Oregon Investment Council

~ Agenda ~
October 27, 2009 - 9:00 AM

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

Oregon Investment Council

Katy Durant
Chair

Office of The State Treasurer
Ben Westlund
State Treasurer

Ronald Schmitz
Chief Investment Officer

OREGON INVESTMENT COUNCIL

Agenda

October 27, 2009
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** September 30, 2009 October 15, 2009	**Ron Schmitz** *Chief Investment Officer*	**1**
9:05-10:00	**2. The Case for Diversification**	**Cliff Asness, Ph.D.** *Managing and Founding Principal* *AQR Capital Management*	**2**
10:00-10:45	**3. OPERF Opportunity Portfolio** *Annual Review*	**John Hershey** *Investment Officer*	**3**
10:45-11:00	**---------------------BREAK----------------------**		
11:00-11:45	**4. OPERF Fixed Income Structure**	**Perrin Lim** *Senior Investment Officer* **John Meier** *Strategic Investment Solutions*	**4**
11:45-12:00	**5. Common School Fund** *Annual Review*	**Louise Solliday** *Director, Department of State Lands* **Mike Mueller** *Deputy Chief Investment Officer*	**5**
12:00-12:20	**6. OPERF Investment Management Cost** *Annual Study*	**Bruce Hopkins** *Director, CEM Benchmarking* **Mike Mueller**	**6**
12:20-12:25	**7. OIC Proposed 2010 Meeting Calendar**	**Ron Schmitz**	**7**

B. Information Items

12:25-12:30	**8.**	**Asset Allocations & NAV Updates** a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HIED Pooled Endowment Fund	**Ron Schmitz**	**8**
	9.	**Calendar—Future Agenda Items**	**Ron Schmitz**	**9**
	10.	**Other Items**	**Council** **Staff** **Consultants**	

C. Public Comment Invited

15 Minutes

TAB 1 – MINUTES

SEPTEMBER 30, 2009

OCTOBER 15, 2009

Ronald D. Schmitz
Chief Investment Officer
Investment Division

PHONE 503-378-4111
FAX 503-378-6772

State of Oregon
Office of the State Treasurer
350 Winter Street NE, Suite 100
Salem, Oregon 97301-3896

OREGON INVESTMENT COUNCIL
September 30, 2009
Meeting Minutes

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Dick Solomon, Ben Westlund
Member on the Phone:	Keith Larson
Staff Present:	Andrea Belz, Darren Bond, Tony Breault, Brad Child, Sam Green, John Hershey, Brooks Hogle, Julie Jackson, Perrin Lim, Ben Mahon, Mike Mueller, Kevin Nordhill, Ron Schmitz, James Sinks, James Spencer, Sally Wood
Consultants Present:	Allan Emkin and Mike Moy (PCA), Nori Gerardo Lietz (Partners Group), Mike Beasley and John Meier (SIS), David Fann, Kara King, and Mike Krems (PCG)
Legal Counsel Present:	Cynthia Byrnes, Oregon Department of Justice Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 9:01 am by Katy Durant, Chair.

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

MOTION: Ms. Durant brought approval of the July 29, 2009 OIC minutes to the table. Mr. Demorest moved to approve the minutes. The motion was seconded by Mr. Solomon and passed by a vote of 3/0. Treasurer Westlund had not yet arrived/Mr. Larson had not yet dialed in.

Treasurer Westlund arrived at 9:03 a.m. and Mr. Larson dialed in at approximately 9:10 a.m.

II. 9:02 a.m.: Lone Star Real Estate Funds II & VII (*OPERF Real Estate*)

Staff recommended approval of a $100 million commitment to Lone Star Fund VII, L.P. and a $300 million commitment to Lone Star Real Estate Fund II, L.P., subject to the satisfactory negotiation of the required legal documents, working in concert with the Department of Justice. The two global funds target combined equity of $20 billion and will be run side-by-side. Their combined portfolios will be "opportunistic" in nature with a target IRR return, at the investment level, of 25 percent.

Brad Child, Sr. Real Estate Investment Officer and Nori Gerardo Lietz (Partners Group) introduced John Grayken and Lou Paletta from Lone Star. Mr. Grayken gave some background on Lone Star and more specifically Lone Star Funds II and VII. These two funds represent a continuation of the successful series of funds offered by Lone Star Partners investing globally in distressed debt, distressed real estate and real estate entities such as banks and finance companies, where real estate can be obtained opportunistically. Lone Star has elected to branch out its previous strategies into two funds, allowing investors the opportunity to allocate to either, based on the investors needs. In this case, the Lone Star Real Estate Fund II will house all commercial real estate activity and Lone Star Fund VII will focus on residential distressed debt and acquisition of real estate rich entities such as banks.

There was a question and answer period following the presentation.

MOTION: Mr. Demorest moved to approve the staff recommendation, as well as a possible additional future commitment of up to $400 million, if approved by the OIC. Mr. Solomon seconded the motion. The motion passed by a vote of 5/0.

III. 10:00 a.m.: Real Estate Consultant Contract

Mr. Child gave an update on the real estate consultant contract. Staff recommended extending the PCA Real Estate Advisors contract (which currently expires on December 31, 2009) for a period of two years, under existing terms and conditions, ending December 2011.

MOTION: Mr. Demorest moved to approve the staff recommendation. Mr. Solomon seconded the motion. The motion passed by a vote of 5/0.

IV. 10:04 a.m.: Private Partnership Investment Principles (*OPERF Private Equity***)**

Ron Schmitz, Chief Investment Officer presented to the OIC on OPERF's Private Partnership Investment Principles. Mr. Schmitz also suggested that the OIC should give consideration to endorsing the Institutional Limited Partners Association (ILPA) Private Equity Principles. This represents a broad affiliation of LPs.

Staff recommended approval of proposed amendments to Oregon's current Private Partnership Investment Principles, as well as endorsing the Principles that were adopted by ILPA.

MOTION: Treasurer Westlund moved to approve the staff recommendations. Mr. Demorest seconded the motion. The motion was passed by a vote of 5/0.

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

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

VI. 10:12 a.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

VII. 10:15 a.m.: Other Business

The Board discussed various initiatives. Mr. Schmitz was requested to draft a letter to the SEC on a proposed rule regarding the use of placement agents.

Mr. Solomon left the meeting at 10:50 a.m.

11:22 a.m.: Public Comments

There were no public comments.

The meeting adjourned at 11:22 a.m.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist

RONALD D. SCHMITZ
CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

PHONE 503-378-4111
FAX 503-378-6772

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

OREGON INVESTMENT COUNCIL
OCTOBER 15, 2009
CONFERENCE CALL MEETING MINUTES

Members Present:	Paul Cleary, Katy Durant, Keith Larson, Dick Solomon, Ben Westlund
Member Absent:	Harry Demorest
Staff Present:	Josh Balloch, Darren Bond, Jay Fewel, John Hershey, Julie Jackson, Mike Mueller, Kevin Nordhill, Jen Peet, Jo Recht, Ron Schmitz, James Sinks, James Spencer, Michael Viteri
Consultants Present:	Mike Beasley (SIS), Tom Bernhardt 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 1:05 pm by Katy Durant, Chair.

I. 1:05 p.m.: Fisher Lynch Co-Investment Partnership II, L.P.

Brett Fisher of Fisher Lynch discussed with the OIC the preliminary Fund I results which look promising at this early stage. He also talked about the investing environment going forward for Fund II. Staff recommended a commitment of $500 million to Fisher Lynch Co-Investment Partnership II, L.P. which is a $1.0 billion joint-venture partnership with the Washington State Investment Board (WSIB), focused on investing in attractive co-investment opportunities sponsored primarily by existing private equity managers in the WSIB and OPERF portfolios.

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

MOTION: Mr. Larson moved to approve the staff recommendation, with staff's discretion to choose the fee option. Mr. Solomon seconded the motion. The motion passed by a vote of 4/0 (Mr. Demorest was absent).

II. 1:43 p.m.: Sageview Capital

This was an informational presentation to the Council on a failed bank investment opportunity. The Council expressed an interest in staff following up with further due diligence.

The meeting adjourned at 2:00 p.m.

Respectfully submitted,

Julie Jackson

TAB 2 – THE CASE FOR DIVERSIFICATION

EXEMPT MATERIALS SENT UNDER SEPARATE COVER

TAB 3 – OPERF OPPORTUNITY PORTFOLIO

OPERF Opportunity Portfolio
2009 Review and 2010 Annual Plan

Jay Fewel, Senior Investment Officer
John Hershey, Alternatives Investment Officer
October 27, 2009

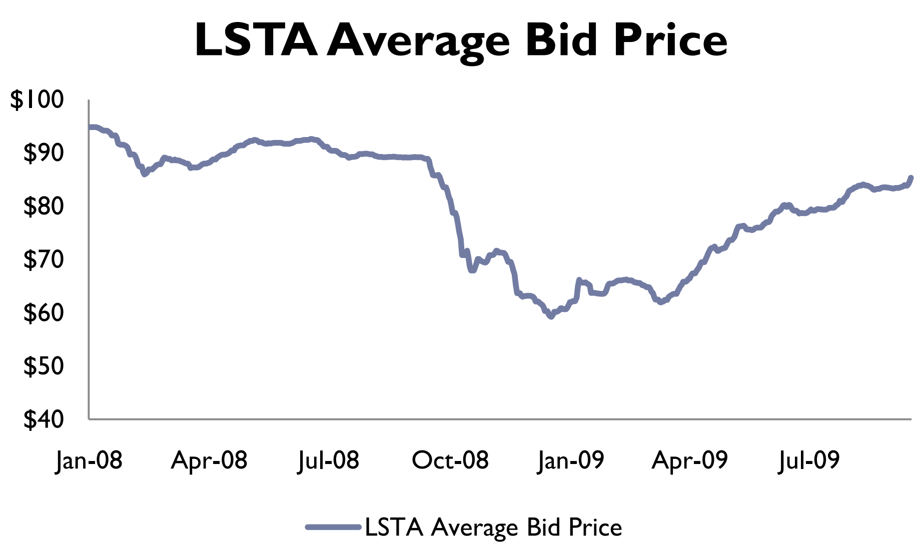
Table of Contents

History

- Established as an investment strategy within OPERF (Q3 2005) with the following objectives/policy:
  - To be populated with innovative investment approaches across a wide range of opportunities
  - Not limited by asset classes or strategies
  - Includes strategies that fall outside Oregon's previously identified asset classes (i.e., public equities, fixed income, real estate, private equity and cash)
  - Can be concentrated, non-diversified
  - Size capped at 3% of OPERF assets with no strategic allocation
- Made first investment (Shamrock: Q2 2006)
- Hired Alternatives Investment Officer (Q1 2008)

2008-2009 YTD Review
Bank Loan Market

1. Bank Loan market review
   - LSTA (bank loan) index up 32.2% YTD (6/30)
   - Driven by better "technicals" and High Yield financings to extend debt maturities
   - Defaults rising; recoveries falling
   - BCI Co-Invest up 91.8% YTD (6/30); 32.9% since inception



New investments/realizations 2008/2009

- New Investments (commitments)

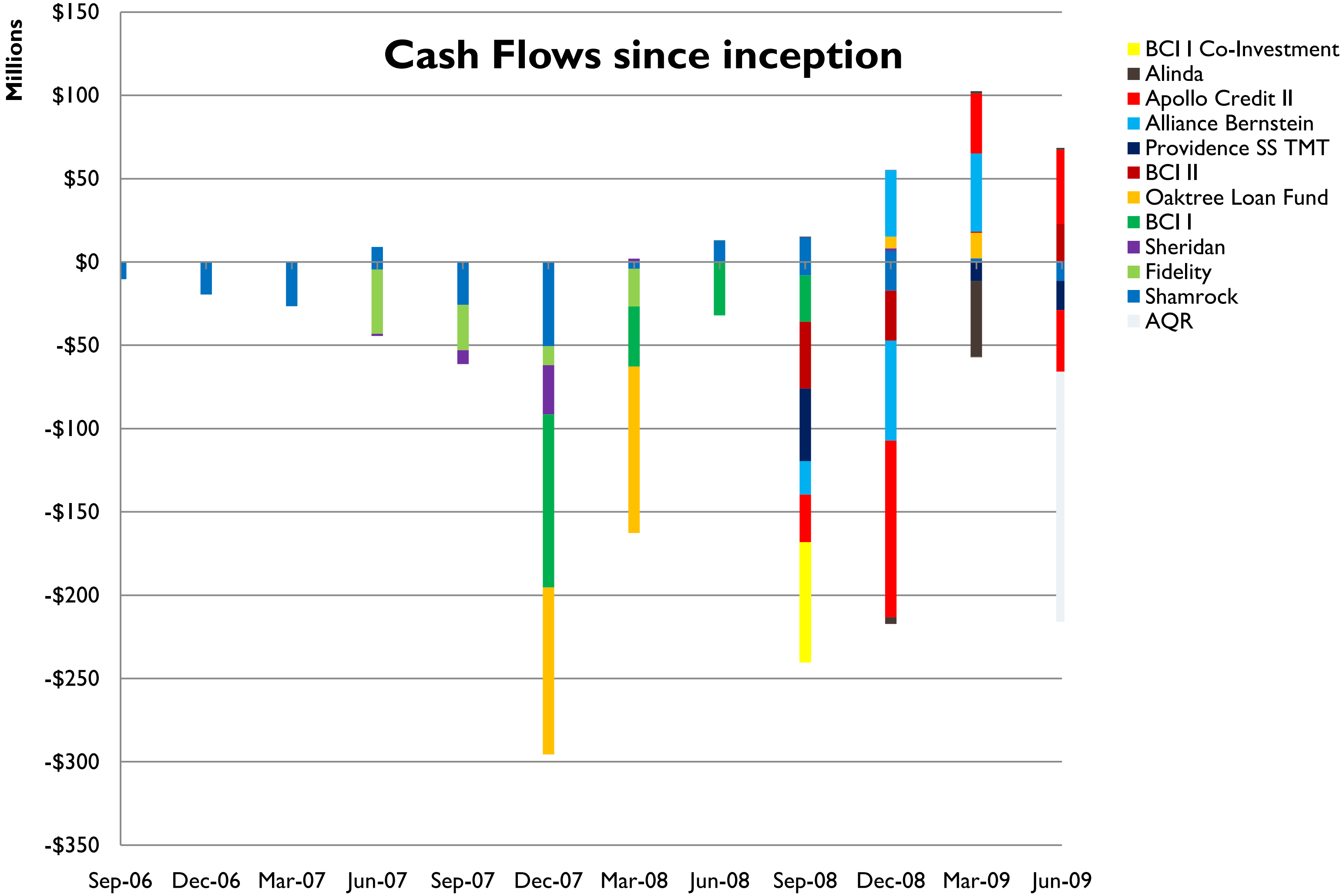
  1. 2008 (closing dates)
     1. Providence Special Situations ($100mm – Jun)
     2. BCI II ($100mm – Aug)
     3. Apollo Credit Opportunities ($250mm – Aug)
     4. Alliance Bernstein All Asset Deep Value ($200mm – Sep)
     5. BCI Co-Investment ($72mm – Oct)
     6. Alinda Infrastructure II ($200mm – Nov)

  2. 2009 (closing dates)
     1. Endeavour Structured Equity Mezzanine ($50mm – Jan)
     2. AQR Convertible Arbitrage ($150mm – June)

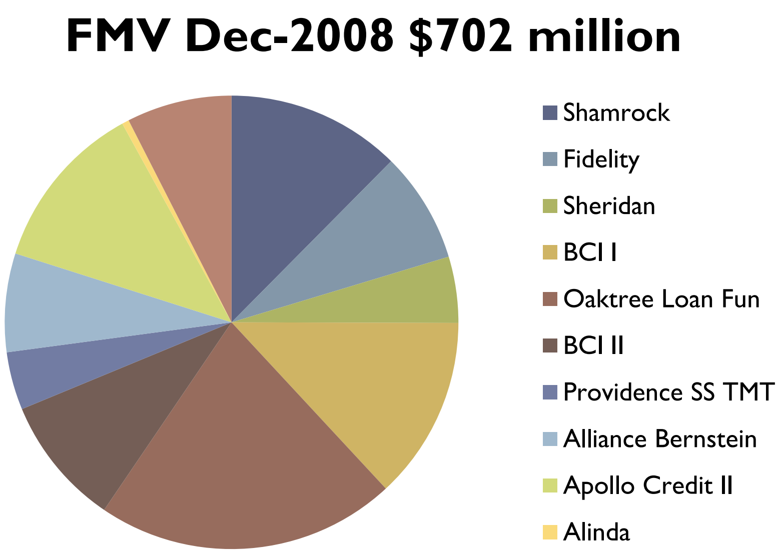
- Final realizations

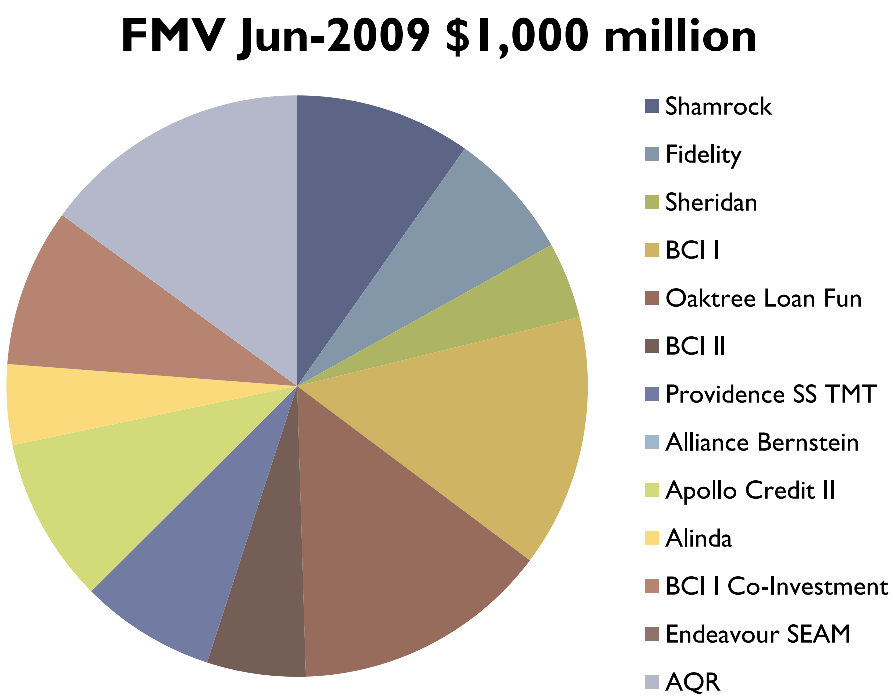
  1. 2009
     1. Alliance Bernstein (Jan 2009)
     2. Shamrock (July 2009)

Capital Calls/Distributions

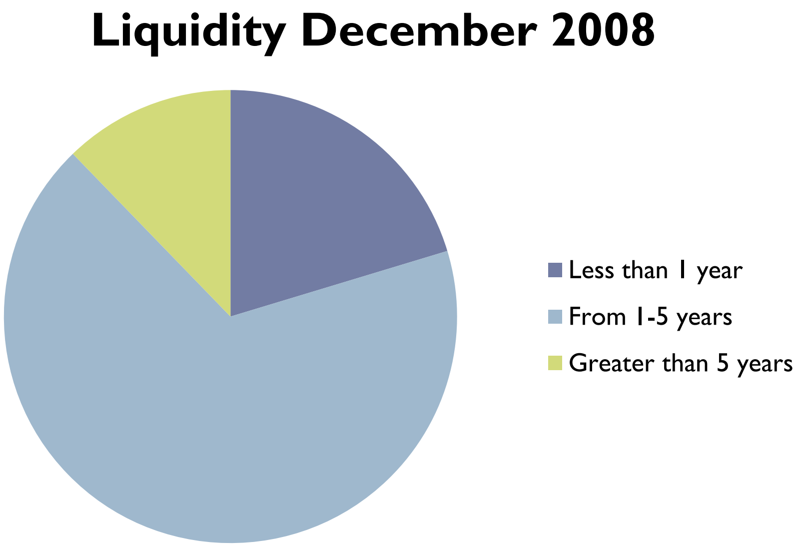


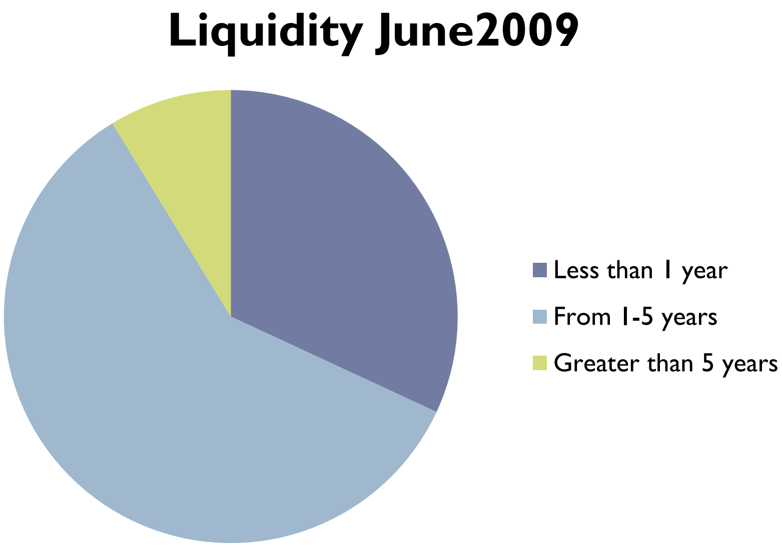
Portfolio Snapshot (Fair Market Value)





Portfolio Snapshot (Liquidity)





Performance (YTD June 30th)

	12/2008	6/2009
FMV	$702mm	$1,000mm
FMV % of OPERF	~1.8%	~2.2%
FMV + unfunded commitments % of OPERF	~2.9%	~3.5%
Mulitple ((FMV+Returned)/Drawn)	.72x	.92x
IRR since inception (Q2 2006) (1)		-9.3%
Time weighted returns (2)		
YTD (6/09)		9.2%
1 year		-17.6%
2 years		-11.4%
Value add (Time weighted returns relative to OPERF)		
YTD (6/09)		8.15%
1 year		4.57%
2 years		1.89%

(1) Includes manager reports up through 6/30/09

(2) Excludes manager reports received after State Street reporting date.

Strategy discussion

- Objectives:

    1. Greater return at same or lower risk (relative to OPERF ex-Alternatives i.e., likely "funding source")

    2. Conceptual foundation

        - Why volatility matters

        - Why diversification matters

Why volatility (and loss) matters

Return Comparisons – Two Hypothetical Portfolios

	Annual Returns	
	Steady	**Levered**
Year	**Eddie**	**Larry**
1	10.0%	30.0%
2	6.0%	51.0%
3	8.0%	-8.0%
4	0.0%	24.0%
5	16.0%	-35.0%
Arith. Avg. Return	8.0%	12.4%

- One investment choice: boring, stable vs. exciting, volatile

Source: PCA

Why volatility (and loss) matters (cont.)

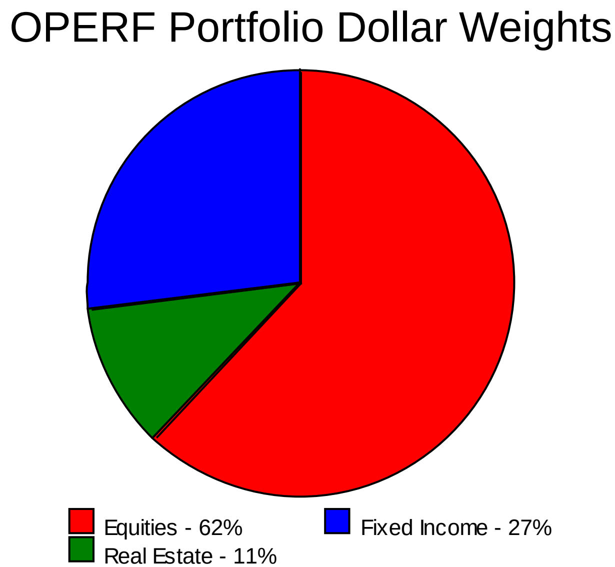
Compounded Wealth Creation Comparisons – Two Hypothetical Portfolios

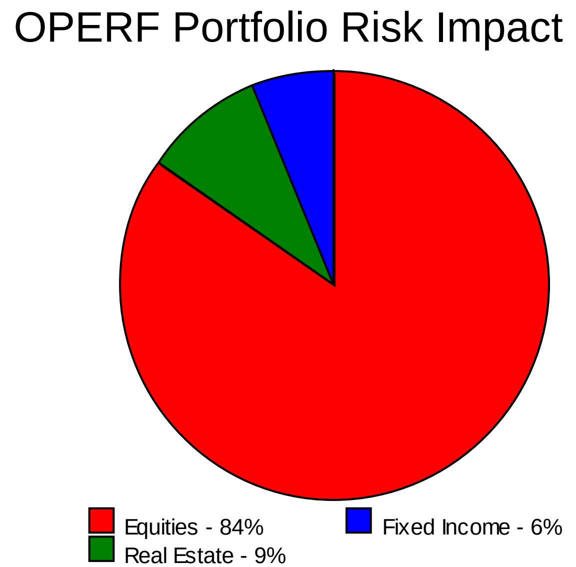
	Wealth Path		Annual Gains/Losses	
Year	Steady Eddie	Levered Larry	Steady Eddie	Levered Larry
beg value	50.0	50.0		
1	55.0	65.0	5.0	15.0
2	58.3	98.2	3.3	33.2
3	63.0	90.3	4.7	-7.9
4	63.0	112.0	0.0	21.7
5	73.0	72.8	10.1	-39.2

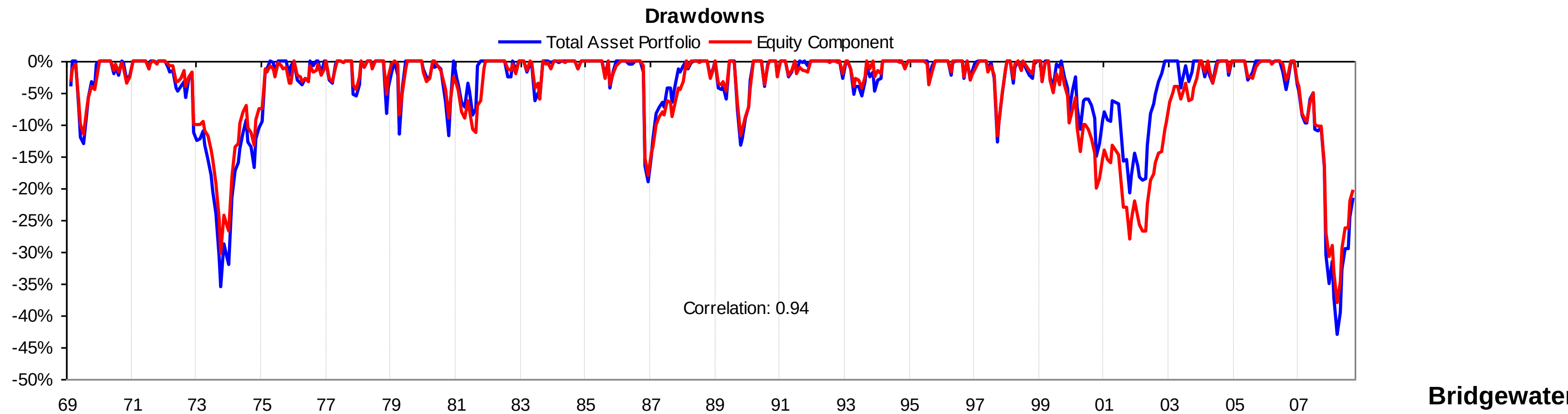
- Higher arithmetic average returns do not necessarily translate into more wealth
- Behaviorally, volatile wealth creation can impact prudent planning

Source: PCA

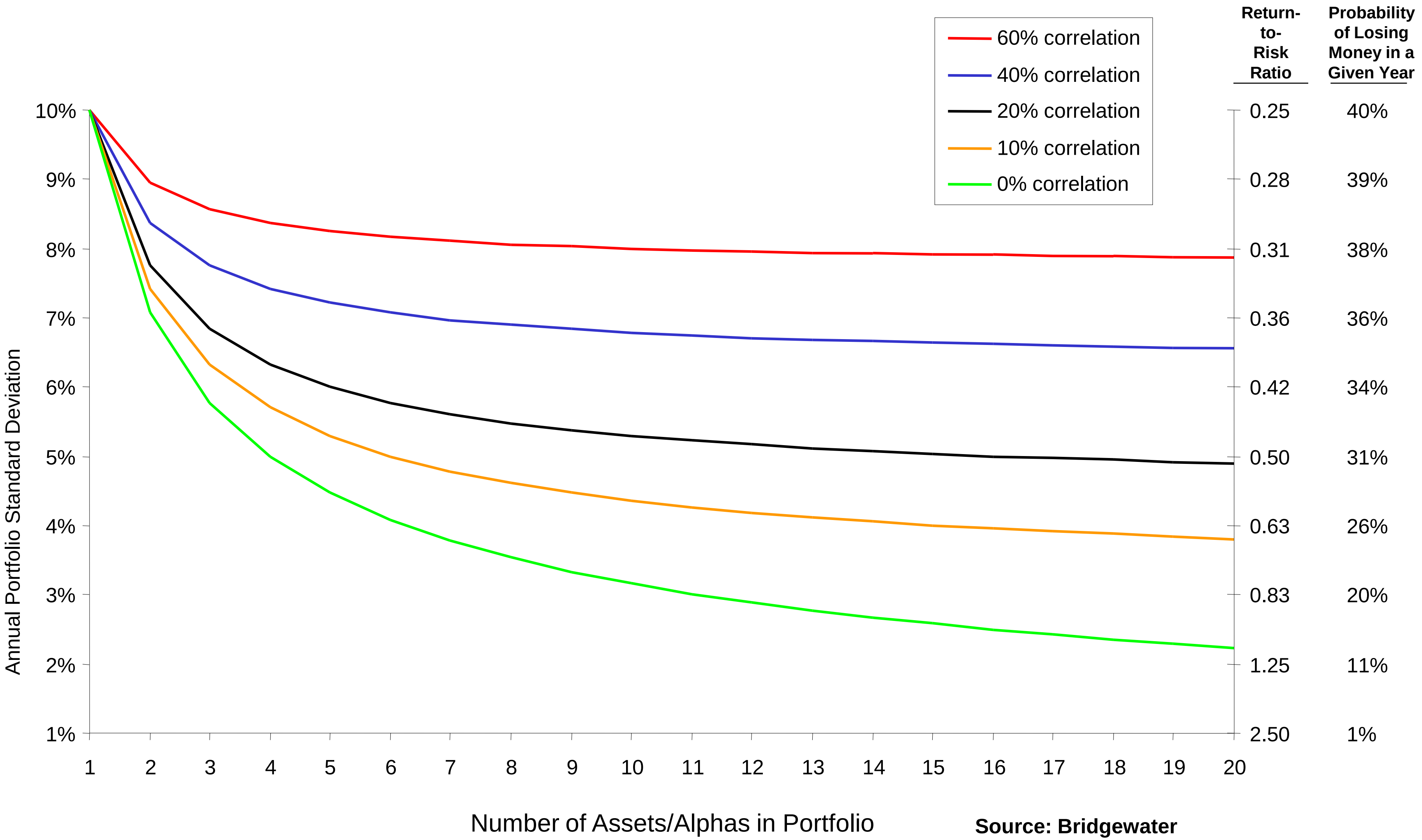
OPERF portfolio is concentrated in equities





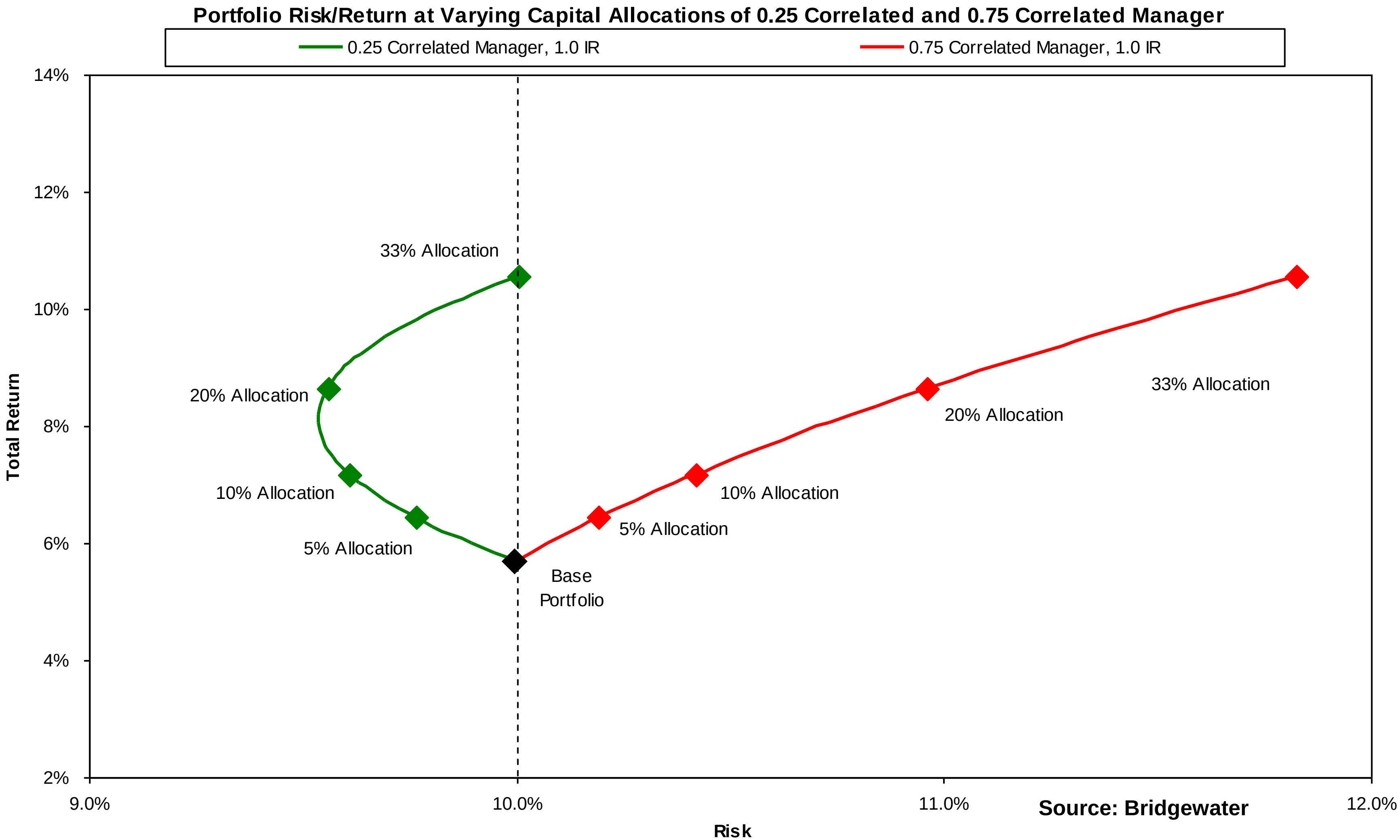


Why diversification matters – the goal of investing is to find 15-20 good, uncorrelated return streams



Source: Bridgewater

Correlation has a large impact on portfolio risk



Strategy discussion (cont.)

- Benchmarks:
  1. Primary: (8%)
  2. Secondary: Risk adjusted returns or better (relative to OPERF ex-Alternatives)
- Investment strategies:
  1. Shorter-term strategies ("opportunistic")
     - Guidelines:
       - i. No single benchmark
       - ii. Based on temporary market dislocations
       - iii. Expected to "roll-off" after dislocation corrects

Strategy discussion (cont.)

2. Longer-term strategies ("doesn't fit other OPERF asset classes")
   - Guidelines (t-bills or Libor plus):
     i. Inflation-linked:
        a) Infrastructure
        b) Natural resources
           - Commodities
           - Oil & Gas
           - Timberland
           - Ag Land

Strategy discussion (cont.)

2. Longer-term strategies ("doesn't fit other OPERF asset classes") (cont)

   ii. Less correlated (to stocks and bonds) strategies:
      a) Hedge Funds
         - Arbitrage (convertible, merger)
         - Relative value (market neutral, fixed income)
         - Timing (global macro, CTAs)

   iii. Other or other niche strategies:
      a) Concentrated credit
      b) Concentrated equity
         - Shareholder activism
      c) Niche strategy examples
         - Reinsurance
         - Life settlements
         - Drug royalty streams

Implementation

- Implementation

1. OIC sets strategy

2. Model longer term strategies universe in upcoming asset allocation study

3. Update policy at future OIC meeting

4. Name change to "Alternatives Portfolio"
   - Reasons:
     i. Minimizes misunderstanding of Portfolio mission
        - Not simply "opportunistic" or "special situations"
        - Traditional "alternatives" such as private equity and real estate are now main stream; provides an asset class for true alternatives

5. Develop risk management tool
   - Objective:
     i. Identify various risk exposures or factors
        - Industrial sectors
        - Geography
        - Risk premia (equity, interest rate, credit, commodities, etc.)

TAB 4 – OPERF FIXED INCOME STRUCTURE

Fixed Income Portfolio Review and Discussion

Purpose

This topic is informational and is intended to trigger a conversation about the role of fixed income in institutional portfolios generally and in OPERF specifically.

Background

The OPERF portfolio has undergone several meaningful changes over the years. It was once primarily an internal portfolio with few if any external managers. Upon the retirement of the PM, the OIC shifted to an external strategy that employed five generalist managers. These managers were given a fairly broad mandate with a lot of flexibility to move into the "plus" sectors of the fixed income markets (global developed, emerging markets, high yield, etc.). The restriction on non-investment grade was pegged at 30% versus an index of about 5%.

After the credit market meltdown in 2008, staff and SIS recommended and the OIC approved an allocation to a new specialist mandate comprised initially of bank loans but to also include high yield. The ability of the generalist managers to include the plus sectors was dropped from 30% to 15%.

Discussion

Staff and SIS originally did some Risk/Reward runs when adding bank loan strategy. We agreed to provide more detail at a later date as we added Oak Hill (cannibalizing KKR assets rather than adding more assets to the strategy). In the process of completing that effort we started to look at liquidity and inflation aspects of a bond portfolio in reaction to the events of 2008. Two fundamental questions arose in our discussions:

- What is the role of fixed income in OPERF?
- Should this portfolio take on more of a global focus as have the other OPERF asset classes?

These are fundamental questions that normally arise after an asset/liability study as investors begin to look at asset class structure and the desired risk/reward postures as the logical next step after asset mix is decided. So today, we want to take a small step backwards in order to resume the project in a more informed way after the upcoming joint Asset Mix exercise that the OIC will undertake in conjunction with the PERS Board.

Staff and SIS will present the OIC with an overview of the portfolio and will then go into a more purpose based discussion with the OIC. In essence, we wanted to take a step back and have a philosophical discussion with the OIC – saving the detailed structure work for later.

Requested Action

None. This is for discussion purposes only.

Fixed Income Portfolio Review and Discussion

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 and often persistent. 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 a) rotate sectors and securities based on relative value considerations, b) manage duration structure relative to expected changes in yield curve shape while avoiding interest rate anticipation, and c) balance portfolio yield and convexity characteristics.

Managers' overweight undervalued sectors where 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.

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

Credit Opportunities: The dislocations witnessed in 2008 presented attractive opportunities, especially in the leveraged bank loan sector. As discussed at the June 27, 2008 and May 27, 2009 OIC meetings, the credit opportunities mandate, managed by KKR Asset Management (KKR) and Oak Hill Advisors (OHA), respectively, 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.

The credit opportunities mandate, when fully allocated within the next few months, will have been funded out of the existing fixed income portfolio.

Attributes/Risks of the Current Structure:

The end result of the addition of the credit opportunities mandate is a clear increase in credit exposure, specifically in high yield loans and bonds.

Fixed Income Portfolio Review and Discussion

The overall risk of the fixed income portfolio is reduced primarily due to the historically low correlation between bank loans and the investment grade fixed income markets. The increase in high yield is mitigated by the fact that bank loans are at the top of the capital structure, and have historically exhibited both lower default rates, higher recovery values and a lower standard deviation than senior unsecured high yield bonds. As a result of the credit opportunities mandate, the core plus managers maximum allocation to high yield had been revised to 15% per manager from 30%.

While the events of 2008 are generally considered a “black swan” event, the risk to the current structure, should the markets deteriorate to last year’s environment, would remain one of liquidity, or lack thereof. As in the current and past episodes of a downturn in the economic cycle, the success of the asset class will lie in sector allocation, and, especially in the case of high yield and high yield bank loans, bottom-up security/loan selection, and finally the direction of default rates.

Note that despite the 4Q08 illiquidity of all sectors of the bond market with the exception of Treasuries, OPERF fixed income managers were nonetheless able to raise $4 billion in cash between October 2008 and March 2009 with $2.75 billion going to OPERF cash and $1.25 billion to KKR. Going forward, if/when fixed income needs to raise additional cash for OPERF, Opportunity Fund, Private Equity or Real Estate capital calls, or rebalancing needs, liquidity may be more of a challenge given a repeat of a credit crisis of similar magnitude.

Positive Attributes:

- Overall fixed income portfolio risk is reduced compared to the current fixed income structure, primarily due to bank loans low correlation with traditional fixed income.
- Lower aggregate fixed income duration.
- Higher aggregate yield.
- Defensive hedge against anticipated/realized future inflation due to the floating rate nature of bank loans.
- Attractive historic risk-adjusted returns.
- Senior debt historically has the lowest default rates and is the safest part of the capital structure.

Risks:

- A greater than anticipated downturn in the domestic economy.
- A larger than expected increase in default rates and lower than expected recovery rates (mitigated by perceived manager skill).
- Decreased liquidity of total fixed income assets.
- Increase in OPERF fixed income below investment grade allocation and volatility, mitigated by the reduction in the maximum allocation from the core plus managers to 15% from 30%; also mitigated by bank loans having the highest position in the capital structure as well as the lower standard deviation of the asset class versus senior unsecured high yield. If the economic recovery is protracted, default rates will be higher than currently projected by the marketplace.

- The persistent underweight to Treasuries has increased the fixed income assets correlation with equities as evidenced by the 2008 experience.

Current Structure (post final funding to Oak Hill Advisors):

Mandate	Weight	Benchmark	# Managers
Core Plus	71.5%	• Barclays Capital Universal (90%) • Citigroup World Global Bond Index, Non-US$, Hedged (10%)	4
Credit Opportunities	28.5%	• S&P/LSTA Leveraged Loan Index • ML High Yield Master II	2

Current and Projected Manager Allocations:

	Current:			***Projected:***		
	MV (08/09)	% OPERF	% FI	MV (08/09)	% OPERF	% FI
Total Regular Account Ex Overlay	47,041,472			47,041,472		
Total Fixed Income	12,068,244	25.65%	100.00%	12,493,264	26.56%	100.00%
Core Plus	8,928,040	18.98%	73.98%	8,928,040	18.98%	71.46%
AllianceBernstein	2,203,145	4.68%	18.26%	2,203,145	4.68%	17.63%
BlackRock	2,236,975	4.76%	18.54%	2,236,975	4.76%	17.91%
Wellington Management Co.	2,176,140	4.63%	18.03%	2,176,140	4.63%	17.42%
Western Asset Management Co.	2,311,780	4.91%	19.16%	2,311,780	4.91%	18.50%
Credit Opportunities	2,965,224	6.30%	24.57%	3,565,224	7.58%	28.54%
KKR Asset Management	2,556,990	5.44%	21.19%	2,556,990	5.44%	20.47%
Oak Hill Advisors	408,234	0.87%	3.38%	1,008,234	2.14%	8.07%

Pending Funding Amounts, Dates from Pyramis Termination:	Total	% OPERF
Oak Hill Advisors	600,000	1.28%

Projections using August 2009 market values

Other Comments for Fixed Income Structure Consideration:

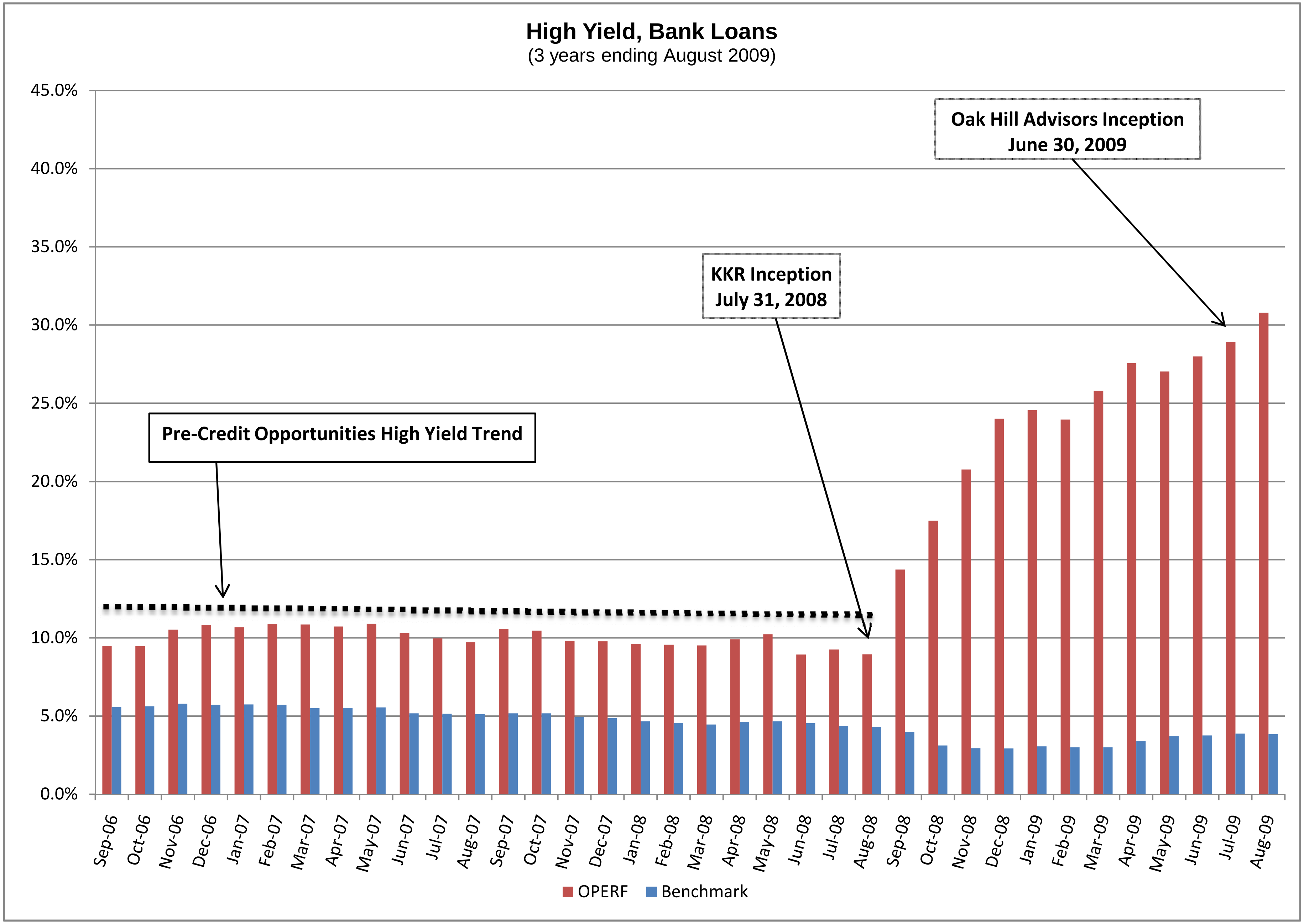
- For enhanced liquidity, strategic allocations to short-term Treasuries and/or Treasury Inflation Protected Securities, or TIPS.

  Given the current yield curve, both options are currently not attractive. However, if one believes current monetary policy is over-accommodative resulting in higher than expected future inflation, or the massive amount of Treasury supply for coming years combined with a very weak US$ begin to weigh on foreign buyers, or the Federal

Reserve Bank will be unsuccessful with their exit strategy, etc. then the allocation(s) might have more appeal.

- Strategic allocations to emerging markets debt, non-US$ bonds or other “plus” sectors. This would likely result in further guidelines constraints to the core plus managers or a change to a core mandate with a benchmark revision.

- Similar to recent benchmark revisions in equities with a bias to the international markets, revise the fixed income asset class and generalist manager benchmark to, for example, the Barclays Capital Global Aggregate (no high yield) or the Barclays Capital Multiverse (~3% global high yield) or appropriate custom benchmark at the asset class level.


High Yield, Bank Loans
(3 years ending August 2009)
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Oak Hill Advisors Inception
June 30, 2009
KKR Inception
July 31, 2008
Pre-Credit Opportunities High Yield Trend
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
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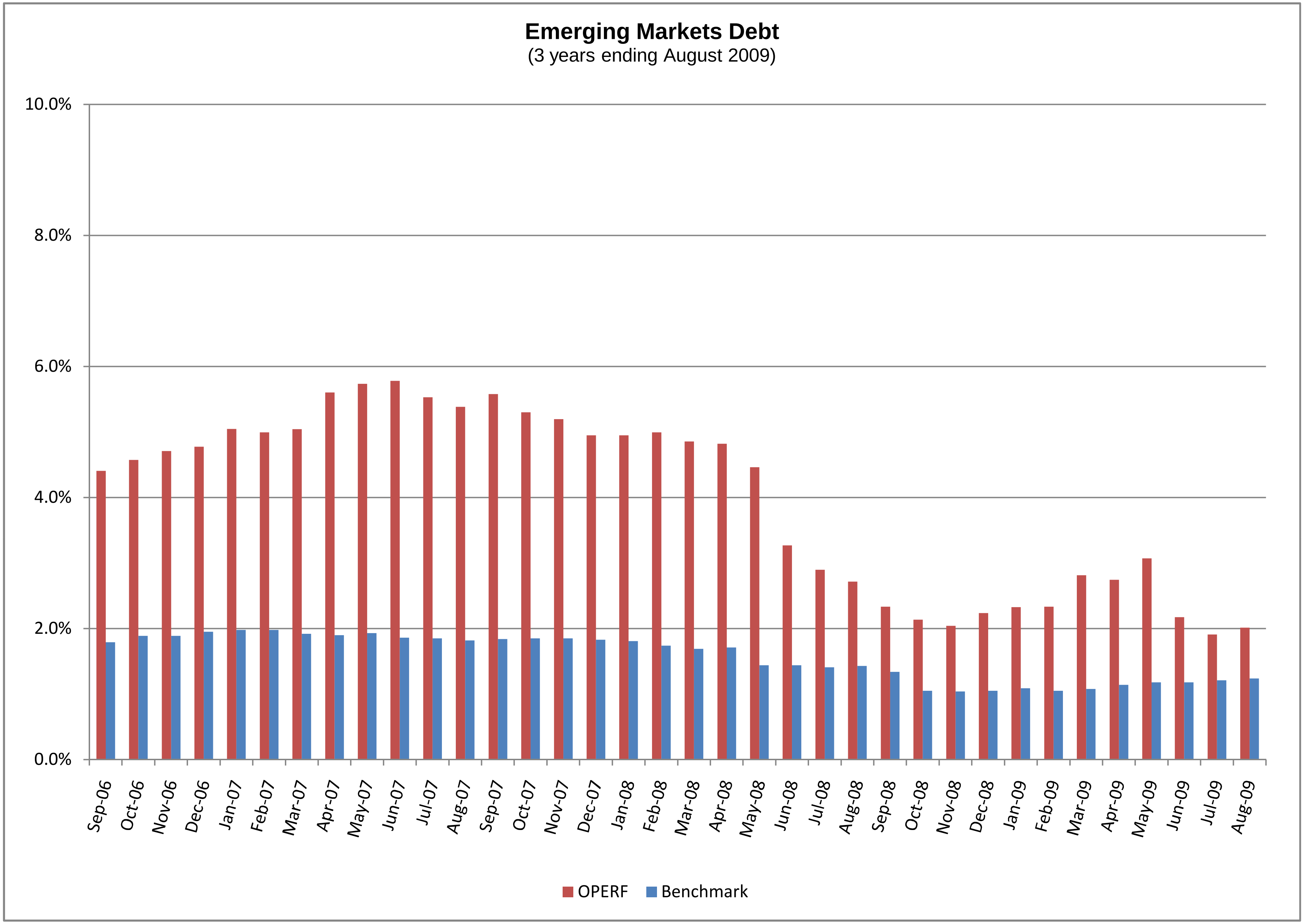
Aug-09
OPERF
Benchmark


Emerging Markets Debt
(3 years ending August 2009)
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
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Oct-07
Nov-07
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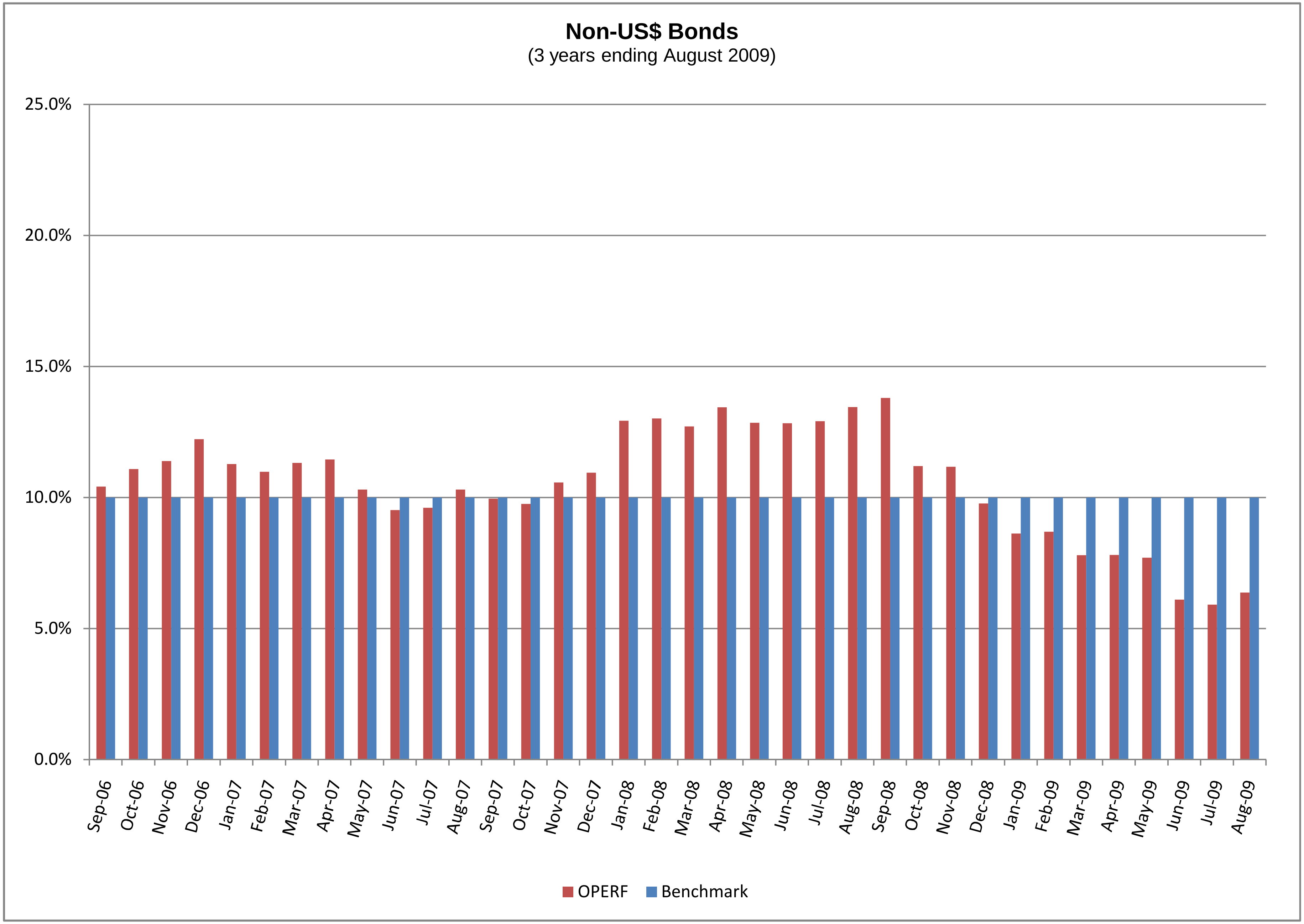
Non-US$ Bonds
(3 years ending August 2009)
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
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May-08
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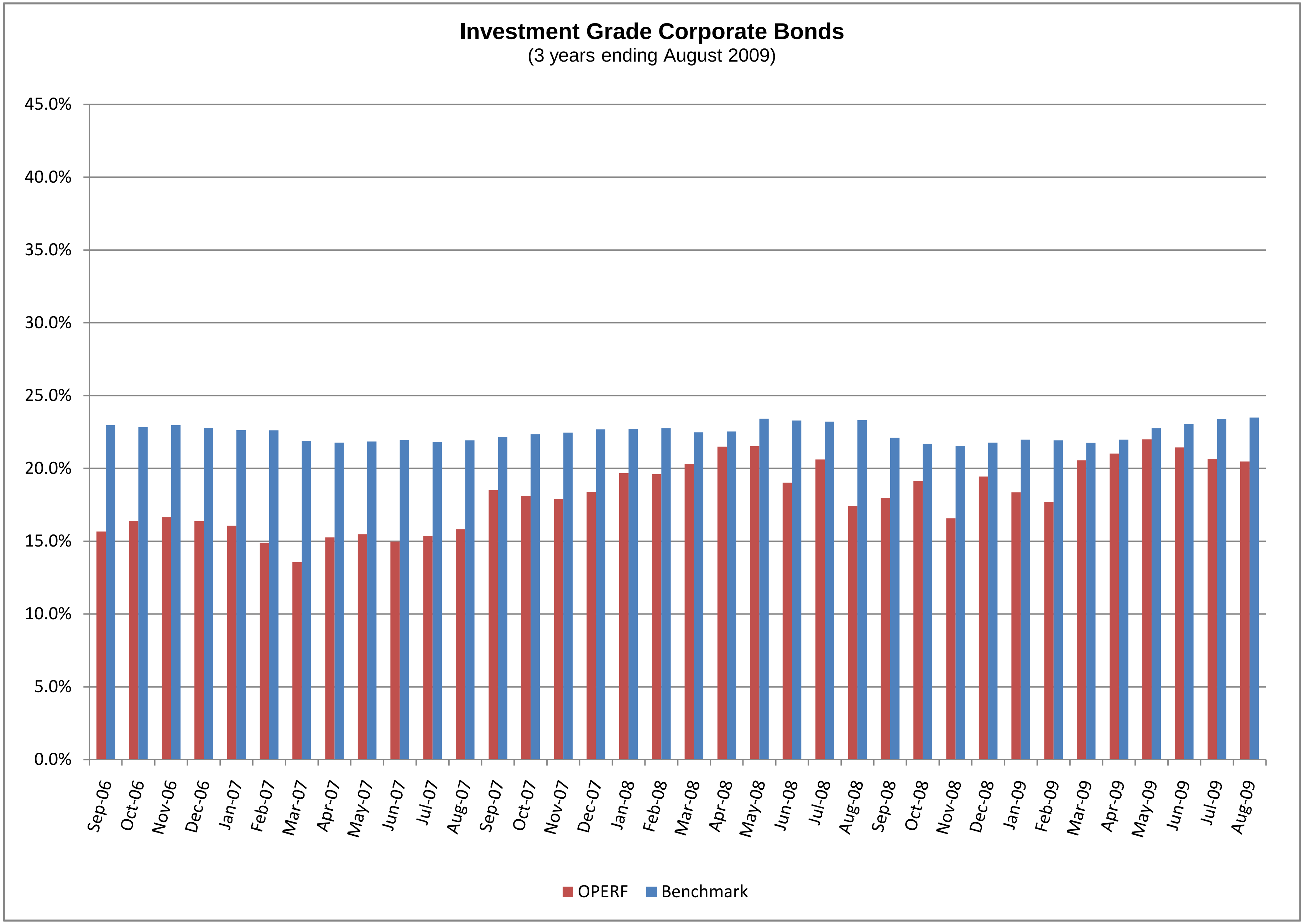
Aug-09
OPERF
Benchmark



Investment Grade Corporate Bonds
(3 years ending August 2009)
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
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Oct-07
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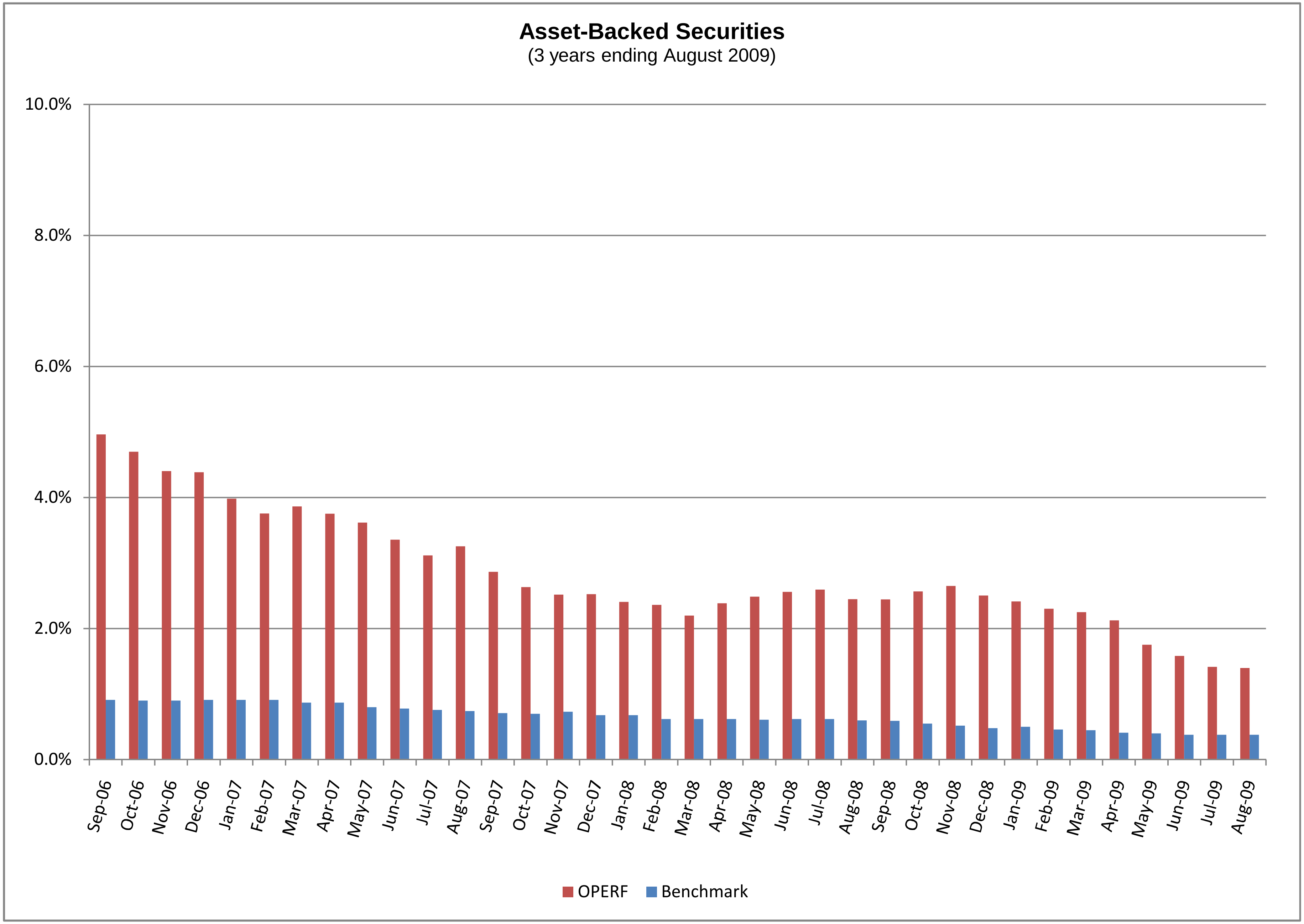

Asset-Backed Securities
(3 years ending August 2009)
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
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Oct-07
Nov-07
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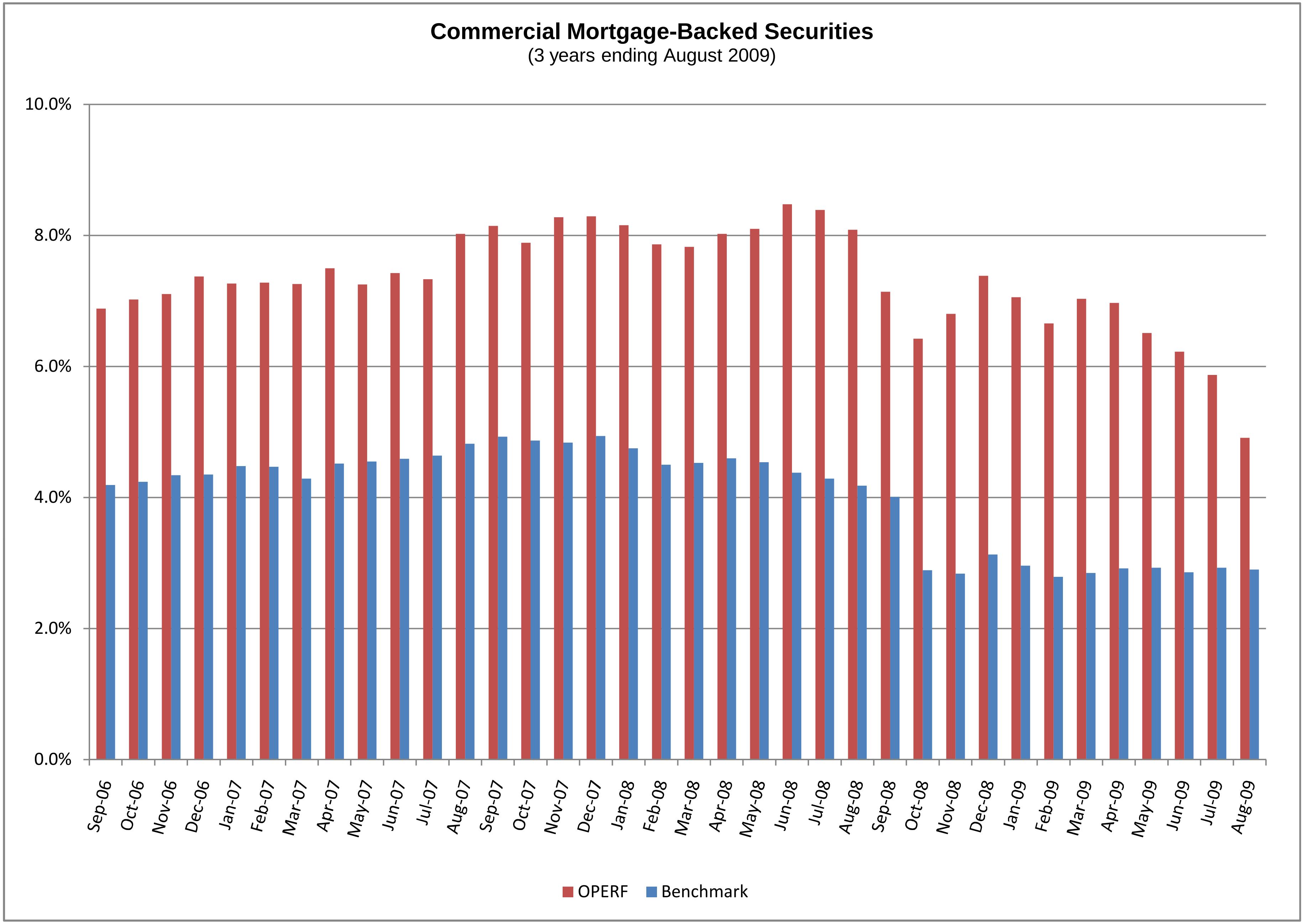

Commercial Mortgage-Backed Securities
(3 years ending August 2009)
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
Feb-07
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Oct-07
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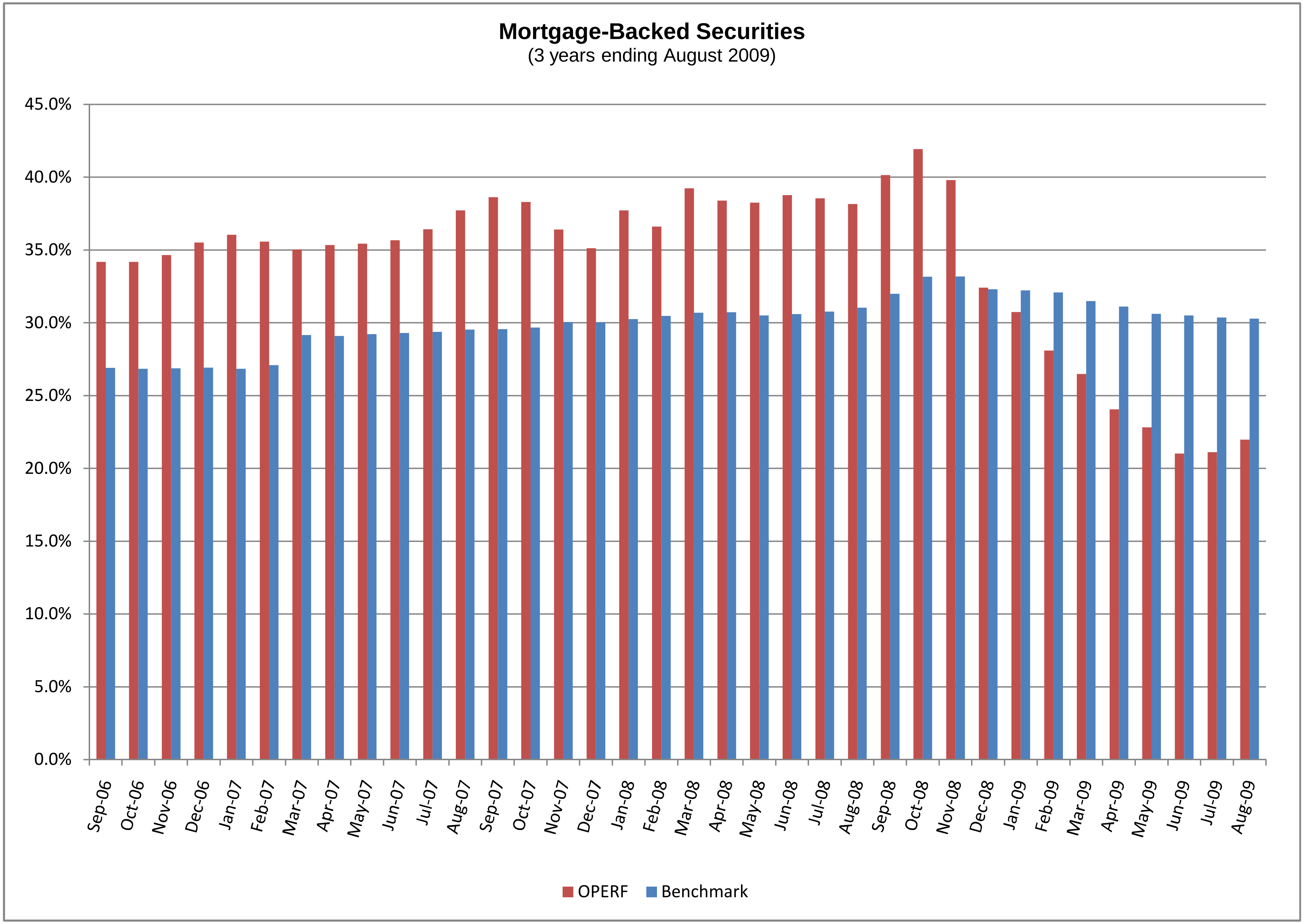
Benchmark


Mortgage-Backed Securities
(3 years ending August 2009)
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Sep-06
Oct-06
Nov-06
Dec-06
Jan-07
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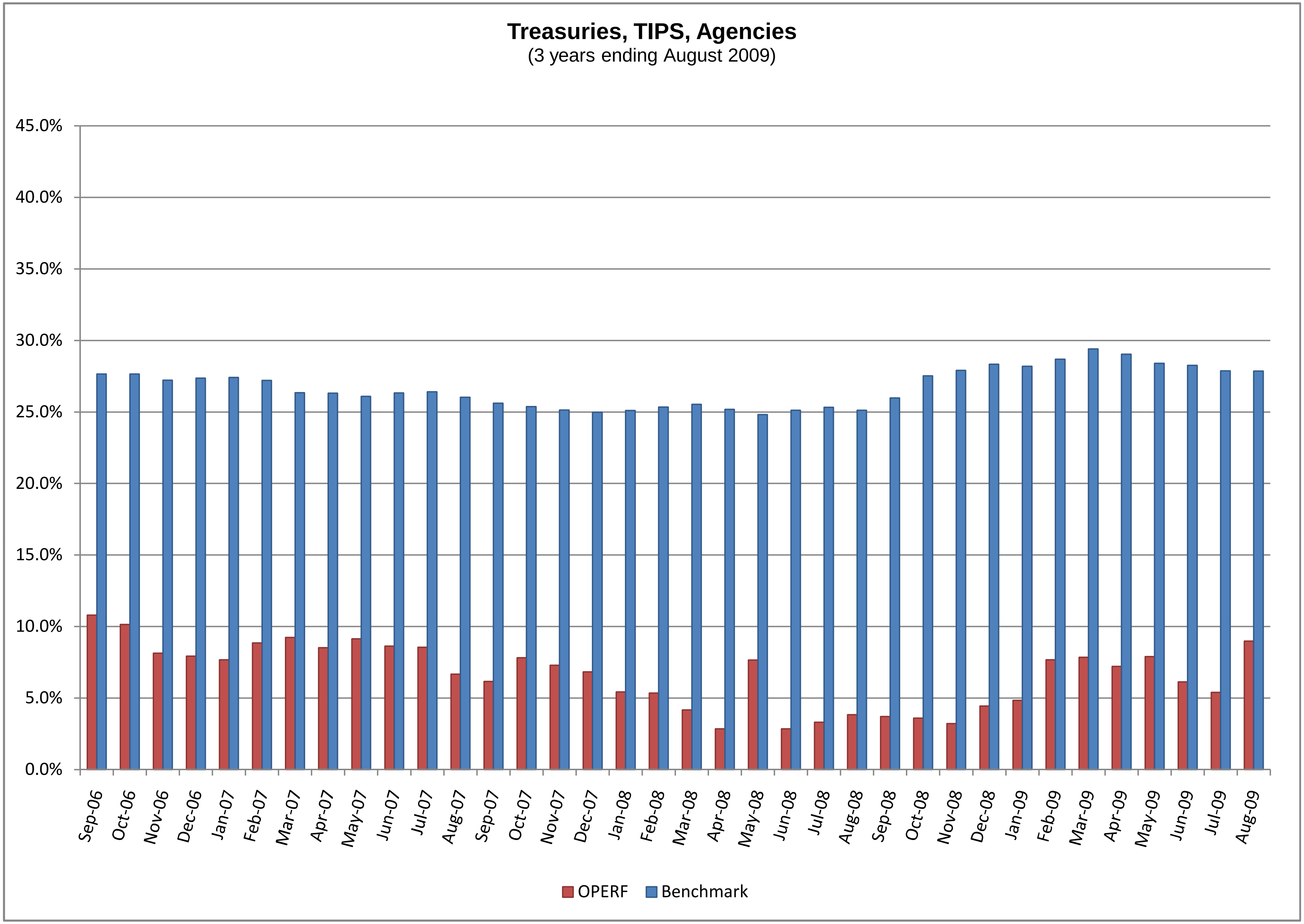

Treasuries, TIPS, Agencies
(3 years ending August 2009)
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Sep-06
Oct-06
Nov-06
Dec-06
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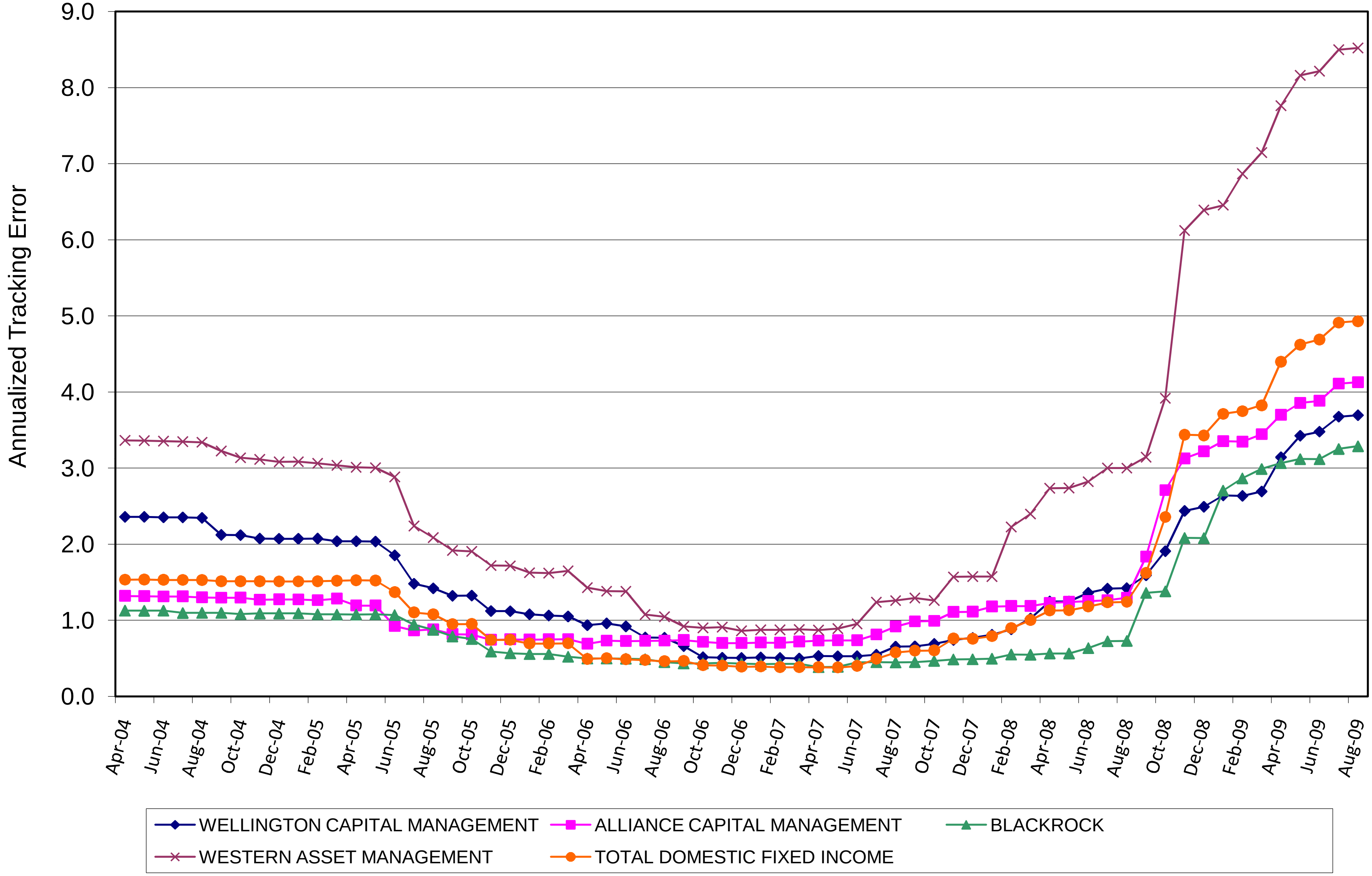
OPERF
Benchmark

Total Returns Comparisons

Sector/Index	3-Months	2009 YTD	1 Year	2008	Delta	3 Years	5 Years	10 Years
	(as of 09/30/09)					(as of 09/30/09)		
US Investment Grade Corporates	8.32%	18.32%	20.16%	-6.82%	26.98%	5.35%	4.48%	6.44%
AAA-Rated	4.75%	0.18%	10.81%	4.71%	6.10%	4.40%	3.98%	6.22%
AA-Rated	5.96%	8.55%	15.54%	-0.29%	15.83%	4.82%	4.10%	6.18%
A-Rated	7.92%	15.15%	19.46%	-7.60%	27.06%	3.98%	3.74%	6.11%
BBB-Rated	9.94%	28.60%	22.06%	-11.05%	33.12%	6.61%	5.12%	6.67%
Financials	9.69%	16.38%	21.71%	-10.40%	32.10%	2.90%	3.09%	5.80%
Insurance	13.26%	25.54%	18.10%	-17.48%	35.58%	3.02%	3.40%	6.14%
Industrials	7.59%	20.11%	19.07%	-4.45%	23.52%	7.21%	5.46%	6.97%
Auto Group	7.49%	27.06%	12.78%	-10.92%	23.70%	7.77%	3.55%	6.01%
Consumer Cyclicals	6.82%	20.83%	17.69%	-4.01%	21.70%	7.44%	3.97%	6.30%
Consumer Non-Cyclicals	6.23%	13.67%	19.05%	3.70%	15.35%	8.42%	6.34%	7.65%
Media	8.61%	20.52%	23.18%	-3.30%	26.49%	8.09%	6.27%	8.05%
Technology & Electronics	6.43%	16.64%	17.02%	-0.80%	17.82%	7.59%	5.90%	6.20%
Energy	8.14%	25.69%	20.75%	-9.05%	29.80%	7.18%	5.81%	6.94%
Gas & Electric Utilities	7.69%	19.09%	21.41%	-0.95%	22.36%	7.96%	6.26%	6.75%
Phones	7.23%	16.22%	23.97%	-1.15%	25.12%	7.62%	5.94%	6.74%
Transportation	10.04%	22.42%	19.96%	-4.97%	24.92%	6.84%	6.20%	7.30%
REITs	10.57%	54.20%	16.69%	-29.11%	45.80%	4.27%	4.07%	7.11%
High Yield	14.48%	47.67%	21.88%	-26.21%	48.09%	5.06%	5.95%	6.28%
BB-Rated	11.25%	38.85%	21.09%	-19.17%	40.26%	5.94%	6.02%	6.54%
B-Rated	11.12%	40.84%	14.67%	-27.87%	42.55%	2.88%	4.71%	5.36%
<=CCC-Rated	25.60%	76.52%	29.69%	-38.23%	67.92%	5.06%	7.11%	6.35%
S&P/LSTA Leveraged Loans	10.17%	46.74%	16.00%	-28.18%	44.18%	3.01%	4.00%	4.27%
Emerging Markets	12.01%	33.83%	18.95%	-15.99%	34.94%	7.27%	9.50%	12.13%
MBS	2.31%	5.29%	9.85%	8.34%	1.51%	7.40%	5.92%	6.44%
CMBS	12.70%	24.38%	7.56%	-20.52%	28.08%	1.82%	2.29%	5.69%
ABS	6.30%	23.07%	14.68%	-12.72%	27.40%	3.54%	3.33%	5.23%
US TIPS	3.08%	9.48%	5.67%	-2.35%	8.02%	5.61%	4.79%	7.51%
5+ Year	3.52%	9.64%	7.14%	-2.07%	9.21%	5.83%	5.01%	7.88%
1-10 Year	2.98%	9.67%	4.02%	-2.43%	6.45%	5.73%	4.65%	6.90%
US Treasuries	2.13%	-2.43%	6.31%	13.98%	-7.67%	6.89%	5.24%	6.20%
30-Year	5.64%	-19.16%	7.64%	41.20%	-33.57%	8.15%	6.72%	7.50%
10-Year	2.58%	-6.39%	7.66%	20.06%	-12.41%	7.40%	5.03%	6.14%
5-Year	2.09%	-0.90%	7.29%	13.28%	-5.99%	7.65%	4.95%	5.99%
3-Year	1.29%	0.89%	5.53%	9.32%	-3.79%	6.47%	4.60%	5.54%
2-Year	0.85%	0.97%	4.05%	7.43%	-3.37%	5.57%	4.19%	4.63%
3-Month Bills	0.07%	0.17%	0.39%	2.06%	-1.67%	2.82%	3.11%	3.11%
Barclays Universal	4.48%	7.97%	10.91%	2.38%	8.53%	6.12%	5.15%	6.42%
Barclays Aggregate	3.74%	5.72%	10.56%	5.24%	5.32%	6.41%	5.11%	6.30%
Citigroup WGBI, Ex-US$, Hedged	2.03%	2.24%	7.87%	8.01%	-0.14%	5.24%	5.21%	5.45%
S&P 500	15.61%	19.27%	-6.91%	-36.99%	30.08%	-15.42%	5.17%	-1.53%
CPI - All Items	0.13%	2.73%	-1.29%	0.09%	-1.38%	2.10%	2.60%	2.55%

Source: Merrill Lynch/Bank of America Securities, Citigroup, Barclays Capital, S&P/LSTA (returns since 12/31/2001), Bloomberg

Rolling 3 Year Realized Tracking Error



Section 1

Performance Exhibits

Oregon Investment Council

Fixed Income Review

Total Return

	AllianceBernstein		BlackRock		Wellington		Western		KKR		Oak Hill		Fixed Income Composite		Oregon Custom Fixed Income Benchmark		Universe Median	Universe Size
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank		
3 Mos.	7.5	32	4.5	65	8.6	24	13.1	6	18.0	3	n/a	n/a	9.8	18	2.7	89	5.6	*135*
1 Yr.	2.9	60	2.9	61	4.2	48	-1.0	85	n/a	n/a	n/a	n/a	2.4	64	5.3	42	3.9	*135*
3 Yrs.	4.9	57	4.4	67	4.8	59	1.5	90	n/a	n/a	n/a	n/a	4.0	74	5.9	40	5.4	*130*
5 Yrs.	4.7	55	4.3	67	4.6	58	3.4	84	n/a	n/a	n/a	n/a	4.3	66	5.0	48	5.0	*123*
7 Yrs.	5.5	50	4.8	82	5.3	57	5.3	62	n/a	n/a	n/a	n/a	5.4	56	5.2	64	5.5	*110*

Excess Return

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Mos.	4.9		1.8		5.9		10.4		15.4		n/a	n/a	7.2				2.9	*135*
1 Yr.	-2.4		-2.5		-1.1		-6.3		n/a	n/a	n/a	n/a	-2.9				-1.4	*135*
3 Yrs.	-1.0		-1.5		-1.1		-4.4		n/a	n/a	n/a	n/a	-1.9				-0.5	*130*
5 Yrs.	-0.3		-0.7		-0.4		-1.6		n/a	n/a	n/a	n/a	-0.7				0.0	*123*
7 Yrs.	0.3		-0.4		0.1		0.0		n/a	n/a	n/a	n/a	0.2				0.3	*110*

Excess Return vs. Universe Median

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Mos.	2.0		-1.1		3.0		7.5		12.4		n/a	n/a	4.3		-2.9			*135*
1 Yr.	-1.0		-1.0		0.4		-4.9		n/a	n/a	n/a	n/a	-1.5		1.4			*135*
3 Yrs.	-0.5		-1.0		-0.6		-3.9		n/a	n/a	n/a	n/a	-1.4		0.5			*130*
5 Yrs.	-0.2		-0.7		-0.3		-1.6		n/a	n/a	n/a	n/a	-0.7		0.0			*123*
7 Yrs.	0.0		-0.7		-0.2		-0.2		n/a	n/a	n/a	n/a	-0.1		-0.3			*110*

Standard Deviation

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Yrs.	6.4	74	5.2	54	5.4	60	10.0	94	n/a	n/a	n/a	n/a	6.5	76	4.1	14	5.0	*130*
5 Yrs.	5.2	73	4.3	53	4.5	60	8.0	94	n/a	n/a	n/a	n/a	5.3	74	3.6	13	4.2	*123*
7 Yrs.	5.0	68	4.3	42	4.3	48	7.6	96	n/a	n/a	n/a	n/a	5.1	73	3.8	13	4.4	*110*

Tracking Error

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Yrs.	3.9	71	3.1	56	3.5	66	8.2	94	n/a	n/a	n/a	n/a	4.7	76			2.8	*130*
5 Yrs.	3.0	69	2.4	55	2.7	64	6.4	95	n/a	n/a	n/a	n/a	3.7	77			2.3	*123*
7 Yrs.	2.6	64	2.2	57	2.6	64	5.8	97	n/a	n/a	n/a	n/a	3.2	78			2.1	*110*

Information Ratio

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Yrs.	-0.3	54	-0.5	72	-0.3	57	-0.5	74	n/a	n/a	n/a	n/a	-0.4	62			-0.1	*130*
5 Yrs.	-0.1	53	-0.3	69	-0.1	56	-0.3	63	n/a	n/a	n/a	n/a	-0.2	60			0.0	*123*
7 Yrs.	0.1	55	-0.2	80	0.0	58	0.0	63	n/a	n/a	n/a	n/a	0.1	57			0.1	*110*

Universe: **eA Core Plus Fixed Income**

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

Beta

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Yrs.	1.3	**19**	1.0	52	1.0	50	1.5	**12**	n/a	n/a	n/a	n/a	1.2	33			1.0	*130*
5 Yrs.	1.2	**18**	1.0	63	1.0	54	1.4	**11**	n/a	n/a	n/a	n/a	1.1	36			1.0	*123*
7 Yrs.	1.1	**21**	1.0	74	0.9	**86**	1.4	**8**	n/a	n/a	n/a	n/a	1.1	40			1.0	*110*

Alpha (CAPM)

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Yrs.	-1.8	69	-1.6	62	-1.3	57	-5.7	**93**	n/a	n/a	n/a	n/a	-2.3	73			-0.8	*130*
5 Yrs.	-0.7	60	-0.7	60	-0.4	55	-2.3	**89**	n/a	n/a	n/a	n/a	-0.9	68			-0.3	*123*
7 Yrs.	-0.1	59	-0.4	68	0.3	43	-0.9	**83**	n/a	n/a	n/a	n/a	0.0	56			0.1	*110*

Sharpe Ratio

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Yrs.	0.3	60	0.2	65	0.3	59	-0.2	**88**	n/a	n/a	n/a	n/a	0.1	74	0.7	32	0.4	*130*
5 Yrs.	0.3	59	0.3	64	0.3	55	0.0	**87**	n/a	n/a	n/a	n/a	0.2	72	0.5	36	0.4	*123*
7 Yrs.	0.6	60	0.5	69	0.6	53	0.4	**89**	n/a	n/a	n/a	n/a	0.5	67	0.7	43	0.6	*110*

Upside Capture Ratio

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Yrs.	105.6	40	95.2	69	95.5	69	98.4	59	n/a	n/a	n/a	n/a	97.3	62			101.4	*130*
5 Yrs.	105.4	32	96.0	69	99.1	61	108.8	**23**	n/a	n/a	n/a	n/a	101.2	50			101.2	*123*
7 Yrs.	108.3	35	96.7	**83**	99.5	74	121.7	**11**	n/a	n/a	n/a	n/a	106.9	40			105.0	*110*

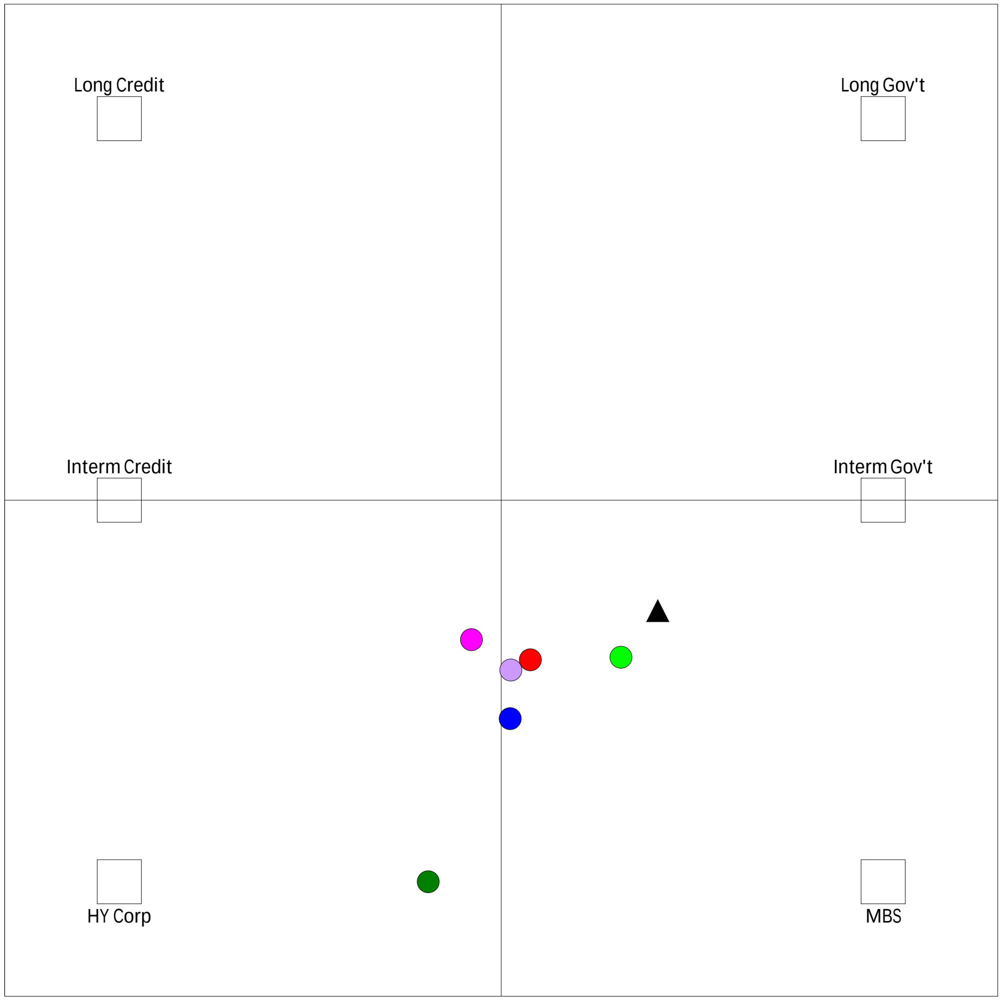
Downside Capture Ratio

	AllianceBernstein Stat	AllianceBernstein Rank	BlackRock Stat	BlackRock Rank	Wellington Stat	Wellington Rank	Western Stat	Western Rank	KKR Stat	KKR Rank	Oak Hill Stat	Oak Hill Rank	Fixed Income Composite Stat	Fixed Income Composite Rank	Oregon Custom Fixed Income Benchmark Stat	Oregon Custom Fixed Income Benchmark Rank	Universe Median	Universe Size
3 Yrs.	149.1	71	136.8	62	125.1	56	241.4	**94**	n/a	n/a	n/a	n/a	155.4	72			117.2	*130*
5 Yrs.	124.0	68	114.4	59	110.3	51	180.5	**92**	n/a	n/a	n/a	n/a	127.5	72			109.5	*123*
7 Yrs.	112.7	67	105.3	53	95.7	31	154.8	**92**	n/a	n/a	n/a	n/a	113.1	67			104.6	*110*

Universe: **eA Core Plus Fixed Income**

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

Style Map (Mar 01 - Jun 09)

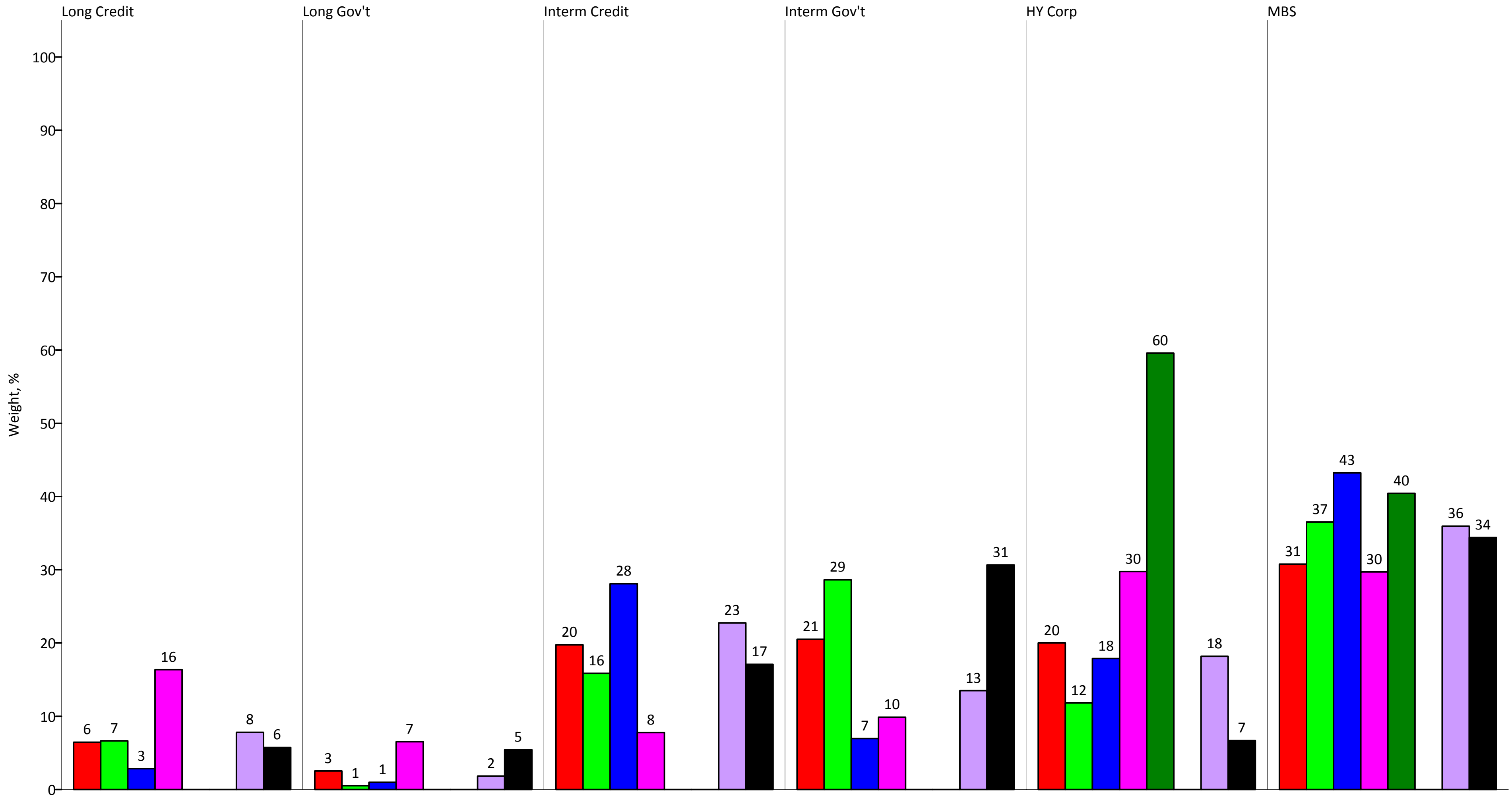


Legend

AllianceBernstein | BlackRock | Wellington | Western
KKR | Oak Hill | Fixed Income Composite | Oregon Custom Fixed Income Benchmark

Note: The date range displayed in style analysis charts will not match those in other charts because the system requires a certain number of returns (18 months in this study) before it can perform the first style calculation.

Style Weights (Mar 01 - Jun 09)

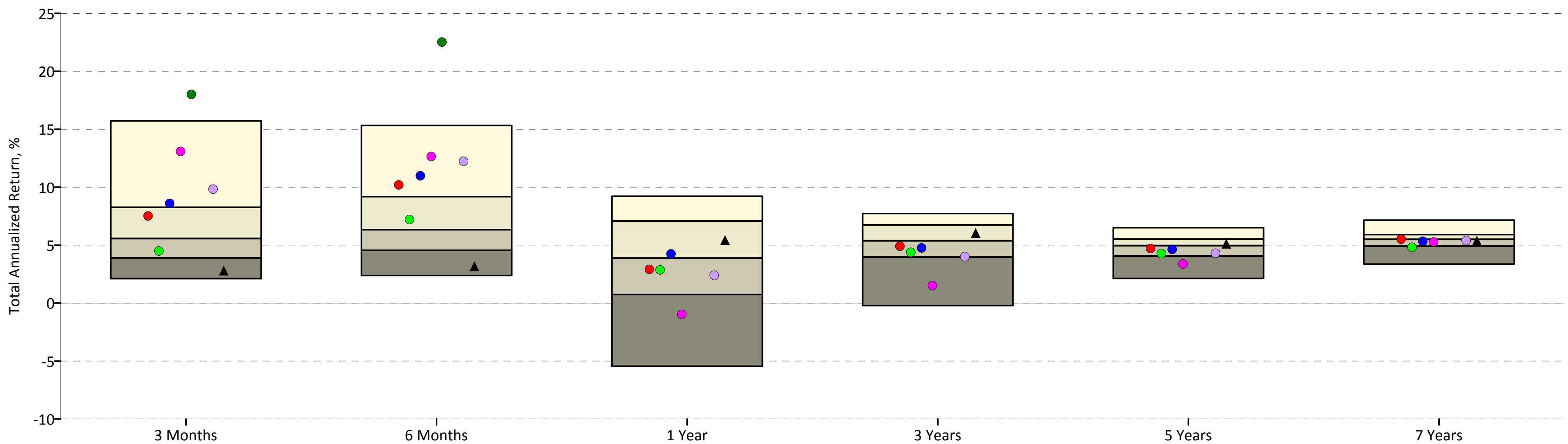


Legend

- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite
- Oregon Custom Fixed Income Benchmark

Note: The date range displayed in style analysis charts will not match those in other charts because the system requires a certain number of returns (18 months in this study) before it can perform the first style calculation.

Total Return: Trailing Periods



	Total Return											
	3 Months		6 Months		1 Year		3 Years		5 Years		7 Years	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
AllianceBernstein	7.5	32	10.2	18	2.9	60	4.9	57	4.7	55	5.5	50
BlackRock	4.5	65	7.2	45	2.9	61	4.4	67	4.3	67	4.8	82
Wellington	8.6	24	11.0	16	4.2	48	4.8	59	4.6	58	5.3	57
Western	13.1	6	12.7	12	-1.0	85	1.5	90	3.4	84	5.3	62
KKR	18.0	3	22.5	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oak Hill	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fixed Income Composite	9.8	18	12.2	13	2.4	64	4.0	74	4.3	66	5.4	56
Oregon Custom Fixed Income Benchmark	2.7	89	3.0	90	5.3	42	5.9	40	5.0	48	5.2	64
Universe Median	5.6		6.3		3.9		5.4		5.0		5.5	
Universe Size		*135*		*135*		*135*		*130*		*123*		*110*

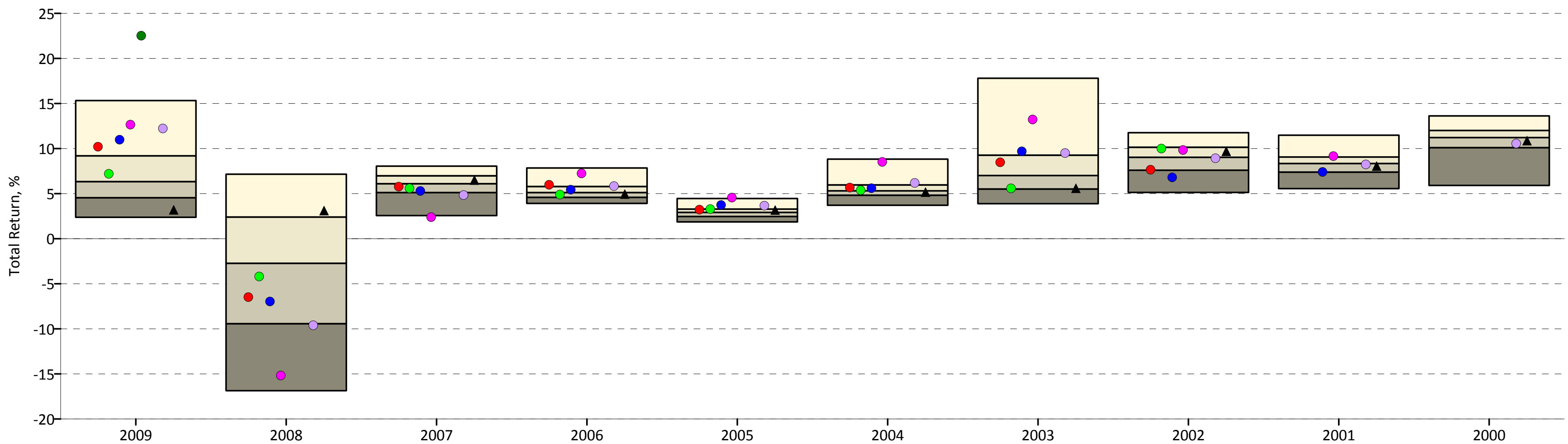
Legend

5th to 25th Percentile | 25th Percentile to Median | Median to 75th Percentile | 75th to 95th Percentile
AllianceBernstein | BlackRock | Wellington | Western
KKR | Oak Hill | Fixed Income Composite | Oregon Custom Fixed Income Benchmark

Universe:
eA Core Plus Fixed Income

Universe Rank:
Green = Top Quartile Red = Bottom Quartile

Total Return: Calendar Years



	Total Return																			
	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
AllianceBernstein	10.2	18	-6.5	69	5.8	60	6.0	22	3.2	28	5.7	32	8.5	33	7.7	75	n/a	n/a	n/a	n/a
BlackRock	7.2	45	-4.2	58	5.6	66	4.9	61	3.3	26	5.4	47	5.6	72	10.0	30	n/a	n/a	n/a	n/a
Wellington	11.0	16	-7.0	70	5.3	71	5.4	35	3.8	11	5.6	36	9.7	23	6.8	85	7.4	75	n/a	n/a
Western	12.7	12	-15.2	93	2.4	96	7.2	10	4.6	5	8.5	6	13.2	12	9.8	33	9.2	21	n/a	n/a
KKR	22.5	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oak Hill	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fixed Income Composite	12.2	13	-9.6	77	4.8	79	5.8	24	3.7	11	6.2	22	9.5	24	8.9	54	8.2	56	10.6	68
Oregon Custom Fixed Income Benchmark	3.0	90	2.9	24	6.3	45	4.8	66	3.0	44	5.0	67	5.4	80	9.5	42	7.9	65	10.7	65
Universe Median	6.3		-2.7		6.1		5.1		2.9		5.3		7.0		9.0		8.4		11.2	
Universe Size		*135*		*143*		*153*		*156*		*156*		*163*		*168*		*156*		*154*		*132*

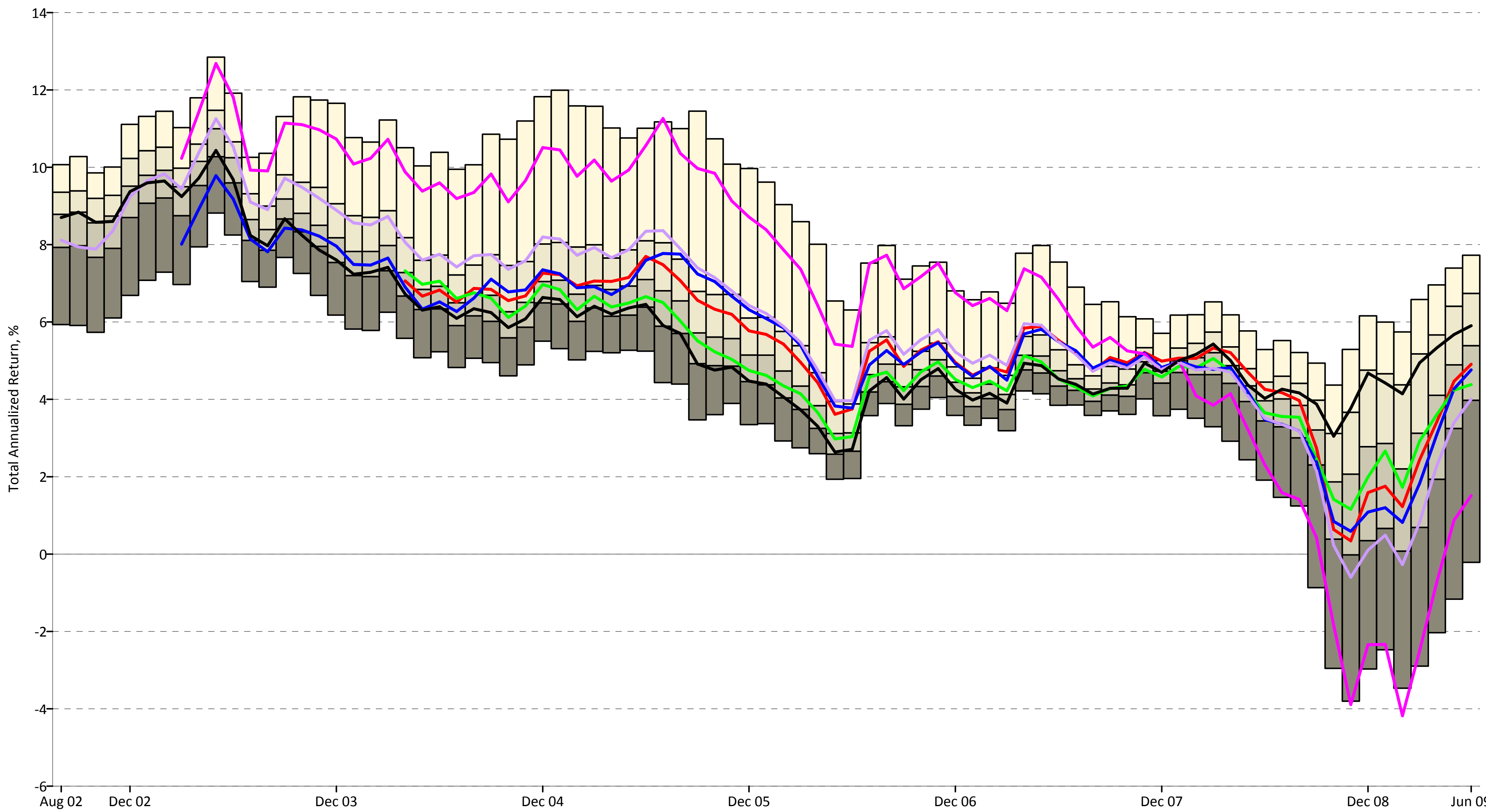
Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite
- Oregon Custom Fixed Income Benchmark

Universe:
eA Core Plus Fixed Income

Universe Rank:
Green = Top Quartile Red = Bottom Quartile

Total Return: Rolling 36-month Periods (Aug 02 - Jun 09)

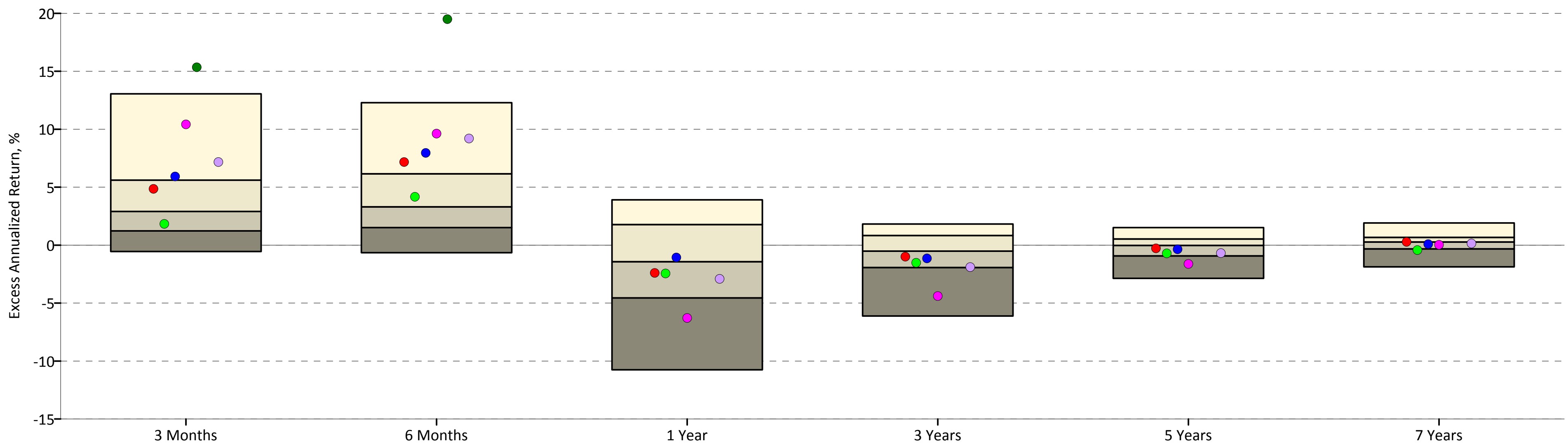


Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite
- Oregon Custom Fixed Income Benchmark

Universe:
eA Core Plus Fixed Income

Excess Return: Trailing Periods



	Excess Return											
	3 Months		6 Months		1 Year		3 Years		5 Years		7 Years	
	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank	Stat	Rank
AllianceBernstein	4.9	32	7.2	18	-2.4	60	-1.0	57	-0.3	55	0.3	50
BlackRock	1.8	65	4.2	45	-2.5	61	-1.5	67	-0.7	67	-0.4	82
Wellington	5.9	24	8.0	16	-1.1	48	-1.1	59	-0.4	58	0.1	57
Western	10.4	6	9.6	12	-6.3	85	-4.4	90	-1.6	84	0.0	62
KKR	15.4	3	19.5	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oak Hill	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fixed Income Composite	7.2	18	9.2	13	-2.9	64	-1.9	74	-0.7	66	0.2	56
Universe Median	2.9		3.3		-1.4		-0.5		0.0		0.3	
Universe Size		*135*		*135*		*135*		*130*		*123*		*110*

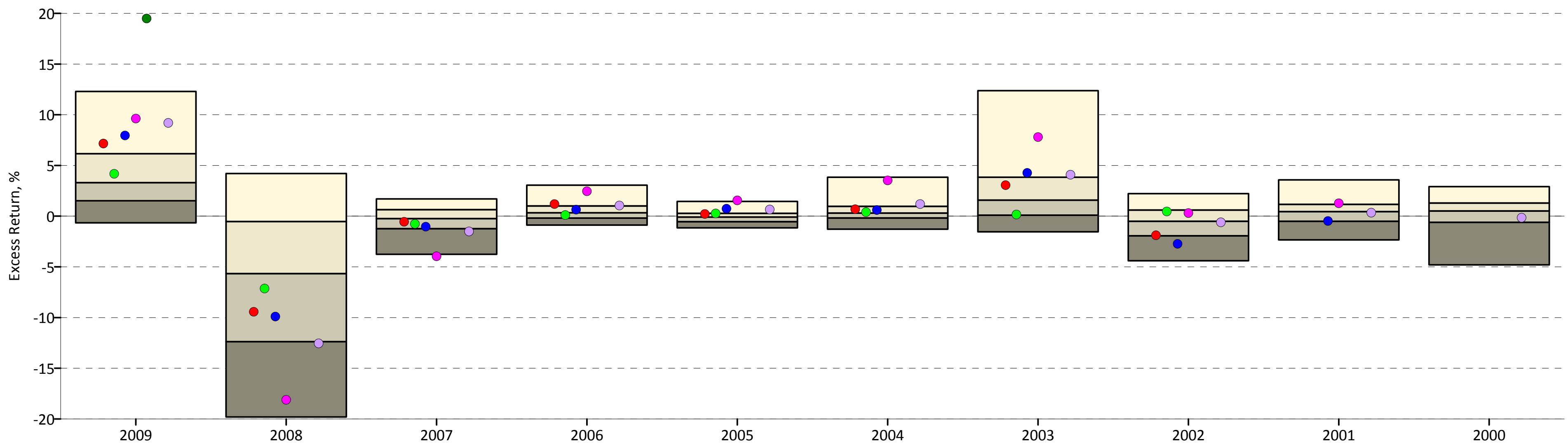
Legend

5th to 25th Percentile
25th Percentile to Median
Median to 75th Percentile
75th to 95th Percentile
AllianceBernstein
BlackRock
Wellington
Western
KKR
Oak Hill
Fixed Income Composite

Universe:
eA Core Plus Fixed Income

Universe Rank:
Green = Top Quartile Red = Bottom Quartile

Excess Return: Calendar Years



	Excess Return																			
	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
AllianceBernstein	7.2	18	-9.4	69	-0.6	60	1.2	22	0.2	28	0.7	32	3.1	33	-1.9	75	n/a	n/a	n/a	n/a
BlackRock	4.2	45	-7.1	58	-0.8	66	0.1	61	0.3	26	0.4	47	0.2	72	0.5	30	n/a	n/a	n/a	n/a
Wellington	8.0	16	-9.9	70	-1.0	71	0.7	35	0.7	11	0.6	36	4.3	23	-2.7	85	-0.5	75	n/a	n/a
Western	9.6	12	-18.1	93	-4.0	96	2.5	10	1.6	5	3.5	6	7.8	12	0.3	33	1.3	21	n/a	n/a
KKR	19.5	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oak Hill	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fixed Income Composite	9.2	13	-12.6	77	-1.5	79	1.1	24	0.7	11	1.2	22	4.1	24	-0.6	54	0.4	56	-0.2	68
Universe Median	3.3		-5.7		-0.2		0.3		-0.1		0.3		1.6		-0.5		0.5		0.5	
Universe Size		*135*		*143*		*153*		*156*		*156*		*163*		*168*		*156*		*154*		*132*

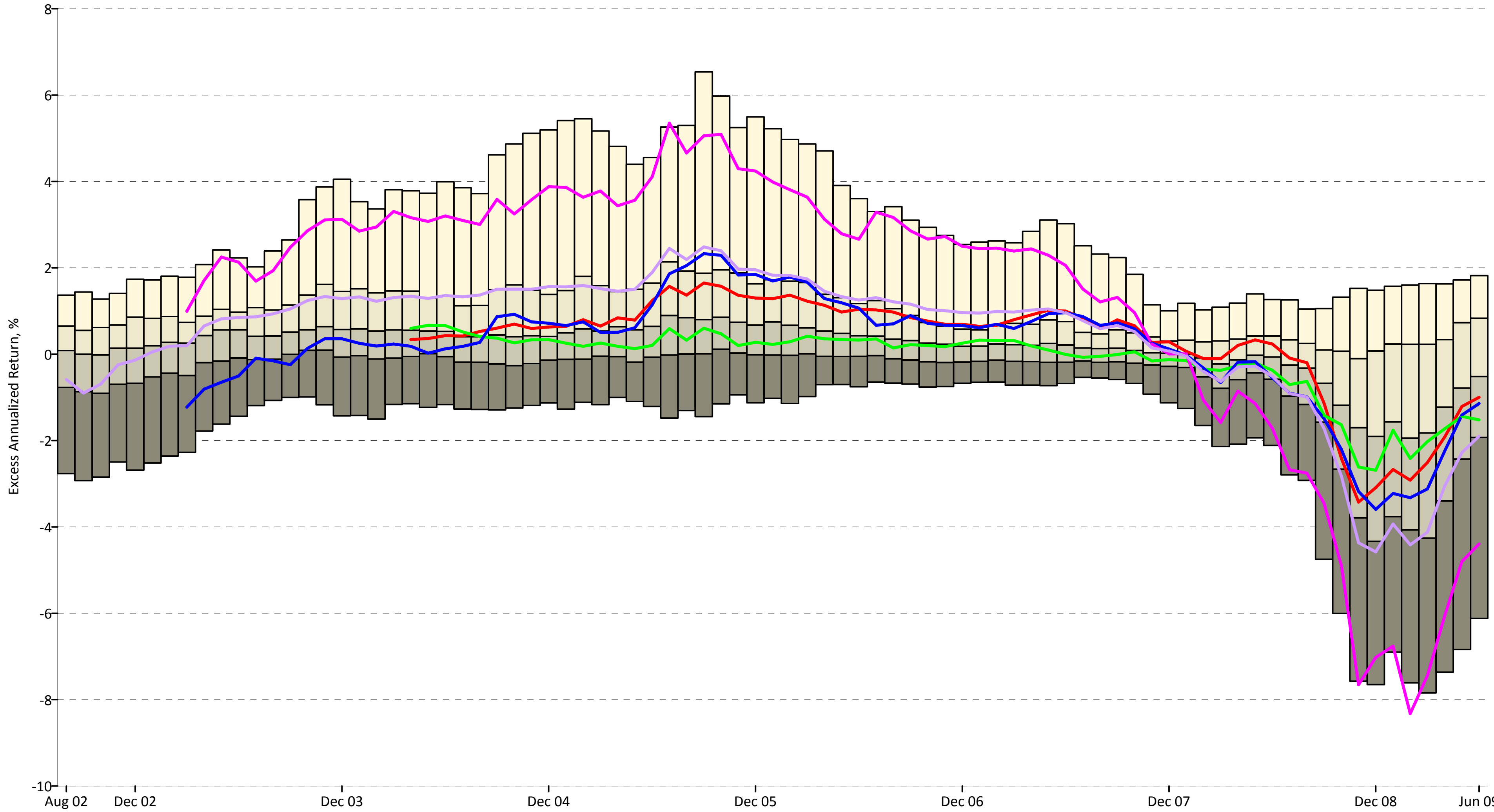
Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite

Universe:
eA Core Plus Fixed Income

Universe Rank:
Green = Top Quartile Red = Bottom Quartile

Excess Return: Rolling 36-month Periods (Aug 02 - Jun 09)

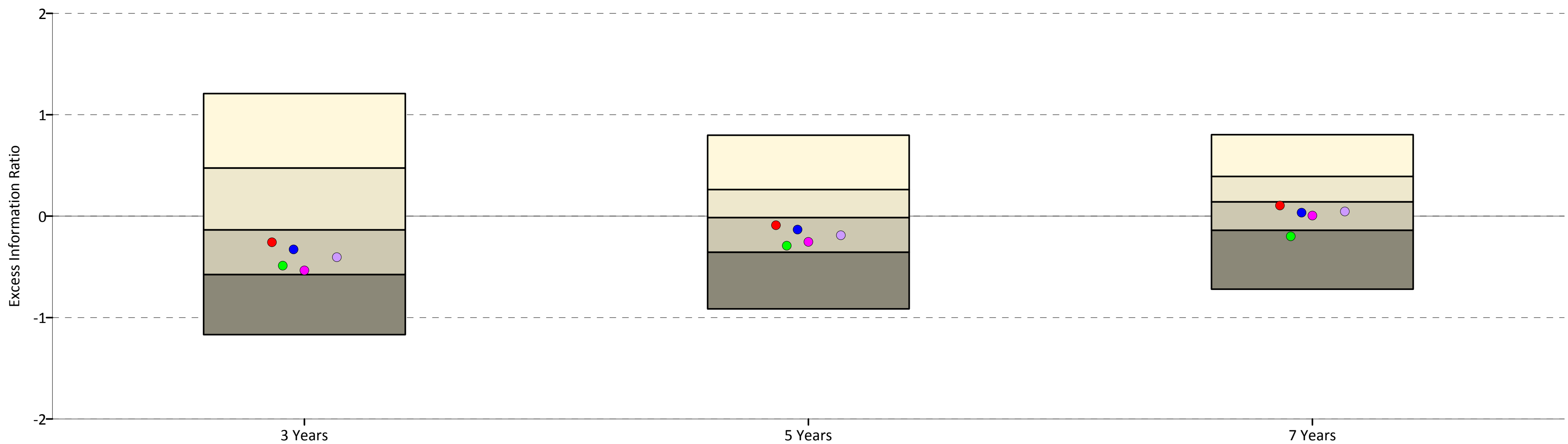


Legend

5th to 25th Percentile
25th Percentile to Median
Median to 75th Percentile
75th to 95th Percentile
AllianceBernstein
BlackRock
Wellington
Western
KKR
Oak Hill
Fixed Income Composite

Universe:
eA Core Plus Fixed Income

Information Ratio: Trailing Periods



	Information Ratio					
	3 Years		5 Years		7 Years	
	Stat	Rank	Stat	Rank	Stat	Rank
AllianceBernstein	-0.3	54	-0.1	53	0.1	55
BlackRock	-0.5	72	-0.3	69	-0.2	80
Wellington	-0.3	57	-0.1	56	0.0	58
Western	-0.5	74	-0.3	63	0.0	63
KKR	n/a	n/a	n/a	n/a	n/a	n/a
Oak Hill	n/a	n/a	n/a	n/a	n/a	n/a
Fixed Income Composite	-0.4	62	-0.2	60	0.1	57
Universe Median	-0.1		0.0		0.1	
Universe Size		*130*		*123*		*110*

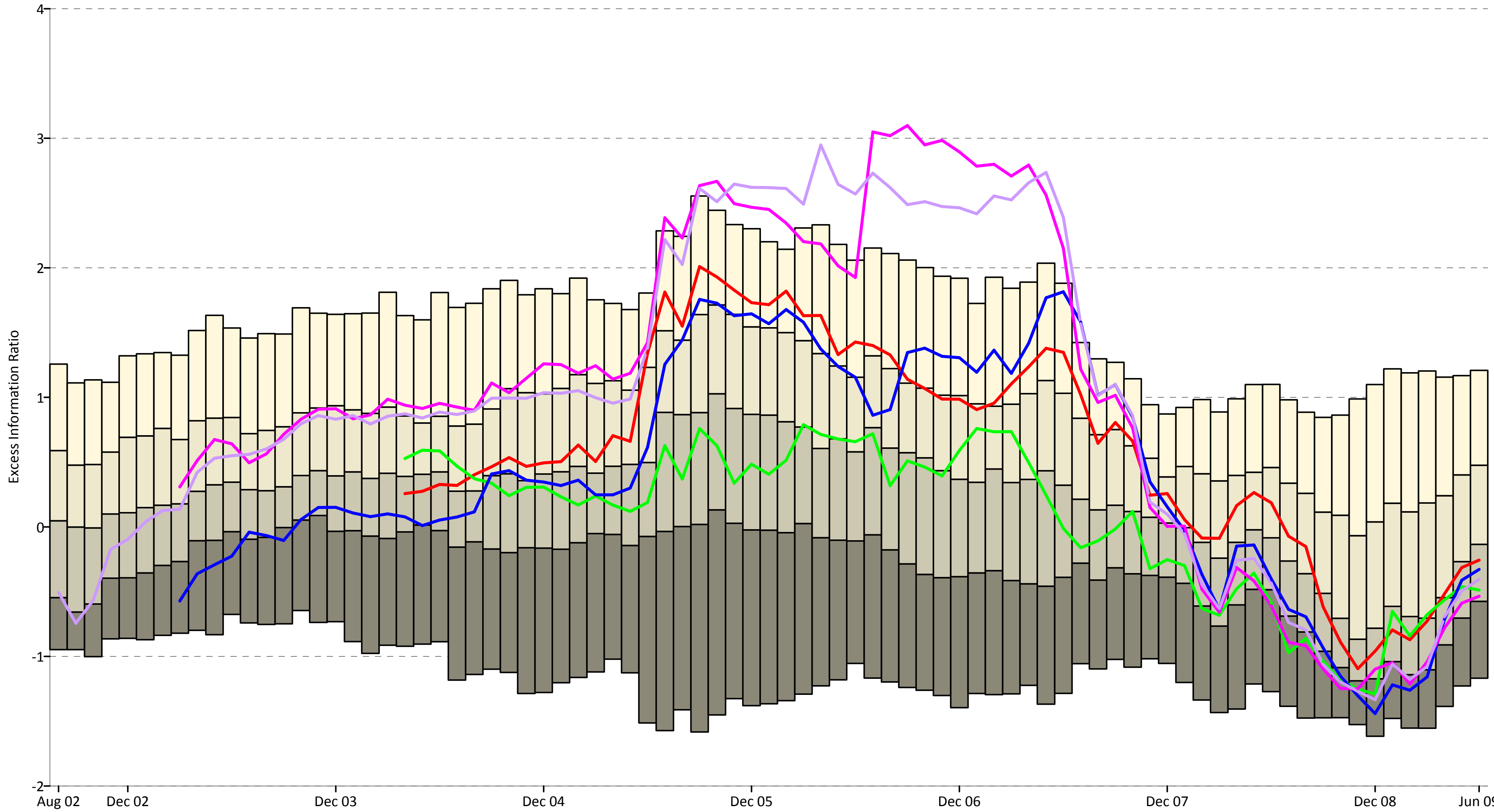
Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite

Universe:
eA Core Plus Fixed Income

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

Information Ratio: Rolling 36-month Periods (Aug 02 - Jun 09)

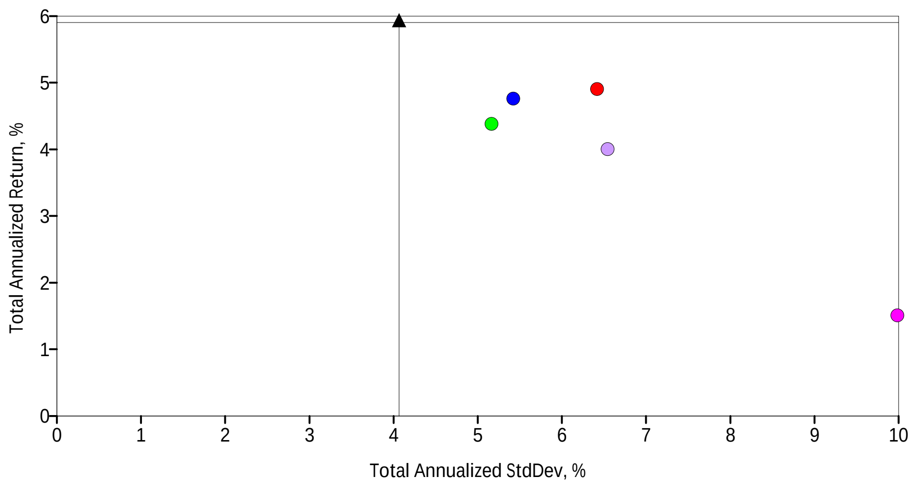


Legend

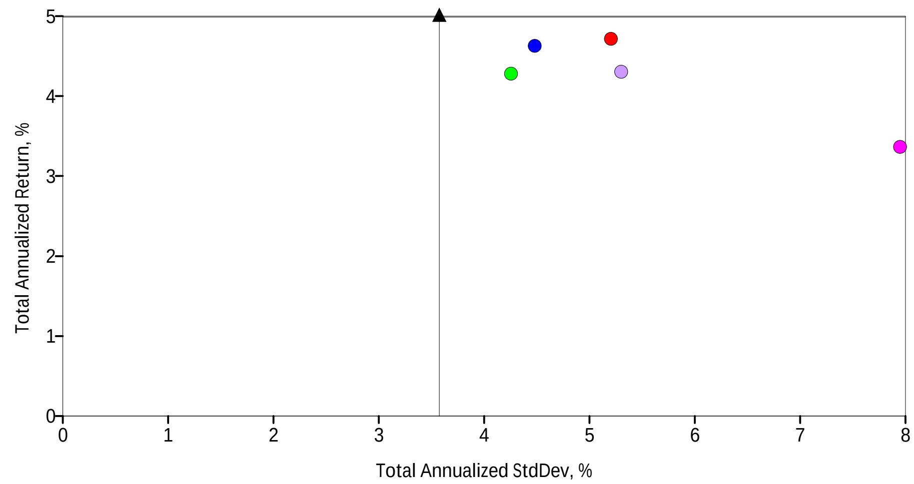
- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite

Universe:
eA Core Plus Fixed Income

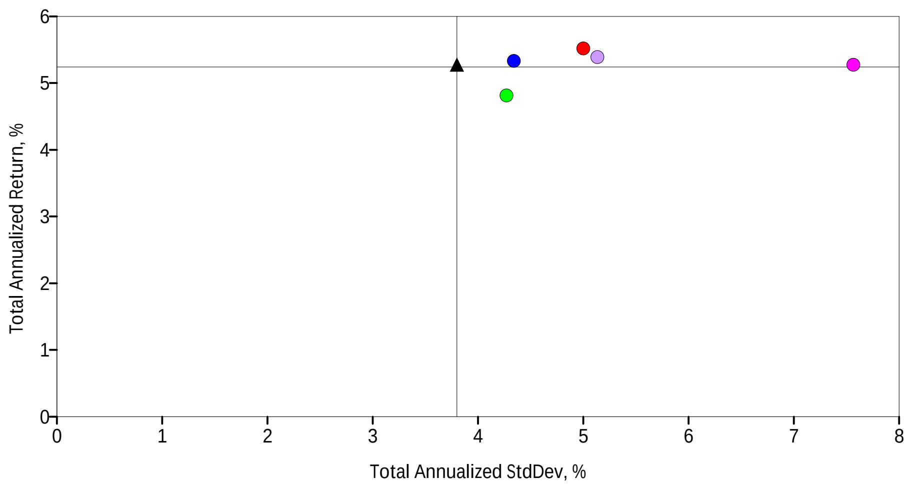
Total Return vs. Standard Deviation: Trailing 3 Years (Jul 06 - Jun 09)



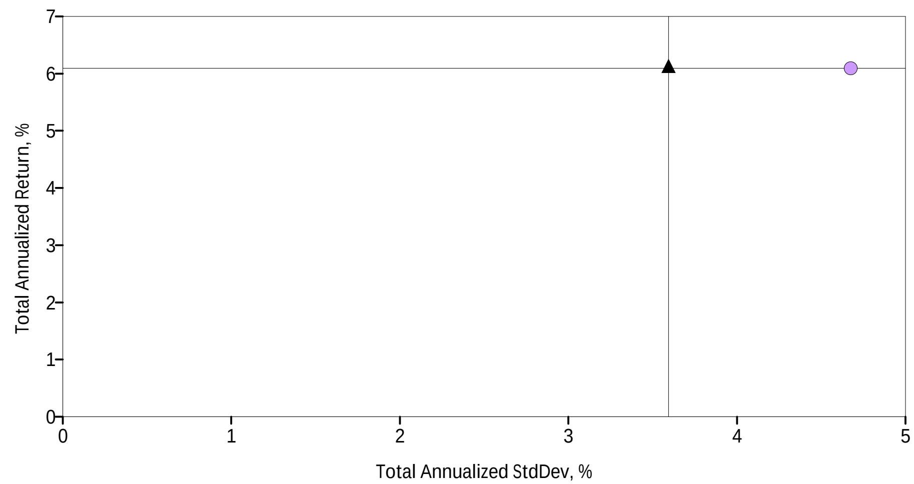
Total Return vs. Standard Deviation: Trailing 5 Years (Jul 04 - Jun 09)



Total Return vs. Standard Deviation: Trailing 7 Years (Jul 02 - Jun 09)



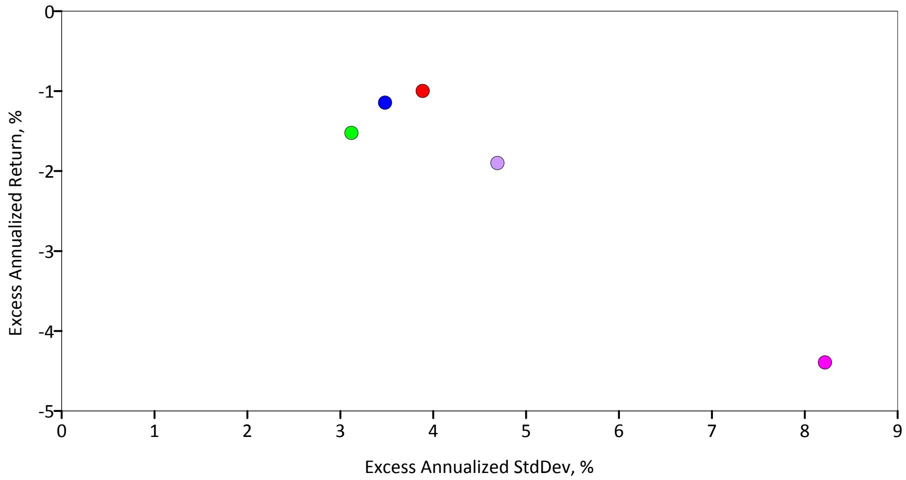
Total Return vs. Standard Deviation: Trailing 10 Years (Sep 99 - Jun 09)



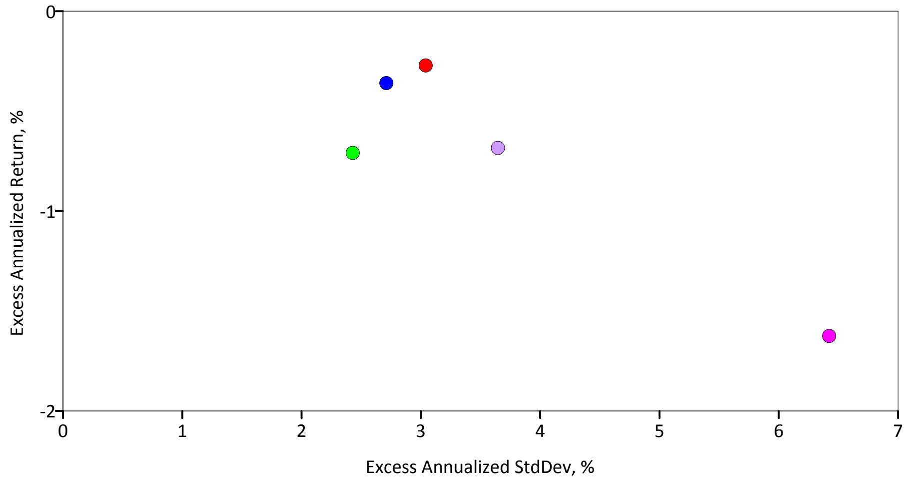
Legend

- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite
- Oregon Custom Fixed Income Benchmark

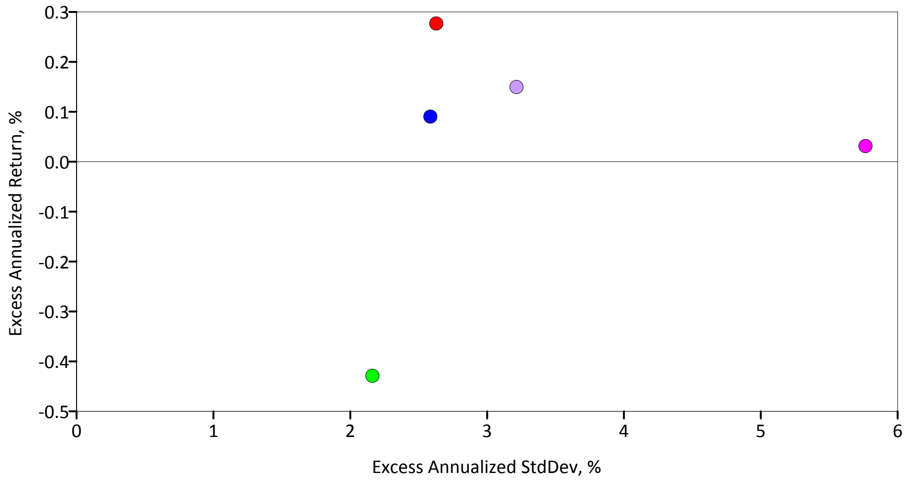
Excess Return vs. Tracking Error: Trailing 3 Years (Jul 06 - Jun 09)



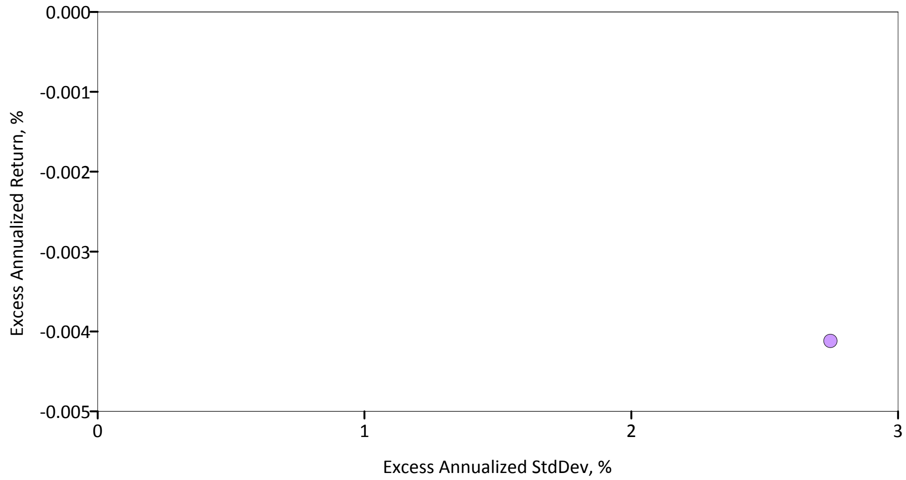
Excess Return vs. Tracking Error: Trailing 5 Years (Jul 04 - Jun 09)



Excess Return vs. Tracking Error: Trailing 7 Years (Jul 02 - Jun 09)



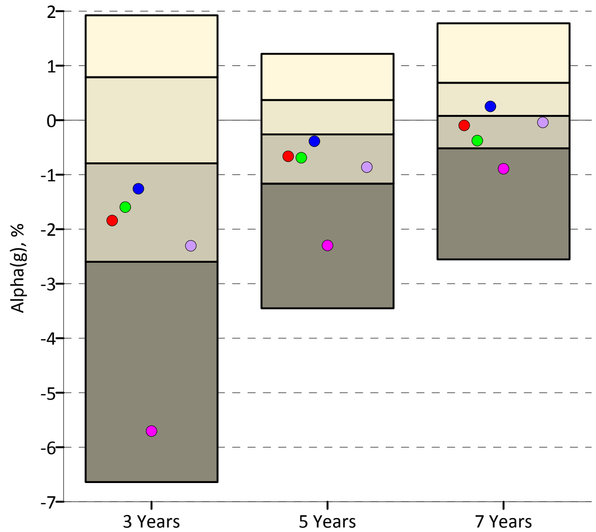
Excess Return vs. Tracking Error: Trailing 10 Years (Sep 99 - Jun 09)



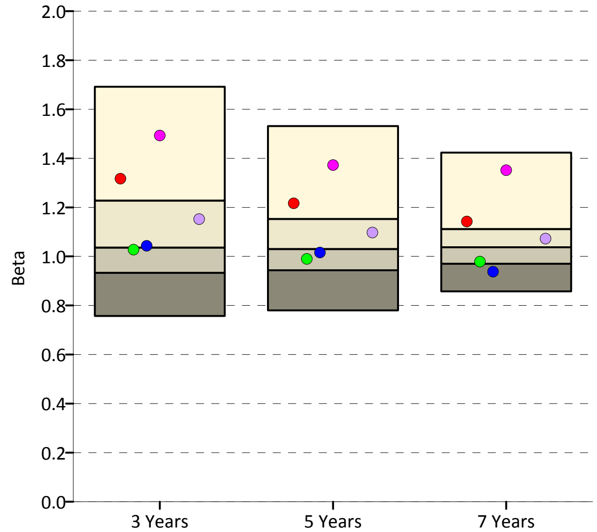
Legend

- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite

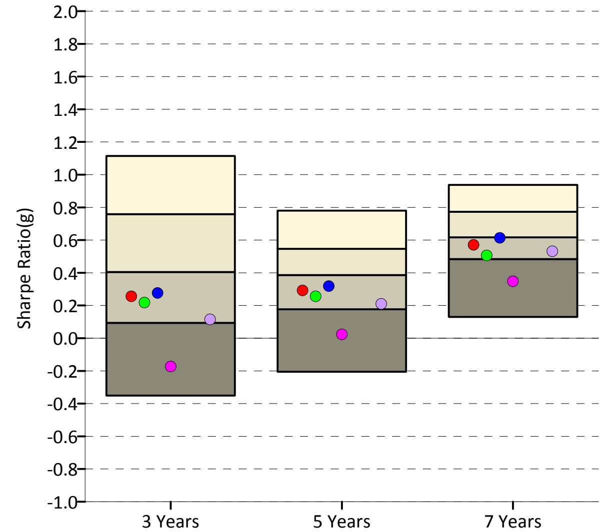
Alpha: Trailing Periods (Jul 02 - Jun 09)



Beta: Trailing Periods (Jul 02 - Jun 09)



Sharpe Ratio: Trailing Periods (Jul 02 - Jun 09)



	3 Yrs			5 Yrs			7 Yrs.		
	Alpha [Rank]	Beta [Rank]	Sharpe [Rank]	Alpha [Rank]	Beta [Rank]	Sharpe [Rank]	Alpha [Rank]	Beta [Rank]	Sharpe [Rank]
AllianceBernstein	-1.8 [69]	1.3 [19]	0.3 [60]	-0.7 [60]	1.2 [18]	0.3 [59]	-0.1 [59]	1.1 [21]	0.6 [60]
BlackRock	-1.6 [62]	1.0 [52]	0.2 [65]	-0.7 [60]	1.0 [63]	0.3 [64]	-0.4 [68]	1.0 [74]	0.5 [69]
Wellington	-1.3 [57]	1.0 [50]	0.3 [59]	-0.4 [55]	1.0 [54]	0.3 [55]	0.3 [43]	0.9 [86]	0.6 [53]
Western	-5.7 [93]	1.5 [12]	-0.2 [88]	-2.3 [89]	1.4 [11]	0.0 [87]	-0.9 [83]	1.4 [8]	0.4 [89]
KKR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oak Hill	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fixed Income Composite	-2.3 [73]	1.2 [33]	0.1 [74]	-0.9 [68]	1.1 [36]	0.2 [72]	0.0 [56]	1.1 [40]	0.5 [67]
Universe Median	-0.8	1.0	0.4	-0.3	1.0	0.4	0.1	1.0	0.6
Universe Size		*130*			*123*			*110*	

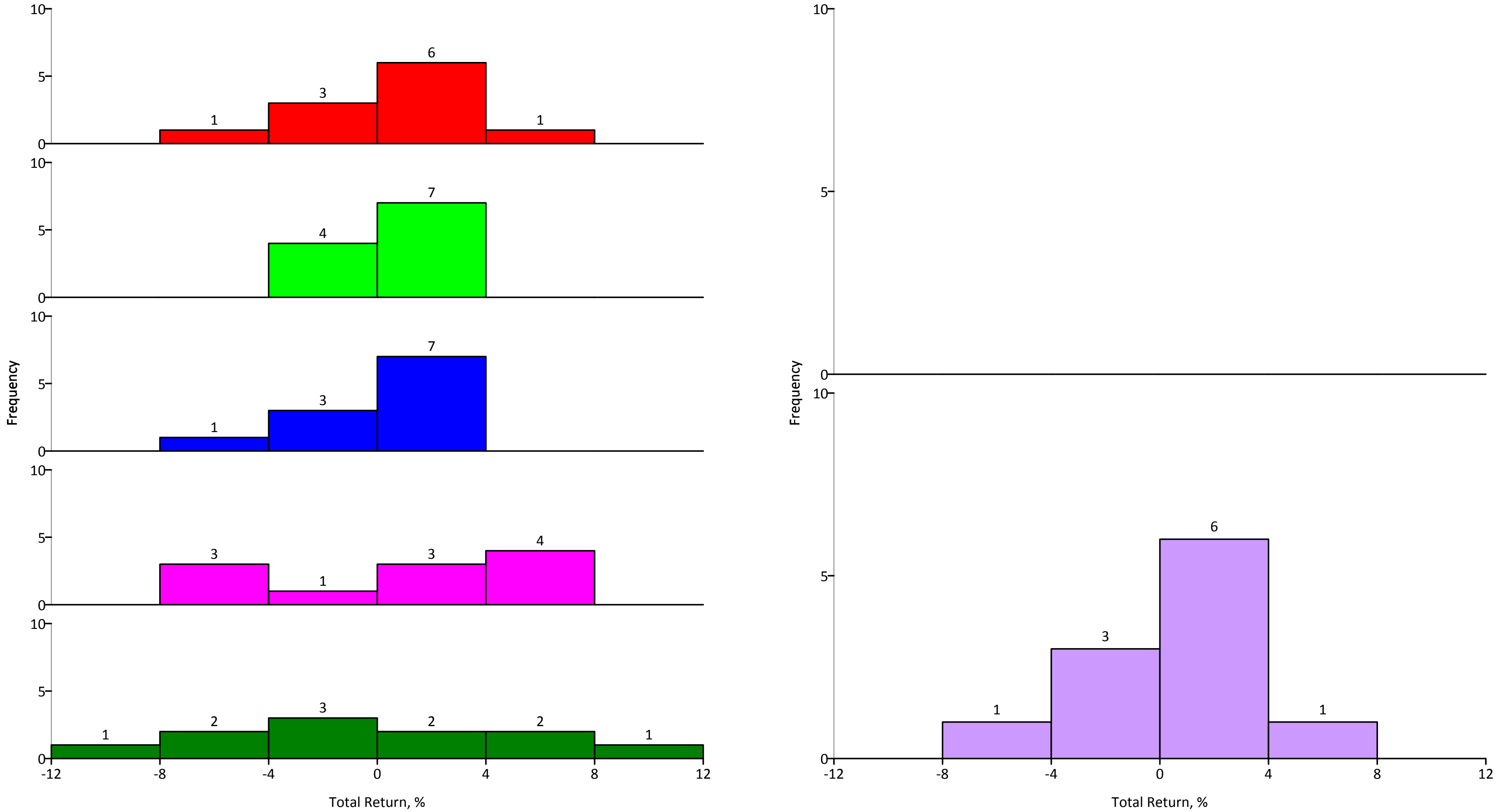
Legend

- 5th to 25th Percentile
- 25th Percentile to Median
- Median to 75th Percentile
- 75th to 95th Percentile
- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite

Universe:
eA Core Plus Fixed Income

Universe Rank:
Green = Top Quartile Red = Bottom Quartile

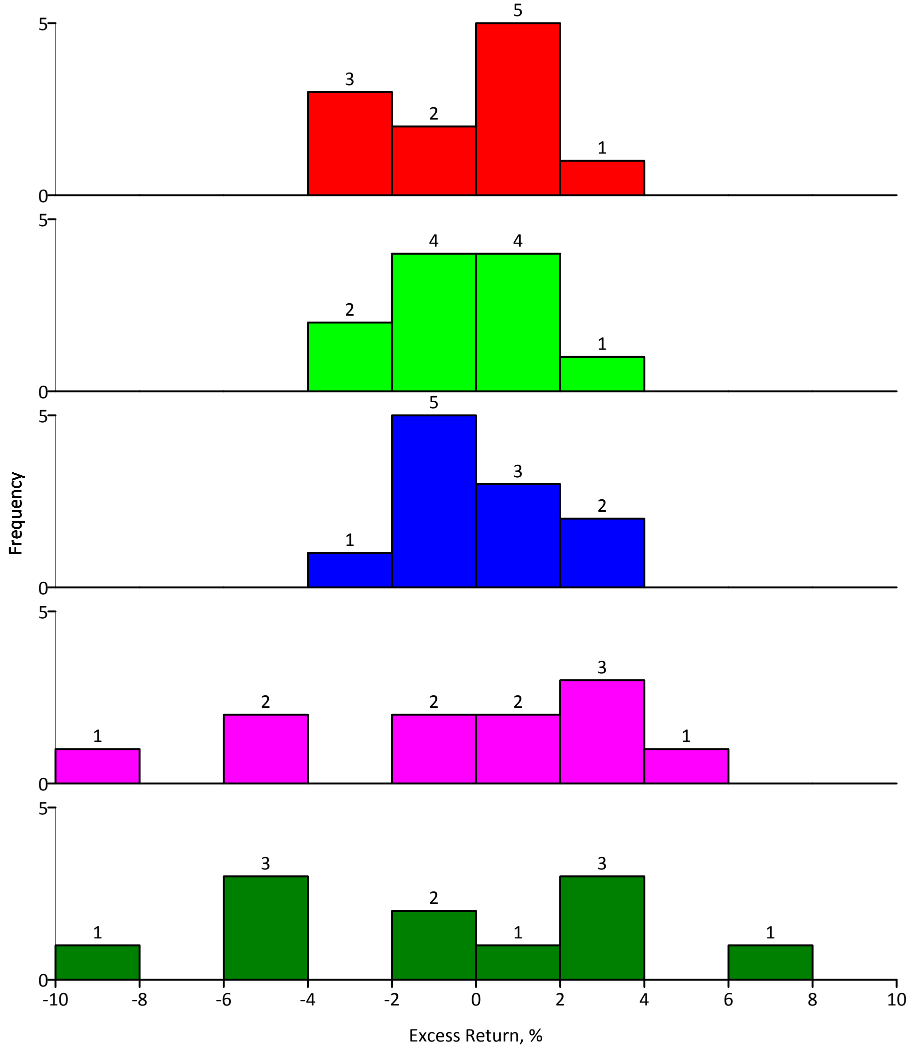
Distribution of Total Returns: Common Period (Aug 08 - Jun 09)

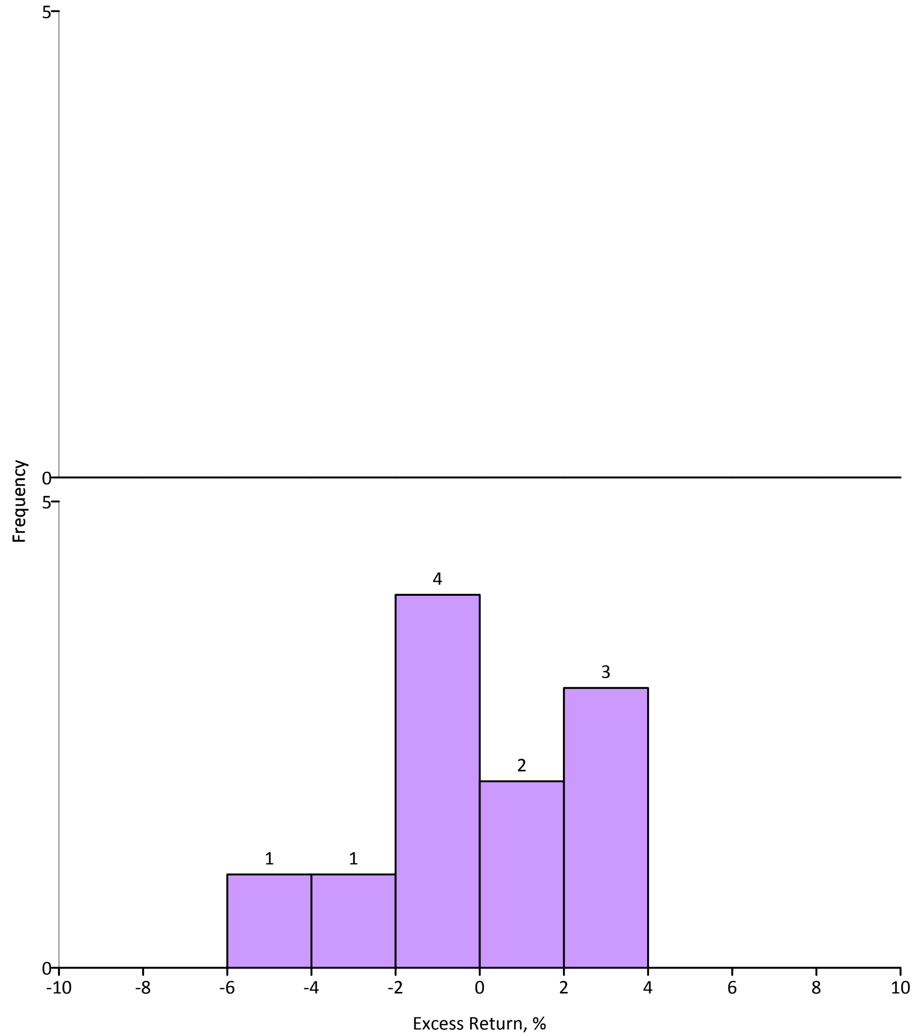


Legend

- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite

Distribution of Excess Returns: Common Period (Aug 08 - Jun 09)





Legend

- AllianceBernstein
- BlackRock
- Wellington
- Western
- KKR
- Oak Hill
- Fixed Income Composite

Alpha (Jenson's Alpha) – a manager's *Total Return* in excess of that which can be explained by its systematic risk, or *Beta*. Alpha is calculated by regressing a manager's *Total Returns* against those of the benchmark (taken to represent the "market"). Alpha is the intercept term in this regression, also known as a Capital Asset Pricing Model (CAPM) regression. A positive Alpha implies that a manager has added value relative to the benchmark on a *Beta*- or risk-adjusted basis.

Batting Average – the percentage frequency a manager's periodic *Total Return* exceeds the benchmark. A manager that outperforms the benchmark in 15 out of 20 months will have a *Batting Average* of 0.75.

Benchmark R-Squared – a statistical measure that represents the percentage of volatility in a manger's returns which can be explained by the volatility of the benchmark. Benchmark R-Squared can range from 0-100%. See also *R-Squared*.

Best/Worst Quarter – the maximum/minimum *Total Return* or *Excess Return* over any rolling 3-month period (when monthly returns are used). Note that the term "quarter" in this calculation does not refer to calendar quarters (unless the periodicity is quarterly), but rather 3-month windows.

Best/Worst Year – the maximum/minimum *Total Return* or *Excess Return* over any rolling 12-month period (when monthly returns are used). Note that the term "year" in this calculation does not refer to calendar years, but rather 12-month (or 4-quarter) windows.

Beta – a measure of a manager's sensitivity to systematic, or market risk. Beta is calculated by regressing a manager's *Total Returns* against those of the benchmark (taken to represent the "market"). Beta is the slope coefficient in this regression, also known as a Capital Asset Pricing Model (CAPM) regression. A manager with a Beta of 1 has a systematic volatility equal to that of the benchmark, while a Beta less than 1 implies lower systematic volatility than the benchmark and a Beta greater than 1 indicates that a manager exhibits more systematic volatility than the benchmark.

Calmar Ratio – a risk/return measure that is calculated by dividing a manager's *Total Return* or *Excess Return* by the respective *Maximum Drawdown*. A higher Calmar Ratio implies greater manager efficiency in generating *Total Returns* or *Excess Returns* without experiencing correspondingly high *Maximum Drawdowns*.

Capture Ratio – the ratio of a manager's average *Total Return* to the benchmark's average *Total Return*. Up Market Capture Ratio refers to relative performance in periods where the benchmark *Total Return* is greater than 0 (i.e., positive) and Down Market Capture Ratio is calculated over those periods where the benchmark *Total Return* is less than 0 (i.e., negative).

Correlation – a standardized measure of *Covariance* scaled to a range of -1 to 1. Correlations close to 1 suggest that two *Return Series* move together very closely while Correlations close to -1 indicate that two *Return Series* tend to move opposite of one another.

Covariance – a measure of the co-movement of two variables, *Return Series* for these purposes. When two *Return Series* tend to deviate in the same direction they will exhibit positive Covariance and if they tend to deviate in opposite directions they will exhibit negative Covariance.

Excess Correlation – the *Correlation* between two sets of *Excess Return Series*.

Excess Information Ratio – a measure of a manager's active return per unit of active risk. Excess Information Ratio (commonly referred to as *Information Ratio*) is calculated by dividing a manager's *Excess Return* by the *Tracking Error*. A higher Excess Information Ratio implies greater manager efficiency in terms of the active risk taken versus the benchmark.

Excess Loss Ratio – a measure of a manager's active return per unit of downside active risk. Excess Loss Ratio is calculated by dividing a manager's *Excess Return* by the *Semi-Standard Deviation* of *Excess Returns*. A higher Excess Loss Ratio implies greater manager efficiency.

Excess Omega Ratio – a measure of a manager's active return versus active risk that uses the cumulative probability distribution function (CDF) of *Excess Returns* and assigns a return threshold (0 in this case), with part of the distribution on each side. Excess Omega Ratio is calculated by dividing the area above the CDF curve to the right of the threshold by the area below the CDF curve to the left of the threshold. Excess Omega Ratio is useful in that it incorporates the full distribution of *Excess Returns*, not just the mean and standard deviation (i.e., tracking error), and does not rely on a normally-distributed return series as many other risk-adjusted measures such as the *Sharpe Ratio* and *Information Ratio* implicitly do. As with other risk-adjusted measures, a higher Excess Omega Ratio implies greater manager efficiency in terms of active risk and return.

Excess Return – a manager's return in excess of the benchmark's *Total Return*.

Excess Style Weights – a manager's style weights in excess of the benchmark's style weights for a given period. This measures a manager's style deviations, or bets, versus the benchmark.

Information Ratio – a measure of a manager's return per unit of risk. Information Ratio is calculated by dividing a manager's *Total Return* by the *Standard Deviation*. A higher Information Ratio implies greater manager efficiency. To avoid confusion and conform to industry standards, the term “Information Ratio” is used throughout the study when referencing the *Excess Information Ratio* statistic.

Maximum Drawdown – a drawdown is any losing period during a *Return Series* (either *Total Return* or Excess *Return*) and the Maximum Drawdown measures the cumulative return during the worst “peak to trough” period for the *Return Series*. The Maximum Drawdown does not necessarily occur over consecutive months (or quarters) of negative performance and can be interrupted by periods of positive performance as long as this does not cause full recovery of the initial value prior to the drawdown.

Recovery Duration – the number of months (or quarters) from trough to full recovery after the *Maximum Drawdown*. If the full amount of the initial value has not been recovered, Recovery Duration will display “N/A”.

Recovery Percent – where the full amount of the initial value has not been recovered after the *Maximum Drawdown*, Recovery Percent represents the partial percent of peak to trough loss that has been regained to date. If the initial value has been re-achieved, Recovery Percent will display “100%”.

Recovery Period – the range of months (or quarters) to regain the value before the *Maximum Drawdown* occurred, starting from the first month (or quarter) after a trough. When the full amount of the initial value has not been recovered the date range shown is from the trough to the highest subsequent cumulative value.

Return Series – a set of *Returns* over a range of time periods.

Risk – see *Standard Deviation*.

R-Squared – within the context of regression analysis, R-Squared represents the portion of the variation of a dependent variable (e.g., a manager's *Return Series*) that can be explained by the variation of the independent variable(s) (e.g., a benchmark index or set of *Style Indices*). R-squared values range from 0 to 100. An R-squared of 100 indicates that all movements of the dependent variable are completely explained by movements of the independent variable(s). In addition, R-Squared provides a measure of the goodness of fit, or validity, of the regression model.

Selection Return – a manager's *Total Return* in excess of the *Style Return*. A positive Selection Return implies that a manager has added value relative to the *Style Benchmark* through security selection.

Semi-Standard Deviation – a measure of downside risk similar to Standard Deviation, except that it is calculated using only the variance of returns below a target rate (0 by default, but can also be set to a Minimum Accepted Return or MAR, the risk-free rate or the benchmark's return). A high Semi-Standard Deviation represents a wide range of returns below the target rate and therefore implies a higher level of downside risk. Semi-Standard Deviation is useful in that it penalizes managers only for volatile returns below the target rate, unlike the full Standard Deviation calculation which does not distinguish between upside (good) and downside (bad) volatility.

Sharpe Ratio – a manager's *Excess Return* over the risk-free rate divided by the *Standard Deviation*. Sharpe Ratio measures a manager's return per unit of risk. A higher Sharpe Ratio implies greater manager efficiency.

Standard Deviation – a measure of the extent to which observations in a series vary from the arithmetic mean of the series. Standard Deviation (also referred to ask *Volatility* or *Risk*) provides an indication of the dispersion of periodic returns. A high Standard Deviation represents a wide range of returns and therefore implies a higher level of risk.

Style Benchmark – a blended index of *Style Indices* combined at the corresponding *Style Weights*. The *Style Return* represents the *Total Return* of the Style Benchmark.

Style Indices – independent (or explanatory) variables used in the *Style Regression*. Style Indices can also be interpreted as the manager's *Betas* or risk factors within the context of the *Style Regression*.

Style Map – a specialized form of scatter plot used to show where a manager lies in relation to a set of *Style Indices* on a two-dimensional plane. A Style Map is simply a different way of viewing the *Style Weights*. The x and y co-ordinates are calculated by rescaling the *Style Weights* to a range of -1 to 1 on each axis.

Style Regression – a constrained quadratic regression of a manager or benchmark return series against a set of *Style Indices*. Style Regression calculates a series of *Betas* that collectively seek to explain as much of a return series as possible.

Style Return – calculated by multiplying a manager's (or benchmark's) Style Weights by the corresponding returns of the Style Indices and summing the resulting weighted component returns.

Style R-Squared – a statistical measure that represents the percentage of volatility in a manager's returns which can be explained by the volatility of the *Style Indices* (or collectively, the *Style Benchmark*). Style R-Squared can range from 0-100%. See also *R-Squared*.

Style Weights – represent the periodic exposure of a manager (or benchmark) to various explanatory variables, also referred to as *Style Indices*. Style Weights are returns-based, i.e. they are calculated through the *Style Regression*.

Timing Return – a manager's *Style Return* in excess of the benchmark's *Style Return*'. A positive Timing Return implies that a manager has added value relative to the benchmark through asset allocation decisions, i.e., over/underweight “positions” in the *Style Indices* versus those of the benchmark.

1) If the market benchmark used in the study is not also one of the *Style Indices* then it too will have *Style Weights*, a *Style Return* and a *Style Benchmark*. If the benchmark is one of the *Style Indices*, its *Style Return* will equal the benchmark's *Total Return*.

Total Return – a measure of the appreciation or depreciation in the price of an investment over a given time period.

Tracking Error – the *Standard Deviation* of a manager's *Excess Return* series. Tracking Error measures the extent to which a manager's returns diverge from the benchmark's returns. A low Tracking Error indicates that the manager closely tracks the benchmark.

Volatility – see *Standard Deviation*.

Note: All calculations use geometrically annualized returns except for cumulative returns and those that cover periods less than one year.

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% Barclays Capital U.S. Universal and 10% Citigroup Non-U.S. World Government Bond (Hedged) Indexes, 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

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.
3. Mortgage-backed and asset-backed 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. 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 15% 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 30% of the portfolio will be below investment grade (below Baa3/BBB-). The minimum aggregate credit quality shall be A+, as measured by the weighted average of the portfolio.

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; and
4. Securities of the existing investment manager, its parents, custodians or subsidiaries.

SAMPLE FORMS, DOCUMENTS, OR REPORTS:

None

TAB 5 – COMMON SCHOOL FUND

Oregon Investment Council
Common School Fund
2009 Annual Portfolio Review

Purpose
To provide the Oregon Investment Council an update on the performance, structure, and asset allocation of the Common School Fund for periods ended September 2009, in accordance with OIC Policy 4.08.07.

Market Background
The equity markets continued the lead built during the second quarter, by adding another 16.3 percent, as measured by the Russell 3000 domestic equity index. Year to date, through the end of September, the index is up over 21 percent. International equity markets have performed even better, with the MSCI All Country World Index (ex US) returning nearly 20 percent for the quarter, and 36 percent, year to date. In the fixed income arena, the Barclays Capital Universal Index has returned a respectable 8.0 percent, year to date.

It remains to be seen if this is the beginning of a global economic recovery, or merely a moderate upturn that faces a further correction, down the road. Only time will tell if these "green shoots," to coin an overused praise made famous by Fed Chairman Ben Bernanke, are real or merely "yellow weeds," a phrase used by New York University economist Nouriel Roubini. Economic experts (forgive the oxymoron) differ on their outlook, with an edge to those who believe the worst of the recession is behind us. Byron Wien, a long-time expert in these matters, had the following to say recently:

> There is a growing feeling that sometime in 2010 both the economy and market will run out of steam. The stimulus program will have been spent and earnings may start to falter. This is creating a cloud of caution over equities. But near term fundamentals may prove sufficiently positive to convert that concern to something more constructive and that's why I believe the next important move in the market is to higher levels.

CSF Performance
The significant manager line-up changes that were approved by the OIC, have now been in place over one year. So far, so good. For the one year period ended September, the fund returned 5.5 percent, which was 160 basis points better than the 3.9 percent policy benchmark.

Seven of the nine active equity managers have exceeded their benchmarks over the past 12 months. High points include the 71 percent year to date return of Genesis and the 66 percent return of Pictet, reflecting the incredible run in emerging market equities.

The two CSF fixed income managers employ an active investment strategy that seeks to take advantage of the historical advantage given to market participants taking spread risk. The strategy generally involves underweighting treasury securities, relative to the index, and overweighting corporate debt. While this strategy proved to be painful during 2008, it appears that the current debt markets have turned the corner. Year to date, both

Western and Wellington have posted returns in excess of 17 percent, exceeding the eight percent return of the BC Universal index by over nine percent.

The influence of 2007-2008, for different reasons, has dramatically impacted the longer term performance of the fund. Seven years of modest positive out-performance was erased by the two punishing years of 2007 and 2008.

PERIOD	CSF Net Return	Policy Benchmark	Alpha
Calendar Year 1999	14.87	15.44	(0.57)
Calendar Year 2000	(3.63)	(4.07)	0.44
Calendar Year 2001	(7.08)	(7.59)	0.51
Calendar Year 2002	(11.15)	(11.27)	0.12
Calendar Year 2003	24.72	24.09	0.63
Calendar Year 2004	11.73	11.38	0.35
Calendar Year 2005	7.14	6.72	0.42
Calendar Year 2006	15.32	14.45	0.87
Calendar Year 2007	2.77	7.21	(4.44)
Calendar Year 2008	(32.39)	(30.31)	(2.08)
September 2009 YTD	24.86	22.64	2.22

Private Equity
CSF will continue to build out its private equity program, with key OPERF general partners. Total commitments to date are $120 million, with $28.7 million contributed. Performance is too early to be meaningful. General partners represented: Apollo, Oak Hill, TPG, Warburg Pincus, and JP Morgan.

CSF	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$311,587	33.4%
International Equities	25-35%	30%	329,282	35.3%
Private Equity	0-12%	10%	19,595	2.1%
Total Equity	**65-75%**	**70%**	**660,464**	**70.9%**
Fixed Income	**25-35%**	**30%**	**264,232**	**28.4%**
Cash	**0-3%**	**0%**	**7,013**	**0.8%**
TOTAL CSF			**$931,709**	**100.0%**

State of Oregon-CSF

Periods Ending September 30, 2009

STATE STREET.

CSF 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 COMMON SCHOOL FUND	**931,709**	**100.0**	**4.03**	**14.47**	**24.86**	**5.50**	**-9.32**	**-2.80**	**0.54**	**3.09**	**6.76**	**2.74**	**14.47**
OREGON CSF POLICY INDEX			*3.67*	*13.83*	*22.64*	*3.90*	*-8.10*	*-0.96*	*1.72*	*3.93*	*7.30*	*3.02*	*13.83*
TOTAL DOMESTIC EQUITY	**255,723**	**27.4**	**4.07**	**15.68**	**20.72**	**-6.94**	**-14.75**	**-6.92**	**-2.67**	**0.57**	**5.76**	**-0.06**	**15.68**
RUSSELL 3000			*4.19*	*16.31*	*21.19*	*-6.42*	*-14.30*	*-5.06*	*-1.45*	*1.56*	*6.51*	*0.73*	*16.31*
BGI S&P 500 CSF	74,355	8.0	3.74										
S&P 500			*3.73*										
WELLS CAPITAL MGMT	69,441	7.5	4.40	14.49	22.48	-10.21							14.49
RUSSELL 1000 GROWTH			*4.25*	*13.97*	*27.11*	*-1.85*							*13.97*
MFS ADVISORS	73,107	7.8	3.13	12.94	15.77	-6.28							12.94
RUSSELL 1000 VALUE			*3.86*	*18.24*	*14.85*	*-10.62*							*18.24*
COLUMBIA WANGER	25,829	2.8	6.46	20.32	32.07	-1.81							20.32
RUSSELL 2500			*5.80*	*20.06*	*27.89*	*-5.69*							*20.06*
BOSTON COMPANY	12,991	1.4	4.94	21.27	26.27	-5.36							21.27
RUSSELL 2000 VALUE			*5.02*	*22.70*	*16.35*	*-12.61*							*22.70*
TOTAL INTERNATIONAL EQUITY	**268,762**	**28.8**	**5.50**	**19.67**	**41.16**	**10.62**	**-13.98**	**-2.99**	**2.38**	**6.72**	**11.47**	**2.95**	**19.67**
1 *OREGON CSF CUSTOM INTL INDEX*			*5.14*	*19.69*	*36.35*	*5.89*	*-14.39*	*-2.52*	*2.58*	*6.94*	*11.69*	*3.14*	*19.69*
PYRAMIS SELECT	104,807	11.2	4.21	18.70	28.14	-0.56							18.70
MSCI WORLD EX US (NET)			*4.13*	*19.36*	*30.49*	*2.89*							*19.36*

Provided by State Street Investment Analytics

State of Oregon-CSF

Periods Ending September 30, 2009

STATE STREET.

CSF 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
ARROWSTREET	103,752	11.1	4.31	18.60	40.63	15.85							18.60
MSCI World Ex US IMI Net			*4.29*	*19.75*	*32.41*	*4.09*							*19.75*
GENESIS ASSET MANAGEMENT	30,726	3.3	8.51	23.75	70.99	20.87							23.75
MSCI Emerging Markets IMI Index (Net)			*8.96*	*21.18*	*67.34*	*21.50*							*21.18*
PICTET INVESTMENT	29,476	3.2	11.24	22.76	66.23	19.47							22.76
MSCI EMERGING MARKETS (NET)			*9.08*	*20.91*	*64.45*	*19.07*							*20.91*
ALLIANCE BERNSTEIN GLOBAL	116,384	12.5	5.59	20.16	29.45	-5.51							20.16
MSCI WORLD (NET)			*3.99*	*17.45*	*24.90*	*-2.29*							*17.45*
FIXED INCOME AND PRIVATE EQUITY													
WELLINGTON MANAGEMENT COMPANY - C	134,396	14.4	1.61	6.65	17.84	15.33	6.49	6.12	5.52	5.14	5.13		6.65
WESTERN ASSET MANAGEMENT CO. - CSF	129,836	13.9	1.98	8.00	17.12	13.86	3.60	4.03	4.19	4.43	5.65		8.00
2 *BC UNIVERSAL*			*1.36*	*4.48*	*7.97*	*10.91*	*6.53*	*6.12*	*5.61*	*5.04*	*4.90*		*4.48*
CSF PRIVATE EQUITY	19,595	2.1	6.59	6.59	-15.93	-17.29							6.59
3 *RUSSELL 3000+300 BPS QTR LAG*			*17.34*	*17.34*	*-15.23*	*-21.65*							*17.34*
CASH FUND	7,013	0.8	0.10	0.55	2.16	4.23	2.35	3.38	3.70	3.49	2.88	3.43	0.55
91 DAY T-BILL			*0.02*	*0.07*	*0.17*	*0.39*	*1.64*	*2.82*	*3.24*	*3.11*	*2.56*	*3.11*	*0.07*

STATE STREET.

CSF MANAGER PERFORMANCE VS. BENCHMARKS

Endnotes

1 Prior to November 1, 2005, index is MSCI EAFE. From December 1, 2005 to April 30, 2008, index is MSCI World Ex US. Currently, index is MSCI ACWI ex US(NET).

2 Prior to November 1, 2005, index is BC Aggregate.

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

Oregon Investment Council
Common School Fund
Review
October 27, 2009

Louise Solliday
Director
Department of State Lands

History and Purpose of the Common School Fund

- Constitutionally based trust fund created at statehood to provide funding for public schools
    - Congress set aside lands dedicated for schools when Ohio first became a state. These lands were intended to provide a source of funding for schools and create a permanent endowment fund.
    - Oregon's Common School lands were the 16th & 36th section of each township (2 square miles for every 36 square mile block). Over time, many lands were sold or blocked up.
    - The State Land Board, consisting of the Governor, Secretary of State, State Treasurer, is the trustee of the Common School Fund (CSF).
    - The Land Board manages the CSF for the long-term benefit of current and future generations of school children.
    - All property and proceeds from escheated estates are deposited into the CSF.
    - Only the earnings are distributed twice yearly to schools.

What Constitutes the CSF Investment Portfolio?

- Equities and fixed income portfolios invested by OIC
- Land management assets as of July 2009, including rangeland, agricultural lands, Elliott State Forest, waterway leases and easements:
    - 628,000 acres of rangeland
    - 104,000 acres of forestland
    - 5,200 acres of agricultural land
    - 6,900 acres of industrial, commercial and residential lands
    - 39,000 acres of special stewardship lands
    - 753,000 mineral and energy resources
    - 800,000 acres of state-owned waterways and the Territorial Sea
- Constitutional land management revenues are generated from a wide range of activities such as timber harvests, grazing, communication site leases, waterway leases, and royalties from mining ($10-15 million per year.)
- Statutorily dedicated proceeds include receipts from unclaimed property and revenues from submerged and submersible lands.

- Unclaimed property until claimed by true owner ($50 million per year)
    - Safety deposit box contents
    - Unclaimed payroll checks, utility deposits
    - Dormant bank accounts
- Submerged and submersible lands ($2 million per year)
    - Waterway leases such as houseboats, docks, and fiber optic cables

Recent Distributions

- During the 2007-09 budget period, the total distribution to schools was $95.6 million (up slightly from $94.1 million in 05-07).
- The June 2009 distribution to schools equaled $20.1million.

Issues/Recent Developments

1. Distribution Policy
    - The Land Board adopted a new distribution policy in April 2009.
    - The distribution policy calls for a distribution of 4% of the average of the three prior calendar year ending balances.
    - The Board adopted a resolution in June 2009 calling for a one time 5% distribution for the 2009-2011 to help with the budget deficit. The projected distribution for the current biennium is $95.5 million.

2. Elliott Forest Management Plan

    Revising the Elliott State Forest Management Plan (Elliott FMP) and the Elliott State Forest Habitat Conservation Plan (HCP) began in early 2000. The primary driver for the revision was the pending expiration of the marbled murrelet Incidental Take Permit (ITP) in October 2001. Since then Coho salmon have been listed as threatened under the federal Endangered Species Act.

    In fall 2008, the draft HCP was completed and sent out for public review, along with a draft Environmental Impact Statement (EIS). Based on public comments and feedback from the US Fish and Wildlife Service and National Marine Fisheries Service it is not clear whether this effort will be successful. The Land Board is beginning to consider alternative management scenarios in the event efforts to get an HCP are unsuccessful.

3. Asset Management Plan

    The State Land Board adopted a new Asset Management Plan (AMP) for 2006 - 2016. The AMP guides how CSF lands are managed, particularly with respect to maximizing their value to the Common School Fund over the long term. The CSF real estate portfolio is valued at $682 – $899 million. The plan identifies about 12,000 acres of rangeland and 12,000 acres of forestland for disposal over the ten-year period. The revenue from these sales is estimated at $20-$25 million. As of June 30, 2009 8 parcels have been sold, generating just over $1 million to the Land Revolving Fund. Monies in the Fund will be used in invest in lands that have a greater revenue potential.

4. In Lieu Land Acquisition

The State of Oregon is still owed 1,576 acres of federal Bureau of Land Management land as a result of a lawsuit settled in 1991. These lands stem from a debt owed to the state from Common School Lands granted to Oregon at statehood.

We are working with the BLM to secure these lands. We have targeted lands in Central Oregon that will offer development potential that could bring significant returns to the Common School Fund. We received 1080 acres during the 2007-09 biennium. We recently were denied reclassification of lands that were selected in Central Oregon to retire the remaining debt. We are now searching for alternative lands.

5. Portland Harbor Superfund Site

DSL owns 75 parcels of submerged and submersible lands with the Portland Harbor Superfund site. Several of these parcels have been leased during various periods of time since 1939. We are participating in the both the allocation process and Natural Resources Damage Assessment (NRDA) process. The draft Remedial Investigation/Feasibility Study (RI/FS) was just released. A final Record of Decision is expected from the Environmental Protection Agency in 2012. What liability, if any, the state has is unknown at this time.

H: Director/Solliday/OIC Talking points 10-27-09.doc

TAB 6 – OPERF INVESTMENT MANAGEMENT COST

CEM Benchmarking, Inc. (CEM)
OPERF Cost Study
5 Years Ended December 31, 2008

Purpose

To present the cost analysis performed by CEM for the five-years ended 31 December 2008 on OPERF's overall investment costs.

Background

Beginning in 2003, Treasury staff provided the OIC an independent assessment of the various costs paid for the management of OPERF (e.g., management fees, custody fees, consulting fees, staff costs, etc.), and how those costs (and the resultant performance) compare to other institutional investors.

CEM is recognized as the key, independent, third-party provider of cost analysis to defined benefit and defined contribution plans. Last year, at the October OIC meeting, staff presented the CEM report for the five-year period ended December 2007. Staff has worked with CEM to provide updated data through December 2008. OPERF's total investment management costs (including oversight, custodial and other costs) were approximately 74.4 basis points for 2008 (40.4 in 2007). Note that the methodology for 2007 and 2008 are not consistent; CEM revised their ability to capture, more accurately, the cost of private equity.

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 157 US Funds, valued at approximately $1.8 trillion.

OPERF's costs are compared to a custom peer group of 19 funds (ranging from $27.1 billion to $126.4 billion), based on asset size. The median fund in the peer group was $44.5 billion. Among the 19 peer funds, OPERF was the 6th largest fund.

Recommendation

None. Information only. Report provided will be presented by CEM.

Oregon Public Employees Retirement Fund
Investment Benchmarking Results

For the 5 year period ending December 2008

Bruce Hopkins
Bruce@CEMbenchmarking.com

CEM Benchmarking Inc.
What gets measured gets managed

This benchmarking report compares your cost and return performance to CEM's extensive pension database.

- 157 U.S. pension funds participate.

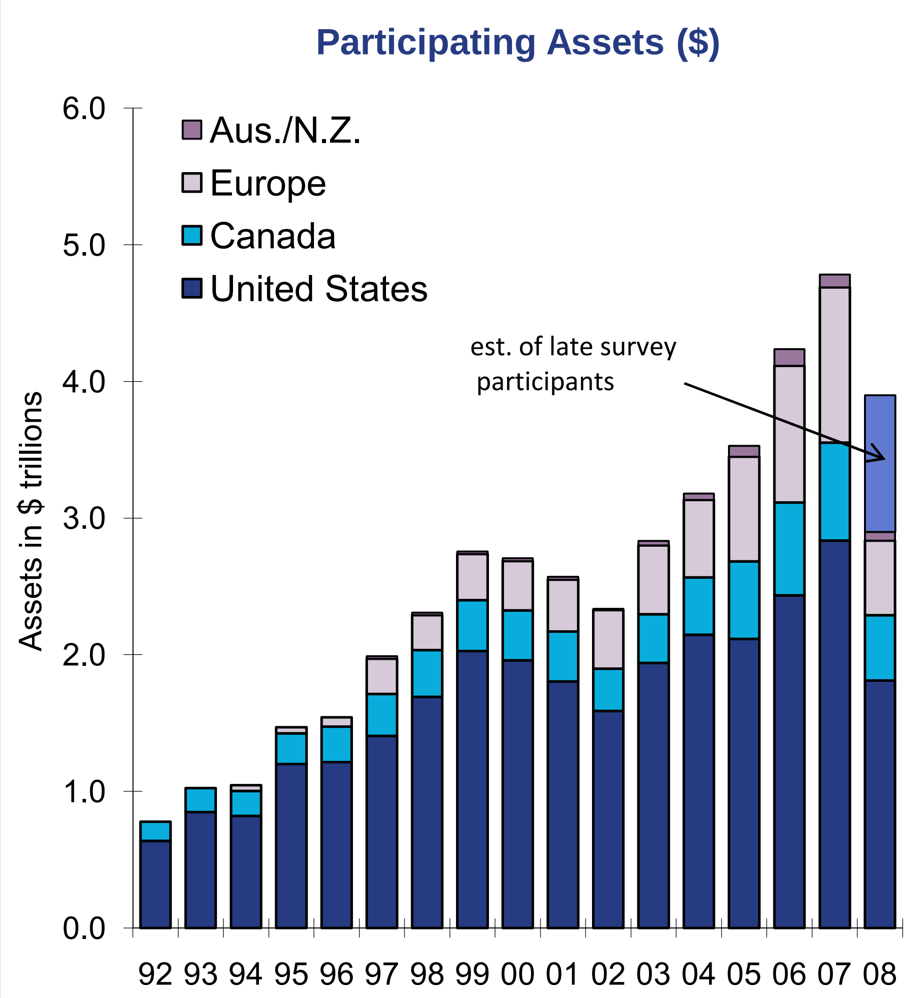
The median U.S. fund had assets of $2.9 billion, while the average U.S. fund had assets of $11.2 billion. Total participating U.S. assets were $1.8 trillion.

- 78 Canadian funds participate with assets totaling $477 billion.

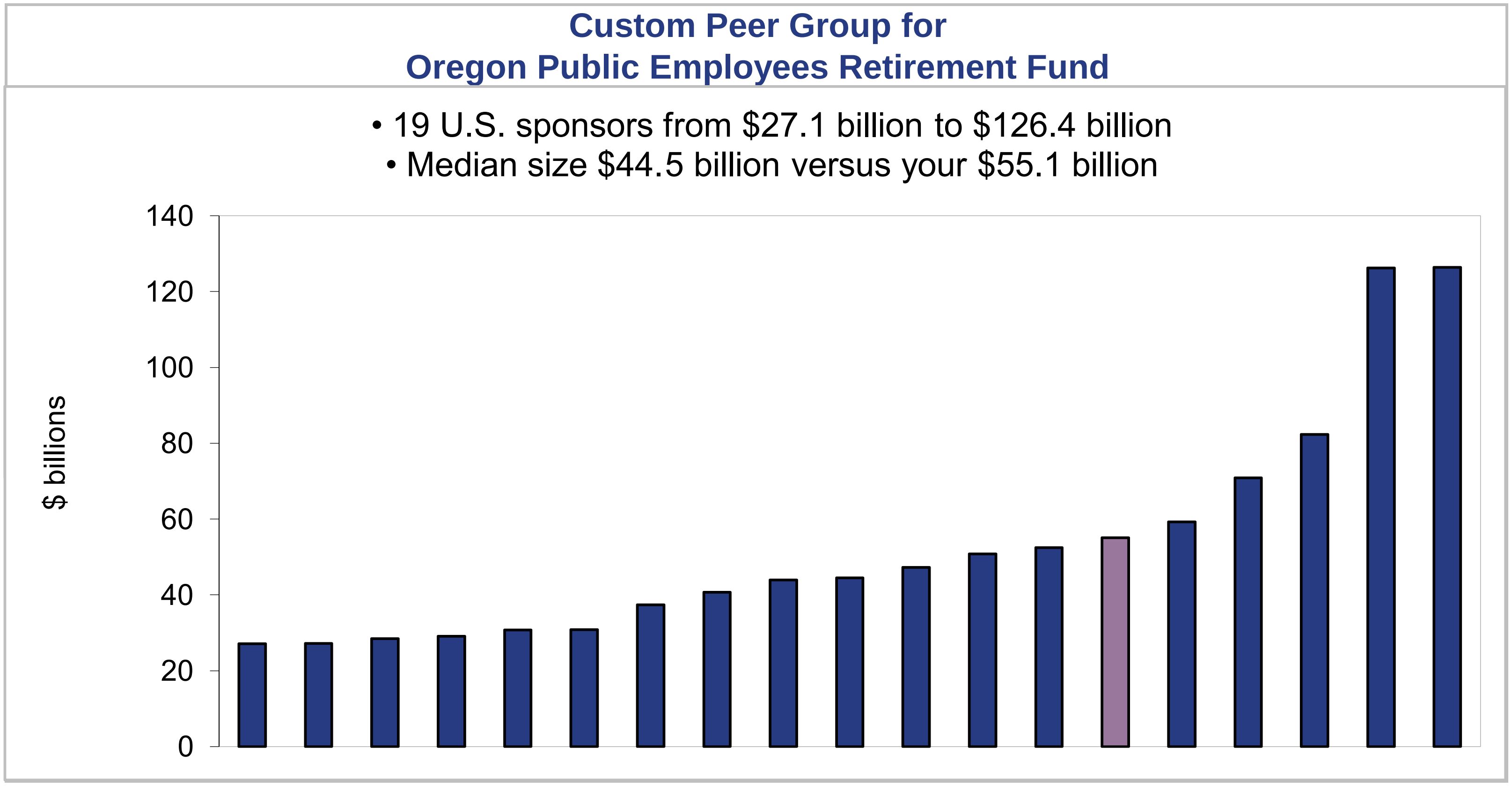
- 19 European funds participate with aggregate assets of $547 billion. Included are funds from the Netherlands, Norway, Sweden, Finland, France, Denmark and Ireland.

- 7 Australian/New Zealand funds participate with aggregate assets of $64 billion.

The most meaningful comparisons for your returns and value added are to the U.S. universe.



The most valuable comparisons for cost performance are to your custom peer group because size impacts costs.



To preserve client confidentiality, given potential access to documents as permitted by the Freedom of Information Act, we do not disclose your peers' names in this document.

What gets measured gets managed, so it is critical that you measure and compare the right things:

1. Policy Return	How did the impact of your policy asset mix decision compare to other funds?
2. Value Added	Are your implementation decisions (i.e., mostly active management) adding value?
3. Implementation Risk	How much risk was taken to obtain your implementation value added?
4. Costs	Are your costs reasonable? Costs matter and can be managed.

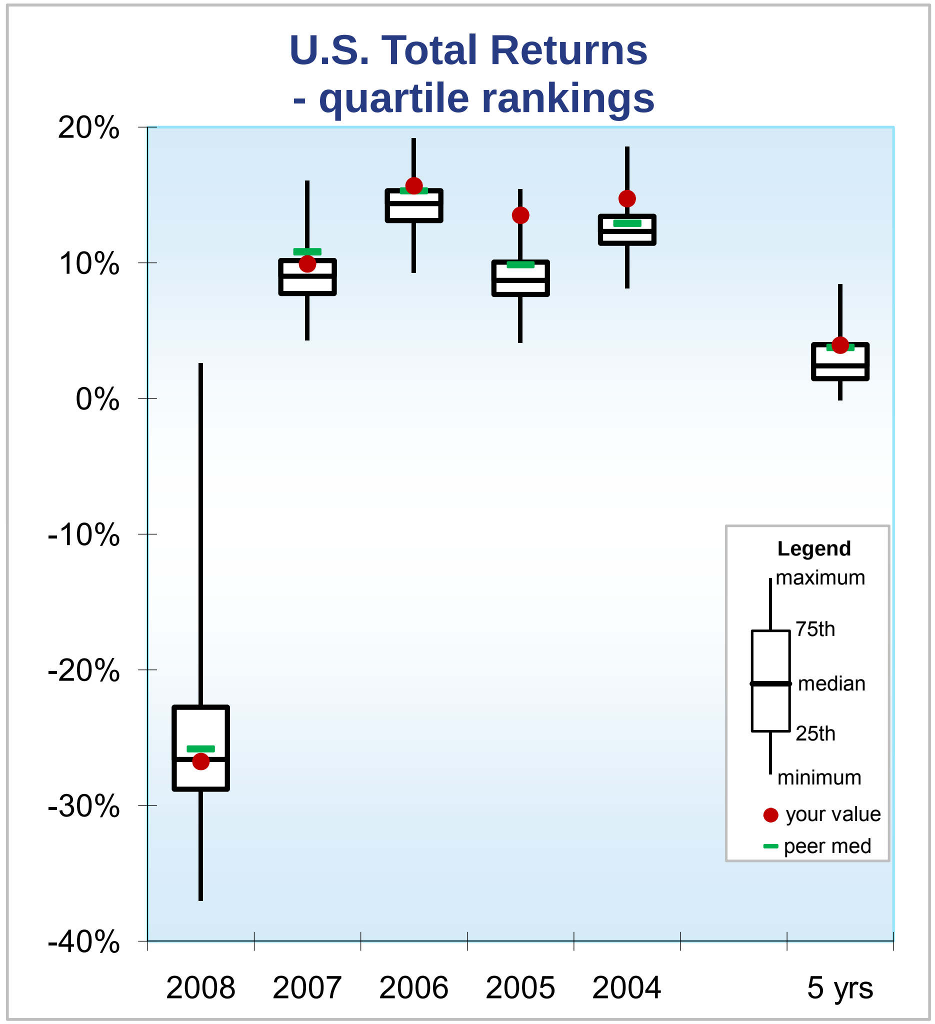
Your 5-year total return of 3.9% was well above the U.S. median of 2.4%.

Total returns, by themselves, provide little insight into the reasons behind good or bad relative performance. Therefore, we separate total return into its more meaningful components: policy return and implementation value added.

	Your 5-yr.
Total Fund Return	3.9%
Policy Return	3.9%
Value Added	0.0%

This approach enables you to understand the contribution from both policy asset mix decisions (which tend to be the board's responsibility) and implementation decisions (which tend to be management's responsibility).

The median 5-year total return of your peers was 3.8%.



1. Policy Return

Your 5-year policy return of 3.9% was well above the U.S. median of 2.2%.

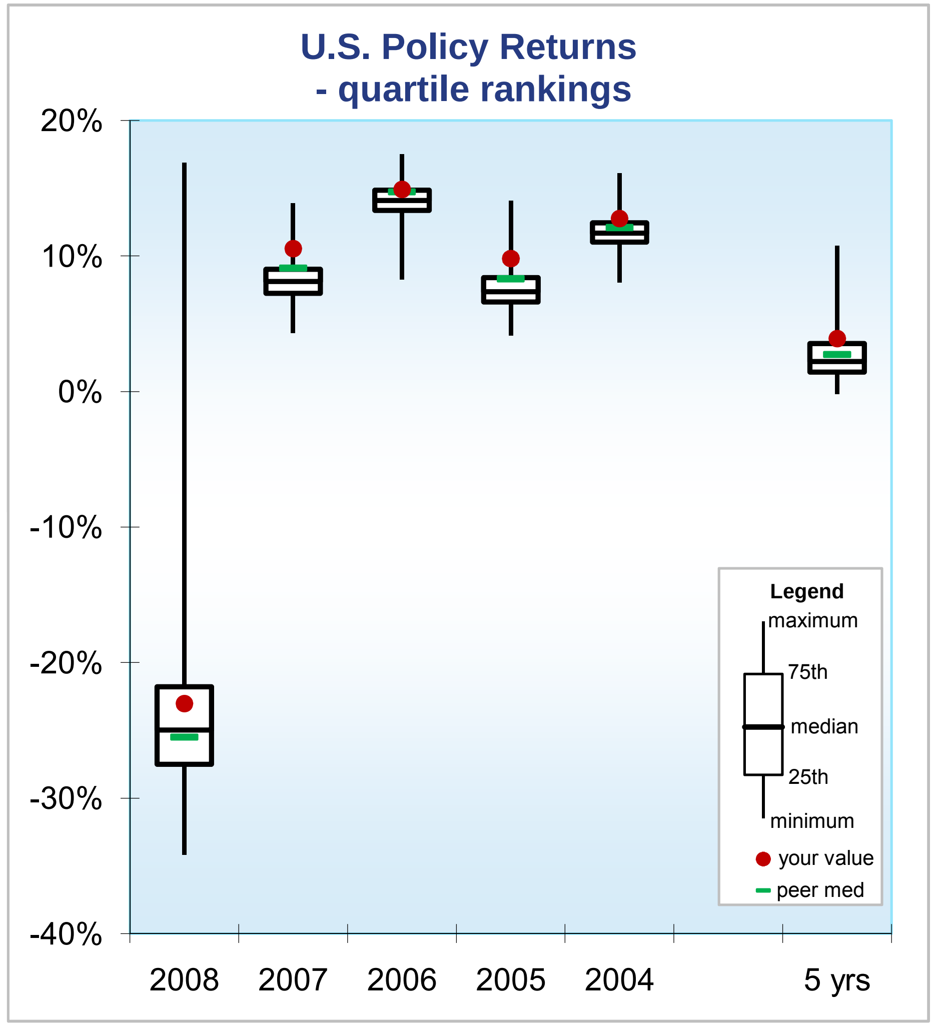
Your policy return is the return you could have earned passively by indexing your investments according to your investment policy asset mix.

Having a higher or lower relative policy return is not necessarily good or bad. This is because your policy return reflects your investment policy, which should reflect your:

- Long term capital market expectations
- Liabilities
- Appetite for risk

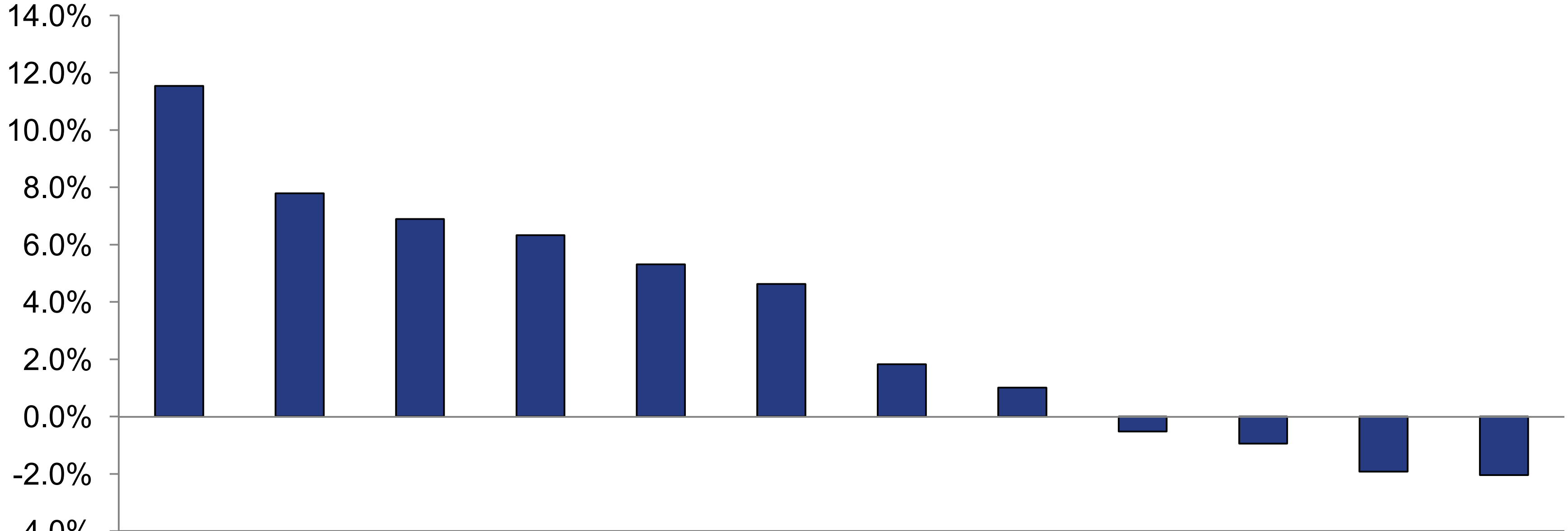
Each of these three factors is different across funds. Therefore, it is not surprising that policy returns often vary widely between funds.

The median 5-year policy return of your peers was 2.7%.



Differences in policy returns are caused by differences in asset mix policy and benchmarks. The two best performing asset class benchmarks for the 5 years ending 2008 were NCREIF and MSCI Emerging Market Stock.

5-Year Returns for Frequently Used Benchmark Indices



	NCREIF	MSCI Emerg. Market	Private Equity	Barclays Long Bond	Hedge Funds	Barclays Aggr. Bond	MSCI EAFE	NAREIT	MSCI World	Russell 2000	Russell 3000	Russell 1000
US5yr	11.5%	7.8%	6.9%	6.3%	5.3%	4.6%	1.8%	1.0%	-0.5%	-0.9%	-1.9%	-2.0%

The private equity and hedge fund benchmark returns shown reflect the average of all benchmarks given by CEM participants.

Your 5-year policy return was above the U.S. median primarily because of differences in policy weights. Specifically:

• The positive impact of your lower weight in one of the worst performing asset class of the past 5 years: U.S. Stock (your 29% 5-yr avg weight versus a US average of 41%).

• The positive impact of your higher weight in one of the better performing asset classes of the past 5 years: Private Equity (your 12% 5-yr avg weight versus a US average of 4%).

• The positive impact of your higher weight in the best performing asset class of the past 5 years: Real Estate & REITS (your 9% 5-yr avg weight versus a US average of 5%).

5-Year Average Policy Mix

Asset class	Your fund	U.S. avg	Peer avg
US Stock	29%	41%	36%
EAFE/Global Stock	24%	17%	20%
Total Stock	53%	59%	56%
Fixed Income - Broad	27%	23%	23%
Fixed Income Other	0%	7%	5%
Cash	0%	1%	1%
Total Fixed Income	27%	30%	29%
Real Estate & REITS	9%	5%	7%
Hedge Funds	0%	2%	1%
Private Equity	12%	4%	7%
Total	100%	100%	100%

Your policy mix has changed substantially over the past 5 years and is quite different from the U.S. Universe and your peers:

Policy Mix	2008			2004
Asset Class	Your Fund	U.S. Avg	Peer Avg	Your Fund
US Stock	16%	36%	29%	35%
EAFE/Global Stock	30%	19%	20%	20%
Total Stock	46%	55%	49%	55%
Fixed Income - Broad	27%	22%	19%	27%
Fixed Income Other	0%	9%	11%	0%
Cash	0%	1%	1%	0%
Total Fixed Income	27%	32%	31%	27%
Real Estate & REITS	11%	6%	9%	8%
Hedge Funds	0%	3%	2%	0%
Private Equity	16%	4%	9%	10%
Total	100%	100%	100%	100%

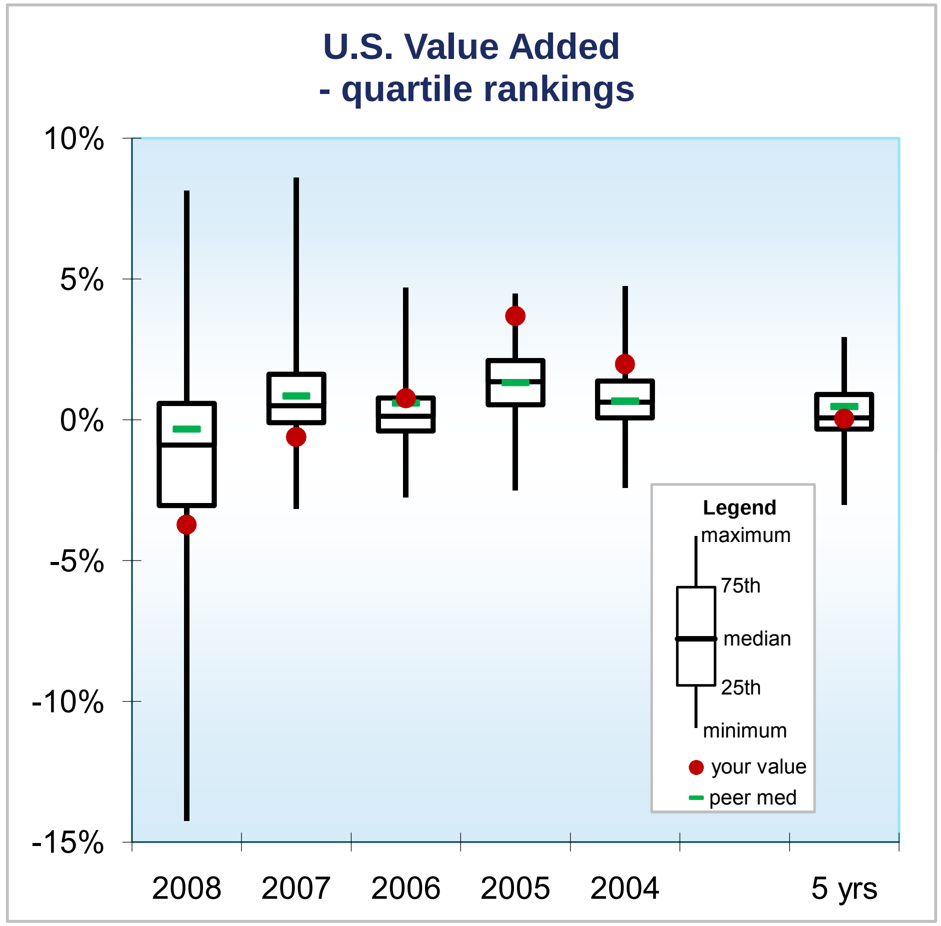
2. Value Added

Value added is the component of your total return from active management. Your 5-year value added of 0.04% was slightly below the U.S. median of 0.07%.

Value added equals your total return minus your policy return.

Oregon PERF			
Year	**Total return**	**Policy return**	**Value added**
2008	-26.8%	-23.0%	-3.7%
2007	9.9%	10.5%	-0.6%
2006	15.7%	14.9%	0.8%
2005	13.5%	9.8%	3.7%
2004	14.7%	12.7%	2.0%
5-year	3.9%	3.9%	0.04%

The median 5-year value added for your peers was 0.48%.



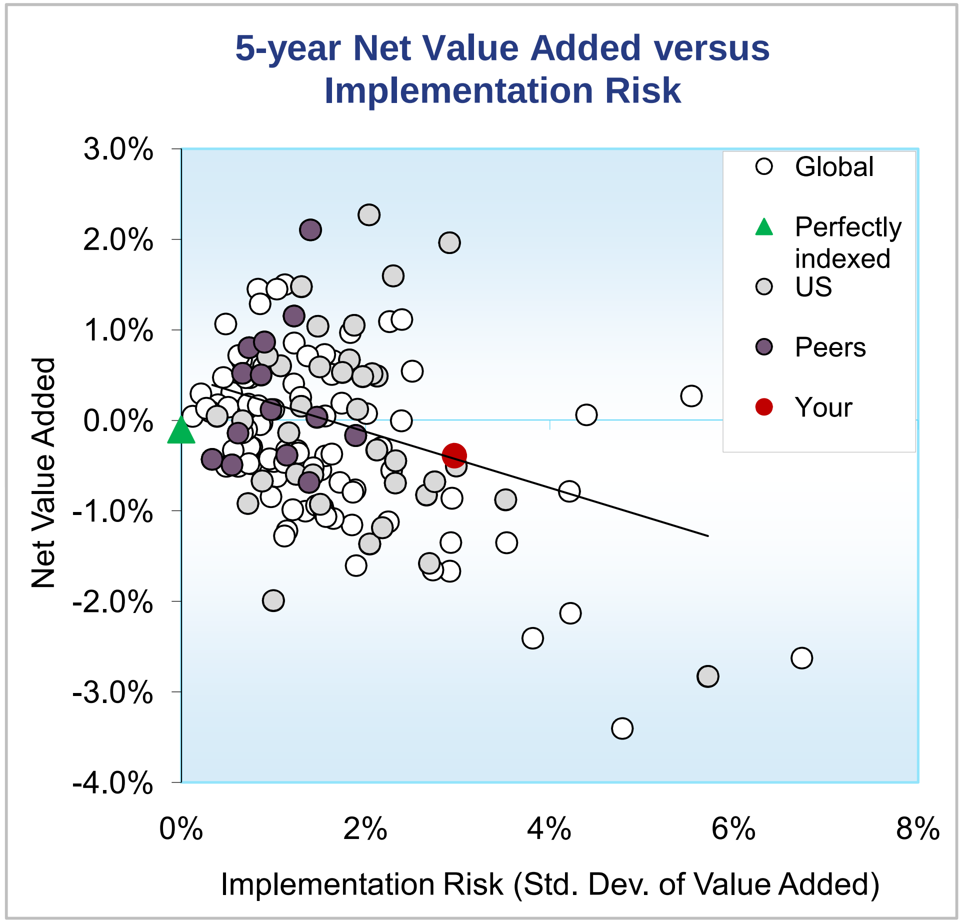
3. Implementation Risk

Your 5-year implementation risk of 3.0% was above the U.S. median of 1.5%.

Implementation risk (or tracking error) is the risk of active management. It equals the standard deviation of your net value added.

Net value added equals gross value added minus asset management costs. Your 5-year net value added was -0.4% (0.0% gross value added minus 0.4% cost).

For the 5 year period ending 2008, there was a negative relationship between NVA and risk. For every extra unit of implementation risk taken, there was a 40 basis point reduction in NVA.



4. Costs

Your asset management costs in 2008 were $410.0 million or 74.4 basis points.

Your Investment Management Costs ($000s)						
	Internal		**External**			
	Passive	**Active**	**Passive**	**base fees**	**perform fees**	**Total**
US Stock - Broad/All			185	23,815		24,000
Stock - ACWIxUS				34,535		34,535
Stock - Global				12,777		12,777
Fixed Income - US				16,458		16,458
Cash		211				211
REITs				3,050		3,050
Real Estate ex-REITs				34,016	n/a[2]	34,016
Diversified Private Equity				265,547 [1]	n/a[2]	265,547
Other Private Equity				10,670 [1]	n/a[2]	10,670
Overlay Programs				784	n/a[2]	784
Total Investment Management Costs					72.9bp	402,047

Your Oversight, Custodial and Other Asset Related Costs[3] ($000s)		
Oversight of the fund		5,321
Trustee & custodial		100
Consulting and performance measurement		2,036
Audit		501
Other		
Total oversight, custodial & other costs	1.4bp	7,958
Total Asset Management Costs	**74.4bp**	**410,005**

Notes

[1] Private equity costs are shown on a fees before rebates basis and are derived from the partnership level detail you provided.

[2] Total cost excludes carry/performance fees for real estate, private equity and overlays. Performance fees are included for the public market asset classes.

[3] Oversight costs exclude non-investment costs, such as preparing checks for retirees.

Benchmark cost analysis suggests that your fund was low cost by 6.0 basis points.

To assess your cost performance, we start by calculating your benchmark cost. Your benchmark cost is an estimate of what your cost would be given your asset mix and the median costs that your peers pay for similar services. It represents the cost your peers would incur if they had your asset mix.

Your total cost of 74.4 bp was lower than your benchmark cost of 80.4 bp. Thus, your fund's cost savings was 6.0 bp.

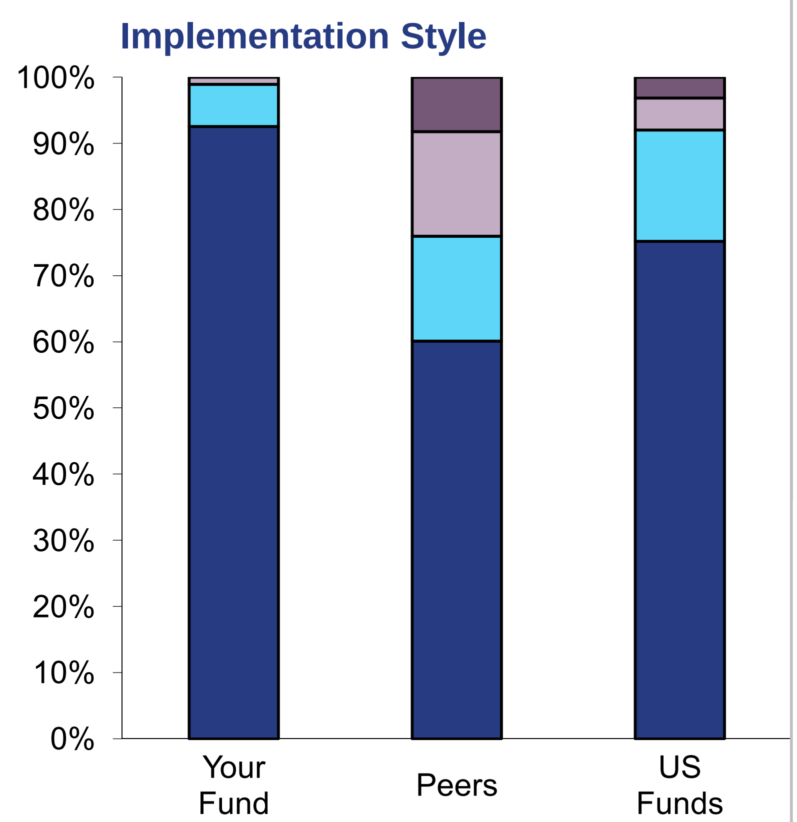
	In $000's	Basis Points
Your actual cost	410,005	74.4 bp
Your benchmark cost	443,035	80.4 bp
Your excess cost	-33,030	-6.0 bp

One key cause of differences in cost performance is often differences in implementation style.

The greatest cost impact is usually caused by differences in:

- External active management because it tends to be much more expensive than internal or passive management. You used more external active management than your peers (your 93% versus 60% for your peers).

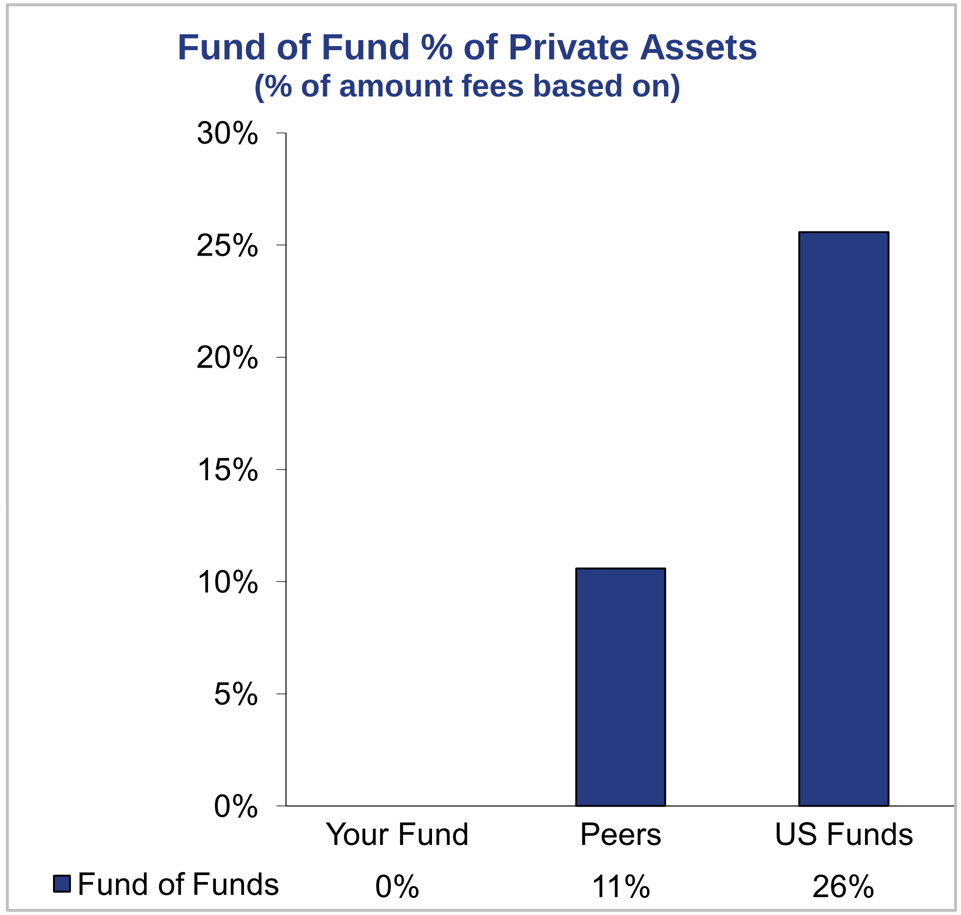
- Fund of funds usage because it is more expensive than direct fund investment. You did not use fund of funds managers. (see next page).



	Your Fund	Peers	US Funds
Internal passive	0%	8%	3%
Internal active	1%	16%	5%
External passive	6%	16%	17%
External active	93%	60%	75%

Your private asset implementation style was lower cost. You used less fund of funds.

None of your private assets were in fund of funds, whereas 11% of peers' private assets were in fund of funds (as a % of the amount fees are based upon).



Differences in implementation style cost you 4.6 bp relative to your peers.

Cost Impact of Differences in Implementation Style

Asset class	Your avg holdings in $mils	% External Active: Your	% External Active: Peer average	% External Active: More/ (less)	Cost[1,2] premium	Cost/ (Savings) in $000
US Stock - Broad/All	10,332	77.6%	31.3%	46.3%	33.8 bp	16,168
Stock - ACWIxUS	9,958	100.0%	57.3%	42.7%	31.7 bp	13,460
Stock - Global	3,605	100.0%	N/A		N/A	
Fixed Income - US	14,823	100.0%	52.6%	47.4%	14.4 bp	10,095
REITs	865	100.0%	N/A		N/A	
Sub total - more external active management						39,722
Real Estate ex-REITs	4,410					
- Direct		100.0%	100.0%			
- Fund of funds		0.0%	0.0%	0.0%		
Diversified Private Equity	17,810					
- Direct		100.0%	85.6%		148.1 bp	(12,071)
- Fund of funds		0.0%	12.4%	(12.4%)	226.6 bp	
Other private equity	668	100.0%	N/A		N/A	
Sub total - less fund of funds						(12,071)
Total 92.5%			60.1%	32.4%		
Total external active style impact in bps						5.0 bp
Impact of differences in the use of lower cost styles[3]						(0.0 bp)
Style savings from your lower use of portfolio level overlays (your 1-passive beta hedge)						(0.4 bp)
Total style impact						4.6 bp

1. The cost premium is the additional cost of external active management relative to the average of other lower cost implementation styles - internal passive, internal active and external passive.
2. A cost premium of 'N/A' indicates that there was insufficient peer data to calculate the premium.
3. The 'Impact of differences in the use of lower cost styles' quantifies the net impact of your relative use of internal passive, internal active and external passive.

The net impact of differences in external investment management costs saved you 10.1 bps.

Impact of Paying More/(Less) for External Investment Management					
	Your avg holdings in $mils	Cost in bps: Your	Cost in bps: Peer median	Cost in bps: More/ (Less)	Cost/ (Savings) in $000s
US Stock - Broad/All - Passive	2,314	0.8	0.9	(0.1)	(27)
US Stock - Broad/All - Active	8,018	29.7	35.6	(5.9)	(4,692)
Stock - ACWIxUS - Active	9,958	34.7	40.1	(5.4)	(5,353)
Stock - Global - Active	3,605	35.4	40.9	(5.5)	(1,979)
Fixed Income - US - Active	14,823	11.1	16.0	(4.9)	(7,266)
REITs - Active	865	35.3	63.1	(27.8)	(2,406)
Real Estate ex-REITs - Active	4,410	77.1	90.0	(12.9)	(5,675)
Diversified Private Equity - Active	17,810	149.1	165.0	(15.9)	(28,318)
Other Private Equity - Active	668	159.8	N/A		
Derivatives/Overlays - Passive Beta	*Notional* 2,062	3.8	3.5	0.3 bp	65
Total external investment management impact				(10.1 bp)	(55,651)

'N/A' indicates insufficient peer data to do meaningful comparisons.

The net impact of differences in your oversight, custodial & other costs saved you 0.5 bps.

Impact of Differences in Oversight, Custodial & Other Costs					
	Your Avg holdings in $mils	Cost in bps			Cost/ (Savings) in $000s
		Your	Peer median	More/ (Less)	
Oversight	55,129	1.0	1.0	0.0	0
Custodial / trustee	55,129	0.0	0.4	(0.4)	(2,096)
Consulting / performance measurement	55,129	0.4	0.4	0.0	0
Audit	55,129	0.1	0.1	0.0	67
Other	55,129	0.0	0.1	(0.1)	(689)
Total impact				(0.5 bp)	(2,718)

In summary, you were low cost because your higher cost implementation style of more external active management was offset by your lesser use of 'fund of funds' and paying less for similar mandates.

Explanation of Your Cost Status	Excess Cost/ (Savings) $000s	bps
1. Higher cost implementation style		
• More external active management and less lower cost passive and internal management	39,722	7.2
• Lower use of fund of funds	(12,071)	(2.2)
• Lower use of overlays & other style differences	(2,312)	(0.4)
	25,339	4.6
2. Paying less than your peers		
• External investment management costs	(55,651)	(10.1)
• Oversight, custodial & other costs	(2,718)	(0.5)
	(58,369)	(10.6)
Total Savings	(33,030)	(6.0)

In summary:

1. Policy Return

Your 5-year policy return was 3.9%. This was above the U.S. median of 2.2% and above the peer median of 2.7%.

2. Value Added

Your 5-year implementation value added was 0.04%. This compares to the U.S. median of 0.07% and the peer median of 0.48%.

3. Implementation Risk

Your 5-year implementation risk was 3.0%. This compares to the U.S. median of 1.5% and the peer median of 1.0%.

4. Costs

Your actual cost of 74.4 bps was below your Benchmark Cost of 80.4 bps. This suggests that your fund was low cost.
You were low cost because your higher cost implementation style of more external active management was offset by your lesser use of 'fund of funds' and paying less for similar mandates.

TAB 7 – OIC PROPOSED 2010 MEETING CALENDAR

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

TAB 8 – ASSET ALLOCATION & NAV UPDATES

Asset Allocations at September 30, 2009

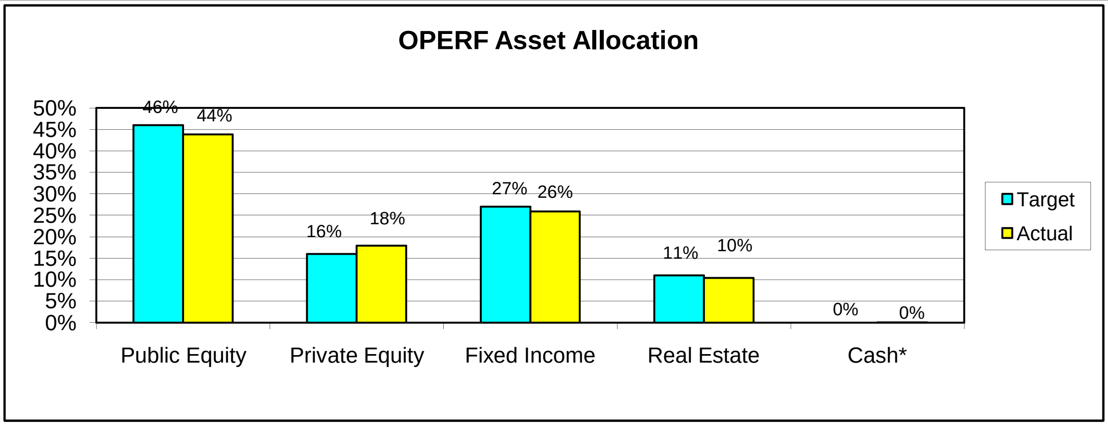
OPERF	Policy	Target	Regular Account $ Thousands	Regular Account Pre-Overlay	Regular Account Overlay	Regular Account Net Position	Regular Account Actual	Variable Fund $ Thousands	Total Fund $ Thousands
Public Equity	41-51%	46%	19,938,598	40.2%	1,796,996	21,735,594	43.8%	938,122	22,673,716
Private Equity	12-20%	16%	8,880,206	17.9%		8,880,206	17.9%		8,880,206
Total Equity	**57-67%**	**62%**	**28,818,804**	**58.1%**	**1,796,996**	**30,615,800**	**61.7%**		**31,553,922**
Opportunity Portfolio			968,053	2.0%		968,053	2.0%		968,053
Fixed Income	**22-32%**	**27%**	**12,965,669**	26.1%	**(118,879)**	**12,846,790**	25.9%		**12,846,790**
Real Estate	**8-14%**	**11%**	**5,149,769**	10.4%	**-**	**5,149,769**	10.4%		**5,149,769**
Cash*	**0-3%**	**0%**	**1,705,131**	3.4%	**(1,678,117)**	**27,014**	0.1%	10,471	**37,485**
TOTAL OPERF		**100%**	**$ 49,607,426**	**100.0%**	**$ -**	**$ 49,607,426**	**100.0%**	**$ 948,593**	**$ 50,556,019**

*Includes cash held in the policy implementation overlay program.

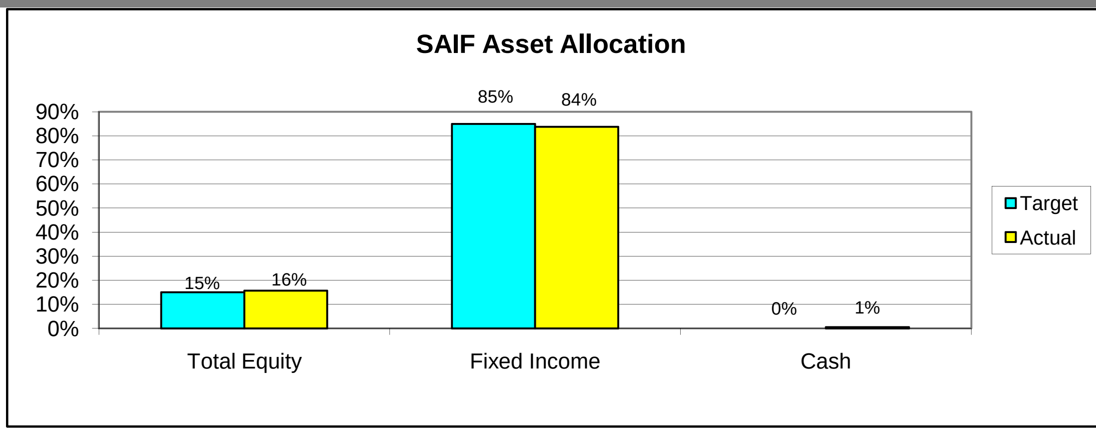
SAIF	Policy	Target	$ Thousands	Actual
Total Equity	**10-20%**	**15.0%**	**619,064**	**15.8%**
Fixed Income	**80-90%**	**85.0%**	**3,290,395**	**83.7%**
Cash	**0-5%**	**0%**	**20,825**	**0.5%**
TOTAL SAIF		**100%**	**$3,930,284**	**100.0%**

CSF	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$311,587	33.4%
International Equities	25-35%	30%	329,282	35.3%
Private Equity	0-12%	10%	19,595	2.1%
Total Equity	**65-75%**	**70%**	**660,464**	**70.9%**
Fixed Income	**25-35%**	**30%**	**264,232**	**28.4%**
Cash	**0-3%**	**0%**	**7,013**	**0.8%**
TOTAL CSF			**$931,709**	**100.0%**

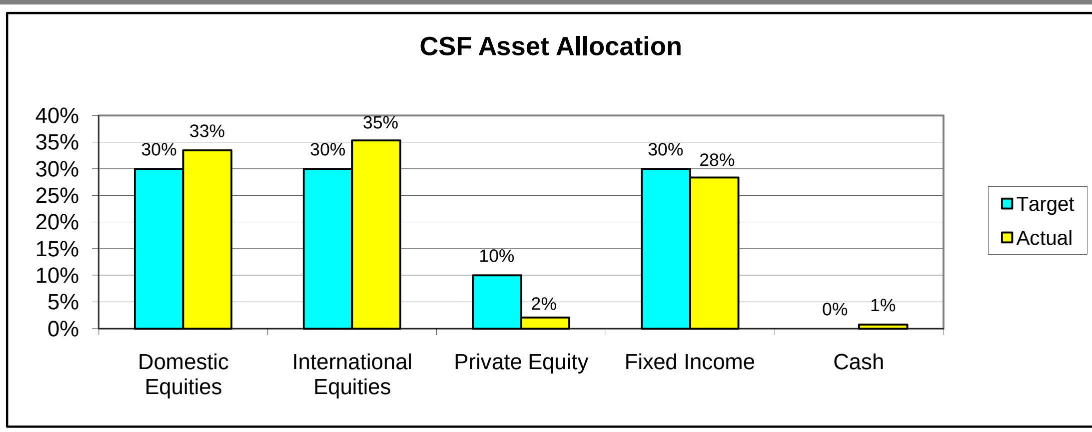
HIED	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$17,151	29.4%
International Equities	25-35%	30%	19,233	32.9%
Private Equity	0-10%	10%	4,628	7.9%
Total Equity	**65-75%**	**70%**	**41,012**	**70.2%**
Fixed Income	**25-35%**	**30%**	**16,441**	**28.1%**
Cash	**0-3%**	**0%**	**973**	**1.7%**
TOTAL HIED			**$58,426**	**100.0%**



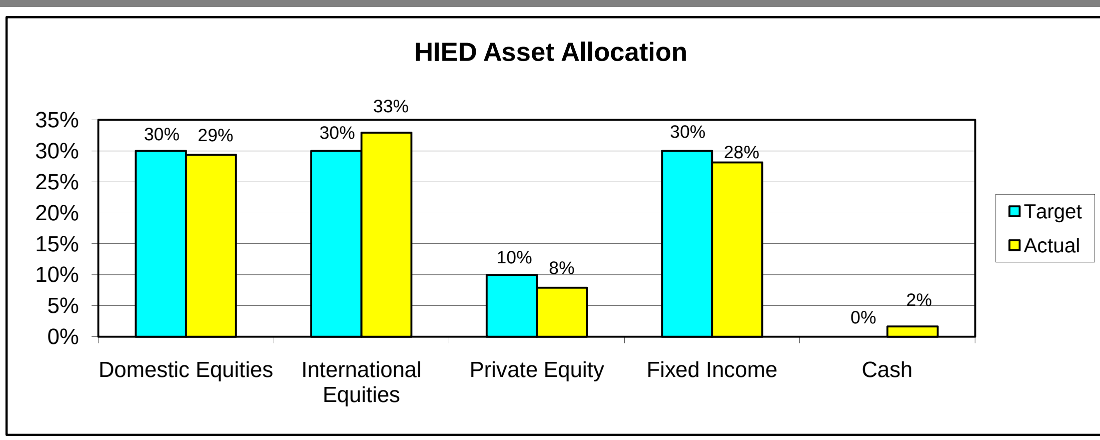
OPERF Asset Allocation
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
46%
44%
16%
18%
27%
26%
11%
10%
0%
0%
Public Equity
Private Equity
Fixed Income
Real Estate
Cash*
Target
Actual



SAIF Asset Allocation
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
15%
16%
85%
84%
0%
1%
Total Equity
Fixed Income
Cash
Target
Actual

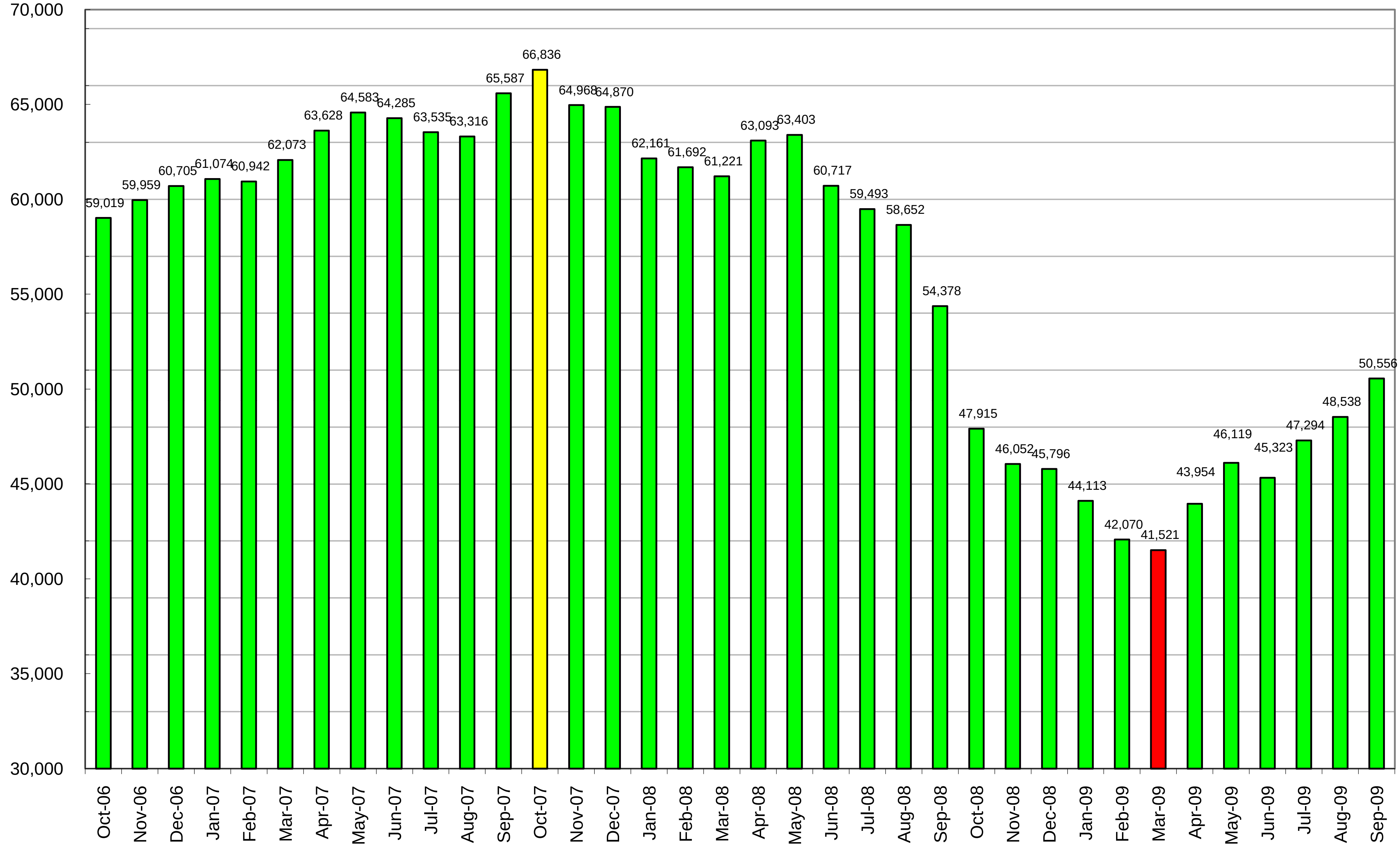


CSF Asset Allocation
40%
35%
30%
25%
20%
15%
10%
5%
0%
30%
33%
30%
35%
10%
2%
30%
28%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual

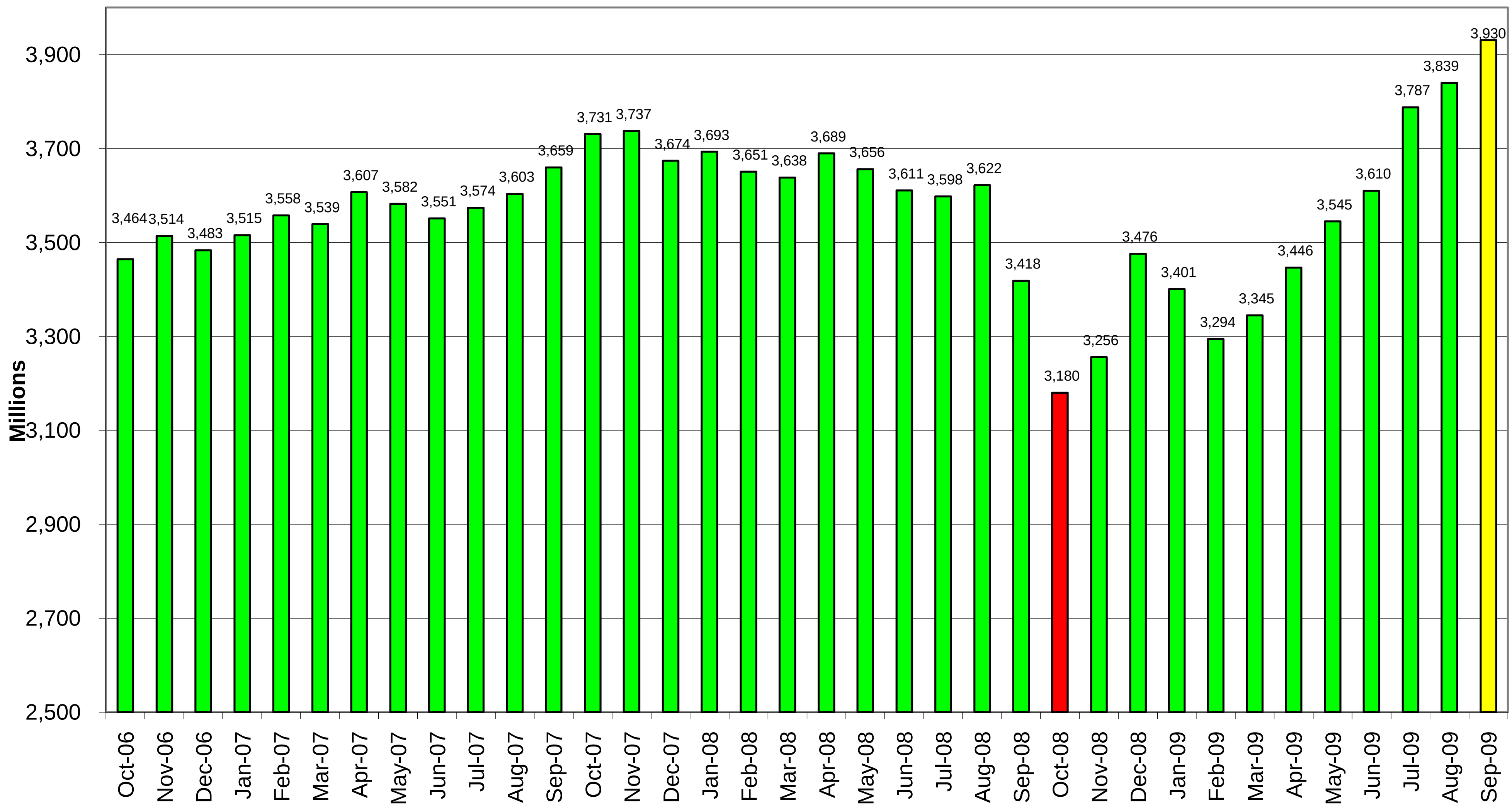


HIED Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
30%
29%
30%
33%
10%
8%
30%
28%
0%
2%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual

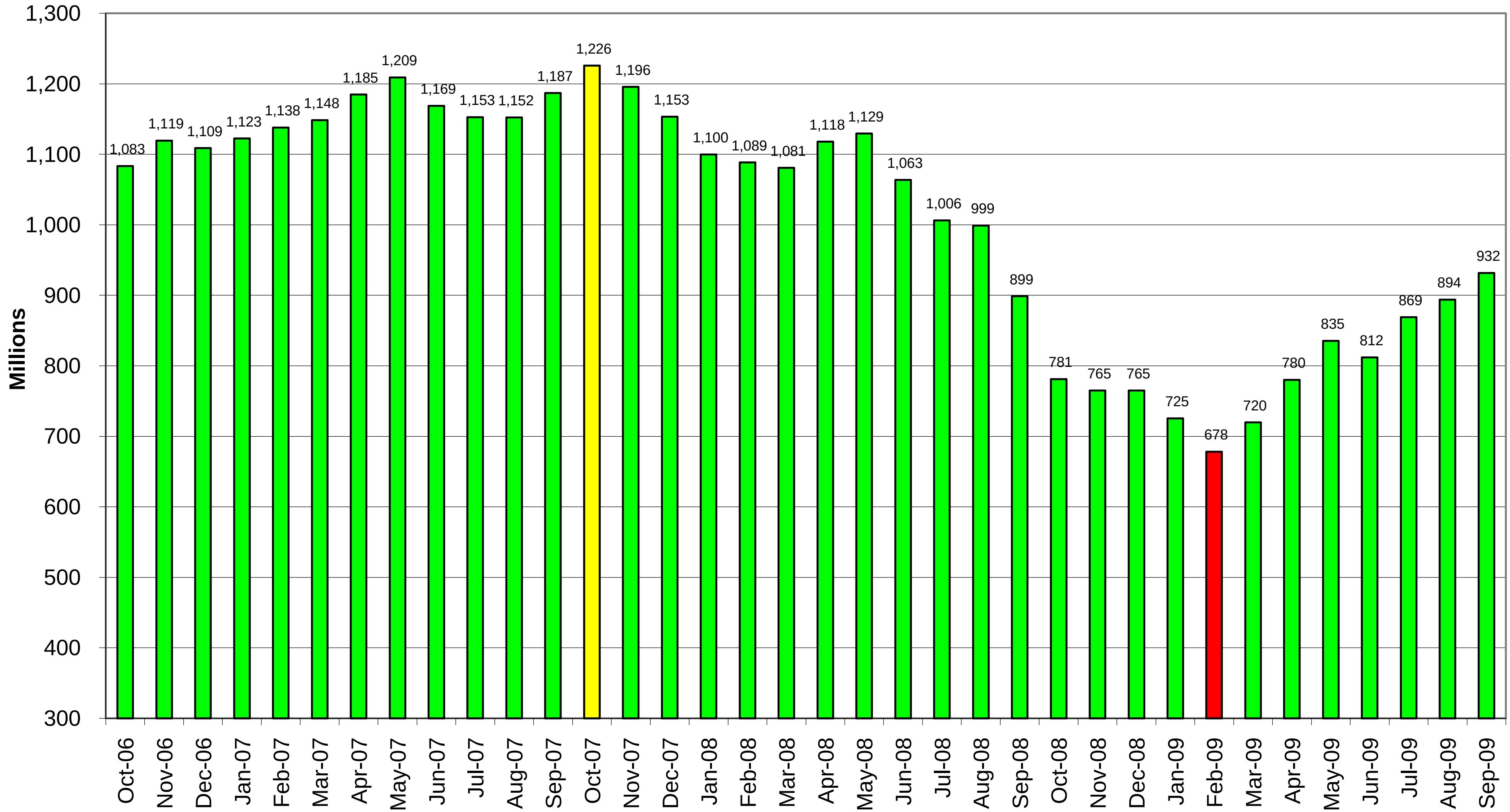
OPERF NAV
Three years ending September 2009
($ in Millions)



SAIF NAV
Three years ending September 2009
($ in Millions)



CSF NAV
Three years ending September 2009
($ in Millions)



TAB 9 – CALENDAR FOR FUTURE AGENDA ITEMS

2009-2010 OIC Forward Agenda Topics

December 2:	OPERF Asset Liability Study Kick-off HIED Annual Review SAIF Asset/Liability Recommendations OPERF 3rd Quarter Performance Review
January 27:	Election of Officers OPERF Private Equity Annual Plan Public Equity Review SAIF Policy Updates Opportunity Portfolio Updates
February 24:	OPERF 4th Quarter Performance Review Securities Lending Review OSGP Annual Review OSTF Annual Review
April 28:	DOJ Litigation Update Annual Policy Updates
May 26:	OPERF 1st Quarter Performance Review
July 28:	OPERF Real Estate Annual Review
September 29:	CEM Annual Review CSF Annual Review
October 27:	OPERF Opportunity Portfolio Annual Plan
December 1:	OPERF 3rd Quarter Performance Review HIED Annual Review