

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
FEBRUARY 24, 2010
MEETING MINUTES

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

Member on Phone: Ben Westlund

Staff Present: Andrea Belz, Darren Bond, Jay Fewel, Wendy Finley, Sam Green, Norma Harvey, John Hershey, Brooks Hogle, Julie Jackson, Martha Kellams, Jeff Keto, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Ron Schmitz, James Sinks, James Spencer, Michael Viteri

Consultants Present: Allan Emkin, John Linder and Mike Moy (PCA), Mike Beasley and John Meier (SIS), David Fann and Sundeep Rana (PCG)

Legal Counsel Present: Dee Carlson, Oregon Department of Justice
Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 9:00 am by Harry Demorest, Chair.

I. 9:00 a.m.: Review and Approval of Minutes

MOTION: Mr. Demorest brought approval of the January 27, 2010 OIC minutes to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Ms. Durant and passed by a vote of 4/0 (Treasurer Westlund was not present for the vote).

VIII. 9:02 a.m.: Asset/Liability Study Return Assumptions (*taken out of order)

Mike Beasley and John Meier of Strategic Investment Solutions (SIS) gave a brief overview of the process that will be used for determining the risk and return assumptions to be used in the upcoming asset/liability study. This was an informational topic only. There was a brief question and answer period following the presentation. SIS will come back to the Council and give a full report

at the April 28 meeting. Three specific areas that will be modeled are correlations, risk, and returns and moving from standard to custom scenario analysis.

IIA. 9:15 a.m.: Public Equity Review

Kevin Nordhill, Senior Investment Officer, Michael Viteri and Ben Mahon, Investment Officers and John Meier with SIS provided an introduction and overview of the current state of the Public Equity portfolio and made a number of recommendations.

Some of the objectives and strategies included in OIC policy for Public Equity include:

- Generate 75 basis points of excess return above the MSCI ACWI IMI (net) index over a market cycle of three to five years, on a net of fee basis.
- Manage active risk to a targeted tracking error of 1.0 to 2.5 percent, relative to the MSCI ACWI IMI.
- Target for active/passive management: 80 percent/20 percent.
- Maintain a Small Cap overweight target of 100 percent to the Russell 3000 Index, with the belief that the smaller cap end of the marketplace is less efficient and therefore able to add additional excess return with active management. For this purpose, Small Cap is considered the smallest 2000 companies in the Russell 3000 index.
- Maintain a neutral composite of value and growth investment styles.

Staff made the following recommendations to the Council:

Mandate Specific Recommendations

As part of portfolio structural analysis and continuing manager monitoring efforts, staff made several manager-specific recommendations:

- Split the Alliance Bernstein Global Style Blend mandate into two separate accounts: 1) Global Strategic Value; and 2) Global Research Growth (GRG). Reduce asset levels in the GRG allocation in favor of passive assignments and as a source of cash to meet future OPERF liquidity requirements.
- Authorize staff to manage an internal synthetic Russell 2000 Index portfolio within the guidelines specified in OIC Policy 4.05.03.
- Hire Dimensional Fund Advisors (DFA) for a dedicated Emerging Markets Small Cap strategy to be funded at approximately \$100 million, subject to the successful negotiation of the investment management agreement.
- Hire Westwood Global Investors for a dedicated Emerging Markets strategy to be funded at approximately \$100 million, subject to the successful negotiation of the investment management agreement.
- Convert the Pyramis Select International strategy to the Pyramis Select International Plus strategy and change the assigned benchmark from the MSCI World ex-U.S. index to the MSCI All-Country World ex-U.S. benchmark, subject to the successful negotiation of the investment management agreement.

Amended OIC Policy Recommendations

Staff also recommended approval of changes to the following OIC policies:

- 4.01.18 – Clarifies rebalancing of assets within asset and sub-asset class ranges.
- 4.05.01 – Increases the target range for passive strategies within Public Equity and eliminates the sub-asset class target ranges which are governed by the MSCI ACWI IMI index structure.
- 4.05.02 – Permits the CIO to add index strategies, as considered necessary, to fill gaps in the Public Equity portfolio, and addresses other housekeeping issues.

- 4.05.03 – Adds performance objectives and constraints for the internal synthetic Russell 2000 mandate (if approved).
- 4.05.10 – Eliminates the requirement to obtain written analysis of all private placements annually.

The small cap effect attribution was performed on the domestic equity portfolio alone.

The Board asked for attribution regarding the historical performance of the domestic equity portfolio, related to the small cap overweight.

The Board asked that the topics of active versus passive managers and manager selection versus asset allocation be added to the agenda, at a future OIC meeting. It was agreed that these were very important topics and need to have more time dedicated to each.

II-B. 9:46 a.m.: Westwood Global Investments

Meg Reynolds and Ted Sullivan from Westwood Global Investments gave an overview of their investment strategy. Westwood's investment philosophy is:

- Long-term outperformance is driven by stock selection.
- Superior stock selection is driven by patient implementation of thorough, bottom-up, fundamental research.
- Research is focused on generation and use of free cash flow.
- A focused portfolio is the result of conviction.

MOTION: Ms. Durant moved to approve both the mandate specific and the OIC policy staff recommendations from agenda item 2A (Public Equities mandate and policy changes). Mr. Solomon seconded the motion. The motion was passed by a vote of 4/0 (Treasurer Westlund was not present for the vote).

III. 10:35 a.m.: Community Bancorp/Sageview Capital – OPERF Private Equity

Jay Fewel, Senior Investment Officer introduced Scott Stuart, with Sageview Capital and William Harrison and Paul Murphy with Community Bancorp (CBC) who gave an overview of the companies and fund. Community Bancorp is a newly formed bank holding company based in Houston, Texas. CBC will seek to purchase assets and assume liabilities of failed banks and thrifts from the Federal Deposit Insurance Corporation, primarily in government assisted transactions. CBC will seek to acquire a series of attractive platform institutions across the U.S. with the goal of subsequently growing each platform through organic and acquisition based operating strategies. Rather than raising a traditional private equity fund, Sageview is looking to assemble a group of state pensions and other similar investors to provide direct capital investment into failing banks, providing individual investors with direct ownership stakes. Regulators are seeking the support of state pension funds to solve the crisis surrounding ongoing bank failures. Under the proposed structure, the Advisor (Sageview) expects CBC to acquire three or four failed banks as platform institutions in attractive markets across the U.S., during a three year commitment period. Each platform acquisition is expected to require between \$50 million and \$250 million of equity, depending on the size of the target banking institution's asset base. Sageview is targeting an equity capitalization of approximately \$1 billion for CBC, but a hard cap has not been established. The OPERF commitment, if approved, would be contingent on CBC's raising a minimum of \$500 million. It should be further noted that Sageview anticipates that its existing limited partners will commit an aggregate of more than \$100 million to CBC, of which \$10 million will come from the Sageview team.

There was a brief question and answer session following the presentation.

Staff recommended a commitment of \$100 million to Community Bancorp, LLC subject to satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

MOTION: Mr. Solomon moved to conceptually approve the staff recommendation contingent on mutually agreed upon terms being reached. Once that happens, there will be a meeting to approve the final terms. Treasurer Westlund seconded the motion. The motion was passed by a vote of 5/0.

IV. 11:20 a.m.: OPERF Private Equity Plan

Jay Fewel, Senior Investment Officer, and David Fann with Pacific Corporate Group gave a 2009 Private Equity Portfolio review and a 2010 overview.

V. 11:35 a.m.: AQR/CNH Partners Convertible Bond Fund – OPERF Opportunity Portfolio

John Hershey, Alternative Investment Officer, and SIS, recommended redemption of the entire fund because the original market dislocation that prompted the investment has since corrected. As the going forward expected return no longer meets the Opportunity Portfolio's threshold, Staff will work with AQR on an expeditious, but orderly liquidation of the portfolio.

MOTION: Mr. Solomon moved to approve the staff recommendation. Ms. Durant seconded the motion. The motion passed by a vote of 5/0.

VI. 11:36 a.m. Market Update

Jay Crandall, Managing Partner with Oak Hill Capital Partners and Glenn August, President and Senior Partner with Oak Hill Advisors gave a market update specific to Private Equity and Credit Markets.

The Private Equity Industry witnessed many unique events in 2009:

- Impact of FAS 157
- Placement Agent considerations
- Potential increase in industry regulation
- GPs focused on portfolio management
- Ex-post fund size reductions and fee/carry concessions
- LP response to industry evolution – ILPA Guidelines
- Carry tax legislation for GPs

In the presentation, it was stressed that it is time for investors to get back to basics:

- Assessment of opportunities
 - Leveraged loans are modestly undervalued, with a nice inflation hedge given floating rate component.
 - High yield is fairly valued, but still has structural risk and is more vulnerable to economic weakness.
 - Like 1993 and 2004, best opportunities:
 - Event driven investments (in anticipation of refinancings, M&A transactions).
 - Distressed investments – even though in second half of cycle, still interesting opportunities; more complicated; must be hands on.
 - Also, European credit offers interesting opportunities:
 - More prolonged distressed period is anticipated; lag to U.S.
 - Attractive competitive environment, given fewer participants.

VII. 1:15 p.m. Securities Lending Update

Tom Motley, Vice President of State Street Global Advisors and Johnson Shum, Vice President at State Street provided the OIC an update and review of the securities lending program in place for OPERF, OSTF and other state agency funds. This presentation was informational only.

There was a brief question and answer period following the presentation. OIC members requested that staff add the topic of cash collateral reinvestment guidelines as a future agenda topic.

IX. 1:45 p.m. OPERF Fourth Quarter Performance Report (*taken out of order)

Mike Beasley with SIS gave an update on the OPERF 4th Quarter performance and the current market environment.

X. 1:58 p.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended January 31, 2009. All asset classes are within their allocation ranges.

XI. 1:59 p.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

XII. 2:00 p.m.: Other Business

There was no other business discussed.

2:00 p.m.: Public Comments

There were no public comments.

The meeting adjourned at 2:00 p.m.

Respectfully submitted,



Julie Jackson
Executive Support Specialist