



STATE OF OREGON
OFFICE OF THE STATE TREASURER
16290 SW UPPER BOONES FERRY ROAD
TIGARD, OREGON 97224

OREGON INVESTMENT COUNCIL
APRIL 26, 2017
MEETING MINUTES

Members Present: Rukaiyah Adams, Tobias Read, John Russell, Rex Kim, Rick Miller and Steve Rodeman

Staff Present: Darren Bond, John Skjervem, John Hershey, Perrin Lim, Deena Bothello, Karl Cheng, May Fanning, Michael Langdon, Jen Plett, Jen Peet, James Sinks, Michael Viteri, Tony Breault, Amanda Kingsbury, Austin Carmichael, Dana Millican, Ricardo Lopez, Jo Recht, Mark Selfridge, Ben Mahon, Kim Olson, John Hersehy, Debra Day, Tom Lofton, Chelsea Brossard, Garrett Cudahey, Angela Schaffers, Eric Messer, David Randall, Paola Nealon, Kim Olson, Priyanka Shukla, Roy Jackson, Debra Day, Jackie Steffens, Ben Mahon, Mike Mueller, Amy Wojcicki, Dmitri Palmateer

Consultants Present: Tom Martin, David Fann (TorreyCove); Christy Fields, Allan Emkin (PCA); Janet Becker-Wold, James Callahan and Uvan Tseng (Callan)

Legal Counsel Present: Dee Carlson, Oregon Department of Justice

The April 26th, 2017 OIC meeting was called to order at 9:00 am by Rukaiyah Adams, OIC Chair.

I. 9: 00am Review and Approval of Minutes

MOTION: Mr. Russell moved approval of the March 15, 2017 OIC meeting minutes, and Mr. Kim seconded the motion which then passed by a 5/0 vote.

II. 9:27 am Committee Reports and CIO Update

Committee Reports: John Skjervem, OST Chief Investment Officer gave an update on the following committee actions taken since the March 15, 2017 OIC meeting:

Private Equity Committee

None

Alternatives Portfolio Committee

None

Opportunity Portfolio Committee

None

Real Estate Committee

None

Mr. Skjervem then made opening remarks which included comments on the OPERF Currency Project presented at the March OIC meeting as well as context for both the immediately succeeding OPERF Strategic Asset Allocation and Alternatives Portfolio Review presentations.

III. 09:14 am Morgan Stanley Prime Property Fund - OPERF Real Estate Portfolio

Tony Breault, Senior Investment Officer, Real Estate, recommended a capital commitment of up to \$250 million to the Morgan Stanley Prime Property Fund (MSPPF or the Fund). This proposal represents a new relationship with Morgan Stanley on behalf of the OPERF real estate portfolio.

Morgan Stanley, founded in 1935, is a global financial services firm focused on securities underwriting, asset management, and wealth management activities, and maintains significant market positions in each of these business segments. Morgan Stanley Investment Management (MSIM) has more than \$406 billion in assets under management across multiple geographies, strategies, and asset classes, including equity, fixed income, alternatives, and private markets.

The selection of MSPPF for OPERF's real estate portfolio was the result of an analysis during which Staff and consultant evaluated all 24 funds currently included in the NFI-ODCE Index. Specifically, Staff and PCA reviewed each fund's underlying assets, performance characteristics, sector and geographic exposures, and historical returns. An in-depth performance assessment was then conducted over different investment horizons using simulated bull and bear market conditions, while also comparing volatility and Sharpe ratios relative to the index.

MSPPF is an Open-Ended Diversified Core Equity (ODCE) fund, and, at \$20.9 billion GAV (\$17.5 billion NAV), is the fourth largest fund within the index comprising approximately 11% of current index capitalization. The Fund is managed to maintain a diversified portfolio of U.S. commercial real estate that offers stable, highly predictable cash flow returns. Product focus within the Fund is primarily on high-quality office buildings, Class A multifamily communities, warehouse distribution and storage facilities, and top-tier regional malls and shopping centers in targeted primary markets across the U.S.

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

9:55 am Strategic Asset Allocation & Capital Market Assumptions Update – OPERF

In connection with OIC's Strategic Asset Allocation policies, Karl Cheng, Investment Officer, Portfolio Risk & Research introduced Janet Becker-Wold and Jim Callahan from Callan Associates and Allan Emkin from Pension Consulting Alliance who in turn provided their firms' respective capital market assumptions forecasts.

Mr. Cheng then asked Council members to approve OPERF's Statement of Investment Objectives and Policy Framework to reflect the conclusions of and content from the Callan and PCA presentations.

MOTION: Mr. Kim moved approval of staff's recommendation to maintain OPERF's existing asset allocation targets and ranges. Treasurer Read seconded the motion which then passed by a 5/0 vote.

The Council then directed staff to further revise INV 1203 to disaggregate estimates of *ex ante* asset class returns between the systematic or "beta" component and the expected value-added or "alpha" component.

IV. 11:39 am State Accident Insurance Fund – Annual Review

Perrin Lim, Director of Capital Markets introduced the SAIF Corporate Annual Update and presenters Kerry Barnett, President & CEO and Gina Manley, Vice President, Finance & CFO of State Accident Insurance Fund (SAIF). This presentation covered the annual business and operating update for their organization, and notified the Council that SAIF management will conduct an asset/liability analysis in the coming year.

V. 11:56 am Policy Updates – OPERF and other OST-managed Accounts

Kim Olson, Senior Policy Advisor presented OIC members with another tranche of policy updates in a continuation of the process that commenced in September 2015 with the objective of conforming all OST policy documents to Treasury's new PolicyStat application.

MOTION: Treasurer Read moved approval, and Mr. Russell seconded the motion which then passed by a 5/0 vote.

- VI. 11:59 am Alternatives Portfolio Review – OPERF**
Ben Mahon, Senior Investment Officer, Alternatives provided the OIC with an update on the OPERF Alternatives Portfolio that included a review of historical performance, 2016 investment activity and staff's 2017 plans.
- VII. 12:18 pm Opportunity Portfolio Review – OPERF**
John Hershey, Director of Alternative Investments delivered a 2015-2016 review of the OPERF Opportunity Portfolio that included a review of historical performance and outlined areas of potential investment emphasis going forward.
- VIII. 12:41 pm Asset Allocation & NAV Updates**
Mr. Skjervem reviewed asset allocations and NAVs across OST-managed accounts for the period ended March 31, 2017.
- IX. 12:42 pm Calendar — Future Agenda Items**
A calendar listing of future OIC meetings and scheduled agenda topics was included in the Council's meeting material.
- X. 12:43 pm Open Council Discussion**
Chair Adams introduced this new agenda item with expectations that it might provide a platform for Council members to share thoughts, concerns and ideas about matters relating to the Oregon Investment Council and its fiduciary responsibilities.
- 12:52 pm Public Comments**
None

Ms. Adams adjourned the meeting at 12:52 pm.

Respectfully submitted,



May Fanning

Executive Support Specialist