



**OREGON
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State of Oregon

Office of the State Treasurer

16290 SW Upper Boones Ferry Road

Tigard, Oregon 97224

OREGON INVESTMENT COUNCIL

June 2, 2021

Meeting Minutes

- Members Present: John Russell, Cara Samples, Monica Enand, Charles Wilhoite, Tobias Read and Kevin Olineck
- Staff Present: Rex Kim, John Hershey, Michael Langdon, David Randall, Karl Cheng, Ben Mahon, Tony Breault, Geoff Nolan
- Staff Participating virtually: Perrin Lim, Anthony Breault, Mohammed Qurasishi, Mike Mueller, Sam Spencer, Missy Simpson, David Elott, Anna Totdahl, Roy Jackson, John Lutkehaus, Alli Gordon, Kristi Jenkins, Rachel Wray, Jen Plett, Wil Hiles, Robin Kaukonen, Aliese Jacobsen, Amy Bates, Paul Koch, Austin Carmichael, Andrew Robertson, Tyler Bernstein, Amanda Kingsbury, Dana Millican, Andrey Voloshinov, Angela Schaffers, Steve Kruth, Tim Miller, Christopher Ebersole, Tiffany Zahas, Tyler Bernstein, Eric Messer, Ian Huculak, Tan Cha, Faith Sedberry, Scott Robertson, Kenny Bao, Dmitri Palmateer, Caitlyn Wang, Jo Recht, Mark Selfridge, Monique Sadegh, Will Hampson, Jeremy Knowles, Jacqueline Knights, Taylor Bowman, Caleb Aldridge, Debra Day, Chuck Christopher
- Consultants Present: Allan Emkin, Christy Fields, Mika Malone, David Glickman, Paola Nealon, Eric Larsen and Colin Bebee (Meketa Investment Group, Inc.); Stephen Cummings, Kristen Doyle, Raneen Jalajel (Aon Investments); Tom Martin, Dan Fann and Trevor Jackson, (Aksia/TorreyCove Capital Partners LLC), Steve Kennedy, Albourne; Sadhana Shenoy, Lawrence Furnstahl, Jardon Jaramillo, John Scanlan and Kevin Olineck (PERS Board); Matt Larrabee and Scott Preppernau (Milliman)
- PERS Present: Sadhana Shenoy, Lawrence Furnstahl, Jardon Jaramillo, John Scanlan, Stephen Buckley, and Kevin Olineck (PERS Board); Matt Larrabee and Scott Preppernau (Milliman)
- Legal Counsel Present: Steven Marlowe, Department of Justice

Before proceeding with the OIC meeting, Chief Investment Officer Rex Kim provided a disclosure pertaining to the virtual set-up of this OIC meeting, informing those in attendance (virtual and in person) of the guidelines in which this meeting will proceed.

The June 2nd, 2021 OIC meeting was called to order at 9:01 am by John Russell, OIC Chair.

I. 9:01 am Review and Approval of Minutes



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MOTION: Chair Russell asked for approval of the April 21st, 2021 OIC regular meeting minutes. Treasurer Read moved approval at 9:01 am, and Ms. Samples seconded the motion which then passed by a 5/0 vote.

II. 9:03 am Committee Reports

Mr. Kim gave an update on the following committee actions taken since the April 21st, 2021 OIC meeting:

Private Equity Committee:

May 21, 2021

Sherpa Healthcare II + Sidecar

\$100M

Real Estate Committee:

None

Opportunity Committee:

None

Alternatives Portfolio Committee:

None

III. 9:04 am OPERF Performance

Mika Malone, Managing Principal/Consultant Meketa Investment Group and Paola Nealon, Principal/Consultant Meketa provided the OPERF Q1 Performance.

OPERF posted a return of 5.4% for the first quarter, relative to a benchmark return of 4.5% and peer median return of 3.2%. This ranks in the top decile of the InvestMetrics public plan peer universe for the quarter.

The last year was marked by extraordinary equity returns. Within Domestic Equity, the OPERF portfolio benefited from value and small cap exposure tilts in the last two quarters, but was penalized over all other trailing periods. Consideration should be given towards determining and re-assessing the magnitude and conviction of these exposures within the portfolio.

OPERF saw strong benchmark-relative performance across all time periods within International Equity.

The Global Equity Low Volatility sleeve comprises nearly 90% of the total allocation to Global Equity. Due to the strong emphasis on downside protection, these strategies have struggled to keep up with the MSCI ACWI IMI Index given the strong equity market experienced since implementation.

The performance of the Private Equity portfolio, although strong on an absolute basis, detracted on a relative basis. The OPERF Portfolio maintains a significant overweight relative to the target – actual allocation of 24% versus a target allocation of 19%. Additionally, the portfolio underperformed its public market benchmark over most trailing periods, due to the extraordinary performance of public equity markets over the last year. OPERF is actively looking to reduce private equity exposure, though it will take some time given the illiquid nature of the asset class.



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Diversifying strategies performed relatively well for the last quarter. The segment outperformed the CPI – 4% benchmark by 2.9%. Longer period returns remain challenged on an absolute and relative basis; Meketa believes some of the underperformance can be attributable to implementation.

In review of the Asset Allocation, it was noted that the OPERF portfolio had a strong first quarter in terms of absolute and relative returns and outperformed the Policy Index.

- Public Equity’s relative outperformance contributed to positive returns as value and core managers exhibited strong performance in the wake of a growth reversion.

IV. 9:16 am OIC, PERS Joint Session

Sadhana Shenoy, Chair PERS Board, Kevin Olineck, Director PERS Board, Lawrence Furnstahl, Vice-Chair PERS Board, Stephen Buckley Member PERS Board, Jardon Jaramillo Member PERS Board, John Scanlan Member PERS Board, Matt Larrabee, Principal Milliman and Scott Preppernau, Principal & Consulting Actuary Milliman presented on the OIC and PERS Board annual joint meeting. Sadhana Shenoy announced they have 3 new council members since the last joint meeting in 2019.

Kevin Olineck announced PERS will be celebrating their 75th anniversary on July 1st. Mr. Olineck reviewed the plans that PERS administers, serving 380,000 members and over 900 employers. Mr. Olineck reviewed tiers with regards to benefits, liquidity/contributions rates and retirement timelines. PERS is in line with other PERS plans across the country in respect to funded status. Over 75 legislative changes have been made to PERS since its inception.

Matt Larrabee and Scott Preppernau provided an overview of the current rate setting process and methodology, including details on rate collaring, benefit amounts and assumptions that go into their actuarial model. Mr. Larrabee provided insight into the funding of the program to ensure soundness of benefits for current and future PERS retirees. There have been 3 decreases in the assumed return from 8% to 7.2% and they are currently in a review process that is predicted to be lower for the biennium. Mr. Preppernau discussed valuation assumptions in relation to inflation and real wage growth equating to system payroll growth, all assumptions and methods will be adopted at the July 2021 board meeting.

Additional topics that were reviewed: system-average weighted total pension-only rates; two-year rate-setting cycle for future assumptions and methods adopted by the board in consultation with the actuary; valuation process and timeline; board objectives in relation to methods and assumptions; the fundamental cost equation; governance structure which is set by Oregon legislature and assumptions to be reviewed and adopted at the next board meeting. Remaining balances for 2020, 2022 and 2030 year amortization periods were discussed. Additionally, projected benefit payments and cash flow & asset balances were reviewed.

Ms. Shenoy and Mr. Russell thanked Mr. Larrabee and Mr. Preppernau for their extensive presentation.

V. 10:34am OPERF Asset Allocation

Karl Cheng reviewed staff recommendations and OIC approvals. Ben Mahon and Stephen Kennedy discussed split policy: Alternatives and Real Assets.

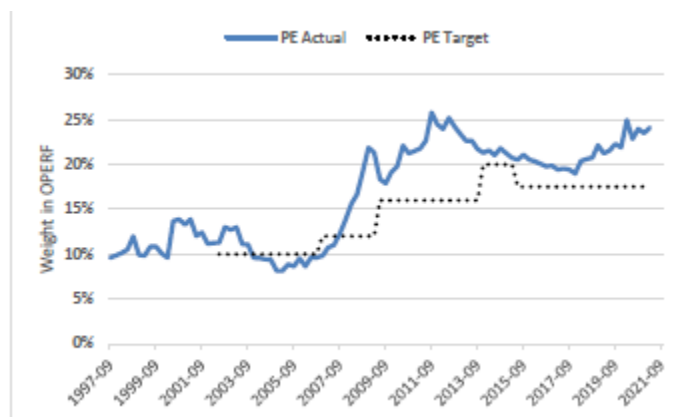


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Two changes to OPERF's strategic asset allocation and associated policy revisions were proposed: a) bifurcation of the Alternatives Portfolio into the Real Assets and Diversifying Strategies Portfolios; and b) minor adjustments to OPERF's target asset allocation, including an increase to Private Equity's allocation by 2.5% and a decrease to Public Equity's allocation by 2.5%.

The Council last changed the target allocation to the Private Equity Portfolio at the June 2015 meeting when it lowered the target from 20% to 17.5%. However, the Private Equity Portfolio's actual weight in OPERF have generally been above 20% for the past 11 years.

Besides the expected effort of managing illiquid assets and its associated cash flows, there were two OPERF-specific issues that contributed to the sustain overweight to the Private Equity Portfolio:



- The considerable commitments to the “legacy” 2005-2008 vintage years and the tempo of their distributions. Staff discussed this at the recent Private Equity Annual Review and have implemented a plan to manage these assets; and
- The favorable appraisal values of OPERF's private equity investments have sustained through both the market drawdown and drawup of 2020. That is partly represented by a 10-year annualized return of +13.4% compared to that of the MSCI All-Country World Index IMI (public equity benchmark) of +9.2%.

Therefore, staff recommends:

1. Increase the Private Equity Portfolio's target allocation by 2.5% and decrease the Public Equity Portfolio's target allocation by 2.5%. That would keep constant OPERF's exposure to equity or “economic growth”; and
2. Expand the rebalancing range around the target allocations for illiquid private market asset classes, i.e., Private Equity, Real Estate, and Real Assets. Per INV 1203: Statement of Investment Objectives and Policy Framework for OPERF, the upper end of range for Private Equity is 21%. The Private Equity Portfolio has exceeded this value since Q4 2018. The purpose of expanding the range is to recognize the difficulty of rebalancing illiquid assets, particularly through volatile market environments, and reduce the number of “false positive” breaches of range.



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Asset Class	Current Target Allocation (%)	Current Rebalancing Range (%)	Recommended Target Allocation (%)	Recommended Rebalancing Range (%)
Public Equity	32.5	27.5 – 37.5	30.0	25.0 – 35.0
Private Equity	17.5	14.0 – 21.0	20.0	15.0 – 27.5
Fixed Income	20.0	15.0 – 25.0	20.0	15.0 – 25.0
Real Estate	12.5	9.5 – 15.5	12.5	9.0 – 16.5
Real Assets	7.5		7.5	5.0 – 10.0
Diversifying Strategies	7.5		7.5	5.0 – 10.0
Risk Parity	2.5	0.0 – 2.5	2.5	0.0 – 5.0
Total Fund	100.0		100.0	

In conclusion, see below a complete list of staff recommendation:

Approve the bifurcation of the Alternatives Portfolio into the Real Assets and Diversifying Strategies Portfolios and the new asset allocation targets. These recommendations are reflected in the following proposed policies:

- Revision to INV 1203: Statement of Investment Objectives and Policy Framework for OPERF;
- New policies INV 710: Real Assets Portfolio Standards & Procedures and INV 711: Diversifying Strategies Portfolio Standards & Procedures; and
- Retirement of INV 702: Alternative Investments Portfolio Standards & Procedures.

Chair Russell asked for approval of staff recommendations. Treasurer Read moved approval at 11:28am, and Ms. Samples seconded which then passed on a 5/0 vote.

VI. 11:33 am IAP Program Review

Karl Cheng, Chris Nikolich, and Elena Wang delivered an IAP Program update which included an overview of the Oregon Public Employees Retirement Fund assets by PERS accounts as of March 31, 2021, IAP restructuring, and 2020 updates.

VII. 11:59 am Operational Annual Review

David Randall, Kristi Jenkins, and Debra Day gave an update on the Investment Operations that included an executive summary of their group’s various activities and accomplishments, an update on the OST Investment Division Org Chart, as well as a comparison of assets under management in 2020 vs. 2021. The update also included an overview of Trade Operations which was recently brought in-house after being externally managed, as well as a look at financial reporting and data integrity.

VIII. 12:20 pm Asset Allocation & NAV Updates

Mr. Kim reviewed asset allocations and NAV’s across OST-managed accounts for periods ended March 31, 2021.

IX. 12:22 pm Calendar – Future Agenda Items

A calendar listing of future OIC meetings and scheduled agenda topics was included in the Council’s meeting materials. It was noted during the meeting that OIC will resume regular monthly meetings in September 2021.

X. 12:24 pm Open Discussion

Chair Russell asked to look into how committees are appointed, and expressed concern that there is not currently a Committee for Public Equity. Chair Russell also asked the Board when it is expected to resume in-person OIC meetings. Treasurer Read noted that at this time, staff is tentatively scheduled to return to the office in September 2021, however it will be a slow transition and not all at once. At this time a return date for in-person OIC meetings is still to be determined.



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XI. 12:30 pm Public Comments

Chair Russell read written statements from Kristin Edmark, Theodora Tsongas, Suzanna Kassouf, Nicole Lehto, and Sahara Valentine. All comments pertained to concerns of Oregon/PERS investing in long-term, illiquid assets with managers highly invested in fossil fuels

Mr. Russell adjourned the meeting at 12:40 pm.

Respectfully submitted,

Kristi Jenkins
Investment Operations Manager