

2017

Corporate Governance and ESG

Stewardship



State Treasurer Tobias Read
Oregon State Treasury

www.Oregon.gov/Treasury

Treasurer Read: With new tools and experienced investment talent, Oregon can advocate for sustainable long-term performance and better corporate accountability

As a responsible investor, we at the Oregon State Treasury embrace our obligation to take action to improve the sustainability and long-term investment performance of the portfolios we manage.

Institutional investors like the Oregon Public Employees Retirement Fund have the responsibility to lead and press for positive change because as shareholders, we have a seat at the corporate governance table.

This is a powerful vantage point – and as your State Treasurer and member of the Oregon Investment Council, I am always on the lookout for ways that Oregon can make a positive difference in the financial lives of our citizens and fund beneficiaries.



“ Companies will be better poised to succeed if they proactively address climate change and its related risks and opportunities, elect diverse boards and leadership for broader perspective, compensate executives reasonably and in line with corporate performance, and respect the rights of their shareholders and employees. ”

Tobias Read
Oregon State Treasurer
[@TreasurerRead](#)

At my request, the 2017 Legislature approved a new position at Treasury that will be Oregon’s first-ever investment officer focused on investment risks and opportunities associated with Environmental, Social and Governance factors. This new research capacity is a win for Oregon.

Helping fortify our already robust corporate governance program, this new position will engage with companies, asset managers and regulators in pursuit of improved sustainability metrics, more transparent financial reporting, and ways to integrate what we learn into how we make decisions.

These activities support retirement security for Oregon pension fund beneficiaries, and align with taxpayer goals for improved fund value and stability.

We invest for the long term. As such, we want sustainable market structures and companies that prioritize shareholders, now and in the future.

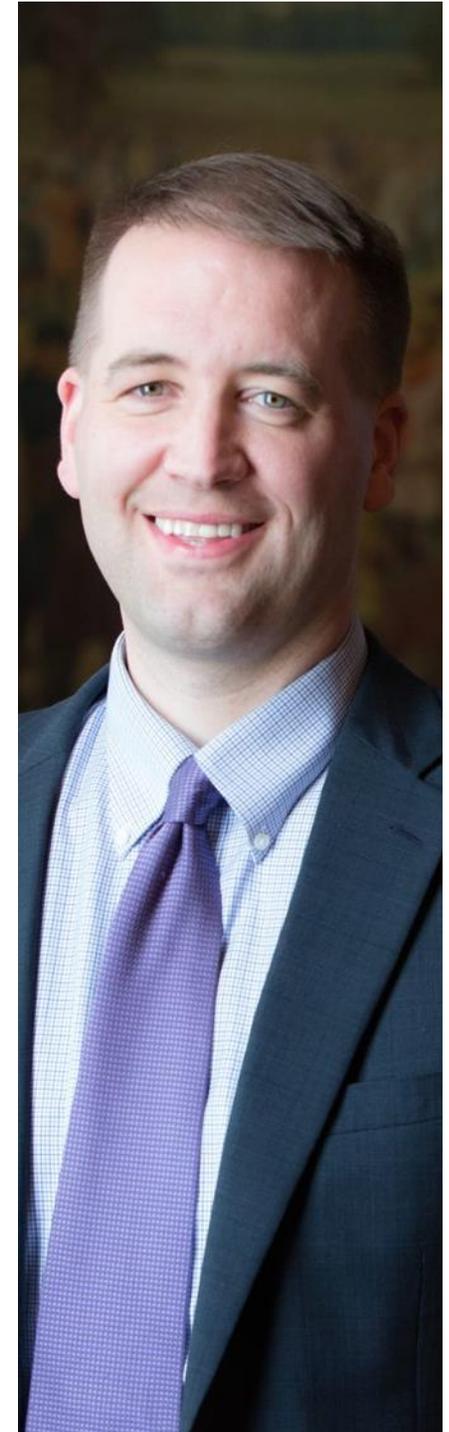
We know the world is evolving and that corporations need to be nimble. Engaged shareholders can and do make a difference. And the public can help, by being better informed.

Companies will be better poised to succeed if they proactively address climate change and its related risks and opportunities, elect diverse boards and leadership for broader perspective, compensate executives reasonably and in line with corporate performance, and respect the rights of their shareholders and employees.

We are proud to work in coordination with other forward-thinking institutional investors on these priorities.

As your Treasurer, I am committed to using these powerful financial tools and our leverage as a large shareholder to catalyze positive change, strengthen our portfolios, and improve well-being for all Oregonians. This is just one way that your government, with the right priorities, can make a positive difference.

From this vantage, the view looks promising. At the same time, and with your help, we still have much to accomplish.



EXECUTIVE SUMMARY: CORPORATE GOVERNANCE HIGHLIGHTS



Direct Engagement

Sustainable investment performance matters to investors and fund beneficiaries. Treasury pursues long-term investment strategies that promote diversification at all fund levels. We also conduct careful and rigorous due diligence in the context of an investment horizon measured in decades. In 2017, Oregon representatives met directly with executive management teams and advocated for enhanced financial reporting and improved board diversity.



As a global investor with thousands of international shareholder positions, Oregon participated in 8,981 meetings in 2017 and cast ballots in 15,227 separate votes. Shareholders have a voice in management decisions whereas non-shareholders do not. Oregon was part of a majority coalition that successfully pushed Occidental Petroleum and ExxonMobil to better disclose climate-related risks and opportunities.



Proxy Voting



As a last resort, Oregon files lawsuits to demand accountability. In 2017, Treasury recouped \$5.2 million through securities-related legal actions. Settlements included \$512,000 from life insurer Genworth Financial Inc. in a class action over misrepresented profits, and roughly \$700,000 in an anti-trust case connected to price fixing in credit default swaps by Genworth and the need for a permanent solution to our broken immigration system.



Securities Litigation



Public Awareness

Public opinion moves public policy. Treasurer Read regularly discusses the priority of responsible investing and also flags corporate governance priorities via various communication channels. Last year, he highlighted young DACA program participants, their economic contributions to Oregon and the nation, and the need for a permanent solution to our broken immigration system.



Regulatory Advocacy

Treasury has stepped up its engagement efforts due to federal proposals that would erode shareholder rights and undercut protections for individual investors. In 2017, Treasurer Read vocally supported the Fiduciary Rule, and also pressed Congress to protect retirement savings options for lower income workers in the form of innovative state-based programs like Oregon-Saves.



Empirical ESG Research

As a fiduciary to fund beneficiaries, Treasury applies industry best practices to its investment and asset allocation decisions. When and wherever possible, these decisions must be anchored by empirical data, such as institutional quality metrics developed by the Sustainable Accounting Standards Board (SASB). Treasury is a founding member of SASB's Institutional Advisory Group. In 2017, Treasury secured legislative approval for its first-ever ESG Investment Officer, to better identify and manage material ESG risks portfolio-wide.

Oregon leadership: Corporate governance director named to national boards focused on enhancing shareholder value and management accountability



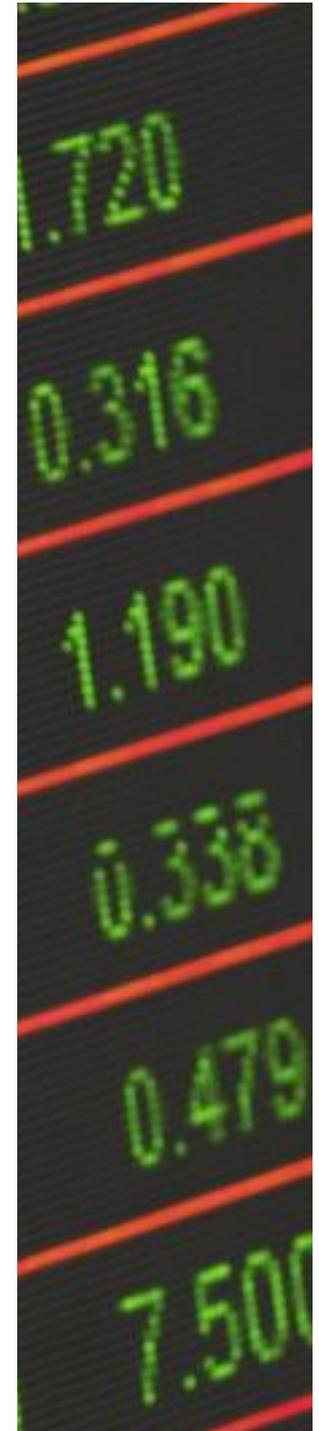
JENNIFER J. PEET, J.D.
Corporate Governance Director

The Council of Institutional Investors (CII) recently announced that Oregon corporate governance director Jennifer J. Peet has been elected to CII's nine-member board of directors.

CII is a nonprofit, nonpartisan association of pension funds, other employee benefit funds, endowments and foundations, with combined assets that exceed \$3.5 trillion. The organization advocates for effective corporate governance, shareowner rights, and transparent and fair capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and their beneficiaries.

Through its CII affiliation, Treasury amplifies its corporate governance agenda on behalf of Oregon's fund beneficiaries. As a board member, Ms. Peet helps set CII's national agenda, and advocates for Oregon and other public fund peers.

Ms. Peet also represents Oregon as a board member of the 30 Percent Coalition, a national group that engages companies in support of better corporate board diversity and inclusion as progress on these key metrics is positively correlated with improved brand management and long-term profitability.



ENVIRONMENTAL



- Accurate disclosure
- Sustainability
- Water
- Climate-related risks and opportunities

SOCIAL



- Customer treatment
- Human capital
- Emergency preparedness and safety
- Worker treatment

GOVERNANCE



- Shareholder rights and proxy ballot access
- Transparency
- Board diversity
- Compensation linked to performance
- Board oversight

Beyond the balance sheet: Oregon Treasury interfaces with companies and regulators to promote sustainable returns

When it comes to measuring corporate performance, you can quantify short term results with math. Financial statements spell out profit and loss, expense ratios, supply chain statistics and labor and benefit costs, to name just a handful of factors.

All of this information is valuable for investors, including the Treasury-managed Oregon Public Employees Retirement Fund (OPERF), State Accident Insurance Fund (SAIF) and Oregon Common School Fund (CSF). As of Dec. 31, 2017, these and other Treasury-managed funds had a combined value of \$102 billion.

Oregon's trust fund investments are managed on a long-term horizon of 25 years or more. Against that backdrop, today's performance is important — but so is the sustainability of that performance, which will determine fund values years from now.

A significant share of Oregon's holdings are in commingled funds that include publicly traded companies, broadly diversified across industry sector and market geography. As "buy and hold" owners, investors like Oregon can take a hands-off approach. Alternatively, we can engage in ways that shape the direction of both the companies whose shares we own and the regulatory landscape in which those companies do business. Treasury, at the direction of the Oregon Investment Council, has settled upon the latter, more activist

“ An independent board, strong controls, transparency and shareholder rights generally increase market value. But precise impacts of 'good governance' can be hard to pin down. Exact linkages to share price are not often obvious. ”

Does Corporate Governance Matter?

Credit Suisse
2016

approach.

Fair and transparent market structures are essential for the long-term success of all investors, so we engage regularly with policymakers and regulators including the U.S. Securities and Exchange Commission.

Shareholder value is most often maximized when company executives align their decision-making and compensation programs with long-term corporate performance metrics. Good governance and appropriate risk management practices affect the public companies in our equity and fixed income portfolios, and also apply to the privately-held enterprises we invest in through our private equity and other alternative investment portfolios.

Promoting sustainability often means looking beyond the balance sheet — and considering factors that have historically been harder to quantify like environmental, social and governance (ESG) risks. Who sits on a board of directors and what expertise do they bring, how and to what extent is executive compensation tied to performance, are workers and their safety prioritized, and have companies prepared for climate-related risks and opportunities.

In addition to acting alone, Oregon frequently takes action in coalitions of like-minded shareholders, which increases the leverage to spur desired corporate or government action.



COALITIONS AND PARTNERS



What works? Treasury employs several strategies to foster long-term performance, good governance, and sustainability

SHAREHOLDER ACTION



DIRECT ENGAGEMENT: Treasury interacts with company executives, directors and financial industry regulators in pursuit of shareholder-oriented governance practices and improvements in disclosure and financial reporting. Engagements can be Oregon-centric or via [coalitions](#) and in writing, in person, via action at annual meetings, and through legal action.



PROXY VOTING: Common stock shareholders have the power through voting rights to influence the management of a corporation. As a major shareholder, Oregon casts votes at thousands of corporate annual meetings each year. In 2017, Oregon participated in 8,981 annual meetings, through a proxy voting agent, and cast ballots in 15,227 separate shareholder votes.



SECURITIES LITIGATION: When corporate actions impair trust fund values and reduce Oregonians' beneficial interests, the Treasurer can initiate legal action to both recoup losses and also influence future executive-level decision making. These lawsuits are filed in conjunction with the Department of Justice. In 2017, Oregon recouped \$5.2 million from its securities litigation activities.

BUILDING A STRONG CASE



PUBLIC AWARENESS: Public opinion can be a powerful motivator for positive change. Treasurer Read issued more than a dozen statements and several news releases in 2017 about improving financial regulations and highlighting corporate governance advocacy, such as a [release](#) about a proxy vote against the executive compensation package at opioid distributor McKesson Corp.



REGULATORY ADVOCACY: The State Treasurer takes an active role in encouraging lawmakers to protect consumers and appropriately regulate the financial sector. Oregon also advocates for strong regulations at the federal level through its membership in national organizations, including the [National Association of State Treasurers](#) and [Council of Institutional Investors](#).

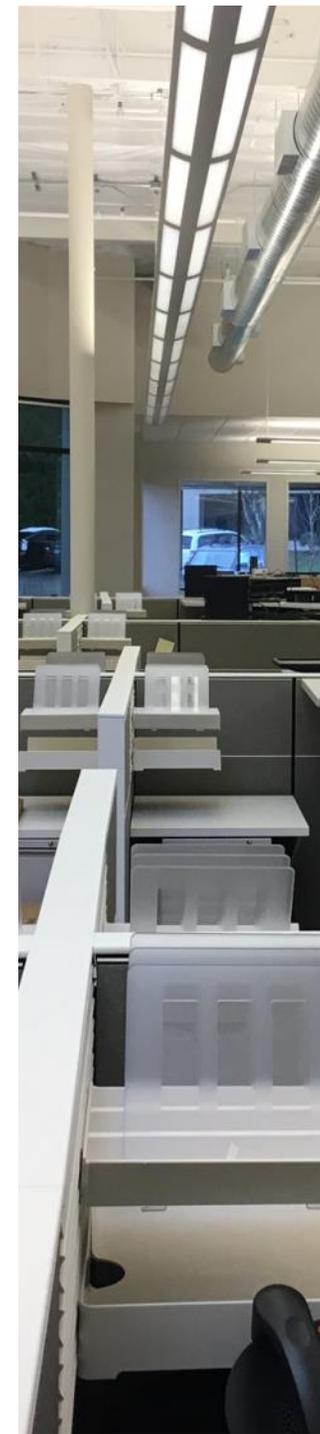


EMPIRICAL RESEARCH: As a fiduciary, Treasury must have a factual basis to engage in support of sustainability and long-term performance improvements. [New ESG research capacity](#) at Treasury in 2018 will fortify the agency's corporate governance program by analyzing material risks across portfolio holdings, identify sector or individual company weaknesses, and track post-engagement results.

Corporate Governance is the system of rules, practices and processes by which a company is managed and controlled. The discipline essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community.

Environmental, Social and Governance (ESG) criteria are measures of key elements of a company's performance. Environmental criteria consider how a company performs as a steward of the natural environment. Social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities in which it operates. Governance deals with a company's leadership, executive compensation, audits and internal controls, and shareholder rights.

Oregon trust funds must be invested for the sole and exclusive long-term benefit of fund beneficiaries, and the **funds may not legally be invested or divested** to advance social, political or economic development goals. Consistent with this fiduciary obligation, Treasury engages through its corporate governance program to improve the economic sustainability, ESG profile and long-term profitability of companies in which it invests. Non-shareholders have no voting rights and no influence over the direction of public companies.



Human capital and the economy: Treasurer took the lead and called for sensible immigration policy solutions

In addition to being a humanitarian issue that impacts families and employers, the current disjointed federal stance on immigration is a drag on the economy in Oregon and nationally.

Knowledge is power, and corporate governance efforts provide the Treasurer an opportunity to better educate policymakers and the public about matters that can impact the sustainability and profitability of Oregon's public trust fund portfolio — and also affect the public at large.

Treasurer Read took a national leadership role highlighting the economic consequences of unresolved immigration policies. The highest profile immigration issue was the plight of those covered by the Deferred Action for Childhood Arrivals (DACA) program.

According to estimates from the Center for American Progress, the impact to Oregon's workforce and economy alone would be \$591 million if the DACA program was eliminated.

In 2017, the Treasurer:

- Stood up for immigrants and Oregon companies in February and supported lawsuits blocking bans on international travel to the United States from several countries;
- Issued news releases and public statements about immigration policy and its impacts;
- Joined with other financial leaders in November and December to

“ There is evidence that the U.S. economy is already suffering from the uncertainty surrounding our broken immigration system. Without a course correction, a wrongheaded path of indiscriminate deportation won't just devastate families; it will hurt our economy, impair labor markets, dampen profitability of key industries, and erode local tax bases. ”

*Joint Statement on immigration from Treasurer Read and eight other major public finance leaders
December 2017*

urge Congress and the Trump Administration to support a permanent DACA solution, and also an extension of Temporary Protected Status for immigrants from several countries including Haiti and Nicaragua; and

- Buttressed the economic case for a lawsuit by the state of Oregon by preparing legal findings. Those declarations said, in part:

“Many of the companies in which Oregon and Oregonians have holdings have expressed concern that the rescission of the Deferred Action for Childhood Arrivals program is a threat and will be disruptive to their employees, their productivity and their competitiveness. That disruption also affects Oregon as a shareholder.

“Hundreds of entrepreneurs and business leaders from across the country have recently sent open letters to Congress expressing their view that DACA recipients are vital to the future of their companies and the economy.

“Oregon owns shares in many of the companies whose leaders signed on to the letters. To the extent those businesses are in Oregon, they contribute directly to the state's bottom line through their taxes, and indirectly through the payment of salaries to our state's workers.”

In addition, the Treasurer said, the affected companies are part of Oregon investment portfolios, which are designed to generate positive and sustainable long-term returns.

EXAMPLES OF INVESTOR - PUBLIC POLICY EFFORTS



Executive Pay Ratio Disclosure
Securities and Exchange Commission

Treasurer Read joined with major investors and foundation leaders in a letter March 22 to urge the SEC to retain a requirement that companies release salary ratios.



CHOICE Act Opposition
Council of Institutional Investors

Treasurer Read and other institutional investment leaders wrote to U.S. House Speaker Paul Ryan about weaknesses in proposed legislation that would hurt shareholders.



Fiduciary Rule
U.S. Department of Labor

Fiduciary safeguards were crafted to protect individuals, by ensuring that sellers of securities act in investors' best interests. Treasurer Read sent several letters including one June 7.

WE ARE STILL IN

Paris Agreement Climate Goals
We are Still In Coalition

Treasurer Read joined with more than 1,200 government and business leaders to reiterate support for carbon-reduction goals and sustainable financial markets.



SYNOPSIS — 2017 PROXY VOTING COMPOSITE

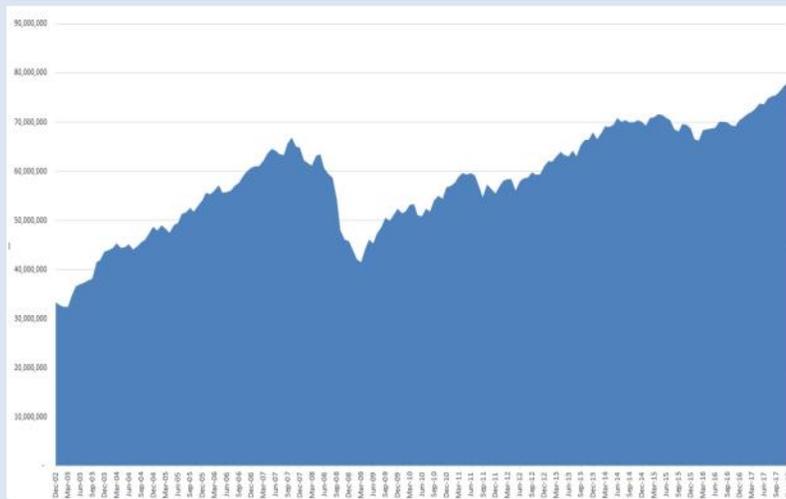
The **Oregon Public Employees Retirement Fund (OPERF)** is the trust fund that belongs to beneficiaries of the State of Oregon retirement system, including teachers, public safety workers and other state and local government employees. By law, OPERF assets must be invested for beneficiaries' sole and exclusive benefit with the goal of maximizing investment returns on a risk-adjusted basis.

Oregon invests globally in order to create and manage a highly diversified portfolio. As a responsible investor, Treasury takes action to ensure its investments grow more valuable over time and are managed carefully with respect to ESG risks.

To maximize long-term shareholder value, Treasury engages in corporate governance advocacy efforts. Included in these efforts are casting votes at annual meetings on corporate resolutions and board nominees.

The allocation to public equity investments was 41.4% or \$32.0 billion as of Dec. 31, 2017. The pension fund owned stock in more than **7,000** different publicly-traded companies in **75** countries, adding up to some **2.5** billion separate shares.

OREGON PUBLIC EMPLOYEES RETIREMENT FUND, 2002-17



GLASS LEWIS & CO

The Oregon Investment Council (OIC) hires a proxy voting agent to perform research and cast votes on Oregon's behalf. The agent is Glass Lewis & Co, based in San Francisco.



ANNUAL MEETINGS

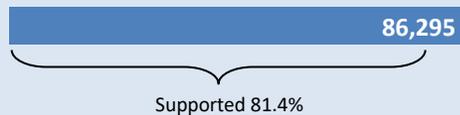
2016	2017
7,638	8,981

TOTAL BALLOTS

2016	2017
12,432	15,227

TOTAL RESOLUTIONS CONSIDERED

MANAGEMENT



SHAREHOLDER



OREGON-SUPPORTED SHAREHOLDER RESOLUTIONS, BY TYPE

SOCIAL AND ENVIRONMENT (6%)

Includes environment, animal welfare, product responsibility, worker conditions, drug pricing, political spending.

BOARD-RELATED (56%)

Includes board size, diversity, committees, elections, indemnification of directors.

GOVERNANCE (6%)

Board qualification issues, tenure, training, super-majority provisions.

CAPITAL MANAGEMENT (7%)

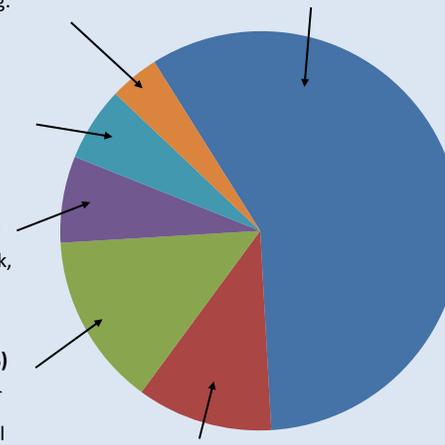
Issues involving common stock, dual-class shares.

AUDITS AND FINANCIAL (14%)

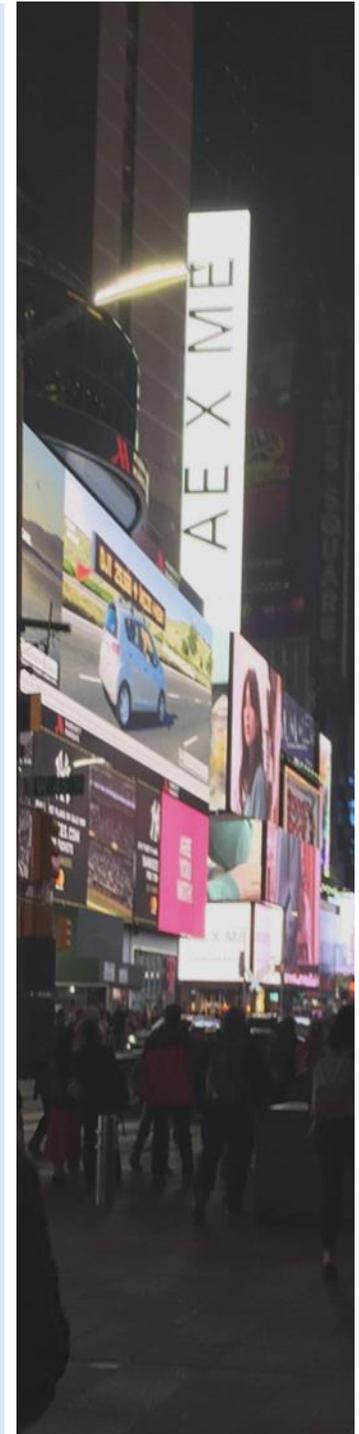
Audit-related, appointment or ratification of auditors, audit fees, special auditors, financial statements.

COMPENSATION (11%)

Executive and board salaries, Say-on-Pay, stock options, bonuses, golden parachutes.



Source: Glass Lewis & Co.



EXAMPLES OF SHAREHOLDER ENGAGEMENT



Climate Action 100+

256 Institutional Investors
 Combined \$28 trillion in assets under management

Climate Action 100+ is a five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. The initiative is designed to implement the investor commitment first set out in the Global Investor Statement on Climate Change in the months leading up to the adoption of the historic Paris Agreement in 2015.



Thirty Percent Coalition

Oregon Treasury represented on board
 Combined \$3.2 trillion in assets under management

The Oregon Treasurer is supporting an ongoing direct engagement to interface with companies where women make up less than 30 percent of boards of directors.



Hess Corp. (HES)

Stock Exchange: NYSE
 OPERF shares: 86,913
 Value: \$4.1 million

Oregon Treasury's corporate governance director met in September with executives from Hess Corp., a company that has stood out for working to improve investor relations. The company is advancing a request for more comprehensive sustainability and climate change disclosures and is developing a report on long-term carbon-related portfolio impacts, plus renewable energy research and development.



Occidental Petroleum Corp. (OXY)

Stock Exchange: NYSE
 OPERF shares: 219,259
 Value: \$16.2 million

A majority of shareholders including the Oregon Public Employees Retirement Fund voted in May to increase climate-related disclosure at Occidental. The successful shareholder resolution requires the oil and gas exploration company to report on the business impacts of climate change, and it represented the first time such a proposal passed over the board's objections. The proposal asks Occidental to assess its portfolio for long-term climate change impacts consistent with Paris Agreement goals.



Facebook Inc. (FB)

Stock Exchange: NASDAQ
 OPERF shares: 498,039
 Value: \$87.9 million

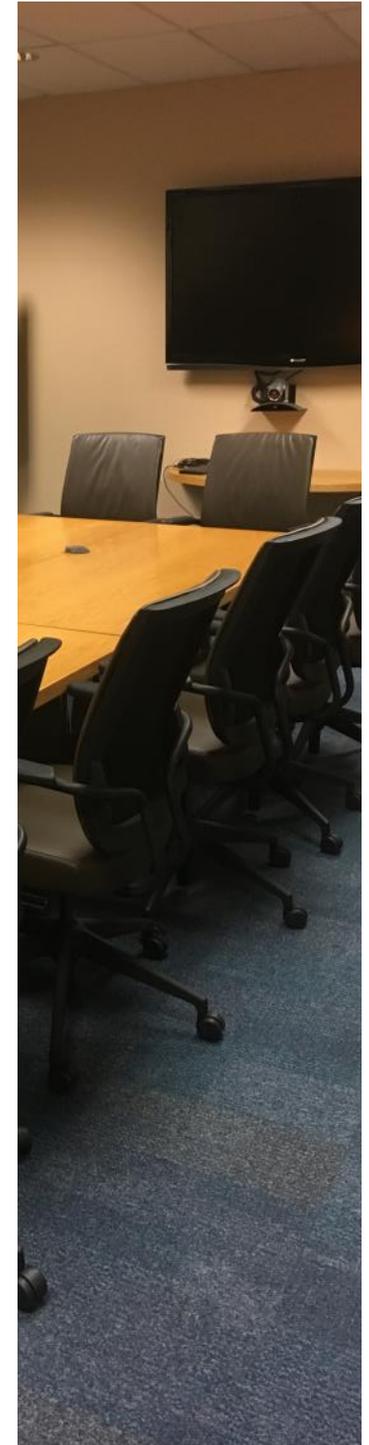
Treasury voted to support a series of shareholder resolutions, including two that would reduce the disproportionate influence of founder and chief executive Mark Zuckerberg, who owns approximately 14% of the economic value of the company and yet controls over 52% of the vote. Treasury also supported a resolution, which did not pass, to require the company to report on the public policy implications connected to fake news and hate speech on its platform.



McKesson Corp. (MCK)

Stock Exchange: NYSE
 OPERF shares: 249,888
 Value: \$38.9 million

Treasury voted its proxies in July against the McKesson corporate compensation package, noting that the nation's largest distributor of prescription opioids had just paid \$150 million in fines for failing to properly report sales levels — and shortly thereafter, the company gave its chief executive a \$1.1 million bonus. He made more than \$20 million in salary and bonuses in fiscal year 2017.



EXAMPLES OF SHAREHOLDER ENGAGEMENT



JP Morgan Chase (JPM)

Stock Exchange: NYSE
 OPERF shares: 2.1 million
 Value: \$227.4 million

Treasury is in the midst of a multiyear engagement with JP Morgan Chase that includes a lawsuit and direct meetings with executives in pursuit of better governance and compensation practices. In 2016, Oregon and other states settled a securities litigation case to recoup losses caused by the “London Whale” trading scandal. In 2017, Treasury’s corporate governance director followed up with executives in person to gauge progress toward board-level reforms and priorities.



Wells Fargo and Co. (WFC)

Stock Exchange: NYSE
 OPERF shares: 1.9 million
 Value: \$117.2 million

A succession of scandals related to account fraud at Wells Fargo has raised the ire of investors, led to calls for corporate governance and executive-level accountability, and resulted in the resignation in 2016 of the former CEO. Still, saying the board failed investors, Oregon voted against the chair and risk manager, and each was reelected but with narrow majorities — a notable rebuke. A new board chair was elected in the aftermath.



Snap Inc. (SNAP)

Stock Exchange: NYSE
 OPERF shares: 321,443
 Value: \$4.7 million

Joining with other pension fund shareholders in the Council of Institutional Investors, Oregon Treasury took aim at the decision of Snap in its initial public offering in March to grant no public shareholder voting rights on company governance through “dual class” shares. Voting rights are crucial for institutional investors relying on indexes. The company is being excluded from some index funds as a result of its no-vote share status.



Edison International (EIX)

Stock Exchange: NYSE
 OPERF shares: 88,182
 Value: \$5.6 million

Investor due diligence is a critical part of overseeing Oregon’s public trust funds. Treasury’s corporate governance director met with Edison executives to discuss how the electric utility, which serves a growing population in California and manages a series of hydroelectric facilities in the Sierras, is taking steps to ensure its business model is sustainable, continues to meet the needs of its customers, and anticipates changes in climate policy.



Citigroup (C)

Stock Exchange: NYSE
 OPERF shares: 1.6 million
 Value: \$117.5 million

The Oregon Public Employees Retirement Fund joined with other major pension funds including CalPERS to urge banks financing the controversial Dakota Access Pipeline to work collaboratively and reroute the oil transmission lines from a contested site on Native American land. Investors expressed concern about the long-term risk to banks’ reputations, pointing to protests, which could impair future profitability. The communications went to several institutions including Citigroup, Bank of Tokyo, and Wells Fargo.



Tesla Inc. (TSLA)

Stock Exchange: NASDAQ
 OPERF shares: 4,877
 Value: \$1.5 million

Persistent worker safety issues, operating losses and executive compensation questions raised investor concerns about the long-term prospects of electric vehicle giant Tesla. When given the opportunity in 2018, Oregon will oppose a record-setting \$2 billion stock bonus compensation proposal for founder Elon Musk.





SHAREHOLDER RIGHTS & EXECUTIVE COMPENSATION

Shareholders have an ownership stake in a company. That means they have a vested interest in how a company is run, and a voice.

However, executives do not always make decisions that are based on the sustainable best interests of their shareholders. In some examples, executives are more highly compensated than warranted by company share price performance.

As a responsible investor, Oregon votes at annual meetings to expand shareholder rights and

to demand better board governance.

In 2018, Oregon will continue to support proposals to advance shareholder rights, such as expanding proxy access to ensure that shareholders — once a reasonable threshold is met — have the ability to place referendums on annual ballots. Currently, not all companies allow ballot access to shareholders.

In addition, Oregon will continue to take a hard look at executive and board compensation practices to ensure alignment with the long-term interests of shareholders. Efforts to effect better alignment between executive compensation and shareholders' interests are often referred to as "Say on Pay" proposals.



CLIMATE RISK & DISCLOSURE

What will executives do if a price is imposed on carbon, or if a company runs manufacturing sites in tidal lowlands prone to flooding?

A changing environment is a significant concern for corporate sustainability and long-term profitability. Against that backdrop, knowing how companies will prepare for and respond to climate-related risks and opportunities is crucial. **In 2018, Oregon will support corporate governance proposals that improve climate change assessment and disclosure practices.**

Increasing awareness of climate-related risks and opportunities has convinced mutual fund giants like Blackrock to join with other forward-thinking institutional investors and support enhanced assessment and disclosure.

“As institutional investors and consistent with our fiduciary duty to our beneficiaries, we will work with the companies in which we invest to ensure that they are minimizing and disclosing the risks and maximizing the opportunities presented by climate change and climate policy.”

Climate Action 100+
2017

ating carbon emissions and related environmental risks.



BOARD DIVERSITY & INCLUSION

Treasurer Read says companies will fare better when boards of directors better reflect the makeup of the marketplaces they hope to serve. **In 2018, Oregon will vote against directors who sit on nominating committees of boards lacking women and plans to increase board diversity.**

A 2014 review from Credit Suisse said companies with at least one woman in a director role outperformed peers by as much as 5 percent.

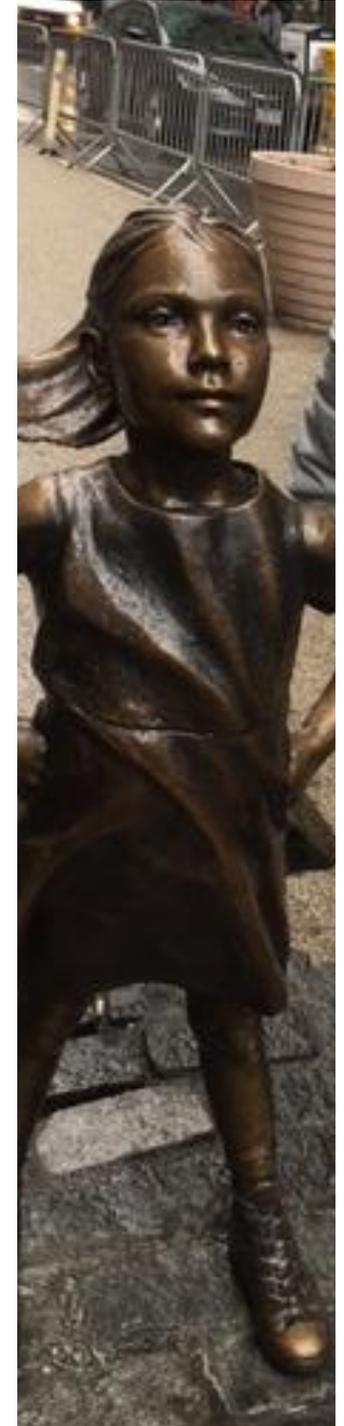
While women comprise 45 percent of the workforce in S&P 500 companies, that proportion dwindles at the highest levels of management. Progress is being made: 99 percent of S&P 500 companies and 88 percent of Russell 3000 companies have at least one woman director, which is up from 89 percent and 60 percent in 2010, according to the 30 Percent Coalition.

A new report from MSCI found that “companies with both a more diverse board and stronger talent management practices enjoyed higher growth in employee productivity compared to companies with a diverse board only and to companies with strong talent management practices only.”

21%

Percentage of board directors that are women in S&P 500 companies, 2016

PriceWaterhouseCoopers



FIDUCIARY DUTY TO BENEFICIARIES

Treasury manages Oregon's trust fund portfolio in alignment with the legal and fiduciary obligations of the Oregon Investment Council (OIC). The Council is a six-member fiduciary board that sets policy for all state investment funds.

The Council also establishes overarching investment beliefs that guide both long-term strategy and daily implementation efforts. Those beliefs provide a foundation for staff's various investment activities and Treasury's corporate governance program (see below).

The Council is comprised of four gubernatorial appointees and two ex officio members -- the State Treasurer and the Director of the Public Employees Retirement System (PERS). The PERS Director is the Council's only non-voting member.

Current Council members are: Chair Rukaiyah Adams, chief investment officer at Meyer Memorial Trust; Vice Chair John Russell, president of Russell Development Co.; Rex Kim, a retirement consultant at Multnomah Group; Rick Miller, co-founder of Rogue Venture Partners; State Treasurer Tobias Read; and PERS Director Steve Rodeman.

In accordance with OIC policies, Treasury's investment mandate for Oregon trust funds is to maximize long-term returns on a risk-adjusted basis for beneficiaries such as schoolchildren, injured workers, and public employees and retirees. Treasury also monitors and manages various operating, investment and compliance risks, the analytical capacity for

which will increase in 2018 with the addition of an ESG investment officer.

Treasury takes seriously the opportunity and obligation to act as a responsible investor and engage all marketplace participants in support of improved governance and better management accountability. Efforts to improve governance extend beyond trust fund beneficiaries: Investor-friendly regulations such as better reporting transparency will benefit every Oregonian who relies on or is exposed to financial markets.

Oregon's trust fund portfolio includes assets that cannot be readily sold, such as index fund holdings and illiquid positions in real estate and private equity partnerships. The Council has directed Treasury to engage in pursuit of sustainable, long-term performance, via proxy voting and other means, and eschews divestment for its potentially harmful impact on long-term investment returns. Specifically, divestment strategies can impair a fund's diversification profile which, in turn, results in higher fund volatility and lower long-term fund value. In addition, the elevated transaction and monitoring activities associated with divestment strategies can impose incremental costs that further erode fund returns.

A study at CalPERS, an institutional pension fund for public workers in California, found in 2016 that the fund's partial divestment in tobacco-related holdings — which started in 2000 — resulted in foregone investment gains of \$3 billion.

INVESTMENT BELIEF EXCERPTS

[Investment and Management Beliefs](#) approved by the Oregon Investment Council (OIC) help to guide the Treasury corporate governance and ESG risk and research program. The following excerpts retain their numbering from the OIC statement, for reference purposes.

2.) ASSET ALLOCATION DRIVES RISK AND RETURN

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

- 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.

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

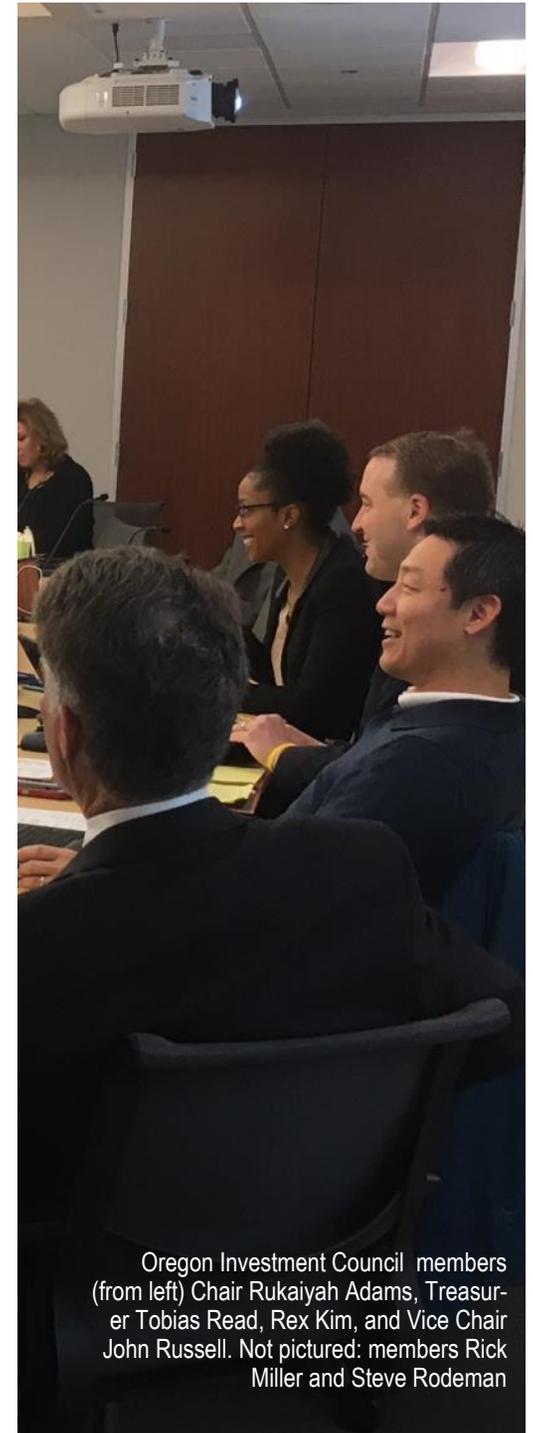
A. The OIC recognizes that the quality of regulation and corporate governance can affect the long-term value of its investments.

- 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 a fiduciary and based solely on the economic merits of specific proxy proposals.

Investment Beliefs as of 12/31/2017



Oregon Investment Council members (from left) Chair Rukaiyah Adams, Treasurer Tobias Read, Rex Kim, and Vice Chair John Russell. Not pictured: members Rick Miller and Steve Rodeman

LITIGATION

Oregon is suing Wynn Resorts founder and board for breach of duty after sexual impropriety allegations

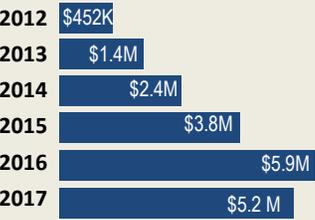


To demand accountability, and on behalf of the Oregon Public Employees Retirement Fund, the Treasurer and Oregon Attorney General are suing gambling mogul Steve Wynn and the board of directors of Wynn Resorts Ltd. for breach of fiduciary duty in connection with recent sexual harassment allegations against Mr. Wynn that damaged the company’s reputation and impaired long-term shareholder value. This case is one of several current litigation efforts underway and on behalf of Oregon trust funds.

The civil case was filed in Clark County, Nev., by the State Treasurer and Attorney General. The litigation cites repeated failures of Mr. Wynn and nine board members to act in the best interests of shareholders and stop a pervasive pattern of sexual misconduct at the company. Board members also are accused of unjust enrichment.

“Wynn’s Board of Directors failed to protect shareholders, the company, and its employees. This filing will help hold the Board and Mr. Wynn accountable for their profound dereliction of fiduciary duty,” said Treasurer Read, who is a member of the Oregon Investment Council.

OREGON DAMAGES RECEIVED:
COURT-ORDERED AND
NEGOTIATED SETTLEMENTS



Treasury works in conjunction with the Attorney General and Department of Justice to file cases, seek accountability and restore funds to beneficiaries.



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OTHER KEY CORPORATE GOVERNANCE PRIORITIES 2018



While financial markets surged in 2017, headwinds and risks that require executive and board action in 2018 include cybersecurity threats, federal trade policy, privacy concerns, and the imperative to foster safe, respectful and productive workplaces.



With a contract expiring in 2018, Treasury and the Oregon Investment Council will use a Request for Proposals (RFP) process to survey the marketplace for a new proxy voting agent. The RFP process is good for both fund beneficiaries and taxpayers as competitive bids bring expert domain advice to Treasury at the lowest possible cost.



The Treasurer will oppose proposals in Congress that would: Impede the independence and capacity of the Consumer Financial Protection Bureau; roll back the market protection safeguards in Dodd-Frank; and erode institutional investors’ ability to rely on proxy voting agencies and the valuable multilayered research those firms provide as part of annual ballot and board candidate analysis.

