



STATE OF OREGON
OFFICE OF THE STATE TREASURER
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SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL
SEPTEMBER 25, 2013
MEETING MINUTES

Members Present: Rukaiyah Adams, Paul Cleary, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler

Staff Present: Darren Bond, Tony Breault, Karl Cheng, Garrett Cudahey, Jay Fewel, Sam Green, John Hershey, Brooks Hogle, Julie Jackson, Mary Krehbiel, Carmen Leiva, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Tom Rinehart, Priyanka Shukla, James Sinks, John Skjervem, Michael Viteri, Byron Williams

Consultants Present: Tom Martin (TorreyCove); Jonathan Brody and John Meier (SIS); Alan Emkin, Christy Fields, John Linder and David Gluckman (PCA)

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

The September 25, 2013 OIC meeting was called to order at 9:02 am by Keith Larson, Chair.

I. 9:02 am Review and Approval of Minutes

MOTION: Mr. Solomon moved approval of the July 31, 2013 meeting minutes. Ms. Durant seconded the motion, which then passed by a 4/0 vote (Treasurer Wheeler was absent for the vote).

II. 9:04 am RS Global Natural Resources Strategy – OPERF Alternatives Portfolio

John Hershey, Senior Investment Officer introduced MacKenzie Davis, Co-Manager of RS Investments. RS Investments manages approximately \$24 billion across its various funds, including approximately \$6.9 billion of assets under management (AUM) by its natural resources team. RS is reserving the Strategy's limited, remaining capacity for existing clients before closing it to new capital, most likely at the end of this year. RS is also an existing relationship as OPERF committed \$50 million in August 2012 to the firm's Natural Gas strategy.

Treasurer Wheeler expressed concern about natural resource investments in general and issues associated with "fracking" in particular. Staff and SIS recommended a \$200 million commitment to the RS Global Natural Resources Strategy, subject to the satisfactory negotiation of terms and conditions and completion of all requisite documentation by DOJ legal counsel working in concert with OST staff.

MOTION: Mr. Solomon moved approval of the staff recommendation. Ms. Durant seconded the motion, which then passed by a vote of 4/1 (Treasurer Wheeler voted no).

III. 10:15 am Lone Star Real Estate Fund III, L.P. – OPERF Real Estate Portfolio

Tony Breault, Senior Real Estate Investment Officer introduced Andre Collin, Senior Managing Director and Nick Beevers, Managing Director with Lone Star. The Fund has a target size of \$6.0 billion and will focus on distressed debt and equity investments in multifamily and commercial real estate assets. The Fund's geographic weightings are expected to be 40 percent in the U.S., 40 percent in Europe and 20 percent in Japan. Lone Star's Real Estate Fund (LSREF) series, in which OPERF is invested in LSREF I & II, is separate from the firm's other investment funds (the LS Fund series) which focus on distressed loans and securities, including single family residential, corporate and consumer debt.

The Opportunistic sub-portfolio within OPERF's real estate investment program has a cash adjusted 32.8 percent weighting at August 31, 2013 versus a target weighting of 30% (with a bandwidth allowance up to 40 percent). Staff and consultant believe that Lone Star's long and successful track record merits investment at this time to take advantage of current dislocations in the firm's target markets.

Staff recommended a \$300 million commitment to Lone Star Real Estate Fund III, L.P. on behalf of OPERF, subject to the satisfactory negotiation of terms and conditions and completion of all requisite documentation by DOJ legal counsel working in concert with OST staff.

MOTION: Ms. Durant moved approval of the staff recommendation. Ms. Adams seconded the motion, which then passed by a vote of 5/0.

IV. 10:52 am OPERF Real Estate Portfolio Review

Tony Breault, Senior Real Estate Investment Officer, and Christy Fields and David Gluckman of PCA presented an overview of the OPERF real estate portfolio and its current construction. Their remarks also included a review of both recent and historical portfolio performance as well as commentary on current and future market conditions and trends. Mr. Breault went through the upcoming initiatives for the next year, which include the following:

- Hiring an additional investment officer and analyst;
- Dashboard/Portfolio modeling for staff analytics;
- Valuations;
- REIT review;
- Value-add focus with strategic partners; and
- An increased emphasis on separate accounts.

V. 11:47 am OPERF Public Equity Portfolio Review

Michael Viteri, Senior Investment Officer, and Ben Mahon, Investment Officer started the review by presenting two recommendations. The first one proposed updating OIC Public Equity Policies 4.05.01 and 4.05.02 to codify existing practices and clarify staff's ability to rebalance between and among various Public Equity strategies. In General Policy and Procedure 04.01.18 - Public Employees Retirement Fund Rebalancing Policy, rebalancing between asset classes ensures that the OPERF portfolio's overall asset allocation does not drift significantly from its stipulated strategic targets. However, this policy does not explicitly address *how* staff can and should rebalance between and among managers and sub asset classes.

The most common catalyst for rebalancing has historically occurred when staff raises cash for pension payments or private market capital calls. However, over the last 12 months, there has been no need to raise cash from public market allocations (and therefore no opportunity to rebalance) due to the large cash inflows associated with OPERF's many private market (specifically, Private Equity and Real Estate) realizations.

The proposed language change inserted into (P&P 04.05.01 – Strategic Role of Public Equity Securities within OPERF, Appendix A), delegates to staff the authority to rebalance between and among managers, with CIO approval and quarterly notification to the OIC.

The second proposed policy recommendation codifies Public Equity manager termination practices. In order to minimize adverse impacts to a manager's reputation and on-going investment operations due to a recommended termination, staff has historically given asset managers the opportunity to resign from their OST/OPERF mandates. Although staff is sensitive to a manager's on-going business viability, the main motivation for this approach has been to ensure that the OST/OPERF portfolio is not adversely affected by news of the manager termination.

The proposed policy change (P&P 04.05.02 – Selecting and Terminating Investment Management Firms) delegates to staff the authority to terminate any public equity manager, with CIO approval and quarterly notification to the OIC.

MOTION:

- Staff and SIS recommended adoption of changes to Public Equity OIC Policies 04.05.01 and 04.05.02. Ms. Durant moved approval of the staff recommendation. Mr. Solomon seconded the motion, which then passed by a vote of 5/0.

The William Blair Emerging Markets Small Cap strategy was launched in the fourth quarter of 2011. The strategy is designed to capture a broader array of small and micro-cap opportunities with more limited liquidity than the flagship Emerging Markets Core strategy.

The Emerging Markets Small Cap strategy is managed by the same team, with the same philosophy and process as the existing emerging markets separate account, but will primarily concentrate on stocks with market capitalizations below \$3 billion. Similar to the core emerging markets strategy, William Blair has assigned a conservative capacity objective to the Fund, targeting \$750 million in total capacity. After strong interest from existing clients, the strategy will close by the end of the year.

MOTION:

- Staff and SIS recommended a \$100 million allocation to the William Blair Emerging Markets Small Cap strategy and corresponding amendments to OIC policy 04-05-01. Mr. Solomon moved approval of the staff recommendation. Ms. Durant seconded the motion, which then passed by a vote of 5/0.

VI. 12:11 pm OIC Investment Beliefs Project

John Skjervem, CIO and Allan Emkin with PCA gave an update on the Investment Beliefs Project. OIC members asked for more time to review the proposed belief statements and that a "policy hierarchy" be developed to synchronize the proposed beliefs statements with existing policy and procedure documentation.

Mr. Emkin reported that in addition to responding this particular request, next steps with the beliefs project would include a review and discussion of key, non-consensus issues including divestment initiatives, shareholder activism and environmental, social and governance (ESG) factor considerations.

12:46 pm State Accident Insurance Fund – Policy Revisions

Mike Mueller, Deputy CIO presented a recommendation for select revisions to SAIF investment policy which included changes to Policies 4.09.01 through 4.09.04 and authorization to implement these changes over a reasonable time period.

MOTION: Mr. Solomon moved approval of the staff recommendation. Ms. Adams seconded the motion, which then passed by a vote of 5/0.

VII. 12:52 pm Asset Allocations and NAV Updates

Mr. Skjervem reviewed asset allocations and NAV's across OST-managed accounts for the period ended August 31, 2013.

VIII. 12:53 pm Calendar – Future Agenda Items

Mr. Skjervem presented the proposed 2014 OIC meeting schedule.

MOTION: Mr. Solomon moved approval of the 2014 meeting dates. Ms. Durant seconded the motion, which then passed by a vote of 5/0.

IX. 12:54 pm Other Business

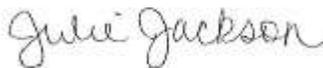
None

12:55 pm Public Comments

Linda Burgin of SEIU thanked the Council for its efforts on behalf of OPERF beneficiaries and expressed concerns about the OIC's approval of a commitment to the RS Global Natural Resources Strategy.

Mr. Larson adjourned the meeting at 12:57 pm.

Respectfully submitted,



Julie Jackson
Executive Support Specialist