



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

OREGON INVESTMENT COUNCIL
JUNE 1, 2011
MEETING MINUTES

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

Staff Present: Darren Bond, Tony Breault, Brad Child, Garrett Cudahey, Jay Fewel, Sam Green, Ellen Hanby, Andy Hayes, John Hershey, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Tom Rinehart, Ron Schmitz, James Sinks, Michael Viteri

Consultants Present: John Linder (PCA), Nori Gerardo Lietz (Partners Group), John Meier and Deborah Gallegos (SIS), David Fann and Ken Lee (PCG)

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

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

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

MOTION: Mr. Demorest brought approval of the April 27, 2011 minutes to the table. Mr. Larson moved approval of the minutes. The motion was seconded by Mr. Solomon and passed by a vote of 4/0. Treasurer Wheeler was not present for the vote.

Keith Larson proposed updating the record to include a review performed by OST staff that revealed discrepancies in the analysis provided by the Jewish Federation at the April 27, 2011 OIC meeting.

II. 9:04 a.m.: Vista Equity Partners IV, L.P. - OPERF Private Equity

Robert Smith, Chairman and CEO with Vista Equity Partners along with Jay Fewel, Sr. Investment Officer, presented to the OIC. Vista was founded in 2000 by three Principals and is led by Chairman and CEO Robert Smith. They maintain offices in San Francisco, Chicago and Austin, and employ eight Principals, five Vice Presidents, a CFO, eleven Associates and seven Analysts.

The Fund has a focused investment criteria and will continue the same investment strategy as the prior funds. Vista seeks companies that provide mission-critical software and technology-enabled solutions with recurring revenue streams, and where there is an opportunity to improve the company's operations. Typically, companies will have annual revenues in excess of \$50 million and positive EBITDA. Following an investment, Vista seeks to create value by applying a standard set of operating procedures: "Vista Standard Operating Procedures" or "VSOPs," which include product development, sales and marketing, customer support, professional services, and general administration in order to improve a company's profitability.

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

MOTION: Mr. Solomon moved approval of the staff recommendation of a \$100 million commitment to Vista Equity Partners IV, L.P. subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff. Ms. Durant seconded the motion. The motion was passed by a vote of 5/0.

III. 9:40 a.m.: Public Equity Review

Michael Viteri, Senior Investment Officer, Ben Mahon, Investment Officer, as well as John Meier and Deb Gallegos with SIS, provided an introduction and overview of the current state of the public equity portfolio and recommended two policy changes including updates to policies 4.05.01 (codifies OIC authorization to convert any existing long-only mandate to a 130/30 strategy) and 4.05.03 (clarifies the objectives and strategies of the Tiered Emerging Markets Strategies (TEMS)).

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

MOTION: Treasurer Wheeler moved approval of staff recommendation. Mr. Larson seconded the motion. The motion was passed by a vote of 5/0.

IV. 10:15 a.m.: Fundamental Methodology Overview – OPERF Public Equity

Rob Arnott, President of Research Affiliates, introduced the topic of fundamental indexing. The concept of fundamental indexing was first presented in the March/April 2005 edition of the Financial Analysts Journal by then editor Rob Arnott. Since that time, the debate concerning the superiority of fundamentally-based indexes versus “old-fashioned” capitalization-based indexes (such as the S&P 500 or the Russell 2000) continues, and has been the catalyst for a slew of fundamentally-based strategies and product offerings. At its core, fundamental indexes differ from capitalization-weighted indexes because they weight companies on non-price-based metrics such as sales, earnings, book value, and dividends. To bolster the “superiority” argument of the fundamental index strategy, supporters point to the numerous valuation bubbles that have occurred over the years and maintain that investors were required to purchase over-priced/over-weighted stocks to maintain their cap-weighted indexes, and, consequently, lost money when those bubbles burst. They assert that fundamental indexing offers investors the opportunity to eliminate the “noise” surrounding individual stocks that can cause them to become over- or under-valued.

For the last few years, staff has been monitoring and researching the viability of implementing an internally managed fundamental index strategy. Staff believes that such a strategy would offer diversification and provide an additive, low cost strategy to the OPERF equity portfolio.

V. 10:55 a.m.: Core Real Estate Review

Following the 2009 annual real estate review in July 2010, Staff and PCA Real Estate Advisors agreed to conduct a further assessment of the real estate core portfolio and manager performance. Brad Child, Sr. Real Estate Investment Officer and Nori Gerardo Lietz of PCA Real Estate Advisors presented this information to the OIC as well as the 2011 core Real Estate portfolio review.

The core portfolio is comprised of six separate managers. Four separate accounts, structured as joint ventures, are held with specialist managers for each of the primary real estate property types (office, industrial, retail and multifamily). The remaining portfolio includes an open-ended, comingled real estate fund and a separate account for investments in high-grade CMBS and securitized real estate debt product. Mr. Child provided a general overview of each manager which was followed by a brief question and answer period.

MOTION: Staff recommended termination of the contract with RREEF America II. Mr. Solomon moved approval of staff recommendation. Ms. Durant seconded the motion. The motion was passed by a vote of 5/0.

****VII. 11:30 a.m.: SAIF Annual Review (taken out of order)**

In accordance with OIC Policy 4.09.06, representatives from SAIF Corporation provided an annual update. Mike Mueller, Deputy CIO introduced SAIF representatives Brenda Rocklin, President and CEO, Theresa McHugh, Vice President of Financial Operations, and Jerry Dykes, CFO. An overview of their handouts showed that there was a decrease in policy holders, a decrease in premium dollars they take in equaling about 2.9% and an increase in surplus. Most of these changes directly relate to the slowing economy.

Mr. Dykes highlighted investment performance, including investment income which has steadily increased in 2010. With regard to claim counts, they have steadily gone down since 2007, but so far in 2011 there has been a slight increase. There has also been a shift in types of claims entered, with the more serious claim numbers staying about the same and all other claims going down.

The overall portfolio has performed well, with the fixed income portfolio providing significant alpha over the past two years. From a low of \$3.18 billion in October 2008, the SAIF portfolio is up over 33 percent to \$4.24 billion as of April 2011.

VI. 11:52 a.m.: OPERF Policy Implementation Overlay Review

Mike Mueller, Deputy CIO and Greg Nordquist, Senior Portfolio Manager with Russell Investments provided the OIC with an update on the OPERF Policy Implementation Overlay program, provided by Russell Investments.

VIII. 12:02 p.m.: OPERF 1st Quarter Performance Review

John Meier of SIS presented the OPERF Performance Summary for the quarter ending March 31, 2011.

IX. 12:15 p.m.: Asset Allocations and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ending April 30, 2011.

X. 12:16 p.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

XI. 12:17 p.m.: Other Business

There was no other business discussed.

Public Comments:

There were no public comments.

The meeting adjourned at 12:17 p.m.

Respectfully submitted,



Julie Jackson
Executive Support Specialist