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# State of Oregon

## Office of the State Treasurer

16290 SW Upper Boones Ferry Road  
Tigard, Oregon 97224

### OREGON INVESTMENT COUNCIL

September 18, 2019

#### Meeting Minutes

Members Present: Rukaiyah Adams, John Russell, Tobias Read, Rex Kim, Patricia Moss and Kevin Olineck

Staff Present: John Skjervem, Michael Kaplan, Perrin Lim, David Randall, Deena Bothello, Karl Cheng, David Elott, Steve Kruth, May Fanning, Michael Langdon, Wil Hiles, Angela Schaffers, Tony Breault, Jen Plett, Debra Day, Faith Sedberry, Sam Spencer, Paul Koch, Krystal Mclean, Tom Lofton, Lisa Pettinati, Geoff Nolan, Garrett Cudahey, Amanda Kingsbury, Michael Mueller, Aliese Jacobsen, Dana Millican, Eric Messer, Kristel Flores, Michael Viteri, Tyler Bernstein, Ricardo Lopez, Tiffany ZhuGe, Andy Coutu, Jeremy Knowles, Dmitri Palmateer, Amy Wojcicki, Rachel Wray, Robin Kaukonen, Sommer May, Andrey Voloshinov, Chris Ebersole, Scott Robertson, and Ian Huculak

Consultants Present: Tom Martin (TorreyCove); Allan Emkin, David Glickman and Brandon Ross (Meketa Investment Group, Inc.); Janet Becker-Wold and Uvan Tseng (Callan LLC)

Legal Counsel Present: Steven Marlowe, Department of Justice

The September 18<sup>th</sup>, 2019 OIC meeting was called to order at 9:00 am by Rukaiyah Adams, OIC Chair.

#### **I. 9:00 am Review and Approval of Minutes**

**MOTION:** Chair Adams asked for approval of the June 5, 2019 OIC regular meeting minutes. Treasurer Read moved approval at 9:00 am, and Mr. Kim seconded the motion which then passed by a 5/0 vote.

#### **II. 9:01 am Committee Reports and CIO Remarks**

**Committee Reports:** John Skjervem, Chief Investment Officer, gave an update on the following committee actions taken since the June 5<sup>th</sup>, 2019 OIC meeting:

##### **Private Equity Committee**

June 10, 2019	Advent Global Technology L.P.	\$50M
July 24, 2019	CVC Capital Partners Asia V, L.P. Veritas Capital Fund VII, L.P.	\$150M \$250M
September 9, 2019	Advent Latin American Private Equity Fund VII Pathway Private Equity Fund C-III 2019 Follow-On	\$100M \$250M



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**Alternatives Portfolio Committee**

June 20, 2019	QL Capital Partners, L.P.	\$200M
July 31, 2019	Appian Natural Resources Fund II, L.P.	\$100M

**Real Estate Committee**

July 29, 2019	LBA Logistics Joint Venture	\$250M
	Walton Street Real Estate Core-Plus Fund, L.P.	\$250M

**Opportunity Portfolio Committee**

None

Mr. Skjervem provided opening remarks which included brief comments on the Q2 2019 Performance & Risk Report, the Annual Cost & Implementation Analysis and the annual OSGP Review & Update. He then introduced several new staff members including Aaron Schaffer, Jeremy Knowles and Mohammed Quraishi, and announced the promotions of Eric Messer, Wil Hiles, Krystal Mclean, Jen Plett, Sommer May and Amanda Kingsbury. Finally, Mr. Skjervem recognized the fine contributions of the investment division's summer interns, Maryam Azeemi (Girls Who Invest) and Vivek Sharma (University of Oregon), and welcomed Treasury's new Straub Fellow 2019-20 intern, Bolivar Cardenas.

**III. 9:07 am Financial Markets and Macro Economic Update**

Brian Smedley, Head of Macroeconomic and Investment Research, Guggenheim Partners, LLC, gave a presentation on the global macroeconomic environment with particular emphasis on negative bond yields, and described for the Council both possible financial market implications and potential policy responses.

**IV. 10:14 am Q2 2019 Performance & Risk Report – OPERF**

Karl Cheng, Senior Investment Officer, Portfolio Risk & Research and Janet Becker-Wold, Senior Vice President, Callan LLC, presented the quarterly OPERF investment performance and risk report for the calendar year and cumulative period ended June 30, 2019.

**V. 10:48 am Annual Cost & Implementation Analysis – OPERF**

David Randall, Director of Investment Operations, provided a quick introduction of Mr. Mike Heale, Principal, CEM Benchmarking who then presented the Council with the Annual Cost & Implementation Analysis for OPERF. In this analysis, OPERF's return and cost metrics are compared to 289 funds in CEM's pension database. Mr. Heale's report included the following key takeaways:

Return:

- OPERF's 5-year net total annualized return was 6.3%, well above both the 5.4% U.S. public fund median and 5.6% CEM peer fund median; and
- OPERF's 5-year annualized policy return was 6.3%, also above the 5.3% U.S. public fund median and 5.7% CEM peer fund median.

Cost:

- OPERF's 2018 annual investment cost of 76.4 bps was slightly below its 77.6 bp benchmark cost.
- While the asset allocation and implementation strategy for OPERF are high cost in absolute terms, as in years past, OPERF incurred total costs slightly less than peer funds would for a similar asset allocation and implementation strategy.



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**VI. 11:12 am Oregon Savings Growth Plan – Annual Review and Update**

Wil Hiles, Investment Officer, Public Equity and Uvan Tseng, Senior Vice President, Callan LLC, provided an update on the Oregon Savings Growth Plan (OSGP).

At staff's request, Callan, the Plan's retained investment consultant, performed an evaluation of the Plan's Small Company Stock Option which is currently comprised of the following three underlying funds: DFA U.S. Small Cap Equity; Callan Small Cap Equity; and BlackRock Russell 2000 Index. In an attempt to more closely align the Plan's investment strategies with OPERF, staff recommended adding the BlackRock S&P 600 Index Fund, as a replacement for the BlackRock Russell 2000 Index Fund. Staff expects this change will improve the Small Company Stock Option's risk/return profile while maintaining an identical expense ratio. The Plan's Real Return Option is now comprised of a single, underlying investment strategy, the SSgA Real Assets Fund. The SSgA Real Assets Fund seeks an investment return that approximates, as closely as practicable, before fees, the performance of a custom benchmark by diversifying across several inflation-sensitive asset classes such as commodities, REITs, TIPS, and global infrastructure. Currently, the benchmark for the Real Return Option is the Consumer Price Index (CPI) + 3%, which was appropriate given the previous, multi-fund structure of the Real Return Option. However, given that the SSgA Real Assets Fund is now the single, underlying investment strategy within the Real Return Option, staff and Callan recommended converting the Real Return Option's primary benchmark to the SSgA Real Assets Custom Blended Index, as a more appropriate reflection of the Real Return Option's underlying investments. The SSgA Real Assets Fund's secondary objective is to seek a positive real return with a specific CPI + 4% target over a full market cycle. Accordingly, staff and Callan also recommended utilizing CPI + 4% as a secondary benchmark for the Real Return Option.

**MOTION:** Treasurer Read moved approval of the Real Return Option Benchmark Change – Utilize SSgA Real Assets Custom Blended Index and Consumer Price Index + 4% at 11:50 am and Mr. Kim seconded the motion which then passed by a 5/0 vote.

Mr. Russell moved approval of Small Company Stock Option – Replace Russell 2000 Index Fund with S&P 600 Index Fund at 11:51 am and Treasurer Read seconded the motion which then passed by a 5/0 vote.

**VII. 11:52 am Asset Allocation & NAV Updates**

Mr. Skjervem reviewed asset allocations and NAVs across OST-managed accounts for the period ended July 31, 2019.

**VIII. 11:52 am Calendar – Future Agenda Items**

A calendar listing of future OIC meetings and scheduled agenda topics was included in the Council's meeting material.

**IX. 11:53 am OIC Discussion**

Chair Adams said that during this time of uncertainty it feels particularly important that the OIC work closely with Mr. Olineck and the PERS Board to establish a productive working relationship and maintain open lines of communication. Mr. Olineck reported that the PERS Board met on July 26 and voted to maintain 7.2% as its assumed OPERF earnings rate. Mr. Olineck noted that the July 26 vote was not unanimous, a first, as some Board members felt 7.2% was too high.



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**11:56 am Public Comments**

Douglas Berg, from Eugene, expressed concerns similar to those he shared at the August 2018 OIC meeting, namely his belief that OPERF returns over the last decade were both poor and insufficient relative to the unfunded liability facing PERS. Mr. Berg called on the Council to change its policy so that the OPERF public equity portfolio was predominantly comprised of U.S. stocks, which he indicated had performed much better than foreign equities and would, in his opinion, continue to do so in the future.

Ms. Adams adjourned the meeting at 12:00 pm.

Respectfully submitted,

*May Fanning*

May Fanning  
Executive Support Specialist