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# **Oregon Investment Council**

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**July 30, 2014  
9:00 AM**

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**PERS Headquarters  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, OR 97223**



**Dick Solomon**  
Chair

**John Skjervem**  
Chief Investment Officer

**Ted Wheeler**  
State Treasurer

# OREGON INVESTMENT COUNCIL

## 2014 Schedule

Meetings Begin at 9:00 am

PERS Headquarters Building  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, OR 97223

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Wednesday, January 29, 2014

Wednesday, March 5, 2014

Wednesday, April 30, 2014

Wednesday, May 28, 2014

Wednesday, July 30, 2014

Wednesday, September 24, 2014

Wednesday, November 5, 2014

Wednesday, December 3, 2014



# OREGON INVESTMENT COUNCIL

## Agenda

**July 30, 2014**  
**9:00 AM**

PERS Headquarters  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, OR 97223

<u>Time</u>	<u>A. Action Items</u>	<u>Presenter</u>	<u>Tab</u>
9:00-9:05	1. <b>Review &amp; Approval of Minutes</b> May 28, 2014 Regular Meeting & Workshop	<b>Dick Solomon</b> <i>OIC Chair</i>	1
	<b>Committee Reports</b>	<b>John Skjervem</b> <i>Chief Investment Officer</i>	
9:05-9:50	2. <b>GIP Capital Solutions Fund, LP</b> <i>OPERF Alternative Portfolio</i>	<b>Ben Mahon</b> <i>Investment Officer</i> <b>Jim Jenkins</b> <i>Managing Director, GIP</i> <b>Reiner Boehning</b> <i>CAPS Fund Partner, GIP</i> <b>Tom Martin</b> <i>TorreyCove Capital Partners</i>	2
9:50-10:30	3. <b>Lionstone Oregon Real Estate One</b> <i>OPERF Real Estate</i>	<b>Tony Breault</b> <i>Senior Investment Officer</i> <b>Jane Page</b> <i>CEO, Lionstone</i> <b>Dan Dubrowski</b> <i>Founding Partner, Lionstone</i> <b>Glenn Lowenstein</b> <i>Founding Partner, Lionstone</i>	3
10:30-10:40	----- <b>BREAK</b> -----		
10:40-11:15	4. <b>Internal Investment Management Assessment</b> <i>Public Equity and Fixed Income</i>	<b>Byron Williams</b> <i>Chief Audit Executive</i> <b>Eileen Neill</b> <i>Managing Director &amp; Principal, Wilshire</i> <b>Karim Simplis</b> <i>Vice President, Wilshire</i>	4

- 11:15-11:35 5. Oregon Savings Growth Plan Updates** **Karl Cheng** **5**  
*Oregon 457 Plan* *Investment Officer*
- 11:35-11:50 6. Public University Fund Investment Guidelines** **Jake O’Shaughnessy** **6**  
*Internal Fixed Income* *Advisor, Arnerich Massena*
- 11:35-11:50 6. Public University Fund Investment Guidelines** **Tom Lofton** **6**  
*Internal Fixed Income* *Investment Officer*

**B. Information Items**

- 11:50-12:00 7. Asset Allocations & NAV Updates** **John Skjervem** **7**  
a. Oregon Public Employees Retirement Fund  
b. SAIF Corporation  
c. Common School Fund  
d. HiEd Pooled Endowment Fund
- 8. Calendar — Future Agenda Items** **8**
- 9. Other Items** **Council Staff Consultants**

**C. Public Comment Invited**

15 Minutes

**TAB 1 – REVIEW & APPROVAL OF MINUTES**

May 28, 2014 Regular Meeting

May 28, 2014 Workshop Meeting

OST Committee Reports – Verbal

JOHN D. SKJERVEM  
CHIEF INVESTMENT OFFICER  
INVESTMENT DIVISION



PHONE 503-378-4111  
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**STATE OF OREGON**  
**OFFICE OF THE STATE TREASURER**  
350 WINTER STREET NE, SUITE 100  
SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL  
MAY 28, 2014  
MEETING MINUTES

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

Staff Present: Darren Bond, Tony Breault, Karl Cheng, Garrett Cudahey, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Paola Nealon, James Sinks, John Skjervem, Michael Viteri

Consultants Present: David Fann and Tom Martin (TorreyCove); Alan Emkin, Christy Fields, Dillon Lareda and John Linder (PCA); Jim Callahan, Uvan Tseng and Janet Becker-Wold (Callan)

Legal Counsel Present: Keith Kutler, Jennifer Peet and Deena Bothello, Oregon Department of Justice

The May 28, 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:** Treasurer Wheeler moved approval of the April 30, 2014 meeting minutes. Ms. Durant seconded the motion, which then passed by a 5/0 vote.

Treasurer Wheeler moved approval of the amended March 5, 2014 meeting minutes. Ms. Durant 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 April 30, 2014 OIC Meeting:

**Private Equity Committee:**

No action since April 30, 2014

**Alternatives Portfolio Committee:**

May 9, 2014 Taurus Mining Finance Fund \$100 Million

**Opportunity Portfolio Committee:**

No action since April 30, 2014

**Real Estate Committee:**

No action since April 30, 2014

**II. 9:02 am Och-Ziff Real Estate Fund III, LP - OPERF Real Estate Portfolio**

Led by Steve Orbuch, Och-Ziff Real Estate ("OZRE") was established in 2003 as the integrated real estate advisory platform for Och-Ziff Capital Management Group ("Och-Ziff"), a publicly traded global institutional asset management firm founded in 1994 with over \$43 billion in assets under management. This fund (Fund III) will be OZRE's third such offering since 2003 having raised two opportunistic real estate funds (Funds I and II) which totaled over \$1.2 billion in commitments. OZRE is seeking a \$1.0 billion capital raise for Fund III, not to exceed \$1.5 billion, and will target a gross return of 20 to 25%. Fund III will be structured with moderate leverage and current cash flow is expected to generate half of its gross returns. In addition, Och-Ziff and OZRE investments in Fund III will comprise at least 7.5% of the aggregate LP commitments, up to a \$75 million maximum.

OZRE employs an opportunistic real estate strategy which may include individual real estate assets or loans, portfolio acquisitions and loan pools, operating companies, structured debt products and public securities. While the Fund will focus primarily on investments located in the United States, up to 20% of Fund III capital may be invested internationally. OZRE will seek to diversify Fund III investments across asset types, geography and transaction structures. As demonstrated in its two prior funds, OZRE has been successful investing tactically across both traditional and non-traditional real estate opportunities, based on prevailing market conditions, and building highly-diversified and non-correlated portfolios.

Staff and PCA recommended a \$125 million commitment to the Och-Ziff Real Estate Fund III, L.P., subject to satisfactory negotiation of all terms and conditions with staff working in concert with Department of Justice personnel.

**MOTION:** Ms. Durant moved approval of a \$125 million commitment contingent on legal review and analysis of data regarding any pending SEC issues. Mr. Larson seconded the motion, which passed by a vote of 5/0.

**III. 10:10 am Oregon Intermediate Term Pool (OITP) Annual Update**

Tom Lofton, Investment Officer gave the annual update on the Oregon Intermediate Term Pool Fund ("OITP"). OITP was launched on June 30, 2010 as an intermediate-term fixed income investment opportunity for qualified state agencies.

Key guidelines governing OITP investment parameters include:

- A maximum investment tenor of 10 years;
- A maximum modified duration of 3.0 years; and
- A minimum investment grade rating on all investments.

Current Developments:

- Legislation (HB2140) passed and was signed into law in 2013 allowing local governments investment access to OITP;
- OST is delaying local government OITP participation pending funding for personnel and systems support; and
- The OUS system (the largest OITP participant) has elected to manage funds outside of OST.

**IV. 10:22 am OPERF First Quarter Performance Review**

Jim Callan, Callan Associates, Inc. reviewed OPERF investment performance for the first calendar quarter of 2014.

V. **10:35 am Asset Allocations and NAV Updates**

Mr. Skjervem reviewed asset allocations and NAV's across OST-managed accounts for the period ended April 30, 2014.

VI. **10:36 am Calendar – Future Agenda Items**

Mr. Skjervem presented a revised schedule of future OIC meetings and associated agenda topics.

VII. **10:37 am Other Business**

None

**10:41 am Public Comments**

Bill Parish, an independent Registered Investment Advisor, addressed the Council and requested that it post private equity partnership audit reports on its website. He added that, in his opinion, this information should not be confidential. He further stated that based on his own analysis, tax exempt limited partners such as OPERF are being over-charged fees by GPs in the form of inappropriate "target allocations" and fee waiver accounting.

He added that his analysis also indicates that some GPs are allocating carried interest related income to portfolio company executives in the form of non-qualified stock options, resulting in illegitimate carried interest deductions at the portfolio company level that are then passed back to taxable general partners. This practice, he asserts, results in a significant loss of revenue at both the state and federal level given that a large percentage of these deductions, via the partnership structure, are owned by tax exempt institutions and therefore by definition should be unusable. He also addressed the Council with various comments about private equity partnership audits, fees and carried interest accounting treatments.

Mr. Solomon adjourned the meeting at 10:43 am.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist





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**OFFICE OF THE STATE TREASURER**  
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SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL  
MAY 28, 2014  
WORKSHOP MINUTES

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

Member Absent: Keith Larson

Staff Present: Darren Bond, Tony Breault, Karl Cheng, Garrett Cudahey, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Paola Nealon, Tom Rinehart, James Sinks, John Skjervem, Michael Viteri

Consultants Present: David Fann and Tom Martin (TorreyCove); Alan Emkin, Christy Fields, Dillon Lareda and John Linder (PCA); Jim Callahan, Uvan Tseng and Janet Becker-Wold (Callan)

Legal Counsel Present: Keith Kutler, Jennifer Peet and Deena Bothello, Oregon Department of Justice

The May 28, 2014 OIC Workshop was called to order at 1:00 pm by Dick Solomon, Chair.

**I. 1:00 pm Introduction**

John Skjervem, CIO gave a brief introduction about the workshop and its objectives.

**II. 1:02 pm Principles of Responsible Investing**

Sonal Mahida, U.S. Network Manager for the Principles for Responsible Investment initiative spoke about her organization, its sponsors and its objectives.

**III. 1:27 pm Public Markets Panel**

Jean Rogers, PhD (CEO and Founder of the Sustainability Accounting Standards Board) and Chad Spitler (Global COO of BlackRock's Corporate Governance & Responsible Investment team) spoke about the development and application of sustainability standards to securities research and public market investment mandates.

**IV. 2:26 pm Private Market Applications**

Kenneth B. Mehlman, KKR's Global Head of Public Affairs, spoke about his firm's integration of Environmental, Social and Governance (ESG) standards into its underwriting and portfolio management processes.

V. **3:00 pm Power Generation Dynamics**

John King, Executive Vice President with LS Power made a presentation about current pricing, revenue and profitability dynamics among alternative sources of power generation.

VI. **3:20 pm Constituents and Consultants**

Michael Ring (Assistant Director, SEIU Capital Stewardship Program), Janet Becker-Wold, CFA (Senior VP with Callan Associates) and Allan Emkin (Managing Director with PCA) spoke on ESG topics from their respective perspectives.

VII. **3:43 pm A Peer Fund's Approach**

Janine Guillot, former COIO with CalPERS shared high-lights of her experience during that organization's Investment Beliefs adoption process as well as her views on the introduction and integration of ESG principles in the public fund investment process.

Mr. Solomon adjourned the meeting at 4:04 pm.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist

TAB 2 – GIP CAPITAL SOLUTIONS FUND, LP

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## Global Infrastructure Partners Capital Solutions Fund, L.P.

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### **Purpose**

Staff and TorreyCove recommend a \$200 million commitment to the Global Infrastructure Partners Capital Solutions Fund, L.P. ("GIP CAPS" or the "Fund") for the OPERF Alternatives Portfolio, subject to satisfactory negotiation of terms and conditions with Staff working in concert with Department of Justice personnel.

### **Background**

Global Infrastructure Partners ("GIP" or the "Firm") was founded in 2006 by former senior executives from Credit Suisse and General Electric as an independent, specialist infrastructure fund manager. Since its inception, GIP has raised over \$16.5 billion in capital commitments for two equity funds and several GIP-led co-investments. OPERF's relationship with GIP dates back to 2011, when \$150 million was committed to GIP II, a global, diversified infrastructure fund.

GIP CAPS represents GIP's third product offering but is its first dedicated infrastructure debt fund. The Fund will be managed by an investment team led by Reiner Boehing and Steve Cheng, both previously co-heads of the Global Project Finance Group at Credit Suisse. The pair has worked with senior members of GIP since the early/mid 1990s, and joined GIP in 2012. GIP is seeking \$2.5 billion in capital commitments for the Fund, with a first close scheduled for September 2014. Well above the Alternatives Portfolio's performance objective of CPI plus 400 basis points, the target net IRR for the Fund is 9% to 11%, inclusive of a 5% to 7% expected cash yield.

### **Discussion/Investment Considerations**

GIP's objective with the Fund is to provide non-equity financing for infrastructure companies and assets. Reflecting a flexible investment approach, Fund transactions are expected to span the capital structure, including secured, subordinated, unsecured, convertible debt and preferred equity. In addition, select transactions may also benefit from warrants or other forms of upside sharing. With this Fund, GIP will focus primarily on its traditional target industries (e.g., energy, transportation, water and waste), and expects to make 20 to 25 investments ranging in size from \$50 million to \$250 million. The firm's geographic focus will be on OECD countries, although GIP may invest up to 10% of Fund capital in non-OECD countries as well. Individual Fund investments are generally expected to have stated maturities of five to ten years, with most investments repaid prior to maturity, as is typical for infrastructure asset financings.

### Attributes:

- *Experienced team.* GIP CAPS will be managed by a team of seasoned infrastructure professionals with extensive experience originating, structuring and executing infrastructure and related transactions. The management team averages over 20 years experience, having completed over 200 transactions worth over \$200 billion. The team's strategy will focus on proprietary, privately-negotiated debt and debt-linked investments, leveraging the extensive network of relationships of both GIP and the GIP CAPS investment team.
- *Market opportunity.* Available funding sources for the types of infrastructure finance targeted for the Fund have decreased materially and have become more expensive due to Basel III banking rules, market volatility and the retreat of traditional banks (the ranks of which have historically been dominated by the major European banks). The reduction in the supply of capital is coupled with the ongoing need for replacement and modernized infrastructure, as well as substantial refinancings or restructurings associated with financings that were put in place prior to the 2008 global financial crisis. As a result, an opportunity exists for non-traditional infrastructure capital providers such as GIP to fill this gap with an alternate source of credit.

- *Greater exposure to GIP.* Staff views the CAPS strategy as a natural extension and leveraging of GIP's industry-leading infrastructure investment platform and an opportunity to increase OPERF's exposure to a high conviction manager in an attractive sector.
- *Flexibility.* The Fund's mandate provides the GIP CAPS team sufficient flexibility to pursue investments across the spectrum of infrastructure opportunities, including greenfield and brownfield development, acquisition financing, recapitalizations and refinancings, growth capital and secondary purchases. Staff believes the Fund's flexibility should allow the GIP CAPS team to choose from a broad set of transactions, enabling it to take advantage of the most attractive investment opportunities.
- *Inflation protection.* Fund investments will not be explicitly inflation-linked, but a significant portion of GIP CAPS assets are expected to be floating-rate and will therefore participate in any upward movement in the underlying reference rate (e.g., LIBOR).

#### Concerns:

- *Competitive market for investment opportunities.* As more capital enters the market for private infrastructure, expected returns may be driven down. [Mitigant: Overall, the market for private, non-equity infrastructure capital is small and the Fund will likely face an equally small universe of competing capital. In addition, the GIP CAPS team will focus on relatively complex and large transactions where the level of competition is more limited.]
- *Traditional lenders re-entering the market.* A delay of regulatory reform or a loosening of lending criteria may result in increased commercial bank activity. [Mitigant: The GIP CAPS team is generally not competing with commercial banks for deal flow as the former are focused on different credit situations and infrastructure sponsors. While a reduction of bank capital would be expected to further expand the opportunity set for the Fund, the fundamental supply/demand mismatch is very substantial and exists regardless of the commercial bank lending environment.]
- *Limited track record.* GIP's previous funds focused on equity investments in infrastructure, while this Fund represents a first-time debt effort. [Mitigant: Key GIP CAPS team members have worked together as colleagues and industry peers for several years, and GIP has provided representations about the their track records from prior firms, allowing for a greater degree of analysis.]

#### **Terms**

The Fund's terms include a management fee on committed capital with a standard carry and preferred return. The Fund has a five-year investment period and a ten-year life with two, one-year extensions at the GP's discretion, plus up to two additional one-year extensions with LP consent. The GP will make a one percent commitment to the Fund, and during fundraising efforts, no placement agent had contact with Treasury staff.

#### **Conclusion**

The Alternatives Portfolio target allocation to infrastructure investments is 25% to 35% (or approximately \$1.7 billion to \$2.4 billion at current OPERF NAV). To date, OIC has approved \$950 million in aggregate commitments to this sector, and Staff considers GIP CAPS a complementary strategy as part of the OPERF infrastructure portfolio.

Staff also believes GIP CAPS represents an attractive risk-return proposition with reliable cash yield. With the Fund, GIP aims to deliver returns that are largely uncorrelated with other asset classes, providing an important level of diversification relative to other OPERF assets. At a macro level, requirements for infrastructure investment are massive, underpinning positive demand dynamics for capital. In recent years, the availability of credit has been reduced, creating an opportunity for non-conventional providers of credit such as GIP. Moreover, GIP is a focused investor with expertise across the spectrum of infrastructure investments and a deep network of industry relationships. Accordingly, Staff believes the Firm is well positioned to capitalize on its target opportunity set.



## MEMORANDUM

**TO:** Oregon Public Employees Retirement Fund ("OPERF")  
**FROM:** TorreyCove Capital Partners ("TorreyCove")  
**DATE:** July 16, 2014  
**RE:** Global Infrastructure Partners Capital Solutions Fund, L.P.

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### Strategy:

The Fund represents the first non-equity fund for GIP. GIP CAPS will target debt and debt-linked investments in global infrastructure assets within the energy/power, transport, and waste/water sectors with a primary focus on OECD countries in North America, Europe, and Australasia. The Fund will have the flexibility to invest in a variety of transaction structures and will invest in non-common equity positions including senior debt, first or second lien debt, subordinated debt, junior debt, mezzanine debt, holding company debt and preferred equity. Most of the investments will have floating rate interest rate provisions to protect against interest rate risk. GIP CAPS prefers to be the sole, lead or anchor investor in order to control the negotiation and structuring of its investments. The Fund will target infrastructure assets that include the following characteristics: (i) long useful lives; (ii) robust cash flow profiles; (iii) well mitigated construction and/or operational risk; (iv) strong market positions and/or contracted revenue streams; and (v) substantial collateral value. GIP CAPS is looking to make 20 to 25 investments ranging from \$50 million to \$250 million in greenfield and brownfield opportunities; acquisition financings; refinancings, recapitalizations, and restructurings; liquidity and growth capital; and secondary market purchases. GIP will look to generate uncorrelated and strong risk-adjusted returns while focusing on capital preservation and enhanced downside protection with a gross return profile of 12% to 14%, inclusive of a 5% to 7% cash yield.

Please see attached investment memorandum for further detail on the investment opportunity.

### Conclusion:

The Fund offers OPERF an opportunity to participate in a differentiated portfolio of private investments with relatively attractive overall terms. TorreyCove's review of the General Partner and the proposed Fund indicates that the potential returns available justify the risks associated with an investment in the Fund. TorreyCove recommends that OPERF consider a commitment of \$250 million to the Fund. TorreyCove's recommendation is contingent upon the following:

- (1) Satisfactory negotiation or clarification of certain terms of the investment;
- (2) Satisfactory completion of legal documents;
- (3) Satisfactory continuation and finalization of due diligence;
- (4) No material changes to the investment opportunity as presented; and
- (5) Confidentiality maintained regarding the commitment of OPERF to the Partnership until such time as all the preceding conditions are met.

TAB 3 – LIONSTONE OREGON REAL ESTATE ONE

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## **Lionstone OPERF Real Estate One (Joint Venture)**

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### **Purpose**

Subject to satisfactory negotiation of terms and conditions with Staff working in concert with Department of Justice personnel, Staff recommends a \$200 million follow-on commitment to Lionstone Partners via Lionstone OPERF Real Estate One (“LORE One” or the “Fund”) for the OPERF Real Estate Portfolio. This commitment would be a continuation of an existing OPERF relationship with Lionstone Partners.

### **Background**

Based in Houston, TX Lionstone Partners (“Lionstone” or the “Firm”) was founded in 2001 by Tom Bacon, Dan Dubrowski and Glenn Lowenstein after having worked together as senior members within the Hines organization. Since 2001, Lionstone has grown to a team of 47 personnel with approximately \$2.7 billion in assets under management deployed through joint ventures, separate accounts and commingled funds across core, value add and opportunistic real estate strategies. Staff’s relationship with the Lionstone team dates back to June 2002 when OPERF became the Firm’s first institutional capital partner with a \$75 million commitment to the Cash Flow Office One (CFO One) joint venture. This initial commitment was followed by an additional \$50 million investment in CFO One in January 2005.

The Lionstone investment team, led by Glenn Lowenstein, currently has nine members on its investment committee, although the three founding partners are the final voting members. Organizationally, the team’s acquisition professionals are organized by geographic region while its portfolio management professionals are organized by fund/client. Since the first CFO One investment in 2003, Lionstone has invested \$266.8 million and the joint portfolio presently consists of 17 assets across 11 U.S. markets and comprises \$623 million in gross asset value. Since inception, assuming the entire portfolio is liquidated at March 31, 2014 valuations, the net return for CFO One has been 9.0% with a 1.3x equity multiple, exceeding the corresponding NPI-office benchmark index. Assuming liquidation after a hold period through 4Q 2017 to allow for business plan execution, the portfolio has an expected 10.1% net IRR and a 1.5x equity multiple.

### **Strategy**

The proposed LORE One vehicle represents a follow-on commitment and adaptation of the existing CFO One joint venture with Lionstone. CFO One was originally formed with the purpose of acquiring office assets and achieving a 9.5% annual net cash-on-cash return over a 10-year hold period. As with CFO One, LORE One will continue to focus on office properties in high growth markets but with added flexibility to invest up to 20% in non-office real estate such as multifamily or retail. Also like CFO One, LORE One will be evergreen in nature so that capital and income distributions from the joint venture may be reinvested in the partnership as recallable capital.

After extensive back-testing of current portfolio performance, as well as proprietary research on market attributes and real estate return drivers, the Firm’s target returns for new asset acquisitions, portfolio incentive fee structures and geographic focus have been substantially updated for LORE One. Specifically, LORE One’s geographic targets have been redefined to include investments in internationally competitive markets while also meeting specific criteria needed to satisfy a permanent location test. The target returns and incentive fee structures have been renegotiated to include a two-



part, or tranche, portfolio structure with an overall lower risk strategy than the Firm's predecessor vehicle.

This two-tranche portfolio structure is a significant modification from CFO One, and its creation primarily reflects the results of Staff and PCA's rigorous analysis of Lionstone's organizational strengths, track record, investment successes and lessons learned since OPERF's initial investment in CFO One 12 years ago. Assets in LORE One's first tranche will include all new acquisitions and comprise the Fund's value-add strategies. Specifically, this first tranche will include staff's proposed \$200 million new commitment as well as three existing assets transferred from CFO One. These assets have a current net value of approximately \$155 million and are considered short-term holds by Lionstone. The target returns for this first, value-add tranche will be a gross unlevered IRR of 8.5% (11.25% net, levered) with a 7-year interim promote paid only after performance exceeds a customized benchmark and both real and nominal preferred return hurdles. Allowable leverage within this value-add tranche will be within OPERF guidelines and capped at 70% and 60% for asset-level and portfolio-level LTV, respectively.

LORE One's second tranche is designed to hold individual properties that meet OPERF's long-term core real estate guidelines and objectives. This second tranche will accept asset transfers from the first, value-add tranche upon OST staff recommendation and approval. Target gross unlevered returns for tranche two are 7% (8% net, levered), and given the stabilized nature of these core assets, a reduced management fee and promote structure will apply. Tranche two will be seeded with nine assets from the CFO One portfolio with a combined current net value of approximately \$100 million, while leverage in tranche two will be capped at a 50% portfolio-level LTV and an asset-level debt service coverage ratio (DSCR) limit of 1.5x.

## **Issues to Consider**

### Attributes:

- *Capital and structural alignment.* The negotiated terms within this two-tranche portfolio have been structured to create alignment of interest for both OPERF and Lionstone. The management fees, benchmark tests and introduction of both a real and nominal hurdle ensures Staff's targeted return criteria will be met with an acceptable gross-to-net spread yet still provide the necessary incentive for the Lionstone team to deliver strong performance.
- *Long-term OPERF fiduciary.* Lionstone has been investing on behalf of OPERF via CFO One for 12 years. Over that time period, Staff has had significant interaction with the Lionstone team on all acquisitions, dispositions and major asset/portfolio decisions. Additionally, the partnership has invested through multiple equity and debt market cycles including the Global Financial Crisis (GFC), one of the most challenging macro-economic environments ever experienced.
- *Revised mandate for lower-risk investment profile.* The new terms negotiated were designed to better capture the specific strengths and investment acumen of the Lionstone team. Staff's assessment of the Lionstone team, and supported by track record attribution, seems to indicate that lower value-add/core+ mandates are among Lionstone's greatest strengths.

### Concerns:

- *Key Person risk.* Staff considers Dan Dubrowski and Glenn Lowenstein the primary drivers of Lionstone's success. Mr. Dubrowski has recently expressed a desire to transition out of portfolio management over the coming years, but the Firm has not yet named a successor for this important role. [Mitigant: Staff enjoys approval rights regarding Mr. Dubrowski's successor and will also insist on a new investment moratorium until a suitably qualified replacement is identified and agreed upon.]

- *Mixed track record.* Lionstone’s historical track record within CFO One, and across their aggregate investment platform, is mixed. Since inception returns, for CFO One in particular, have varied widely on an investment-by-investment basis. [Mitigant: This performance volatility reflects, in Staff’s opinion, vintage-year timing vagaries (including the GFC) as well as the high-yield requirements originally stipulated for OPERF’s CFO One commitments. The revised terms for LORE One allow for a total return target and provide more flexible investment parameters to adapt to changing market conditions.]
- *Personnel resources/culture.* Lionstone has undergone significant growth in assets under management and corresponding organizational resources. While this growth is certainly a tribute to the Firm’s success and reputation, it may also impact the founding partners’ business priorities and investment focus. Over the prior ten years, and as a much smaller shop, all aspects of Lionstone’s business and investment processes had been tightly controlled by the three founding partners. [Mitigant: As mentioned above, Staff will retain rights to cease new investments and approve replacement or Dan Dubrowski as the portfolio manager. As a joint venture with continuous communication requirements throughout the life cycle of the real estate investment process, Staff will be well-positioned to constantly monitor and assess the firm’s cultural growth, time commitments of the founding partners, and succession planning.]

### **Terms**

For both LORE One portfolio tranches, management fees are applied only on invested capital; moreover, no transaction or acquisition fees are permitted and benchmark tests will be used for promote calculations. Carry and preferred returns are below levels typically found in competing commingled fund structures, and as is standard with OPERF joint ventures, OPERF holds GP removal rights, with or without cause on 90 days’ notice. Finally, no placement agent had contact with Staff in connection with this offering.

### **Conclusion**

Lionstone OPERF Real Estate One represents an attractive opportunity to pursue a value-add investment strategy while preserving sufficient flexibility to hold individual assets when their return profiles more closely reflect the parameters of a core investment strategy. Staff confidence in the investment’s unique two-tranche structure is bolstered by the successful nature of its long-term relationship with Lionstone as well as the many control and oversight rights the proposed joint venture affords OPERF.

TAB 4 – INTERNAL INVESTMENT MANAGEMENT ASSESTMENT

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## MEMORANDUM

To: Members, Oregon Investment Council

From: Eileen Neill, CFA  
Karim Simplis, CFA  
Wilshire Associates Incorporated

Subject: Internal Investment Management Assessment

Date: July 30, 2014

Cc: Ted Wheeler, Darren Bond, John Skjervem, Cora Parker, Byron Williams

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### **I. Executive Summary**

The purpose of this memorandum is to provide a summary of Wilshire's recent assessment of internal investment management capabilities within the Oregon State Treasury (OST). Overall, Wilshire has a positive opinion of OST's investment process and philosophy as evidenced by our ratings (see Exhibit 1, page 3). To achieve more competitive overall ratings, there are a number of areas on which we believe OST should focus its attention and which are listed immediately below in order of importance.

1. Procure best in class investment technology system(s) (i.e., risk analytics, portfolio accounting, straight-through trade processing) to enable OST's investment teams to perform stress tests and scenario analyses, conduct attribution analysis, establish risk reporting and monitoring processes, facilitate trading activities including pre-trade compliance checks and provide integrated, accurate portfolio accounting.
2. Reduce non-investment related responsibilities for fixed income portfolio managers. Transfer oversight roles for 457 and 529 plans out of investment teams' purview.
3. Upgrade current fixed income analyst position upon retirement of existing analyst to assistant portfolio manager (APM). Updating credit models and trading would be two key responsibilities of this new APM position. Separating the trading function from portfolio management adds another layer of checks and balances and reduces principal-agent risk.
4. Establish more formal work routines such as team meetings in which minutes are taken and relevant materials (key capital market factors, significant asset

- strategy risk factors, new issue pipeline, etc.) are reviewed. Develop policies and procedures to document and guide investment decision making (see #7 below).
5. Establish a more formal approval process (e.g., documentation of CIO approval) for shifting assets between external managers and internal accounts.
  6. Develop and implement appropriate conflict of interest mitigation rules, such as a personal trading policy, separation of trading and portfolio management duties, and enhanced internal controls on capital flows in and out of internal and external portfolios.
  7. Establish an evaluation process (documented in writing) for all new mandate proposals (either externally- or internally-managed). This process would a) provide a top down decision-making framework to ensure consistency with the OIC's Investment Beliefs and b) include, at a minimum, the following elements: investment thesis, including theoretical and empirical premises; description of the designated opportunity set, investment vehicle structure(s) (e.g., limited partnership, ETF, etc.) and mandate role/objective within the asset class; expected contribution to active return and risk; operational and other implementation risks; benchmark and manager performance history; and how (and to what extent) peers are implementing similar strategies.
  8. Implementation of asset class biases or tilts should follow the evaluation process and decision-making framework described immediately above.
  9. Ultimately, all existing mandates (again, both externally- and internally-managed) should be subject to this same evaluation process and decision-making framework.

#### *Summary of Qualitative Assessment Criteria*

Wilshire's qualitative assessment framework includes a well-defined method for evaluating investment organizations and processes. This qualitative evaluation is comprised of three components: Organization and Personnel; Philosophy and Process; and Resources. Each of the components is scored separately on a scale of 0 to 100 with 100 being the highest. As a point of reference, evaluation scores in Wilshire's external investment manager peer universe are normally distributed with 50 being the median. The score reflects Wilshire's view of an investment manager's ability to add value through different stages of the investment process relative to its peers.

While the median score is 50, in order for an investment manager to be proactively recommended by Wilshire to clients, the product should score at minimum an overall rating of 70. The individual assessment category scores represent our view of which percentile a manager resides in relative to its peers. The three components, and their relative weightings, are described in detail in the Appendix. Exhibit 1 below provides a table of the individual investment teams' scores for each of these three components as well as their overall evaluation scores.

**Exhibit 1**

	Rating Category			Total Rating
	Organization/ People	Investment Philosophy/ Process	Resources	
<b>Category Weight</b>	<b>30%</b>	<b>50%</b>	<b>20%</b>	<b>100%</b>
<b>Team</b>				
Fixed Income	63	71	60	66
Equities	65	83	70	75

Wilshire’s scores of 66 for the fixed income team and 75 for the equity team, out of 100 possible points for each team, primarily reflect Wilshire’s concerns about OST’s investment technology and resource deficiencies and the adverse impacts these deficiencies have on the respective fixed income and equity investment processes. Our scores also reflect the lack of formal meetings, communication and written materials needed to better document, in our opinion, the teams’ investment decision-making processes. Despite these deficiencies, OST investment teams have demonstrated success in their respective internal management activities. In summary, Wilshire’s overall team scores would be higher with improvements to the teams’ technology and systems infrastructure.

Other contributing factors to our scores include organizational-level issues such as the changed role of a key fixed income professional resulting in his diminution and perhaps relinquishment of direct portfolio management responsibilities. Through conversations with team members and other OST representatives, Wilshire expects to see progress in terms of technology enhancements as well as operations and compliance improvements.

Wilshire conducted an on-site review of the internal fixed income and equity teams’ personnel, investment processes and resources. This review was performed as part of a broader project to assess OST’s internal asset management functions and resources. We have also included a multi-page table at the end of this review (beginning on page 20) which is similar to what we would complete for an external manager and details our opinion on specific aspects of the equity and fixed income programs. As part of our review, Wilshire met with OST personnel responsible for the internally-managed equity and fixed income portfolios. We discussed the strategy for each internally-managed portfolio, how research is conducted, what risk controls are in place, how the portfolios are traded and how feedback is generated and incorporated (or not) at each step of the investment process.

In short, while we believe the respective investment approaches are appropriate for the various internally-managed portfolios, the a) lack of industry-standard technology and b) insufficient process/procedure documentation, coupled with fledgling compliance efforts, should be both cause for concern and addressed as soon as is feasible.

## TAB 5 – OREGON SAVINGS GROWTH PLAN UPDATES

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## Oregon Savings Growth Plan Proposals

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### Purpose

Staff is submitting the following recommendations for the Oregon Savings Growth Plan:

1. Extend the consulting contract with Arnerich Massena;
2. Relax the limitations on the Self-Directed Brokerage Account option to permit more choices;
3. Change the fund roster and corresponding benchmarks of various equity options;
4. Revise the Intermediate Fixed Income option;
5. Add a Real Return option; and
6. Update various OSGP-related OST/OIC policies.

### Background

The Oregon Savings Growth Plan (the “Plan” or “OSGP”) is the State of Oregon’s 457 Deferred Compensation plan. It is a voluntary supplemental retirement plan that provides eligible state and local government employees the opportunity to defer a portion of their current salary on a pre-tax or after-tax (Roth) basis. These deferrals are invested in various investment options until participants draw funds at retirement. The plan has approximately 25,000 participants and assets totaling over \$1.6 billion as of March 31, 2014.

Oversight of the Plan’s **administrative operation** is the responsibility of the Oregon Public Employees Retirement System Board (“PERS Board”) with support from the OSGP manager. Additional oversight is provided by a seven member Deferred Compensation Advisory Committee (“Advisory Committee”) established under ORS 243.505. The Advisory Committee studies and advises the PERS Board on various Plan issues, such as:

- State and federal legislation related to the administration of a deferred compensation plan;
- Catch-up and financial hardship provisions in Section 457 of the IRS Code;
- OSGP administrative and operating fees;
- Plan procedures and participant and actuarial statistics;
- Education efforts on behalf of eligible employees; and
- Plan participants’ feedback and requests.

With support and assistance from the Oregon State Treasury (OST) investment division, the Oregon Investment Council (OIC) is responsible for oversight of the Plan’s **investment program**. The Plan offers an array of specific equity and fixed income investment options, a suite of target-date retirement funds (which in aggregate are considered one investment option) and a self-directed brokerage option (the “SDBO”). Plan participants may individually direct their salary deferrals to any one or more of these options.

### OSGP Structure

Plan options include a mix of passive and active investment strategies using both institutional commingled trust and mutual funds. OSGP also includes several managers currently retained by OIC as part of its OPERF oversight responsibilities. The benefits of this structure include: 1) lower overall investment management fees; 2) more effective monitoring of funds/managers by OST staff; 3) account holders focus on the asset class decision, not active manager selection; 4) diversified and complementary portfolio management styles within each option; and 5) efficient management of participant-directed cash flows between and among options. The Plan’s target-date retirement funds are institutional commingled trusts managed by BlackRock that are indexed implementations of ten unique strategic asset allocation plans designed for participants according to their anticipated year of retirement.



## **Discussion**

### **1. Extend Existing Consulting Contract with Arnerich Massena**

Arnerich Massena has been the consultant to OSGP since August 2009. Satisfied with the firm's service level, OSGP and OST staff extended the Arnerich Massena contract by two years in August 2012, and OST staff now recommend a second and final two-year extension of the firm's contract through August 2016.

### **2. Relax the Restrictions on the Self-Directed Brokerage Option ("SDBO")**

OSGP participants are currently able to invest in other funds through a Schwab self-directed brokerage account ("SDBA"). At present, there are three OIC-set limitations on this option:

- SDBA investments are limited to mutual funds and a select list of exchange traded funds ("ETFs");
- To open a SDBA, Plan participants must have a minimum OSGP balance of \$20,000; and
- In a Plan participant's OSGP account, the maximum percentage allocation to the SDBO is set at 50%.

As of March 31, 2014, the SDBO had 69 participants and 0.30% of total plan assets. Almost all OSGP participants are vested with Oregon PERS and can expect a relatively stable income stream at retirement. The Advisory Committee has requested at previous occasions to relax or eliminate the restrictions on the SDBO. Given that participation in OSGP is completely elective, staff recommends relaxing the limitations to provide participants greater flexibility with their OSGP investments and allocations. These changes would be measured and incremental in order to provide staff sufficient time to review any impacts and unintended consequences, if any. The proposed changes include the following:

- Amend permitted investments to include all U.S.-traded ETFs, listed common stocks and corporate bonds;
- Reduce the required minimum OSGP balance to \$10,000; and
- Maintain the maximum SDBO allocation at 50%.

Depending on the results of its impacts assessment, staff may propose additional SDBO changes in the future.

### **3. Change the Manager Rosters and Corresponding Benchmarks for Current OSGP Equity Options**

The reasons for these proposed changes include:

- Increase the overlap between OSGP and OPERF public equity managers to take advantage of current OST staff efforts. Only seven out of fifteen active equity managers in OSGP manage money for OPERF. The proposal would add new investments with AQR, DFA and Lazard Asset Management (all existing OPERF managers) and terminate several OSGP-only managers.
- Eliminate actively managed funds in the Large Company options. This change would realize obvious fee savings without losing any statistically significant alpha. Individual participants interested in actively managed funds could invest in such funds through the SDBO.
- Eliminate revenue sharing mutual funds where possible. Eight out of fifteen actively managed OSGP equity funds include revenue sharing provisions. While participants invested in these funds do receive some revenue, the administration of revenue sharing is burdensome for staff and therefore has an implicit but not immaterial cost. Net of revenue sharing, the proposed changes would still reduce overall fees.
- Effect a better match between equity funds and their corresponding benchmarks. In particular, the Small/Mid-Size Company Stock Option has a greater small cap exposure and the International Stock Option a greater Emerging Markets exposure than their respective

benchmarks. The Small/Mid-Size Company Stock Option would also be renamed “Small Company Stock Option.”

Proposed changes to Plan equity options are listed in Appendix A and manager descriptions are provided in Appendix B.

#### **4. Revise the Intermediate Fixed Income Option**

The current Intermediate Fixed Income Option is comprised equally of three funds (BlackRock Debt Index, Fidelity Broad Market Duration and Wellington Capital Core Bond Plus) with the Barclays Aggregate Bond Index as its benchmark. The benchmark and the investment parameters for the funds comprising this option are inconsistent with the stated investment parameters of an “intermediate” bond option. Additionally, staff believes that duration management is inappropriately constrained given that two funds in this option match the duration of the benchmark which is greater than that of an intermediate bond index.

Staff recommends replacing the Fidelity Broad Market Duration Fund with DoubleLine Total Return Bond Fund. Staff also proposes changing the name of the option to “Active Fixed Income Option.” Although the blended investment fee for the option would increase, staff believes the improved diversification and return potential justify the change. A manager description associated with this proposed change is included in Appendix B.

#### **5. Add a Real Return Option**

Staff recommends adding a real return option to provide OSGP participants an inflation protection investment opportunity. The rationale for this recommendation is consistent with that supporting OIC’s approval of the OPERF asset allocation changes adopted in 2013, when target allocations for “inflation sensitive” asset classes such as real estate, commodities and hard assets were increased. The proposed benchmark for the Real Return Option is CPI + 300 basis points, over a full market cycle.

Staff recommends three funds, equally weighted, for diversification purpose: 1) the GMO Benchmark-Free Allocation Fund; 2) the Wellington Real Total Return; and 3) the SSgA Real Asset Strategy, a passively managed fund. These strategies invest in a combination of inflation-linked bonds, absolute return strategies, commodities, real estate investment trusts (“REITs”) and select equities.

#### **6. Update Various OSGP-related Policies**

Please see the redlined policies for details. Staff proposes these changes to make the Plan and its investment options more consistent with OPERF policies and procedures.

**Appendix A**  
**OSGP Option Assets & Proposed Changes**

Changes in red.

Weight	Current Allocation	Weight	Proposed Allocation
<b>Large Company Value Stock Option (\$142 million as of 3/31/2014)</b>			
40%	BlackRock Russell 1000 Value Fund	100%	BlackRock Russell 1000 Value Fund
20%	Dodge & Cox Stock Fund <sup>1</sup>		
20%	MFS Value Fund <sup>2</sup>		
20%	LSV Value Equity		
100%	Total Blended IM Fees: 32 bps	100%	Total Blended IM Fees: 3 bps

<b>Large Company Growth Stock Option (\$153 million)</b>			
40%	BlackRock Russell 1000 Growth Fund	100%	BlackRock Russell 1000 Growth Fund
20%	American Funds Amcap <sup>1</sup>		
20%	Wells Fargo Advantage Endeavor <sup>1,2</sup>		
20%	Delaware U.S. Growth Fund <sup>1,2</sup>		
100%	Total Blended IM Fees: 36 bps	100%	Total Blended IM Fees: 3 bps

<b>Small/Mid-Size Company Stock Option (\$239 million)</b>		<b>Small Company Stock Option</b>	
25%	BlackRock Russell 2000 Index Fund	30%	BlackRock Russell 2000 Index Fund
23%	American Beacon Small Cap Value	35%	DFA US Small Cap Portfolio <sup>2</sup>
23%	Columbia Acorn Fund <sup>1,2</sup>		
15%	T. Rowe Price Institutional Mid-Cap		
15%	Callan Small Equity Index Fund <sup>2</sup>	35%	Callan Small Equity Index Fund <sup>2</sup>
100%	Total Benchmark: Russell 2500 Blended IM Fees: 50 bps	100%	Total Benchmark: Russell 2000 Blended IM Fees: 43 bps

<b>Stock Index Option (\$169 million)</b>			
100%	BlackRock Russell 3000 Index Fund	100%	BlackRock Russell 3000 Index Fund
100%	Total Blended IM Fees: 4 bps	100%	Total Blended IM Fees: 4 bps

<b>International Stock Option (\$109 million)</b>			
10%	Artisan International Fund <sup>1</sup>	25%	Lazard International Equity <sup>2</sup>
15%	GMO Foreign Fund-Class III	25%	AQR International Equity Fund <sup>2</sup>
10%	Marsico International Opportunities <sup>1</sup>	15%	DFA International Core Equity <sup>2</sup>
15%	Oakmark International Fund <sup>1,2</sup>		
35%	BlackRock MSCI EAFE Index Fund	25%	BlackRock MSCI ACWI ex-US
15%	DFA EM Core Equity <sup>2</sup>	10%	DFA EM Core Equity <sup>2</sup>
100%	Total Benchmark: MSCI EAFE Blended IM Fees: 56 bps	100%	Total Benchmark: MSCI ACWI ex-US Blended IM Fees: 37 bps

<b>Intermediate Bond Option (\$93 million)</b>		<b>Active Fixed Income Option</b>	
33%	BlackRock U.S. Debt Index Fund	33%	BlackRock U.S. Debt Index Fund
33%	Fidelity Broad Market Duration Fund	33%	DoubleLine Total Return Bond Fund
33%	Wellington Trust Core Bond Plus <sup>1,2</sup>	33%	Wellington Trust Core Bond Plus <sup>1,2</sup>
100%	Total Blended IM Fees: 9 bps	100%	Total Blended IM Fees: 18 bps <sup>3</sup>

<b>Stable Value Option (\$193 million)</b>			
100%	Galliard Capital Management	100%	Galliard Capital Management
100%	Total Blended IM Fees: 38 bps	100%	Total Blended IM Fees: 38 bps

<b>U.S. Balanced (\$430 million)</b>			
100%	BlackRock LifePath Suite	100%	BlackRock LifePath Suite
100%	Total Blended IM Fees: 12 bps	100%	Total Blended IM Fees: 12 bps

<b>Short Term Fixed Option (\$46 million)</b>			
100%	SSgA Government Short-Term	100%	SSgA Government Short-Term
100%	Total Blended IM Fees: 5 bps	100%	Total Blended IM Fees: 5 bps

		<b>Real Return Option</b>	
		33%	GMO Benchmark-Free Allocation Fund
		33%	SSgA Real Asset Strategy
		33%	Wellington Real Total Return
		100%	Total Blended IM Fees: 65 bps <sup>3</sup>

<sup>1</sup> Fund with revenue sharing.

<sup>2</sup> OPERF exposure to the same actively managed strategy.

<sup>3</sup> Approximate, depending on final fee and vehicle negotiation with manager(s).

## **Appendix B**

### **Proposed Manager Descriptions**

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#### **AQR Capital Management (International Equity)**

AQR (“Applied Quantitative Research”) Capital Management (“AQR”) was founded in 1998 and has over \$105 billion assets under management (“AUM”) as of March 2014. The firm applies a quantitatively driven investment approach across all its strategies so a small set of investment teams support the firm’s entire lineup. The firm has an investment team of 162 people, a significant fraction of them holding PhDs. AQR manages four strategies for OPERF, over \$1.3 billion in the two Public Equity mandates.

The approach proposed for inclusion in OSGP is similar to an existing OPERF strategy but with a benchmark of MSCI ACWI ex-US instead of MSCI World ex-US. Using a quantitative framework, AQR selects countries, securities, and currencies in an international mandate. Their models select in favor of securities/countries with positive value (i.e., cheap relative to peers) and momentum (i.e., strong relative performance) characteristics, among other fundamentals the models evaluate.

#### **Dimensional Fund Advisors (Small Cap Portfolio & International Core Equity)**

Dimensional Fund Advisors (“DFA”) was founded in 1981 and has \$357 billion AUM as of March 2014. DFA’s investment philosophy is based on academic research which shows that small companies (as measured by market capitalization) and cheaper stocks (measured by book value to market price) provide greater expected returns relative to larger and more expensive companies. While smaller and cheaper companies are riskier, investors receive a premium for investing in these assets over the long run. DFA also allocates significant resources on trading small illiquid securities, which has improved their returns over peers.

DFA manages four strategies for OPERF, totaling over \$700 million, and is an investment in the OSGP International Stock Option. Although OPERF has no exposure in the strategies proposed for inclusion, staff has high conviction in DFA’s investment approach, which is identical across all of its equity strategies.

#### **DoubleLine Capital (Total Return Bond Fund)**

DoubleLine Capital LP (DoubleLine”), established in December of 2009 by Jeffrey Gundlach and Philip Barach, is a subsidiary of DoubleLine Capital GP LLC. The firm has approximately \$47.9 billion AUM as of March 2014 with 50 investment personnel. DoubleLine’s Core Bund fund is included in the Oregon College Savings Plan.

The Total Return Bond Fund portfolio managers have worked together for nearly two decades, employing active risk management utilizing both quantitative and qualitative research. DoubleLine’s Total Return Fund offers diversifying excess returns relative the other two funds in the Active Fixed Income Option due to its greater emphasis on the mortgage market while maintaining a neutral duration (interest rate risk) scenario.

#### **GMO, LLC (Benchmark-Free Allocation Fund)**

GMO was founded in 1977 by Jeremy Grantham, Richard Mayo, and Eyk Van Otterloo and has \$119 billion AUM as of March 2014. The firm has a value-oriented investment philosophy and its investment teams utilize a combination of systematic and fundamental approaches in security and asset class selection. GMO’s International Equity strategy is currently an investment in the OSGP International Stock Option.

The proposed strategy is managed by GMO’s 35-person Asset Allocation Investment Team, co-headed by Ben Inker and Sam Wilderman with Jeremy Grantham as the Chief Strategist. With an emphasis on valuation, the team allocates among asset classes based on 7-year asset class return forecasts via GMO strategies. The product has a current allocation of 49% to various segments of the public equity market,

9% to credit, 14% to US Treasury Inflation-Protected Securities (“TIPS”), 22% to absolute return, and 6% to cash.

#### **Lazard Asset Management (International Equity)**

Lazard Asset Management (“Lazard”) was founded in 1970 and is a subsidiary of Lazard Freres & Co., LLC. The firm has over \$169 billion AUM as of March 2014 with over 300 investment personnel. Lazard manages two strategies for OPERF, totaling over \$1.2 billion.

The approach proposed is nearly identical to an existing OPERF strategy, except that it has an MSCI EAFE benchmark. A five-person portfolio management team, supported by over 70 analysts, invests in undervalued securities backed by strong fundamentals. This is very much a bottom-up stock selection approach with an emphasis on financial statement analysis.

#### **State Street Global Advisors (Real Asset Strategy)**

State Street Global Advisors (“SSgA”) was founded in 1978 as the asset management division of State Street Corporation. It is one of the largest asset management firms, with \$2.4 trillion AUM as of March 2014. Oregon has extensive relationship with SSgA and State Street, including asset management and custody.

The proposed strategy is managed by a 60-person SSgA’s Investment Solutions Group but it is ultimately a passively managed approach with 20% allocated to a US REIT Index, 20% to a commodity futures index, 35% to a global natural resources equity index, and 25% to a US TIPS index. The strategy does have a high sensitivity to equity beta, but it also has a desirable real asset exposure through its REIT and commodity allocations as well as a low fee commiserate with its passive approach.

#### **Wellington Management Company (Real Total Return)**

Wellington Management Company (“Wellington”) was founded in 1928 and has over \$868 billion AUM as of March 2014. The firm’s investment teams deploy various investment approaches across different asset classes. Oregon has extensive assets invested with Wellington’s public equity and fixed income strategies.

The proposed strategy is managed by Richard Wurster and supported by Wellington’s Asset Allocation team and ancillary analysts. The objective of this strategy is to deliver returns that have low correlation to the broader equity markets yet protect against inflation. The team first identifies attractive asset classes based on quantitative and technical analysis and implements with Wellington strategies. The strategy is currently allocated to inflation-linked bonds, global government bonds, commodities, and equities.

# memo

**To:** Oregon Investment Council  
**From:** Arnerich Massena, Inc.  
**Re:** OSGP Fixed Income Option  
**Date:** July 30, 2014

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## OSGP FIXED INCOME OPTION OVERVIEW

- All of the active incumbent and proposed replacement managers have generated impressive long-term track records.
- Fidelity and Wellington have historically exhibited high levels of excess return correlation, dampening the overall improvement in portfolio returns from a diversification standpoint.
- Fidelity's interest rate exposures roughly mirror that of the benchmark, thus serving as a weaker portfolio complement in comparison to the other managers considered.
- DoubleLine provides a dramatically different investment approach and underlying characteristics in comparison to the other managers considered.
- DoubleLine has produced asset class-leading investment returns and excess return correlation. Furthermore, portfolio characteristics suggest that Doubleline could provide complementary portfolio exposure when considered in concert with BlackRock and Wellington.

### DoubleLine Total Return

The DoubleLine Total Return Strategy team's objective is to invest in fixed income securities that will outperform through the interest rate cycle, i.e., not only in today's environment but also when rates are higher and lower. The team frequently seeks to maximize total return in mortgage-backed securities, and believes that the most reliable way to enhance returns is to exploit inefficiencies within the subsectors of the mortgage-backed securities market while maintaining active risk management constraints. The team seeks to add value through security research and selection. Given that the team employs an active management approach, it has the ability to shape a portfolio to best take advantage of the opportunities that exist in varying market environments.

### Pyramis Broad Market Duration

The objective of the Broad Market Duration discipline is to achieve competitive absolute and risk-adjusted total returns in excess of the Index. The investment approach seeks to outperform the Index through security selection and sector valuations, while keeping duration in line with the Index. The investment process is implemented in a team environment, and robust risk management technology is utilized to explicitly quantify risk exposures and implement real-time compliance with portfolio constraints.

## **Conclusion**

In summary, we feel that substituting DoubleLine Total Return for the Pyramis Broad Market Duration Fund is a prudent decision. DoubleLine Total Return will add more flexibility within this investment option, actively navigating the dynamic fixed income markets on behalf of OSGP participants.

Kindest regards,

A handwritten signature in black ink that reads "Jacob O'Shaughnessy". The signature is written in a cursive, flowing style.

Jake O'Shaughnessy, CFA  
Advisor



**To:** Oregon Investment Council  
**From:** Arnerich Massena, Inc.  
**Re:** Real Return Option in Oregon Savings Growth Plan  
**Date:** July 30, 2014

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## Background

In the course of working with OST Staff to evaluate the investment options of the Oregon Savings Growth 457 Plan "OSGP," Staff requested that Arnerich Massena address the potential creation of a Real Return investment option for Plan participants.

Currently, OSGP offers a broad array of investment options to participants which cover the vast majority of the equity and fixed income markets. Participants can use this palette of choices to construct diversified investment portfolios to meet a wide range of investment objectives. However, participants currently do not have an investment option that is specifically targeted to provide a 'real return,' or a return which is targeted to beat inflation by an absolute amount (e.g., inflation plus 3%) over full market cycles. While participants could currently gain exposure to these types of investments via the Plan's brokerage option, OST Staff and Arnerich Massena agreed that it would be prudent to design and oversee an institutional-quality investment option as part of the core menu of available investments for OSGP participants.

After a review of several strategies and their relative merits when combined, Arnerich Massena and OST Staff determined that an equally weighted portfolio of the GMO Benchmark-Free Allocation Strategy, the Wellington Real Total Return Fund, and the State Street Global Advisors Real Assets Strategy would be a prudent construct of this option. Please find a description of each strategy below:

### GMO Benchmark-Free Allocation Strategy

**Objective:** The Strategy seeks to offer a return of CPI + 5.0% with annualized volatility of 5-10%, over a complete market cycle.

The GMO Benchmark-Free Allocation Strategy seeks to generate positive total return (as opposed to "relative" return) by allocating to undervalued and often unpopular asset classes and sectors of the global market, free from the constraints of traditional benchmarks. A key tenet of all GMO strategies is identifying assets that they believe are mispriced and then waiting for them to revert to their fair value. History has shown that the pricing of asset classes — and individual securities — may temporarily deviate from true intrinsic value. The Strategy will often either have exposure to unconventional asset classes or hold conventional asset classes in unconventional proportions. This Fund will allow investors who have a long investment horizon and could benefit from diversified portfolio exposures to capitalize on long-term value opportunities.

## SSgA Real Assets Strategy

**Objective:** The Strategy seeks to offer a return of CPI + 4.0% while targeting a risk level similar to that of longer-dated U.S. Treasury Inflation Protected Securities (TIPS) over a full market cycle.

The primary objective of the Real Asset Strategy is to offer a potential hedge against unexpected or rising inflationary environments. The Fund invests in four passive index strategies, which seek to gain efficient, broad-based exposure to U.S. REITs, commodities, global natural resource stocks, and U.S. TIPS. The passive implementation of the State Street Real Assets Strategy seeks to deliver accurate tracking and low turnover, thereby capturing the asset class efficiently and at low cost to investors. When considered in concert with the other two more actively managed strategies discussed, this Fund a nice complement.

## Wellington Real Total Return

**Objective:** The Strategy seeks to offer a return of CPI + 5% with volatility typically between 6% – 10% and a low correlation to equities over a full market cycle.

The Real Total Return Portfolio seeks to generate total returns by combining actively selected market exposures and allocations to relative value investment approaches, and by managing and hedging risk to protect capital. The Portfolio's investment philosophy is the foundation for the selection of market exposures, active managers, and risk management, and reflects these core beliefs: 1) assets with an attractive trend and valuation should produce attractive risk-adjusted returns, 2) displaced markets create a tailwind for talented managers to create sustainable alpha, 3) balancing risk across the Portfolio and hedging significant factor exposures against tail events minimizes the potential for significant drawdowns, and 4) this philosophy has been consistent since inception of the Strategy.

## Conclusion

In summary, we feel that a Real Return investment option targeted at outperforming inflation over the long term would serve to both protect OSGP participants' spending power and add potential diversification benefits for participants if added as an option to the core investment line-up. As participants seek to build their individual investment portfolios to meet a broad set of investment objectives, a tool such as a Real Return option is garnering increased demand. Arnerich Massena suggests using the three managers discussed above in equal weights to create a Real Return Option that is targeted to exceed inflation by at least 3% over a full market cycle. I look forward to discussing this matter further during our meeting on July 30, 2014.

Kindest regards,



Jake O'Shaughnessy, CFA  
Advisor

**Fund Information**

- No sales load
- Monthly dividends
- Inception 4-6-10

**Class I (Institutional)**

Ticker: DBLTX  
Minimum: \$100,000  
Min IRA: \$5,000

**Class N (Retail)**

Ticker: DLTNX  
Minimum: \$2,000  
Min IRA: \$500

**Investment Objective**

The Fund's objective is to seek to maximize total return.

**Investment Approach**

The Fund invests mainly in mortgage-backed securities actively allocating between agency and non-agency securities in an attempt to provide high income while maintaining a neutral duration scenario to diversify risks within the portfolio.

**People**

- DoubleLine was founded in 2009
- Total Return Bond Fund portfolio managers have worked together for over two decades.

**Portfolio Managers**



**Jeffrey Gundlach**

Portfolio Manager

The Chief Executive Officer and Portfolio Manager, Mr. Gundlach has over 30 years of investment experience and over 20 years managing mutual funds implementing his fixed income investment process. In 2012, he was named to Bloomberg Market's magazine "50 Most Influential"<sup>1</sup> and in 2013 he was named Institutional Investor's "Money Manager of the Year."<sup>2</sup>



**Philip Barach**

Portfolio Manager

As President and Co-Portfolio Manager, Mr. Barach brings with him over 34 years of industry experience including issuing one of the first private CMOs. He has over 20 years of experience co-managing mutual funds implementing his fixed income investment process.

**Philosophy**

DoubleLine believes the most reliable way to enhance returns is to exploit inefficiencies within the subsectors of the mortgage market while maintaining active risk management constraints.

**Investment Process**

Robust investment approach employing a qualitative and quantitative approach.

**Qualitative** —Thorough analysis of market trends and in-depth research contribute to affirming subsector opportunities and assessing risk exposure.

**Quantitative** —Bottom-up security selection based on experience with proprietary prepayment methodology and "stress testing" scenarios across a range of interest rate movements.

1. Bloomberg Market's Magazine, September 5, 2012
2. Institutional Investor, [www.usinvestmentawards.com](http://www.usinvestmentawards.com), based on research done by the editorial staff of the Institutional Investor magazine based on their market intelligence, performance data, and additional information received from the industry following a public call for nominations.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory prospectus and summary prospectus contain this and other important information about the investment company, and may be obtained by calling 1(877) 354-6311/1(877) DLINE11, or visiting [www.doublelinefunds.com](http://www.doublelinefunds.com). Read it carefully before investing.

*Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in Asset-Backed and Mortgage-Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments.*

*The Fund may use certain types of investment derivatives. Derivatives involve risks different from, and in certain cases, greater than the risks presented by more traditional investments. Derivatives may involve certain costs and risk such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. The Fund may also invest in securities related to real estate, which may decline in value as a result of factors affecting the real estate industry.*

*The DoubleLine Total Return Bond Fund intends to invest more than 50% of its net assets in mortgage-backed securities of any maturity or type. The Fund therefore, potentially is more likely to react to any volatility or changes in the mortgage-backed securities marketplace. These risks are greater for investments in emerging markets.*

While the Fund is no-load, management fees and other expenses still apply.

Please refer to the prospectus for further details.

DoubleLine® is a registered trademark of DoubleLine Capital LP.

DoubleLine Funds are distributed by Quasar Distributors, LLC.

**Total Return Bond Fund**  
Retail and Institutional Class  
No Load Mutual Fund

Month End June 30, 2014	June	1-Year	3-Year Annualized	Since Inception Annualized (4-6-10 to 6-30--14)	Quarter End June 30, 2014	2Q 2014	1-Year	3-Year Annualized	Since Inception Annualized (4-6-10 to 6-30-14)
I-share	0.21%	4.87%	6.05%	9.29%	I-share	2.05%	4.87%	6.05%	9.29%
N-share	0.19%	4.71%	5.80%	9.03%	N-share	2.08%	4.71%	5.80%	9.03%
Barclays U.S. Aggregate Index	0.05%	4.37%	3.66%	4.49%	Barclays U.S. Aggregate Index	2.04%	4.37%	3.66%	4.49%
As of June 30, 2014	I-Share	N-Share	Barclays U.S. Aggregate Index		As of June 30, 2014	I-Share		N-Share	
1-Yr Std Deviation <sup>1</sup>	2.84%	2.87%	2.39%		Gross SEC 30-Day Yield	4.41%		4.16%	
Gross Expense Ratio	0.47%	0.72%			Net SEC 30-Day Yield*	4.41%		4.16%	

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling 213-633-8200 or by visiting [www.doublelinefunds.com](http://www.doublelinefunds.com).

The performance information shown assumes the reinvestment of all dividends and distributions.

Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest in an index.

\*If a Fund invested in an affiliate Fund sponsored by the Adviser during the period covered by this report the Adviser agreed to not charge a management fee to the Fund in an amount equal to the investment advisory fees paid by the affiliated Fund in respect of the Fund's investment in the affiliated fund to avoid duplicate charge of the investment advisory fees to the investors.

Portfolio Characteristics	Weighted Average Life Breakdown	Non-Agency Residential MBS Breakdown*
# of Issues	1,575 (Percent of Portfolio)	(Percent of Sector)
Ending Market Value	\$33,681,721,767	Prime 48.4%
Market Price <sup>2</sup>	\$97.74	Alt-A 42.9%
Duration <sup>3</sup>	3.35	Subprime 7.1%
Weighted Avg Life <sup>4</sup>	5.10	N/A 1.5%
	Cash 10.8%	<b>Total 100.0%</b>
	<b>Total: 100.0%</b>	
Sector Breakdown	Duration Breakdown <sup>3</sup>	Current Quality Credit Distribution <sup>5</sup>
(Percent of Portfolio)	(Percent of Portfolio)	(Percent of Portfolio)
Cash 10.8%	Less than 0 12.6%	Cash 10.8%
Treasury 5.7%	0 to 3 years 32.9%	Government 7.2%
Agency Pass-Throughs 27.6%	3 to 5 years 11.2%	Agency 45.4%
Agency CMO 19.2%	5 to 10 years 27.3%	Investment Grade 9.2%
Non-Agency Residential MBS 27.0%	10+ years 5.3%	Below Investment Grade 24.4%
Commercial MBS 6.4%	Cash 10.8%	Unrated Securities 3.2%
Collateralized Loan Obligations 2.9%	<b>Total: 100.0%</b>	<b>Total: 100.0%</b>
Other 0.4%		
<b>Total 100.0%</b>		

**Investment Grade**—Refers to a bond considered investment grade if its credit rating is BBB– of higher by Standard & Poor's or Baa3 or higher by Moody's. Ratings are based on a corporate bond model. The higher the rating the more likely the bond will pay back par/100 cents on the dollar.

**Below Investment Grade**—Refers to a security that is rated below investment grade. These securities are seen as having higher default risk or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive. They are less likely to pay back 100 cents on the dollar.

\*There are no industry standard definitions for non-agency Mortgage securities. These definitions are DoubleLine's based on Vichara and Loan Performance data. Prime is defined as FICO > 725 and LTV < 75 ; Alt-A defined as FICO 675-725; or FICO > 725 and LTV >= 75 ; Subprime defined as FICO < 675. NA = Not available in Vichara or Loan Performance.

1) **Standard Deviation** = A measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Calculated by the square-root of the variance. 2) **Market price** is the weighted average of the prices of the Fund's portfolio holdings. While a component of the fund's Net Asset Value, it should not be confused with the Fund's NAV. 3) **Duration** is a commonly used measure of the potential volatility of the price of a debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. 4) **Weighted Average Life (WAL)** = the average number of years for which each dollar of unpaid principal on a loan or mortgage remains outstanding. 5) **Credit distribution** is determined from the highest available credit rating from any Nationally Recognized Statistical Rating Organization (S&P, Moody's and Fitch). Sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security. Portfolio holdings generally are made available fifteen days after month-end by calling 1-877-DLine11. The source for the information in this report is DoubleLine Capital, which maintains its data on a trade date basis.

# GMO Benchmark-Free Allocation Fund

As of March 31, 2014

## General Information

**Inception:** July 23, 2003

**Benchmark:** Consumer Price Index

**Assets:** \$15.5 Billion

**Transaction Expenses:**

Purchase Premium: 0.11%

Redemption Fee: 0.11%

<b>Fund Codes:</b>	<u>Ticker</u>	<u>Cusip</u>
Class III	GBMFX	362008 31 0

## Overview

The GMO Benchmark-Free Allocation Fund seeks to generate positive total return, not “relative” return, by allocating to undervalued and often unpopular asset classes and sectors of the global market, free from the constraints of traditional benchmarks. The Fund will often either have exposure to unconventional asset classes or hold conventional asset classes in unconventional proportions.

The Fund seeks annualized excess returns of 5% (net of fees) above the Consumer Price Index, with annualized volatility of 5-10%, over a complete market cycle.

## Methodology

The Fund is managed by GMO’s Asset Allocation team and relies on the firm’s successful asset allocation approach. Unlike many traditional benchmarked portfolios where the management is constrained by tracking error considerations, the Benchmark-Free Allocation Fund, as the name implies, is largely unconstrained. This allows the team to implement the insights driven by the GMO asset class forecasts more fully, as the team is free to access the conventional building blocks of portfolios and free to hold them in unconventional proportions.

Using GMO’s proprietary multi-year forecasts of returns and risks among asset classes, the team selects the underlying funds in which to invest and determines how much to invest in each. Depending upon the current valuation assessment of the global marketplace, the Fund may own different proportions of underlying asset classes at different times. The team changes the Fund’s holdings of underlying asset classes in response to changes in its investment outlook and market valuations.

## Portfolio Construction

The Fund invests in other GMO-managed portfolios (i.e., underlying stock, bond, etc., portfolios) or may hold securities directly. Depending upon the current valuation assessment of the global marketplace, the Fund may own different proportions of these underlying portfolios at different times. The Fund attempts to rebalance when the investment outlook has changed, when cash flows occur, or when there has been a significant change in market valuation levels.

## Risks

Risks associated with investing in the Fund may include: Market Risk – Equities, Management and Operational Risk, Non-U.S. Investment Risk, Market Risk – Fixed Income Investments, and Market Risk – Asset-Backed Securities. For a more complete discussion of these risks and others, please consult the Fund’s prospectus.

# GMO Benchmark-Free Allocation Fund

As of March 31, 2014

Inception: 7/23/03; Benchmark: Consumer Price Index

## Performance Net of Fees (Class III)

	Total Return (%)*		Average Annual Total Return (%)**			
	1Q 2014	YTD 2014	One Year	Five Year	Ten Year	Since Inception
Fund	1.26	1.26	7.71	10.57	8.81	10.75
Benchmark <sup>1</sup>	0.45	0.45	1.42	2.07	2.33	2.35

	Annual Total Return (%)*									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Fund	18.15	16.44	12.93	11.28	-11.23	20.65	4.91	3.86	10.01	10.73
Benchmark	3.35	3.45	2.58	4.12	0.16	2.86	1.25	2.95	1.87	1.56

Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein. To obtain performance information to the most recent month end, visit [www.gmo.com](http://www.gmo.com).

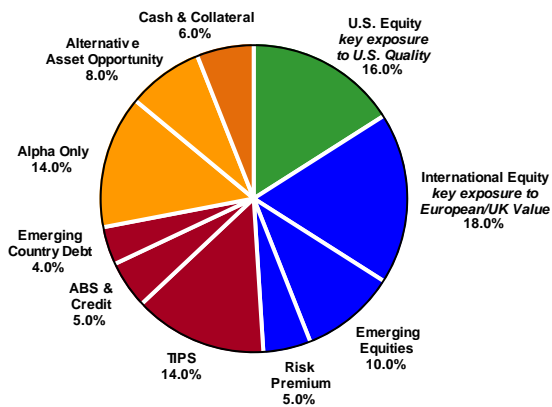
Fees (Class III): Gross Expense Ratio 1.18% equal to the Fund's Total Annual Operating Expense set forth in the Fund's most recent prospectus dated June 30, 2013.

Net Expense Ratio 0.90% reflects the reduction of expenses from fee reimbursements. The fee reimbursements will continue until at least June 30, 2014. Elimination of this reimbursement will result in higher fees and lower performance.

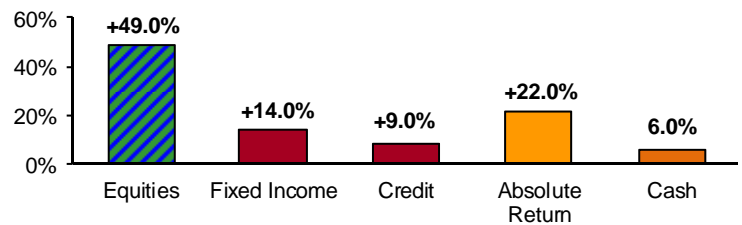
\* Does not include the impact of purchase premiums and redemption fees.

\*\* Includes the impact of purchase premiums and redemption fees.

## Fund Composition



## Absolute Fund Weights



## Risk Profile Since 7/31/03<sup>2</sup>

	Fund
Std. Deviation	7.13
Sharpe Ratio	1.30
Drawdown (10/31/07-2/28/09)	-18.52

<sup>1</sup> The CPI (Consumer Price Index) for All Urban Consumers U.S. All Items is published monthly by the U.S. government as an indicator of changes in price levels (or inflation) paid by urban consumers for a representative basket of goods and services.

<sup>2</sup> Alpha is a measure of risk-adjusted return; Beta is a measure of a portfolio's sensitivity to the market; R<sup>2</sup> is a measure of how well a portfolio tracks the market; Sharpe Ratio is the return over the risk free rate per unit of risk. Risk profile data is net.

## Quarterly Fund Attribution

- The Benchmark-Free Allocation Fund-III returned +1.3% net of fees in the quarter. Asset allocation and implementation both contributed to positive performance.
- Uncertainty reigns as investors wait to see how recent events will play out. Federal Reserve Chair Yellen further tapered bond purchases (currently at \$55 billion per month) and backed away from the guidance that breaching a 6.5% unemployment rate is a key criterion for an increase in the Fed Funds Rate. Overall, the Fed's March statement has generally been interpreted as hawkish. President Putin's annexation of Crimea leaves investors wondering what fallout, if any, is coming; Russian equities and the ruble both suffered during the quarter. Global stock and bond markets delivered modest returns during the first quarter of 2014. The U.S. equity market maintains a positive trajectory with the S&P 500 up 1.8%. Outside of the U.S., MSCI EAFE gained 0.7%, held back by poor returns in Japan. The quarter saw very mixed performance across the emerging markets, with the MSCI Emerging Markets index at -0.4% overall. U.S. bond yields were down during the quarter; the 10-year Treasury yield fell from 3.00% to 2.72%, and the 10-year TIPS yield fell from 0.80% to 0.60%.
- All portfolio allocations, with the exception of emerging markets equity, contributed modestly to the total return during the quarter.
- Quality contributed positive absolute return this quarter as it kept up with the broader U.S. equity market. Value stocks outperformed growth stocks in international developed markets. The international value allocation also added value through country selection (in particular overweights to Italy and Spain) and security selection. Emerging markets equity was a slight negative contributor to performance during the quarter. In particular, the allocation to Russian energy stocks (the portfolio's largest active weight position) performed poorly during the quarter due to the geopolitical events in the region.
- The TIPS position added to performance during the quarter as real yields came down. The credit allocation (ABS and emerging country debt) likewise contributed modestly to return as did the Alpha Only and Alternative Asset Opportunity Funds. Alpha Only, which goes long an active equity portfolio but shorts out the beta, performed well this quarter, benefiting from the selection of quality (which kept up with the equity market, and hence outperformed its beta) and international value (which outperformed international growth, and benefited from positive security selection).
- Our outlook on equities has deteriorated over time as the equity markets have become more and more expensive; we are reflecting this by reducing the equity allocation in the portfolio. During the first quarter we decreased the equity exposure by about 5%, bringing the current equity allocation to about 49%. We reallocated most of that capital to TIPS. We favor TIPS for their positive real yield and protection from unexpected inflation. During the quarter we also removed the currency hedge on international value equities. In 2013, the U.S. dollar was cheap relative to other developed market currencies, so we hedged the international currency exposure. During the year, the hedge paid off as the dollar appreciated. Today, we believe that the dollar is roughly fairly valued.

**An investor should consider the fund's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the fund's prospectus. To obtain a prospectus please visit [www.gmo.com](http://www.gmo.com). Read the prospectus carefully before investing.**

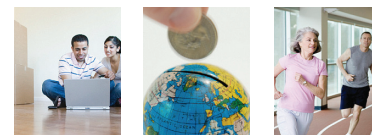
Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein. To obtain performance information to the most recent month end, visit [www.gmo.com](http://www.gmo.com).

Fees (Class III): Gross Expense Ratio 1.18% equal to the Fund's Total Annual Operating Expense set forth in the Fund's most recent prospectus dated June 30, 2013.

Net Expense Ratio 0.90% reflects the reduction of expenses from fee reimbursements. The fee reimbursements will continue until at least June 30, 2014. Elimination of this reimbursement will result in higher fees and lower performance.

## SSgA Real Asset Fund - Class C

SSgA Real Asset Fund Class C represents units of ownership in the SSgA Real Asset Non-Lending Series Fund.



**The Fund seeks to offer broad, low cost exposure to the commodities futures markets, U.S. commercial real estate, natural resource stocks and U.S. Treasury Inflation Protected Securities.**

### Investment Objective

The SSgA Real Asset Fund (the "Fund") seeks to provide a total investment return to approximate as closely as possible, before expenses, the performance of a custom index (the "Index") over the long term. The Fund seeks to approximate its custom benchmark, which is comprised of 20% Dow Jones-UBS Roll Select Commodity Index<sup>SM</sup>, 35% S&P<sup>®</sup> Global LargeMidCap Commodity and Resources Index, 20% Dow Jones U.S. Select REIT Index<sup>SM</sup>, and 25% Barclays US TIPS Index.

### Investment Strategy

SSgA allocates the Fund's assets among the asset classes represented in the Strategy's benchmark, rebalancing the Fund's exposures quarterly.

SSgA implements the Fund's asset allocations through investments in passive investment vehicles, which typically attempt to replicate the returns of a specific index or group of indices. These will typically include investment pools (which may, but will not necessarily, be registered under the Investment Company Act of 1940, as amended) managed or sponsored by SSgA or its affiliate.

The Fund, or any of the investment pools in which it invests, may hold a portion of its assets in cash and cash instruments, including short-term investment vehicles managed by SSgA or an affiliate. SSgA will not normally enter into foreign currency exchange transactions for the Fund.

The Fund's return may not match the return of its custom benchmark index.

### Key Facts

- Is passively managed; will not short sell securities
- May use futures and other derivatives
- Is not a leveraged strategy
- May invest in other investment funds, including those managed by SSgA and its affiliates

#### The Dow Jones U.S. Select REIT Index<sup>SM</sup>

The Dow Jones U.S. Select REIT Index is a market capitalization-weighted index comprising publicly traded real estate investment trusts (REITs). No special purpose or healthcare REITs are included. The Index is rebalanced monthly and reconstituted quarterly. The Dow Jones U.S. Select REIT Index<sup>SM</sup> is calculated and distributed by Dow Jones Indexes pursuant to an agreement with Dow Jones & Company, Inc. Dow Jones is the service mark of Dow Jones & Company.

#### The Dow Jones-UBS Roll Select Commodity Index<sup>SM</sup>

The Dow Jones-UBS Roll Select Commodity Index is a broad based commodity index. It is comprised of 20 commodity futures contracts spread across five main commodity groups: Agriculture, Energy, Livestock, Industrial Metals and Precious Metals. The index aims to mitigate the effects of contango on index performance. For each commodity, the index rolls into the futures contract showing the most backwardation or least contango, selecting from those contracts with nine months or fewer until expiration.

#### S&P<sup>®</sup> Global LargeMidCap Commodity and Resources Index

S&P Global LargeMidCap Commodity and Resources Index is comprised of S&P Global LargeMidCap constituents that are related to three natural resources buckets: Energy, Materials and Agriculture. Each natural resources bucket is weighted approximately 33.33% providing a more balanced index. Standard & Poor's (S&P) Global LargeMidCap Commodity and Resources Index is a trademark of Standard & Poor's Financial Services LLC and has been licensed for use by State Street Bank and Trust. The Products are not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the Products.

#### The Barclays U.S. TIPS Bond Index

The Barclays U.S. TIPS Bond Index is limited to U.S. Treasury Inflation Protected Securities (TIPS). The coupon payments and underlying principal are automatically increased to compensate for inflation as measured by the consumer price index (CPI). The maturities of the bonds in the index are more than one year. Barclays U.S. TIPS Bond Index is a trademark of Barclays, Inc.

The Fund is a collective investment trust and is not FDIC insured, nor is it an obligation or deposit of, or guaranteed by State Street Corporation, SSgA or its affiliates.

Please see the Fee Disclosure section on the last page for a complete disclosure of the Fund's total operating expense.

**This fact sheet provides summary information about the Fund. It should be read in conjunction with the Fund's applicable Strategy Disclosure Document, which is available upon request. The Disclosure Document contains important information about the Fund, including a description of a number of risks associated with investing in the fund.**

### Performance

Total Returns	Fund	Benchmark
Q1 2014	4.26%	4.35%
YTD	4.26%	4.35%
1 Year	-0.73%	-0.59%
3 Year	-0.35%	-0.28%
5 Year	N/A	N/A
10 Year	N/A	N/A
Inception to Date (May 2010)	4.10%	3.97%
Best Year Since Inception (2012)	7.59%	7.77%
Worst Year Since Inception (2013)	-4.65%	-4.58%

The returns are provided in accordance with the description of the fund's total expense ratio information that can be found on the last page under the fee disclosure section of the fact sheet. All returns greater than 1 year are annualized. Past performance is not a guarantee of future results. Current performance may be lower or higher than the performance shown above. Fund returns reflect all items of income, gain and loss and the reinvestment of dividends and other income and are calculated in US dollars. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends (net of withholding tax rates) and other income.

### Risk Management

SSgA monitors the Fund's portfolio on an ongoing basis to minimize variances from its benchmark exposures, and initiates trades as part of the Fund's rebalancing process or to accommodate periodic cash flows.

### About SSgA

The Fund is managed by State Street Global Advisors (SSgA), the investment management division of State Street Bank and Trust Company, and a global leader in providing investment management solutions to clients worldwide. To learn more about SSgA, visit our web site at [www.ssga.com](http://www.ssga.com).



**Characteristics**

REIT	Fund
Number of Holdings	86
Weighted Average Market Cap (\$M)	\$15,853.81
<b>Natural Resource</b>	
Forward 12-mo P/E	13.6x
Price/Book	1.7x
Dividend Yield	2.90%
Number of Holdings	212
Turnover (As-of FYE 12/31)	18.63%
Weighted Average Market Cap (\$M)	\$69,710.80
<b>U.S. TIPS</b>	
Real Yield	0.00%
Real Duration	7.68
Convexity	1.06

**Sector Weights**

<b>REITs</b>	
Malls	17.48%
Apartments	17.27
Healthcare	12.96
Office	12.43
Strip Centers	7.67
Industrial	7.44
Self-Storage	7.26
Hotels	7.01
Diversified	4.41
Mixed Industrial/Office	4.33
Manufactured Homes	1.04
Factory Outlets	0.71
<b>Commodities (DJ-UBS Roll Select Commodity Index)</b>	
Agriculture	33.55%
Energy	30.74
Precious Metals	15.05
Industrial Metals	15.00
Livestock	5.66
<b>Natural Resource Stocks</b>	
Energy	34.04%
Agriculture	33.06
Materials	32.90
<b>U.S. TIPS</b>	
Treasury	99.94%
Cash	0.06

**Asset Allocation**

	Benchmark	Target Weights
Commodities	DJ-UBS Roll Select Commodity Index	20%
Natural Resource Stocks	S&P® Global LargeMidCap Commodity and Resources Index	35%
REITs	Dow Jones U.S. Select REIT Index	20%
TIPS	Barclays U.S. TIPS Index	25%

Certain supplemental information may be rounded and may result in the total not adding up to 100.

Characteristics and allocations, if shown, are subject to change and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

The portfolio turnover rate is as-of the prior fiscal year-end ("FYE"). It is calculated consistent with Form N-1A by dividing the lesser amounts of purchases or sales of portfolio securities (i.e., underlying Fund shares) for the fiscal year by the monthly average value of the portfolio securities owned by the Fund during the fiscal year.

**Important Message About Risk**

There are risks involved with investing, including possible loss of principal. Generally, among asset classes stocks are more volatile than bonds or short-term instruments. Asset Allocation is a method of diversification which positions assets among major investment categories. This method is used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

Additionally, an investment in the Strategy is subject to a number of risks, which include but are not limited to: Asset Allocation Risk, Cash Position Risk, Commodities Risk, Conflict of Interest Risk, Counterparty Risk, Credit Risk, Currency Risk, Defensive Investing Risk, Derivatives Risk, Emerging Markets Risks, Equity Risk, Extension Risk, Geographic Concentration Risk, Index Risk, Inflation-Indexed Securities Risk, Interest Rate Risk, Investment Risk, Issuer Risk, Large Shareholder Risk, Leveraging Risk, Limited Investment Program Risk, Liquidity Risk, Longevity Risk, Lower-Rated Securities Risk, Management Risk, Market Capitalization Risk, Market Disruption and Geopolitical Risk, Market Risk, Modeling Risk, Mortgage-Related and Other Asset-Backed Securities Risk, Non-U.S. Securities Risk, Portfolio Turnover Risk, Prepayment Risk, Property Securities Risk, Re-Balancing Policy Risk, REIT and REOC Risk, Repurchase Agreement Risk, Risk of Investment in Other Pools, Small and Micro-Cap Companies Risk, Tax Risk, U.S. Government Securities Risk, Variable and Floating Rate Securities, and Wealth Accumulation Shortfall Risk. You should refer to the Fund's Disclosure Document for a complete description of the risks of investing in the Fund.

Risk management does not promise any level of performance or guarantee against loss of principal. SSgA encourages investors to seek the advice of well-qualified financial and tax advisors, accountants, attorneys and other professionals before making any investment or retirement decision.

**Fee Disclosure**

The SSgA Real Asset Fund (the "Fund") seeks to achieve its investment objective by making direct investments in securities or by making investments in other investment funds, including those managed by SSgA and its affiliates ("SSgA Funds"). The Fund indirectly bears a proportional share of the fees and expenses of the SSgA Funds in which the Fund invests ("Indirect Expenses") which may include, among others, investment management, audit, custody, administration, and legal fees. Additionally, the Fund incurs direct fees and expenses ("Direct Expenses") which may include, among others, investment management, custody, audit, administration, and legal fees. The Indirect Expenses combined with the Direct Expenses of the Fund (the "Total Annual Operating Expense Ratio") are not expected to exceed .22% annually. You should contact your Plan Administrator for a complete description of the fees and expenses applicable to Class C units of the Fund, including the investment management fee.

The Total Annual Operating Expense Ratio of .22% reflects all indirect and direct fees and expenses associated with the Fund. Transaction costs (including, for example, brokerage costs, temporary investments in SSgA exchange traded funds, and taxes, if any) are not reflected in the Total Annual Operating Expense Ratio but are reflected in the net performance returns of the Fund. The investment manager does not assess or charge any fee in connection with the purchase or redemption of units of the Fund.

The following example is intended to help illustrate the impact of fees and expenses associated with an investment in the Class C units of the Fund (based upon the Total Annual Operating Expense Ratio). It is intended to illustrate the hypothetical expense that you would incur over various time periods if you were to invest \$10,000 in the Class C units of the Fund. This example assumes that the Fund provides a return of 5% a year and that operating expenses of the Fund remain the same. The results apply whether or not you redeem your investment at the end of the given time period.

Example Fees: 1 year - \$22.53; 3 years - \$70.86; 5 years - \$123.92; 10 years - \$280.43

The example outlined above was for illustrative purposes only and does not represent the actual fees and expenses or the past or future performance of the Fund. Actual future fees and expenses may be higher or lower than those shown.

Fees and expenses are only one of several factors that participants and beneficiaries should consider when making investment decisions.

**State Street regards the Fact Sheets in their distributed form to be complete documents that include material information regarding the Funds for investor consideration. You are not authorized to make any material modifications to this information without our express consent, and we assume no liability in connection with these Plan Materials or with regard to any modifications to or misuse of the information contained therein.**

**FUNCTION:** Deferred Compensation Investment Program  
**ACTIVITY:** Statement of Objectives

**POLICY:**

The Oregon Investment Council (the “Council”) will maintain a Deferred Compensation Investment Program (the “Program”) providing an array of investment options with varying levels of risk and returns~~return~~ for ~~those~~ eligible employees who choose to participate in the Program.

The Council approves ~~the array of~~ Program investment options consistent with ORS 293.721, the ~~general objective~~ "to make the moneys as productive as possible," objective and ORS 293.726, the ~~“standard of prudence.”~~ requirement.

The Council may change ~~the offered~~ Program investment options or ~~the investment management of those options~~managers at any time. ~~The Council, and~~ will ~~assure the consideration~~undertake a comprehensive review of ~~new investment~~Program options and managers at least once every four years. Any change in Program options or ~~the investment management of those options~~managers will be reported in advance, whenever practicable, to the Public Employees Retirement Board (PERB) in a timely manner.

**PROCEDURES:**

**1. BACKGROUND**

The “457” Deferred Compensation Plan is ~~maintained for eligible employees desiring to supplement other income sources including social security benefits they may receive upon retirement. The plan is a~~ a voluntary retirement program.

offered as a means by which participating employees may augment their retirement savings. Eligible employees choose ~~to participate~~their level of participation based on their own assessment of ~~need for additional~~their future retirement ~~capital needs.~~ The amount of capital a ~~plan~~ participant accumulates directly relates to the amount of ~~is a direct function of that~~ participant’s earnings ~~deferred~~deferral and the ~~growth of those deferrals through the~~ investment performance of the Program options he or she selects.

In selecting ~~the~~Program investment options and Program investment ~~management firms for the Program~~managers, the Council will consider the population of potential participants. ~~The offered Program should contain in order to provide a range of~~ investment options providing participants a range of risk and return appropriate for this type of retirement savings program. The Council expects eligible participants to ~~evaluate the presented Program and identify those investments~~

~~meeting their individual objectives. The Council expects the participant to satisfy retirement make their own assessment of Program investment needs not met within the Program through other means options relative to their unique risk tolerance and return objectives as well as their other sources of retirement capital.~~

## 2.- INVESTMENT PROGRAM

The Program offers the following investments options:

### ~~1.A.~~ **Short Term Fixed Income**

- • **Objective:** Preservation of capital with a moderate level of income by investing primarily in fixed income instruments issued by the U.S. Government and its agencies. Risk, as measured by volatility of returns, is expected to be very low; however, long-term investors need to consider the possibility of purchasing-power erosion due to inflation. Net of management fees, investment performance is expected to meet or exceed benchmark returns.

• **Benchmark:** 91-Day U.S. Treasury Bills

### B. Stable Value

• **Objective:** Stability of capital while maintaining a stream of income by investing in contracts issued by insurance companies, banks and other short-term liquidity vehicles. There is no guarantee of principal or interest. ~~US Government and its agencies.~~ Risk, as measured by volatility of returns, is expected to be very low; however, long-term investors need to consider the possibility of purchasing-power ~~risk due to inflation.~~ Expected performance, net of investment management fees, is to meet or exceed the performance of the benchmark ~~erosion due to inflation, as well as possible liquidity and credit risks.~~

• **Benchmark:** 91 Day Treasury Bill

### ~~2.~~ **Stable Value**

~~• **Objective:** Stability of capital while maintaining a stream of income by investing in contracts issued by insurance companies and banks and short term liquidity vehicles. There is no guarantee of principal or interest. Risk, as measured by volatility of returns, is expected to be very low; however, long term investors need to consider the possibility of purchasing power risk due to inflation, as well as possible liquidity risk and credit risk.~~

~~• **Benchmark:** 5-Year Constant ~~Maturing~~Maturity U.S. Treasury~~

### ~~3.~~ **Intermediate Term C. Active Fixed Income**

- • **Objective:** Higher ~~level~~levels of current income are expected ~~than~~relative to the Short Term Fixed Income option by investing in a broader range of fixed income securities ~~over a range of maturities, including: US~~ U.S. Treasury, notes and bonds, investment grade corporate, ~~and limited exposure to~~ bonds, high-yield and foreign fixed income securities. Risk, as measured by volatility of returns, is expected to be higher than that for the Short-Term Fixed Income option. ~~There is also the risk of, and~~ negative returns may be realized during periods of

rising interest rates. ~~Expected performance, net of investment~~ Net of management fees, ~~investment performance is expected~~ to meet or exceed ~~the performance of the~~ benchmark returns.

- **Benchmark:** Barclays Capital U.S. Aggregate Bond Index

4

**D. Large Cap Value Equity**

• **Objective:** Long-term growth of capital through investment in common stocks, with ~~the~~ focus on buying securities at low valuations on either an absolute ~~basis or market-~~ relative ~~to the broad market. Portfolio~~basis. Large Cap value equity portfolios tend to be defensive in nature and typically exhibit below-average Price/Earnings ratios, below-average Price/Book ~~Value~~ ratios, and/or above average dividend yields. Risk, as measured by volatility of returns, is expected to be moderate to high. ~~Expected performance, net Net of investment management fees,~~ investment performance is expected to meet or exceed ~~the performance of the benchmark~~ returns.

- • **Benchmark:** Russell 1000® Value Index

5

**E. Total Market Equity Index**

- • **Objective:** Long-term growth of capital through investment in common stocks with growth and valuation characteristics in line with ~~the~~ broad market averages. Risk, as measured by volatility of returns, is expected to be moderate to high. Current income ~~may~~is not ~~be~~a primary objective. ~~Expected performance, net Net of investment management fees,~~ investment performance is expected to meet ~~or exceed the performance of the~~ benchmark returns.

- • **Benchmark:** Russell 3000® Index

6

6 **F. Large Cap Growth Equity**

- • **Objective:** Long-term growth of capital through investment in common stocks with above average growth and profitability prospects. In contrast to the Value Equity option, typical characteristics of this ~~group option~~ are below-market dividend yields and above-average risk, as measured by price volatility relative to the benchmark. Current income is not a primary objective. Risk, as measured by volatility of returns, is expected to be high. ~~Expected performance, net of investment~~ management fees, investment performance is expected to meet or exceed ~~the performance of the~~ benchmark returns.

- • **Benchmark:** Russell 1000® Growth Index

7 **G. International Equity**

- • **Objective:** Long-term growth of capital through investment, primarily, in ~~the~~ common stocks of non-~~USU.S.~~ companies. These funds will experience factors unique to investing in international markets, such as ~~the effect of~~ exchange rate ~~depreciation or appreciation~~ and ~~the diversification effect of investing in various countries.~~ less correlated business cycle effects. Risk, as measured by volatility of returns, is expected to be high. ~~Expected performance, net of investment~~ Net of management fees, investment performance is expected to meet or exceed ~~the performance of the~~ benchmark returns.

- • **Benchmark:** MSCI ~~EAFEACWI~~ ex-U.S. Index

8 **H. Small/Mid Cap Equity**

- • **Objective:** Long-term growth of capital through investment in common stocks of small ~~and mid cap~~ capitalization companies with growth and valuation characteristics in line with ~~the~~ broad market averages. A typical characteristic of these funds is below-market dividend yields. Risk, as measured by volatility of returns, is expected to be high. Current income is not a primary objective. ~~Expected performance, net of investment~~ Net of management fees, investment performance is expected to meet or exceed ~~the performance of the~~ benchmark returns.

- • **Benchmark:** Russell ~~2500~~ 2000® Index

9

9 **I. Target Date Retirement Funds**

- • **Objective:** Provide participants with an asset allocation mix ~~among U.S. and non-U.S. stocks and bonds and short-term instruments that is~~ that changes as they age. Specifically, these funds exhibit a more aggressive asset allocation when participants are younger and ~~more conservative as they near, or reach, retirement. Participants should normally select a fund that closely matches their estimated retirement year and let the target date funds slowly change to a~~



more conservative asset allocation ~~over time. The target as they near, or reach, retirement age.~~ Target date funds will be highly diversified and include several asset classes, selected by the fund manager. Performance and volatility expectations will vary based on the asset allocation and risk profile for each fund.

• **Benchmark:** -Each target date fund will have a separate, custom benchmark based on ~~theits~~ asset allocation.

• **Rebalancing:** The fund manager is responsible for rebalancing each target date ~~fund to the desired~~ fund's asset allocation, and will generally do so, daily, with cash flow activity.

#### **10. J. Self-Directed Brokerage Window Account**

• **Objective:** -Provide participants access to investments which are not ~~on the Core Option menu~~ included as Program options, but that may be prudent ~~for them~~ based on their individual participant's financial situation or beliefs. ~~Participants will be limited to investing in mutual funds and a limited list of ETFs.~~ Only participants with a minimum OSGP balance of \$2010,000 will be allowed access to the SDBA ~~Option. Participants option, and participants~~ will only be allowed to transfer/allocate a maximum of 50 percent of their total OSGP balance ~~into~~ the SDBA Option.

#### **K. Real Return Option**

• **Objective:** Provide participants access to a mix of assets that will provide a return that meets or exceeds inflation over a full market cycle. Underlying assets could include real assets, such as direct and indirect commodities or real estate, as well as inflation-linked bonds. A secondary purpose is to provide returns less correlated to those of typical stock or bond funds. Risk, as measured by volatility of returns, is expected to be moderate.

• **Benchmark:** Consumer Price Index (CPI-U) + 3%

3. **Program Management.** The Program is shall be managed and monitored consistent with the Council's policies and procedures regarding selecting, managing and terminating Program firms as found in **Activity Reference 4.07.02.**

4. **Participant Disclosure Requirements.** ~~The Deferred Compensation Investment Officer Staff~~ will work with the Public Employees Retirement System (PERS) Plan Administrator to provide necessary information for compliance with participant disclosure requirements ~~of PERS (as described in ORS 243.450).~~

5. **Program Information Requests.** ~~The Deferred Compensation Investment Officer Staff~~ will work with the PERS Plan Administrator to provide any other Program information requested ~~regarding the Program.~~

6. **Program Population Characteristics.** ~~The Deferred Compensation Investment Officer Staff~~ will periodically provide the Council with Program population characteristics for use in their

evaluation. ~~The Deferred Compensation Investment Officer of Program options and investment managers.~~ Staff will request such information from the PERS Plan Administrator.

7. **Communication with PERB.** ~~The Deferred Compensation Investment Officer~~ Staff will periodically present the Council with information for consideration from PERB regarding the expressed desires of participants related to the Program investment options. The duties and powers of PERB and the Council concerning the Program, while separate and distinct, are also complementary. This dynamic creates a need for coordination and cooperation between the two bodies. At the request of the Council, the Deferred Compensation Investment Officer ~~staff~~ will facilitate information flow between the Council and PERB. ~~The Deferred Compensation Investment Officer; moreover, Staff~~ will report in advance, whenever practicable, any change in Program options or ~~the investment management of the options~~ managers to PERB in a timely manner.

8. **Program Review.** ~~The Deferred Compensation Investment Officer~~ Staff will bring investment options to the Council for review as provided by law.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):**

None

**FUNCTION:** Deferred Compensation Investment Program  
**ACTIVITY:** Selecting, Managing and Terminating Program Firms

**POLICY:** ~~The Oregon Investment Council (the “Council”) may appoint and terminate private investment management firms and other~~ **“at will” investment firms in the Deferred Compensation Investment Program (the “Program”).**

In order to accommodate daily cash movements and participant option transfers, ~~Plan~~**Program** investments will generally be comprised of mutual funds and commingled trusts that have daily pricing and the ability to effect daily transaction activity.

Options shall be comprised of one or more investment funds. The Council shall establish the percentage of each option that individual mutual funds and commingled trusts comprise.

Over time, the percentages that individual mutual funds and commingled trusts comprise ~~of the related Plan Option~~**each Program option** will vary due to return differences. The Council authorizes staff to rebalance the individual mutual funds and commingled trusts back to the targets specified by the Council, no less frequently than annually.

The ~~Council~~**Treasurer** establishes the Deferred Compensation Investment Committee consisting of the Chief Investment Officer, Deputy Chief Investment Officer, the Senior Equity Investment Officer, and ~~the Deferred Compensation~~**a Public Equity** Investment Officer (ex-officio). ~~The Committee~~**By unanimous vote, this committee** is authorized to add, eliminate, and change investment funds and target ranges for the investment funds, ~~and~~ within the various ~~Plan Options, with a unanimous vote.~~**Program options.** Prior to making any such change, staff will notify the ~~OIC~~**Council** of the proposed change at least two weeks prior to acting, whereby, any Council member may prevent implementation of the ~~committee’s~~**committee’s** proposed change by ~~the Committee, by contacting any member of the Deferred Compensation Investment Committee.~~**The Council shall not delegate structural changes, such as the creation or elimination of Plan Options, to** the Deferred Compensation Investment Committee.

**PROCEDURES:**

1. ~~Hiring~~**Selection of Investment Management Firms.** ~~Factors to be considered in hiring Managers.~~  
~~The selection of~~**an investment management firm include, but are not limited to:**

- ~~a) The firm’s major business;~~
- ~~b) Ownership~~**manager is the decision of the Council, and organization of the firm;**

- ~~e) The background is made subject to staff's research and experience of key members of the firm, including the portfolio manager expected to be responsible for the Oregon Deferred Compensation account;~~
- ~~d) The size of the firm's asset base, and the portion of that base which would be made up by Oregon's Deferred Compensation portfolio if the firm were hired;~~
- ~~e) The firm's products and services have a readily determinable investment style compatible with the Program's investment options;~~
- ~~f) The firm demonstrates experience and expertise in the investment style identified in the appropriate plan investment option; and~~
- ~~g) Firms should not be hired on a short-term trial basis.~~

~~2. **Termination of Firms.** Any firm may be terminated at will. Factors the Council may consider for termination of a firm may include, but are not limited to:~~

- ~~a) Major personnel changes within the firm's decision-making group;~~
- ~~b) Changes in the firm's ownership or organizational structure;~~
- ~~c) Administrative problems;~~
- ~~d) Radical or continual changes in investment style;~~
- ~~e) Inferior Performance—A firm should be given ample time to perform well. A short fall in performance over short-term periods, quarterly or annually, shall not be a basis for termination as long as the firm can demonstrate that it is adhering to its defined investment philosophy, that the philosophy is one which the Council feels is warranted for inclusion in the Program, and that the firm compares reasonably well with its peers using a similar investment style;~~
- ~~f) Non-compliance with contractual responsibilities and representations;~~
- ~~g) Investment objective or method of delivery no longer deemed appropriate for the Program;~~
- ~~h) Other fundamental factors such as a decline in credit rating where applicable; and,~~
- ~~i) Non-selection by participants. If after eight (8) consecutive quarters the investment option has less than five (5) percent of the plan assets, the investment option will be evaluated for elimination from the plan.~~

- j) ~~Another mutual fund or commingled trust has been identified which is deemed to a better overall fit within the Plan Option based on expected risk adjusted return, expected correlation of excess returns, style and cap size fit with the other funds within the Plan Option.~~
- k) ~~The mutual fund or commingled trust amends their rules which may adversely impact participants or not be practical for implementation by the Plan's recordkeeper.~~
3. ~~**Selection of Firms.** OST Investment Division staff meet with and obtain information from prospective investment firms recommendations. Consultants may be used to assist in evaluating prospective firms managers, but the Council may not delegate its policy or decision-making responsibilities to consultants or others. The Council may, however, delegate authority for policy implementation to the Chief Investment Officer (CIO).~~
4. ~~2. **Compensation of Firms.** Where applicable, investment management or performance-based fees may be negotiated by OST staff as appropriate to the philosophy of the firm. Typically, the fees are set as a calculated using an inverse, sliding percentage of assets managed, and vary on a sliding scale inversely with the total value of assets managed by the firm. Fees to firms providing for additional services will be negotiated by staff. Mutual fund and commingled trusts generally have imbedded fees not subject to negotiation. Staff shall pursue revenue sharing opportunities where appropriate, and to the extent possible, revenue sharing rebates will be credited to the net asset value of the applicable Plan Option Program option.~~
5. ~~3. **General Oversight of Firms Managers and Investment Performance.** Staff shall monitor the evaluate, at least quarterly, manager activity and investment activities of the investment funds and report quarterly to the Council. The OIC has engaged performance. The Council may engage independent consultants to evaluate investment management firm performance and to assist in the manager oversight of the firms and evaluate investment performance.~~
6. ~~4. **Program Monitoring of Program Usage.** The Deferred Compensation Investment Officer will. Staff shall monitor the usage of plan participant activity in each Program investment option and firm by Deferred Compensation Plan participants. In cases where criteria as delineated in Item 2(i) above labeled "Non Selection by Participants" is not met, causes. If after eight (8) consecutive quarters a Program investment option has less than three (3) percent of total plan assets, the option will be researched. The Deferred Compensation Investment Officer may rely upon research provided by the evaluated for termination from the Program. For purposes of these termination evaluations, Staff may rely upon Plan Administrator. The Deferred Compensation Investment Officer will report research and shall will its findings from this research to the Council.~~
7. ~~**Evaluation of Firm Selected Investment Management.** At times a hired firm contracts with others to manage assets. When the hired firm contracts with others to manage assets and presents staff a limited number of firms, or a firm's funds, from which to select, staff will apply the following evaluative criteria:~~

- ~~a) A fund's performance net of management fees, should meet or exceed the performance of the benchmark;~~
- ~~b) Relative performance will be judged not simply on absolute terms, but on a risk-adjusted basis;~~
- ~~c) Key financial characteristics of the fund should not differ dramatically from the underlying benchmark, should be representative of the investment style, and should be reasonably consistent over time;~~
- ~~d) For equity funds, preference will be given to those funds that are fully invested in equity securities, by policy and process;~~
- ~~e) Preference will be given to funds that have a longer term track record;~~
- ~~f) Funds with low total fees will also be given stronger preference.~~

~~— For retail mutual funds, data provided by Morningstar, Inc. (or other equivalent sources) will be used to determine if a fund has met the above criteria. For funds where data is not readily available from Morningstar, the proposing firm must provide the requisite data. If the Program's consultant monitors a similar product for institutional clients, the assessment of that firm, product, and management, will be incorporated into the decision process.~~

~~— If a proposed fund does not meet all of the above criteria, the fund may still be considered by making an assessment of how closely it satisfies each element, and the relative importance of the criteria that is lacking.~~

~~8.—5. **Delegation.** For purposes of this policy, and in cases where the hired firm contracts with others for management of the assets, the hired firm is expected to consider Staff has delegated these monitoring responsibilities to another firm or service provider, the same factors, as applicable, in theirmanger selection, management, monitoring and termination policies apply.~~

~~6. **Termination of management relationships**Firms. After deciding to terminate a manager's contract, the Council authorizes staff to effect such termination as soon as possible.~~

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):**

None

**FUNCTION:** Deferred Compensation Investment Program  
**ACTIVITY:** Quarterly Reporting

**POLICY:** \_\_\_\_\_

Deferred Compensation Investment Program (the “Program”) reports will be supplied to the Oregon Investment Council (the “Council”) quarterly by ~~the Deferred Compensation Investment Officer~~staff.

**PROCEDURES:**

~~The Deferred Compensation Investment Officer~~Staff will prepare quarterly reports to include:

1. **Program** ~~Asset Distribution. Shows the value~~Profile. Value of assets held and ~~the~~ number of participants selecting each Program ~~offering. The investment option. This~~ report ~~is will be~~ based on information provided by the Plan Administrator.
2. **Investment Performance.** Reports include performance of each investment option net of all ~~fees, costs, fund performance gross of and~~ administrative charges, and relative to corresponding benchmark ~~performance~~returns.
3. Consultant Reporting. Staff may delegate some or all of this reporting to a consultant.

These reports will be distributed to Council members and the Chief Investment Officer.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):**

None

~~**FUNCTION:** Deferred Compensation Investment Program~~  
~~**ACTIVITY:** Terminating Investment Management Firms~~

~~**POLICY:** The Oregon Investment Council may terminate “at will” any manager in its employ according to the terms of its contract.~~

~~**PROCEDURES:**~~

- ~~1. **Method of Advance Notice.** The Oregon Investment Council, after having made a decision to terminate a contract for an investment management firm’s services consistent with Procedure 4.07.02, authorizes staff to effect such termination as soon as possible.~~
- ~~2. **Redistribution and/or Liquidation of Holdings.** Upon written notice to an investment management firm confirming its termination, the program’s holdings with the terminated firm are redistributed by the Council to the program’s other investment management firms.~~

~~**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):**~~

None



FUNCTION: ~~Deferred Compensation Investment Program~~

ACTIVITY: ~~Investment Management Firm Monitoring and Retention~~

POLICY:

~~The Oregon Investment Council contracts with Investment Management Firms to invest the assets of the State of Oregon Deferred Compensation Investment Program. Firms are hired for their specific expertise and the investments will generally take the form of mutual funds and commingled trusts. Firm expertise is manifested in the investment performance results produced. Retention of a firm exposes the assets under management to a degree of risk for which the Program should receive adequate compensation. Office of the State Treasurer (OST) staff will begin monitoring the Investment Management Firm before the firm is hired.~~

PROCEDURES:

~~Based on information provided by investment prospectuses, Morningstar, and other available information, staff shall identify the following for each firm:~~

- ~~1. **Strategic Role.** Identification of the strategic role within the investment structure the firm's portfolio is to fulfill.~~
- ~~2. **Firm's Style.** Description of the firm's style or how the firm will fulfill the strategic role.~~
- ~~3. **Universe of Securities.** Identification of the universe of securities from which the firm will construct its portfolio.~~
- ~~4. **Risk Level.** Identification of the expected risk level, as measured by commonly accepted investment risk measures, relative to the strategic role the firm is to fulfill. The risk level can be expressed relative either to the universe of securities from which the firm selects, other managers, or to the market return as a whole, or it can be expressed in absolute terms.~~
- ~~5. **Performance Objective.** Identification of a specific performance objective should be expressed on a risk-adjusted basis. For example, the firm's performance may be compared to an index that represents the universe of securities from which the firm selects, plus some degree of excess return over that index that is commensurate with the risk the firm takes to achieve return. Benchmarks and performance objectives for individual funds are included in Appendix A.~~
- ~~6. **Time Horizon.** Identification of a time horizon considered acceptable by the firm and the Oregon Investment Council for the delivery of the expected performance results. This time horizon should be expressed in terms relative to a market cycle for that manager's specific style of management. The style of management can be embodied in the index selection. A market cycle is defined as performance from peak to trough to peak in the index return.~~

- ~~7. **Monitoring.** The firm is to be monitored with regard to how performance results are generated to ensure the firm is exhibiting risk and other portfolio characteristics consistent with the original objectives for hiring that particular firm. If the firm's risk profile or other portfolio characteristics deviate materially from those outlined in the guidelines, the firm will be subject to probationary action as described in section 8.~~
- ~~8. **Performance.** Prior to the expiration of the time horizon for performance measurement, performance deviating from objectives should be noted, with the firm being placed informally on "Watchlist." Staff shall notify the Council anytime an investment fund is placed on "Watchlist" and shall report the "Watchlist" status within the quarterly reports. Nothing stated in this policy will supersede the right of the Oregon Investment Council from exercising its right to terminate "at will" any firm in its employ according to the terms of its contract.~~
- ~~9. **Contracting.** For purposes of this policy, in cases where the firm contracts with others for the management of the assets, the firm will meet the above elements for each separate manager employed by the firm.~~

~~**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):**~~

~~None~~

APPENDIX A

INVESTMENT MANAGER BENCHMARKS

<u>Manager</u>	<u>Benchmark</u>	<u>Peer Group</u>	<u>Return Objective Over Benchmark Net of Fees</u>
SSGA GSTIF	3 month T Bill	Money Market	10bps
Galliard Stable Value	3 month T Bill	Stable Value	25 bps
BlackRock US Debt Index	Barclays Aggregate	Int. Fixed Income	N/A
Fidelity Broad Mkt. Dur.	Barclays Aggregate	Int. Fixed Income	50bps
Wellington Bond Core Plus	Barclays Aggregate	Int. Fixed Income	50bps
BlackRock Russell 1000 Value	R 1000 Value	Large Value	N/A
Dodge & Cox	R 1000 Value	Large Value	75bps
MFS Value	R 1000 Value	Large Value	75bps
LSV Value	R 1000 Value	Large Value	75bps
BlackRock Russell 3000	R 3000	Market Oriented	N/A
BlackRock Russell 1000 Growth	R 1000 Growth	Large Growth	N/A
American Funds Amcap	R 1000 Growth	Large Growth	75bps
Wells Fargo Endeavor Sel.	R 1000 Growth	Large Growth	75bps
Delaware US Growth	R 1000 Growth	Large Growth	75bps
BlackRock EAFE Index	MSCI EAFE	Market Oriented	N/A
Artisan International	MSCI EAFE	Market Oriented	150bps
GMO Foreign III	MSCI EAFE	Market Oriented	150bps
Marsico International	MSCI EAFE	Market Oriented	150bps
Oakmark International	MSCI EAFE	Market Oriented	150bps
DFA EM Core Equity	MSCI EM	Market Oriented	150bps
BlackRock Russell 2000	R 2000	Market Oriented	N/A
Callan Small Equity	R2000	Market Oriented	150bps
American Beacon S.C. Value	R 2000 Value	Small Value	150bps
Columbia Acorn	R 2500	Midcap Market Oriented	150bps
T Rowe Midcap Growth	R 2500 Growth	Midcap Growth	150bps
<u>BlackRock</u>			
Lifepath Retirement	Various	Target Date Funds	N/A
Lifepath 2015	Various	Target Date Funds	N/A
Lifepath 2020	Various	Target Date Funds	N/A
Lifepath 2025	Various	Target Date Funds	N/A
Lifepath 2030	Various	Target Date Funds	N/A
Lifepath 2035	Various	Target Date Funds	N/A
Lifepath 2040	Various	Target Date Funds	N/A
Lifepath 2045	Various	Target Date Funds	N/A
Lifepath 2050	Various	Target Date Funds	N/A
Lifepath 2055	Various	Target Date Funds	N/A
Self Directed Brokerage	N/A	N/A	N/A

## TAB 6 – PUBLIC UNIVERSITY FUND INVESTMENT GUIDELINES

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# **Public University Fund**

## **July 30, 2014**

### **Purpose**

Present guidelines for the Public University Fund (the “PUF”) for review and adoption by the OIC. The PUF will be a new fixed income fund managed internally by Oregon State Treasury (OST) investment division staff.

### **Background**

The Oregon University System (OUS) is dissolving on June 30, 2015 as all 7 public universities will adopt independent boards on or before 7/1/2015. While the OUS fund will no longer exist, member universities are interested in pooling cash and investments to potentially achieve higher total investment returns than if invested individually.

The 77th Oregon Legislative Assembly at the 2014 Regular Session passed and then enacted House Bill 4018 (the “Act”). Section 7 of the Act establishes the Public University Fund as part of State Treasury assets but separate and apart from the general fund and all other dedicated accounts.

The Act stipulates that public universities choosing to participate in the PUF shall, by agreement or other legally authorized structure, a) designate a single participating university with primary responsibility for the PUF and b) identify those duties and obligations necessary for that designated university to effectively discharge its responsibilities under Section 7 of the Act.

Oregon State University (OSU) has agreed to serve as the initial, designated university responsible for the PUF under subsection 3(a) of the Act.

Per OIC Policy 4.03.02, funds meeting OST requirements are eligible for segregated investment management by the OST investment division and within guidelines approved by the OIC.

### **Recommendation**

Staff recommends the OIC approve the Public University Fund rules as attached hereto.

**FUNCTION:** Oregon Public University Fund Investments  
**ACTIVITY:** Portfolio Rules

**SCOPE:** The Oregon Investment Council (OIC) has, with advice from the Treasurer and Oregon State Treasury (OST) investment staff, adopted a policy and specific rules for investing the Public University Fund (PUF). These rules are included in Appendix A.

**POLICY:** Funds meeting Oregon State Treasury (OST) requirements are eligible for segregated investment management by the Investment Division of the OST and within guidelines approved by the OIC. Investments shall be authorized by an OST investment officer and documented in accordance with OST policies and procedures.

Funds shall be invested in accordance with the policies and procedures outlined in this policy and in accordance with statute established by HB 4018, section 7.

### **COMPLIANCE APPLICATION AND PROCEDURES**

OST shall provide an investment compliance program to accomplish the following objectives: a) monitor and evaluate portfolios, asset classes, and other investment funds to determine compliance with OST policies and contractual obligations; b) identify instances of non-compliance and develop appropriate resolution strategies; c) provide relevant compliance information and reports to OST management and the OIC, as appropriate; and d) verify resolution by the appropriate individual or manager within the appropriate time frame.

**Resolution of Non-Compliance.** If PUF investments are found to be a) out of compliance with one or more adopted investment guidelines or b) managed inconsistently with governing policy and objectives, investment staff shall bring the investments into compliance as soon as is prudently feasible. Actions to bring the portfolio back into compliance and justification for such actions, including documentation of proposed and actual resolution strategies shall be coordinated with the OST investment compliance program.

#### **Appendices (Attached):**

- A. Portfolio Rules for the Public University Fund

**Appendix A**

**Portfolio Rules for the  
Public University Fund**

**Adopted July 30, 2014**

1. **Scope:** These rules apply to the investment of funds from all eligible and approved participants in the Public University Fund (“PUF”), and are established under the authority of, and shall not supersede, the requirements established under ORS Chapter 293 and HB 4018 of Oregon Laws 2014.
2. **Objective:** Provide adequate liquidity for PUF participant cash flow requirements. Manage the portfolio to maximize total return over a long term horizon within the desired risk parameters.
3. **Portfolio Allocation and Risk Profile:** Allocation parameters listed in the table below are intended to be general guidelines, not hard limits subject to OST Compliance monitoring.

<b>Strategy Type</b>	<b>Name</b>	<b>Allocation</b>	<b>Objective</b>
Liquidity	Short-Term	The purpose of the short-term portfolio is to assure adequate cash for operations. Investment management efforts shall be conducted to maintain an allocation to the short-term portfolio equivalent to not less than approximately six (6) months of average monthly operating expenses. This short-term portfolio allocation may also be determined using the results of a cash flow analysis.	Principal reservation
Core	Intermediate-Term	Investment management efforts shall be conducted to allocate to the intermediate-term portfolio any cash balances in excess of those necessary to meet the requirements for the short-term portfolio. Funds allocated to the intermediate-term portfolio should not exceed \$300 million.	Higher total return versus short-term portfolio as measured by the OSTF yield over a 3-year trailing period.

	Long-Term	Investment management efforts shall be conducted to allocate to the long-term portfolio any cash balances in excess of those necessary to meet the requirements for the short-term portfolio. Funds allocated to the long-term portfolio should not exceed \$120 million.	Higher total return versus the benchmark index over a 5-year trailing period.
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**4. Permitted Holdings**

Short-Term Portfolio:

- The Oregon Short-Term Fund (OSTF); and
- Any securities eligible for purchase in the OSTF. The OSTF is governed by the Oregon Investment Council (OIC) and OST-adopted policies and guidelines as documented in OIC Policy 04.02.03.

Intermediate-Term Portfolio:

- Any holdings eligible for the Short-Term portfolio;
- The Oregon Intermediate-Term Pool (OITP); and
- Any securities eligible for purchase in OITP which is governed by Oregon Investment Council (OIC) and OST-adopted policies and guidelines as documented in OIC Policy 04.03.04.

Long Term Portfolio:

- Any holdings eligible for the Intermediate-Term Portfolio;
- Obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities, including inflation-indexed obligations with stated maturities less than 15.25 years;
- Non-U.S. Government Securities and their Instrumentalities;
  - Non-U.S. government securities and Instrumentalities with a minimum rating of one or more of Aa2/AA/AA by Moody’s Investors Services, Standard & Poor’s or Fitch, respectively, and with a stated maturity less than 15.25 years at the time of purchase.
- Municipal debt with a minimum rating of one or more of A3/A-/A- by Moody’s Investors Services, Standard & Poor’s or Fitch, respectively, and with a final maturity less than 15.25 years at the time of purchase;
- Corporate indebtedness with minimum investment grade ratings by one or more of Moody’s Investors Services, Standard & Poor’s or Fitch, respectively, and with a stated maturity less than 15.25 years at the time of purchase;
- Asset-backed securities rated AAA at the time of purchase with a weighted average life of less than 5.25 years;
- Commercial mortgage-backed securities (CMBS) rated AAA at the time of purchase with a weighted average life of less than 5.25 years;



- U.S. agency residential mortgage-backed securities (MBS) and residential mortgage related securities with a weighted average life of less than 5.25 years.

**5. Diversification**

The portfolio should be adequately diversified consistent with the following parameters:

- No more than 3% of portfolio par value may be invested in a single security with the notable exception of obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities; and
- No more than 5% of portfolio par value may be invested in the securities of a single issuer with the notable exception of obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities.

Issuer and security level restrictions shall not apply to OSTF or OITP holdings.

**6. Counterparties**

A list of all broker/dealer and custodian counterparties will be provided to PUF's Designated University annually.

**7. Strategy:**

- Maintain an average (measured by market value) credit rating of at least single-A, excluding OSTF and OITP holdings. If a security is rated by more than one rating agency, the lowest rating is used to determine the average rating;
- In the Long-Term Portfolio, maintain an average modified duration level of +/-20% of the custom fixed income benchmark up to a maximum of 7.5 years; and
- Structure maturities to provide reinvestment opportunities that are staggered. No more than 15% of the long-term portfolio should mature in a single, 3-month time period. This stipulation is intended to be a general guideline, not a hard limit subject to OST Compliance monitoring.

**8. Investment Restrictions:**

- All investments will be in U.S. dollar denominated securities;
- All investments will be non-convertible to equity;
- Collateralized debt obligations (CDO), Collateralized Loan obligations (CLO) and Z-tranche investments are not permitted;
- Investments in Alt-A, sub-prime, limited documentation or other "sub-prime" residential mortgage pools are not permitted. There shall be no use of leverage in any investments (excluding use of securities in a securities lending program). Structured securities such as ABS, MBS and CMBS shall not be considered as using leverage;

- For newly issued securities with unassigned ratings, “expected ratings” may be used as a proxy for assigned ratings up to 30 business days after settlement date; and
- Maximum market value exposures (excluding underlying holdings in OSTF and OITP) shall be limited as follows:

U.S. Treasury Obligations	100%
U.S. Agency Obligations	50%
U.S. Corporate Indebtedness	50%
Municipal Indebtedness	30%
Asset-backed Securities (ABS)	20%
Mortgage-backed Securities (MBS)	30%
Commercial Mortgage-backed Securities (CMBS)	10%
Structured Securities (Combined ABS, MBS and CMBS)	50%

**9. Policy Compliance:**

- OST Investment Staff will submit a written action plan to the Designated University regarding any investment downgraded by at least one rating agency to below investment grade within 10 days of the downgrade. The plan may indicate why the investment should continue to be held and/or outline an exit strategy; and
- OST Staff will consult with the PUF Designated University, on a pre-trade basis, if an investment trade or trades will result in a cumulative net loss greater than 1% over 3 months prior to trade settlement date.

**10. Performance Expectations/Reviews:**

- Over a 5-year trailing period, the Long-Term portfolio is expected to outperform the Bank of America Merrill Lynch 5-7 Year AAA-AA U.S. Corporate & Government Index (B3B0);
- OST will provide the PUF Designated University with a monthly report of all non-passive compliance violations of this policy’s guidelines; and
- Investment reviews between OST investment staff and the designated PUF University will occur quarterly and focus on:
  - Performance relative to objectives;
  - Adherence to this policy; and
  - Trading activity.

**SAMPLE FORMS, DOCUMENTS OR REPORTS:**

None

## TAB 7 – ASSET ALLOCATIONS & NAV UPDATES

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## Asset Allocations at June 30 2014

Regular Account								Variable Fund	Total Fund
OPERF	Policy	Target <sup>1</sup>	\$ Thousands	Pre-Overlay	Overlay	Net Position	Actual	\$ Thousands	\$ Thousands
Public Equity	32.5-42.5%	37.5%	29,427,167	42.0%	(523,830)	28,903,337	41.3%	805,295	29,708,632
Private Equity	16-24%	20.0%	14,720,517	21.0%		14,720,517	21.0%		14,720,517
<b>Total Equity</b>	<b>52.5-62.5%</b>	<b>57.5%</b>	<b>44,147,684</b>	<b>63.1%</b>	<b>(523,830)</b>	<b>43,623,854</b>	<b>62.3%</b>		<b>44,429,149</b>
Opportunity Portfolio			998,298	1.4%		998,298	1.4%		998,298
<b>Fixed Income</b>	<b>15-25%</b>	<b>20.0%</b>	<b>14,761,989</b>	<b>21.1%</b>	<b>1,729,109</b>	<b>16,491,098</b>	<b>23.6%</b>		<b>16,491,098</b>
<b>Real Estate</b>	<b>9.5-15.5%</b>	<b>12.5%</b>	<b>7,722,482</b>	<b>11.0%</b>	<b>(10,200)</b>	<b>7,712,282</b>	<b>11.0%</b>		<b>7,712,282</b>
<b>Alternative Investments</b>	<b>0-10%</b>	<b>10.0%</b>	<b>1,163,520</b>	<b>1.7%</b>		<b>1,163,520</b>	<b>1.7%</b>		<b>1,163,520</b>
<b>Cash*</b>	<b>0-3%</b>	<b>0.0%</b>	<b>1,225,019</b>	<b>1.7%</b>	<b>(1,195,079)</b>	<b>29,940</b>	<b>0.0%</b>	15,331	<b>45,271</b>
<b>TOTAL OPERF</b>		<b>100%</b>	<b>\$ 70,018,992</b>	<b>100.0%</b>	<b>\$ -</b>	<b>\$ 70,018,992</b>	<b>100.0%</b>	<b>\$ 820,626</b>	<b>\$ 70,839,618</b>

<sup>1</sup>Targets established in June 2013. Interim policy benchmark consists of: 41.5% MSCI ACWI Net, 23.5% Custom FI Benchmark, 20% Russell 3000+300bps (1 quarter lagged), 12.5% NCREIF (1 quarter lagged), & 2.5% CPI+400bps.

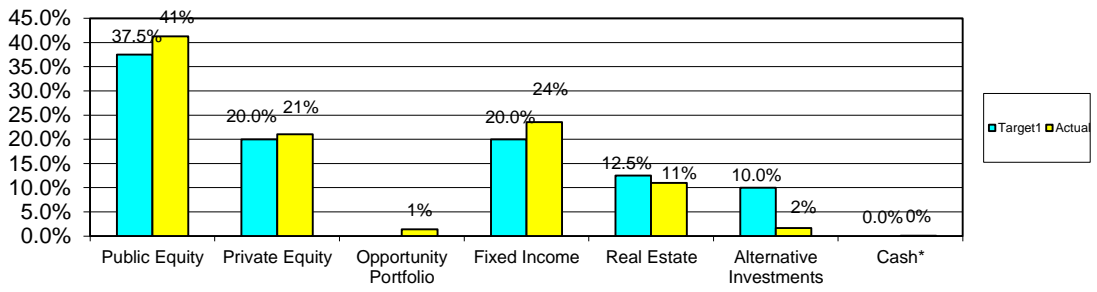
\*Includes cash held in the policy implementation overlay program.

SAIF	Policy	Target	\$ Thousands	Actual
<b>Total Equity</b>	<b>7-13%</b>	<b>10.0%</b>	<b>516,700</b>	<b>11.1%</b>
<b>Fixed Income</b>	<b>80-90%</b>	<b>85.0%</b>	<b>4,105,126</b>	<b>88.1%</b>
<b>Real Estate</b>	<b>0-7%</b>	<b>5.0%</b>	<b>0</b>	<b>0.0%</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>37,459</b>	<b>0.8%</b>
<b>TOTAL SAIF</b>		<b>95%</b>	<b>\$4,659,285</b>	<b>100.0%</b>

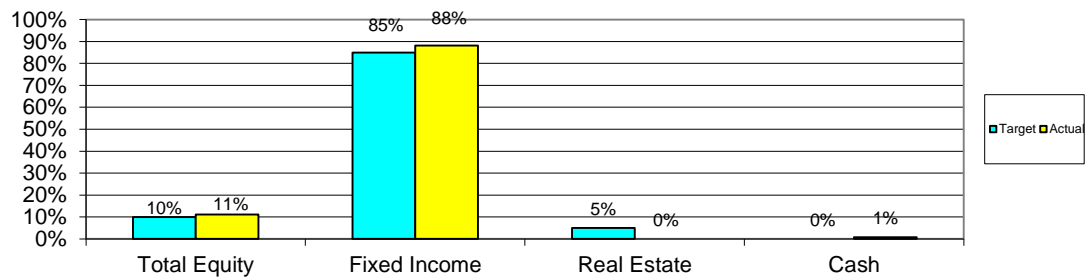
CSF	Policy	Target	\$ Thousands	Actual
Domestic Equities	25-35%	30%	\$434,958	30.0%
International Equities	25-35%	30%	421,246	29.0%
Private Equity	0-12%	10%	153,407	10.6%
<b>Total Equity</b>	<b>65-75%</b>	<b>70%</b>	<b>1,009,611</b>	<b>69.6%</b>
<b>Fixed Income</b>	<b>25-35%</b>	<b>30%</b>	<b>405,815</b>	<b>28.0%</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>35,319</b>	<b>2.4%</b>
<b>TOTAL CSF</b>			<b>\$1,450,745</b>	<b>100.0%</b>

HIED	Policy	Target	\$ Thousands	Actual
Domestic Equities	20-30%	25%	\$20,612	25.4%
International Equities	20-30%	25%	21,147	26.1%
Private Equity	0-15%	10%	7,628	9.4%
<b>Growth Assets</b>	<b>50-75%</b>	<b>60%</b>	<b>49,387</b>	<b>61.0%</b>
Real Estate	0-10%	7.5%	5,828	7.2%
TIPS	0-10%	7.5%	4,619	5.7%
<b>Inflation Hedging</b>	<b>7-20%</b>	<b>15%</b>	<b>10,447</b>	<b>12.9%</b>
Fixed Income	20-30%	25%	16,371	20.2%
Cash	0-3%	0%	4,790	5.9%
<b>Diversifying Assets</b>	<b>20-30%</b>	<b>25%</b>	<b>21,161</b>	<b>26.1%</b>
<b>TOTAL HIED</b>			<b>\$80,995</b>	<b>100.0%</b>

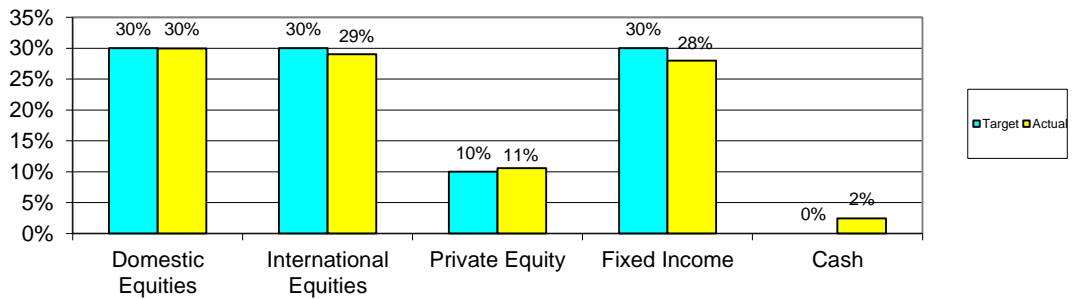
### OPERF Asset Allocation



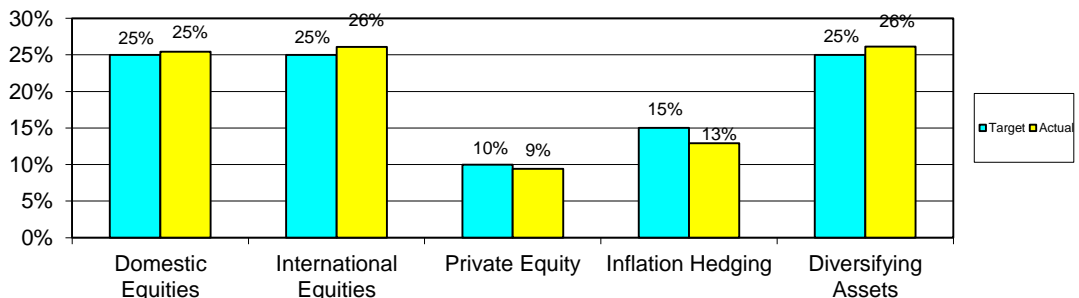
### SAIF Asset Allocation



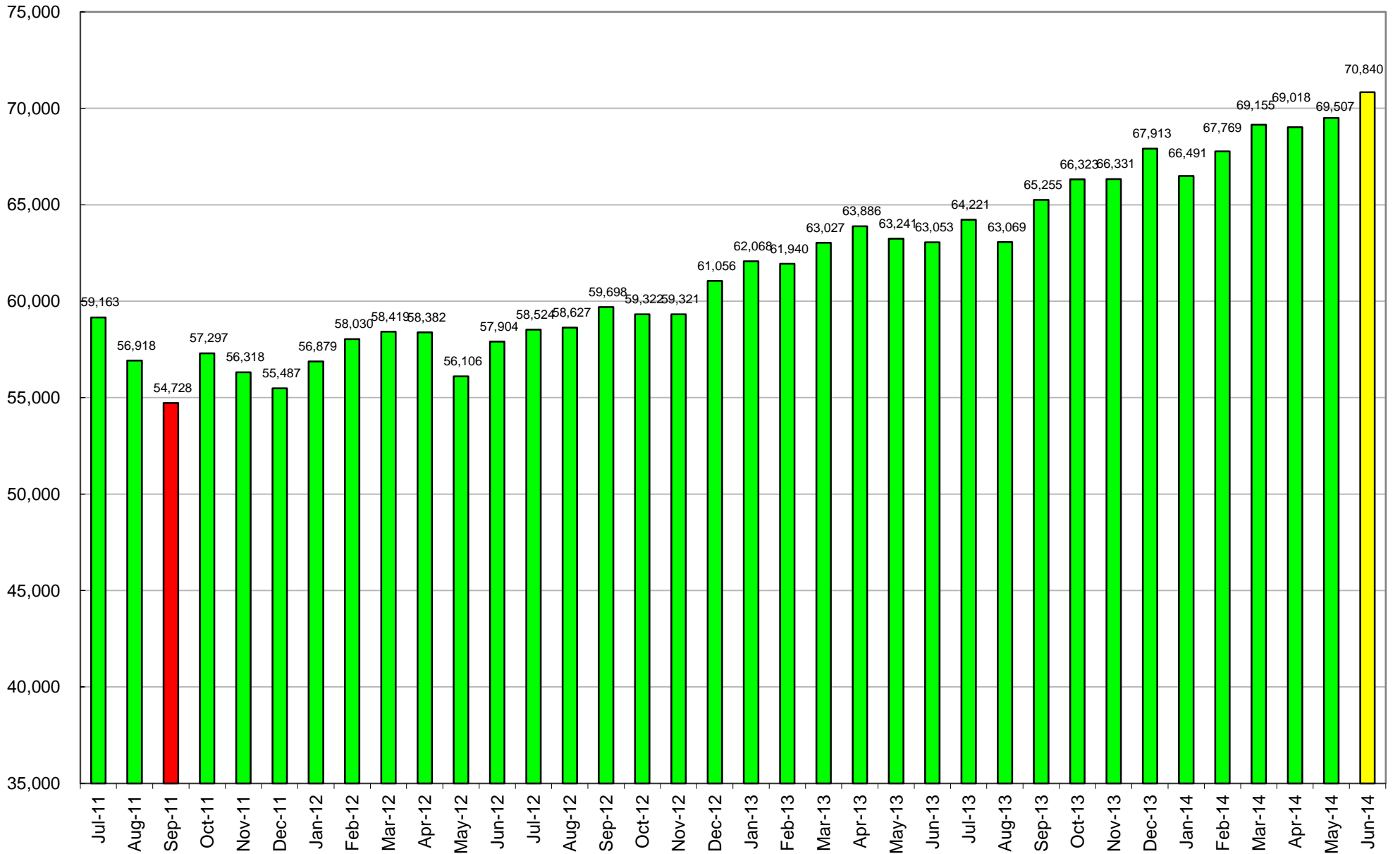
### CSF Asset Allocation



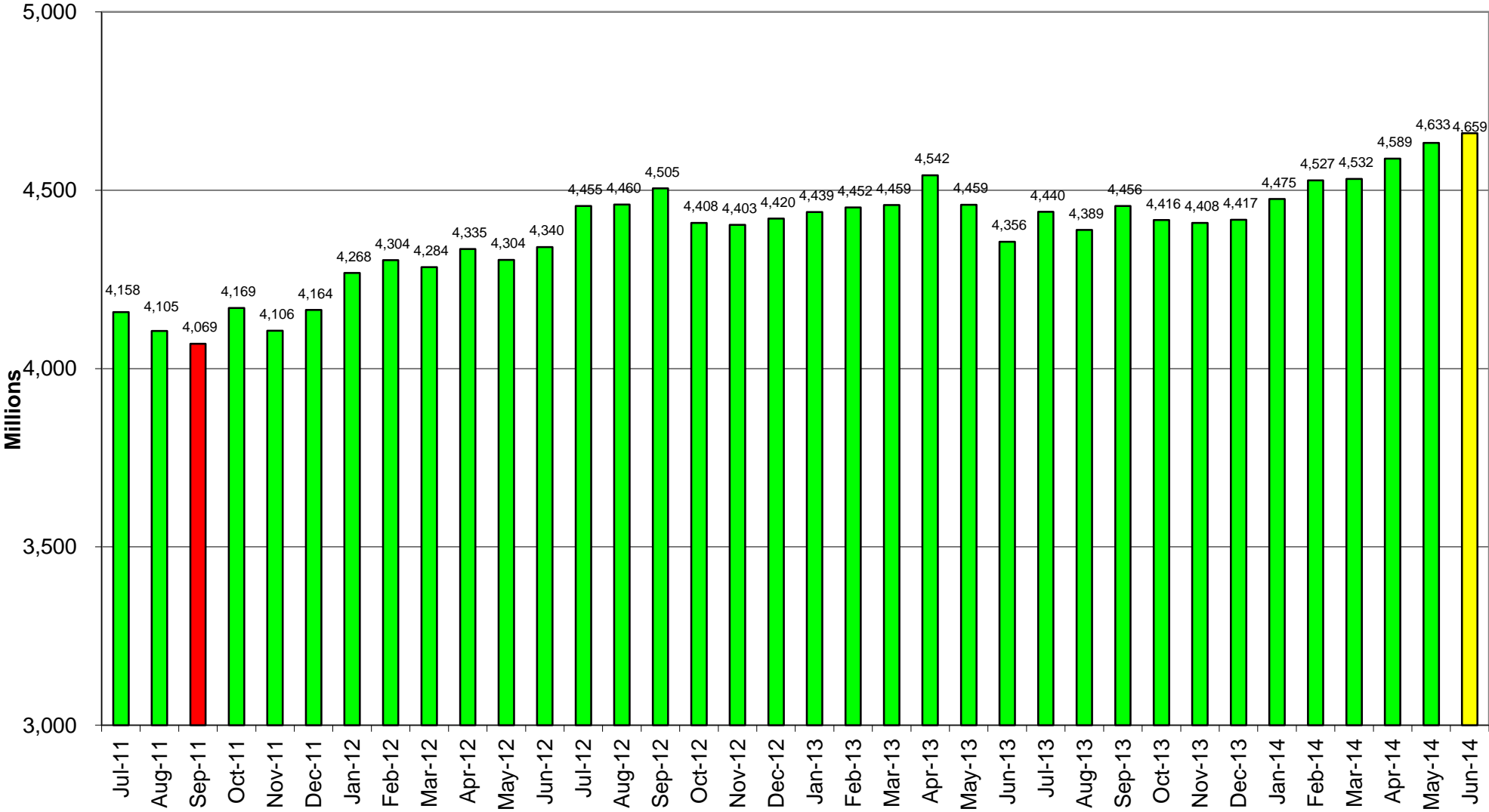
### HIED Asset Allocation



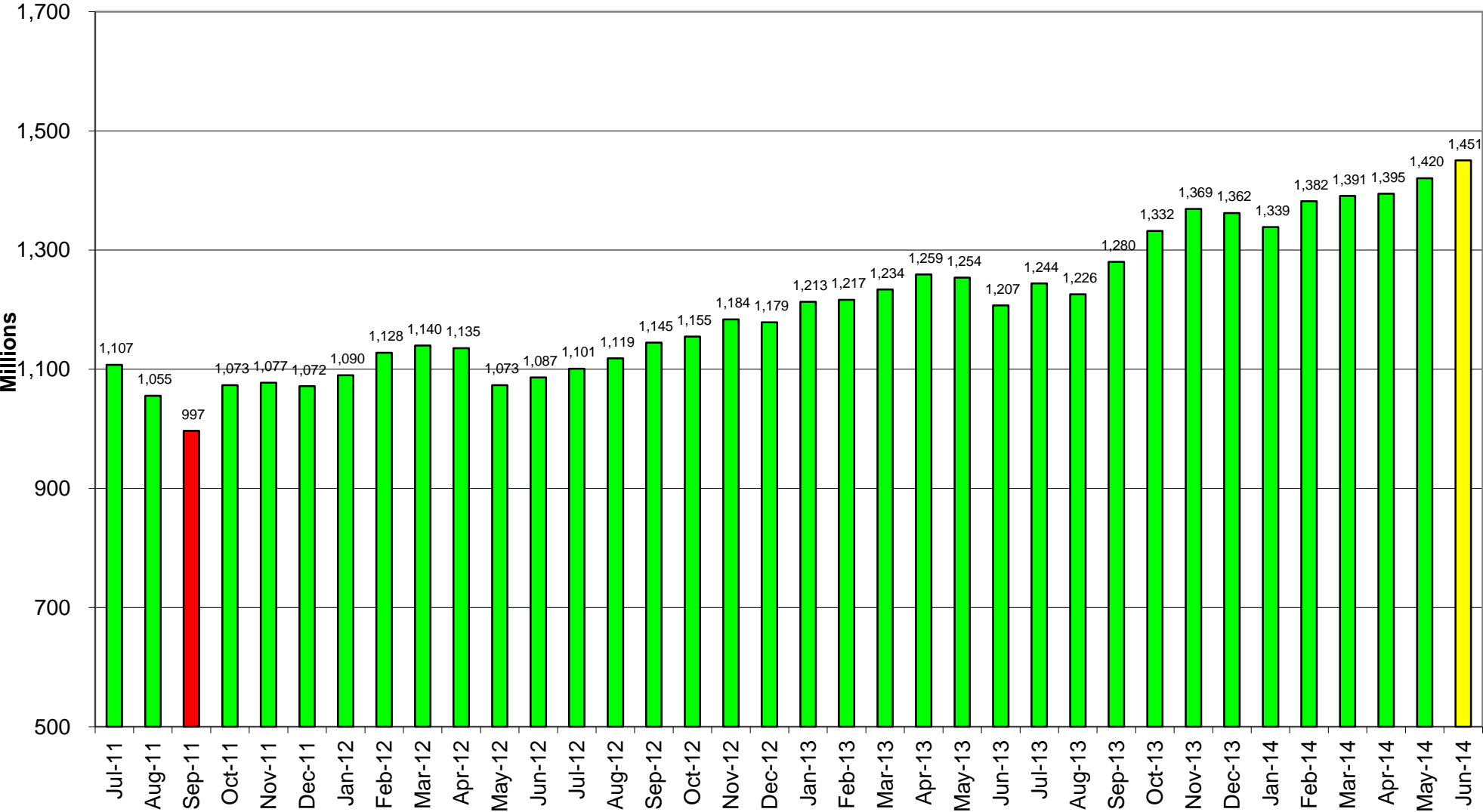
**OPERF NAV**  
**Three years ending June 2014**  
**(\$ in Millions)**



**SAIF NAV**  
**Three years ending June 2014**  
**(\$ in Millions)**



**CSF NAV**  
**Three years ending June 2014**  
**(\$ in Millions)**





## TAB 8 – CALENDAR/FUTURE AGENDA ITEMS

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## **2014 OIC Forward Agenda Topics**

**August 13:** Report on OST Middle & Back Office Solution

**September 24:** Updated OPERF A/L Study  
OPERF Public Equity Manager  
OPERF Real Estate Manager  
OPERF Real Estate Review  
OPERF Fixed Income Review  
OIC Beliefs Update  
OIC Annual Policy Updates

**November 5:** CSF Annual Review  
OSTF Annual Review  
OPERF Public Equity Review  
OPERF Alternative Portfolio Review  
CEM Benchmarking Report  
Internal Audit Report

**December 3:** OPERF Opportunity Portfolio Review  
SAIF Annual Review  
HIED Annual Review  
PE Consultant Contract  
OPERF 3<sup>rd</sup> Quarter Performance Review