RONALD D. SCHMITZ
CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

PHONE 503-378-4111
FAX 503-378-6772

STATE OF OREGON
OFFICE OF THE STATE TREASURER
350 WINTER STREET NE, SUITE 100
SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL
OCTOBER 27, 2009
MEETING MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon, Ben Westlund
Staff Present:	Andrea Belz, Darren Bond, Garrett Cudahey, Jay Fewel, Sam Green, Ellen Hanby, John Hershey, Brooks Hogle, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Ron Schmitz, James Sinks, James Spencer, Michael Viteri
Consultants Present:	Allan Emkin and Mike Moy (PCA), Mike Beasley and John Meier (SIS), David Fann and Sundeep Rana (PCG)
Legal Counsel Present:	Cynthia Byrnes, Oregon Department of Justice Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 9:03 a.m. by Katy Durant, Chair.

I. 9:03 a.m.: Review and Approval of Minutes

MOTION: Ms. Durant brought approval of the September 30 and October 15, 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. 9:04 a.m.: The Case for Diversification-AQR Capital Management

John Hershey, Alternatives Investment Officer introduced Cliff Asness, Ph.D. and Managing & Founding Principal of AQR Capital Management. Mr. Asness made a presentation on the case for diversification: the theory and practice of building efficient portfolios. His presentation focused on the following five topics:

- Risk and why it is so important in portfolio management.
- Why not 100 percent equities?
- Why diversify? The best way to reach a given return target is with a diversified portfolio.
- How to diversify. Where do traditional returns come from?
- Diversification in the Oregon Portfolio.

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

III. 9:58 a.m.: OPERF Opportunity Portfolio Annual Review

Jay Fewel, Senior Investment Officer and John Hershey, Alternatives Investment Officer 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

investments and policy for the Opportunity Portfolio, which is broad in scope. Mr. Hershey explained that there are two general categories within the Opportunity Portfolio: 1) Shorter-term, opportunistic oriented strategies and; 2) Longer-term strategies. This discussion is on-going and will be revisited in the future via proposed policy revisions.

Mr. Hershey went on to discuss strategy options for the Opportunity Portfolio. Topics covered included benchmarking, various investment strategies, including opportunistic strategies, longer term strategies and other niche oriented strategies. Discussion ensued about the overall focus of the Opportunity Portfolio and implementation of the strategy.

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

***V. 11:05 a.m.: Common School Fund Annual Review (*taken out of order)**

Staff presented the Common School Fund annual review. Mike Mueller, Deputy CIO and Louise Solliday, Director of the Department of State Lands provided an update. The review included updates on performance, structure, and asset allocation of the Common School Fund for periods ended September 2009. Ms. Solliday spoke about the history and purpose of the Common School Fund, what constitutes the CSF investment portfolio, and recent distributions.

Ms. Solliday then went on to address some issues and recent developments The Land Board revised its distribution policy in April 2009. The distribution policy calls for a distribution of four percent of the average of the three prior calendar year ending balances. The Board adopted a resolution in June 2009 calling for a one-time five percent distribution for the 2009-2011, to help with the budget deficit. The projected distribution for the current biennium is $95.5 million. Ms. Solliday also discussed: The Elliott Forest Management Plan, the Asset Management Plan, In Lieu Land Acquisitions, and the Portland Harbor Superfund Site.

IV. 11:23 a.m.: OPERF Fixed Income Structure

Perrin Lim, Fixed Income Investment Officer and John Meier with SIS discussed the role of fixed income in institutional portfolios in general and in the OPERF portfolio specifically. The OPERF portfolio has undergone several meaningful changes over the years. It was once primarily an internal portfolio with few if any external managers. Upon the retirement of the portfolio manager, the OIC shifted to an external strategy that employed five generalist managers. These managers were given a fairly broad mandate with a lot of flexibility to move into the "plus" sectors of the fixed income markets (global developed, emerging markets, high yield, etc.). The restriction on non-investment grade was pegged at 30 percent versus an index of about five percent.

After the credit market meltdown in 2008, staff and SIS recommended, and the OIC approved, an allocation to a new specialist mandate comprised initially of bank loans but to also include high yield. The ability of the generalist managers to include the plus sectors was dropped from 30 percent to 15 percent.

There were two fundamental questions that came up during the discussion: what is the role of fixed income in OPERF and should this portfolio take on more of a global focus as have the other OPERF asset classes. This is an ongoing discussion and there were no actions taken by the Council. It was agreed that staff and SIS would come back to the Council with their ideas on how the Fixed Income Portfolio should be structured at a later meeting.

VI. 11:58 a.m.: OPERF Investment Management Costs-Annual Study

CEM Benchmarking, Inc presented the cost analysis performed by them for the five years ending December 31, 2008 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 costs for 2008 were below the Custom Peer Universe.

VII. 12:20 p.m.: OIC Proposed 2010 Meeting Calendar

The 2010 OIC Meeting schedule was reviewed. Mr. Demorest moved to approve the meeting schedule. The motion was seconded by Treasurer Westlund. The motion was passed by a vote of 5/0.

VIII. 12:21 p.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended September 30, 2009. All asset classes are within their allocation ranges.

IV. 12:22 p.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

V. 12:23 p.m.: Other Business

Katy Durant asked staff about the recent lawsuit filed by the California State Attorney General against State Street Bank. It was requested that the topic be added to the December 2 agenda to be addressed by a representative from State Street.

12:26 p.m.: Public Comments

There were no public comments.

The meeting adjourned at 12:26 p.m.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist