

**Oregon Investment Council
MINUTES
February 25, 2009**

The Oregon Investment Council was called to order at 9:02 a.m. by Katy Durant, Chair.

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

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

Consultants Present: Allan Emkin and Mike Moy from PCA, Nori Lietz from Partners Group, John Meier and Mike Beasley from SIS, and David Fann, Kara King, Nico Kirsten and Stephen Schou from PCG

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

I. 9:02 a.m.: Review and Approval of Minutes

MOTION: Ms. Durant brought approval of the January 28, 2009 OIC minutes to the table. Mr. Demorest moved to approve the minutes. The motion was seconded by Mr. Solomon and passed by a vote of 5/0.

II. 9:03 a.m.: Oregon Savings Growth Plan

Michael Viteri, Public Equities Investment Officer provided an update on the Oregon Savings Growth Plan (OSGP), which is the state's 457 Deferred Compensation Plan. Staff recommended the OIC authorize staff to conduct a search for a full retainer consultant for the OSGP.

OSGP is maintained for eligible employees desiring to supplement other income sources including social security benefits they may receive upon retirement. The plan is viewed as a voluntary retirement program. Eligible employees choose to participate based on their assessment of need for additional retirement savings. The amount of savings a plan participant accumulates directly relates to the amount of earnings deferred and the growth of those deferrals through the investment options he or she selects.

OSGP employs a mix of both passive and active management using both institutional commingled trust funds and mutual funds for each option. OSGP uses several managers currently engaged for OPERF. The benefits of this structure include: 1) Lower risk, as measured by tracking error, for each option through manager diversification; 2) Lower overall management fees, and; 3) More efficient and effective monitoring of managers by staff for those managers that also manage money for OPERF.

Consulting services to defined contribution plans typically include both investment and program related advice. Neither the OIC nor the PERS Board has utilized a full retainer consultant to date for the OSGP. PERS has used a consultant in the past for specific services such as record keeper searches. To date, OST staff has provided all investment related advice and recommendations to the OIC for approval. The OIC's general consultant (SIS and previously Russell Consulting) have provided some limited advice regarding manager/fund replacements in the past, however, this is not part of the "core services" provided for in the contract.

Staff has had numerous discussions with the OSGP Manager over the years about obtaining the services of a full retainer consultant. Cost has historically been a major inhibiting factor, as well as deciding who would retain and monitor the consulting relationship.

Although the level of assets in the OSGP has diminished in the last year, it has increased greatly over the last decade. The OSGP is now at a size where the administrative fee on assets can support the cost of a full retainer consultant. Given the level of uncertainty in the capital markets, staff believes this is an appropriate time to obtain a full retainer consultant that would report to the OIC and work with OST staff on investment managers and structure (an example of this would be research into other investment options such as a brokerage window), as

well as provide programmatic advice and services (e.g., RFP development and review, plan design, technical/retirement services, communication consulting, etc.) to the OSGP manager.

Mr. Demorest expressed concern over the public view of hiring a consultant in the present economic climate and while the plan appears to be under performing. Staff assured the Council that there is definitely a need for this consultant and they will come back at a future meeting and have a better scope of what exactly this consultant will do.

MOTION: Staff recommended the OIC authorize staff to conduct a search for a full retainer consultant for the OSGP. The motion failed. Mr. Larson proposed an amendment that staff returns to the Council with more information regarding fund performance and a definition of scope for the consultant. Mr. Solomon seconded the request to amend the motion and it passed by a vote of 5/0. Ms. Durant moved to approve the amended motion, and it passed by a vote of 5/0.

III. 9:46 a.m.: Economic/Market Update

Paul Podolsky from Bridgewater Associates and Ernie Ankrim from Russell Investments provided an update on the economy and markets.

Mr. Podolsky from Bridgewater Associates presented first. He stated that we are in a depression, not a recession and that institutions need to re-examine asset allocations. The difference between a depression and a recession is that in a depression you get de-leveraging. A recession is cyclical. There are certain asset classes that perform better in a depression, such as government nominal bonds, inflation linked bonds, cash, gold, or sovereign bonds. To achieve target returns there are only three ways to get there: return on cash, return for holding assets, and having a manager with skill.

Mr. Ankrim from Russell Investments presented next. He stated that we are facing an economic situation that we have never seen before, but he does not believe it is as dire as Mr. Podolsky predicts. People are looking for safe havens for their money while the government is taking unprecedented action.

IV. 11:07 a.m.: OPERF Policy Implementation Overlay Update

Greg Nordquist, Senior Portfolio Manager and Sylvia Perek, Portfolio Manager from Russell Implementation Services provided an update on the OPERF Policy Implementation Overlay. Mr. Nordquist gave an overview of how the program works. He then discussed current exposures and fund performance. There are three steps in policy implementation/overlay program:

- Overlay frictional cash with underweight asset class
- Long/short for deviations outside predetermined ranges
- Raise cash opportunistically

Ms. Perek went through the daily process of the Overlay Services Team. There are six steps in the process that happen every day:

1. Download custodian/manager data.
2. Reconcile previous day's account movements and instruct margin wires.
3. Account for significant cash flows real time.
4. Calculate trade date cash & asset allocation.
5. Run alerts to identify tradable differences between actual and target (includes 1st sideline check).
6. Instruct required trades.

There was a brief question and answer period at the end of the presentation.

V. 11:35 a.m.: OPERF Cash Flow Discussion

Ron Schmitz, CIO gave an update on the current cash flow situation. The purpose of the discussion was to get more granular on the expected cash flow needs from the private market assets. Each Senior Investment Officer went back to their GP's and asked them to make very specific predictions of what their capital calls would be and what they thought distributions might look like in 2009. The information gathered was a "best guess" scenario because no one knows what the markets are going to do with any measure of certainty.

Staff is looking for direction from the Council on what amount of money there will be to invest; especially in the short term. There was a brief question and answer period. Katy Durant suggested a limited go-forward amount, but she also thinks that asset allocation needs to be added to the next meeting agenda. It was suggested that

staff and consultants do a stress test on potential market directions and do some scenario planning. Ms. Durant requested that staff try and get Howard Marks for the next OIC meeting in May.

It was also decided that staff would go ahead and schedule a Private Equity Committee meeting to vote on two re-up investments that were put on hold until after this OIC meeting.

VI. 12:02 p.m.: OPERF 4th Quarter Performance Report

Mike Beasley from Strategic Investment Solutions gave an update on the OPERF 4th quarter performance and the current market environment.

VII. 12:30 p.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAVs for the period ending January 31, 2009. The NAV's are all in line with policy. The OPERF overlay program has relaxed a bit from one percent bands to two percent. SAIF is near the bottom of the equity range which may trigger a rebalancing in the near future.

VIII. 12:31 p.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

IX. 12:32 p.m.: Other Business

There was no other business discussed.

12:32 p.m.: Public Comments

Linda Burgin, President of the Service Employees International Union (SEIU) Local 503 and Bart Lewis, President of the Retiree Chapter of the SEIU read a letter with questions and concerns they have about how the OIC is planning to adjust their investment approach given the uncertain times investors face.

The meeting adjourned at 12:40 p.m.

Respectfully submitted,



Julie Jackson
Executive Support Specialist