OREGON INVESTMENT COUNCIL
SEPTEMBER 24, 2014
MEETING MINUTES

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

Staff Present: Tony Breault, Austin Carmichael, Karl Cheng, Michael Cox, Sam Green, Scott Harra, Julie Jackson, Perrin Lim, Mike Mueller, Paola Nealon, Tom Rinehart, John Skjervem, Michael Viteri

Consultants Present: Tom Martin (TorreyCove); David Glickman, Christy Fields, John Linder and Dylan Lorda (PCA); Jim Callahan, Uvan Tseng and Janet Becker-Wold (Callan)

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

The September 24, 2014 OIC meeting was called to order at 9:00 am by Dick Solomon, Chair.

I. 9:00 am Review and Approval of Minutes

MOTION: Ms. Durant moved approval of the July 30, 2014 meeting minutes. Ms. Adams seconded the motion, which then passed by a 5/0 vote.

MOTION: Ms. Adams moved approval of the August 13, 2014 meeting minutes. Mr. Larson seconded the motion, which then passed by a 5/0 vote.

COMMITTEE REPORTS
John Skjervem, CIO gave an update on the following committee actions taken since the July 30, 2014 OIC meeting:

Private Equity Committee – 2014:

<table>
<thead>
<tr>
<th>Date</th>
<th>Fund Name</th>
<th>Amount</th>
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<tbody>
<tr>
<td>August 5, 2014</td>
<td>Aquiline Financial Services Fund III, L.P.</td>
<td>$100 million</td>
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<tr>
<td>August 5, 2014</td>
<td>Blackstone Energy Partners II, L.P.</td>
<td>$200 million</td>
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<tr>
<td>August 5, 2014</td>
<td>Hellman &amp; Friedman Capital Partners VIII, L.P.</td>
<td>up to $100 million</td>
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<tr>
<td>September 2, 2014</td>
<td>Baring Asia Private Equity Fund VI, L.P.</td>
<td>$150 million</td>
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<tr>
<td>September 2, 2014</td>
<td>Centerbridge Capital Partners III, L.P.</td>
<td>up to $150 million</td>
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<tr>
<td>September 2, 2014</td>
<td>Roark Capital Partners IV, L.P.</td>
<td>$100 million</td>
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Alternatives Portfolio Committee – 2014:
August 14, 2014 NGP Natural Resources Fund XI, L.P. $200 million

Opportunity Portfolio Committee – 2014:
August 27, 2014 Blackstone Tactical Opps Fund $250 million

Real Estate Committee – 2014:
September 4, 2014 Landmark Real Estate Partners VII, L.P. $100 million

II. 9:02 am Dimensional Fund Advisors - OPERF Public Equity
Michael Viteri, Senior Investment Officer and Savina Rizova (Vice President) and Grady Smith (Vice President and Senior Portfolio Manager) with Dimensional Fund Advisors (DFA) presented to the Board.

Consistent excess returns from traditional, discretionary active management in the large cap portion of the OPERF domestic equity portfolio have been difficult to achieve over the long-term. In this highly efficient segment of the market, staff proposes to systematically tilt the portfolio (at very low cost) towards common risk factors such as value, size and profitability. Historically, these particular factor exposures have generated excess returns, and often explain much or all of active managers’ outperformance over time. I.e., unique risk factor exposures – rather than stock picking abilities – are often the driver of active management alpha among public equity managers. Staff believes this method of active risk taking (i.e., deliberate risk factor tilts) has, net of fees, a higher probability of long-term success than traditional, discretionary active management.

DFA maintains strong ties to the academic community. For example, University of Chicago Nobel Laureate Eugene Fama, MIT Nobel Laureate, Robert Merton, Dartmouth’s Kenneth French and Wharton’s Donald Keim all serve as consultants and provide on-going research in support of current and proposed DFA investment initiatives. Investment researcher Roger Ibbotson and Nobel Laureates Robert Merton and Myron Scholes also serve as directors of the firm’s mutual funds board.

DFA manages over $25 billion in dedicated U.S. Large Cap strategies with track records extending back to February 1993. The newest DFA large cap strategy which tilts towards size (more mid cap than small cap), value and profitability is an open-end institutional mutual fund with a track record that started on June 25, 2013 (ticker: DUSQX). Staff reviewed the existing strategy and worked collaboratively with DFA on structural changes so that the proposed separate account large cap core strategy would better complement OPERF’s return and risk objectives.

The OIC is familiar with DFA as it has previously approved five DFA mandates which are managed identically to Large Cap Core: World ex-U.S. Small Cap Value (January 2009); Emerging Markets Small Cap (May 2010); Micro Cap Value (January 2013); International Micro Cap Value (March 2014); and, for the Oregon Savings Growth Plan, Emerging Markets Core (February 2011). Given the long relationship Oregon has enjoyed with DFA and the multiple mandates that the OIC has funded with the firm, staff negotiated a management fee that is significantly less than the already low average active management fee that OPERF pays its existing large cap managers.

Staff and Callan recommended funding DFA’s Large Cap Core strategy with a) an initial commitment of $2 billion and b) the option to increase this mandate to $4 billion subject to CIO approval and satisfactory negotiation of all terms and conditions with staff working in concert with Department of Justice personnel. Staff also recommended amending OIC policy 04-05-01 accordingly.
MOTION: Ms. Durant moved approval the staff recommendation. Treasurer Wheeler seconded the motion, which then passed on a 5/0 vote.

III. 9:43 am OPERF Real Estate Review
Tony Breault, Senior Investment Officer along with PCA’s Christy Fields and Dylan Lorda gave an update on the OPERF Real Estate portfolio, its recent performance and Staff’s investment plans for 2015. That plan includes additional focus on pursuing lower-risk, greater-control separate accounts mandates. A spirited discussion ensued during which the primary objective of the real estate portfolio was debated (return seeking vs. diversification vs. capital preservation, etc.) with staff and PCA agreeing to provide further clarification for OIC member review and consideration.

IV. 10:50 am OIC Private Equity Consultant Contract
Mike Mueller, Deputy Chief Investment Officer addressed the forthcoming contract expiration for the OIC’s private equity consultant. He indicated that Staff proposes the OIC extend its current contract with TorreyCove for an additional one-year period ending December 31, 2015 subject to the continuation of the existing contract’s fee schedule, terms and other conditions.

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

V. 10:51 am OIC Policy Updates
Staff recommended approval of several proposed OIC Policy changes as outlined below:

1. 4.01.07 & 4.01.08: Provides for explicit statutory language on diversification as well as language clarification proposed by the CIO.

2. 4.01.18: Includes language clarification proposed by the CIO.

3. 4.03.02: Corrects “Policy” and “Procedure” classification and more clearly defines mortgage-backed and asset-backed securities for inclusion in agency separate accounts. Staff believes that existing rules allowing structured securities are overly broad given the expanding types of collateral backing. Staff seeks to limit permitted internal holdings to more defined structured investments. Due to interpretation of SEC Rule 144A (144A) by internal counsel, securities defined under 144A should not be purchased for internally-managed portfolios unless the portfolio is deemed a qualified institutional buyer (QIB) as defined by 144A. Therefore, staff believes 144A securities should not be explicitly allowed as a permitted holding for internally-managed portfolios.

4. 4.04.01: Raises OIC approval threshold for single core property maximum from $100 million to $200 million, and adds additional clarifying policy language. Also adds “Procedures” section for consistency with other private market asset classes. Clarifies and simplifies the OIC’s or OST Committees’ investment consideration decision process. Enables CIO to terminate contractual relationships with individual REIT managers upon recommendation from the Director of Alternative Investments and the OIC’s advisor. Establishes updated capital call procedure.

5. 4.06.01: Clarifies and simplifies the OIC’s or OST Committees’ investment consideration decision process, and establishes updated capital call procedure.

6. 4.06.02: Clarifies and simplifies the OIC’s or OST Committees’ investment consideration decision process, and establishes updated capital call procedure.
7. **4.06.03**: Clarifies and simplifies the OIC’s or OST Committees’ investment consideration decision process, and establishes updated capital call procedure. Eliminates annual on-site visit requirement given current staffing constraints.

OIC Statement of Fund Governance: Updates Section 3.0, “Decisions Retained by the Council,” to reflect above-outlined changes to private markets procedures.

**MOTION:** Treasurer Wheeler moved approval of the policy updates. Ms. Durant seconded the motion, which then passed on a 5/0 vote.

VI. **11:02 am** **Asset Allocations and NAV Updates**
Mr. Skjervem reviewed asset allocations and NAV’s across OST-managed accounts for the period ended August 31, 2014.

VII. **11:03 am** **Calendar – Future Agenda Items**
Mr. Skjervem presented a revised schedule of future OIC meetings and associated agenda topics.

VIII. **11:03 am** **Other Business**
None

**11:03 am** **Public Comments**
None

Mr. Solomon adjourned the meeting at 11:04 am.

Respectfully submitted,

[Signature]

Julie Jackson
Executive Support Specialist