Oregon Investment Council

February 29, 2012 - 9:00 AM

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

Keith Larson
Chair

Office of the State Treasurer
Ted Wheeler
State Treasurer

Michael Mueller
Interim Chief Investment Officer

OREGON INVESTMENT COUNCIL

2012 Meeting Schedule

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

January 25, 2012

January 25, 2012 Workshop

February 29, 2012

April 25, 2012

May 30, 2012

July 25, 2012

September 19, 2012

October 31, 2012

December 5, 2012

OREGON INVESTMENT COUNCIL

Agenda

February 29, 2012
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** January 25, 2012 Regular Meeting and Workshop	**Mike Mueller** *Interim CIO*	**1**
9:05-9:50	**2. Private Equity Review and 2012 Plan** *OPERF Private Equity*	**Jay Fewel** *Senior Investment Officer* **David Fann** **Kenn Lee** *TorreyCove Capital Partners*	**2**
9:50-10:15	**3. Proxy Voting Annual Review**	**Mike Viteri** *Senior Investment Officer* **Bob McCormick** *Chief Policy Officer, Glass Lewis & Co.*	**3**
10:15-10:30	**-----------------BREAK---------------------**		
10:30-10:45	**4. Russell 2000 Synthetic Portfolio** *OPERF Policy 4.05.03*	**Mike Viteri** **John Meier** *Strategic Investment Solutions*	**4**
10:45-10:50	**5. OIC Consultant Discussion** *General and Real Estate Consultants*	**Mike Mueller**	**5**
	B. Information Items		
10:50-10:55	**6. Iran Divestment Legislation Update**	**Mike Mueller**	**6**
10:55-11:15	**7. OPERF 4th Quarter Performance Review**	**John Meier**	**7**

8. **Asset Allocations & NAV Updates** **Mike Mueller** **8**
   a. Oregon Public Employees Retirement Fund
   b. SAIF Corporation
   c. Common School Fund
   d. HIED Pooled Endowment Fund

9. **Calendar—Future Agenda Items** **9**

10. **Other Items** **Council** **Staff** **Consultants**

<u>C. Public Comment Invited</u>
15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

January 25, 2012 Regular Meeting

January 25, 2012 Workshop

MICHAEL MUELLER, CFA, CPA
INTERIM CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

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350 WINTER STREET NE, SUITE 100
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OREGON INVESTMENT COUNCIL
JANUARY 25, 2012
MEETING MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler
Staff Present:	Darren Bond, Tony Breault, Karl Cheng, Brad Child, Sam Green, Perrin Lim, Tom Lofton, Mike Mueller, Tom Rinehart, James Sinks, Michael Viteri, Byron Williams
Consultants Present:	John Meier (SIS), John Linder (PCA), David Fann and Kenn Lee (TorreyCove)
Legal Counsel Present:	Keith Kutler, 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 December 7, 2011 minutes to the table. Mr. Solomon moved approval of the minutes. The motion was seconded by Ms. Durant and passed by a vote of 5/0.

Mike Mueller, Interim CIO gave an update on recent Private Equity Committee actions since the last meeting:

- December 8, 2011: APAX Partners, LLP ($150 million)
  Union Square Ventures 2012 Fund, L.P. ($25 million)
- December 20, 2011: Green Equity Investors VI ($150 million)

II. 9:03 a.m.: Election of OIC Officers

MOTION: Ms. Durant moved approval for the nominations of Keith Larson as Chair and Dick Solomon as Vice Chair. Treasurer Wheeler seconded the motion. The motion was passed by a vote of 5/0.

Mr. Larson thanked Harry Demorest for his two years of service as board chair, and he outlined some key goals for the next few years: 1. Driving world glass governance; 2. Assessing and controlling risk; 3. Attracting and retaining the best individuals in the investment industry; and 4. Investing in state-of-the-art investment tools.

MOTION: Mr. Solomon moved approval of the following committee assignments: Ms. Durant will continue to serve on the Real Estate Committee and Mr. Solomon will continue to serve on the Alternatives and

Opportunity Portfolio Committees. The OIC representative on the Private Equity Committee will change from Mr. Larson to Mr. Demorest. Treasurer Wheeler seconded the motion which passed 5/0.

III. 9:15 a.m.: OPERF Fixed Income Portfolio Review

Perrin Lim, Senior Investment Officer, and John Meier, SIS provided an annual update on the OPERF Fixed Income portfolio. The fixed income role within the policy portfolio is for total fund risk control, liquidity, and return. Some observations from SIS on the current fixed income structure are:

- More heavily weighted to higher yielding (and potentially more volatile) sectors;
- More diversification – EMD, HY and floating rate senior secured bank loans;
- Approximately 50 percent of the allocation is to debt with greater exposure to the economic cycle and equities (IG credit, HY credit and senior secured bank loans); and
- Difficult to recommend addition of TIPS or other government bonds given historically low rates

The recommendation from SIS, with staff agreement, is to maintain current policy and opportunistically increase diversification within the asset class.

There was a brief question and answer period following Mr. Lim's presentation.

IV. 9:50 a.m.: Annual Placement Agent Summary

Mike Mueller, Interim Chief Investment Officer provided a summary of the annual placement agent use, in accordance with Treasury policy. This information is also posted on the Oregon State Treasury website.

V. 9:51 a.m.: Discussion on Investment Risk Management

Byron Williams, Chief Audit Executive introduced Mike Sebastian, Partner with Hewitt Ennisknupp. Mr. Williams and Mr. Sebastian presented a discussion on risk management topics for OIC discussion. The purpose for the risk management study is to review information relating to risk provided to the OIC for conformance with best practices:

- Focus on risks relevant to the OPERF portfolio
- Clear and concise reporting
- Connection of reporting with investment policies and the risk controls
- Clear indication of what OIC actions, if any, are warranted by current risk and portfolio positioning

After the preliminary discussion, there were specific risks that Hewitt Ennisknupp will focus on as part of their review:

- Asset/liability
- Market
- Inflation
- Active
- Liquidity
- Policy compliance
- Cost

Focus on specific risks is recommended because: they have the most significant impact on fund results; they are ideally monitored at the OIC level; they are more explicitly defined in the investment policy framework and it makes things more manageable.

VI. 10:50 a.m.: Asset Allocation and NAV Updates

Mr. Mueller reviewed the Asset Allocations and NAV's for the period ending December 31, 2011.

VII. 10:50 am: Calendar – Future Agenda Items

Mr. Mueller highlighted future agenda topics.

VIII. 10:51 am: Other Business
There was no other business discussed.

Byron Williams provided the OIC an updated on the current audit engagements and the timing of the expected reporting.

10:55 am: Public Comments
Sarah Cleveland, a member of the public, provided comments about climate risks.

The meeting adjourned at 11:00 am

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist

MICHAEL MUELLER, CFA, CPA
INTERIM CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

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OREGON INVESTMENT COUNCIL
JANUARY 25, 2012
WORKSHOP MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler
Staff Present:	Darren Bond, Julie Jackson, Mike Mueller, Tom Rinehart, James Sinks
Consultants Present:	John Meier (SIS), John Linder (PCA), David Fann and Kenn Lee (TorreyCove)
Legal Counsel Present:	Keith Kutler, Oregon Department of Justice Deena Bothello, Oregon Department of Justice

The Workshop was called to order at 11:30 am by Keith Larson, Chair.

<u>Time</u>	<u>Agenda Item</u>	
11:30 am	1	SURVEY OF PENSION FUND GOVERNANCE: Mr. Larson gave a summary of the purpose of this workshop and introduced Funston Advisory Services LLC. Rick Funston, Randy Miller, and Keith Johnson from Funston Advisory presented peer comparison information on public funds to help enable the OIC and OST to potentially improve the effectiveness and efficiency of the investment operations and thereby better fulfill their fiduciary responsibilities.

The meeting adjourned at 1:37 pm.

TAB 2 – PRIVATE EQUITY REVIEW AND 2012 PLAN

OPERF Private Equity

Portfolio Review and 2012 Annual Plan

Purpose

To provide the OIC with a review of the current Private Equity Portfolio, commitment pacing projections, and tentative plan for 2012 private equity activity.

Background

Staff met with TorreyCove Capital Partners in La Jolla, CA. on February 1-2, 2012 to perform a review of the Private Equity portfolio, update the commitment pacing and allocation model using the most recent data available (9/30/11), and to formulate a plan of activity for 2012. While the results of this work are detailed in the accompanying report from TorreyCove, staff wishes to summarize and highlight the following key take-aways:

- The portfolio continues a record of strong, long-term performance, substantially exceeding both its public market benchmark (Russell 3000 + 300 basis points), and the private equity Thomson Reuters Pooled IRR – All Private Equity benchmark, over substantially all time periods.

- The portfolio's private equity sub-sector exposures are generally within the targeted allocation ranges.

- Compared to both our public fund peers, and the "industry," OPERF's private equity portfolio is slightly over-weighted toward buyout and international funds, and slightly under-weighted toward venture capital, distressed debt, and fund-of-funds.

- The portfolio continues to be above its allocation policy range of 12-20 percent, due to: the strong relative performance of the portfolio; and, the larger commitments made during the 2005-2008 timeframe, as the program "ramped-up" in response to the OIC's increased private equity allocation, while public markets were experiencing strong returns.

- During 2012, staff will continue to "manage down" the portfolio allocation level, while still gaining vintage year diversification, by limiting commitments to $2.0 billion. Since 2009, OPERF's lower commitment amounts have resulted in the lowest Unfunded Commitments to Fair Market Value ratio in the program's recent history. As investments from the 2005-2008 vintage commitments are liquidated in the next few years, we expect the private equity portfolio to be strongly cash-flow positive, and the allocation level to decrease substantially.

- There is a strong pipeline of existing managers who will be raising funds during 2012, and we anticipate 2012 commitments will be primarily re-ups with existing partners, and mostly at amounts lower than in the prior fund. A small number of new relationships are planned with high quality funds that fill a portfolio need, and we expect that a few existing partners will not receive commitments for various reasons (performance, stability, or portfolio fit).

Recommendation

This report is being provided for discussion and informational purposes, and no action is required.

TorreyCove
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La Jolla, CA 92037

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140 Broadway
46th Floor
New York, NY 10005

Oregon Public Employees Retirement Fund

2011 Portfolio Review and 2012 Outlook

TorreyCove
CAPITAL PARTNERS

Portfolio Review

As of September 30, 2011

TorreyCove
CAPITAL PARTNERS

- *Authorized* commitments decreased from 2010 to 2011, totaling $2,120 million of closed or pending capital commitments for the year. Of that amount, over half was authorized for medium and large buyout managers.
- OPERF closed on just under $1.2 billion of new commitments during the calendar year 2011, versus $2.0 billion in 2010
- Commitments authorized in 2011 were comprised of a diversified set of managers across multiple investment strategies that have each provided OPERF a proven history of superior returns.
- OPERF's private equity performance is strong and the Program continues to outperform the Thomson Reuters median IRR benchmark in all 25 vintage years.

Overview

2011 Activity

Buyouts

Apax Europe VIII
Endeavour Capital Fund VI
Green Equity Investors VI (2012 allocation)
KKR North American Fund XI
KSL Capital Partners III
Parthenon Investors IV
Providence Equity Partners VII
Rhône Partners IV
TPG Growth II
Vestar Capital Partners VI
Vista Equity Partners Fund IV

Distressed /Mezzanine Debt

OHA European Strategic Credit Fund
Oaktree European Principal Fund III
GSO Capital Opportunities Fund II

Venture Capital

Sofinnova Venture Partners VIII
Union Square Ventures 2012
VantagePoint CleanTech Partners III

Secondaries/Special Situations/FoF

Coller International Partners VI
Harbourvest Partners 2012 Direct Fund
Montauk TriGuard Fund V

Portfolio Allocation and Performance

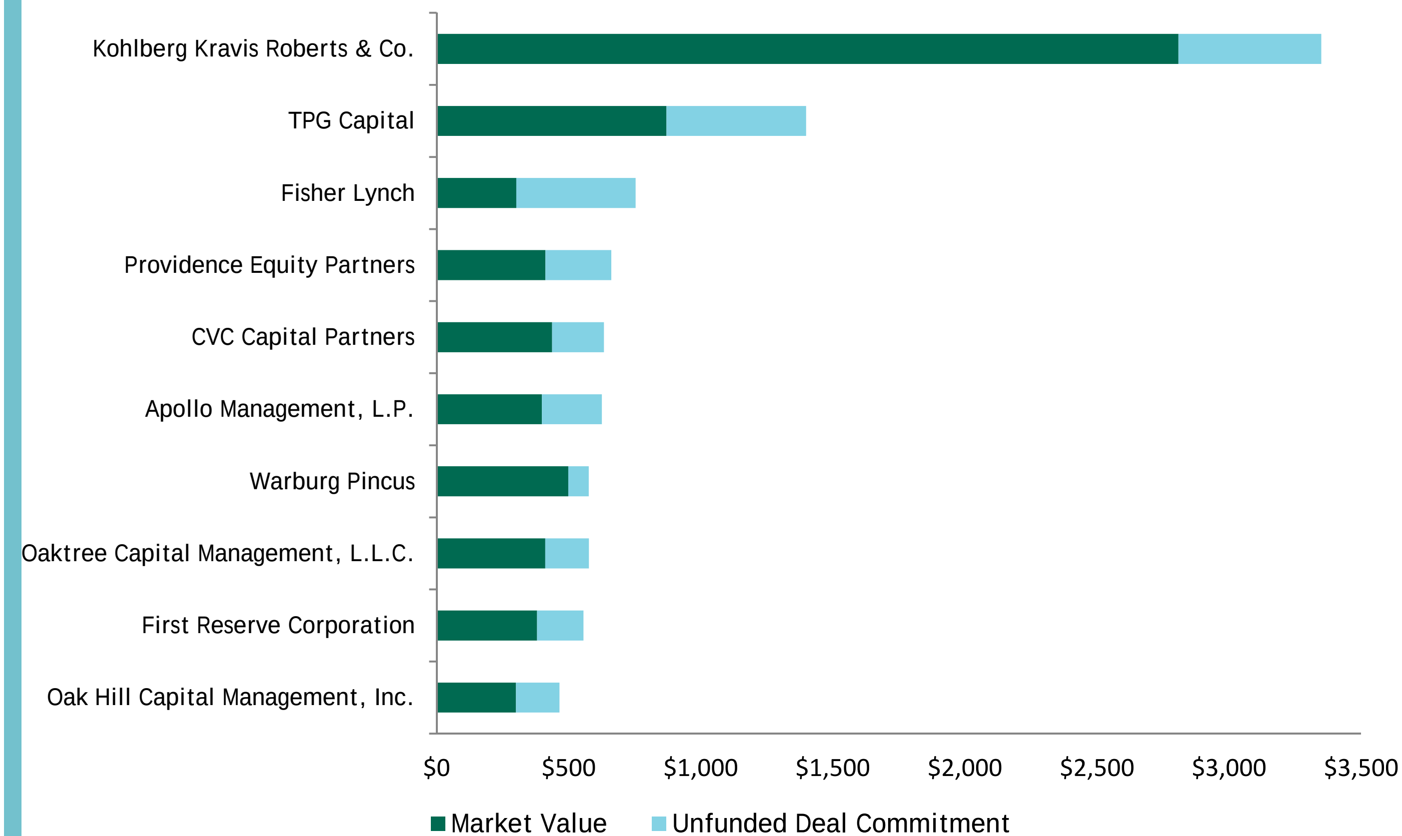
- OPERF's private equity sub-sector exposures are generally within the targeted allocation ranges, with large corporate finance and venture capital slightly under-weighted, while fund-of-funds and international are slightly over-weighted on a remaining commitment basis.
- As of September 30, 2011, OPERF has achieved a portfolio IRR of approximately 15.8% (since inception), representing an excess return of approximately 480 basis points over the Thomson Reuters Pooled IRR for all private equity as of September 30, 2011.
- As of September 30, 2011, the 10-year IRR of OPERF's PE portfolio is approximately 11.2%, representing an excess return of approximately 440 basis points over the Thomson Reuters Pooled IRR for all private equity as of September 30, 2011.

TOP TEN DIRECT RELATIONSHIPS BY EXPOSURE

AS OF SEPTEMBER 30, 2011

Aggregate Exposure | Based on Fair Market Value + Unfunded

$ in millions



IRR Inception to Date	Weighted Average Age of Commitments
17.9%	12.0 yrs.
15.4%	7.2 yrs.
0.8%	2.7 yrs.
38.2%	7.6 yrs.
22.4%	7.2 yrs
6.9%	4.3 yrs
5.1%	4.7 yrs
11.0 %	7.0 yrs
25.1%	5.0 yrs
6.5%	4.0 yrs

PERFORMANCE OVERVIEW

AS OF SEPTEMBER 30, 2011

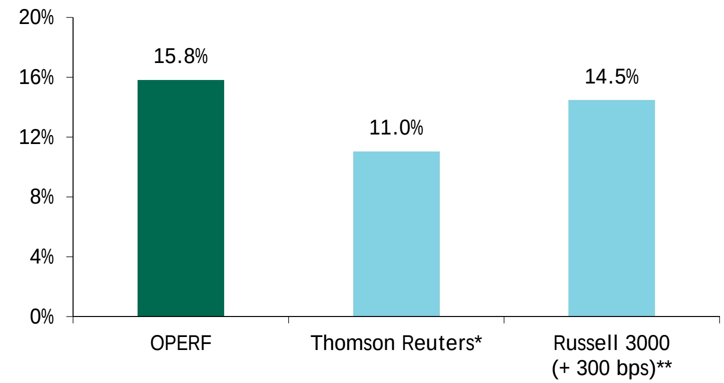
Vintage Year Performance & Benchmarks

VINTAGE YEAR	COMMITMENTS (Million)[2]	OPERF TVM	OPERF IRR	MARKET TVM[1]	MARKET IRR[1]	TVM QUARTILE	IRR QUARTILE
2001	$847	1.89x	23.7%	1.17x	2.4%	1st	1st
2002	$1,370	1.78x	18.7%	1.13x	2.0%	1st	1st
2003	$515	1.72x	14.3%	1.13x	2.1%	1st	1st
2004	$971	1.78x	17.5%	1.12x	2.3%	1st	1st
2005	$1,922	1.17x	4.1%	1.12x	2.8%	2nd	2nd
2006	$4,556	1.08x	2.5%	1.04x	1.1%	2nd	2nd
2007	$3,366	1.16x	6.3%	0.99x	(0.8%)	2nd	2nd
2008	$3,822	1.09x	5.4%	0.98x	(1.4%)	2nd	2nd
2009	$807	1.04x	NM	1.05x	NM	NM	NM
2010	$1,154	0.95x	NM	0.99x	N/A	NM	NM
2011	$2,708	0.92x	NM	N/A	N/A	NM	NM

1 *Thomson Reuters Median Total Value Multiple ("TVM") & Pooled Horizon IRR: All Private Equity Funds as of September 30, 2011.*

2 *Vintage year classification is generally based on the fund's first drawdown date.*

Since Inception Performance & Benchmarks (09.30.11)



Periodic Performance & Benchmarks (09.30.11)

As of September 30, 2011	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION
OPERF IRR	11.3%	7.5%	7.0%	11.2%	15.8%
Thomson Reuters *	13.0%	2.9%	4.7%	6.8%	11.0%
Value Added	*-1.8%*	*+4.6%*	*+2.3%*	*+4.4%*	*+4.8%*
Russell 3000 (+ 300 bps) **	4.0%	5.9%	2.7%	6.7%	14.5%
Value Added	*+7.2%*	*+1.6%*	*+4.3%*	*+4.5%*	*+1.4%*

* *Thomson Reuters Pooled IRR: All Private Equity Funds as of September 30, 2011.*

** *Data is dollar-weighted Long-Nickels calculation of quarterly changes in the Russell 3000 index plus 300 basis points. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group. Figures may not foot due to rounding.*

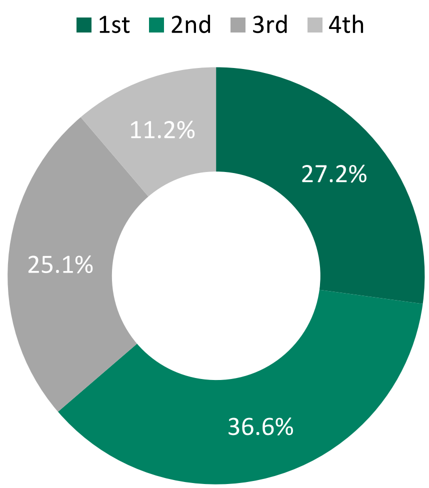
PORTFOLIO QUARTILE RANKINGS

AS OF SEPTEMBER 30, 2011

Overall Portfolio Since Inception

% of Total Capital Invested

(in each quartile-ranked fund since inception)



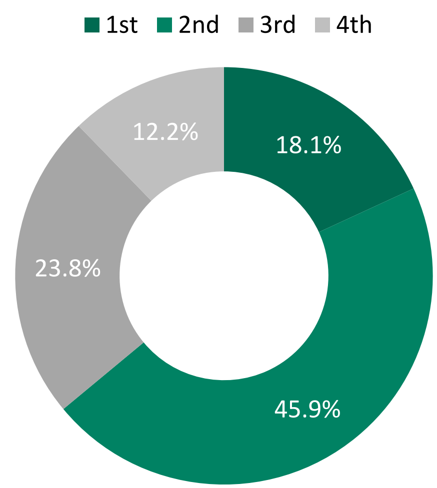
OPERF Pooled IRR by Quartile

Quartile	Net IRR
1st	24.3%
2nd	18.5%
3rd	8.7%
4th	-5.8%

Last 10 Years

% of Total Capital Invested

(in each quartile-ranked fund VY 2001-2010)



OPERF Pooled IRR by Quartile

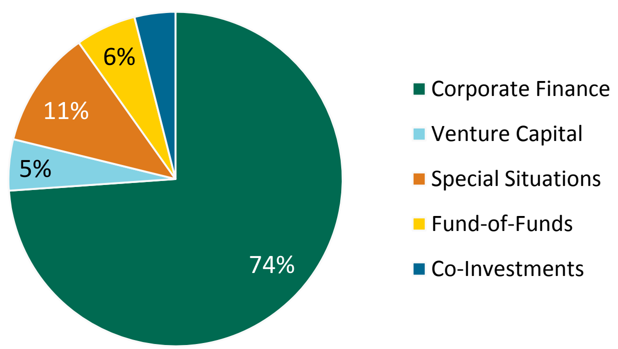
Quartile	Net IRR
1st	25.2%
2nd	10.1%
3rd	1.1%
4th	-9.2%

TORREYCOVE
CAPITAL PARTNERS

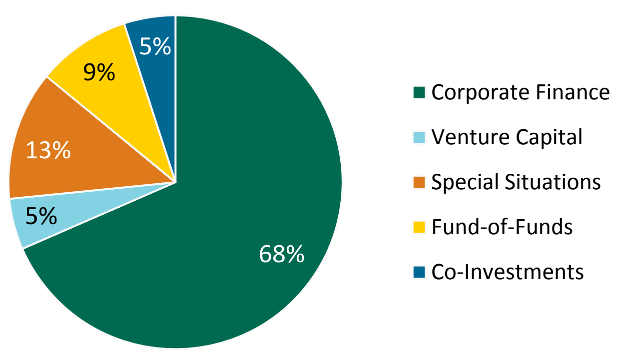
PORTFOLIO SNAPSHOT

AS OF SEPTEMBER 30, 2011

Portfolio Composition | By Market Value



Portfolio Composition | By Total Exposure[1]



1 *Total Exposure = Fair Market Value + Unfunded Commitments*

Portfolio Diversification (by Strategy & Geography) | $ Millions

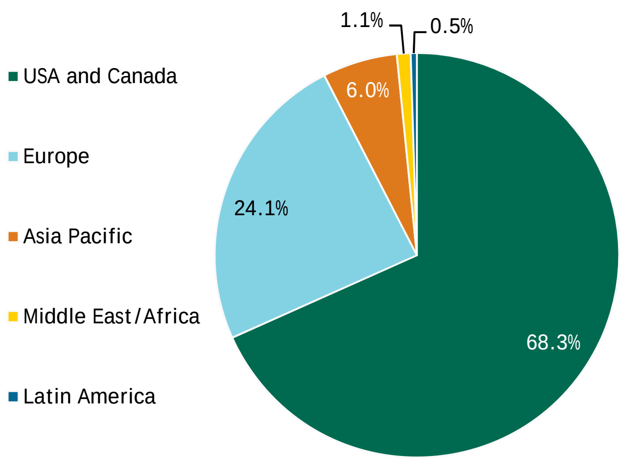
INVESTMENT SECTOR	TARGET	MARKET VALUE	%	UNFUNDED	%	TOTAL POTENTIAL EXPOSURE[1]	%
Corporate Finance	**65-85%**	**$9,644.5**	**72.5%**	**$4,645.0**	**59.6%**	**$14,289.5**	**67.7%**
Large Corp Finance	45-65%	$6,412.4	48.2%	$2,586.9	33.2%	$8,999.4	42.7%
Med Corp Finance	5-25%	$2,790.5	21.0%	$1,847.3	23.7%	$4,637.8	22.0%
Small Corp Finance	0-10%	$441.5	3.3%	$210.7	2.7%	$652.2	3.1%
Venture Capital	**5-10%**	**$719.4**	**5.4%**	**$396.8**	**5.1%**	**$1,116.2**	**5.3%**
Special Situations	**5-15%**	**$1,536.2**	**11.5%**	**$1,136.3**	**14.6%**	**$2,672.6**	**12.7%**
Distressed	0-10%	$1,075.4	8.1%	$666.8	8.6%	$1,742.2	8.3%
Mezzanine	0-5%	$286.9	2.2%	$231.7	3.0%	$518.5	2.5%
Secondaries	0-5%	$173.9	1.3%	$237.9	3.1%	$411.8	2.0%
Fund-of-Funds	**5-10%**	**$827.4**	**6.2%**	**$1,101.8**	**14.1%**	**$1,929.2**	**9.1%**
Co-Investments	**0-7.5%**	**$574.7**	**4.3%**	**$509.7**	**6.5%**	**$1,084.4**	**5.1%**
Investment Type Total:		**$13,302.2**	**100.0%**	**$7,789.6**	**100.0%**	**$21,091.9**	**100.0%**
USA and Canada	**70-100%**	**$9,618.3**	**72.3%**	**$5,280.2**	**67.8%**	**$14,898.5**	**70.6%**
International	**0-30%**	**$3,684.0**	**27.7%**	**$2,509.4**	**32.2%**	**$6,193.4**	**29.4%**
Asia		$380.0	2.9%	$316.3	4.1%	$696.3	3.3%
Europe		$1,716.4	12.9%	$892.3	11.5%	$2,608.7	12.4%
Global		$1,534.1	11.5%	$1,289.5	16.6%	$2,823.6	13.4%
Rest of World		$53.3	0.4%	$11.3	0.1%	$64.7	0.3%
Geographic Focus Total:		**$13,302.2**	**100.0%**	**$7,789.6**	**100.0%**	**$21,091.9**	**100.0%**

TorreyCove Capital Partners

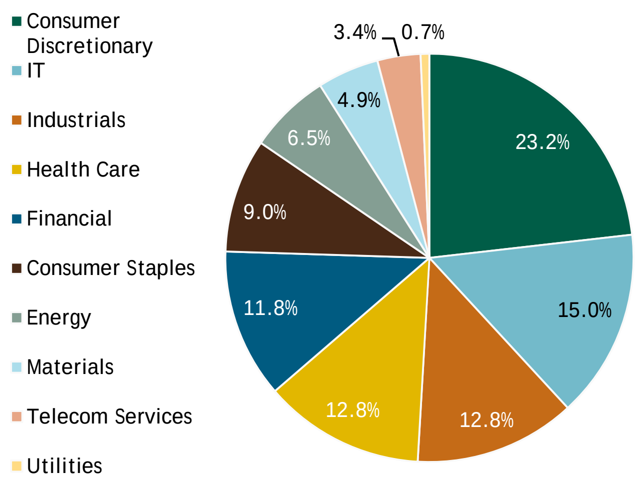
Portfolio Company Exposure | By Market Value

As of September 30, 2011

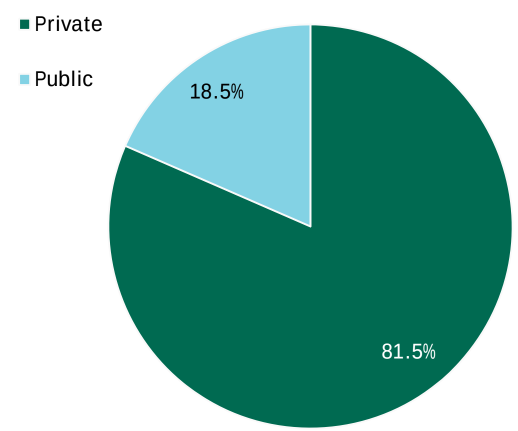
Geographic Exposure[1]



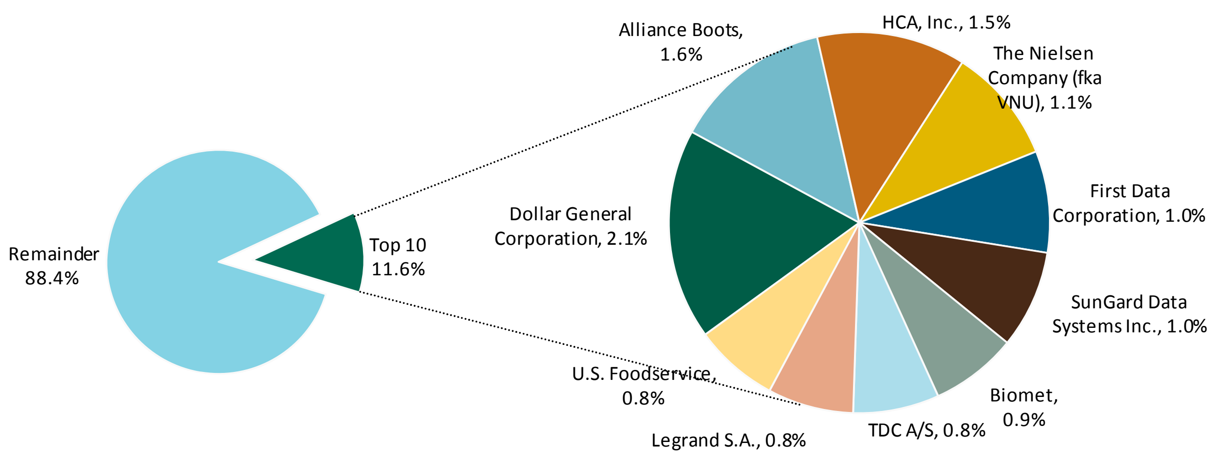
Industry Exposure[1]



Public Market Exposure



Top 10 Company Exposure

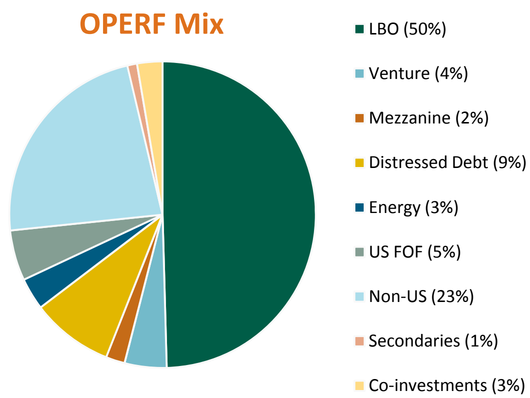


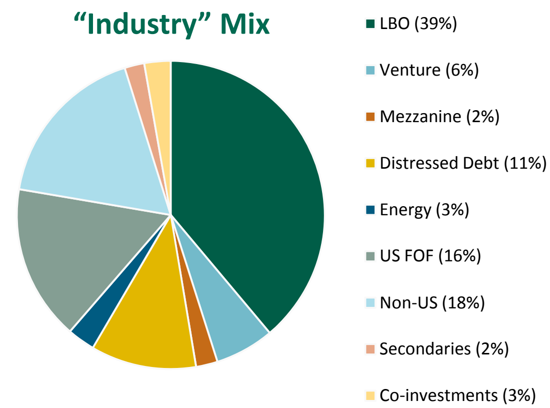
1 *It should be noted that the above allocation break-downs do not include investments for which the general partner provides a fair market value but withholds information on other details regarding the underlying investments.*

NAV Allocation by Strategy versus "Industry"

OPERF versus Selected Other Pension Plans as of December 31, 2010[1]

- The LBO and Non-US segments together comprise nearly ¾ of OPERF's private equity portfolio which is above the industry average.
- In addition, other industry pensions rely more on US Funds-of-funds than OPERF.
- The increased focus on LBO and Non-US managers combined with good manager selection and the lack of reliance on FoFs has help drive OPERF's relative outperformance of the industry.



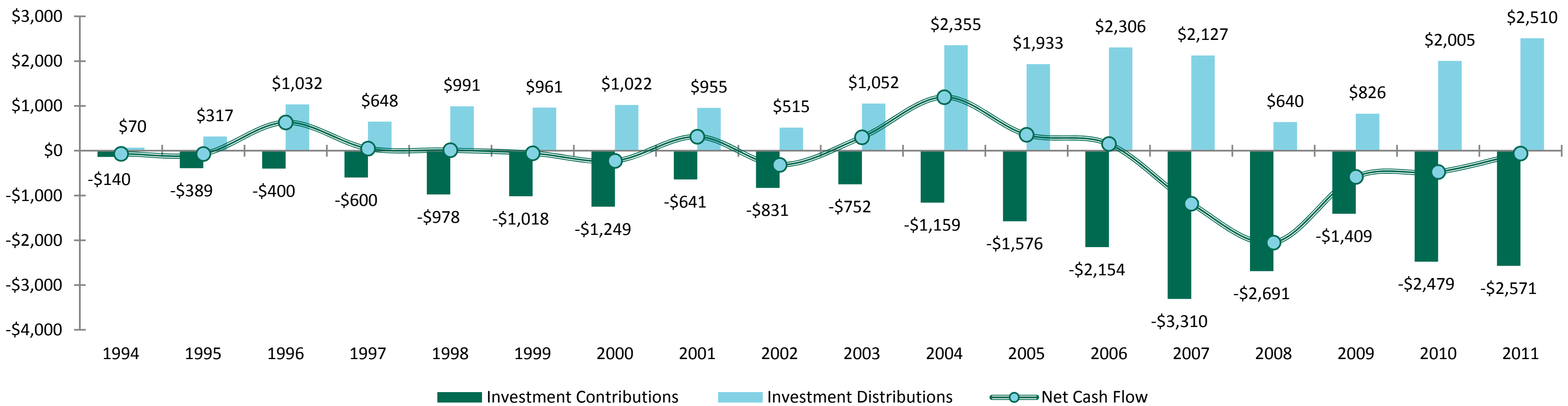


Difference in Portfolio Mix	
Strategy	**OPERF vs. Industry**
LBO	+11%
Venture	-2%
Mezzanine	0%
Distressed Debt	-2%
Energy	0%
US FOF	-11%
Non-US	+5%
Secondaries	-1%
Co-Investments	0%

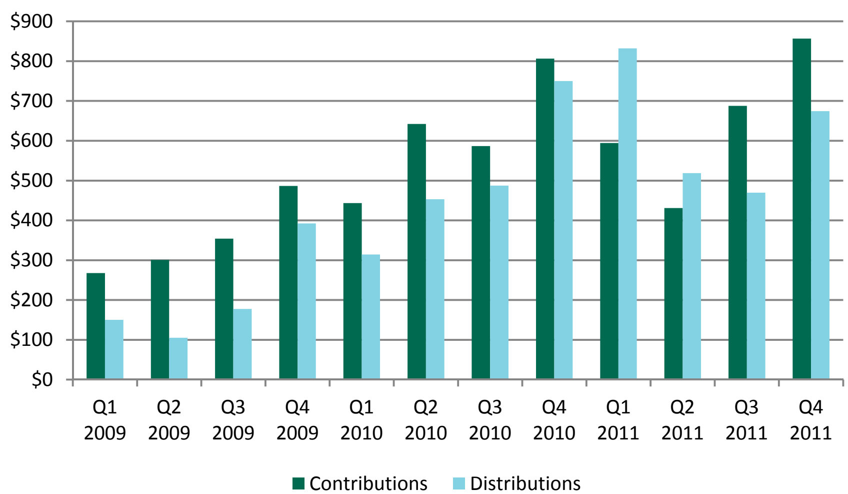
1 *Sample is based on data as of December 31, 2010 supplied by 28 US public pension systems (including OPERF) , respectively and compiled by CEM Benchmarking Inc. All data includes funds with VY' s: 1996-2010.*

Cash Flow Trends | As of December 31, 2011

Annual Contributions, Distributions & Net Cash Flows | $ Millions



Contributions & Distributions by Quarter | $ Millions



Capital Called per Vintage Year (as of 12.31.11) | $ Millions

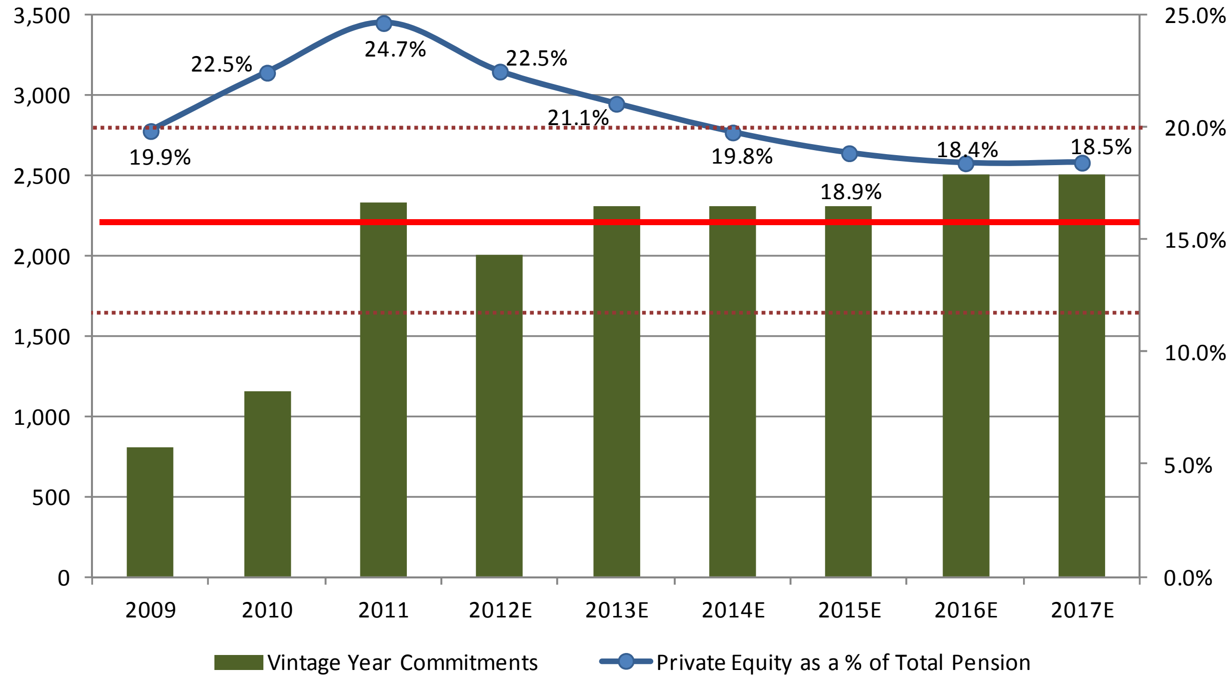
Vintage Year	Commitments	Capital Called	% Called
2007	$3,366	$2,950	88%
2008	$3,821	$2,459	64%
2009	$807	$289	36%
2010	$1,154	$325	28%
2011	$2,333	$371	14%
Total	**$11,882**	**$6,396**	**54%**

TorreyCove
CAPITAL PARTNERS

Pacing Analysis Summary

- Annual pace of new commitments is stabilizing at around $2.0- 2.5 billion in the coming years.
- TorreyCove forecasts OPERF's total private equity exposure to be above the 20% mark through at least 2013.
- OPERF reached its 16.0% target allocation in 2008.
- Due to large commitments in the 2006-2008 period, and following the market turmoil of '08-'09, PE allocation first exceeded the 20% mark of total pension assets in 2010.

Based on Total Pension Assets of $55.9 Billion (adjusted as of 12/31/11)



$ Millions	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E
Vintage Year Commitments [1]	807	1,154	**2,333**	2,000	2,300	2,300	2,300	2,500	2,500
Total PE FMV	10,418	12,952	**13,782**	13,099	12,782	12,502	12,403	12,590	13,108
FMV as a % of Portfolio	19.9%	22.5%	**24.7%**	22.5%	21.1%	19.8%	18.9%	18.4%	18.5%
Estimated OPERF FMV	52,440	57,664	55,869	58,191	60,638	63,133	65,691	68,299	71,010

1 Represent vintage year of underlying funds.

Outlook for 2012[1]

Forward Calendar

1 *Subject to change.*

TorreyCove
CAPITAL PARTNERS

- Small and middle market buyout investment activity fell slightly in 2010, but remains robust.
- Equity contributions in 2011 averaged over 50% for closed transactions.
- Valuations remained relatively low in the small (<7x EBITDA) and middle markets (8.5x EBITDA).

FORWARD CALENDAR

Buyouts (Small & Medium) $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Carousel Capital Partners	Small Corp Finance	North America	2007	$300 *	X	X		
Carpenter BancFund-A	Small Corp Finance	North America	2009	263			X	
Halifax Capital Partners	Small Corp Finance	North America	2005	350 *	X	X		
LNK Partners	Small Corp Finance	North America	2006	400 *	X	X		
Milestone Partners	Small Corp Finance	North America	2008	350 *	X	X		
MSouth Equity Partners	Small Corp Finance	North America	2008	265	X	X		
Riverside Capital Appreciation Fund	Small Corp Finance	North America	2008	1,170		X		
Solera Capital	Small Corp Finance	North America	2000	246		X		
A&M Capital Partners	Med Corp Finance	North America	FTF	500 *	X	X		
AEA	Med Corp Finance	North America	2006	1,500 *	X	X		
American Securities	Med Corp Finance	North America	2008	3,500 *	X	X		
Aquiline Capital	Med Corp Finance	North America	2010	619				
Ares	Med Corp Finance	North America	2008	4,000 *	X	X		
Audax Private Equity Fund	Med Corp Finance	North America	2007	1,000 *	X	X		
Aurora Equity Partners	Med Corp Finance	North America	2004	900 *	X	X		
Avista Capital Partners	Med Corp Finance	North America	2008	2,000 *	X	X		
Carlyle U.S. Equity Opportunity Fund	Med Corp Finance	North America	FTF	1,000 *	X	X		
Castle Harlan Partners	Med Corp Finance	North America	2010	794				X
Catterton Partners	Med Corp Finance	North America	2006	1,000		X		
Charterhouse	Med Corp Finance	North America	2004	500 *	X	X		
Court Square Capital Partners	Med Corp Finance	North America	2006	3,000 *	X	X		
Crestview Partners	Med Corp Finance	North America	2009	2,429			X	
Elevation	Med Corp Finance	North America	2006	1,000*	X	X		
Endeavour Capital	Med Corp Finance	North America	2011	$675				

* Indicates Target Fund Size.

TorreyCove
CAPITAL PARTNERS

- 2012 should continue present opportunities for small and middle market funds specializing on specific sectors and strategies.
- Firms focusing on operational improvement, enterprise transformation and balance sheet solutions should perform well in the near term.

Forward Calendar

Buyouts (Medium) (Cont'd) $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Fenway	Med Corp Finance	North America	2006	$681			X	
Francisco Partners	Med Corp Finance	North America	2011	1,973				
Genstar Capital Partners	Med Corp Finance	North America	2007	1,500 *	X	X		
Greenhill Capital Partners	Med Corp Finance	North America	2005	700 *	X	X		
Gryphon Partners	Med Corp Finance	North America	2004	555		X		
Irving Place	Med Corp Finance	North America	2006	2,687		X		
KSL Capital	Med Corp Finance	North America	2011	2,058				
Lake Capital Partners	Med Corp Finance	North America	2005	500 *	X	X		
MidOcean Partners	Med Corp Finance	North America	2007	1,329		X		
Nautic Partners	Med Corp Finance	North America	2007	781		X		
Palladium Equity Partners	Med Corp Finance	North America	2005	800 *	X	X		
Parthenon Investors	Med Corp Finance	North America	2005	685 *	X	X		
Pegasus Partners	Med Corp Finance	North America	2007	1,500 *	X	X		
Perseus Partners	Med Corp Finance	North America	2006	603	X	X		
Pine Brook Capital Partners	Med Corp Finance	North America	2008	1,434		X		
Siris Partners	Med Corp Finance	North America	FTF	400 *	X	X		
Summit Partners	Med Corp Finance	North America	2006	2,600 *	X	X		
Tailwind Capital Partners	Med Corp Finance	North America	2007	775		X		
Thoma Bravo Fund	Med Corp Finance	North America	2008	950 *	X	X		
Trilantic Capital Partners	Med Corp Finance	North America	2007	2,000 *	X	X		
Vector Capital	Med Corp Finance	North America	2007	1,225			X	
Veritas Capital	Med Corp Finance	North America	2010	1,225				X
Vista Equity Partners	Med Corp Finance	North America	2007	2,500*	X	X		
Wicks Capital Partners	Med Corp Finance	North America	2005	$550 *	X	X		

* Indicates Target Fund Size.

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CAPITAL PARTNERS

- Large deals returned in 2011 as 73% of invested buyout capital targeted deals over $500 million.
- The availability of debt for larger deals and the capital overhang have driven acquisition multiples to nearly 10x EBITDA.
- Large buyout firms continue to target public-to-privates, corporate divestitures, JVs with strategic buyers, and distressed asset purchases.
- Large LPs have partnered with large buyout firms to form specialized separate account relationships.

Forward Calendar

Buyouts (Large and Mega) $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Apollo	Large Corp Finance	North America	2008	$14,676			X	
Bain Capital	Large Corp Finance	North America	2008	11,800			X	
Blackstone	Large Corp Finance	North America	2011	15,000				
Carlyle Partners	Large Corp Finance	North America	2007	13,700	X	X		
CCMP	Large Corp Finance	North America	2006	3400		X		
Clayton, Dubilier & Rice	Large Corp Finance	Global	2009	4,548			X	
Green Equity Investors	Large Corp Finance	North America	2007	5,000 *	X	X		
JC Flowers	Large Corp Finance	Global	2008	2,500				X
KKR North America	Large Corp Finance	North America	2006	10,000 *	X	X		
New Mountain Partners	Large Corp Finance	North America	2007	5,122		X		
Oak Hill Capital	Large Corp Finance	North America	2007	3,681			X	
Onex Partners	Large Corp Finance	North America	2008	4,400			X	
Providence Equity Partners	Large Corp Finance	Global	2011	2,802				
Platinum Equity	Large Corp Finance	North America	2007	3,750 *	X	X		
Sun Capital Partners	Large Corp Finance	North America	2007	5,000		X		
TPG Capital	Large Corp Finance	North America	2008	18,873			X	
Vestar Capital Partners	Large Corp Finance	Global	2011	3,675				
Warburg Pincus	Large Corp Finance	Global	2007	12,000 *	X	X		
Welsh, Carson, Anderson & Stowe	Large Corp Finance	North America	2009	$3,549				X

* Indicates Target Fund Size.

TorreyCove
CAPITAL PARTNERS

Forward Calendar

Buyouts – Europe € Millions unless otherwise specified

- In spite of a relatively bleak macro economic outlook for the Eurozone, several large funds returned to market 2011.
- Existing relationships Advent and CVC Europe are expected to be fundraising in 2012.
- Additionally, there are attractive new relationships which could be explored during the year.

Existing OPERF Relationship

Fund Name	Strategy	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Apax Partners	Large Corp Finance	Pan-European / Global	2007	€9,000 *	X	X		
BC European Partners	Large Corp Finance	Pan-European / US	2011	6,500				X
Carlyle Group (Europe)	Large Corp Finance	Pan-European	2006	5,350		X		
Charterhouse	Large Corp Finance	Pan-European	2008	4,000			X	
Cinven Capital Partners	Large Corp Finance	Pan-European	2006	5,000 *	X	X		
CVC Capital Partners	Large Corp Finance	Pan-European	2009	10,749		X		
KKR Europe	Large Corp Finance	Pan-European	2008	4,295			X	
PAI Partners	Large Corp Finance	Pan-European	2008	2,675		X		
Terra Firma	Large Corp Finance	Pan-European / Global	2007	5,400		X		
Advent International	Med Corp Finance	Pan-European	2008	6,600		X		
Altor Equity Partners	Med Corp Finance	Nordic	2008	2,000			X	
Bridgepoint Capital	Med Corp Finance	Pan-European	2008	4,835			X	
Chequers	Med Corp Finance	France / West. Eur.	2011	850				X
EQT	Med Corp Finance	Nordic/Germany/CEE	2011	4,750				X
GI Partners	Med Corp Finance	UK / US	2008	1,900		X		
Gilde Investment Mgmt	Med Corp Finance	Benelux	2010	800				X
IK Investment Partners	Med Corp Finance	Northern Europe	2007	1,650		X		
Lion Capital	Med Corp Finance	Pan-European / US	2007	2,000 *	X	X		
Montagu Private Equity	Med Corp Finance	UK/France/Germany	2011	2,500				X
Nordic Capital	Med Corp Finance	Nordic/Germany	2008	4,300	X	X		
Palamon European Equity	Med Corp Finance	Pan-European	2005	750 *	X	X		
Rhone Capital	Med Corp Finance	Pan-European / US	2006	1,250 *	X	X		
Triton Partners	Med Corp Finance	Germany	2009	1,900			X	
Waterland PE	Med Corp Finance	Benelux	2011	1,200				X
Riverside	Small Corp Finance	Pan-European	2009	€415		X		

* Indicates Target Fund Size.

TorreyCove
CAPITAL PARTNERS

Forward Calendar

- Fundraising in Asia during 2011 continued to be robust for country-focused funds (China and India in particular).
- In 2012, the focus will revert to diversified pan-Asian firms who raised large funds in 2007 and 2008.
- SE Asia is garnering increasing amounts of attention as an attractive market for private equity.

Buyouts – Asia $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Affinity Asia	Large Corp Finance	Pan-Asian	2007	$2,800		X		
Avenue Asia	Large Corp Finance	Pan-Asian	2006	3,000		X		
Bain Capital Asia	Large Corp Finance	Pan-Asian	2007	2,000 *	X	X		
Baring Asia	Large Corp Finance	Pan-Asian	2011	2,460				
Carlyle Asia	Large Corp Finance	Pan-Asian	2010	2,500				X
CVC Asia	Large Corp Finance	Pan-Asian	2008	4,100			X	
Headland Capital	Large Corp Finance	Pan-Asian	2008	1,300		X		
KKR Asia	Large Corp Finance	Pan-Asian	2007	5,000 *	X	X		
Pacific Alliance Group (PAG)	Large Corp Finance	Pan-Asian	FTF	2,500 *	X	X		
TPG Asia	Large Corp Finance	Pan-Asian	2007	4,000 *	X	X		
Unitas (fka CCMP Asia)	Large Corp Finance	Pan-Asian	2008	1,200			X	
CDH Capital	Med Corp Finance	China	2010	1,400				X
CITIC	Med Corp Finance	China	2010	925			X	
KKR China	Med Corp Finance	China	2010	800				X
Longreach Group	Med Corp Finance	Japan / China	2006	750 *	X	X		
ACO Asia	Med Corp Finance	India / SE Asia	FTF	750 *	X	X		
KV Asia	Med Corp Finance	SE Asia	FTF	500 *	X	X		
Navis	Med Corp Finance	SE Asia	2010	1,200				X
Northstar	Med Corp Finance	SE Asia	2011	$750			X	

Buyouts – Global Emerging Markets $ Millions

Fund Name	Strategy	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Actis	Med Corp Finance	Global EM	2007	$3,500 *	X	X		
Capital International	Med Corp Finance	Global EM	2007	$3,000 *	X	X		

* Indicates Target Fund Size.

TorreyCove
CAPITAL PARTNERS

- Strength in the high yield market and the necessity of buyout shops to "over-equitize" deals have made it difficult for mezzanine investors to deploy capital.
- However, many mezzanine investors report consistent deal flow as they offer certainty of closing, which is a competitive advantage versus public markets.
- Easy money policies by major central banks have helped encourage debt refinancings.

Forward Calendar

Mezzanine $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Focus	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Ironwood Capital	Mezzanine	Non Captive	North America	FTF	$300 *	X	X		
Crescent Capital (fka TCW/Crescent)	Mezzanine	Non Captive	North America	2008	2,500 *	X	X		
Highbridge Capital Management, LLC	Mezzanine		North America	2008	3,000 *	X	X		
Huntington Capital	Mezzanine	Non Captive	North America	2008	125 *	X	X		
KKR (mezzanine)	Mezzanine	Non Captive	Global	2011	1000				X
GSO Capital Partners	Mezzanine	Non-captive	Global	2007	3,000 *	X	X		
New York Life Capital Partners	Mezzanine	Non Captive	Global	2007	$1,000 *	X	X		

Distressed Debt $ Millions unless otherwise specified

Fund Name	Strategy	Focus	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
American Securities Advisers	Distressed Debt	Distressed Restructuring	North America	2007	$500 *	X	X		
Anchorage Capital Group	Distressed Debt	Credit	Global	FTF	750 *	X	X		
Apollo Capital Partners	Distressed Debt	Special Situations	Western Europe	2008	€2.000 *	X	X		
Avenue Capital Management	Distressed Debt	Distressed Trading	North America	2011	1,900			X	
Avenue Capital Management (Europe)	Distressed Debt	Distressed Trading	Western Europe	2008	1,500 *	X	X		
Bayside Capital (H.I.G.)	Distressed Debt	Distressed Restructuring	North America	2008	3,050		X		
Black Diamond Capital Management	Distressed Debt	Distressed Restructuring	North America	2011	$800			X	

* Indicates Target Fund Size.

- The maturity wall in 2013-2015 is now small enough – below total debt issuance in 2011 – that it may not be a factor in creating defaults.

FORWARD CALENDAR

Distressed Debt (Cont'd) $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Focus	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
CarVal Investors (CVI)	Distressed Debt	Diversified	Global	2009	N/A			X	
Centerbridge Partners	Distressed Debt	Distressed Restructuring	North America	2011	$4,400			X	
Cerberus Capital Management	Distressed Debt	Diversified	Global	2007	3,750 *	X	X		
Clearlake Capital Partners	Distressed Debt	Special Situations	North America	2009	410		X		
Clearwater Capital Partners	Distressed Debt	Distressed Trading	Asia/Pacific Rim	2008	1,000 *	X	X		
Levine Leichtman Capital Partners	Distressed Debt	Distressed Restructuring	North America	2008	600 *	X			
Longroad Asset Management	Distressed Debt	Distressed Restructuring	North America	2004	183			X	
MHR Fund Management	Distressed Debt	Distressed Restructuring	North America	2006	3,500		X		
Monarch Alternative Capital	Hedge Fund	Distressed Restructuring	North America	FTF	400 *	X	X		
Mount Kellett	Distressed Debt	Distressed Restructuring	Global	2008	4,000 *	X	X		
Oak Hill Advisors (Europe)	Distressed Debt	Distressed Trading	Western Europe	FTF	$750 *	X	X		
Oaktree Capital Management (OCM European Principal Opportunities Funds)	Distressed Debt	Distressed Restructuring	Western Europe	2011	$3,000				X
Oaktree Capital Management (OCM Opportunities Funds)	Distressed Debt	Distressed Trading	Global	2010	4,000 *	X	X		
Oaktree Capital Management (OCM Principal Opportunities Funds)	Distressed Debt	Distressed Restructuring	Global	2009	3,300			X	

* Indicates Target Fund Size.

TorreyCove
CAPITAL PARTNERS

- The European sovereign debt situation will likely force European banks to shed assets. But when and how is unclear.

Forward Calendar

Distressed Debt (Cont'd) $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Focus	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Pegasus Capital Advisors	Distressed Debt	Distressed Restructuring	North America	2004	1,000 *	X	X		
Providence Equity Partners	Distressed Debt	Credit	North America	2008	600 *	X	X		
Sankaty Advisors	Distressed Debt	Distressed Trading	North America	2008	3,500 *	X	X		
Saybrook	Distressed Debt	Distressed Restructuring	North America	2008	350 *	X	X		
Strategic Value Partners (Global Opportunities Fund)	Distressed Debt	Distressed Restructuring	Global	2007	750 *	X	X		
Tennenbaum Capital Partners	Distressed Debt	Distressed Restructuring	North America	2007	1,000 *	X	X		
The Carlyle Group (Distressed Debt)	Distressed Debt	Diversified	North America	2008	1,500 *	X	X		
TPG Credit Strategies	Distressed Debt	Distressed Restructuring	Global	2011	800 *	X	X		
TPG Opportunities Partners (TOP Funds)	Credit	Credit	North America	FTF			X		
Varde Partners	Distressed Debt	Diversified	North America	2008	2,000 *	X	X		
Wayzata Investment Partners	Distressed Debt	Distressed Restructuring	North America	2008	2,500 *	X	X		
Whippoorwill Associates	Distressed Debt	Distressed Trading	North America	2006			X		
WL Ross & Co.	Distressed Debt	Distressed Restructuring	Global	2007	$4,000 *	X	X		

* Indicates Target Fund Size.

TorreyCove
CAPITAL PARTNERS

- Recent venture capital returns have been driven by the social media frenzy.
- New York has emerged as a critical new hub for VC activity.
- Increased demand for enterprise infrastructure solutions is driving IT-focused investments.
- Many VC firms are exploring ways to leverage proven U.S. models in the Chinese markets.

Forward Calendar

Venture Capital $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Focus	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
5AM Ventures	VC - Early	Life Sciences	North America	2009	$200		X		
Aisling Capital	VC - Late	Life Sciences	North America	2008	650		X		
Alta Partners	VC - Diversified	Life Sciences	North America	2006	350 *	X	X		
August Capital	VC - Early	IT	North America	2009	650		X		
Austin Ventures	VC - Diversified	IT	North America	2008	900			X	
Clarus Ventures	VC - Diversified	Life Sciences	North America	2008	660		X		
DAG Ventures	VC - Diversified	Diversified	North America	2009	500		X		
De Novo Ventures	VC - Diversified	Life Sciences	North America	2006	300		X		
Essex Woodlands Health Ventures	VC - Diversified	Life Sciences	North America	2009	900			X	
Flybridge Capital	VC - Early	IT	North America	2008	200 *	X	X		
Frazier Healthcare	VC - Diversified	Life Sciences	North America	2008	600		X		
GGV Capital	VC - Late	Diversified	US, China	2006	500 *	X	X		
Globespan Capital	VC - Late	IT	North America	2006	250 *	X	X		
Granite Ventures	VC - Early	IT	North America	2005	350		X		
GRP Partners	VC - Early	IT	North America	2008	250 *	X	X		
Healthcare Ventures	VC - Early	Life Sciences	North America	2005	375		X		
Highland Capital Partners	VC - Diversified	Diversified	North America	2008	400		X		
Ignition Partners	VC - Early	IT	North America	2007	400		X		
InterWest Partners	VC - Early	Diversified	North America	2009	$650		X		

* Indicates Target Fund Size.

TorreyCove
CAPITAL PARTNERS

- Institutional investors are rethinking their venture capital allocations and deployment structures.
- Some are moving towards consolidating relationships of increased scale with certain general partnerships.
- Opportunities will emerge to make concentrated bets with certain general partners.

Forward Calendar

Venture Capital (Cont'd) $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Focus	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Lighthouse Capital	VC - Debt	Diversified	North America	2007	$275 *	X	X		
Lightspeed Venture Partners	VC - Early	IT	US, India, Israel, China	2008	675 *	X	X		
Longitude Venture Partners	VC - Diversified	Life Sciences	North America	2008	375 *	X	X		
Mohr Davidow	VC - Early	Diversified	North America	2007	580		X		
Montreux Equity Partners	VC - Late	Life Sciences	North America	2007	250 *	X	X		
New Enterprise Associates	VC - Diversified	Diversified	North America	2009	2500		X		
Oak Investment Partners	VC - Diversified	Diversified	North America	2010	750			X	
Opus Capital	VC - Early	IT	North America	2006	280		X		
Orbimed Advisors	VC - Late	Life Sciences	North America		550			X	
RRE Ventures	VC - Early	IT	North America	2006	300		X		
Scale Venture Partners	VC - Late	Diversified	North America	2009	255		X		
Sigma Prime Partners	VC - Early	IT	North America	2007	500		X		
Sofinnova	VC Late	Life Sciences	North America	2011	440				
Technology Crossover Ventures	VC - Late	IT	North America	2008	3000		X		
Thomas McNerney & Partners	VC - Diversified	Life Sciences	North America	2006	375		X		
TTV Capital	VC - Early	IT	North America	2005	100 *	X	X		
Union Square Ventures	VC - Early	IT	North America	2010	200				
Versant Ventures	VC - Early	Life Sciences	North America	2008	$500		X		

* Indicates Target Fund Size.

TORREYCOVE
CAPITAL PARTNERS

- A fundamental supply / demand imbalance exists which has created a compelling long-term investment opportunity.
- Well capitalized competition is emerging, yet a sophisticated and experienced insider peer group will continue to have an advantage.

FORWARD CALENDAR

Real Assets & Natural Resources $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Parallel Energy Investors	Distressed	North America	FTF	$500 *	X	X		
Apollo Natural Resources	Diversified	Global	FTF	1,500 *	X	X		
Arc Energy	Diversified	Canada	2008	CAD $850 *	X	X		
Barclays Natural Resources	Diversified	Global	FTF	900 *	X	X		
Blackstone Energy & Natural Resources	Diversified	Global	FTF	3,000 *	X	X		
Broad Street Energy Partners (GS)	Diversified	Global	FTF	3,500 *	X	X		
Denham Capital	Diversified	Global	2008	2,500 *	X	X		
First Reserve	Diversified	Global	2008	6,000*	X	X		
Highstar Capital	Diversified	Global	2007	3,500 *	X	X		
Quantum Energy Partners	Diversified	North America	2009	2,500		X		
Riverstone Holdings	Diversified	Global	2009	6,000 *	X	X		
SCF Partners	Diversified	Global	2010	NA *	X	X		
Carlyle Energy Mezzanine Opportunities	Mezzanine	North America	FTF	750 *	X	X		
Chambers Capital	Mezzanine	North America	2009	150 *	X	X		
Energy Capital Partners Mezzanine	Mezzanine	North America	FTF	500 *	X	X		
Encap Flatrock Midstream	Midstream	North America	2009	1,250 *	X	X		
Energy Spectrum Capital	Midstream	North America	2010	1,000			X	
Energy & Minerals Group	Mining	Global	2006	2,500 *	X	X		
Pacific Road Resources	Mining	Global	2007	$500 *	X	X		

* Indicates Target Fund Size.

TorreyCove
CAPITAL PARTNERS

Forward Calendar

Real Assets & Natural Resources (Cont'd) $ Millions

Existing OPERF Relationship

- Cost effective access to unconventional resources has changed the Exploration & Production ("E&P") game.
- Attractive entry points have emerged into the domestic E&P market for conventional natural gas.
- LPs have the ability to build a well diversified, yet sector-focused portfolio, to maximize upside potential and mitigate downside risk.

Fund Name	Strategy	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
Red Kite	Mining	Global	2008	$750 *	X	X		
Resource Capital	Mining	Global	2010	1,025			X	
Salida Capital Natural Resources	Mining	Global	FTF	500 *	X	X		
Taurus Resources	Mining	Global	2007	500 *	X	X		
Alliance Bernstein Global Energy Exploration	Oil & Gas	Global	FTF	500 *	X	X		
Energy Trust Partners	Oil & Gas	North America	2008	400 *	X	X		
Enervest	Oil & Gas	North America	2010	1,600		X		
Kayne Anderson Energy	Oil & Gas	North America	2009	1,600 *	X	X		
Kerogen Energy	Oil & Gas	Emerging Markets	FTF	1,500 *	X	X		
KKR Natural Resources	Oil & Gas	North America	FTF	1,000 *	X	X		
Lime Rock Partners	Oil & Gas	North America	2008	1,500 *	X	X		
Lime Rock Resources	Oil & Gas	North America	2009	NA *	X	X		
Merit Energy	Oil & Gas	North America	2010	912			X	
Natural Gas Partners[1]	Oil & Gas	North America	2008	4,000 *	X	X		
Sheridan Production Partners[1]	Oil & Gas	North America	2010	1,800			X	
LS Power	Power	North America	2007	3,000 *	X	X		
Starwood Energy	Power	North America	433	750 *	X	X		
Tenaska	Power	North America	2007	$2,500 *	X	X		

* Indicates Target Fund Size.
1 Existing relationships in the OPERF Opportunity/Alternatives Portfolio

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CAPITAL PARTNERS

Forward Calendar

- Pricing in 2011 climbed to low single digit discounts. Recent secondary pricing has returned to the more normalized 15% range.
- Pricing may remain artificially high due to approximately $20 billion of dry powder pursuing transactions.
- Limited partners continue to sell positions to balance portfolios, accounting for approximately 70% of all secondary sales in 2011. This trend will continue through 2012.
- Secondary fundraising will remain robust through 2012.

Secondaries $ Millions

Existing OPERF Relationship

Fund Name	Strategy	Focus	Geography	Last Fund VY	Fund Size	In Market	2012	2013	2014
AXA Private Equity	Secondaries	LP	North America	2006	$3,500 *	X	X		
Coller Capital	Secondaries	Diversified	North America	2006	5,000 *	X	X		
Credit Suisse	Secondaries	LP	North America	2008	2,500			X	
Goldman Sachs	Secondaries	LP	North America	2008	5,500			X	
Greenpark	Secondaries	LP	UK	2006	1,200 *	X	X		
J.P. Morgan	Secondaries	LP	North America	2009	780			X	
Landmark Partners	Secondaries	LP	North America	2009	1,930		X		
Lexington Capital Partners	Secondaries	LP	North America	2010	7,000				X
LGT Capital Partners	Secondaries	LP	North America	2009	1,200			X	
Montauk TriGuard	Secondaries	LP	North America	2011	307				X
Neuberger Berman	Secondaries	LP	North America	2008	1,667		X		
Pantheon Private Equity	Secondaries	LP	UK	2010	3,000				X
Paul Capital Partners	Secondaries	LP	North America	2007	1,650	X	X		
Permal	Secondaries	LP	North America	2007	350 *	X	X		
Pomona Capital	Secondaries	LP	North America	2007	1,300		X		
Portfolio Advisors LLC	Secondaries	LP	North America	2008	1,000 *	X	X		
RCP Advisors	Secondaries	LP	North America	2009	265			X	
Saints	Secondaries	Direct	North America	2008	300 *	X	X		
VCFA Group	Secondaries	Diversified	North America	2006	250	X	X		
W Capital	Secondaries	Direct	North America	2008	700		X		
Verdane Capital	Secondaries	Direct	Norway	2009	$160		X		

* Indicates Target Fund Size.

TorreyCove
CAPITAL PARTNERS

Pacing Sensitivity and Cash Flow Trends

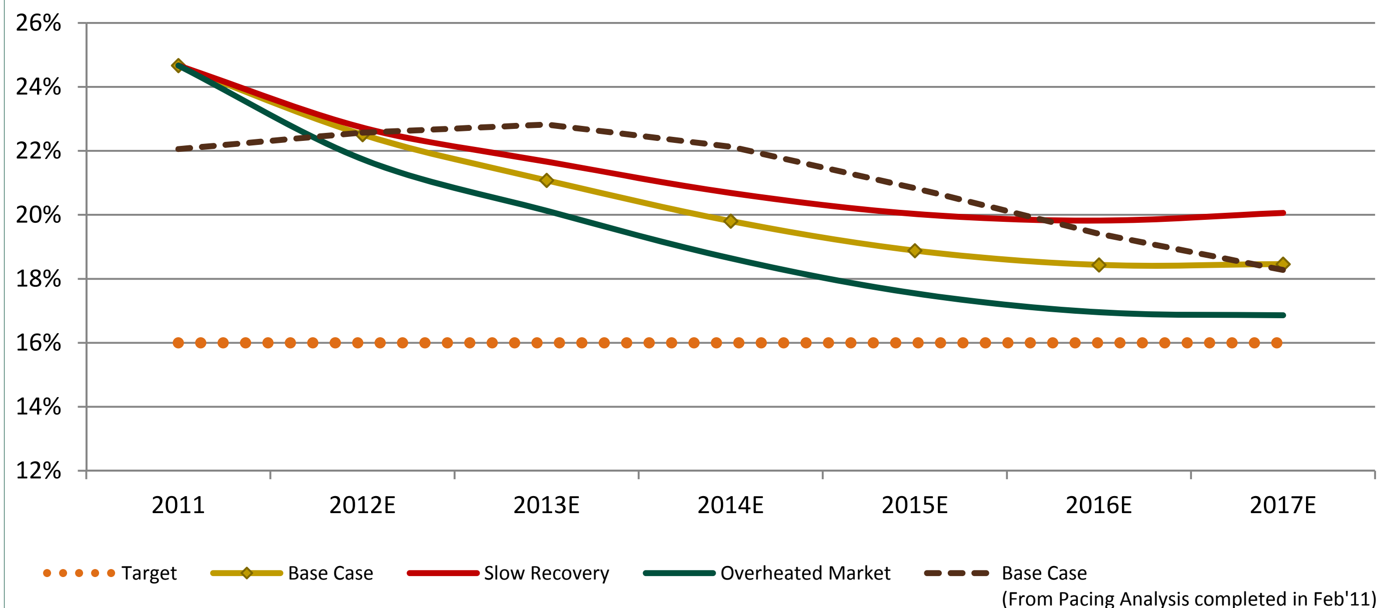
With current OPERF Relationship Deal Log

TorreyCove
CAPITAL PARTNERS

Scenario Analysis: OPERF PE Exposure Sensitivity to the Public Markets

- Barring extreme events, and all else equal, OPERF's exposure to PE is projected to decline significantly in the next two years, regardless of the overall portfolio return.
- Significant deviation of current projections from last year's pacing is largely due to the 2011 cash flow figures versus original projections. PE managers realized fewer portfolio investments than expected, locking in more value, which is now projected to be realized in the coming years.

Projected Allocations Based on Hypothetical Public Market Performance Scenarios



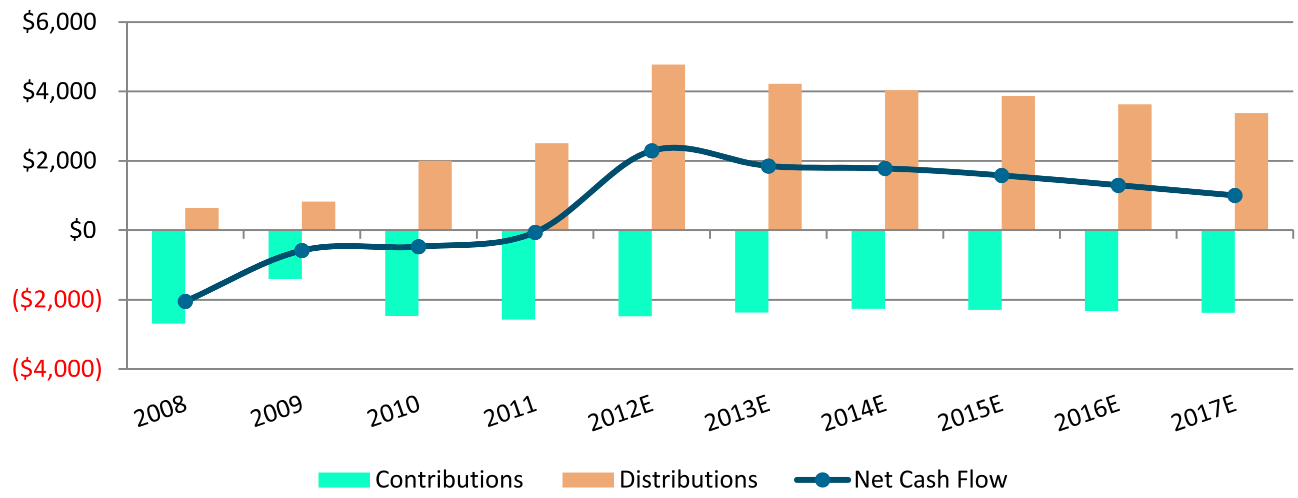
Scenarios		2011	2012E	2013E	2014E	2015E	2016E	2017E
Base Case	Public Portfolio Growth Rate	NA	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
	FMV as a % of Portfolio	24.7%	22.5%	21.1%	19.8%	18.9%	18.4%	18.5%
Slow Recovery	Public Portfolio Growth Rate[1]	N/A	*4.0%*	*4.0%*	8.0%	8.0%	8.0%	8.0%
	FMV as a % of Portfolio	24.7%	22.7%	21.7%	20.7%	20.0%	19.8%	20.1%
Overheated Market	Public Portfolio Growth Rate[1]	N/A	*25.0%*	*0.0%*	*8.0%*	8.0%	8.0%	8.0%
	FMV as a % of Portfolio	24.7%	21.7%	20.1%	18.6%	17.5%	17.0%	16.9%
Base Case (From Pacing Analysis completed in Feb'11)	FMV as a % of Portfolio	*22.1%*	*22.6%*	*22.8%*	*22.1%*	*20.8%*	*19.4%*	*18.3%*

1 Please Note: private equity return assumptions also proportionately adjusted in each scenario

Cash Flow Trends and Projections

- Private Equity is projected to provide positive cash flows for the foreseeable future
- Fewer than expected 2011 distributions should translate into larger projected realizations in 2012 and beyond, provided that markets cooperate.

Projected Allocations Based on Hypothetical Public Market Performance Scenarios



$ Millions	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E
PE Market Value	8,147	10,418	12,952	13,782	13,099	12,782	12,502	12,403	12,590	13,108
Contributions	(2,691)	(1,409)	(2,479)	(2,571)	(2,481)	(2,373)	(2,261)	(2,291)	(2,334)	(2,377)
Distributions	640	826	2,005	2,510	4,773	4,223	4,044	3,872	3,629	3,381
Net Cash Flow	(2,051)	(583)	(474)	(62)	2,291	1,850	1,783	1,581	1,296	1,003

TAB 3 – PROXY VOTING ANNUAL REVIEW

Glass Lewis
2011 Proxy Season Review & 2012 Update

Purpose
To provide a summary of the votes cast by Glass, Lewis and Co. on behalf of the OIC (as required by OIC Policy 4.05.06) and to provide an update on the regulatory environment concerning proxy voting.

Background
As established in OIC Policy 4.05.06, the OIC recognizes that the quality of corporate governance can affect the long-term value of investments and that voting rights have economic value and must be treated as such. The OIC retains ultimate authority over proxy votes and strives to ensure that corporations follow practices that advance economic value. The OIC implements proxy voting through an independent third party research and voting vendor, in accordance with voting standards codified through guidelines adopted by the OIC. At the September 27, 2006 OIC meeting, the Council voted to retain Glass, Lewis and Co. as its proxy voting agent, and to accept the Glass Lewis standard Proxy Paper Policy Guidelines.

The vast majority of the proxies to be voted, by far, are concerned with ordinary technical details of running the board, such as approving candidates for the board, committee composition, ratifying auditors, etc. Glass Lewis handles this mass of topics by placing them into categories, and establishing guidelines for each category. Other issues are handled on a case-by-case basis.

Shortly after the retention of Glass Lewis in 2006, the OIC adopted an a new asset allocation structure and Public Equity benchmark (MSCI All Country World Index) which eliminated the home country bias previously held in OPERF's Public Equity portfolio. In 2008, the OIC adopted a Public Equity structure benchmarked to the MSCI All Country World Investable Market Index (ACWI IMI), which increased the benchmark's range into small cap companies, worldwide. As a result, the number of public equity securities held in the OPERF Public Equity portfolio has increased, as has the number of proxy votes managed by Glass Lewis. The following table shows the year over year increase in proxy voting since 2006:

	2007	2008	2009	2010	2011
Ballots, US	1,572	1,149	1,870	2,588	3,426
Ballots, Non-US	2,281	3,560	6,105	6,395	6,599
US Meetings	1,027	900	1,020	1,388	1,780
Non-US Meetings	1,232	1,709	2,885	3,428	3,889

Following this memo you will find an overview of: 1) the 2012 Proxy Season Proxy Paper Guidelines; and 2) a Summary of Significant Updates/modifications for the 2012 Proxy Season Proxy Paper Guidelines. The complete 2012 Proxy Paper Guidelines is included under separate cover.

Recommendation
None. Information only.

FUNCTION: **Equity Investments**
ACTIVITY: **Exercise of Voting Rights Accompanying Equity Securities**

POLICY: **The Council recognizes that the quality of corporate governance can affect the long-term value of investments. In general, the equity markets are highly efficient; therefore, the OIC's corporate governance philosophy anticipates that the OIC and Office of the State Treasurer (OST) staff possess no knowledge not shared by the market. The OIC therefore avoids attempts to micromanage companies in which the Fund has voting power, since boards of directors are elected to represent shareholders at this level. The OIC strives instead to ensure that corporations follow practices that advance economic value and allow the market to place a proper value on Fund assets.**

The OIC recognizes that voting rights have economic value and must be treated as such. The voting rights obtained through the holdings of the OPERF domestic and international equity portfolios shall be exercised by an independent third party specializing in proxy research and voting ("vendor") in accordance with their independent voting standards which they may revise, at their sole discretion, from time to time. Such vendor shall always vote shares as a fiduciary, based solely on the ultimate economic value of OPERF's investment.

BACKGROUND:

According to the CFA Institute:

> *Proxy Voting Policies*. The duty of loyalty, prudence, and care may apply in a number of situations facing the investment professional other than issues related directly to investing assets. Part of [that] duty of loyalty includes voting proxies in an informed and responsible manner. Proxies have an economic value to a [fund] and [investors] must ensure that they properly safeguard and maximize this value . . . Voting of proxies is an integral part of the management of investments. A cost-benefit analysis may show that voting all proxies may not benefit the [fund], so voting proxies may not be necessary in all instances. *Standards of Practices Handbook*, 2010.

PROCEDURES:

1. Vendor shall keep a record of how proxies are voted and why.

   Such records may be subject to review by OST staff or other designated representatives of the OIC.

2. OST staff shall provide a calendar year-end (or more frequently if requested by the OIC) proxy voting summary to the OIC.

3. Vendor shall provide any new or revised proxy voting policies or guidelines to OST staff upon their implementation.

4. Commingled and passive account managers employed by the OIC shall vote their proxies independent of the OIC's vendor, but as a fiduciary in the best interest of plan participants.

5. In accordance with the vendor agreement, and the timelines therein, the OIC reserves the right to vote proxies directly.

6. The public equity team will prepare recommendations to override the vendor's guidelines as circumstances arise that require a secondary review, generally at the request of an OPERF public equity manager. The Deputy Treasurer and the Chief Investment Officer will review and approve, or deny, these recommendations, or recommend the issue be brought before the OIC. All such decisions will be reported to the OIC at a subsequent meeting.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

GLASS LEWIS & Co.

2011 Proxy Season Review and 2012 Preview

Presentation to
Oregon Investment Council

February 29, 2012

Agenda

- Oregon Investment Council Proxy Voting Summary
- Regulatory Update
  - **New Regulations**
  - **Dodd Frank**
  - **Shareholder Access to Proxy**
- Compensation
  - **Say on Pay**
- Shareholder Initiatives
- Appendix: Meeting Examples

Oregon Investment Council
2011 Proxy Voting Summary

Oregon Investment Council Proxy Voting Summary

- **2011 Proxy Voting Statistics**

	Q1	Q2	Q3	Q4	Total
US Meetings	157	1344	126	150	1777
Non-US Meetings	460	2569	404	500	3933
US Resolutions	1460	14147	1103	1179	17889
Non-US Resolutions	3955	28762	3272	3227	39216

	Q1	Q2	Q3	Q4	Total
Mgmt Resolutions	5368	42399	4357	4372	56496
Mgmt % Supported	72.22%	78.23%	80.33%	76.44%	77.68%
Shrhldr Resolutions	47	510	18	34	609
Shrhldr % Supported	23.40%	37.25%	50.00%	14.71%	35.30%

Regulatory Update

New Regulations

- SEC: Proxy Advisors
  - Expected first half 2012
  - Also Canada, ESMA, France
- DOL: Fiduciary Definition (including Proxy Advisors)
  - Delayed
- PCAOB: Mandatory auditor rotation
  - Concept releases comment period

Dodd-Frank Compensation Regulations: Still Pending

- Clawback Policies
  - Requires compensation recovery policies that provide for the recovery of incentive-based compensation paid during the three-year period preceding a restatement due to material non-compliance with financial reporting requirements, if the compensation is based on incorrect data
  - Much broader than Sarbanes-Oxley
- Pay v. Performance
  - Requires disclosure in the proxy statement of the relationship between compensation actually paid and the company's performance, including change in share value and dividends and other distributions
- Internal Pay Equity
  - Disclosure of the median of annual compensation for employees (excluding the CEO), the CEO's compensation and the ratio between the two
- Director & Employee Hedging
  - Requires disclosure in the proxy statement of whether any director or employee is permitted to purchase hedging instruments

Shareholder Access to the Proxy

- SEC rule granted holder of at least 3% of a company's voting shares (including a group of shareholders acting together) the right to have their director nominees included in the company's proxy materials
- SEC rulemaking challenged by Business Roundtable and US Chamber of Commerce
  - Challenge upheld by federal court, not appealed
- SEC allows shareholder proposals seeking access to be filed
  - 15 proposals filed by 12/15
- Expect to see shareholder proposals in 2011, considerations:
  - Threshold, eg 3%
  - Holding period, eg 2 years
  - Number of seats, eg 25%

Compensation

First Year of Say on Pay

- Advisory Votes on Compensation ("Say-on-Pay")
  - Requires a shareholder advisory vote on executive compensation in 2011, and at least once every three years thereafter
  - Approval of the executive compensation as disclosed in the proxy – the CD&A, tabular disclosures and any associated narratives
  - Companies must disclose the advisory nature of the vote, as well as any actions taken in response to past say-on-pay votes
- Average approval rate for SOP resolutions was approximately 90.1%
- 41 companies, or 1.5% of the total, received less than 50% approval for their SOP resolutions
  - Cincinnati Bell Inc. had the lowest rate of approval (29.8%)
  - Glass Lewis recommended voting against 17.5% of proposals

Companies' Response to Say on Pay

- Improve Proxy Disclosure
  - Prudential
- Engage with Investors
- Change Compensation Programs
  - Disney: filed amended proxy eliminating tax gross ups on existing contracts
  - GE: added performance conditions to CEO stock grants
- File Additional Information
  - Lockheed: amended grants analysis to reflect certain changes made to the CEO's 2011 option grant, as disclosed in an 8-K
  - Teledyne: filed amended proxy providing more info about compensation plan
- Refute Advisors: HP, Jacobs Engineering

Shareholder Response to Say on Pay

- Engagement with Portfolio Companies
- Vote against Directors (Problems Not Addressed)
- Shareholder Lawsuits at Companies that Lost their Vote, eg Cincinnati Bell
  – Lawsuits filed have tended to be against companies that lost on say on pay and then stood by their original compensation committee's recommendation.

Advisory Vote on Golden Parachutes

- Shareholder advisory vote to approve certain "golden parachute" arrangements in connection with a merger, acquisition, consolidation, proposed sale or disposition of all or substantially all assets
- Companies must provide additional disclosures:
  - All agreements and understandings that the acquiring and target companies have with the named executive officers of both companies
  - Both in narrative and tabular formats
- Disclosure is also required in connection with other transactions, including going-private transactions and third-party tender offers
  - No transactional arbitrative: information is available for shareholders no matter the structure of the transaction
- Companies required to comply in filings on or after April 25, 2011
- No delay for small companies

Shareholder Initiatives

Shareholder Initiatives for 2011

- Compensation: drop due to say on pay
- Governance: steady numbers and high level of support
  - Independent chairman
  - Majority voting
- Environmental & Social: more and higher levels of support including majority support at 4 companies
  - KBR: include gender identity and sexual orientation in its nondiscrimination policy
  - Sprint: a production of a report on political contributions
  - Ameren: report on coal combustion waste
  - Tesoro: production of a safety report

Shareholder Initiatives for 2011

- New Proposals
  - Cumulative Voting in contested elections (WFC: 29% in favor)
  - Say on Director Pay (WFC: 4.9%, Chesapeake Energy: 46%)
  - Hydraulic Fracturing: 49% in favor at Energen
  - CEO Succession Planning (Apple: 30% in favor)
  - Integrate sustainability metrics (such as environmental performance) into incentive compensation (Chevron: 5.6%)

Appendix:
Meeting Examples

Meeting Examples: “Say on Pay”

- **Jacobs Engineering (JEC:): AGMs 2011 / 2012**
  - Due to disconnect between executive pay and performance, strict reliance on share price movement (via stock options) and time-based grants (via restricted stock) and the lack of a maximum award limit for NEOs in the annual incentive scheme, GL recommended voting **AGAINST** the proposal.
  - **2011 AGM vote result: Shareholders voted down company’s proposal**
  - **Subsequently, the company made significant, positive changes**
  - **2012 AGM vote result: Shareholders overwhelmingly approved company’s SOP proposal in response to compensation changes**
  - **Held and voted by Oregon Investment Council**

Meeting Examples: "Say on Pay"

- **McKesson Corporation (NYSE: MCK): AGM, July 2011**
  - Despite a multi-year history of not aligning pay with performance, GL recommended voting **FOR** the proposal in consideration of several positive changes to the company's compensation plan.
  - **Vote result: FOR**
  - **Held by Oregon Investment Council**
- **Cincinnati Bell (NYSE: CBB): AGM, May 2011**
  - GL recommended voting **AGAINST** the proposal due to substantial concerns about transaction-related bonuses, change in control provisions, and a misalignment of executive pay and performance.
  - **Vote result: AGAINST**
  - **Not held or voted by Oregon Investment Council**

Meeting Examples: “Say When on Pay”

- **General Electric (NYSE: GE): AGM, April 2011**
  - Recommendations: Management **1 YEAR**, Glass Lewis **1 YEAR**.
  - GL rationale: Biannual or Triennial votes limit shareholders’ ability to hold the board accountable for its compensation practices
  - **Vote result: 1 YEAR**
  - **Held by Oregon Investment Council**

- **Amazon.com (NYSE: MCK): AGM, June 2011**
  - Recommendations: Management **3 YEARS**, Glass Lewis **3 YEARS**.
  - GL rationale: Consistently strong link between pay and performance and “A” grade in GL pay-for-performance model in 6 of previous 7 years
  - **Vote result: 3 YEARS**
  - **Held and voted by Oregon Investment Council**

Meeting Examples: Contested Meeting

- **Oshkosh Corp (NYSE: OSK): January 2012**
  - **Held and voted by Oregon Investment Council**
  - GL Recommendation: For **MANAGEMENT** Card
  - Rationale: Despite years of struggles, GL believes there is cause to support management's recent attempts to return the company to a lean operation and address rebounding markets.
  - In addition, GL is more concerned with the dissident's (Mr. Icahn) public support for a takeout of the company at a time where valuation and share price are improving from multi-year lows.
  - **Vote result: Board's entire slate elected**

PROXY PAPER GUIDELINES

2012 PROXY SEASON

AN OVERVIEW OF
THE GLASS LEWIS APPROACH TO
PROXY ADVICE

GLASS LEWIS & Co.

SUMMARY
UNITED STATES

Contents

I. Election of Directors

BOARD OF DIRECTORS

Boards are put in place to represent shareholders and protect their interests. Glass Lewis seeks boards with a proven record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have directors with diverse backgrounds, have a record of positive performance, and have members with a breadth and depth of relevant experience.

Board Composition

We look at each individual on the board and examine his or her relationships with the company, the company's executives and with other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships are likely to impact the decisions of that board member.

We vote in favor of governance structures that will drive positive performance and enhance shareholder value. The most crucial test of a board's commitment to the company and to its shareholders is the performance of the board and its members. The performance of directors in their capacity as board members and as executives of the company, when applicable, and in their roles at other companies where they serve, is critical to this evaluation.

We believe a director is independent if he or she has no material financial, familial or other current relationships with the company, its executives or other board members except for service on the board and standard fees paid for that service. Relationships that have existed within the five years prior to the inquiry are usually considered to be "current" for purposes of this test.

In our view, a director is affiliated if he or she has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company. This includes directors whose employers have a material financial relationship with the Company. This also includes a director who owns or controls 20% or more of the company's voting stock.

We define an inside director as one who simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of the company.

Although we typically vote for the election of directors, we will recommend voting against directors (or withholding where applicable, here and following) for the following reasons:

- A director who attends less than 75% of the board and applicable committee meetings.
- A director who fails to file timely form(s) 4 or 5 (assessed on a case-by-case basis).
- A director who is also the CEO of a company where a serious restatement has occurred after the CEO certified the pre-restatement financial statements.
- All board members who served at a time when a poison pill was adopted without shareholder approval within the prior twelve months.
- We also feel that the following conflicts of interest may hinder a director's performance and will therefore recommend voting against a:
- CFO who presently sits on the board.

- Director who presently sits on an excessive number of boards
- Director, or a director whose immediate family member, provides material professional services to the company at any time during the past three years.
- Director, or a director whose immediate family member, engages in airplane, real estate or other similar deals, including perquisite type grants from the company.
- Director with an interlocking directorship.

Board Committee Composition

All key committees including audit, compensation, governance, and nominating committees should be composed solely of independent directors and each committee should be focused on fulfilling its specific duty to shareholders. We typically recommend that shareholders vote against any affiliated or inside director seeking appointment to an audit, compensation, nominating or governance committee or who has served in that capacity in the past year.

Review of the Compensation Discussion and Analysis Report

We review the CD&A in our evaluation of the overall compensation practices of a company, as overseen by the compensation committee. In our evaluation of the CD&A, we examine, among other factors, the extent to which the company has used performance goals in determining overall compensation, how well the company has disclosed performance metrics and goals and the extent to which the performance metrics, targets and goals are implemented to enhance company performance. We would recommend voting against the chair of the compensation committee where the CD&A provides insufficient or unclear information about performance metrics and goals, where the CD&A indicates that pay is not tied to performance, or where the compensation committee or management has excessive discretion to alter performance terms or increase amounts of awards in contravention of previously defined targets. However, if a company provides shareholders with an advisory vote on compensation, we will recommend that shareholders only vote against the advisory compensation vote proposal unless the compensation practices are particularly egregious or persistent.

Review of Risk Management Controls

We believe companies, particularly financial firms, should have a dedicated risk committee, or a committee of the board charged with risk oversight, as well as a chief risk officer who reports directly to that committee, not to the CEO or another executive. In cases where a company has disclosed a sizable loss or writedown, and where a reasonable analysis indicates that the company's board-level risk committee should be held accountable for poor oversight, we would recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise), we will consider recommending to vote against the chairman of the board on that basis.

SEPARATION OF THE ROLES OF CHAIRMAN AND CEO

Glass Lewis believes that separating the roles of corporate officers and the chairman of the board is a better governance structure than a combined executive/chairman position. The role of executives is to manage the business on the basis of the course charted by the board. Executives should be in the position of reporting and answering to the board for their performance in achieving the goals set out by such board. This becomes much more complicated when management actually sits on, or chairs, the board.

We view an independent chairman as better able to oversee the executives of the company and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. This, in turn, leads to a more proactive and effective board of directors that is looking out for the interests of shareholders above all else.

We do not recommend voting against CEOs who serve on or chair the board. However, we do support a separation between the roles of chairman of the board and CEO, whenever that question is posed in a proxy.

In the absence of an independent chairman, we support the appointment of a presiding or lead director with authority to set the agenda for the meetings and to lead sessions outside the presence of the insider chairman.

MAJORITY VOTING FOR THE ELECTION OF DIRECTORS

Glass Lewis will generally support proposals calling for the election of directors by a majority vote in place of plurality voting. If a majority vote standard were implemented, a nominee would have to receive the support of a majority of the shares voted in order to assume the role of a director. Thus, shareholders could collectively vote to reject a director they believe will not pursue their best interests. We think that this minimal amount of protection for shareholders is reasonable and will not upset the corporate structure nor reduce the willingness of qualified shareholder-focused directors to serve in the future.

CLASSIFIED BOARDS

Glass Lewis favors the repeal of staggered boards in favor of the annual election of directors. We believe that staggered boards are less accountable to shareholders than annually elected boards. Furthermore, we feel that the annual election of directors encourages board members to focus on protecting the interests of shareholders.

MUTUAL FUND BOARDS

Mutual funds, or investment companies, are structured differently than regular public companies (i.e., operating companies). Members of the fund's adviser are typically on the board and management takes on a different role than that of other public companies. As such, although many of our guidelines remain the same, the following differences from the guidelines at operating companies apply at mutual funds:

We believe three-fourths of the boards of investment companies should be made up of independent directors, a stricter standard than the two-thirds independence standard we employ at operating companies.

We recommend voting against the chairman of the nominating committee at an investment company if the chairman and CEO of a mutual fund is the same person and the fund does not have an independent lead or presiding director.

AUDITOR RATIFICATION

We believe that role of the auditor is crucial in protecting shareholder value. In our view, shareholders should demand the services of objective and well-qualified auditors at every company in which they hold an interest. Like directors, auditors should be free from conflicts of interest and should assiduously avoid situations that require them to make choices between their own interests and the interests of the shareholders.

Glass Lewis generally supports management's recommendation regarding the selection of an auditor. However, we recommend voting against the ratification of auditors for the following reasons:

- When audit fees added to audit-related fees total less than one-half of total fees.
- When there have been any recent restatements or late filings by the company where the auditor bears some responsibility for the restatement or late filing (e.g., a restatement due to a reporting error).
- When the company has aggressive accounting policies.
- When the company has poor disclosure or lack of transparency in financial statements.
- When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interest of the auditor and the interests of shareholders.
- When the company is changing auditors as a result of a disagreement between the company and the auditor on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures.

AUDITOR ROTATION

We typically support audit related proposals regarding mandatory auditor rotation when the proposal uses a reasonable period of time (usually not less than 5-7 years).

PENSION ACCOUNTING ISSUES

Proxy proposals sometimes raise the question as to whether pension accounting should have an effect on the company's net income and therefore be reflected in the performance of the business for purposes of calculating payments to executives. It is our view that pension credits should not be included in measuring income used to award performance-based compensation. Many of the assumptions used in accounting for retirement plans are subject to the discretion of a company, and management would have an obvious conflict of interest if pay were tied to pension income.

EQUITY BASED COMPENSATION PLANS

Glass Lewis evaluates option and other equity-based compensation on a case-by-case basis. We believe that equity compensation awards are a useful tool, when not abused, for retaining and incentivizing employees to engage in conduct that will improve the performance of the company.

We evaluate option plans based on certain overarching principles:

- Companies should seek additional shares only when needed.
- The number of shares requested should be small enough that companies need shareholder approval every three to four years (or more frequently).
- If a plan is relatively expensive, it should not be granting options solely to senior executives and board members.
- Annual net share count and voting power dilution should be limited.
- Annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results and in line with the peer group.
- The expected annual cost of the plan should be proportional to the value of the business.
- The intrinsic value received by option grantees in the past should be reasonable compared with the financial results of the business.
- Plans should deliver value on a per-employee basis when compared with programs at peer companies.
- Plans should not permit re-pricing of stock options.

OPTION EXCHANGES

Option exchanges are reviewed on a case-by-case basis, although they are approached with great skepticism. Repricing is tantamount to a re-trade. We will support a repricing only if the following conditions are true:

- Officers and board members do not participate in the program.
- The stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude.
- The exchange is value neutral or value creative to shareholders with very conservative assumptions and a recognition of the adverse selection problems inherent in voluntary programs.
- Management and the board make a cogent case for needing to incentivize and retain existing employees, such as being in a competitive employment market.

PERFORMANCE BASED OPTIONS

We generally recommend that shareholders vote in favor of performance-based option requirements. We feel that executives should be compensated with equity when their performance and that of the company warrants such rewards. We believe that boards can develop a consistent, reliable approach, as boards of many companies have, that would attract executives who believe in their ability to guide the company to achieve its targets.

LINKING PAY WITH PERFORMANCE

Executive compensation should be linked directly with the performance of the business the executive is charged with managing. Glass Lewis grades companies on an A to F scale based on our analysis of executive compensation relative to performance and that of the company's peers and will recommend voting against the election of compensation committee members at companies that receive a grade of F.

DIRECTOR COMPENSATION PLANS

Non-employee directors should receive compensation for the time and effort they spend serving on the board and its committees. In particular, we support compensation plans that include equity-based awards, which help to align the interests of outside directors with those of shareholders. Director fees should be competitive in order to retain and attract qualified individuals.

ADVISORY VOTES ON COMPENSATION

We closely review companies' compensation practices and disclosure as outlined in their CD&As and other company filings to evaluate management-submitted advisory compensation vote proposals. In evaluating these non-binding proposals, we examine how well the company has disclosed information pertinent to its compensation programs, the extent to which overall compensation is tied to performance, the performance metrics selected by the company and the levels of compensation in comparison to company performance and that of its peers. Glass Lewis will generally recommend voting in favor of shareholder proposals to allow shareholders an advisory vote on compensation.

At companies that received a significant shareholder vote against their advisory vote on executive compensation in the previous year, we will look for disclosure in the proxy statement and other publicly-disclosed filings that indicates the compensation committee is responding to the prior year's vote results. In the absence of evidence that the board is responding appropriately, we will recommend holding compensation committee members accountable for this failure.

ADVISORY VOTES ON COMPENSATION FREQUENCY

We believe companies should submit say-on-pay votes to shareholders every year and therefore will generally support annual votes on compensation absent a compelling reason. We believe annual say-on-pay votes encourage beneficial board and shareholder dialogue on compensation and that the relatively minor additional financial burdens on a company with regard to an annual vote are outweighed by the benefits to shareholders of more frequent accountability.

LIMITS ON EXECUTIVE COMPENSATION

Proposals to limit executive compensation will be evaluated on a case-by-case basis. As a general rule, we believe that executive compensation should be left to the board's compensation committee. We view the election of directors, and specifically those who sit on the compensation committee, as the appropriate mechanism for shareholders to express their disapproval or support of board policy on this issue.

LIMITS ON EXECUTIVE STOCK OPTIONS

We favor the grant of options to executives. Options are a very important component of compensation packages designed to attract and retain experienced executives and other key employees. Tying a portion of an executive's compensation to the performance of the company also provides an excellent incentive to maximize share values by those in the best position to affect those values. Accordingly, we typically vote against caps on executive stock options.

IV. Governance Structure

ANTI-TAKEOVER MEASURES

Poison Pills (Shareholder Rights Plans)

Glass Lewis believes that poison pill plans generally are not in the best interests of shareholders. Specifically, they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock.

We believe that boards should be given wide latitude in directing the activities of the company and charting the company's course. However, on an issue such as this where the link between the financial interests of shareholders and their right to consider and accept buyout offers is so substantial, we believe that shareholders should be allowed to vote on whether or not they support such a plan's implementation.

In certain limited circumstances, we will support a limited poison pill to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable 'qualifying offer' clause.

Right of Shareholders to Call a Special Meeting

We will recommend in favor of proposals that allow shareholders to call special meetings. In order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to a minimum threshold of 10-15% of shareholders requesting such a meeting, depending on the company size.

Shareholder Action by Written Consent

We will recommend in favor of proposals that allow shareholders to act by written consent. In order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that such rights should be limited to at least the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote were present and voting.

AUTHORIZED SHARES

Proposals to increase the number of authorized shares will be evaluated on a case-by-case basis. Adequate capital stock is important to the operation of a company. When analyzing a request for additional shares, we typically review four common reasons why a company might need additional capital stock beyond what is currently available:

- Stock split
- Shareholder defenses
- Financing for acquisitions
- Financing for operations

Unless we find that the company has not disclosed a detailed plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically recommend in favor of the authorization of additional shares.

VOTING STRUCTURE

Cumulative Voting

Glass Lewis will recommend voting for proposals seeking to allow cumulative voting unless the company has majority voting for the election of directors in which case we will vote against. Cumulative voting is a voting process that maximizes the ability of minority shareholders to ensure representation of their views on the board. Cumulative voting generally operates as a safeguard for by ensuring that those who hold a significant minority of shares are able to elect a candidate of their choosing to the board.

Supermajority Vote Requirements

Glass Lewis favors a simple majority voting structure. Supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to our interests. One key example is in the takeover context where supermajority vote requirements can strongly limit shareholders' input in making decisions on such crucial matters as selling the business.

SHAREHOLDER PROPOSALS

Shareholder proposals are evaluated on a case-by-case basis. We generally favor proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions related to political, social or environmental issues to management and the board except when we see a clear and direct link between the proposal and some economic or financial issue for the company.

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V. Capital Management

We believe companies should actively evaluate risks to long-term shareholder value stemming from poor governance practices. In addition, we believe companies should consider their exposure to environmental and social risk, including changes in environmental or social regulation with respect to their operations, as well as related legal and reputational risks and should incorporate this exposure into their overall business risk profile. Companies should disclose to shareholders both the nature and magnitude of such risks as well as steps they have taken or will take to mitigate those risks.

When we identify situations where shareholder value is at risk, we may recommend voting in favor of a reasonable and well-targeted shareholder proposal if we believe supporting the proposal will promote disclosure of and/or mitigate significant risk exposure. In egregious cases where a company has failed to adequately mitigate risks stemming from environmental or social practices, we will recommend shareholders vote against directors.

For more information about Glass Lewis' policies or our approach to proxy analysis, please visit www.glasslewis.com or contact our Chief Policy Officer, Robert McCormick, at +1 415 6784228.

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2012 PROXY SEASON
U.S. PROXY PAPER POLICY GUIDELINES

Summary of Significant Updates/Modifications

Executive Compensation

1. Our approach to say-on-pay will remain primarily unchanged in that we will continue to evaluate both the quantitative and qualitative aspects of compensation program design and implementation. However, for companies that received a significant (anything greater than 25% of votes cast) shareholder vote against their say on pay proposal in 2011, we believe the board should demonstrate some level of shareholder engagement and responsiveness to the shareholder concerns driving the discontent. While we recognize that sweeping changes cannot be made to a compensation program without due consideration, and that a majority of shareholders voted in favor of the proposal, we will look for disclosure in the proxy statement and other publicly-disclosed filings that indicates the compensation committee is responding to the prior year's vote results including engaging with large shareholders to identify the concerns causing the substantial vote against. In the absence of any evidence that the board is actively engaging shareholders on this issue and responding accordingly, we will recommend holding compensation committee members accountable for a failure to respond.

Poison Pills and the Board of Directors

1. When a classified board adopts a poison pill without shareholder approval within the prior twelve months and shareholders are unable to vote against all members of the board due to the board's staggered structure, we will recommend voting against the remaining directors in the next year they are up for a shareholder vote.

Exclusive Forum Provisions

1. We believe that any charter or bylaw provision limiting a shareholder's choice of legal venue is not in the best interests of shareholders. Such clauses may effectively discourage the use of shareholder derivative claims by increasing their associated costs and making them more difficult to pursue. As such, shareholders should be wary about approving any limitation on their legal recourse including limiting themselves to a single jurisdiction (e.g. Delaware) without compelling evidence that it will benefit shareholders. For this reason, we generally recommend that shareholders vote against any bylaw or charter amendment seeking to adopt an exclusive forum provision.

2. In the event a board seeks shareholder approval of a forum selection clause pursuant to a bundled bylaw or charter amendment rather than as a separate proposal, we will weigh the benefits of the other bundled provisions when determining our ultimate vote recommendation.

3. When a board adopts a forum selection clause without shareholder approval, or, if the board is currently seeking shareholder approval of a forum selection clause

pursuant to a bundled bylaw or charter amendment rather than as a separate proposal, we will recommend voting against the chairman of the governance committee.

Recent IPOs

1. Adoption of an exclusive forum provision: in cases where a board adopts an exclusive forum provision before a company's IPO, we will recommend voting against the chairman of the governance committee, or in the absence of such a committee, the chairman of the board, who served during the period of time when the provision was adopted.

Shareholder Proposals

Proxy Access Proposals

1. Glass Lewis will consider recommending supporting well-crafted and reasonable proposals requesting proxy access, as we believe that in some cases, adoption of this provision allows for improved shareholder rights and ensures that shareholders who maintain a long-term interest in the target company have an ability to nominate candidates for the board. Glass Lewis reviews proposals requesting proxy access on a case-by-case basis, and will consider the following in our analysis:

- Company size;
- The shareholder proponent and their reasoning for putting forth the proposal at the target company;
- The percentage ownership requested and holding period requirement;
- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.);
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals;
- Company performance and steps taken to improve bad performance (e.g., new executives/directors, spin-offs, etc.);
- Existence of anti-takeover protections or other entrenchment devices; and
- Opportunities for shareholder action (e.g., ability to act by written consent or right to call a special meeting).

Sustainability and Other Environmentally-Related Reports

1. We refined our policy on evaluating shareholder proposals requesting sustainability reports to consider recommending voting in favor of proposals requesting reports on specific environmental impacts (e.g. hydraulic fracturing, coal combustion waste). We will continue to consider these proposals on a case-by-case basis and will consider recommending a vote for reasonably crafted shareholder proposals requesting increased disclosure or reports on sustainability or a company's environmental impact based on several factors including company industry, risk exposure and current disclosure.

Lobbying and Political Contributions and Expenditure Reports

1. We enhanced our policy on evaluating proposals seeking greater disclosure of lobbying expenses and political contributions and expenditures. While we will continue to evaluate these proposals on a case-by-case basis, we will recommend votes for reports of this nature when no explicit board oversight of political contributions or activities is cited by the company or if there is evidence of inadequate board oversight. Given that political donations are strategic decisions intended to increase shareholder value and have the potential to negatively affect the company, we believe the board should either implement processes and procedures to ensure the proper use of the funds or closely evaluate the process and procedures used by management.

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PROXY PAPER GUIDELINES

2012 PROXY SEASON

AN OVERVIEW OF
THE GLASS LEWIS APPROACH TO
PROXY ADVICE

GLASS LEWIS & Co.

UNITED STATES

Contents

I. A Board That Serves the Interests of Shareholders

ELECTION OF DIRECTORS

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have directors with diverse backgrounds, have a record of positive performance, and have members with a breadth and depth of relevant experience.

Independence

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we will take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Likewise, when assessing the independence of directors we will also examine when a director's service track record on multiple boards indicates a lack of objective decision-making. Ultimately, we believe the determination of whether a director is independent or not must take into consideration both compliance with the applicable independence listing requirements as well as judgments made by the director.

We look at each director nominee to examine the director's relationships with the company, the company's executives, and other directors. We do this to evaluate whether personal, familial, or financial relationships (not including director compensation) may impact the director's decisions. We believe that such relationships make it difficult for a director to put shareholders' interests above the director's or the related party's interests. We also believe that a director who owns more than 20% of a company can exert disproportionate influence on the board and, in particular, the audit committee.

Thus, we put directors into three categories based on an examination of the type of relationship they have with the company:

> Independent Director – An independent director has no material financial, familial or other current relationships with the company, its executives, or other board members, except for board service and standard fees paid for that service. Relationships that existed within three to five years[1] before the inquiry are usually considered "current" for purposes of this test.
>
> In our view, a director who is currently serving in an interim management position should be considered an insider, while a director who previously served in an interim management position for less than one year and is no longer serving in such capacity is considered independent. Moreover, a director who previously served in an interim management position for over one year and is no longer serving in such capacity is considered an affiliate for five years following the date of his/her resignation or departure from the interim management position. Glass Lewis applies a three-year look-back period to all directors who have an affiliation with the company other than former employment, for which we apply a five-year look-back.

1 NASDAQ originally proposed a five-year look-back period but both it and the NYSE ultimately settled on a three-year look-back prior to finalizing their rules. A five-year standard is more appropriate, in our view, because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be com-plete and final after five years. However, Glass Lewis does not apply the five-year look-back period to directors who have previously served as executives of the company on an interim basis for less than one year.

Affiliated Director – An affiliated director has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company.[2] This includes directors whose employers have a material financial relationship with the company.[3] In addition, we view a director who owns or controls 20% or more of the company's voting stock as an affiliate.[4]

We view 20% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 20% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc.

Definition of "Material": A material relationship is one in which the dollar value exceeds:

- $50,000 (or where no amount is disclosed) for directors who are paid for a service they have agreed to perform for the company, outside of their service as a director, including professional or other services; or
- $120,000 (or where no amount is disclosed) for those directors employed by a professional services firm such as a law firm, investment bank, or consulting firm where the company pays the firm, not the individual, for services. This dollar limit would also apply to charitable contributions to schools where a board member is a professor; or charities where a director serves on the board or is an executive;[5] and any aircraft and real estate dealings between the company and the director's firm; or
- 1% of either company's consolidated gross revenue for other business relationships (e.g., where the director is an executive officer of a company that provides services or products to or receives services or products from the company).

Definition of "Familial": Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company and who receives compensation of $120,000 or more per year or the compensation is not disclosed.

Definition of "Company": A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

Inside Director – An inside director simultaneously serves as a director and as an employee of the company. This category may include a chairman of the board who acts as an employee of the company or is paid as an employee of the company. In our view, an inside director who derives

2 If a company classifies one of its non-employee directors as non-independent, Glass Lewis will classify that director as an affiliate.
3 We allow a five-year grace period for former executives of the company or merged companies who have consulting agreements with the surviving company. (We do not automatically recommend voting against directors in such cases for the first five years.) If the consulting agreement persists after this five-year grace period, we apply the materiality thresholds outlined in the definition of "material."
4 This includes a director who serves on a board as a representative (as part of his or her basic responsibilities) of an investment firm with greater than 20% ownership. However, while we will generally consider him/her to be affiliated, we will not recommend voting against unless (i) the investment firm has disproportionate board representation or (ii) the director serves on the audit committee.
5 We will generally take into consideration the size and nature of such charitable entities in relation to the company's size and industry along with any other relevant factors such as the director's role at the charity. However, unlike for other types of related party transactions, Glass Lewis generally does not apply a look-back period to affiliated relationships involving charitable contributions; if the relationship ceases, we will consider the director to be independent.

a greater amount of income as a result of affiliated transactions with the company rather than through compensation paid by the company (i.e., salary, bonus, etc. as a company employee) faces a conflict between making decisions that are in the best interests of the company versus those in the director's own best interests. Therefore, we will recommend voting against such a director.

Voting Recommendations on the Basis of Board Independence

Glass Lewis believes a board will be most effective in protecting shareholders' interests if it is at least two-thirds independent. We note that each of the Business Roundtable, the Conference Board, and the Council of Institutional Investors advocates that two-thirds of the board be independent. Where more than one-third of the members are affiliated or inside directors, we typically[6] recommend voting against some of the inside and/or affiliated directors in order to satisfy the two-thirds threshold.

In the case of a less than two-thirds independent board, Glass Lewis strongly supports the existence of a presiding or lead director with authority to set the meeting agendas and to lead sessions outside the insider chairman's presence.

In addition, we scrutinize avowedly "independent" chairmen and lead directors. We believe that they should be unquestionably independent or the company should not tout them as such.

Committee Independence

We believe that only independent directors should serve on a company's audit, compensation, nominating, and governance committees.[7] We typically recommend that shareholders vote against any affiliated or inside director seeking appointment to an audit, compensation, nominating, or governance committee, or who has served in that capacity in the past year.

Independent Chairman

Glass Lewis believes that separating the roles of CEO (or, more rarely, another executive position) and chairman creates a better governance structure than a combined CEO/chairman position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving goals the board set. This is needlessly complicated when a CEO chairs the board, since a CEO/chairman presumably will have a significant influence over the board.

It can become difficult for a board to fulfill its role of overseer and policy setter when a CEO/chairman controls the agenda and the boardroom discussion. Such control can allow a CEO to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of the business operation, and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out the CEO's vision for accomplishing the board's objectives.

6 With a staggered board, if the affiliates or insiders that we believe should not be on the board are not up for election, we will express our concern regarding those directors, but we will not recommend voting against the other affiliates or insiders who are up for election just to achieve two-thirds independence. However, we will consider recommending voting against the directors subject to our concern at their next election if the concerning issue is not resolved.

7 We will recommend voting against an audit committee member who owns 20% or more of the company's stock, and we believe that there should be a maximum of one director (or no directors if the committee is comprised of less than three directors) who owns 20% or more of the company's stock on the compensation, nominating, and governance committees.

Failure to achieve the board's objectives should lead the board to replace that CEO with someone in whom the board has confidence.

Likewise, an independent chairman can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders.

Further, it is the board's responsibility to select a chief executive who can best serve a company and its shareholders and to replace this person when his or her duties have not been appropriately fulfilled. Such a replacement becomes more difficult and happens less frequently when the chief executive is also in the position of overseeing the board.

Glass Lewis believes that the installation of an independent chairman is almost always a positive step from a corporate governance perspective and promotes the best interests of shareholders. Further, the presence of an independent chairman fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. Encouragingly, many companies appear to be moving in this direction—one study even indicates that less than 12 percent of incoming CEOs in 2009 were awarded the chairman title, versus 48 percent as recently as 2002.[8] Another study finds that 41 percent of S&P 500 boards now separate the CEO and chairman roles, up from 26 percent in 2001, although the same study found that of those companies, only 21 percent have truly independent chairs.[9]

We do not recommend that shareholders vote against CEOs who chair the board. However, we typically encourage our clients to support separating the roles of chairman and CEO whenever that question is posed in a proxy (typically in the form of a shareholder proposal), as we believe that it is in the long-term best interests of the company and its shareholders.

Performance

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals as directors and executives of the company and of other companies where they have served.

Voting Recommendations on the Basis of Performance

We disfavor directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend voting against:

1. A director who fails to attend a minimum of 75% of board and applicable committee meetings, calculated in the aggregate.[10]
2. A director who belatedly filed a significant form(s) 4 or 5, or who has a pattern of late filings if the late filing was the director's fault (we look at these late filing situations on a case-by-case basis).

8 Ken Favaro, Per-Ola Karlsson and Gary Neilson. "CEO Succession 2000-2009: A Decade of Convergence and Compression." Booz & Company (from Strategy+Business, Issue 59, Summer 2010).

9 Spencer Stuart Board Index, 2011, p. 6.

10 However, where a director has served for less than one full year, we will typically not recommend voting against for failure to attend 75% of meetings. Rather, we will note the poor attendance with a recommendation to track this issue going forward. We will also refrain from recommending to vote against directors when the proxy discloses that the director missed the meetings due to serious illness or other extenuating circumstances.

3. A director who is also the CEO of a company where a serious and material restatement has occurred after the CEO had previously certified the pre-restatement financial statements.
4. A director who has received two against recommendations from Glass Lewis for identical reasons within the prior year at different companies (the same situation must also apply at the company being analyzed).
5. All directors who served on the board if, for the last three years, the company's performance has been in the bottom quartile of the sector and the directors have not taken reasonable steps to address the poor performance.

Audit Committees and Performance

Audit committees play an integral role in overseeing the financial reporting process because "[v]ibrant and stable capital markets depend on, among other things, reliable, transparent, and objective financial information to support an efficient and effective capital market process. The vital oversight role audit committees play in the process of producing financial information has never been more important."[11]

When assessing an audit committee's performance, we are aware that an audit committee does not prepare financial statements, is not responsible for making the key judgments and assumptions that affect the financial statements, and does not audit the numbers or the disclosures provided to investors. Rather, an audit committee member monitors and oversees the process and procedures that management and auditors perform. The 1999 Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees stated it best:

> A proper and well-functioning system exists, therefore, when the three main groups responsible for financial reporting – the full board including the audit committee, financial management including the internal auditors, and the outside auditors – form a 'three legged stool' that supports responsible financial disclosure and active participatory oversight. However, in the view of the Committee, the audit committee must be 'first among equals' in this process, since the audit committee is an extension of the full board and hence the ultimate monitor of the process.

Standards For Assessing The Audit Committee

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities. In its audit and accounting recommendations, the Conference Board Commission on Public Trust and Private Enterprise said "members of the audit committee must be independent and have both knowledge and experience in auditing financial matters."[12]

We are skeptical of audit committees where there are members that lack expertise as a Certified Public Accountant (CPA), Chief Financial Officer (CFO) or corporate controller or similar experience. While we will not necessarily vote against members of an audit committee when such expertise

11 "Audit Committee Effectiveness – What Works Best." PricewaterhouseCoopers. The Institute of Internal Auditors Research Foundation. 2005.
12 Commission on Public Trust and Private Enterprise. The Conference Board. 2003.

is lacking, we are more likely to vote against committee members when a problem such as a restatement occurs and such expertise is lacking.

Glass Lewis generally assesses audit committees against the decisions they make with respect to their oversight and monitoring role. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work all provide useful information by which to assess the audit committee.

When assessing the decisions and actions of the audit committee, we typically defer to its judgment and would vote in favor of its members, but we would recommend voting against the following members under the following circumstances:[13]

1. All members of the audit committee when options were backdated, there is a lack of adequate controls in place, there was a resulting restatement, and disclosures indicate there was a lack of documentation with respect to the option grants.
2. The audit committee chair, if the audit committee does not have a financial expert or the committee's financial expert does not have a demonstrable financial background sufficient to understand the financial issues unique to public companies.
3. The audit committee chair, if the audit committee did not meet at least four times during the year.
4. The audit committee chair, if the committee has less than three members.
5. Any audit committee member who sits on more than three public company audit committees, unless the audit committee member is a retired CPA, CFO, controller or has similar experience, in which case the limit shall be four committees, taking time and availability into consideration including a review of the audit committee member's attendance at all board and committee meetings.[14]
6. All members of an audit committee who are up for election and who served on the committee at the time of the audit, if audit and audit-related fees total one-third or less of the total fees billed by the auditor.
7. The audit committee chair when tax and/or other fees are greater than audit and audit-related fees paid to the auditor for more than one year in a row (in which case we also recommend against ratification of the auditor).
8. All members of an audit committee where non-audit fees include fees for tax services (including, but not limited to, such things as tax avoidance or shelter schemes) for senior executives of the company. Such services are now prohibited by the Public Company Accounting Oversight Board ("PCAOB").

13 Where the recommendation is to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against the members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

14 Glass Lewis may exempt certain audit committee members from the above threshold if, upon further analysis of relevant factors such as the director's experience, the size, industry-mix and location of the companies involved and the director's attendance at all the companies, we can reasonably determine that the audit committee member is likely not hindered by multiple audit committee commitments.

9. All members of an audit committee that reappointed an auditor that we no longer consider to be independent for reasons unrelated to fee proportions.
10. All members of an audit committee when audit fees are excessively low, especially when compared with other companies in the same industry.
11. The audit committee chair[15] if the committee failed to put auditor ratification on the ballot for shareholder approval. However, if the non-audit fees or tax fees exceed audit plus audit-related fees in either the current or the prior year, then Glass Lewis will recommend voting against the entire audit committee.
12. All members of an audit committee where the auditor has resigned and reported that a section 10A[16] letter has been issued.
13. All members of an audit committee at a time when material accounting fraud occurred at the company.[17]
14. All members of an audit committee at a time when annual and/or multiple quarterly financial statements had to be restated, and any of the following factors apply:
    - The restatement involves fraud or manipulation by insiders;
    - The restatement is accompanied by an SEC inquiry or investigation;
    - The restatement involves revenue recognition;
    - The restatement results in a greater than 5% adjustment to costs of goods sold, operating expense, or operating cash flows; or
    - The restatement results in a greater than 5% adjustment to net income, 10% adjustment to assets or shareholders equity, or cash flows from financing or investing activities.
15. All members of an audit committee if the company repeatedly fails to file its financial reports in a timely fashion. For example, the company has filed two or more quarterly or annual financial statements late within the last five quarters.
16. All members of an audit committee when it has been disclosed that a law enforcement agency has charged the company and/or its employees with a violation of the Foreign Corrupt Practices Act (FCPA).
17. All members of an audit committee when the company has aggressive accounting policies and/or poor disclosure or lack of sufficient transparency in its financial statements.
18. All members of the audit committee when there is a disagreement with the auditor and the auditor resigns or is dismissed.

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15 In all cases, if the chair of the committee is not specified, we recommend voting against the director who has been on the committee the longest.

16 Auditors are required to report all potential illegal acts to management and the audit committee unless they are clearly inconsequential in nature. If the audit committee or the board fails to take appropriate action on an act that has been determined to be a violation of the law, the independent auditor is required to send a section 10A letter to the SEC. Such letters are rare and therefore we believe should be taken seriously.

17 Recent research indicates that revenue fraud now accounts for over 60% of SEC fraud cases, and that companies that engage in fraud experience significant negative abnormal stock price declines—facing bankruptcy, delisting, and material asset sales at much higher rates than do non-fraud firms (Committee of Sponsoring Organizations of the Treadway Commission. “Fraudulent Financial Reporting: 1998-2007.” May 2010).

19. All members of the audit committee if the contract with the auditor specifically limits the auditor's liability to the company for damages.[18]

20. All members of the audit committee who served since the date of the company's last annual meeting, and when, since the last annual meeting, the company has reported a material weakness that has not yet been corrected, or, when the company has an ongoing material weakness from a prior year that has not yet been corrected.

We also take a dim view of audit committee reports that are boilerplate, and which provide little or no information or transparency to investors. When a problem such as a material weakness, restatement or late filings occurs, we take into consideration, in forming our judgment with respect to the audit committee, the transparency of the audit committee report.

Compensation Committee Performance

Compensation committees have the final say in determining the compensation of executives. This includes deciding the basis on which compensation is determined, as well as the amounts and types of compensation to be paid. This process begins with the hiring and initial establishment of employment agreements, including the terms for such items as pay, pensions and severance arrangements. It is important in establishing compensation arrangements that compensation be consistent with, and based on the long-term economic performance of, the business's long-term shareholders returns.

Compensation committees are also responsible for the oversight of the transparency of compensation. This oversight includes disclosure of compensation arrangements, the matrix used in assessing pay for performance, and the use of compensation consultants. In order to ensure the independence of the compensation consultant, we believe the compensation committee should only engage a compensation consultant that is not also providing any services to the company or management apart from their contract with the compensation committee. It is important to investors that they have clear and complete disclosure of all the significant terms of compensation arrangements in order to make informed decisions with respect to the oversight and decisions of the compensation committee.

Finally, compensation committees are responsible for oversight of internal controls over the executive compensation process. This includes controls over gathering information used to determine compensation, establishment of equity award plans, and granting of equity awards. Lax controls can and have contributed to conflicting information being obtained, for example through the use of nonobjective consultants. Lax controls can also contribute to improper awards of compensation such as through granting of backdated or spring-loaded options, or granting of bonuses when triggers for bonus payments have not been met.

Central to understanding the actions of a compensation committee is a careful review of the Compensation Discussion and Analysis (CD&A) report included in each company's proxy. We review the CD&A in our evaluation of the overall compensation practices of a company, as overseen by the compensation committee. The CD&A is also integral to the evaluation of compensation proposals at companies, such as advisory votes on executive compensation, which allow shareholders to vote on the compensation paid to a company's top executives.

18 The Council of Institutional Investors. "Corporate Governance Policies," p. 4, April 5, 2006; and "Letter from Council of Institutional Investors to the AICPA," November 8, 2006.

When assessing the performance of compensation committees, we will recommend voting against for the following:[19]

1. All members of the compensation committee who are up for election and served at the time of poor pay-for-performance (e.g., a company receives an F grade in our pay-for-performance analysis) when shareholders are not provided with an advisory vote on executive compensation at the annual meeting.[20]
2. Any member of the compensation committee who has served on the compensation committee of at least two other public companies that received F grades in our pay-for-performance model and who is also suspect at the company in question.
3. The compensation committee chair if the company received two D grades in consecutive years in our pay-for-performance analysis, and if during the past year the Company performed the same as or worse than its peers.[21]
4. All members of the compensation committee (during the relevant time period) if the company entered into excessive employment agreements and/or severance agreements.
5. All members of the compensation committee when performance goals were changed (i.e., lowered) when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained.
6. All members of the compensation committee if excessive employee perquisites and benefits were allowed.
7. The compensation committee chair if the compensation committee did not meet during the year, but should have (e.g., because executive compensation was restructured or a new executive was hired).
8. All members of the compensation committee when the company repriced options or completed a "self tender offer" without shareholder approval within the past two years.
9. All members of the compensation committee when vesting of in-the-money options is accelerated or when fully vested options are granted.
10. All members of the compensation committee when option exercise prices were backdated. Glass Lewis will recommend voting against an executive director who played a role in and participated in option backdating.
11. All members of the compensation committee when option exercise prices were spring-loaded or otherwise timed around the release of material information.

19 Where the recommendation is to vote against the committee chair and the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

20 Where there are multiple CEOs in one year, we will consider not recommending against the compensation committee but will defer judgment on compensation policies and practices until the next year or a full year after arrival of the new CEO. In addition, if a company provides shareholders with a say-on-pay proposal and receives an F grade in our pay-for-performance model, we will recommend that shareholders only vote against the say-on-pay proposal rather than the members of the compensation committee, unless the company exhibits egregious practices. However, if the company receives successive F grades, we will then recommend against the members of the compensation committee in addition to recommending voting against the say-on-pay proposal.

21 In cases where the company received two D grades in consecutive years, but during the past year the company performed better than its peers or improved from an F to a D grade year over year, we refrain from recommending to vote against the compensation chair. In addition, if a company provides shareholders with a say-on-pay proposal in this instance, we will consider voting against the advisory vote rather than the compensation committee chair unless the company exhibits unquestionably egregious practices.

12. All members of the compensation committee when a new employment contract is given to an executive that does not include a clawback provision and the company had a material restatement, especially if the restatement was due to fraud.
13. The chair of the compensation committee where the CD&A provides insufficient or unclear information about performance metrics and goals, where the CD&A indicates that pay is not tied to performance, or where the compensation committee or management has excessive discretion to alter performance terms or increase amounts of awards in contravention of previously defined targets.
14. All members of the compensation committee during whose tenure the committee failed to implement a shareholder proposal regarding a compensation-related issue, where the proposal received the affirmative vote of a majority of the voting shares at a shareholder meeting, and when a reasonable analysis suggests that the compensation committee (rather than the governance committee) should have taken steps to implement the request.[22]
15. All members of a compensation committee during whose tenure the committee failed to address shareholder concerns following majority shareholder rejection of the say-on-pay proposal in the previous year. Where the proposal was approved but there was a significant shareholder vote (i.e., greater than 25% of votes cast) against the say-on-pay proposal in the prior year, if there is no evidence that the board responded accordingly to the vote including actively engaging shareholders on this issue, we will also consider recommending voting against the chairman of the compensation committee or all members of the compensation committee, depending on the severity and history of the compensation problems and the level of vote against.

Nominating and Governance Committee Performance

The nominating and governance committee, as an agency for the shareholders, is responsible for the governance by the board of the company and its executives. In performing this role, the board is responsible and accountable for selection of objective and competent board members. It is also responsible for providing leadership on governance policies adopted by the company, such as decisions to implement shareholder proposals that have received a majority vote.

Consistent with Glass Lewis' philosophy that boards should have diverse backgrounds and members with a breadth and depth of relevant experience, we believe that nominating and governance committees should consider diversity when making director nominations within the context of each specific company and its industry. In our view, shareholders are best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender and ethnicity, but also on the basis of geographic knowledge, industry experience and culture.

Regarding the nominating and or governance committee, we will recommend voting against the following:[23]

22 In all other instances (i.e. a non-compensation-related shareholder proposal should have been implemented) we recommend that shareholders vote against the members of the governance committee.

23 Where we would recommend to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair

1. All members of the governance committee[24] during whose tenure the board failed to implement a shareholder proposal with a direct and substantial impact on shareholders and their rights - i.e., where the proposal received enough shareholder votes (at least a majority) to allow the board to implement or begin to implement that proposal.[25] Examples of these types of shareholder proposals are majority vote to elect directors and to declassify the board.
2. The governance committee chair,[26] when the chairman is not independent and an independent lead or presiding director has not been appointed.[27]
3. In the absence of a nominating committee, the governance committee chair when there are less than five or the whole nominating committee when there are more than 20 members on the board.
4. The governance committee chair, when the committee fails to meet at all during the year.
5. The governance committee chair, when for two consecutive years the company provides what we consider to be "inadequate" related party transaction disclosure (i.e. the nature of such transactions and/or the monetary amounts involved are unclear or excessively vague, thereby preventing an average shareholder from being able to reasonably interpret the independence status of multiple directors above and beyond what the company maintains is compliant with SEC or applicable stock-exchange listing requirements).
6. The governance committee chair, when during the past year the board adopted a forum selection clause (i.e. an exclusive forum provision)[28] without shareholder approval, or, if the board is currently seeking shareholder approval of a forum selection clause pursuant to a bundled bylaw amendment rather than as a separate proposal.

Regarding the nominating committee, we will recommend voting against the following:[29]

1. All members of the nominating committee, when the committee nominated or renominated an individual who had a significant conflict of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.

24 If the board does not have a governance committee (or a committee that serves such a purpose), we recommend voting against the entire board on this basis.
25 Where a compensation-related shareholder proposal should have been implemented, and when a reasonable analysis suggests that the members of the compensation committee (rather than the governance committee) bear the responsibility for failing to implement the request, we recommend that shareholders only vote against members of the compensation committee.
26 If the committee chair is not specified, we recommend voting against the director who has been on the committee the longest. If the longest-serving committee member cannot be determined, we will recommend voting against the longest-serving board member serving on the committee.
27 We believe that one independent individual should be appointed to serve as the lead or presiding director. When such a position is rotated among directors from meeting to meeting, we will recommend voting against as if there were no lead or presiding director.
28 A forum selection clause is a bylaw provision stipulating that a certain state, typically Delaware, shall be the exclusive forum for all intra-corporate disputes (e.g. shareholder derivative actions, assertions of claims of a breach of fiduciary duty, etc.). Such a clause effectively limits a shareholder's legal remedy regarding appropriate choice of venue and related relief offered under that state's laws and rulings.
29 Where we would recommend to vote against the committee chair but the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair.

2. The nominating committee chair, if the nominating committee did not meet during the year, but should have (i.e., because new directors were nominated or appointed since the time of the last annual meeting).
3. In the absence of a governance committee, the nominating committee chair[30] when the chairman is not independent, and an independent lead or presiding director has not been appointed.[31]
4. The nominating committee chair, when there are less than five or the whole nominating committee when there are more than 20 members on the board.[32]
5. The nominating committee chair, when a director received a greater than 50% against vote the prior year and not only was the director not removed, but the issues that raised shareholder concern were not corrected.[33]

Board-level Risk Management Oversight

Glass Lewis evaluates the risk management function of a public company board on a strictly case-by-case basis. Sound risk management, while necessary at all companies, is particularly important at financial firms which inherently maintain significant exposure to financial risk. We believe such financial firms should have a chief risk officer reporting directly to the board and a dedicated risk committee or a committee of the board charged with risk oversight. Moreover, many non-financial firms maintain strategies which involve a high level of exposure to financial risk. Similarly, since many non-financial firms have significant hedging or trading strategies, including financial and non-financial derivatives, those firms should also have a chief risk officer and a risk committee.

Our views on risk oversight are consistent with those expressed by various regulatory bodies. In its December 2009 Final Rule release on Proxy Disclosure Enhancements, the SEC noted that risk oversight is a key competence of the board and that additional disclosures would improve investor and shareholder understanding of the role of the board in the organization's risk management practices. The final rules, which became effective on February 28, 2010, now explicitly require companies and mutual funds to describe (while allowing for some degree of flexibility) the board's role in the oversight of risk.

When analyzing the risk management practices of public companies, we take note of any significant losses or writedowns on financial assets and/or structured transactions. In cases where a company has disclosed a sizable loss or writedown, and where we find that the company's board-level risk committee contributed to the loss through poor oversight, we would recommend that shareholders vote against such committee members on that basis. In addition, in cases where a

30 If the committee chair is not specified, we will recommend voting against the director who has been on the committee the longest. If the longest-serving committee member cannot be determined, we will recommend voting against the longest-serving board member on the committee.
31 In the absence of both a governance and a nominating committee, we will recommend voting against the chairman of the board on this basis.
32 In the absence of both a governance and a nominating committee, we will recommend voting against the chairman of the board on this basis.
33 Considering that shareholder discontent clearly relates to the director who received a greater than 50% against vote rather than the nominating chair, we review the validity of the issue(s) that initially raised shareholder concern, follow-up on such matters, and only recommend voting against the nominating chair if a reasonable analysis suggests that it would be most appropriate. In rare cases, we will consider recommending against the nominating chair when a director receives a substantial (i.e., 25% or more) vote against based on the same analysis.

company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise)[34], we will consider recommending to vote against the chairman of the board on that basis. However, we generally would not recommend voting against a combined chairman/CEO except in egregious cases.

Experience

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred appearing at companies that follow these same patterns. Glass Lewis has a proprietary database of directors serving at over 8,000 of the most widely held U.S. companies. We use this database to track the performance of directors across companies.

Voting Recommendations on the Basis of Director Experience

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, inadequate risk oversight, overcompensation, audit- or accounting-related issues, and/or other indicators of mismanagement or actions against the interests of shareholders.[35]

Likewise, we examine the backgrounds of those who serve on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the subject matter for which the committee is responsible.

Other Considerations

In addition to the three key characteristics – independence, performance, experience – that we use to evaluate board members, we consider conflict-of-interest issues as well as the size of the board of directors when making voting recommendations.

Conflicts of Interest

We believe board members should be wholly free of identifiable and substantial conflicts of interest, regardless of the overall level of independent directors on the board. Accordingly, we recommend that shareholders vote against the following types of affiliated or inside directors:

1. A CFO who is on the board: In our view, the CFO holds a unique position relative to financial reporting and disclosure to shareholders. Because of the critical importance of financial disclosure and reporting, we believe the CFO should report to the board and not be a member of it.
2. A director who is on an excessive number of boards: We will typically recommend voting against a director who serves as an executive officer of any public company while serving on more than two other public company boards and any other director who serves on more than six public company boards typically receives an against recommendation from Glass Lewis. Academic literature suggests that one board takes up approximately

34 A committee responsible for risk management could be a dedicated risk committee, or another board committee, usually the audit committee but occasionally the finance committee, depending on a given company's board structure and method of disclosure. At some companies, the entire board is charged with risk management.

35 We typically apply a three-year look-back to such issues and also research to see whether the responsible directors have been up for election since the time of the failure, and if so, we take into account the percentage of support they received from shareholders.

200 hours per year of each member's time. We believe this limits the number of boards on which directors can effectively serve, especially executives at other companies.[36] Further, we note a recent study has shown that the average number of outside board seats held by CEOs of S&P 500 companies is 0.6, down from 0.8 in 2006 and 1.2 in 2001.[37]

3. A director, or a director who has an immediate family member, providing material consulting or other material professional services to the company: These services may include legal, consulting, or financial services. We question the need for the company to have consulting relationships with its directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors.
4. A director, or a director who has an immediate family member, engaging in airplane, real estate, or similar deals, including perquisite-type grants from the company, amounting to more than $50,000: Directors who receive these sorts of payments from the company will have to make unnecessarily complicated decisions that may pit their interests against shareholder interests.
5. Interlocking directorships: CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[38]
6. All board members who served at a time when a poison pill was adopted without shareholder approval within the prior twelve months.[39] In the event a board is classified and shareholders are therefore unable to vote against all directors, we will recommend voting against the remaining directors the next year they are up for a shareholder vote.

Size of the Board of Directors

While we do not believe there is a universally applicable optimum board size, we do believe boards should have at least five directors to ensure sufficient diversity in decision-making and to enable the formation of key board committees with independent directors. Conversely, we believe that boards with more than 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices can make it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

36 Our guidelines are similar to the standards set forth by the NACD in its "Report of the NACD Blue Ribbon Commission on Director Professionalism," 2001 Edition, pp. 14-15 (also cited approvingly by the Conference Board in its "Corporate Governance Best Practices: A Blueprint for the Post-Enron Era," 2002, p. 17), which suggested that CEOs should not serve on more than 2 additional boards, persons with full-time work should not serve on more than 4 additional boards, and others should not serve on more than six boards.

37 Spencer Stuart Board Index, 2011, p. 8.

38 We do not apply a look-back period for this situation. The interlock policy applies to both public and private companies. We will also evaluate multiple board interlocks among non-insiders (i.e. multiple directors serving on the same boards at other companies), for evidence of a pattern of poor oversight.

39 Refer to Section IV. Governance Structure and the Shareholder Franchise for further discussion of our policies regarding anti-takeover measures, including poison pills.

To that end, we typically recommend voting against the chairman of the nominating committee at a board with fewer than five directors. With boards consisting of more than 20 directors, we typically recommend voting against all members of the nominating committee (or the governance committee, in the absence of a nominating committee).[40]

Controlled Companies

Controlled companies present an exception to our independence recommendations. The board's function is to protect shareholder interests; however, when an individual or entity owns more than 50% of the voting shares, the interests of the majority of shareholders are the interests of that entity or individual. Consequently, Glass Lewis does not apply our usual two-thirds independence rule and therefore we will not recommend voting against boards whose composition reflects the makeup of the shareholder population.

Independence Exceptions

The independence exceptions that we make for controlled companies are as follows:

1. We do not require that controlled companies have boards that are at least two-thirds independent. So long as the insiders and/or affiliates are connected with the controlling entity, we accept the presence of non-independent board members.
2. The compensation committee and nominating and governance committees do not need to consist solely of independent directors.
    a. We believe that standing nominating and corporate governance committees at controlled companies are unnecessary. Although having a committee charged with the duties of searching for, selecting, and nominating independent directors can be beneficial, the unique composition of a controlled company's shareholder base makes such committees weak and irrelevant.
    b. Likewise, we believe that independent compensation committees at controlled companies are unnecessary. Although independent directors are the best choice for approving and monitoring senior executives' pay, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests. As such, we believe that having affiliated directors on a controlled company's compensation committee is acceptable. However, given that a controlled company has certain obligations to minority shareholders we feel that an insider should not serve on the compensation committee. Therefore, Glass Lewis will recommend voting against any insider (the CEO or otherwise) serving on the compensation committee.
3. Controlled companies do not need an independent chairman or an independent lead or presiding director. Although an independent director in a position of authority on the board – such as chairman or presiding director – can best carry out the board's duties, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests.

40 The Conference Board, at p. 23 in its May 2003 report "Corporate Governance Best Practices, Id.," quotes one of its roundtable participants as stating, "[w]hen you've got a 20 or 30 person corporate board, it's one way of assuring that nothing is ever going to happen that the CEO doesn't want to happen."

Size of the Board of Directors

We have no board size requirements for controlled companies.

Audit Committee Independence

We believe that audit committees should consist solely of independent directors. Regardless of a company's controlled status, the interests of all shareholders must be protected by ensuring the integrity and accuracy of the company's financial statements. Allowing affiliated directors to oversee the preparation of financial reports could create an insurmountable conflict of interest.

Unofficially Controlled Companies and 20-50% Beneficial Owners

Where an individual or entity owns more than 50% of a company's voting power but the company is not a "controlled" company as defined by relevant listing standards, we apply a lower independence requirement of a majority of the board but believe the company should otherwise be treated like another public company; we will therefore apply all other standards as outlined above.

Similarly, where an individual or entity holds between 20-50% of a company's voting power, but the company is not "controlled" and there is not a "majority" owner, we believe it is reasonable to allow proportional representation on the board and committees (excluding the audit committee) based on the individual or entity's percentage of ownership.

Exceptions for Recent IPOs

We believe companies that have recently completed an initial public offering ("IPO") should be allowed adequate time to fully comply with marketplace listing requirements as well as to meet basic corporate governance standards. We believe a one-year grace period immediately following the date of a company's IPO is sufficient time for most companies to comply with all relevant regulatory re-quirements and to meet such corporate governance standards. Except in egregious cases, Glass Lewis refrains from issuing voting recommendations on the basis of corporate governance best practices (eg. board independence, committee membership and structure, meeting attendance, etc.) during the one-year period following an IPO.

However, two specific cases warrant strong shareholder action against the board of a company that completed an IPO within the past year:

1. Adoption of a poison pill: in cases where a board implements a poison pill preceding an IPO, we will consider voting against the members of the board who served during the period of the poison pill's adoption if the board (i) did not also commit to submit the poison pill to a shareholder vote within 12 months of the IPO or (ii) did not provide a sound rationale for adopting the pill and the pill does not expire in three years or less. In our view, adopting such an anti-takeover device unfairly penalizes future shareholders who (except for electing to buy or sell the stock) are unable to weigh in on a matter that could potentially negatively impact their ownership interest. This notion is strengthened when a board adopts a poison pill with a 5-10 year life immediately prior to having a public shareholder base so as to insulate management for a substantial amount of time while postponing and/or avoiding allowing public shareholders the ability to vote on the pill's adoption. Such instances are indicative of boards that may subvert shareholders' best interests following their IPO.

2. Adoption of an exclusive forum provision: consistent with our general approach to boards that adopt exclusive forum provisions without shareholder approval (refer to our discussion of nominating and governance committee performance in Section I of the guidelines), in cases

where a board adopts such a provision for inclusion in a company's charter or bylaws before the company's IPO, we will recommend voting against the chairman of the governance committee, or, in the absence of such a committee, the chairman of the board, who served during the period of time when the provision was adopted.

Further, shareholders should also be wary of companies in this category that adopt supermajority voting requirements before their IPO. Absent explicit provisions in the articles or bylaws stipulating that certain policies will be phased out over a certain period of time (e.g. a predetermined declassification of the board, a planned separation of the chairman and CEO, etc.) long-term shareholders could find themselves in the predicament of having to attain a supermajority vote to approve future proposals seeking to eliminate such policies.

Mutual Fund Boards

Mutual funds, or investment companies, are structured differently from regular public companies (i.e., operating companies). Typically, members of a fund's adviser are on the board and management takes on a different role from that of regular public companies. Thus, we focus on a short list of requirements, although many of our guidelines remain the same.

The following mutual fund policies are similar to the policies for regular public companies:

1. Size of the board of directors: The board should be made up of between five and twenty directors.
2. The CFO on the board: Neither the CFO of the fund nor the CFO of the fund's registered investment adviser should serve on the board.
3. Independence of the audit committee: The audit committee should consist solely of independent directors.
4. Audit committee financial expert: At least one member of the audit committee should be designated as the audit committee financial expert.

The following differences from regular public companies apply at mutual funds:

1. Independence of the board: We believe that three-fourths of an investment company's board should be made up of independent directors. This is consistent with a proposed SEC rule on investment company boards. The Investment Company Act requires 40% of the board to be independent, but in 2001, the SEC amended the Exemptive Rules to require that a majority of a mutual fund board be independent. In 2005, the SEC proposed increasing the independence threshold to 75%. In 2006, a federal appeals court ordered that this rule amendment be put back out for public comment, putting it back into "proposed rule" status. Since mutual fund boards play a vital role in overseeing the relationship between the fund and its investment manager, there is greater need for independent oversight than there is for an operating company board.
2. When the auditor is not up for ratification: We do not recommend voting against the audit committee if the auditor is not up for ratification because, due to the different legal structure of an investment company compared to an operating company, the auditor for the investment company (i.e., mutual fund) does not conduct the same level of financial review for each investment company as for an operating company.
3. Non-independent chairman: The SEC has proposed that the chairman of the fund board be independent. We agree that the roles of a mutual fund's chairman and CEO should be separate.

Although we believe this would be best at all companies, we recommend voting against the chairman of an investment company's nominating committee as well as the chairman of the board if the chairman and CEO of a mutual fund are the same person and the fund does not have an independent lead or presiding director. Seven former SEC commissioners support the appointment of an independent chairman and we agree with them that "an independent board chairman would be better able to create conditions favoring the long-term interests of fund shareholders than would a chairman who is an executive of the adviser." (See the comment letter sent to the SEC in support of the proposed rule at http://sec.gov/rules/proposed/s70304/s70304-179.pdf)

DECLASSIFIED BOARDS

Glass Lewis favors the repeal of staggered boards and the annual election of directors. We believe staggered boards are less accountable to shareholders than boards that are elected annually. Furthermore, we feel the annual election of directors encourages board members to focus on shareholder interests.

Empirical studies have shown: (i) companies with staggered boards reduce a firm's value; and (ii) in the context of hostile takeovers, staggered boards operate as a takeover defense, which entrenches management, discourages potential acquirers, and delivers a lower return to target shareholders.

In our view, there is no evidence to demonstrate that staggered boards improve shareholder returns in a takeover context. Research shows that shareholders are worse off when a staggered board blocks a transaction. A study by a group of Harvard Law professors concluded that companies whose staggered boards prevented a takeover "reduced shareholder returns for targets ... on the order of eight to ten percent in the nine months after a hostile bid was announced."[41] When a staggered board negotiates a friendly transaction, no statistically significant difference in premiums occurs.[42] Further, one of those same professors found that charter-based staggered boards "reduce the market value of a firm by 4% to 6% of its market capitalization" and that "staggered boards bring about and not merely reflect this reduction in market value."[43] A subsequent study reaffirmed that classified boards reduce shareholder value, finding "that the ongoing process of dismantling staggered boards, encouraged by institutional investors, could well contribute to increasing shareholder wealth."[44]

Shareholders have increasingly come to agree with this view. In 2011 more than 75% of S&P 500 companies had declassified boards, up from approximately 41% a decade ago.[45] Clearly, more shareholders have supported the repeal of classified boards. Resolutions relating to the repeal of staggered boards garnered on average over 70% support among shareholders in 2008, whereas in 1987, only 16.4% of votes cast favored board declassification.[46]

Given the empirical evidence suggesting staggered boards reduce a company's value and the increasing shareholder opposition to such a structure, Glass Lewis supports the declassification of boards and the annual election of directors.

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41 Lucian Bebchuk, John Coates IV, Guhan Subramanian, "The Powerful Antitakeover Force of Staggered Boards: Further Findings and a Reply to Symposium Participants," 55 Stanford Law Review 885-917 (2002), page 1.

42 Id. at 2 ("Examining a sample of seventy-three negotiated transactions from 2000 to 2002, we find no systematic benefits in terms of higher premia to boards that have [staggered structures].").

43 Lucian Bebchuk, Alma Cohen, "The Costs of Entrenched Boards" (2004).

44 Lucian Bebchuk, Alma Cohen and Charles C.Y. Wang, "Staggered Boards and the Wealth of Shareholders: Evidence from a Natural Experiment," SSRN: http://ssrn.com/abstract=1706806 (2010), p. 26.

45 Spencer Stuart Board Index, 2011, p. 14

46 Lucian Bebchuk, John Coates IV and Guhan Subramanian, "The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence, and Policy," 54 Stanford Law Review 887-951 (2002).

MANDATORY DIRECTOR TERM AND AGE LIMITS

Glass Lewis believes that director age and term limits typically are not in shareholders' best interests. Too often age and term limits are used by boards as a crutch to remove board members who have served for an extended period of time. When used in that fashion, they are indicative of a board that has a difficult time making "tough decisions."

Academic literature suggests that there is no evidence of a correlation between either length of tenure or age and director performance. On occasion, term limits can be used as a means to remove a director for boards that are unwilling to police their membership and to enforce turnover. Some shareholders support term limits as a way to force change when boards are unwilling to do so.

While we understand that age limits can be a way to force change where boards are unwilling to make changes on their own, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. Further, age limits unfairly imply that older (or, in rare cases, younger) directors cannot contribute to company oversight.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. However, we support periodic director rotation to ensure a fresh perspective in the boardroom and the generation of new ideas and business strategies. We believe the board should implement such rotation instead of relying on arbitrary limits. When necessary, shareholders can address the issue of director rotation through director elections.

We believe that shareholders are better off monitoring the board's approach to corporate governance and the board's stewardship of company performance rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

However, if a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

REQUIRING TWO OR MORE NOMINEES PER BOARD SEAT

In an attempt to address lack of access to the ballot, shareholders sometimes propose that the board give shareholders a choice of directors for each open board seat in every election. However, we feel that policies requiring a selection of multiple nominees for each board seat would discourage prospective directors from accepting nominations. A prospective director could not be confident either that he or she is the board's clear choice or that he or she would be elected. Therefore, Glass Lewis generally will vote against such proposals.

SHAREHOLDER ACCESS

We expect to see a number of shareholder proposals regarding this topic in 2012. For a discussion of recent regulatory events in this area, along with a detailed overview of the Glass Lewis approach to Shareholder Proposals regarding Proxy Access, refer to ***Section V. Compensation, Environmental, Social and Governance Shareholder Initiatives***.

MAJORITY VOTE FOR THE ELECTION OF DIRECTORS

In stark contrast to the failure of shareholder access to gain acceptance, majority voting for the election of directors is fast becoming the de facto standard in corporate board elections. In our view, the majority voting proposals are an effort to make the case for shareholder impact on director elections on a company-specific basis.

While this proposal would not give shareholders the opportunity to nominate directors or lead to elections where shareholders have a choice among director candidates, if implemented, the proposal would allow shareholders to have a voice in determining whether the nominees proposed by the board should actually serve as the overseer-representatives of shareholders in the boardroom. We believe this would be a favorable outcome for shareholders.

During 2011, Glass Lewis tracked over 40 proposals seeking to require a majority vote to elect directors at annual meetings in the U.S., a slight increase over 2010 when we tracked just under 35 proposals, but a sharp contrast to the 147 proposals tracked during 2006. The large drop in the number of proposals being submitted in recent years compared to 2006 is a result of many companies having already adopted some form of majority voting, including approximately 79% of companies in the S&P 500 index, up from 56% in 2008.[47] During 2009 these proposals received on average 59% shareholder support (based on for and against votes), up from 54% in 2008.

The plurality vote standard

Today, most US companies still elect directors by a plurality vote standard. Under that standard, if one shareholder holding only one share votes in favor of a nominee (including himself, if the director is a shareholder), that nominee "wins" the election and assumes a seat on the board. The common concern among companies with a plurality voting standard was the possibility that one or more directors would not receive a majority of votes, resulting in "failed elections." This was of particular concern during the 1980s, an era of frequent takeovers and contests for control of companies.

Advantages of a majority vote standard

If a majority vote standard were implemented, a nominee would have to receive the support of a majority of the shares voted in order to be elected. Thus, shareholders could collectively vote to reject a director they believe will not pursue their best interests. We think that this minimal amount of protection for shareholders is reasonable and will not upset the corporate structure nor reduce the willingness of qualified shareholder-focused directors to serve in the future.

We believe that a majority vote standard will likely lead to more attentive directors. Occasional use of this power will likely prevent the election of directors with a record of ignoring shareholder interests in favor of other interests that conflict with those of investors. Glass Lewis will generally support proposals calling for the election of directors by a majority vote except for use in contested director elections.

In response to the high level of support majority voting has garnered, many companies have voluntarily taken steps to implement majority voting or modified approaches to majority voting. These steps range from a modified approach requiring directors that receive a majority of withheld votes to resign (e.g., Ashland Inc.) to actually requiring a majority vote of outstanding shares to elect directors (e.g., Intel).

We feel that the modified approach does not go far enough because requiring a director to resign is not the same as requiring a majority vote to elect a director and does not allow shareholders a definitive voice in the election process. Further, under the modified approach, the corporate governance committee could reject a resignation and, even if it accepts the resignation, the corporate governance committee decides on the director's replacement. And since the modified approach is usually adopted as a policy by the board or a board committee, it could be altered by the same board or committee at any time.

47 Spencer Stuart Board Index, 2011, p. 14

AUDITOR RATIFICATION

The auditor's role as gatekeeper is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on the auditor to ask tough questions and to do a thorough analysis of a company's books to ensure that the information provided to shareholders is complete, accurate, fair, and that it is a reasonable representation of a company's financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about a company's fiscal health. As stated in the October 6, 2008 Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury:

> "The auditor is expected to offer critical and objective judgment on the financial matters under consideration, and actual and perceived absence of conflicts is critical to that expectation. The Committee believes that auditors, investors, public companies, and other market participants must understand the independence requirements and their objectives, and that auditors must adopt a mindset of skepticism when facing situations that may compromise their independence."

As such, shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company in which the investors hold an interest. Like directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the auditor's interests and the public's interests. Almost without exception, shareholders should be able to annually review an auditor's performance and to annually ratify a board's auditor selection. Moreover, in October 2008, the Advisory Committee on the Auditing Profession went even further, and recommended that "to further enhance audit committee oversight and auditor accountability ... disclosure in the company proxy statement regarding shareholder ratification [should] include the name(s) of the senior auditing partner(s) staffed on the engagement."[48]

Most recently on August 16, 2011, the PCAOB issued a Concept Release seeking public comment on ways that auditor independence, objectivity and professional skepticism could be enhanced, with a specific emphasis on mandatory audit firm rotation. The PCAOB will convene a public roundtable meeting in March 2012 to further discuss such matters. Glass Lewis believes auditor rotation can en-sure both the independence of the auditor and the integrity of the audit; we will typically recommend supporting proposals to require auditor rotation when the proposal uses a reasonable period of time (usually not less than 5-7 years) particularly at companies with a history of accounting problems.

Voting Recommendations on Auditor Ratification

We generally support management's choice of auditor except when we believe the auditor's independence or audit integrity has been compromised. Where a board has not allowed shareholders to review and ratify an auditor, we typically recommend voting against the audit committee chairman. When there have been material restatements of annual financial statements or material weakness in internal controls, we usually recommend voting against the entire audit committee.

Reasons why we may not recommend ratification of an auditor include:

48 "Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury." p. VIII:20, October 6, 2008.

1. When audit fees plus audit-related fees total less than the tax fees and/or other non-audit fees.
2. Recent material restatements of annual financial statements, including those resulting in the reporting of material weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing.[49]
3. When the auditor performs prohibited services such as tax-shelter work, tax services for the CEO or CFO, or contingent-fee work, such as a fee based on a percentage of economic benefit to the company.
4. When audit fees are excessively low, especially when compared with other companies in the same industry.
5. When the company has aggressive accounting policies.
6. When the company has poor disclosure or lack of transparency in its financial statements.
7. Where the auditor limited its liability through its contract with the company or the audit contract requires the corporation to use alternative dispute resolution procedures without adequate justification.
8. We also look for other relationships or concerns with the auditor that might suggest a conflict between the auditor's interests and shareholder interests.

PENSION ACCOUNTING ISSUES

A pension accounting question often raised in proxy proposals is what effect, if any, projected returns on employee pension assets should have on a company's net income. This issue often arises in the executive-compensation context in a discussion of the extent to which pension accounting should be reflected in business performance for purposes of calculating payments to executives.

Glass Lewis believes that pension credits should not be included in measuring income that is used to award performance-based compensation. Because many of the assumptions used in accounting for retirement plans are subject to the company's discretion, management would have an obvious conflict of interest if pay were tied to pension income. In our view, projected income from pensions does not truly reflect a company's performance.

49 An auditor does not audit interim financial statements. Thus, we generally do not believe that an auditor should be opposed due to a restatement of interim financial statements unless the nature of the misstatement is clear from a reading of the incorrect financial statements.

Glass Lewis carefully reviews the compensation awarded to senior executives, as we believe that this is an important area in which the board's priorities are revealed. Glass Lewis strongly believes executive compensation should be linked directly with the performance of the business the executive is charged with managing. We believe the most effective compensation arrangements provide for an appropriate mix of performance-based short- and long-term incentives in addition to base salary.

Glass Lewis believes that comprehensive, timely and transparent disclosure of executive pay is critical to allowing shareholders to evaluate the extent to which the pay is keeping pace with company performance. When reviewing proxy materials, Glass Lewis examines whether the company discloses the performance metrics used to determine executive compensation. We recognize performance metrics must necessarily vary depending on the company and industry, among other factors, and may include items such as total shareholder return, earning per share growth, return on equity, return on assets and revenue growth. However, we believe companies should disclose why the specific performance metrics were selected and how the actions they are designed to incentivize will lead to better corporate performance.

Moreover, it is rarely in shareholders' interests to disclose competitive data about individual salaries below the senior executive level. Such disclosure could create internal personnel discord that would be counterproductive for the company and its shareholders. While we favor full disclosure for senior executives and we view pay disclosure at the aggregate level (e.g., the number of employees being paid over a certain amount or in certain categories) as potentially useful, we do not believe shareholders need or will benefit from detailed reports about individual management employees other than the most senior executives.

ADVISORY VOTE ON EXECUTIVE COMPENSATION ("SAY-ON-PAY")

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") required most companies[50] to hold an advisory vote on executive compensation at the first shareholder meeting that occurs six months after enactment of the bill (January 21, 2011).

This practice of allowing shareholders a non-binding vote on a company's compensation report is standard practice in many non-US countries, and has been a requirement for most companies in the United Kingdom since 2003 and in Australia since 2005. Although say-on-pay proposals are non-binding, a high level of "against" or "abstain" votes indicate substantial shareholder concern about a company's compensation policies and procedures.

Given the complexity of most companies' compensation programs, Glass Lewis applies a highly nuanced approach when analyzing advisory votes on executive compensation. We review each company's compensation on a case-by-case basis, recognizing that each company must be examined in the context of industry, size, maturity, performance, financial condition, its historic pay for performance practices, and any other relevant internal or external factors.

We believe that each company should design and apply specific compensation policies and practices that are appropriate to the circumstances of the company and, in particular, will attract and retain competent executives and other staff, while motivating them to grow the company's long-term shareholder value.

50 Small reporting companies (as defined by the SEC as below $75,000,000 in market capitalization) received a two-year reprieve and will only be subject to say-on-pay requirements beginning at meetings held on or after January 21, 2013.

Where we find those specific policies and practices serve to reasonably align compensation with performance, and such practices are adequately disclosed, Glass Lewis will recommend supporting the company's approach. If, however, those specific policies and practices fail to demonstrably link compensation with performance, Glass Lewis will generally recommend voting against the say-on-pay proposal.

Glass Lewis focuses on four main areas when reviewing Say-on-Pay proposals:

- The overall design and structure of the Company's executive compensation program including performance metrics;
- The quality and content of the Company's disclosure;
- The quantum paid to executives; and
- The link between compensation and performance as indicated by the Company's current and past pay-for-performance grades

We also review any significant changes or modifications, and rationale for such changes, made to the Company's compensation structure or award amounts, including base salaries.

Say-on-Pay Voting Recommendations

In cases where we find deficiencies in a company's compensation program's design, implementation or management, we will recommend that shareholders vote against the say-on-pay proposal. Generally such instances include evidence of a pattern of poor pay-for-performance practices (i.e., deficient or failing pay for performance grades), unclear or questionable disclosure regarding the overall compensation structure (e.g., limited information regarding benchmarking processes, limited rationale for bonus performance metrics and targets, etc.), questionable adjustments to certain aspects of the overall compensation structure (e.g., limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizable retention grants, etc.), and/or other egregious compensation practices.

Although not an exhaustive list, the following issues when weighed together may cause Glass Lewis to recommend voting against a say-on-pay vote:

- Inappropriate peer group and/or benchmarking issues
- Inadequate or no rationale for changes to peer groups
- Egregious or excessive bonuses, equity awards or severance payments, including golden handshakes and golden parachutes
- Guaranteed bonuses
- Targeting overall levels of compensation at higher than median without adequate justification
- Bonus or long-term plan targets set at less than mean or negative performance levels
- Performance targets not sufficiently challenging, and/or providing for high potential payouts
- Performance targets lowered, without justification
- Discretionary bonuses paid when short- or long-term incentive plan targets were not met
- Executive pay high relative to peers not justified by outstanding company performance
- The terms of the long-term incentive plans are inappropriate (please see "Long-Term Incentives" below)

In the instance that a company has simply failed to provide sufficient disclosure of its policies, we may recommend shareholders vote against this proposal solely on this basis, regardless of the appropriateness of compensation levels.

Additional Scrutiny for Companies with Significant Opposition in 2011

At companies that received a significant shareholder vote (anything greater than 25%) against their say on pay proposal in 2011, we believe the board should demonstrate some level of engagement and responsiveness to the shareholder concerns behind the discontent. While we recognize that sweeping changes cannot be made to a compensation program without due consideration and that a majority of shareholders voted in favor of the proposal, we will look for disclosure in the proxy statement and other publicly-disclosed filings that indicates the compensation committee is responding to the prior year's vote results including engaging with large shareholders to identify the concerns causing the substantial vote against. In the absence of any evidence that the board is actively engaging shareholders on this issue and responding accordingly, we will recommend holding compensation committee members accountable for a failure to respond in consideration of the level of the vote against and the severity and history of the compensation problems.

Where we identify egregious compensation practices, we may also recommend voting against the compensation committee based on the practices or actions of its members during the year, such as approving large one-off payments, the inappropriate, unjustified use of discretion, or sustained poor pay for performance practices.

Short-Term Incentives

A short-term bonus or incentive ("STI") should be demonstrably tied to performance. Whenever possible, we believe a mix of corporate and individual performance measures is appropriate. We would normally expect performance measures for STIs to be based on internal financial measures such as net profit after tax, EPS growth and divisional profitability as well as non-financial factors such as those related to safety, environmental issues, and customer satisfaction. However, we accept variations from these metrics if they are tied to the Company's business drivers.

Further, the target and potential maximum awards that can be achieved under STI awards should be disclosed. Shareholders should expect stretching performance targets for the maximum award to be achieved. Any increase in the potential maximum award should be clearly justified to shareholders.

Glass Lewis recognizes that disclosure of some measures may include commercially confidential information. Therefore, we believe it may be reasonable to exclude such information in some cases as long as the company provides sufficient justification for non-disclosure. However, where a short-term bonus has been paid, companies should disclose the extent to which performance has been achieved against relevant targets, including disclosure of the actual target achieved.

Where management has received significant STIs but short-term performance as measured by such indicators as increase in profit and/or EPS growth over the previous year prima facie appears to be poor or negative, we believe the company should provide a clear explanation why these significant short-term payments were made.

Long-Term Incentives

Glass Lewis recognizes the value of equity-based incentive programs. When used appropriately, they can provide a vehicle for linking an executive's pay to company performance, thereby aligning their interests with those of shareholders. In addition, equity-based compensation can be an effective way to attract, retain and motivate key employees.

There are certain elements that Glass Lewis believes are common to most well-structured long-term incentive ("LTI") plans. These include:

- No re-testing or lowering of performance conditions
- Performance metrics that cannot be easily manipulated by management
- Two or more performance metrics
- At least one relative performance metric that compares the company's performance to a relevant peer group or index
- Performance periods of at least three years
- Stretching metrics that incentivize executives to strive for outstanding performance
- Individual limits expressed as a percentage of base salary

Performance measures should be carefully selected and should relate to the specific business/industry in which the company operates and, especially, the key value drivers of the company's business.

Glass Lewis believes that measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance than a single metric, which may focus too much management attention on a single target and is therefore more susceptible to manipulation. External benchmarks should be disclosed and transparent, such as total shareholder return ("TSR") against a well-selected sector index, peer group or other performance hurdle. The rationale behind the selection of a specific index or peer group should be disclosed. Internal benchmarks (e.g. earnings per share growth) should also be disclosed and transparent, unless a cogent case for confidentiality is made and fully explained.

We also believe shareholders should evaluate the relative success of a company's compensation programs, particularly existing equity-based incentive plans, in linking pay and performance in evaluating new LTI plans to determine the impact of additional stock awards. We will therefore review the company's pay-for-performance grade, see below for more information, and specifically the proportion of total compensation that is stock-based.

Pay for Performance

Glass Lewis believes an integral part of a well-structured compensation package is a successful link between pay and performance. Therefore, Glass Lewis developed a proprietary pay-for-performance model to evaluate the link between pay and performance of the top five executives at US companies. Our model benchmarks these executives' pay and company performance against four peer groups and across seven performance metrics. Using a forced curve and a school letter-grade system, we grade companies from A-F according to their pay-for-performance linkage. The grades guide our evaluation of compensation committee effectiveness and we generally recommend voting against compensation committee of companies with a pattern of failing our pay-for-performance analysis.

We also use this analysis to inform our voting decisions on say-on-pay proposals. As such, if a company receives a failing grade from our proprietary model, we are likely to recommend shareholders to vote against the say-on-pay proposal. However, there may be exceptions to this rule such as when a company makes significant enhancements to its compensation programs.

Recoupment ("Clawback") Provisions

Section 954 of the Dodd-Frank Act requires the SEC to create a rule requiring listed companies to adopt policies for recouping certain compensation during a three-year look-back period. The rule applies to incentive-based compensation paid to current or former executives if the company is required to prepare an accounting restatement due to erroneous data resulting from material non-compliance with any financial reporting requirements under the securities laws.

These recoupment provisions are more stringent than under Section 304 of the Sarbanes-Oxley Act in three respects: (i) the provisions extend to current or former executive officers rather than only to the CEO and CFO; (ii) it has a three-year look-back period (rather than a twelve-month look-back period); and (iii) it allows for recovery of compensation based upon a financial restatement due to erroneous data, and therefore does not require misconduct on the part of the executive or other employees.

Frequency of Say-on-Pay

The Dodd-Frank Act also requires companies to allow shareholders a non-binding vote on the frequency of say-on-pay votes, i.e. every one, two or three years. Additionally, Dodd-Frank requires companies to hold such votes on the frequency of say-on-pay votes at least once every six years.

We believe companies should submit say-on-pay votes to shareholders every year. We believe that the time and financial burdens to a company with regard to an annual vote are relatively small and incremental and are outweighed by the benefits to shareholders through more frequent accountability. Implementing biannual or triennial votes on executive compensation limits shareholders' ability to hold the board accountable for its compensation practices through means other than voting against the compensation committee. Unless a company provides a compelling rationale or unique circumstances for say-on-pay votes less frequent than annually, we will generally recommend that shareholders support annual votes on compensation.

Vote on Golden Parachute Arrangements

The Dodd-Frank Act also requires companies to provide shareholders with a separate non-binding vote on approval of golden parachute compensation arrangements in connection with certain change-in-control transactions. However, if the golden parachute arrangements have previously been subject to a say-on-pay vote which shareholders approved, then this required vote is waived.

Glass Lewis believes the narrative and tabular disclosure of golden parachute arrangements will benefit all shareholders. Glass Lewis will analyze each golden parachute arrangement on a case-by-case basis, taking into account, among other items: the ultimate value of the payments particularly compared to the value of the transaction, the tenure and position of the executives in question, and the type of triggers involved (single vs double).

EQUITY-BASED COMPENSATION PLAN PROPOSALS

We believe that equity compensation awards are useful, when not abused, for retaining employees and providing an incentive for them to act in a way that will improve company performance. Glass Lewis evaluates equity-based compensation plans using a detailed model and analytical review.

Equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, our model and analysis takes into account factors such as plan administration, the method and terms of exercise, repricing history, express or implied rights to reprice, and the presence of evergreen provisions.

Our analysis is primarily quantitative and focused on the plan's cost as compared with the business's operating metrics. We run twenty different analyses, comparing the program with absolute limits we believe are key to equity value creation and with a carefully chosen peer group. In general, our model seeks to determine whether the proposed plan is either absolutely excessive or is more than one standard deviation away from the average plan for the peer group on a range of criteria, including dilution to shareholders and the projected annual cost relative to the company's financial performance. Each of the twenty analyses (and their constituent parts) is weighted and the plan is scored in accordance with that weight.

In our analysis, we compare the program's expected annual expense with the business's operating metrics to help determine whether the plan is excessive in light of company performance. We also compare the option plan's expected annual cost to the enterprise value of the firm rather than to market capitalization because the employees, managers and directors of the firm contribute to the creation of enterprise value but not necessarily market capitalization (the biggest difference is seen where cash represents the vast majority of market capitalization). Finally, we do not rely exclusively on relative comparisons with averages because, in addition to creeping averages serving to inflate compensation, we believe that some absolute limits are warranted.

We evaluate equity plans based on certain overarching principles:

1. Companies should seek more shares only when needed.
2. Requested share amounts should be small enough that companies seek shareholder approval every three to four years (or more frequently).
3. If a plan is relatively expensive, it should not grant options solely to senior executives and board members.
4. Annual net share count and voting power dilution should be limited.
5. Annual cost of the plan (especially if not shown on the income statement) should be reasonable as a percentage of financial results and should be in line with the peer group.
6. The expected annual cost of the plan should be proportional to the business's value.
7. The intrinsic value that option grantees received in the past should be reasonable compared with the business's financial results.
8. Plans should deliver value on a per-employee basis when compared with programs at peer companies.
9. Plans should not permit re-pricing of stock options.
10. Plans should not contain excessively liberal administrative or payment terms.
11. Selected performance metrics should be challenging and appropriate, and should be subject to relative performance measurements.
12. Stock grants should be subject to minimum vesting and/or holding periods sufficient to ensure sustainable performance and promote retention.

Option Exchanges

Glass Lewis views option repricing plans and option exchange programs with great skepticism. Shareholders have substantial risk in owning stock and we believe that the employees, officers, and directors who receive stock options should be similarly situated to align their interests with shareholder interests.

We are concerned that option grantees who believe they will be "rescued" from underwater options will be more inclined to take unjustifiable risks. Moreover, a predictable pattern of repricing or exchanges substantially alters a stock option's value because options that will practically never expire deeply out of the money are worth far more than options that carry a risk of expiration.

In short, repricings and option exchange programs change the bargain between shareholders and employees after the bargain has been struck.

There is one circumstance in which a repricing or option exchange program is acceptable: if macroeconomic or industry trends, rather than specific company issues, cause a stock's value to decline dramatically and the repricing is necessary to motivate and retain employees. In this circumstance, we think it fair to conclude that option grantees may be suffering from a risk that was not foreseeable when the original "bargain" was struck. In such a circumstance, we will recommend supporting a repricing only if the following conditions are true:

1. Officers and board members cannot participate in the program;
2. The stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude;
3. The exchange is value-neutral or value-creative to shareholders using very conservative assumptions and with a recognition of the adverse selection problems inherent in voluntary programs; and
4. Management and the board make a cogent case for needing to motivate and retain existing employees, such as being in a competitive employment market.

Option Backdating, Spring-Loading, and Bullet-Dodging

Glass Lewis views option backdating, and the related practices of spring-loading and bullet-dodging, as egregious actions that warrant holding the appropriate management and board members responsible. These practices are similar to re-pricing options and eliminate much of the downside risk inherent in an option grant that is designed to induce recipients to maximize shareholder return.

Backdating an option is the act of changing an option's grant date from the actual grant date to an earlier date when the market price of the underlying stock was lower, resulting in a lower exercise price for the option. Since 2006, Glass Lewis has identified over 270 companies that have disclosed internal or government investigations into their past stock-option grants.

Spring-loading is granting stock options while in possession of material, positive information that has not been disclosed publicly. Bullet-dodging is delaying the grants of stock options until after the release of material, negative information. This can allow option grants to be made at a lower price either before the release of positive news or following the release of negative news, assuming the stock's price will move up or down in response to the information. This raises a concern similar to that of insider trading, or the trading on material non-public information.

The exercise price for an option is determined on the day of grant, providing the recipient with the same market risk as an investor who bought shares on that date. However, where options were backdated, the executive or the board (or the compensation committee) changed the grant date retroactively. The new date may be at or near the lowest price for the year or period. This would be like allowing an investor to look back and select the lowest price of the year at which to buy shares.

A 2006 study of option grants made between 1996 and 2005 at 8,000 companies found that option backdating can be an indication of poor internal controls. The study found that option backdating was more likely to occur at companies without a majority independent board and with a long-serving CEO; both factors, the study concluded, were associated with greater CEO influence on the company's compensation and governance practices.[51]

Where a company granted backdated options to an executive who is also a director, Glass Lewis will recommend voting against that executive/director, regardless of who decided to make the award. In addition, Glass Lewis will recommend voting against those directors who either approved or allowed the backdating. Glass Lewis feels that executives and directors who either benefited from backdated options or authorized the practice have breached their fiduciary responsibility to shareholders.

Given the severe tax and legal liabilities to the company from backdating, Glass Lewis will consider recommending voting against members of the audit committee who served when options were backdated, a restatement occurs, material weaknesses in internal controls exist and disclosures indicate there was a lack of documentation. These committee members failed in their responsibility to ensure the integrity of the company's financial reports.

When a company has engaged in spring-loading or bullet-dodging, Glass Lewis will consider recommending voting against the compensation committee members where there has been a pattern of granting options at or near historic lows. Glass Lewis will also recommend voting against executives serving on the board who benefited from the spring-loading or bullet-dodging.

162(m) Plans

Section 162(m) of the Internal Revenue Code allows companies to deduct compensation in excess of $1 million for the CEO and the next three most highly compensated executive officers, excluding the CFO, upon shareholder approval of the excess compensation. Glass Lewis recognizes the value of executive incentive programs and the tax benefit of shareholder-approved incentive plans.

We believe the best practice for companies is to provide robust disclosure to shareholders so that they can make fully-informed judgments about the reasonableness of the proposed compensation plan. To allow for meaningful shareholder review, we prefer that disclosure should include specific performance metrics, a maximum award pool, and a maximum award amount per employee. We also believe it is important to analyze the estimated grants to see if they are reasonable and in line with the company's peers.

We typically recommend voting against a 162(m) plan where: a company fails to provide at least a list of performance targets; a company fails to provide one of either a total pool or an individual maximum; or the proposed plan is excessive when compared with the plans of the company's peers.

The company's record of aligning pay with performance (as evaluated using our proprietary pay-for-performance model) also plays a role in our recommendation. Where a company has a record of setting reasonable pay relative to business performance, we generally recommend voting in favor of a plan even if the plan caps seem large relative to peers because we recognize the value in special pay arrangements for continued exceptional performance.

As with all other issues we review, our goal is to provide consistent but contextual advice given the specifics of the company and ongoing performance. Overall, we recognize that it is generally not in shareholders' best interests to vote against such a plan and forgo the potential tax benefit since shareholder rejection of such plans will not curtail the awards; it will only prevent the tax deduction associated with them.

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51 Lucian Bebchuk, Yaniv Grinstein and Urs Peyer. "LUCKY CEOs." November, 2006.

Director Compensation Plans

Glass Lewis believes that non-employee directors should receive reasonable and appropriate compensation for the time and effort they spend serving on the board and its committees. Director fees should be competitive in order to retain and attract qualified individuals. But excessive fees represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee directors. Therefore, a balance is required. We will consider recommending supporting compensation plans that include option grants or other equity-based awards that help to align the interests of outside directors with those of shareholders. However, equity grants to directors should not be performance-based to ensure directors are not incentivized in the same manner as executives but rather serve as a check on imprudent risk-taking in executive compensation plan design.

Glass Lewis uses a proprietary model and analyst review to evaluate the costs of equity plans compared to the plans of peer companies with similar market capitalizations. We use the results of this model to guide our voting recommendations on stock-based director compensation plans.

ANTI-TAKEOVER MEASURES

Poison Pills (Shareholder Rights Plans)

Glass Lewis believes that poison pill plans are not generally in shareholders' best interests. They can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their stock. Typically we recommend that shareholders vote against these plans to protect their financial interests and ensure that they have an opportunity to consider any offer for their shares, especially those at a premium.

We believe boards should be given wide latitude in directing company activities and in charting the company's course. However, on an issue such as this, where the link between the shareholders' financial interests and their right to consider and accept buyout offers is substantial, we believe that shareholders should be allowed to vote on whether they support such a plan's implementation. This issue is different from other matters that are typically left to board discretion. Its potential impact on and relation to shareholders is direct and substantial. It is also an issue in which management interests may be different from those of shareholders; thus, ensuring that shareholders have a voice is the only way to safeguard their interests.

In certain circumstances, we will support a poison pill that is limited in scope to accomplish a particular objective, such as the closing of an important merger, or a pill that contains what we believe to be a reasonable qualifying offer clause. We will consider supporting a poison pill plan if the qualifying offer clause includes each of the following attributes:

1. The form of offer is not required to be an all-cash transaction;
2. The offer is not required to remain open for more than 90 business days;
3. The offeror is permitted to amend the offer, reduce the offer, or otherwise change the terms;
4. There is no fairness opinion requirement; and
5. There is a low to no premium requirement.

Where these requirements are met, we typically feel comfortable that shareholders will have the opportunity to voice their opinion on any legitimate offer.

NOL Poison Pills

Similarly, Glass Lewis may consider supporting a limited poison pill in the unique event that a company seeks shareholder approval of a rights plan for the express purpose of preserving Net Operating Losses (NOLs). While companies with NOLs can generally carry these losses forward to offset future taxable income, Section 382 of the Internal Revenue Code limits companies' ability to use NOLs in the event of a "change of ownership."[52] In this case, a company may adopt or amend a poison pill ("NOL pill") in order to prevent an inadvertent change of ownership by multiple investors purchasing small chunks of stock at the same time, and thereby preserve the ability to carry the NOLs forward. Often such NOL pills have trigger thresholds much lower than the common 15% or 20% thresholds, with some NOL pill triggers as low as 5%.

52 Section 382 of the Internal Revenue Code refers to a "change of ownership" of more than 50 percentage points by one or more 5% shareholders within a three-year period. The statute is intended to deter the "trafficking" of net operating losses.

Glass Lewis evaluates NOL pills on a strictly case-by-case basis taking into consideration, among other factors, the value of the NOLs to the company, the likelihood of a change of ownership based on the size of the holding and the nature of the larger shareholders, the trigger threshold and whether the term of the plan is limited in duration (i.e., whether it contains a reasonable "sunset" provision) or is subject to periodic board review and/or shareholder ratification. However, we will recommend that shareholders vote against a proposal to adopt or amend a pill to include NOL protective provisions if the company has adopted a more narrowly tailored means of preventing a change in control to preserve its NOLs. For example, a company may limit share transfers in its charter to prevent a change of ownership from occurring.

Furthermore, we believe that shareholders should be offered the opportunity to vote on any adoption or renewal of a NOL pill regardless of any potential tax benefit that it offers a company. As such, we will consider recommending voting against those members of the board who served at the time when an NOL pill was adopted without shareholder approval within the prior twelve months and where the NOL pill is not subject to shareholder ratification.

Fair Price Provisions

Fair price provisions, which are rare, require that certain minimum price and procedural requirements be observed by any party that acquires more than a specified percentage of a corporation's common stock. The provision is intended to protect minority shareholder value when an acquirer seeks to accomplish a merger or other transaction which would eliminate or change the interests of the minority stockholders. The provision is generally applied against the acquirer unless the takeover is approved by a majority of "continuing directors" and holders of a majority, in some cases a supermajority as high as 80%, of the combined voting power of all stock entitled to vote to alter, amend, or repeal the above provisions.

The effect of a fair price provision is to require approval of any merger or business combination with an "interested stockholder" by 51% of the voting stock of the company, excluding the shares held by the interested stockholder. An interested stockholder is generally considered to be a holder of 10% or more of the company's outstanding stock, but the trigger can vary.

Generally, provisions are put in place for the ostensible purpose of preventing a back-end merger where the interested stockholder would be able to pay a lower price for the remaining shares of the company than he or she paid to gain control. The effect of a fair price provision on shareholders, however, is to limit their ability to gain a premium for their shares through a partial tender offer or open market acquisition which typically raise the share price, often significantly. A fair price provision discourages such transactions because of the potential costs of seeking shareholder approval and because of the restrictions on purchase price for completing a merger or other transaction at a later time.

Glass Lewis believes that fair price provisions, while sometimes protecting shareholders from abuse in a takeover situation, more often act as an impediment to takeovers, potentially limiting gains to shareholders from a variety of transactions that could significantly increase share price. In some cases, even the independent directors of the board cannot make exceptions when such exceptions may be in the best interests of shareholders. Given the existence of state law protections for minority shareholders such as Section 203 of the Delaware Corporations Code, we believe it is in the best interests of shareholders to remove fair price provisions.

REINCORPORATION

In general, Glass Lewis believes that the board is in the best position to determine the appropriate jurisdiction of incorporation for the company. When examining a management proposal to reincorporate to a different state or country, we review the relevant financial benefits, generally related to improved corporate tax treatment, as well as changes in corporate governance provisions, especially those relating to shareholder rights, resulting from the change in domicile. Where the financial benefits are de minimis and there is a decrease in shareholder rights, we will recommend voting against the transaction.

However, costly, shareholder-initiated reincorporations are typically not the best route to achieve the furtherance of shareholder rights. We believe shareholders are generally better served by proposing specific shareholder resolutions addressing pertinent issues which may be implemented at a lower cost, and perhaps even with board approval. However, when shareholders propose a shift into a jurisdiction with enhanced shareholder rights, Glass Lewis examines the significant ways would the Company benefit from shifting jurisdictions including the following:

1. Is the board sufficiently independent?
2. Does the Company have anti-takeover protections such as a poison pill or classified board in place?
3. Has the board been previously unresponsive to shareholders (such as failing to implement a shareholder proposal that received majority shareholder support)?
4. Do shareholders have the right to call special meetings of shareholders?
5. Are there other material governance issues at the Company?
6. Has the Company's performance matched or exceeded its peers in the past one and three years?
7. How has the Company ranked in Glass Lewis' pay-for-performance analysis during the last three years?
8. Does the company have an independent chairman?
9. We note, however, that we will only support shareholder proposals to change a company's place of incorporation in exceptional circumstances.

EXCLUSIVE FORUM PROVISIONS

Glass Lewis believes that charter or bylaw provisions limiting a shareholder's choice of legal venue are not in the best interests of shareholders. Such clauses may effectively discourage the use of shareholder derivative claims by increasing their associated costs and making them more difficult to pursue. As such, shareholders should be wary about approving any limitation on their legal recourse including limiting themselves to a single jurisdiction (e.g. Delaware) without compelling evidence that it will benefit shareholders.

For this reason, we recommend that shareholders vote against any bylaw or charter amendment seeking to adopt an exclusive forum provision. Moreover, in the event a board seeks shareholder approval of a forum selection clause pursuant to a bundled bylaw amendment rather than as a separate proposal, we will weigh the importance of the other bundled provisions when determining the vote recommendation on the proposal. We will nonetheless recommend voting against the chairman of the governance committee for bundling disparate proposals into a single proposal (refer to our discussion of nominating and governance committee performance in Section I of the guidelines).

AUTHORIZED SHARES

Glass Lewis believes that adequate capital stock is important to a company's operation. When analyzing a request for additional shares, we typically review four common reasons why a company might need additional capital stock:

1. Stock Split – We typically consider three metrics when evaluating whether we think a stock split is likely or necessary: The historical stock pre-split price, if any; the current price relative to the company's most common trading price over the past 52 weeks; and some absolute limits on stock price that, in our view, either always make a stock split appropriate if desired by management or would almost never be a reasonable price at which to split a stock.

2. Shareholder Defenses – Additional authorized shares could be used to bolster takeover defenses such as a poison pill. Proxy filings often discuss the usefulness of additional shares in defending against or discouraging a hostile takeover as a reason for a requested increase. Glass Lewis is typically against such defenses and will oppose actions intended to bolster such defenses.

3. Financing for Acquisitions – We look at whether the company has a history of using stock for acquisitions and attempt to determine what levels of stock have typically been required to accomplish such transactions. Likewise, we look to see whether this is discussed as a reason for additional shares in the proxy.

4. Financing for Operations – We review the company's cash position and its ability to secure financing through borrowing or other means. We look at the company's history of capitalization and whether the company has had to use stock in the recent past as a means of raising capital.

Issuing additional shares can dilute existing holders in limited circumstances. Further, the availability of additional shares, where the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically recommend against the authorization of additional shares.

While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares rather than providing a blank check in the form of a large pool of unallocated shares available for any purpose.

ADVANCE NOTICE REQUIREMENTS

We typically recommend that shareholders vote against proposals that would require advance notice of shareholder proposals or of director nominees.

These proposals typically attempt to require a certain amount of notice before shareholders are allowed to place proposals on the ballot. Notice requirements typically range between three to six months prior to the annual meeting. Advance notice requirements typically make it impossible for a shareholder who misses the deadline to present a shareholder proposal or a director nominee that might be in the best interests of the company and its shareholders.

We believe shareholders should be able to review and vote on all proposals and director nominees. Shareholders can always vote against proposals that appear with little prior notice. Shareholders, as owners of a business, are capable of identifying issues on which they have sufficient information and ignoring issues on which they have insufficient information. Setting arbitrary notice restrictions limits the opportunity for shareholders to raise issues that may come up after the window closes.

VOTING STRUCTURE

Cumulative Voting

Cumulative voting increases the ability of minority shareholders to elect a director by allowing shareholders to cast as many shares of the stock they own multiplied by the number of directors to be elected. As companies generally have multiple nominees up for election, cumulative voting allows shareholders to cast all of their votes for a single nominee, or a smaller number of nominees than up for election, thereby raising the likelihood of electing one or more of their preferred nominees to the board. It can be important when a board is controlled by insiders or affiliates and where the company's ownership structure includes one or more shareholders who control a majority-voting block of company stock.

Glass Lewis believes that cumulative voting generally acts as a safeguard for shareholders by ensuring that those who hold a significant minority of shares can elect a candidate of their choosing to the board. This allows the creation of boards that are responsive to the interests of all shareholders rather than just a small group of large holders.

However, academic literature indicates that where a highly independent board is in place and the company has a shareholder-friendly governance structure, shareholders may be better off without cumulative voting. The analysis underlying this literature indicates that shareholder returns at firms with good governance structures are lower and that boards can become factionalized and prone to evaluating the needs of special interests over the general interests of shareholders collectively.

We review cumulative voting proposals on a case-by-case basis, factoring in the independence of the board and the status of the company's governance structure. But we typically find these proposals on ballots at companies where independence is lacking and where the appropriate checks and balances favoring shareholders are not in place. In those instances we typically recommend in favor of cumulative voting.

Where a company has adopted a true majority vote standard (i.e., where a director must receive a majority of votes cast to be elected, as opposed to a modified policy indicated by a resignation policy only), Glass Lewis will recommend voting against cumulative voting proposals due to the incompatibility of the two election methods. For companies that have not adopted a true majority voting standard but have adopted some form of majority voting, Glass Lewis will also generally recommend voting against cumulative voting proposals if the company has not adopted antitakeover protections and has been responsive to shareholders.

Where a company has not adopted a majority voting standard and is facing both a shareholder proposal to adopt majority voting and a shareholder proposal to adopt cumulative voting, Glass Lewis will support only the majority voting proposal. When a company has both majority voting and cumulative voting in place, there is a higher likelihood of one or more directors not being elected as a result of not receiving a majority vote. This is because shareholders exercising the right to cumulate their votes could unintentionally cause the failed election of one or more directors for whom shareholders do not cumulate votes.

Supermajority Vote Requirements

Glass Lewis believes that supermajority vote requirements impede shareholder action on ballot items critical to shareholder interests. An example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business. This in turn degrades share value and can limit the possibility of buyout premiums to shareholders. Moreover, we believe that a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority shareholders. We believe that a simple majority is appropriate to approve all matters presented to shareholders.

TRANSACTION OF OTHER BUSINESS

We typically recommend that shareholders not give their proxy to management to vote on any other business items that may properly come before an annual or special meeting. In our opinion, granting unfettered discretion is unwise.

ANTI-GREENMAIL PROPOSALS

Glass Lewis will support proposals to adopt a provision preventing the payment of greenmail, which would serve to prevent companies from buying back company stock at significant premiums from a certain shareholder. Since a large or majority shareholder could attempt to compel a board into purchasing its shares at a large premium, the anti-greenmail provision would generally require that a majority of shareholders other than the majority shareholder approve the buyback.

MUTUAL FUNDS: INVESTMENT POLICIES AND ADVISORY AGREEMENTS

Glass Lewis believes that decisions about a fund's structure and/or a fund's relationship with its investment advisor or sub-advisors are generally best left to management and the members of the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. As such, we focus our analyses of such proposals on the following main areas:

- The terms of any amended advisory or sub-advisory agreement;
- Any changes in the fee structure paid to the investment advisor; and
- Any material changes to the fund's investment objective or strategy.

We generally support amendments to a fund's investment advisory agreement absent a material change that is not in the best interests of shareholders. A significant increase in the fees paid to an investment advisor would be reason for us to consider recommending voting against a proposed amendment to an investment advisory agreement. However, in certain cases, we are more inclined to support an increase in advisory fees if such increases result from being performance-based rather than asset-based. Furthermore, we generally support sub-advisory agreements between a fund's advisor and sub-advisor, primarily because the fees received by the sub-advisor are paid by the advisor, and not by the fund.

In matters pertaining to a fund's investment objective or strategy, we believe shareholders are best served when a fund's objective or strategy closely resembles the investment discipline shareholders understood and selected when they initially bought into the fund. As such, we generally recommend voting against amendments to a fund's investment objective or strategy when the proposed changes would leave shareholders with stakes in a fund that is noticeably different than when originally contemplated, and which could therefore potentially negatively impact some investors' diversification strategies.

Glass Lewis typically prefers to leave decisions regarding day-to-day management and policy decisions, including those related to social, environmental or political issues, to management and the board, except when there is a clear link between the proposal and value enhancement or risk mitigation. We feel strongly that shareholders should not attempt to micromanage the company, its businesses or its executives through the shareholder initiative process. Rather, we believe shareholders should use their influence to push for governance structures that protect shareholders and promote director accountability. Shareholders should then put in place a board they can trust to make informed decisions that are in the best interests of the business and its owners, and then hold directors accountable for management and policy decisions through board elections. However, we recognize that support of appropriately crafted shareholder initiatives may at times serve to promote or protect shareholder value.

To this end, Glass Lewis evaluates shareholder proposals on a case-by-case basis. We generally recommend supporting shareholder proposals calling for the elimination of, as well as to require shareholder approval of, antitakeover devices such as poison pills and classified boards. We generally recommend supporting proposals likely to increase and/or protect shareholder value and also those that promote the furtherance of shareholder rights. In addition, we also generally recommend supporting proposals that promote director accountability and those that seek to improve compensation practices, especially those promoting a closer link between compensation and performance.

The following is a discussion of Glass Lewis' approach to certain common shareholder resolutions. We note that the following is not an exhaustive list of all shareholder proposals.

COMPENSATION

Glass Lewis carefully reviews executive compensation since we believe that this is an important area in which the board's priorities and effectiveness are revealed. Executives should be compensated with appropriate base salaries and incentivized with additional awards in cash and equity only when their performance and that of the company warrants such rewards. Compensation, especially when also in line with the compensation paid by the company's peers, should lead to positive results for shareholders and ensure the use of appropriate incentives that drives those results over time.

However, as a general rule, Glass Lewis does not believe shareholders should be involved in the approval and negotiation of compensation packages. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of directors. Therefore, Glass Lewis closely scrutinizes shareholder proposals relating to compensation to determine if the requested action or disclosure has already accomplished or mandated and whether it allows sufficient, appropriate discretion to the board to design and implement reasonable compensation programs.

Disclosure of Individual Compensation

Glass Lewis believes that disclosure of information regarding compensation is critical to allowing shareholders to evaluate the extent to which a company's pay is based on performance. However, we recognize that the SEC currently mandates significant executive compensation disclosure. In some cases, providing information beyond that which is required by the SEC, such as the details of individual employment agreements of employees below the senior level, could create internal personnel tension or put the company at a competitive disadvantage, prompting employee poaching by competitors. Further, it is difficult to see how this information would be beneficial to shareholders. Given these concerns, Glass Lewis typically does not believe that shareholders would benefit from additional disclosure of individual compensation packages beyond the significant level that is already required; we therefore typically recommend voting against shareholder proposals seeking such detailed disclosure. We will, however, review each proposal on a case by basis, taking into account the company's history of aligning executive compensation and the creation of shareholder value.

Linking Pay with Performance

Glass Lewis views performance-based compensation as an effective means of motivating executives to act in the best interests of shareholders. In our view, an executive's compensation should be specific to the company and its performance, as well as tied to the executive's achievements within the company.

However, when firms have inadequately linked executive compensation and company performance we will consider recommending supporting reasonable proposals seeking that a percentage of equity awards be tied to performance criteria. We will also consider supporting appropriately crafted proposals requesting that the compensation committee include multiple performance metrics when setting executive compensation, provided that the terms of the shareholder proposal are not overly prescriptive. Though boards often argue that these types of restrictions unduly hinder their ability to attract talent we believe boards can develop an effective, consistent and reliable approach to remuneration utilizing a wide range (and an appropriate mix) of fixed and performance-based compensation.

Retirement Benefits & Severance

As a general rule, Glass Lewis believes that shareholders should not be involved in the approval of individual severance plans. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of its director members.

However, when proposals are crafted to only require approval if the benefit exceeds 2.99 times the amount of the executive's base salary plus bonus, Glass Lewis typically supports such requests. Above this threshold, based on the executive's average annual compensation for the most recent five years, the company can no longer deduct severance payments as an expense, and thus shareholders are deprived of a valuable benefit without an offsetting incentive to the executive. We believe that shareholders should be consulted before relinquishing such a right, and we believe implementing such policies would still leave companies with sufficient freedom to enter into appropriate severance arrangements.

Following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), the SEC proposed rules that would require that public companies hold advisory shareholder votes on compensation arrangements and understandings in connection with merger transactions, also known as "golden parachute" transactions. Effective April 4, 2011, the SEC requires that companies seeking shareholder approval of a merger or acquisition transaction must also provide disclosure of certain "golden parachute" compensation arrangements and, in certain circumstances, conduct a separate shareholder advisory vote to approve golden parachute compensation arrangements.

Bonus Recoupments ("Clawbacks")

We believe it is prudent for boards to adopt detailed and stringent policies whereby, in the event of a restatement of financial results, the board will review all performance related bonuses and awards made to senior executives during the period covered by a restatement and will, to the extent feasible, recoup such bonuses to the extent that performance goals were not achieved. While the Dodd-Frank Act mandates that all companies adopt clawback policies that will require companies to develop a policy to recover compensation paid to current and former executives erroneously paid during the three year prior to a restatement, the SEC has yet to finalize the relevant rules. As a result, we expect to see shareholder proposals regarding clawbacks in the upcoming proxy season.

When examining proposals requesting that companies adopt recoupment policies, Glass Lewis will first review any relevant policies currently in place. When the board has already committed to a proper course, and the current policy covers the major tenets of the proposal, we see no need for further action. Further, in some instances, shareholder proposals may call for board action that contravenes legal obligations under existing employment agreements. In other cases proposals may excessively limit the board's ability to exercise judgment and reasonable discretion, which may or may not be warranted, depending on the specific situation of the company in question. We believe it is reasonable that a mandatory recoupment policy should only affect senior executives and those directly responsible for the company's accounting errors.

We note that where a company is entering into a new executive employment contract that does not include a clawback provision and the company has had a material restatement in the recent past, Glass Lewis will recommend voting against the responsible members of the compensation committee. The compensation committee has an obligation to shareholders to include reasonable controls in executive contracts to prevent payments in the case of inappropriate behavior.

Golden Coffins

Glass Lewis does not believe that the payment of substantial, unearned posthumous compensation provides an effective incentive to executives or aligns the interests of executives with those of shareholders. Glass Lewis firmly believes that compensation paid to executives should be clearly linked to the creation of shareholder value. As such, Glass Lewis favors compensation plans centered on the payment of awards contingent upon the satisfaction of sufficiently stretching and appropriate performance metrics. The payment of posthumous unearned and unvested awards should be subject to shareholder approval, if not removed from compensation policies entirely. Shareholders should be skeptical regarding any positive benefit they derive from costly payments made to executives who are no longer in any position to affect company performance.

To that end, we will consider supporting a reasonably crafted shareholder proposal seeking to prohibit, or require shareholder approval of, the making or promising of any survivor benefit payments to senior executives' estates or beneficiaries. We will not recommend supporting proposals that would, upon passage, violate existing contractual obligations or the terms of compensation plans currently in effect.

Retention of Shares until Retirement

We strongly support the linking of executive pay to the creation of long-term sustainable shareholder value and therefore believe shareholders should encourage executives to retain some level of shares acquired through equity compensation programs to provide continued alignment with shareholders. However, generally we do not believe that requiring senior executives to retain all or an unduly high percentage of shares acquired through equity compensation programs following the termination of their employment is the most effective or desirable way to accomplish this goal. Rather, we believe that restricting executives' ability to exercise all or a supermajority of otherwise vested equity awards until they leave the company may hinder the ability of the compensation committee to both attract and retain executive talent. In our view, otherwise qualified and willing candidates could be dissuaded from accepting employment if he/she believes that his/her compensation could be dramatically affected by financial results unrelated to their own personal performance or tenure at the company. Alternatively, an overly strict policy could encourage existing employees to quit in order to realize the value locked in their incentive awards. As such, we will not typically recommend supporting proposals requiring the retention of significant amounts of equity compensation following termination of employment at target firms.

Tax Gross-Ups

Tax gross-ups can act as an anti-takeover measure, as larger payouts to executives result in larger gross-ups, which could artificially inflate the ultimate purchase price under a takeover or merger scenario. Additionally, gross-ups can result in opaque compensation packages where shareholders are unlikely to be aware of the total compensation an executive may receive. Further, we believe that in instances where companies have severance agreements in place for executives, payments made pursuant to such arrangements are often large enough to soften the blow of any additional excise taxes. Finally, such payments are not performance based, providing no incentive to recipients and, if large, can be a significant cost to companies.

Given the above, we will typically recommend supporting proposals requesting that a compensation committee adopt a policy that it will not make or promise to make to its senior executives any tax gross-up payments, except those applicable to management employees of the company generally, such as a relocation or expatriate tax equalization policy.

Linking Executive Pay to Environmental and Social Criteria

We recognize that a company's involvement in environmentally sensitive and labor-intensive industries influences the degree to which a firm's overall strategy must weigh environmental and social concerns. However, we also understand that the value generated by incentivizing executives to prioritize environmental and social issues is difficult to quantify and therefore measure, and necessarily varies among industries and companies.

When reviewing such proposals seeking to tie executive compensation to environmental or social practices, we will review the target firm's compliance with (or contravention of) applicable laws and regulations, and examine any history of environmental and social related concerns including those resulting in material investigations, lawsuits, fines and settlements. We will also review the firm's current compensation policies and practice. However, with respect to executive compensation, Glass Lewis generally believes that such policies should be left to the compensation committee.

GOVERNANCE

Declassification of the Board

Glass Lewis believes that classified boards (or "staggered boards") do not serve the best interests of shareholders. Empirical studies have shown that: (i) companies with classified boards may show a reduction in firm value; (ii) in the context of hostile takeovers, classified boards operate as a takeover defense, which entrenches management, discourages potential acquirers and delivers less return to shareholders; and (iii) companies with classified boards are less likely to receive takeover bids than those with single class boards. Annual election of directors provides increased accountability and requires directors to focus on the interests of shareholders. When companies have classified boards shareholders are deprived of the right to voice annual opinions on the quality of oversight exercised by their representatives.

Given the above, Glass Lewis believes that classified boards are not in the best interests of shareholders and will continue to recommend shareholders support proposals seeking their repeal.

Right of Shareholders to Call a Special Meeting

Glass Lewis strongly believes that shareholders should have the ability to call meetings of shareholders between annual meetings to consider matters that require prompt attention. However, in order to prevent abuse and waste of corporate resources by a small minority of shareholders, we believe that shareholders representing at least a sizable minority of shares must support such a meeting prior to its calling. Should the threshold be set too low, companies might frequently be subjected to meetings whose effect could be the disruption of normal business operations in order to focus on the interests of only a small minority of owners. Typically we believe this threshold should not fall below 10-15% of shares, depending on company size.

In our case-by-case evaluations, we consider the following:

- Company size
- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.)
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals
- Company performance and steps taken to improve bad performance (e.g., new executives/ directors, spin-offs, etc.)
- Existence of anti-takeover protections or other entrenchment devices
- Opportunities for shareholder action (e.g., ability to act by written consent)
- Existing ability for shareholders to call a special meeting

Right of Shareholders to Act by Written Consent

Glass Lewis strongly supports shareholders' right to act by written consent. The right to act by written consent enables shareholders to take action on important issues that arise between annual meetings. However, we believe such rights should be limited to at least the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote were present and voting.

In addition to evaluating the threshold for which written consent may be used (e.g. majority of votes cast or outstanding), we will consider the following when evaluating such shareholder proposals:

- Company size
- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.)
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals
- Company performance and steps taken to improve bad performance (e.g., new executives/ directors, spin offs, etc.)
- Existence of anti-takeover protections or other entrenchment devices
- Opportunities for shareholder action (e.g., ability and threshold to call a special meeting)
- Existing ability for shareholders to act by written consent

Board Composition

Glass Lewis believes the selection and screening process for identifying suitably qualified candidates for a company's board of directors is one which requires the judgment of many factors, including the balance of skills and talents, the breadth of experience and diversity of candidates and existing board members. Diversity of skills, abilities and points of view can foster the development of a more creative, effective and dynamic board. In general, however, we do not believe that it is in the best interests of shareholders for firms to be beholden to arbitrary rules regarding its board, or committee, composition. We believe such matters should be left to a board's nominating committee, which is generally responsible for establishing and implementing policies regarding the composition of the board. Members of this committee may be held accountable through the director election process. However, we will consider supporting reasonable, well-crafted proposals to increase board diversity where there is evidence a board's lack of diversity lead to a decline in shareholder value.

Reimbursement of Solicitation Expenses

Where a dissident shareholder is seeking reimbursement for expenses incurred in waging a contest or submitting a shareholder proposal and has received the support of a majority of shareholders, Glass Lewis generally will recommend in favor of reimbursing the dissident for reasonable expenses. In those rare cases where a shareholder has put his or her own time and money into organizing a successful campaign to unseat a poorly performing director (or directors) or sought support for a shareholder proposal, we feel that the shareholder should be entitled to reimbursement of expenses by other shareholders, via the company. We believe that, in such cases, shareholders express their agreement by virtue of their majority vote for the dissident (or the shareholder proposal) and will share in the expected improvement in company performance.

Majority Vote for the Election of Directors

If a majority vote standard were implemented, shareholders could collectively vote to reject a director they believe will not pursue their best interests. We think that this minimal amount of protection for shareholders is reasonable and will not upset the corporate structure nor reduce the willingness of qualified shareholder-focused directors to serve in the future.

We believe that a majority vote standard will likely lead to more attentive directors. Further, occasional use of this power will likely prevent the election of directors with a record of ignoring shareholder interests. Glass Lewis will generally support shareholder proposals calling for the election of directors by a majority vote, except for use in contested director elections.

Cumulative Vote for the Election of Directors

Glass Lewis believes that cumulative voting generally acts as a safeguard for shareholders by ensuring that those who hold a significant minority of shares can elect a candidate of their choosing to the board. This allows the creation of boards that are responsive to the interests of all shareholders rather than just a small group of large holders. However, when a company has both majority voting and cumulative voting in place, there is a higher likelihood of one or more directors not being elected as a result of not receiving a majority vote. This is because shareholders exercising the right to cumulate their votes could unintentionally cause the failed election of one or more directors for whom shareholders do not cumulate votes.

Given the above, where a company (i) has adopted a true majority vote standard; (ii) has simultaneously proposed a management-initiated true majority vote standard; or (iii) is simultaneously the target of a true majority vote standard shareholder proposal, Glass Lewis will recommend voting against cumulative voting proposals due to the potential incompatibility of the two election methods.

For companies that have not adopted a true majority voting standard but have adopted some form of majority voting, Glass Lewis will also generally recommend voting against cumulative voting proposals if the company has not adopted antitakeover protections and has been responsive to shareholders.

Supermajority Vote Requirements

We believe that a simple majority is appropriate to approve all matters presented to shareholders, and will recommend that shareholders vote accordingly. Glass Lewis believes that supermajority vote requirements impede shareholder action on ballot items critical to shareholder interests. In a takeover context supermajority vote requirements can strongly limit the voice of shareholders in making decisions on crucial matters such as selling the business. These limitations in turn may degrade share value and can reduce the possibility of buyout premiums for shareholders. Moreover, we believe that a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority of shareholders.

Independent Chairman

Glass Lewis views an independent chairman as better able to oversee the executives and set a pro-shareholder agenda in the absence of the conflicts that a CEO, executive insider, or close company affiliate may face. Separating the roles of CEO and chairman may lead to a more proactive and effective board of directors. The presence of an independent chairman fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. We believe that the separation of these two key roles eliminates the conflict of interest that inevitably occurs when a CEO, or other executive, is responsible for self-oversight. As such, we will typically support reasonably crafted shareholder proposals seeking the installation of an independent chairman at a target company. However, we will not support proposals that include overly prescriptive definitions of “independent.”

Proxy Access

Shareholders have consistently sought mechanisms through which they could secure a meaningful voice in director elections in recent years. While many of these efforts have centered on regulatory changes at the SEC, the United States Congress and the Obama Administration have placed "Proxy Access" in the spotlight of the U.S. Government's most recent corporate governance-related financial reforms. Regulations allowing or mandating the reimbursement of solicitation expenses for successful board candidates exist and further regulation is pending. A 2009 amendment to the Delaware Corporate Code allows companies to adopt bylaw provisions providing shareholders proxy access.

Further, in July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, (the "Dodd-Frank Act"). This Act provides the SEC with the authority to adopt rules permitting shareholders to use issuer proxy solicitation materials to nominate director candidates. The SEC received over 500 comments regarding proposed proxy access, some of which questioned the agency's authority to adopt such a rule. Nonetheless, in August 2010, the SEC adopted final Rule 14a-11, which under certain circumstances, gives shareholders (and shareholder groups) who have collectively held at least 3% of the voting power of a company's securities continuously for at least three years, the right to nominate up to 25% of a board's directors and have such nominees included on a company's ballot and described in its proxy statement. While final Rule 14a-11 was originally scheduled to take effect on November 15, 2010, on October 4, 2010, the SEC announced that it would delay the rule's implementation following the filing of a lawsuit by the U.S. Chamber Of Commerce and the Business Roundtable. In July 2011, the United States Court of Appeals for the District of Columbia ruled against the SEC based on what it perceived to be the SEC's failure to fully consider the costs and the benefits of the proxy access rules. On September 6, 2011, the SEC announced that it would not be seeking rehearing of the decision. However, while rule 14a-11 was vacated, the U.S. Court of Appeals issued a stay on the “private ordering” amendments to Rule 14a-8, meaning that companies are no longer able to exclude shareholder proposals requesting that they adopt procedures to allow for shareholder nominees to be included in proxy statements ("Statement by SEC Chairman Mary L. Schapiro on Proxy Access Ligation." SEC Press Release. September 6, 2011).

Glass Lewis will consider supporting well-crafted and reasonable proposals requesting proxy access, as we believe that in some cases, adoption of this provision allows for improved shareholder rights and ensures that shareholders who maintain a long-term interest in the target company have an ability to nominate candidates for the board. Glass Lewis reviews proposals requesting proxy access on a case-by-case basis, and will consider the following in our analysis:

- Company size;
- The shareholder proponent and their reasoning for putting forth the proposal at the target company;
- The percentage ownership requested and holding period requirement;
- Shareholder base in both percentage of ownership and type of shareholder (e.g., hedge fund, activist investor, mutual fund, pension fund, etc.);
- Responsiveness of board and management to shareholders evidenced by progressive shareholder rights policies (e.g., majority voting, declassifying boards, etc.) and reaction to shareholder proposals;
- Company performance and steps taken to improve bad performance (e.g., new executives/ directors, spin-offs, etc.);
- Existence of anti-takeover protections or other entrenchment devices; and
- Opportunities for shareholder action (e.g., ability to act by written consent or right to call a special meeting).

ENVIRONMENT

There are significant financial, legal and reputational risks to companies resulting from poor environmental practices or negligent oversight thereof. We believe part of the board’s role is to ensure that management conducts a complete risk analysis of company operations, including those that have environmental implications. Directors should monitor management’s performance in mitigating environmental risks attendant with operations in order to eliminate or minimize the risks to the company and shareholders.

When management and the board have displayed disregard for environmental risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental risks that threaten shareholder value, we believe shareholders should hold directors accountable. When a substantial environmental risk has been ignored or inadequately addressed, we may recommend voting against responsible members of the governance committee, or members of a committee specifically charged with sustainability oversight.

With respect to environmental risk, Glass Lewis believes companies should actively consider their exposure to:

Direct environmental risk: Companies should evaluate financial exposure to direct environmental risks associated with their operations. Examples of direct environmental risks are those associated with spills, contamination, hazardous leakages, explosions, or reduced water or air quality, among others. Further, firms should consider their exposure to environmental risks emanating from systemic change over which they may have only limited control, such as insurance companies affected by increased storm severity and frequency resulting from climate change.

Risk due to legislation/regulation: Companies should evaluate their exposure to shifts or potential shifts in environmental regulation that affect current and planned operations. Regulation should be carefully monitored in all jurisdictions within which the company operates. We look closely at relevant and proposed legislation and evaluate whether the company has responded appropriately.

Legal and reputational risk: Failure to take action on important issues may carry the risk of damaging negative publicity and potentially costly litigation. While the effect of high-profile campaigns on shareholder value may not be directly measurable, in general we believe it is prudent for firms to evaluate social and environmental risk as a necessary part in assessing overall portfolio risk.

If there is a clear showing that a company has inadequately addressed these risks, Glass Lewis may consider supporting appropriately crafted shareholder proposals requesting increased disclosure, board attention or, in limited circumstances, specific actions. In general, however, we believe that boards and management are in the best position to address these important issues, and will only rarely recommend that shareholders supplant their judgment regarding operations.

Climate Change and Green House Gas Emission Disclosure

Glass Lewis will consider recommending a vote in favor of a reasonably crafted proposal to disclose a company's climate change and/or greenhouse gas emission strategies when (i) a company has suffered financial impact from reputational damage, lawsuits and/or government investigations, (ii) there is a strong link between climate change and its resultant regulation and shareholder value at the firm, and/or (iii) the company has inadequately disclosed how it has addressed climate change risks. Further, we will typically recommend supporting proposals seeking disclosure of greenhouse gas emissions at companies operating in carbon- or energy- intensive industries, such basic materials, integrated oil and gas, iron and steel, transportation, utilities, and construction. We are not inclined, however, to support proposals seeking emissions reductions, or proposals seeking the implementation of prescriptive policies relating to climate change.

Sustainability and other Environmentally-Related Reports

When evaluating requests that a firm produce an environmentally-related report, such as a sustainability report or a report on coal combustion waste or hydraulic fracturing, we will consider, among other things:

- The financial risk to the company from the firm's environmental practices and/or regulation;
- The relevant company's current level of disclosure;
- The level of sustainability information disclosed by the firm's peers;
- The industry in which the firm operates;
- The level and type of sustainability concerns/controversies at the relevant firm, if any;
- The time frame within which the relevant report is to be produced; and
- The level of flexibility granted to the board in the implementation of the proposal.

In general, we believe that firms operating in extractive industries should produce reports regarding the risks presented by their environmental activities, and will consider recommending a vote for reasonably crafted proposals requesting that such a report be produced; however, as with all shareholder proposals, we will evaluate these report requests on a case by case basis.

Oil Sands

The procedure required to extract usable crude from oil sands emits significantly more greenhouse gases than do conventional extraction methods. In addition, development of the oil sands has a deleterious effect on the local environment, such as Canada's boreal forests which sequester significant levels of carbon. We believe firms should strongly consider and evaluate exposure to financial, legal and reputational risks associated with investment in oil sands.

We believe firms should adequately disclose their involvement in the oil sands, including a discussion of exposure to sensitive political and environmental areas. Firms should broadly outline the scope of oil sands operations, describe the commercial methods for producing oil, and discuss the management of greenhouse gas emissions. However, we believe that detailed disclosure of investment assumptions could unintentionally reveal sensitive information regarding operations and business strategy, which would not serve shareholders' interest. We will review all proposals seeking increased disclosure of oil sands operations in the above context, but will typically not support proposals seeking cessation or curtailment of operations.

Sustainable Forestry

Sustainable forestry provides for the long-term sustainable management and use of trees and other non-timber forest products. Retaining the economic viability of forests is one of the tenets of sustainable forestry, along with encouraging more responsible corporate use of forests. Sustainable land use and the effective management of land are viewed by some shareholders as important in light of the impact of climate change. Forestry certification has emerged as a way that corporations can address prudent forest management. There are currently several primary certification schemes such as the Sustainable Forestry Initiative ("SFI") and the Forest Stewardship Council ("FSC").

There are nine main principles that comprise the SFI: (i) sustainable forestry; (ii) responsible practices; (iii) reforestation and productive capacity; (iv) forest health and productivity; (v) long-term forest and soil productivity; (vi) protection of water resources; (vii) protection of special sites and biodiversity; (viii) legal compliance; and (ix) continual improvement.

The FSC adheres to ten basic principles: (i) compliance with laws and FSC principles; (ii) tenure and use rights and responsibilities; (iii) indigenous peoples' rights; (iv) community relations and workers' rights; (v) benefits from the forest; (vi) environmental impact; (vii) management plan; (viii) monitoring and assessment; (ix) maintenance of high conservation value forests; and (x) plantations.

Shareholder proposals regarding sustainable forestry have typically requested that the firm comply with the above SFI or FSC principles as well as to assess the feasibility of phasing out the use of uncertified fiber and increasing the use of certified fiber. We will evaluate target firms' current mix of certified and uncertified paper and the firms' general approach to sustainable forestry practices, both absolutely and relative to its peers but will only support proposals of this nature when we believe that the proponent has clearly demonstrated that the implementation of this proposal is clearly linked to an increase in shareholder value.

Social Issues

Non-Discrimination Policies

Companies with records of poor labor relations may face lawsuits, efficiency-draining turnover, poor employee performance, and/or distracting, costly investigations. Moreover, as an increasing number of companies adopt inclusive EEO policies, companies without comprehensive policies may face damaging recruitment, reputational and legal risks. We believe that a pattern of making financial settlements as a result of lawsuits based on discrimination could indicate investor exposure to ongoing financial risk. Where there is clear evidence of employment practices resulting in negative economic exposure, Glass Lewis may support shareholder proposals addressing such risks.

MacBride Principles

To promote peace, justice and equality regarding employment in Northern Ireland, Dr. Sean MacBride, founder of Amnesty International and Nobel Peace laureate, proposed the following equal opportunity employment principles:

1. Increasing the representation of individuals from underrepresented religious groups in the workforce including managerial, supervisory, administrative, clerical and technical jobs;
2. Adequate security for the protection of minority employees both at the workplace and while traveling to and from work;
3. The banning of provocative religious or political emblems from the workplace;
4. All job openings should be publicly advertised and special recruitment efforts should be made to attract applicants from underrepresented religious groups;
5. Layoff, recall, and termination procedures should not, in practice, favor particular religious groupings;
6. The abolition of job reservations, apprenticeship restrictions, and differential employment criteria, which discriminate on the basis of religion or ethnic origin;
7. The development of training programs that will prepare substantial numbers of current minority employees for skilled jobs, including the expansion of existing programs and the creation of new programs to train, upgrade, and improve the skills of minority employees;
8. The establishment of procedures to assess, identify and actively recruit minority employees with potential for further advancement; and
9. The appointment of senior management staff member to oversee the company's affirmative action efforts and setting up of timetables to carry out affirmative action principles.
10. Proposals requesting the implementation of the above principles are typically proposed at firms that operate, or maintain subsidiaries that operate, in Northern Ireland. In each case, we will examine the company's current equal employment opportunity policy and the extent to which the company has been subject to protests, fines, or litigation regarding discrimination in the workplace, if any. Further, we will examine any evidence of the firm's specific record of labor concerns in Northern Ireland.

Human Rights

Glass Lewis believes explicit policies set out by companies' boards of directors on human rights provides shareholders with the means to evaluate whether the company has taken steps to mitigate risks from its human rights practices. As such, we believe that it is prudent for firms to actively evaluate risks to shareholder value stemming from global activities and human rights practices along entire supply chains. Findings and investigations of human rights abuses can inflict, at a minimum, reputational damage on targeted companies and have the potential to dramatically reduce shareholder value. This is particularly true for companies operating in emerging market countries in extractive industries and in politically unstable regions. As such, while we typically rely on the expertise of the board on these important policy issues, we recognize that, in some instances, shareholders could benefit from increased reporting or further codification of human rights policies.

Military and US Government Business Policies

Glass Lewis believes that disclosure to shareholders of information on key company endeavors is important. However, we generally do not support resolutions that call for shareholder approval of policy statements for or against government programs, most of which are subject to thorough review by the federal government and elected officials at the national level. We also do not support proposals favoring disclosure of information where similar disclosure is already mandated by law, unless circumstances exist that warrant the additional disclosure.

Foreign Government Business Policies

Where a corporation operates in a foreign country, Glass Lewis believes that the company and board should maintain sufficient controls to prevent illegal or egregious conduct with the potential to decrease shareholder value, examples of which include bribery, money laundering, severe environmental violations or proven human rights violations. We believe that shareholders should hold board members, and in particular members of the audit committee and CEO, accountable for these issues when they face reelection, as these concerns may subject the company to financial risk. In some instances, we will support appropriately crafted shareholder proposals specifically addressing concerns with the target firm's actions outside its home jurisdiction.

Health Care Reform Principles

Health care reform in the United States has long been a contentious political issue and Glass Lewis therefore believes firms must evaluate and mitigate the level of risk to which they may be exposed regarding potential changes in health care legislation. Over the last several years, Glass Lewis has reviewed multiple shareholder proposals requesting that boards adopt principles for comprehensive health reform, such as the following based upon principles reported by the Institute of Medicine:

- Health care coverage should be universal;
- Health care coverage should be continuous;
- Health care coverage should be affordable to individuals and families;
- The health insurance strategy should be affordable and sustainable for society; and
- Health insurance should enhance health and well-being by promoting access to high-quality care that is effective, efficient, safe, timely, patient-centered and equitable.

In general, Glass Lewis believes that individual corporate board rooms are not the appropriate forum in which to address evolving and contentious national policy issues. The adoption of a narrow set of principles could limit the board's ability to comply with new regulation or to appropriately and flexibly respond to health care issues as they arise. As such, barring a compelling reason to the contrary, we typically do not support the implementation of national health care reform principles at the company level.

Tobacco

Glass Lewis recognizes the contentious nature of the production, procurement, marketing and selling of tobacco products. We also recognize that tobacco companies are particularly susceptible to reputational and regulatory risk due to the nature of its operations. As such, we will consider supporting uniquely tailored and appropriately crafted shareholder proposals requesting increased information or the implementation of suitably broad policies at target firms on a case-by-case basis. However, we typically do not support proposals requesting that firms shift away from, or significantly alter, the legal production or marketing of core products.

Reporting Contributions and Political Spending

While corporate contributions to national political parties and committees controlled by federal officeholders are prohibited under federal law, corporations can legally donate to state and local candidates, organizations registered under 26 USC Sec. 527 of the Internal Revenue Code and state-level political committees. There is, however, no standardized manner in which companies must disclose this information. As such, shareholders often must search through numerous campaign finance reports and detailed tax documents to ascertain even limited information. Corporations also frequently use trade associations, which are not required to report funds they receive for or spend on political activity, as a means for corporate political action.

Further, in 2010 the Citizens United v. Federal Election Commission decision by the Supreme Court affirmed that corporations are entitled to the same free speech laws as individuals and that it is legal for a corporation to donate to political causes without monetary limit. While the decision did not remove bans on direct contributions to candidates, companies are now able to contribute indirectly, and substantially, to candidates through political organizations. Therefore, it appears companies will enjoy greater latitude in their political actions by this recent decision.

When evaluating whether a requested report would benefit shareholders, Glass Lewis seeks answers to the following three key questions:

- Is the Company's disclosure comprehensive and readily accessible?
- How does the Company's political expenditure policy and disclosure compare to its peers?
- What is the Company's current level of oversight?

Glass Lewis will consider supporting a proposal seeking increased disclosure of corporate political expenditure and contributions if the firm's current disclosure is insufficient, or if the firm's disclosure is significantly lacking compared to its peers. Further, we will typically recommend voting for proposals requesting reports on lobbying or political contributions and expenditures when there is no explicit board oversight or there is evidence of inadequate board oversight. Given that political donations are strategic decisions intended to increase shareholder value and have the potential to negatively affect the company, we believe the board should either implement processes and procedures to ensure the proper use of the funds or closely evaluate the process and procedures used by management. We will also consider supporting such proposals when there is verification, or credible allegations, that the company is mismanaging corporate funds through political donations. If Glass Lewis discovers particularly egregious actions by the company, we will consider recommending voting against the governance committee members or other responsible directors.

Animal Welfare

Glass Lewis believes that it is prudent for management to assess potential exposure to regulatory, legal and reputational risks associated with all business practices, including those related to animal welfare. A high-profile campaign launched against a company could result in shareholder action, a reduced customer base, protests and potentially costly litigation. However, in general, we believe that the board and management are in the best position to determine policies relating to the care and use of animals. As such, we will typically vote against proposals seeking to eliminate or limit board discretion regarding animal welfare unless there is a clear and documented link between the board's policies and the degradation of shareholder value.

Internet Censorship

Legal and ethical questions regarding the use and management of the Internet and the worldwide web have been present since access was first made available to the public almost twenty years ago. Prominent among these debates are the issues of privacy, censorship, freedom of expression and freedom of access. Glass Lewis believes that it is prudent for management to assess its potential exposure to risks relating to the internet management and censorship policies. As has been seen at other firms, perceived violation of user privacy or censorship of Internet access can lead to high-profile campaigns that could potentially result in decreased customer bases or potentially costly litigation. In general, however, we believe that management and boards are best equipped to deal with the evolving nature of this issue in various jurisdictions of operation.

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TAB 4 – RUSSELL 2000 SYNTHETIC PORTFOLIO

OPERF Internally Managed Synthetic Russell 2000 Index

Purpose

To seek OIC approval of staff recommended changes to the internally managed Synthetic Russell 2000 portfolio.

Background

Staff currently employs two methods to achieve equity index exposure within the internally managed equity portfolios. The first method, stock ownership, entails purchasing stocks to replicate the holdings contained within the index. Stock ownership is used in OST internally managed S&P 500, S&P 400, and Russell Fundamental index (RAFI) portfolios (see Appendix A). The second method used to achieve equity index exposure is through synthetic indexing. This technique involves “equitizing” a cash portfolio by purchasing equity index futures contracts. Both portfolio implementations, while operationally different, provide index returns.

Stock portfolio returns are relatively easy to understand. Stocks held in a portfolio increase or decrease in value, and when combined with dividends received, constitute the basis for a stock portfolio’s return. A synthetic index portfolio’s return is achieved through the equity index futures contracts acquired from an exchange (such as the Chicago Mercantile Exchange), and tied to the equity index level. Operationally, the equity index level increase or decrease, in the futures contract, is followed by daily cash inflows or outflows from/to the Exchange (margin settlement). In the end, the return of a synthetic portfolio is simply calculated as the increase or decrease of the cash balance held in the account.

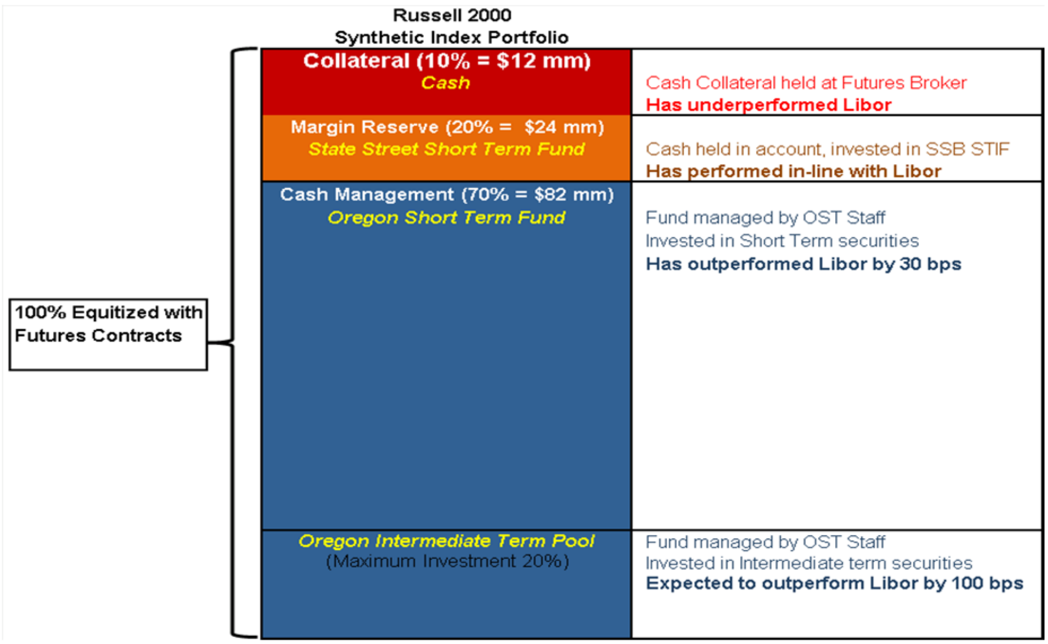
All derivative instruments come with an embedded financing cost (nothing is for free). Absent supply/demand forces, the financing cost of an equity futures contract is LIBOR (London Interbank Offered Rate), which is the average interest rate that leading banks in London charge when lending US dollars to other banks. The performance drag associated with the embedded financing rate in equity futures contracts, is overcome with the interest earned through the investment of the cash portfolio in cash or short term instruments. Futures contracts require only a fraction of the actual notional value exposure, leaving “excess” cash available to invest.

Part of the value added from the synthetic Russell 2000 strategy comes from the difference in financing rates between what is earned on the cash management in the portfolio, and the embedded financing cost found in equity futures contracts. The Russell 2000 synthetic strategy currently invests the cash held in the portfolio through the Oregon Short Term Fund (OSTF). The yield advantage between the OSTF and LIBOR has averaged about 30 basis points per annum, since the inception of the strategy.

Although OSTF’s internal cash management capabilities can be applied to any equity futures contract, the Russell 2000 futures contract is attractive as a synthetic mandate since the supply/demand forces have caused this contract to trade at a discount relative to fair value. Primarily driven by the demand from hedge funds to short small cap stocks, the Russell 2000 futures contract has been discounted anywhere from 40 bps to 120 bps over the last eight years. The discount in the futures contract has added about 50 basis points per annum, since the inception of the strategy (see Appendix A).

Opportunity

The launch of Oregon Intermediate Term Pool (OITP) provides an opportunity for staff to diversify and potentially improve the return for the synthetically managed portfolio. The OIC approved creation of the Oregon Intermediate Term Pool in April 2010. OITP was created with the purpose of providing a fixed income investment vehicle for state agencies and sponsored entities with monies available to invest on a longer term basis than the Oregon Short-Term Fund (OSTF) allows. The Oregon State Treasury began operating the OITP in July 2010, and the portfolio has performed in line with expectations. Staff proposes to invest not more than 20% of the Russell 2000 synthetic cash portfolio in OITP. Operationally, the allocation of the cash within the portfolio would be as follows (approximately $118 mm as of 12/31/11):



1) **Collateral** - futures exchanges require the posting of collateral in proportion to the number of futures held. The collateral is typically posted in cash or in a Treasury instrument and represents approximately 10% of the underlying cash balance;
2) The **Margin Reserve** is a pool of cash from which daily gains and losses are paid or received as a result of the daily mark to market of futures. The buffer represents approximately 20% of the underlying cash balance and is swept nightly and invested in the custody bank's STIF;
3) **Cash Management** involves investing in higher yielding, longer duration cash or short term securities (currently OSTF). The reinvested cash represents approximately 70% of the portfolio's underlying cash balance. Staff is proposing to reallocate a portion of the cash managed with the Oregon Short Term Fund into the Oregon Intermediate Term Pool.

Staff expects that the re-allocation of cash from OSTF to OITP, as proposed, will enhance the yield advantage between the cash management and LIBOR to approximately 50 basis points per annum.

Recommendation

- Authorize staff to implement the proposed cash management changes to the Synthetic Russell 2000 strategy and adopt Policy & Procedure changes for this strategy specified in the attached red-lined OIC Policy 4.05.03.

APPENDIX A

Period Ending 12/30/11	Market Value	Month	Quarter	YTD	1 year	2 years	Inception
OST 400 Portfolio	**$ 158,137,706.84**	**-0.339%**	**13.08%**	**-1.47%**	**-1.47%**	**11.79%**	**13.29%**
S&P 400 Index		-0.374%	12.98%	-1.74%	-1.74%	11.55%	12.89%
Excess		0.03%	0.10%	0.26%	0.26%	0.24%	0.40%
Inception Date of Oct. 1, 2009	**Tracking Error = 30 bps**	**Target Excess Return: 10 bps**					
Period Ending 12/30/11	**Market Value**	**Month**	**Quarter**	**YTD**	**1 year**	**2 years**	**Inception**
OST 500 Portfolio	**$ 813,545,381.10**	**1.036%**	**11.85%**	**2.27%**	**2.27%**	**8.49%**	**10.37%**
S&P 500 Index		1.023%	11.82%	2.12%	2.12%	8.40%	10.27%
Excess		0.01%	0.03%	0.15%	0.15%	0.09%	0.11%
Inception Date of Oct 1, 2009	**Tracking Error = 10 bps**	**Target Excess Return: 5 bps**					
Period Ending 12/30/11	**Market Value**	**Month**	**Quarter**	**YTD**	**1 year**	**2 years**	**Inception**
Russell 2000 Synthetic	**$ 118,791,946.29**	**0.883%**	**15.92%**	**-3.37%**	**-3.37%**		**7.42%**
Russell 2000 Index		0.661%	15.47%	-4.17%	-4.17%		6.52%
Excess		0.22%	0.44%	0.80%	0.80%		0.91%
Inception Date of April 1, 2010	**Tracking Error = 50 bps**	**Target Excess Return: 30 bps**					
Period Ending 12/30/11	**Market Value**	**Month**	**Quarter**	**YTD**	**1 year**	**2 years**	**Inception**
TEMS	**$ 191,930,835.45**	**-2.083%**	**2.51%**	**-19.04%**	**-19.04%**	**-0.23%**	**24.39%**
MSCI EM Index		-1.205%	4.42%	-18.42%	-18.42%	-1.52%	23.50%
Excess		-0.88%	-1.92%	-0.62%	-0.62%	1.30%	0.89%
Inception Date of Feb 1, 2009	**Tracking Error = 500 bps**	**Target Excess Return: 200 bps**					
Period Ending 12/30/11	**Market Value**	**Month**	**Quarter**	**YTD**	**1 year**	**2 years**	**Inception**
RUSSELL RAFI LC	**$ 523,847,415.96**	**1.451%**	**0.00%**	**0.00%**			**1.632%**
RUSSELL 1000		0.836%	0.00%	0.00%			0.572%
Excess		0.62%	0.00%	0.00%			1.06%
Inception Date of Oct 1, 2011	**Tracking Error = 500 bps**	**Target Excess Return: 200 bps**					
Source: State Street Bank							

Note: Performance is gross of any internal management costs.

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

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

PURPOSE

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

POLICY OBJECTIVES & STRATEGIES

S&P 500 Index Strategy

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

S&P 400 Index Strategy

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

Russell 2000 Synthetic Index Strategy

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

Tiered Emerging Markets Strategy (TEMS)

1. The objective of the TEMS is to outperform the MSCI Emerging Markets (net) Index through a tiered allocation strategy based upon country weighting. The strategy is currently implemented using index commingled trust funds and is rebalanced annually by staff, or as needed given additions or deletions to the MSCI EM Index. Given the the underlying implementation vehicles are country index funds, the strategy does not utilize any active security selection.

2. The TEMS Portfolio is expected to outperform the MSCI Emerging Markets (net) Index by 200 basis points annualized over a market cycle with an expected tracking error of 400 basis points.

Russell/RAFI Fundamental Large Cap Index Strategy

The objective of the RAFI/Russell 1000 portfolio is to outperform the Russell 1000 Total Return Index by 200 basis points annualized over a market cycle with an expected tracking error below 450 basis points.

PERMITTED HOLDINGS

S&P 500 Index Strategy

1. Securities contained in the S&P 500 Index.
2. Securities reasonably expected to be part of the S&P 500 Index at some future date.
3. Securities that have recently been a member of the S&P 500 Index.
4. Exchange Traded Funds (ETFs) which replicate the S&P 500 Index such as: iShares S&P 500 Index Fund (Ticker: IVV) or Spyders (Ticker: SPDR).
5. S&P 500 Index Futures (Large Contracts and Mini's).
6. U.S. Treasury Bills or other acceptable cash equivalents utilized for equity futures collateral.

S&P 400 Index Strategy

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

Russell 2000 Synthetic Index Strategy

1. Russell 2000 Index Futures.
2. U.S. Treasury Bills or other acceptable cash equivalents used for equity futures collateral.
3. Oregon Short Term Fund.
~~3.~~4. Oregon Intermediate Investment Pool (Maximum of 20%).

Tiered Emerging Markets Strategy (TEMS)

MSCI Emerging Market & Frontier Market commingled trust funds, exchange traded funds, or equity futures.

Russell/RAFI Fundamental Large Cap Index Strategy

1. Securities contained in the Russell 1000 Index.
2. Securities reasonably expected to be part of the Russell 1000 Index at some future date.
3. Securities that have recently been a member of the Russell 1000 Index.

4. Exchange Traded Funds (ETFs) which replicate the RAFI/Russell 1000.
5. Russell 1000, Russell 2000, S&P 500, S&P 400, S&P 600 S&P 400 Futures contracts.
6. U.S. Treasury Bills or other acceptable cash equivalents utilized for equity futures collateral.

ABSOLUTE RESTRICTIONS

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

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

PROCEDURES:

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

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

TAB 5 – OIC CONSULTANT DISCUSSION

Renewal of OIC Consultant Contracts

Purpose
To address the expiring contracts of the OIC's general consultants and real estate consultant, expiring on June 30, 2012.

Background
At the November 2011 meeting, the OIC extended the contracts of the two general consultants and the real estate consultant to June 30, 2012, pending potential clarity on the CIO search process. However, given the recent fund governance initiative, as well as the impending retirement of the Senior Real Estate Investment Officer, consideration should be given to a longer interim extension period.

(The following information was provided to the OIC in November, and is provided here again for additional background)

General Consultants
SIS was initially hired, and PCA (Emkin) was re-hired, to new three-year contracts in December 2003. The initial new contract periods started January 1, 2004 and ended December 31, 2006. In December 2006, the contracts were each renewed by the OIC for a two-year period. In September of 2008, the contracts were additionally extended through December 31, 2010. In September of 2010, the contracts were again extended through December 31, 2011, given industry mergers and consolidation.

Under OST Policy 4.01.13 (attached), new contracts are awarded for three year-periods and can be renewed no more than twice and limited to a final expiration date that is no more than four years beyond the original expiration. At the end of seven years, contracts must be re-bid and a new seven year cycle can begin. The current contracts are presently in their eighth year.

Staff was in the process of actively soliciting bids for the general consultant mandate(s) when Ron Schmitz resigned as CIO. The bid process ended on October 11th, with seven firms responding with proposals: Callan, Hewitt ennisknupp, PCA, RV Kuhns, Strategic Investment Solutions, Wilshire, and Brookhouse & Cooper (limited to public manager research, monitoring, and risk budgeting). The proposals have not been reviewed nor scored, pending further direction from the OIC.

Real Estate Consultant
In addition to the general consultant's contract expiration, Arete Capital's (fka PCA Real Estate Advisors) contract expires on December 31, 2011. Staff was well underway with a search; an OST Staff Committee comprised of the SIO and IO of Real Estate and the IO of Alternatives, reviewed nine proposals in response to the Request for Proposals (RFP) OST issued for Real Estate Consultant Services and for Real Estate Reporting. After an initial review of the written submissions, the Staff Committee selected four respondents to interview: Pension Consulting Alliance (PCA), The Townsend Group, Courtland Partners Ltd. and Arete Capital. Staff has had on-site visits with each of the firms. The final recommendation has been put on hold pending further direction from the OIC.

Recommendation
Staff proposes that the OIC extend the contracts of Strategic Investment Solutions, PCA-Emkin, and Arete Capital through June 30, 2013, under the existing fee and terms.

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 proposal" (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 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 RFP which shall include, but not be limited to:
      1. Description of services requested;
      2. Description of the potential or preliminary standards required by the Council of the candidates; and
      3. Request for pricing or fee schedule information.

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

DEFINITIONS:

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

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

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

TAB 6 – IRAN DIVESTMENT LEGISLATION UPDATE

Iran Divestment Legislation

Purpose
To provide the OIC an update on House Bill 4110, regarding divestment from companies with interest in the energy sector of Iran.

Background
In summary, this bill:
"Directs Oregon Investment Council and State Treasurer to try to ensure that moneys in Public Employees Retirement Fund are not invested in companies with interest in energy sector of Iran. Directs State Treasurer to adopt engagement policy with private investment fund managers and to encourage managers to end investments with companies with interest in energy sector of Iran. Requires notices to fund managers, companies and Oregon Investment Council. Specifies contents of notices.
Applies subject to specified fiduciary standards. Declares emergency, effective on passage."

A complete copy of the proposed legislation is attached. As of February 21, 2012, this was the status of the bill:

The bill recently passed the House with a vote of 57-0 after a hearing in the House Committee on Revenue. The bill is currently in the Senate Committee on Finance and Revenue, where it has been scheduled for a hearing and work session on the morning of Wednesday, February 22. Senator Burdick (D – Portland), who chairs the committee, is a co-sponsor of the bill. The bill is expected to pass out of committee without amendments and pass the Senate within the next several days. The bill would then head to the Governor's desk for his approval.

If passed and funded, staff will return with a policy for implementation, at an upcoming meeting.

Recommendation
None. Information only.

House Bill 4110

Sponsored by Representatives GREENLICK, HOYLE, WEIDNER; Representatives BERGER, HICKS, HUNT, KENNEMER, KRIEGER, MATTHEWS, PARRISH, SHEEHAN, J SMITH, WAND, WHISNANT, WINGARD, WITT, Senators BOQUIST, BURDICK (Presession filed.)

SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure **as introduced.**

Directs Oregon Investment Council and State Treasurer to try to ensure that moneys in Public Employees Retirement Fund are not invested in companies with interest in energy sector of Iran. Directs State Treasurer to adopt engagement policy with private investment fund managers and to encourage managers to end investments with companies with interest in energy sector of Iran.

Requires notices to fund managers, companies and Oregon Investment Council. Specifies contents of notices.

Applies subject to specified fiduciary standards.

Declares emergency, effective on passage.

A BILL FOR AN ACT

Relating to investment in companies doing business in Iran; and declaring an emergency.

Be It Enacted by the People of the State of Oregon:

SECTION 1. Sections 2 to 6 of this 2012 Act are added to and made a part of ORS 293.701 to 293.820.

SECTION 2. As used in sections 2 to 6 of this 2012 Act:

(1) "Company" means any sole proprietorship, organization, firm, association, corporation, utility, partnership, venture, public franchise, franchisor or franchisee, or its wholly owned subsidiary, that exists for profit-making purposes or otherwise to secure economic advantage.

(2) "Fund of funds" means investment funds that function by secondary investment in a portfolio of other investments, including investment funds.

(3) "Index funds" means pooled investments that are passively managed with an intent to match or track the performance of a market index.

(4)(a) "Invest" means to commit funds or other assets to a company. "Invest" includes making a loan or other extension of credit to a company, or owning or controlling a share or interest in a company or a bond or other debt instrument issued by a company.

(b) "Investment" means the commitment of funds or other assets to a company for an interest in the company. "Investment" includes the ownership or control of a share or interest in a company or of a bond or other debt instrument issued by a company.

(5) "Iran" means the Islamic Republic of Iran.

(6) "Scrutinized company" means any company that currently has made an investment in the energy sector of Iran as described in section 202(c)(1) of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (P.L. 111-195), as further determined by the United States Department of State.

SECTION 3. (1) The Oregon Investment Council and the State Treasurer, in the State Treasurer's role as investment officer for the council, shall act reasonably and in a manner

NOTE: Matter in **boldfaced** type in an amended section is new; matter [*italic and bracketed*] is existing law to be omitted. New sections are in **boldfaced** type.

consistent with fiduciary standards, including the provisions of ORS 293.721 and 293.726, to try to ensure that managers who are engaged by the council or the State Treasurer for the active management of investment funds consisting of the Public Employees Retirement Fund referred to in ORS 238.660, through the purchase and sale of publicly traded equities, are not investing in publicly traded equities of any scrutinized company.

(2) Subsection (1) of this section does not apply to investments indirectly made through index funds, fund of funds or privately placed investments.

SECTION 4. (1) Consistent with fiduciary standards, including the provisions of ORS 293.721 and 293.726, the State Treasurer shall adopt a statement of policy that describes a process of engagement with managers who:

(a) Are engaged by the Oregon Investment Council or the State Treasurer for the active management of investment funds consisting of the Public Employees Retirement Fund referred to in ORS 238.660 through the purchase and sale of publicly traded equities; and

(b) Have invested such funds in scrutinized companies.

(2) The policy required under subsection (1) of this section must require the State Treasurer, to the extent practicable, to identify and send a written notice to the managers described in subsection (1) of this section. The notice shall encourage the managers, consistent with fiduciary standards, including the provisions of ORS 293.721 and 293.726, to:

(a) Notify scrutinized companies with which the managers have made investments of the State Treasurer's policy adopted pursuant to subsection (1) of this section; and

(b) Not later than 90 days giving the notice, end investments in the scrutinized companies and avoid future investments in the scrutinized companies, as long as the managers may do so without monetary loss through reasonable, prudent and productive investments in companies generating returns that are comparable to the returns generated by the scrutinized companies.

(3) A notice given by a manager to a scrutinized company under subsection (2) of this section shall advise the scrutinized company that the scrutinized company may comment in writing to the State Treasurer to dispute the identification of the company as a scrutinized company.

(4) If the State Treasurer determines that a company given notice under subsection (3) of this section is not a scrutinized company, the State Treasurer shall notify the relevant manager of the determination.

(5) The State Treasurer shall advise the Oregon Investment Council if a manager to whom the notice was given under subsection (2) of this section has not informed the State Treasurer within 180 days after the date the notice was given that the manager has ended the manager's investment in scrutinized companies or plans to divest from the manager's investment in scrutinized companies.

SECTION 5. On or before March 15 of each year, the State Treasurer shall make available on the State Treasurer's website a summary of actions taken during the previous year in accordance with sections 2 to 6 of this 2012 Act. The summary shall include a list of identified scrutinized companies.

SECTION 6. (1) Section 4 (2) to (5) and 5 of this 2012 Act apply only if the Legislative Assembly appropriates sufficient moneys to the State Treasurer, other than moneys described in ORS 293.718, to administer section 4 (2) to (5) and 5 of this 2012 Act.

(2) Any costs incurred by the State Treasurer in administering sections 2 to 6 of this 2012

Act may not be paid from investment funds.

<u>SECTION 7.</u> The State Treasurer shall first make available on the State Treasurer's website the information required under section 5 of this 2012 Act not later than September 1, 2013.

<u>SECTION 8.</u> Sections 1 to 7 of this 2012 Act become operative on January 1, 2013.

<u>SECTION 9.</u> This 2012 Act being necessary for the immediate preservation of the public peace, health and safety, an emergency is declared to exist, and this 2012 Act takes effect on its passage.

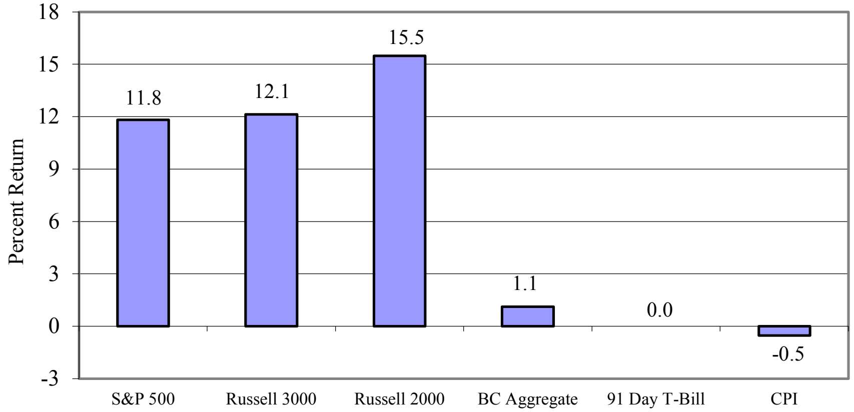
TAB 7 – OPERF 4TH QUARTER 2011

PERFORMANCE REVIEW

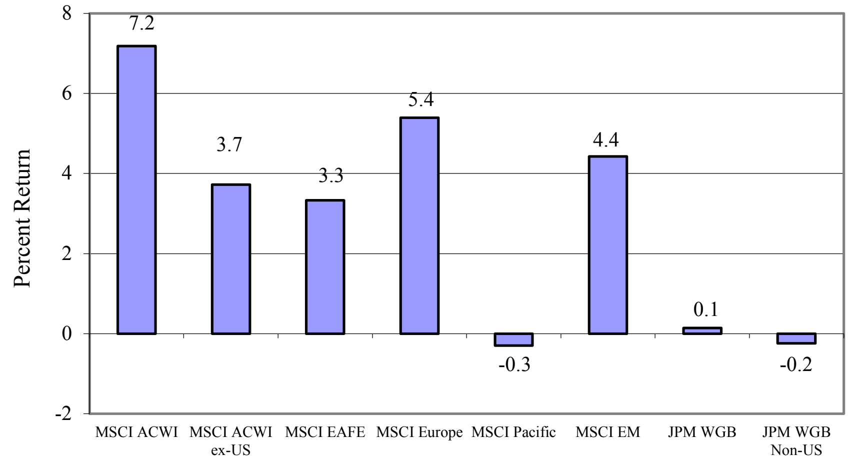
Capital Markets Review

Q4 2011

U.S. Markets



Global Markets



General Comments

In the fourth quarter, optimism returned to the financial markets following an agreement among major central banks to work together to mitigate Europe's debt crisis. This coupled with improving global economic data drove up investor sentiment in the riskier assets. This was particularly evident in the US, where the major indices returned between 11% and 16% in the quarter. The State Street Investor Confidence Index rose to 99.3 at the end of December from 90.0 at the end of September.

Among the positive economic notes was US GDP, which rose 3.0% in the fourth quarter, following a downward revision in the third quarter to 1.8%. The employment picture in the US also improved as the unemployment rate dropped unexpectedly to 8.5% in December, its lowest mark in two and a half years. Nonfarm Payrolls also increased and initial jobless claims continued to decline. Prices in the US deflated slightly in the quarter as the CPI for all items was flat in November and December following a -0.1% decline in October. However, for the year, the inflation rate was 3.0% -- double that of its 2010's rate of 1.5%.

Global commodity prices also continued to head lower in the quarter driven by falling agricultural and industrial metal prices, finishing the year down 10 percent. After hitting record highs in September, gold prices retreated in the quarter while the US dollar strengthened.

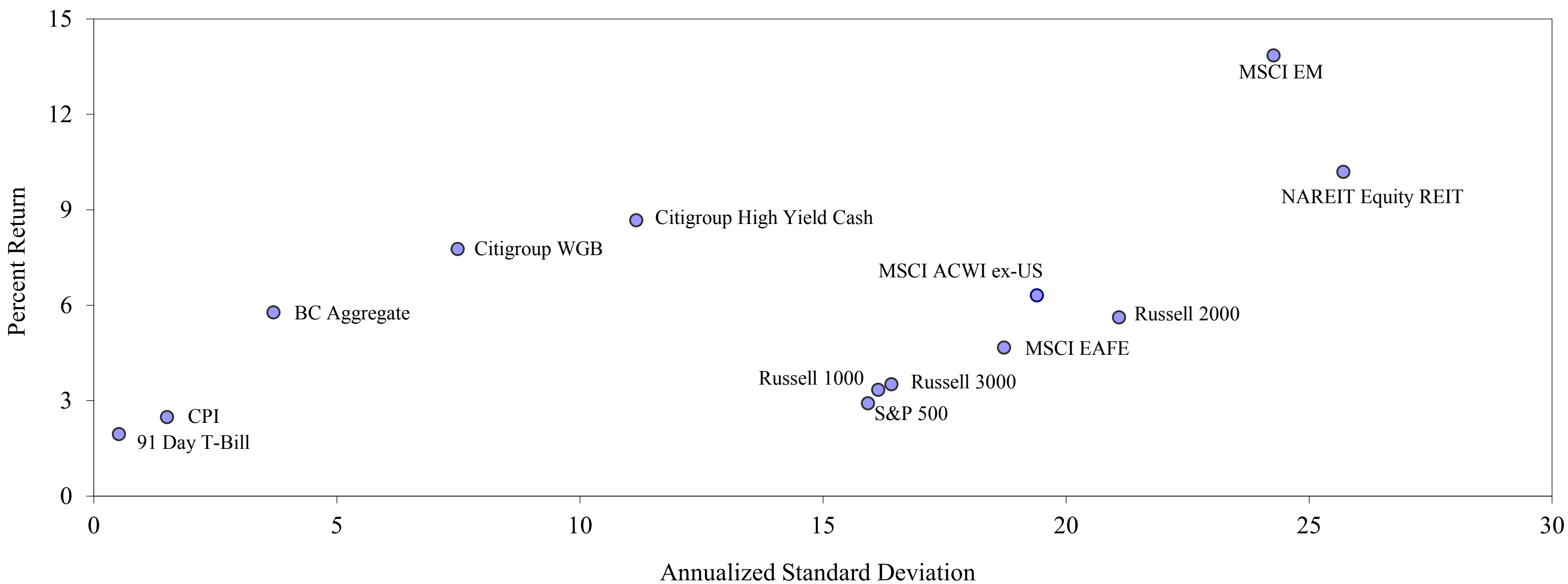
Given the improvements in the economy, and despite the higher annual inflation rate, the Fed refrained from initiating any further quantitative easing measures and reasserted its commitment to leave the Fed funds rate at 0% to 0.25% through at least mid-2013.

Capital Markets Review

Q4 2011

Total Returns in US$	**Quarter**	**Year to Date**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**20 Years**	**10 Year Std. Dev.**
91 Day T-Bill	0.00	0.10	0.10	0.14	1.48	1.95	3.41	0.52
BC Aggregate	1.12	7.84	7.84	6.77	6.50	5.78	6.50	3.70
Citigroup High Yield Cash	6.42	5.59	5.59	22.70	7.22	8.67	8.48	11.16
Citigroup World Gov't Bond	-0.12	6.35	6.35	4.68	7.13	7.77	6.54	7.49
S&P 500	11.82	2.11	2.11	14.11	-0.25	2.92	7.81	15.93
Russell 3000	12.12	1.03	1.03	14.88	-0.01	3.51	7.99	16.41
Russell 1000	11.84	1.50	1.50	14.81	-0.02	3.35	7.99	16.14
Russell 2000	15.47	-4.18	-4.18	15.62	0.15	5.62	8.52	21.09
MSCI ACWI ex-US	3.72	-13.71	-13.71	10.70	-2.92	6.31		19.40
MSCI EAFE	3.33	-12.14	-12.14	7.65	-4.72	4.67	4.56	18.73
MSCI Emerging Markets	4.42	-18.42	-18.42	20.07	2.40	13.86		24.34
Nareit Equity REIT	15.26	8.28	8.28	21.04	-1.42	10.19	10.91	25.71
CPI	-0.54	2.96	2.96	2.39	2.26	2.48	2.50	1.51

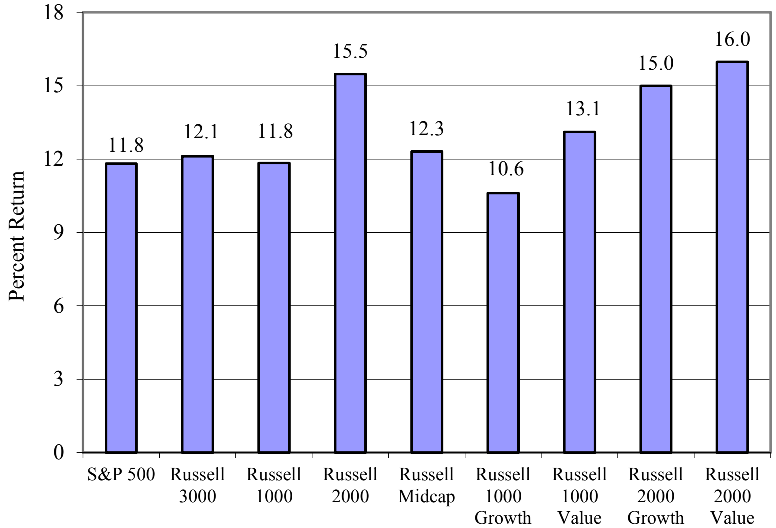
Risk vs. Return - 10 Years



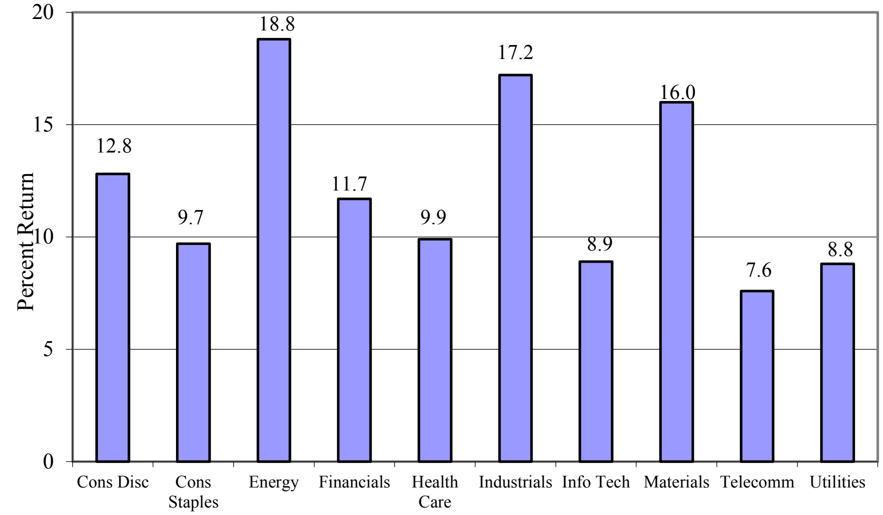
U.S. Equity Market Review

Q4 2011

U.S. Markets



Economic Sector Performance



U. S. Equity Market

A resilient US equity market rebounded strongly from the dismal third quarter, as the US economy improved and investor confidence revived slightly. Domestic equity was led by the Small value sector in the quarter as the Russell 2000 Value Index returned 16.0%. For the year, however, it was one of the worst performing sectors at -5.5%. The best domestic equity returns of the year were turned in by the Blue Chip stocks of the Dow Jones Industrial Average Index, which returned 8.4%.

The fourth quarter witnessed a domestic equity rebound across all sectors. Energy, Industrials and Materials led in the quarter with high double digit returns, while Utilities and Consumer Staples led the year with returns of 19.0% and 13.9%. The Financials sector rebounded in the fourth quarter with a return of 11.7%, but was still down -13.9% on the year.

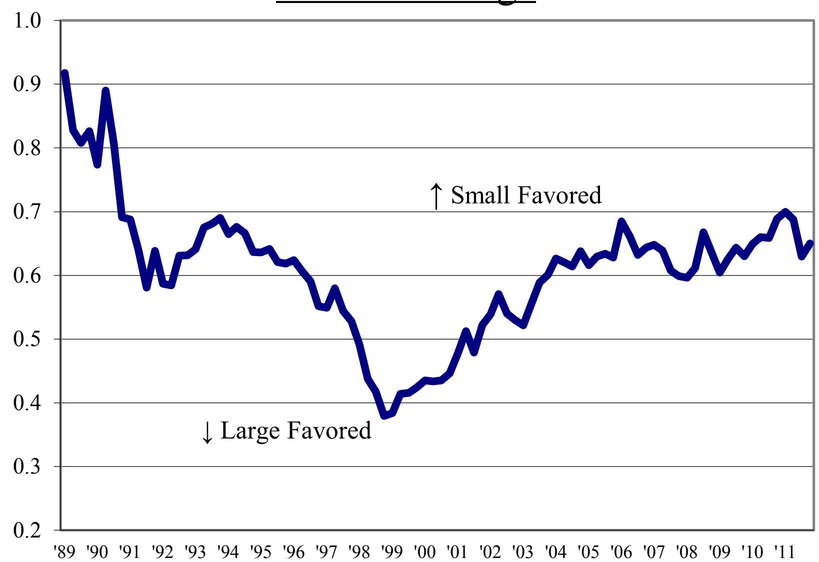
With the increased appetite for riskier assets, the higher beta US small-cap stocks easily outperformed the others as the Russell 2000 Index returned 15.5%. For the year, US large-caps bettered the small-cap stocks by close to six percent, albeit with a return of just 1.5% to the Russell 1000 Index.

Across all capitalizations, Value stocks outperformed Growth stocks in the fourth quarter. It was more pronounced in the large cap arena with a spread of 250 BP's (Value over Growth), while among the stocks in Russell 2000 index, Value topped growth by just 98 basis points. For the year it was the opposite story as Value topped Growth by 225 basis points among large cap stocks and by 259 points in the small cap arena.

U.S. Equity Market Review

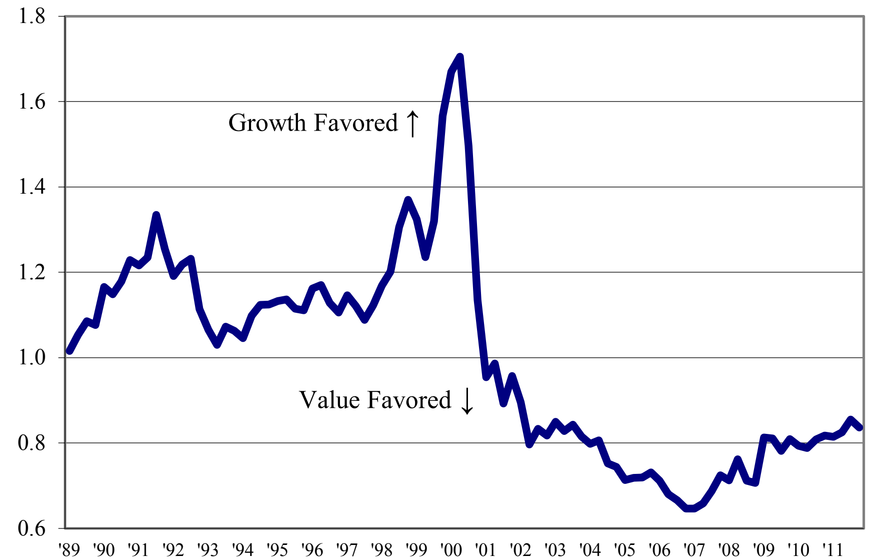
Q4 2011

Small vs. Large



Cumulative return of the Russell 2000 versus the Russell 1000

Growth vs. Value



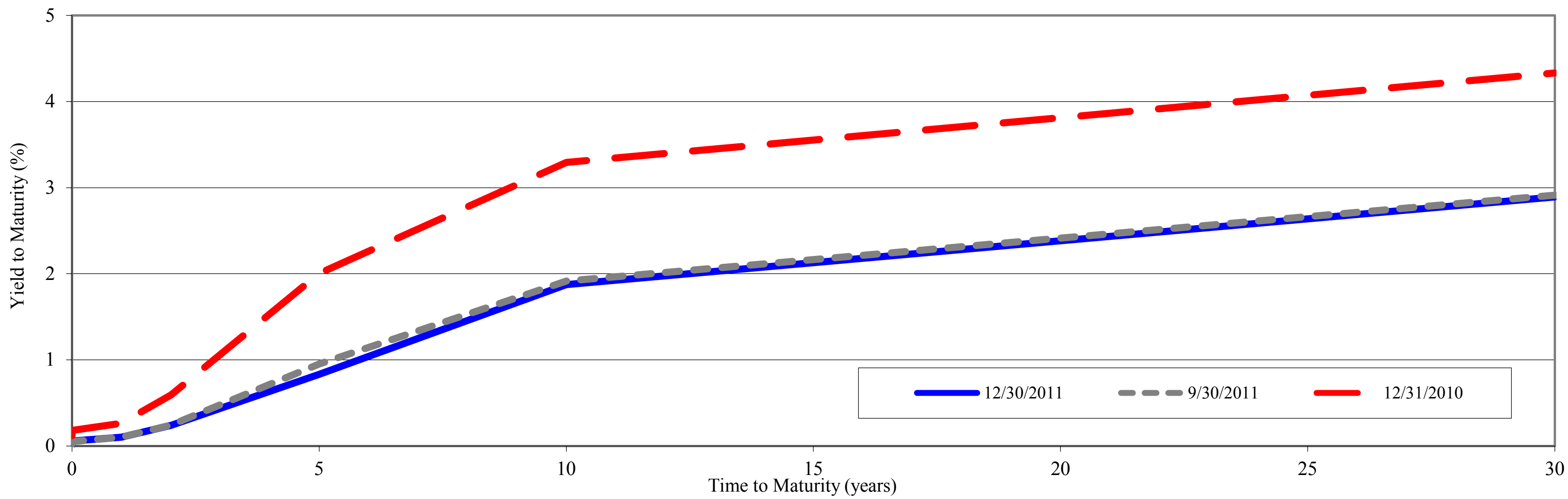
Cumulative return of the Russell 1000 Growth versus the Russell 1000 Value

Total Returns	**Quarter**	**Year to Date**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**20 Years**
S&P 500	11.82	2.11	2.11	14.11	-0.25	2.92	7.81
Russell 3000	12.12	1.03	1.03	14.88	-0.01	3.51	7.99
Russell 1000	11.84	1.50	1.50	14.81	-0.02	3.35	7.99
Russell 2000	15.47	-4.18	-4.18	15.62	0.15	5.62	8.52
Russell Midcap	12.31	-1.55	-1.55	20.17	1.41	6.99	10.24
Russell 1000 Growth	10.61	2.64	2.64	18.02	2.50	2.60	6.62
Russell 1000 Value	13.11	0.39	0.39	11.55	-2.64	3.89	8.91
Russell 2000 Growth	14.99	-2.91	-2.91	19.00	2.09	4.48	5.83
Russell 2000 Value	15.97	-5.50	-5.50	12.36	-1.87	6.40	10.67

U.S. Fixed Income Market Review

Q4 2011

Treasury Yield Curve



U. S. Fixed Income Market

The European sovereign debt crisis continued to be the main driver of global volatility which benefited US dollar-based assets, but continued to apply downward pressure on US yields. However, coordinated efforts among central banks around the world to provide more liquidity to the capital markets were welcomed by investors in the riskier assets, including corporate credit and high yield bonds, and these efforts were somewhat successful.

While the broader bond indices were relatively tame – the Barclays Capital Aggregate returned 1.12% in the quarter and Government/Credit Index was slightly higher at 1.18% -- Investment Grade corporates were up 1.9% and the US High Yield Index bounced back from its poor showing in the third quarter to post a 6.5% return. With a return of 7.8% on the year The Aggregate Index still topped the S&P500 index by over 570 basis points.

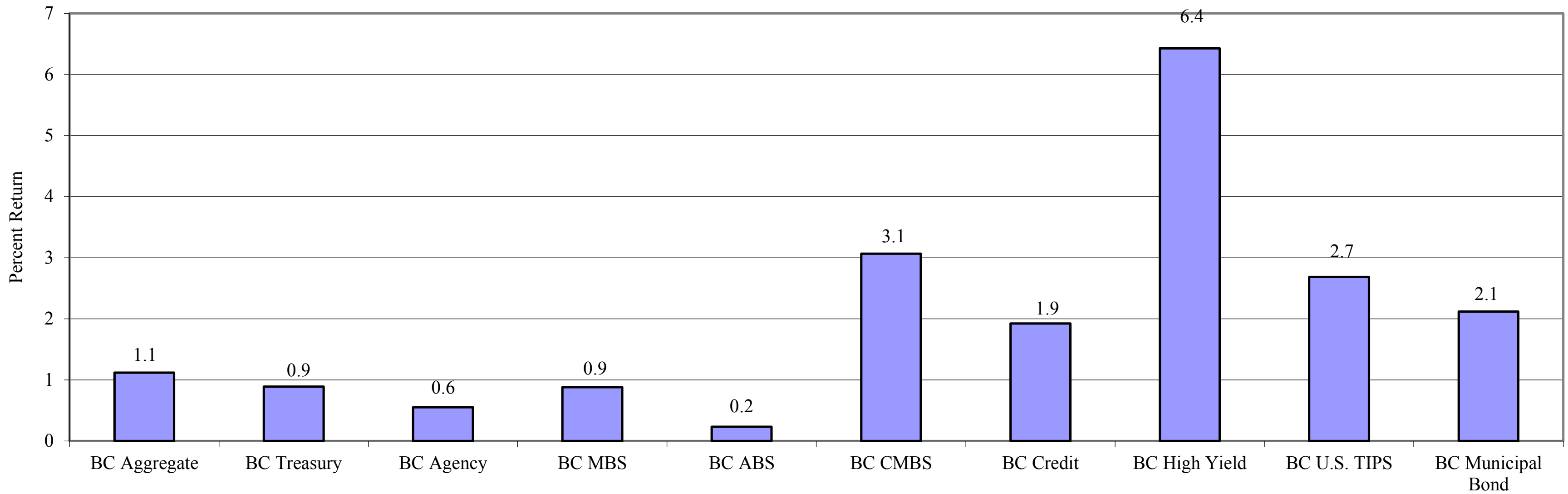
After experiencing much sharper declines earlier in 2011, and despite a relatively volatile quarter, treasury yields were generally at about the same place when the dust had settled. As you can see in the chart, the yield curve on December 31st was almost identical to the curve on September 30th. The yield on the 10-year Treasury dropped four basis points to finish 2011 at 1.88%.

Meanwhile, US Corporates performed somewhat better, returning 1.9% in the quarter and 8.2% on the year. Relative to duration matched Treasuries, however, the option-adjusted spreads of US corporate investment grade credit narrowed to 234 basis points at year-end, down from a peak of over 250 basis points in October.

U.S. Fixed Income Market Review

Q4 2011

U.S. Bond Sector Performance

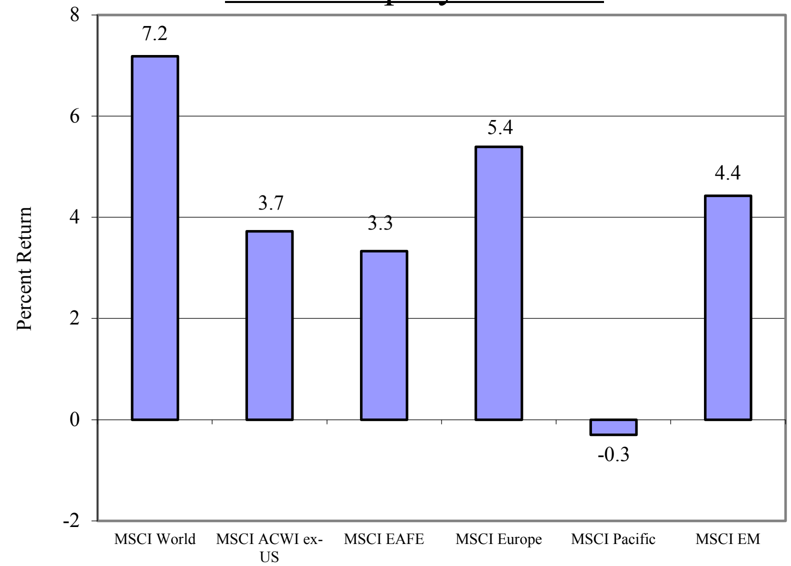


Total Returns	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years
BC Aggregate	1.12	7.84	7.84	6.77	6.50	5.78	6.50
BC Treasury	0.89	9.81	9.81	3.88	6.81	5.71	6.40
BC Agency	0.55	4.82	4.82	3.56	5.54	5.11	6.17
BC MBS	0.88	6.23	6.23	5.83	6.54	5.69	6.39
BC ABS	0.23	5.14	5.14	11.55	4.37	4.41	5.74
BC CMBS	3.07	6.47	6.47	18.12	5.91	6.02	
BC Credit	1.93	8.15	8.15	11.84	6.82	6.36	7.00
BC High Yield	6.43	5.09	5.09	24.07	7.56	8.85	
BC U.S. TIPS	2.69	13.56	13.56	10.38	7.95	7.57	
BC Municipal Bond	2.12	10.70	10.70	8.57	5.22	5.38	6.00

Global Equity Market Review

Total Net Returns in US$	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years
MSCI World	7.18	-7.35	-7.35	12.01	-1.93	4.24	
MSCI ACWI ex-US	3.72	-13.71	-13.71	10.70	-2.92	6.31	
MSCI EAFE	3.33	-12.14	-12.14	7.65	-4.72	4.67	4.56
MSCI EAFE Hedged	4.33	-12.10	-12.10	5.26	-5.89	1.01	4.17
MSCI Europe	5.39	-11.06	-11.06	7.86	-5.20	4.35	6.97
MSCI Pacific	-0.30	-13.74	-13.74	7.49	-3.63	5.51	1.46
MSCI Emerging Markets	4.42	-18.42	-18.42	20.07	2.40	13.86	
MSCI UK	9.10	-2.56	-2.56	14.94	-3.20	4.78	6.60
MSCI Japan	-3.86	-14.33	-14.33	1.66	-6.56	2.99	-0.54

Global Equity Markets



Non-US Equity Markets

As in the domestic markets, the Non-US markets rebounded from the significant losses of the third quarter, but not quite as enthusiastically. Responses by investors to the latest policy moves by the major central banks to add liquidity to the markets and deal with the European sovereign debt crisis were generally positive, but were partially offset by growing concerns of a pending recession in Europe. The MSCI EAFE Index added 3.4% in the fourth quarter, but finished the year down -12.1%. The MSCI All Country World Index (ex US) was up 3.7% in the quarter, but down 13.7% in the year.

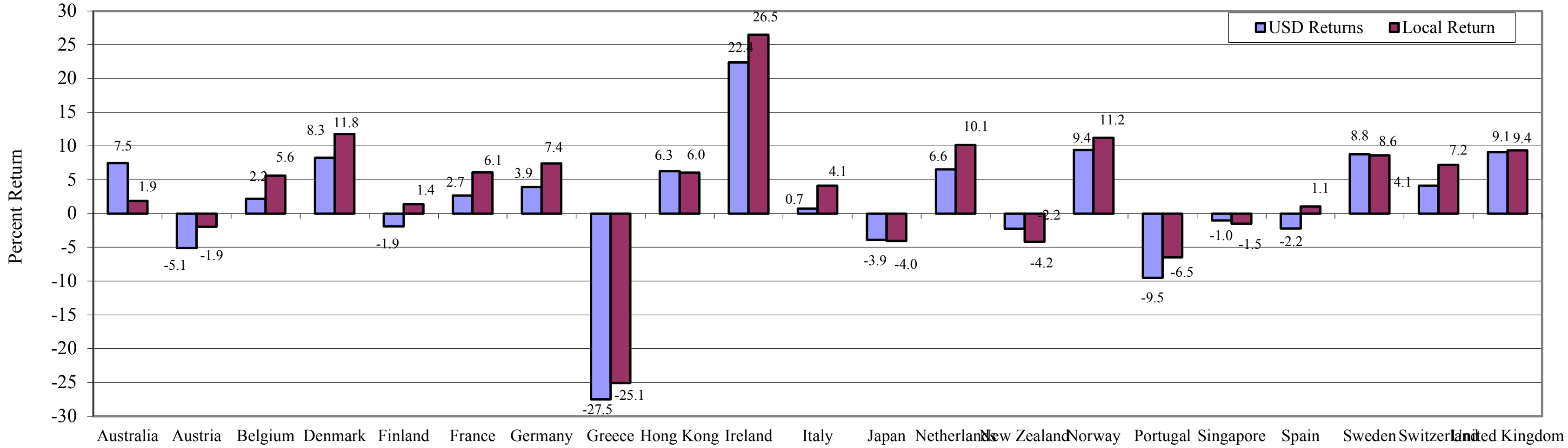
Regionally the UK led the developed nations with a return of 9.1% in the quarter as more resilient earnings expectations relative to its peers increased demand for UK equity. Meanwhile, Japan struggled with dwindling demand abroad and the continued appreciation of the Yen, which hurts its export-oriented economy. Japan fell -3.9% in the quarter and -4.0% on the year.

With a return of 4.4% in the fourth quarter to the MSCI Emerging Markets Index, the emerging markets recouped much of the losses experienced earlier in the year, but still finished the year down -18.4%, amid investors' broad-based aversion to the riskier assets. Latin America led the way with a return 8.8% in the quarter as easier monetary conditions took hold there based on moderating inflation forecasts. India, however, was one of the worst performing emerging market as investors feared that the nation's economic boom was faltering under inflation, mounting debt and political concerns.

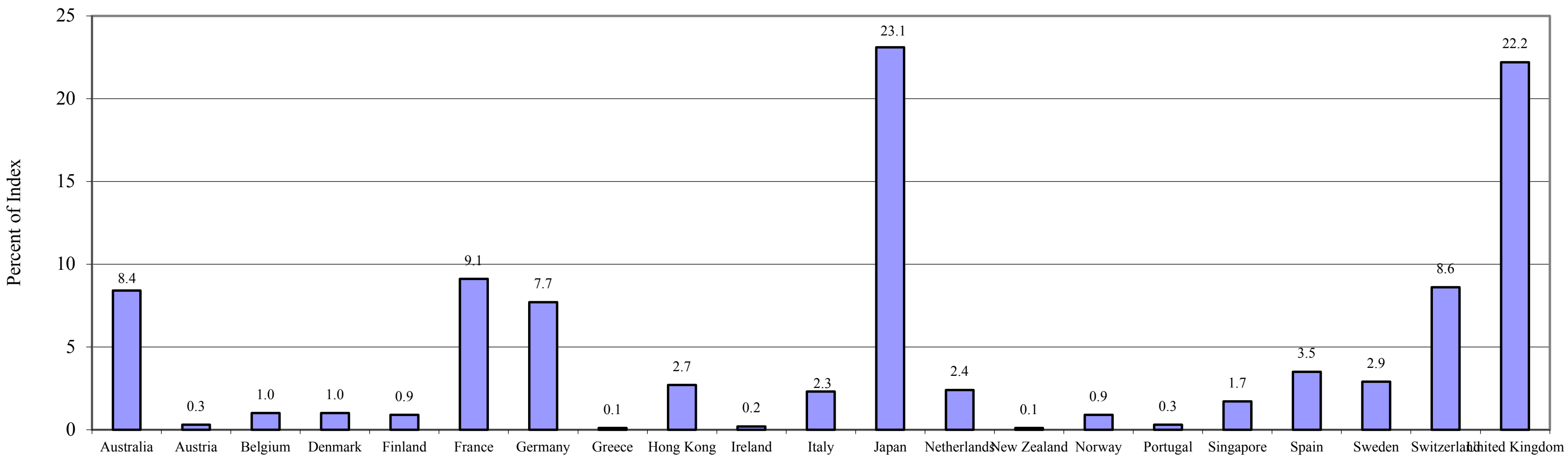
Global Equity Market Review

Q4 2011

MSCI EAFE Country Returns

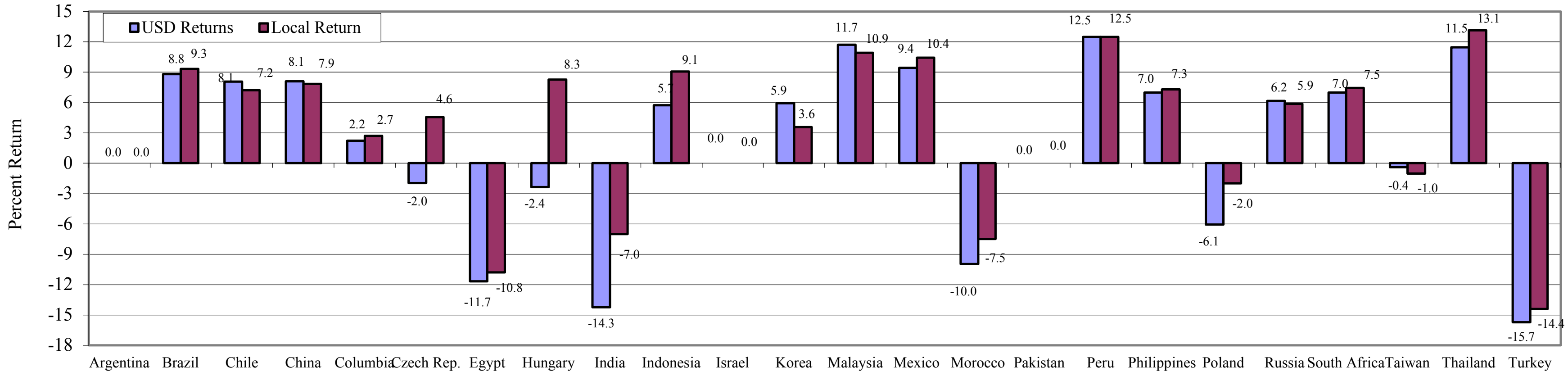


MSCI EAFE Country Weights

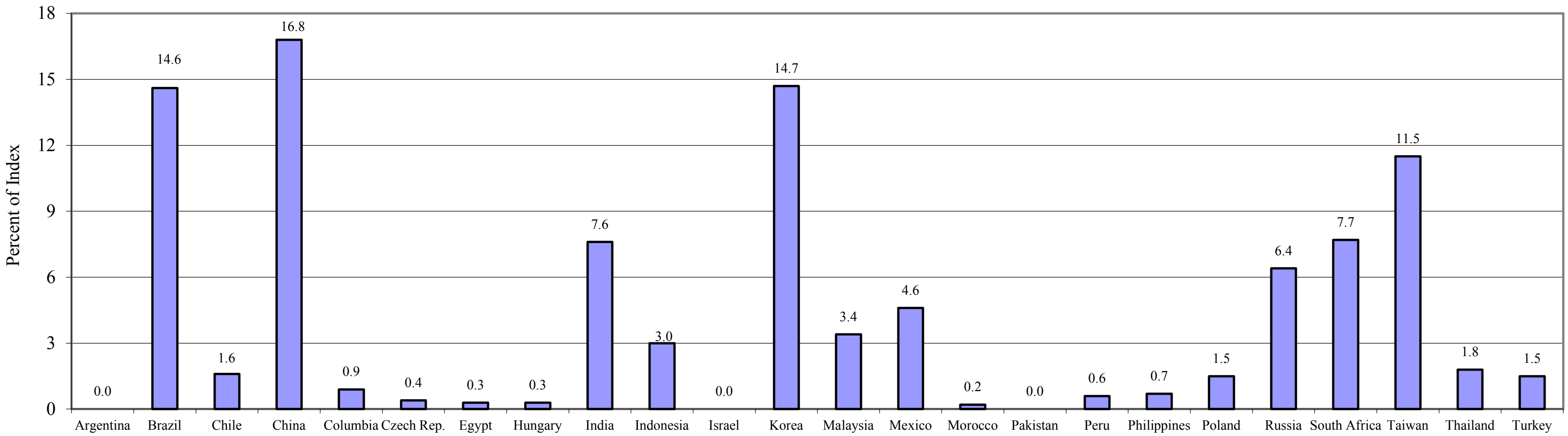


Global Equity Market Review

MSCI Emerging Markets Country Returns



MSCI Emerging Markets Country Weights



OIC Regular Account Performance Report

Net of Fees

Periods Ending December 31, 2011

	3 Year %	5 Year %	7 Year %	10 Year %
Have Returns affected benefit security?				
1. Total Regular Account	11.19	1.94	5.31	6.39
2. Actuarial Discount Rate	8.00	8.00	8.00	8.00
3. Out/Under Performance (1 - 2)	3.19	(6.06)	(2.69)	(1.61)
Has plan been rewarded for capital market risk?				
4. Policy Return	9.04	1.97	4.83	5.87
5. Minimum Risk/High Cost Policy of 91-Day T-Bills	0.14	1.48	2.18	1.95
6. Impact of Asset Mix Policy (4 - 5)	8.89	0.49	2.65	3.92
Has plan been rewarded for active management risk?				
7. Net Active Management Effect (1 -4)	2.15	(0.03)	0.48	0.52

State of Oregon

Total Fund Summary

Quarter Ending December 31, 2011

Total Fund:

The Total Regular Account rose 1.89% in the fourth quarter of 2011 and trailed its benchmark, the OPERF Policy Benchmark by 14 basis points. For the year, the Regular Account returned 2.22%, and outperformed the benchmark (+0.80%) by 142 BP’s. Compared with its Wilshire TUCS peer group of all public funds greater than $1 Billion (page 15), the Plan placed at the 89th percentile in the fourth quarter and at the 13th percentile for the year. In the longer seven and ten year periods, the Plan finished at the first and fifth percentiles, respectively.

Key Factors Contributing to Performance:

The Total Plan Attribution for the fourth quarter (page 16) shows that the Selection of investments contributed positively in the quarter, adding 218 BP's of the value added against the Policy Benchmark, but the allocation of investments (Weighting) subtracted it all back (-219 BP’s). The over-allocation of assets to Private Equity subtracted 162 BP's, while the 10.5% under-allocation to Public Equity subtracted 52 BP's, thanks to the significant rebound of global equities in the quarter. Over the calendar year, Selection in Private Equity (+170 BP’s) and Fixed Income (+24 BP’s) and the under-weighting of Public Equity (+34 BP’s) were the key contributors to the Plan’s outperformance of the benchmark.

The Domestic Equity portfolio rebounded by 11.86% in the bullish fourth quarter, but came up shy of its benchmark, the Russell 3000, by 26 BP's. This landed the portfolio at the 66th percentile of the TUCS’ rankings of US Equity pools of Public Funds. On the year, the portfolio lost -0.79%, underperforming the benchmark by 182 BP's and placing it at the 99th percentile of the TUCS universe. Over the trailing three years, the portfolio outperformed the benchmark by 132 BP's, placing it at the fifth percentile against its peers.

The International Equity portfolio returned 3.39% in the quarter, just slightly ahead of its benchmark, the MSCI ACWI ex US IMI (net) Index, by eight BP's. The portfolio ranked in the 75th percentile of TUCS’ International Equity pools of Public Funds. On the year, the portfolio fell -13.45%, beating the benchmark by 86 BP's, which placed it at the 46th percentile against its peers. Over the seven and ten year periods, the international portfolio achieved first place rankings in the peer group.

The PERS Total Fixed Income portfolio gained 2.18% in the quarter, to underperform the benchmark, the Custom Fixed Income 90/10 benchmark, by 41 BP's. Against its peers in the TUCS US Fixed Income Pools the portfolio improved to the 21st percentile in the quarter. On the year, although the portfolio beat the benchmark by 79 BP's with a return of 6.12%, it still placed in the 99th percentile.

While the Plan’s Private Equity portfolio fell by -5.27% in the third quarter (reporting is lagged one quarter) to place at the 91st percentile among TUCS’ US Private Equity portfolios, it returned 11.06% for the year to land it at the 13th percentile. Over the five, seven and ten year periods the Private Equity portfolio was ranked fifth, first and first, respectively. The Real Estate Portfolio gained 2.41% in the fourth quarter and 14.44% on the year, underperforming its benchmark, the NCREIF Property Index (1-quarter lag) by 88 and 166 BP’s, respectively. While the portfolio ranked 58th in the fourth quarter versus its peers, it was ranked first in the peer group in the one, seven and ten year periods.

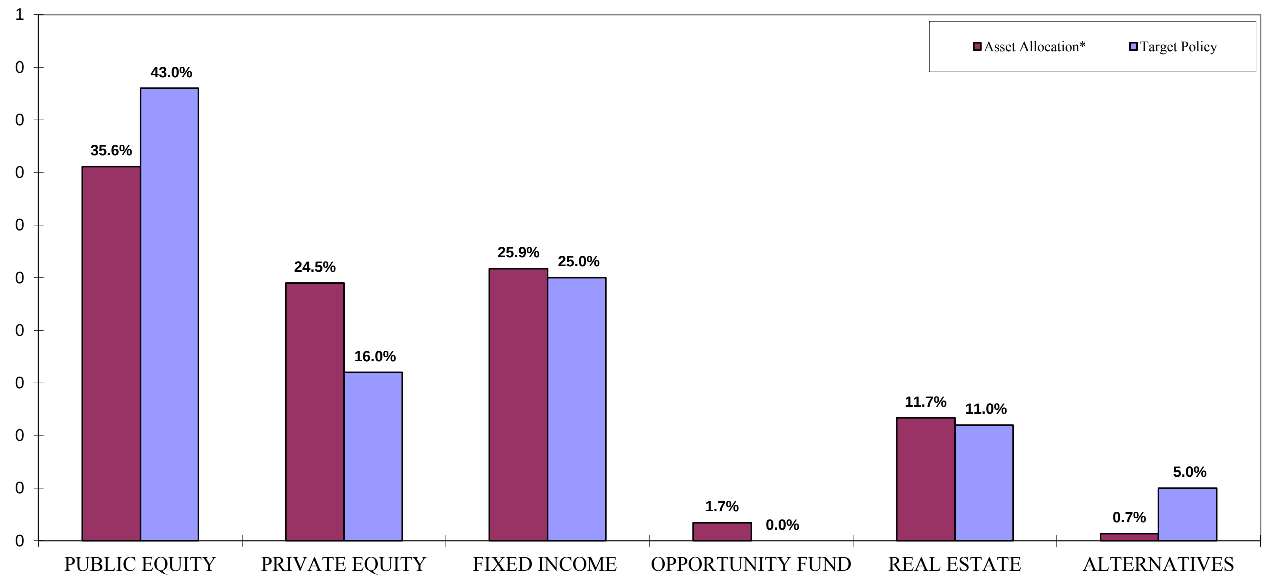
TUCS Universe: Public Funds $1 Billion or Larger (rankings based on gross returns)

State of Oregon

Total Regular Account Asset Allocation

As of December 31, 2011

Asset Allocation ($Thousands) vs. Target Policy



	WEIGHTS			
	Asset Allocation*	Target Policy	Difference	Median (TUCS) Public Fund > $1 B Universe
PUBLIC EQUITY	35.6%	43.0%	-7.4%	51.5%
PRIVATE EQUITY	24.5%	16.0%	8.5%	10.6%
FIXED INCOME	25.9%	25.0%	0.9%	24.3%
OPPORTUNITY FUND	1.7%	0.0%	1.7%	0.0%
REAL ESTATE	11.7%	11.0%	0.7%	3.2%
ALTERNATIVES	0.7%	5.0%	-4.3%	N/A
CASH	0.0%	0.0%	0.0%	3.2%
TOTAL PLAN	100.0%	100.0%	0.0%	

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

State Of Oregon

Total Fund Return Table

Rates Of Return

Periods Ending December 31, 2011

	Market Value $(M)	Current Quarter	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception to Date	Inception Date
FUNDS										
TOTAL REGULAR ACCOUNT	$54,699,652	1.89	2.22	2.22	11.19	1.94	5.31	6.39	6.80	07/01/1997
OPERF POLICY BENCHMARK		2.03	0.80	0.80	9.04	1.97	4.83	5.87		
PUBLIC FUNDS > $1 BILLION RANK*		89	13	13	26	28	1	5		
PUBLIC FUNDS > $10 BILLION RANK*		100	11	11	16	14	1	1		
TOTAL DOMESTIC EQUITY	$9,007,237	11.86	-0.79	-0.79	16.20	-0.13	2.89	3.67	9.64	04/01/1971
RUSSELL 3000		12.12	1.03	1.03	14.88	-0.01	2.97	3.51		
US EQUITY POOLS*		66	99	99	5	31	31	31		
TOTAL INTERNATIONAL EQUITY	$10,038,592	3.39	-13.45	-13.45	11.70	-1.70	4.74	7.43	10.56	04/01/1985
MSCIACWI - OREGON MSCI ACWI EX US IMI NET		3.31	-14.31	-14.31	11.53	-2.49	3.97	6.76		
INTERNATIONAL EQUITY POOLS*		75	46	46	10	5	1	1		
TOTAL GLOBAL EQUITY	$800,093	7.40	-14.45	-14.45	8.79				-6.79	03/01/2007
MSCIACVA - OREGON MSCI ACWI VALUE NET INDEX		7.15	-7.35	-7.35	11.16					
TOTAL FIXED INCOME	$12,825,970	2.18	6.12	6.12	13.91	6.91	6.29	6.86	8.41	01/01/1988
CUSTOM FIXED INCOME 90/10 BLEND [3]		2.59	5.33	5.33	6.66	5.84	5.28	5.68		
US FIXED INCOME POOLS*		21	99	99	5	40	18	12		
TOTAL REAL ESTATE[1]	$6,391,979	2.41	14.44	14.44	0.57	-0.63	7.28	9.59	9.73	12/01/1996
NCREIF PROPERTY ONE QTR LAG		3.30	16.10	16.10	-1.45	3.40	7.48	7.82		
REAL ESTATE POOLS*		58	1	1	41	37	1	1		
TOTAL PRIVATE EQUITY[2]	$13,399,897	-5.27	11.06	11.06	7.34	7.26	13.10	10.84	10.69	07/01/1997
BLENDED PRIVATE EQUITY INDEX QTR LAG		-14.61	3.57	3.57	5.45	2.82	6.37	7.76		
US PRIVATE EQUITY*		91	13	13	12	5	1	1		
TOTAL OPPORTUNITY PORTFOLIO	$938,553	-2.92	1.50	1.50	16.17	3.95			3.70	09/01/2006
RUSSELL 3000		12.12	1.03	1.03	14.88	-0.01				
CPI + 5%		0.69	8.10	8.10	7.46	7.31				
OST SHORT TERM FUND - PERS	$597,623	0.14	0.10	0.10	1.11	1.99	2.59	2.29	4.10	12/01/1989
91 DAY T-BILL		0.00	0.10	0.10	0.14	1.48	2.18	1.95		

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

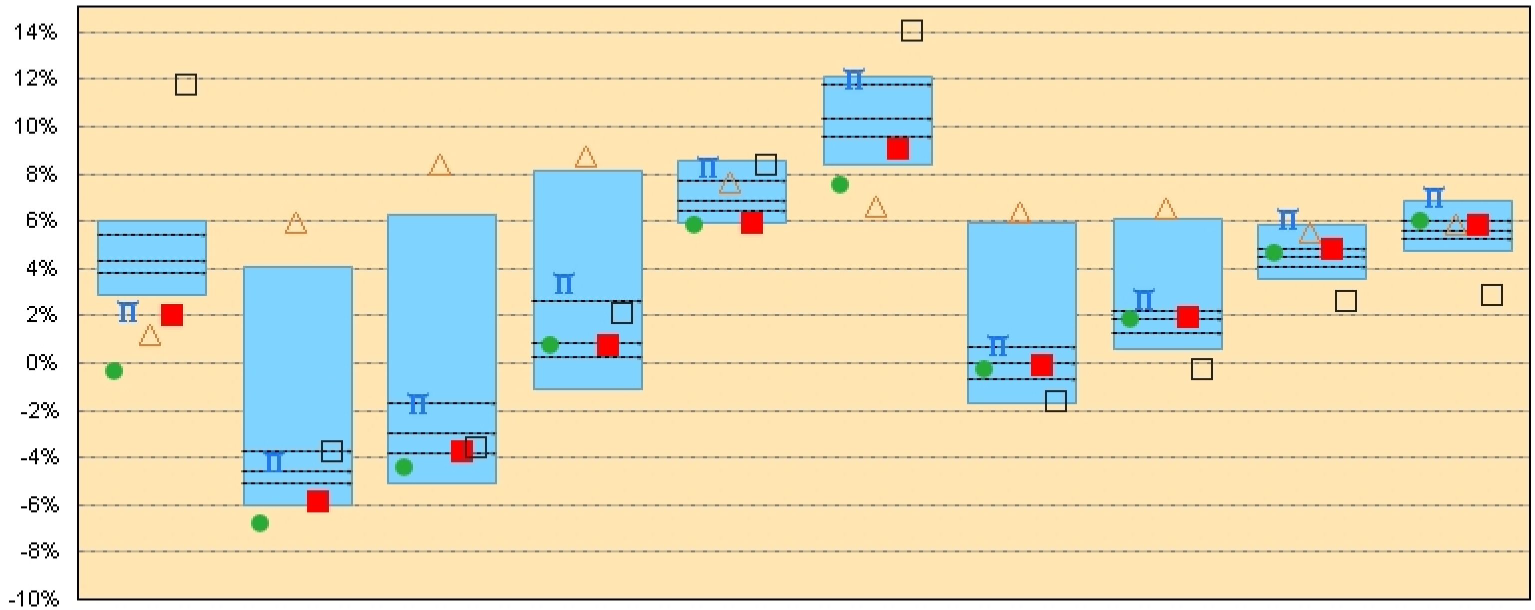
[2]Private Equity returns lagged one quarter

*Ranking source: TUCS Universe, based on gross returns

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

Assets not listed above include a total of $324,233 invested in the Overlay, Total Closed Global Equity, Transition Account, Transitional Managers, Shott Capital, and Fixed Income Transition Account.

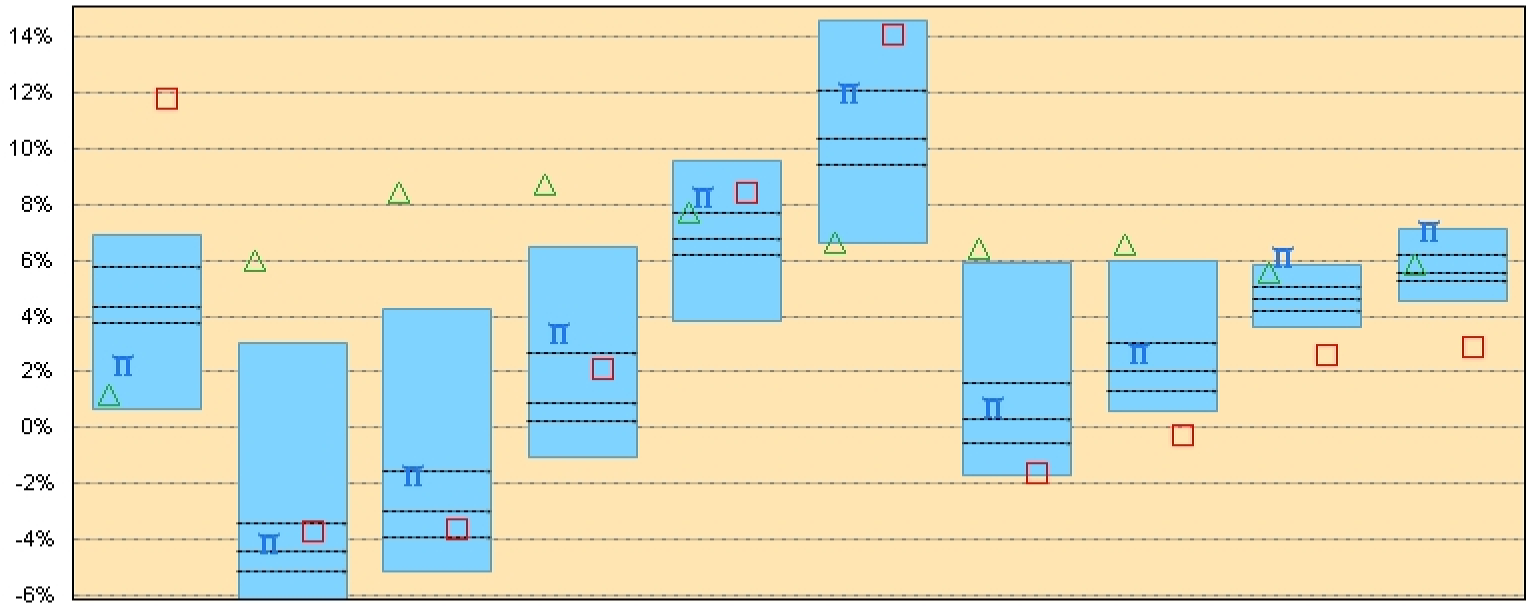
State of Oregon
Performance Comparison
Total Returns of Public Funds > $10 Billion
Cumulative Periods Ending : December 31, 2011



Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	6.02	4.08	6.24	8.11	8.54	12.14	5.93	6.07	5.88	6.83
25th	5.41	-3.73	-1.68	2.65	7.71	11.75	0.64	2.18	4.83	6.01
50th	4.35	-4.58	-3.00	0.84	6.89	10.35	0.00	1.89	4.49	5.56
75th	3.83	-5.05	-3.80	0.26	6.44	9.61	-0.66	1.24	4.09	5.28
95th	2.89	-6.05	-5.10	-1.07	5.91	8.40	-1.67	0.62	3.60	4.76
No. Of Obs	35	35	35	35	34	34	34	34	33	32
Total Regular Account	2.24 (100)	-4.16 (33)	-1.66 (22)	3.42 (11)	8.28 (8)	12.02 (16)	0.75 (22)	2.70 (14)	6.11 (1)	7.02 (1)
OPERF Policy Benchmark	2.03 (100)	-5.83 (84)	-3.77 (71)	0.80 (50)	5.93 (93)	9.04 (84)	-0.06 (53)	1.97 (40)	4.83 (25)	5.87 (31)
Actual Allocation Retu	-0.33 (100)	-6.78 (99)	-4.44 (84)	0.74 (56)	5.88 (96)	7.50 (99)	-0.26 (59)	1.84 (56)	4.69 (34)	5.98 (25)
S&P 500	11.82 (1)	-3.69 (22)	-3.59 (68)	2.12 (30)	8.39 (5)	14.10 (1)	-1.64 (93)	-0.24 (100)	2.64 (100)	2.92 (100)
Barclays Govt/Credit	1.18 (100)	5.97 (1)	8.43 (1)	8.73 (1)	7.66 (28)	6.60 (100)	6.38 (1)	6.55 (1)	5.54 (8)	5.85 (34)

State of Oregon
Performance Comparison

Total Returns of Master Trusts - Public : Plans > $1 Billion
Cumulative Periods Ending : December 31, 2011

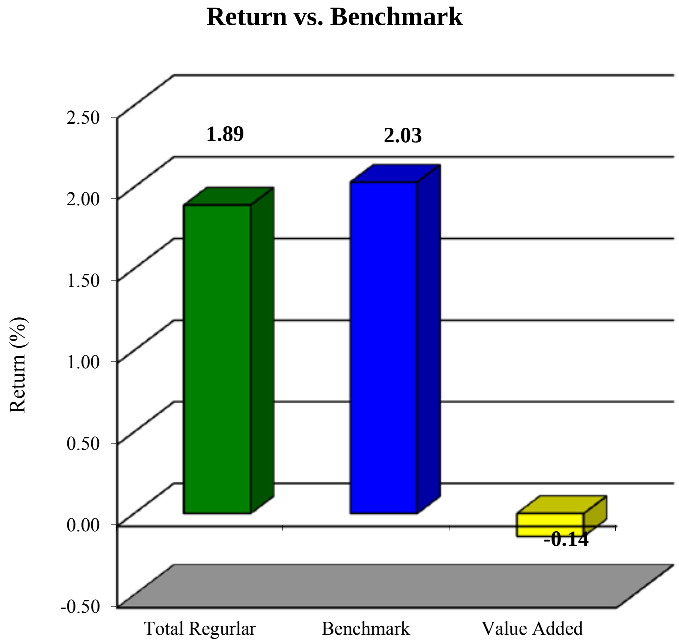


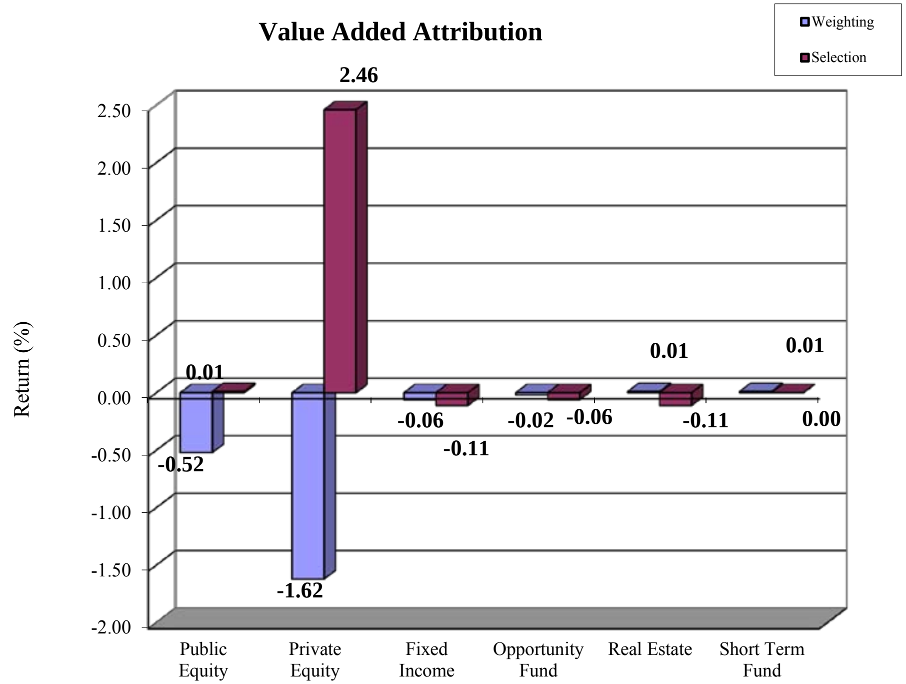
Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	6.89	3.07	4.26	6.46	9.56	14.56	5.93	5.96	5.80	7.12
25th	5.74	-3.39	-1.52	2.65	7.69	12.09	1.62	3.03	5.06	6.16
50th	4.34	-4.43	-2.95	0.86	6.75	10.37	0.30	2.03	4.64	5.57
75th	3.72	-5.13	-3.92	0.26	6.20	9.39	-0.54	1.33	4.19	5.27
95th	0.71	-6.13	-5.10	-1.06	3.84	6.63	-1.67	0.62	3.60	4.57
No. Of Obs	62	62	62	62	59	59	59	59	56	55
Total Regular Account	2.24 (89)	-4.16 (38)	-1.66 (25)	3.42 (13)	8.28 (9)	12.02 (26)	0.75 (36)	2.70 (28)	6.11 (1)	7.02 (5)
S&P 500	11.82 (1)	-3.69 (31)	-3.59 (65)	2.12 (28)	8.39 (9)	14.10 (5)	-1.64 (93)	-0.24 (100)	2.64 (100)	2.92 (100)
Barclays Govt/Credit	1.18 (92)	5.97 (1)	8.43 (1)	8.73 (1)	7.66 (26)	6.60 (95)	6.38 (1)	6.55 (1)	5.54 (15)	5.85 (41)

Total Plan Attribution

Regular Account

09/30/2011 - 12/31/2011





	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
Public Equity	35.52	46.00	-10.48	7.22	7.18	0.04	-0.52	0.01	
Private Equity	25.96	16.00	9.96	-5.27	-14.61	9.34	-1.62	2.46	
Fixed Income	25.13	27.00	-1.87	2.18	2.59	-0.41	-0.06	-0.11	
Opportunity Fund	1.63	0.00	1.63	-2.92	0.69	-3.61	-0.02	-0.06	
Real Estate	11.45	11.00	0.45	2.41	3.30	-0.89	0.01	-0.11	
Short Term Fund	0.30	0.00	0.30	0.16	0.00	0.16	0.01	0.00	
Total Regurlar Account	100.00	100.00	0.00	1.89	2.03	-0.14	-2.19	2.18	-0.08

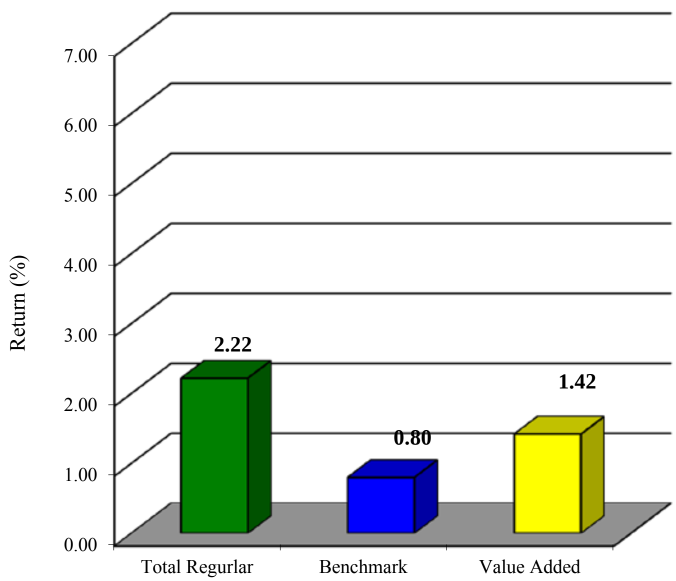
* Weights of Portfolios based on beginning of period valuations.
** Weights of Benchmarks based on Average weights over entire period.
*** Asset Class Returns reflext the impact of the overlay program.

Total Plan Attribution

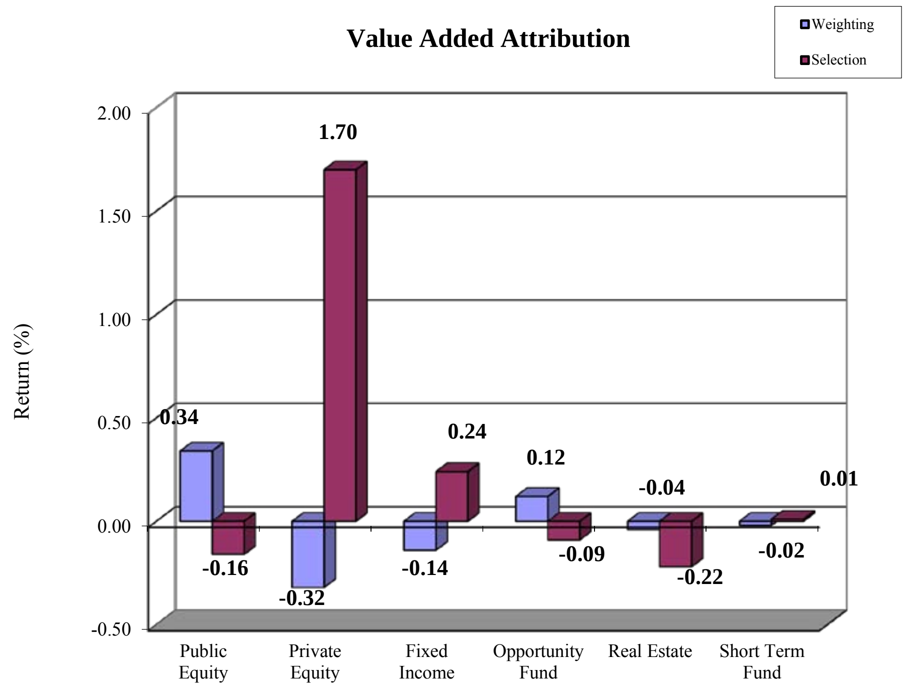
Regular Account

12/31/2010 - 12/31/2011

Return vs. Benchmark



Value Added Attribution



	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
Public Equity	41.58	46.00	-4.42	-7.78	-7.35	-0.43	0.34	-0.16	
Private Equity	21.56	16.00	5.56	11.06	3.57	7.49	-0.32	1.70	
Fixed Income	24.12	27.00	-2.88	6.46	5.33	1.13	-0.14	0.24	
Opportunity Fund	1.90	0.00	1.90	1.50	8.10	-6.60	0.12	-0.09	
Real Estate	9.60	11.00	-1.40	14.44	16.10	-1.66	-0.04	-0.22	
Short Term Fund	1.24	0.00	1.24	0.45	0.10	0.35	-0.02	0.01	
Total Regurlar Account	100.00	100.00	0.00	2.22	0.80	1.42	-0.05	1.47	-0.01

* Weights of Portfolios based on beginning of period valuations.

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

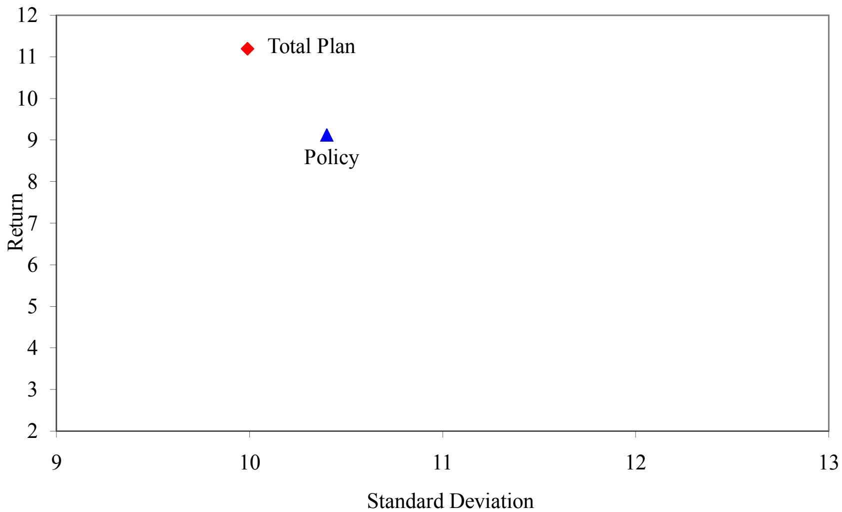
*** Asset Class Returns reflext the impact of the overlay program.

Total Regular Account

Total Risk vs. Return (OPERF Policy)

As of December 31, 2011

3 Year Risk Analysis



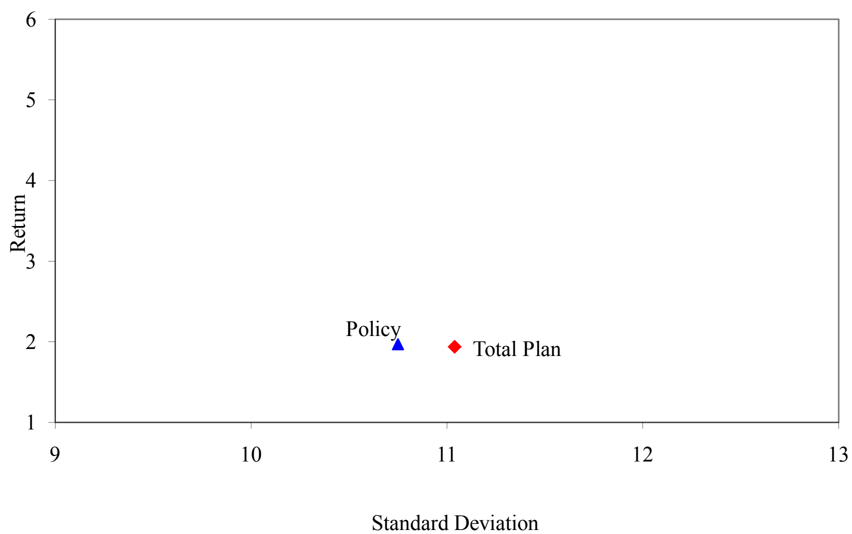
Risk Information

Portfolio Return	11.19
Benchmark Return	9.04
Return Difference	2.15
Portfolio Standard Deviation	9.99
Benchmark Standard Deviation	10.40
Tracking Error	2.45

Risk Statistics

Historic Beta	0.93
R-Squared	0.94
Jensens Alpha	2.74
Sharpe Ratio	1.11
Treynor Ratio	11.82
Information Ratio	0.88

5 Year Risk Analysis



Risk Information

Portfolio Return	1.94
Benchmark Return	1.97
Return Difference	-0.03
Portfolio Standard Deviation	11.04
Benchmark Standard Deviation	10.75
Tracking Error	2.39

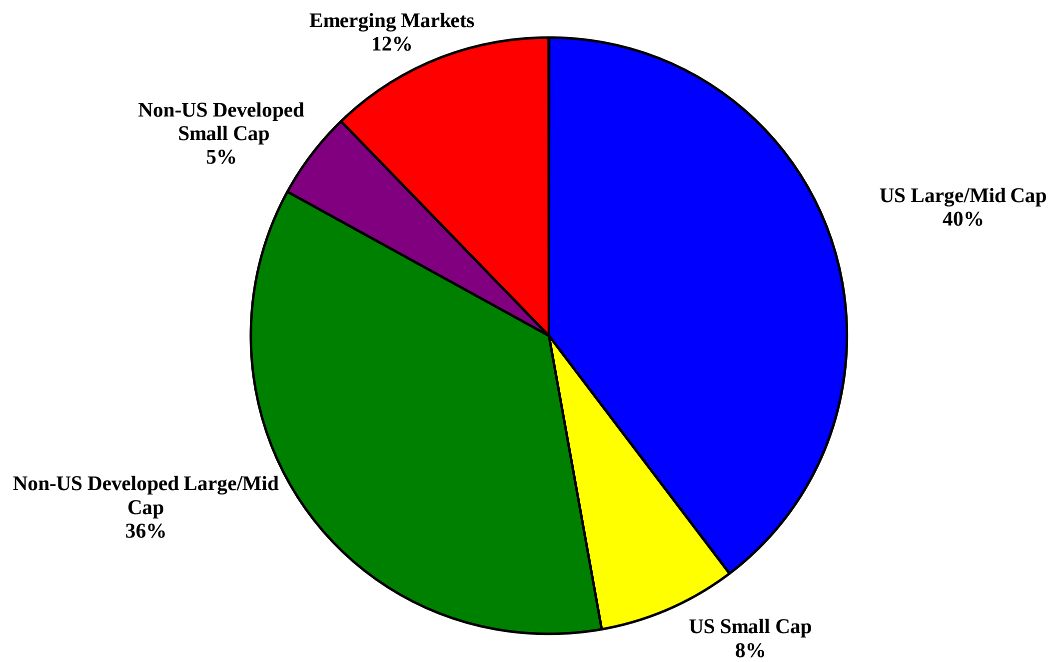
Risk Statistics

Historic Beta	1.00
R-Squared	0.95
Jensens Alpha	-0.03
Sharpe Ratio	0.04
Treynor Ratio	0.46
Information Ratio	-0.01

State of Oregon

Public Equity Regional Allocation

As of December 31, 2011



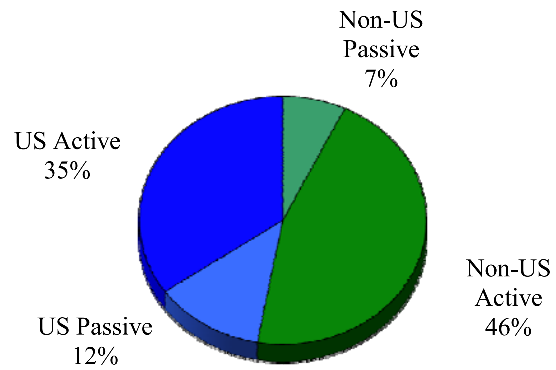
Target	
US Large/Mid:	40%
US Small:	7%
Non-US Developed Large/Mid:	36%
Non-US Developed Small:	5%
Emerging Markets:	12%

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

State of Oregon

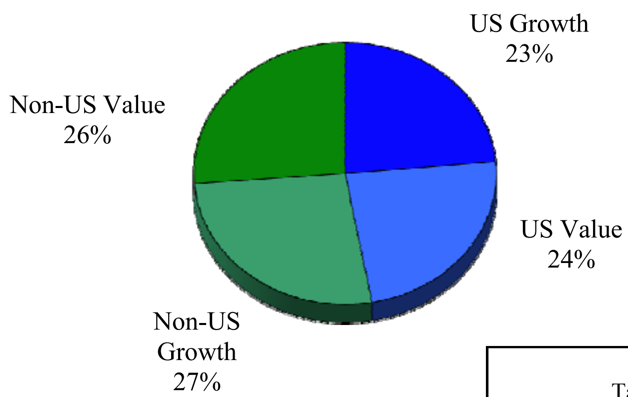
Public Sector Manager Allocation as of December 31, 2011

Active vs. Passive



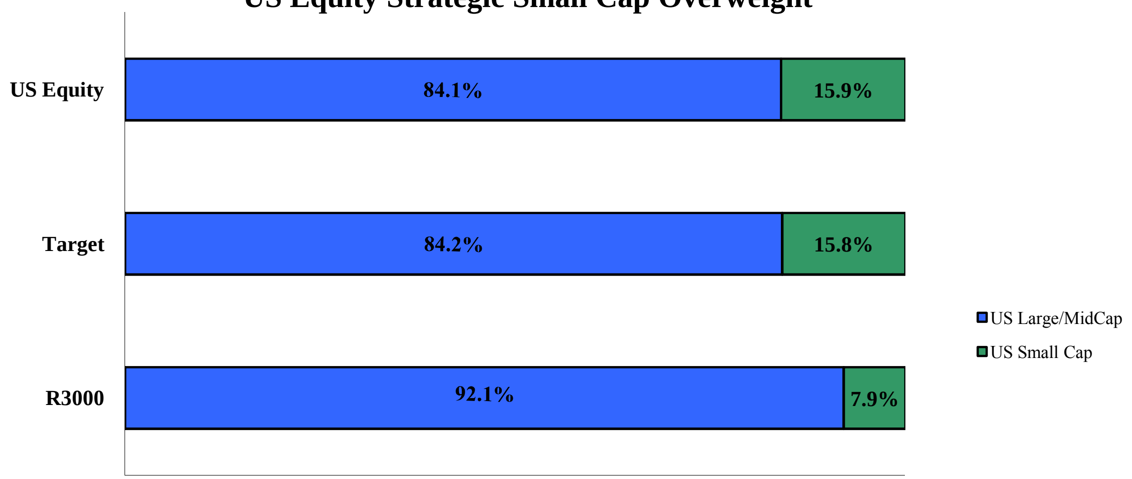
Target	
Active:	75%
Passive:	25%

Value vs. Growth



Target	
Growth:	50%
Value:	50%

US Equity Strategic Small Cap Overweight



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

Figures May not sum to 100% due to rounding.

Total Public Equity
Individual Manager Allocations
As of December 31, 2011

Manager	Market Value ($M)	Current % of Equities
Total Domestic Equity		
U.S. Large Cap:	**7,199,769**	**36.3%**
Aletheia Research	296,656	1.5%
Aronson+Johnson+Ortiz	709,247	3.6%
Blackrock Russell 1000 Growth	777,172	3.9%
Blackrock Russell 1000 Value	593,838	3.0%
Delaware	433,149	2.2%
MFS	715,134	3.6%
Northern Trust	747,926	3.8%
PIMCO	458,542	2.3%
Russell Fundamental	523,847	2.6%
Pyramis US Core	349,004	1.8%
S&P 400 Index	158,138	0.8%
S&P 500 Index	813,545	4.1%
Wells Capital Select	623,571	3.1%
U.S. Small and SMID Cap:	**1,806,624**	**9.1%**
AQR	161,343	0.8%
Boston Company	173,867	0.9%
Eudaimonia	86,873	0.4%
Next Century Micro	112,772	0.6%
Next Century Small	112,676	0.6%
R2000 Synthetic	118,792	0.6%
Wanger	719,316	3.6%
Wellington	320,983	1.6%
Passive	3,869,449	19.5%
Active	15,975,340	80.5%
Total Equities*	**19,845,937**	**100.0%**

Manager	Market Value ($M)	Current % of Equities
Total Non-US Equity		
Non-U.S. Large Cap:	**7,829,432**	**39.5%**
Acadian	645,561	3.3%
AQR (Non-US LC)	775,672	3.9%
Arrowstreet	966,751	4.9%
Brandes	641,988	3.2%
Lazard	712,165	3.6%
Northern Trust (Non-US)	199,509	1.0%
Pyramis Global Advisors	848,027	4.3%
SSgA	1,407,964	7.1%
TT International	552,277	2.8%
UBS	438,027	2.2%
Walter Scott	641,492	3.2%
Non-U.S. Small Cap:	**753,027**	**3.8%**
DFA	161,932	0.8%
Harris	181,612	0.9%
Pyramis Select (Non-US Smcap)	251,576	1.3%
Victory	157,908	0.8%
Emerging Markets:	**1,455,844**	**7.3%**
Arrowstreet (EM)	371,043	1.9%
Blackrock TEMs	191,931	1.0%
DFA SC	97,555	0.5%
Genesis	528,909	2.7%
Westwood	101,977	0.5%
William Blair	164,429	0.8%
Global:	**800,093**	**4.0%**
AllianceBernstein GSV	800,093	4.0%

* Includes $1,148 in other Equity assets not listed above

State of Oregon
Total Active Domestic Equity Characteristics Summary
Fourth Quarter 2011

Top 10 Holdings

	Mkt. Value ($M)	% of Portfolio
APPLE INC	130,220	2.2
EXXON MOBIL CORP	112,270	1.9
CHEVRON CORP	85,700	1.4
PFIZER INC	67,380	1.1
GOOGLE INCCL A	66,560	1.1
MASTERCARDINC CLASS A	57,100	0.9
JPMORGAN CHASE + CO	58,730	1.0
QUALCOMM INC	54,930	0.9
OCCIDENTALPETROLEUM CORP	49,170	0.8
VISA INC CLASS A SHARES	48,930	0.8

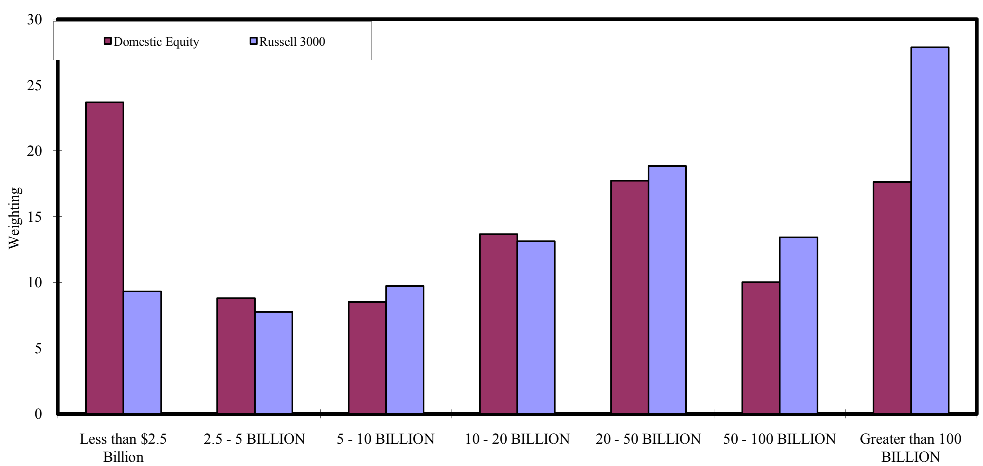
Characteristics

	Domestic Equity	Russell 3000
P/E Ratio	21.2	18.1
P/B Ratio	3.4	3.3
5 Year EPS Growth (%)	10.8	7.4
Market Cap - cap wtd ($MM)	53.8	78.1
Dividend Yield (%)	1.5	2.1

Risk Statistics

	3 Year	5 Year
Portfolio Return	16.41	-0.26
Benchmark Return	14.88	-0.01
Portfolio Standard Deviation	20.20	20.78
Benchmark Standard Deviation	19.62	19.61
Tracking Error	2.18	2.42
Historic Beta	1.02	1.05
R-Squared	0.99	0.99
Jensen's Alpha	1.18	-0.16
Sharpe Ratio	0.80	-0.08
Information Ratio	0.70	-0.10

Market Capitalization



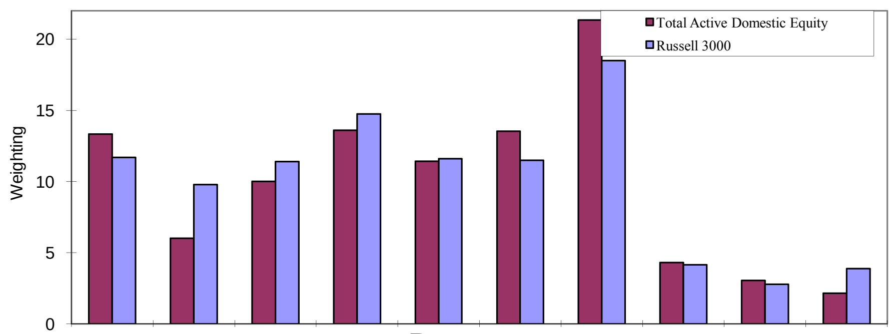
Market Capitalization

	Domestic Equity	Russell 3000
Less than $2.5 Billion	23.7	9.3
2.5 - 5 BILLION	8.8	7.8
5 - 10 BILLION	8.5	9.7
10 - 20 BILLION	13.7	13.1
20 - 50 BILLION	17.7	18.8
50 - 100 BILLION	10.0	13.4
Greater than 100 BILLION	17.6	27.8

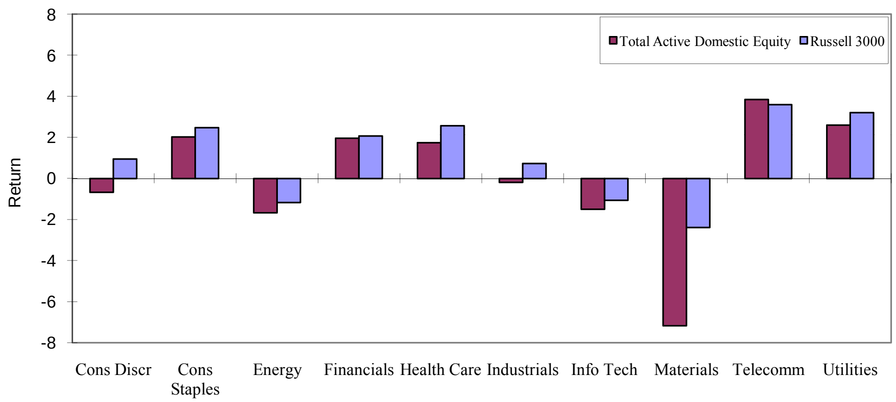
State of Oregon

Total Active Domestic Equity Sector Attribution
Fourth Quarter 2011

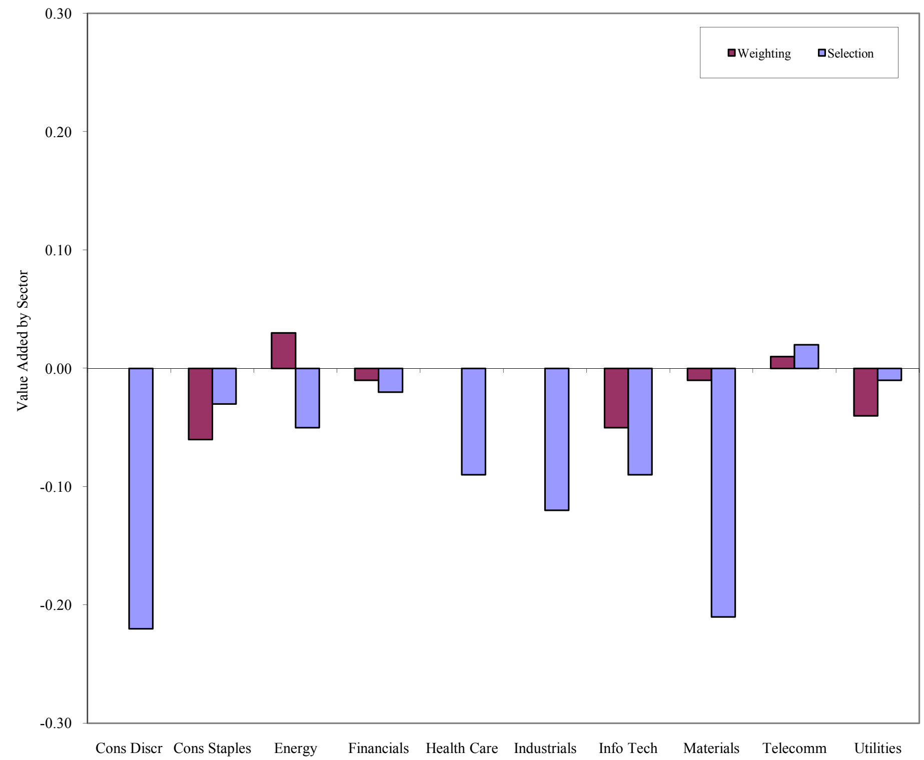
Weighting



Return



Value Added



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Active Dom Equity*	Russell 3000	Difference	Total Active Dom Equity	Russell 3000	Difference	Allocation	Selection	Timing
Consumer Discretionary	13.3	11.7	1.7	-0.7	0.9	-1.6	0.0	-0.2	
Consumer Staples	6.0	9.8	-3.8	2.0	2.5	-0.4	-0.1	0.0	
Energy	10.0	11.4	-1.4	-1.7	-1.2	-0.5	0.0	-0.1	
Financials	13.6	14.8	-1.2	2.0	2.1	-0.1	0.0	0.0	
Health Care	11.4	11.6	-0.2	1.7	2.6	-0.8	0.0	-0.1	
Industrials	13.5	11.5	2.1	-0.2	0.7	-0.9	0.0	-0.1	
Info Technology	21.4	18.5	2.9	-1.5	-1.1	-0.4	-0.1	-0.1	
Materials	4.3	4.2	0.2	-7.2	-2.4	-4.9	0.0	-0.2	
Telecommunication	3.1	2.8	0.3	3.9	3.6	0.3	0.0	0.0	
Utilities	2.1	3.9	-1.7	2.6	3.2	-0.6	0.0	0.0	
Total Fund	100.0	100.0	0.0	-18.0	-15.3	-3.2	-0.1	-0.8	-2.3

Note: Attribution is based on the invested portfolio's gross performance returns at the security level. Weighting is based on beginning of period holdings.
*Excludes 1.3% in Cash Equivalent, Commingled Funds, Private Placement, Real Estate, & Rights/Warrants investments.

State of Oregon

International Equity Atttribution Summary

Fourth Quarter 2011

Top Ten Holdings

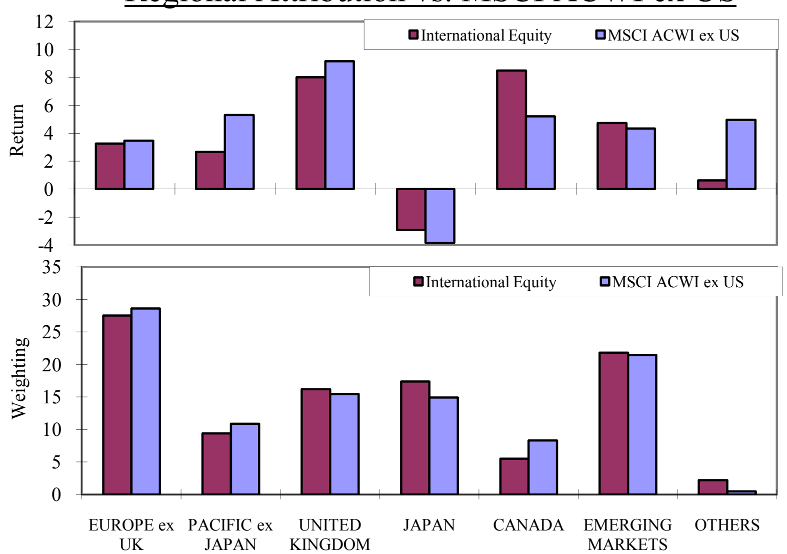
	Mkt. Value ($M)	% of Portfolio
SSGA MSCI EAFE (NON LENDING)	1,253,800	12.7
LAZARD FDS INC	177,990	1.8
CANADA MSCI INDEX FUND	154,170	1.6
DIMENSIONAL FUND ADVISORS INC	97,560	1.0
CHINA MOBILE LTD	76,630	0.8
VODAFONE GROUP PLC	74,930	0.8
NESTLE SAREG	74,330	0.8
NOVARTIS AG REG	71,870	0.7
GLAXOSMITHKLINE PLC	70,460	0.7
SAMSUNG ELECTRONICS CO LTD	66,810	0.7

*Excludes holdings of funds or ETF's

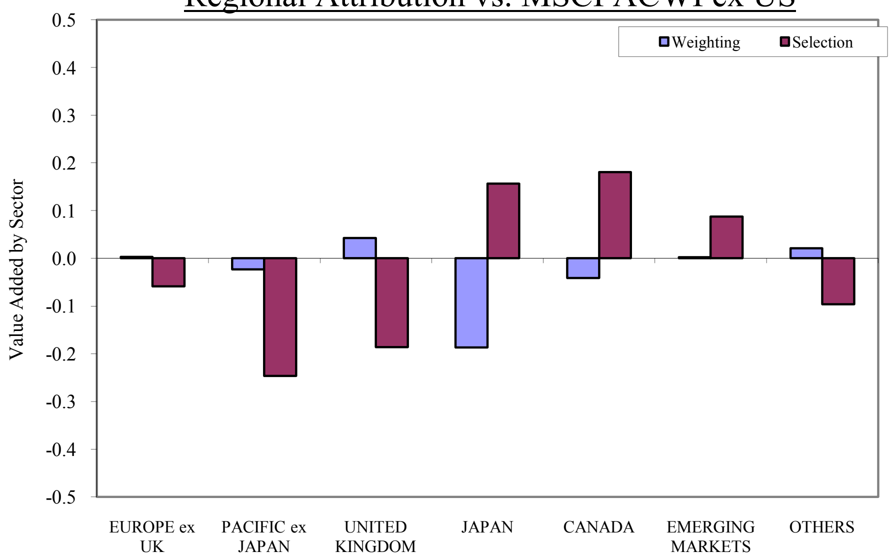
Market Capitalization

	International Equity	MSCI AC WORLD ex US
Less than 2.5 BILLION	16.6	3.0
2.5 - 5 BILLION	9.5	9.0
5 - 10 BILLION	14.5	14.9
10 - 20 BILLION	13.7	18.3
20 - 50 BILLION	21.2	25.3
50 - 100 BILLION	14.0	16.8
Greater than 100 BILLION	10.6	12.8

Regional Attribution vs. MSCI ACWI ex US



Regional Attribution vs. MSCI ACWI ex US



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

State of Oregon

International Equity Atttribution Summary
Fourth Quarter 2011

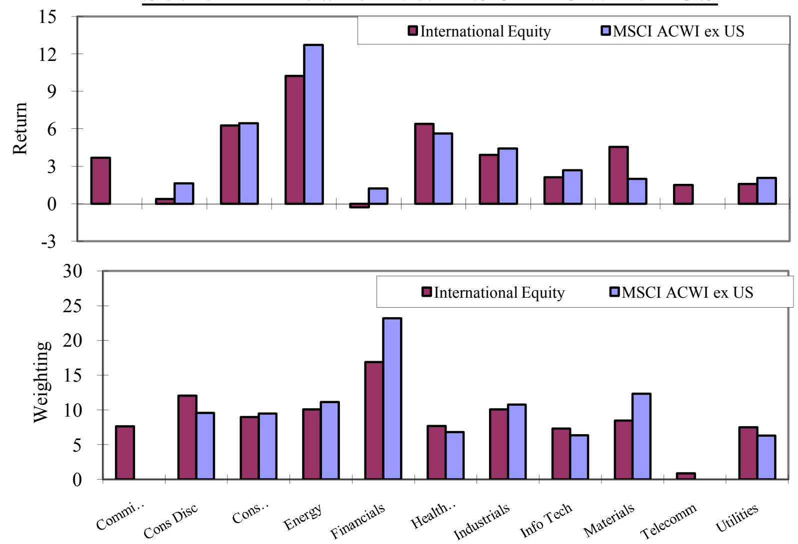
Risk Statistics

	3 Year	5 Year
Portfolio Return	11.70	-1.70
Benchmark Return	11.53	-2.49
Portfolio Standard Deviation	22.45	23.04
Benchmark Standard Deviation	23.11	23.85
Tracking Error	1.56	1.53
Historic Beta	0.97	0.96
R-Squared	1.00	1.00
Jensen's Alpha	0.52	0.65
Sharpe Ratio	0.51	-0.14
Information Ratio	0.11	0.51

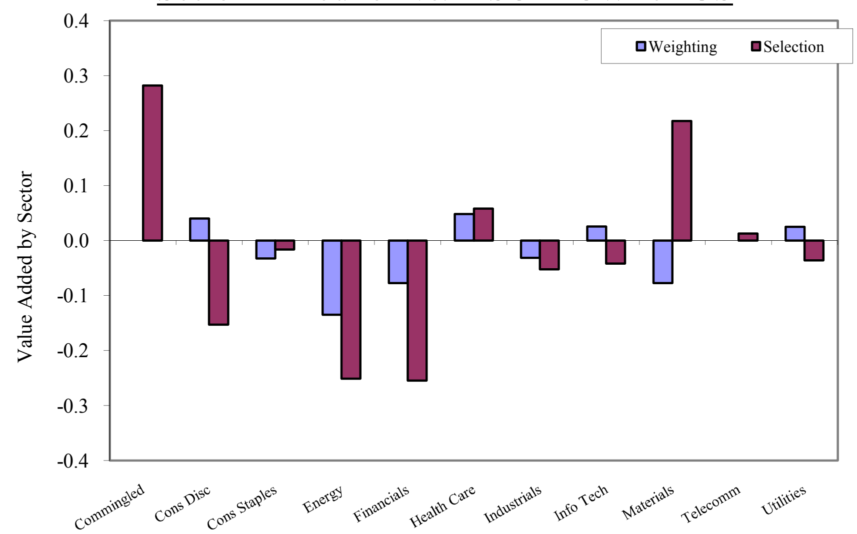
Characteristics

	International Equity	MSCI AC WORLD ex US
P/E Ratio	12.9	12.8
P/B Ratio	2.4	2.4
5 Year EPS Growth (%)	6.7	3.8
Market Cap - cap weighted ($B)	36.6	41.9
Dividend Yield (%)	3.3	3.6

Sector Attribution vs. MSCI ACWI ex US



Sector Attribution vs. MSCI ACWI ex US



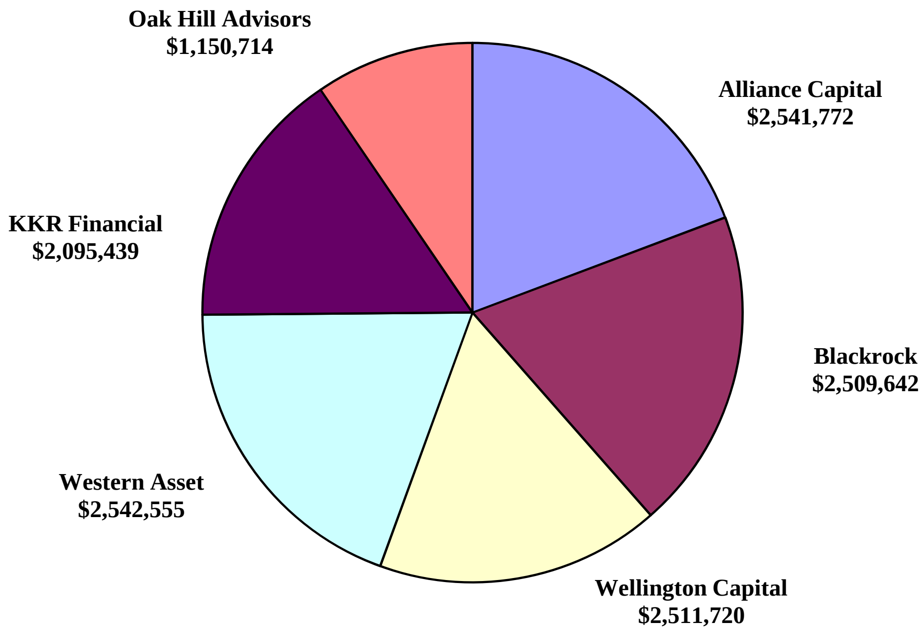
Note: All risk statistics are based on net performance returns and attribution is based on gross performance returns at the security level. Weighting is based on beginning of period holdings.

Total Fixed Income

Individual Manager Allocation

As of December 31, 2011

Portfolio	$M	% Allocation
External Fixed Income		
Alliance Capital Management	$ 2,419,670	19.3%
Blackrock	$ 2,420,673	19.3%
Wellington Capital Management	$ 2,138,484	17.0%
Western Asset Management	$ 2,427,877	19.3%
KKR Financial LLC	$ 1,961,821	15.6%
Oak Hill Advisors, L.P.	$ 1,194,359	9.5%
Total Fixed Income	**$ 12,562,884**	

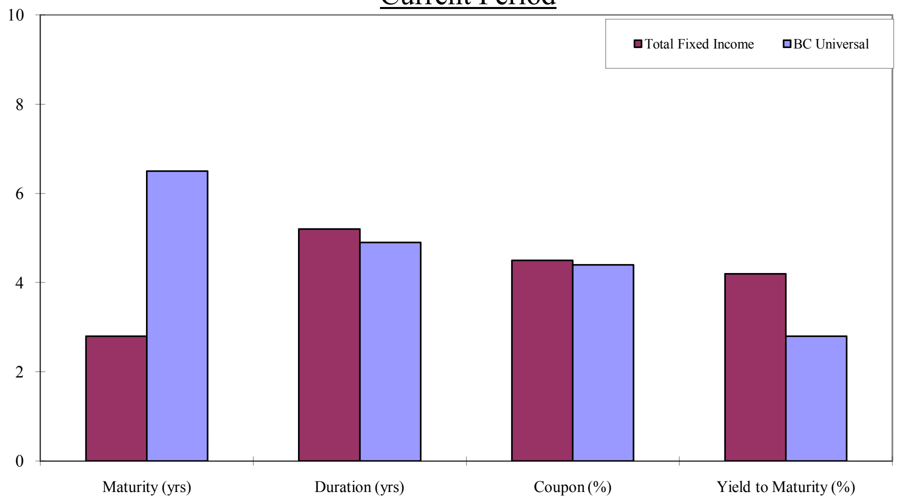


State of Oregon

Fixed Income Characteristics Summary

Fourth Quarter 2011

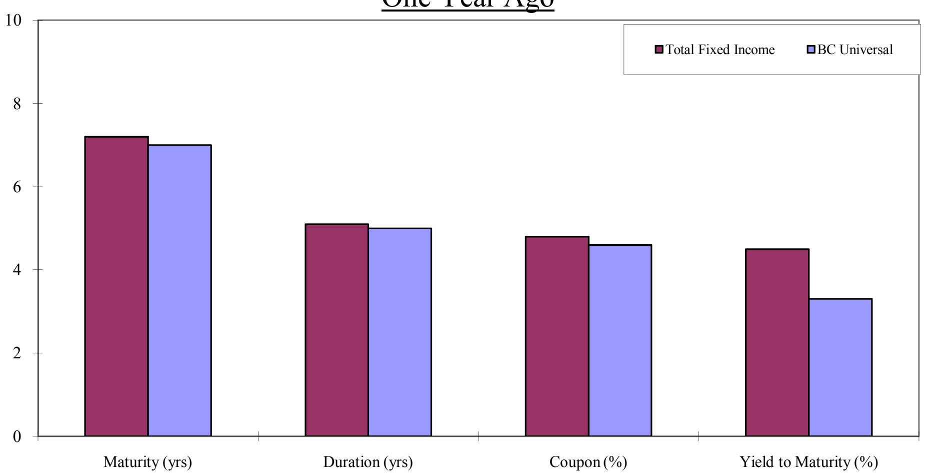
Current Period



Characteristics

	9/30/11		9/30/10	
Characteristics	**Portfolio**	**BC Universal**	**Portfolio**	**BC Universal**
Maturity (yrs)	2.8	6.5	7.2	7.0
Duration (yrs)	5.2	4.9	5.1	5.0
Coupon (%)	4.5	4.4	4.8	4.6
Yield to Maturity (%)	4.2	2.8	4.5	3.3
Moody's Quality Rating	A-2	AA-3	A-2	AA-2
S&P Quality Rating	A	AA-	A+	AA

One Year Ago



Risk Statistics

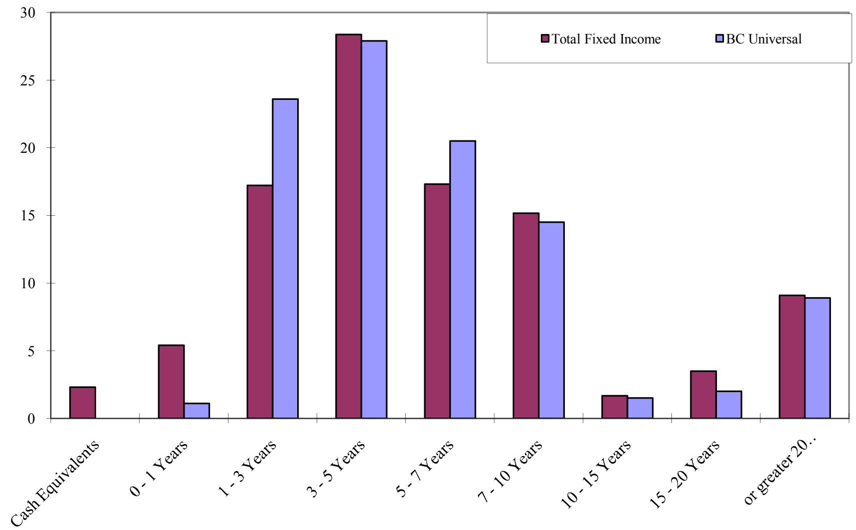
	3 Year	**5 Year**
Portfolio Return	13.91	6.91
Benchmark Return	6.66	5.84
Portfolio Standard Deviation	4.56	5.75
Benchmark Standard Deviation	2.87	3.65
Tracking Error	3.43	4.20
Historic Beta	1.04	1.13
R-Squared	0.43	0.50
Jensen's Alpha	6.96	0.53
Sharpe Ratio	3.02	0.94
Information Ratio	2.11	0.26

State of Oregon

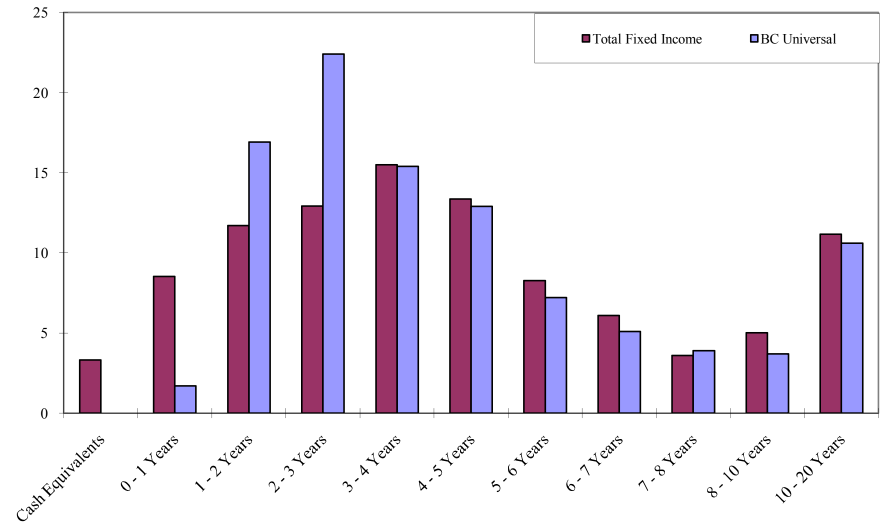
Fixed Income Characteristics Detail

Fourth Quarter 2011

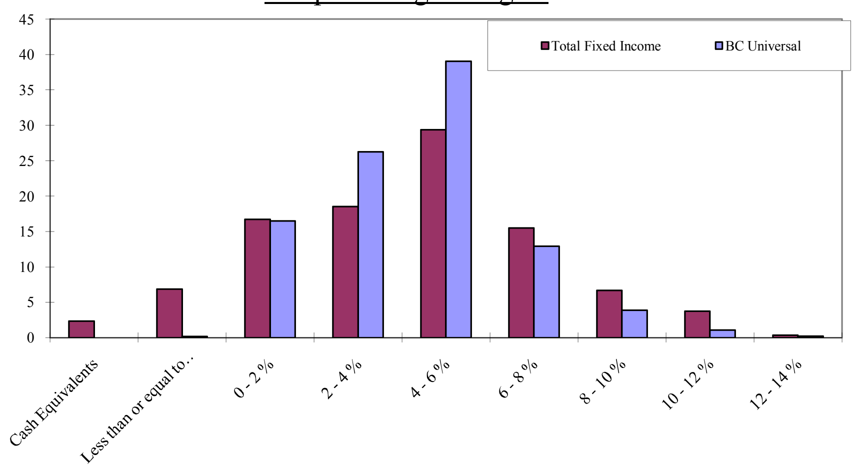
Maturity Range Weights



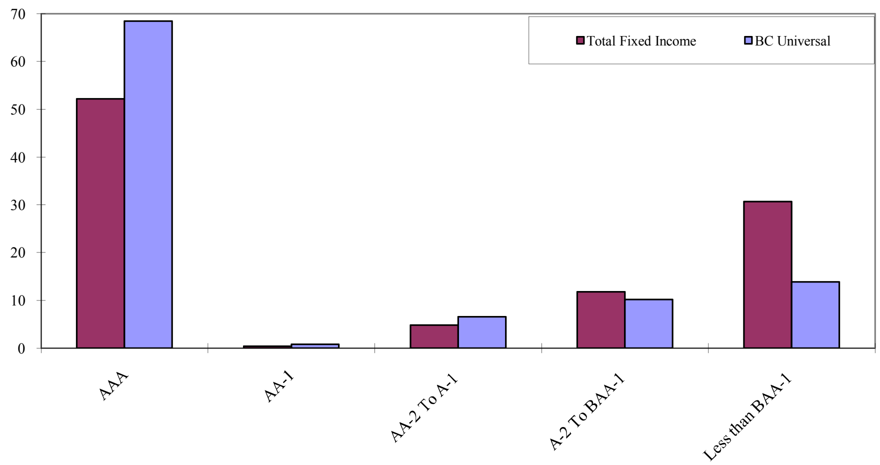
Duration Range Weights



Coupon Range Weights



Moody's Rating Weights

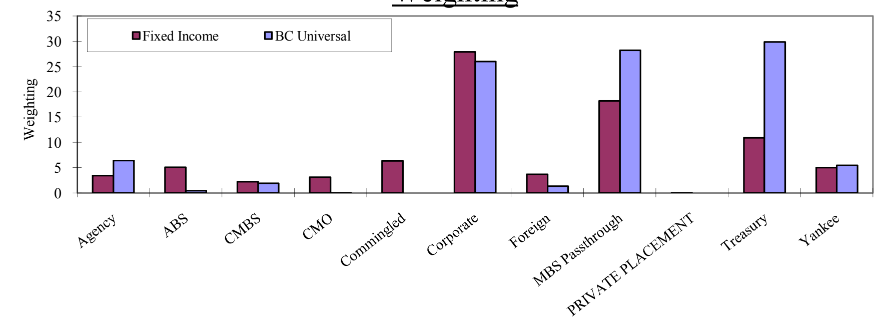


State of Oregon

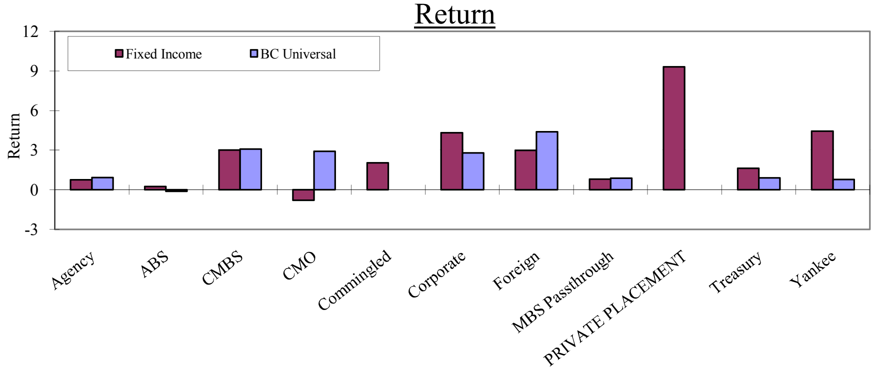
Fixed Income Sector Attribution

Fourth Quarter 2011

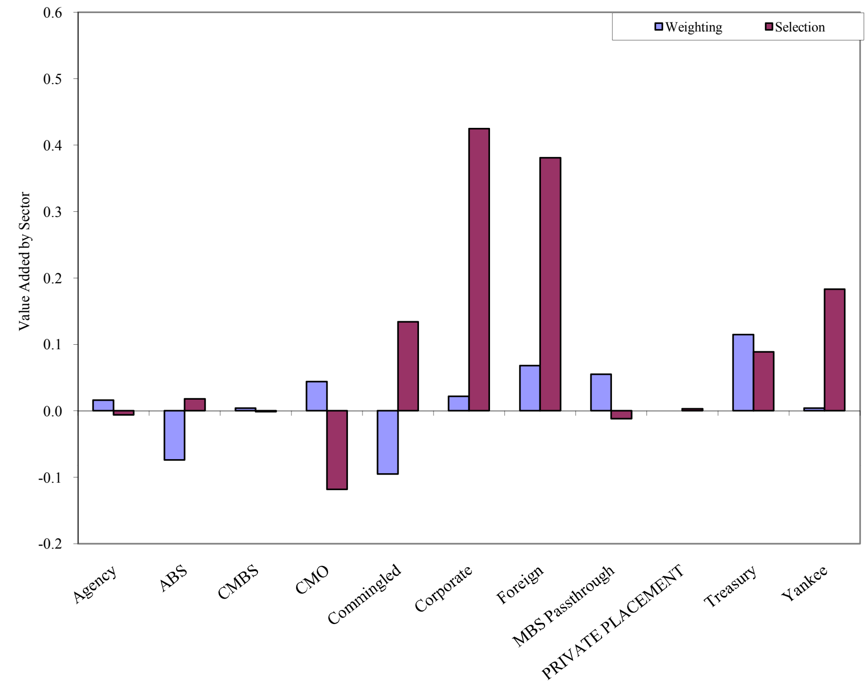
Weighting



Return



Value Added



	BEGINNING WEIGHTS			RETURNS			VALUE ADDED		
	Total Fixed Income*	BC Universal	Difference	Total Fixed Income*	BC Universal	Difference	Weighting	Selection	Timing
AGENCY	3.4	6.4	-3.0	0.7	0.9	-0.2	0.0	0.0	-
ASSET BACKED	5.1	0.5	4.6	0.2	-0.1	0.3	-0.1	0.0	-
CMBS	2.2	1.9	0.3	3.0	3.1	-0.1	0.0	0.0	-
CMO	3.1	0.0	3.1	-0.8	2.9	-3.6	0.0	-0.1	-
COMMINGLED FUND	6.4	0.0	6.4	2.0	-	-	-0.1	0.1	-
CORPORATE	27.9	26.0	1.9	4.3	2.8	1.5	0.0	0.4	-
FOREIGN	3.7	1.3	2.4	3.0	4.4	-1.4	0.1	0.4	-
MORTGAGE PASS-THROUG	18.2	28.3	-10.0	0.8	0.9	-0.1	0.1	0.0	-
PRIVATE PLACEMENT	0.0	0.0	0.0	9.3	-	-	0.0	0.0	-
US TREASURY	10.9	29.9	-19.0	1.6	0.9	0.7	0.1	0.1	-
YANKEE	5.1	5.5	-0.4	4.4	0.8	3.6	0.0	0.2	-
TOTAL	100.0	100.0	0.0	-0.1	2.9	-2.9	0.0	1.3	-4.2

Note: Attribution is based on the invested portfolio's gross performance returns at the security level. Weighting is based on beginning of period holdings.
*Excludes 0.2% in Euros, Convertibles, Preferred Stock, Miscellaneous and Swap-related investments.

REAL ESTATE PORTFOLIO SUMMARY

Real Estate Portfolio and Investment-level data are provided below for period ended September 30, 2011. Portfolio refers to all real estate Investments held by OPERF, which is referred to herein as the Fund.

OPERF REAL ESTATE PORTFOLIO SUMMARY September 30, 2011		
Current Portfolio Net Asset Value	**$6.164**	**billion**
	11.11%	of Total Fund ($55.5B)
Current Unfunded Investment Commitments	**$1.988**	**billion**
Total Portfolio NAV plus Unfunded Commitments	**$8.152**	**billion**
	14.69%	of Total Fund
Target Allocation to Real Estate	**$6.104**	**billion**
	11.00%	of Total Fund
Total Number of Investments	**78**	

SUMMARY OF PORTFOLIO INVESTMENT NET RETURNS

Investment	Qtr	1-Yr.	3-Yr.	5-Yr.
Private Real Estate				
Direct Core	3.15%	27.53%	-4.54%	3.06%
Opportunistic	-1.54%	10.79%	0.10%	-1.72%
Value Added	2.25%	17.83%	-15.25%	-9.00%
Total Private Real Estate	0.66%	17.50%	-4.15%	-0.41%
Public Real Estate				
Domestic REIT Portfolio	-12.40%	6.04%	0.09%	-2.86%
Global REIT Portfolio	-21.40%	-15.06%	0.63%	-7.82%
Total Portfolio Return	-2.62%	13.77%	-2.29%	-0.56%
NCREIF Index	3.30%	16.10%	-1.45%	3.40%
NAREIT Index	-15.07%	0.93%	-1.99%	-2.43%
EPRA/NAREIT Global (ex-US) Index	-19.05%	-12.03%	1.08%	-4.72%

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

PORTFOLIO NET RETURNS BY COMPONENT

Portfolio Net Asset Value ($M)

The PrivateEdge Group

Total Real Estate
$6,164.0

One year return	13.77%
NCREIF Index	16.10%

Direct Core Portfolio
$1,833.4

% of total portfolio	29.74%
One year return	27.53%
NCREIF Index	16.10%

- Clarion (Office)
- Clarion Office Properties
- Guggenheim Separate Account
- Lincoln (Industrial)
- Regency Retail Partners I (Retail)
- Regency Retail Partners II (Retail)
- RREEF America II
- Windsor Columbia Realty Fund
- Regency Cameron (Non Mandate)
- Lincoln (Non Mandate)

Opportunistic Portfolio
$2,331.0

% of total portfolio	37.83%
One year return	10.79%
NCREIF Index	16.10%

- Aetos Capital Asia II & III - B
- AG Asia Realty Fund II, L.P.
- Canyon Johnson Urban Fund III
- Blackstone Partners VI
- Brazil Real Estate Opportunities II
- Fortress Fund II - V
- Fortress Fund III PIK Note
- Fortress Residential Inv. Deutschland
- GI Partners Fund II & III
- Greenfield Acquisition Partners III
- Hampstead Fund I, II & III
- Heritage Fields Capital
- IL & FS India Realty Fund I & II
- JE Roberts Fund II
- JE Roberts Europe Fund III
- Lion Mexico Fund
- Lone Star Opportunity Fund III - VII
- Lone Star Real Estate Fund I & II
- OCM RE Oppo Fund A, LP
- Rockpoint Real Estate Fund I - III
- Starwood Cap Hospitality Fund II Global
- Starwood Hospitality Fund
- SH Group I, LP
- Starwood Hospitality Fund Co-Inv.
- Westbrook Real Estate Fund I - IV

Value Added Portfolio
$907.0

% of total portfolio	14.71%
One year return	17.83%
NCREIF Index	16.10%

- Alpha Asia Macro Trends I & II
- Beacon Capital Strategic Partners VI, LP
- Buchanan Fund V
- CBRE US Value Fund 5
- Guggenheim III
- Hines U.S. Office Value Added II
- Keystone Industrial Fund I
- KTR Industrial Fund II
- Lionstone CFO One
- Lionstone CFO One (Non Mandate)
- Pac Trust
- Rockpoint Finance Fund
- Rockwood Real Estate VII & VIII
- Vornado Capital Partners L.P.
- Waterton Residential Property Venture XI
- Western National Realty II & Co-Invest II
- Windsor Realty VII

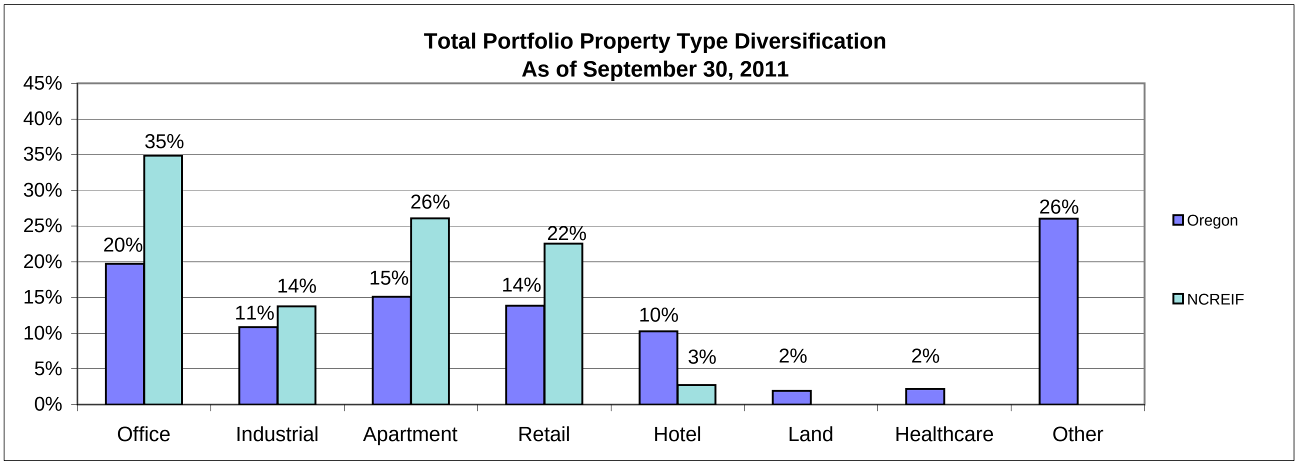
Publicly Traded Portfolio

	Domestic	Global
	$761.5	$331.1
% of total portfolio	12.35%	5.36%
One year return	6.04%	-15.06%
Index	NAREIT 0.93%	EPRA/NAREIT Global (ex US) -12.03%

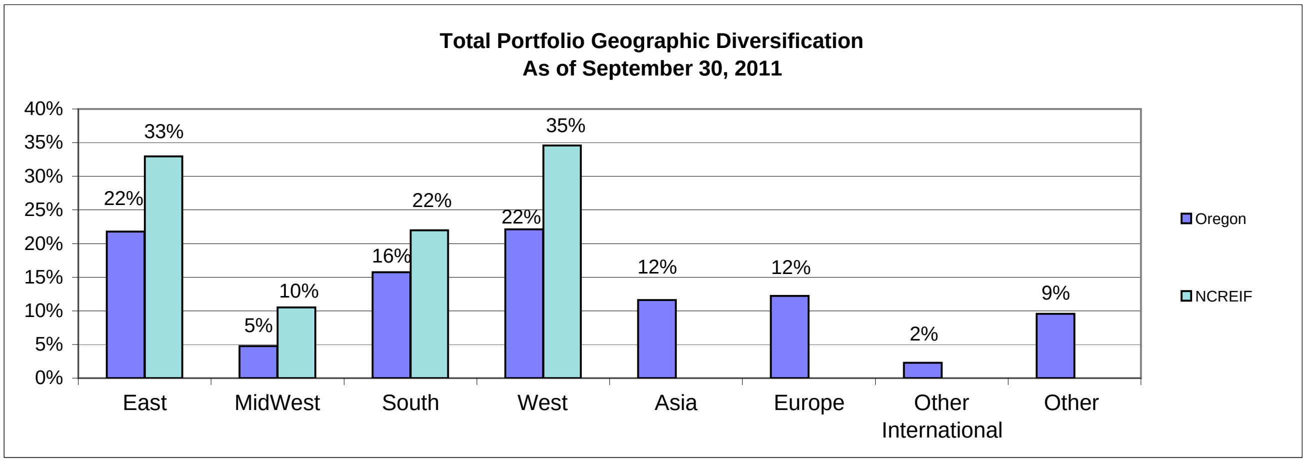
Domestic REITS
- Cohen & Steers
- Columbia Woodbourne
- LaSalle REIT

Global REITS
- European Investors
- Morgan Stanley

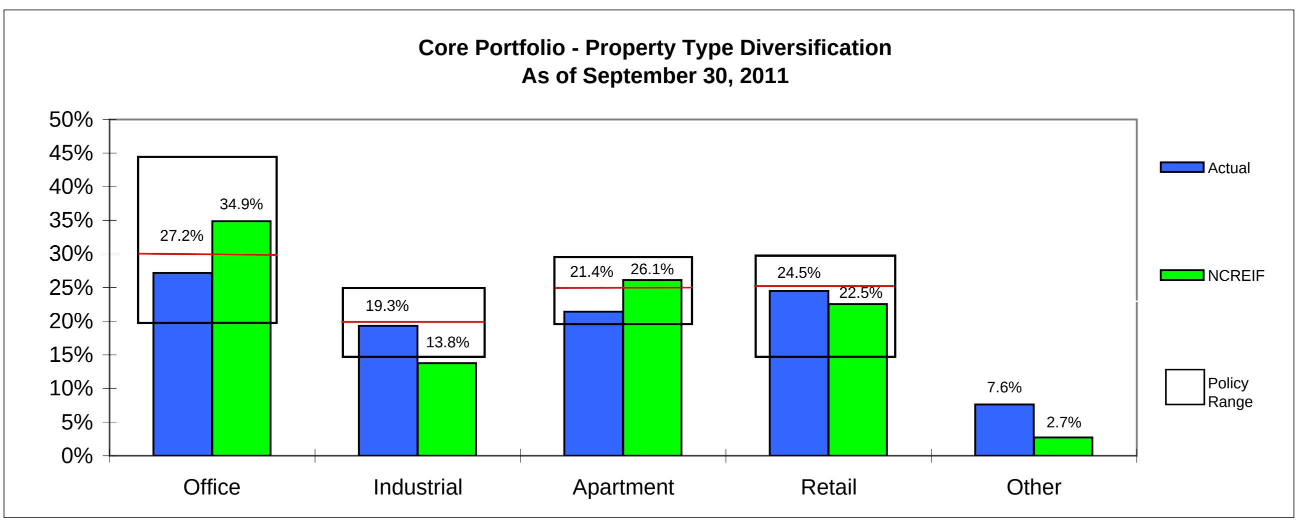
PORTFOLIO COMPOSITION REVIEW (% of Total Portfolio FMV)



Note: Other is primarily composed of Stocks/Equity (7%), Debt Instruments (56%), Operating Cos. (23%) and Diversifed (14%) investments.



Note: Other is primarily composed of US Diverse (96%) and Various (4%) per GP's financials and Quarterly Data Input Sheets.



Executive Summary

OPERF Alternative Investment Program ("the Program")

PRIVATE EQUITY POLICY

The program was formally started in 1981. The target private equity allocation is 16.0% of total pension assets with a range of + / - 400 basis points. As of September 30, 2011, private equity represented 24.6% of total pension assets, a 165 basis points increase from the prior quarter, largely due to the "denominator effect" resulting from the sharp decline in public market valuations during the third quarter of the year.

PERFORMANCE OBJECTIVE

The Program's objective is to create significant long-term net returns to OPERF. As of September 30, 2011, the Program has achieved a total return of 15.8% since inception.

AS OF 30 SEP 2011	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION
Program IRR	11.8%	7.7%	7.1%	11.2%	15.8%
Thomson Reuters *	22.7%	4.4%	6.2%	5.4%	11.4%
Value Added	*-10.9%*	*3.2%*	*1.0%*	*5.8%*	*4.4%*
Russell 3000 (+ 300 bps) **	4.0%	5.9%	2.7%	6.7%	14.5%
Value Added	*7.8%*	*1.7%*	*4.4%*	*4.5%*	*1.4%*

* Thomson Reuters Pooled IRR: *All U.S. Private Equity Funds as of June 30, 2011.*

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

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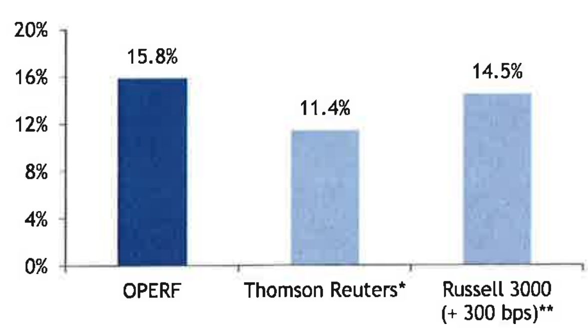
Figures may not foot due to rounding.

PROGRAM IRR vs. SELECTED BENCHMARKS

Net Returns since Inception



INVESTMENT PACING

The annual level of commitments is reviewed regularly with Staff and the Oregon Investment Council ("OIC"). Based on the desire to continue to build a well diversified portfolio and support OPERF's core relationships, TorreyCove's annual pacing analysis, completed in January 2011, recommended that OPERF commit up to $2.0 billion in 2011 pending the completion of due diligence, OIC approval, and successful legal negotiations.

Year-to-date through December 15, 2011, the Program had closed on fourteen new investment commitments totaling $1,170 million of which $375 million had been approved in late 2010. The OIC and the Private Equity Committee ("PEC") have approved a total of fifteen new investments thus far in the year, totaling $1,595 million in committed capital, of which five funds totaling $800 million are yet to close as of this writing. This investment activity adds up to a total of 19 new fund investments that have either been approved or have closed year-to-date 2011 totaling $1,970 million in new committed capital.

PORTFOLIO EXPOSURE

Exposure % by Investment Type & Geography

Figures may not foot due to rounding

INVESTMENT TYPE	TARGET ALLOCATION	FMV	UNFUNDED	TOTAL EXPOSURE
Corporate Finance	65%-85%	73%	60%	68%
Venture Capital	5%-10%	5%	5%	5%
Special Situations	5%-15%	12%	15%	13%
Fund-of-Funds	5%-10%	6%	14%	9%
Co-Investments	0%-7.5%	4%	7%	5%
Total:		100%	100%	100%
USA & Canada	*70%-100%*	*72%*	*68%*	*71%*
International & Global	*0%-30%*	*28%*	*32%*	*29%*

RECENT PROGRAM DEVELOPMENTS

- During the quarter, the OIC authorized $420 million of new commitments for the Program to six private equity funds. For the nine-month period ending September 30, 2011, the OIC and the PEC have authorized 13 new commitments totaling $1,420 million.
- Subsequent to quarter-end, through December 15, 2011, the OIC authorized two new commitments totaling $175 million.
- During the quarter, the Program was once again net cash-flow negative, after two consecutive quarters of positive cash flows. Nevertheless, distributions have exceeded draw downs by just over $107 million for the nine-month period ending September 30, 2011.

Portfolio Summary

Portfolio Review

NINE NEW FUND COMMITMENTS

During the quarter, OPERF closed on $645 million in commitments to nine new funds. Please see Activity Detail (page 5) for more details and for other recent commitment activity.

CONTRIBUTIONS INCREASED

Contributions jumped during the quarter, increasing by 59.7% from the prior quarter, but were still lower than their two-year peak in Q4 2010 of $806 million. Contributions were 9.3% higher than the most recent four-quarter average of $630 million.

DISTRIBUTIONS SLOWED

Distributions decreased 9.4% from the prior quarter and 43.5% from an all time high of $832 million during the first quarter of the year. Quarterly distributions were 26.9% lower than the most recent four-quarter average, which now stands at $643 million.

PORTFOLIO LOSSES

The Portfolio depreciated by $688 million, net of cash flows, during the quarter, representing a 4.8% depreciation from the prior quarter. This quarterly depreciation caused the Program's long-term historical IRR since inception to decline to 15.8% from 16.2% at June 30, 2011.

WEIGHTED AVERAGE AGE UP

Based on the remaining value of all underlying funds, the weighted average age of the Portfolio is now 5.7 years, representing a slight increase from the prior quarter. The relatively mature age of the Program is expected to result in a gradual increase of positive net cash flows in the coming years.

Portfolio Activity

$ Million | Figures may not foot due to rounding

	2010		2011		
	Q3	Q4	Q1	Q2	Q3
Starting Valuation	$11,231	$11,950	$12,952	$13,430	**$13,772**
Contributions	$587	$806	$594	$431	**$688**
Distributions	($487)	($750)	($832)	($519)	**($470)**
Appreciation/(Depreciation)	$620	$946	$716	$431	**($688)**
Ending Valuation	$11,950	$12,952	$13,430	$13,772	**$13,302**
Unfunded Commitments	$8,503	$8,096	$7,810	$7,801	**$7,790**
IRR Since Inception	16.0%	16.2%	16.2%	16.2%	**15.8%**
Weighted Avg. Age of Portfolio (yrs)	5.2	5.4	5.2	5.6	**5.7**

Program Summary

Active, Exited and Overall Program Performance

$ Million | Figures may not foot due to rounding

	June 30, 2011	September 30, 2011
Total Pension Assets *	$60,056	**$54,113**
Allocation to Private Equity: *(Target 16.0% +/- 4.0%)*	22.9%	**24.6%**
ACTIVE		
# of Partnerships	187	**195**
Capital Committed	$26,413	**$26,983**
Cash Contributed	$22,051	**$22,658**
Recallable Return of Capital	$3,016	**$3,093**
Cash Distributed (Other) [1]	$13,744	**$13,996**
Estimated FMV	$13,770	**$13,299**
Total Value (Excl. Recallable ROC)	$27,514	**$27,295**
Total Value Multiple [2]	1.45x	**1.40x**
IRR Since Inception	10.8%	**10.2%**
EXITED		
# of Partnerships	41	**42**
Capital Committed	$2,512	**$2,587**
Cash Contributed	$2,782	**$2,859**
Recallable Return of Capital	$250	**$250**
Cash Distributed (Other) [1]	$5,861	**$5,994**
Estimated FMV**	$3	**$3**
Total Value (Excl. Recallable ROC)	$5,864	**$5,997**
Total Value Multiple [2]	2.32x	**2.30x**
IRR Since Inception	23.3%	**23.3%**
OVERALL		
Portfolio Multiple [2]	1.55x	**1.50x**
IRR	16.2%	**15.8%**

* Total Pension Assets updated to incorporate actual Private Equity portfolio values at each quarter end.

** Includes escrows of exited deals.

1) Includes all non-recallable distributions

2) Total Value Multiple is calculated net of recallable return of capital ("ROC"). In practice, both total distributions and contributions are reduced by the amount of recallable ROC in the numerator and denominator of the calculation, respectively.

- As of quarter-end the OPERF has contributed $25.5 billion, funding approximately 86.3% of aggregate capital commitments made since inception. Approximately $7.8 billion of capital commitments remain outstanding, practically unchanged since last quarter.
- Since inception, a total of approximately $23.3 billion has been distributed to the OPERF, including recallable distributions.
- OPERF's private equity allocation by market value is above its 16% target as a result of significant net draw downs during the 2008 - 2010 period, combined with the public equities and real estate asset classes that have yet to fully recover from losses suffered after the 2008/2009 economic downturn. Private equity funds have sought to support the most promising of their existing portfolio companies in a volatile economic environment by making follow-on investments to supply working capital or expand market share by purchasing competitors at attractive prices. In addition, the public market volatility and steep declines during the third quarter of 2011 have contributed to the sharp increase of the private equity allocation since June 30.

Activity Detail

Recent Investment Activity

INVESTMENT NAME	DATE AUTHORIZED	DATE CLOSED	AMOUNT COMMITTED
Sofinnova Venture Partners VIII	3/23/2011	7/1/2011	$50 million
Vista Equity Partners Fund IV	6/1/2011	7/14/2011	$100 million
Vestar Capital Partners VI	6/21/2011	7/29/2011	$75 million
Rhone Partners IV	6/21/2011	8/31/2011	$75 million
Oaktree European Principal Fund III	7/19/2011	7/7/2011	$50 million
OHA European Strategic Credit Fund	7/19/2011	9/19/2011	$50 million
Parthenon Investors IV	7/19/2011	9/29/2011	$75 million
TPG Growth Fund II	7/27/2011	8/3/2011	$75 million
Endeavour Capital Fund VI	9/27/2011	9/30/2011	$95 million
Harbourvest Partners 2012 Direct Fund LP	9/27/2011	N/A	$75 million
Subsequent Activity:			
Union Square Ventures 2012 Fund	12/8/2011	N/A	$25 million
Apax Europe VIII	12/8/2011	N/A	$150 million

Glossary

Variance Analysis Reports

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

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

WEIGHTING

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

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

SELECTION

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

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

TIMING

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

TAB 8 – ASSET ALLOCATIONS & NAV UPDATES

Asset Allocations at January 31, 2012

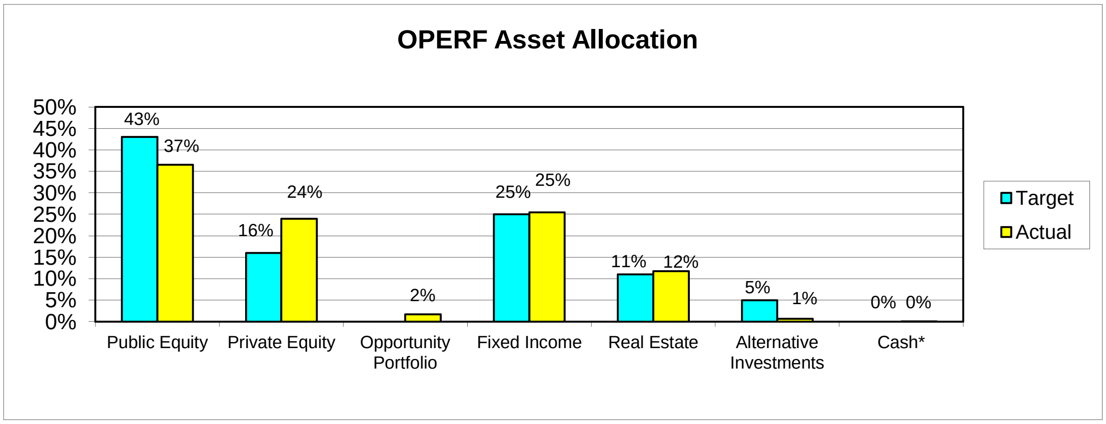
OPERF	Policy	Target	Regular Account $ Thousands	Pre-Overlay	Overlay	Net Position	Actual	Variable Fund $ Thousands	Total Fund $ Thousands
Public Equity	38-48%	43%	20,569,585	36.7%	(109,292)	20,460,293	36.5%	829,021	21,289,314
Private Equity	12-20%	16%	13,434,831	24.0%		13,434,831	24.0%		13,434,831
Total Equity	**54-64%**	**59%**	**34,004,416**	**60.7%**	**(109,292)**	**33,895,124**	**60.5%**		**34,724,145**
Opportunity Portfolio			948,214	1.7%		948,214	1.7%		948,214
Fixed Income	**20-30%**	**25%**	**13,099,722**	**23.4%**	**1,157,847**	**14,257,569**	25.4%		**14,257,569**
Real Estate	**8-14%**	**11%**	**6,568,048**	**11.7%**	**(4,100)**	**6,563,948**	11.7%		**6,563,948**
Alternative Investments	**0-8%**	**5%**	**375,297**	**0.7%**		**375,297**	0.7%		**375,297**
Cash*	**0-3%**	**0%**	**1,053,768**	**1.9%**	**(1,044,455)**	**9,313**	0.0%	170	**9,483**
TOTAL OPERF		**100%**	**$ 56,049,465**	**100.0%**	**$ -**	**$ 56,049,465**	**100.0%**	**$ 829,191**	**$ 56,878,656**

*Includes cash held in the policy implementation overlay program.

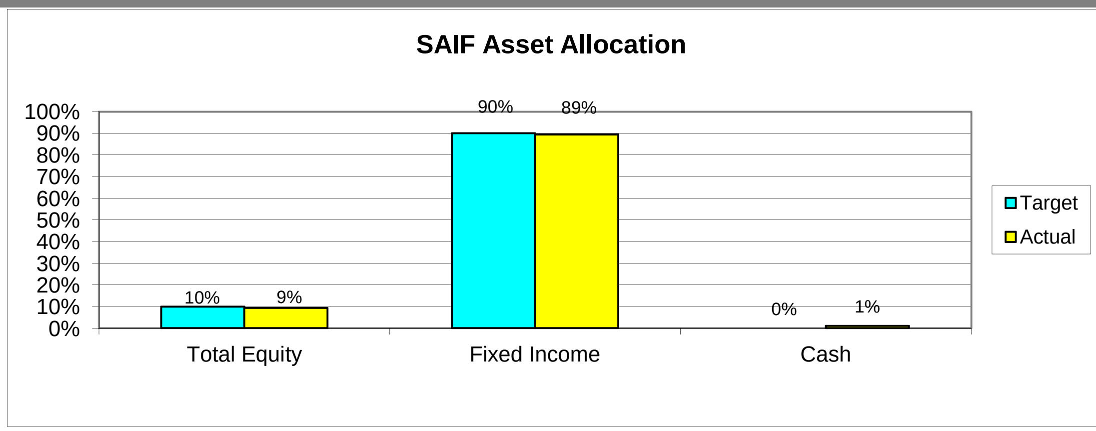
SAIF	Policy	Target	$ Thousands	Actual
Total Equity	**7-13%**	**10.0%**	**401,982**	**9.4%**
Fixed Income	**87-93%**	**90.0%**	**3,819,223**	**89.5%**
Cash	**0-3%**	**0%**	**46,884**	**1.1%**
TOTAL SAIF		**100%**	**$4,268,089**	**100.0%**

CSF	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$342,068	31.4%
International Equities	25-35%	30%	316,605	29.0%
Private Equity	0-12%	10%	89,221	8.2%
Total Equity	**65-75%**	**70%**	**747,894**	**68.6%**
Fixed Income	**25-35%**	**30%**	**331,327**	**30.4%**
Cash	**0-3%**	**0%**	**10,980**	**1.0%**
TOTAL CSF			**$1,090,201**	**100.0%**

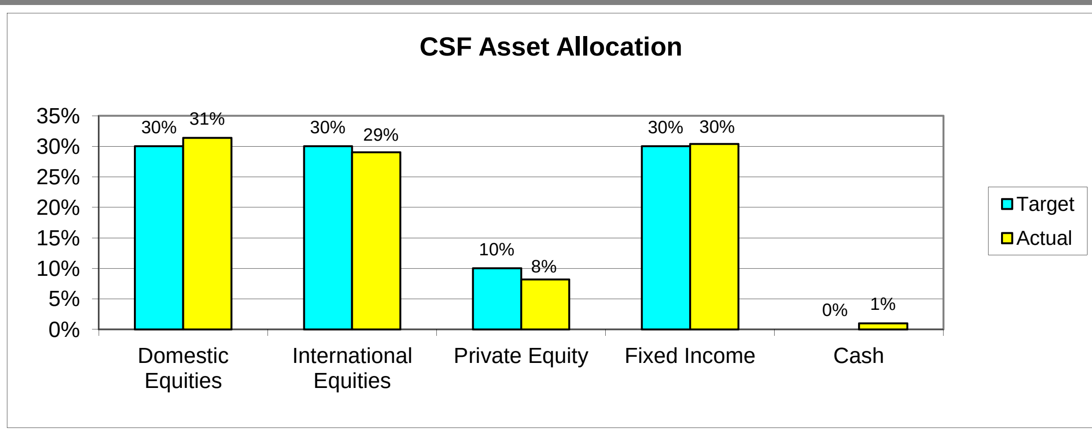
HIED	Policy	Target	$ Thousands	Actual
Domestic Equities	20-30%	25%	$17,010	26.9%
International Equities	20-30%	25%	14,876	23.6%
Private Equity	0-15%	10%	5,905	9.4%
Growth Assets	**50-75%**	**60%**	**37,791**	**59.9%**
Real Estate	0-10%	7.5%	1,710	2.7%
TIPS	0-10%	7.5%	5,063	8.0%
Inflation Hedging	**7-20%**	**15%**	**6,773**	**10.7%**
Fixed Income	20-30%	25%	17,691	28.0%
Cash	0-3%	0%	874	1.4%
Diversifying Assets	**20-30`%**	**25%**	**18,565**	**29.4%**
TOTAL HIED			**$63,129**	**100.0%**



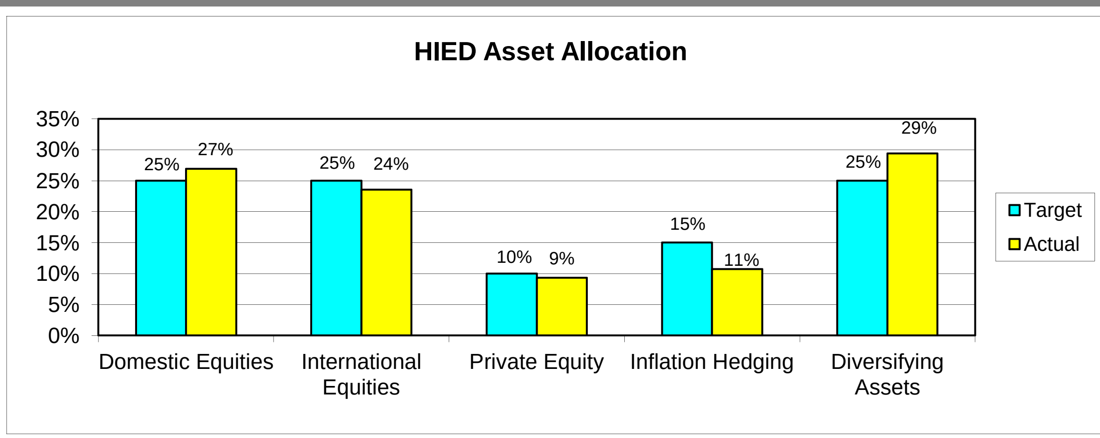
OPERF Asset Allocation
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
43%
37%
16%
24%
2%
25%
25%
11%
12%
5%
1%
0%
0%
Public Equity
Private Equity
Opportunity Portfolio
Fixed Income
Real Estate
Alternative Investments
Cash*
Target
Actual



SAIF Asset Allocation
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
10%
9%
90%
89%
0%
1%
Total Equity
Fixed Income
Cash
Target
Actual

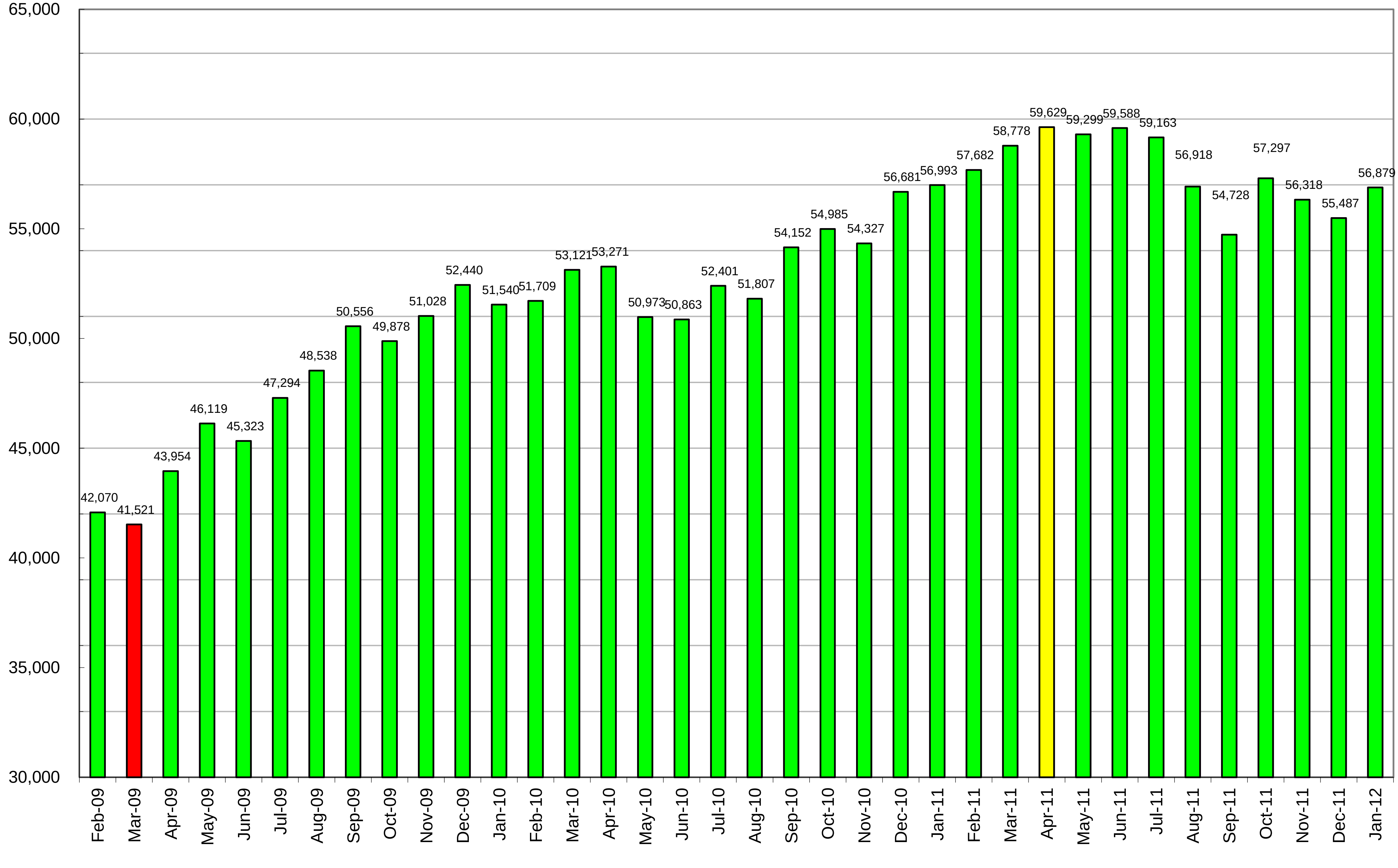


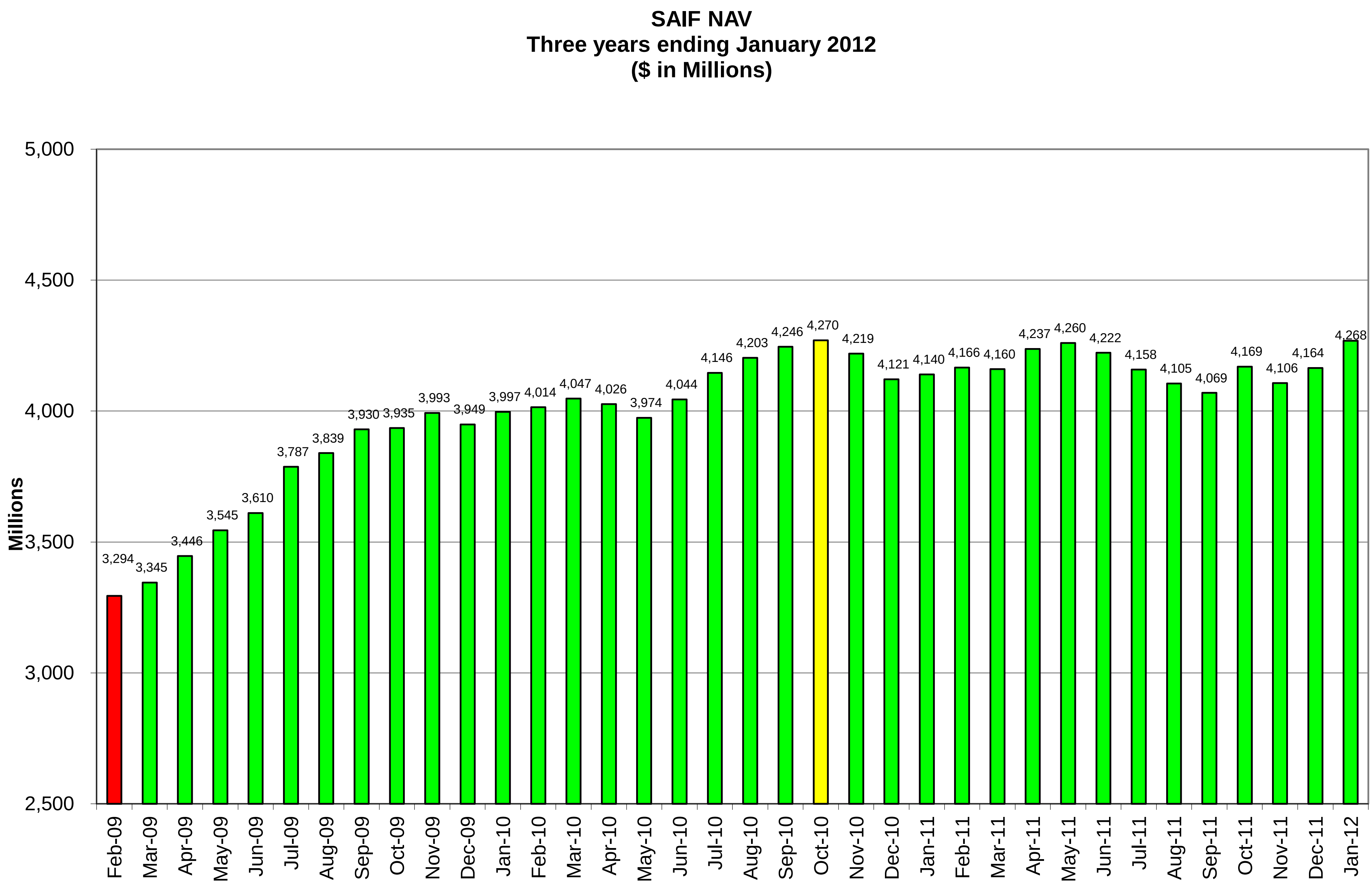
CSF Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
30%
31%
30%
29%
10%
8%
30%
30%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual



HIED Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
25%
27%
25%
24%
10%
9%
15%
11%
25%
29%
Domestic Equities
International Equities
Private Equity
Inflation Hedging
Diversifying Assets
Target
Actual

OPERF NAV
Three years ending January 2012
($ in Millions)




SAIF NAV
Three years ending January 2012
($ in Millions)
Millions
5,000
4,500
4,000
3,500
3,000
2,500
3,294
3,345
3,446
3,545
3,610
3,787
3,839
3,930
3,935
3,993
3,949
3,997
4,014
4,047
4,026
3,974
4,044
4,146
4,203
4,246
4,270
4,219
4,121
4,140
4,166
4,160
4,237
4,260
4,222
4,158
4,105
4,069
4,169
4,106
4,164
4,268
Feb-09
Mar-09
Apr-09
May-09
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10
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May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
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Jun-11
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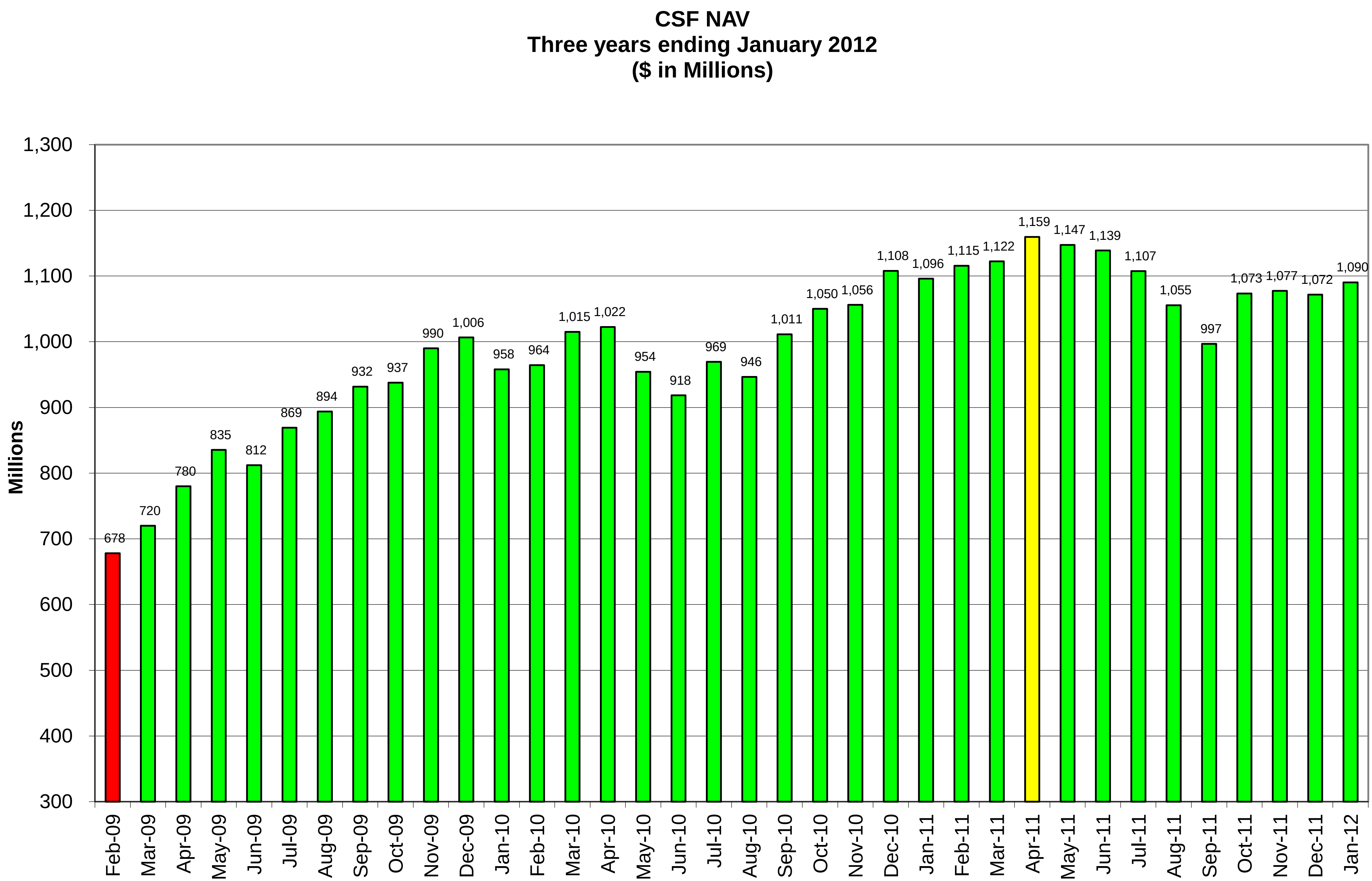
Oct-11
Nov-11
Dec-11
Jan-12


CSF NAV
Three years ending January 2012
($ in Millions)
Millions
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
678
720
780
835
812
869
894
932
937
990
1,006
958
964
1,015
1,022
954
918
969
946
1,011
1,050
1,056
1,108
1,096
1,115
1,122
1,159
1,147
1,139
1,107
1,055
997
1,073
1,077
1,072
1,090
Feb-09
Mar-09
Apr-09
May-09
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
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May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
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Mar-11
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May-11
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Jul-11
Aug-11
Sep-11
Oct-11
Nov-11
Dec-11
Jan-12

TAB 9 – CALENDAR – FUTURE AGENDA ITEMS

2012 OIC Forward Agenda Topics

April 25:	OSGP Review OSTF Annual Review DOJ Litigation Update Securities Lending Review Annual Policy Updates
May 30:	SAIF Annual Review Overlay and Risk Overview with Russell OPERF Alternative Portfolio Review OPERF 1st Quarter Performance Review
July 25:	OPERF Real Estate Annual Review Public Equity Annual Review Annual Audit Update
September 19:	CSF Annual Review
October 31:	CEM Benchmarking Annual Review Private Equity Consultant Contract
December 5:	OPERF 3rd Quarter Performance Review OPERF Opportunity Portfolio Review HIED Annual Review