Oregon Investment Council

August 10, 2016
9:00 AM

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

Katy Durant
Chair

John Skjervem
Chief Investment Officer

Ted Wheeler
State Treasurer

OREGON INVESTMENT COUNCIL

Agenda

August 10, 2016
9:00 AM

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

Time	A. Action Items	Presenter	Tab
9:00-9:05	**1. Review & Approval of Meeting Minutes** June 1, 2016	**Katy Durant** *OIC Chair*	**1**
	Committee Reports	**John Skjervem** *Chief Investment Officer*	
9:05-9:20	**2. OPERF Consultant Recommendation** *Alternatives and Opportunity Portfolios*	**John Hershey** *Director of Alternatives* **Ben Mahon** *Senior Investment Officer, Alternatives*	**2**
9:20-9:40	**3. Fixed Income Policy Recommendation** *Oregon Short Term Fund*	**Tom Lofton** *Investment Officer, Fixed Income*	**3**
9:40-10:15	**4. Policy Updates** *OPERF and other OST-managed Accounts*	**John Skjervem** **Kim Olson** *Policy Analyst*	**4**

10:15-10:30 ---------- **BREAK** ----------

Katy Durant	Rukaiyah Adams	Rex Kim	John Russell	Ted Wheeler	Steve Rodeman
Chair	Vice Chair	Member	Member	State Treasurer	PERS Director

B. Information Items

10:30-11:15	**5. Corporate Governance Update** *Annual Report*	**Michael Viteri** *Senior Investment Officer, Public Equity* **Jennifer Peet** *Director of Legal Affairs* **Aaron Bertinetti** *Vice President of Research and Engagement, Glass Lewis*	**5**
11:15-11:20	**6. Asset Allocations & NAV Updates** a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. Southern Oregon University Endowment Fund	**John Skjervem**	**6**
	7. Forward Calendar		**7**
	8. Other Items	**Council** **Staff** **Consultants**	

C. Public Comment Invited

15 Minutes

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OREGON INVESTMENT COUNCIL
JUNE 1, 2016
MEETING SUMMARY

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Members Present:	Rukaiyah Adams, Katy Durant, Rex Kim, Steve Rodeman, John Russell, Ted Wheeler
Staff Present:	Darren Bond, Deena Bothello, Karl Cheng, May Fanning, Karl Hausafus, Kathie Garcia, Debra Day, Michael Langdon, Carmen Leiva, Perrin Lim, Paola Nealon, Jen Plett, Dave Randall, Angela Schaffers, Priyanka Shukla, James Sinks, John Skjervem, Michael Viteri, Lisa Massena, Garrett Cudahey, Andy Hayes, Tony Breault, Amanda Kingsbury, Mike Mueller, Tom Lofton, Jen Peet, Sam Green, Austin Carmichael
Consultants Present:	David Fann and Jeffrey Goldberger (TorreyCove); Allan Emkin, Christy Fields and John Linder (PCA); Janet Becker-Wold, James Callahan and Uvan Tseng (Callan)
Legal Counsel Present:	Dee Carlson, Oregon Department of Justice

The June 1st, 2016 OIC meeting was called to order at 8:57 am by Katy Durant, Chair.

I. 8:57 am Review and Approval of Minutes

MOTION: Mr. Russell moved approval of the April 20, 2016 regular meeting minutes. Mr. Kim seconded the motion, which then passed by a 5/0 vote.

COMMITTEE REPORTS

John Skjervem, OST Chief Investment Officer gave an update on the following committee actions taken since the April 20, 2016 OIC meeting:

Private Equity Committee:
None

Alternatives Committee:

April 22, 2016	Warwick Partners III, LP	$150 million

Opportunity Portfolio Committee:

May 17, 2016	Owl Rock Capital Corporation	$150 million

Real Estate Committee:
None

II. 9:00 am Permira VI, L.P. – *OPERF Private Equity Portfolio*

For the OPERF private equity portfolio, and subject to satisfactory negotiation of terms and conditions, staff and TorreyCove recommended a $250 million commitment to Permira VI, L.P. Sam Green, Investment Officer introduced Tom Lister, Co-Managing Partner of Permira who presented his firm's history, performance and investment strategy in support of the combined staff and TorreyCove recommendation.

Permira Holdings Limited ("Permira" or the "Firm") is sponsoring Permira VI, L.P. ("Fund VI") to continue the successful, sector-focused, growth-oriented buyout strategy the Firm employed in its first five funds. Permira's history began in 1985, when Schroder Ventures began forming a series of country-specific funds in Europe. In 1996, Schroder Ventures merged the existing U.K., French, German, and Italian teams to create Schroder Ventures Europe, a pan-European investment platform, which raised its first pan-European fund in 1997. In 2001, the affiliation with Schroders was severed, and the resulting independent, pan-European private equity firm was rebranded as Permira.

Since gaining independence, Permira has steadily expanded its geographic coverage and reach, first within Europe, then opening two offices in the United States and four in Asia. While a majority of Fund VI's investments are expected to be European businesses, the Firm is gradually migrating toward a global investment mandate. Permira is targeting €6.5 billion of commitments for Fund VI and has set a hard-cap of €7.25 billion.

Staff believes Fund VI represents an attractive opportunity to invest with a high-quality global buyout partner; moreover, a commitment to Fund VI will enable a timely increase to the OPERF private equity portfolio's European exposure.

MOTION: Mr. Russell moved approval of the staff recommendation. Ms. Durant seconded the motion which then passed by a 5/0 vote.

III. 9:44 am OIC Real Estate Consultant Recommendation

Tony Breault, Senior Investment Officer addressed the OIC's real estate consultant contract which expires on June 30, 2016. Mr. Breault reported that staff recommends extending incumbent PCA's current contract, subject to existing fees and terms, for an additional two-year period ending June 30, 2018.

MOTION: Mr. Russell moved approval of the staff recommendation. Ms. Adams seconded the motion which then passed by a 5/0 vote.

IV. 9:51 am Oregon Savings Growth Plan – *Annual Review and Update*

Karl Cheng, Investment Officer provided an annual update on the Oregon Savings Growth Plan, and submitted the following recommendations for OIC approval:

1. Extend the current consulting contract with SageView Advisory Group for an additional, one-year term.

2. Relax current limitations on the Self-Directed Brokerage Account option as follows:
   - Reduce the required minimum OSGP balance to $5,000; and
   - Raise the maximum SDBA allocation to 90%.

MOTION: Treasurer Wheeler moved approval of both the staff recommendations. Mr. Kim seconded the motion which then passed by a 5/0 vote.

The final element of this agenda item was a presentation from Roger Smith, OSGP Manager, and Kathy Gannon, OSGP Program Coordinator who provided background on the Oregon Savings Growth Plan, and talked about its purpose, participants and other relevant information.

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V. **10:15 am Oregon Intermediate Term Pool** - *Annual Review and Update*

Tom Lofton, Investment Officer, presented the annual review and update on the Oregon Intermediate Term Pool (OITP). As described by Mr. Lofton, OITP launched in 2010, and is used by qualified state agencies as an investment vehicle for long-horizon, surplus funds. OITP has a total return mandate with fluctuating NAV per share, and is expected to generate higher returns than the Oregon Short Term Fund (OSTF).

OITP AUM increased 28% year-over-year as of April 30, 2016 to $299.5 million, and as of April 30, 2016, OITP had 9 state agency fund participants.

VI. **10:47 am OST Compliance Program –** *Initial Report*

Priyanka Shukla, Senior Investment Compliance Officer, described how OST's utilization of Aladdin has helped improve the compliance group's capabilities and effectiveness. Karl Hausafus, General Counsel & Chief Compliance Officer, then discussed the group's current priorities, staffing levels and future goals.

VII. **11:01 am OPERF Performance & Risk Update –** *Q1 2016 Report*

Jim Callan and Janet Becker-Wold with Callan presented an OPERF performance and risk report for the period ending March 31, 2016. Mr. Cheng followed by engaging the Council in a discussion of OPERF's current risk profile and received feedback regarding additional presentation goals and objectives.

VIII. **11:37 am Asset Allocation & NAV Updates**

Mr. Skjervem reviewed asset allocations and NAVs across OST-managed accounts for the period ended April 30, 2016.

IX. **11:37 am Calendar – Future Agenda Items**

Mr. Skjervem presented and briefly discussed the OIC's forward meeting calendar.

X. **11:38 am Other Items**

Investment Officers Garret Cudahey and Angela Schaffers guided the Council in a brief discussion of negative interest rates and the associated implications for global bond markets.

12:00 pm Public Comments

Sharon Maxwell, General Contractor of Maxwell Institute commented on the importance of human capital investments in the local community to help promote economic growth, social equity, diversity and inclusion.

Michael Pineschi (Unite Here), Dr. Sylvester Rogers (Mt. Sinai Missionary Church in Las Vegas) and Larry Holt (Palms Casino) commented on the recently proposed sale of the Palms Casino, and asked OIC members to urge TPG Capital and Leonard Green & Partners to make job preservation and retention a transaction priority.

Ms. Durant adjourned the meeting at 12:16 pm.

Respectfully submitted,

May Fanning

May Fanning
Executive Support Specialist

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OPERF Consultant Recommendation: Alternatives and Opportunity Portfolios

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Purpose
Address the OIC's Alternatives and Opportunity Portfolios consultant contract.

Background
The Alternatives and Opportunity (Alts/Opp) Portfolios are currently supported by consulting services provided primarily by TorreyCove (TC), with occasional due diligence performed by Callan (e.g., diversifying strategies). The Alts/Opp relationship with TC was established via an amendment (#5) to the OIC's contract with TC for the Private Equity Portfolio in January, 2013. Prior to the amendment, there was no portfolio-wide consultant contract for the Alts/Opp Portfolios.

The Private Equity team is currently engaged in an RFP process for a consultant, as the current agreement with TC, which was originally executed in January, 2008, is nearing the end of its most recent extension. As such, the services TC provides relative to due diligence and monitoring services, for not only the Alternatives Portfolio, but also the Opportunity Portfolio, need to be addressed.

Discussion
In lieu of a new RFP solicitation, Staff recommends separately contracting with TC for the Alts/Opp Portfolios, before year-end, to continue to provide services to the OIC and OST Staff, for the following reasons:

1. OST Staff has formed a strong and efficient working relationship with TC Staff, who understand the goals and objectives of the Portfolios. Given the nascent position and ongoing implementation efforts, Staff believes it prudent to defer the solicitation process until a "steady state" is achieved.
2. Formal quarterly reporting/monitoring of the Alts/Opp Portfolios only has a two-year history with TC, as the amendment was signed just over three years ago. The reporting has only recently reached a stable threshold, which would have to be recreated at Staff time and expense, with any new provider.
3. While the TC relationship is a long-tenured one for the OPERF Private Equity Portfolio, it is just three years old for the Alts/Opp Portfolios, affording time before reaching the OIC's self-imposed seven-year contract cycle.
4. A separate contract with TC covering just the Alts/Opp Portfolios allows the OIC to decouple the services from the Private Equity Portfolio, granting future flexibility as specific needs dictate.
5. Given the time and attention commitments an RFP solicitation requires, and the significant investment pipeline identified for the next 12 months, Staff would prefer a longer timeframe with which to run the process.

Recommendation
Staff recommends working with TorreyCove and legal counsel to craft a separate contractual relationship, on behalf of the OIC, under terms and conditions similar to the existing amendment, for a two-year period ending December 31, 2018, with one optional two-year extension.

Purpose

Staff recommends the Council approve revisions to the Oregon Short Term Fund ("OSTF") guidelines as detailed in Appendix A to allow the OSTF to invest up to $250 million in the Oregon Local Government Intermediate Fund ("OLGIF").

Background

Enabled by HB2140 and pursuant to ORS Chapter 294, OLGIF is a *de novo* commingled fund established for Oregon local governments and offered by the Oregon State Treasury ("OST"). OLGIF provides qualified local government participants with a vehicle to invest assets over an intermediate time horizon.

At its July 12th meeting, the Oregon Short Term Fund Board ("OSTFB") discussed and approved staff recommended changes to the OSTF guidelines allowing the OSTF to invest up to $250 million in the OLGIF.

Analysis

Staff believes an OSTF investment in OLGIF will provide a diversified return opportunity for OSTF with limited additional risk. Staff's expectation is that OLGIF will be managed closely to its benchmark which is the Barclays 1-5 Year Government/Credit Index. Therefore OLGIF's characteristics and risk profile should be similar to its benchmark.

OLGIF Benchmark Characteristics*

Benchmark	Number of Issues	Average Rating	Duration (Years)	Spread (Basis Points)	Coupon (%)	Yield (%)	Years to Maturity
Barclay's 1-5 Year Gov/Credit	3,004	AA1/AA2	2.73	34	2.24	1.10	2.87

*As of June 28, 2016.

OLGIF is expected to provide total return opportunities for OSTF's investment portfolio while providing significant underlying diversification.

Portfolio / Benchmark	Total Return* (%)				
	3 Months	1 year	3 Years	5 Years	10 Years
Barclay's 1-5 Year Gov/Credit	1.63	1.49	1.42	1.58	3.43
OSTF	0.42	0.76	0.67	0.71	1.70
Difference	1.21	0.73	0.75	0.87	1.73

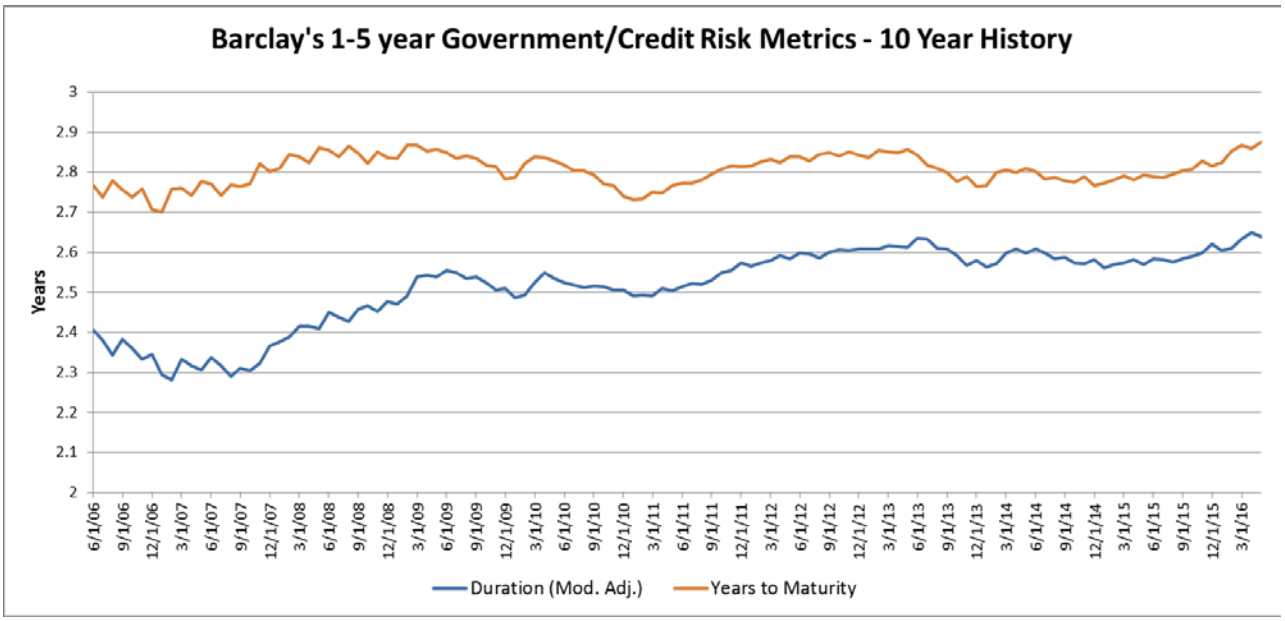
*As of 5/31/2016

Barclay's 1-5 Year Government / Credit Index Exposures*

Investment Type	Market Value (%)	Weighted Average Life	Yield (%)	Spread (Basis Points)	Duration	Duration Contribution
Treasuries	**59.3**	**2.8**	**0.7**	**0**	**2.7**	**1.6**
Government Related	**13.0**	**2.4**	**1.0**	**31**	**2.3**	**0.3**
Agency	8.1	2.2	0.9	23	2.1	0.2
Local Authority	0.6	2.8	1.3	55	2.7	0.0
Sovereign	0.8	3.0	2.1	130	2.8	0.0
Supranational	3.6	2.8	1.0	23	2.7	0.1
Corporates	**27.5**	**2.9**	**1.8**	**107**	**2.7**	**0.7**
Industrial	14.8	2.9	1.8	101	2.7	0.4
Utility	1.4	3.0	1.7	98	2.5	0.0
Financial Institutions	11.3	2.9	1.9	116	2.7	0.3
Cash Securities	**0.2**	**0.0**	**0.5**	**0**	**0.0**	**0.0**
TOTAL	**100.0**	**2.8**	**1.1**	**34**	**2.7**	**2.7**

*As of June 28, 2016.

Over the prior 10 years, the Barclay's 1-5 Year Government/Credit Index has maintained an average term to maturity of less than 3 years while consistently maintaining an AA1/AA2 average rating.



OSTF is expected to incur a minimal increase in risk for an OLGIF investment of up to $250 million. As of June 24, 2016, a $250 million investment in OLGIF would comprise approximately 1.7% of OSTF net asset value.

Contribution to Risk by Factor

	Risk Contribution (BPS)		
Factor	**OSTF**	**With OLGIF**	**Difference**
Interest Rates	12	14	3
IG Corporate Spreads	5	5	-1
IG Asset-Backed Securities Spreads	0	0	0
Money Market Spreads	0	0	0
Govt Related Spreads	0	0	0
Municipal Spreads	0	0	0
USD EM Spreads	0	0	0
Total	**16**	**18**	**2**

Numbers may not foot due to rounding.
Source: Aladdin Portfolio Risk Analytics

Contribution to Risk by Sector

	OSTF			With OLGIF			Difference	
Sector	**Stand Alone Risk (BPS)**	**Sector Weight**	**Risk Contribution (BPS)**	**Stand Alone Risk (BPS)**	**Sector Weight**	**Risk Contribution (BPS)**	**Sector Weight**	**Risk Contribution (BPS)**
Treasuries	16	19.6%	2	23	20.3%	4	0.7%	2
Government Related	12	14.6%	1	13	14.6%	2	0.0%	1
Corporates	23	51.6%	11	24	51.2%	11	-0.4%	0
Securitized	**18**	**14.0%**	**2**	**18**	**13.7%**	**2**	**-0.3%**	**0**
Municipals	1	0.4%	0	1	0.4%	0	0.0%	0
Cash Securities	2	-0.1%	0	2	-0.1%	0	0.0%	0
Total	**16**	**100.0%**	**16**	**18**	**100.0%**	**18**	**0.0%**	**2**

Numbers may not foot due to rounding.
Source: Aladdin Portfolio Risk Analytics

Historical and potential stress scenarios point to minimal effects on OSTF performance.

Scenario Profit & Loss Expectations

	2003 Summer Treasury Sell-off		2007-08 Credit Spread Widening		2008 Equity Crash		2011 US Credit Rating Downgrade		2013 Fed Tapering News	
Sector	**OSTF**	**with OLGIF**	**OSTF**	**with OLGIF**	**OSTF**	**with OLGIF**	**OSTF**	**with OLGIF**	**OSTF**	**with OLGIF**
Treasuries	-0.04%	-0.07%	0.05%	0.08%	0.05%	0.07%	0.01%	0.03%	-0.01%	-0.02%
Government Related	-0.03%	-0.03%	-0.04%	-0.03%	-0.06%	-0.05%	0.00%	0.00%	-0.01%	-0.01%
Corporates	-0.09%	-0.10%	-1.01%	-1.02%	-0.30%	-0.31%	-0.19%	-0.19%	-0.13%	-0.14%
Securitized	-0.06%	-0.06%	-0.08%	-0.08%	-0.02%	-0.02%	0.01%	0.01%	-0.01%	-0.01%
Municipals	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash Securities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected Effect on NAV	**-0.22%**	**-0.26%**	**-1.08%**	**-1.05%**	**-0.32%**	**-0.32%**	**-0.17%**	**-0.16%**	**-0.15%**	**-0.18%**

Numbers may not foot due to rounding.
Source: Aladdin Portfolio Risk Analytics

Scenario Profit & Loss Expectations

	Stock Market Decline (1% probability)		US Treasury Yield Curve Up (1% Probability)		US Credit Spreads Up (1% Probability)		Deflation		US Treasury Rates Instantly Up 300BPS	
Sector	**OSTF**	**with OLGIF**	**OSTF**	**with OLGIF**	**OSTF**	**with OLGIF**	**OSTF**	**with OLGIF**	**OSTF**	**with OLGIF**
Treasuries	0.00%	0.01%	-0.02%	-0.03%	0.01%	0.02%	0.00%	0.01%	-0.28%	-0.35%
Government Related	0.00%	0.00%	-0.01%	-0.01%	0.01%	0.01%	0.00%	0.00%	-0.12%	-0.13%
Corporates	-0.01%	0.00%	-0.03%	-0.03%	-0.09%	-0.09%	-0.17%	-0.17%	-0.57%	-0.60%
Securitized	0.01%	0.01%	-0.01%	-0.01%	0.01%	0.01%	0.00%	0.00%	-0.16%	-0.15%
Municipals	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash Securities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected Effect on NAV	**0.01%**	**0.01%**	**-0.07%**	**-0.08%**	**-0.06%**	**-0.05%**	**-0.16%**	**-0.15%**	**-1.12%**	**-1.24%**

Numbers may not foot due to rounding.

Source: Aladdin Portfolio Risk Analytics

2003 Summer Treasury Selloff	2007-'08 Credit Crisis	2008 Equity Crash	2011 U.S. Credit Rating Downgrade	2013 Fed Tapering News
U.S. 10-year yields increased 145 bps or 40% over two months. The rise in part reflected upward revisions in bond investors' expectations about global growth prospects and a change in assessment of the likelihood of unconventional policy measures by the U.S. Federal Reserve.	June 29, 2007 to July 1, 2008. Credit and liquidity crisis stemming from a severe slowdown in the housing market which caused significant spread widening and increased implied volatility.	Credit & liquidity crisis and equity market crash set off by Lehman Brothers bankruptcy. Significant credit spreads widening caused by massive deleveraging.	The period starts with 50% chance US downgrade indication from S&P Standards and ends with Operational Twist announcement by Fed. Stock market incurred losses while bonds markets saw gains due to flight to safety.	Tapering Talks stirred the market since Congress Testimony by Bernanke with both equity and bond markets sold off. Emerging Market suffered badly due to hot money flight back to US.

Stock Market Decline (1% probability)	U.S. Treasury Yield Curve Up (1% Probability)	U.S. Credit Spreads Up (1% Probability)	Deflation	U.S. Treasury Rates Instantly Up 300BPS
U.S. Equity Market Decline equating to a 1% probability based on the prior 2 years. (9.3% decrease in S&P 500)	U.S. interest rates increase equating to a 1% probability based on the prior 2 years. (50.5bps increase in UST 10 Year Yield)	U.S. credit spreads increase equating to a 1% probability based on the prior 2 years. (29.9% increase in credit spreads)	Oil price is kept unchanged. The 10yr inflation rate drops 200 bps. The 10yr nominal rate drops to historical lows while short-term nominal rates are held constant. Agency mortgage rate spreads tighten.	U.S. Treasury Rates Instantly Up 300BPS.

Portfolio Rules for the Oregon Short Term Fund

I. Scope

These rules apply to the investment of cash from all state and eligible local government participants in the Oregon Short Term Fund ("OSTF"). These rules are established under the authority of, and shall not supersede the requirements established under, ORS Chapter 293.

II. Investment Objectives

The primary objectives of investment activities, in priority order, shall be preservation of principal, liquidity, and yield.

A. **Preservation of Principal**: Capital preservation is the OSTF's foremost objective, and all OSTF investments shall be made in a manner consistent therewith. Credit and interest rate risks will be carefully managed and mitigated (see specific guidelines below).

B. **Liquidity**: The OSTF shall remain sufficiently liquid to meet all state, agency and local government operating requirements as may be reasonably anticipated. The OSTF should consist largely of securities with active secondary or resale markets.

C. **Yield:** The OSTF shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the aforementioned investment risk constraints and liquidity needs.

III. Maturity Distribution of Portfolio

A. 50% of the OSTF portfolio must mature within 93 days.

B. A maximum of 25% of the OSTF portfolio may mature over one year.

C. No investment may mature later than 3 years from its settlement date.

D. For purposes of this policy, maturity date will be calculated by using the following proxies, and if a security contains more than one of the following attributes, the shortest attribute will be used as the maturity date proxy:

1. For securities that have been called by the issuer, the effective call date will be used as the maturity date proxy;

2. For securities with a put option, the date upon which the put option is fully exercisable for a value of at least 100% of the investment's par or face amount will be used as the maturity date proxy;

3. For variable rate securities, the period remaining to the next reset date will be used as the maturity date proxy; and

4. For asset-backed securities, the weighted average life (WAL) will be used as the maturity date proxy.

Appendix A - Portfolio Rules for the Oregon Short Term Fund

IV. Diversification and Portfolio Limitations

A. Eligible Securities:

Issue Type	Maximum Holdings % or $	Minimum Ratings S&P/Moody's/Fitch
U.S. Treasury Obligations (1.)	100%	None
U.S. Agency Securities (1.) Per Issuer	100% 33%	None None
Foreign Government & Instrumentalities (1.) Per Issuer	25% 10%	AA-/Aa3/AA-
Corporate Securities (Total) Corporate Bonds Commercial Paper (2.) Per Issuer	50% 50% 50% 5%	 A-/A3/A- A-1/P-1/F-1
Asset-Backed Securities Per Issuing Trust	15% 5%	AAA/Aaa/AAA A-1+/P-1/F-1+
Negotiable Certificates of Deposit Per Issuer	20% 5%	A-1/P-1/F-1
Bankers' Acceptances Per Issuer	20% 5%	A-1/P-1/F-1
Time Certificates of Deposit (3.) Per Issuer	20% 5%	None
Municipal Debt (Total) Municipal Commercial Paper Short Term Municipal Obligations Per Issuer	25% 25% 25% 10%	AA-/Aa3/AA- A-1/P-1/F-1 SP-1/(V)MIG1/F-1
Repurchase Agreements (4.) Per Counterparty	100% 5%	None
Reverse Repurchase Agreements (5) Per Counterparty	100% 5%	None
Oregon Local Government Intermediate Fund ("OLGIF")	$250 Million	A-/A3/A-

Appendix A - Portfolio Rules for the Oregon Short Term Fund

1. Securities guaranteed by the U.S. Treasury, a U.S. Agency or a Foreign Government or its Instrumentality will be considered a U.S. Treasury, a U.S. Agency or a Foreign Government or its Instrumentality for the purposes of this policy.

2. Commercial Paper (CP) must have top-tier short term ratings by at least two of the nationally recognized statistical rating organizations (NRSROs) at the time of purchase.

3. Permitted Time Certificates of Deposit (TCDs) will be limited to qualified depositories as defined in ORS Chapter 295.005. Maximum TCD exposure per depository must be no more than 5% of the issuing bank's total deposits, or $250,000, whichever is greater. Maximum credit union exposure per depository shall be $250,000.

4. Repurchase agreements must meet the following criteria:
    1. Maximum maturity will be 90 days;
    2. Net capital of counterparties must be greater than $100 million;
    3. Repurchase Agreements must equal no more than 2% of a counterparty's liabilities;
    4. Counterparties must be a Primary Dealer as recognized by the Federal Reserve Bank. The only exception is OST's custodial agent as a non-primary dealer counterparty;
    5. Counterparties must have a signed repurchase agreement;
    6. Collateral must be delivered to the OST's account at its custodian or to an account established for the OST pursuant to the terms of the specific Repurchase Agreement in the name of the Office of the State Treasurer; and
    7. Collateral for repurchase agreements may be U.S. Treasury or U.S. Agency Discount and Coupon securities only. Collateral must have a final maturity of three years or less. The market value of the delivered collateral must be maintained at not less than 102% of the cash invested

5. Reverse Repurchase Agreements must meet the following criteria
    1. Maximum maturity will be 90 days;
    2. Net capital of counterparties must be greater than $100 million;
    3. Reverse Repurchase Agreements must equal no more than 2% of a counterparty's liabilities;
    4. Counterparties must be a Primary Dealer as recognized by the Federal Reserve Bank;
    5. Counterparties must have a signed repurchase agreement; and
    6. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright;
    7. Securities will be reversed on a fully collateralized basis; and
    8. Reverse repurchase investments for interest rate arbitrage shall only be done on a matched book basis.

B. All OSTF portfolio investments must be denominated in U.S. $.

C. Total foreign exposure (government and corporate indebtedness) limited to 25% of OSTF portfolio.

D. Any one individual issuer of securities or support commitments limited to 10% of OSTF portfolio with the exception of the U.S. Treasury (100% maximum) and U.S. government agency securities (33% per issuer).

E. Securities that have been downgraded below the minimum ratings will be sold or held at the Senior Investment Officer's (SIO) or SIO designee's discretion.

Appendix A - Portfolio Rules for the Oregon Short Term Fund

F. A single rating will be determined for each investment based on the following methodology:

i. When three nationally recognized statistical rating organizations (NRSROs) rate an issue, a median rating is used to determine eligibility by dropping the highest and/or lowest rating;

ii. When a rating from only two NRSROs is available, the lower ("most conservative") of the two ratings will be used; and

iii. When a rating from only one NRSRO is available, that rating will be used. To determine average rating for each security, a numeric value will be assigned to each NRSRO rating based on the following scheme:

Value	S&P Rating	Moody's Rating	Fitch Rating
29	U.S. Treasury & Agency AAA/A-1+(1)	U.S. Treasury & Agency Aaa/P-1(1)	U.S. Treasury & Agency AAA/F-1+(1)
28	AA+	Aa1	AA+
27	AA/A-1+/SP-1+	Aa2	AA/F-1+
26	AA-	Aa3/P-1/ MIG1/VMIG1	AA-
25	A+	A1	A+
24	A/A-1/SP-1	A2	A/F-1
23	A-	A3	A-
22	BBB+/A-2/SP-2	Baa1/P-2/ MIG2/VMIG2	BBB+/F-2
21	BBB	Baa2	BBB
20	BBB-/A-3/SP-3	Baa3/P-3/ MIG3/VMIG3	BBB-/F-3

(1) Limited to Asset-Backed Securities rated A-1+, P-1 and F-1+ by Standard & Poor's, Moody's and Fitch respectively.

G. The target weighted average credit quality of the OSTF portfolio shall be AA (or > 26.50).

H. For newly issued securities, and absent assigned ratings, "expected ratings" may be used as a proxy for actual ratings for not more than 30 business days after the anticipated settlement date.

I. No commitments to buy or sell securities may be made more than 14 business days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.

J. For purposes of compliance, eligible funds will be treated as a single investment and exempt from maturity or exposure restrictions except for maximum exposure and minimum ratings.

Appendix A - Portfolio Rules for the Oregon Short Term Fund

V. Reinvestment of Securities Lending Cash Collateral

A. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright in accordance with the Portfolio Rules for the Oregon Short Term Fund (Sections VI). Within the securities lending program only, cash collateral may also be reinvested in:
    1. Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities with a maximum original maturity of 30 years. No more than 25% of assets shall be placed with the same counterparty. Repurchase agreements may also be placed with the Federal Reserve Bank's Repo facility.

B. Net capital of lending counterparties must be over $100 million.

C. Securities will only be loaned on a fully collateralized basis.

D. Lending counterparties must be a Primary Dealer as recognized by the Federal Reserve Bank, and have a signed master securities lending agreement.

E. The market value of the delivered collateral must be maintained at not less than 102% of the market value of the securities loaned.

F. Notwithstanding Section VI.A.11 hereof, Reverse Repurchase Agreements are prohibited within the securities lending program.

PROCEDURES:

I. Standards of Care

A. **Prudence**: Investment officers shall use the "prudent investor" standard to guide their OSTF management efforts. Pursuant to ORS Chapter 293.726
    1. The investment funds shall be invested and the investments of those funds managed as a prudent investor would do, under the circumstances then prevailing and in light of the purposes, terms, distribution requirements and laws governing each investment fund; and
    2. The standard in subsection (1) of this section requires the exercise of reasonable care, skill and caution, and is to be applied to investments not in isolation but in the context of each investment fund's investment portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the particular investment fund.

B. **Ethics and Conflicts of Interest**: Officer involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244, as well as all policies of the OST.

C. **Delegation of Authority**: The Senior Investment Officer and Investment Officer(s) (or the Investment Analyst acting under the direction of the Investment Officers) shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with these Portfolio Rules. No person may engage in an investment transaction except as provided under the terms of these Portfolio Rules and the procedures established by OST staff. The Senior Investment Officer and Investment Officer(s) are jointly responsible for all transactions undertaken, and shall establish a reasonable system of controls to regulate the activities of

subordinate employees.

II. Compliance

A. **Compliance Monitoring:** OST shall provide an investment compliance program to accomplish the following objectives: a) monitor and evaluate portfolios, asset classes, and other investment funds to determine compliance with OST policies and contractual obligations; b) identify instances of non-compliance and develop appropriate resolution strategies; c) provide relevant compliance information and reports to OST management and the OIC, as appropriate; and d) verify resolution by the appropriate individual or manager within the appropriate time frame.

B. **Correction of Non-compliance:** If the OSTF is found to be out of compliance with one or more adopted investment guidelines or is being managed inconsistently with its policy and objectives, investment staff shall bring the OSTF portfolio into compliance as soon as is prudently feasible. Actions to bring the portfolio back into compliance and justification for such actions, including documentation of proposed and actual resolution strategies shall be coordinated with the OST investment compliance program.

III. Safekeeping and Custody

A. **Authorized Financial Dealers and Institutions:** All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply, as appropriate:
    1. Audited financial statements
    2. Licensing Representation form provided to OST
    3. Understanding and acknowledgment of OSTF Portfolio Rules
B. **Internal Controls:** The Senior Investment Officer and Investment Officer(s) jointly collaborate to establish and maintain an adequate internal control structure designed to reasonably protect the assets of the OSTF from loss, theft or misuse.

C. **Delivery vs. Payment**: All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

D. **Safekeeping:** Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

OIC Policy Updates
August 10, 2016

Purpose
To update several OIC Policies to conform with Treasury's new PolicyStat application.

Background
This work is a continuation of the policy updates brought by staff beginning with the September 2015 meeting. As noted at that time:

> In April 2015, Kim Olson informed the OIC of a new online application, PolicyStat, acquired by Oregon State Treasury (OST) to facilitate the management of policies and procedures for the Oregon Investment Council (OIC) and the rest of OST. As the current OIC Policies and Procedures have been migrated to this new application, staff is now engaged in a staged project to reformat existing documents to fit the new rubric approved by Treasury management. Of particular significance is the segregation of Policy and Procedure sections, a recommendation made by Cortex Applied Research during a review completed in August 2012. As staff moves to implement these recommendations going forward, revised policies will come before the OIC for approval, while operating procedures will be approved by the Chief Investment Officer.

Discussion
The following is a brief summary of the attached Policies and updates thereto. Due to the quantity of revisions to INV 204, we are providing both the revised policy and the previous policy for purposes of a side-by-side comparison. The remaining policies are provided only in their revised form.

1. **INV 101: Duties of the OIC**
   INV 102: Development of the Agenda for OIC Meetings
   INV 103: OIC and Staff Duties

These policies were combined into a single policy – **INV 101: Oregon State Treasury Support for the Oregon Investment Council**. The original INV 101 language no longer exists in policy as it only quoted statute. The relevant statutes are now cited under the "Authority" section of the new policy. Language from the previous INV 102 is now located in item 1, and language from the previous INV 103 is located in items 2, 3, and 4 as well as the new policy statement summary.

<u>Change</u>: In previous INV 102 language (now under *1. Develop OIC Meeting Agendas*), the following changes reconcile the new policy with current practice:

<u>Deletion</u> of the phrase: "*Prior to each meeting, the State Treasurer, through the OST Investment Division staff, shall recommend to the Chair a suggested agenda. The Chair, in*

coordination with the State Treasurer, shall select those items that are to be placed on the agenda."

Change: In 1(b), the actor is now the CIO and not the State Treasurer. We also inserted a time phrase, stating that the agenda and any pertinent documents or supporting materials will be distributed to Council members "*at least one week prior to any regularly-scheduled OIC meeting*."

Change: In 1(c), we inserted a time phrase, stating that Council members may request the placement of items on a forthcoming OIC meeting agenda, but must do so "*no less than three weeks in advance of the next regularly-scheduled OIC meeting*."

1(a) Rules of Conduct of OIC Meetings:

Document has been reformatted and revised for clarity of language.

Change: In item *4. Meeting Notice and Agenda*, the previous policy said that the Chair shall provide notice of meetings. This task has been assigned to the CIO to align with current practice.

Change: In item *10. Record of Votes*, the previous policy said the CIO would tally member votes. This task has been assigned to the OIC's legal representative to align with current practice.

2. INV 202: Investment Trading Authority

This policy has been reformatted.

Change: In *4. Public Equity Investments*, the policy previously said "*Authority to hire or terminate external public equity investment managers resides with the OIC*." In order to comport with recent updates to INV 601 and INV 602, this section was changed to "*Authority to hire external public equity investment managers resides with the OIC, whereas external termination decisions and broad rebalancing authority is delegated to the CIO*."

3. INV 204: Investment Performance Reports

Changes: The Director of Investment Operations (DIO) completely revised and reformatted this policy. The original is attached for comparison purposes. In the original, reporting requirements were listed for each asset class. The revised version avoids the repetition inherent in the previous policy by summarizing the report types and information provided. The updated policy also references the Investment Division's newly created operations unit and the corresponding centralization of the division's reporting activities. David Randall, the DIO, is now the primary contact for the division's reporting function.

Changes to this policy retain the spirit of the original, but are still too extensive to try and summarize in this memo. Accordingly, we have attached both the original and revised versions of this policy for comparison purposes.

4. INV 205: Consideration of Investments
INV 206: Divestiture Initiatives

These two documents were combined into a single policy – **INV 205: Consideration of Investments and Divestiture Initiatives.**

Consideration of Investments was previously maintained in the form of an "advisory letter" articulating the guidelines within which the OIC would consider existing and potential investments. Following a discussion of this historical advisory letter format with legal counsel, we believe the OIC is better served to instead reconstitute this advisory letter as an integrated policy document. Therefore, we have removed references to "advisory letter" and reformatted the letter's language into our now standard policy template.

The original INV 206 language remains the same. We have removed policy statements 1, 2 and 3 because they are redundant with statute quotations or INV 205 language. The result is a reduced total number of investment policies and elimination of an anomalous advisory letter.

5. INV 207: Open Door Policy to Investment Proposals
INV 208: Negotiation and Execution of Contracts
INV 214: Equal Opportunity

These short policies were consolidated into a single policy – **INV 207: Proposals, Solicitations, Contracts, and Agreements**. The original INV 207 language was altered slightly for clarity.

<u>Change</u>: In INV 208, the previous policy said:

"*…the Office of the State Treasurer is authorized to negotiate, in concert with the Department of Justice, and execute, a contract on behalf of the Council, unless the Council directs otherwise. The Chief Investment Officer of the Office of the State Treasurer, or his designee, is authorized to execute contracts on behalf of the Council*."

This language has been changed to "*…OST investment staff are authorized to negotiate, in concert with Department of Justice personnel or internal legal staff with the Special Assistant Attorney General designation, the contract or agreement on behalf of the Council. Moreover, the OST Chief Investment Officer (CIO), or his or her designee, is authorized to*

execute contracts and agreements on behalf of the Council, unless the Council directs otherwise."

The rationale for this change is twofold: first, removal of the term "Office of the State Treasurer." OST is officially the Oregon State Treasury. Second, to clarify the difference between what OST investment staff is authorized to do (i.e., negotiate), and what the CIO or his or her designee is authorized to do (i.e., execute).

Change: In INV 208, the previous policy said:

"…*State Treasurer, or the Treasurer's designee is authorized to negotiate and execute agreements*…;" this language has been changed to the "…*OST Chief Investment Officer, or his or her designee*…" for clarity.

Change: "*Gender identity*" was added as a term on the equal opportunity list (section III). Some language was also altered for clarity.

6. INV 209: Rotating Internal Control and Operational Reviews

This policy has been reformatted and language edited for clarity.

7. INV 211: Minimizing Losses

This policy has been reformatted and language edited for clarity.

8. INV 212: Sudan and Iran Divestiture

This policy has been reformatted and language edited for clarity.

9. INV 213: External Manager Watchlist

This policy is being retired. The information contained within this policy is contained in the revised versions of *INV 601: Public Equity Investments: Strategic Role of Public Equity Securities within OPERF* and *INV 602: Equity Investments: Selecting and Terminating Investment Manager Firms* previously approved by the OIC at the April 20, 2016 meeting.

10. INV 216: Securities Lending

This policy has been reformatted and language edited for clarity.

11. INV 607: Equity Investments: Manager Monitoring

This policy came before the OIC at the April meeting and was tabled for further discussion due to the following proposed change:

Change: In item *2. On-site Visits*, **eliminated** sentence "*OIC members are encouraged to visit managers when convenient*." This change is recommended as this language is unique to public equity and represents, in staff's opinion, an obsolete drafting artifact. Moreover, legal counsel believes the elimination of this sentence does not in any way restrict OIC members' ability to visit managers, and instead protects members from any potential or perceived visitation obligation.

Origination:	*04/2007*
Last Approved:	*04/2007*
Last Revised:	*04/2007*
Next Review:	*1 year after approval*
Owner:	*John Skjervem: Chief Investment Officer*
Policy Area:	*Investments*
References:	*OST Policy 4.00.00*

INV 101: Oregon State Treasury Support for the Oregon Investment Council

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

The Oregon Investment Council ("OIC" or "Council") formulates broad policies for the investment and reinvestment of moneys in the investment funds and the acquisition, retention, management, and disposition of investments of the investment Funds (Fund or Funds). The voting members of the Council include the State Treasurer and four appointees of the Governor. The Public Employees Retirement System (PERS) Director is an ex officio, non-voting member of the Council. The OIC is responsible for approving and revising policies. The Chief Investment Officer, working with Investment Division staff, is responsible for approving and revising procedures, developing OIC meeting agendas, and drafting OIC resolutions. OST Investment Division staff provide administrative and research support to the Council, and are responsible for recording, transcribing, and distributing OIC meeting minutes.

Authority

ORS 182.010-020, ORS 293.721-726, ORS 293.731

POLICY PROVISIONS

Policy Statements

1. Develop OIC Meeting Agendas
    a. The Chief Investment Officer (CIO), in coordination with the OIC Chair and State Treasurer, is responsible for constructing an agenda for each OIC meeting.

b. The CIO shall produce the agenda established in (a) and distribute it and any pertinent documents or supporting materials to Council members at least one week prior to any regularly-scheduled OIC meeting.

c. Any Council member may at any time request that the OIC Chair place one or more items on a forthcoming OIC meeting agenda. To provide staff with sufficient preparation time to comply with (b) above, such additional agenda item requests should be sent to the OIC Chair no less than three weeks in advance of the next regularly-scheduled OIC meeting.

2. Record, Transcribe and Distribute OIC Meeting Minutes
   a. A member of the Investment Division staff shall record and distribute OIC meeting minutes. Approved minutes, except those taken during executive session, shall be posted to the OST website along with a corresponding audio recording.
3. Draft OIC Resolutions
   a. The CIO or staff may draft policies or resolutions for OIC action upon request. All advisors to the Council, including but not limited to investment advisors, OST staff members and legal counsel, when practicable, shall submit to the Council for its consideration written recommendations, whenever OST staff and legal counsel determine Council action is required.

   b. From these written recommendations, OST staff shall have prepared for the Council's consideration appropriate forms of motion. Whenever practicable, OST staff shall review and advise the Council in writing whether proposed Council action concerning investments falls within or outside of existing investment policies, and, if within, shall identify the applicable policy or policies.
4. Staff and Research Support
   a. Should the OIC wish to investigate or research a matter related to current or potential investment activities, OST Investment Division staff shall provide support and assistance as required.

Exceptions

None.

PROCEDURES and FORMS

A. Rules of Conduct at Oregon Investment Council Meetings

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the OST Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

Rules of Conduct at Oregon Investment Council Meetings

Committee	Approver	Date
	John Skjervem: Chief Investment Officer	pending

OREGON INVESTMENT COUNCIL POLICY

Meeting Conduct Rules

Applicability of Rules

1. These rules are applicable to convened meetings, regular and special, of the Oregon Investment Council ("OIC" or "Council").

2. In consultation and coordination with the Chief Investment Officer (the "CIO") of the Oregon State Treasury (OST), the OIC Chair will schedule approximately eight Council meetings during each calendar year. The OIC Chair may call additional, special or informal meetings as deemed necessary or advisable, and may hold these or regularly-scheduled meetings by telephone. OIC meetings held in Executive Session shall be conducted in accordance with ORS 192.660.

3. **Chair**: In consultation and coordination with the CIO, and in accordance with INV 101, the Chair is responsible for developing and setting all OIC meeting agendas. Additionally, the Chair shall preside over all OIC meetings, regular and special. The primary roles of the Chair are to a) ensure OIC meetings are as efficient and productive as possible and b) facilitate communication among OIC members, OST staff and other constituents, and stakeholders.

4. **Meeting Notice and Agenda**: The CIO shall provide notice of meetings in compliance with ORS 192.610-690, and such notice shall contain a copy of the meeting agenda setting forth, with reasonable clarity, the matters scheduled for OIC members' review and discussion.

5. **Quorum:** Three of the Council's five voting members shall constitute a quorum.

6. **Majority Vote**: An affirmative vote of three of the Council's five voting members is required for Council approval of recommendations and resolutions.

7. **Conflict of Interest**: As defined in ORS 244.120, rules promulgated by the Oregon Government Ethics Commission and other related Council policies, Council members shall announce any and all potential or actual conflicts of interest prior to taking action on an issue, recommendation, or resolution that is presented to the Council for its consideration or approval. Announced conflicts should be recorded as provided in Oregon Revised Statutes 244.130 (see also: INV 104 OIC Standards of Ethics). For purposes of this policy, "take action" means to vote, debate, recommend or discuss.

8. **Voting**: Except in the case of an actual conflict of interest, OIC members, when present, shall vote either aye or nay on any issue, recommendation, or resolution presented to the Council for its consideration or approval. If such an actual conflict of interest exists, the affected member shall make a declaration of the conflict and excuse him or herself from the corresponding Council vote or discussion.

9. **Record of Votes**: The OIC's legal representative shall tally member votes through an oral roll call process.

10. **Recess or Adjournment**: Given a quorum, either the Chair or a majority vote among the Council's voting members may recess or adjourn any Council meeting.

11. **Council Elections:** The Council shall elect a Chair and Vice Chair at the last regularly-scheduled Council meeting in each odd-numbered calendar year. The Chair and Vice Chair shall both serve two-year terms and may be reelected to consecutive terms provided that, per ORS 293.711, no member may serve as Chair for more than four years in any consecutive 12-year period.

    Between biennial elections, and with at least one week's notice, a majority of the Council's voting members may request a special election, held at the next regularly-scheduled Council meeting, to select officers for vacancies in an otherwise unexpired term.

    In the event that a Chair or Vice Chair resigns, is removed, or whose service on the Council ends, the Council, at its next regularly-scheduled meeting, shall elect a successor.

Origination:	*10/2013*
Last Approved:	*10/2013*
Last Revised:	*10/2013*
Next Review:	*1 year after approval*
Owner:	*John Skjervem: Chief Investment Officer*
Policy Area:	*Investments*
References:	*OST Policy 4.01.02*

INV 202: Investment Trading Authority

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

As delegated by the State Treasurer, investment officers in the Oregon State Treasury (OST) including but not limited to the Chief Investment Officer (CIO) have authority to purchase or sell securities and other investments within the asset class for which those investment officers have responsibility, except as may be otherwise noted in OST Policies and Procedures manuals. In exercising this delegated authority, OST investment officers and staff shall manage and invest funds as a prudent investor would so manage and invest under the circumstances then prevailing and in light of the purposes, terms, distribution requirements and laws governing each investment fund (ORS 293.726).

Purpose and Goals

The goal of this policy is to outline the specific trading authority OST investment officers and senior analysts have to negotiate and execute trades in their assigned asset classes.

Applicability

Classified represented, management service, unclassified executive service

Authority

ORS 293.726

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POLICY PROVISIONS

Policy Statements

Specific trading authority is outlined as follows:

1. **Short-Term Investments.** OST investment officers and senior analysts may negotiate and execute trades in connection with OST's internal short-term investment mandates under the general guidance and authority of the CIO, Director of Capital Markets, or a designated Senior Investment Officer. Authority to hire or terminate external short-term investment managers resides with the OIC. See Policy INV 402.

2. **Fixed Income Investments.** OST investment officers and senior analysts may negotiate and execute trades in connection with OST's internal fixed income investment mandates under the general guidance and authority of the CIO, Director of Capital Markets, or a designated Senior Investment Officer. Authority to hire or terminate external fixed income investment managers resides with the OIC. See Policy INV 403.

3. **Real Estate Investments.** See Policy INV 501.

4. **Public Equity Investments.** OST investment officers and senior analysts may negotiate and execute trades (including futures contracts) in connection with OST's internal equity investment mandates under the general guidance and authority of the CIO, Director of Capital Markets or a designated Senior Investment Officer. Authority to hire external public equity investment managers resides with the OIC, whereas external termination decisions and broad rebalancing authority is delegated to the CIO. See Policy INV 602.

5. **Private Equity Investments.** See Policy INV 701.

6. **Alternative Investments.** See Policy INV 702.

7. **Opportunity Portfolio Investments.** See Policy INV 703.

In managing funds, investment officers shall pursue "Best Execution" during the trading process, and seek to maximize a portfolio's value consistent with its stated investment objectives and any applicable constraints. As part of the Best Execution pursuit, OST investment officers will perform the following duties: (1) accurately determine portfolio trading requirements; (2) select appropriate trading techniques, venues and agents; (3) monitor and control liquidity, endeavoring to avoid excessive market impact; (4) protect beneficiaries' interests and investment managers' proprietary information; and (5) evaluate trading results and effectiveness on a continual basis.

"Soft Dollars" refers to an arrangement in which an investment manager (internal or external) obtains products or services, *other than the execution of securities transactions*, from or through a broker. In exchange, the broker receives a share of that investment manager's transaction business or "flow." Staff shall review external managers' soft dollar usage on a regular basis; moreover, any soft dollar services received by OST investment

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officers in connection with their internal portfolio management activities must be reported to the CIO prior to engaging in such soft dollar trading activities.

Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

PROCEDURES and FORMS

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the OST Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

No Attachments

Committee	Approver	Date
	John Skjervem: Chief Investment Officer	pending

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Origination:	*09/2014*
Last Approved:	*09/2014*
Last Revised:	*09/2014*
Next Review:	*1 year after approval*
Owner:	*John Skjervem: Chief Investment Officer*
Policy Area:	*Investments*
References:	*OST Policy 4.01.05*

INV 204: Investment Performance Reports

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

Oregon law requires the State Treasurer, acting as the State Investment Officer, among other duties, to retain and manage investments of the investment funds. Consistent with that mandate, this policy establishes a uniform process for reporting investment performance and activity.

Purpose and Goals

The goal of this policy is to establish general parameters for reporting the performance and activity of investment funds managed by Oregon State Treasury (OST).

Applicability

Classified represented, management service, unclassified executive service

Authority

ORS 293.731; 293.736; 293.741; 293.761; 293.766; 293.771

POLICY PROVISIONS

Definitions

Terms not otherwise defined herein have the meanings ascribed to them in ORS 293.701, *et. seq.*

Policy Statements

The State Treasurer is tasked with the management of the investment funds and has delegated portions of that task to the OST Chief Investment Officer (CIO) and certain other OST investment staff. As part of their duties, OST Investment Division staff ("Staff") are tasked with providing periodic reports on the investment funds to various parties, as detailed below.

The Director of Investment Operations (DIO) shall generally oversee preparation of each report and shall obtain any information necessary for a report from applicable custodians and third parties. However, certain reports may be overseen by other Staff, including the Director of Alternatives, the Director of Capital Markets and/or their designees.

COUNCIL REPORTS

Staff shall provide the Council with periodic reports (each an "OIC Report") on the investment funds, including their performance and activity. Generally, each OIC Report will be delivered to the Council on a monthly basis unless otherwise requested by Council.

OIC Reports should include relevant performance information over applicable time periods for internally- and externally-managed investment funds relative to appropriate benchmarks. These reports should also include a summary of portfolio holdings, purchases and sales, gains and losses, and any other information Staff deems relevant, including information from custodians, consultants, and other third parties.

Staff shall also assist the Council in providing periodic reports to the Governor and Legislative Assembly on the investment funds' performance and activity. Such reports shall be provided on a bi-annual basis and at such other times as the Council considers in the public interest or as may be required by statute or rule.

OST ANNUAL REPORT

Staff shall assist in the production of OST's annual report, providing necessary information on the investment funds, including their performance and activity, portfolio holdings, purchases and sales, as well as all gains and losses.

THIRD PARTY REPORTS

Council and Staff may periodically employ consultants to provide advice or otherwise assist in the management of the investment funds. Staff shall provide information and assist such consultants as reasonably necessary in the preparation of reports for Council, OST, or other stakeholders relating to the investment funds.

OTHER REPORTS

Staff shall provide information to OST internal and external auditors as may be requested to complete annual audits of any investment fund and/or any comprehensive annual financial report for OST or its divisions.

Staff shall provide OST's Finance Division with a monthly performance report for the Oregon Short Term Fund, and such other present or future investment funds as may be applicable, as well as a summary of holdings and a portfolio compliance report.

Staff shall assist OST and other OST staff in preparing reports related to the investment funds or the management thereof.

Staff shall assist OST in providing information periodically to the public concerning the investment funds via OST's website and other sources as requested by the State Treasurer and/or the Council.

PUBLIC REPORTS

Investment fund holdings and performance data are highly sensitive information. Accordingly, Staff may provide such information on a one-quarter lagged basis when such information will be used in any external or public setting.

REPORT CONTENT

OIC Reports should include relevant information for each applicable investment fund and/or asset class, including fixed income (internally- and externally-managed), public equity (internally- and externally-managed), real estate, private equity, alternatives, and opportunity portfolio investments. Reports should generally include some or all of the following: a summary of the investment fund/asset class holdings; performance information measured against an applicable benchmark; security purchases and sales (or fund, portfolio company, or real property held, as applicable); and gains and losses realized (or current appraisal or valuation, as applicable).

All other reports shall contain information deemed relevant and/or responsive as determined by Staff and using reasonable discretion.

Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

PROCEDURES and FORMS

None.

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the OST Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

No Attachments

Committee	Approver	Date
	John Skjervem: Chief Investment Officer	pending

- Previous version - for comparison -

Origination:	*09/2014*
Last Approved:	*09/2014*
Last Revised:	*09/2014*
Next Review:	*09/2015*
Owner:	*John Skjervem: Chief Investment Officer*
Policy Area:	*Investments*
References:	*OST Policy 4.01.05*

INV 204: Investment Performance Reports

POLICY

Performance and investment fund activity shall be reported in a manner consistent with each asset class. The Office of the State Treasurer (OST) shall produce an Annual Report, including an investment funds section.

PROCEDURES

1. **Short-Term Investments.** Each month, OST prepares a summary of Oregon Short-Term Fund (OSTF) holdings and a portfolio compliance report. This information, as well as the OSTF interest rate, is also posted to the OST's website. The OSTF custodian provides monthly performance calculations, while OST's Finance Division determines the interest credited to each OSTF investor. An annual financial report for the OSTF is prepared by OST and is audited by the Secretary of State's Audits Division.
2. **Fixed Income (Internally-managed).** The custodian provides monthly and quarterly performance information relative to predetermined benchmarks. Upon request, the custodian can provide a trade report to the Treasurer, the Deputy Treasurer and the Chief Investment Officer. The report includes summaries of security purchases and sales as well as all gains and losses realized in internally-managed fixed income accounts. The report can be accompanied, upon request, by a full listing of the fixed income securities held by OST in its internally-managed accounts.
3. **Fixed Income (Externally-managed).** The custodian prepares monthly and quarterly reports for each externally-managed account that include current market values and investment performance relative to OIC-assigned benchmarks. These reports are distributed to OIC members, the Treasurer, the Deputy Treasurer, the Chief Investment Officer and Investment Division staff. The OIC's consultant also provides, generally quarterly, a comprehensive review of all externally-managed fixed income accounts.
4. **Public Equity (Internally-managed).** The custodian provides monthly and quarterly performance information relative to predetermined benchmarks. Upon request, the custodian can deliver a trade report to the Treasurer, the Deputy Treasurer and the Chief Investment Officer. The report includes summaries of security purchases and sales as well as all gains and losses realized in internally-managed public equity accounts. The report can be accompanied, upon request, by a full listing of the public equity securities held by OST in its internally-managed accounts.
5. **Public Equity (Externally-managed).** The custodian prepares monthly and quarterly reports for each externally-managed account that include current market values and investment performance relative to

OIC-assigned benchmarks. These reports are distributed to OIC members, the Treasurer, the Deputy Treasurer, the Chief Investment Officer and Investment Division staff. The OIC's consultant also provides, generally quarterly, a comprehensive review of all externally-managed public equity accounts.

6. **Real Estate.** An independent firm hired by OST prepares comprehensive quarterly reports that include fund and specific property holdings, current appraisal values and benchmark-relative performance calculations. This report is distributed to OIC members and OST staff. In addition, OIC's real estate consultant and/or other real estate advisors provide similar reports to OIC members and OST staff.
7. **Private Equity.** On a continuing basis, private equity investments are reviewed and evaluated by the Director of Alternative Investments, the Private Equity Investment Officers and the Chief Investment Officer. In addition, the OIC's private equity consultant provides quarterly reports that include a list of fund and portfolio company holdings, current portfolio appraisal values and benchmark-relative performance calculations. At least annually, the OIC's private equity consultant provides a comprehensive private equity portfolio review that includes a pacing schedule, or projection of future private equity program cash flows.
8. **Alternative & Opportunity Portfolios.** On a quarterly basis, performance for the Alternatives and Opportunity portfolios is calculated by the OIC's consultant.

SAMPLE FORMS, DOCUMENTS OR REPORTS (Attached)

None

Attachments:

No Attachments

Origination:	*09/2014*
Last Approved:	*09/2014*
Last Revised:	*09/2014*
Next Review:	*1 year after approval*
Owner:	*John Skjervem: Chief Investment Officer*
Policy Area:	*Investments*
References:	*OST Policy 4.01.07*

INV 205: Consideration of Investments and Divestiture Initiatives

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

This policy articulates the guidelines within which the Oregon Investment Council ("OIC" or "Council") considers existing and potential investments. The statutory standards of prudence and productivity are the *only* standards that apply to the investment of the Oregon Public Employees Retirement Fund (OPERF) and all other Oregon public trust funds. The OIC recognizes its obligation to adhere to applicable law and that political, social and legal circumstances in various nations and regions of the world may impact the productivity and prudence of investments made in or connected with those nations and regions.

Applicability

Classified represented, management service, unclassified executive service

Authority

ORS 293.721, 292.726

The OIC can only consider investments that meet the productivity objectives of Oregon Revised Statutes (ORS) 293.721 and the prudence standards of ORS 293.726. Each proposed investment is separately evaluated based on its unique structure and potential in accordance with standard OIC and Oregon State Treasury ("OST") investment criteria. The standard stated in 293.721(1) "requires the exercise of reasonable care, skill and caution, and is to be applied to investments not in isolation but in the context of each investment fund's investment portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the particular investment fund."

ORS 293.721 states, in part: "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." Under ORS 293.726 (1) and (2), the OIC and its investment officer (the "Treasurer" or OST) also are required to invest with prudence, reasonable care, skill and caution. Under subsection (4), the OIC and OST must adhere to the fundamental fiduciary duties of loyalty and impartiality.

POLICY PROVISIONS

Policy Statements

I. **Consideration of Investments**

The Council's statutory duties, as defined in ORS 293.721, to formulate and review investment policies consistent with the productivity objectives set forth in ORS 293.721 and the prudence standards set forth in ORS 293.726, shall take precedence over any other consideration. The Council's implementation of these objectives and standards can be stated as follows:

A. Consideration of investments is limited to those which, when judged solely on the basis of economic value, enhance portfolio returns on a risk-adjusted basis;

B. Any benefit an investment may confer, other than meeting the statutory standards of prudence and productivity, is not and shall not be considered the responsibility or within the control of OST, the Council, or its agents;

C. For allocation purposes, proposed investments are categorized by asset class and subject to the Council's asset allocation guidelines, ranges, and targets;

D. Proposed investments shall be consistent with the Council's desired level of portfolio diversification as defined by the mix of asset types and allocations to different economic, industry, and geographic exposures;

E. Investments shall at all times conform to the laws, requirements, policies, and procedures governing the Council, OST, and OPERF;

F. Because investments are part of an actively managed portfolio, full due diligence is exercised. This due diligence, conducted by OST staff, designated private managers, consultants, and/or advisors, addresses, at a minimum, (1) legal sufficiency, (2) investment sufficiency, and (3) the identification of any potential conflicts of interest. Only those investment proposals that comply with the Council's prescribed proposal format shall be considered. The costs associated with all legal and financial review for each investment proposal shall be addressed pursuant to policy consistent with similar investment types. Where no such policies exist, these costs shall be borne entirely by the proposer. Furthermore, the proposer shall provide all information that the Council, OST staff and designated private managers, consultants and/or advisors deem necessary to perform appropriate levels of due

diligence and evaluation. If the information is not provided within a specified, reasonable time frame, the Council, OST staff, or designated private managers, consultants, and/or advisors may discontinue their individual and collective due diligence and evaluation considerations. All investments that are approved by the Council shall be subject to a continuing obligation to disclose certain requested information;

G. Investments shall be valued at current market prices and will be subject to performance measurement at least annually;

H. The Council carefully considers investment structures such as partnerships and joint ventures when evaluating an initial investment and ongoing participation with a sponsoring entity. The Council will only consider those structures that appropriately align financial rewards and risk among all other partners/participants. OST staff or designated private managers, consultants and/or advisors shall consider and recommend to the Council structural features to mitigate investment risks, losses, and liabilities such as federal government credit insurance, personal guarantees, corporate guarantees, cross-corporate collateralization, and other such mechanisms. Furthermore, only those investment proposals that stipulate explicit exit strategies and define the means by which investment returns may be realized shall be considered;

I. Due to resource constraints, investment proposals that may impose unreasonable administrative burdens directly upon the Council, OST investment staff, or the State Treasurer shall not be considered;

J. All persons or firms managing, evaluating, or monitoring investments on behalf of the Council shall act in a fiduciary capacity when giving advice or information to the Council and OST staff;

K. The OIC recognizes that excellent investment opportunities may exist within Oregon and actively considers such in-state investments, but specific decisions regarding whether or not investments are made in Oregon-based companies are delegated to third-party managers selected by the OIC;

L. The Council recognizes that Oregon is an underserved market for venture capital investments and that such circumstances may, from time to time, result in attractive investment opportunities. Further, the Council recognizes that prudent investments may satisfy the exclusive benefit rule for pension plan participants, as well as provide the collateral benefit of encouraging economic development within the state. Accordingly, whenever diversification and quality standards permit, the Council will endeavor to hire local partners or will encourage leading national firms to open an Oregon office; and

M. The methodology that the Council applies to all its investments also applies and will be applied to investment opportunities within Oregon. Consequently, the risk, return, and liquidity characteristics of investments in Oregon must be determined to assure that such characteristics are consistent with (i.e., meet or exceed) the evaluation criteria, legal standards, and investment policies that govern all Council investment activity.

II. **Divestiture Initiatives**

While political, social, and legal circumstances material to prudent and productive investment activities should receive appropriate consideration in making and maintaining investments, such factors may not be given undue weight (i.e., weight disproportionate to their impact upon economic prudence and productivity) when implementing the OIC's and OST's investment responsibility to a) act with prudence to make the moneys under their care as productive as possible and b) adhere to their fundamental fiduciary duties of loyalty and impartiality.

The OIC and OST are subject to, and will comply with, applicable federal and state law.

A. The federal government of the United States of America (the "United States") has preeminent governmental power for those subject to its jurisdiction with respect to the conduct of foreign policy and interstate commerce. When the United States sanctions or restricts investment by subject entities in other nations, as when it regulates interstate commerce, the OIC requires all of its investment managers to comply with those regulations, as applicable. The OIC also expects companies in which it invests, that are subject to such regulations, to comply with those regulations.

B. The OIC requires its investment managers to consider all material risks and benefits when making an investment. Material risks or benefits may include those factors that arise from the political, social, or legal circumstances affecting regions or governments with or within which companies considered for investment conduct business.

C. OST will maintain a dialogue with the OIC's proxy voting agent(s) and investment managers to ascertain how ballot issues and investment decisions related to international investments and compliance with government regulations are addressed.

D. When not inconsistent with the policies described above, the OIC prefers that its managers avoid holdings in companies doing business with or in countries where such conduct is prohibited if performed by companies subject to the jurisdiction of the United States.

Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

PROCEDURES and FORMS

None.

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the OST Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

No Attachments

Committee	Approver	Date
	John Skjervem: Chief Investment Officer	pending

Origination:	*N/A*
Last Approved:	*N/A*
Last Revised:	*N/A*
Next Review:	*1 year after approval*
Owner:	*John Skjervem: Chief Investment Officer*
Policy Area:	*Investments*
References:	

INV 207: Proposals, Solicitations, Contracts, and Agreements

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

This policy establishes how Investment Officers will hear and consider proposals and solicitations, negotiate contracts or agreements, and promote equal opportunity.

Applicability

Classified represented, management service, unclassified executive service

Authority

ORS 293.721, ORS 293.726

POLICY PROVISIONS

Policy Statements

I. **Open Door Policy**
Investment Officers employed by Oregon State Treasury (OST) will hear and consider proposals and solicitations from any person or entity for various investment opportunities, provided such proposals and solicitations are submitted in good faith. OST has no obligation or requirement to pursue or accept any proposal or solicitation that any person or entity presents to it.

II. **Negotiation and Execution**

Whenever the Council approves a proposal or solicitation from an investment manager, advisor, consultant, or other external service provider without also approving an accompanying contract or agreement, OST investment staff are authorized to negotiate, in concert with Department of Justice personnel or internal legal staff with the Special Assistant Attorney General designation, the contract or agreement on behalf of the Council. Moreover, the OST Chief Investment Officer (CIO), or his or her designee, is authorized to execute contracts and agreements on behalf of the Council, unless the Council directs otherwise.

Whenever the Council approves a new proposal or solicitation that is within the scope of an existing contract or agreement with an investment manager, advisor, consultant, or other external service provider, the CIO, or his or her designee, is authorized to negotiate and execute any other documents required to effect the new proposal or solicitation, unless the Council directs otherwise.

III. **Equal Opportunity**

The Council offers equal opportunity in terms of contract and agreement awards. Specifically, the Council does not discriminate on the basis of age, race, color, sex, religious creed, national origin, marital status, sexual orientation, gender identity, or disability. Furthermore, firms doing business with or seeking business from the Council are encouraged to have and exhibit equal opportunity programs. If two or more firms seeking business from the Council otherwise appear equal in meeting the productivity objective of Oregon Revised Statute (ORS) 293.721 and the prudence standard of ORS 293.726, the Council will award a contract or agreement to the firm that operates and has results for an equal opportunity program if that firm is the only firm operating such a program with verifiable program results.

Firms offering a contract or agreement to the Council shall submit with their offer of contract or agreement a copy of any documents describing their equal opportunity program, their programs' results and a cover letter outlining their programs' history and scope of applicability.

The Council will require that all written contracts or agreements with it incorporate references that affirm compliance with applicable non-discrimination, affirmative action, and contract compliance laws.

Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

PROCEDURES and FORMS

None.

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the OST Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

No Attachments

Committee	Approver	Date
	John Skjervem: Chief Investment Officer	pending

Origination:	*07/2011*
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Owner:	*John Skjervem: Chief Investment Officer*
Policy Area:	*Investments*
References:	*OST Policy 4.01.12*

INV 209: Rotating Internal Control and Operational Reviews

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

This policy establishes the type and frequency of audits and reviews the OST Internal Audit Services Division will perform on the investment program.

Purpose and Goals

The goal of this policy is to ensure the Oregon Investment Council (OIC) and Investment Division remain in compliance with statutory reporting requirements.

Applicability

Classified represented, management service, unclassified executive service

Authority

Oregon Revised Statute (ORS) 293.776 states "The Oregon Investment Council shall provide for an examination and audit of the investment funds investment program, and for submission to the council of a report based on the examination and audit, at least once every four years and at other times as the council may require. The examination and audit, and the report based thereon, shall include an evaluation of current investment funds investment policies and practices and of specific investments of the investment funds in relation to the objective set forth in ORS 293.721, the standard set forth in ORS 293.726 and other criteria as may be appropriate, and recommendations relating to the investment funds investment policies and practices

and to specific investments of the investment funds as are considered necessary or desirable. The council shall make copies of the report or a summary thereof available for distribution to interested persons."

POLICY PROVISIONS

Policy Statements

I. **On An Annual Basis**
The Internal Audit Services division of the Oregon State Treasury (OST) will perform an audit of the internal control structure over one of the major asset classes (i.e., Public Equity, Fixed Income, Real Estate, Private Equity, Alternatives, Opportunity Portfolio, or Short-term Investments) for each year ending June 30. The audit shall be performed in accordance with professional auditor's standards approved by OST's Audit Committee.

II. **At Least Once Every Four Years**
The Internal Audit Services division will perform a comprehensive operational review of OST's investment management practices in a specific portfolio or asset class as compared and contrasted to the investment management practices used by institutional investors of similar size and objective.

This work and all corresponding reports shall comply with applicable professional standards and fulfill the requirements stated in ORS 293.776.

1. Internal Audit Services will co-source or outsource portions, or the entirety, of the work to qualified consultants through a request for proposal (RFP) process or other selection process according to OST purchasing policies. Consultant selection(s) and the scope of work will be approved by the OST Audit Committee.

2. Internal Audit Services shall deliver a written report on the results of the work performed to OST management, as well as any findings and/or recommendations for improvement.

3. On an annual basis, the Chief Audit Executive, or designee, shall inform the OIC of audit and review results, and shall provide a summary of OST management's response to all report findings and recommendations.

Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

PROCEDURES and FORMS

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the OST Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

No Attachments

Committee	Approver	Date
	John Skjervem: Chief Investment Officer	pending

Origination:	*04/2012*
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Owner:	*John Skjervem: Chief Investment Officer*
Policy Area:	*Investments*
References:	*OST Policy 4.01.14*

INV 211: Minimizing Losses

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

The State Treasurer or a member of his or her staff may take whatever actions reasonably necessary to minimize losses to investments, consistent with the productivity standard of ORS 293.721 and the prudence standard of ORS 293.726. However, after such actions, the investment shall remain within established asset allocation parameters and existing investment guidelines, to the extent practicable. The State Treasurer shall report to the Oregon Investment Council ("OIC" or "Council") at its next regular meeting any restructuring of an investment that was previously approved by the Council. The State Treasurer shall also report any other action which takes the investment outside of asset allocation parameters and investment guidelines, unless legal counsel advises the State Treasurer and the chair of the Council, in writing, that reporting the action to the Council at that time could prejudice the legal interests of the State.

Purpose and Goals

The goal of this policy is to establish parameters for OST personnel regarding processes and reporting requirements for material losses in investments.

Applicability

Classified represented, management service, unclassified executive service

Authority

ORS 293.721 - 293.824

ORS 293.751 provides the State Treasurer, as Investment Officer, a variety of methods to address investment losses with approval of the Council, and ORS 293.824 requires the State Treasurer to establish policies and procedures for pool expenses and losses, which would apply to the Oregon Short Term Fund (OSTF).

POLICY PROVISIONS

Policy Statements

Per its policy, the Oregon State Treasury (OST) will inform the Council and its stakeholders of material losses in investment funds that occur outside the normal course of business. OST will also establish and maintain processes for the realization of losses, maintain allowances for losses where appropriate, and will report on material or extraordinary losses, at least annually, to the Council.

1. **Realized Losses.** OST will write-down investment values and realize losses that occur, for example, due to bankruptcy or uninsured property loss. The timing and realization of such losses will follow applicable accounting standards. When determined by one of OST's Senior Investment Officers that the value of a particular investment cannot with reasonable effort be recovered, the Senior Investment Officer will notify Investment Accounting of the loss. Investment Accounting will work with the custodial bank to determine the extent of the loss and when it will be recorded on the custodian's records.

2. **Anticipated losses in pooled funds.** OST will maintain an allowance for specific investments and historically-based losses within pooled funds such as the OSTF.
    - **Specific Investments.** OST will accumulate and maintain an allowance for specific investments, if the value of those investment(s) appears permanently impaired due to default, counterparty failure, etc. If the actual loss is undeterminable, for example, until legal proceedings conclude, an allowance for the estimated loss will be accumulated. As noted above in 1, when the final loss is determinable, the Senior Investment Officer will notify Investment Accounting to record the loss.
    - **Historically-Based Losses.** OST will maintain an allowance within pooled portfolios based on historic default rates of similarly-rated investments. For the OSTF, the target size of the allowance will be based on the Standard & Poor's 5-year historic U.S. Corporate Average Cumulative Double-A default rate as of the end of the prior calendar year. OST will review and revise the OSTF allowance target and the aforementioned default rate annually on June 30.
    - **Periodic Review of Allowance.** The sufficiency of the allowance(s) will be assessed at the end of every month, and considered in setting the rate paid to pool participants, which will be determined collaboratively by the OST's Investment and Finance Divisions.
3. **Reporting to the OIC.** The State Treasurer or a member of his or her staff will report to the OIC at the next regular meeting any material, extraordinary loss or losses.

Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

PROCEDURES and FORMS

None.

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the OST Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

No Attachments

Committee	Approver	Date
	John Skjervem: Chief Investment Officer	pending

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Owner:	*John Skjervem: Chief Investment Officer*
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References:	*OST Policy 4.01.15*

INV 212: Sudan and Iran Divestiture

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

This policy establishes the State Treasurer's role in identifying and divesting from scrutinized companies in Sudan and Iran, and parameters for annual reporting requirements to the State Legislature. This policy, including the reporting requirement, will be implemented when, and if, the Legislature appropriates sufficient moneys to the State Treasurer available for implementation of this policy, not including OPERF assets or moneys described by ORS 293.718.

Purpose and Goals

The goal of this policy is to comply with Oregon Revised Statutes 293.811 – 293.817.

Applicability

Classified represented, management service, unclassified executive service

Authority

ORS 238.660, 293.721, 293.726, 293.811-817

ORS 293.814 states, in part, that:

The Oregon Investment Council and the State Treasurer, in the State Treasurer's role as investment officer for the council, shall act reasonably and in a manner consistent with fiduciary standards, including the provisions of ORS 293.721 and 293.726, to try to ensure that managers who are engaged by the council or the State

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Treasurer for the active management of investment funds consisting of the Public Employees Retirement Fund referred to in ORS 238.660, through the purchase and sale of publicly traded equities, are not investing in publicly traded equities of any scrutinized company.

[The purchase and sale of publicly traded equities] does not apply to investments indirectly made through index funds, fund of funds or privately placed investments.

It also states, in part, that:

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

a. Are engaged [as part of their active management of Oregon Public Employee Retirement Fund "OPERF" assets] through the purchase and sale of publicly traded equities; and
b. Have invested such funds in scrutinized companies.

And, it further states, in part, that:

[The above-described policy requires] the State Treasurer, to the extent practicable, to identify and send a written notice to the managers described. The notice shall encourage the managers, consistent with fiduciary standards, including the provisions of ORS 293.721 and 293.726, to:

a. Notify scrutinized companies with which the managers have made investments of the State Treasurer's policy [i.e., INV 212]; and
b. Not later than 90 days [from the date of] giving the notice, end investments in the scrutinized companies and avoid future investments in the scrutinized companies, as long as the managers may do so without monetary loss through reasonable, prudent and productive investments in companies generating returns that are comparable to the returns generated by the scrutinized companies.

POLICY PROVISIONS

Definitions

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

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

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

Iran means the Islamic Republic of Iran.

Scrutinized company means any company that currently has an investment: 1) in the Republic of Sudan, from which federal law specifically allows public pension plans to divest; or 2) in the energy sector of Iran as

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described in section 202(c)(1) of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (P.L. 111-195), as further determined by the United States Department of State.

Sudan means the Republic of the Sudan and any territory under the administration, legal or illegal, of Sudan, including but not limited to the Darfur region.

Policy Statements

CONDITIONS PRECEDENT TO IMPLEMENTATION

This policy, including the reporting requirement below, will be implemented when, and if, the Legislative Assembly appropriates sufficient moneys to the State Treasurer available for implementation of this policy, not including OPERF assets or moneys described by ORS 293.718.

1. **Identification of Scrutinized Companies**
   The State Treasurer's staff may engage the services of a specialized research firm to identify scrutinized companies, in accordance with Oregon law, based on its professional judgment.

2. **If a research firm is retained:**
   A. The State Treasurer's staff will work with the retained research firm to review and verify a list of scrutinized companies;

   B. The State Treasurer's staff will provide external managers with the list of scrutinized companies and any updates to the list, as they are identified and verified by the research firm working with the State Treasurer's staff and remind them of the fiduciary parameters within which they may take divestment action in accordance with such notice;

   C. External managers shall advise scrutinized companies that they may comment in writing to the State Treasurer to dispute the identification of the company as a scrutinized company; and

   D. If the State Treasurer determines that a company is not a scrutinized company, the State Treasurer shall notify the relevant manager of the State Treasurer's determination.
3. The State Treasurer's staff will continue a dialogue with the OIC's proxy voting agent to ensure that ballot issues related to the disclosure of Sudan investments are properly addressed.

REPORTING

On or before March 15 of each year, the State Treasurer shall make available on the State Treasurer's website a summary of actions taken during the previous year in accordance with ORS 293.811 to 293.817. The summary shall include a list of identified scrutinized companies.

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Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

PROCEDURES and FORMS

A. Presidential Executive Order No. 13067: "Blocking Sudanese Government Property and Prohibiting Transactions with Sudan," Signed by President Clinton, November 3, 1997.

B. Overview of U.S. Sudanese Sanctions Regulations, U.S. Department of the Treasury, Office of Foreign Assets Control.

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the OST Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

No Attachments

Committee	Approver	Date
	John Skjervem: Chief Investment Officer	pending

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Next Review:	*1 year after approval*
Owner:	*John Skjervem: Chief Investment Officer*
Policy Area:	*Investments*
References:	*OST Policy 4.01.20*

INV 216: Securities Lending

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

Investment funds under the purview of the Oregon Investment Council ("OIC" or "Council") may lend securities through a Lending Agent (the "Agent") selected by Oregon State Treasury (OST) investment staff and approved by the OIC.

Applicability

Classified represented, management service, unclassified executive service

POLICY PROVISIONS

Policy Statements

1. Recognizing that securities lending activities may provide incremental return to investment fund portfolios:
    a. The Agent shall reinvest all cash collateral received consistent with risk and return attributes and reinvestment guidelines approved by the OST Chief Investment Officer (CIO);

    b. Acceptable collateral investments shall be documented with the Agent in advance of any lending activity;

c. Collateral reinvestment guidelines for the Oregon Short Term Fund shall be presented to and reviewed by the Oregon Short Term Fund Board prior to CIO approval;

d. Any changes to securities lending reinvestment guidelines shall be reported to the OIC at the next regularly-scheduled OIC meeting following the change(s);

2. OST staff shall ensure that securities loaned do not compromise investment fund managers' ability to liquidate fund portfolio positions when necessary; and

3. OST Investment Accounting staff shall ensure that securities lending income is properly credited to the individual investment fund accounts.

Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

PROCEDURES and FORMS

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the OST Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

No Attachments

Committee	Approver	Date
	John Skjervem: Chief Investment Officer	pending

Origination:	*02/2010*
Last Approved:	*02/2010*
Last Revised:	*02/2010*
Next Review:	*1 year after approval*
Owner:	*Michael Viteri*
Policy Area:	*Investments*
References:	*OST Policy 4.05.10*

INV 607: Equity Investments: Manager Monitoring

OREGON INVESTMENT COUNCIL POLICY

INTRODUCTION & OVERVIEW

Summary Policy Statement

The Oregon Investment Council (OIC) retains external equity managers to invest the assets of various trust funds. Managers are hired for their specific expertise, expertise that should ultimately manifest in the investment performance results produced. The OIC recognizes that the retention of a manager exposes trust assets to a degree of risk for which adequate compensation in the form of excess returns should be required. This policy explicitly recognizes that manager monitoring is a continuous process that begins immediately upon a manager's initial retention.

Purposes and Goals

The goal of this policy is to establish a framework for monitoring public equity mangers.

Authority

ORS 293.736; ORS 293.741

POLICY PROVISIONS

Policy Statements

1. **General Oversight of Investment Management Firm Performance.** All performance calculations shall be provided by an independent third party (e.g., master custodian or consultant). Managers shall reconcile performance returns as calculated by the master custodian and/or consultant. Managers shall

also reconcile, at least monthly, portfolio positions and valuations with the master custodian.

2. **On-site Visits.** Investment Division staff members should visit each public equity manager on-site, at least every 12 months, unless the Senior Investment Officer, the Director of Capital Markets and/or the Chief Investment Officer concur, and document, that an on-site visit is not necessary, or that the period between visits should be extended. The site visit schedule may be amended based on various factors, including, but not limited to the following:
   a. personnel changes or changes in the manager's organizational structure;
   b. significant unexplained changes in performance; or
   c. negative publicity related to the manager.

3. Staff shall monitor the manager's performance results to ensure the manager is exhibiting risk and other portfolio characteristics consistent with its original or stipulated investment style or objective.

4. The manager shall operate under a set of investment guidelines contained in the Investment Management Agreement (IMA) which outline the latitude or discretion granted to the manager, permitted investments, relative risk levels, performance objective, and the time horizon over which performance shall be measured.

5. The manager is contractually apprised of the strategic role its portfolio is to fulfill, the performance objective it is expected to achieve and how and over what time period the manager will be monitored.

Exceptions

None.

Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

PROCEDURES and FORMS

ADMINISTRATION

Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

Attachments:

No Attachments

Committee	Approver	Date
	Michael Viteri	04/2016
	Kim Olson: Policy Analyst	04/2016
	Perrin Lim	04/2016
OIC	John Skjervem: Chief Investment Officer	pending

Glass, Lewis and Co.
2016 Proxy Season Review

Purpose
As required by *INV 605: Exercise of Voting Rights Accompanying Equity Securities*, to summarize and present votes cast by Glass, Lewis and Co. ("Glass Lewis") on behalf of the OIC, and provide an update on the regulatory environment concerning proxy voting.

Background
As established in INV 605, the OIC recognizes that a) the quality of corporate governance can affect enterprise value and b) voting rights thus have economic value and must be managed prudently. The OIC retains ultimate authority over proxy votes and strives to ensure that corporations follow practices that advance enterprise value. Since most shareholders like the OIC do not have the resources to attend annual or special meetings at which voting occurs, corporations provide shareholders with the option to vote by proxy. In accordance with voting standards codified in OIC guidelines, the Council implements proxy voting through an independent, third-party research and voting vendor. At its September 27, 2006 meeting, the OIC engaged Glass Lewis as its proxy agent and accepted the firm's standard Proxy Paper Policy Guidelines.

The majority of proxies voted are, by far, concerned with ordinary, technical corporate governance details, such as approving board candidates, committee memberships, auditor ratification, etc. Glass Lewis categorizes these as general and routine matters, and has established best practices and guidelines for each such category. Non-routine issues are handled on a case-by-case basis. On occasion, OST public equity managers will have a view that differs with Glass Lewis on how to vote specific proxies. In those instances, Staff will deliberate on the differences and potentially prepare recommendations to override the vendor's guidelines. As provided for in INV 605, the Deputy State Treasurer and the Chief Investment Officer will review and approve or deny staff recommendations, or recommend that the proxy vote in question be brought before the OIC.

Shortly after the retention of Glass Lewis in 2006, the OIC adopted the MSCI All Country World Investable Market Index (ACWI IMI) as its Public Equity benchmark in order to broaden OPERF's public equity allocation and reduce its "home country" bias. As a result of that benchmark change, the number of securities comprised by OPERF's Public Equity portfolio has increased substantially, as has the corresponding number of proxy votes managed by Glass Lewis.

The year-over-year increase in proxy voting since 2006 is summarized below:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Meetings	2,323	2,672	4,306	4,816	5,669	5,690	6,006	7,563	6,766
Resolutions	22,186	27,328	45,584	51,340	63,449	62,760	63,839	74,972	66,308

Included with this memo under separate cover is the 2016 Proxy Paper Guidelines which includes a summary of significant proxy updates.

Recommendation
None, information only.

Oregon State Treasurer Corporate Governance Update

August 2016

Increased emphasis on risk management and compliance

- Risk Officer
- Legal and Compliance Office
- BlackRock Aladdin
- ESG / Corporate Governance Program

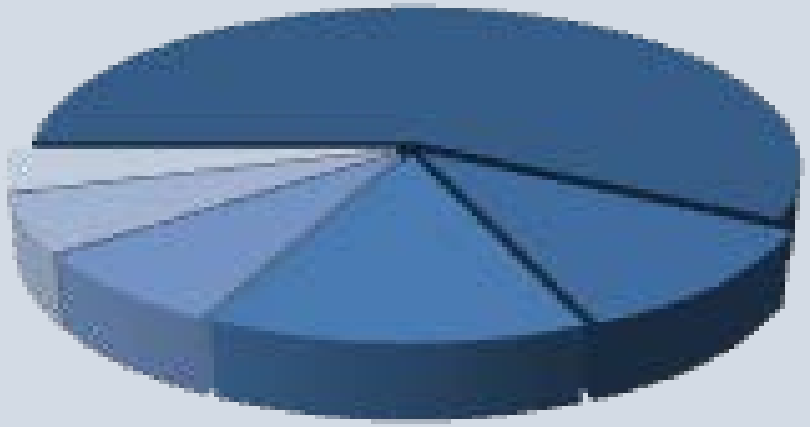
How do we address ESG risk?

- Proxy voting
- Engagement with companies and regulators
- Securities litigation

Proxy Voting

- The most significant and most frequently-used tool.

Proxy ballots by topic



Board-related	58%
Compensation	11%
Audits & financials	14%
Capital management	7%
Governance & statutes	6%
Social / other	4%

Source: Glass Lewis & Co.

Proxy Access

GOVERNANCE RISK

- Enables shareholders to submit candidates for board seats, within certain parameters.
- Investor community galvanizing around 3% of the company held for 3 years, to be eligible to present a candidate.

Board Diversity

GOVERNANCE RISK

- A growing body of academic work indicates that diverse boards function better and are correlated with better performance.
- The Treasurer sits on the board of the 30% Coalition, a non-profit focused on increasing women's corporate board representation, and serves on its institutional investor committee.
- Engagement with the SEC is always an option, as is the Diverse Director Database.

Board Accountability

GOVERNANCE RISK

- Political contributions transparency for shareholders
- Human capital management
- Aligning pay and performance (i.e., "say-on-pay")

Sustainability

ENVIRONMENTAL RISK

- Treasurer Randall Edwards was a charter member of the Investor Network on Climate Risk, and subsequent Treasurers have maintained that membership.
- Improved reporting of carbon assets as well as climate-related risks and opportunities.
- First and most impactful opportunity to address fossil fuel risks.

Human Capital Management

SOCIAL RISK

- The Treasurer belongs to the Human Capital Management Coalition, an institutional investor peer group pursuing working conditions improvements.
- To date, subject companies include Wal-Mart, McDonald's and the Gap.

Pay for Performance

GOVERNANCE RISK

- Pay packages have waned as a governance issue because "say-on-pay" proposals have proven effective with public companies on the issue of pay and performance alignment.

Securities Litigation

- The Treasurer, in partnership with the Attorney General's office, can pursue litigation in certain circumstances.
- Litigation is viewed as a last resort, when proxy voting and direct engagement fail, or when fraudulent activity is uncovered.

Recouped damages

2011	$ 473,289.10
2012	$ 452,843.52
2013	$ 1,434,730.58
2014	$ 2,408,359.50
2015	$ 3,117,660.14

2016 NORTH AMERICAN SEASON REVIEW

AARON BERTINETTI

VICE PRESIDENT, RESEARCH & ENGAGEMENT

GLASS LEWIS

AGENDA

- **Research Performance**
- **Engagement**
- **OIC Voting Summary**
- **Proxy Access**
- **Activism**
- **Shareholder Proposals**
- **Executive Compensation**
- **Election of Directors**
- **Q&A**

GLASS LEWIS

RESEARCH PERFORMANCE JAN-JUN 2016

- **Volumes**
  - Published 16,394 reports
  - North America accounted for 5,525 reports

- **Timeliness**
  - Overall lead times are up 3.4% y.o.y. at 18.8 days before meeting
  - North America lead times up 1.7% y.o.y. at 20.3 days before meeting

- **Accuracy**
  - Overall republishes down 31.5% y.o.y.
  - Republished reports due to error down 4.9% y.o.y.
  - Republished reports with recommendation change down 17.9% y.o.y. (0.3% of published reports)

GLASS LEWIS

ENGAGEMENT

- **Engagement is core to GL research**
  - Critical input to ensure our policy is pragmatic, contextual, case by case
  - Enriches analyst insight/research into individual companies and markets
  - Enhances the understanding companies have of GL and our clients
  - Provides companies a direct method to raise issues or clarification
  - Meetyl allows any company to directly engage with GL at no cost
  - Our experience informs the engagement tools we build for clients

- **Engagement tools for clients**
  - Viewpoint – Engagement CRM, workflow and reporting tools (2015)
  - Meetyl – Direct engagement platform for investors and companies to connect and schedule meetings on the investment side (2014) and governance side (Q1 2017) of their businesses

GLASS LEWIS

ENGAGEMENT

- **Issuer Data Report (IDR)**
  - Allows companies to review and provide feedback on the factual data used in our reports, but not the independent analyst opinions and recommendations, prior to publication of our research
  - Approx 800 companies signed up to the IDR this season at no cost
  - In 2017, we expect more than 1,500 companies to participate

- **Engagement activity**
  - In 2016, analysts will have formal meetings with members of the boards and executive committees of more than 1,000 companies (40% in NA)
  - In 2016, analysts will have dialogue with approximately 3,000 companies
  - In 2017, we expect engagement activity to grow 100% y.o.y.

OIC VOTING SUMMARY FOR 2016 PROXY SEASON

	1Q2016	2Q2016
US Meetings	162	1,414
Non-US Meetings	858	3,481
Management Resolutions	8,234	52,844
% Supported	79.9%	82.4%
Shareholder Resolutions	98	831
% Supported	55.1%	43.6%

GLASS LEWIS

PROXY ACCESS

- **Proliferation of proxy access**
  - 2016 saw the widespread proliferation of proxy access, with rules requiring 3% ownership for 3 years becoming the market standard
  - Investors seem largely content to follow management's lead with regard to which ancillary features are best for the company (e.g., the use of loaned shares or approval thresholds for candidate resubmission)

- **Substantial proposal support**
  - Virtually all of the 81 proxy access shareholder proposals that went to a vote during the 2016 season requested a 3%/3-year threshold
  - Proxy access proposals averaged 51.3% shareholder support, with 37 of these proposals (or 45%) receiving majority shareholder support

- **5% proves too high for most**
  - With few exceptions, companies advocating for 5% proxy access were largely rebuffed

PROXY ACCESS – OIC VOTING RECORD

US Proxy Access Proposals, Proxy Season 2016				
For	**Against**	**Abstain**	**Take No Action**	**Total**
48 / 73.8%	17 / 26.2%	0	0	65

GLASS LEWIS

ACTIVISM

"There are only two types of companies in the world... those with activists and those that will have activists!"

GLASS LEWIS

ACTIVISM

- **High profile proxy contests being averted**
  - Several high-profile proxy contests brought by activist investors were averted, with activists winning board seats and concessions regarding strategic planning, such as potential spin-offs
  - Most high-profile settlement of 2016, Starboard Value L.P. agreed to drop its dissident slate at Yahoo! Inc. in exchange for four board seats

- **Companies playing governance defense**
  - Companies are increasingly proactive against the threat of activists, and are adopting pre-emptive governance strategies that improve disclosure, increase engagement and enhance board composition and renewal

SHAREHOLDER PROPOSALS (SHPs)

- **Climate change**
  - SHPs requesting increased disclosure on how companies are planning to mitigate the risks associated with climate change and attendant regulations received record levels of support in 2016
  - Avg support for proposals jumped from 17.5% in 2015 to 32% in 2016

- **Political spending**
  - Conservative shareholder groups put forth a record number of proposals modelled after those put forth by more progressive shareholder proponents, however, most of these proposals received less than 3% support
  - More progressive shareholder proponents receive much larger support with only 7 of 140 receiving less than 3% support

- **Gender pay equity**
  - Emerging focus issue over the past year
  - Unprecedented increase in shareholder support for a related proposal at eBay: support for the measure jumped from 8.5% in 2015 to 51.2% in 2016

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SHAREHOLDER PROPOSALS – OIC VOTING RECORD

US Shareholder Proposals (SHPs) Proxy Season 2016

SHPs	For	Against	Abstain	Take No Action	Total	% Total Proposals
	240 / 47.6%	245 / 48.6%	3 / 0.6%	16 / 3.2%	504	3.0%
						% Total SHPs
SHP: Environmental	26 / 32.9%	53 / 67.1%	0	0	79	15.7%
SHP: Social	38 / 32.5%	72 / 61.5%	1 / 0.9%	6 / 5.1%	117	23.2%
Popular Proposals						
Misc. Energy & Environmental Issues	1 / 7.7%	12 / 92.3%	0	0	13	
Report/Action on Climate Change	9 / 52.9%	8 / 47.1%	0	0	17	
Reporting/Reducing Greenhouse Emissions	1 / 12.5%	7 / 87.5%	0	0	8	
Sustainability Report	15 / 65.2%	8 / 34.8%	0	0	23	
Reviewing Political Spending or Lobbying	31 / 43.7%	39 / 54.9%	1 / 1.4%	0	71	

GLASS LEWIS

EXECUTIVE COMPENSATION

- **Big pay at big banks**
  - Executives of large financial institutions in the U.S. continue to receive immense payouts
  - Shareholder engagement efforts and the linkage between pay and performance remain central for banks, particularly during turbulent years

- **Changes in energy**
  - A market downturn in the energy sector forced some energy companies to make substantial changes to their pay programs
  - One-third of Russell 1000 energy companies discretionarily reduced short-term bonuses, and companies in that group were 50% more likely to grant retention awards than the market average.

EXECUTIVE COMPENSATION

- **One-time awards**
  - Such awards cost companies (and shareholders) an aggregate of $4 billion for the 2016 season, with nearly half of companies under our coverage granting these awards
  - Sign-on awards were the largest component of one-time grants, with retention awards close behind

- **TSX say-on-pay**
  - Voluntary adoption of say-on-pay continues to increase among TSX-listed companies generally (there were at least 165 advisory votes in 2016, versus 132 in 2015)
  - However, the percentage of firms in the TSX 60 holding a say-on-pay vote has remained steady in recent years at 80%. The holdouts are generally controlled companies or have a single large shareholder

EXECUTIVE COMPENSATION – OIC VOTING RECORD

US Executive Compensation Proposals Proxy Season 2016 v 2015						
	For	**Against**	**Abstain**	**Take No Action**	**Total**	**% Total Proposals**
2016	1132 / 82.4%	241 / 17.5%	0	1 / 0.1%	1374	8.1%
2015	1249 / 84.9%	221 / 15.02%	0	1 / 0.08%	1471	8.2%

GLASS LEWIS

ELECTION OF DIRECTORS

- **Growing focus on diversity, skills and tenure on boards**
  - GL has not observed significant changes in voting, but it has become an increasing topic discussed in engagements, proxy contests and policy discussions and development with clients
  - Some investors are implementing stricter rules with regard to tenure and independence
  - GL expects that over time disclosure and scrutiny of board skill mix will become more common as say-on-pay issues normalize

- **Policy changes**
  - Reduced thresholds for over-boarding starting in 2017 with a 5 board max for non-employee directors and 2 board max (including the board of their own company) for executive officers
  - Highlighting tenure and diversity outliers in S&P 500 (no women on board, average tenure of 10 years w/ no new directors in past 5 years, lack of core skills), with discretion for negative recs where evidence that underperformance is related to board composition/renewal

ELECTION OF DIRECTORS – OIC VOTING RECORD

US Election of Directors Proposals Proxy Season 2016					
For	**Against**	**Abstain**	**Take No Action**	**Total**	**% Total Proposals**
10843 / 93.7%	658 / 5.7%	55 / 0.5%	10 / 0.1%	11,566	68.5%
Most Popular Against/Withhold Reasons					
Adopted forum selection clause in past year w/o shareholder approval					
Adopted or renewed poison pill w/o shareholder approval in past year					
Affiliate/Insider on a committee					
Ongoing compensation issues					
Board is not sufficiently independent					
Most Popular Abstain Reason					
Insufficient information provided by the Company					

GLASS LEWIS

Q&A

Post-meeting questions can be sent to abertinetti@glasslewis.com

GLASS LEWIS

Asset Allocations at June 30, 2016

	Regular Account							Variable Fund	Total Fund
OPERF	**Policy**	**Target[1]**	**$ Thousands**	**Pre-Overlay**	**Overlay**	**Net Position**	**Actual**	**$ Thousands**	**$ Thousands**
Public Equity	32.5-42.5%	37.5%	25,940,031	38.0%	171,691	26,111,722	38.2%	595,267	26,706,989
Private Equity	13.5-21.5%	17.5%	13,711,217	20.1%		13,711,217	20.1%		13,711,217
Total Equity	**50.0-60.0%**	**55.0%**	**39,651,248**	**58.1%**	**171,691**	**39,822,939**	**58.3%**		**40,418,206**
Opportunity Portfolio	0-3%	0.0%	1,390,829	2.0%		1,390,829	2.0%		1,390,829
Fixed Income	**15-25%**	**20.0%**	**14,405,201**	**21.1%**	**1,104,396**	**15,509,598**	22.7%		**15,509,598**
Real Estate	**9.5-15.5%**	**12.5%**	**8,573,645**	**12.6%**	**(29,900)**	**8,543,745**	12.5%		**8,543,745**
Alternative Investments	**0-12.5%**	**12.5%**	**3,003,394**	**4.4%**		**3,003,394**	4.4%		**3,003,394**
Cash[2]	**0-3%**	**0.0%**	**1,264,413**	**1.9%**	**(1,246,187)**	**18,226**	0.0%	2,400	**20,626**
TOTAL OPERF		**100%**	**$ 68,288,731**	**100.0%**	**$ -**	**$ 68,288,731**	**100.0%**	**$ 597,667**	**$ 68,886,398**

[1]Targets established in June 2015. Interim policy benchmark consists of: 41.5% MSCI ACWI Net, 23.5% Custom FI Benchmark, 20% Russell 3000+300bps (1 quarter lagged), 12.5% NCREIF ODCE (1 quarter lagged), & 2.5% CPI+400bps.

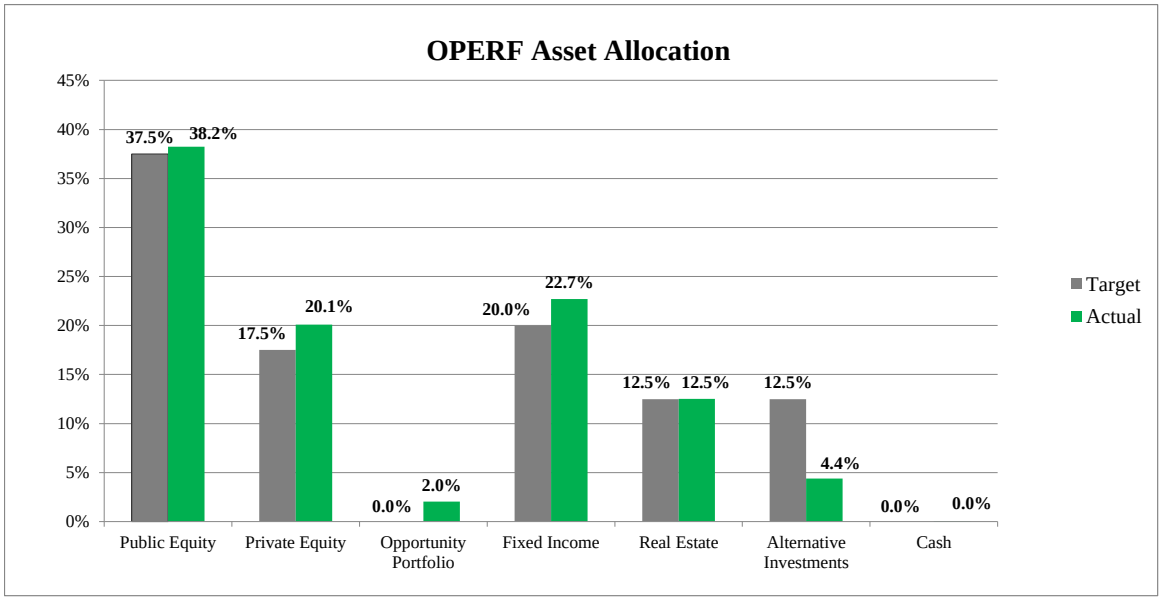
[2]Includes cash held in the policy implementation overlay program.

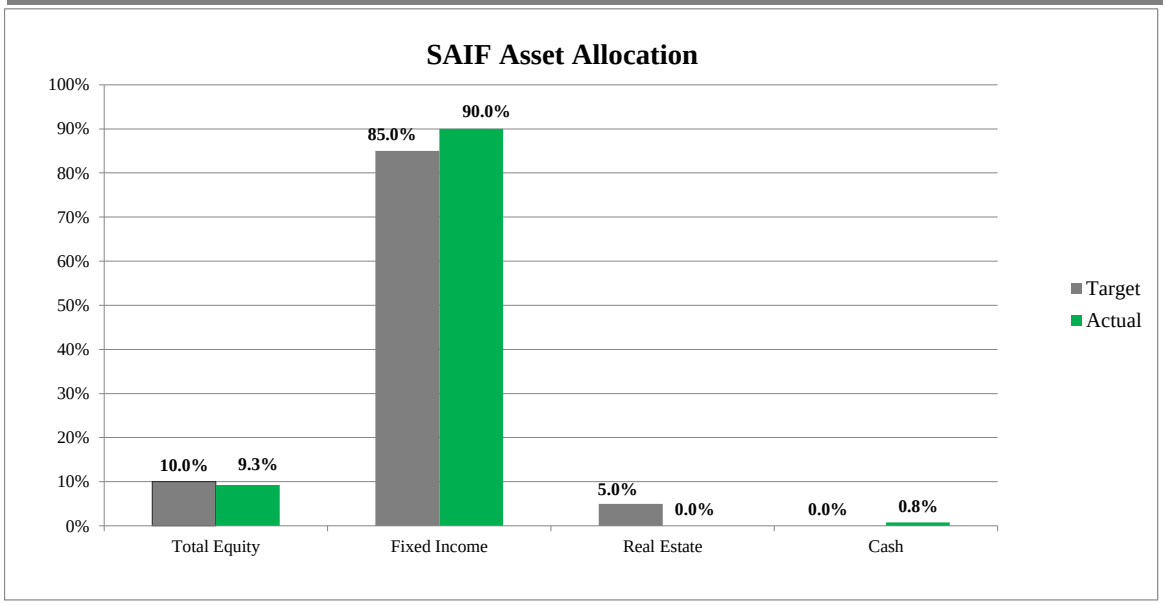
SAIF	**Policy**	**Target**	**$ Thousands**	**Actual**
Total Equity	**7-13%**	**10.0%**	**442,621**	**9.3%**
Fixed Income	**80-90%**	**85.0%**	**4,291,503**	**90.0%**
Real Estate	**0-7%**	**5.0%**	**0**	**0.0%**
Cash	**0-3%**	**0%**	**35,868**	**0.8%**
TOTAL SAIF			**$ 4,769,992**	**100.0%**

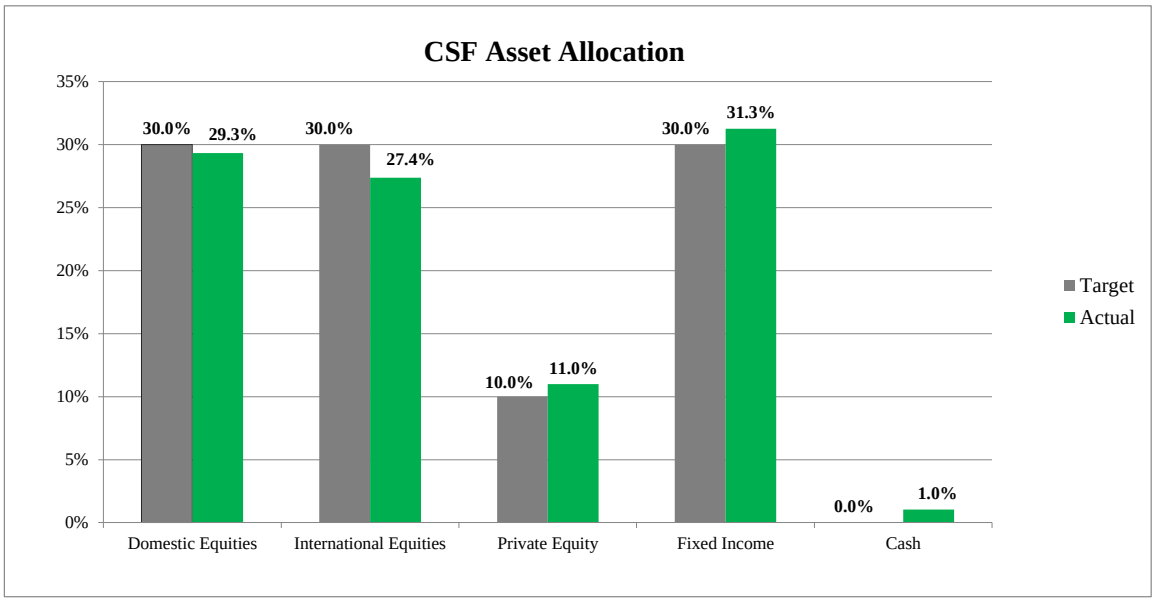
CSF	**Policy**	**Target**	**$ Thousands**	**Actual**
Domestic Equities	25-35%	30%	413,691	29.3%
International Equities	25-35%	30%	386,107	27.4%
Private Equity	0-12%	10%	154,983	11.0%
Total Equity	**65-75%**	**70%**	**954,782**	**67.7%**
Fixed Income	**25-35%**	**30%**	**440,990**	**31.3%**
Cash	**0-3%**	**0%**	**14,673**	**1.0%**
TOTAL CSF			**$ 1,410,444**	**100.0%**

SOUE	**Policy**	**Target[3]**	**$ Thousands**	**Actual**
Global Equities	65-75%	70%	**1,507**	70.5%
Growth Assets	**65-75%**	**70%**	**1,507**	**70.5%**
Fixed Income	25-35%	30%	626	29.3%
Cash	0-3%	0%	4	0.2%
Diversifying Assets	**25-35%**	**30%**	**630**	**29.5%**
TOTAL SOUE			**$ 2,137**	**100.0%**

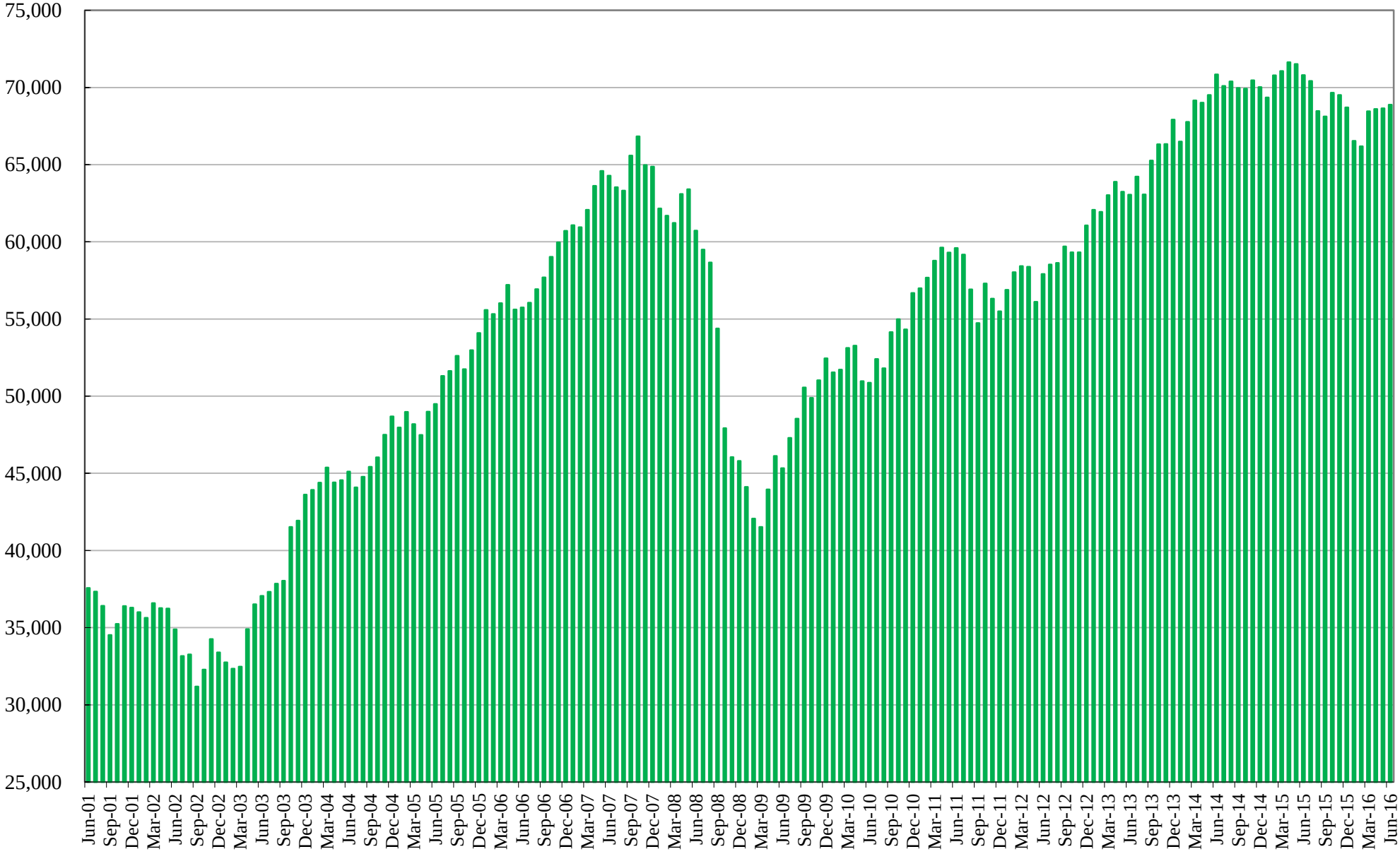
[3]Revised asset allocation adopted by OIC, March 2015.


OPERF Asset Allocation
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
37.5%
38.2%
17.5%
20.1%
0.0%
2.0%
20.0%
22.7%
12.5%
12.5%
12.5%
4.4%
0.0%
0.0%
Public Equity
Private Equity
Opportunity Portfolio
Fixed Income
Real Estate
Alternative Investments
Cash
Target
Actual

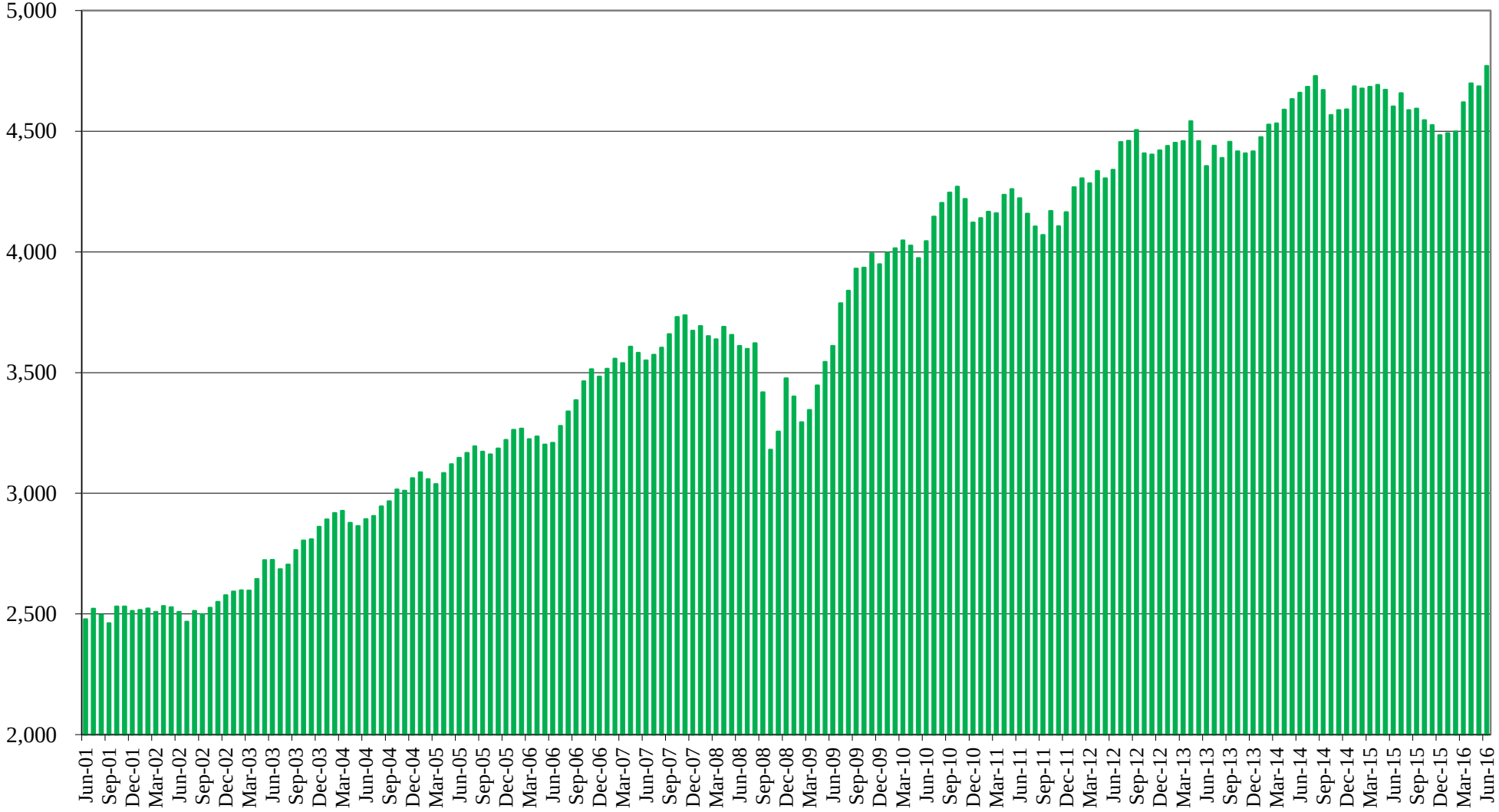

SAIF Asset Allocation
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
10.0%
9.3%
85.0%
90.0%
5.0%
0.0%
0.0%
0.8%
Total Equity
Fixed Income
Real Estate
Cash
Target
Actual


CSF Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
30.0%
29.3%
30.0%
27.4%
10.0%
11.0%
30.0%
31.3%
0.0%
1.0%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual

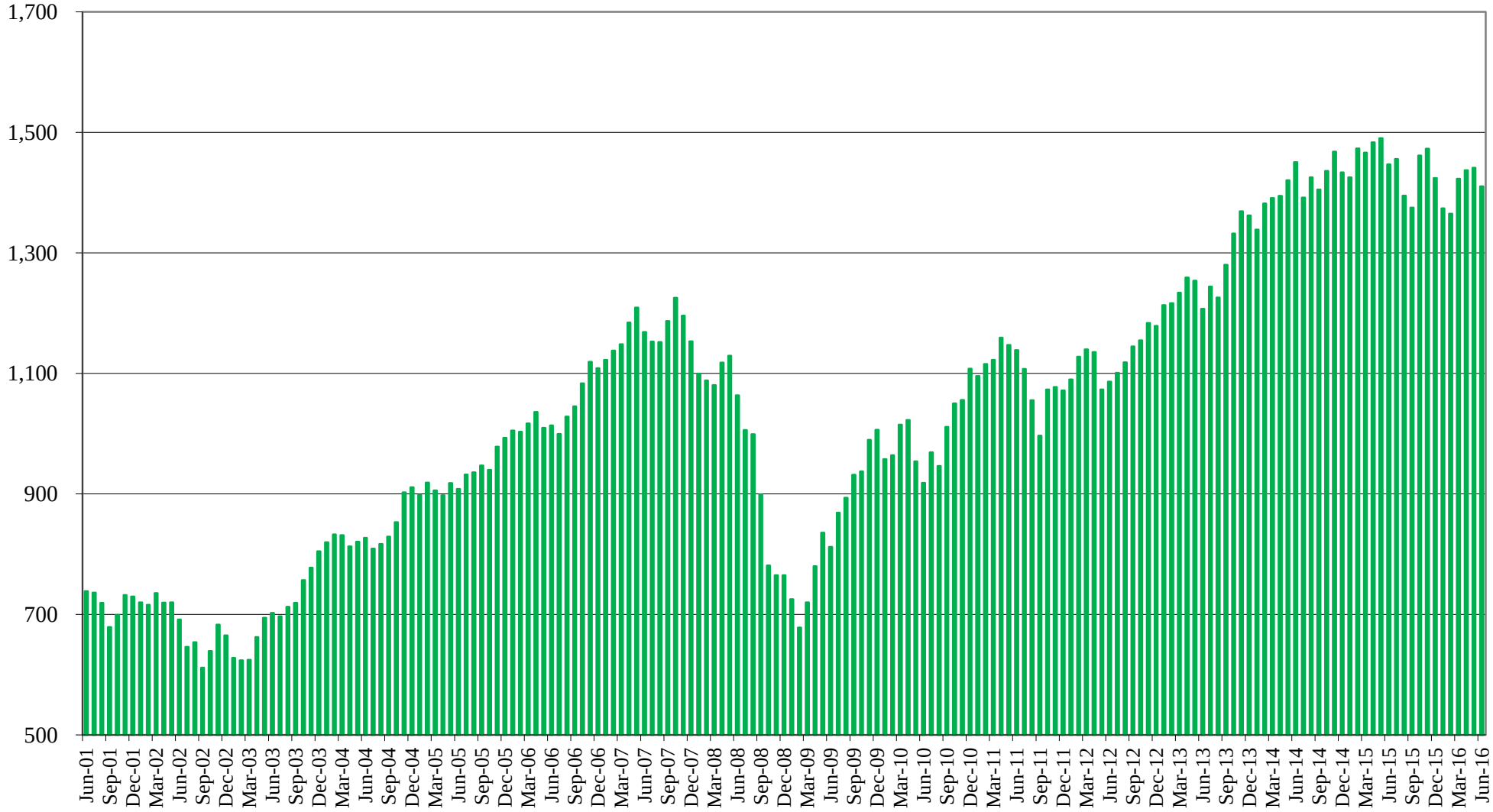
OPERF NAV
15 years ending June 2016
($ in Millions)



SAIF NAV
15 years ending June 2016
($ in Millions)



CSF NAV
15 years ending June 2016
($ in Millions)



2016/17 OIC Forward Calendar and Planned Agenda Topics

August 10:	OPERF Alternatives & Opportunity Portfolios Consultant Recommendation OSTF Policy Recommendation OIC Policy Updates Corporate Governance Update
September 14:	Private Equity Consultant Recommendation OPERF Real Estate Strategy Update OPERF Q2 2016 Performance & Risk Report Operational Review PERS Presentation and Joint Board Discussion
October 26:	OPERF Private Equity Manager Recommendation OPERF Alternatives Manager Recommendation Public Equity Program Review CEM Benchmarking Report OIC General Consultant(s) Recommendation
December 7:	Real Estate Manager Recommendation Real Estate Program Review OPERF Q3 2016 Performance & Risk Report OSTF Review Fixed Income Program Review IAP Update and Discussion
February 1, 2017:	Private Equity Manager Recommendation Private Equity Program Review Placement Agent Report OIC Policy Updates 2018 OIC Calendar Approval IAP Recommendation
March 15, 2017:	OPERF Opportunity Portfolio Review SAIF Annual Review Q4 2016 OPERF Performance & Risk Report OPERF Overlay Review Securities Lending Update