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OREGON INVESTMENT COUNCIL
SEPTEMBER 19, 2012
MEETING MINUTES

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

Staff Present: Tony Breault, Jay Fewel, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Tom Rinehart, James Sinks, Michael Viteri

Consultants Present: Deborah Gallegos and John Meier (SIS), Alan Emkin and John Linder (PCA), David Fann, Kenn Lee (TorreyCove), Nori Gerardo Lietz (Arete Capital)

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 Keith Larson, Chair.

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

MOTION: Mr. Demorest moved approval of the July 25, 2012 minutes. Mr. Solomon seconded the motion. The minutes were approved unanimously by a vote of 5/0.

MOTION: Mr. Demorest moved approval of the 2013 OIC meeting schedule. Mr. Solomon seconded the motion. The 2013 OIC meeting schedule was approved unanimously by a vote of 5/0.

Michael Mueller, Interim CIO, informed the members of actions taken by the Real Estate and Opportunity Portfolio Committees since the last OIC meeting.

Real Estate Committee – 2012:

September 5, 2012 CBRE Global Investors Strategic Partners U.S. Value 6, L.P. (\$100 Million)

Opportunity Portfolio Committee – 2012:

August 22, 2012 RS North America Natural Gas Strategy, L.P. (\$50 million)

II. 9:03 a.m.: Public Pension Capital - OPERF Private Equity

Jay Fewel, Sr. Investment Officer gave a brief introduction then introduced Perry Golkin and Mike Tokarz, Co-Founders of Public Pension Capital ("PPC").

PPC, a newly established entity formed in 2012 by two former KKR senior investment professionals, proposes an innovative private equity investment model which aims to better serve both GP's and LP's. Key points include a better alignment of interests through an annual budget process, overseen by an advisory board, and the ability to commit additional capital, or withdraw capital, after an initial lock up period.

Staff recommends that the OIC authorize a \$100 million conditional commitment to Public Pension Capital, L.P., on behalf of OPERF, subject to:

1. The Fund closing on at least \$500 million in commitments, including OPERF, within 12 months of OPERF's conditional commitment.
2. If at any time, active capital commitments to the Fund fall below \$500 million, OPERF's obligation to fund management fees, investments, or other capital calls is automatically suspended until a new budget is approved by a majority in interest of the Fund's Advisory Board, of which OPERF will be a voting member. If such an event is triggered, OPERF may at its discretion, elect to withdraw without penalty from future capital calls for the Fund.
3. Satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

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

MOTION: Ms. Durant moved approval of the staff recommendations. Mr. Demorest seconded the motion. The motion was passed by a vote of 5/0

III. 10:00 a.m.: Talmage Real Estate - OPERF Real Estate

Tony Breault, Interim Senior Real Estate Investment Officer introduced Ed Shugrue III, CEO of Talmage, LLC. Talmage, as a core team of eight professionals, was originally formed in 2003, and has operated and managed all investments via Guggenheim Structured Real Estate Advisors (GSREA), LLC, a wholly-owned entity of Mr. Shugrue and his management team. GSREA was previously in a joint-venture with Guggenheim Partners, from 2003 to 2011, in which GSREA independently managed all the investment sourcing, underwriting, reporting and accounting while directly benefiting from being able to co-market their product with Guggenheim (i.e., the prior fund names of Guggenheim Structured Real Estate Fund I, II, & III, each of which OPERF has invested with). In January 2012, Guggenheim and GSREA terminated their joint-venture as the companies were seeking growth in other areas. The GSREA management team rebranded their platform as Talmage, LLC.

Since its inception in 2008, the OPERF Talmage Separate Account has been an unlevered account investing solely in commercial real estate debt. This separate account was established as both a diversifier and a strategy featuring greater liquidity to the remaining equity investment mandates within the core real estate portfolio. The Separate Account had the goal of achieving equity-like returns at a lower level of risk. This additional allocation will not modify the existing Separate Account investment parameters and will continue to invest in only real estate related debt instruments such as whole loans, bank loans, bank debt, mezzanine loans, CMBS and CDOs.

Staff and Arete Capital recommended a commitment of \$125 million for OPERF to the Talmage Separate Account (the "Separate Account"). This will be the continuation of an existing relationship and additional allocation to the pre-existing Core Separate Account. OPERF previously committed \$300 million to the Separate Account in 2008 and has a pre-existing relationship with their prior Funds series I, II, and III. Mr. Larson expressed his concern regarding the poor performance of Fund II.

MOTION: Mr. Solomon moved approval of the staff recommendations. Mr. Demorest seconded the motion. The motion was passed by a vote of 4/1 with Mr. Larson voting no.

IV. 10:40 a.m.: Fixed Income Internal Management

Staff requested that the Council approve revisions to Policy 4.03.02, outlining investment restrictions for internally managed agency portfolios. Revisions to the Investment Policy Statements for the DCBS Fund and the DCBS Workers' Benefit Fund are for informational purposes only.

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

V. 10:47 a.m. Capital Market Return Expectations

This presentation was informational only. John Meier from SIS and Allan Emkin from PCA presented. The purpose of this topic is to review the OIC's intermediate asset class return assumptions and the potential impact on OPERF's expected return, by modeling both the existing policy targets and actual portfolio weights. As a prelude to the upcoming asset/liability study for OPERF, the OIC will need to agree on the capital market return expectations (as well as correlations and standard deviations) to be used in the modeling to calculate portfolio expected returns and risks.

ACTION: Mr. Larson requested that staff return at some point in the near future with a workshop or more complete discussion of risk measurement and risk management.

VI. 11:32 a.m. Asset Allocations and NAV Updates

Mr. Mueller reviewed the Asset Allocations and NAV's for the period ending August 31, 2012.

VII. 11:32 a.m. Calendar – Future Agenda Items

Mr. Mueller highlighted future agenda topics.

VIII. 11:33 a.m. Other Business

None

11:36 a.m. Public Comments

There were no public comments.

The meeting adjourned at 11:36 am.

Respectfully submitted,



Julie Jackson
Executive Support Specialist