



Montana Board of Investments

Presentation to Economic Affairs Committee

March 27, 2014

Mark Noennig, Chairman

David Ewer, Executive Director

Board Members

Mark Noennig, Chairman
Attorney, Billings
Representing Business

Karl Englund, Vice Chair
Attorney, Missoula
Representing Law

Jack Prothero
Banking - Retired, Great Falls
Representing Small Business

Gary Buchanan
Buchanan Capital, Billings
Representing Finance

Jon Satre
Gordon - Prill - Drapes, Inc., Helena
Representing Business

Kathy Bessette
Rancher, Havre
Representing Agriculture

Marilyn Ryan
Missoula
TRS Representative

Sheena Wilson
Helena
PERS Representative

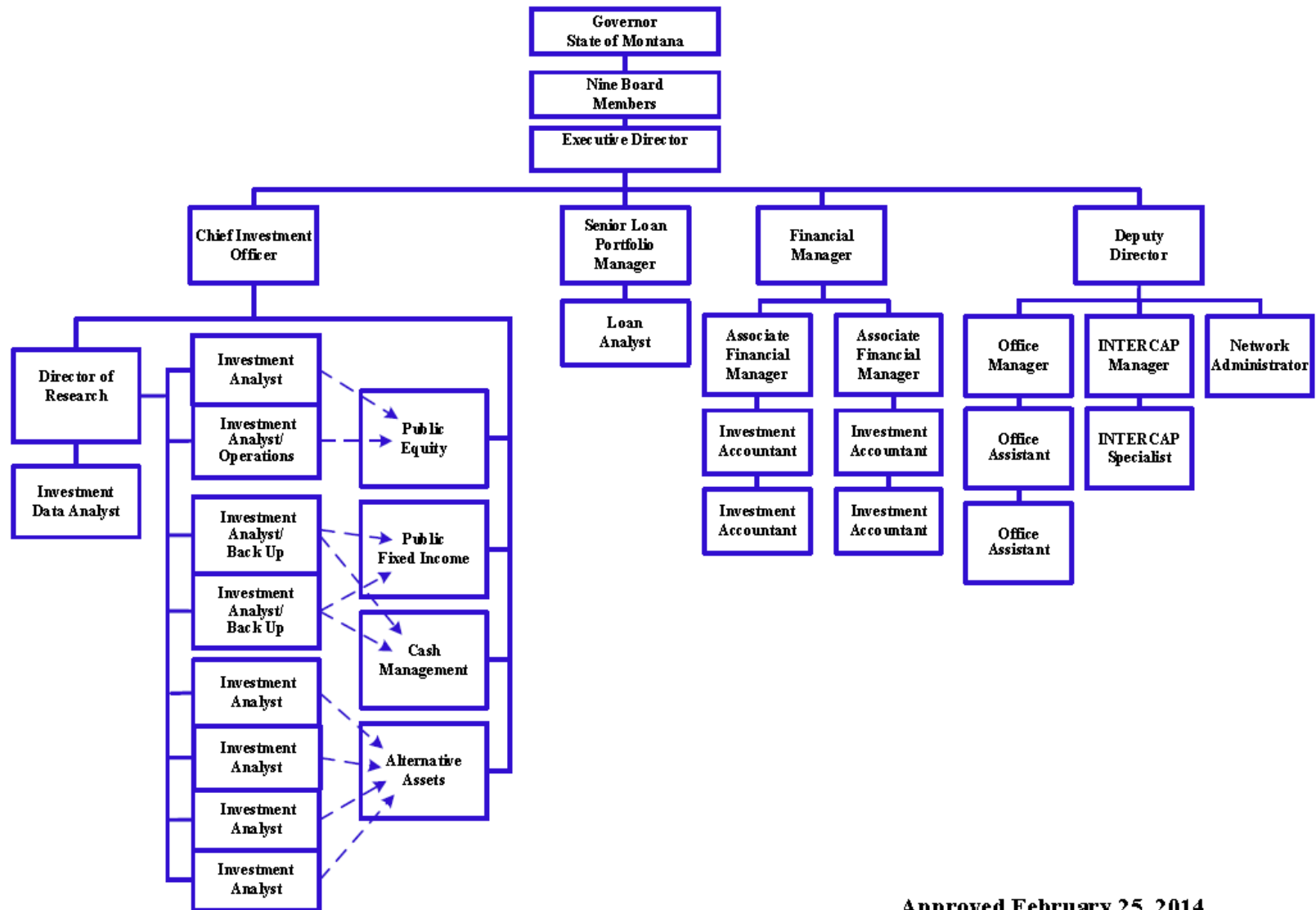
Quinton Nyman
*Montana Public Employees
Association, Helena*
Representing Labor

Legislative Liaisons

Senator Dave Lewis
Helena
Senate Liaison

Rep. Kelly McCarthy
Billings
House of Representatives Liaison

Organizational Chart



Approved February 25, 2014



The Board's Missions

- Investments
- In-State Loan Programs
- Municipal Lending



Board Meetings

Work/Education Plan

- Board Meetings – Six Regularly Scheduled
 - Quarterly
 - Two additional
 - And as needed
- Work/Education Plan – a Key Agenda Component
 - Systematic
 - Comprehensive
 - Public access
 - Open meetings
 - Robust website



Board's Clientele and Investment Focus

- Retirement Systems
- State Agencies for Operations
- Trust Accounts



State's Retirement Plans

- Over \$9 billion in investments
- Nine retirement plans
- A blend of investments
 - Significant reliance on equities for better returns
 - Additional component in bonds for safety and liquidity

State Agencies for Operations

- Every state agency – cash disbursements for State operations
 - Over \$3 billion in investments, hundreds of users
 - STIP – short term investment pool
 - Most common state agency use
 - About 170 Montana governments use STIP
 - Investments in very short, safe, liquid, money market assets
- Examples of aggregate payments that Board provides
 - State payroll
 - Retirement payments
 - School equalization
 - State debt payments
 - Tax refunds
- Close coordination with State's treasury bureau within State Administration

Trust Accounts

- Numerous agencies, but most within DNRC, Commerce and DEQ
 - Over \$2.4 billion
 - Mostly invested in short to intermediate term bonds
 - In-State loans are also investments
 - Numerous state trusts, the biggest and best known
 - Permanent coal trust
 - Public school trust
 - Tobacco trust
 - Resource indemnity trust
- State Fund – (Workers' Comp Insurance portfolio, so not exactly a trust fund)
 - \$1.3 billion, one of the Board's largest accounts
 - Combination of STIP and long term holdings
 - State Constitution allows equities up to 25%

INVESTMENTS

The Unified Investment Program

- The Montana Constitution provides for a Unified Investment Program
- Section 17-6-201, MCA Unified Investment Program, created the Montana Board of Investments (the “Board”) and gave the Board sole authority to invest state funds in accordance with state law and the state constitution.
- "prudent expert principle" 17-6-201 (a, b, c)
 - discharging its duties with the care, skill, prudence, and diligence 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
 - diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return
 - discharging its duties solely in the interest of and for the beneficiaries of the funds managed

Managing Investments

- Board Members the sole fiduciary
- Board's delegation to staff
 - Governance Policy
 - Individual Investment Policies of Programs
 - Reviewed annually
 - Specific guidelines to address individual agency needs
- Independent auditors
- Independent consultant
- Openness – Public Access



Investment Pools & Specific Investments

- Most investments held via an investment pool
- Seven investment pools structured similar to mutual funds
- Or customize direct investment holdings when necessary
 - Liquidity needs
 - Risk tolerance

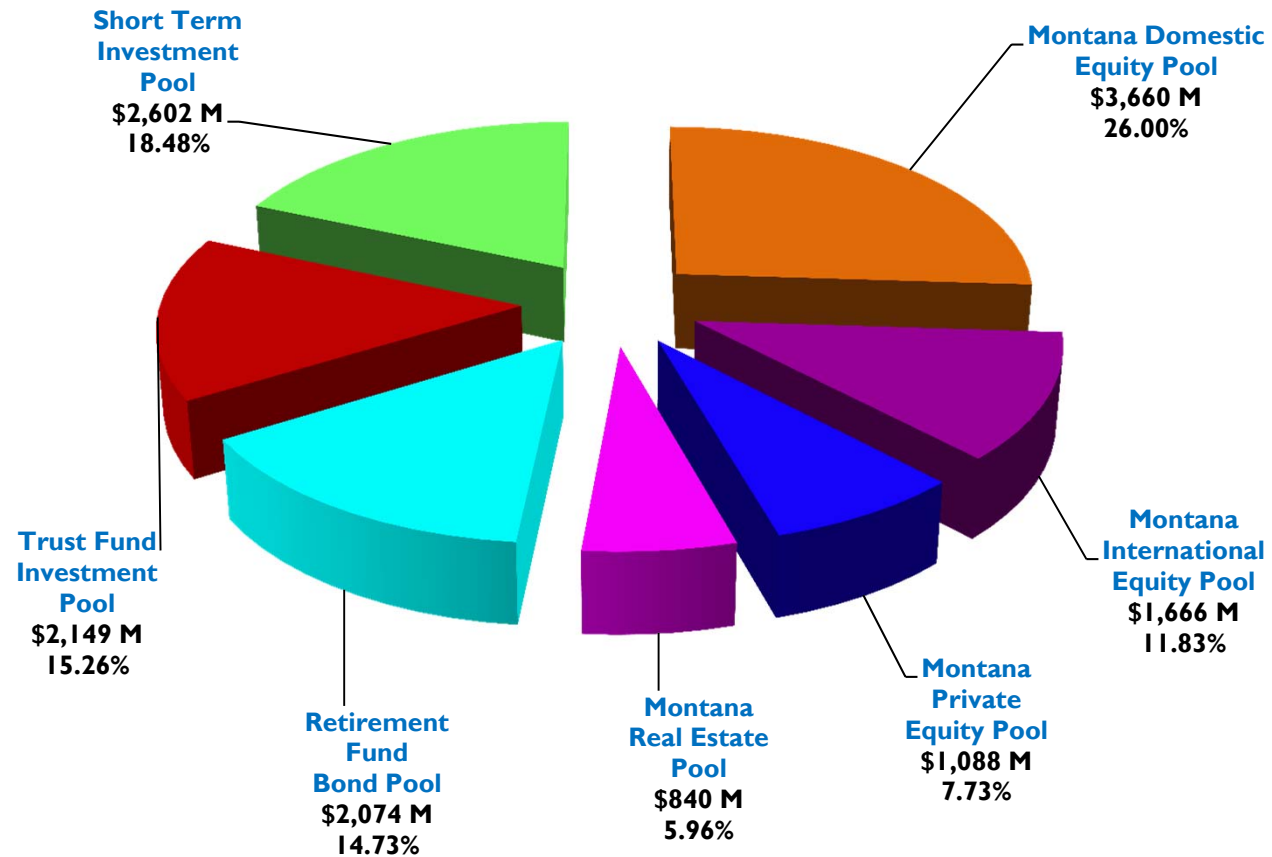


The Seven Investment Pools

- Montana Domestic Equity Pool (MDEP)
- Montana International Equity Pool (MTIP)
- Trust Funds Investment Pool (TFIP)
- Retirement Funds Bond Pool (RFBP)
- Montana Private Equity Pool (MPEP)
- Montana Real Estate Pool (MTRP)
- Short Term Investment Pool (STIP)

Investment Pool Breakdown

\$14.1 Billion at 2/28/14*



*Please note, this chart includes the 7 investment pools only. It does not include the \$1,743 Million in All Other Funds (AOF)



Asset Allocation Considerations

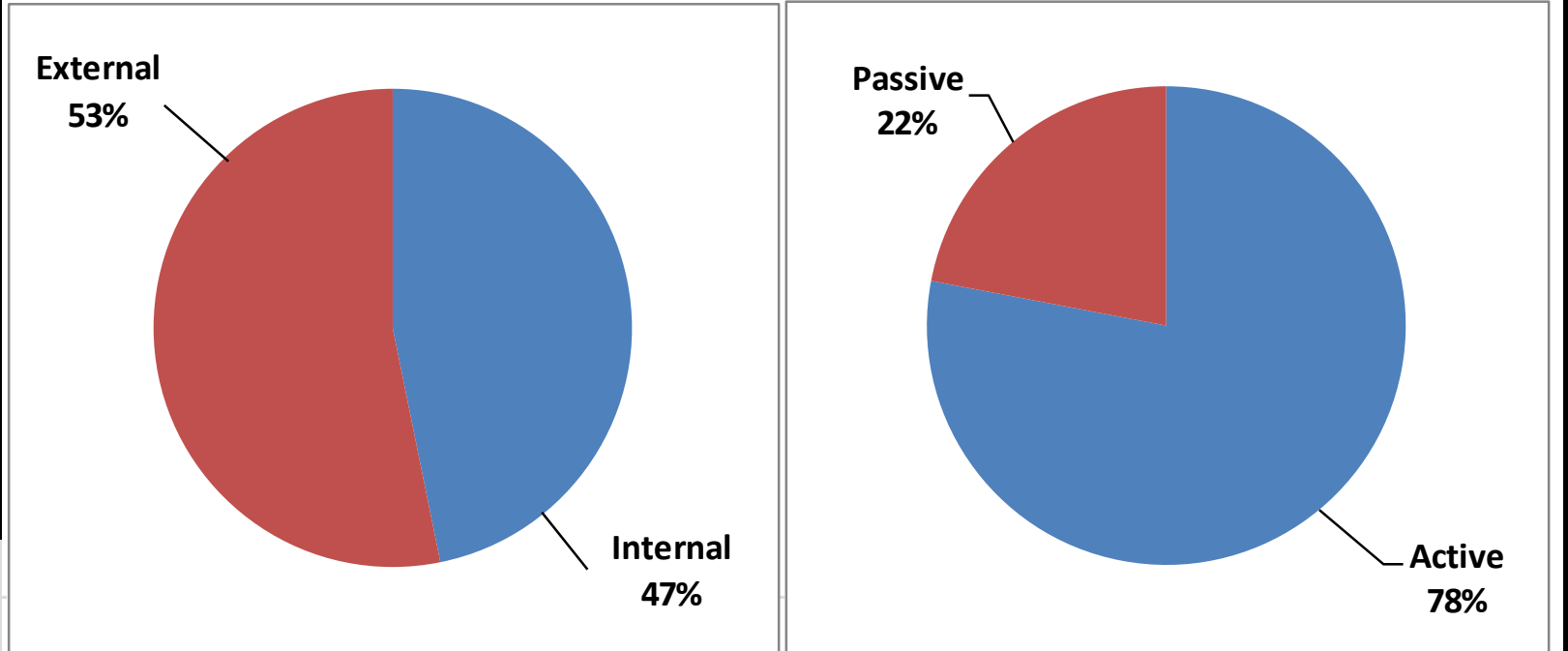
- Diversification is Key
- Internal vs. External
- Active vs. Passive
- Investment Pool Allocation
- Relative Cost vs. Investment Type

Internal vs. External

Active vs. Passive

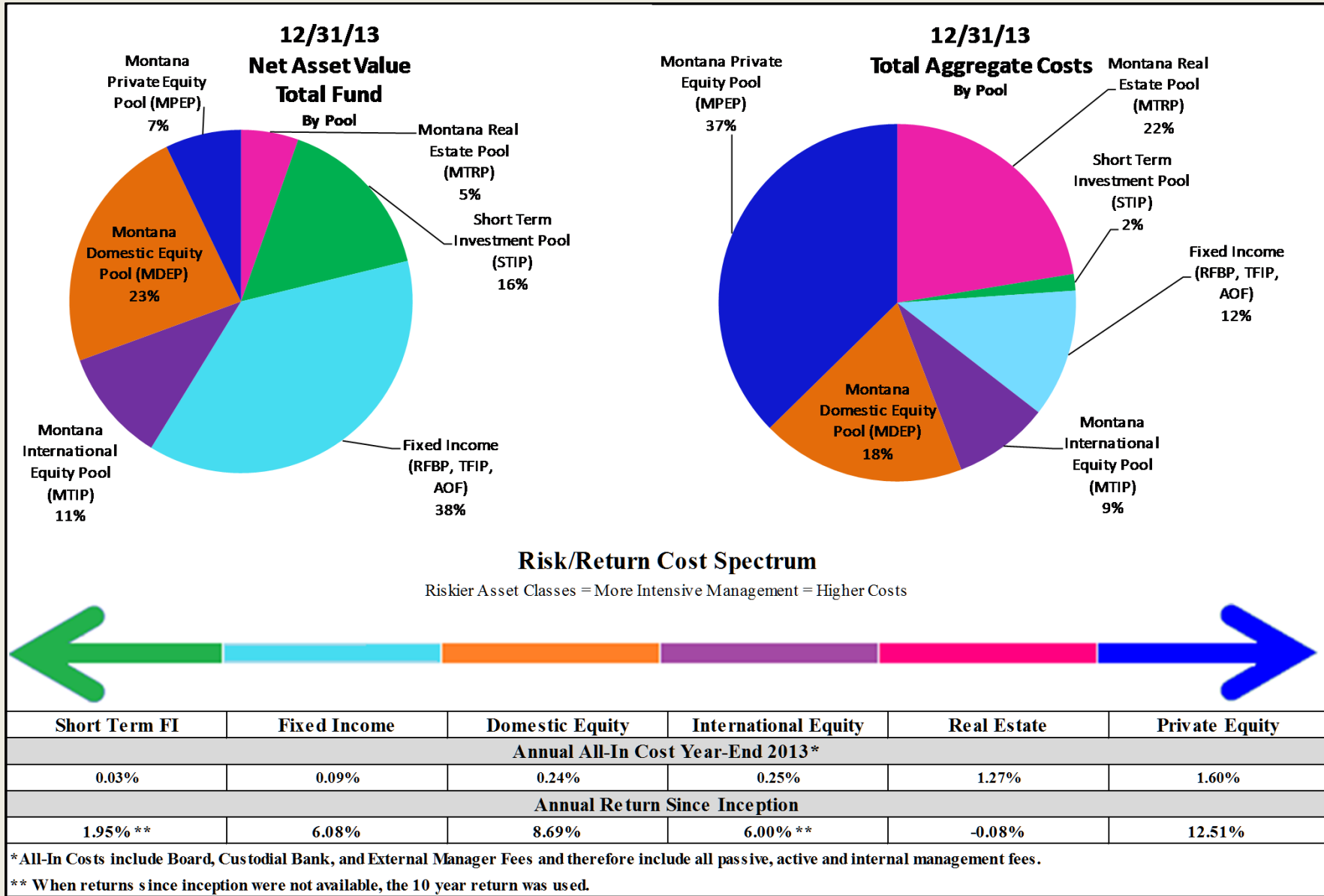
Total MBOI

As of 12/31/13



Internal	External	Active	Passive
\$ 7,266,119,482	\$ 8,255,532,121	\$ 12,105,746,818	\$ 3,415,904,784
46.8%	53.2%	78.0%	22.0%
Grand Total			\$ 15,521,651,602

Cost by Investment Type





Pension Investments, Performance Expectations and Measurement

- Absolute rate of return assumption
- Benchmarks
- Peer comparisons

**Montana Board of Investments
Retirement Plans
Comparative Performance
As of December 31, 2013**

	QTD	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2012	2011	2010	2009	2008
Public Employees' Retirement - Net	5.56	10.48	17.38	10.73	12.06	5.15	6.55	13.24	2.13	12.77	15.42	-26.01
Public Employees' Benchmark	5.77	10.87	18.11	11.55	12.53	5.33	6.76	15.04	2.15	12.54	15.52	-26.42
<i>Difference</i>	<i>-0.21</i>	<i>-0.39</i>	<i>-0.73</i>	<i>-0.82</i>	<i>-0.47</i>	<i>-0.18</i>	<i>-0.21</i>	<i>-1.80</i>	<i>-0.02</i>	<i>0.23</i>	<i>-0.10</i>	<i>0.41</i>
Public Employees' Retirement - Gross	5.67	10.72	17.96	11.30	12.67	5.69	6.99	13.83	2.68	13.44	16.08	-25.60
All Public Plans > \$3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Public Employees' Retirement - Gross Rank	14	26	9	3	44	46	72	36	26	41	74	31
Teachers' Retirement - Net	5.57	10.47	17.38	10.73	12.07	5.15	6.56	13.24	2.14	12.80	15.42	-26.03
Teachers' Benchmark	5.79	10.85	18.11	11.55	12.53	5.33	6.76	15.04	2.15	12.56	15.51	-26.42
<i>Difference</i>	<i>-0.22</i>	<i>-0.38</i>	<i>-0.73</i>	<i>-0.82</i>	<i>-0.46</i>	<i>-0.18</i>	<i>-0.20</i>	<i>-1.80</i>	<i>-0.01</i>	<i>0.24</i>	<i>-0.09</i>	<i>0.39</i>
Teachers' Retirement - Gross	5.69	10.70	17.96	11.30	12.68	5.69	6.99	13.84	2.68	13.47	16.08	-25.62
All Public Plans > \$3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Teachers' Retirement - Gross Rank	14	26	9	3	44	46	72	35	26	41	74	31
Police Retirement - Net	5.57	10.50	17.41	10.72	12.03	5.10	6.48	13.23	2.10	12.62	15.42	-26.09
Police Benchmark	5.78	10.84	18.09	11.51	12.48	5.28	6.68	14.95	2.14	12.36	15.56	-26.41
<i>Difference</i>	<i>-0.21</i>	<i>-0.34</i>	<i>-0.68</i>	<i>-0.79</i>	<i>-0.45</i>	<i>-0.18</i>	<i>-0.20</i>	<i>-1.72</i>	<i>-0.04</i>	<i>0.26</i>	<i>-0.14</i>	<i>0.32</i>
Police Retirement - Gross	5.68	10.74	18.00	11.28	12.63	5.63	6.91	13.78	2.65	13.29	16.08	-25.67
All Public Plans > \$3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Police Retirement - Gross Rank	14	26	9	3	45	48	75	38	27	43	74	31

Net performance shown is net of all manager fees and expenses (Net-All). All Public Plans > \$3B Total Fund Median is reported gross of fees. Benchmark returns reflect unmanaged indices which are not impacted by management fees.

**Montana Board of Investments
Retirement Plans
Comparative Performance
As of December 31, 2013**

	QTD	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2012	2011	2010	2009	2008
Firefighters' Retirement - Net	5.56	10.50	17.41	10.71	12.03	5.13	6.51	13.22	2.10	12.61	15.46	-25.93
Firefighters' Benchmark	5.78	10.84	18.09	11.56	12.51	5.33	6.71	14.95	2.28	12.33	15.60	-26.30
<i>Difference</i>	<i>-0.22</i>	<i>-0.34</i>	<i>-0.68</i>	<i>-0.85</i>	<i>-0.48</i>	<i>-0.20</i>	<i>-0.20</i>	<i>-1.73</i>	<i>-0.18</i>	<i>0.28</i>	<i>-0.14</i>	<i>0.37</i>
Firefighters' Retirement - Gross	5.68	10.74	17.99	11.29	12.64	5.67	6.94	13.81	2.64	13.27	16.12	-25.52
All Public Plans > \$3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Firefighters' Retirement - Gross Rank	14	26	9	3	45	46	73	36	27	43	74	31
Sheriffs' Retirement - Net	5.55	10.47	17.35	10.70	12.01	5.14	6.52	13.19	2.12	12.68	15.37	-25.87
Sheriffs' Benchmark	5.76	10.85	18.08	11.52	12.50	5.34	6.74	14.99	2.14	12.42	15.57	-26.19
<i>Difference</i>	<i>-0.21</i>	<i>-0.38</i>	<i>-0.73</i>	<i>-0.82</i>	<i>-0.49</i>	<i>-0.20</i>	<i>-0.22</i>	<i>-1.80</i>	<i>-0.02</i>	<i>0.26</i>	<i>-0.20</i>	<i>0.32</i>
Sheriffs' Retirement - Gross	5.66	10.71	17.93	11.27	12.62	5.67	6.96	13.79	2.66	13.34	16.03	-25.46
All Public Plans > \$3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Sheriffs' Retirement - Gross Rank	14	26	10	3	45	46	73	38	27	42	74	31
Highway Patrol Retirement - Net	5.55	10.48	17.38	10.72	12.08	5.15	6.55	13.24	2.12	12.81	15.52	-26.12
Highway Patrol Benchmark	5.78	10.86	18.11	11.54	12.56	5.34	6.76	15.04	2.13	12.54	15.71	-26.48
<i>Difference</i>	<i>-0.23</i>	<i>-0.38</i>	<i>-0.73</i>	<i>-0.82</i>	<i>-0.48</i>	<i>-0.19</i>	<i>-0.21</i>	<i>-1.80</i>	<i>-0.01</i>	<i>0.27</i>	<i>-0.19</i>	<i>0.36</i>
Highway Patrol Retirement - Gross	5.67	10.71	17.96	11.30	12.69	5.69	6.99	13.84	2.66	13.47	16.19	-25.70
All Public Plans > \$3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Highway Patrol Retirement - Gross Rank	14	26	9	3	43	46	72	35	27	41	74	31

Net performance shown is net of all manager fees and expenses (Net-AI). All Public Plans > \$3B Total Fund Median is reported gross of fees. Benchmark returns reflect unmanaged indices which are not impacted by management fees.

**Montana Board of Investments
Retirement Plans
Comparative Performance
As of December 31, 2013**

	QTD	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2012	2011	2010	2009	2008
Game Wardens' Retirement - Net	5.54	10.47	17.34	10.69	11.99	5.13	6.46	13.20	2.09	12.72	15.23	-25.82
Game Wardens' Benchmark	5.76	10.84	18.07	11.51	12.46	5.33	6.67	15.00	2.11	12.43	15.41	-26.15
<i>Difference</i>	<i>-0.22</i>	<i>-0.37</i>	<i>-0.73</i>	<i>-0.82</i>	<i>-0.47</i>	<i>-0.20</i>	<i>-0.21</i>	<i>-1.80</i>	<i>-0.02</i>	<i>0.29</i>	<i>-0.18</i>	<i>0.33</i>
Game Wardens' Retirement - Gross	5.66	10.71	17.92	11.26	12.59	5.67	6.89	13.79	2.63	13.38	15.88	-25.41
All Public Plans > \$3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Game Wardens' Retirement - Gross Rank	14	26	10	3	46	47	77	37	28	42	75	30
Judges' Retirement - Net	5.55	10.48	17.36	10.70	12.04	5.15	6.54	13.20	2.12	12.76	15.43	-25.91
Judges' Benchmark	5.77	10.86	18.09	11.52	12.52	5.35	6.75	14.99	2.13	12.49	15.60	-26.25
<i>Difference</i>	<i>-0.22</i>	<i>-0.38</i>	<i>-0.73</i>	<i>-0.82</i>	<i>-0.48</i>	<i>-0.20</i>	<i>-0.21</i>	<i>-1.79</i>	<i>-0.01</i>	<i>0.27</i>	<i>-0.17</i>	<i>0.34</i>
Judges' Retirement - Gross	5.67	10.72	17.94	11.27	12.65	5.69	6.97	13.79	2.66	13.42	16.09	-25.50
All Public Plans > \$3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Judges' Retirement - Gross Rank	14	26	10	3	45	46	73	37	27	41	74	31
Volunteer Firefighters' Retirement - Net	5.58	10.51	17.42	10.71	12.03	5.14	6.51	13.18	2.09	12.99	15.11	-26.01
Volunteer Firefighters' Benchmark	5.79	10.86	18.14	11.70	12.58	5.38	6.74	14.95	2.62	12.60	15.24	-26.37
<i>Difference</i>	<i>-0.21</i>	<i>-0.35</i>	<i>-0.72</i>	<i>-0.99</i>	<i>-0.55</i>	<i>-0.24</i>	<i>-0.23</i>	<i>-1.77</i>	<i>-0.53</i>	<i>0.39</i>	<i>-0.13</i>	<i>0.36</i>
Volunteer Firefighters' Retirement - Gross	5.69	10.75	18.00	11.27	12.63	5.67	6.93	13.77	2.63	13.66	15.76	-25.60
All Public Plans > \$3B Total Fund Median	4.86	9.90	14.87	9.73	12.53	5.55	7.32	13.34	0.82	12.82	18.21	-27.12
Volunteer Firefighters' Retirement - Gross Rank	14	26	9	3	45	46	74	38	28	36	75	31

Net performance shown is net of all manager fees and expenses (Net-All). All Public Plans > \$3B Total Fund Median is reported gross of fees. Benchmark returns reflect unmanaged indices which are not impacted by management fees.

RVKuhns
▶▶▶ & ASSOCIATES, INC.

MONTANA BOARD OF INVESTMENTS

SUMMARY OF RETIREMENT PLANS

Rates of Returns

Periods Ending February 28, 2014



STATE STREET

	MKT VAL \$(000)	Month	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
PUBLIC EMPLOYEES RETIREMENT PLAN										
TOTAL - Gross	4,746,672	3.08	2.72	12.26	15.72	10.49	15.22	6.86	8.06	07-01-94
TOTAL - Net All	4,746,672	3.04	2.58	11.91	15.13	9.92	14.60	6.42	7.82	07-01-94
FIREFIGHTERS RETIREMENT PLAN										
TOTAL - Gross	297,417	3.08	2.73	12.29	15.75	10.48	15.20	6.81	7.88	07-01-94
TOTAL - Net All	297,417	3.04	2.59	11.93	15.16	9.91	14.58	6.37	7.64	07-01-94
GAME WARDENS RETIREMENT PLAN										
TOTAL - Gross	131,542	3.06	2.70	12.24	15.68	10.45	15.10	6.76	7.94	07-01-94
TOTAL - Net All	131,542	3.02	2.56	11.88	15.09	9.88	14.48	6.33	7.70	07-01-94
HIGHWAY PATROL RETIREMENT PLAN										
TOTAL - Gross	120,998	3.08	2.72	12.25	15.72	10.49	15.26	6.85	7.92	07-01-94
TOTAL - Net All	120,998	3.04	2.58	11.90	15.13	9.91	14.63	6.41	7.68	07-01-94
JUDGES RETIREMENT PLAN										
TOTAL - Gross	80,888	3.08	2.72	12.26	15.71	10.47	15.19	6.84	7.93	07-01-94
TOTAL - Net All	80,888	3.04	2.58	11.91	15.12	9.90	14.57	6.40	7.69	07-01-94
POLICE RETIREMENT PLAN										
TOTAL - Gross	295,448	3.09	2.73	12.29	15.76	10.48	15.21	6.78	7.89	07-01-94
TOTAL - Net All	295,448	3.04	2.59	11.94	15.17	9.92	14.59	6.35	7.65	07-01-94

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Provided by State Street Investment Analytics

MONTANA BOARD OF INVESTMENTS

SUMMARY OF RETIREMENT PLANS

Rates of Returns

Periods Ending February 28, 2014



STATE STREET

	MKT VAL \$(000)	Month	QTR	FYTD	1 Year	3 Years	5 Years	10 Years	ITD	INCEPT. DATE
SHERIFFS RETIREMENT PLAN										
TOTAL - Gross	272,116	3.08	2.71	12.25	15.70	10.46	15.15	6.83	7.92	07-01-94
TOTAL - Net All	272,116	3.03	2.58	11.90	15.11	9.89	14.53	6.39	7.69	07-01-94
VOLUNTEER FIREFIGHTERS RETIREMENT PL										
TOTAL - Gross	30,780	3.09	2.74	12.30	15.77	10.47	15.20	6.81	7.67	07-01-94
TOTAL - Net All	30,780	3.05	2.60	11.95	15.19	9.90	14.59	6.37	7.44	07-01-94
TEACHERS RETIREMENT PLAN										
TOTAL - Gross	3,491,415	3.04	2.69	12.20	15.67	10.48	15.23	6.86	8.08	07-01-94
TOTAL - Net All	3,491,415	3.04	2.59	11.90	15.13	9.92	14.61	6.42	7.84	07-01-94
TOTAL RETIREMENT PLANS										
TOTAL - Gross	9,467,076	3.08	2.72	12.26	15.72	10.49	15.22	6.86	8.06	07-01-94
TOTAL - Net All	9,467,076	3.04	2.59	11.90	15.13	9.92	14.60	6.42	7.81	07-01-94

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Provided by State Street Investment Analytics



In-State and Mortgage Loan Programs

- Interest rate incentives set by legislature for job creation
- In-State Programs – Coal Tax Trust
- Over \$116 million
- Veterans' Home Loan Program - \$21 million
- Residential Mortgages - \$13 million

INTERCAP Loan Program

- \$72 million in outstanding loans
- \$106 million bonds outstanding
- Low cost - 2014 interest rate = 1%
- Easily accessible - \$76 million in loans
- Bonds guaranteed by pledge of certain state assets:
 - Permanent Coal Trust
 - Treasurer's Fund



INTERCAP Loan Program

- Eligible local government entities:
 - State Agencies and Universities/Community Colleges
 - Cities, Towns and Counties
 - School Districts
 - Water/Sewer and Solid Waste Districts
 - Fire Districts/Fire Service Areas
- Eligible purchases/projects
 - Energy retrofit
 - Real property purchase and improvements
 - New and used vehicles/equipment
 - Water, wastewater and solid waste
 - Preliminary engineering/grant writing
 - Interim construction financing or cash flow loans
 - Rural and Special Improvement Districts



Montana Board of Investments

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