Oregon Investment Council

December 1, 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
Ted Wheeler
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

December 1, 2010
9:00 AM

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

Time	A. Action Items	Presenter	Tab
9:00-9:05	**1. Review & Approval of Minutes** October 27, 2010 Regular Meeting	**Ron Schmitz** *Chief Investment Officer*	**1**
9:05-9:45	**2. GSO Capital Opportunities Fund II, LP** *OPERF Private Equity*	**Jay Fewel** *Senior Investment Officer* **Bennett Goodman** *Senior Managing Director* **David Fann** *Pacific Corporate Group*	**2**
9:45-10:20	**3. OPERF Opportunity Portfolio** *Annual Review*	**John Hershey** *Investment Officer*	**3**
10:20-10:30	**----------BREAK----------**		
10:30-11:15	**4. OPERF Fixed Income Structure**	**Perrin Lim** *Senior Investment Officer* **John Meier** *Strategic Investment Solutions*	**4**
11:15-11:30	**5. HIED Endowment Fund** *Annual Review*	**Mike Mueller** **John Meier**	**5**
11:30-11:35	**6. Proposed Policy Revisions** 4.00.03 and 4.01.13	**Mike Mueller**	**6**
11:35-11:40	**7. 2011 OIC Meeting Calendar Adoption**	**Ron Schmitz**	**7**

Harry Demorest, Chair
Keith Larson, Vice-Chair
Ted Wheeler, State Treasurer
Katy Durant, Member
Richard Solomon, Member
Paul Cleary, PERS Director (Ex-officio)

B. Information Items

11:40-11:55	**8. OPERF 3rd Quarter Performance Review**	**Mike Beasley** *Strategic Investment Solutions*	**8**
11:55-12:00	**9. Asset Allocations & NAV Updates** a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HIED Pooled Endowment Fund	**Ron Schmitz**	**9**
	10. Calendar—Future Agenda Items	**Ron Schmitz**	**10**
	11. Other Items	**Council** **Staff** **Consultants**	

C. Public Comment Invited

15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

October 27, 2010 Regular Meeting

RONALD D. SCHMITZ
CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

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STATE OF OREGON
OFFICE OF THE STATE TREASURER
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SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL
OCTOBER 27, 2010
MEETING MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon, Treasurer Ted Wheeler
Staff Present:	Darren Bond, Tony Breault, Garrett Cudahey, Jay Fewel, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Tom Rinehart, Ron Schmitz, James Sinks, James Spencer, 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:	Dee Carlson, Oregon Department of Justice Deena Bothello, Oregon Department of Justice

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

I. 9:01 a.m.: Review and Approval of Minutes

MOTION: Mr. Demorest brought approval of the September 29, 2010 OIC minutes to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Mr. Larson and passed by a vote of 5/0. Mr. Demorest mentioned that the Apollo Life Settlements investment opportunity that was approved by the OIC at the September 29 meeting may not close, as it appears Apollo may have been outbid by another buyer.

II. 9:01 a.m.: Centerbridge Capital Partners II, L.P. – *OPERF Private Equity Portfolio*

Staff recommended a commitment of $100 million to Centerbridge Capital Partners II, L.P. Jay Fewel, Senior Investment Officer introduced Jeff Aronson and Mark Gallogly, Co-Founders and Managing Principals of Centerbridge Capital Partners. Since its formation, Centerbridge has grown into a robust, multi-strategy firm, with 90 employees, including 34 investment professionals, and over $11.0 billion in assets under management. The firm also manages a series of non-control, distressed debt funds. While Centerbridge operates funds with differing structures and strategies, the firm operates under a “single team” model, out of one New York office. The firm is exploring the possibility of opening a London office and expanding its activities into Europe, but no decision or action on this option is imminent.

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

MOTION: Mr. Solomon moved approval of the staff recommendation subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by the Department of Justice working in concert with OST staff. Ms. Durant seconded the motion. The motion was passed unanimously by a vote of 5/0.

III. 9:30 a.m.: WLR Recovery Fund V, L.P. – *OPERF Private Equity Portfolio*

Staff recommended a commitment of $100 million to WLR Recovery Fund V, L.P. Sam Green, Investment Officer, introduced Wilbur Ross, Founder, Chairman and CEO of WL Ross. WL Ross employs a control-oriented strategy, usually investing in companies that are in bankruptcy or reorganization proceedings. Investments will typically consist of debt securities, distressed bank loans, trade claims, and equity-linked securities. The average investment size is expected to be $100-$200 million, but as in prior WLR Funds, a handful of outsized investments are to be expected. The firm's strategy is opportunistic in nature, and the fund will have no target sector allocations. However, based on history and the team's experience, investments in the healthcare, energy, banking and financial services, airline leasing, metals and mining, and transportation sectors are anticipated. Fund V will primarily invest in North America, but in line with its opportunistic strategy, if attractive foreign investments are found, it will have the ability to invest up to 50 percent of the capital outside of the U.S.

OPERF committed $200 million to Fund IV, in 2007. Staff notes that the reduced commitment being recommended for Fund V is based solely on the need to manage OPERF's overall private equity allocation.

The new commitment will be allocated 100 percent to the distressed subsector. As of June 30, 2010, OPERF's allocation to Distressed is targeted at 0-10 percent, with a current fair market value plus unfunded commitments exposure totaling 8.0 percent.

MOTION: Ms. Durant moved approval of the staff recommendation subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by the Department of Justice working in concert with OST staff. Mr. Solomon seconded the motion. The motion was passed unanimously by a vote of 5/0.

IV. 10:25 a.m.: OIC Proposed Policy Revisions

Staff recommended proposed edits to OIC Policies 4.00.03 and 4.01.13 regarding the OIC Standards of Ethics and Consulting Contracts, respectively. Treasurer Wheeler requested that a vote on these policy changes be postponed until the December 1, 2010 OIC meeting, allowing additional time for input by OIC members and other interested parties.

IV-A. 10:28 a.m.: OIC Proposed Policy Revisions

Staff recommended approval of the Oregon University System (OUS) Long-Term Fixed Income portfolio investment policy statement. The Oregon University System (OUS) desires to fund a Long-Term Fixed Income Portfolio managed by OST to invest monies not needed to cover short-term needs. This proposed fund is governed by OST Policy 04.03.02 and the OUS Long-Term Portfolio Investment Policy would be added as attachment F. Karen Levear, Director of Treasury Operations for the OUS Controller's Division, and Perrin Lim, Senior Fixed Income Investment Officer, addressed questions from the Council members.

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

IV-B. 10:39 a.m.: Sheridan Production Partners

Staff recommended an allocation increase of up to an additional $50 million in Sheridan Production Partners Fund II-B, which was approved at the September OIC meeting.

MOTION: Mr. Solomon moved approval of the staff recommendation. Ms. Durant seconded the motion. The motion was passed unanimously by a vote of 5/0.

V. 10:43 a.m.: CEM Benchmarking Annual Report

Bruce Hopkins, Director of CEM Benchmarking, Inc. and Mike Mueller, Deputy CIO, presented the cost analysis that CEM Benchmarking, Inc. performed for the five-years ending December 31, 2009 on OPERF's overall investment costs. The Fund was identified as a high-value added/low cost fund, relative to the CEM universe of funds, both public and private. Using their unique database, CEM has provided Defined Benefit (DB) fund sponsors with insights into their cost, return, risk and liability performances since 1990. Their database includes 189 US Funds, valued at approximately $2.3 trillion.

OPERF's costs are compared to a custom peer group of 19 funds (ranging from $21.5 billion to $134.1 billion), based on asset size. The median fund in the peer group was $45.6 billion (Oregon—average assets for 2009). Among the 19 peer funds, OPERF was the 10th largest fund. Based on CEM's benchmarking, OPERF's total costs were lower than "expected" by approximately $33 million and in the "Positive Net Value Added/Low Cost" quadrant.

This was an information item only.

VI. 11:10 a.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended September 30, 2010. All asset classes are within their allocation ranges.

VII. 11:11 a.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

VIII. 11:12 a.m.: Other Business

There was no other business discussed.

11:13 a.m.: Public Comments

There were no public comments.

The meeting adjourned at 11:13 a.m.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist

TAB 2 – GSO CAPITAL OPPORTUNITIES FUND II, LP

OPERF Private Equity

GSO Capital Opportunities Fund II, L.P.

Purpose

Staff is recommending a commitment of $100 million to GSO Capital Opportunities Fund II, L.P. (the Fund), a $3.0 billion (target) fund pursuing investments in the middle market, leveraged finance marketplace. The Fund will have a flexible investment strategy, with an emphasis on providing junior capital to target companies in connection with buyouts, recapitalizations, acquisitions, and growth financing transactions. These investments will include secured debt, subordinated debt, mezzanine securities, preferred stock, and private equity. The current market environment for GSO's strategy is particularly attractive as reduced liquidity in financing markets has increased the demand for junior capital.

Background

GSO was founded in 2005 by former CSFB executives Bennett Goodman, Tripp Smith and Doug Ostrover. Since inception, the Firm has grown to 179 employees, staffing offices in New York, Houston and London, and managing nearly $30 billion in assets in five different debt strategies: mezzanine, hedge funds, distressed, rescue finance, and structured finance. The Fund's mezzanine debt strategy has 25 professionals dedicated to sourcing, structuring, executing, and managing investments. The Firm also has 38 shared research analysts, who cover 13 industries and hundreds of non-investment grade companies, and provide additional depth and research on industry and credit issues.

In 2008, The Blackstone Group acquired a controlling interest in GSO, with the intention of creating one of the largest credit managers in the world. While Blackstone gained a significant share of the Firm's economics in this acquisition, GSO retained virtually all operating autonomy, and a sufficient share of the economics to ensure alignment of interests and proper incentives. The Park Hill Group, another affiliate of Blackstone, will serve placement agent in raising the Fund.

Fund II will employ a continuation of the mezzanine debt strategy of Fund I, providing acquisition financing for upper-middle market companies, primarily in sponsored buyout transactions. At the core, a mezzanine strategy provides subordinated debt/junior capital in acquisition financing at attractive, risk-adjusted interest rates (typically in the low-teens), and can include components of equity upside, such as co-investment opportunities or equity warrants. The strategy generates an attractive current yield, and with additive transaction fees, call premiums, and equity upside, it should generate net returns in the mid-upper teens. Following the onset of the "credit crisis" in 2008, mezzanine debt has come back into favor, as banks have only been willing to lend at significantly reduced leverage multiples, and private equity sponsors are reluctant to fill the financing void with equity, as it is dilutive to returns. Mezzanine debt bridges this financing gap with junior capital that is less dilutive than equity, yet provides another layer of protection subordinate to the senior-secured lenders.

Fund II will build a diversified portfolio of companies in the middle market, in both the U.S. and internationally. International investments are expected to be primarily in Western Europe and, to a lesser extent, in Central

Europe and Asia. Target transaction sizes will be investments of $75 to $200 million in companies with EBITDA ranging from $75 to $150 million. GSO will seek to build a portfolio diversified across security types, issuers, industries and geographic locations. The Fund has secured a $500 million credit facility, and anticipates using a modest amount of leverage (i.e., 25 percent) in early transactions to increase expected returns by 200-300 basis points.

GSO will execute its strategy opportunistically, but anticipates investing approximately two-thirds of the fund in debt securities, and one-third in equity related securities. Equity investments may be in companies in which GSO has also invested in debt, or in GSO led buyout transactions. While the Fund may lead two or three buyout transactions per year, the Fund's overall strategy is lower in risk than other pure buyout strategies.

GSO has generated strong performance in its debut Capital Opportunities Fund, despite investing approximately half of the capital prior to the credit crisis, and suffering a sizable early loss with Readers Digest. As of September 30, 2010:

- GSO Capital Opportunities Fund I, a 2007 vintage fund, had a net IRR of 9.2 percent, and a net total value multiple of 1.14x. Both the IRR and multiple numbers are first-quartile results for a 2007 vintage fund according to Venture Economics data.
- OPERF committed $100 million to Fund I, in 2008.

A new commitment will be allocated 100 percent to the Special Situations-Mezzanine subsector. As of June 30, 2010, OPERF's allocation to Mezzanine is targeted at 0-5 percent, with a current fair market value plus unfunded commitments exposure totaling 2.1 percent.

We have reviewed the Fund's compliance with the Private Partnership Principles. Staff anticipates seeking the following improvements during final negotiations of terms and conditions:

- Improving governance rights via improvements in no-fault provisions;
- Reducing post-investment period management fees.

Recommendation

Staff recommends that the OIC authorize a $100 million commitment to GSO Capital Opportunities Fund II, L.P., 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.

MEMORANDUM

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

FROM: PCG Asset Management LLC ("PCG AM")

DATE: November 12, 2010

RE: GSO Capital Opportunities Fund II L.P.

Strategy:

GSO Capital Opportunities Fund II L.P. (the "Fund") is being formed by GSO Capital Partners LP ("GSO," the "Firm," or the "General Partner"), a subsidiary of The Blackstone Group, to provide capital in connection with leveraged buyouts, acquisitions, recapitalizations and growth financings. The Fund will generally provide mezzanine financing, which may include secured debt, subordinated debt, preferred stock and private equity.

GSO anticipates investing approximately 80-85% of invested capital in debt securities and 15-20% in equity related securities, although the General Partner will remain opportunistic. Equity investments may be in companies in which the Firm has also invested debt, or in GSO-led buyout transactions. Overall, GSO pursues a strategy that is lower in risk than many private equity investors, and the Firm has generated a low loss ratio of 5.4% through its previous investments.

The Fund intends to invest in a diversified portfolio of companies in the middle market. The General Partner defines the middle market as companies with EBITDA ranging from $75 to $150 million. Investments will be diversified across various issuers, industries and geographic locations, with the investment size ranging from $75 to $200 million. GSO will apply a modest amount of leverage to the Fund, and is currently trying to secure a $500 million line of credit for the Fund's benefit. The Fund will primarily invest in the United States and Europe.

The Firm has defined a target of $3 billion for the Fund and is expected to hold a first closing around year end. A final close will be held within one year of the Firm closing on $1.5 billion for the Fund. The General Partner will invest in the Fund the lesser of 5% of total commitments and $100 million, although 50-75% of this contribution is expected to come from The Blackstone Group.

Allocation:

A new commitment to the Fund would be allocated 100% to the Special Situations investment sub-sector. As of June 30, 2010, OPERF's allocation to Special Situations is listed in the table below. It is important to note that since allocation is based on fair market value, a commitment to the Fund would not have an immediate impact on OPERF's current portfolio allocation. A commitment to the Fund is complementary to OPERF's existing fund commitments and provides the overall portfolio with a further degree of diversification.

As of June 30, 2010	Target	FMV	FMV + Unfunded
Special Situations	5-15%	12%	11%

Conclusion:

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

(1) Satisfactory negotiation or clarification of certain terms of the investment;

(2) Satisfactory completion of legal documents;

(3) Satisfactory continuation and finalization of due diligence;

(4) No material changes to the investment opportunity as presented; and

(5) Confidentiality maintained regarding the commitment of OPERF to the Partnership until such time as all the preceding conditions are met.

TAB 3 – OPERF OPPORTUNITY PORTFOLIO

OPERF Opportunity Portfolio 2009/2010 Review

John Hershey, Alternatives Investment Officer

December 1, 2010

Table of Contents

I. 2009-2010 YTD Review
- New investments
- Cash flows
- Portfolio snap shot
- Performance
- Active funds review

II. Strategy discussion
- Objectives
- Strategies of interest
- Opportunity Portfolio Committee

New investments/liquidations/realizations 2009/2010

New Investments (commitments)

- 2009 (commitment dates)
  Endeavour Structured Equity Mezzanine ($50mm – Jan)
  AQR Convertible Arbitrage ($150mm – June)

- 2010 (commitment dates)
  Sanders Capital ($200mm – March)
  Sheridan Productions ($132mm – September/October)
  Apollo Financial Credit ($100mm – September) * (will not close)

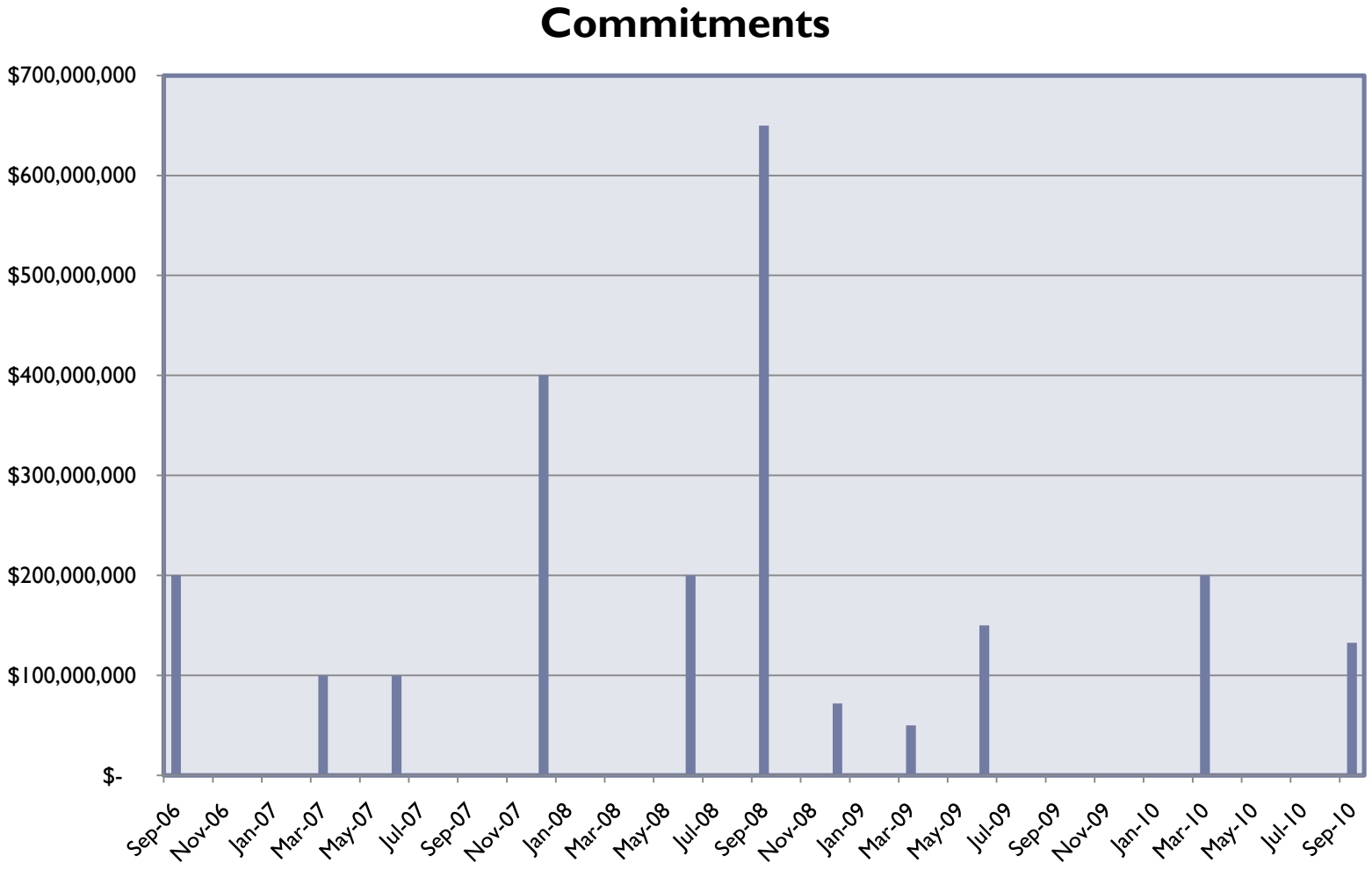
Liquidating

- 2010
  Oaktree Capital Loan Fund (in process)

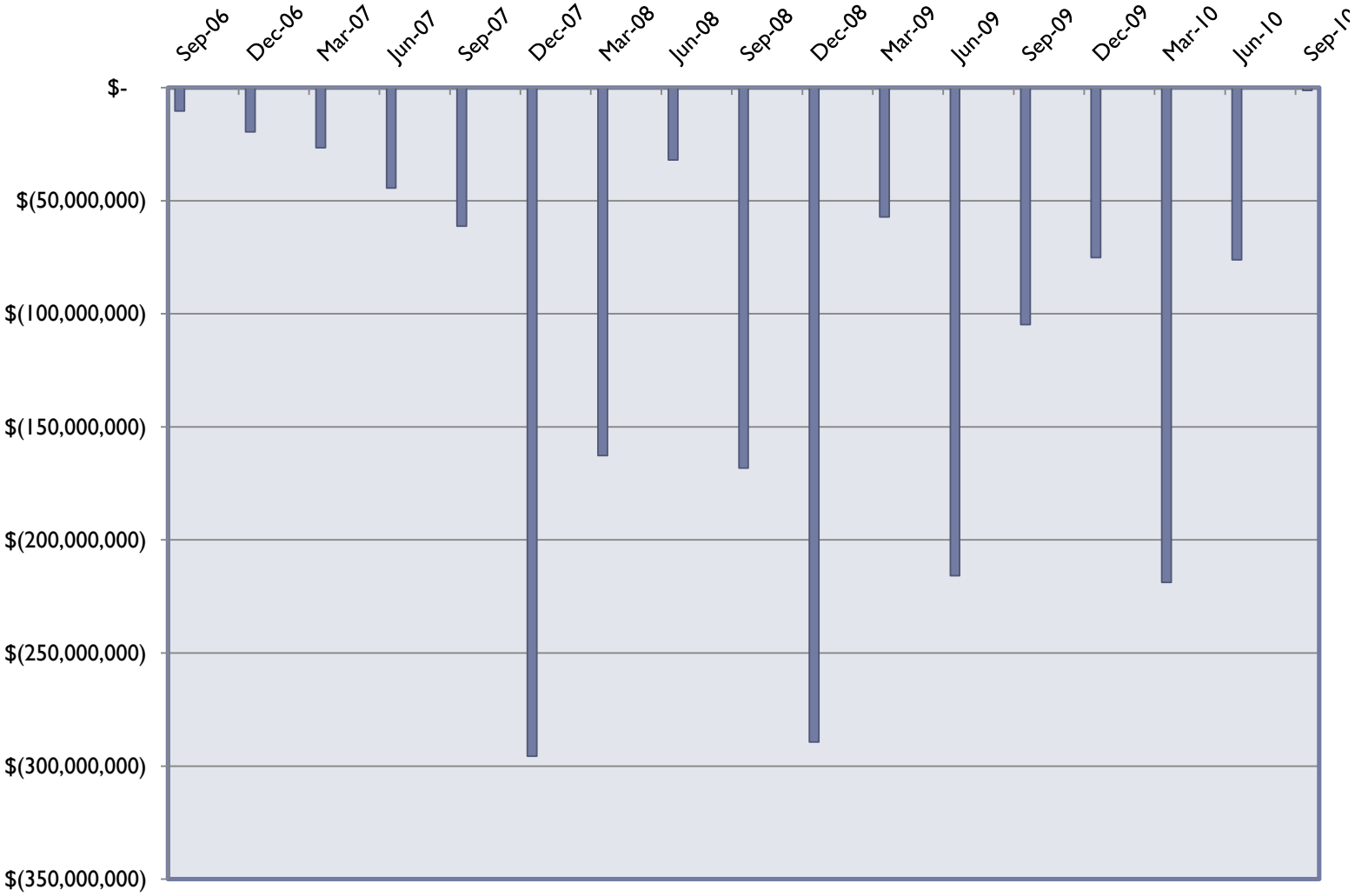
Final realizations

- 2010
  AQR Convertible Arbitrage (May)

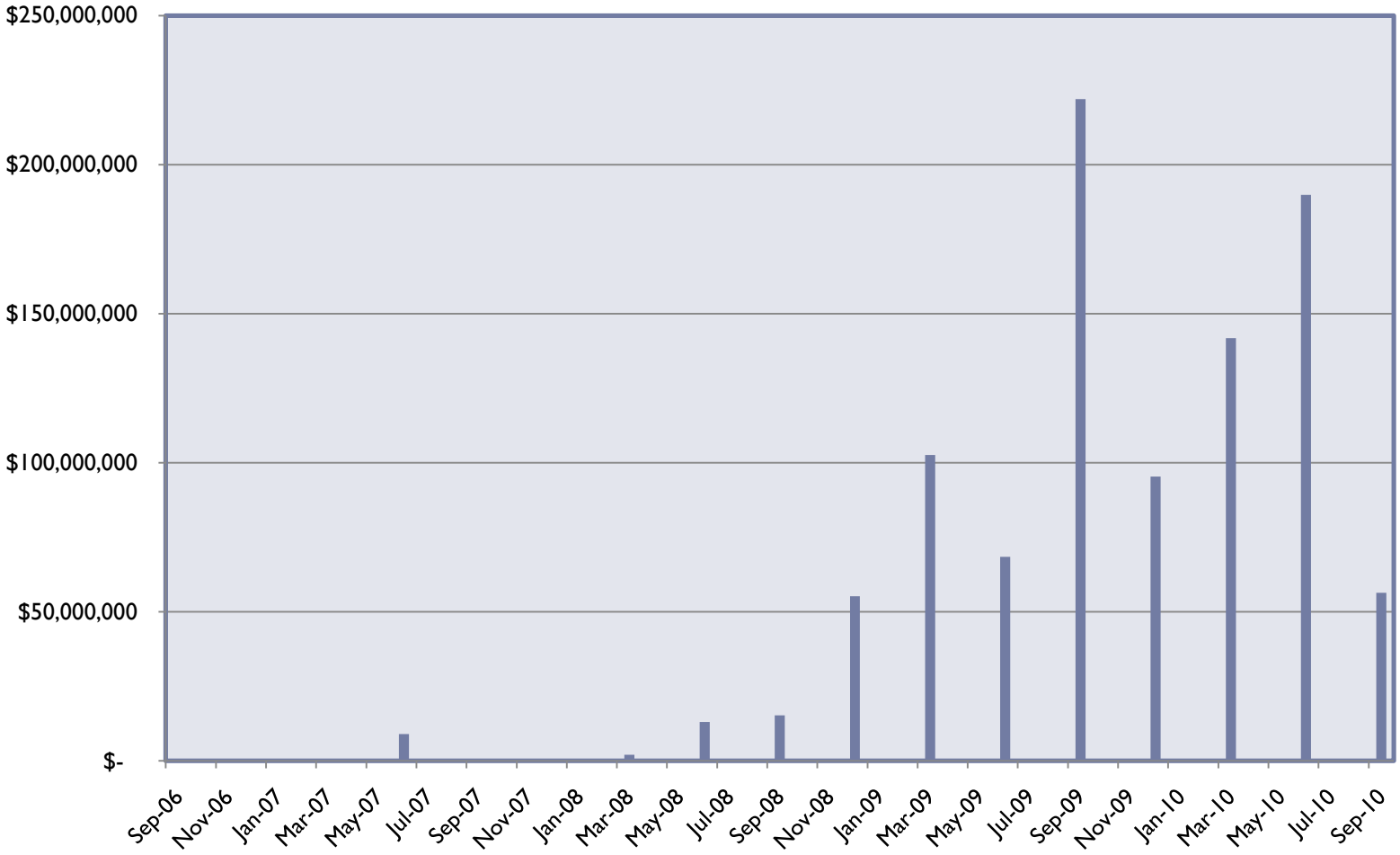
Commitments



Capital calls/contributions

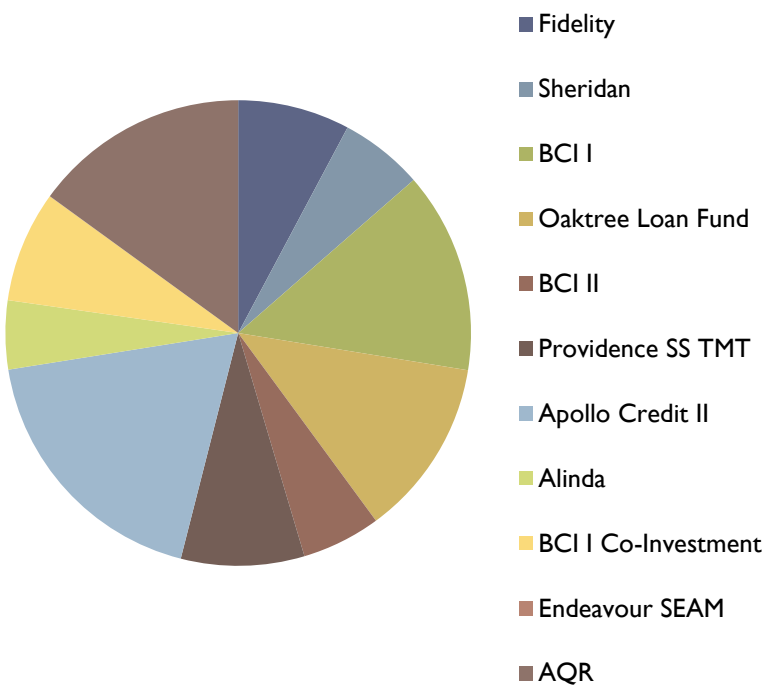


Distributions

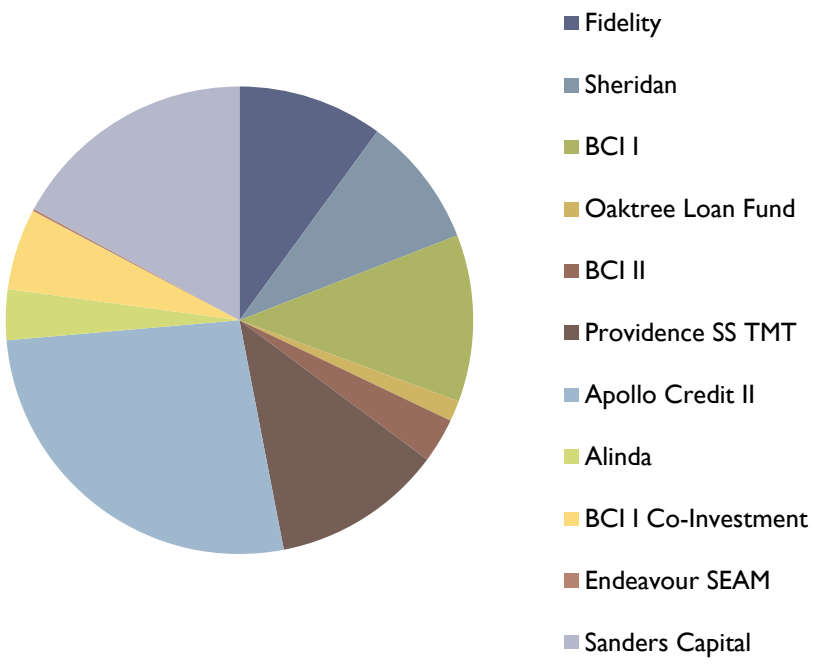


Portfolio Snapshot (Fair Market Value)

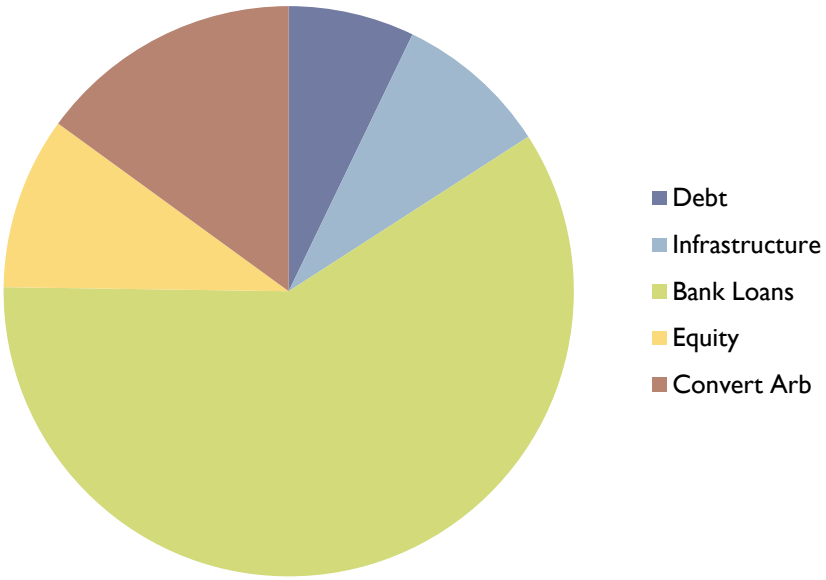
FMV Sept 2009 $1,040 mm

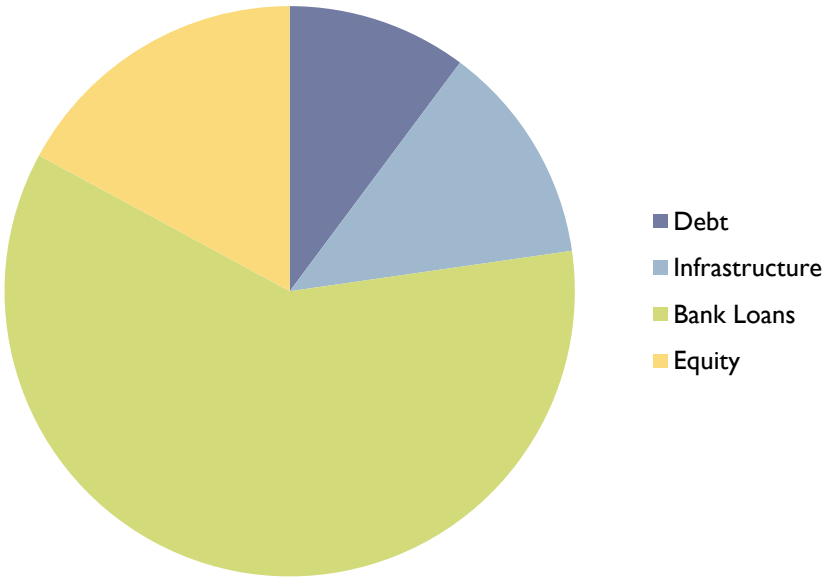


FMV Sept 2010 $1,032 mm



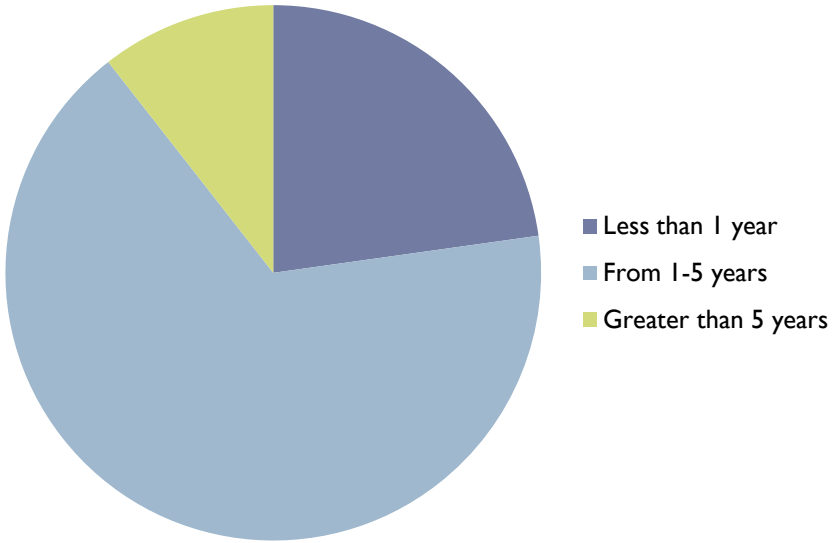
Portfolio Snapshot (Strategy)



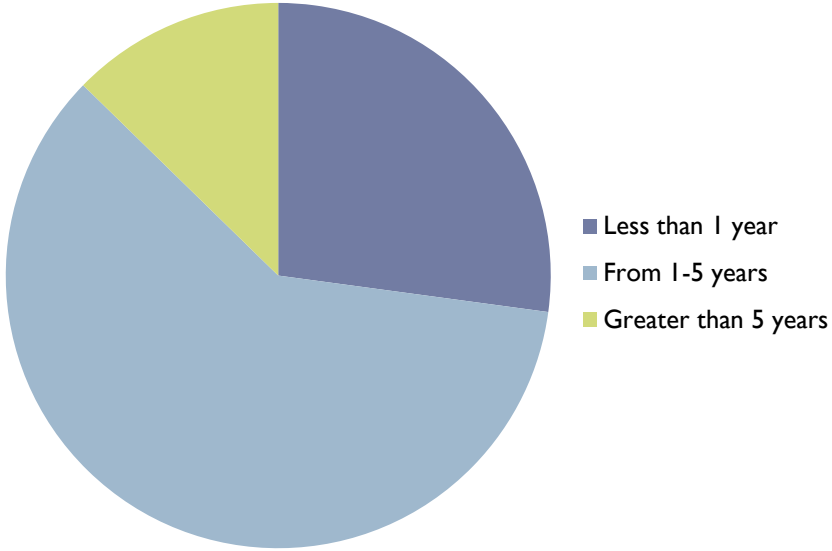


Portfolio Snapshot (Liquidity)

Liquidity September 2009



Liqudity September 2010



Performance (YTD September 30th)

NAV (September 30, 2009)	$1,040,376,715
Plus contributions	371,289,340
Minus distributions	(483,293,062)
Plus unrealized appreciation	104,497,082
NAV (September 30, 2010)	$1,032,870,075.

Performance (YTD September 30th)

	9/2009	9/2010
FMV + Distributions	$1,528mm	$2,003mm
FMV	$1,040mm	$1,033mm
FMV % of OPERF	~2.1%	~1.9%
FMV + unfunded commitments % of OPERF	~2.7%	~2.3%
Multiple ((FMV + Distributions)/Drawn)	1.03x	1.08x
IRR since inception (Q2/2006)	2.6%	5.5%
Time weighted returns		
YTD (Sept)	25.6%	5.1%
1 year	-4.9%	15.0%
2 years	-4.3%	4.6%
3 years	-0.9%	1.7%
4 years	n.a.	2.8%

Active funds review

Fidelity Real Estate Opportunities Fund	
Strategy	OTC real estate debt
Performance	2.3% since inception (4/2007); 24.4% YTD
Outlook	5.5% current yield; ~ 10.5% YTM

Sheridan Production Partners L.P.	
Strategy	Oil and gas exploration and production
Performance	14.8% since inception (3/2007)
Outlook	8% current yield; target total return 13-15%

Active funds review

Blackrock Credit Investors I	
Strategy	Levered senior bank loans
Performance	-3.3% since inception (Q3/2007); 7.4% YTD
Outlook	6.6% current yield; 12.1% YTM; 3-4% total target return

Blackrock Credit Investors II	
Strategy	Levered senior bank loans
Performance	21% since inception (Q2/2008); 77.5% YTD
Outlook	7.7% current yield; 18.2%YTM; 17-19% total target return

Active funds review

Providence Special Situations TMT	
Strategy	Levered senior bank loans and bonds
Performance	23.3% since inception (Q2/2008); 11.7% YTD
Outlook	11.8% current yield; 15.1% YTM

Apollo Credit Opportunities Fund II	
Strategy	Levered senior bank loans
Performance	17.1% since inception (Q3/2008); 6.4% YTD
Outlook	12.5% current yield; 12.9% YTM

Active funds review

Alinda Infrastructure Fund II	
Strategy	Infrastructure
Performance	4.3% since inception (Q3/2008); 1% YTD [still in J-curve]
Outlook	6% current yield; target total return 13-15%

Blackrock Credit Investors I Co-invest	
Strategy	Levered senior bank loans
Performance	40.3% since inception (Q3/2008); 13.4% YTD
Outlook	9.3% current yield; 25.1% YTM; 25-28% total target return

Active funds review

Endeavour Structured Equity and Mezzanine Fund I	
Strategy	Middle market mezzanine debt
Performance	-41% since inception (Q1/2009); -34% YTD [still in J-curve]
Outlook	12% current yield; target total return 13-15%

Sanders Capital	
Strategy	All asset value fund
Performance	-20% since inception (Q1/2010); -20% YTD
Outlook	Target return 12-14%

Opportunity Portfolio strategy

- Opportunity Portfolio Objectives
  - Opportunistic/dislocation oriented
  - Innovation oriented
- Strategies of interest:
  - Dislocation oriented
    - Life settlements
    - Credit strategies
    - Long dated volatility
  - Innovation oriented
    - Frontier markets
    - Aviation finance
    - Trade finance
    - Legal settlements
    - Drug royalty streams
    - Reinsurance

Other issues

- Opportunity Portfolio Committee
  - For time sensitive investment opportunities
  - For re-ups
  - Governance

TAB 4 – OPERF FIXED INCOME STRUCTURE

Oregon Investment Council

Fixed Income Review and Recommendation

DECEMBER 1, 2010

STRATEGIC INVESTMENT SOLUTIONS, INC.

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

John P. Meier, CFA
Managing Director

Fixed Income Role Within the Policy Portfolio

- Total Fund Risk Control
  - Diversification.
- Liquidity
  - Lesson from 2008 – All fixed income is not always liquid.
- Return
  - Core+ Managers' investment strategies for return enhancement reduce the full benefits of total fund diversification.
  - OIC Policy of actively managed fixed income objective of 75 basis points of excess return is aggressive but, has historically been achieved.
  - Credit Opportunity and Non US allocations further diversify fixed income risk.

Current Fixed Income

- Asset Class Benchmark = Core+ Manager Benchmark.
  - 90% Barclays Universal/10% Citigroup World Gov't Bond Non-US Hedged Index.
- Implementation – ~70% Core+, ~30% Credit Opportunity Strategies
  - Four Core+ Managers – AllianceBernstein, BlackRock, Western and Wellington.
  - Two Credit Opportunity Managers – KKR and Oak Hill.
- Pros of Current Structure
  - Broad based, discretionary approach with Core+ has worked well.
  - Credit Opportunity allocation has significantly improved return and diversification.
  - Significant floating rate exposure with Credit Opportunity allocation will provide better inflation protection than nominal bonds.
- Challenges of Current Structure
  - Low expected returns due to current low interest rates.
  - Potential for significant losses if interest rates rise.
  - Hedged developed market bonds behave like the US bond market, limited diversification benefits.
  - Core+ Managers typically "reach for yield" and significantly underperform in a flight to quality.

Asset Class Performance Review

- Asset Class has significantly outperformed on a net of fees basis.
  - 3 Years ~1%, 5 Years ~0.8%, 7 Years ~0.9% and 10 Years ~1%
- All Core+ Managers have outperformed over periods of 5 years or longer.
  - Albeit at significantly higher levels of risk (see appendix).
- Credit Opportunity allocation has added about 0.6% to asset class performance for the past two years.
- KKR has added value to its benchmark.
- Though early, to date, Oak Hill has trailed its benchmark.

Changes to Consider

- Codify Credit Opportunity Exposure in Fixed Income Asset Class Benchmark.
- Improve expected return and diversification through swap of Emerging Market Debt for Non US Developed Market Debt.
- Improve inflation hedging through use of inflation linked bonds (TIPS).

Structure Alternatives

	Alternative 1 Current Fixed Income Benchmark	Alternative 2 Current Implementation	Alternative 3 Replace Non US Developed with EMD	Alternative 4 Add TIPS Allocation without EMD	Alternative 5 Add TIPS and EMD Allocations
Current Core+ (90/10)	100%	70%	0%	0%	0%
Credit Opportunity	0%	30%	30%	30%	30%
EMD*	0%	0%	10%	0%	10%
US Only Core+	0%	0%	60%	50%	40%
TIPS	0%	0%	0%	20%	20%
Expected Return	3.39%	3.95%	4.15%	3.90%	4.11%
Expected Std Dev	4.59%	4.59%	4.74%	4.10%	4.38%
Sharpe Ratio	0.302	0.425	0.454	0.463	0.482

*** Could be implemented with existing managers, new separate mandates, or combination**

Recommendation

- Recommend OIC Adopt Alternative 5 as Long Term Fixed Income Strategy.
  - Improves expected return while actually reducing risk.
  - Provides more inflation hedging than current strategy.
  - Provides diversification into higher yielding but more fiscally sound economies.
  - Dedicated TIPS allocation will not deliver meaningful alpha.
- Recommend OIC Adopt Alternative 3 as its Current Fixed Income Strategy.
  - Lack of current inflation pressures allows for more tactical implementation of TIPS.
- Recommend that Fixed Income Asset Class Benchmark mirror target implementation.
  - Alternative 3 – 60% Barclays Universal, 10% EMD Benchmark (TBD), 10% ML High Yield Master II and 20% LSTA Leveraged Loan.
  - Alternative 5 – 40% Barclays Universal, 10% EMD Benchmark (TBD), 10% ML High Yield Master II, 20% LSTA Leveraged Loan, and 20% Barclays TIPS.
- No manager changes.

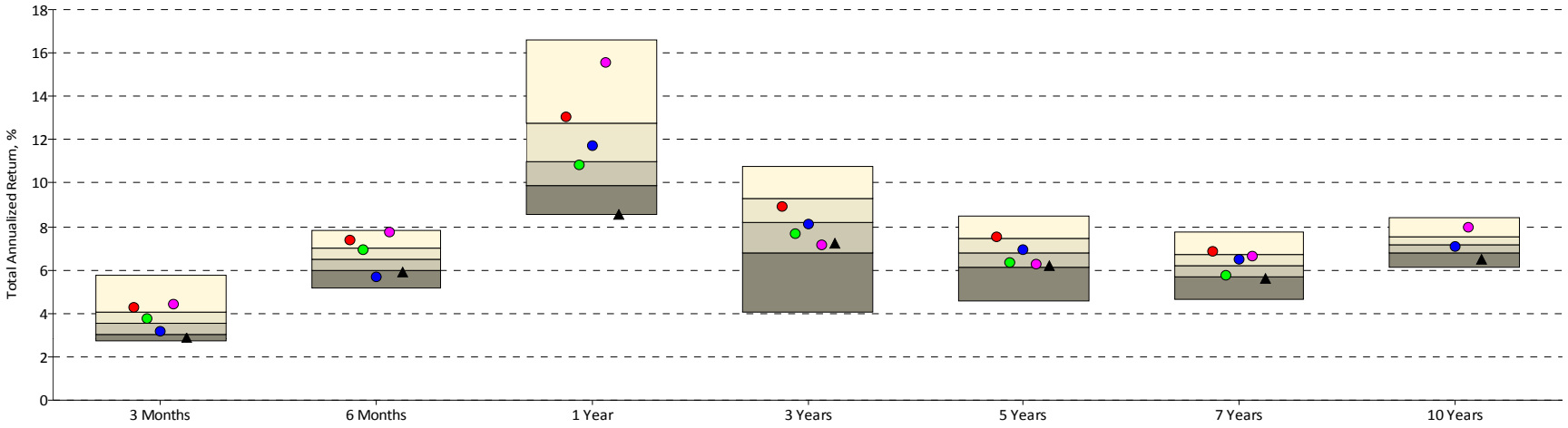
OPERF - Core Plus Fixed Income

Periods ending September 30, 2010

Performance Detail

All Strategies

Total Return: Trailing Periods



	Total Return													
	3 Months		6 Months		1 Year		3 Years		5 Years		7 Years		10 Years	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Alliance - OPERF	4.3	17	7.4	15	13.0	22	8.9	35	7.5	25	6.8	21	n/a	n/a
BlackRock - OPERF	3.8	42	6.9	31	10.8	54	7.7	61	6.4	65	5.8	72	n/a	n/a
Wellington - OPERF	3.2	72	5.7	89	11.8	37	8.1	54	6.9	42	6.5	31	7.1	58
Western - OPERF	4.4	15	7.7	6	15.5	8	7.1	71	6.3	68	6.6	26	8.0	12
OPERF Custom FI 90/10 Index	2.8	91	5.9	82	8.5	97	7.2	71	6.1	76	5.5	83	6.5	88
eA Core Plus FI Median	3.5		6.5		11.0		8.2		6.8		6.2		7.2	
eA Core Plus FI Size		*102*		*102*		*102*		*100*		*97*		*87*		*72*

Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- Alliance - OPERF
- BlackRock - OPERF
- Wellington - OPERF
- Western - OPERF
- OPERF Custom FI 90/10 Index

Universe:
eA Core Plus FI

Universe Rank:
Green = Top Quartile **Red = Bottom Quartile**

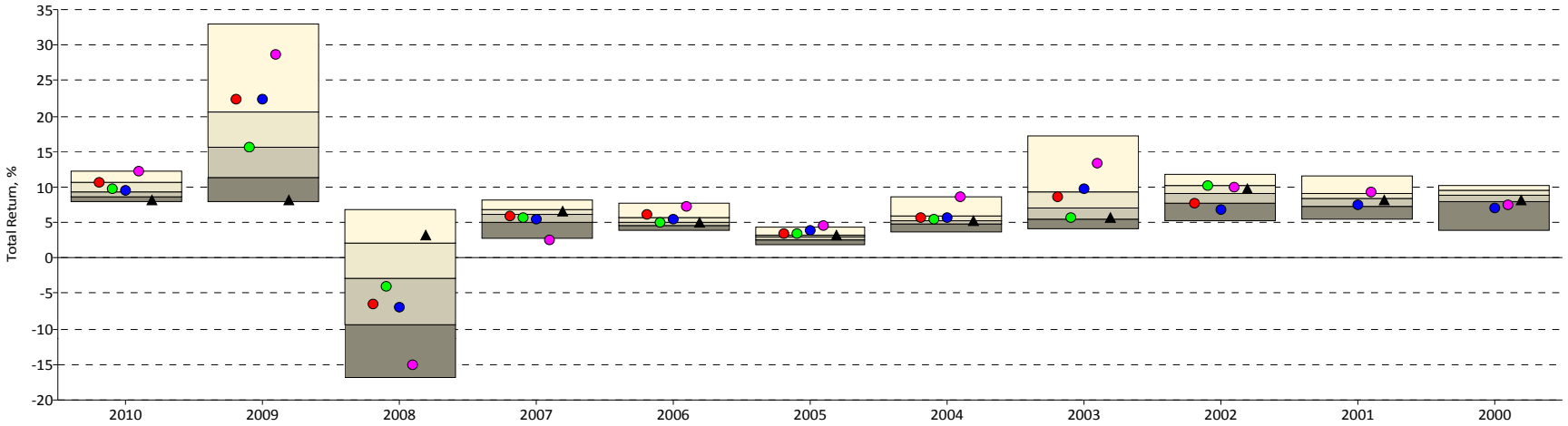
OPERF - Core Plus Fixed Income

Periods ending September 30, 2010

Performance Detail

All Strategies

Total Return: Calendar Years



	Total Return																					
	2010		2009		2008		2007		2006		2005		2004		2003		2002		2001		2000	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Alliance - OPERF	10.8	23	22.3	18	-6.4	67	6.0	54	6.1	19	3.3	20	5.8	27	8.6	31	7.8	75	n/a	n/a	n/a	n/a
BlackRock - OPERF	9.7	42	15.7	49	-4.1	57	5.7	66	5.0	56	3.4	16	5.5	38	5.7	71	10.1	28	n/a	n/a	n/a	n/a
Wellington - OPERF	9.5	48	22.4	18	-6.9	68	5.4	70	5.5	32	3.8	9	5.7	29	9.8	21	6.9	84	7.5	73	7.1	84
Western - OPERF	12.2	6	28.6	12	-15.1	94	2.5	96	7.3	7	4.6	4	8.6	6	13.3	12	9.9	32	9.3	20	7.6	80
OPERF Custom FI 90/10 Index	7.9	95	8.0	96	2.9	22	6.3	43	4.8	66	3.0	44	5.0	68	5.4	80	9.5	43	7.9	61	7.8	76
eA Core Plus FI Median	9.3		15.6		-2.8		6.1		5.1		2.9		5.3		7.0		9.0		8.3		8.8	
eA Core Plus FI Size	*102*		*144*		*154*		*164*		*166*		*161*		*168*		*171*		*159*		*157*		*137*	

Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- Alliance - OPERF
- BlackRock - OPERF
- Wellington - OPERF
- Western - OPERF
- OPERF Custom FI 90/10 Index

Universe:
eA Core Plus FI

Universe Rank:
Green = Top Quartile **Red = Bottom Quartile**

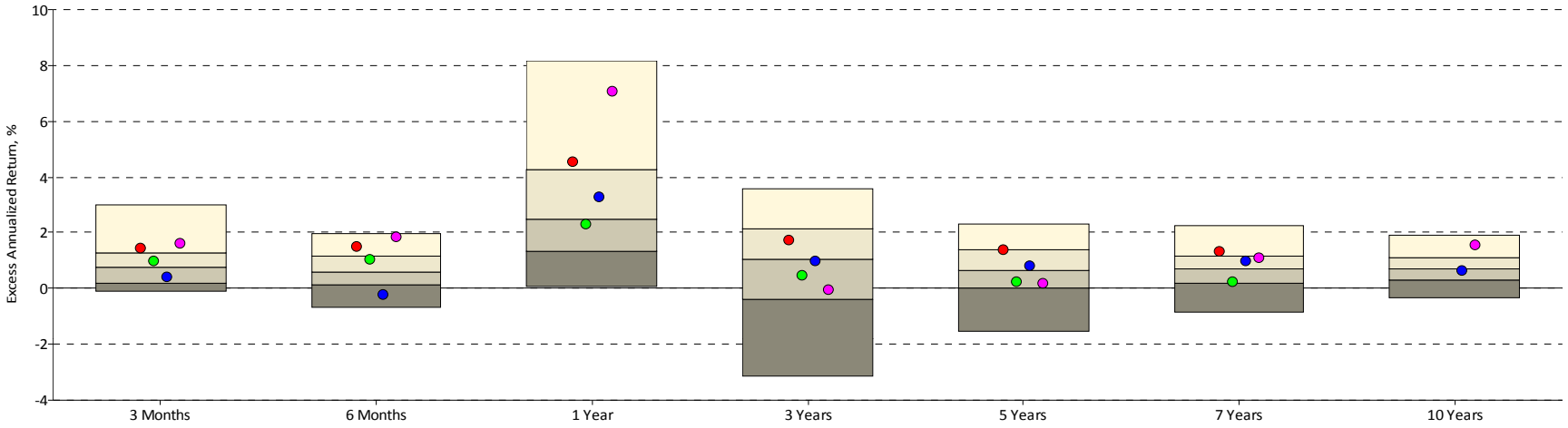
OPERF - Core Plus Fixed Income

Periods ending September 30, 2010

Performance Detail

All Strategies

Excess Return: Trailing Periods



	Excess Return													
	3 Months		6 Months		1 Year		3 Years		5 Years		7 Years		10 Years	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Alliance - OPERF	1.5	17	1.5	15	4.5	22	1.8	35	1.4	25	1.3	21	n/a	n/a
BlackRock - OPERF	1.0	42	1.1	31	2.3	54	0.5	61	0.3	65	0.3	72	n/a	n/a
Wellington - OPERF	0.4	72	-0.2	89	3.3	37	1.0	54	0.8	42	1.0	31	0.7	58
Western - OPERF	1.6	15	1.9	6	7.1	8	0.0	71	0.2	68	1.1	26	1.5	12
eA Core Plus FI Median	0.8		0.6		2.5		1.1		0.7		0.7		0.7	
eA Core Plus FI Size		*102*		*102*		*102*		*100*		*97*		*87*		*72*

Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- Alliance - OPERF
- BlackRock - OPERF
- Wellington - OPERF
- Western - OPERF

Universe:
eA Core Plus FI

Universe Rank:
Green = Top Quartile **Red = Bottom Quartile**

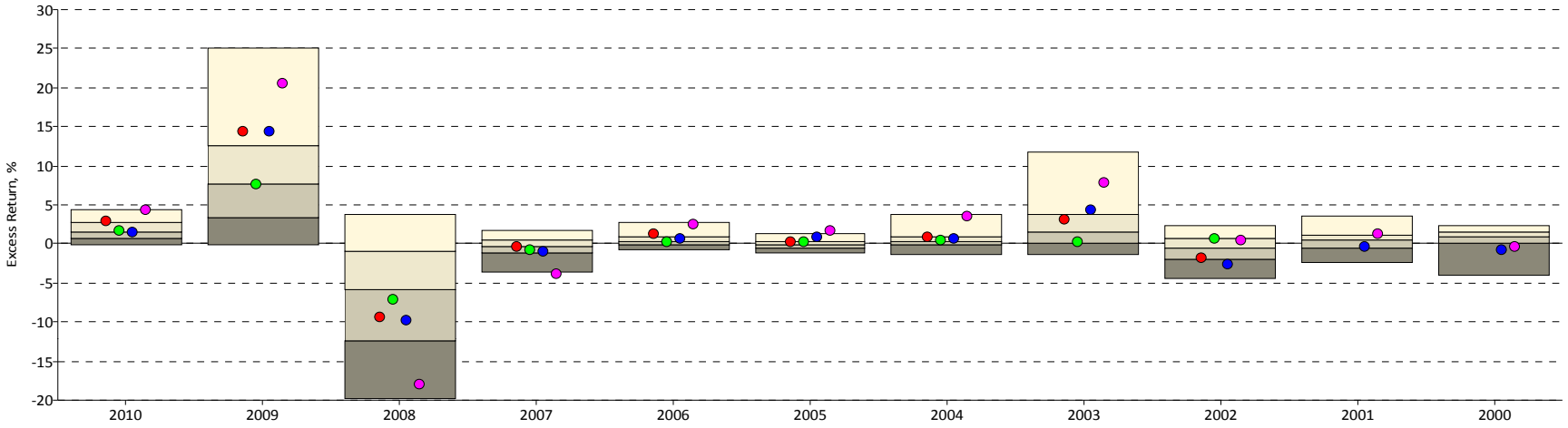
OPERF - Core Plus Fixed Income

Periods ending September 30, 2010

Performance Detail

All Strategies

Excess Return: Calendar Years



	Excess Return																					
	2010		2009		2008		2007		2006		2005		2004		2003		2002		2001		2000	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
Alliance - OPERF	2.9	23	14.4	18	-9.3	67	-0.4	54	1.3	19	0.3	20	0.8	27	3.2	31	-1.8	75	n/a	n/a	n/a	n/a
BlackRock - OPERF	1.8	42	7.8	49	-7.0	57	-0.7	66	0.2	56	0.4	16	0.5	38	0.3	71	0.6	28	n/a	n/a	n/a	n/a
Wellington - OPERF	1.6	48	14.4	18	-9.8	68	-1.0	70	0.7	32	0.8	9	0.7	29	4.4	21	-2.6	84	-0.4	73	-0.7	84
Western - OPERF	4.3	6	20.7	12	-18.1	94	-3.9	96	2.5	7	1.6	4	3.6	6	7.9	12	0.4	32	1.3	20	-0.2	80
eA Core Plus FI Median	1.4		7.6		-5.8		-0.3		0.3		-0.1		0.3		1.6		-0.5		0.4		0.9	
eA Core Plus FI Size	*102*		*144*		*154*		*164*		*166*		*161*		*168*		*171*		*159*		*157*		*137*	

Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- Alliance - OPERF
- BlackRock - OPERF
- Wellington - OPERF
- Western - OPERF

Universe:
eA Core Plus FI

Universe Rank:
Green = Top Quartile **Red = Bottom Quartile**

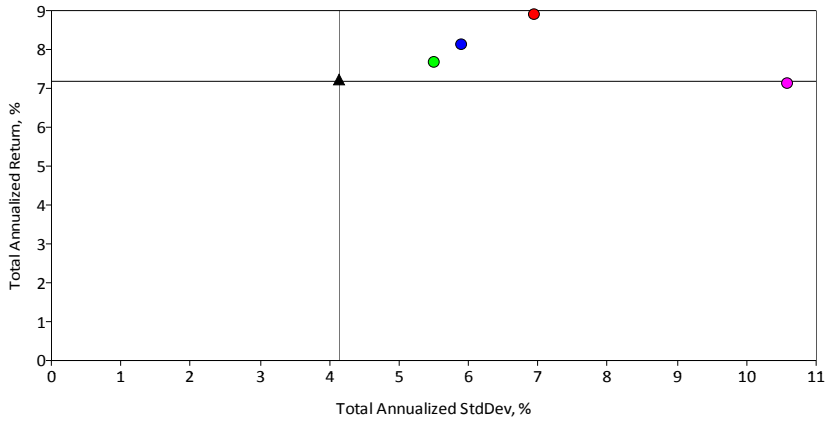
OPERF - Core Plus Fixed Income

Periods ending September 30, 2010

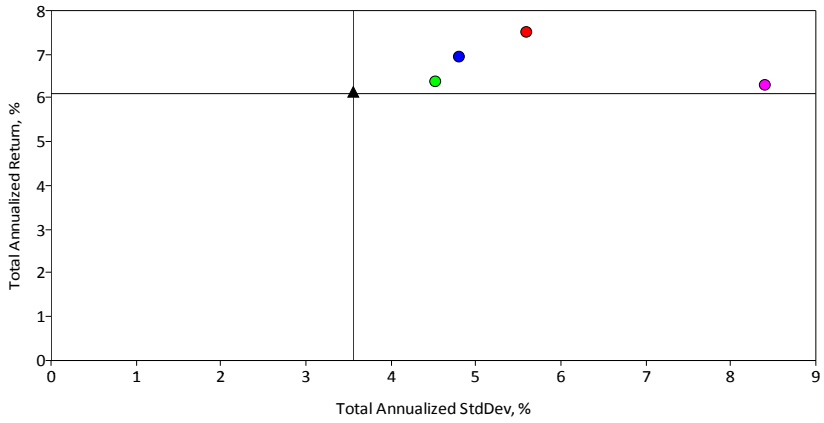
Risk / Return Analysis

All Strategies

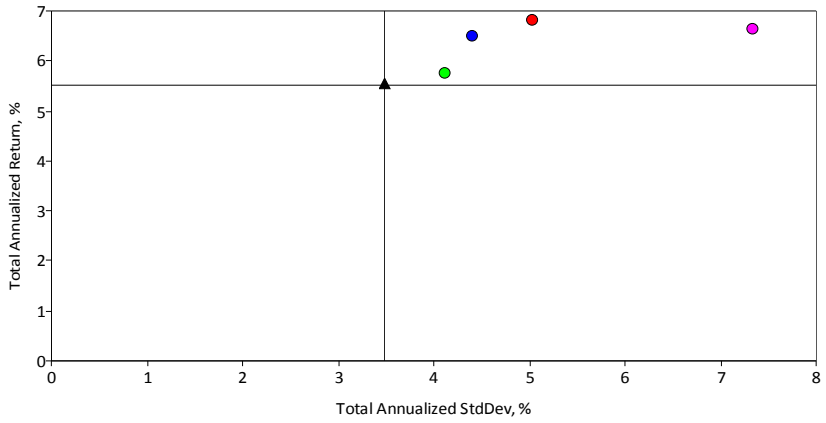
Total Return vs. Standard Deviation: Trailing 3 Years (Oct 07 - Sep 10)



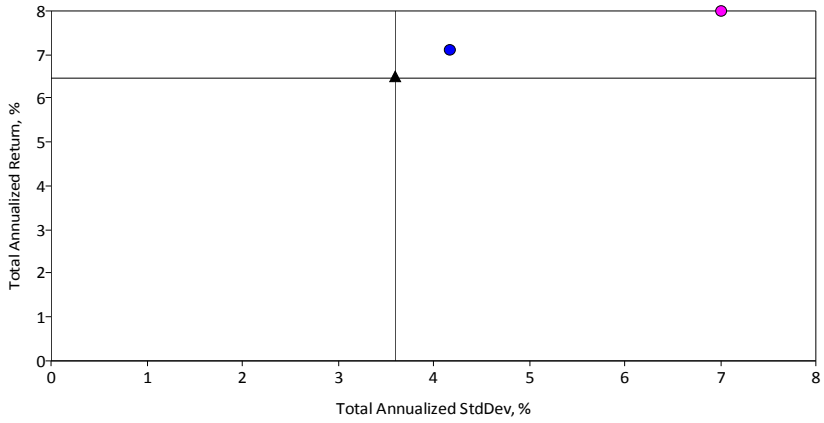
Total Return vs. Standard Deviation: Trailing 5 Years (Oct 05 - Sep 10)



Total Return vs. Standard Deviation: Trailing 7 Years (Oct 03 - Sep 10)



Total Return vs. Standard Deviation: Trailing 10 Years (Oct 00 - Sep 10)



Legend

- Alliance - OPERF
- BlackRock - OPERF
- Wellington - OPERF
- Western - OPERF
- OPERF Custom FI 90/10 Index

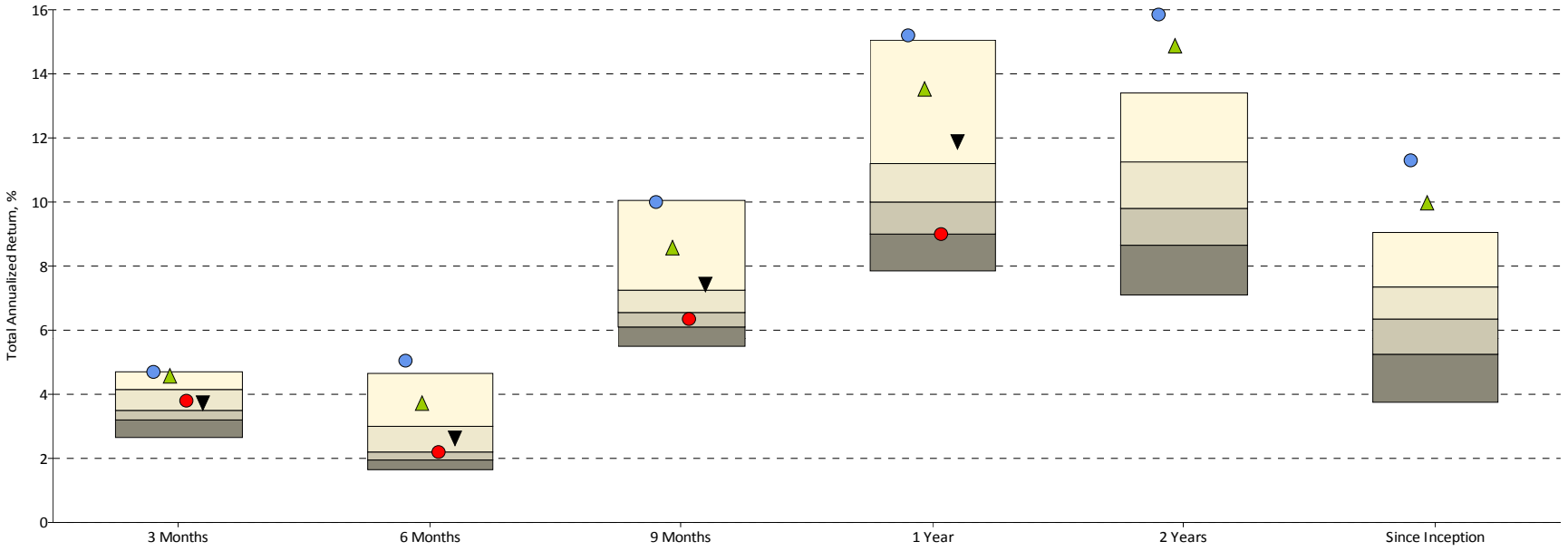
OPERF - Credit Opportunities

Periods ending September 30, 2010

Performance Detail

All Strategies

Total Return: Trailing Periods



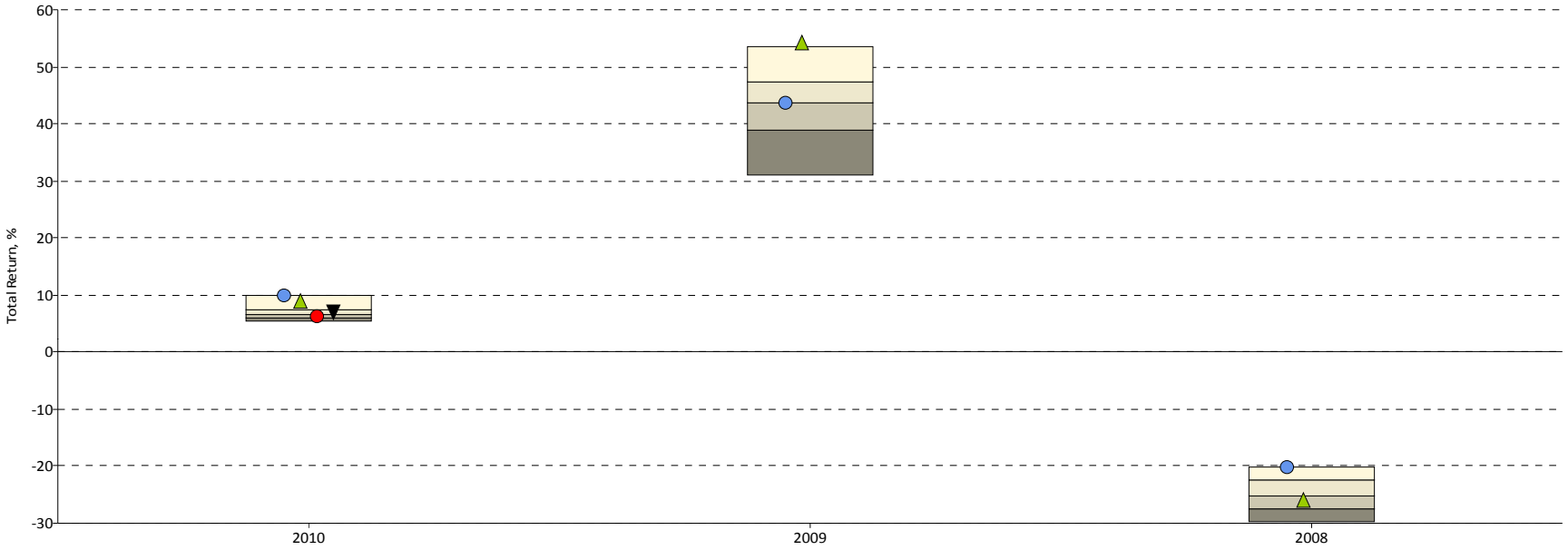
	Total Return											
	3 Months		6 Months		9 Months		1 Year		2 Years		Since Inception	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
KKR: Oregon Separate Account (59BZ)	4.7	5	5.1	2	10.0	6	15.2	5	15.9	1	11.3	2
Custom Leveraged Loans & Bond Index	4.5	14	3.6	9	8.5	11	13.5	8	14.8	1	9.9	3
Oak Hill: Oregon Separate Account (59E4)	3.8	34	2.2	50	6.3	67	9.0	75	n/a	n/a	n/a	n/a
Custom Leveraged Loans & Bond Index II	3.8	33	2.7	33	7.5	19	11.9	22	n/a	n/a	n/a	n/a
eA Bank Loan Fixed Income Median	3.5		2.2		6.5		10.0		9.8		6.3	
eA Bank Loan Fixed Income Size	*41*		*41*		*41*		*41*		*40*		*40*	

Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- KKR: Oregon Separate Account (59BZ)
- Custom Leveraged Loans & Bond Index
- Oak Hill: Oregon Separate Account (59E4)
- Custom Leveraged Loans & Bond Index II

Universe:
eA Bank Loan Fixed Income
Universe Rank:
Green = Top Quartile Red = Bottom Quartile

Total Return: Calendar Years



	Total Return					
	Jan-10 - Sep-10		Jan-09 - Dec-09		Aug-08 - Dec-08	
	Stat	Rank	Stat	Rank	Stat	Rank
KKR: Oregon Separate Account (59BZ)	10.0	6	43.6	56	-20.2	5
Custom Leveraged Loans & Bond Index	8.5	11	53.7	5	-26.4	63
Oak Hill: Oregon Separate Account (59E4)	6.3	67	n/a	n/a	n/a	n/a
Custom Leveraged Loans & Bond Index II	7.5	19	n/a	n/a	n/a	n/a
eA Bank Loan Fixed Income Median	6.5		43.8		-25.3	
eA Bank Loan Fixed Income Size	*41*		*48*		*49*	

Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- KKR: Oregon Separate Account (59BZ)
- Custom Leveraged Loans & Bond Index
- Oak Hill: Oregon Separate Account (59E4)
- Custom Leveraged Loans & Bond Index II

Universe:
eA Bank Loan Fixed Income
Universe Rank:
Green = Top Quartile Red = Bottom Quartile

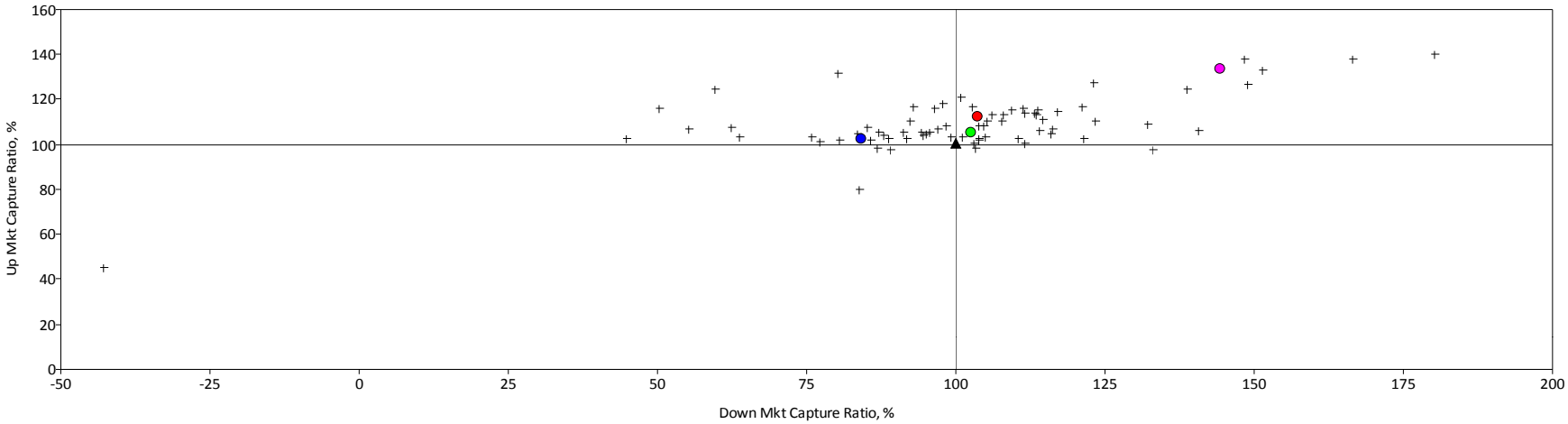
OPERF - Core Plus Fixed Income

Periods ending September 30, 2010

Risk / Return Analysis

All Strategies

Upside vs. Downside Capture: Common Period (May 01 - Sep 10)



	May 01 - Sep 10			
	Upside Capture	Rank	Downside Capture	Inverse Rank
Alliance - OPERF	112.7	34	103.7	53
BlackRock - OPERF	105.6	57	102.5	49
Wellington - OPERF	102.4	85	84.2	17
Western - OPERF	133.6	5	144.2	94
eA Core Plus FI Median	107.1		102.9	
eA Core Plus FI Size		*73*		*73*

Legend

- Alliance - OPERF
- BlackRock - OPERF
- Wellington - OPERF
- Western - OPERF
- OPERF Custom FI 90/10 Index

Universe:
eA Core Plus FI

Universe Rank:
Green = Top Quartile **Red = Bottom Quartile**

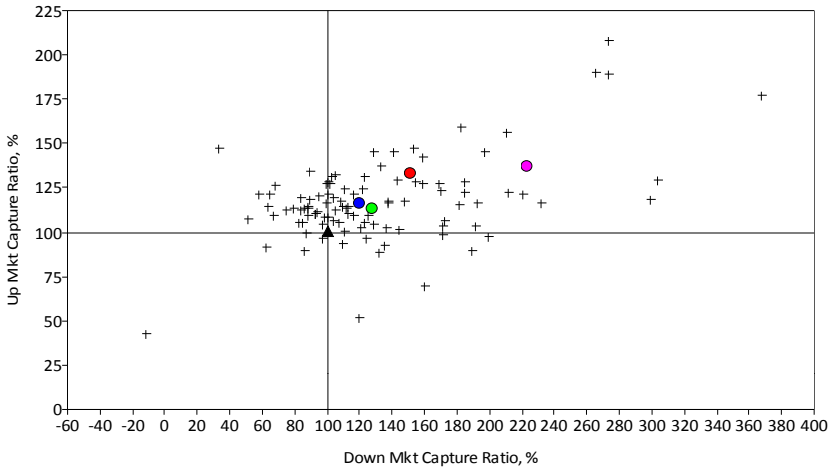
OPERF - Core Plus Fixed Income

Periods ending September 30, 2010

Risk / Return Analysis

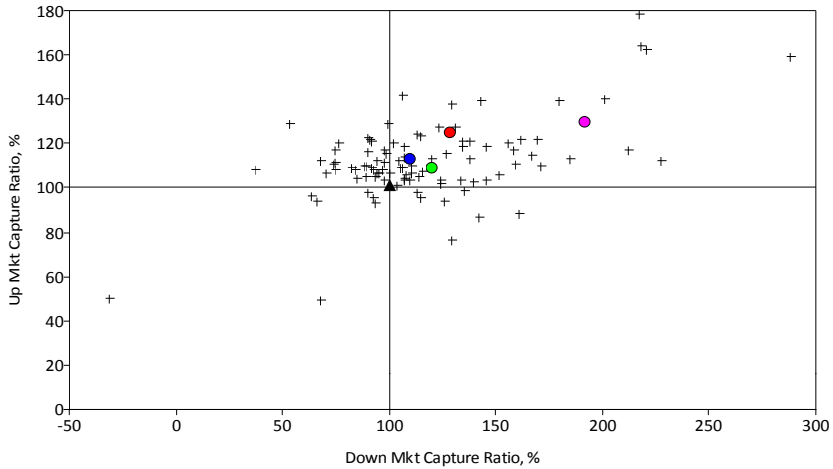
All Strategies

Upside vs. Downside Capture: Trailing 3 Years (Oct 07 - Sep 10)



	Oct 07 - Sep 10			
	Upside Capture	Rank	Downside Capture	Inverse Rank
Alliance - OPERF	133.6	14	150.7	72
BlackRock - OPERF	113.4	58	127.4	60
Wellington - OPERF	116.0	49	119.8	53
Western - OPERF	137.7	13	223.1	93
eA Core Plus FI Median	115.3		114.2	
eA Core Plus FI Size		*100*		*100*

Upside vs. Downside Capture: Trailing 5 Years (Oct 05 - Sep 10)



	Oct 05 - Sep 10			
	Upside Capture	Rank	Downside Capture	Inverse Rank
Alliance - OPERF	125.2	14	128.4	68
BlackRock - OPERF	108.8	57	119.7	62
Wellington - OPERF	112.8	41	109.8	53
Western - OPERF	129.7	10	191.5	93
eA Core Plus FI Median	110.0		107.3	
eA Core Plus FI Size		*97*		*97*

Legend

- Alliance - OPERF
- BlackRock - OPERF
- Wellington - OPERF
- Western - OPERF
- OPERF Custom FI 90/10 Index

Universe:
eA Core Plus FI

Universe Rank:
Green = Top Quartile **Red = Bottom Quartile**

OPERF Fixed Income
Structure Review & Staff Recommendation

Proposed Revisions

Given the changes in the composition of bond market indexes and the relative value tradeoff of developed versus emerging country economies, staff recommends OIC approval of the following Core Plus and Asset Class benchmark revisions, applicable to policy 4.03.01 (*Strategic Role of Fixed Income for OPERF*), 4.03.03 (*Investment Manager Selection, Monitoring & Termination*), and *the OIC Statement of Investment Objectives and Policy Framework for OPERF*:

	Core Plus Benchmark		**Credit Opportunities Benchmark**	**Asset Class Benchmark**	
Index Name	**Recommended**	Current	Current	**Recommended**	Current
BarCap Universal Index*	**90%**	90%		**60%**	90%
JPM (TBD)**	**10%**			**10%**	
Citigroup WGBI, Non-US, Hedged**		10%			10%
BAML HY Master II****			30%	**10%**	
LSTA Leveraged Loan*****			70%	**20%**	

** Barclays Capital US Universal Index*
*** JP Morgan Emerging Markets (TBD)*
**** Citigroup World Government Bond Index, Non-US$, Hedged*
***** Bank of America High Yield Master II Index*
****** S&P/LSTA Leveraged Loan Index*

Rationale for Benchmark Change

Staff believes the current structure of the OPERF fixed income requires very little change. Rather, this revision to the long-standing Core Plus benchmark (and weighted revision to the asset class benchmark) reflects the perceived future trends in fixed income and increases the potential for expected and risk-adjusted returns, while modestly increasing risk.

Traditional Fixed Income Benchmarks

Due to unprecedented US deficits and monetary/fiscal stimulus, the growth of US government debt has dominated the growth rate of all other sectors of the bond market, resulting in a large increase to the government and government-related components of the traditional fixed income indexes. In addition, the very low level of US interest rates makes traditional fixed income indexes less attractive, due to the increased possibility of negative total returns, should interest rates rise. Historically, yield premiums, or spreads, provided a cushion against the risk of rising rates and falling bond prices. But the combination of currently tight spreads and the all-time low interest rate environment reduces the historic effect of that cushion with a rise in rates.

Developed vs. Emerging Countries Fundamentals

The financial crisis and recession also resulted in an even stronger divergence in developed and emerging country debt fundamentals than previously seen: developed government debt fundamentals continue to deteriorate while corporate and emerging market sovereigns (EMD) are improving. Historically, EMD required a yield premium for credit risk while developed country sovereign debt represented pure duration risk, with little credit risk. The markets no longer hold this view (see Ireland, Spain, Portugal, and Greece) and investors now demand

higher yield premiums for certain developed country government bonds. At current and projected debt/GDP levels, questions are rampant about the debt sustainability of developed countries, absent strong economic growth or debt reduction. A recent paper from the Bank for International Settlements projects 2020 debt/GDP as follows: 150% in the US, Greece, Italy, France and Belgium, 200% in the UK, and more than 300% in Japan. The emerging markets average debt/GDP ratio is about 40%.

OPERF Fixed Income Background

For over eight years, OPERF fixed income had been managed with a Core Plus structure. In June 2008, driven by the dislocations in the senior secured leveraged bank loan market, fixed income embraced a strategic Credit Opportunities component to complement the Core Plus strategy, comprised predominantly of leveraged bank loans and high yield securities, externally managed by sector specialists. To manage credit risk, Core Plus managers' ability to invest in below investment grade securities was reduced to 15% from 30%. For the two years ended September 2010, the structure has outperformed by over 480 basis points.

Summary of Strategies:

Core Plus

Each of the individual sectors of the fixed income market has distinct performance trends. These trends are fundamentally driven by economic and business cycle conditions. The Core Plus strategy focuses on: 1) anticipating these sector performance trends; and 2) identifying relative value opportunities within the selected sectors.

In theory, managers: 1) rotate sectors and securities based on relative value considerations; and 2) manage duration structure relative to expected changes in yield curve shape while avoiding interest rate anticipation.

Managers will overweight undervalued sectors when they expect a sustained period of out-performance, versus other sectors. This process involves both "top down" macro-economic inputs as well as "bottom up" sector and security inputs.

To their credit, AllianceBernstein, BlackRock, Wellington Management Company and Western Asset Management Company stuck to their investment philosophies and processes throughout the financial crisis, thus benefitting from the tightening of spreads on the majority of then-current holdings, as well as the extraordinary opportunities in the primary corporate bond markets. Between the very illiquid period of October 2008 and March 2009, these managers provided $2.75 billion of cash for OPERF. They have also increased staffing in a very attractive employers market and, coincident with fixed income flows, witnessed growth in fixed income assets under management.

All four managers are benchmarked versus the same custom OPERF fixed income benchmark.

Credit Opportunities
As mentioned above, the credit opportunities mandate, managed by KKR Asset Management and Oak Hill Advisors, generally consists of senior secured bank loans and unsecured high yield bonds. This represents the first allocations to "specialist" fixed income managers from OPERF's core plus or "generalist" managers.

Historically, high yield managers typically bought bank loans as a defensive allocation when high yield spreads were deemed too tight or rich. When the risk/reward analysis of high yield bonds widened to more attractive spreads, managers would reverse this trade.

KKR uses a custom benchmark comprised of 65% of the S&P/LSTA Leveraged Loan Index and 35% of the Merrill Lynch High Yield Master II Index. OHA uses the same indices with an 85%/15% mix.

Attributes/Risks of the Benchmark Revision
The end result of the revision of the Core Plus benchmark to include emerging markets debt is an explicit statement that OPERF desires exposure to an asset class that still commands attractive yield spreads; yet the fundamentals, such as debt/GDP ratios, compared to developed countries, remain very favorable and may likely continue this divergent trend.

The Sharpe Ratio and expected returns of the OPERF fixed income portfolio should improve, while risk increases modestly, due to the historically higher correlation between EMD and high yield. If the fundamentals and recent trend are accurate, this correlation will decline as will overall risk and expected returns.

Positive Attributes:
- Improved Sharpe Ratio, at asset class level and EMD specific.
- Higher expected returns.
- Better forward-looking diversification.
- Higher aggregate yield.
- Attractive historic risk-adjusted returns.
- Resilient over recent crises, compared to Argentine/Brazil 2001 crisis, Russia default in 1998, Mexican crisis in 1995.
- More than 50% of EMD now investment grade compared to less than 5% in 1993.

Risks:
- Modestly higher standard deviation.
- A double-dip or prolonged period of uncertainty in the developed world, potentially mitigated by "buy on weakness" or local demand or continued EMD mandates.
- Currency volatility: Potential for additional unilateral barriers to capital inflows (see Brazil) in an attempt to protect competitive global trade positions and to insulate against inflation.
- Future unconventional monetary policy in the developed world.

- Increase in OPERF fixed income below investment grade allocation, mitigated by the previous reduction in the maximum allocation from the core plus managers to 15% from 30%; also mitigated by improving EMD credit quality trend.

Current Benchmark/Structure (as of September 2010)

Mandate	Weight	Benchmark	# Managers
Core Plus	75.9%	• Barclays Capital Universal (90%) • Citigroup World Global Bond Index, Non-US$, Hedged (10%)	4
Credit Opportunities	24.1%	• S&P/LSTA Leveraged Loan Index • ML High Yield Master II	2

Manager	Mandate	Mkt Val, $ (m)	Weight, FI	Weight, OPERF	Inception Date
AllianceBernstein	Core Plus	2,527,481	19.1%	4.75%	May 2001
BlackRock	Core Plus	2,511,845	19.0%	4.72%	May 2001
Wellington Mgmt	Core Plus	2,483,478	18.8%	4.67%	April 2000
Western Asset Mgmt	Core Plus	2,523,218	19.1%	4.74%	April 2000
KKR Asset Mgmt	Credit Opportunities	2,076,775	15.7%	3.90%	August 2008
Oak Hill Advisors	Credit Opportunities	1,120,116	8.5%	2.10%	July 2009
Total		13,243,249	100.0%	24.88%	

Other Comments for Future Fixed Income Structure Consideration

- As an inflation hedge, strategic allocations to Treasury Inflation Protected Securities, or TIPS.

  The ultimate efficacy and possible unintended consequences with the Fed's second round of quantitative easing, or QE2, will be extensively debated and scrutinized. The program is intended both to increase inflation expectations and bolster the nation's poor economic growth rate. Given the current levels of interest rates, staff believes tactical exposure to TIPS remains more attractive than a strategic allocation.

  Staff views the bank loan allocation as a solid inflation hedge, should inflation concerns emerge in the near-term. Longer term, as illustrated in the SIS presentation, a strategic allocation to TIPS may have merits for the asset class.

- Strategic allocations to non-agency MBS or private placements. This would involve ensuring sufficient liquidity from Core Plus going forward and the potential of rebalancing from these "plus" sectors back into Core Plus, after a given liquidity need. It would likely result in further guidelines constraints to the Core Plus managers or further changes to the Core Plus mandate with benchmark revisions.

OPERF Fixed Income
Structure Review & Staff Recommendation

Recommendation:

Staff recommends approval of the Core Plus and Asset Class benchmark revisions, applicable to policy 4.03.01 Strategic Role of Fixed Income for OPERF, 4.03.03 Investment Manager Selection, Monitoring & Termination, and the OIC Statement of Investment Objectives and Policy Framework for OPERF.

FUNCTION: Fixed Income Investments

ACTIVITY: Strategic Role of Fixed Income for OPERF

POLICY: Fixed income investment should comprise 22% to 32% of OPERF's total assets, subject to the specific strategic target allocations established by the OIC.

A. PROCEDURES:

PURPOSE

The purpose of these Fixed Income Investment Policies & Strategies is to define the strategic role of fixed income as an asset class within the Investment Council's general investment policies for the Oregon 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 fixed income investment policies.

STRATEGIC ROLE

The purpose of fixed income investments is to provide diversification to equity securities, through lower expected return and volatility and a low correlation to equities. Fixed income investment should comprise 22% to 32% of OPERF's total assets.

B. POLICY OBJECTIVES

1. To achieve a portfolio return of 75 basis points or more above the custom policy benchmark, consisting of ~~90~~60% Barclays Capital U.S. Universal Bond Index, ~~and~~ 10% "EMD" (TBD)~~Citigroup Non-U.S. World Government Bond (Hedged) Indexes~~, 20% S&P/LSTA Leveraged Loan Index, and 10% Bank of America Merrill Lynch High Yield Master II Index, over a market cycle of three to five years on a net-of-fee basis. The portfolio is also expected to achieve top quartile peer group performance. Peer group shall consist of public and corporate funds with total assets greater than $1 billion.
2. To control portfolio risk, as measured by standard deviation of returns, to the level of the custom benchmark or less through diversification of investment approaches.

C. STRATEGIES

1. Maintain a well-diversified bond portfolio, managed to maximize total return, that reflects the overall characteristics of the custom benchmark.

2. Maintain an average bond duration level of +/-20% of the benchmark duration.
3. Invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.
4. 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.
5. 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.

D. PERMITTED HOLDINGS

The following fixed income securities, individually or in commingled vehicles, may be held outright and under resale agreement:

1. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal agencies or U.S. government-sponsored corporations and agencies.
2. Obligations of U.S. and non-U.S. corporations such as convertible and non-convertible notes and debentures, preferred stocks, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations, bank loans, common stock received in connection with the restructuring of corporate debt.
3. Mortgage-backed, asset-backed securities and structured securities.
4. Obligations, including the securities of emerging market issuers, denominated in U.S. dollars or foreign currencies of international agencies, supranational entities and foreign governments (or their subdivisions or agencies), as well as foreign currency exchange-related securities, warrants and forward contracts.
5. Obligations issued or guaranteed by U.S. local, city and state governments and agencies.
6. Securities defined under Rule 144A and Commercial Paper defined under Section 4(2) of the Securities Act of 1933.
7. Yankee Bonds (dollar denominated sovereign and corporate debt).
8. Derivatives including futures, swaps and options contracts.
9. Securities eligible for the Short-Term Investment Fund (OSTF).

E. DIVERSIFICATION:

The portfolio should be adequately diversified to minimize various risks. The following specific limitations reflect, in part, the OIC's current investment philosophy regarding diversification:

1. Obligations issued or guaranteed by the US government, US agencies or government sponsored enterprises are eligible, without limit.
2. Obligations of other national governments are limited to 10% per issuer.
3. Private mortgage-backed and asset-backed securities are limited to 10% per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer.
4. Obligations of other issuers are subject to a 3% per issuer limit excluding investments in commingled vehicles.
5. Not more than 25% of the portfolio may be invested in non-dollar denominated securities.
6. ~~Not more than 10% of the portfolio may be invested in Emerging Market Debt (dollar and non-dollar denominated) rated below investment grade.~~
7. Not more than 35% of the portfolio will be below investment grade (below Baa3/BBB-).
8. No more than 5% of the portfolio will be invested in original futures or swaps margin and option premiums, exclusive of any in-the-money portion of the premiums. Short (sold) options positions will generally be hedged with cash, cash equivalents, current portfolio security holdings, or other options or future positions.

F. ABSOLUTE RESTRICTIONS:

Investments in the following are prohibited:

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 or common stocks, unless common stock shares are received due to a restructuring, then shares will be liquidated at the manager's discretion.
4. Securities of the existing investment manager, its parents, custodians or subsidiaries.

SAMPLE FORMS, DOCUMENTS, OR REPORTS:

None

FUNCTION: **Fixed Income Investments**
ACTIVITY: **Investment Manager Selection, Monitoring & Termination**

POLICY: **The performance of the external fixed income investment managers shall be reviewed, at least quarterly, by Office of the State Treasurer (OST) staff. The Oregon Investment Council may terminate "at will" any investment manager in its employ according to the terms of its contract.**

PROCEDURES:

1. **Selection of Fixed Income Investment Managers**
   The selection of a fixed income investment manager is the decision of the Oregon Investment Council, and is made subject to the research and recommendations of OST staff. Consultants may be used to assist in evaluating prospective fixed income investment managers, however, the OIC will not delegate its policy or decision-making responsibilities to consultants or others.

2. **Reports Received From Fixed Income Investment Managers**
   The fixed income investment managers shall provide activity and performance reports, at least quarterly, to the consultant and OST staff. Performance reports shall comply with Global Investment Performance Standards (GIPS) established by the CFA Institute.

3. **Performance and Termination of Fixed Income Investment Managers**
   The fixed income portfolio benchmark is to provide a return in excess of the agreed-upon index (see manager IMA's)~~ 90% Lehman Brothers US Universal and 10% Citigroup World Government Bond (Hedged) Indexes~~, over a market cycle of three to five years on a net-of-fee basis.

   OST staff shall evaluate, at least quarterly, the performance of each fixed income investment manager including contract compliance and consistency of strategy. Termination is the decision of the Oregon Investment Council. The OIC may terminate "at will" any investment manager according to the terms of the contractual relationship and as discussed further below.

4. **General Oversight of Investment Management Firm Performance**
All performance calculations shall be provided by an independent third party (e.g., the custodian). Managers shall reconcile performance returns as calculated by this third party on a monthly basis.

Investment Division staff members shall visit each fixed income investment 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. The site visit schedule may be amended throughout the year based on various changes, including changes to the investment manager's organization 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.

5. **Termination of Firms**

A. Method of Advance Notice. The Oregon Investment Council, after having made a decision to terminate its contract with an investment management firm, terminates the firm effective upon the decision.

B. Redistribution and/or Liquidation of Holdings. Immediately following a termination action by the Council, the Senior Fixed Income Investment Officer shall contact the terminated firm, in writing, and instruct them to suspend trading activity within the portfolio. Unless directed otherwise by the OIC, OST staff shall proceed with implementing a liquidation plan that may include redistributing securities to the Fund's other investment management firms, or hiring a new investment manager to liquidate the holdings.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

Oregon Investment Council

Statement
of
Investment Objectives and Policy Framework
for the
Oregon Public Employees Retirement Fund

Adopted: February 27, 2002

Revised: July 28, 2004, April 27, 2005, May 18, 2005, January 18, 2006, July 6, 2006, January 31, 2007, September 26, 2007, January 30, 2008, April 29, 2009, May 27, 2009, April 28, 2010

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Glossary of Selected Terms

Terms explained in the glossary are *italicized* when they first appear in this document.

1.0 Purpose

1.1 This Statement of Investment Objectives and Policy Framework (the "Statement") summarizes the philosophy, objectives and policies approved by the *Oregon Investment Council* (the "Council") for the investment of the assets of the *Oregon Public Employees Retirement Fund* ("OPERF").

1.2 The Council approved these objectives and framework after careful consideration of OPERF benefit provisions, and the implications of alternative objectives and policies.

1.3 The Statement has been prepared with five audiences in mind: incumbent, new and prospective Council members; Treasury staff; OPERF active and retired members; Oregon State Legislature and Governor; and agents engaged by the Council to manage and administer Fund assets.

1.4 The Statement summarizes more detailed policies and procedures documents prepared and maintained by the staff of the *Office of the State Treasurer*, and numerous other documents that govern the day-to-day management of OPERF assets including agent agreements, individual investment manager mandates, and limited partnership documents.

1.5 The Council regularly assesses the continued suitability of the approved investment objectives and policies, initiates change as necessary, and updates these documents accordingly.

2.0 Investment Objective

2.1 Subject to ORS 293.721 and 293.726, the investment objective for the *Regular Account* is earning, over moving twenty-year periods, an annualized *return* that exceeds the *actuarial discount rate* (ADR), approved by the Public Employees Retirement Board (PERB) to value OPERF liabilities. Eight percent is the current actuarial discount rate.

2.2 The Council believes, based on the assumptions herein, that the investment policies summarized in this document will provide the highest probability of achieving this objective, at a level of *risk* that is acceptable to active and retired OPERF members. The Council evaluates risk in terms of the probability of not achieving the ADR over a twenty-year time horizon.

2.3 Historically, members were allowed to direct up to 75% of their contributions to the *Variable Account*. No new contributions are being made to this fund. The investment objective of the Variable Account is to perform in line with MSCI All Country World Index.

2.4 The Council has established investment objectives for individual asset classes, including that asset class to which members can direct their contributions. Individual asset class objectives are also summarized in this Statement.

3.0 Policy Asset Mix, Risk Diversification and Return Expectations

3.1 After careful consideration of the investment objective, *liability* structure, *funded status* and liquidity needs of OPERF, and the return, risk and *risk-diversifying* characteristics of different asset classes, the Council approved for the OPERF Regular Account the asset mix policy presented in Exhibit 1. The exhibit also summarizes the Council's total fund asset mix policy and active management return expectations.

3.2 Sixty-two percent of OPERF is targeted for investment in *equities*, inclusive of *private equity*. Equity investments have provided the highest returns over long time periods, but can produce low and even negative returns over shorter time periods.

3.3 The risk of low returns over shorter time periods makes 100% equity policies unsuitable for most pension funds, including OPERF. By investing across multiple equity asset classes, and in lower return but less risky *fixed-income* and *real estate*, the Council is managing and diversifying the fund's overall risk exposure.

3.4 Exposures to selected asset classes are maintained within the re-balancing ranges specified in Exhibit 1.

3.5 With an 8.9% expected annual return, there is an estimated 50% probability of the fund earning an annualized return that equals or exceeds the current 8.0% actuarial discount rate over a 20 year horizon or, approximately, the next two to three market cycles.

Exhibit 1: Policy Mix and Return Expectations for OPERF Regular Account

Asset Class	Target Allocation (%)	Re-balancing Range (%)	Expected Annual Policy Return[1] (%)	Expected Annual Active Management Return (net of fees) (%)	Expected Annual Total Return (%)
Public Equities	46	41-51	9.0	0.75	9.7
Private Equity	16	12-20	10.7	1.3	12.0
Total Equity	62	57-67			
Fixed Income	27	22-32	5.7	0.75	6.4
Real Estate	11	8-14	6.3	0.75	7.0
Total Fund	100		8.1	0.8	8.9

1. Based on capital market forecasts developed by the Council's investment consultant, SIS, for the next two to three market cycles.

2. Total Fund expected returns are simply the weighted averages of the asset class returns.

3.6 The 8.1% expected annual asset mix policy return was developed with reference to the observed long-term relationships among major asset classes, adjusted by current market conditions. The Council believes this return expectation is reasonable, but recognizes that over shorter time periods actual mix policy returns can deviate significantly from this expectation – both positively and negatively.

3.7 US equity, non-US equity, and fixed-income asset classes are managed using both passive and active management strategies. Active management of public market securities and real estate assets is expected to earn 0.8% per annum of additional returns over moving five-year periods. The Council recognizes that unsuccessful active management can reduce total fund returns.

3.8 The OIC has provided for up to 3.0% of total plan assets to be invested in an *Opportunity Portfolio* to provide enhanced returns and diversification to OPERF. Investments are expected to be a combination of both shorter-term (1-3 years) and longer-term holdings. This allocation will not result in any of the previously established strategic asset allocation targets falling outside their ranges. No strategic target is established for the Portfolio since, by definition, investments will be pursued only on an opportunistic basis, unless changed by the OIC.

3.9 Cash is invested in the *Oregon Short Term Fund* and is kept at a minimum level, but sufficient to cover the short-term cash flow needs of OPERF.

3.10 In an effort to minimize cash exposure at both the fund and manager level, the OIC has retained a policy implementation overlay manager 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.

3.11 The Council shall review, at least biennially, its expectations for asset class and active management performance, and assess how the updated expectations affect the probability that the Regular Account will achieve the investment objective.

4.0 Passive and Active Management

4.1 Passive management uses lower cost *index funds* to access the return streams available from the world's capital markets. Active management tries to earn higher returns than those available from index funds by making value-adding security selection and asset mix timing decisions.

4.2 The Council uses passive management to control costs, evaluate active management strategies, capture exposure to the more *efficient markets*, manage the risk of under-performance and facilitate re-balancing to policy asset mix. Exchange traded *real estate investment trusts (REITS)* may also be used to maintain the Fund's asset class exposures within the specified policy ranges.

4.3 The Council approves the active management of fund assets when available investment strategies offer sufficiently high expected incremental returns, net of

fees, to compensate for the risk of under-performance, and when the magnitude of potential under-performance can be estimated, monitored and managed.

4.4 The Council must accept active management of those asset classes for which there is no passive management alternative, in particular, real estate and private equity.

4.5 The Council prefers active management strategies that emphasize security selection decisions rather than asset mix timing decisions. General investor experience and surveys of academic and professional studies indicate that security selection decisions are more likely to earn above index returns than asset mix timing decisions.

4.6 At the aggregate level of the Regular Account, active management strategies authorized by the Council are expected to **add 0.6% of annualized excess return**, net of fees, over moving five-year periods. **Active risk of the Regular Account is managed to a targeted annualized *tracking error* of 2 to 3 percent, relative to the policy benchmark.**

5.0 Public Equity Strategy

5.1 Public equity is managed with the objective of earning at least **75 *basis points*** in annualized net excess return above the *MSCI All Country World Index Investable Market Index* (ACWI IMI – net) (unhedged) over moving five-year periods. **Active risk is managed to a targeted annualized tracking error of 0.75 to 2.0 percent, relative to the above benchmark.**

5.2 Key elements of the strategy:

(a) 25% of assets are targeted for passive management, primarily in the large and mid capitalization *sectors* of the market, which are believed to be more efficiently valued.

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

(c) Multiple specialist active managers with risk diversifying complementary investment styles are employed. For example, managers that focus on either growth or value stocks and managers that focus on large or small capitalization stocks. This produces more consistent excess returns and reduces the fund's exposure to any single investment organization.

(d) The Fund maximizes exposure to security selection based investment decisions by maintaining aggregate exposures to *value* and *growth* stocks, economic sectors and *market capitalizations* relative to their *benchmark exposures*, adjusted for the strategic small cap overweight.

(e) Active management exposure is higher for non-US equity because the Council believes the non-US markets provide more opportunities for skilled managers to earn incremental returns.

(f) Managers with skills in security selection and country allocation are utilized. These decisions have been shown to be the principal sources of the excess return in non-US equity portfolios. Managers who have demonstrated ability to add value through currency management are permitted to do so.

(g) Aggregate exposures to countries, economic sectors, equity management styles and market capitalization are monitored and managed relative to their benchmark exposures.

6.0 Fixed Income Strategy

6.1 Fixed income is being managed with the objective of earning **75 basis points** in annualized net excess returns above a blended benchmark of ~~90~~60% *Barclays Capital US Universal Bond Index*, ~~and~~ 10% "EMD" (TBD),~~*Citigroup Non-US$ World Government Hedged Bond Index*~~ 20% S&P/LSTA Leveraged Loan Index, and 10% Bank of America Merrill Lynch High Yield Master II Index over moving five-year periods. **Active risk is managed to a targeted ~~-~~annualized tracking error of 1 to 2 percent, relative to the above benchmark.**

6.2 Key elements of the strategy:

(a) At least 95% of fixed income is actively managed because active fixed income management is generally more cost effective than active equity management. Excess returns are more likely because many investors hold fixed income to meet regulatory and liability matching objectives, and are not total return investors. This produces systematic mis-pricings of fixed-income securities that skilled investment managers can exploit. Also, fixed income management fees are much lower than active equity management fees.

(b) Multiple active generalist managers will be used for a majority of the fixed income asset class, rather than multiple sector specialists as in the US equity market. The OIC may supplement this strategy with specialist fixed income managers as warranted. Fixed income manager structures generally have little impact on total Fund risk because of overall lower allocations to the asset class and the low tracking errors. The asset class tracking error is diversified into insignificance at the total Fund level.

(c) Managers are selected for their skills in issue selection, credit analysis, sector allocations and duration management.

(d) Aggregate exposures to duration, credit and sectors are monitored and managed relative to corresponding exposures in the asset class benchmark.

7.0 Real Estate Strategy

7.1 Real estate investments are being managed with the objective of earning at least **75 basis points** in annualized net excess returns above the *NCREIF Index* over moving five-year periods. Because 80% of the real estate investments are traded infrequently, risk budget concepts are not applicable.

7.2 Key elements of the strategy:

(a) Real Estate is 100% actively managed because index funds replicating the real estate broad market are not available.

(b) *Core property investments* represent 30% of the real estate portfolio, with a range of 25% to 35%. Specialist managers are utilized. Risk is diversified by investing across the major property types: offices, apartments, retail and industrial, but may include structured investments in alternative types of property with Core type risk and return attributes.

(c) Exchange traded real estate investment trusts (REITs) represent 20% of the real estate portfolio, with a range of 15% to 25%. Active management will include style and capitalization specialists, as well as broad market managers. Up to 50% of the REIT exposure may be invested in markets outside the United States.

(d) *Value Added* investments represent 20% of the real estate portfolio, with a range of 15% to 25%. Investments may include direct property types listed above, as well as structured investments in alternative property types. Risk is diversified by property type and geography.

(e) *Opportunistic real estate* investments represent 30% of the real estate portfolio, with a range of 20% to 40%. Investment strategies will be characterized as "opportunistic" based on the market conditions prevailing at the time of investment.

(f) The Fund may also participate in *co-investment* opportunities within the real estate asset class.

8.0 Private Equity Strategy

8.1 Private equity is being managed with the objective of earning at least **300 basis points** net excess return above the Russell 3000 Index over very long time horizons, typically moving 10-year periods. Because private equity investments are traded infrequently, risk budget concepts are not applicable.

8.2 Key elements of the strategy:

(a) Private Equity is 100% actively managed because index funds of private equity are not available.

(b) Asset class risk is diversified by investing across different private equity fund types: *venture capital, leverage buyouts, mezzanine debt, distressed debt, sector funds* and *fund-of-funds*.

(c) Asset class risk is further diversified by investing across *vintage years*, industry sectors, investment size, development stage and geography.

(d) Private equity programs are managed by general partners with good deal flow, specialized areas of expertise, established or promising net of fees track records, and fully disclosed and verifiable management procedures.

(e) The Fund will participate in co-investment opportunities in the private equity asset class.

9.0 Performance Monitoring and Evaluation

9.1 The Council and its agents use a variety of compliance verification and performance measurement tools to monitor, measure and evaluate how well OPERF assets are being managed. Monitoring, reporting and evaluation frequencies range from hourly, to daily, to weekly, to monthly, to quarterly, to annually.

9.2 The Council has developed a performance monitoring and evaluation system that answers two fundamental fiduciary questions:

- Are Fund assets being prudently managed? More specifically, are assets being managed in accordance with established laws, policies and procedures, and are individual investment managers in compliance with their mandates?
- Are Fund assets being profitably managed? More specifically, has performance affected benefit security, has capital market risk been rewarded and has active management risk been rewarded?

9.3 When a breach of policies, procedures or portfolio mandates is reported or detected, the Council requires a supporting report explaining how the breach was discovered, the reasons for the breach, actions taken to rectify the breach, and steps taken to mitigate future occurrences.

9.4 One of the many reports used by the Council to monitor and evaluate performance of the Regular Account indicates if the Regular Account has exceeded the 8.0% (ADR) return over moving five-year periods. Additionally, reports quantify if the fund was rewarded for investing in higher return but more risky equity investments over the same period, and if active management has added or subtracted returns, net of fees.

9.5 The reporting described in this section gives the Council a consolidated or "big picture" view of the performance of the Regular Account. This is the first level of a comprehensive four-level performance report used by the Council to monitor and evaluate performance over different time horizons. Level two examines Regular Account performance excluding hard-to-price illiquid assets such as real estate and private equities. Level three examines the performance of the Regular Account's five individual asset class strategies: US equity, non-US equity, fixed income, real estate and private equity. Level four examines the performance of individual managers within each of the asset class strategies. The four-level reporting structure allows the Council to "drill down" to the level of detail that is needed to identify potential performance problems, and take corrective action as may be required.

- end -

Glossary

Actuarial Discount Rate (ADR): The interest rate used to calculate the present value of a defined benefit plan's future obligations and determine the size of the state's annual contribution to the plan.

Alternative Investments: Investments that are considered non-traditional or emerging investment types. Presently, the following investment types are considered alternative investments: hedge funds, infrastructure, timber, and other commodities.

Asset Class: A collection of securities that have conceptually similar claims on income streams and have returns that are highly correlated with each other. Most frequently referenced publicly traded asset classes include US equities, US debt and US cash.

Barclays Capital US Universal Bond Index: The Universal Index (market value of approximately $13 trillion at March 31, 2009), like the Barclays Capital US Aggregate Index, is modular and combines the Aggregate Index with the following capitalization weighted Barclays fixed income indices: the US High-Yield Corporate Index, the Rule 144a Index, the Eurodollar Index, the US Emerging Markets Index, the non-ERISA eligible portion of the Investment-grade CMBS Index, and the Emerged Bonds Index (emerged market bonds upgraded out of the Emerging Markets Index but not eligible for inclusion in any other US Index). The Aggregate represents approximately 87% of the Universal Index. However, the Universal captures an additional, approximately, $1.25 trillion in US dollar denominated fixed income. The Universal Index was officially launched by the former Lehman Brothers on January 1, 1999.

Basis Point: One basis point is 0.01%. One hundred basis points equals one percentage point.

Benchmark: A standard by which investment performance can be measured and evaluated. For example, the performance of US equity managers is often measured and evaluated relative to the benchmark performance of the Russell 3000 Index.

Benchmark Exposures: The proportion to which a given stock or investment characteristic is represented in an investment benchmark, such as the Russell 3000 Index of US companies. Allows investors to measure the extent to which their portfolio is over or under exposed to a given stock, or investment characteristic such as market capitalization.

Citigroup Non-US$ World Government Bond Index, Currency Hedged (Non-US WGBI): The Non-US$ WGBI Index is a capitalization weighted index of government bonds issued by 22 developed government bond markets, excluding the United States with a market value of approximately $10 trillion at March 31, 2009. To join the index, the market must satisfy size (a market's eligible issues must total at least US$20 billion, €15 billion, and ¥2.5 trillion for consideration) credit (minimum BBB-/Baa3 by either S&P or Moody's to insure that the WGBI remains an investment-grade index), and barriers-to-entry requirements (a market should actively encourage foreign investor participation and show a commitment to its own policies).

Co-investment: Although used loosely to describe any two parties that invest alongside each other in the same company, this term has a special meaning in relation to limited partners in a fund. By having co-investment rights, a limited partner in a fund can invest directly in a company also backed by the fund managers itself. In this way, the limited partner ends up with two separate stakes in the company: one, indirectly, through the private equity fund to which the limited partner has contributed; another, through its direct investment, generally under better investment terms.

Core Property Investments: Real estate investment strategies which exhibit "institutional" qualities, such as being well located within local and regional markets, well occupied, and of high quality design and construction.

Credit: The measure of an organization's ability to re-pay borrowed money. Used most often in the managing fixed income portfolios. Organizations with the highest credit rating, those most likely to re-pay money they have borrowed, are assigned a AAA credit rating.

Distressed Debt: A private equity investment strategy that involves purchasing discounted bonds of a financially distressed firm. Distressed debt investors frequently convert their holdings into equity and become actively involved with the management of the distressed firm.

Duration: A financial measure used by investors to estimate the price sensitivity of a fixed-income security to a change in interest rates. For example, if interest rates increase by 1 percentage point, a bond with a 5-year duration will decline in price by 5 percent.

Efficient Markets: A market in which security prices rapidly reflect all information about securities and, by implication, active managers find it more difficult to pick stocks that consistently beat the performance of an index fund.

Equities: Investments that represent ownership in a company and therefore a proportional share of company profits.

Fixed-Income: Debt obligations of corporations and governments that specify how money previously borrowed is to be repaid. Typically, money is repaid by a series of semi-annual interest payments of fixed amounts, and final repayment of principal.

Funded Status: A comparison of plan assets with the plan liability (e.g. the projected benefit obligation (PBO)). When plan assets are greater than the PBO, the plan is overfunded. If plan assets are less than the PBO, the plan is underfunded and the state has a net liability position with respect to its pension plan.

Fund-of-funds: a fund that invests primarily in other private equity funds rather than operating firms, often organized by an investment advisor or investment bank.

Growth Stock: Stocks that exhibited faster-than-average earnings growth over the last few years and is expected to continue to do so into the near future. Growth stocks usually have high price-to-earnings ratios, high price-to-book ratios and low dividend yields.

Hedged: A term applied to a portfolio of non-domestic stocks or bonds that is unaffected by changes in the relative value of the domestic and foreign currencies. Forward currency contracts are typically used to hedge a portfolio against currency risk.

Index Fund: A portfolio management strategy that seeks to match the composition and performance of a selected market index, such as the Russell 3000.

Leverage Buyouts (LBO): The acquisition of a firm or business unit, typically in a mature industry, with a considerable amount of debt. The debt is then repaid according to a strict schedule that absorbs most of the firm's cash flow.

Liability: A claim on assets by individuals or companies. In a pension context, liabilities represent the claim on fund assets by active and retired members of the pension plan.

MSCI All Country World Index (ACWI): A free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. As of March 2010 the MSCI ACWI consisted of 45 country indices comprising 23 developed and 22 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI ACWI Ex US: The same as the MSCI ACWI, except that stocks in the United States are not included.

MSCI World Ex US Index: A free float-adjusted market capitalization index that is designed to measure global developed market equity performance, excluding the United States. As of March 2010 the MSCI World Ex US Index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

Market Capitalization: The value of a corporation as determined by multiplying the price of its shares by the number of shares outstanding. Investors often use market capitalization as an indicator of portfolio risk or volatility. In general, smaller capitalized companies are more volatile or risky than larger capitalized companies.

Mezzanine: Either a private equity financing undertaken shortly before an initial public offering, or an investment that employs subordinated debt that has fewer privileges than bank debt but more than equity and often has attached warrants.

NCREIF Index: The National Council of Real Estate Investment Fiduciaries (NCREIF) is an association of institutional real estate professionals who share a common interest in their industry. The NCREIF Property Index (NPI) is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment. The qualifications for inclusion in the NPI are:

- Operating properties only
- Property types - apartments, hotels, industrial properties, office buildings, and retail only
- Can be wholly owned or in a joint venture structure.
- Investment returns are reported on a non-leveraged basis. While there are properties in the NPI that have leverage, returns are reported to NCREIF as if there is no leverage
- Must be owned/controlled by a qualified tax-exempt institutional investor or its designated agent
- Existing properties only (no development projects)

Office of the State Treasurer: Headed by the State Treasurer as the chief financial officer for the state, the Office of the State Treasurer is responsible for managing the day to day investment operations of the state pension fund (and other funds), issuing all state debt, and serving as the central bank for state agencies. Within the Office of the State Treasurer, the Investment Division also manages the investment programs for the state's deferred compensation plan and college savings plan, and serves as staff to the Oregon Investment Council.

Opportunistic Real Estate Investments: Higher risk but higher expected return real estate investments that are usually very illiquid, not currently income-producing and are often distressed purchases and/or highly leveraged.

Opportunity Portfolio: Non-traditional and/or concentrated investment strategies that may provide diversification and return potential outside of the OIC formally approved asset classes. The Portfolio may be populated with innovative investment approaches across a wide range of investment opportunities with no limitation as to asset classes or strategies that may be used. The Opportunity Portfolio investment program seeks to achieve its investment objective by investing in strategies that fall outside the OIC's previously identified asset classes because of the expected time horizon, tactical nature of the investment, or some other unique aspects which must be clearly defined in the written recommendation provided to the OIC.

Oregon Investment Council (OIC): Oregon Revised Statute (ORS) 293.706 establishes the OIC, which consists of five voting members, four of whom are appointed by the Governor and subject to Senate confirmation (the Treasurer serves by position, and is not subject to confirmation). In addition, the Director of the Public Employees Retirement System is an ex-officio member of the OIC. ORS 293.721 and 293.726 establish the investment objectives and standard of judgment and care for the OIC: Moneys in the investment funds shall be invested and reinvested to achieve the investment objective of the investment funds, which is to make the moneys as productive as possible, subject to the prudent investor standard.

Oregon Public Employees Retirement Fund (OPERF): Holds the assets of beneficiaries of the Oregon Public Employees Retirement System (PERS). PERS is a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under ORS chapter 238 and Internal Revenue Code 401(a) by the Public Employees Retirement Board (PERB). For state agencies, community colleges, and school districts, PERS is a cost-sharing, multiple-employer system. It is an agent multiple-employer system for political subdivisions. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional but irrevocable if elected. All system assets accumulated for the payment of benefits may legally be used to pay benefits to any of the plan members or beneficiaries of the system. PERS is responsible for administrating the management of the plan's liability and participant benefits.

Oregon Short Term Fund (OSTF): The state's commingled cash investment pool managed internally by Treasury staff. The OSTF includes all excess state agency cash, as required by law, as well as cash invested by local governments on a discretionary basis. The OSTF is invested in accordance with investment guidelines recommended by the state's Oregon Short Term Fund Board and approved by the OIC.

Overweight: A stock, sector or capitalization exposure that is higher than the corresponding exposure in a given asset class benchmark, such as the Russell 3000 Index.

Private Equity: Venture Economics (VE) uses the term to describe the universe of all venture investing, buyout investing and mezzanine investing. Fund of fund investing and secondaries are also included in this broadest term. VE is not using the term to include angel investors or business angels, real estate investments or other investing scenarios outside of the public market. See also *Alternative Investments*.

Real Estate: Investments in land and/or buildings.

Real Estate Investment Trusts (REIT): A real estate portfolio managed by an investment company for the benefit of the trust unit holders. Most REIT units are exchange traded.

Regular Account: That portion of the Oregon Public Employees Retirement Fund that excludes the Variable Account. A diversified investment portfolio, with an OIC established asset allocation. Tier One member funds in the regular account are guaranteed a minimum rate of return based on the long-term interest rate used by the actuary. The rate is currently 8 percent per year. Tier Two member funds in the regular account have no guaranteed rate of return. Tier Two regular accounts receive whatever is available for distribution.

Return: The gain or loss in value of an investment over a given period to time expressed as a percentage of the original amount invested. For example, an initial investment of $100 that grows to $105 over one year has earned a 5% return.

Risk: A statistical measure of the possibility of losing or not gaining value. May also be expressed as the probability of not achieving an expected outcome.

Risk-diversifying: Reducing risk without reducing expected returns by combining assets with returns that move in opposite directions over a given time period thereby reducing the total portfolio risk. A decline in the price of one asset is offset by the increase in the price of another asset in the portfolio. In laypersons term's, this is often described as putting your eggs into more than one basket.

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Sector: A particular group of stocks or bonds that usually characterize a given industry or economic activity. For example, "pharmaceuticals" is the name given to stocks of companies researching, manufacturing and selling over-the-counter and prescription medicines. "Corporates" is the name given to fixed-income instruments issued by private and public companies.

Sector Funds: A pooled investment product with investments that focus on a particular industry or economic activity. For example, pooled funds that invest principally in technology stocks would be termed a technology sector fund.

Tracking Error: When using an indexing or any other benchmarking strategy the amount by which the performance of the portfolio differed from that of the benchmark. In reality, no indexing strategy can perfectly match the performance of the index or benchmark, and the tracking error quantifies the degree to which the strategy differed from the index or benchmark. Usually defined as the standard deviation of returns relative to a pre-specified benchmark.

Unhedged: A term applied to a portfolio of non-domestic stocks or bonds that is affected by the changes in the value of domestic and foreign currencies.

Value Added: As used in real estate, may include office, retail, industrial and apartment properties, but may target structured investments in alternative property types such as hotels, student housing, senior housing, and specialized retail uses. The Value Added portfolio is expected to produce returns between Core and Opportunistic portfolios but may experience greater vacancy or interest rate risk than the Core portfolio. Value Added properties may exhibit "institutional" qualities such as being well located within local and regional markets, and be of high quality design and construction but may need redevelopment, or significant leasing to achieve stabilized investment value. Value Added investments may include development opportunities with balanced risk/return profiles.

Value Stock: Stocks that appear to be undervalued for reasons other that low potential earnings growth. Value stocks usually have low price-to-earnings ratios, low price-to-book ratios and a high dividend yield.

Variable Account: The Variable Annuity Program allowed active members to place a portion of their yearly employee contributions exclusively within a domestic equity portfolio. Active members who participated in the Variable Program had part of their member account balance in the regular account and part in the variable account. Unless a member elected to participate in the Variable Program, all of the member's employee contributions went into the regular account. This "primary" election allowed members to place 25 percent, 50 percent, or 75 percent of their employee contributions in the variable account. Variable account balances increase or decrease depending on the performance of the variable fund; accounts are credited for whatever is available for distribution, whether it is a gain or a loss. The OIC only sets asset allocation policy at the Regular Account level, since the OIC cannot control historical employee directed investment options.

Venture Capital: Independently managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high growth companies. Outside of the United States, the term venture capital is used as a synonym for all types of alternative or private equity.

Vintage Year: The group of funds whose first closing occurred in the same year. For example, venture capital funds of vintage year 1995 were closed to additional investors in 1995.

- end -

TAB 5 – HIED ENDOWMENT FUND

Higher Education Pooled Endowment Fund
Investment Update
Quarter and Year Ended September 30, 2010

The quarter ended September 30 was outstanding for equity markets. The Russell 3000 gained over 11.5 percent, and the MSCI All-Country World Index (ex-US) was up over 16.5 percent. The BC Aggregate Bond Index returned 2.5 percent, over the same three month period. Over the one year period, the aforementioned indices were up 11.0 percent, 7.6 percent, and 8.2 percent, respectively.

The HIED Endowment Fund returned 10.7 percent for the quarter, and 13.0 percent for the most recent 12 month period. This performance exceeded the passive policy benchmark by 2.6 percent for the quarter, and 2.3 percent for the 12 months ended. This solid performance was driven by the domestic equity portfolio which returned 11.5 for the year and international equities which delivered an even better 15.4 percent return (7.8 percent over the benchmark). Western Asset's one year performance was still at a robust 16.3 percent. When compared to the TUCS universe of "Endowment Plans," the fund ranked in the top third over the past one and two-year periods. This is the period over which the plan has undergone significant investment changes.

Over the most recent 12 months (ended September 30), all of HIED's active managers exceeded their respective benchmarks, except for the Alliance Bernstein (AB) Global Style Blend mandate. During the Oregon Investment Council's September meeting, staff recommended and the OIC concurred, in terminating the AB mandate. Proceeds from the termination were used to fund the recent allocation to a passive Blackrock TIPS portfolio, in addition to a $3 million allocation to a Blackrock MSCI AWCI IMI equities index fund.

During the July OIC meeting, a new asset allocation was adopted for the HIED Endowment Fund, and the investment policy was approved, to reflect these changes, during the September meeting. As of the end of October, the fund was structured, as follows (allocations and ranges reflect the newly adopted guidelines):

HIED	Policy	Target	$ Thousands	Actual
Domestic Equities	20-30%	25%	$16,779	27.2%
International Equities	20-30%	25%	17,261	28.0%
Private Equity	0-15%	10%	4,351	7.1%
Growth Assets	**50-75%**	**60%**	**38,391**	**62.2%**
Real Estate	0-10%	5%	1,547	2.5%
TIPS	0-10%	5%	4,500	7.3%
Other Hard Assets	0-10%	5%	0	0.0%
Inflation Hedging	**7-20%**	**15%**	**6,047**	**9.8%**
Fixed Income	20-30%	25%	**16,488**	26.7%
Cash	0-3%	0%	789	1.3%
Diversifying Assets	**20-30`%**	**25%**	**17,277**	**28.0%**
TOTAL HIED			**$61,715**	**100.0%**

Recommendation

SIS will present a proposed implementation plan to complete the additional new investment allocation targets.

HIGHER EDUCATION ENDOWMENT FUND

ANNUAL REVIEW

DECEMBER 1, 2010

STRATEGIC INVESTMENT SOLUTIONS, INC.

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

John P. Meier, CFA
Managing Director

2010 Activities

- Adopted New Asset Allocation.
- Implementation of New Asset Allocation Currently in Process.
- Real Return
  - TIPS Allocation Implemented with BlackRock Index Fund.
  - Initial Search for a Hard Assets Manager did not identify any strategies/managers that we would recommend.
  - Working with Treasury Real Estate staff to determine appropriate Real Estate strategy and manager selection.
- Currently investigating strategies to fill increased Private Equity Allocation.
- Public Market managers and strategies working well and no additional changes are warranted.

Asset Allocation

	Current %	Target 1 %	Target 2 %
Growth Assets	62.2%	60.0%	60.0%
US Equity	27.2%	25.0%	25.0%
International Equity	28.0%	25.0%	25.0%
Private Equity	7.1%	10.0%	10.0%
Inflation Hedging Assets	9.8%	15.0%	15.0%
Real Estate	2.5%	7.5%	5.0%
TIPS	7.3%	7.5%	5.0%
Other Hard Assets	0.0%	0.0%	5.0%
Diversifying Assets	28.0%	25.0%	25.0%
Nominal Fixed Income	26.7%	25.0%	25.0%
Cash	1.3%	0.0%	0.0%

Adjustment to Policy

- Implement Real Assets as 7.5% TIPS, 7.5% Real Estate
  - Reallocate Hard Assets due to lack of attractive alternatives.
  - Revisit if attractive alternatives develop.

Implementation

	Current %	Target %	Current $	$ at Target	Delta
Growth Assets	62.2%	60.0%			
US Equity	27.2%	25.0%	$ 16,779	$ 15,429	$ (1,350)
International Equity	28.0%	25.0%	$ 17,261	$ 15,429	$ (1,832)
Private Equity	7.1%	10.0%	$ 4,351	$ 6,172	$ 1,821
Inflation Hedging Assets	9.8%	15.0%			
Real Estate	2.5%	7.5%	$ 1,547	$ 4,629	$ 3,082
TIPS	7.3%	7.5%	$ 4,500	$ 4,629	$ 129
Other Hard Assets	0.0%	0.0%	$ -	$ -	$ -
Diversifying Assets	28.0%	25.0%			
Nominal Fixed Income	26.7%	25.0%	$ 16,488	$ 15,429	$ (1,059)
Cash	1.3%	0.0%	$ 789	$ -	$ (789)
Total			$ 61,715	$ 61,715	

Review of Current Portfolios

- Since Restructuring of the Public Equity Portfolio in 2008, the strategy has worked extremely well.
  - Only disappointing manager/strategy has been AllianceBerstein Global Equity which was recently terminated and BlackRock Global Equity Index Fund added.
  - In aggregate, the equity portfolio has performed well despite the drag of AllianceBernstein.
- Western Asset Fixed Income has performed well and long term results are good despite difficulties during the credit crisis.
- Alternatives (Private Equity and Real Estate) have been a drag on longer term performance due to J-Curve effects.
  - More recent performance as been additive.

State of Oregon-HIED

Periods Ending October 31, 2010

STATE STREET.

HIED AND OTHER PLANS MANAGER PERFORMANCE VS. BENCHMARKS

		MKT VAL $(M)	%	MONTH	3 MOS	YTD	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS	FISCAL YTD
	TOTAL HIGHER ED ENDOWMENT FUND	**61,716**	**100.0**	**2.98**	**8.37**	**11.02**	**16.69**	**15.76**	**-3.19**	**0.55**	**3.16**	**5.15**	**3.17**	**13.98**
1	*HIGHER EDUCATION POLICY*			*2.30*	*5.21*	*8.16*	*14.37*	*15.04*	*-2.08*	*1.96*	*4.24*	*5.55*	*3.05*	*10.59*
	TOTAL DOMESTIC EQUITY	**15,293**	**24.8**	**3.67**	**8.30**	**9.05**	**18.32**	**15.16**	**-5.71**	**-2.02**	**1.69**	**4.12**	**0.75**	**15.92**
	RUSSELL 3000			*3.91*	*8.37*	*8.88*	*18.34*	*14.53*	*-5.96*	*-1.21*	*2.08*	*4.30*	*0.62*	*15.89*
	BLACKROCK S&P 500 INDEX	12,263	19.9	3.82	8.00	7.95	16.71	13.62						15.58
	S&P 500			*3.80*	*7.96*	*7.84*	*16.52*	*13.11*						*15.53*
	COLUMBIA ACORN	3,030	4.9	3.14	9.39	13.43	24.87	21.67						17.13
	RUSSELL 2500			*3.83*	*8.86*	*14.55*	*27.76*	*20.29*						*16.52*
	TOTAL INTERNATIONAL EQUITY	**15,339**	**24.9**	**5.19**	**12.57**	**15.36**	**20.82**	**35.06**	**-2.11**	**4.76**				**22.76**
	MSCI AC WORLD ex US (NET)			*3.41*	*10.57*	*7.22*	*12.62*	*22.89*	*-8.05*	*0.73*				*20.55*
	ARROWSTREET CAPITAL, L.P.	12,019	19.5	5.52	12.72	13.78	17.67	30.71	-3.31	3.79				22.84
2	*OREGON MSCI WORLD EX US IMI NET*			*3.63*	*10.43*	*6.35*	*10.47*	*19.82*	*-8.68*	*-0.86*				*20.55*
	GENESIS ASSET MANAGERS LTD	3,320	5.4	3.47	11.90	20.23	30.81	50.63						22.44
	MSCI Emerging Markets IMI Index (Net)			*3.07*	*12.75*	*15.05*	*25.15*	*45.13*						*21.97*
	BLACKROCK ACWI IMI	3,000	4.9											
	MSCI ACWI IMI NET													
	ALLIANCE BERNSTEIN INST INV MGMT	408	0.7											
	WESTERN ASSET MGMT COMPANY	16,488	26.7	0.87	3.06	13.13	15.30	21.08	8.70	7.36	7.22	6.68		4.87
	BC AGGREGATE			*0.36*	*1.76*	*8.33*	*8.01*	*10.86*	*7.23*	*6.76*	*6.45*	*5.54*		*2.84*
	BLACKROCK TIPS INDEX FUND	4,500	7.3											
	BC GLOBAL INFLATION LINKED: U.S. TIPS													
3	ALTERNATIVE INVESTMENTS	5,898	9.6	0.00	10.13	7.91	12.96	-20.90	-17.38					10.13
4	*RUSSELL 3000+300 BPS QTR LAG*			*0.00*	*-10.64*	*1.73*	*18.91*	*-3.48*	*-5.47*					*-10.64*
	CASH FUND	789	1.3	0.10	0.27	0.83	0.95	2.17	1.75	2.68				0.41
	91 DAY T-BILL			*0.02*	*0.03*	*0.10*	*0.12*	*0.21*	*1.04*	*2.04*				*0.05*

Provided by State Street Investment Analytics

STATE STREET.

HIED AND OTHER PLANS MANAGER PERFORMANCE VS. BENCHMARKS

Endnotes

1 From January 2000 through July 2006, the policy benchmark is 5% 91 Day T-Bill, 10.5% MSCI EAFE, 59.5% Russell 3000, and 25% BC Agg.

From August 2006 to April 2008, the policy benchmark is 42% Russell 3000, 28% MSCI World Ex US, and 30% BC Agg.

From May 2008 to current, the policy benchmark is 30% Russell 3000, 30% MSCI ACWI Ex Us Net, 10% Russell 3000 + 300bpts, and 30% BC Agg.

2 Benchmark performance through April 31, 2008, is MSCI Standard Gross index. For May 1, 2008, is MSCI Net index. From June 1, 2008, is linked with MSCI IMI Net index.

3 Beginning in September 2010, the Private Equity return now combines the estimated return from the most recent quarter with a revision component that trues up the past two quarters' reported returns with the past two quarters' actual returns.

4 Prior to May 1, 2005, index is R3000+500 bps Qtr Lag.

TAB 6 – PROPOSED POLICY REVISIONS

OIC Policy Updates
December 2010

Purpose
To seek OIC approval of proposed revisions to OIC Policies 4.00.03 and 4.01.13 regarding the OIC Standards of Ethics and Consulting Contracts, respectively.

Background from the October OIC Staff Write-up
At the request of the State Treasurer, the Oregon State Treasury has revised its employee Conflict of Interest and Code of Conduct Policy to address Placement Agents used by firms that are ultimately recommended to the OIC for investment, as well as related reporting requirements.

Consistent with this change, OIC Policies covering members and consultants should be revised for consistency. Attached are proposed revisions to policies 4.00.03 and 4.01.13 to apply a similar discipline for OIC members and consultants to the OIC. Additionally, various definitions in the respective policies have been updated based on current Oregon Revised Statutes (ORS), and definitions of Placement Agent and Placement Fee have been added.

Update
This topic was previously presented at the October meeting, and at the request of the State Treasurer, was deferred to this meeting, to allow for additional input by Council members and other interested partners.

Attached is a version of the proposed policy changes encompassing all the input that was received.

Recommendation
Approve staff proposed changes outlined above, and as reflected in the attached policies.

FUNCTION: **O.I.C. Section**
ACTIVITY: **Standard of Ethics**

POLICY: **OIC members shall conduct themselves in conformity with applicable law and the code of ethics outlined below. OIC members shall, at a minimum, disclose actual and potential conflicts of interest.**

PROCEDURES:

1. **PERFORMANCE**

A. No member of or appointee to the Oregon Investment Council (Council), nor any candidate for State Treasurer, nor any officer or employee in the Office of the State Treasurer (OST), nor any contractor providing investment-related services to the Council or to the State Treasurer in his or her capacity as Investment Officer shall solicit or receive, or induce others to solicit or receive, political campaign contributions to or for any member of or appointee to the Oregon Investment Council, or any candidate for State Treasurer, or any officer or employee of the OST from:

1. A contractor that is then providing services to the Council or to the Investment Officer;

2. A contractor that the Council or the Investment Officer is then considering retaining for provision of services to the Council or to the Investment Officer;

3. A person in or with whom, or a company in or with which, moneys of the state Investment Funds are then invested, excluding investments that were made by investment managers without direction or influence from the Council, Council members, or officers or employees of the Office of the State Treasurer relating to the investment;

4. A person in or with whom, or a company in or with which, the Council or Investment Officer is then considering investing moneys of the Investment Funds.

B. The Council is principally a policy-making body and shall not impinge on operating or administrative functions reserved to the State Treasurer.

C. Members of the Council shall use discretion and restraint in their dealings with investment management companies and shall respect the privacy and integrity of those companies. Conduct by OIC members shall, at a minimum, be in compliance with applicable law.

D. Any information or contact of a material nature relevant to the investment or reinvestment of funds that may come to the attention of a member of the Council from one of the investment management companies or another source shall be promptly reported to the State Treasurer for evaluation by the State Treasurer's office.

E. No member of the Council shall use or attempt to use the member's official position to obtain financial gain or avoidance of financial detriment for the member or for a relative, or member of the household, of the member that would not otherwise be available but for the member's holding of the official position. This prohibition shall extend to any business with which the member or a relative, or member of the household, of the member is associated. Additional actions contained in ORS 244.040 shall also be prohibited regardless of whether actual conflicts of interest or potential conflicts of interest are announced or disclosed pursuant to ORS 244.120, as discussed below.

F. All members of the Oregon Investment Council shall comply with the applicable ethics requirements for public officials or for OIC members particularly, including gift or honoraria limits, and entertainment prohibitions, as described in ORS chapter 244, ORS chapter 293 and the administrative rules of the Oregon Government Ethics Commission.

G. If an OIC member has knowledge that a Placement Agent has been engaged by an investment entity being considered by the OIC, then any contact between an OIC member and such Placement Agent, shall be disclosed by the member prior to any vote on the investment.

2. **APPOINTMENTS**

A. In accordance with ORS 293.706(7), no person may be appointed to serve as a member of the Council for more than two full four-year terms in any 12-year period.

B. In accordance with ORS 293.711(4), no person is eligible to be chairperson of the Council for more than four years in any 12-year period.

3. ADDITIONAL ECONOMIC AND OTHER DISCLOSURE REQUIREMENTS

A. In accordance with ORS 244.050(1)(p)(J), each member of the Oregon Investment Council is required to file an annual statement of economic interest with the Oregon Government Ethics Commission.

B. In accordance with ORS 293.708(2), when a member of the Oregon Investment Council becomes aware that action on a matter pending before the Council might lead to private pecuniary benefit or detriment to the person, to a relative of the person or to a business with which the person or a relative of the person is associated, the member shall notify in writing the State Treasurer or the Deputy State Treasurer that any action, decision or recommendation by the member might constitute an actual or potential conflict of interest. The member shall provide the notice not later than three business days after the member becomes aware of the possibility of an actual or potential conflict. This paragraph does not apply if the pecuniary benefit or detriment arises out of circumstances described in Section 7, subsection K. 1. to 3. below.

C. In accordance with ORS 244.120(2), each member of the Oregon Investment Council shall announce publicly the nature of any potential conflict of interest prior to taking any action thereon in the capacity of a public official. With respect to such matters for which a member has publicly announced the nature of any potential conflict of interest, the member shall endeavor to otherwise participate fully in Council action with respect to such matters except as proscribed in subsection E of this section.

D. When met with an actual conflict of interest, the member shall announce publicly the nature of the actual conflict and:

1. Except as provided in subparagraph (2) of this paragraph, refrain from participating as a public official in any discussion or debate on the issue out of which the actual conflict arises or from voting on the issue.
2. If any public official's vote is necessary to meet a requirement of a minimum number of votes to take official action, be eligible to vote, but not to participate as a public official in any discussion or debate on the issue out of which the actual conflict arises. (From ORS 244.120(2)(b)(B)).

4. **SERVICE BY MEMBERS OF THE COUNCIL ON BOARDS OF DIRECTORS**

   A. A member of the Council shall receive the approval of a majority of the other members of the Council before accepting appointments to the board of directors of any company in which the State of Oregon has an investment.

   B. Council members shall not accept compensation (except per diem and reimbursement for travel expenses consistent with law) for services on the board of directors of any business in which the State has an equity interest, other than publicly traded common stock. (From ORS 293.713).

5. **RELATIONSHIP TO STATE AND FEDERAL STATUTES, RULES OR POLICIES**

   This Standard of Ethics for the OST and the Oregon Investment Council is in addition to, and not in lieu of, any statutes, rules or policies of the State of Oregon or the United States of America. Nothing in this Standard is intended to relieve the State Treasurer or any member of the Council from any duty, obligation or prohibition contained in any state or federal statute, rule or policy.

6. **OIC CONTRACTORS**

   Every contract for investment management services, investment counseling services, or mortgage services whether by the OIC or by the State Treasurer as Investment Officer shall include a provision that reads: "Contractor shall disclose to the council, at the council's next regular meeting, knowledge of any attempt at solicitation of, offer of, or assistance in obtaining, political campaign contributions to or for any member or appointee of the Oregon Investment Council, any candidate for State Treasurer, or any officer or employee of the Office of the State Treasurer. Failure to make such a disclosure may result in termination of the contract, in the sole discretion of the council."

7. DEFINITIONS: As used in sections 1 through 6, unless the context clearly requires otherwise:

   A. "**Actual conflict of interest"** means any action or any decision or recommendation by a person acting in a capacity as a public official, the effect of which *would be* to the private pecuniary benefit or detriment of the person or the person's relative or any business with which the person or a relative of the person is associated unless the pecuniary benefit or detriment

arises out of circumstances described in subsection (12). (From ORS 244.020(1)).

~~A. "**Candidate"** means an individual whose name is printed on a ballot, or whose name is expected to be or has been presented, with the individual's consent, for nomination or election. (Excerpted from ORS 260.005(1), see statute for entire definition).~~

~~B. "**Campaign contribution"** includes payment, loan, gift, forgiving of indebtedness, or furnishing without equivalent compensation or consideration, of money, services other than personal services for which no compensation is asked or given, supplies, equipment, or any other thing of value, to or on behalf of a candidate or political committee or measure; and any unfulfilled pledge, subscription, agreement or promise, whether or not legally enforceable, to make a contribution. (Excerpted from ORS 260.005 (3), see statute for entire definition).~~

~~C~~B. "**Business"** means any corporation, partnership, proprietorship, firm, enterprise, franchise, association, organization, self-employed individual and any other legal entity operated for economic gain but excluding any income-producing not-for-profit corporation that is tax exempt under Section 501(c) of the Internal Revenue Code with which a public official or a relative of the public official is associated only as a member or board director or in a nonremunerative capacity. (From ORS 244.020(2)).

~~D~~C. **"Business with which the person is associated"** means:

1. Any private business or closely held corporation of which the person or the person's relative is a director, officer, owner or employee, or agent or any private business or closely held corporation in which the person or the person's relative owns or has owned stock, another form of equity interest, stock options or debt instruments worth $1,000 or more at any point in the preceding calendar year. (From ORS 244.020(3)(a)).

2. Any publicly held corporation in which the person or the person's relative owns or has owned $100,000 or more in stock or another form of equity interest, stock options or debt instruments at any point in the preceding calendar year. (From ORS 244.020(3)(b)).

3. Any publicly held corporation of which the person or the person's relative is a director or officer. (From ORS 244.020(3)(c)).

4. Any business listed as a source of income as required on the statement of economic interest. (From ORS 244.020(3)(d)).

D. "**Campaign contribution"** includes payment, loan, gift, forgiving of indebtedness, or furnishing without equivalent compensation or consideration, of money, services other than personal services for which no compensation is asked or given, supplies, equipment, or any other thing of value, to or on behalf of a candidate or political committee or measure; and any unfulfilled pledge, subscription, agreement or promise, whether or not legally enforceable, to make a contribution. (Excerpted from ORS 260.005 (3), see statute for entire definition).

E. "**Candidate"** means an individual whose name is printed on a ballot, or whose name is expected to be or has been presented, with the individual's consent, for nomination or election. (Excerpted from ORS 260.005(1), see statute for entire definition).

~~E~~F. "**Council"** means the Oregon Investment Council created under ORS 293.706.

~~F~~G. "**Member of the household"** means any person who resides with the public official or candidate. (From ORS 244.020(10)).

~~G. "**Relative"** means the spouse of the public official;; any children of the public official or of the public official's spouse; siblings, spouses of siblings or parents of the public official or of the public official's spouse; or any individual for whom the public official has a legal support obligation. (From ORS 244.020(15)).~~

H. "**Person"** means an individual, corporation, limited liability company, labor organization, association, firm, partnership, joint stock company, club, organization or other combination of individuals having collective capacity. (From ORS 260.005(16)).

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

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

~~I~~K. "**Political committee"** means a combination of two or more individuals, or a person other than an individual, the primary or incidental purpose of which is to support or oppose any candidate. (Excerpted from ORS 260.005(18), see statute for entire definition).

~~J. "**Actual conflict of interest"** means any action or any decision or recommendation by a person acting in a capacity as a public official, the effect of which *would be* to the private pecuniary benefit or detriment of the person or the person's relative or any business with which the person or a relative of the person is associated unless the pecuniary benefit or detriment arises out of circumstances described in subsection K. 1. to 3. below. (From ORS 244.020(1)).~~

~~K~~L. "**Potential conflict of interest"** means any action or any decision or recommendation by a person acting in a capacity as a public official, the effect of which *could be* to the private pecuniary benefit or detriment of the person or the person's relative, or a business with which the person or the person's relative is associated, unless the pecuniary benefit or detriment arises out of the following: (From ORS 244.020(12)).

1. An interest or membership in a particular business, industry, occupation or other class required by law as a prerequisite to the holding by the person of the office or position. (From ORS 244.020(12(a)).

2. Any action in the person's official capacity which would affect to the same degree a class consisting of all inhabitants of the state, or a smaller class consisting of an industry, occupation or other group including one of which or in which the person, or the person's relative or business with which the person or the person's relative is associated, is a member or is engaged. (From ORS 244.020(12(b)).

3. Membership in or membership on the board of directors of a nonprofit corporation that is tax-exempt under section 501(c) of the Internal Revenue Code. (From ORS 244.020(12(c)).

~~L~~M. "**Public official"** means any person who, when an alleged violation of ORSs chapter 244 occurs, is serving the State of Oregon or any of its political subdivisions or any other public body, as defined in ORS 174.109, as an elected official, appointed official, employee, or agent, irrespective of whether the person is compensated for the services. (From ORS 244.020(14)).

N. "**Relative"** means:
(a) The spouse of the public official or candidate;
(b) Any children of the public official or of the public official's spouse;
(c) Any children of the candidate or of the candidate's spouse;
(d) Siblings, spouses of siblings or parents of the public official or of the public official's spouse;
(e) Siblings, spouses of siblings or parents of the candidate or of the candidate's spouse;
(f) Any individual for whom the public official or candidate has a legal support obligation;
(g) Any individual for whom the public official provides benefits arising from the public official's public employment or from whom the public official receives benefits arising from that individual's employment; or
(h) Any individual from whom the candidate receives benefits arising from that individual's employment.
(From ORS 244.020(15)).

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)

None

FUNCTION: General Policies and Procedures
ACTIVITY: Consulting Contracts

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

PROCEDURES:

1. Consulting contracts shall be negotiated and executed in compliance with Council policy 4.01.10.

2. Consulting contracts shall expire on a date not to exceed three years from the effective date of the contract.

3. Consulting contracts shall include a "no-cause" termination clause with a maximum 90 day notice period.

4. It is the policy of the Council to continuously review all contractors.

5. Consulting contracts may be renewed or extended beyond the original expiration date no more than twice and limited to a final expiration date that is no more than four years beyond the original expiration.

6. Upon the final expiration of the original contract, or whenever directed by the Council, staff shall undertake and complete an ~~RFI~~ RFP process which shall include the following:

   a. Identification of those potential candidates who may reasonably be believed to perform those services under examination;
   b. Directing of an ~~RFI~~ RFP which shall include, but not be limited to:
      1. Description of services requested;
      2. Description of the potential or preliminary standards required by the Council of the candidates; and
      3. Request for pricing or fee schedule information.

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

DEFINITIONS:

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

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

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

TAB 7 – 2011 OIC MEETING CALENDAR ADOPTION

OREGON INVESTMENT COUNCIL

2011 Meeting Schedule

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

January 26, 2011

February 23, 2011

April 27, 2011

June 1, 2011

July 27, 2011

September 28, 2011

November 2, 2011

December 7, 2011

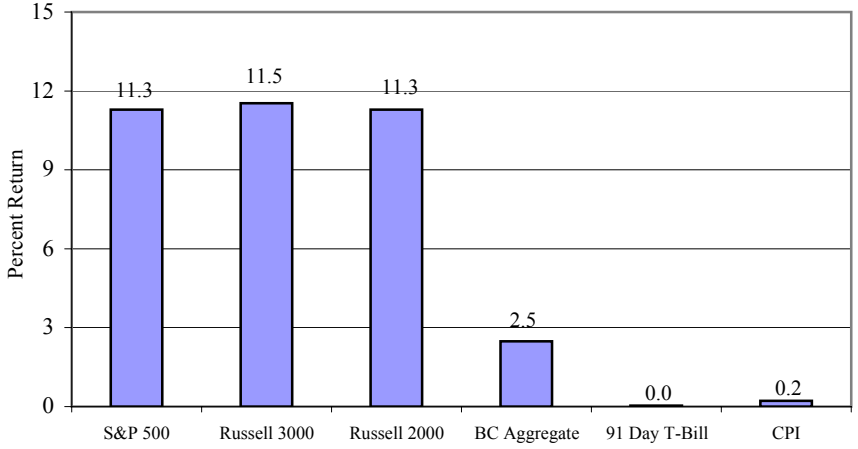
TAB 8 – OPERF 3RD QUARTER PERFORMANCE REVIEW

State of Oregon
OPERF Performance Summary
Quarter Ending September 30, 2010

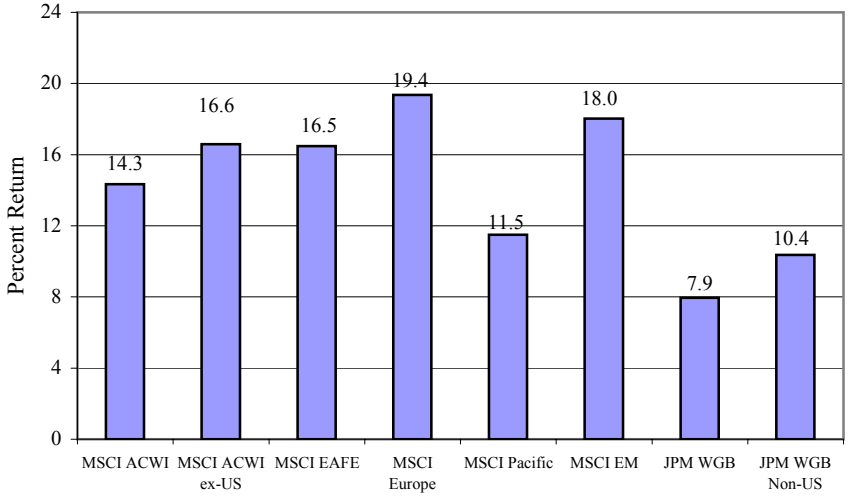
Capital Markets Review

Q3 2010

U.S. Markets



Global Markets



General Comments

Global Financial markets seesawed their way back into positive territory for the year with strong returns across all styles, sectors and regions. Early in the quarter, U.S investors enjoyed positive corporate earnings reports, and the capping of the oil leak in the Gulf of Mexico, but then suffered through poor economic data in August, which led the Fed to hint that it may resume quantitative easing measures (QE2) to ignite economic growth. This helped US stocks to finish the quarter with returns between 11 and 12 percent. International Markets performed even better with the MSCI EAFE up 16.5% behind a return of confidence in Europe as sovereign debt fears there subsided. Fixed Income returns remained positive as yields continued to slip on weak economic data and the continuance of low short-term interest rates with no end in sight.

Also encouraging the Fed to ease further, was a total absence of any signs of inflation reappearing as the CPI was generally flat in the quarter and just 1.1% higher from a year ago in September, and 0.8% higher, excluding the more volatile food and energy sectors.

The worst of the economic data was likely the downward revision of the second quarter's GDP growth rate to 1.7%, from an original estimate of 3.7%. This came just days after the official announcement by the NBER that the recession ended in June of 2009, causing some investors to be concerned with the chances of a double-dip recession. In addition, the employment picture remained stagnant in the quarter, as Total Non Farm Private Employment fell by 212,000 jobs over the quarter, and the unemployment rate remained high but unchanged at 9.6% in September.

As a result of the uncertain employment landscape, consumer spending remained sluggish, resulting in more store closures, although at a lower rate than in 2009. Household incomes were still relatively low, while mortgage and other household debts remained at record highs relative to after-tax income. Not surprisingly, existing home sales reached record lows in July, but managed to climb out over the rest of the quarter, but in September still stood 19.1% below sales of a year ago.

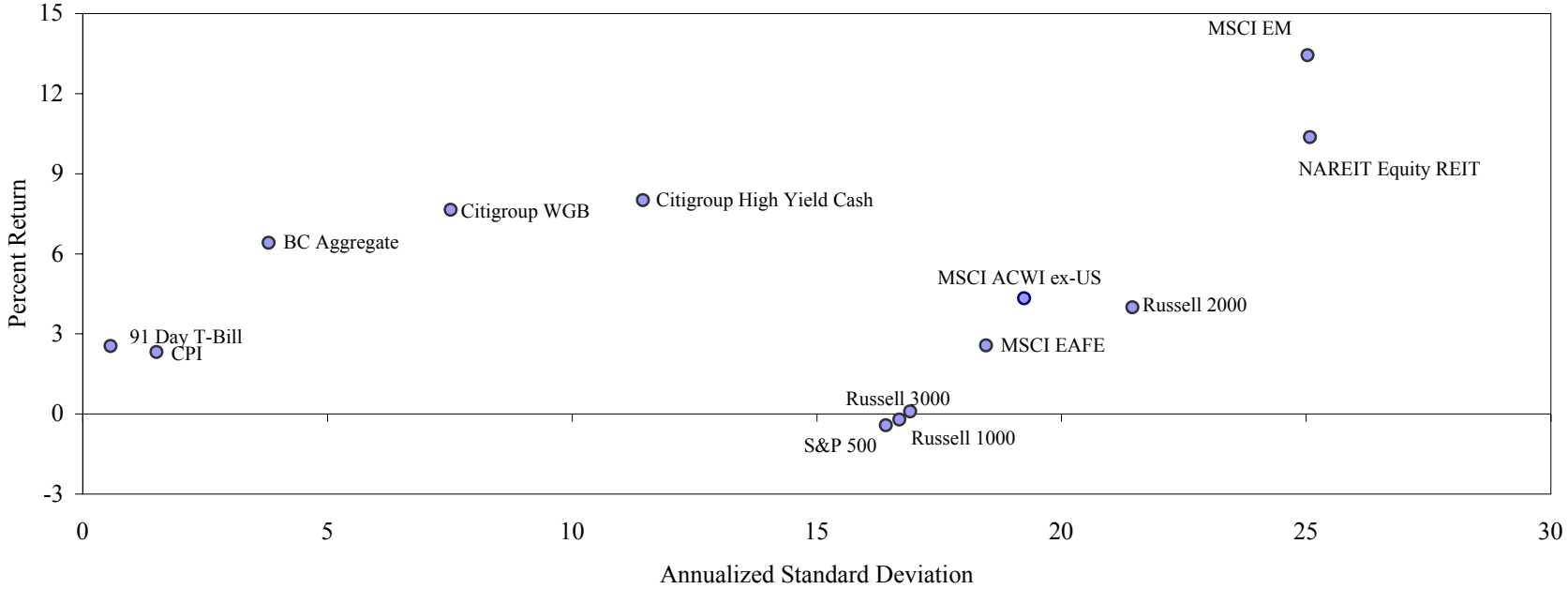
This report has been prepared with and is based on information furnished to State Street Corporation ("State Street") by one or more third parties. State Street shall not have and does not undertake responsibility for the accuracy or completeness of information provided by such third parties, and makes no representations or warranties with respect to the accuracy or completeness thereof or the sufficiency thereof for any particular purpose. State Street has not independently verified information received from third parties, and shall have no liability for any inaccuracies therein or caused thereby.

Capital Markets Review

Q3 2010

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	0.08	0.13	1.13	2.61	2.55	3.83	0.57
BC Aggregate	2.48	7.94	8.16	7.42	6.20	6.41	7.23	3.80
Citigroup High Yield Cash	6.41	10.77	17.18	8.05	7.85	8.01		11.45
Citigroup World Gov't Bond	8.18	7.05	4.99	8.15	7.05	7.64	7.47	7.52
S&P 500	11.29	3.89	10.16	-7.16	0.64	-0.43	9.05	16.41
Russell 3000	11.53	4.78	10.96	-6.59	0.92	0.09	9.39	16.91
Russell 1000	11.55	4.41	10.75	-6.79	0.86	-0.21	9.38	16.69
Russell 2000	11.29	9.12	13.35	-4.29	1.60	4.00	10.27	21.45
MSCI ACWI ex-US	16.58	3.69	7.56	-7.42	4.26	4.33		19.24
MSCI EAFE	16.48	1.07	3.27	-9.51	1.97	2.56	6.04	18.46
MSCI Emerging Markets	18.03	10.75	20.22	-1.48	12.75	13.44		25.11
Nareit Equity REIT	12.83	19.09	30.28	-6.06	1.87	10.36	11.94	25.08
CPI	0.22	1.15	1.14	1.57	1.91	2.32	2.53	1.51

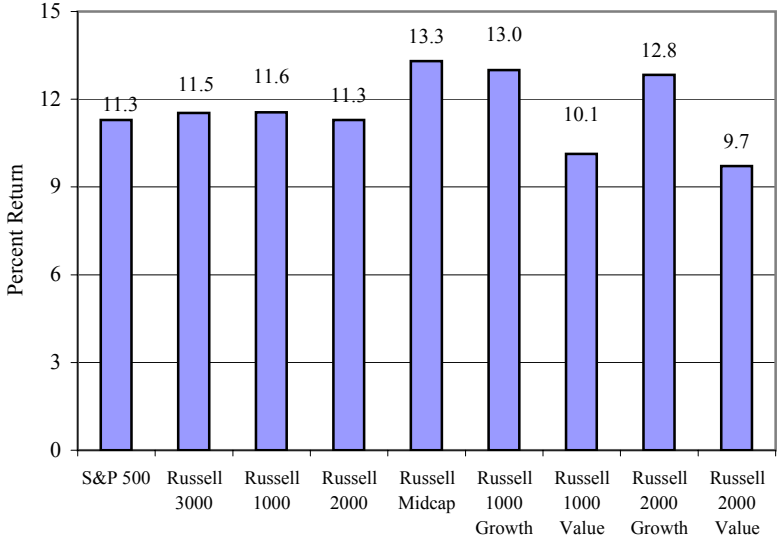
Risk vs. Return - 10 Years



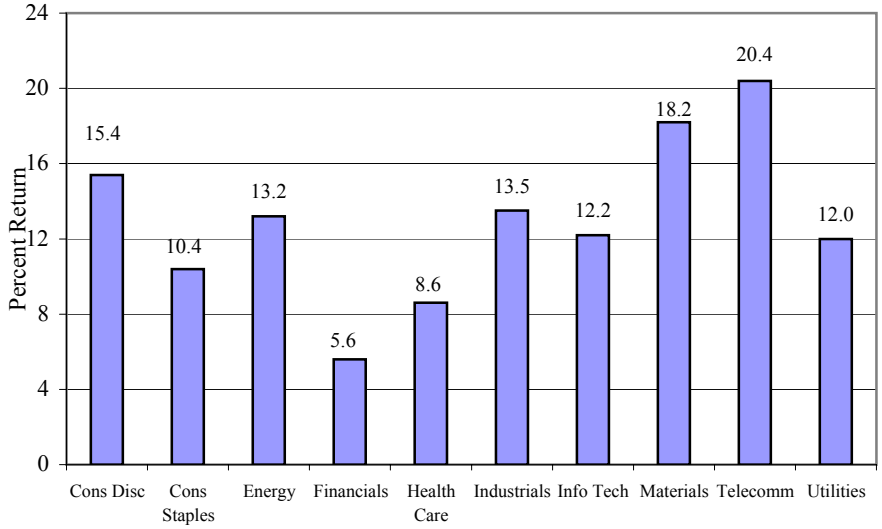
U.S. Equity Market Review

Q3 2010

U.S. Markets



Economic Sector Performance



U. S. Equity Market

For US Equities the third quarter was a rollercoaster ride, but by the end of it they had managed to recoup all the losses of the second quarter as the bad news from home and abroad faded into the background. Small cap stocks edged out their large cap counterparts as the Russell 2000 returned 11.3%, compared with a 11.6% return to the Russell 1000. The tech-laden Nasdaq composite returned 12.3%.

On the Growth-Value spectrum, Growth stocks handily outperformed Value across all capitalization ranges. The Russell 1000 Growth Index returned 13.0% while the Russell 1000 Value Index increased by 10.1%. In the small cap range the difference was more pronounced with the Russell 2000 Growth Index rising by 12.8% versus the 9.7% return posted by the Russell 2000 Value Index.

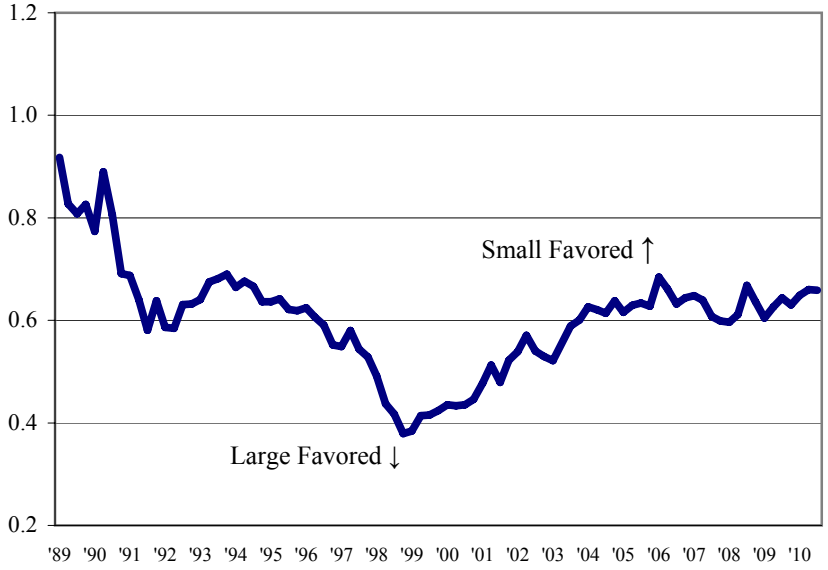
All of the domestic economic sectors were positive in the quarter, with Telecom, Materials and Consumer Discretionary leading the way with returns of 20.4%, 18.2% and 15.4%, respectively. Bringing up the rear were Financials at 5.6% and Health Care, which rose 8.6%.

Verizon (+27%) and AT&T (+20%) led the Telecom sector while the Materials sector profited from a broad rally in commodities that lifted copper and gold prices to record highs in the quarter, benefiting companies such as Freeport McMoRan (+45%). In the consumer Discretionary space, internet retailers ruled in the quarter with companies such as Amazon (+44%), Priceline.com (+97%) and Netflix (+49%) leading the way.

U.S. Equity Market Review

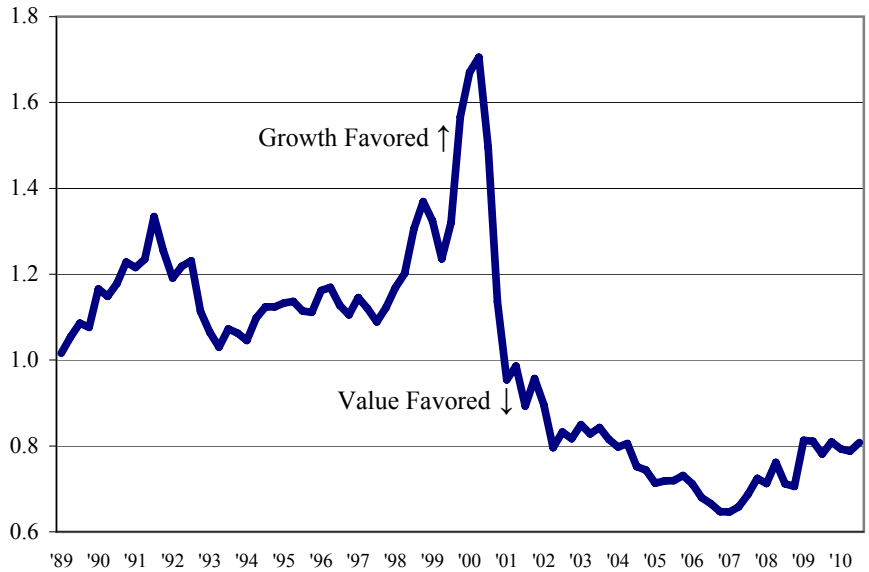
Q3 2010

Small vs. Large



Cumulative return of the Russell 2000 versus the Russell 1000

Growth vs. Value



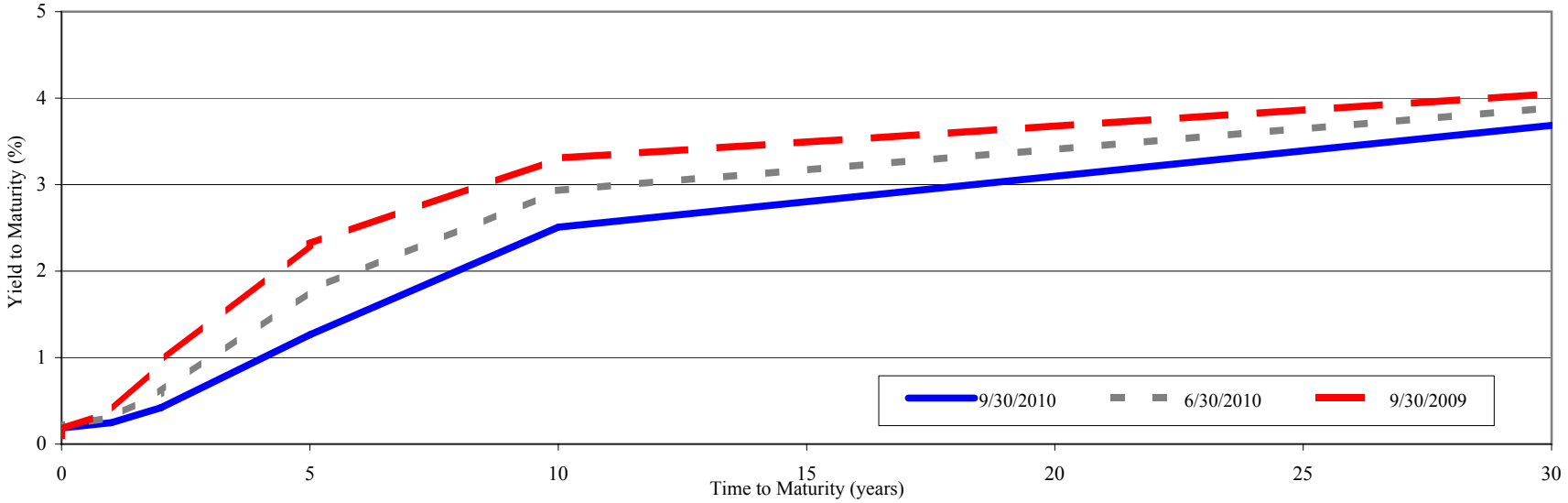
Cumulative return of the Russell 1000 Growth versus the Russell 1000 Value

Total Returns	**Quarter**	**Year to Date**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**20 Years**
S&P 500	11.29	3.89	10.16	-7.16	0.64	-0.43	9.05
Russell 3000	11.53	4.78	10.96	-6.59	0.92	0.09	9.39
Russell 1000	11.55	4.41	10.75	-6.79	0.86	-0.21	9.38
Russell 2000	11.29	9.12	13.35	-4.29	1.60	4.00	10.27
Russell Midcap	13.31	10.97	17.54	-4.16	2.60	4.86	12.14
Russell 1000 Growth	13.00	4.36	12.65	-4.36	2.06	-3.44	8.29
Russell 1000 Value	10.13	4.49	8.90	-9.39	-0.48	2.59	9.97
Russell 2000 Growth	12.83	10.23	14.79	-3.75	2.35	-0.13	7.76
Russell 2000 Value	9.72	7.92	11.84	-4.99	0.73	7.72	12.25

U.S. Fixed Income Market Review

Q3 2010

Treasury Yield Curve



U. S. Fixed Income Market

The US Fixed Income market continued its steady climb in the third quarter as gains in Investment grade and high yield securities drove the Barclays Capital Universal up by 2.9%. The Barclays capital Aggregate Index trailed at 2.5%, as its performance was dampened by poor MBS performance as the average rate on a 30-year fixed rate mortgage dropped to a record low of 4.32%.

Concerns over a double-dip recession eliminated any speculation that the Fed would raise short-term rates, and indications of another round of quantitative easing by the Fed contributed to further declines in yields, which in the case of the 2-year Treasury, reached an all-time low of 0.4%, while the 10-year Treasury yielded just 2.5% to close the quarter. This led the 10-Treasuries to return 4.5% in the quarter, while longer-term, 30-year Treasuries increased by 4.7%. TIPS participated in the rally, but not by as much, returning 2.5% as inflation fears remained muted.

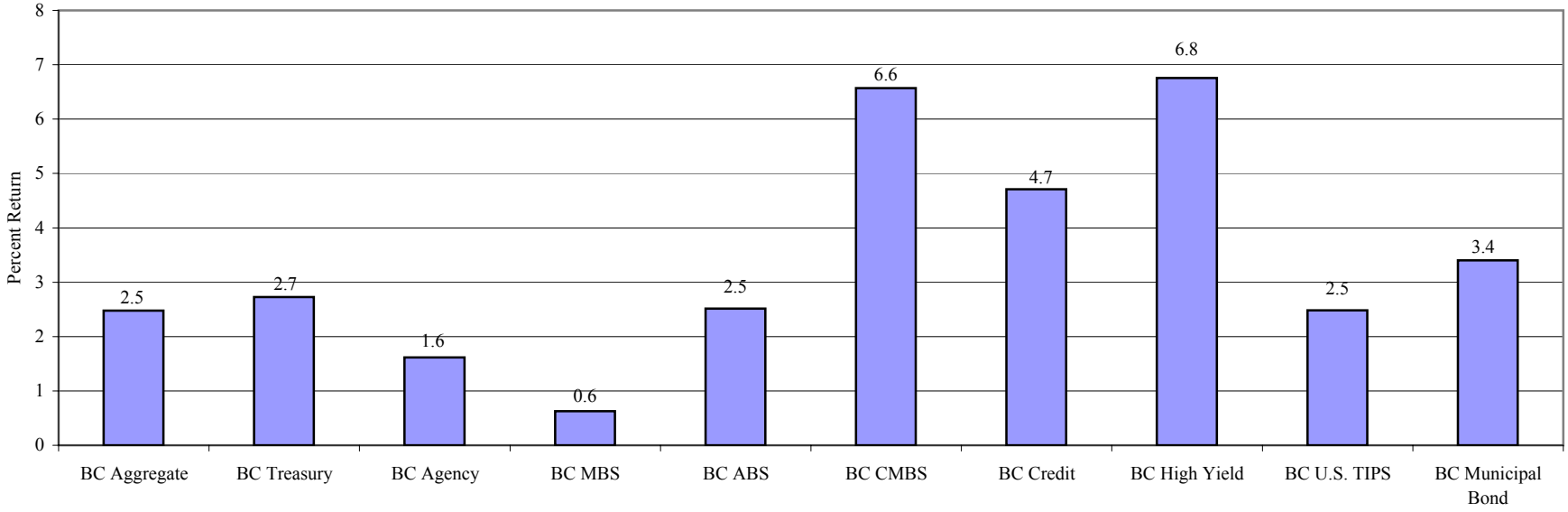
For the most part, agency bonds kept pace with Treasuries with the exception of MBS, as continued government intervention and pre-payment uncertainty weighed on the sector. The credit subsectors of the securitized market – ABS, CMBS and non-agency RMBS performed well as scarce supply was met with strong demand by investors seeking investment grade credits with yield.

Yields on investment grade issues also reached 20-year lows at 3.4%, while high yield bonds fell to 7.8% as issuances of investment grade bonds reached record highs, with well established companies such as Microsoft and IBM entering the fray. Higher yielding, lower quality BBB's outperformed the higher quality AA's. Among industries, insurance companies outperformed and energy credits rebounded with progress on the oil spill, while retailers in the food, drug and restaurant spaces, lagged behind.

U.S. Fixed Income Market Review

Q3 2010

U.S. Bond Sector Performance

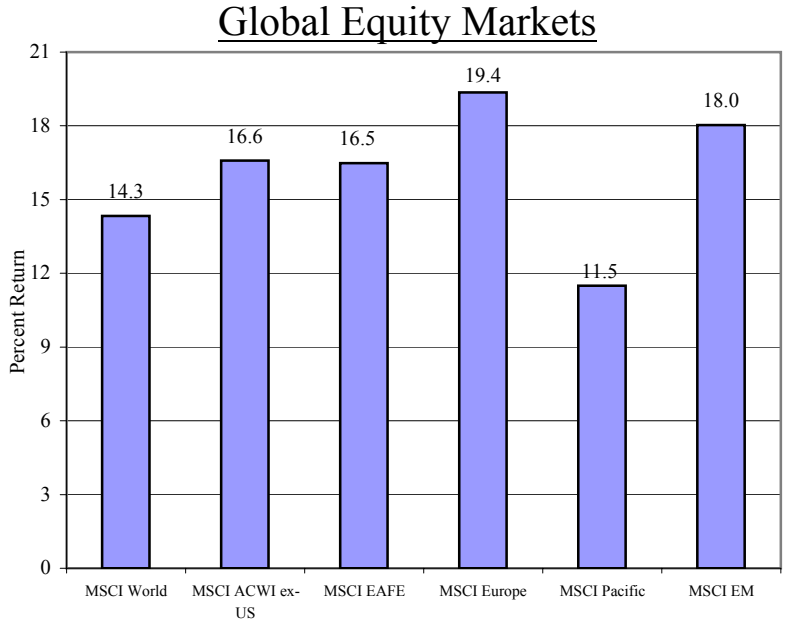


Total Returns	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years
BC Aggregate	2.48	7.94	8.16	7.42	6.20	6.41	7.23
BC Treasury	2.73	8.74	7.32	7.43	6.19	6.22	7.09
BC Agency	1.62	5.40	5.30	6.47	5.77	6.07	7.01
BC MBS	0.63	5.11	5.71	7.51	6.41	6.27	7.10
BC ABS	2.51	7.45	8.88	5.09	4.71	5.42	
BC CMBS	6.57	19.50	23.44	6.42	5.46	6.77	
BC Credit	4.71	10.77	12.27	8.42	6.48	7.07	7.78
BC High Yield	6.76	11.68	18.44	8.78	8.36	8.26	
BC U.S. TIPS	2.48	7.00	8.89	6.91	5.49	7.49	
BC Municipal Bond	3.40	6.83	5.81	6.04	5.13	5.73	6.52

Global Equity Market Review

Q3 2010

Total Net Returns in US$	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years
MSCI World	14.34	3.63	8.42	-7.48	2.39	1.64	
MSCI ACWI ex-US	16.58	3.69	7.56	-7.42	4.26	4.33	
MSCI EAFE	16.48	1.07	3.27	-9.51	1.97	2.56	6.04
MSCI EAFE Hedged	7.51	-0.11	2.80	-9.80	0.36	-0.38	5.26
MSCI Europe	19.35	-0.60	2.63	-10.37	2.34	3.01	8.43
MSCI Pacific	11.49	4.78	4.85	-7.60	1.20	1.56	2.86
MSCI Emerging Markets	18.03	10.75	20.22	-1.48	12.75	13.44	
MSCI UK	19.77	2.56	9.70	-9.50	1.49	3.00	7.88
MSCI Japan	5.83	2.96	0.11	-10.07	-2.50	-1.77	0.77



Non-US Equity Markets

International equity markets generally performed better than their US counterparts in the third quarter, led by the European region and emerging markets. Europe soared, as its markets regained their appetites for risk as concerns from the second quarter over sovereign debts faded and bank stress test results were generally viewed as favorable. The MSCI EAFE (Net) gained 16.5% in the quarter, led by the MSCI European Index with a return of 19.4%.

Countries leading the way in Europe included Norway (29.4%), Austria (28.3%), and Spain (27.5%). Ireland was the only EAFE country in the red as several large Irish banks had to be bailed out as the quarter came to an end. In the Pacific, ex-Japan region, returns were good but slightly lower with Australia leading the way (+23.6%) on the strength of the Australian dollar gaining 11.9% against the US dollar in the quarter.

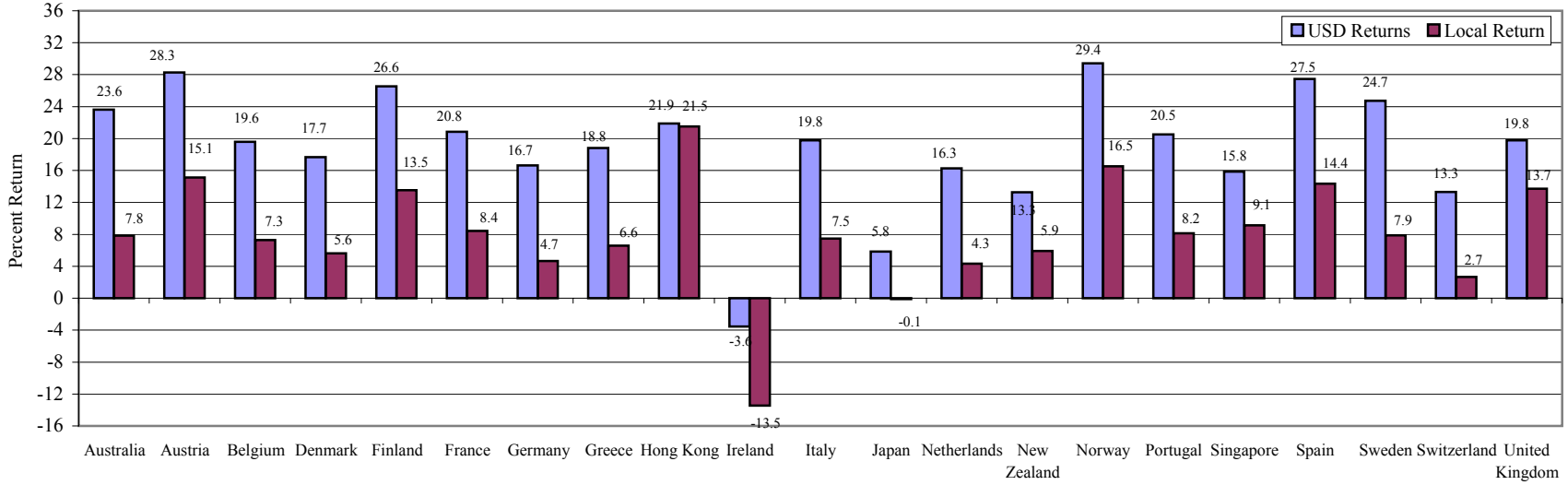
Emerging markets continued to shine as they rose for the seventh consecutive quarter with the MSCI Emerging Markets index climbing 18.0%. Latin American countries (+21.1%) and South Africa displayed the highest returns (25.4%) as they profited from the broad rally in commodities. Asian markets trailed slightly (+15.8%) behind a lagging Chinese market (+10.7%).

A general, worldwide increase in risk appetites forced a significant downward swing in the value of the US dollar, which helped to pad dollar-based investors' returns in the third quarter. In the Japan market, dollar-based investors earned 5.8%, compared with a -0.1% return to equities in the local currency. Elsewhere, the euro gained 10.0% and the British pound rose 5.6% against the greenback.

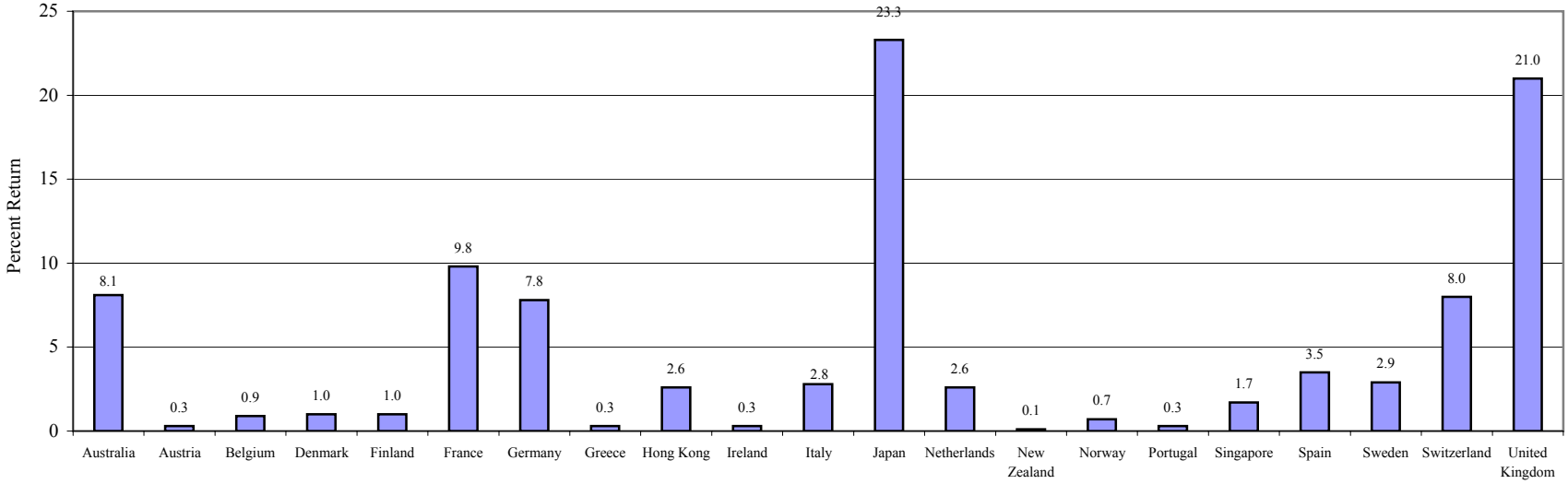
Global Equity Market Review

Q3 2010

MSCI EAFE Country Returns



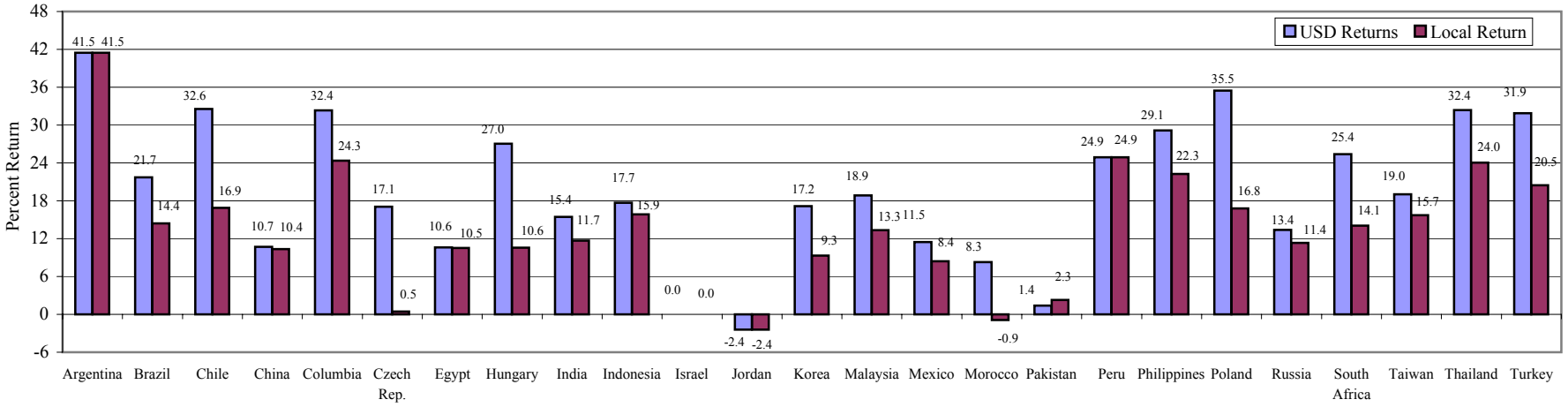
MSCI EAFE Country Weights



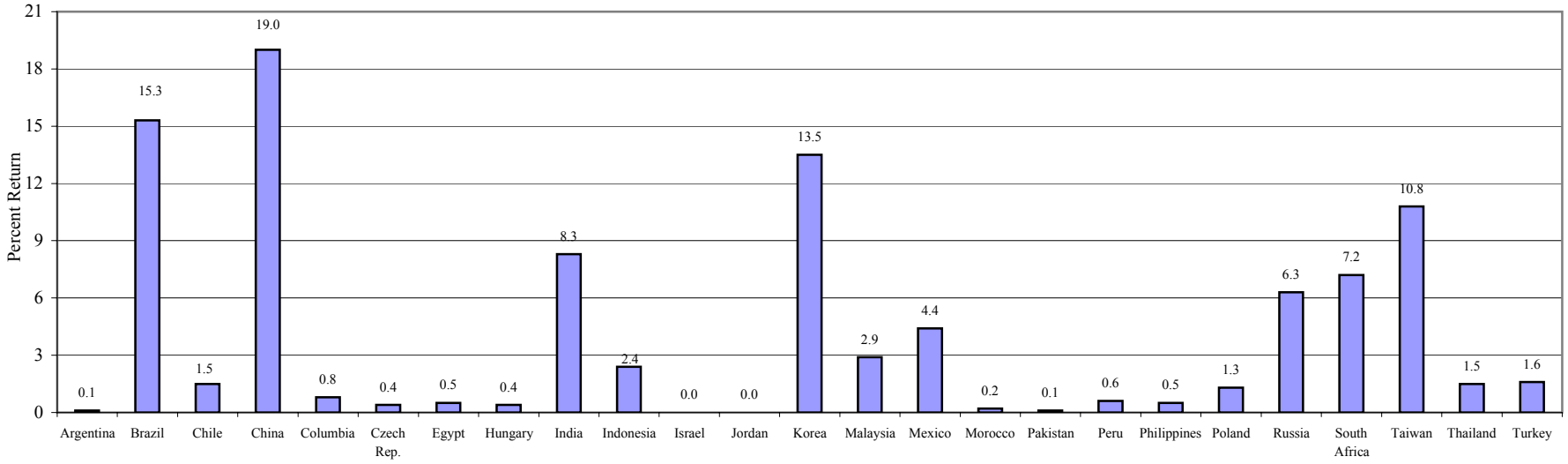
Global Equity Market Review

Q3 2010

MSCI Emerging Markets Country Returns



MSCI Emerging Markets Country Weights



OIC Regular Account Performance Report

Net of Fees

Periods Ending September 30, 2010

	3 Year %	5 Year %	7 Year %	10 Year %
Have returns affected benefit security?				
1. Total Regular Account	-2.66	4.01	7.53	4.49
2. Actuarial discount rate	8.00	8.00	8.00	8.00
3. Out/Under performance (1-2)	-10.66	-3.99	-0.47	-3.51
Has plan been rewarded for capital market risk?				
4. Policy Return	-2.29	3.98	6.86	4.10
5. Minimum risk/high cost policy of 91-day T-Bills	1.13	2.61	2.39	2.55
6. Impact of asset mix policy (4-5)	-3.42	1.37	4.47	1.55
Has plan been rewarded for active management risk?				
7. Net active management effect (1-4)	-0.37	0.03	0.67	0.39

State of Oregon

Total Fund Summary

Quarter Ending September 30, 2010

Total Fund:

The Total Regular Account improved by 7.56% in the third quarter of 2010, and in doing so outperformed its benchmark, the OPERF Policy Benchmark by 158 basis points. For the past year, the Plan is up 11.75%, while the benchmark has increased by 9.80%, a value added of 194 basis points. With respect to the TUCS universe of all public funds greater than $1 Billion, the Regular Account fell to the 86th percentile in the third quarter (from the 20th percentile in June), and to the 16th percentile for the past year, from its previous ranking at the 5th percentile. The Policy Benchmark would have ranked at the 90th and 73rd percentiles, over the same periods, respectively.

Key Factors Contributing to Performance:

The Total Plan Attribution for the third quarter (page 16) shows the top contributor to the *Value Added* over the Policy benchmark to be the Selection Factor in Private Equity, which contributed 2.69% to the net return. Selection within Fixed Income added 39 basis points. The allocations to Private Equity and Public Equity were the largest detractors to the performance by -1.04% and -0.54%, respectively. Given the significant rally in the equity markets, the under-weighting to equities (relative to the 46% policy allocation) cost the portfolio net return. For the one-year period (page 17), Selection in the Private and Public Equity asset classes were the greatest contributors, adding 83 and 117 basis points, respectively.

With a return of 12.16% in the third quarter, the Domestic Equity portfolio out-performed its benchmark, the Russell 3000, by 63 basis points, placing it in the 9th percentile of TUCS' rankings of US Equity pools of Public Plans. For the 1-year period, the portfolio gained 12.33%, which beat its benchmark by 137 basis points, and maintained its position at the 10th percentile of the TUCS universe.

The International Equity portfolio leaped ahead by 16.57% in the quarter, but came up just short of its benchmark, the MSCI ACWI ex US IMI (net), by 24 basis points. Still, it managed to move up a notch among TUCS' Public International Equity pools to the 36th percentile. For the year ended September 30th, the portfolio's return was 9.35%, an outperformance of 88 basis points over the benchmark. Its one-year ranking in the TUCS universe, dropped to the 31st percentile from the 21st percentile in June. It is also noteworthy to mention that the international portfolio is ranked fifth, first and fifth over the five, seven and ten year periods, respectively.

The Fixed Income portfolio continued to climb in the third quarter with a return of 4.01%, thumping its benchmark (the Custom Fixed Income 90/10 benchmark) by 122 basis points. As a result, the portfolio jumped in the rankings of the TUCS' US Fixed Income Pools to the 17th percentile in the quarter, and edged up slightly in the year ended September 30th to the 13th percentile. The portfolio returned 13.03% on the year, maintaining its wide margin over the benchmark by 453 basis points.

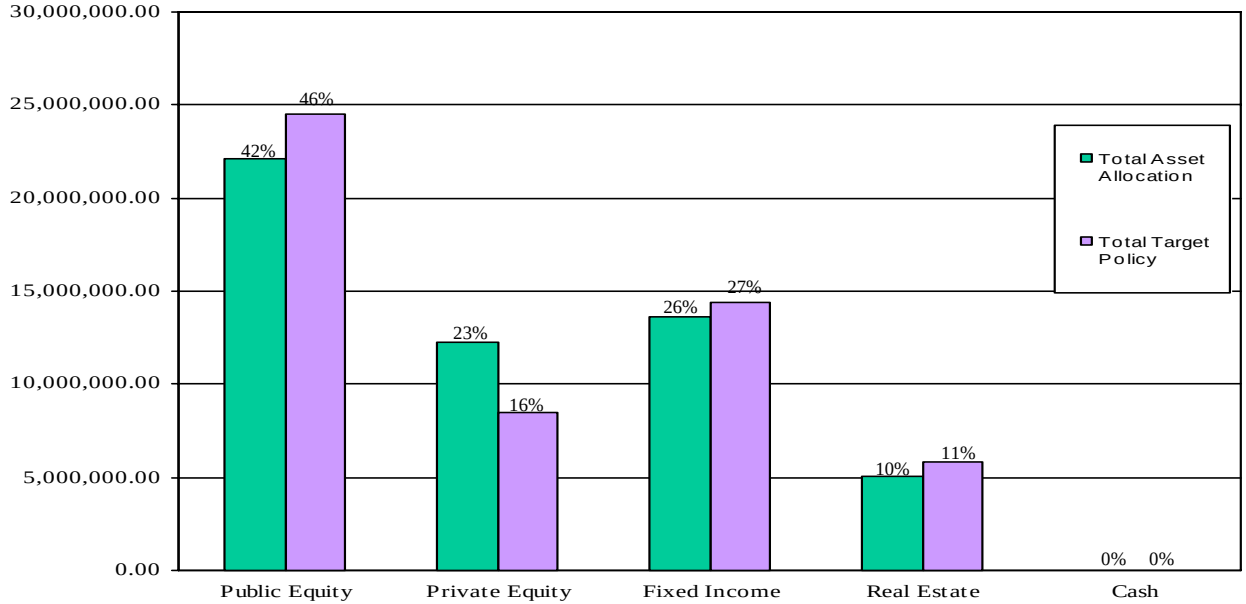
Note: Returns are net of fees. Private Equity and Real Estate Returns are lagged one quarter.

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

State of Oregon

Total Regular Account Asset Allocation ($ Millions)
as of September 30, 2010

Asset Allocation vs. Target Policy



Allocation vs. Target Policy

	WEIGHTS			
	Allocation*	Policy	Difference	Median-Public Fund>$1 B Universe (TUCS)
PUBLIC EQUITY	42	46	-4.0	52.6
PRIVATE EQUITY	23	16	7.0	6.5
FIXED INCOME	26	27	-1.0	27.1
REAL ESTATE	10	11	-1.0	2.4
CASH	-	-	-	2.6
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 September 30, 2010

	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	$53,226,939	7.56	6.52	11.75	-2.66	4.01	7.53	4.49	6.84	07/01/1997
OPERF POLICY BENCHMARK		5.98	4.92	9.80	-2.29	3.98	6.86	4.10		
PUBLIC FUNDS > $1 BILLION RANK*		86	52	16	63	39	8	26		
PUBLIC FUNDS > $10 BILLION RANK*		90	58	5	61	27	1	14		
TOTAL DOMESTIC EQUITY	$8,661,746	12.16	5.84	12.33	-6.49	0.81	4.83	0.41	9.66	04/01/1971
RUSSELL 3000		11.53	4.78	10.96	-6.59	0.92	4.60	0.09		
US EQUITY POOLS*		9	20	10	29	33	20	41		
TOTAL INTERNATIONAL EQUITY	$11,758,847	16.57	5.86	9.35	-5.59	5.52	11.19	5.43	11.41	04/01/1985
MSCIACWI - OREGON MSCI ACWI EX US IMI NET		16.80	4.64	8.47	-6.76	4.86	10.58	4.84		
INTERNATIONAL EQUITY POOLS*		36	14	31	13	5	1	5		
TOTAL GLOBAL EQUITY	$1,189,556	14.90	0.56	5.57	-11.97				-7.46	03/01/2007
MSCI AC WORLD (NET)		14.34	3.63	8.42	-7.48	2.39	6.86	1.64		
TOTAL FIXED INCOME	$13,243,249	4.01	10.03	13.03	8.19	6.88	6.44	7.41	8.57	01/01/1988
CUSTOM FIXED INCOME 90/10 BLEND [3]		2.79	7.92	8.50	7.16	6.11	5.51	6.45		
US FIXED INCOME POOLS*		17	21	13	21	10	18	12		
TOTAL REAL ESTATE[1]	$5,071,637	3.80	-5.51	-2.79	-9.95	2.42	8.48	8.90	9.29	12/01/1996
NCREIF PROPERTY ONE QTR LAG		3.31	1.90	-1.48	-4.71	3.78	6.70	7.15		
REAL ESTATE POOLS*		41	99	75	62	5	1	1		
TOTAL PRIVATE EQUITY[2]	$11,299,697	1.16	10.57	21.28	-0.50	9.07	15.14	6.36	10.44	07/01/1997
BLENDED PRIVATE EQUITY INDEX QTR LAG		-10.64	1.73	18.91	-5.47	3.22	7.46	3.76		
US PRIVATE EQUITY*		77	34	8	30	31	20	15		
TOTAL OPPORTUNITY PORTFOLIO	$998,004	2.93	5.05	14.99	1.73				2.77	09/01/2006
RUSSELL 3000		11.53	4.78	10.96	-6.59					
CPI + 5%		1.53	5.00	6.28	6.62					
OST SHORT TERM FUND - PERS	$529,129	0.31	0.73	0.94	1.88	3.14	2.80	2.90	4.34	12/01/1989
91 DAY T-BILL		0.04	0.08	0.13	1.13	2.61	2.39	2.55		

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

[2]Private Equity returns lagged one quarter

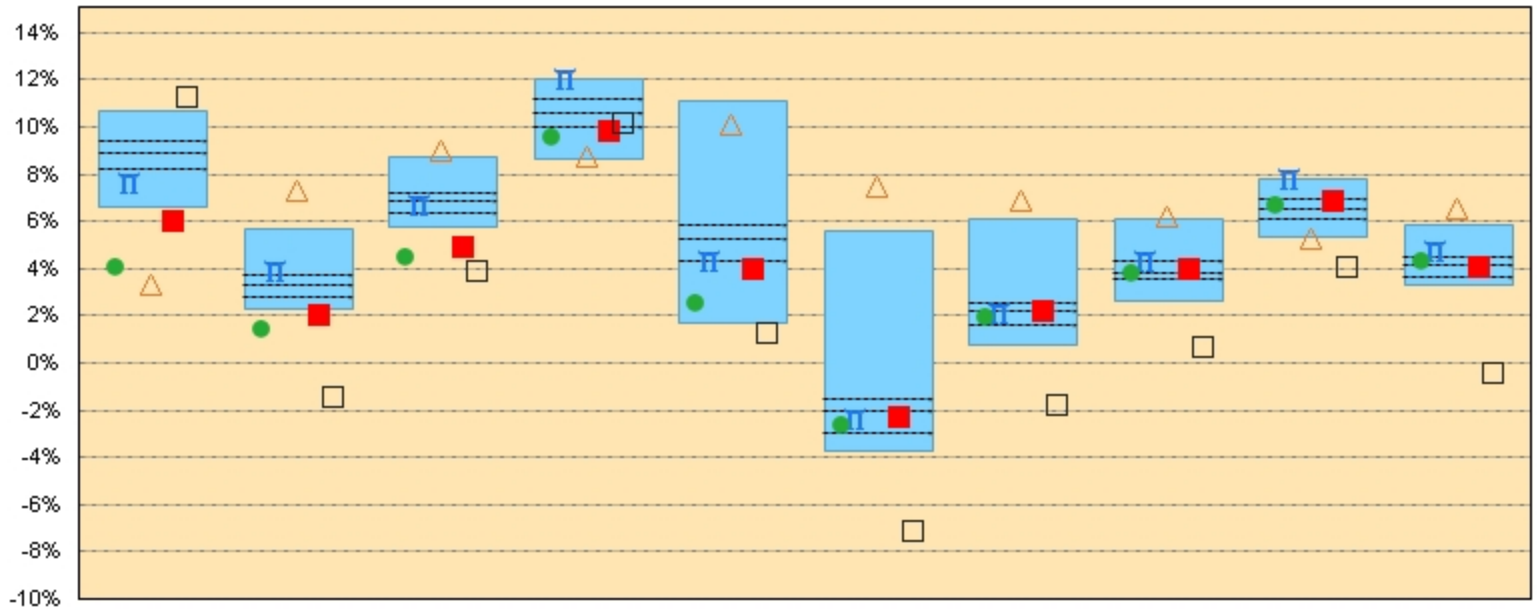
[3]90% BC U.S. Universal/10% SSBI Non-US World Govt. Bond Hedged; prior to 1/1/1999 Gov't/Credit; 1/99 to 6/00 SSBI Non-US WGB Unhedged

*RANKING SOURCE: TUCS UNIVERSE, BASED ON GROSS RETURNS

Assets not listed above include a total of $475,491 invested in the Overlay, Total Closed Global Equity, Transition Account, Shott Capital, and Fixed Income Transition Account.

State of Oregon
Performance Comparison

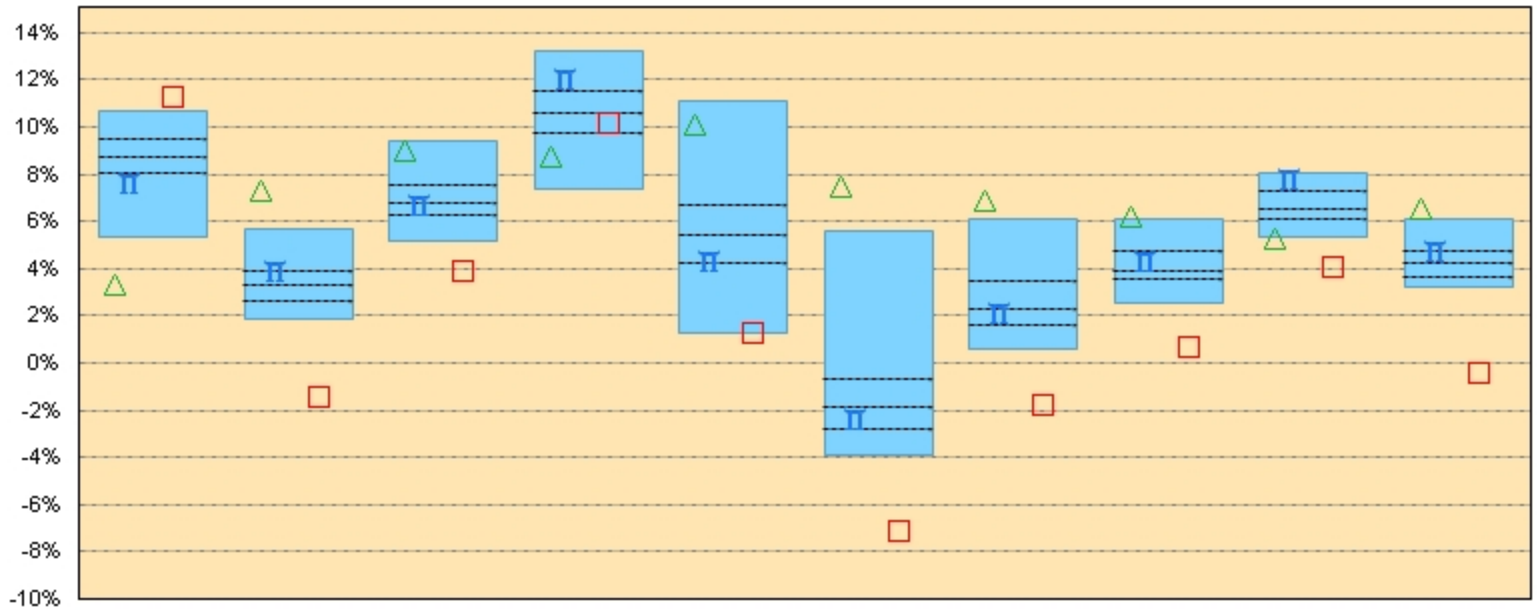
Total Returns of Public Funds > $10 Billion
Cumulative Periods Ending : September 30, 2010



Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	10.72	5.69	8.71	12.02	11.06	5.60	6.07	6.07	7.76	5.84
25th	9.42	3.74	7.22	11.19	5.87	-1.50	2.53	4.34	6.94	4.51
50th	8.88	3.27	6.86	10.59	5.26	-2.05	2.21	3.85	6.49	4.13
75th	8.21	2.80	6.37	10.02	4.28	-3.00	1.59	3.57	6.10	3.65
95th	6.59	2.31	5.75	8.66	1.70	-3.76	0.74	2.66	5.38	3.33
No. Of Obs	36	36	36	36	36	36	36	36	34	33
Total Regular Account	7.62 (90)	3.94 (14)	6.72 (58)	12.02 (5)	4.34 (72)	-2.40 (61)	2.13 (55)	4.28 (27)	7.81 (1)	4.74 (14)
OPERF Policy Benchmark	5.98 (96)	2.01 (100)	4.93 (99)	9.79 (81)	3.97 (84)	-2.29 (58)	2.22 (47)	3.98 (36)	6.86 (25)	4.10 (53)
Actual Allocation Retu	4.05 (100)	1.43 (100)	4.50 (99)	9.60 (84)	2.54 (90)	-2.63 (61)	1.98 (58)	3.78 (52)	6.68 (40)	4.36 (28)
S&P 500	11.30 (1)	-1.43 (100)	3.88 (100)	10.15 (69)	1.26 (99)	-7.16 (100)	-1.75 (100)	0.64 (100)	4.04 (100)	-0.43 (100)
Barclays Govt/Credit	3.28 (100)	7.29 (1)	8.95 (1)	8.73 (93)	10.09 (8)	7.47 (1)	6.87 (1)	6.15 (1)	5.23 (99)	6.52 (1)

State of Oregon
Performance Comparison

Total Returns of Master Trusts - Public : Plans > $1 Billion
Cumulative Periods Ending : September 30, 2010

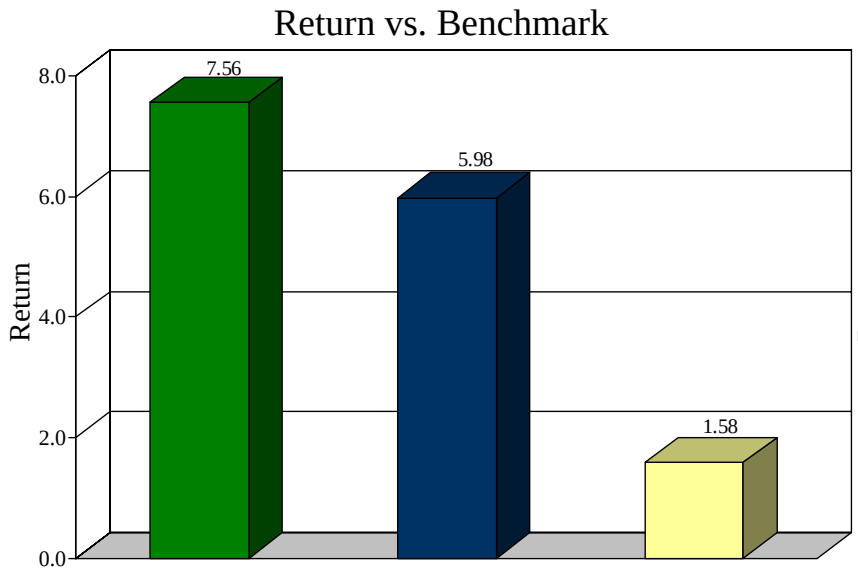


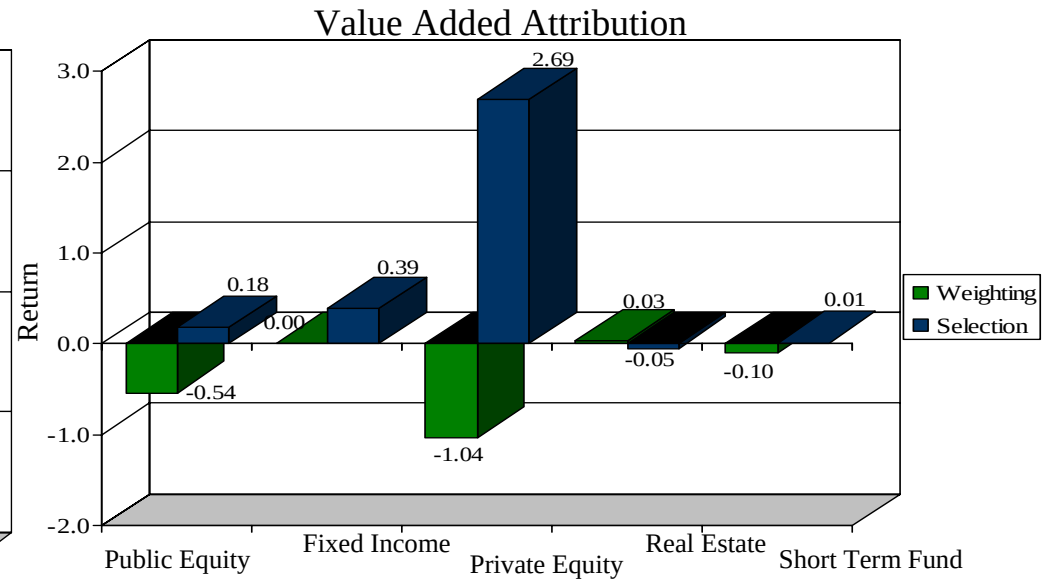
Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	10.72	5.69	9.44	13.25	11.06	5.60	6.07	6.07	8.02	6.06
25th	9.52	3.94	7.52	11.51	6.68	-0.67	3.47	4.76	7.29	4.74
50th	8.69	3.27	6.75	10.59	5.42	-1.86	2.29	3.92	6.51	4.23
75th	8.04	2.63	6.26	9.72	4.27	-2.80	1.65	3.52	6.08	3.64
95th	5.31	1.89	5.15	7.35	1.28	-3.86	0.60	2.55	5.34	3.20
No. Of Obs	71	70	70	70	70	70	70	70	67	65
Total Regular Account	7.62 (86)	3.94 (25)	6.72 (52)	12.02 (16)	4.34 (70)	-2.40 (63)	2.13 (58)	4.28 (39)	7.81 (8)	4.74 (26)
S&P 500	11.30 (1)	-1.43 (100)	3.88 (99)	10.15 (63)	1.26 (96)	-7.16 (100)	-1.75 (100)	0.64 (100)	4.04 (100)	-0.43 (100)
Barclays Govt/Credit	3.28 (97)	7.29 (2)	8.95 (8)	8.73 (89)	10.09 (6)	7.47 (1)	6.87 (1)	6.15 (2)	5.23 (97)	6.52 (1)

Total Plan Attribution

Regular Account

3rd Quarter 2010





	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
PUBLIC EQUITY	38.82	46.00	-7.18	14.89	14.34	0.55	-0.54	0.18	
FIXED INCOME	27.24	27.00	0.24	4.29	2.79	1.50	0.00	0.39	
PRIVATE EQUITY	22.63	16.00	6.63	1.16	-10.64	11.80	-1.04	2.69	
REAL ESTATE	9.74	11.00	-1.26	3.80	3.31	0.49	0.03	-0.05	
SHORT TERM FUND	1.58	0.00	1.58	0.60	0.04	0.56	-0.10	0.01	
TOTAL REGULAR ACCT	100.00	100.00	0.00	7.56	5.98	1.58	-1.64	3.23	-0.05

* Weights of Portfolios based on beginning of period valuations.

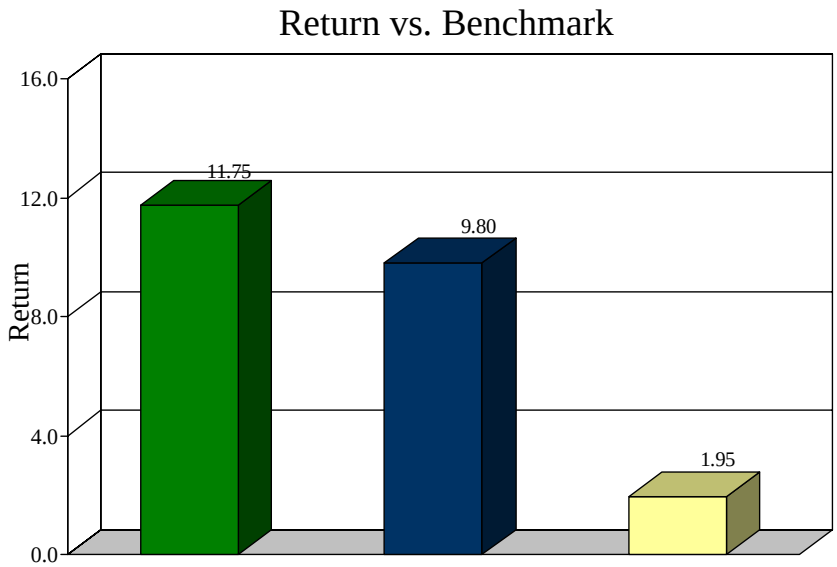
** Weights of Benchmarks based on average weights over entire period.

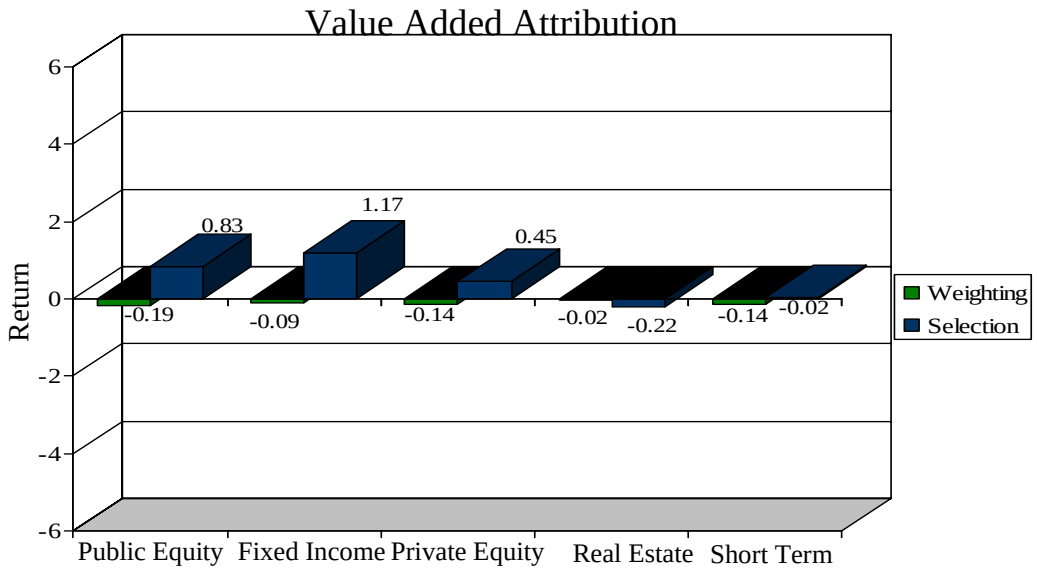
*** Asset Class Returns reflect the impact of the overlay program.

Total Plan Attribution

Regular Account

09/30/2009 – 09/30/2010





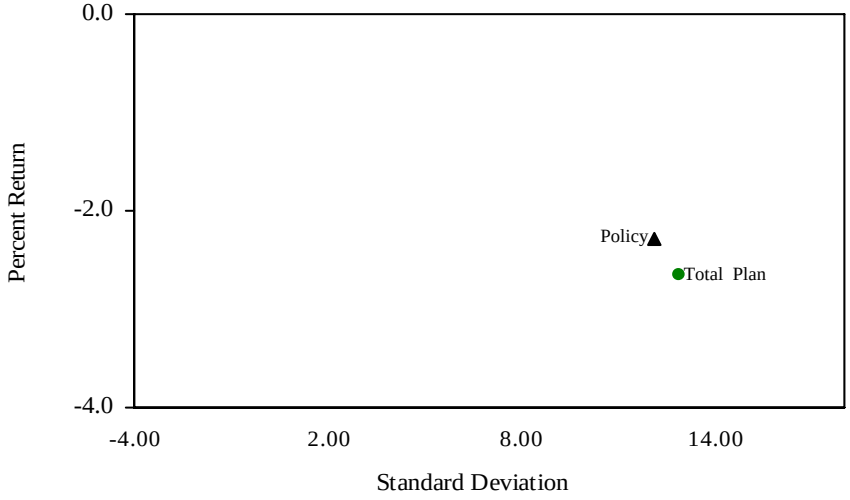
	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
PUBLIC EQUITY	41.91	46.00	-4.09	10.56	8.42	2.14	-0.19	0.83	
FIXED INCOME	26.59	27.00	-0.41	13.26	8.50	4.76	-0.09	1.17	
PRIVATE EQUITY	18.42	16.00	2.42	21.28	18.91	2.37	-0.14	0.45	
REAL ESTATE	10.68	11.00	-0.32	-2.79	-1.48	-1.31	-0.02	-0.22	
SHORT TERM FUND	2.40	0.00	2.40	1.27	0.13	1.14	-0.14	0.02	
TOTAL REGULAR ACCT.	100.00	100.00	0.00	11.75	9.80	1.95	-0.58	2.26	0.10

* Weights of Portfolios based on beginning of period valuations.
** Weights of Benchmarks based on average weights over entire period.
*** Asset Class Returns reflect the impact of the overlay program.

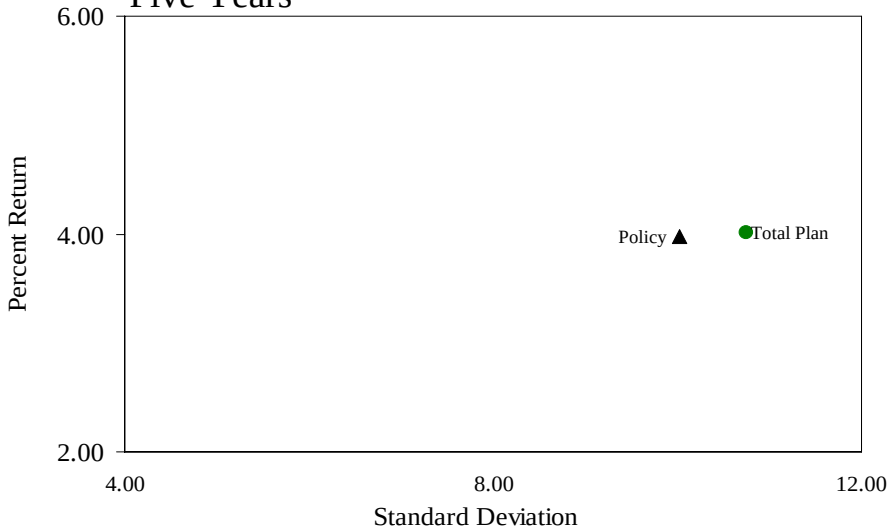
Total Regular Account

Total Risk vs. Return (OPERF Policy) as of September 30, 2010

Three Years



Five Years

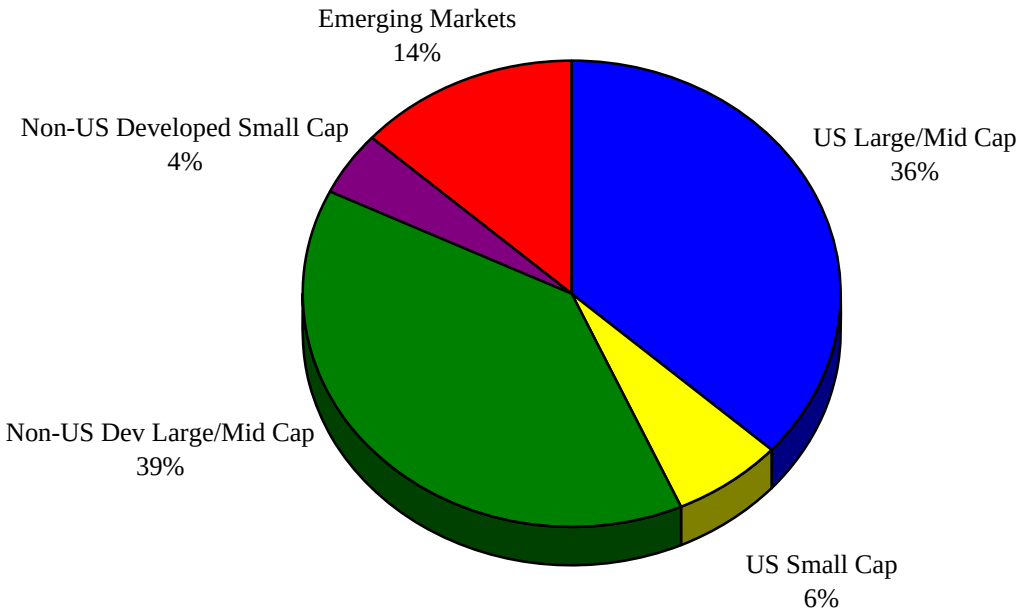


Risk Statistics

	3 Years	5 Years
Portfolio Return	-2.66	4.01
Benchmark Return	-2.29	3.98
Return Difference	-0.37	0.02
Portfolio Standard Deviation	12.91	10.75
Benchmark Standard Deviation	12.09	10.02
Tracking Error	2.88	2.33
Historic Beta	1.04	1.05
R-squared	0.95	0.96
Jensen's Alpha	-0.22	-0.04
Sharpe Ratio	-0.29	0.13
Treynor Ratio	-3.63	1.33
Information Ratio	-0.13	0.01

State of Oregon

Public Equity Regional Allocation as of September 30, 2010



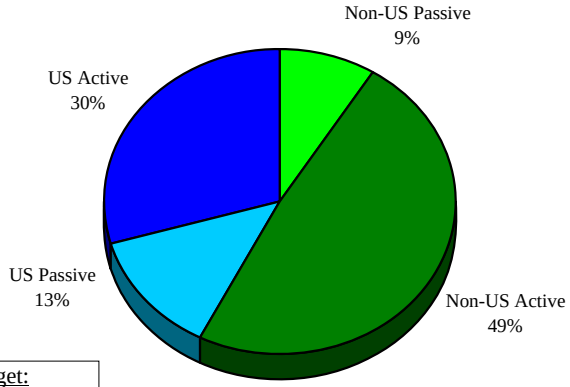
Target	
US Large/Mid:	36%
US Small:	6%
Non-US Developed Large/Mid:	39%
Non-US Developed Small:	5%
Emerging Markets:	14%

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

State of Oregon

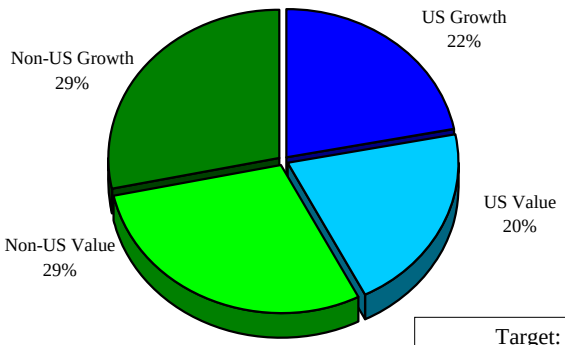
Public Equity Manager Allocation as of September 30, 2010

Active vs. Passive



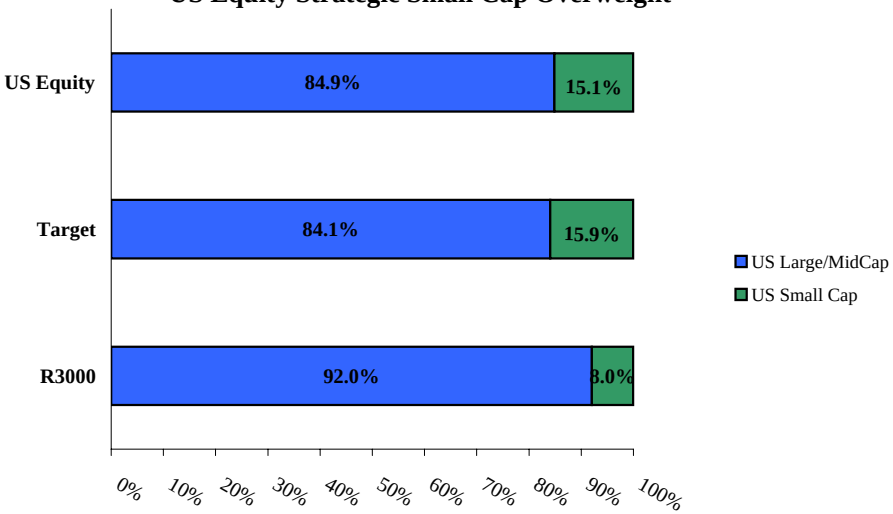
Target:	
Active:	75%
Passive:	25%

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

Figures may not sum to 100% due to rounding.

Total Public Equity
Individual Manager Allocations
as of September 30, 2010

Manager	Market Value ($M)	Current % of Equities
Total Domestic Equity		
U.S. Large Cap:	**6,942,016**	**32.1%**
Aletheia Research	404,118	1.9%
Aronson+Johnson+Ortiz	695,837	3.2%
BGI Russell 1000 Growth	866,011	4.0%
BGI Russell 1000 Value	933,383	4.3%
Delaware	364,124	1.7%
MFS	697,124	3.2%
Northern Trust	679,328	3.1%
PIMCO	402,395	1.9%
Pyramis US Core	319,716	1.5%
S&P 400 Index	141,548	0.7%
S&P 500 Index	718,514	3.3%
Wells Capital Select	719,917	3.3%
U.S. Small and SMID Cap:	**1,717,973**	**7.9%**
AQR	151,512	0.7%
Boston Company	157,183	0.7%
Eudaimonia	79,693	0.4%
Next Century Micro	108,083	0.5%
Next Century Small	108,781	0.5%
R2000 Synthetic	105,580	0.5%
Wanger	720,720	3.3%
Wellington	286,421	1.3%
Passive	4,657,704	21.6%
Active	16,950,165	78.4%
Total Equities*	**21,609,877**	**100.0%**

Manager	Market Value ($M)	Current % of Equities
Total Non-US Equity		
Non-U.S. Large Cap:	**9,234,965**	**42.7%**
Acadian	709,899	3.3%
AQR	826,484	3.8%
Arrowstreet	1,104,142	5.1%
Brandes	730,477	3.4%
Lazard	741,370	3.4%
Northern Trust	212,351	1.0%
Pyramis Select	913,269	4.2%
SSgA	1,892,669	8.8%
TT International	742,174	3.4%
UBS	518,211	2.4%
Walter Scott	843,917	3.9%
Non-U.S. Small Cap:	**807,057**	**3.7%**
DFA	183,266	0.8%
Harris	198,969	0.9%
Pyramis Select (Non-US Smcap)	256,442	1.2%
Victory	168,380	0.8%
Emerging Markets:	**1,716,303**	**7.9%**
Arrowstreet	386,941	1.8%
BGI TEMs	222,276	1.0%
DFA SC	117,857	0.5%
Genesis	677,368	3.1%
Pictet	201,031	0.9%
Pictet	110,830	0.5%
Global:	**1,189,556**	**5.5%**
Alliance Bernstein Growth	338,087	1.6%
Alliance Bernstein Value	851,470	3.9%

* Includes $2,008 in other Equity assets not listed above, but does not include $479 in Transition Account.

State of Oregon

Total Active Domestic Equity Characteristics Summary

Third Quarter 2010

Top 10 Holdings

	Mkt. Value ($M)	% of Portfolio
APPLE INC	94,860	1.8
JPMORGAN CHASE + CO	72,880	1.4
JOHNSON + JOHNSON	53,920	1.0
CHEVRON CORP	52,010	1.0
ORACLE CORP	50,620	1.0
AT+T INC	50,120	1.0
PROCTER AND GAMBLE CO	46,870	0.9
EXXON MOBIL CORP	44,170	0.8
CONOCOPHILLIPS	41,290	0.8
WELLS FARGO + CO	37,290	0.7

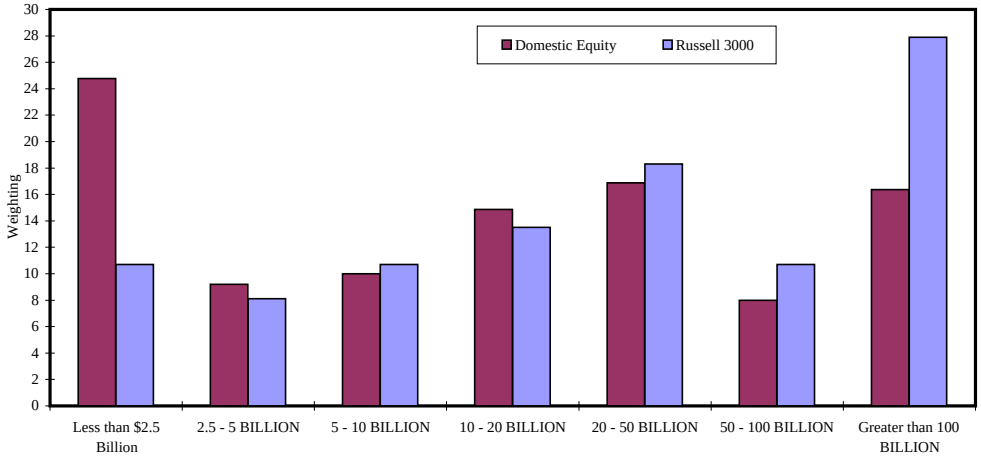
Characteristics

	Domestic Equity	Russell 3000
P/E Ratio	20.8	17.9
P/B Ratio	3.5	3.2
5 Year EPS Growth (%)	9.4	5.5
Market Cap - cap wtd ($MM)	42.4	65.7
Dividend Yield (%)	1.3	1.9

Risk Statistics

	3 Year	5 Year
Portfolio Return	-6.34	0.69
Benchmark Return	-6.59	0.92
Portfolio Standard Deviation	23.90	19.25
Benchmark Standard Deviation	22.63	18.25
Tracking Error	2.76	2.28
Historic Beta	1.05	1.05
R-Squared	0.99	0.99
Jensen's Alpha	0.64	-0.15
Sharpe Ratio	-0.31	-0.10
Information Ratio	0.09	-0.10

Market Capitalization



Market Capitalization

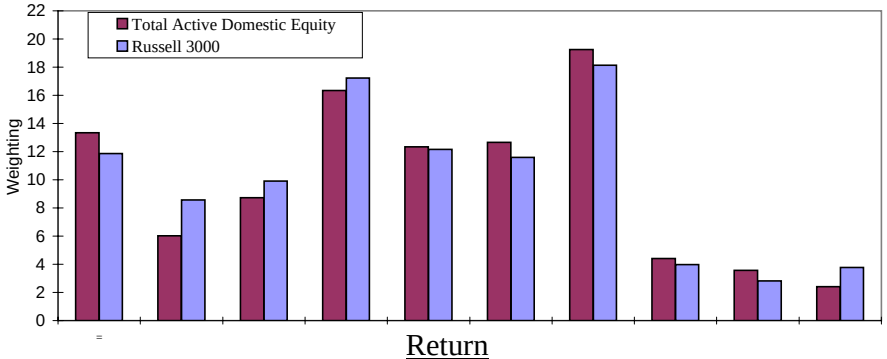
	Domestic Equity	Russell 3000
Less than $2.5 Billion	24.8	10.7
2.5 - 5 BILLION	9.2	8.1
5 - 10 BILLION	10.0	10.7
10 - 20 BILLION	14.9	13.5
20 - 50 BILLION	16.9	18.3
50 - 100 BILLION	8.0	10.7
Greater than 100 BILLION	16.4	27.9

State of Oregon

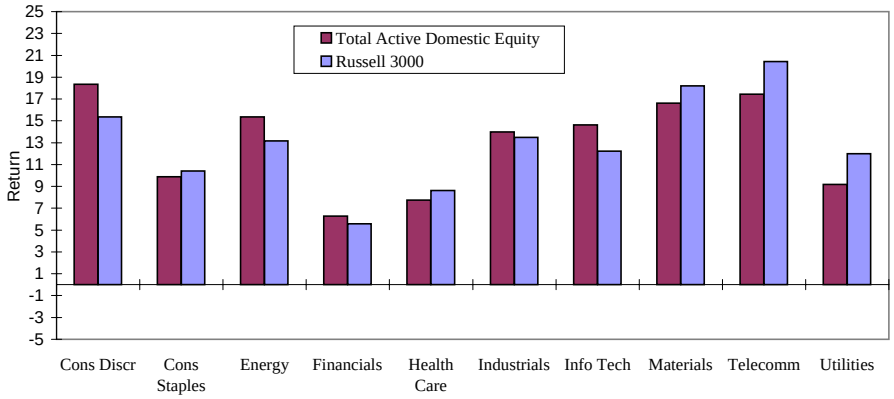
Total Active Domestic Equity Sector Attribution

Third Quarter 2010

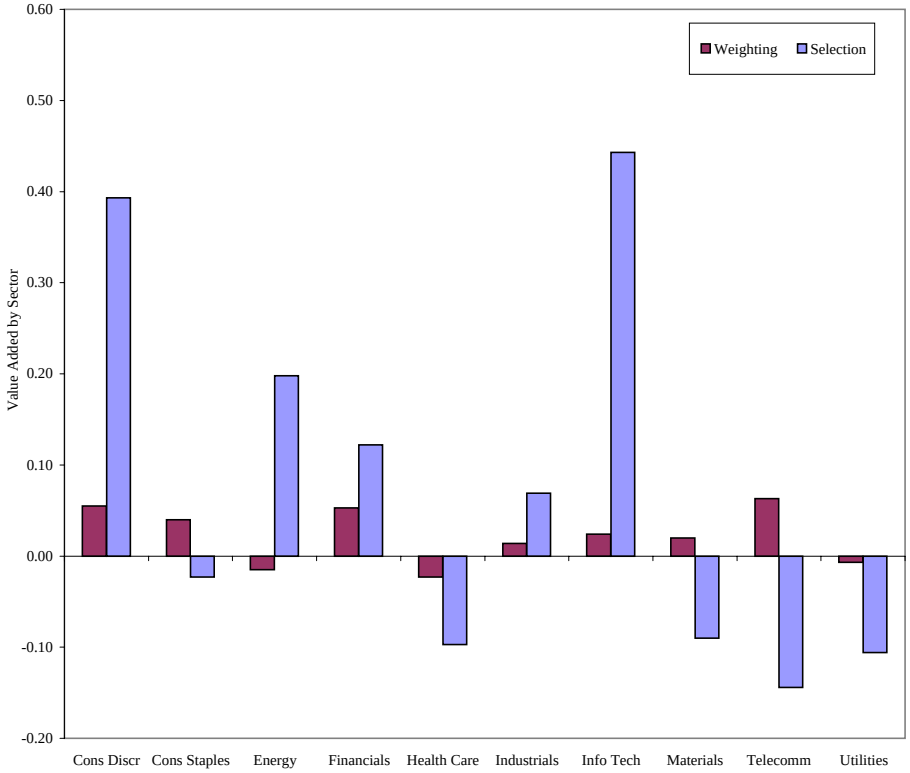
Weighting



Return



Value Added



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Active Dom Equity	Russell 3000	Difference	Total Active Dom Equity	Russell 3000	Difference	Allocation	Selection	Timing
Consumer Discretionary	13.3	11.9	1.5	18.3	15.4	2.6	0.1	0.4	
Consumer Staples	6.0	8.6	-2.5	9.9	10.4	-0.5	0.0	0.0	
Energy	8.7	9.9	-1.2	15.4	13.2	1.9	0.0	0.2	
Financials	16.3	17.2	-0.9	6.3	5.6	0.7	0.1	0.1	
Health Care	12.3	12.2	0.2	7.8	8.6	-0.8	0.0	-0.1	
Industrials	12.6	11.6	1.1	14.0	13.5	0.5	0.0	0.1	
Info Technology	19.2	18.1	1.1	14.6	12.2	2.2	0.0	0.4	
Materials	4.4	4.0	0.4	16.6	18.2	-1.4	0.0	-0.1	
Telecommunication	3.6	2.8	0.8	17.5	20.4	-2.5	0.1	-0.1	
Utilities	2.4	3.8	-1.4	9.2	12.0	-2.5	0.0	-0.1	
Total Fund	100.0	100.0	0.0	12.6	11.5	1.0	0.2	0.8	0.0

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

State of Oregon

International Equity Atttribution Summary

Third Quarter 2010

Top Ten Holdings

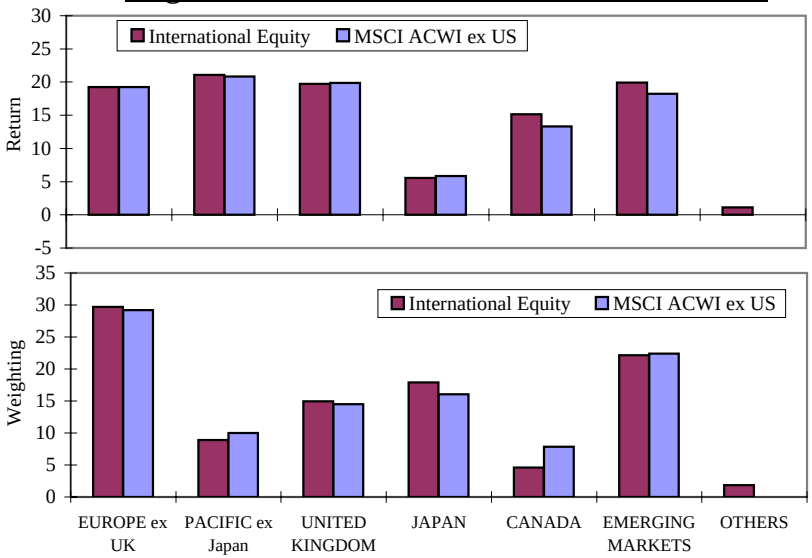
	Mkt. Value ($M)	% of Portfolio
NESTLE SA	107,550	0.9
GLAXOSMITHKLINE	79,840	0.7
ASTRAZENECA	75,280	0.7
SANOFI AVENTIS	67,430	0.6
NOVO NORDISK AS	65,560	0.6
NOVARTIS AG	60,120	0.5
CANON INC	59,990	0.5
HSBC HLDGS	59,310	0.5
DEUTSCHE TELEKOM	53,240	0.5
CHINA MOBILE LTD	53,130	0.5

*Excludes holdings of funds or ETF's

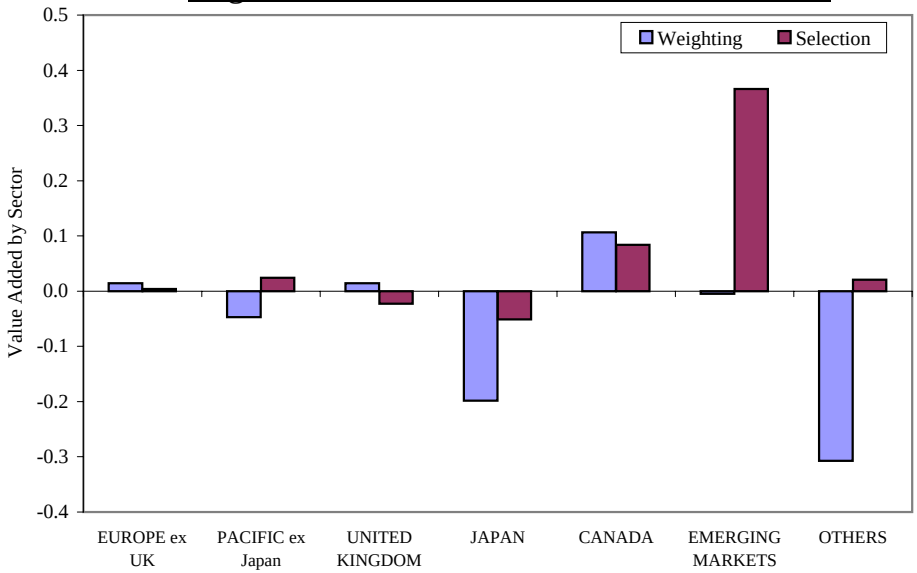
Market Capitalization

	International Equity	MSCI AC WORLD ex US
Less than 2.5 BILLION	13.8	2.7
2.5 - 5 BILLION	11.2	8.1
5 - 10 BILLION	12.7	14.4
10 - 20 BILLION	17.7	16.8
20 - 50 BILLION	18.8	24.3
50 - 100 BILLION	17.1	21.7
Greater than 100 BILLION	8.6	12.1

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 Atttribution Summary

Third Quarter 2010

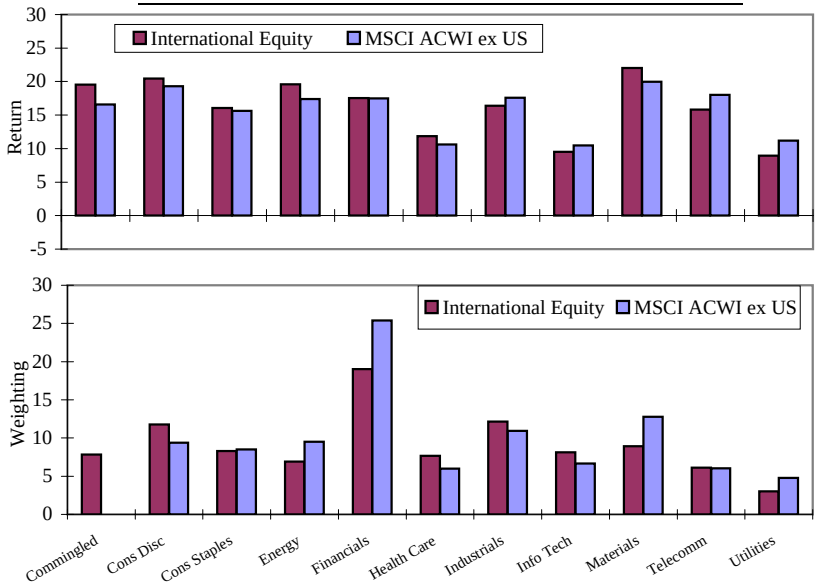
Risk Statistics

	3 Year	5 Year
Portfolio Return	-5.59	5.52
Benchmark Return	-6.76	4.86
Portfolio Standard Deviation	26.69	21.86
Benchmark Standard Deviation	27.72	22.58
Tracking Error	1.74	1.52
Historic Beta	0.96	0.97
R-Squared	1.00	1.00
Jensen's Alpha	0.88	0.74
Sharpe Ratio	-0.25	0.13
Information Ratio	0.68	0.43

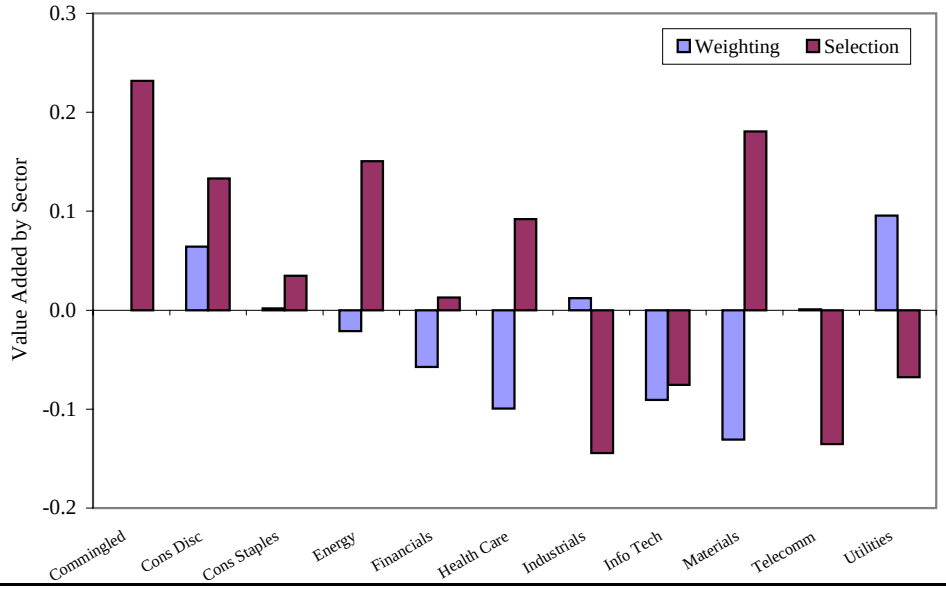
Characteristics

	International Equity	MSCI AC WORLD ex US
P/E Ratio	19.7	18.5
P/B Ratio	2.6	2.6
5 Year EPS Growth (%)	3.4	2.4
Market Cap - cap weighted ($B)	42.1	43.0
Dividend Yield (%)	2.5	2.8

Sector Attribution vs. MSCI ACWI ex US



Sector Attribution vs. MSCI ACWI ex US

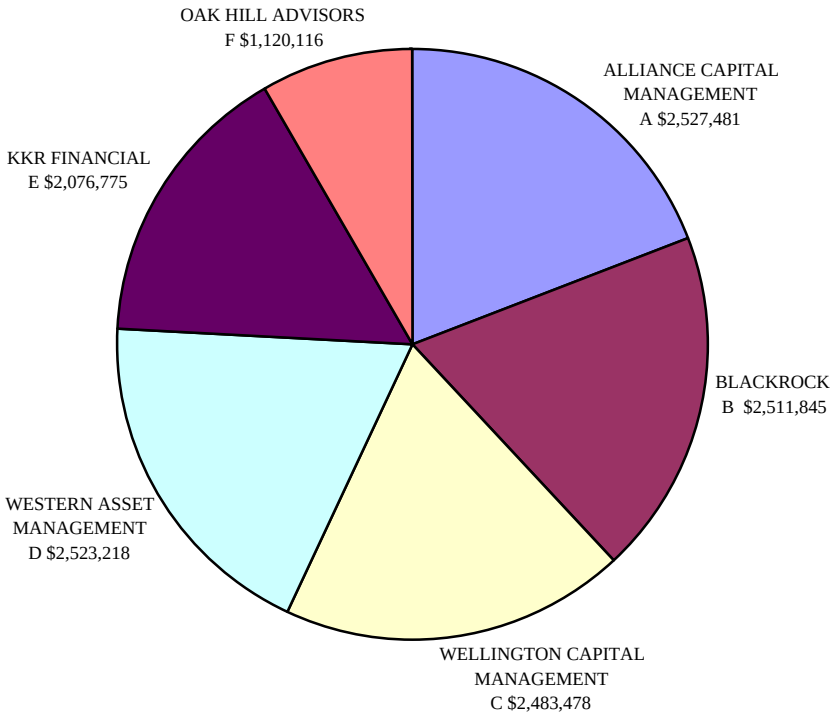


Note: All risk statistics are based on net performance returns and attribution is based on gross performance returns at the security level. Weighting is based on beginning of period holdings.

Total Fixed Income

Individual Manager Allocation
as of September 30, 2010

	Portfolio	$M	% ALLOCATION
	EXTERNAL FIXED INCOME		
A	ALLIANCE CAPITAL MANAGEMENT	$2,527,481	19%
B	BLACKROCK	$2,511,845	19%
C	WELLINGTON CAPITAL MANAGEMENT	$2,483,478	19%
D	WESTERN ASSET MANAGEMENT	$2,523,218	19%
E	KKR FINANCIAL	$2,076,775	16%
F	OAK HILL ADVISORS	$1,120,116	9%
Total Fixed Income		$13,243,249	

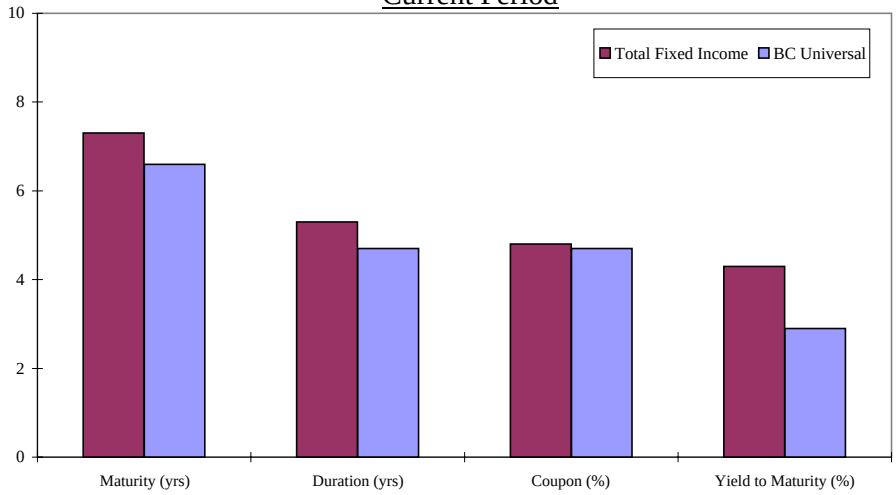


State of Oregon

Fixed Income Characteristics Summary

Third Quarter 2010

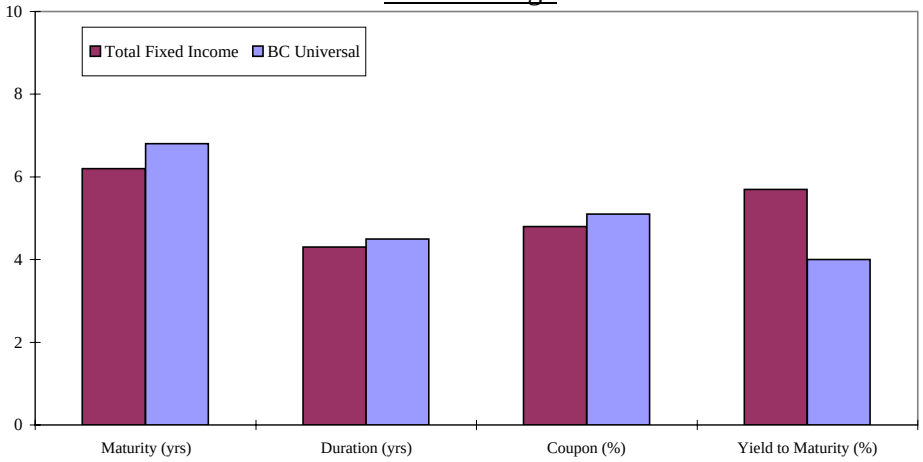
Current Period



Characteristics

Characteristics	9/30/10 Portfolio	9/30/10 BC Universal	9/30/09 Portfolio	9/30/09 BC Universal
Maturity (yrs)	7.3	6.6	6.2	6.8
Duration (yrs)	5.3	4.7	4.3	4.5
Coupon (%)	4.8	4.7	4.8	5.1
Yield to Maturity (%)	4.3	2.9	5.7	4.0
Moody's Quality Rating	A-2	AA-2	A-3	AA-3
S&P Quality Rating	A	AA	A	AA

One Year Ago



Risk Statistics

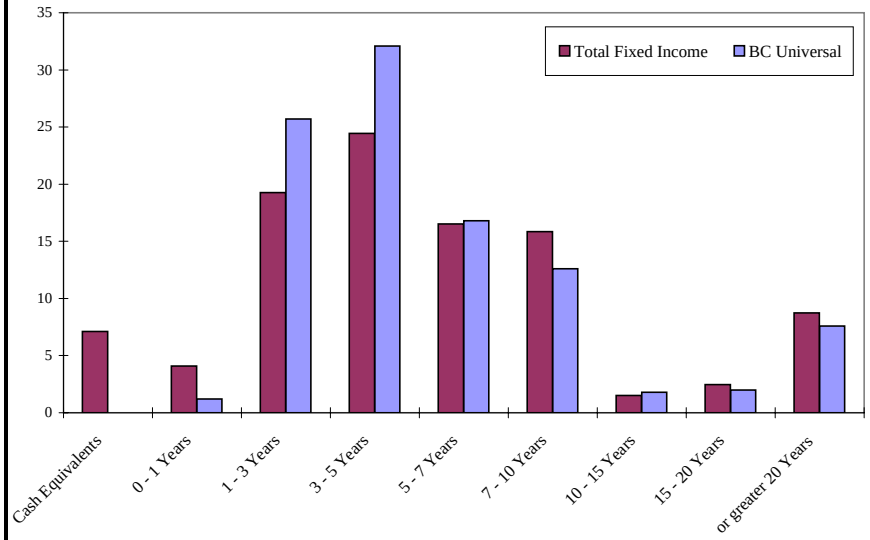
	3 Year	5 Year
Portfolio Return	8.19	6.88
Benchmark Return	7.16	6.11
Portfolio Standard Deviation	7.13	5.73
Benchmark Standard Deviation	4.13	3.56
Tracking Error	5.37	4.16
Historic Beta	1.20	1.15
R-Squared	0.47	0.51
Jensen's Alpha	-0.16	0.22
Sharpe Ratio	0.99	0.75
Information Ratio	0.19	0.18

State of Oregon

Fixed Income Characteristics Detail

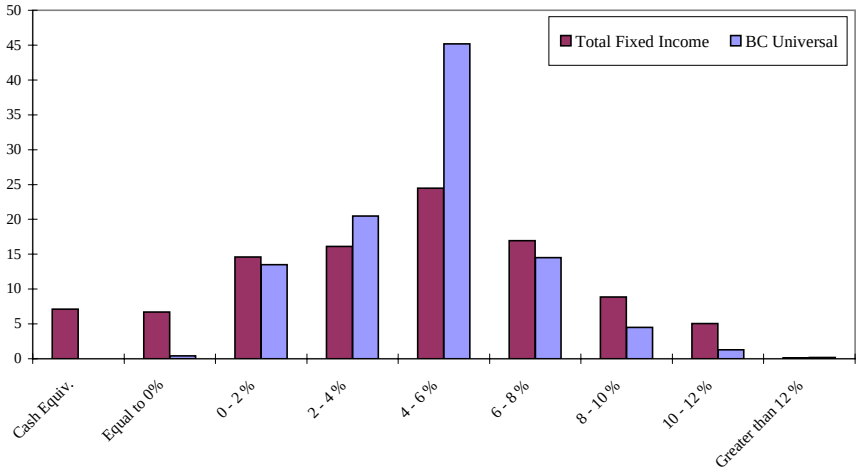
Third Quarter 2010

Maturity Range Weights

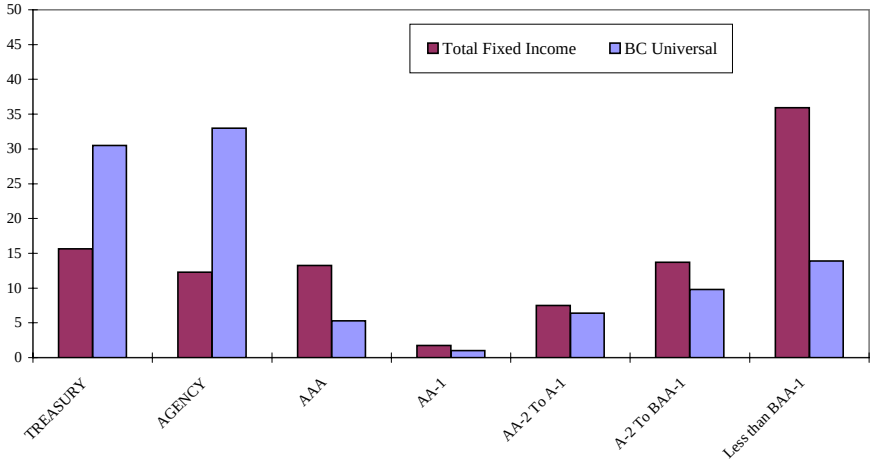


Duration Range Weights

Coupon Range Weights



Moody's Rating Weights

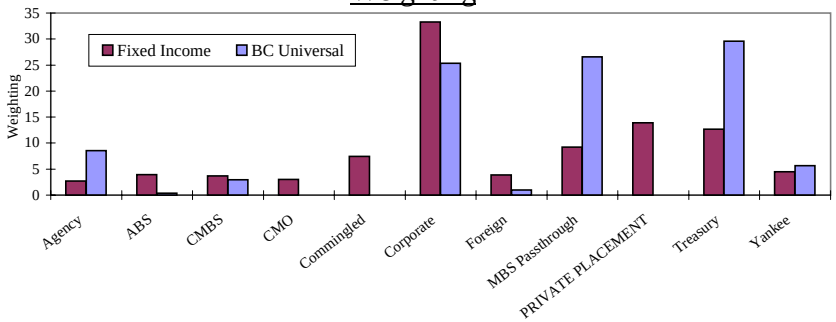


State of Oregon

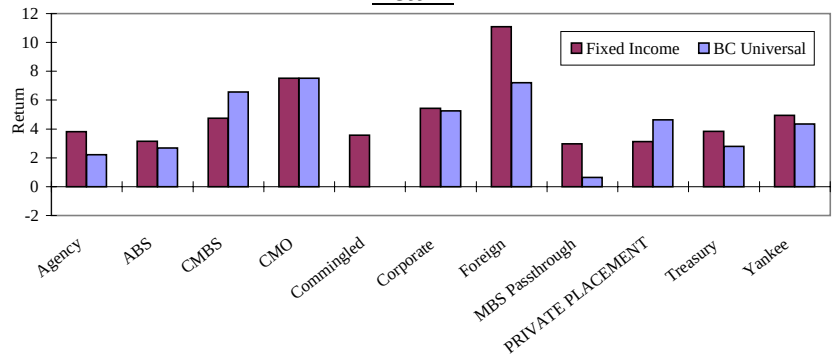
Fixed Income Sector Attribution

Third Quarter 2010

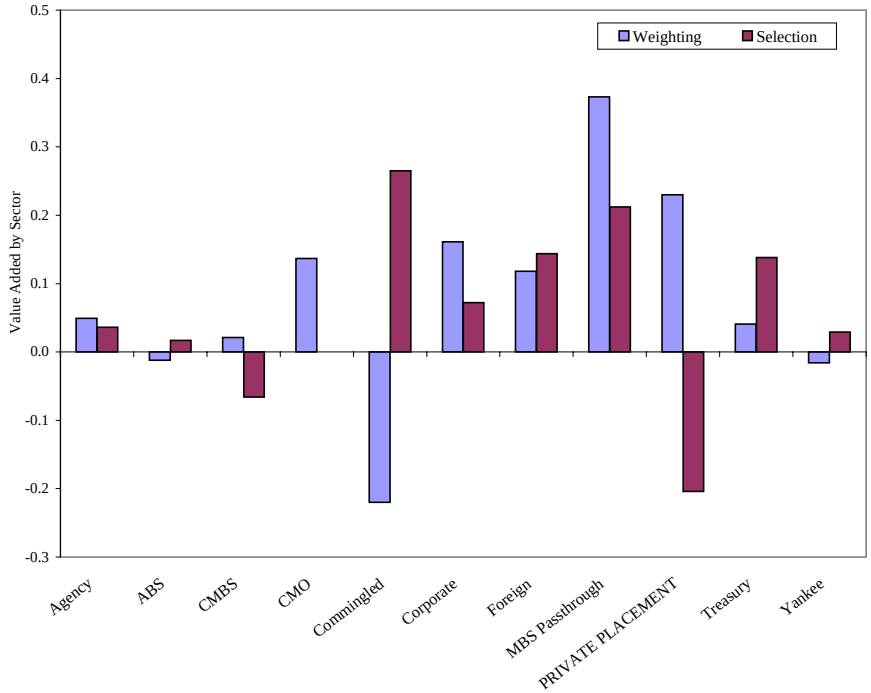
Weighting



Return



Value Added



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Fixed Income*	BC Universal	Difference	Total Fixed Income*	BC Universal	Difference	Weighting	Selection	Timing
AGENCY	2.7	8.5	-5.8	3.8	2.2	1.6	0.0	0.0	-
ASSET BACKED	3.9	0.3	3.6	3.2	2.7	0.5	0.0	0.0	-
CMBS	3.7	3.0	0.7	4.7	6.6	-1.7	0.0	-0.1	-
CMO	3.0	0.0	3.0	7.5	7.5	0.0	0.1	0.0	-
COMMINGLED FUND	7.5	0.0	7.5	3.6	0.0	-	-0.2	0.3	-
CORPORATE	33.3	25.4	7.9	5.4	5.2	0.2	0.2	0.1	-
FOREIGN	3.9	1.0	2.9	11.1	7.2	3.6	0.1	0.1	-
MORTGAGE PASS-THROUG	9.2	26.6	-17.4	3.0	0.6	2.3	0.4	0.2	-
PRIVATE PLACEMENT	13.9	0.0	13.9	3.1	4.6	-1.4	0.2	-0.2	-
US TREASURY	12.7	29.6	-16.9	3.8	2.8	1.0	0.0	0.1	-
YANKEE	4.5	5.7	-1.2	5.0	4.3	0.6	0.0	0.0	-
TOTAL	100.0	100.0	0.0	4.4	3.0	1.4	0.9	0.6	-0.2

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

*Excludes 1.8% in Euros, Convertibles, Preferred Stock, Miscellaneous and Swap-related investments

REAL ESTATE PORTFOLIO SUMMARY

Real Estate Portfolio and Investment-level data are provided below for period ended June 30, 2010. Portfolio refers to all real estate Investments held by OPERF, which is referred to herein as the Fund.

OPERF REAL ESTATE PORTFOLIO SUMMARY June 30, 2010	
Current Portfolio Net Asset Value	**$4.782 billion** 8.83% of Total Fund ($54.1B)
Current Unfunded Investment Commitments	**$2.142 billion**
Total Portfolio NAV plus Unfunded Commitments	**$6.924 billion** 12.79% of Total Fund
Target Allocation to Real Estate	**$5.957 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	2.30%	-23.62%	-8.10%	2.34%
Opportunistic	-0.35%	7.33%	-12.04%	4.85%
Value Added	0.89%	-25.46%	-23.44%	N/A
Total Private Real Estate	0.77%	-10.89%	-11.22%	2.36%
Public Real Estate				
Domestic REIT Portfolio	-1.01%	61.16%	-11.82%	-1.70%
Global REIT Portfolio	-10.73%	8.16%	-16.45%	N/A
Total Portfolio Return	-0.36%	-1.24%	-10.74%	1.90%
NCREIF Index	3.31%	-1.48%	-4.70%	3.79%
NAREIT Index	-4.06%	53.90%	-9.00%	0.20%
EPRA/NAREIT Global (ex-US) Index	-10.12%	10.60%	-15.70%	1.19%

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).

OPERF | **Oregon Public Employees Retirement Fund**
Second Quarter 2010

PORTFOLIO NET RETURNS BY COMPONENT

Portfolio Net Asset Value ($M)

Total Real Estate
$4,782.0

One year return	-1.24%
NCREIF Index	-1.48%

Direct Core Portfolio
$1,385.1

% of total portfolio	28.96%
One year return	-23.62%
NCREIF Index	-1.48%

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)

Opportunistic Portfolio
$1,923.3

% of total portfolio	40.23%
One year return	7.33%
NCREIF Index	-1.48%

Aetos Capital Asia II & III
Canyon Johnson Urban Fund 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 III - VI
Lone Star Real Estate Fund
OCM RE Oppo Fund A, LP
Rockpoint Real Estate Fund I - III
Rockpoint Real Estate Special Fund
Starwood Cap Hospitality Fund II Global
Starwood Hospitality Fund
Starwood Hospitality Fund Co-Inv.
Westbrook Real Estate Fund I - IV

Value Added Portfolio
$519.5

% of total portfolio	10.86%
One year return	-25.46%
NCREIF Index	-1.48%

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

Publicly Traded Portfolio

Domestic	**Global**
$635.3	**$318.8**
13.28%	% of total portfolio 6.67%
61.16%	One year return 8.16%
NAREIT	Index EPRA/NAREIT Global (ex US)
53.90%	10.60%

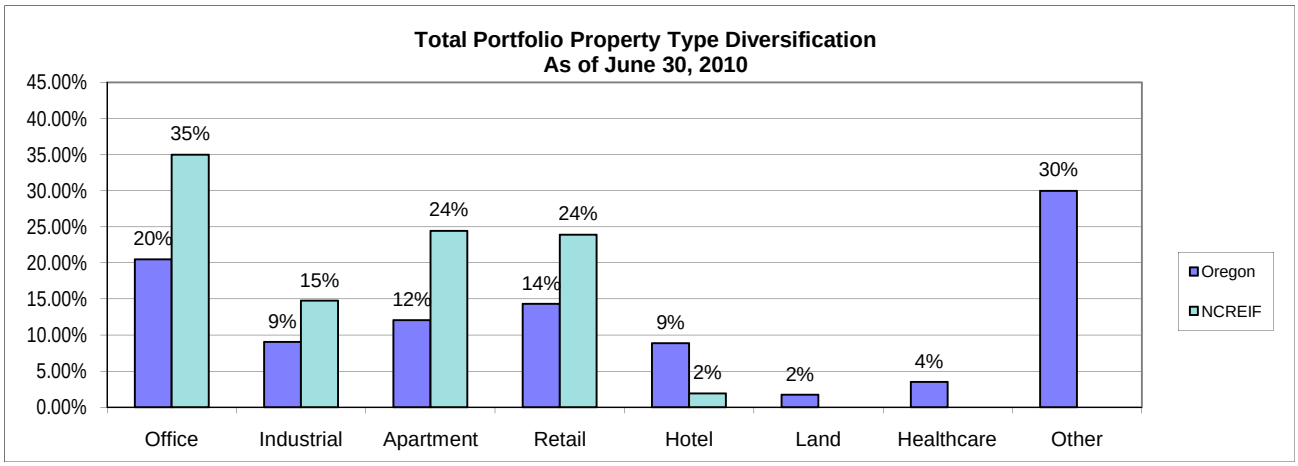
Domestic REITS
Cohen & Steers
Columbia Woodbourne
LaSalle REIT

Global REITS
European Investors
Morgan Stanley
Presima

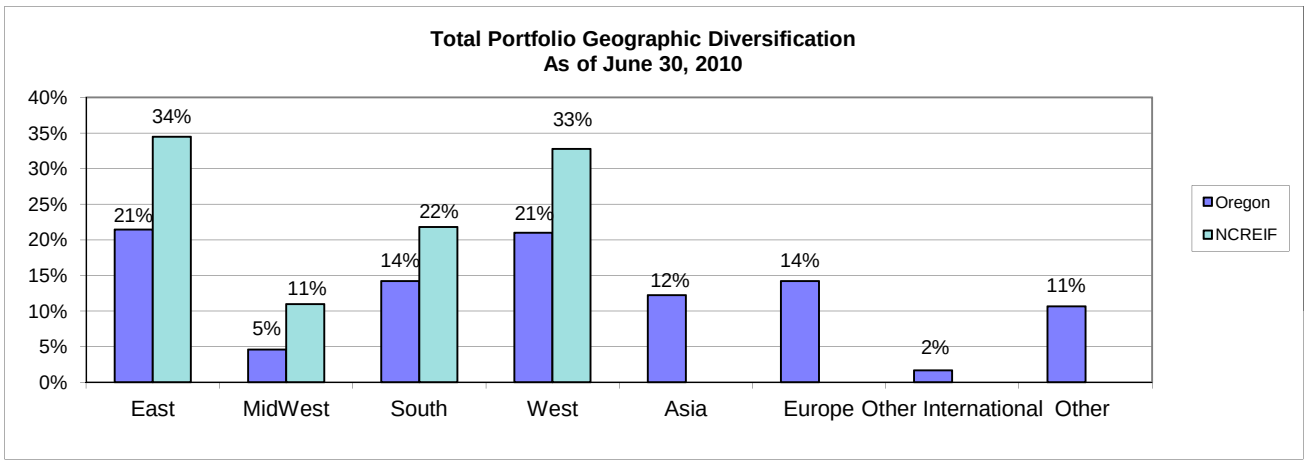
1. Holdings accounts represent properties in liquidation that were transferred from a terminated manager.

The PrivateEdge Group

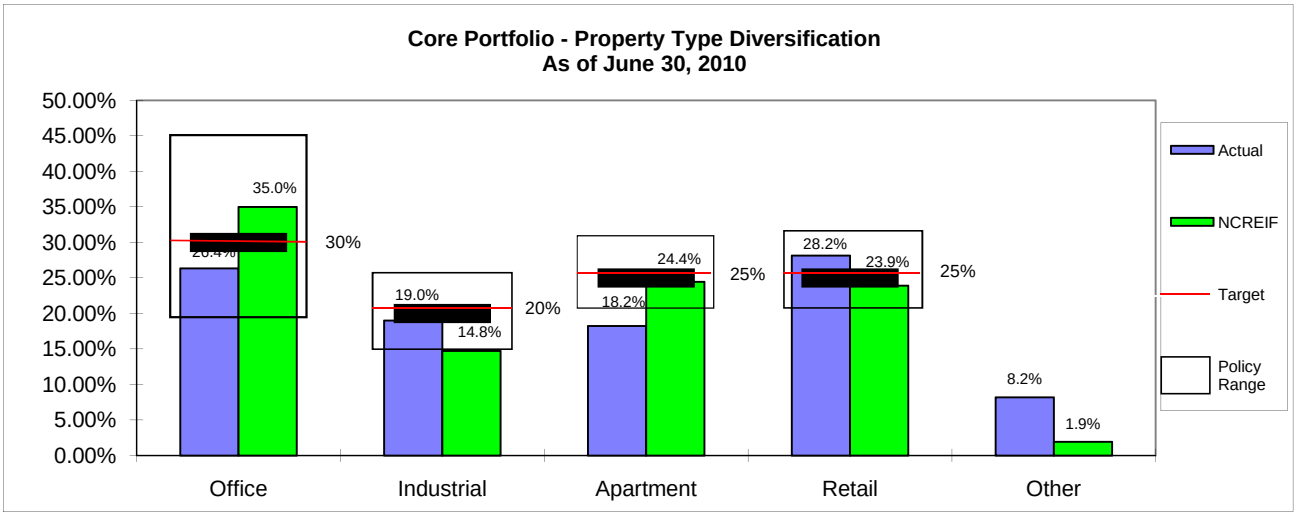
PORTFOLIO COMPOSITION REVIEW (% of Total Portfolio FMV)



Note: Other is primarily composed of Stocks/Equity (6%), Debt Instruments (57%), Operating Cos. (23%) and Diversifed (14%) investments.



Note: Other is primarily composed of US Diverse (89%) and Various (11%) per GP's financials and Quarterly Data Input Sheets.



Executive Summary

OPERF Alternative Investment Program ("the Program")

PRIVATE EQUITY POLICY

The program was formally started in 1981. The target private equity allocation is 16.0% of total pension assets with a range of + / - 400 basis points. As of June 30, 2010, private equity represented 22.0% of total pension assets, an increase of 167 basis points since last quarter.

PERFORMANCE OBJECTIVE

The Program's objective is to create significant long-term net returns to OPERF. As of June 30, 2010, the Program has achieved a total return of 15.9% since inception.

AS OF 30 JUN 2010	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION
Program IRR	21.1%	-0.8%	8.5%	6.2%	15.9%
Venture Economics*	21.9%	0.6%	5.8%	2.8%	11.0%
Value Added	*-0.8%*	*-1.4%*	*2.7%*	*3.4%*	*4.9%*
Russell 3000 (+ 300 bps)**	18.2%	-5.0%	1.1%	1.4%	14.5%
Value Added	*2.9%*	*4.2%*	*7.4%*	*4.8%*	*1.4%*

* Venture Economics Pooled IRR: *All U.S. Private Equity Funds as of March 31, 2010*

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

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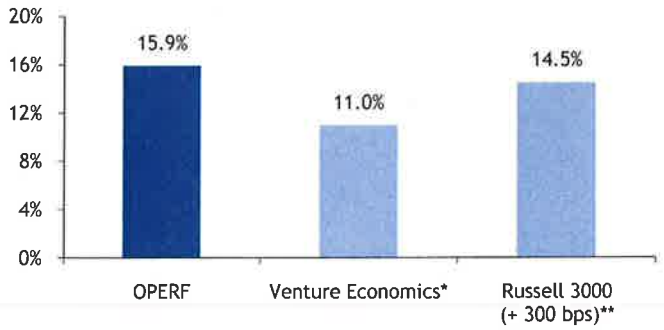
PROGRAM IRR vs. SELECTED BENCHMARKS

Net Returns since Inception



INVESTMENT PACING

The annual level of commitments is reviewed regularly with Staff and the Oregon Investment Council ("OIC"). Based on the desire to continue to build a well diversified portfolio and support OPERF's core relationships, PCG AM's annual pacing analysis completed in December 2009 recommended that OPERF commit up to $2.8 billion in 2010 pending the completion of due diligence, OIC approval, and successful legal negotiations.

PORTFOLIO EXPOSURE

Exposure % by Investment Type

Figures may not foot due to rounding

INVESTMENT TYPE	TARGET ALLOCATION	FMV	UNFUNDED	TOTAL EXPOSURE
Corporate Finance	65%-85%	76%	61%	70%
Venture Capital	5%-10%	4%	6%	5%
Special Situations	5%-15%	12%	10%	11%
Fund-of-Funds	5%-10%	5%	15%	10%
Co-Investments	0%-7.5%	3%	7%	5%
Investment Type Total:		100%	100%	100%

RECENT PROGRAM DEVELOPMENTS

- During the quarter, the OIC authorized $350 million of new commitments to five private equity funds and closed on $783.5 million of commitments in six funds.
- Through the first half of the year, the program has closed on a total of $1,223.5 million in new commitments to nine funds.
- Subsequent to second quarter-end, the OIC authorized one new commitment of $200 million and through September 1, 2010 the Program had closed on three additional commitments of $100 million each.

Portfolio Summary

Portfolio Review

NEW COMMITMENTS

During the quarter, OPERF closed on $783.5 million in commitments to six new funds. Please see Activity Detail for more details and for other recent activity.

CONTRIBUTIONS INCREASED

Contributions increased by 44.7% during the second quarter compared to the prior quarter. Contributions during the quarter reached their highest level since Q3 2008. The most recent four quarter average for the OPERF's contributions to the Program stands at $484.0 million.

DISTRIBUTIONS INCREASED

Distributions also sharply increased from the prior quarter by 44.2%. Distribution activity has not been this strong since Q4 2007. The most recent four quarter average for OPERF's distributions stands at $337.6 million.

GAIN / LOSS

The Portfolio appreciated by $110.1 million, net of cash flows, during the quarter, representing a 1.0% appreciation from the prior quarter. However, as this appreciation did not keep pace with overall historic levels, the Program's IRR since inception slightly decreased from the prior quarter.

WEIGHTED AVERAGE AGE

Based on remaining value of all underlying funds, the weighted average age of the Portfolio is 5.2 years, practically unchanged from the prior quarter. The relatively mature age of the Programs' Private Equity Portfolio is expected to result in significant increase in quarterly distributions in future years.

Portfolio Activity

$ Million | Figures may not foot due to rounding

	2009			2010	
	Q2	Q3	Q4	Q1	Q2
Starting Valuation	$7,974.6	$8,747.5	$9,795.9	$10,416.3	**$10,936.4**
Contributions	$300.7	$355.7	$487.8	$446.4	**$646.1**
Distributions	($105.2)	($179.4)	($396.3)	($317.2)	**($457.5)**
Appreciation/(Depreciation)	$577.5	$872.0	$528.9	$390.9	**$110.1**
Ending Valuation	$8,747.5	$9,795.9	$10,416.3	$10,936.4	**$11,235.0**
Unfunded Commitments	$8,473.9	$8,509.0	$8,211.4	$8,304.1	**$8,456.3**
IRR Since Inception	15.7%	16.0%	16.0%	16.0%	**15.9%**
Weighted Avg. Age of Portfolio (yrs)	4.8	5.0	5.0	5.2	**5.2**

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Program Summary

Active, Exited and Overall Program Performance

$ Million | Figures may not foot due to rounding

	March 31, 2010	June 30, 2010
Total Pension Assets *	$53,726	51,031
Allocation to Private Equity: *(Target 16.0% +/- 4.0%)*	20.3%	22.0%
ACTIVE		
# of Partnerships	172	177
Capital Committed	$24,774	$25,258
Cash Contributed	$19,531	$19,849
Cash Distributed	$14,564	$14,469
Estimated FMV	$10,927	$11,230
Total Value	$25,490	$25,698
Total Value Multiple	1.31x	1.29x
IRR	9.9%	9.8%
EXITED		
# of Partnerships	37	38
Capital Committed	$2,037	$2,337
Cash Contributed	$2,278	$2,605
Cash Distributed	$5,301	$5,853
Estimated FMV**	$6	$5
Total Value	$5,306	$5,859
Total Value Multiple	2.33x	2.25x
IRR	23.7%	23.4%
OVERALL		
Portfolio Multiple	1.41x	1.41x
IRR	16.0%	15.9%

*Total Pension Assets updated to incorporate actual Private Equity portfolio values at each quarter end.
**Includes escrows of exited deals.

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 porfolio 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.

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

SELECTION

Measures the portion of the portfolio return that can be attributed to the selecton 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.

Sector selection = [portfolio return $_{(sector)}$ - benchmark return $_{(sector)}$] x [portfolio beginning weight $_{(sector)}$] /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 9 – ASSET ALLOCATIONS & NAV UPDATES

Asset Allocations at October 31, 2010

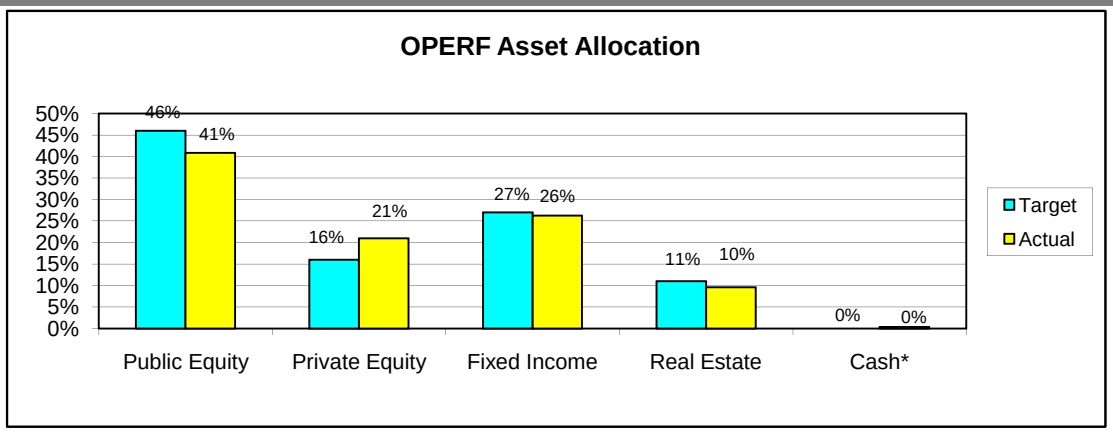
OPERF	Policy	Target	Regular Account $ Thousands	Pre-Overlay	Overlay	Net Position	Actual	Variable Fund $ Thousands	Total Fund $ Thousands
Public Equity	41-51%	46%	22,138,585	41.0%	(67,892)	22,070,693	40.8%	948,960	23,019,653
Private Equity	12-20%	16%	11,349,917	21.0%		11,349,917	21.0%		11,349,917
Total Equity	**57-67%**	**62%**	**33,488,502**	**62.0%**	**(67,892)**	**33,420,610**	**61.9%**		**34,369,570**
Opportunity Portfolio			1,022,479	1.9%		1,022,479	1.9%		1,022,479
Fixed Income	**22-32%**	**27%**	**13,415,050**	24.8%	**773,477**	**14,188,527**	26.3%		**14,188,527**
Real Estate	**8-14%**	**11%**	**5,196,959**	9.6%		**5,196,959**	9.6%		**5,196,959**
Cash*	**0-3%**	**0%**	**910,898**	1.7%	**(705,585)**	**205,313**	0.4%	2,045	**207,358**
TOTAL OPERF		**100%**	**$ 54,033,888**	**100.0%**	**$ -**	**$ 54,033,888**	**100.0%**	**$ 951,005**	**$ 54,984,893**

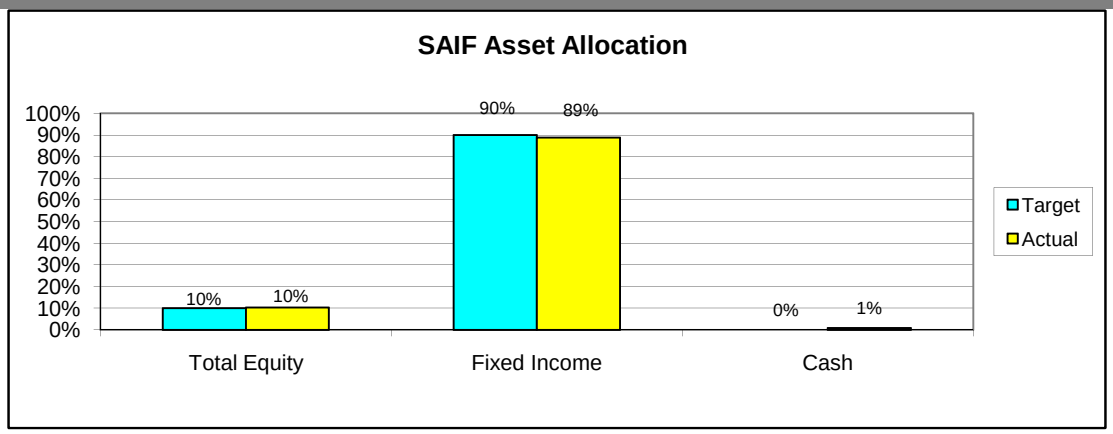
*Includes cash held in the policy implementation overlay program.

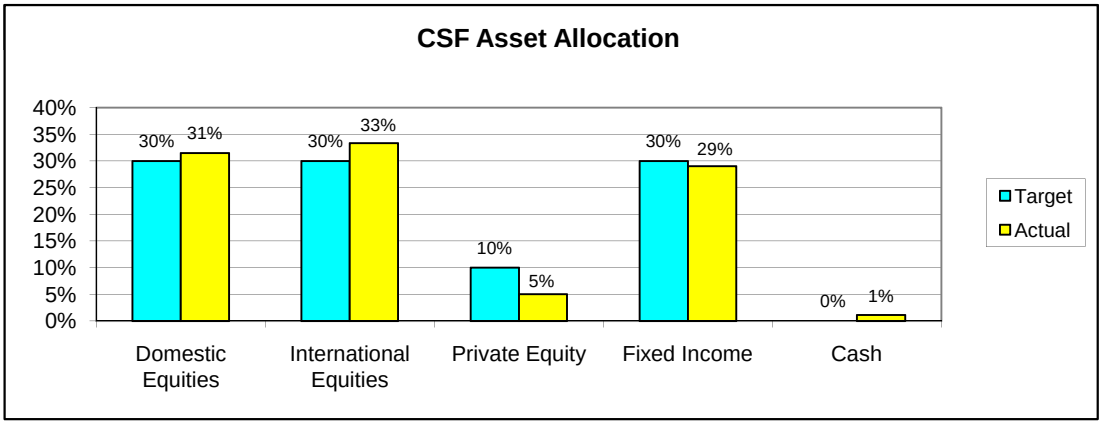
SAIF	Policy	Target	$ Thousands	Actual
Total Equity	**7-13%**	**10.0%**	**443,736**	**10.4%**
Fixed Income	**87-93%**	**90.0%**	**3,788,372**	**88.7%**
Cash	**0-3%**	**0%**	**38,118**	**0.9%**
TOTAL SAIF		**100%**	**$4,270,226**	**100.0%**

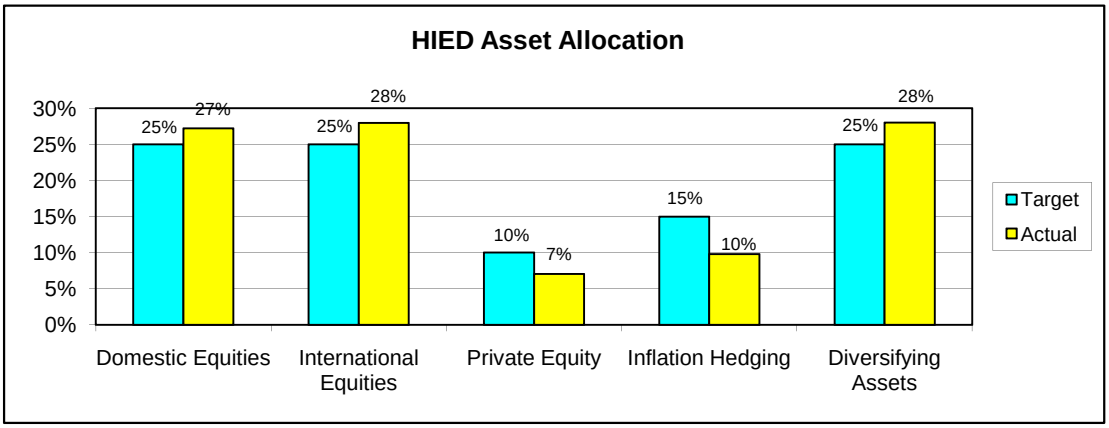
CSF	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$330,702	31.5%
International Equities	25-35%	30%	350,225	33.3%
Private Equity	0-12%	10%	53,021	5.0%
Total Equity	**65-75%**	**70%**	**733,948**	**69.9%**
Fixed Income	**25-35%**	**30%**	**304,535**	**29.0%**
Cash	**0-3%**	**0%**	**11,710**	**1.1%**
TOTAL CSF			**$1,050,193**	**100.0%**

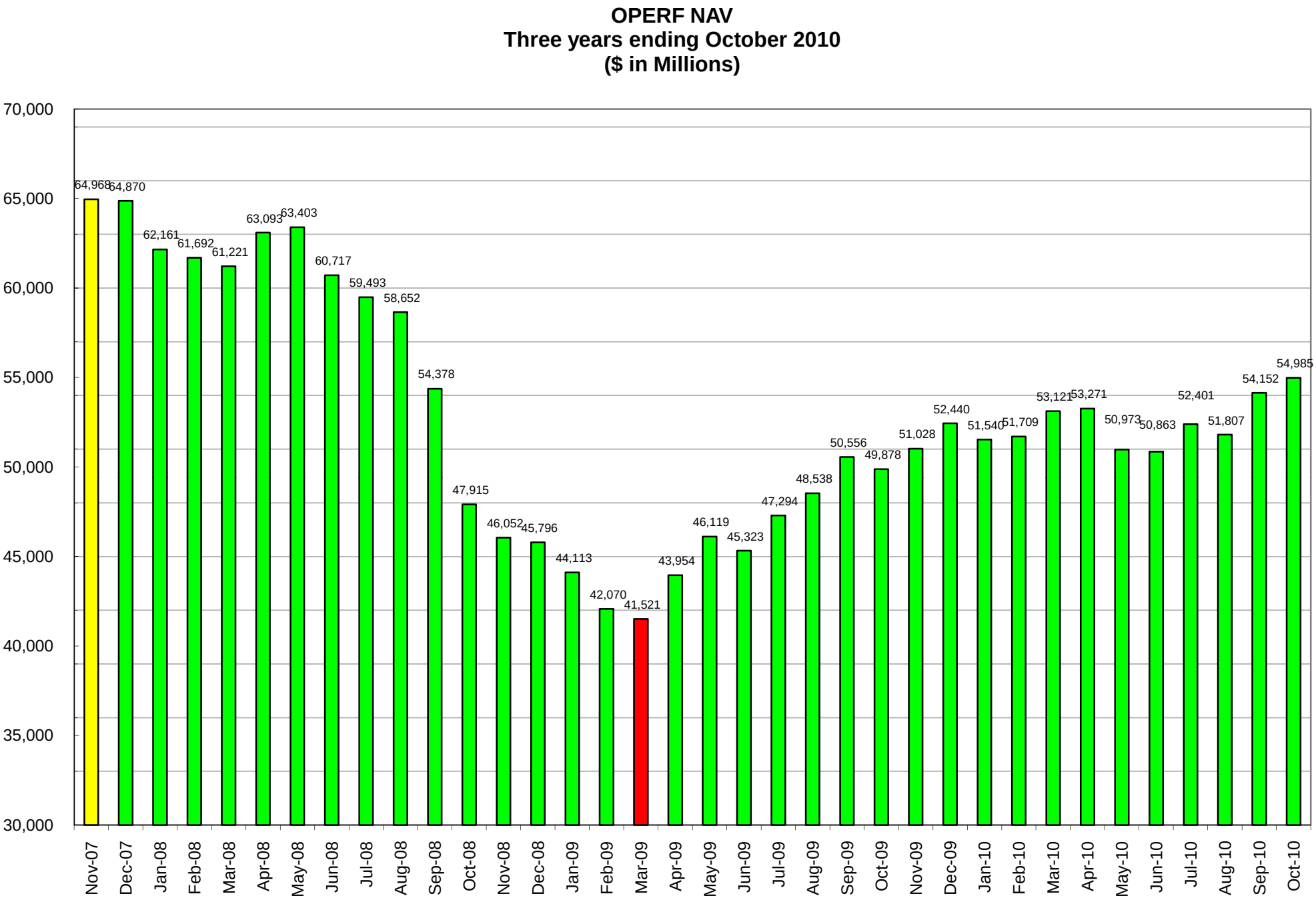
HIED	Policy	Target	$ Thousands	Actual
Domestic Equities	20-30%	25%	$16,779	27.2%
International Equities	20-30%	25%	17,261	28.0%
Private Equity	0-15%	10%	4,351	7.1%
Growth Assets	**50-75%**	**60%**	**38,391**	**62.2%**
Real Estate	0-10%	5%	1,547	2.5%
TIPS	0-10%	5%	4,500	7.3%
Other Hard Assets	0-10%	5%	0	0.0%
Inflation Hedging	**7-20%**	**15%**	**6,047**	**9.8%**
Fixed Income	20-30%	25%	**16,488**	26.7%
Cash	0-3%	0%	789	1.3%
Diversifying Assets	**20-30`%**	**25%**	**17,277**	**28.0%**
TOTAL HIED			**$61,715**	**100.0%**


OPERF Asset Allocation
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
46%
41%
16%
21%
27%
26%
11%
10%
0%
0%
Public Equity
Private Equity
Fixed Income
Real Estate
Cash*
Target
Actual

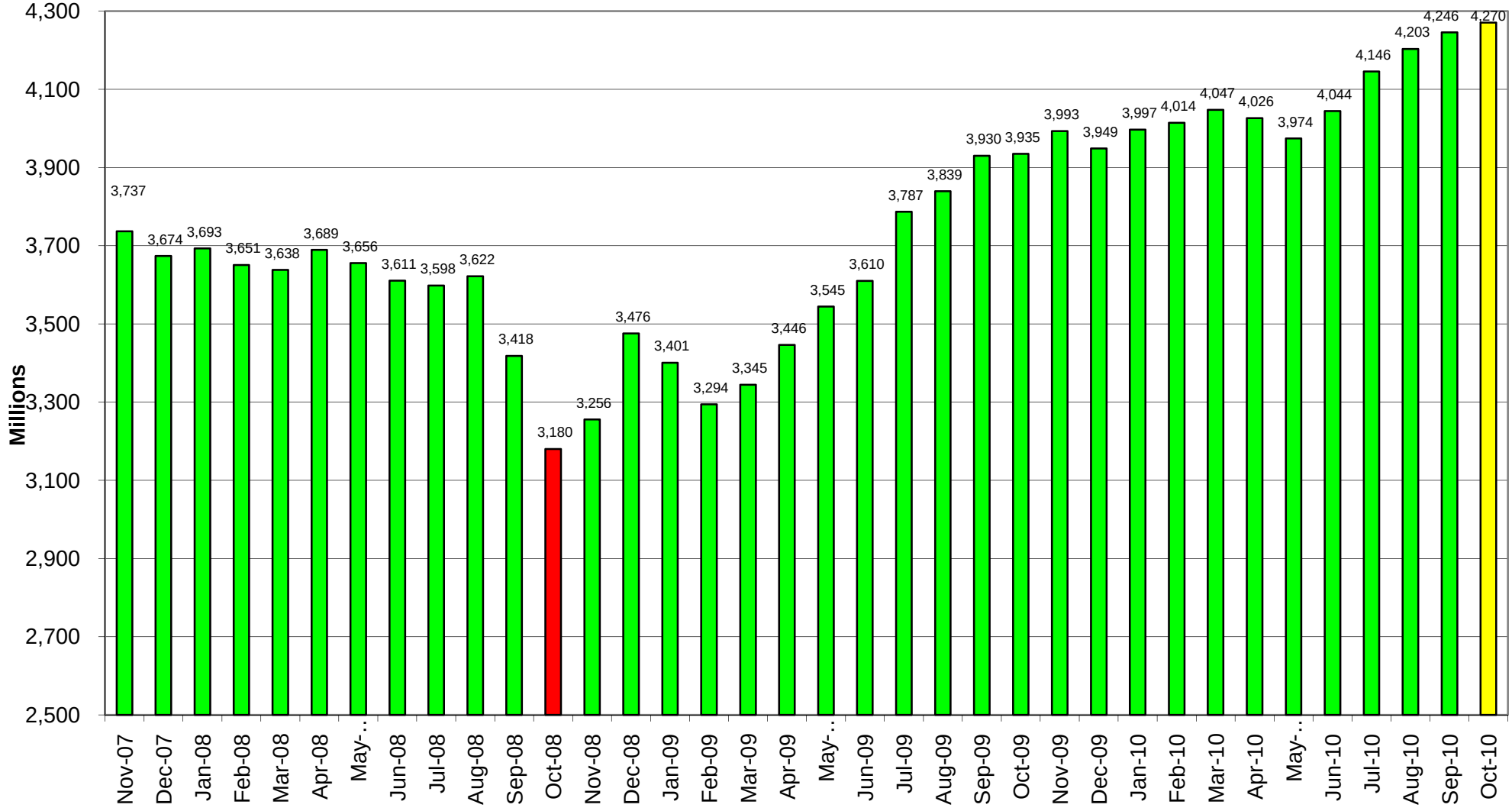

SAIF Asset Allocation
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
10%
10%
90%
89%
0%
1%
Total Equity
Fixed Income
Cash
Target
Actual

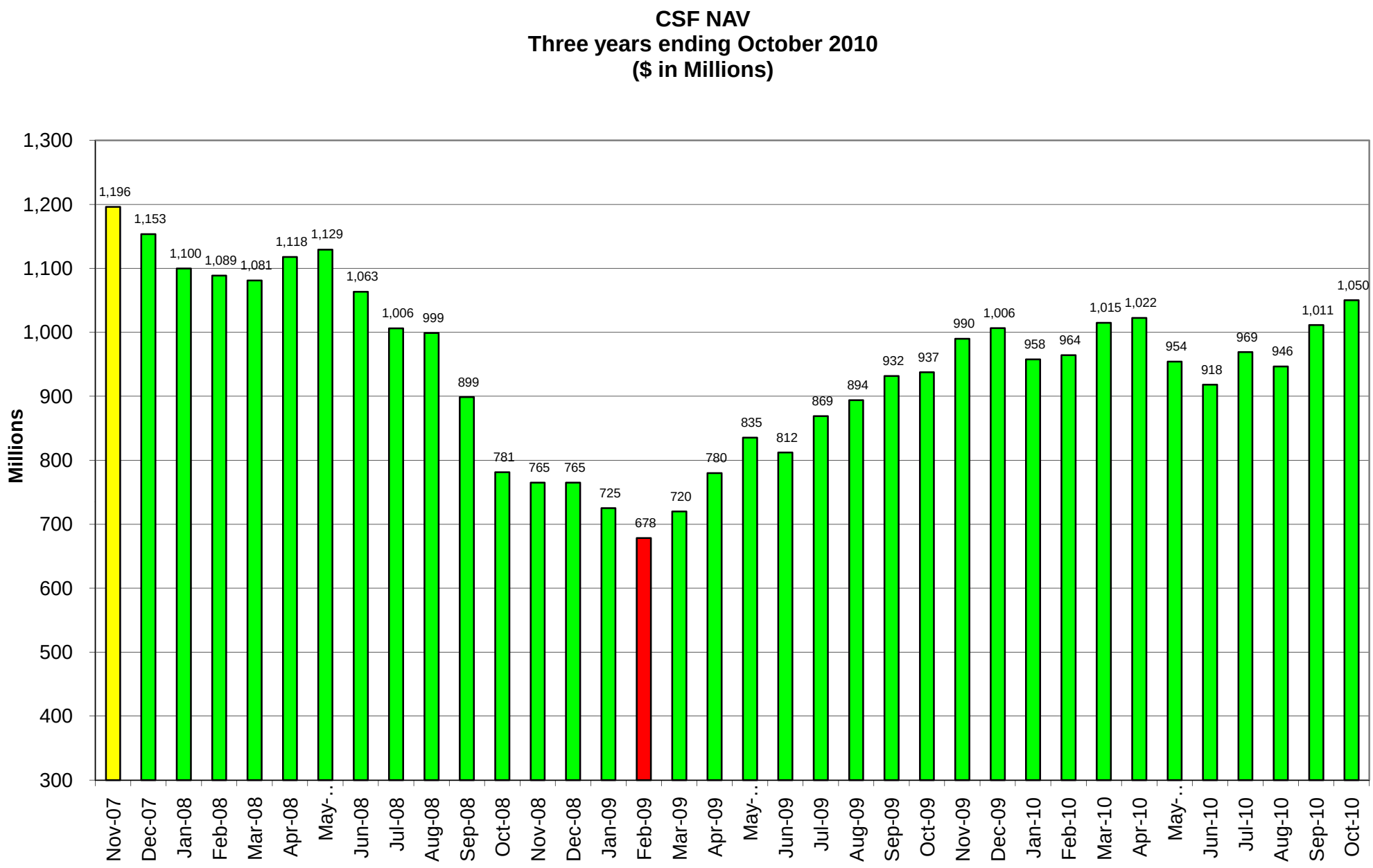

CSF Asset Allocation
40%
35%
30%
25%
20%
15%
10%
5%
0%
30%
31%
30%
33%
10%
5%
30%
29%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual


HIED Asset Allocation
30%
25%
20%
15%
10%
5%
0%
25%
27%
25%
28%
10%
7%
15%
10%
25%
28%
Domestic Equities
International Equities
Private Equity
Inflation Hedging
Diversifying Assets
Target
Actual


OPERF NAV
Three years ending October 2010
($ in Millions)
70,000
65,000
60,000
55,000
50,000
45,000
40,000
35,000
30,000
64,968
64,870
62,161
61,692
61,221
63,093
63,403
60,717
59,493
58,652
54,378
47,915
46,052
45,796
44,113
42,070
41,521
43,954
46,119
45,323
47,294
48,538
50,556
49,878
51,028
52,440
51,540
51,709
53,121
53,271
50,973
50,863
52,401
51,807
54,152
54,985
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
Sep-08
Oct-08
Nov-08
Dec-08
Jan-09
Feb-09
Mar-09
Apr-09
May-09
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10

SAIF NAV
Three years ending October 2010
($ in Millions)




CSF NAV
Three years ending October 2010
($ in Millions)
Millions
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
1,196
1,153
1,100
1,089
1,081
1,118
1,129
1,063
1,006
999
899
781
765
765
725
678
720
780
835
812
869
894
932
937
990
1,006
958
964
1,015
1,022
954
918
969
946
1,011
1,050
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-…
Jun-08
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Nov-08
Dec-08
Jan-09
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Apr-09
May-…
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10
Apr-10
May-…
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10

TAB 10 – CALENDAR – FUTURE AGENDA ITEMS

2011 OIC Forward Agenda Topics

January 26:	OPERF Core Real Estate Review OPERF Private Equity—KKR OPERF Alternative Portfolio Strategy
February 23:	OSGP Review OPERF Private Equity Annual Plan OPERF 4th Quarter Performance Review OIF Portfolio Update
April 27:	Public Equity Annual Review OSTF Annual Review DOJ Litigation Update Securities Lending Review Annual Policy Updates
June 1:	SAIF Annual Review OPERF 1st Quarter Performance Review
July 27:	OPERF Real Estate Annual Review Annual Audit Update
September 28:	CSF Annual Review
November 2:	CEM Benchmarking Annual Review
December 7:	OPERF 3rd Quarter Performance Review OPERF Opportunity Portfolio Review HIED Annual Review