Oregon Investment Council
MINUTES
October 29, 2008

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Randall Edwards, Keith Larson, Dick Solomon
Staff Present:	Brad Child, Jay Fewel, Linda Haglund, Andy Hayes, John Hershey, Julie Jackson, Perrin Lim, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Ron Schmitz, Michael Viteri
Consultants Present:	Allan Emkin, Neil Rue, Eliza Bailey, Mike Moy, John Meier, Mike Beasley, David Fann, Tom Bernhardt, Tom Martin
Legal Counsel Present:	D. Kevin Carlson, Oregon Department of Justice Ted Falk, Oregon Department of Justice Paul Weddle, Oregon Department of Justice

The OIC meeting was called to order at 9:02 am by Katy Durant, Chair.

I. 9:02 a.m.: Review and Approval of Minutes
MOTION: Ms. Durant brought approval of the September 24 and October 15, 2008 OIC minutes to the table. Treasurer Edwards moved to approve the minutes. The motion was seconded by Mr. Demorest and passed by a vote of 5/0.

II. 9:03 a.m.: OPERF Real Estate-Guggenheim Fund II (A)-Executive Session
The Executive Session was held pursuant to ORS 192.660(2)(j) and ORS 192.660(2)(f).

MOTION: The meeting was returned to public session. Treasurer Edwards moved approval of the staff recommendation with several caveats:

- The remaining repo lenders (JPMorgan, Credit Suisse, and Citibank) will extend the repo financing for three years with no change in terms.
- Forbearance from the remaining repo lenders to halt additional margin calls for at least one year.
- Guggenheim is able to raise at least USD 300m for Fund IIA.
- Of the USD 300m, a significant percentage (at least USD 50m) shall be raised from a new capital source, other than current limited partners.
- Ongoing ability to negotiate terms with Guggenheim.

Mr. Solomon seconded the motion. The motion passed by a vote of 5/0. Said commitment is subject to satisfactory negotiation of the requisite legal documents by DOJ legal counsel working in concert with OST Staff.

III. 10:36 a.m.: OPERF Public Equity-International Small Cap:
Staff requested OIC approval to hire four international small cap managers to fill the vacant international small cap manager positions in the International Equity Fund (IEF). Staff and SIS are also recommending a strategic overweight to small cap for the IEF similar to the Domestic Equity Fund (DEF), which requires a policy change that increases the target allocation for dedicated small cap managers from seven percent to nine percent.

Staff and SIS believe the four managers recommended create a complementary structure. DFA is a deeper value, highly diversified, low tracking error product. Harris is a fundamental, concentrated, higher risk/higher expected return value strategy that makes large sector and country bets. Pyramis is a reasonably diversified, fundamental manager with a growth bias, whose investment process remains sector and country neutral, seeking to add alpha only through stock selection. Victory is a relatively concentrated, fundamental growth manager.

Mr. Nordhill introduced Margaret Lindsay and Daniel Dy of Victory Capital Management (VCM). Mr. Dy gave a summary of the company and their strategy. The VCM team is comprised of nine people, each team member has a personal knowledge of other cultures and each member is multi-lingual.

There are five steps in their investment process. Step 1 is to define and narrow the universe; Step 2 is an industry/theme based assessment; Step 3 is a fundamental company analysis; Step 4 is a valuation analysis; and Step 5 is portfolio construction. Before a stock is bought for the portfolio, it has to have at least a 20-30% upside over the next 12-18 months against a flat global market.

Questions were directed to VCM by the Council.

Mr. Nordhill then introduced David Herro from Harris Associates. Mr. Herro gave a brief personal overview and an overview of the company.

As of June 30, 2008, the team managed $1.5 billion in the international small cap strategy. Mr. Herro feels they can manage an additional $1-2 billion in this strategy. The team has a history of closing strategies at appropriate asset levels, the entire lineup was closed in 2004, as assets grew to $16 billion (non-U.S. assets peaked at $24 billion in June 2007). They have only recently re-opened the strategies to new assets.

The investment process employed by the team is fundamental and bottom-up. They believe a company's underlying value is determined by its current and potential cash generating ability and look for deviations from its "intrinsic value." Additionally, they also look for value based on companies' normalized earnings (the level of earnings after adjusting for cyclical influences) and asset values. A company must be selling at a substantial discount (generally, 30 percent) to its value to be a candidate for purchase.

Portfolios are relatively concentrated and will contain between 50-65 stocks. The construction is very benchmark unaware, but general diversification guidelines consist of less than five percent in one company, less than 25 percent in one industry, and less than 30 percent in one country. Maximum allowable emerging markets exposure is 35 percent.

There was a question and answer period between the board and Kevin Nordhill and John Meier of SIS.

MOTION: Mr. Demorest moved approval of the staff recommendation to amend OIC policy 4.05.12 and retain: Dimensional Fund Advisers, Harris Associates, Pyramis Global Advisers, and Victory Capital Management. Treasurer Edwards seconded the motion. The motion passed by a vote of 5/0. Said commitment is subject to satisfactory negotiation of the requisite legal documents by DOJ legal counsel working in concert with OST Staff.

IV. 11:33 a.m.: OPERF Opportunity Portfolio Annual Review

Jay Fewel and John Hershey presented an overview and update of the OPERF Opportunity Portfolio. The mission of the portfolio is to take advantage of opportunities that do not fit in the more traditional asset classes (stocks, bonds, cash, real estate, and private equity). Mr. Hershey went through the existing policy for the Opportunity Portfolio, which is very broad in scope. It was noted that current OIC policy prohibits commodity and hedge fund trading strategies.

Mr. Hershey discussed the existing portfolio and its progress. The current investments include the Shamrock Activist Value Fund, the Fidelity Real Estate Opportunity Income Fund, Sheridan Production Partners, Blackrock Credit Investors I and II, Oaktree Loan Fund, Providence TMT Special Situations, Apollo Credit Opportunities II, Alliance Bernstein All Asset Deep Value Fund, and Alinda Infrastructure Fund II. Mr. Hershey noted that the Opportunity Portfolio currently has some concentration in the bank loan space with over 50 percent of the portfolio dedicated to that strategy.

Mr. Hershey indicated that since joining the OST, he has met with many investment managers addressing a broad range of investment strategies, including hedge funds, infrastructure, commodities, and timber. Mr. Hershey explained some of the characteristics of truly opportunistic strategies. These opportunistic strategies include opportunities that are driven by dislocations in the market, which Mr. Hershey explained are often variable in nature and by definition, impossible to predict or plan for. Moreover, these types of opportunities will generally be tactical allocations, not strategic allocations.

Mr. Hershey presented three potential strategy options for the OIC to consider for the Opportunity Portfolio: 1) A largely status quo option that would continue with the existing strategy of bringing only truly opportunistic investments; 2) an opportunistic strategy coupled with inflation-related (e.g., infrastructure, commodities, etc.) strategies; and 3) a strategy that would combine opportunistic plus inflation related strategies with additional absolute return oriented strategies.

Mr. Hershey presented a number of potential next steps for the OIC to consider which included: a) further review of the appropriate benchmark for the Opportunity Portfolio; b) additional resources required, including whether to consider a dedicated consultant to the Opportunity Portfolio; c) whether to form a committee for the Opportunity Portfolio; d) whether to adjust the minimum investment size to $50 million from $75 million; e) whether to relax the constraints surrounding hedge fund and commodity-related strategies; f) whether to refine the minimum return threshold for consideration; and g) whether to provide for a strategic allocation range of 3-5%.

Mr. Larson expressed concern regarding implementing a strategic allocation without further study of the benchmark. Mr. Fewel stated that the original benchmark was simply the actuarial assumption plus 100 basis points and suggested that they go back and come up with something more definitive. An additional question also arose about where a five percent strategic allocation would be funded from. Mr. Fewel asked the Council what they thought about having dedicated consultants for the Opportunity Portfolio specializing in alternatives investment strategies. Ms. Durant asked if we would have to hire consultants on a contract basis. Mr. Schmitz suggested that the Council revisit this at a future meeting.

V. 12:32 p.m.: OPERF Opportunity Portfolio

Staff recommended approval of a commitment to the Endeavour Structured Equity and Mezzanine Fund I L.P. (SEAM) in the amount of $50 million, for the OPERF Opportunity Portfolio. SEAM is sponsored by Endeavour Capital (Endeavour), the general partner for a series of private equity funds focused on lower middle market buyouts in the Western U.S. and Canada, in which OPERF is a limited partner.

Katy Durant declared that she had an actual conflict of interest with this fund.

The mezzanine debt markets are expected to grow significantly given the current credit environment. The sources of senior bank financing and second lien debt financing have become less available thereby creating a greater demand from issuers for other forms of financing, including mezzanine debt. In its traditional form, mezzanine debt provides a source of current income via a fixed rate coupon and can benefit from equity appreciation through attached warrants or other forms of equity participation. The debt is generally subordinated to senior bank debt but is senior to equity in the capital structure of a company. Target mezzanine returns are typically in the low teens.

Mr. Hershey introduced Iain Douglass, Stephen Babson, Mark Dorman, and John Von Schlegell from Endeavour. Mr. Babson discussed how this fund would fit nicely into the Opportunity Portfolio. This is the same Endeavour strategy and philosophy, but these will be investments that are calculated to be lower on the risk/return continuum. Much of the return will come through current pay as opposed to the equity funds where it is back ended. The first fund will be capped at $150 million.

Mr. Babson covered the potential conflicts of interest that could come up between the Mezzanine Fund and the Equity Funds. They feel very comfortable that they can differentiate and keep them separate. Only SEAM managers can vote on any SEAM investment that constitutes a joint investment with an Endeavour Equity Fund. This would apply to the initial investment as well as all subsequent investment decisions. One of the steps they will use to safeguard the separate funds is to have an LP committee of only three members, one of which will be Oregon. It will not be possible to remove one of these managers without the consent of the LP Committee.

Mr. Fewel, Mr. Hershey, and David Fann of PCG responded to some of the questions/concerns of the Council.

MOTION: Treasurer Edwards moved approval of the staff recommendation. Mr. Solomon seconded the motion. The motion passed by a vote of 4/0 with Katy Durant abstaining due to a conflict of interest. Said commitment is subject to satisfactory negotiation of the requisite legal documents by DOJ legal counsel working in concert with OST Staff.

VI. 1:35 p.m.: OPERF Investment Management Cost Annual Study

CEM Benchmarking, Inc presented the cost analysis performed by them for the five years ending December 31, 2007 on OPERF's overall investment costs. Bruce Hopkins, Managing Director of CEM compared OPERF versus a Custom Peer Universe over a five year period. OPERF'S five year performance and total costs placed it in the positive value added, low cost quadrant on their cost effectiveness chart.

VII. 1:42 p.m.: OIC Proposed 2009 Meeting Schedule

The 2009 OIC Meeting schedule was reviewed and approved.

VIII. 1:43 p.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAVs for the period ending September 30, 2008. OPERF's pre-overlay is barely above the bottom of the policy range for total equities. The nominal asset allocation is pretty much right on target. SAIF is on target asset allocation wise. HIED and CSF are at the low end of the ranges. In mid-October there was a re-balancing of those portfolios.

IV. 1:50 p.m.: Calendar-Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

V. 1:54 p.m.: Other Business

Ms. Durant brought up a memo from Mike Beasley (SIS) that was sent out to the staff to make sure staff is aware that they can constantly re-evaluate how portfolios are set up and allocated based upon current conditions. The discussion will continue at the next OIC meeting.

1:57 p.m.: Public Comments

There were no public comments

The business meeting adjourned at 1:57 p.m.

2:00 p.m.: Currency Management Workshop

There were presentations made by Russell Investments, AllianceBernstein, SIS Consulting, and PCA Consulting.

The Currency Management Workshop adjourned at 3:25 pm.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist