

MONTANA BOARD OF INVESTMENTS
2401 Colonial Drive, 3rd Floor
Helena, Montana

Minutes of the Board Meeting Conference Call
2401 Colonial Drive, 3rd Floor
April 14, 2020
11:00 AM

PRESENT *all via conference call*:

- Karl Englund, Board Chair
- Mark Noennig, Board Vice Chair
- Jack Prothero, Board Member
- Terry Cohea, Board Member
- Bruce Nelson, Board Member
- Jim Edwards, Board Member
- Diane Fladmo, Board Member
- Maggie Peterson, Board Member
- Jeff Greenfield, Board Member
- Representative Jim Hamilton
- Senator Fred Thomas
- Dan Villa, Executive Director
- Peggy MacEwen, Deputy Director
- Jon Putnam, CFA, FRM, CAIA, Chief Investment Officer
- Doug Hill, Director of In-State Loan Programs
- Julie Feldman, CPA, Financial Manager
- Polly Boutin, Associate Financial Manager
- Frank Cornwell, CPA, Associate Financial Manager
- Ethan Hurley, CAIA, Director of Real Estate/Natural Resources
- Michael Nguyen, Director of Private Investments
- Mike Pettit, Director of Operations
- Dan Zarling, CFA, CIPM, Director of Risk Management
- John Romasko, CFA, Director of Fixed Income
- Kirsten Haswell, Investment Analyst
- Steve Strong, Investment Analyst
- Louise Welsh, Senior Bond Program Officer
- Savannah Morgan, Bond Program Officer
- Dana Chapman, Office Manager/Board Secretary
- Adam Gill, Executive Director, Montana Facility Finance Authority
- Becky Gratsinger, CFA, RVK, Inc.
- Jim Voytko, RVK, Inc.
- Mark Higgins, CFA, RVK, Inc.

CALL TO ORDER

Board Chairman Karl Englund called the regular meeting of the Board of Investments (Board) to order at 11:01 a.m. As noted above a quorum of Board Members was present. Chairman Englund advised audio recording of the meeting was underway and asked for public comment on issues within Board jurisdiction. There was none.

Approval of Board Meeting Minutes

Chairman Englund called for approval of the February 11-12, 2020 Board Meeting Minutes and asked if there were any changes or revisions.

Member Maggie Peterson made a motion to approve the February 11-12, 2020 Board Meeting Minutes. Member Diane Fladmo seconded the motion. The motion carried.

Chairman Englund called for approval of the March 17, 2020 Special Board Meeting Minutes and asked if there were any changes or revisions.

Member Maggie Peterson made a motion to approve the March 17, 2020, Special Board Meeting Minutes. Member Terry Cohea seconded the motion. The motion carried.

Chairman Englund called for approval of the March 24, 2020 Special Board Meeting Minutes and asked if there were any changes or revisions.

Member Diane Fladmo made a motion to approve the Special March 17, 2020, Board Meeting Minutes. Member Maggie Peterson seconded the motion. The motion carried.

ADMINISTRATIVE BUSINESS

Audit Committee Report

The Audit Committee met prior to the Board meeting. Committee Chair Maggie Peterson reported there was one item before Committee regarding the RFP for a new custodial bank contract. The Committee approved a motion to allow staff to begin the Custodial Bank RFP process.

Committee Chair Peterson made a motion for full board approval to allow staff to move forward with the Custodial Bank RFP process. Member Jeff Greenfield seconded the motion. The motion carried.

Human Resources (HR) Committee Report

The HR Committee met prior to the Board meeting. Committee Chair Terry Cohea reported the Committee approved the hire of John Romasko as the Director of Fixed Income.

Committee Chair Cohea made a motion for full Board approval to hire Mr. Romasko as the new Director Fixed Income. Member Maggie Peterson seconded the motion. The motion carried.

Board Chairman Karl Englund thanked Mr. Romasko for his many years of service.

Loan Committee Report

The Loan Committee met prior to the Board meeting. Committee Chair Jack Prothero reported the Committee approved an INTERCAP loan for \$3,850,000 to Custer County to rebuild their recreation center.

Committee Chair Prothero stated the second loan before the Committee was an MFFA Master Loan Program refinance to Powell Memorial Hospital in Deer Lodge. The Master Loan of up to \$15.9 million will provide savings through the refinance of existing bonds. The Loan Committee approved the loan which was reviewed in detail.

Committee Chair Jack Prothero made a motion for full Board approval for the loan request to Powell Memorial Hospital. Member Terry Cohea seconded the motion. The motion carried.

Committee Chair Prothero complimented staff's ability to handle the requests coming in due to the COVID-19 outbreak.

Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) Updates

Member Jeff Greenfield reported TRS is currently working remotely; the next TRS Board meeting is scheduled for May.

Member Maggie Peterson stated the PERS Board met on February 13th. The town of Manhattan has adopted the 457 plan; the Board recommended the hiring of RVK, Inc. as consultant; and an extension has been approved for the reporting center system plan. The Board also received another fee instruction on the stable value fund and an update on litigation. Many staff are working from home; the three vacant Board positions have been filled: Terri Hogan, an attorney at the benefits office, Aaron Pratt an active public employee and Joe Fowler an active public employee at Highway Patrol. The Board also received a risk analysis report from the actuaries which will be discussed at the next meeting in May.

Legislative Liaison Comments

Representative Jim Hamilton reported he has been working on local government projects regarding COVID-19 and a recommendation for the governor to sign is close to being finalized. The Legislative Finance Council will discuss a BARA study in a phone meeting on May 4th to discuss how state and local monies should come together. (Senator Fred Thomas arrived at the meeting later.)

EXECUTIVE DIRECTOR'S REPORT

Overall Comments

Executive Director Dan Villa noted the monthly snapshot is included in the packet. Director Villa stated staff have developed a process to track expenses regarding COVID-19 expenses. Staff will receive a \$50 stipend for individual telework expenses every four weeks that we are in telework status. This will be easier and more cost effective than tracking individual expenses. Staff have been working on a plan for returning to normal operations. BOI staff were the first ones out and will likely be the last ones back. Once the plan is developed it will be circulated to the Board. At this time, April 24th is the earliest return date, although we expect it will be the first week of May.

The next Board Meeting is scheduled for a two-day meeting in late May, but there are options. We could move to a three-day meeting in May to make up for this agenda and an otherwise full meeting. A three day in person meeting would add value. One option is to reschedule the May meeting for mid-June to ensure we are outside of the risk window.

After a brief discussion consensus was reached to reschedule the May meeting to two full days in June, final dates to be determined.

INVESTMENT POLICY STATEMENT REVISIONS

Montana State Fund

Mr. Jon Putnam reviewed proposed revisions to the Montana State Fund Investment Policy Statement. The Board reviewed the revisions at the February Board Meeting. State Fund adopted a resolution approving the proposed policy statements at their board meeting on March 13th.

Member Terry Cohea made a motion to approve the revised State Fund Investment Policy Statement. Member Jack Prothero seconded the motion. The motion carried.

Natural Resources/Real Estate

Mr. Ethan Hurley reviewed the proposed changes to the Natural Resources and Real Estate Investment Policy Statements. Some revisions are for administrative/grammatical changes for consistency. There are also changes on leverage at the fund level and investment restrictions to allow for more transparency.

The benchmark for Real Estate is changing to go back to the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE), which more accurately aligns with holdings. The Real Estate Investment Policy Statement revisions also include an allowance for separate accounts.

Member Jack Prothero asked if in the broad picture, these changes increased or decreased risk.

Mr. Hurley replied the changes more broadly diversify exposure and more clearly articulate how staff are contemplating those exposures. Risk is mitigated in both cases.

Vice Chair Mark Noennig made a motion to approve the changes to the Natural Resources and Real Estate Investment Policy Statements. Member Jeff Greenfield seconded the motion. The motion carried.

Private Investments – New Commitments

Mr. Michael Nguyen reported there were three new private equity commitments since the last meeting. Staff made a \$10 million commitment to Foundation Capital Leadership Fund II on February 27, 2020. This follows a previous commitment in April 2019 to Foundation Capital Fund IX. Foundation is a high conviction manager.

On February 12, 2020 staff made a \$50 million commitment to Odyssey Investment Partners Fund VI. Odyssey is a long-term relationship of MBOI. Staff have committed to prior Funds III, IV and V and performance has been strong.

The third commitment on February 27, 2020 was to Sumeru Equity Partners Fund III, L.P. for \$50 million. Sumeru focuses on software and the team has a strong pedigree with a good track record. They came from Silver Lake, a much larger firm, and staff have gotten to know them over the past year. The fund target size is \$600 million – they focus on smaller deals.

Chairman Englund asked for a summary of the state of affairs in private investments.

Mr. Nguyen stated it has been business as usual for staff as far as commitment pacing and staff continue to be prudent. For these three investments, the managers had previously visited with staff in Helena as well as staff conducting onsite due diligence. Moving forward, staff will focus on the defense of the portfolio and the overall liquidity profile.

Natural Resources/Real Estate – New Commitments

Mr. Ethan Hurley stated there was one real estate commitment since the last meeting to Stockbridge Value Fund IV. This is the fourth investment with Stockbridge. They have a U.S. focus and invest in retail, multifamily, office and industrial. They have a stable team; Fund I was fully realized and all prior funds have had good performance. Stockbridge is a high conviction manager and staff was able to complete full due diligence. Fund IV has a European waterfall where the manager does not realize returns until after the limited partners. Investment capabilities are expected to slow somewhat due to the recent travel restrictions.

Member Bruce Nelson asked staff for their thoughts on how due diligence will work in general, now that they are not able to get out into the field.

Mr. Jon Putnam stated the future is a little unknown at this point. The assumption is staff will be able to get back to normal at some time. We would be very reluctant to hire any manager where we could not conduct complete due diligence. Staff may be more comfortable with existing relationships. For new managers, whether public or private, a lot can be done long distance, and a lot of data can be collected. However, staff would still want to conduct on site due diligence. If it becomes an issue at some point, staff will decide how to handle it.

Chairman Englund asked RVK to share their thoughts.

Mr. Mark Higgins agreed the Board is taking the right approach. This is a new situation where the global economy shuts down. It helps that the new investments already had due diligence completed. We will be figuring it out as we go along. There is no way to predict how long things will be impacted.

Mr. Jim Voytko added looking back to the Great Financial Crisis, the worst reaction was to slam on the breaks to private investments. When public markets go down there is usually an opportunity to commit at better values than we've seen in the last few years. Historically, it is not wise to change pacing but to follow a steady pace as the situation permits. You will want to keep an eye on the liquidity of the fund, the pacing study is built around illiquidity

Mr. Nguyen stated it depends on the duration and severity of how things play out. Limited travel is having minimal impacts on commitments through 2020 which has already been mapped out. The portfolio is old and deep, and staff have a long history with managers, although travel restrictions may impact bringing on any new managers.

Director Villa stated looking at June meeting dates, staff will get a draft agenda worked up to be sure we can fit all scheduled items into two full days. Staff will coordinate with RVK for dates.

Executive Director Villa reviewed items on the "to do" list for the next Board meeting:

1. Board Meeting dates will be finalized in the next week for a two full day meeting in June.
2. Director Villa will distribute a draft two-day agenda in the next couple of weeks.

Having no further business before the Board, the meeting was adjourned at 12:00 p.m.

Next Meeting

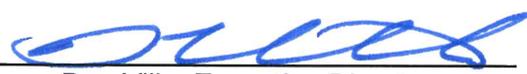
The next regular meeting of the Board will be June 8-9, 2020 in Helena, Montana. Complete copies of reports presented to the Board are on file with the Board of Investments.

MONTANA BOARD OF INVESTMENTS

APPROVE: _____


Karl J. Englund, Chairman

ATTEST: _____


Dan Villa, Executive Director

DATE: _____

