Oregon Investment Council

October 27, 2010 - 9:00 AM

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

Oregon Investment Council

Harry Demorest
Chair

Office of The State Treasurer
Ted Wheeler
State Treasurer

Ronald Schmitz
Chief Investment Officer

OREGON INVESTMENT COUNCIL

2010 Meeting Schedule

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

January 27, 2010

February 24, 2010

April 28, 2010

May 26, 2010

July 28, 2010

September 29, 2010

October 27, 2010

December 1, 2010

Oregon Investment Council

Agenda
-----REVISED-----
October 27, 2010
9:00 AM

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

Time	A. Action Items	Presenter	Tab
9:00-9:05	**1. Review & Approval of Minutes** September 29, 2010 Regular Meeting	**Ron Schmitz** *Chief Investment Officer*	**1**
9:05-9:45	**2. Centerbridge Capital Partners II, LP** *OPERF Private Equity*	**Jay Fewel** *Senior Investment Officer* **Jeff Aronson** *Co-Founder & Managing Principal* **Mark Gallogly** *Co-Founder & Managing Principal* **David Fann** *Pacific Corporate Group*	**2**
9:45-10:30	**3. WLR Recovery Fund V, LP** *OPERF Private Equity*	**Jay Fewel** **Wilbur Ross** *Founder, Chairman & CEO* **David Fann**	**3**
10:30-10:45	**---------------------BREAK----------------------**		
10:45-11:00	**4. OIC Proposed Policy Revisions** *4.00.03 & 4.01.13*	**Mike Mueller** *Deputy CIO*	**4**
11:00-11:10	**4a. OIC Proposed Policy Revisions** *4.03.02*	**Perrin Lim** *Senior Investment Officer*	
11:10-11:20	**4b. Sheridan Production Partners**	**John Hershey** *Investment Officer*	

B. Information Items

11:20-11:45	**5.**	**CEM Benchmarking Annual Report** *OPERF*	**Bruce Hopkins** *Director, CEM Benchmarking* **Mike Mueller**	**5**
11:45-12:00	**6.**	**Asset Allocations & NAV Updates** a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HIED Pooled Endowment Fund	**Ron Schmitz**	**6**
	7.	**Calendar—Future Agenda Items**	**Ron Schmitz**	**7**
	8.	**Other Items**	**Council** **Staff** **Consultants**	

C. Public Comment Invited

15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

September 29, 2010 Regular Meeting

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 28, 2010
MEETING MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Dick Solomon, Treasurer Ted Wheeler
Member on Phone:	Keith Larson
Staff Present:	Darren Bond, Brad Child, Jay Fewel, Sam Green, Andy Hayes, John Hershey, Brooks Hogle, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Tom Rinehart, Ron Schmitz, James Sinks, James Spencer, Michael Viteri
Consultants Present:	Allan Emkin, John Linder, and Mike Moy (PCA), Mike Beasley and John Meier (SIS), David Fann, Tom Martin and Sundeep Rana (PCG), Nori Gerardo Lietz (PCA Real Estate Advisors)
Legal Counsel Present:	Dee Carlson, Oregon Department of Justice Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 9:02 am by Harry Demorest, Chair.

I. 9:02 a.m.: Review and Approval of Minutes

MOTION: Mr. Demorest brought approval of the July 28, 2010 OIC minutes to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Mr. Solomon and passed by a vote of 4/0 (Mr. Larson was not present for the vote).

II. 9:03 a.m.: Sheridan Production Partners - II, L.P. – *OPERF Opportunity Portfolio*

Staff recommended a commitment of $100 million to Sheridan Production Partners, L.P. Fund II. In April 2007, the OIC approved a commitment of $100 million to Sheridan Production Partners I-B L.P. ("SP-I"). This proposed commitment would be a "re-up" to an existing relationship.

Sheridan was formed in 2006 through a 50/50 joint venture between Warburg Pincus (an OPERF private equity relationship) and Lisa Stewart, CEO of Sheridan and former CEO of El Paso's Exploration and Production ("E&P") business (El Paso is a publicly traded oil and gas company).

John Hershey, Alternatives Investment Officer introduced Lisa Stewart, CEO of Sheridan Production Partners. Ms. Stewart explained that the strategy of the fund is to acquire mature producing properties with large proven reserves that have not been exceptionally maintained or are on the decline. Levering their management and operational expertise, Sheridan will seek to optimize the operation of these assets by reinvesting in properties to accelerate their production and enhance recovery. At any given time, Sheridan has over 100 reinvestment or refurbishment projects in various stages of implementation. To mitigate volatility in oil and gas prices, Sheridan will hedge a significant proportion of its current and acquired production. The hedged strategy should yield targeted IRR returns in the mid-teens, inclusive of a current yield component. To optimize returns and to take advantage of the high cash flow characteristics of its assets, SP-II, expects to apply leverage at the Fund level.

John Hershey answered questions from the Council, including a more detailed explanation of the hedging strategies for the fund.

MOTION: Ms. Durant moved approval of the staff recommendation subject to the negotiation of the requisite legal documents with staff working in concert with the Department of Justice. Treasurer Wheeler seconded the motion. The motion was passed unanimously by a vote of 5/0.

III. 9:30 a.m.: Apollo Financial Credit Investment I, L.P. – *OPERF Opportunity Portfolio*

Staff recommended a commitment of $100 million to Apollo Financial Credit Investment Fund I, L.P. The life settlements market is an estimated $100 billion plus market comprised of traded life insurance policies. When an individual policy holders' estate planning or personal beneficiary strategy changes or they no longer wish to continue to fund the premiums of a universal life insurance policy, they may either surrender that policy to their life insurance provider or they may sell that policy in the secondary market. As the value received in the secondary market is typically greater than surrender value, the life settlements market has grown steadily over the years as more policy holders opt to sell their policy rather than surrender it. Some of the market growth was driven by the downturn in the economy as more and more policy holders sought liquidity and/or no longer wished to continue to fund annual premiums.

John Hershey introduced Marc Rowan, Senior Managing Director for Apollo and Jamshid Ehsani, a consultant to Apollo. Apollo is forming a small group of institutional investors (a "club deal") to form a single purpose investment fund to acquire a large portfolio from a European commercial bank. Apollo believes it will acquire the portfolio at an attractive distressed value of the face amount of the portfolio. In addition to the purchase price outlay, Apollo's strategy is to continue to fund the insurance premiums (in part through a credit facility). There is expected to be a brief "J-curve" until the portfolio throws off positive cash flow.

There was a brief question and answer period following the presentation. There were some questions raised by Council members regarding fees and rate of return. John Hershey and Sundeep Rana (PCG) explained that there has been some movement on the fees in the negotiations with Apollo. Mr. Solomon expressed his concern regarding the strategy of the fund since it is partly based on insurance beneficiary mortality.

MOTION: Ms. Durant moved approval of the staff recommendation subject to changes in economic terms and subject to the negotiation of the requisite legal documents with staff working in concert with the Department of Justice. Mr. Larson seconded the motion. The motion was passed by a vote of 3/2 with Treasurer Wheeler and Mr. Solomon voting no.

IV. 10:35 a.m.: OPERF Real Estate Strategy & Lone Star Follow-Up

S. Bradford Child, Senior Real Estate Investment Officer and Nori Gerardo Lietz with PCA Real Estate Advisors presented to the Council the following issues for discussion:

Should OPERF reshape its real estate portfolio with more debt products producing income but no capital gain (such as first mortgages) or preferred equity real estate securities to reduce risk even if it is at a cost of reduced total return? Should the real estate core sector be increased and the higher risk value-added and/or opportunistic sectors be reduced? **Staff recommended retaining the current risk/return policy limits.**

Should OPERF continue investing globally or retreat to within U.S. borders? **Staff recommended continuing to include global real estate investments in the OPERF real estate portfolio.**

Should OPERF pursue larger real estate commitments ($500 million and above) to keep the number of managed accounts reasonable? In doing so, should OPERF seek a higher degree of LP control by investing in "Club" deals with few investors working closely with the managing partner? **Staff recommended seeking platforms and deal structures that will accommodate larger commitments. Separate accounts and "Club" deals should be pursued where they offer greater investment control to OPERF.**

LONE STAR:

On September 30, 2009, the OIC approved Staff's recommendation of a $100 million commitment to Lone Star Fund VII, L.P. ("LS Fund VII") and $300 million to Lone Star Real Estate Fund II, L.P. ("LS Real Estate Fund II"). The two global funds targeted a combined equity of $20 billion. Their combined portfolios are "opportunistic" in nature. 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. Both target IRR return at the investment level of 25 percent and will be run side-by-side. Staff and consultant recommended two commitments, $300 million to Lone Star's historic strength in commercial real estate in Lone Star Real Estate Fund II and $100 million to the residential and entity investments in Lone Star Fund VII. Since 1995, Lone Star has offered seven funds, investing a total of over $24 billion. OPERF has invested in all of the previous funds. Over all, these funds are projected to produce a total net IRR to OPERF in excess of 25 percent.

The OIC's $400 million approval was made subject to OPERF receiving the right to increase its commitment by up to an additional $400 million, near the end of the capital raising period. Unless an extension is requested by the general partner and approved by the funds' LP advisory committees, the capital raising period is scheduled to end on November 30, 2010.

OIC policy targets 30 percent of the total real estate portfolio to be in the opportunistic sector with a top of range at 40 percent. As of September 1, 2010, opportunistic holdings represented 39 percent. It appears that OPERF will exceed the OIC policy limit for opportunistic real estate investments even without an additional commitment to Lone Star.

Therefore staff recommended staying at the current commitment level with Lone Star ($400 million) and not exercising the option for an additional commitment. Also, staff recommended renegotiating to even the allocations in Lone Star Fund VII, L.P. and Lone Star Real Estate Fund II, L.P. to a 50/50 split.

MOTION: Treasurer Wheeler moved approval of the all of the staff recommendations above. Mr. Solomon seconded the motion. The motion was passed unanimously by a vote of 5/0.

V. 11:30 a.m.: Common School Fund Annual Review and HIED Endowment Fund Update

Mike Mueller, Deputy CIO provided an update on the performance, structure, and asset allocation of the Common School Fund for the one year period ended August 31, 2010 in accordance with OIC Policy 4.08.07. Periodically, the Director of the Division of State Lands provides an update to the OIC. However, since she provided an update last year, she did not feel the need to present at this meeting. This was an informational item only.

Staff recommended an update to OIC Policy 4.10.01 to reflect investment policy changes for the HIED Endowment approved by the OIC in July 2010.

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

VI. 11:32 a.m.: OIC Consultant Recommendation

- Staff recommended extending the contracts of Strategic Investment Solutions (SIS) and PCA-Emkin for a one year period ending December 31, 2011, under the same fee terms. Additionally, John Meier will replace Mike Beasley as the "key man" for SIS.
- Extending the contract of Pacific Corporate Group (PCG) for a two-year period ending December 31, 2012, under previously contracted fees.

MOTION: Mr. Solomon moved approval of the staff recommendations. Treasurer Wheeler seconded the motion. The motion was passed unanimously by a vote of 5/0.

VII. 11:35 a.m.: Public Equity Recommendation

Kevin Nordhill, Senior Equity Investment Officer presented the following recommendations:

- Terminate the AllianceBernstein Global Research Growth strategy for OPERF and amend OIC Policy 4.05.01 accordingly. Assets will be used as a source of cash to meet future OPERF liquidity requirements.
- Terminate the AllianceBernstein Global Style Blend mandates for the Common School Fund and Oregon University System Endowment Fund. Hire the Blackrock All Country World Index Fund and redeploy the AllianceBernstein assets to the index fund.

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

VII-A. 11:36 a.m.: OSTF & OITP Policy Revisions

Perrin Lim, Senior Investment Officer recommended the following policy updates:

- The OIC approve the revised Oregon Short-Term Fund Portfolio Rules, Policy 4.02.03, as approved by the Oregon Short-Term Fund Board on September 23, 2010.

- The OIC approve the revised Oregon Intermediate Term Pool Portfolio Rules, Policy 4.03.04.

MOTION: Ms. Durant moved approval of the staff recommendation. Mr. Solomon seconded the motion. The motion was passed by a vote of 4/0 (Mr. Larson abstained because he had not seen the materials ahead of time).

VIII. 11:37 a.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended August 31, 2010. All asset classes are within their allocation ranges.

IX. 11:38 a.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

X. 11:39 a.m.: Other Business

- Mr. Schmitz stated that all Real Estate and Private Equity Committee minutes will be shared with the Board at OIC meetings.
- Mr. Demorest commended Katy Durant for her re-appointment to the Council.
- Treasurer Wheeler stated that there will be an upcoming policy change regarding staff contact with placement agents.

11:44 a.m.: Public Comments

There were no public comments.

The meeting adjourned at 11:45 a.m.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist

TAB 2 – CENTERBRIDGE CAPITAL PARTNERS II, LP

OPERF Private Equity

Centerbridge Capital Partners II

Purpose

Staff is recommending a commitment of $100 million to Centerbridge Capital Partners II, L.P., a $3.75 billion (target) fund pursuing a hybrid private equity-distressed debt strategy. Fund II will be a continuation of the successful strategy employed in the first Centerbridge Capital Partners fund, focusing primarily on investments of $50-$300 million in North America.

Background

Centerbridge was founded in 2005 by Jeff Aronson and Mark Gallogly, following their departures from senior level positions at Angelo Gordon & Co., and The Blackstone Group, respectively. Mr. Aronson and Mr. Gallogly had worked together on various projects with their predecessor firms, since 2002.

Since its formation, Centerbridge has grown into a robust, multi-strategy firm, with 90 employees, including 34 investment professionals, and over $11.0 billion in assets under management. The firm also manages a series of non-control, distressed debt funds. While Centerbridge operates funds with differing structures and strategies, the firm operates under a “single team” model, out of one New York office. The firm is exploring the possibility of opening a London office and expanding its activities into Europe, but no decision or action on this option is imminent.

The Fund’s strategy was designed to be economic-cycle agnostic, allowing the team to focus on buyouts, corporate partnerships, recapitalizations, and build-ups during times of economic expansion, and distressed debt opportunities, with an eye toward gaining control, during economic slowdowns and periods of market instability. Since 2006, the firm has deployed approximately two-thirds of invested capital into distressed debt opportunities, and one-third into private equity opportunities.

Centerbridge has generated strong performance, in its debut fund. As of March 31, 2010:

- Centerbridge Capital Partners I, a 2006 vintage fund, had a net IRR of 22.7 percent, and a net total value multiple of 1.28x. Both the IRR and multiple numbers are strong first-quartile results, for a 2006 vintage fund.

OPERF committed $200 million to Fund I, in 2006. Staff notes that the reduced commitment recommended for Fund II is based solely on the need to manage OPERF’s overall private equity allocation

As a majority of Fund I was invested in distressed debt opportunities, anew commitment will be allocated 100 percent to the distressed subsector. As of June 30, 2010, OPERF’s allocation to Distressed is targeted at 0-10 percent, with a current fair market value plus unfunded commitments exposure totaling 8.0 percent.

Centerbridge has engaged Park Hill Group, an investment marketing affiliate of The Blackstone Group, to assist raising the Fund in an advisory capacity.

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

- Tightening the conditions on commencement of the commitment period
- Reducing post-commitment period management fees
- Obtaining a reasonable cap on organization costs of the fund

Recommendation

Staff recommends that the OIC authorize a $100 million commitment to Centerbridge Capital Partners II, L.P., subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

MEMORANDUM

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

FROM: PCG Asset Management LLC ("PCG")

DATE: September 15, 2010

RE: Centerbridge Capital Partners II, L.P.

Strategy:

Centerbridge Partners, L.P. ("Centerbridge" or the "Firm") is sponsoring the formation of Centerbridge Capital Partners II, L.P. (the "Fund" or "Fund II") primarily to make private equity and distressed securities investments. The Fund represents the second lock-up investment vehicle for Centerbridge, and combines the talents of Mark Gallogly, former Senior Managing Director and the Head of the Private Equity Group at The Blackstone Group ("Blackstone"), and Jeffrey Aronson (together with Mr. Gallogly, the "Principals"), former Partner at Angelo, Gordon & Co ("Angelo Gordon"). The Firm will operate out of its sole office in New York City.

The Firm will pursue a multi-stage strategy, making both private equity and distressed debt investments. Centerbridge will make private equity investments in leveraged buyouts, corporate partnerships, build ups, or other opportunities, and generally will pursue a value investment strategy. The Firm will also pursue distressed debt investments in situations in which Centerbridge believes it can influence the reorganization process and ultimately own the company. The Principals believe that combining distressed debt and private equity investment perspectives will help generate unique and attractive investment opportunities, and the Firm expects to make a number of investments combining the two strategies. The Firm will likely make investments of $50 million to $300 million per portfolio company and will invest primarily in North America.

Centerbridge is targeting commitments of $3.75 billion and there is currently no cap set on the Fund size. The Fund intends to hold the first closing in October 2010 with a final close during the first quarter of 2011.

Allocation:

A new commitment to the Fund would be allocated 100% to the Special Situations investment sub-sector. As of March 31, 2010, OPERF's allocation to Special Situations is listed in the table below. It is important to note that since allocation is based on fair market value, a commitment to the Fund would not have an immediate impact on OPERF's current portfolio allocation. A commitment to the Fund is complementary to OPERF's existing fund commitments and provides the overall portfolio with a further degree of diversification.

As of March 31, 2010	Target	FMV	FMV + Unfunded
Special Situations	5-15%	12%	11%

Conclusion:

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

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

(2) Satisfactory completion of legal documents;

(3) Satisfactory continuation and finalization of due diligence;

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

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

TAB 3 – WLR RECOVERY FUND V, LP

OPERF PRIVATE EQUITY

WLR Recovery Fund V, L.P.

Purpose

Staff is recommending a commitment of $100 million to WLR Recovery Fund V, L.P., a $4.0 billion (target) fund pursuing distressed investment opportunities. Fund V will be a continuation of the successful strategy employed in four prior WLR funds, focusing on opportunistic, control investments with an average size of $100-$200 million, primarily in North America.

Background

WL Ross was founded in 2000 as part of the purchase and lift-out of the Rothschild, Inc. bankruptcy and workout team. As part of the lift-out, the firm retained management of the Rothschild Recovery Fund (subsequently renamed the WLR Recovery Fund). While the WLR Recovery funds are the flagship product of WL Ross, the firm has organized and managed eleven other investment funds focused on specific geographic regions, and different strategies. The investment team that will be managing Fund V consists of Mr. Ross and 20 other investment professionals in the firm's New York office, and four investment professionals in Mumbai, India.

Of substantial note is the firm's creation of the Office of the Chairman. Although Mr. Ross has contractually agreed to lead the firm for another five years, the Office of the Chairman was created to prepare the firm for the orderly transition of management to the next generation. This group is responsible for the overall strategic direction and key management decisions of the firm, and is comprised of: Wilbur Ross, David Storper, Steven Toy, and the recently hired Vice Chairman, Jim Lockhart, III. Prior to joining WL Ross, Mr. Lockhart held positions including Director of the Federal Housing Finance Agency, Deputy Commissioner of the Social Security Administration, and Executive Director of the Pension Benefit Guarantee Corporation.

In 2006, WL Ross was acquired by INVESCO. Under the terms of sale, WL Ross retained its team and substantial operating autonomy, but gave up substantial portions of the economics of the firm. However, under the terms of the acquisition, the investment team has retained a majority of the carried interest, sufficient to ensure proper incentives and alignment of interests. The investment team is expected to be allocated at least 60 percent of the carried interest, if any, in the fund. The investment team will also make a commitment of over $50 million to the fund.

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

WL Ross has generated strong performance in its Recovery Fund strategy. As of March 31, 2010:

- Fund I, a $200 million, 2000 vintage fund, has generated a net IRR of 34.3 percent, and a net total value multiple of 3.39x. Both the IRR and TVM rank in the first quartile according to Venture Economics data.
- Fund II, a $394 million, 2002 vintage fund, has generated a net IRR of 73.7 percent, and a net total value multiple of 2.25x. Both the IRR and TVM rank in the first quartile according to Venture Economics data.
- Fund III, a $1.1 billion, 2005 vintage fund, has generated a net IRR of 3.5 percent, and a net total value multiple of 1.1x. Both the IRR and TVM rank in the second quartile according to Venture Economics data. It is worth noting that 2005 was a difficult vintage year, and first quartile thresholds for 2005 were 7.9 percent, and 1.19x, respectively.
- Fund IV, a $4.1 billion, 2007 vintage fund, has generated a net IRR of 12.6 percent, and a net total value multiple of 1.23x. Both the IRR and TVM rank in the first quartile according to Venture Economics data.

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

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

Staff and PCG have reviewed the Fund's compliance with the Private Partnership Principles, and anticipate seeking the following improvements during final negotiations of terms and conditions:

- Enhancing Key-Man protection and rights;

- Improving governance rights, particularly with respect to No-fault Divorce rights.

Recommendation

Staff recommends that the OIC authorize a $100 million commitment to WLR Recovery Fund V, L.P., subject to the satisfactory negotiation of terms and conditions, and the completion of requisite legal documents by DOJ legal counsel working in concert with OST staff.

MEMORANDUM

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

FROM: PCG Asset Management LLC ("PCG")

DATE: September 16, 2010

RE: WLR Recovery Fund V, L.P.

Strategy:

WLR Recovery Fund V, L.P. ("Fund V," or the "Fund") is being organized by WL Ross & Co. LLC, ("WL Ross," the "General Partner," or the "Firm") to pursue investment opportunities arising from financial distress. This strategy represents a continuation of the one employed since the Firm's inception in 2000. The WL Ross team has invested four previous distressed funds, including WLR Recovery Fund, L.P. ("Fund I"), WLR Recovery Fund II, L.P. ("Fund II"), WLR Recovery Fund III, L.P. ("Fund III"), and WLR Recovery Fund IV, L.P. ("Fund IV"). WL Ross maintains offices in New York, and Mumbai, in addition to other offices through its affiliates. The Fund will primarily be managed out of the New York office.

WL Ross utilizes a control strategy, typically investing in companies in bankruptcy or reorganization. The Firm focuses on industries that have fallen out of favor with investors in general. Although the Fund has no target industry allocation, the Firm expects to focus on the healthcare, airline lease, energy, metals and mining, transportation equipment and services, banking, and financial services industries. Investments will generally consist of public and private debt securities, distressed bank loans and trade claims, as well as equity-linked securities. The Fund anticipates an average investment size of $100-200 million per transaction. Fund V will primarily invest in U.S.-based companies, but will have the ability to invest up to 50% of capital in companies based outside of the country.

WL Ross has set a target for Fund V at $4 billion and has not yet committed to hard cap for the Fund. The Firm anticipates holding a first closing in September or October 2010 and a final closing six months after the initial close.

Allocation:

A new commitment to the Fund would be allocated 100% to the Special Situations investment sub-sector. As of March 31, 2010, OPERF's allocation to Special Situations is listed in the table below. It is important to note that since allocation is based on fair market value, a commitment to the Fund would not have an immediate impact on OPERF's current portfolio allocation. A commitment to the Fund is complementary to OPERF's existing fund commitments and provides the overall portfolio with a further degree of diversification.

As of March 31, 2010	Target	FMV	FMV + Unfunded
Special Situations	5-15%	12%	11%

Conclusion:

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

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

(2) Satisfactory completion of legal documents;

(3) Satisfactory continuation and finalization of due diligence;

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

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

TAB 4 – OIC PROPOSED POLICY REVISIONS

4.00.03

4.01.13

OIC Policy Updates
October 2010

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

Discussion
At the request of the State Treasurer, the Oregon State Treasury has revised its employee Conflict of Interest and Code of Conduct Policy to address Placement Agents used by firms that are ultimately recommended to the OIC for investment, as well as related reporting requirements. This policy is included in the information following (See Policy 5.03.01).

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

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

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

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

PROCEDURES:

1. **PERFORMANCE**

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

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

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

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

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

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

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

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

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

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

G. Any meeting between an OIC member and a Placement Agent shall be disclosed by the member at the next public meeting of the OIC.

2. **APPOINTMENTS**

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

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

3. ADDITIONAL ECONOMIC AND OTHER DISCLOSURE REQUIREMENTS

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

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

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

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

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

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

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

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

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

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

6. **OIC CONTRACTORS**

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

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

A. **"Actual conflict of interest"** means any action or any decision or recommendation by a person acting in a capacity as a public official, the effect of which *would be* to the private pecuniary benefit or detriment of the person or the person's relative or any business with which the person or a relative of the person is associated unless the pecuniary benefit or detriment arises out of circumstances described in subsection (12). (From ORS 244.020(1)).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

N. "**Relative**" means:

(a) The spouse of the public official or candidate;

(b) Any children of the public official or of the public official's spouse;

(c) Any children of the candidate or of the candidate's spouse;

(d) Siblings, spouses of siblings or parents of the public official or of the public official's spouse;

(e) Siblings, spouses of siblings or parents of the candidate or of the candidate's spouse;

(f) Any individual for whom the public official or candidate has a legal support obligation;

(g) Any individual for whom the public official provides benefits arising from the public official's public employment or from whom the public official receives benefits arising from that individual's employment; or

(h) Any individual from whom the candidate receives benefits arising from that individual's employment.

(From ORS 244.020(15)).

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)

None

FUNCTION: General Policies and Procedures
ACTIVITY: Consulting Contracts

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

PROCEDURES:

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

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

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

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

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

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

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

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

DEFINITIONS:

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

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

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

FOR INFORMATION ONLY

OST POLICY 5.03.01

FUNCTION: **Conflict of Interest and Code of Ethics**
ACTIVITY: **Conflict of Interest and Code of Conduct**

POLICY: **If an employee of the OST faces a potential or actual conflict of interest, or the appearance of a conflict of interest between (a) the best interests of OST, the owners of funds managed by OST, and/or the State and (b) the personal interests of the employee or interests of a relative or business, that employee shall notify his or her immediate supervisor and the Risk and Compliance Officer, in writing, of such conflict as soon as the employee becomes aware of its existence. The employee shall further request that his/her supervisor make such day-to-day decisions regarding OST's business, that the employee would normally make were it not for the conflict of interest. This policy shall be interpreted broadly.**

Every OST employee shall sign an Annual Professional Conduct Statement to be filed with the Risk and Compliance Officer. The Statement shall be filed by new employees upon hire and annually during the month of April for all employees.

OST's Risk and Compliance Officer shall provide employees a copy of the Oregon Government Ethics Commission's *Guide for Public Officials*, upon request.

The following list is not all inclusive, but provides employees with standards of conduct to reduce actual and potential conflicts of interest.

1. **Personal Financial Benefit.** No OST employee shall use or attempt to use official position or office to obtain financial gain or avoidance of financial detriment that would not otherwise be available *but for* the OST employee's holding of the official position or office (other than official salary and expense reimbursement) or for any business with which the OST employee or a relative of the OST employee is associated (ORS 244.040(1)(a)).

2. **Personal Accounts at Brokerages.** No OST employee, nor relative, shall knowingly maintain an unreported account with a person with whom the OST has a continuing business relationship, whether that relationship may be formal and contractual or informal and irregular.

3. **Personal Investment Restrictions.** Investments in private placement securities shall be disclosed to the Risk and Compliance Officer.

4. **Promise of Future Employment.** Employees shall not solicit or receive any promise of future employment which might in any way influence their official station.

5. **Prohibition Against Use of Nonpublic Information**. OST employees who possess material nonpublic information related to the value of a security shall not trade or cause others to trade in that security. If OST employees receive material nonpublic information in confidence, they shall not breach that confidence by trading or causing others to trade in securities to which such information relates.

6. **Compensation Other than State Salary or Wages.** No OST employee shall accept monetary compensation of any sort, other than the compensation paid by the State of Oregon, for work performed during the course of OST business.

7. **Independence and Objectivity.** OST employees shall use reasonable care and judgment to achieve and maintain independence and objectivity in making business decisions.

8. **Gifts.** Employees and relatives of the employee shall abstain from soliciting or receiving, during any calendar year, whether directly or indirectly, any gift or gifts with an aggregate value in excess of $50 from any single source who could reasonably be known to have an interest in the official business of the OST. (ORS 244.040 (2))

   Employees are responsible for tracking the gifts they receive to ensure they do not go over the $50 annual limit. There is a link at the end of this policy to the OST gratuity log that can be used to track gifts received. This document does not need to be submitted to OST and is for employees personal use.

9. **Professional Misconduct.** OST employees shall not engage in any conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on their integrity.

10. **Placement Agents.** OST shall disclose, in all investment recommendations to the Oregon Investment Council, any Placement Agent used by the investment firm that has had any contact with Treasury investment staff. Staff shall present to the OIC an annual summary of the foregoing, which will also be made available to the public on the treasury website.

DEFINITIONS

"Actual conflict of interest" means any action or any decision or recommendation by a person acting in a capacity as a public official, the effect of which **would** be to the private pecuniary benefit or detriment of the person or the person's relative or any business with which the person or relative of the person is associated unless the pecuniary benefit or detriment arises out of circumstances described in subsection (12) [of ORS 244.020].

"Advisory, governance or policy making body" refer to formal meetings similar to a board of directors meeting, an investment manager's advisory board meeting or other high level governance board. It does not refer to a meeting between OST staff and members of one of our business partners.

"**Business**" means any corporation, partnership, proprietorship, firm, enterprise, franchise, association, organization, self-employed individual and any other legal entity operated for economic gain, but excluding any income-producing not-for-profit corporation that is tax exempt under Section 501(c) of the Internal Revenue Code with which a public official is associated in a nonremunerative capacity. [From ORS 244.020(3)]

"Due Diligence" refers to activities such as formally vetting an investment manager for recommendation to the OIC, visiting an existing manager or business partner to monitor compliance with contract terms, or formally managing risks with regard to an ongoing relation with a business partner.

"Gift" means something of economic value given to a public official, a candidate or a relative or member of the household of the public official or candidate:
(A) Without valuable consideration of equivalent value, including the full or partial forgiveness of indebtedness, which is not extended to others who are not public officials or candidates or the relatives or members of the household of public officials or candidates on the same terms and conditions; or
(B) For valuable consideration less than that required from others who are not public officials or candidates. [From ORS 244.020(6)(a)]

"Gift" does not mean:
(A) Contributions as defined in ORS 260.005.

(B) Gifts from relatives or members of the household of the public official or candidate.

(C) An unsolicited token or award of appreciation in the form of a plaque, trophy, desk item, wall memento or similar item, with a resale value reasonably expected to be less than $25.

(D) Informational material, publications or subscriptions related to the recipient's performance of official duties.

(E) Admission provided to or the cost of food or beverage consumed by a public official, or a member of the household or staff of the public official when accompanying the public official, at a reception, meal or meeting held by an organization when the public official represents state government as defined in ORS 174.111, a local government as defined in ORS 174.116 or a special government body as defined in ORS 174.117.

(F) Reasonable expenses paid by any unit of the federal government, a state or local government, a Native American tribe that is recognized by federal law or formally acknowledged by a state, a membership organization to which a public body as defined in ORS 174.109 pays membership dues or a not-for-profit corporation that is tax exempt under section 501(c)(3) of the Internal Revenue Code , for attendance at a convention, fact-finding mission or trip, or other meeting if the public official is scheduled to deliver a speech, make a presentation, participate on a panel or represent state government as defined in ORS 174.111, a local government as defined in ORS 174.116 or a special government body as defined in ORS 174.117.

(G) Contributions made to a legal expense trust fund established under ORS 244.209 for the benefit of the public official.

(H) Reasonable food, travel or lodging expenses provided to a public official, a relative of the public official accompanying the public official, a member of the household of the public official accompanying the public official or a staff member of the public official accompanying the public official, when the public official is representing state government as defined in ORS 174.111, a local government as defined in ORS 174.116 or a special government body as defined in ORS 174.117:

(i) On an officially sanctioned trade-promotion or fact-finding mission; or

(ii) In officially designated negotiations, or economic development activities, where receipt of the expenses is approved in advance.

(I) Food or beverage consumed by a public official acting in an official capacity:

(i) In association with the review, approval, execution of documents or closing of a borrowing, investment or other financial transaction, including any business agreement between state government as defined in ORS 174.111, a local government as defined in ORS 174.116 or a special government body as defined in ORS 174.117 and a private entity or public body as defined in ORS 174.109;

(ii) While engaged in due diligence research or presentations by the office of the State Treasurer related to an existing or proposed investment or borrowing; or

(iii) While engaged in a meeting of an advisory, governance or policy-making body of a corporation, partnership or other entity in which the office of the State Treasurer has invested moneys.

(J) Waiver or discount of registration expenses or materials provided to a public official or candidate at a continuing education event that the public official or candidate may attend to satisfy a professional licensing requirement.

(K) Expenses provided by one public official to another public official for travel inside this state to or from an event that bears a relationship to the receiving public official's office and at which the official participates in an official capacity.

(L) Food or beverage consumed by a public official or candidate at a reception where the food or beverage is provided as an incidental part of the reception and no cost is placed on the food or beverage.

(M) Entertainment provided to a public official or candidate or a relative or member of the household of the public official or candidate that is incidental to the main purpose of another event.

(N) Entertainment provided to a public official or a relative or member of the household of the public official where the public official is acting in an official capacity while representing state government as defined in ORS 174.111, a local government as defined in ORS 174.116 or a special government body as defined in ORS 174.117 for a ceremonial purpose.

(O) Anything of economic value offered to or solicited or received by a public official or candidate, or a relative or member of the household of the public official or candidate:

(i) As part of the usual and customary practice of the person's private business, or the person's employment or position as a volunteer with a private business, corporation, partnership, proprietorship, firm, enterprise, franchise, association, organization, not-for-profit corporation or other legal entity operated for economic value; and

(ii) That bears no relationship to the public official's or candidate's holding of, or candidacy for, the official position or public office. [From ORS 244.020(6)(b)]

"Incidental" means secondary or minor, but associated to something more important. Entertainment that is incidental to the main purpose of another event is provided in conjunction with a primary event (such as a singer or band at an awards dinner) but is clearly secondary in importance and in time devoted to the entertainment compared to the primary, non-entertainment event.

"Legislative or administrative interest" means an economic interest, distinct from that of the general public, in:

(a) Any matter subject to the decision or vote of the public official acting in the public official's capacity as a public official; or

(b) Any matter that would be subject to the decision or vote of the candidate who, if elected, would be acting in the capacity of a public official. [From ORS 244.020(9)]

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

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

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

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

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

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

"Presentations by OST" staff means that the OST staff member needs to be making the presentation just attending a presentation from a business partner is not sufficient.

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

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

"Trade promotion" means an activity for the purpose of encouraging or developing commerce. **Fact Finding** is not the same as attending a conference or convention. Fact finding and trade promotion are intended to be interpreted narrowly and the use of this exception should be discussed with the Risk and Compliance Officer before the trip is taken.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)

A. Annual Professional Conduct Statement
B. OST Gratuity Log

TAB 4a – OIC PROPOSED POLICY REVISIONS

4.03.02

Oregon University System Long-Term Portfolio

Purpose

The Oregon University System (OUS) desires to fund a Long-Term Fixed Income Portfolio managed by OST to invest monies not needed to cover short-term needs. This proposed fund is governed by OST Policy 04.03.02 and the OUS Long-Term Portfolio Investment Policy would be added as attachment F. This presentation is to inform and seek approval of OUS' Long-Term Portfolio guidelines and objectives.

Background and Objective

The OIC approved the establishment of the Oregon Intermediate-Term Pool (OITP) in April 2010. OITP, which is composed of fixed income investments, is managed by OST and is available to eligible State-owned and sponsored entities. OUS currently invests in OITP, but also desires to allocate a portion of its investment funds into a longer-term portfolio.

OUS cash balances have exceeded $400 million since July 1, 2005 and have ranged between $650 million and $850 million. In order to improve investment returns, OUS desires that the "core" portion (up to $420 million) of these funds be invested in longer duration investments. OUS desires that the longer-term portion of the portfolio be tiered between OITP and a separate Long-Term fund to capture all phases of the economic cycle.

OUS desires that the target size of the Long-Term portfolio (current maximum allocation of $300 million) be funded in $10-$20 million increments (per month), which implies approximately one and a half years to fully fund the Long-Term mandate.

OUS will continue to maintain a sizable balance in the Oregon Short-Term Fund and intends to actively draw on this portion of its portfolio for operating cash needs. OUS may have occasional need to draw on the Intermediate-Term or Long-Term portion of its portfolio. The OUS policy will be reviewed on a regular basis by OUS and staff to determine the appropriate allocation of OUS funds to the three portions.

Recommendation

Staff recommends OIC approval of the OUS Long-Term Fixed Income Portfolio Investment Policy Statement, as submitted.

FUNCTION: **Fixed-Income Investments**
ACTIVITY: **Internal Fixed-Income Portfolio Investments**

POLICY: **Only State Agency funds meeting the minimum requirements will be considered eligible for discreet investment management. All internal fixed income investments shall be authorized by a fixed income investment officer, authorization shall be documented, and shall be in accordance with portfolio guidelines established by the Oregon Investment Council**.

PROCEDURES:

A. PURPOSE

The purpose of this Fixed Income Investment Policy is to (1) determine what funds are eligible for discreet investment management, and (2) to define the role of fixed income within the Investment Council's general investment policies for internally managed state agency funds; to set forth specific short-term and long-term policy objectives for the state agency funds, and to outline the strategies for implementing the Investment Council's fixed income investment policies.

B. ELIGIBILITY

1. Funds eligible for discreet investment management must meet the following requirements:
   a) The fund's enabling statutes must evidence legislative contemplation of discreet investment activity. Language containing the word "invest" in some form will suffice as evidence.
   b) The minimum projected balance for the subject funds must be at least $10 million for investment only in U.S. Treasury and Government-Sponsored Enterprise securities and at least $40 million for inclusion of corporate bonds.

2. Agency must meet the following requirements:

   a) Agency Head makes a written request for discreet investment management which includes an affirmative statement of the agency's ability to comply with the agency requirements contained in the Interagency Agreement for Fixed Income Investments.
   b) Agency will enter into an Interagency Investment Agreement with the Office of the State Treasurer (OST).

3. Final determination on the eligibility of any fund for discreet investing will be made solely by the Office of the State Treasurer.

4. Exceptions to eligibility must be approved by the Deputy State Treasurer.

C. OVERALL POLICY OBJECTIVES & STRATEGIES (except as noted in specific IPS)

1. Achieve a stable and predictable yield on investments and preservation of principal while providing sufficient liquidity to the agencies to allow for cash needs.
2. Maintain a well-diversified bond portfolio, managed to maximize yield, *not total return*, or as stipulated in specific agency Investment Policy Statement (IPS).
3. Maintain periodic meetings with agencies to review portfolio objectives and liquidity needs which shall be documented in IPS for each respective agency (see attached).
4. Invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.
5. Maintain average credit quality of A/A, or as stipulated in specific agency IPS.
6. Maintain communication with agencies during periods of unique market environments (e.g., volatile credit cycles, low interest rate scenarios, etc.) and discuss possible IPS impacts in that environment.

D. PERMITTED HOLDINGS (except as noted in specific IPS)

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, 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 denominated in U.S. dollars only.
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. The Oregon Short-Term Fund (OSTF) and securities eligible for the OSTF.

E. DIVERSIFICATION (except as noted in specific IPS)

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. 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.
3. Obligations of other issuers are subject to a 3% per issuer limit.

F. ABSOLUTE RESTRICTIONS

The Internal Fixed Income Section may not purchase the following investments or types of investments without the specific advanced approval of the Chief Investment Officer and the Oregon Investment Council:

1. Short sales of securities.
2. Margin purchases or other use of lending or borrowing money or leverage to create positions greater than 100% of the market value of assets under management.
3. Commodities or common stocks.
4. Non-U.S. dollar denominated fixed income securities issued by entities incorporated or chartered outside of the United States.
5. Fixed income securities which may optionally be converted into equity securities.
6. Investments categorized to be equity real estate or within the equity asset class (investments categorized to be within the short-term asset class are specifically permitted, however).
7. Other securities which may not be categorized as fixed income securities.
8. Other securities as stipulated in specific agency IPS.

From time to time, the Oregon Investment Council may add items to, or remove investments from this list.

G. ASSURANCE OF COMPLIANCE

The Senior Fixed Income Investment Officer and the Fixed Income Investment Officer(s) regularly review portfolio holdings for investments which are prohibited and when one or more types of investments are added to or removed from the list of those prohibited. Complete portfolio listings are provided to the OIC and OST staff annually.

H. INVESTMENT TRANSACTION AUTHORIZATION

All trades are entered on the Bloomberg Trading System, and are authorized by the signature of either the Senior Fixed Income Investment Officer or the Investment Officer(s). The Senior Fixed Income Investment Officer and the Investment Officer(s) shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this policy. The Senior Fixed Income Investment Officer or the Chief Investment Officer reviews transactions initiated by the Investment Officer. The Chief Investment Officer reviews transactions initiated by the Senior Fixed Income Investment Officer. Trades are transferred to the custodian bank and copies are forwarded to Investment Accounting.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

A. DCBS Fund IPS
B. DCBS Worker's Benefit Fund IPS
C. DAS Risk Management Insurance Fund IPS
D. ODOT Fund IPS
E. ODVA VET's Bond Sinking Fund IPS
F. OUS IPS

ATTACHMENT F

Long-Term Portfolio Investment Policy Statement

Objectives: The Objective of all Oregon University System investments is to provide adequate liquidity for the Oregon University System. The objective of the Long-Term portfolio is higher total return versus intermediate-term investments through a market cycle. Funds in the Long-Term Portfolio should be managed to maximize total return within the desired risk parameters; trading, resulting in net recognized losses is discouraged.

1. **Permitted Holdings**:

   - Any holding permitted by the Oregon Intermediate-Term Pool
   - Fixed or floating rate bonds and notes issued, assumed, or guaranteed by the U.S. Government or its agencies (including student loans) with a weighted average maturity/life of less than 10.25 years
   - Municipal debt (including Build America Bonds) with a minimum rating of A2/A-/A- at the time of purchase by Moody's Investors Services, Standard & Poor's, or Fitch, respectively, provided its final maturity is less than 10.25 years
   - Corporate indebtedness with minimum long-term ratings of A3/A-/A- at the time of purchase by Moody's Investors Services, Standard & Poor's, or Fitch, respectively, provided its final maturity is less than 10.25 years
   - Asset-backed securities rated AAA at the time of purchase with a weighted average maturity/life of less than 5.0 years
   - Fixed or floating rate mortgage pools and mortgage related securities rated AAA at the time of purchase with a weighted average maturity/life of less than 5.0 years. Investments in Alt-A, sub-prime, limited documentation, or other "sub-prime" mortgage pools are not permitted.

2. **Term Risk:**
   - The portfolio's modified duration shall not exceed 7.5 years

3. **Diversification**:
   The portfolio should be adequately diversified to minimize various risks.
   - No fixed income investment in any one issue shall be in excess of 5% of the outstanding fixed income obligations of the issuer.
   - Not more than 5.0% of the total par value of any single portion shall be invested in any one issuer. During the 365 days following this portfolio's first funding date, this guideline will not apply.

   These issuer level restrictions shall not apply to U.S. Government and Agency obligations including Agency backed mortgages.

4. **Counterparties**:
A "counterparty" is any party involved in the management, reporting, and investment of OUS funds. There is risk that a particular counterparty will not be able to perform their expected duties in a timely professional manner. Examples of counterparties include investment brokers, custodial agents, servicing agents, etc… Each counterparty must be reviewed at least annually for financial strength and an assessment made of its ability to carry out the business of the Oregon State Treasury. A list of all counterparties will be provided to OUS annually along with this assessment.

5. **Strategy**:
   - Maintain an overall portfolio quality of at least "A" or higher using a rating to worst methodology
   - Structure maturities to provide reinvestment opportunities that are staggered throughout the economic time horizon. No more than 15% of the portfolio can be reinvested in a single calendar quarter.

6. **Liquidity**:
   - OUS may occasional need to draw on the Longer-Term portfolio. Prior to any such withdrawal, OUS will communicate its requirement in such a manner as to allow the greatest amount of time possible for planning purposes.

7. **Portfolio Restrictions:**
   - There shall be no investments in non-U.S. dollar denominated securities.
   - CDOs, CLOs, and Z-tranche investments are not permitted.
   - Any investment held that is downgraded by at least one rating agency to below investment grade requires a written action plan within 10 days of the downgrade. The plan may indicate why the investment should continue to be held and/or outline an exit strategy. The action plan will be shared with the OUS Finance and Administration Committee at its next regularly scheduled meeting.
   - There shall be no use of leverage in any fixed securities (excluding use of securities in a securities lending program). Securities such as ABS and CMBS shall not be considered as using leverage unless they are part of a broader structure, such as TARP funds, that explicitly use leverage.
   - The maximum allocation to each taxable fixed income sector shall be limited to a percentage of the total market value of each of the three portions (excluding mutual funds), as follows:

US Treasury Notes	100%
US Government Agencies	50%
Mortgage Backed Securities (Pass Though and CMO)	30%
Commercial Mortgage Backed Securities	10%
US Corporate indebtedness	50%
Asset Backed Securities	20%

Taxable Municipal Bonds	30%
Structured Securities (Combined MBS, CMBS, ABS)	50%

8. **Policy Compliance:**
   - If the Long-Term Portfolio investments are found to be out of compliance, Fixed Income Investment Staff shall bring the portfolio back into compliance as soon as prudently feasible.

9. **Performance Expectations/Reviews**:
   - Over a market cycle of 3-5 years, the longer-term portion is expected to outperform the Merrill Lynch Global Bond Index B3B0. Quarterly investment review will take place focusing on:
     - Performance relative to objectives, and
     - Adherence to this policy
   - The Finance and Administration Committee of the State Board of Higher Education will review this policy every two years.

SAMPLE FORMS, DOCUMENTS, OR REPORTS:

None

TAB 4b – SHERIDAN PRODUCTION PARTNERS

Discussion Only; No Related Materials

TAB 5 – CEM BENCHMARKING ANNUAL REPORT

CEM Benchmarking, Inc. (CEM)
OPERF Cost Study
5 Years Ended December 31, 2009

Purpose
To present the cost analysis performed by CEM for the five-years ended 31 December 2009 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 2008. Staff has worked with CEM to provide updated data through December 2009. OPERF's total investment management costs (including oversight, custodial and other costs) were approximately 88.8 basis points for 2009 (74.4 in 2008).

Using their unique database, CEM has provided Defined Benefit (DB) fund sponsors with insights into their cost, return, risk and liability performances since 1990. Their database includes 189 US Funds, valued at approximately $2.3 trillion.

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

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 2009

Bruce Hopkins
CEM Benchmarking Inc

CEM Benchmarking Inc.
What gets measured gets managed

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

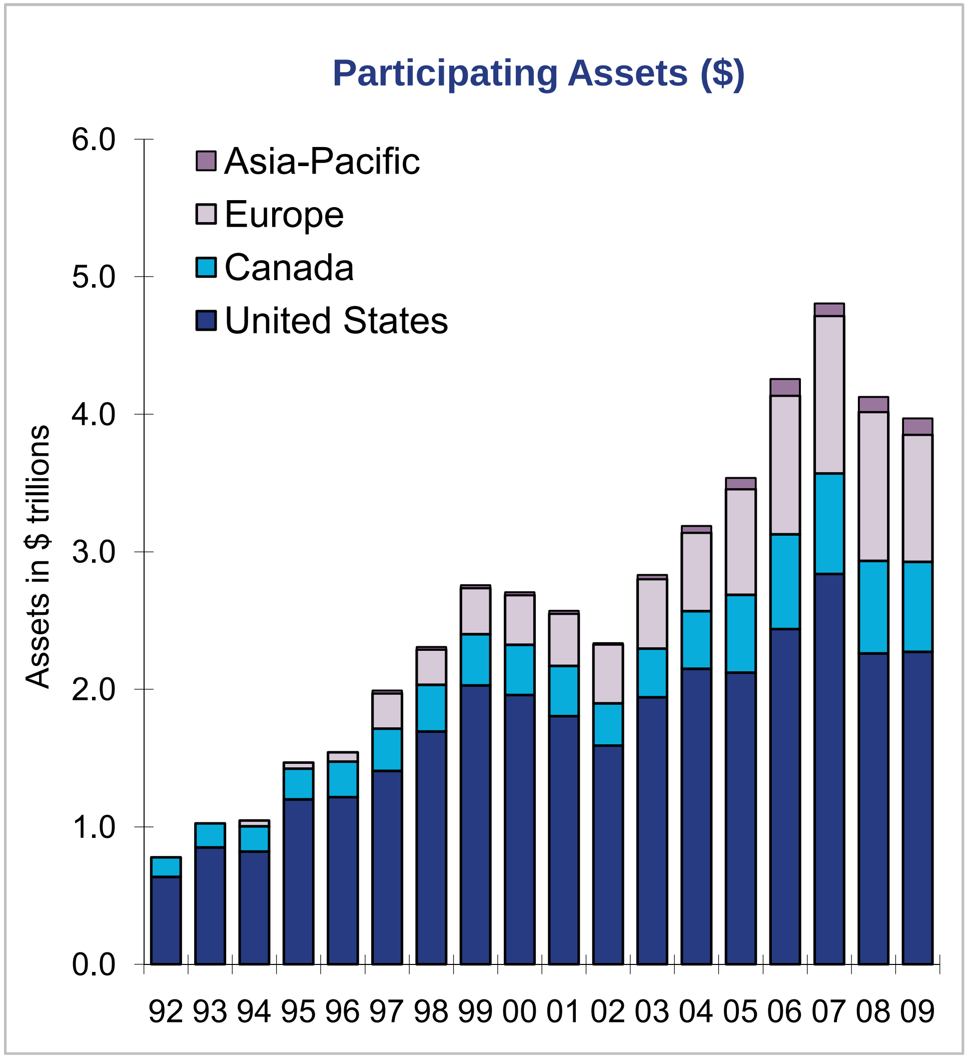
- 189 U.S. pension funds participate with assets totaling $2.3 trillion.

- 87 Canadian funds participate with assets totaling $655 billion.

- 46 European funds participate with aggregate assets of $924 billion. Included are funds from the Netherlands, Norway, Sweden, Finland, France, Denmark, U.K. and Ireland.

- 7 Asia-Pacific funds participate with aggregate assets of $161 billion. Included are funds from Australia, New Zealand and South Korea.

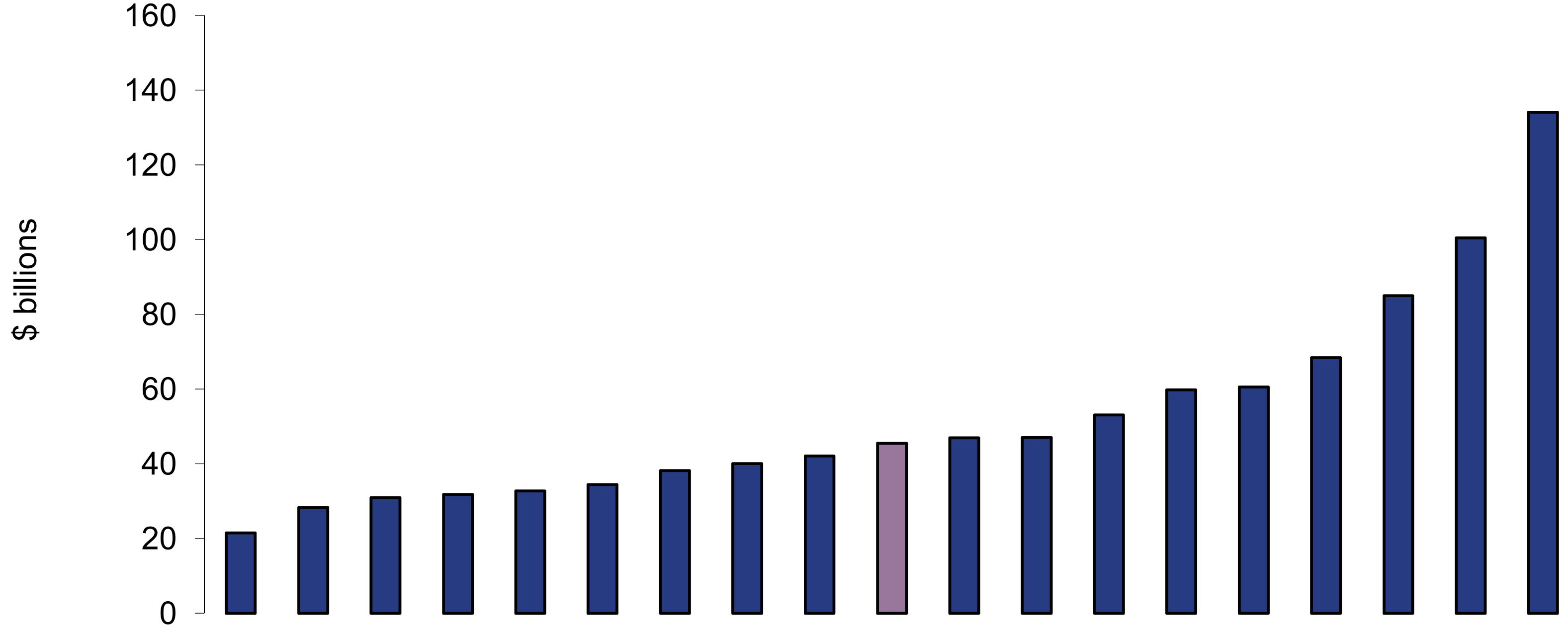
The most meaningful comparisons for your returns and value added are to the U.S. universe.



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

Custom Peer Group for
Oregon Public Employees Retirement Fund

• 19 U.S. sponsors from $21.5 billion to $134.1 billion
• Median size $45.6 billion versus your $45.6 billion



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 mix decision compare to other funds?

2. Value Added

Are your implementation decisions (i.e., the amount of active versus passive management) adding value?

3. Costs

Are your costs reasonable? Costs matter and can be managed.

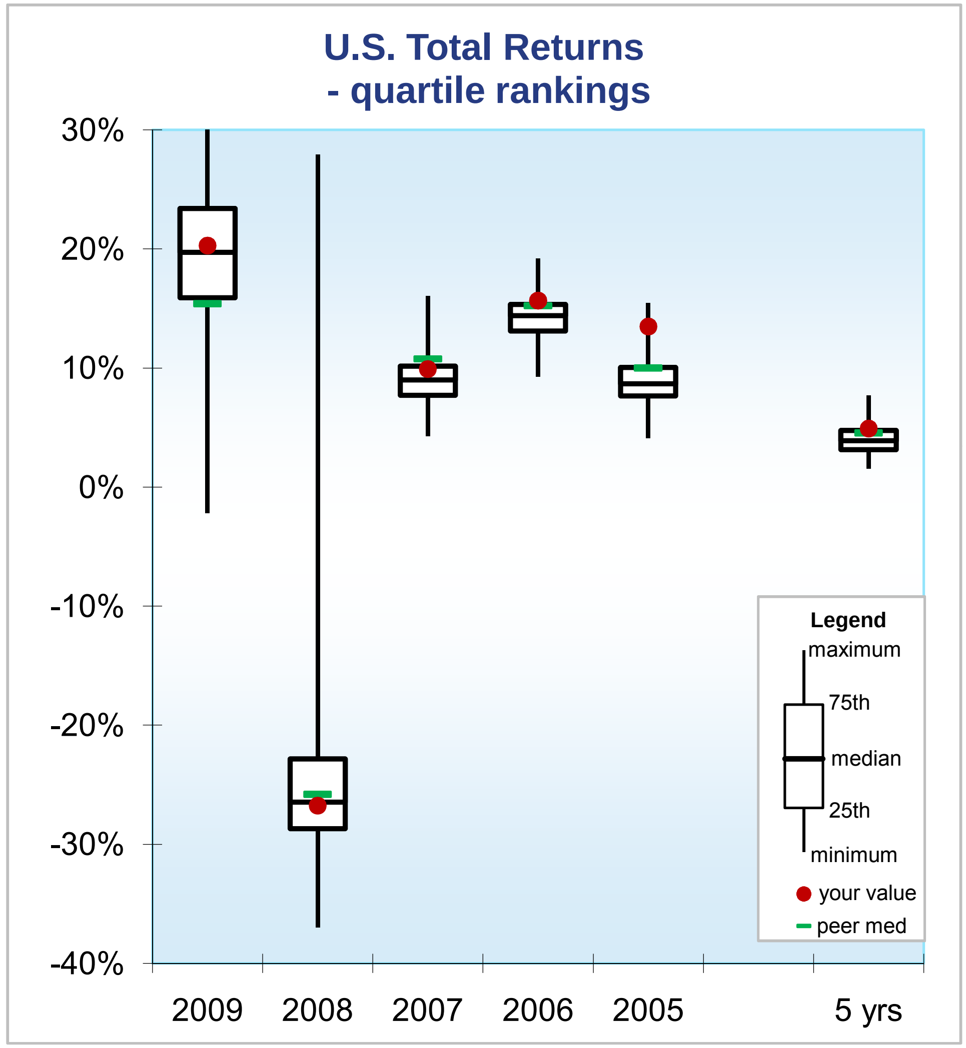
Your 5-year total return of 4.9% was above the U.S. median of 3.9%.

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

	Your 5-yr.
Total Fund Return	4.9%
Policy Return	4.4%
Value Added	0.5%

This approach enables you to understand the contribution from both policy 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 4.6%.



1. Policy Return

Your 5-year policy return of 4.4% was above the U.S. median of 3.7%.

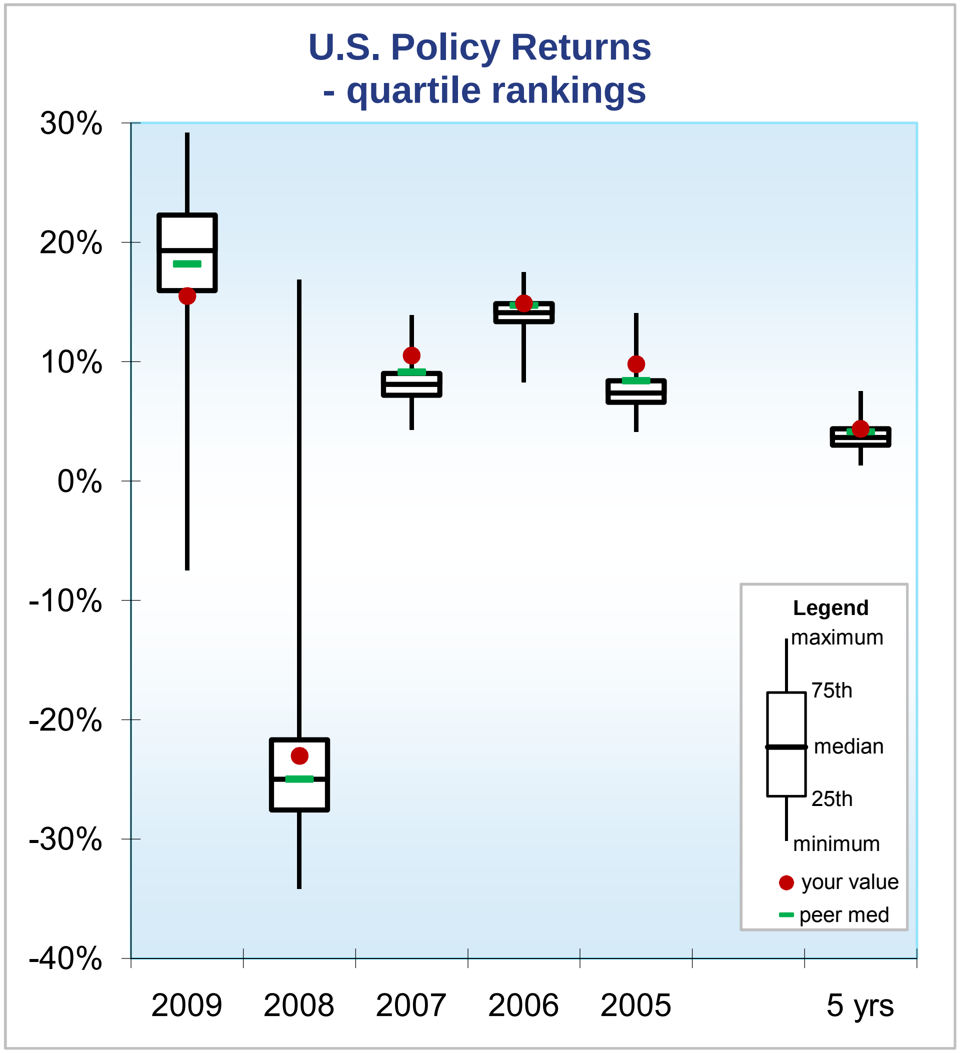
Your policy return is the return you could have earned passively by indexing your investments according to your policy mix.

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

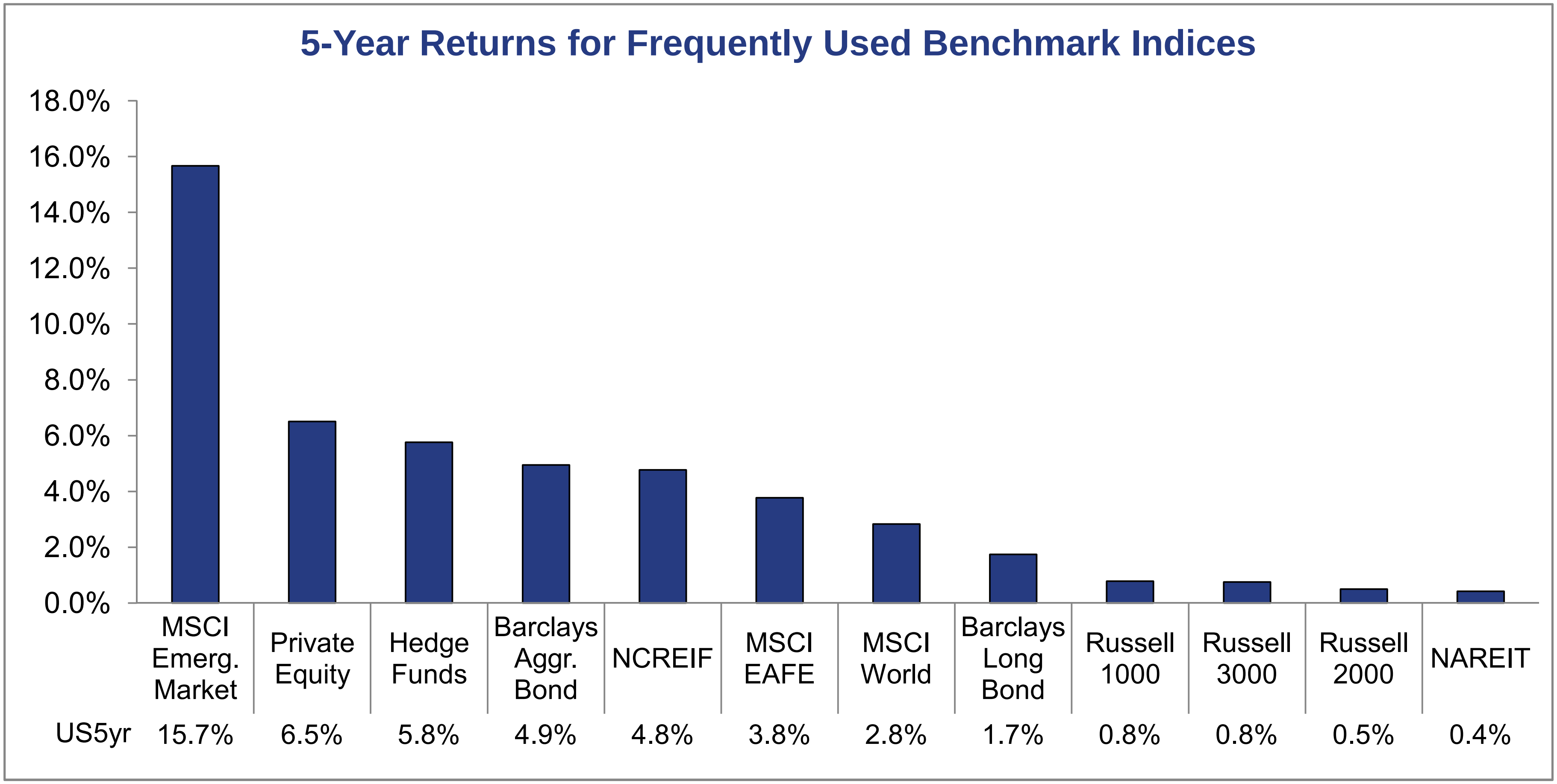
- Long term capital market expectations
- Liabilities
- Appetite for risk

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 4.1%.



Differences in policy returns are caused by differences in policy mix and benchmarks.



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:

• The positive impact of your higher weights in two of the better performing asset classes of the past 5 years: EAFE/global stock and private equity.

• The positive impact of your lower weight in one of the poorer performing asset classes of the past 5 years: U.S. stock.

5-Year Average Policy Mix

Asset class	Your fund	U.S. avg	Peer avg
U.S. Stock	22%	39%	32%
EAFE/Global Stock	29%	17%	20%
Emerging Mkt Stock	0%	1%	2%
Total Stock	51%	57%	53%
U.S. Bonds	27%	22%	21%
Long Bonds	0%	4%	3%
High Yield Bonds	0%	2%	1%
Inflation Index Bonds	0%	1%	1%
Fixed Income - Other	0%	2%	4%
Cash	0%	1%	1%
Total Fixed Income	27%	31%	31%
Real Assets*	9%	5%	8%
Hedge Funds	0%	2%	2%
Private Equity	13%	4%	7%
Total	100%	100%	100%

* Includes Real Estate, REITs, Commodities, Infrastructure and Natural Resources

Your policy mix has changed over the past 5 years. At the end of 2009, it compared to your peers and the U.S. universe as follows.

Policy Mix	2009			2005
Asset Class	Your Fund	U.S. Avg	Peer Avg	Your Fund
U.S. Stock	0%	32%	24%	35%
EAFE/Global Stock	46%	18%	23%	20%
Emerging Mkt Stock	0%	2%	2%	0%
Total Stock	46%	52%	48%	55%
U.S. Bonds	27%	21%	15%	27%
Long Bonds	0%	7%	8%	0%
High Yield Bonds	0%	2%	2%	0%
Inflation Index Bonds	0%	1%	1%	0%
Fixed Income - Other	0%	2%	5%	0%
Cash	0%	1%	1%	0%
Total Fixed Income	27%	34%	32%	27%
Real Assets	11%	6%	8%	8%
Hedge Funds	0%	4%	3%	0%
Private Equity	16%	5%	8%	10%
Total	100%	100%	100%	100%

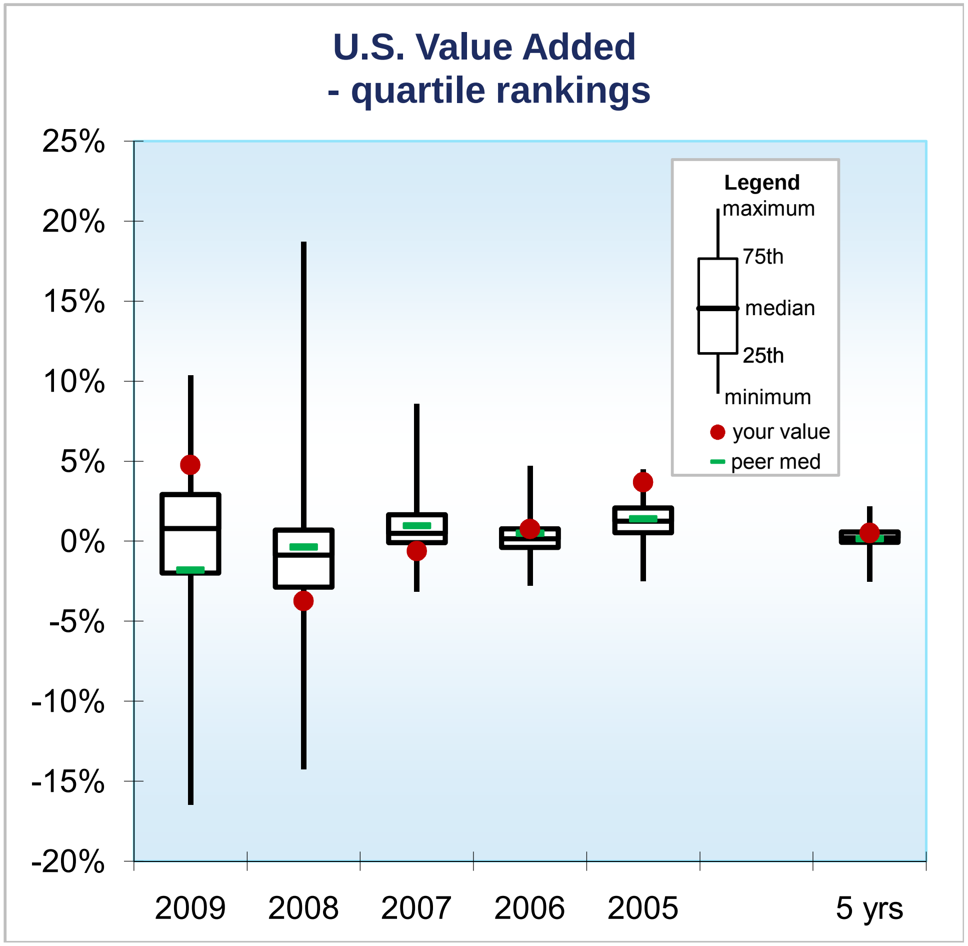
2. Value Added

Value added is the component of your total return from active management. Your 5-year value added of 0.5% was above the U.S. median of 0.2%.

Value added equals your total return minus your policy return.

Oregon PERF			
Year	Total return	Policy return	Value added
2009	20.3%	15.5%	4.8%
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%
5-year	4.9%	4.4%	0.5%

Your 5-year value added of 0.5% compares to a median of 0.2% for your peers and 0.2% for the U.S. universe.



3. Costs

Your asset management costs in 2009 were $404.6 million or 88.8 basis points.

Your Investment Management Costs ($000s)

	Internal		External			
	Passive	Active	Passive	Active: base fees	Active: perform fees	Total
Stock - All U.S.	78		103	21,970		22,151
Stock - ACWIxU.S.				30,766		30,766
Stock - Global			175	6,081		6,256
Fixed Income - U.S.				20,715		20,715
Cash		225				225
REITs				2,872		2,872
Real Estate ex-REITs				25,160	n/a[2]	25,160
Diversified Private Equity				264,845 [1]	n/a[2]	264,845
Other Private Equity				22,113 [1]	n/a[2]	22,113
Overlay Programs				644	n/a[2]	644
Total investment management costs					86.9bp	395,717

Your Oversight, Custodial and Other Asset Related Costs[3] ($000s)

Oversight of the fund		6,519
Trustee & custodial		100
Consulting and performance measurement		2,003
Audit		265
Other		
Total oversight, custodial & other costs	2.0bp	8,887

Total asset management costs	88.8bp	404,604

Notes

[1] Private equity costs 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] Excludes non-investment costs, such as preparing checks for retirees.

Benchmark cost analysis suggests that your fund was low cost by 7.2 basis points.

Your benchmark cost is an estimate of what your cost would be given your actual 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 actual asset mix.

Your total cost of 88.8 bp was lower than your benchmark cost of 96.0 bp. Thus, your cost savings was 7.2 bp.

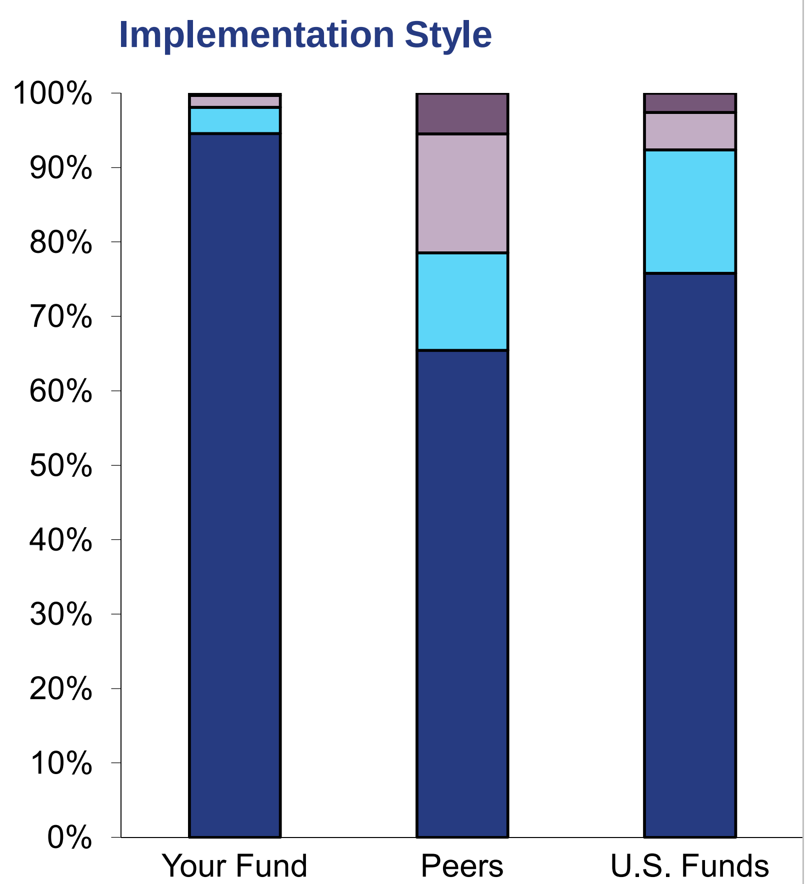
	$000s	basis points
Your actual cost	404,604	88.8 bp
Your benchmark cost	437,497	96.0 bp
Your excess cost	(32,893)	(7.2) bp

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

Implementation style is defined as the way in which you implement your asset allocation. It includes internal, external, active and passive styles.

The greatest cost impact is usually caused by differences in the use of:

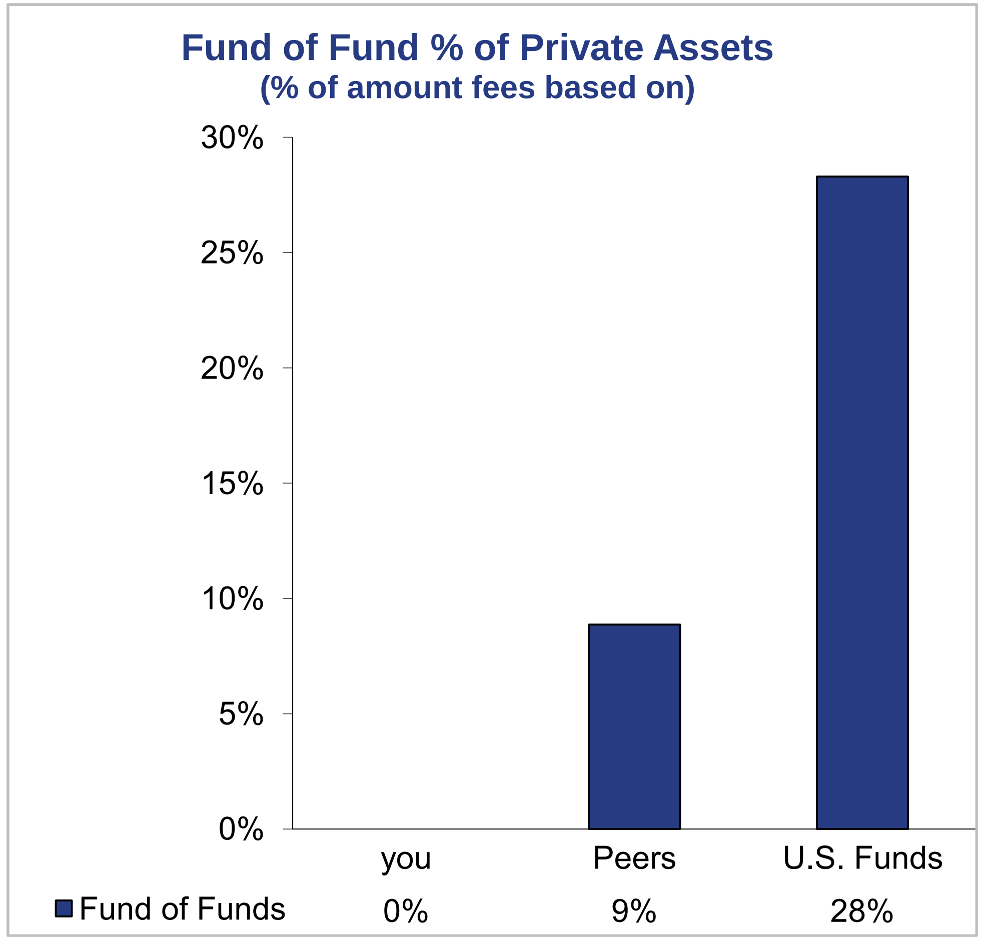
- External active management because it tends to be much more expensive than internal or passive management. You used more external active management than your peers (your 95% versus 65% for your peers).
- Within external active holdings, fund of funds usage because it is more expensive than direct fund investment. You did not uses fund of fund managers (see next page).



	Your Fund	Peers	U.S. Funds
Internal passive	0.3%	5%	3%
Internal active	2%	16%	5%
External passive	4%	13%	17%
External active	95%	65%	76%

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 9% of peers' private assets were in fund of funds (as a % of the amount fees are based upon).



Differences in implementation style cost you 4.4 bp relative to your peers.

Cost Impact of Differences in Implementation Style

Asset class	Your avg holdings in ($mils)	% External Active: You	% External Active: Peer average	% External Active: More/(less)	Cost[1,2] premium	Cost/(Savings) in $000s
Stock - All U.S.	6,925	77.0%	37.5%	39.4%	36.7 bp	10,019
Stock - ACWIxU.S.	8,855	100.0%	59.1%	40.9%	22.1 bp	7,999
Stock - Global	2,569	100.0%	62.5%	37.5%	N/A	
Fixed Income - U.S.	12,147	100.0%	53.3%	46.7%	14.7 bp	8,355
REITs	987	100.0%	74.3%	25.7%	40.0 bp	1,014
Real Estate ex-REITs	3,407	100.0%	88.8%	11.2%	63.5 bp	2,419
of which Partnerships represent:		0.0%	16.9%	(16.9%)	40.5 bp	(2,339)
Diversified Private Equity	18,600	100.0%	98.2%	1.8%	159.2 bp	5,208
of which Fund of Funds represent:		0.0%	4.9%	(4.9%)	90.0 bp	(8,128)
Other private equity	1,500	100.0%	92.3%	7.7%	N/A	0
Total 94.		6%	65.4%	29.2%		24,547
Total external active style impact in bps						5.4 bp
Impact of differences in the use of lower cost styles[3]						(0.1) bp
Savings from your lower use of portfolio level overlays (your one passive beta hedge)						(0.9) bp
Total style impact						4.4 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 management.

The net impact of differences in external investment management costs saved you 11.3 bps.

Impact of Paying More/(Less) for External Investment Management					
	Your avg holdings in $mils	Cost in bps			Cost/ (Savings) in $000s
		You	Peer median	More/ (Less)	
Stock - All U.S. - Active	5,330	41.2	40.4	0.9	454
Stock - ACWIxU.S. - Active	8,855	34.7	36.9	(2.1)	(1,869)
Stock - Global - Active	2,569	24.2	44.1	(19.8)	(5,099)
Fixed Income - U.S. - Active	12,147	17.1	17.1	0.0	0
REITs - Active	987	29.1	45.7	(16.6)	(1,638)
Real Estate ex-REITs - Active	3,407	73.8	75.0	(1.2)	(392)
Diversified Private Equity - Active	18,600	142.4	165.0	(22.6)	(42,055)
Other Private Equity - Active	1,500	147.4	N/A	N/A	
Derivatives/Overlays - Passive Beta	*Notional* 2,079	3.1	7.6	(4.5 bp)	(938)
Total external investment management impact				(11.3) bp	(51,563)

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

The net impact of differences in internal investment management costs was negligible.

Impact of Paying More/(Less) for Internal Investment Management					
	Your avg holdings in $mils	Cost in bps			Cost/ (Savings) in $000s
		You	Peer median	More/ (Less)	
Stock - All U.S. - Passive	289	2.7	1.4	1.3	37
Cash - Active	871	2.6	2.6	0.0	0
Total internal investment management impact				0.0 bp	37

The net impact of differences in your oversight, custodial & other costs saved you 0.3 bps.

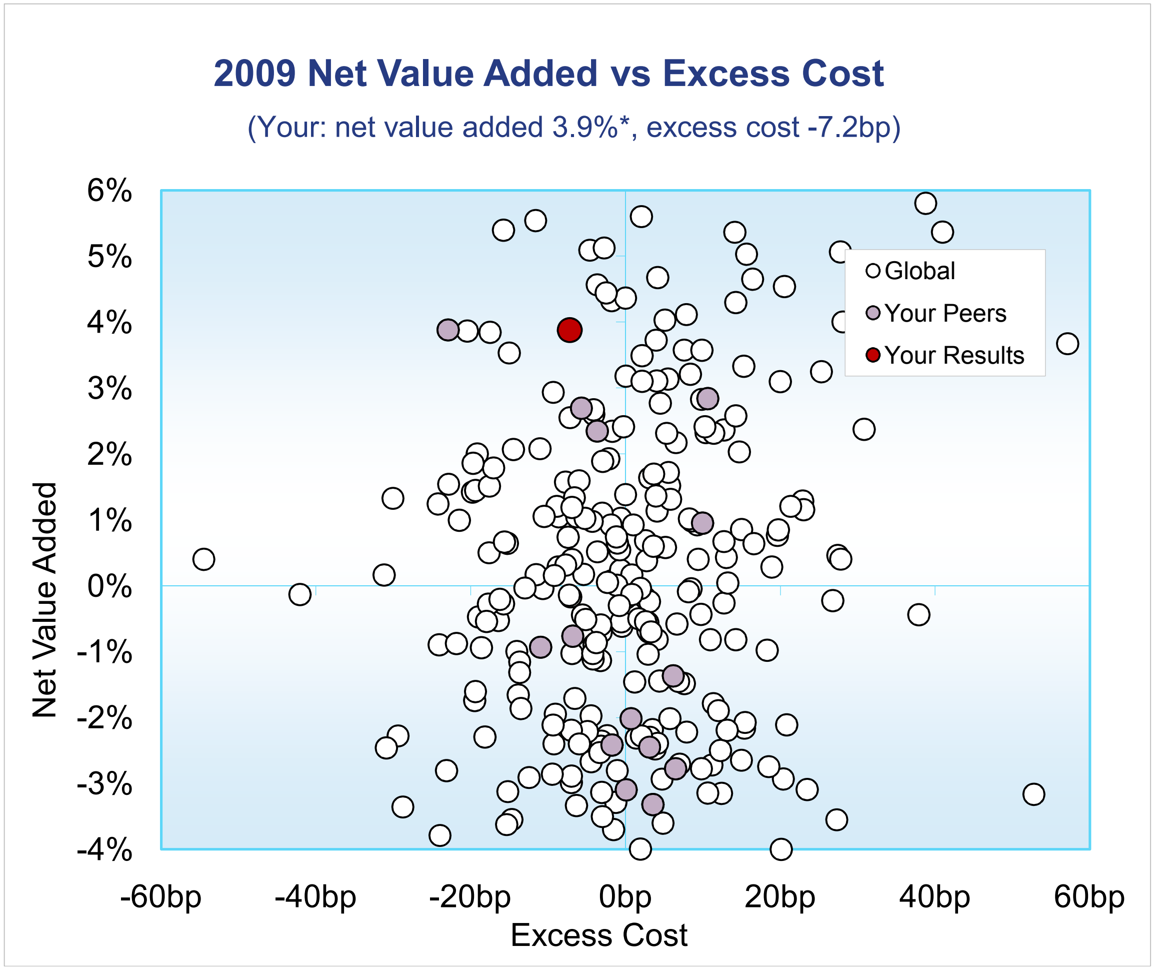
Impact of Differences in Oversight, Custodial & Other Costs					
	Your avg holdings in $mils	Cost in bps			Cost/ (Savings) in $000s
		You	Peer median	More/ (Less)	
Oversight	45,560	1.4	1.2	0.2	1,030
Custodial / trustee	45,560	0.0	0.4	(0.4)	(1,802)
Consulting / performance measurement	45,560	0.4	0.5	(0.0)	(76)
Audit	45,560	0.1	0.1	0.0	19
Other	45,560	0.0	0.1	(0.1)	(663)
Total impact				(0.3) bp	(1,493)

In summary, you were low cost primarily because you paid less for similar mandates.

Explanation of Your Cost Status	Excess Cost/ (Savings)	
	$000s	bps
1. Higher cost implementation style		
• Higher use of external management	24,547	5.4
• Differences in the use of lower cost styles	(418)	(0.1)
• Lower use of overlays	(4,004)	(0.9)
	20,125	4.4
2. Paying less than your peers		
• External investment management costs	(51,563)	(11.3)
• Internal investment management costs	37	0.0
• Oversight, custodial & other costs	(1,493)	(0.3)
	(53,018)	(11.6)
Total Savings	(32,893)	(7.2)

Cost Effectiveness

For 2009 you were in the positive net value added, low cost quadrant of the cost effectiveness chart.



[1] Your 2009 Net implementation value added of 3.9% equals your 4.8% gross impl. value added minus your 0.9% actual cost.

In summary:

1. Policy Return

Your 5-year policy return was 4.4%. This was above the U.S. median of 3.7% and above the peer median of 4.1%.

2. Value Added

Your 5-year value added was 0.5%. This was above the U.S. median of 0.2% and above the peer median of 0.2%.

3. Costs

Your actual cost of 88.8 bps was below your benchmark cost of 96.0 bps. This suggests that your fund was low cost.
You were low cost primarily because you paid less for similar mandates.

TAB 6 – ASSET ALLOCATIONS & NAV UPDATES

Asset Allocations at September 30, 2010

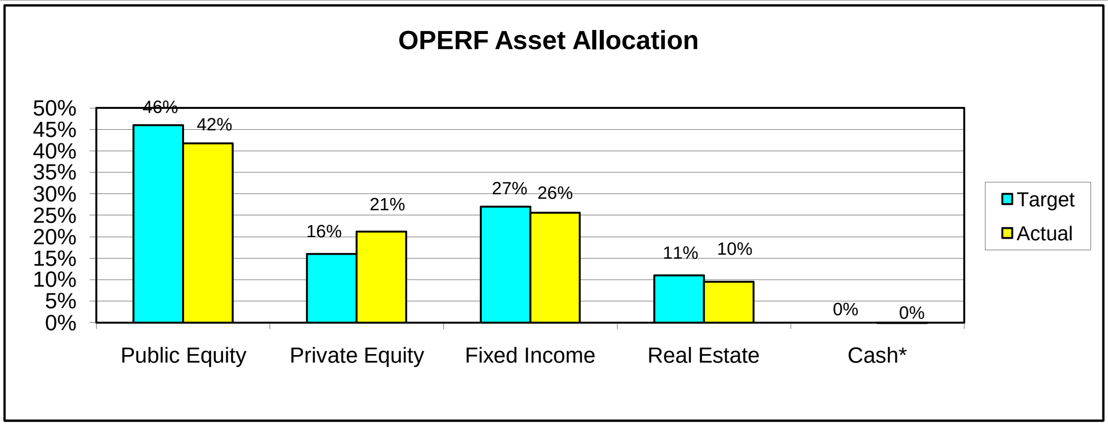
OPERF	Policy	Target	Regular Account: $ Thousands	Pre-Overlay	Overlay	Net Position	Actual	Variable Fund: $ Thousands	Total Fund: $ Thousands
Public Equity	41-51%	46%	21,666,368	40.7%	538,771	22,205,139	41.7%	915,273	23,120,412
Private Equity	12-20%	16%	11,299,697	21.2%		11,299,697	21.2%		11,299,697
Total Equity	**57-67%**	**62%**	**32,966,065**	**61.9%**	**538,771**	**33,504,836**	**62.9%**		**34,420,109**
Opportunity Portfolio			998,004	1.9%		998,004	1.9%		998,004
Fixed Income	**22-32%**	**27%**	**13,291,034**	25.0%	**350,720**	**13,641,754**	25.6%		**13,641,754**
Real Estate	**8-14%**	**11%**	**5,071,637**	9.5%		**5,071,637**	9.5%		**5,071,637**
Cash*	**0-3%**	**0%**	**900,199**	1.7%	**(889,491)**	**10,708**	0.0%	9,540	**20,248**
TOTAL OPERF		**100%**	**$ 53,226,939**	**100.0%**	**$ -**	**$ 53,226,939**	**100.0%**	**$ 924,813**	**$ 54,151,752**

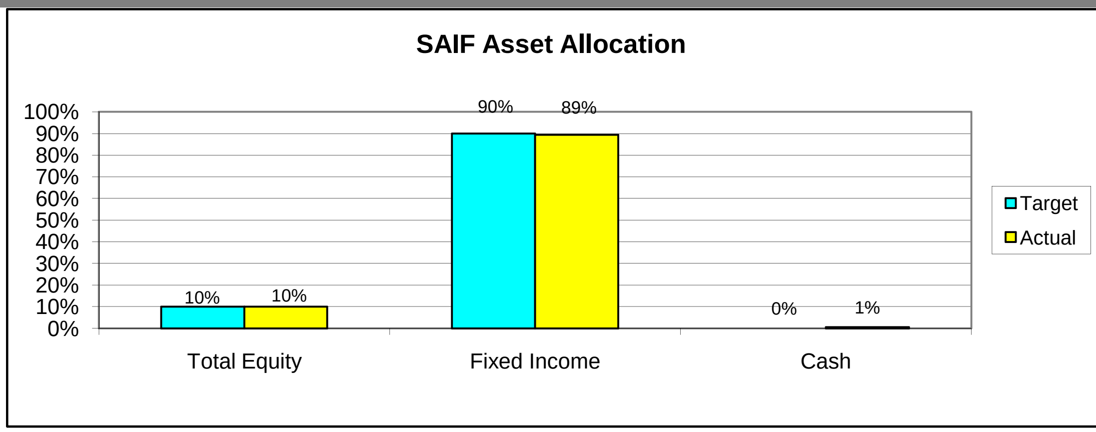
*Includes cash held in the policy implementation overlay program. $ -

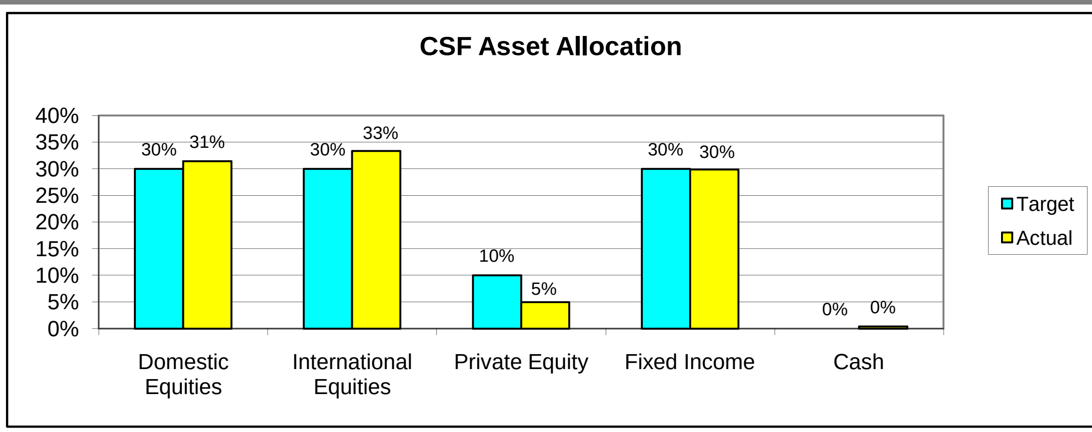
SAIF	Policy	Target	$ Thousands	Actual
Total Equity	**7-13%**	**10.0%**	**427,964**	**10.1%**
Fixed Income	**87-93%**	**90.0%**	**3,792,136**	**89.3%**
Cash	**0-3%**	**0%**	**25,545**	**0.6%**
TOTAL SAIF		**100%**	**$4,245,645**	**100.0%**

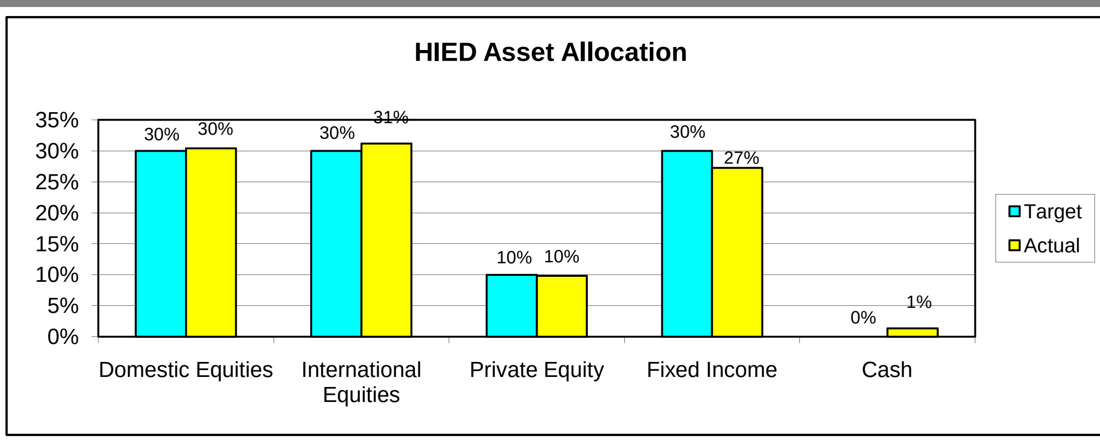
CSF	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$317,686	31.4%
International Equities	25-35%	30%	337,313	33.4%
Private Equity	0-12%	10%	50,384	5.0%
Total Equity	**65-75%**	**70%**	**705,383**	**69.8%**
Fixed Income	**25-35%**	**30%**	**301,893**	**29.9%**
Cash	**0-3%**	**0%**	**3,981**	**0.4%**
TOTAL CSF			**$1,011,257**	**100.0%**

HIED	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$18,243	30.4%
International Equities	25-35%	30%	18,682	31.2%
Private Equity	0-10%	10%	5,898	9.8%
Total Equity	**65-75%**	**70%**	**42,823**	**71.4%**
Fixed Income	**25-35%**	**30%**	**16,345**	**27.3%**
Cash	**0-3%**	**0%**	**799**	**1.3%**
TOTAL HIED			**$59,967**	**100.0%**

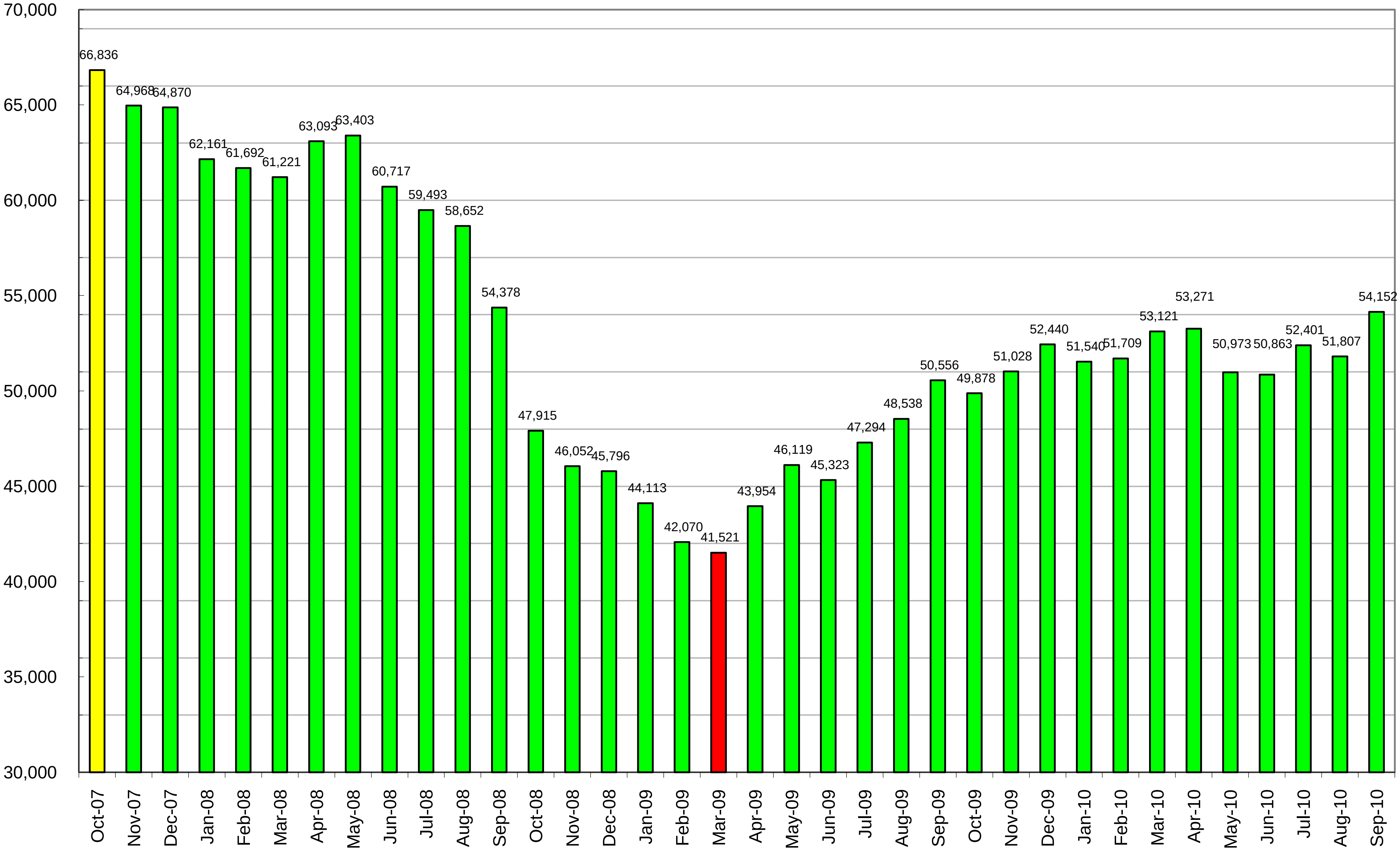

OPERF Asset Allocation
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
46%
42%
16%
21%
27%
26%
11%
10%
0%
0%
Public Equity
Private Equity
Fixed Income
Real Estate
Cash*
Target
Actual


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

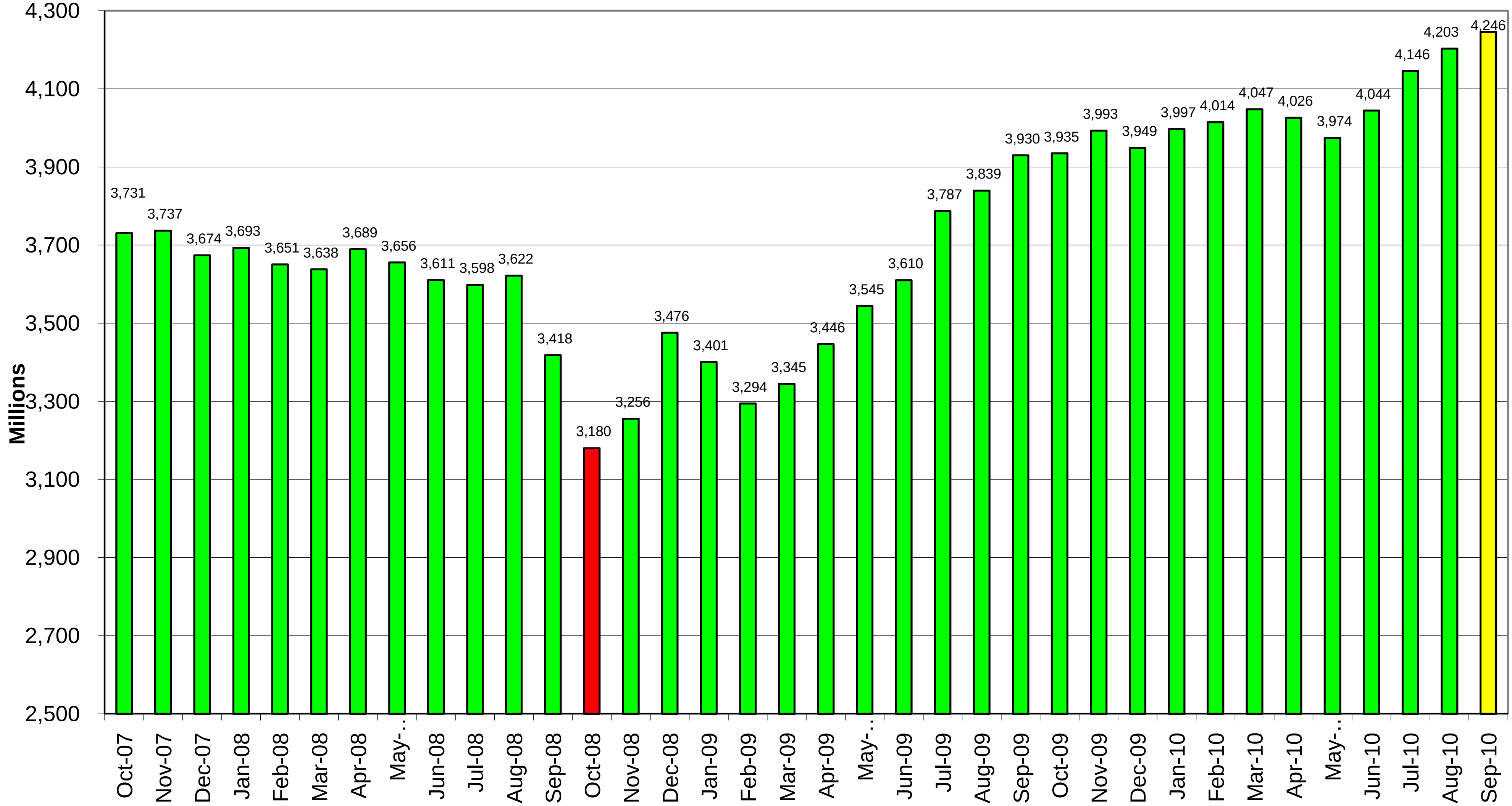

CSF Asset Allocation
40%
35%
30%
25%
20%
15%
10%
5%
0%
30%
31%
30%
33%
10%
5%
30%
30%
0%
0%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual


HIED Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
30%
30%
30%
31%
10%
10%
30%
27%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual

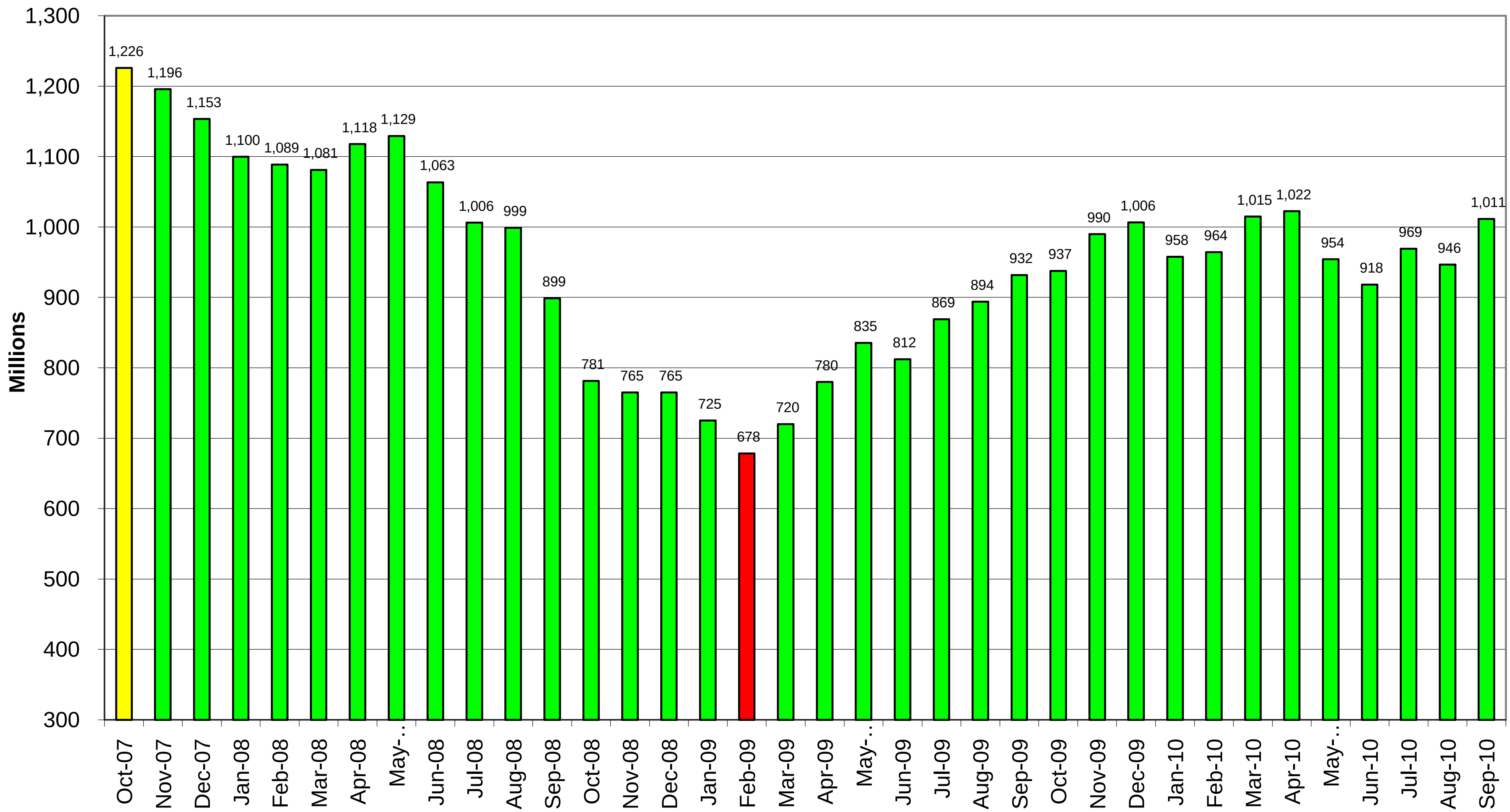
OPERF NAV
Three years ending Sept 2010
($ in Millions)



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



CSF NAV
Three years ending September 2010
($ in Millions)



TAB 7 – CALENDAR – FUTURE AGENDA ITEMS

2010/11 OIC Forward Agenda Topics

December 1:	OPERF Fixed Income Structure Review OPERF Opportunity/Alternatives Portfolio Annual Plan OPERF Private Equity—KKR OPERF Private Equity—GSO HIED Annual Review OPERF 3rd Quarter Performance Review
January 2011:	OPERF Core Real Estate Review