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# **Oregon Investment Council**

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

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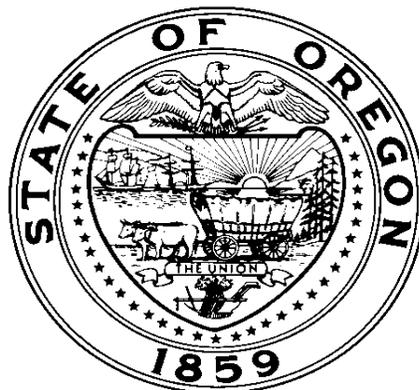
**PERS Headquarters  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, OR 97223**

**Oregon  
Investment  
Council**

**Katy Durant**  
Chair

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

**Ronald Schmitz**  
Chief Investment Officer



# OREGON INVESTMENT COUNCIL

## 2009 Meeting Schedule

**Meetings Begin at 9:00 am**

*at*

PERS Headquarters Building

11410 SW 68<sup>th</sup> Parkway

Tigard, OR 97223

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January 28, 2009

February 25, 2009

April 17, 2009 Workshop

April 29, 2009

May 6, 2009 Telephonic Meeting

May 27, 2009

July 29, 2009

September 30, 2009

October 28, 2009

December 2, 2009



# OREGON INVESTMENT COUNCIL

## Agenda

May 27, 2009

9:00 AM

PERS Headquarters  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, Oregon

<u>Time</u>	<u>A. Action Items</u>	<u>Presenter</u>	<u>Tab</u>
9:00-9:05	1. a. Review & Approval of Minutes April 17, 2009, April 29, 2009 & May 6, 2009 b. Ratification of OIC Emergency Meeting Vote October 15, 2008	<b>Ron Schmitz</b> <i>Chief Investment Officer</i>	1
9:05-9:50	2. Perspectives on the Current Market	<b>Howard Marks</b> <i>Chairman</i> <i>Oaktree Capital Management</i>	2
9:50-10:30	3. AQR Capital Management <i>OPERF Opportunity Portfolio</i>	<b>John Hershey</b> <i>Investment Officer</i> <b>Michael Mendelson</b> <i>Principal, AQR Partners</i> <b>Mark Mitchell</b> <i>Principal, CNH Partners</i> <b>Mike Beasley</b> <i>Strategic Investment Solutions</i>	3
10:30-10:45	-----Break-----		
10:45-11:30	4. Fisher Lynch Capital Co-Investment Fund II <i>OPERF Private Equity</i>	<b>Jay Fewel</b> <i>Senior Investment Officer</i> <b>Brett Fisher</b> <i>Managing Director</i> <b>Leon Kuan</b> <i>Managing Director</i> <b>Mike Beasley</b>	4

Katy Durant  
Chair

Harry Demorest  
Vice-Chair

Ben Westlund  
State Treasurer

Richard Solomon  
Member

Keith Larson  
Member

Paul Cleary  
PERS Director  
(Ex-officio)

<b>11:30-12:15</b>	<b>5. Oak Hill Advisors LP &amp; Fixed Income Recommendations</b> <i>OPERF Fixed Income</i>	<b>Perrin Lim</b> <i>Senior Investment Officer</i> <b>Glenn August</b> <i>President &amp; Senior Partner</i> <b>William Bohnsack</b> <i>COO &amp; Senior Partner</i> <b>John Meier</b> <i>Strategic Investment Solutions</i>	<b>5</b>
<b>12:15-12:30</b>	-----LUNCH PROVIDED for OIC and OST Staff-----		
<b>12:30-12:50</b>	<b>6. SAIF Annual Review</b>	<b>Mike Mueller</b> <i>Deputy Chief Investment Officer</i> <b>Brenda Rocklin</b> <i>President &amp; CEO</i> <b>Theresa McHugh</b> <i>VP of Financial Services</i> <b>Jerry Dykes</b> <i>CFO</i>	<b>6</b>
<b>12:50-1:20</b>	<b>7. External Public Equity Manager Recommendation</b> <i>OPERF Public Equity</i>	<b>Kevin Nordhill</b> <i>Senior Investment Officer</i> <b>John Meier</b>	<b>7</b>
<b>1:20-1:35</b>	<b>8. Eudaimonia Asset Management</b> <i>OPERF Public Equity</i>	<b>Travis Prentice</b> <i>President &amp; Chief Investment Officer</i>	<b>8</b>
<b>1:35-1:40</b>	<b>9. Shamrock Holdings</b> <i>OPERF Opportunity Portfolio</i>	<b>John Hershey</b> <i>Investment Officer</i>	<b>9</b>

**B. Information Items**

<b>1:40-1:55</b>	<b>10. OPERF First Quarter Review</b>	<b>Mike Beasley</b>	<b>10</b>
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**1:55-2:00**      **11. Asset Allocations & NAV Updates**      **Ron Schmitz**      **11**  
    a. Oregon Public Employees Retirement Fund  
    b. SAIF Corporation  
    c. Common School Fund  
    d. HIED Pooled Endowment Fund

**12. Calendar—Future Agenda Items**      **Ron Schmitz**      **11**

**13. Other Items**      **Council  
Staff  
Consultants**

**C. Public Comment Invited**

15 Minutes

TAB 1a – REVIEW & APPROVAL OF  
MINUTES:

APRIL 17, 2009

APRIL 29, 2009

MAY 6, 2009

**Oregon Investment Council**  
**Strategic Economic Decisions Workshop**  
**MINUTES**  
April 17, 2009

Members Present: Paul Cleary, Keith Larson, Dick Solomon, Ben Westlund

Staff Present: Darren Bond, Tony Breault, Brad Child, Sam Green, Perrin Lim, Ben Mahon, Kevin Nordhill, Jen Peet, Ron Schmitz

Guests: James Dalton and Eva Kripalani with the PERS Board, and Bill Hallmark with Mercer

The OIC Strategic Economic Decisions Workshop was called to order at 12:27 p.m.

Woody Brock discussed the current economic situation and provided his outlook. Woody's presentation materials are attached as part of these minutes. There was a brief question and answer session. Woody's portion of the meeting adjourned at 2:30.

After the economic update, the OIC, staff and two PERS Board members and the PERS actuary discussed plans for upcoming meetings of the two organizations. The OIC will engage in a scenario analysis at its April meeting and expects to perform a full blown Asset/Liability Study in the fall. The PERS Board is going to have an Experience Study done by the actuary for its May and July meetings. Finally, a joint workshop for the two organizations was agreed to be scheduled soon in which a discussion of the long term PERS liquidity needs will be presented by the actuary.

The workshop adjourned at 2:53 pm.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist

**Oregon Investment Council  
MINUTES  
April 29, 2009**

The Oregon Investment Council was called to order at 9:01 a.m. by Katy Durant, Chair.

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

Staff Present: Andrea Belz, Darren Bond, Brad Child, Stacey Dycus, Sam Green, Norma Harvey, John Hershey, Brooks Hogle, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Ron Schmitz, James Sinks, Michael Viteri

Consultants Present: Allan Emkin, Mike Moy and Neil Rue from PCA, Nori Lietz from Partners Group, John Meier and Mike Beasley from SIS, and David Fann from PCG

Legal Counsel Present: D. Kevin Carlson, Oregon Department of Justice  
Ted Falk, Oregon Department of Justice  
Fred Boss, Oregon Department of Justice

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

**MOTION:** Ms. Durant brought approval of the February 25, 2009 OIC minutes to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Mr. Demorest and passed by a vote of 5/0.

**II. 9:02 a.m.: Litigation Update – Executive Session**

Mr. Carlson read ORS 192.660(2)(h). The executive session, held pursuant to stated ORS, began at 9:02 am.

Fred Boss, Chief Counsel, Civil Enforcement for the Oregon Department of Justice, presented a litigation update to the Council.

The meeting returned to public session 9:15 am.

**III. 9:15 a.m.: Economic Scenario Analysis**

Mike Beasley and John Meier with SIS presented background on the current economic investment climate and simulated historical market impacts on OPERF. Mr. Beasley discussed the importance of assumptions and how that impacts the decisions we make. He also talked about different kinds of risks that the Council faces in overseeing the assets, and expressed caution around making major changes in the current environment. Mr. Beasley advised caution about getting too caught up in what is happening in the market right now and feeling the need to make a portfolio shift.

Mr. Meier discussed different total fund scenario analyses, including depression vs. recession and recovery scenarios. The depression scenario was based on the 1930's and the recession scenario was based on the 1970's. These scenarios were done with fairly simple cash flow analysis. The intermediate term analysis concludes that the current total fund risk level provides substantially greater recovery and growth of assets in a positive environment compared to the possible savings from a more defensive portfolio in a negative environment. When looking at the long term, the current risk profile was deemed clearly superior. All-in-all, the OIC deemed the current portfolio risk/reward posture as appropriate.

Following the presentation, there was a brief question and answer period.

**IV. 9:56 a.m.: Private Equity and Real Estate Capital Budgeting**

Brad Child, Senior Investment Officer, presented an update on real estate capital budgeting. The current NAV (Net Asset Value) targets are close to policy targets. The REIT (Real Estate Investment Trust) portfolio has

dropped to approximately 13% with the drop in public markets. Questions followed regarding the source of funds to increase the REIT allocation.

Sam Green, Investment Officer, presented an update on private equity capital budgeting. Changes in the market have forced the private equity investment budget to shift from \$3.5 billion to \$2.5 billion, for 2009, focusing on re-ups with existing partners only. Mr. Green went through the 2009 commitments already approved by the OIC as well as the commitments in the immediate pipeline (all re-ups). The expected amount of re-ups for 2009 is about \$2 billion. After some discussion it was decided that Council is open to hearing about new private equity commitment opportunities, should they arise.

There was a brief question and answer period.

#### **V. 10:45 a.m.: OIC Annual Policy Updates**

Mike Mueller, Deputy CIO, highlighted multiple policy updates and changes, listed below. Discussion followed.

1. 4.00.02: Replaces the type of meeting recordings from “tape” to “audio file.”
2. 4.01.02: Provides reference to public equity policies which will cover internal management.
3. 4.01.12: Adds Opportunity Portfolio to list of major asset classes for internal audit purposes and updates Audit Manager title.
4. 4.01.18: Removes note about private equity and real estate allocations.
5. 4.02.02: Updates policy to reflect change in ORS 295 and responsibility for public funds collateralization.
6. 4.04.01: Creates separate section for “OST Staff Authority” for some administrative functions currently performed by the real estate committee, and adds staff authority for limited transactions in existing funds—up to \$10 million per fund.
7. 4.06.01: Creates consistency with OST Staff Authority in Policy 4.04.01 for private equity—with limited authority up to \$15 million per fund. Sets committee limit to existing fund’s FMV of \$750 million instead of committed value.
8. 4.03.01, 4.07.01, 4.07.05, and 4.10.01: Change in benchmark name from Lehman Brothers to Barclays Capital.
9. 4.08.02 and 4.09.02: Changes review of asset allocation from “annually” to “periodically” for CSF and SAIF, respectively. Changes benchmark from Lehman Brothers to Barclays Capital.
10. 4.08.03: Updated to reflect equity structure as global for CSF and eliminates restriction on options, futures and private placements; which will be governed in the manager’s contracts, if not allowed.
11. 4.08.04: Explicitly states 30 percent target for CSF to fixed income, in policy. Changes benchmark for Lehman Brothers to Barclays Capital.
12. 4.08.05: Deleted. Old international equity policy for CSF captured in 4.08.03 now.
13. 4.09.05: Eliminates restriction on options, futures and private placements for SAIF public equities; which will be governed in the manager’s contracts, if not allowed.
14. 4.09.06: Changes policy for meetings with SAIF management to be at their request, instead of semi-annually. Retains annual opportunity for SAIF to address OIC.
15. Investment Objectives and Policy Framework for OPERF: Updates to reflect policy changes and definitions.

**MOTION:** Mr. Demorest moved approval of all policy changes. Treasurer Westlund seconded the motion. The motion passed by a vote of 5/0.

#### **VI. 10:51 a.m.: Private Markets Statement of Principles**

Ron Schmitz, Chief Investment Officer, presented a draft version of the Private Partnership Investment Principles which is a document that will serve to better align interests between general partners and OPERF, to enhance fund governance, and to provide increased transparency.

Consultants Mike Beasley with SIS, David Fann from PCG, Mike Moy from PCA, and Nori Lietz from Partners Group answered questions and provided comments to the Council on the draft of the Private Partnership Investment Principles. After the discussion, the Council requested that all input be sent to Ron Schmitz to be considered in a final version of the document to be ratified at a subsequent meeting.

**MOTION:** Mr. Larson moved approval subject to technical revisions to be sent to Mr. Schmitz to be ratified by the Council at a subsequent meeting. Mr. Solomon seconded the motion. The motion passed by a vote of 5/0.

**VII. 11:47 a.m.: Higher Education GEAR UP Scholarship Funds**

Mike Mueller and John Meier (SIS) presented on the Higher Ed "Gear Up" Scholarship Funds. Staff and SIS recommend that the OIC approve the investment allocation of the Oregon Student Assistance Commission as it relates to current and upcoming cash flows. Further, OST Staff will work with the Department of Justice to draft an interagency agreement of understanding among the various entities.

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

**VIII. 11:50 a.m.: Asset Allocation and NAV Updates**

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended March 31, 2009. The NAV's are all in line with policy. OPERF and SAIF are all within the ranges and very close to targets. CSF and HIED are also within range, but close to the bottom in terms of equity exposure.

**IV. 11:51 a.m.: Calendar – Future Agenda Items**

Mr. Schmitz highlighted future agenda topics.

**X. 11:52 a.m.: Other Business**

There was no other business discussed.

**11:52 a.m.: Public Comments**

Linda Burgin, President of the Service Employees International Union (SEIU) Local 503 read a letter with comments commending the OIC for "stepping up" and being an active owner and making positive changes regarding corporate governance and transparency.

The meeting adjourned at 11:57 a.m.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist

**Oregon Investment Council Conference Call  
MINUTES  
May 6, 2009**

The Oregon Investment Council was called to order at 2:00 p.m. by Katy Durant, Chair.

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

Staff Present: Tony Breault, Brad Child, Jay Fewel, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Perrin Lim, Ben Mahon, Mike Mueller, Jen Peet, Ron Schmitz, and James Sinks

Consultants Present: John Meier from SIS, Eliza Bailey from Partners Group, David Fann from PCG, and Tom Bernhardt from PCG

Legal Counsel Present: D. Kevin Carlson and Ted Falk from Oregon Department of Justice

Media Present: Ted Sickinger from The Oregonian

After roll call, Katy Durant, Chair, began the business session.

**1. 2:05 p.m.:** Review/discussion of the revised “draft” Private Partnership Investment Principles took place. The revisions were technical changes made after the principles were adopted at the OIC’s 4/29 meeting.

MOTION: Harry Demorest recommended approval of the changes to the Private Partnership Investment Principles as noted on the draft document. There were questions concerning the revisions to the document; Ron Schmitz read the changes out loud to members of the Board.

Katy Durant encouraged the motion and added that further changes to the principles would result in a watered down version; noting also that the principles for each manager/fund will vary.

Dick Solomon had questions regarding consistency of tax treatment as well as wanting the word “more” taken out of the fourth to last bullet on the last page.

Keith Larson agreed with Ms. Durant that he did not want the principles altered in such a way that it resulted in a watered down version; Mr. Larson also mentioned that he prefers the word “must” to “should,” wanting something that strengthens our position without any loopholes or question, for certain principles related to ethics and law.

Dee Carlson pointed out the differences between “must” and “should” and the importance of consistency throughout the principles document.

Jay Fewel mentioned that there would likely be corresponding side letters for each manager/fund stipulating principles that have been agreed to.

Dick Solomon added that he wanted the specifics on which deal points/principles are not accepted by new managers when brought to the Board.

Jay Fewel mentioned that there will be a transition period and the process will eventually smooth out; he said that it is the intention to provide the principles to all prospective partnerships and will expedite to all re-ups.

Dick Solomon wanted a process of reporting clear negotiation to the Council.

After full discussion of concerns and verbiage; the motion was brought to the table again.

**MOTION:** Harry Demorest recommended approval of the changes to the Private Partnership Investment Principles as noted on the draft agreement, and including minor changes offered during the discussion. Dick Solomon seconded the motion; the motion passed unanimously by a vote of 5/0.

The meeting adjourned at 2:35 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Julie Jackson".

Julie Jackson  
Executive Support Specialist

TAB 1b – RATIFICATION OF OIC  
EMERGENCY MEETING VOTE:

OCTOBER 15, 2008

## **Ratification of OIC Emergency Meeting Vote October 15, 2008**

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### **Purpose**

The purpose of this action item is for the OIC to be able to ratify its earlier vote approving \$72 million into Blackrock Credit Investors Co-Invest, L.P.

### **Background**

An Emergency Meeting of the OIC took place on October 15, 2008, at which OIC members were connected in a telephone conference to consider a proposed investment from Blackrock. At that meeting, the OIC approved an investment of \$72 million in Blackrock Credit Investors Co-Invest, L.P. Given the short notice period and relatively rare procedure associated with the emergency meeting, it has been recommended that, as a matter of prudence, the OIC ratify its earlier vote at a regular OIC meeting.

### **Recommended Motion**

The OIC hereby ratifies its October 15, 2008, emergency meeting vote approving the investment of \$72 million into Blackrock Credit Investors Co-Invest L.P. and the subsequent funding of that investment from cash pursuant to terms negotiated and documented to the satisfaction of the Treasurer's Investment Division Staff as assisted by the Department of Justice.

TAB 2 –  
PERSPECTIVES ON THE CURRENT MARKET:  
MATERIALS SENT UNDER SEPARATE COVER

## TAB 3 – AQR CAPITAL MANAGEMENT

## AQR/CNH Partner Convertible Bond Fund

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### Purpose

Staff recommends approval of a commitment to a AQR/CNH single LP fund in the amount of \$150 million for the OPERF Opportunity Portfolio.

### Background

#### Opportunity:

Convertible bonds are corporate bonds that can be converted to equity at the option of bondholders. As such, at their core they share many of the risk characteristics of ordinary stocks and bonds, including equity market risk, interest rate risk and credit risk. For example, when the stock price of a convertible bond is trading higher than the convertible bond's conversion price, the convertible bond tends to trade similarly to, and be correlated with, the underlying stock. This is because bondholders are likely to exercise their option to convert the bond to equity and profit from the delta between the stock price and the conversion price. When the stock price is significantly below the conversion price (a co-called "busted convert"), then the convertible bond tends to trade like a corporate bond, where investors focus on interest rate and credit risk.

Convertible bonds are a combination of a bond and an equity option. As such, their trading price can be compared to the "theoretical" value of the option and the bond combined. The difference between the trading value and the theoretical value is known as a "cheapness" factor which can be positive (attractive) or negative (unattractive). For example, the median cheapness factor was - 3% for much of 2002-2003 (indicating the bonds traded at levels higher than their theoretical value). Conversely, the cheapness factor has been as high as a + 3% in 1998 and in 2000, which indicated bonds were trading at values below their intrinsic value. Typically, bonds trade "cheap" when liquidity premiums are particularly high.

In 2007, the cheapness factor hovered around 0%. In 2008, after the Bear Stearns and Lehman Bros problems, the cheapness factor spiked to over 10%, higher than it's even been. This spike resulted in convertible bonds losing 35.7% in 2008 when many investors were forced to sell their positions. While the cheapness factor has receded some from its highs, it is still very high based on historical prices.

#### Strategy:

AQR/CHN offers four strategies that OPERF can choose from to best match its risk/return objectives to build a largely "buy and hold" portfolio. For all strategies, the expected time for the "cheapness factor" to return to "fair value" is approximately two years.

Strategy	Portfolio construction	"Expected Return"	"Expected Volatility"	"Expected Sharpe Ratio"
Long-only	\$100 long; no hedges	16%	20%	0.80
Delta hedged	\$100 long; 50% equity hedged	11%	4%	2.75
Fully hedged (unlevered)	\$100 long; 50% equity hedged; portfolio level interest rate and credit hedge	10%	4%	2.50
Fully hedged (levered 2.0x)	\$200 long; \$120 equity hedge; credit and interest rate hedges	16%	8%	2.00

### Pros:

- Converts are trading at median “cheapness” levels just off their all time highs. Since the market first began being tracked, the cheapness factor has never been higher than 3.75% even in prior down markets (1998 and 2002-03). Cheapness levels widened significantly last October and grew even greater in November/December, providing a largely asymmetric risk/return opportunity. While off their peaks, current levels are still approximately 2x historical high water cheapness levels.
- AQR/CNH is one of the most experienced investors in converts. They manage over \$1.1 billion in convertible bond AUM, one of the largest in the market. Their principals have built a proprietary data set of every convert issue since 1985 from which to supplement their fundamental credit analysis.
- Single fund (sole LP) format allows full transparency. This structure further allows for liquidity if needed (OPERF is not locked up). At any time, the OIC could decide to close down the fund (which might take four to six weeks to do orderly) and return cash to OPERF. In contrast to many of our alternative strategies, this strategy allows for good liquidity.
- Strategy flexibility allows us to tailor the risks we wish to bear. AQR/CHN provides the capability to offer a number of strategies to respond to OPERF’s objectives.
- Pension plans are now ideally suited to provide liquidity to the market. As investment banking prop desks and hedge funds de-lever their portfolios, pension plans are able to provide market liquidity and capture more attractive than normal liquidity premiums.

### Cons:

- Market illiquidity (wide “cheapness”) could persist for a while. Much of the current cheapness is driven by greater illiquidity in the market, which in turn increased when convertible arbitrage financing dried up in September and October. While the financing environment has improved since that time, there is the risk that it could deteriorate again, causing the “cheapness” factor dislocation to persist for longer than expected. *[Notwithstanding the current environment, AQR believes that the market will revert to historical levels over a 1-3 year period]*
- The convert market has shown recent improvement (up ~3% in Q1) indicating a more liquid market with greater funds flowing into the category. As such, some of the “excess” return may have already been captured by existing holders. *[The market is still volatile and may be experiencing a short term bounce. Furthermore, the “cheapness” factor is still much greater than historic levels and can still provide the foundation for strong future returns.]*
- The long-only strategy (if selected) will be more highly correlated to the existing OPERF portfolio, thereby providing less diversification benefit. *[These are risks OPERF bears all the time in the rest of its portfolio and is the source, over time, of most of its returns.]*

### Terms:

Because of the broader Oregon relationship and discussions with SIS, AQR is charging a 40 basis point management fee and a 10% carry over a 3 month T-bill hurdle for both the unlevered and levered convertible arbitrage strategies, a significant improvement over their standard fees for this strategy. In addition, it has offered a more performance oriented option with a 50 basis point management fee, 25% carry with a 9% hurdle for 2x or greater levered strategies. For the long only strategy, AQR would charge a 60 basis point management fee and 10% carry over a convertible bond hedge fund index. The fund can be redeemed monthly, though in practical terms, it would likely take several weeks to unwind without suffering market dislocation.

Conclusion:

With convertible bonds trading at near all time “cheap” levels, they represent an opportunity to provide OPERF with a very attractive return premium to their intrinsic value. Depending on which risks the OIC prefers to bear, we recommend the OIC choose between the unlevered or levered fully-hedged convertible arbitrage strategies. The former strategy is a lower expected return, lower risk strategy vs. the latter’s higher expected return, higher risk strategy.

**Recommendation**

Staff and SIS recommend a commitment of \$150 million to AQR/CNH subject to the negotiation of the requisite legal documents with staff working in concert with the Department of Justice.

TAB 4 – FISHER LYNCH CAPITAL  
CO-INVESTMENT FUND II

**DATE:** May 12, 2008  
**TO:** Oregon Investment Council  
**FROM:** Sam Green, Private Equity Investment Officer  
**SUBJECT:** Fisher Lynch Co-Investment Partnership II, L.P.

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### **Purpose**

Staff recommends a commitment of \$500 million to Fisher Lynch Co-Investment Partnership II, L.P. (Fund II or the Fund), a \$1.0 billion joint-venture partnership with the Washington State Investment Board (WSIB), focused on investing in attractive co-investment opportunities sponsored primarily by existing private equity managers in the WSIB and OPERF portfolios. To reduce the drag of management fees, this commitment will be structured as a \$300 million commitment from the 2009 private equity allocation, with the remaining \$200 million coming from the 2010 private equity allocation and will neither accrue management fees nor be callable until 2010.

### **Background**

In 2005, the Oregon Investment Council and Washington State Investment Board partnered in a joint venture to select a discretionary co-investment manager tasked with capturing attractive co-investment opportunities generated from the OIC and WSIB portfolios. Staff, Strategic Investment Solutions, and staff of the WSIB conducted a joint RFP process, and unanimously selected Fisher Lynch Capital (FLC) to manage this mandate, with each State committing \$250 million. Mssrs. Fisher and Kuan had previously managed the North American Private Equity Group of the Government of Singapore Investment Corporation (GIC), investing \$676 million in 22 co-investment transactions which at the date of their departure had generated a net IRR in excess of 20 percent. (Staff verified this directly with GIC during due diligence on Fund I.)

Since 2005, Fisher Lynch Capital has invested or committed over 70 percent of this debut partnership in 16 co-investments. The firm has also substantially built out its team and infrastructure during this period, from three Managing Directors, to sixteen full-time staff including six Managing Directors, four Associates, a CFO, and five administrative personnel.

Staff notes that Fund I is too young to have generated meaningful performance information, and with the subsequent clarity of 20/20 hindsight, it is now clear that a significant number of co-investments in this fund were made during the peak period of the “buyout bubble” during what will likely become challenging vintage years. However, Fisher Lynch was very selective about the investments it selected during this heady period, and the portfolio they have constructed appears to have performed substantially better than the median of deals they were offered. Staff continues to believe that long-term value will be added through a co-investment strategy, and that Fisher Lynch Capital is the right team to be executing this strategy on OPERF’s behalf. The central elements of the original investment thesis remain valid, including:

- The ability to co-invest alongside top-quartile OPERF private equity managers at highly preferential economic terms
- The ability to access attractive co-investment opportunities from top-quartile private equity managers from the WSIB portfolio and Fisher Lynch’s network

- An experienced, cohesive and “hungry” team
- An enhanced level of manager governance and transparency due to the size of the program relative to FLC’s other business line (Fund-of-Funds), and small number of sizable LP’s
- The opportunity for staff training and hands-on experience evaluating co-investment opportunities

In addition, Staff notes that since the launch of the co-investment partnership, Fisher Lynch Capital has been very active in marketing the co-investment capability to OPERF and WSIB managers, and has generated robust co-investment deal flow. FLC has also been highly selective about the co-investments selected, declining to invest in approximately 4 out of every 5 co-investments offered. The team has demonstrated investment discipline in its investment pacing, deal screening and due diligence, and in sector and geographic diversification. Feedback to Staff from other managers (transaction sponsors) about Fisher Lynch has been uniformly positive, and FLC appears to have presented itself well as an agent of the OIC/OPERF. The only negative feedback from sponsoring managers has been that FLC is not able to make a large enough co-investment to be considered a “preferred” partner in most transactions that require significant co-investment capital. Staff considers this independent feedback to be the best justification for doubling the size of OPERF’s commitment to Fund II.

### **Recommendation**

Staff and SIS recommend that the OIC authorize a commitment of \$500 million on behalf of OPERF to Fisher Lynch Co-Investment Partnership II, L.P., structured as \$300 million from the 2009 private equity allocation and \$200 million from the 2010 allocation, subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

Cc. Mike Mueller  
Jay Fewel  
Andy Hayes  
John Hershey

TAB 5 – OAK HILL ADVISORS LP &  
FIXED INCOME RECOMMENDATION

# OPERF Fixed Income STAFF RECOMMENDATIONS

## Purpose

Staff recommends (1) a commitment to an unlevered senior bank loan and high yield portfolio to be managed by Oak Hill Advisors, L.P. in the amount of \$1 billion (to be funded from the \$3 billion commitment previously approved for KKR); (2) the termination of Pyramis Global Advisors as a Core Plus manager; and (3) a revision to the core plus investment guidelines as follows:

- Not more than **15%** (from 30%) of the portfolio may be invested in issues rated below Baa3/BBB- or A2/P2.

## Background

### Oak Hill Advisors (OHA):

At the June 27, 2008 meeting, the OIC approved a \$3 billion commitment to a strategic “credit opportunities” mandate, managed by KKR Asset Management and funded in four quarterly installments.

Due to personnel changes announced by KKR Asset Management in December 2008, the potential of KKR managing greater than 10% of total OPERF assets, and OPERF cash needs at the end of March 2009, the final KKR funding scheduled for March 31, 2009 was withheld.

Staff is extremely impressed with OHA. They are a very experienced and deeply resourced investment manager of bank loans, high yield bonds and stressed/distressed investments with a close strategic relationship with Robert Bass, Oak Hill Capital Partners and other Oak Hill investment businesses. Oak Hill is one of OPERF’s strongest private equity relationships. In addition to prior meetings in Portland and NYC in 2008, staff and SIS conducted a due diligence meeting with OHA investment professionals on January 22, 2009.

The OHA investment process incorporates vigorous bottom-up, value oriented credit analysis, emphasizing careful consideration and understanding of relative value across industries and up and down company capital structures. As the current opportunities in the bank loan market are realized, staff foresees revisions to the investment guidelines to allow OHA to rotate additional exposure out of bank loans. Longer term, the mandate may well evolve to include other areas where OHA sees relative value, such as stressed/distressed and structured investments, subject to prior approval by the OIC.

Staff believes the addition of OHA would be an excellent diversifying and complementary manager to the OPERF fixed income portfolio.

### Attributes/Risks:

#### Positive Attributes:

- The expertise, relationships and competitive advantages of OHA, especially if a challenging credit environment persists, is a definite advantage over “generalist” bond managers.

## **OPERF Fixed Income STAFF RECOMMENDATIONS**

- Overall portfolio risk is reduced compared to the current fixed income structure, primarily due to bank loans low correlation with traditional fixed income.
- Lower aggregate fixed income duration, higher aggregate yield.
- Defensive hedge against anticipated/realized future inflation due to the floating rate nature of bank loans.
- Still-present dislocation and opportunity largely driven by technical factors, less so due to credit fundamentals.
- Attractive historic risk-adjusted returns.
- Senior debt historically has the lowest default rates and is the safest part of the capital structure.
- A separately managed portfolio for OPERF with custody at State Street Bank.

### Risks:

- A greater than anticipated downturn in the domestic economy.
- A larger than expected increase in default rates and lower than expected recovery rates (mitigated by perceived manager skill).
- Decreased liquidity of fixed income assets.
- Market efficiencies and the recent return of risk-taking may shorten the opportunity life.
- Potential increase in OPERF fixed income below investment grade allocation, mitigated by the recommendation to reduce the maximum allocation from the core plus managers to 15% from 30%.

### **Pyramis Global Advisors (PGA):**

Recent organizational changes within PGA fixed income senior management have emerged as a concern by SIS and staff. In January 2008, Dwight Churchill, who joined Fidelity/PGA in 1993, replaced Dave Murphy as head of the fixed income division and subsequently took over day-to-day management of the bond group from Tom Silvia in February 2008. As a result of 2007 relative under-performance, he felt that there had been a fundamental breakdown in oversight and risk management, thus he conducted a comprehensive diagnosis of their investment process, leading to the dismissals of a few portfolio managers. Churchill announced his retirement in October 2008 and Chris Sullivan, formerly co-head of fixed income at Goldman Sachs Asset Management, was appointed president of the bond group in March 2009. Positively, the core plus team has remained stable since 2004 and has effectively maintained process stability.

PGA has been an OPERF core plus manager since April 2001. With the hiring of KKR last July and with the current recommendation to hire OHA, credit exposure of the fixed income portfolio increases. To a degree, the proposed revision to the guidelines offsets the credit risk. Historically, however, PGA has typically been overweight securitized sectors and the below investment grade sector with consistent allocations to high yield corporates, bank loans, emerging markets debt and high yield commercial mortgage-backed securities, leading to the second highest tracking error of OPERF's five core plus managers. This bias and the aforementioned organizational changes results in the staff recommendation; it is not due to a loss of confidence in PGA's ability to generate alpha and, indeed, staff would expect PGA to outperform as the fixed income



## TAB 6 – SAIF ANNUAL REVIEW

## Oregon Investment Council 2009 SAIF Annual Review

### Purpose

In accordance with OIC Policy 4.09.06 for SAIF: “Review of the asset allocation policy, investment management and performance will occur at least annually with the OIC and more frequently by Treasury staff. These reviews will focus on the continued appropriateness of policy, compliance with guidelines and performance relative to objectives. A formal process shall be established allowing SAIF staff to meet with OIC’s consultants on an annual basis to discuss issues of management and asset allocation. In addition, SAIF staff will have the opportunity to address the OIC annually to discuss SAIF’s particular views as to the management of the fund.”

### Background

The last OIC review was conducted at the April 2008 meeting. At that meeting, Brenda Rocklin, Theresa McHugh and Jerry Dykes addressed the Council and outlined SAIF’s investment strategy and policy decisions, no policy changes were recommended at that time.

### Performance through March 2009

	MKT VAL \$(M)	%	1 YEAR	3 YEARS	5 YEARS	7 YEARS	10 YEARS
<b>SAIF PLAN</b>	<b>3,344,605</b>	<b>100%</b>	<b>-8.23</b>	<b>0.61</b>	<b>1.74</b>	<b>3.48</b>	<b>4.17</b>
<i>SAIF Policy Benchmark</i>			<i>-6.01</i>	<i>1.78</i>	<i>2.21</i>	<i>3.65</i>	<i>4.23</i>
BGI RUSSELL 3000 INDEX	309,678	9%	-38.09	-13.47	-4.52	-2.69	-2.20
BGI RUSSELL 3000 ALPHA TILTS	145,476	4%	<b>-38.32</b>	<b>-15.15</b>			
<i>Russell 3000</i>			<i>-38.20</i>	<i>-13.55</i>	<i>-4.59</i>	<i>-2.74</i>	<i>-2.25</i>
WELLINGTON MANAGEMENT	1,439,588	43%	<b>-4.38</b>	<b>2.13</b>	<b>2.01</b>	<b>3.81</b>	
WESTERN ASSET MANAGEMENT	1,433,165	43%	<b>-2.27</b>	<b>3.57</b>	<b>3.22</b>	5.28	
<i>SAIF Fixed Income Index*</i>			<i>0.65</i>	<i>4.45</i>	<i>3.27</i>	<i>4.74</i>	
CASH FUND	8,447	0%	<b>0.80</b>	3.70	3.28	2.81	3.52
<i>91 Day T-Bill</i>			<i>1.21</i>	<i>3.63</i>	<i>3.21</i>	<i>2.68</i>	<i>3.35</i>
PLEDGED SECURITIES	8,155	0%	4.58				

\*Prior to April 1, 2005, index is LB Aggregate

The overall fund has performed slightly below expectations, trailing the policy benchmark over the most recent rolling periods ended March 2009. With a target allocation of 85 percent to fixed income, the fund was hit by the credit crunch in 2008 with the fixed income managers underperforming by a considerable amount. The average credit quality of the portfolio is slightly below the minimum AA-, required by policy, with recent downgrades in the credit markets. The SAIF fixed income allocation, unlike OPERF, is not a Core-plus strategy, rather, the custom benchmark reflects the following allocations:

SAIF Custom Fixed Income Index:	Percentage:
Barclays Capital Corporate Index	45%
Barclays Capital Long Government Index	25%
Barclays Capital Mortgage Backed Security Index	20%
Barclays Capital Long Corporate Index	10%

The portfolio reached an all time high of \$3.7 billion, at the end of November 2007. Relative to other OIC funds, given the high allocation to the fixed income sector, the SAIF portfolio has held up reasonably well. From its peak in 2007, the fund is down approximately 10 percent, on a total fair market value basis.

**Recommendation**

None at this time. SAIF management will provide an update on their business, under separate cover. OST staff recently participated in a request for proposal process to assist SAIF in the retention of a specialist consultant to assist in an asset/liability study. Any resulting recommendation would be brought to the OIC later this year, or early 2010.



PRESENTATION TO THE

# OREGON INVESTMENT COUNCIL

MAY 27, 2009



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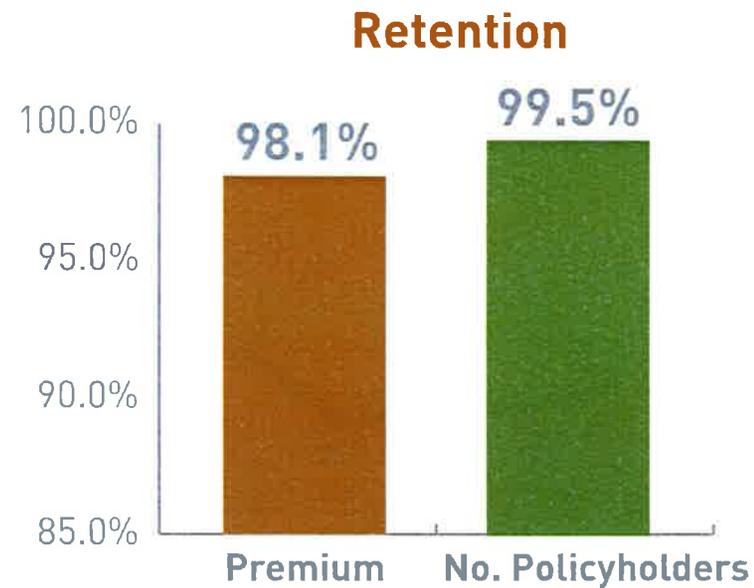
## Facts

	2007	2008
Number of employers insured (including share of assigned risk pool)	51,288	50,151
Total invested assets	\$3.6 billion	\$3.5 billion
Total assets	\$4.0 billion	\$3.9 billion
Loss and loss adjustment expense reserves	\$2.8 billion	\$2.9 billion
Total liabilities	\$3.1 billion	\$3.2 billion
Surplus	\$876.5 million	\$679.2 million
Direct earned premium	\$453.8 million	\$414.7 million
Market share	42.4%	42.6%
Investment income	\$154.0 million	\$138.7 million
Policyholder dividend	\$60.0 million	\$0.0
Number of full-time equivalent filled positions	869	871

# Pure Premium Rates 1990-2009



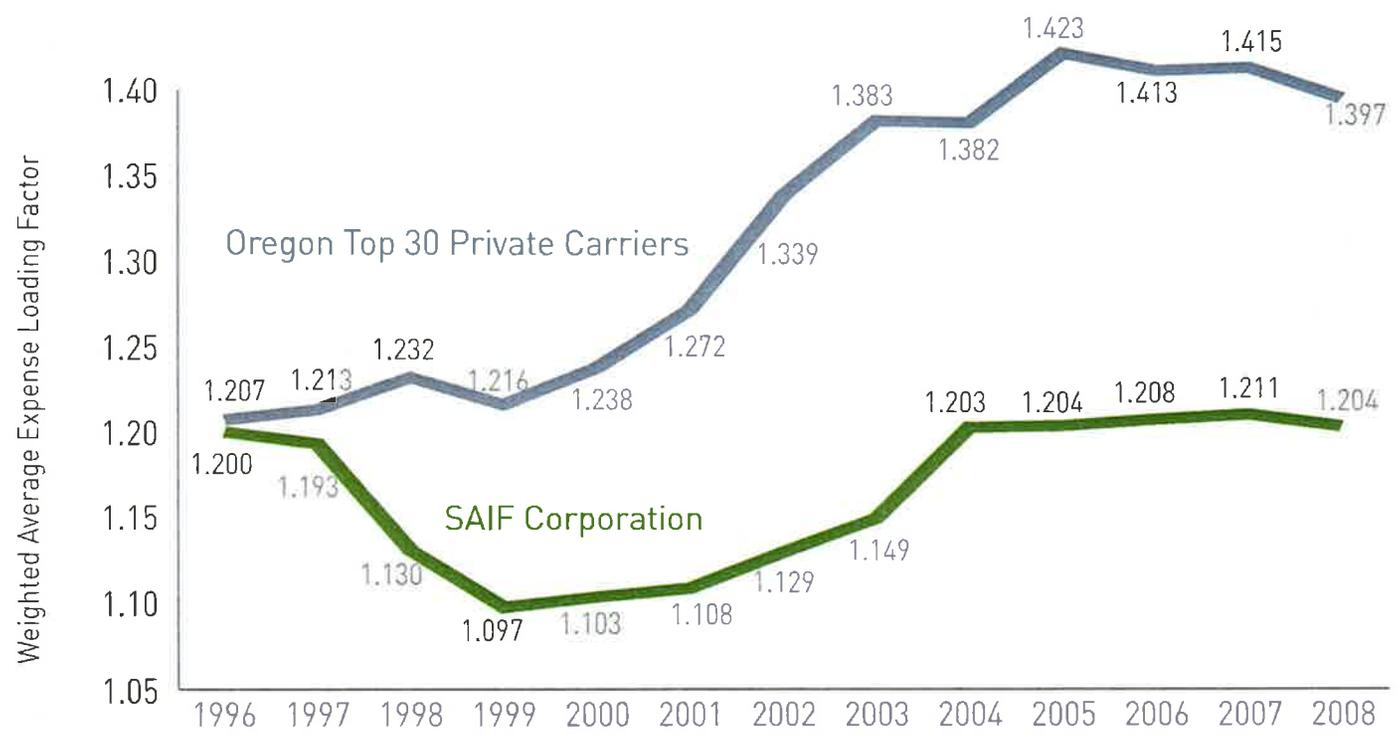
## 2008 Marketing Results





# Weighted Average Expense Load Factors

SAIF Corporation and the top 30 Oregon private carriers  
Calendar years 1996-2008

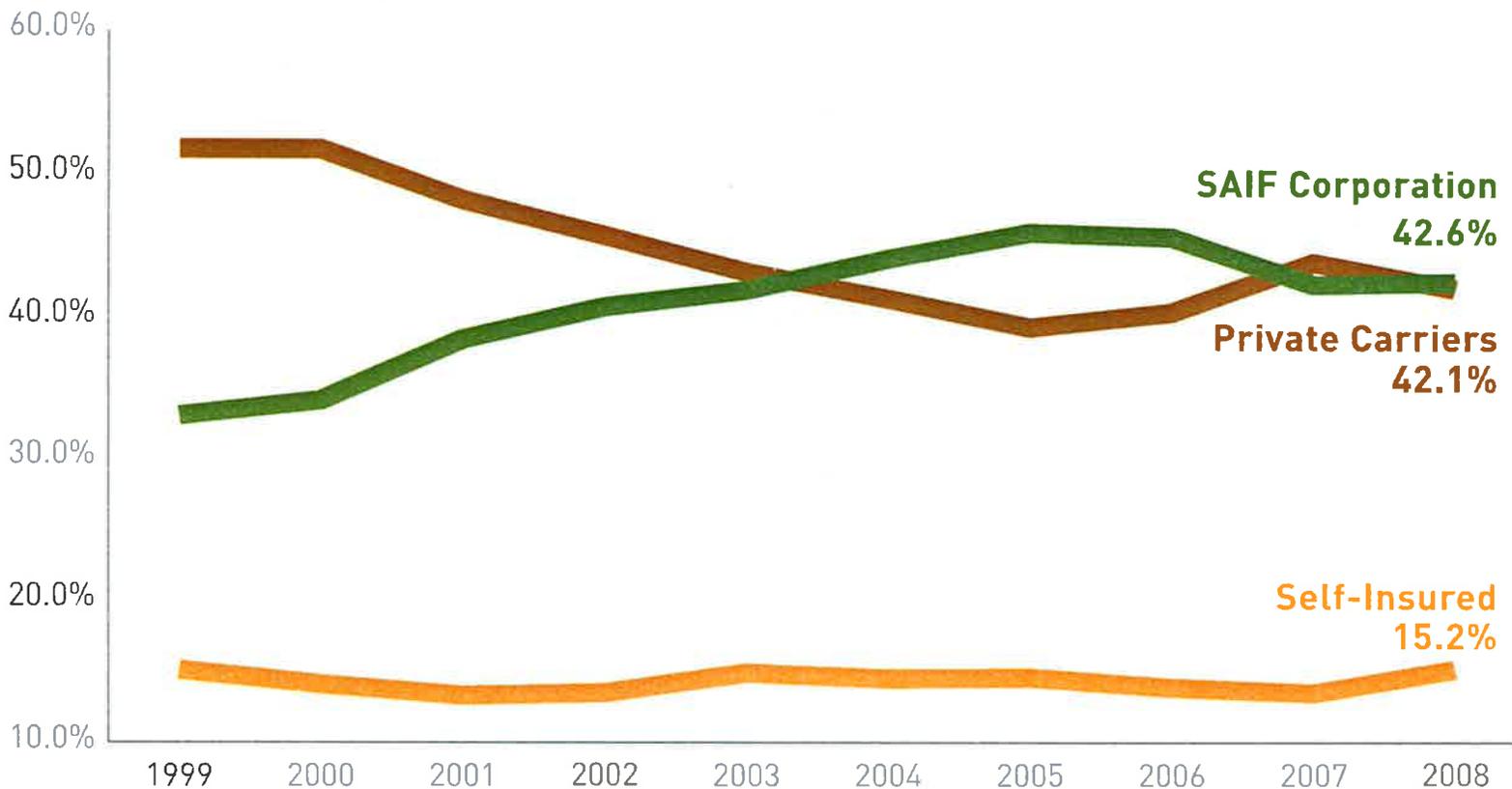


Expense load factors cover operating expenses, taxes, profit, and contingencies.  
Source: Workers' Compensation Premium Report, Calendar Year 2008, Department of Consumer and Business Services (DCBS)



# Share of Oregon Workers' Compensation Market

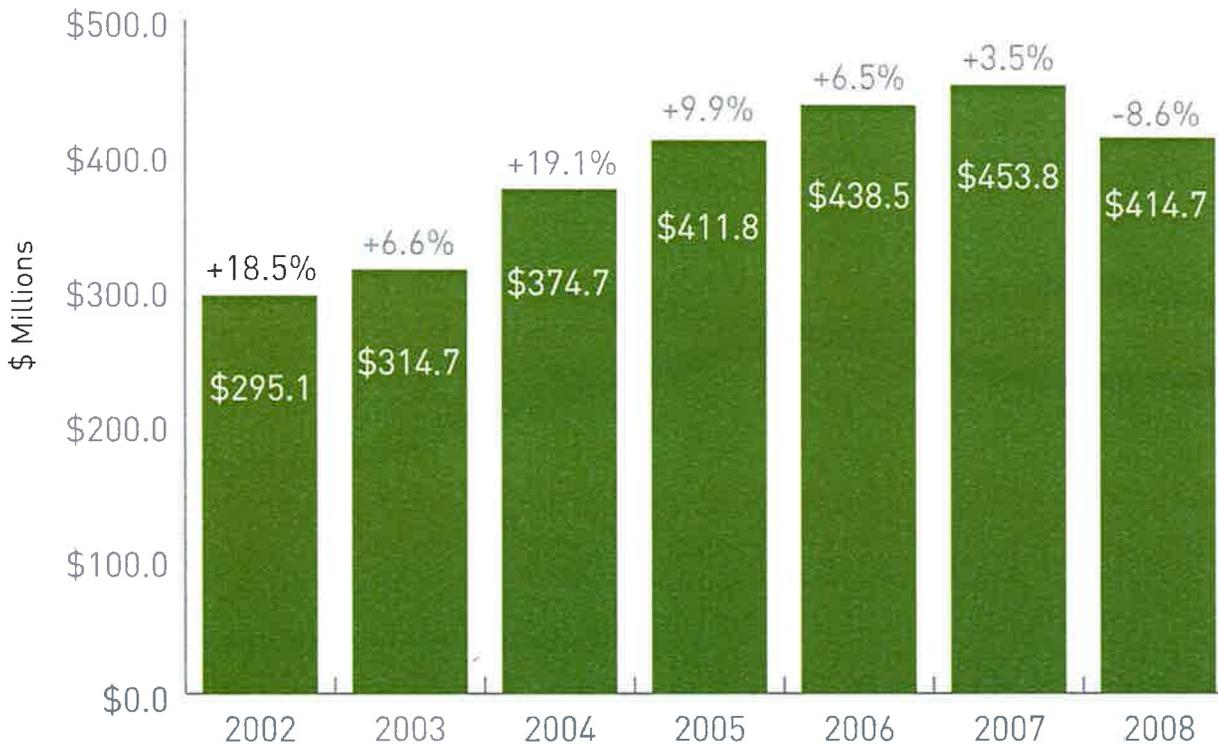
Based on Oregon direct premium written



SAIF Corporation's 2007 written premium market share of 49.4 percent was artificially inflated due to the conversion of accounts, which now recognizes annual written premium at policy inception. SAIF estimated this one-time adjustment inflated 2007's written premium by \$143.8 million. This chart represents SAIF Corporation's written premium market share minus the \$143.8 million.

Source: Department of Consumer and Business Services (DCBS)

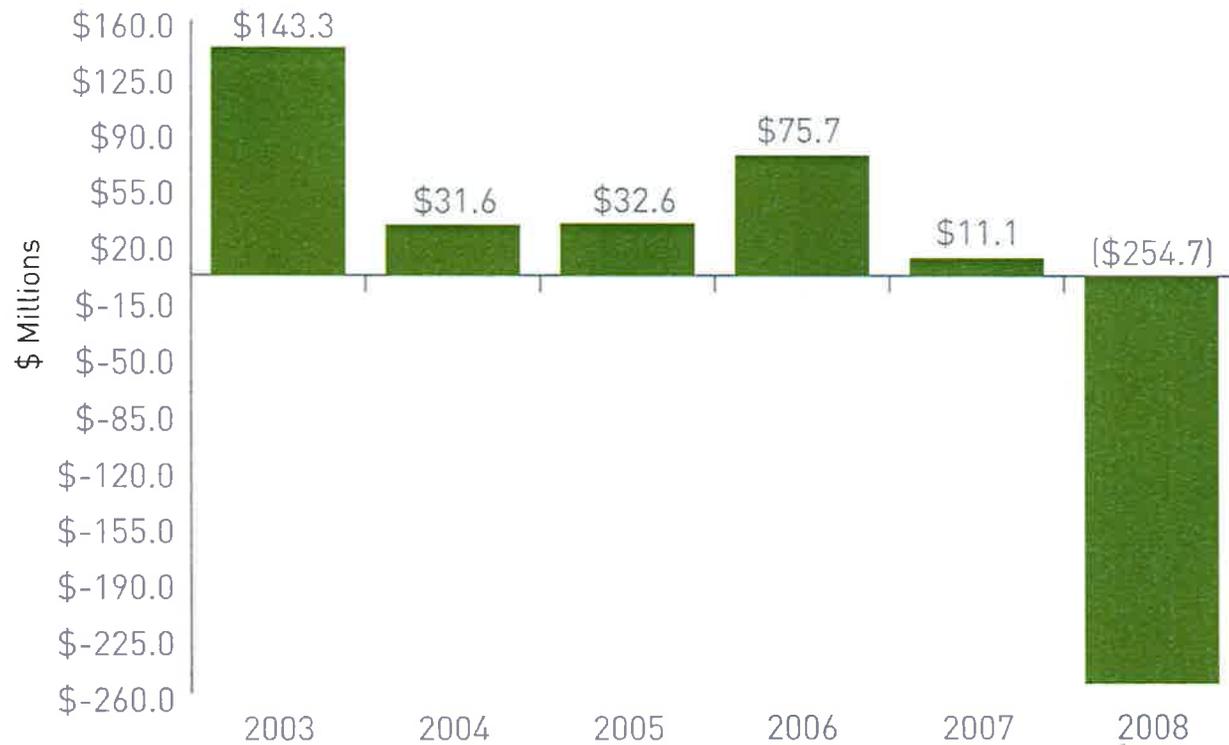
## Direct Earned Premium



# Investment Income



## Unrealized Investment Gains (Losses)

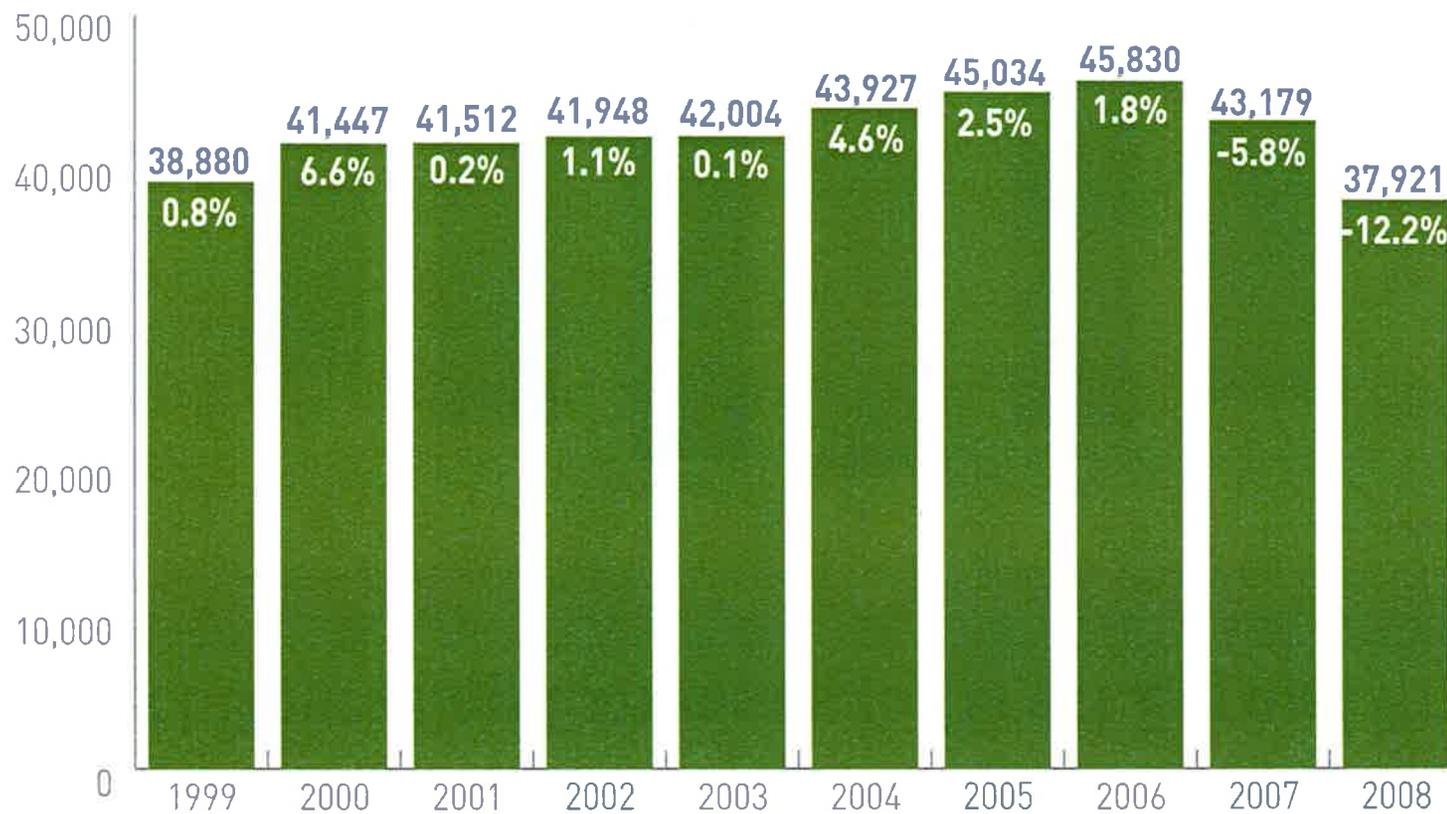




## Direct Operating Expenses to Direct Earned Premium



## Calendar Year Claim Counts

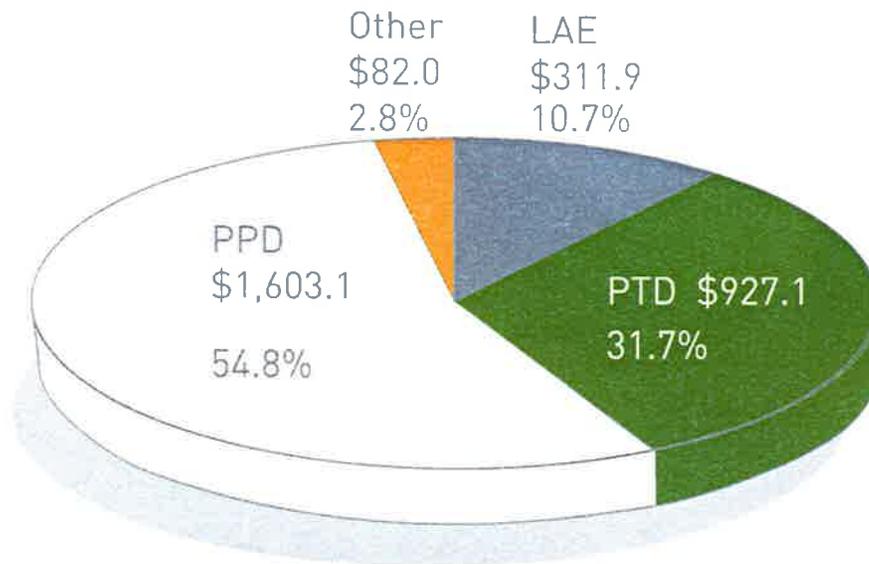




# Total Outstanding Unpaid Losses and LAE

As of December 31, 2008 (\$ in Millions)

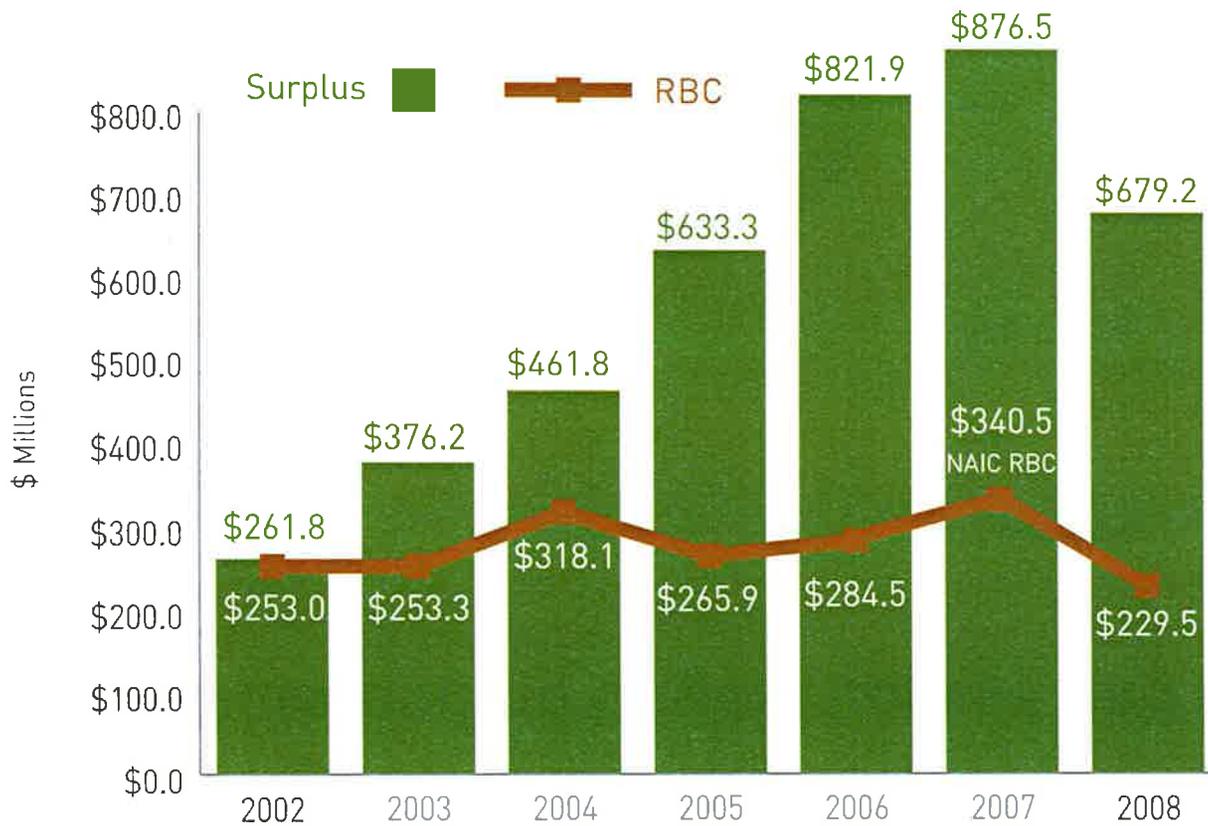
**Total \$2,924.1**



## Definitions:

- LAE** (Loss Adjustment Expenses)  
Reserves for the future cost of adjusting and processing claims.
- PTD** (Permanent Total Disability)  
Reserves for the loss of use or function of any portion of the body which permanently incapacitates the worker from regularly performing work at a gainful and suitable occupation.
- PPD** (Permanent Partial Disability)  
Reserves for permanent, complete, or partial loss of use of bodily extremities, including vision or hearing.
- Other**  
Reserves for claims involving fatalities, claims which only include medical costs, injured worker attorney fees, vocational rehabilitation costs, and other claim related costs.

# Surplus as of December 31

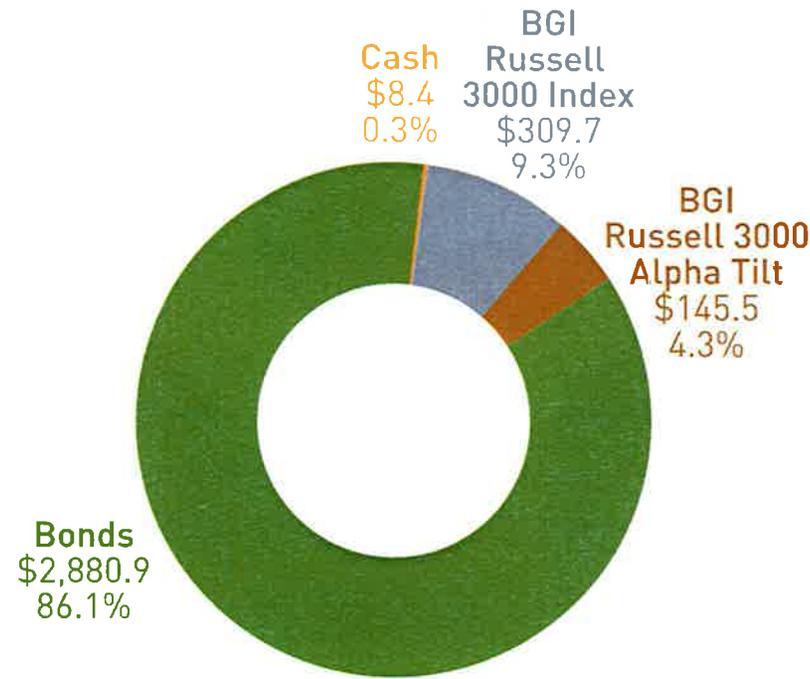


## Adequacy of Surplus

- Risk-based capital (RBC) is the minimum amount of capital required by an insurance company to support its overall business operations. The formula for determining RBC is developed and maintained by the National Association of Insurance Commissioners (NAIC) and takes into consideration the size and risk profile of the company.
- A 2008 audit by an independent actuary hired by the Secretary of State Audits Division determined that SAIF's loss reserves as of December 31, 2007 fell at the high end of a reasonable range.
- Given SAIF's adequate loss reserves, the independent actuary concluded that SAIF's surplus appears to be sufficient to support SAIF as an ongoing concern over a five-year forecast horizon.

# SAIF Invested Asset Allocation

As of March 31, 2009 (\$ in Millions)



(\$ in Millions)  
Measured at Market Value

**2009 Target Allocation:** 15% Equity, 85% Core Bonds

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Presentation to Oregon Investment Council  
May 2009  
Communication and Design G-DIC

**TAB 7 – EXTERNAL PUBLIC EQUITY  
MANAGER RECOMMENDATION**

## **Public Equities**

### **STAFF RECOMMENDATION**

#### **Purpose**

Staff and SIS are recommending several changes to the public equity portfolios including consolidation of OIC Policies that define the strategic role of the Domestic Equity Fund (DEF), the International Equity Fund (IEF) and the Global Equity Fund (GEF) into one Public Equity Fund policy, and several manager terminations that result in an increase in the allocation to passive index strategies and a reduction in the use of active quantitative equity strategies.

#### **Background**

In 2007, the OIC adopted a new asset allocation structure that would allocate public equities on a MSCI All Country World Index basis and eliminate the home country bias. In February 2008, the OIC adopted a structure of asset classes and manager target weighting within the existing DEF, IEF and GEF frameworks.

OIC policies 4.05.11, 4.05.12, and 4.05.13 specify specific risk and return objectives for the DEF, IEF, and GEF. Staff and consultant believe moving to a single public equity structure is more efficient and is a natural progression of adopting an All Country World Index (ACWI) for public equities. The catalyst for recommending the change now results primarily from the significant drop in public equity assets. When the portfolio was restructured in January 2008, OPERF public equities totaled \$33 billion. As of March 31, 2009, the market value of OPERF public equities totals \$14 billion. The decline in equity assets is a result of the significant market decline, the reallocation of public equity assets to other asset classes, and the liquidation of public equities to make benefit payments.

The recommended change to consolidate public equity policies will eliminate the need to structure the DEF, IEF, and GEF separately, in a manner that balances growth/value and market capitalization characteristics. The structuring would be performed at the total public equity level and enable staff to reduce the number of active manager assignments. Maintaining the status quo would dictate the need to add additional managers within the GEF, which was the original intent 16 months ago. This is not an abandonment of our belief that skillful global equity managers should be able to produce higher alpha, given the wider opportunity set. Rather, global equity managers would merely be a component of the overall Public Equity Fund. Most manager agreements have tiered fee structures, so having fewer managers should result in lower overall management fees.

Managing liquidity for OPERF is critical. Public equity and fixed income are the only asset classes in a position to provide necessary liquidity to meet private equity and real estate capital calls, as well as monthly benefit payments. Providing liquidity through index funds is far more efficient than using active equity managers. First, trading costs are much lower. Second, it is much quicker and easier to deal with one index provider than multiple asset managers, which is required to maintain balanced growth/value and market capitalization characteristics for the overall portfolio. Eliminating some active equity management assignments provides assets that will be used to increase the passive equity allocation and improves the liquidity profile for OPERF. It also reduces the benchmark risk, or “tracking error,” of public equity portfolio relative to the MSCI ACWI Index.

OPERF employs six firms managing nine quantitative equity strategies, which in the aggregate, represent 25 percent of total public equities. Several of these strategies are intended to be low-risk, as measured by tracking error. The massive de-leveraging event that occurred in August 2007, and the continued outflows from hedge funds, has led staff and SIS to reassess the appropriate level of exposure to quantitative equity strategies.

SIS has modeled a structure that encompasses the following key changes:

- Termination of Goldman Sachs. There are significant organizational issues in the Quantitative Investment Strategies (QIS) group as the two co-CIO's recently "retired" (in their early 40's).
- Termination of Franklin Portfolio Associates. A number of organizational concerns have occurred and assets have diminished due to client terminations and market declines. The parent company pulled Franklin into the Mellon umbrella and merged them with the Mellon Capital quantitative investment team.
- Termination of the BGI Russell 1000 and International Alpha Tilts Strategies. BGI also has organizational issues as they have accepted an offer to sell their iShares business that allows them a 45 day window to opt out, in lieu of a total sale of the asset management business. Media sources indicate there are several parties interested in purchasing the entire asset management business and Barclays Plc appears to desire raising capital to avoid accepting government funds.
- Hiring StateStreet Global Advisors to manage a World ex-US index fund. The non-U.S. equity assets are all actively managed. Hiring SSgA to manage this index fund provides manager diversification at a time when BGI is dealing with organizational uncertainty and SSgA will manage the product at a very competitive fee.

The net result of eliminating the aforementioned active mandates will be to redirect approximately \$1.7 billion (or 12%) from active to passive management and reduce OPERF's quantitative equity strategy exposure in half. The quantitative strategies staff recommends terminating are all experiencing significant organizational issues. The primary reason for staff and SIS recommending these terminations is the desire to improve liquidity and reduce portfolio risk, through reduction in exposure to quantitative equity strategies and an increase in passive management.

### **Recommendations:**

- Adopt OIC Policy 4.05.01, the red-line changes to OIC Policy 4.01.18 and the Investment Objectives and Policy Framework, and eliminate OIC Policies 4.05.11, 4.05.12, and 4.05.13. Re-number the existing OIC Policy 4.05.01 to 4.05.02.
- Terminate Goldman Sachs global equity mandate.
- Terminate Franklin Portfolio Associates domestic equity mandate.
- Terminate BGI U.S. and non-U.S. Alpha Tilts mandates (including the mandates for SAIF and the CSF which will be indexed in the products with the same benchmarks).
- Hire SSgA to manage a World ex-U.S. index fund.
- Extend Next Century's role to include a small cap growth allocation.
- Rebalance assets from terminated managers to passive strategies.

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

**POLICY:** Public equity securities should comprise 41% to 51% of OPERF's total assets, with a strategic target of 46%, based on an overall global equity target allocation established in OIC Policy 4.01.18.

**PROCEDURES:**

**PURPOSE**

The purpose of these Public Equity Investment Policies & Strategies is to define the strategic role of public equities as an asset class within the Investment Council's general investment policies for the Oregon Public Employees Retirement Fund (OPERF), to set forth specific short-term and long-term policy objectives for this segment of OPERF's investment portfolio, and to outline the strategies for implementing the Investment Council's public equity investment policies.

**STRATEGIC ROLE**

Publicly traded equity securities generally should provide enhanced returns and diversification to the OPERF. The investable universe of equity securities can be categorized as U.S., non-U.S. developed countries and emerging market countries. The Public Equity Fund also provides liquidity to OPERF to meet cash flow needs.

**POLICY OBJECTIVES**

1. To provide one of the highest expected returns of the OPERF's major asset classes. Over the long-term, the return should exceed inflation by 6.0 percent.
2. To achieve a portfolio return of 0.75 percent or more above the MSCI All Country World Index Investable Market Index (ACWI IMI) (net) over a market cycle of three to five years on a net-of-fee basis.
3. Active risk will be managed to a targeted annualized tracking error of 1.0 to 2.5 percent, relative to the MSCI ACWI IMI (net).

**STRATEGIES**

1. The public equity portfolio shall be structured on a global basis, seeking to loosely replicate the country and market capitalization characteristics of the world-wide investable stock universe.
2. Diversify the asset class of public equities across the stock markets of all investable countries to ensure exposure to a wide range of investment opportunities, and participate

- broadly in those markets to receive the highest expected rate of return for equities, and to provide risk reduction to the entire equity portfolio. The size of any commitment of the Investment Council to individual investment manager's strategy will be based on the commitment's impact on the overall portfolio, the Investment Council's confidence in the abilities of the manager, the investment style of the manager, and the capacity of the manager to invest and manage such a commitment.
3. Maintain an overall portfolio market capitalization that reflects the MSCI ACWI IMI with a double weighting to U.S. small capitalization stocks in order to enhance return. This tilt is based on the Investment Council's belief that inefficiencies in the small and micro cap markets relative to the large cap market, through active management, will outperform large cap stocks over the long-term.
  4. Invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.
  5. Enhance returns to OPERF through exposure to active management.
  6. Active investment managers are expected to outperform stated benchmarks on an after-fee, risk adjusted basis, over a market cycle of three to five years (see Appendix B). Those benchmarks include the passive management alternative. Comparisons against a representative peer group universe will also be considered in evaluating the performance and risk levels of managers.
  7. All non-U.S. benchmarks assigned to managers should be unhedged. Managers may be permitted to hedge currency exposure and, in the case of managers whose stated investment approach includes active currency management, may take active currency positions, but all managers are measured against an unhedged benchmark.
  8. The Investment Council's selection of active managers will be based upon demonstrated expertise. Active managers will be selected for their demonstrated ability to add value over a passive management alternative and within reasonable risk parameters by using a style which enables OPERF to meet the strategic target allocations set forth in Appendix A. The management guidelines described in Appendix C will be attached to and incorporated into the Investment Council's contract with every investment manager.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)**

- A. Public Equity Strategic Targets (Appendix A)
- B. Investment Manager Benchmarks (Appendix B)
- C. Management Guidelines (Appendix C)
- D. Sub-Asset Class Target Allocations (Appendix D)

**APPENDIX A**

**STRATEGIC TARGETS**

Subject to periodic review and revision, the Investment Council adopts the following strategic target allocations (all targets are measured relative to the MSCI ACWI IMI):

- a. Capitalization exposure similar to stated benchmark;
- b. The Investment Council's strategic target allocations represent percentages of OPERF's total public equity portfolio. Each target allocation has an accompanying percentage range. The strategic target allocations and ranges can be summarized as follows:

	<u>Targets</u>	<u>Ranges</u>
Active	80%	65% - 90%
Passive	20%	10% - 35%
U.S.	ACWI weight	+/- 10%
Non-U.S.	ACWI weight	+/- 10%
Emerging Markets	ACWI weight	+/- 4%
Growth	50%	45% - 55%
Value	50%	45% - 55%
U.S. Small Cap Overweight	100%	0% - 140%

Note: The U.S. small cap overweight is based on the Russell 2000 index weight relative to the Russell 3000 index weight which approximates 8%.

- c. The Investment Council will approve target allocations and associated ranges for the various sub-asset classes, at the time of hire. The OPERF public equity portfolio will be monitored quarterly by a report to the Investment Council that includes the target allocation for each category of management style (active/passive and growth/value). The actual percentage market value for each category, compared to its target allocation, will also be included in this report. When a segment falls outside of the established ranges or when manager allocations are considered sub-optimal, staff will transfer assets as deemed appropriate within the target allocations. The total structural characteristics of the public equity portfolio will be considered at the time of any rebalancing. Re-allocations between asset classes shall be governed by Policy 4.01.18.

**APPENDIX B**

**INVESTMENT MANAGER BENCHMARKS**

<b><u>Manager</u></b>	<b><u>Benchmark</u></b>	<b><u>Peer Group</u></b>	<b><u>Return Objective Over Benchmark Net-of-Fees</u></b>
<b>U.S. Large Cap:</b>			
Aletheia	Russell 1000 Growth	U.S. Large Growth	1.5%
Delaware	Russell 1000 Growth	U.S. Large Growth	1.5%
Wells Capital	Russell 1000 Growth	U.S. Large Growth	1.5%
Aronson+Johnson+Ortiz	Russell 1000 Value	U.S. Large Value	1.0%
MFS	Russell 1000 Value	U.S. Large Value	1.0%
PIMCO	Russell 1000	U.S. Large Core	1.0%
Pyramis	Russell 1000	U.S. Large Core	2.0%
Northern Trust Emerging Mgrs	Russell 3000	U.S. All Core	1.5%
BGI Russell 1000 Value Index	Russell 1000 Value	U.S. Large Value	N/A
BGI Russell 1000 Growth Index	Russell 1000 Growth	U.S. Large Growth	N/A
S&P 500 Index	S&P 500	U.S. Large Passive	N/A
S&P 400 Index	S&P 400	U.S. Mid Passive	N/A
<b>U.S. Small and SMID Cap</b>			
Next Century	Russell Microcap Growth	U.S. Micro Gr.	2.50%
Next Century	Russell 2000 Growth	U.S. Small Gr.	2.00%
AQR	Russell 2000 Value	U.S. Small Value	1.00%
Boston Company	Russell 2000 Value	U.S. Small Value	1.00%
Wellington	Russell 2000	U.S. Small Core	1.00%
Wanger	Russell 2500	U.S. SMID Core	1.00%
<b>Non-U.S. Large Cap</b>			
TT International	World x US Std Growth	Non-US Growth	2.00%
UBS	ACWI x US IMI Growth	Non-US Growth	2.00%
Walter Scott	World x US Std	Non-US Growth	2.00%
Acadian	ACWI x US IMI Value	Non-US Value	1.75%
Brandes	ACWI x US Std Value	Non-US Value	2.00%
AQR	World x US Std	Non-US Core	2.00%
Arrowstreet	ACWI x US IMI	Non-US Core	2.00%
Lazard	ACWI x US Std	Non-US Core	1.50%
Pyramis Select	World x US Std	Non-US Core	1.00%
Northern Trust Emerging Mgrs	World x US IMI	Non-US Core	1.50%
SSgA World ex-US Index	World x US Std	Non-US Passive	N/A

<u>Manager</u>	<u>Benchmark</u>	<u>Peer Group</u>	<u>Return Objective Over Benchmark Net-of-Fees</u>
<b>Non-U.S. Small Cap</b>			
DFA	World x US Sm Cap Val	Non-US Small Value	1.50%
Harris Associates	ACWI x US Sm Cap Val	Non-US Small Value	2.00%
Pyramis Select	World x US Sm Cap	Non-US Small Core	2.00%
Victory Intl	World x US Sm Cap Gr	Non-US Small Growth	2.00%
<b>Emerging Markets</b>			
Arrowstreet	Em Mkts IMI	Emerging Markets	2.00%
Genesis	Em Mkts IMI	Emerging Markets	2.00%
Pictet	Em Mkts Std	Emerging Markets	2.00%
BGI Tiered Emerging Markets	Em Mkts Std	Emerging Markets	2.00%
<b>Global</b>			
AllianceBernstein Style Blend	ACWI Std	Global Core	2.00%

ACWI – MSCI All-Country World Index (U.S. + Non-U.S. Developed + Emerging Markets)

IMI – MSCI IMI Index (Large Cap + Mid Cap + Small Cap)

Std – MSCI Standard Index (Large Cap + Mid Cap)

Sm Cap – MSCI Index (Small Cap)

Em Mkts – MSCI Emerging Markets Index

**APPENDIX C**

**MANAGEMENT GUIDELINES**

The following guidelines shall be attached to and incorporated into every contract between the Investment Council and an investment manager:

1. The category of management to which a manager is assigned.
2. A description of the manager's investment style.
3. The manager's specific performance objective, expressed on a relative basis in comparison to an index or a passively managed alternative, as that manager's required excess return. The manager's required excess return will represent the risk-premium associated with this manager's investment style in comparison to the index or passively managed alternative to which the manager is assigned.
4. The expected risk (tracking error) of the portfolio expressed in relationship to the assigned benchmark.
5. Portfolio characteristics which the OIC expects the manager to exhibit on average throughout a market cycle.
6. A list of permissible equity securities in which the manager may invest.

**APPENDIX D**

**State of Oregon**  
**Sub-Asset Class Target Allocations**

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

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

**FUNCTION:** General Policies & Procedures

**ACTIVITY:** Public Employees Retirement Fund Rebalancing Policy

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

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

## **PROCEDURES:**

### 1. BACKGROUND

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

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

### 2. IMPLEMENTATION

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

B. The Fund's actual asset allocation shall be reviewed at the end of each month when asset valuations become available. More frequent reviews may be undertaken, if appropriate, and if information on market values is available. Rebalancing will take place if the weight to any asset class exceeds the policy range, if assets held at the sub-asset class level ~~or for individual managers~~ exceed policy ranges, or if manager liquidations are necessary to

meet cash needs of the Fund. All physical rebalancings are done in concert with the policy implementation cash overlay manager, described above.

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

3. ASSET ALLOCATION POLICY TARGETS AND RANGES

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

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

## **Oregon Investment Council**

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

Adopted: February 27, 2002

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

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9. Real Estate Strategy
10. Private Equity Strategy
11. Performance Monitoring and Evaluation

### Glossary of Selected Terms

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

## **1.0 Purpose**

- 1.1 This Statement of Investment Objectives and Policy Framework (the “Statement”) summarizes the philosophy, objectives and policies approved by the *Oregon Investment Council* (the “Council”) for the investment of the assets of the *Oregon Public Employees Retirement Fund* (“OPERF”).
- 1.2 The Council approved these objectives and framework after careful consideration of OPERF benefit provisions, and the implications of alternative objectives and policies.
- 1.3 The Statement has been prepared with five audiences in mind: incumbent, new and prospective Council members; Treasury staff; OPERF active and retired members; Oregon State Legislature and Governor; and agents engaged by the Council to manage and administer Fund assets.
- 1.4 The Statement summarizes more detailed policies and procedures documents prepared and maintained by the staff of the *Office of the State Treasurer*, and numerous other documents that govern the day-to-day management of OPERF assets including agent agreements, individual investment manager mandates, and limited partnership documents.
- 1.5 The Council regularly assesses the continued suitability of the approved investment objectives and policies, initiates change as necessary, and updates these documents accordingly.

## **2.0 Investment Objective**

- 2.1 Subject to ORS 293.721 and 293.726, the investment objective for the *Regular Account* is earning, over moving twenty-year periods, an annualized *return* that exceeds the *actuarial discount rate* (ADR), approved by the Public Employees Retirement Board (PERB) to value OPERF liabilities. Eight percent is the current actuarial discount rate.
- 2.2 The Council believes, based on the assumptions herein, that the investment policies summarized in this document will provide the highest probability of achieving this objective, at a level of *risk* that is acceptable to active and retired OPERF members. The Council evaluates risk in terms of the probability of not achieving the ADR over a twenty-year time horizon.
- 2.3 Historically, members were allowed to direct up to 75% of their contributions to the *Variable Account*. The investment objective of the Variable Account is to perform in line with MSCI All Country World Index.
- 2.4 The Council has established investment objectives for individual asset classes, including that asset class to which members can direct their contributions. Individual asset class objectives are also summarized in this Statement.

### 3.0 Policy Asset Mix, Risk Diversification and Return Expectations

- 3.1 After careful consideration of the investment objective, *liability* structure, *funded status* and liquidity needs of OPERF, and the return, risk and *risk-diversifying* characteristics of different asset classes, the Council approved for the OPERF Regular Account the asset mix policy presented in Exhibit 1. The exhibit also summarizes the Council’s total fund asset mix policy and active management return expectations.
- 3.2 Sixty-two percent of OPERF is targeted for investment in *equities*, inclusive of *private equity*. Equity investments have provided the highest returns over long time periods, but can produce low and even negative returns over shorter time periods.
- 3.3 The risk of low returns over shorter time periods makes 100% equity policies unsuitable for most pension funds, including OPERF. By investing across multiple equity asset classes, and in lower return but less risky *fixed-income* and *real estate*, the Council is managing and diversifying the fund’s overall risk exposure.
- 3.4 Exposures to selected asset classes are maintained within the re-balancing ranges specified in Exhibit 1.
- 3.5 With an 8.9% expected annual return, there is an estimated 50% probability of the fund earning an annualized return that equals or exceeds the current 8.0% actuarial discount rate over a 20 year horizon or, approximately, the next two to three market cycles.

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

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

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

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

- 3.6 The 8.1% expected annual asset mix policy return was developed with reference to the observed long-term relationships among major asset classes, adjusted by current market conditions. The Council believes this return expectation is reasonable, but recognizes that over shorter time periods actual mix policy returns can deviate significantly from this expectation – both positively and negatively.
- 3.7 US equity, non-US equity, and fixed-income asset classes are managed using both passive and active management strategies. Active management of public market securities and real estate assets is expected to earn 0.8% per annum of additional returns over moving five-year periods. The Council recognizes that unsuccessful active management can reduce total fund returns.
- 3.8 The OIC has provided for up to 3.0% of total plan assets to be invested in an *Opportunity Portfolio* to provide enhanced returns and diversification to OPERF. Investments are expected to be a combination of both shorter-term (1-3 years) and longer-term holdings. This allocation will not result in any of the previously established strategic asset allocation targets falling outside their ranges. No strategic target is established for the Portfolio since, by definition, investments will be pursued only on an opportunistic basis.
- 3.9 Cash is invested in the *Oregon Short Term Fund* and is kept at a minimum level, but sufficient to cover the short-term cash flow needs of OPERF.
- 3.10 In an effort to minimize cash exposure at both the fund and manager level, the OIC has retained a policy implementation overlay manager to more closely align the actual portfolio with the policy portfolio, generally through the buying and selling of futures contracts to increase or decrease asset class exposures, as necessary.
- 3.11 The Council shall review, at least annually, its expectations for asset class and active management performance, and assess how the updated expectations affect the probability that the Regular Account will achieve the investment objective.

#### **4.0 Passive and Active Management**

- 4.1 Passive management uses lower cost *index funds* to access the return streams available from the world's capital markets. Active management tries to earn higher returns than those available from index funds by making value-adding security selection and asset mix timing decisions.
- 4.2 The Council uses passive management to control costs, evaluate active management strategies, capture exposure to the more *efficient markets*, manage the risk of under-performance and facilitate re-balancing to policy asset mix. Exchange traded *real estate investment trusts (REITS)* ~~are~~ may also be used to maintain the Fund's asset class exposures within the specified policy ranges.
- 4.3 The Council approves the active management of fund assets when available investment strategies offer sufficiently high expected incremental returns, net of

- fees, to compensate for the risk of under-performance, and when the magnitude of potential under-performance can be estimated, monitored and managed.
- 4.4 The Council must accept active management of those asset classes for which there is no passive management alternative, in particular, real estate and private equity.
- 4.5 The Council prefers active management strategies that emphasize security selection decisions rather than asset mix timing decisions. General investor experience and surveys of academic and professional studies indicate that security selection decisions are more likely to earn above index returns than asset mix timing decisions.
- 4.6 At the aggregate level of the Regular Account, active management strategies authorized by the Council are expected to **add 0.6% of annualized excess return**, net of fees, over moving five-year periods. **Active risk of the Regular Account is managed to a targeted annualized tracking error of 2 to 3 percent, relative to the policy benchmark.**

## 5.0 **Public US** Equity Strategy

- 5.1 **Public US** equity is managed with the objective of earning at least **7550 basis points** in annualized net excess return above the MSCI All Country World Index Investable Market Index (ACWI IMI – net) (unhedged) Russell 3000 Index over moving five-year periods. **Active risk is managed to a targeted annualized tracking error of 1 to 2.5 percent, relative to the above benchmark.**
- 5.2 Key elements of the strategy:
- (a) ~~2030%~~ of assets are targeted for passive management, ~~primarily~~**exclusively** in the large **and mid** capitalization sectors of the market, which ~~are~~**is** believed to be more efficiently valued.
  - ~~(b) 24% of assets are targeted for enhanced index strategies, to provide for active strategies, with lower tracking, across the passive-active continuum.~~
  - ~~(c) 46% of assets are targeted for full, active management strategies.~~
  - ~~(d)~~ **(b)** A targeted ~~10040%~~ **10040%** *overweight* to small capitalization stocks (stocks contained in the Russell ~~2000~~**2500** Index) relative to the Russell 3000 Index is maintained. Given the inefficiency of the small cap market relative to the large cap market, through active management, the Council expects small cap stocks to outperform large cap stocks over the long term.
  - ~~(e)~~ **(c)** Multiple specialist active managers with risk diversifying complementary investment styles are employed. For example, managers that focus on either growth or value stocks and managers that focus on large or small capitalization stocks. This produces more consistent excess returns and reduces the fund's exposure to any single investment organization.
  - (d)** The Fund maximizes exposure to security selection based investment decisions by maintaining aggregate exposures to *value* and *growth* stocks, economic sectors and *market capitalizations* relative to their *benchmark exposures*, adjusted for the strategic small cap overweight.

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

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

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

## **6.0 — Non-US Equity Strategy**

~~6.1 — Non US equity is being managed with the objective of earning at least **100 basis points** in annualized net excess returns above a *benchmark* of the *MSCI All Country World Index (ACWI) Ex US* over moving five year periods. The Non US equity benchmark is *unhedged*. **Active risk is managed to a targeted annualized tracking error of 1 to 3 percent, relative to the above benchmark.**~~

~~6.2 — Key elements of the strategy:~~

~~(a) Active management exposure is higher than in the US equity strategy because the Council believes the non US markets provide more opportunities for skilled managers to earn incremental returns.~~

~~(b) Multiple specialist active managers are employed, including a 30% allocation to international enhanced indexing in developed markets. Managers with skills in security selection and country allocation are utilized. These decisions have been shown to be the principal sources of the excess return in non-US equity portfolios. Managers who have demonstrated ability to add value through currency management are allowed to tactically *hedge* currency exposures.~~

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

## **7.0 — Global Equity**

~~7.1 — Global equity is being managed with the objective of earning at least **100 basis points** in annualized net excess returns above a *benchmark* of the *MSCI All Country World Index (ACWI)* over moving five year periods. The Non US equity benchmark is *unhedged*. **Active risk is managed to a targeted annualized tracking error of 2 to 4 percent, relative to the above benchmark.**~~

~~7.2 — Key elements of the strategy:~~

~~(a) Active management exposure is higher than in the US equity strategy because the Council believes the non US markets provide more~~

~~opportunities for skilled managers to earn incremental returns. Global equity selection offers active managers a greater opportunity set.~~

- ~~(b) Multiple specialist active managers are employed, including a 40% allocation to global enhanced indexing. Managers with skills in security selection and currency and country allocation are utilized. These decisions have been shown to be the principal sources of the excess return in global equity portfolios.~~
- ~~(c) Aggregate exposures to countries, economic sectors, equity management styles and market capitalization are monitored and managed relative to their benchmark exposures.~~

## **68.0 Fixed Income Strategy**

**68.1** Fixed income is being managed with the objective of earning **75 basis points** in annualized net excess returns above a blended benchmark of 90% *Barclays Capital US Universal Bond Index* and 10% *Citigroup Non-US\$ World Government Hedged Bond Index* over moving five-year periods. **Active risk is managed to a targeted annualized tracking error of 1 to 2 percent, relative to the above benchmark.**

**68.2** Key elements of the strategy:

- (a) At least 95% of fixed income is actively managed because active fixed income management is generally more cost effective than active equity management. Excess returns are more likely because many investors hold fixed income to meet regulatory and liability matching objectives, and are not total return investors. This produces systematic mis-pricings of fixed-income securities that skilled investment managers can exploit. Also, fixed income management fees are much lower than active equity management fees.
- (b) Multiple active generalist managers will be used for a majority of the fixed income asset class, rather than multiple sector specialists as in the US equity market. The OIC may supplement this strategy with specialist fixed income managers as warranted. Fixed income manager structures generally have little impact on total Fund risk because of overall lower allocations to the asset class and the low tracking errors. The asset class tracking error is diversified into insignificance at the total Fund level.
- (c) Managers are selected for their skills in issue selection, *credit* analysis, sector allocations and *duration* management.
- (d) Aggregate exposures to duration, credit and sectors are monitored and managed relative to corresponding exposures in the asset class benchmark.

## **79.0 Real Estate Strategy**

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

**79.2** Key elements of the strategy:

- (a) Real Estate is 100% actively managed because index funds replicating the real estate broad market are not available.
- (b) *Direct property investments* represent 30% of the real estate portfolio, with a range of 25% to 35%. Specialist managers are utilized. Risk is diversified by investing across four major property types: offices, apartments, retail and industrial.
- (c) Exchange traded real estate investment trusts (REITs) represent 20% of the real estate portfolio, with a range of 15% to 25%. Active management will include style and capitalization specialists, as well as broad market managers. Up to 25% of the REIT exposure may be invested in markets outside the United States.
- (d) *Value Added* investments represent 20% of the real estate portfolio, with a range of 15% to 25%. Investments may include direct property types listed above, as well as structured investments in alternative property types. Risk is diversified by property type and geography.
- (e) *Opportunistic real estate* investments represent 30% of the real estate portfolio, with a range of 20% to 40%. Investment strategies will be characterized as “opportunistic” based on the market conditions prevailing at the time of investment.
- (f) The Fund may also participate in *co-investment* opportunities within the real estate asset class.

## **840.0 Private Equity Strategy**

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

**840.2** Key elements of the strategy:

- (a) Private Equity is 100% actively managed because index funds of private equity are not available.
- (b) Asset class risk is diversified by investing across different private equity fund types: *venture capital, leverage buyouts, mezzanine debt, distressed debt, sector funds* and *fund-of-funds*.
- (c) Asset class risk is further diversified by investing across *vintage years, industry sectors, investment size, development stage* and *geography*.

- (d) Private equity programs are managed by general partners with good deal flow, specialized areas of expertise, established or promising net of fees track records, and fully disclosed and verifiable management procedures.
- (e) The Fund will participate in co-investment opportunities in the private equity asset class.

## **944.0 Performance Monitoring and Evaluation**

- 944.1** The Council and its agents use a variety of compliance verification and performance measurement tools to monitor, measure and evaluate how well OPERF assets are being managed. Monitoring, reporting and evaluation frequencies range from hourly, to daily, to weekly, to monthly, to quarterly, to annually.
- 944.2** The Council has developed a performance monitoring and evaluation system that answers two fundamental fiduciary questions:
- Are Fund assets being prudently managed? More specifically, are assets being managed in accordance with established laws, policies and procedures, and are individual investment managers in compliance with their mandates?
  - Are Fund assets being profitably managed? More specifically, has performance affected benefit security, has capital market risk been rewarded and has active management risk been rewarded?
- 944.3** When a breach of policies, procedures or portfolio mandates is reported or detected, the Council requires a supporting report explaining how the breach was discovered, the reasons for the breach, actions taken to rectify the breach, and steps taken to mitigate future occurrences.
- 944.4** One of the many reports used by the Council to monitor and evaluate performance of the Regular Account indicates if the Regular Account has exceeded the 8.0% (ADR) return over moving five-year periods. Additionally, reports quantify if the fund was rewarded for investing in higher return but more risky equity investments over the same period, and if active management has added or subtracted returns, net of fees.
- 944.5** The reporting described in Section 11.4 gives the Council a consolidated or “big picture” view of the performance of the Regular Account. This is the first level of a comprehensive four-level performance report used by the Council to monitor and evaluate performance over different time horizons. Level two examines Regular Account performance excluding hard-to-price illiquid assets such as real estate and private equities. Level three examines the performance of the Regular Account’s five individual asset class strategies: US equity, non-US equity, fixed income, real estate and private equity. Level four examines the performance of individual managers within each of the asset class strategies. The four-level reporting structure allows the Council to “drill down” to the level of detail that is needed to identify potential performance problems, and take corrective action as may be required.

- end -

## Glossary

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

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

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

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

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

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

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

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

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

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

*Direct Property Investments:* Real estate investment strategies in which the investor is the direct owner of the real estate by holding the deed to the real estate property, which could be land and/or buildings.

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

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

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

~~*Enhanced Index:* These funds generally involve a quantitatively defined strategy that "tilts" the portfolio composition away from strict adherence to some popular market index to a slightly different composition that is expected to produce more return at low risk (typically, <200 basis points of tracking error).~~

*Equities:* Investments that represent ownership in a company and therefore a proportional share of company profits. For example, owning common shares of General Motors Corporation is an equity investment.

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

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

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

*Growth Stock:* Stocks that exhibited faster-than-average earnings growth over the last few

years and is expected to continue to do so into the near future. Growth stocks usually have high price-to-earnings ratios, high price-to-book ratios and low dividend yields.

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

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

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

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

*MSCI All Country World Index (ACWI):* A free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. As of January 2009 the MSCI ACWI consisted of 46 country indices comprising 23 developed and 23 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

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

*MSCI World Ex US Index:* A free float-adjusted market capitalization index that is designed to measure global developed market equity performance, excluding the United States. As of January 2009 the MSCI World Ex US Index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

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

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

*NCREIF Index:* The National Council of Real Estate Investment Fiduciaries (NCREIF) is an association of institutional real estate professionals who share a common interest in

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

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

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

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

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

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

the investment funds, which is to make the moneys as productive as possible, subject to the prudent investor standard.

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

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

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

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

*Real Estate:* Investments in land and/or buildings.

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

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

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

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

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

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

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

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

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

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

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

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

*Variable Account:* The Variable Annuity Program allowed active members to place a portion of their yearly employee contributions exclusively within a domestic equity portfolio. Active members who participated in the Variable Program had part of their member account balance in the regular account and part in the variable account. Unless a member elected to participate in the Variable Program, all of the member's employee contributions went into the regular account. This "primary" election allowed members to

place 25 percent, 50 percent, or 75 percent of their employee contributions in the variable account. Variable account balances increase or decrease depending on the performance of the variable fund; accounts are credited for whatever is available for distribution, whether it is a gain or a loss. The OIC only sets asset allocation policy at the Regular Account level, since the OIC cannot control historical employee directed investment options.

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

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

- end -

**FUNCTION:** ~~Equity Investments~~

**ACTIVITY:** ~~Strategic Role of Domestic Equity Securities within OPERF~~

**POLICY:** ~~Domestic equity securities should comprise 11% to 21% of OPERF's total assets, with a strategic target of 16%, based on an overall global equity target allocation established in OIC Policy 4.01.18.~~

**PROCEDURES:**

**PURPOSE**

~~The purpose of these Domestic Equity Investment Policies & Strategies is to define the strategic role of domestic equities as an asset class within the Investment Council's general investment policies for the Oregon Employees Retirement Fund (OPERF), to set forth specific short-term and long-term policy objectives for this segment of OPERF's investment portfolio, and to outline the strategies for implementing the Investment Council's domestic equity investment policies.~~

**STRATEGIC ROLE**

~~Equities generally should provide enhanced returns and diversification to the OPERF.~~

**POLICY OBJECTIVES**

- ~~1. To provide one of the highest expected returns of the OPERF's major asset classes. Over the long-term, the return should exceed inflation by 6%.~~
- ~~2. To achieve a portfolio return of 50 basis points or more above the Russell 3000 index over a market cycle of three to five years on a net-of-fee basis. The portfolio is also expected to achieve top quartile peer group performance. Peer group shall consist of public and corporate funds with total assets greater than \$1 billion.~~
- ~~3. Active risk will be managed to a targeted annualized tracking error of 1 to 2.5 percent, relative to the Russell 3000 index.~~

**STRATEGIES**

- ~~1. Diversify the asset class of domestic equities across the United States stock market to ensure exposure to a wide range of investment opportunities, and participate broadly in that market to receive the highest expected rate of return for domestic equities. The size of any commitment of the Investment Council to an individual investment manager will be based on the commitments impact on the overall portfolio, the Investment Council's confidence in the abilities of the manager, the investment style of the manager, and the capacity of the manager to invest and manage such a commitment.~~
- ~~2. Maintain an overall portfolio market capitalization that reflects the Russell 3000 with a 40% small/mid (SMID) capitalization (stocks contained in the Russell 2500 Index) overweighting in order to enhance return. This tilt is based on the Investment Council's belief that inefficiencies in the small cap market relative to the large cap market, though active management, will outperform large cap stocks over the long term.~~
- ~~3. Maintain a neutral composite of value and growth investment styles in the OPERF portfolio over the long-term to control portfolio risk. The Investment Council's~~

expectation is that neither investment style will provide substantially greater returns over the long term, but that a tilt toward one style may result in significant short term variances.

4. Invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.
5. Ensure through the use of passive investment management that a substantial portion of the OPERF's equity assets achieves at least a market rate of return, is managed at low cost, absorbs a large asset base and controls risk.
6. Enhance return to OPERF through the use of active investment management by selecting equities in less efficient segments of the market.
7. Active investment managers are expected to outperform stated benchmarks on an after fee, risk adjusted basis, over a market cycle of three to five years (see Appendix B). Those benchmarks include the passive management alternative. Comparisons against a representative peer group universe will also be considered in evaluating the performance and risk levels of managers.
8. The Investment Council's selection of active managers will be based upon demonstrated expertise. Active managers will be selected for their demonstrated ability to add value, over a passive management alternative and within reasonable risk parameters, by using a style which enables OPERF to meet the strategic target allocations set forth in Appendix A. The management guidelines described in Appendix C will be attached to and incorporated into the Investment Council's contract with every investment manager.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)**

- A. Strategic Targets (Appendix A)
- B. Investment Manager Benchmarks (Appendix B)
- C. Management Guidelines (Appendix C)
- D. Manager Target Allocations (Appendix D)

**APPENDIX A**

**STRATEGIC TARGETS**

1. ~~Passively managed investments will constitute between 14 percent to 34 percent of OPERF's total domestic equity portfolio.~~

2. ~~Overall weightings for value and growth investment styles within OPERF's domestic equity portfolio will be approximately equal. These weightings will be evaluated by comparing key financial factors, (e.g. P/B, P/E, growth rates, yield, to the Russell 3000 Index), taking into account the small capitalization tilt adopted by the Investment Council in its Strategy No. 2.~~

3. ~~Subject to periodic review and revision, the Investment Council adopts the following strategic target allocations:~~

a. ~~The Investment Council's strategic target allocations represent percentages of OPERF's total domestic equity portfolio. Each target allocation has an accompanying percentage range. The strategic target allocations and ranges can be summarized as follows:~~

<u>Targets</u>	<u>Ranges</u>
	Small/Mid Cap Overweight 40%
0% - 50%	
	Active/Enhanced Index 76%
66% - 86%	
Passive	24%
14% - 34%	
	Growth
50%	40% - 60%
	Value
50%	40% - 60%

~~Individual Manager Weights See Appendix D~~

b. ~~The Investment Council will approve target allocations and associated ranges, for individual managers, at the time of hire. The OPERF domestic equity portfolio will be monitored quarterly by a report to the Investment Council that includes the target allocations and ranges for each category of market capitalization and style (active/passive and growth/value). The actual percentage market value for each category, compared to its target allocation, will also be included in the report. When a manager, or segment, falls outside of the established ranges, staff will transfer assets as deemed appropriate within the target allocations. The total structural characteristics of the domestic equity portfolio will be considered at the time of any rebalancing. Re-allocations between asset classes shall be governed by Policy 4.01.18.~~

**APPENDIX B**

**INVESTMENT MANAGER BENCHMARKS**

**Return  
Objective  
Over  
Benchmark**

<b>Manager</b>	<b>Benchmark</b>	<b>Peer Group</b>	<b>Net of Fees</b>
AJO	R 1000 Value	Large Value	1.0%
Aletheia Research	R 1000 Growth	Large Growth	1.5%
AQR Capital	R 2000 Value	Small Value	1.5%
BGI Russell 1000	Growth	R 1000 Growth	Large Growth
	N/A		
BGI Russell 1000	Value	R 1000 Value	Large Value
	N/A		
BGI Alpha Tilts	R 1000	Market Oriented	
	1.0%		
Boston Company	R 2000 Value	Small Value	1.5%
Delaware Investments		R 1000 Growth	Large Growth
	1.5%		
Franklin Portfolio Assoc		R 1000	Market Oriented
	1.0%		
MFS Value	R 1000 Value	Large Value	1.0%
Mazama Capital	R 2500 Growth	Small/Mid Growth	
	1.5%		
Next Century Growth		Russell MicroCap Growth	Small Growth 1.5%
Northern Trust Co.		R 3000	Market Oriented
	1.5%		
PIMCO	R 1000	Market Oriented	
	1.0%		
Pyramis LC Core	R 1000	Market Oriented	
	2.0%		
Wanger Asset Mgt	R 2500	SMID Market Oriented	
	1.0%		
Wellington Capital Mgt		R 2000	Small Market Oriented
	1.0%		
Wells Capital Select		R1000 Growth	Large Growth
	1.5%		

~~APPENDIX C~~

~~MANAGEMENT GUIDELINES~~

~~The following guidelines shall be attached to and incorporated into every contract between the Investment Council and an investment manager:~~

- ~~1. The category of management to which a manager is assigned.~~
- ~~2. A description of the manager's investment style.~~
- ~~3. The manager's specific performance objective, expressed on a relative basis in comparison to an index or a passively managed alternative, as that manager's required excess return. The manager's required excess return will represent the risk premium associated with this manager's investment style in comparison to the index or passively managed alternative to which the manager is assigned.~~
- ~~4. Portfolio characteristics which the OIC expects the manager to exhibit on average throughout a market cycle.~~
- ~~5. A list of permissible equity securities in which the manager may invest, such as stock, foreign stock, or ADR's.~~

APPENDIX D

**State of Oregon**  
**Target Domestic Manager Weightings**

	<b>Target %</b>	<b>+/- Range</b>	<b>Lower</b>	<b>Range</b>	<b>Upper</b>
<b>Large Value</b>	<b>28.0%</b>	<b>5.0%</b>	<b>23.0%</b>		<b>33.0%</b>
Aronson Partners	8.0%	3.0%	5.0%	11.0%	
MFS Value	8.0%	3.0%	5.0%	11.0%	
BGI Russell 1000 Value		12.0%	5.0%	7.0%	17.0%
<b>Large Cap Market Oriented</b>	<b>27.0%</b>		<b>10.0%</b>		<b>17.0%</b>
	<b>37.0%</b>				
BGI Russell 1000 Alpha Tilts		4.5%	3.0%	1.5%	
7.5%					
Franklin Portfolio Assoc		4.5%	3.0%	1.5%	
7.5%					
PIMCO	9.0%	4.0%	5.0%		13.0%
Northern Trust	6.0%	3.0%	3.0%		9.0%
Pyramis LC Core	3.0%	3.0%	0.0%		6.0%
<b>Large Cap Growth</b>	<b>29.0%</b>		<b>6.0%</b>		<b>23.0%</b>
	<b>35.0%</b>				
Aletheia Research		4.0%	2.0%	2.0%	6.0%
Deleware Investments		4.0%	2.0%	2.0%	6.0%
Wells Capital Select		9.0%	4.0%	5.0%	13.0%
BGI Russell 1000 Growth		12.0%	5.0%	7.0%	17.0%
<b>Small Value</b>	<b>3.0%</b>	<b>2.0%</b>	<b>1.0%</b>		<b>5.0%</b>
AQR Capital	1.5%	1.5%	0.0%		3.0%
Boston Company	1.5%	1.5%	0.0%		3.0%
<b>Small/Mid Cap Core</b>	<b>10.0%</b>		<b>6.0%</b>		<b>4.0%</b>
	<b>16.0%</b>				
Wanger Asset Management		7.0%	3.0%	4.0%	10.0%
Wellington Management		3.0%	2.0%	1.0%	5.0%
<b>Small Growth</b>	<b>3.0%</b>	<b>2.0%</b>	<b>1.0%</b>		<b>5.0%</b>
Mazama Capital	1.5%	1.5%	0.0%		3.0%
Next Century Growth		1.5%	1.5%	0.0%	3.0%
<b>Total US Equities</b>		<b>100.0%</b>			

~~**FUNCTION:** Equity Investments~~

~~**ACTIVITY:** Strategic Role of Non-US Equity Securities within OPERF~~

~~**POLICY:** Non-US equity securities should comprise 17% to 29% of OPERF's total assets, with a strategic target of 23%, based on an overall global equity target allocation established in OIC Policy 4.01.18.~~

~~**PROCEDURES:**~~

~~**PURPOSE**~~

~~The purpose of these Non-US Equity Investment Policies & Strategies is to define the strategic role of Non-US equities as a sub-asset class within the Investment Council's general investment policies for the Oregon Public Employees Retirement Fund (OPERF), to set forth specific short term and long term policy objectives for this segment of OPERF's investment portfolio, and to outline the strategies for implementing the Investment Council's international equity investment policies.~~

~~**STRATEGIC ROLE**~~

~~Equities generally should provide enhanced returns and diversification to the OPERF. Non-US equities are expected to provide risk reduction when combined with the domestic equity portfolio.~~

~~**POLICY OBJECTIVES**~~

- ~~1. To provide one of the highest expected returns of the OPERF's major asset classes. Over the long term, the return should exceed inflation by 6%.~~
- ~~2. To achieve a portfolio return of 100 basis points or more above the MSCI ACWI IMI (All Country World Index Investable Market Index) ex US (Net) over a market cycle of three to five years on a net of fee basis.~~
- ~~3. Active risk will be managed to a targeted annualized tracking error of 1 to 3 percent, relative to the MSCI ACWI IMI ex US (Net).~~

~~**STRATEGIES**~~

- ~~1. Diversify the asset class of non-US equities across the stock markets outside the United States to ensure exposure to a wide range of investment opportunities, and participate broadly in those markets to receive the highest expected rate of return for international equities, and to provide risk reduction to the entire equity portfolio. The size of any commitment of the Investment Council to an individual investment manager will be based on the commitment's impact on the overall portfolio, the Investment Council's confidence~~

- in the abilities of the manager, the investment style of the manager, and the capacity of the manager to invest and manage such a commitment.
2. Maintain an overall portfolio market capitalization that reflects the MSCI ACWI IMI ex US with a 40% small capitalization overweighting for developed market countries, in order to enhance return. This tilt is based on the Investment Council's belief that inefficiencies in the small cap market relative to the large cap market, though active management, will outperform large cap stocks over the long term.
  3. Maintain an overall portfolio market capitalization that reflects the MSCI ACWI IMI ex US.
  4. Invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.
  5. Enhance returns to OPERF through exposure to active and enhanced index investment management with capabilities in both country allocation and security selection.
  6. Active investment managers are expected to outperform stated benchmarks on an after-fee, risk-adjusted basis, over a market cycle of three to five years (see Appendix B). Those benchmarks include the passive management alternative. Comparisons against a representative peer group universe will also be considered in evaluating the performance and risk levels of managers.
  7. Seek to enhance returns and diversification to OPERF by investing in the Emerging Markets.
  8. All non-US benchmarks should be unhedged. Individual managers, with expertise, have the option to hedge as they desire, but are measured against an unhedged benchmark.
  9. The Investment Council's selection of active managers will be based upon demonstrated expertise. Active managers will be selected for their demonstrated ability to add value, over a passive management alternative and within reasonable risk parameters, by using a style which enables OPERF to meet the strategic target allocations set forth in Appendix A. The management guidelines described in Appendix C will be attached to and incorporated into the Investment Council's contract with every investment manager.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)**

- A. International Equity Strategic Targets (Appendix A)
- B. Investment Manager Benchmarks (Appendix B)
- C. Management Guidelines (Appendix C)
- D. Manager Target Allocations (Appendix D)

~~APPENDIX A~~

~~STRATEGIC TARGETS~~

~~Subject to periodic review and revision, the Investment Council adopts the following strategic target allocations (all targets are measured relative to the MSCI ACWI IMI ex US (Net)):~~

- ~~a. Capitalization exposure similar to stated benchmark;~~
- ~~b. The Investment Council's strategic target allocations represent percentages of OPERF's total international equity portfolio. Each target allocation has an accompanying percentage range. The strategic target allocations and ranges can be summarized as follows:~~

	<u>Targets</u>	<u>Ranges</u>
<del>Emerging Markets</del>	<del>Benchmark Weight</del>	<del>+/- 5%</del>
<del>Developed Country</del>		
<del>    Small Cap Overweight</del>	<del>40%</del>	<del>0% - 50%</del>
<del>    Active/Enhanced Index</del>	<del>95%</del>	<del>90% - 100%</del>
<del>    Passive</del>	<del>5%</del>	<del>0% - 10%</del>
<del>Individual Manager Weights</del>	<del>See Appendix D</del>	

- ~~c. The Investment Council will approve target allocations and associated ranges, for individual managers, at the time of hire. The OPERF international equity portfolio will be monitored quarterly by a report to the Investment Council that includes the target allocation for each category of management style (active/enhanced index and growth/value) and emerging market exposure. The actual percentage market value for each category, compared to its target allocation, will also be included in this report. When a manager, or segment, falls outside of the established ranges, staff will transfer assets as deemed appropriate within the target allocations. The total structural characteristics of the international equity portfolio will be considered at the time of any rebalancing. Re-allocations between asset classes shall be governed by Policy 4.01.18.~~

**APPENDIX B**

**INVESTMENT MANAGER BENCHMARKS**

<b><u>Manager</u></b>	<b><u>Benchmark</u></b>	<b><u>Peer Group</u></b>	<b><u>Return Objective Over Benchmark Net-of-Fees</u></b>
Acadian	ACWI x US IMI Value	Value	1.75%
AQR Capital	World x US Std	Core	2.00%
Arrowstreet	ACWI x US IMI	Core	2.00%
Arrowstreet (EM)	Em Mkts IMI	Emerging Markets	2.00%
BGI World ex US Index	World x US Std	Passive	N/A
BGI World ex US Sm Cap Ind.	World x US Sm Cap	Passive	N/A
BGI Emerging Mkts Index	Em Mkts Std	Passive	N/A
BGI Intl Alpha Tilts	World x US Std	Enhanced Index	1.00%
Brandes	ACWI x US Std Value	Value	2.00%
Pyramis (Fidelity)	World x US Std	Enhanced Index	1.00%
Genesis	Em Mkts IMI	Emerging Markets	2.00%
Lazard Asset Mgt	ACWI x US Std	Core	1.50%
Northern Trust	World x US IMI	Core	1.50%
Pictet	Em Mkts Std	Emerging Markets	2.00%
TT International	World x US Std Growth	Growth	2.00%
Walter Scott	World x US Std	Growth/Core	2.00%
UBS	ACWI x US IMI Growth	Growth	2.00%
Tiered Emerging Markets	Em Mkts	Emerging Markets	2.00%
DFA Intl Small Cap Value	World x US Sm Cap Val	Small Cap	1.50%
Harris Associates Intl Sm Cap	ACWI x US Sm Cap Val	Small Cap	2.00%
Pyramis Select Intl Sm Cap	World x US Sm Cap	Small Cap	2.00%
Victory Intl Sm Cap	World x US Sm Cap Gr	Small Cap	2.00%

IMI — MSCI IMI Index (Large Cap + Mid Cap + Small Cap)Std — MSCI Standard Index (Large Cap + Mid Cap)  
 Sm Cap — MSCI Index (Small Cap)  
 Em Mkts — MSCI Emerging Markets Index

~~APPENDIX C~~

~~MANAGEMENT GUIDELINES~~

~~The following guidelines shall be attached to and incorporated into every contract between the Investment Council and an investment manager:~~

- ~~1. The category of management to which a manager is assigned.~~
- ~~2. A description of the manager's investment style.~~
- ~~3. The manager's specific performance objective, expressed on a relative basis in comparison to an index or a passively managed alternative, as that manager's required excess return. The manager's required excess return will represent the risk premium associated with this manager's investment style in comparison to the index or passively managed alternative to which the manager is assigned.~~
- ~~4. Portfolio characteristics which the OIC expects the manager to exhibit on average throughout a market cycle.~~
- ~~5. A list of permissible equity securities in which the manager may invest.~~

**APPENDIX D**

**State of Oregon**  
**Target International Manager Weightings**

	<b>Target %</b>	<b>+/- Range</b>	<b>Range</b>	
			<b>Lower</b>	<b>Upper</b>
<b>Passive Managers (combined)</b>	<b>5.0%</b>	<b>5.0%</b>	<b>0.0%</b>	<b>10.0%</b>
BGI World x US Index (Std), World x US Index (Sm Cap), Emerging Markets Index				
<b>Value Managers</b>	<b>18.0%</b>	<b>5.0%</b>	<b>13.0%</b>	<b>23.0%</b>
Acadian Asset Management	9.0%	4.0%	5.0%	13.0%
Brandes Investment	9.0%	4.0%	5.0%	13.0%
<b>Market Oriented (Core)</b>	<b>39.0%</b>	<b>10.0%</b>	<b>29.0%</b>	<b>49.0%</b>
BGI International Alpha Tilts	5.0%	3.0%	2.0%	8.0%
Pyramis Intl Select	7.0%	4.0%	3.0%	11.0%
AQR Capital	9.0%	4.0%	5.0%	13.0%
Arrowstreet	9.0%	4.0%	5.0%	13.0%
Lazard Asset Management	7.0%	4.0%	3.0%	11.0%
Northern Trust	2.0%	2.0%	0.0%	4.0%
<b>Growth Managers</b>	<b>19.0%</b>	<b>5.0%</b>	<b>14.0%</b>	<b>24.0%</b>
Walter Scott	7.0%	4.0%	3.0%	11.0%
TT International	7.0%	4.0%	3.0%	11.0%
UBS	5.0%	3.0%	8.0%	2.0%
<b>Small Cap Managers</b>	<b>9.0%</b>	<b>4.0%</b>	<b>5.0%</b>	<b>13.0%</b>
DFA	2.0%	2.0%	0.0%	4.0%
Harris Associates	2.0%	2.0%	0.0%	4.0%
Pyramis Intl Select Sm Cap	3.0%	2.0%	1.0%	5.0%
Victory	2.0%	2.0%	0.0%	4.0%
<b>Emerging Markets</b>	<b>10.0%</b>	<b>4.0%</b>	<b>6.0%</b>	<b>14.0%</b>
Arrowstreet	1.5%	1.5%	0.0%	3.0%
Genesis	4.0%	2.0%	2.0%	6.0%
Pictet	3.0%	1.5%	1.5%	4.5%
Tiered Emerging Mkts Strategy	1.5%	1.5%	0.0%	3.0%
<b>Total Non-US Equities</b>	<b>100.0%</b>			
<b>Developed Markets*</b>	<b>81.0%</b>	<b>5.0%</b>	<b>76.0%</b>	<b>86.0%</b>
<b>Emerging Markets*</b>	<b>19.0%</b>	<b>5.0%</b>	<b>14.0%</b>	<b>24.0%</b>

\*Determined by underlying holdings across all managers. Assumes the benchmark weight for Emerging Markets is 19%.

**FUNCTION:** ~~Equity Investments~~

**ACTIVITY:** ~~Strategic Role of Global Equity Securities within OPERF~~

**POLICY:** ~~Global equity securities should comprise 3% to 11% of OPERF's total assets, with a strategic target of 7%, based on an overall global equity target allocation established in OIC Policy 4.01.18.~~

**PROCEDURES:**

**PURPOSE**

~~The purpose of these Global Equity Investment Policies & Strategies is to define the strategic role of global equities as an asset class within the Investment Council's general investment policies for the Oregon Public Employees Retirement Fund (OPERF), to set forth specific short term and long term policy objectives for this segment of OPERF's investment portfolio, and to outline the strategies for implementing the Investment Council's global equity investment policies.~~

**STRATEGIC ROLE**

~~Equities generally should provide enhanced returns and diversification to the OPERF. Global equities should comprise 3% to 11% of OPERF's total assets. Global equities are expected to provide risk reduction when combined with the domestic and international equity portfolios.~~

**POLICY OBJECTIVES**

- ~~1. To provide one of the highest expected returns of the OPERF's major asset classes. Over the long term, the return should exceed inflation by 6%.~~
- ~~2. To achieve a portfolio return of 100 basis points or more above the MSCI All Country World Index (ACWI) Standard (Large + Mid Cap) (Net) over a market cycle of three to five years on a net-of-fee basis.~~
- ~~3. Active risk will be managed to a targeted annualized tracking error of 2 to 4 percent, relative to the MSCI ACWI Standard index.~~

**STRATEGIES**

- ~~1. Diversify the asset class of global equities across the stock markets around the world to ensure exposure to a wide range of investment opportunities, and participate broadly in those markets to receive the highest expected rate of return for global equities, and to provide risk reduction to the entire equity portfolio. The size of any commitment of the Investment Council to an individual investment manager will be based on the commitment's impact on the overall~~

portfolio, the Investment Council's confidence in the abilities of the manager, the investment style of the manager, and the capacity of the manager to invest and manage such a commitment.

2. ~~Maintain an overall portfolio market capitalization that reflects the MSCI ACWI Standard index.~~
3. ~~Some global managers may not invest in emerging market securities. Where this occurs, an additional allocation to the dedicated emerging market managers in the International Equity Fund will offset the benchmark underweight to emerging markets in the Global Equity Fund.~~
4. ~~Enhance returns to OPERF through exposure to active investment management with capabilities in country allocation, security selection and currency management.~~
5. ~~Active investment managers are expected to outperform stated benchmarks on an after fee, risk adjusted basis, over a market cycle of three to five years (see Appendix B). Those benchmarks include the passive management alternative. Comparisons against a representative peer group universe will also be considered in evaluating the performance and risk levels of managers.~~
6. ~~The Investment Council's selection of active managers will be based upon demonstrated expertise. Active managers will be selected for their demonstrated ability to add value, over a passive management alternative and within reasonable risk parameters, by using a style which enables OPERF to meet the strategic target allocations set forth in Appendix A. The management guidelines described in Appendix C will be attached to and incorporated into the Investment Council's contract with every investment manager.~~

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)**

- A. ~~Global Equity Strategic Targets (Appendix A)~~
- B. ~~Investment Manager Benchmarks (Appendix B)~~
- C. ~~Management Guidelines (Appendix C)~~
- D. ~~Manager Target Allocations (Appendix D)~~

~~APPENDIX A~~

~~STRATEGIC TARGETS~~

- ~~1. The global equity asset class shall be designed to achieve higher excess returns relative to its benchmark, than the domestic equity asset class. 60 percent of the global equity assignments will be made to active equity managers, and 40 percent to enhanced index strategies.~~
- ~~2. Subject to periodic review and revision, the Investment Council adopts the following strategic target allocations (all targets are measured relative to the MSCI ACWI Standard index):~~
  - ~~a. Capitalization exposure similar to stated benchmark;~~
  - ~~b. Overall weightings for value and growth investment styles within OPERF's global equity portfolio will be approximately equal. These weightings will be evaluated by comparing key financial factors (e.g. P/B, P/E, growth rates, yield, to the benchmark assigned the manager).~~

~~See Appendix D for Individual Manager Weights~~

- ~~e. The Investment Council will approve target allocations and associated ranges, for individual managers, at the time of hire. The OPERF global equity portfolio will be monitored quarterly by a report to the Investment Council that includes the target allocation for each manager. The actual percentage market value for each manager, compared to its target allocation, will also be included in this report. When a manager falls outside of the established ranges, staff will transfer assets as deemed appropriate within the target allocations. The total structural characteristics of the global equity portfolio will be considered at the time of any rebalancing. Re-allocations between asset classes shall be governed by Policy 4.01.18.~~

**APPENDIX B**

**INVESTMENT MANAGER BENCHMARKS**

**Return**  
**Objective**  
**Over**  
**Benchmark**

**Manager**      **Benchmark**      **Peer Group**      **Net-of-Fees**

**GLOBAL EQUITY FUND**

AllianceBernstein      MSCI ACWI Standard      Core      2.00%  
Goldman Sachs      MSCI ACWI Standard      Core      1.00%

**VARIABLE ACCOUNT**

BGI ACWI Index Fund      MSCI ACWI Standard      Core      N/A

~~APPENDIX C~~

~~MANAGEMENT GUIDELINES~~

~~The following guidelines shall be attached to and incorporated into every contract between the Investment Council and an investment manager:~~

- ~~1. The category of management to which a manager is assigned.~~
- ~~2. A description of the manager's investment style.~~
- ~~3. The manager's specific performance objective, expressed on a relative basis in comparison to an index or a passively managed alternative, as that manager's required excess return. The manager's required excess return will represent the risk premium associated with this manager's investment style in comparison to the index or passively managed alternative to which the manager is assigned.~~
- ~~4. Portfolio characteristics which the OIC expects the manager to exhibit on average throughout a market cycle.~~
- ~~5. A list of permissible equity securities in which the manager may invest.~~

APPENDIX D

**State of Oregon**

Target Global Equity Manager Weightings

	<b>Range</b>	
	<b>Target % +/- Range</b>	<b>Lower Upper</b>

**GLOBAL EQUITY FUND**

Alliance Bernstein	60.0%	10.0%	50.0%	70.0%
--------------------	-------	-------	-------	-------

Goldman Sachs	40.0%	10.0%	30.0%	50.0%
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<b>Total Global Equities</b>	<b>100.0%</b>			
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**VARIABLE ACCOUNT**

BGI ACWI Index Fund	100.0%			
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**TAB 8 – EUDAIMONIA ASSET MANAGEMENT**

**Public Equity**  
**STAFF RECOMMENDATION**

**PURPOSE**

To recommend hiring Eudaimonia Asset Management for a Microcap Growth mandate and fund them with \$50 million.

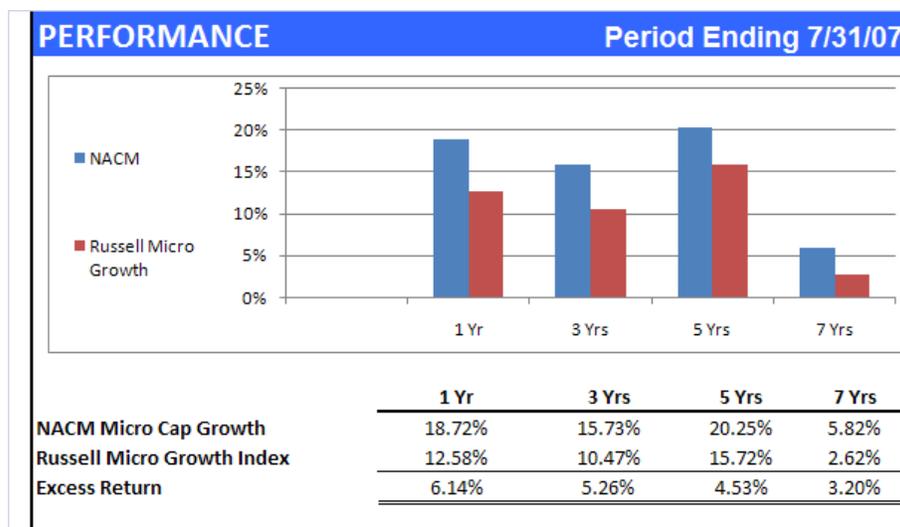
**BACKGROUND**

Eudaimonia Asset Management (EAM) was founded in 2007 by Travis Prentice, Montie Weisenberger, and Joshua Moss. All three founders are ex-Nicholas Applegate Capital Management (NACM) employees who had been managing the Microcap Growth strategy while at NACM. The OIC hired NACM in 1992 to manage three U.S. equity strategies (Midcap Growth, Smallcap Growth, and Microcap Growth). At its peak, NACM managed \$1.4 billion for OPERF across these three strategies. In March 2000, the OIC defunded \$812 million from the NACM mandates. In 2003, the OIC terminated the Midcap Growth product that later shut down. In 2005 the OIC terminated the Smallcap Growth mandate and reallocated the assets to the Microcap Growth mandate managed by Travis and his team. In 2006, NACM deployed a small portion of the Microcap Growth assets in the smaller end of the market capitalization range and ran it as a separate “Ultra Microcap” strategy.

NACM suffered significant organizational issues since being acquired by Allianz in 2001. NACM’s assets under management dropped from a peak of \$45 billion to less than \$16 billion as of June 2007 (\$7.5 billion as of March 2009). Several of NACM’s investment teams departed to join other asset management firms or to start their own firms. In late July 2007, Travis, Montie, and Joshua joined the exodus, and, in October 2007, the OIC terminated NACM.

Staff and SIS conducted a replacement search upon news of the Microcap team’s departure and opted to recommend terminating NACM and hiring Next Century Growth. EAM was a finalist in the search, however, the search team decided to pass at that time due to the fact they were still setting up their operations and were not yet managing money.

OPERF’s history with the NACM Microcap strategy dates back to 1992. Although the Russell Microcap Growth index is the most appropriate benchmark for this product, the index history only dates back to July 2000. Relative to the Russell Microcap Growth Index, the NACM Microcap Growth product delivered OPERF an annualized excess return of 320 basis points for the seven-year period ended July 31, 2007.



### Investment Process

EAM employs a bottom-up, fundamental stock picking process that is refreshed with real-time technical analysis. The “Discovery” process starts with quantitative screens that utilize technical factors to identify rapid changes in relative strength, volume measures and certain growth metrics. The ultimate goal of the discovery process is to detect stocks that are candidates for earnings surprise. Once a stock is identified, it moves to the fundamental analysis phase. EAM utilizes company filings, recent news reports, and Wall Street research as a starting point on stock evaluation. The fundamental analysis process is driven by three overarching themes: 1) identifying positive fundamental changes, 2) assessing the sustainability of the changes, and 3) determining to what extent the market has recognized and priced the new information. Stocks that have passed the discovery and analysis processes become candidates for inclusion into the portfolio. Given that the portfolio is fully invested, the attractiveness of new candidate stocks is assessed relative to the current portfolio holdings. If new names go into the portfolio, they displace less attractive names in the portfolio. This portfolio turnover coupled with a 2% maximum security holding helps describe EAM’s sell discipline. Portfolios are fully invested, constructed in a risk-aware manner, and diversified across 100 to 130 securities which are equal weighted at purchase.

Given that microcap stocks are extremely illiquid and volatile, it is necessary that any asset manager in this space have experienced traders and a well-developed trading infrastructure. The majority of trading that takes place in the U.S. is implemented through sophisticated trading algorithms which are programmed to find liquidity in an anonymous fashion. Although microcap stocks do get executed through algorithms, most of these securities are still traded over the phone and person-to-person. EAM’s dedicated trader has 20 years experience in trading microcap stocks and has a very well developed network of trusted microcap stock brokers that has been cultivated over the years. In many respects, trading in microcap stocks is a similar to trading in fixed income securities. They are both a function of “who you know” and what kind of inventory or access a broker may possess. As EAM’s assets under management grow and the illiquid position sizes of the portfolios increase, more and more reliance on the person-to-person broker network will occur.

## **DUE DILIGENCE**

OIC Policy 4.05.01 recommends on-site manager visits prior to hiring or funding. Mike Viteri recently conducted an on-site due diligence visit to EAM. The due diligence visit consisted of one-on-one meetings with all investment professionals and compliance officers and uncovered no areas of concern.

Staff performed a variety of other undertakings in determining the appropriateness in recommending this manager for funding, including:

- Reference checks with two consultants and two fund-of-fund managers. The references were all very favorable. Russell's Investment Management & Research (IMR) group has covered this product at NACM for many years and has a high regard for Travis and the investment process. Russell has continued to cover the product group with EAM and rank them with their highest rating. Russell Securities (fund-of-funds) had previously funded this product when the team was at NACM, and expressed their intent to use EAM in two of their managed fund programs. Attucks Asset Management (fund-of-funds group) recently hired and funded EAM for a Microcap mandate.
- Analyzed the correlation of excess returns with other OPERF small cap managers and found the correlations complementary.
- Reviewed Independent Verifiers Report from Ashland Partners & Company which verified EAM's compliance with GIPS standards on both the Microcap and Ultra Microcap performance composites from October 2007 through December 2008.
- Reviewed manager ADV filings with the SEC looking for potential conflicts of interest and other items of concern. No concerns were noted.
- Discussed trading issues including soft dollar usage and commission recapture. Managers will adhere to OPERF guidelines.
- Reviewed and discussed the fee schedules. The fees will be very reasonable.

## **DISCUSSION**

EAM lifted out during a challenging period for equity markets. EAM is owned by its employees (51%) and its private equity partner, Roth Capital Partners, LLC (49%). Roth Capital contributed the operating capital to fund the founder's business plan along with seed money to start three investment strategies: Smallcap Growth, Microcap Growth, and Ultra Microcap Growth. Given that the firm currently has only \$17 million under management, there is a risk that EAM would be unable to gather enough assets to reach break even before their funding runs out. As the assets are custodied by State Street, the only negative impact associated with EAM closing its doors would be the trading costs associated with transitioning the assets to another manager or mandate. As the strategy is trend-following in nature, performance will suffer in flat, directionless market environments. Likewise, the most significant factor exposure is momentum, and the strategy should be expected to underperform in periods of rapid leadership changes.

EAM should be hired for the following reasons:

- Staff has a high conviction in the firm's ability to generate excellent risk-adjusted returns;
- Staff is very familiar with the team and investment process and believes it is highly effective in the microcap space;

- Microcap strategies have significant upside potential. Microcap stocks trade at lower P/E multiples and have much higher growth potential as revenues are starting from a lower base. As microcap companies grow, returns are often enhanced by significant P/E multiple expansion;
- Trading microcap stocks is difficult and expensive. Efficient trading is essential in preserving alpha. EAM has a well developed trading infrastructure managed by a dedicated and experienced trader;
- The fees on the product are half of what we would expect to pay for this product. The firm views a relationship with OPERF as a highly beneficial relationship in asset gathering;
- Equity has been allocated broadly across the investment team, providing them complete control of operating decisions; and,
- Staff believes EAM will be able to gather sufficient assets to become profitable. Additionally, the current low asset base provides ample flexibility, allowing for timely implementation.

#### **RECOMMENDATION**

**Hire Eudaimonia Asset Management for a Microcap Growth mandate and fund them with \$50 million. Designate the Russell Microcap Growth index as the mandate's benchmark and assign an excess return objective of 2.5 percent (net of fees).**

## TAB 9 – SHAMROCK HOLDINGS

## Shamrock Activist Value Fund L.P.

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### **Purpose**

Staff recommends redeeming the Shamrock Activist Value Fund L.P. ("Shamrock").

### **Background**

#### History

The OIC approved a \$200 million commitment to Shamrock in April 2006 for the OPERF Opportunity Portfolio to pursue a concentrated, small cap public equity shareholder activist strategy. At the time, the fund was headed by Mike McConnell with support from senior Shamrock executives Stanley Gold and Gene Krieger. The original commitment (which began funding in August 2006), included a three year lock-up which expires in August 2009.

As of the end of March, the Shamrock portfolio has a total value (distributions and remaining value) to paid-in capital (\$166 million) of approximately 0.71. The remaining fair market value of the portfolio is approximately \$72.5 million (\$45 million has been distributed to date). While the fund has slightly outperformed its benchmark (the Russell 2000), it has been less defensive in the down market than anticipated given its concentrated deep value governance strategy.

#### Redemption Rationale

In Q1 2008, the senior portfolio manager, Mike McConnell, announced his intention to leave effective upon hiring his replacement. In Q3 2008, Shamrock announced his replacement (Dennis Johnson), whose past investing experience included portfolio management at Peachtree, a manager that previously managed money for the OIC. Stanley Gold and Gene Krieger have appeared to be less involved in the activism strategy than originally hoped.

Half of the remaining 10 portfolio companies are underperforming and are in the process of being exited, at a loss, indicating a higher loss rate than expected. Staff believes there are other activist managers with a deeper team that might be worth considering.

### **Recommendation**

Given the change in portfolio manager, a lack of confidence in the current team, and the benefit of increased liquidity, staff recommends that the OIC authorize staff to begin an orderly redemption of its account as soon as the lock-up and terms of the contract allow.

## TAB 10 – OPERF FIRST QUARTER REVIEW

State of Oregon

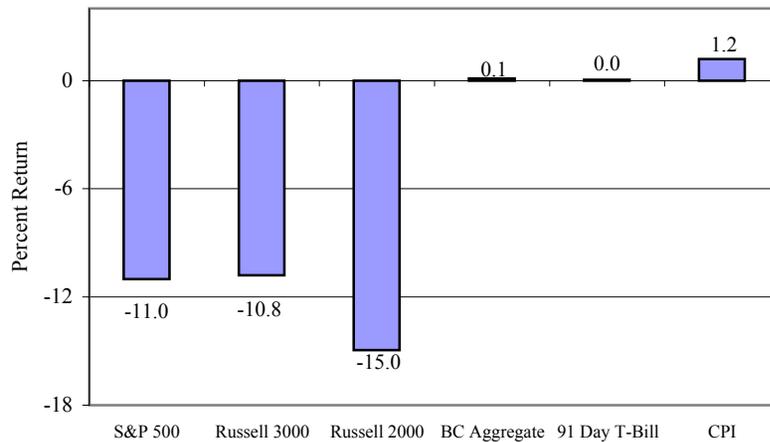
OPERF Performance Summary

Quarter Ending March 31, 2009

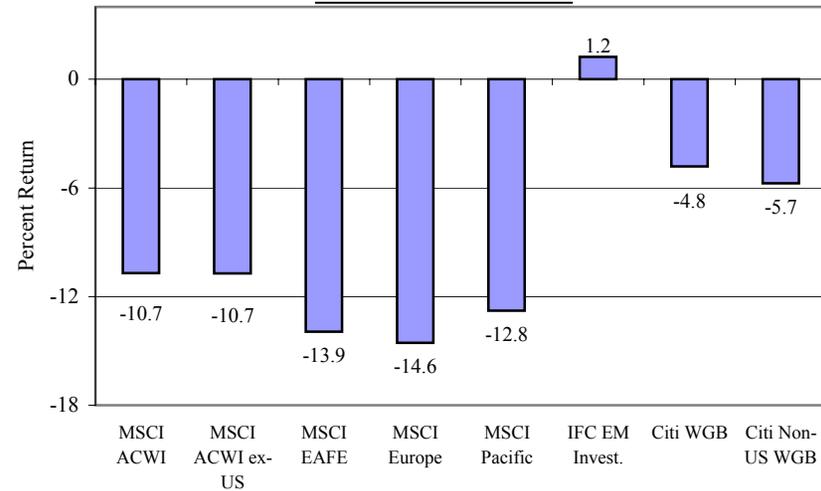
# Capital Markets Review

Q1 2009

## U.S. Markets



## Global Markets



### General Comments

Despite a strong rally in March, global equity markets continued their decline in the first quarter, generally posting losses ranging from -10% to -15% for the major developed markets. In contrast, the Emerging Markets posted modestly positive returns in the quarter. Real GDP continued to decline in the first quarter at a rate of -6.1%, following a 6.3% decrease in the fourth quarter of 2008, leaving the US economy steeped in recession for over a year now. As a result of the continued economic weakness, Fed policymakers projected that GDP will flatten out in the second half of 2009 and expand only slowly in 2010 at between 2.5% and 3.0%. Furthermore, the Fed announced plans to stimulate the economy by purchasing \$300 billion in longer term Treasury notes and \$750 billion in mortgage backed securities, while it maintained the fed funds rate at a low 0.25%.

The Obama Administration also took action to help revive the economy by forming the Term Asset lending Facility (TALF) to help thaw the frozen securitization market. In addition, the administration provided a plan to deal with the toxic assets problem with the Public-Private Partnership Investment Plan (PPIP). The US Dollar remained resilient in January and February in the face of unwinding leverage and weak European growth prospects. But, it weakened in March as aggressive easing measures were announced by the Fed. Still, the greenback held its ground, finishing the quarter higher against all the major currencies. With a decline of 0.1% in March, the CPI-U was 0.4% lower on a year-over-year basis, its first 12-month decline since 1955. The energy index was primarily responsible, falling 23% year-over-year. Core CPI, which excludes Food and Energy, increased 1.8%, year-over-year. However, oil prices rebounded in March, to finish the quarter at close to \$50 per barrel, up from around \$40 per barrel at the end 2008.

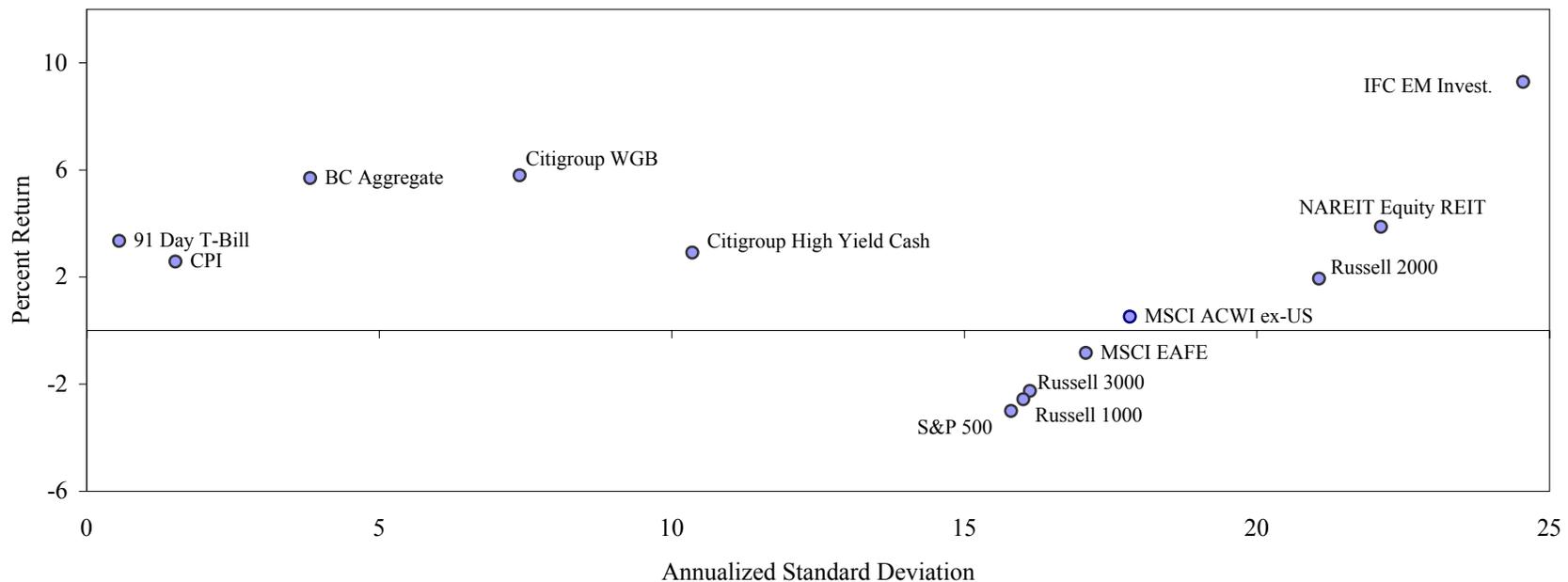
The US unemployment rate rose to 8.5% in March, the highest recorded rate in 25 years, while the number of unemployed persons increased by 694,000 to 13.2 million. After a surprising surge in February by 17.6%, new privately-owned housing starts fell by 10.8% in March and by 48.4% from a year ago. Led by record foreclosures, the number of existing homes sold in March was down 7.1% from a year ago, while the median home sales price fell 12.4% over the same period. On a positive note, the number of first time buyers rose to 53% of the home sales in March, in response to all-time low mortgage rates.

# Capital Markets Review

Q1 2009

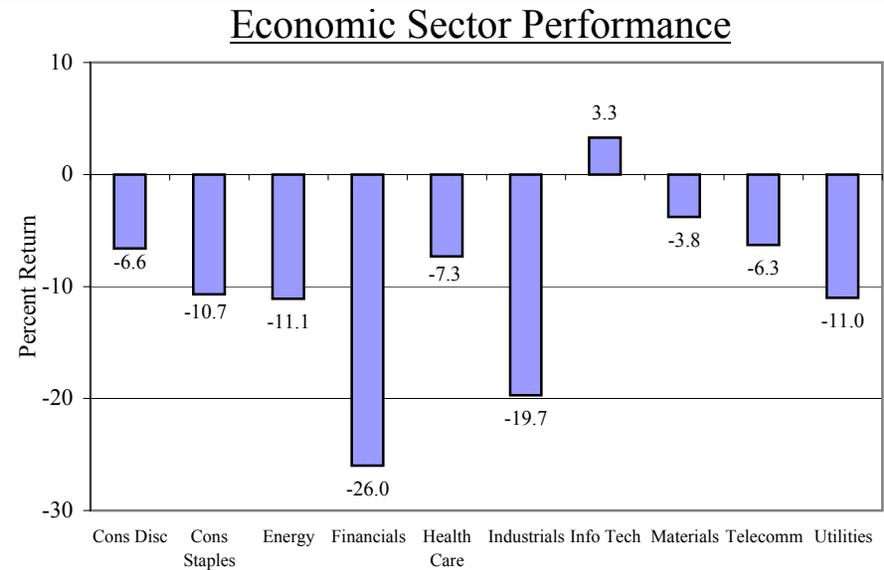
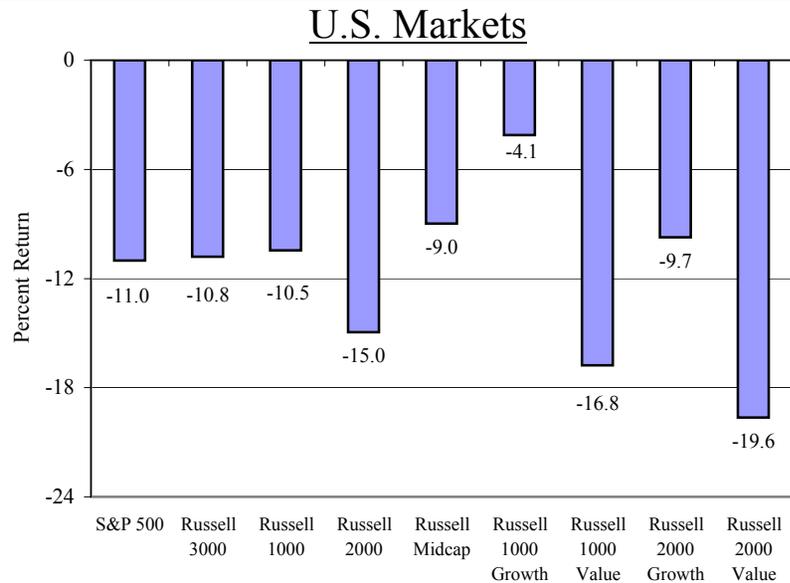
Total Returns in US\$		Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years	10 Year Std. Dev.
91 Day T-Bill		0.05	0.05	1.21	3.63	3.21	3.35	4.47	0.56
BC Aggregate		0.12	0.12	3.13	5.78	4.13	5.70	7.37	3.82
Citigroup High Yield Cash		5.05	5.05	-18.77	-4.33	-0.06	2.91		10.35
Citigroup World Gov't Bond		-4.81	-4.81	-3.75	7.66	4.63	5.79	7.31	7.40
S&P 500		-11.01	-11.01	-38.09	-13.06	-4.76	-3.00	7.43	15.80
Russell 3000		-10.80	-10.80	-38.20	-13.55	-4.59	-2.25	7.42	16.12
Russell 1000		-10.46	-10.46	-38.27	-13.24	-4.54	-2.57	7.53	16.01
Russell 2000		-14.95	-14.95	-37.50	-16.80	-5.24	1.93	6.59	21.06
MSCI ACWI ex-US		-10.71	-10.71	-46.46	-13.14	-0.66	0.52		17.83
MSCI EAFE		-13.94	-13.94	-46.51	-14.47	-2.18	-0.84	2.36	17.08
IFC EM Investable		1.24	1.24	-47.20	-7.51	6.84	9.28	9.22	24.55
Nareit Equity REIT		-31.86	-31.86	-58.16	-25.05	-8.65	3.88	6.79	22.12
CPI		1.19	1.19	-0.37	2.12	2.57	2.58	2.81	1.52

## Risk vs. Return - 10 Years



# U.S. Equity Market Review

Q1 2009



## U. S. Equity Market

Before its March rally, the S&P 500, for the second time in a decade, saw its value reduced by half. The index finished the quarter down by 11.0%. The broader market, as represented by the Russell 3000 finished down by 10.8%. Led by a rebound in the technology sector, the Nasdaq Composite fared relatively well, falling by 3.1%.

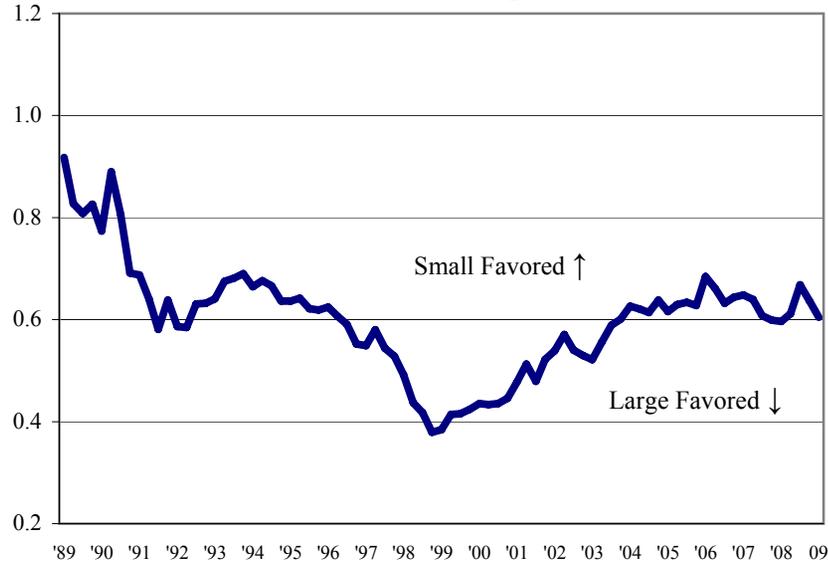
Across the broad market sectors, Financials was the worst performing for the second straight quarter, falling by 26.0%. Given its return over the past year of -57.6%, the financial sector's weight in the broad market was reduced from 18% of the index to just 12.6%. Reflecting the lower demand by the receding global economy, Industrials was the next to worst performing sector with a return of -19.7%, followed by Energy and Utilities, which were down 11.1% and 11.0%, respectively. While all sectors increased in March, only the Information Technology sector, which rose 3.3%, had a positive return for the quarter, led by the semiconductors industry. The Materials sector was the next best performer, rebounding from its -30% fourth quarter return, to close down 3.8% in the first quarter 2009.

Although all capitalization ranges of stocks fell between 9.0% and 15.0%, midcap stocks outperformed large-cap stocks by almost 1.5% and large-cap stocks outperformed small-cap stocks by 4.5%. On a style basis, growth stocks performed relatively well vs. value stocks among large-cap shares, falling just 4.1% vs. the -16.8% return for large value stocks in the first quarter. In the small-cap arena, growth stocks lost 9.7% while value stocks decreased 19.6% for the quarter.

# U.S. Equity Market Review

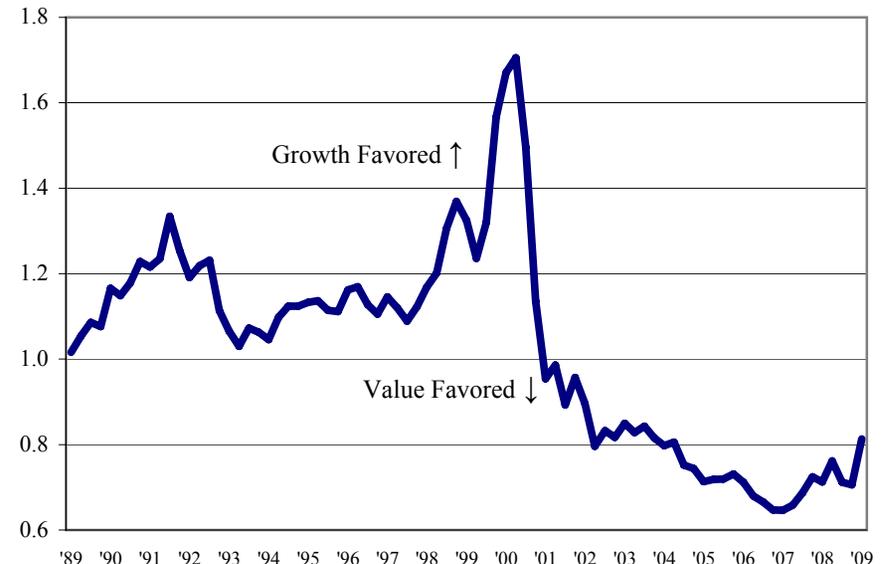
Q1 2009

## Small vs. Large



Cumulative return of the Russell 2000 versus the Russell 1000

## Growth vs. Value



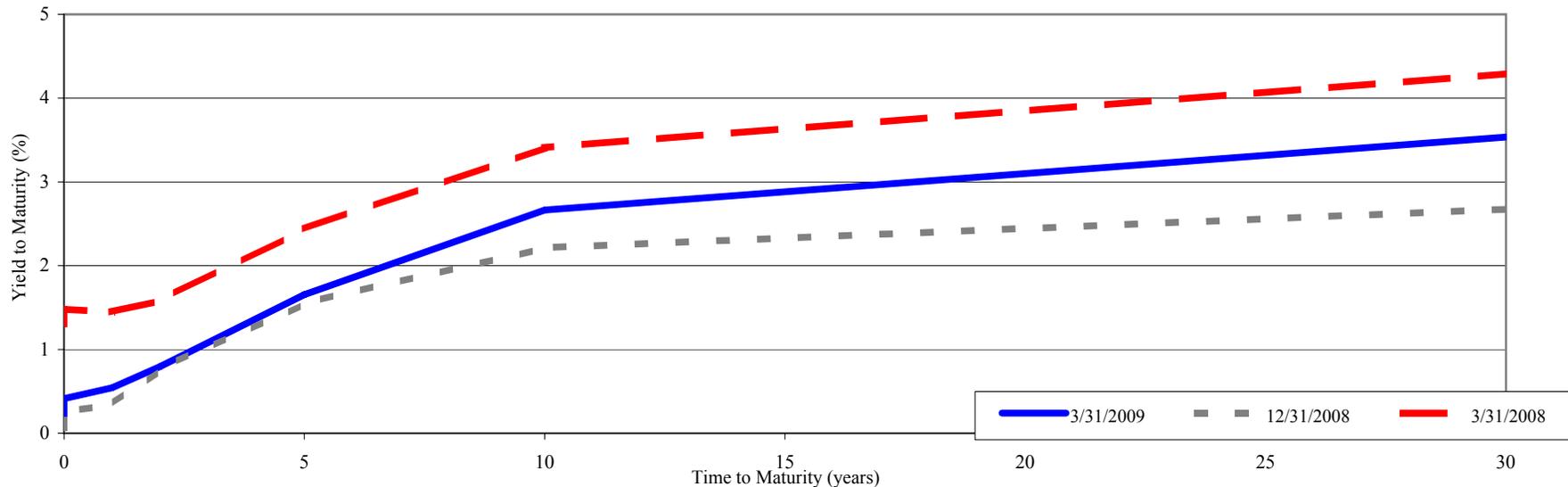
Cumulative return of the Russell 1000 Growth versus the Russell 1000 Value

<b>Total Returns</b>	<b>Quarter</b>	<b>Year to Date</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>20 Years</b>
S&P 500	-11.01	-11.01	-38.09	-13.06	-4.76	-3.00	7.43
Russell 3000	-10.80	-10.80	-38.20	-13.55	-4.59	-2.25	7.42
Russell 1000	-10.46	-10.46	-38.27	-13.24	-4.54	-2.57	7.53
Russell 2000	-14.95	-14.95	-37.50	-16.80	-5.24	1.93	6.59
Russell Midcap	-8.98	-8.98	-40.81	-15.53	-3.53	2.27	8.82
Russell 1000 Growth	-4.12	-4.12	-34.28	-11.28	-4.38	-5.26	6.85
Russell 1000 Value	-16.77	-16.77	-42.42	-15.40	-4.94	-0.62	7.70
Russell 2000 Growth	-9.74	-9.74	-36.36	-16.19	-5.37	-1.60	4.30
Russell 2000 Value	-19.64	-19.64	-38.89	-17.54	-5.30	4.87	8.35

# U.S. Fixed Income Market Review

Q1 2009

## Treasury Yield Curve



### U. S. Fixed Income Market

Despite consistently weak economic data, most of the non-Treasury fixed income market rebounded in the first quarter. A combination of low Treasury yields and highly reflationary monetary and fiscal policies fueled the price improvements. The government's response to the economic downturn also had a significant impact on the performance of individual fixed income sectors. Relatively attractive yields and distressed valuations in certain sectors captured investor attention.

In the US Treasury market, short-term securities provided positive returns, while the longer-term notes lagged as the yield curve steepened. Benchmark 2-year notes rose 3 basis points and 10-year yields rallied 45 basis points, ending the quarter at 2.66%. In general, Treasury returns suffered as the flight-to-safety concerns of 2008 subsided and long Treasuries gave back some of the remarkable gains they had made from the previous year.

Among the Agency indices, ABS and MBS provided some of the best returns in the investment grade universe as a result of favorable government support. CMBS lagged, until TALF (Term Asset-Backed Securities Loan Facility) was expanded to include the sector.

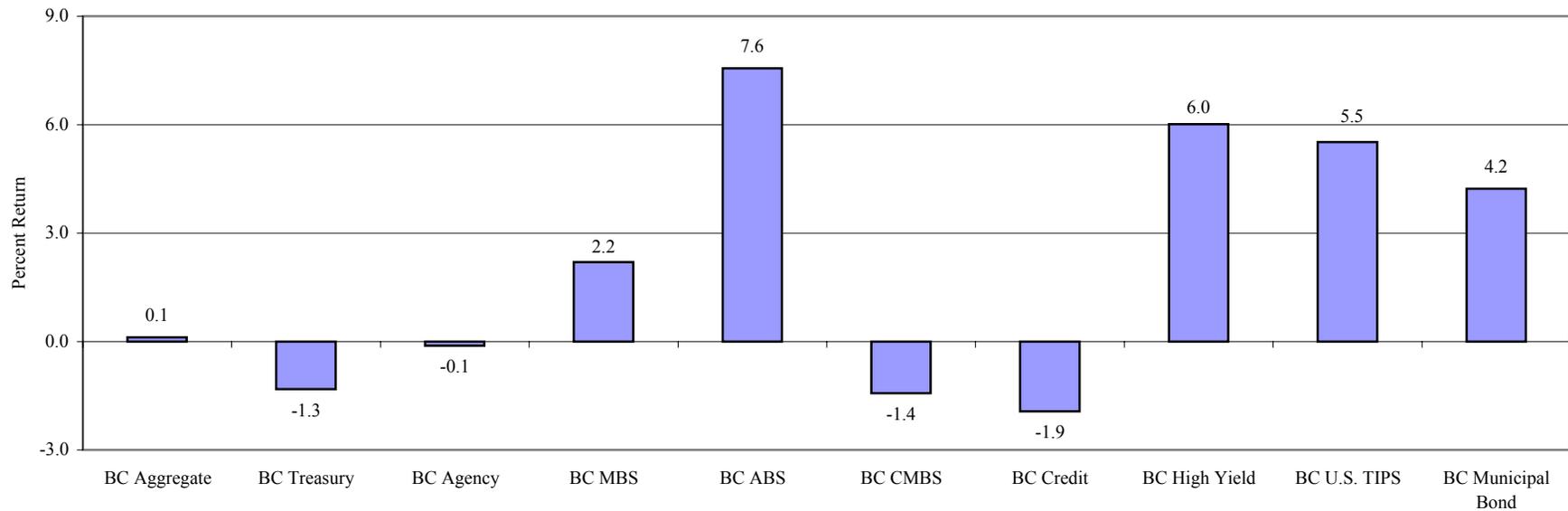
In the US Corporates market, investment grade credit outperformed as a result of strong demand, particularly in cyclical industries, such as homebuilders, lodging, auto and airlines. Financials posted negative returns as investors were disappointed with the government's plans to clean up banks, and fears over nationalization.

The US High Yield market saw strong gains, especially in the higher quality area (BB-rated). Sectors with favorable returns included technology, media and telecom, and consumer staples. Municipals rebounded from previous under-valuations related to liquidity problems as they became relatively cheap compared to US Treasuries.

# U.S. Fixed Income Market Review

Q1 2009

## U.S. Bond Sector Performance

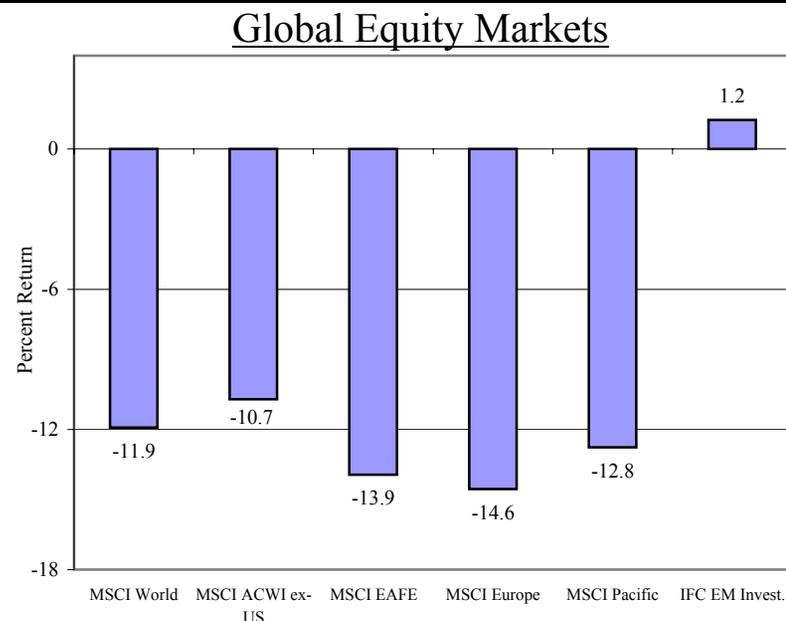


Total Returns	Quarter	Year	1	3	5	10	20
		to Date	Year	Years	Years	Years	Years
BC Aggregate	0.12	0.12	3.13	5.78	4.13	5.70	7.37
BC Treasury	-1.32	-1.32	7.48	8.49	5.43	6.29	7.58
BC Agency	-0.11	-0.11	5.77	7.19	4.82	6.01	7.48
BC MBS	2.20	2.20	8.09	7.61	5.60	6.17	7.62
BC ABS	7.56	7.56	-4.28	0.07	0.64	3.91	
BC CMBS	-1.43	-1.43	-20.77	-5.66	-2.99	2.85	
BC Credit	-1.93	-1.93	-6.63	0.95	1.08	4.43	7.01
BC High Yield	6.01	6.01	-19.15	-4.60	-0.10	2.91	
BC U.S. TIPS	5.52	5.52	-2.04	5.72	4.15	7.32	
BC Municipal Bond	4.22	4.22	2.27	3.19	3.21	4.60	6.40

# Global Equity Market Review

Q1 2009

Total Net Returns in US\$	Year		1	3	5	10	20
	Quarter	to Date	Year	Years	Years	Years	Years
MSCI World	-11.92	-11.92	-42.58	-13.77	-3.50	-2.24	4.08
MSCI ACWI ex-US	-10.71	-10.71	-46.46	-13.14	-0.66	0.52	
MSCI EAFE	-13.94	-13.94	-46.51	-14.47	-2.18	-0.84	2.36
MSCI EAFE Hedged	-9.61	-9.61	-35.89	-14.42	-0.94	-1.35	2.04
MSCI Europe	-14.56	-14.56	-49.91	-14.31	-1.79	-0.99	6.53
MSCI Pacific	-12.77	-12.77	-38.67	-15.00	-3.24	-0.59	-1.70
IFC EM Investable	1.24	1.24	-47.20	-7.51	6.84	9.28	9.22
MSCI UK	-10.69	-10.69	-48.44	-15.52	-3.82	-2.59	5.68
MSCI Japan	-16.62	-16.62	-35.98	-17.46	-5.38	-2.48	-3.30



## Global Equity Markets

Given the global economy's growing interconnectedness, the ongoing deterioration in the United States quickly spread to Europe and Asia in the first quarter. Early, deep negative returns in the world equity markets were mitigated by more favorable results in March after the U.S. initiated some well-received economic policy moves, which helped to restore investor confidence in equities.

Regionally, European markets continued to post losses as consumer spending and investment worsened further in the U.K., manufacturing contracted in Germany, and business confidence fell to a record low in France. Pacific ex-Japan recorded the smallest negative return in the broad index as business sentiment in Australia and New Zealand started to improve late in the quarter amid favorable data on the housing front. Japan posted a USD return well below the broad index as the yen deteriorated and output and exports dropped.

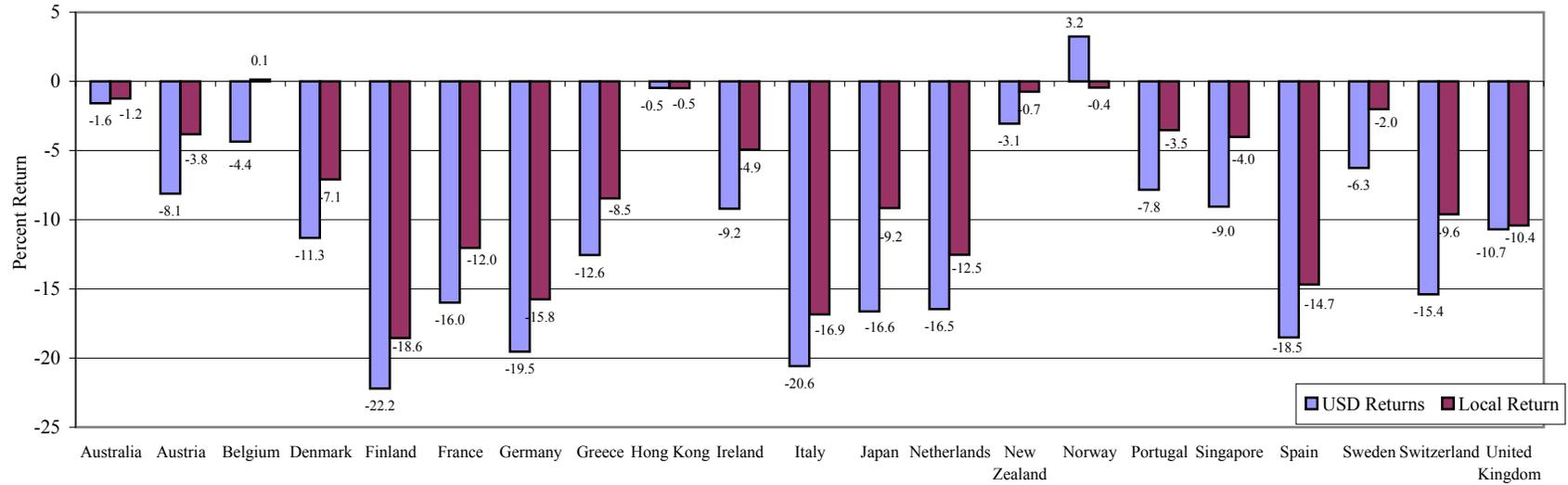
Emerging markets ended with a modest positive return, their first positive quarter in more than a year. A rebound in commodity prices helped the mostly export-driven economies. Latin America posted the highest USD return in the broad index as Brazil benefited from the biggest interest-rate reduction in five years. The EEMEA (Eastern Europe, Middle East and Africa) did not fare as well, but it made significant improvements from the previous quarter. Manufacturers' utilization fell to a nine-year low in Turkey, while Russia benefited from higher oil prices. China gained moderately as it was able to get stimulus money into the economy quickly and in a targeted manner. At the same time, the India market dropped slightly as industrial output contracted.

Continued, worldwide demand for Treasuries helped strengthen the dollar against major currencies. Meanwhile, the Euro dropped slightly reflecting some pessimism about the likely speed of European recovery relative to the U.S., and the pound remained relatively stable. Finally, the yen fell after the economic news in Japan worsened.

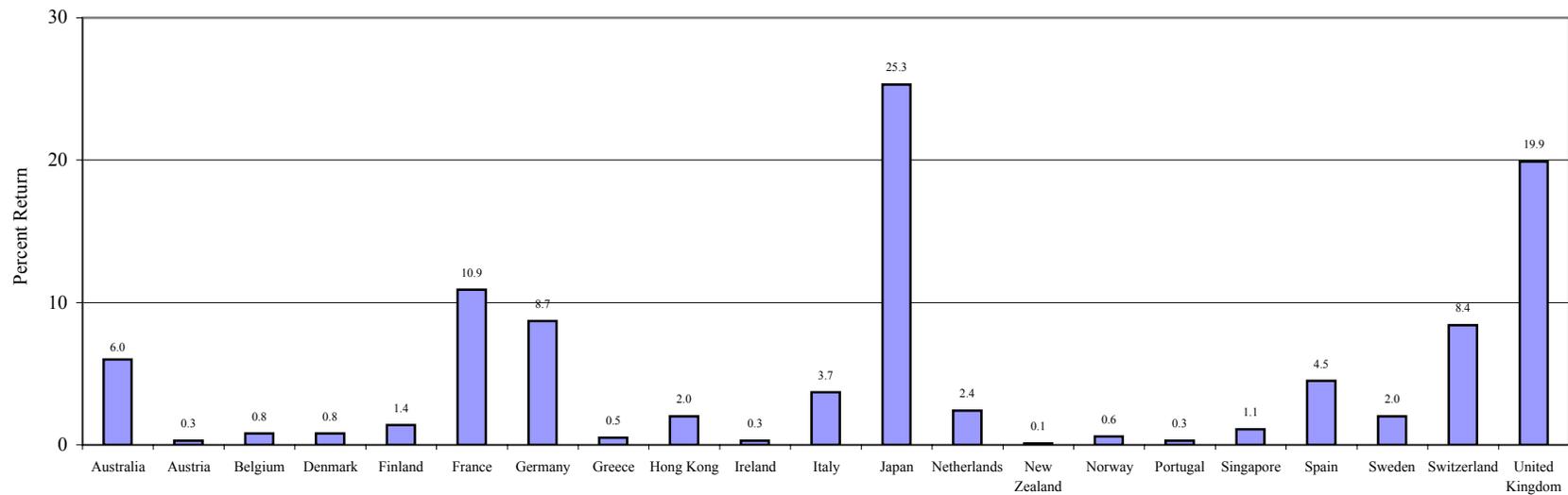
# Global Equity Market Review

Q1 2009

## MSCI EAFE Country Returns



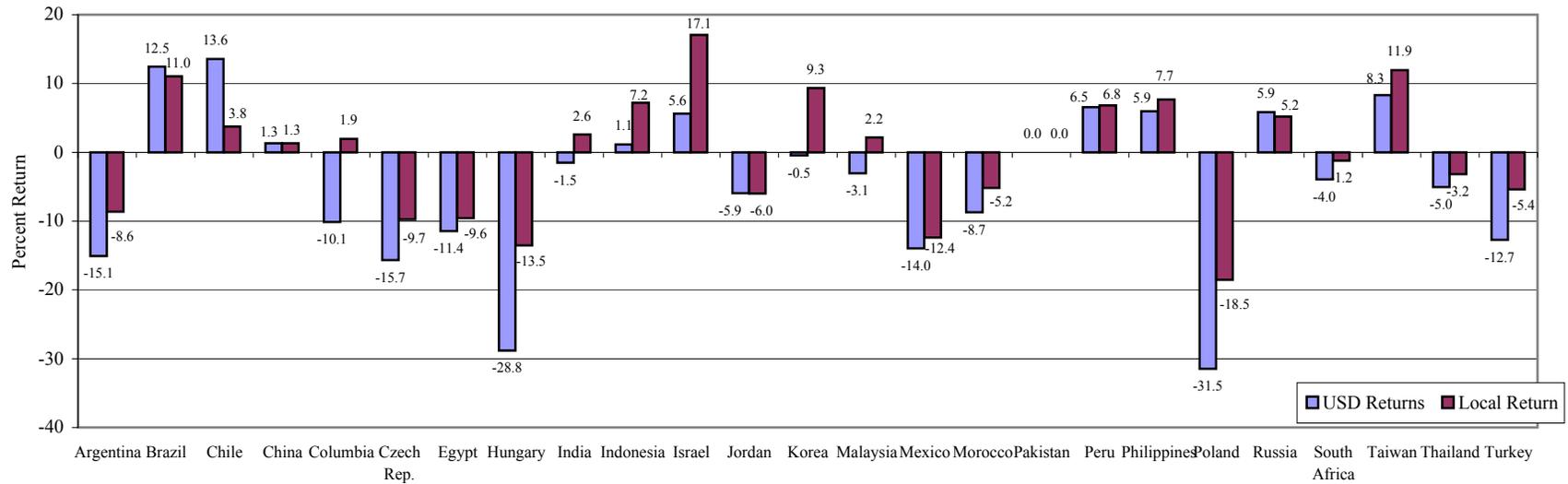
## MSCI EAFE Country Weights



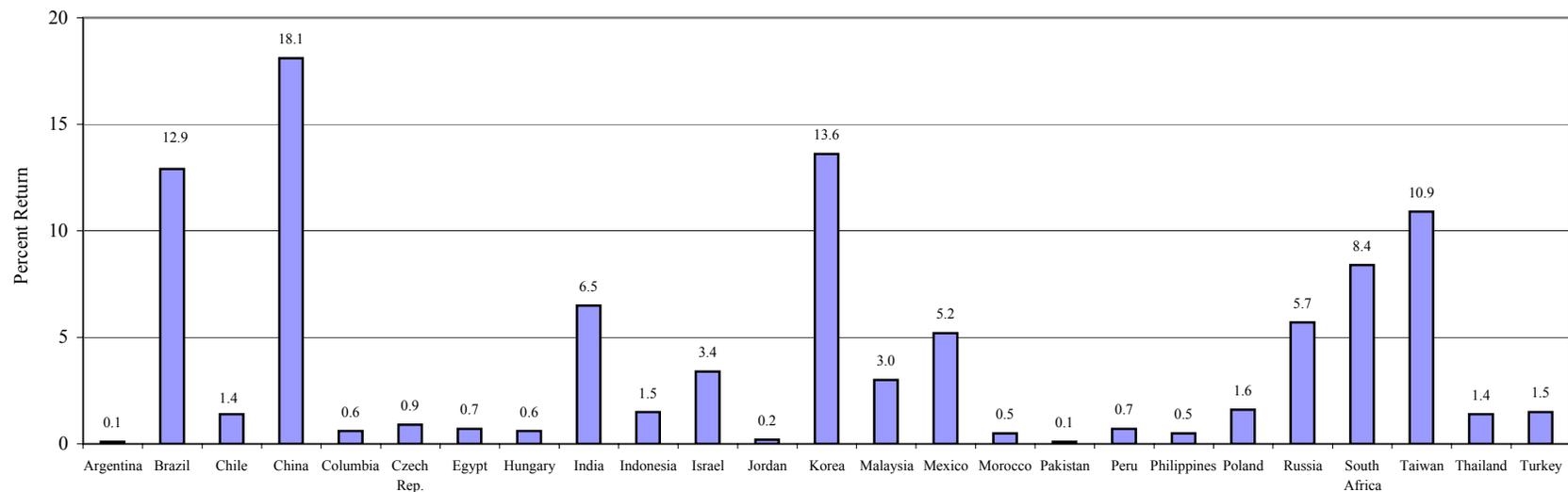
# Global Equity Market Review

Q1 2009

## MSCI Emerging Markets Country Returns



## MSCI Emerging Markets Country Weights



## OIC Regular Account Performance Report

### Net of Fees

Periods Ending March 31, 2009

	3 Year %	5 Year %	7 Year %	10 Year %
<b>Have returns affected benefit security?</b>				
1. Total Regular Account	-7.23	0.85	2.85	3.38
2. Actuarial discount rate	8.00	8.00	8.00	8.00
3. Out/Under performance (1-2)	-15.23	-7.15	-5.15	-4.62
<b>Has plan been rewarded for capital market risk?</b>				
4. Policy Return	-5.04	1.26	2.93	2.72
5. Minimum risk/high cost policy of 91-day T-Bills	3.63	3.21	2.68	3.35
6. Impact of asset mix policy (4-5)	-8.67	-1.95	0.25	-0.63
<b>Has plan been rewarded for active management risk?</b>				
7. Net active management effect (1-4)	-2.19	-0.41	-0.08	0.66

**State of Oregon**  
**Total Fund Summary**  
**Quarter Ending March 31, 2009**

**Total Fund:**

In the first quarter of 2009, the Total Regular Account declined by 9.10%, underperforming its benchmark the OPERF Policy Benchmark by 58 basis points. This placed the Regular Account in the 95<sup>th</sup> percentile of TUCS' universe of all public funds greater than \$1 Billion, while the policy benchmark placed in the 93<sup>rd</sup> percentile.

**Key Factors Contributing to Performance:**

The key detractor from performance was the Selection factor in Real Estate, leading the Real Estate composite to underperform its benchmark by 10.4%. The overweighting in Private Equity also subtracted 114 basis points from the *Value Added*, but this was mitigated by the selection of managers in Private Equity, which helped the Private Equity composite to outperform its benchmark by 462 basis points.

The Total Domestic Equity Composite fell by 8.95% in the first quarter, but outperformed its benchmark, the Russell 3000, by 185 basis points. This placed it in the 9<sup>th</sup> percentile of the TUCS universe of domestic equity pools of public funds. The Total International Composite decreased by 10.67%, underperforming its benchmark by 38 basis points and placing it in the 44<sup>th</sup> percentile of its TUCS universe. The benchmark, the MSCI World Ex US IMI Net, fell 10.29%. When combined, the Public Equities composite fell 9.99%, but beat its benchmark, the MSCI ACWI IMI Net, by 55 basis points. This placed the Public Equity Composite in the 32<sup>nd</sup> percentile of the TUCS Universe.

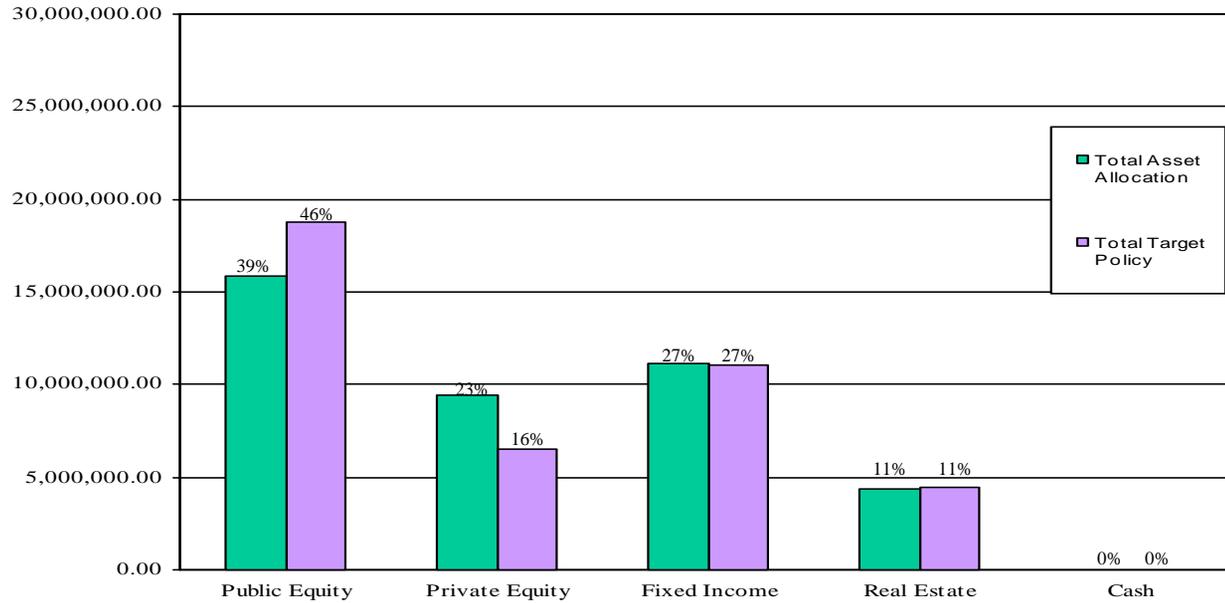
With a return of 2.19%, the Fixed Income Composite also fared relatively well, topping its benchmark by 183 basis points. The benchmark, a custom blend comprised of 90% of the BC Universal Index and 10% of the SSBI Non-US World Government Bond (Hedged) Index, returned 0.36%. The Fixed Income Composite's return placed it in the 20<sup>th</sup> percentile of the TUCS universe.

Note: Returns are net of fees

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

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

Asset Allocation vs. Target Policy



Allocation vs. Target Policy

	WEIGHTS			
	Allocation	Policy	Difference	Median-Public Fund->\$1 B Universe (TUCS)
PUBLIC EQUITY	39.0	46.0	-7.0	49.5
PRIVATE EQUITY	23.0	16.0	7.0	7.4
FIXED INCOME	27.0	27.0	0.0	30.6
REAL ESTATE	11.0	11.0	0.0	3.6
CASH	-	-	-	3.9
TOTAL PLAN	100.0	100.0		

**STATE OF OREGON  
TOTAL FUND RETURN TABLE  
RATES OF RETURN  
Periods Ending March 31, 2009**

	Market Value \$(M)	Current Quarter	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception to Date	Inception Date
<b>FUNDS</b>										
TOTAL REGULAR ACCOUNT	\$40,810,274	-9.10	-9.10	-30.37	-7.23	0.85	2.85	3.38	4.71	07/01/1997
<i>OPERF POLICY BENCHMARK</i>		-8.52	-8.52	-26.27	-5.04	1.26	2.93	2.72		
PUBLIC FUNDS > \$1 BILLION RANK*		95	95	93	71	23	21	13		
PUBLIC FUNDS > \$10 BILLION RANK*		92	92	88	67	15	18	9		
TOTAL DOMESTIC EQUITY	\$5,654,387	-8.95	-8.95	-38.95	-14.58	-4.89	-2.73	-1.08	8.81	04/01/1971
<i>RUSSELL 3000</i>		-10.80	-10.80	-38.20	-13.55	-4.59	-2.74	-2.25		
US EQUITY POOLS*		9	9	83	71	45	37	10		
TOTAL INTERNATIONAL EQUITY	\$6,326,081	-10.67	-10.67	-44.38	-12.27	0.43	3.57	2.35	9.79	04/01/1985
<i>MSCI ACWI EX US</i>		-10.29	-10.29	-46.46	-12.91	-0.34	2.92	0.84		
INTERNATIONAL EQUITY POOLS*		44	44	25	9	5	1	1		
TOTAL FIXED INCOME	\$11,393,633	2.19	2.19	-7.62	0.73	1.85	4.23	4.74	7.66	01/01/1988
<i>CUSTOM FIXED INCOME 90/10 BLEND<sup>3</sup></i>		0.36	0.36	1.58	4.95	3.95	5.29	5.53		
US FIXED INCOME POOLS*		20	20	99	99	99	100	99		
TOTAL REAL ESTATE <sup>1</sup>	\$4,372,724	-18.73	-18.73	-31.08	-4.38	8.15	10.05	10.34	10.01	12/01/1996
<i>NCREIF PROPERTY ONE QTR LAG</i>		-8.29	-8.29	-6.46	8.10	11.67	10.57	10.48		
REAL ESTATE POOLS*		87	87	62	75	50	NA	NA		
TOTAL PRIVATE EQUITY <sup>2</sup>	\$8,697,518	-15.72	-15.72	-24.09	3.05	13.08	9.87	8.38	9.71	07/01/1997
<i>BLENDED PRIVATE EQUITY INDEX QTR LAG</i>		-20.34	-20.34	-33.09	-4.88	1.99	3.51	4.12		
US PRIVATE EQUITY*		99	99	90	62	31	33	62		
OST SHORT TERM FUND - PERS	\$1,049,435	0.52	0.52	0.80	3.70	3.28	2.81	3.52	4.55	12/01/1989
<i>91 DAY T-BILL</i>		0.05	0.05	1.21	3.63	3.21	2.68	3.35		

<sup>1</sup>Publicly traded real estate securities are current quarter; all others are 1 quarter lagged

<sup>2</sup>Private Equity returns lagged one quarter

<sup>3</sup>90% BC U.S. Universal/10% SSBI Non-US World Govt. Bond Hedged;  
prior to 1/1/1999 Govt/Credit; 1/99 to 6/00 SSBI Non-US WGB Unhedged

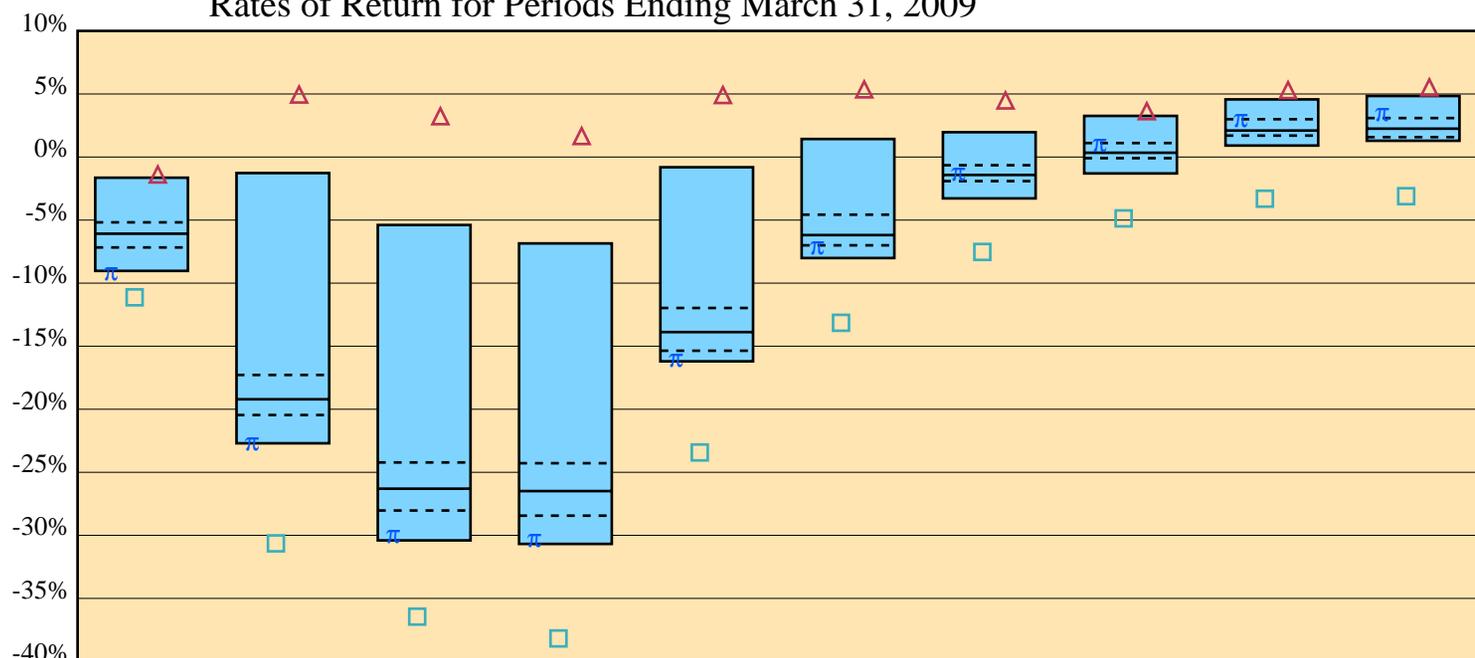
\*RANKING SOURCE: TUCS UNIVERSE, BASED ON GROSS RETURNS

# State of Oregon

## Total Returns of Public Funds

### Total Market Value Greater Than \$1.0 Billion

#### Rates of Return for Periods Ending March 31, 2009

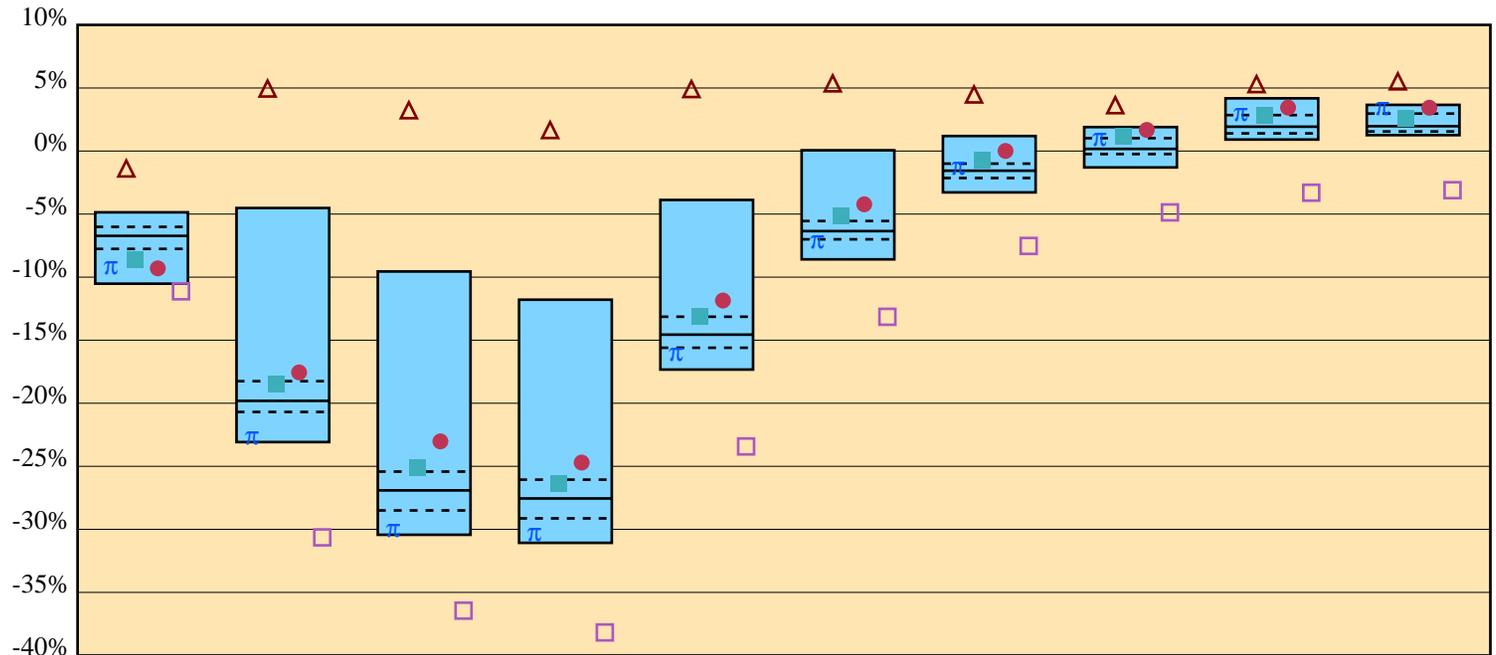


	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	-1.64	-1.27	-5.39	-6.85	-0.81	1.43	1.97	3.26	4.57	4.84
25th Percentile	-5.18	-17.28	-24.22	-24.28	-11.97	-4.57	-0.65	1.11	3.00	3.09
Median	-6.08	-19.21	-26.30	-26.49	-13.88	-6.19	-1.42	0.34	2.10	2.25
75th Percentile	-7.17	-20.46	-28.03	-28.44	-15.36	-7.00	-1.91	-0.09	1.70	1.58
95th Percentile	-9.03	-22.70	-30.40	-30.68	-16.20	-8.01	-3.28	-1.30	0.91	1.29
$\pi$ Total Regular Account	-9.03 (95)	-22.51 (93)	-29.84 (93)	-30.18 (93)	-15.87 (84)	-6.97 (71)	-1.17 (41)	1.12 (23)	3.10 (21)	3.63 (13)
$\square$ S&P 500	-11.02 (97)	-30.53 (99)	-36.34 (99)	-38.07 (99)	-23.32 (99)	-13.04 (99)	-7.42 (100)	-4.76 (100)	-3.20 (100)	-3.00 (100)
$\triangle$ Barclays Govt/Credit	-1.28 (2)	5.06 (1)	3.34 (1)	1.77 (1)	5.02 (1)	5.47 (1)	4.59 (1)	3.74 (1)	5.41 (1)	5.63 (1)

# State of Oregon

## Total Returns of Public Funds > \$10 Billion

### Rates of Return for Periods Ending March 31, 2009

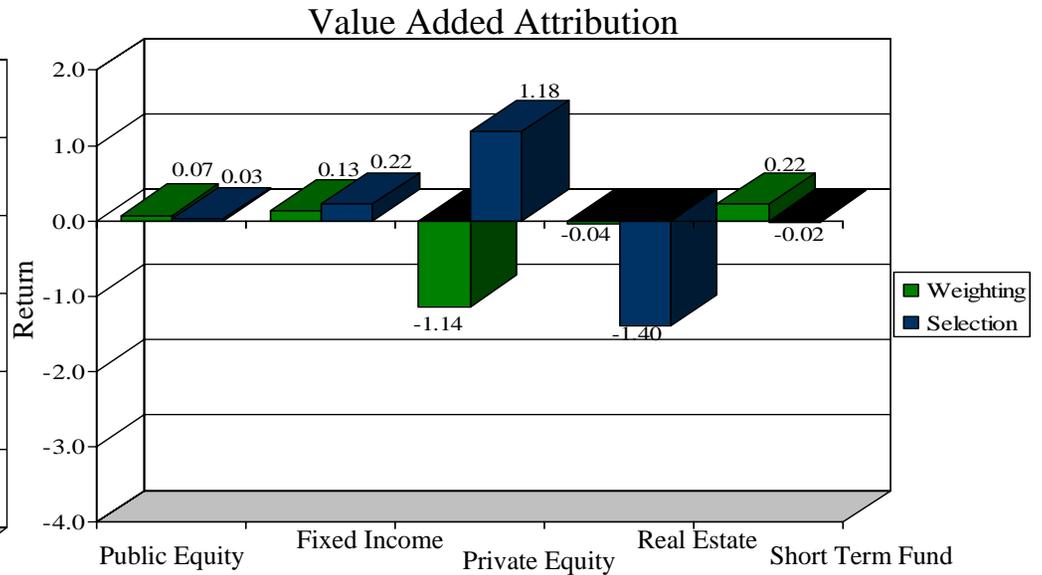
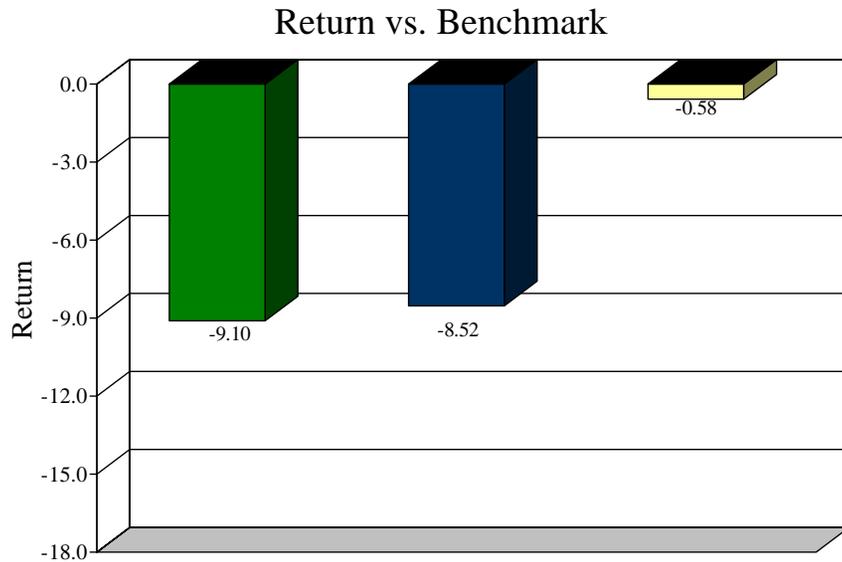


	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	-4.86	-4.52	-9.55	-11.79	-3.88	0.06	1.19	1.90	4.18	3.66
25th Percentile	-6.01	-18.25	-25.42	-26.06	-13.14	-5.55	-1.00	1.02	2.85	2.97
Median	-6.73	-19.81	-26.91	-27.55	-14.56	-6.35	-1.56	0.17	1.93	1.97
75th Percentile	-7.76	-20.69	-28.50	-29.13	-15.60	-7.00	-2.14	-0.24	1.40	1.55
95th Percentile	-10.52	-23.08	-30.43	-31.07	-17.33	-8.59	-3.28	-1.30	0.91	1.26
$\pi$ Total Regular Account	-9.03(92)	-22.51 (92)	-29.84 (88)	-30.18 (88)	-15.87 (81)	-6.97(67)	-1.17 (35)	1.12 (15)	3.10 (18)	3.63 (9)
■ OPERF Policy Benchmark	-8.52(88)	-18.40 (35)	-24.98 (18)	-26.27 (25)	-12.99 (18)	-5.04(15)	-0.64 (12)	1.26 (9)	2.93 (18)	2.72 (35)
● Actual Allocation Return	-9.20(92)	-17.45 (12)	-22.92 (9)	-24.60 (9)	-11.75 (9)	-4.12 (9)	0.11 (5)	1.78 (5)	3.55 (9)	3.54 (9)
□ S&P 500	-11.02 (95)	-30.53 (99)	-36.34 (99)	-38.07 (99)	-23.32 (99)	-13.04 (99)	-7.42 (100)	-4.76 (100)	-3.20 (100)	-3.00 (100)
△ Barclays Govt/Credit	-1.28 (1)	5.06 (1)	3.34 (1)	1.77 (1)	5.02 (1)	5.47 (1)	4.59 (1)	3.74 (1)	5.41 (1)	5.63 (1)

# Total Plan Attribution

## Regular Account

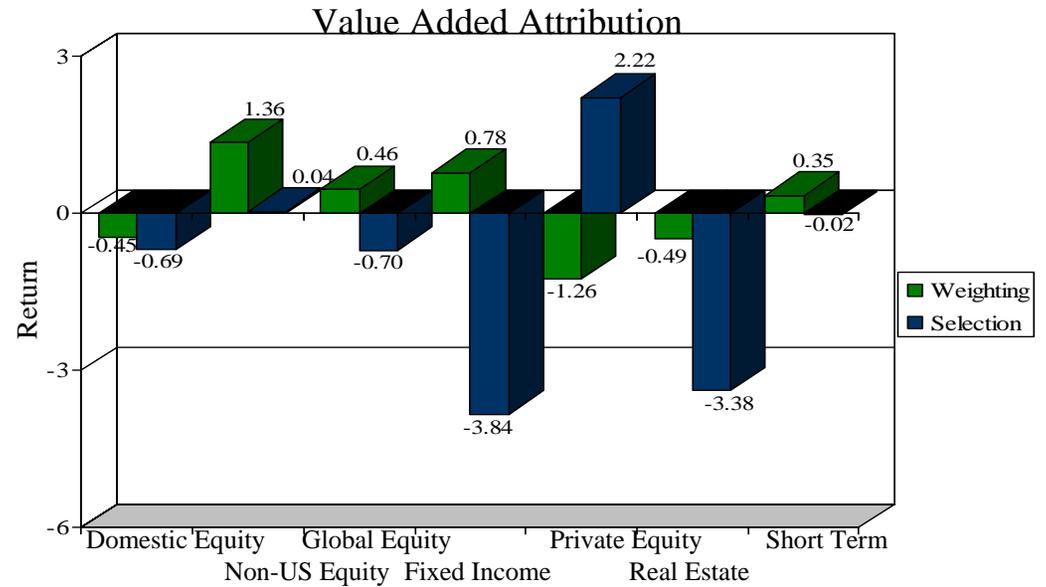
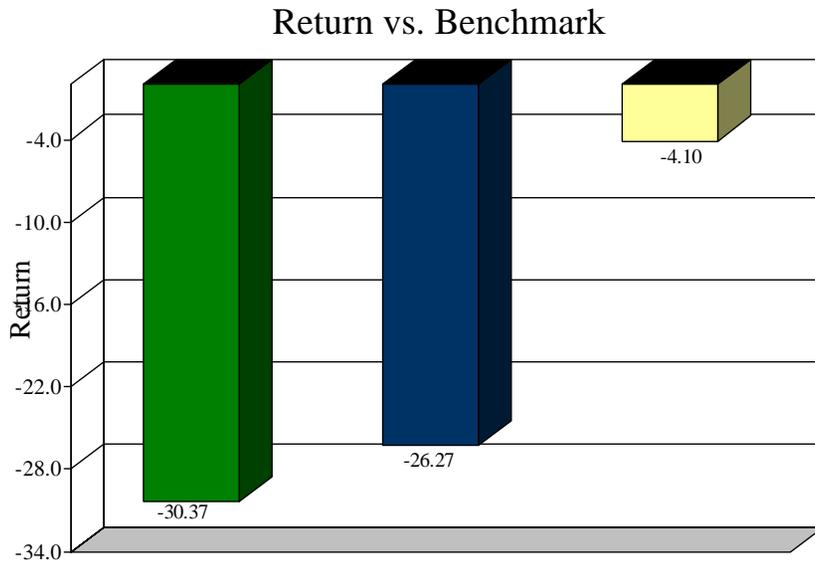
### 1st Quarter 2009



	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
PUBLIC EQUITY	35.20	46.00	-10.80	-10.62	-10.70	0.08	0.07	0.03	
FIXED INCOME	27.60	27.00	0.60	1.15	0.36	0.79	0.13	0.22	
PRIVATE EQUITY	22.31	16.00	6.31	-15.72	-20.34	4.62	-1.14	1.18	
REAL ESTATE	11.95	11.00	0.95	-18.73	-8.29	-10.44	-0.04	-1.40	
SHORT TERM FUND	2.95	0.00	2.95	-0.38	0.05	-0.43	0.22	-0.02	
<b>TOTAL REGULAR ACCT.</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>-9.10</b>	<b>-8.52</b>	<b>-0.58</b>	<b>-0.77</b>	<b>0.00</b>	<b>0.14</b>

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

# Total Plan Attribution Regular Account 03/31/2008 – 03/31/2009

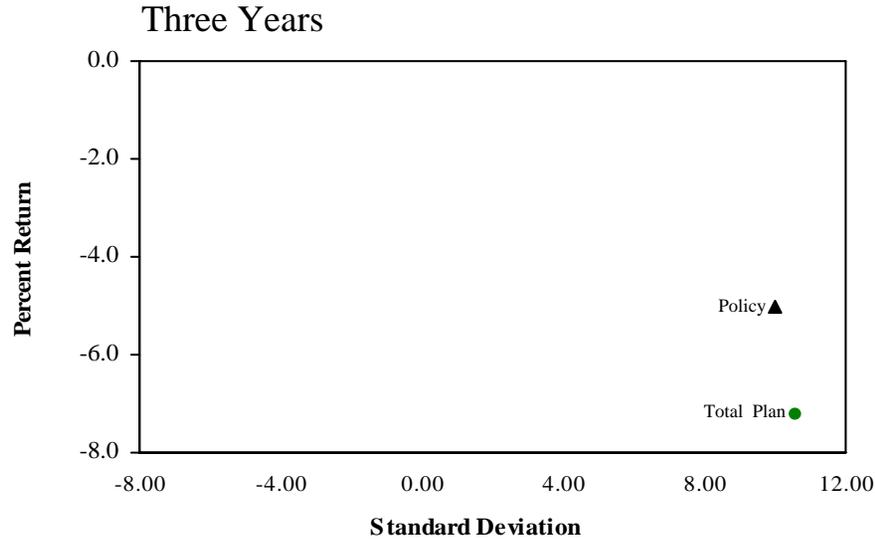


	WEIGHTS			RETURNS			VALUE ADDED		
	Portfolio*	Benchmark**	Difference	Portfolio***	Benchmark	Difference	Weighting	Selection	Timing
DOMESTIC EQUITY	20.46	17.00	3.46	-40.67	-38.20	-2.47	-0.45	-0.69	
NON-US EQUITY	19.09	23.17	-4.08	-45.92	-46.18	0.26	1.36	0.04	
GLOBAL EQUITY	7.38	6.42	0.96	-49.62	-43.10	-6.52	0.46	-0.70	
FIXED INCOME	26.87	27.00	-0.13	-11.06	1.58	-12.64	0.78	-3.84	
PRIVATE EQUITY	15.76	15.67	0.09	-24.09	-33.09	9.00	-1.26	2.22	
REAL ESTATE	8.64	10.75	-2.11	-31.08	-6.46	-24.62	-0.49	-3.38	
SHORT TERM FUND	1.79	0.00	1.79	-3.06	1.21	-4.27	0.35	-0.02	
TOTAL REGULAR ACCT.	100.00	100.00	0.00	-30.37	-26.27	-4.10	0.73	-6.31	0.08

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

## Total Regular Account

Total Risk vs. Return (OPERF Policy) as of March 31, 2009

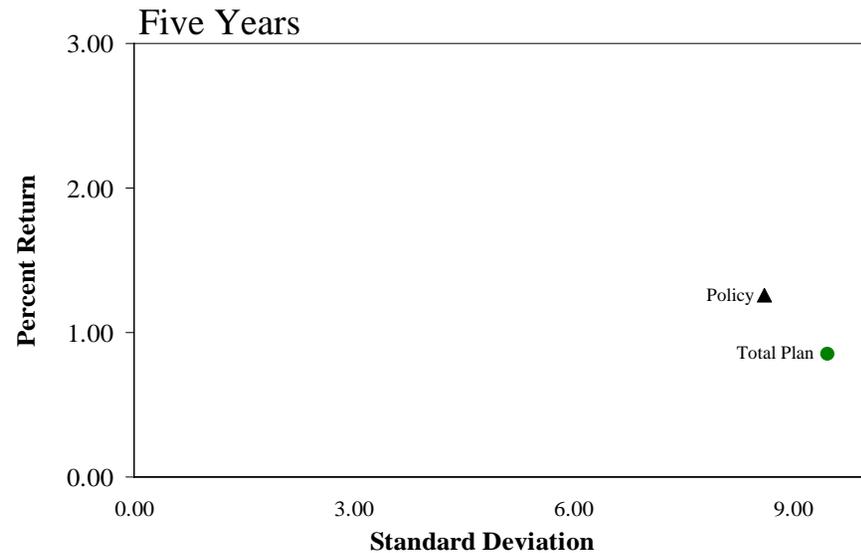


### Risk Information

Portfolio Return	-7.23
Benchmark Return	-5.04
Return Difference	-2.19
Portfolio Standard Deviation	10.58
Benchmark Standard Deviation	9.98
Tracking Error	2.32

### Risk Statistics

Historic Beta	1.03
R-squared	0.95
Jensen's Alpha	-1.90
Sharpe Ratio	-1.03
Treynor Ratio	-10.51
Information Ratio	-0.94



### Risk Information

Portfolio Return	0.85
Benchmark Return	1.26
Return Difference	-0.41
Portfolio Standard Deviation	9.47
Benchmark Standard Deviation	8.60
Tracking Error	2.08

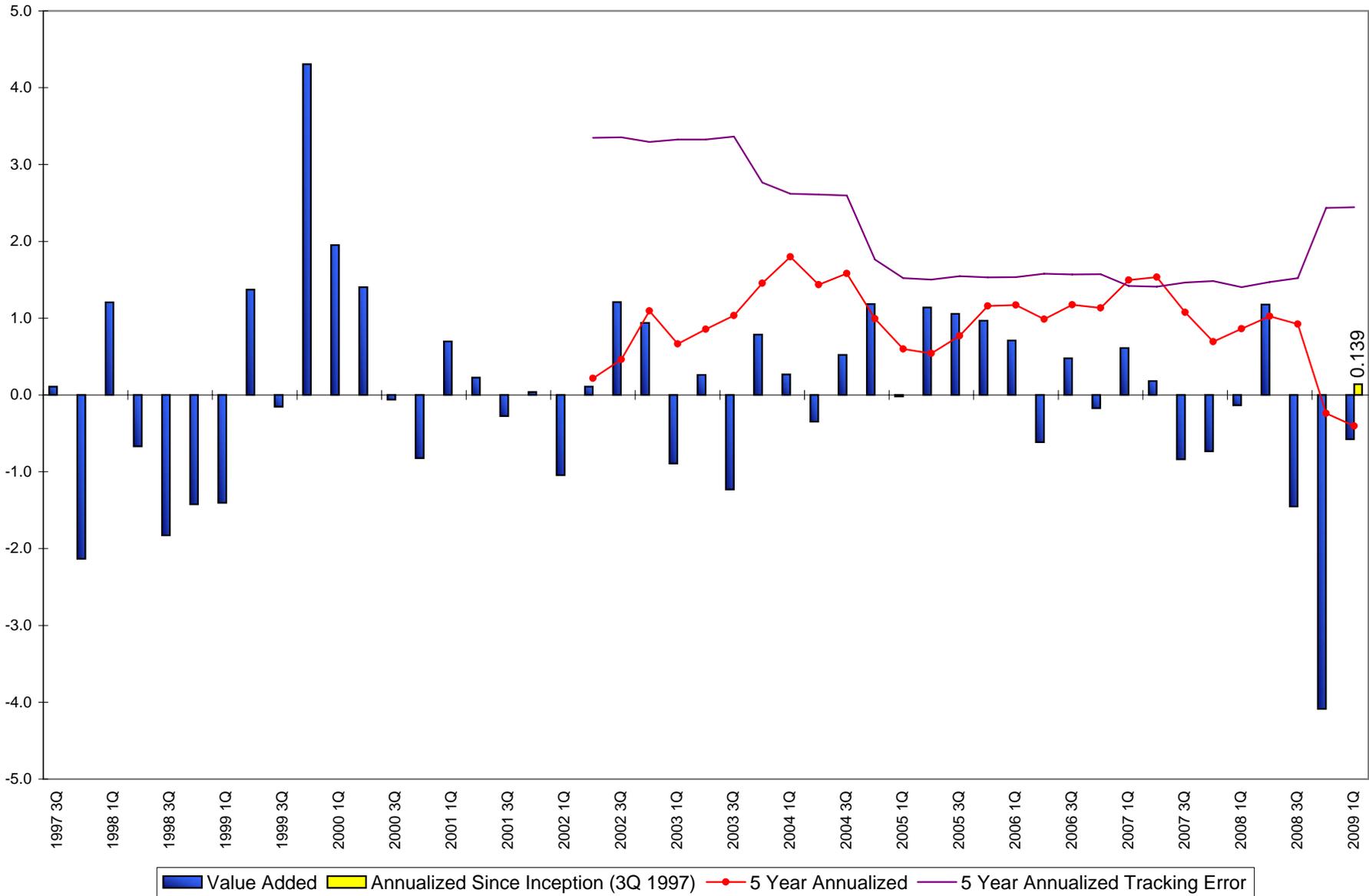
### Risk Statistics

Historic Beta	1.08
R-squared	0.96
Jensen's Alpha	-0.25
Sharpe Ratio	-0.25
Treynor Ratio	-2.19
Information Ratio	-0.19

# OPERS Regular Account

## Value Added Over Policy Benchmark

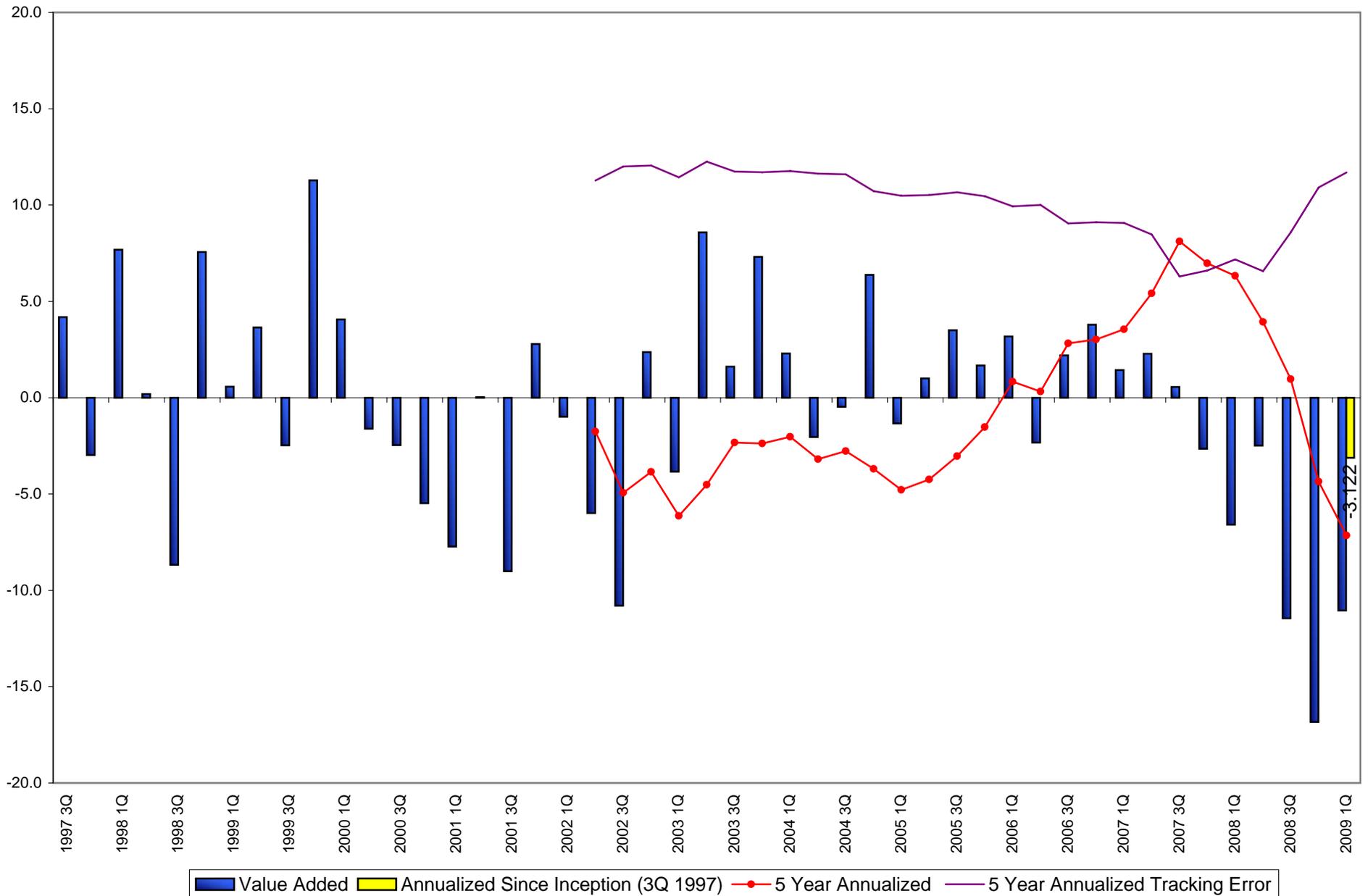
Periods Ending March 31, 2009



# OPERS Regular Account

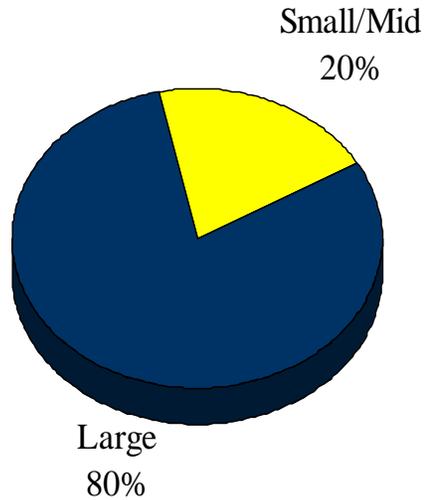
Value Added Over 8% ADR

Periods Ending March 31, 2009



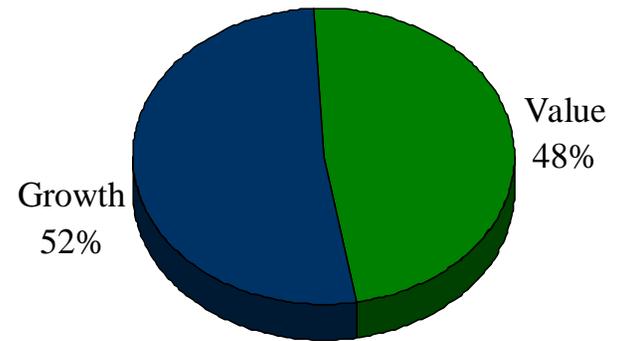
# State of Oregon

## Domestic Equity Manager Allocation as of March 31, 2009

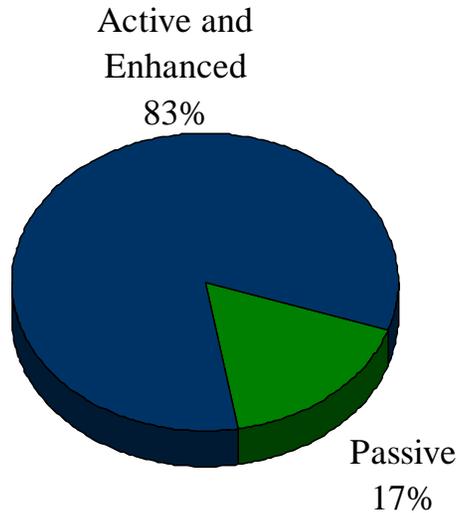


Target: 80% Large / 20% Small/Mid

Benchmark\*\* Large Cap: 85%  
Small/Mid Cap: 15%



Target: 50% Growth / 50% Value

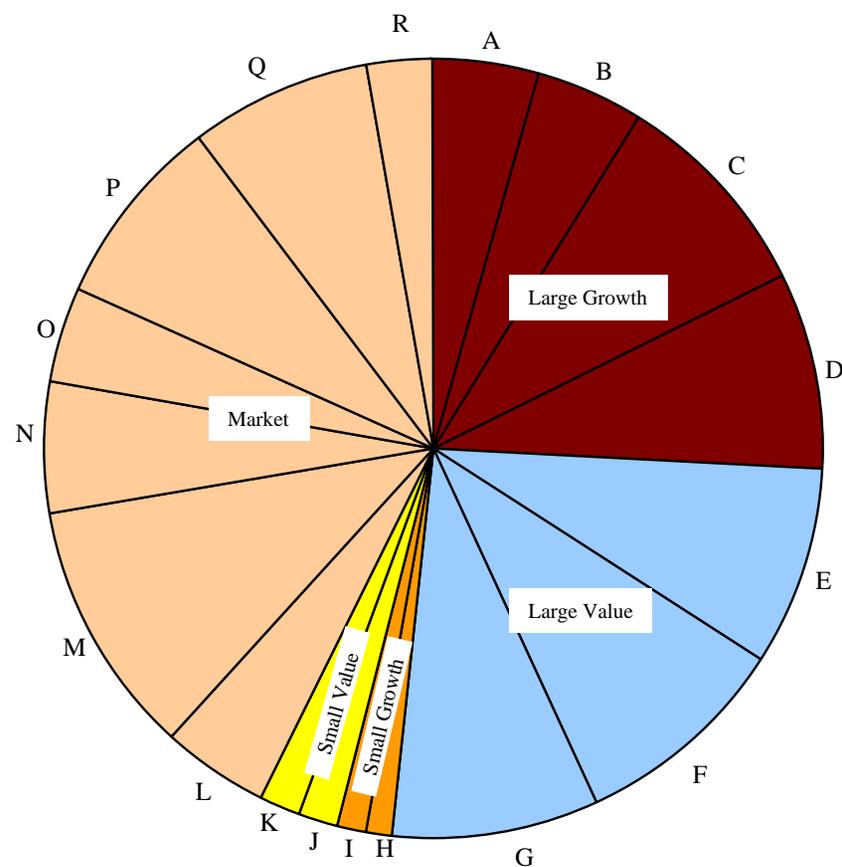


Target: 76% Active and Enhanced / 24% Passive

\*Capitalization and Style charts exclude commingled assets of Northern Trust (\$), and non-equity assets of enhanced index manager PIMCO.  
 \*\* Benchmark is the Russell 3000 Index. Target is Oregon's custom benchmark, which includes a 40% overweight to the small/mid cap segment.  
 Sources: Russell /Mellon (Capitalization), State Street (Passive/Enhanced/Active allocations), TUCS (Style)

## Total Domestic Equity Individual Manager Allocation as of March 31, 2009

Portfolio	\$M	% Allocation
<b>Large Growth</b>		
A DELAWARE INVESTMENT ADVISORS	\$243,411	4%
B ALETHEIA RESEARCH & MGMT.	\$266,421	5%
C WELLS CAPITAL MANAGEMENT	\$494,659	9%
D BGI RUSSELL 1000 GROWTH	\$449,742	8%
<b>Large Value</b>		
E ARONSON, JOHNSON, ORTIZ	\$483,624	9%
F MFS INSTITUTIONAL	\$491,688	9%
G BGI RUSSELL 1000 VALUE	\$491,203	9%
<b>Small Growth</b>		
H MAZAMA CAPITAL	\$65,112	1%
I NEXT CENTURY GROWTH	\$65,185	1%
<b>Small Value</b>		
J AQR CAPITAL MANAGEMENT, LLC	\$85,525	2%
K BOSTON COMPANY ASSET MGMT.	\$99,274	2%
<b>Market Oriented</b>		
L BGI RUSSELL 1000 ALPHA TILTS - PERS	\$255,902	5%
M PIMCO	\$585,713	10%
N FRANKLIN PORTFOLIO ASSOC.	\$319,162	6%
O PYRAMIS LARGE CAP CORE	\$219,219	4%
P NORTHERN TRUST	\$452,720	8%
Q WANGER	\$419,326	7%
R WELLINGTON MANAGEMENT CO.	\$162,601	3%
<b>Total Domestic Equity*</b>	<b>\$5,654,387</b>	

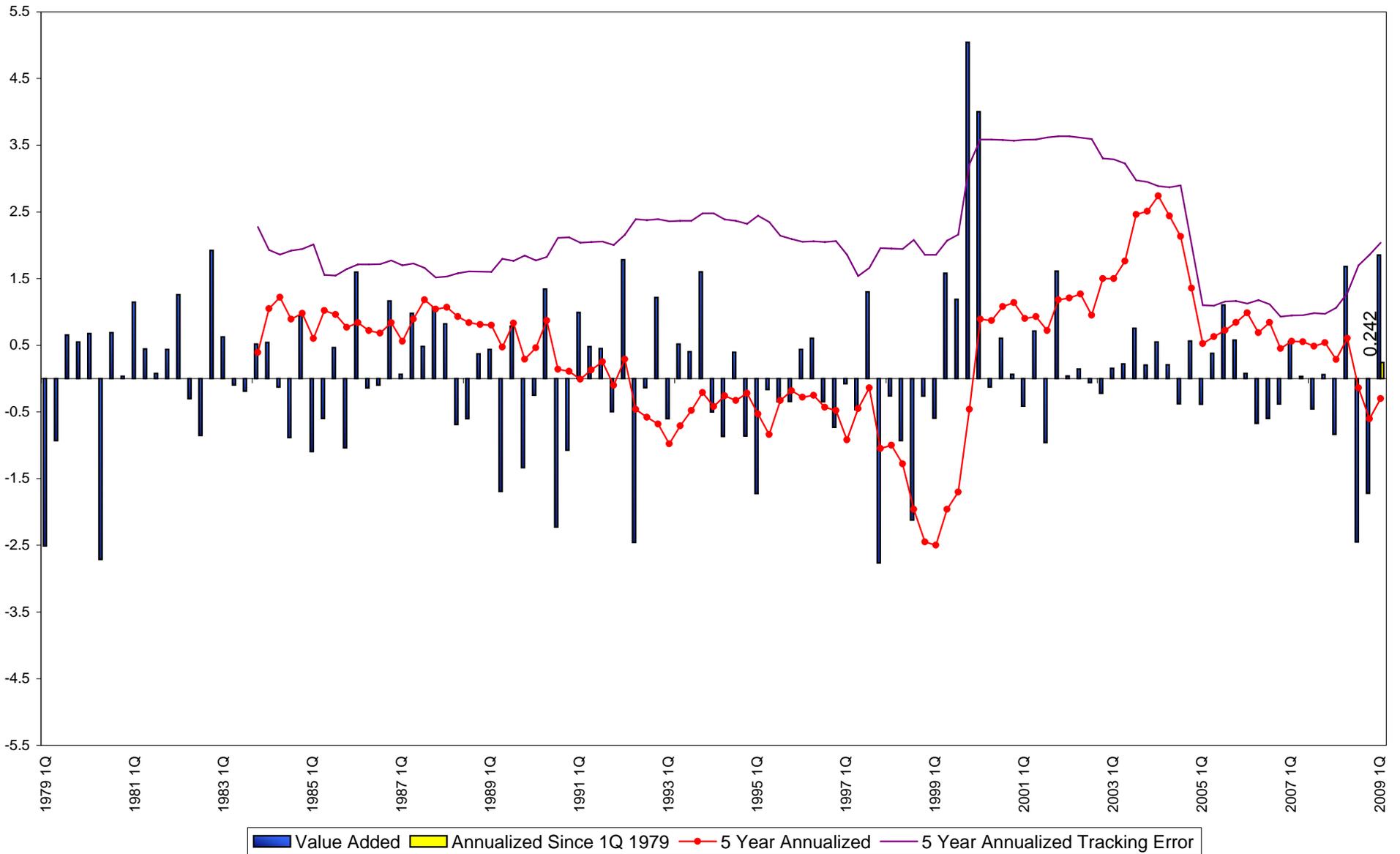


\*Includes \$3,898 in other "Domestic Equity Assets" not listed above.

# OPERS Total Domestic Equity

## Value Added Over Russell 3000

Periods Ending March 31, 2009



**STATE OF OREGON - PERS**  
**DOMESTIC EQUITY MANAGER PERFORMANCE VERSUS BENCHMARKS**  
**Periods Ending March 31, 2009**

	MKT VAL \$(M)	%	MONTH	3 MOS.	YTD	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS	INCEPTION
<b>TOTAL PUBLIC EQUITIES</b>	<b>13,873,009</b>		<b>7.90</b>	<b>-9.99</b>	<b>-9.99</b>	<b>-42.70</b>	<b>-25.81</b>	<b>-14.59</b>	<b>-6.62</b>	<b>-3.48</b>	<b>-0.93</b>	<b>-0.09</b>	
<i>*MSCI ACWI IMI Net</i>			<i>8.30</i>	<i>-10.54</i>	<i>-10.54</i>	<i>-43.15</i>							
<b>TOTAL DOMESTIC EQUITY</b>	<b>5,654,387</b>	<b>100%</b>	<b>8.82</b>	<b>-8.95</b>	<b>-8.95</b>	<b>-38.95</b>	<b>-24.75</b>	<b>-14.58</b>	<b>-7.66</b>	<b>-4.89</b>	<b>-2.73</b>	<b>-1.08</b>	<b>03/31/1971</b>
<i>Russell 3000 Value Added</i>			<i>8.76</i>	<i>-10.80</i>	<i>-10.80</i>	<i>-38.20</i>	<i>-23.81</i>	<i>-13.55</i>	<i>-7.31</i>	<i>-4.59</i>	<i>-2.74</i>	<i>-2.25</i>	
			<i>0.06</i>	<i>1.85</i>	<i>1.85</i>	<i>-0.75</i>	<i>-0.94</i>	<i>-1.03</i>	<i>-0.35</i>	<i>-0.30</i>	<i>0.01</i>	<i>1.17</i>	
<b><u>LARGE GROWTH</u></b>	<b>1,454,233</b>	<b>26%</b>											
DELAWARE INVESTMENT ADVISORS	243,411	4%	10.26	-0.15	-0.15	-35.59							04/01/2008
ALETHEIA RESEARCH & MANAGEMENT	266,421	5%	7.56	-5.69	-5.69	-43.10							12/01/2007
WELLS CAPITAL MANAGEMENT	494,659	9%	8.87	-2.59	-2.59	-38.01	-20.50	-12.37					06/01/2005
BGI RUSSELL 1000 GROWTH INDEX FUND	449,742	8%	8.92	-4.13	-4.13	-34.03	-19.06	-11.13	-5.58	-4.26	-3.48	-5.17	07/31/1998
<i>Russell 1000 Growth</i>			<i>8.92</i>	<i>-4.12</i>	<i>-4.12</i>	<i>-34.28</i>	<i>-19.24</i>	<i>-11.28</i>	<i>-5.72</i>	<i>-4.38</i>	<i>-3.60</i>	<i>-5.26</i>	
<b><u>LARGE VALUE</u></b>	<b>1,466,515</b>	<b>26%</b>											
ARONSON, JOHNSON, ORTIZ	483,624	9%	7.57	-14.77	-14.77	-35.18	-24.79	-13.47	-7.03	-3.20			01/31/2003
MFS INSTITUTIONAL	491,688	9%	8.97	-12.29	-12.29	-34.58	-20.61	-9.30	-4.50	-0.88			01/31/2003
BGI RUSSELL 1000 VALUE INDEX FUND	491,203	9%	8.56	-16.61	-16.61	-42.23	-27.83	-15.25	-8.86	-4.82	-2.30	-0.54	07/31/1998
<i>Russell 1000 Value</i>			<i>8.55</i>	<i>-16.77</i>	<i>-16.77</i>	<i>-42.42</i>	<i>-28.01</i>	<i>-15.40</i>	<i>-8.99</i>	<i>-4.93</i>	<i>-2.39</i>	<i>-0.62</i>	
<b><u>SMALL GROWTH</u></b>	<b>130,298</b>	<b>2%</b>											
MAZAMA CAPITAL	65,112	1%	16.41	-7.23	-7.23	-45.12	-35.10	-25.41	-13.57	-11.77			12/31/2003
<i>Russell 2500 Growth</i>			<i>9.53</i>	<i>-5.97</i>	<i>-5.97</i>	<i>-38.14</i>	<i>-23.84</i>	<i>-15.39</i>	<i>-6.45</i>	<i>-4.47</i>			
NEXT CENTURY GROWTH	65,185	1%	9.12	-2.51	-2.51	-41.06							12/01/2007
<i>Russell Microcap Growth</i>			<i>9.46</i>	<i>-8.84</i>	<i>-8.84</i>	<i>-39.22</i>							
<b><u>SMALL VALUE</u></b>	<b>184,800</b>	<b>3%</b>											
AQR CAPITAL MANAGEMENT, LLC	85,525	2%	9.31	-19.02	-19.02	-43.51	-31.35						06/30/2006
BOSTON COMPANY ASSET MANAGEMENT	99,274	2%	9.94	-11.18	-11.18	-33.99	-24.85						06/30/2006
<i>Russell 2000 Value</i>			<i>8.88</i>	<i>-19.64</i>	<i>-19.64</i>	<i>-38.89</i>	<i>-28.73</i>						

\*The start date for the Total Public Equity benchmark is January 1, 2008, when public equities were restructured to an ACWI asset allocation.

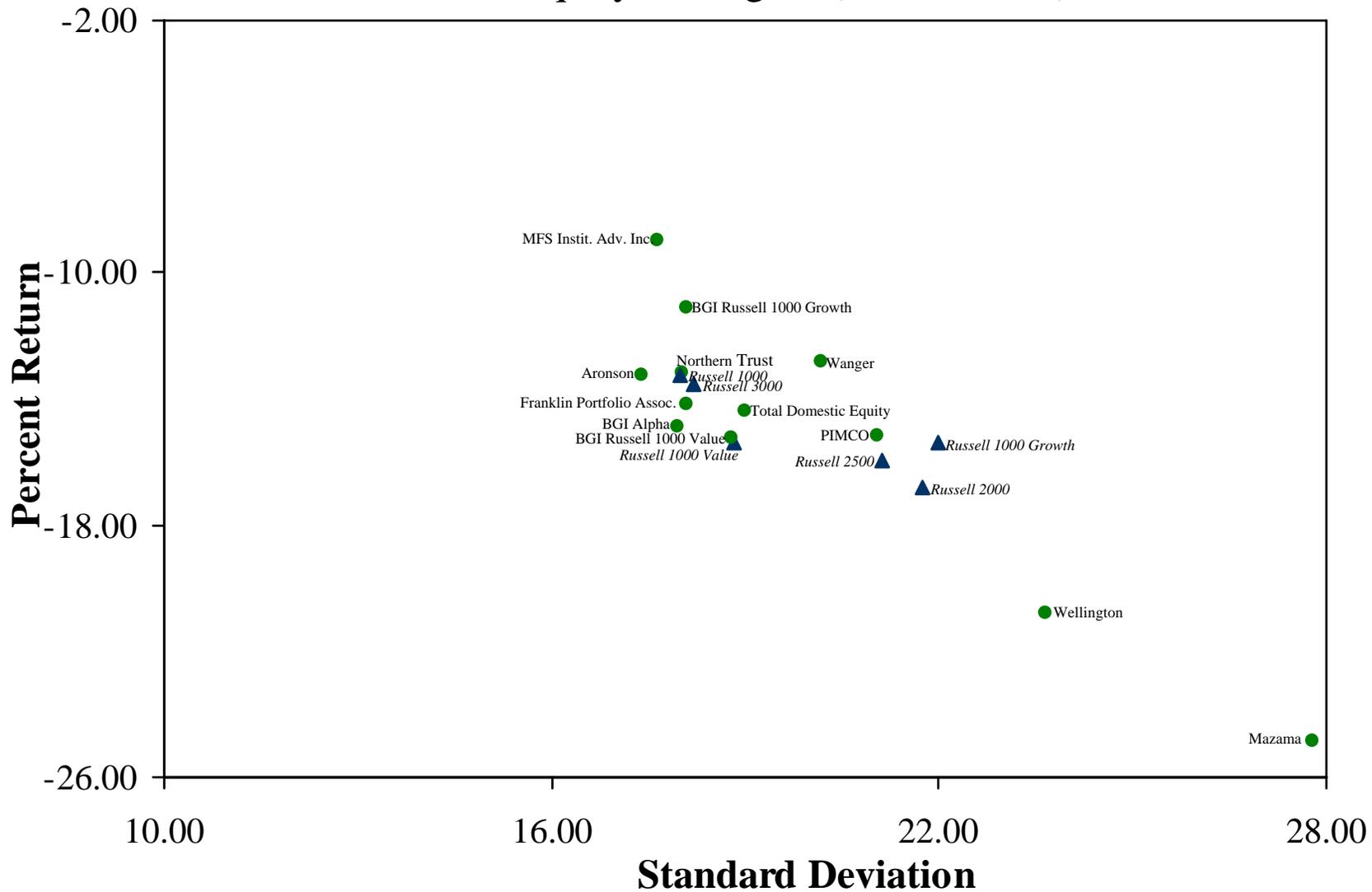
**STATE OF OREGON - PERS**  
**DOMESTIC EQUITY MANAGER PERFORMANCE VERSUS BENCHMARKS**  
**Periods Ending March 31, 2009**

	MKT VAL \$(M)	%	MONTH	3 MOS.	YTD	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS	INCEPTION
<b><u>MARKET ORIENTED</u></b>	<b>2,414,644</b>	<b>43%</b>											
BGI RUSSELL 1000 ALPHA TILTS - PERS	255,902	5%	8.16	-11.35	-11.35	-38.41	-25.48	-14.94	-8.11	-5.12	-2.95		03/31/2000
PIMCO	585,713	10%	10.10	-4.47	-4.47	-42.68	-26.54	-15.34	-9.00	-5.93			04/30/2003
FRANKLIN PORTFOLIO ASSOC	319,162	6%	7.78	-11.13	-11.13	-38.65	-25.13	-14.33	-8.18				01/31/2005
PYRAMIS LARGE CAP CORE	219,219	4%	9.62	-8.65	-8.65								07/31/2008
<i>Russell 1000</i>			8.75	-10.45	-10.45	-38.27	-23.58	-13.24	-7.27	-4.54	-2.86		
NORTHERN TRUST DOMESTIC EQUITY	452,720	8%	8.49	-9.99	-9.99	-38.09	-23.34	-13.60	-6.89	-4.16	-1.97	0.78	12/31/1995
<i>Russell 3000</i>			8.76	-10.80	-10.80	-38.20	-23.81	-13.55	-7.31	-4.59	-2.74	-2.25	
WANGER ASSET MANAGEMENT	419,326	7%	8.82	-8.52	-8.52	-37.77	-23.57	-13.14	-4.92	-1.79	2.10	7.80	12/31/1978
<i>Russell 2500</i>			9.13	-11.43	-11.43	-38.23	-25.97	-15.98	-7.38	-4.45	-0.40	3.33	
WELLINGTON MANAGEMENT CO	162,601	3%	6.23	-10.13	-10.13	-45.41	-31.54	-21.34	-10.94	-5.97	-0.45	7.19	02/28/1997
<i>Russell 2000</i>			8.93	-14.95	-14.95	-37.50	-26.26	-16.80	-7.73	-5.24	-1.27	1.93	
<b><u>OTHER DOMESTIC EQUITY</u></b>	<b>3,898</b>	<b>0%</b>											
ZESIGER CAPITAL GROUP*	1,894	0%											12/31/1995
ALL OTHER DOMESTIC EQUITY FUNDS	2,004	0%											
<b><u>MISCELLANEOUS BENCHMARKS</u></b>													
<i>RUSSELL 3000</i>			8.76	-10.80	-10.80	-38.20	-23.81	-13.55	-7.31	-4.59	-2.74	-2.25	
<i>S&amp;P 500</i>			8.76	-11.01	-11.01	-38.09	-23.34	-13.06	-7.43	-4.76	-3.20	-3.00	
<i>RUSSELL 1000</i>			8.75	-10.45	-10.45	-38.27	-23.58	-13.24	-7.27	-4.54	-2.86	-2.57	
<i>RUSSELL 1000 GROWTH</i>			8.92	-4.12	-4.12	-34.28	-19.24	-11.28	-5.72	-4.38	-3.60	-5.26	
<i>RUSSELL 1000 VALUE</i>			8.55	-16.77	-16.77	-42.42	-28.01	-15.40	-8.99	-4.93	-2.39	-0.62	
<i>RUSSELL 2000</i>			8.93	-14.95	-14.95	-37.50	-26.26	-16.80	-7.73	-5.24	-1.27	1.93	
<i>RUSSELL 2000 GROWTH</i>			8.98	-9.74	-9.74	-36.36	-23.87	-16.19	-6.86	-5.37	-2.35	-1.60	
<i>RUSSELL 2000 VALUE</i>			8.88	-19.64	-19.64	-38.89	-28.73	-17.54	-8.73	-5.30	-0.56	4.87	
<i>RUSSELL 2500</i>			9.13	-11.43	-11.43	-38.23	-25.97	-15.98	-7.38	-4.45	-0.40	3.33	
<i>ML CONVERTIBLE SECURITIES</i>			5.39	2.80	2.80	-30.00	-17.91	-9.55	-4.67	-3.71	0.18	1.33	

\*Terminated December 1999.

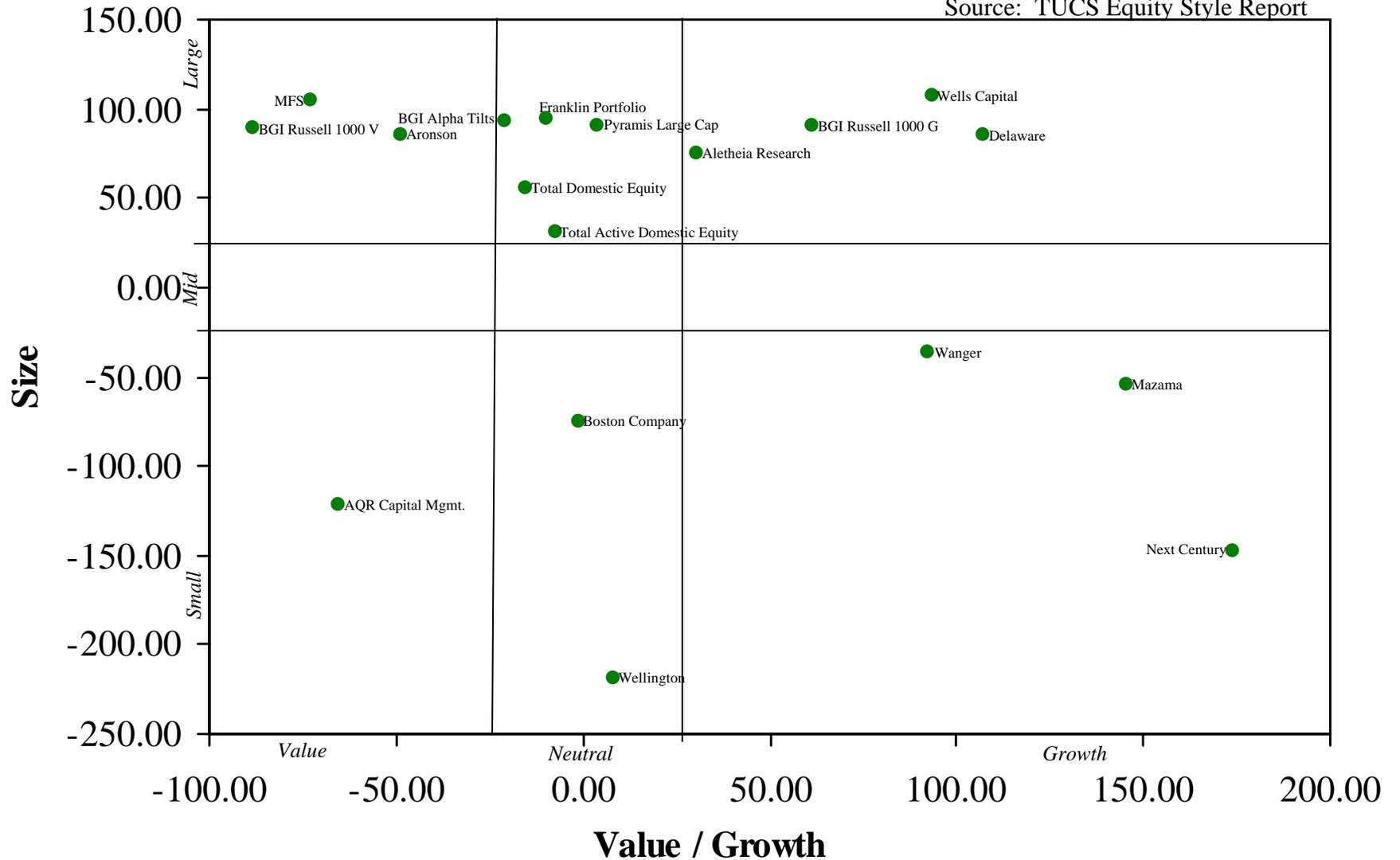
# State of Oregon

## Total Risk vs. Return as of March 31, 2009 Domestic Equity Managers (Three Years)



# State of Oregon Domestic Equity Manager Style as of March 31, 2009

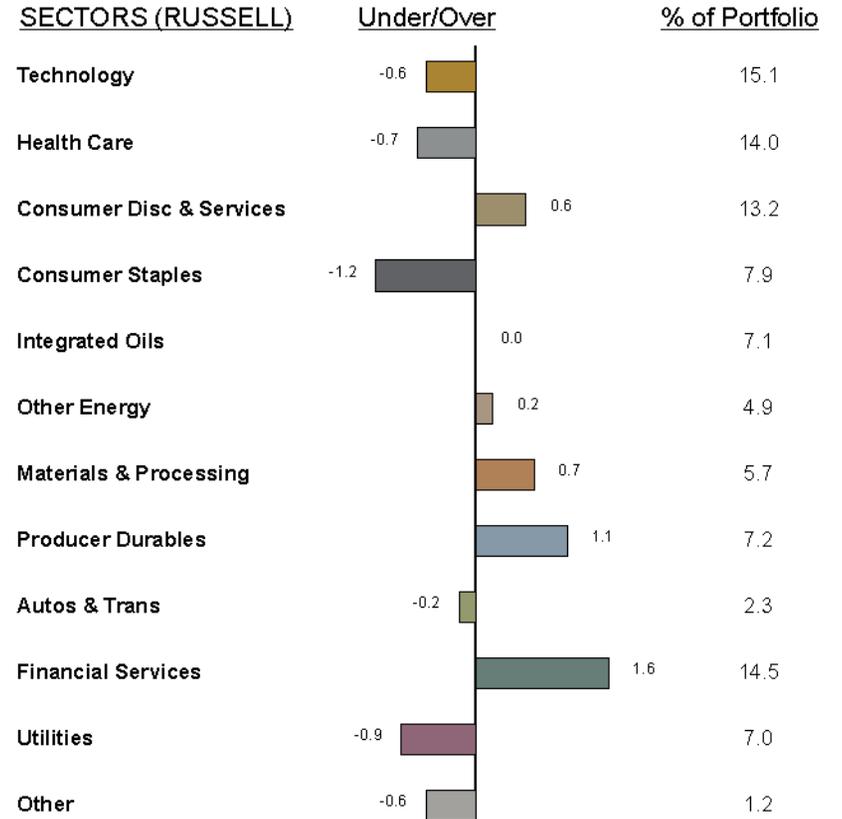
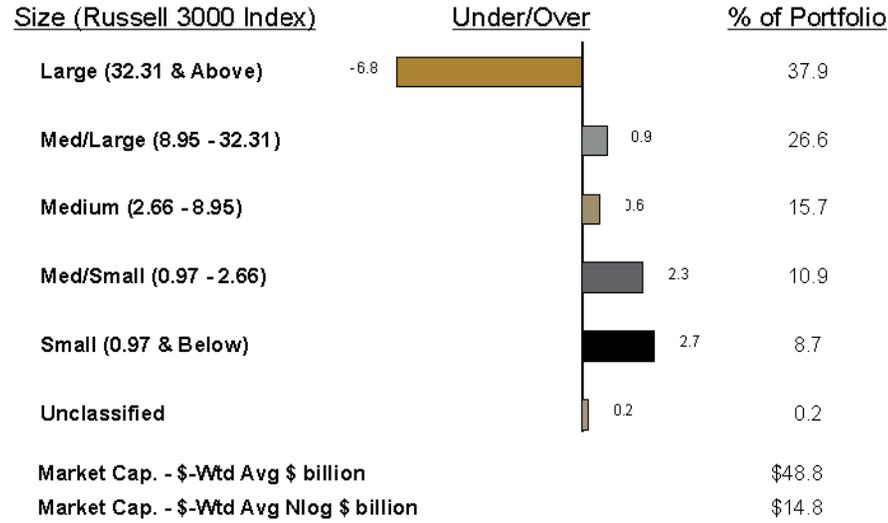
Source: TUCS Equity Style Report



\*Northern Trust not charted due to multiple manager holdings  
 \*\*PIMCO not charted due to the investment strategy is not conducive to style mapping

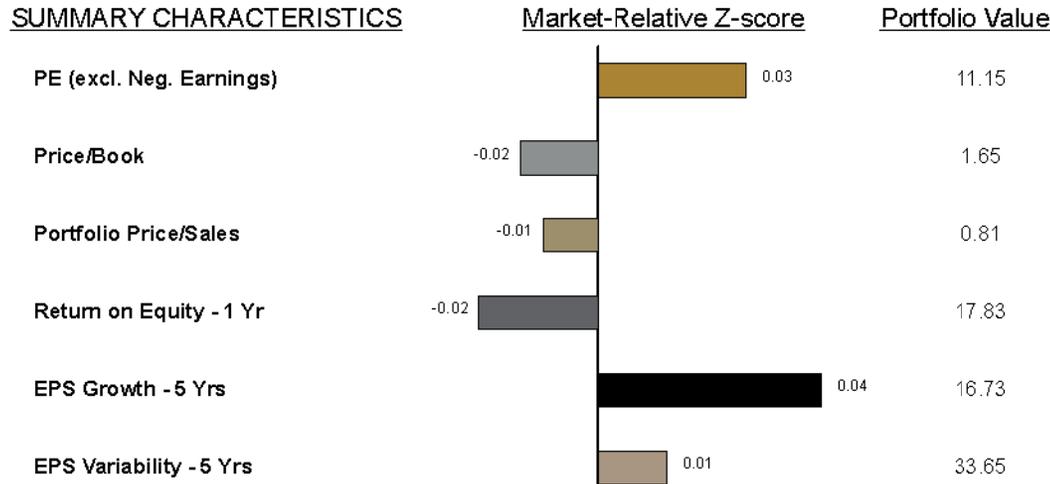
**Relative to Russell 3000 Index**

**UNITED STATES DOLLAR**



Sector Deviation	3
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**SUMMARY CHARACTERISTICS**



**Relative to Oregon Custom Benchmark**

**UNITED STATES DOLLAR**

Size (Russell 3000 Index)	Under/Over	% of Portfolio
Large (32.31 & Above)	0.3	37.9
Med/Large (8.95 - 32.31)	0.9	26.6
Medium (2.66 - 8.95)	-1.4	15.7
Med/Small (0.97 - 2.66)	-0.7	10.9
Small (0.97 & Below)	0.6	8.7
Unclassified	0.2	0.2
Market Cap. - \$-Wtd Avg \$ billion		\$48.8
Market Cap. - \$-Wtd Avg Nlog \$ billion		\$14.8

SECTORS (RUSSELL)	Under/Over	% of Portfolio
Technology	0.4	15.1
Health Care	-0.7	14.0
Consumer Disc & Services	-0.1	13.2
Consumer Staples	-0.5	7.9
Integrated Oils	1.1	7.1
Other Energy	0.1	4.9
Materials & Processing	0.1	5.7
Producer Durables	0.6	7.2
Autos & Trans	-0.3	2.3
Financial Services	0.7	14.5
Utilities	-1.0	7.0
Other	-0.4	1.2

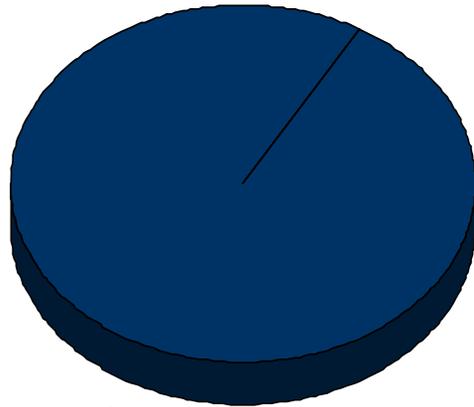
**SUMMARY CHARACTERISTICS**

	Market-Relative Z-score	Portfolio Value
PE (excl. Neg. Earnings)	0.02	11.15
Price/Book	0.01	1.65
Portfolio Price/Sales	0.01	0.81
Return on Equity - 1 Yr	0.03	17.83
EPS Growth - 5 Yrs	0.06	16.73
EPS Variability - 5 Yrs	0.00	33.65

Sector Deviation 2

# State of Oregon

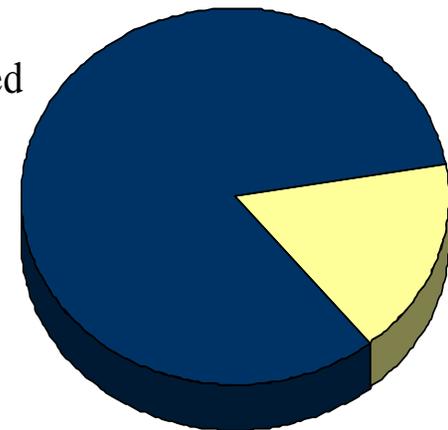
## International Equity Manager Allocation as of March 31, 2009



Active And  
Enhanced  
100%

Target: 95% Active and Enhanced / 5% Passive

Developed  
83%



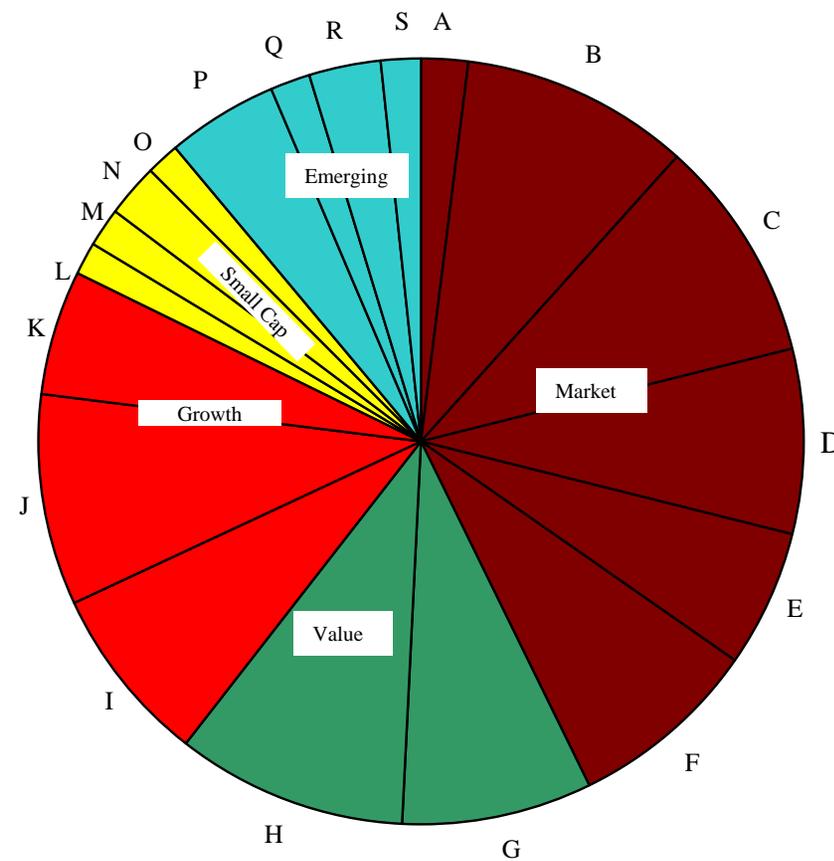
Emerging  
17%

Target: 81% Developed / 19% Emerging

Developed nations consist of EAFE plus Canada.

## Total International Equity Individual Manager Allocation as of March 31, 2009

Portfolio	\$M	% Allocation
<b>Market Oriented</b>		
A NORTHERN TRUST COMPANY	\$128,949	2%
B ARROW STREET	\$615,268	10%
C LAZARD	\$589,610	9%
D AQR CAPITAL MGMT.	\$501,563	8%
E BGI INT'L ALPHA TILTS	\$356,291	6%
F PYRAMIS GLOBAL ADVISORS	\$511,514	8%
<b>International Value</b>		
G ACADIAN	\$505,807	8%
H BRANDES	\$627,238	10%
<b>International Growth</b>		
I TT INTERNATIONAL	\$473,280	7%
J WALTER SCOTT MGMT.	\$559,183	9%
K UBS GLOBAL ASSET MGMT AMERICAS	\$332,147	5%
<b>International Small Cap</b>		
L DIMENSIONAL FUND ADVISORS	\$94,267	1%
M HARRIS ACCOCIATES	\$92,339	1%
N PYRAMIS SELECT SMALL CAP	\$144,801	2%
O VICTORY CAPITAL MANAGEMENT	\$87,542	1%
<b>Emerging Markets</b>		
P GENESIS	\$293,227	5%
Q ARROW STREET EMG. MARKET	\$117,685	2%
R PICTET INVESTMENT MGMT.	\$187,156	3%
S BGI TIERED EMERGING MARKETS	\$107,906	2%
<b>Total International Equity*</b>	<b>\$6,326,081</b>	

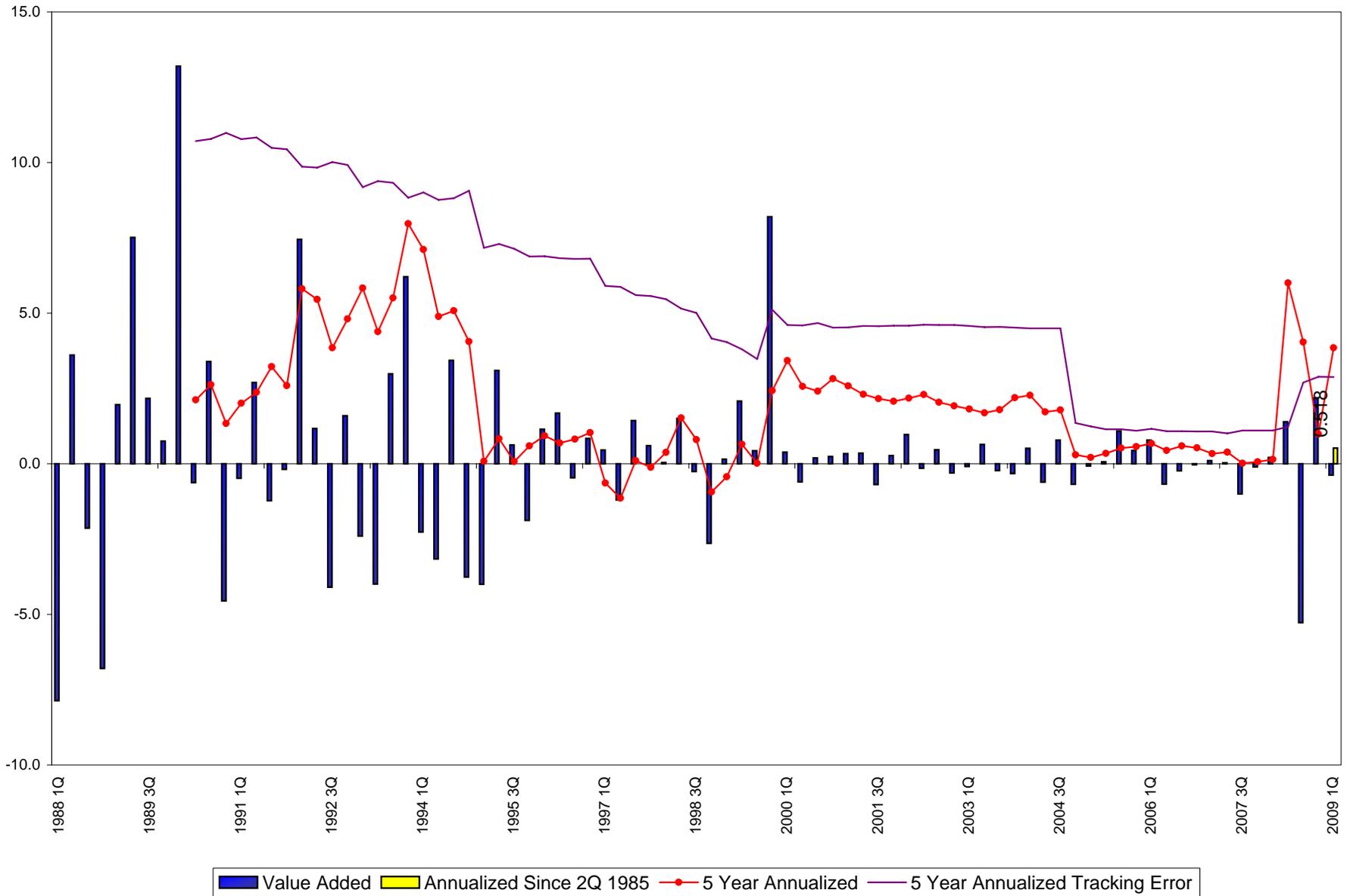


\*Includes \$763 in "Transition Account" and \$307 in "Other International Equities" assets not listed above.

# OPERS Total International Equity

## Value Added Over MSCI ACWI Ex US Index\*

Periods Ending March 31, 2009



\* Prior to Jan 1997, the benchmark is Non-US Equity index.

**STATE OF OREGON - PERS**  
**INTERNATIONAL EQUITY MANAGER PERFORMANCE VERSUS BENCHMARKS**  
**Periods Ending March 31, 2009**

	MKT VAL \$(M)	%	MONTH	3 MOS.	YTD	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS	INCEPTION
<b>TOTAL INTERNATIONAL EQUITY</b>	<b>6,326,081</b>	<b>100%</b>	<b>6.94</b>	<b>-10.67</b>	<b>-10.67</b>	<b>-44.38</b>	<b>-24.77</b>	<b>-12.27</b>	<b>-3.04</b>	<b>0.43</b>	<b>3.57</b>	<b>2.35</b>	<b>03/31/1985</b>
<i>MSCI ACWI Ex US IMI Net*</i>			8.02	-10.29	-10.29	-46.46	-25.89	-12.91	-4.08	-0.34	2.92	0.84	
Value Added			-1.08	-0.38	-0.38	2.08	1.12	0.64	1.04	0.77	0.65	1.51	
<b><u>MARKET ORIENTED (CORE)</u></b>	<b>2,703,196</b>												
NORTHERN TRUST NON - US EQUITY	128,949	2%	5.60	-12.41	-12.41	-48.49							04/01/2008
<i>MSCI World Ex US IMI Net</i>			6.57	-12.73	-12.73	-46.61							
ARROWSTREET CAPITAL	615,268	10%	7.35	-10.66	-10.66	-44.83	-24.41	-11.63	-2.98	1.40			10/31/2002
<i>MSCI ACWI Ex US IMI Net***</i>			8.02	-10.29	-10.29	-46.46	-25.89	-12.91	-4.08	-0.34			
LAZARD ASSET MANAGEMENT	589,610	9%	6.70	-11.85	-11.85	-40.54	-22.05	-10.86	-2.38	1.31	4.80		07/31/2000
<i>MSCI ACWI Ex US Net**</i>			8.03	-10.71	-10.71	-46.33	-25.81	-12.84	-4.03	-0.29	2.96		
AQR CAPITAL MANAGEMENT	501,563	8%	6.67	-12.33	-12.33	-47.85	-30.21						02/01/2007
BGI INT'L ALPHA TILTS	356,291	6%	6.36	-13.12	-13.12	-46.47	-27.80	-14.47	-5.91	-1.63			07/31/2003
PYRAMIS GLOBAL ADVISORS	511,514	8%	5.51	-12.85	-12.85	-45.90	-25.05	-12.07	-3.58				12/01/2004
<i>MSCI World Ex US Net**</i>			6.59	-13.14	-13.14	-46.15	-26.93	-13.77	-5.27	-1.35			
<b><u>INTERNATIONAL VALUE</u></b>	<b>1,133,045</b>	<b>18%</b>											
ACADIAN ASSET MANAGEMENT	505,807	8%	7.88	-13.32	-13.32	-54.70	-32.68	-17.88	-6.83	-1.29	4.92	4.03	12/31/1991
<i>MSCI ACWI Ex US Value IMI Net***</i>			8.84	-11.66	-11.66	-46.78	-27.41	-13.61	-4.72	-0.15	3.67	2.42	
BRANDES INVESTMENT PARTNERS LP	627,238	10%	5.72	-14.83	-14.83	-39.76	-26.05	-12.09	-4.29	-0.54	3.15	4.99	12/31/1997
<i>MSCI ACWI Ex US Value Net**</i>			8.84	-12.11	-12.11	-46.85	-27.46	-13.65	-4.75	-0.18	3.65	2.41	
<b><u>INTERNATIONAL GROWTH</u></b>	<b>1,364,610</b>	<b>22%</b>											
TT INTERNATIONAL	473,280	7%	6.96	-9.01	-9.01	-46.45	-25.51	-13.57	-2.76	-1.07	1.91	1.29	04/30/1998
<i>MSCI World Ex US Growth Net**</i>			5.88	-11.71	-11.71	-45.18	-24.44	-12.41	-4.10	-1.14	1.50	-1.73	
WALTER SCOTT MANAGEMENT	559,183	9%	3.95	-7.49	-7.49	-30.92	-15.45	-6.87	0.88				12/01/2004
<i>MSCI World Ex US Net**</i>			6.59	-13.14	-13.14	-46.15	-26.93	-13.77	-5.27				
UBS GLOBAL ASSET MGMT AMERICAS	332,147	5%	6.44	-11.36	-11.36								11/30/2008
<i>MSCI ACWI Ex US Growth IMI Net</i>			7.27	-8.68	-8.68								
<b><u>INTERNATIONAL SMALL CAP</u></b>	<b>418,950</b>	<b>7%</b>											
DIMENSIONAL FUND ADVISORS	94,267	1%	9.62	-12.17	-12.17								12/31/2008
<i>MSCI World Ex US Small Cap Value - Net</i>			7.40	-10.81	-10.81								
HARRIS ASSOCIATES	92,339	1%	3.66	-11.04	-11.04								12/31/2008
<i>MSCI ACWI Ex US Small Cap Value - Net</i>			8.82	-8.20	-8.20								
PYRAMIS SELECT SMALL CAP	144,801	2%	3.80	-10.09	-10.09								12/31/2008
<i>MSCI World Ex US Small Cap - Net</i>			6.42	-8.92	-8.92								
VICTORY CAPITAL MANAGEMENT	87,542	1%	0.82	-17.08	-17.08								12/31/2008
<i>MSCI World Ex US Small Cap Growth - Net</i>			5.49	-8.82	-8.82								
<b><u>EMERGING MARKETS</u></b>	<b>705,973</b>	<b>11%</b>											
GENESIS ASSET MANAGERS LTD	293,227	5%	13.52	-2.48	-2.48	-45.78	-19.87	-9.47	2.62	6.60	11.32	10.66	02/29/1992
ARROWSTREET EMERGING MARKET	117,685	2%	14.04	1.47	1.47	-44.64	-12.90						08/31/2006
<i>MSCI Emerging Markets IMI Net***</i>			14.35	1.19	1.19	-46.97	-19.68	-7.91	3.68	6.22	10.06	8.13	
PICTET INVESTMENT MANAGEMENT	187,156	3%	13.40	1.25	1.25	-51.48	-23.37						04/30/2006
BGI TIERED EMERGING MARKETS	107,906	2%	13.48										01/31/2009
<i>MSCI Emerging Markets Net**</i>			14.37	0.95	0.95	-47.05	-19.74						
TRANSITION ACCOUNT	763	0%											
<b><u>MISCELLANEOUS BENCHMARKS</u></b>													
<i>MSCI EAFE Net</i>			6.34	-13.94	-13.94	-46.51	-27.85	-14.47	-6.07	-2.18	1.15	-0.84	
<i>MSCI EUROPE Net</i>			6.93	-14.56	-14.56	-49.91	-29.16	-14.31	-6.66	-1.79	0.61	-0.99	
<i>MSCI PACIFIC Net</i>			5.24	-12.77	-12.77	-38.67	-25.27	-15.00	-4.93	-3.24	2.33	-0.59	
<i>MSCI JAPAN Net</i>			2.10	-16.62	-16.62	-35.98	-26.11	-17.46	-6.26	-5.38	0.69	-2.48	

\*Effective June 1, 2008, MSCI completed the implementation of the Investable Market Index(IMI - Large Cap+Mid Cap+Small Cap). The MSCI ACWI ex US IMI Net Index was formally adopted as the benchmark for the International Equity Fund. Benchmark performance through May 31, 2008, is MSCI ACWI ex US Gross and is linked thereafter with the MSCI ACWI ex US IMI Net Index.

\*\*Benchmark performance through May 31, 2008, is the applicable MSCI Standard Gross index and is linked thereafter with the applicable MSCI Standard Net index.

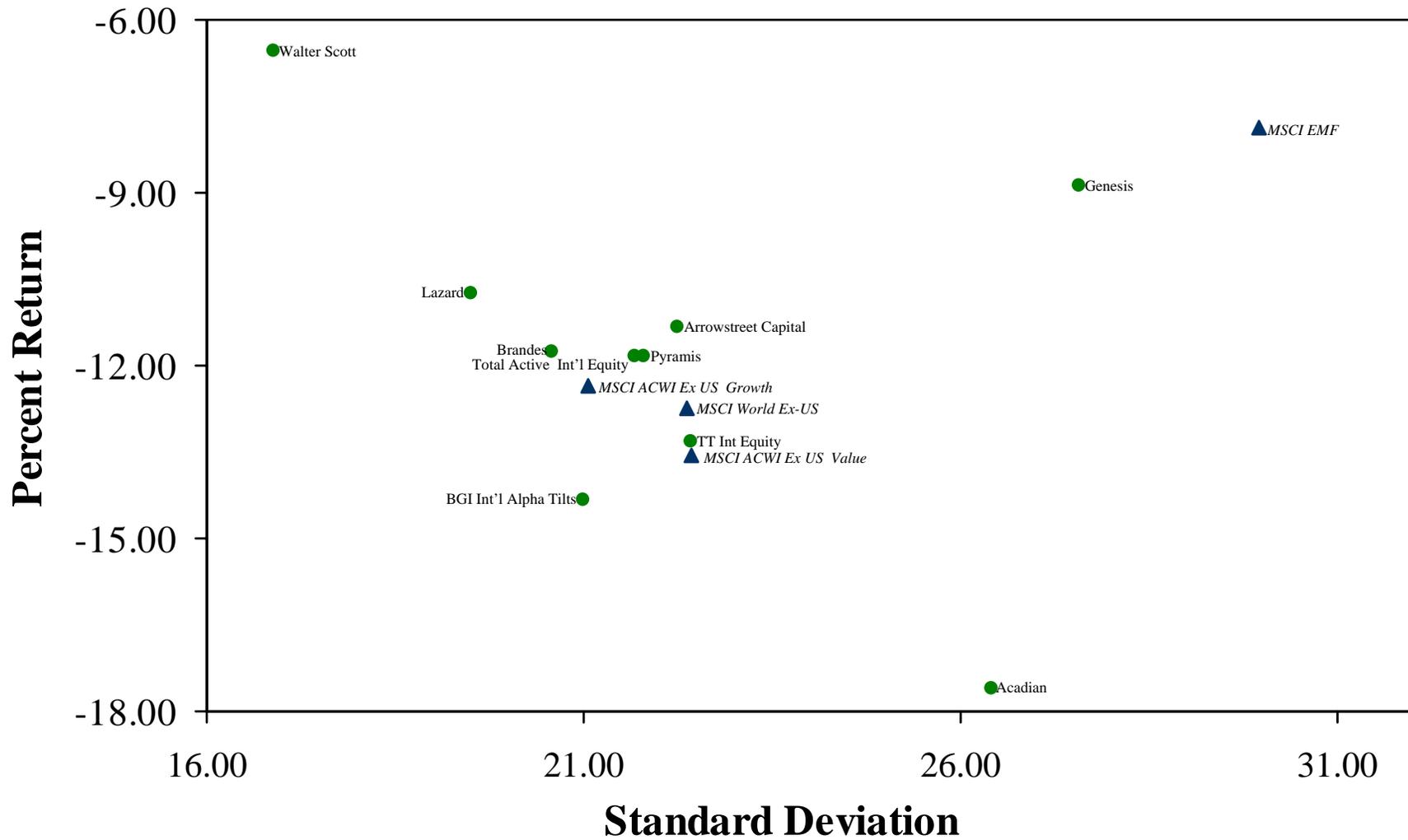
\*\*\*Benchmark performance through May 31, 2008, is the applicable MSCI Standard Gross index and is linked thereafter with the applicable MSCI IMI Net index.

**STATE OF OREGON - PERS**  
**GLOBAL EQUITY MANAGER PERFORMANCE VERSUS BENCHMARKS**  
 Periods Ending March 31, 2009

		MKT VAL \$(M)	%	MONTH	3 MOS.	YTD	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS	INCEPTION
<b>TOTAL GLOBAL EQUITY</b>		<b>1,892,541</b>	<b>100%</b>	<b>8.46</b>	<b>-10.75</b>	<b>-10.75</b>	<b>-48.21</b>	<b>-30.20</b>						<b>02/28/2007</b>
	<i>MSCI ACWI Net</i>			8.24	-10.70	-10.70	-43.10	-25.00						
	<i>Value Added</i>			0.22	-0.05	-0.05	-5.11	-5.20						
ALLIANCE BERNSTEIN		1,076,704	57%	9.41	-10.34	-10.34	-52.34	-33.10						02/28/2007
GOLDMAN SACHS ASSET MGMT		815,837	43%	7.22	-11.29	-11.29	-41.50							05/31/2007
	<i>MSCI ACWI Net</i>			8.24	-10.70	-10.70	-43.10	-25.00						
<b>TRANSITION ACCOUNT</b>														
SHOTT CAPITAL MANAGEMENT		87,045												
TRANSITION MANAGER		12												
<b>MISCELLANEOUS BENCHMARKS</b>														
	<i>MSCI EAFE Net</i>			6.34	-13.94	-13.94	-46.51	-27.85	-14.47	-6.07	-2.18	1.15	-0.84	
	<i>MSCI EUROPE Net</i>			6.93	-14.56	-14.56	-49.91	-29.16	-14.31	-6.66	-1.79	0.61	-0.99	
	<i>MSCI PACIFIC Net</i>			5.24	-12.77	-12.77	-38.67	-25.27	-15.00	-4.93	-3.24	2.33	-0.59	
	<i>MSCI JAPAN Net</i>			2.10	-16.62	-16.62	-35.98	-26.11	-17.46	-6.26	-5.38	0.69	-2.48	

# State of Oregon

## Total Return vs. Risk as of March 31, 2009 International Equity Managers (Three Years)



**Relative to MSCI AC World  
UNITED STATES DOLLAR**

Size (SPCG BMI World)	Under/Over	% of Portfolio
Large (35.17 & Above)	0.1	40.6
Med/Large (12.34 - 35.17)	4.6	30.7
Medium (4.70 - 12.34)	-1.4	17.7
Med/Small (1.67 - 4.70)	-2.6	9.8
Small (1.67 & Below)	-0.9	1.0
Unclassified	0.1	0.3
Market Cap. - \$-Wtd Avg \$ billion		\$48.3
Market Cap. - \$-Wtd Avg Nlog \$ billion		\$24.4

SECTORS (RUSSELL)	Under/Over	% of Portfolio
Technology	0.4	10.3
Health Care	1.6	12.2
Consumer Disc & Services	2.3	10.8
Consumer Staples	-1.9	6.9
Integrated Oils	3.0	11.5
Other Energy	-0.5	3.5
Materials & Processing	-2.5	7.4
Producer Durables	1.0	7.1
Autos & Trans	-0.4	3.8
Financial Services	-0.1	16.5
Utilities	-1.9	8.3
Other	-1.1	1.6

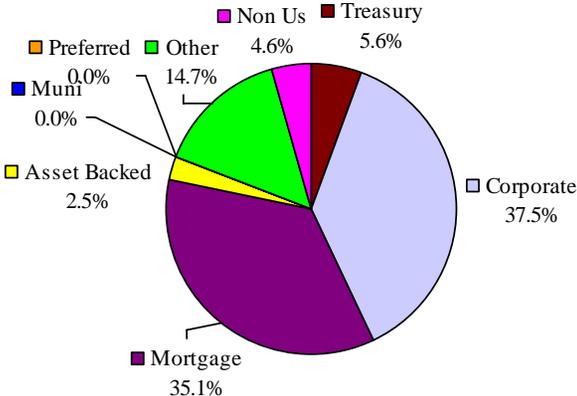
**SUMMARY CHARACTERISTICS**

	Market-Relative Z-score	Portfolio Value
PE (excl. Neg. Earnings)	-0.07	9.54
Price/Book	-0.10	1.29
Portfolio Price/Sales	-0.13	0.61
Return on Equity - 1 Yr	-0.08	17.35
EPS Growth - 5 Yrs	0.00	17.21
EPS Variability - 5 Yrs	0.10	34.38

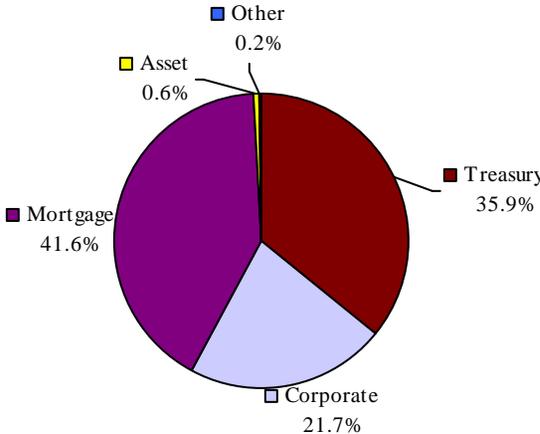
Sector Deviation 6

# State of Oregon Fixed Income Asset Allocation as of March 31, 2009

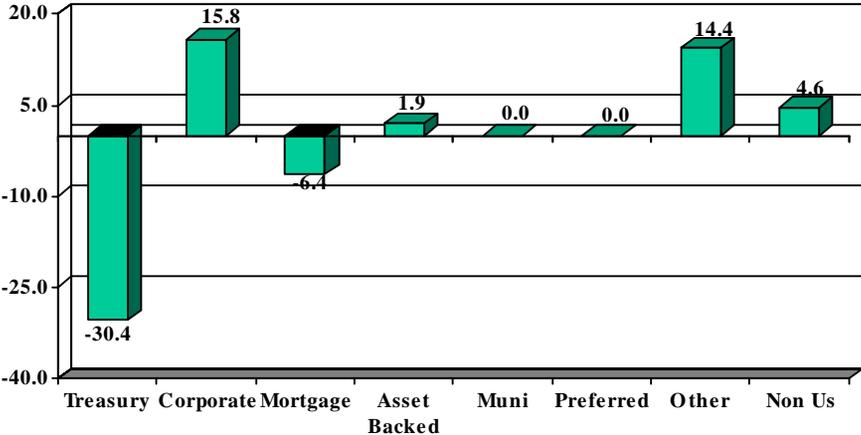
Total Fixed



BC Aggregate

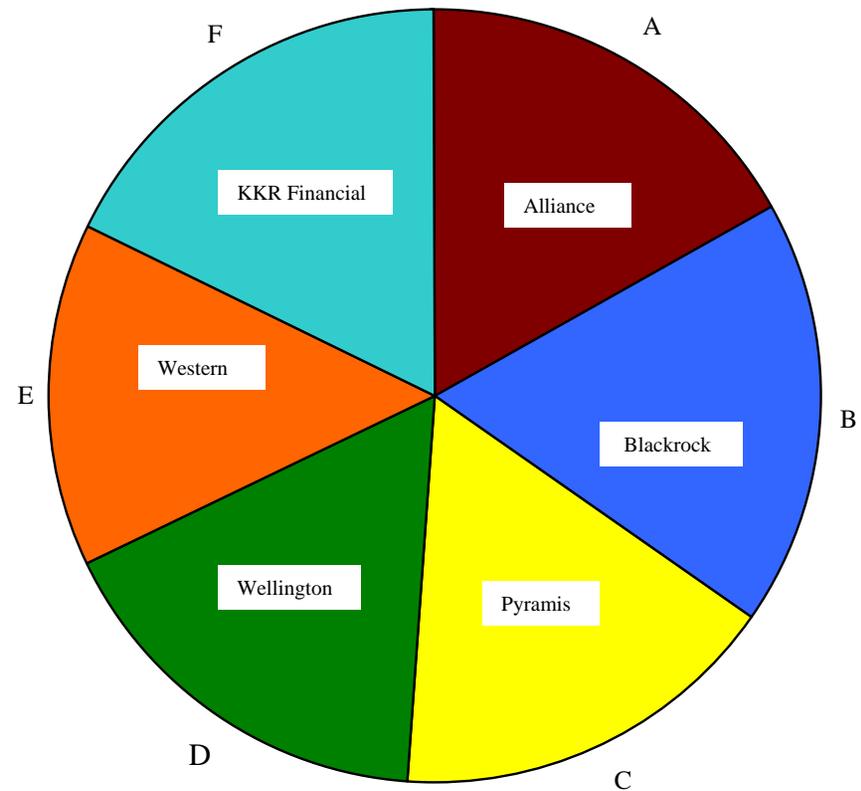


Over/Under Benchmark Allocation



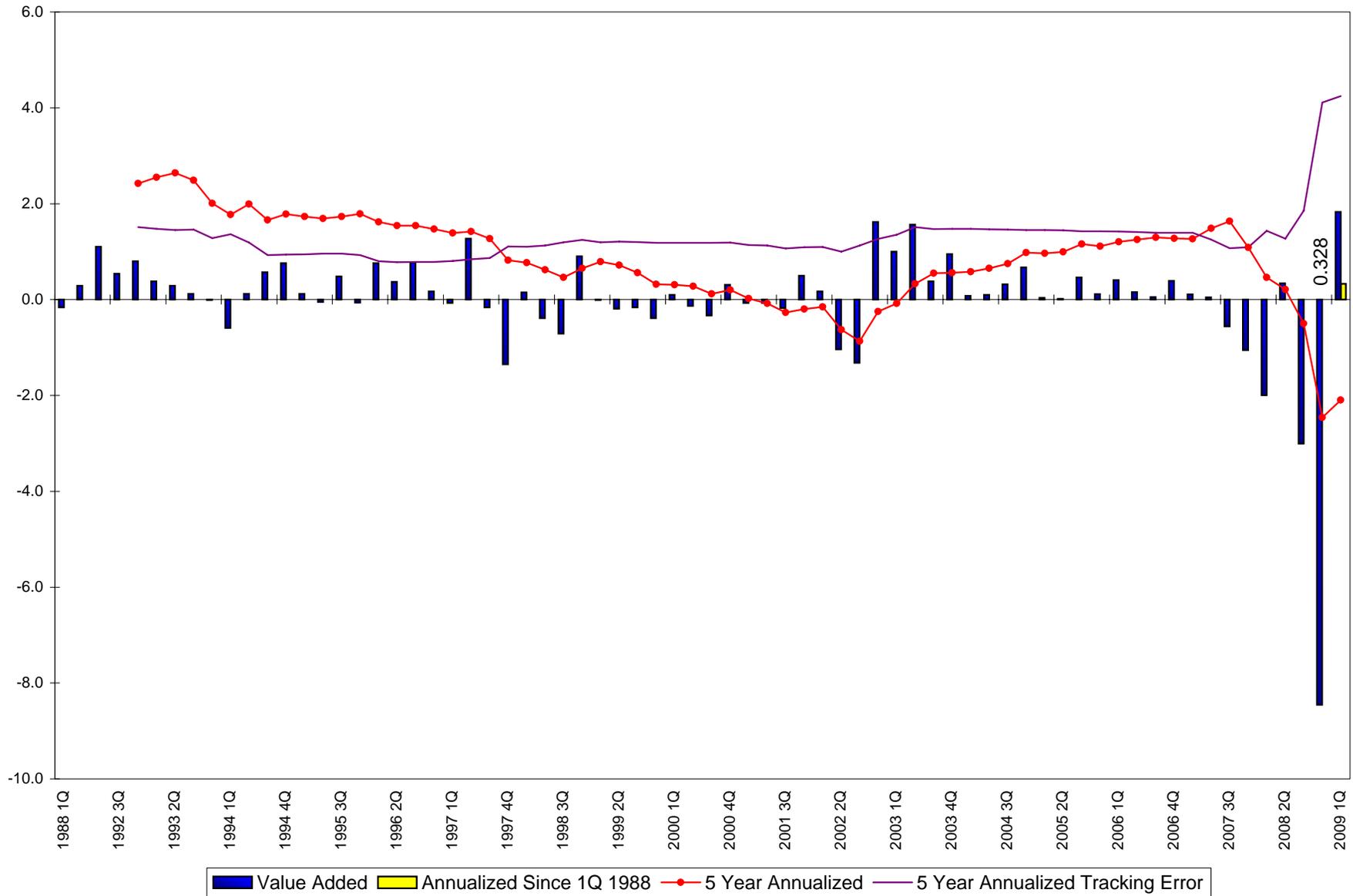
**Total Fixed Income**  
**Individual Manager Allocation**  
as of March 31, 2009

Portfolio	\$M	% Allocation
<b><u>EXTERNAL FIXED INCOME</u></b>		
<b>A</b> ALLIANCE CAPITAL MANAGEMENT	\$1,934,630	17%
<b>B</b> BLACKROCK	\$2,034,149	18%
<b>C</b> PYRAMIS GLOBAL ADVISORS	\$1,842,836	16%
<b>D</b> WELLINGTON CAPITAL MANAGEMENT	\$1,897,275	17%
<b>E</b> WESTERN ASSET MANAGEMENT	\$1,663,545	15%
<b>F</b> KKR FINANCIAL LLC	\$2,021,197	18%
<b>Total Fixed Income</b>	<b>\$11,393,633</b>	



# OPERS Total Fixed Income

Value Added Over State of Oregon Custom 90/10 FI Benchmark  
Periods Ending March 31, 2009



**STATE OF OREGON - PERS**  
**FIXED INCOME MANAGER PERFORMANCE VERSUS BENCHMARKS**  
**Periods Ending March 31, 2009**

	MKT VAL \$(M)	%	MONTH	3 MOS.	YTD	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS	INCEPTION
<b>TOTAL PERS FIXED INCOME</b>	<b>11,393,633</b>	<b>100%</b>	<b>2.44</b>	<b>2.19</b>	<b>2.19</b>	<b>-7.62</b>	<b>-2.52</b>	<b>0.73</b>	<b>1.55</b>	<b>1.85</b>	<b>4.23</b>	<b>4.74</b>	<b>12/31/1987</b>
<i>State of Oregon Custom Fixed Income 90/10 Benchmark*</i>			<i>1.43</i>	<i>0.36</i>	<i>0.36</i>	<i>1.58</i>	<i>4.03</i>	<i>4.95</i>	<i>4.46</i>	<i>3.95</i>	<i>5.29</i>	<i>5.53</i>	
<i>Value Added</i>			<i>1.01</i>	<i>1.83</i>	<i>1.83</i>	<i>-9.20</i>	<i>-6.55</i>	<i>-4.22</i>	<i>-2.91</i>	<i>-2.10</i>	<i>-1.06</i>	<i>-0.79</i>	
<b>EXTERNAL FIXED INCOME</b>	<b>9,372,436</b>	<b>82%</b>	<b>2.58</b>	<b>1.87</b>	<b>1.87</b>	<b>-6.34</b>	<b>-1.96</b>	<b>1.13</b>	<b>1.87</b>	<b>2.14</b>	<b>4.44</b>		<b>03/31/2000</b>
ALLIANCE CAPITAL MANAGEMENT	1,934,630	17%	2.62	2.49	2.49	-4.54	-0.17	2.44	2.77	2.73	4.59		04/30/2001
BLACKROCK	2,034,149	18%	2.72	2.59	2.59	-2.73	1.11	2.93	3.05	2.96	4.59		04/30/2001
PYRAMIS GLOBAL ADVISORS	1,842,836	16%	1.37	2.18	2.18	-7.21	-2.49	0.75	1.66	2.01	4.55		04/30/2001
WELLINGTON CAPITAL MANAGEMENT	1,897,275	17%	2.19	2.20	2.20	-4.61	-0.70	1.83	2.35	2.39	4.28		03/31/2000
WESTERN ASSET MANAGEMENT	1,663,545	15%	4.20	-0.38	-0.38	-13.08	-7.73	-2.50	-0.67	0.45	3.85		03/31/2000
<i>Custom External Fixed Income 90/10 Benchmark**</i>			<i>1.43</i>	<i>0.36</i>	<i>0.36</i>	<i>1.58</i>	<i>4.03</i>	<i>4.95</i>	<i>4.46</i>	<i>3.95</i>	<i>5.29</i>		
KKR FINANCIAL LLC	2,021,197	18%	1.74	3.83	3.83								07/31/2008
<i>Custom Leveraged Loans &amp; Bond Index***</i>			<i>2.09</i>	<i>8.13</i>	<i>8.13</i>								

\*90% BC Universal/10% SSBI Non-US World Gov't Bond Hedged (prior to 1/1/1999 BC Govt/Credit, 1/99-6/00 90/10 Unhedged)

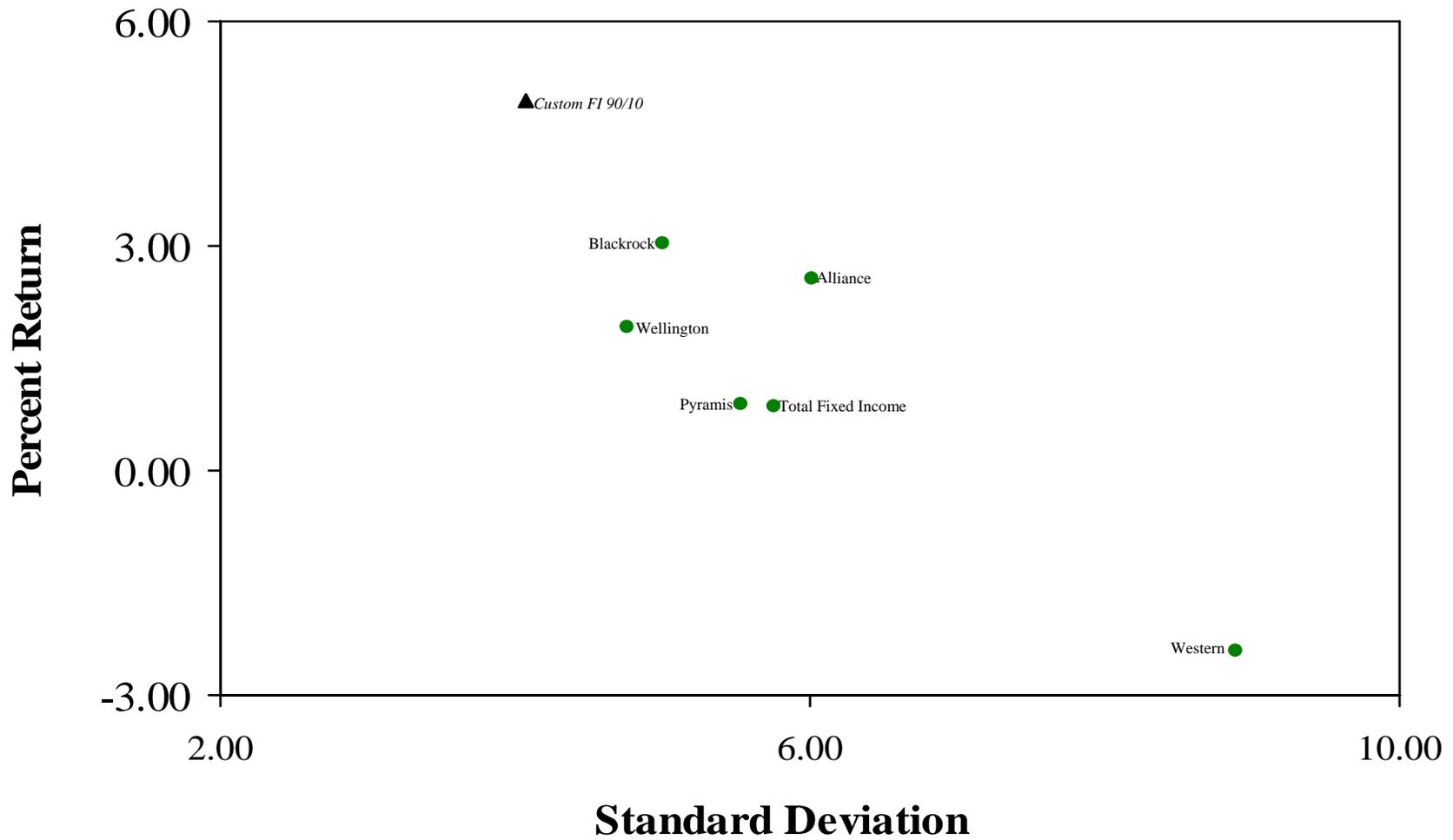
\*\*90% BC Universal/10% SSBI Non-US World Gov't Bond Hedged (prior to 8/1/2000 90/10 Unhedged; 8/00-6/01 95/5 Hedged)

\*\*\*65% S&P-LSTA/35% Merrill HY Master II

# State of Oregon

## Total Return vs. Risk as of March 31, 2009

### Fixed Income Managers (Three Years)

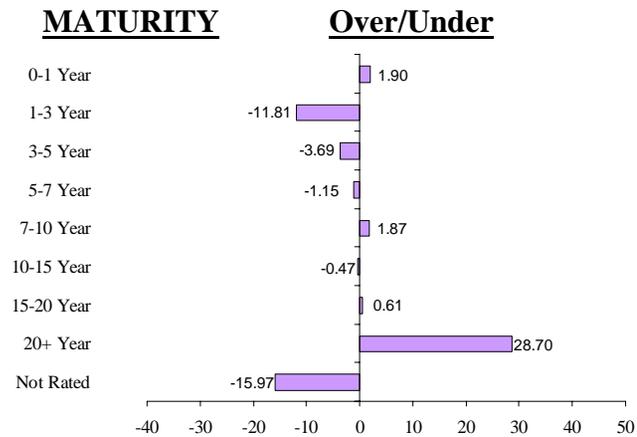
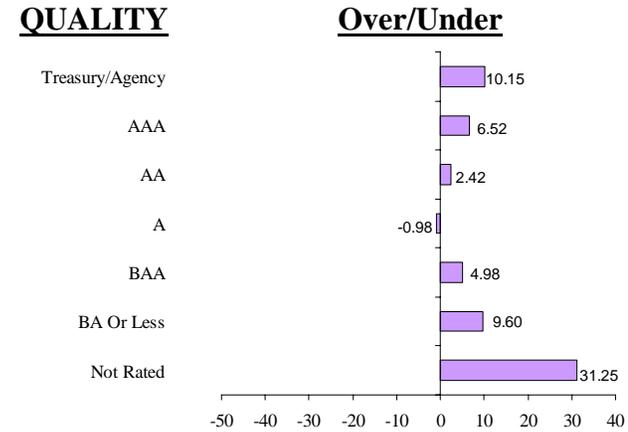
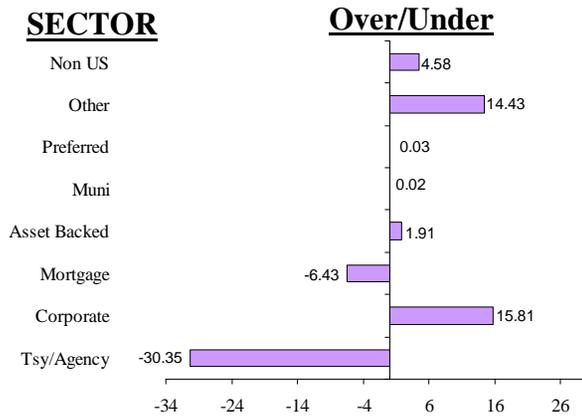


# Fixed Income Characteristics

## Oregon Versus BC Aggregate As of March 31, 2009

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Relative to BC Aggregate



**SUMMARY**                      **Over/Under**

Average Coupon	1.07 x
Yield to Maturity	2.43 x

EXECUTIVE SUMMARY

OPERF

Oregon Public Employees Retirement Fund  
Fourth Quarter 2008

REAL ESTATE PORTFOLIO SUMMARY

Real Estate Portfolio and Investment-level data are provided below for period ended December 31, 2008. Portfolio refers to all real estate Investments held by OPERF, which is referred to herein as the Fund.

OPERF REAL ESTATE PORTFOLIO SUMMARY	
December 31, 2008	
<b>Current Portfolio Net Asset Value</b>	<b>\$4.438 billion</b> 10.69% of Total Fund (\$41.520B)
<b>Current Unfunded Investment Commitments</b>	<b>\$2.173 billion</b>
<b>Total Portfolio NAV plus Unfunded Commitments</b>	<b>\$6.611 billion</b> 15.92% of Total Fund
<b>Target Allocation to Real Estate</b>	<b>\$4.567 billion</b> 11.00% of Total Fund
<b>Total Number of Investments</b>	<b>70</b>

SUMMARY OF PORTFOLIO INVESTMENT NET RETURNS				
Investment	Qtr	1-Yr.	3-Yr.	5-Yr.
<b>Private Real Estate</b>				
Direct Core	-15.35%	-13.03%	6.12%	13.22%
Opportunistic	-16.78%	-32.16%	-3.08%	12.55%
Value Added	-30.65%	-40.53%	-7.91%	N/A
Separate Account	2.31%	N/A	N/A	N/A
<b>Total Private Real Estate</b>	<b>-17.75%</b>	<b>-24.76%</b>	<b>0.55%</b>	<b>12.01%</b>
<b>Public Real Estate</b>				
Domestic REIT Portfolio	-41.83%	-45.18%	-15.43%	-0.75%
Global REIT Portfolio	-22.14%	-49.88%	N/A	N/A
<b>Total Portfolio Return</b>	<b>-20.98%</b>	<b>-28.68%</b>	<b>-2.23%</b>	<b>9.62%</b>
NCREIF Index	-8.29%	-6.46%	8.11%	11.67%
NAREIT Index	-38.80%	-37.73%	-10.83%	0.91%
EPRA/NAREIT Global (ex-US) Index	-26.38%	-52.00%	-11.30%	3.28%

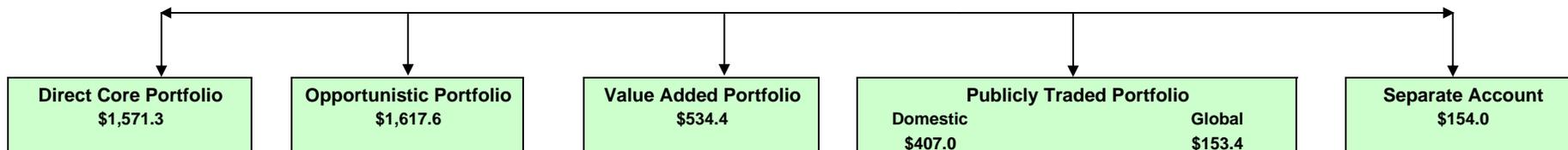
Note: Time weighted returns by category and for the portfolio include all historical investments converted by the Private Edge Group (i.e. exited investments and managers).

PORTFOLIO NET RETURNS BY COMPONENT

Portfolio Net Asset Value (\$M)

**Total Real Estate**  
**\$4,437.9**

One year return -28.68%  
NCREIF Index -6.46%

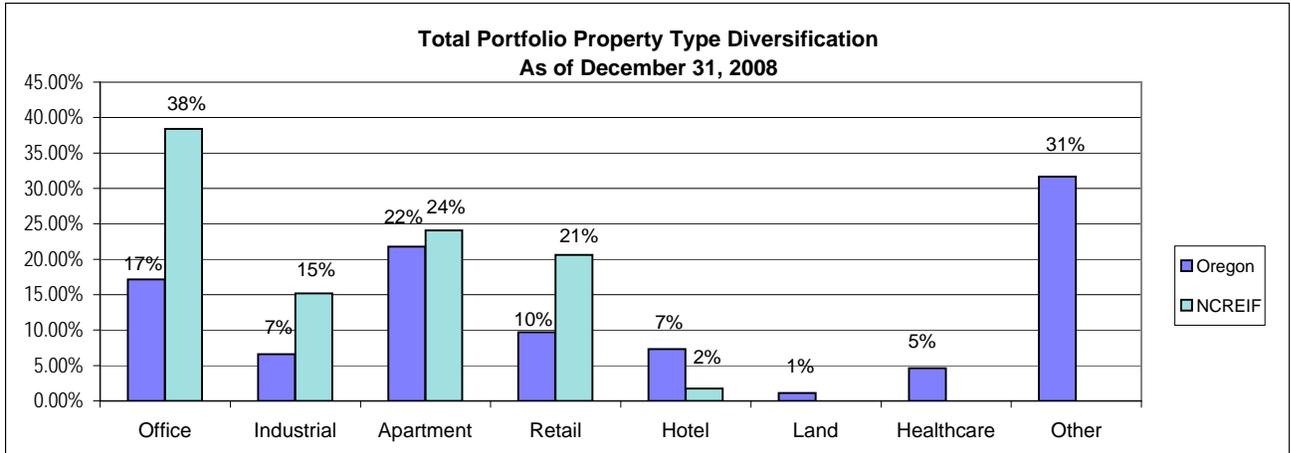


Component	Value (\$M)	% of total portfolio	One year return	NCREIF Index
Direct Core Portfolio	\$1,571.3	35.41%	-13.03%	-6.46%
Opportunistic Portfolio	\$1,617.6	36.46%	-32.16%	-6.46%
Value Added Portfolio	\$534.4	12.03%	-40.53%	-6.46%
Publicly Traded Portfolio				
Domestic	\$407.0	9.16%	-45.18%	NAREIT Index -37.73%
Global	\$153.4	3.46%	-49.88%	EPRA/NAREIT Global (ex US) -52.00%
Separate Account	\$154.0	3.48%	N/A	-6.46%

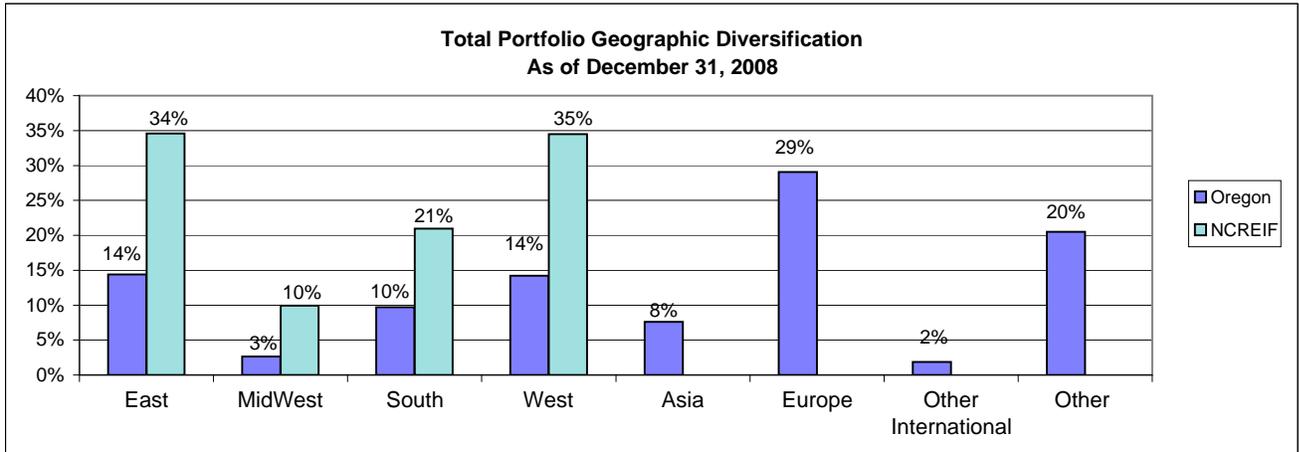
- |   |   |  |   |  |   |
|---|---|--|---|--|---|
| <ul style="list-style-type: none"> <li>Clarion (Office)</li> <li>Clarion Office Properties</li> <li>Clarion Holding (Office) <sup>1</sup></li> <li>Lincoln (Industrial)</li> <li>Regency Retail Partners I (Retail)</li> <li>Regency Retail Partners II (Retail)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

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

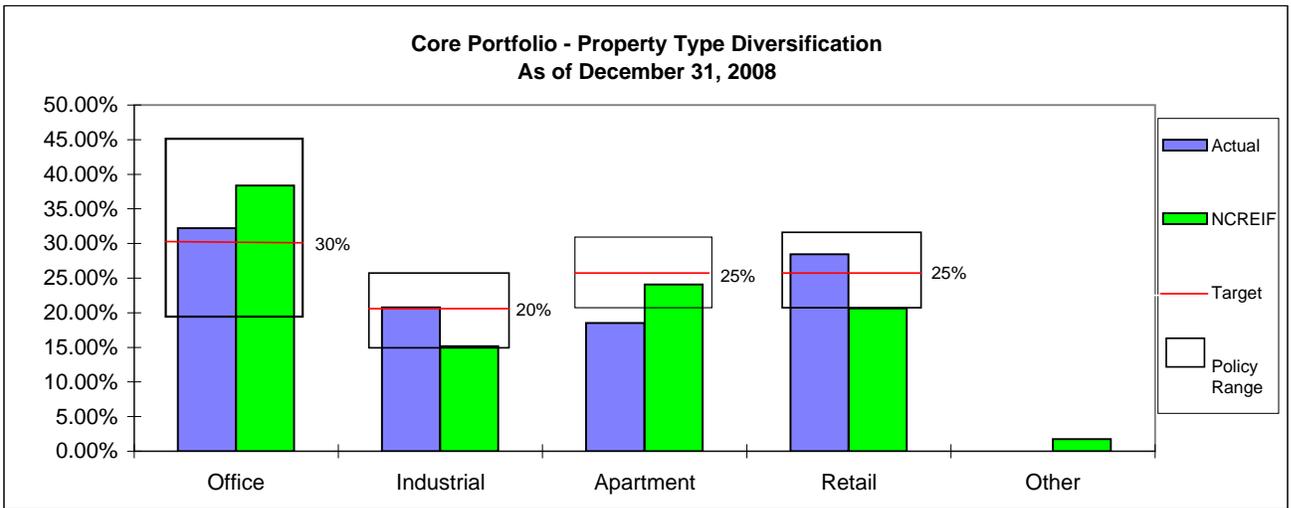
PORTFOLIO COMPOSITION REVIEW (% of Total Portfolio FMV)



Note: Other is primarily composed of Stocks/Equity (2%), Debt Instruments (42%), Operating Cos. (42%) and Diversified (14%) investments.



Note: Other is primarily composed of US Diverse (98.08%) and Various (1.92%) per GP's financials and Quarterly Data Input Sheets.



## III. PORTFOLIO REVIEW

- ❖ **New Commitments** - During the quarter, OPERF closed on \$1 billion in commitments to five new funds. Please see **Section IV** for more details and for other recent activity.
- ❖ **Contributions** - Contributions totaled \$601 million during the fourth quarter of 2008, compared to \$652 million during the third quarter, and \$956 million during the fourth quarter of 2007. The most recent four-quarter average for OPERF's contributions is \$679 million.
- ❖ **Distributions** - Distributions totaled \$119 million during the fourth quarter of 2008, compared to \$244 million during the third quarter, and \$472 million during the fourth quarter of 2007. The most recent four-quarter average for OPERF's distributions is \$164 million.
- ❖ **Portfolio IRR** - The IRR of the Portfolio since inception was 15.9% as of December 31, 2008, which represents a decrease of 90 basis points from the 16.8% IRR as of September 30, 2008.
- ❖ **Gain/Loss** - The portfolio depreciated by \$1.6 billion, net of cash flows, during the quarter. The Program's fair market value decreased from \$9.3 billion as of September 30, 2008 to \$8.2 billion as of December 31, 2008, representing a \$1.1 billion decrease. Net cash flow activity for the fourth quarter had a \$482 million gross impact on the market value, which implies \$1.6 billion of corresponding decreasing offsets from the reported valuations of existing portfolios.
- ❖ **Weighted Average Age** - Based on the active commitments as of December 31, 2008, the weighted average age of OPERF's portfolio increased from 4.7 years to 4.8 years. This represents the average age of all active fund investments, weighted by their respective commitment sizes and initial capital drawdown dates. Based on the invested capital of active funds, the weighted average age of OPERF's portfolio remained unchanged at 7.1 years. The older age based on invested capital indicates that OPERF has a fair amount of capital invested in older funds that has not been exited yet, relative to the amount invested by more recent funds.

The following table highlights recent investment activity:

**Portfolio Activity**  
As of December 31, 2008

(\$ in millions)	2007		2008		
	Q4	Q1	Q2	Q3	Q4
Starting Valuation	\$8,176	\$8,769	\$9,292	\$9,739	\$9,310
Contributions	956	803	662	652	601
Distributions	(472)	(147)	(145)	(244)	(119)
Appreciation/(Depreciation)	109	(133)	(70)	(837)	(1,624)
<b>Ending Valuation</b>	<b>\$8,769</b>	<b>\$9,292</b>	<b>\$9,739</b>	<b>\$9,310</b>	<b>\$8,167</b>
Unfunded Commitments	7,536	8,958	8,661	8,122	8,572
<b>Total</b>	<b>\$16,304</b>	<b>\$18,250</b>	<b>\$18,400</b>	<b>\$17,431</b>	<b>\$16,739</b>
IRR Since Inception	17.7%	17.5%	17.3%	16.8%	15.9%

Note: Totals may not accurately sum due to rounding.

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

### Portfolio Summary

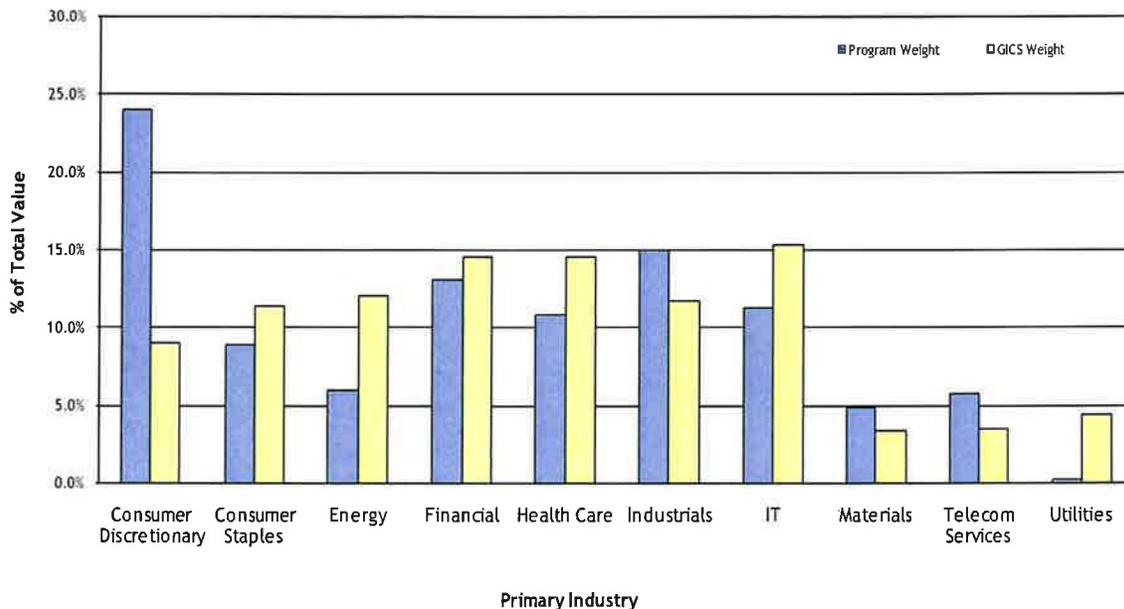
(\$ in millions)	September 30, 2008	December 31, 2008
Total Pension Assets	\$53,289	\$44,977
Target Allocation to Private Equity	16.0%	16.0%
Actual Allocation to Private Equity	17.5%	18.2%
<b>Current</b>		
# of Partnerships	158	162
Capital Committed	\$22,722	\$23,672
Capital Contributed	\$17,156	\$17,706
Capital Distributed	\$13,396	\$13,441
Estimated FMV	\$9,299	\$8,158
Total Value	\$22,695	\$21,600
Total Value Multiple	1.32x	1.22x
IRR	10.8%	8.8%
<b>Exited</b>		
# of Partnerships	35	36
Capital Committed	\$1,974	\$2,024
Capital Contributed	\$2,214	\$2,264
Capital Distributed	\$5,207	\$5,280
Estimated FMV*	\$10	\$9
Total Value	\$5,217	\$5,289
Total Value Multiple	2.36x	2.34x
IRR	23.8%	23.7%
<b>Overall</b>		
Portfolio Multiple	1.44x	1.35x
Portfolio IRR	16.8%	15.9%

\* Includes escrows of exited deals.

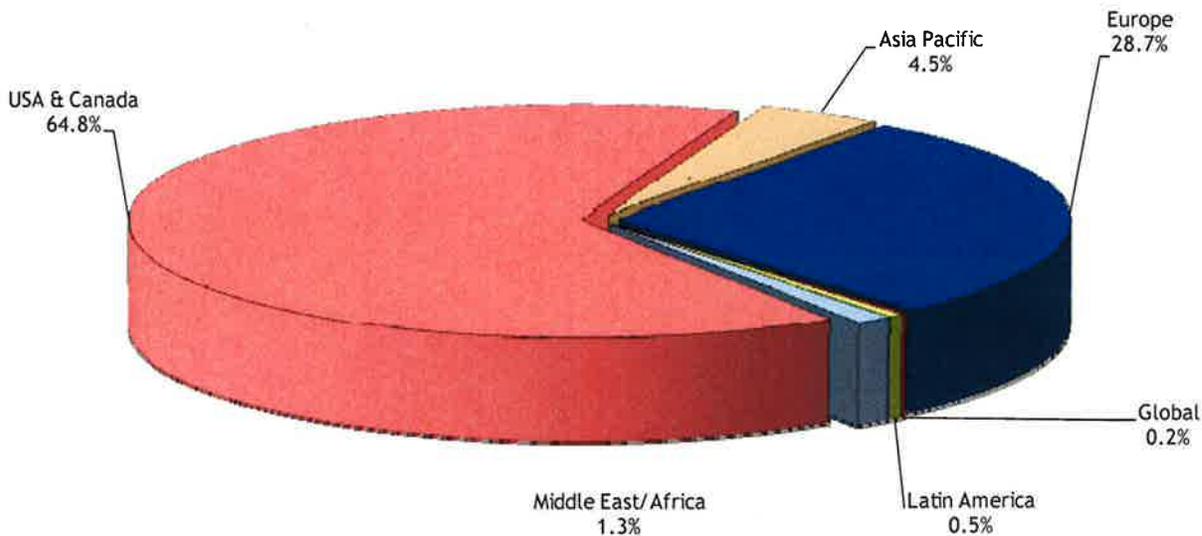
Since inception, OPERF has contributed a total of approximately \$20 billion to limited partnership investments and has received approximately \$18.7 billion of distributions. The estimated fair market value of OPERF's investments in the Portfolio was approximately \$8.2 billion as of December 31, 2008. The Program's return was 15.9% as of December 31, 2008. The Program's private equity allocation by market value is above its 16% target as a result of a depressed market for nearly all if not all other asset types, which serves to exaggerate the exposure to private equity.

**Portfolio Allocation by Industry and Strategy**  
As of December 31, 2008

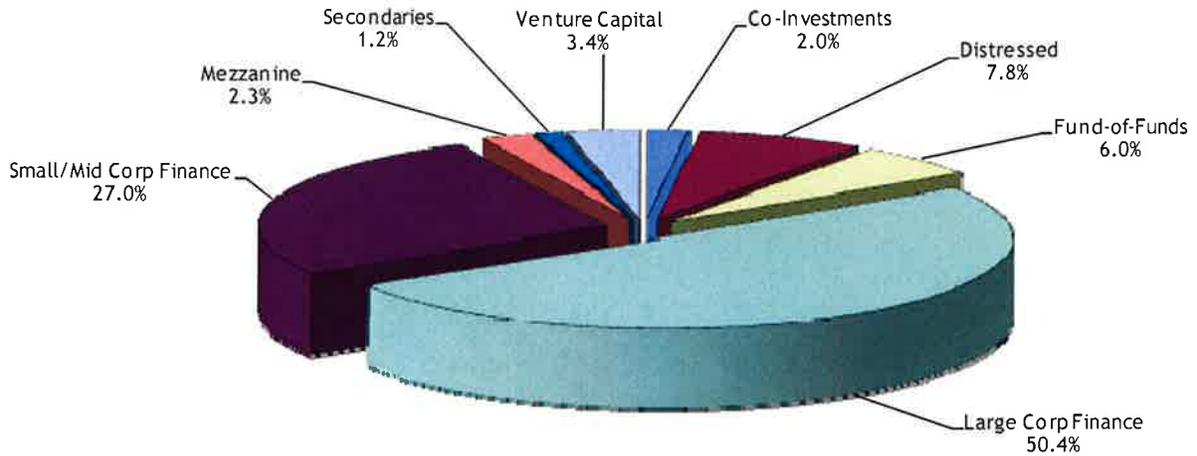
**Program's GICS Weight versus Russell 3000**  
(Allocation Based on Fair Market Value)



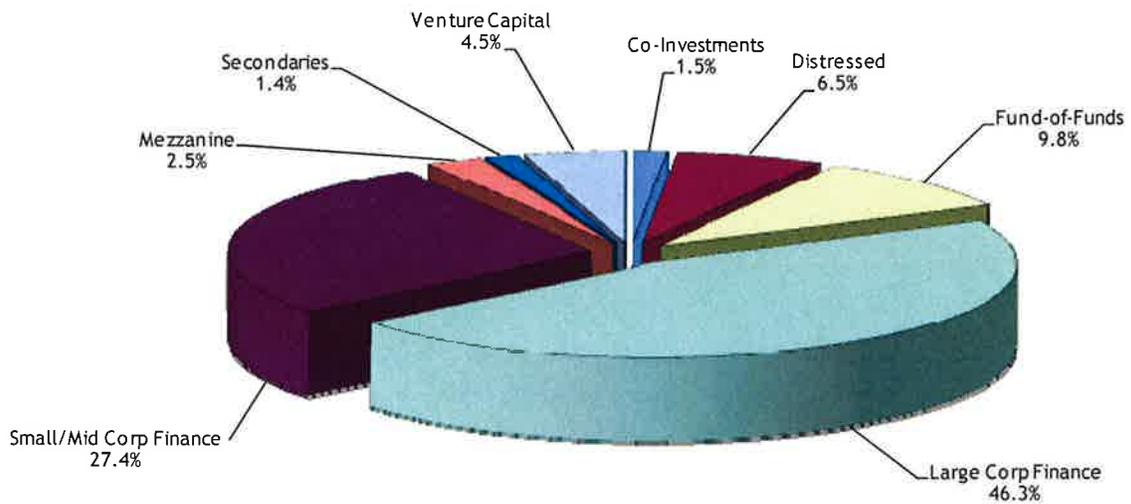
**Geographic Allocation Based on Fair Market Value of Portfolio Companies**



Strategy Allocation Based on Fair Market Value



Strategy Allocation Based on Fair Market Value + Unfunded Commitment



## *Glossary*

### **Variance Analysis Reports**

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

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

### **WEIGHTING**

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

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

### **SELECTION**

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

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

### **TIMING**

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

**State of Oregon**

TOTAL ACTIVE DOMESTIC EQUITY

Index: RUSSELL 3000

12/31/2008 - 03/31/2009



STATE STREET

**ATTRIBUTION - ECONOMIC SECTOR**

	BEGINNING WTS			BASE RETURNS			VALUE ADDED			
	Fund	Index	Difference	Fund	Index	Relative	Allocation	Selection	Total	Timing
TOTAL ACTIVE DOMESTIC EQUITY										
COMMINGLED FUND	0.8	0.0	0.8	10.2	-	-	0.1	0.1	0.2	-
CONSUMER DISCRETIONARY	10.7	10.4	0.4	-6.3	-6.6	0.4	0.0	0.1	0.1	-
CONSUMER STAPLES	7.2	9.8	-2.6	-8.9	-10.7	2.0	0.0	0.2	0.2	-
ENERGY	10.1	11.9	-1.8	-7.2	-11.1	4.4	-0.0	0.5	0.4	-
FINANCIALS	17.9	14.9	3.0	-21.5	-26.0	6.1	-0.5	0.8	0.3	-
HEALTH CARE	11.9	14.4	-2.6	-8.3	-7.3	-1.2	-0.1	-0.2	-0.3	-
INDUSTRIALS	13.2	12.2	1.0	-15.2	-19.7	5.6	-0.1	0.7	0.5	-
INFORMATION TECHNOLOGY	15.7	14.8	0.9	2.2	3.3	-1.0	0.1	-0.2	-0.1	-
MATERIALS	4.6	3.5	1.1	-2.0	-3.8	1.9	0.1	0.1	0.2	-
PRIVATE PLACEMENT	0.2	0.0	0.2	26.3	-	-	0.0	0.1	0.1	-
REAL ESTATE	0.1	0.0	0.1	-30.4	-	-	0.0	-0.0	-0.0	-
RIGHTS / WARRANTS	0.0	0.0	0.0	-26.6	-	-	0.0	-0.0	0.0	-
TELECOMMUNICATION SERVICES	4.5	3.6	0.9	-5.2	-6.3	1.1	0.1	0.1	0.1	-
UNCLASSIFIED	-	-	-	-	-	-	0.0	0.0	0.0	-
UNCLASSIFIED	-	-	-	-	-	-	0.0	0.0	0.0	-
UTILITIES	3.1	4.5	-1.5	-9.0	-11.0	2.2	0.0	0.1	0.1	-
TOTAL	100.0	100.0	0.0	-9.0	-10.8	2.0	-0.3	2.2	1.9	0.1

3/31/2009

Mellon Analytical Solutions Sector Indices

UNITED STATES DOLLAR		Retirement US Equity Managers			Oregon Custom Benchmark		S&P 500 Total Return Idx		Russell 3000 Index	
<b>Composition Summary</b>				<b>Mkt Rel</b>						
<b>Portfolio</b>	Total Portfolio Size	5.65B			10.00T		6.93T		8.42T	
<b>Composition -</b>	Equity (Common)	5.47	96.8%		10.00	100.0%	6.93	100.0%	8.42	100.0%
<b>\$/% portfolio</b>	Fixed Income	0.00	0.0%		0.00	0.0%	0.00	0.0%	0.00	0.0%
	Convertibles	0.00	0.1%		0.00	0.0%	0.00	0.0%	0.00	0.0%
	Other & Receivables	0.03	0.5%		0.00	0.0%	0.00	0.0%	0.00	0.0%
	Cash Equivalents	0.13	2.3%		0.00	0.0%	0.00	0.0%	0.00	0.0%
	Rights & Warrants	0.00	0.0%		0.00	0.0%	0.00	0.0%	0.00	0.0%
	Options & Futures	0.00	0.0%		0.00	0.0%	0.00	0.0%	0.00	0.0%
	Mutual & Pooled Funds	0.02	0.3%		0.00	0.0%	0.00	0.0%	0.00	0.0%
<b>Size of Companies -</b>	Large Capitalization	61	37.9%	+0%	50	37.5%	49	53.4%	50	44.7%
<b># holdings/% equity</b>	Medium/Large Cap.	166	26.6%	+1%	150	25.8%	142	30.3%	150	25.7%
Russell 3000 Index	Medium Capitalization	320	15.7%	-1%	300	17.0%	205	13.9%	300	15.0%
Break Points	Medium/Small Cap.	468	10.9%	-1%	500	11.6%	86	2.2%	500	8.7%
	Small Capitalization	851	8.7%	+1%	1899	8.0%	18	0.2%	1899	6.0%
	Unclassified	14	0.2%	+0%	0	0.0%	0	0.0%	0	0.0%
	Market Cap. - \$-Wtd Avg - \$ billion	100%	48.79	0.05	100%	48.58	100%	68.07	100%	57.27
<b>Economic Sectors -</b>	Technology	231	15.07%	+0%	366	14.68%	58	16.34%	366	15.63%
<b># holdings/% equity</b>	Health Care	186	14.01%	-1%	353	14.70%	53	15.23%	353	14.71%
Based on Russell	Consumer Discretionary and Services	333	13.19%	-0%	508	13.26%	84	11.58%	508	12.60%
Sector Scheme	Consumer Staples	68	7.89%	-1%	89	8.40%	35	10.14%	89	9.04%
	Integrated Oils	16	7.09%	+1%	15	6.02%	9	8.46%	15	7.11%
	Other Energy	123	4.89%	+0%	178	4.80%	29	4.48%	178	4.66%
	Materials and Processing	188	5.73%	+0%	254	5.61%	38	4.05%	254	5.03%
	Producer Durables	148	7.20%	+1%	243	6.64%	46	5.68%	243	6.14%
	Autos and Transportation	71	2.26%	-0%	113	2.59%	15	2.45%	113	2.41%
	Financial Services	399	14.50%	+1%	619	13.77%	86	11.27%	619	12.93%
	Utilities	102	7.00%	-1%	137	7.99%	43	8.20%	137	7.92%
	Other	15	1.17%	-0%	14	1.55%	4	2.11%	14	1.82%
	Sector Deviation Measure				2					
<b>Characteristics Summary</b>										
<b>Portfolio</b>	Portfolio P/E	98%	14.8	(0.00)	98%	15.4	99%	13.9	98%	14.9
<b>Characteristics</b>	Portfolio P/E Excluding Neg. Earnings	89%	11.1	0.02	89%	11.3	93%	11.1	90%	11.2
	Portf. P/E - I/B/E/S 1 Yr Forecast EPS	94%	11.9	(0.01)	92%	12.2	97%	12.3	94%	12.2
	Portfolio Price/Book	99%	1.65	0.01	99%	1.65	99%	1.78	99%	1.69
	Price/Cash Flow	98%	8.3	0.01	96%	8.3	99%	8.0	98%	8.2
	Portfolio Price/Sales	98%	0.8	0.01	99%	0.8	99%	0.8	99%	0.8
	L.T. Growth Forecast - I/B/E/S Medians	98%	11.0	0.07	96%	10.5	100%	9.8	99%	10.3
	1 Year EPS Forecast - I/B/E/S Medians	94%	(9.8)	0.03	93%	(10.7)	97%	(11.7)	94%	(11.1)
	Return on Equity - 5 Year Average	92%	19.7	0.01	91%	19.6	95%	21.4	92%	20.4
	EPS Growth - 5 Years	81%	16.7	0.06	82%	15.0	88%	15.4	84%	15.3
	EPS Variability - 10 Years	85%	53.4	(0.00)	86%	53.2	92%	47.0	89%	50.7
	Beta (vs. R3000)	93%	0.89	0.01	96%	0.88	98%	0.83	96%	0.86
	Number of Holdings	1880			2889		500		2889	
Equity Profile Number		OR1G75935022			IX1G00285938		IX1F00079488		IX1F00003858	
Market Relative Index		Oregon Custom Benchmark								

3/31/2009

Mellon Analytical Solutions Sector Indices

UNITED STATES DOLLAR		Retirement US Equity Managers			Oregon Custom Benchmark		S&P 500 Total Return Idx		Russell 3000 Index		
<b>Composition and Characteristics Detail</b>											
<b>Index Membership - # holdings/% equity</b>	Russell 3000 Index	1703	94.3%	-6%	2889	100.0%	500	100.0%	2889	100.0%	
	S&P 500 Index	500	73.0%	-4%	500	77.3%	500	100.0%	500	82.8%	
	All Growth	523	37.9%	+1%	963	37.0%	167	36.2%	963	36.9%	
	All Value	667	25.7%	-3%	1071	29.1%	171	28.2%	1071	28.6%	
	Partial Growth and Value	513	30.6%	-3%	855	34.0%	162	35.6%	855	34.6%	
<b>Sector/Stock Concentration</b>	Percent in Ten Largest Holdings		14.8%			14.9%		21.6%		18.1%	
	Five Largest Economic Sectors		64.7%	-0%		64.8%		64.6%		64.9%	
<b>Size of Companies - \$ billion</b>	Market Cap. - Median		1.155			0.498		5.600		0.498	
	Market Cap. - \$-Weighted Median		17.770			16.939		38.184		22.314	
	Market Cap. - \$-Wtd Avg Nlog - \$ billion	100%	14.770	0.01	100%	14.560	100%	33.830	100%	19.770	
	Market Cap. - Arithmetic Average		5.493	1.63		3.148		14.678		3.148	
	Market Cap. - Arithmetic Average Nlog	100%	1.170	1.98	100%	0.580	100%	6.680	100%	0.580	
	Market Cap. - Smallest Stock Held	0.0%	0.000		0.0%	0.002	0.0%	0.358	0.0%	0.002	
	Market Cap. - Largest Stock Held	2.9%	338.866		3.3%	338.866	4.9%	338.866	4.0%	338.866	
	Total Assets - \$-Wtd Average Nlog	100%	19.474	(0.02)	100%	20.089	100%	43.969	100%	26.447	
<b>Earnings Trends</b>	Rising Earnings Estimates - #/%	266	18.1%	+0%	412	17.9%	73	18.2%	412	17.9%	
	Falling Earnings Estimates - #/%	933	53.3%	+1%	1343	52.7%	281	54.8%	1343	53.3%	
	Positive Earnings Surprises - #/%	908	65.2%	+2%	1253	63.3%	310	63.8%	1253	63.4%	
	Negative Earnings Surprises - #/%	642	34.5%	-2%	980	36.5%	180	36.2%	980	36.5%	
	Earnings Surprise - Recent Qtr Z-Score	93%	0.85		95%	0.80	98%	0.83	96%	0.82	
<b>Relative Strength - Annualized</b>	1 Year Excess Price Performance	100%	0.5%	+0%	100%	0.2%	100%	(0.6%)	100%	0.0%	
	2 Year Excess Price Performance	97%	0.8%	+1%	96%	(0.5%)	98%	0.3%	98%	0.0%	
	3 Year Excess Price Performance	96%	0.9%	+1%	96%	(0.5%)	98%	0.3%	96%	0.0%	
	4 Year Excess Price Performance	95%	1.8%	+2%	95%	(0.1%)	97%	(0.1%)	95%	0.0%	
	5 Year Excess Price Performance	93%	1.9%	+2%	93%	(0.1%)	96%	(0.0%)	93%	0.0%	
<b>Profitability</b>	Return on Equity - 1 Year	97%	17.8	0.03	96%	17.1	98%	19.6	97%	18.1	
	Return on Equity - 2 Year Average	95%	19.0	0.02	95%	18.7	97%	20.8	96%	19.6	
	Return on Equity Momentum	86%	1.00	0.01	86%	0.99	92%	0.99	87%	0.99	
	Pretax Return on Assets - 5 Year Avg.	94%	13.2	0.03	95%	12.9	97%	14.3	95%	13.5	
<b>Marketability</b>	Days Trading Volume Held	100%	1.9		100%	115.4	100%	98.6	100%	98.4	
	Over 5 Days Trading Volume Held - #/%	30	0.3%		2889	100.0%	500	100.0%	2889	100.0%	
	Number of I/B/E/S Earnings Estimates		16	1.00		16		18		17	
<b>Historical Growth Long-Term</b>	Implied Growth - 5 Year Average	92%	14.5	0.05	91%	13.9	96%	14.9	92%	14.3	
	Sales/Share Growth - 5 Years	94%	13.6	0.08	94%	12.6	96%	13.0	94%	12.7	
	Dividends/Share Growth - 5 Years	66%	16.7	0.10	67%	14.4	78%	14.5	71%	14.4	
	Dividend Payout Ratio - 5 Year Average	93%	25.6	(0.06)	93%	27.7	96%	31.3	94%	29.0	
	EPS Growth - 10 Years	68%	13.3	0.06	71%	12.4	79%	12.7	74%	12.5	
	Dividends/Share Growth - 10 Years	58%	11.4	0.07	62%	10.4	73%	10.9	65%	10.7	
	Book Value 5 Year Growth	90%	12.2	0.07	90%	10.8	94%	10.8	91%	10.9	
	Cash Flow 5 Year Growth	86%	15.0	0.08	87%	13.0	91%	13.4	88%	13.2	
<b>Historical Growth Short-Term</b>	EPS Growth - 1 Year (\$-Wtd. Median)	87%	10.4		86%	7.4	91%	8.9	89%	8.9	
	EPS Growth - 2 Years (\$-Wtd. Median)	87%	10.7		86%	9.7	91%	9.7	89%	9.7	
	Sales/Share Growth - 1 Year	98%	12.9	0.07	98%	10.7	100%	11.0	99%	11.0	
	Sales/Share Growth - 2 Years	98%	13.7	0.07	98%	11.8	100%	12.0	99%	12.0	
Equity Profile Number		OR1G75935022			IX1G00285938		IX1F00079488		IX1F00003858		
Market Relative Index		Oregon Custom Benchmark									

3/31/2009

Mellon Analytical Solutions Sector Indices

UNITED STATES DOLLAR		Retirement US Equity Managers			Oregon Custom Benchmark		S&P 500 Total Return Idx		Russell 3000 Index	
<b>Composition and Characteristics Detail (cont)</b>				<b>Mkt Rel</b>						
<b>Forecasted Growth Long-Term</b>	Long-Term Growth - I/B/E/S Means	98%	11.0	0.07	98%	10.5	99%	9.9	97%	10.3
	L.T. Growth I/B/E/S Means-1 Month Ago	98%	11.2	0.07	98%	10.7	100%	10.0	99%	10.5
	Implied SD - I/B/E/S Long-Term Growth	92%	2.8	1.03	91%	2.7	98%	2.7	93%	2.7
<b>Forecasted Growth Short-Term</b>	Current Fiscal Year - I/B/E/S Means	93%	(9.5)	0.00	92%	(10.7)	97%	(11.5)	94%	(11.0)
	Cur Fisc Yr I/B/E/S Means - 1 Month Ago	93%	(7.5)	0.00	92%	(8.5)	97%	(9.3)	94%	(8.8)
	Implied SD - I/B/E/S Current Fiscal Year	92%	10.6	1.00	91%	10.5	98%	10.0	93%	10.1
	2nd Year EPS Forecast - I/B/E/S Medians	89%	17.0	0.03	88%	16.3	93%	17.1	89%	16.8
<b>Valuation</b>	Portfolio P/E - Normalized Earnings	93%	10.1	(0.01)	93%	10.3	96%	10.1	93%	10.2
	Portfolio P/E - 5 Year Average	93%	18.9	(0.00)	93%	19.1	97%	17.9	94%	18.6
	Portf. P/E - 5 Yr Avg Excl Neg Earnings	78%	16.3	(0.01)	79%	16.5	87%	16.4	81%	16.4
	Dividend Yield	100%	2.33	(0.01)	100%	2.60	100%	2.81	100%	2.66
	Dividend Yield 5 Year Average	92%	1.64	(0.10)	92%	1.77	95%	1.93	93%	1.83
	Portfolio P/E - \$-Weighted Median	98%	13.0		98%	13.0	99%	12.2	98%	12.7
	Portfolio P/E - Median	98%	14.7		98%	15.8	99%	12.6	98%	15.8
	Portfolio Price/Book - \$-Wtd. Median	99%	2.12		98%	2.12	99%	2.27	99%	2.17
	Portfolio Price/Book - Median	99%	1.34		98%	1.29	99%	1.62	99%	1.29
<b>Trailing Return of Current Holdings</b>	Last Three Months	100%	(5.5%)	+1%	100%	(6.6%)	100%	(7.5%)	100%	(6.9%)
	Last Twelve Months	100%	(27.6%)	+0%	100%	(27.9%)	100%	(28.5%)	100%	(28.0%)
	Last Three Years annualized	100%	(5.8%)	+1%	100%	(7.0%)	100%	(6.2%)	100%	(6.5%)
	Last Five Years annualized	91%	3.3%	+2%	91%	1.4%	94%	1.6%	92%	1.5%
<b>Quality Rank - # holdings/% equity</b>	A+	58	9%	-2%	86	11%	40	14%	66	12%
	A and A-	220	20%	-2%	275	23%	99	27%	275	24%
	B+, B and B-	630	39%	-1%	914	40%	231	41%	914	40%
	C and D	117	3%	-1%	231	4%	21	3%	231	3%
	Not Ranked	860	29%	+6%	1403	23%	109	15%	1403	21%
<b>Quality/Market Risk</b>	Quality Rank	71%	B+	0.92	77%	B+	85%	A-	79%	B+
	Debt/Equity	95%	1.08	(0.06)	95%	1.17	96%	1.23	96%	1.18
	Debt/Capital	99%	44.73	(0.04)	98%	46.39	100%	47.19	100%	46.33
	Debt Coverage	79%	9.40	---	81%	8.37	82%	9.49	81%	8.89
Equity Profile Number		OR1G75935022			IX1G00285938		IX1F00079488		IX1F00003858	
Market Relative Index		Oregon Custom Benchmark								

3/31/2009

Mellon Analytical Solutions Sector Indices

UNITED STATES DOLLAR		Retirement US Equity Managers			Oregon Custom Benchmark		S&P 500 Total Return Idx		Russell 3000 Index		
<b>Characteristics Distribution</b>											
<b>Portfolio P/E -</b>	Highest Quintile	756	21.7%	+0%	1311	21.5%	141	16.0%	1311	19.8%	
<b># holdings/% equity</b>	Second Quintile	242	20.2%	+1%	342	19.7%	66	21.0%	342	20.2%	
	Third Quintile	234	17.2%	-1%	325	18.1%	92	19.0%	325	17.9%	
	Fourth Quintile	260	19.3%	-1%	347	20.7%	91	22.9%	347	21.8%	
	Lowest Quintile	355	21.0%	+1%	530	19.8%	110	21.2%	530	20.2%	
	Negative Earnings	500	10.0%	-1%	950	10.9%	92	7.3%	950	9.7%	
<b>P/E based on 1 Year I/B/E/S forecast</b>	Highest Quintile	392	23.4%	+2%	547	21.5%	98	20.1%	547	21.0%	
	Second Quintile	185	18.7%	-1%	230	19.2%	60	22.1%	230	20.5%	
<b>EPS Median</b>	Third Quintile	171	14.8%	-1%	222	16.0%	72	18.1%	222	16.6%	
<b># holdings/% equity</b>	Fourth Quintile	233	18.6%	-1%	289	19.7%	94	21.7%	289	20.3%	
	Lowest Quintile	359	18.3%	+2%	491	16.3%	117	15.1%	491	15.7%	
	Negative Earnings	0	0.0%	+0%	0	0.0%	0	0.0%	0	0.0%	
<b>Portfolio Price/Book -</b>	Highest Quintile	225	19.1%	-0%	352	19.1%	75	20.7%	352	19.8%	
<b># holdings/% equity</b>	Second Quintile	161	19.4%	+1%	216	18.6%	63	22.5%	216	20.1%	
	Third Quintile	288	19.6%	-1%	411	20.2%	90	19.4%	411	19.9%	
	Fourth Quintile	383	21.0%	+0%	597	20.9%	113	19.4%	597	20.1%	
	Lowest Quintile	802	20.7%	-0%	1308	21.1%	159	18.0%	1308	20.0%	
<b>Dividend Yield -</b>	Highest Quintile	372	16.3%	-4%	496	20.1%	126	20.9%	496	20.0%	
<b># holdings/% equity</b>	Second Quintile	154	18.4%	-0%	194	18.6%	72	22.7%	194	20.1%	
	Third Quintile	181	17.9%	-1%	257	18.7%	78	21.8%	257	20.0%	
	Fourth Quintile	1104	44.8%	+2%	1942	42.6%	224	34.5%	1942	39.9%	
	Lowest Quintile	68	2.6%	+3%	0	0.0%	0	0.0%	0	0.0%	
	Zero Dividend Yield	924	27.7%	+2%	1649	25.4%	136	16.5%	1649	22.5%	
<b>Return on Equity -</b>	Highest Quintile	152	18.4%	+1%	194	17.8%	62	21.5%	194	19.5%	
<b>5 Year Average -</b>	Second Quintile	151	18.4%	+1%	187	17.5%	71	21.3%	187	18.8%	
<b># holdings/% equity</b>	Third Quintile	227	17.8%	-0%	292	18.0%	97	19.7%	292	18.2%	
	Fourth Quintile	307	20.3%	+0%	442	19.9%	90	20.0%	442	19.8%	
	Lowest Quintile	745	19.1%	-1%	1199	20.3%	152	14.1%	1199	17.8%	
<b>EPS Growth - 5 Yrs</b>	Highest Quintile	294	19.1%	+2%	386	17.4%	87	17.4%	386	17.3%	
<b># holdings/% equity</b>	Second Quintile	112	18.1%	+3%	141	15.4%	46	18.7%	141	16.9%	
	Third Quintile	159	17.4%	+0%	207	17.3%	72	19.8%	207	18.0%	
	Fourth Quintile	198	12.8%	-3%	274	15.5%	77	16.8%	274	15.9%	
	Lowest Quintile	379	15.1%	-2%	541	17.5%	103	16.8%	541	16.9%	
	Negative EPS Growth	322	13.4%	-2%	480	14.9%	86	14.6%	480	14.6%	
<b>L.T. Growth Forecast -</b>	Highest Quintile	640	27.2%	+5%	1117	22.4%	115	16.3%	1117	20.4%	
<b>I/B/E/S Medians -</b>	Second Quintile	322	19.8%	-0%	448	20.0%	118	20.5%	448	20.0%	
<b># holdings/% equity</b>	Third Quintile	255	19.7%	-0%	354	19.7%	86	21.9%	354	20.2%	
	Fourth Quintile	246	18.5%	-2%	326	20.3%	79	23.3%	326	21.7%	
	Lowest Quintile	323	14.1%	-3%	432	16.9%	101	17.9%	432	17.2%	
<b>EPS Variability - 10 Yrs</b>	Highest Quintile	625	19.7%	-1%	1033	20.3%	154	15.9%	1033	18.5%	
<b># holdings/% equity</b>	Second Quintile	261	17.2%	+0%	352	17.0%	80	18.4%	352	17.4%	
	Third Quintile	203	17.6%	+0%	272	17.3%	76	19.4%	272	18.0%	
	Fourth Quintile	186	17.4%	+0%	246	17.2%	73	19.5%	246	17.8%	
	Lowest Quintile	155	14.3%	-3%	205	17.2%	73	19.4%	205	17.9%	
Equity Profile Number					ORIG75935022						
Market Relative Index					Oregon Custom Benchmark			IX1G00285938		IX1F00079488	
										IX1F00003858	

## State of Oregon

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### COUNTRY WEIGHTS AND BASE RETURN

	Fund Beginning Weight	Index Beginning Weight	Difference	Fund Ending Weight	Index Ending Weight	Difference	Fund Return	Index Return	Difference
TOTAL ACTIVE INTERNATIONAL EQUITY									
ARGENTINA	0.0	0.0	-0.0	0.0	0.0	-0.0	-7.1	-15.1	8.0
AUSTRALIA	1.5	4.6	-2.7	2.3	5.1	-2.7	-2.0	-1.5	-0.5
AUSTRIA	0.1	0.2	-0.1	0.1	0.2	-0.1	-34.2	-8.1	-26.0
BELGIUM	0.6	0.6	0.1	0.8	0.7	0.1	-8.6	-4.3	-4.3
BRAZIL	2.0	2.2	-0.7	2.2	2.8	-0.7	5.4	12.5	-7.1
CANADA	2.6	6.4	-3.8	3.1	6.9	-3.8	-1.7	-3.4	1.7
CHILE	0.2	0.2	0.0	0.3	0.3	0.0	14.5	13.6	0.8
CHINA	2.6	3.1	-1.0	2.7	3.7	-1.0	5.7	1.3	4.4
COLUMBIA	0.1	0.1	-0.0	0.1	0.1	-0.0	-16.8	-10.1	-6.7
CROATIA	-0.0			0.0					
CYPRUS	0.0			0.0			-18.1		
CZECH REPUBLIC	0.4	0.2	0.1	0.2	0.1	0.1	-20.6	-15.7	-4.9
DENMARK	0.2	0.6	-0.3	0.3	0.6	-0.3	-4.0	-11.1	7.0
ECUADOR	0.0			0.0			0.0		
EGYPT	0.2	0.1	0.1	0.2	0.1	0.1	-7.5	-11.4	3.9
EURO	0.3			0.4					
FINLAND	0.7	1.1	-0.1	0.8	0.9	-0.1	-23.9	-21.9	-2.0
FRANCE	6.8	8.3	-0.4	7.5	7.9	-0.4	-13.2	-16.0	2.7
GERMANY	4.9	6.7	-0.8	5.2	5.9	-0.8	-24.7	-19.4	-5.2
GHANA									
GREECE	0.3	0.4	-0.0	0.4	0.4	-0.0	-9.7	-12.6	2.8
HONG KONG	1.7	1.5	0.1	1.8	1.7	0.1	-5.9	-0.5	-5.4
HUNGARY	0.1	0.1	0.0	0.1	0.1	0.0	-21.3	-28.8	7.5
INDIA	0.5	1.1	-0.7	0.5	1.2	-0.7	3.3	-1.5	4.8
INDONESIA	0.4	0.3	0.1	0.4	0.3	0.1	-3.0	1.2	-4.2

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### COUNTRY WEIGHTS AND BASE RETURN

	Fund Beginning Weight	Index Beginning Weight	Difference	Fund Ending Weight	Index Ending Weight	Difference	Fund Return	Index Return	Difference
IRELAND	0.2	0.2	0.0	0.3	0.2	0.0	-13.8	-8.9	-5.0
ISRAEL	0.7	0.6	0.1	0.8	0.7	0.1	0.3	5.7	-5.4
ITALY	1.7	2.8	-0.9	1.7	2.5	-0.9	-12.4	-20.6	8.2
JAPAN	20.4	19.3	1.9	19.8	17.9	1.9	-16.8	-16.6	-0.2
JORDAN		0.0			0.0			-5.9	
KOREA, REPUBLIC OF	2.1	2.3	-0.0	2.6	2.6	-0.0	-6.1	-0.1	-6.0
LUXEMBOURG	0.0			0.0			12.8		
MALAYSIA	0.3	0.5	-0.3	0.3	0.6	-0.3	3.2	-3.0	6.2
MEXICO	1.0	0.9	0.0	0.9	0.9	0.0	-15.2	-14.0	-1.2
MOROCCO		0.1	-0.1	0.0	0.1	-0.1		-8.7	
NETHERLANDS	2.0	1.9	0.4	2.1	1.7	0.4	-16.3	-16.4	0.0
NEW ZEALAND	0.1	0.1	0.1	0.2	0.1	0.1	-43.3	-2.7	-40.6
NIGERIA	0.0			0.0			-16.7		
NORWAY	0.3	0.5	-0.2	0.4	0.5	-0.2	-8.7	3.3	-12.0
PAKISTAN	0.1	0.0	0.1	0.1	0.0	0.1	22.5		
PERU	0.0	0.1	-0.1	0.0	0.1	-0.1	15.6	6.5	9.1
PHILIPPINES	0.0	0.1	-0.1	0.0	0.1	-0.1	2.1	6.7	-4.6
POLAND	0.2	0.3	-0.0	0.2	0.2	-0.0	2.5	-31.4	34.0
PORTUGAL	0.2	0.3	-0.0	0.2	0.3	-0.0	-2.9	-7.8	4.9
RUSSIA	0.8	1.0	-0.1	1.1	1.2	-0.1	6.4	5.9	0.5
SINGAPORE	0.8	0.8	0.3	1.1	0.9	0.3	-6.7	-9.0	2.3
SOUTH AFRICA	0.9	1.4	-0.3	1.2	1.5	-0.3	-8.3	-4.0	-4.4
SPAIN	1.6	3.5	-1.2	2.0	3.2	-1.2	-19.0	-18.3	-0.7
SRI LANKA	0.0			0.0			24.6		
SUDANESE POUND	-0.0			-0.0			5.9		
SWEDEN	1.7	1.5	0.3	1.9	1.7	0.3	0.5	-6.2	6.7

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### COUNTRY WEIGHTS AND BASE RETURN

	Fund Beginning Weight	Index Beginning Weight	Difference	Fund Ending Weight	Index Ending Weight	Difference	Fund Return	Index Return	Difference
SWITZERLAND	5.2	6.4	-1.1	5.0	6.0	-1.1	-16.8	-15.0	-1.8
TAIWAN	1.9	1.9	-0.2	2.0	2.3	-0.2	11.4	8.3	3.1
THAILAND	0.2	0.2	-0.0	0.2	0.3	-0.0	-2.0	-4.9	3.0
TURKEY	1.0	0.3	0.8	1.0	0.3	0.8	-11.3	-12.7	1.4
UNITED ARAB EMIRATES	0.0			0.0			-38.5		
UNITED KINGDOM	15.3	15.2	0.6	15.8	15.2	0.6	-9.3	-10.7	1.3
UNITED STATES	5.3			5.6			11.1		
Unclassified	9.5			4.3					
VENEZUELA	0.0			0.0					
VENEZUELA	0.0			0.0					
ZIMBABWE	0.0			0.0					
TOTAL	100.0	100.0	0.0	100.0	100.0	0.0	-10.2	-10.6	0.4

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State of Oregon Retirement Plan

UNITED STATES DOLLAR		Retirement Non-US Equity		MSCI AC Wld Ex US Cmp				
<b>Composition Summary</b>								
<b>Portfolio</b>	Total Portfolio Size	6.31B			9.08T			
<b>Composition -</b>	Equity (Common)	6.00	95.1%		9.07	99.9%		
<b>\$/% portfolio</b>	Fixed Income	0.01	0.2%		0.01	0.1%		
	Convertibles	0.01	0.2%		0.00	0.0%		
	Other & Receivables	0.03	0.5%		0.00	0.0%		
	Cash Equivalents	0.19	3.0%		0.00	0.0%		
	Rights & Warrants	0.01	0.1%		0.00	0.0%		
	Options & Futures	0.00	0.0%		0.00	0.0%		
	Mutual & Pooled Funds	0.06	1.0%		0.00	0.0%		
<b>Size of Companies -</b>	Large Capitalization	35.17 & Above	99	28.5%	-6%	75	34.4%	
<b># holdings/% equity</b>	Medium/Large Cap.	12.34 - 35.17	196	23.3%	-3%	181	26.2%	
SPCG BMI World	Medium Capitalization	4.70 - 12.34	432	21.2%	-1%	429	22.0%	
Break Points	Medium/Small Cap.	1.67 - 4.70	714	14.2%	-0%	720	14.2%	
	Small Capitalization	1.67 & Below	1795	12.1%	+9%	396	3.1%	
	Unclassified		89	0.8%	+1%	12	0.1%	
	Market Cap. - \$-Wtd Avg - \$ billion		99%	29.47	(0.16)	100%	36.05	
<b>Economic Sectors -</b>	Technology	254	6.28%	+1%	117	4.98%		
<b># holdings/% equity</b>	Health Care	137	10.36%	+3%	88	7.22%		
Based on Russell	Consumer Discretionary and Services	405	7.42%	+2%	181	5.58%		
Sector Scheme	Consumer Staples	198	9.17%	+1%	119	8.14%		
	Integrated Oils	73	6.18%	-3%	56	8.82%		
	Other Energy	134	3.45%	+0%	80	3.10%		
	Materials and Processing	785	13.07%	-1%	381	14.51%		
	Producer Durables	257	7.63%	+1%	103	6.28%		
	Autos and Transportation	257	5.31%	-1%	149	5.89%		
	Financial Services	517	15.79%	-5%	350	20.72%		
	Utilities	235	13.20%	+1%	174	12.01%		
	Other	73	2.15%	-1%	55	2.75%		
	Sector Deviation Measure			7				
<b>Characteristics Summary</b>								
<b>Portfolio</b>	Portfolio P/E	97%	11.5	(0.02)	99%	11.6		
<b>Characteristics</b>	Portfolio P/E Excluding Neg. Earnings	89%	9.2	(0.05)	92%	9.5		
	Portf. P/E - I/B/E/S 1 Yr Forecast EPS	83%	10.6	(0.07)	85%	10.9		
	Portfolio Price/Book	98%	1.11	(0.07)	100%	1.21		
	Price/Cash Flow	97%	5.0	(0.06)	98%	5.2		
	Portfolio Price/Sales	98%	0.6	(0.10)	99%	0.7		
	L.T. Growth Forecast - I/B/E/S Medians	94%	4.5	0.06	95%	4.6		
	1 Year EPS Forecast - I/B/E/S Medians	83%	(11.4)	0.08	84%	(12.4)		
	Return on Equity - 5 Year Average	94%	18.9	(0.02)	96%	19.2		
	EPS Growth - 5 Years	81%	18.1	(0.03)	85%	19.3		
	EPS Variability - 10 Years	54%	32.3	0.01	60%	31.5		
	Number of Holdings		3325			1813		
Equity Profile Number			OR1G75953512			IX1G00108428		
Market Relative Index			MSCI AC Wld Ex US Cmp					

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State of Oregon Retirement Plan

UNITED STATES DOLLAR		Retirement Non-US Equity		MSCI AC Wld Ex US Cmp				
<b>Composition and Characteristics Detail</b>								
<b>Index Membership - # holdings/% equity</b>	Russell 3000 Index	42	0.4%	+0%	1	0.0%		
	S&P 500 Index	12	0.3%					
	All Growth	5	0.0%	+0%	1	0.0%		
	All Value	22	0.2%					
	Partial Growth and Value	15	0.2%					
<b>Sector/Stock Concentration</b>	Percent in Ten Largest Holdings		10.8%			10.9%		
	Five Largest Economic Sectors		61.6%	-3%		64.2%		
<b>Size of Companies - \$ billion</b>	Market Cap. - Median		1.349			3.343		
	Market Cap. - \$-Weighted Median		13.623			20.776		
	Market Cap. - \$-Wtd Avg Nlog - \$ billion	99%	11.980	(0.33)	100%	18.040		
	Market Cap. - Arithmetic Average		5.515	0.67		8.180		
	Market Cap. - Arithmetic Average Nlog	99%	1.350	0.33	100%	3.900		
	Market Cap. - Smallest Stock Held	---	0.004			0.0%	0.284	
	Market Cap. - Largest Stock Held	0.5%	174.673		0.6%	174.673		
	Total Assets - \$-Wtd Average Nlog	99%	26.193	(0.29)	100%	42.324		
<b>Earnings Trends</b>	Rising Earnings Estimates - #/%	597	22.1%	+4%	342	17.7%		
	Falling Earnings Estimates - #/%	1517	62.2%	-5%	1012	67.6%		
	Positive Earnings Surprises - #/%	192	50.2%	+3%	105	47.4%		
	Negative Earnings Surprises - #/%	199	49.4%	-3%	131	52.2%		
	Earnings Surprise - Recent Qtr Z-Score	20%	(0.04)		21%	(0.34)		
<b>Relative Strength - Annualized</b>	1 Year Excess Price Performance	99%	(10.4%)	+1%	98%	(11.5%)		
	2 Year Excess Price Performance	98%	(6.0%)	-2%	96%	(4.4%)		
	3 Year Excess Price Performance	97%	(2.7%)	-2%	97%	(1.1%)		
	4 Year Excess Price Performance	95%	(0.6%)	-2%	94%	1.5%		
	5 Year Excess Price Performance	93%	(1.5%)	-3%	93%	1.1%		
<b>Profitability</b>	Return on Equity - 1 Year	97%	17.8	0.00	96%	18.1		
	Return on Equity - 2 Year Average	97%	19.9	0.03	99%	19.6		
	Return on Equity Momentum	89%	1.03	0.01	92%	1.02		
	Pretax Return on Assets - 5 Year Avg.	95%	8.3	0.11	97%	7.9		
<b>Marketability</b>	Days Trading Volume Held	99%	178.3		100%	865.7		
	Over 5 Days Trading Volume Held - #/%	90	1.1%		649	49.9%		
	Number of I/B/E/S Earnings Estimates		18	0.95		19		
<b>Historical Growth Long-Term</b>	Implied Growth - 5 Year Average	83%	12.4	0.06	85%	11.7		
	Sales/Share Growth - 5 Years	86%	10.7	(0.01)	88%	11.5		
	Dividends/Share Growth - 5 Years	84%	20.3	0.02	87%	20.4		
	Dividend Payout Ratio - 5 Year Average	93%	36.2	0.02	95%	36.2		
	EPS Growth - 10 Years	65%	13.5	(0.02)	67%	14.8		
	Dividends/Share Growth - 10 Years	67%	13.3	0.06	71%	13.6		
	Book Value 5 Year Growth	92%	12.8	0.03	94%	12.8		
	Cash Flow 5 Year Growth	89%	13.4	0.02	90%	13.4		
<b>Historical Growth Short-Term</b>	EPS Growth - 1 Year (\$-Wtd. Median)	90%	3.9		91%	4.8		
	EPS Growth - 2 Years (\$-Wtd. Median)	90%	7.1		92%	7.2		
	Sales/Share Growth - 1 Year	93%	10.7	0.01	92%	10.7		
	Sales/Share Growth - 2 Years	89%	13.5	(0.03)	91%	14.8		
Equity Profile Number				OR1G75953512		IX1G00108428		
Market Relative Index				MSCI AC Wld Ex US Cmp				

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State of Oregon Retirement Plan

UNITED STATES DOLLAR		Retirement Non-US Equity			MSCI AC Wld Ex US Cmp				
<b>Composition and Characteristics Detail (cont)</b>				<b>Mkt Rel</b>					
<b>Forecasted Growth Long-Term</b>	Long-Term Growth - I/B/E/S Means	86%	3.8	0.04	88%	3.8			
	L.T. Growth I/B/E/S Means-1 Month Ago	93%	4.5	0.06	95%	4.6			
	Implied SD - I/B/E/S Long-Term Growth	76%	1.9	1.08	80%	1.7			
<b>Forecasted Growth Short-Term</b>	Current Fiscal Year - I/B/E/S Means	82%	(11.7)	0.06	84%	(12.8)			
	Cur Fisc Yr I/B/E/S Means - 1 Month Ago	83%	(8.7)	0.07	85%	(9.7)			
	Implied SD - I/B/E/S Current Fiscal Year	80%	7.2	0.96	83%	7.5			
	2nd Year EPS Forecast - I/B/E/S Medians	80%	15.2	0.00	82%	14.6			
<b>Valuation</b>	Portfolio P/E - Normalized Earnings	94%	7.6	(0.02)	96%	7.9			
	Portfolio P/E - 5 Year Average	93%	15.6	0.04	95%	15.1			
	Portf. P/E - 5 Yr Avg Excl Neg Earnings	78%	13.7	(0.01)	83%	13.7			
	Dividend Yield	100%	5.05	0.05	100%	4.84			
	Dividend Yield 5 Year Average	93%	2.66	(0.04)	95%	2.69			
	Portfolio P/E - \$-Weighted Median	97%	11.7		99%	11.5			
	Portfolio P/E - Median	97%	11.3		99%	11.7			
	Portfolio Price/Book - \$-Wtd. Median	98%	1.39		100%	1.42			
	Portfolio Price/Book - Median	98%	0.93		100%	1.21			
<b>Trailing Return of Current Holdings</b>	Last Three Months	98%	(7.4%)	+1%	96%	(8.0%)			
	Last Twelve Months	98%	(36.5%)	+1%	96%	(37.9%)			
	Last Three Years annualized	97%	(4.9%)	-1%	97%	(3.5%)			
	Last Five Years annualized	90%	3.5%	-2%	90%	6.0%			
<b>Quality Rank - # holdings/% equity</b>	A+	2	0%	---	---	---			
	A and A-	8	0%	---	---	---			
	B+, B and B-	13	0%	---	---	---			
	C and D	1	0%	---	---	---			
	Not Ranked	3348	100%	-0%	1813	100%			
<b>Quality/Market Risk</b>	Quality Rank	0%	A-	---	---	---			
	Debt/Equity	92%	0.55	(0.11)	91%	0.61			
	Debt/Capital	99%	39.50	(0.15)	100%	43.68			
	Debt Coverage	16%	2.01	---	18%	1.59			
Equity Profile Number				OR1G75953512		IX1G00108428			
Market Relative Index				MSCI AC Wld Ex US Cmp					

3/31/2009

State of Oregon Retirement Plan

UNITED STATES DOLLAR		Retirement Non-US Equity			MSCI AC Wld Ex US Cmp				
<b>Characteristics Distribution</b>				<b>Mkt Rel</b>					
<b>Portfolio P/E - # holdings/% equity</b>	Highest Quintile	881	16.4%	+1%	420	15.4%			
	Second Quintile	463	20.7%	+3%	324	18.2%			
	Third Quintile	400	20.2%	-3%	287	23.1%			
	Fourth Quintile	558	19.3%	-3%	355	21.9%			
	Lowest Quintile	913	21.6%	+0%	411	21.1%			
	Negative Earnings	549	8.5%	+1%	202	7.8%			
<b>P/E based on 1 Year I/B/E/S forecast</b>	Highest Quintile	417	20.9%	+0%	323	20.8%			
	Second Quintile	316	14.1%	-1%	249	14.9%			
<b>EPS Median # holdings/% equity</b>	Third Quintile	330	15.8%	-2%	248	17.5%			
	Fourth Quintile	305	14.9%	-2%	227	17.3%			
	Lowest Quintile	619	17.9%	+3%	315	14.8%			
	Negative Earnings	1	0.0%	-0%	1	0.0%			
<b>Portfolio Price/Book - # holdings/% equity</b>	Highest Quintile	396	17.0%	+2%	299	15.2%			
	Second Quintile	354	20.4%	-0%	265	20.7%			
	Third Quintile	452	21.3%	-3%	349	24.2%			
	Fourth Quintile	553	17.4%	-2%	355	19.3%			
	Lowest Quintile	1469	22.7%	+2%	528	20.4%			
<b>Dividend Yield - # holdings/% equity</b>	Highest Quintile	951	23.8%	-0%	421	24.1%			
	Second Quintile	575	22.5%	+0%	381	22.5%			
	Third Quintile	494	18.4%	-2%	322	20.0%			
	Fourth Quintile	594	18.3%	-3%	374	20.8%			
	Lowest Quintile	710	17.0%	+4%	335	12.7%			
	Zero Dividend Yield	440	5.9%	+3%	147	3.2%			
<b>Return on Equity - 5 Year Average - # holdings/% equity</b>	Highest Quintile	527	24.9%	+1%	354	24.3%			
	Second Quintile	380	19.9%	-1%	260	21.0%			
	Third Quintile	531	19.0%	-2%	343	20.5%			
	Fourth Quintile	618	15.5%	-2%	381	17.6%			
	Lowest Quintile	925	16.6%	+3%	359	13.7%			
<b>EPS Growth - 5 Yrs # holdings/% equity</b>	Highest Quintile	621	16.6%	-2%	381	18.3%			
	Second Quintile	460	18.3%	+0%	286	18.2%			
	Third Quintile	329	17.3%	-2%	216	19.6%			
	Fourth Quintile	401	13.7%	-1%	253	15.2%			
	Lowest Quintile	570	15.5%	+1%	309	14.1%			
	Negative EPS Growth	449	11.7%	+1%	216	10.9%			
<b>L.T. Growth Forecast - I/B/E/S Medians - # holdings/% equity</b>	Highest Quintile	788	20.9%	+1%	449	19.6%			
	Second Quintile	483	18.8%	-0%	335	18.8%			
	Third Quintile	479	23.4%	-0%	329	23.6%			
	Fourth Quintile	354	17.2%	-2%	254	19.1%			
	Lowest Quintile	489	15.3%	-0%	305	15.6%			
<b>EPS Variability - 10 Yrs # holdings/% equity</b>	Highest Quintile	435	11.5%	-1%	239	12.8%			
	Second Quintile	298	10.4%	-3%	187	13.3%			
	Third Quintile	238	9.6%	-1%	143	10.2%			
	Fourth Quintile	228	11.3%	-3%	176	14.0%			
	Lowest Quintile	175	11.4%	+1%	143	10.8%			
Equity Profile Number									
Market Relative Index									
					ORIG75953512	IX1G00108428			
					MSCI AC Wld Ex US Cmp				

**State of Oregon**

TOTAL DOMESTIC FIXED INCOME

Index: BC AGGREGATE

12/31/2008 - 03/31/2009



STATE STREET

**ATTRIBUTION - FIXED SECTOR**

	BEGINNING WTS			BASE RETURNS			VALUE ADDED			
	Fund	Index	Difference	Fund	Index	Relative	Allocation	Selection	Total	Timing
TOTAL DOMESTIC FIXED INCOME										
AGENCY	1.9	9.4	-7.6	-3.3	-0.1	-3.2	0.0	-0.0	-0.0	-
ASSET BACKED	3.4	0.6	2.9	-1.2	4.4	-5.3	0.1	-0.2	-0.1	-
CMBS	7.7	4.2	3.5	0.6	-1.1	1.7	-0.0	0.2	0.1	-
CMO	5.3	0.0	5.3	-1.2	-7.7	7.1	-0.4	0.4	-0.0	-
COMMINGLED FUND	17.0	0.0	17.0	1.4	-	-	0.0	0.2	0.2	-
CONVERTIBLE	0.0	0.0	0.0	-15.6	-	-	0.0	-0.0	-0.0	-
CORPORATE	27.0	17.9	9.2	1.3	-1.5	2.8	-0.2	0.8	0.6	-
EURO	1.3	0.0	1.3	-4.6	-	-	0.0	-0.1	-0.1	-
FOREIGN	4.5	0.0	4.5	-6.4	-	-	0.0	-0.3	-0.3	-
FUTURES	0.0	0.0	0.0	0.0	-	-	0.0	0.0	0.0	-
INDUSTRIALS	0.1	0.0	0.1	9.6	-	-	0.0	-0.0	0.0	-
MISCELLANEOUS	0.6	0.0	0.6	-10.3	-	-	0.0	-0.1	-0.1	-
MORTGAGE PASS-THROUGH	24.8	39.2	-14.3	3.3	2.4	0.8	-0.3	0.2	-0.1	-
MUNICIPAL	0.0	0.0	0.0	0.0	-	-	0.0	0.0	0.0	-
OPTIONS	-0.1	0.0	-0.1	120.0	-	-	0.0	-0.1	-0.1	-
PREFERRED STOCK	0.0	0.1	-0.0	-15.1	-0.8	-14.4	0.0	-0.0	-0.0	-
PRIVATE PLACEMENT	1.7	0.0	1.7	16.1	-	-	0.0	0.3	0.3	-
SWAPS	-0.9	0.0	-0.9	-119.8	-	-	0.0	1.4	1.4	-
UNCLASSIFIED	0.0	0.0	0.0	1.0	-	-	0.0	-0.0	0.0	-
US TREASURY	2.8	25.1	-22.2	-0.1	-1.4	1.2	0.4	0.1	0.4	-
YANKEE	2.7	3.6	-0.9	1.8	-1.2	3.0	0.0	0.1	0.1	-
TOTAL	100.0	100.0	0.0	1.3	0.1	1.2	-0.3	2.8	2.4	-1.2

**State of Oregon Retirement Plan**  
**Fixed Income Profile - Composite, Composite Members and Benchmarks**  
**As of March 31, 2009**

		AllianceBern	BlackRock	KKR Partnership	Pyramis	Wellington Mgmt US Fixed
<b>Summary Statistics</b>	Total Portfolio Size (\$MM)	\$1,909.46	\$2,016.91	\$1,991.26	\$1,831.14	\$1,876.11
	% Cash - Total	2.76%	(6.17%)	23.18%	(4.96%)	0.33%
	Average Quality	AA3	AA2	B1	AA2	A2
	Num of Fixed Income Holdings	444	703	32	1256	563
	Average Coupon	5.70%	4.92%	7.93%	5.03%	6.01%
	Current Yield	6.55%	5.61%	13.27%	746.58%	7.03%
	Yield to Worst	7.93%	8.63%	18.73%	7.80%	8.81%
	Opt. Adj. Duration	4.08	3.39	2.02	3.51	4.59
	Opt. Adj. Convexity	0.05	(0.28)	0.06	(0.21)	0.30
	Option Adjusted Spread	6.13%	5.82%	16.09%	8.04%	6.39%
	Yield To Maturity	8.52%	7.66%	17.98%	7.64%	8.35%
<b>Sector Breakdown - % Market Value (Fixed)</b>	Treasury/Agency	4 7.71%	9 11.27%	--- ---	7 9.90%	3 1.56%
	Corporate	276 43.50%	181 25.99%	18 89.75%	225 21.39%	324 30.14%
	Mortgage - Related	72 33.04%	433 45.82%	--- ---	638 31.42%	33 45.01%
	Asset - Backed	15 2.05%	10 4.58%	--- ---	44 1.49%	15 2.25%
	Muni	--- ---	--- ---	--- ---	--- ---	1 0.11%
	Preferred	3 0.01%	--- ---	--- ---	9 0.04%	--- ---
	Other	51 9.55%	27 4.98%	6 8.69%	302 35.68%	74 8.24%
	Non US	10 4.14%	19 7.37%	2 1.56%	28 0.08%	69 12.69%
<b>Quality Breakdown - % Market Value (Fixed, Conv.,Cash)</b>	US Treasuries	4 7.10%	4 4.08%	--- ---	6 12.63%	3 1.50%
	Agency	26 18.37%	376 33.36%	--- ---	468 24.82%	10 4.24%
	Aaa	50 16.50%	42 20.49%	--- ---	79 6.72%	52 9.31%
	Aa1-Aa3	17 4.83%	26 15.58%	--- ---	59 3.15%	26 5.43%
	A1-A3	59 12.03%	29 6.82%	2 0.82%	100 6.99%	64 10.66%
	Baa1-Baa3	96 17.14%	37 5.35%	--- ---	207 16.38%	125 18.40%
	Ba1-Ba3	67 8.43%	56 5.53%	1 0.32%	69 2.20%	99 4.97%
	B1-B3	45 2.37%	38 2.40%	11 9.45%	41 0.35%	70 1.38%
	Caa1-Caa3	25 1.40%	19 1.92%	4 0.96%	13 0.07%	20 0.47%
	Ca	8 0.11%	3 0.10%	--- ---	8 0.23%	4 0.12%
	C	5 0.05%	1 0.00%	1 0.03%	9 0.01%	1 0.02%
	Other	--- ---	--- ---	--- ---	--- ---	--- ---
Not Rated	42 11.68%	72 4.38%	13 88.42%	197 26.47%	89 43.50%	
<b>Maturity Breakdown - % Market Value (Fixed, Conv.,Cash)</b>	Less Than 1 Year	12 3.09%	8 2.69%	--- ---	13 1.13%	9 1.54%
	1 - 3 Years	43 7.68%	26 10.90%	1 0.43%	49 5.75%	48 8.36%
	3 - 5 Years	93 15.56%	53 13.86%	7 1.93%	84 11.85%	100 10.51%
	5 - 7 Years	59 4.60%	42 4.04%	10 8.87%	40 2.44%	75 4.42%
	7 - 10 Years	68 14.98%	95 16.86%	2 1.07%	143 16.22%	128 14.51%
	10 - 15 Years	11 1.37%	41 4.24%	--- ---	36 1.60%	27 1.69%
	15 - 20 Years	11 1.57%	32 4.18%	--- ---	98 2.38%	20 1.49%
	20 Yrs And Above	126 43.87%	375 48.90%	1 0.30%	769 39.06%	102 17.23%
Not Rated/Cash	21 7.28%	31 -5.68%	11 87.39%	24 19.58%	54 40.26%	

**State of Oregon Retirement Plan**  
**Fixed Income Profile - Composite, Composite Members and Benchmarks**  
**As of March 31, 2009**

		Western Asset	Fixed Income Composite	Barclays Capital Aggregate Bond Index		
<b>Summary Statistics</b>	Total Portfolio Size (\$MM)	\$1,631.73	\$11,256.61	\$11,349.69		
	% Cash - Total	(14.53%)	0.60%	0.00%		
	Average Quality	A1	AA3	AAA		
	Num of Fixed Income Holdings	587	3295	4836		
	Average Coupon	5.47%	5.47%	5.10%		
	Current Yield	7.18%	116.17%	5.00%		
	Yield to Worst	12.18%	9.40%	3.69%		
	Opt. Adj. Duration	3.18	3.64	3.58		
	Opt. Adj. Convexity	(0.45)	(0.14)	0.08		
	Option Adjusted Spread	8.91%	7.23%	1.91%		
	Yield To Maturity	11.97%	9.03%	3.71%		
<b>Sector Breakdown - % Market Value (Fixed)</b>	Treasury/Agency	11 1.77%	32 5.57%	921 35.92%		
	Corporate	194 23.49%	1031 37.53%	3505 21.72%		
	Mortgage - Related	236 46.88%	1388 35.14%	19 41.57%		
	Asset - Backed	49 3.46%	133 2.46%	352 0.55%		
	Muni	--- ---	1 0.02%	--- ---		
	Preferred	4 0.12%	15 0.03%	--- ---		
	Other	84 24.25%	512 14.67%	39 0.24%		
	Non US	1 0.03%	124 4.58%	--- ---		
<b>Quality Breakdown - % Market Value (Fixed, Conv.,Cash)</b>	US Treasuries	12 5.39%	24 4.79%	146 26.60%		
	Agency	165 34.37%	1026 18.64%	762 50.60%		
	Aaa	42 5.89%	259 10.07%	447 3.55%		
	Aa1-Aa3	21 3.57%	138 5.62%	370 3.20%		
	A1-A3	41 4.89%	270 7.03%	1289 8.01%		
	Baa1-Baa3	115 17.83%	524 12.06%	1689 7.08%		
	Ba1-Ba3	35 5.08%	280 4.47%	60 0.52%		
	B1-B3	37 5.66%	200 3.71%	1 0.00%		
	Caa1-Caa3	36 5.38%	105 1.67%	--- ---		
	Ca	16 0.76%	36 0.20%	--- ---		
	C	15 0.34%	31 0.07%	--- ---		
	Other	--- ---	--- ---	--- ---		
	Not Rated	52 10.84%	402 31.69%	72 0.44%		
<b>Maturity Breakdown - % Market Value (Fixed, Conv.,Cash)</b>	Less Than 1 Year	9 3.05%	48 1.91%	1 0.01%		
	1 - 3 Years	36 4.42%	185 6.32%	946 18.13%		
	3 - 5 Years	38 5.02%	336 9.81%	1051 13.50%		
	5 - 7 Years	38 2.48%	232 4.63%	533 5.78%		
	7 - 10 Years	63 9.87%	443 12.12%	927 10.25%		
	10 - 15 Years	29 4.41%	130 2.19%	185 2.66%		
	15 - 20 Years	61 7.54%	210 2.75%	219 2.14%		
	20 Yrs And Above	294 64.07%	1607 34.64%	965 5.94%		
	Not Rated/Cash	19 -0.87%	104 25.62%	9 41.59%		

TAB 11 – ASSET ALLOCATIONS &  
NAV UPDATES

## Asset Allocations at April 30, 2009

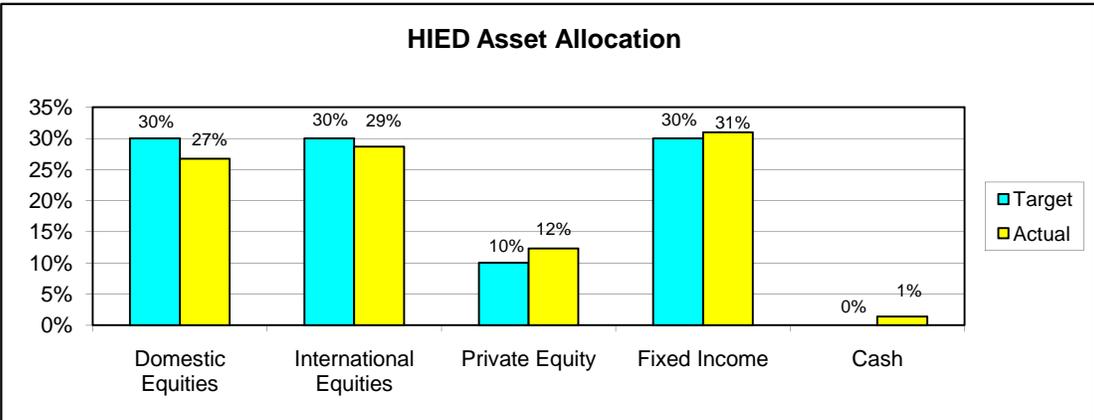
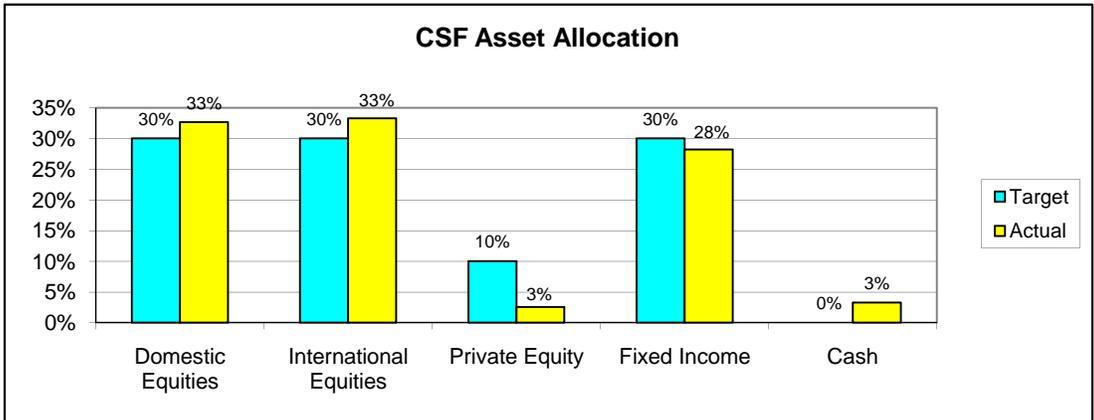
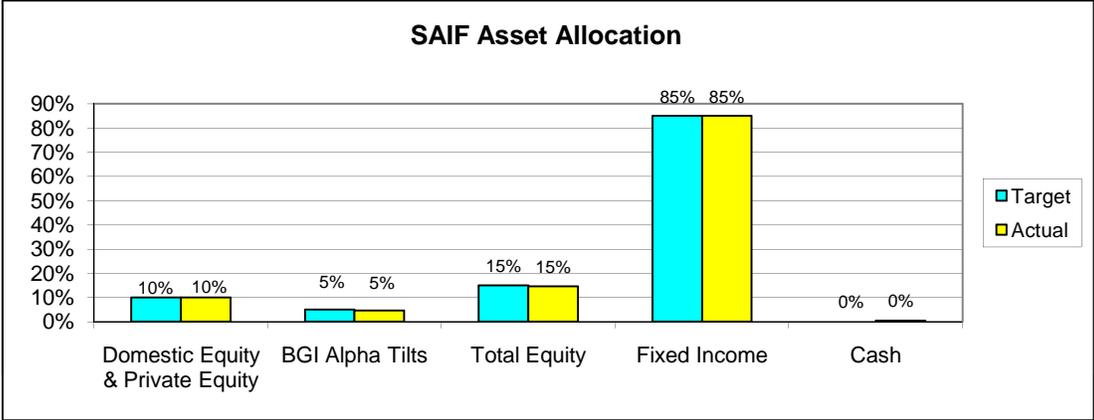
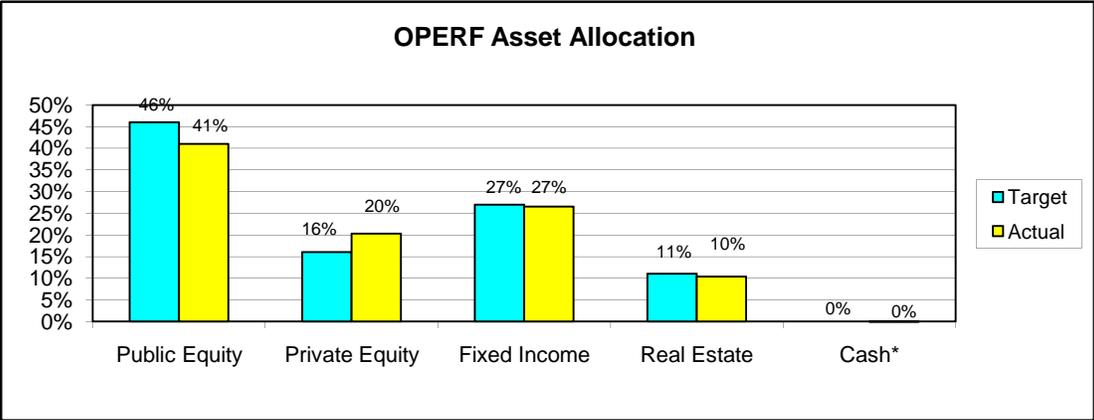
OPERF	Regular Account							Variable Fund	Total Fund
	Policy	Target	\$ Thousands	Pre-Overlay	Overlay	Net Position	Actual	\$ Thousands	\$ Thousands
Public Equity	41-51%	46%	15,620,551	36.2%	2,074,766	17,695,317	41.0%	747,347	18,442,664
Private Equity	12-20%	16%	8,760,181	20.3%		8,760,181	20.3%		8,760,181
<b>Total Equity</b>	<b>57-67%</b>	<b>62%</b>	<b>24,380,732</b>	<b>56.5%</b>	<b>2,074,766</b>	<b>26,455,498</b>	<b>61.3%</b>		<b>27,202,845</b>
Opportunity Portfolio			758,316	1.8%		758,316	1.8%		758,316
<b>Fixed Income</b>	<b>22-32%</b>	<b>27%</b>	<b>11,893,434</b>	<b>27.6%</b>	<b>(437,290)</b>	<b>11,456,144</b>	<b>26.5%</b>		<b>11,456,144</b>
<b>Real Estate</b>	<b>8-14%</b>	<b>11%</b>	<b>4,490,348</b>	<b>10.4%</b>	<b>-</b>	<b>4,490,348</b>	<b>10.4%</b>		<b>4,490,348</b>
<b>Cash*</b>	<b>0-3%</b>	<b>0%</b>	<b>1,639,626</b>	<b>3.8%</b>	<b>(1,637,476)</b>	<b>2,150</b>	<b>0.0%</b>	43,951	<b>46,101</b>
<b>TOTAL OPERF</b>		<b>100%</b>	<b>\$ 43,162,456</b>	<b>100.0%</b>	<b>\$ -</b>	<b>\$ 43,162,456</b>	<b>100.0%</b>	<b>\$ 791,298</b>	<b>\$ 43,953,754</b>

\*Includes cash held in the policy implementation overlay program.

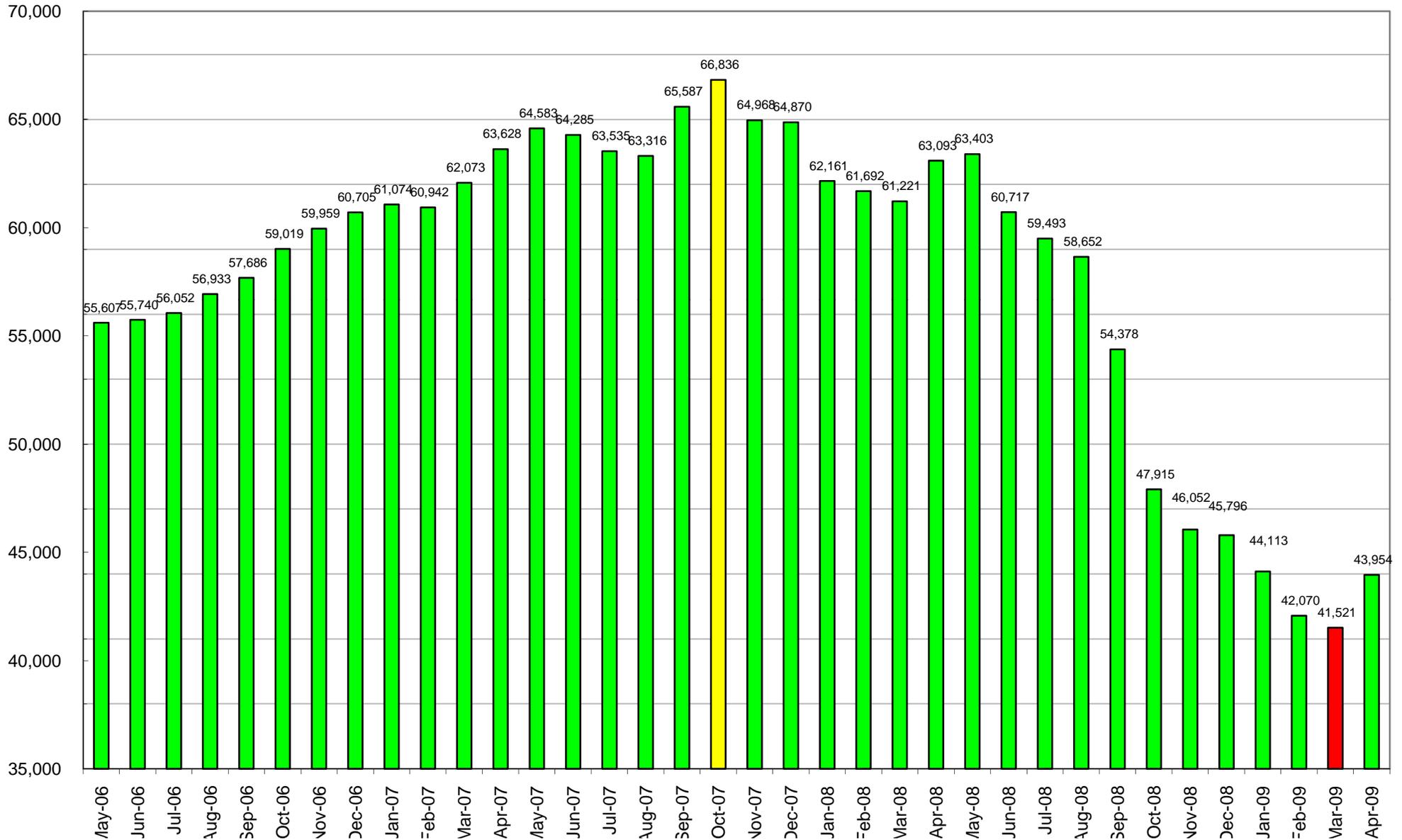
SAIF	Policy	Target	\$ Thousands	Actual
Domestic Equity & Private Equity	7-13%	10.0%	\$342,441	9.9%
BGI Alpha Tilts	3-7%	5.0%	160,555	4.7%
<b>Total Equity</b>	<b>10-20%</b>	<b>15.0%</b>	<b>502,996</b>	<b>14.6%</b>
<b>Fixed Income</b>	<b>80-90%</b>	<b>85.0%</b>	<b>2,927,939</b>	<b>85.0%</b>
<b>Cash</b>	<b>0-5%</b>	<b>0%</b>	<b>15,362</b>	<b>0.4%</b>
<b>TOTAL SAIF</b>		<b>100%</b>	<b>\$3,446,297</b>	<b>100.0%</b>

CSF	Policy	Target	\$ Thousands	Actual
Domestic Equities	25-35%	30%	\$254,750	32.7%
International Equities	25-35%	30%	259,834	33.3%
Private Equity	0-12%	10%	19,875	2.5%
<b>Total Equity</b>	<b>65-75%</b>	<b>70%</b>	<b>534,458</b>	<b>68.5%</b>
<b>Fixed Income</b>	<b>25-35%</b>	<b>30%</b>	<b>220,139</b>	<b>28.2%</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>25,393</b>	<b>3.3%</b>
<b>TOTAL CSF</b>			<b>\$779,990</b>	<b>100.0%</b>

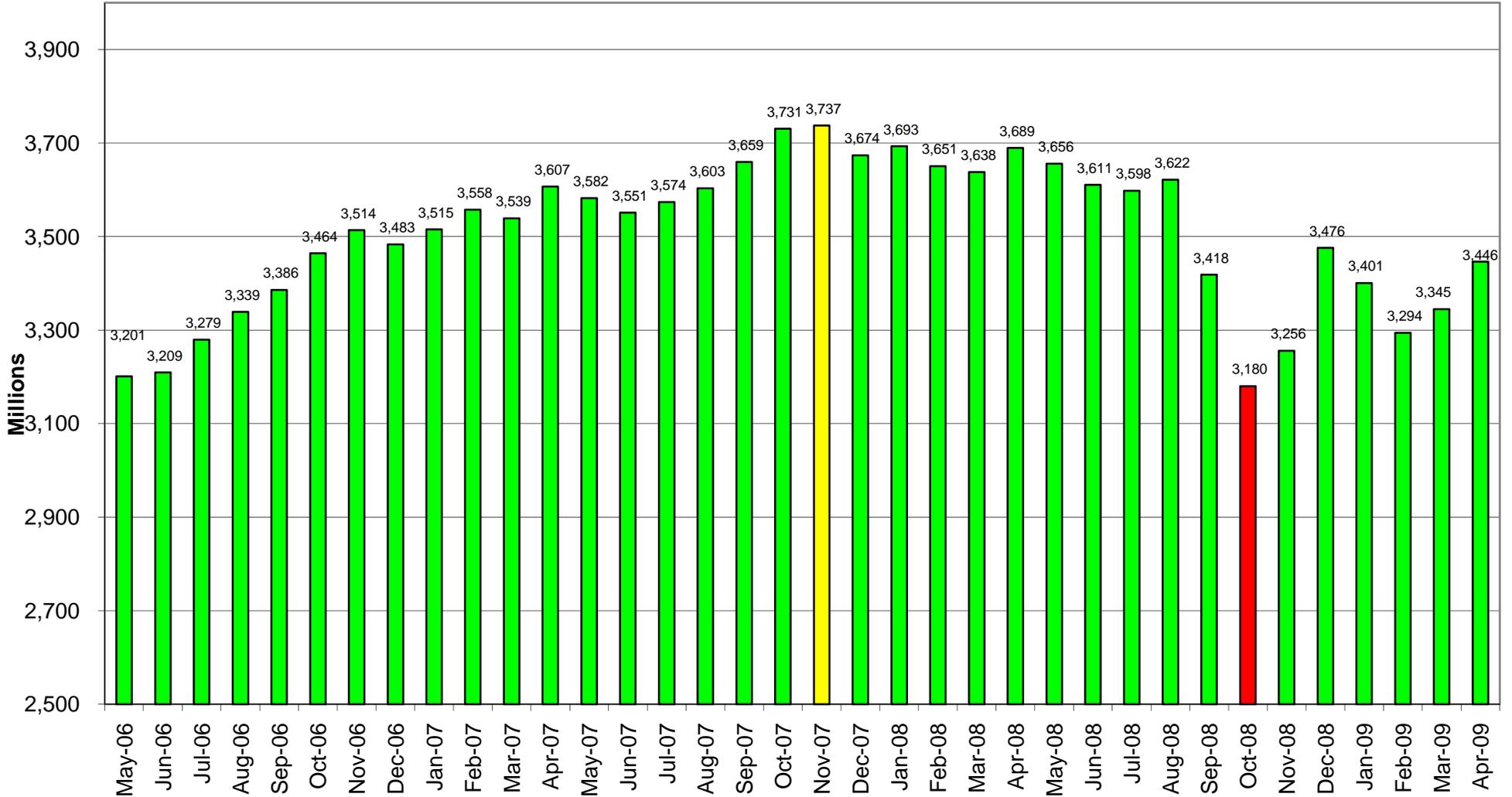
HIED	Policy	Target	\$ Thousands	Actual
Domestic Equities	25-35%	30%	\$13,851	26.7%
International Equities	25-35%	30%	14,852	28.6%
Private Equity	0-10%	10%	6,397	12.3%
<b>Total Equity</b>	<b>65-75%</b>	<b>70%</b>	<b>35,099</b>	<b>67.7%</b>
<b>Fixed Income</b>	<b>25-35%</b>	<b>30%</b>	<b>16,046</b>	<b>30.9%</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>711</b>	<b>1.4%</b>
<b>TOTAL HIED</b>			<b>\$51,856</b>	<b>100.0%</b>



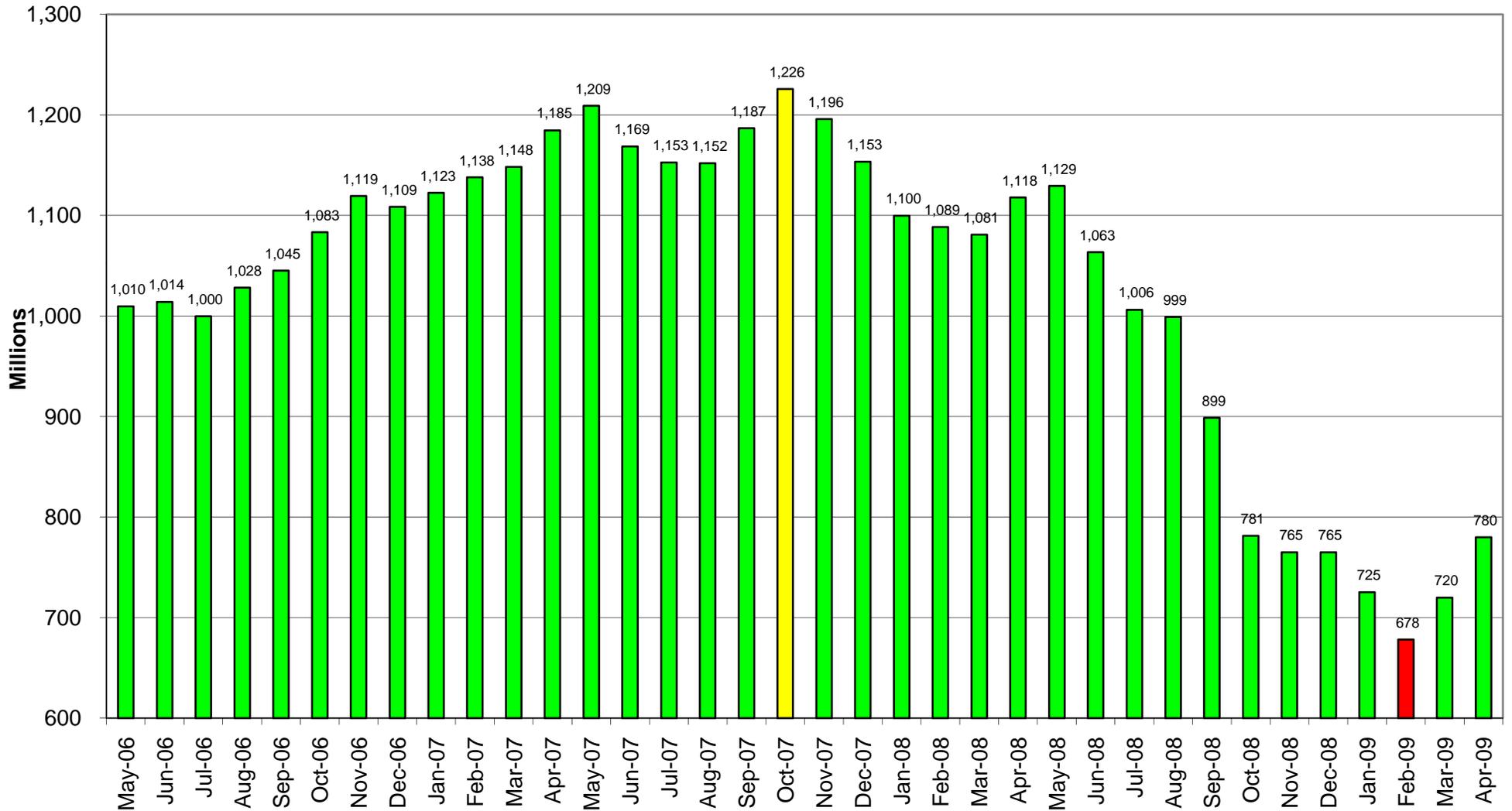
**OPERF NAV**  
**Three years ending June 2009**  
**(\$ in Millions)**



**SAIF NAV**  
**Three years ending April 2009**  
**(\$ in Millions)**



**CSF NAV**  
**Three years ending April 2009**  
**(\$ in Millions)**



TAB 12 – CALENDAR:  
FUTURE AGENDA ITEMS

## **2009 OIC Forward Agenda Topics**

- July 29:** OPERF Private Equity Annual Plan  
OPERF Real Estate Annual Plan  
OSGP Consultant  
Internal Equity Management  
Lone Star VII—Real Estate  
Proxy Voting Annual Review  
Audits Update
- September 30:** CEM Annual Review  
CSF Annual Review
- October 28:** Opportunity Portfolio Annual Review
- December 2:** HIED Annual Review  
SAIF Asset/Liability Recommendations  
OPERF 3<sup>rd</sup> Quarter Performance Review