Oregon Investment Council

May 1, 2013 - 9:00 AM

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

Keith Larson
Chair

Office of the State Treasurer
Ted Wheeler
State Treasurer

John Skjervem
Chief Investment Officer

OREGON INVESTMENT COUNCIL

2013 Meeting Schedule

Meetings Begin at 9:00 am
at
PERS Headquarters Building
11410 SW 68th Parkway
Tigard, OR 97223

January 23, 2013

February 20, 2013

May 1, 2013

May 29, 2013

June 26, 2013

July 31, 2013

September 25, 2013

October 30, 2013

December 4, 2013

OREGON INVESTMENT COUNCIL

Agenda

May 1, 2013
9:00 AM

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

Time	A. Action Items	Presenter	Tab
9:00-9:05	**1. Review & Approval of Minutes** February 20, 2013 Regular Meeting	**Keith Larson** *OIC Chair*	**1**
	Committee Report	**John Skjervem** *CIO*	
9:05-9:50	**2. Apollo Fund VIII** *OPERF Private Equity*	**Jay Fewel** *Senior Investment Officer* **Leon Black** *Chairman, CEO and Director Apollo Global Management* **David Fann** *TorreyCove Capital Partners*	**2**
9:50-10:35	**3. Lone Star Fund VIII** *OPERF Real Estate*	**Tony Breault** *Interim Senior Investment Officer* **John Grayken** *Founder and Chairman Lone Star* **Nori Gerardo Lietz** *Arete Capital* **Christy Fields** *Pension Consulting Alliance*	**3**

10:35-10:45 **---------------------BREAK----------------------**

10:45-11:30	**4.**	**Blackstone Tactical Opportunities Fund** *OPERF Opportunity Portfolio*	**John Hershey** *Senior Investment Officer* **David Blitzer** *Senior Managing Director & Head of Tactical Opportunities Blackstone* **Michael Sotirhos** *Senior Managing Director Blackstone* **Tom Martin** *TorreyCove Capital Partners*	**4**

B. Information Items

11:30-11:45	**5.**	**Litigation Update — Possible Executive Session** *Possible executive session may be held pursuant to ORS 192.660(2)(f) & (h).*	**Fred Boss** *Chief Counsel, Civil Enforcement DOJ*	**5**
11:45-12:00	**6.**	**Asset Allocations & NAV Updates** a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HIED Pooled Endowment Fund	**John Skjervem**	**6**
	7.	**Calendar — Future Agenda Items**	**John Skjervem**	**7**
	8.	**Other Items**	**Council** **Staff** **Consultants**	

C. Public Comment Invited

15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

February 20, 2013 Regular Meeting

OST Committee Actions – Verbal Report

JOHN D. SKJERVEM
CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

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STATE OF OREGON
OFFICE OF THE STATE TREASURER
350 WINTER STREET NE, SUITE 100
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OREGON INVESTMENT COUNCIL
FEBRUARY 20, 2013
MEETING MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler
Staff Present:	Darren Bond, Tony Breault, Karl Cheng, Garrett Cudahey, Jay Fewel, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Martha Kellams, Perrin Lim, Ben Mahon, Mike Mueller, Tom Rinehart, James Sinks, John Skjervem, Michael Viteri
Consultants Present:	David Fann and Kenn Lee (TorreyCove); John Meier and Deb Gallegos (SIS); Alan Emkin and John Linder (PCA)
Legal Counsel Present:	Steven Marlowe, Oregon Department of Justice Deena Bothello, Oregon Department of Justice Jen Peet, Oregon Department of Justice

The February 20, 2013 OIC meeting was called to order at 9:00 am by Keith Larson, Chair.

I. 9:00 a.m.: Review and Approval of Minutes

MOTION: Mr. Demorest moved approval of the January 23, 2013 meeting minutes. Mr. Solomon seconded the motion which then passed by a vote of 5/0.

II. 9:02 a.m.: Market Update and Economic Outlook

Larry Fink, Chairman and CEO of Blackrock provided a financial market update and global economic outlook by geographic region, commented on both monetary and fiscal policy issues and expressed his views on prospective capital markets returns.

III. 10:00 a.m.: OPERF Private Equity Review and 2013 Plan

Jay Fewel, Senior Investment Officer and Sam Green, Investment Officer together with David Fann and Kenn Lee from TorreyCove presented the 2012 Private Equity Review and 2013 private equity plan. Mr. Fewel et al noted that OPERF's private equity sub-sector exposures are generally within target allocation ranges with the following exceptions: large corporate finance and venture capital which are both slightly below strategic targets; and fund-of-funds and international which are slightly above strategic targets on a remaining commitment basis.

In order to achieve a long-term 16 percent target allocation, the annual pace of new commitments should be maintained at approximately $2.0 billion for the foreseeable future. TorreyCove forecasts OPERF's total private equity exposure to fall below the 20 percent mark by late 2014. This projected decline is largely dependent on staff's expectations of imminent and significant realizations from 2005 to 2007 vintage year funds.

ACTION: Mr. Larson would like to discuss OPERF's position in the Fisher Lynch co-investment fund at the next regularly scheduled PEC meeting.

IV. 10:50 a.m.: Callan Micro Cap Value Fund - *OPERF Public Equity*

Staff recommended OIC approval for a $100 million allocation to the Callan Micro Cap Value strategy in the OPERF portfolio and to amend OIC policy 04-05-01 accordingly. OIC Policy 04-05-01 addresses the strategic role of Public Equities within OPERF. One objective of OIC Policy 04-05-01 is to achieve a portfolio return of 75 basis points over the MSCI All Country World Investable Market Index (ACWI IMI). In an effort to meet this return objective, the OIC maintains a strategic overweight to U.S. Small Cap equities targeted at 100 percent relative to the Russell 3000 Index (with an upward range boundary of 140 percent). This U.S. Small Cap overweight is supported by widely recognized academic studies which show that the smaller cap equities provide greater expected returns relative to larger cap equities.

The proposed strategy would be implemented with the Callan Micro Cap Value Equity Fund (the Fund). This Fund is a multi-sub advisor portfolio managed by the Callan Trust Advisory Group, a division of Callan Associates (Callan). Callan was founded in 1973, and is one of the largest independently owned investment consulting firms in the United States. The firm employs 60 dedicated research professionals, and has $1.7 trillion in assets under advisement. The Micro Cap Value strategy is backed by Callan's Global Manager Research Group which monitors the Fund's underlying managers as well as evaluates the broader U.S. Small Cap and Micro Cap manager universe.

MOTION: Mr. Solomon moved approval of the staff recommendations. Ms. Durant seconded the motion which then passed by a vote of 5/0.

V. 11:15 a.m.: Proxy Voting Annual Review and Update

Bob McCormick, Chief Policy Officer with Glass Lewis summarized votes cast by Glass, Lewis and Co. on behalf of the OIC (as required by OIC Policy 4.05.06). Mr. McCormick also provided an update on the regulatory environment concerning proxy votes.

The year over year increase in proxy voting since 2006 is summarized below:

	2007	2008	2009	2010	2011	2012
Meetings	2,323	2,672	4,306	4,816	5,669	5,690
Resolutions	22,186	27,328	45,584	51,340	63,449	62,760

Mr. Demorest left the meeting at 11:35 am.

VI. 11:43 a.m.: Securities Lending Update

Johnson Shum and Steven Meier of State Street reviewed results for OPERF's 2012 securities lending program and provided an update on current securities lending market conditions. They also gave an update on cash management and securities lending markets, respectively, with a focus on the securities lending program's two main accounts managed by State Street on behalf of OPERF and other state agency funds, including the OSTF.

VII. 12:08 p.m.: OPERF 4th Quarter Performance Review

John Meier with SIS updated the Board on OPERF's 4th quarter, calendar 2012 and historical investment performance.

VIII. 12:10 p.m.: Asset Allocations and NAV Updates

Mr. Skjervem reviewed the Asset Allocations and NAV's for the period ending January 31, 2013.

IX. 12:13 p.m.: Calendar – Future Agenda Items

Mr. Skjervem highlighted future agenda topics.

X. 12:13 p.m.: Investment Beliefs Project Update

Allan Emkin, Pension Consulting Alliance gave an update on the Investment Beliefs Project.

XI. 12:15 p.m.: Other Business

No other business was discussed.

12:15 p.m.: Public Comments

There were no public comments.

The meeting adjourned at 12:18 pm.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist

TAB 2 – APOLLO FUND VIII

OPERF Private Equity

Apollo Investment Fund VIII, L.P.

Purpose

Staff is recommending a commitment of $300 million to Apollo Investment Fund VIII, L.P. (the "Fund"), a $12 billion target fund (no hard cap), which will continue Apollo's strategy of opportunistic equity and debt investments across a range of industries. The Fund will target opportunistic buyouts, corporate carve-out transactions and distressed investments, depending on the prevailing market environment. Apollo expects to invest a significant majority of the Fund in North America. OPERF and the OIC committed to the two most recent Apollo investment funds.

Background

Apollo was founded in 1990 by Leon Black, Marc Rowan and Josh Harris following their departure from Drexel Burnham Lambert. The firm's initial efforts were focused on capital markets/credit strategies and private equity. Between 1990 and 1995, the firm raised two smaller private equity funds (Fund I and Fund II), which were invested alongside a larger separate account managed for Credit Lyonnais. In 1995, Apollo raised $1.5 billion for its flagship Fund III, and has since raised and deployed new private equity funds every three to four years.

The firm has been highly successful in both its private equity and credit strategies, and Apollo's Capital Markets group has current assets under management (AUM) of approximately $60 billion. In 2008, Apollo launched a series of investment vehicles targeting real estate strategies, with current AUM of over $8 billion. In 2011, Apollo completed an initial public offering on the New York Stock Exchange, and trades under the ticker "APO". The founders retain majority control of the firm, with approximately one-third of the firm held by strategic investors or the public market.

Strategy

Apollo's private equity strategy is best characterized as opportunistic and value-oriented, and focuses on three main themes: 1) opportunistic buyouts; 2) corporate carve-outs; and 3) distressed situations. Opportunistic buyout transactions usually involve limited competition due to some complicating factor which enables Apollo to acquire a good company at a reasonable price. Examples of complicating factors may include regulatory issues, transaction complexity or operational challenges.

Corporate carve-outs involve negotiated agreements with larger companies to buy a division or line-of-business, and establish it as a stand-alone company. Corporate carve-outs are complex and operationally intensive, often involving recruiting a capable management team, building a stand-alone corporate infrastructure and creating independent information and reporting systems. Because of the uncertainties and complexities involved, these transactions typically are proprietary or have limited competition. Many companies are averse to openly "shopping" a part of their business, and are more interested in a potential buyer's discretion and ability to successfully execute than in squeezing the last dollar out of the deal.

Apollo's main differentiator from other large-mega private equity managers is their ability to execute on distressed situations. The firm's deep resources and experience in credit markets and strategies allow it to opportunistically capture value from distressed situations. Examples include gaining equity control of a troubled company via investments in its distressed debt, non-control-oriented investments in distressed debt, or purchasing the debt of their existing portfolio companies at substantial discounts during market dislocations. Overall, these three themes provide Apollo attractive investment opportunities across the business cycle, allowing for a more consistent pace of capital deployment and risk mitigation at the fund level.

Apollo will typically invest $300 million to $1.5 billion, in companies with enterprise values of $500 million to $10 billion. The firm expects to make 20-25 significant investments in Fund VIII, with a geographic allocation of approximately 75 percent North America, 20 percent Europe, and 5 percent Asia. The firm has significant expertise and prior investment experience in eight core sectors, however, Fund VIII will not have specific sector allocation targets. Apollo will pursue the sectors where it perceives the greatest opportunity.

Team

Since inception, Apollo has grown into a robust investment organization, with a total of over 600 employees, including 86 private equity focused investment professionals. The firm has offices in New York, Los Angeles, Houston, London, Frankfurt, Luxembourg, Singapore, Hong Kong, and Mumbai. The team investing the Fund includes 21 Senior Partners, 8 Partners, 18 Principals and 36 junior staff. The three founding partners range in age from 48 to 61, so generational transition is not a concern for this Fund. Apollo has not had excessive turn-over among its senior private equity professionals, and carried interest is allocated broadly, with the investment team receiving a significant majority. The firm's staff-to-AUM ratio is on the low side of its peers, and the firm's culture appears to be one where staff are expected to work hard, and will be rewarded if they work well.

Track Record

The OIC has committed to two prior Apollo investment funds, with commitments of $200 million to Fund VI in 2006 and $400 million to Fund VII in 2008. As detailed in the following table (and as of December 31, 2012), Apollo has compiled a long and distinguished track record of success over multiple economic cycles:

Fund	Vintage	Net IRR	Net TVM	IRR Quartile	TVM Quartile
I, II, SA	1990	37.5%	1.82x	First	Fourth
III	1995	13.7%	1.58x	Second	Second
IV	1998	8.8%	1.64x	Second	First
V	2001	43.8%	2.03x	First	Second
VI	2006	7.8%	1.30x	First	Second
VII	2008	25.0%	1.47x	First	First
Total		**26.1%**	**1.55x**		

Portfolio Fit and Commitment Sizing

Apollo represents one of the four "core" large corporate finance (LCF) managers in the OPERF private equity portfolio. The firm is differentiated from other LCF managers, both in deal flow and strategy, with a unique competence in credit and distressed situations that is not duplicated by other LCF OPERF managers.

Staff's recommendation of a $300 million commitment is consistent with the 2013 Private Equity Plan discussed with the OIC in early 2013. The reduction in size of this recommended commitment, relative to the prior fund, is a solely a function of managing down the OPERF private equity allocation.

Placement Agents

Apollo asserts that it is not using placement agents to assist in raising the Fund. Staff has had no contact with any placement agent regarding this potential commitment, and instead has dealt directly with Apollo staff.

Private Partnership Investment Principles

Staff has reviewed Apollo's responses to the OIC Private Partnership Investment Principles, and affirms that the Fund's terms and conditions conform with a majority of the Principles. During negotiations, Staff will focus on improving the transaction fee split to a 100 percent management fee offset, and improving governance rights provisions.

Recommendation

Staff recommends that the OIC authorize a $300 million commitment to Apollo Investment Fund VIII, L.P., on behalf of OPERF, subject to satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

TorreyCove
CAPITAL PARTNERS

MEMORANDUM

TO:	Oregon Public Employees Retirement Fund ("OPERF")
FROM:	TorreyCove Capital Partners ("TorreyCove")
DATE:	April 22, 2013
RE:	Apollo Investment Fund VIII, L.P. (the "Fund")

Strategy:

The Fund will make primarily equity and debt (including distressed debt) investments across a range of industries. The Fund will opportunistically target a combination of distressed investments, corporate carve-outs, and opportunistic buyouts depending on the particular market environment. The Fund will target 20 to 25 investments of between $300 million and $1.5 billion in companies valued at over $500 million. Geographically, the Fund will invest primarily in the United States, with limited exposure to Europe and Asia (primarily India). European-based companies are expected to constitute less than one-quarter of the Fund's portfolio, while Asia-based investments will likely be less than 5% of the portfolio.

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

Allocation:

A new commitment to the Fund would be allocated 100% to the Large Corporate Finance investment sub-sector and will further be categorized as a Domestic investment. As of September 30, 2012, OPERF's allocation to Large Corporate Finance is listed in the table below. It is important to note that since allocation is based on fair market value, a commitment to the Fund would not have an immediate impact on OPERF's current portfolio allocation. Commitments to the Fund are complementary to OPERF's existing fund commitments and provide the overall portfolio with a further degree of diversification.

As of September 30, 2012	Target	FMV	FMV + Unfunded
Large Corporate Finance	45-65%	47.0%	45.2%

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 considers a commitment of $300 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 3 – LONE STAR FUND VIII

OPERF Real Estate

Lone Star Fund VIII, L.P.

Purpose

Staff recommends a $300 million commitment to Lone Star Fund VIII, L.P. ("the Fund," "Fund VIII, or "LSF VIII"). This fund represents a continuation of the successful series of funds offered by Lone Star Partners ("Lone Star"), investing globally in distressed debt, distressed real estate and real estate entities such as banks and finance companies where real estate can be acquired opportunistically.

Investment Opportunity

The Fund has a target size of $5.0 billion and will seek to invest in distressed investments in loans and securities, including single family residential, corporate and consumer debt products, as well as financially-oriented and asset-rich operating companies. The Fund's geographic weightings, based upon prevailing investment opportunities in the global markets today, are estimated to be 40% in the U.S., 40% in Europe and 20% in Japan. Lone Star's Real Estate Fund (LSREF) series, of which OPERF is invested in LSREF I & II, are a separate fund series offered by Lone Star and focus on commercial real estate, including multi-family and commercial real estate assets. While the two previous funds, LS Fund VII and LSREF II, were raised in parallel, the capital deployment of LS Fund VII has exceeded that of LSREF II, hence the anticipated capital raise for a future LSREF III will occur once the predecessor fund has invested its remaining capital.

History/Team

Lone Star was formed after John Grayken left the Bass Family organization in the mid-1990s to start his own real estate opportunity fund platform in the wake of the RTC period. Since its first fund nearly 18 years ago, Lone Star has raised eight additional funds, not including LSF VIII. Today, the firm has over 60 investment personnel globally, including 20 investment professionals dedicated to loan origination, with offices in Dallas, New York, Washington DC, Montreal, London and Frankfurt. The team operates on a regional basis between the US, Western Europe (primarily Germany and the UK) and Asia (mostly Japan). The organization is overseen by John Grayken with the regions led by Takehisa Takamatsu in Asia, Len Allen in North America and Bruno Scheer in Europe.

Hudson Advisors: A key part of Lone Star's strategy of successful distressed/workout investing has been its internal servicing team, Hudson Advisors, which operates around the globe with more than 200 personnel. Hudson Advisors has offices in Dallas, New York, London, Munich, Frankfurt, Luxembourg, Madrid, Dublin, and Tokyo, and is the dedicated asset management company responsible for performing the due diligence, analysis, and much of the special servicing for assets acquired by the Lone Star Funds. As an affiliated party, all fee structures with Hudson Advisors are approved by the Fund limited partners and reviewed by the respective advisory boards.

Vericrest: another component of Lone Star's strategy will include the use of Vericrest, a recently renamed financial services company acquired by Lone Star Fund VI in 2009 and focused on residential mortgage and consumer loan servicing activities. With over 550 employees, Vericrest will, and is, the primary servicer for all single family residential loans acquired by the Lone Star Funds. As is the case with Hudson Advisors, all fee structures with Vericrest are approved by the Fund limited partners and reviewed by the respective advisory boards.

Track Record

OPERF has participated in each of the Lone Star fund offerings since 1995. A summary of each, with investment performance metrics as of December 31, 2012, including OPERF's committed capital and NAV as of September 30, 2012, is provided below:

Fund	**Vintage Year**	**OPERF Commitment ($ millions)**	**OPERF NAV ($ millions)**	**Projected IRR (net)**	**Projected Investment Multiple (net)**
LS Opportunity Fund	1997	75	0	7.5%	1.25x
Lone Star Fund II	1999	125	0	16%	1.34x
Lone Star Fund III	2000	200	19.3	30.6%	2.06x
Lone Star Fund IV	2002	200	12.9	30.4%	2.28x
Lone Star Fund V	2005	270	153	2.8%	1.17x
Lone Star Fund VI	2008	500	325	15.5%	1.80x
Lone Star Real Estate Fund I	2008	100	53.4	8.5%	1.36x
Lone Star Fund VII	2010	200	174	26.7%	1.64
Lone Star Real Estate Fund II	2010	200	77.7	19.8%	1.45x

Portfolio Fit

The Opportunistic sub-portfolio within OPERF’s real estate investment program had a 37% weighting at September 30, 2012 versus a target weighting of 30% (with a bandwidth allowance up to 40%). Staff and consultant believe that Lone Star’s long and successful track record investing in distressed debt merits investment at this time to take advantage of current market dislocations. As financial markets stabilize, we will continue to structure future capital commitments within the real estate portfolio to ensure the Opportunistic sub-portfolio is shifting to its intended 30% target allocation.

Issues to consider

General Partner Concentration

OPERF has committed $1.87 billion to previous Lone Star funds (Lone Star Funds I-VII and Real Estate Funds I-II). Of this amount, approximately $820 million remains as net asset value and about $162 million remains as unfunded commitment. Lone Star has become OPERF's largest real estate investment manager, currently representing approximately 16.5% of the OPERF real estate investment program. Given Lone Star's global diversification, asset mix and number of investments within each fund, these commitments offer substantial diversification for OPERF. Additionally, given Lone Star's unique organizational capabilities which enable execution on large and often complicated transactions/loan pools, and its captive servicing platforms, Lone Star rarely competes with other managers in the OPERF real estate portfolio.

Litigation

While there is currently no active litigation that is anticipated to adversely affect the performance of the present fund offering, Lone Star does have open legal matters. Most recently, a minority of shareholders in Winn-Dixie filed suit to block the acquisition and subsequent merger with Bi-Lo by a Lone Star fund, alleging the Winn-Dixie board breached its fiduciary responsibilities and was in-part aided by the Lone Star fund. Once the merger was approved by a shareholder majority, this suit was modified by the plaintiffs for unspecified damages and is still in litigation. The second open litigation was filed by Lone Star in November 2012 against the government of Korea in international courts, claiming damages suffered from the Korean government's interference with Lone Star's acquisitions of various companies in the early 2000s. Lastly, Lone Star has ongoing tax disputes related to gains on investments and taxes paid by two prior funds. However, the taxes have already been paid and/or written down by the prior funds, hence the claims represent limited risk to fund investors.

Placement Agents

Lone Star did not retain a placement agent to assist in fundraising.

Private Partnership Investment Principles

Staff and PCA, the consultant retained for independent third-party Fund-level due diligence, have reviewed Lone Star's responses and comments to the OIC's Private Partnership Principles, and confirm general overall compliance therewith. It should be noted that Fund VIII's proposed terms are, in aggregate, more LP friendly than most fund offerings available in the market today.

Recommendation

Staff recommends that the OIC authorize a $300 million commitment to Lone Star Fund VIII, L.P., on behalf of OPERF, subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

April 22, 2013

John D. Skjervem, Chief Investment Officer

Anthony G. Breault, Interim Senior Real Estate Investment Officer

Oregon Employees Retirement Fund, Office of the Treasurer

350 Winter Street, Suite 100

Salem, OR 97301

Re: Lone Star Fund VIII Compliance Review

Dear Sirs:

We were asked to review the documents prepared by Pension Consulting Alliance, Inc. ("PCA") and the Statement of Compliance with the OIC Private Partnership Investment Principles (the "Principles") prepared by Lone Star officials. The purpose of our review was to provide an opinion as to whether an investment in Lone Star Fund VIII (the "Fund") would comply with both the Principles as well as the overall policy guidelines for the Oregon Public Employees Retirement Fund ("OPERF") real estate investment program.

In connection with our assignment we reviewed the following documents:

- The Private Placement Memorandum for the Fund;
- PCA's Due Diligence Memorandum recommending OPERF make a commitment to the Fund;
- The Statement of Compliance with the Principles prepared by Lone Star officials; and
- OPERF's overall policy guidelines regarding its real estate investment program.

Our work was limited to a desk review of these documents. Specifically, Areté Capital did not perform onsite due diligence of Lone Star for purposes of making an investment recommendation to OPERF regarding the merits and risks of an investment in the Fund, as that component was assigned to and undertaken by PCA.

With regards to Lone Star's compliance with the Principles two exceptions were noted. The first exception relates to the payment of carried interest which the Principles state should only be made after OPERF has been repaid its entire capital contribution to a fund plus all fees and expenses (with tax distributions being permitted to the General Partner). Lone Star's documents provide for a hybrid deal by deal distribution methodology. However, the risk of a potential "overpayment" of carried interest to the General Partner is substantially mitigated by the requirement that the General Partner establish reserves in an amount equal to a full "clawback". Further, no distribution to the General Partner can be made, if the remaining unrealized investments are insufficient to cover this full clawback amount of the individual distribution associated with the realized investment. Areté Capital believes this particular structural element provides adequate protection to OPERF against a potential over-distribution of a carried interest to the General Partner.

The second noted exception is the fact that the General Partner does not perform an audit each time a carried interest distribution is made. Mitigants to this exception are the established reserves (as noted above) and the fact that each year the Fund's financial statements are audited by a Big Four accounting firm, which includes an audit of carried interest distributions for the preceding year.

Overall, therefore, we believe the General Partner's terms and conditions are in substantial compliance with the Principles.

With regards to investment policy, OPERF guidelines stipulate a 30% target for the opportunistic segment of its real estate portfolio. Currently, OPERF's real estate program is over allocated to the opportunistic segment on a fully committed basis. However, the opportunistic percentage of the portfolio has been declining since its peak exposure a few years ago, and as the investment periods of several outstanding partnerships expire, OPERF's exposure will further decline. Also, many existing OPERF partnerships are now entering their liquidation phase and over the next few years the percentage allocation should decline due to that fact.

Historically, Lone Star has been exemplary in their ability to identify investments, execute and exit generally within a five year time horizon per investment. Essentially each new fund they raise is a recycling of previously distributed capital from prior investment funds. The opportunistic model has worked particularly well with Lone Star because of their ability to harvest and distribute gains in a comparatively short time period versus their peers. Thus, an incremental commitment to Fund VIII will not necessarily increase OPERF's overall exposure to the opportunistic segment as the aggregate exposure to Lone Star has been fairly constant over time.

In our opinion, a commitment to the Fund complies with OPERF's overall policy guidelines, subject to the limitations contained in this letter. Because of Lone Star's demonstrated ability to recycle capital, we recommend that OPERF proceed with a Fund commitment (again subject to the investment recommendation made by PCA as to the merits/risks of the investment), as such a commitment should not materially increase OPERF's funded exposure to the opportunistic real estate category.

We look forward to answering any questions you may have regarding our opinion and related matters.

Regards,

Nori Gerardo Lietz

Nori Gerardo Lietz, Partner

TAB 4 – BLACKSTONE TACTICAL OPPORTUNITIES FUND

Blackstone Tactical Opportunities Managed Account

Purpose
Staff recommends approval of a commitment to the Blackstone Tactical Opportunities-O L.P. (“Blackstone” or “Separately Managed Account” or “SMA”) in the amount of $250 million for the OPERF Opportunity Portfolio.

Background
Over the past 12-18 months, Blackstone has formed a small number of strategic managed accounts with large State pension plans and sovereign wealth funds. These managed accounts, in addition to a co-mingled fund, seek to invest opportunistically across a variety of assets and strategies that, for any number of reasons, may generally not fit Blackstone’s core funds.

<u>Strategy:</u>
The SMA will seek a mix of investment opportunities focused on quality of returns and downside protection. The portfolio will target three types of investment characteristics: 1) <u>Opportunistic</u>, comprised of cyclical or event driven investments with current income but substantial capital appreciation potential, though unpredictable rebound timing; 2) <u>Low Correlation Yield</u>, comprised of investments with high current cash yields, real and structured assets, and non performing debt; and 3) <u>High Returning Equity</u>, comprised of non-traditional assets, structured products, and non-control (minority) positions. In general, these investments will have high IRRs, but lower multiples on invested capital than traditional funds. The blended target gross return across strategies is expected to be in the mid-teens.

Over the past several years, there have been ample opportunities that Blackstone has evaluated including: purchase of credit instruments in 2008, Wind quota share agreements post Hurricane Katrina, purchase of distressed RMBS in 2009 and CMBS in 2011, and targeted opportunities associated with the auto bailout. Examples of current strategies of interest include: financial institutional deleveraging, regulatory capital relief, mortgage assets, insurance, and shipping and transportation assets.

<u>Pros:</u>

- *Reduced supply of capital.* Political and structural changes have led to a reduction of capital. New regulations such as Basel II and the Volcker Rule have sharply limited commercial and investment bank’s investing activities. “Prop desks” have been diminished thereby providing opportunities for institutional investors to invest in off-the-run, opportunistic, and more esoteric strategies previously unavailable to them. In addition, hedge funds generally no longer provide “side pocket” investment vehicles for attractive, but illiquid, investment opportunities.
- *More volatile markets.* As markets have become more volatile, the opportunity set has expanded for flexible mandates that invest outside traditional fund structures. The ability to deploy capital quickly through an opportunistic fund is an advantage relative to the time consuming traditional fund raising model.
- *Differentiated investment focus.* In contrast to private equity and real estate, the Tactical Opportunities SMA will focus on investments with differing characteristics such as: 1) smaller sized transactions; 2) shorter duration transactions; and 3) different governance structure, with an emphasis on acquiring assets rather than operating companies.

- *Attractive fee model.* Lower management fees and carry and a shorter investment horizon, should mitigate the "J-curve" affect. Oregon Staff has negotiated for additional discounts should OPERF recycle its commitment with a subsequent mandate.
- *Strong Investment Committee.* The Tactical Opportunities fund Investment Committee is comprised of the most senior leadership at Blackstone, enabling the highest cross team collaboration for ideas, resources and execution. All the major group heads at Blackstone are represented on the Committee, including Steve Schwartzman, Tony James and the heads of credit, real estate, private equity, hedge funds and Tactical Opportunities.
- *Greater strategy interaction.* The strategic relationship of the mandate should enable more frequent conversation and interaction which has the potential to benefit Oregon Staff as it evaluates its own opportunistic strategies.

<u>Cons:</u>

- *First time strategy*. While Blackstone is a leader in discrete investment areas such as private equity, real estate, credit and hedge funds, it has not managed an "opportunistic investment" program before. [Mitigant: The operation is being built by David Blitzer, one of the earliest Blackstone employees, who has worked in both Real Estate and Private Equity and is building a fully functioning standalone group to manage the Fund.]
- *Broad mandate.* The breadth of the mandate requires a team that can source and underwrite across a wide variety of assets and strategies. [Mitigant: Because Blackstone hopes to build another successful business unit, David Blitzer has been free to recruit top resources from throughout the Blackstone organization, including professionals from private equity, real estate and credit.]
- *Allocation of Investment Opportunities.* On occasion there may be investments that are allocated between different Blackstone investment funds, which allocation would be determined by the GP. [Mitigant: This mandate will invest pro rata alongside similar mandates and Blackstone's co-mingled vehicle. In addition, the Investment Committee is made up of representatives of all major Blackstone business units, which should provide oversight on the allocation process.]

<u>Terms:</u>
Reflective of the strategy nature and size of the commitment, there is a lower than normal management fee on committed capital and invested capital. In addition, the fund has a materially lower than market incentive fee (carry), though no preferred return hurdle. There is a shorter three-year investment period and a nine-year term following the investment period with two one-year optional extensions if approved by OPERF.

<u>Conclusion:</u>
Blackstone offers one of the most comprehensive investment platforms of any alternatives investment manager. A strategic relationship between OPERF and Blackstone should enable greater and timelier access to attractive opportunistic investments that OPERF might miss otherwise.

Recommendation
Staff and Torrey Cove recommend a commitment of $250 million to Blackstone Tactical Opportunities-O L.P., subject to the negotiation of the requisite legal documents with staff working in concert with the Department of Justice.

TorreyCove
CAPITAL PARTNERS

MEMORANDUM

TO: Oregon Public Employees Retirement Fund ("OPERF")

FROM: TorreyCove Capital Partners ("TorreyCove")

DATE: April 22, 2013

RE: Blackstone Tactical Opportunities, L.P.

Strategy:

The Tactical Opportunities program is being raised as a comingled fund and series of separate accounts that will invest together in the same portfolio of investments. The Tactical Opportunities strategy will pursue a highly flexible investment approach across asset types, such as public equity, structured equity, minority private equity, real estate, commodities, real assets and credit, as well as throughout the capital structure, investing in senior secured debt, bank debt, mezzanine, unsecured bonds, convertible bonds, preferred stock and equity, in order to generate superior risk adjusted returns with a focus on capital protection. BTO will focus on complex situations that are typically proprietary with little competition for alternative sources of capital, and will use a theme based approach to sourcing. It is anticipated that the portfolio will be composed of a mix of investments that have varying risk / return profiles, including lower risk investments with the potential to generate attractive longer duration yield oriented returns, as well as shorter duration investments with potentially higher IRRs but lower multiples of invested capital. According to the General Partner many of the opportunities will require quick action in order to capture brief market dislocations that may be temporary in nature.

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 $250 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 5 – LITIGATION UPDATE

Possible Executive Session may be held pursuant to

ORS 192.660(2)(f) & (h)

TAB 6 – ASSET ALLOCATIONS & NAV UPDATES

Asset Allocations at March 31, 2013

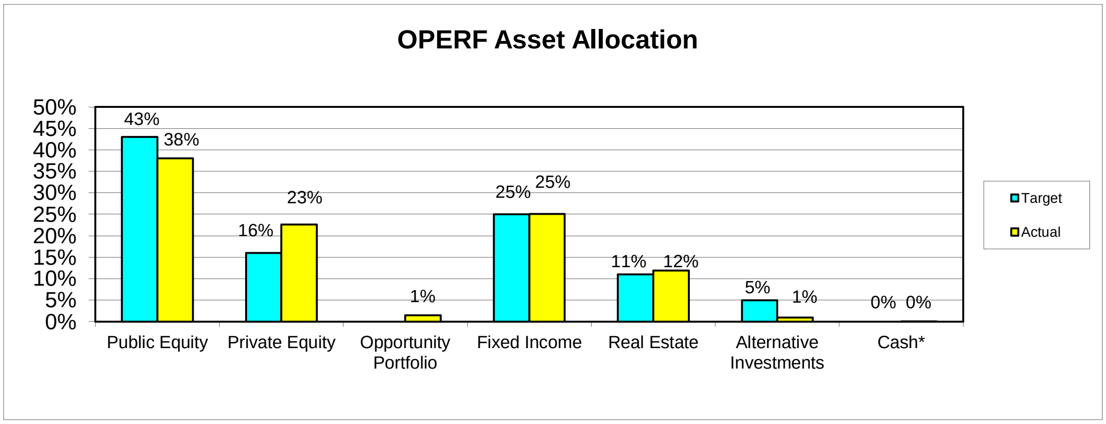
OPERF	Policy	Target	Regular Account					Variable Fund	Total Fund
			$ Thousands	Pre-Overlay	Overlay	Net Position	Actual	$ Thousands	$ Thousands
Public Equity	38-48%	43%	23,393,028	37.6%	251,490	23,644,518	38.0%	844,015	24,488,533
Private Equity	12-20%	16%	14,078,707	22.6%		14,078,707	22.6%		14,078,707
Total Equity	**54-64%**	**59%**	**37,471,735**	**60.3%**	**251,490**	**37,723,225**	**60.7%**		**38,567,240**
Opportunity Portfolio			891,514	1.4%		891,514	1.4%		891,514
Fixed Income	**20-30%**	**25%**	**14,298,595**	**23.0%**	**1,274,608**	**15,573,203**	25.0%		**15,573,203**
Real Estate	**8-14%**	**11%**	**7,402,164**	**11.9%**	**(9,400)**	**7,392,764**	11.9%		**7,392,764**
Alternative Investments	**0-8%**	**5%**	**591,301**	**1.0%**		**591,301**	1.0%		**591,301**
Cash*	**0-3%**	**0%**	**1,523,622**	**2.5%**	**(1,516,698)**	**6,924**	0.0%	4,187	**11,111**
TOTAL OPERF		**100%**	**$ 62,178,931**	**100.0%**	**$ -**	**$ 62,178,931**	**100.0%**	**$ 848,202**	**$ 63,027,133**

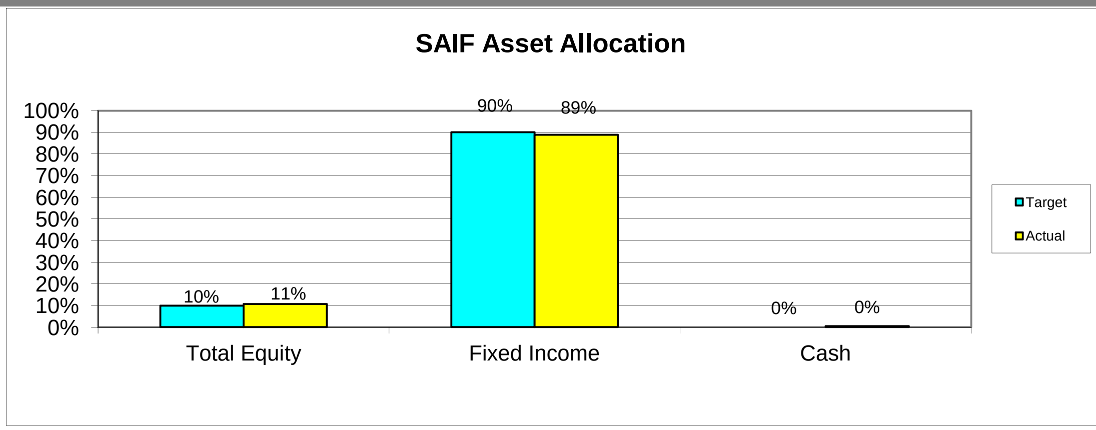
*Includes cash held in the policy implementation overlay program.

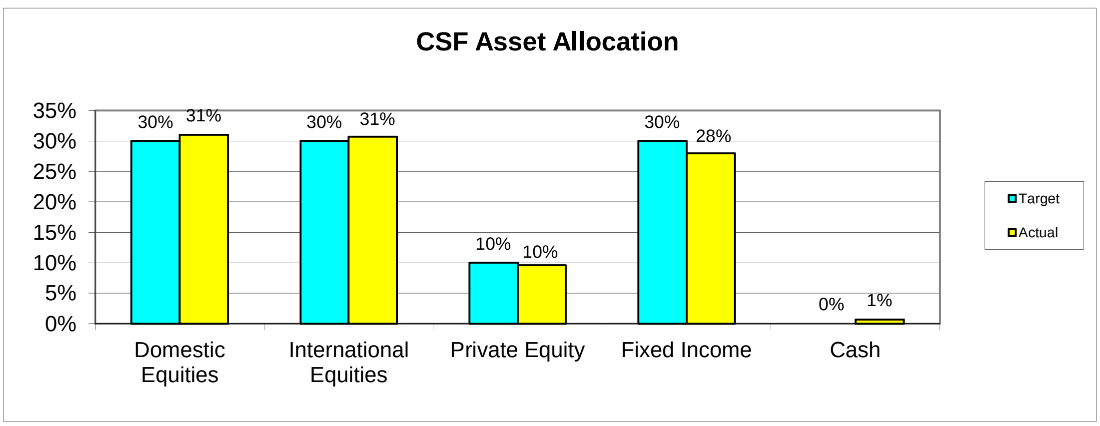
SAIF	Policy	Target	$ Thousands	Actual
Total Equity	**7-13%**	**10.0%**	**473,513**	**10.6%**
Fixed Income	**87-93%**	**90.0%**	**3,963,461**	**88.9%**
Cash	**0-3%**	**0%**	**21,643**	**0.5%**
TOTAL SAIF		**100%**	**$4,458,617**	**100.0%**

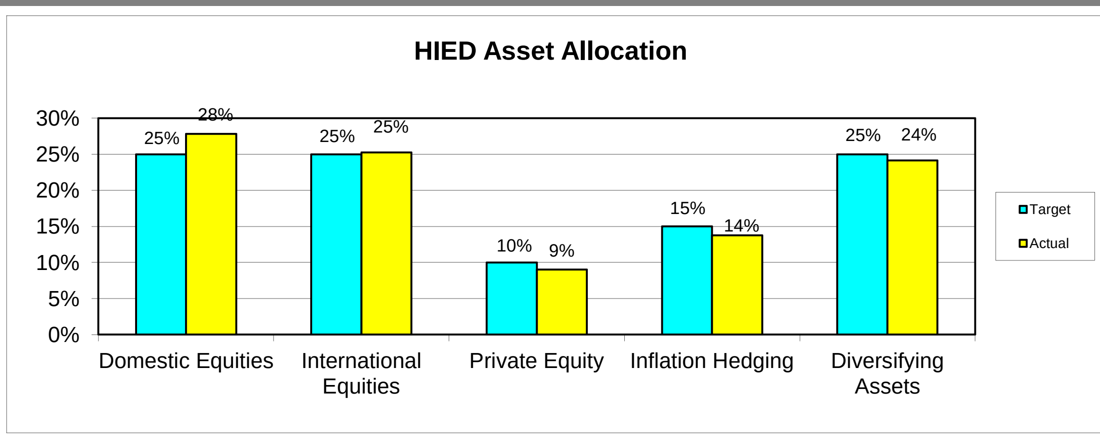
CSF	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$382,729	31.0%
International Equities	25-35%	30%	379,070	30.7%
Private Equity	0-12%	10%	118,698	9.6%
Total Equity	**65-75%**	**70%**	**880,497**	**71.4%**
Fixed Income	**25-35%**	**30%**	**344,911**	**28.0%**
Cash	**0-3%**	**0%**	**8,555**	**0.7%**
TOTAL CSF			**$1,233,963**	**100.0%**

HIED	Policy	Target	$ Thousands	Actual
Domestic Equities	20-30%	25%	$19,529	27.8%
International Equities	20-30%	25%	17,702	25.2%
Private Equity	0-15%	10%	6,327	9.0%
Growth Assets	**50-75%**	**60%**	**43,558**	**62.1%**
Real Estate	0-10%	7.5%	4,902	7.0%
TIPS	0-10%	7.5%	4,765	6.8%
Inflation Hedging	**7-20%**	**15%**	**9,667**	**13.8%**
Fixed Income	20-30%	25%	15,740	22.4%
Cash	0-3%	0%	1,207	1.7%
Diversifying Assets	**20-30`%**	**25%**	**16,947**	**24.2%**
TOTAL HIED			**$70,172**	**100.0%**

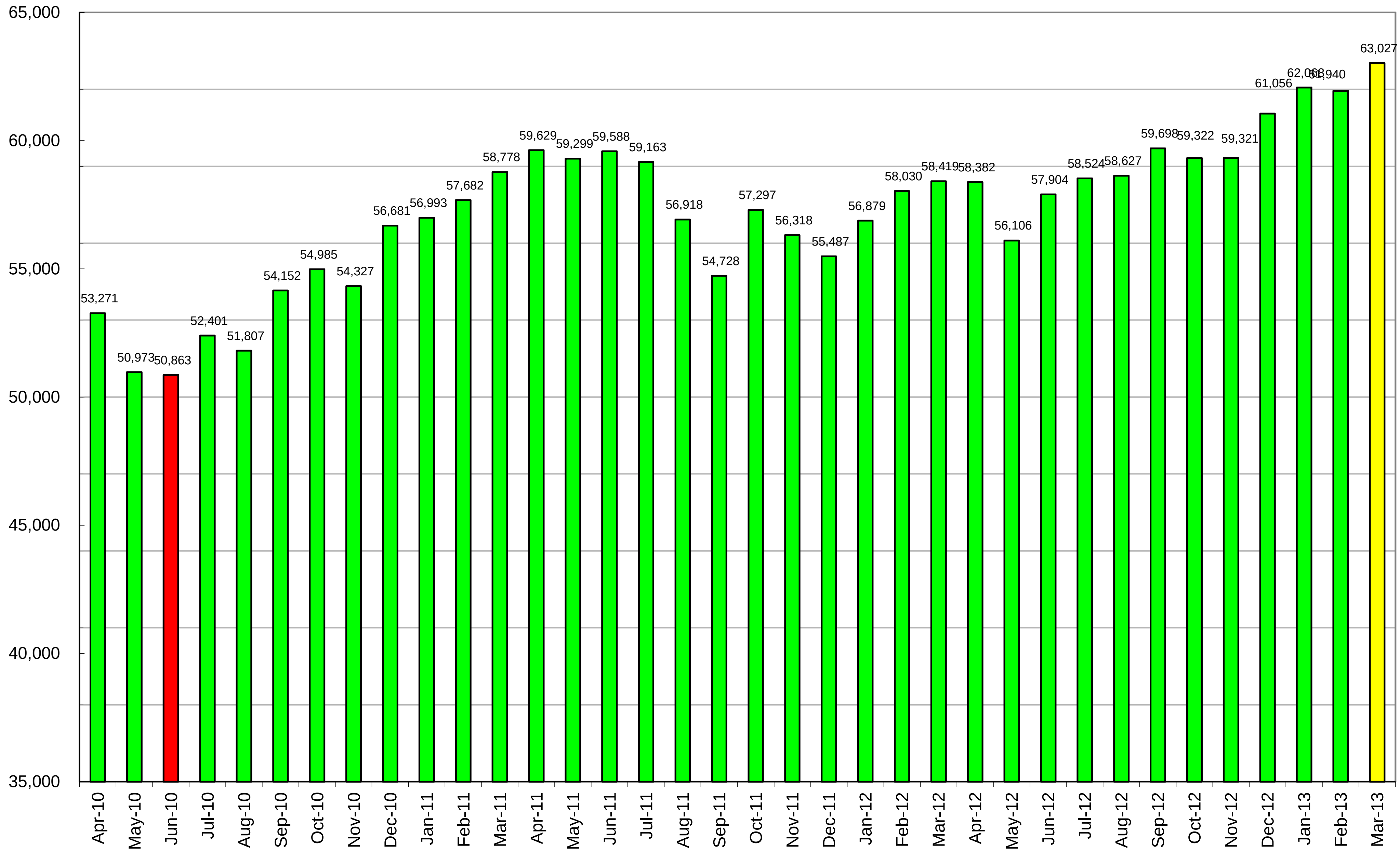

OPERF Asset Allocation
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
43%
38%
16%
23%
1%
25%
25%
11%
12%
5%
1%
0%
0%
Public Equity
Private Equity
Opportunity Portfolio
Fixed Income
Real Estate
Alternative Investments
Cash*
Target
Actual


SAIF Asset Allocation
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
10%
11%
90%
89%
0%
0%
Total Equity
Fixed Income
Cash
Target
Actual

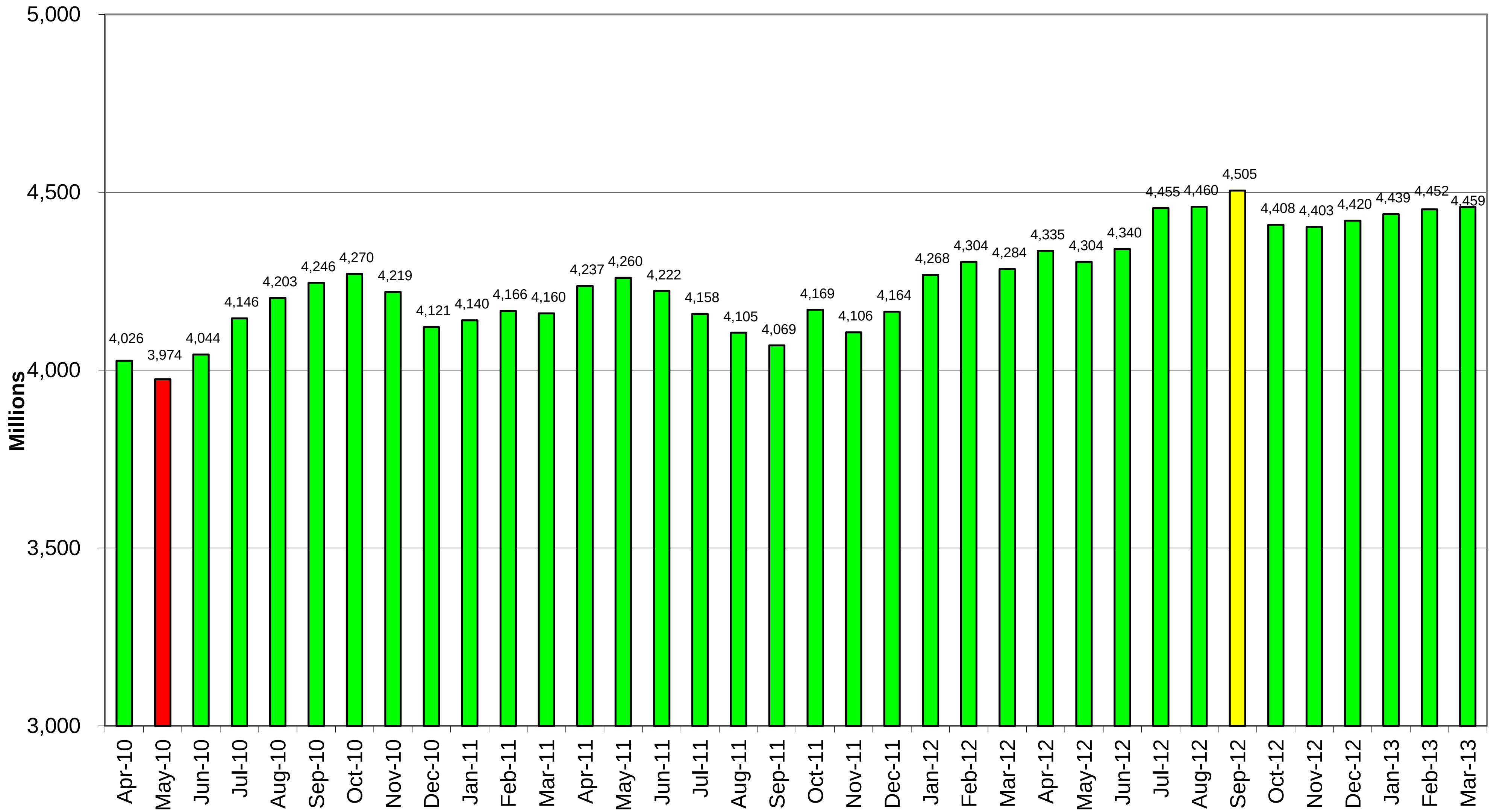

CSF Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
30%
31%
30%
31%
10%
10%
30%
28%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual


HIED Asset Allocation
30%
25%
20%
15%
10%
5%
0%
25%
28%
25%
25%
10%
9%
15%
14%
25%
24%
Domestic Equities
International Equities
Private Equity
Inflation Hedging
Diversifying Assets
Target
Actual

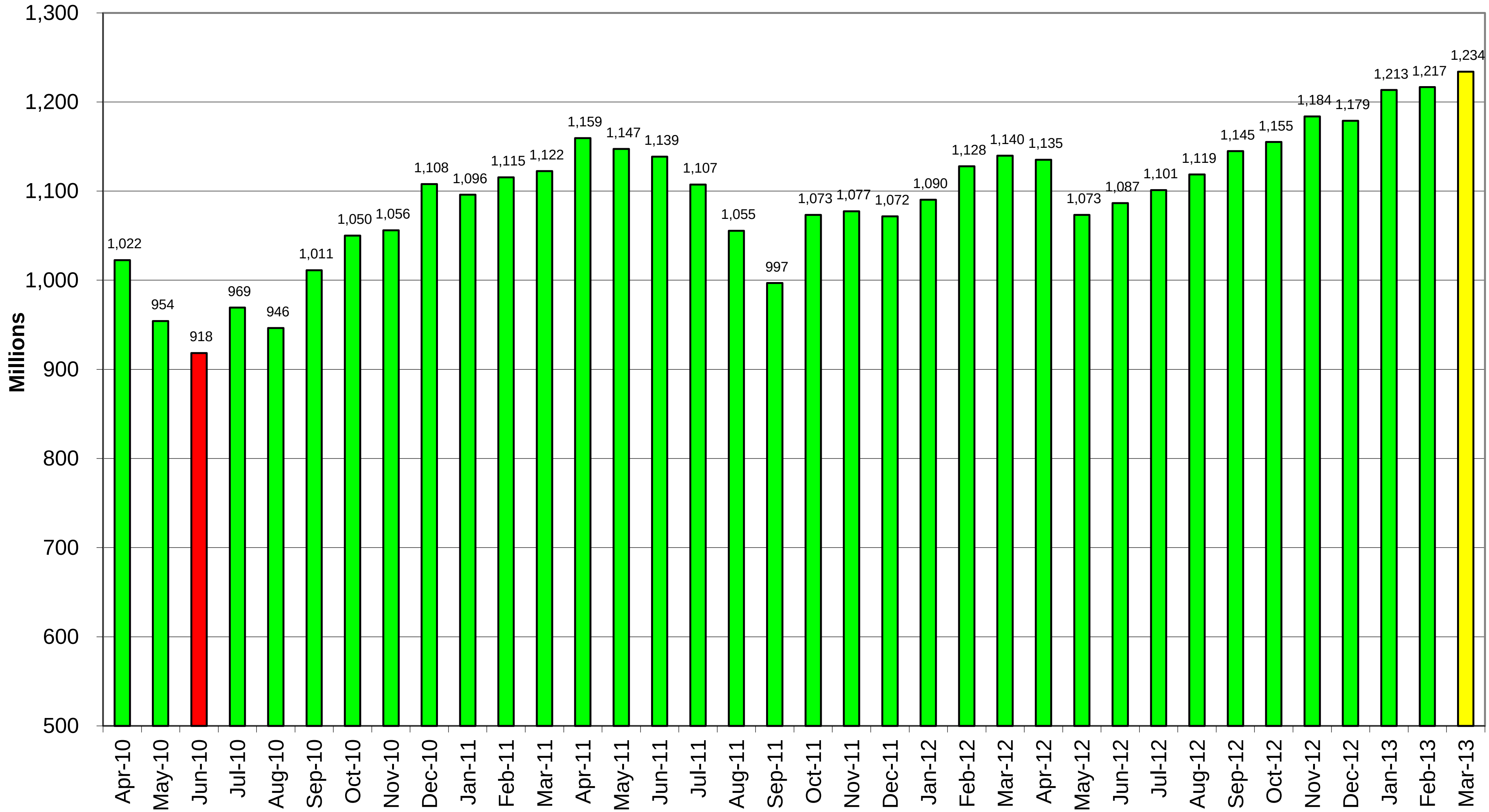
OPERF NAV
Three years ending March 2013
($ in Millions)



SAIF NAV
Three years ending March 2013
($ in Millions)



CSF NAV
Three years ending March 2013
($ in Millions)



TAB 7 – CALENDAR – FUTURE AGENDA ITEMS

2013 OIC Forward Agenda Topics

May 29:	OIC Investments Beliefs Discussion/Adoption (45) OPERF Opportunity Portfolio (40) OPERF Alternatives Portfolio Review (30) OPERF Real Estate (45) OIC Real Estate Consultant Recommendation (45) OPERF 1st Quarter Performance Review (10) Post meeting: *Operational Review Workshop*
June 26:	Asset/Liability Study OPERF Alternatives OPERF Real Estate OPERF Public Equity OPERF Policy Implementation Overlay Review OPERF Fixed Income Portfolio Review
July 31:	OPERF Real Estate Portfolio Review SAIF Annual Review Annual OIC Policy Review & Update
September 25:	OSTF Annual Review OITP Annual Review OPERF Public Equity Review
October 30:	Common School Fund Review CEM Benchmarking Report OIC General Consultant Recommendation Internal Audit Report
December 4:	OPERF Opportunity Portfolio Review HIED Annual Review OPERF 3rd Quarter Performance Review