

**Oregon Investment Council
MINUTES
February 27, 2002**

The Oregon Investment Council was called to order at 9:02 a.m. by Gerard Drummond. He welcomed and introduced new OIC member, Jerry Bidwell.

OIC Members Present: Jerry Bidwell, Gerard Drummond, Randall Edwards, Mark Gardiner, Diana Goldschmidt, and James Voytko.

Staff Present: Jay Fewel, Steve Gruber, Linda Haglund, Norma Harvey, Brooks Hogle, John Kreft, Perrin Lim, Michael Mueller, Kevin Nordhill, Cesar Porte and Dan Smith.

Consultants Present: John Ilkiw, Frank Russell Company
Greg Nordquist, Frank Russell Company
Allan Emkin, Pension Consulting Alliance
Tara Blackburn, Pacific Corporate Group
Joe Meyer, Compass Advisors
Randall Doser, Compass Advisors

Legal Counsel: Dee Carlson, Oregon State Attorney General's Office

I. Review and Approval of Minutes - 1/30/2002

MOTION: Diana Goldschmidt moved approval of the 1/30/2002 minutes. The motion was seconded by Mark Gardiner and passed unanimously.

Mr. Drummond made the announcement that Mike Mueller would be acting as Interim Director of Investments until a new CIO was hired.

II. Higher Education Endowment

Mike Mueller and Mike Green addressed the Council regarding the Higher Education Endowment Fund (HIED) Fixed Income manager recommendation. Mr. Mueller noted that in October 2000, the OIC authorized the transfer of HIED's small cap funds from Barclay's Global Investor's (BGI) Russell 2000 Index to Batterymarch. In December 2001, the OIC authorized a change in HIED's fixed income investment policy to allow for the hiring of a "core-plus" manager. The decision to change managers is based on the fact that the Commonfund has performed below the median for the last four years. The five-year annualized return is ranked in the 74th percentile compared to other bond funds, and they underperformed the Lehman Aggregate by 80 basis points over the same time period. On January 17, 2002 presentations were made to the

Investment Committee of the Oregon University System Board of Directors by several management companies and Western Asset Management was selected because of their strong performance record, depth of resources and very favorable fee structure. At the HIED February 15, 2002 board meeting, the Board approved the termination of Commonfund as bond manager and recommended Western Asset as a successor firm.

MOTION: Mark Gardiner moved approval of the Higher Education Board's recommended termination of the Commonfund and the selection of Western Asset as the Endowment Fund's fixed income manager to be managed in accordance with the Council's previously adopted fixed income management guidelines for the Fund. The motion was seconded by Diana Goldschmidt and passed unanimously.

III. OIC Statement of Fund Governance

Mike Mueller, John Ilkiw and Allan Emkin were present to discuss the OIC Statement of Fund Governance for OPERF. Mr. Mueller informed the Council of a recent meeting with the State Employees International Union (SEIU) and the possibility of incorporating their comments in the document. He distributed proposed revisions based on his discussion with SEIU representatives.

Mark Gardiner noted that he was uncomfortable with the all-staff structure of the Alternative Equity Sub-Committee and suggested appointing a Council member to the committee in addition to staff. It was suggested that the State Treasurer might fill this position.

MOTION #1: Mark Gardiner moved adoption of the Statement of Fund Governance for OPERF with the inserted SEIU language handed out by Mike Mueller and the suggested changes to 2.1b, 3.1 (the addition of g), and the editorial changes to 4.1b. Diana Goldschmidt seconded the motion.

Ms. Goldschmidt asked for further discussion and clarification of the changes recommended by SEIU.

Mr. Mueller noted that the suggested changes by SEIU were included in the document, where he felt they were appropriate. He further noted that the letter from SEIU had additionally suggested changes in the proxy voting section, however, he believed the issue of proxy voting would better be addressed in the future, when the proxy voting policy is reviewed.

The Council invited Joe DiNicola, from the Board of Directors of SEIU 503, to make a presentation to the OIC regarding their suggested changes. He addressed what the SEIU felt were the responsibilities and accountabilities of the OIC and touched on the area of active management; specifically proxy voting. Mr. DiNicola suggested that staff compile a survey of key proxy votes by

individual fund managers and that the Council review the votes, thus involving the OIC in establishing basic proxy voting guidelines.

Mr. Drummond restated Mr. Mueller's point that proxy voting will be addressed at a future meeting and invited Mr. DiNicola to offer suggestions at that time.

It was the consensus of the Council that the issue of proxy voting and the role of the OIC should be reviewed in the near future.

MOTION #2: Mark Gardiner moved to include the SEIU language regarding proxy voting in the Statement of Fund Governance.

Mr. Drummond asked for clarification from Dee Carlson regarding including the proposed language and noted his concern that some areas of the document are in need of legal review. He further noted that the desire for the Attorney General's office to review the language and make necessary technical changes before adopting.

The month of April was agreed upon for the review of proxy voting policies.

MOTION #2: Mark Gardiner's motion was withdrawn.

The OIC instructed Mr. Mueller to work with Dee Carlson in reviewing policies against these newly adopted documents for conflicts.

The chair called for a vote on the motion made previously made by Mark Gardiner and seconded by Diana Goldschmidt.

MOTION #1: The motion passed unanimously.

IV. OIC Summary of Key Investment Duties and Functions

Mike Mueller, Allan Emkin and John Ilkiw were available for comment regarding the Summary of Key Investment Duties and Functions. Language changes were outlined and clarified.

Jim Voytko sought advice regarding language from Dee Carlson.

MOTION: Mark Gardiner moved adoption of the Oregon Investment Council Summary of Key Investment Duties and Functions with discussed changes. The motion was seconded by Randall Edwards and passed unanimously.

V. OIC Investment Objectives and Policy Framework for OPERF

Mike Mueller noted that comments and suggestions from the January meeting, as well as suggestions received since then, have been incorporated into the current document. He further noted that the document appeared to be ready

for approval. Dee Carlson offered legal advice regarding the policy framework document.

Jim Voytko offered comments and a statement of intention regarding risk/return objectives.

Diana Goldschmidt expressed disagreement with the proposed investment objective benchmark and asked that more time be devoted to this item, in order to project a more positive goal.

Allan Emkin suggested incorporating the benchmark in place at the present time and revisiting it in the future when the asset class is reviewed.

Jay Fewel and John Ilkiw addressed Jerry Bidwell's concern regarding the minimum standard benchmark and the risk involved in changing it.

It was the consensus of the Council to move ahead and adopt the current updated policy and to review it periodically in the future.

MOTION: Mark Gardiner moved to adopt the Statement of Investment Objectives and Policy Framework for OPERF with added discussed language changes. The motion was seconded by Randall Edwards.

Votes:	Randall Edwards	Aye
	Mark Gardiner	Aye
	Gerard Drummond	Aye
	Jerry Bidwell	Aye
	Diana Goldschmidt	No

The motion passed.

VI. 4th Quarter 2001 Performance Report OPERF

Allan Emkin and Mike Mueller discussed the Fourth Quarter 2001 Performance Report and the performance shift from growth to value stocks in a short time period. Discussion followed regarding the capital market review, rebalancing, diversification and the bond market.

Allan Emkin reported on peer comparisons and the fact that many plans are reducing expected returns, most dramatically for domestic equities. He noted that risk premiums have gone lower across the board and that international equities have been disappointing for the last five years.

After reporting on the private equity market, asset allocation and strategic decisions were discussed extensively.

Jim Voytko requested that the PERS staff circulate an article regarding an analysis that was done for the Social Security Administration by MIT looking at long-term returns for private equity.

The process of setting actuarial assumptions for the plan and the intertwining of PERS/OIC was addressed as well as the differences in Tier One and Tier Two employees.

Jim Voytko commented that Mike Mueller had circulated a listing of OPERF's "Top 100" holdings across domestic equity managers. While the list appeared to be different from those securities one would expect to find in our index funds, Jim asked for some additional analysis to demonstrate that our active managers are not replicating our passive holdings.

Mark Gardiner asked Mr. Carlson about the possibility of combining a OIC/PERS executive session to discuss the implications of current litigation. Mr. Gardiner agreed to work with the proper parties to set a time and place for the proposed executive session discussion.

Mike Mueller gave an overview of the total fund performance and noted that, as of December 2001, the fund was within all allocations for asset classes.

Tara Blackburn spoke regarding Pacific Corporate Group's return reporting policy and Jay Fewel addressed PCG's valuation methodology.

The rebalancing of assets after 9/11/2001 was addressed as well as an international equity overview.

VII. Asset Allocation

Dan Smith indicated that all were within policy.

- a. Oregon Public Employees
- b. SAIF Corporation
- c. Common School Fund

VIII. Calendar - Future Agenda Items

Mike Mueller noted his intentions for the "Future Agenda Items" to be a roadmap going forward for the upcoming year.

Mr. Drummond asked Mr. Mueller to work with Jim Voytko in setting up a joint OIC/PERS meeting.

The order of events on the future agenda calendar was discussed and modified.

IX. Public Comment

There were no comments from the public.

The meeting adjourned at 11:22am.

Respectfully submitted,

Norma Harvey
Investment Analyst