
Oregon Investment Council

December 4, 2013 - 9:00 AM

**PERS Headquarters
11410 S.W. 68th Parkway
Tigard, OR 97223**



Keith Larson
Chair

John Skjervem
Chief Investment Officer

Ted Wheeler
State Treasurer

OREGON INVESTMENT COUNCIL

2014 Schedule

Meetings Begin at 9:00 am

PERS Headquarters Building
11410 S.W. 68th Parkway
Tigard, OR 97223

Wednesday, January 29, 2014

Wednesday, March 5, 2014

Wednesday, April 30, 2014

Wednesday, May 28, 2014

Wednesday, July 30, 2014

Wednesday, September 24, 2014

Wednesday, November 5, 2014

Wednesday, December 3, 2014



OREGON INVESTMENT COUNCIL

Agenda

December 4, 2013
9:00 AM

PERS Headquarters
11410 S.W. 68th Parkway
Tigard, Oregon

<u>Time</u>	<u>A. Action Items</u>	<u>Presenter</u>	<u>Tab</u>
9:00-9:05	1. Review & Approval of Minutes October 30, 2013 Regular Meeting	Keith Larson <i>OIC Chair</i>	1
	Committee Reports	John Skjervem <i>Chief Investment Officer</i>	
9:05-9:50	2. Rockpoint Group <i>OPERF Real Estate</i>	Tony Breault <i>Senior Investment Officer</i> Bill Walton <i>Managing Member</i> Hank Midgley <i>Principal</i> Christy Fields <i>Pension Consulting Alliance</i>	2
9:50-10:35	3. LS Power Equity Partners III, L.P. <i>OPERF Alternative Portfolio</i>	Karl Cheng <i>Investment Officer</i> Mike Segal <i>Chairman</i> Paul Segal <i>CEO</i> Darpan Kapadia <i>Executive VP, Head of Strategy</i> Tom Martin <i>TorreyCove Capital Partners</i>	3
10:35-10:45	----- BREAK -----		

10:45-11:15	4. OPERF Opportunity Portfolio Annual Review	John Hershey <i>Senior Investment Officer</i>	4
11:15-11:30	5. Higher Education Endowment Fund Annual Review	Mike Mueller <i>Deputy Chief Investment Officer</i> Penny Burgess <i>Treasury Operations Coordinator, OUS</i>	5
11:30-11:45	6. OPERF 3rd Quarter Performance Review	Pete Keliuotis <i>Strategic Investment Solutions</i>	6
11:45-11:50	7. Election of OIC Officers OIC Policy 4.00.02	Keith Larson	7
11:50-11:55	8. OIC General Consultant Recommendation OIC Policy 4.01.13	Mike Mueller	8

B. Information Items

11:55-12:00	9. Asset Allocations & NAV Updates a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HiEd Pooled Endowment Fund	John Skjervem	9
	10. Calendar — Future Agenda Items		10
	11. Other Items	Council Staff Consultants	

C. Public Comment Invited
 15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

October 30, 2013 Regular Meeting

OST Committee Reports – Verbal



STATE OF OREGON
OFFICE OF THE STATE TREASURER
350 WINTER STREET NE, SUITE 100
SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL
OCTOBER 30, 2013
MEETING MINUTES

Members Present: Rukaiyah Adams, Paul Cleary, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler

Staff Present: Darren Bond, Karl Cheng, Garrett Cudahey, Jay Fewel, Sam Green, Andy Hayes, John Hershey, Brooks Hogle, Julie Jackson, Mary Krehbiel, Perrin Lim, Tom Lofton, Mike Mueller, Tom Rinehart, Priyanka Shukla, James Sinks, John Skjervem, Michael Viteri, Byron Williams

Consultants Present: David Fann and Tom Martin (TorreyCove); Peter Keliuotis and John Meier (SIS); Alan Emkin, John Linder, Mike Moy (PCA)

Legal Counsel Present: Deena Bothello and Lynn Nagasako, Oregon Department of Justice

The October 30, 2013 OIC meeting was called to order at 9:02 am by Keith Larson, Chair.

I. 9:04 am Review and Approval of Minutes

MOTION: Mr. Solomon moved approval of the September 25, 2013 meeting minutes. Treasurer Wheeler seconded the motion, which then passed by a vote of 5/0.

COMMITTEE REPORTS

Private Equity Committee – 2013:

- | | | |
|----------------------|-----------------------------|------------------------------|
| • September 26, 2013 | OrbiMed Private Inv. Fund V | up to \$50 million |
| • September 26, 2013 | MHR Institutional Fund IV | \$100 million |
| • September 26, 2013 | Pine Brook II | current commitment extension |

Alternatives Portfolio Committee – 2013:

- | | | |
|-------------------|-------------------------------|--------------|
| • October 7, 2013 | Appian Natural Resources Fund | \$50 million |
|-------------------|-------------------------------|--------------|

II. 9:03 am AQR Style Premia Fund – OPERF Alternatives Portfolio

In January 2011, the OIC approved the creation of an Alternatives Portfolio comprised of approximately 80% real assets (e.g., infrastructure, natural resources, etc.) and 20% real return (i.e., hedge fund) strategies. In June of this year, the target Alternatives allocation was increased from 5 percent to 10 percent of the total OPERF portfolio. In the fourth quarter of 2011, the OIC committed \$100 million to the AQR Delta Fund (a liquid form of hedge fund beta strategies). The proposed AQR Style Premia Fund (“SPF”) investment would continue to expand the real return (hedge fund) portion of the OPERF Alternatives Portfolio.

Risk Premia strategies can offer an excellent source of diversification to an otherwise heavily-weighted, long-only equity and bond portfolio. AQR is a significant, trusted investment partner, and SPF provides another attractive way for OPERF to access a diverse set of style /factor premia in a liquid, cost-effective strategy.

Staff recommended approval of a \$200 million commitment to SPF for the OPERF Alternatives Portfolio, subject to successful negotiation of all requisite documentation with staff working in concert with Department of Justice legal personnel.

MOTION: Treasurer Wheeler moved approval of staff recommendation. Ms. Durant seconded the motion, which passed by a vote of 5/0.

III. 10:05 am U.S. Equity Risk Premia Strategy – OPERF Public Equity

Excess returns from traditional discretionary active management in large domestic public equities have been difficult to achieve over the past 35 years. In this highly efficiently priced segment of the market, staff proposes to systematically tilt the portfolio comprised by this strategy (and at very low cost) toward select factor exposures such as value, momentum and quality. These factor exposures have been persistently compensated historically, and furthermore are able to explain much of the outperformance of most active managers over time. Staff believes this particular approach to active risk taking has and will continue to have a higher probability of long-term success (i.e., delivering excess return net of costs) in this asset class relative to the traditional security and sector selection techniques employed by higher cost, discretionary active managers.

Staff recommended funding a \$500 million, internally-managed Risk Premia strategy and amending OIC policy 04-05-01 and 04-05-03 accordingly, subject to the successful negotiation of license terms with MSCI.

MOTION: Treasurer Wheeler moved approval of the staff recommendations. Mr. Solomon seconded the motion, which passed by a vote of 5/0.

IV. 11:15 am CEM Annual Cost Study for OPERF

Mike Mueller, Deputy CIO and Bruce Hopkins, Vice President of CEM Benchmarking presented the OPERF investment cost analysis performed by CEM for both the calendar and five-year period ended 31 December 2012.

V. 11:36 am OST Annual Internal Audit Update

Byron Williams, Chief Audit Executive provided the OIC with an update of the investment-related audit engagements completed by OST's Internal Audit Services during the past year.

VI. 11:40 am Common School Fund Annual Review

In accordance with OIC Policy 4.08.07, Mike Mueller and John Meier with SIS provided an update on the Common School Fund (CSF) for the one-year period ended September 30, 2013 with specific emphasis on CSF's investment performance, portfolio structure and asset allocation.

Staff also requested approval for changes to the CSF public equity manager structure.

MOTION: The staff recommendation passed by a vote of 5/0.

11:48 am Investment Beliefs Project

John Skjervem, CIO and Alan Emkin of PCA gave an update on the progress of the Investment Beliefs Project and recommended adoption of an initial slate of Investment Belief Statements as part of the immediately succeeding annual policy update discussion.

VII. 12:05 pm OIC Policy Updates

Staff recommended several policy updates to conform current policy guidelines with recent OIC actions and in response to recent audit findings.

MOTION: The staff recommendation passed by a vote of 5/0.

VIII. 12:17 pm Asset Allocations and NAV Updates

Mr. Skjervem reviewed asset allocations and NAV's across OST-managed accounts for the period ended September 30, 2013.

IX. 12:19 pm Calendar – Future Agenda Items

Mr. Skjervem presented a revised schedule of future OIC meetings and associated agenda topics.

X. 12:21 pm Other Business

Mr. Skjervem announced that a vendor had been selected by OST to facilitate electronic management and distribution of future OIC meeting material and that such capability would likely be available and deployed sometime in Q1 2014.

12:21 pm Public Comments

None

Mr. Larson adjourned the meeting at 12:22 pm.

Respectfully submitted,



Julie Jackson
Executive Support Specialist

TAB 2 – Rockpoint Core Plus Real Estate Fund, L.P.

OPERF Real Estate

Rockpoint Core Plus Real Estate Fund, L.P.

Purpose

Staff recommends a \$100 million commitment to Rockpoint Core Plus Real Estate Fund, L.P. (“the Fund,” or “CPF”) which represents a lower-risk, longer term hold strategy for U.S. real estate investments and is a complementary fund offering to Rockpoint’s existing opportunistic fund series.

Investment Opportunity

The Fund has a target size of \$1.0 billion and will consist of capital commitments from a limited subset of existing Rockpoint institutional investors. With a core-plus investment mandate, Fund investments will be focused on stabilized commercial real estate assets with strong existing cash flows and less capital-intensive business plans than typically found within Rockpoint’s opportunistic investment funds. The Fund will primarily focus on equity investments in office and multi-family commercial real estate assets within the United States, although debt origination, preferred equity or debt acquisitions may be included and, to a lesser extent, other stabilized institutional quality assets.

Staff considers the Fund a good opportunity to leverage the personnel skill sets, asset management and proven proprietary deal sourcing capabilities of the existing Rockpoint team. Over the past few years, and particularly post-GFC, the Rockpoint team has underwritten and had access to multiple off-market, high quality, investment opportunities. However, these potential acquisitions ultimately did not meet the return objectives of the firm’s opportunistic funds and, hence, were not selected for investment.

Much to Rockpoint’s credit and in keeping with their continued emphasis on transparency, strong LP communications and improved LP economics, the Fund’s terms, overall structure and governance been cooperatively drafted between the general and limited partners. Unlike traditional fund offerings, various staff and consultants have had significant, and early, input into key terms. A strong emphasis has been placed on creating an LP-friendly structure including greater GP-LP alignments and preserving downside protection by crafting appropriate fee terms designed to minimize both “floor risk” and total gross-to-net leakage at the targeted investment returns. While the majority of terms have been agreed upon by the various counterparties, it should be noted that a few minor items (for example, an ex-U.S. allowance, if any, or allocation parameters) may be subject to change based upon on-going LP negotiations and pending capital approvals. These negotiations, however, should only serve to strengthen the fund terms for OPERF and be in favor of LP interests.

Targeting a 9-10% net IRR to investors, and consistent with a core plus strategy, the CPF will typically underwrite a 5- to 7-year hold period for investments and is expected to generate a significant component of its returns from current cash flows as well as modest appreciation through moderated capital expenditures, more effective leasing efforts or operational improvements to increase asset level net operating income (NOI). The Fund will not include development and will be limited to a 50% fund level loan-to-value ratio.

History/Team

Rockpoint was formed in 2003 after Bill Walton, Keith Gelb and 11 other senior members left Westbrook, which was co-founded by Bill Walton in 1994, to start their own real estate opportunity fund platform. Rockpoint's Founding Managing Members have been working together for more than 17 years and the 18 senior investment personnel have invested together for an average of 11 years. Over the past decade, Rockpoint has raised six additional funds, not including CPF, totaling \$7.7 billion in equity capital as well as four co-investment vehicles for an additional \$1.0 billion. Headquartered in Boston, the firm has approximately 46 investment personnel globally, with additional offices and investment professionals in Dallas, San Francisco and London.

The CPF will utilize existing Rockpoint professionals and senior management for investment acquisition, deal origination and investment monitoring. However, the firm anticipates assigning two dedicated asset managers, one on each coast, to CPF once it has commenced investing and enough assets are assembled. Due to Rockpoint's successful long-term sourcing network and related relationships, CPF is complementary in terms of staffing, deal flow access and structuring.

Track Record

OPERF has participated in each Rockpoint fund offering since its formation in 2003. Prior to that and going back to 1994, OPERF also invested in the Westbrook I-IV fund series which was also led by senior members of the current Rockpoint team. A summary of each fund, with investment performance metrics as of September 30, 2013, including OPERF's committed capital and NAV, is outlined below. In aggregate, the opportunistic funds are projected to generate a 13.5% net IRR and 1.4x net multiple on invested equity. While the following table is provided to demonstrate OPERF's success with Rockpoint over the past decade and through a full market cycle, it should be noted that the Core Plus Fund does not fit the same risk-return profile as the following opportunistic investment vehicles:

Fund	Vintage Year	OPERF Commitment (\$ millions)	OPERF NAV (\$ millions)	Projected IRR (net)	Projected Investment Multiple (net)
Rockpoint Special Fund	2003	75	0	18.8	1.5x
Rockpoint Fund I	2004	50	6.6	10.5	1.2x
Rockpoint Fund II	2005	100	34.9	-1.7	0.9x
Rockpoint Finance Fund ⁽¹⁾	2006	100	3.0	-3.8	0.8x
Rockpoint Fund III	2007	150	45.7	15.3	1.4x
Rockpoint Fund IV	2011	100	32.0	16.5	1.6x
Heritage Fields (Co-Investment)	2005	120	62.9	1.3	1.1x

(1) *Finance Fund* made three investments and called only 5% of the capital commitments. Originated in 2006 and intended to provide structured financing to national and regional homebuilders, Rockpoint elected not to invest the remaining 95% of capital commitments due to a lack of appropriate risk-adjusted investment opportunities for this strategy. There are currently two investments remaining, one of which has been substantially realized.

Portfolio Fit

CPF is recommended for inclusion within the Value Add sub-portfolio of OPERF's real estate investment program. Given the projected hold period for investments, targeted net levered returns and somewhat unconstrained product type investment strategy, CPF's risk-return profile is more appropriately aligned with the Value Add sub-portfolio than Core, where in the latter OPERF generally has greater investment control and LP governance rights.

As of October 31, 2013, the Value Add sub-portfolio has a cash-adjusted 15.3% weighting versus a target weighting of 20% (with a bandwidth allowance of +/- 10%). With a cash-adjusted NAV of \$7.36 billion, the total real estate portfolio is approximately 11.3%, slightly below its target allocation of 12.5%.

Issues to consider

Limited Partner Concentration

The Fund will most likely comprise a small number of total investors and, more specifically, two limited partners may comprise up to 75% of the total capital commitments. While OPERF has a long-standing and excellent working relationship with the Rockpoint principals, the capital weighting could dilute the voting rights of OPERF and other LPs should voting requirements be necessary within the Fund term. Staff has worked with both the general and other limited partners to address the issue and mitigate this potential risk by including a LP voting threshold of 75% of capital commitments and at least three LPs on key fund decision

requirements. Given the long-term relationships and working knowledge of the counterparties, as well as the non-discretionary investment structure for the Fund, it is Staff's belief that a misalignment between LPs is a remote possibility. Further, potential conflicts would most likely be limited to a significant event (i.e., key person, GP removal, etc.) and germane to other Rockpoint funds and the overall relationship.

Strategy/Execution

To date, Rockpoint has only invested opportunistically without having raised or managed a lower-return, lower-risk investment fund before. While this strategy does not have an existing track record to validate that thesis that existing deal generation and sourcing infrastructure will create the targeted investment opportunities, the Rockpoint team has had access and passed on a significant number of verified opportunities that fit the CPF investment profile. Secondly, with a greater emphasis on more stabilized, less capital intensive product types, and as a manager with a long term track record executing complicated real estate equity transactions over many years, Rockpoint's asset management and senior leadership teams should be adequately staffed and fully capable of executing the on-going property-level business plans for this strategy.

Placement Agents

Rockpoint did not retain a placement agent to assist in fundraising.

Private Partnership Investment Principles

Staff and PCA have reviewed Rockpoint's responses and comments to the OIC's Private Partnership Principles and confirm general overall compliance therewith. It should be noted that the Fund's proposed terms are, in aggregate, more LP friendly and with significant LP input/engagement in crafting the Fund's terms than most fund offerings available in the market today.

Recommendation

Staff recommends that the OIC authorize a \$100 million commitment to Rockpoint Core Plus Fund, L.P., on behalf of OPERF, subject to the satisfactory negotiation of terms and conditions and completion of the requisite documentation by DOJ legal counsel working in concert with OST staff.

TAB 3 – LS Power Equity Partners III, L.P.

LS Power Equity Partners III, L.P.

Purpose

Staff recommends approval of a \$100 million commitment to LS Power Equity Partners III, L.P. for the OPERF Alternatives Portfolio, which has a 20-30% target allocation to infrastructure.

Background

LS Power Group (“LS Power”) was founded in 1990 as an independent energy company. At its inception, LS Power focused exclusively on the development of power generation facilities to take advantage of opportunities created by power market deregulation trends. LS Power also formed the affiliate Luminus Management in 2002 to manage long-short hedge funds that invest in publicly-traded securities of utility and energy-related companies. LS Power’s first private equity effort, a \$1.2 billion fund, was launched in 2005 to acquire power and energy infrastructure assets. Fund II, a \$3.1 billion fund, was raised in 2006 to pursue corporate/strategic minority investments, operating power generation assets, and select development opportunities. LS Power is now launching a third, \$1.5 billion fund (LS Power Equity Partners III) which will focus exclusively on operating assets and generally *not* pursue the types of development and corporate/strategic opportunities that were central to the first two funds’ investment objectives.

Strategy

U.S. electricity demand has been relatively flat over the past decade, but supply increased substantially in the early 2000s as cheap capital and deregulation sparked a construction boom. When demand failed to catch up, power prices fell and a number of utilities were forced into bankruptcy. As deregulation progressed, public markets began valuing regulated assets (i.e., assets for which rates are negotiated between a utility and its governing commission) and unregulated (or “merchant”) power generation assets differently. At the same time, utilities’ costs associated with increasing environmental regulations jumped. As large public utilities now restructure their power generation portfolios to comply with regulatory guidelines and satisfy shareholder preferences, few sophisticated counterparties exist who are capable of facilitating this restructuring process by bidding on an often heterogeneous mix of assets. With a long history of developing and operating power plants across the country, LS Power has both the technical expertise and industry relationships to evaluate and capitalize on these types of restructuring opportunities. LS Power’s target return for Fund III is a mid- to high-teens net IRR.

Issues to Consider

Pros

- *Experienced team.* During its history, LS Power has acquired over 20,000 megawatts (MW) and developed over 8,000 MW of power generation assets. The firm’s 11-member Senior Investment Team averages over 20 years of power sector experience, and is supported by the broader LS Power organization which includes functional expertise and experience in the following key areas: Project Development; Power Marketing & Energy Management; Transmission; Projection Finance & Execution; Engineering & Construction; Regulatory, Legal & Compliance; and Operations Management.
- *Track record.* LS Power has acquired or developed over 27,000 MW of power generation assets and developed 470 miles of high voltage transmission capacity. As of June 2013, the performance profile for Fund I includes a net IRR of 14.2% and a net multiple of 1.7x, while Fund II’s net IRR and multiple at that same time were 13.5% and 1.5x, respectively. Staff believes these results represent attractive returns for infrastructure assets, which are generally underwritten to returns lower than traditional private equity targets.

- *Improving supply/demand dynamics.* Following the construction boom at the beginning of the last decade, demand and supply have been relatively flat. However, the number of announced coal plant decommissions has accelerated as utilities confront what are in many cases the prohibitive costs of retrofitting older coal plants to meet new environmental guidelines. Since 2010, the retirements of 150 coal-fired power plants generating 58,000 MW have been announced, and while this particular trend is not considered in LS Power's underwriting process, it should provide additional support for operating asset valuations.
- *GP Commitment.* LS Power's GP commitment to Fund III is 5% which is significantly higher than the typical 1-2% GP commitment. Staff believes this higher commitment better aligns GP and LP interests and represents a significant, "skin in the game" endorsement.

Cons

- *Regulatory risk.* New, pending and proposed environmental regulations could reduce the profitability of some segments of the power generation market. *[Mitigant: LS Power will mainly avoid "dirty" coal power generation, which the EPA has paid most attention to, and focus instead on natural gas, renewables and "clean" coal. Additionally, LS Power's expertise in navigating the various regulatory regimes that govern the industry gives it a competitive advantage.]*
- *Prior "Corporate/Strategic" investment performance.* LS Power has been less successful with its Corporate/Strategic investments than with its "Operating Projects" in Funds I and II. Corporate/Strategic investments were minority investments made in publicly traded utilities where LS Power did not obtain control stakes. *[Mitigant: Although the Global Financial Crisis resulted in severe financial stress for highly-levered public utilities, Funds I and II still generated low teens net IRRs even including these disappointing Corporate/Strategic investments. Moreover, Fund III will focus almost exclusively on Operating Projects investments (hence the smaller fund size relative to Fund II) in order to lever LS Power's competitive advantage in operating power generation assets.]*

Terms

Fund III includes a management fee on committed capital with a standard carry and preferred return. Its terms also stipulate a five-year investment period and a ten-year fund life with three, one-year optional extensions. All portfolio company fees are offset 100% against Fund III management fees. Finally, LS Power retained Evercore Partners as its placement agent and with whom OST staff has had contact.

Conclusion

LS Power is one of the few managers with genuine skill and sector experience in the power generation industry, and additional exposure to the types of infrastructure assets contemplated by a Fund III investment would, in staff's opinion, further diversify and improve the overall OPERF portfolio.

Recommendation

Staff and TorreyCove recommend a \$100 million commitment to LS Power Equity Partners III, L.P., subject to the successful negotiation of requisite legal documents with staff working in concert with DOJ personnel.



MEMORANDUM

TO: Oregon Public Employees Retirement Fund ("OPERF")
FROM: TorreyCove Capital Partners ("TorreyCove")
DATE: November 22, 2013
RE: LS Power Equity Partners III, L.P.

Strategy:

LS Power will focus on large and complex situations with compelling asset fundamentals within the North American power and energy infrastructure sectors. The Fund will pursue transactions that (i) involve high quality assets purchased at significant discounts to fundamental value; (ii) are complex from an operational, regulatory, financial, commercial, and contractual perspective; (iii) can be enhanced post-acquisition through creative restructuring and/or active management, and (iv) face limited credible competition from financial and strategic acquirers. LS Power will mitigate downside risks by acting as the sole or lead/control investor and leverage the broader LS Power platform for diligence, market analysis, and operational and regulatory reviews. Additionally, LS will utilize its management services to bolster revenue through the establishment or restructuring of power purchase agreements, maximize asset potential through expansion, modernization, and/or repowering, and reduce operating expenses by restructuring contracts with third party providers.

LS Power will target projects and assets that are in operation but has historically invested in operating, development, and corporate/strategic investments. Typical investment theses for operating assets involve modern projects that benefit from off-take agreements, plant consolidation, and capital restructuring.

Please see attached investment memorandum for further detail on the investment opportunity.

Conclusion:

The Fund offers OPERF an opportunity to participate in a differentiated portfolio of private equity investments with relatively attractive overall terms. TorreyCove's review of the General Partner and the proposed Fund indicates that the potential returns available justify the risks associated with an investment in the Fund. TorreyCove recommends that OPERF consider a commitment of up to \$100 million to the Fund. TorreyCove's recommendation is contingent upon the following:

- (1) Satisfactory negotiation or clarification of certain terms of the investment;
- (2) Satisfactory completion of legal documents;
- (3) Satisfactory continuation and finalization of due diligence;
- (4) No material changes to the investment opportunity as presented; and
- (5) Confidentiality maintained regarding the commitment of OPERF to the Partnership until such time as all the preceding conditions are met.

TAB 4 – OPERF Opportunity Portfolio



OPERF Opportunity Portfolio 2012/2013 Review

John Hershey, Senior Alternatives Investment Officer
December 4, 2013

Table of Contents

- I. Strategy review
 - Objectives
 - Strategies of interest

- II. 2012-2013 YTD Review
 - New investments
 - Cash flows
 - Portfolio snap shot
 - Performance
 - Active funds review

Opportunity Portfolio strategy

➤ Opportunity Portfolio objectives:

- Opportunistic/dislocation oriented
- Less correlated returns
- Innovation oriented
- Not a “strategic” allocation

➤ Strategies of interest:

- Dislocation oriented
 - Regulatory Capital Arbitrage
 - Structured credit
 - Shipping
- Less correlated oriented
 - Drug royalty streams
 - Insurance and reinsurance related
 - Intellectual property
- Innovation oriented
 - Currencies
 - Trade finance
 - Legal settlements
- Strategic partnerships
 - “Club Deals”
 - Tactical/opportunistic partnerships

New investments/pipeline 2012/2013

➤ 2012 (commitment dates):

RS Investments (\$50mm – August)

➤ 2013 (commitment dates):

Blackstone Tactical Opportunities (\$250mm – May)

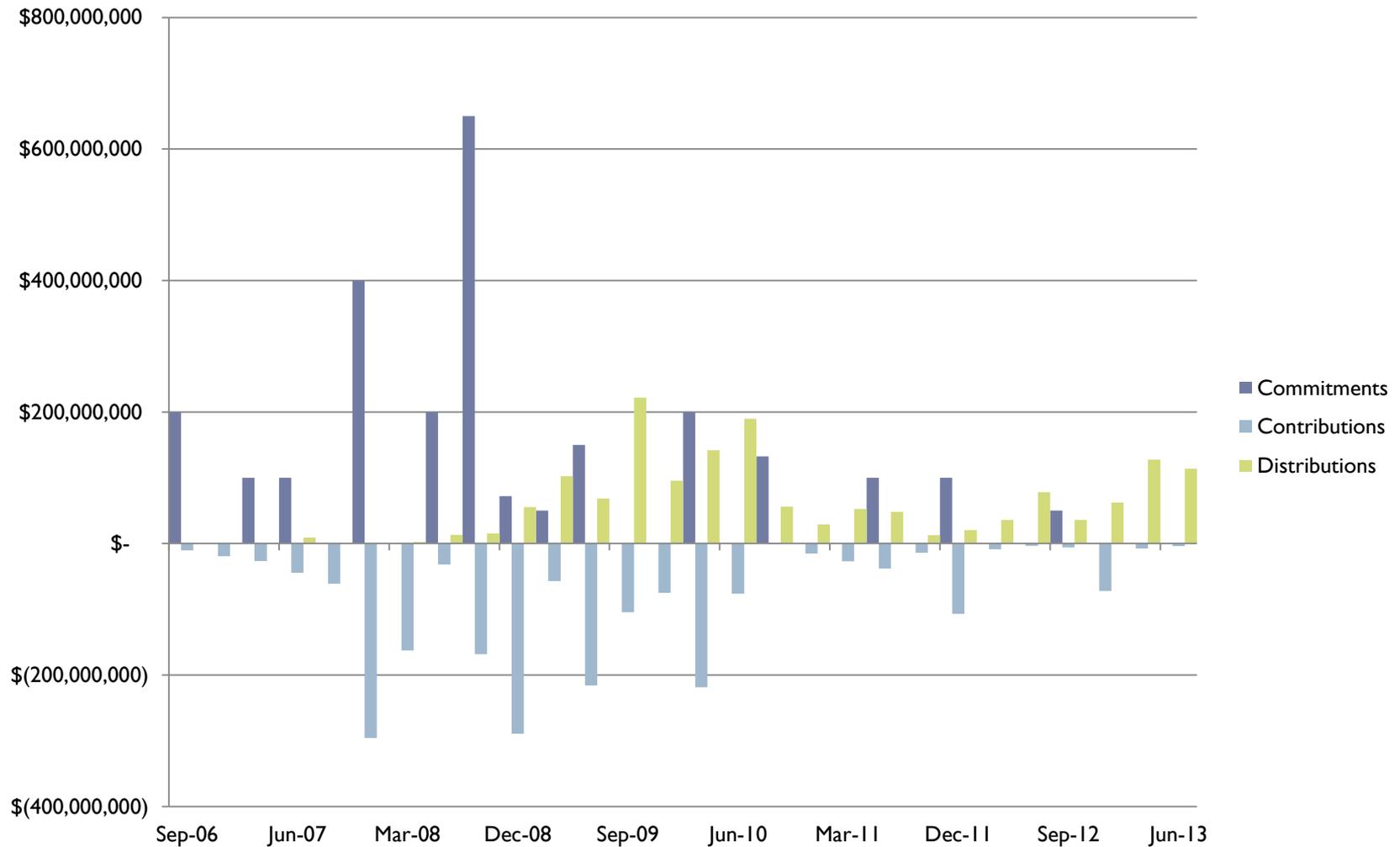
➤ Current Pipeline:

Content Partners (\$50mm – Dec)

TPG TAO (\$250mm – Jan)

Commitments and cash flows

Inception to June 2013



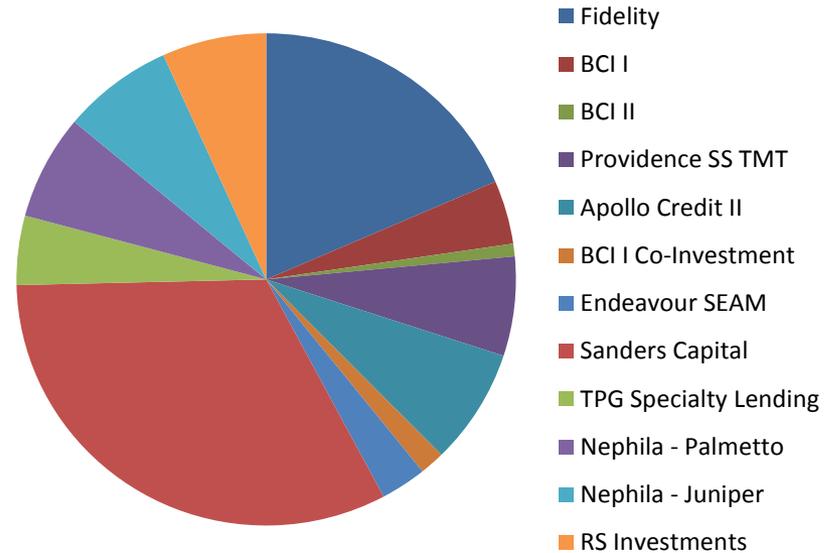
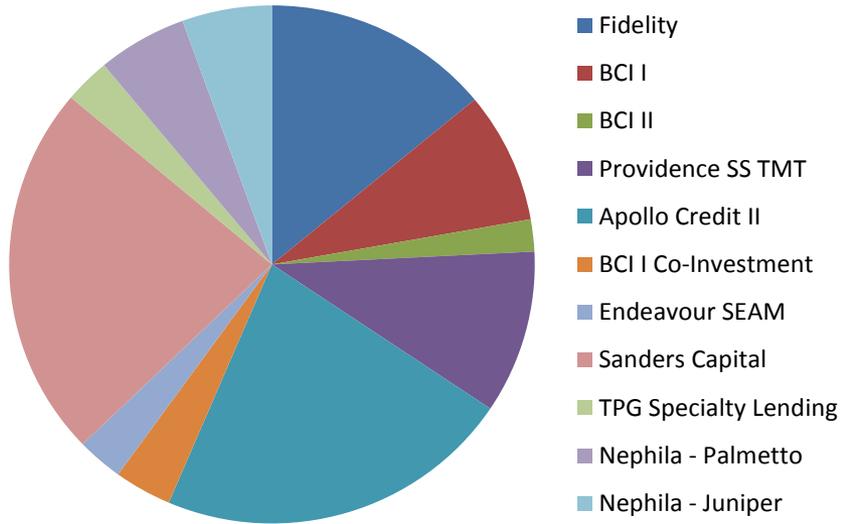
Portfolio (FMV 6/30/13)

Fund	FMV (\$ mm)	%	Strategy
Fidelity Real Estate Opportunities	\$151.0	18.5%	Debt
Blackrock Credit Investors I	34.1	4.2	Debt
Blackrock Credit Investors II	6.8	0.8	Debt
Providence Special Situations TMT	53.2	6.5	Debt
Apollo Credit Opportunities Fund II	62.0	7.6	Debt
Endeavour Structured Equity and Mezzanine	24.2	3.0	Debt
Blackrock Credit Co-invest	13.2	1.6	Debt
Sanders Capital	264.8	32.4	All Asset
TPG Specialty Lending	37.1	4.5	Debt
Nephila Juniper	58.7	7.2	Reinsurance
Nephila Palmetto	56.2	6.9	Reinsurance
RS Investments Natural Gas	55.2	6.8	Equity
Total	\$816.5	100.0%	

Portfolio Snapshot (Fair Market Value)

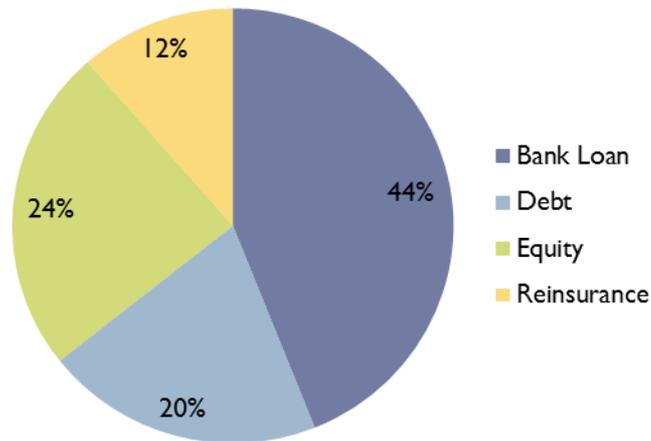
FMV Jun-2012 \$933.9 million

FMV Jun-2013 \$816.5 million

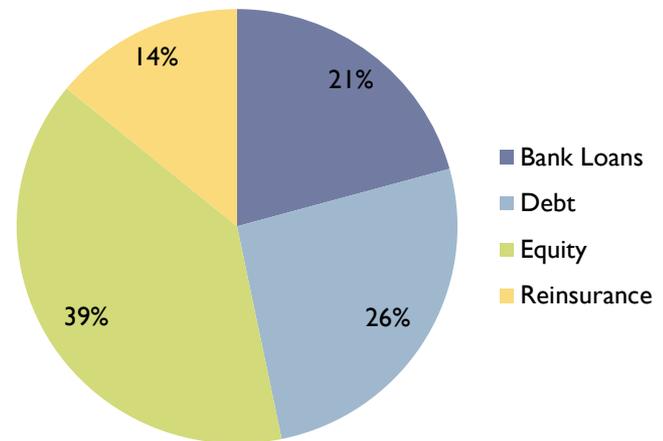


Portfolio Snapshot (Strategy)

Strategy June 2012

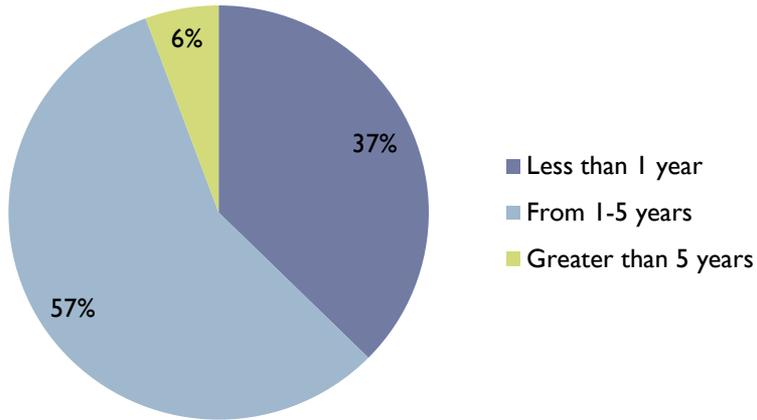


Strategy June 2013

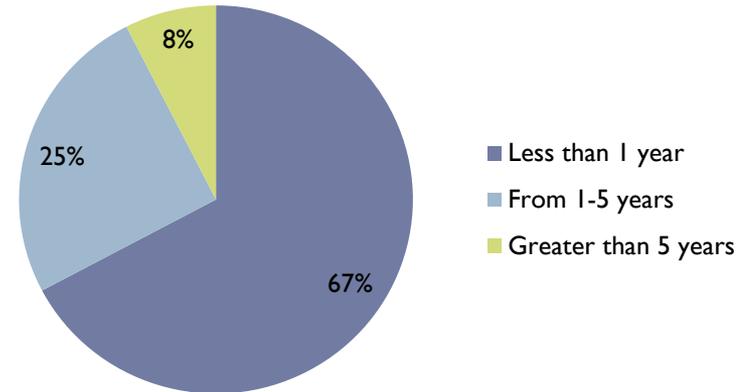


Portfolio Snapshot (Liquidity)

Liquidity June 2012



Liquidity June 2013



Performance (LTM June 30th)

NAV (June 30, 2012)	\$933,878,315
Plus contributions	\$89,831,289
Minus distributions	(\$339,426,371)
Plus unrealized appreciation	\$132,219,950
NAV (June 30, 2013)	\$816,503,183

Performance (LTM June 30th)

	6/2013	6/2012
FMV + Distributions	\$2,353mm	\$2,131mm
FMV	\$816.5mm	\$933.9mm
FMV % of OPERF	~1.3%	~1.6%
FMV + unfunded commitments % of OPERF	~1.4%	~1.8%
Multiple ((FMV + Distributions)/Drawn)	1.20x	1.14x
IRR since inception (Q2/2006) (source: Staff/Torrey Cove)	8.0%	8.2%
Time weighted returns (source: State Street)		
YTD (June)	8.6%	9.3%
1 year	17.6%	-0.3%
2 years	8.3%	10.5%
3 years	12.8%	16.2%
4 years	16.6%	6.6%
5 years	8.8%	n.a.

Active funds review

Fidelity Real Estate Opportunities Fund

Strategy	OTC real estate debt
Performance	~7.2% net IRR since inception (4/2007); 9.2% YTD through 9/30
Outlook	5.3% current yield; 8.2% Yield-to-worst

Blackrock Credit Investors I

Strategy	Levered senior bank loans
Performance	-0.1% net return since inception (Q3/2007); 6.8% YTD through 10/31
Outlook	Harvesting; only \$25mm remaining value

Active funds review

Blackrock Credit Investors II

Strategy	Levered senior bank loans
Performance	~18.7% net return since inception (Q2/2008); 8.0% YTD through 10/31
Outlook	Harvesting; only \$4mm remaining value

Providence Special Situations TMT

Strategy	Levered senior bank loans and bonds
Performance	14.4% net IRR since inception (Q2/2008); 6.1% YTD through 9/30
Outlook	9.5% current yield; 11.5% YTM

Active funds review

Apollo Credit Opportunities Fund II

Strategy	Levered senior bank loans
Performance	13.3% net IRR since inception (Q3/2008); 7.6% YTD through 9/30
Outlook	18.5% current yield; 18.9% YTM

Blackrock Credit Investors I Co-invest

Strategy	Levered senior bank loans
Performance	~30.3% net return since inception (Q3/2008); 13.3% YTD through 10/31
Outlook	Harvesting; only \$7mm remaining value

Active funds review

Endeavour Structured Equity and Mezzanine Fund I

Strategy	Middle market mezzanine debt
Performance	8.1% net IRR since inception (Q1/2009) through 9/30
Outlook	12% current yield (including PIK); target total return 10-12%

Sanders Capital

Strategy	All asset value fund
Performance	10.0% net return since inception (Q1/2010); 19.6% YTD through 10/31
Outlook	Target return 12 -14%

Active funds review

TPG Specialty Lending, Inc.

Strategy	Senior corporate loans
Performance	11.5% net IRR since inception (6/11) (coming out of “J – curve”) through 9/30
Outlook	10.6% current yield and 11% YTM; Target total return 12-14%

Nephila Palmetto

Strategy	Catastrophe Risk Reinsurance
Performance	8.6% net return since inception (1/12) through 10/31
Outlook	Target total return T-bills + 8-10%

Active funds review

Nephila Juniper

Strategy	Catastrophe Risk Reinsurance
Performance	12.5% net return since inception (1/12) through 10/31
Outlook	Target total return T-bills + 10-15%

RS Investments Natural Gas Strategy

Strategy	Natural Gas E&P
Performance	9.0% net return since inception (11/12); 11.8% YTD through 10/31
Outlook	Target total return 15-20%

TAB 5 – Higher Education Pooled Endowment Fund

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Higher Education Pooled Endowment Fund Investment Update Year Ended September 30, 2013

Purpose

This report provides the OIC with an annual review of investment performance for the HIED Pooled Endowment Fund (“the Fund”). On a quarterly basis, Treasury staff provides the Board of Higher Education with a similar performance review. Lastly, Oregon University System personnel will provide a verbal update on potential plans for the termination of the Fund.

Discussion

The HIED Endowment Fund returned 12.8 percent for the year ended September 30, 2013. This performance was 110 basis points ahead of the Fund’s passive policy benchmark which recorded an 11.7 percent return during the same 12-month period. On a trailing three- and five-year basis, the Fund generated average annual returns of 10.1 percent and 8.7 percent, respectively.

Favorable market conditions provided a good tailwind for Fund performance yet again (e.g., the Russell 3000 gained 21.6 percent and the MSCI AC World ex-U.S. index gained 16.5 percent over the 12-month period ended September 30, 2013). The Fund’s active public equity managers continued to perform well over all time periods, with only Columbia Acorn lagging its benchmark. On the other hand, and for the 12-month period ended September 30, 2013, the Fund’s alternative investment portfolio earned a 9.9 percent return, well below that portfolio’s corresponding “Russell 3000+300 bps” benchmark which returned 25.0 percent (and represents a proxy for private equity for which no passive benchmarks exist).

The Fund’s performance relative to the TUCS Universe for endowment plans with less than \$100 million in assets was favorable for most periods. Specifically, during the one-, three- and five-year periods ended September 30, 2013 (a period during which the Fund’s manager structure and asset allocation changed significantly), the Fund’s respective, percentile ranking was consistently top quartile at 19th, 19th, and 15th.

Finally, and as of September 30, 2013, the Fund’s asset allocation was essentially on target relative to its specified ranges:

HIED	Policy	Target	\$ Thousands	Actual
Domestic Equities	20-30%	25%	\$19,442	27.2%
International Equities	20-30%	25%	19,588	27.4%
Private Equity	0-15%	10%	6,613	9.2%
Growth Assets	50-75%	60%	45,643	63.8%
Real Estate	0-10%	7.5%	5,362	7.5%
TIPS	0-10%	7.5%	4,457	6.2%
Inflation Hedging	7-20%	15%	9,819	13.7%
Fixed Income	20-30%	25%	15,423	21.5%
Cash	0-3%	0%	707	1.0%
Diversifying Assets	20-30%	25%	16,130	22.5%
TOTAL HIED			\$71,592	100.0%

Recommendation: None, information only.

TAB 6 – OPERF 3rd Quarter 2013 Performance Review

STATE STREET INVESTMENT ANALYTICS MARKET ENVIRONMENT • Q3 2013

Welcome to the latest issue of State Street Investment Analytics' **Market Environment**. The report is designed to summarize key market indicators for our institutional clients. The Environment section keeps you up to date on market changes. We hope you find the report useful and relevant in your investment decision making process.

General Comments

- The postponement of tapering by the Federal Reserve led to broad increases in the major indices during the third quarter. The delay helped boost the S&P 500 total return index, which rose 5.2% in the third quarter.
- The postponement of tapering also increased sentiment for emerging market equities. The MSCI EM Net Return Index rose 5.8% during the third quarter.
- An improved European outlook also lifted Europe ex-UK in the third quarter, where equities rose 14.4%.
- Despite the lack of Federal Reserve tapering, the euro rose 4.1% against the dollar in the third quarter. The re-election of German Chancellor Angela Merkel in September may have provided a boost to sentiment for the euro.
- The State Street Investor Confidence Index® (ICI) measures risk appetite by analyzing buying and selling patterns of institutional investors. While confidence increased among Asian and European institutions, weaker appetite in the North American region drove the Global ICI lower 3.5 points to 101.4 in September, but it still remained above the neutral level of 100.

State Street Investment Analytics (SSIA)

ENVIRONMENT



STATE STREET.

MARKET SUMMARY

Equity Markets

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
S&P 500	5.2	19.3	16.3
Dow Jones Industrial Average	2.1	15.6	14.9
NASDAQ	10.8	21.0	16.8
Russell 1000	6.0	20.9	16.6
Russell 2000	10.2	30.1	18.3
Russell 3000	6.3	21.6	16.8
MSCI EAFE (Net)	11.6	23.8	8.5
MSCI Emerging Markets (Net)	5.8	1.0	-0.3
MSCI All Country World ex US	10.1	16.5	5.9

Bond Markets

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
Barclays Capital Aggregate	0.6	-1.7	2.9
Barclays Capital Gov/Credit	0.4	-2.0	2.9
Barclays Capital Universal	0.7	-1.0	3.4
Barclays Capital Corp. High Yield	2.3	7.1	9.2
CG Non-US World Govt.	4.1	-5.6	0.6

Non-Public Markets

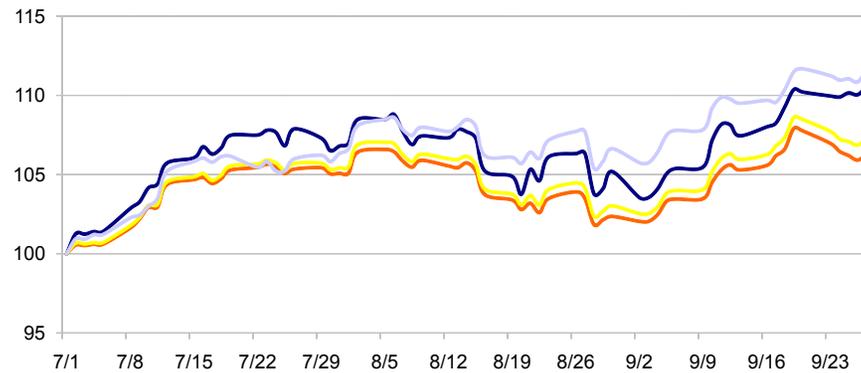
lagged quarterly

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
NCREIF Property	2.9	10.7	13.1
State Street Private Equity Index	2.6	12.5	13.3

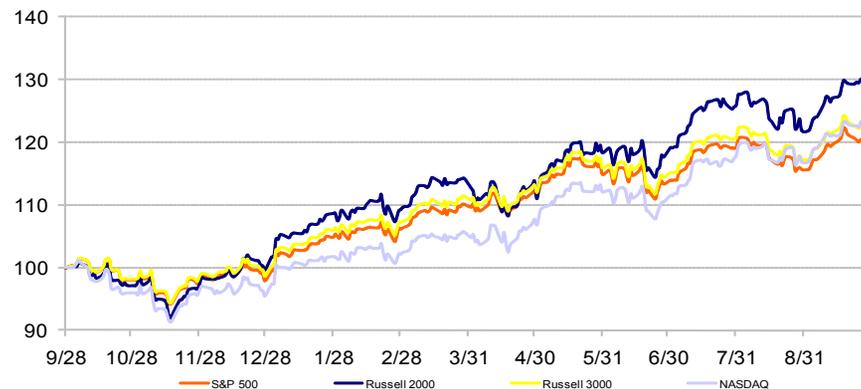
U.S. Equity Market

- U.S. equities, as measured by the S&P 500 total return index, rose 5.2% during the quarter as the Federal Reserve postponed the onset of the tapering of quantitative easing.
- Technology stocks outperformed, with the NASDAQ returning 10.8% in Q3.
- Small caps, as measured by the Russell 2000 index, also had a strong quarter, rising 10.2%.

Equity Index – Quarterly Growth Rate



Equity Index – 1-Year Growth Rate

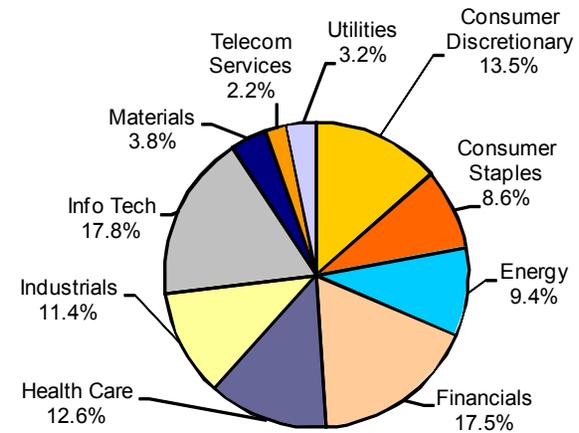


U.S. MARKETS

U.S. Equity – Russell 3000

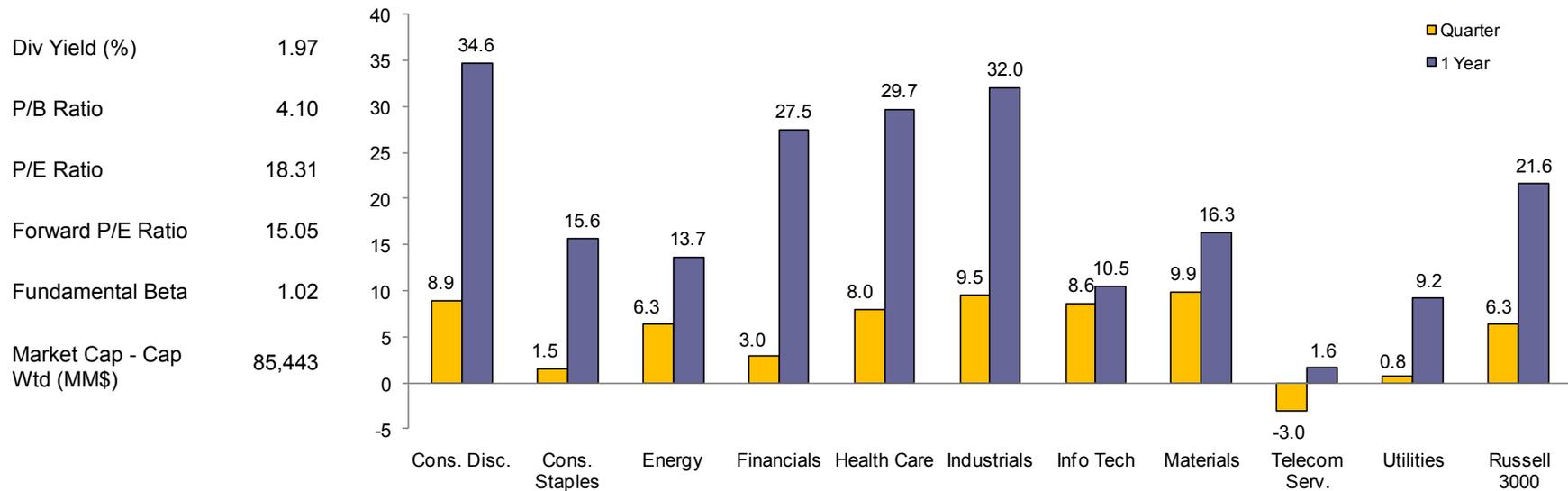
- Diminished Fed tapering fears helped boost most sectors; industrials rose 9.5% in the third quarter, while materials stocks rose 9.9%.
- More-defensive sectors were less in favor, with telecom falling 3.0% and utilities rising only 0.8%.
- Overall, the Russell 3000 index returned 6.3% during the quarter; the yearly return was 21.6%.

Ending Sector Weights



Characteristics

Sector Returns (%)



Contribution to Return:

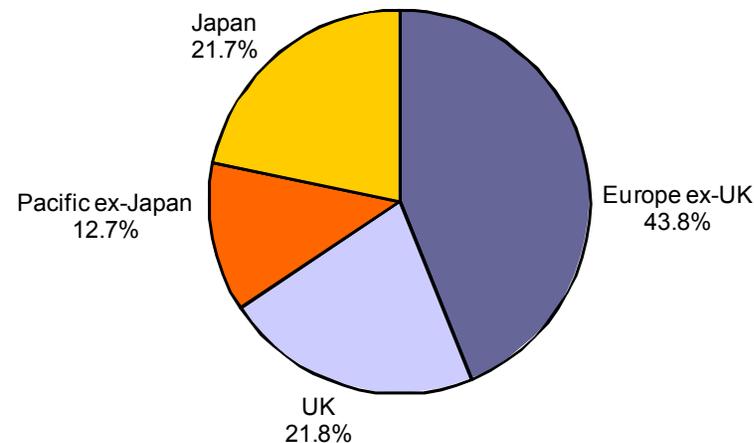
	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Info Tech	Materials	Telecom Serv.	Utilities	Russell 3000
Qtr	1.2	0.1	0.6	0.5	1.0	1.1	1.5	0.4	-0.1	0.0	6.3
1 Year	4.2	1.5	1.4	4.5	3.5	3.5	2.0	0.7	0.0	0.3	21.6

NON-U.S. MARKETS

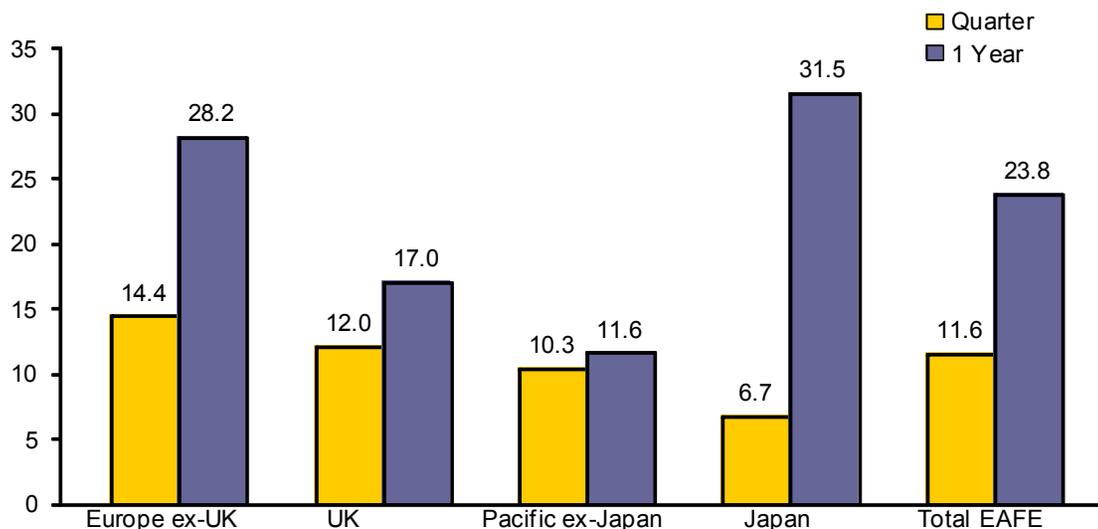
Developed Equity – MSCI EAFE (Net)

- Improved Chinese growth metrics helped boost the Pacific ex-Japan index by 10.3% in the third quarter.
- An improved European outlook also boosted Europe ex-UK in the third quarter, where equities rose 14.4%.
- Overall, the MSCI EAFE index rose 11.6% in the third quarter.

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

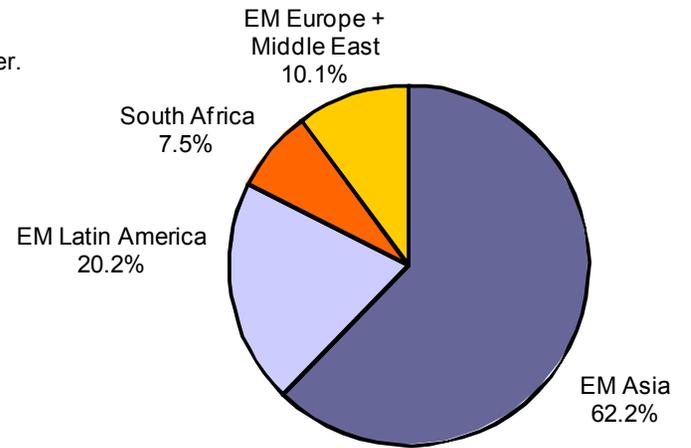
Qtr	6.3	2.6	1.3	1.4	11.6
1 Yr	12.3	3.7	1.5	6.8	23.8

NON-U.S. MARKETS

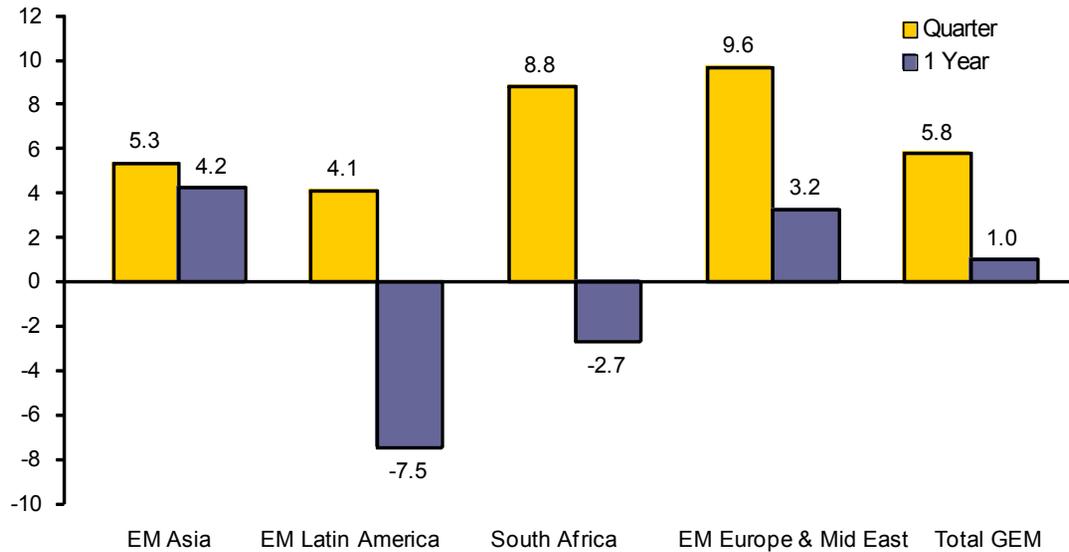
Emerging Markets Equity – MSCI EM (Net)

- Despite lagging developed Non-U.S. equity markets, emerging markets also received a boost from the postponement of Federal Reserve tapering. The MSCI EM index rose 5.8% in the third quarter, highlighting an improvement of capital flows to emerging markets.
- On a regional basis, EM Europe and the Middle East outperformed, rising 9.6% in the third quarter.

Ending Regional Weights



Regional Returns (%)



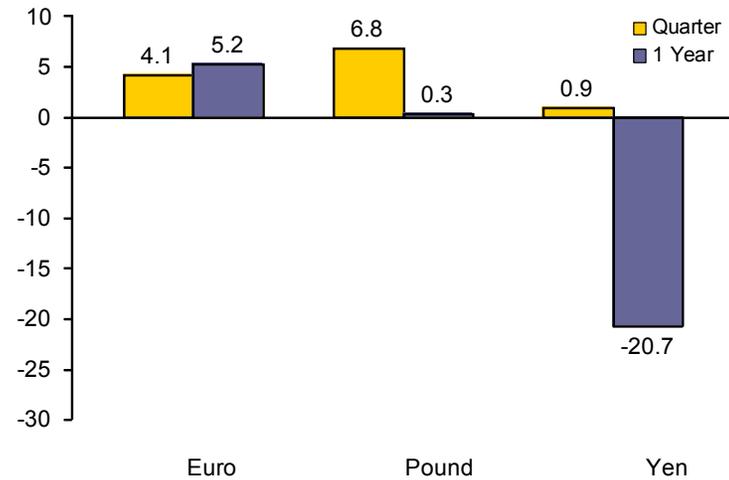
Contribution to Return:

	EM Asia	EM Latin America	South Africa	EM Europe & Mid East	Total GEM
Qtr	3.3	0.8	0.7	1.0	5.8
1 Yr	2.6	-1.5	-0.2	0.3	1.0

Currency Markets

- With improved sentiment in Europe, the euro rose 4.1% against the dollar in the third quarter.
- The U.S. dollar trade-weighted index, which measures the dollar's movement against a basket of currencies, fell 3.5% in the third quarter.
- Abenomics has helped weaken the yen over the past year; the yen rose 0.9% in the third quarter but has fallen 20.7% on a yearly basis.

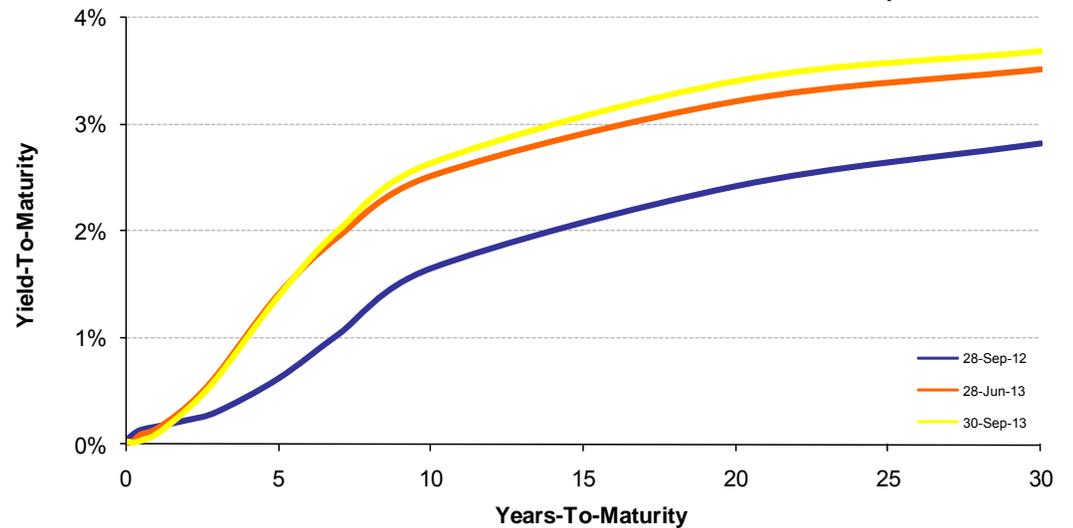
Currency Returns (%)



Yield Curve

- The long-end of the U.S. yield curve rose on a quarterly basis as market participants factored in when the Fed could begin tapering quantitative easing.
- Ten-year yields rose twelve basis points during the third quarter.

INTEREST RATE TERM STRUCTURE
Government Issues - 3 Months to 30 Years Maturity

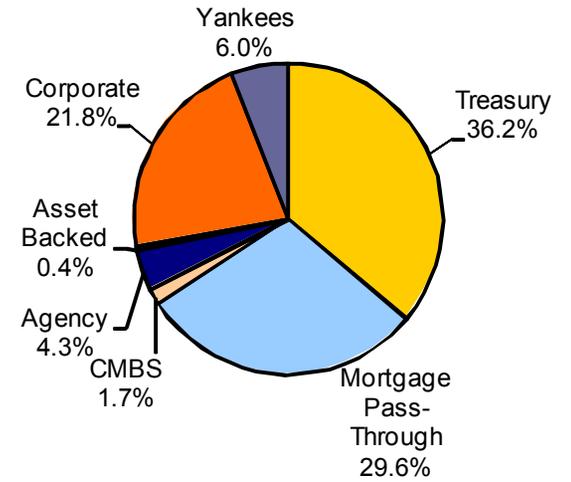


BOND MARKETS

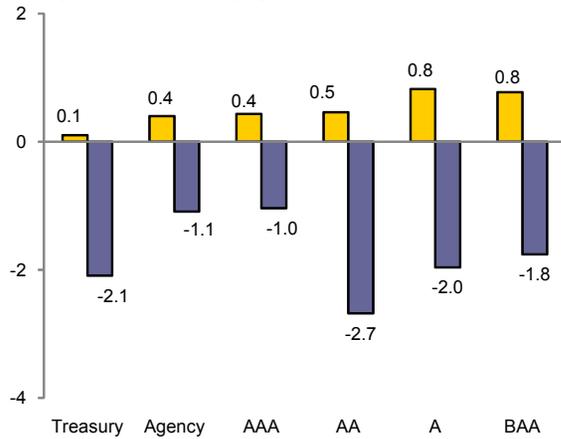
U.S. Bond Market Returns – Barclays Capital Aggregate

- The postponement of tapering led to broad increases in fixed income asset returns. Treasury bonds rose 0.1% in the third quarter, while lower quality credits increased at a faster rate.
- Lower-rated corporate bonds outperformed, with BAA rated securities returning 0.8% in the third quarter.

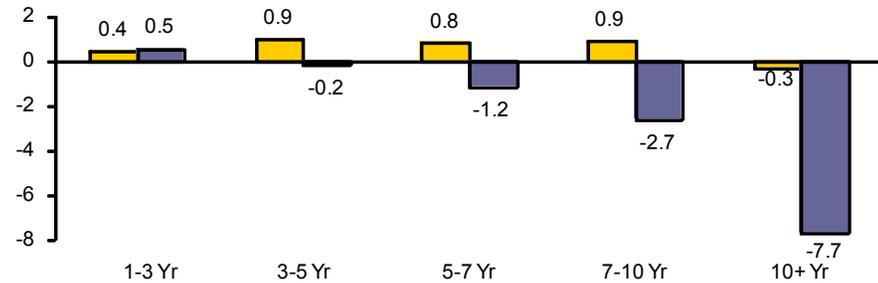
Sector Weights



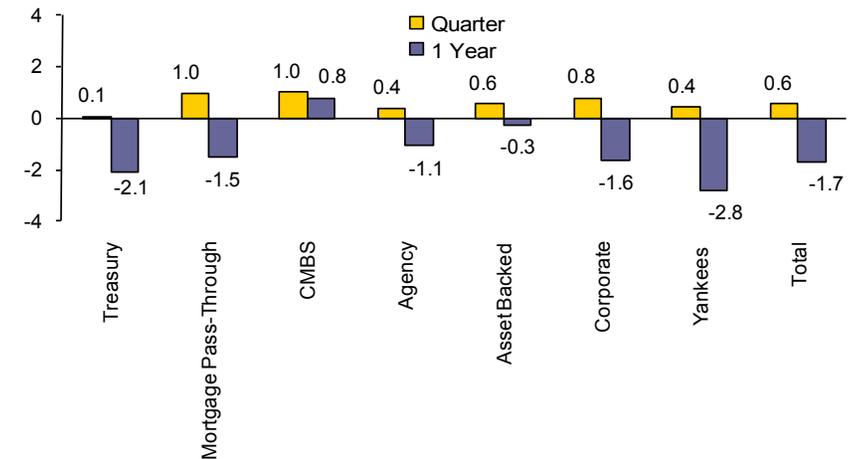
Quality Performance (%)



Duration Performance (%)



Sector Performance (%)

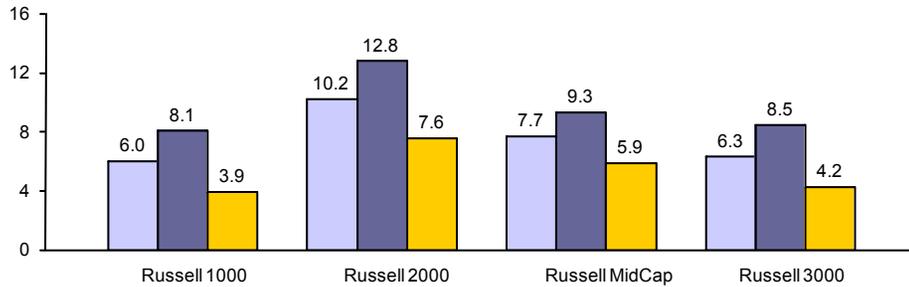


STYLE & CAPITALIZATION

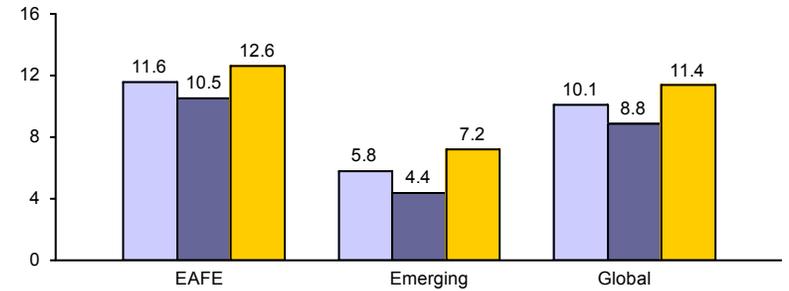
Style & Capitalization Returns

- Equities in EAFE outperformed, rising 11.6% during the quarter. However, emerging market equities underperformed on a relative basis in the third quarter, as investors remained hesitant given the potential impact of tapering on EM assets.
- Small cap equities in the U.S. outperformed, with small cap growth stocks rising 12.8% in the third quarter.
- Overall, non-U.S. equities rose 10.1% in the third quarter.

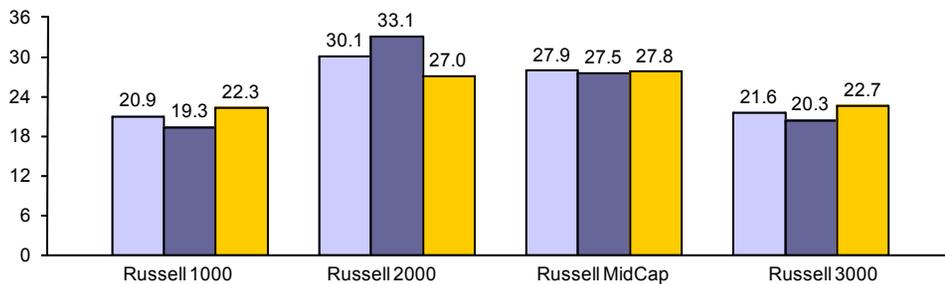
Russell US Style Returns (%) – Quarter



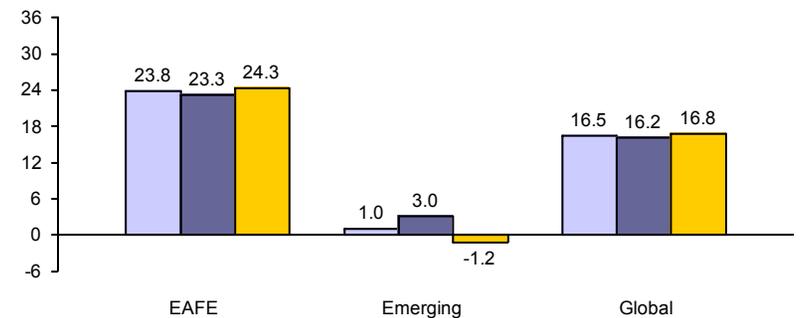
MSCI Non-US Style Returns (%) – Quarter



Russell US Style Returns (%) – 1 Year



MSCI Non-US Style Returns (%) – 1 Year



□ Neutral ■ Growth ■ Value

ENVIRONMENT

State Street Investment Analytics (SSIA)

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OIC Regular Account Performance Report

Net of Fees

Periods Ending September 30, 2013

	3 Year %	5 Year %	7 Year %	10 Year %
Have Returns affected benefit security?				
1. Total Regular Account	10.83	8.06	5.62	8.51
2. Actuarial Discount Rate	8.00	8.00	8.00	8.00
3. Out/Under Performance (1 - 2)	2.83	0.06	(2.38)	0.51
Has plan been rewarded for capital market risk?				
4. Policy Return	11.13	8.21	5.95	8.12
5. Minimum Risk/High Cost Policy of 91-Day T-Bills	0.10	0.17	1.28	1.72
6. Impact of Asset Mix Policy (4 - 5)	11.02	8.05	4.67	6.40
Has plan been rewarded for active management risk?				
7. Net Active Management Effect (1 -4)	(0.30)	(0.15)	(0.33)	0.39

State of Oregon
Total Fund Summary
Quarter Ending September 30, 2013

Total Fund:

The Total Regular Account returned 4.59% in the third quarter of 2013, underperforming the OPERF Policy Benchmark by 18 BP's. For the year ended September 30, 2013 however, the Regular Account gained 13.64%, outperforming the benchmark by 19 BP's. In comparison to the Wilshire TUCS peer group of all *Public Funds > \$1B* (page 15), the Plan landed in the 3rd quartile for the quarter with a 57th percentile ranking, improving into the 2nd quartile with a 35th percentile ranking for the year ended September 30.

Total Plan Attribution Summary:

Total Plan Attribution for the second quarter (page 16) shows the dominant drivers of relative outperformance as Selection to Public Equity (40 BP's) and an under-Weight to Fixed Income (16 Bps), with Selection to Fixed Income coming in a distant 3rd (6 BP's). Ultimately however, relative underperformance would win the quarter by 18 BP's with the dominant detractors being Selection to Private Equity (-27 BP's), an under-Weight to Public Equity (-22 BP's) and an over-Weight to both Private Equity and Short Term dragging an additional 9 BP's each.

Asset Classes:

With a return of 7.70% in the quarter, the Domestic Equity portfolio handily beat out its benchmark, the Russell 3000 Index by 135 BPs, giving it a 38th percentile ranking of the TUCS' *US Equity Pools, Public Funds greater than \$1B* universe. For the trailing twelve months the portfolio fared even better, outperforming the benchmark by 210 BP's with an impressive 23.70% return. The portfolio garnered a 20th percentile peer group ranking for the one year period.

The International Equity portfolio outperformed all other asset classes in the 3rd quarter scoring a solid 10.08% return, yet was outpaced by its benchmark, the MSCI ACWI ex US IMI (net) Index, by 28 BP's. This earned it a 39th percentile ranking against its peers in the TUCS' *International Equity Pools, Public Funds > \$1B* universe. For the year ended September 30 the portfolio remained solidly in double figures, returning 19.27% to better the benchmark by 237 BP's and finished in the 2nd quartile with a 47th percentile ranking in the peer group.

The PERS Total Fixed Income portfolio performed admirably in the quarter with a return of 1.20%, etching out a 19 BP gain relative to the benchmark, the Custom Fixed Income Benchmark (see footnote, Page 13). The performance was good enough to secure a 15th percentile ranking for the portfolio in its peer group, TUCS' *US Fixed Income Pools, Public Funds > \$1B* universe. For the trailing twelve months the portfolio earned a return of 1.43%, topping the benchmark by 78 BP's, and placing it at 18th percentile of its peer group for the period.

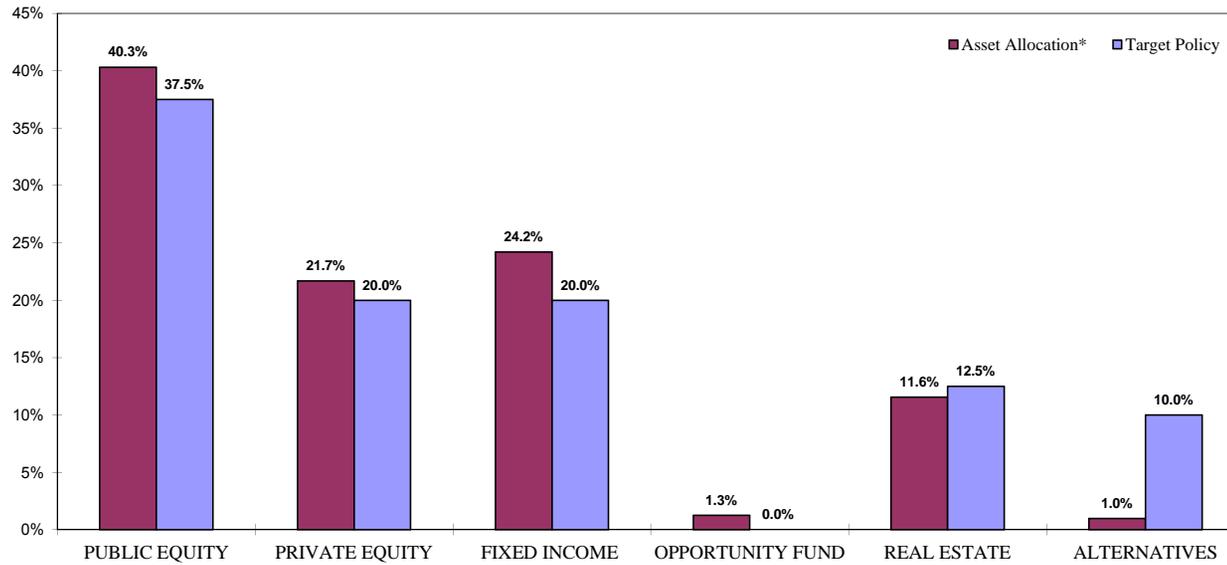
Among the non-marketable holdings, the Private Equity portfolio struggled just a bit on a relative basis earning 2.24% for the quarter, getting outpaced by its public equity benchmark (1 quarter lagged Russell 3000 Index plus 300 BP's), underperforming by 120 BP's. When compared against its peers (TUCS' *Total Private Equity Returns, Public Funds > \$1B universe*), the portfolio placed at the 58th percentile for the quartile. For the year ended September 30 the portfolio returned 14.72%, significantly underperformed the benchmark by a whopping 1032 PB's but still earning a 40th percentile ranking. Meanwhile, the 2.75% third quarter return of the Real Estate portfolio marginally underperformed the benchmark NCREIF Property Index (1-quarter lag) return of 2.87% by 0.12 BP's, placing it in the 25th percentile among its peers in the TUCS' *US Real Estate Investment Pools, Public Funds > \$1B* universe. For the trailing twelve months however, the portfolio rose 14.35% to continue its dominance of the benchmark by 362 BP's and securing the enviable 1st percentile ranking in the peer group.

*TUCS Universe: Public Funds \$1 Billion or Larger (rankings based on gross returns).

*Private Equity returns, other than year end, are reported Net of fees in the TUCS Universe.

State of Oregon
Total Regular Account Asset Allocation
As of September 30, 2013

Asset Allocation (% Percent) vs. Target Policy



WEIGHTS				
	Asset Allocation*	Target Policy	Difference	Median (TUCS) Public Fund > \$1 B Universe
PUBLIC EQUITY	40.3%	37.5%	2.8%	57.1%
PRIVATE EQUITY	21.7%	20.0%	1.7%	9.2%
FIXED INCOME	24.2%	20.0%	4.2%	21.8%
OPPORTUNITY FUND	1.3%	0.0%	1.3%	N/A
REAL ESTATE	11.6%	12.5%	-0.9%	4.0%
ALTERNATIVES	1.0%	10.0%	-9.0%	N/A
CASH	0.0%	0.0%	0.0%	3.4%
TOTAL PLAN	100.0%	100.0%	0.0%	

*Asset class allocations reflect the impact of the overlay program.

State Of Oregon
Total Fund Return Table
Rates Of Return
Periods Ending September 30, 2013

	Market Value \$(M)	Current Quarter	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception to Date	Inception Date
FUNDS										
TOTAL REGULAR ACCOUNT	\$64,449,322	4.59	10.21	13.64	10.83	8.06	5.62	8.51	7.56	07/01/1997
<i>OPERF POLICY BENCHMARK</i>		4.77	10.08	13.45	11.13	8.21	5.95	8.12		
PUBLIC FUNDS > \$1 BILLION RANK*		57	50	35	25	35	26	7		
PUBLIC FUNDS > \$10 BILLION RANK*		55	44	25	22	19	14	5		
TOTAL DOMESTIC EQUITY	\$12,073,923	7.70	23.12	23.70	16.90	11.15	6.15	8.32	10.16	04/01/1971
<i>RUSSELL 3000</i>		6.35	21.30	21.60	16.76	10.58	6.08	8.11		
US EQUITY POOLS, PUBLIC FUNDS > \$1B RANK*		38	27	20	21	21	37	30		
TOTAL INTERNATIONAL EQUITY	\$12,776,982	10.08	12.35	19.27	7.62	8.21	4.53	10.11	11.00	04/01/1985
<i>OREGON MSCI ACWI EX US IMI NET</i>		10.37	10.57	16.91	6.11	6.82	3.46	9.22		
INT'L EQUITY POOLS, PUBLIC FUNDS > \$1B RANK*		39	50	47	40	17	21	18		
TOTAL GLOBAL EQUITY	\$827,282	9.88	22.96	31.62	9.16	5.86			-0.23	03/01/2007
<i>OREGON MSCI ACWI VALUE NET INDEX</i>		7.15	14.23	18.37	9.63	7.08				
TOTAL FIXED INCOME	\$14,164,946	1.20	-0.04	1.43	5.63	9.04	6.64	6.20	8.23	01/01/1988
<i>CUSTOM FIXED INCOME BENCHMARK¹</i>		1.00	-0.62	0.65	3.97	6.17	5.49	5.04		
US FIXED INCOME POOLS, PUBLIC FUNDS > \$1B RANK*		15	21	18	18	15	13	12		
TOTAL REAL ESTATE ²	\$7,462,242	2.75	10.13	14.35	14.15	2.27	3.56	10.15	10.14	12/01/1996
<i>NCREIF PROPERTY ONE QTR LAG</i>		2.87	8.20	10.73	13.14	2.79	5.65	8.59		
US REAL ESTATE POOLS, PUBLIC FUNDS > \$1B RANK*		25	12	1	25	31	15	1		
TOTAL PRIVATE EQUITY ³	\$14,000,802	2.24	10.28	14.72	13.85	7.47	8.99	14.75	11.06	07/01/1997
<i>RUSSELL 3000 + 300 BPS QTR LAG</i>		3.44	16.87	25.05	22.14	11.17	9.57	11.67		
TOTAL PRIVATE EQUITY, PUBLIC FUNDS > \$1B RANK*		58	37	40	20	31	37	25		
TOTAL OPPORTUNITY PORTFOLIO	\$811,321	2.09	10.85	15.30	12.54	9.29	6.88		6.80	09/01/2006
<i>RUSSELL 3000</i>		6.35	21.30	21.60	16.76	10.58				
<i>CPI + 5%</i>		1.51	5.77	6.24	7.45	6.44				
ALTERNATIVES PORTFOLIO	\$628,177	1.30	4.44	5.43					2.30	07/01/2011
<i>CPI + 4%</i>		0.00	0.00	0.00						
OST SHORT TERM FUND - PERS	\$1,249,618	0.25	0.49	0.66	0.79	1.50	1.92	2.20	3.89	12/01/1989
<i>91 DAY T-BILL</i>		0.02	0.06	0.10	0.10	0.17	1.28	1.72		

¹Prior to 2/28/2011, Index is Oregon Custom FI 90/10 Benchmark (90% BC U.S. Universal/10% SSBI Non-US World Govt. Bond Hedged Index). From 3/1/2011 to current, Index is Oregon Custom FI Benchmark (60% BC US Universal Index, 20% S&P/LSTA Leveraged Loan Index, 10% JMP EMBI Global Index, and 10% BofA ML High Yield Master II Index).

²Publicly traded real estate securities are current quarter; all others are 1 quarter lagged

³Private Equity returns lagged one quarter

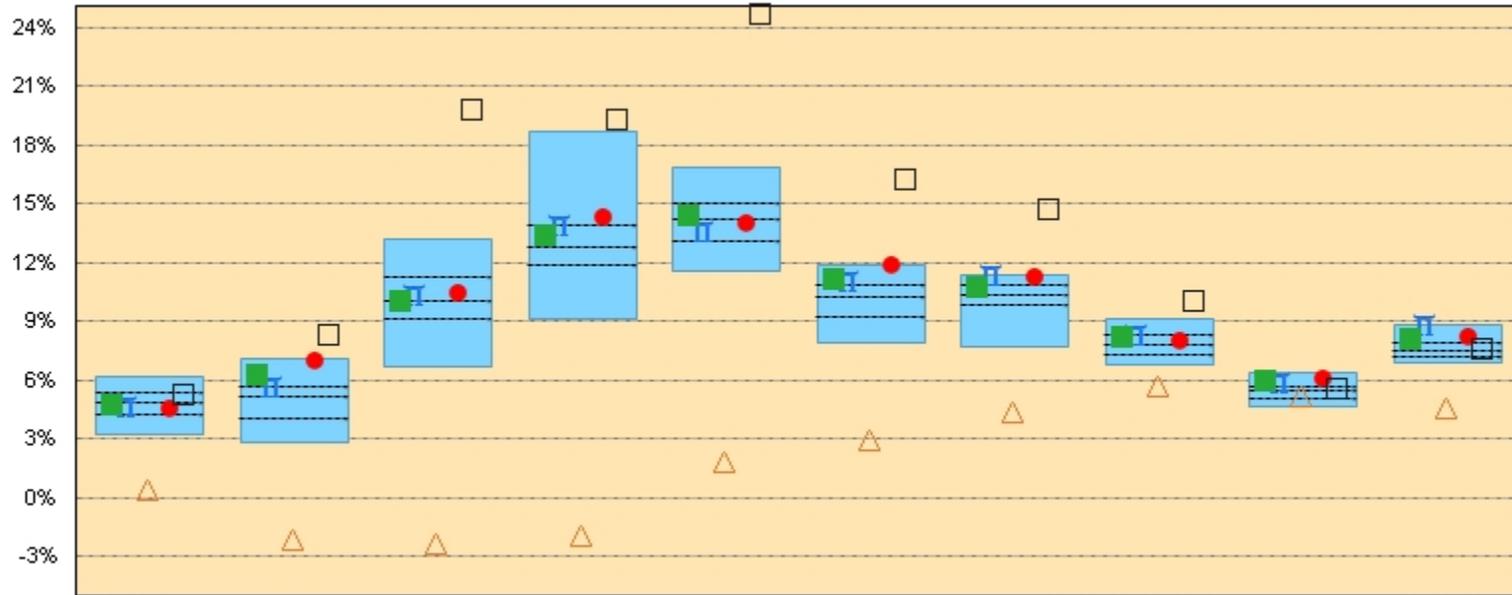
*Ranking source: TUCS Universe, based on gross returns

Private Equity returns, other than year end, are reported Net of fees in the TUCS Universe

Assets not listed above include a total of \$454,013 invested in the Overlay, Total Closed Global Equity, Transition Account, Transitional Managers, and Shott Capital.

State of Oregon Performance Comparison

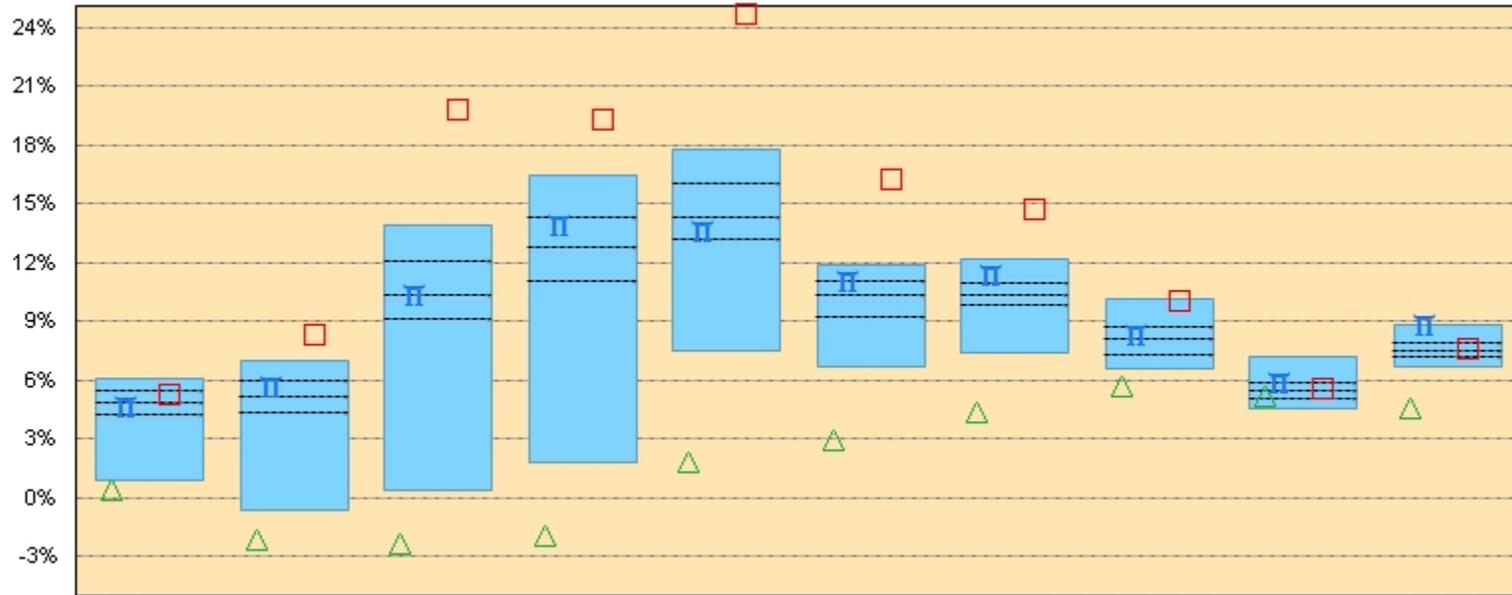
Total Returns of Master Trusts - Public : Plans > \$10 Billion
Cumulative Periods Ending : September 30, 2013



Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	6.22	7.06	13.24	18.72	16.82	11.84	11.42	9.09	6.44	8.79
25th	5.40	5.68	11.27	13.89	15.02	10.90	10.87	8.30	5.72	7.90
50th	4.88	5.17	10.10	12.77	14.27	10.24	10.34	7.86	5.45	7.54
75th	4.28	4.08	9.16	11.87	13.12	9.24	9.85	7.30	5.09	7.22
95th	3.22	2.85	6.69	9.13	11.54	7.87	7.74	6.80	4.63	6.85
No. Of Obs	38	38	38	38	37	35	34	33	33	32
Total Regular Account	4.65 (55)	5.68 (25)	10.39 (44)	13.89 (25)	13.56 (72)	11.10 (22)	11.33 (11)	8.34 (19)	5.88 (14)	8.79 (5)
Actual Allocation Retu	4.58 (58)	7.03 (8)	10.50 (38)	14.31 (15)	14.01 (58)	11.84 (5)	11.28 (11)	8.05 (40)	6.11 (11)	8.21 (12)
OPERF Policy Benchmark	4.77 (52)	6.29 (15)	10.08 (50)	13.45 (30)	14.42 (44)	11.13 (19)	10.80 (25)	8.21 (34)	5.95 (11)	8.12 (15)
S&P 500	5.25 (38)	8.32 (1)	19.81 (1)	19.35 (1)	24.65 (1)	16.26 (1)	14.70 (1)	10.01 (1)	5.60 (31)	7.57 (43)
Barclays Govt/Credit	0.36 (100)	-2.16 (100)	-2.32 (100)	-1.96 (100)	1.78 (100)	2.89 (100)	4.32 (100)	5.71 (100)	5.14 (68)	4.52 (100)

State of Oregon Performance Comparison

Total Returns of Master Trusts - Public : Plans > \$1 Billion
Cumulative Periods Ending : September 30, 2013



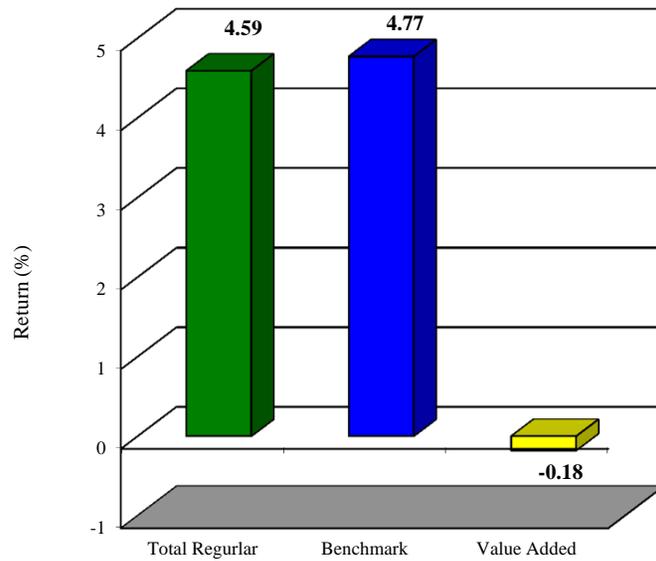
Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	6.12	7.05	13.91	16.46	17.83	11.85	12.20	10.19	7.17	8.85
25th	5.43	5.97	12.13	14.36	16.01	11.10	10.93	8.69	5.89	7.90
50th	4.88	5.14	10.39	12.78	14.32	10.31	10.40	8.10	5.48	7.51
75th	4.24	4.39	9.16	11.03	13.19	9.23	9.85	7.32	5.11	7.17
95th	0.89	-0.64	0.34	1.78	7.48	6.68	7.43	6.61	4.59	6.66
No. Of Obs	68	67	67	67	65	60	57	56	55	51
■ Total Regular Account	4.65 (57)	5.68 (32)	10.39 (50)	13.89 (35)	13.56 (71)	11.10 (25)	11.33 (13)	8.34 (35)	5.88 (26)	8.79 (7)
■ S&P 500	5.25 (42)	8.32 (1)	19.81 (1)	19.35 (1)	24.65 (1)	16.26 (1)	14.70 (1)	10.01 (5)	5.60 (41)	7.57 (44)
▲ Barclays Govt/Credit	0.36 (99)	-2.16 (100)	-2.32 (100)	-1.96 (100)	1.78 (100)	2.89 (100)	4.32 (99)	5.71 (97)	5.14 (71)	4.52 (99)

Total Plan Attribution

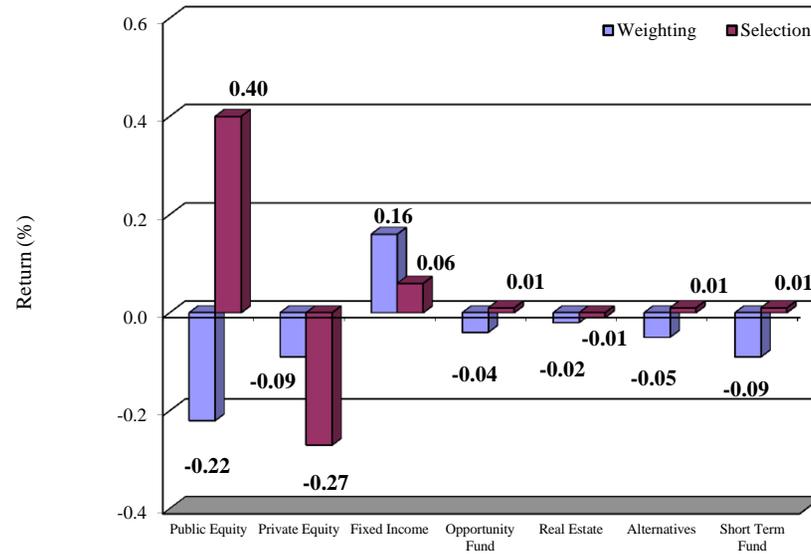
Regular Account

June 30, 2013 - September 30, 2013

Return vs. Benchmark



Value Added Attribution



	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
Public Equity	38.06	46.00	-7.94	8.98	7.90	1.08	-0.22	0.40	
Private Equity	22.66	16.00	6.66	2.24	3.44	-1.20	-0.09	-0.27	
Fixed Income	22.71	27.00	-4.29	1.29	1.00	0.29	0.16	0.06	
Opportunity Fund	1.32	0.00	1.32	2.09	1.51	0.58	-0.04	0.01	
Real Estate	12.09	11.00	1.09	2.75	2.87	-0.12	-0.02	-0.01	
Alternatives	0.99	0.00	0.99	1.30	1.27	0.03	-0.05	0.01	
Short Term Fund	2.17	0.00	2.17	0.35	0.02	0.33	-0.09	0.01	
Total Regular Account	100.00	100.00	0.00	4.59	4.77	-0.18	-0.36	0.21	-0.02

* Weights of Portfolios based on beginning of period valuations.

** Weights of Benchmarks based on Average weights over entire period.

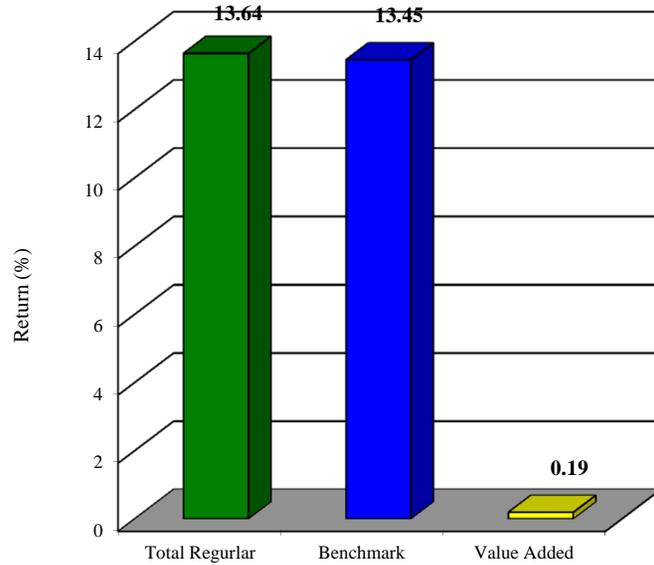
*** Asset Class Returns reflect the impact of the overlay program.

Total Plan Attribution

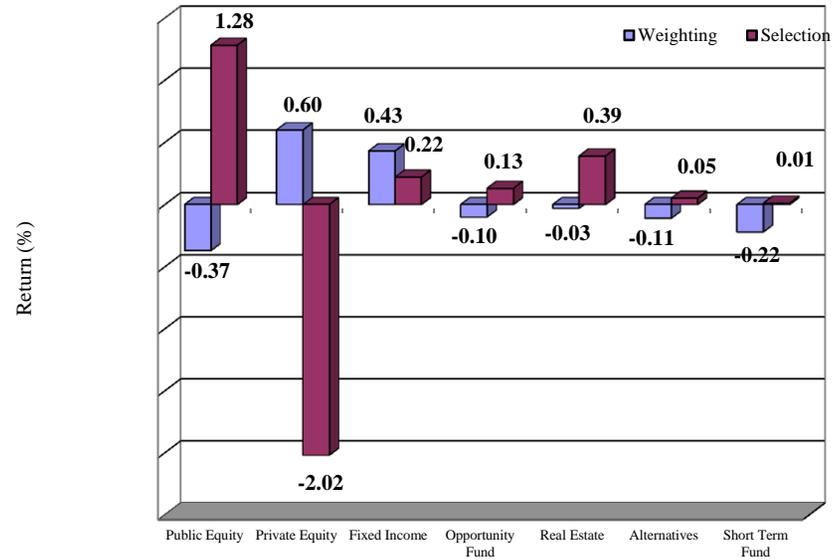
Regular Account

September 30, 2012 - September 30, 2013

Return vs. Benchmark



Value Added Attribution



	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
Public Equity	36.54	46.00	-9.46	21.76	17.73	4.03	-0.37	1.28	
Private Equity	24.25	16.00	8.25	14.72	25.05	-10.33	0.60	-2.02	
Fixed Income	23.97	27.00	-3.03	1.62	0.65	0.97	0.43	0.22	
Opportunity Fund	1.58	0.00	1.58	15.30	6.24	9.06	-0.10	0.13	
Real Estate	11.81	11.00	0.81	14.35	10.73	3.62	-0.03	0.39	
Alternatives	0.69	0.00	0.69	5.43	5.23	0.20	-0.11	0.05	
Short Term Fund	1.17	0.00	1.17	0.87	0.10	0.77	-0.22	0.01	
Total Regular Account	100.00	100.00	0.00	13.64	13.45	0.19	0.20	0.03	-0.06

* Weights of Portfolios based on beginning of period valuations.

** Weights of Benchmarks based on Average weights over entire period.

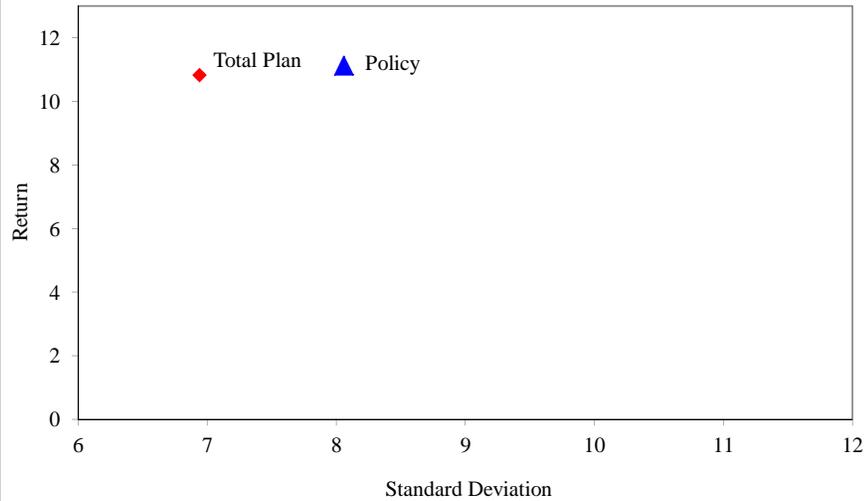
*** Asset Class Returns reflect the impact of the overlay program.

Total Regular Account

Total Risk vs. Return (OPERF Policy)

As of September 30, 2013

3 Year Risk Analysis



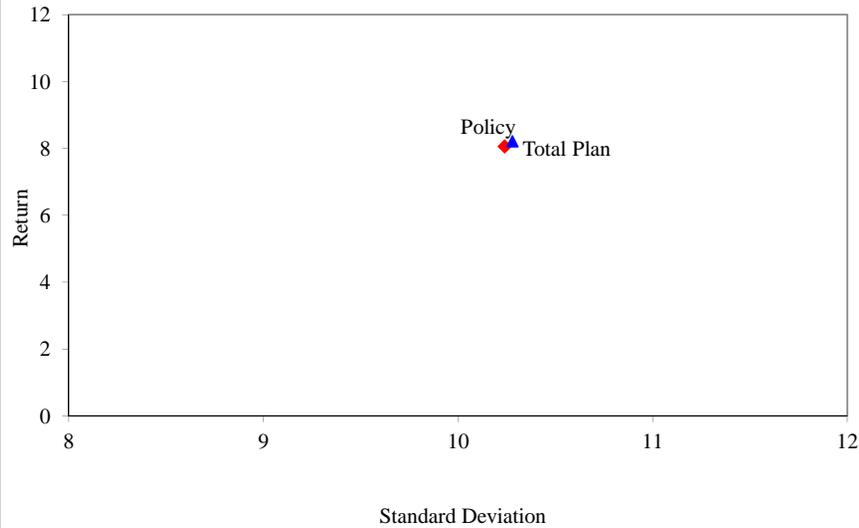
Risk Information

Portfolio Return	10.83
Benchmark Return	11.13
Return Difference	-0.30
Portfolio Standard Deviation	6.94
Benchmark Standard Deviation	8.06
Tracking Error	1.64

Risk Statistics

Historic Beta	0.85
R-Squared	0.97
Jensens Alpha	1.35
Sharpe Ratio	1.54
Treynor Ratio	12.61
Information Ratio	-0.18

5 Year Risk Analysis



Risk Information

Portfolio Return	8.06
Benchmark Return	8.21
Return Difference	-0.15
Portfolio Standard Deviation	10.24
Benchmark Standard Deviation	10.28
Tracking Error	2.47

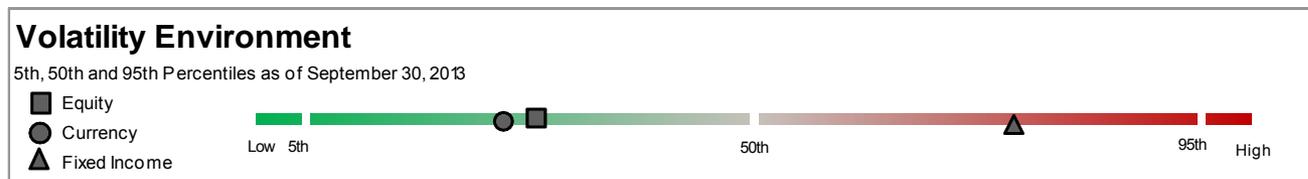
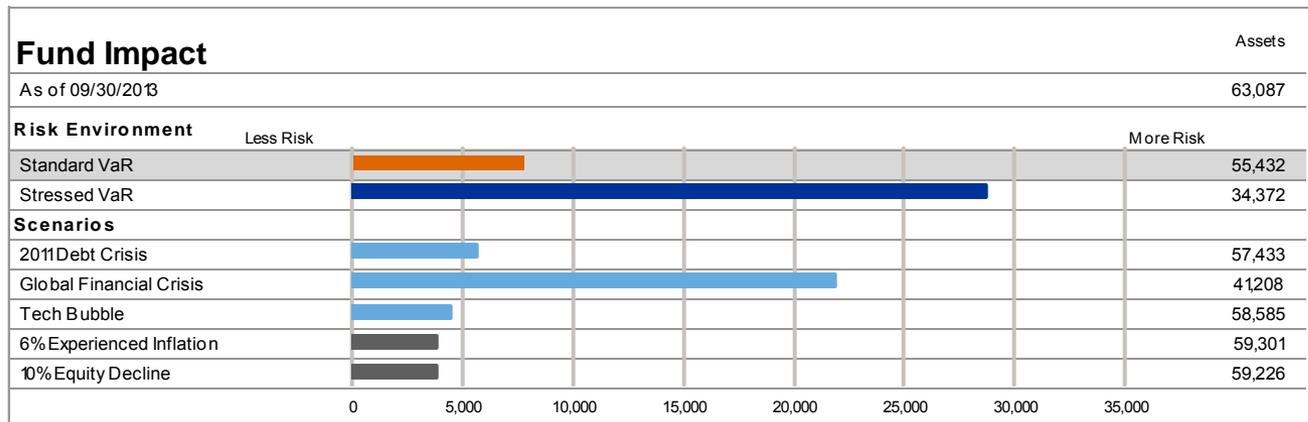
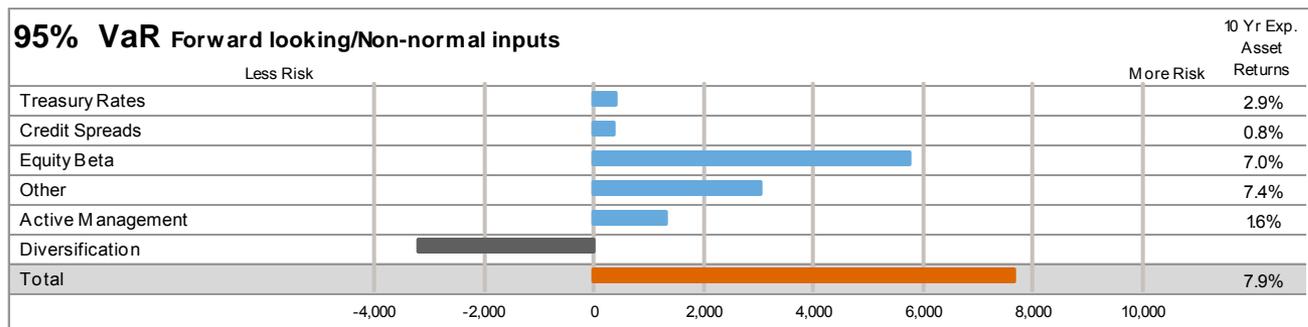
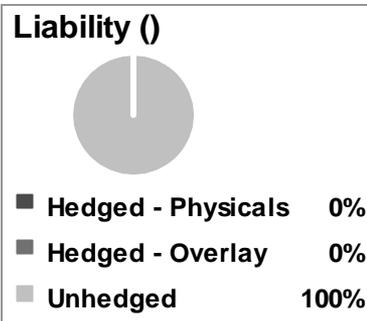
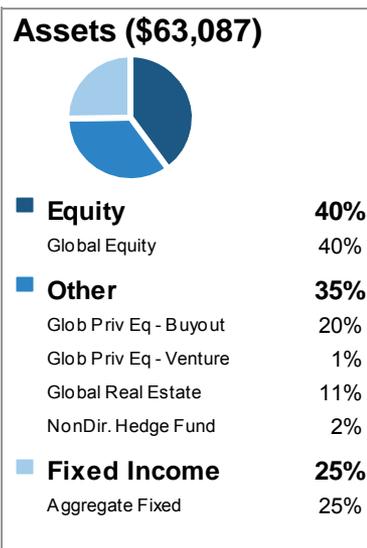
Risk Statistics

Historic Beta	0.97
R-Squared	0.94
Jensens Alpha	0.11
Sharpe Ratio	0.77
Treynor Ratio	8.16
Information Ratio	-0.06

Asset Only Summary Risk Analysis

Oregon

As of September 30, 2013



Sources: The above analysis is based primarily on Russell's Capital Markets Forecasts and data from Bloomberg and FactSet. Please see Important Information at the end of this report for additional details on the analysis provided.

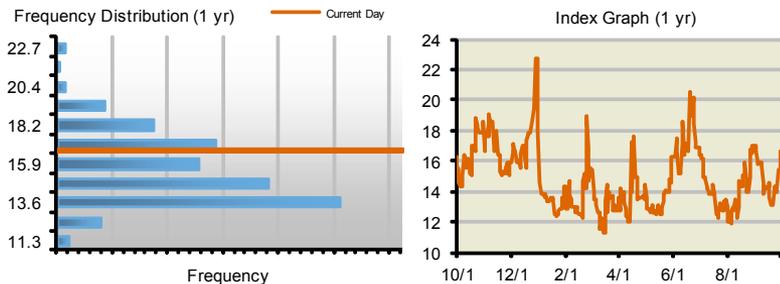
Current Risk Environment

as of 30-Sep-2013

Equity Volatility

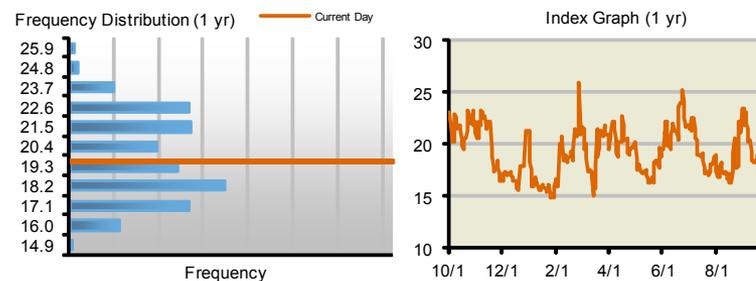
SPX Volatility

Current	1 Day	1 Week	1 Month	1 Year
16.60	7.4%	16.0%	-2.4%	11.7%



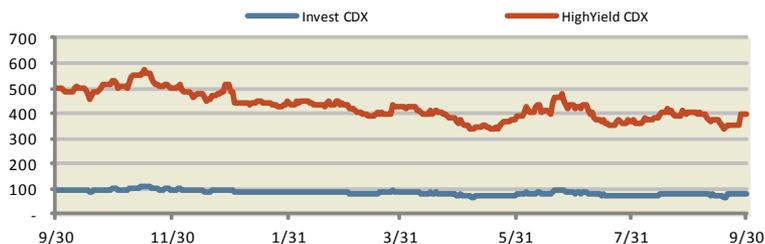
EuroStoxx Volatility

Current	1 Day	1 Week	1 Month	1 Year
19.45	15.0%	11.4%	-17.2%	1.0%

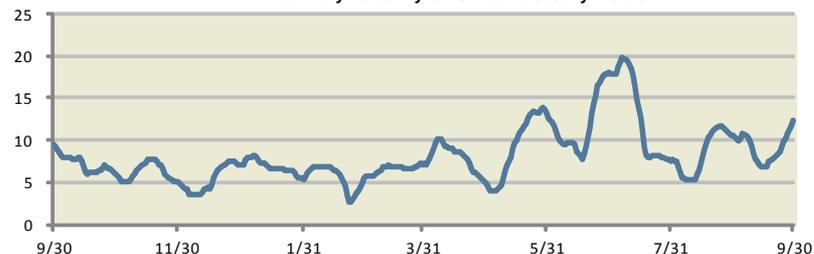


Fixed Income Spreads

Investment Grade and High Yield (spreads)

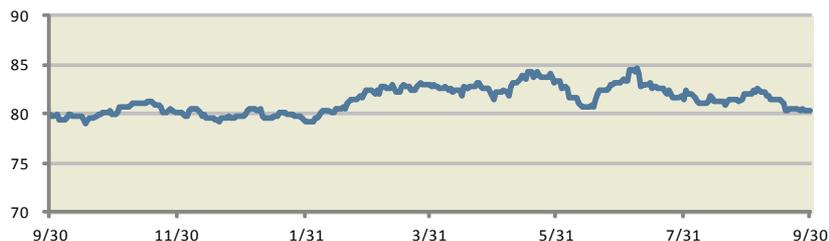


Monthly Volatility of 10-Year Treasury Yields

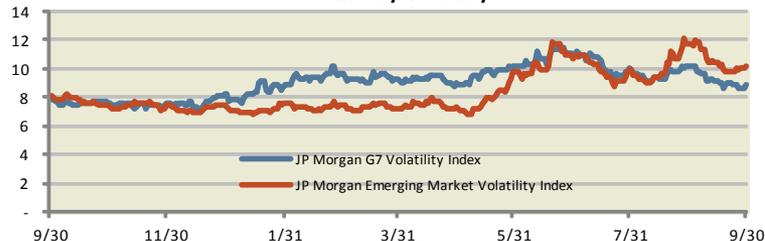


Currency Risk

Dollar Index



Currency Volatility



Sources: The above analysis is based on data provided by Russell and ²⁰Bloomberg.
Please see Important Information at the end of this report for additional details on the analysis provided.

Important Information

- All values are estimates and should not be relied upon for any regulatory or financial filing.
 - Asset values are based on actual market values where available, and are otherwise estimated.
 - The alpha and tracking error assumptions used in this analysis are based on published expectations for the Russell funds in the portfolio. For investments outside of Russell funds, estimates are based on the Russell alpha assumptions for the asset class/strategy or they have been provided by the client.
- Value at Risk (VaR) calculation and decomposition is calculated following industry standards.
 - 95% VaR represents the 1 in 20 downside Value at Risk on a forward-looking, one-year basis.
 - 95% VaR calculations are based on return, standard deviations, and correlations which are generated from a non-normal asset class return distributions with fat tails as represented by Russell's capital market forecasts.
 - VaR is calculated independently for individual components, with a diversification component balancing to total VaR.
 - Active management is defined as the difference between the actual allocation and policy weights, combined with alpha and tracking error expectations for active managers.
- 10-Year Expected Return is the expected return for each asset component (Russell's capital market forecasts).
- The Stressed VaR scenario ("2XVol/ $\rho=1.0$ ") assumes standard deviations are 2 times Russell's current forecast. Correlations between asset classes are assumed to be 1.0.
- Scenario calculations are based on actual events defined as follows: Tech Bubble (March 24, 2000 through April 4, 2001), Global Financial Crisis (June 8, 2008 through March 9, 2009), 2011 Debt Crisis (April 11, 2011 through October 3, 2011).
- The volatility environment is represented as follows:
 - Equities – The average value of the VIX index over the previous month plotted against its historical range (January 1990 to present).
 - Fixed Income – The standard deviation of the yield on the 10-yr US Treasury over the previous month plotted against its historic range (January 1990 to present).
 - Currency – The average standard deviation of the JP Morgan G7 Currency Volatility Index over the previous month plotted against its historic range (June 1992 to present).

V2.2.0017

Important Information

Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

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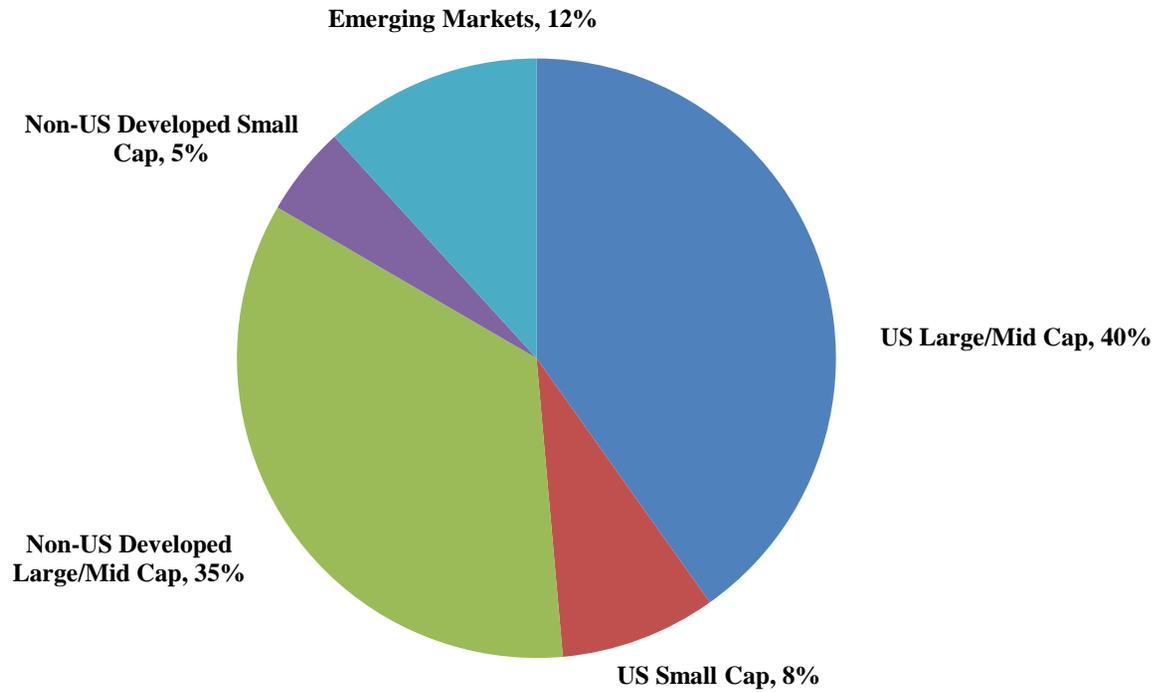
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USI-12545-12-13

State of Oregon

Public Equity Regional Allocation*

As of September 30, 2013



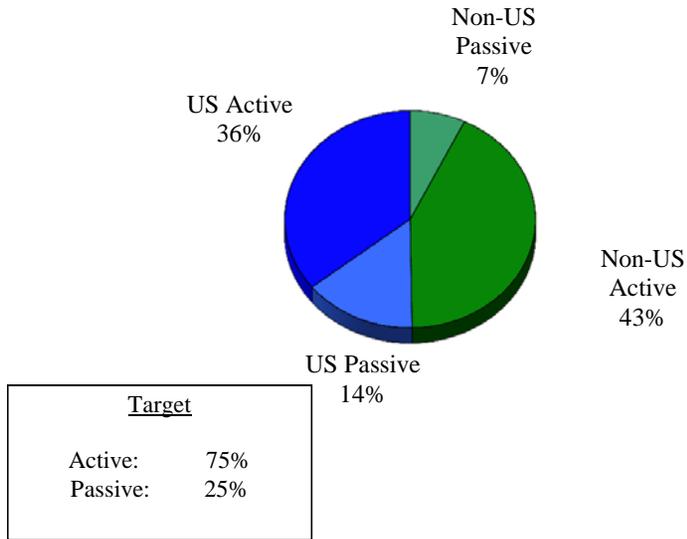
<u>Target</u>	
US Large/Mid:	41%
US Small:	7%
Non-US Developed Large/Mid:	36%
Non-US Developed Small:	5%
Emerging Markets:	11%

* Based on SIS's analysis of historical manager holdings for market capitalization and style characteristics.

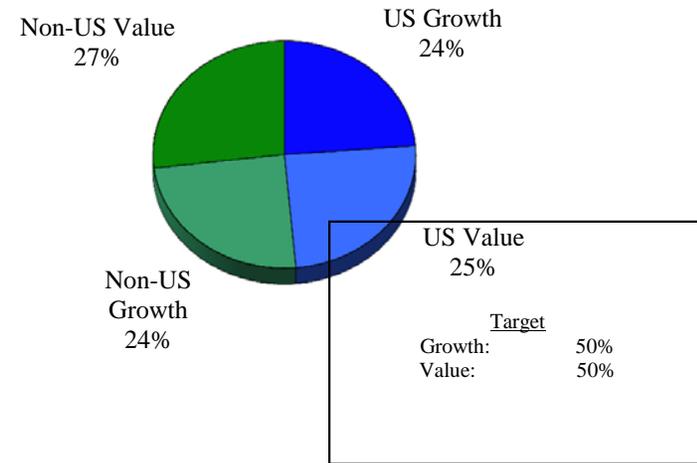
State of Oregon

Public Sector Manager Allocation as of September 30, 2013

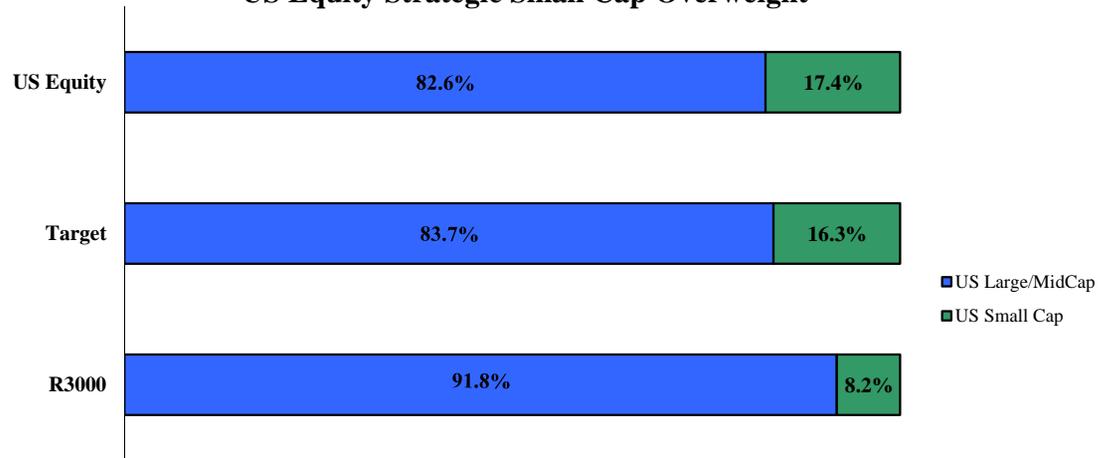
Active vs. Passive



Value vs. Growth



US Equity Strategic Small Cap Overweight



Target: 100% Overweight of Russell 2000 as a Percent of Russell 3000

Figures May not sum to 100% due to rounding.

Total Public Equity
Individual Manager Allocations
As of September 30, 2013

Manager	Market Value (\$M)	Current % of Equities
Total Domestic Equity		
U.S. Large Cap:	9,428,472	36.7%
Aronson+Johnson+Ortiz	967,673	3.8%
BGI Russell 1000 Growth	1,083,858	4.2%
BGI Russell 1000 Value	709,775	2.8%
Delaware	614,373	2.4%
MFS	959,082	3.7%
Northern Trust	733,797	2.9%
PIMCO	658,388	2.6%
Russell Fundamental	745,937	2.9%
Pyramis US Core	392,465	1.5%
S&P 400 Index	309,518	1.2%
S&P 500 Index	1,421,248	5.5%
Wells Capital Select	832,359	3.2%

U.S. Small and SMID Cap:	2,645,449	10.3%
AQR	223,860	0.9%
Boston Company	259,619	1.0%
Callan	110,695	0.4%
DFA microcap value	173,053	0.7%
Eudaimonia	147,687	0.6%
Next Century Micro	173,636	0.7%
Next Century Small	149,196	0.6%
R2000 Synthetic	201,200	0.8%
Wanger	808,783	3.1%
Wellington	397,720	1.5%

Passive	5,556,366	21.6%
Active	20,121,796	78.4%

Total Equities	25,678,163	100.0%
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Manager	Market Value (\$M)	Current % of Equities
Total Non-US Equity		
Non-U.S. Large Cap:	9,932,245	38.7%
Acadian	847,100	3.3%
AQR (Non-US LC)	1,004,268	3.9%
Arrowstreet	1,271,008	4.9%
Brandes	827,694	3.2%
Lazard	898,331	3.5%
Lazard CEF	307,115	1.2%
Northern Trust (Non-US)	273,409	1.1%
Pyramis Global Advisors	1,109,431	4.3%
SSgA	1,830,768	7.1%
TT International	634,597	2.5%
UBS	314	0.0%
Walter Scott	720,191	2.8%
Wells Cap Int'l CEF	208,018	0.8%

Non-U.S. Small Cap:	1,082,530	4.2%
DFA	265,247	1.0%
Harris	271,018	1.1%
Pyramis Select (Non-US Smcap)	335,900	1.3%
Victory	210,366	0.8%

Emerging Markets:	1,762,184	6.9%
Arrowstreet (EM)	446,394	1.7%
Blackrock TEMs	219,129	0.9%
DFA SC	117,940	0.5%
Genesis	636,162	2.5%
Westwood	149,757	0.6%
William Blair	192,802	0.8%

Global:	827,282	3.2%
AllianceBernstein GSV	827,282	3.2%

State of Oregon

Total Active Domestic Equity Characteristics Summary Third Quarter 2013

Top 10 Holdings

	Mkt. Value (\$M)	% of Portfolio
EXXON MOBIL CORP	105,040	1.3
APPLE INC	69,330	0.8
EBAY INC	47,660	0.6
JPMORGAN CHASE + CO	98,540	1.2
GOOGLE INC CL A	75,280	0.9
CELGENE CORP	64,870	0.8
CROWN CASTLE INTL CORP	52,850	0.6
CHEVRON CORP	68,180	0.8
INTERCONTINENTALEXCHANGE W/I	48,320	0.6
MASTERCARD INC CLASS A	73,420	0.9

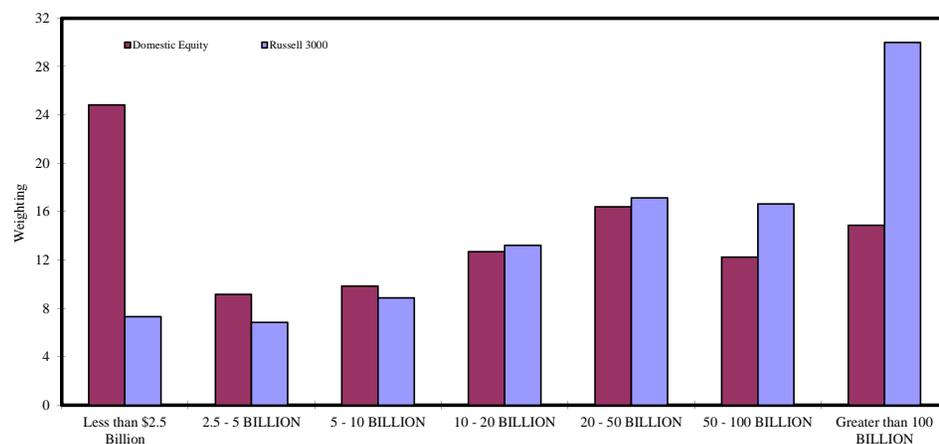
Characteristics

	Domestic Equity	Russell 3000
P/E Ratio	21.8	18.3
P/B Ratio	4.5	4.1
5 Year EPS Growth (%)	16.6	12.8
Market Cap - cap wtd (\$MM)	49.2	85.4
Dividend Yield (%)	1.3	2.0

Risk Statistics

	3 Year	5 Year
Portfolio Return	16.95	11.28
Benchmark Return	16.76	10.58
Portfolio Standard Deviation	14.25	19.92
Benchmark Standard Deviation	13.03	18.82
Tracking Error	1.95	2.26
Historic Beta	1.09	1.05
R-Squared	0.99	0.99
Jensen's Alpha	-1.26	0.16
Sharpe Ratio	1.18	0.56
Information Ratio	0.09	0.31

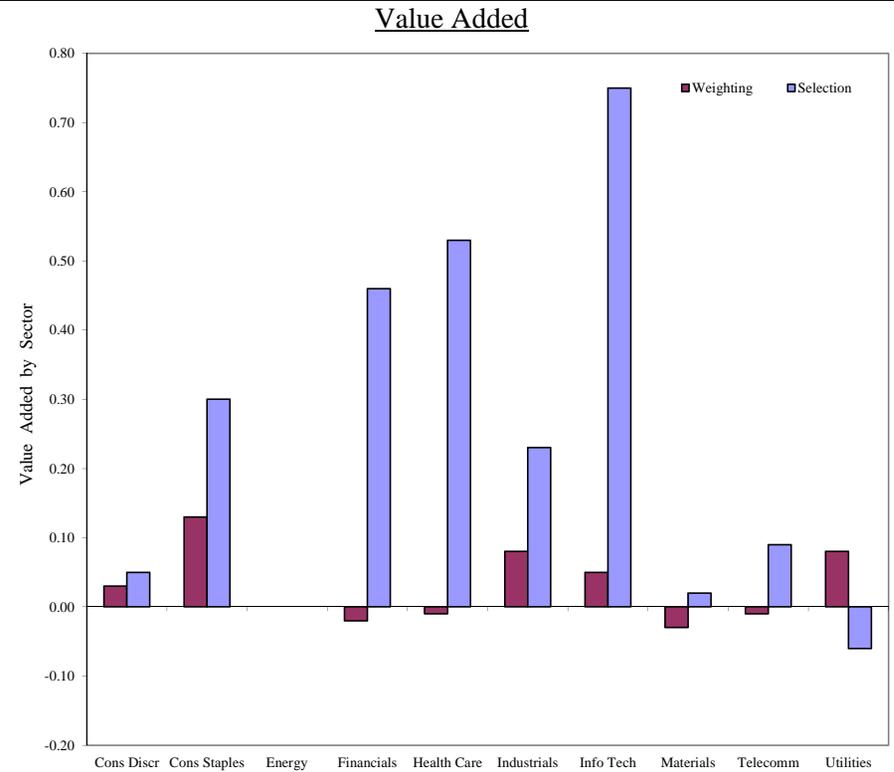
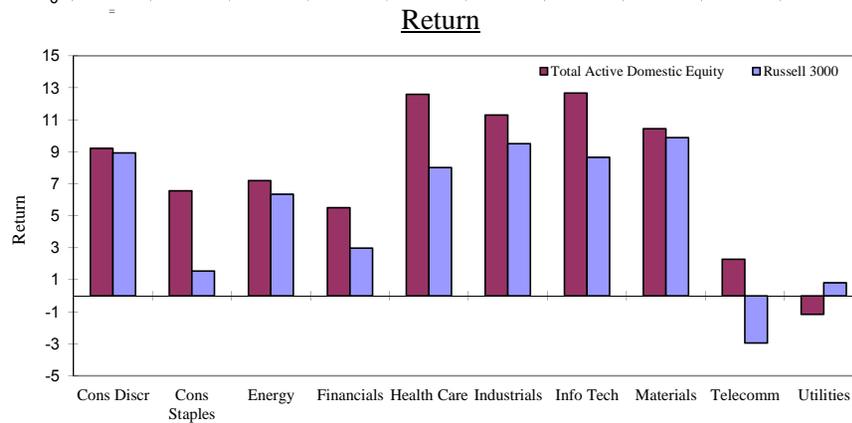
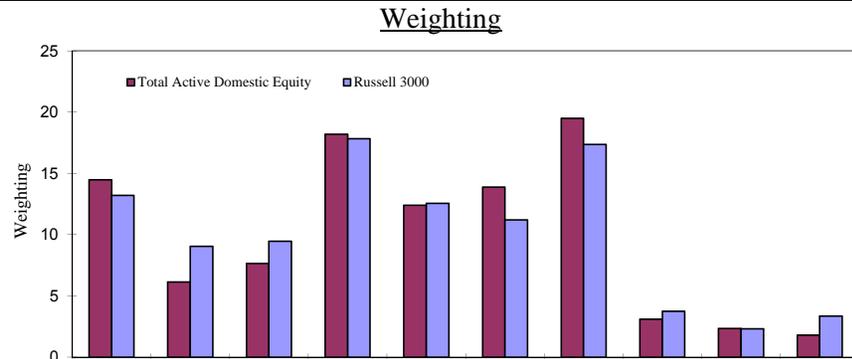
Market Capitalization



Market Capitalization

	Domestic Equity	Russell 3000
Less than \$2.5 Billion	24.8	7.3
2.5 - 5 BILLION	9.2	6.8
5 - 10 BILLION	9.8	8.9
10 - 20 BILLION	12.7	13.2
20 - 50 BILLION	16.4	17.1
50 - 100 BILLION	12.2	16.6
Greater than 100 BILLION	14.9	30.0

State of Oregon
Total Active Domestic Equity Sector Attribution
Third Quarter 2013



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Active Dom Equity*	Russell 3000	Difference	Total Active Dom Equity	Russell 3000	Difference	Allocation	Selection	Timing
Consumer Discretionary	14.5	13.2	1.3	9.2	8.9	0.3	0.0	0.1	
Consumer Staples	6.1	9.0	-2.9	6.6	1.5	4.9	0.1	0.3	
Energy	7.6	9.5	-1.8	7.2	6.3	0.8	0.0	0.0	
Financials	18.2	17.8	0.4	5.5	3.0	2.5	0.0	0.5	
Health Care	12.4	12.5	-0.1	12.6	8.0	4.2	0.0	0.5	
Industrials	13.9	11.2	2.7	11.3	9.5	1.6	0.1	0.2	
Info Technology	19.5	17.4	2.1	12.7	8.7	3.7	0.1	0.8	
Materials	3.1	3.7	-0.6	10.4	9.9	0.5	0.0	0.0	
Telecommunication	2.3	2.3	0.0	2.3	-3.0	5.4	0.0	0.1	
Utilities	1.8	3.3	-1.5	-1.2	0.8	-1.9	0.1	-0.1	
Total Fund	100.0	100.0	0.0	9.3	6.4	2.8	0.3	2.5	0.0

Note: Attribution is based on the invested portfolio's gross performance returns at the security level. Weighting is based on beginning of period holdings.

*Excludes 1.3% in Cash Equivalent, Commingled Funds, Private Placement, Real Estate, & Rights/Warrants investments.

State of Oregon

International Equity Attribution Summary

Third Quarter 2013

Top Ten Holdings

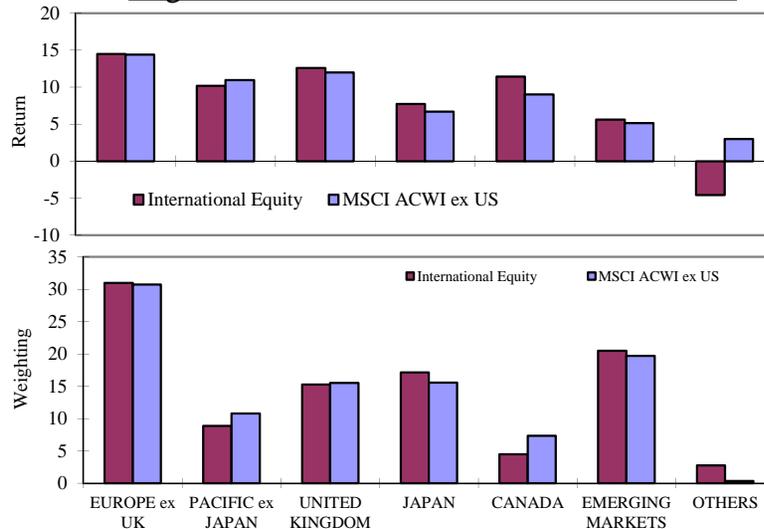
	Mkt. Value (\$M)	% of Portfolio
ROCHE HOLDING AG GENUSSCHEIN	106,460	0.9
SAMSUNG ELECTRONICS CO LTD	98,630	0.8
NOVARTIS AG REG	89,260	0.7
SANOFI	88,360	0.7
TOYOTA MOTOR CORP	87,600	0.7
NESTLE SA REG	68,950	0.6
BAYER AG REG	65,870	0.5
TOTAL SA	61,550	0.5
GLAXOSMITHKLINE PLC	53,970	0.4
BP PLC	49,130	0.4

*Excludes holdings of funds or ETF's

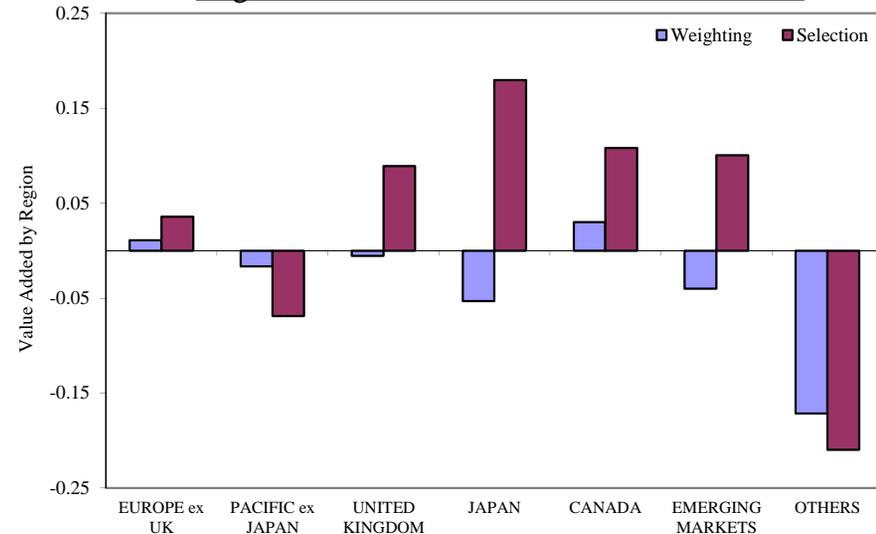
Market Capitalization

	International Equity	MSCI AC WORLD ex US
Less than 2.5 BILLION	15.5	1.8
2.5 - 5 BILLION	10.0	6.1
5 - 10 BILLION	12.4	13.1
10 - 20 BILLION	15.6	17.2
20 - 50 BILLION	20.1	25.6
50 - 100 BILLION	14.6	20.8
Greater than 100 BILLION	11.8	15.4

Regional Attribution vs. MSCI ACWI ex US



Regional Attribution vs. MSCI ACWI ex US



Note: Attribution is based on the invested portfolio's gross performance returns at the security level. Weighting is based on beginning of period holdings.

State of Oregon

International Equity Attribution Summary

Third Quarter 2013

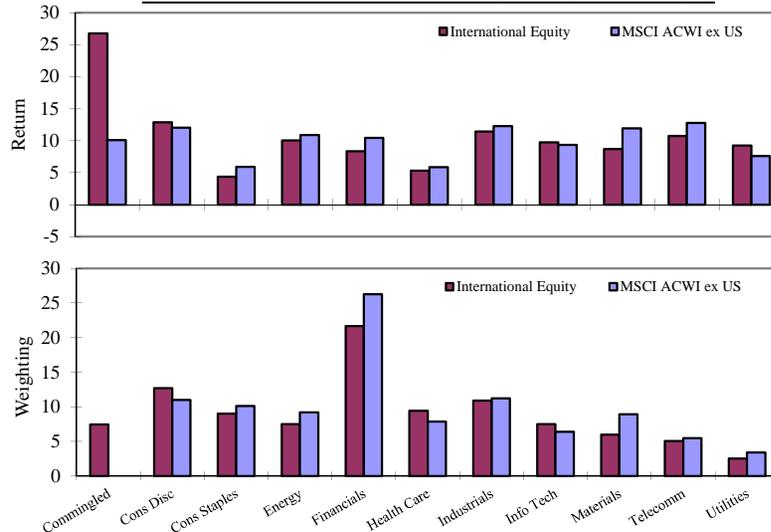
Risk Statistics

	3 Year	5 Year
Portfolio Return	7.62	8.21
Benchmark Return	6.11	6.82
Portfolio Standard Deviation	17.07	22.08
Benchmark Standard Deviation	17.22	22.76
Tracking Error	1.05	1.49
Historic Beta	0.99	0.97
R-Squared	1.00	1.00
Jensen's Alpha	1.58	1.60
Sharpe Ratio	0.44	0.36
Information Ratio	1.44	0.93

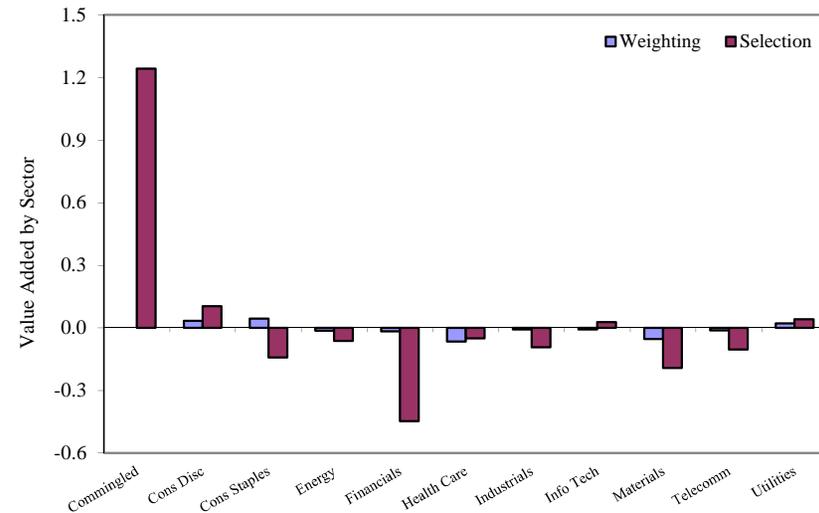
Characteristics

	International Equity	MSCI AC WORLD ex US
P/E Ratio	14.9	15.4
P/B Ratio	2.8	2.8
5 Year EPS Growth (%)	8.1	7.6
Market Cap - cap weighted (\$B)	40.8	52.9
Dividend Yield (%)	2.7	3.1

Sector Attribution vs. MSCI ACWI ex US



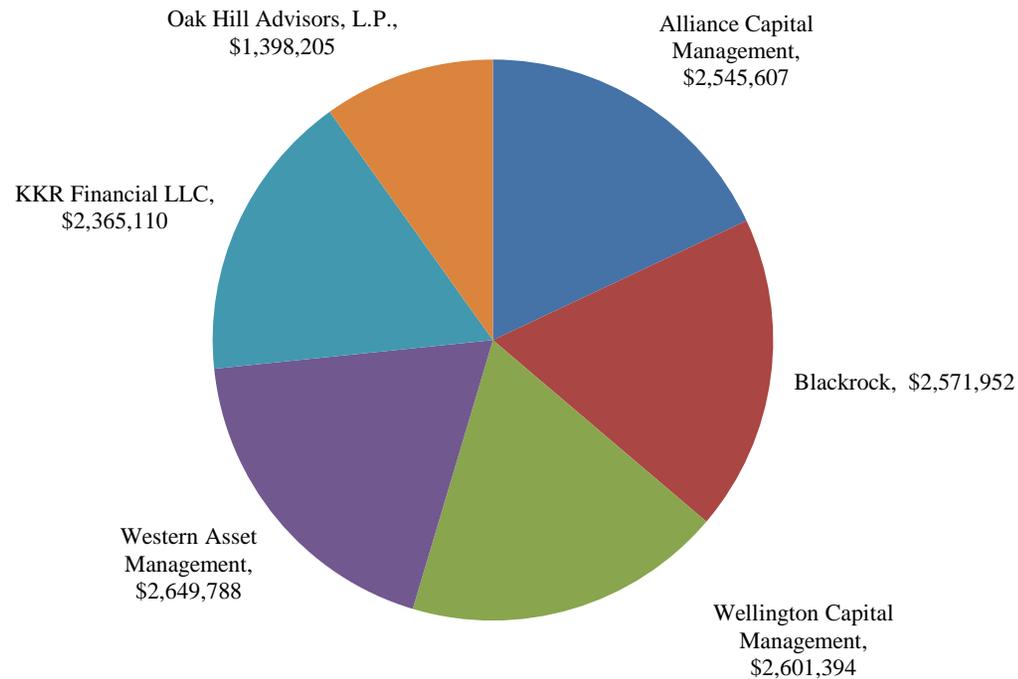
Sector Attribution vs. MSCI ACWI ex US



Note: All risk statistics are based on net performance returns and attribution is based on gross performance returns at the security level. Weighting is based on beginning of period holdings.

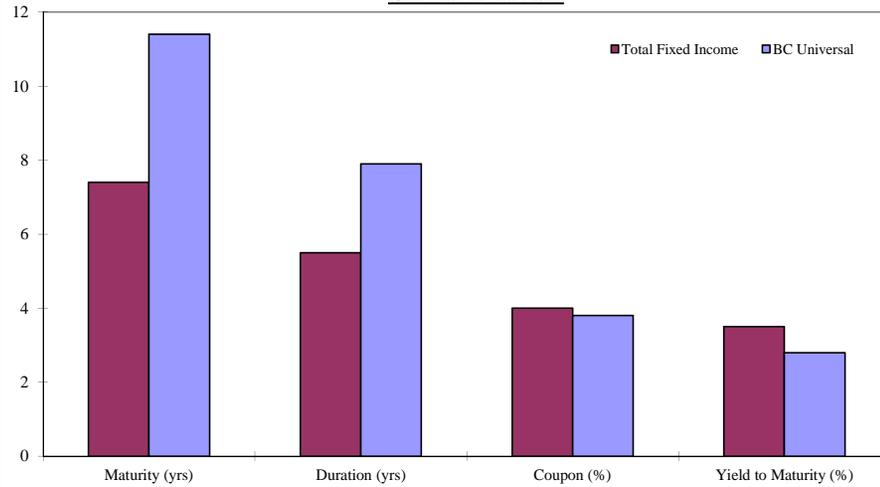
Total Fixed Income
Individual Manager Allocation
As of September 30, 2013

<u>Portfolio</u>	<u>\$M</u>	<u>% Allocation</u>
External Fixed Income		
Alliance Capital Management	\$ 2,545,607	18.0%
Blackrock	\$ 2,571,952	18.2%
Wellington Capital Management	\$ 2,601,394	18.4%
Western Asset Management	\$ 2,649,788	18.8%
KKR Financial LLC	\$ 2,365,110	16.7%
Oak Hill Advisors, L.P.	\$ 1,398,205	9.9%
Total Fixed Income	\$ 14,132,056	



State of Oregon
Fixed Income Characteristics Summary
Third Quarter 2013

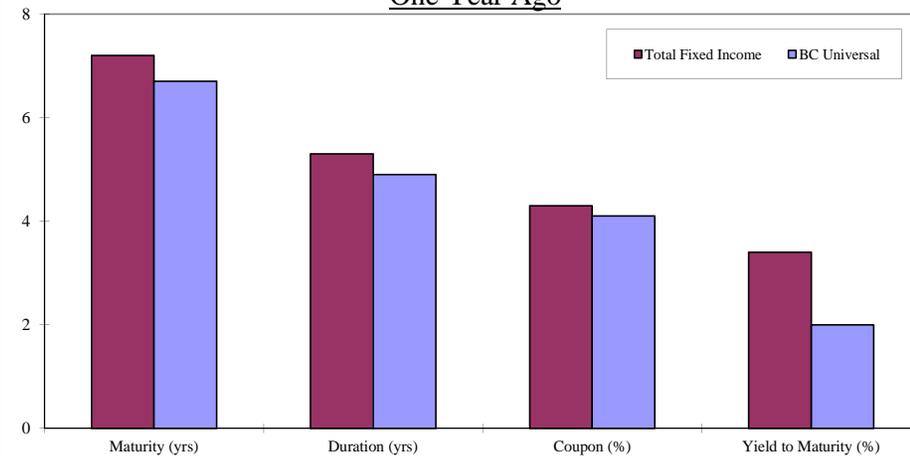
Current Period



Characteristics

Characteristics	9/30/13		9/30/12	
	Portfolio	BC Universal	Portfolio	BC Universal
Maturity (yrs)	7.4	11.4	7.2	6.7
Duration (yrs)	5.5	7.9	5.3	4.9
Coupon (%)	4.0	3.8	4.3	4.1
Yield to Maturity (%)	3.5	2.8	3.4	2.0
Moody's Quality Rating	A-3	AA-3	A-2	AA-3
S&P Quality Rating	A-	A+	A-	A+

One Year Ago

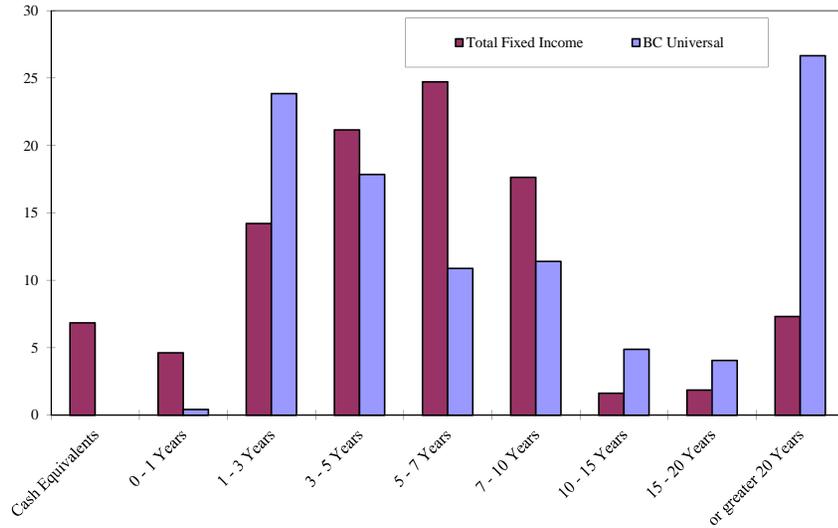


Risk Statistics

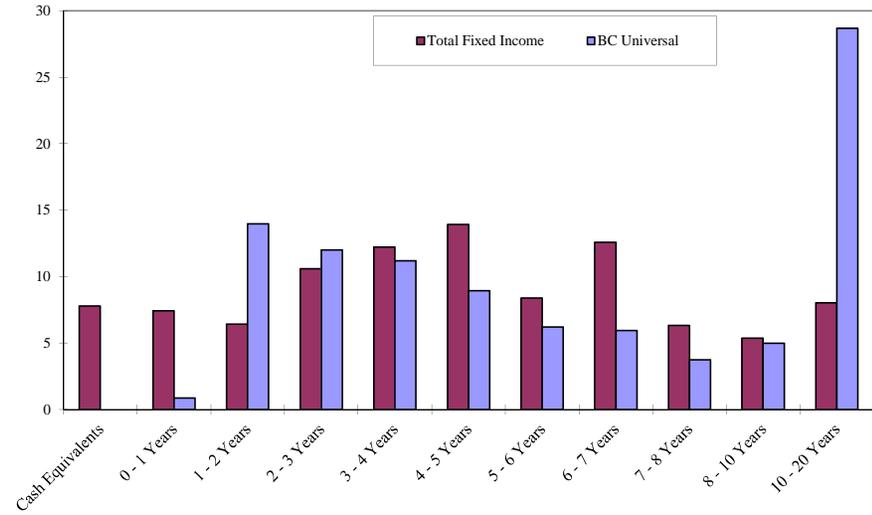
	3 Year	5 Year
Portfolio Return	5.63	9.04
Benchmark Return	3.97	6.17
Portfolio Standard Deviation	2.97	5.47
Benchmark Standard Deviation	3.02	3.72
Tracking Error	0.86	3.94
Historic Beta	0.94	1.03
R-Squared	0.92	0.49
Jensen's Alpha	1.88	2.68
Sharpe Ratio	1.86	1.62
Information Ratio	1.92	0.73

State of Oregon
 Fixed Income Characteristics Detail
 Third Quarter 2013

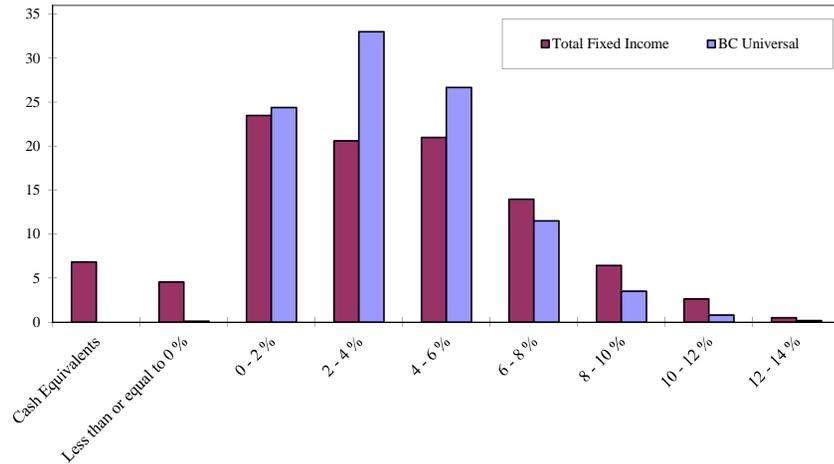
Maturity Range Weights



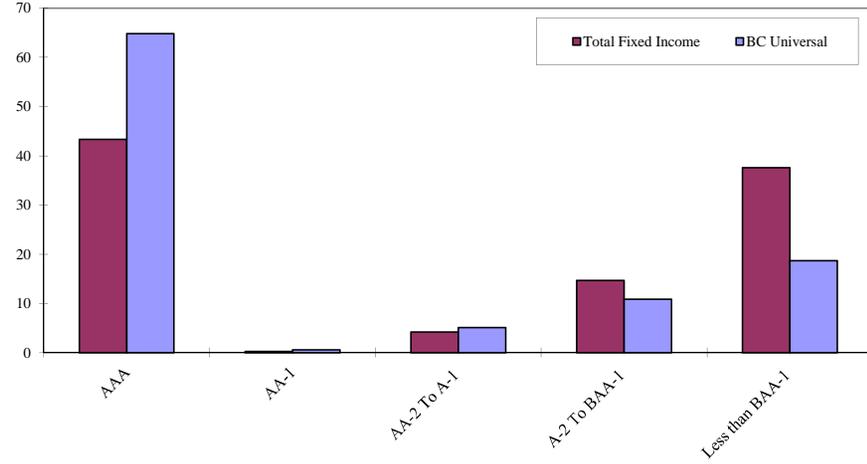
Duration Range Weights



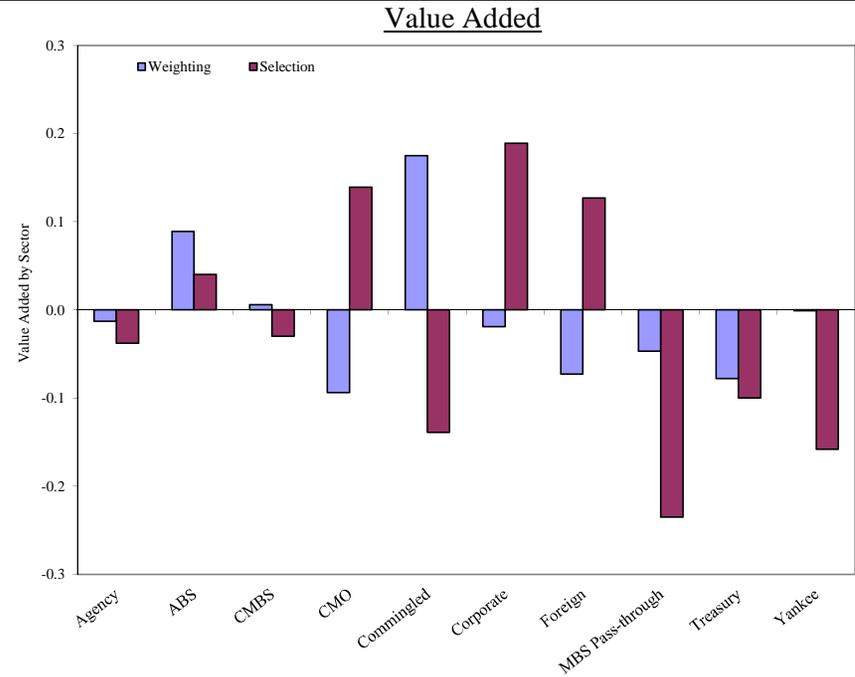
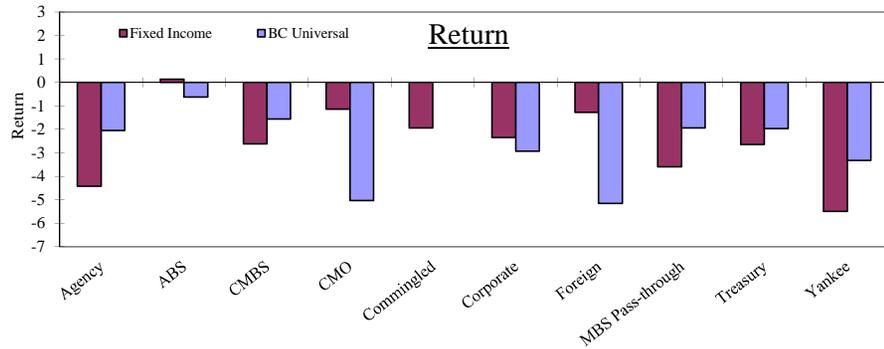
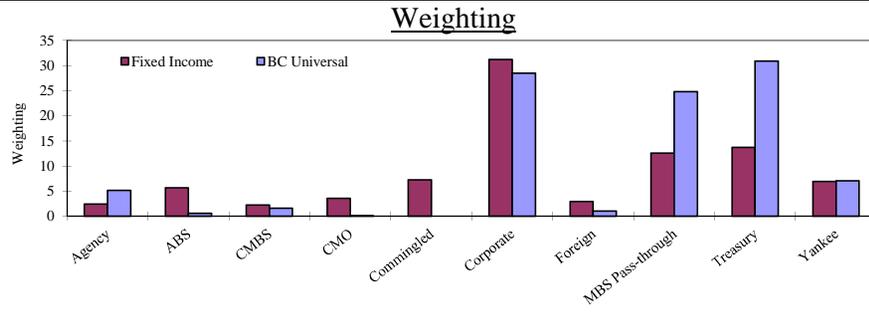
Coupon Range Weights



Moody's Rating Weights



State of Oregon
Fixed Income Sector Attribution
Third Quarter 2013



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Fixed Income*	BC Universal	Difference	Total Fixed Income*	BC Universal	Difference	Weighting	Selection	Timing
AGENCY	2.4	5.1	-2.7	-4.4	-2.0	-2.4	0.0	0.0	-
ASSET BACKED	5.7	0.6	5.1	0.1	-0.6	0.8	0.1	0.0	-
CMBS	2.2	1.6	0.6	-2.6	-1.6	-1.1	0.0	0.0	-
CMO	3.6	0.1	3.5	-1.1	-5.0	4.1	-0.1	0.1	-
COMMINGLED FUND	7.2	0.0	7.2	-1.9	-	-	0.2	-0.1	-
CORPORATE	31.3	28.5	2.7	-2.4	-2.9	0.6	0.0	0.2	-
FOREIGN	2.9	1.0	1.9	-1.3	-5.2	4.1	-0.1	0.1	-
MORTGAGE PASS-THROUGH	12.6	24.8	-12.3	-3.6	-1.9	-1.7	0.0	-0.2	-
US TREASURY	13.7	30.9	-17.2	-2.6	-2.0	-0.7	-0.1	-0.1	-
YANKEE	6.9	7.0	-0.1	-5.5	-3.3	-2.2	0.0	-0.2	-
TOTAL	100.0	100.0	0.0	-2.4	-2.4	0.0	0.2	-0.4	0.2

Note: Attribution is based on the invested portfolio's gross performance returns at the security level. Weighting is based on beginning of period holdings.

*Excludes 0.2% in Euros, Convertibles, Preferred Stock, Miscellaneous and Swap-related investments.

EXECUTIVE SUMMARY

OPERF

Oregon Public Employees Retirement Fund
Second Quarter 2013

REAL ESTATE PORTFOLIO SUMMARY

Real Estate Portfolio and Investment-level data are provided below for period ended June 30, 2013. Portfolio refers to all real estate Investments held by OPERF, which is referred to herein as the Fund.

OPERF REAL ESTATE PORTFOLIO SUMMARY	
June 30, 2013	
Current Portfolio Net Asset Value	\$7.748 billion 12.02% of Total Fund (\$64.4B)
Current Unfunded Investment Commitments	\$2.214 billion
Total Portfolio NAV plus Unfunded Commitments	\$9.962 billion 15.46% of Total Fund
Target Allocation to Real Estate	\$7.089 billion 12.50% of Total Fund
Total Number of Investments	81

SUMMARY OF PORTFOLIO INVESTMENT NET RETURNS				
Investment	Qtr	1-Yr.	3-Yr.	5-Yr.
Private Real Estate				
Direct Core	2.69%	15.81%	18.16%	1.91%
Opportunistic	4.55%	19.32%	12.23%	1.86%
Value Added	2.92%	12.17%	15.12%	-8.71%
Total Private Real Estate	3.54%	16.41%	14.69%	0.39%
Public Real Estate				
Domestic REIT Portfolio	-0.72%	6.43%	19.69%	6.97%
Global REIT Portfolio	-3.80%	20.86%	13.32%	2.83%
Total Portfolio Return	2.46%	15.19%	15.27%	2.05%
NCREIF Index	2.87%	10.73%	13.14%	2.79%
NAREIT Index	-2.13%	10.21%	18.46%	7.72%
EPRA/NAREIT Global (ex-US) Index	-5.57%	-0.95%	18.81%	14.23%

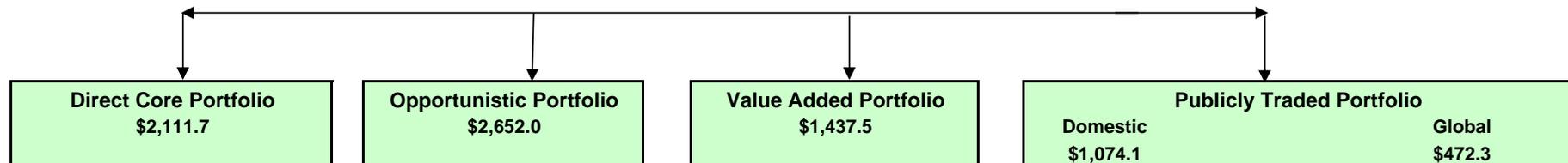
Note: Time weighted returns by category and for the portfolio include all historical investments converted by the Private Edge Group (i.e. exited investments and managers).

EXECUTIVE SUMMARY

PORTFOLIO NET RETURNS BY COMPONENT
Portfolio Net Asset Value (\$M)

Total Real Estate
\$7,747.6

One year return 15.19%
NCREIF Index 10.73%

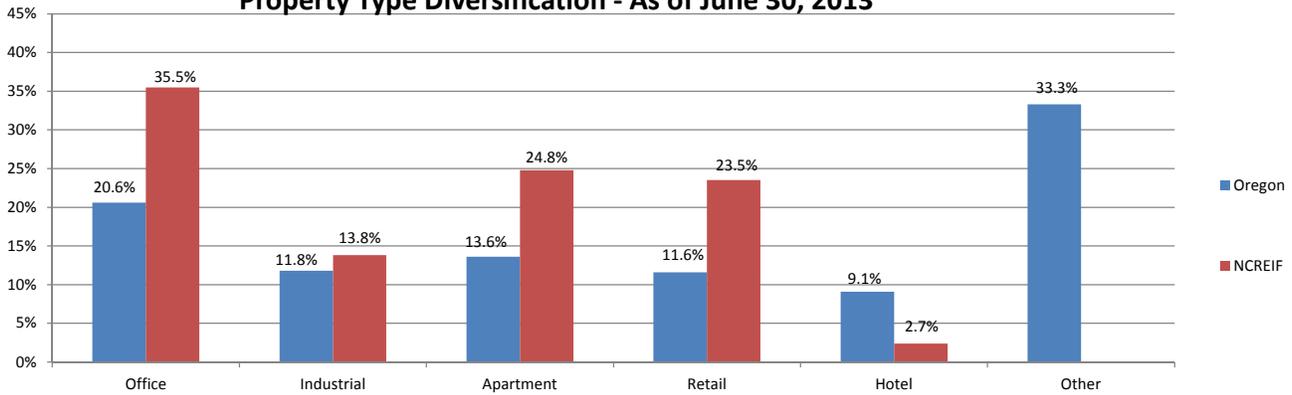


Component	Value (\$M)	% of total portfolio	One year return	NCREIF Index	Component	Value (\$M)	% of total portfolio	One year return	NCREIF Index
Direct Core Portfolio	\$2,111.7	27.26%	15.81%	10.73%	Domestic	\$1,074.1	13.86%	6.43%	10.21%
Opportunistic Portfolio	\$2,652.0	34.24%	19.32%	10.73%	Global	\$472.3	6.09%	20.86%	-0.95%
Value Added Portfolio	\$1,437.5	18.55%	12.17%	10.73%					

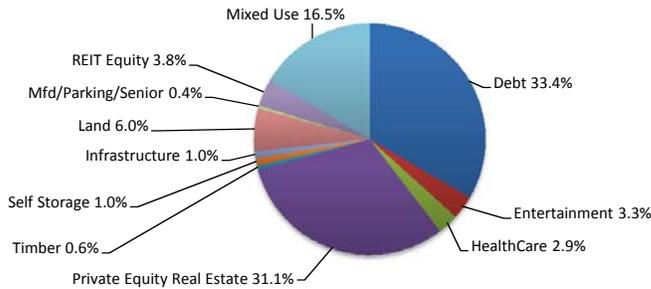
Component	Assets
Direct Core Portfolio	Clarion (Office) Clarion Office Properties Talmage Separate Account Lincoln (Industrial) Regency Retail Partners I (Retail) Regency Retail Partners II (Retail) RREEF America II Windsor Columbia Realty Fund Regency Cameron (Non Mandate) Lincoln (Non Mandate)
Opportunistic Portfolio	Aetos Capital Asia II & III - B AG Asia Realty Fund II, L.P. Canyon Johnson Urban Fund III Blackstone Partners VI, VII Brazil Real Estate Opportunities II Europe Fund III Fortress Fund II - V Fortress Residential Inv. Deutschland GI Partners Fund II & III GSR3LP Hampstead Fund I - III Heritage Fields Capital IL & FS India Realty Fund I & II Lion Mexico Fund Lone Star Opportunity Fund III - VIII Lone Star Real Estate Fund I & II OCM RE Oppo Fund A, LP Rockpoint Real Estate Fund I - IV Starwood Cap Hospitality Fund II Global Starwood Hospitality Fund SH Group I, LP Starwood Hospitality Fund Co-Inv. Westbrook Real Estate Fund I,III,IV
Value Added Portfolio	Alpha Asia Macro Trends I & II Beacon Capital Strategic Partners VI, LP Buchanan Fund V CBRE US Value Fund 5 & 6 Guggenheim III Hines U.S. Office Value Added II Keystone Industrial Fund I KTR Industrial Fund II, III Lionstone CFO One Lionstone CFO One (Non Mandate) Pac Trust Prologis Global Investment Ventures Rockpoint Finance Fund Rockwood Real Estate VII & VIII Vornado Capital Partners L.P. Waterton Residential Property Venture XI Western National Realty II & Co-Invest II Windsor Realty VII
Domestic REITS	Cohen & Steers Columbia Woodbourne LaSalle REIT
Global REITS	European Investors Morgan Stanley

PORTFOLIO COMPOSITION REVIEW (% of Total Portfolio FMV)

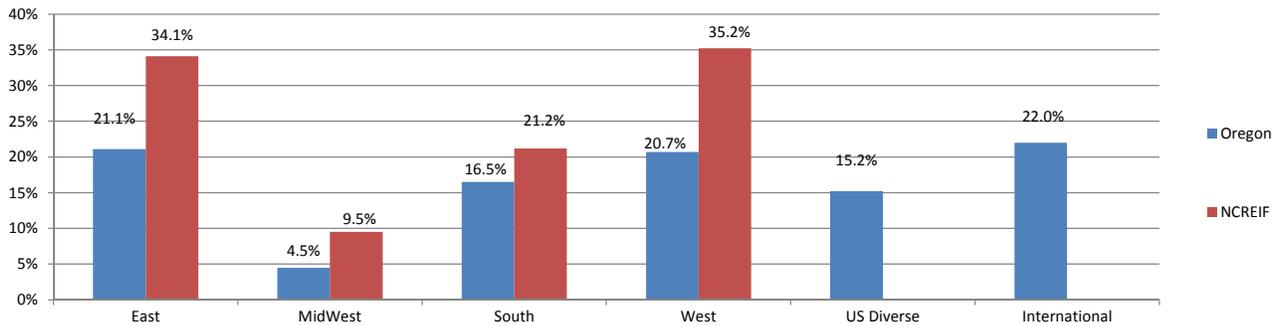
**Total Portfolio
Property Type Diversification - As of June 30, 2013**



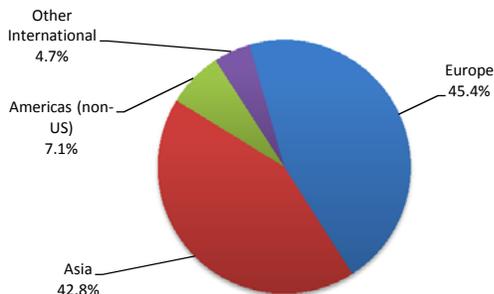
Property Type - % of "Other"



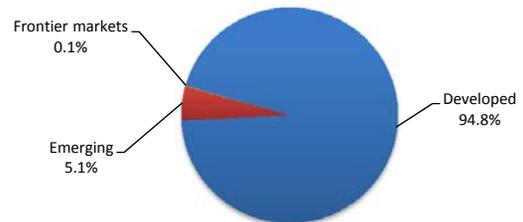
**Total Portfolio
Geographic Diversification- As of June 30, 2013**



International by Region



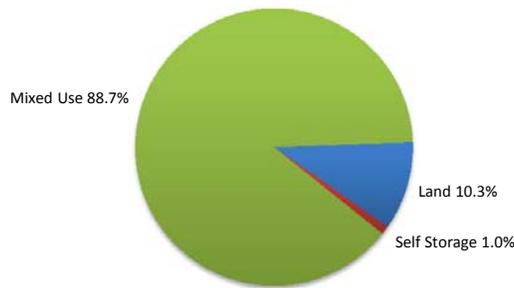
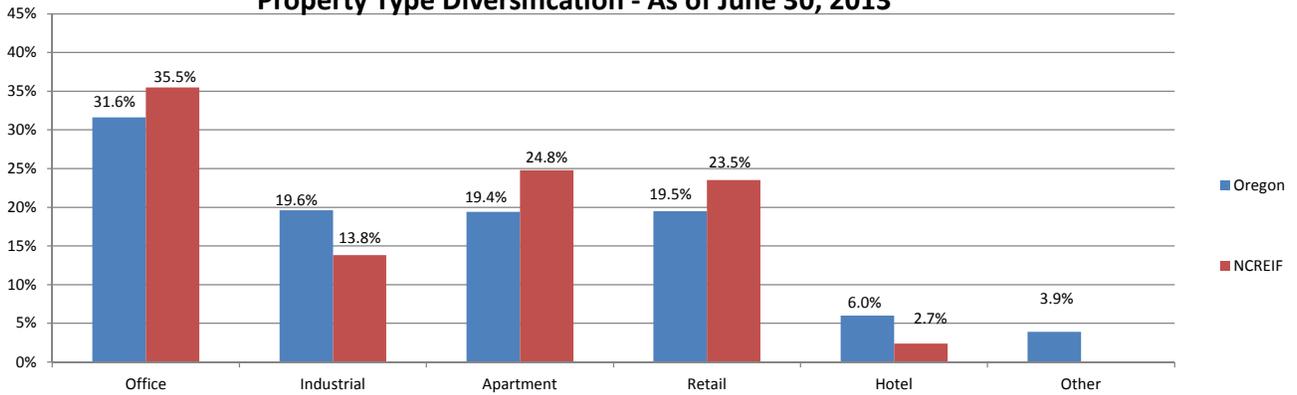
International by Market Risk*



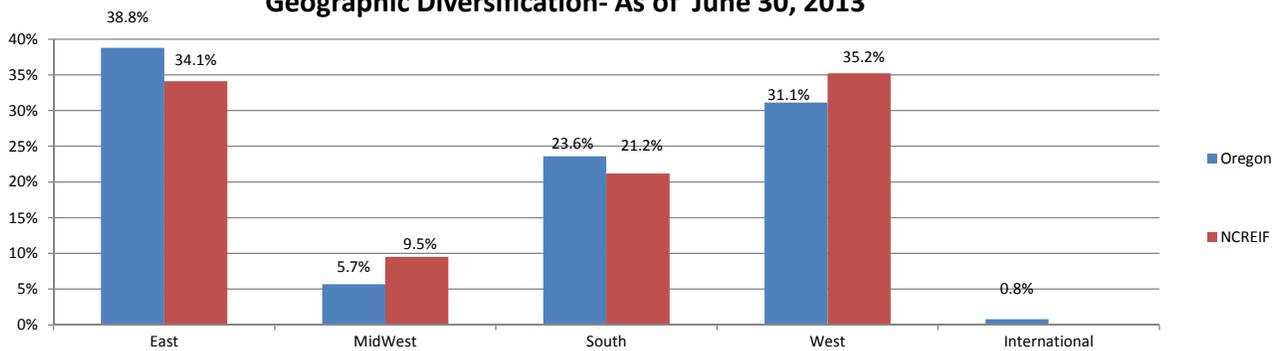
*Based on MSCI Market Classification by Country

PORTFOLIO COMPOSITION REVIEW (% of Core Portfolio FMV)

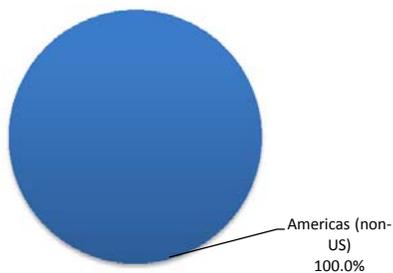
**Core Portfolio
Property Type Diversification - As of June 30, 2013**



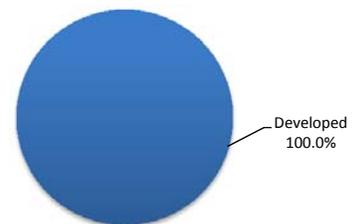
**Core Portfolio
Geographic Diversification- As of June 30, 2013**



International by Region



International by Market Risk*



*Based on MSCI Market Classification by Country

Executive Summary

OPERF Private Equity Investment Program (“the Program”)

PRIVATE EQUITY POLICY

The program was formally started in 1981. The target private equity allocation is 20.0% of total pension assets with a range of + / - 400 basis points. As of June 30, 2013, private equity represented 22.7% of total pension assets, a 48 basis points decrease from the prior quarter.

PERFORMANCE OBJECTIVE

The Program’s objective is to create significant long-term net returns to OPERF. As of June 30, 2013, the Program has achieved a total return of 15.7% since inception.

AS OF 30 Jun 2013	3 YEAR	7 YEAR	10 YEAR	20 YEAR	SINCE INCEPTION
Program IRR	13.9%	9.1%	14.4%	13.7%	15.7%
Russell 3000 (+ 300 bps) **	22.1%	10.1%	11.8%	12.9%	15.3%
<i>Value Added</i>	-8.3%	-1.0%	2.5%	0.7%	0.4%

** Data is a dollar-weighted Long-Nickels calculation of quarterly changes in the Russell 3000 index plus 300 basis points.

Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

Figures may not foot due to rounding.

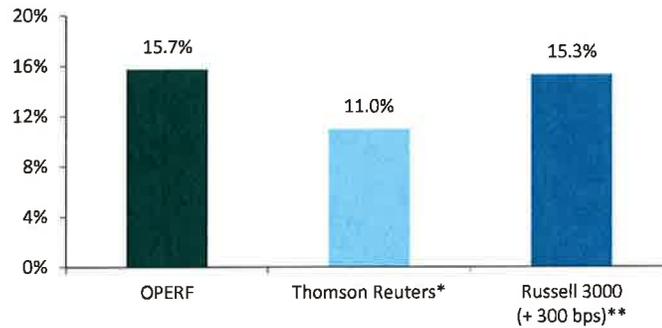
PEER BENCHMARK

Prior quarter is presented based on quarter lag of benchmark data.

AS OF 31 MAR 2013	3 YEAR	10 YEAR	20 YEAR	SINCE INCEPTION
Program IRR	13.4%	14.8%	12.8%	15.8%
Thomson Reuters *	9.6%	9.7%	11.3%	11.0%
<i>Value Added</i>	3.8%	5.2%	1.5%	4.8%

* Thomson Reuters Pooled IRR: All Private Equity Funds as of March 31, 2013.

PROGRAM IRR vs. SELECTED BENCHMARKS
Net Returns since Inception



*See prior page for footnote
 **See prior page for footnote

INVESTMENT PACING

The annual level of commitments is reviewed regularly with Staff and the Oregon Investment Council (“OIC”). Based on the desire to continue to build a well-diversified portfolio and support OPERF’s core relationships, TorreyCove’s annual pacing analysis, completed in December 2012, recommended that OPERF commit up to \$2.0 billion in 2013 pending the completion of due diligence, OIC approval, and successful legal negotiations.

PORTFOLIO EXPOSURE

Exposure % by Investment Type & Geography

Figures may not foot due to rounding

INVESTMENT TYPE	TARGET ALLOCATION	FMV	UNFUNDED	TOTAL EXPOSURE
Corporate Finance	65%-85%	70%	66%	69%
Growth	5%-10%	1%	0%	1%
Venture Capital	0%-5%	5%	6%	5%
Special Situations	5%-15%	12%	12%	12%
Fund-of-Funds	0%-5%	8%	10%	8%
Co-Investments	0%-7.5%	4%	6%	5%
Total:		100%	100%	100%
<i>North America</i>	<i>70%-100%</i>	<i>70%</i>	<i>66%</i>	<i>69%</i>
<i>Global</i>	<i>10%-20%</i>	<i>13%</i>	<i>15%</i>	<i>14%</i>
<i>International</i>	<i>5%-15%</i>	<i>16%</i>	<i>19%</i>	<i>17%</i>

RECENT PROGRAM DEVELOPMENTS

- During the quarter, the OIC authorized \$700 million of new commitments for the Program to four private equity funds, as well as €150 million of new commitments to one euro-denominated private-equity fund.
- During the quarter, the Program was net cash-flow positive by \$667.3 million. Compared to the second quarter of 2012, contributions decreased 27.4% and distributions increased 40.6%.

MARKET COMMENTARY

The US experienced quarterly GDP growth of 0.6%¹ (2.5%¹ annualized) in Q2. The Federal Reserve commanded the global spotlight this quarter when it announced the possibility of tapering its quantitative easing program, based on the continuing recovery of the US economy. The announcement, which caught some investors by surprise, caused widespread anxiety and sent volatility soaring. It has remained at high levels since. Employment gains in Q2, while present, were much less impressive than in Q1 and manufacturing also pulled back during the period, although not enough to curb the sector's lengthy expansion.² Despite any negative developments, Q2 was ultimately one of positive growth for the US, as shown by the uptrend in annualized GDP growth compared to prior quarters (themselves significantly down from previous estimates). Growth also manifested in the housing market, which continues to show consistent gains in value, along with a healthy upswing in residential construction.³

Europe experienced quarterly GDP growth of 0.3%¹ (-0.2%¹ compared to Q2 2012), generally in line with the uneven recovery and gradual return to growth that was projected by the IMF 2013 forecast. Although the Fed announcement in June had a negative effect on Eurozone equity markets (as elsewhere), this was a relatively short-lived phenomenon and equity markets made an encouraging and swift recovery.⁴ Some investors cite The European Central Bank's conservative stance as a major contributor to the Continent's inability to jolt itself out of a recession, as well as for the risk of the region heading for a Japan-like stagnation.⁵ Germany, the UK and several other EU countries are expected to record positive growth; however it will not be enough to offset the contractions of Italy, the Netherlands, Spain and other smaller states.

China experienced quarterly GDP growth of 1.7%¹ (annualized growth of 7.5%¹) in Q2, bringing annualized growth down 0.2% from Q1. The major economic indicators – including GDP, industrial production, and consumer prices – suggest that China's growth decline continues.² Falling external demand, due in part to a steep decline in exports as a result of the government's crackdown on fake export invoices, is also a major contributor to the slowdown, as is the accumulated appreciation of the renminbi (which strengthened 1.5% against USD in the first half of 2013).⁶ These trends are expected to linger for a time as China continues to move toward domestic consumption driven growth. Japan had a quarterly GDP growth of 0.6%¹ and an annualized GDP growth of 2.6%¹, showing a deceleration in annualized growth compared to Q1. Stock prices surged in Q2 as a result of enthusiasm for Prime Minister Abe's growth oriented policies. Negative developments included notably increased market volatility at the end of Q2, which can be expected after such strong gains.² The Japanese yen weakened considerably during the period, which is a phenomenon that Japan has been actively pursuing for the past year in order to boost export competitiveness and inflation.

¹ OECD.stats.org

² www.Envestnet.com

³ CVC Economic Commentary

⁴ Bridgepoint III Memorandum

⁵ www.NYTimes.com

⁶ Actis Global

Emerging markets were rocked by the Federal Reserve's June announcement, with capital flight by investors leading to tightened liquidity. A further effect of the potential scaleback of quantitative easing was exceptional volatility for emerging capital markets during the quarter as well as major depreciation of several emerging market currencies (most notably the depreciation of INR by 9.7%⁵), in response to the sell-off of emerging market debt and equity.⁷ Political stress across many emerging markets once again flared in Q2 in both familiar trouble spots as well as heretofore generally calm regions. Some areas of concerns on the political front: the declining health of the South African anti-apartheid icon, Nelson Mandela; the eruption of mass protests in Egypt against the newly elected President Morsi and his failing economic policies; and a wave of protests in Brazil expressing discontent with the government (these were relatively peaceful and are expected to have a positive impact on the country's political environment).⁶

On the global level, equity markets rose to new highs in Q2 2013, despite volatility introduced by the Federal Reserve's announcement. The loan market continued strongly into the first half of Q2, however lost steam in the second half. Fixed income assets in general were knocked down as investors' minds turned their attention to the expectation of rising interest rates in the US and elsewhere.⁸ Nevertheless, credit market conditions continue to remain favorable for issuers, relative to historic norms.⁹ Looking forward, the increased volatility that has been the hallmark of the global economy in the first half of 2013 is expected to carry forward into the second half. The US has showed persistent positive growth and its economy continues to be on the verge of a healthy upswing. Meanwhile, Europe experienced nearly flat growth, but is showing signs of gradual recovery, and China is expected to continue its trend of declining growth. There is much skepticism from investors as to which way Japan's economy will sway, which stems in part from Prime Minister Abe's future decisions on whether to raise tax rates based on the country's growth. Emerging markets are forecasted to experience the full force of the aforementioned volatility and many of these markets could experience a slight decline throughout the second half of 2013.¹⁰ Significant geopolitical matters to consider: the persistent tension surrounding North Korea, the ever-present conflict in the Middle-East and the serious talks of US involvement in Syria. As always, these matters remain a going concern for investors as they could hinder the already slow growth in global financial markets.

⁷ IFC Market Commentary

⁸ Blackrock Fund Update

⁹ Blackstone Memorandum

¹⁰ www.IMF.org

Portfolio Summary

Portfolio Review

NEW FUND COMMITMENTS

During the quarter, OPERF closed on \$525 million in commitments to three new funds. Please see Activity Detail (page 7) for more details and for other recent commitment activity.

CONTRIBUTIONS INCREASED

Contributions increased by 40.1% from the prior quarter's \$315 million. Contributions were 6.4% of unfunded commitments at the beginning of the quarter and 3.5% lower than the most recent four-quarter average of \$457 million.

DISTRIBUTIONS INCREASED

Distributions increased 48.0% from the prior quarter's \$749 million. Quarterly distributions were 7.5% of the quarter's opening balance and were 12.2% higher than the most recent four-quarter average, which now stands at \$988 million. Current market conditions are making liquidity events more attractive to fund managers.

PORTFOLIO GAINS

The Portfolio appreciated by \$267 million, net of cash flows, during the quarter, representing a 1.7% appreciation from the prior quarter. The quarterly appreciation, which was not at the same historical pace, caused the Program's long-term historical IRR since inception to decrease by 8 basis points.

WEIGHTED AVERAGE AGE UP

Based on the remaining value of all underlying funds, the weighted average age of the Portfolio was 6.3 years as of June 30, 2013, representing a 2.4% increase from the prior quarter. The relatively mature age of the Program is expected to result in a gradual increase of positive net cash flows in the coming years.

Portfolio Activity

\$ Million | Figures may not foot due to rounding

	2012			2013	
	Q2	Q3	Q4	Q1	Q2
Starting Valuation	\$14,675	\$14,522	\$14,892	\$14,623	\$14,792
Contributions	\$608	\$446	\$626	\$315	\$441
Distributions	(\$788)	(\$656)	(\$1,438)	(\$749)	(\$1,108)
Appreciation/(Depreciation)	\$28	\$580	\$543	\$603	\$267
Ending Valuation	\$14,522	\$14,892	\$14,623	\$14,792	\$14,391
Unfunded Commitments	\$7,700	\$7,501	\$7,029	\$6,890	\$7,074
IRR Since Inception	15.8%	15.8%	15.8%	15.8%	15.7%
Weighted Avg. Age of Portfolio (yrs)	5.8	6.0	6.0	6.2	6.3

Program Summary

Active, Exited and Overall Program Performance

\$ Million | Figures may not foot due to rounding

	March 31, 2013	June 30, 2013
Total Pension Assets *	\$63,708	\$63,347
Allocation to Private Equity: (Target 16.0% +/- 4.0%)	23.2%	22.7%
ACTIVE		
# of Partnerships	207	204
Capital Committed	\$26,832	\$26,733
Cash Contributed	\$22,856	\$22,530
Recallable Return of Capital	\$2,699	\$2,637
Cash Distributed (Other) ¹	\$14,192	\$14,541
Estimated FMV	\$14,759	\$14,390
Total Value (Excl. Recallable ROC)	\$28,951	\$28,931
Total Value Multiple ²	1.44x	1.45x
IRR Since Inception	10.9%	11.5%
EXITED		
# of Partnerships	49	56
Capital Committed	\$4,739	\$5,363
Cash Contributed	\$5,897	\$6,681
Recallable Return of Capital	\$1,052	\$1,233
Cash Distributed (Other) ¹	\$10,129	\$10,783
Estimated FMV**	\$0	\$1
Total Value (Excl. Recallable ROC)	\$10,129	\$10,784
Total Value Multiple ²	2.09x	1.98x
IRR Since Inception	17.9%	17.3%
OVERALL		
Portfolio Multiple ²	1.56x	1.57x
IRR	15.8%	15.7%

* Total Pension Assets updated to incorporate actual Private Equity portfolio values at each quarter end.

** Includes escrows of exited deals.

1) Includes all non-recallable distributions

2) Total Value Multiple is calculated net of recallable return of capital ("ROC"). In practice, both total distributions and contributions are reduced by the amount of recallable ROC in the numerator and denominator of the calculation, respectively.

- As of quarter-end OPERF has contributed \$29.2 billion, funding approximately 91.0% of aggregate capital commitments made since inception. Approximately \$7.1 billion of capital commitments remain outstanding.
- Since inception, a total of approximately \$25.3 billion has been distributed to the OPERF.
- OPERF's private equity allocation by market value is above its 20% target as a result of significant drawdowns during the 2007 - 2010 period and the scarcity of distributions as firms avoided sales at the bottom of the market. The result was significant expansion of average holding periods. Private equity funds have sought to support the most promising of their existing portfolio companies in a volatile economic environment by making follow-on investments to supply working capital or expand market share by purchasing competitors at attractive prices. However, the quarterly cash flow chart on the next page shows a shift starting in 2012 to distributions outweighing contributions. As such private equity as a percentage of the total portfolio decreased this quarter.

Activity Detail

Recent Investment Activity

INVESTMENT NAME	DATE AUTHORIZED	DATE CLOSED	AMOUNT COMMITTED
A&M Capital Partners	12/5/2012	4/17/2013	\$75 million
Riverside Capital Appreciation Fund VI	1/23/2013	5/10/2013	\$75 million
Vista Foundation Fund II	4/29/2013	5/17/2013	\$75 million
CVC Capital Partners Fund VI	4/29/2013	7/12/2013	€150 million
Morgan Stanley Private Equity Asia IV	4/29/2013	N/A	\$75 million
Apollo Investment Fund VIII	5/1/2013	6/28/2013	\$300 million
KKR North American Fund XI	5/29/2013	7/10/2013	\$250 million
<u>Subsequent Activity:</u>			
GI Partners Fund IV	8/21/2013	N/A	\$100 million
KSL Capital Partners Credit Opportunities Fund	8/21/2013	N/A	\$75 million

Glossary

Variance Analysis Reports

These reports provide an analysis of the difference between the portfolio and the benchmark returns in terms of sector exposure. The incremental return is attributed to over-or under-weighting and selection within the sector.

For each sector, the beginning of the period weighting is used for both the portfolio and the benchmark. Returns are time-weighted for periods longer than one month. For periods of more than one month, the monthly calculations are geometrically linked over the indicated time period.

WEIGHTING

Measures the portion of the portfolio return that can be attributed to over/underweighting sectors/countries relative to the benchmark. Positive weighting occurs if the fund was overweighted in sectors/countries that performed well or underweighted in sectors/countries that did not perform well.

$$\text{Sector weighting} = [\text{benchmark return}_{(\text{sector})} - \text{benchmark return}_{(\text{total})}] \times [\text{portfolio beginning weight}_{(\text{sector})} - \text{benchmark beginning weight}_{(\text{sector})}] / 100$$

SELECTION

Measures the portion of the portfolio return that can be attributed to the selection of securities within a sector/country relative to the benchmark. Positive selection occurs if the portfolio's sector/country return is greater than the benchmark sector/country return.

$$\text{Sector selection} = [\text{portfolio return}_{(\text{sector})} - \text{benchmark return}_{(\text{sector})}] \times [\text{portfolio beginning weight}_{(\text{sector})}] / 100$$

TIMING

This is the value required to make the sum of weighting + selection + timing = the total variance between the portfolio and the benchmark. This is a result of attribution being based on beginning weights and the portfolio shifting weights throughout the month.

TAB 7 – Election of OIC Officers

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FUNCTION: O.I.C. Section
ACTIVITY: Oregon Investment Council (OIC) and Staff Duties

POLICY: The Oregon Investment Council formulates broad policies for the investment and reinvestment of moneys in the investment funds and the acquisition, retention, management and disposition of investments of the investment Funds (Fund or Funds). The Council includes the State Treasurer and four appointees of the Governor. Additionally, the PERS Director sits with the Council, but may not vote. The members of the Council biennially elect a chair and a vice chair from among the four Governor appointed, voting members. The vice chair functions as the chair in the event the chair is unable to fulfill the duties. OIC meetings are conducted according to the rules set forth in sample Form A.

The OIC is responsible for approving and revising policies. The Chief Investment Officer, working with investment division staff, is responsible for approving and revising procedures.

PROCEDURES:

1. **Staff and Research Support.** Should the OIC wish to investigate or research a matter related to current or potential investment activities, OST Investment Division staff shall provide support and assistance as required.
2. **Record, Transcribe, and Distribute Minutes of OIC Meetings.** A member of the Investment Division staff records and distributes minutes for OIC meetings. Approved minutes, except those taken during executive session, are posted to OST's website. In addition, meetings shall be recorded by audio file.
3. **Draft OIC Resolutions.** The Chief Investment Officer or staff may draft policies or resolutions for OIC action upon request. All advisors of the Council, including but not limited to private investment advisors, staff members of the OST and legal counsel, when practicable, shall submit to the Council for its consideration written recommendations, whenever the advisor provides information to the Council which the advisor believes may require action by the Council. From the written recommendations, OST staff shall have prepared for the Council's consideration appropriate forms of motion. Whenever practicable, OST staff shall review and advise the Council in writing whether proposed Council action concerning investments falls within or outside of existing investment policies and, if within, shall state the policy that is applicable.
4. **Council Elections.** The Council shall select one of its members as chair, for a term and with powers and duties necessary for the performance of the functions of the office as the council determines (ORS 293.711(3)). The Council shall biennially elect a chair, and vice chair, at the last regular meeting of the Council in each odd-numbered calendar year. A person may not serve as chair of the Council for more than four years in any 12-year period (ORS 293.711(4)). Between biennial elections, with at least one week's notice, a majority of the Council may request a special election, to be held at the next meeting of the Council, to select officers for

the unexpired term. In the event that a chair or vice chair resigns or is removed, or whose service on the Council ends, the Council, at its next regular meeting, shall elect a replacement.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)

Sample Form A — Rules of Conduct for OIC Meetings

Sample Form A

Rules for Conduct for Oregon Investment Council Meetings

Applicability of Rules

1. These rules are applicable to convened business meetings, regular and special, of the Oregon Investment Council.
2. Meetings will be called from time-to-time by the Chairman:
 - a. Regular meetings will generally be held eight times per year;
 - b. Special meetings and informal meetings will be held as needed;
 - c. Meetings may also be held by telephone; and
 - d. Meetings in Executive Session shall be held according to Oregon Revised Statutes.
3. **Chair**: The Chair is responsible for coordinating with the CIO to set the agenda of the OIC, in accordance with Policy 4.00.01. Additionally, the Chair shall preside over all regular and special meetings of the OIC. The primary role of the Chair is to help ensure OIC meetings are as efficient and productive as possible, and to facilitate communication among OIC members and between the OIC and the Office of the State Treasurer.
4. Notice of meetings will be given in compliance with Oregon Revised Statutes 192.610-690 and cases applicable thereto.
5. **Agenda**: Notice of the meeting shall also contain a copy of the agenda for the meeting setting forth, with reasonable clarity, the matters to be discussed.
6. **Quorum**: Three members are a quorum to take action.
7. **Majority Vote**: An affirmative vote of three members of the Council is required for the Council to approve resolutions.
8. **Conflict of Interest**: Notice of conflict of interest, as defined in Oregon Revised Statutes 244.120 and rules promulgated by the Oregon Government Ethics Commission and this Council, shall be announced prior to taking an action on an issue. Announced conflicts should be recorded as provided in Oregon Revised Statutes 244.130 (See also: 4.00.03). "Take action" means to vote, debate, recommend or discuss.
9. **Voting**: Members, when present, shall vote either aye or nay on an issue, except in the case of a potential conflict of interest. If such a potential conflict of interest exists, the member shall make a declaration of that conflict and may be excused from voting by the body.
10. **Record of Votes**: Roll call votes shall be tallied by the Chief Investment Officer through an oral roll call.
11. **Recess or Adjournment**: A quorum being present, any meeting of the Council may be recessed or adjourned by a majority vote of the Council or by the Chair of the meeting.

TAB 8 – OIC General Consultant Recommendation

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Oregon Investment Council OIC Consultant Recommendation

Purpose

The selection of a general consultant(s) in accordance with OIC Policy 4.01.13, is attached.

Background

Prior to 1997, the OIC engaged two full retainer firms: Wilshire Associates and Frank Russell Company. During the 1997 Request of Proposals (RFP) process, the Council settled on one full-service, retainer firm, Frank Russell, buttressed by the ad hoc advice provided by Allan Emkin, PCA. In late 2003, the OIC retained Strategic Investment Solutions and continued the relationship with Allan Emkin. Below is the recent history of SIS and Mr. Emkin with the OIC:

Firm	Start Date	Initial Term	Ext. #1	Ext. #2	Ext. #3	Ext. #4	Ext. #5	Ext. #6	Ext. #7	Total Term
SIS	1/1/2004	12/31/2006	12/31/2008	12/31/2010	12/31/2011	6/30/2012	6/30/2013	12/31/2013		10 Years
PCA-Emkin	1/1/2004	1/31/2004	12/31/2006	12/31/2008	12/31/2010	12/31/2011	6/30/2012	6/30/2013	12/31/2013	10 Years*
	*Initial contract began in 1998.									

At the request of the Council earlier in the year, staff engaged in a solicitation for general consulting services. As was previously reported to the Council, seven firms responded to, and met the minimum qualifications outlined in, the current RFP. A committee of four Investment Division staff members independently scored the responses provided. The results, and a detailed discussion of the review process, were described in a separate memo dated October 16, 2013 which also included executive summaries provided by the four “finalist” firms as well as staff’s summary of each firm’s relative strengths and weaknesses.

Subsequent to the October 16th memo, members of the Investment Division selection committee met with representatives from each of the four finalist firms in OST’s Tigard office. OIC member Dick Solomon participated in all four finalist meetings while OIC member Katy Durant joined the group for two of these meetings. Each firm received a uniform list of questions in advance of the in-person interviews, responses to which were shared with OIC members on November 6, 2013. These question and response combinations also served as the general discussion framework for the in-person interviews.

Following these finalist interviews, the committee consensus which included direct input from the participating OIC members was as follows: retain Callan Associates as the OIC’s general consultant and continue with Allan Emkin in his current oversight role, subject to completion of final due diligence steps on Callan. These additional due diligence steps, which have now since been satisfactorily completed, included the following: 1) eight reference calls with seven existing and one former public pension fund Callan clients; 2) an on-site visit to Callan’s headquarters office by three Treasury staff members including CIO John Skjervem; and 3) an independent third-party review of Callan’s publicly available information as performed by Due Diligence Corp. and provided herewith under confidential separate cover.

Staff Recommendation

Retain Callan Associates and Allan Emkin for separate, initial three-year engagements, subject to the successful negotiation of contract terms with staff working in concert with Department of Justice personnel.

FUNCTION: General Policies and Procedures

ACTIVITY: Consulting Contracts

POLICY: All consultants of the Council, including but not limited to, full-service consultants as well as specific asset class advisors (e.g. real estate, alternative equities) shall be engaged by the Council through a form of written contract. These contracts shall have specified expiration dates, termination clauses and renewal/extension terms. Before the end of the contract term (including any renewals or extensions granted) a formal “request for proposal” (RFP) process shall be undertaken by Staff for the purpose of identifying new candidates, upgraded services, competitive pricing and any other information considered relevant to Staff and the Council.

PROCEDURES:

1. Consulting contracts shall be negotiated and executed in compliance with Council policy 4.01.10.
2. Consulting contracts shall expire on a date not to exceed three years from the effective date of the contract.
3. Consulting contracts shall include a “no-cause” termination clause with a maximum 90 day notice period.
4. It is the policy of the Council to continuously review all contractors.
5. Consulting contracts may be renewed or extended beyond the original expiration date no more than twice and limited to a final expiration date that is no more than four years beyond the original expiration.
6. Upon the final expiration of the original contract, or whenever directed by the Council, staff shall undertake and complete an RFP process which shall include the following:
 - a. Identification of those potential candidates who may reasonably be believed to perform those services under examination;
 - b. Directing of an RFP which shall include, but not be limited to:
 1. Description of services requested;
 2. Description of the potential or preliminary standards required by the Council of the candidates; and
 3. Request for pricing or fee schedule information.

7. Consultants under contract to the Council shall disclose, in written investment recommendations to the Council, any contact the Consultant's staff had with Placement Agents for the firm being recommended.

DEFINITIONS:

"Placement Agent" includes any third party, whether or not affiliated with an investment manager, investment advisory firm, or a general partnership, that is a party to an agreement or arrangement (whether oral or written) with an investment manager, investment advisory firm, or a general partnership for the direct or indirect payment of a Placement Fee in connection with an OIC investment.

"Placement Fee" includes any compensation or payment, directly or indirectly, of a commission, finder's fee, or any other consideration or benefit to be paid to a Placement Agent.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached): None

TAB 9 – Asset Allocations & NAV Updates

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Asset Allocations at October 31, 2013

OPERF	Regular Account							Variable Fund	Total Fund
	Policy	Target ¹	\$ Thousands	Pre-Overlay	Overlay	Net Position	Actual	\$ Thousands	\$ Thousands
Public Equity	32.5-42.5%	37.5%	26,856,550	41.0%	(320,363)	26,536,187	40.5%	817,740	27,353,927
Private Equity	16-24%	20.0%	13,950,734	21.3%		13,950,734	21.3%		13,950,734
Total Equity	52.5-62.5%	57.5%	40,807,284	62.3%	(320,363)	40,486,921	61.8%		41,304,661
Opportunity Portfolio			829,640	1.3%		829,640	1.3%		829,640
Fixed Income	15-25%	20.0%	14,356,344	21.9%	1,699,820	16,056,164	24.5%		16,056,164
Real Estate	9.5-15.5%	12.5%	7,487,456	11.4%	(2,800)	7,484,656	11.4%		7,484,656
Alternative Investments	0-10%	10.0%	626,602	1.0%		626,602	1.0%		626,602
Cash*	0-3%	0.0%	1,385,980	2.1%	(1,376,657)	9,323	0.0%	12,300	21,623
TOTAL OPERF		100%	\$ 65,493,306	100.0%	\$ -	\$ 65,493,306	100.0%	\$ 830,040	\$ 66,323,346

¹Targets established in June 2013. Interim policy benchmark consists of: 41.5% MSCI ACWI Net, 23.5% Custom FI Benchmark, 20% Russell 3000+300bps (1 quarter lagged), 12.5% NCREIF (1 quarter lagged), & 2.5% CPI+400bps.

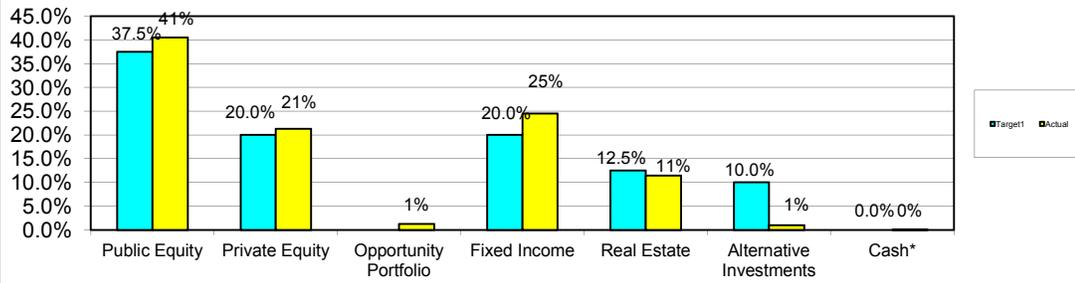
*Includes cash held in the policy implementation overlay program.

SAIF	Policy	Target	\$ Thousands	Actual
Total Equity	7-13%	10.0%	470,260	10.6%
Fixed Income	80-90%	85.0%	3,885,011	88.0%
Real Estate	0-7%	5.0%	0	0.0%
Cash	0-3%	0%	61,163	1.4%
TOTAL SAIF		95%	\$4,416,434	100.0%

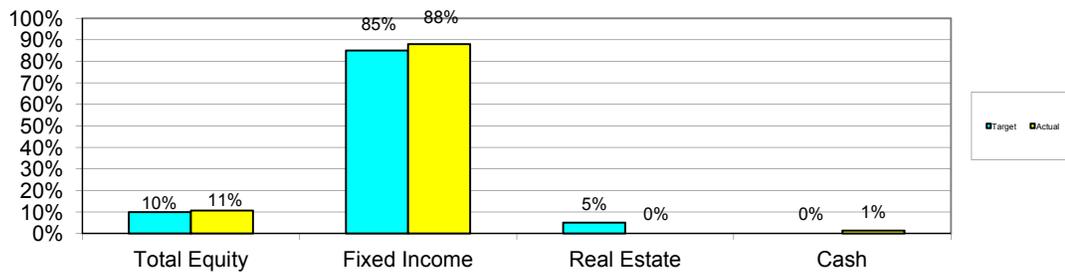
CSF	Policy	Target	\$ Thousands	Actual
Domestic Equities	25-35%	30%	\$433,485	32.5%
International Equities	25-35%	30%	421,379	31.6%
Private Equity	0-12%	10%	128,191	9.6%
Total Equity	65-75%	70%	983,055	73.8%
Fixed Income	25-35%	30%	323,343	24.3%
Cash	0-3%	0%	25,991	2.0%
TOTAL CSF			\$1,332,389	100.0%

HIED	Policy	Target	\$ Thousands	Actual
Domestic Equities	20-30%	25%	\$20,205	27.5%
International Equities	20-30%	25%	20,516	28.0%
Private Equity	0-15%	10%	6,613	9.0%
Growth Assets	50-75%	60%	47,334	64.5%
Real Estate	0-10%	7.5%	5,362	7.3%
TIPS	0-10%	7.5%	4,480	6.1%
Inflation Hedging	7-20%	15%	9,842	13.4%
Fixed Income	20-30%	25%	15,618	21.3%
Cash	0-3%	0%	573	0.8%
Diversifying Assets	20-30%	25%	16,191	22.1%
TOTAL HIED			\$73,367	100.0%

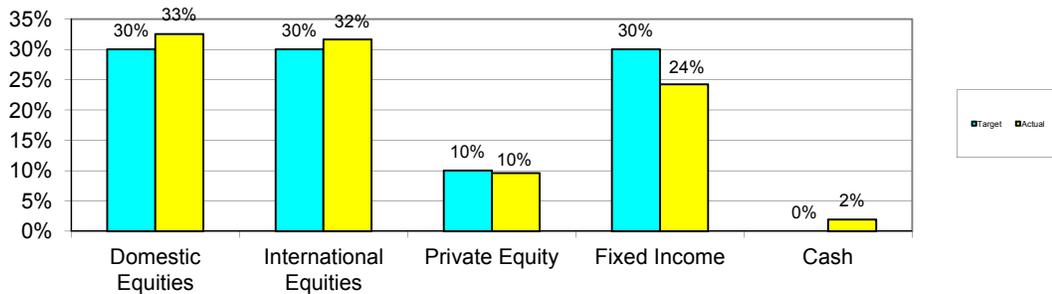
OPERF Asset Allocation



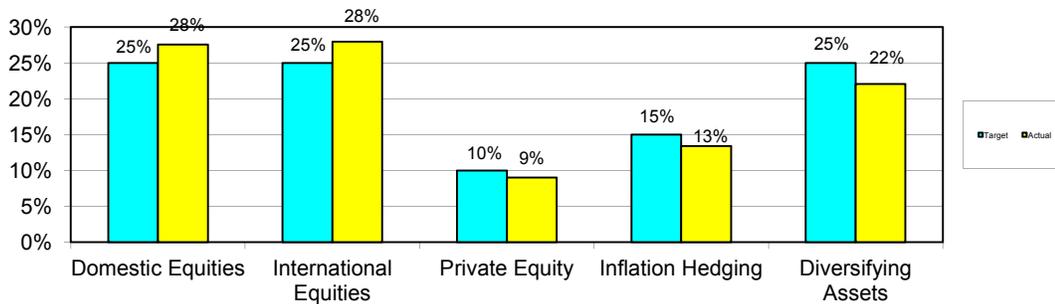
SAIF Asset Allocation



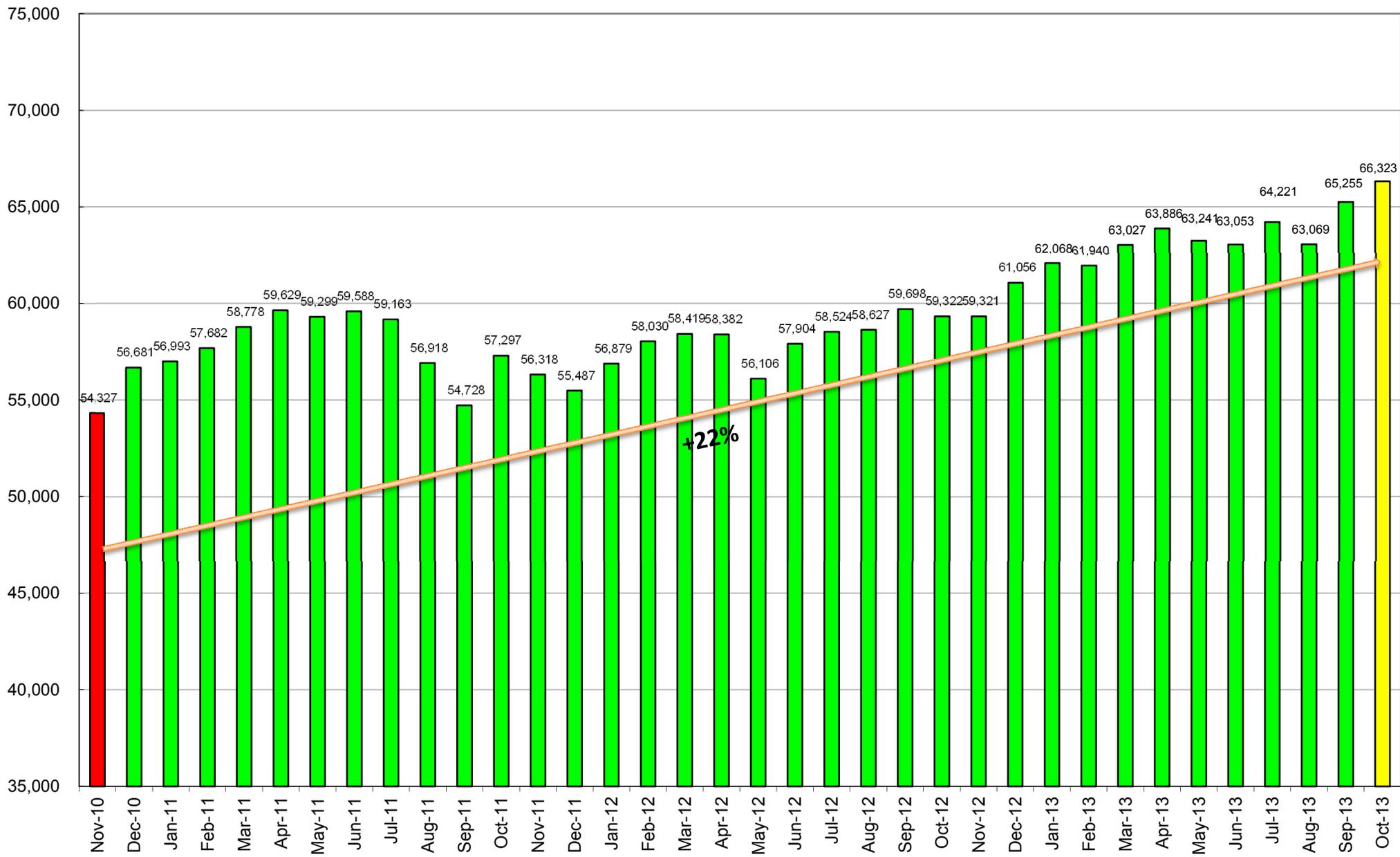
CSF Asset Allocation



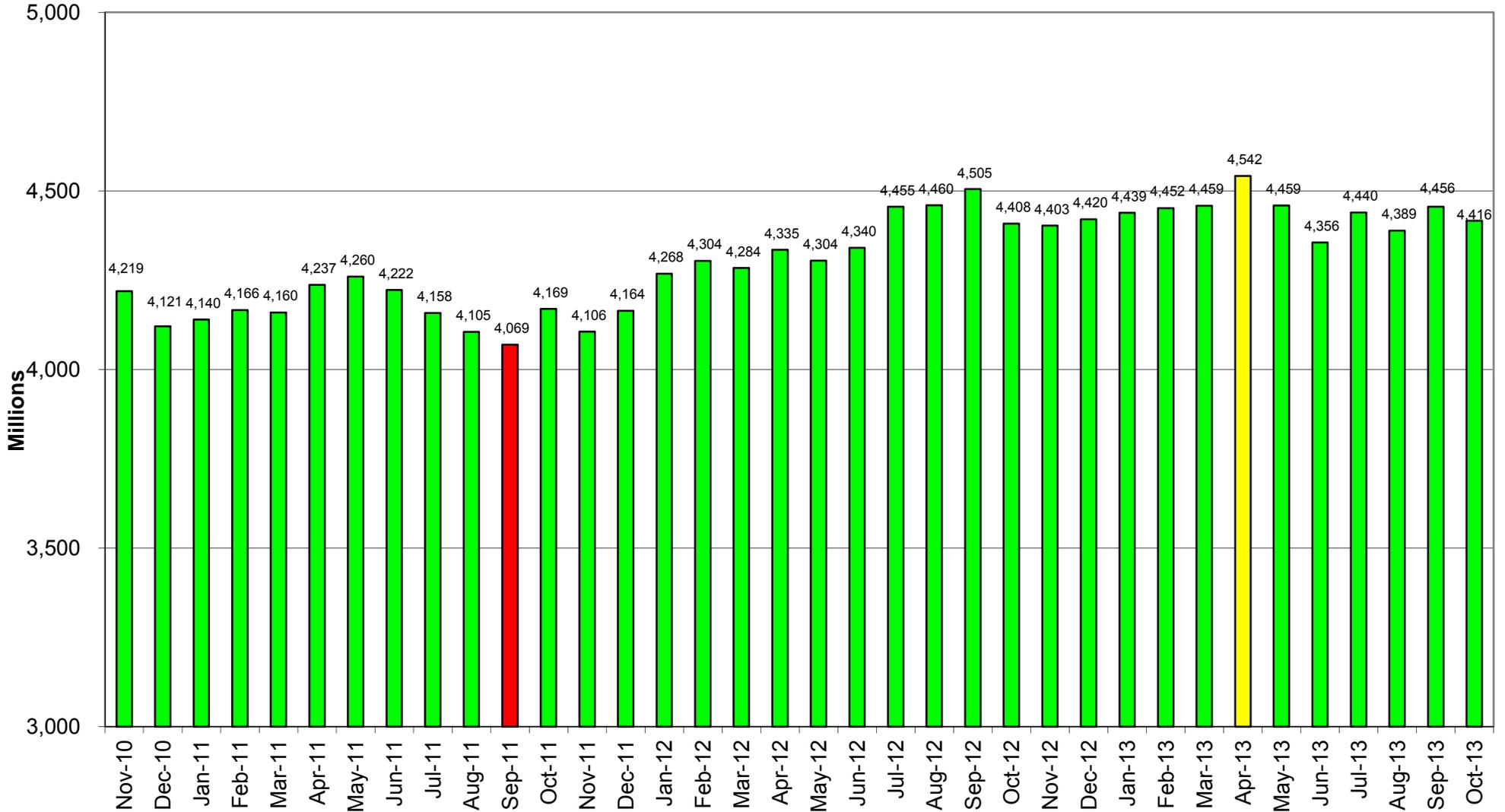
HIED Asset Allocation



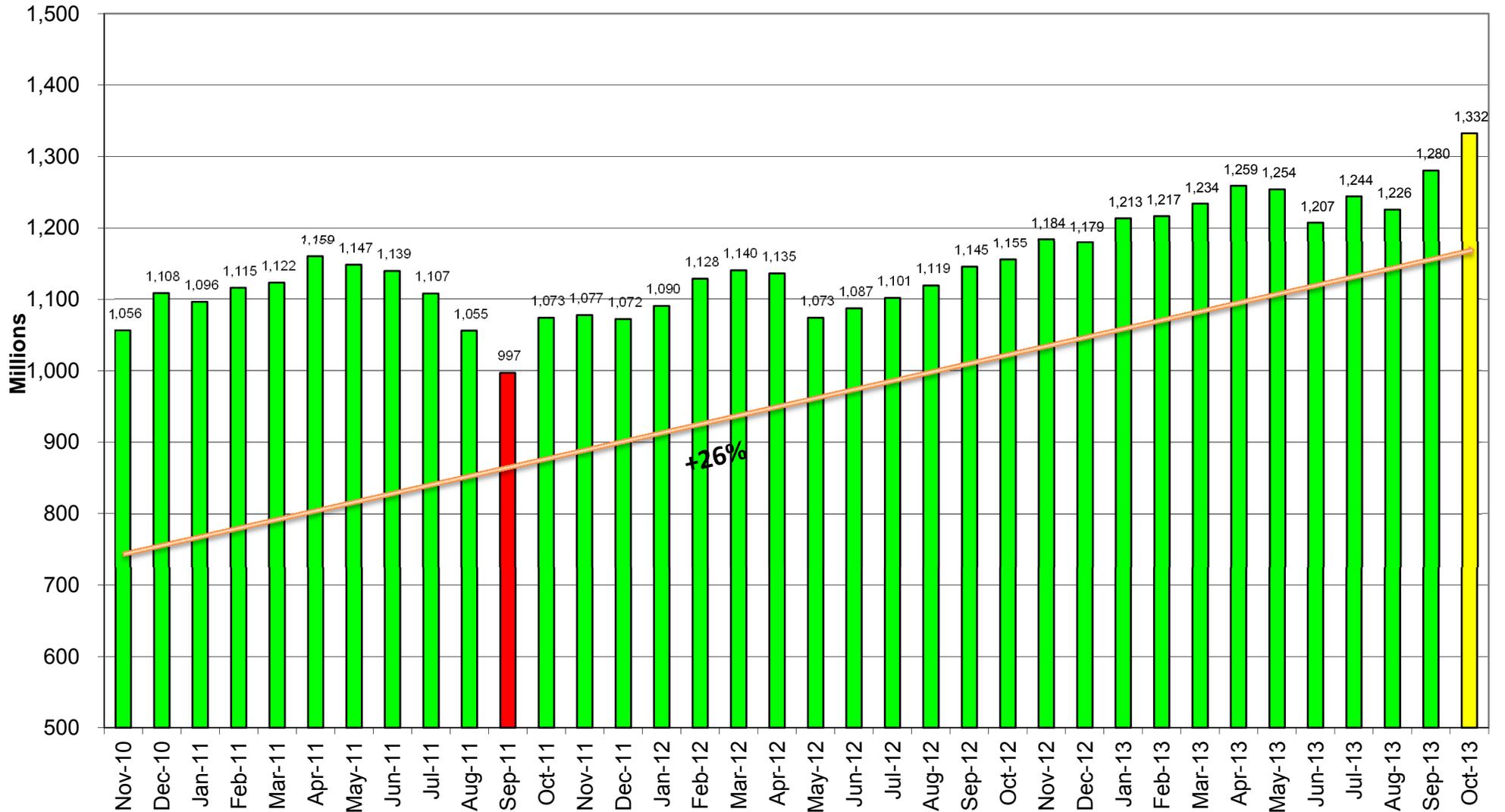
OPERF NAV
Three years ending October 2013
(\$ in Millions)



SAIF NAV
Three years ending October 2013
(\$ in Millions)



CSF NAV
Three years ending October 2013
(\$ in Millions)



TAB 10 – CALENDAR – FUTURE AGENDA ITEMS

2014 OIC Forward Agenda Topics

- January 29:** OPERF Private Equity Investment
OPERF Opportunity Investment
OPERF Public Equity
Annual Placement Agent Report
- March 5:** OPERF Private Equity Review & 2014 Plan
OPERF 4th Quarter Performance Review
OIC Policy and OST Procedure Updates
- April 30:** Securities Lending Review
OSGP Review
DOJ Litigation Update
Investment Beliefs: Areas of non-consensus
- May 28:** OPERF Alternative Portfolio Review
OPERF Policy Implementation Overlay Review
OPERF 1st Quarter Performance Review
- July 30:** OPERF Public Equity Review
OITP Review
OSTF Annual Review
SAIF Annual Review
- September 24:** OPERF Real Estate Review
OPERF Fixed Income Review
OIC Annual Policy Updates
- November 5:** CSF Annual Review
CEM Benchmarking Report
Internal Audit Report
- December 3:** OPERF Opportunity Portfolio Review
HIED Annual Review
OPERF 3rd Quarter Performance Review