OREGON INVESTMENT COUNCIL
SEPTEMBER 14, 2016
MEETING MINUTES

Members Present: Rukaiyah Adams, Katy Durant, Rex Kim, Steve Rodeman, John Russell, Ted Wheeler

Staff Present: John Skjervem, Deena Bothello, Karl Cheng, May Fanning, Karl Hausafus, Michael Langdon, Perrin Lim, Paola Nealon, Jen Plett, Jen Peet, David Randall, Priyanka Shukla, James Sinks, Michael Viteri, Lisa Massena, Garrett Cudahey, Andy Hayes, Tony Breault, Amanda Kingsbury, Kristin Johnson, Tom Lofton, Sam Green, Austin Carmichael, Dana Millican, Byron Williams, Kim Olson, Ricardo Lopez, William Hiles, Andrew Coutu, Connie Lelack, Tom Rinehart

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

Legal Counsel Present: Dee Carlson, Oregon Department of Justice

PERS Board Members: Stephen Buckley, Lawrence Furnstahl, Krystal Gema, John Thomas, Pat West

The September 14th, 2016 OIC meeting was called to order at 9:01 am by Katy Durant, Chair.

I. 9:01 am Review and Approval of Minutes

MOTION: Treasurer Wheeler moved approval of the August 10, 2016 meeting minutes, which then passed by a 5/0 vote.

Committee Reports
John Skjervem, OST Chief Investment Officer gave an update on the following committee actions taken since the August 10, 2016 OIC meeting:

Private Equity Committee:
None

Alternatives Committee:
- August 17, 2016 EMR Capital Resources Fund II, L.P. $125 million
- August 17, 2016 Northern Shipping Fund III, L.P. $100 million to $125 million

Opportunity Portfolio Committee:
None

Real Estate Committee:
None
II. 9:02 am Consultant Recommendation – OST Private Equity Program

Michael Langdon, Senior Investment Officer, Private Equity and Andy Hayes, Investment Officer, Private Equity addressed the Council’s existing contract for Private Equity consultant services ending December 31, 2016. Subject to satisfactory negotiation of all terms and conditions with Staff working in concert with legal counsel, the private equity consultant search committee (the “Committee”) recommended that the OIC pursue a non-discretionary private equity consulting contract with TorreyCove Capital Partners, LLC (“TorreyCove”) beginning January 1, 2017.

Differentiating factors in support of the Committee’s recommendation included the following:

- Cultural fit -- TorreyCove’s culture is characterized by candor and transparency, which marries well with the working style of the OIC and OST Staff;
- Philosophical fit -- Throughout the RFP process, it became apparent TC’s market and investing views were best aligned with OIC and OST Staff. TorreyCove understands the nuances of the OIC/PE staff/consultant dynamic. As a result, TC is well placed to maintain an effective and open dialogue with the OIC while also maintaining a collaborative relationship with OST staff;
- Non-conflicted business model -- TorreyCove’s sole line of business is non-discretionary consulting. As a result, the firm’s clients are insulated from the inevitable conflicts of interest that arise when a consultant also manages discretionary mandates. This conflict-free approach is core to TC’s market positioning, and the firm seems committed to maintaining this model as a key element of its value proposition; and
- Fee Proposal -- TorreyCove put forward a highly competitive fee proposal which became more attractive as the process unfolded and the candidate alternatives narrowed.

The Committee further recommended pursuing a three-year initial contract term with two, pre-negotiated 24-month extensions available at the Council’s discretion.

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

III. 9:06 am Fund Restructuring and Policy Update - Public University Fund

Tom Lofton, Investment Officer, Fixed Income spoke about Public University Fund (“PUF” or the “Fund”) participants’ desire to revise the Fund’s investment guidelines consistent with the following, proposed changes:

<table>
<thead>
<tr>
<th>Current Structure</th>
<th>Revised Structure</th>
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<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td><strong>Allocation</strong></td>
</tr>
<tr>
<td>Liquidity</td>
<td>Oregon Short Term Fund</td>
</tr>
<tr>
<td>Core</td>
<td>Oregon Intermediate Term Fund Benchmark: Barclays U.S. Aggregate 3-5 Year</td>
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<tr>
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<td>PUF Long-Term Fund Benchmark: Barclays U.S. Aggregate 5-7 Year</td>
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<td></td>
<td>Benchmark: 75% Barclays U.S. Aggregate 3-5 Year 25% Barclays U.S. Aggregate 5-7 Year</td>
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After discussion with PUF participants’ designated representative and consultant, OST investment staff also proposed updating Fund investment guidelines to reflect OST’s improved risk management capabilities and to allow for more efficient investment management relative to the Core portfolio’s custom benchmark.

Staff recommended OIC approve revisions to PUF’s Investment Policy as submitted.

MOTION: Mr. Kim moved approval of the staff recommendation. Mr. Russell seconded the motion which then passed by a vote of 5/0.

IV. 9:10 am Policy Updates – OPERF and other OST-managed Accounts

Mr. Skjervem and Kim Olson, OST Policy Analyst, led a discussion in connection with several OIC Policies (listed below) submitted for Council consideration and approval. Continuing work that was first introduced at the September 2015 OIC meeting, primary objectives of these proposed revisions include a systematic segregation of policy and procedure as well as conforming Council policies with Treasury’s new PolicyStat application.

- INV 101: Duties of the OIC
- INV 102: Development of the Agenda for OIC Meetings
- INV 103: OIC and Staff Duties
- INV 202: Investment Trading Authority
- INV 204: Investment Performance Reports
- INV 205: Consideration of Investments
- INV 206: Divestiture Initiatives
- INV 207: Open Door Policy to Investment Proposals
- INV 208: Negotiation and Execution of Contracts
- INV 214: Equal Opportunity
- INV 209: Rotating Internal Control and Operational Reviews
- INV 211: Minimizing Losses
- INV 212: Sudan and Iran Divestiture
- INV 213: External Manager Watchlist
- INV 216: Securities Lending
- INV 607: Equity Investments: Manager Monitoring

MOTION: Mr. Russell moved approval of all staff recommendations except for Policies 204 and 205 which were referred back to staff for further revision. Treasurer Wheeler seconded the motion which then passed by a vote of 5/0.

V. 9:31 am NCREIF-ODCE Primer - OST Real Estate Program

Tony Breault, Senior Investment Officer, Real Estate introduced NCREIF founder Blake Eagle who gave a presentation on the National Council of Real Estate Investment Fiduciaries (NCREIF) and the Open-End Diversified Core Equity (ODCE) Index.

VI. 10:12 am Operational Review – OPERF

Byron Williams, OST Chief Audit Executive, presented a summary of the operational review which is a statutory requirement of the OIC and is conducted at least every four years. The operational review Mr. Williams reported on covered the period from July 2012 to June 2016, and contained two primary points of emphasis: first, how is the Council doing as a whole in meeting its fiduciary responsibilities; and second, how does the OST Alternatives investment program compare relative to industry best practices and other relevant benchmarks? Finally, Mr. Williams shared with the Council an update on progress made relative to findings from the previous operational review presented to the OIC in January 2013.
VII. 10:42 am  **PERS Presentation and Joint Board Discussion – OPERF/Individual Account Program**

Steve Rodeman, PERS Director presented summary valuation results for the Tier 1/Tier 2 and OPSRP retirement programs as well as the Retiree Health Insurance Account (RHIA) and Retiree Health Insurance Premium Account (RHIPA) programs as of December 31, 2015. He indicated these results help determine the 2017-2019 employer contribution rates scheduled for discussion and subsequent adoption at the September 30, 2016 PERS board meeting.

Mr. Rodeman then shared slides illuminating the PERS system’s $21.28 billion current funding liability and its composition by member category. Ms. Durant inquired about the magnitude of the current liability if benefit obligations are discounted at prevailing market rates. In response, Mr. Rodeman shared a slide detailing likely contribution rates under various return scenarios.

Ms. Adams interjected that from a taxpayer’s perspective, the PERS liability is growing even though employers’ contributions are constrained by the collar methodology explained by Mr. Rodeman. Ms. Durant agreed and added concern for the intergenerational inequity that is building between younger Oregonians and older PERS beneficiaries.

Mr. Stephen Buckley, PERS board member informed OIC members about the creation of a bipartisan working group by Senators Johnson and Knopp to investigate issues and potential solutions in connection with the growing PERS liability. Mr. Buckley also noted that the PERS funding issue is becoming better understood as systemic, but noted that neither the OIC nor PERS Board can effect funding policy decisions.

The next opportunity for the OIC to discuss the OPERF assumed rate will be at its April 2017 meeting at which staff and consultants are scheduled to present asset allocation recommendations and updated capital market assumptions. In addition, OIC and PERS Board members agree to continue their OPERF funding discussion at another joint meeting, perhaps as soon as the next PERS Board meeting on September 30th, 2016.

Following the joint OIC/PERS Board discussion and presentation, Karl Cheng, Investment Officer, Portfolio Risk & Research and David Randall, Director of Investment Operations provided an overview of the Individual Account Program (IAP), challenges associated with its current structure and demographics and possible solutions currently being evaluated by both OST and PERS staff.

VIII. 12:07 pm  **OPERF Performance & Risk Update – Q2 2016 Report**

Mr. Cheng presented and discussed an updated view of the OPERF risk dashboard, while Janet Becker-Wold from Callan Associates provided a corresponding update on OPERF performance for the period ended June 30, 2016.

IX. 12:31 pm  **Asset Allocation & NAV Updates**

Mr. Skjervem reviewed asset allocations and NAVs across OST-managed accounts for the period ended July 31, 2016.

X. 12:31 pm  **Calendar – Future Agenda Items**

Mr. Skjervem presented and briefly discussed the OIC’s forward meeting calendar and scheduled agenda topics.

XI. 12:31 pm  **Other Items**

None
12:31 pm  Public Comments
None

Ms. Durant adjourned the meeting at 12:32 pm.

Respectfully submitted,

May Fanning
Executive Support Specialist