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OREGON INVESTMENT COUNCIL
AUGUST 13, 2014
MEETING MINUTES

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

Member on Phone: Keith Larson who dialed in at 10:25 AM

Staff Present: Darren Bond, Tony Breault, Michael Cox, Garrett Cudahey, Sam Green, Andy Hayes, John Hershey, Brooks Hogle, Julie Jackson, Kristin Johnson, Drew Johnston, Carmen Leiva, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Paola Nealon, Priyanka Shukla, John Skjervem, Michael Viteri, Byron Williams

Consultants Present: David Fann (TorreyCove); Alan Emkin and John Linder (PCA); Jim Callahan (Callan)

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

The August 13, 2014 OIC meeting was called to order at 9:00 am by Dick Solomon, Chair.

I. 9:00 am Investment Solutions Project and Recommendation

Darren Bond, Deputy State Treasurer and John Skjervem, Chief Investment Officer described the history and purpose of the Oregon State Treasury's Investment Solutions Project and previewed staff's recommendation that the Oregon Investment Council (OIC) approve and execute a contract with BlackRock Solutions (BRS) to acquire an integrated suite of operating and risk management services. These services are deemed necessary by staff and Oregon State Treasury (OST) management to rectify deficiencies within and throughout OST's current investment platform by providing staff with a set of contemporary tools and best practices in support of the State's \$90 billion investment portfolio.

In 2011, and immediately following the OIC's mandated, regular investment program audit, OST began work on a comprehensive evaluation of its investment management capabilities. This effort included the observations and examinations of several leading industry consultants, and produced a detailed assessment of OST's current strengths and weaknesses in terms of personnel, technology, operating procedures and risk management. The assessment was further illuminated by a comparison to other public and private asset management organizations similar in size and scope to OST.

While the assessment resulted in high marks for OST in certain areas such as historical investment returns and staff quality, it also highlighted pronounced weaknesses in technology, operations and risk management. In fact, when one particular consultant evaluated OST solely as an asset manager (i.e., independent of its broader assignments and fiduciary responsibilities), these

weaknesses were considered severe enough to warrant a “would not recommend” rating. Moreover, rapid recent growth in both the size and complexity of the State’s investment portfolio now conspires with these operating and risk management deficiencies to put the sustainability of the State’s vaunted long-term investment track record in jeopardy.

Fortunately, specific investments in technology combined with the adoption of new operating and risk management procedures can mitigate (and in many cases ameliorate) the weaknesses identified in the original audit and subsequent third-party consulting reports. These new tools and procedures are required immediately to fortify staff’s current activities, and will also provide OST with a modern platform from which to successfully manage State funds in an increasingly complex and volatile investment environment.

II. 9:07 am Investment Operations Current State – Strategic Risk Assessment Report

Byron Williams, OST Chief Audit Executive, and Michael Chung and Chip Morgan from Deloitte & Touche LLP, presented the findings from a comprehensive assessment of OST’s current investment management platform and well as described alternative approaches for improvement and future state success.

Based on the assessment and analysis of the aforementioned operational infrastructure elements across the in-scope functional areas, as well as the understanding of prudent industry practices, Deloitte & Touche identified a number of risks related to OST’s investment operations and provided recommendations for management’s consideration in the following five categories: Organizational Structure; Human Capital Management; Governance, Oversight and Compliance; Data Governance and Information Management; and Systems and Technology. Certain recommendations such as the development and implementation of a talent management strategy or automation of manual processes were explained to apply generally to the entire organization while other recommendations were more specific to a particular process, workflow and/or control procedure within a high-risk area.

III. 9:27 am Investment Solutions Project Business Case

Byron Williams introduced Shankar Subramanian and Tom Nichols with Cutter Associates, who then presented the specific solutions Cutter Associates recommends to address deficiencies identified in the current state assessment of OST’s investment management platform.

IV. 10:00 am BlackRock Solutions

Larry Schwartz and Yevgeny Gelfand of BlackRock described the capabilities and services proposed by BlackRock Solutions and its Aladdin investment management platform which include order management, operations outsourcing and enterprise risk management services. These services are expected to accomplish the following objectives: 1) significantly reduce operational risk and improve staff efficiencies; improve transparency of portfolio investment and risk exposures; increase the analytic sophistication and reporting frequency for OST and the OIC; establish an independent risk management oversight function and implement risk governance procedures; and implement an enterprise investment platform using a partner with a proven track record.

MOTION: Mr. Larson moved approval of staff’s recommendation to retain BlackRock Solutions subject to OST obtaining budget approval for additional personnel to implement and operate the Aladdin investment management platform. Ms. Adams seconded the motion which then passed on a 5/0 vote.

V. **10:45 am Common School Fund – Public Equity Portfolio**

Mike Mueller, OST Deputy Chief Investment Officer and Jim Callahan with Callan Associates recommended OIC approval for a new investment mandate with ClearBridge to manage a domestic, mid-cap core equity allocation (approximately \$34 million as of June 30, 2014) on behalf of the Common School Fund subject to the successful negotiation of terms and conditions with staff working in concert with the Oregon Department of Justice.

MOTION: Ms. Durant moved approval of the staff recommendation. Treasurer Wheeler seconded the motion which then passed on a 4/0 vote (Mr. Larson had dropped off the call at that time).

VI. **10:50 am Other Items**

None

Mr. Solomon adjourned the meeting at 10:50 am.

Respectfully submitted,



Julie Jackson
Executive Support Specialist