



Invested for you

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Results at a glance



Total Assets

\$77.9 billion

Total PERS members

356,430

Benefits that are paid with investment returns

73.7 ¢
of every dollar

Total benefits paid in 2016

\$3.66 billion

Sources: State Street; Oregon Public Employees Retirement System (2017).

Did you know?

Assets of the Oregon Public Employees Retirement Fund may not be diverted or otherwise put to any use that is not for the exclusive benefit of members and their beneficiaries.

ORS 238.660



One of the early signs of springtime in Salem are the cherry blossoms at Capitol Mall State Park.

INVESTOR EDUCATION

Buoyed by strong markets, Treasury-managed Public Employees Retirement Fund posted a 15.4% return and reached a new asset value record

The long-term performance and sustainability of the Oregon investment portfolio matters to every Oregonian. That's why Treasury is focused on building and managing portfolios that achieve positive results over decades and across market cycles.

We are not day-traders and we don't try to time markets. Under the policies set by the Oregon Investment Council, the Oregon Public Employees Retirement Fund is much more a "buy and hold" investor.

That said, and as much as anyone else, we like to see good performance in any single year. From that lens, 2017 was an exceptionally good year for the portfolios under Treasury management.

Buoyed by a banner year in both domestic and overseas stock markets, the pension fund posted a 15.4 percent gain and reached a record high year-end balance in December.

The globally-diversified trust fund closed 2017 with a value of \$77.9 billion. That sum includes the "variable account" that is no longer open to new investments.



TOBIAS READ
State Treasurer

Historically, more than 73 cents of every dollar in benefits comes from investment returns, which means positive investment performance lowers the pressure on taxpayers and other sources.

Just as important as the strong returns in 2017 -- which are largely a reflection of the broader financial markets in which we invest -- is the fact that we are in the midst of increasing our capacity at Treasury, which will reduce costs, and lessen our reliance on expensive Wall Street consultants. Every dollar we can save on fees helps make the fund more stable over time.

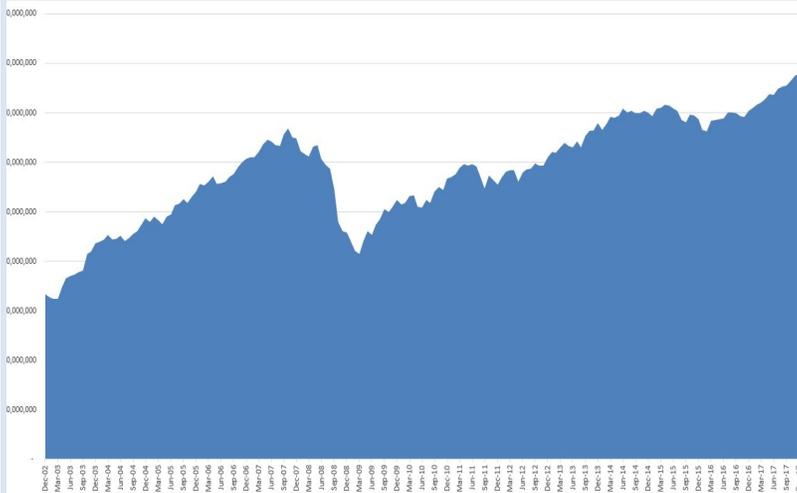
The performance of the overall pension fund does not mirror the stock markets exactly, however, because it is diversified -- or split up -- into different kinds of investments in order to better manage risk and volatility. Oregon also invests in bonds, privately-held companies, real estate, commodities and timberland. In 2017, the fund realized positive returns across all these and other asset classes.

As of Dec. 31, the pension fund realized a 6.0 percent average annual return for the past 10 years, a decade that includes the severe bear market of 2008-09.

As always, thanks for all you do, for Oregon.

PERFORMANCE SYNOPSIS — YEAR END 2017 RETURNS

OREGON PUBLIC EMPLOYEES RETIREMENT FUND, 2002-17



HOW IS THE OPERF REGULAR ACCOUNT DIVERSIFIED?

PUBLIC EQUITY (41.4% or \$32.0 billion)

Shares of public companies in the United States and abroad.

FIXED INCOME (20.7% or \$16.0 billion)

Income-generating investments such as corporate and government bonds.

OPPORTUNITY PORTFOLIO (2.2% or \$1.7 billion)

Tactical or episodic investments designed to enhance returns and improve overall diversification.

PRIVATE EQUITY (19.0% or \$14.7 billion)

Ownership interests in privately-held companies, buyout funds and venture capital investments.

CASH RESERVES (0.4% or \$299 million)

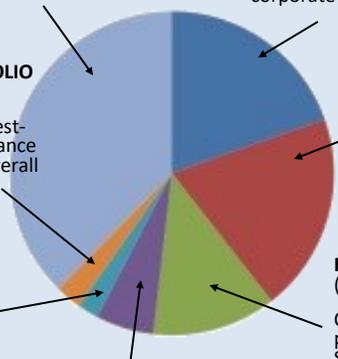
Cash from employer contributions and investment distributions, dividends and income held in the Oregon Short Term Fund to pay benefits or re-invest.

REAL ESTATE (9.8% or \$7.6 billion)

Ownership interests in real property assets in the United States and abroad.

ALTERNATIVES (6.5% or \$5.0 billion)

Non-correlated public market strategies and ownership interests in real assets such as infrastructure, timberland, mining and agriculture.



The **Oregon Public Employees Retirement Fund (OPERF)** is the trust fund that belongs to beneficiaries of Oregon's public employee retirement system, including teachers, public safety workers, and other state and local government employees. By law, OPERF assets must be invested with the goal of maximizing investment returns on a risk-adjusted basis. The Oregon Investment Council (OIC) sets investment policy and oversees overall fund performance, while Oregon State Treasury investment staff is responsible for all daily fund management activities.

To increase the likelihood of successful, sustainable investment performance, OPERF capital is diversified across a wide array of asset classes, markets, and investment strategies including public company stocks, real estate, bonds, private equity, and alternatives like timberland and agriculture.

Depending on initial hire date, PERS-covered workers are impacted differently by OPERF performance. "Tier 1" workers (hired before 1996) have some investment guarantees no matter what happens in financial markets, while most other PERS members earn "realized" or actual returns.

Annual OPERF performance impacts the PERS system's "unfunded liability," an amount equal to the difference between the present value of OPERF's assets and the present value of all projected benefit payment obligations.

INVESTMENT RETURNS

PUBLIC EMPLOYEES RETIREMENT FUND

Regular Account Balance: \$77.3 Billion (Dec. 31, 2017)

Globally diversified financial and real asset portfolio.

Includes Individual Account Program (IAP) balances.

1-year 3-year 5-year 10-year

+15.4% **+8.0%** **+7.8%** **+6.0%**

VARIABLE ACCOUNT

Balance: \$612.5 Million (Dec. 31, 2017)

Closed to new deposits by legislative action. Invested in global stock market index fund.

1-year 3-year 5-year 10-year

+24.4% **+9.9%** **+11.4%** **+5.3%**

Q&A— Interest rates are rising. How will that impact investing?

Q: Interest rates are rising. How does that impact investments in the pension fund?

A: Interest rates most often rise for one or both of two primary reasons: a) accelerating economic growth that raises the demand for credit which in turn produces upward pressure on interest rates; and/or b) inflationary trends that produce upward interest rate pressure in order to offset the erosion of money's "store of value" function. Accelerating economic growth is a good or healthy reason for interest rate increases, whereas rate increases triggered by inflation are often symptomatic of economic instability. Interest rates often rise in response to rapid economic growth (good) and then continue to rise once inflationary pressures take hold (not good).

Economic growth in the U.S. has accelerated recently due to the stimulative effects of

last year's tax cuts and recent regulatory reforms. So far, these policies have produced advances in economic growth, employment and companies' capital expenditures. In other words, so far, so good. But most economic cycles end when a period of sustained economic expansion eventually sows inflationary seeds. When those seeds germinate, the Federal Reserve usually steps in with more rate increases to moderate economic activity and tame inflation before it takes root.

As long as the pace of economic growth, and more specifically, corporate earnings, exceeds that of rate increases, financial markets, and stocks in particular, should continue to appreciate. However, once the Fed intervenes more vigorously and the pace of rate increases exceeds growth in economic activity and corporate profits, financial markets usually suffer. We are

not at the juncture today, but as the unemployment rate approaches record lows, the odds of incipient inflation and more aggressive Fed action are increasing.

Q: Is the pension fund invested in "cryptocurrency" such as Bitcoin? Why?

A: No. While exciting as an investment and the most visible expression of blockchain technology, Bitcoin today does not meet several institutional investment standards, notably liquidity and counter-party risk.

Q: Is the pension fund public money?

A: No. OPERF is a trust fund and by law must be invested for the sole and exclusive benefit of its constituent owners. OPERF assets also cannot legally be invested or diverted for any political purpose that might otherwise impair the fund's investment productivity and purpose.

Long-term performance: Treasury is positioning pension fund to withstand future volatility with larger alternatives portfolio

The past year was a strong one for the financial markets, and that's a good thing. Yet as managers of a long-term pension portfolio, we spend more time looking at the horizon — and we pay no heed to the talking heads who offer advice on which stocks to buy and sell every day.

The Oregon Public Employees Retirement Fund (OPERF) is built to generate positive, risk-adjusted performance over decades, and that means we don't try to time the markets.

So what does it take to build an investment portfolio for the long term? We are long-term investors and we invest across market sectors, industries and geographies both in the United States and



JOHN SKJERVEM
Chief Investment Officer

abroad. At the same time, Oregon learned some tough lessons about diversification in the Global Economic Crisis of 2008 and 2009, and we are using that knowledge to construct a more resilient fund for volatile market conditions in and across every part of an economic

cycle.

A centerpiece of this evolution is the new alternatives portfolio, which was created earlier this decade and is targeted to eventually comprise about 12.5% of OPERF.

The alternatives portfolio is our answer to portfolio fortification, especially after the global economic crisis showed that our fund was not diversified enough and had too much exposure to equity risk.

The investment strategy for the alternatives portfolio involves investing in assets less likely to track the performance of the stock market, such as infrastructure, agriculture and timberland.

This additional diversification is expected to better insulate the fund during negative market cycles, which will increase the likelihood of strong and sustainable performance over not just a single year, but decades.

INDIVIDUAL ACCOUNT PROGRAM

You can now view quarterly updates for IAP Target Date Funds

The Individual Account Program is no longer one-size fits-all. In January, all PERS members' IAP accounts were shifted into one of several Target Date Funds, which better align their age and risk exposure.

The IAP is an account balance-based benefit for all active Oregon PERS members. This benefit is in addition to your Oregon PERS pension benefit (Tier One, Tier Two or Oregon Public Service Retirement Plan).

You can find additional questions and answers online at www.Oregon.gov/IAP, including new quarterly fact sheets that show performance data for each Target Date Fund tier. Each spring, PERS credits member accounts with their returns for the previous year. For information about your personal balance, log-in to the IAP portal at IAP.Voya.com, or call PERS Member Services at 888-320-7377.

WHERE CAN I LEARN MORE ABOUT IAP FUNDS?

Visit our informational web page at www.Oregon.gov/IAP.

WHICH TARGET-DATE FUND AM I IN?

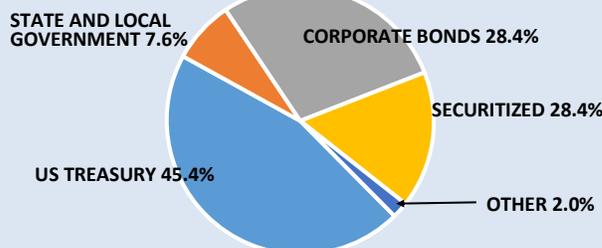
Born 1993 or after	IAP 2060 Target Date Fund
Born between 1988 and 1992	IAP 2055 Target Date Fund
Born between 1983 and 1987	IAP 2050 Target Date Fund
Born between 1978 and 1982	IAP 2045 Target Date Fund
Born between 1973 and 1977	IAP 2040 Target Date Fund
Born between 1968 and 1972	IAP 2035 Target Date Fund
Born between 1963 and 1967	IAP 2030 Target Date Fund
Born between 1958 and 1962	IAP 2025 Target Date Fund
Born between 1953 and 1957	IAP 2020 Target Date Fund
Born in 1952 or before	Retirement Allocation Fund

THREE THINGS TO KNOW ABOUT FIXED INCOME INVESTING

As part of a balanced strategy, Treasury invests in bonds

1 Bonds are loans. An investor like the Oregon Public Employees Retirement Fund (OPERF) lends money to a bond issuer. Bond issuers can be government entities like the U.S. Government or companies. Bond investors are then repaid over time -- with interest. These bonds are part of our "fixed income" portfolio.

2 We choose bonds based on careful research. Bonds have grades, which indicate risk level and help determine the interest rate investors receive. The risk and return analyses on all potential bond investments are part of our fiduciary imperative to maximize risk-adjusted returns.



3 As of Dec. 31, 2017, OPERF had a total of \$16 billion in fixed income investments. The majority of those bonds are government issued. Of the total bonds in the portfolio, 62.4% are rated AAA, the highest possible grade.

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 Oregon Public Employees Retirement Fund, and also for those who rely on it.

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 shape returns and 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 approach.

Fair and transparent market structures are essential for the long-term success of all investors, so we engage regularly with poli-

cymakers and regulators including the U.S. Securities and Exchange Commission.

In addition, 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 public companies in 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. These factors include: 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. As a last resort, if companies and executives act in ways that impair long term value, Oregon can file securities lawsuits.

These actions are consistent with Treasury’s fiduciary obligation. Oregon trust funds must be invested for the “sole and exclusive” long-term benefit of fund beneficiaries. Shareholders have a voice in management decisions. Non-shareholders do not.

LEARN MORE

Treasury is analyzing Environmental, Social and Governance (ESG) risks and engaging as a responsible shareholder to seek long term sustainability and performance. See the Treasurer’s [Stewardship](#) report.

ENGAGEMENT

Direct Engagement

Proxy Voting

Securities Litigation

Empirical Research

Regulatory Advocacy

Public Awareness

SHAREHOLDER ACTION

Learn more about key shareholder votes at [#OregonProxy](#) on Twitter.

WHO TO CONTACT

<p>I have questions about my PERS benefits or retirement options.</p> <p style="text-align: center;">Public Employees Retirement System www.Oregon.gov/PERS 888-320-7377</p>	<p>I have questions about the IAP and my personal account balance.</p> <p style="text-align: center;">Public Employees Retirement System www.Oregon.gov/PERS 888-320-7377</p>	<p>I would like to know more about the Oregon Savings Growth Plan.</p> <p style="text-align: center;">http://www.oregon.gov/pers/osgp/pages/index.aspx osgpcustsvc.PERS@state.or.us 888-320-7377</p>
<p>I have questions about the Oregon Investment Council.</p> <p style="text-align: center;">Oregon State Treasury Communications and Stakeholder Relations www.Oregon.gov/Treasury 503-378-4000</p>	<p>I would like to communicate with the State Treasurer.</p> <p style="text-align: center;">Office of the State Treasurer www.Oregon.gov/Treasury Oregon.Treasurer@ost.state.or.us 503-378-4329</p>	<p>I have questions or story ideas for Invested For You.</p> <p style="text-align: center;">Oregon State Treasury Communications and Stakeholder Relations www.Oregon.gov/Treasury 503-378-4000</p>

