

**MICHAEL MUELLER, CFA, CPA**  
**INTERIM 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 31, 2012**  
**MEETING MINUTES**

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

Staff Present: Darren Bond, Karl Cheng, Jay Fewel, Sam Green, Andy Hayes, Julie Jackson, Mary Krehbiel, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Tom Rinehart, Mike Selvaggio, James Sinks, James Spencer, Michael Viteri, Byron Williams

Consultants Present: John Meier (SIS), Alan Emkin, Mike Moy, and John Linder (PCA)

Legal Counsel Present: Dee Carlson, Oregon Department of Justice

The OIC meeting was called to order at 9:00 am by Dick Solomon, Vice Chair (Mr. Larson had not yet arrived).

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

**MOTION:** Mr. Demorest move approval of the amended April 25, 2012 minutes and the September 19, 2012 meeting minutes. Treasurer Wheeler seconded the motion. Both sets of minutes were approved unanimously by a vote of 4/0 (Mr. Larson had not yet arrived).

Michael Mueller, Interim CIO, informed the members of actions taken by the private equity committee since the last OIC meeting.

**Private Equity Committee – 2012:**

September 26, 2012:

- Advent International Global Private Equity VII, L.P. \$75 million\*
- Pine Brook Capital Partners II, L.P. \$75 million

October 22, 2012:

- Nordic Capital Fund VIII, L.P. \$75 million

\*commitment was cut back to \$50 million by the general partner, as the fund was oversubscribed.

Mr. Larson arrived at 9:05 am

**II. 9:05 a.m.: Strategic Economic Decisions**

H. "Woody" Brock, President of Strategic Economic Decisions spoke about global macroeconomic issues and potential solutions.

**III. 10:11 a.m.: Common School Fund Annual Review**

Louise Solliday, Director of the Division of State Lands, gave an update on the activities of the State Land Board as they relate to the Common School Fund.

The significant manager line-up changes that were approved by the OIC, have now been in place four years. For the four-year period ended September 2012, the fund returned 8.2 percent, on average, which was 90 basis points better than the 7.3 percent policy benchmark. For the 12 months ended September 30, the CSF returned 17.3 percent.

**IV. 10:42 a.m.: Private Equity Consulting Contract**

Mr. Solomon read his potential conflict of interest statement (below) into the record, regarding Gerard Drummond, an advisor to TorreyCove and a client of his.

October 31, 2012

**Statement of Richard B. Solomon:**

**After consulting with Dee Carlson, Senior Special Attorney General, and with a representative of the Oregon Government Ethics Commission, I do not believe I have a statutory actual or potential conflict of interest in this matter. Nevertheless, in the interest of transparency, I make the following disclosure:**

**Gerard K. Drummond, a senior advisor to TorreyCove, is a client of my public accounting practice. TorreyCove is not a client. The fact that Mr. Drummond is associated with TorreyCove has no impact on either the fees I invoice him for professional services or my vote on this matter.**

Staff proposed that that OIC extend the contract of TorreyCove, subject to existing terms for an additional two year period ending December 31, 2014. Treasurer Wheeler requested that this approval be contingent upon John Skjervem's approval once he starts on November 1, 2012.

**MOTION:** Ms. Durant moved approval of the staff recommendation contingent upon John Skjervem's (new CIO) approval. Mr. Demorest seconded the motion. The motion was passed by a vote of 5/0.

**V. 10:45 a.m. CEM Benchmarking Annual Review**

Bruce Hopkins, VP of CEM Benchmarking gave an update on the investment management costs of OPERF for the year ended December 31, 2011. Relative to fund costs, CEM concluded that the actual costs of 69.1 bps were below the CEM benchmark costs for OPERF of 79.8 bps. This suggests that the fund was "low cost."

**VI. 11:27 a.m. OST Internal Audit Report**

Byron Williams, OST Chief Audit Executive and Mary Krehbiel, OST Sr. Internal Auditor gave the annual OST Internal Audit update.

Staff recommended that the OIC approve the proposed amendment to Investment policy 04.01.12 to allow internal audit services to determine the scope and frequency of internal audits related to investment activity.

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

Internal Audit Services performed an internal controls audit of the OPERF Real Estate portfolio. This audit was conducted in conformance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. The audit reviewed controls of the Oregon Investment Council, Real Estate Committee, Oregon State Treasury Investment and Finance Divisions, Pension Consulting Alliance, and State Street Bank for the year ending June 30, 2011. The Real Estate Internal Controls Audit report was issued by Internal Audit Services on September 19, 2012. A total of 3 findings were identified during this engagement. Based on audit work performed, Internal Audit Services believes that the Oregon Investment Council (OIC) and the Oregon State Treasury (OST) have maintained a strong internal control structure over these investment operations for the fiscal year ended June 30, 2011.

**VII. 11:32 a.m. Asset Allocations and NAV Updates**

Mr. Mueller reviewed the Asset Allocations and NAV's for the period ending September 30, 2012.

**VIII. 11:32 a.m. Calendar – Future Agenda Items**

Mr. Mueller highlighted future agenda topics.

**IX. 11:33 a.m. Other Business**

Mr. Cleary thanked Mike Mueller for serving as Interim CIO over the past 12 months.

**11:36 a.m. Public Comments**

Linda Burgin with the SEIU Local 503 read a letter into the record thanking the Council for their support and making a few suggestions:

- The OIC require investment managers to report back not only on the specific dollar amounts earned or lost, but also how they are working with stakeholders to carefully manage long term risks.
- Encourage the OIC and investment team to work with experts in the area of ESG (Environmental, Social and Governance) to establish ongoing metrics to measure investment manager performance in these areas.

The meeting adjourned at 11:36 am.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist