

Oregon Investment Council
MINUTES
October 25, 2006

The Oregon Investment Council was called to order at 9:00 a.m. by Richard Solomon, Chair.

OIC Members Present: Paul Cleary, Harry Demorest, Katy Durant, Randall Edwards, Mark Gardiner and Richard Solomon.

Staff Present: Tony Breault, Brad Child, Jay Fewel, Linda Haglund, Norma Harvey, Wei Huang, Perrin Lim, Mike Mueller, Jennifer Peet and Ron Schmitz.

Consultants Present: Mike Beasley, Strategic Investment Solutions (SIS)
John Meier, Strategic Investment Solutions
Mike Moy, Pension Consulting Alliance (PCA)
Allan Emkin, Pension Consulting Alliance

Legal Counsel: D. Kevin Carlson, Oregon Department of Justice

I. 9:00 am: Review and Approval of Minutes – 9/27/2006

MOTION: Harry Demorest moved approval of the September 27, 2006 OIC Minutes. The motion was seconded by Randall Edwards and passed unanimously by the Council.

- a. The September 22, 2006 Private Equity Committee meeting minutes were presented as an information item.
- b. The September 12, 2006 Real Estate Committee meeting minutes were presented as an information item.

II. 9:01 am: Lionstone Group & Responsible Contractor Policy Discussion

Daniel Dubrowski and Joanne Johnson of the Lionstone Group were present to take part in responding to allegations made at the prior meeting by representatives of SEIU regarding labor practices at an OPERF property in Houston, Texas. Representatives from PJS (the janitorial services firm at the property) and Transwestern (the property manager hired by Lionstone) were also available for questions.

Council members questioned Ms. Johnson and Mr. Dubrowski as well as representatives from PJS and Transwestern regarding the unfair labor practices allegations.

Discussion followed regarding a request by SEIU for the Investment Division Staff to review hiring practices of its real estate managers and recommend procedures for OIC consideration that would ensure fair and open hiring practices of contractors providing services for real estate owned by OPERF.

Joe DiNicola, president SEIU local 503 OPEU addressed the Council and noted that, in response to the material presented by PJS and Transwestern, additional material will presented to the Council in written form at the end of the meeting. Further, Mr. DiNicola noted that the cost to Lionstone for changing contractors would be minimal. He urged the Council to take responsible action and instruct Lionstone to find an alternative contractor. He further stressed his opinion that, it is unreasonable to wait for a resolution and to delay action until there is a settlement.

Mr. DiNicola answered questions from the Council.

Richard Solomon asked D. Kevin Carlson to comment on the recent union proposal for a responsible contractor policy.

Mr. Carlson noted that the Attorney General's office was contacted recently regarding the concept and formal discussions with staff have taken place resulting in the recommendation in the OIC materials today.

Dennak Murphy noted that there are many public pension funds and investment management firms that have adopted responsible contractor policies.

It was the consensus of the Council to have staff further review the issue and to work with managers, the union representatives, and consultants, and return to the OIC in December with a recommendation.

III. 9:37 am: Alternative Investment Primer

Steve Nesbitt of Cliffwater presented a report as an introduction to a variety of alternative asset classes and/or investment strategies. The presentation should enable the OIC to be more comfortable in prioritizing staff/consultant research activities for the months ahead.

Mr. Nesbitt noted that expected returns from traditional investments – stocks and bonds, are not expected to achieve required returns of 8% or more. Discussion followed regarding the following alternative asset classes:

- Hedge funds – seen as equivalent to bond risk with 3-4% higher returns.
- Private equity – investments are expected to offer 3-5% higher returns than public equity.

- Portable alpha – combining hedge funds with equity futures/swaps are expected to offer 3-4% higher returns than public equity.
- Real Assets
 - TIPS – Treasury Inflation Protection Securities: Treasury bonds with principal tied to the CPI.
 - Commodities – a diversified index of 24 commodity futures contracts, including energy (74%), agriculture (11%), industrial metals (9%), precious metals (2%), and livestock (4%).
 - Timber
 - Energy partnerships
 - Infrastructure

Mr. Nesbitt answered questions regarding the performance of different alternative asset classes over the last ten years and the future performance forecast.

Mike Beasley commented on attributing asset class status to these categories and noted that some of the issues would be covered in the asset liability study in December. He pointed out the difference between endowments and pension funds and noted that Oregon's funded status is better than most funds, some of which may be willing to take on more risk or reach for yield.

Randall Edwards left the meeting at 11:00 am.

Allan Emkin disclosed his working and personal relationship with Steve Nesbitt. He agreed with Mr. Nesbitt's hedge fund presentation, stressed the importance of being consistently invested in top quartile hedge funds.

Mike Mueller commented on the many prior discussions on timber investments and pointed to a white paper written by our Pension Consulting Alliance consultant, Nori Lietz, against timber as an asset class.

Discussion followed between staff, consultants and the Council regarding staffing implications of a strategically, risk-diversified portfolio.

Mark Gardiner left the meeting at 11:25 am.

IV. 11:30 am: Strategic Economic Decisions, Inc.

H. "Woody" Brock, Ph.D, president of Strategic Economic Decisions presented an economic research update to the Council. He outlined inflation, its true origins and behavior and stressed the importance of the concept of inflation for investors. Case studies were presented for consideration and the true drivers of asset market inflation were reviewed.

The simple analytics of commodity prices was a topic and Dr. Brock outlined price forecasting and price volatility.

Oil and Metals prices were discussed as well as the impact of speculation in the futures market on spot oil prices.

Forecast and risk assessment of the US economy was reviewed as well as world growth and global GDP. The US housing market was outlined as well as the monetary policy and the bond market.

Dr. Brock answered questions from the Council.

V. 12:20 pm: Common School Fund Annual Review

Mike Mueller introduced Louise Solliday, Director of the Department of State Lands. Ms. Solliday presented the Common School Fund Annual Review. The Common School Fund (“the Fund” or “CSF”) receives funds generated by timber sales, waterway leasing and other activities, conducted by the Department of State Lands (DSL). Investment returns generated by the CSF are used to provide benefits to Oregon’s K-12 schools based on biennial distributions from the Fund.

Ms. Solliday reviewed the history of the fund and discussed the State Land Board distribution policy and historical performance. She reviewed the Elliott forest management plan and the Elliott state forest habitat conservation plan.

VI. 12:30 pm: Asset Allocation & NAV Updates

Ron Schmitz reported that asset allocation and NAV updates are all within policy parameters.

VII. 12:34 pm: Calendar – Future Agenda Items

Ron Schmitz presented future agenda items for consideration and discussion, including the *draft* OIC meeting schedule for 2007.

VIII. 12:37 pm: Other Items

Ron Schmitz updated the council on the Private Equity RFP in process.

Ron Schmitz introduced new staff members Michelle Winegar and Tony Breault.

IX. 12:38 pm: Public Comment

Dennak Murphy distributed a letter to clarify and respond to the statements made earlier in the meeting by the Lionstone Group, PJS and Transwestern.

The meeting adjourned at 12:40 p.m.

Respectfully submitted,

Norma Harvey
Investment Coordinator