

**Oregon Investment Council
MINUTES
April 29, 2009**

The Oregon Investment Council was called to order at 9:01 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, Brad Child, Stacey Dycus, Sam Green, Norma Harvey, 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, Mike Moy and Neil Rue from PCA, Nori Lietz from Partners Group, John Meier and Mike Beasley from SIS, and David Fann from PCG

Legal Counsel Present: D. Kevin Carlson, Oregon Department of Justice
Ted Falk, Oregon Department of Justice
Fred Boss, Oregon Department of Justice

I. 9:01 a.m.: Review and Approval of Minutes

MOTION: Ms. Durant brought approval of the February 25, 2009 OIC minutes to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Mr. Demorest and passed by a vote of 5/0.

II. 9:02 a.m.: Litigation Update – Executive Session

Mr. Carlson read ORS 192.660(2)(h). The executive session, held pursuant to stated ORS, began at 9:02 am.

Fred Boss, Chief Counsel, Civil Enforcement for the Oregon Department of Justice, presented a litigation update to the Council.

The meeting returned to public session 9:15 am.

III. 9:15 a.m.: Economic Scenario Analysis

Mike Beasley and John Meier with SIS presented background on the current economic investment climate and simulated historical market impacts on OPERF. Mr. Beasley discussed the importance of assumptions and how that impacts the decisions we make. He also talked about different kinds of risks that the Council faces in overseeing the assets, and expressed caution around making major changes in the current environment. Mr. Beasley advised caution about getting too caught up in what is happening in the market right now and feeling the need to make a portfolio shift.

Mr. Meier discussed different total fund scenario analyses, including depression vs. recession and recovery scenarios. The depression scenario was based on the 1930's and the recession scenario was based on the 1970's. These scenarios were done with fairly simple cash flow analysis. The intermediate term analysis concludes that the current total fund risk level provides substantially greater recovery and growth of assets in a positive environment compared to the possible savings from a more defensive portfolio in a negative environment. When looking at the long term, the current risk profile was deemed clearly superior. All-in-all, the OIC deemed the current portfolio risk/reward posture as appropriate.

Following the presentation, there was a brief question and answer period.

IV. 9:56 a.m.: Private Equity and Real Estate Capital Budgeting

Brad Child, Senior Investment Officer, presented an update on real estate capital budgeting. The current NAV (Net Asset Value) targets are close to policy targets. The REIT (Real Estate Investment Trust) portfolio has

dropped to approximately 13% with the drop in public markets. Questions followed regarding the source of funds to increase the REIT allocation.

Sam Green, Investment Officer, presented an update on private equity capital budgeting. Changes in the market have forced the private equity investment budget to shift from \$3.5 billion to \$2.5 billion, for 2009, focusing on re-ups with existing partners only. Mr. Green went through the 2009 commitments already approved by the OIC as well as the commitments in the immediate pipeline (all re-ups). The expected amount of re-ups for 2009 is about \$2 billion. After some discussion it was decided that Council is open to hearing about new private equity commitment opportunities, should they arise.

There was a brief question and answer period.

V. 10:45 a.m.: OIC Annual Policy Updates

Mike Mueller, Deputy CIO, highlighted multiple policy updates and changes, listed below. Discussion followed.

1. 4.00.02: Replaces the type of meeting recordings from "tape" to "audio file."
2. 4.01.02: Provides reference to public equity policies which will cover internal management.
3. 4.01.12: Adds Opportunity Portfolio to list of major asset classes for internal audit purposes and updates Audit Manager title.
4. 4.01.18: Removes note about private equity and real estate allocations.
5. 4.02.02: Updates policy to reflect change in ORS 295 and responsibility for public funds collateralization.
6. 4.04.01: Creates separate section for "OST Staff Authority" for some administrative functions currently performed by the real estate committee, and adds staff authority for limited transactions in existing funds—up to \$10 million per fund.
7. 4.06.01: Creates consistency with OST Staff Authority in Policy 4.04.01 for private equity—with limited authority up to \$15 million per fund. Sets committee limit to existing fund's FMV of \$750 million instead of committed value.
8. 4.03.01, 4.07.01, 4.07.05, and 4.10.01: Change in benchmark name from Lehman Brothers to Barclays Capital.
9. 4.08.02 and 4.09.02: Changes review of asset allocation from "annually" to "periodically" for CSF and SAIF, respectively. Changes benchmark from Lehman Brothers to Barclays Capital.
10. 4.08.03: Updated to reflect equity structure as global for CSF and eliminates restriction on options, futures and private placements; which will be governed in the manager's contracts, if not allowed.
11. 4.08.04: Explicitly states 30 percent target for CSF to fixed income, in policy. Changes benchmark for Lehman Brothers to Barclays Capital.
12. 4.08.05: Deleted. Old international equity policy for CSF captured in 4.08.03 now.
13. 4.09.05: Eliminates restriction on options, futures and private placements for SAIF public equities; which will be governed in the manager's contracts, if not allowed.
14. 4.09.06: Changes policy for meetings with SAIF management to be at their request, instead of semi-annually. Retains annual opportunity for SAIF to address OIC.
15. Investment Objectives and Policy Framework for OPERF: Updates to reflect policy changes and definitions.

MOTION: Mr. Demorest moved approval of all policy changes. Treasurer Westlund seconded the motion. The motion passed by a vote of 5/0.

VI. 10:51 a.m.: Private Markets Statement of Principles

Ron Schmitz, Chief Investment Officer, presented a draft version of the Private Partnership Investment Principles which is a document that will serve to better align interests between general partners and OPERF, to enhance fund governance, and to provide increased transparency.

Consultants Mike Beasley with SIS, David Fann from PCG, Mike Moy from PCA, and Nori Lietz from Partners Group answered questions and provided comments to the Council on the draft of the Private Partnership Investment Principles. After the discussion, the Council requested that all input be sent to Ron Schmitz to be considered in a final version of the document to be ratified at a subsequent meeting.

MOTION: Mr. Larson moved approval subject to technical revisions to be sent to Mr. Schmitz to be ratified by the Council at a subsequent meeting. Mr. Solomon seconded the motion. The motion passed by a vote of 5/0.

VII. 11:47 a.m.: Higher Education GEAR UP Scholarship Funds

Mike Mueller and John Meier (SIS) presented on the Higher Ed "Gear Up" Scholarship Funds. Staff and SIS recommend that the OIC approve the investment allocation of the Oregon Student Assistance Commission as it relates to current and upcoming cash flows. Further, OST Staff will work with the Department of Justice to draft an interagency agreement of understanding among the various entities.

MOTION: Mr. Solomon moved approval of staff recommendation. Mr. Demorest seconded the motion. The motion passed by a vote of 5/0.

VIII. 11:50 a.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended March 31, 2009. The NAV's are all in line with policy. OPERF and SAIF are all within the ranges and very close to targets. CSF and HIED are also within range, but close to the bottom in terms of equity exposure.

IV. 11:51 a.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

X. 11:52 a.m.: Other Business

There was no other business discussed.

11:52 a.m.: Public Comments

Linda Burgin, President of the Service Employees International Union (SEIU) Local 503 read a letter with comments commending the OIC for "stepping up" and being an active owner and making positive changes regarding corporate governance and transparency.

The meeting adjourned at 11:57 a.m.

Respectfully submitted,



Julie Jackson
Executive Support Specialist