Oregon Investment Council

Statement

of

Investment and Management Beliefs

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Preamble

This Statement of Investment and Management Beliefs enumerates fundamental investment and management principles that guide the Oregon Investment Council ("Council" or "OIC) in performing its fiduciary and statutory obligations which include establishing policies for the investment and management of "investment funds" as defined in Oregon Revised Statue 293.701(2). The Oregon State Treasurer, largely through the Investment Division of the Office of the State Treasurer ("Treasurer" or "OST"), provides staff support for the Council and, as the Council's statutorily designated "investment officer" (together with such other persons determined qualified by the Council to conduct investment and management functions on its behalf), invests and manages in accordance with Council policy those moneys made available by the Council for such purposes. The Treasurer may also adopt additional policies governing its investment and management functions. The OIC and OST recognize that their respective authority to establish and implement such policies is grounded in and bounded by fiduciary and statutory foundations to their authority which charge them with exercising a duty of exclusive loyalty to fund beneficiaries by ensuring that related moneys are invested as efficiently and productively as possible while adhering to applicable standards of prudent judgment and care. Accordingly, the following statements and accompanying OIC policies are intended to be in harmony with and promote the fulfillment of such obligations.

1.) THE OIC SETS POLICY AND IS ULTIMATELY RESPONSIBLE FOR THE INVESTMENT PROGRAM

A. **The OIC is a policy-setting council that largely delegates investment management activities to the OST and qualified external fiduciaries.**
   - The OIC sets strategic policy and tasks both OST staff and external managers with policy implementation.

B. **The OIC has authority to set and monitor portfolio risk. Both short-term and long-term risks are critical.**
   - The OIC must weigh the short-term risk of principal loss against the long-term risk of failing to meet return expectations.

C. **To exploit market inefficiencies, the OIC must be contrarian, innovative and opportunistic in its investment approach.**
   - The OIC must prepare for and accept periods of extreme price/valuation volatility and/or related market dislocations and endeavor to act expeditiously during such periods if and when deemed advantageous.

D. **Internal incentive structures should be carefully evaluated to ensure proper alignment with specific investment objectives.**
   - Evaluation criteria should be based (in large part) on decisions over which staff members have clear authority and control.
   - Total portfolio results (in addition to individual asset class returns) should be considered, and the evaluation period should be consistent with an appropriate investment horizon or market cycle.

E. **Adequate resources are required to successfully compete in global capital markets.**
   - Staffing levels and operating budgets should be determined by capability requirements using benchmark assessments comprised of other well respected organizations of similar size and portfolio complexity.
   - The benefits of OIC member and OST staff continuity should also be recognized.

2.) ASSET ALLOCATION DRIVES RISK AND RETURN

A. Asset allocation is the OIC's primary policy tool for managing the investment program's long-term risk/return profile.

- Decisions regarding strategic asset allocation will have the largest impact on the investment program's realized return and risk and hence should be made judiciously and receive special emphasis and attention.
- The timing and magnitude of projected employer contributions and future benefit payments have significant cash flow implications and thus should receive explicit consideration during the OIC's asset allocation decision-making process.

B. Portfolio construction, including diversification and correlation considerations, is essential to maximizing risk-adjusted returns.

- Empirical rigor, coupled with sound judgment, is required in the portfolio construction process to effect true diversification, while discipline is required to maintain diversification through and across successive market cycles.
- Risk is multi-faceted and may include, but is not limited to, the following types of specific risks: principal loss; opportunity cost; concentration risk; leverage and illiquidity risk; volatility and valuation risk; interest rate and inflation risk; and environmental, social and governance (ESG) risks.

3.) THE EQUITY RISK PREMIUM WILL BE REWARDED

A. Over the long-term, equity-oriented investments provide reliable return premiums relative to risk-free investments.

- Although returns for risk taking are not always monotonic or consistently rewarded over time, bearing equity risk does command a positive expected return premium provided such risk is reasonably priced.

4.) PRIVATE MARKET INVESTMENTS CAN ADD SIGNIFICANT VALUE AND REPRESENT A CORE OIC/OST COMPETENCY

A. The OIC can capitalize on its status as a true, long-term investor by making meaningful allocations to illiquid, private market investments.

- Inefficiencies exist in private markets that provide skilled managers with excess return opportunities relative to public market analogues.
- Private markets may also offer an "illiquidity premium" that can be exploited by patient, long-term investors.

B. Dispersion in private market investment returns is wide; accordingly, top-quartile manager selection and vintage year diversification are paramount.

- Private market investment success is predicated on identifying skilled managers, and developing long-term investment relationships with those mangers that enable their skill to manifest in the form of excess returns.
- Proper investment pacing, including deliberate vintage year diversification is also an integral element of superior private market investment results.

5.) CAPITAL MARKETS HAVE INEFFICIENCIES THAT CAN BE EXPLOITED

A. Inefficiencies that can be exploited by active management may exist in certain segments of the capital markets.

- While largely efficient, select segments of the capital markets can sometimes be exploited by skilled active management.
- The nature (i.e., perceived magnitude and likely duration) of such inefficiencies should inform the proposed active management strategy (e.g., discretionary or systematic).

B. Passive investment management in public markets will outperform the median active manager in those markets over time.

- Active management should therefore be a deliberate choice and applied only to those public market strategies/managers in which the OIC enjoys a high degree of confidence that such strategies/managers will be sufficiently rewarded on a risk-adjusted basis and net of all fees and related transactions costs.

6.) COSTS DIRECTLY IMPACT INVESTMENT RETURNS AND SHOULD BE MONITORED AND MANAGED CAREFULLY

A. All fees, expenses, commissions, and transaction costs should be diligently monitored and managed in order to maximize net investment returns.

- While all costs should be monitored and controlled, these costs should also be evaluated relative to both expected and realized returns.

B. External incentive structures should be carefully evaluated to ensure proper alignment with investment program objectives.

- Fee and incentive structures drive both individual and organizational behavior.
- These structures (particularly in private market strategies) should be carefully evaluated and monitored to ensure that the goals and incentives of individual investment professionals and their respective organizations are well aligned with the specific investment objectives established by the OIC and/or OST staff.

7.) TRANSPARENT CAPITAL MARKETS ARE ESSENTIAL FOR THE LONG-TERM SUCCESS OF OIC/OST INVESTMENT ACTIVITIES

A. The OIC recognizes that the quality of regulation and corporate governance can affect the long-term value of its investments.

- The Council promotes open, competitive market structures to ensure accurate and timely price discovery/asset valuation.

B. The OIC also recognizes that voting rights have economic value and therefore must be treated as a fund or beneficiary asset.

- The OIC shall vote shares in its capacity as fiduciary and based solely on the economic merits of specific proxy proposals.