
Oregon Investment Council

~ Agenda ~

February 24, 2010 - 9:00 AM

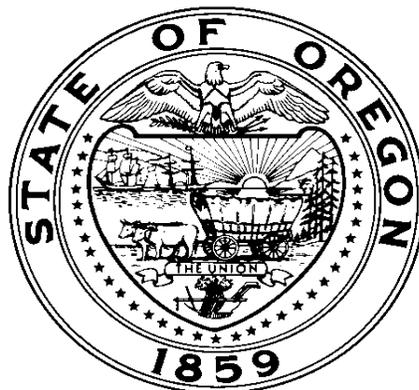
**PERS Headquarters
11410 S.W. 68th Parkway
Tigard, OR 97223**

**Oregon
Investment
Council**

**Harry Demorest
Chair**

**Office of The
State Treasurer
Ben Westlund
State Treasurer**

**Ronald Schmitz
Chief Investment Officer**



OREGON INVESTMENT COUNCIL

2010 Meeting Schedule

Meetings Begin at 9:00 am

at

PERS Headquarters Building
11410 SW 68th Parkway
Tigard, OR 97223

January 27, 2010

February 24, 2010

April 28, 2010

May 26, 2010

July 28, 2010

September 29, 2010

October 27, 2010

December 1, 2010



OREGON INVESTMENT COUNCIL

Agenda

February 24, 2010
9:00 AM

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

<u>Time</u>	<u>A. Action Items</u>	<u>Presenter</u>	<u>Tab</u>
9:00-9:05	1. Review & Approval of Minutes January 27, 2010	Ron Schmitz <i>Chief Investment Officer</i>	1
9:05-10:05	2a. Public Equity Review	Kevin Nordhill <i>Senior Investment Officer</i> Mike Viteri <i>Investment Officer</i> Ben Mahon <i>Investment Officer</i> John Meier <i>Strategic Investment Solutions</i>	2
	2b. Westwood Global Investments <i>OPERF Public Equity</i>	Meg Reynolds <i>Principal</i>	
10:05-10:45	3. Sageview Capital <i>OPERF Private Equity</i>	Jay Fewel <i>Senior Investment Officer</i> David Fann <i>Pacific Corporate Group</i> William Harrison <i>Chairman, CBC</i> Paul Murphy <i>CEO, CBC</i> Scott Stuart <i>Director, CBC</i>	3
10:45-11:00	-----BREAK-----		
11:00-11:30	4. OPERF Private Equity Annual Plan	Jay Fewel David Fann	4

11:30-11:35	5. AQR/CNH Partners Convertible Bond Fund <i>OPERF Opportunity Portfolio</i>	Jay Fewel John Hershey <i>Investment Officer</i>	5
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11:35-11:45 -----LUNCH BREAK-----

B. Information Items

11:45-12:45	6. Market Update	Jay Crandall <i>Managing Partner, Oak Hill Capital Partners</i> Glenn August <i>President & Senior Partner, Oak Hill Advisors</i>	6
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12:45-1:10	7. Securities Lending Update	Tom Motley <i>Vice President, State Street Global Advisors</i> Johnson Shum <i>Vice President, State Street</i>	7
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1:10-1:30	8. Asset/Liability Study Return Assumptions	Mike Beasley <i>Strategic Investment Solutions</i>	8
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1:30-1:50	9. OPERF 4th Quarter Performance Report	Mike Beasley	9
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1:50-2:00	10. Asset Allocations & NAV Updates a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HIED Pooled Endowment Fund	Ron Schmitz	10
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11. Calendar—Future Agenda Items	Ron Schmitz	11
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12. Other Items	Council Staff Consultants
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C. Public Comment Invited
15 Minutes

TAB 1 – MINUTES
JANUARY 27, 2010



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

OREGON INVESTMENT COUNCIL
JANUARY 27, 2010
MEETING MINUTES

Members Present: Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon

Member on Phone: Ben Westlund

Staff Present: Josh Balloch, Andrea Belz, Darren Bond, Tony Breault, Brad Child, Garrett Cudahey, Jay Fewel, Andy Hayes, John Hershey, Julie Jackson, Robert Johnson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jo Recht, Ron Schmitz, James Sinks, Michael Viteri

Consultants Present: Allan Emkin, John Linder and Mike Moy (PCA), Mike Beasley and John Meier (SIS), David Fann and Sundeep Rana (PCG)

Legal Counsel Present: Keith Kutler, Oregon Department of Justice
Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 9:00 am by Katy Durant, Chair.

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

MOTION: Ms. Durant brought approval of the December 2, 2009 OIC minutes to the table. Mr. Solomon moved to approve the minutes (as amended to note that there was to be follow-up by PCA regarding the Fortress fees). The motion was seconded by Mr. Demorest and passed by a vote of 5/0.

II. 9:02 a.m.: OPERF Customized Secondary Program-Private Equity

Mr. Solomon read the following statement into the record:

After consulting with Dee Carlson, Senior Special Attorney General, and Deborah Tuss of the Oregon Government Ethics Commission, I do not believe I have a statutory actual or potential conflict of interest in this matter. Nevertheless, in the interest of transparency, I make the following disclosure:

Gerard K. Drummond, the chairman of the board of PCG Asset Management, LLC, is a client of my public accounting practice. PCG Asset Management, LLC is not a

client. The fact that Mr. Drummond is associated with PCG Asset Management, LLC has no impact on either the fees I invoice him for professional services or my vote on this matter.

Jay Fewel, Senior Investment Officer introduced David Fann and Sundeep Rana from Pacific Corporate Group. Staff recommended that this proposed investment is the appropriate way to expeditiously capitalize on the current (and probably short-lived) opportunity in private equity secondaries. As proposed, this program would target secondary fund interests from funds that are currently in the OPERF portfolio, and also opportunistically from other funds which PCG, and or staff, know well. Original commitments of between \$5 million and \$20 million will be targeted, as there is less competition in this size range, from large secondaries funds. This will be a semi-discretionary mandate, in that PCG would have investment discretion for the program, but staff will have the right to veto any transaction if there are significant concerns about the manager, pricing, fund or manager overconcentration, or other terms. As proposed, PCG would not receive carried interest from the program, and would be compensated via a modest transaction fee for completed transactions, and ongoing monitoring fees on the invested portfolio. Following approval, Staff and PCG will work collaboratively in marketing the program to the GP and intermediary community, sourcing potential transactions, and establishing portfolio sector targets. Staff will also have the ability to participate in joint due diligence, pricing analysis, negotiations, and transaction structuring with PCG, to enhance staff skills and experience in secondary transactions.

Ms. Durant wanted to note for the record that if an opportunity comes along from another Limited Partner that PCG represents, that the opportunity will be not be pursued.

MOTION: Mr. Demorest moved to approve the staff recommendation that the OIC authorize a \$100 million commitment to the Customized Secondary Program, an opportunistic, semi-discretionary investment program targeting attractively priced secondary LP interests in private equity funds, as managed by PCG Asset Management, LLC, subject to the satisfactory negotiation of terms and conditions and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff. Mr. Larson seconded the motion. The motion was passed by a vote of 4/0 with Mr. Solomon abstaining from the vote (see statement above).

III. 9:10 a.m.: Sanders Capital, LLC-OPERF Opportunity Portfolio

John Hershey, Alternatives Investment Officer gave a brief summary of the Sanders Capital All Asset Value Fund and then introduced Lew Sanders, CEO, and Frank Speno, Director of Marketing and Client Services with Sanders Capital. The Sanders Capital All Asset Value strategy is a relatively unconstrained, absolute return oriented value strategy utilizing a broad opportunity set of equities, fixed income, commodities and currencies. The strategy seeks to provide a distinctive return/risk tradeoff through a combination of fundamental research that spans asset classes and quantitative valuation and risk management tools.

There was a brief question and answer period following the presentation.

At the Board's request, SIS is to provide a historical track record of investments made by Mr. Sanders.

MOTION: Mr. Solomon moved to approve the staff recommendation that the OIC authorize a \$200 million commitment to the Sanders Capital All Asset Value Fund, L.P. subject to satisfactory negotiation of terms and conditions, completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff. Mr. Demorest seconded the motion. The motion was passed by a vote of 5/0.

IV. 9:54 a.m.: State Accident Insurance Fund (SAIF) Policy Revisions

The OIC accepted several revisions to the SAIF investment policies to conform with asset allocation changes approved at the December meeting.

MOTION: Mr. Demorest moved to approve the proposed policy revisions. Mr. Solomon seconded the motion. The motion was passed by a vote of 5/0.

V. 9:55 a.m.: Oregon Intermediate Term Pool

Perrin Lim, Senior Investment Officer and Darren Bond, Deputy State Treasurer made a presentation to inform the Council of a project to structure and implement a fixed income investment pool that provides a vehicle for state-owned and sponsored entities to invest monies not needed to cover short-term needs. This topic was informational only.

VI. 10:20 a.m.: Election of OIC Officers

MOTION: Mr. Solomon moved to elect Harry Demorest as the OIC Chair and Keith Larson Vice-chair. Treasurer Westlund seconded the motion. The motion passed by a vote of 5/0. Keith Larson was appointed as the OIC representative on the Private Equity Committee, following the February 4th meeting, and Katy Durant was appointed as the OIC representative on the Real Estate Committee.

VII. 10:25 a.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended December 31, 2009. All asset classes are within their allocation ranges.

VIII. 10:26 a.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

IX. 10:32 a.m.: Other Business

There was a brief discussion about PERS funding.

10:54 a.m.: Public Comments

There were no public comments.

The meeting adjourned at 10:54 a.m.

Respectfully submitted,



Julie Jackson
Executive Support Specialist



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

JOINT OREGON INVESTMENT COUNCIL/PUBLIC EMPLOYEES RETIREMENT BOARD
JANUARY 27, 2010
MEETING SUMMARY

OIC Members Present: Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon

OIC Member Absent: Ben Westlund

PERS Board Members Present: James Dalton, Tom Grimsley, Eva Kripalani, Mike Pittman, Laurie Warner (Board Member Elect)

PERS Board Members Absent: Brenda Rocklin

Staff Present: Josh Balloch, Andrea Belz, Darren Bond, Tony Breault, Brad Child, Garrett Cudahey, Jay Fewel, Andy Hayes, John Hershey, Julie Jackson, Robert Johnson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jo Recht, Ron Schmitz, James Sinks, Michael Viteri

Consultants Present: Allan Emkin, John Linder and Mike Moy (PCA), Mike Beasley and John Meier (SIS), Matt Larrabee and Scott Preppernau (Mercer)

Legal Counsel Present: Keith Kutler, Oregon Department of Justice
Deena Bothello, Oregon Department of Justice

The Joint OIC/PERS Board meeting was called to order at 12:02 pm by Harry Demorest, OIC Chair.

Mike Beasley and John Meier from SIS, and Matt Larrabee from Mercer gave an overview of the current state of the Oregon Public Employees Retirement Fund, including liability highlights, objectives, integrating asset and liability forecasts, and capital market assumptions.

There followed a discussion among the two Boards regarding the balance of short term concerns (funded status, contribution rate volatility) and long term concerns (maximizing return, long term cost reduction). Agreement was reached on paying particular attention to:

- Inflation risk
- Downside tail risk
- Matching the portfolio to the varying Tier I, Tier II and OPSRP liabilities
- Increasing cash flow requirements

The timeline from here is dependent on getting updated data from Mercer. But the initial output from the SIS efforts should be ready for review by May. Follow up work may be needed after that, but project completion is anticipated by June.

The meeting adjourned at 2:10 pm.

TAB 2 – PUBLIC EQUITY REVIEW

Oregon Investment Council

Public Equity Review

OPERF

Purpose

To provide the OIC a comprehensive review of the Public Equity asset class.

Background

In 2007, the OIC adopted a new asset allocation, reducing the target to public equities from 55 percent to 46 percent, splitting the target for U.S. and non-U.S. equities 50/50, and significantly reducing the home country bias. In 2008, the OIC adopted a Public Equity structure benchmarked to the MSCI All Country World Investable Market Index (ACWI IMI).

Council policy provides for a target weighting to OPERF's Public Equity asset class of 46 percent plus or minus five percent of the OPERF Regular Account balance. As of December 31, 2009, the pre-overlay and post-overlay Public Equity composites comprised 40.4 percent and 42.7 percent of OPERF, respectively.

OIC Policy 4.05.01 defines the strategic role of public equities to provide enhanced returns and diversification to OPERF as well as liquidity to meet cash flow needs. Providing liquidity has become increasingly important as more assets have been allocated to illiquid asset classes and benefit payments exceed contributions by approximately \$2 billion annually. Fixed income is the other asset class that primarily invests in public market securities and as such, is viewed as the other source of liquidity. However, as recently experienced, fixed income securities can become quite illiquid during a credit crisis.

Some of the objectives and strategies included in OIC policy for Public Equity include:

- Generate 75 basis points of excess return above the MSCI ACWI IMI (net) index over a market cycle of three to five years, on a net of fee basis.
- Manage active risk to a targeted tracking error of 1.0 to 2.5 percent, relative to the MSCI ACWI IMI.
- Target for active/passive management: 80 percent/20 percent.
- Maintain a Small Cap overweight target of 100 percent to the Russell 3000 Index, with the belief that the smaller cap end of the marketplace is less efficient and therefore able to add additional excess return with active management. For this purpose, Small Cap is considered the smallest 2000 companies in the Russell 3000 index.
- Maintain a neutral composite of value and growth investment styles.

Performance Review

A discussion of OPERF's Public Equity portfolio performance and risk characteristics is included in Appendix 1, and includes the current portfolio structural under and overweights,

December 31, 2009 performance reports, and charts illustrating rolling returns and tracking error, correlation of excess returns, TUCS Universe peer comparisons, and a perspective on recent market performance.

Active/Passive Management Discussion

The purpose of this discussion is twofold. First, we present OPERF's historic allocations to active and passive management as well as a brief summary of the pros and cons of each approach. Second, the performance of active management is evaluated across several peer groups and over several rolling three-year periods. While we offer no conclusions for the "active vs. passive" debate, we believe the data demonstrates that the payoff to active management is cyclical, and thus requires time and patience. We believe this is important to remember as active management is often called into question at precisely the wrong time. This discussion is included as Appendix 2.

Portfolio Structure

SIS models the typical style (growth/value), market capitalization (small/mid/large), and asset class (U.S., non-U.S. developed, and emerging markets) characteristics for each manager using quarterly holding information. Staff uses this information to analyze structural risks in the portfolio. As of December 31, 2009, the Public Equity portfolio is closely aligned with the MSCI ACWI IMI benchmark composition. Appendix 3 provides the current portfolio structure and various portfolio analyses. It also includes a proposed new portfolio structure that models the staff recommended changes.

Mandate Specific Recommendations

As part of portfolio structural analysis and continuing manager monitoring efforts, staff is making several manager-specific recommendations. A detailed discussion of these recommendations is included in Appendix 4:

- Split the AllianceBernstein Global Style Blend mandate into two separate accounts: 1) Global Strategic Value; and 2) Global Research Growth (GRG). Reduce asset levels in the GRG allocation in favor of passive assignments and as a source of cash to meet future OPERF liquidity requirements.
- Authorize staff to manage an internal synthetic Russell 2000 Index portfolio within the guidelines specified in OIC Policy 4.05.03.
- Hire DFA for a dedicated Emerging Markets Small Cap strategy to be funded at approximately \$100 million with an expected excess return target of 1.5 percent relative to the MSCI Emerging Markets Small Cap index, subject to the successful negotiation of the investment management agreement.
- Hire Westwood Global Investors for a dedicated Emerging Markets strategy to be funded at approximately \$100 million with an expected excess return target of 2.5 percent relative to the MSCI Emerging Markets index, subject to the successful negotiation of the investment management agreement.
- Convert the Pyramis Select International strategy to the Pyramis Select International Plus strategy. Change the assigned benchmark from the MSCI World ex-U.S. index to the MSCI All-Country World ex-U.S. benchmark, leaving the excess return target at 1.0 percent, subject to the successful negotiation of the investment management agreement.

Amended OIC Policy Recommendations

Staff is also recommending approval of the red-line changes to the following OIC policies:

- 4.01.18 – Clarifies rebalancing of assets within asset and sub-asset class ranges.
- 4.05.01 – Increases the target range for passive strategies within Public Equity and eliminates the sub-asset class target ranges which are governed by the MSCI ACWI IMI index structure.
- 4.05.02 – Permits the CIO to add index strategies, as considered necessary, to fill gaps in the Public Equity portfolio, and addresses other housekeeping issues.
- 4.05.03 – Adds performance objectives and constraints for the internal synthetic Russell 2000 mandate (if approved).
- 4.05.10 – Eliminates the requirement to obtain written analysis of all private placements annually. This policy was established for Zesiger Capital whose investment portfolio contained many illiquid securities. The assignment was terminated in 1999.

FUNCTION: General Policies & Procedures

ACTIVITY: Public Employees Retirement Fund Rebalancing Policy

POLICY: The Oregon Investment Council (the "Council") establishes asset allocation targets and ranges for the Oregon Public Employees Retirement Fund (OPERF), at the asset class level. ~~For public equities, the Council establishes targets and ranges at the sub-asset class level.~~ On an ongoing basis, Office of the State Treasurer (OST) staff must address how the asset allocation will be maintained given cash flows and market movement.

The purpose of rebalancing back to asset class targets is to ensure that OPERF's actual asset allocation does not drift significantly from the strategic asset allocation policy. The strategic asset allocation has been developed after a rigorous analysis of the Council's objectives and risk tolerance. Rebalancing ensures that the Plan's desired strategy and level of risk are maintained consistently over time. It therefore ensures that major policy decisions of the Council are implemented effectively. Implementing rebalancing actions are the responsibility of the OST Staff with the Council's oversight. Private equity and certain real estate investments are illiquid and not subject to short-term rebalancing.

PROCEDURES:

1. BACKGROUND

In the absence of any other considerations, the optimal strategy would be to rebalance continually back to the strategic asset allocation. However, rebalancing involves costs such as brokerage and other transaction costs. As a result, ranges are established around the target asset allocation that balances the desirability of being at the target with the costs of transactions. The OIC has retained a policy implementation cash overlay manager to minimize the cash exposure at both the Fund and manager level, and to more closely align the actual portfolio with the policy portfolio, generally through the buying and selling of futures contracts to increase or decrease asset class exposures, as necessary.

A breach of any of the established ranges triggers a review and possible rebalancing back to the target allocation with due consideration given to the liquidity of the investments, transaction costs and portfolio structure within asset classes.

2. IMPLEMENTATION

A. OST Staff will undertake the implementation of the rebalancing program.

B. The Fund's actual asset allocation shall be reviewed at the end of each month when asset valuations become available. More frequent reviews may be undertaken, if appropriate, and if information on market values is available. Rebalancing will take place if the weight to any asset class exceeds the policy range, ~~if assets held at the sub-asset class level exceed policy ranges, or Staff shall manage liquidity by rebalancing assets among if managers, liquidations are necessary, to meet cash needs of the Fund, and within target weightings assigned for individual managers within an asset class.~~ All physical

rebalancings are done in concert with the policy implementation cash overlay manager, described above.

- C. Rebalancing should be implemented by the most cost-effective means available. Cash flows into and out of the fund will be used to rebalance back toward asset class targets, whenever possible. Crossing opportunities in index fund investments and futures/options may also be used in rebalancing in order to reduce costs.
- D. When rebalancing occurs, OST staff shall make a recommendation to the Chief Investment Officer of the most appropriate allocation, taking into account the portfolio characteristics, manager weights, market conditions and cash flow needs of the Fund.
- E. All rebalancing shall take place within the asset class and sub-asset class ranges established in Policy by the Council.
- F. For illiquid investments such as private equity and real estate, the judgment on rebalancing will consider the higher transaction costs and available opportunities, if any.
- G. Staff will report monthly to the Council, the actual market valuations versus the target allocations for asset classes. Staff shall report all rebalancing activity to the Council on a quarterly basis~~Sub-asset classes will be reported to the Council no less often than annually.~~

3. ASSET ALLOCATION POLICY TARGETS AND RANGES

Asset Class	Target Allocation	Range
Public Equities	46%	41-51%
Private Equity	16%	12-20%
Total Equity	62%	57-67%
Fixed Income	27%	22-32%
Real Estate	11%	8-14%
Cash	0%	0-3%
Total Fund	100%	

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

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

POLICY: Public equity securities should comprise 41% to 51% of OPERF's total assets, with a strategic target of 46%, 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 ~~0.75-1.0~~ to ~~2.05~~ 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 of the Investment Council to 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 order 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.
 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)
- D. Sub-Asset Class Target Allocations (Appendix D)

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:

	<u>Targets</u>	<u>Ranges</u>
Active	75 80%	65% - 85 90%
Passive	25 20%	15 40% - 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. 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

<u>Manager</u>	<u>Benchmark</u>	<u>Peer Group</u>	<u>Return Objective Over Benchmark Net-of-Fees</u>
U.S. Large Cap:			
Aletheia	Russell 1000 Growth	U.S. Large Growth	1.5%
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%
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%
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%
Non-U.S. Large Cap			
TT International	World x US Std Growth	Non-US Growth	2.0%
UBS	ACWI x US IMI Growth	Non-US Growth	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	World x US Std	Non-US Core	1.0%
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

<u>Manager</u>	<u>Benchmark</u>	<u>Peer Group</u>	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%
Genesis	Em Mkts IMI	Emerging Markets	2.0%
Pictet	Em Mkts Std	Emerging Markets	2.0%
BGI Tiered Emerging Markets	Em Mkts Std	Emerging Markets	2.0%
Global			
AllianceBernstein Style Blend	ACWI Std	Global Core	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.

APPENDIX D

State of Oregon
Sub-Asset Class Target Allocations

	Target %	Range	
		Lower	Upper
U.S. Large Cap	36.0%	31.0%	41.0%
U.S. Small Cap	7.5%	4.0%	9.0%
Non-U.S. Large Cap	40.0%	33.0%	43.0%
Non-U.S. Small Cap	3.5%	2.0%	5.0%
Emerging Markets	6.0%	3.0%	9.0%
Global	7.0%	4.0%	10.0%
Total	100.0%		

Note: The target ranges above reflect the structure of the underlying managers listed in Appendix B.

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). The Council may terminate “at will” any manager in its employ according to the terms of its contract.

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.** The ~~OST staff~~~~Chief Investment Officer, Senior Equity Investment Officer, and Equity Investment Officer~~ meet with and obtain information from prospective investment management firms. ~~Frequently, m~~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. **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 firms.

4. **Terminating Management Firms.** Immediately following a termination action by the Council, the Senior Equity Investment Officer shall ~~notify~~~~contact~~ the terminated firm. ~~Separate account mandates will be –and–instructed–them~~ to discontinue trading the portfolio immediately and. ~~In addition,~~ 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

FUNCTION: Equity Investments
ACTIVITY: Internal Equity – Portfolio Objectives & Strategies

POLICY: All internal equity investments shall be authorized by a public equity investment officer, authorization shall be documented, and shall be in accordance with portfolio guidelines established by the Oregon Investment Council.

PURPOSE

The purpose of this policy is to specify the portfolio strategies staff is authorized to manage internally and to define the tolerable risk, performance objectives, and permitted investments.

POLICY OBJECTIVES & STRATEGIES

S&P 500 Index Strategy

1. The objective of the S&P 500 Index portfolio is to closely match the S&P 500 Total Return Index performance through a full replication strategy.
2. The S&P 500 Index Portfolio is expected to outperform the S&P 500 Total Return Index by approximately 5 basis points annualized over a market cycle with an expected tracking error of 10 basis points.

S&P 400 Index Strategy

1. The objective of the S&P 400 Index portfolio is to closely match the S&P 400 Total Return Index performance through a full replication strategy.
2. The S&P 400 Index Portfolio is expected to outperform the S&P 400 Total Return Index by 10 basis points annualized over a market cycle with an expected tracking error below 30 basis points.

Russell 2000 Synthetic Index Strategy

1. The objective of the Russell 2000 Index portfolio is to closely match the Russell 2000 Total Return Index performance through a synthetic replication strategy.
2. The Russell 2000 Index Portfolio is expected to outperform the Russell 2000 Index Total Return Index by 30 basis points annualized over a market cycle with an expected tracking error below 50 basis points.

PERMITTED HOLDINGS

S&P 500 Index Strategy

1. Securities contained in the S&P 500 Index.
2. Securities reasonably expected to be part of the S&P 500 Index at some future date.
3. Securities that have recently been a member of the S&P 500 Index.
4. Exchange Traded Funds (ETFs) which replicate the S&P 500 Index such as: iShares S&P 500 Index Fund (Ticker: IVV) or Spydors (Ticker: SPDR).

5. S&P 500 Index Futures (Large Contracts and Mini's).
6. U.S. Treasury Bills or other acceptable cash equivalents utilized for equity futures collateral.

S&P 400 Index Strategy

1. Securities contained in the S&P 400 Index.
2. Securities reasonably expected to be part of the S&P 400 Index at some future date.
3. Securities that have recently been a member of the S&P 400 Index.
4. Exchange Traded Funds (ETFs) which replicate the S&P 400 Index such as: iShares S&P 400 Index Fund (Ticker: IJH).
5. S&P 400 Index Futures (Large Contracts and Mini's).
6. U.S. Treasury Bills or other acceptable cash equivalents utilized for equity futures collateral.

Russell 2000 Synthetic Index Strategy

1. Russell 2000 Index Futures.
2. U.S. Treasury Bills or other acceptable cash equivalents used for equity futures collateral.
3. Oregon Short Term Fund.

ABSOLUTE RESTRICTIONS

The Internal Public Equity Portfolios may not purchase the following investments or types of investments without the specific advanced approval of the Chief Investment Officer and the Oregon Investment Council:

1. Short sales of securities.
2. Margin purchases or other use of lending or borrowing money or leverage to create positions greater than 100% of the market value of assets under management.
3. Commodities.
4. Non-U.S. dollar denominated fixed income securities issued by entities incorporated or chartered outside of the United States.

PROCEDURES:

1. All trades are entered into an Order Management System (OMS) such as Bloomberg POMS and are authorized by the signature (electronic or handwritten) of a Public Equity Investment Officer. The Public Equity Investment Officer shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this policy. The Senior Public Equity Investment Officer will review trades initiated by members of the Public Equity team. The Chief Investment Officer will review trades initiated by the Senior Public Equity Investment Officer.

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

FUNCTION: Equity Investments
ACTIVITY: Manager Monitoring

POLICY: The Oregon Investment Council retains external equity managers to invest the assets of the various trust funds. Managers are hired for their specific expertise. This expertise is manifested in the investment performance results produced. It is recognized that the retention of a money manager exposes the assets under management to a degree of risk for which adequate compensation in excess return should be required. This policy explicitly recognizes that manager monitoring and retention is a continuous process beginning when a manager is hired.

PROCEDURES:

1. **General Oversight of Investment Management Firm Performance.** All performance calculations shall be provided by an independent third party (e.g., master custodian or consultant). Managers shall reconcile performance returns as calculated by the master custodian and/or consultant. Managers shall also reconcile, at least monthly, portfolio positions and valuations with the master custodian.
2. **On-site Visits.** Investment Division staff members should visit each public equity domestic domiciled manager on-site, at least every 12 months, unless the Senior Investment Officer and the Chief Investment Officer concur, and document, that an on-site visit is not necessary, or will be extended. ~~International domiciled managers should be visited biennially, if feasible.~~ The site visit schedule may be amended based on various factors, including: changes to the investment manager's organizational structure or portfolio managers; significant unexplained changes in performance; or negative publicity related to the investment manager. OIC members are encouraged to visit managers when convenient.
- ~~3. **Privately Placed Securities.** The Office of the State Treasurer (OST) shall request from the investment manager an annual written analysis of the carrying value of each privately placed security. The manager's analysis should include an assessment of the nature of any restriction(s), the relationship of the privately placed issue to publicly available securities issued by the same issuer, if any, and any other factors the investment manager deems relevant.~~
34. The manager is to be monitored by staff with regard to how performance results are generated to ensure the manager is exhibiting risk and other portfolio characteristics consistent with the original objective for hiring that particular manager.
45. The manager shall operate under a set of investment guidelines which outline objectively how the manager will manage the portfolio, the latitude or discretion granted to the manager, the level of risk, the performance objective and the time horizon over which performance shall be measured.

- | 56. The manager is contractually apprised of the strategic role its portfolio is to fulfill, the performance objective it is expected to achieve, how the manager will be monitored, and over what time period.

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

TAB 3 – SAGEVIEW CAPITAL

DATE: February 16, 2010
TO: Oregon Investment Council
FROM: Jay Fewel, Senior Private Equity Investment Officer
SUBJECT: Community Bancorp, LLC

Purpose

Staff recommends a commitment of \$100 million to Community Bancorp, LLC. Community Bancorp is being formed by Sageview Capital to take advantage of the distressed and undercapitalized nature of many banks in various geographic regions in the United States. This proposal is different than typical limited partnership vehicles in that, assuming a deal is consummated, OPERF would own shares directly in Community Bancorp (the holding company) as compared to the usual limited partnership interests.

Background

Community Bancorp (CBC) is a newly formed bank holding company based in Houston, Texas. CBC will seek to purchase assets and assume liabilities of failed banks and thrifts from the Federal Deposit Insurance Corporation, primarily in government assisted transactions. CBC will seek to acquire a series of attractive platform institutions across the U.S. with the goal of subsequently growing each platform through organic and acquisition based operating strategies. Rather than raising a traditional private equity fund, Sageview is looking to assemble a group of state pensions and other similar investors to provide direct capital investment into failing banks, providing individual investors with direct ownership stakes. Regulators are seeking the support of state pension funds to solve the crisis surrounding ongoing bank failures. Under the proposed structure, the Advisor (Sageview) expects CBC to acquire three or four failed banks as platform institutions in attractive markets across the U.S., during a three year commitment period. Each platform acquisition is expected to require between \$50 million and \$250 million of equity, depending on the size of the target banking institution's asset base. Sageview is targeting an equity capitalization of approximately \$1 billion for CBC, but a hard cap has not been established. The OPERF commitment, if approved, would be contingent on CBC's raising a minimum of \$500 million. It should be further noted that Sageview anticipates that its existing limited partners will commit an aggregate of more than \$100 million to CBC, of which \$10 million will come from the Sageview team.

CBC has assembled a very highly regarded Board of Directors, one of whom will be in attendance at the February 24 Oregon Investment Council meeting. They have also brought on an experienced management team with an excellent track record. The team will be led by Paul Murphy, co-founder and former CEO of Amegy Bank, a highly successful Houston, Texas bank holding company. Mr. Murphy will also be in attendance on February 24.

A new commitment to CBC would be allocated 100 percent to the Special Situations sub-sector. As of September 30, 2009, OPERF's allocation to this sub-sector is targeted at 5 to 15 percent with a current fair market value plus unfunded commitments exposure of 11.1 percent.

Recommendation

Staff and PCG recommend that the OIC authorize a commitment of \$100 million on behalf of OPERF to Community Bancorp, LLC, subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST Staff. While this makes for an intriguing investment opportunity, given existing allocation constraints, a \$100 million commitment was deemed appropriate. If this amount were to be raised, it would mean scaling back other anticipated investments currently on the 2010 forward calendar.

Community Bancorporation LLC

Strategy

Sageview Capital, LLC (“Sageview” or the “Advisor”), a Greenwich, CT and Menlo Park, CA-based hybrid asset manager, is seeking to raise capital for Community Bancorp, LCC (“CBC” or the “Firm”), a newly formed bank holding company based in Houston, TX. With Sageview serving as an advisor to CBC, the Firm will seek to purchase assets and assume liabilities of failed banks and thrifts from the Federal Deposit Insurance Corporation (“FDIC”), primarily in government assisted transactions. In effect, CBC will seek to acquire a series of attractive platform institutions across the U.S. with the goal of subsequently growing each platform through organic and acquisition-based operating strategies.

Rather than raise a traditional private equity fund, Sageview is looking to assemble a group of state pensions and other similar investors to provide direct capital investment into failing banks, thereby providing individual investors with direct ownership stakes. Currently, regulators are seeking the support of state pension funds to solve the crisis surrounding ongoing bank failures. The Advisor believes that the FDIC, in particular, is facing enormous political pressure to constrain the role of private capital in this process and is therefore seeking alternative capital solutions.

Under the proposed structure, the Advisor expects CBC to acquire three or four failed banks as platform institutions in attractive markets across the United States during a three year commitment period. Each platform acquisition is expected to require between \$50.0 million and \$250.0 million of equity, depending upon the size of the target banking institution’s asset base.

In aggregate, Sageview is targeting an equity capitalization of approximately \$1.0 billion for CBC, but has yet to establish a limit on the capital raising process. However, given the proposed strategy, the Advisor does not anticipate accepting commitments in excess of \$1.5 billion. Sageview is in the early stages of raising funds for CBC, with no commitments secured to date. A first closing is expected in the first quarter of 2010, at which time the Advisor expects to secure between \$500.0 million and \$1.0 billion for CBC. A final close is expected in the second quarter of 2010.

Upon closing, the Advisor expects CBC’s board of directors to commit in excess of \$7.0 million to the Firm, with individual commitments ranging from approximately \$1.0 million to over \$3.0 million. CBC management, in aggregate, will also commit capital in excess of \$2.0 million. Furthermore, Sageview anticipates that its existing Limited Partners will commit an aggregate of more than \$100.0 million to CBC, of which at least 10%, or \$10.0 million, will come from the Sageview team.

History

CBC is being organized by Sageview, an asset management firm founded in 2005 by Ned Gilhuly and Scott Stuart who were with buyout firm Kohlberg, Kravis, Roberts, LLC (“KKR”) from 1986 through 2005. Sageview currently manages approximately \$1.4 billion of capital through a hybrid fund that focuses on making non-controlling investments in public companies and structured minority investments within the small and mid-cap markets. This includes two significant investments in the banking industry, EverBank Financial Corp and State Bank & Trust.

Based in Houston, TX, CBC will be managed by a team of executives formerly with Amegy Bank of Texas. This includes a CEO, CFO, Chief Information Officer and a Chief Credit & Risk Officer. Aside from the CRO, each individual was at one time or another employed at Amegy Bank. Accordingly, the majority of the team brings to CBC significant backgrounds in operating and working with financial depository institutions on a collaborative basis, particularly with respect to pursuing both organic and acquisition-oriented growth strategies.

Community Bancorporation LLC

Summary of Proposed Terms

- Structuring Fee: 1.0% of aggregate commitments per annum; In consideration for serving as Structuring Advisor, CBC has agreed to pay Sageview a cash fee equal to 3.0% of the aggregate commitments raised, payable in three equal annual installments.
- Team Commitment: Approximately 2.0% of aggregate commitments to the Fund from Sageview, CBC management, and CBC's Board of Directors.
- Other Expenses: The Firm is responsible for all organizational and offering expenses in an amount estimated at approximately \$4 million
- Distributions: CBC will make distributions at the sole discretion of the board of directors. In the event that cash is available to CBC in excess of the anticipated needs of the business, including reserve requirements, tax withholdings and other regulatory capital requirements, the board may approve distributions as follows:
- Return of Cost* - First, pro rata to the Members holding Class A Common Units and Members holding Class B Non-Voting Common Units until they receive an aggregate amount of distributions equal to their respective capital contributions in respect of Class A and Class B units; and
- Broad Distributions* - Second, pro rata to unitholders of Class A Common Units, unitholders of Class B Non-Voting Common Units and unitholders of Class C Incentive Units based on the relative number of units held by each member

TAB 4 – OPERF PRIVATE EQUITY ANNUAL PLAN

EXEMPT MATERIALS SENT UNDER SEPARATE COVER

TAB 5 – AQR/CNH PARTNERS CONVERTIBLE BOND FUND

AQR/CNH Partners Convertible Bond Fund

Background

In May 2009, the OIC approved a \$150 million investment to the AQR/CNH Partners Convertible Bond Fund. Convertible bonds were then trading at historically “cheap” levels. The investment thesis was to fully hedge the equity, interest rate and credit risk to isolate the “cheapness factor,” which is a measure of the illiquidity risk premium. The investment thesis was that sometime over the next two years, the cheapness factor would revert back to a more normal range (typically plus or minus 2% of the bond’s theoretical value). To generate an acceptable “expected return,” the fund was structured to use a low amount of leverage (gross assets of 1.5x equity versus typical leverage of 3.0-4.0x for this kind of strategy). The strategy was expected to generate a high risk-adjusted return with low correlation to equities and fixed income returns (exactly the kind of strategy that can provide diversification benefits).

Since our investment, the market has indeed corrected (even quicker than we anticipated) and the cheapness factor has moved back down, close to the high end of its historically normal range. In other words, while still “cheap” from an historical perspective, it is no longer *exceptionally* cheap as it was last year. As a result of the market correction, the fund has enjoyed an annualized net return of approximately 11% (as of 12/31/09) and the Sharpe ratio is approximately 2.4 (historically equities and bonds have a Sharpe ratio of approximately 0.3). However, now that the market correction has moved the cheapness factor closer to its normal historical range, the going forward expected return, at the current leverage level, is no longer compelling to Staff.

Recommendation

Staff and SIS recommend redemption of the entire position (we had negotiated full redemption rights without penalties as we knew the day would eventually come when the market would correct). Staff will work with AQR on an expeditious, but orderly liquidation of the portfolio.

TAB 6 – MARKET UPDATE

EXEMPT MATERIALS SENT UNDER SEPARATE COVER

TAB 7 – SECURITIES LENDING UPDATE

Annual Securities Lending Review

February 2010

Purpose

To provide the OIC an update and review of the securities lending program in place for OPERF, OSTF and other state agency funds.

Background

In accordance with OIC policy 4.01.20 (see attached), the investment division may lend securities through an agent lender. The Oregon State Treasury has participated in securities lending arrangements dating back decades. The most recent relationship, with State Street Bank, began in 1999. Over the past 11 years, OIC managed accounts have benefited from over \$293 million in net earnings from securities lending, including \$47 million in 2009.

2008 was an unprecedented year of volatility in fixed income markets, and securities lending reinvestment pools were not immune from the fallout. Even the more conservatively run programs found they were not spared. While agent lenders provide indemnification against borrower defaults (a guarantee only needed when the cash collateral provided at 102 or 105 percent is insufficient), the reinvestment risk of the cash collateral is borne entirely by the owner of the assets being lent. Ironically, 2008 was the best year in history, for generating securities lending income (\$91 million for OIC managed funds).

2009 provided a return to much more “normal” markets, from a liquidity perspective, which is reflected in a marked increase in the respective fund unit values, as of December 31, 2009.

Discussion

Johnson Shum and Tom Motley will provide the OIC an update on the securities lending market and the cash management market, with a focus on the two main pools managed by State Street on behalf of OPERF and other state agency funds, including the OSTF.

FUNCTION: General Policies and Procedures
ACTIVITY: Securities Lending

POLICY: OPERF, SAIF, the CSF, the Oregon Short-term Fund, and other funds under the purview of the Oregon Investment Council may lend securities through the OST's lending agent.

PROCEDURES:

1. Recognizing that a lending agent can provide an incremental return to the portfolio by lending securities held:
 - a. The agent shall reinvest cash collateral received in instruments with a risk and return consistent with reinvestment guidelines approved by the Chief Investment Officer.
 - b. Acceptable collateral investments shall be documented with the agent in advance of any lending.
 - c. Collateral reinvestment guidelines for the Oregon Short Term Fund shall be brought to the Oregon Short Term Fund Board, prior to approval by the Chief Investment Officer.
 - d. Changes to securities lending reinvestment guidelines shall be reported to the Oregon Investment Council, at its next regular meeting, following the change.
2. OST staff shall ensure that securities loaned do not compromise the managers' ability to liquidate positions when necessary.
3. OST Investment Accounting staff shall ensure that securities lending income is properly credited to portfolio accounts.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

Oregon Investment Council

February 24, 2010
Johnson Shum
Thomas Motley, CFA

Agenda

Securities Lending Performance Review

US Cash Management Overview

Performance Summary – Oregon Total Program

<i>The State of Oregon - All Assets</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>% Change</i>
Average Lendables (\$)	41,513,487,335	35,489,748,601	30,195,377,375	-14.92%
Average On-Loan Balance(\$)	11,649,165,519	10,928,576,214	10,592,111,641	-3.08%
Average Utilization (%)	28.1%	30.8%	35.1%	13.92%
Earnings by Program				
US Equity & Corporate Bond (\$)	13,233,972	26,441,130	15,498,863	-41.38%
US Government (\$)	13,211,630	41,582,090	15,243,538	-63.34%
Non-US Equity (\$)	12,677,085	23,414,006	16,326,931	-30.27%
Non-US Fixed (\$)	513,426	467,882	136,073	-70.92%
Total (\$)	39,636,113	91,905,107	47,205,405	-48.64%
Components of Spread				
Demand Spread (bps)	24.08	15.76	7.20	-54.28%
Reinvestment Spread (bps)	18.71	91.61	47.96	-47.65%
Total Spread (bps)	42.79	107.37	55.17	-48.62%
Return on Lendables (bps)	11.27	25.90	15.63	-39.63%

***Performance data shown represents past performance and is no guarantee of future results*

Performance Summary – Oregon PER Funds

<i>The State of Oregon - PERs</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>% Change</i>
Average Lendables (\$)	31,750,582,419	24,119,726,432	18,938,947,525	-21.48%
Average On-Loan Balance(\$)	7,150,163,205	5,919,127,237	5,919,722,057	0.01%
Average Utilization (%)	22.5%	24.5%	31.3%	27.37%
Earnings by Program				
US Equity & Corporate Bond (\$)	12,922,331	25,145,780	14,499,098	-42.34%
US Government (\$)	4,238,961	12,305,749	4,071,137	-66.92%
Non-US Equity (\$)	12,652,825	23,117,486	15,974,800	-30.90%
Non-US Fixed (\$)	513,426	467,882	136,073	-70.92%
Total (\$)	30,327,542	61,036,896	34,681,108	-43.18%
Components of Spread - QD				
Demand Spread (bps)	34.83	26.78	18.10	-32.41%
Reinvestment Spread (bps)	20.06	110.75	56.42	-49.06%
Total Spread (bps)	54.89	137.53	74.52	-45.82%
Return on Lendables (bps)	11.27	25.31	18.31	-27.64%

****Performance data shown represents past performance and is no guarantee of future results**

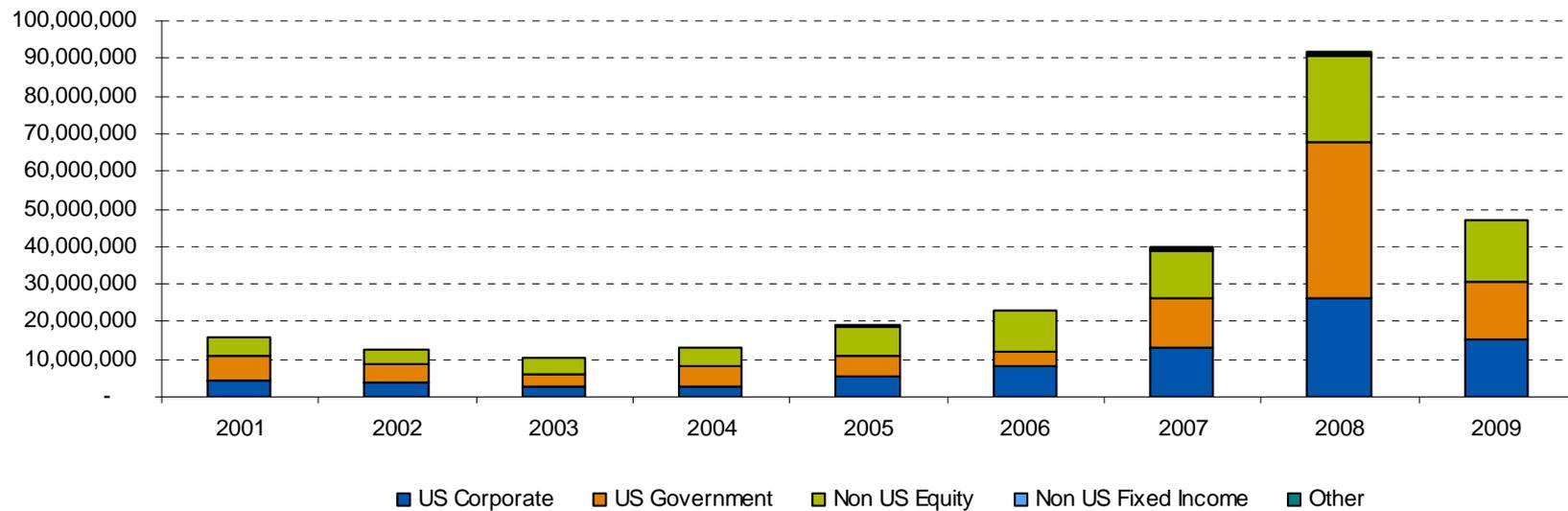
Performance Summary – Oregon Non-PER Funds

<i>The State of Oregon - Non-PERs</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>% Change</i>
Average Lendables (\$)	9,762,904,916	11,370,022,169	11,256,429,850	-1.00%
Average On-Loan Balance(\$)	4,499,002,314	5,009,448,977	4,672,389,584	-6.73%
Average Utilization (%)	46.1%	44.1%	41.5%	-5.79%
Earnings by Program				
US Equity & Corporate Bond (\$)	311,642	1,295,350	999,765	-22.82%
US Government (\$)	8,972,669	29,276,341	11,172,401	-61.84%
Non-US Equity (\$)	24,260	296,520	352,131	18.75%
Total (\$)	9,308,570	30,868,212	12,524,297	-59.43%
Components of Spread - STIF				
Demand Spread (bps)	7.00	2.73	(6.60)	-341.76%
Reinvestment Spread (bps)	16.56	69.00	37.25	-46.01%
Total Spread (bps)	23.56	71.73	30.65	-57.27%
Return on Lendables (bps)	11.25	27.15	11.13	-59.02%

***Performance data shown represents past performance and is no guarantee of future results*

Performance Summary

Oregon Historical Earnings - Calendar Year

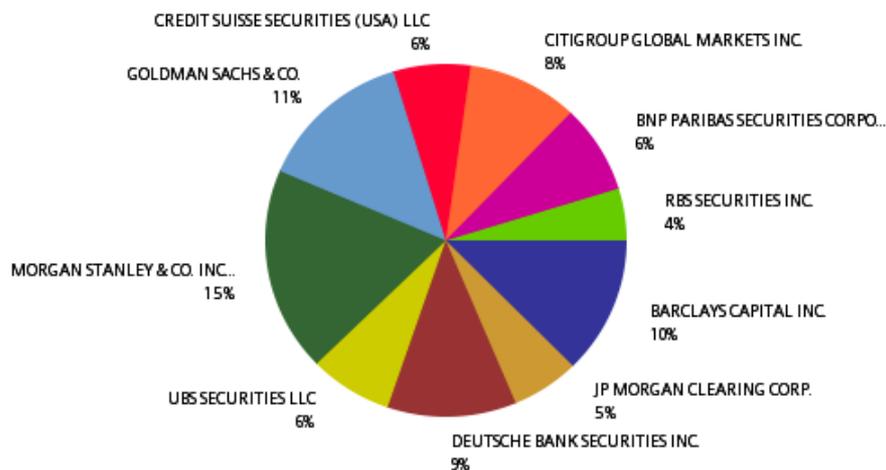


****Performance data shown represents past performance and is no guarantee of future results**

Borrower Exposure Summary – All Assets

Borrower Entity Legal Name	Cash Dly Collateral Amt Base	Non Cash Dly Collateral Amt Base	Dly Mkt Value on Loan Base	% of Total
MORGAN STANLEY & CO. INCORPORATED	1,523,892,305.15	4,829.00	1,487,252,333.83	14.61%
GOLDMAN SACHS & CO.	1,154,497,240.80	2,893,791.25	1,120,617,756.30	11.01%
BARCLAYS CAPITAL INC.	1,026,161,569.45	0	1,000,769,463.28	9.83%
DEUTSCHE BANK SECURITIES INC.	973,183,565.90	237,042.30	947,492,484.16	9.31%
CITIGROUP GLOBAL MARKETS INC.	799,544,069.45	85,831.20	780,457,161.88	7.67%
BNP PARIBAS SECURITIES CORPORATION	674,869,500.25	0	661,005,395.82	6.49%
UBS SECURITIES LLC	601,348,555.70	0	586,032,588.97	5.76%
CREDIT SUISSE SECURITIES (USA) LLC	579,971,040.65	1,937,366.85	563,292,540.46	5.53%
JP MORGAN CLEARING CORP.	495,491,390.70	0	477,750,003.58	4.69%
RBS SECURITIES INC.	381,953,107.05	0	369,881,927.81	3.63%
ALL OTHER BORROWERS	1,876,895,172.30	379,232,144.78	2,186,391,688.56	21.48%
	10,087,807,517.40	384,391,005.38	10,180,943,344.65	100.00%

Top 10 Borrowers



Biography



Johnson Shum

Johnson is a vice president and relationship manager in State Street's Securities Finance division. He is responsible for the overall service delivery and satisfaction for strategic lending customers. He also acts as the point of contact and advocate for Securities Finance-related matters.

Prior to assuming his current role, Mr. Shum worked at Brown Brothers Harriman & Co.'s securities lending group as a product development manager. He was responsible for the development of new products to expand their securities lending capabilities. Previously, he worked as a client services and relationship manager servicing mutual fund clients at The Bank of New York.

Mr. Shum has more than 15 years experience in the financial services industry, specifically in client services and product management. He holds a Bachelor of Arts degree in international business from the State University of New York at Buffalo.

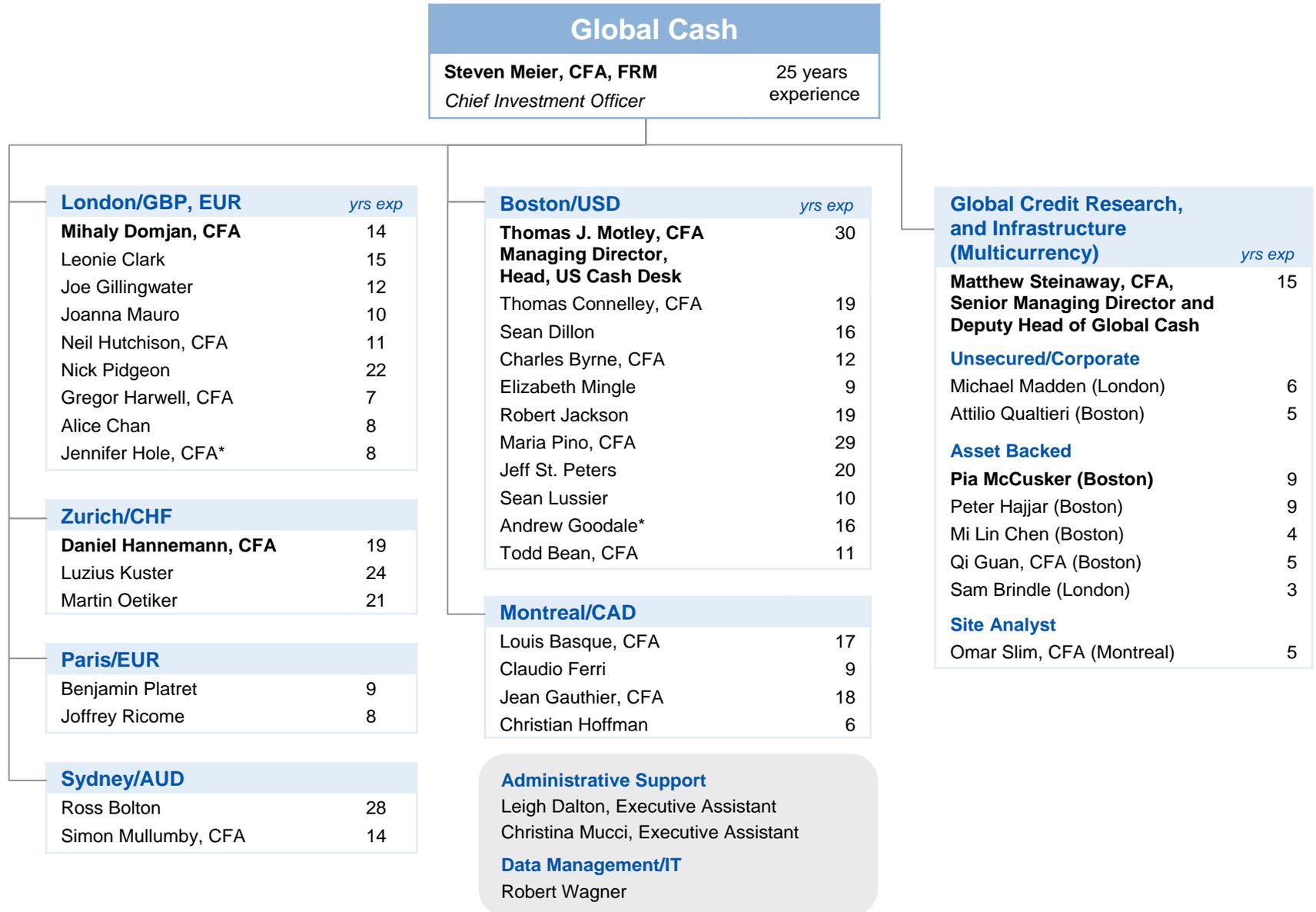
State Street provides experienced securities lending capabilities and supplies liquidity across more than 45 markets, worldwide, via Securities Finance offices and trading desks located throughout the Americas, Europe/Middle-East/Africa and Asia/Pacific regions.

US Cash Management Overview

Investing involves risk including the risk of loss of principal.



Experienced, Dedicated Global Team



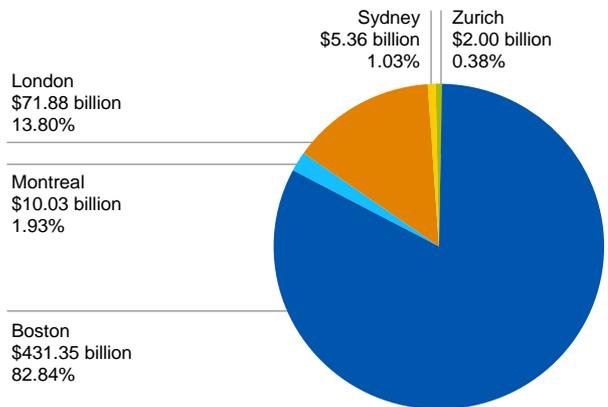
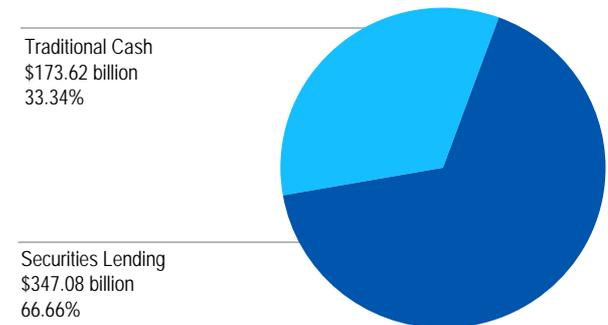
* Matrix reporting relationship to Global Cash

SSgA AUM and Competitive Advantages

As one of the world's largest Cash managers, SSgA is able to provide the following benefits to our clients:

- Priority treatment from dealers
 - Information flow
 - Access to product
- Price breaks for large tickets
 - Complete flow-through to clients
- First look at new structures
- Access to liquidity
- Well known by issuers
 - Reverse inquiry
- Well known by rating agencies
- Access to company management
 - Conformity with Regulation FD

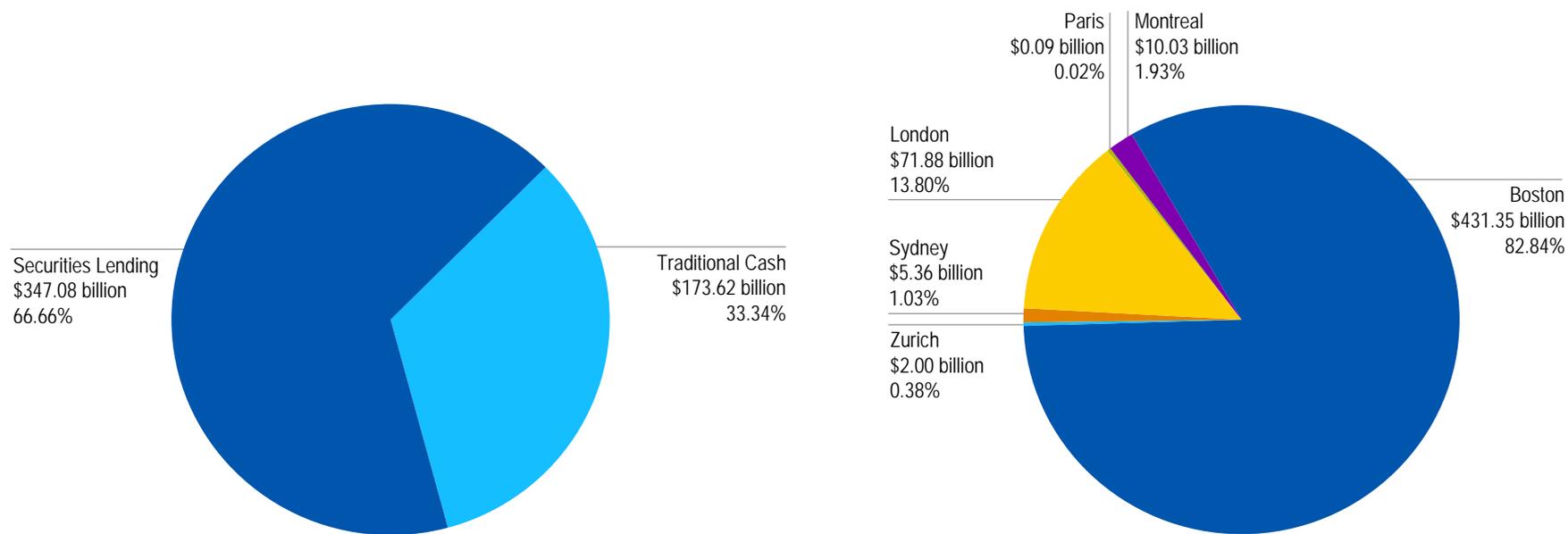
\$520.70 Billion* in Global Cash Assets
As of December 31, 2009



* Includes Cash and Lending. All umbrella funds and as of funds assets have been removed from the calculations. Global Fixed Income assets under management include those Strategies managed by SSgA's Asset Allocation Team. All calculations are unaudited.
Source: SSgA Assets Under Management reporting system

Global Cash Strategies Assets Under Management

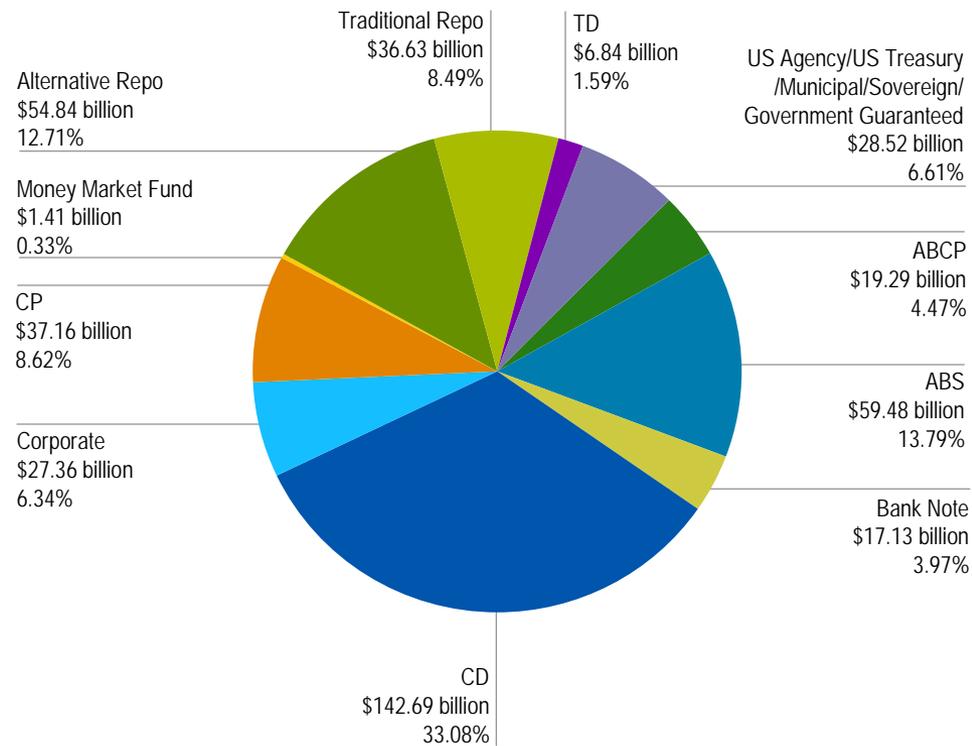
\$520.70 Billion* in Global Cash Assets As of December 31, 2009



* Includes Cash and Lending. All umbrella funds and as of funds assets have been removed from the calculations. Global Fixed Income assets under management include those Strategies managed by SSgA's Multi Asset Class Solutions Team. All calculations are unaudited.
Source: SSgA Assets Under Management reporting system

US Cash Management AUM by Security Type

\$431.35 Billion AUM by Security Type As of December 31, 2009



US Cash Management Aggregate ABS Allocation

ABS Credit Quality

AAA	92.22%
AA	2.19%
A	2.88%
BBB	0.59%
BB	0.83%
B	0.24%
CCC	0.16%
NA	0.90%
Total	100.00%

* Home Equity Sub-sector Allocation of Total ABS

	\$ USD	%
Sub-prime	\$103.61 Million	0.18
Alt-A	\$143.93 Million	0.25
2nd Lien	\$2.98 Million	0.01
HELOC	\$272.73 Million	0.46
Total	\$523.25 Million	0.89%

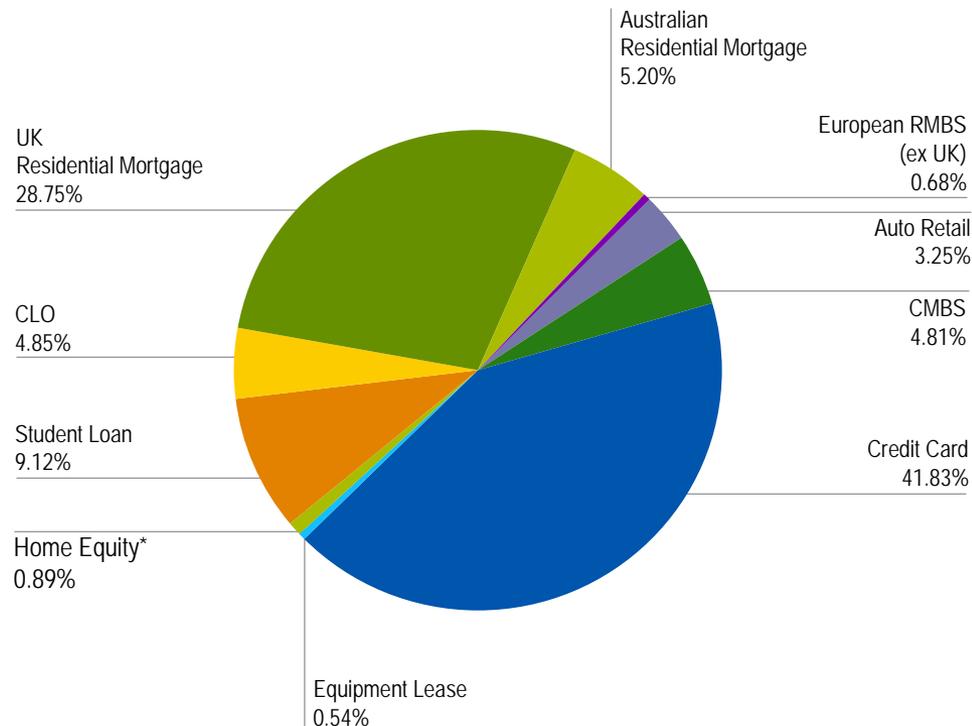
WAL Per Region

Boston	1.37 Yrs
---------------	-----------------

Monoline Exposure

	\$ USD	% of ABS
Boston	\$1.343 Bn	2.29%

\$58.73 Billion Aggregate ABS Allocation As of December 31, 2009



Global Cash Investment Management

Core Objectives

- Through active management, portfolios seek to achieve safety of principal, daily liquidity and a high relative yield by investing in diverse instruments

Advantages

- Disciplined investment process
- Experienced, dedicated team
 - Asset-class focus
 - Commitment of resources
 - Career destination
- Long history of managing structured investments
- Dedicated credit support and discipline
- AUM size
 - One of the world's largest cash managers
- Strong risk management

Goal

- Seeks consistently strong risk-adjusted performance

Economic Overview

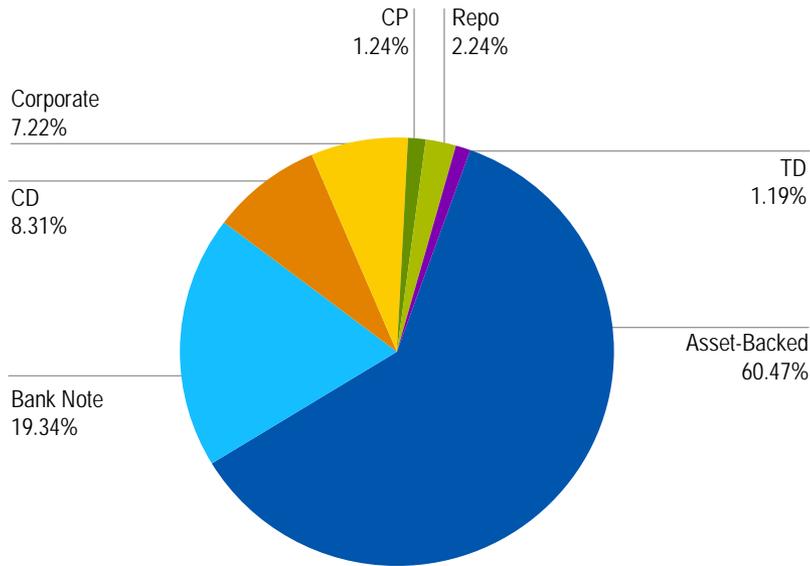
- Recession is over, but a very gradual pace of improvement is seen
- Economy continues to shed jobs, but pace of decline is slowing. Unemployment rate was 9.7% in January 2010.
 - Unemployment insurance claims rose to 480,000 during week of January 30th
- Federal Open Market Committee (FOMC) statement from January 26-27th meeting notes that “information received since the FOMC met in December suggests that economic activity has continued to strengthen and that the deterioration in the labor market is abating.”
- GDP rose 5.7% in 4Q2009 on inventory restocking dynamic; slower growth seen in 1H2010 as inventory demand decreases
- Core inflation appears stable
 - Core PCE 1.5% (December y/y)
- Monetary policy continues to target a range of 0 to 25 basis points. Target reaffirmed at January FOMC meeting.
- Treasury and Fed discuss unwinding of massive stimulus package; new banking/financial sector regulations debated in Congress
- Purchasing managers indexes (PMI) show activity increasing worldwide, albeit modestly outside US. Headline PMI rose in US to 58.4, strongest since August 2004.

Quality Investment Fund D

FC14 — Quality D Summary Characteristics

As of December 31, 2008

1-Day Yield (360 Basis)	2.04%
Shares Outstanding	40,352,444,551.14
Floating Rate %	90.36
% Foreign Issuers	49.16
WAM	35.71
WAM to Call	35.71
Call v. Mat Spread	—
% Callables	0.00%
Avg Life -Expected Maturity	469.98
Fund Price as of 12/31/2008	92.3133



Credit Quality Breakdown	
LONG-TERM RATINGS	% OF FUND
AAA	63.8
AA	20.54
A	3.61
BBB	—
SHORT-TERM RATINGS	% OF FUND
A-1+/P-1	8.62
A-1/P-1	2.48
SPLIT	—
OTHER	0.95

Floating Index Breakdown	% of Fund
FED FUNDS	—
1MO LIBOR	35.91
3 MOS LIBOR	54.45
PRIME	—
Reset Buckets	% of Fund
Next Business Day	0.13
2-7 Days	3.41
8-31 Days	46.47
1-2 Months	25.18
2-3 Months	15.19
Maturity Buckets	% of Fund
Next Business Day	2.80
2-30 Days Liquidity	1.17
31-60 Days Liquidity	8.40
61-90 Days Liquidity	3.97
91-120 Days Liquidity	1.88
121-150 Days Liquidity	3.71
151-180 Days Liquidity	0.95
181-270 Days Liquidity	4.11
271-360 Days Liquidity	10.85
12-15 Month Liquidity	16.64
15-18 Month Liquidity	17.33
18-21 Month Liquidity	2.58
21-24 month Liquidity	4.46
Greater than 2 Year Liquidity	21.17
Repo Collateral	% of Fund
Treasuries	—
Agencies	—
Agency MBS	—
Money Markets	—
Corporates	2.24
Asset-Backed	—
Equities	—

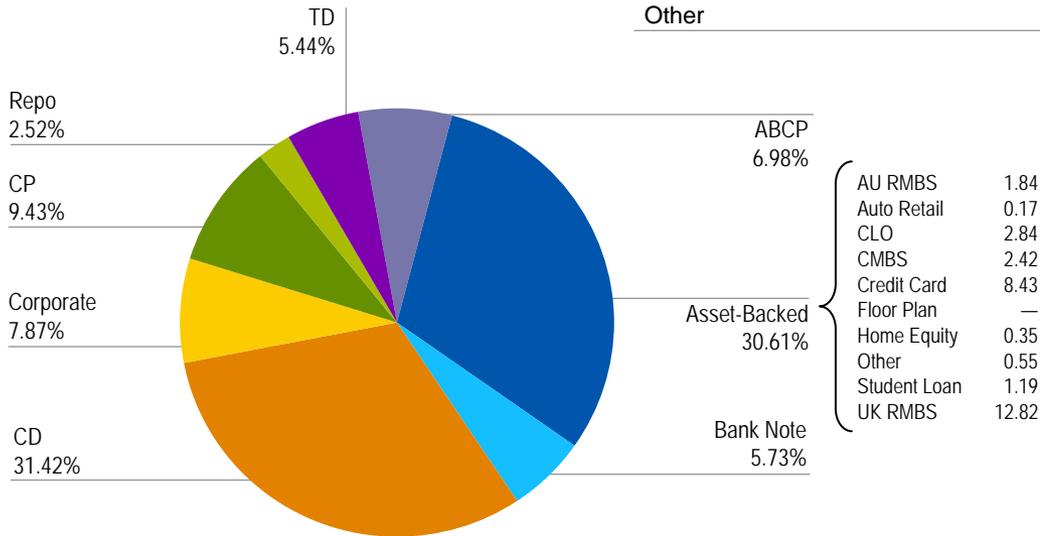
* No SIV, No CDO, No Extendible Liquidity Note. Ratings are Standard and Poor's Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This material is for SSgA Client use only. All data sourced by SSgA unless stated otherwise. The information we provide does not constitute investment advice and it should not be relied on as such. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. We encourage you to consult your tax or financial advisor. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information. This document is for informational purposes only and is not an offer to sell or the solicitation of an offer to buy an interest in any funds and is not intended for public distribution.

Quality Investment Fund D

FC14 — Quality D Summary Characteristics

As of December 31, 2009

1-Day Yield (360 Basis)	0.37%
Shares Outstanding	47,892,429,030.22
Floating Rate %	48.00
% Foreign Issuers	63.01
WAM	38.98
WAM to Call	38.98
Call v. Mat Spread	—
% Callables	0.00%
Avg Life -Expected Maturity	212.37
Fund Price as of 12/31/09	98.4150



Credit Quality Breakdown	
LONG-TERM RATINGS	% OF FUND
AAA	28.48
AA	6.02
A	8.53
BBB+	0.35
BBB	0.31
BBB-	—
BB+	0.34
BB	—
BB-	0.02
SHORT-TERM RATINGS	% OF FUND
A-1+/P-1	32.09
A-1/P-1	23.64
SPLIT	—
Other	0.22

Floating Index Breakdown	% of Fund
FED FUNDS	—
1MO LIBOR	22.21
3 MOS LIBOR	25.79
PRIME	—
Reset Buckets	% of Fund
Next Business Day	0.87
2-7 Days	1.39
8-31 Days	26.35
1-2 Months	10.94
2-3 Months	8.43
Maturity Buckets	% of Fund
Next Business Day	5.10
2-30 Days Liquidity	22.97
31-60 Days Liquidity	9.70
61-90 Days Liquidity	21.57
91-120 Days Liquidity	4.55
121-150 Days Liquidity	7.64
151-180 Days Liquidity	1.64
181-270 Days Liquidity	3.49
271-360 Days Liquidity	5.64
12-15 Month Liquidity	3.88
15-18 Month Liquidity	0.95
18-21 Month Liquidity	2.84
21-24 month Liquidity	3.19
Greater than 2 Year Liquidity	6.83
Repo Collateral	% of Fund
Treasuries	—
Agencies	0.47
Agency MBS	2.05
Money Markets	—
Corporates	—
Asset-Backed	—
Equities	—

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Portfolio Characteristics Comparison — Quality Investment Fund D

FC14 — Quality D Summary Characteristics

As of December 31, 2008	
1-Day Yield (360 Basis)	2.04%
Shares Outstanding	40,352,444,551.14
Avg Life -Expected Maturity	469.98
Fund Price as of 12/31/2008	92.3133

Maturity Buckets	% of Fund
Next Business Day	2.80
2-30 Days Liquidity	1.17
31-60 Days Liquidity	8.40
61-90 Days Liquidity	3.97
Greater than 2 Year Liquidity	21.17

Sector Composition	% of Fund
Asset -Backed	60.47
UK RMBS	22.36
CD	8.31

As of December 31, 2009	
1-Day Yield (360 Basis)	0.37%
Shares Outstanding	47,892,429,030.22
Avg Life -Expected Maturity	212.37
Fund Price as of 12/31/09	98.4150

Maturity Buckets	% of Fund
Next Business Day	5.10
2-30 Days Liquidity	22.97
31-60 Days Liquidity	9.70
61-90 Days Liquidity	21.57
Greater than 2 Year Liquidity	6.83

Sector Composition	% of Fund
Asset -Backed	30.61
UK RMBS	12.82
CD	31.42

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Oregon Short Term Fund

FC91 — Oregon Short Term Summary Characteristics

As of December 31, 2008

1-Day Yield (360 Basis)	1.65%
Shares Outstanding	3,446,008,403.43
Floating Rate %	70.66
% Foreign Issuers	—
WAM	23.97
WAM to Call	23.82
Call v. Mat Spread	0.15
% Callables	0.17%
Avg Life -Expected Maturity	339.44
Fund Price as of 12/31/2008	94.2980

Credit Quality Breakdown

LONG-TERM RATINGS	% OF FUND
AAA	35.40
AA	30.81
A	4.45
BBB	—
SHORT-TERM RATINGS	% OF FUND
A-1+/P-1	17.62
A-1/P-1	11.73
SPLIT	—
OTHER	—

Floating Index Breakdown

Floating Index Breakdown	% of Fund
FED FUNDS	—
1MO LIBOR	32.52
3 MOS LIBOR	38.13
PRIME	—

Reset Buckets

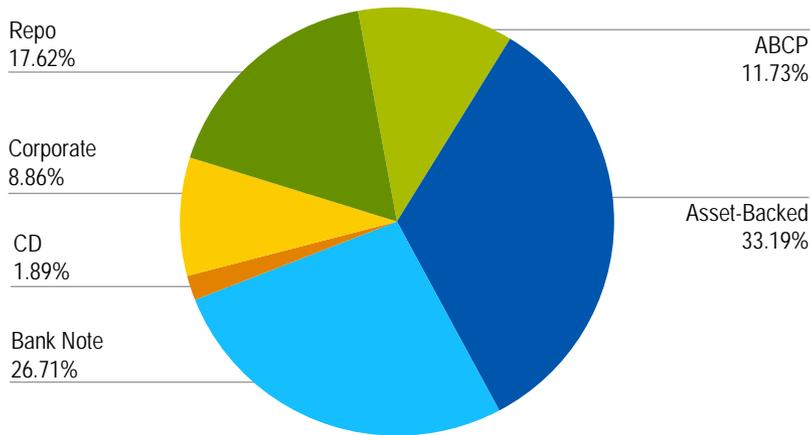
Reset Buckets	% of Fund
Next Business Day	—
2-7 Days	5.94
8-31 Days	37.75
1-2 Months	16.02
2-3 Months	10.98

Maturity Buckets

Maturity Buckets	% of Fund
Next Business Day	17.62
2-30 Days Liquidity	11.73
31-60 Days Liquidity	0.58
61-90 Days Liquidity	3.60
91-120 Days Liquidity	—
121-150 Days Liquidity	2.12
151-180 Days Liquidity	1.05
181-270 Days Liquidity	2.76
271-360 Days Liquidity	12.21
12-15 Month Liquidity	12.64
15-18 Month Liquidity	14.62
18-21 Month Liquidity	10.26
21-24 month Liquidity	—
Greater than 2 Year Liquidity	10.81

Repo Collateral

Repo Collateral	% of Fund
Treasuries	—
Agencies	—
Agency MBS	17.62
Money Markets	—
Corporates	—
Asset-Backed	—
Equities	—



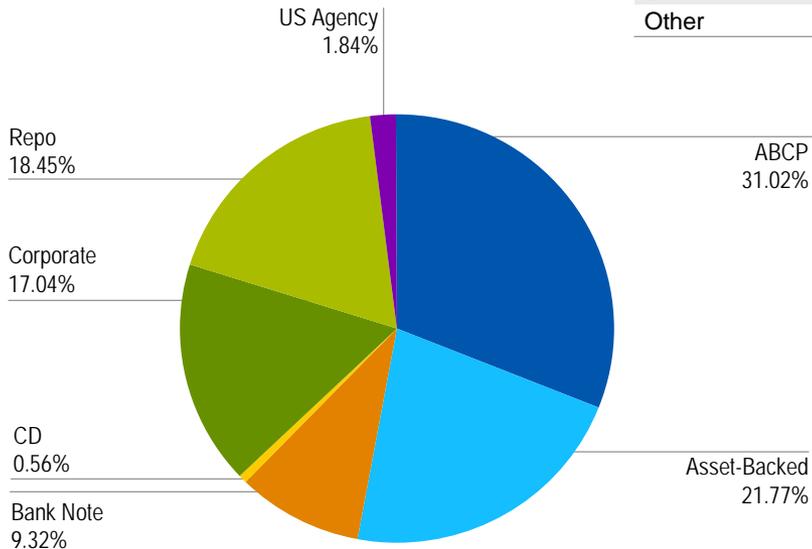
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Oregon Short Term Fund

FC91 — Oregon Short Term Summary Characteristics

As of December 31, 2009

1-Day Yield (360 Basis)	0.28%
Shares Outstanding	4,078,289,938.75
Floating Rate %	48.27
% Foreign Issuers	0.00
WAM	26.95
WAM to Call	26.95
Call v. Mat Spread	—
% Callables	0.00%
Avg Life -Expected Maturity	140.48
Fund Price as of 12/31/09	99.8674



Credit Quality Breakdown

LONG-TERM RATINGS	% OF FUND
AAA	25.20
AA	8.83
A	14.37
BBB+	—
BBB	—
BBB-	—
BB+	—
BB	—
BB-	—
SHORT-TERM RATINGS	% OF FUND
A-1+/P-1	9.98
A-1/P-1	41.62
SPLIT	—
Other	—

Floating Index Breakdown % of Fund

FED FUNDS	—
1MO LIBOR	20.83
3 MOS LIBOR	27.44
PRIME	—

Reset Buckets % of Fund

Next Business Day	0.91
2-7 Days	—
8-31 Days	26.04
1-2 Months	10.79
2-3 Months	10.56

Maturity Buckets % of Fund

Next Business Day	18.45
2-30 Days Liquidity	25.46
31-60 Days Liquidity	9.20
61-90 Days Liquidity	8.90
91-120 Days Liquidity	1.17
121-150 Days Liquidity	4.34
151-180 Days Liquidity	6.06
181-270 Days Liquidity	12.07
271-360 Days Liquidity	2.40
12-15 Month Liquidity	5.98
15-18 Month Liquidity	1.84
18-21 Month Liquidity	1.01
21-24 month Liquidity	1.25
Greater than 2 Year Liquidity	1.89

Repo Collateral % of Fund

Treasuries	—
Agencies	—
Agency MBS	18.45
Money Markets	—
Corporates	—
Asset-Backed	—
Equities	—

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Portfolio Characteristics Comparison — Oregon Short Term Fund

FC91 — Oregon Short Term Summary Characteristics

As of December 31, 2008

1-Day Yield (360 Basis)	1.65%
Shares Outstanding	3,446,008,403.43
Avg Life -Expected Maturity	339.44
Fund Price as of 12/31/09	94.2980

Maturity Buckets % of Fund

Next Business Day	17.62
2-30 Days Liquidity	11.73
31-60 Days Liquidity	0.58
61-90 Days Liquidity	3.60
Greater than 2 Year Liquidity	10.81

Sector Composition % of Fund

Asset – Backed	33.19
ABCP	11.73

As of December 31, 2009

1-Day Yield (360 Basis)	0.28%
Shares Outstanding	4,078,289,938.75
Avg Life -Expected Maturity	140.48
Fund Price as of 12/31/09	99.8674

Maturity Buckets % of Fund

Next Business Day	18.45
2-30 Days Liquidity	25.46
31-60 Days Liquidity	9.20
61-90 Days Liquidity	8.90
Greater than 2 Year Liquidity	1.89

Sector Composition % of Fund

Asset – Backed	21.77
ABCP	31.02

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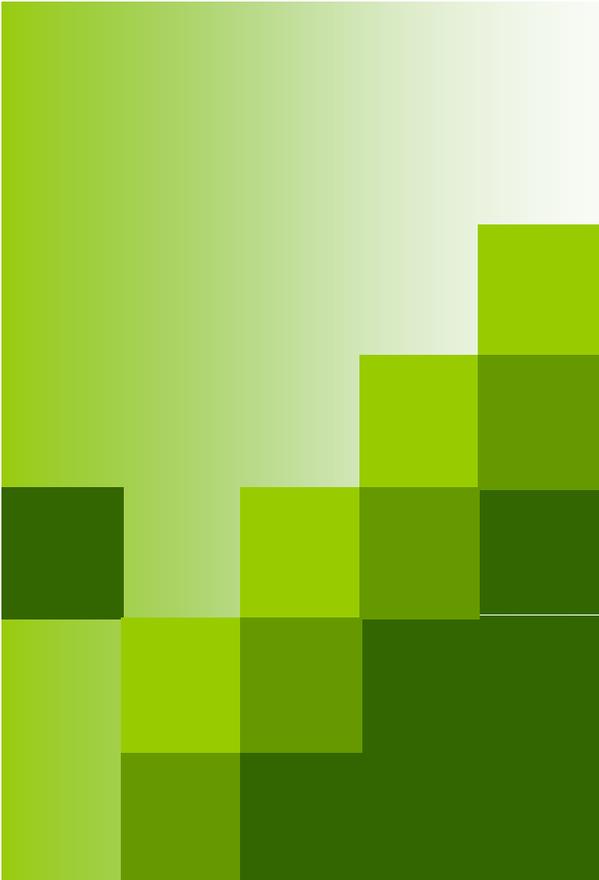
Thomas Motley, CFA

Tom is a Managing Director of State Street Global Advisors and Head of US Cash Management. In addition to heading US Cash Management, Tom is a Senior Portfolio Manager, responsible for managing various Cash and Securities Lending investment vehicles. Tom's responsibilities as Desk Head entails overseeing a team of 10 portfolio managers, with responsibility for approximately 100 investment portfolios and over \$400 billion in assets under management. Tom is also a member of SSgA's Senior Management Group.

Tom joined State Street Global advisors in 1997 as a Fixed Income Portfolio Manager and co-headed the Asset Backed Securities acquisition team. Prior to joining SSgA, Tom spent 14 years at Citicorp Securities, Inc. in New York where he was a Vice President on the Fixed Income Sales desk. He started his career as a Money Market Salesperson at Lombard-Wall, Inc.

Tom graduated from Stonehill College with a BS in Finance and Economics. Additionally, he has earned the Chartered Financial Analyst designation.

TAB 8 – ASSET/LIABILITY STUDY RETURN ASSUMPTIONS



OREGON PUBLIC EMPLOYEES RETIREMENT FUND

ASSET/LIABILITY DISCUSSION: PHASE TWO

FEBRUARY 24, 2010

STRATEGIC INVESTMENT SOLUTIONS, INC.

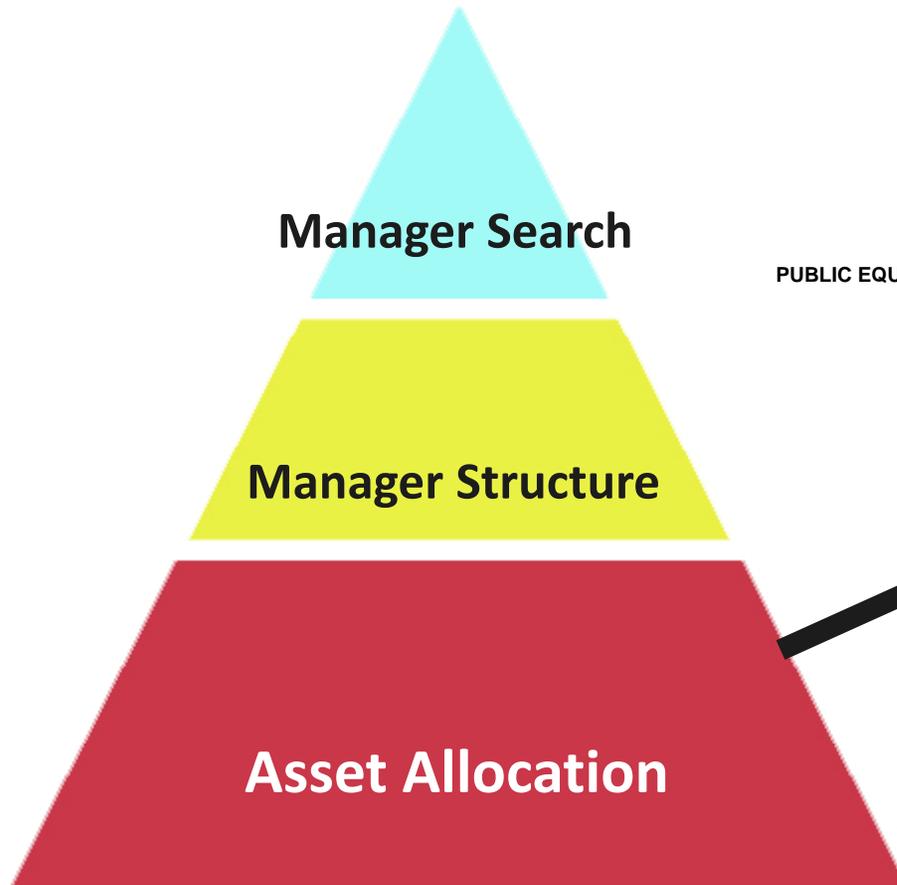
333 Bush Street, Suite 2000
San Francisco, CA 94104
(415) 362-3484

Michael R. Beasley
Managing Director

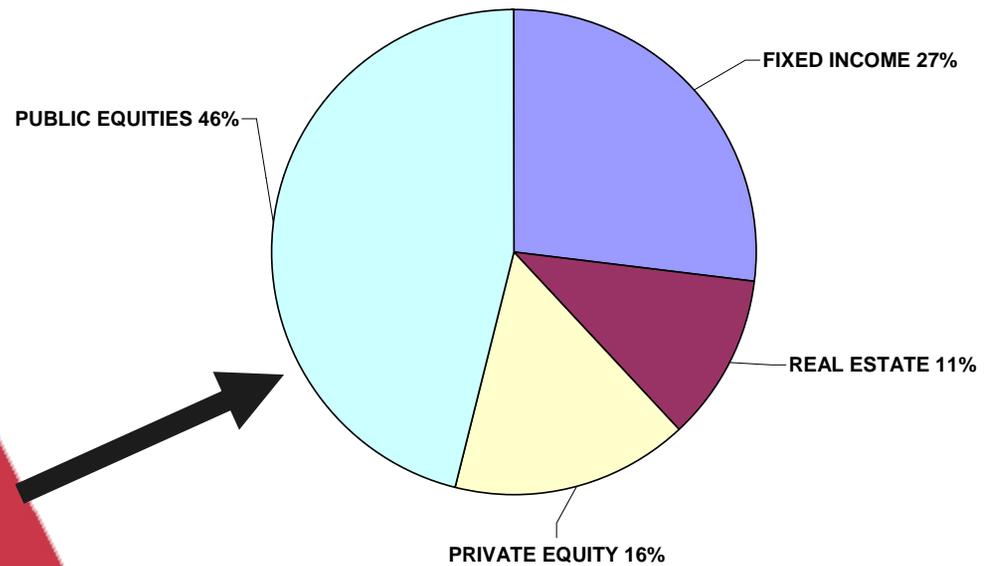
John P. Meier, CFA
Managing Director



Asset Allocation

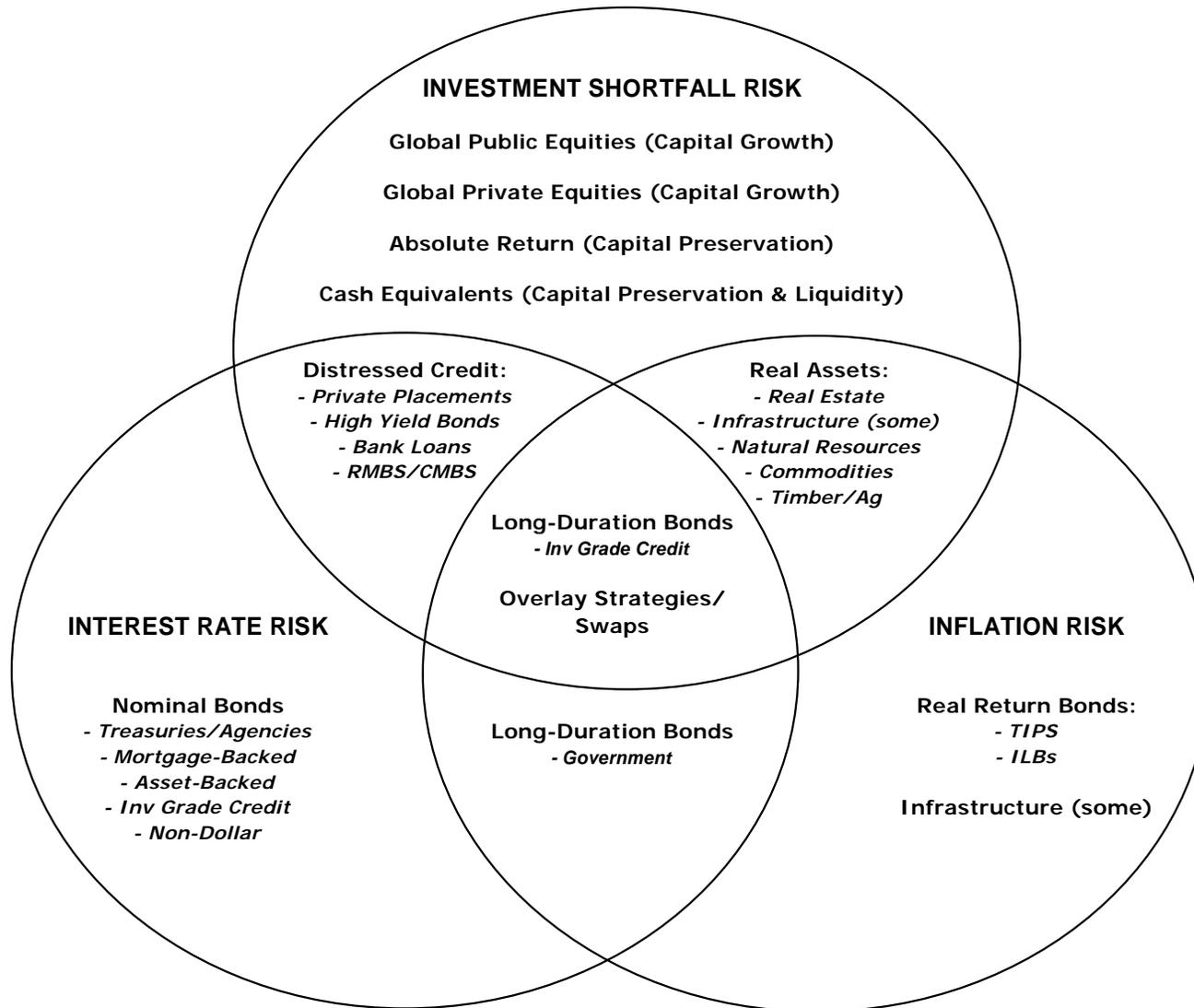


Plan's Strategic Foundation



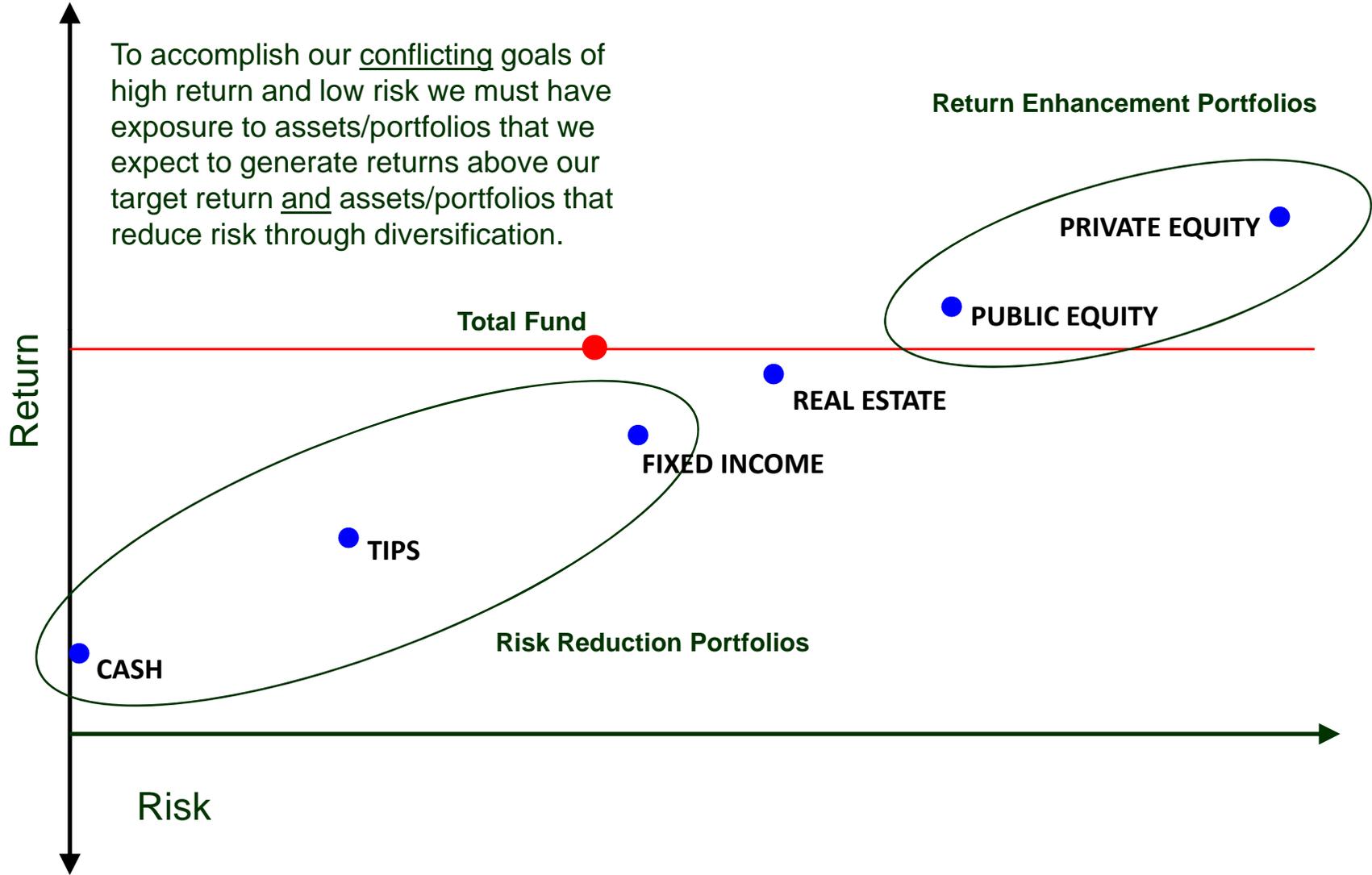


Asset Allocation: Role in Hedging Risks





Asset Allocation Example





Primary Asset Class Assumptions (February 2010)

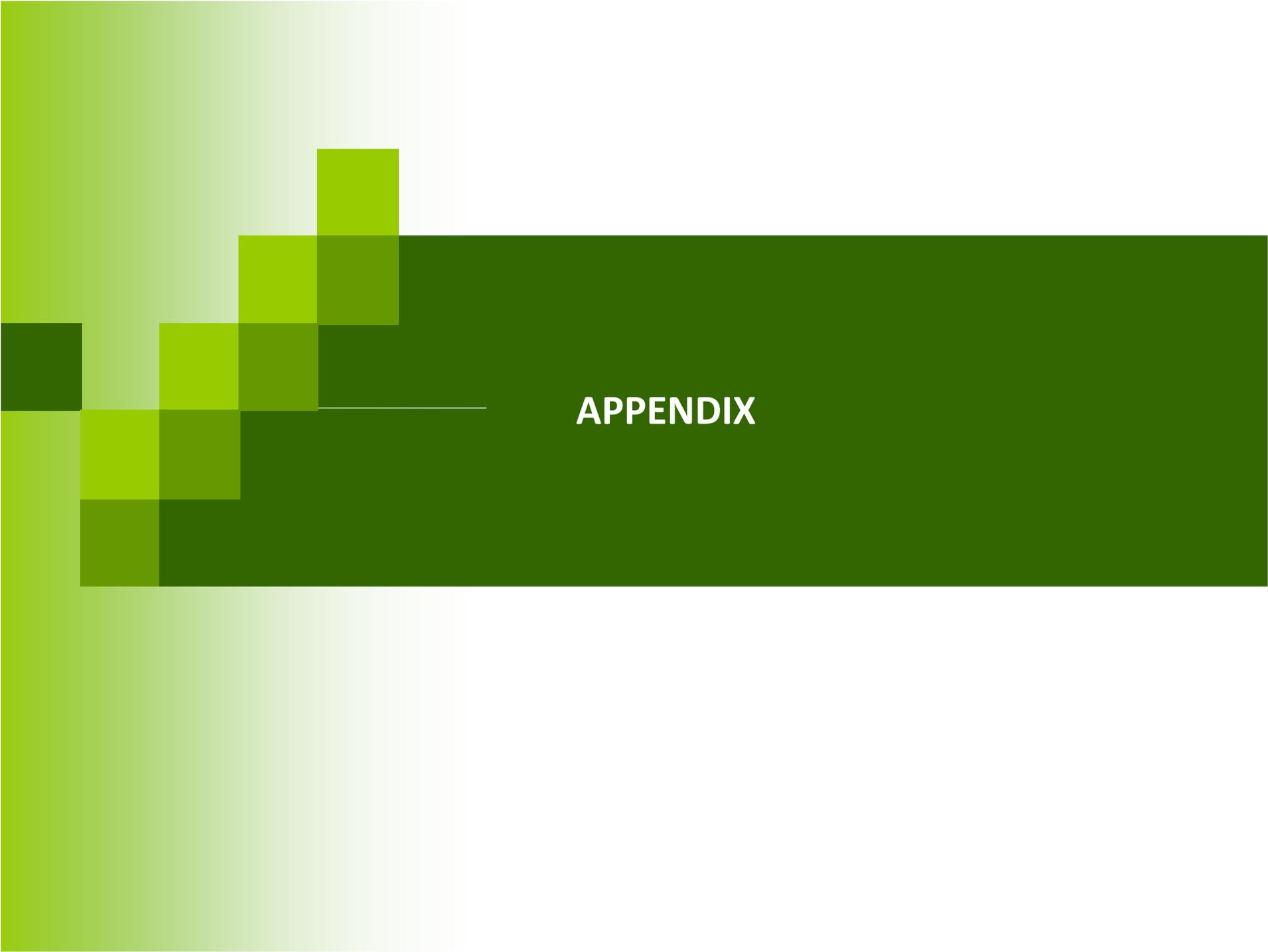
	RANGE	EXP. RETURN	EXP. RISK	CURRENT TARGET
PUBLIC EQUITY	41-51%	9.0%	17.1%	46%
FIXED INCOME	22-32%	4.3%	4.6%	27%
PRIVATE EQUITY	12-20%	11.0%	35.0%	16%
REAL ESTATE	8-14%	6.5%	15.0%	11%
TIPS	--	4.0%	5.0%	0%
CASH	0-3%	3.0%	1.3%	0%
TOTAL		8.57%	14.2%	100%

Using current SIS capital markets expectations (*see Appendix*).

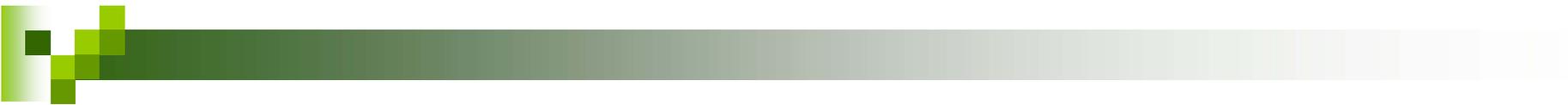


Scenarios

- Current policy target optimization
- Current policy target adding TIPs
- Current policy targets adjusting returns and risks based upon various economic environments
- Range of policy targets using custom benchmarks to reflect actual implementation risk adding TIPs and Opportunity Portfolio
- Other scenarios to be determined



APPENDIX



Defining Risk

- The basic definition of investment risk is variability of return. The alternative policies, or “asset mixes,” examined here are built to minimize this variability given an expected level of return over a long period of time. These mixes we call efficient. The method used to build them is an improved version of standard mean-variance optimization. The probabilities of continuously compounded returns to each asset class are assumed to approximate a bell shaped curve, or normal distribution. In other words, returns are random, and returns near the expected average are more likely than extreme returns. The likelihood of extreme returns is expressed as standard deviation. The probability of a particular asset-class return depends on the returns provided by every other asset class; this interdependence is expressed as correlation. Thus asset-class return expectations are commonly presented as three sets of numbers: mean returns, standard deviations, and correlations.



SIS Capital Markets Expectation Methodology

Fixed Income	Yield to Worst on Aggregate Index (compare to historic bond risk premium); adjusted for OPERF's duration target and unique sector allocations
Inflation	Consensus of economists' forecasts, TIPS
US Large Cap	CAPM, 3% to 6% equity premium, macroeconomic DDM
Cash	Inflation + 1% to 2% premium
US Small Cap	CAPM, (beta of ~1.2)
Private Equity	CAPM, (beta of ~1.6); adjusted for OPERF
International Equity	Weighted sum of local market premium + local risk free rate; composition is World ex-US
Emerging Mkt Equity	Weighted sum of local market premium + local risk free rate; composition is Emerging Markets
Real Estate	Historical behavior of equity REITs; current appraisal cap rates; CAPM; adjusted for OPERF's leverage policy
Absolute Return	Expected net premium to LIBOR (2-4%); 0.30 Sharpe Ratio
High Yield FI	Historical ratio: spread of High Yield over US Fixed Income divided by spread of Large Cap over US Fixed Income
TIPs*	Current real yield on Barclay's US TIPs Index plus SIS inflation expectation

* See Appendix for Glossary of Terms



SIS Capital Market Assumptions

- Strategic Purpose - Horizon = 2 to 3 Market Cycles
- Based on Capital Asset Pricing Model (CAPM*) — Investor Must Be Compensated for Taking Higher Risk
- Economic Growth Forecasts
- Stay Within Long-Term Real Return Corridors, Combined with Mean Reversion*
- Qualitative Overlay — Expectations Must Produce Reasonable Portfolios and a “Stable Frontier”
- Data Sources/Return
 - Complete Monthly Return History
 - Blue Chip Economic Forecast (Inflation, GDP Growth Estimates)
 - Wall Street Forecasts
 - Global Manager Forecasts
 - CAPM (For “Difficult” Asset Classes)
- Correlations* — Most Stable (90-Month Half-Life, 1985 to Present)
- Risks — Fairly Stable (Two Factor Model*; Historical 1976 to present, Half-Life 1985 to Present)

* See Appendix for Glossary of Terms



SIS Capital Market Expectations (10/30/2009)

ASSET CLASS	EXPECTED RETURN	EXPECTED RISK	SHARPE RATIO
US EQUITY	8.5%	17.0%	0.324
CORE FIXED INCOME	4.0%	4.5%	0.222
INTERNATIONAL EQUITY	8.5%	17.5%	0.314
EMERGING MARKET EQUITY	9.2%	30.0%	0.207
INTERNATIONAL BONDS	4.1%	10.0%	0.110
CORE REAL ESTATE	6.5%	15.0%	0.233
PRIVATE MARKETS	11.0%	35.0%	0.229
HEDGE FUNDS	6.0%	10.0%	0.300
HIGH YIELD FIXED INCOME	6.4%	11.0%	0.309
EMERGING MARKET DEBT	5.7%	12.5%	0.216
CASH EQUIVALENTS	3.0%	1.3%	0.000
US TIPS	4.0%	5.0%	0.200
COMMODITIES	7.0%	28.0%	0.143

Expected Risk or Standard Deviation of US Equity implies 8.5% \pm 17% or a range of +25.5% to -8.5%; Core Fixed Income +8.5% to -0.5%, etc.

Sharpe Ratio* = Excess Return (or Risk Premium) per unit of Risk.

* See Appendix for Glossary of Terms

SIS Capital Market Expectations (10/30/2009)

ASSET	US Equity	US Fixed	Intl Stock	EM Stock	Intl Bond	Real Est	Pvt Mkts	HF	HY FI	EM Debt	Cash	TIPS	Com mod	Inflati on
US Lrg Cap	1.00													
US Fixed	0.80	1.00												
Intl Stock	0.11	0.04	1.00											
EM Stock	0.77	0.71	0.02	1.00										
Intl Bond	0.60	0.66	0.00	0.71	1.00									
Real Est	0.07	0.00	0.42	0.21	0.09	1.00								
Pvt Markets	0.50	0.55	0.10	0.50	0.40	0.00	1.00							
Abs Ret	0.63	0.63	0.00	0.52	0.53	0.00	0.40	1.00						
High Yield	0.65	0.61	0.25	0.63	0.52	0.02	0.39	0.46	1.00					
EM Debt	0.67	0.71	0.28	0.62	0.53	0.33	0.64	0.36	0.42	1.00				
Cash	0.41	0.55	0.15	0.32	0.37	0.28	0.47	0.32	0.52	0.49	1.00			
TIPS	0.03	0.03	0.35	0.03	0.06	0.29	0.20	-0.13	0.25	0.18	0.17	1.00		
Commod	0.20	0.10	0.42	0.18	0.04	-0.10	0.06	0.17	0.47	0.11	0.02	0.14	1.00	
Inflation	0.58	0.57	0.00	0.63	0.68	0.10	0.39	0.54	0.41	0.31	0.38	0.24	0.14	1.00

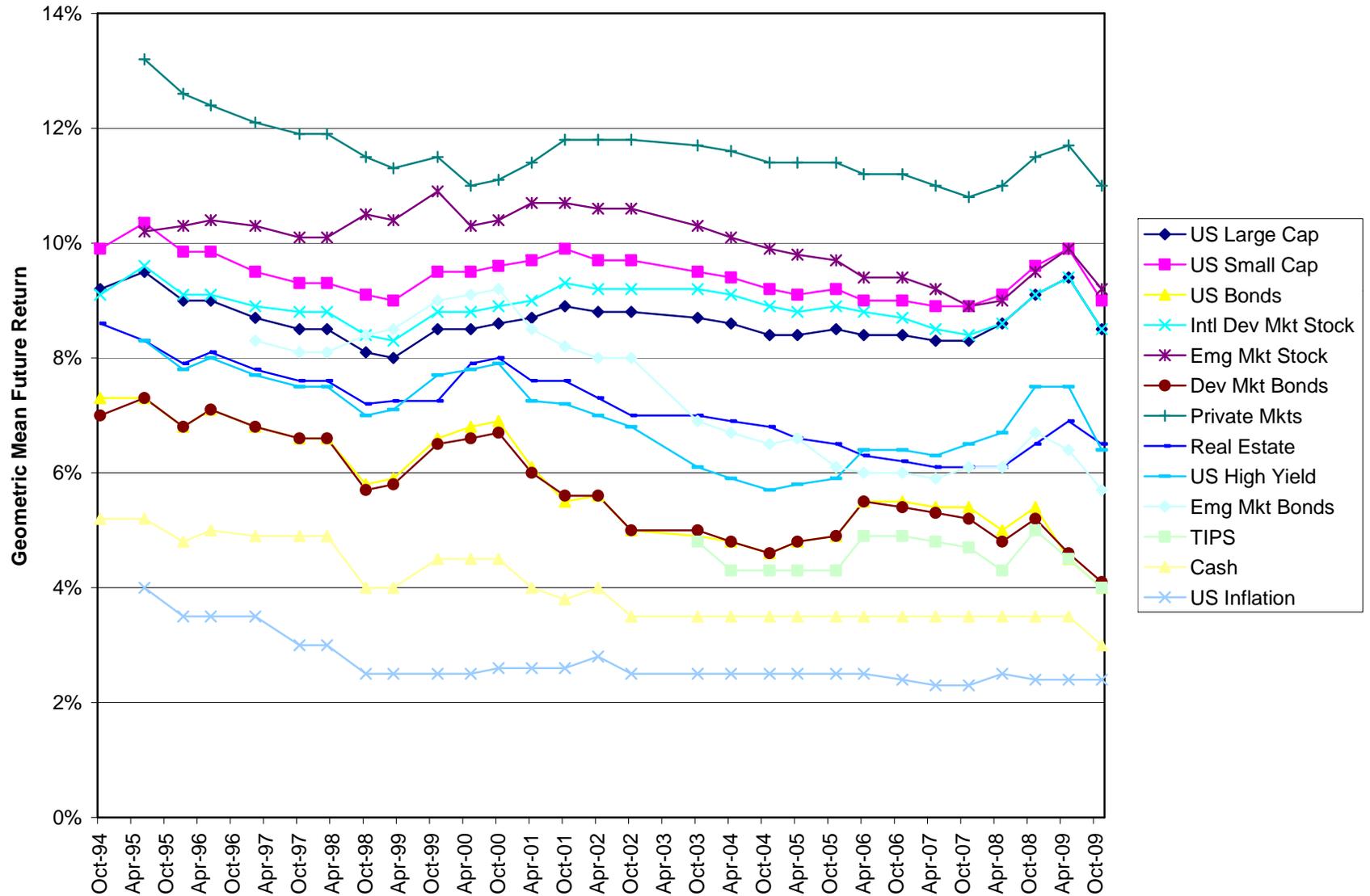


History of Key Relationships





Expected Returns





Professional Biographies

- **MICHAEL R. BEASLEY**. *Managing Director*. Co-founded Strategic Investment Solutions, Inc. (SIS) with Barry Dennis in 1994. Former EVP and Head of Consulting of Callan Associates, which he joined in 1986 and left in 1993. Founded Callan's Atlanta Office in 1986 and concurrently managed its New York Office in 1988. Served as Chairman of Callan's Manager Search Committee for two years. Brings 30 years of consulting and institutional investment experience to SIS. Prior experience includes 13 years with Merrill Lynch's Capital Markets Group in Jacksonville and Atlanta. Former Editorial Board member of the *Journal of Pension Plan Investing*. Frequent speaker on institutional investment issues. Graduate of the New Mexico Military Institute and an officer of the U.S. Army for five years that included a combat tour of duty in Vietnam.
- **JOHN P. MEIER, CFA**. *Managing Director and Head of Quantitative Services*. Highly experienced specialist in strategic planning, capital markets analysis, and quantitative investment strategies. A leading authority in the fields of performance benchmarking and portfolio performance attribution, whose ideas have been published in *Pensions and Investments*, *Futures*, *Risk* and *Quantitative International Investing*. Senior Product Manager at BARRA from 1988 to 1994, responsible for equity risk and valuation models and services. B.S. in Chem. Eng. From Michigan State, MBA in Finance from UC Berkeley.
- **MARC GESELL, CFA**. *Vice President*. Quantitative analysis, statistical research, and systems development specialist responsible for strategic planning. Seven years experience in software R&D, asset allocation modeling, and investment analysis. Most recently AVP and portfolio manager for First Interstate Bank (now Wells Fargo), responsible for managing \$200 million in private client portfolios. Helped establish clients' strategic plans, investment objectives, asset allocation mixes, and portfolio structure. B.S. in Computational Mathematics, Arizona State University, MBA in Finance, San Francisco State University, Chartered Financial Analyst. Former Officer, United State Army.
- **LOUIS KINGSLAND, JR.** *Adviser and Chair, Investment Policy Committee*. Developed first commercially available asset allocation and liability simulation model and asset mix optimizer, both still widely used today. Most recently EVP of Mellon Capital Management. Graduate, Air Force Academy. MA in Engineering, CalTech. Served as Deputy Mission Director of The Viking Space Project, and received a Distinguished Service Medal from NASA.

Definitions

STRATEGIC ASSET ALLOCATION

The discipline used to determine which assets and what proportion among those assets meet an investor's cash flow requirements, planning horizon, and attitude toward risk.

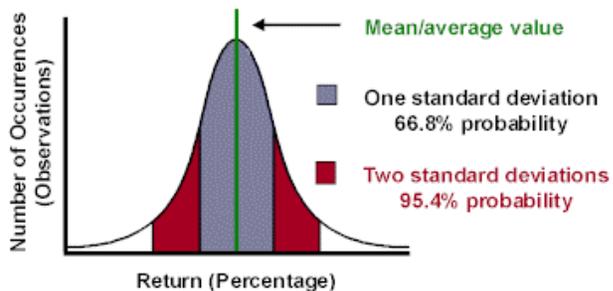
EXPECTED RATE OF RETURN

The expected value or mean of a probability distribution of returns. In our case, the expected return is the compounded annual return which is the same as the geometric mean. After tax expected return nets out the expected income and capital gains taxes paid by the trust.

STANDARD DEVIATION

A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The square root of the **variance**. When returns are normally distributed, an individual return will fall within one standard deviation of the mean about two-thirds of the time. For example, if a portfolio had an expected return of 5% and an expected risk (standard deviation) of 13, then:

Risk Measurement
Probability of Dispersion
Above or Below the Mean/Average



One Standard Deviation 68% of the time, returns can be expected to fall between -8.0% and +18%

Two Standard Deviations 95% of the time, returns can be expected to fall between -21% and +31%

Standard deviation is a useful historical measure of the variability of return earned by an investment portfolio. In performance measurement, it is generally assumed that a larger degree of dispersion implies that greater risk was taken to achieve the return.

Definitions

CORRELATION COEFFICIENT

Correlation Coefficient
Shows Strength & Direction of Correlation



Correlation coefficient (r) is a measure of the degree of **correlation** between two quantities or variables, such as the rates of return on stocks and on bonds. A negative coefficient of correlation indicates an inverse or negative relationship, whereas a positive value indicates a direct or positive relationship. The range of values is from -1 to +1 inclusive. A zero (0) value indicates that no correlation exists. Correlation coefficients are useful in **asset class** identification and portfolio **diversification**.



Glossary of Terms

- **Asset Allocation** – (1) The way investments are distributed and weighted among different asset classes. (2) The distribution of investments among categories of assets, such as equities, fixed income, cash equivalents, and real estate.
- **CAPM** – Capital Asset Pricing Model. A system of equations that describes the way prices of individual assets are determined in efficient markets, that is, in markets where information is freely available and reflected instantaneously in asset prices. According to this model, prices are determined in such a way that risk premiums are proportional to systematic risk, measured by the beta coefficient, which cannot be eliminated by diversification. CAPM provides an explicit expression of the expected returns for all assets. Basically, the model holds that if investors are risk averse, high-risk stocks must have higher expected returns than low-risk stocks. CAPM maintains that the expected return of a security or a portfolio is equal to the rate on a risk-free investment plus a risk premium.
- **Correlation** – A relationship between two quantities, such that when one changes, the other does. A measure (ranging in value from 1.00 to -1.00) of the association between a dependent variable (fund, portfolio) and one or more independent variables (index). Correlation is a measure, not necessarily of causality, but rather of the strength of a relationship. A correlation coefficient of 1.00 implies that the variables move perfectly in lockstep; a correlation coefficient of -1.00 implies that they move inversely in lockstep; and a coefficient of 0.00 implies that the variables as calibrated are uncorrelated.
- **Efficient Frontier** – A set of optimal portfolios, one for each level of expected return, with minimum risk.
- **Expected Return** -- Estimate of the return of an investment or portfolio from a probability distribution curve of all possible rates of return; statistically, it is the mean (ether geometric mean or arithmetic mean) of the distribution or the "most likely" outcome.
- **Factor Model** – Regression-based mathematical calculation used to determine the extent to which macroeconomic factors or other explanatory variables affect the value or price movement of a specific security or portfolio.



Glossary of Terms

- **Geometric Return** – Similar to the arithmetic mean, which is what most people think of with the word "average", except that instead of adding the set of returns and then dividing the sum by the number of return observations (N), the numbers are multiplied and then the Nth root of the resulting product is taken. Also known as compound return.
- **Mean Reversion** – Statistical phenomenon stating that the greater the deviation of a given observation (e.g. a quarterly or annual return) from its mean, the greater the probability that the next measured observation will deviate less far. In other words, an extreme event is likely to be followed by a less extreme event.
- **Monte Carlo Simulation** – Uses stochastic processes to simulate the various sources of uncertainty that affect the value of the instrument, portfolio or investment in question, and calculates a representative value or distribution of possible outcomes given the simulated values of the underlying inputs.
- **Optimization** – Process of determining the portfolio composition such that expected return is maximized for a given risk level, or risk is minimized for a given expected return level. Other optimizations could target risk of shortfall, maximization of Sharpe ratio, or minimization of tracking error.
- **Sharpe Ratio** – A ratio of return to volatility, useful in comparing two portfolios or stocks in terms of risk-adjusted return. The higher the Sharpe Ratio, the more sufficient are returns for each unit of risk. It is calculated by first subtracting the risk free rate from the return of the portfolio, then dividing by the standard deviation of the portfolio.
- **Treasury Inflation-Protected Securities (TIPS)** – Inflation-indexed bonds issued by the U.S. Treasury. The principal is adjusted to the Consumer Price Index (CPI), the commonly used measure of inflation. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal, thus protecting the holder against inflation. TIPS are currently offered in 5-year, 10-year and 20-year maturities. Beginning in February 2010, the U.S. Treasury will once again offer 30-year TIPS bonds.

TAB 9 – OPERF 4TH QUARTER PERFORMANCE REPORT

State of Oregon

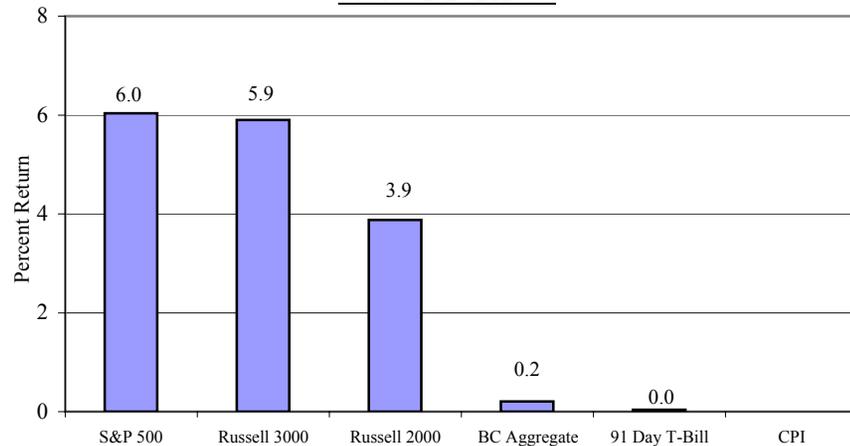
OPERF Performance Summary

Quarter Ending December 31, 2009

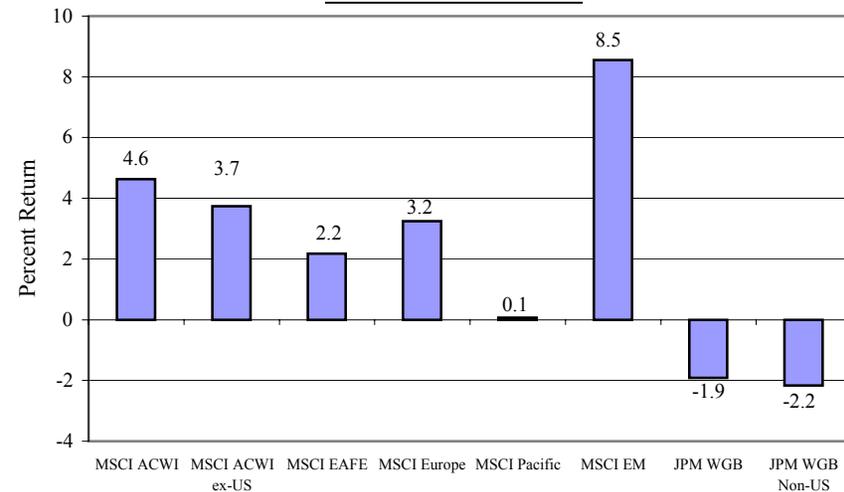
Capital Markets Review

Q4 2009

U.S. Markets



Global Markets



General Comments

The fourth quarter of 2009 closed on a positive note as equity markets worldwide rose between two and nine percent. In the U.S. the S&P500 gained 6.0% in the quarter and the NASDAQ added 6.9%. Meanwhile, international markets showed mixed gains with the developed markets adding around two percent, and the emerging markets rising between 8% and 9%.

After contracting sharply in the first half of the year, U.S. GDP climbed 2.2% in the third quarter and another 5.7% (preliminary report) in the fourth quarter. Caution was advised, however, as most of the growth was attributed to unprecedented government stimulus programs. Adding to the caution was the employment picture as the unemployment rate topped 10% for the first time in 26 years in October and remained there through December. In addition, 310,000 jobs were lost over the fourth quarter.

Core Inflation remained subdued in the quarter, leading Fed policymakers to continue to maintain the Fed Funds rate within a target range of 0.00% - 0.25%. Meanwhile Commodity prices rallied in the quarter as crude oil futures settled above \$80/barrel and gold topped \$1,100/ounce. Increases in commodity prices were driven in part by further weakening of the US Dollar, which has declined 12% since hitting a 5-year peak in March.

Budgetary concerns grew in the quarter as the Congressional Budget Office announced a record high deficit in October of \$1.4 Trillion, or 9.9% of the GDP. This was the highest shortfall relative to the overall economy since 1945. Adding to the outlook for a continued deficit was the extension of the Troubled Assets Relief Program (TARP) into 2010. Although most of the larger banks have paid off their TARP loans, many of the smaller regional banks have not and now there is talk of expanding the program to cover small businesses.

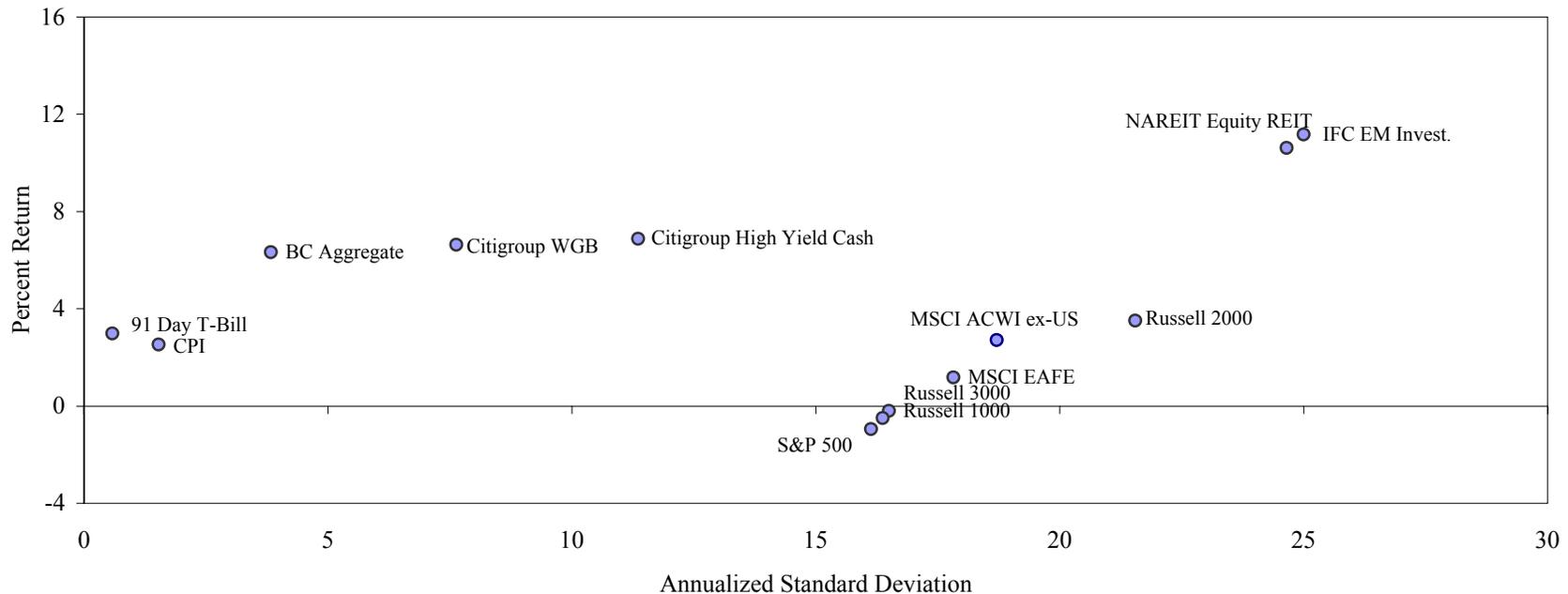
There were also bullish signs in the quarter in the form of positive surprises in retail sales and auto sales, despite the end of the "cash for clunkers" program. Sales of existing homes were also robust as first time home buyers rushed to take advantage of the tax credit. On the other hand, sales of new homes remained flat, but, the outlook was positive as the inventory of new homes reached its lowest level since 1971. Finally, the State Street Investor confidence "index" rose for the first time in December after 4 months of decline. The index measures investor confidence by analyzing buying and selling patterns of institutional investors.

Capital Markets Review

Q4 2009

Total Returns in US\$	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years	10 Year Std. Dev.
91 Day T-Bill	0.04	0.21	0.21	2.40	3.02	2.99	4.14	0.58
BC Aggregate	0.20	5.93	5.93	6.04	4.97	6.33	7.01	3.83
Citigroup High Yield Cash	5.79	53.15	53.15	5.51	6.02	6.88		11.36
Citigroup World Gov't Bond	-1.93	2.55	2.55	8.06	4.51	6.63	7.33	7.63
S&P 500	6.04	26.46	26.46	-5.63	0.42	-0.95	8.21	16.13
Russell 3000	5.90	28.34	28.34	-5.42	0.76	-0.20	8.37	16.50
Russell 1000	6.07	28.43	28.43	-5.36	0.79	-0.49	8.42	16.37
Russell 2000	3.87	27.16	27.16	-6.07	0.51	3.51	8.34	21.55
MSCI ACWI ex-US	3.74	41.45	41.45	-3.49	5.83	2.71		18.71
MSCI EAFE	2.18	31.78	31.78	-6.04	3.54	1.17	4.05	17.82
IFC EM Investable	8.68	81.03	81.03	5.52	16.50	11.17	10.33	25.00
Nareit Equity REIT	9.39	28.00	28.00	-12.41	0.35	10.61	9.87	24.65
CPI	-0.01	2.73	2.73	2.29	2.57	2.53	2.73	1.53

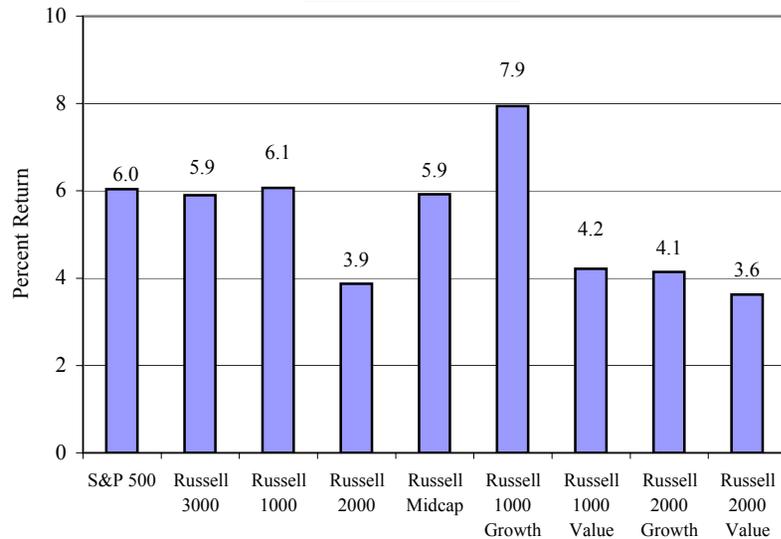
Risk vs. Return - 10 Years



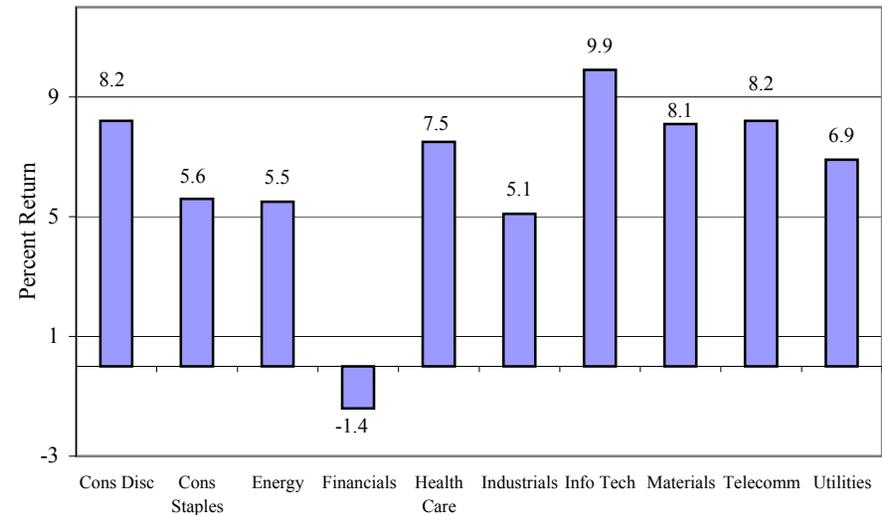
U.S. Equity Market Review

Q4 2009

U.S. Markets



Economic Sector Performance



U. S. Equity Market

All of the major U.S. equity indices recorded further gains in the fourth quarter led by the Dow Jones Index which rose 8.1% and passed 10,000 for the first time since October 2008. Since the trough in early March, the three major U.S. indices -- Dow Jones, S&P500, and the NASDAQ -- have returned over 50%.

With respect to market capitalization ranges, among the Russell indices, the large-cap 1000 index returned 6.1% in the quarter to outperform the small-cap 2000 index, which gained 3.9%. The Russell Midcap index meanwhile rose 5.9%. Along the style lines, the growth components of the Russell indices topped the value components, by 3.7% among large-cap stocks, and 0.5% in the small-cap range.

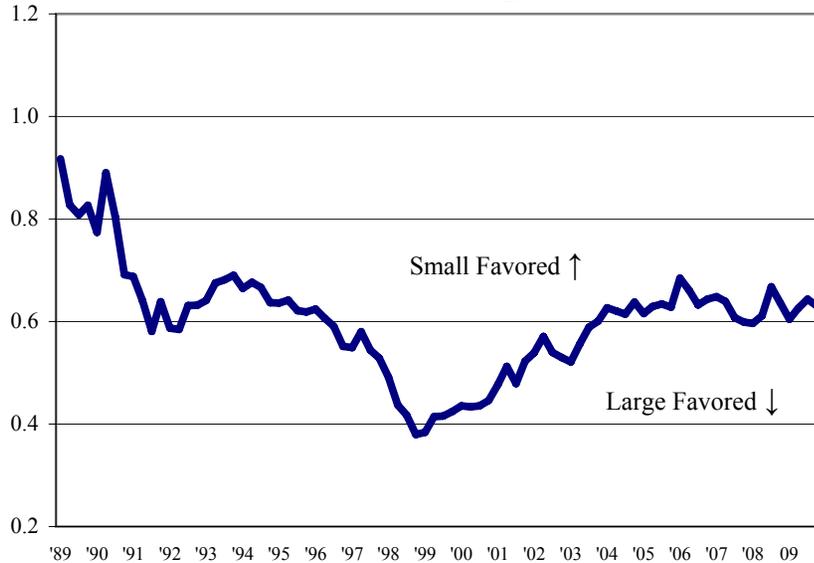
For the year 2009, the Russell 1000 gained 28.4% to slightly outperform the smaller 2000 index, which returned 27.2%. However, it was the Russell Midcap index that topped both the large- and small-cap indices, with a one-year return of 40.5%. The style trends continued in the one-year returns with the Russell 1000 Growth index returning 37.2% and the 2000 Growth index posting a 34.5% gain. With a return of 46.3%, the Russell Midcap Growth index outperformed its value counterpart by a margin of 12.1%.

Across the Russell 3000 Index sectors, Information Technology led the quarterly performances with a return of 9.9% followed by Consumer Discretionary and Telecom, both at 8.2%, and Materials at 8.1%. The Financials sector declined in the quarter by 1.4%. Over the trailing 12 months, Information Technology also topped all sectors with a return of 61.8% followed by Materials at 52.5%. The Telecom and Utilities sectors displayed the smallest advances with returns of 13.3% and 13.6%, respectively.

U.S. Equity Market Review

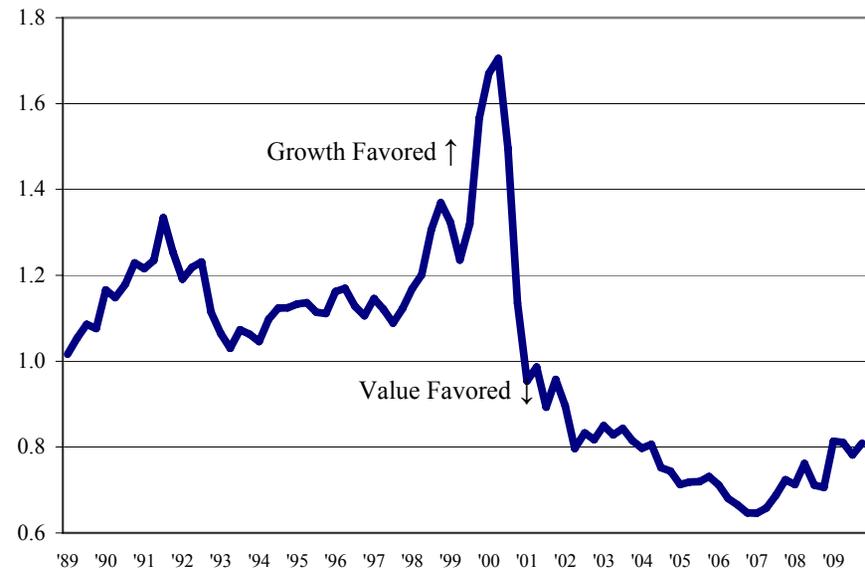
Q4 2009

Small vs. Large



Cumulative return of the Russell 2000 versus the Russell 1000

Growth vs. Value



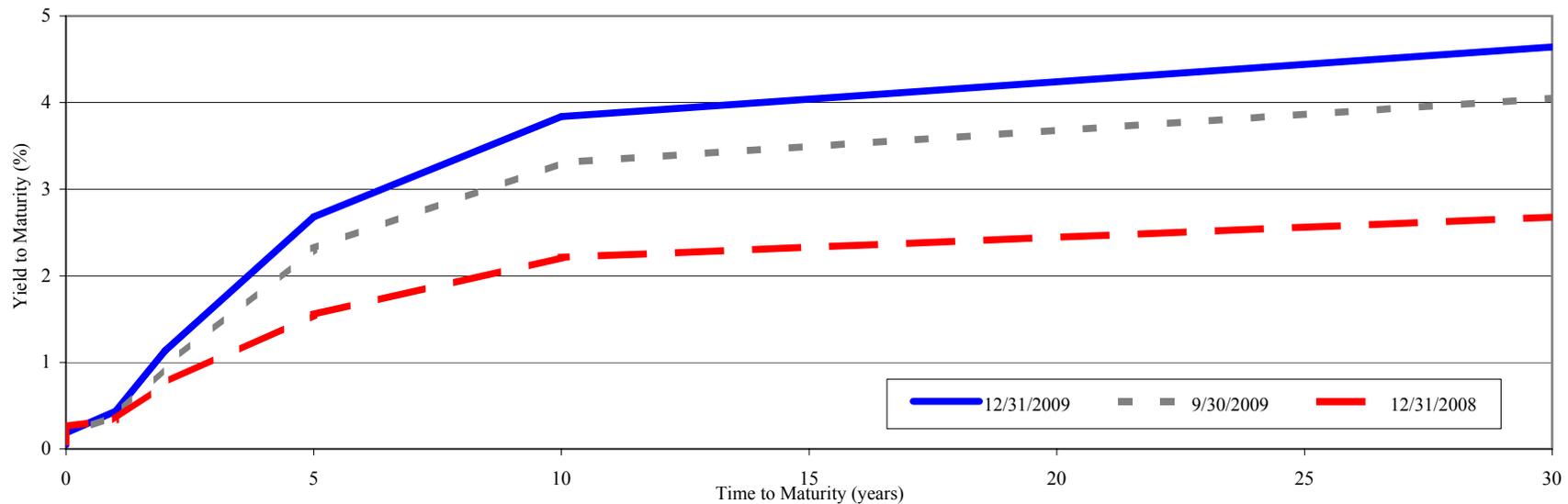
Cumulative return of the Russell 1000 Growth versus the Russell 1000 Value

Total Returns	Quarter	Year	1	3	5	10	20
		to Date	Year	Years	Years	Years	Years
S&P 500	6.04	26.46	26.46	-5.63	0.42	-0.95	8.21
Russell 3000	5.90	28.34	28.34	-5.42	0.76	-0.20	8.37
Russell 1000	6.07	28.43	28.43	-5.36	0.79	-0.49	8.42
Russell 2000	3.87	27.16	27.16	-6.07	0.51	3.51	8.34
Russell Midcap	5.92	40.48	40.48	-4.59	2.43	4.98	10.31
Russell 1000 Growth	7.94	37.21	37.21	-1.89	1.63	-3.99	7.48
Russell 1000 Value	4.22	19.69	19.69	-8.96	-0.25	2.47	8.84
Russell 2000 Growth	4.14	34.47	34.47	-4.00	0.87	-1.37	5.81
Russell 2000 Value	3.63	20.57	20.57	-8.22	-0.01	8.27	10.34

U.S. Fixed Income Market Review

Q4 2009

Treasury Yield Curve



U. S. Fixed Income Market

In general the broader indices outperformed the Government/Credit index as securitized and high yield instruments posted positive gains in the quarter while Treasuries were generally negative. The BC Universal index returned 0.6% in the fourth quarter, followed by the BC Aggregate Index at 0.2%, while the BC Govt/Credit Index fell 0.2%.

Treasury yields, which had dipped in November, rebounded strongly in December shifting the yield curve up sharply and wiping out any gains for the quarter. The yield on the benchmark 10-year Treasury fell to 3.2% on concerns over Dubai and sovereign debt loads. As fears eased and economic indicators brightened, investors fled treasuries and the yield increased to 3.8% by year-end. The BC Treasury Index closed the quarter down 1.3% with T-bills and 2-year treasuries adding between zero and 0.2% and 30-Year Treasuries closing down 8.5% in the quarter.

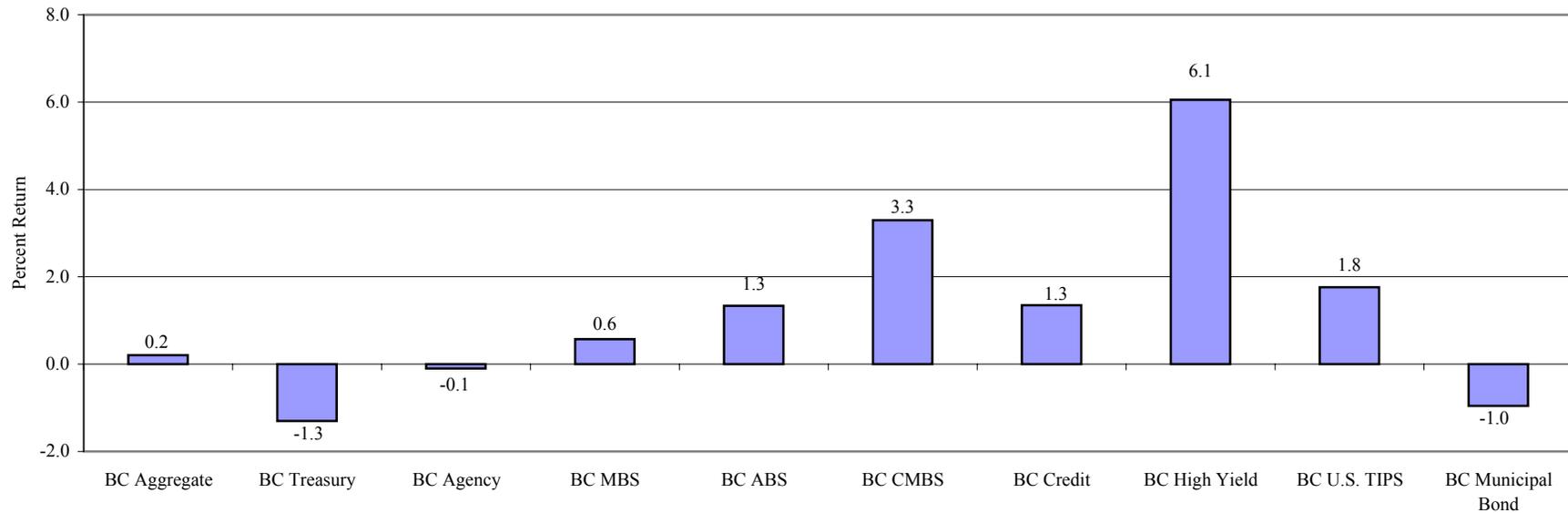
Within the securitized sector, agency MBS's offered meager returns in the quarter, rising just 0.6% on average. Investors received slightly better returns from the Asset Backed Securities (+1.3%) and Collateralized Mortgage Backed Securities at 3.3%.

Corporate issues began the quarter yielding 218 basis points more than their Treasury counterparts (as measured by the US Corporate Index), but that spread shrunk as corporate yields did not follow the treasury yields higher. Non-bank financials and media/entertainment and energy were the better performers while aerospace/defense, railroads and consumer non-cyclicals lagged. Higher quality issues generally underperformed lower quality (junk) bonds, and high-yield loans as investors' appetite for risk generally increased in the quarter.

U.S. Fixed Income Market Review

Q4 2009

U.S. Bond Sector Performance



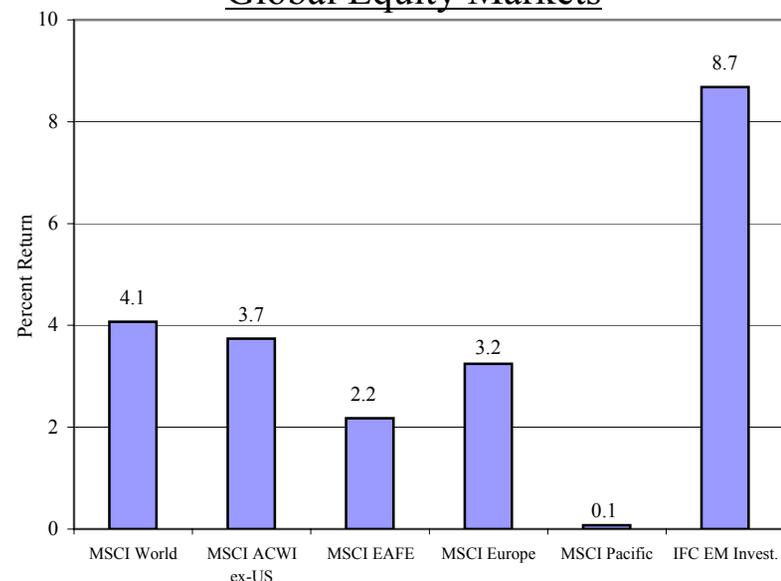
Total Returns	Quarter	Year	1	3	5	10	20
	to Date	to Date	Year	Years	Years	Years	Years
BC Aggregate	0.20	5.93	5.93	6.04	4.97	6.33	7.01
BC Treasury	-1.30	-3.57	-3.57	6.14	4.84	6.15	6.79
BC Agency	-0.10	1.53	1.53	6.18	5.04	6.22	6.95
BC MBS	0.57	5.89	5.89	7.04	5.78	6.46	7.11
BC ABS	1.34	24.72	24.72	3.62	3.53	5.34	
BC CMBS	3.30	28.14	28.14	1.18	2.05	5.70	
BC Credit	1.35	18.68	18.68	5.66	4.58	6.58	7.39
BC High Yield	6.05	57.77	57.77	5.96	6.43	7.07	
BC U.S. TIPS	1.76	11.41	11.41	6.69	4.63	7.69	
BC Municipal Bond	-0.96	12.91	12.91	4.41	4.32	5.75	6.32

Global Equity Market Review

Q4 2009

Total Net Returns in US\$	Year	1	3	5	10	20	
	Quarter to Date	Year	Years	Years	Years	Years	
MSCI World	4.07	29.99	29.99	-5.63	2.01	-0.24	5.43
MSCI ACWI ex-US	3.74	41.45	41.45	-3.49	5.83	2.71	
MSCI EAFE	2.18	31.78	31.78	-6.04	3.54	1.17	4.05
MSCI EAFE Hedged	2.91	25.65	25.65	-7.35	4.22	-0.43	2.95
MSCI Europe	3.24	35.83	35.83	-6.07	3.93	1.98	7.84
MSCI Pacific	0.07	24.18	24.18	-5.97	2.73	-0.55	-0.12
IFC EM Investable	8.68	81.03	81.03	5.52	16.50	11.17	10.33
MSCI UK	6.96	43.30	43.30	-7.08	2.38	1.36	7.61
MSCI Japan	-2.76	6.25	6.25	-10.36	-0.80	-3.67	-2.27

Global Equity Markets



Non-US Equity Markets

The developed international equity markets, which continued their positive trend into the fourth quarter, were led by UK-based stocks, which returned 7.0% in the quarter. Japanese based equity detracted from the performance with a return of -2.8%. For the full year, the heavier-weighted Europe-ex-U.K. region (45.3% of the MSCI EAFE (Net) Index) contributed the bulk of the gain with a return of 32.6%. The Pacific ex-Japan region showed the highest absolute gains with a return of 72.8%.

The top-performing countries included the European nations of Norway (+87.1%) and Sweden (+64.2%) and the Pacific region nations of Australia (+76.4%) and Singapore (+74.0%). While Information Technology led the performance in the U.S., it was the Materials and Consumer Staples sectors that led equities abroad. Along the Style lines, as in the United States, Growth also dominated in the international markets. In the fourth quarter, the EAFE Growth Index outperformed the Value index, 4.2% to 0.3%, respectively. It was a little closer in the emerging markets where Growth, with a return of 8.9%, led Value by 0.7%.

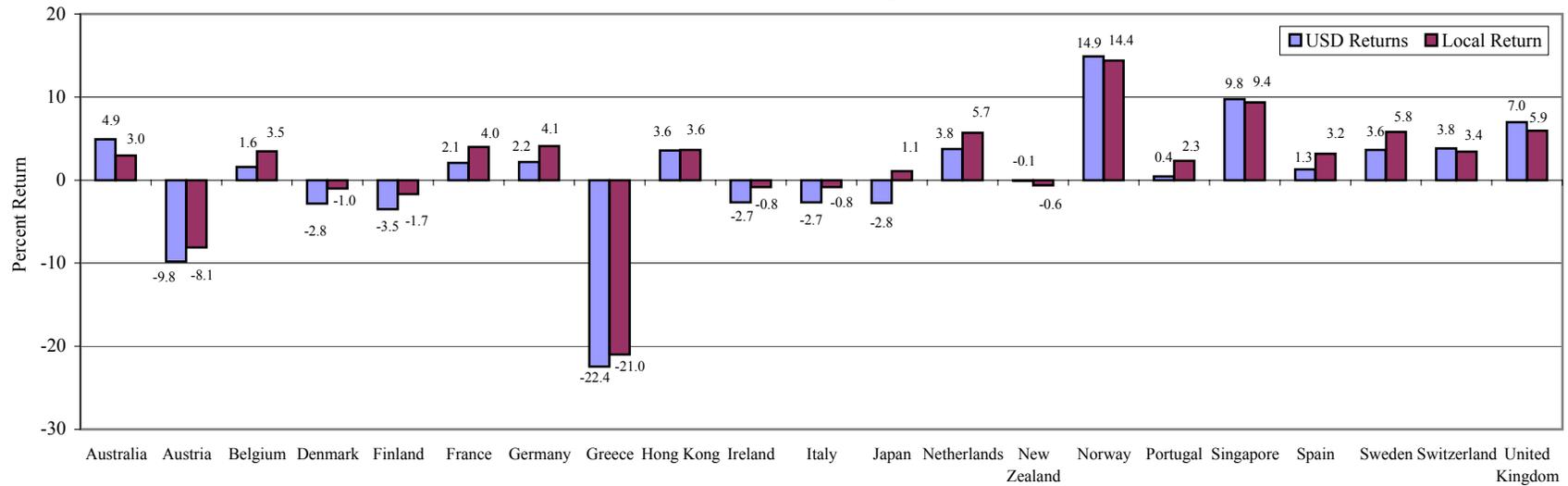
Meanwhile, the emerging markets posted stellar returns for the the year with the MSCI EM (Net) Index up 78.5%, and they also led most markets in the fourth quarter (+8.6%). The strongest contributors as a group were the Asian emerging markets which make up 56.8% of the MSCI EM (Net) Index and returned 6.7% in the quarter and 73.6% for the year. The Latin American countries posted the highest absolute returns, advancing 12.4% in the quarter and 103.8% for the year. Brazil led the way with a return of 128.1% over the year. The other BRIC nations also tended to post the largest gains in their own regions with Russia leading the way with a return of 104.2%; India gained 102.8% and China was up 62.3%.

Against most currencies, the U.S. Dollar appreciated slightly in the fourth quarter, rising 1.6% overall, despite being down 4.2% for the year. The Dollar weakened slightly against the Pound, however, as the Bank of England held key rates at historic lows and expanded its quantitative easing policy. After falling for three straight quarters, the Dollar rallied against the Euro to end the quarter down just 1.6% for the year. Against the Yen, after falling to a 52-week low at the end of November, the Dollar rallied and actually finished the year up 2.1%.

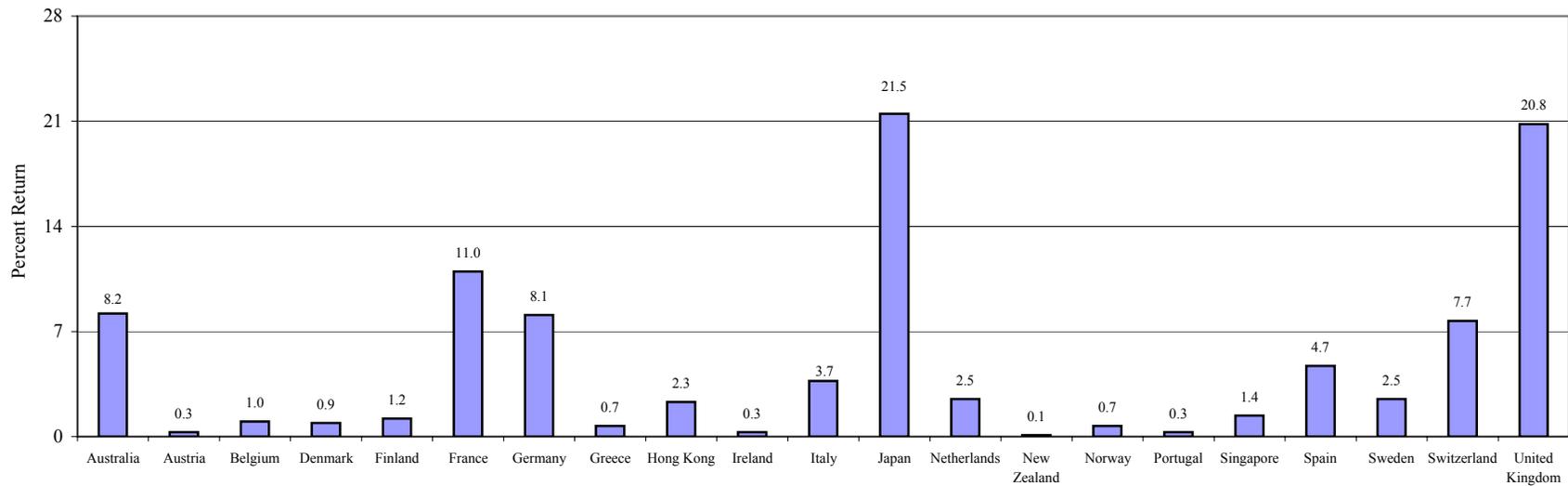
Global Equity Market Review

Q4 2009

MSCI EAFE Country Returns



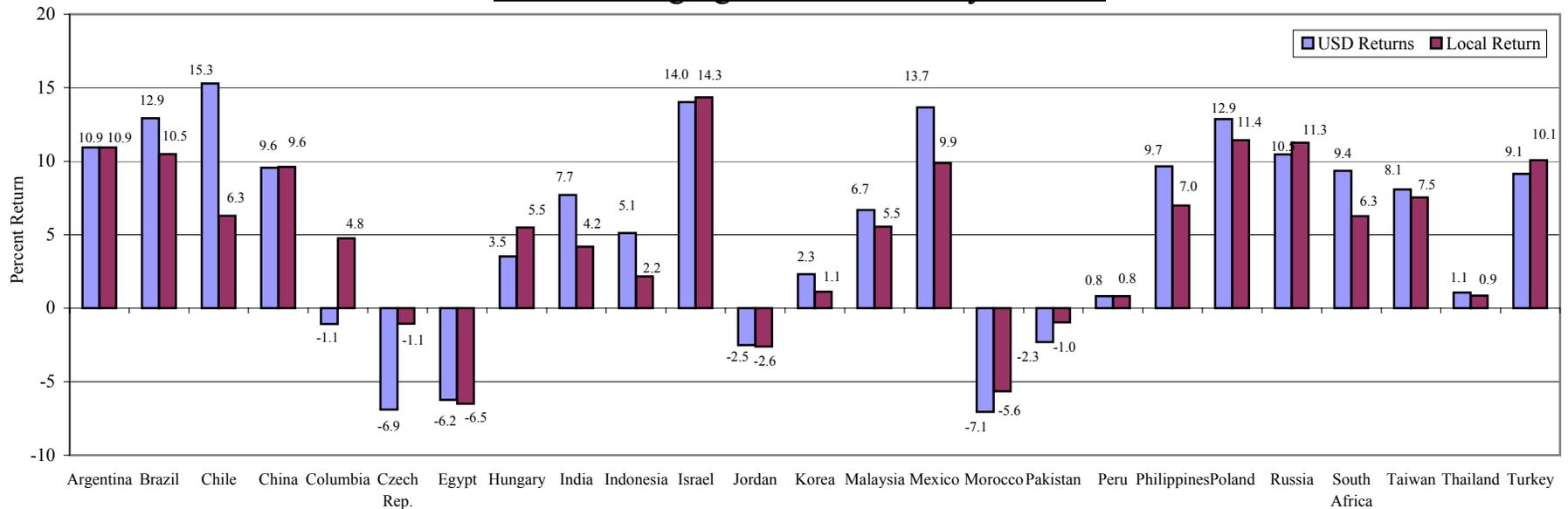
MSCI EAFE Country Weights



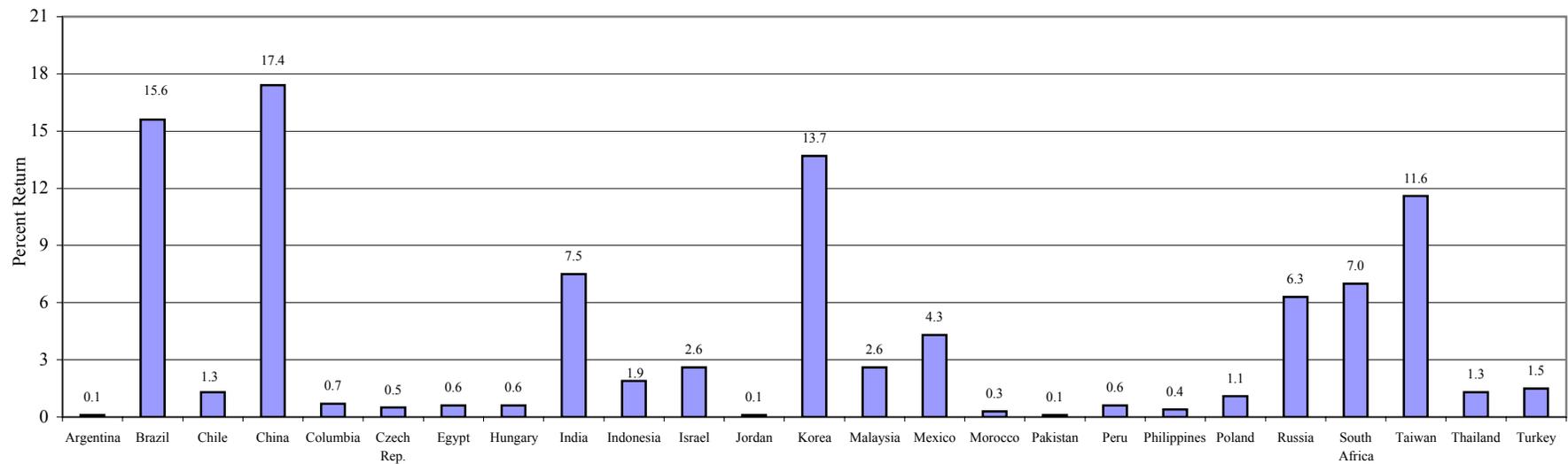
Global Equity Market Review

Q4 2009

MSCI Emerging Markets Country Returns



MSCI Emerging Markets Country Weights



OIC Regular Account Performance Report

Net of Fees

Periods Ending December 31, 2009

	3 Year %	5 Year %	7 Year %	10 Year %
Have returns affected benefit security?				
1. Total Regular Account	-1.48	4.53	8.35	4.42
2. Actuarial discount rate	8.00	8.00	8.00	8.00
3. Out/Under performance (1-2)	-9.48	-3.47	0.35	-3.58
Has plan been rewarded for capital market risk?				
4. Policy Return	-0.59	4.39	8.19	3.85
5. Minimum risk/high cost policy of 91-day T-Bills	2.40	3.02	2.51	2.99
6. Impact of asset mix policy (4-5)	-2.99	1.37	5.68	0.86
Has plan been rewarded for active management risk?				
7. Net active management effect (1-4)	-0.89	0.14	0.16	0.57

State of Oregon
Total Fund Summary
Quarter Ending December 31, 2009

Total Fund:

The Total Regular Account returned 4.91% in the fourth quarter of 2009, slightly outperforming its benchmark, the OPERF Policy Benchmark by 27 basis points. For the year 2009, the Plan gained 19.41%, topping the benchmark by 390 basis points. For the quarter, the Regular Account placed in the 1st percentile of TUCS' universe of all public funds greater than \$1 Billion, and on the year its position improved to the 50th percentile.

Key Factors Contributing to Performance:

The Total Plan Attribution (page 16) shows the top contributors to the outperformance in the fourth quarter to be the Selection factors in Real Estate and Fixed Income, which added 68 and 61 basis points, respectively. However, these contributions were offset by Selection in Private Equity, which subtracted 129 basis points. On the plus side, the net positive allocation to Private Equity added back 25 basis points. Cash held in the Plan also lowered the outperformance by 7 basis points, but this was offset by the Timing factor, which contributed 7 basis points.

For the year (page 17), the Selection factors generally contributed positively to the outperformance and were led by Fixed Income (475 BP's) and Real Estate (149 BP's), while the allocations detracted from performance, particularly the underweighting of Public Equity and overweighting of Private Equity. The Timing factor, or the *shifting* of the asset weights in the portfolio over the year, added back 30 BP's to the net performance.

The Fixed Income portfolio performed well both in the fourth quarter and for the year, placing in the first percentile among TUCS' Public Domestic Fixed Income Pools in the quarter and 5th on the year. With a return of 2.73% in the quarter, the portfolio beat its Custom Fixed Income 90/10 benchmark by 219 basis points. For the year it outperformed the benchmark by 17.76%.

The Domestic Equity portfolio also performed well in the fourth quarter, slipping by its benchmark, the Russell 3000, by 23 basis points. This placed the portfolio in the 16th percentile of the TUCS' Public Domestic Equity pools. For the year, the portfolio advanced 32.86%, to top the index by 452 basis points. This performance placed the portfolio at the 5th percentile.

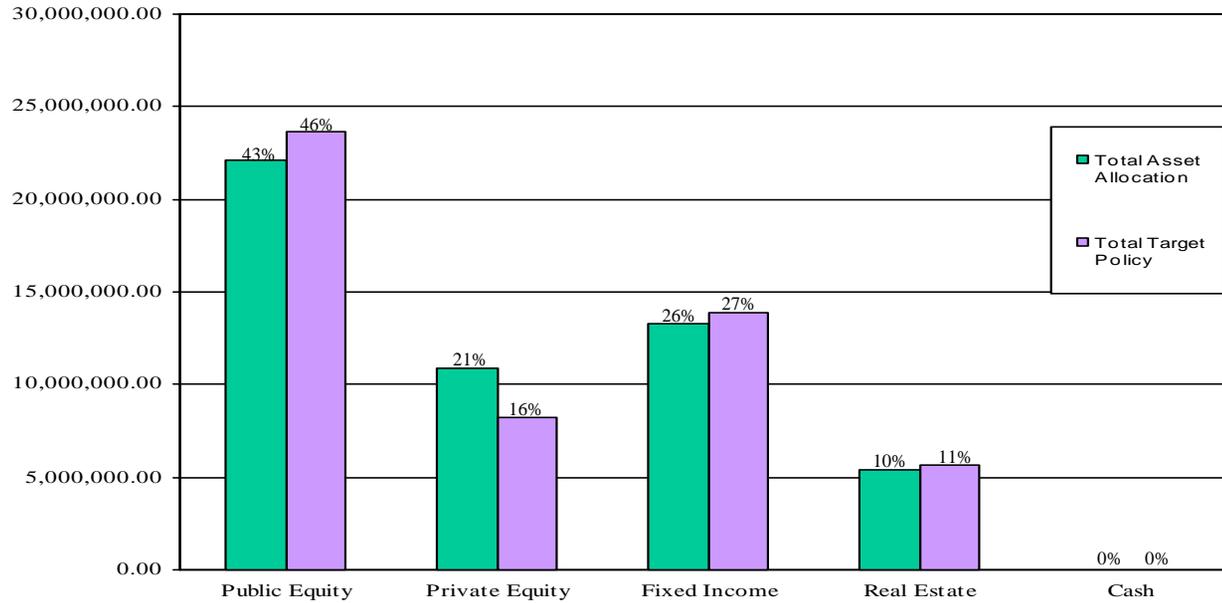
Although the International Equity portfolio added 3.29% in the fourth quarter, it underperformed its benchmark, the MSCI ACWI ex US IMI (net), by 37 basis points, causing it to place in the 80th percentile of the TUCS' Public International Equity pools. On the year, the portfolio returned 41.10%, but came up short of the benchmark by 250 basis points. However, the portfolio placed in the 33rd percentile.

Note: Returns are net of fees. Private Equity and Real Estate Returns are lagged one quarter.

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

State of Oregon
Total Regular Account Asset Allocation (\$ Millions)
as of December 31, 2009

Asset Allocation vs. Target Policy



Allocation vs. Target Policy

	WEIGHTS			
	Allocation*	Policy	Difference	Median-Public Fund->\$1 B Universe (TUCS)
PUBLIC EQUITY	43	46	-3.2	55.8
PRIVATE EQUITY	21	16	5.1	6.9
FIXED INCOME	26	27	-1.3	25.5
REAL ESTATE	10	11	-0.6	2.9
CASH	-	-	-	3.2
TOTAL PLAN	100	100		

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

State Of Oregon
Total Fund Return Table
Rates Of Return
Periods Ending December 31, 2009

	Market Value \$(M)	Current Quarter	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception to Date	Inception Date
FUNDS										
TOTAL REGULAR ACCOUNT	\$51,471,596	4.91	19.41	19.41	-1.48	4.53	8.35	4.42	6.72	07/01/1997
<i>OPERF POLICY BENCHMARK</i>		4.64	15.51	15.51	-0.59	4.39	8.19	3.85		
PUBLIC FUNDS > \$1 BILLION RANK*		1	50	50	50	11	5	18		
PUBLIC FUNDS > \$10 BILLION RANK*		1	47	47	44	11	5	8		
TOTAL DOMESTIC EQUITY	\$8,277,167	6.13	32.86	32.86	-5.60	0.67	6.45	0.43	9.69	04/01/1971
<i>RUSSELL 3000</i>		5.90	28.34	28.34	-5.42	0.76	6.20	-0.20		
US EQUITY POOLS*		16	5	5	32	21	17	9		
TOTAL INTERNATIONAL EQUITY	\$10,829,152	3.29	41.10	41.10	-2.42	6.96	13.34	3.59	11.52	04/01/1985
<i>MSCI ACWI - OREGON MSCI ACWI EX US IMI NET</i>		3.66	43.61	43.61	-2.99	6.33	12.86	3.13		
INTERNATIONAL EQUITY POOLS*		80	33	33	5	1	1	10		
ALLIANCE BERNSTEIN GLOBAL FUND	\$1,649,783	4.98	37.38	37.38						03/01/2007
<i>MSCI AC WORLD (NET)</i>		4.63	34.63	34.63						
TOTAL FIXED INCOME	\$13,173,717	2.73	25.73	25.73	5.92	5.45	6.12	6.98	8.41	01/01/1988
<i>CUSTOM FIXED INCOME 90/10 BLEND³</i>		0.54	7.97	7.97	5.73	4.99	5.05	6.27		
US FIXED INCOME POOLS*		5	5	5	45	1	1	1		
TOTAL REAL ESTATE ¹	\$5,386,640	2.87	-9.40	-9.40	-4.80	7.81	10.90	10.92	10.32	12/01/1996
<i>NCREIF PROPERTY ONE QTR LAG</i>		-3.32	-22.11	-22.11	-1.29	6.16	7.27	7.83		
REAL ESTATE POOLS*		15	31	31	25	1	1	1		
TOTAL PRIVATE EQUITY ²	\$9,846,874	9.69	-4.36	-4.36	3.15	12.85	12.70	8.47	10.21	07/01/1997
<i>BLENDED PRIVATE EQUITY INDEX QTR LAG</i>		16.80	-0.99	-0.99	-1.00	5.41	10.76	5.60		
US PRIVATE EQUITY*		5	43	43	44	17	18	41		
TOTAL OPPORTUNITY PORTFOLIO	\$1,036,473	9.46	37.47	37.47	2.10				1.88	09/01/2006
<i>RUSSELL 3000</i>		5.90	28.34	28.34	-5.42					
<i>CPI + 5%</i>		1.22	7.72	7.72	7.30					
OST SHORT TERM FUND - PERS	\$716,509	0.21	2.37	2.37	3.00	3.43	2.84	3.31	4.47	12/01/1989
<i>91 DAY T-BILL</i>		0.04	0.21	0.21	2.40	3.02	2.51	2.99		

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

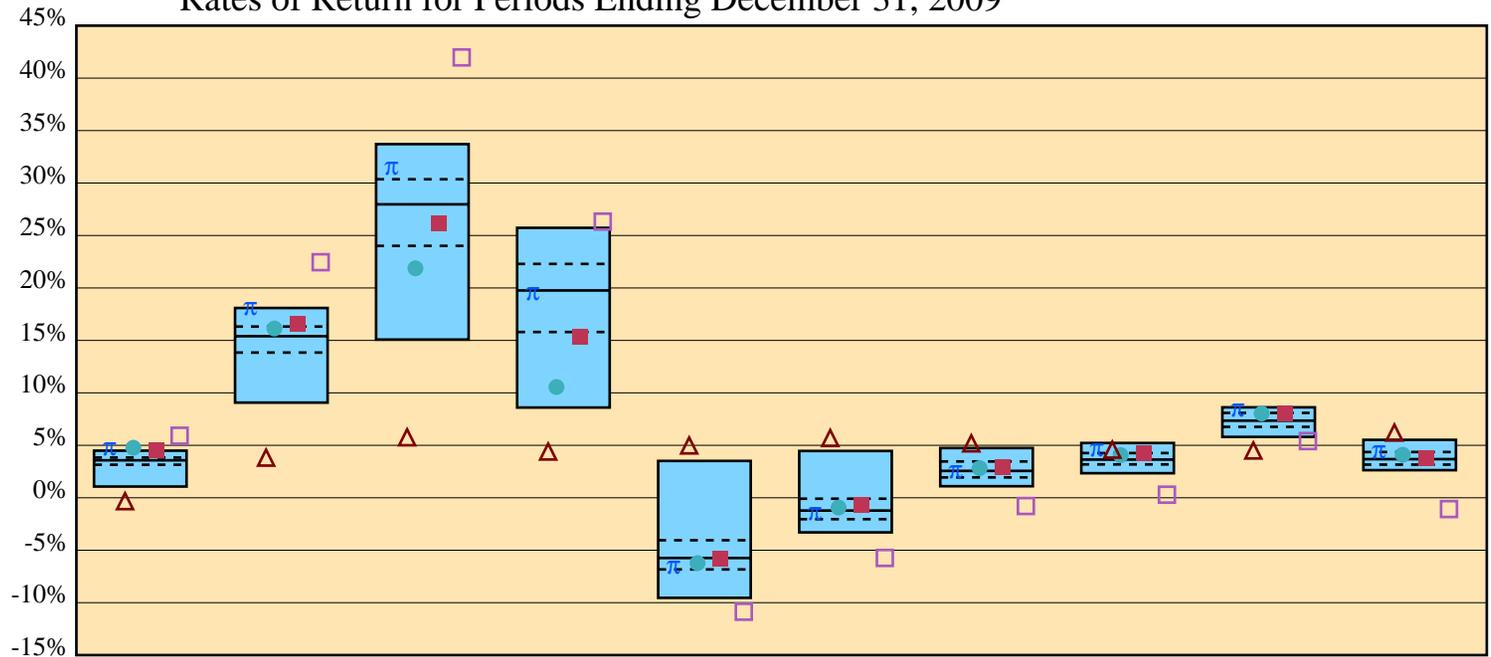
²Private Equity returns lagged one quarter

³90% BC U.S. Universal/10% SSBI Non-US World Govt. Bond Hedged; prior to 1/1/1999 Gov't/Credit; 1/99 to 6/00 SSBI Non-US WGB Unhedged

*RANKING SOURCE: TUCS UNIVERSE, BASED ON GROSS RETURNS

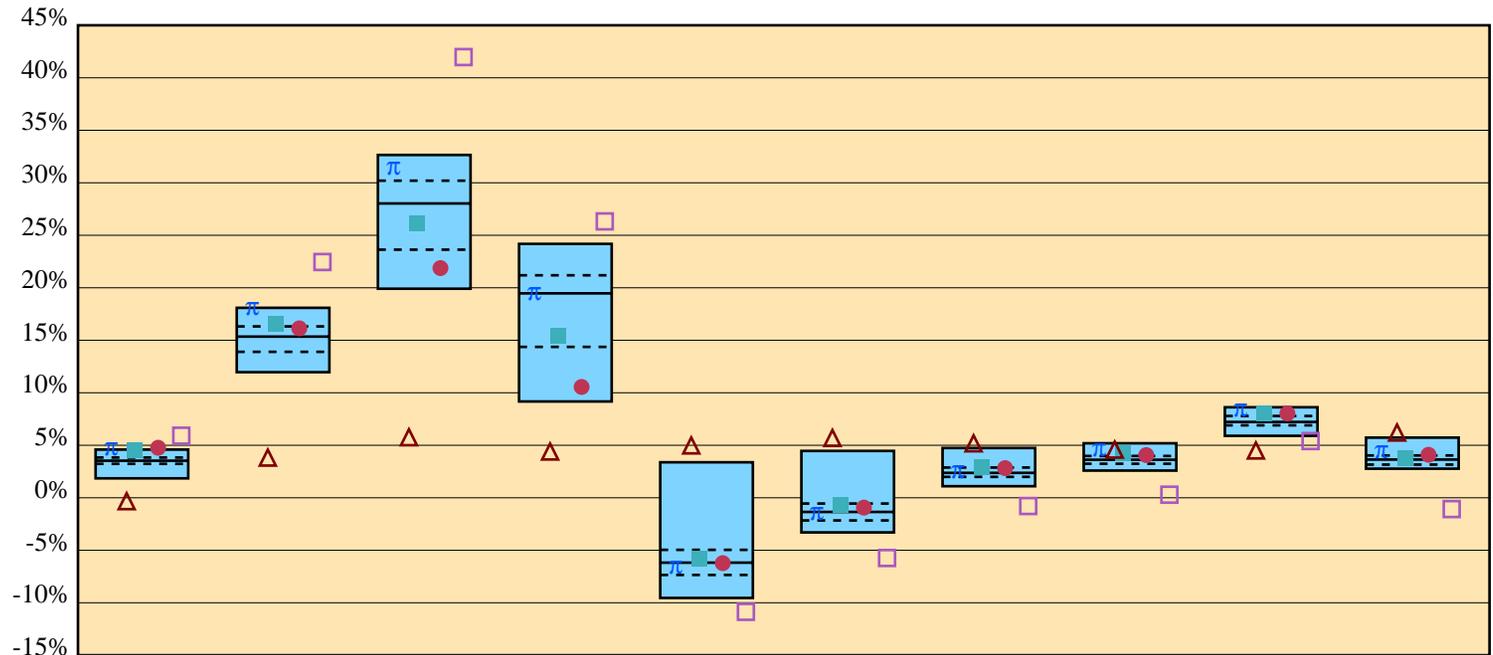
Assets not listed above include a total of \$976,143 invested in the Overlay, Total Closed Global Equity, Transition Account, Shott Capital, and Fixed Income Transition Account.

State of Oregon
 Total Returns of Public Funds
 Total Market Value Greater Than \$1.0 Billion
 Rates of Return for Periods Ending December 31, 2009



	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	4.49	18.09	33.71	25.73	3.51	4.46	4.74	5.22	8.62	5.52
25th Percentile	3.83	16.32	30.36	22.29	-4.05	-0.09	3.46	4.26	8.09	4.36
Median	3.57	15.40	27.97	19.76	-5.74	-1.22	2.56	3.64	7.35	3.68
75th Percentile	3.15	13.84	24.01	15.80	-6.83	-2.04	1.94	3.18	6.76	3.16
95th Percentile	1.07	9.07	15.08	8.60	-9.54	-3.30	1.10	2.34	5.80	2.63
π Total Regular Account	4.97 (1)	18.35 (3)	31.65 (13)	19.76 (50)	-6.35(63)	-1.22 (50)	2.76 (39)	4.82 (11)	8.62 (5)	4.67 (18)
● Actual Allocation Return	4.89 (1)	16.26 (25)	22.00 (83)	10.68 (90)	-6.10(57)	-0.81 (42)	2.95 (35)	4.19 (30)	8.16 (23)	4.22 (31)
■ OPERF Policy Benchmark	4.64 (1)	16.70 (16)	26.27 (61)	15.51 (76)	-5.72(48)	-0.59 (35)	3.07 (32)	4.39 (22)	8.19 (23)	3.86 (46)
□ S&P 500	6.04 (1)	22.58 (1)	42.10 (1)	26.45 (2)	-10.74 (99)	-5.61 (100)	-0.66 (100)	0.42 (100)	5.53 (97)	-0.95 (100)
△ Barclays Govt/Credit	-0.20 (100)	3.95 (99)	5.89 (99)	4.53 (99)	5.11 (1)	5.82 (1)	5.31 (1)	4.71 (14)	4.63 (97)	6.34 (1)

State of Oregon Total Returns of Public Funds > \$10 Billion Rates of Return for Periods Ending December 31, 2009

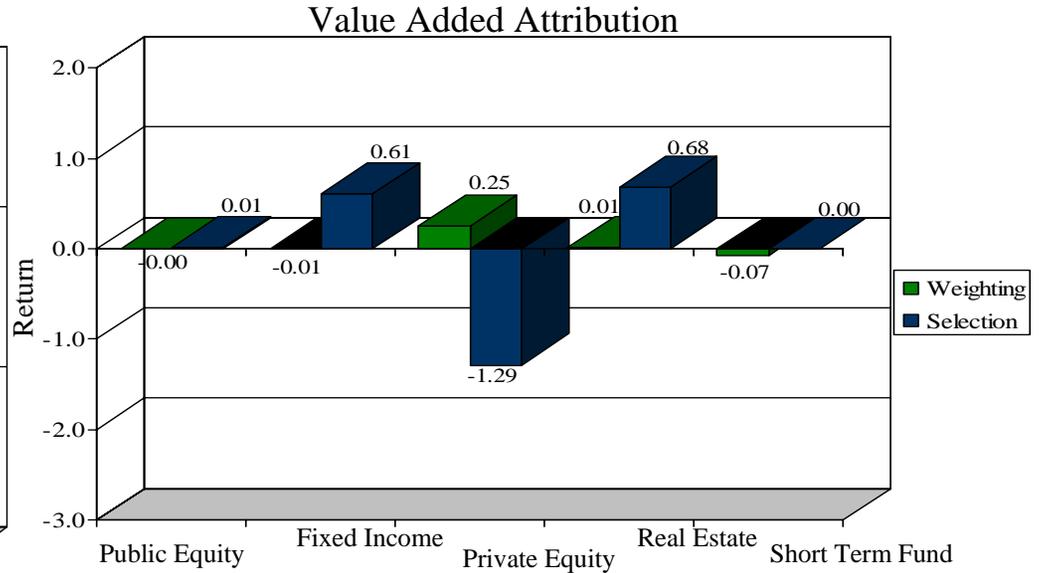
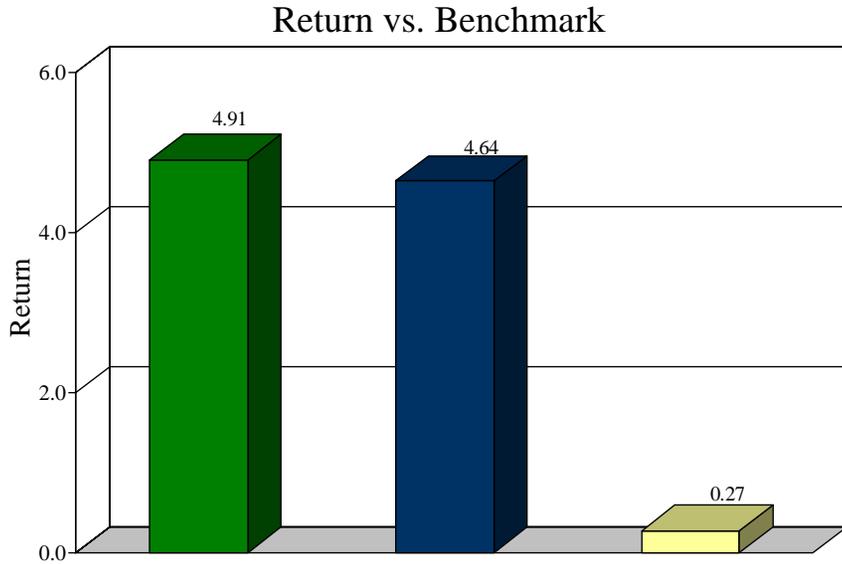


	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	4.59	18.09	32.65	24.18	3.38	4.46	4.74	5.19	8.62	5.73
25th Percentile	3.83	16.32	30.20	21.19	-4.96	-0.55	2.88	3.98	7.79	4.03
Median	3.53	15.35	28.03	19.47	-6.18	-1.35	2.37	3.62	7.22	3.64
75th Percentile	3.23	13.90	23.63	14.37	-7.35	-2.16	1.99	3.24	6.90	3.16
95th Percentile	1.85	11.96	19.91	9.17	-9.54	-3.30	1.10	2.59	5.90	2.77
π Total Regular Account	4.97 (1)	18.35 (1)	31.65 (8)	19.76 (47)	-6.35 (56)	-1.22 (44)	2.76 (27)	4.82 (11)	8.62 (5)	4.67 (8)
■ OPERF Policy Benchmark	4.64 (1)	16.70 (11)	26.27 (58)	15.51 (72)	-5.72 (38)	-0.59 (25)	3.07 (22)	4.39 (14)	8.19 (14)	3.86 (37)
● Actual Allocation Return	4.89 (1)	16.26 (25)	22.00 (81)	10.68 (93)	-6.10 (47)	-0.81 (33)	2.95 (22)	4.19 (19)	8.16 (14)	4.22 (16)
□ S&P 500	6.04 (1)	22.58 (1)	42.10 (1)	26.45 (1)	-10.74 (99)	-5.61 (100)	-0.66 (100)	0.42 (100)	5.53 (99)	-0.95 (100)
▲ Barclays Govt/Credit	-0.20 (100)	3.95 (100)	5.89 (100)	4.53 (100)	5.11 (1)	5.82 (1)	5.31 (1)	4.71 (14)	4.63 (99)	6.34 (1)

Total Plan Attribution

Regular Account

4th Quarter 2009



	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
PUBLIC EQUITY	41.91	46.00	-4.09	4.65	4.63	0.02	-0.00	0.01	
FIXED INCOME	26.59	27.00	-0.41	2.84	0.54	2.30	-0.01	0.61	
PRIVATE EQUITY	18.42	16.00	2.42	9.69	16.80	-7.11	0.25	-1.29	
REAL ESTATE	10.68	11.00	-0.32	2.87	-3.32	6.19	0.01	0.68	
SHORT TERM FUND	2.40	0.00	2.40	0.36	0.04	0.32	-0.07	0.00	
TOTAL REGULAR ACCT.	100.00	100.00	0.00	4.91	4.64	0.27	0.18	0.01	0.07

* Weights of Portfolios based on beginning of period valuations.

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

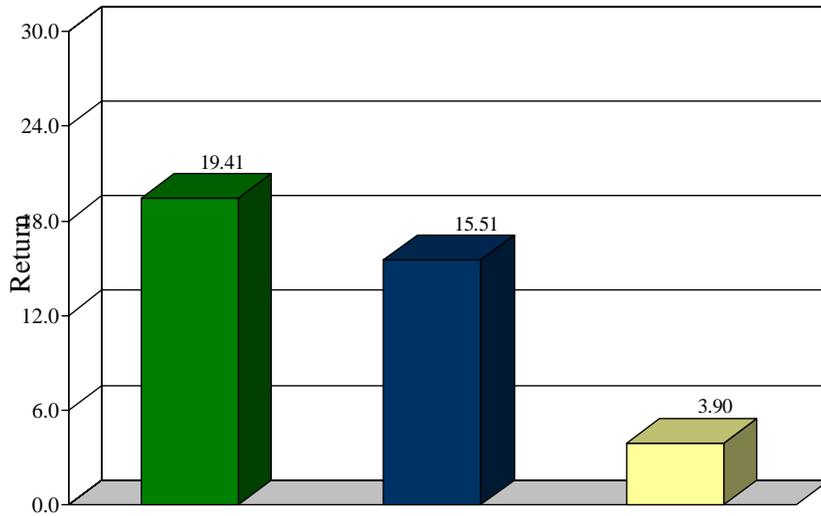
*** Asset Class Returns reflect the impact of the overlay program.

Total Plan Attribution

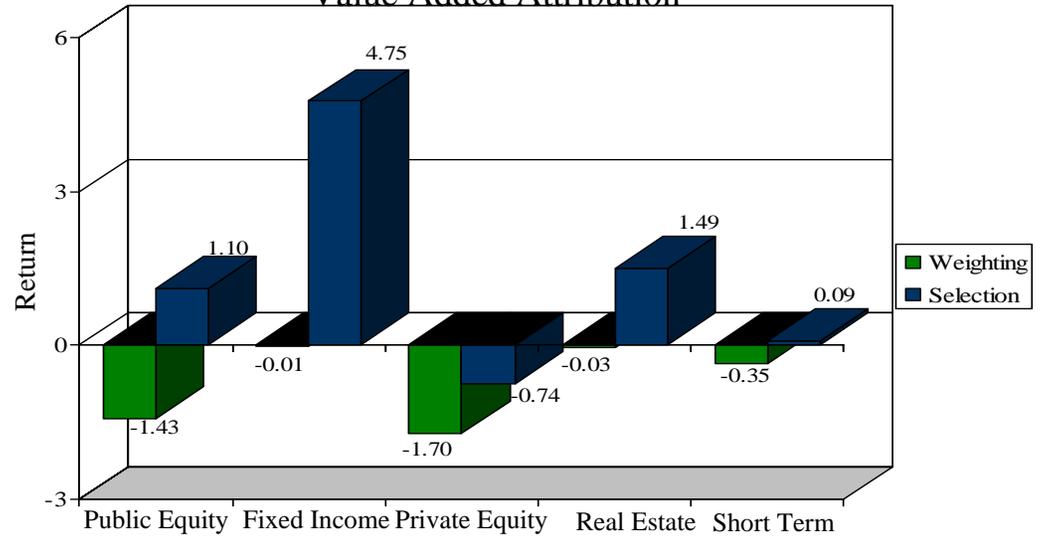
Regular Account

12/31/2008 – 12/31/2009

Return vs. Benchmark



Value Added Attribution



	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
PUBLIC EQUITY	35.20	46.00	-10.80	38.52	34.63	3.89	-1.43	1.10	
FIXED INCOME	27.60	27.00	0.60	27.25	7.97	19.28	-0.01	4.75	
PRIVATE EQUITY	22.31	16.00	6.31	-4.36	-0.99	-3.37	-1.70	-0.74	
REAL ESTATE	11.95	11.00	0.95	-9.40	-22.11	12.71	-0.03	1.49	
SHORT TERM FUND	2.95	0.00	2.95	4.12	0.21	3.91	-0.35	0.09	
TOTAL REGULAR ACCT.	100.00	100.00	0.00	19.41	15.51	3.90	-3.47	6.79	0.30

* Weights of Portfolios based on beginning of period valuations.

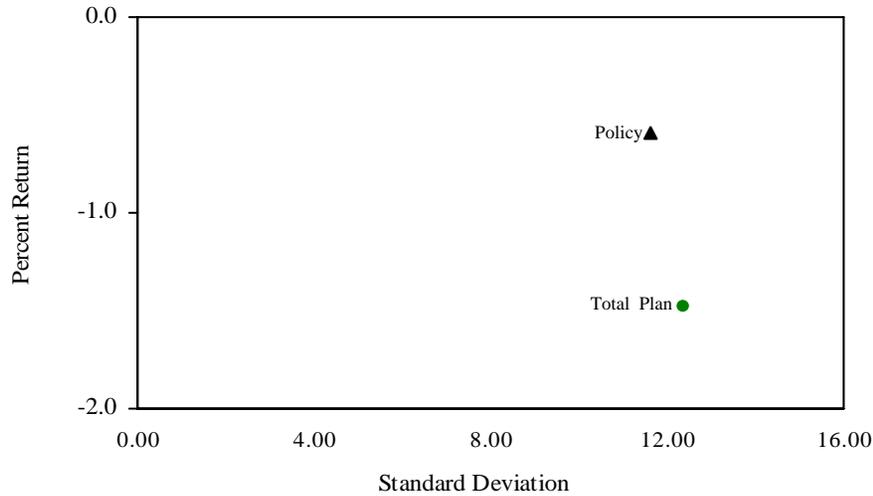
** Weights of Benchmarks based on average weights over entire period.

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

Total Regular Account

Total Risk vs. Return (OPRF Policy) as of December 31, 2009

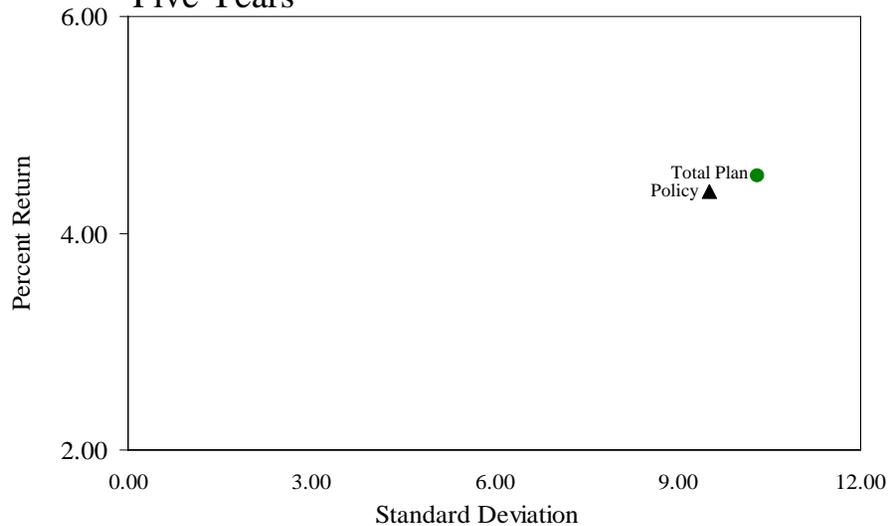
Three Years



Risk Statistics

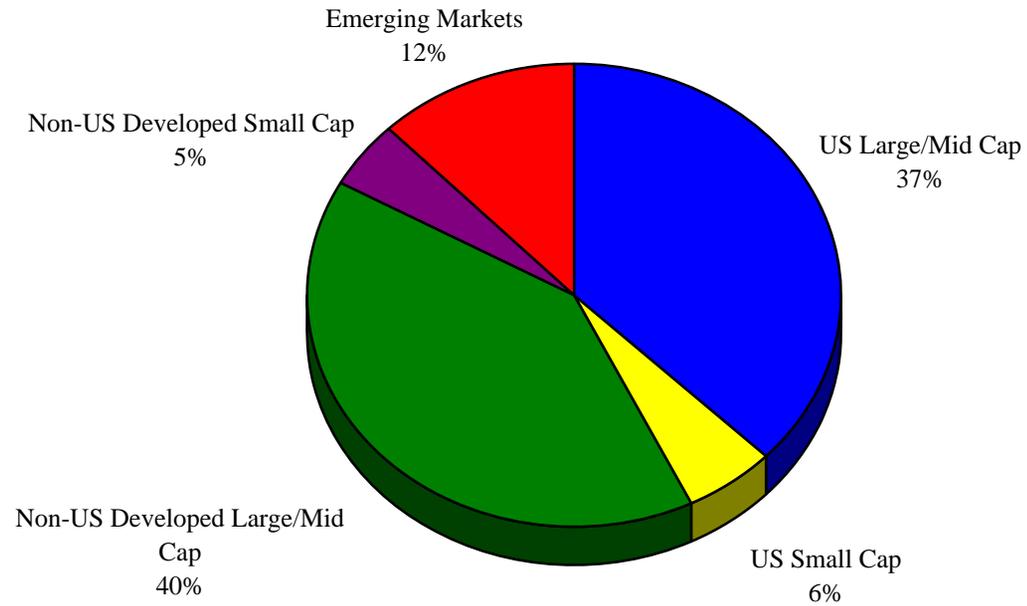
	3 Years	5 Years
Portfolio Return	-1.48	4.53
Benchmark Return	-0.59	4.39
Return Difference	-0.89	0.14
Portfolio Standard Deviation	12.37	10.31
Benchmark Standard Deviation	11.62	9.52
Tracking Error	2.66	2.24
Historic Beta	1.04	1.06
R-squared	0.96	0.96
Jensen's Alpha	-0.77	0.06
Sharpe Ratio	-0.31	0.15
Treynor Ratio	-3.73	1.43
Information Ratio	-0.33	0.06

Five Years



State of Oregon

Public Equity Regional Allocation as of December 31, 2009



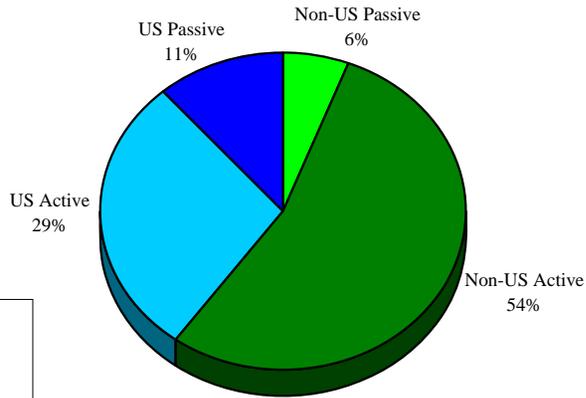
Target	
US Large/Mid:	37%
US Small:	6%
Non-US Developed Large/Mid:	40%
Non-US Developed Small:	5%
Emerging Markets:	12%

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

State of Oregon

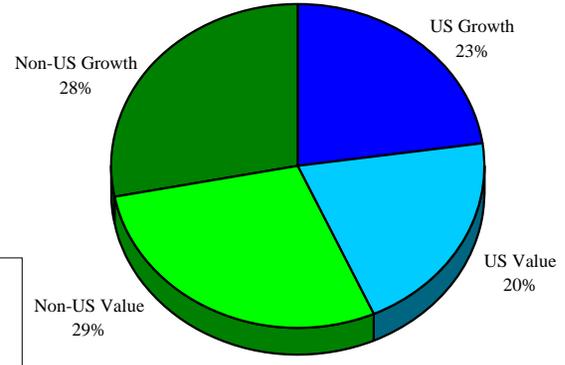
Public Equity Manager Allocation as of December 31, 2009

Active vs. Passive



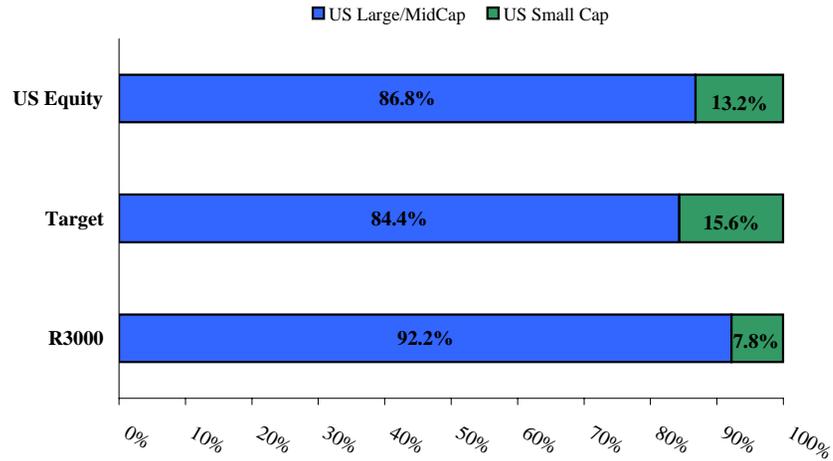
Target:
Active: 80%
Passive: 20%

Value vs. Growth



Target:
Growth: 50%
Value: 50%

US Equity Strategic Small Cap Overweight



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

Total Public Equity
Individual Manager Allocations
as of December 31, 2009

Manager	Market Value (\$M)	Current % of Equities
Total Domestic Equity		
U.S. Large Cap:	6,809,991	32.8%
Aletheia Research	380,128	1.8%
Aronson+Johnson+Ortiz	663,241	3.2%
BGI Russell 1000 Growth	828,960	4.0%
BGI Russell 1000 Value	891,641	4.3%
Delaware	348,692	1.7%
MFS	681,082	3.3%
Northern Trust	645,791	3.1%
PIMCO	766,363	3.7%
Pyramis US Core	310,356	1.5%
S&P 400 Index	126,735	0.6%
S&P 500 Index	492,304	2.4%
Wells Capital Select	674,698	3.3%
U.S. Small and SMID Cap:	1,463,340	7.0%
AQR	138,535	0.7%
Boston Company	147,801	0.7%
Eudaimonia	56,900	0.3%
Next Century Micro	96,622	0.5%
Next Century Small	101,795	0.5%
Wanger	655,891	3.2%
Wellington	265,796	1.3%
Passive	3,559,642	17.1%
Active	17,192,503	82.8%
Total Equities*	20,759,123	100.0%

Manager	Market Value (\$M)	Current % of Equities
Total Non-US Equity		
Non-U.S. Large Cap:	8,633,326	41.6%
Acadian	793,977	3.8%
AQR	794,946	3.8%
Arrowstreet	1,035,965	5.0%
Brandes	905,998	4.4%
Lazard	888,536	4.3%
Northern Trust	208,567	1.0%
Pyramis Select	768,127	3.7%
SSgA	1,220,002	5.9%
TT International	710,134	3.4%
UBS	513,422	2.5%
Walter Scott	793,652	3.8%
Non-U.S. Small Cap:	741,871	3.6%
DFA	173,923	0.8%
Harris	180,693	0.9%
Pyramis Select	234,027	1.1%
Victory	153,228	0.7%
Emerging Markets:	1,453,834	7.0%
Arrowstreet	343,504	1.7%
BGI TEMs	192,798	0.9%
Genesis	579,900	2.8%
Pictet	337,632	1.6%
Global:	1,649,783	7.9%
AllianceBernstein	1,649,783	7.9%

* Includes \$6,978 in other Equity assets not listed above, but does not include \$153 in Transition Account.

State of Oregon
Total Active Domestic Equity Characteristics Summary
Fourth Quarter 2009

Top 10 Holdings

	Mkt. Value (\$M)	% of Portfolio
APPLE INC	76,970	1.6
GOOGLE INC	68,590	1.4
EXXON MOBIL CORP	61,950	1.3
AT+T INC	56,340	1.2
JPMORGAN CHASE + CO	51,020	1.0
CHEVRON CORP	50,710	1.0
MICROSOFTCORP	47,270	1.0
WELLS FARGO + CO	44,140	0.9
BANK OF AMERICA CORP	38,900	0.8
ORACLE CORP	38,840	0.8

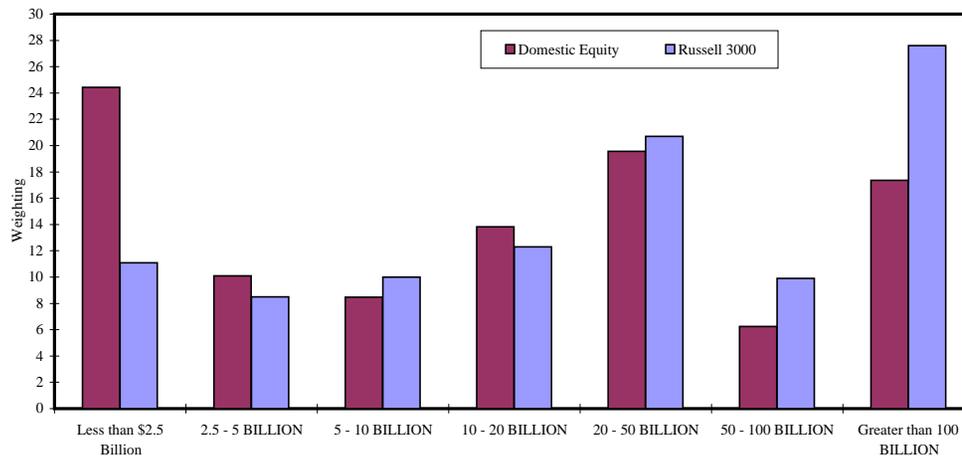
Characteristics

	Domestic Equity	Russell 3000
P/E Ratio	69.9	39.3
P/B Ratio	3.4	3.3
5 Year EPS Growth (%)	11.9	8.7
Market Cap - cap wtd (\$MM)	44.1	66.9
Dividend Yield (%)	1.4	1.8

Risk Statistics

	3 Year	5 Year
Portfolio Return	-5.80	0.48
Benchmark Return	-5.42	0.76
Portfolio Standard Deviation	21.74	17.69
Benchmark Standard Deviation	20.61	16.67
Tracking Error	2.62	2.26
Historic Beta	1.05	1.06
R-Squared	0.99	0.99
Jensen's Alpha	0.01	-0.16
Sharpe Ratio	-0.38	-0.14
Information Ratio	-0.14	-0.12

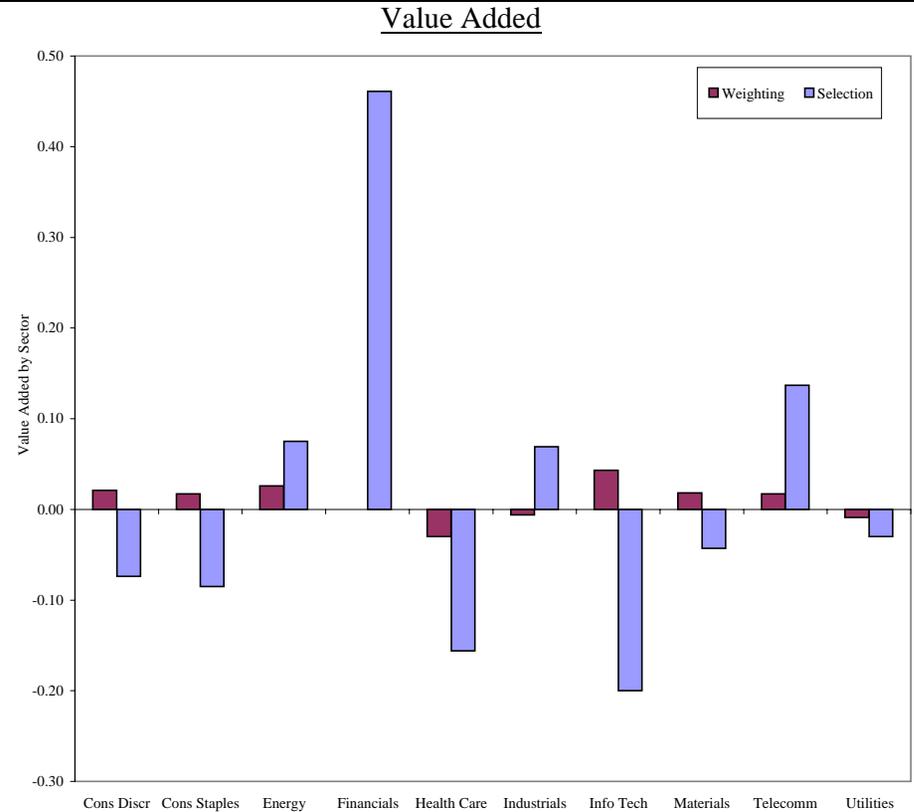
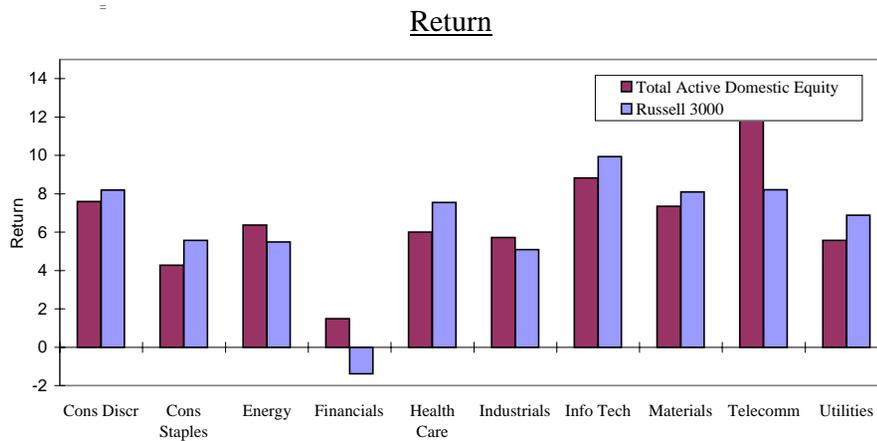
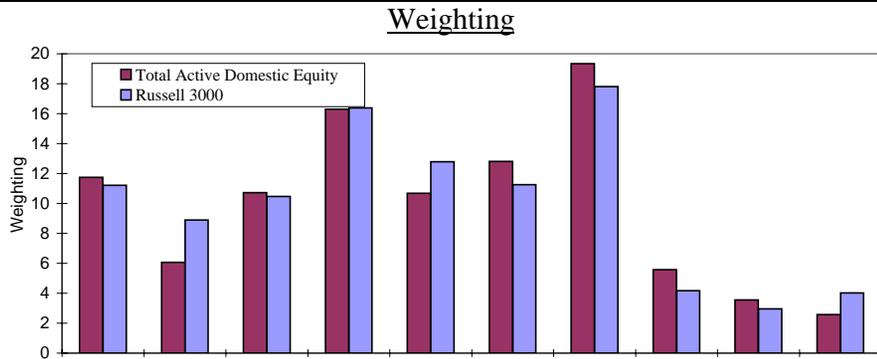
Market Capitalization



Market Capitalization

	Domestic Equity	Russell 3000
Less than \$2.5 Billion	24.4	11.1
2.5 - 5 BILLION	10.1	8.5
5 - 10 BILLION	8.5	10.0
10 - 20 BILLION	13.8	12.3
20 - 50 BILLION	19.6	20.7
50 - 100 BILLION	6.3	9.9
Greater than 100 BILLION	17.4	27.6

State of Oregon
Total Active Domestic Equity Sector Attribution
Fourth Quarter 2009



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Active	Russell	Difference	Total Active	Russell	Difference	Allocation	Selection	Timing
	Dom Equity	3000		Dom Equity	3000				
Consumer Discretionary	11.8	11.2	0.5	7.6	8.2	-0.6	0.0	-0.1	
Consumer Staples	6.1	8.9	-2.8	4.3	5.6	-1.2	0.0	-0.1	
Energy	10.7	10.5	0.3	6.4	5.5	0.8	0.0	0.1	
Financials	16.3	16.4	-0.1	1.5	-1.4	2.9	0.0	0.5	
Health Care	10.7	12.8	-2.1	6.0	7.5	-1.4	0.0	-0.2	
Industrials	12.8	11.3	1.5	5.7	5.1	0.6	0.0	0.1	
Info Technology	19.3	17.8	1.5	8.8	9.9	-1.0	0.0	-0.2	
Materials	5.6	4.2	1.4	7.3	8.1	-0.7	0.0	0.0	
Telecommunication	3.6	3.0	0.6	11.9	8.2	3.5	0.0	0.1	
Utilities	2.6	4.0	-1.4	5.6	6.9	-1.2	0.0	0.0	
Total Fund	100.0	100.0	0.0	6.5	5.9	0.6	0.1	0.2	0.3

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

State of Oregon

International Equity Attribution Summary

Fourth Quarter 2009

Top Ten Holdings

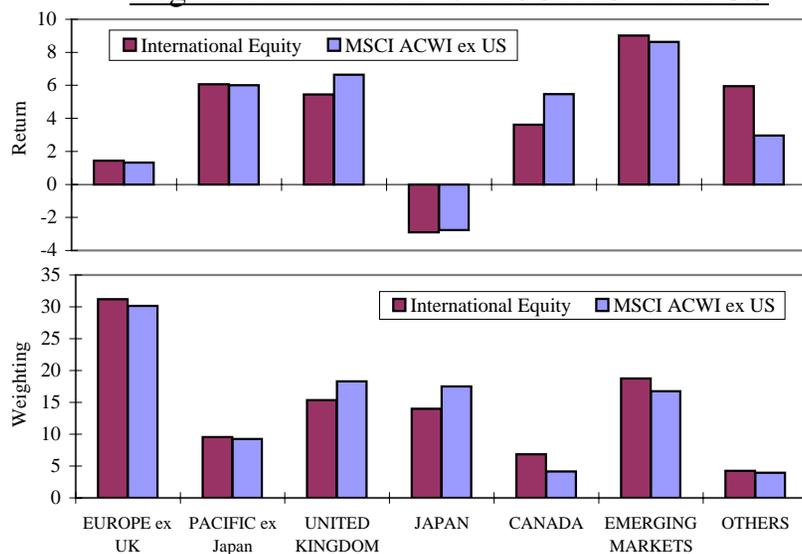
	Mkt. Value (\$M)	% of Portfolio
SANOFI AVENTIS	149,720	1.4
BP PLC	101,510	1.0
ASTRAZENECA	90,860	0.9
GLAXOSMITHKLINE	77,180	0.7
CANON INC	75,630	0.7
NESTLE SA	69,320	0.7
HSBC HLDGS	67,800	0.6
BASF AG	59,900	0.6
BNP PARIBAS	56,750	0.5
TELEFONICA SA	55,780	0.5

*Excludes holdings of funds or ETF's

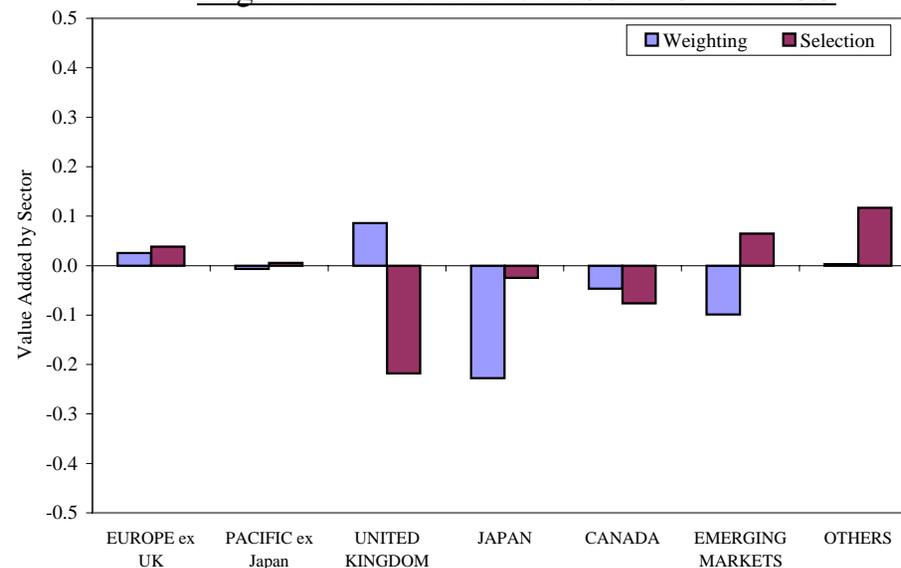
Market Capitalization

	International Equity	MSCI AC WORLD ex US
Less than 2.5 BILLION	13.5	3.2
2.5 - 5 BILLION	8.5	8.1
5 - 10 BILLION	13.8	14.3
10 - 20 BILLION	17.7	16.4
20 - 50 BILLION	17.7	21.8
50 - 100 BILLION	17.7	21.7
Greater than 100 BILLION	11.2	14.7

Regional Attribution vs. MSCI ACWI ex US



Regional Attribution vs. MSCI ACWI ex US



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

State of Oregon

International Equity Attribution Summary

Fourth Quarter 2009

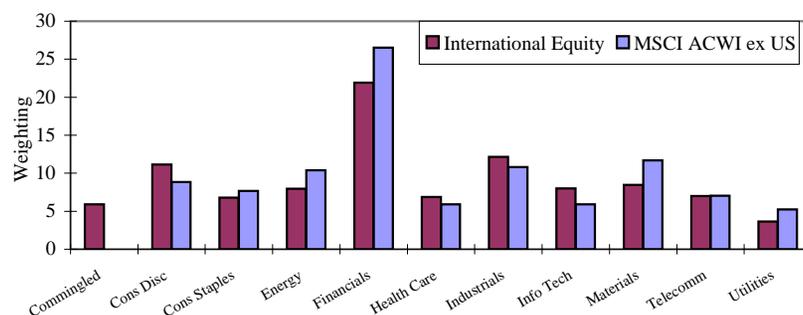
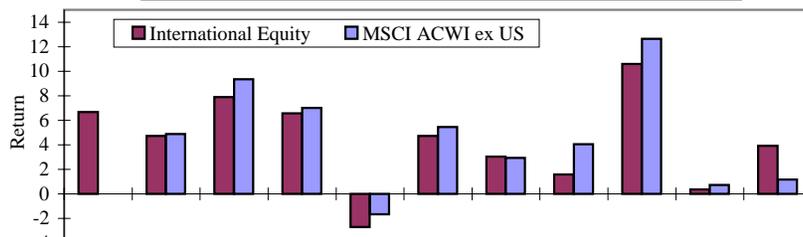
Risk Statistics

	3 Year	5 Year
Portfolio Return	-2.42	6.96
Benchmark Return	-2.99	6.33
Portfolio Standard Deviation	24.74	20.56
Benchmark Standard Deviation	25.89	21.24
Tracking Error	1.66	1.46
Historic Beta	0.95	0.97
R-Squared	1.00	1.00
Jensen's Alpha	0.33	0.74
Sharpe Ratio	-0.20	0.19
Information Ratio	0.34	0.43

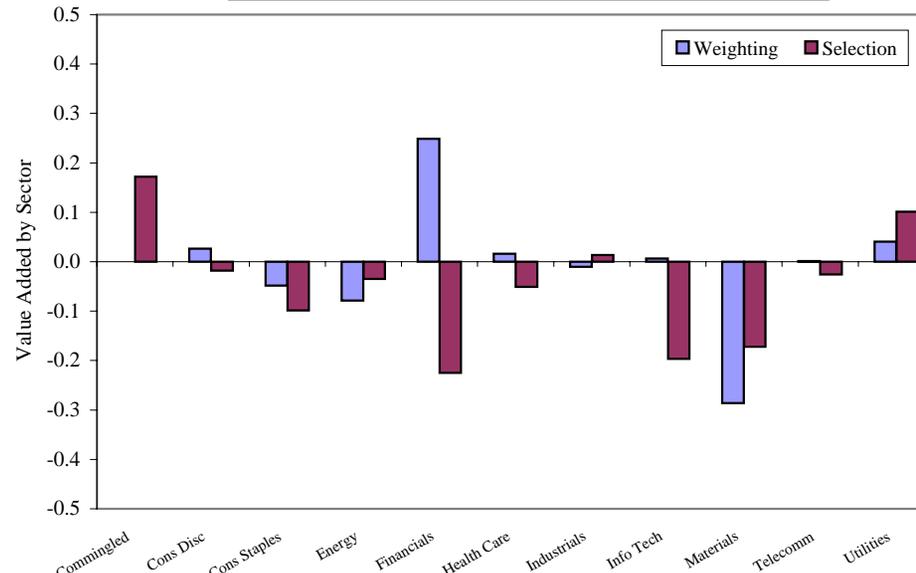
Characteristics

	International Equity	MSCI AC WORLD ex US
P/E Ratio	19.2	19.8
P/B Ratio	2.4	2.6
5 Year EPS Growth (%)	6.2	5.5
Market Cap - cap weighted (\$B)	36.6	46.3
Dividend Yield (%)	2.5	2.6

Sector Attribution vs. MSCI ACWI ex US



Sector Attribution vs. MSCI ACWI ex US



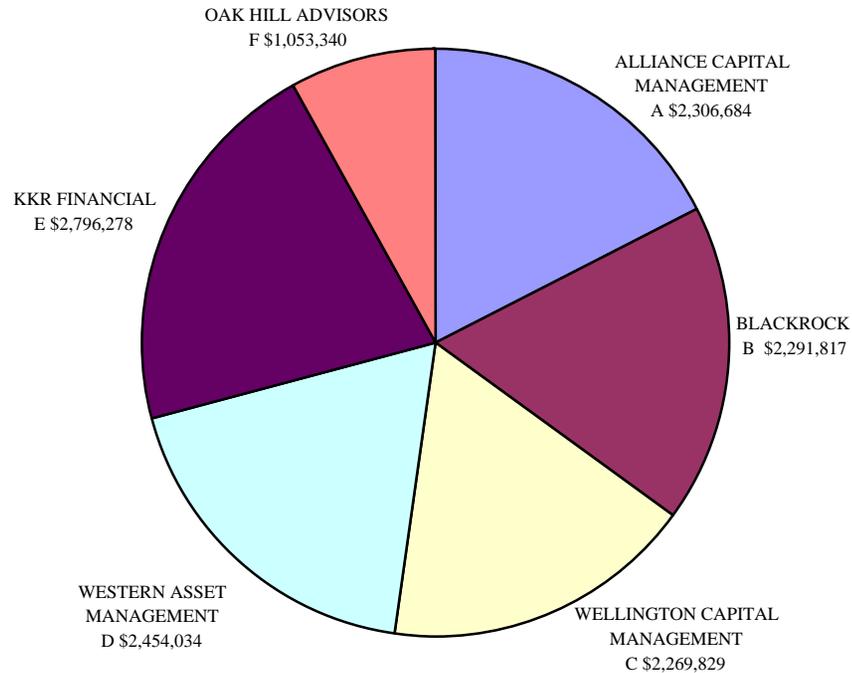
Note: All risk statistics are based on net performance returns and attribution is based on gross performance returns at the security level. Weighting is based on beginning of period holdings.

Total Fixed Income

Individual Manager Allocation

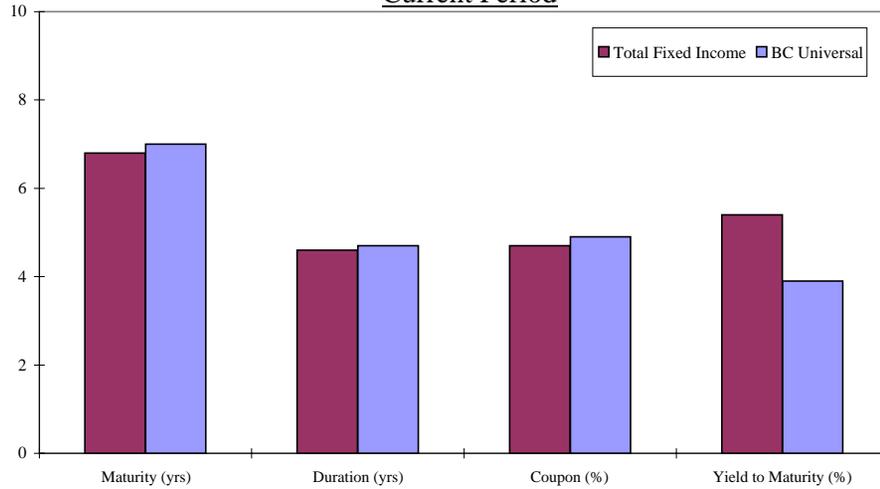
as of December 31, 2009

Portfolio	<u>\$M</u>	<u>% ALLOCATION</u>
<u>EXTERNAL FIXED INCOME</u>		
A ALLIANCE CAPITAL MANAGEMENT	\$2,306,684	18%
B BLACKROCK	\$2,291,817	17%
C WELLINGTON CAPITAL MANAGEMENT	\$2,269,829	17%
D WESTERN ASSET MANAGEMENT	\$2,454,034	19%
E KKR FINANCIAL	\$2,796,278	21%
F OAK HILL ADVISORS	\$1,053,340	8%
Total Fixed Income	\$13,173,717	



State of Oregon
Fixed Income Characteristics Summary
Fourth Quarter 2009

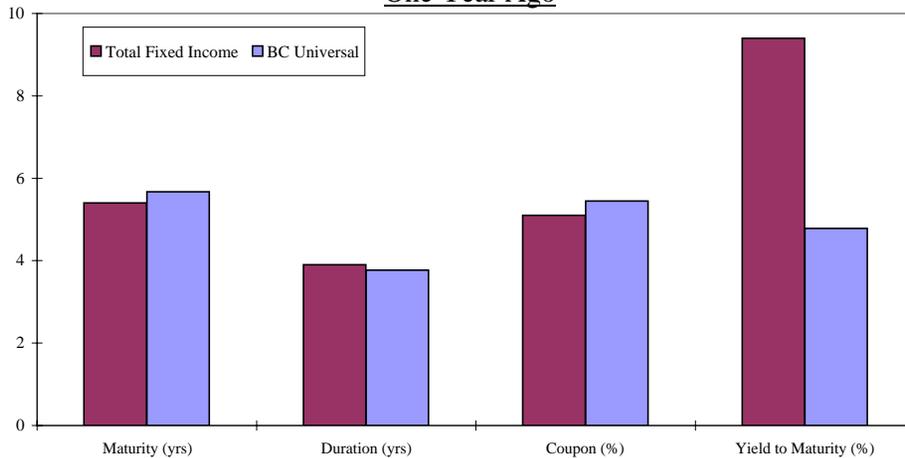
Current Period



Characteristics

Characteristics	12/31/09		12/31/08	
	Portfolio	BC Universal	Portfolio	BC Universal
Maturity (yrs)	6.8	7.0	5.4	5.7
Duration (yrs)	4.6	4.7	3.9	3.8
Coupon (%)	4.7	4.9	5.1	5.5
Yield to Maturity (%)	5.4	3.9	9.4	4.8
Moody's Quality Rating	A-2	AA-3	AA-3	AA-2
S&P Quality Rating	A+	AA	AA-	AA

One Year Ago

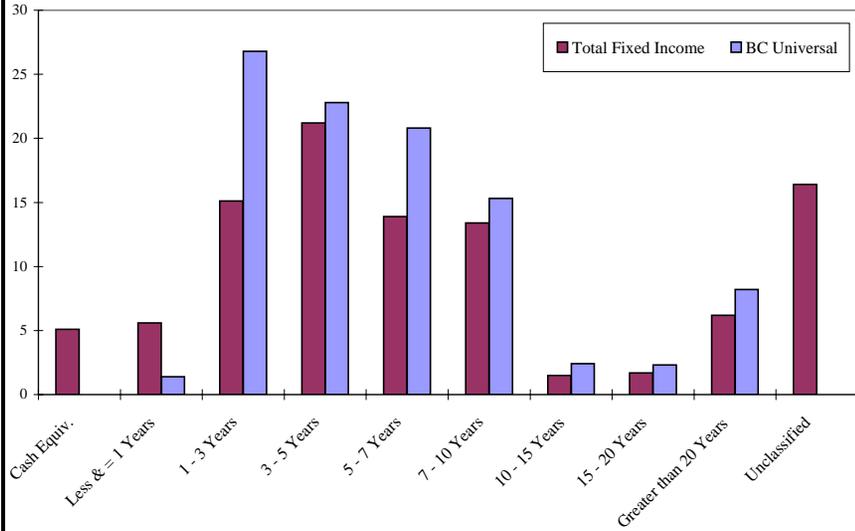


Risk Statistics

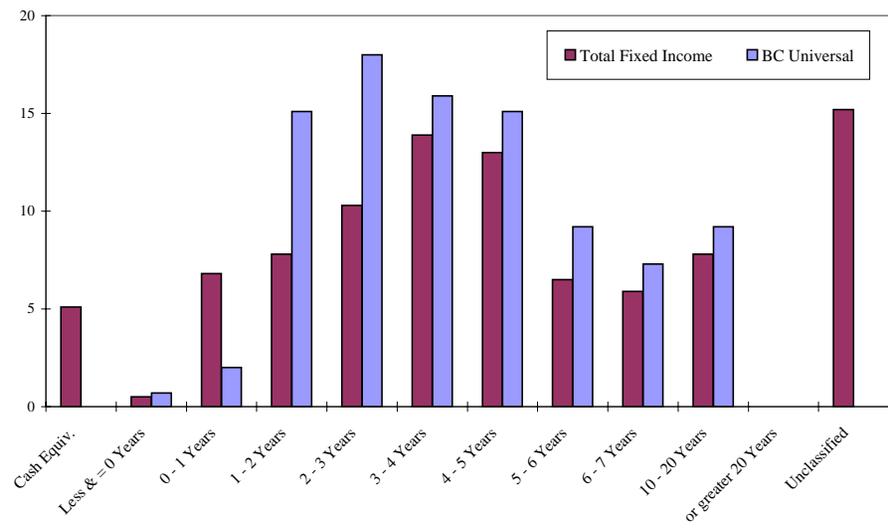
	3 Year	5 Year
Portfolio Return	5.92	5.45
Benchmark Return	5.73	4.99
Portfolio Standard Deviation	7.05	5.67
Benchmark Standard Deviation	4.17	3.64
Tracking Error	5.22	4.03
Historic Beta	1.19	1.14
R-Squared	0.49	0.52
Jensen's Alpha	-0.45	0.19
Sharpe Ratio	0.50	0.43
Information Ratio	0.04	0.11

State of Oregon
Fixed Income Characteristics Detail
Fourth Quarter 2009

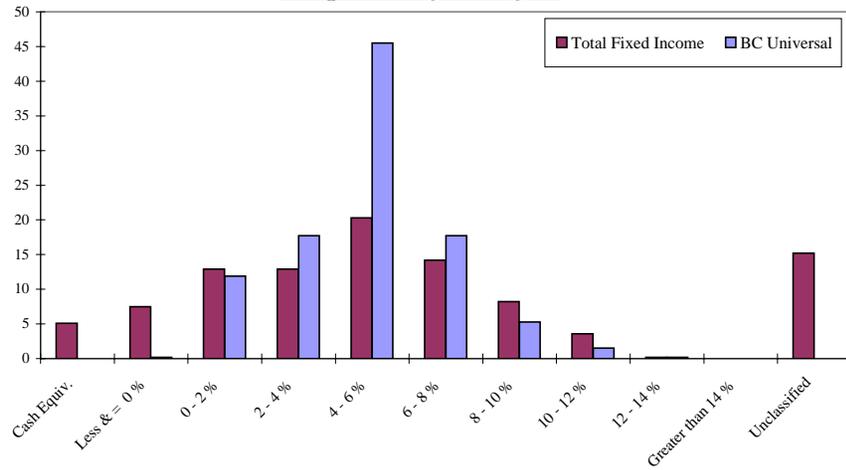
Maturity Range Weights



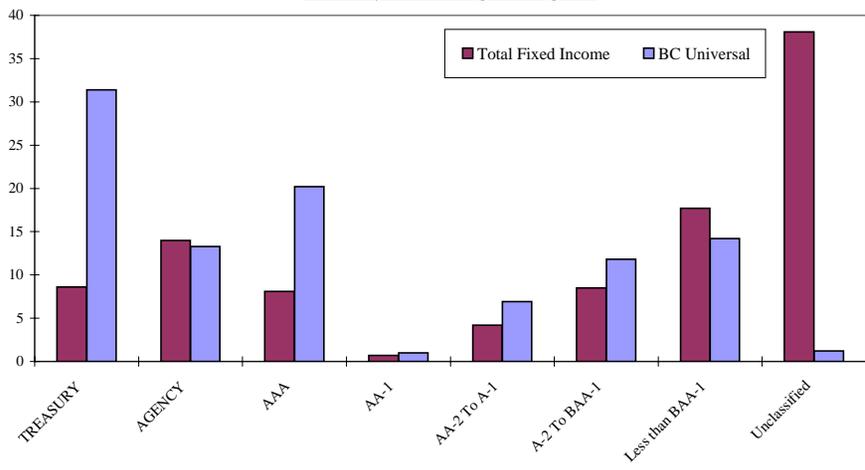
Duration Range Weights



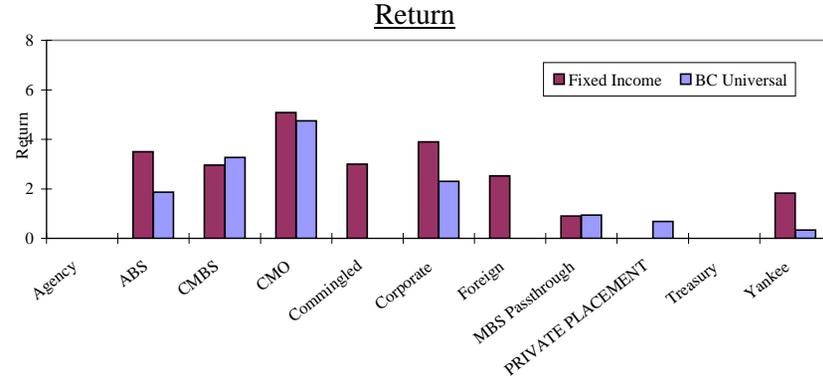
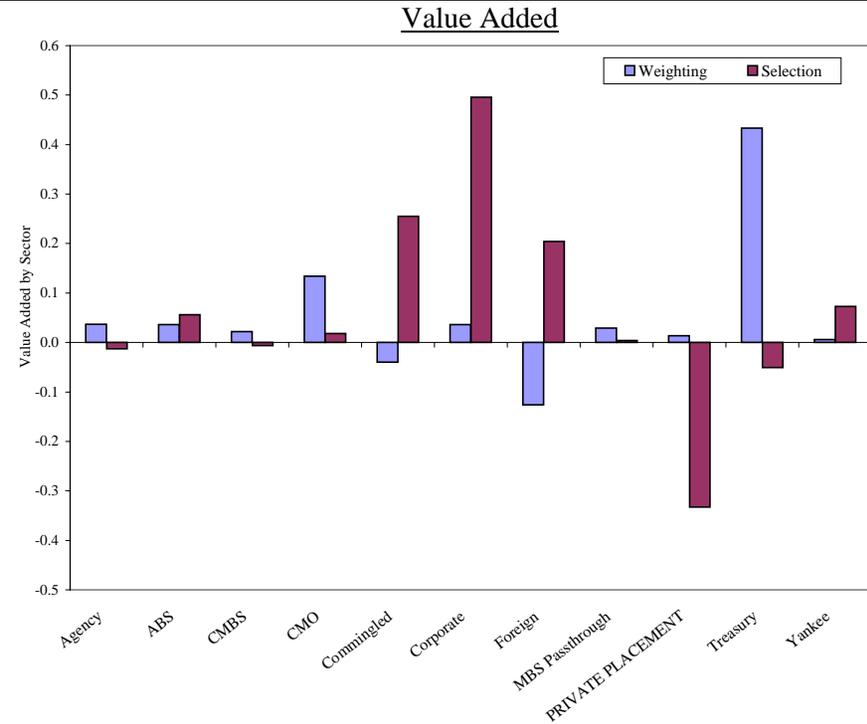
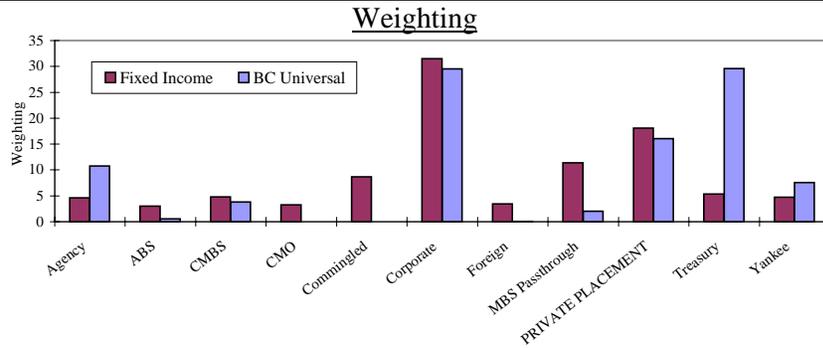
Coupon Range Weights



Moody's Rating Weights



State of Oregon
Fixed Income Sector Attribution
Fourth Quarter 2009



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Fixed Income*	BC Universal	Difference	Total Fixed Income*	BC Universal	Difference	Weighting	Selection	Timing
AGENCY	4.6	10.8	-6.2	-0.4	-0.1	-0.3	0.0	0.0	-
ASSET BACKED	3.0	0.5	2.5	3.5	1.9	1.6	0.0	0.1	-
CMBS	4.8	3.8	1.0	3.0	3.3	-0.3	0.0	0.0	-
CMO	3.2	0.0	3.2	5.1	4.7	0.3	0.1	0.0	-
COMMINGLED FUND	8.7	0.0	8.7	3.0	0.0	3.0	0.0	0.3	-
CORPORATE	31.5	29.5	2.0	3.9	2.3	1.6	0.0	0.5	-
FOREIGN	3.5	0.0	3.4	2.5	-3.1	5.6	-0.1	0.2	-
MORTGAGE PASS-THROUGH	11.4	2.1	9.3	0.9	0.9	0.0	0.0	0.0	-
PRIVATE PLACEMENT	18.1	16.0	2.0	-1.2	0.7	-1.8	0.0	-0.3	-
US TREASURY	5.4	29.6	-24.2	-2.0	-1.3	-0.7	0.4	-0.1	-
YANKEE	4.7	7.5	-2.8	1.8	0.3	1.5	0.0	0.1	-
TOTAL	100.0	100.0	0.0	1.9	0.5	1.4	0.6	0.7	0.1

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

*Excludes 1.2% in Euros, Convertibles, Preferred Stock, Miscellaneous and Swap-related investments

EXECUTIVE SUMMARY

OPERF

Oregon Public Employees Retirement Fund
Third Quarter 2009

REAL ESTATE PORTFOLIO SUMMARY

Real Estate Portfolio and Investment-level data are provided below for period ended September 30, 2009. Portfolio refers to all real estate Investments held by OPERF, which is referred to herein as the Fund.

OPERF REAL ESTATE PORTFOLIO SUMMARY	
September 30, 2009	
Current Portfolio Net Asset Value	\$5.239 billion 9.99% of Total Fund (\$50.6B)
Current Unfunded Investment Commitments	\$2.019 billion
Total Portfolio NAV plus Unfunded Commitments	\$7.258 billion 13.84% of Total Fund
Target Allocation to Real Estate	\$5.768 billion 11.00% of Total Fund
Total Number of Investments	72

SUMMARY OF PORTFOLIO INVESTMENT NET RETURNS				
Investment	Qtr	1-Yr.	3-Yr.	5-Yr.
Private Real Estate				
Direct Core	0.89%	-12.76%	5.25%	12.00%
Opportunistic	3.07%	-14.87%	-8.02%	10.37%
Value Added	-2.27%	-36.17%	-13.17%	N/A
Total Private Real Estate	1.41%	-17.29%	-2.73%	9.91%
Public Real Estate				
Domestic REIT Portfolio	34.06%	-30.82%	-15.82%	-0.79%
Global REIT Portfolio	17.68%	7.58%	-11.10%	N/A
Total Portfolio Return	6.25%	-16.53%	-4.54%	8.22%
NCREIF Index	-3.32%	-22.09%	-1.28%	6.16%
NAREIT Index	33.28%	-28.40%	-12.39%	1.40%
EPRA/NAREIT Global (ex-US) Index	20.05%	4.47%	-7.40%	6.98%

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

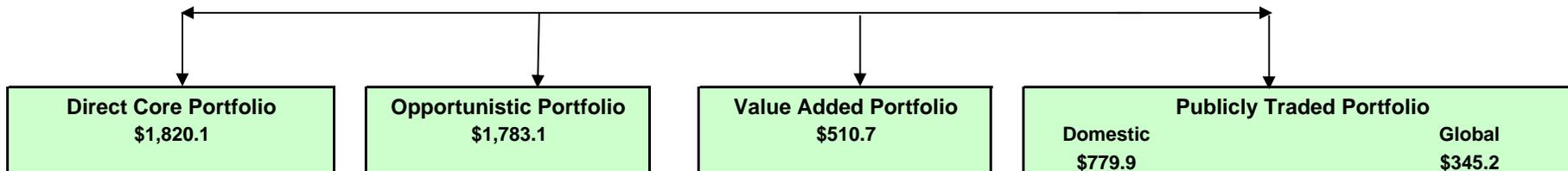
EXECUTIVE SUMMARY

PORTFOLIO NET RETURNS BY COMPONENT

Portfolio Net Asset Value (\$M)

Total Real Estate
\$5,239.0

One year return -16.53%
NCREIF Index -22.09%

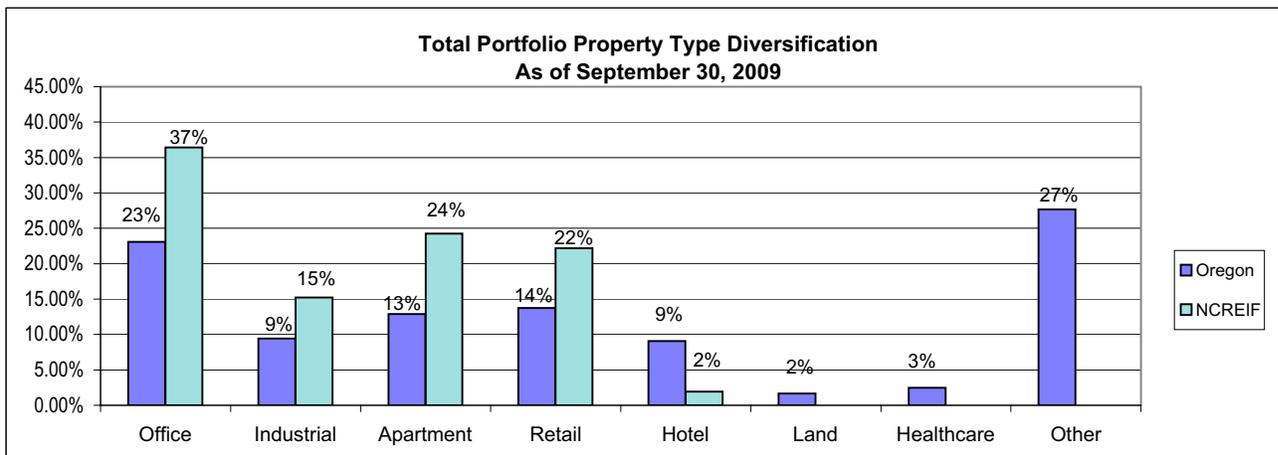


Component	Value (\$M)	% of total portfolio	One year return	NCREIF Index
Direct Core Portfolio	\$1,820.1	34.74%	-12.76%	-22.09%
Opportunistic Portfolio	\$1,783.1	34.04%	-14.87%	-22.09%
Value Added Portfolio	\$510.7	9.75%	-36.17%	-22.09%
Publicly Traded Portfolio	\$779.9 (Domestic) / \$345.2 (Global)	14.88%	-30.82%	NAREIT Index -28.40%
		% of total portfolio	One year return	EPRA/NAREIT Global (ex US)
		6.59%	7.58%	4.47%

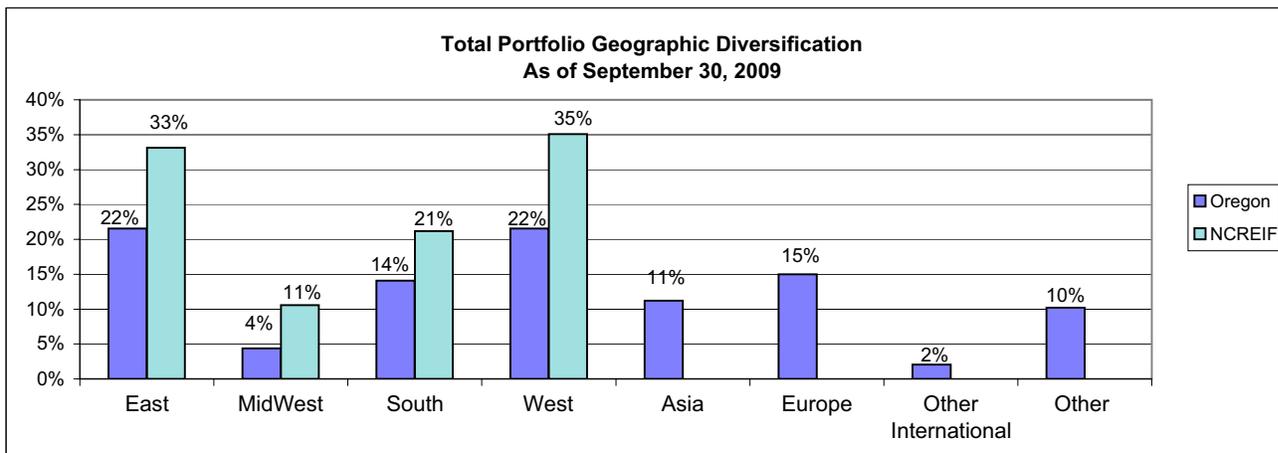
- | | | | | |
|--|--|---|--|--|
| <ul style="list-style-type: none"> Clarion (Office) Clarion Office Properties Clarion Holding (Office) ¹ Guggenheim Separate Account Lincoln (Industrial) Regency Retail Partners I (Retail) Regency Retail Partners II (Retail) RREEF America II Windsor Columbia Realty Fund Regency Cameron (Non Mandate) Lincoln (Non Mandate) | <ul style="list-style-type: none"> Aetos Capital Asia II Aetos Capital Asia III Blackstone Partners VI Fortress Fund II - V Fortress Fund III PIK Note Fortress Residential Inv. Deutschland GI Partners Fund II & III Greenfield Acquisition Partners III Hampstead Fund I, II & III Heritage Fields Capital IL & FS India Realty Fund I & II JE Roberts Fund II JE Roberts Europe Fund III Lion Mexico Fund Lone Star Opportunity Fund II - VI Lone Star Real Estate Fund OCM RE Oppo Fund A, LP Rockpoint Real Estate Fund I - III Rockpoint Real Estate Special Fund Starwood Hospitality Fund Starwood Hospitality Fund Co-Inv. Westbrook Real Estate Fund I - IV | <ul style="list-style-type: none"> Alpha Asia Macro Trends Buchanan Fund V CBRE US Value Fund 5 Guggenheim II & III Hines U.S. Office Value Added II Keystone Industrial Fund I KTR Industrial Fund II Lionstone CFO One Pac Trust Page Mill Properties Rockpoint Finance Fund Rockwood Real Estate VII & VIII Western National Realty II & Co-Invest II Windsor Realty VII | <p>Domestic REITS</p> <ul style="list-style-type: none"> Cohen & Steers Columbia Woodbourne LaSalle REIT | <p>Global REITS</p> <ul style="list-style-type: none"> European Investors Morgan Stanley Presima |
|--|--|---|--|--|

1. Holdings accounts represent properties in liquidation that were transferred from a terminated manager.

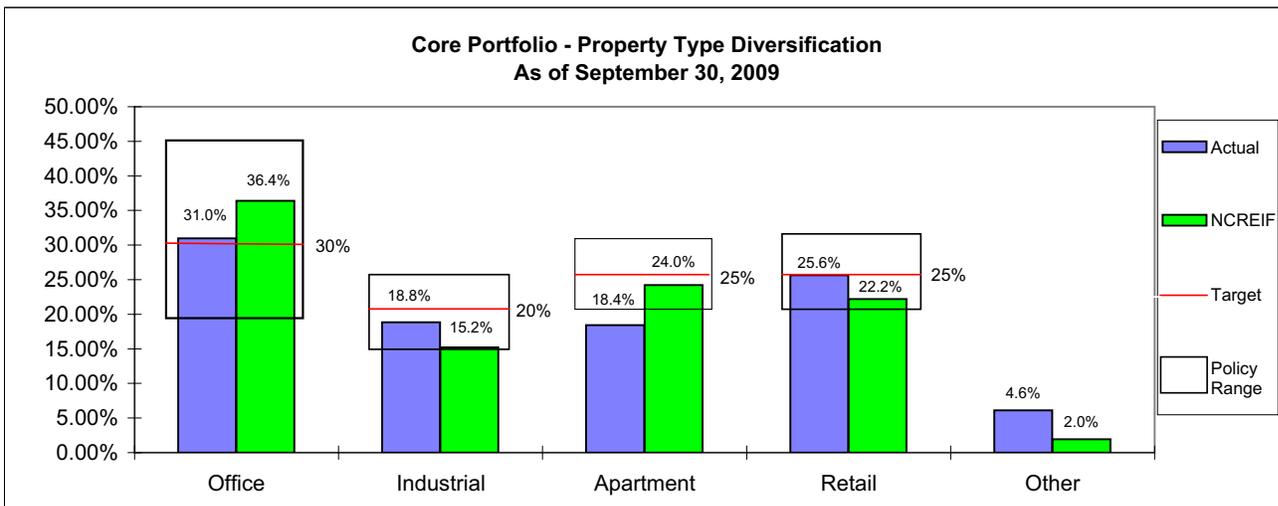
PORTFOLIO COMPOSITION REVIEW (% of Total Portfolio FMV)



Note: Other is primarily composed of Stocks/Equity (6%), Debt Instruments (60%), Operating Cos. (18%) and Diversified (16%) investments.



Note: Other is primarily composed of US Diverse (95.30%) and Various (4.70%) per GP's financials and Quarterly Data Input Sheets.



PORTFOLIO REVIEW

- ❖ **New Commitments** - During the quarter, OPERF closed on \$300 million in commitments to three new funds. Please see Section IV for more details and for other recent activity.
- ❖ **Contributions** - Contributions totaled \$357 million during the third quarter of 2009, compared to \$302 million during the second quarter of 2009, and \$652 million during the third quarter of 2008. The most recent four-quarter average for OPERF's contributions is \$378 million.
- ❖ **Distributions** - Distributions totaled \$181 million during the third quarter of 2009, compared to \$107 million during the second quarter of 2009, and \$244 million during the third quarter of 2008. The most recent four-quarter average for OPERF's distributions is \$138 million.
- ❖ **Portfolio IRR** - The IRR of the Portfolio since inception was 16.0% as of September 30, 2009, which represents an increase of 30 basis points from the 15.7% IRR as of June 30, 2009.
- ❖ **Gain/Loss** - The portfolio appreciated by \$837 million, net of cash flows, during the quarter. The Program's fair market value increased from \$8.7 billion as of June 30, 2009 to \$9.8 billion as of September 30, 2009, representing a \$1.0 billion increase. Net cash flow activity for the second quarter had a \$176 million gross impact on the market value, which implies \$837 million of corresponding appreciation from the reported valuations of existing portfolios.
- ❖ **Weighted Average Age** - Based on the active commitments as of September 30, 2009, the weighted average age of OPERF's portfolio increased from 5.2 years to 5.4 years. This represents the average age of all active fund investments, weighted by their respective commitment sizes and initial capital drawdown dates. Based on the invested capital of active funds, the weighted average age of OPERF's portfolio increased from 7.5 years to 7.6 years. The older age based on invested capital indicates that OPERF has a fair amount of capital invested in older funds that has not been exited yet, relative to the amount invested by more recent funds.

The following table highlights recent investment activity:

Portfolio Activity
As of September 30, 2009

(\$ in millions)	2008		2009		
	Q3	Q4	Q1	Q2	Q3
Starting Valuation	\$9,739	\$9,310	\$8,150	\$7,975	\$8,747
Contributions	652	585	270	302	357
Distributions	(244)	(112)	(152)	(107)	(181)
Appreciation/(Depreciation)	(837)	(1,633)	(293)	578	837
Ending Valuation	\$9,310	\$8,150	\$7,975	\$8,747	\$9,761
Unfunded Commitments	8,130	8,583	8,392	8,474	8,507
Total	\$17,439	\$16,733	\$16,366	\$17,222	\$18,267
IRR Since Inception	16.8%	15.9%	15.6%	15.7%	16.0%

Note: Totals may not add due to rounding.

The following table summarizes the current, exited and the overall Program's investment performance:

Portfolio Summary

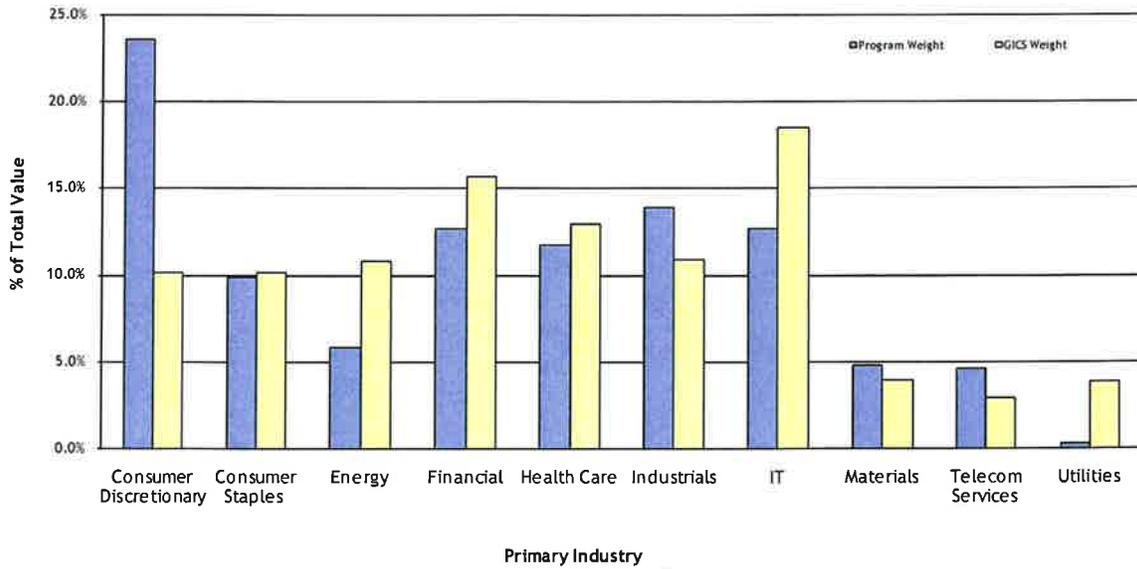
(\$ in millions)	June 30, 2009	September 30, 2009
Total Pension Assets	\$44,508	\$49,607
Target Allocation to Private Equity	16.0%	16.0%
Actual Allocation to Private Equity	19.6%	19.7%
Current		
# of Partnerships	165	169
Capital Committed	\$23,947	\$24,260
Capital Contributed	\$18,261	\$18,618
Capital Distributed	\$13,682	\$13,872
Estimated FMV	\$8,734	\$9,752
Total Value	\$22,417	\$23,624
Total Value Multiple	1.23x	1.27x
IRR	8.7%	9.4%
Exited		
# of Partnerships	36	36
Capital Committed	\$2,024	\$2,024
Capital Contributed	\$2,264	\$2,264
Capital Distributed	\$5,282	\$5,282
Estimated FMV*	\$9	\$9
Total Value	\$5,290	\$5,290
Total Value Multiple	2.34x	2.34x
IRR	23.7%	23.7%
Overall		
Portfolio Multiple	1.35x	1.38x
Portfolio IRR	15.7%	16.0%

* Includes escrows of exited deals.

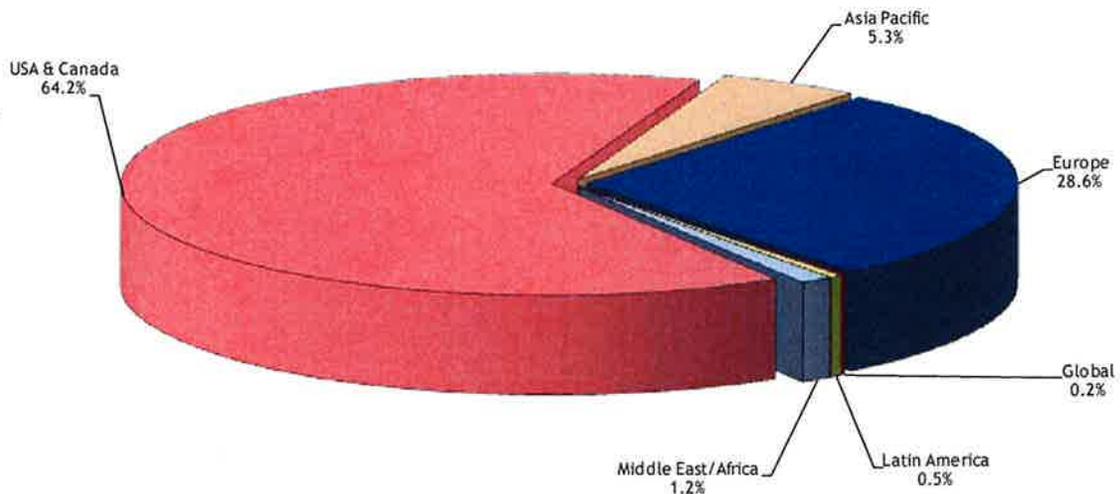
Since inception, OPERF has contributed a total of approximately \$20.9 billion to limited partnership investments and has received approximately \$19.2 billion of distributions. The estimated fair market value of OPERF's investments in the Portfolio was approximately \$9.8 billion as of September 30, 2009. The Program's return was 16.0% as of September 30, 2009. The Program's private equity allocation by market value is above its 16% target as a result of a depressed market for nearly all if not all other asset types, which serves to exaggerate the exposure to private equity.

Portfolio Allocation by Industry and Strategy
As of September 30, 2009

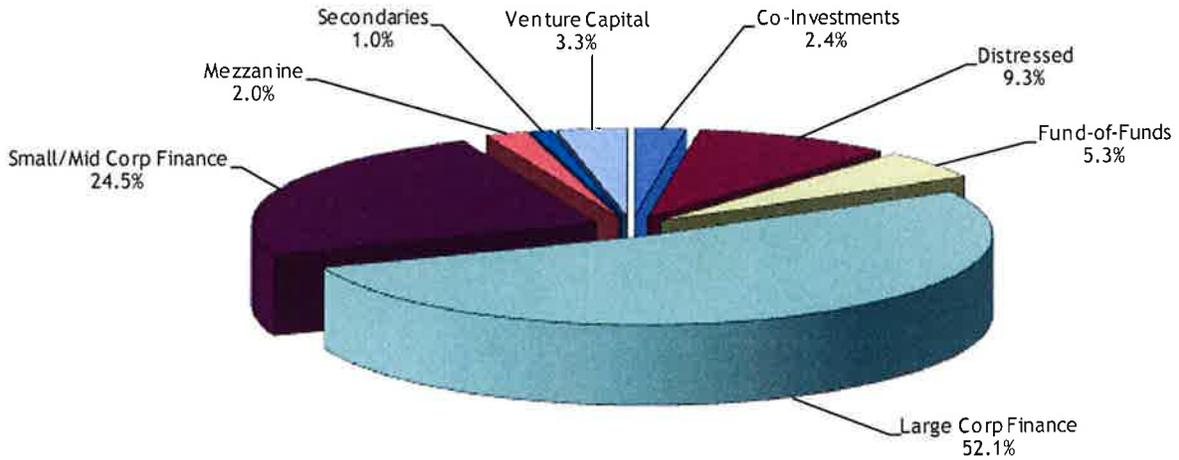
Program's GICS Weight versus Russell 3000
(Allocation Based on Fair Market Value)



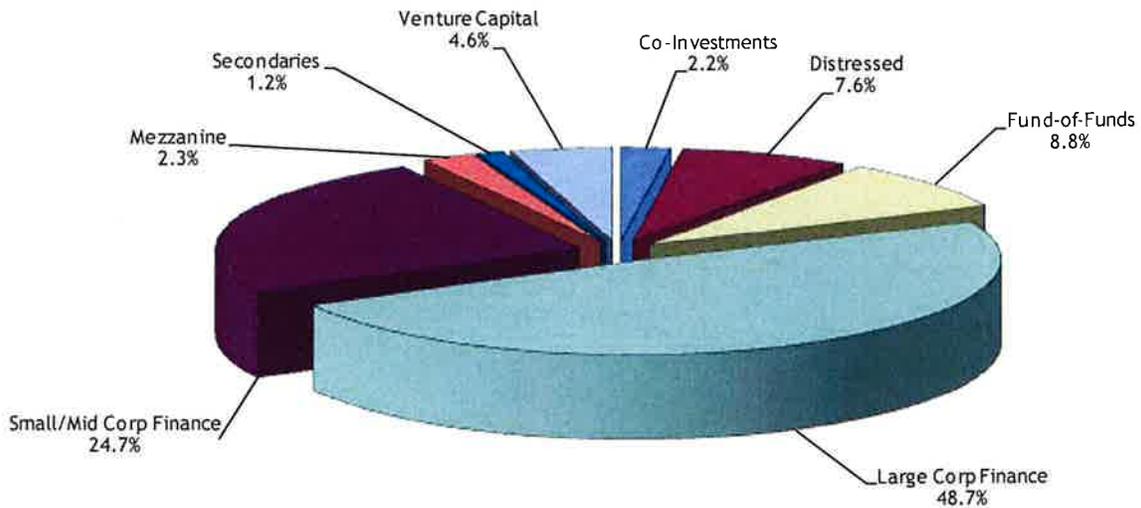
Geographic Allocation Based on Fair Market Value of Portfolio Companies



Strategy Allocation Based on Fair Market Value



Strategy Allocation Based on Fair Market Value + Unfunded Commitment



Glossary

Variance Analysis Reports

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

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

WEIGHTING

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

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

SELECTION

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

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

TIMING

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

TAB 10 – ASSET ALLOCATIONS & NAV UPDATES

Asset Allocations at January 31, 2010

Regular Account								Variable Fund	Total Fund
OPERF	Policy	Target	\$ Thousands	Pre-Overlay	Overlay	Net Position	Actual	\$ Thousands	\$ Thousands
Public Equity	41-51%	46%	19,999,289	39.5%	729,755	20,729,044	41.0%	922,938	21,651,982
Private Equity	12-20%	16%	9,922,803	19.6%		9,922,803	19.6%		9,922,803
Total Equity	57-67%	62%	29,922,092	59.1%	729,755	30,651,847	60.6%		31,574,785
Opportunity Portfolio			1,035,895	2.0%		1,035,895	2.0%		1,035,895
Fixed Income	22-32%	27%	13,464,101	26.6%	75,718	13,539,819	26.8%		13,539,819
Real Estate	8-14%	11%	5,386,726	10.6%	-	5,386,726	10.6%		5,386,726
Cash*	0-3%	0%	805,473	1.6%	(805,473)	-	0.0%	3,088	3,088
TOTAL OPERF		100%	\$ 50,614,287	100.0%	\$ -	\$ 50,614,287	100.0%	\$ 926,026	\$ 51,540,313

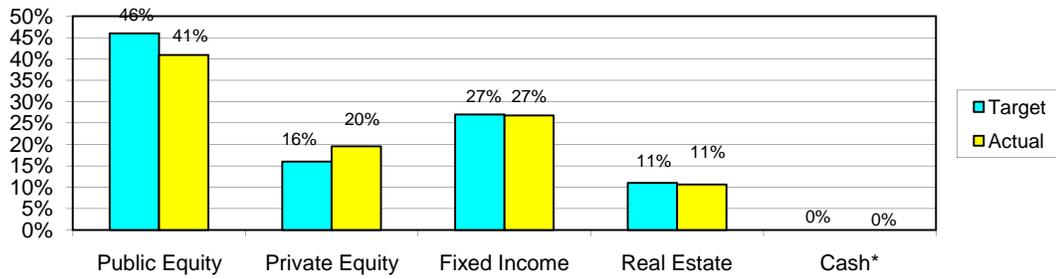
*Includes cash held in the policy implementation overlay program.

SAIF	Policy	Target	\$ Thousands	Actual
Total Equity	10-20%	15.0%	617,493	15.5%
Fixed Income	80-90%	85.0%	3,346,522	83.7%
Cash	0-5%	0%	32,594	0.8%
TOTAL SAIF		100%	\$3,996,609	100.0%

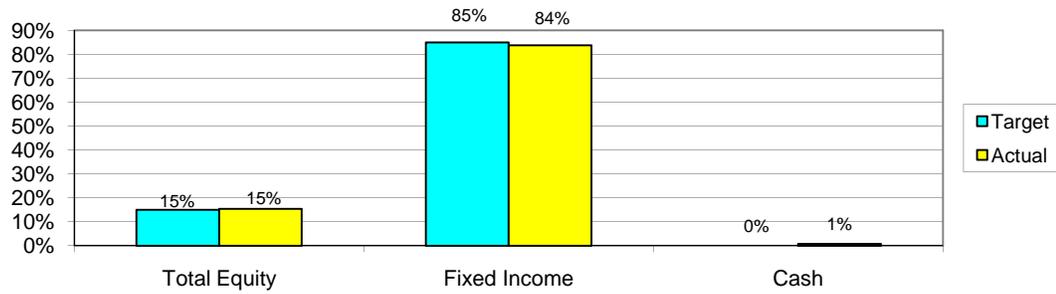
CSF	Policy	Target	\$ Thousands	Actual
Domestic Equities	25-35%	30%	\$315,703	33.0%
International Equities	25-35%	30%	320,155	33.4%
Private Equity	0-12%	10%	25,714	2.7%
Total Equity	65-75%	70%	661,572	69.1%
Fixed Income	25-35%	30%	284,578	29.7%
Cash	0-3%	0%	11,670	1.2%
TOTAL CSF			\$957,820	100.0%

HIED	Policy	Target	\$ Thousands	Actual
Domestic Equities	25-35%	30%	\$17,411	28.9%
International Equities	25-35%	30%	19,527	32.5%
Private Equity	0-10%	10%	5,198	8.6%
Total Equity	65-75%	70%	42,136	70.0%
Fixed Income	25-35%	30%	17,447	29.0%
Cash	0-3%	0%	581	1.0%
TOTAL HIED			\$60,164	100.0%

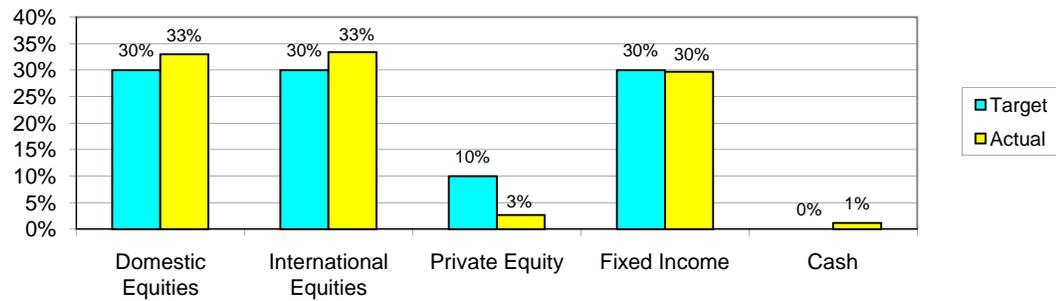
OPERF Asset Allocation



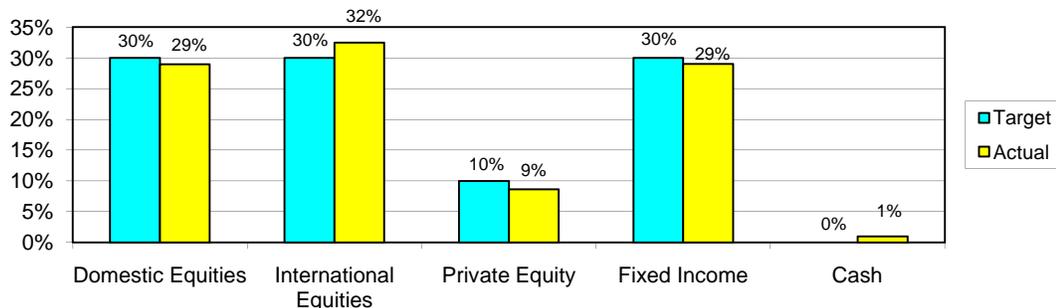
SAIF Asset Allocation



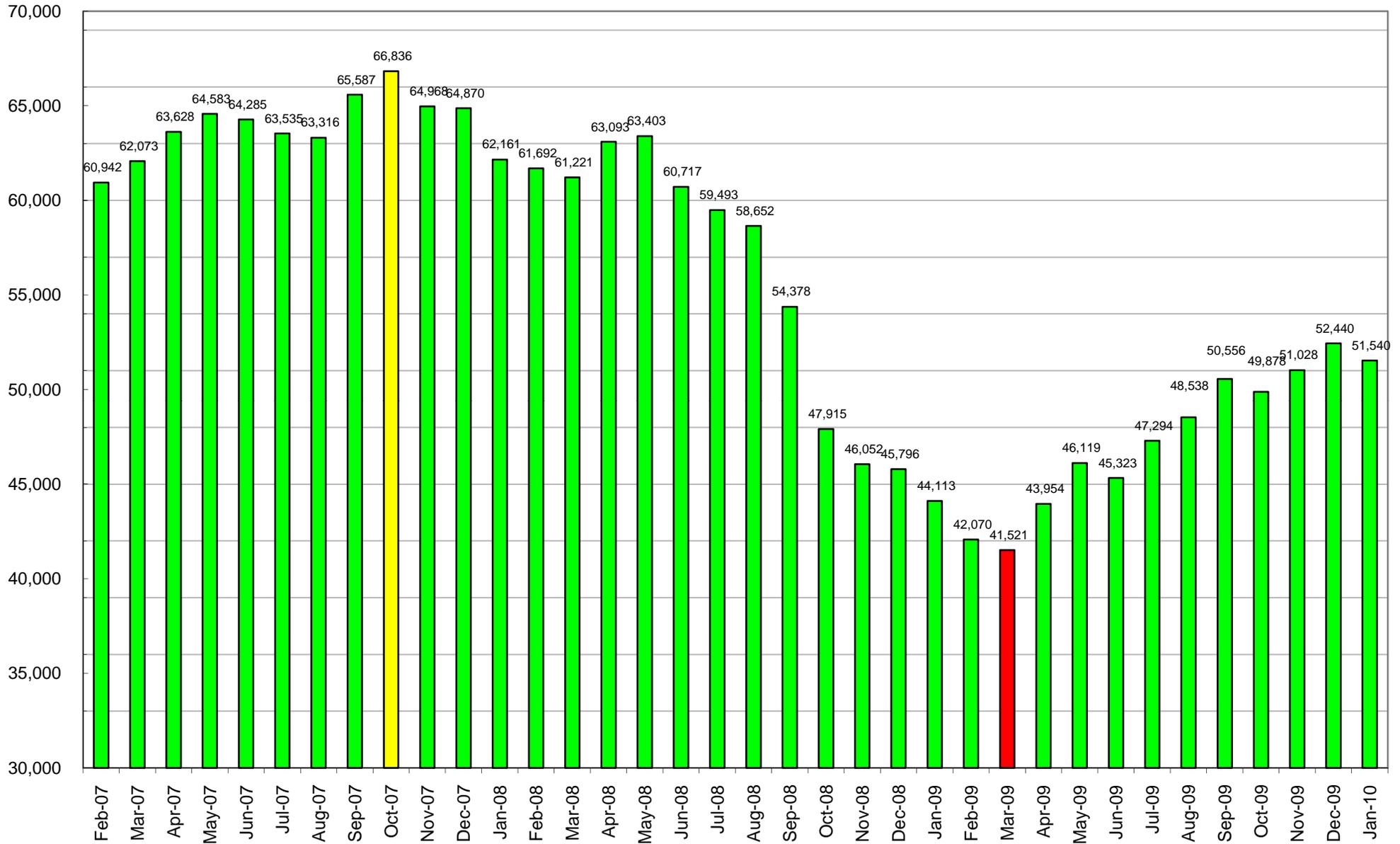
CSF Asset Allocation



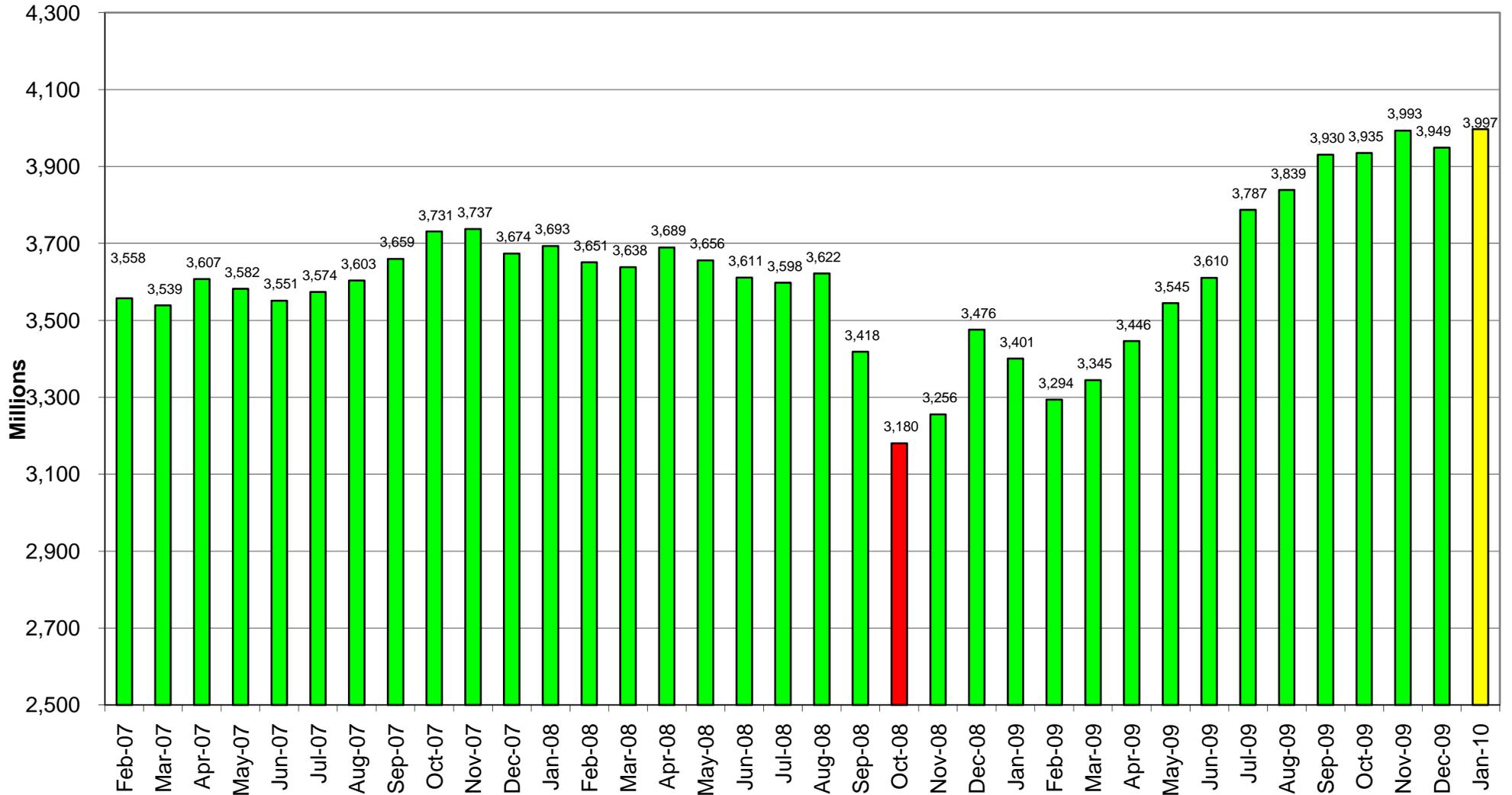
HIED Asset Allocation



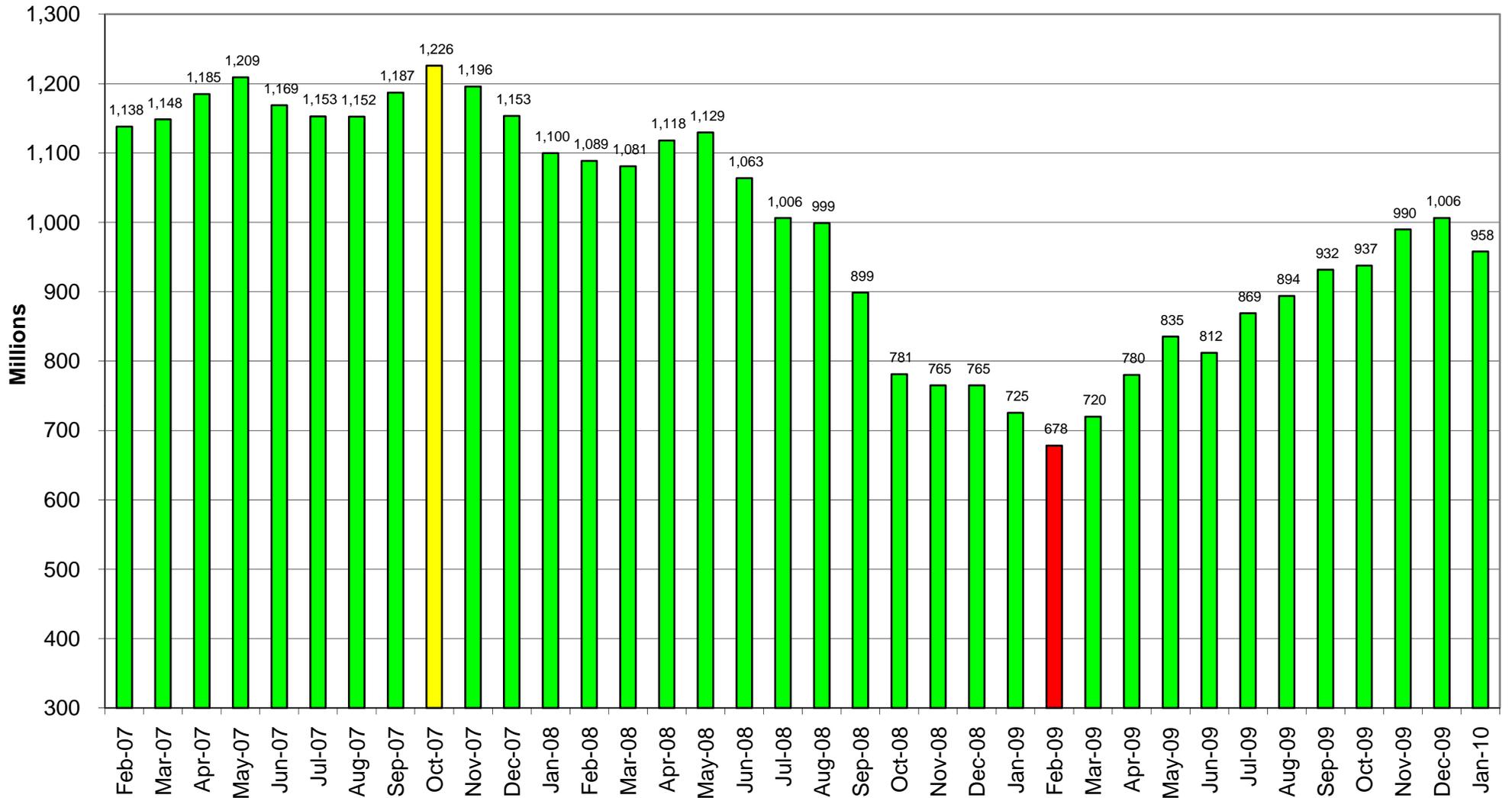
OPERF NAV
Three years ending January 2010
(\$ in Millions)



SAIF NAV
Three years ending January 2010
(\$ in Millions)



CSF NAV
Three years ending January 2010
(\$ in Millions)



TAB 11 – CALENDAR – FUTURE AGENDA ITEMS

2010 OIC Forward Agenda Topics

- April 28:** **OPERF A/L Study**
Opportunistic Real Estate Investment
OSTF Annual Review
Proxy Voting Update
DOJ Litigation Update
Annual Policy Updates
- May 26:** **OPERF A/L Study**
OPERF 1st Quarter Performance Review
- July 28:** OPERF Real Estate Annual Review
Annual Audit Update
- September 29:** CEM Annual Review
CSF Annual Review
- October 27:** OPERF Opportunity Portfolio Annual Plan
- December 1:** OPERF 3rd Quarter Performance Review
HIED Annual Review