# Oregon Investment Council

September 25, 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

## 2013 Schedule

Meetings Begin at 9:00 am

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

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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**

**September 25, 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**<br>July 31, 2013 Regular Meeting | **Keith Larson**<br>*OIC Chair* | **1** |
| | **OIC Meeting Calendar for 2014** | **Keith Larson** | |
| | **Committee Reports** | **John Skjervem**<br>*Chief Investment Officer* | |
| **9:05-9:45** | **2. RS Global Natural Resources Fund**<br>*OPERF Alternative Portfolio* | **John Hershey**<br>*Senior Investment Officer*<br>**MacKenzie Davis**<br>*Co-Manager*<br>**John Meier**<br>*Strategic Investment Solutions* | **2** |
| **9:45-10:25** | **3. Lone Star Real Estate Fund III, LP**<br>*OPERF Real Estate* | **Tony Breault**<br>*Interim Senior Investment Officer*<br>**Andre Collin**<br>*Senior Managing Director*<br>**Nick Beevers**<br>*Managing Director*<br>**Christy Fields**<br>*Pension Consulting Alliance* | **3** |
| **10:25-10:40** | **---------------------BREAK----------------------** | | |
| **10:40-11:25** | **4. OPERF Real Estate Review and Market Outlook** | **Tony Breault**<br>**Christy Fields** | **4** |

| | | | | |
|---|---|---|---|---|
| **11:25-12:10** | **5.** | **OPERF Public Equity Review** | **Michael Viteri**<br>*Senior Investment Officer*<br>**John Meier** | **5** |
| **12:10-12:40** | **6.** | **OIC Investment Beliefs Project** | **Allan Emkin**<br>*Pension Consulting Alliance* | **6** |
| **12:40-12:50** | **7.** | **State Accident Insurance Fund**<br>*Investment Policy Revisions* | **Mike Mueller**<br>*Deputy CIO* | **7** |

**B. Information Items**

| | | | | |
|---|---|---|---|---|
| **12:50-1:00** | **8.** | **Asset Allocations & NAV Updates**<br>a. Oregon Public Employees Retirement Fund<br>b. SAIF Corporation<br>c. Common School Fund<br>d. HiEd Pooled Endowment Fund | **John Skjervem** | **8** |
| | **9.** | **Calendar—Future Agenda Items** | | **9** |
| | **10.** | **Other Items** | **Council**<br>**Staff**<br>**Consultants** | |

**C. Public Comment Invited**

15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

July 31, 2013 Regular Meeting

OIC Meeting Calendar for 2014

OST Committee Reports – Verbal

JOHN D. SKJERVEM
CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

PHONE 503-378-4111
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STATE OF OREGON
OFFICE OF THE STATE TREASURER
350 WINTER STREET NE, SUITE 100
SALEM, OREGON 97301-3896

# OREGON INVESTMENT COUNCIL
JULY 31, 2013
MEETING MINUTES

| | |
|---|---|
| Members Present: | Rukaiyah Adams, Paul Cleary, Katy Durant, Dick Solomon, Ted Wheeler |
| Member on the Phone: | Keith Larson |
| Staff Present: | Andrea Belz, Darren Bond, Tony Breault, Garrett Cudahey, Sam Green, Andy Hayes, John Hershey, Brooks Hogle, Julie Jackson, Carmen Leiva, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Tom Rinehart, Priyanka Shukla, James Sinks, John Skjervem |
| Consultants Present: | David Fann, Jeff Goldberger, Tom Martin and Heidi Poon (TorreyCove); John Meier and Deb Gallegos (SIS); John Linder and Mike Moy (PCA) |
| Legal Counsel Present: | Deena Bothello and Dee Carlson, Oregon Department of Justice |

The July 31, 2013 OIC meeting was called to order at 9:02 am by Dick Solomon, Vice Chair.

**I. <u>9:02 am Review and Approval of Minutes</u>**

**MOTION:** Ms. Adams moved approval of the June 26, 2013 meeting minutes. Ms. Durant seconded the motion, which passed by a 4/0 vote (Treasurer Wheeler was absent for the vote).

**II. <u>9:03 am SAIF Asset/Liability Discussion</u>**

Theresa McHugh, SAIF Vice President of Financial Services and Andrew Canning, Co-Head of Insurance Advisory Services with Towers Watson gave an update on SAIF, specifically its assets, liabilities and underwriting activities. This update was provided in connection with OIC's oversight responsibilities for SAIF's investment portfolio.

Earlier this year, SAIF retained TowersWatson (which acquired Wells, Canning & Associates in October 2011) to a) provide an updated analysis of SAIF's financial position/liabilities, and b) recommend asset allocation changes, if deemed necessary. Importantly, Andrew Canning and Karen Wells, who previously worked on the SAIF account, are now with TowersWatson.

The following changes were recommended as a result of this most recent review:

1. Funded from core fixed income, consider a new, maximum five percent allocation to core, income-focused real estate in the form of private market equity and/or senior debt investments; and

2. Expand the mandates of existing fixed income managers to include high yield bonds, bank loans and dollar denominated emerging markets debt.

**MOTION:** Staff recommended approval of TowersWatson's proposed asset allocation changes, subject to staff bringing revised SAIF investment policies to an upcoming OIC meeting. Ms. Durant moved approval of the staff recommendation. Ms. Adams seconded the motion, which passed by a vote of 5/0.

**III. 9:42 am Reservoir Resource Partners, L.P. – OPERF Alternatives Portfolio**

John Hershey, Senior Investment Officer introduced Craig Huff, General Partner with Reservoir Resource Partners. Reservoir Capital Group manages approximately $5.6 billion across its opportunistic fund, a power generation co-investment fund and its dedicated hedge fund seeding strategy. Reservoir is seeking to raise $1.5 billion to invest in natural resource and additional power generation opportunities. The firm is an existing relationship as OPERF committed $50 million in February 2012 to its hedge fund seeding strategy, Reservoir Strategic Partners.

Reservoir intends to invest with a concentrated ($50-200 million) opportunistic approach, including an emphasis on management teams with which Reservoir has prior partnering experience. The firm will pursue investment structures that provide downside protection and a "base" level return, including a current cash yield. Deal structures are also expected to include features such as long term contracts, assets with tangible value and capital seniority.

Reservoir has had extensive experience investing in energy assets, including the power generation sector, which will comprise approximately two thirds of the expected portfolio composition. Reservoir expects to augment its power investments with other midstream and downstream energy infrastructure assets. In addition to energy infrastructure, natural resource assets including oil and gas and agriculture investments will comprise the remainder of the target portfolio.

Staff and Torrey Cove recommended a $100 million commitment to Reservoir Resource Partners L.P., subject to satisfactory negotiation of the requisite legal documents with staff working in concert with the Department of Justice.

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

**IV. 10:15 am OIC Policy Change Recommendations**

The following is a brief summary of policy changes staff proposed in support of recent OIC actions:

1. 4.05.03: Recommended updates to this policy will allow CIO approval for changes to internal equity mandates' "permitted investments," subject to prior OIC notification.

2. 4.06.02: Given the approved increase in the Alternatives Portfolio target allocation, corresponding increases in the Alternative Portfolio Committee's approval limits are now recommended. Specifically, staff recommends increasing commitment limits for first time funds from $50 million to $100 million. Staff further recommends that annual calendar year commitment limits be increased as follows: from $150 million to $500 million for first time funds and from $500 million to $700 million for follow-on investments. These revised Alternative Portfolio Committee approval limits are consistent with those currently governing the Real Estate Committee; moreover, and as always, OIC members retain the ability to have any proposed committee commitment brought before the entire OIC.

3. 4.06.03: Relative to the Opportunity Portfolio, staff recommends an increase in committee approval limits from $50 million to $100 million for first time funds, and for annual calendar commitments, staff recommends raising the committee's approval limits from $150 million to $500 million for first time funds and from $500

million to $700 million for follow-on funds. Again, OIC members retain the ability to have any proposed committee commitment brought before the entire OIC.

4. 4.05.02: Staff recommends revisions to this policy in response to certain requirements of the Dodd-Frank Act. Specifically, the Commodities Futures Trading Commission (CFTC) has promulgated new rules and regulations which now require investment managers and counterparties, in certain derivative transactions, to perform due diligence and make disclosures to each other, in an attempt to prevent abusive trading practices. As a result of Dodd-Frank, governmental entities are required to have written policies and procedures in place that are reasonably designed to ensure that the selection and monitoring of certain investment managers are performed in a manner that is consistent with CFTC regulations.

   The proposed policy revisions, as provided to staff by DOJ, address these requirements. Representations obtained from investment managers in legal documentation, combined with staff monitoring, will provide the means of implementing this new policy language. When investment managers enter into derivative transactions on the OIC's behalf, investment managers will be acting as "swap advisors," as referenced in the proposed policy language. As required under the new regulations, staff will be exchanging with managers documentation containing specific representations regarding CFTC compliance. The new policy language reflects these representations. Moreover, Treasury's standard investment contract has been revised to provide the same representations by contract. The contracting process will, therefore, be the primary procedure for ensuring compliance with this regulation. As a second measure, Treasury's staff will continue its standard process for selecting and monitoring investment managers and will do so in a manner consistent with these policies

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

**V. <u>10:47 am Oregon Short Term Fund Review</u>**

Perrin Lim, Senior Investment Officer and Garrett Cudahey, Investment Officer gave a short update on the Oregon Short Term Fund.

**VI. <u>10:58 am Oregon Intermediate Term Pool Review</u>**

Mr. Lim and Tom Lofton, Investment Officer gave a short update on the Oregon Intermediate Term Pool (OITP) and recommended OIC approval of the following revisions to OITP investment guidelines as outlined in policy 4.03.04:

- Allow investments in tax-exempt municipal obligations (taxable muni investments are already permitted).
- Allow investments in asset-backed (ABS) and mortgage-backed securities (CMBS/MBS) subject to the following qualifications:
    - ABS, CMBS and MBS investments are currently permitted and utilized in several state agency separate accounts.
    - Limit MBS investments to U.S. Agency-backed securities.
    - Minimum Triple-A rating for CMBS and ABS.
    - Maximum 5-year weighted average life.
    - Limit portfolio exposure for both ABS and CMBS to 25%.
    - Exclude the following types of MBS and ABS:
        - Alt-A, non-agency, sub-prime, limited documentation or other "sub-prime" residential mortgage pools or related securities;

        - Collateralized debt obligations (CDOs); and
        - Collateralized Loan obligation (CLOs).
- Change OITP portfolio benchmark to reflect recommended guideline revisions.
    - From: BAML 1-5 Year A-AAA U.S. Corporate & Government Index
    - To: BAML 1-5 Year U.S. Corporate, Government & Mortgage Index

**MOTION:** Ms. Adams moved approval of the staff recommendations. Treasurer Wheeler seconded the motion which was then passed by a vote of 5/0.

**VII. <u>11:25 am OPERF Asset Allocation Implementation Plan</u>**

John Skjervem, Chief Investment Officer, Mr. Lim and John Meier of SIS provided OIC members with an update on the OPERF fixed income portfolio. The specific purpose of this agenda item was to seek OIC approval for the following: 1) transition plan for the OPERF fixed income portfolio pursuant to updated strategic asset allocation targets as approved at the June 26, 2013 OIC meeting; 2) revisions to policy 4.03.01 to reflect these updated targets; and 3) delegation of transition plan implementation authority to the Chief Investment Officer (and corresponding revisions to policy 4.03.03).

Staff recommended the following:

- OIC approval for the fixed income portfolio transition plan submitted by Mr. Lim.
- OIC approval for the corresponding revisions to policy 4.03.01, subject to final revisions presented at a subsequent OIC meeting.
- OIC approval for delegation of implementation authority to the CIO with corresponding revisions to policy 4.03.03.

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

**VIII. <u>11:37 am Asset Allocations and NAV Updates</u>**

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

**IX. <u>11:39 am Calendar – Future Agenda Items</u>**

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

**X. <u>11:38 am Other Business</u>**

None

**<u>11:39 am Public Comments</u>**

None

Paul Cleary gave a quick update on the last PERS Board Meeting.

Mr. Solomon adjourned the meeting at 11:53 am.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist

# OREGON INVESTMENT COUNCIL

## 2014 Schedule

Meetings Begin at 9:00 am

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

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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

# TAB 2 – RS GLOBAL NATURAL RESOURCES FUND

## RS Global Natural Resources Strategy

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**Purpose**
Staff recommends approval of a $200 million commitment to the RS Global Natural Resources Strategy (the "Strategy") for the OPERF Alternatives Portfolio.

**Background**
RS Investments ("RS") manages approximately $24 billion across its various funds, including approximately $6.9 billion of assets under management (AUM) by its natural resources team. RS is reserving the Strategy's limited, remaining capacity for existing clients before closing it to new capital, most likely at the end of this year. RS is also an existing relationship as OPERF committed $50 million in August 2012 to the firm's Natural Gas strategy in a separate account.

<u>Strategy</u>
The Strategy, launched in 1995, consists of a concentrated portfolio of global, all-cap equities, diversified across commodities. The Fund's investment team performs bottoms up analysis at the project level, building supply "cost curves" for each commodity. This project-level, discounted cash flow analysis informs the team's view of future commodity prices, which, in turn, drives its fundamental view of individual company value. The team seeks to identify those cost-advantaged companies that can survive commodity price cycles, and buys and sells those companies' stocks based on whether they trade at a discount or premium to fundamental net asset value (NAV). The resultant portfolio is concentrated in 30-40 positions, has low turnover and is diversified across commodities.

<u>Pros:</u>

- *Strong sector track record.* Ten year returns (through 6/30/13) in excess of 12.4%, net of fees, which represents a 1.97% excess return relative to the MSCI World Commodity Producers Index (a global commodity equity index) and an 11.07% excess return relative to the S&P GSCI (a commodity futures index) over the same time period.
- *Experienced investment team.* The Strategy's key managers average 17 years of experience in natural resource equity investing. In addition, team members approach their roles as fundamental business analysts (not as top down portfolio managers), and each holding is covered by 2-3 team members. The Strategy's two key leaders are responsible for portfolio construction and risk management.
- *Strong market fundamentals.* Natural resource producers should benefit over time from positive market fundamentals such as increasing emerging market demand, diminished spare capacity and low inventories. Moreover, marginal costs associated with new supply creation (which are a function of geology and resource accessibility and represent the primary determinant of long term commodity prices), are rising.
- *Long term value approach.* Similar to private equity strategies, the Strategy aims to generate long term outperformance by focusing on company-specific "return on invested capital" rather than how natural resource equities are valued in public markets: current period earnings and cash flow. And by focusing on those producers positioned at the low end of the production cost curve, the Strategy should outperform in a cyclical downturn, when other, higher cost producers will likely struggle. Preserving capital in downturns is a primary determinant of superior returns compounding.

- *Liquidity and terms.* The Strategy invests in public market equities across the capitalization range, providing OPERF with a daily redemption option. As private market funds are expected to comprise most of the Alternative Portfolio's natural resource exposure, the Strategy offers a complimentary degree of liquidity. And while the Strategy's investment methodology and portfolio construction are similar to private equity funds, its fee structure is much lower.
- *Portfolio fit.* Staff is targeting a 15% sub-allocation to "liquid" commodity and natural resources strategies within the Alternatives Portfolio, but to date, OPERF has not made any corresponding commitments. Thus, the proposed Strategy commitment would be this sub-allocation's first.

Cons:

- *Short term volatility.* Since the Strategy invests in listed securities, it is subject to typical equity market volatility. Moreover, natural resource equities may exhibit short term volatility due to changes in commodity spot prices, which in turn are influenced by supply and demand shocks. [Mitigant: While its returns may be correlated with public markets in the short term, the Strategy should be more correlated to commodity prices over the long term. This expectation is analogous to REITS which exhibit equity market volatility in the short term, but are more closely correlated to private real estate values over the long term.]
- *Political risk.* Exploration and production (e.g., oil, gas, metals and mining) has become a political issue locally and nationally, and limits to such activities could be introduced through the legislative process. [Mitigant: Natural resources are a core ingredient to growth in both developed and developing economies and play a critical role in power generation, construction and many other essential services. It is unlikely that a material reduction in exploration and production activities can be achieved without a commensurate decline in economic growth.]
- *Environmental.* Many natural resource projects employ drilling or extraction techniques that may adversely impact the local environment. Specifically, recent developments in hydro-fracturing technology (i.e., "fracking") have improved the economic viability of new energy sources, but some believe this particular technique also elevates environmental risks due to its pervasive use of highly pressurized water and industrial chemicals. [Mitigant: industry proponents maintain that fracking has been used safely and successfully for decades and that the associated drilling typically takes place hundreds of feet below drinking water aquifers.]

Terms

As is the norm for listed equity mandates, the Strategy's fee structure includes an AUM-based management fee (with breaks for commitment size) and no incentive fee (see confidential SIS memo for details). Strategy assets will be held in custody by State Street, and OPERF can terminate this RS mandate at any time. No placement agent had contact with OST staff in connection with the Strategy or staff's evaluation thereof.

Conclusion

The Alternatives Portfolio policy stipulates a 40-50% allocation to natural resource investments (approximately $2.8 billion at current OPERF size). As RS has an attractive sector-based track record across a range of natural resources and geographies, staff believes the Strategy offers a complement to both the existing Alternatives Portfolio and staff's future plans therefor.

**Recommendation**

Staff and SIS recommend a $200 million commitment to the RS Global Natural Resources Strategy, subject to satisfactory negotiation of the requisite legal documents with staff working in concert with Department of Justice personnel.

PEOPLE | PROCESS | PHILOSOPHY

NATURAL RESOURCES

# Extracting Value from Natural Resources

## RS Global Natural Resources Strategy

Second Quarter 2013

**Oregon Investment Council**

September 25, 2013



RS investments

# RS Investments' Key Strengths

**Our distinct investment teams, research-driven culture, and alignment of interests with clients drive long-term results**

- Focused on research-driven investment strategies since 1986
- Separate investment teams with expertise in distinct asset classes
- $24.4 billion AUM in mutual funds and separate accounts
- Significant employee ownership
- Investment alongside clients

As of June 30, 2013

# RS Global Natural Resources Team

## Team structure and depth facilitates thorough business analysis

- Team members average 17 years of industry experience
- We are business analysts, focused on understanding how companies create value over time
- 2-3 analysts are responsible for each investment
- Strategy leaders* responsible for overall portfolio construction and risk management

| **MacKenzie Davis* CFA** Investment Analyst | **Martin Engel** Investment Analyst | **Ken Settles* CFA** Investment Analyst | **James Bruce** Investment Analyst | **Brian Lively** Investment Analyst |
|---|---|---|---|---|
| 20 years exp. | 18 years exp. | 17 years exp. | 19 years exp. | 12 years exp. |

### Traders

| **Jean Timken** Trader | **Chris Beagle** Trader |
|---|---|
| 32 years exp. | 21 years exp. |

As of August 12, 2013





RS investments

# Product Introduction

- Experienced team dedicated to the global natural resource space
- RS Global Natural Resources Composite was launched in 1995
- Concentrated global all cap equities strategy, diversified across commodities
- $6.9B AUM as of June 30, 2013
- Over the last 10 years (as of 6/30/13)
  (Annualized performance (net of fees) for the 1, 5, and 10 year periods ending 6/30/13 are 2.51%, -3.61%, and 12.48%, respectively)
  - 12.48% annualized returns (net of fees)
  - 61bps annualized out-performance (net of fees) vs. S&P North American Natural Resources Sector Index™
  - 197bps annualized out-performance (net of fees) vs. MSCI World Commodity Producers Index
  - 1,009bps annualized out-performance (net of fees) vs. DJUBS Commodity Index
  - 1,107bps annualized out-performance (net of fees) vs. S&P GSCI®

A GIPS-compliant presentation is attached. Please see the last page of the Appendix.
***Performance quoted represents past performance and does not guarantee future results.***





RS investments

# Objective and Philosophy

## Objective:

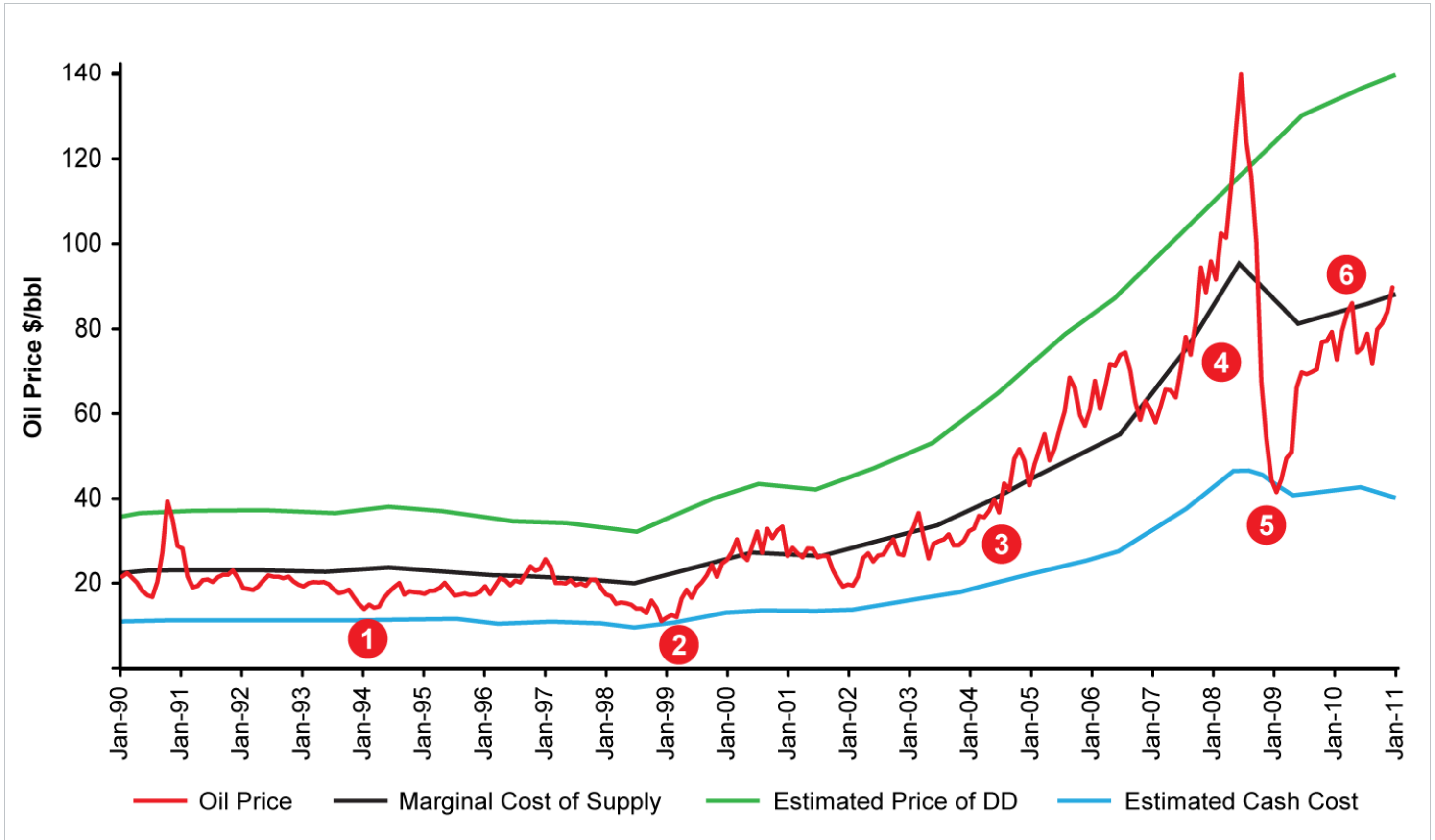
- To generate superior risk-adjusted returns across a commodity price cycle

## Philosophy:

- Private equity investors in the public markets
  1. Investment results are a function of company specific value creation as measured by return on invested capital. Differentiated returns are not driven by changes in commodity prices.
  2. Steep cost curves protect the economics of low-cost, “advantaged” assets.
  3. Capital preservation is a primary determinant of long-term returns.
  4. The public markets do not efficiently price long-term value creation.

# Why Natural Resources

## Marginal Costs Continue to Rise




Source: Sanford Bernstein

1. Structural oversupply and significant spare capacity keeps prices at the cash cost
2. Economic slowdown lowers demand. Prices fall to cash cost
3. Demand grows faster than supply moderating spare capacity and pushing prices to the marginal cost of supply
4. Demand surges, supply is pushed to the limit forcing demand to be destroyed
5. Demand shocks drive price to cash costs
6. Prices recover to marginal cost of supply due to limited spare capacity

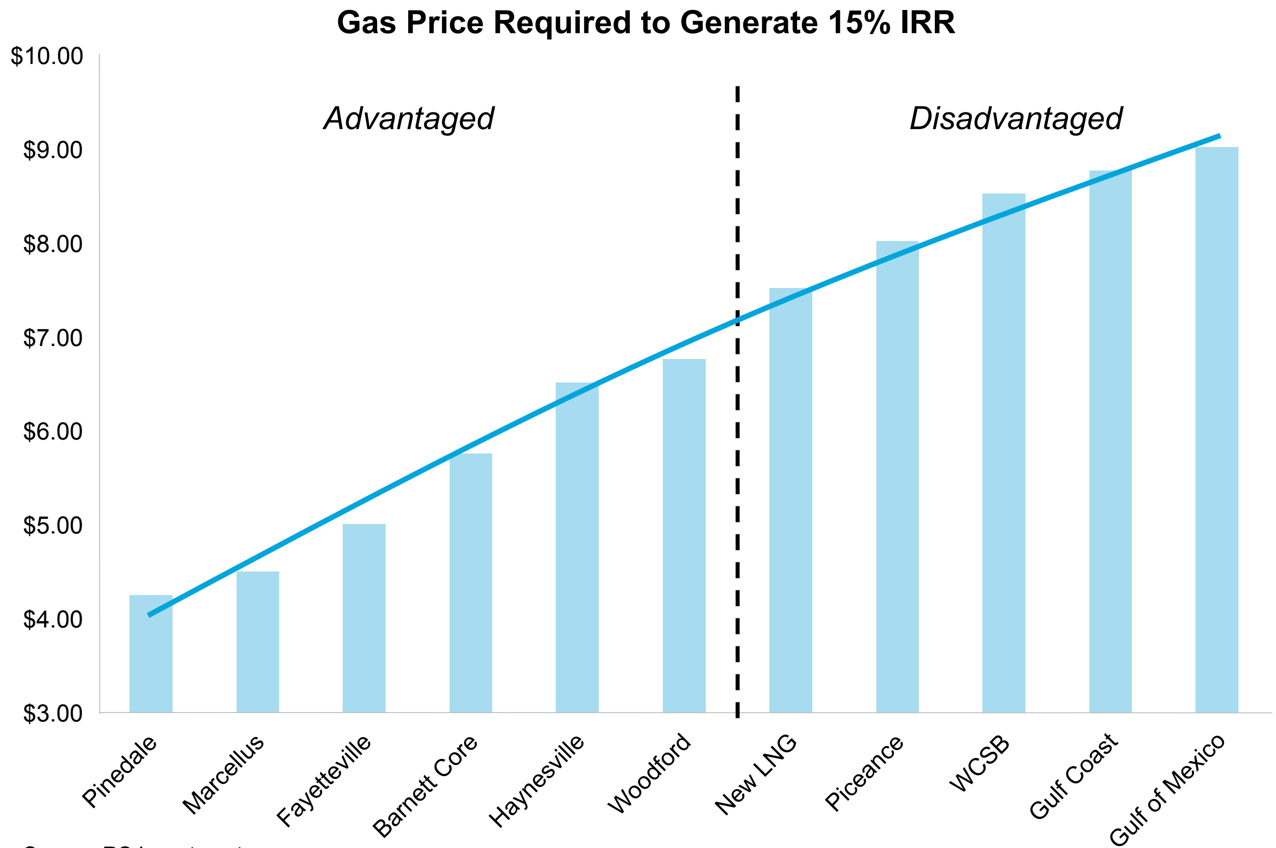




RS investments

# Investment Process – Cost Curve Analysis

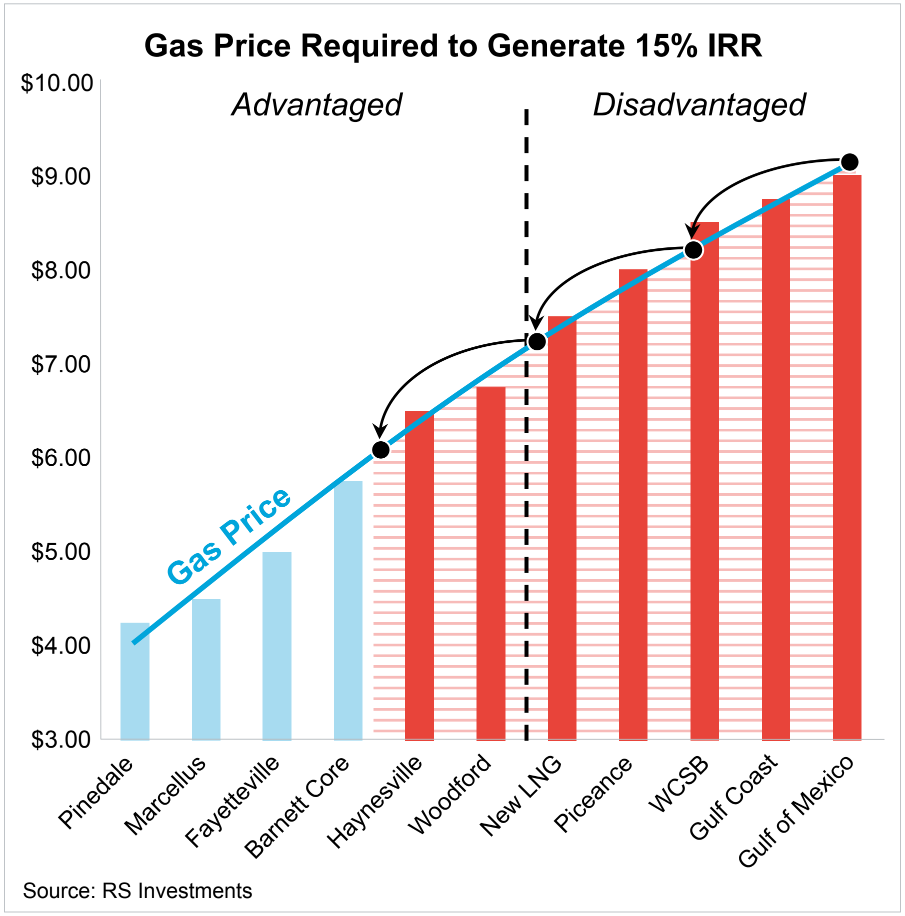
**The dispersion of returns across projects is significant and is primarily a function of geology. Advantaged natural resource assets are not subject to mean reversion of returns.**



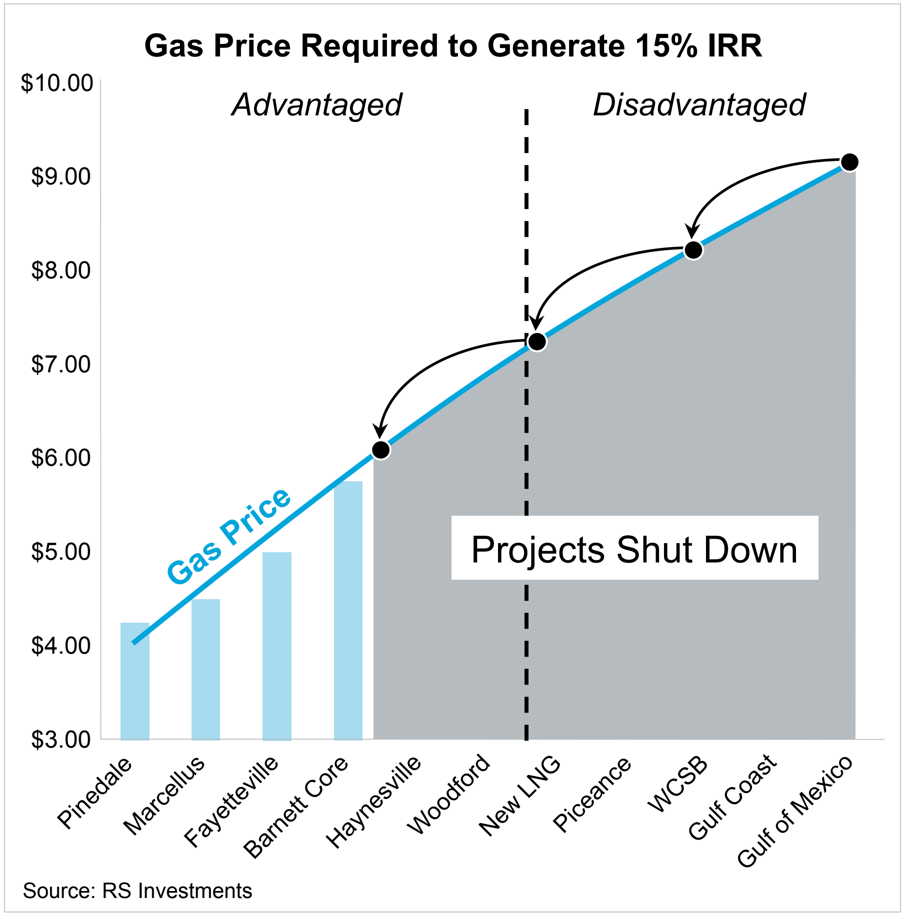

Source: RS Investments

# Investment Process – Cost Curve Analysis

## As price falls, high cost projects become unprofitable




## High cost projects eventually shut down, reducing supply



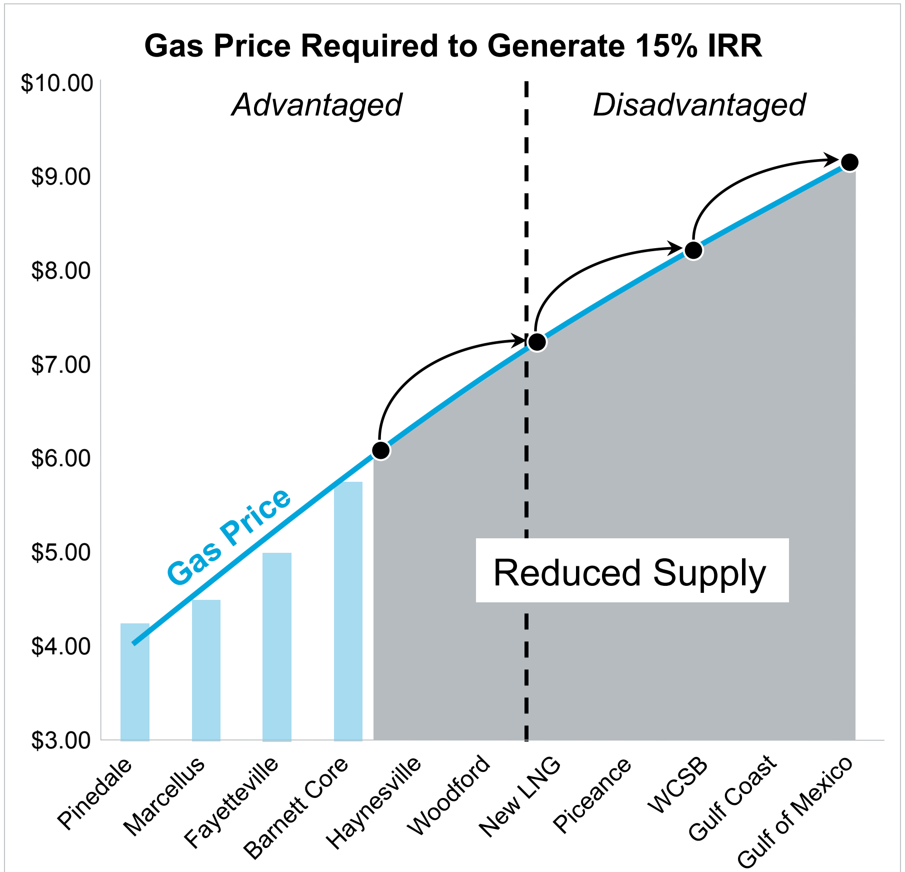





RS investments

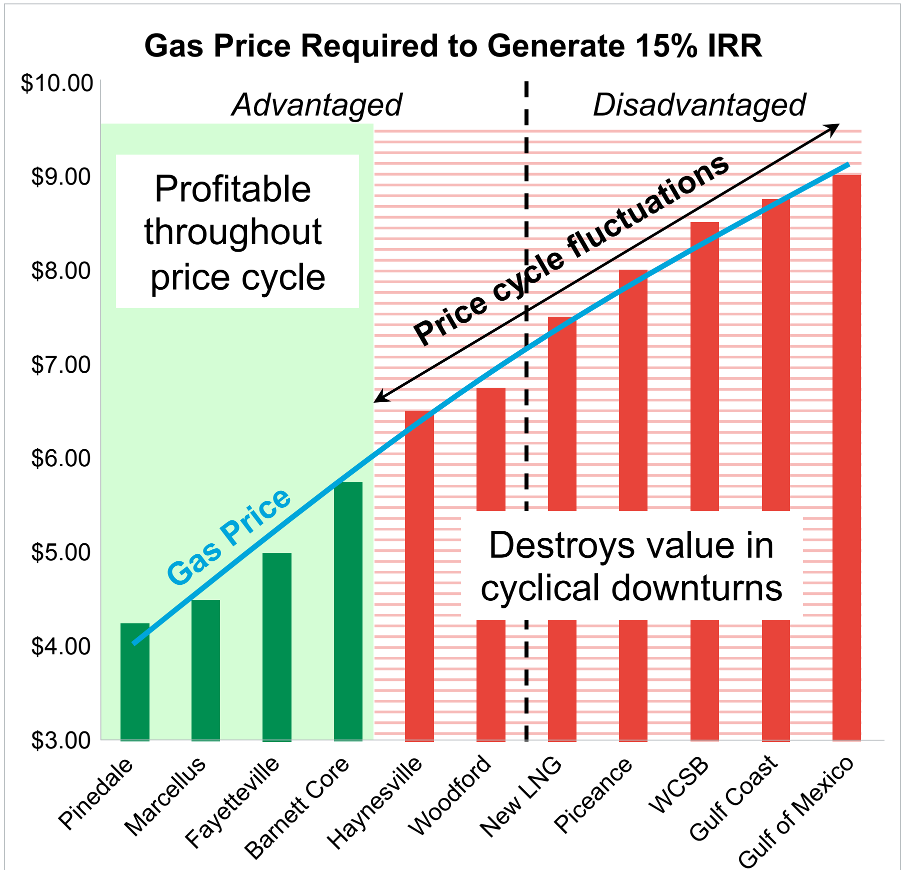
# Investment Process – Cost Curve Analysis

## Reduced supply causes prices to stabilize and then recover




Source: RS Investments

## Low cost projects remain profitable and create value throughout the price cycle, while high cost projects destroy value in downturns




Source: RS Investments



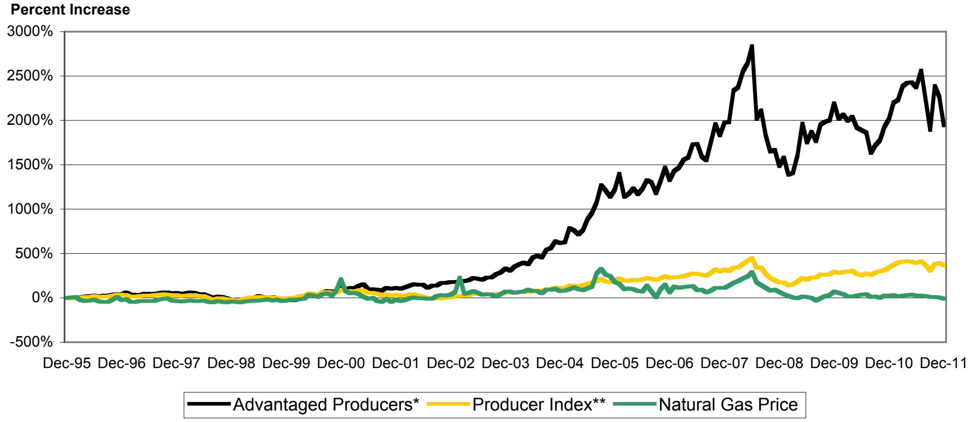


RS investments

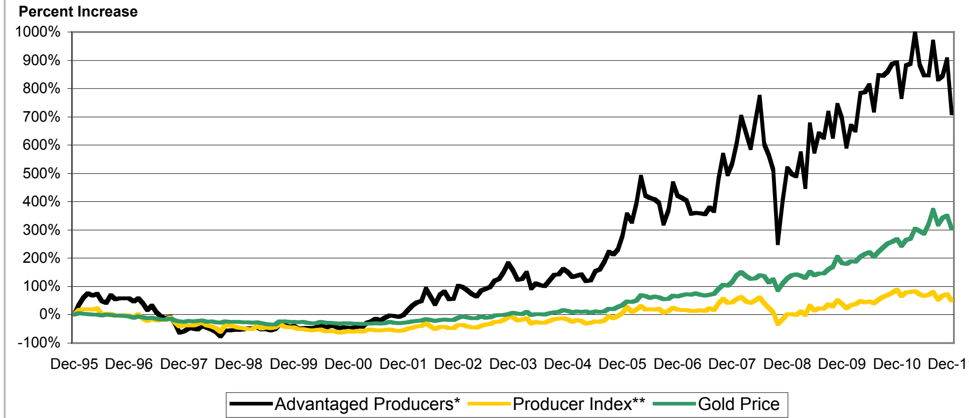
# Investment Process – Cost Curve Analysis

## Focus on Steep Cost Curves

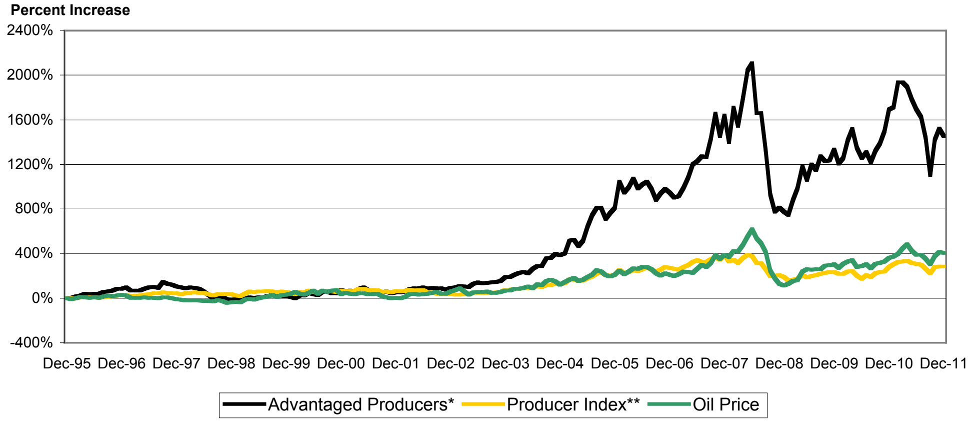
**Natural Gas** (12/31/95-12/31/11)



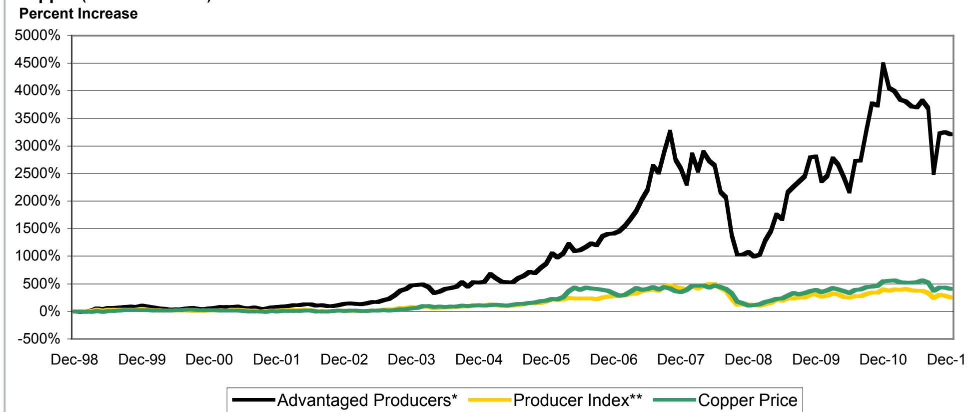

**Gold** (12/31/95-12/31/11)




**Oil** (12/31/95-12/31/11)




**Copper** (12/31/98-12/31/11)

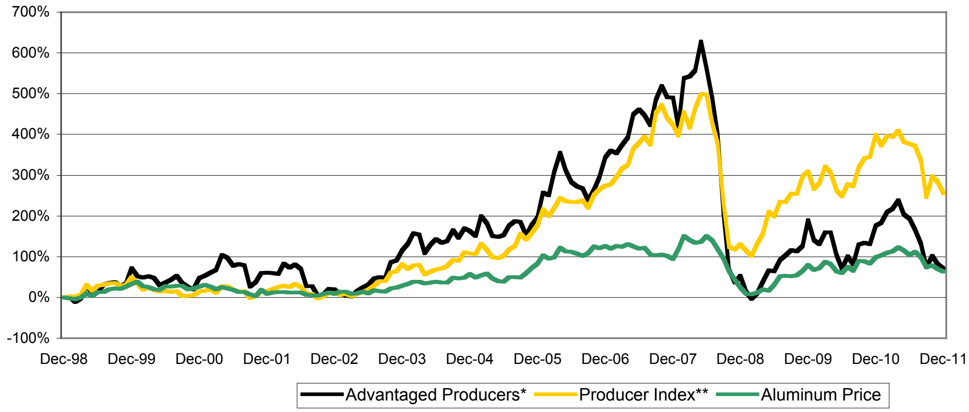



Source: RS Investments, FactSet, Bloomberg
* Index of producers owning geologically advantaged assets
** Index of all producers

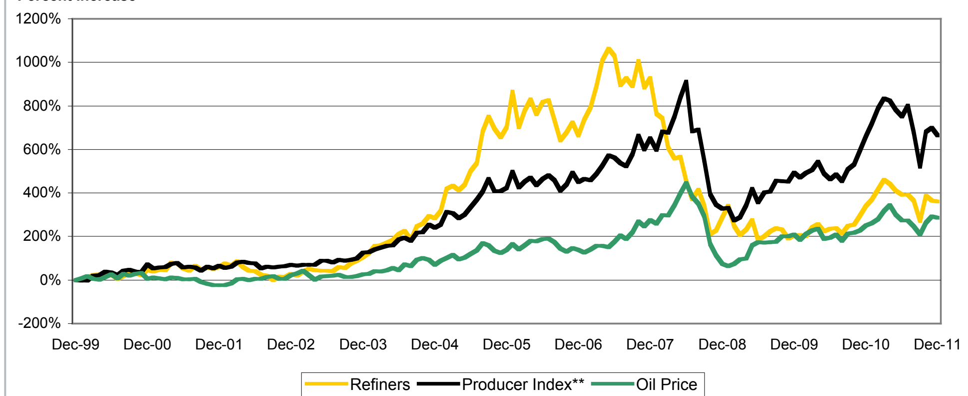
# Investment Process – Cost Curve Analysis

## Avoid Flat Cost Curves

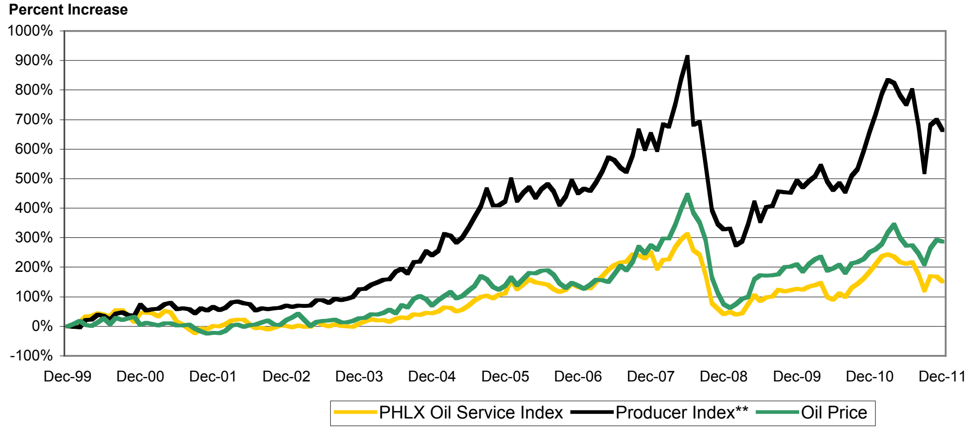
**Aluminum (12/31/98-12/31/11)**



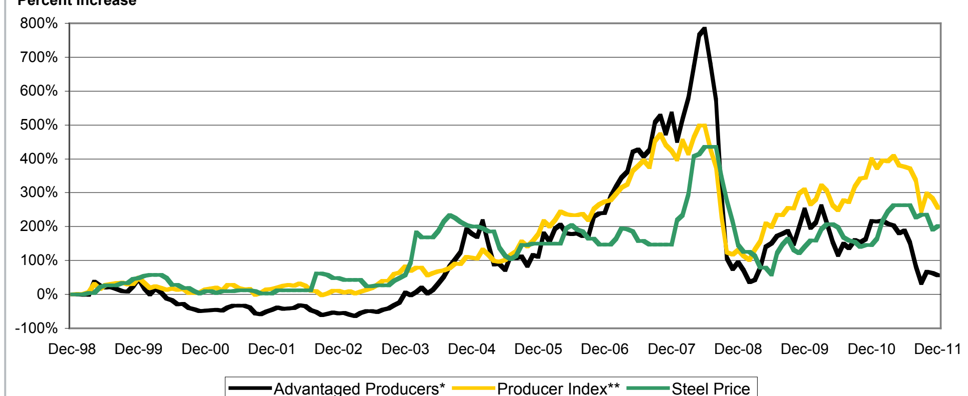

**Refining (12/31/99-12/31/11)**




**Oil Services (12/31/99-12/31/11)**



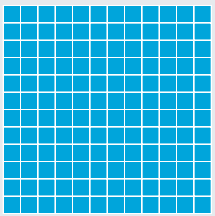

**Metals Processing (12/31/98-12/31/11)**



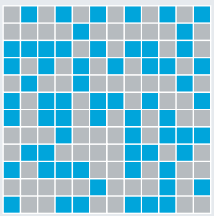

Source: RS Investments, FactSet, Bloomberg
* Index of producers owning geologically advantaged assets
** Index of all producers

# Investment Process

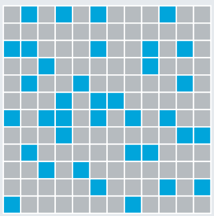
## Global universe of ~750 investable companies



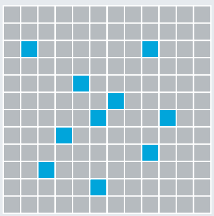
**Project Level Analysis**
- Establish supply cost curves for each commodity
- Determine long-term commodity price assumptions to value companies



**Focus on ROIC**
- Identify owners of advantaged assets
- Assess management
- Sovereign risk



**Valuation**
- Purchase stocks at a discount to current NAV using reasonable long-term commodity assumptions



**Portfolio Construction**
- 30-40 positions
- Low turnover
- Diversified across commodities

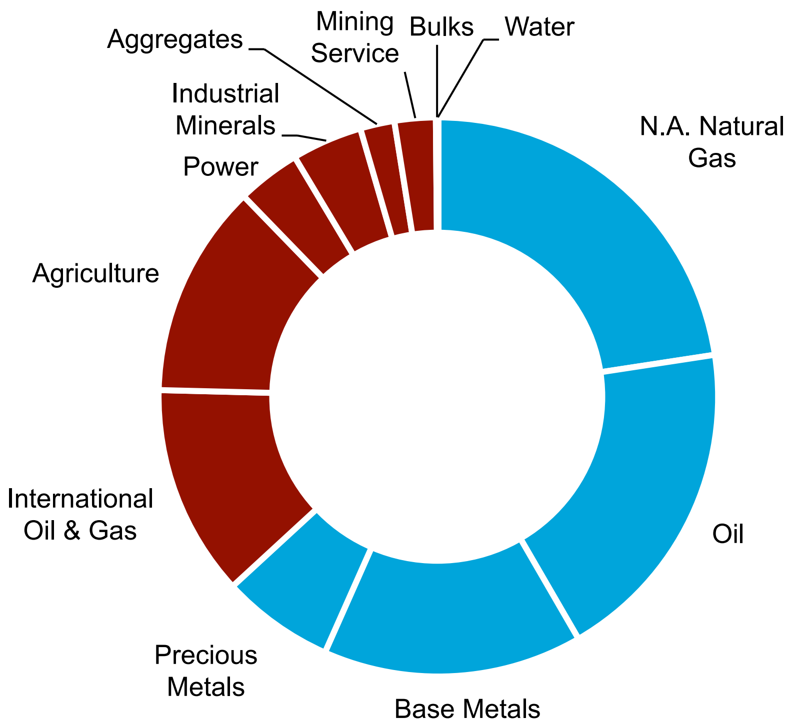




RS investments

# Investment Process

## Diversified across commodities (as of 6/30/13)




■ Futures exchange traded commodity

■ Non-futures exchange traded commodity

Source: RS Investments

## Exposure to commodities not traded on futures exchanges or owned in typical equity portfolios

- Aggregates
- Ammonia
- Bromine
- Coal
- Diamonds
- Industrial gases
- Iodine
- Iron Ore
- Lithium
- Manganese
- Niobium
- Phosphate
- Potash
- Power
- Rare earth metals
- Salt
- Timber
- Titanium
- Trona
- Uranium
- Water
- Zircon

# Investment Process

## Risk Management and Portfolio Characteristics

- **Risk Management**
  - Commodity Structure
    - Identify commodities with steep and steepening cost curves
  - Business Analysis
    - Advantaged assets
    - Management acumen
    - Reinvestment opportunities
  - Valuation
    - Purchase at discount to current proved NAV
    - Mitigate commodity price risk

- **Portfolio Characteristics**
  - Concentrated positions
  - Diversified across commodities
  - Low turnover
  - Focus on capital preservation

# Investment Process

## Sell Discipline – we do not attempt to maximize exit price

**An investment will be sold for one of the following reasons:**

- Management makes poor capital allocation decision
- Supply cost curve shifts
- Margin of safety no longer exists
- Better opportunity from farm team
- Stock declines by 15% from cost — buy or sell

# The RS Advantage

**Our objective is to provide the attributes of a "real asset" investment while also minimizing the risks associated with exposure to commodity price cyclicality**

1. **Long-term Time Horizon:** We focus on outperforming over a commodity price cycle rather than on predicting short-term moves in commodity prices.

2. **Proprietary Commodity Cost Curves:** We build our own cost curves based on project level analysis and decades of experience.

3. **Ownership Mentality:** When we make an investment, we act as if we are buying the entire company.

4. **Valuation:** We analyze companies at the project level, running a DCF analysis on each of a company's projects, and then aggregating them to reach our valuation for the company.

# Portfolio Characteristics

## Ten largest holdings

| Company | Description | % of Portfolio |
|---|---|---|
| Peyto Exploration & Development Corp. | Invests in long-life gas projects in Alberta's Central Deep Basin | 4.50% |
| Goldcorp Corp. | Explores for and mines gold and other minerals | 4.33% |
| Southwestern Energy Co. | Engages in the exploration, development, and production of natural gas and crude oil in the United States | 4.33% |
| Concho Resources Inc. | Engages in the acquisition, exploration, and development of oil and natural gas properties in the United States | 4.32% |
| First Quantum Minerals Ltd. | Operates as a mining and metals company worldwide | 4.03% |
| Turquoise Hill Resources Ltd. | Operates as a mineral exploration, development, and mining company | 4.02% |
| Denbury Resources, Inc. | US independent oil and gas exploration company focused on tertiary recovery of oil | 3.99% |
| Iluka Resources Ltd. | Produces and processes mineral sands | 3.94% |
| Antofagasta PLC | Engages in the exploration, development, and mining of copper | 3.90% |
| Oil Search Ltd. | Provides oil and gas field exploration services | 3.86% |
| **TOTAL** | | **41.22%** |

As of June 30, 2013
Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
The top ten holdings are supplemental information to the Composite's full disclosure presentation located in the appendix.

# Investment Results

## Performance

| | Second Quarter 2013 | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception (11/15/95) |
|---|---|---|---|---|---|---|
| | | Annualized | | | | |
| **RS Global Natural Resources Composite** | | | | | | |
| Gross of fees | -6.92% | 3.87% | 9.39% | -2.24% | 14.10% | 11.66% |
| Net of fees | -7.23% | 2.51% | 7.92% | -3.61% | 12.48% | 9.85% |
| S&P North American Natural Resources Sector Index™ | -4.95% | 10.63% | 9.64% | -3.82% | 11.87% | N/A |
| MSCI World Commodity Producers Index | -5.60% | 1.06% | 6.52% | -6.04% | 10.50% | N/A |
| S&P 500® Index | 2.91% | 20.60% | 18.45% | 7.01% | 7.30% | 7.77% |
| Differential (Gross of fees vs. S&P NANRSI) | -1.97% | -6.76% | -0.25% | +1.58% | +2.23% | N/A |
| Differential (Gross of fees vs. MSCI WCP Index) | -1.32% | +2.81% | +2.87% | +3.80% | +3.60% | N/A |

As of June 30, 2013
A GIPS-compliant presentation is attached. Please see the last page of the Appendix.
***Performance quoted represents past performance and does not guarantee future results.***

# Investment Results

## Quarterly Performance

| | RS Global Natural Resources Composite (Gross of Fees) | | | | | S&P North American Natural Resources Sector Index™ | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Year | Q1 | Q2 | Q3 | Q4 | Year |
| **1995** | | | | 1.53%* | 1.53%* | – | – | – | – | – |
| **1996** | 17.73% | 4.46% | 7.08% | 9.27% | 43.89% | – | – | – | – | – |
| **1997** | -6.21% | 3.31% | 8.13% | -19.44% | -15.60% | 2.18% | 9.17% | 14.70% | -8.59% | 16.96% |
| **1998** | 5.73% | -10.38% | -22.05% | -9.45% | -33.11% | 2.85% | -5.82% | -8.95% | -2.70% | -14.19% |
| **1999** | 5.23% | 28.66% | 1.73% | -9.29% | 24.93% | 8.60% | 16.18% | -0.12% | 0.96% | 27.23% |
| **2000** | 4.12% | 9.62% | 8.47% | 3.65% | 28.32% | 4.71% | 0.05% | 6.12% | 4.16% | 15.79% |
| **2001** | 1.95% | 7.09% | -14.79% | 10.17% | 2.50% | -6.22% | -1.33% | -16.54% | 9.29% | -15.59% |
| **2002** | 14.84% | 5.68% | -5.83% | 4.21% | 19.10% | 9.59% | -7.36% | -20.22% | 7.43% | -12.99% |
| **2003** | 0.35% | 15.33% | 1.91% | 22.64% | 44.65% | -1.73% | 12.49% | 2.19% | 18.98% | 34.40% |
| **2004** | 6.48% | 1.30% | 15.36% | 9.92% | 36.77% | 3.49% | 4.50% | 9.90% | 4.83% | 24.59% |
| **2005** | 8.43% | 2.54% | 29.20% | 0.48% | 44.32% | 12.38% | 3.71% | 20.74% | -2.93% | 36.61% |
| **2006** | 8.64% | 2.50% | -8.24% | 7.38% | 9.72% | 9.02% | 4.48% | -6.38% | 9.57% | 16.85% |
| **2007** | 7.53% | 11.15% | 5.30% | 6.43% | 33.95% | 3.95% | 14.78% | 7.67% | 4.64% | 34.44% |
| **2008** | -0.85% | 16.53% | -33.91% | -29.14% | -45.89% | -4.89% | 20.64% | -29.45% | -29.03% | -42.55% |
| **2009** | -2.68% | 21.92% | 17.71% | 8.45% | 51.47% | -7.00% | 18.24% | 17.34% | 6.60% | 37.54% |
| **2010** | 2.49% | -6.19% | 11.89% | 18.16% | 27.12% | 0.49% | -9.76% | 12.63% | 21.30% | 23.88% |
| **2011** | 9.34% | -3.85% | -20.48% | 12.35% | -6.01% | 12.76% | -6.34% | -23.22% | 14.25% | -7.35% |
| **2012** | 3.98% | -2.49% | 8.35% | -2.08% | 7.62% | 4.24% | -9.71% | 12.06% | -3.09% | 2.20% |
| **2013** | 5.16% | -6.92% | | | | 7.18% | -4.95% | | | |

As of June 30, 2013
* Since inception 11/15/95
A GIPS-compliant presentation is attached. Please see the last page of the Appendix.
***Performance quoted represents past performance and does not guarantee future results.***

# Investment Results

## Quarterly Performance

| | RS Global Natural Resources Composite (Net of Fees) | | | | | S&P North American Natural Resources Sector Index™ | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Year | Q1 | Q2 | Q3 | Q4 | Year |
| 1995 | | | | 1.20%* | 1.20%* | – | – | – | – | – |
| 1996 | 17.19% | 3.96% | 6.57% | 8.75% | 41.21% | – | – | – | – | – |
| 1997 | -6.65% | 2.85% | 7.65% | -19.84% | -17.14% | 2.18% | 9.17% | 14.70% | -8.59% | 16.96% |
| 1998 | 5.23% | -10.38% | -22.47% | -9.90% | -34.45% | 2.85% | -5.82% | -8.95% | -2.70% | -14.19% |
| 1999 | 4.69% | 28.04% | 1.20% | -9.78% | 22.39% | 8.60% | 16.18% | -0.12% | 0.96% | 27.23% |
| 2000 | 3.61% | 9.09% | 7.95% | 3.14% | 25.85% | 4.71% | 0.05% | 6.12% | 4.16% | 15.79% |
| 2001 | 1.48% | 6.60% | -15.21% | 9.68% | 0.61% | -6.22% | -1.33% | -16.54% | 9.29% | -15.59% |
| 2002 | 14.36% | 5.22% | -6.25% | 3.76% | 17.04% | 9.59% | -7.36% | -20.22% | 7.43% | -12.99% |
| 2003 | -0.07% | 14.87% | 1.48% | 22.16% | 42.30% | -1.73% | 12.49% | 2.19% | 18.98% | 34.40% |
| 2004 | 6.10% | 0.93% | 14.95% | 9.53% | 34.82% | 3.49% | 4.50% | 9.90% | 4.83% | 24.59% |
| 2005 | 8.04% | 2.16% | 28.76% | 0.11% | 42.26% | 12.38% | 3.71% | 20.74% | -2.93% | 36.61% |
| 2006 | 8.24% | 2.12% | -8.59% | 6.99% | 8.11% | 9.02% | 4.48% | -6.38% | 9.57% | 16.85% |
| 2007 | 7.15% | 10.76% | 4.93% | 6.06% | 32.08% | 3.95% | 14.78% | 7.67% | 4.64% | 34.44% |
| 2008 | -1.22% | 16.12% | -34.19% | -29.44% | -46.73% | -4.89% | 20.64% | -29.45% | -29.03% | -42.55% |
| 2009 | -3.03% | 21.50% | 17.31% | 8.07% | 49.38% | -7.00% | 18.24% | 17.34% | 6.60% | 37.54% |
| 2010 | 2.13% | -6.63% | 11.52% | 17.78% | 25.38% | 0.49% | -9.76% | 12.63% | 21.30% | 23.88% |
| 2011 | 8.97% | -4.19% | -20.77% | 11.97% | -7.33% | 12.76% | -6.34% | -23.22% | 14.25% | -7.35% |
| 2012 | 3.63% | -2.83% | 8.00% | -2.40% | 6.19% | 4.24% | -9.71% | 12.06% | -3.09% | 2.20% |
| 2013 | 4.82% | -7.23% | | | | 7.18% | -4.95% | | | |

As of June 30, 2013
* Since inception 11/15/95
A GIPS-compliant presentation is attached. Please see the last page of the Appendix.
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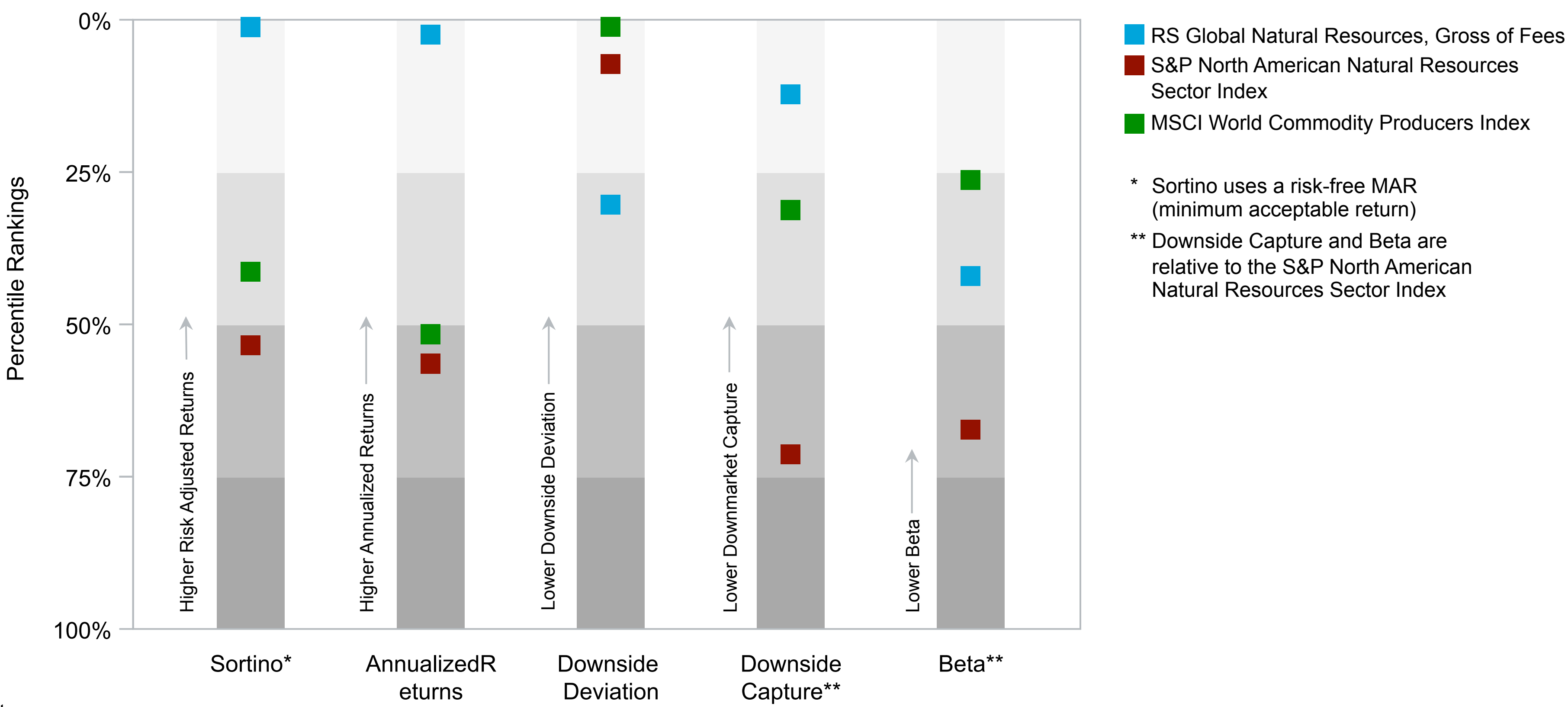
# RS Global Natural Resources: Peer Rankings

## January 1, 1999 through December 31, 2008



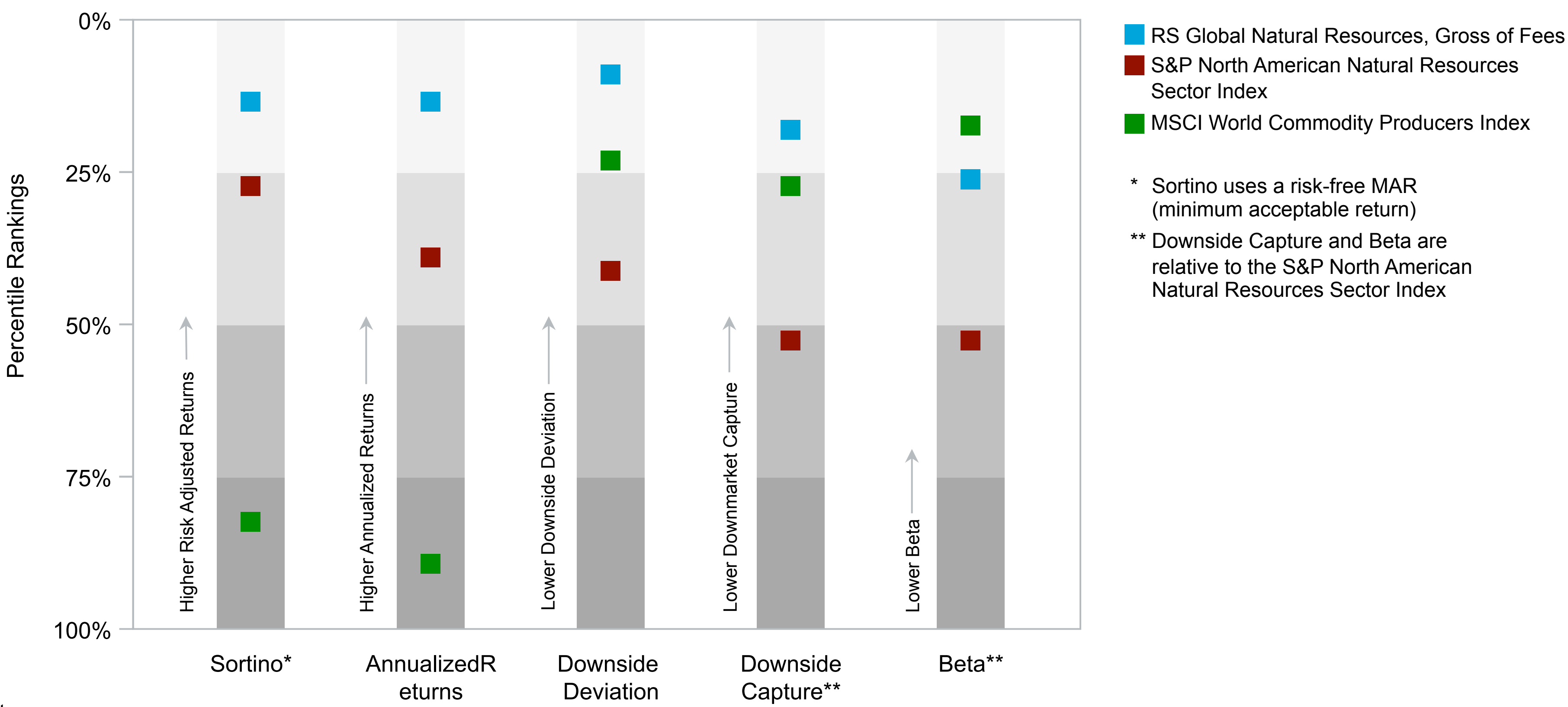

* Sortino uses a risk-free MAR (minimum acceptable return)

** Downside Capture and Beta are relative to the S&P North American Natural Resources Sector Index

Note:
The last full cycle in natural resources started in 1999, following the end of the Asian crisis, and ended with the financial crisis of 2008.
Since the last cyclical trough at the end of 2008, commodity markets have moved back toward mid-cycle levels.
Universe: Morningstar Natural Resources.
Source: FactSet.
A GIPS-compliant presentation is attached. Please see the last page of the Appendix.
**Performance quoted represents past performance and does not guarantee future results.**
Rankings are based on the value of the RS Global Natural Resources Strategy below which a certain percent of observations fall. A percentile rank is the percentage of peers that fall at or below the RS Natural Resources Strategy. The category consists of 73 peers.

# RS Global Natural Resources: Peer Rankings

## January 1, 2009 through June 30, 2013




Note:
The last full cycle in natural resources started in 1999, following the end of the Asian crisis, and ended with the financial crisis of 2008.
Since the last cyclical trough at the end of 2008, commodity markets have moved back toward mid-cycle levels.
Universe: Morningstar Natural Resources.
Source: FactSet.
A GIPS-compliant presentation is attached. Please see the last page of the Appendix.
**Performance quoted represents past performance and does not guarantee future results.**
Rankings are based on the value of the RS Global Natural Resources Strategy below which a certain percent of observations fall. A percentile rank is the percentage of peers that fall at or below the RS Natural Resources Strategy. The category consists of 126 peers.





RS investments

# RS Global Natural Resources: Risk-Adjusted Performance

| January 1, 1999 – December 31, 2008 | Sortino* | Annualized Returns | Downside Deviation | Downside Capture** | Beta** |
|---|---|---|---|---|---|
| **RS Global Natural Resources, Gross of Fees** | **0.82** | **16.08%** | **15.47%** | **72.72%** | **0.91** |
| **RS Global Natural Resources, Net of Fees** | **0.69** | **14.18%** | **15.69%** | **75.85%** | **0.91** |
| *S&P North American Natural Resources Sector Index* | *0.33* | *8.37%* | *15.10%* | *100.00%* | *1.00* |
| *MSCI World Commodity Producers Index* | *0.45* | *9.39%* | *13.29%* | *78.12%* | *0.81* |

* Sortino uses a risk-free MAR (minimum acceptable return)

** Downside Capture (calculated monthly) and Beta are relative to the S&P North American Natural Resources Sector Index

Note:
The last full cycle in natural resources started in 1999, following the end of the Asian crisis, and ended with the financial crisis of 2008.

Since the last cyclical trough at the end of 2008, commodity markets have moved back toward mid-cycle levels.

Source: FactSet.

A GIPS-compliant presentation is attached. Please see the last page of the Appendix.

**Performance quoted represents past performance and does not guarantee future results**.

# RS Global Natural Resources: Risk-Adjusted Performance

| January 1, 2009 – June 30, 2013 | Sortino* | Annualized Returns | Downside Deviation | Downside Capture** | Beta** |
|---|---|---|---|---|---|
| **RS Global Natural Resources, Gross of Fees** | **1.40** | **18.37%** | **13.02%** | **81.26%** | **0.92** |
| **RS Global Natural Resources, Net of Fees** | **1.26** | **16.76%** | **13.21%** | **83.26%** | **0.92** |
| *S&P North American Natural Resources Sector Index* | *0.91* | *13.75%* | *14.95%* | *100.00%* | *1.00* |
| *MSCI World Commodity Producers Index* | *0.50* | *7.10%* | *13.87%* | *91.77%* | *0.88* |

* Sortino uses a risk-free MAR (minimum acceptable return)

** Downside Capture (calculated monthly) and Beta are relative to the S&P North American Natural Resources Sector Index

Note:
The last full cycle in natural resources started in 1999, following the end of the Asian crisis, and ended with the financial crisis of 2008.

Since the last cyclical trough at the end of 2008, commodity markets have moved back toward mid-cycle levels.

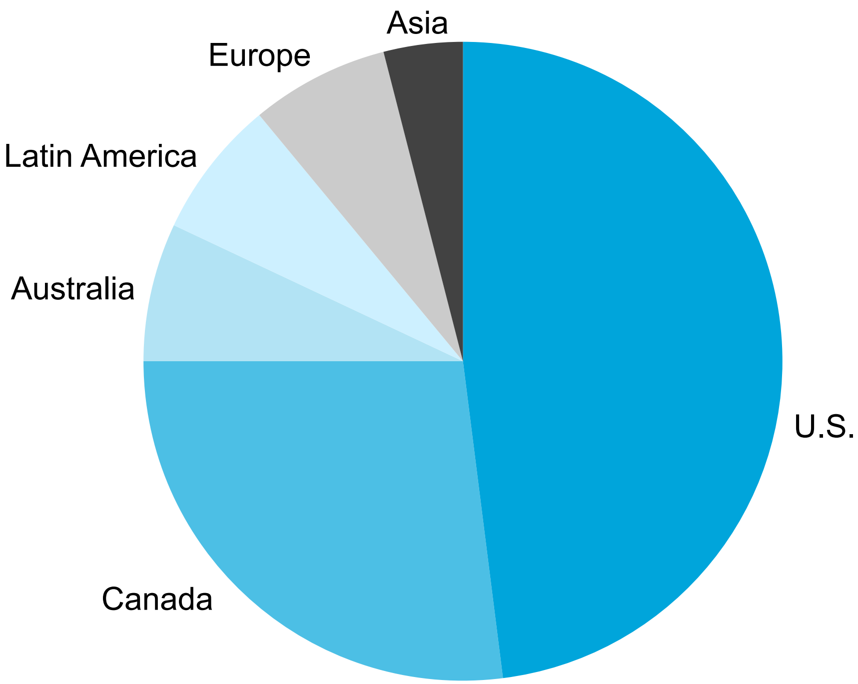
Source: FactSet.

A GIPS-compliant presentation is attached. Please see the last page of the Appendix.

**Performance quoted represents past performance and does not guarantee future results.**

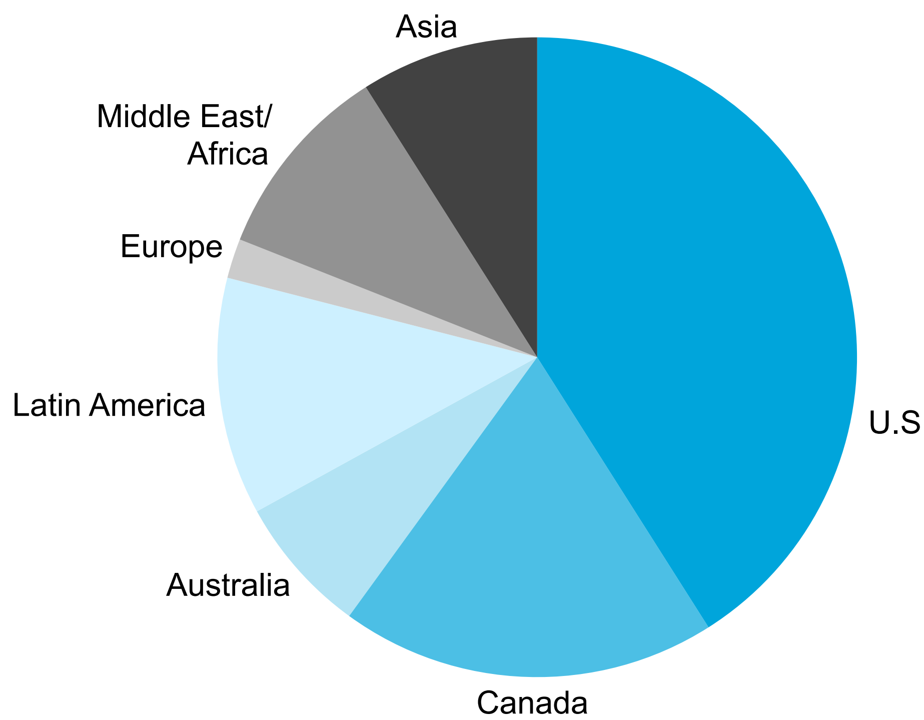
# GNR Geographic Breakdown

## Domicile




*Middle East/Africa: 0%*

## Projects




As of June 30, 2013

**Portfolio holdings are subject to change and are posted on our web site approximately 30 days after each calendar quarter end. Top 10 holdings are posted approximately 15 Days after each calendar quarter end. Additional information may be available upon request.**

# Client Service

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RS investments

# Biographies: RS Global Natural Resources Team

**James Bruce**
James is an investment analyst at RS Investments and a member of the RS Global Natural Resources team. Prior to joining the firm in 2012, James was a co-portfolio manager and analyst at Perpetual Investments in Sydney, Australia, where he ran a global natural resources portfolio and co-managed a domestic small cap product for ten years. Previously, James spent eight years as a mining engineer, operating both above- and below-ground mines while also conducting business development initiatives. James holds a degree in engineering from the Western Australian School of Mines and an M.B.A. from the University of Western Australia.

**MacKenzie B. Davis, CFA**
MacKenzie is an investment analyst at RS Investments and co-manager of the RS Global Natural Resource strategies. Prior to joining the firm in 2004, MacKenzie was a high-yield analyst at Fidelity Management & Research Company, where he focused primarily on distressed investment opportunities in the telecommunications, industrial, power, and energy sectors. Previously, he built an origination and financial engineering capability at Fidelity Capital Markets, after starting his career at Goldman Sachs as an analyst. MacKenzie earned an A.B. from Brown University in mathematical economics and modern American history. MacKenzie is a CFA Charterholder.

**Martin Engel**
Martin is an investment analyst at RS Investments and a member of the RS Global Natural Resources team. Prior to joining the firm in January 2007, he was a generalist at Behrens Rubinoff Capital Partners LLC. Previously, he was a vice president at TenX Capital Partners, a private equity firm affiliated with Cerberus Capital Management, L.P. Martin holds a B.S. in commerce from the McIntire School of Commerce at the University of Virginia and an M.B.A. from the Wharton School.

**Brian Lively**
Brian is an investment analyst at RS Investments and a member of the RS Global Natural Resources team. Prior to joining the firm in 2013, Brian was a managing director at Tudor, Pickering, Holt & Co., serving as head of E&P equity research. Previously, Brian was a vice president and team leader for Netherland, Sewell & Associates, Inc., where he was responsible for leading a team of engineers in conducting oil and gas asset evaluations in the United States and abroad. Before that, Brian was a senior project engineer at ExxonMobil Corporation. He holds a BS in petroleum engineering from Louisiana State University and an MBA from the University of Houston.

**Kenneth Settles, CFA**
Ken is an investment analyst at RS Investments and co-manager of the RS Global Natural Resource strategies. Prior to joining the firm in 2006, he was a senior energy analyst at Neuberger Berman, LLC for seven years where he also co-managed the Neuberger Berman Premier Energy Portfolio. Previously, Ken spent three years at Salomon Smith Barney, Inc. where he was a financial analyst. Ken holds a B.A. in economics from Williams College. Ken is a CFA Charterholder.

# Index Definitions

The S&P GSCI® Index is used in this paper to illustrate the risk and returns of an investment in commodities. The S&P GSCI® is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. Three S&P GSCI indices are published: excess return, total return and spot. The S&P GSCI Total Return Index measures the returns accrued from investing in fully-collateralized nearby commodity futures; the S&P GSCI Excess Return Index measures the returns accrued from investing in uncollateralized nearby commodity futures; and the S&P GSCI Spot Index measures the level of nearby commodity prices. The implied roll yield and collateral income contributions presented in this paper were derived by RS Investments using the S&P GSCI indices. These implied contributions are meant for illustrative purposes only and are not intended to represent any particular index or available investment.

The Dow Jones-UBS Commodity Index (DJ-UBS) is used in this paper to illustrate the risk and returns of an investment in commodities. It is composed of futures contracts on 19 physical commodities. The commodities in the index are traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME).

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

The S&P 500® Index is an unmanaged market-capitalization-weighted index generally considered to be representative of U.S. equity market activity. The index consists of 500 stocks representing leading industries of the U.S. economy.  Index results assume the reinvestment of dividends paid on the stocks constituting the index. You may not invest in the index, and, unlike the Fund, the index does not incur fees or expenses.

The S&P North American Natural Resources Sector Index™ (NANRSI), which is not covered by the report of independent accountants, is a modified capitalization-weighted index of companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. Index results assume the reinvestment of dividends paid on the stocks constituting the index. Index results assume the reinvestment of dividends paid on the stocks constituting the index and do not include any transactions costs, management fees or other costs.

The Thomson Reuters/Jefferies CRB (RJ-CRB) Index maintains broad diversification through 19 commodities representing all commodity sectors. Commodities are equitably distributed whenever feasible, though exposure to selected markets, in particular those within the petroleum sector, are modified to create a liquid and rational index.

The MSCI World Commodity Producers Index (MSCI-WCP) is an equity-based index designed to reflect the performance related to commodity producers stocks. The MSCI World Commodity Producers Index is a free float-adjusted market capitalization-weighted index comprised of commodity producer companies based on the Global Industry Classification Standard (GICS®).

The Morgan Stanley Commodity Related Index (CRX) is an equal dollar weighted index based on shares of widely held companies involved in commodity-related industries such as energy (e.g. oil and gas production and oil field services and equipment), non-ferrous metals, precious metals, agriculture and forest products.

The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage and asset-backed issues, rated investment grade or higher, and having at least one year to maturity. Unlike the Fund, the index does not incur fees or expenses.

# Performance Results

As of December 31, 2012

| Year | Gross of Fees Total Return (%) | Net of Fees Total Return (%) | S&P North American Natural Resources Sector Index™ (%) | Composite 3Y Ann Standard Deviation | Benchmark 3Y Ann Standard Deviation | Number of Portfolios | Composite Assets ($millions) | Total Firm Assets ($billions) | % of Firm Assets | Composite Dispersion |
|---|---|---|---|---|---|---|---|---|---|---|
| 2003 | 44.65% | 42.30% | 34.40% | 17.55% | 19.37% | 2 | 154.0 | 7.2 | 2% | n/m |
| 2004 | 36.77% | 34.82% | 24.59% | 15.87% | 17.41% | 2 | 647.1 | 8.4 | 8% | n/m |
| 2005 | 44.32% | 42.26% | 36.61% | 17.94% | 16.87% | 2 | 1,737.1 | 10.0 | 17% | n/m |
| 2006 | 9.72% | 8.11% | 16.85% | 19.98% | 18.77% | 3 | 1,648.0 | 16.8 | 10% | n/m |
| 2007 | 33.95% | 32.08% | 34.44% | 19.59% | 19.21% | 5 | 2,240.9 | 18.1 | 12% | n/m |
| 2008 | -45.89% | -46.73% | -42.55% | 27.93% | 27.46% | 5 | 937.0 | 10.2 | 9% | 0.17% |
| 2009 | 51.47% | 49.38% | 37.54% | 30.32% | 29.27% | 6 | 1,226.1 | 13.9 | 9% | 0.13% |
| 2010 | 27.12% | 25.38% | 23.88% | 30.43% | 30.52% | 10 | 2,380.1 | 19.8 | 12% | 0.35% |
| 2011 | -6.00% | -7.31% | -7.35% | 24.62% | 26.09% | 26 | 3,655.2 | 20.2 | 18% | 0.54% |
| 2012 | 7.64% | 6.20% | 2.20% | 21.39% | 23.05% | 42 | 5,863.8 | 24.5 | 24% | 0.15% |

Strategy: RS Global Natural Resources Composite invests principally in equity securities of issuers in natural resources industries, and may invest in securities of companies located anywhere in the world, including the United States.

Standard Fee Schedule:
1.00% Assets up to $30,000,000
0.80% Assets $30,000,001-$50,000,000
0.60% Assets over $50,000,000

**Past performance is not a guarantee of future results. More current information on performance may be available by contacting RS Investments.**
RS Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. RS Investments has been independently verified for the periods January 1, 2009, through December 31, 2012, by Ashland Partners & Company LLP, for the periods January 1, 1996, through December 31, 2001, and January 1, 2004, through December 31, 2008, by PricewaterhouseCoopers LLP and for the periods January 1, 2002, through December 31, 2003, by Ernst & Young LLP. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The RS Global Natural Resources Composite has been examined for the periods January 1, 2008 through December 31, 2012, by Ashland Partners & Company LLP, and for the periods January 1, 2003, through December 31, 2007, by PricewaterhouseCoopers LLP. The verification and performance examination reports are available upon request.

RS Investments is defined as RS Investment Management Co. LLC, an investment adviser registered under the Investment Advisers Act of 1940. The Firm was previously defined as the total assets managed by RS Investment Management L.P., RS Investment Management, Inc., RS Value Group LLC, and RS Growth Group LLC. On August 31, 2006, RS Investment Management Co. LLC ("RS") entered into an agreement with The Guardian Life Insurance Company of America ("Guardian") in which Guardian took a majority ownership position in RS Investments (the "Transaction"). In connection with the Transaction, RS undertook a simplification of its corporate structure and consolidated the investment advisory function under one entity. RS Investment Management, L.P., RS Investment Management, Inc., RS Value Group LLC, and RS Growth Group LLC (the "Advisers") are subsidiaries of RS. Immediately after the close of the Transaction, RS assumed the investment advisory functions previously performed by the Advisers.

The RS Global Natural Resources Composite includes all discretionary accounts invested in the Global Natural Resources Strategy. Accounts must be under management for at least one full month to be included in the composite. Closed accounts remain in the composite through the last full month under management. Results prior to 2003 represent the returns of a single account.

The RS Global Natural Resources Composite results are time weighted rates of return net of transactions costs, and have been presented both gross and net of investment advisory fees. Net of fee performance is calculated by using the actual fee schedule in effect for each portfolio in the composite. Monthly composite returns are calculated by weighting each account's monthly return by its beginning value as a percent of the total composite's beginning market value. Quarterly and annual returns are calculated by linking the monthly and quarterly returns, respectively, through compounded multiplication. Valuations and returns are computed and stated in U.S. dollars. Returns reflect the reinvestment of income, and are net of foreign withholding taxes. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available on request.

The S&P North American Natural Resources Sector Index™ (S&P NANRSI), which is not covered by the report of independent accountants, is a modified capitalization-weighted index of companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. Index results assume the reinvestment of dividends paid on the stocks constituting the index and do not include any transactions costs, management fees or other costs. As of December 31, 2007, the strategy has changed its benchmark from the Lipper Natural Resources Fund Index to the S&P North American Natural Resources Sector Index because the S&P North American Natural Resources Sector Index is composed of securities of companies in the natural resources sector while the Lipper Natural Resources Fund Index is composed of mutual funds that invest in the natural resources sector.

Investing in small- and mid-size companies can involve risks such as less publicly available information than larger companies, volatility, and less liquidity. Investing in a more limited number of issuers and sectors can be subject to greater market fluctuation. Portfolios that concentrate investments in a certain sector may be subject to greater risk than portfolios that invest more broadly, as companies in that sector may share common characteristics and may react similarly to market developments or other factors affecting their values. Investments in companies in natural resources industries may involve risks including changes in commodities prices, changes in demand for various natural resources, changes in energy prices, and international political and economic developments. Foreign securities are subject to political, regulatory, economic, and exchange-rate risks not present in domestic investments. The value of a debt security is affected by changes in interest rates and is subject to any credit risk of the issuer or guarantor of the security.

Composite dispersion is the standard deviation of asset-weighted gross annual returns for portfolios active the entire year, and is reported as not meaningful (n/m) if fewer than five accounts were active the entire year.

The RS Global Natural Resources Composite was created in January 2003.

A complete list and description of the Firm's composites is available upon request.

TAB 3 – LONE STAR REAL ESTATE FUND III, LP

# OPERF Real Estate

# Lone Star Real Estate Fund III, L.P.

**Purpose**

Staff recommends a $200 million commitment to Lone Star Real Estate Fund III, L.P. ("the Fund," "Fund III, or "LSREF III") which represents a continuation of the successful series of funds offered by Lone Star Partners ("Lone Star"), investing globally in distressed commercial real estate debt and equity products.

**Investment Opportunity**

The Fund has a target size of $6.0 billion and will focus on distressed debt and equity investments in multi-family and commercial real estate assets. The Fund's geographic weightings are expected 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 fund series separate from the firm's other investment funds (the LS Fund series) which focus on distressed loans and securities, including single family residential, corporate and consumer debt.

The two previous funds, LS Fund VII and LSREF II, were raised in parallel. However, the capital deployment of LS Fund VII has exceeded that of LSREF II, hence the capital raise for LS Fund VIII occurred in Q2 2013 while this present offering for LSREF III waited until such time as LSREF II had 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 episode. 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, Japan and Frankfurt. The team operates on a regional basis between the U.S., 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, Andre Collin in North America and Olivier Brahin 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 600 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.

**Track Record**

OPERF has participated in each Lone Star fund offering since 1995. A summary of each fund, 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 | 30.5% | 2.28x |
| Lone Star Fund V | 2005 | 270 | 153 | 3.9% | 1.25x |
| Lone Star Fund VI | 2008 | 500 | 325 | 16.2% | 1.91x |
| Lone Star Real Estate Fund I | 2008 | 100 | 53.4 | 8.4% | 1.35x |
| Lone Star Fund VII | 2010 | 200 | 174 | 30.9% | 1.68 |
| Lone Star Real Estate Fund II | 2010 | 200 | 77.7 | 19.9% | 1.44x |
| Lone Star Fund VIII | 2013 | 187 | N/A | N/A | N/A |

**Portfolio Fit**

The Opportunistic sub-portfolio within OPERF’s real estate investment program has a cash-adjusted 32.8% weighting at August 31, 2013 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 merits investment at this time to take advantage of current dislocations in the firm’s target markets.

**Issues to consider**

**General Partner Concentration**

OPERF has committed $2.057 billion to previous Lone Star funds (Lone Star Funds I-VIII and Real Estate Funds I-II). Of this amount, approximately $654 million remains as net asset value and about $408 million remains as unfunded commitments. Lone Star has become OPERF's largest real estate investment manager, currently representing approximately 8.9% of the OPERF real estate investment program, down significantly from the 16% portfolio exposure as of September 30, 2012. 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 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 Real Estate Fund III'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 $200 million commitment to Lone Star Real Estate Fund III, 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 4 – OPERF REAL ESTATE REVIEW
# AND MARKET OUTLOOK

# OPERF Real Estate Portfolio 2013 Plan and Review

Anthony Breault, Interim Senior Investment Officer

September 25, 2013

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II. 2012-2013 YTD Review
- New / Pipeline Investments
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- Sub-portfolio Weighting/Allocations

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- Geographic Diversification
- Portfolio Holdings

IV. Portfolio Initiatives
- Administrative
- REIT Review
- Strategic Partners / Separate Account Structuring

V. Compliance

# New investments/pipeline 2012/2013

New Investments (commitments):

- 2012 (commitment dates)
  - Blackstone Real Estate Partners VII ($100mm – February)
  - Rockpoint Fund IV ($100mm – February)
  - Talmage Structured Debt Sep Account ($125mm – September)
  - CBRE US Value Add Fund 6 ($100mm – September)

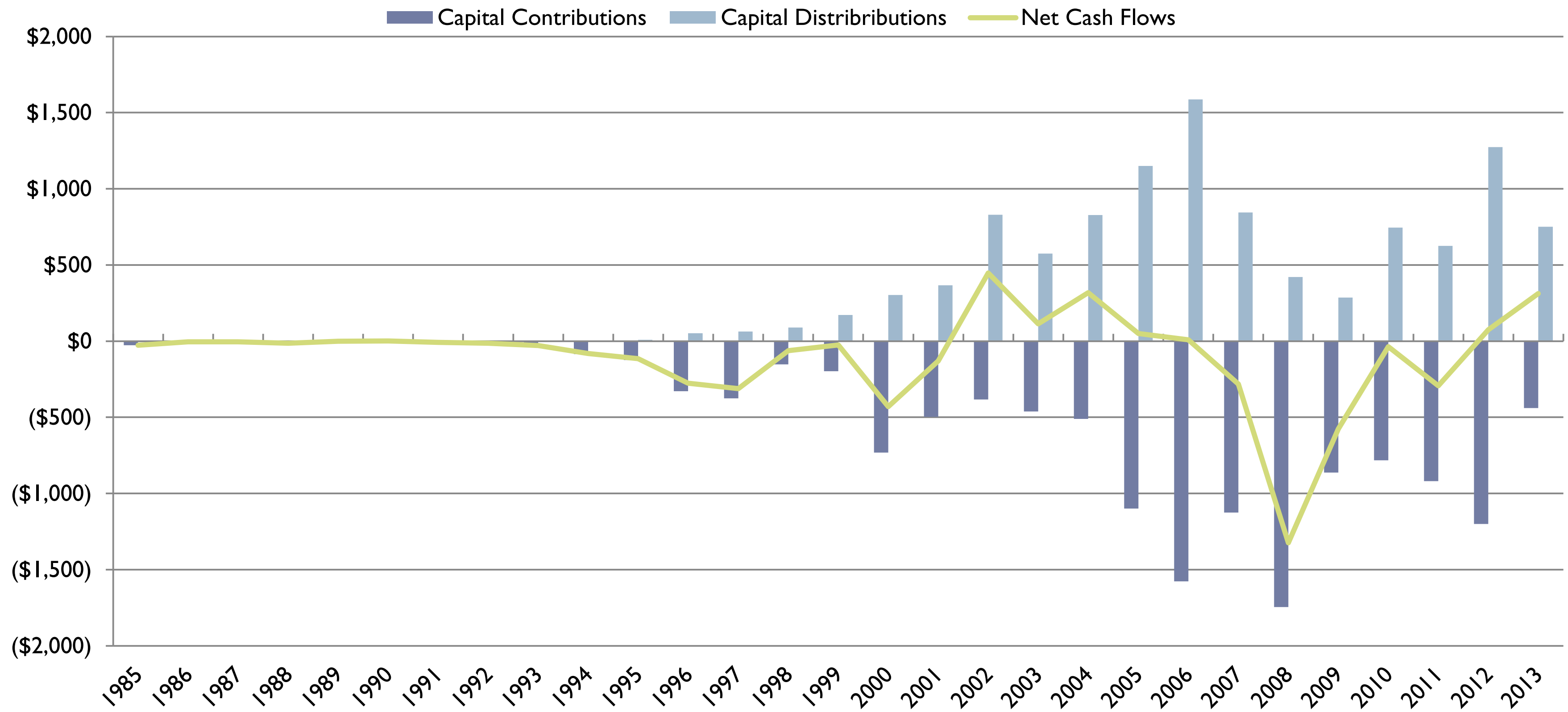
- 2013 (commitment dates)
  - Lone Star Fund VIII ($187mm – May)
  - Amstar Joint Venture ($200mm – May)
  - KTR Fund III ($100mm – June)

Potential Investments:

- Pipeline (Q4 2013 - Q1 2014)

| | | |
|---|---|---|
| Equity/Debt Separate Account | (US Value Added) | $100mm |
| West Coast Multifamily Sep Account | (Core) | $200mm |
| Lionstone Separate Account | (Value Add, re-up) | $100mm |
| Multifamily | (Value Add) | TBD |
| Global Separate Account | (Opportunistic) | $200mm |
| Europe Debt/Equity | (Value Add) | TBD |
| "Club" Structure with Existing GP | (Value Add) | $100mm |

# Commitments and cash flows

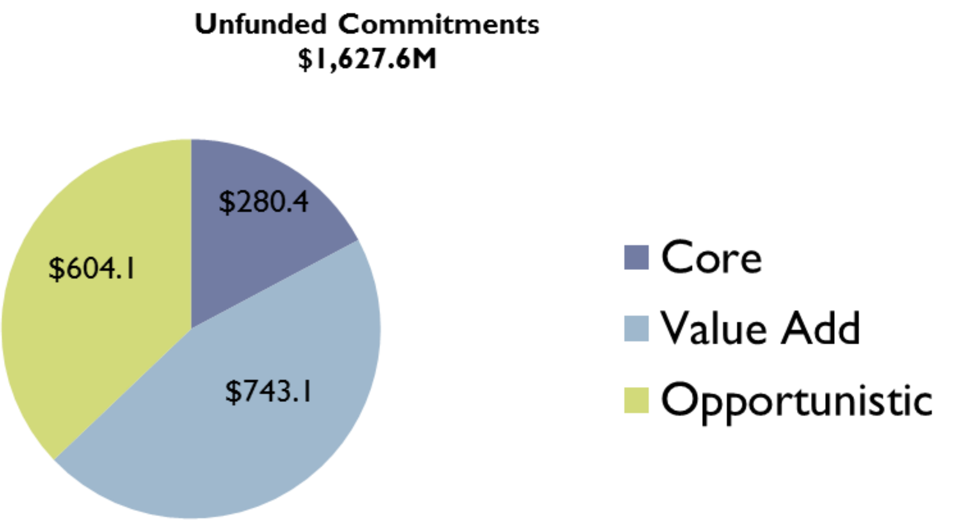



| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Capital Contributions | ($1,100) | ($1,577) | ($1,126) | ($1,746) | ($863) | ($781) | ($920) | ($1,199) | ($439) |
| Capital Distribributions | $1,150 | $1,587 | $844 | $422 | $286 | $745 | $626 | $1,274 | $752 |
| Net Cash Flows | $51 | $10 | ($281) | ($1,324) | ($577) | ($36) | ($293) | $75 | $312 |

# Portfolio – Snapshot (as of 07/31/13)

| | |
|---|---|
| Current Portfolio Net Asset Value | $7.373 billion<br>11.48% of Total Fund |
| Target Allocation to Real Estate | $8.028 billion<br>12.5% of Total Fund |
| Total Number of Investments | 83 |

**Concentrated Portfolio**: Top ten investment managers represent 62% of portfolio NAV



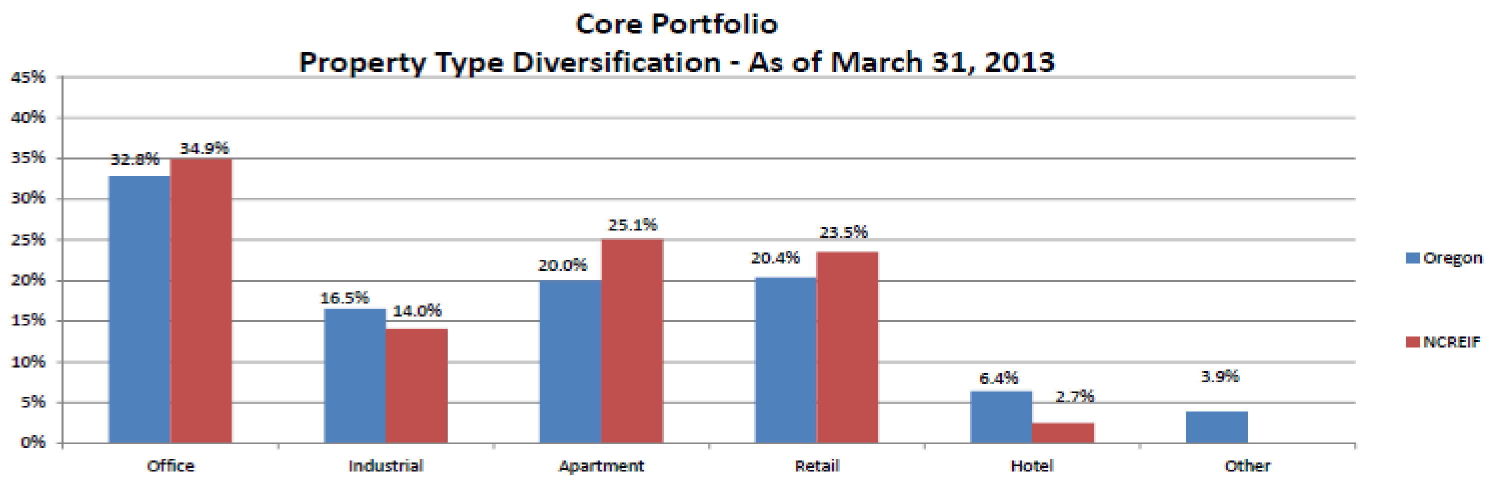
# Portfolio Performance (@ 7/31/2013)

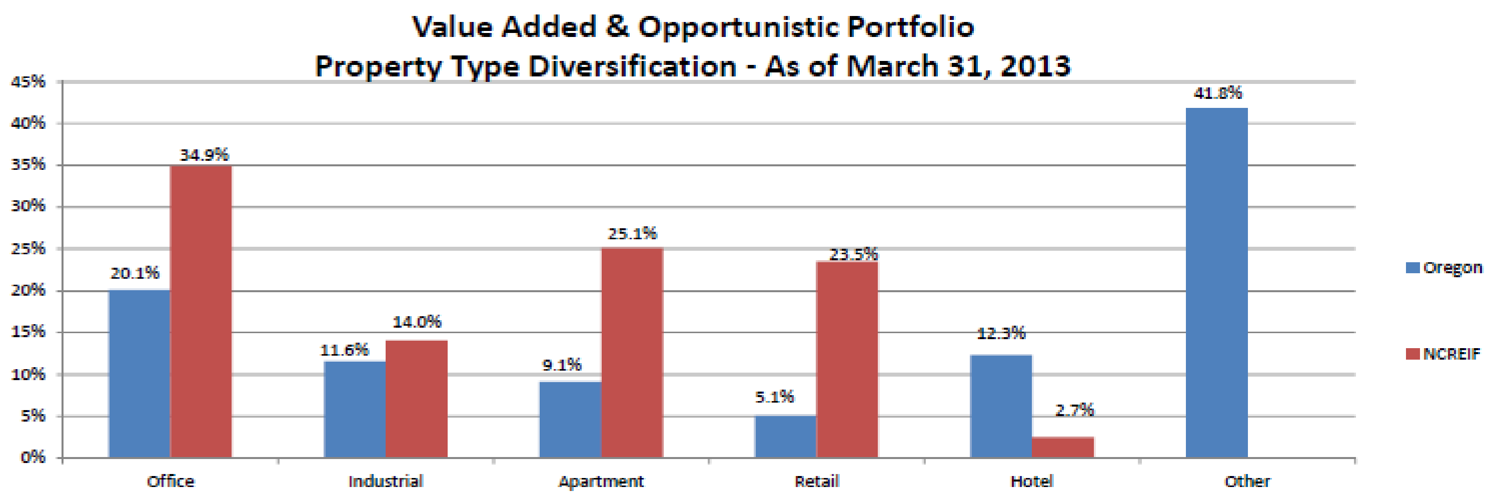
| | | YTD | 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR |
|---|---|---|---|---|---|---|
| | | | | | | |
| Total Real Estate Portfolio | | 7.42 | 13.95 | 13.92 | 1.59 | 10.43 |
| NCREIF Property Index (Qtr lag) | | 5.17 | 10.52 | 11.95 | 2.32 | 8.51 |
| Excess | | 2.25 | 3.43 | 0.63 | -0.74 | 1.92 |
| | | | | | | |

# Sub-Portfolio Weightings

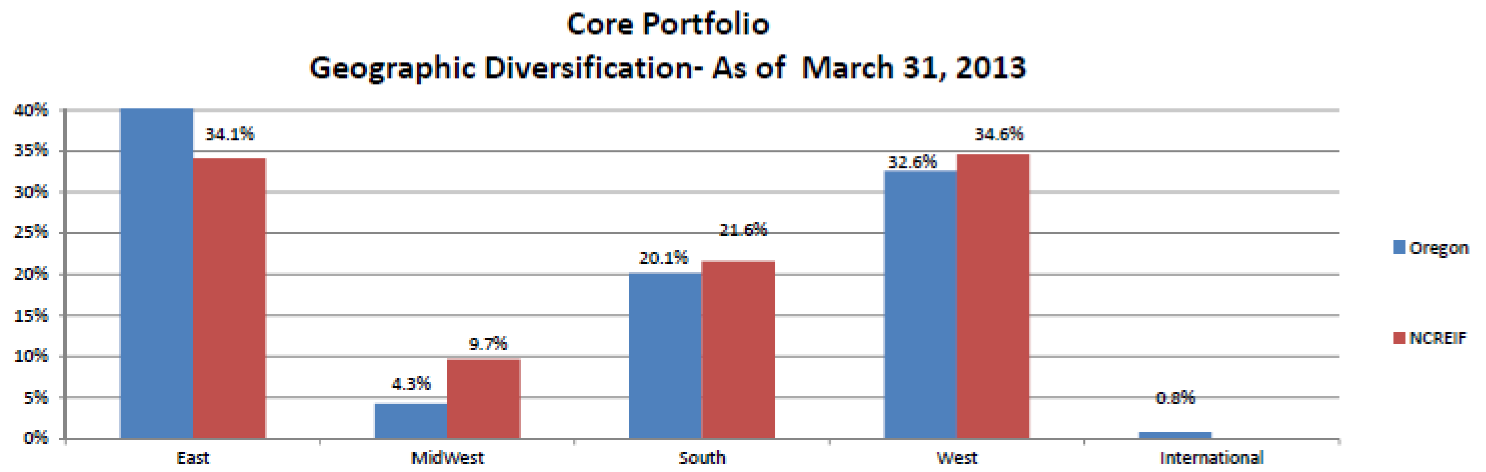
| Portfolio | Allocation Range | Target | Actual |
|---|---|---|---|
| Core Properties | 25-35% | 30% | 28.15% |
| REITs | 15-25% | 20% | 20.62% |
| Value Added | 15-25% | 20% | 18.44% |
| Opportunistic | 20-40% | 30% | 32.77% |

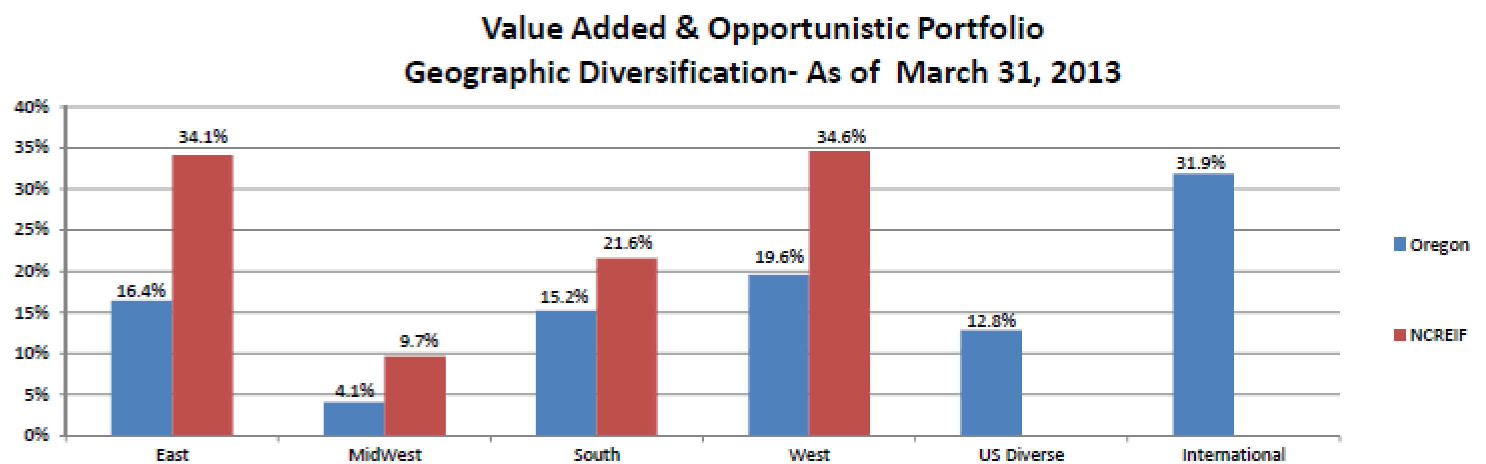
# Portfolio Composition – Property Type



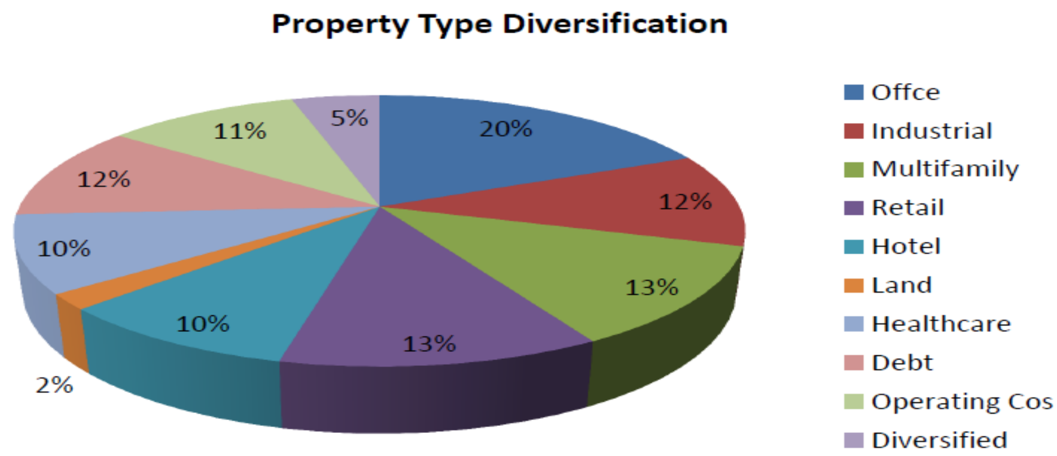



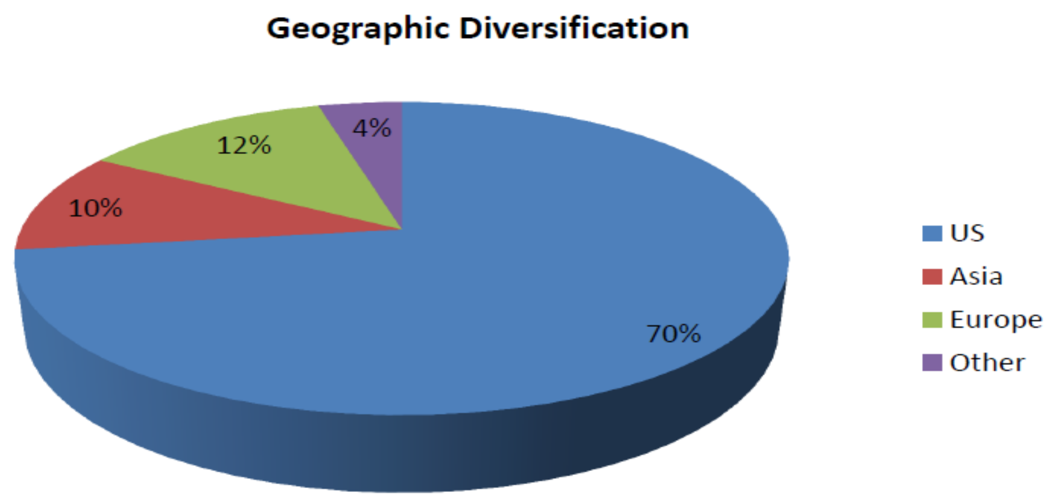
# Portfolio Composition - Geographic



# Aggregate Portfolio Diversification



# Portfolio Holdings

Net returns by sub-portfolios as of 3/31/2013 (1Q lag)
Net Asset Value (NAV) in $M as of August 31, 2013

## Total OPERF Real Estate Portfolio - $7,368.9

| | |
|---|---|
| One year return | 15.52% |
| NCREIF Index | 10.52% |

### Core

**$2,075.5**

| | |
|---|---|
| % of total portfolio | 28.15% |
| One year return | 16.67% |

- 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)

### Value Add

**$1,358.9**

| | |
|---|---|
| % of total portfolio | 18.44% |
| One year return | 12.30% |

- 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
- 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

### Opportunistic

**$2,415.1**

| | |
|---|---|
| % of total portfolio | 32.77% |
| One year return | 16.23% |

- 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 - VII
- 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 - IV

### Publicly Traded

% of total portfolio 20.62%

| | **Domestic** | **International** |
|---|---|---|
| | **$1,044.6** | **$474.9** |
| 1 YR: | 12.34% | 25.09% |

Domestic:
- Cohen & Steers
- Columbia Woodbourne
- LaSalle REIT

International:
- European Investors
- Morgan Stanley

# Real Estate Portfolio – Initiatives

- <u>Administrative</u>

- Staffing
  - Additional investment officer and analyst (shared?)
- Consultant
  - Welcomed aboard July 1, 2013
- Reporting
  - Dashboard / Portfolio modeling for staff analytics (State Street/eFront)
- Valuations
  - Potentially outsource appraisal process for core portfolio
  - Discussing quarterly external valuations for core portfolio (mitigating mgt fee conflicts since GPs invoice based on internal marks)

# Real Estate Portfolio – Initiatives

➢ <u>REIT Review</u> (jointly w/Ben Mahon; providing public equity lens)

- Goals:
  - Optimize portfolio construction & perform strategic review
  - Review existing mandates and universe of REIT managers = ensure OPERF has "best in class" manager selection

- Formalized REIT Investment Beliefs
  - Listed/unlisted best combination for catching good managers across broad area
  - REITs can fill gaps in sector exposures
  - OPERF uses REITS as a core satellite portfolio
  - Allow for liquidity or move quickly for tactical changes / rebalancing
  - REIT refinancing has been highly competitive / efficient access to capital
  - Diversification is a key REIT advantage
  - Act like equities in the short run but real estate in the long term
  - Provide broad overview of real estate activity & private vs public comparison

- Next Steps
  - Potential additional domestic and global mandate
  - Engage consultant / OIC

# Real Estate Portfolio – Initiatives

➢ <u>Strategic Partners</u> (value add focus)

- Build additional exposure to lower-risk, greater control separate accounts = Strategic Partners
  - Less gross-to-net leakage
  - Potentially greater alignment of interests
  - Improved tactical employment (i.e., adapt strategy & shift with prevailing market conditions)
  - Allow for scalable deployment of capital through control of re-ups / distributions

- Pipeline Separate Account Investments
  - Debt / equity account:  transitional asset specialist (value add)
  - Southern California / West Coast multifamily (core)
  - Additional capital allocation to Lionstone (value add)
  - Opportunistic Manager separate account

- Investment Strategies/Opportunities Under Consideration
  - Co-Investment Platform (w/consultant)
  - Lodging / hotel exposure (value add)
  - "Club" account with existing opportunistic GP (value add)
  - Portfolio re-ups on a select,  case by case basis

# Map of Strategic Partner Portfolio

**Goal:** At the portfolio level, the aim is to carve out lower-risk, greater control separate accounts.

## Total OPERF Real Estate Portfolio

- 7.4bn Portfolio
- 9.6% IRR Performance Floor
- 50% LTV Portfolio Leverage Ceiling

→ Strategic Partnerships
\+ Tailored Waterfalls
= Mitigated Floor Risk

### Core

Allocation: 20%
Target Return: 8%

Strategic Partners

- 5-7 Managers
- $300-500m each

### Value Add

Allocation: 20%
Target Return: 10%

Strategic Partners

- 5-7 Managers
- $200-400m each

Commingled Funds

### Opportunistic

Allocation: 30%
Target Return: 12%

Strategic Partners

- 3-5 Managers
- $300-500m each

Commingled Funds

### REITs

Allocation: 20%
Target Return: 8%

Strategic Partners

Domestic

Global

# Real Estate Portfolio - Compliance

➢ <u>Housekeeping / Compliance Reporting</u>

- Debt: All separate accounts within LTV compliance ☑
  (2012/2013 – primary focus on portfolio re-financing initiatives)
- Terminations: None ☑
- Continuing to redeem from RREEF America II as a re-allocation initiative ☑
- Sub-portfolios within respective bandwidths ☑

# 2013 COMMERCIAL PROPERTY MARKET OVERVIEW

Oregon Investment Counsel

September 2013

# CONTENTS


| Section | Tab |
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## SECTION 1 MARKET OVERVIEW

# GLOBAL PROPERTY INVESTMENT THEMES

**U.S.:**

- **Economic recovery is taking hold, but not translating to significant net occupancy or rental rate increases.**
- **Pockets of distress still exist but are not widespread.**
- **Some core markets may be overheated and "priced to perfection."**
- **Inflation and interest rates should remain in check for the near term, but investors should be cautious over the medium to long-term.**
- **With the exception of multifamily in select markets, new supply has remained below historic averages, which should support real estate fundamentals as the economy continues to recover.**

**Europe:**

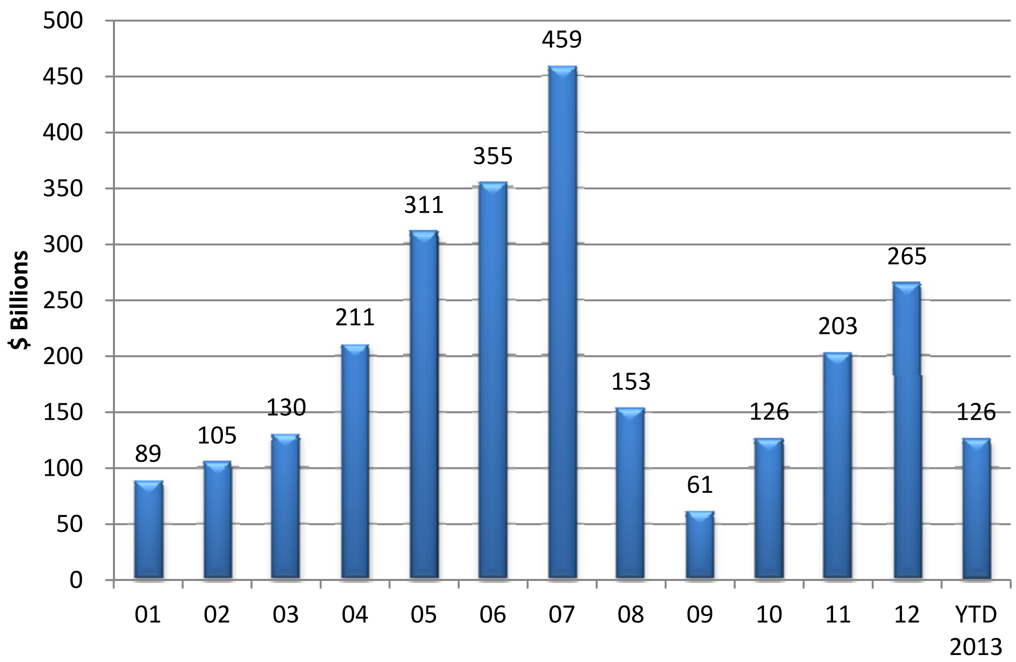
- **Most of Europe is either in a recession or very low growth, especially in southern Europe.**
- **Significant distress opportunities exist, particularly among involuntary owner, i.e., banks, although equity prices continue to decline. As in the US, regulators' willingness to force recognition of losses will drive sales velocity of these overleveraged, non-performing loans.**
- **Greater risk likely of being too early than too late to the recovery.**

**Asia / Emerging Markets:**

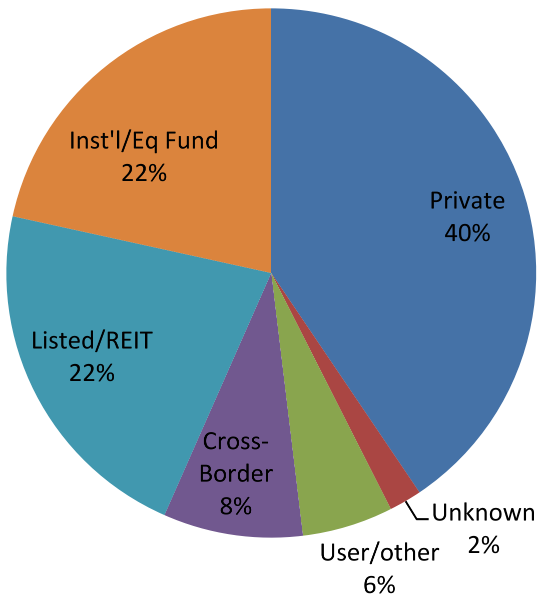
- **Growth opportunities exist. Investors should pay attention to demographic trends, particularly to urbanization and the growing middle class.**

# CAPITAL FLOWS

## Real Estate Transaction Volumes



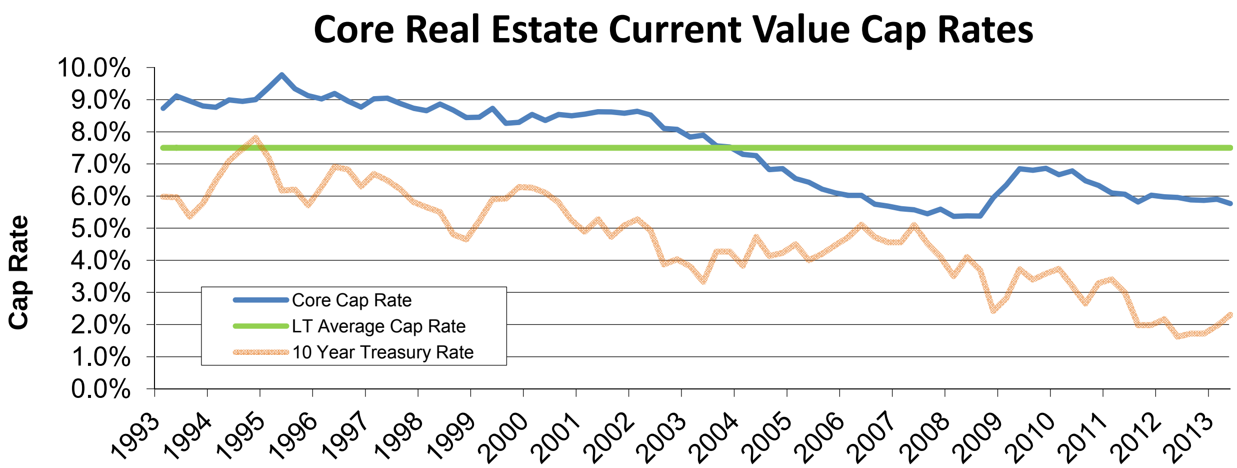

## Buyer Profile 2012



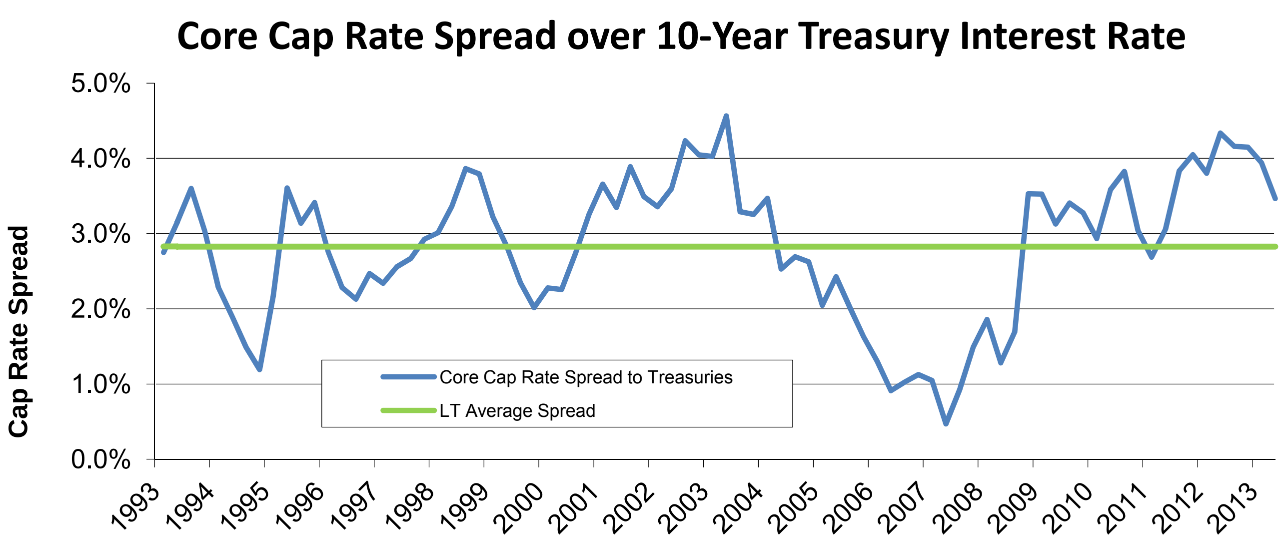

**U.S. commercial transaction volumes have picked up but are still below peak levels. Part of the competition to investment managers are international investors who view U.S. commercial properties in gateway cities as relatively attractive safe havens.**

Sources: Real Estate Capital Analytics, Deutsche Asset & Wealth Management. Data is not rolling from prior periods.

# REAL ESTATE CAP RATES




**Current cap rates are nearing historic lows, which implies that real estate is "expensive"….**

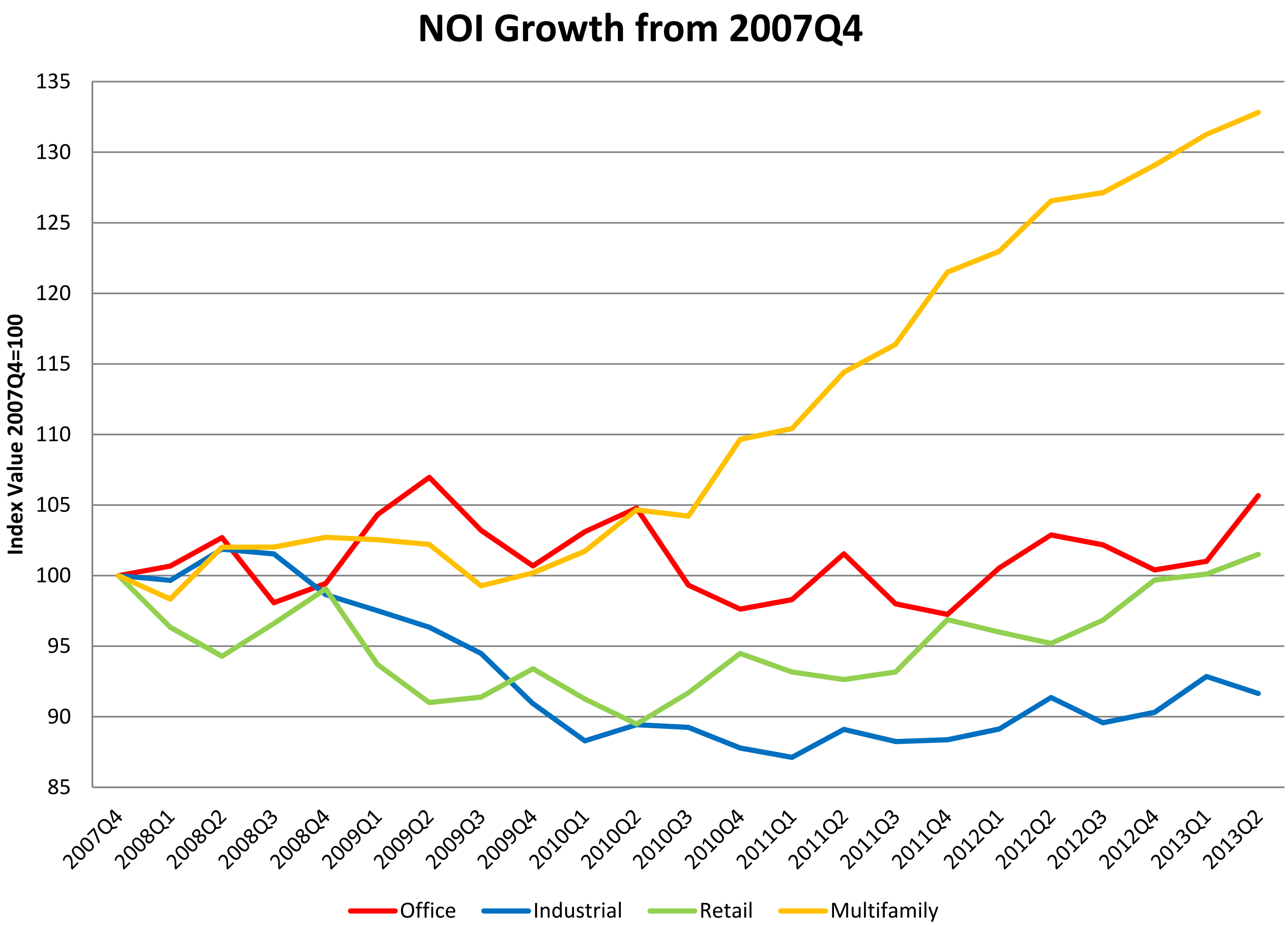



**…however, cap rate spreads over treasuries are nearly at historic highs, implying that real estate may be relatively "inexpensive."**

**Core real estate prices may be able to withstand a moderate increase in interest rates.**

Sources: NCRIEF, www.ustreas.gov. Cap rates used in the above two tables are the trailing four quarter average of the NCREIF current value cap rate.

# REAL ESTATE RECOVERY: NOI

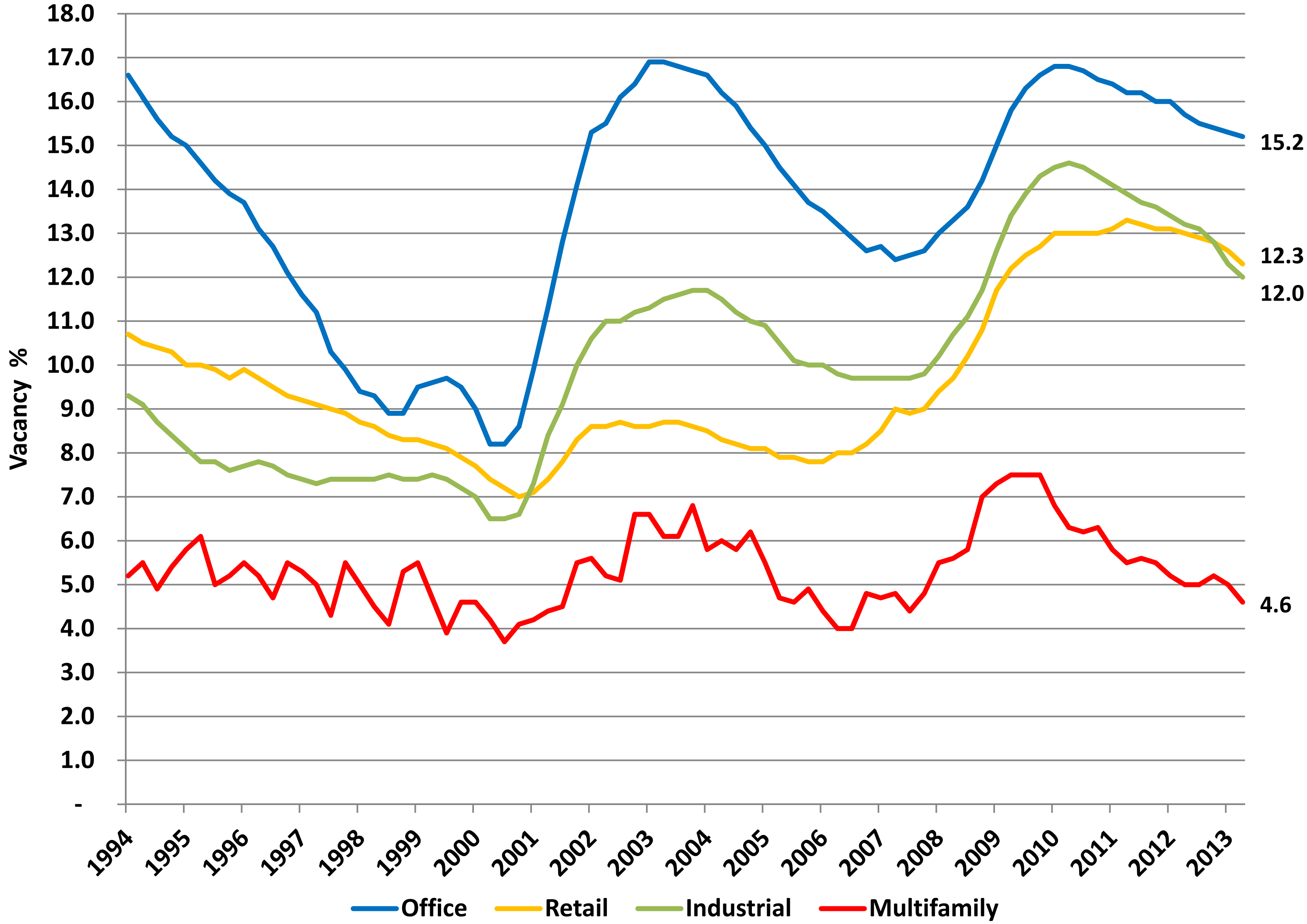



**Multifamily Net Operating Income (NOI) is up 30% since start of recovery.**

**Other property types are relatively flat or down.**

Source: NCREIF

# PROPERTY FUNDAMENTALS: VACANCY

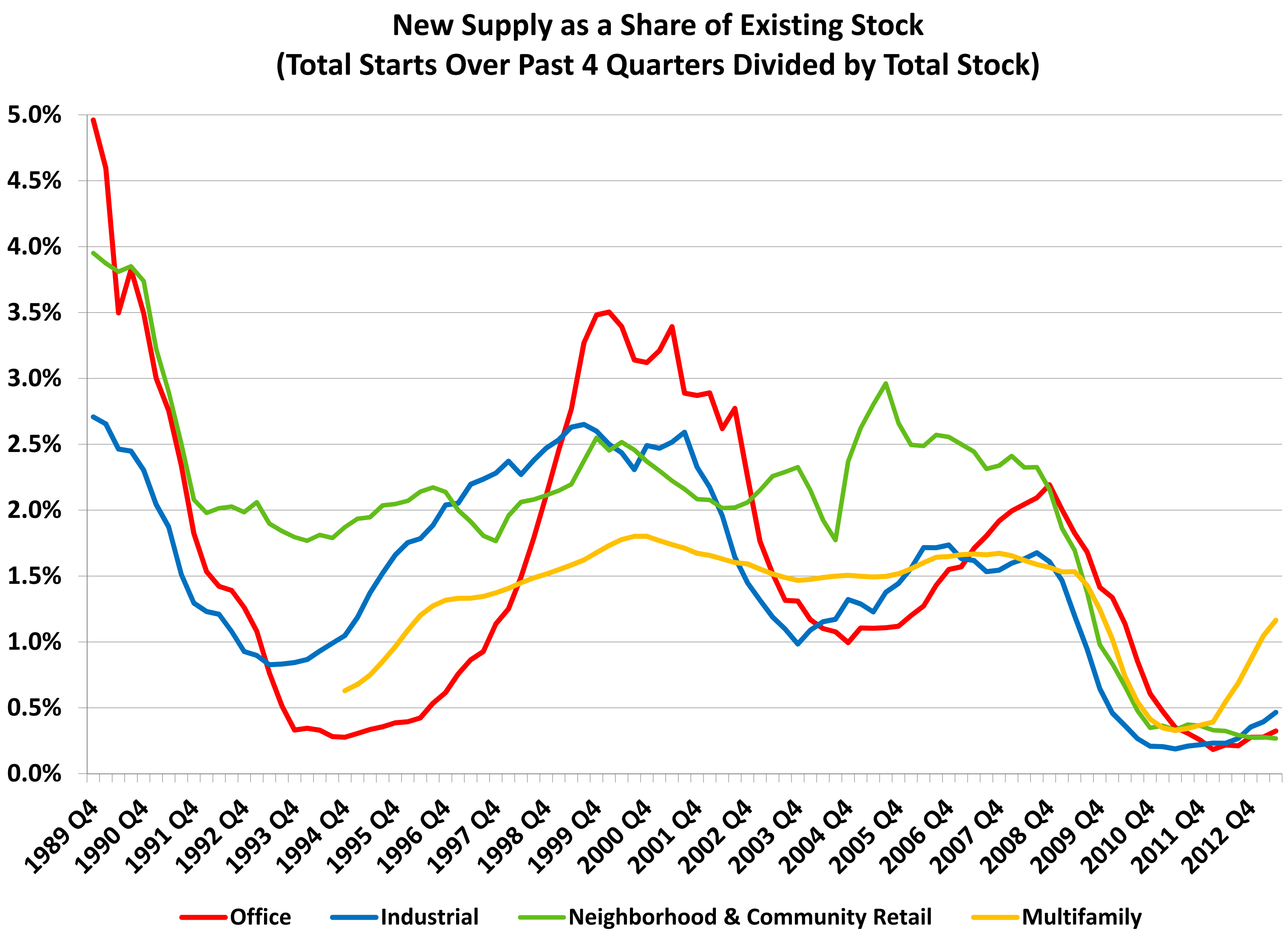



**Occupancy rates have begun to improve for all property types but only multifamily has fully recovered.**

**Multifamily fundamentals have largely been driven by changes in household formation as opposed to overall job growth.**

Source: CBRE-EA, AEW

# REAL ESTATE SUPPLY

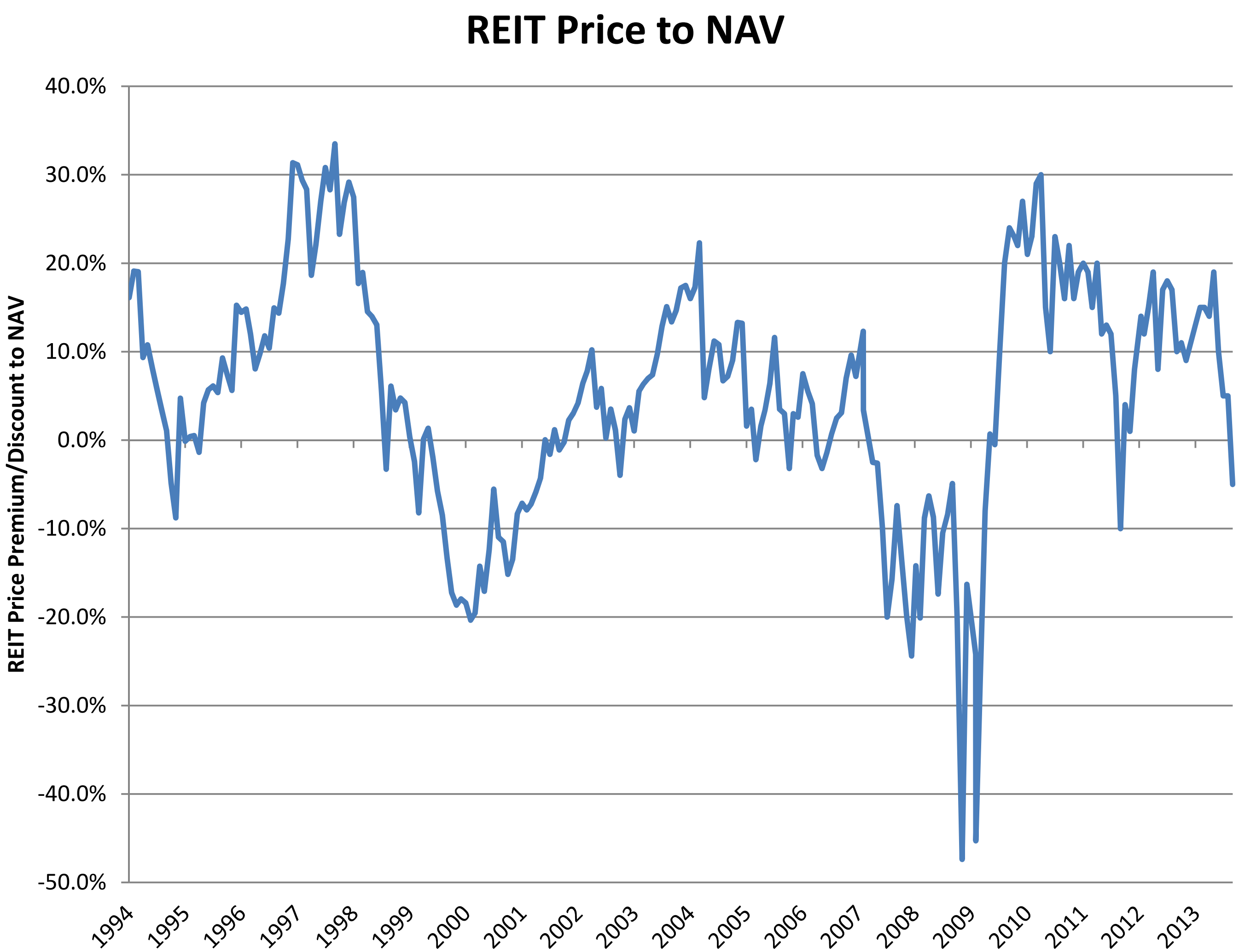



**Multifamily construction is returning to pre-recession levels, but total housing construction remains well below household growth.**

**Construction in other property types still at multi decade lows.**

Source: CBRE-EA, Census, AEW

# PUBLIC REAL ESTATE: U.S.

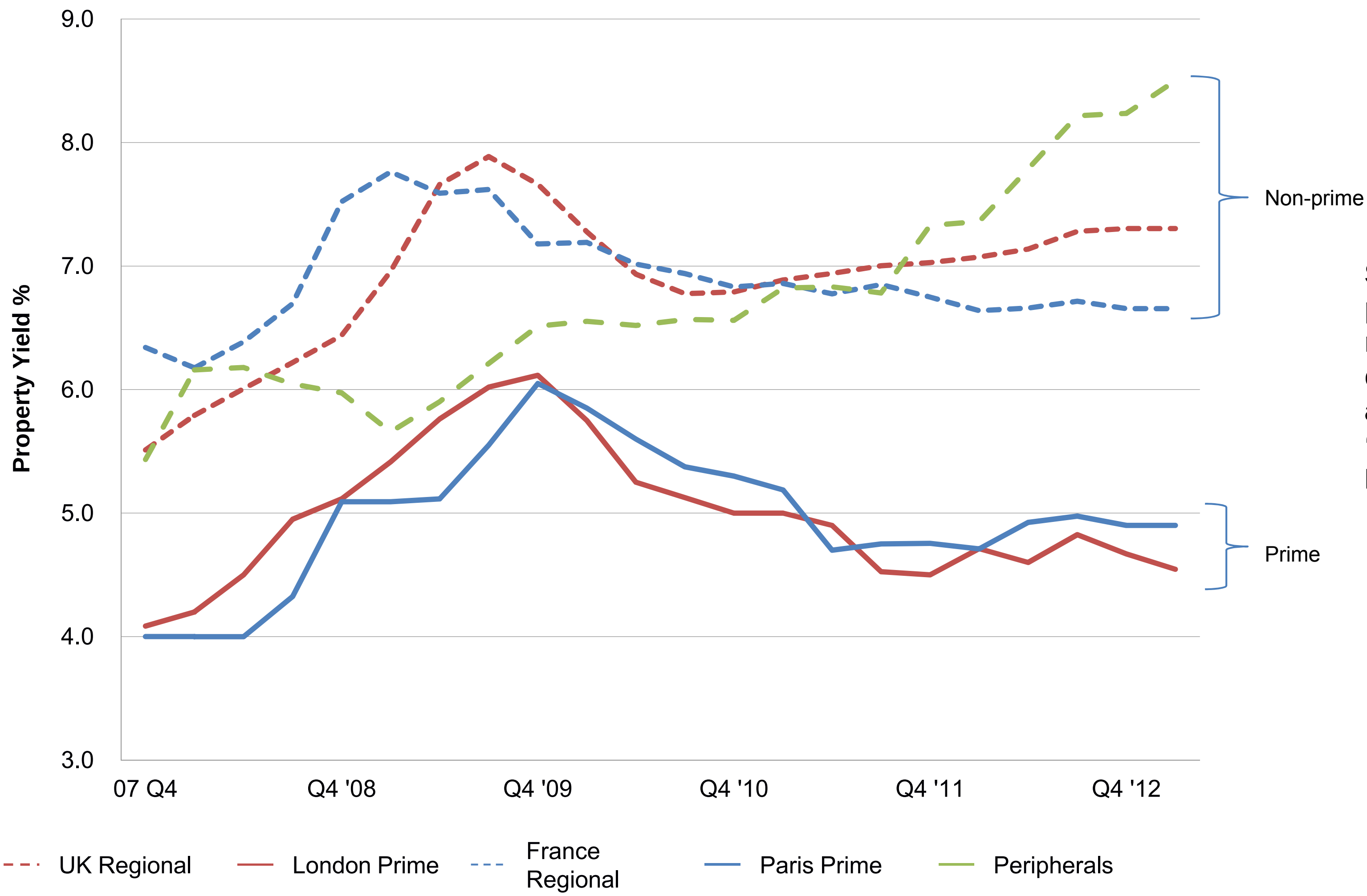



**U.S. REITS currently trading at an approximate 5% discount to underlying NAV.**

Source: AEW. Through August 2013

# EUROPE: PRIME VS. NON-PRIME

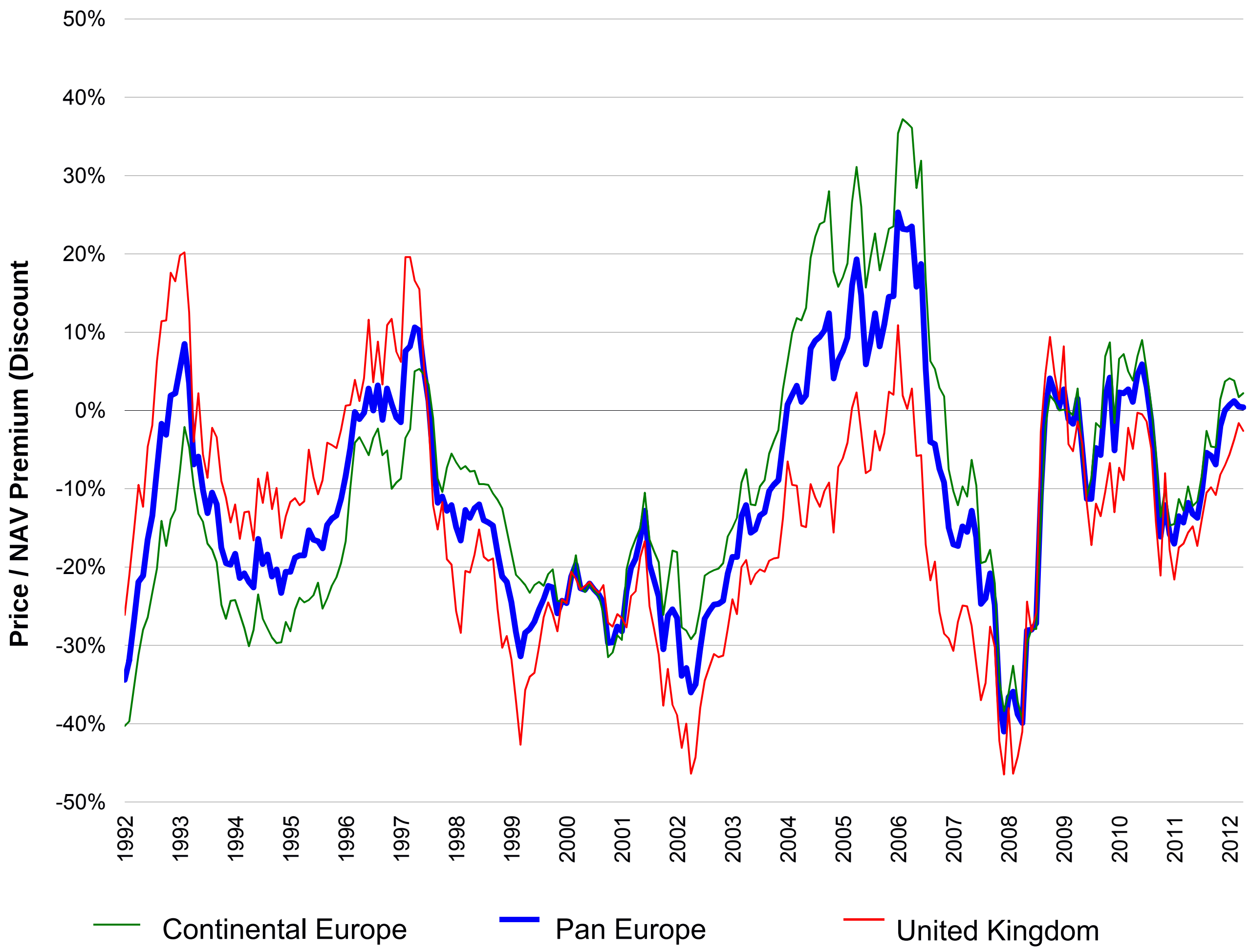
**TTM Rolling Average, Office and Retail Transaction Yields**




**Spreads between prime and non-prime markets have dramatically increased as there has been a "flight to quality" in Europe.**

Source: Real Capital Analytics, Morgan Stanley. As of March 31, 2013

# PUBLIC REAL ESTATE: EUROPE

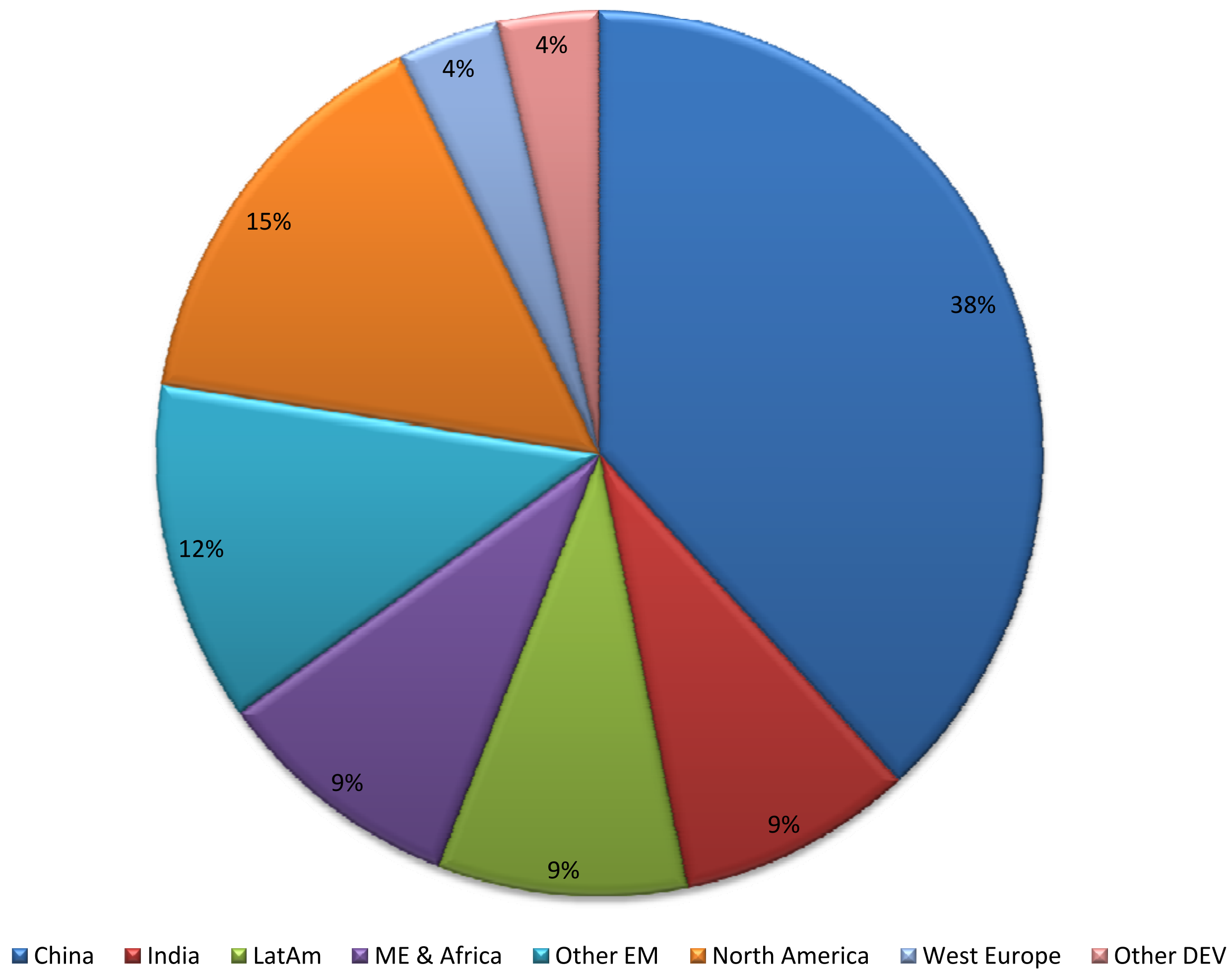



**European REITS are trading near the underlying NAV.**

Source: Morgan Stanley. Through March 31, 2013. Pan Europe includes the U.K., France, Spain, Sweden, Finland, the Netherlands, Italy, Austria, Germany, Switzerland, and Belgium. Continental Europe excludes the U.K.

# ASIA: LEADING DEMAND FOR SPACE

Projected demand for Residential and Commercial Space, 2010 - 2025

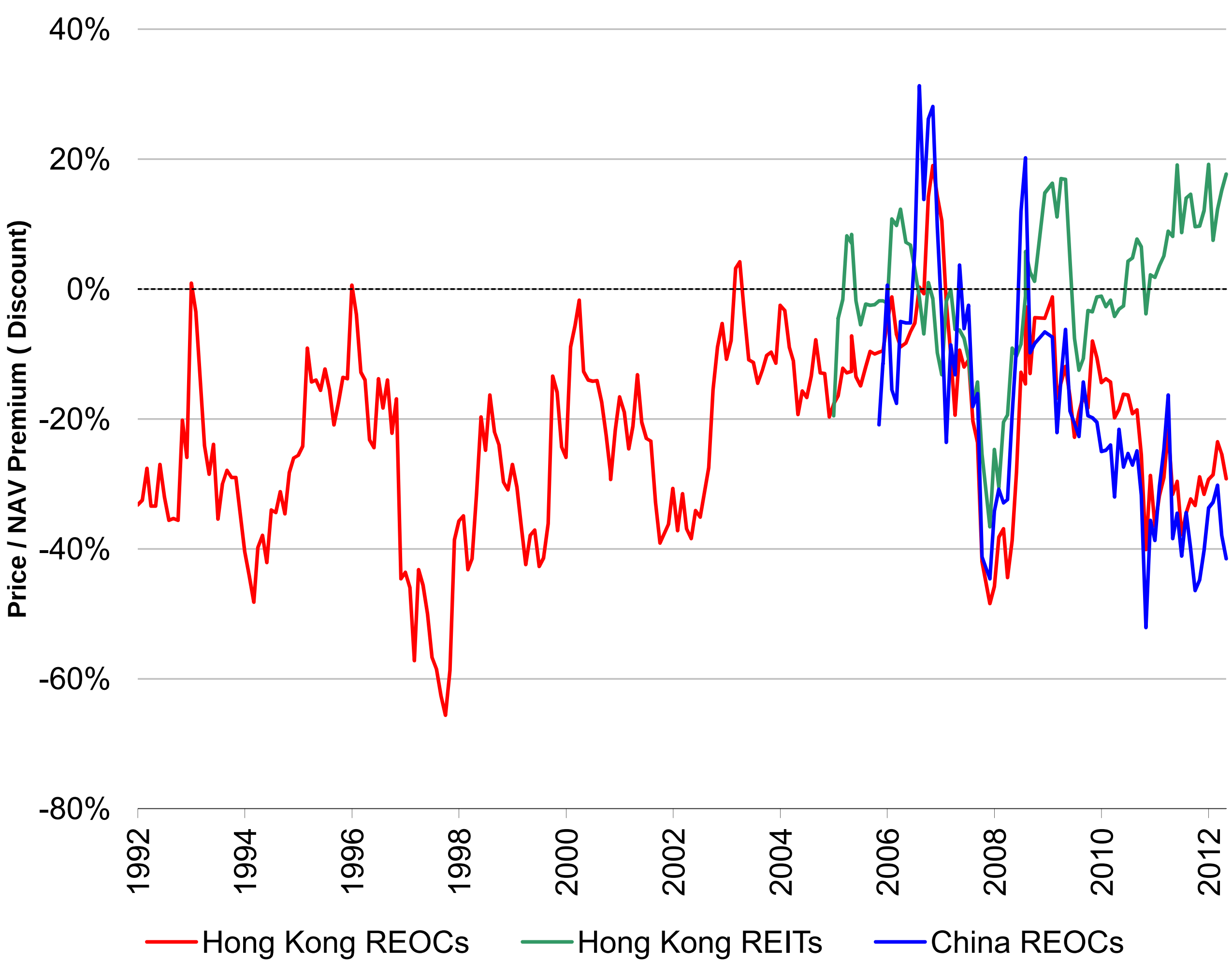



**China and India are projected to account for 47% of the world's demand for residential and commercial space.**

**Emerging markets are expected to account for 77% of demand.**

Source: Morgan Stanley, Institute of Economic Affairs, McKinsey Global Institute. As of June 2012.

# PUBLIC REAL ESTATE: ASIA




**Hong Kong REOCs traded at wider discount as weaker residential sales hurt investor confidence. Hong Kong REITs traded at wider premium following share price gains.**

**China REOCs traded at wider discount on concerns over further policy measures to cool housing demand.**

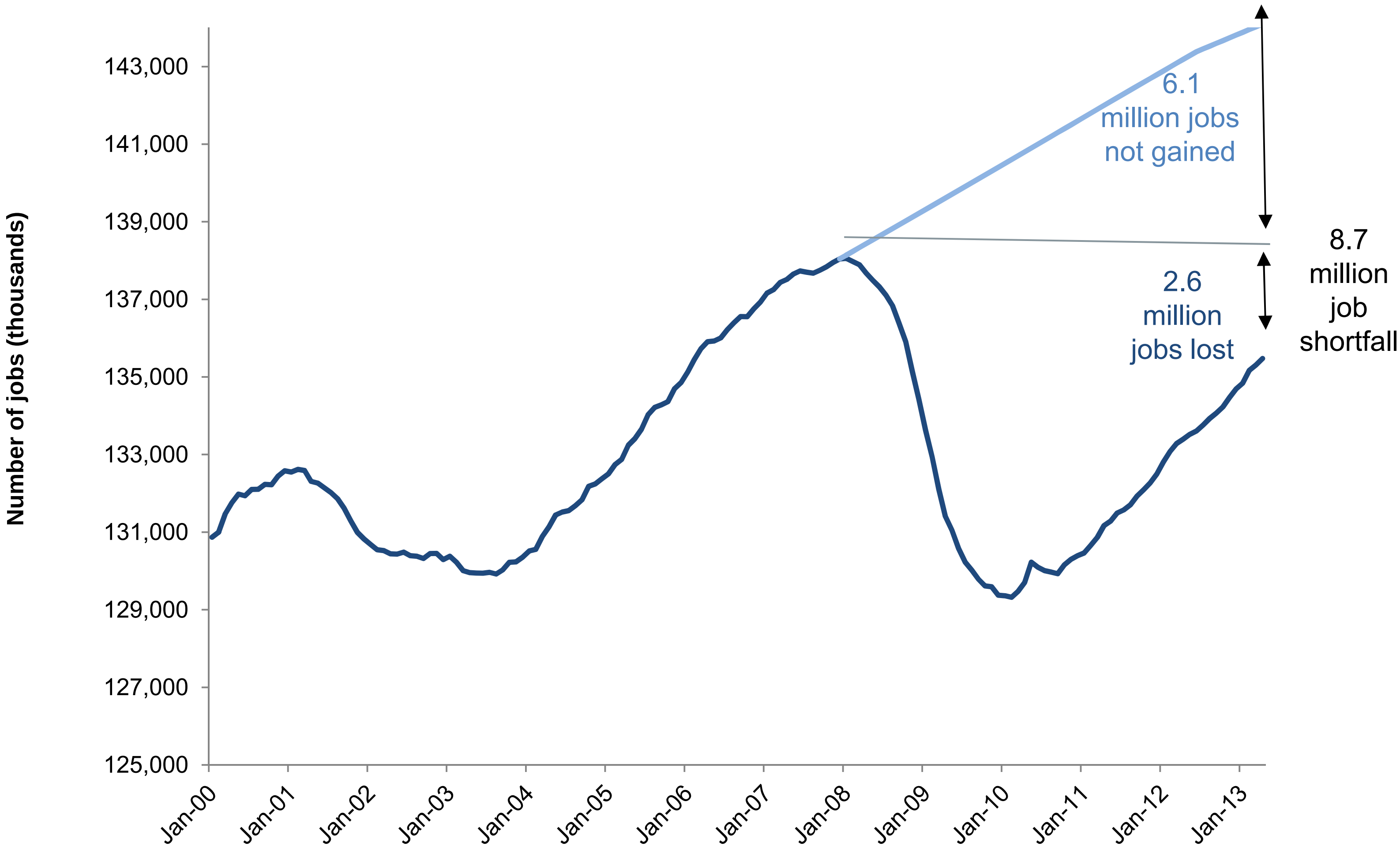
Source: Morgan Stanley. Through March 31, 2013

# SECTION 5 APPENDIX

# EMPLOYMENT

## Recession has left a job shortfall of nearly 9 million

Payroll employment and the number of jobs needed to keep up with the growth in the potential labor force, 2000–2013



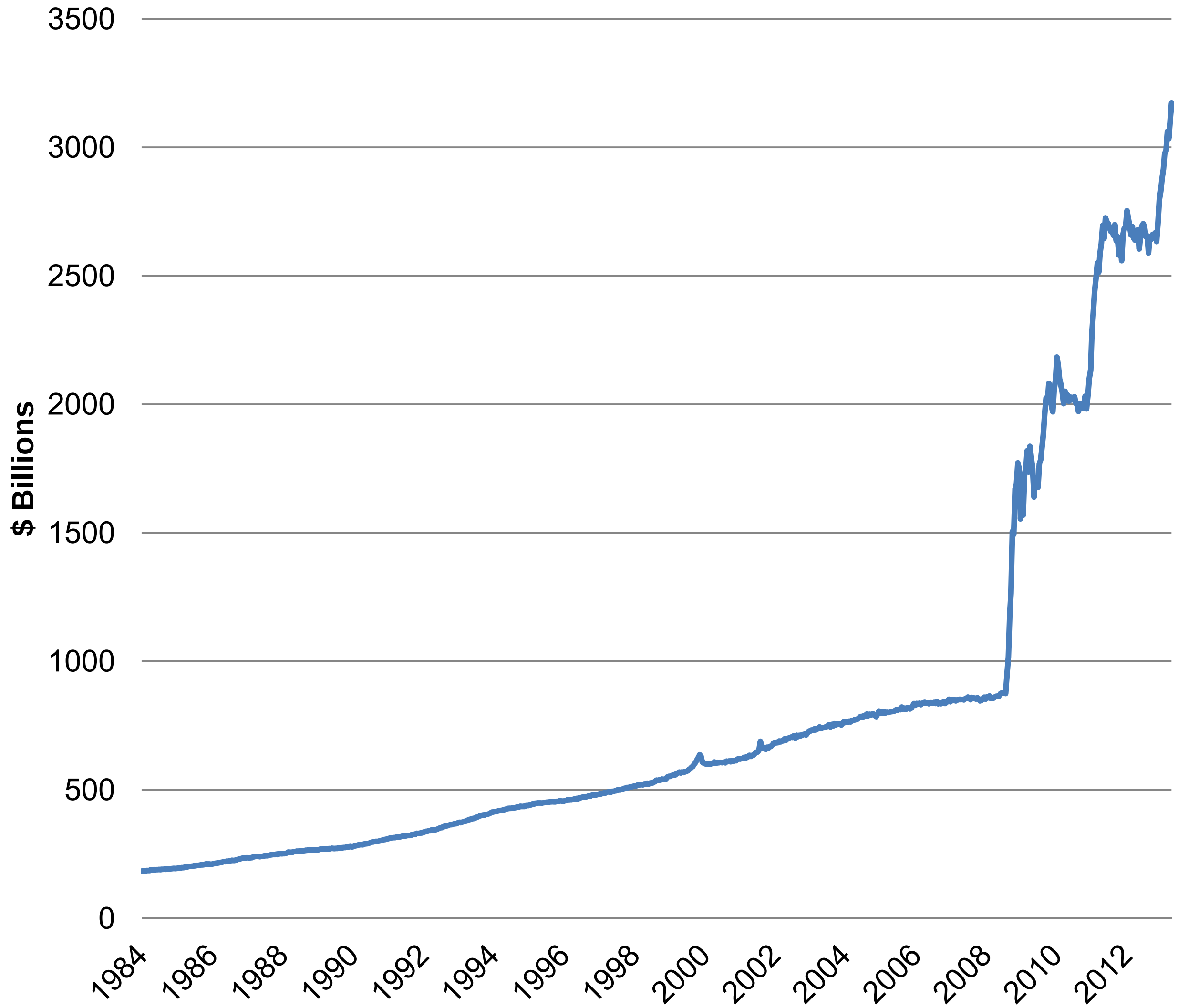

Source: Economic Policy Institute.

**The U.S. has not fully recovered all of the jobs lost from the 2007 recession.**

**Accounting for population growth, the U.S. is approximately 8.7 million jobs short of the pre-recession growth projection.**

**Significant new supply of industrial, office, and retail space is not expected until employment recovers.**

# U.S. MONETARY SUPPLY



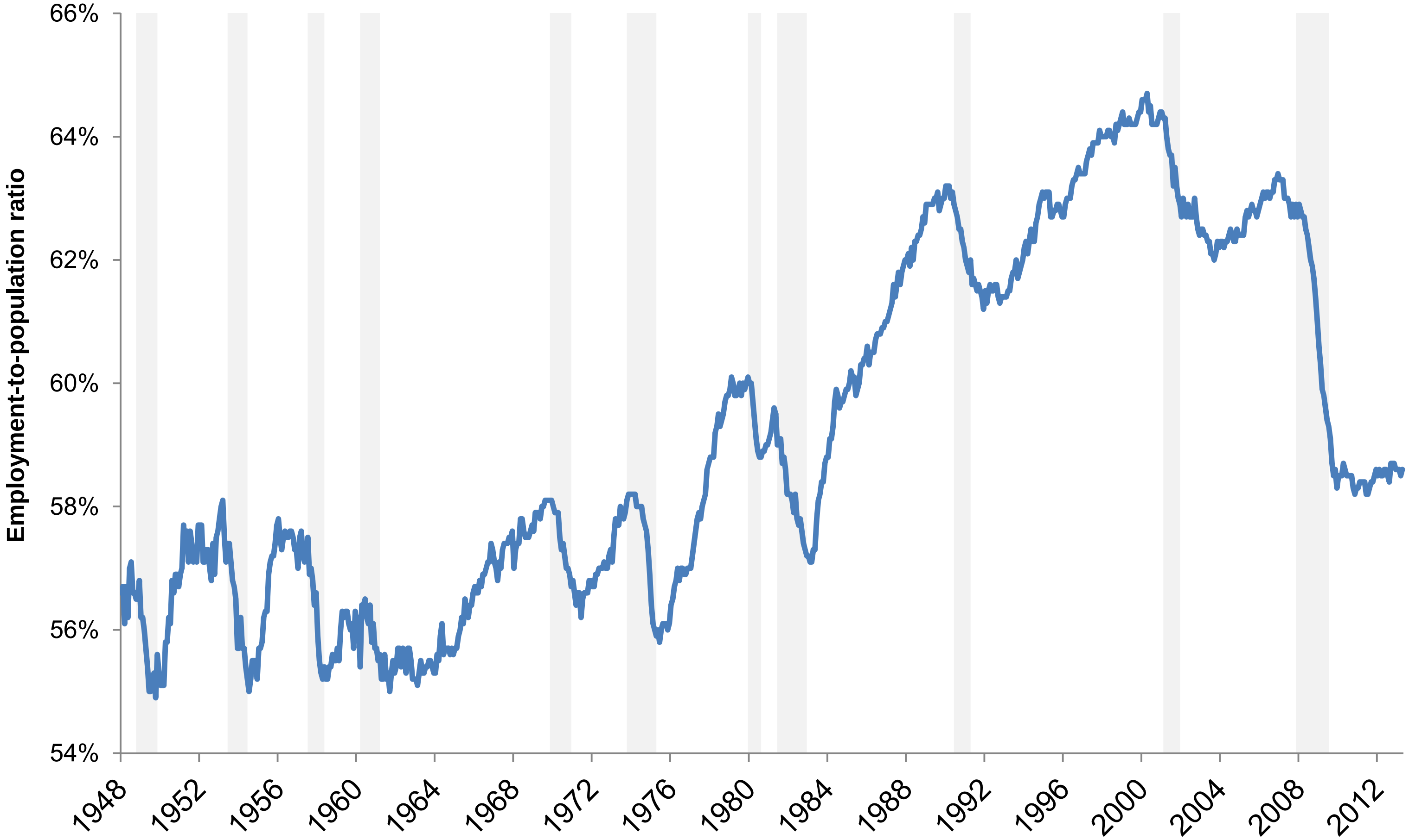

**The U.S. Monetary Supply has dramatically increased since the recession.**

**Will this spur significant inflation in the future?**

Source: Federal Reserve

# U.S. EMPLOYMENT

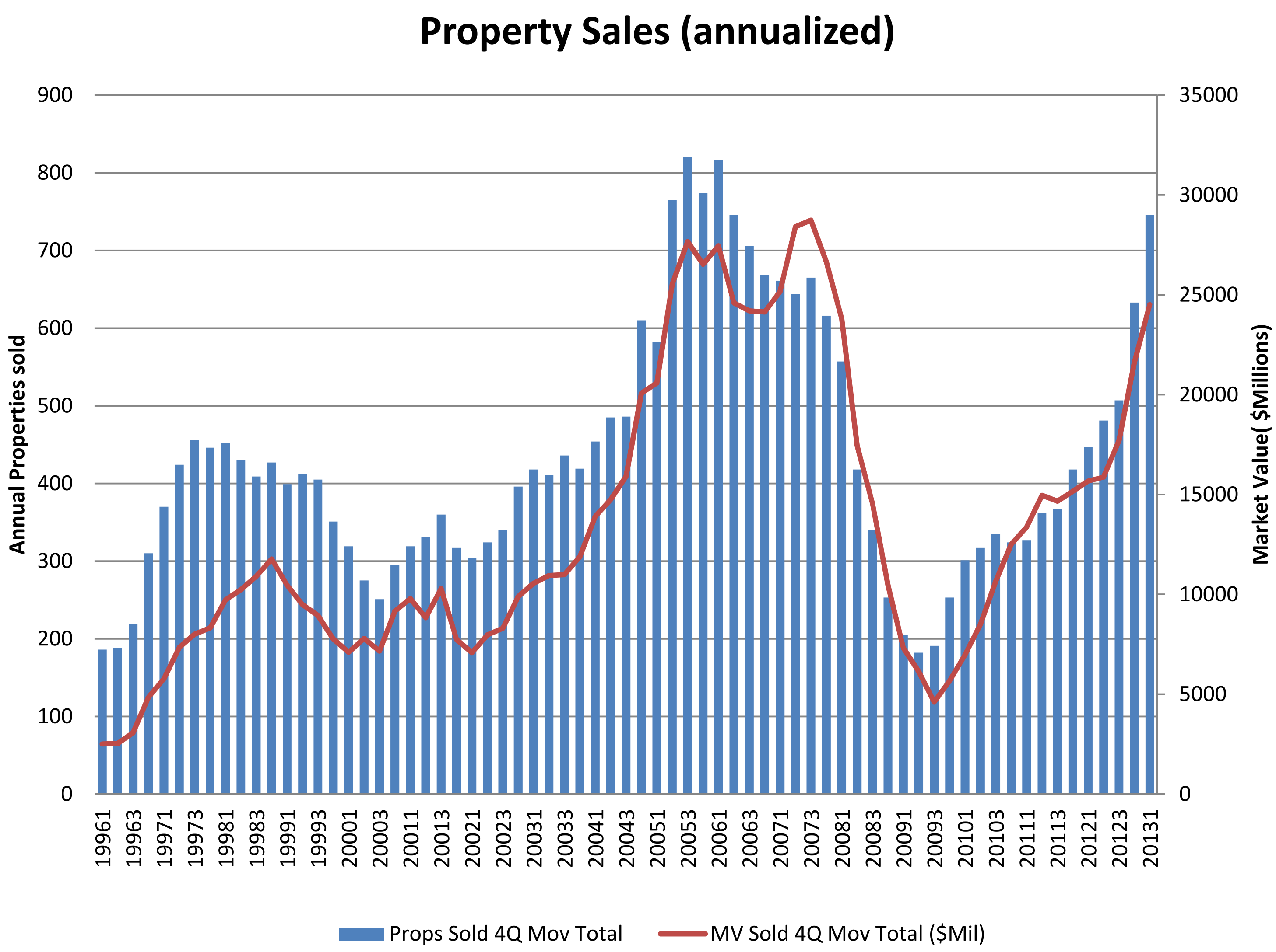
Employment-to-population ratio of total population age 16 and older, 1948–2013




**Although unemployment figures have begun to improve, the U.S. workforce is far off its pre-recession levels.**

Source: Economic Policy Institute. Shaded areas denote recessions.

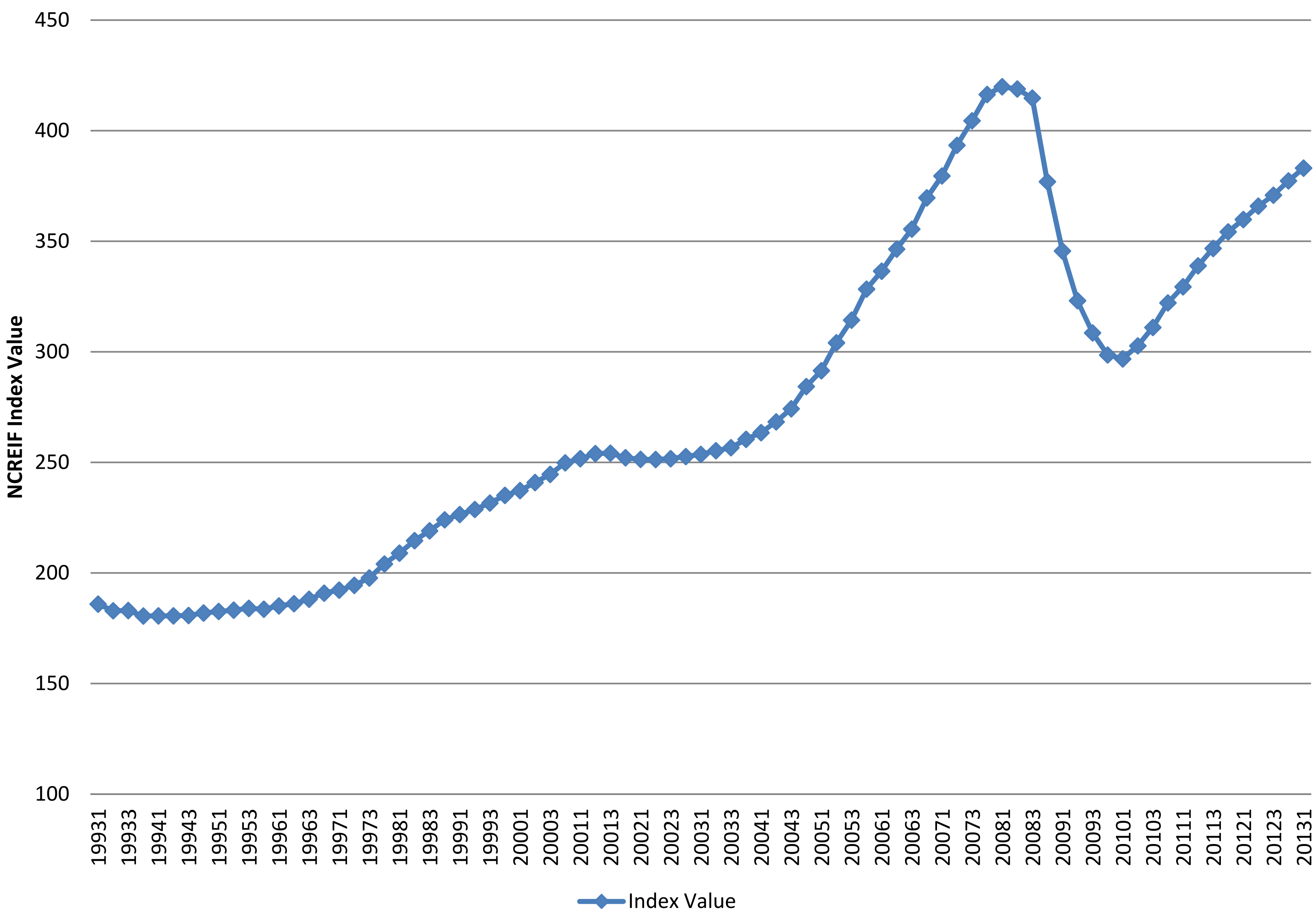
# U.S. COMMERCIAL TRANSACTIONS




**Transaction volume within the U.S. commercial market has picked up but is still below peak levels.**

Source: NCREIF. Each data point represents the rolling one-year total of transaction volume.

# REAL ESTATE RECOVERY

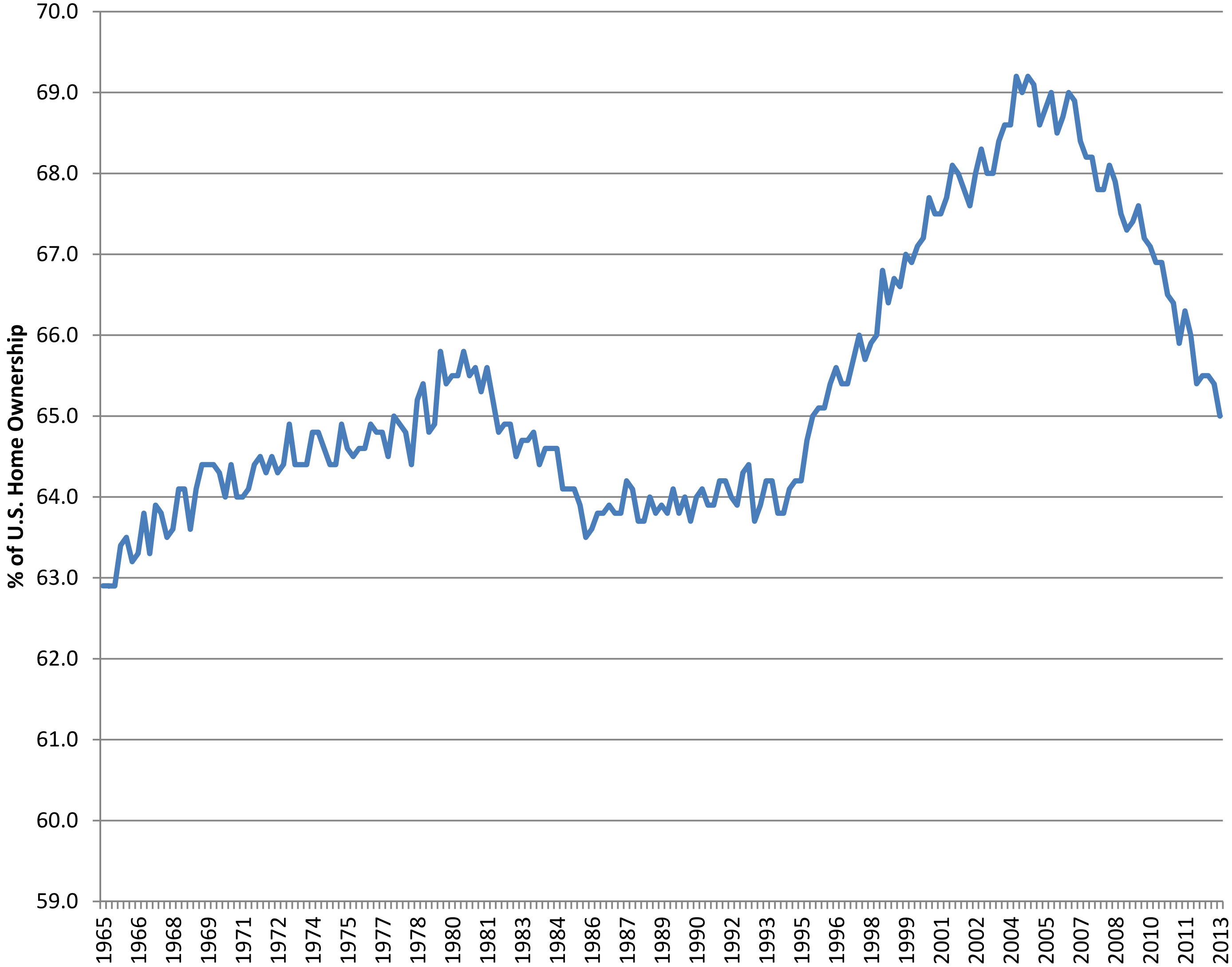



**The NCREIF Index value is 8.5% off its peak as of Q1 2013.**

**Peak-to-trough values were down 29%.**

Source: NCREIF

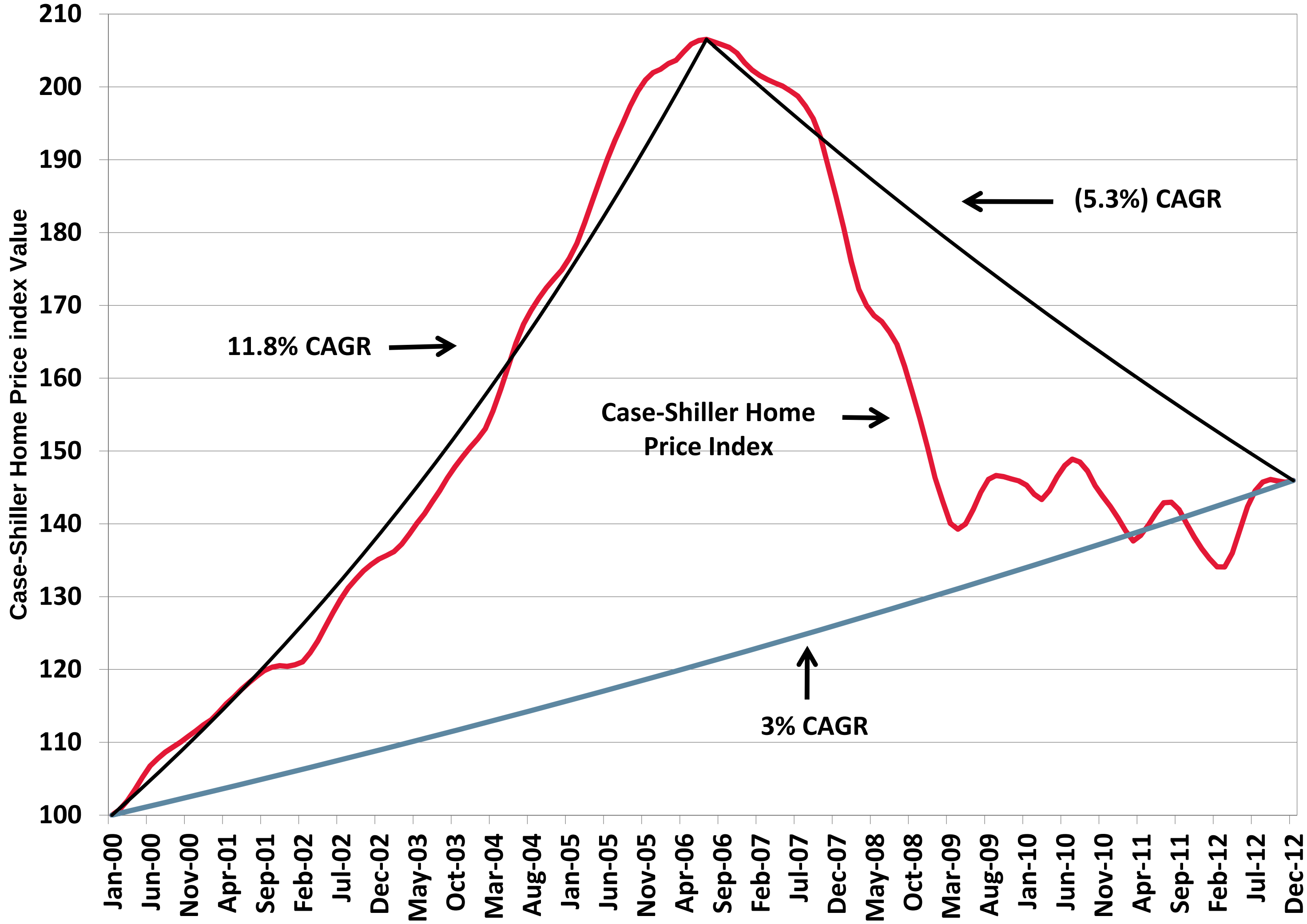
# U.S. HOUSING MARKET




**Homeownership in the U.S. is nearing its long term historic average.**

Source: U.S. Census Bureau

# U.S. HOUSING MARKET

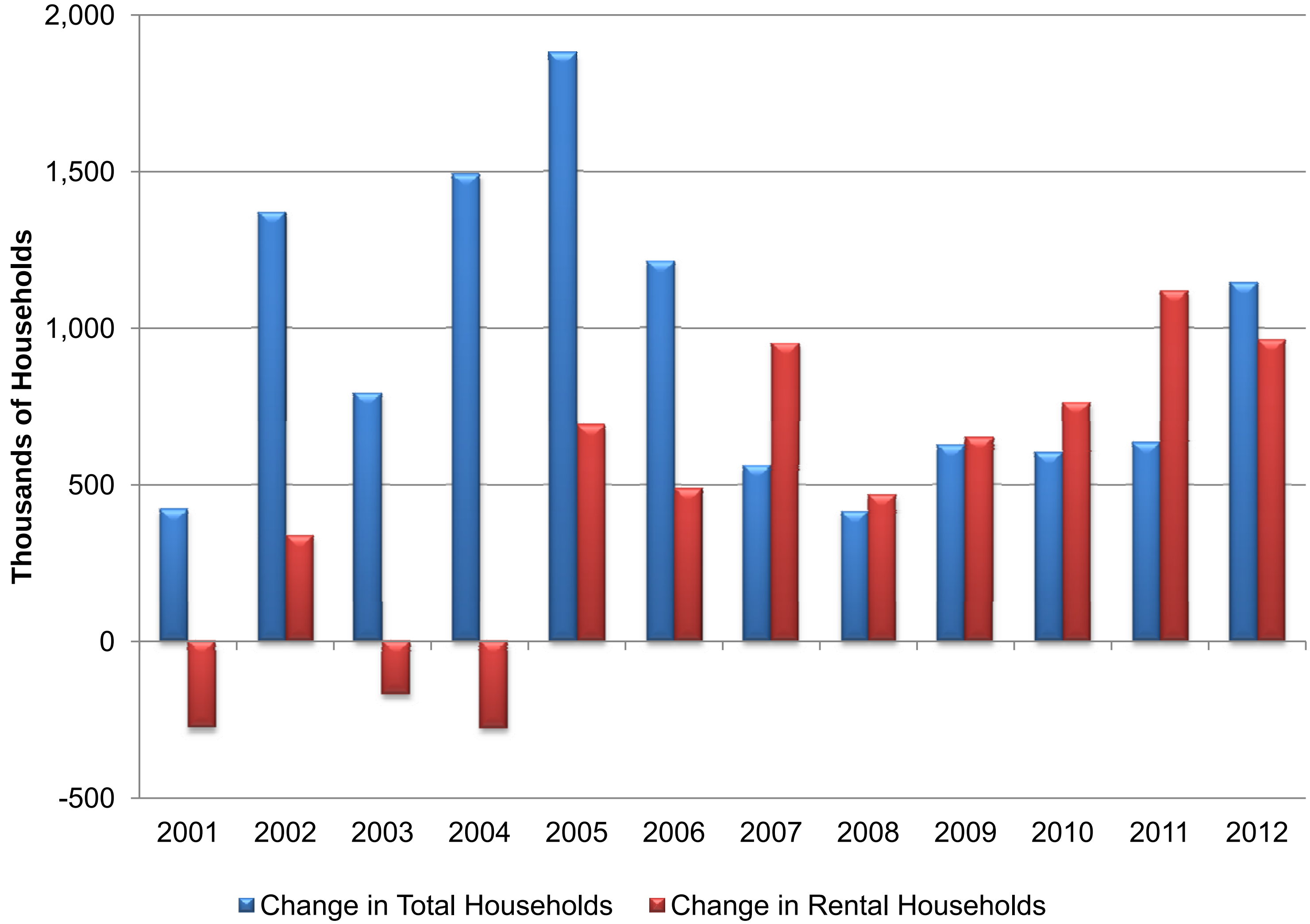



**Housing is finally beginning to recover. Average home prices are up 6% but much higher in some of the hardest hit markets.**

**Core Logic estimates that 1.7 million home owners moved from negative to positive equity during 2012.**

Source: : S&P/Case-Shiller, AEW

# U.S. HOUSEHOLD FORMATION

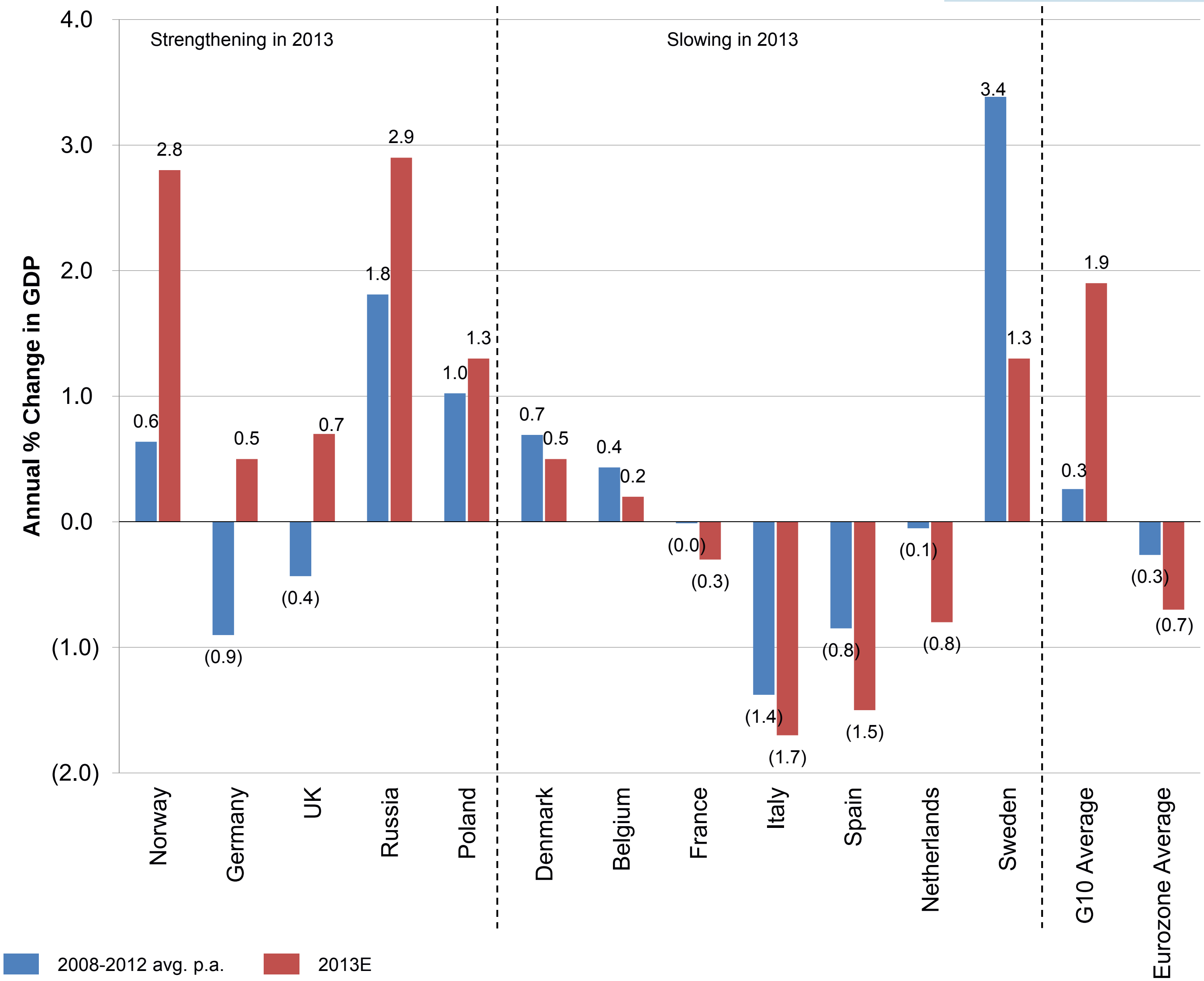



**Since the recession, household formation has been roughly half of pre-recession levels.**

**If the job recovery continues, households will hit a tipping point where delayed household growth should result in above normal levels of formation for several years.**

Source: : S&P/Case-Shiller, AEW

# EUROPE: REAL GDP GROWTH



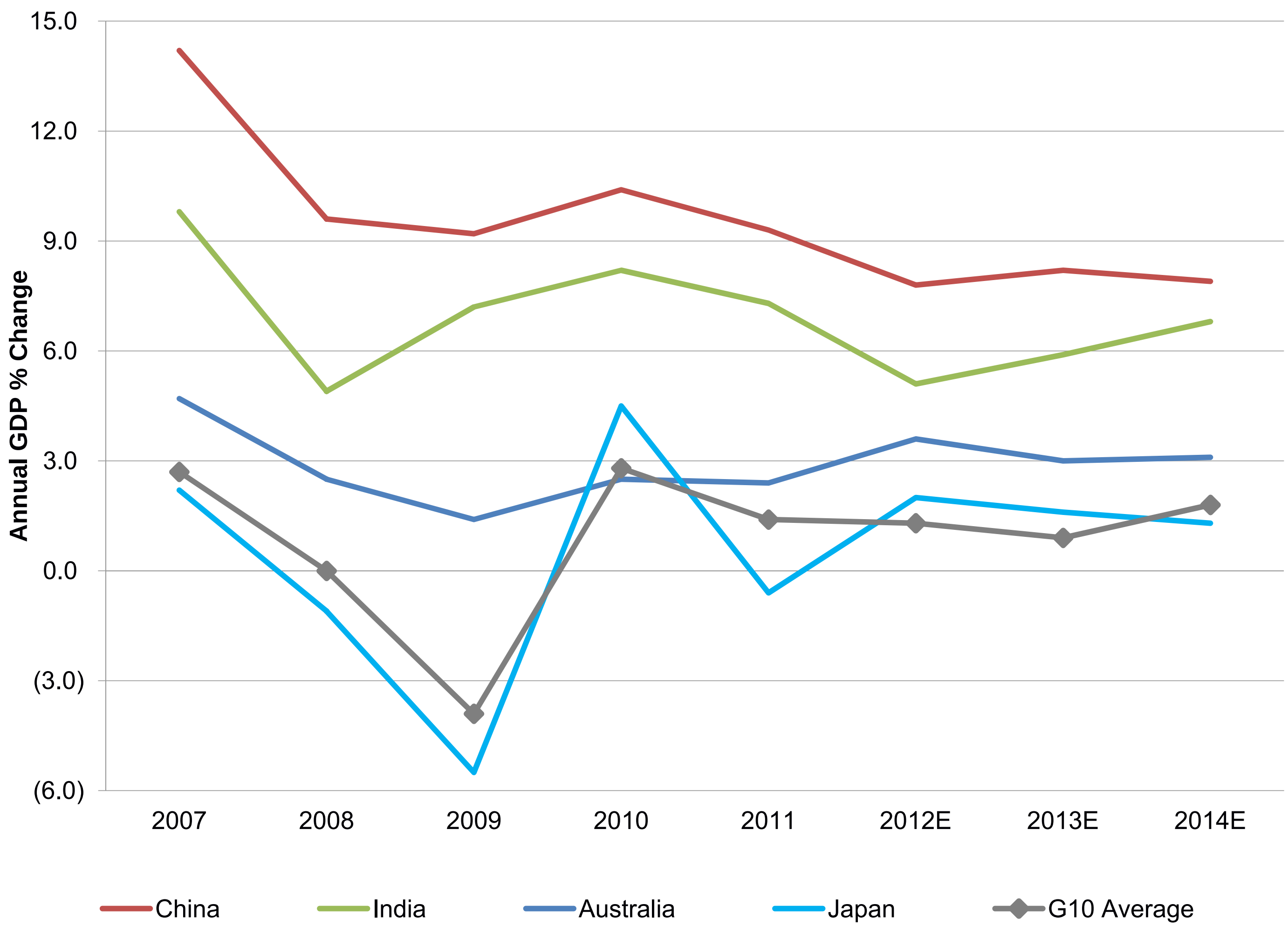

**Sluggish near term outlook for most of Europe.**

**Across much of Europe, 2013 GDP growth will be slower than the 2008-2012 average.**

**The U.K. and Germany may improve slightly in 2013, while France, Netherlands, Italy, and Spain are likely to slip into a recession.**

Source: Morgan Stanley

# ASIA: GDP GROWTH




**Asia is expected to continue its overall growth, led by China.**

**Australia has reduced interest rates to stimulate growth.**

**Japan has implemented stimulus efforts as well.**

**China is seeking to shift from an export driven economy to a domestic consumption driven economy.**

Source: Morgan Stanley. As of April 2013

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# TAB 5 – OPERF PUBLIC EQUITY REVIEW

**Oregon Investment Council**
**OPERF Public Equity Annual Review**
**September 25, 2013**

## PURPOSE

To provide the OIC an annual review of the OPERF public equity portfolio and to update OIC Public Equity Policies 4.05.01 and 4.05.02.

## BACKGROUND

In 2008, the OIC adopted the MSCI All Country World Investable Market Index (MSCI ACWI IMI) as the benchmark for OPERF's public equity portfolio. The adoption of this benchmark was the final step in a series of staff recommendations designed to both reduce the portfolio's home country bias and better diversify it by introducing a broader investable equity universe.

As of July 31st 2013, the capitalization based allocation of the MSCI ACWI IMI was comprised of 49 percent U.S. equities, 40 percent Developed International equities, and 11 percent Emerging Market equities. To achieve a similar allocation, staff uses a mix of 45 differentiated investment strategies organized across style (core/growth/value), capitalization range (large/mid/small/micro) and geography (country/region/global) to match the broad exposures found within the benchmark.

The 45 investment strategies can be broadly categorized as follows:

- **22 U.S. Equity strategies,** comprised of five indexed strategies (three of which are internally managed) and 17 active strategies (one of which is managed internally).

- **23 International Equity strategies**, comprised of 16 international developed strategies (one of which is indexed), six dedicated emerging market strategies (one of which is internally-managed) and one global equity strategy.

## PUBLIC EQUITY MANAGEMENT HIGHLIGHTS

Staff worked with Strategic Investment Solutions (SIS) on a review of the Public Equity portfolio using the most recent data (7/31/13). While the results are detailed in the accompanying report from SIS, staff wishes to highlight the following key points:

***Public Equity Policy Objective*** – The OIC's public equity policy objective (75 basis points of excess return) has been achieved while utilizing only half the policy's 200 bps tracking error allowance.

***Internally Managed Equity Portfolios*** – All internally-managed public equity portfolios have out-performed their corresponding benchmarks.

***Open Door Meetings*** – Staff continually scans the marketplace for promising investment managers. The most efficient venue is through visits with prospective managers in OST offices. In fiscal year 2013, staff conducted 103 in-person meetings in the Tigard and Salem offices. Staff maintains files on all manager meetings, and uses a broad range of third-party databases and analytical tools to assist in the tracking and evaluation of prospective manager strategies.

***Quarterly Conference Calls*** – Staff holds conference calls with all OPERF managers on a quarterly basis as part of its portfolio monitoring protocol. This formal, documented process allows staff to understand how managers express their views and what convictions are reflected in and by their portfolio holdings. The conference calls also serve to alert staff of any potential adverse changes in a manager's investment processes or operations. Two weeks of every quarter are dedicated solely to these calls. In fiscal year 2013, public equity staff conducted 112 quarterly conference calls with its OPERF equity managers.

***On-Site Visits*** – Per OIC ***Policy and Procedure 04.05.01- Strategic Role of Public Equity Securities within OPERF***, staff is required to conduct annual site visits with all OPERF equity managers. On-site visits generally take 4 hours and include meetings with portfolio managers, analysts, traders and compliance personnel. In fiscal year 2013, public equity staff conducted 33 on-site visits with current and prospective OPERF equity managers.

**DISCUSSION**

Staff proposes updating OIC Public Equity Policies 4.05.01 and 4.05.02 to codify existing practices. The first proposed update would clarify staff's ability to rebalance between and among various Public Equity strategies. In *General Policy and Procedure 04.01.18 - Public Employees Retirement Fund Rebalancing Policy*, rebalancing between asset classes ensures that the OPERF portfolio's overall asset allocation does not drift significantly from its stipulated strategic targets. However, this policy does not explicitly address how Public Equity staff can rebalance between and among managers and sub asset classes.

The most common catalyst for rebalancing occurs when Public Equity raises cash for pension payments or private market capital calls. However, over the last 12 months, there has been no need to raise cash from Public Equity (and therefore no opportunity to rebalance) due to the large cash inflows associated with private market (specifically, Private Equity and Real Estate) realizations.

Considerations for rebalancing are based on the continuous quantitative and qualitative monitoring of existing managers. OPERF equity strategies with strong near-term performance may be subject to mean reversion and are candidates for rebalancing (i.e., taking profits). Other candidates include those strategies subject to market headwinds, organizational issues or lower staff conviction levels (i.e., risk mitigation). The proposed language change inserted into (**P&P 04.05.01 – Strategic Role of Public Equity Securities within OPERF, Appendix A)** and highlighted in red below, delegates to staff the authority to rebalance between managers, with CIO approval and quarterly notification to the OIC.

> **Staff will have discretion, with CIO approval and quarterly reporting to the OIC, to rebalance between and among managers.**

The second proposed policy change codifies Public Equity manager termination practices. In order to minimize adverse impacts to a manager's reputation and on-going investment operations due to a recommended termination, staff has historically given asset managers the opportunity to resign from their OST/OPERF mandates. Although staff is sensitive to a manager's on-going business viability, the main motivation for this approach is to ensure that the OST/OPERF portfolio is not adversely affected by news of the manager termination. In many cases, managers also have mutual funds that are managed in exactly the same manner as the separate account(s) manages for OPERF. The main concern is that it would be easy for other investors to capitalize on public information and trade in advance of a terminated manager's upcoming mandate transition. Moreover, many of the OST/OPERF public equity mandates are relatively illiquid (e.g., U.S. Micro Cap, International Small Cap, Emerging Markets, Emerging Markets Small Cap, etc.), and publicly advertising an upcoming transition could be detrimental to those portfolios.

The policy change highlighted below in red (**P&P 04.05.02 – Selecting and Terminating Investment Management Firms**) delegates to staff the authority to terminate any public equity manager, with CIO approval and quarterly notification to the OIC.

> **The Council may enter into contracts with one or more persons whom the Council determines to be qualified, whereby the persons undertake, in lieu of the investment officer, to perform the functions specified in ORS 293.736 to the extent provided in the contract (ORS 293.741). Staff, with CIO approval and quarterly notification to the OIC, may terminate "at will" any manager in its employ according to the terms of its contract on behalf of the Council.**

**RECOMMENDATION**

- Staff and SIS recommend that the OIC adopt red-lined changes specified in the attached Public Equity OIC Policies 04.05.01 and 04.05.02.

**FUNCTION:** **Public Equity Investments**
**ACTIVITY:** **Strategic Role of Public Equity Securities within OPERF**

**POLICY:** **Public equity securities should comprise 38% to 48% of OPERF's total assets, with a strategic target of 43%, based on an overall global equity target allocation established in OIC Policy 4.01.18.**

**PROCEDURES:**

**PURPOSE**

The purpose of these Public Equity Investment Policies & Strategies is to define the strategic role of public equities as an asset class within the Investment Council's general investment policies for the Oregon Public Employees Retirement Fund (OPERF), to set forth specific short-term and long-term policy objectives for this segment of OPERF's investment portfolio, and to outline the strategies for implementing the Investment Council's public equity investment policies.

**STRATEGIC ROLE**

Publicly traded equity securities generally should provide enhanced returns and diversification to the OPERF. The investable universe of equity securities can be categorized as U.S., non-U.S. developed countries and emerging market countries. The Public Equity Fund also provides liquidity to OPERF to meet cash flow needs.

**POLICY OBJECTIVES**

1. To provide one of the highest expected returns of the OPERF's major asset classes. Over the long-term, the return should exceed inflation by 6.0 percent.

2. To achieve a portfolio return of 0.75 percent or more above the MSCI All Country World Index Investable Market Index (ACWI IMI) (net) over a market cycle of three to five years on a net-of-fee basis.

3. Active risk will be managed to a targeted annualized tracking error of 0.75 to 2.0 percent, relative to the MSCI ACWI IMI (net).

**STRATEGIES**

1. The public equity portfolio shall be structured on a global basis, seeking to loosely replicate the country and market capitalization characteristics of the world-wide investable stock universe.

2. Diversify the asset class of public equities across the stock markets of all investable countries to ensure exposure to a wide range of investment opportunities, and participate

broadly in those markets to receive the highest expected rate of return for equities, and to provide risk reduction to the entire equity portfolio. The size of any commitment to an individual investment manager's strategy will be based on the commitment's impact on the overall portfolio, the Investment Council's confidence in the abilities of the manager, the investment style of the manager, and the capacity of the manager to invest and manage such a commitment.

3. Maintain an overall portfolio market capitalization that reflects the MSCI ACWI IMI with a double weighting to U.S. small capitalization stocks, in an effort to enhance return. This tilt is based on the Investment Council's belief that inefficiencies in the small and micro cap markets, relative to the large cap market, through active management, will outperform large cap stocks over the long-term.

4. Invest opportunistically, using innovative investment approaches, within a controlled and defined portfolio allocation. To that end, 130/30 strategies may be implemented with any existing OPERF manager mandate conditional upon consultant and Chief Investment Officer concurrence, such that the implementation of the strategy does not change the managers role within Public Equity. Staff will report any 130/30 implementations to the Council.

5. Enhance returns to OPERF through exposure to active management.

6. Active investment managers are expected to outperform stated benchmarks on an after-fee, risk adjusted basis, over a market cycle of three to five years (see Appendix B). Those benchmarks include the passive management alternative. Comparisons against a representative peer group universe will also be considered in evaluating the performance and risk levels of managers.

7. All non-U.S. benchmarks assigned to managers should be unhedged. Managers may be permitted to hedge currency exposure and, in the case of managers whose stated investment approach includes active currency management, may take active currency positions, but all managers are measured against an unhedged benchmark.

8. The Investment Council's selection of active managers will be based upon demonstrated expertise. Active managers will be selected for their demonstrated ability to add value over a passive management alternative and within reasonable risk parameters by using a style which enables OPERF to meet the strategic target allocations set forth in Appendix A. The management guidelines described in Appendix C will be attached to and incorporated into the Investment Council's contract with every investment manager.

## SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)

A. Public Equity Strategic Targets (Appendix A)
B. Investment Manager Benchmarks (Appendix B)
C. Management Guidelines (Appendix C)

## APPENDIX A

## STRATEGIC TARGETS

Subject to periodic review and revision, the Investment Council adopts the following strategic target allocations (all targets are measured relative to the MSCI ACWI IMI):

a. Capitalization exposure similar to stated benchmark;

b. The Investment Council's strategic target allocations represent percentages of OPERF's total public equity portfolio. Each target allocation has an accompanying percentage range. The strategic target allocations and ranges can be summarized as follows:

| | **Targets** | **Ranges** |
|---|---|---|
| Active | 75% | 65% - 85% |
| Passive | 25% | 15% - 35% |
| U.S. | ACWI weight | +/- 10% |
| Non-U.S. | ACWI weight | +/- 10% |
| Emerging Markets | ACWI weight | +/- 4% |
| Growth | 50% | 45% - 55% |
| Value | 50% | 45% - 55% |
| U.S. Small Cap Overweight | 100% | 0% - 140% |

Note: The U.S. small cap overweight is based on the Russell 2000 index weight relative to the Russell 3000 index weight which approximates 8%.

c. The Investment Council will approve target allocations and associated ranges for the various sub-asset classes, at the time of hire. The OPERF public equity portfolio will be monitored quarterly by a report to the Investment Council that includes the target allocation for each category of management style (active/passive and growth/value). The actual percentage market value for each category, compared to its target allocation, will also be included in this report. When a segment falls outside of the established ranges or when manager allocations are considered sub-optimal, staff will transfer assets as deemed appropriate within the target allocations. Staff will have discretion, with CIO approval and quarterly reporting to the OIC, to rebalance between and among managers. The total structural characteristics of the public equity portfolio will be considered at the time of any rebalancing. Re-allocations between asset classes shall be governed by Policy 4.01.18.

## APPENDIX B

## INVESTMENT MANAGER BENCHMARKS

| Manager | Benchmark | Peer Group | Return Objective Over Benchmark Net-of-Fees |
|---|---|---|---|
| **U.S. Large Cap:** | | | |
| Delaware | Russell 1000 Growth | U.S. Large Growth | 1.5% |
| Wells Capital | Russell 1000 Growth | U.S. Large Growth | 1.5% |
| Aronson+Johnson+Ortiz | Russell 1000 Value | U.S. Large Value | 1.0% |
| MFS | Russell 1000 Value | U.S. Large Value | 1.0% |
| PIMCO | Russell 1000 | U.S. Large Core | 1.0% |
| Russell/RAFI Fund Index | Russell 1000 | U.S. Large Core | 1.5% |
| Pyramis | Russell 1000 | U.S. Large Core | 2.0% |
| Northern Trust Emerging Mgrs | Russell 3000 | U.S. All Core | 1.5% |
| BGI Russell 1000 Value Index | Russell 1000 Value | U.S. Large Value | N/A |
| BGI Russell 1000 Growth Index | Russell 1000 Growth | U.S. Large Growth | N/A |
| S&P 500 Index | S&P 500 | U.S. Large Passive | N/A |
| S&P 400 Index | S&P 400 | U.S. Mid Passive | N/A |
| **U.S. Small and SMID Cap** | | | |
| EAM | Russell Microcap Growth | U.S. Micro Gr. | 2.5% |
| Next Century | Russell Microcap Growth | U.S. Micro Gr. | 2.5% |
| DFA | Russell Microcap Value | U.S. Micro Val | 1.5% |
| Callan | Russell Microcap Value | U.S. Micro Val | 1.5% |
| Next Century | Russell 2000 Growth | U.S. Small Gr. | 2.0% |
| AQR | Russell 2000 Value | U.S. Small Value | 1.0% |
| Boston Company | Russell 2000 Value | U.S. Small Value | 1.0% |
| Wellington | Russell 2000 | U.S. Small Core | 1.0% |
| Wanger | Russell 2500 | U.S. SMID Core | 1.0% |
| Russell 2000 Synthetic Index | Russell 2000 | U.S. Small | 0.3% |
| **Non-U.S. Large Cap** | | | |
| TT International | World x US Std Growth | Non-US Growth | 2.0% |
| Wells Capital CEF | ACWI x US IMI | Non-US Core | 2.0% |
| Lazard CEF | ACWI x US IMI | Non-US Core | 2.0% |
| Walter Scott | World x US Std | Non-US Growth | 2.0% |
| Acadian | ACWI x US IMI Value | Non-US Value | 1.7% |
| Brandes | ACWI x US Std Value | Non-US Value | 2.0% |
| AQR | World x US Std | Non-US Core | 2.0% |
| Arrowstreet | ACWI x US IMI | Non-US Core | 2.0% |
| Lazard | ACWI x US Std | Non-US Core | 1.5% |
| Pyramis Select | ACWI x US Std | Non-US Core | 1.0% |

| Manager | Benchmark | Peer Group | Return Objective Over Benchmark Net-of-Fees |
|---|---|---|---|
| Northern Trust Emerging Mgrs | World x US IMI | Non-US Core | 1.5% |
| SSgA World ex-US Index | World x US Std | Non-US Passive | N/A |

| **Manager** | **Benchmark** | **Peer Group** | **Return Objective Over Benchmark Net-of-Fees** |
|---|---|---|---|
| **Non-U.S. Small Cap** | | | |
| DFA | World x US Sm Cap Val | Non-US Small Value | 1.5% |
| Harris Associates | ACWI x US Sm Cap Val | Non-US Small Value | 2.0% |
| Pyramis Select | World x US Sm Cap | Non-US Small Core | 2.0% |
| Victory Intl | World x US Sm Cap Gr | Non-US Small Growth | 2.0% |
| **Emerging Markets** | | | |
| Arrowstreet | Em Mkts IMI | Emerging Markets | 2.0% |
| DFA | Em Mkts Small Cap | Emerging Markets | 1.5% |
| William Blair | Em Mkts Small Cap | Emerging Markets | 2.0% |
| Genesis | Em Mkts IMI | Emerging Markets | 2.0% |
| William Blair | Em Mkts Std | Emerging Markets | 2.0% |
| BGI Tiered Emerging Markets | Em Mkts Std | Emerging Markets | 2.0% |
| Westwood Global | Em Mkts Std | Emerging Markets | 2.5% |
| **Global** | | | |
| AllianceBernstein Value | ACWI Value Std | Global Value | 2.0% |

ACWI – MSCI All-Country World Index (U.S. + Non-U.S. Developed + Emerging Markets)
IMI – MSCI IMI Index (Large Cap + Mid Cap + Small Cap)
Std – MSCI Standard Index (Large Cap + Mid Cap)
Sm Cap – MSCI Index (Small Cap)
Em Mkts – MSCI Emerging Markets Index

## APPENDIX C

## MANAGEMENT GUIDELINES

The following guidelines shall be attached to and incorporated into every separate account contract between the Investment Council and an active investment manager. These guidelines may be modified from time to time as considered necessary by the Chief Investment Officer, however, the assigned benchmark may not be changed without OIC approval:

1. The category of management to which a manager is assigned.

2. A description of the manager's investment style.

3. The manager's specific performance objective, expressed on a relative basis in comparison to an index or a passively managed alternative, as that manager's required excess return. The manager's required excess return will represent the risk-premium associated with this manager's investment style in comparison to the index or passively managed alternative to which the manager is assigned.

4. The expected risk (tracking error) of the portfolio expressed in relationship to the assigned benchmark.

5. Portfolio characteristics which the OIC expects the manager to exhibit on average throughout a market cycle.

6. A list of permissible equity securities in which the manager may invest.

**FUNCTION:** **Equity Investments**
**ACTIVITY:** **Selecting and Terminating Investment Management Firms**

**POLICY:** **The Council may enter into contracts with one or more persons whom the Council determines to be qualified, whereby the persons undertake, in lieu of the investment officer, to perform the functions specified in ORS 293.736 to the extent provided in the contract (ORS 293.741). Staff, with CIO approval and quarterly notification to the OIC,~~Council~~ may terminate "at will" any manager in its employ according to the terms of its contract on behalf of the Council.~~.~~**

1. **Factors to be considered when hiring an investment management firm may include, but are not limited to**:

    a) The firm's major business;

    b) Ownership and organization of the firm;

    c) The background and experience of key members of the firm, including the portfolio manager expected to be responsible for the Oregon account;

    d) The size of the firm's asset base, and the portion of that base which would be made up by Oregon's portfolio if the firm were hired;

    e) Equity managers will be screened by staff and the OIC's consultant via various quantitative and qualitative means. At least one visit to the firm's offices should be made prior to hiring and funding;

    f) If the firm has a readily determinable investment style, it should complement those of existing managers; and

    g) Firms should not be hired on a short-term trial basis.

2. **Factors to be considered for the termination of an investment management firm may include, but are not limited to**:

    a) Major personnel changes within the firm's decision-making group;

    b) Changes in the firm's ownership or organizational structure;

    c) Administrative problems;

    d) Radical or continual changes in investment style;

    e) Inferior performance. However, a firm should be given ample time to perform well. A short-fall in performance over short-term periods, quarterly or annually, shall not be the basis for termination so long as the firm can demonstrate that it is adhering to its defined investment philosophy. A firm's philosophy must continue to be one in which the staff and Council have confidence for inclusion in the Oregon portfolio. Lastly, the firm should compare reasonably well with its peers using a similar investment style; and

f) Non-compliance with contractual responsibilities to Oregon.

## PROCEDURES:

1. **Selection of Investment Management Firms.** OST investment staff meet with and obtain information from prospective investment management firms. Members of the OIC may also choose to familiarize themselves with prospective firms, at an early stage. Consultants may be used to assist in evaluating prospective investment management firms, however, the OIC will not delegate its policy or decision-making responsibilities to consultants or others. The OIC selects an investment management firm by majority vote. The Chief Investment Officer is authorized to engage and fund any passive equity strategy considered necessary to allocate assets from terminated or defunded managers or to fill gaps identified in, or reduce risk in, the Public Equity portfolio. Any such actions shall be communicated to the OIC at the next regularly scheduled meeting.

2. **Investment Manager Selection Criteria**

   A. Identification of the strategic role, within the investment structure, the investment manager's portfolio is to fulfill.

   B. Description of the manager's style, or how the manager will fulfill the strategic role.

   C. Identification of the universe of securities from which the manager will construct its portfolio.

   D. Identification of the expected risk level, as measured by commonly accepted investment risk measures, relative to the strategic role the manager is to fulfill. The risk level can be expressed either relative to the universe of securities from which the manager selects securities, other managers, or to the market return as a whole, or it can be expressed in absolute terms.

   E. Identification of a specific performance objective. The performance objective should be expressed on a risk-adjusted basis. For example, the manager's performance may be compared to an index, which represents the universe of securities from which the manager selects, plus some degree of excess return over that index which is commensurate with the risk the manager takes to achieve return.

   F. Identification of a time horizon considered acceptable by the manager and the OIC for the delivery of the expected performance results. This time horizon should be expressed in terms relative to a market cycle for that manager's specific style of management. The style of management can be embodied in the index selection. A market cycle is defined as performance from peak to trough to peak in the index return.

3. **Compliance with the Wall Street Transparency and Accountability Act of 2010 (“Dodd Frank”).** The Council intends to comply with the requirements of the Dodd Frank legislation and related regulations for advisors selected and approved to trade in over-the-counter derivative transactions.

A. Each swap advisor engaged or to be engaged by the Council shall function as a designated qualified independent representative of the Council, sometimes referred to as a "Designated QIR."

B. Each swap advisor shall represent in writing to the Council that it agrees to meet, and shall meet, the requirements specified in Commodity Futures Trading Commission Regulation §23.450 or any successor regulation.

C. OST staff shall monitor the performance of each swap advisor consistent with the requirements specified in CFTC Regulation §23.450.

D. OST staff shall exercise independent judgment in consultation with its swap advisor(s) in evaluating all recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to Council policy.

E. OST staff shall rely on the advice of its swap advisor(s) with respect to transactions authorized pursuant to Council policy and shall not rely on recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to Council policy.

4. **Compensation of Investment Management Firms.** Management or performance-based fees shall be negotiated by staff as appropriate to the philosophy of the firm. Typically, the fees are set as a percentage of assets managed, and vary on a sliding scale inversely with the total value of assets managed by the firm.

5. **Terminating Management Firms.** Immediately following a termination, ~~action by the Council,~~ the Senior Equity Investment Officer shall notify the terminated firm. Separate account mandates will be instructed to discontinue trading the portfolio immediately and the custodian is instructed to suspend trading in the account. Unless directed otherwise by the Council, OST staff shall proceed with a liquidation plan that may include redistributing securities to the Fund's other investment management firms, transitioning securities through an index fund, or liquidating assets. For equity mandates structured through commingled trusts, OST staff shall ensure liquidation or transition of the investment in a timely and efficient manner given the constraints of trust documents. "Watchlist" status is not a prerequisite for termination.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):**

None

OREGON INVESTMENT COUNCIL

# PUBLIC EQUITY REVIEW

SEPTEMBER 25, 2013

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 Bush Street, Suite 2000
San Francisco, CA 94104
(415) 362-3484

John P. Meier, CFA
*Managing Director*

# Public Equity Role Within the Policy Portfolio

- Total Fund Return and Risk Control
  - Global source of returns and diversification.
  - Policy based Objectives (Active/Passive, Large/Small, Risk Tolerance, etc.)
    - Allows Staff to adjust portfolio on the margin based on conviction and outlook.
- Liquidity
  - Generally Very Liquid Portfolio
- Return
  - OIC Policy objective of 75 basis points of excess return net of fees is aggressive especially for such a large portfolio.
    - Total Public Equity has achieved 50 – 90 bp of excess return net of fees.
    - Objective has been achieved almost exclusively from the success of International Equity. Both US Equity and Global Equity have fallen short.

# Current Public Equity

- Asset Class Benchmark = MSCI ACWI IMI (All Country, All Cap).
- Global Approach – Implemented at varying levels of specialization
  - Broad based and specialized to ensure structured exposure across the globe and across style and size spectrums.
- Pros of Current Structure
  - Globally diversified.
  - The overall portfolio outperforms.
  - Risks are well diversified and understood.
  - Internal strategies are efficient and add value.
- Challenges of Current Structure
  - Aggregate tracking error risk is low (>1%) and success of active management in the U.S. has been spotty.
    - Are there more efficient ways to implement the risk budget?

# Public Equity Characteristics

| | Policy | 7/31/13 Portfolio |
|---|---|---|
| Active | 75.0% | 78.5% |
| Passive | 25.0% | 21.5% |
| U.S. (ACWI IMI Wgt.) | 49.4% | 50.4% |
| Non-U.S. (ACWI IMI Wgt.) | 50.6% | 49.6% |
| Emerging Markets (ACWI IMI Wgt.) | 10.8% | 11.1% |
| Growth | 50.0% | 47.8% |
| Value | 50.0% | 52.2% |
| U.S. Small Cap Overweight | 100.0% | 101.1% |
| Expected Tracking Error | 0.75% - 2.0% | 0.9% |

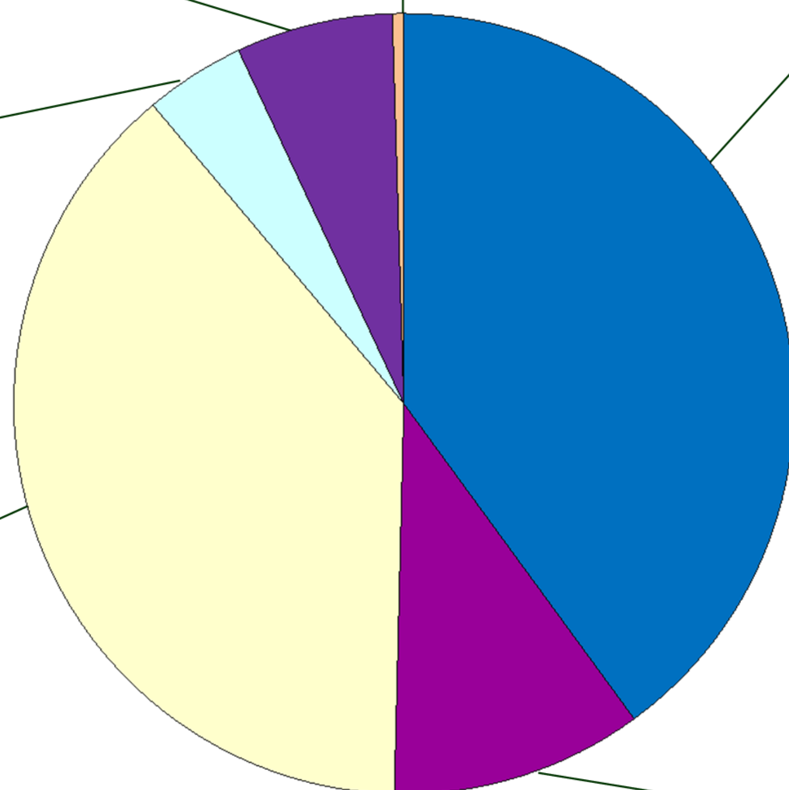
Portfolio exposures will no longer be targeted within policy but managed relative to the asset class benchmark via a tracking error target.

# Public Equity Characteristics (cont.)

| | MSCI ACWI IMI | Policy | 7/31/13 Portfolio |
|---|---|---|---|
| US Large Cap | 45.4% | 41.4% | 42.4% |
| US Small Cap | 4.0% | 8.0% | 8.0% |
| Intl Dev. Large Cap | 35.2% | 35.2% | 33.6% |
| Intl Dev. Small Cap | 4.8% | 4.8% | 4.6% |
| Emerg. Mkt Large Cap | 9.5% | 9.5% | 9.5% |
| Emerg Mkt Small Cap | 1.3% | 1.3% | 1.7% |

Portfolio exposures will no longer be targeted within policy but managed relative to the asset class benchmark via a tracking error target.

# Current Public Equity Managers



**Emerging Markets Large Cap**
Genesis
Arrowstreet
William Blair
Westwood
OIC Managed TEMS

**Emerging Markets Small Cap**
DFA

**International Small Cap**
DFA
Harris Associates
Pyramis
Victory

**International All/Large Cap**
*Market Oriented (Core)*
Northern Trust
Arrowstreet
Lazard
Pyramis
AQR
Wells Cap CEF
Lazard CEF
SSgA
*Value*
Acadian
Brandes
AllianceBernstein (Int'l Portion)
*Growth*
TT International
Walter Scott

**US Large Cap**
*Market Oriented*
PIMCO
Pyramis
Northern Trust
OST Managed S&P400
OST Managed S&P500
OST Managed Fund. Index
*Large Growth*
Delaware
Wells Capital
BlackRock
*Large Value*
AJO
MFS
BlackRock
AllianceBerstein (US Portion)

**US Small Cap**
*Market Oriented*
Columbia Wanger
Wellington
OST Managed Russell 2000
*Small Growth*
Next Century
Next Century Micro Cap
Eudaimonia Micro Cap
*Small Value*
AQR
Boston Company
DFA Micro Cap
Callan Micro Cap

# Asset Class Performance Review

- Active Management has worked in aggregate (net of fees):

| | Net Excess Returns for Periods Ending 7-31-13 | | | |
|---|---|---|---|---|
| | 3 Yr | 4 Yr | 5 Yr | 10 Yr |
| US Equity | 0.1% | 0.3% | 0.0% | 0.2% |
| Intl Equity | 1.7% | 1.5% | 1.5% | 1.0% |
| Public Equity | 1.1% | 1.0% | 0.6% | #N/A |

- But better in some areas than others:

| | Next Excess Returns for Periods Ending 7-31-13 | |
|---|---|---|
| | 3 Yr | 4 Yr |
| US Market Oriented | 0.2% | 1.0% |
| US Large Growth | -0.8% | -0.9% |
| US Large Value | 0.7% | 0.0% |
| US Small Growth | 0.8% | 1.6% |
| US Small Value | -0.8% | -0.1% |

| | Next Excess Returns for Periods Ending 7-31-13 | |
|---|---|---|
| | 3 Yr | 4 Yr |
| Intl Market Oriented | 2.4% | 1.8% |
| Intl Large Growth | -1.4% | -1.3% |
| Intl Large Value | 3.1% | 2.1% |
| Intl Small Cap | 0.5% | 0.6% |
| Emerging Markets | 2.9% | 3.6% |

# Internal Strategies

- S&P 500 – Portfolio Manager/Trader **Ben Mahon**, Back-up PM/Trader Michael Viteri
- S&P 400 - Portfolio Manager/Trader **Michael Viteri**, Back-up PM/Trader Ben Mahon
- Russell 2000 – Portfolio Manager/Trader **Michael Viteri**, Back-up PM/Trader Karl Cheng
- Fundamental LC - Portfolio Manager/Trader **Karl Cheng**, Back-up PM/Trader Michael Viteri
- Tiered Emerging Markets Strategy – Portfolio Manager **Ben Mahon**, Back-up PM, Karl Cheng

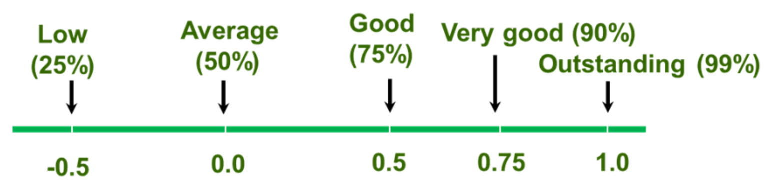
# Internal Strategies

- All five "internal" strategies are performing extremely well, especially on a risk adjusted basis.

| Periods Ending 7/31/13 | Market Value | 1 Year | Inception |
|---|---|---|---|
| OST 500 Portfolio | $ 1,417.6 | 25.11% | 15.43% |
| S&P 500 Index | | 25.00% | 15.35% |
| Excess | | 0.11% | 0.08% |
| Tracking Error | | 0.05% | 0.08% |
| Information Ratio | | 2.20 | 1.00 |
| Inception: 10/1/09 | | | |
| OST 400 Portfolio | $ 305.6 | 33.36% | 18.31% |
| S&P 400 Index | | 33.00% | 17.97% |
| Excess | | 0.36% | 0.34% |
| Tracking Error | | 0.21% | 0.20% |
| Information Ratio | | 1.71 | 1.70 |
| Inception: 10/1/09 | | | |
| OST 2000 Synthetic | $ 195.0 | 35.74% | 16.34% |
| Russell 2000 Index | | 34.76% | 15.37% |
| Excess | | 0.98% | 0.97% |
| Tracking Error | | 0.21% | 0.19% |
| Information Ratio | | 4.67 | 5.11 |
| Inception: 4/1/10 | | | |

| Periods Ending 7/31/13 | Market Value | 1 Year | Inception |
|---|---|---|---|
| TEMS | $ 213.1 | 2.67% | 17.91% |
| MSCI EM Index | | 1.95% | 16.64% |
| Excess | | 0.72% | 1.27% |
| Tracking Error | | 1.73% | 2.63% |
| Information Ratio | | 0.42 | 0.48 |
| Inception: 2/1/09 | | | |
| Russell Fundamental LC | $ 749.7 | 30.90% | 23.87% |
| Russell 1000 | | 26.23% | 21.45% |
| Excess | | 4.67% | 2.42% |
| Tracking Error | | 1.53% | 1.77% |
| Information Ratio | | 3.05 | 1.37 |
| Inception: 11/1/11 | | | |

- Information Ratio = Excess Return/Tracking Error



# Next Steps

- Continued research into "better" ways to spend the U.S. Equity active risk budget.
- Given the continued success of internal management efforts, expand internal infrastructure, operational support, etc. to support higher levels of internal management.

**Public Equities**
**International Equities - Emerging Markets**
**STAFF RECOMENDATION**

**Purpose**
Staff requests OIC approval for a $100 million allocation to the William Blair Emerging Market Small Cap strategy in the OPERF portfolio.

**Background**
In 2008, the OIC adopted the MSCI All Country World Investable Market Index (ACWI IMI) as the OPERF public equity portfolio benchmark. As of July 31, 2013, the benchmark's exposure to emerging market small cap stocks equaled 1.3 percent, or approximately $400 million of targeted exposure using current OPERF market values. Exposure to the emerging markets small cap sub-class is currently gained through managers with emerging markets all cap mandates and through a dedicated emerging markets small cap manager, Dimensional Fund Advisors (DFA).

Given that the existing emerging markets small cap manager universe is narrow (as of June 30, 2013, the eVestment Alliance database included only 29 emerging markets small cap equity products versus 302 large cap equity products), staff and SIS are always seeking high conviction strategies with available capacity in this particular market segment. In 2012, staff began discussions with William Blair & Company (William Blair) regarding a recently launched Emerging Markets Small Cap strategy.

OPERF's relationship with William Blair dates back to November 2011, when they were hired by the OIC for an Emerging Markets Core mandate (Large and Mid Cap). As the core strategy was nearing its targeted close of $4 billion in assets, OPERF was the last investor and received the strategy's remaining available capacity. Since its inception, the Emerging Markets Core strategy has been a solid contributor for OPERF, outperforming the MSCI Emerging Markets index by 275 basis points (annualized), net of fees. Ongoing due diligence remains positive and William Blair remains a high conviction manager for both staff and SIS.

**Strategy**
The William Blair Emerging Markets Small Cap strategy was launched in the fourth quarter of 2011. The strategy is designed to capture a broader array of small and micro-cap opportunities with more limited liquidity than the flagship Emerging Markets Core strategy.

The Emerging Markets Small Cap strategy is managed by the same team, with the same philosophy and process as the existing emerging markets separate account, but will primarily concentrate on stocks with market capitalizations below $3 billion. William Blair's investment philosophy focuses on companies with above-average growth prospects where growth can be sustained through leading or franchise positions in terms of superior management teams, market leadership, distinctive products/services, marketing dominance or cost/asset base advantages. William Blair describes the approach as "quality growth," falling in between GARP and aggressive growth styles. In their view, a quality growth company is one that can achieve a higher growth rate for a longer period of time than the market expects, which, in turn, leads to superior stock performance. Portfolios will generally consist of 120-175 companies, and be structured relative to reasonable regional and sector guidelines.

Similar to the core emerging markets strategy, William Blair has assigned a conservative capacity objective to the Fund, targeting $750 million in total capacity. After strong interest from existing clients, the strategy will close by the end of the year.

**Issues to Consider**

Pros:

- Staff has a high regard for William Blair and the emerging markets capabilities of its investment professionals. The Emerging Markets Small Cap strategy represents an opportunity to increase OPERF's exposure to a high conviction manager in an attractive asset sub-class.
- The strategy has flexibility to allocate a portion of the portfolio to frontier markets (9 percent currently), allowing OPERF an efficient means of exposure to markets outside the emerging markets universe.
- The Fund's current AUM level is reasonable ($302 million as of June 30, 2013), and William Blair's management indicates that the strategy will soon be closed. William Blair has a history of closing its strategies well before liquidity and execution issues become operating challenges.
- William Blair is employee-owned, with ownership spread over 170 active partners. Senior investors, including portfolio managers Todd McClone and Jeff Urbina, have ownership stakes in the firm. Additionally, the team has a substantial investment in its own strategies.

Cons:

- George Greig, leader of the International Growth Team, will retire from William Blair in February, 2014. While Mr. Greig is not involved in the day-to-day management of the emerging markets portfolio, he does serve as global strategist for William Blair, and provides input to the strategy.
- The portfolio team members are responsible for multiple products. While the team is adequately resourced, a concern is that multiple products could spread team member's time thinly. Although there is no direct evidence of this having an impact on product performance, staff recognizes this as a potential risk.
- Given the recent launch, the strategy has a limited operating and performance history; however, this concern is a minor one as William Blair has been an active investor in small cap emerging markets companies in other strategies.
- Due to the strategy's focus on a company's growth prospects, William Blair's investment performance may struggle when value stocks or conservative growth stocks lead the market.
- The strategy may take meaningful bets away from the benchmark generating elevated tracking error at times; however, staff is comfortable with the Fund's particular return/volatility profile within the context of the broader OPERS equity portfolio.

**Recommendation**

Subject to the successful negotiation of terms, staff and SIS recommend funding William Blair's Emerging Markets Small Cap strategy with $100 million and amending OIC policy 04-05-01 accordingly.

Printed on: 09/06/2013

*Strategy: Emerging Markets Small Cap Growth*

*Preferred Benchmark: MSCI EM Small Cap*

**Organization**

William Blair is a multi-product line investment services firm founded in 1935 structured as a private partnership. The firm has four major lines of business; Investment Banking, Asset Management, Equity Research, and Institutional & Private Brokerage. Asset Management is the largest, generating about 45% of the firm's revenue.

Firm assets, as of the end of 2012, stood at $53 billion. Of this, $300 million is invested in the Emerging Markets Small Cap Growth product. Over 80% of William Blair's assets are institutional. In addition to the Emerging Markets Small Cap Growth strategy, the firm offers large, all cap and small cap international equity, all using the same investment approach.

William Blair is 100% employee owned, with equity broadly distributed across 165 active employees. The firm does not disclose the percentage ownership held by individual employees. However, it is clear that the substantial economic contribution of the senior members of the international equity team is reflected in their percentage of equity ownership. The equity structure involves employees buying and selling at book value, and being paid out annually on the basis of their percentage ownership and firm profitability. The structure of the employee ownership is designed to be self-perpetuating and discourage attempts to sell the firm to an outside buyer. The firm is located in Chicago Illinois.

**Investment Team**

The lead portfolio manager for the strategy, responsible for portfolio construction, is Todd McClone. Todd joined William Blair in 2000. Todd is also a co-portfolio manager to Jeff Urbina on the Emerging Markets Leaders fund and back up to Jeff on the Emerging Markets Growth Fund. Jeff Urbina serves as back up portfolio manager to Todd on the Emerging Markets Small Cap fund. Jeff joined William Blair in 1996 as George Greig's first hire on the International Growth Team. The two portfolio managers are supported by 11 international sector analysts organized by market cap, two non-US generalists and a team of global research associates. Ideas originate from the analysts.

**Investment Strategy**

William Blair characterizes their approach as "quality growth." They are looking to invest in companies that will be able to maintain a higher growth rate, and for a longer period of time, than their peers. The approach places a great deal of emphasis on quality management. Their view is that while all the standard types of competitive advantages are important, growth is often driven by skilled, experienced, management teams. From within this universe of high quality growth companies, they seek to buy those that are exhibiting shorter term business and earnings momentum.

The process begins with a quantitative screening to winnow down the broader universe. The model screens for long-term factors indicating historical earnings and revenue growth, consistency of growth, and projected growth. The top ranked stocks form the basis of William Blair's "eligibility list." Some stocks rank well but are not included on the eligibility list because the team is already familiar with them and they do not regard them as suitable candidates. Other names do not rank well but are included by an analyst or the

PM because they have reason to believe the company's future growth rate will be improving, e.g. with the introduction of a superior management team. A subset of the eligibility list becomes the weekly research agenda or focus list. These are stocks that appear to be currently actionable: either they are higher probability buys, because they are exhibiting strong current fundamentals, or higher probability sales, because they are exhibiting weaker current fundamentals. Each stock on the research agenda is assigned to a team member.

The analysts are tasked with researching each of the stocks assigned to them on the research agenda in order to determine whether they are candidates to be recommended (as buys or sells) to the group. The analysts are expected to conduct whatever research is necessary to make this determination. Sometimes ideas can be discarded relatively quickly. Normally before an idea is proposed for investment, the analyst will have conducted conference calls with competitors, suppliers, industry analysts, and met with management. Analysts spend a substantial amount of their time traveling internationally to meet with managements and conduct site visits.

Stocks are sold typically because they begin to show deterioration in their earnings trends, in their fundamentals, or excessive valuation.

Analysts produce research reports for the stocks they are recommending. These ideas are presented and vetted in group meetings. Once the idea has been vetted by the group, if there are no outstanding issues, it is up to portfolio manager Todd McClone, to decide whether a stock is bought or sold and at what weight.

Portfolio construction is relatively insensitive to the benchmark. Positions are conviction weighted with consideration given to market cap and liquidity.

William Blair currently manages $300 million in the Emerging Markets Small Cap Growth strategy. The product is currently closed to new business; however they have reserved some capacity for the OIC.

**Key Considerations**

SIS has conducted due diligence on William Blair, including on-site visits and we believe it presents an attractive opportunity for investing in smaller cap emerging markets companies. The team has performed well generating an information ratio of 0.75 since the inception of the product. William Blair presents a solid organization with a consistent investment philosophy and process. The team is solid with a broad based perspective that should be advantageous to long term performance. The firm's ownership structure should engender a long term commitment to the firm and alignment of interest with clients. The International Growth team at William Blair is stable with very experienced leadership.

# TAB 6 – OIC INVESTMENT BELIEFS PROJECT

# INVESTMENT BELIEFS CONSOLIDATED

Oregon Public Employees Retirement Fund


September 2013

## AGENDA ITEMS


| Section | Page |
| --- | --- |
| Review of Survey Process and Preliminary Investment Belief Statements | 3 |
| Reorganization and Consolidation of Preliminary Belief Statements | 5 |
| Next Steps: Areas of Limited Consensus Discussion | 13 |

## INVESTMENT BELIEFS SURVEY PROCESS:

- January / February: 1-on-1 and 2-on-1 interviews with Allan Emkin and John Skjervem to elicit OIC member and Staff beliefs, ideas and preferences

- March: Staff and Council answered Preliminary Investment Beliefs Questionnaire

- April: PCA scored survey responses from participants (8 Staff, 6 Council)

- May: PCA ranked investment viewpoint scores

- May 29th Meeting: Investment viewpoint rankings used to form initial basis for a new set of OIC Investment Beliefs that have broad consensus among Staff and Council members

## INVESTMENT BELIEFS SURVEY PROCESS: Summary of Preliminary Statements

1. As a long-term investor, OIC should allocate a significant portion of its assets to illiquid, private markets.
2. Return dispersion in private markets is very wide; top quartile manager selection and vintage year diversification are paramount.
3. To exploit market inefficiencies, OIC must be contrarian and innovative in its approach to opportunistic investments.
4. Over the long-term, equity-oriented investments provide reliable return premiums relative to risk-free investments.
5. All fees, commissions, and transaction costs should be diligently monitored and managed in order to maximize net investment returns.
6. The OIC is a policy-setting council that delegates investment management to OST staff and qualified external fiduciaries.
7. Incentive structures should be carefully evaluated to ensure alignment with OIC goals and desired investment outcomes.
8. Adequate and peer-group relative resources are required to successfully compete in world capital markets.
9. Asset allocation among complementary investment classes is the OIC's leading policy decision impacting long-term returns and risk.
10. Certain segments of the capital markets have inefficiencies that can be exploited with active management.
11. The OIC has authority to set and monitor portfolio risk.  Both short-term and long-term risks are critical.

## REORGANIZATION AND CONSOLIDATION OF PRELIMINARY BELIEF STATEMENTS

- Based upon discussions held during the May 1, 2013 OIC meeting:
  - Statements were reorganized/consolidated under six broad unified beliefs and corresponding sub-beliefs; and
  - Interpretation statements were added to clarify beliefs understanding.

# 1) THE OIC SETS POLICY AND IS ULTIMATELY RESPONSIBLE FOR THE OST/OPERF INVESTMENT PROGRAM

A. **The OIC is a policy-setting council that delegates investment management to OST staff and qualified external fiduciaries.** The OIC sets strategic policy and tasks both OST staff and external managers with policy implementation.

B. **The OIC has authority to set and monitor portfolio risk. Both short-term and long-term risks are critical.** Portfolio risk is multifaceted. For example, the OIC must weigh the short-term risk of principal loss against the long-term risk of failing to meet return expectations. As part of the risk monitoring process, the OIC should establish a process for identifying extreme price/valuation levels as well as a decision-making protocol when such levels have been reached/breached.

C. **To exploit market inefficiencies, the OIC must be contrarian and innovative in its approach to opportunistic investments.** As part of its short- and long-term risk management efforts, the OIC should prepare for periods of extreme price/valuation levels and/or related financial market dislocations and have the ability and fortitude to act expeditiously during such periods.

# 1) THE OIC SETS POLICY AND IS ULTIMATELY RESPONSIBLE FOR THE OST/OPERF INVESTMENT PROGRAM (continued)

D. **Incentive structures should be carefully evaluated to ensure proper alignment with OST/OPERF investment objectives.** When applied to staff, evaluation criteria should be based (in large part) on decisions over which staff members have clear authority and control. Furthermore, total portfolio results (in addition to individual asset class returns) should be considered. Finally, the evaluation period should be consistent with an appropriate investment horizon or market cycle.

E. **Adequate resources are required to successfully compete in global capital markets.** Staffing levels and operating budgets should be determined by capability requirements using benchmark assessments of other well respected organizations of similar size and portfolio complexity. The benefits of staff continuity should also be recognized.

# 2) ASSET ALLOCATION DRIVES RISK AND RETURN

A. **Asset allocation is the OIC's primary policy tool for managing the OST/OPERF investment program's long-term risk/return profile.** Decisions regarding strategic asset allocation will have the largest impact on the OST/OPERF investment program's realized return and risk and hence should be made judiciously and receive special emphasis and attention.

# 3) THE EQUITY RISK PREMIUM WILL BE REWARDED

A. **Over the long-term, equity-oriented investments provide reliable return premiums relative to risk-free investments.** Though returns for risk taking are not always monotonic or rewarded consistently over time, bearing equity risk does command a positive expected return provided such risk is reasonably priced.

## 4) PRIVATE MARKET INVESTMENTS CAN ADD SIGNIFICANT VALUE AND REPRESENT A CORE OST/OIC COMPETENCY

A. **OIC should capitalize on its status as a true, long-term investor by allocating a meaningful portion of OST/OPERF assets to illiquid, private market investments.** Inefficiencies exist in private markets that provide skilled managers with excess return opportunities relative to public market analogues. Private markets may also offer an "illiquidity premium" which the OIC can exploit given its position as a true, long-term investor.

B. **Dispersion in private market investment returns is very wide; accordingly, top quartile manager selection and vintage year diversification are paramount.** Private market investment success is predicated on a) identifying skilled managers and b) developing long-term investment relationships that enable skill to manifest in the form of excess returns. Proper investment pacing including deliberate vintage year diversification is also an integral element of superior private market investment results.

## 5) CAPITAL MARKETS HAVE INEFFICIENCIES THAT CAN BE EXPLOITED

A. **Inefficiencies that can be exploited by active management may exist in certain segments of the capital markets.** While largely efficient, select segments of the capital markets can sometimes be exploited by skilled active management. The nature (i.e., perceived magnitude and likely duration) of such inefficiencies should inform the proposed active management strategy (e.g., discretionary or systematic).

A. **Passive implementation will outperform the median active manager over time.** In public market asset classes, passive investment management is expected to outperform the median active manager. Accordingly, active management should be a deliberate choice and applied only to those strategies and managers in which the OIC enjoys a high degree of confidence that such active management activities will be sufficiently rewarded on a risk-adjusted basis and net of all fees and related transactions costs.

## 6) COSTS DIRECTLY IMPACT INVESTMENT RETURNS AND SHOULD BE MONITORED AND MANAGED CAREFULLY

A. **All fees, expenses, commissions and transaction costs should be diligently monitored and managed in order to maximize net investment returns.** While all costs should be monitored and controlled, costs should be evaluated relative to both expected and realized returns.

B. **Incentive structures should be carefully evaluated to ensure proper alignment with OST/OPERF investment objectives.** Fee and incentive structures drive both individual and organizational behavior. These structures (particularly in private market strategies) should be carefully evaluated to ensure that individuals' and/or organizations' goals and incentives are well aligned with the investment objectives established by the OIC.

## NEXT STEPS: Exploring Areas of Non-Consensus

- Areas of limited consensus/non-consensus:
  - *Divesture initiatives cannot be implemented without sacrificing investment returns or increasing portfolio risks* -- high degree of variation among OIC members;
  - *Shareholder activism has the potential to improve board and company performance* -- high degree of variation among staff members; and
  - *Environmental, social and governance (ESG) factors impact performance and should be part of the due diligence process* -- high degree of variation among both staff <u>and</u> OIC members.

Disclosures

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# TAB 7 – STATE ACCIDENT INSURANCE FUND

# Oregon Investment Council
# SAIF Corporation
# Policy Updates

**Purpose**

To adopt revised investment policies for the SAIF Corporation, based on recommendations approved by the OIC in July.

**Background**

At the July OIC meeting, the OIC heard a presentation from Towers Watson, a specialist insurance industry consultant, retained by SAIF.

A summary of the key recommended changes, approved at the July meeting were:

1. Expand the mandates of the two existing fixed income managers to include high yield bonds, bank loans and dollar denominated emerging markets debt.
2. Opportunistically, invest in core, income-focused real estate in the form of private market equity and/or senior debt investments. The target allocation is five percent, which will be funded from the fixed income allocation.

Working with Towers Watson, Western, Wellington, SAIF staff and Treasury staff, attached are the recommended investment policy changes to align with the strategy adopted in July.

**Recommendation**

Approve recommended policy changes (Policies 4.09.01 through 4.09.04) and implement changes over reasonable time period, with staff working in concert with external managers.

**FUNCTION: State Accident Insurance Fund**
**ACTIVITY: General Policies and Procedures**

**POLICY:** **An asset allocation policy shall be adopted and appropriate guidelines shall be defined for the SAIF Corporation ("Corporation") portfolio that takes into account the operating and regulatory considerations applicable to the Corporation.**

**PROCEDURES**:

1. **General Objective:** Optimize the long-term investment return while enabling SAIF to meet benefit/expense payment obligations, maintain a high probability of adequate capitalization, and minimize rate fluctuations.

2. **Philosophy Underlying Asset Allocation Policy:**
   - Select asset allocation and other strategies only after the volatility of both operational and investment risks have been quantified and considered in an integrated manner.
   - Given the combined volatility of both business and investment results, structure the portfolio to create at least a 95% probability that surplus will exceed NAIC Risk-Based Capital (RBC) company action level requirements during the next four years.
   - Structure a bond portfolio so as to ~~minimize~~ control market value risk in the event of severe cash flow downturns.
   - Comply with statutory constraints on investment parameters.
   - Minimize fluctuation in premium rates.
   - Maximize long-term economic value to support surplus requirements.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS:**

None

**FUNCTION: State Accident Insurance Fund**
**ACTIVITY: Asset Classes and Allocation**

**POLICY:** **The Oregon Investment Council approves asset classes and allocation guidelines in which State of Oregon moneys are invested.**

**PROCEDURES**:

1. **Authority**~~.~~: The Oregon Investment Council (OIC) 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. Ultimate control and authority for selecting and implementing the asset allocation classes and policy for the SAIF Corporation portfolio lies with the ~~Oregon Investment Council (~~OIC~~)~~. The Treasurer's office will work with SAIF to ensure the implementation of the asset allocation policy meets the business needs of the Fund. The Oregon Investment Council shall not make asset allocation changes without requesting input from the SAIF Board of Directors.

2. **Reviews:** ~~.~~ Asset/liability ~~allocation~~ reviews will be performed ~~at least annually~~approximately every three to five years to assure the Fund is positioned properly, given the unique industry, regulation, and changing business and financial conditions SAIF Corporation experiences. Any asset classes not specifically addressed in the policy below will be reviewed by Treasury staff and by SAIF for approval by the OIC.

3. **Asset Classes**:~~.~~ Recognizing the general objectives and operating philosophy of the Fund, the following asset classes have been approved by the OIC:

   **A. Equities**~~.~~: Investments which represent a direct ownership of, or partnership in, a going concern. The Fund currently is invested in alternative equity interests which are included in the equity allocation. These positions are self-liquidating.

   **B. Fixed Income**:~~.~~ Investments which have pre-defined interest and principal payment schedules and amounts (debt). This asset class includes mortgage obligations.

   **C. Cash**:~~.~~ Cash and cash equivalents are defined as cash held in the State Treasury's Oregon Short-Term Fund (OSTF).

   **D. Real Estate**:~~.~~ Investments which represent a direct ownership of commercial real estate or the purchase of debt in commercial real estate. Investments in this asset class will be implemented in the form of private or publicly traded funds.

4. **Asset Allocation:**
   - The actual asset allocation is monitored monthly relative to established asset allocation policy targets and ranges. A deviation outside of any of the ranges triggers a review and rebalancing back to the target asset allocation with due consideration given to the liquidity of the investments and transaction costs.

   - Whenever possible, cash flows into and out of the fund will be used to rebalance between asset classes. Cash is to be held only for business operating purposes. The long-term goal for cash is zero percent.

   - The asset allocation will be managed to limit the invested asset risk component of the NAIC RBC calculation as periodically reported.

| Asset Class | Benchmark | Strategic Target Allocation | Range |
|---|---|---|---|
| Global Equities | MSCI ACWI IMI Index | 10% | 7% - 13% |
| U.S. Fixed Income | Custom Fixed Income Benchmark * | ~~90~~85% | ~~87~~80% - ~~93~~90% |
| Cash | | 0% | 0% - 3% |
| Real Estate | NCREIF Property Index | 5% | 0% - 7~~.5~~% |
| Policy Mix | Weighted aggregate of indexes listed above at target allocation | 100% | |

* Custom Fixed Income Benchmark:

| Index: | Percentage: |
|---|---|
| BarCap U.S. Corporate Intermediate Index | 10% |
| BarCap U.S. Government Index | 15% |
| BarCap Mortgage Backed Fixed Rate Security Index | 20% |
| BarCap Corporate Index | 50% |
| BarCap Ba to B U.S. High Yield 2% issuer cap | 5% |

**SAMPLE FORMS, DOCUMENTS, OR REPORTS:** None

**FUNCTION: State Accident Insurance Fund**
**ACTIVITY: Fixed Income Investments**

**POLICY:** **A portion of the SAIF Corporation's investment portfolio shall be invested in fixed income securities.**

**PROCEDURES:**

1. **Fixed Income Holdings:** ~~–~~ Fixed income holdings shall be the largest component of the Fund and shall have multiple purposes:
   - To provide a positive cash flow;
   - To dampen overall volatility of the fund;
   - To provide positive real rates of return; and
   - To possess an asset class which is linked to the Fund liabilities.

   Dynamic, flexible management of the fixed income portfolio is both permitted and encouraged.

2. **Objective:** ~~–~~ Maintain a well-diversified ~~bond~~ fixed income portfolio~~. –~~. Manage the portfolio to maximize total return; however trading resulting in recognized losses, is discouraged.

3. **Strategy:**
   - Maintain an overall portfolio quality of at least "A" or higher using a rating to worst methodology~~/~~.
   - Maintain an average bond duration level of +/-20% of the custom fixed income benchmark; refer to Activity Reference 4.09.02. This benchmark was designed to support a strategic duration target of approximately 5 years.
   - Structure maturities to provide reinvestment opportunities that consider SAIF's operating cash flow projections. This should take into account market risk, produced by cash shortfalls.

4. **Permitted Holdings:**
   - Bond and notes issued, assumed, or guaranteed by the U.S. Government or its agencies;
   - Corporate notes and bonds rated B2/B or better at time of purchase;
   - Bank loans rated B2/B or better at time of purchase;
   - Emerging Market Debt rated B2/B or better at time of purchase;
   - Asset Backed Securities (including AAA rated CLOs);
   - Mortgage pools and mortgage related securities; TBA securities are permitted, but must take delivery upon settlement (i.e., no TBA rolls);~~Securities eligible for the Oregon Short-Term Fund (OSTF);~~
   - Yankee Bonds (dollar denominated sovereign and corporate debt);
   - Rule 144A securities that the manager believes have liquidity similar to publicly registered securities;

- Surplus notes will generally include subordinated debt issued by an insurance holding company;
- Hybrid securities may include but are not limited to fixed income securities with stated final maturity dates, cumulative but deferrable interest payments and no write down or conversion language. Preferreds, fixed/floating rate bonds, and hybrid securities with non-cumulative interest payments, or that include write down or conversion language shall be confirmed with SAIF prior to purchase.

5. **Diversification:** ~~-~~The portfolio should be adequately diversified to minimize various risks.~~-~~ The following specific limitations reflect, in part, the OIC's current investment philosophy regarding diversification.
   - No fixed income investment in any one issue shall be in excess of 5% of the outstanding fixed income obligations of the issuer.
   - Issuer diversification:
     - Not more than 5.0% of the total market value of the SAIF fixed income portfolio shall be invested in any one issuer rated Aaa;
     - Not more than 3.5% of the total market value of the SAIF fixed income portfolio shall be invested in any one issuer rated Aa;
     - Not more than 2.5% of the total market value of the SAIF fixed income portfolio shall be invested in any one issuer rated A;
     - Not more than 1.5% of the total market value of the SAIF fixed income portfolio shall be invested in any one issuer rated Baa; and
     - Not more than 0.75% of the total market value of the SAIF fixed income portfolio shall be invested in any one issuer rated less than Baa3.

   These issuer level restrictions shall not apply to U.S. Government and Agency obligations including Agency~~—~~—Mortgage-~~b~~Backed Securities ~~mortgages~~ (no limit). ~~and private~~Private ~~m~~Mortgage-~~b~~Backed and ~~a~~Asset-~~b~~Backed ~~s~~Securities~~, which~~ shall be limited to 10% per issuing trust.~~–~~ Obligations of other national governments are limited to 10% per issuer.

6. **Liquidity:** SAIF may have the occasional need to draw on a portion of the funds under management for money to be used in the payment of expenses, claims, or other funding purposes.~~–~~ Prior to any withdrawal, SAIF will communicate its requirement in such a manner as to allow the greatest amount of time possible for planning purposes.

7. **Portfolio Restrictions:**
   - No more than 12.5~~0~~% of the total fixed income portfolio, at market value, may be maintained in securities rated less than Baa3 (NAIC class code 3-6).
   - No more than 15% of the total fixed income portfolio, at market value, may be maintained in Rule 144A securities.
   - There shall be a maximum of 25% in any one industry, or Government Agency Debentures, excluding Agency Mortgage Backed Securities~~backed mortgages~~. The maximum 25% exposure in one industry shall be applied to the Barclays Capital level two sector weightings. FNMA and FHLMC shall be constrained to a

25% maximum per issuer. Mortgage Backed Securities are excluded from the debt limit for "agencies.". ~~.~~

- There shall be no investments in non-dollar denominated securities.
- There shall be no use of leverage in any fixed securities (excluding use of securities in a securities lending program). Securities such as ABS and CMBS shall not be considered as using leverage unless they are part of a broader structure, such as TARP funds, that explicitly use leverage.
- Taxable Build America Municipal Bonds (BABs) issued by entities located in the State of Oregon are not permitted.
- The maximum allocation to each ~~taxable~~ fixed income sector shall be limited to a percentage of the total market value of the investment portfolio, as follows:

| | |
|---|---|
| U.S. Treasury Notes | 100% |
| U.S. Government Agencies | 50% |
| Mortgage Backed Securities (Pass Though and CMO) | 40% |
| Commercial Mortgage Backed Securities | 10% |
| U.S. Corporates | 85% |
| Asset Backed Securities (including AAA rated CLOs) | 25% |
| Non-U.S. Dollar Denominated | 0% |
| Tax-Exempt Municipal Bonds | 0% |
| Taxable Municipal Bonds | 25% |
| Structured Securities (Combined MBS, CMBS, ABS) | 50% |
| Surplus Notes and Hybrid Securities combined | 5% |
| Emerging Market Debt | 5% |
| Bank Loans | 5% |

8. **Credit Ratings:** With respect to compliance with these Investment Guidelines, the rating agencies include Moody's Investor Service, Standard & Poor's and Fitch Investor Service. If a security is rated by two or more rating agencies, the lower rating will apply.

   For certain securities, such as newly-issued bonds, expected credit ratings may be used until actual credit ratings are assigned by the credit rating agencies. In such cases, the securities may be purchased if it is anticipated that rating agencies will assign ratings that are compliant with the investment guidelines. Should the actual credit rating assigned to a security diverge from the expected rating, it will not be deemed a breach of these investment guidelines, but the managers and Treasury staff will consult on next steps. If an issue remains unrated by these rating agencies or it is anticipated that it will not be rated, then the managers and Treasury staff will consult on next steps.

9. **Policy Compliance:** Any out of compliance issues with this policy, shall result in the external manager providing ~~OST~~ Treasury staff with a timely plan to achieve compliance.

10. ~~9.~~ **Performance Expectations/Reviews:** Over a market cycle of 3-5 years, this portfolio is expected to outperform the Custom Fixed Income Benchmark, net-of-fees. Quarterly investment review will take place focusing on:
    - Performance relative to objectives; and
    - Adherence to guidelines.

| **11. Target Manager Weightings and Ranges:** | **Target** | **Range** |
|---|---|---|
| Wellington Management Company | 42.5% | 40-45% |
| Western Asset Management Company | 42.5% | 40-45% |

**SAMPLE FORMS, DOCUMENTS, OR REPORTS:** None

**<u>FUNCTION</u>: State Accident Insurance Fund**
**<u>ACTIVITY</u>: Real Estate Investments**

**<u>POLICY</u>:** **A portion of SAIF Corporation's investment portfolio shall be invested in securities representing equity or debt interest in commercial real estate.**

**<u>PROCEDURES</u>**:

1. **<u>Objective</u>:** The objective of the real estate portfolio is to enhance total return, generate income, and diversify portfolio level risk by investing in a diversified allocation of debt and equity interests in commercial real estate. The OIC and SAIF are mindful of both the potential volatility and the lower level of liquidity of the real estate market and choose to dampen both of these potential risks through the diversification and liquidity inherent in a fund vehicle.

2. **<u>Strategy</u>:** Hold a fully invested, diversified portfolio of income focused real estate equity and debt interests implemented through one or more commingled vehicles. The strategic objectives of the real estate portfolio are to produce stable current income and market level returns commensurate with a low to moderate level of risk.

3. **<u>Permitted Holdings</u>:** Open and closed end funds which predominately invest in commercial real estate equity and/or debt. Comparable vehicles such as private REITS or LPs are also permitted.

4. **<u>Diversification</u>:** The OIC recognizes the need for high levels of diversification to minimize the risk of large losses to the Fund. Diversification by property type and geographic region shall be obtained by participation in one or more diversified commingled investment vehicles.

5. **<u>Portfolio Restrictions</u>:**

   A. Property types will be generally limited to institutional quality office, retail, industrial, and apartment properties.
   B. Properties will be limited to real estate markets located in the United States.
   C. Use of leverage is permissible with the real estate asset class, subject to a maximum of 50 percent of the fair market value of the real estate portfolio.

6. **<u>Performance Expectations/Reviews</u>**:
   - The real estate investments are expected to outperform the relevant index commensurate with risk in the investments.

- Quarterly reviews will take place focusing on adherence to guidelines and evaluation of investment performance to objectives.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS:** None

# TAB 8 – ASSET ALLOCATIONS & NAV UPDATES

## Asset Allocations at August 31, 2013

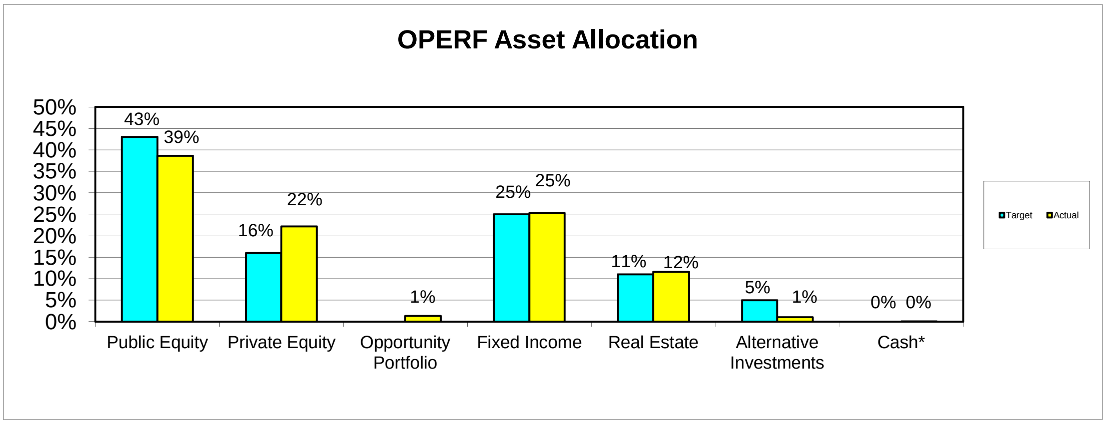
| OPERF | Policy | Target | Regular Account $ Thousands | Regular Account Pre-Overlay | Regular Account Overlay | Regular Account Net Position | Regular Account Actual | Variable Fund $ Thousands | Total Fund $ Thousands |
|---|---|---|---|---|---|---|---|---|---|
| Public Equity | 38-48% | 43% | 24,183,333 | 38.8% | (139,037) | 24,044,296 | 38.6% | 762,126 | 24,806,422 |
| Private Equity | 12-20% | 16% | 13,790,976 | 22.1% | | 13,790,976 | 22.1% | | 13,790,976 |
| **Total Equity** | **54-64%** | **59%** | **37,974,309** | **61.0%** | **(139,037)** | **37,835,272** | **60.7%** | | **38,597,398** |
| Opportunity Portfolio | | | 819,594 | 1.3% | | 819,594 | 1.3% | | 819,594 |
| **Fixed Income** | **20-30%** | **25%** | **14,000,433** | **22.5%** | **1,761,924** | **15,762,357** | 25.3% | | **15,762,357** |
| **Real Estate** | **8-14%** | **11%** | **7,247,692** | **11.6%** | **(6,400)** | **7,241,292** | 11.6% | | **7,241,292** |
| **Alternative Investments** | **0-8%** | **5%** | **636,991** | **1.0%** | | **636,991** | 1.0% | | **636,991** |
| **Cash*** | **0-3%** | **0%** | **1,617,590** | **2.6%** | **(1,616,487)** | **1,103** | 0.0% | 10,294 | **11,397** |
| **TOTAL OPERF** | | **100%** | **$ 62,296,609** | **100.0%** | **$ -** | **$ 62,296,609** | **100.0%** | **$ 772,420** | **$ 63,069,029** |

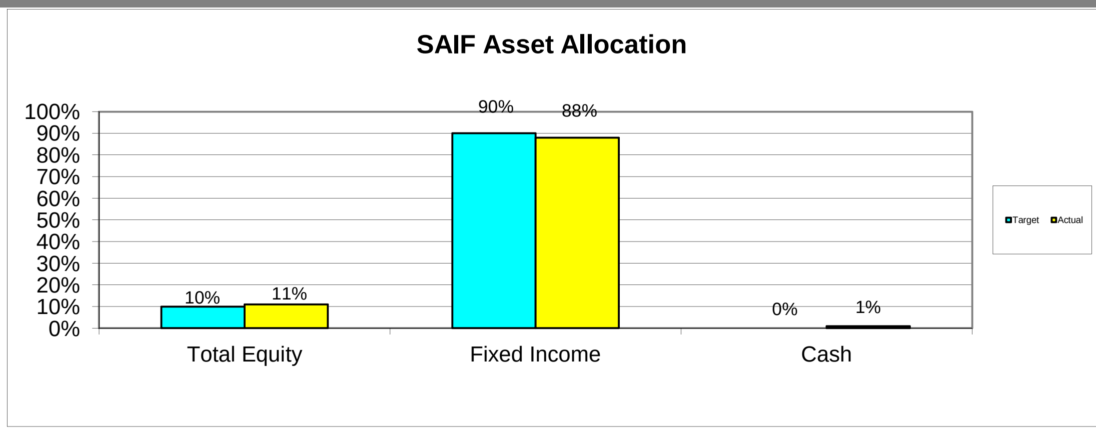
*Includes cash held in the policy implementation overlay program.

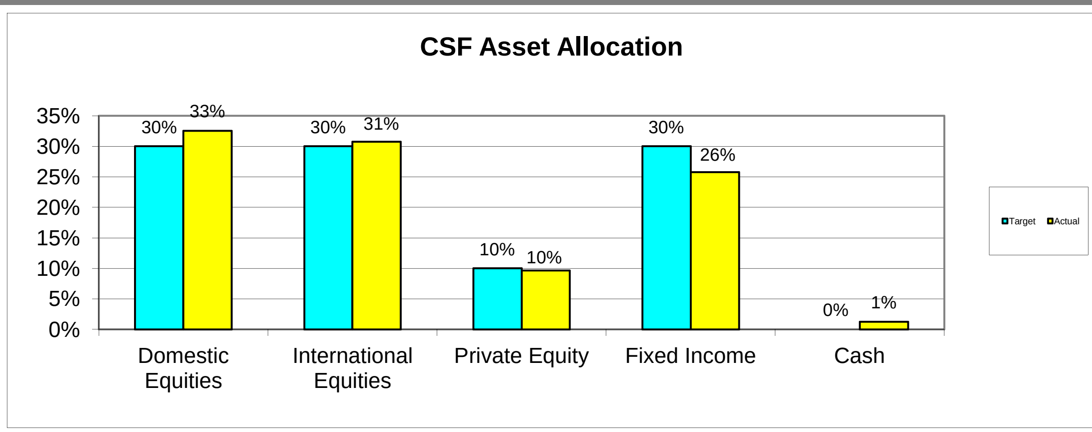
| SAIF | Policy | Target | $ Thousands | Actual |
|---|---|---|---|---|
| **Total Equity** | **7-13%** | **10.0%** | **485,019** | **11.1%** |
| **Fixed Income** | **87-93%** | **90.0%** | **3,861,863** | **88.0%** |
| **Cash** | **0-3%** | **0%** | **41,749** | **1.0%** |
| **TOTAL SAIF** | | **100%** | **$4,388,631** | **100.0%** |

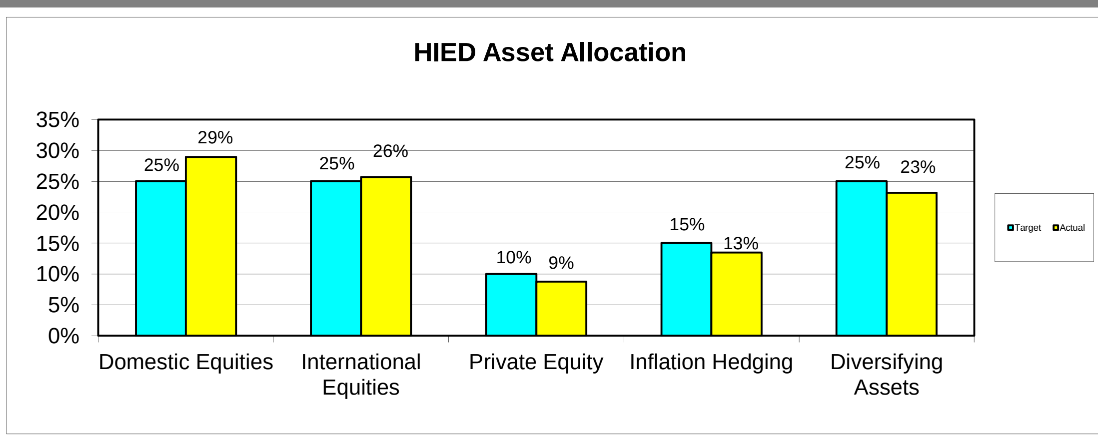
| CSF | Policy | Target | $ Thousands | Actual |
|---|---|---|---|---|
| Domestic Equities | 25-35% | 30% | $398,877 | 32.5% |
| International Equities | 25-35% | 30% | 377,001 | 30.8% |
| Private Equity | 0-12% | 10% | 118,262 | 9.6% |
| **Total Equity** | **65-75%** | **70%** | **894,140** | **72.9%** |
| **Fixed Income** | **25-35%** | **30%** | **315,962** | **25.8%** |
| **Cash** | **0-3%** | **0%** | **15,667** | **1.3%** |
| **TOTAL CSF** | | | **$1,225,769** | **100.0%** |

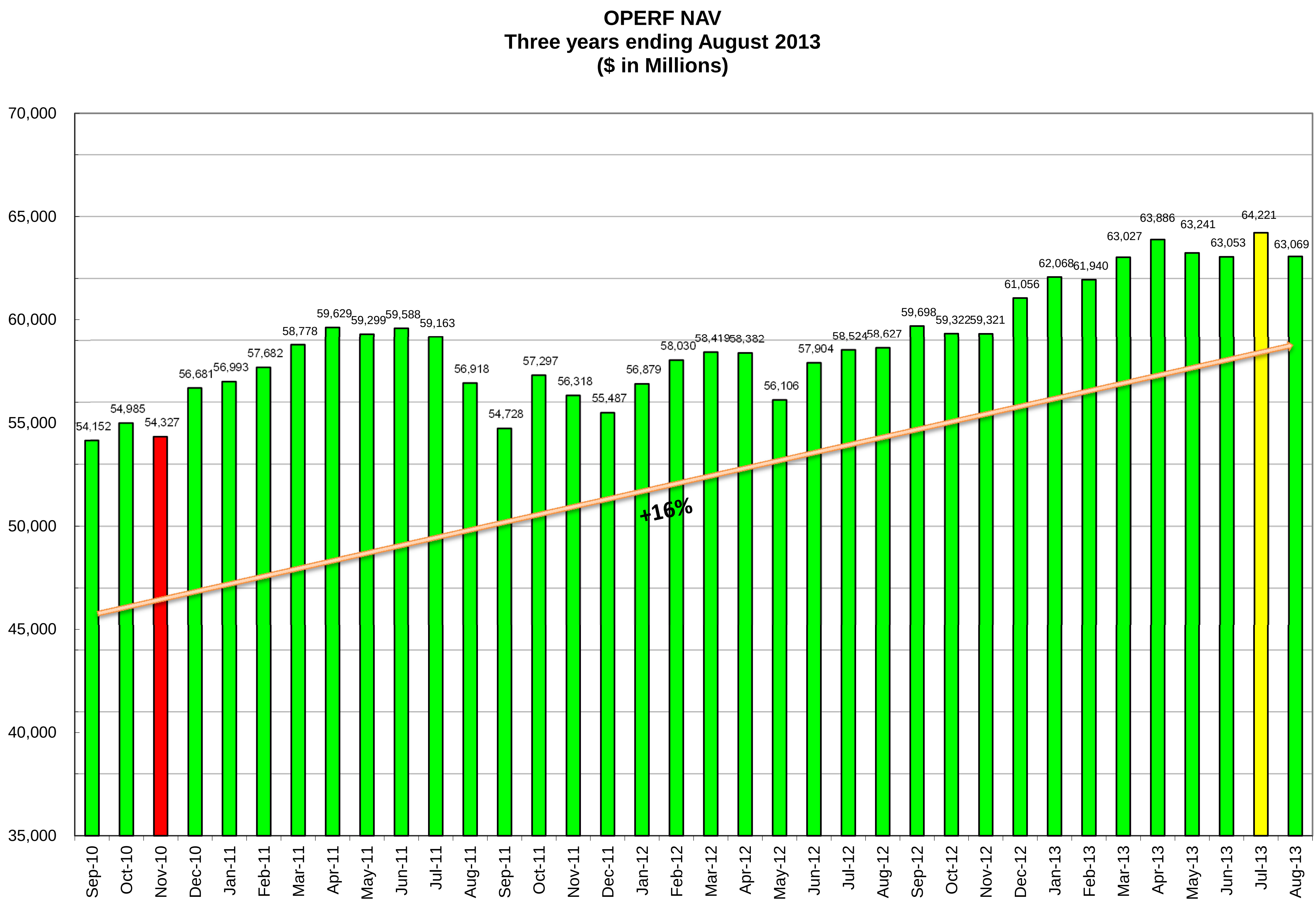
| HIED | Policy | Target | $ Thousands | Actual |
|---|---|---|---|---|
| Domestic Equities | 20-30% | 25% | $20,533 | 28.9% |
| International Equities | 20-30% | 25% | 18,248 | 25.7% |
| Private Equity | 0-15% | 10% | 6,226 | 8.8% |
| **Growth Assets** | **50-75%** | **60%** | **45,007** | **63.4%** |
| Real Estate | 0-10% | 7.5% | 5,161 | 7.3% |
| TIPS | 0-10% | 7.5% | 4,394 | 6.2% |
| **Inflation Hedging** | **7-20%** | **15%** | **9,555** | **13.5%** |
| Fixed Income | 20-30% | 25% | 15,245 | 21.5% |
| Cash | 0-3% | 0% | 1,186 | 1.7% |
| **Diversifying Assets** | **20-30`%** | **25%** | **16,431** | **23.1%** |
| **TOTAL HIED** | | | **$70,993** | **100.0%** |


OPERF Asset Allocation
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
43%
39%
16%
22%
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%
88%
0%
1%
Total Equity
Fixed Income
Cash
Target
Actual


CSF Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
30%
33%
30%
31%
10%
10%
30%
26%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual


HIED Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
25%
29%
25%
26%
10%
9%
15%
13%
25%
23%
Domestic Equities
International Equities
Private Equity
Inflation Hedging
Diversifying Assets
Target
Actual



OPERF NAV
Three years ending August 2013
($ in Millions)
70,000
65,000
60,000
55,000
50,000
45,000
40,000
35,000
54,152
54,985
54,327
56,681
56,993
57,682
58,778
59,629
59,299
59,588
59,163
56,918
54,728
57,297
56,318
55,487
56,879
58,030
58,419
58,382
56,106
57,904
58,524
58,627
59,698
59,322
59,321
61,056
62,068
61,940
63,027
63,886
63,241
63,053
64,221
63,069
+16%
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
Mar-11
Apr-11
May-11
Jun-11
Jul-11
Aug-11
Sep-11
Oct-11
Nov-11
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Jan-12
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Jun-12
Jul-12
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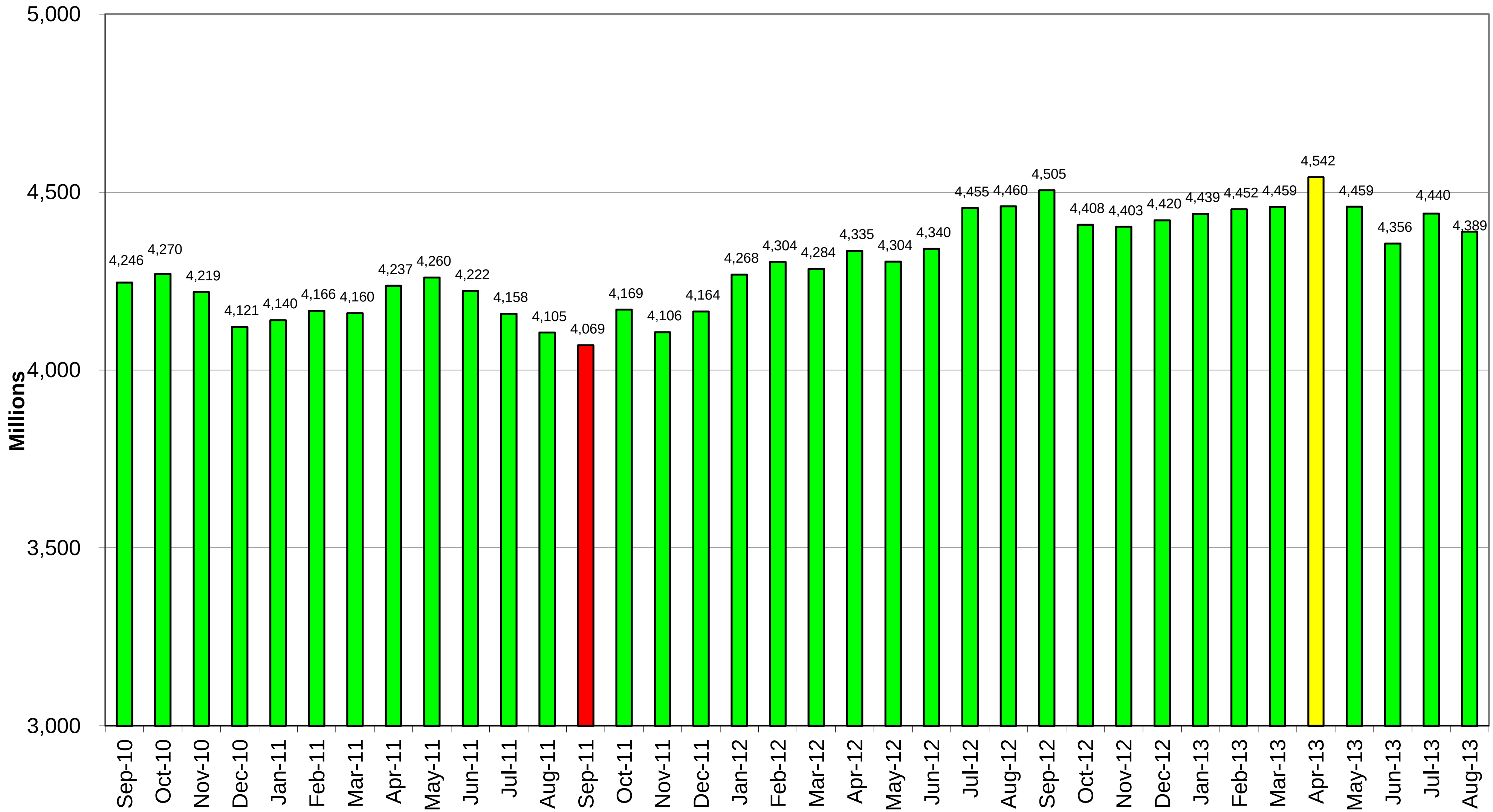
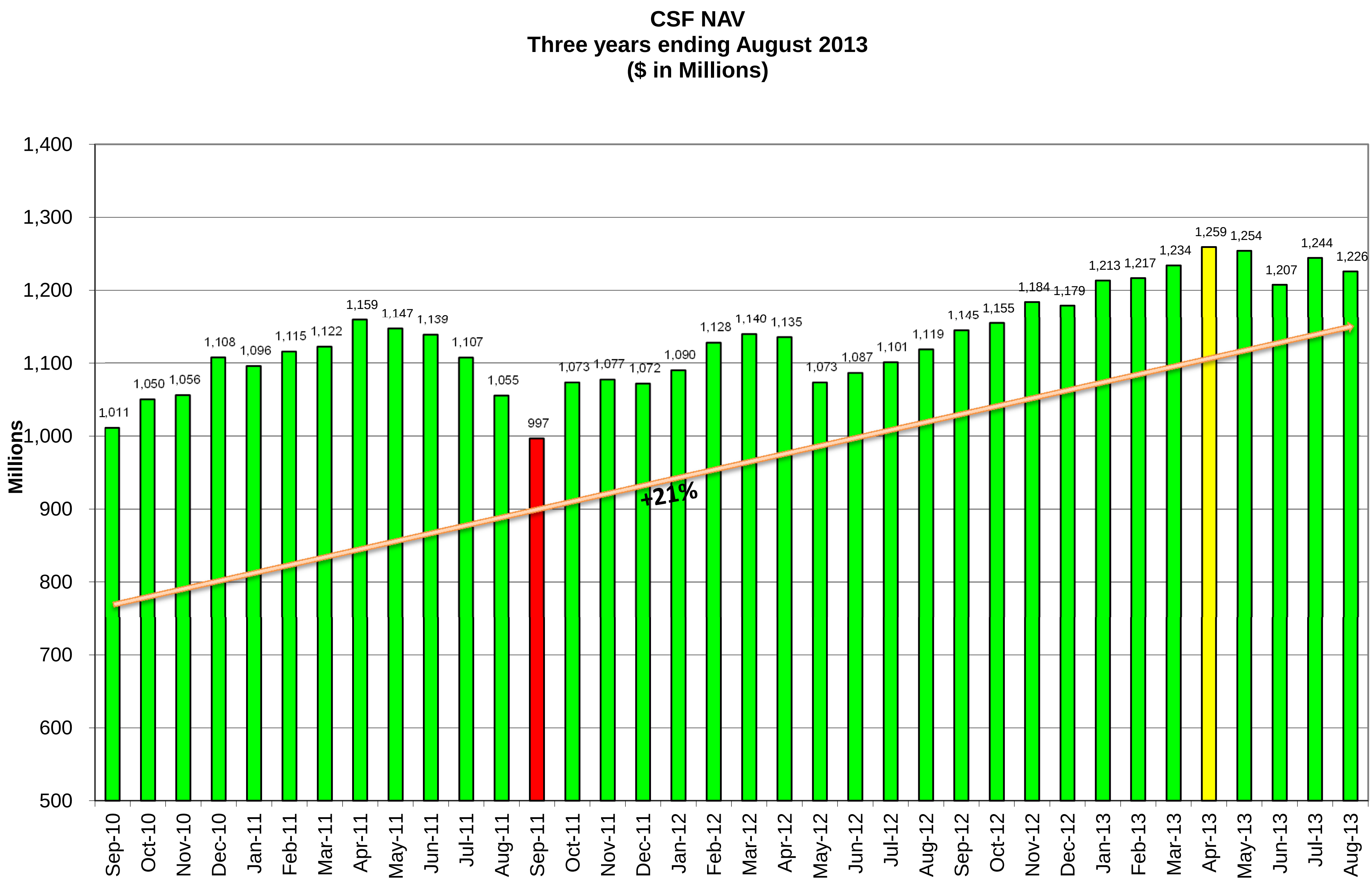
Sep-12
Oct-12
Nov-12
Dec-12
Jan-13
Feb-13
Mar-13
Apr-13
May-13
Jun-13
Jul-13
Aug-13

# SAIF NAV
Three years ending August 2013
($ in Millions)




CSF NAV
Three years ending August 2013
($ in Millions)
Millions
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
1,011
1,050
1,056
1,108
1,096
1,115
1,122
1,159
1,147
1,139
1,107
1,055
997
1,073
1,077
1,072
1,090
1,128
1,140
1,135
1,073
1,087
1,101
1,119
1,145
1,155
1,184
1,179
1,213
1,217
1,234
1,259
1,254
1,207
1,244
1,226
+21%
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
Mar-11
Apr-11
May-11
Jun-11
Jul-11
Aug-11
Sep-11
Oct-11
Nov-11
Dec-11
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Mar-12
Apr-12
May-12
Jun-12
Jul-12
Aug-12
Sep-12
Oct-12
Nov-12
Dec-12
Jan-13
Feb-13
Mar-13
Apr-13
May-13
Jun-13
Jul-13
Aug-13

# TAB 9 – CALENDAR – FUTURE AGENDA ITEMS

# 2013/14 OIC Forward Agenda Topics

| | |
|---|---|
| **October 30:** | Alternative Portfolio Investment<br>OPERF Private Equity Investment<br>Common School Fund Review<br>OPERF Public Equity Initiatives<br>CEM Benchmarking Report<br>Annual OIC Policy Review & Update<br>Internal Audit Report |
| **December 4:** | Alternative Portfolio Investment (2)<br>OPERF Real Estate Investment<br>OPERF Opportunity Portfolio Review<br>OIC General Consultant Recommendation<br>HIED Annual Review<br>OPERF 3rd Quarter Performance Review |
| **January 29:** | Annual Placement Agent Report<br>OPERF Private Equity Investment |
| **March 5:** | OPERF Private Equity Review & 2014 Plan<br>OPERF 4th Quarter Performance Review |
| **April 30:** | Securities Lending Review<br>DOJ Litigation Update |
| **May 28:** | OPERF Alternative Portfolio Review<br>OPERF Policy Implementation Overlay Review<br>OPERF 1st Quarter Performance Review |
| **July 30:** | OPERF Public Equity Review<br>SAIF Annual Review |
| **September 24:** | OPERF Real Estate Review<br>OIC Annual Policy Updates |
| **November 5:** | CSF Annual Review<br>CEM Benchmarking Report<br>Internal Audit Report |
| **December 3:** | OPERF Opportunity Portfolio Review<br>HIED Annual Review<br>OPERF 3rd Quarter Performance Review |