP Credit Quality Rating and Effective Duration as of June 30, 2013**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 1,036,844,670	A-	4.73
Corporate Bonds (Unrated)	2,097,080	NR	7.33
International Government Bonds	20,801,568	BBB+	4.35
Municipal Government Bonds	3,576,469	AA	12.09
Sovereign Bonds	20,930,964	AA-	5.77
U.S. Government Direct Obligations	337,140,972	AA+	7.68
U.S. Government Agency	380,238,590	AA	4.89
State Street Short Term Investment Fund (STIF)	79,589,990	NR	0.11
Short Term Investment Pool (STIP)	23,003,791	<u>NR</u>	<u>0.12</u>
Total Fixed Income Investments	<u>\$ 1,904,224,094</u>	<u>A+</u>	<u>5.12</u>
<b>Direct Investments</b>			
Montana Mortgages	14,052,784	NR	NA
Common Stock**	197,028		
Total Direct Investments	<u>\$ 14,249,812</u>		
Total Investments	<u>\$ 1,918,473,906</u>		
Securities Lending Collateral Investment Pool	<u>\$ 172,255,560</u>	NR	*

\*As of June 30, 2013, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .08 and an average weighted final maturity of .23 for U.S. dollar collateral. The duration pool had an average duration of .12 and an average weighted final maturity of 5.40 for U.S. dollar collateral.

\*\* Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for its investment in General Maritime Corporation. In July 2012, due to debt reorganization of Horizon Lines Inc. the RFBP received common stock. As of June 30, 2013, the RFBP held 140,450 shares of common stock. All shares of Horizon Lines Inc. common stock were sold during fiscal year 2014.

**TFIP Credit Quality Rating and Effective Duration as of June 30, 2014**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Core Real Estate	\$ 155,334,083	NR	NA
Corporate Bonds (Rated)	944,876,526	A+	5.20
Corporate Bonds (Unrated)	968,750	NR	NA
High Yield Bond Fund	109,784,740	B	3.70
Municipal Government Bonds (Rated)	829,430	AA	0.09
Sovereign Bonds	14,808,492	A+	7.82
U.S. Government Direct Obligations	435,526,719	AA+	6.57
U.S. Government Agency	480,049,469	AA+	4.43
Short Term Investment Pool (STIP)	<u>46,480,578</u>	<u>NR</u>	<u>0.12</u>
Total Investments	<u>\$ 2,188,658,787</u>	<u>AA-</u>	<u>5.13</u>
Securities Lending Collateral Investment Pool	<u>\$ 111,402,861</u>	NR	*

\*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of .11 and an average weighted final maturity of .31 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.50 for U.S. dollar collateral.

**TFIP Credit Quality Rating and Effective Duration as of June 30, 2013**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Core Real Estate	\$ 127,077,299	NR	NA
Corporate Bonds (Rated)	898,488,180	A+	5.19
Corporate Bonds (Unrated)	1,212,500	NR	NA
High Yield Bond Fund	104,538,157	B	3.30
Municipal Government Bonds (Rated)	844,049	AA	0.18
U.S. Government Direct Obligations	388,219,052	AA+	6.99
U.S. Government Agency	493,734,752	AA+	4.61
Short Term Investment Pool (STIP)	<u>56,225,823</u>	<u>NR</u>	<u>0.12</u>
Total Investments	<u>\$ 2,070,339,812</u>	<u>AA-</u>	<u>5.15</u>
Securities Lending Collateral Investment Pool	<u>\$ 127,239,321</u>	NR	*

\*As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of .13 and an average weighted final maturity of .27 for U.S. dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.86 for U.S. dollar collateral.

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**AOF Credit Quality Rating and Effective Duration as of June 30, 2014**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 738,806,225	A	3.56
Corporate Bonds (Unrated)	968,750	NR	NA
Sovereign Bonds	20,856,220	AA-	5.51
U.S. Government Direct Obligations	228,008,541	AA+	4.55
U.S. Government Agency	451,523,262	AA+	3.30
US Bank Sweep Repurchase Agreement*	<u>10,348,663</u>	<u>NR</u>	<u>0</u>
Total Fixed Income Investments	<u>\$ 1,450,511,661</u>	<u>AA-</u>	<u>3.66</u>
<u>Direct Investments</u>			
Equity Index Fund-Domestic	\$ 147,383,599		
Equity Index Fund-International	<u>20,131,615</u>		
Total Equity Index Funds	167,515,214		
Core Real Estate	74,072,988		
MT Mortgages and Loans	<u>137,919,349</u>		
Total Direct Investments	<u>\$ 379,507,551</u>		
TOTAL INVESTMENTS	<u>\$ 1,830,019,212</u>		
Securities Lending Collateral Investment Pool	<u>\$ 288,509,659</u>	<u>NR</u>	**

\* At June 30, 2014, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$10,555,693 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and November 1, 2024. These securities carry AA+ credit quality ratings.

\*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of .11 and an average weighted final maturity of .31 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.50 for U.S. dollar collateral.

**AOF Credit Quality Rating and Effective Duration as of June 30, 2013**

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Corporate Bonds (Rated)	\$ 707,379,154	A	3.47
Corporate Bonds (Unrated)	1,212,500	NR	NA
Sovereign Bonds	15,441,187	AA-	5.48
U.S. Government Direct Obligations	197,317,103	AA+	4.67
U.S. Government Agency	376,617,925	AA+	3.29
US Bank Sweep Repurchase Agreement*	<u>8,790,049</u>	<u>NR</u>	<u>0</u>
Total Fixed Income Investments	<u>\$ 1,306,757,918</u>	<u>AA-</u>	<u>3.60</u>
<u>Direct Investments</u>			
Equity Index Fund-Domestic	\$ 138,103,728		
Equity Index Fund-International	<u>16,524,550</u>		
Total Equity Index Funds	154,628,278		
Core Real Estate	36,095,610		
MT Mortgages and Loans	<u>137,570,558</u>		
Total Direct Investments	<u>\$ 328,294,446</u>		
TOTAL INVESTMENTS	<u>\$ 1,635,052,364</u>		
Securities Lending Collateral Investment Pool	<u>\$ 202,372,040</u>	<u>NR</u>	**

\* At June 30, 2013, the US Bank repurchase agreement, per contract, was collateralized at 102% for \$8,965,888 by two Federal Home Loan Mortgage Corporation Gold securities maturing July 1, 2024 and November 1, 2024. These securities carry AA+ credit quality ratings.

\*\*As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of .13 and an average weighted final maturity of .27 for U.S. dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.86 for U.S. dollar collateral.

STIP investments are categorized below to disclose credit risk and weighted average maturity (WAM) as of June 30, 2014 and June 30, 2013. Credit risk reflects the weighted 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. The short-term credit ratings, provided by S&P's rating services, are presented in the table below. An A1+ rating is the highest short-term rating by the S&P rating service. STIP interest rate risk is determined using the 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 shown on the next page.

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STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2014

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 777,417,680	A1	30
Corporate Commercial Paper	138,958,389	A1	39
Corporate Variable Rate	658,894,083	A1	38
Certificates of Deposit Fixed Rate	100,000,000	A1	219
Certificates of Deposit Variable Rate	391,996,239	A1+	32
Other Asset Backed	38,440,281	NR	NA
U.S. Government Agency Fixed	75,003,275	A1+	194
U.S. Government Agency Variable Rate	200,003,406	A1+	31
Money Market Funds (Unrated)	133,439,814	NR	1
Money Market Funds (Rated)	21,000,000	A1+	1
<b>Total Investments</b>	<b><u>\$ 2,535,153,167</u></b>	<b><u>A1</u></b>	<b><u>43</u></b>
Securities Lending Collateral Investment Pool	<u>\$ 1,861,748</u>	NR	*

\*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.

STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2013

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>WAM in Days</u>
Asset Backed Commercial Paper	\$ 907,892,295	A1	44
Corporate Commercial Paper	150,768,775	A1	105
Corporate Variable Rate	663,143,336	A1+	41
Certificates of Deposit Fixed Rate	50,000,000	A1	222
Certificates of Deposit Variable Rate	435,974,196	A1+	35
Other Asset Backed	47,548,744	NR	NA
U.S. Government Agency Fixed	25,000,000	A1+	3
U.S. Government Agency Variable Rate	182,700,345	A1+	17
Money Market Funds (Unrated)	168,232,935	NR	1
Money Market Funds (Rated)	15,000,000	A1+	1
<b>Total Investments</b>	<b><u>\$ 2,646,260,626</u></b>	<b><u>A1</u></b>	<b><u>43</u></b>
Securities Lending Collateral Investment Pool	<u>\$ 7,182,928</u>	NR	*

\*As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for U.S. dollar collateral.

**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 & Poor's and Aaa by Moody's. Since June 30, 2008 and through June 30, 2010, these issues carried a D rating by Standard & Poor's. 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 it is in the best interest of the STIP to continue to hold these securities in the investment portfolio as further described below.

Axon Financial Funding payments total \$27,462,743 from November 2008 to October 2011. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for \$66,832,436 from AFF Financing LLC with a July 5, 2011 maturity date. Fiscal year 2014 payments from AFF Financing LLC totaled \$6,783,298 consisting of \$6,712,723 in principal and \$70,575 in interest. The Board, with the majority of other holders, elected on June 3, 2014 to extend the AFF Financing LLC promissory note maturity date to July 2, 2015. In June and December 2009, the Board applied \$13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. As of June 30, 2014, the AFF Financing LLC, classified as an Other Asset Backed security, has an outstanding amortized cost balance of \$22,848,774. Refer to Note 12 – Subsequent Events for additional information.

On October 14, 2009, the Board received its initial payment from Orion Finance USA. From this date through November 2010, payments from Orion Finance USA included principal of \$13,433,642 and interest compensation of \$1,804,738 in excess of the \$903,922 accrued interest receivable for a total of \$16,142,302. In November 2010, Orion Finance Corporation “granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee”. On December 8, 2010, the Security Trustee conducted “a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral”. The Board participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2014, the Board received principal and interest payments of \$13,474,851 and \$2,392,067, respectively. In June and December 2009, the Board applied \$7.5 million, in total; from the STIP reserve to the outstanding principal for the Orion Finance USA securities. As of June 30, 2014, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of \$15,591,507. Refer to Note 12 – Subsequent Events for additional information.

**STIP, Bond Pool and AOF** – As of June 30, 2014 and 2013, the Federal National Mortgage Association and Federal Home Loan Mortgage Corp. remain in conservatorship from 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 a Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010 maturity. The AOF portfolio also includes a \$5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011 maturity. 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. In May 2009, the Board sold a \$5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internally managed bond portfolio. This holding, written down to \$1 million, was sold at a loss of \$312,500. As of June 30, 2011, the book value of the remaining bonds represents 20% of par.

The Board sold the \$5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of \$26 on December 6, 2011. Because the bonds were previously written down to a price of \$20, this sale generated a gain of \$322,300. For the remaining \$10 million variable rate position in Lehman Brothers Holdings, Inc. held in the TFIP and AOF portfolios, the Board applied \$519,119 in principal from the October 2013 bankruptcy payment resulting in a book value of \$1 each as of June 30, 2014. The \$55,931 October 2013 payment balance and the April 2014 payment of \$638,206 were recorded to gain.

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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, 2014 and 2013, classified by type, are as follows:

<u>Investment Derivatives</u>	<u>Classification</u>	<u>June 30, 2014</u>		<u>June 30, 2013</u>	
		<u>Fair Value Amount</u>	<u>Notional</u>	<u>Fair Value Amount</u>	<u>Notional</u>
Currency forward contracts	Long term debt/equity	\$ (209,548)	\$41,943,491	\$ 484,065	\$ 46,481,410
Index futures long	Futures	-	4,300	-	2,950
Rights	Equity	38,369	39,710	-	2,161
Warrants	Equity	-	400	-	400
Total derivatives		<u>\$ (171,179)</u>		<u>\$ 484,065</u>	

  

<u>Investment Derivatives</u>	<u>Classification</u>	<u>Changes in Fair Value</u>	
		<u>2014 Amount</u>	<u>2013 Amount</u>
Currency forward contracts	Investment revenue	\$ (818,008)	\$ 1,450,204
Index futures long	Investment revenue	2,173,201	974,955
Index futures short	Investment revenue	-	-
Rights	Investment revenue	31,227	65,808
Warrants	Investment revenue	1,971	-
Total derivatives		<u>\$ 1,388,391</u>	<u>\$ 2,490,967</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 and the prevailing exchange rate as of the report date. Index futures long are 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. 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>2014 Amount</u>	<u>2013 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) positions as of June 30.	\$ 192,991	\$ 818,240
Effect of collateral reducing maximum exposure.	-	-
Liabilities subject to netting arrangements reducing exposure.	-	-
Resulting net exposure	<u>\$ 192,991</u>	<u>\$ 818,240</u>

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

<u>Counterparty Name</u>	<u>2014 Percentage of Net Exposure</u>	<u>2013 Percentage of Net Exposure</u>	<u>2014/2013 S&amp;P Rating</u>	<u>2014/2013 Fitch Rating</u>	<u>2014/2013 Moody's Rating</u>
Deutsche Bank London	25%	26%	A/A+	A+/A+	A2/A2
JP Morgan Chase Bank	25%	15%	A+/A+	A+/A+	Aa3/Aa3
Westpac Banking Corp	17%	11%	AA-/AA-	AA-/AA-	Aa2/Aa2
Credit Suisse London	14%	14%	A/A+	A/A	A1/A1
Royal Bank of Scotland	14%	15%	A-/A	A/A	Baa1/A3
Morgan Stanley Capital	4%	0%	A-/NA	A/NA	Baa2/NA
State Street Bank	1%	10%	AA-/AA-	A+/A+	Aa3/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 of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2014, the BOI had committed, but not yet purchased, \$8,312,000 in loans from Montana lenders, compared to \$2,414,217 as of June 30, 2013. In addition to the above commitments, lenders had reserved \$29,988,000 for loans as of June 30, 2014, compared to \$25,063,704 on the same date in 2013. As of June 30, 2014 and 2013, \$820,820 and \$4,017,701, respectively, represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the state's pension funds. Prior to May 1, 2011, the Public Employees' and Teachers' retirement funds provided resources for residential mortgage purchases. Effective May 1, 2011, the Montana Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2014 and 2013, there were no mortgage reservations. Effective December 1, 2005, all BOI 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. AOF MONTANA MORTGAGES AND LOANS

The AOF portfolio includes mortgages and loans, funded by the Permanent Coal Trust as authorized by statute. These mortgages and loans are shown below.

<u>Montana Mortgages and Loans</u>	<u>2014 Carrying Value</u>	<u>2013 Carrying Value</u>
Science and Technology Alliance <sup>(1)</sup>	\$ 1,984,176	\$ 2,028,906
Montana University System	8,197,341	8,290,299
Montana Facility Finance	3,150,920	5,072,194
Local Government Infrastructure	22,653,261	18,680,293
Value-added Loans	1,072,825	1,773,751
Veterans' Home Loan Mortgages <sup>(2)</sup>	22,879,825	11,781,448
Other Real Estate Owned (OREO) <sup>(3)</sup>	560,000	0
Commercial Loans	<u>77,421,001</u>	<u>89,943,667</u>
<b>Total Montana Mortgages and Loans</b>	<b>\$ 137,919,349</b>	<b>\$ 137,570,558</b>

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

(2) The Veterans' Home Loan Mortgage program was implemented in January 2012 as legislated by Senate Bill 326, 2011 Legislature.

(3) In June 2014, the lender acquired OREO through a loan foreclosure in which the Board had a 70% participation. This foreclosure resulted in a commercial loan write off. The property is currently for sale.

## 10. LOAN GUARANTEES

As of June 30, 2014, loan guarantees provided by the Coal Severance Tax Permanent Trust, as authorized by statute, to the Enterprise Fund and the Montana Facility Finance Authority total \$222,603,453. Board exposure to bond issues of the Enterprise Fund is \$106,450,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$116,153,453.

As of June 30, 2013, loan guarantees provided by the Coal Severance Tax Permanent Trust, as authorized by statute, to the Enterprise Fund and the Montana Facility Finance Authority total \$227,524,677. Board exposure to bond issues of the Enterprise Fund is \$106,685,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is \$120,839,677.

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# 11. POOL RESTRUCTURE

On March 1, 2014, the Board funded two new MTIP external managers approximately \$70 million by reducing a passive manager portfolio and the index futures fund. In April 2013, the Board funded four new MDEP external managers approximately \$125 million by reducing six active and passive manager portfolios. A restructure of the MTIP portfolio occurred in October 2012.

# 12. SUBSEQUENT EVENTS

From July 1 through December 1, 2014, AFF Financing LLC payments total \$4,358,350 representing \$4,335,685 in principal and \$22,665 in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of \$1,661,717 with \$1,561,955 and \$99,762 applied to principal and interest, respectively.

On August 19, 2014, the Board approved the staff recommendation to enter into a custodial bank contract with State Street Bank effective November 1, 2014. Due to contract negotiations, the current contract with State Street Bank was extended to December 31, 2014, changing the effective date of the new contract to January 1, 2015.

On October 2, 2014, the Board received a bankruptcy payment of \$463,564 related to the Lehman Brothers Holdings, Inc. Due to previous principal write downs; this payment was recorded as a gain.

Refer to Note 6 – Investment Risk Disclosures for additional information.

# 13. RESTATEMENTS

The STIP Credit Quality Ratings and Weighted Average Maturity table as of June 30, 2013 has been revised due to the adoption of a Standard & Poor's Rating Correlation Scale. This scale links the fewer S&P short-term ratings to band of long-term ratings. For example, the A1 short-term rating corresponds to the long-term ratings of A+, A and A-. The table below details the Credit Quality Ratings as Restated and Originally Reported.

Security Investment Type	Credit Quality Rating	
	Restated	Originally Reported
Corporate Variable Rate	A1+	A3
Certificates of Deposit Variable Rate	A1+	A2
U.S. Government Agency Fixed	A1+	A1
U.S. Government Agency Variable Rate	A1+	A1

The Statement of Net Assets Value/Investment Managed for fiscal year ended June 30, 2013 has been restated to separately report the Security Lending Income Receivable. In prior years, the Security Lending Income Receivable was included with the Dividend and Interest Receivable. By reporting the Security Lending Income Receivable of \$369,118, the Dividend and Interest Receivable decreased from \$51,164,279 to \$50,795,161. In addition, the Statement of Changes in Net Asset Value/Investments Managed separately displays the change in AOF Security Lending Income Receivable of \$7,848 and the change in AOF interest receivable decreased from \$(1,818,109) to \$(1,825,957).

In implementing the requirements of GASB Statement No. 67 Financial Reporting for Pension Plans, an amendment to GASB Statement No. 25, Board staff, by analysis, confirmed Dividend/Interest Income and Other Investment Expenses were understated by \$3,064,928 for fiscal year 2013 external manager investment costs resulting in a net income effect of zero. GASB Statement No. 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans requires all other significant investment-related cost to be separately displayed for pension funds. The Other Expenses of \$1,174,270 in the Statement of Investment Income and Distribution for the fiscal year ended June 30, 2013 has been corrected and restated as Other Investment Expenses of \$4,239,198.

Because the preferred method for amortizing the bond premium/discount is the effective interest rate (scientific) method versus the straight-line method, the Board agreed to make the change. Board staff coordinated with the custodial bank staff to convert to the effective interest rate method as of July 1, 2013 for all fixed income securities with the exception of the securities held in the STIP portfolio. For the fiscal year ended June 30, 2013, the Statement of Net Assets Value/Investment Managed has been restated to reflect the cumulative effect of the change, decreasing the Carrying Value,

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the Income Due to Participants liability, Total Liabilities and the Net Asset Value/Investments Managed by \$(1,419,742). The June 30, 2013 Investment Portfolios at Carrying Value has been restated as \$10,846,697,658 from \$10,848,117,400 as previously reported. The Income Due Participants liability has been restated as \$15,414,465 from \$16,834,207 resulting in a Total Liabilities restatement of \$892,799,428 from \$894,219,170 previously reported. In both, the Statement of Net Assets Value/Investment Managed and the Statement of Changes in Net Asset Value/Investments Managed, the Net Asset Value/Investments Managed has been restated as \$14,774,037,592 from \$14,772,617,850 as previously reported. In the Statement of Changes in Net Asset Value/Investments Managed, the Changes in Current Value of Investments Managed changed from \$639,873,056, as previously reported, to \$641,292,798, as restated.

The Statement of Investment Income and Distribution for the year ended June 30, 2013 reflects a restatement of Dividend/Interest Income of \$307,110,619 from \$303,909,819 as previously reported. This change of \$3,200,800 represents the income offset of \$3,064,928 for the additional Other Investment Expenses and the cumulative amortization/accretion change of \$135,872 distributed by the RFBP external managers to the pool. Amortization/Accretion, previously reported of \$3,487,941, was restated as \$1,932,327 reflecting the cumulative change of \$(1,555,614) for TFIP and AOF. The Income Available for Distribution has been restated as \$477,560,371 from \$478,980,113. The above restatements, by respective pool, are listed on the next page and correspond to the tables on pages B - 4-9.

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June 30, 2013 Investment Portfolios and Net Asset Value (NAV)/Investments Managed (IM)

<u>Pool</u>	<u>Book Value</u> <u>Restated</u>	<u>Book Value</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>	<u>NAV/IM</u> <u>Restated</u>	<u>NAV/IM</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,910,259,702	\$ 1,910,123,830	\$ 135,872	\$ 1,889,172,830	\$ 1,889,308,702	\$ (135,872)
Trust Funds Investment Pool (TFIP)	1,985,421,731	1,986,587,921	(1,166,190)	2,077,575,715	2,076,409,525	\$ 1,166,190
All Other Funds (AOF) Investments Managed	1,511,238,087	1,511,627,511	(389,424)	1,646,920,815	1,646,531,391	\$ 389,424
<b>Total</b>	<b>\$ 13,492,958,284</b>	<b>\$ 13,494,378,026</b>	<b>\$ (1,419,742)</b>	<b>\$ 14,774,037,592</b>	<b>\$ 14,772,617,850</b>	<b>\$ 1,419,742</b>

2013 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)

<u>Pool</u>	<u>Liabilities</u> <u>Restated</u>	<u>Liabilities</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>	<u>NAV/IM</u> <u>Restated</u>	<u>NAV/IM</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>
Retirement Funds Bond Pool (RFBP)	\$ 295,103,556	\$ 294,967,684	\$ 135,872	\$ 1,889,172,830	\$ 1,889,308,702	\$ (135,872)
Trust Funds Investment Pool (TFIP)	132,712,116	133,878,306	(1,166,190)	2,077,575,715	2,076,409,525	\$ 1,166,190
All Other Funds (AOF) Investments Managed	201,999,208	202,388,632	(389,424)	1,646,920,815	1,646,531,391	\$ 389,424
<b>Total</b>	<b>\$ 892,799,428</b>	<b>\$ 894,219,170</b>	<b>(1,419,742)</b>	<b>\$ 14,774,037,592</b>	<b>\$ 14,772,617,850</b>	<b>\$ 1,419,742</b>

2013 NAV/IM - Units Outstanding - Unit Value

<u>Pool</u>	<u>NAV/IM</u> <u>Restated</u>	<u>NAV/IM</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>	<u>Unit Value</u> <u>Restated</u>	<u>Unit Value</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>
Retirement Funds Bond Pool (RFBP)	\$ 1,889,172,830	\$ 1,889,308,702	\$ (135,872)	\$ 111.20	\$ 111.20	\$ -
Trust Funds Investment Pool (TFIP)	2,077,575,715	2,076,409,525	\$ 1,166,190	105.13	105.07	0.06
All Other Funds (AOF) Investments Managed	1,646,920,815	1,646,531,391	\$ 389,424	NA	NA	NA
<b>Total</b>	<b>\$ 14,774,037,592</b>	<b>\$ 14,772,617,850</b>	<b>\$ 1,419,742</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

2013 Pool Unit/AOF Investment Activity and Change in Value of Investments

<u>Pool</u>	<u>Change in Value</u> <u>of</u> <u>Investments</u> <u>Restated</u>	<u>Change in Value</u> <u>of</u> <u>Investments</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>
Retirement Funds Bond Pool (RFBP)	\$ (41,167,752)	\$ (41,031,880)	\$ (135,872)
Trust Funds Investment Pool (TFIP)	(50,751,837)	(51,918,027)	1,166,190
All Other Funds (AOF) Investments Managed	(9,941,195)	(10,330,619)	389,424
<b>Total</b>	<b>\$ 641,292,798</b>	<b>\$ 639,873,056</b>	<b>\$ 1,419,742</b>

2013 Major Sources of Distributable Income

<u>Pool</u>	<u>Dividend\</u> <u>Interest Restated</u>	<u>Dividend\</u> <u>Interest Reported</u>	<u>Restated</u> <u>Change</u>	<u>Amortization\</u> <u>Accretion</u> <u>Restated</u>	<u>Amortization\</u> <u>Accretion</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>
Retirement Funds Bond Pool (RFBP)	\$ 69,505,987	\$ 69,364,780	\$ 141,207	\$ -	\$ -	\$ -
Trust Funds Investment Pool (TFIP)	85,768,039	85,768,039	-	(422,594)	743,596	(1,166,190)
Montana Domestic Equity Pool (MDEP)	24,135,021	21,546,965	2,588,056	-	-	-
Montana International Equity Pool (MTIP)	13,483,050	13,011,559	471,491	-	-	-
Montana Private Equity Pool (MPEP)	29,933,512	29,933,512	-	-	-	-
Montana Real Estate Pool (MTRP)	21,010,910	21,010,910	-	-	-	-
Short Term Investment Pool (STIP)	10,578,875	10,578,829	46	2,437,547	2,437,547	-
All Other Funds (AOF) Investments Managed	52,695,225	52,695,225	-	(82,626)	306,798	(389,424)
<b>Total</b>	<b>\$ 307,110,619</b>	<b>\$ 303,909,819</b>	<b>\$ 3,200,800</b>	<b>\$ 1,932,327</b>	<b>\$ 3,487,941</b>	<b>(1,555,614)</b>

2013 Distributable and Undistributed Income

<u>Pool</u>	<u>Distributable</u> <u>Restated</u>	<u>Distributable</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>	<u>Undistributed</u> <u>Restated</u>	<u>Distributable</u> <u>Reported</u>	<u>Restated</u> <u>Change</u>
Retirement Funds Bond Pool (RFBP)	\$ 74,572,840	\$ 74,436,968	\$ 135,872	\$ 5,541,259	\$ 5,405,387	\$ 135,872
Trust Funds Investment Pool (TFIP)	91,544,446	92,710,636	(1,166,190)	5,403,385	6,569,575	(1,166,190)
All Other Funds (AOF) Investments Managed	248,028,820	248,418,244	(389,424)	(389,424)	-	(389,424)
<b>Total</b>	<b>\$ 477,560,371</b>	<b>\$ 478,980,113</b>	<b>\$ (1,419,742)</b>	<b>\$ 15,414,465</b>	<b>\$ 16,834,207</b>	<b>\$ (1,419,742)</b>

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**14. YEAREND PORTFOLIOS**

The June 30, 2014 portfolios of the Pools by Manager, STIP and AOF are listed below. The percentage is based on the fair value by manager or the fixed income or equity security to the total portfolio. Portfolios, detailed by security, are electronically accessible in the Board's annual report.

**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 - 259 Issues	1,545,832,386	1,573,919,170	1,606,405,535	74.98%
REAMS ASSET MANAGEMENT - 97 Issues	232,161,569	232,205,429	236,429,110	11.04%
NEUBERGER BERMAN - 308 Issues	107,717,149	109,112,703	114,260,744	5.33%
ABERDEEN ASSET MANAGEMENT - 260 Issues	131,516,948	108,561,036	110,438,683	5.15%
POST ADVISORY GROUP - 131 Issues	59,806,599	62,003,570	63,835,385	2.98%
MONTANA RESIDENTIAL MORTGAGES - 1 Issue	11,384,216	11,384,216	10,572,791	0.49%
SHORT TERM INVESTMENT POOL - 1 Issue	554,844	554,844	554,844	0.03%
<b>RFBP TOTAL - 1057 Issues</b>	<b>2,088,973,711</b>	<b>2,097,740,968</b>	<b>2,142,497,092</b>	<b>100.00%</b>

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

<u>Manager</u>	<u>Shares</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>%</u>
CORE BOND TOTAL - 317 Issues	1,849,615,347	1,839,978,083	1,923,539,965	87.89%
POST TRADITIONAL HIGH YIELD FD - 1 Issue	96,000,000	96,000,000	109,784,740	5.02%
AMERICAN CORE REALTY FUND LLC - 1 Issue	843	73,000,000	89,199,950	4.08%
TIAA CREF ASSET MANAGEMENT - 1 Issue	136,171	52,000,000	66,134,133	3.02%
<b>TFIP TOTAL - 320 Issues</b>	<b>1,945,752,361</b>	<b>2,060,978,083</b>	<b>2,188,658,787</b>	<b>100.00%</b>

**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	3,309,727	1,265,293,999	2,155,870,910	56.20%
BLACKROCK MIDCAP EQUITY IND FD	2,128,589	43,664,930	86,729,368	2.26%
DIMENSIONAL FUND ADVISORS INC	40,730	27,416,221	88,621,109	2.31%
MONEY MARKET FD FOR EBT	73	73	73	0.00%
ISHARES CORE S+P SMALL CAP ETF	54,400	3,274,500	6,097,696	0.16%
STATE STREET SPIF ALT INV	11,609	3,083,099	3,450,636	0.09%
<b>Total Commingled Accounts - 7 Issues</b>	<b>5,545,129</b>	<b>1,342,732,823</b>	<b>2,340,769,792</b>	<b>61.02%</b>
JP MORGAN INVESTMENTS - 270 Issues	13,413,226	264,532,534	342,046,731	8.92%
T ROWE PRICE - 265 Issues	7,118,119	234,591,156	337,789,835	8.81%
ARTISAN - 58 Issues	9,663,693	103,109,456	139,089,966	3.63%
TIMESSQUARE - 79 Issues	7,344,619	102,123,136	142,711,566	3.72%
ANALYTICS INVESTMENTS - 205 Issues	3,692,915	109,212,365	120,175,458	3.13%
INTECH - 329 Issues	2,780,612	95,883,951	120,625,258	3.14%
VAUGHAN NELSON - 78 Issues	8,995,626	65,446,397	83,373,990	2.17%
IRIDIAN ASSET MGT - 42 Issues	2,558,925	46,462,902	57,343,409	1.49%
NICHOLAS INVESTMENT PARTNERS - 100 Iss	1,293,079	47,356,748	56,286,400	1.47%
ALLIANCE BERNSTEIN - 108 Issues	1,806,819	28,527,666	36,479,776	0.95%
ING INVESTMENT MGT - 155 Issues	2,050,090	28,150,955	32,837,581	0.86%
MET WEST CAPITAL MGT - 62 Issues	2,052,530	23,425,075	26,260,197	0.68%
<b>Total Manager Accounts</b>	<b>62,770,253</b>	<b>1,148,822,341</b>	<b>1,495,020,167</b>	<b>38.98%</b>
<b>MDEP TOTAL BY MANAGER - 1758 Issues</b>	<b>68,315,382</b>	<b>2,491,555,164</b>	<b>3,835,789,959</b>	<b>100.00%</b>

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**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	41,236,448	722,244,224	1,026,453,503	58.74%
DFA INTERNATIONAL SMALL COMPAN	4,236,795	64,309,272	86,515,358	4.95%
BLACKROCK MSCI EM MKT FR FD B	998,231	41,163,202	45,333,257	2.59%
BLACKROCK ACWI EX US SMALL CAP	2,534,559	20,656,720	29,692,886	1.70%
EAFE STOCK PERFORMANCE INDEX	407,046	11,118,625	13,145,564	0.75%
MONEY MARKET FD FOR EBT	272	272	272	0.00%
<b>Total Commingled Accounts - 6 Issues</b>	<b>49,413,351</b>	<b>859,492,315</b>	<b>1,201,140,840</b>	<b>68.74%</b>
HANSBERGER - 64 Issues	13,185,447	104,174,205	121,358,959	6.94%
MARTIN CURRIE - 63 Issues	11,492,733	102,088,736	120,799,955	6.91%
BERNSTEIN - 112 Issues	8,436,700	106,458,564	118,607,743	6.79%
ACADIAN - 457 Issues	22,259,946	92,083,967	112,979,031	6.47%
TEMPLETON - 111 Issues	12,524,426	40,575,561	41,963,166	2.40%
AMERICAN CENTURY - 107 Issues	5,837,933	30,167,814	30,625,672	1.75%
<b>Total Manager Accounts - 914 Issues</b>	<b>73,737,185</b>	<b>475,548,847</b>	<b>546,334,526</b>	<b>31.26%</b>
<b>MTIP TOTAL BY MANAGER - 920 Issues</b>	<b>123,150,536</b>	<b>1,335,041,162</b>	<b>1,747,475,366</b>	<b>100.00%</b>

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

<b><u>Fund Manager</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	129,009,488	129,009,488	123,391,875	11.96%
LEXINGTON	63,256,439	63,256,439	73,810,309	7.16%
PORTFOLIO ADVISORS	41,440,176	41,440,176	59,736,303	5.79%
HARBOUR VEST	36,088,169	38,032,581	53,755,452	5.21%
CENTERBRIDGE	31,308,933	31,308,933	39,908,422	3.87%
WELSH CARSON	25,970,964	25,970,964	31,907,954	3.09%
SIGULER GUFF	27,180,072	27,180,072	30,910,502	3.00%
STATE STREET	97,340	28,350,674	28,932,437	2.81%
CCMP	23,734,571	23,734,571	28,304,134	2.74%
NB COINVEST	20,335,804	20,335,803	26,041,198	2.52%
ARCLIGHT	22,954,253	22,954,253	25,489,623	2.47%
CARLYLE	18,673,411	18,673,411	25,346,149	2.46%
VERITAS	15,711,535	15,711,535	25,124,268	2.44%
NORTHGATE	21,026,984	21,026,984	24,972,648	2.42%
AXIOM	19,397,891	19,397,891	23,837,342	2.31%
HCI EQUITY	16,599,763	16,599,763	23,536,709	2.28%
ODYSSEY INVESTMENTS	18,373,595	18,373,595	22,316,181	2.16%
AMERICAN SECURITIES PARTNERS	16,263,532	16,263,532	22,150,768	2.15%
MATLIN PATTERSON	23,535,608	23,535,608	22,100,572	2.14%
OAK HILL	24,560,115	24,560,115	21,713,082	2.11%
PERFORMANCE EQUITY	16,328,021	16,328,021	21,343,972	2.07%
BLACK DIAMOND CAPITAL	16,498,178	16,498,178	19,759,026	1.92%
MHR INSTITUTIONAL	12,868,296	12,868,296	17,767,925	1.72%
TERRA FIRMA	17,075,239	23,481,253	17,562,846	1.70%
OAKTREE	3,413,231	3,413,231	16,144,554	1.57%
TRILANTIC CAPITAL PARTNERS	7,887,224	7,887,224	13,315,351	1.29%
JLL PARTNERS	9,527,702	9,527,702	12,905,806	1.25%
TENEX CAPITAL PARTNERS	10,851,016	10,851,016	12,893,633	1.25%
TENAYA CAPITAL	11,807,915	11,807,915	12,624,680	1.22%
QUINTANA ENERGY	7,332,027	7,332,027	11,949,181	1.16%
HIGHWAY 12 VENTURES	7,370,340	7,370,340	11,769,238	1.14%
CIVC	11,553,142	11,553,142	11,053,838	1.07%
GRIDIRON CAPITAL	8,529,094	8,529,094	10,560,442	1.02%
MONTLAKE	9,260,408	9,260,408	10,415,505	1.01%
SUMMIT PARTNERS	10,194,015	10,194,015	10,379,872	1.01%
AUDAX	8,790,151	8,790,151	9,429,538	0.91%
AFFINITY	7,376,948	7,376,948	9,364,542	0.91%
EIF	8,647,054	8,647,054	8,546,843	0.83%
J.C. FLOWERS	11,146,507	11,146,507	7,032,108	0.68%
CARTESIAN CAPITAL	6,530,814	6,530,814	6,972,277	0.68%
TA ASSOCIATES	5,199,014	5,199,014	6,690,710	0.65%
STERLING CAPITAL PARTNERS	6,392,590	6,392,590	5,943,453	0.58%
HKW CAPITAL	5,472,913	5,472,913	5,665,456	0.55%
CATALYST	4,638,301	4,638,301	5,350,642	0.52%
PINE BROOK	4,390,851	4,390,851	4,408,006	0.43%
INDUSTRY VENTURES	5,220,716	5,220,716	3,997,794	0.39%
OPUS	2,630,760	2,630,760	3,808,567	0.37%
SOUTHERN CAPITAL	3,649,973	3,649,973	3,602,173	0.35%
EUREKA	1,142,285	1,142,285	2,616,444	0.25%
WHITE DEER ENERGY	2,817,313	2,817,313	2,570,846	0.25%
GUARDIAN	1,092,040	1,092,040	1,092,040	0.11%
KKR	2	2	335,278	0.03%
AVENUE CAPITAL	1	1	289,380	0.03%
<b>MPEP Total</b>	<b>841,152,724</b>	<b>877,756,483</b>	<b>1,031,447,894</b>	<b>100.00%</b>



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

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**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	92,733,976	134,616,221	16.00%
UBS REALTY INVESTORS LLC	7,373	50,000,000	67,589,670	8.04%
ANGELO GORDON	50,247,428	50,247,428	52,037,900	6.19%
DRA ADVISORS	47,272,699	47,272,699	50,062,273	5.95%
MOLPUS WOODLANDS	41,903,135	41,903,135	47,382,221	5.63%
TIAA CREF	87,934	40,000,000	42,706,973	5.08%
INVESCO REAL ESTATE	309	45,000,000	41,872,336	4.98%
CIM FUND	22,295,930	22,295,930	35,096,469	4.17%
ABR CHESAPEAKE	31,859,678	31,859,678	32,496,042	3.86%
T A ASSOCIATES REALTY	34,609,398	34,609,398	31,501,482	3.74%
CLARION LION PROPERTIES	26,747	36,179,512	28,890,998	3.43%
RESOURCE MANAGEMENT SERVICE	21,029,444	21,029,444	23,738,289	2.82%
ALMANAC REALTY	20,507,117	20,507,117	23,066,077	2.74%
CARLYLE	16,025,899	22,215,363	19,199,197	2.28%
CBRE STRATEGIC PARTNERS	17,445,541	17,445,541	19,181,198	2.28%
STOCKBRIDGE LP	15,617,025	15,617,025	18,318,630	2.18%
MACQUARIE GLOBAL PROPERTIES	11,969,145	11,969,145	18,095,827	2.15%
HUDSON REALTY CAPITAL	15,748,599	15,748,599	13,797,693	1.64%
BPG INVESTMENT PARTNERSHIP	13,411,676	13,411,676	13,737,727	1.63%
THE REALTY ASSOCIATES	13,000,000	13,000,000	13,548,288	1.61%
LANDMARK REAL ESTATE PARTNERS	6,274,047	6,274,047	13,188,110	1.57%
STRATEGIC PARTNERS	13,289,948	13,289,948	12,630,009	1.50%
ORM TIMBER LLC	11,802,000	11,802,000	12,167,956	1.45%
GEM REALTY CAPITAL	10,140,868	10,140,868	12,066,120	1.43%
OCONNOR NORTH AMERICAN	9,555,491	9,555,491	7,176,728	0.85%
BEACON CAPITAL PARTNERS	16,450,495	16,450,495	7,084,883	0.84%
MORGAN STANLEY REAL ESTATE	26,996,112	26,996,112	6,858,875	0.82%
LIQUID REALTY	5,264,351	5,264,351	5,324,017	0.63%
AREA PROPERTY PARTNERS	18,336	6,678,767	3,590,091	0.43%
JER REAL ESTATE PARTNERS	2,424,725	2,424,725	5,187	0.00%
<b>FUND MANAGERS</b>	<b>475,341,896</b>	<b>751,922,470</b>	<b>807,027,487</b>	<b>95.94%</b>
MT COLONIAL DRIVE	8,578,661	8,578,661	8,578,661	1.02%
NORTH PARK AVENUE	7,509,256	7,509,256	7,509,256	0.89%
BOZEMAN PROPERTY	2,212,010	2,212,010	2,212,010	0.26%
NINTH AVENUE	607,004	607,004	607,004	0.07%
CALIFORNIA STREET PROP	222,692	222,692	222,692	0.03%
<b>DIRECT REAL ESTATE</b>	<b>19,129,623</b>	<b>19,129,623</b>	<b>19,129,623</b>	<b>2.27%</b>
SHORT TERM INVESTMENT POOL	15,012,213	15,012,213	15,012,213	1.78%
<b>MTRP TO TAL</b>	<b>509,483,732</b>	<b>786,064,306</b>	<b>841,169,323</b>	<b>100.00%</b>

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STATE OF MONTANA BOARD OF INVESTMENTS  
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**SHORT TERM INVESTMENT POOL**

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
ALBION CAPITAL CORP	0.2000	08/21/14	17,760,000	17,754,968	0.70%
ALBION CAPITAL CORP	0.1600	07/21/14	32,000,000	31,997,156	1.26%
ANGLESEA FDG PLC & ANG	0.1600	07/03/14	8,000,000	7,999,929	0.32%
ANGLESEA FDG PLC & ANG	0.1700	07/31/14	10,000,000	9,998,583	0.39%
ANGLESEA FDG PLC & ANG	0.1800	07/01/14	12,000,000	12,000,000	0.47%
ANGLESEA FDG PLC & ANG	0.1800	07/02/14	15,000,000	14,999,925	0.59%
ANGLESEA FDG PLC & ANG	0.1400	07/07/14	30,000,000	29,999,300	1.18%
CHART A LLC	0.1700	08/19/14	10,000,000	9,997,686	0.39%
CHART A LLC	0.1650	08/06/14	15,000,000	14,997,525	0.59%
CHART A LLC	0.1800	08/28/14	25,000,000	24,992,750	0.99%
CIESCO LLC	0.1800	09/16/14	50,000,000	49,980,750	1.97%
COLLATERALIZED COML PAPER CO L	0.1600	08/01/14	10,000,000	9,998,622	0.39%
COLLTRZD COML PAPER II	0.1600	07/15/14	20,000,000	19,998,756	0.79%
COLLTRZD COML PAPER II	0.1600	07/16/14	20,000,000	19,998,667	0.79%
CONCORD MIN CPTL CO	0.2100	09/03/14	5,000,000	4,998,133	0.20%
CONCORD MIN CPTL CO	0.1800	07/10/14	11,000,000	10,999,505	0.43%
CONCORD MIN CPTL CO	0.1200	07/02/14	15,050,000	15,049,950	0.59%
CONCORD MIN CPTL CO	0.2300	08/04/14	38,000,000	37,991,746	1.50%
CRC FUNDING LLC	0.1500	08/05/14	10,500,000	10,498,469	0.41%
CROWN POINT CAP CO.	0.1400	07/21/14	11,000,000	10,999,144	0.43%
CROWN POINT CAP CO.	0.1800	08/11/14	15,000,000	14,996,925	0.59%
CROWN POINT CAP CO.	0.2300	08/04/14	25,000,000	24,994,569	0.99%
GOLDEN FUNDING CORP	0.1700	08/14/14	7,795,000	7,793,380	0.31%
GOLDEN FUNDING CORP	0.1700	08/18/14	7,818,000	7,816,228	0.31%
GOLDEN FUNDING CORP	0.1400	08/01/14	15,003,000	15,001,191	0.59%
GOLDEN FUNDING CORP	0.1800	07/28/14	19,703,000	19,700,340	0.78%
GOTHAM FDG CORP	0.1500	07/07/14	6,608,000	6,607,835	0.26%
GOTHAM FDG CORP	0.1400	07/11/14	11,000,000	10,999,572	0.43%
GOTHAM FDG CORP	0.1800	07/18/14	14,300,000	14,298,785	0.56%
GOTHAM FDG CORP	0.1500	07/23/14	20,000,000	19,998,167	0.79%
GOVCO LLC	0.1700	08/04/14	40,000,000	39,993,578	1.58%
INSTITUTIONAL SECURED	0.2200	07/01/14	25,000,000	25,000,000	0.99%
INSTITUTIONAL SECURED	0.3900	07/18/14	50,000,000	49,990,792	1.97%
LEXINGT'N PKR CAP CO LL	0.1800	07/08/14	14,000,000	13,999,510	0.55%
LEXINGT'N PKR CAP CO LL	0.1800	08/15/14	15,000,000	14,996,625	0.59%
LEXINGT'N PKR CAP CO LL	0.2300	08/04/14	22,000,000	21,995,221	0.87%
NIEUW AMSTERDAM RECV	0.1700	07/07/14	11,000,000	10,999,688	0.43%
NIEUW AMSTERDAM RECV	0.1700	09/05/14	42,000,000	41,986,910	1.66%
VICTORY RECEIVABLES	0.1600	07/22/14	25,000,000	24,997,667	0.99%
VICTORY RECEIVABLES	0.1500	07/09/14	26,000,000	25,999,133	1.03%
<b>Asset Backed Commerical Paper</b>	<b>40 Issue(s)</b>		<b>777,537,000</b>	<b>777,417,680</b>	<b>30.67%</b>
CREDIT SUISSE NY	0.5400	03/13/15	50,000,000	50,000,000	1.97%
UBS AG ST AMFORD BRAN	0.5000	07/17/14	25,000,000	25,000,000	0.99%
UBS AG ST AMFORD BRAN	0.3300	06/12/15	25,000,000	25,000,000	0.99%
<b>Certificate of Deposit Fixed Rate</b>	<b>3 Issue(s)</b>		<b>100,000,000</b>	<b>100,000,000</b>	<b>3.94%</b>

STATE OF MONTANA BOARD OF INVESTMENTS  
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<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par</u>	<u>Amortized Cost</u>	<u>%</u>
BANK OF MONTREAL-	0.4464	07/17/15	50,000,000	50,000,000	1.97%
BANK OF NOVA SCOTIA	0.4466	01/29/16	25,000,000	25,000,000	0.99%
BANK OF NOVA SCOTIA	0.4434	02/10/16	25,000,000	25,000,000	0.99%
BNK OF TKYO-MTBSHI L	0.5581	04/04/16	25,000,000	25,000,000	0.99%
BNK OF TKYO-MTBSHI L	0.6272	08/27/15	25,000,000	25,002,876	0.99%
CANADIAN IMPERIAL BK	0.4749	10/30/14	25,000,000	25,000,000	0.99%
CANADIAN IMPERIAL BK	0.4174	06/05/15	25,000,000	24,997,572	0.99%
COOPERATIVE CENTRALE	0.3929	05/05/15	20,000,000	20,000,000	0.79%
COOPERATIVE CENTRALE	0.4034	08/12/15	30,000,000	30,000,000	1.18%
NATIONAL BK OF CANAD	0.6049	07/31/14	45,000,000	44,999,256	1.78%
NORDEA BANK FLD PLC	0.7265	10/15/14	22,000,000	21,999,288	0.87%
NORDEA BANK FLD PLC	0.3966	01/29/16	25,000,000	25,000,000	0.99%
SVENSKA HANDLSBANK N A	0.5187	01/16/15	25,000,000	24,997,248	0.99%
WEST PAC BANKING CORP N	0.3729	02/04/16	25,000,000	25,000,000	0.99%
<b>Certificate of Deposit Variable Rate</b>	<b>14 Issue(s)</b>		<b>392,000,000</b>	<b>391,996,239</b>	<b>15.46%</b>
BARCLAYS U.S. FDG LLC	0.3500	08/12/14	48,000,000	47,980,400	1.89%
JOHN DEERE CSH MGT LTD	0.0700	07/24/14	16,000,000	15,999,284	0.63%
METLIFE SHORT TERM FDG	0.1200	07/17/14	17,000,000	16,999,093	0.67%
METLIFE SHORT TERM FDG	0.1200	07/14/14	33,000,000	32,998,570	1.30%
RECKITT BENCKISER TREAS	0.3500	09/17/14	25,000,000	24,981,042	0.99%
<b>Corporate Commercial Paper</b>	<b>5 Issue(s)</b>		<b>139,000,000</b>	<b>138,958,389</b>	<b>5.48%</b>
AUST + NZ BANKING GROUP	0.3841	09/30/15	50,000,000	50,000,000	1.97%
BOEING CO	0.2329	11/03/14	10,000,000	10,000,000	0.39%
BRANCH BANKING + TRUST	0.5579	10/28/15	50,000,000	50,000,000	1.97%
CATERPILLAR FINANCIAL SE	0.2959	02/19/15	50,000,000	50,000,000	1.97%
COCA COLA CO/THE	0.2074	03/05/15	20,000,000	20,000,000	0.79%
COMMONWEALTH BANK AUST	0.3766	04/29/16	50,000,000	50,000,000	1.97%
GENERAL ELEC CAP CORP	0.4571	01/14/16	10,000,000	10,000,000	0.39%
IBM CORP	0.2929	02/05/16	30,000,000	30,000,000	1.18%
JOHN DEERE CAPITAL CORP	0.2971	01/12/15	35,000,000	35,000,000	1.38%
JPMORGAN CHASE + CO	0.6759	04/23/15	21,700,000	21,746,597	0.86%
JPMORGAN CHASE + CO	0.8472	02/26/16	30,000,000	30,151,884	1.19%
NATIONAL AUSTRALIA BANK	0.3729	02/04/16	50,000,000	50,000,000	1.97%
PEPSICO INC	0.4249	07/30/15	20,000,000	20,000,000	0.79%
PRINCIPAL LFE GLB FND II	0.8544	07/09/14	7,000,000	7,000,000	0.28%
ROYAL BANK OF CANADA	0.4366	04/29/15	50,000,000	50,000,000	1.97%
TORONTO DOMINION BANK	0.4029	05/01/15	50,000,000	50,000,000	1.97%
TOYOTA MOTOR CREDIT CORP	0.3804	01/07/16	20,000,000	20,000,000	0.79%
TOYOTA MOTOR CREDIT CORP	0.3974	12/05/14	30,000,000	30,000,000	1.18%
WELLS FARGO BANK NA	0.5079	07/20/15	50,000,000	50,000,000	1.97%
WEST PAC BANKING CORP	0.4766	01/29/15	25,000,000	24,995,602	0.99%
<b>Corporate Variable Rate</b>	<b>20 Issue(s)</b>		<b>658,700,000</b>	<b>658,894,083</b>	<b>25.99%</b>
BLACKROCK MONEY MARKET	0.0300	N/A	1,000,000	1,000,000	0.04%
STATE STREET LIQUID RESVS	0.0597	N/A	20,000,000	20,000,000	0.79%
<b>Money Market Funds (Rated)</b>	<b>2 Issue(s)</b>		<b>21,000,000</b>	<b>21,000,000</b>	<b>0.83%</b>
BGI INSTITUTIONAL MMF	0.1075	N/A	107,000,000	107,000,000	4.22%
FIDELITY INSTL MONEY MARKET	0.0800	N/A	2,000,000	2,000,000	0.08%
STATE STREET BANK + TRUST CO	0.0521	N/A	24,439,814	24,439,814	0.96%
<b>Money Market Funds (Unrated)</b>	<b>3 Issue(s)</b>		<b>133,439,814</b>	<b>133,439,814</b>	<b>5.26%</b>
AFF FINANCING	-	07/02/14	22,848,774	22,848,774	0.90%
ORION FINANCE	1.0000	N/A	15,591,507	15,591,507	0.62%
<b>Other Asset Backed</b>	<b>2 Issue(s)</b>		<b>38,440,281</b>	<b>38,440,281</b>	<b>1.52%</b>
FEDERAL HOME LOAN BANK	0.2000	07/17/15	25,000,000	25,000,000	0.99%
FEDERAL HOME LOAN BANK	0.1700	09/11/14	25,000,000	24,999,241	0.99%
FEDERAL HOME LOAN BANK	0.2200	11/03/14	25,000,000	25,004,035	0.99%
<b>U.S. Government Agency Fixed Rate</b>	<b>3 Issue(s)</b>		<b>75,000,000</b>	<b>75,003,275</b>	<b>2.96%</b>
FANNIE MAE	0.1210	02/27/15	25,000,000	24,995,849	0.99%
FEDERAL FARM CREDIT BANK	0.1815	06/26/15	25,000,000	25,016,282	0.99%
FEDERAL HOME LOAN BANK	0.1320	11/25/15	25,000,000	24,996,450	0.99%
FEDERAL HOME LOAN BANK	0.1610	12/09/15	25,000,000	25,000,000	0.99%
FEDERAL HOME LOAN BANK	0.1183	07/21/15	25,000,000	24,995,954	0.99%
FEDERAL HOME LOAN BANK	0.1430	02/10/16	25,000,000	25,000,056	0.99%
FEDERAL HOME LOAN BANK	0.1050	12/19/14	25,000,000	24,998,815	0.99%
FREDDIE MAC	0.1318	10/16/15	25,000,000	25,000,000	0.99%
<b>U.S. Government Agency Variable Rate</b>	<b>8 Issue(s)</b>		<b>200,000,000</b>	<b>200,003,406</b>	<b>7.89%</b>
<b>STIP Total</b>	<b>100 Issue(s)</b>		<b>2,535,117,095</b>	<b>2,535,153,167</b>	<b>100.00%</b>

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**6/30/2014 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>
AFLAC INC	2.650	02/15/17	6,000,000	6,194,621	6,226,351	0.34%
AFLAC INC	4.000	02/15/22	3,000,000	2,995,863	3,199,322	0.17%
AT+T INC	5.800	02/15/19	5,000,000	4,991,990	5,778,313	0.32%
AT+T INC	2.500	08/15/15	5,000,000	4,996,698	5,102,748	0.28%
ALLY MASTER OWNER TRUST	1.540	09/15/16	8,418,000	8,448,503	8,436,862	0.46%
ALTRIA GROUP INC	9.700	11/10/18	1,105,000	1,106,813	1,448,871	0.08%
AMERICAN EXPRESSCO	5.500	09/12/16	5,000,000	4,993,156	5,480,950	0.30%
AMERICAN EXPRESSCO	7.000	03/19/18	3,000,000	2,994,783	3,561,167	0.19%
AMERICAN EXPRESSCREDIT	2.125	03/18/19	7,000,000	6,987,489	7,024,690	0.38%
AMERICAN HONDA FINANCE	3.800	09/20/21	5,000,000	4,989,983	5,290,730	0.29%
AMERICAN INTL GROUP	5.850	01/16/18	3,000,000	3,173,032	3,412,188	0.19%
ANHEUSER BUSCH INBEV WOR	3.625	04/15/15	3,000,000	2,998,984	3,076,920	0.17%
AVISBUDGET RENTAL CAR FUNDING	2.100	03/20/19	10,000,000	9,996,797	10,125,106	0.55%
BANK OF AMERICA CORP	4.500	04/01/15	5,000,000	5,001,485	5,149,551	0.28%
BANK OF AMERICA CORP	5.875	01/05/21	2,000,000	1,989,835	2,332,993	0.13%
BANK OF AMERICA CORP	3.750	07/12/16	2,000,000	1,998,336	2,102,878	0.11%
BANK OF MONTREAL	1.300	07/15/16	1,000,000	999,377	1,010,613	0.06%
BANK OF NOVA SCOTIA	3.400	01/22/15	5,000,000	4,999,231	5,084,567	0.28%
BAXTER INTERNATIONAL INC	1.850	01/15/17	3,000,000	2,999,113	3,058,881	0.17%
BAXTER INTERNATIONAL INC	1.850	06/15/18	3,000,000	2,999,763	3,008,453	0.16%
BRANCH BANKING + TRUST	0.558	10/28/15	10,000,000	10,000,000	10,011,164	0.55%
BEMISCOMPANY INC	4.500	10/15/21	2,500,000	2,487,985	2,660,003	0.15%
BERKSHIRE HATHAWAY FIN	2.000	08/15/18	5,000,000	4,958,643	5,070,260	0.28%
BERKSHIRE HATHAWAY INC	3.400	01/31/22	4,000,000	3,991,264	4,144,185	0.23%
BLACK HILLSCORP	5.875	07/15/20	5,000,000	5,103,465	5,771,725	0.32%
BOEING CAPITAL CORP	2.900	08/15/18	2,000,000	2,082,871	2,095,222	0.11%
BOEING CO	3.750	11/20/16	5,000,000	5,329,327	5,328,419	0.29%
BUNGE LIMITED FINANCE CO	4.100	03/15/16	5,000,000	4,999,850	5,249,323	0.29%
BUNGE LIMITED FINANCE CO	3.200	06/15/17	5,000,000	4,994,139	5,216,106	0.29%
BUNGE NA FINANCE LP	5.900	04/01/17	5,000,000	4,998,156	5,555,394	0.30%
BURLINGTN NORTH SANTA FE	3.050	03/15/22	5,000,000	4,982,797	5,024,115	0.27%
BURLINGTN NORTH SANTA FE	3.750	04/01/24	5,000,000	4,992,891	5,150,204	0.28%
BURLINGTN NO SF 99 1 TR	7.160	01/02/20	2,154,855	2,154,855	2,475,288	0.14%
CNA FINANCIAL CORP	5.875	08/15/20	5,000,000	4,996,741	5,805,666	0.32%
CNH EQUIPMENT TRUST	0.990	11/15/18	6,000,000	5,998,546	5,969,321	0.33%
CVSCAREMARK CORP	5.750	06/01/17	5,000,000	4,929,794	5,632,524	0.31%
CVSCAREMARK CORP	4.125	05/15/21	5,000,000	5,224,782	5,408,204	0.30%
CANTOR FITZGERALD LP	6.375	06/26/15	5,000,000	4,996,520	5,181,809	0.28%
CAPITAL ONE FINANCIAL CO	6.750	09/15/17	5,000,000	4,989,631	5,804,007	0.32%
CAPITAL ONE BANK USA NA	2.300	06/05/19	3,000,000	2,995,620	3,017,040	0.16%
CATERPILLAR FINANCIAL SE	3.750	11/24/23	5,000,000	5,080,489	5,210,273	0.28%
CHURCH + DWIGHT CO INC	3.350	12/15/15	3,000,000	2,998,778	3,107,871	0.17%
CINTASCORPORATION NO. 2	2.850	06/01/16	5,000,000	4,999,908	5,121,415	0.28%
CISCO SYSTEMSINC	2.900	03/04/21	2,000,000	1,996,515	2,030,879	0.11%
CITIGROUP INC	6.375	08/12/14	5,000,000	4,999,113	5,033,218	0.28%
CITIGROUP INC	3.875	10/25/23	5,000,000	5,028,348	5,120,839	0.28%
CITIGROUP INC	3.750	06/16/24	7,000,000	6,991,350	7,036,205	0.38%
COMMONWEALTH BANK AUST	2.250	03/16/17	2,500,000	2,499,014	2,575,805	0.14%
CONOCOPHILLIPS	5.750	02/01/19	5,000,000	4,997,871	5,827,704	0.32%
CONOCOPHILLIPSCANADA	5.625	10/15/16	6,000,000	5,999,870	6,653,961	0.36%
RABOBANK NEDERLAND	2.125	10/13/15	3,000,000	2,998,041	3,059,992	0.17%
CREDIT SUISSE NEW YORK	2.300	05/28/19	3,000,000	2,993,928	3,004,433	0.16%
DANAHER CORP	2.300	06/23/16	1,000,000	999,345	1,030,198	0.06%

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DANSKE BANK A/S	3.750	04/01/15	5,000,000	4,997,751	5,120,008	0.28%
JOHN DEERE CAPITAL CORP	2.250	06/07/16	5,000,000	4,996,056	5,142,825	0.28%
JOHN DEERE CAPITAL CORP	2.250	04/17/19	5,000,000	5,162,267	5,060,055	0.28%
E.I. DU PONT DE NEMOURS	2.750	04/01/16	5,000,000	4,997,036	5,177,168	0.28%
EMERSON ELECTRIC CO	2.625	02/15/23	4,790,000	4,592,276	4,651,734	0.25%
ENTERPRISE FLEET FINANCING LLC	1.410	11/20/17	5,000,000	4,999,094	5,021,447	0.27%
EXELON CORP	4.900	06/15/15	5,000,000	5,055,844	5,194,309	0.28%
FIFTH THIRD BANCORP	5.450	01/15/17	5,000,000	4,994,817	5,481,714	0.30%
FIRST HORIZON NATIONAL	5.375	12/15/15	3,000,000	2,996,829	3,170,813	0.17%
FLUOR CORP	3.375	09/15/21	4,000,000	4,067,807	4,081,500	0.22%
FORD CREDIT FLOORPLAN MASTER O	1.490	09/15/19	8,000,000	7,997,680	8,018,654	0.44%
FORD CREDIT AUTO OWNER TRUST/F	2.260	11/15/25	3,000,000	2,999,259	3,036,644	0.17%
BEAM INC	5.375	01/15/16	544,000	543,310	579,745	0.03%
FRANKLIN RESOURCES INC	4.625	05/20/20	5,000,000	4,996,425	5,599,643	0.31%
FRANKLIN RESOURCES INC	1.375	09/15/17	3,000,000	2,989,361	3,005,678	0.16%
GATX CORP	4.850	06/01/21	5,000,000	4,994,111	5,489,484	0.30%
GE CAPITAL CREDIT CARD MASTER	1.360	08/17/20	5,000,000	4,998,497	4,952,974	0.27%
GENERAL ELECTRIC CO	5.250	12/06/17	5,000,000	5,004,972	5,639,956	0.31%
GENERAL ELEC CAP CORP	3.750	11/14/14	1,600,000	1,610,225	1,620,736	0.09%
GENERAL ELEC CAP CORP	4.650	10/17/21	5,000,000	4,991,726	5,554,926	0.30%
GENERAL ELEC CAP CORP	2.900	01/09/17	7,000,000	6,994,769	7,318,938	0.40%
GENERAL ELEC CAP CORP	2.300	04/27/17	5,000,000	4,996,211	5,152,934	0.28%
GOLDMAN SACHS GROUP INC	5.750	01/24/22	5,000,000	4,994,560	5,789,559	0.32%
GOLDMAN SACHS GROUP INC	4.000	03/03/24	5,000,000	5,044,801	5,093,367	0.28%
GOLDMAN SACHS GROUP INC	3.625	02/07/16	2,500,000	2,474,800	2,605,977	0.14%
HART FORD FINL SVCS GRP	5.375	03/15/17	5,000,000	4,995,786	5,513,905	0.30%
HART FORD FINL SVCS GRP	6.300	03/15/18	5,000,000	5,002,291	5,778,401	0.32%
HERTZ VEHICLE FINANCING LLC	3.740	02/25/17	10,000,000	10,439,213	10,429,207	0.57%
HEWLETT PACKARD CO	2.200	12/01/15	5,000,000	4,998,688	5,101,339	0.28%
ILLINOIS TOOL WORKS INC	3.375	09/15/21	5,000,000	5,131,233	5,200,674	0.28%
JPMORGAN CHASE + CO	4.950	03/25/20	5,000,000	5,010,508	5,608,943	0.31%
JPMORGAN CHASE + CO	3.150	07/05/16	3,000,000	2,997,007	3,126,346	0.17%
JPMORGAN CHASE + CO	4.500	01/24/22	5,000,000	4,979,581	5,462,560	0.30%
JPMORGAN CHASE + CO	1.625	05/15/18	7,000,000	6,988,565	6,952,815	0.38%
JPMORGAN CHASE + CO	3.625	05/13/24	7,000,000	6,966,082	7,033,118	0.38%
JERSEY CENTRAL PWR + LT	5.650	06/01/17	3,000,000	2,996,378	3,331,739	0.18%
KCT INTERMODAL TRANS	6.884	08/01/18	1,621,867	1,621,867	1,798,271	0.10%
KEY BANK NA	1.650	02/01/18	2,000,000	1,998,607	1,994,742	0.11%
LIBERTY MUTUAL GROUP INC	4.950	05/01/22	5,000,000	5,006,650	5,433,230	0.30%
LINCOLN NATIONAL CORP	4.300	06/15/15	3,000,000	2,999,170	3,102,413	0.17%
LINCOLN NATIONAL CORP	4.850	06/24/21	5,000,000	5,012,610	5,539,690	0.30%
MANUF + TRADER TRUST CO	2.300	01/30/19	7,000,000	6,989,112	7,082,095	0.39%
MMAF EQUIPMENT FINANCE LLC	1.350	10/10/18	3,000,000	2,999,986	3,023,927	0.17%
MARATHON OIL CORP	5.900	03/15/18	4,546,000	4,539,439	5,203,036	0.28%
MASS MUTUAL GLOBAL FUNDING	3.600	04/09/24	2,000,000	1,994,605	2,052,030	0.11%
MEDTRONIC INC	3.625	03/15/24	3,000,000	2,994,372	3,074,331	0.17%
MERCK SHARP + DOHME CORP	5.000	06/30/19	2,000,000	1,993,166	2,276,247	0.12%
MERCK + CO INC	1.300	05/18/18	3,000,000	2,994,577	2,967,837	0.16%
BANK OF AMERICA CORP	6.400	08/28/17	5,000,000	4,997,180	5,710,048	0.31%
METLIFE INC	4.750	02/08/21	2,000,000	1,999,670	2,231,356	0.12%
METROPOLITAN LIFE GLOBAL FDG I	1.875	06/22/18	5,000,000	4,964,311	4,985,070	0.27%
MORGAN STANLEY	4.000	07/24/15	5,000,000	5,035,025	5,176,809	0.28%
MORGAN STANLEY	5.625	09/23/19	5,000,000	4,987,721	5,741,013	0.31%
MORGAN STANLEY	3.450	11/02/15	5,000,000	4,737,412	5,171,716	0.28%
NATL CITY BANK CLEV OH	5.250	12/15/16	5,000,000	4,998,675	5,460,657	0.30%



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NEW YORK LIFE GLOBAL FDG	1.300	10/30/17	5,000,000	4,994,380	4,958,739	0.27%
NIAGARA MOHAWK POWER	4.881	08/15/19	8,000,000	8,798,440	8,960,962	0.49%
NOBLE HOLDING INTL LTD	4.625	03/01/21	5,000,000	4,980,061	5,381,781	0.29%
NORFOLK SOUTHERN CORP	5.750	01/15/16	2,000,000	1,997,841	2,149,226	0.12%
NORFOLK SOUTHERN CORP	3.000	04/01/22	5,000,000	4,959,144	4,977,573	0.27%
NORTHWESTERN CORP	6.340	04/01/19	5,000,000	4,996,814	5,787,681	0.32%
NOVARTIS SECS INVEST LTD	5.125	02/10/19	5,000,000	4,995,335	5,699,207	0.31%
PNC FUNDING CORP	2.700	09/19/16	3,000,000	2,998,330	3,103,583	0.17%
PNC BANK NA	0.547	04/29/16	7,000,000	7,000,000	7,002,933	0.38%
PNC BANK NA	1.300	10/03/16	5,000,000	4,996,658	5,021,535	0.27%
PSEG POWER LLC	4.150	09/15/21	5,000,000	4,984,934	5,256,683	0.29%
PSEG POWER LLC	4.300	11/15/23	4,000,000	3,997,872	4,163,196	0.23%
PFIZER INC	1.500	06/15/18	5,000,000	4,997,709	4,979,786	0.27%
PHILLIPS66	4.300	04/01/22	5,000,000	4,990,817	5,396,996	0.29%
PRUDENTIAL FINANCIAL INC	5.500	03/15/16	5,000,000	4,951,536	5,383,133	0.29%
QUESTAR CORP	2.750	02/01/16	5,025,000	5,019,497	5,102,405	0.28%
SBA TOWER TRUST	2.933	12/15/42	4,000,000	4,000,000	4,076,416	0.22%
SMART TRUST	1.180	02/14/19	4,000,000	3,999,880	3,992,162	0.22%
TRAVELERS COS INC	6.250	06/20/16	5,000,000	4,995,621	5,523,214	0.30%
SANOFI	1.200	09/30/14	2,000,000	1,999,795	2,004,407	0.11%
MERCK + CO INC	6.000	09/15/17	5,000,000	4,990,527	5,738,034	0.31%
SOUTHERN CAL EDISON	4.650	04/01/15	500,000	509,395	516,177	0.03%
STATOIL ASA	3.125	08/17/17	7,000,000	6,992,763	7,393,712	0.40%
STATOIL ASA	2.900	10/15/14	2,000,000	1,999,813	2,016,281	0.11%
SUNTRUST BANKS INC	3.600	04/15/16	2,000,000	1,999,729	2,092,273	0.11%
SUNTRUST BANKS INC	2.500	05/01/19	5,000,000	5,008,282	5,050,159	0.28%
SWEDBANK AB	2.375	02/27/19	5,000,000	4,992,098	5,058,093	0.28%
TEXAS INSTRUMENTS INC	1.650	08/03/19	3,000,000	2,976,457	2,934,035	0.16%
TORONTO DOMINION BANK	1.625	09/14/16	2,000,000	1,999,396	2,034,770	0.11%
TOTAL CAPITAL INTL SA	2.750	06/19/21	10,000,000	9,981,155	10,040,533	0.55%
TOYOTA MOTOR CREDIT CORP	1.250	11/17/14	3,000,000	2,999,157	3,011,605	0.16%
TRANSALTA CORP	4.750	01/15/15	5,000,000	5,040,908	5,107,813	0.28%
TRANSCANADA PIPELINES	7.125	01/15/19	5,000,000	5,029,679	6,088,112	0.33%
MUFG UNION BANK NA	5.950	05/11/16	5,000,000	5,001,043	5,442,650	0.30%
UNION PACIFIC CORP	4.875	01/15/15	7,000,000	6,975,820	7,167,480	0.39%
UNITED PARCEL SERVICE	5.500	01/15/18	5,000,000	4,995,867	5,709,855	0.31%
USBANCORP	3.150	03/04/15	2,000,000	1,999,497	2,038,636	0.11%
USBANCORP	1.950	11/15/18	12,000,000	11,986,987	12,011,849	0.66%
VERIZON COMMUNICATIONS	5.150	09/15/23	3,000,000	2,990,893	3,359,626	0.18%
WACHOVIA CORP	5.625	10/15/16	5,000,000	4,994,632	5,508,875	0.30%
WAL MART STORES INC	4.500	07/01/15	5,000,000	5,139,901	5,209,081	0.28%
WAL MART STORES INC	3.625	07/08/20	8,000,000	8,578,562	8,537,957	0.47%
WELLPOINT INC	5.875	06/15/17	5,000,000	4,972,892	5,604,686	0.31%
WEST PAC BANKING CORP	3.000	12/09/15	10,000,000	9,996,784	10,342,035	0.57%
WILMINGTON TRUST CORP	8.500	04/02/18	2,000,000	2,000,000	2,440,694	0.13%
WISC ELEC POWER	1.700	06/15/18	5,000,000	5,000,000	5,010,317	0.27%
<b>Corporate Bonds (Rated)</b>			<b>700,804,722</b>	<b>703,313,178</b>	<b>738,806,225</b>	<b>40.37%</b>
ESC LEHMAN BRT HLDH PROD	1.000	12/31/49	5,000,000	1	968,750	0.05%
<b>Corporate Bonds (Unrated)</b>			<b>5,000,000</b>	<b>1</b>	<b>968,750</b>	<b>0.05%</b>
MANITOBA (PROVINCE OF)	1.125	06/01/18	5,000,000	4,996,406	4,944,710	0.27%
ONTARIO (PROVINCE OF)	1.200	02/14/18	7,000,000	6,994,581	6,957,773	0.38%
ONTARIO (PROVINCE OF)	3.200	05/16/24	5,000,000	4,993,273	5,050,567	0.28%
PROVINCE OF QUEBEC	2.625	02/13/23	4,000,000	3,985,615	3,903,170	0.21%
<b>Sovereign Bonds</b>			<b>21,000,000</b>	<b>20,969,876</b>	<b>20,856,220</b>	<b>1.14%</b>

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FED HM LN PC POOL G12310	5.500	08/01/21	603,244	603,041	654,667	0.04%
FED HM LN PC POOL G13081	5.000	04/01/23	1,038,271	1,038,271	1,109,888	0.06%
FED HM LN PC POOL G18244	4.500	02/01/23	1,042,019	1,028,740	1,121,717	0.06%
FED HM LN PC POOL J08160	5.000	12/01/22	1,105,361	1,103,699	1,192,279	0.07%
FREDDIE MAC	5.050	01/26/15	10,000,000	9,997,886	10,269,368	0.56%
FEDERAL HOME LOAN BANK	3.375	12/08/23	10,000,000	10,076,353	10,425,862	0.57%
FEDERAL HOME LOAN BANK	0.520	01/30/17	15,000,000	15,000,000	15,002,987	0.82%
FEDERAL HOME LOAN BANK	3.250	03/08/24	10,000,000	9,988,252	10,289,005	0.56%
FEDERAL FARM CREDIT BANK	3.875	01/12/21	5,000,000	5,016,325	5,493,513	0.30%
FEDERAL FARM CREDIT BANK	2.260	09/29/20	5,000,000	4,947,041	5,017,194	0.27%
FEDERAL FARM CREDIT BANK	1.875	03/29/19	5,000,000	4,996,756	5,036,588	0.28%
FEDERAL FARM CREDIT BANK	1.850	09/19/18	5,000,000	4,996,911	5,065,666	0.28%
FEDERAL FARM CREDIT BANK	5.500	08/16/21	4,500,000	5,378,977	5,422,078	0.30%
FEDERAL FARM CREDIT BANK	5.100	04/12/17	20,000,000	19,907,017	22,334,832	1.22%
FEDERAL HOME LOAN BANK	2.780	11/04/21	5,000,000	4,967,107	5,112,761	0.28%
FEDERAL HOME LOAN BANK	2.625	12/10/21	5,000,000	4,994,815	5,053,643	0.28%
FEDERAL HOME LOAN BANK	1.000	06/21/17	5,000,000	5,035,391	5,016,087	0.27%
FEDERAL HOME LOAN BANK	1.625	06/14/19	17,950,000	17,801,003	17,884,321	0.98%
FEDERAL HOME LOAN BANK	1.875	06/11/21	5,000,000	4,891,193	4,845,598	0.26%
FEDERAL HOME LOAN BANK	1.375	09/13/19	5,000,000	4,988,816	4,873,197	0.27%
FEDERAL HOME LOAN BANK	0.375	06/24/16	10,000,000	9,923,785	9,978,805	0.55%
FEDERAL FARM CREDIT BANK	0.720	12/27/16	5,000,000	4,997,234	4,989,747	0.27%
FEDERAL FARM CREDIT BANK	3.500	12/20/23	5,000,000	5,126,212	5,220,049	0.29%
FEDERAL HOME LOAN BANK	4.750	09/11/15	10,000,000	9,956,294	10,539,558	0.58%
FEDERAL HOME LOAN BANK	4.750	12/16/16	15,000,000	14,956,862	16,484,043	0.90%
FEDERAL HOME LOAN BANK	5.125	03/10/17	10,000,000	10,029,946	11,132,043	0.61%
FEDERAL HOME LOAN BANK	5.375	09/30/22	3,080,000	3,819,354	3,693,111	0.20%
FEDERAL HOME LOAN BANK	4.875	10/30/17	4,000,000	4,108,106	4,488,768	0.25%
FEDERAL HOME LOAN BANK	3.250	09/12/14	10,000,000	10,006,264	10,057,758	0.55%
FREDDIE MAC	1.000	11/28/17	10,000,000	10,000,000	9,920,141	0.54%
FREDDIE MAC	1.125	11/15/18	1,350,000	1,320,778	1,322,475	0.07%
FREDDIE MAC	0.500	12/19/16	5,000,000	5,000,000	5,001,049	0.27%
FREDDIE MAC	1.150	12/27/17	2,500,000	2,500,000	2,491,592	0.14%
FANNIE MAE	0.000	06/01/17	20,150,000	17,386,196	19,593,777	1.07%
FANNIE MAE	4.625	10/15/14	10,000,000	10,004,905	10,130,782	0.55%
FANNIEMAE STRIPS	0.000	07/15/14	1,000,000	998,947	999,886	0.05%
FANNIE MAE	1.250	01/30/17	10,000,000	10,009,147	10,131,311	0.55%
FANNIE MAE	1.125	04/27/17	15,000,000	14,912,184	15,101,009	0.83%
FANNIE MAE	0.500	09/28/15	5,000,000	5,003,168	5,016,335	0.27%
FANNIE MAE	0.500	03/30/16	5,500,000	5,501,488	5,509,282	0.30%
FANNIE MAE	0.875	05/21/18	10,000,000	9,758,665	9,820,957	0.54%
FANNIE MAE	1.050	05/25/18	10,000,000	9,996,065	9,786,727	0.53%
FANNIE MAE	0.375	07/05/16	10,000,000	9,881,248	9,976,063	0.55%
FANNIE MAE	0.625	08/26/16	10,000,000	9,949,327	10,014,002	0.55%
FANNIE MAE	1.625	11/27/18	12,000,000	12,001,463	12,045,832	0.66%
FANNIE MAE	1.875	02/19/19	10,000,000	10,100,043	10,125,325	0.55%
FANNIE MAE	0.750	04/20/17	10,000,000	9,962,499	9,962,457	0.54%
FNMA POOL 254140	5.500	01/01/17	413,207	411,590	431,507	0.02%
FNMA POOL 254233	5.000	03/01/17	105,510	104,402	111,802	0.01%
FREDDIE MAC	5.000	02/16/17	10,000,000	9,964,268	11,105,821	0.61%
FREDDIE MAC	2.375	01/13/22	20,000,000	19,787,206	19,995,760	1.09%
FREDDIE MAC	0.500	04/17/15	5,000,000	5,004,314	5,014,148	0.27%

STATE OF MONTANA BOARD OF INVESTMENTS  
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>
FREDDIE MAC	1.250	05/12/17	5,000,000	5,014,614	5,050,633	0.28%
FREDDIE MAC	1.000	09/29/17	15,000,000	15,020,567	14,969,997	0.82%
FREDDIE MAC	0.875	02/22/17	15,000,000	15,010,664	15,031,023	0.82%
FNMA POOL 572220	6.000	03/01/16	19,856	19,778	20,541	0.00%
FNMA POOL 592327	5.500	06/01/16	14,809	14,700	15,312	0.00%
FNMA POOL 844915	4.500	11/01/20	706,116	702,881	750,975	0.04%
FNMA POOL 888932	4.500	11/01/22	547,883	547,422	582,569	0.03%
FNMA POOL 962078	4.500	03/01/23	1,313,627	1,307,316	1,405,000	0.08%
FICO STRIP PRN 3	0.000	11/30/17	1,300,000	1,238,467	1,243,838	0.07%
TENN VALLEY AUTHORITY	4.375	06/15/15	1,000,000	1,019,989	1,040,207	0.06%
<b>U.S. Government Agency</b>			<b>441,239,902</b>	<b>439,135,949</b>	<b>451,523,262</b>	<b>24.67%</b>
ENSCO OFFSHORE CO	6.360	12/01/15	500,237	500,237	521,958	0.03%
USTREASURY N/B	0.750	03/15/17	10,000,000	9,968,134	9,999,300	0.55%
USTREASURY N/B	2.250	03/31/21	5,000,000	4,987,423	5,054,300	0.28%
USTREASURY N/B	4.250	11/15/17	15,000,000	15,069,226	16,595,399	0.91%
USTREASURY N/B	3.875	05/15/18	15,000,000	15,019,443	16,503,302	0.90%
USTREASURY N/B	4.000	08/15/18	10,000,000	10,034,826	11,081,901	0.61%
USTREASURY N/B	2.750	02/15/19	10,000,000	9,946,616	10,554,600	0.58%
USTREASURY N/B	2.625	04/30/16	10,000,000	9,949,430	10,409,200	0.57%
USTREASURY N/B	2.625	02/29/16	5,000,000	5,002,511	5,192,300	0.28%
USTREASURY N/B	3.250	05/31/16	5,000,000	4,966,021	5,271,700	0.29%
USTREASURY N/B	3.625	08/15/19	10,000,000	9,964,450	10,981,801	0.60%
USTREASURY N/B	3.625	02/15/20	5,000,000	4,935,029	5,500,050	0.30%
USTREASURY N/B	2.625	08/15/20	5,000,000	4,951,842	5,204,300	0.28%
USTREASURY N/B	2.625	11/15/20	25,000,000	24,156,059	25,969,750	1.42%
USTREASURY N/B	2.125	08/15/21	10,000,000	9,928,216	9,993,400	0.55%
USTREASURY N/B	0.875	12/31/16	2,500,000	2,511,255	2,513,125	0.14%
USTREASURY N/B	1.625	08/15/22	20,000,000	19,689,147	18,987,199	1.04%
USTREASURY N/B	2.125	08/31/20	5,000,000	4,906,688	5,052,150	0.28%
USTREASURY N/B	0.875	05/15/17	20,000,000	20,021,330	20,025,999	1.09%
USTREASURY N/B	2.500	05/15/24	15,000,000	14,916,139	14,977,200	0.82%
USTREASURY N/B	0.875	06/15/17	10,000,000	9,969,121	10,003,099	0.55%
STRIPS	0.000	08/15/17	1,590,000	1,461,351	1,542,427	0.08%
STRIPS	0.000	11/15/17	6,300,000	5,320,485	6,074,082	0.33%
<b>U.S. Government Direct Obligations</b>			<b>220,890,237</b>	<b>218,174,976</b>	<b>228,008,541</b>	<b>12.46%</b>
USBANK SWEEP REPO	NA	NA	10,348,663	10,348,663	10,348,663	0.57%
<b>Cash Equivalents</b>			<b>10,348,663</b>	<b>10,348,663</b>	<b>10,348,663</b>	<b>0.57%</b>
TIAA CREF ASSET MANAGEMENT	0.000	02/27/19	66,001	30,000,000	32,054,797	1.75%
AMERICAN CORE REALTY FUND LLC	0.000	07/08/20	397	40,000,000	42,018,191	2.30%
<b>Core Real Estate</b>			<b>66,398</b>	<b>70,000,000</b>	<b>74,072,988</b>	<b>4.05%</b>
BLACKROCK CASH	0.000	03/20/19	0	0	0	0.00%
BLACKROCK EQUITY INDEX FD B	NA	NA	461,436	66,351,555	147,383,391	8.05%
BLACKROCK ACWI EX USSUPERFD B	NA	NA	734,727	14,000,530	20,131,615	1.10%
MONEY MARKET FD FOR EBT	0.000	04/17/19	208	208	208	0.00%
<b>Equity Index Funds</b>			<b>1,196,371</b>	<b>80,352,292</b>	<b>167,515,214</b>	<b>9.15%</b>
MONTANA ST	NA	NA	22,879,825	22,879,825	22,879,825	1.25%
PERMANENT COAL TRUST	NA	NA	115,039,524	115,039,524	115,039,524	6.29%
<b>MT Mortgages and Loans</b>			<b>137,919,349</b>	<b>137,919,349</b>	<b>137,919,349</b>	<b>7.54%</b>
<b>AOF Total</b>			<b>1,538,465,642</b>	<b>1,680,214,284</b>	<b>1,830,019,212</b>	<b>100.00%</b>



# **Independent Auditor's Report and Enterprise Fund Program Financial Statements**



Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Statement of Net Position of the Montana Board of Investments' Enterprise Fund as of June 30, 2014, and 2013, the related Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows for each of the fiscal years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Montana Board of Investments' Enterprise Fund as of June 30, 2014, and 2013, and the changes in fund net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

*Emphasis of Matter*

As discussed in Note 1, the Montana Board of Investments' Enterprise Fund financial statements are intended to present the net position, changes in fund net position, and cash flows of only that portion of the financial reporting entity of the state of Montana that is attributable to the transactions of the Enterprise Fund. They do not purport to, and do not present fairly the financial position of the state of Montana as of June 30, 2014, or June 30, 2013, or the changes in its financial position and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

December 2, 2014

## STATEMENT OF NET POSITION AS OF JUNE 30, 2014 AND 2013

## Assets

	<u>2014</u>	<u>2013</u>
<b>Current assets:</b>		
Cash and cash equivalents (Note 1)	\$ 24,374,066	\$ 31,958,835
Interest receivable	214,662	179,099
Notes/loans receivable (Note 1)	8,647,712	8,596,526
Interfund notes/loans and interest receivable (Note 1)	1,494,198	1,473,953
Component Unit notes/loans and interest receivable (Note 1)	2,424,357	2,518,924
Short-term investments at fair value (Notes 1, 2)	1,570,322	4,089,836
Short-term deposits at fair value (Notes 1, 2)	0	629,474
Security lending cash collateral (Note 3)	<u>341</u>	<u>1,364</u>
<b>Total current assets</b>	<b>\$ <u>38,725,658</u></b>	<b>\$ <u>49,448,011</u></b>
<b>Noncurrent assets:</b>		
Restricted deposits at fair value (Notes 1, 2)	6,661,865	0
Long-term investments at fair value (Notes 1, 2)	5,036	6,485
Notes/loans receivable (Note 1)	44,147,646	37,850,917
Interfund notes/loans and interest receivable (Note 1)	7,477,405	8,016,360
Component Unit notes/loans receivable (Note 1)	15,100,051	17,258,173
Capitalized cost of issue (Notes 1e, 10)	0	0
Equipment	3,912	1,240
Accumulated depreciation	<u>(1,328)</u>	<u>(1,116)</u>
<b>Total noncurrent assets (Note 10)</b>	<b><u>73,394,587</u></b>	<b><u>63,132,059</u></b>
<b>Total assets (Note 10)</b>	<b>\$ <u>112,120,245</u></b>	<b>\$ <u>112,580,070</u></b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Due to other funds	15,000	0
Accrued expenses	18,637	11,043
Accrued interest payable	56,773	80,430
Security lending obligations (Note 3)	341	1,364
Arbitrage rebate tax payable	8,150	0
Compensated absences (Note 9)	36,403	15,866
Current bonds/notes payable (Note 4)	<u>106,450,000</u>	<u>106,685,000</u>
<b>Total current liabilities</b>	<b>\$ <u>106,585,304</u></b>	<b>\$ <u>106,793,703</u></b>
<b>Noncurrent liabilities</b>		
Bonds/notes payable (Note 4)	0	0
Compensated absences (Note 9)	35,669	15,841
Arbitrage rebate tax payable	1,130	12,997
OPEB implicit rate subsidy (Notes 10, 12)	<u>59,883</u>	<u>49,921</u>
<b>Total noncurrent liabilities (Note 10)</b>	<b><u>96,682</u></b>	<b><u>78,759</u></b>
<b>Total liabilities (Note 10)</b>	<b>\$ <u>106,681,986</u></b>	<b>\$ <u>106,872,462</u></b>
<b>Net position</b>		
Net investment in capital assets	\$ 2,584	\$ 124
Restricted (Notes 1, 10)	1,564,014	1,669,286
Unrestricted (Note 10)	<u>3,871,661</u>	<u>4,038,198</u>
<b>Total net position (Notes 7, 10)</b>	<b>\$ <u>5,438,259</u></b>	<b>\$ <u>5,707,608</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 POSITION**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

<b>Operating revenue</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Reimbursements	\$ 18,833	\$ 12,916
Investment income	47,144	49,855
Security lending income	1	7
Financing income	<u>762,538</u>	<u>942,111</u>
<b>Total operating revenue</b>	<b><u>828,516</u></b>	<b><u>1,004,889</u></b>
<b>Operating expenses</b>		
Personal services (Note 10)	369,510	171,066
Contracted services	30,157	29,513
Supplies and materials	8,748	8,529
Communications	7,442	6,436
Travel	3,299	3,794
Rent	46,336	45,317
Repair and maintenance	194	159
Indirect and other costs	52,708	39,698
OPEB (Notes 10, 12)	12,316	8,984
Depreciation expense	212	223
Arbitrage rebate tax expense (Note 8)	(3,717)	3,631
Security lending expense	0	2
Debt service		
Interest expense	213,591	221,123
Trustee fee expense	72,121	66,204
Bond issuance cost amortization expense (Note 10)	0	276,913
Other debt service expense	<u>284,948</u>	<u>217,710</u>
<b>Total operating expenses (Note 10)</b>	<b><u>1,097,865</u></b>	<b><u>1,099,302</u></b>
<b>Operating income (Note 10)</b>	<b><u>(269,349)</u></b>	<b><u>(94,413)</u></b>
<b>Change in fund net position (Note 10)</b>	<b><u>(269,349)</u></b>	<b><u>(94,413)</u></b>
Total fund net position, July 1, as previously reported	5,707,608	7,080,492
Prior period adjustment (Note 10 )	<u>0</u>	<u>(1,278,471)</u>
Total fund net position, July 1, as restated	<u>5,707,608</u>	<u>5,802,021</u>
Total fund net position, June 30 (Notes 7, 10)	\$ <u>5,438,259</u>	\$ <u>5,707,608</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, 2014 AND 2013

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	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Receipts for sales and services	\$ 18,833	\$ 12,916
Payments to suppliers for goods and services	(149,819)	(134,770)
Payments to employees	(322,970)	(269,719)
Transfers from other funds	15,000	0
<b>Net cash (used for) operating activities</b>	<b><u>(438,956)</u></b>	<b><u>(391,573)</u></b>
<b>Cash flows from non-capital financing activities:</b>		
Payment of principal and interest on bonds and notes	(829,317)	(980,872)
Proceeds from issuance of bonds and notes	0	12,000,000
Payment of bond issue costs	<u>0</u>	<u>(276,914)</u>
<b>Net cash (used for) provided by non-capital financing activities</b>	<b><u>(829,317)</u></b>	<b><u>10,742,214</u></b>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of fixed assets	<u>(2,673)</u>	<u>0</u>
<b>Net cash (used for) capital and related financing activities</b>	<b><u>(2,673)</u></b>	<b><u>0</u></b>
<b>Cash flows from investing activities:</b>		
Collections for principal and interest on loans	25,911,002	37,286,353
Cash payments for loans	(28,745,907)	(31,498,333)
Purchase of deposits/investments	(8,228,995)	(4,092,816)
Proceeds from security lending	1	7
Security lending costs	0	(2)
Proceeds from sales or maturities of deposits/investments	4,722,289	4,778,144
Interest on deposits/investments	<u>27,787</u>	<u>56,587</u>
<b>Net cash (used for) provided by investing activities</b>	<b><u>(6,313,823)</u></b>	<b><u>6,529,940</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b><u>(7,584,769)</u></b>	<b><u>16,880,581</u></b>
<b>Cash and cash equivalents, July 1</b>	<b><u>31,958,835</u></b>	<b><u>15,078,254</u></b>
<b>Cash and cash equivalents, June 30</b>	<b><u>24,374,066</u></b>	<b><u>31,958,835</u></b>
<b>Reconciliation of net income to net cash (used for) operating activities:</b>		
Net operating income (Note 10)	(269,349)	(94,413)
Adjustments to reconcile net income to net cash (used for) operating activities		
Depreciation	212	223
Interest on investments	(47,144)	(49,855)
Financing income	(762,538)	(942,111)
Interest expense (Note 10)	570,660	2,075,440
Security lending income	(1)	(7)
Security lending expense	0	2
Arbitrage rebate tax expense (Note 8)	(3,717)	3,631
Change in assets and liabilities:		
(Decrease) increase in other assets	0	33
(Decrease) increase in capitalized cost of issuance (Note 10)	0	(1,293,490)
(Decrease) increase in other payables	7,594	(7,170)
Increase (decrease) in due to other funds	15,000	0
(Decrease) increase in compensated absences payable	40,365	(91,761)
Increase (decrease) in OPEB implicit rate subsidy (Notes 10, 12)	<u>9,962</u>	<u>7,905</u>
<b>Total adjustments</b>	<b><u>(169,607)</u></b>	<b><u>(297,160)</u></b>
<b>Net cash (used for) operating activities</b>	<b>\$ <u>(438,956)</u></b>	<b>\$ <u>(391,573)</u></b>
<b>Schedule of noncash transactions:</b>		
Increase/(decrease) in fair value of investments	\$ <u>(13,210)</u>	\$ <u>247</u>
<b>Total noncash transactions</b>	<b>\$ <u>(13,210)</u></b>	<b>\$ <u>247</u></b>

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

**NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013**

**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. These financial statements are intended to present the financial position and changes in financial position of only the portions of the financial reporting entities for the state of Montana that are attributed to the transactions of the Economic Development Bond and Municipal Finance Consolidation programs, known as the Enterprise Fund administered by the Board.

**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 Montana Trust Funds Investment Pool currently funds the Conservation Reserve Enhancement Program.

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.
- Qualified School Construction Bond (QSCB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The revenues of the borrower are pledged to repay the bonds. 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 \$79,193,155 as of June 30, 2014 and \$75,608,374 as of June 30, 2013, represent loans made to state agencies, local governments, and the state university system. The Enterprise Fund notes/loans are classified in three categories as follows:

- 1) Notes/loans receivable from local governments and Montana universities.
- 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 interest accruals from state agencies and university units on the Interfund notes/loans receivable total \$98,212 and \$106,478 as of June 30, 2014 and 2013, respectively.

**e. Capitalized Cost of Issue**

Effective for financial statements for periods beginning after December 15, 2012, the provisions of Governmental Accounting Standards Board Statement (GASB) No. 65 – Items Previously Reported as Assets and Liabilities were implemented. The statement addresses the accounting for and reporting of debt issuance cost. Per the statement, the Enterprise Fund expensed the unamortized balance of the cost of issue asset of \$1,465,953 as of June 30, 2013. Refer to Note 10 Restatement for additional information.

**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 Position, are as follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash in treasury	\$ 2,364	\$ 2,992
Cash with fiscal agent	19,082	78,561
Short Term Investment Pool (STIP)	454,391	492,938
First American Government Obligation Fund	20,504,345	28,065,122
First American Prime Obligation Fund	<u>3,393,884</u>	<u>3,319,222</u>
Total Cash and Cash Equivalents	\$ <u>24,374,066</u>	\$ <u>31,958,835</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. Although not registered with the Securities and Exchange Commission (SEC) as an investment company, STIP is managed similar to money market funds that are governed by 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 is carried at amortized cost or book value with a constant unit value of \$1.00.

**g. Net Position Restricted**

The Statement of Net Position for the Enterprise Fund reports a restricted net position. A net position is reported as restricted when constraints placed on the net position use are either:

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

The net position 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 Position 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. The Enterprise Fund does not have a formal investment policy addressing credit risk for Permitted Investments as provided in the Indenture or investment in the STIP. Permitted Investments, as described in the indenture, include "either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the Bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)." The STIP cash equivalent (debt) fund has not been rated by a nationally recognized securities rating organization (NRSRO).

**Custodial Credit Risk - Deposits** - Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. As of June 30, 2014, the Enterprise Fund did not hold any Certificates of Deposits (CDs). However, as of June 30, 2013, the Enterprise Fund held \$629,474 in CDs of which \$250,000 was covered by FDIC insurance. The remaining 2013 balance of \$379,474 not covered by deposit insurance was 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.

**Investments** - 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, 2014 and 2013, 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.

The Enterprise Fund does not have a policy addressing custodial credit risk for deposits and investments, specifically, uninsured, collateralized deposits.

**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, 2014 and 2013 these CDs, as deposits, represent 0% and 1.7%, of the Permitted Investments, at fair value, as described in the bond indenture.

**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 Fund does not have a formal investment policy addressing interest risk for Permitted Investments as provided in the Indenture or the cash equivalent (debt) investment in the STIP. The Enterprise Funds' bond indenture does not 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, 2014 and June 30, 2013. 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). NA (not applicable) indicates if duration has not been calculated. Both the credit quality ratings and duration have been calculated excluding cash equivalents with credit ratings of NR or NA duration calculations.

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## Credit Quality Rating and Effective Duration as of June 30, 2014

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Government Obligation Fund	\$ 20,504,345	AAA	0.11
First American Prime Obligation Fund	3,393,884	AAA	0.11
Short Term Investment Pool (STIP)	459,427	NR	0.12
U.S. Government Indirect Obligations	<u>8,232,187</u>	<u>AA+</u>	<u>2.65</u>
Total Investments	\$ <u>32,589,843</u>	<u>AAA</u>	<u>0.75</u>
Securities Lending Collateral Investment Pool	\$ <u>341</u>	NR	*

\*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of .11 and an average weighted final maturity of .31 for U.S. dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 1.50 for U.S. dollar collateral.

## Credit Quality Rating and Effective Duration as of June 30, 2013

<u>Security Investment Type</u>	<u>Fair Value</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
First American Government Obligation Fund	\$ 28,065,122	AAA	0.15
First American Prime Obligation Fund	3,319,222	AAA	0.13
Short Term Investment Pool (STIP)	499,423	NR	0.12
U.S. Government Direct Obligations	<u>4,089,836</u>	<u>AA+</u>	<u>0.15</u>
Total Investments	\$ <u>35,973,603</u>	<u>AAA</u>	<u>0.15</u>
Securities Lending Collateral Investment Pool	\$ <u>1,364</u>	NR	*

\*As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of .13 and an average weighted final maturity of .27 for U.S. dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.86 for U.S. dollar collateral.

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 2014 and 2013, 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 on a collateralized basis to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The 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. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The Board and the Bank split the earnings, 80/20% respectively, on security lending activities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2014 and 2013, the 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 sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2014 and 2013. 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. There were no losses during fiscal years 2014 and 2013 resulting from a borrower default.

During fiscal years 2014 and 2013, the Board and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2014, the Quality D Short Term Investment Fund liquidity pool had an average duration of 37 days and an average weighted final maturity of 104 days for U.S. dollar collateral. The duration pool had an average duration of 42 days and an average weighted final maturity of 1,770 days for U.S. dollar collateral. As of June 30, 2013, the Quality D Short Term Investment Fund liquidity pool had an average duration of 29 days and an average weighted final maturity of 85 days for U.S. dollar collateral. The duration pool had an average duration of 44 days and an average weighted final maturity of 1,972 days for U.S. dollar collateral. As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral. As of June 30, 2013, the Securities Lending Quality Trust liquidity pool had an average duration of 48 days and an average weighted final maturity of 99 days for U.S. dollar collateral. The duration pool had an average duration of 36 days and an average weighted final maturity of 679 days for U.S. dollar collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2014 and 2013, the Board's credit risk exposure to borrowers was indemnified by State Street Bank.

#### 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. As of June 30, 2014, the Enterprise Fund reported no long term bonds/notes payable.

Outstanding obligations are listed as follows (in thousands):

##### Bonds Payable as of June 30, 2013

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range %</u>	<u>Principal Payments FY 2014</u>	<u>Payments @ Maturity</u>	<u>Balance June 30, 2013</u>
Municipal Finance Consolidation Act						
Bonds (Irrigation Program) (1)	1988	\$ 4,976	6.60-7.75	\$ 70	70 (2014)	\$ 70
Total Bonds Payable		<u>\$ 4,976</u>		<u>\$ 70</u>		<u>\$ 70</u>
Less Current Portion (FY2014 Principal Payments)						(70)
Total Long-Term Bonds Payable						<u>\$ -</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. The Irrigation Bonds were paid off on August 1, 2013.

**Future debt service as of June 30, 2013 is listed below (in thousands):**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Principal	\$ 70	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70
Interest	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2
Total	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72</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, 2014 and June 30, 2013, are listed below (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range</u>	<u>Maturity</u>	<u>Balance June 30, 2014</u>	<u>Balance June 30, 2013</u>
1997	10,000	Variable	2017	\$ 9,040	\$ 9,125
1998	12,500	Variable	2018	11,695	11,775
2000	15,000	Variable	2025	14,335	14,335
2003	15,000	Variable	2028	14,430	14,430
2004	18,500	Variable	2029	18,200	18,200
2007	15,000	Variable	2032	14,775	14,775
2010	12,000	Variable	2035	11,975	11,975
2013	<u>12,000</u>	Variable	2038	<u>12,000</u>	<u>12,000</u>
Total INTERCAP Debt	<u>\$ 110,000</u>			<u>106,450</u>	<u>106,615</u>
Current Portion of Long-Term Bonds Payable				<u>0</u>	<u>70</u>
Current Bonds Payable				<u>\$ 106,450</u>	<u>\$ 106,685</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, 2014</u>	<u>Balance June 30, 2013</u>
Stillwater Mining	July 2000	07/01/20	\$ 30,000	\$ 30,000	\$ 30,000
Total conduit debt			<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 30,000</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

## STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

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, 2014</u>	<u>Balance June 30, 2013</u>
Huntley Project K-12 Schools	December 2000	07/01/13	\$ 750	\$ -	\$ 750
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	2,087	2,087	2,087
Kalispell Elementary School	October 2013	06/15/28	620	620	0
Kalispell High School	October 2013	06/15/28	1,587	1,587	0
Total QZAB conduit debt			<u>\$ 10,726</u>	<u>\$ 9,976</u>	<u>\$ 8,519</u>

**QSCB Debt**

In this program, the Board is authorized to issue Qualified School Construction Bonds (QSCB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The 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 QSCB 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, 2014</u>	<u>Balance June 30, 2013</u>
Great Falls High Schools	April 2011	12/15/25	\$ 1,855	\$ 1,574	\$ 1,674
Great Falls Elementary	April 2011	12/15/25	6,510	5,524	5,873
Total QSCB conduit debt			<u>\$ 8,365</u>	<u>\$ 7,098</u>	<u>\$ 7,547</u>

**6. INTERCAP PROGRAM LOAN COMMITMENTS**

The Board makes firm commitments to fund loans from the INTERCAP loan program. The Board's outstanding commitments to eligible Montana governments, as of June 30, 2014 and 2013, total \$39,745,453 and \$37,616,879, respectively.

**7. NET POSITION**

Net Position represents the accumulated net profits of the Enterprise Fund programs. The Net Position for fiscal years ended June 30, 2014 and 2013 include \$13,638 and \$428, respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

**8. ARBITRAGE**

The fiscal year 2014 Arbitrage Rebate Tax Expense represents an over accrual of estimated arbitrage liability as calculated by a contracted vendor.

**9. COMPENSATED ABSENCES AND PERSONAL SERVICES**

Compensated absences liabilities represent the unpaid leave balances for employees at fiscal yearend. The liability identifies the vacation, sick leave and exempt compensatory time which state employees have earned but not taken. Annually, the compensated absences liabilities balances are adjusted between prior year and current year balances with an offset to personal services expense. In fiscal year 2012, a previous Board employee was rehired. The compensated absences liability and personal service expense pertaining to this employee were recorded in the Enterprise Fund because this employee worked primarily for the Enterprise Fund in his previous position. In fiscal year 2013, the funding for the position was corrected causing a significant portion of the decrease of the compensated absences liabilities balance and related personal services expense in the Enterprise Fund. The compensated absences current and noncurrent liabilities decreased, in total; by \$91,761 from fiscal year 2012 to fiscal year 2013 primarily related to the fiscal year 2013 correction for fiscal year 2012. The personal service expense for fiscal year 2013 decreased by \$103,181 from fiscal year 2012. For fiscal year 2014, personal services expense totaled \$369,510 as compared to \$171,066 reported for fiscal year 2013 for a difference of \$198,084. Of this difference, \$132,126 is attributed to the change in compensated absences expense of \$40,365 for fiscal year 2014 and \$(91,761) for fiscal year 2013. Approximately \$68,000 of the remaining fiscal year 2014



increase pertains to the hiring of a full-time equivalent employee and other staff pay increases. Going forward, the compensated absences expense should be normal. The compensated absences liabilities amounts and reported personal services expense are correct for fiscal years 2014, 2013 and 2012.

## 10. RESTATEMENTS

Effective for financial statements for periods beginning after December 15, 2012, the provisions of GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities were implemented. The statement addresses the accounting for and reporting of debt issuance cost. Per the statement, the Enterprise Fund expensed the unamortized balance of the cost of issue asset of \$1,465,953 as of June 30, 2013.

In the Statement of Net Position, the Capitalized Cost of Issuance, as previously reported of June 30, 2013, of \$1,465,953 has been restated to zero. This change results in the previously stated Total Noncurrent Assets of \$64,598,012 and Total Assets of \$114,046,023 restated as \$63,132,059 and \$112,580,070, respectively. In addition, the OPEB implicit rate subsidy liability of \$67,876, as previously reported, has been restated as \$49,921. This change results in the previously stated Total Noncurrent Liabilities of \$96,714 and Total Liabilities of \$106,890,417 restated as \$78,759 and \$106,872,462, respectively.

Also, the Net Position-Restricted, Net Position-Unrestricted and Total Net Position, has been restated as \$1,669,286, \$4,038,198 and \$5,707,608 from \$3,135,239, \$4,020,243 and \$7,155,606, respectively as previously reported, to reflect the write-off of the June 30, 2013 restricted unamortized balance of the capitalized cost of issue asset of \$1,465,953 and the reduction of \$17,955 in the unrestricted June 30, 2013 OPEB implicit rate subsidy liability.

In the Statement of Revenues, Expenses and Changes in Fund Net Position, the Bond Issuance Cost Amortization Expense, previously reported as \$104,450, has been restated as \$276,913 to record the actual cost of issuance associated with the March 2013 Intercap Bond Series and provisions of GASB Statement No. 65. Also, Personal Services has been restated as \$171,066 from \$172,145, as previously reported, to reflect the reporting of the Non-budgeted OPEB Contribution of \$(1,079). The OPEB expense has been restated as \$8,984 from 10,841, as previously reported, due to a required OPEB adjustment of \$(1,857). These changes result in the restatement of Total Operating Expenses, Operating Income and Change in Fund Net Position of \$929,775, \$75,114, and \$75,114, respectively as previously reported, to \$1,099,302, (94,413) and \$(94,413), respectively. For fiscal year 2013, this statement is reporting a \$(1,278,471) Prior Period Adjustment consisting of \$(1,293,490) representing the unamortized Capitalized Cost of Issuance as of July 1, 2012 and \$15,019 in required OPEB adjustments.

In the Statement of Cash Flows, the Net Operating Income has been restated as \$(94,413) from \$75,114 as previously reported. Interest Expense of \$2,075,440 has been restated from \$609,487, as previously reported, for the \$1,465,953 expensing of the unamortized balance of the cost of issue. The (Decrease) Increase in Capitalized Cost of Issuance is restated as \$(1,293,490) from zero as previously reported. The Increase (Decrease) in OPEB Implicit Rate Subsidy has been restated as \$7,905 from \$10,841 as previously reported. These changes resulted in the Total Adjustments total being restated as \$(297,160) from \$(466,687) as previously reported.

## 11. EMPLOYEE BENEFITS PLANS

The Board and its employees contribute to the Public Employees' Retirement System (PERS). PERS offers two types of retirement plans administered by the Montana Public Employees' Retirement Administration.

**Defined Benefit Retirement Plan:** The Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan that provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Vesting occurs once membership service totals five years. Benefits are established by state law and can only be amended by the legislature.

**Defined Contribution Retirement Plan:** The Defined Contribution Retirement Plan (DCRP) was created by the 1999 legislature and available to all active PERS members effective July 1, 2002. This plan is a multiple-employer, cost-sharing plan that also provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on the balance in the member's account, which includes the total contributions made, the length of time the funds have remained in the plan, and the investment earnings less administrative costs.

The PERS issues publicly available annual reports which include financial statements and required supplemental information for the plans. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the following:

Public Employees' Retirement Administration  
P.O. Box 200131  
100 North Park, Suite 220  
Helena, MT 59620-0131  
406-444-3154

Contribution rates for the plans are required and determined by State law. The contribution rates for fiscal year 2014 are expressed as a percentage of covered payroll are as follows:

Employee	Employer	Total
7.90%	8.17%	16.07%

The amounts contributed to the plans during the years ended June 30, 2014 and 2013 were equal to the required contribution each year. The amounts contributed by the Board, as required by State law, were as follows:

Fiscal Year 2014 - \$20,400  
Fiscal Year 2013 - \$14,460

**Deferred Compensation Plan:** The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

**Health Care:** Board staff and dependents are eligible to receive medical and dental health care through the State Group Benefits Plan administered by the Montana Department of Administration Health Care & Benefits Division. Montana Department of Administration established medical premiums vary between \$717 and \$1,023 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between \$17.50 and \$60.00 per month for dental and between \$5.76 and \$16.76 per month for an optional vision hardware plan depending on family coverage and eligibility. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

## 12. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The State of Montana provides optional post-employment health care benefits in accordance with Montana Code Annotated (MCA), Title 2, Chapter 18, Section 704, to employees and dependents that elect to continue coverage and pay administratively established premiums. Coverage is provided through the State Group Benefits Plan.

The Board follows GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires the following disclosure of employer liability for retiree medical subsidies and other post-employment benefits. For financial statement reporting purposes, the State Group Benefits Plan is considered an agent multiple-employer plan and the Board is considered to be a separate employer participating in the plan. Each participating employer is required by GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The State Group Benefits Plan allows retirees to participate as a group, at a rate that does not cover all of the related costs. Retiree participation results in the reporting of an "implied rate" subsidy in the Board's financial statements and footnotes as OPEB liability. The OPEB liability is disclosed for financial statement purposes but does not represent a legal liability of the State Group Benefits Plan or the Board.



**Post-employment Healthcare Plan Description:**

Board staff and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with MCA 2-18-704, the State provides optional post-employment medical, vision and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees.

In addition to the employee benefits described in Note 11, Employee Benefit Plans, the following post-employment benefits are provided:

Montana Department of Administration established retiree medical premiums vary between \$299 and \$1,109 administratively established dental premiums vary between \$17.50 and \$60.00; vision hardware premiums vary between \$5.76 and \$16.76 both premiums vary depending on the coverage selected. Basic life insurance in the amount of \$14,000 is provided until age 65 at a cost of \$1.90 per month to the retiree. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed up to \$600 for diagnostic/preventative and \$1,800 for repair/reconstructive services annually. The State acts as secondary payer for retired Medicare-eligible claimants.

**Benefits Not Included in the Valuation:**

Retirees pay 100 percent of dental premiums. Thus, there is no liability for dental valued in this valuation. The vision benefit is fully-insured and retirees pay 100 percent of the cost. Thus, there is no liability for vision valued in this valuation. The life insurance benefit is a fully-insured benefit that is payable until age 65 with the retiree required to pay the full premium. There is no liability valued in this valuation for the retirees, though the required premium is an active/retiree blended premium. This liability would be insignificant to the overall results of this valuation.

**Funding Policy:**

The following estimates were prepared for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the Board's data and is available through:

Montana Department of Administration,  
State Financial Services Division  
Rm 255, Mitchell Bldg.,  
125 N Roberts St  
PO Box 200102,  
Helena, MT 59620-0102.

GASB Statement No. 45 requires the plan's participants, including the Board, to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The 2014 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2014 ARC is estimated at \$11,731 and is based on the plan's current ARC rate of 4.70% of participants' annual covered payroll. The Board's 2014 ARC is equal to an annual amount required each year to fully fund the liability over 30 years.

The amount of the estimated OPEB actuarial accrued liability is determined in accordance with the GASB Statement No. 45, and liability is estimated at \$59,883 for the Board. (The actuarial accrued liability is the present value of future retiree benefits and expenses.)

**Actuarial Methods and Assumptions:**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment,

mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows the actuarial value of plan assets and liabilities.

The actuarial valuation method used is the projected unit credit funding method. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB Statement No. 43 or No. 45. Annual healthcare cost trend rates of 9.5 percent for medical and 9.0 percent for prescription claims are used for the 2014 plan year. The unfunded actuarial accrued liability is amortized following a 30-year level percentage of payroll amortization schedule on an open basis beginning for calendar year 2014.

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. Therefore the following cost information shows no plan assets made by the Board.

**Annual OPEB Cost:**

For 2014, the Board's allocated annual OPEB cost (expense) of \$12,316, adjusted for amortization of the net OPEB obligation plus interest on the prior year obligation amount, less employer contributions. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
6/30/2014	\$12,316	9%	\$59,883
6/30/2013*	8,984	12%	49,921
6/30/2012*	7,136	19%	42,016

\* Restated due to change in calculation of annual OPEB costs, which did not previously include amortization adjustments or employer contributions.

**Funded Status and Funding Progress:**

The funded status of the Board's allocation of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$ 122,924
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	122,924
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	249,485
UAAL as a Percentage of Covered Payroll	49.27%

**REQUIRED SUPPLEMENTARY INFORMATION****June 30, 2014****Schedule of Funding Progress for Montana Board of Investments  
Other Post-Employment Benefits (Financial Statements Note 12)**

As of June 30, 2014, the most recent actuarial valuation available that was completed by the State of Montana was as of January 1, 2013 for the year ending December 31, 2013. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2014.

<b>Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability* (AAL) (B)</b>	<b>Unfunded AAL (UAAL) (B-A)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a Percentage of Covered Payroll ((B-A)/C)</b>
1/1/2013	\$0	\$122,924	\$122,924	0	\$249,485	49.27%
1/1/2011	0	71,060	\$71,060	0	129,827	54.73%
1/1/2009	0	108,811	\$108,811	0	152,296	71.45%

\*Projected unit credit funding method.



MONTANA 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  
Website: [www.investmentmt.com](http://www.investmentmt.com)



January 14, 2015

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JAN 16 2015

LEGISLATIVE AUDIT DIV.

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

Dear Ms. Hunthausen:

I would like to thank the Legislative Audit staff for their assistance and work performed on the Montana Board of Investments' Financial Compliance Audit for fiscal year ending June 30, 2014. We appreciate the services your staff provide in reviewing the Board's procedures, internal controls, accounting practices, and the accuracy of the financial statements. Your employees are very considerate during the audit and maintain an excellent working relationship with Board staff.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely yours,

David Ewer  
Executive Director